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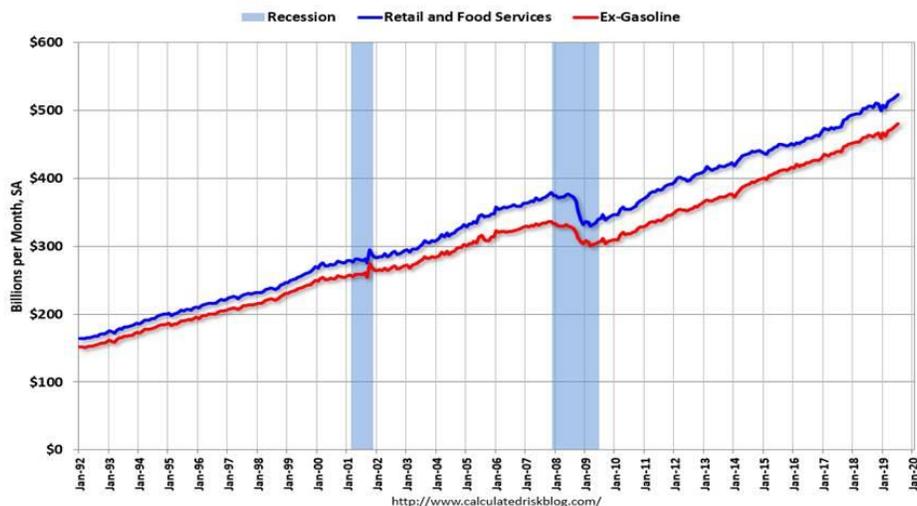
Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

August 23, 2019

Consumers Keep Going and Going

Consumer spending accounts for two-thirds of U.S. GDP, and of that, retail sales comprises 43% (consumer spending includes all private purchases of durable goods, nondurables, and services). One may wonder how retail sales are only 43% of consumer spending. The answer is consumer spending includes housing, transportation, health-care, education and insurance. Retail sales have been healthy throughout this lengthy expansion. July retail sales rose 0.7% m/m, and are up 3.1% y/y on average this year, despite the diminishing boost from the tax cuts.

U.S. Retail Sales

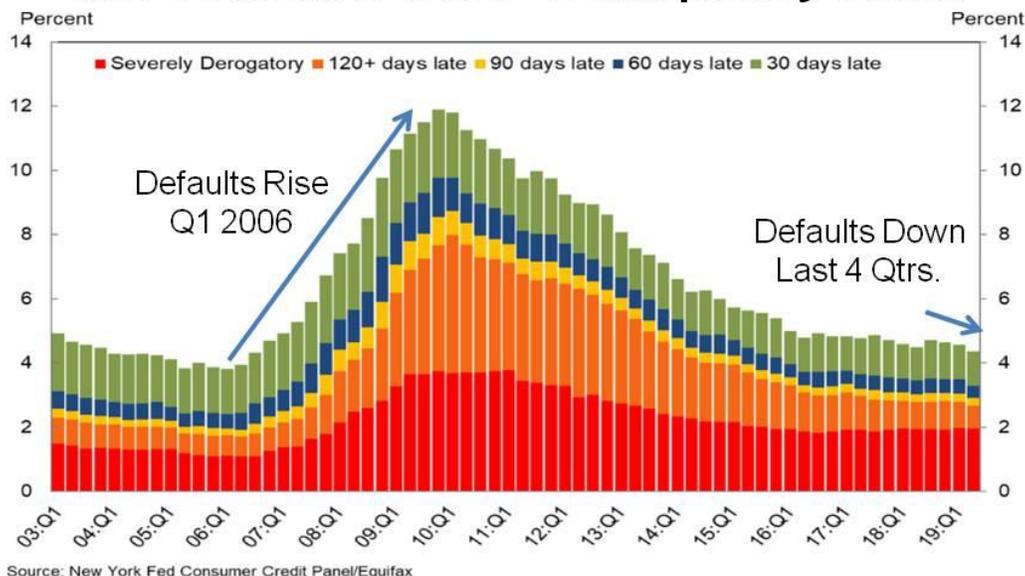


As the chart above shows, retail sales are not a leading indicator of recession. Consumers spend right into recessions and then react as the economy shrinks and personal income becomes less certain. What is an early indicator of recession is consumer delinquency on debt.

