

DELTA
INVESTMENT
MANAGEMENT

AAII

2022 Stock Market Outlook

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Disclosures

The presentation is being provided for informational purposes only and should not be used or construed as a recommendation of any security, sector or investment strategy.

The opinions in this presentation are as of the date of the presentation.

Stock and bond markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments as well as interest rate risk, inflation, credit and default rates. In addition, foreign securities are subject to interest rate, currency exchange rate, economic and political risks, all of which are magnified in emerging markets.

The S&P 500 Index is a market capitalization weighted index of 500 widely held stocks often used as a proxy for the stock market.

Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.

Past performance is no guarantee of future results or returns.

Investing involves risk, including risk of loss.

Delta Investment Management is a California registered investment advisor. The firm is based in San Francisco, CA. For more information, please visit www.deltaim.com or call (415) 249-6337.

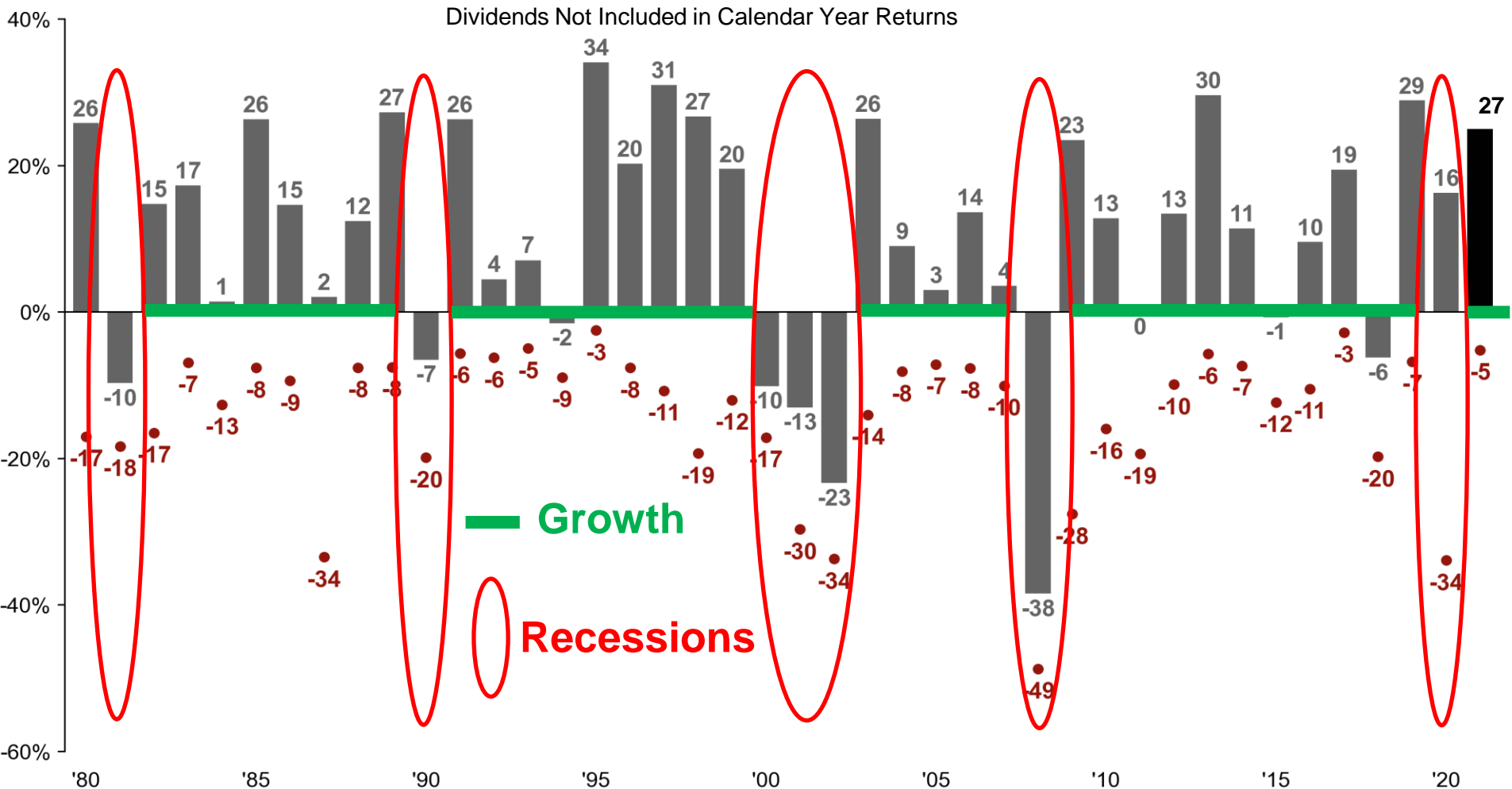
Delta Investment Philosophy

- ❖ *We believe there are periods in market cycles to be fully invested and there are other periods not to be fully invested*
- ❖ *As such, we believe it is necessary to be proactive in managing money*
- ❖ *As active managers, we follow market-tested, proven investment disciplines*
- ❖ *During bullish cycles, we seek to invest in the strongest performing assets*
- ❖ *During bearish cycles, we seek to preserve capital by reducing exposure to risk assets*
- ❖ *We believe diversification in both asset type and asset allocation methodology strengthens portfolio performance through the full investment cycle*

Delta published its 2022 S&P 500 year-end forecast at 5200. At the time we published this estimate, the forecast was for a 14% gain. If we are wrong, it is most likely because we are being too conservative.

- For 2019, Delta predicted the S&P 500 to reach 3200. It closed at 3231, up 31.2%. We were too conservative.
- For 2020, Delta predicted the S&P 500 to reach 3544. It closed at 3756, up 18.2%. We were too conservative.
- For 2021, Delta predicted the S&P 500 to reach 4300. It closed at 4,766, up 26.9%. We were too conservative.

S&P 500: Calendar Yr. Returns and Drawdowns



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

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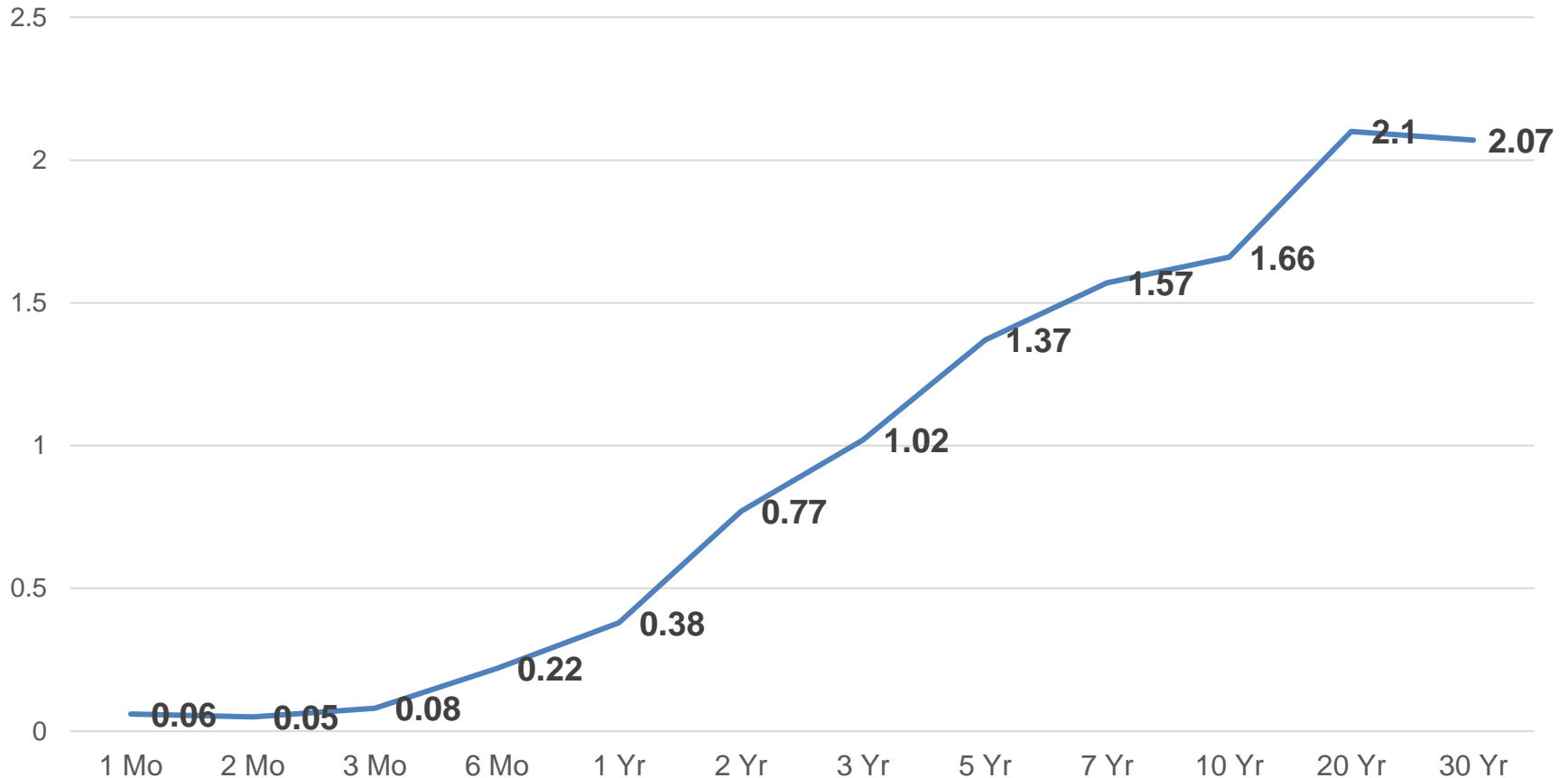
Recession risk in 2022 is minimal because:

1. The U.S. treasury yield curve is far from inverted. Today, the 10-year treasury rate of roughly 1.7% is significantly higher than the 2-year rate of about 0.8%. For an inversion to occur, the 2-year rate would have to be higher than the 10-year.
2. The sequential monthly percent change in the Leading Economic Index (LEI) has been positive for the past eight months and positive for eleven months over the past year. Until the six-month moving average of the LEI turns negative, recession is unlikely.

We know of no major economist, federal government agency including the Federal Reserve or investment bank analyst who is predicting recession in 2022.

