

Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.

Delta manages portfolios at TD Ameritrade and Schwab.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

May 31, 2019

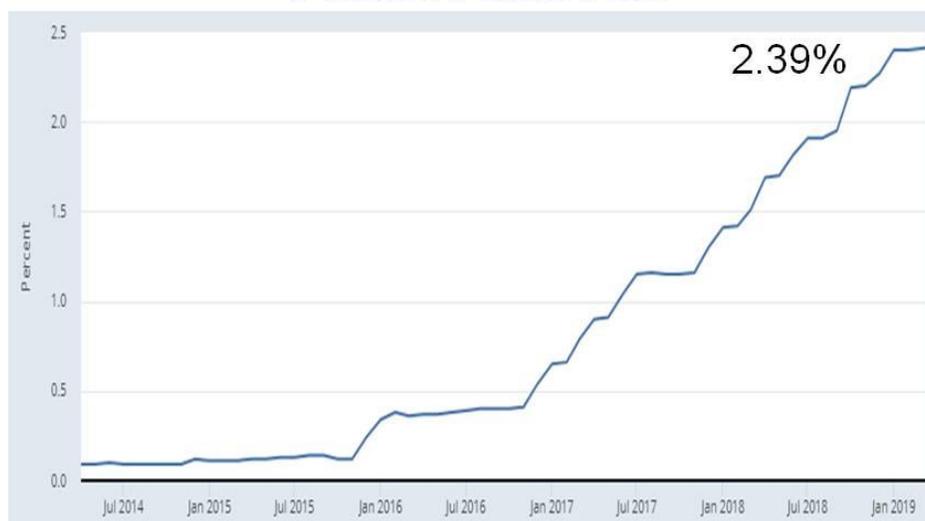
Interest Rate Flip-Flop

In early October 2018, Fed Chairman Powell described the Fed's benchmark interest rate as "a long way from neutral." At that time, the Fed's interest rate projections showed at least two rate increases in 2019.

Today, the Fed Fund futures (traded market participant rather than set by the Fed) show an expectation for two rate cuts in the next seven months. The market-implied Fed Funds rate is 2.1% by the end of 2019, down from about 2.39% today.

The Fed Funds rate is set by the Federal Reserve. It is the rate by which banks may borrow from the Fed and each other overnight. Below is a chart of how the Fed moved the Fed Funds rate up over the past five years with its most recent raise in December, 2018.

Federal Funds Rate

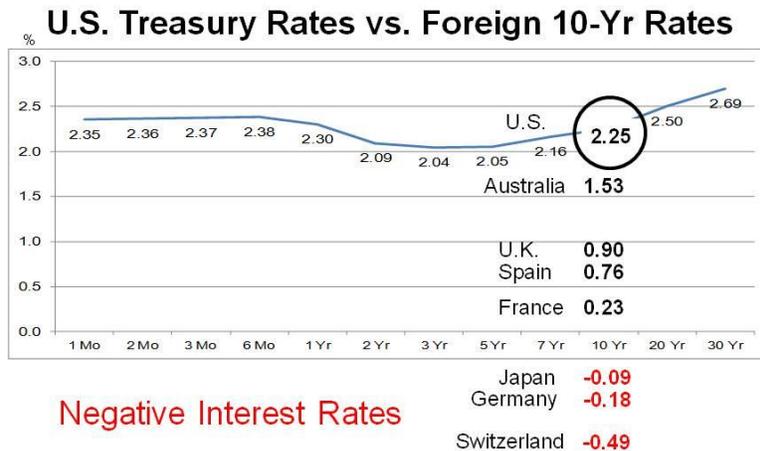


Bond market buyers and sellers set the 10-year treasury rate. Since last November, the 10-year rate is down about 30% to 2.25%. The 10-year rate is now roughly 14 basis points below the Fed Funds rate.



It appears that last October, the Federal Reserve and Chairman Jerome Powell were somewhat out-of-touch with where interest rates would have to be to manage inflation and full employment. Inflation has not picked up and many economists are more worried about the end of the current economic cycle and potential for recession than runaway growth. Market driven interest rates are moving lower.

The rest of the developed world is also experiencing declining interest rates. 10-year bonds in Japan, German and Switzerland offer negative rates of interest. Although Spain has an unemployment rate of 14% versus 3.6% in the U.S., Spanish 10-year bonds pay only 0.76%.



