Quarterly Newsletter

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DELTA
FINANCIAL ADVISORS
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Market Comments

The first half of the year proved tumultuous for investors. The Dow Jones Industrial Average peaked at nearly 30,000 in February and bottomed one month later at approximately 18,200. The daily volatility was often extraordinary, with the DJIA plummeting 3,000 points one day and soaring 2,000 on another. With the recent low off 34% from the high, the stock market sank deep into bear market territory, defined as any drop exceeding 20%, but has since then quickly recovered. Broadly, investors have responded well to the uncertainty, and the DJIA posted its best quarterly performance in over thirty years.

The severity of the market sell-off occurred because of the speed with which the economy was shut down due to COVID-19. The initial success flattening the virus curve quickly turned this pessimism around when the restrictions started to loosen. This is apparent in the better than expected June retail sales data, leading economic indicators and housing starts. Further, nearly five million jobs were added in June, which also showed increases in consumer confidence and existing home sales, where record-low mortgage rates have continued to augment demand.

Concern for inflation is currently low, allowing the Federal Reserve to maintain its highly accommodative stance of low interest rates for at least the next year. With the current 10-year treasury yield of 0.6%, the bond market is indicating a slow but still growing economic path, contrasting the multitude of negative interest rates in Europe. This disparity makes it difficult to find attractive opportunities in the investment-grade fixed income world, and as such we are currently holding more cash than normal for portfolios with funds that are earmarked for fixed income securities.

	Close	Month	YTD	1 Year
Dow	25,812.88	1.82%	-8.43%	-0.54%
S & P 500	3,100.29	1.99%	-3.08%	7.51%
NASDAQ Comp.	10,058.77	5.99%	12.11%	25.64%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	0.65%	1.92%	2.00%

Looking Ahead

The release of second quarter earnings reports has begun. Despite low estimates from analysts and low corporate guidance, most of these reports, so far, have met or exceeded expectations and record revenues have been reported by many companies. Additionally, guidance for future earnings estimates is being revised upwards, generating higher expectations for 2021. Note, however, that revenue and earnings estimates lack confidence in this uncertain environment. Unfortunately, we do expect to see more companies filing for bankruptcy as the economy continues to wrestle its way forward. We continue to focus on the strength of corporate balance sheets for both equity and fixed income investments.

Fortunately, the worst has probably been seen for the stock market. The current market is certainly not cheap by most valuation methods, but approximately 80% of the S & P 500 stocks have higher dividend yields than the 10-year treasury note. This is usually a bullish sign for stocks, and one method that we like to use when considering investment choices. During this economic and earnings recovery period, the low interest rate environment should bode well for maintaining long term investment plans, but the short term will probably be a turbulent ride. The stock market will likely remain volatile as long as the spread of the virus and vaccine developments continue to battle for headlines. Additionally, despite the decelerated rate of reopening in some U.S. states and cities, the threat of another federal lockdown seems unlikely.

The outcome of the upcoming election cycle presents another important uncertainty. With potentially significant changes in spending, tax, regulation and trade policies, the markets will likely stay in a tight range for the next few months. If indeed there is a change in administration and Congress, history does provide some comfort - a Democratic presidency with a Democratic majority in both the House and the Senate has produced positive returns, on average, for stocks. The age-old stock market rules of “Don’t fight the tape (market trend), and don’t fight the Fed” still hold true. Both the current market trend and an extremely accommodative Fed should provide support for stocks.

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