Yield Curve – Positive Slope

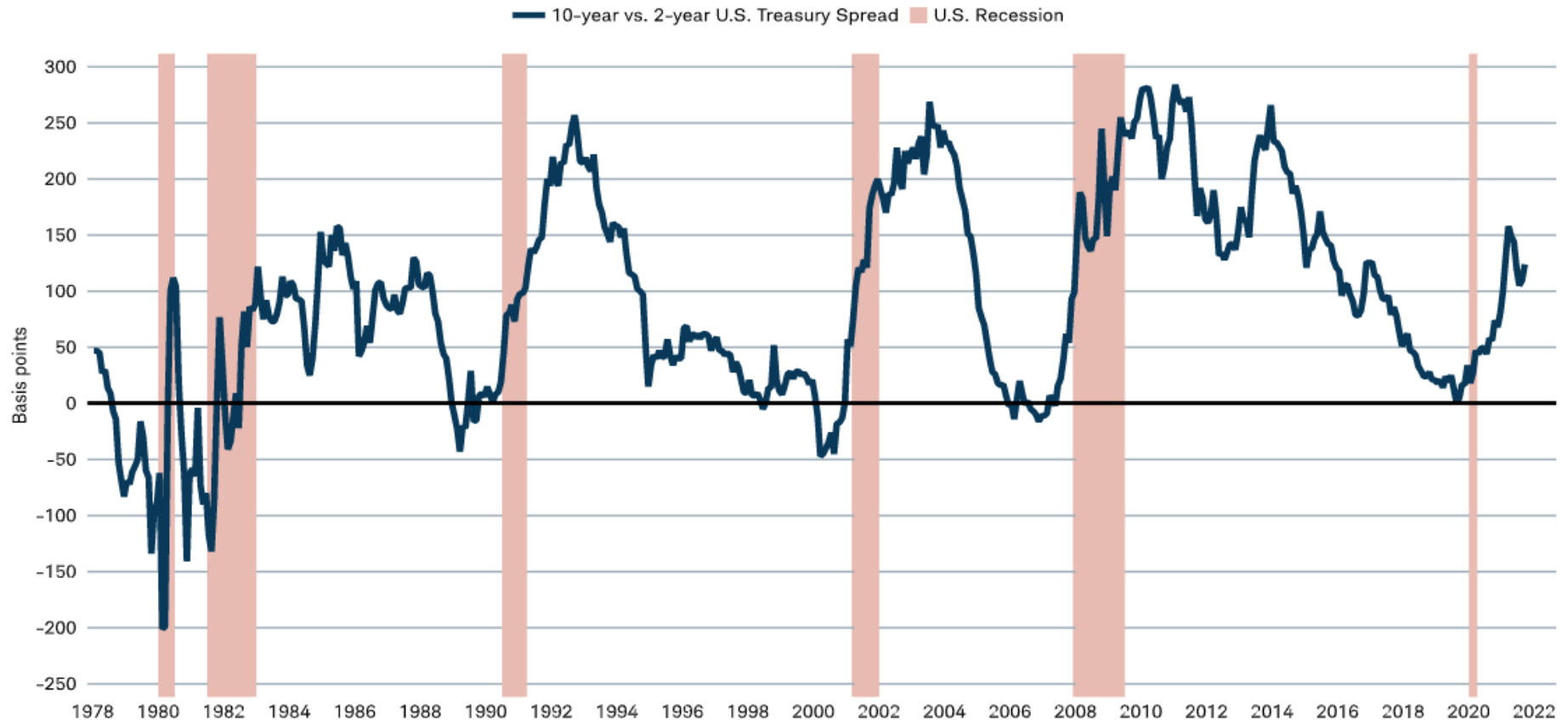
As of 1/4/2021



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Yield curve slope and recessions

The yield curve has flattened. Though short-term rates remain pegged near zero by the Fed, longer-term rates have fallen amid signs of a peak in economic growth and expectations that inflation will be somewhat transitory.



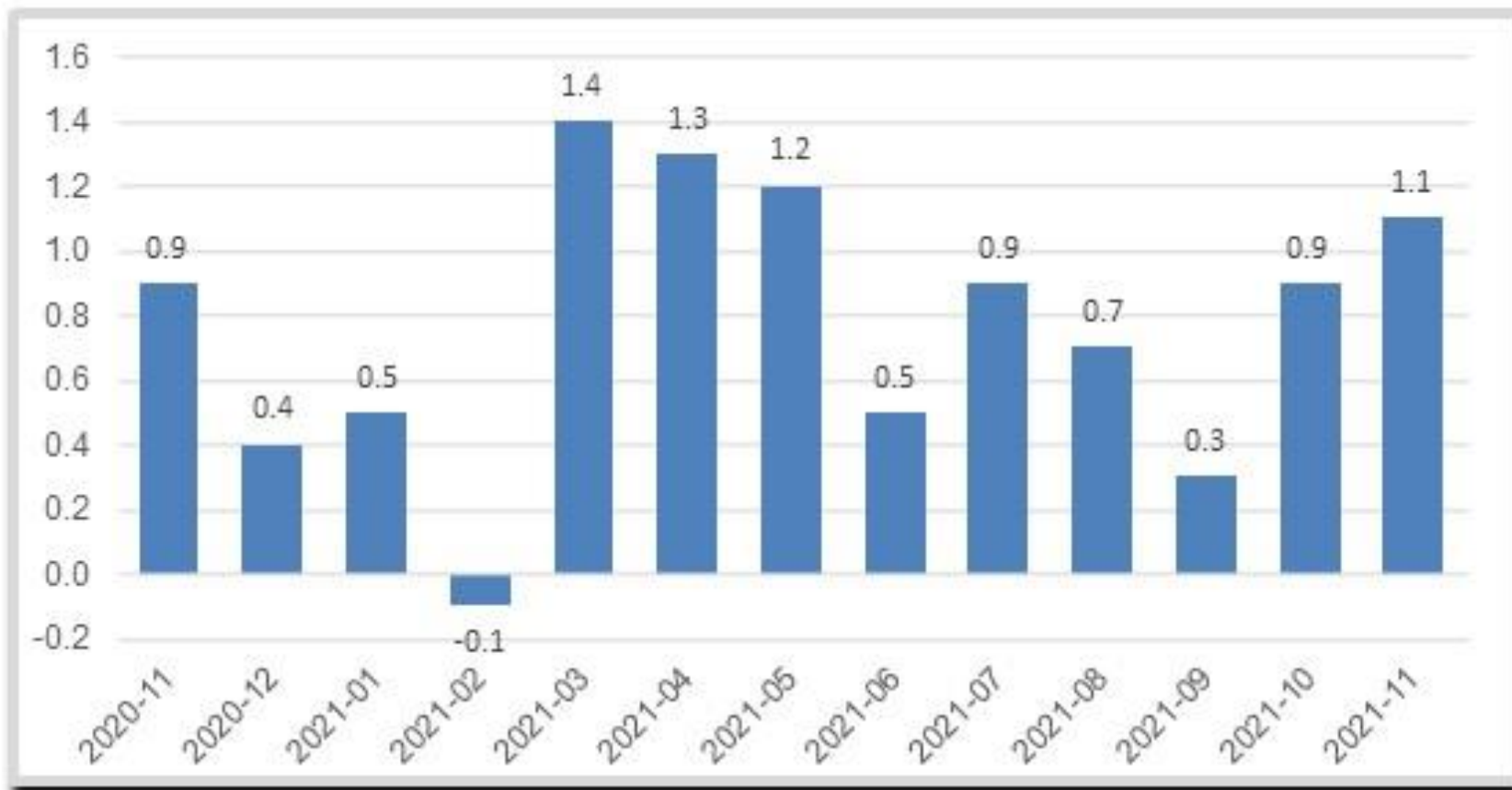
Bars represent National Bureau of Economic Research defined recession periods.

Source: Charles Schwab, MacroBond as of 9/30/2021.

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Leading Economic Index % Change Monthly

Nov. 2020 – Nov. 2021



Source: The Conference Board – last update 12/20/2021

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Federal Funds Rate Expectations

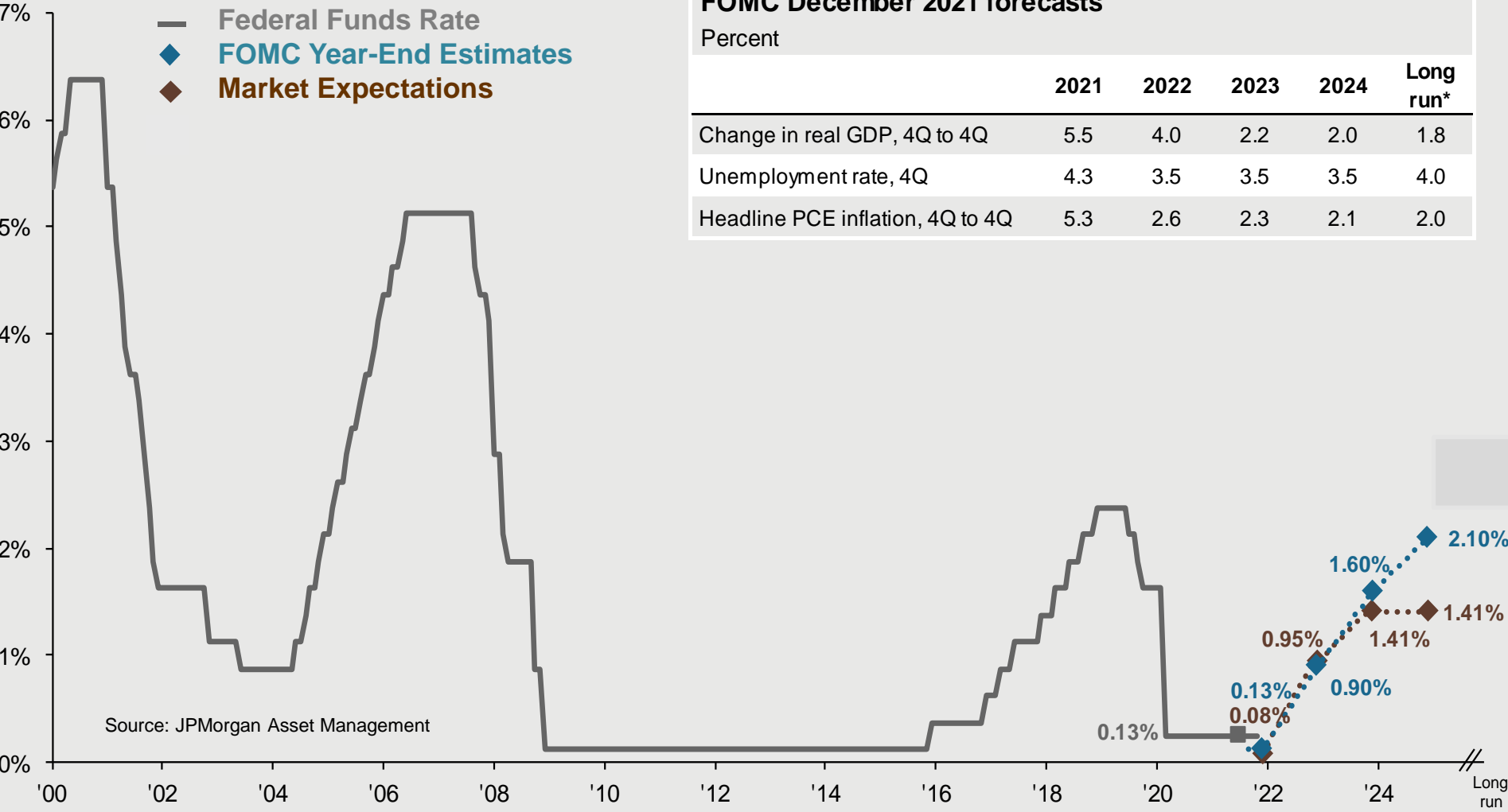
FOMC and market expectations for the federal funds rate