Falling 10-year treasury rates and current market expectations for two Fed rate cuts do not signal a robust economic outlook. On the other hand, falling rates improve the relative attractiveness of stock dividend yields and earnings as compared to bond returns.

The stock investment outlook today is benefiting from falling interest rates but restrained by uncertainty regarding feared economic weakness and the potential negative earnings impact of a protracted trade dispute with China. In the intermediate term, the stock market has lost momentum. The Delta Market Sentiment Indicator (MSI) is Bearish this week. In the longer term, recession continues to be a remote threat and earnings are expected to grow through 2020.

In the wake of the extraordinary measures (including Quantitative Easing QE) taken by the Federal Reserve to stimulate the economy after the last recession, investors have worried the Fed may have distorted market forces through unusually low rates and excessive liquidity. In hindsight, the distortion may be that the Fed raised rates too far in a technology-driven, global economy that has a tendency to be more deflationary than inflationary.

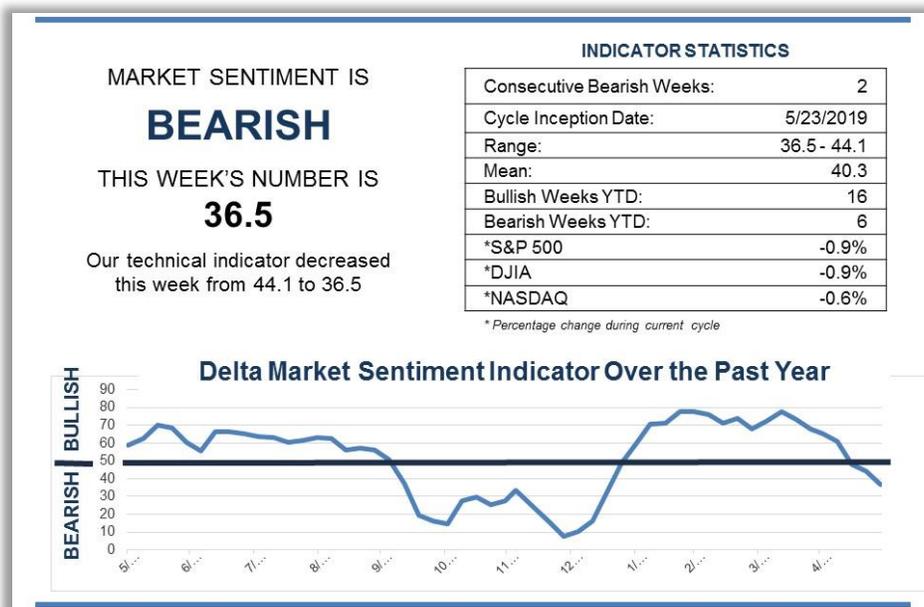
Give Us a Call Today

We invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com if you have questions about how we can assist you in managing your investment accounts.

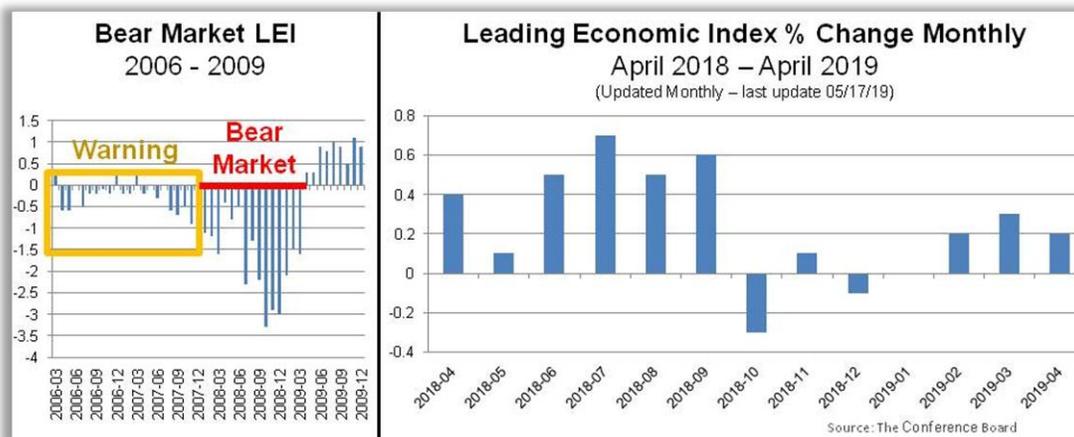


“He’s looking for something for the beach.”

Delta Stock Market Dashboard



(Delta MSI is published every week in *Barron's*)



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