

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.

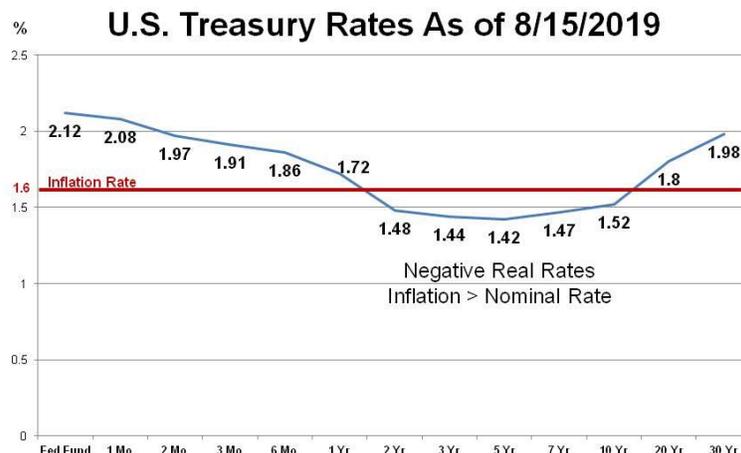
August 16, 2019

Trade War Pivot

This week, China reported the slowest pace of industrial production growth (+4.8% yr/yr in July) since 2002.

Germany is the third largest exporting nation in the world. It is the largest economy in the European Union. Germany's gross domestic product (GDP) declined by -0.1% in the second quarter on a sequential basis. China is an important export market for Germany and declining exports explain much of the weakness. One down quarter in GDP does not make for a recession, but two back-to-back quarters do. Risk of recession in Germany and Europe has risen.

When U.S.-China trade talks don't go well, the U.S. stock market suffers as a result of anticipated slowing economic growth domestically and abroad. As global growth slows, sovereign debt rates go lower. As of yesterday, not a single U.S. treasury rate from 2-month duration through 30-year duration was above 2%. The 30-year rate at 1.98% is at an all-time low. Relative to the Fed Funds rate (overnight borrowing rate set by the Federal Reserve) at 2.12%, the entire treasury yield curve is inverted.



Intra-day, the 2-year treasury rate has been higher than the 10-year rate this week. On a closing basis as of yesterday, the 10-year rate is still greater than the 2-year rate by 4/100 of a percent. If the 2-year rate were to close at a higher level than the 10-year rate, Delta defines this as an “inverted yield curve.” The average time to recession over the past five instances after a 10/2-year inversion is 18 months with a range of 10 months to 24 months.

With roughly a year to go before we potentially go into recession from the date the yield curve inverts (if history serves as a guide), there is time to: 1) confirm if the 10/2-year treasury inversion is persistent, and 2) observe if there are confirming signals from other recession indicators including the Leading Economic Index (LEI). The Yellow Flag is in the ready position. A yellow flag means we examine more carefully positions we own to see if we should continue to own them and we adopt a wait-and-see approach with new money.

Much of the current economic slowdown is driven by trade war uncertainty. Trade war sentiment can pivot from positive to negative overnight on the basis of a presidential tweet. In the event the trade war pivots in a sustained positive direction, it is quite possible the U.S. avoids recession. If the trade war drags on, it may further suppress global growth and could eventually mire the U.S. economy in recession.

The Delta Market Sentiment Indicator (MSI) turned Bearish this week. The MSI uses stock prices to measure risk. On an intermediate-term basis, stock market risk is elevated and Delta strategies guided by the MSI have transitioned out of equities.

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

BEARISH

THIS WEEK'S NUMBER IS

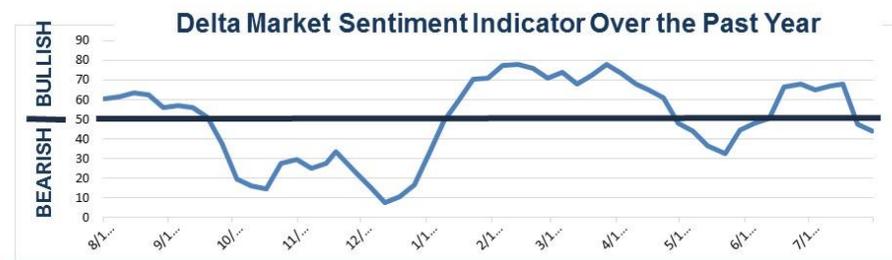
43.9

Our technical indicator decreased
this week from 47.4 to 43.9

INDICATOR STATISTICS

Consecutive Bearish Weeks:	1
Cycle Inception Date:	8/15/2019
Range:	43.9
Mean:	43.9
Bullish Weeks YTD:	23
Bearish Weeks YTD:	10
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

* Percentage change during current cycle



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

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