- Federal Funds Rate
- FOMC Year-End Estimates
- Market Expectations

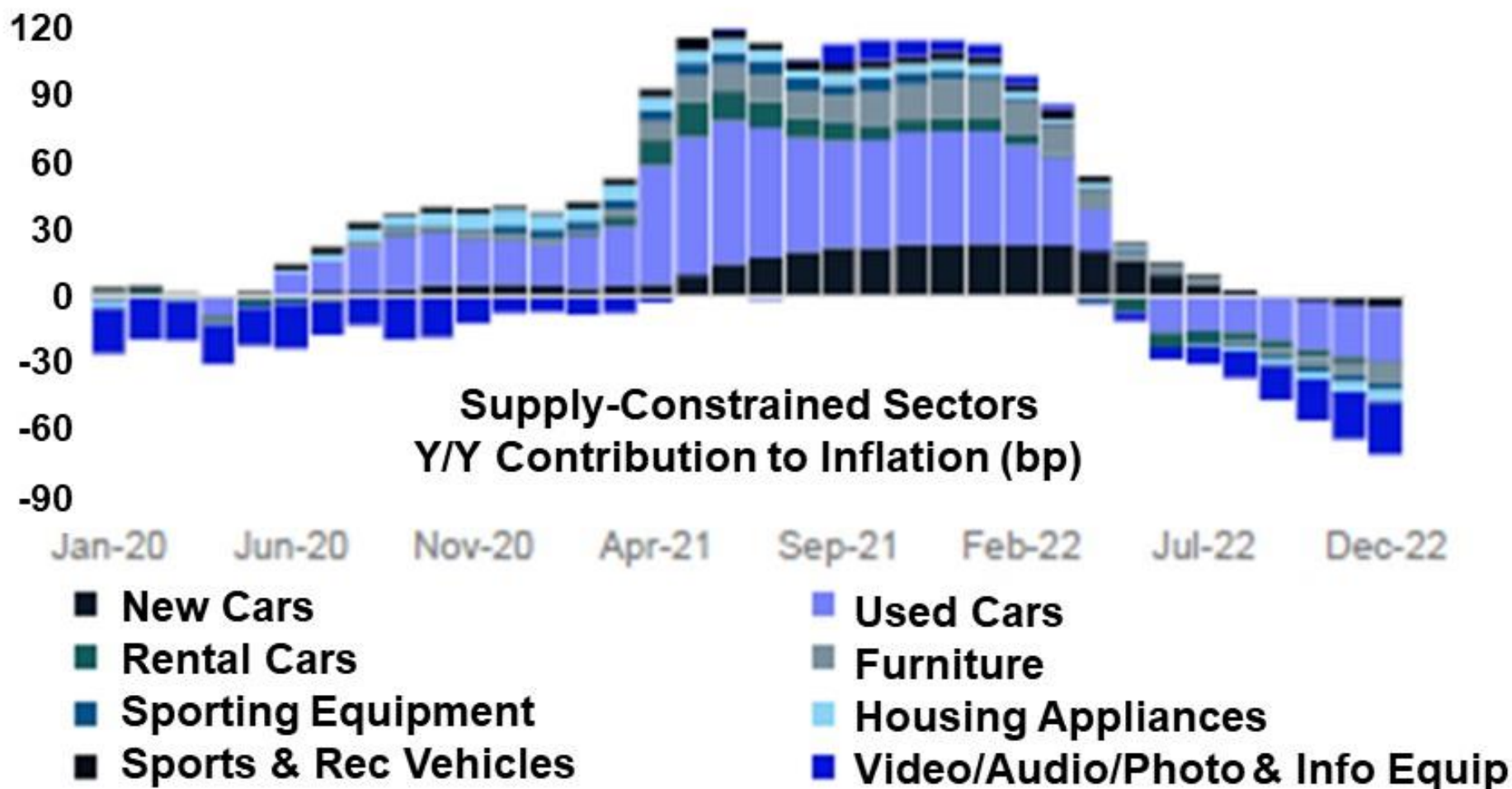
FOMC December 2021 forecasts

Percent

	2021	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	5.5	4.0	2.2	2.0	1.8
Unemployment rate, 4Q	4.3	3.5	3.5	3.5	4.0
Headline PCE inflation, 4Q to 4Q	5.3	2.6	2.3	2.1	2.0



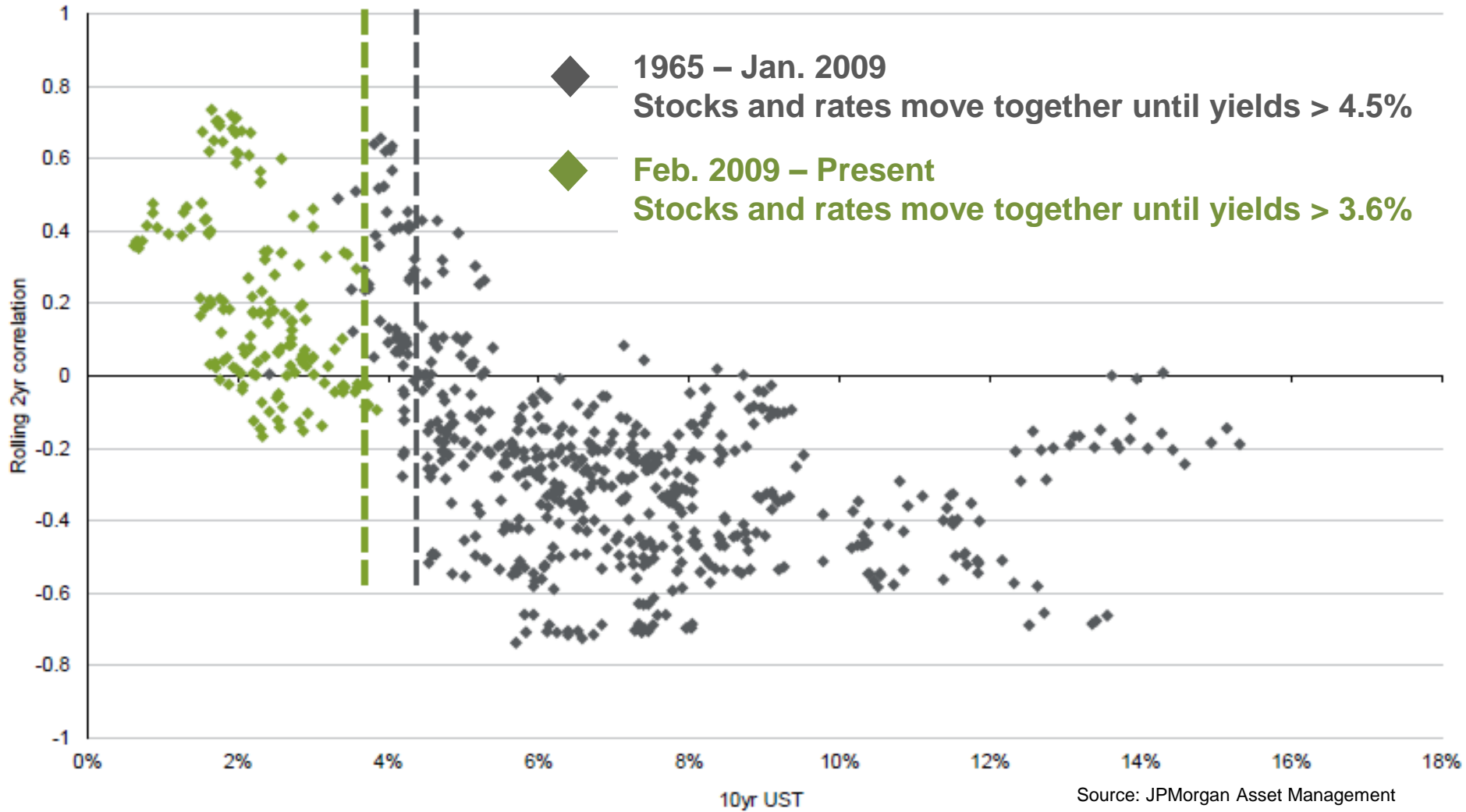
Inflation Pull Becomes Inflation Drag



Source: Goldman Sachs Asset Management

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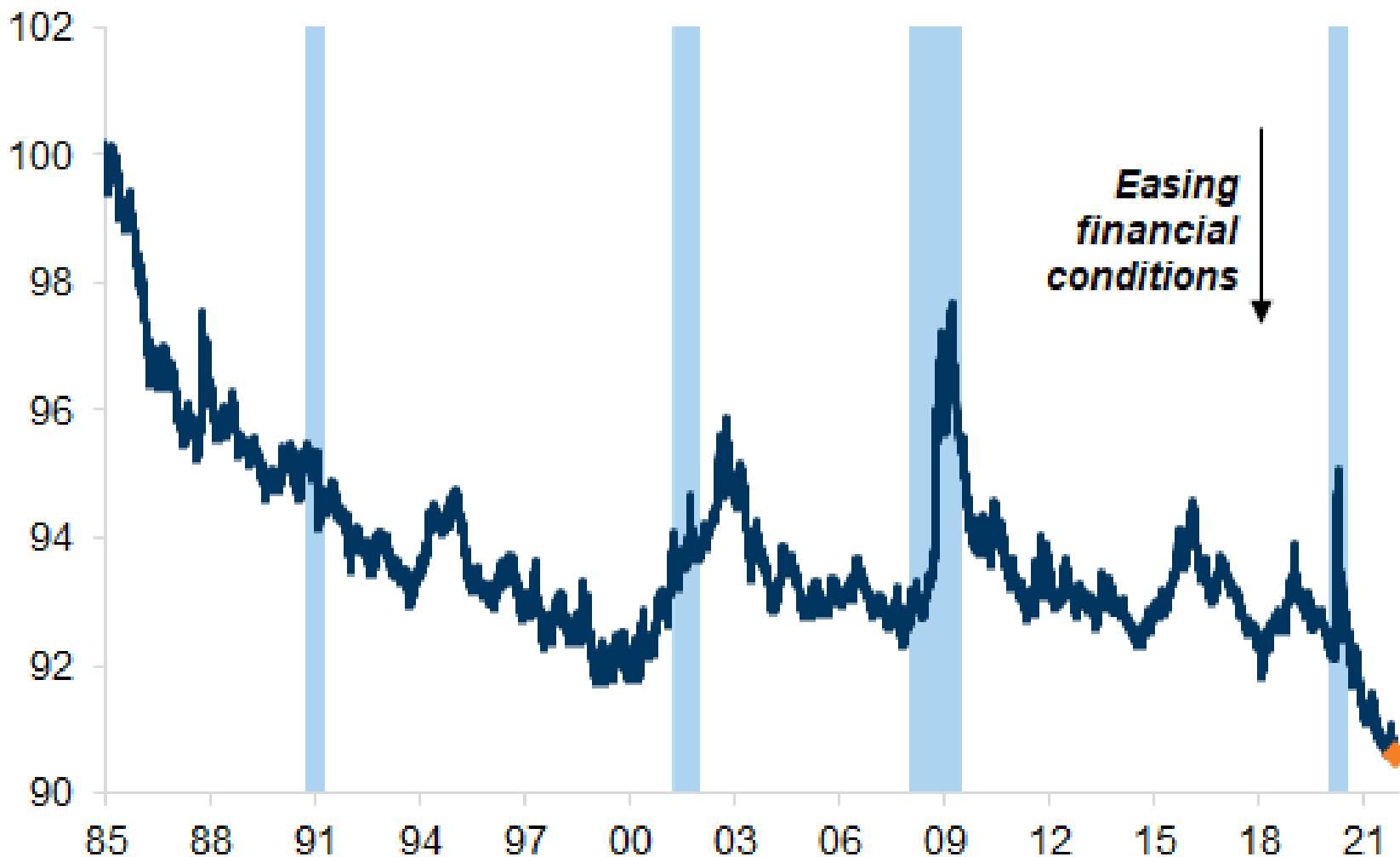
Interest Rates and Equities