Part of what is fueling retail sales is borrowing. Aggregate household debt balances increased by \$192 billion in the second quarter of 2019 and stand at 13.86 trillion. Balances have been steadily rising for five years and in aggregate are now \$1.2 trillion higher, in nominal terms, than the previous peak (2008Q3) of \$12.68 trillion. Overall household debt is now 24.3% above the 2013Q2 trough.

High consumer debt could be a cause for concern. The good news is consumer debt delinquencies have been trending lower since the third quarter of 2009 and have been down consecutively every quarter in the past year. Mortgage delinquencies were 3.46% in July. This is the lowest delinquency rate of any July on record dating back to 2000.

U.S. Consumer Debt – Delinquency Status



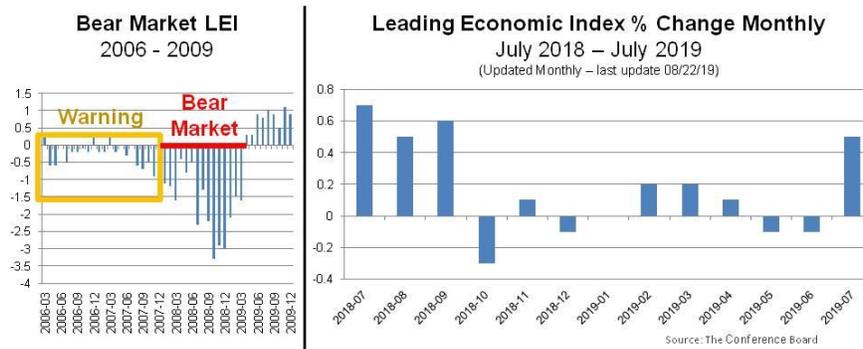
Along with delinquency rates, another leading indicator of recessions is the Leading Economic Index (LEI). The percent change m/m for July surprised analysts to the upside at 0.5% versus consensus estimates of 0.2%. (See Delta Stock Market Dashboard below for LEI chart). One of the positive contributors to the better-than-expected report was the Leading Credit Index. Holding the LEI back somewhat was weak manufacturing which may be attributable to the trade war and a negative yield spread.

Trade war and Fed rate cut uncertainties have taken away some of the stock market's positive momentum. The Delta Market Sentiment Indicator (MSI), an intermediate-term indicator, remains Bearish this week. On the other hand, the longer-term macroeconomic signals show the U.S. is unlikely to slip into recession this year.

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

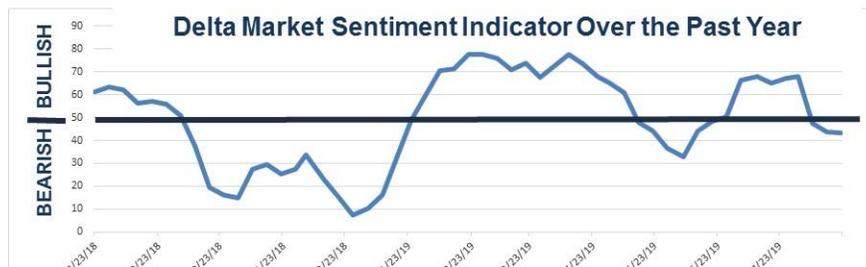
43.4

Our technical indicator decreased this week from 43.9 to 43.4

INDICATOR STATISTICS

| | |
|----------------------------|-------------|
| Consecutive Bearish Weeks: | 2 |
| Cycle Inception Date: | 8/15/2019 |
| Range: | 43.4 - 43.9 |
| Mean: | 43.7 |
| Bullish Weeks YTD: | 23 |
| Bearish Weeks YTD: | 11 |
| *S&P 500 | 2.7% |
| *DJIA | 2.7% |
| *NASDAQ | 2.9% |

* Percentage change during current cycle



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

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