

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

June 7, 2019

### Lower Rates, Higher Stock Market

A month ago, the one-month U.S. treasury interest rate was 2.4%. Today, it is roughly 2.3%. Bond traders are expecting this rate to fall to roughly 2.1%.

On Monday of this week, the S&P 500 index was trading at about 2,750. Today, it is roughly 2,850. This is more than a 3.6% advance in less than a week. Does this make sense? In light of what just happened to interest rate expectations, it seems to make a lot of sense.



Stock valuations are impacted by estimates of future earnings discounted back to today's dollars using a risk-free interest rate and some allowance for risk (called the risk premium). For our purposes, we use the one-month U.S. treasury interest rate as the risk-free interest rate. We are highly confident that if we lend money to the U.S. government for one month, they will make both the interest and principal payments.

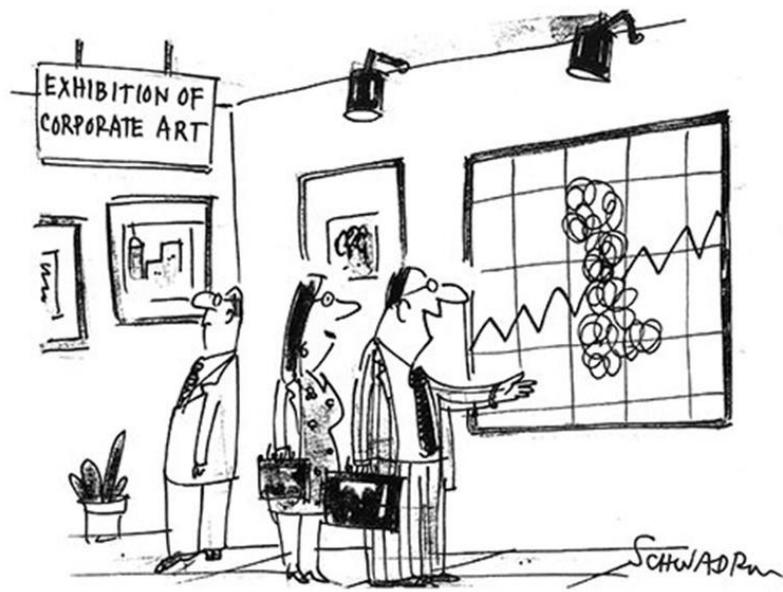
If we assume expected earnings and risk perceptions (the risk premium) are constant this week and the only change is to adjust the risk-free interest rate down to 2.1%, the math says the S&P 500 index should be at roughly 2,875. What the math says and what the market is doing are within 1% of each other. The 3.6% plus move this week appears to be rational based on expected changes in the risk-free rate from 2.4 to 2.1.

The real world is somewhat more complex than the math model described above. Some amount of the market advance this week may have been attributable to renewed optimism regarding trade issues and some technical buying of an oversold market. In whatever manner market participants arrived at the conclusion to buy this week, what is important is that their behavior and the level of the market appear to be rational.

Rational markets are not necessarily bull markets. They do typically respond with positive correlation to changes in corporate earnings and discount rates. Non-rational markets, driven by heightened emotions such as extreme fear (2008) or extreme greed (2000), are dangerous as they are unpredictable. Although it is not yet clear how trade negotiations will be resolved and what further changes analysts will make to their outlooks, it is encouraging that the market is likely to offer investors a rational response.

### Give Us a Call Today

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



"THIS ONE IS BY OUR 'CREATIVE ACCOUNTING' DEPARTMENT."

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

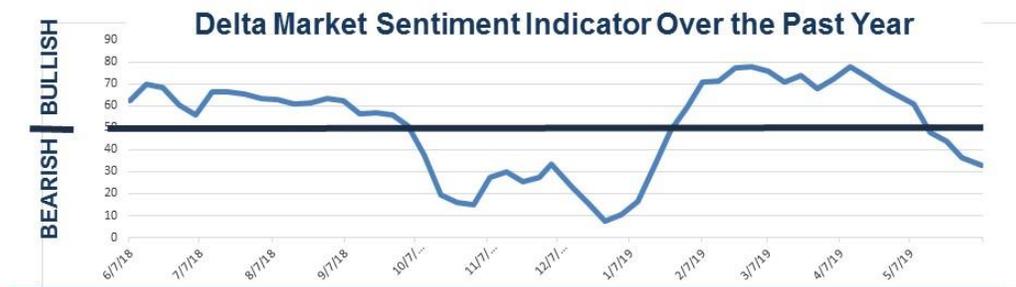
**32.7**

Our technical indicator decreased this week from 36.5 to 32.7

## INDICATOR STATISTICS

Consecutive Bearish Weeks:	3
Cycle Inception Date:	5/23/2019
Range:	32.7 - 44.1
Mean:	37.8
Bullish Weeks YTD:	16
Bearish Weeks YTD:	7
*S&P 500	0.9%
*DJIA	1.2%
*NASDAQ	-0.2%

\* Percentage change during current cycle



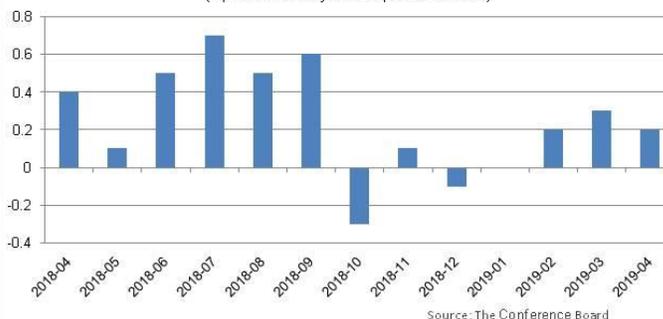
(Delta MSI is published every week in *Barron's*)

### Bear Market LEI 2006 - 2009



### Leading Economic Index % Change Monthly April 2018 – April 2019

(Updated Monthly – last update 05/17/19)



Source: The Conference Board

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