2022 Stock Market Drivers:

- **Capital is plentiful**
- **Earnings growth is strong, and**
- **Interest rates are low.**

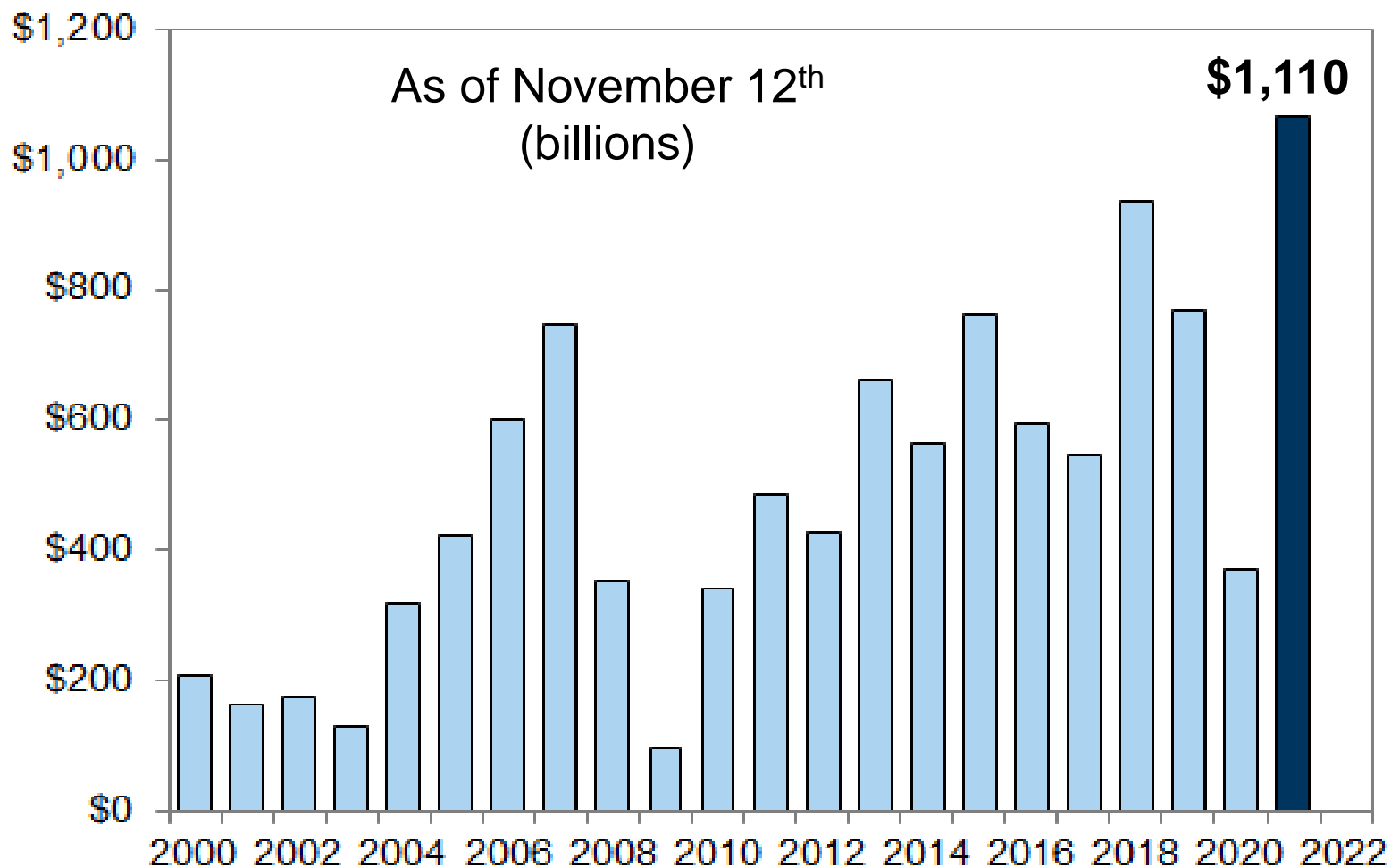
U.S. Financial Conditions Index



Source: Goldman Sachs Asset Management

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U.S. Share Buyback Authorizations



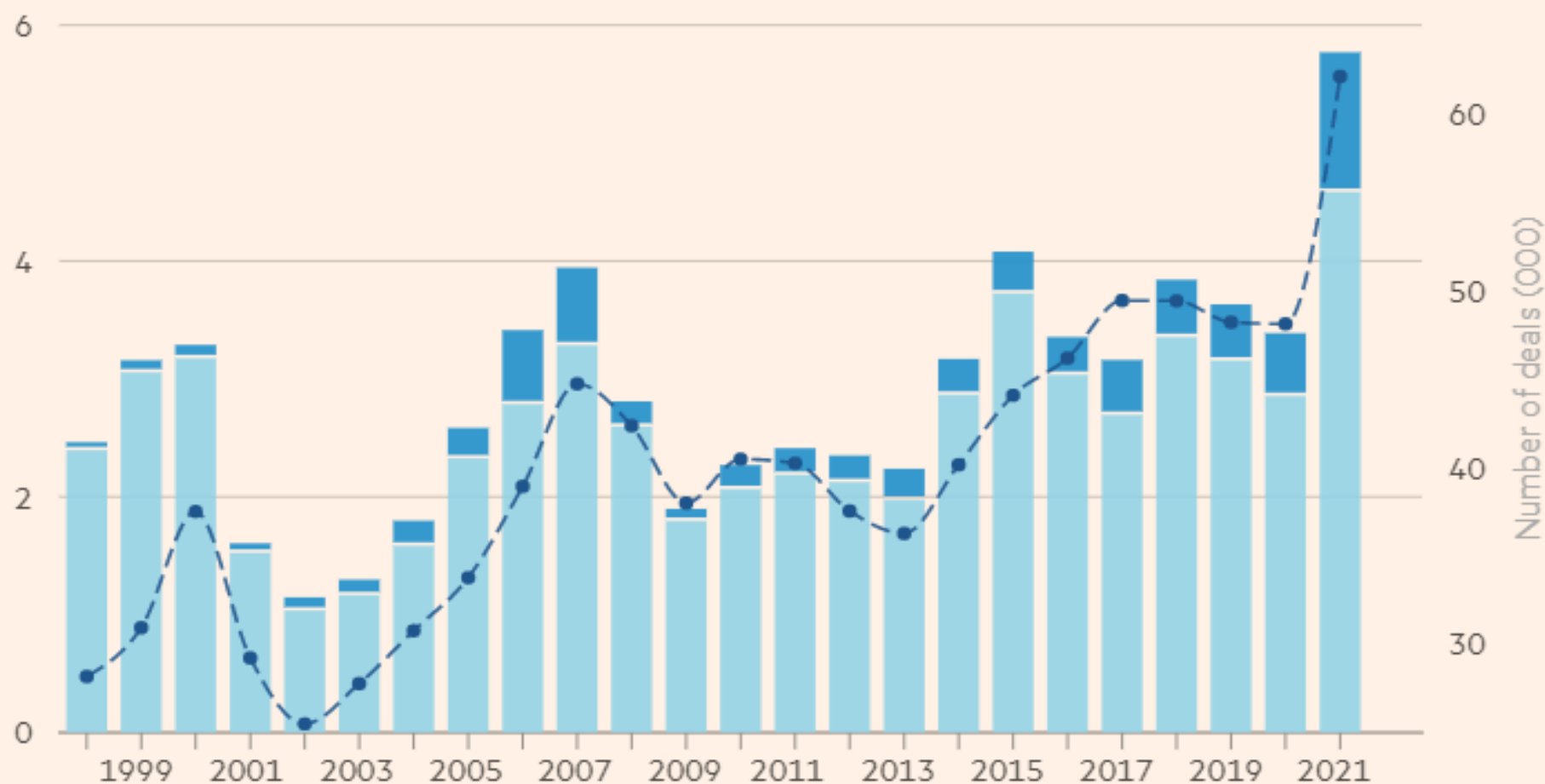
Source: Goldman Sachs Asset Management

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Global M&A soars past \$5.8tn

Deal value (\$tn)

Private equity Non-private equity Number of deals (000)

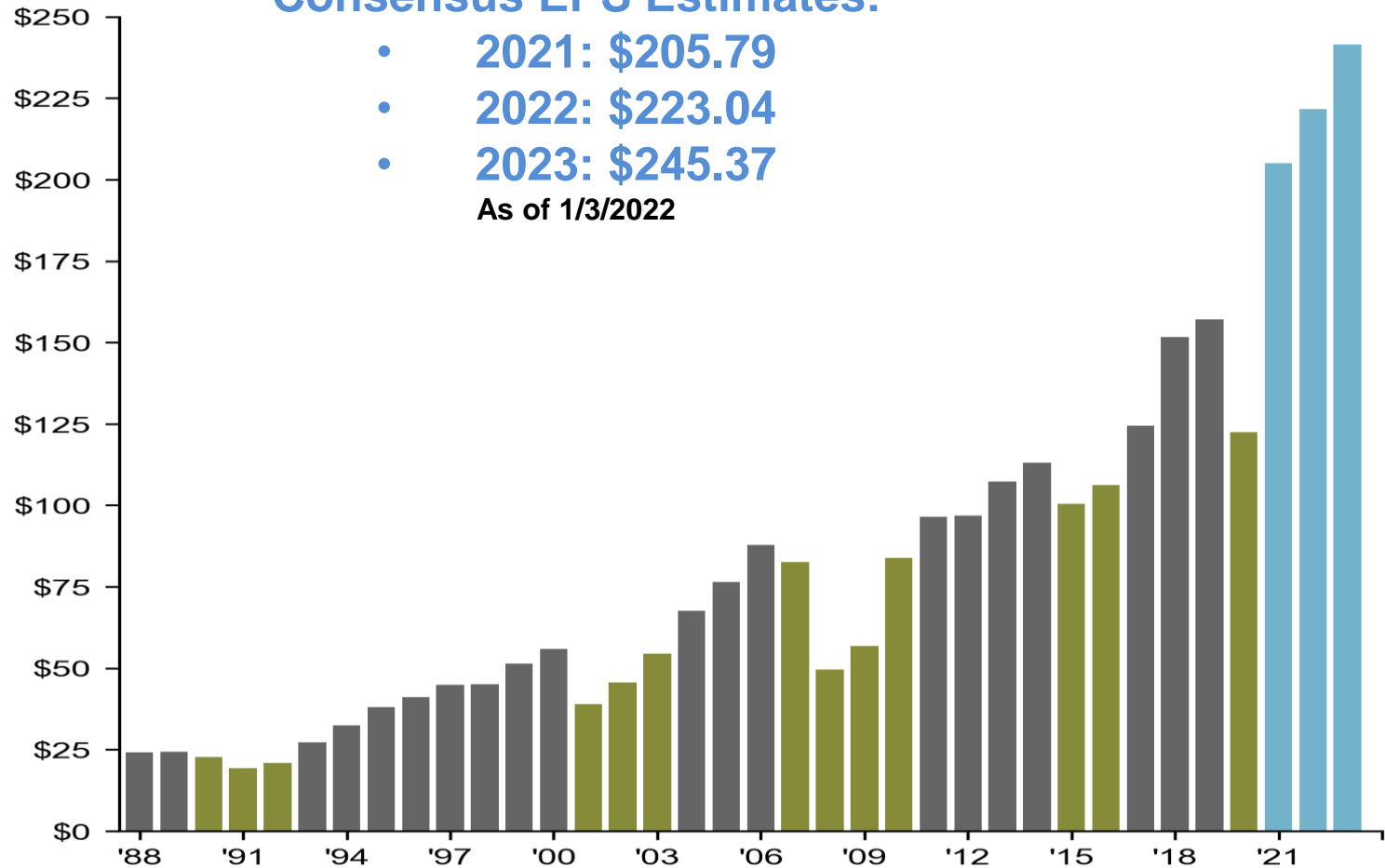


S&P 500 Earnings Per Share

Consensus EPS Estimates:

