

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.

August 2, 2019

When an Aircraft Carrier Looks Like a Hobie Cat

When thinking in terms of water vessels, the US economy is an aircraft carrier – Nimitz Class. It is big. It is technologically advanced. It is not known for speed or quick turns. The similarities stop when comparing the captain’s (Federal Reserve Chairman Jerome Powell) actions over the past year. The captain appears to be skippering a Hobie Cat in light winds off Cape Cod with his tacks.

Last Fall, Chair Powell & Co. talked about raising rates a couple of times in 2019. This week, the Federal Open Market Committee (FOMC aka the Fed) met for its regularly scheduled July meeting and cut the federal funds rate 25 basis points (bps) to 2.0-2.25%. The “cut” was the first in 10 years and we are likely to see another cut again in September.

Sell the News

The Fed’s decision to cut rates was expected and justified by “the implications of global developments for the economic outlook as well as muted *inflation* pressures.” The near-term reaction was *sell the news* – living up to another Wall Street adage “*buy the rumor, sell the news*” (last week, we highlighted another adage “*funds follow performance*”). The “market” had priced in the move. Most of the gains in the S&P 500 for July have been erased (new tariff concerns might have been another factor weighing on investors appetite for risk).

S&P 500 Hourly Chart

June 28 – August 1



The Surprise News

The surprise/news was the Committee's decision to conclude the reduction of its balance sheet in August, about two months earlier than previously indicated. Ending the runoff earlier than expected is a breeze in the right direction for the doves.

Fed Balance Sheet

Total Assets All Federal Reserve Banks



Source: Board of Governors of the Federal Reserve System

Bottom Line

We feel the Fed's move is warranted even though most economic data is not overly supportive of lower rates (lowest unemployment rate in five decades, strong household spending). The Fed's policies (raising rates together with quantitative tightening/normalization was too hawkish).

This nudge in a mid-expansion slowdown (Chicago PMI 44.4 vs. 50.6 estimate, the lowest since 2015, "soft" business investment, and global uncertainties) is just what the doctor ordered. The reduced term premium for U.S. Treasuries can be explained partly by shifting foreign demand and we believe should not warrant extreme caution.

And don't forget another adage: "*don't fight the Fed.*"

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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

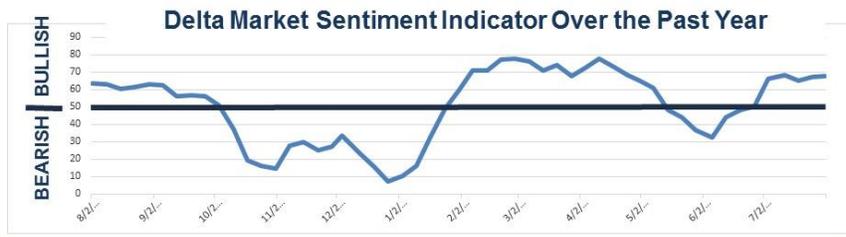
67.8

Our technical indicator increased this week from 67.1 to 67.8

INDICATOR STATISTICS

Consecutive Bullish Weeks:	6
Cycle Inception Date:	6/27/2019
Range:	50.3 – 67.8
Mean:	64.1
Bullish Weeks YTD:	22
Bearish Weeks YTD:	9
*S&P 500	1.4%
*DJIA	0.2%
*NASDAQ	4.4%

* Percentage change during current cycle



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

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