- 2021: \$205.79
- 2022: \$223.04
- 2023: \$245.37

As of 1/3/2022

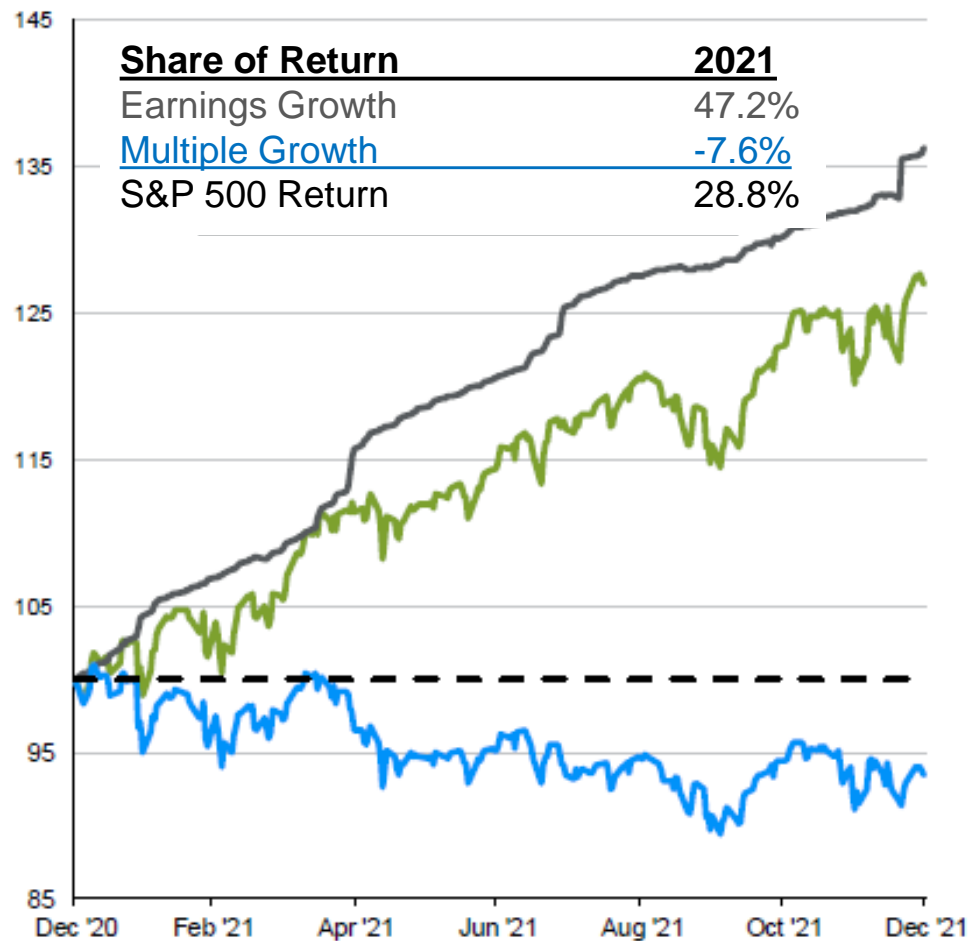


Source: JPMorgan Asset Management

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47% S&P 500 earnings growth in 2021 drove a 29% total return in the index with a 7% contraction in the P/E multiple. The stock market became less expensive in 2021.

Percent change in S&P 500, earnings and valuations
Year-to-date, indexed to 100



2021 Performance By Sector

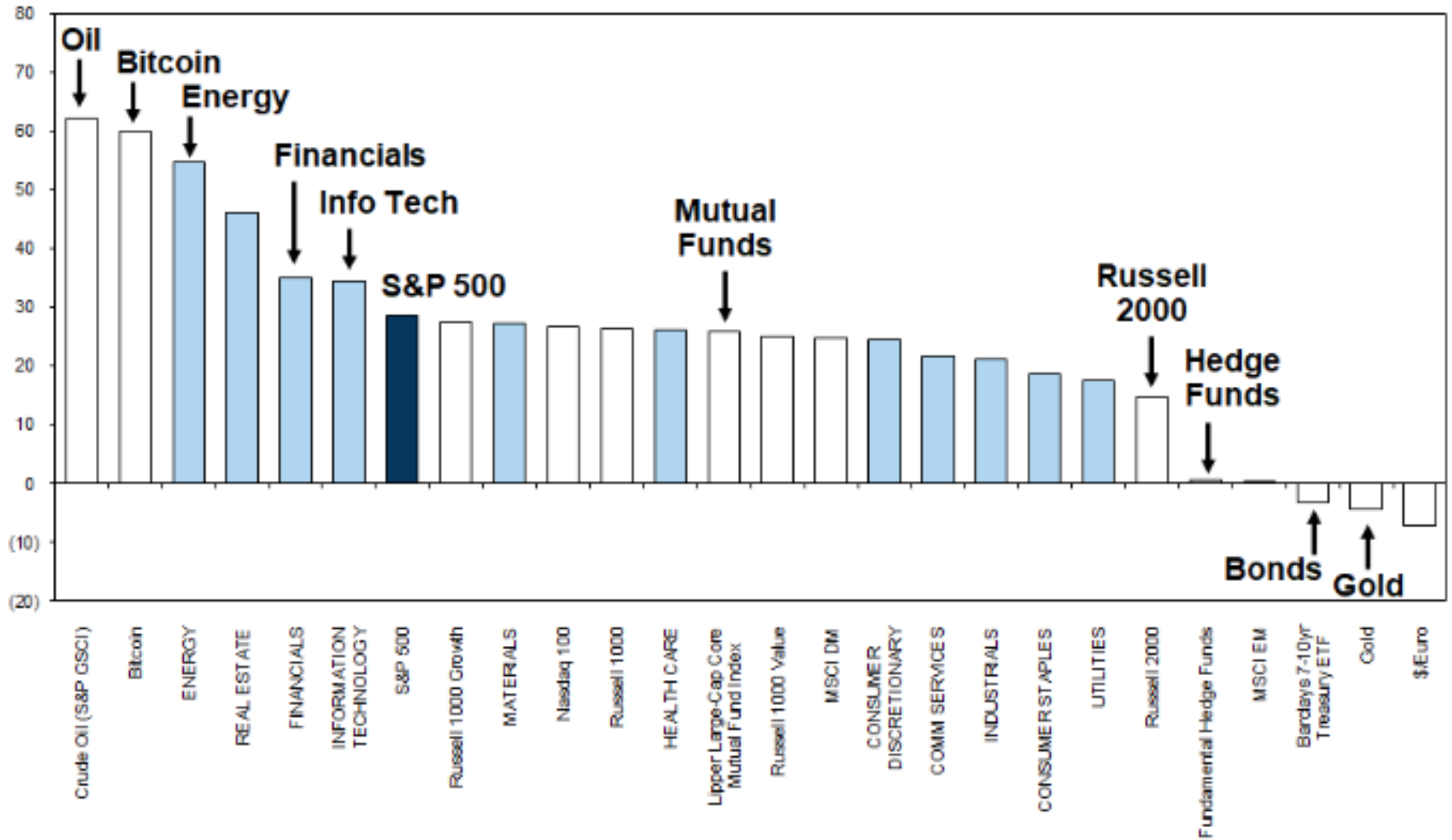
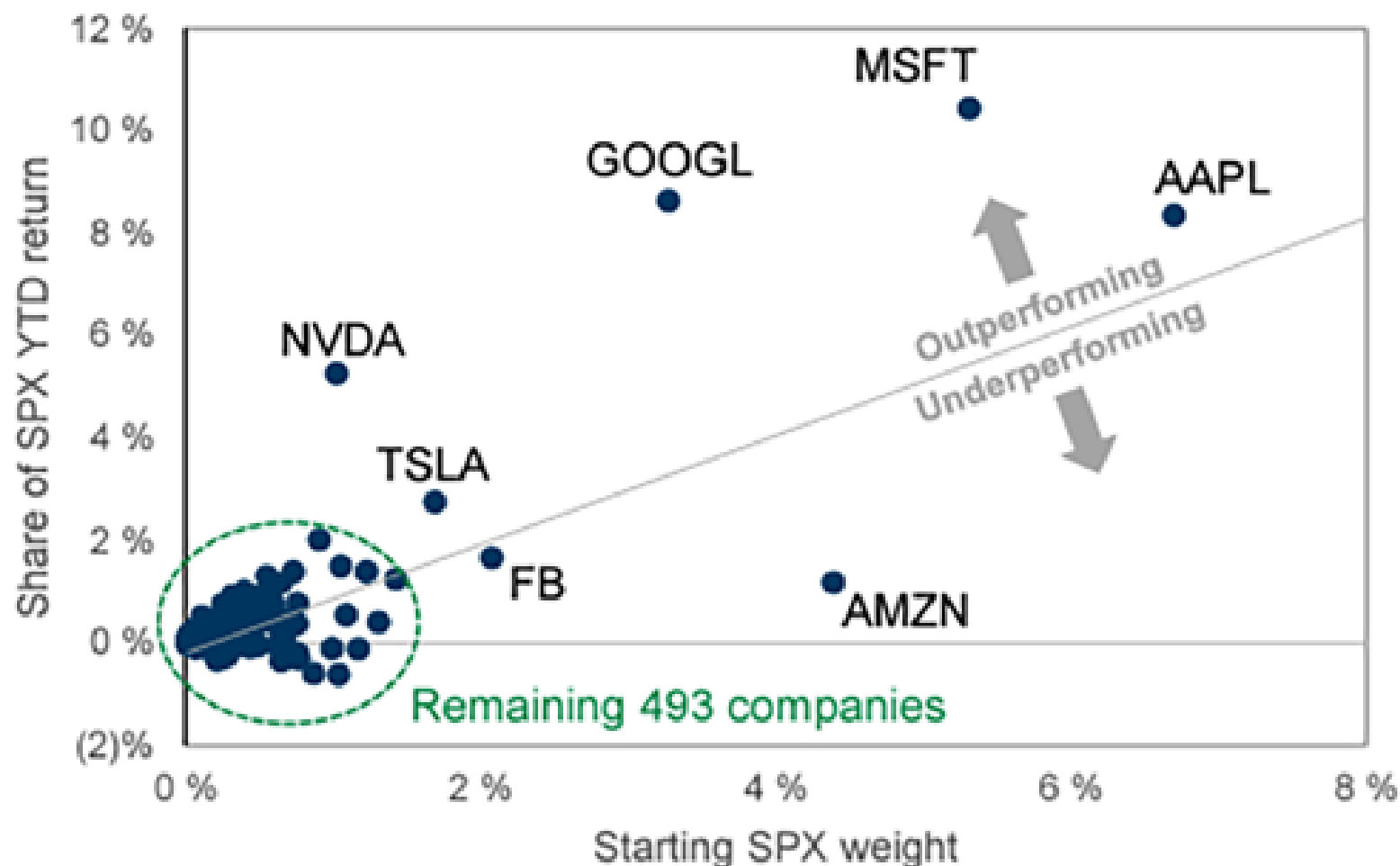


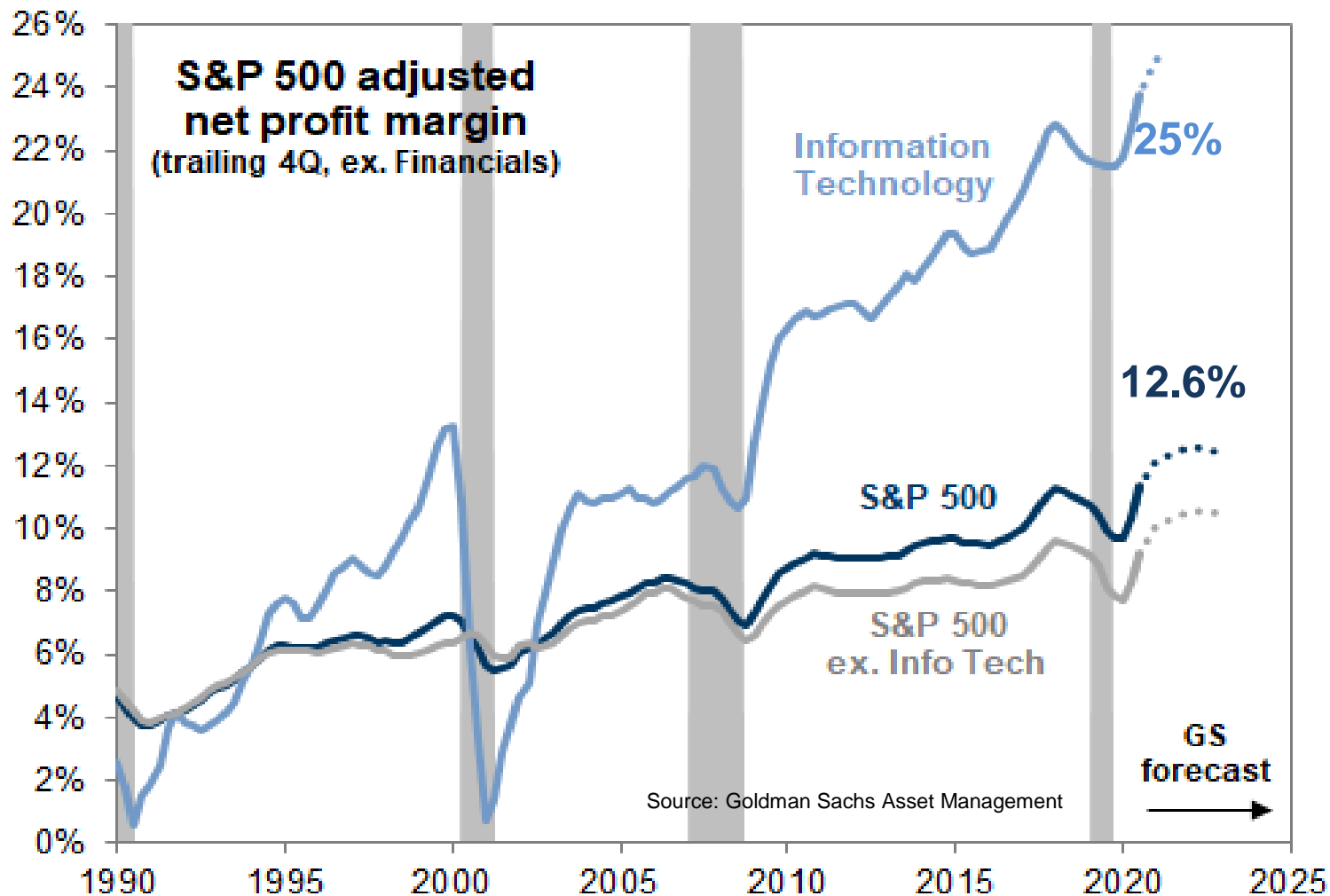
Exhibit 2: 35% of the S&P 500's YTD return has come from five stocks
as of December 9, 2021



Source: Goldman Sachs Global Investment Research

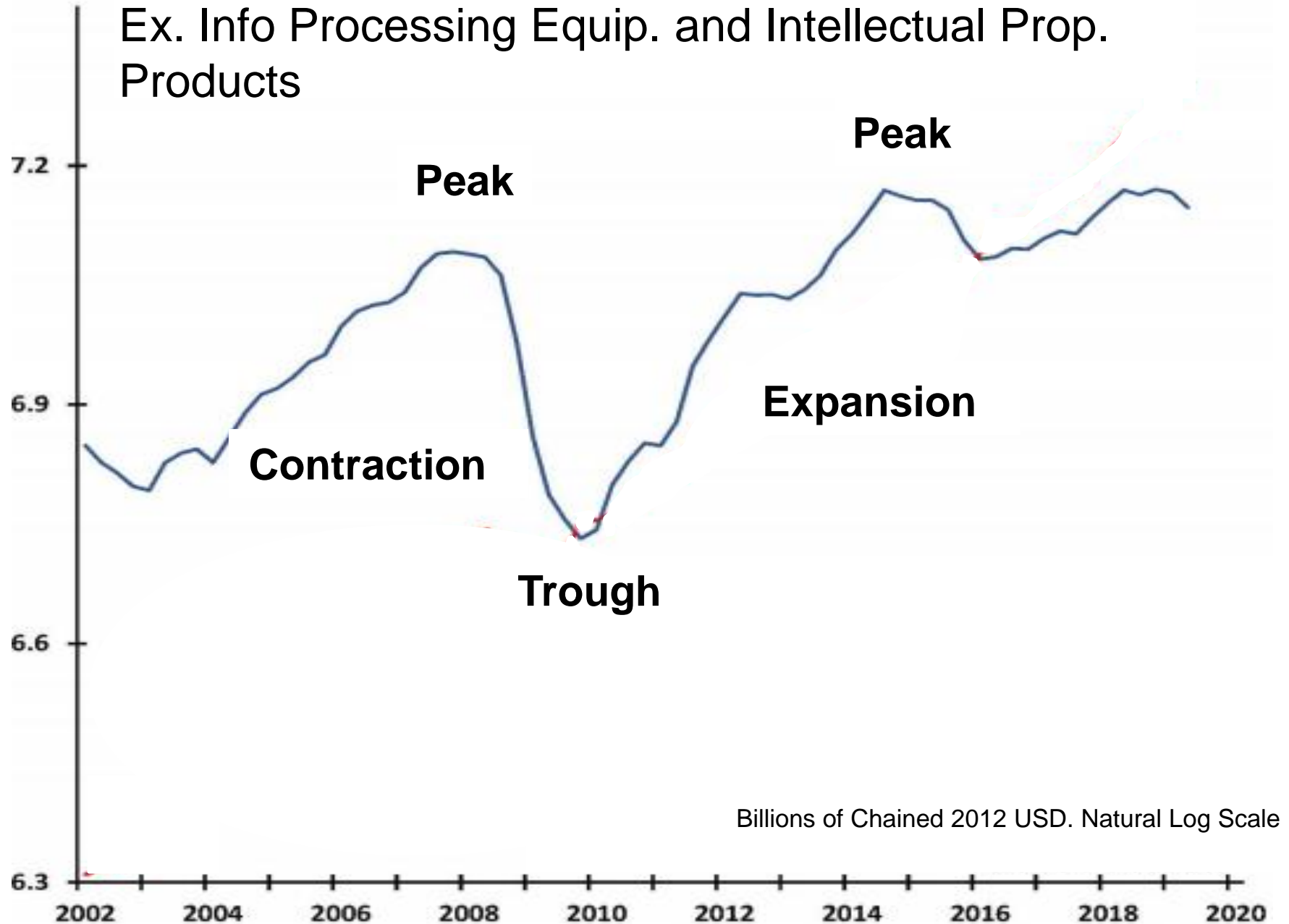
The "FAAMG" companies (FB, AAPL, AMZN, MSFT, GOOGL) account for 23% of S&P 500 market cap and 17% of earnings. In aggregate, FAAMG stocks have compounded their sales at a CAGR of 19% since 2010, 14 percent faster than the rest of the S&P 500. The group has also consistently outperformed fundamental expectations, typically reporting annual sales 6% greater than analyst consensus expectations at the start of the previous year. In 2022, these stocks are forecast to grow revenues by 17% versus S&P 500 sales growth of 7%. In 2023, the sales forecast growth numbers are 15% and 5%, respectively.

Info Tech Margins 2x Broader S&P 500

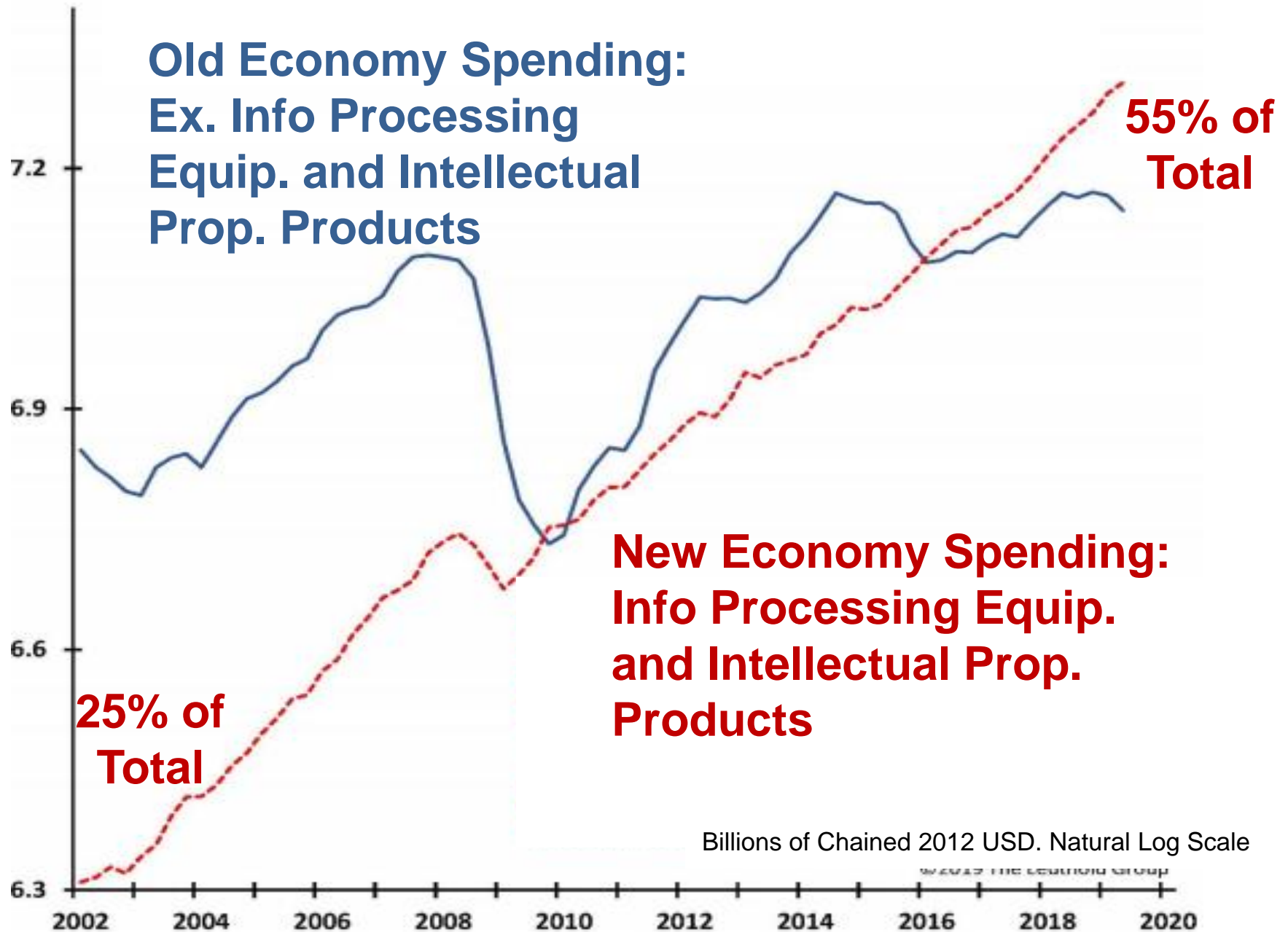


U.S. Real Nonresidential Investment Spending

Ex. Info Processing Equip. and Intellectual Prop. Products

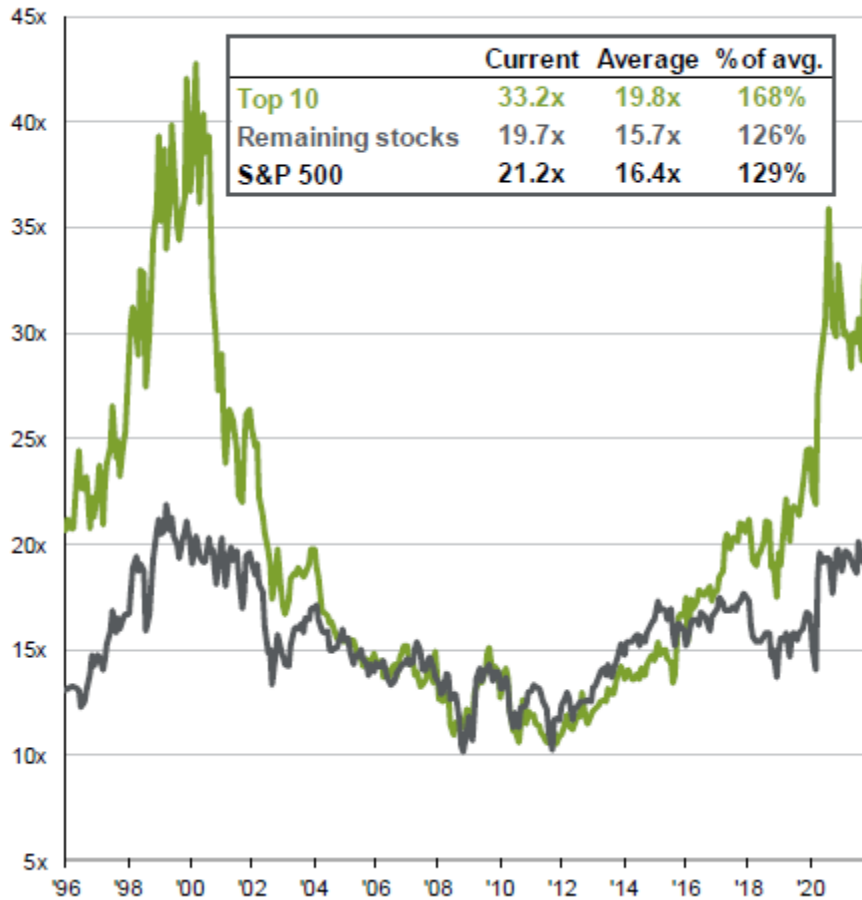


U.S. Real Nonresidential Investment Spending



The Market's Primary Strength is also a Potential Source of Significant Weakness

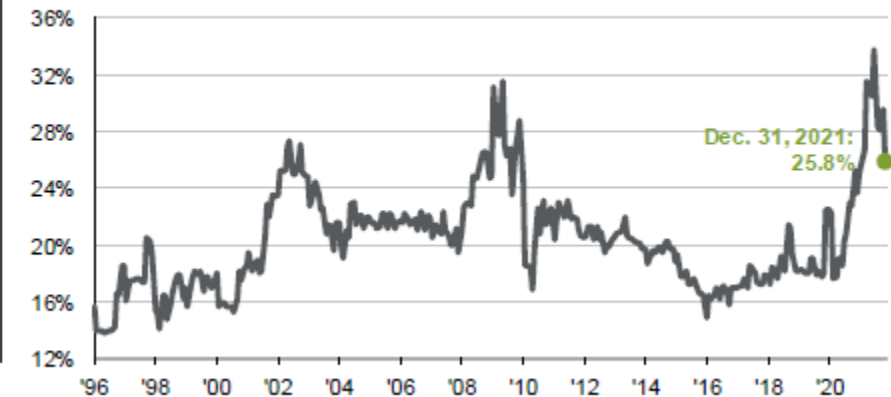
P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months



Weight of the top 10 stocks in the S&P 500
% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500
Based on last 12 months' earnings

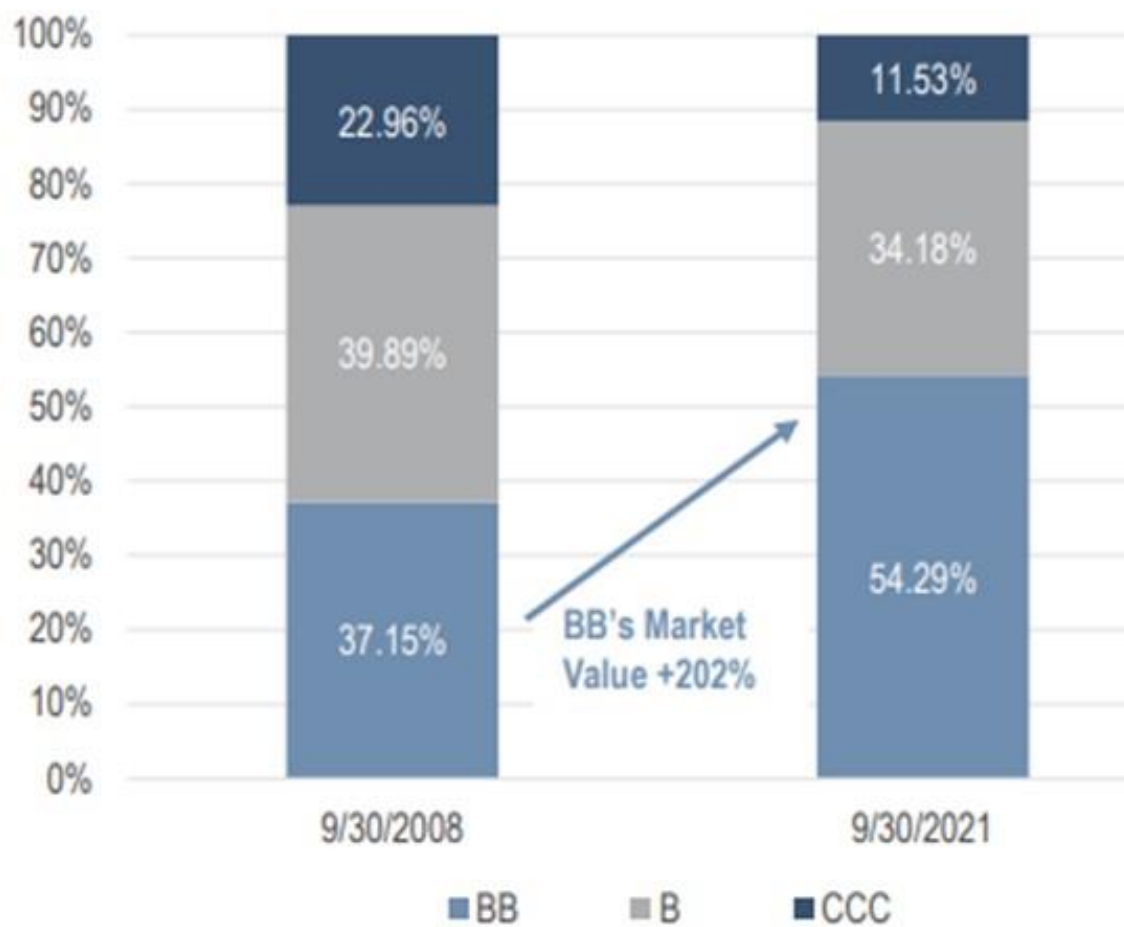


High Yield Spreads and Stock Market Cycles

Notes: **Green** and **Red** numbers show S&P 500 Total Return by calendar year from 1994 through 2021 YTD. Loss in 2018 occurred in fourth quarter. Intra-year loss in 2020 during Covid was -34%. Calendar year gain in 2020 was 18.4%.

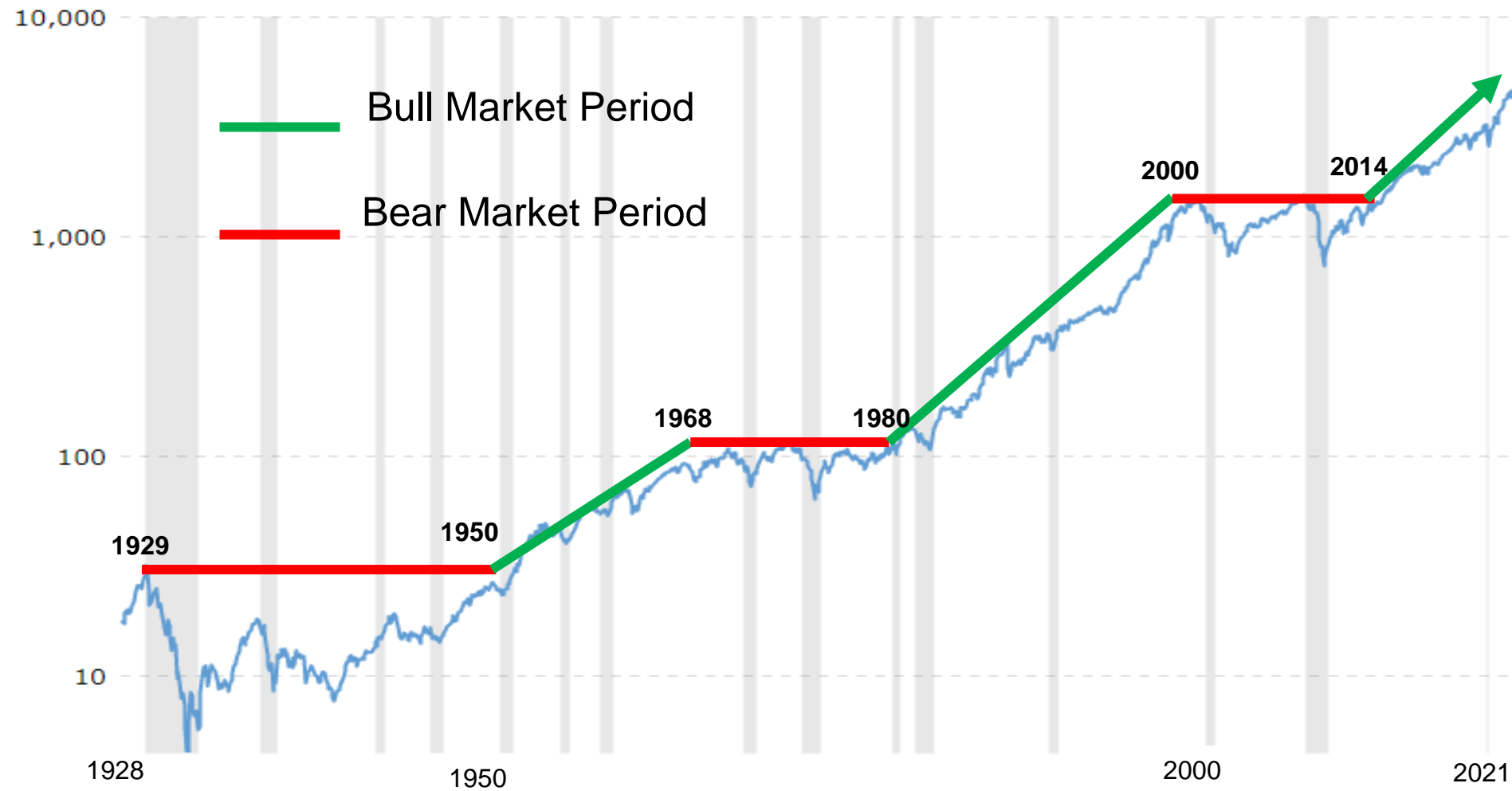


High-Yield Credit Quality Improvement



Bull/Bear Super Cycles

S&P 500 Index, Log Scale



Bull/Bear Super Cycles

- **Bull Cycle:** 1950 – 1968: S&P 500 average annual return 14.7%
- **Bear Cycle:** 1969 – 1979: S&P 500 average annual return 4.8%
- **Bull Cycle:** 1980 – 1999: S&P 500 average annual return 17.4%
- **Bear Cycle:** 2000 – 2013: S&P 500 average annual return 2.2%
- **Bull Cycle:** 2014 – Nov, 2021: S&P 500 average annual return 14.9%

S&P 500: Number of All-Time Highs (1929 - 2021)

Note: Closing Prices, as of 12/31/2021

Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH
1929	45	1948	0	1967	14	1986	31	2005	0
1930	0	1949	0	1968	34	1987	47	2006	0
1931	0	1950	0	1969	0	1988	0	2007	9
1932	0	1951	0	1970	0	1989	13	2008	0
1933	0	1952	0	1971	0	1990	6	2009	0
1934	0	1953	0	1972	32	1991	22	2010	0
1935	0	1954	27	1973	3	1992	18	2011	0
1936	0	1955	49	1974	0	1993	16	2012	0
1937	0	1956	14	1975	0	1994	5	2013	45
1938	0	1957	0	1976	0	1995	77	2014	53
1939	0	1958	24	1977	0	1996	39	2015	10
1940	0	1959	27	1978	0	1997	45	2016	18
1941	0	1960	0	1979	0	1998	47	2017	62
1942	0	1961	53	1980	24	1999	35	2018	19
1943	0	1962	0	1981	0	2000	4	2019	36
1944	0	1963	12	1982	2	2001	0	2020	33
1945	0	1964	65	1983	30	2002	0	2021	70
1946	0	1965	37	1984	0	2003	0		
1947	0	1966	9	1985	43	2004	0		

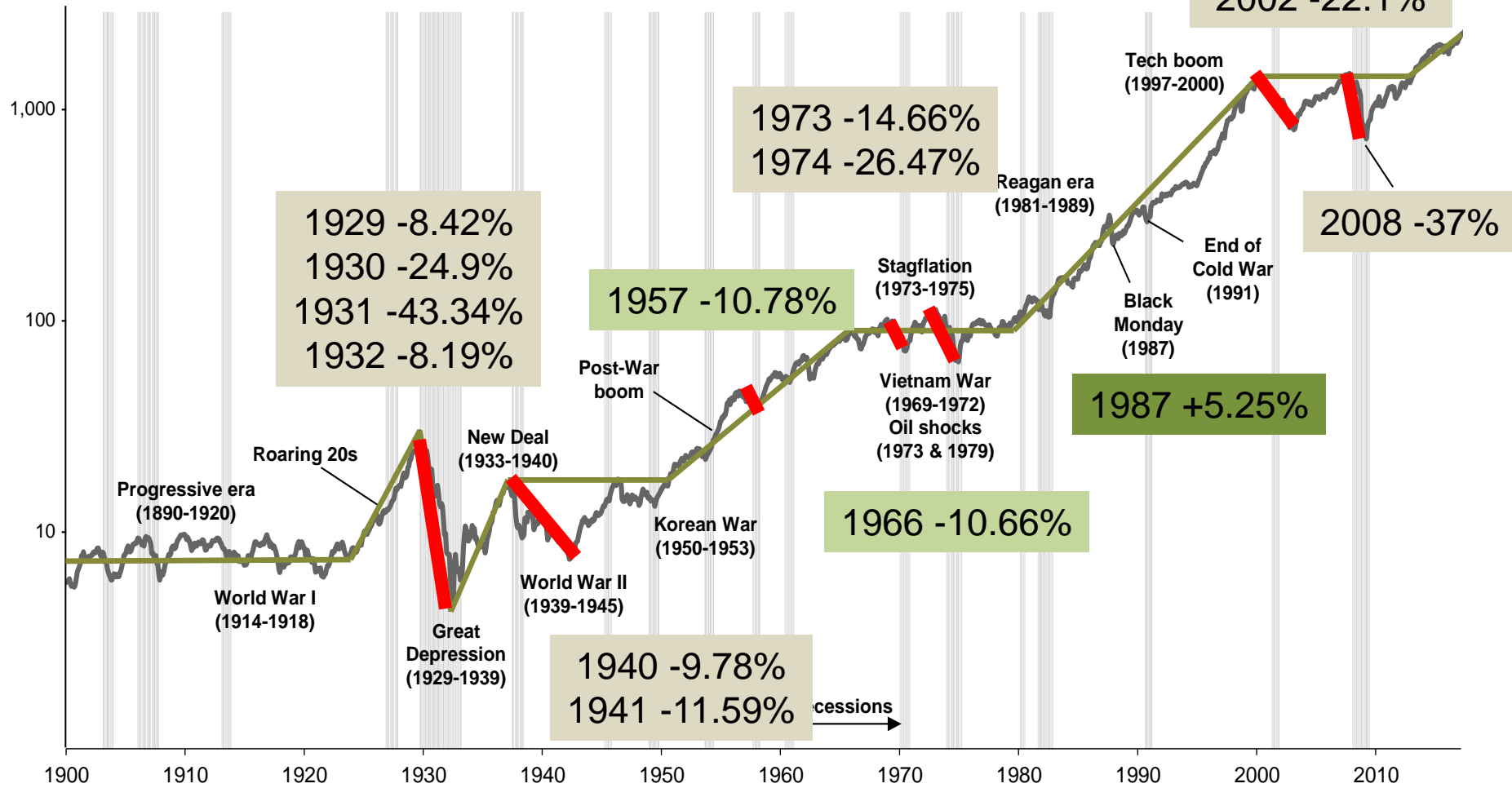
BEAR

BULL

Losses Concentrated

S&P Composite Index

Log scale, annual



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Stock Market Valuation

$$\text{Stock Values} = \frac{\text{Earnings}}{\text{Risk Free Interest Rate} + \text{Risk Premium}}$$

	<u>Stock Price</u>	<u>Earnings</u>	<u>Risk Free Rate</u>	<u>Risk Premium</u>	<u>Denominator</u>
2021	4,700.00	206.00	0.02%	4.4%	4.4%
2020	3,756.07	139.76	0.09%	3.6%	3.7%
2019	3,220.00	162.06	1.58%	3.5%	5.0%
2018	2,767.00	162.65	1.30%	4.6%	5.9%
2017	2,673.61	131.45	0.54%	4.4%	4.9%
2016	2,238.43	118.24	0.24%	5.0%	5.3%
2015	2,043.94	106.32	0.12%	5.1%	5.2%
2014	2,058.90	113.01	0.09%	5.4%	5.5%
2013	1,848.36	107.30	0.16%	5.6%	5.8%
2012	1,426.19	96.82	0.07%	6.7%	6.8%
2011	1,257.60	96.44	0.18%	7.5%	7.7%
2010	1,257.64	83.77	0.12%	6.5%	6.7%
2009	1,115.10	56.86	0.16%	4.9%	5.1%
2008	903.25	49.51	4.24%	1.2%	5.5%
2007	1,468.36	82.54	5.24%	0.4%	5.6%
2006	1,418.30	87.72	4.16%	2.0%	6.2%
2005	1,248.29	76.45	2.16%	4.0%	6.1%
2004	1,211.92	67.68	0.98%	4.6%	5.6%
2003	1,111.91	54.69	1.24%	3.7%	4.9%
2002	879.82	46.04	1.82%	3.4%	5.2%
2001	1,148.09	38.85	6.40%	-3.0%	3.4%
2000	1,320.28	56.13	5.30%	-1.0%	4.3%

The bad news is when the S&P 500 gains $>25\%$ in a year, it has never gained more the following year.

The good news?

That next year can still be pretty darn good. Higher 85% of the time and up a solid 11% on average.

In other words, a "big year" alone isn't reason to expect trouble.

Greater Than 25% Years Are A Good Sign For The Next Year

S&P 500 Index Returns After Big Yearly Returns

Year	Return	S&P 500 Return
		Next Year Return
1954	45.0%	26.4%
1955	26.4%	2.6%
1958	38.1%	8.5%
1975	31.5%	19.1%
1980	25.8%	-9.7%
1985	26.3%	14.6%
1989	27.3%	-6.6%
1991	26.3%	4.5%
1995	34.1%	20.3%
1997	31.0%	26.7%
1998	26.7%	19.5%
2003	26.4%	9.0%
2013	29.6%	11.4%
2019	28.9%	16.3%
2021	26.9%	?
Average		11.6%
Median		13.0%
% Positive		85.7%
Average Year (1950 - 2020)		9.2%
Median		11.8%
% Positive		71.8%

Source: LPL Research, FactSet 01/01/22

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Invest With Delta

- ❖ *An Active and Engaged Partnership to Achieve Your Financial Goals*
- ❖ *Alignment of Your Interests with Our Interests: Fiduciary to build and protect your wealth*
- ❖ *Comprehensive Wealth Management Solutions*
- ❖ *Focus on Your Absolute Returns*
- ❖ *Pro-active Downside Risk Mitigation – We Actively Protect Your Money*
- ❖ *Transparency of Process and Holdings*
- ❖ *Personalized Service*

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