Market Outlook

By Mark T Dodson, CFA

Psychology moves into the worst decile.

Market Risk Index climbed 4.2% to 64.6%. Another improvement to Monetary conditions was not enough to offset a nearly 10% jump in the Psychology risk score, which moved back into the worst 10% of readings.

All remaining bullish categories within the Psychology Composite saw their influence wane, and the largest influences on the Psychology score are now all bearish ones. Technicals and Surveys are the only two (of 11) categories with bullish implications for markets. On the Technicals front, our NYSE Overbought/Oversold indicator is on the cusp of reaching overbought levels, so we'll soon know how much follow-through the market will give us after the Zweig Breadth Thrust from two weeks ago.

Bank Sentiment is one of those categories from our Psychology Composite that has become one of the most significant negative influences, as banks are tightening credit in a way that has never happened outside of a recession in the US economy. Banks are making moves to strengthen their balance sheets – making it more difficult for borrowers to secure credit.

Bank Sentiment may not appear as though it meshes with an improving Monetary Composite, except the conditions that are improving within the Monetary Composite are all those categories that either coincide with economies experiencing a soft landing – or economies on their way to recession.

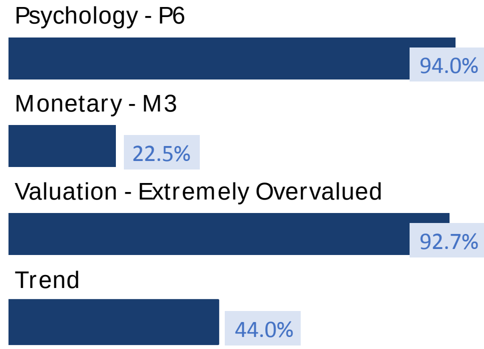
Investors would be wise to treat technical buy signals based solely upon advance-decline data with a wary eye – not to embrace them with abandon unless supported by other evidence. We have watched precedent after precedent regarding indicators based upon those traditional stats lead to many instances of disappointment since the decimalization of stock prices. The bottom line is that it is improbable to launch a new cyclical bull market with the current backdrop of conditions – the weight of all the evidence doesn't support it.

Market Risk Index

Rec Allocation 25% Underweight

64.6%

Category Percentiles



Largest Psychology Influences

Leveraged Investments	Negative
Flow of Funds	Negative
Consumer Confidence	Negative
Bank Sentiment	Negative

Largest Monetary Influences

Interest Rate Spreads (Yield Curve)	Negative
Inflation	Positive
Lending & Leverage	Positive

Valuation

7-10 Year Equity Return Forecast	2.8%
10Yr US Treasury Yield	3.4%

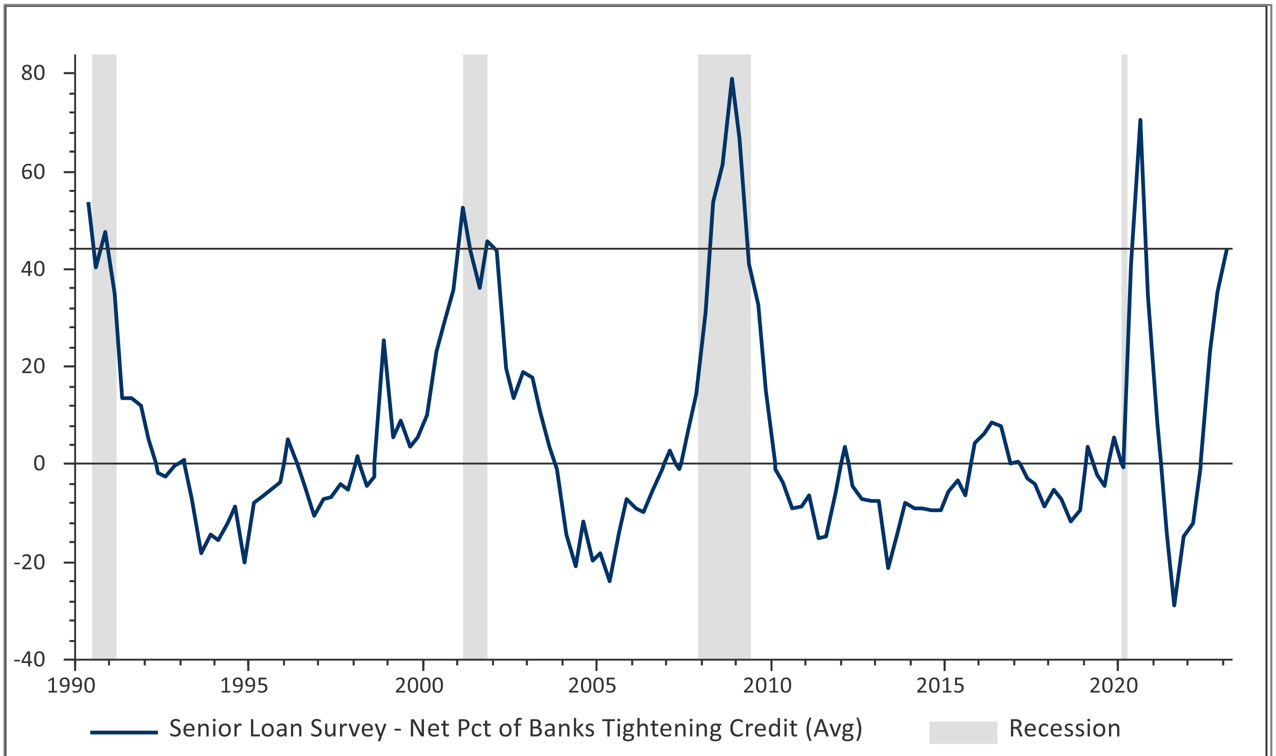
Market Trends

US Equities	Bullish Trade
Intl Equities	Neutral Trade
REITs	Neutral Trade
Broad Commodities	Bearish Trade

Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

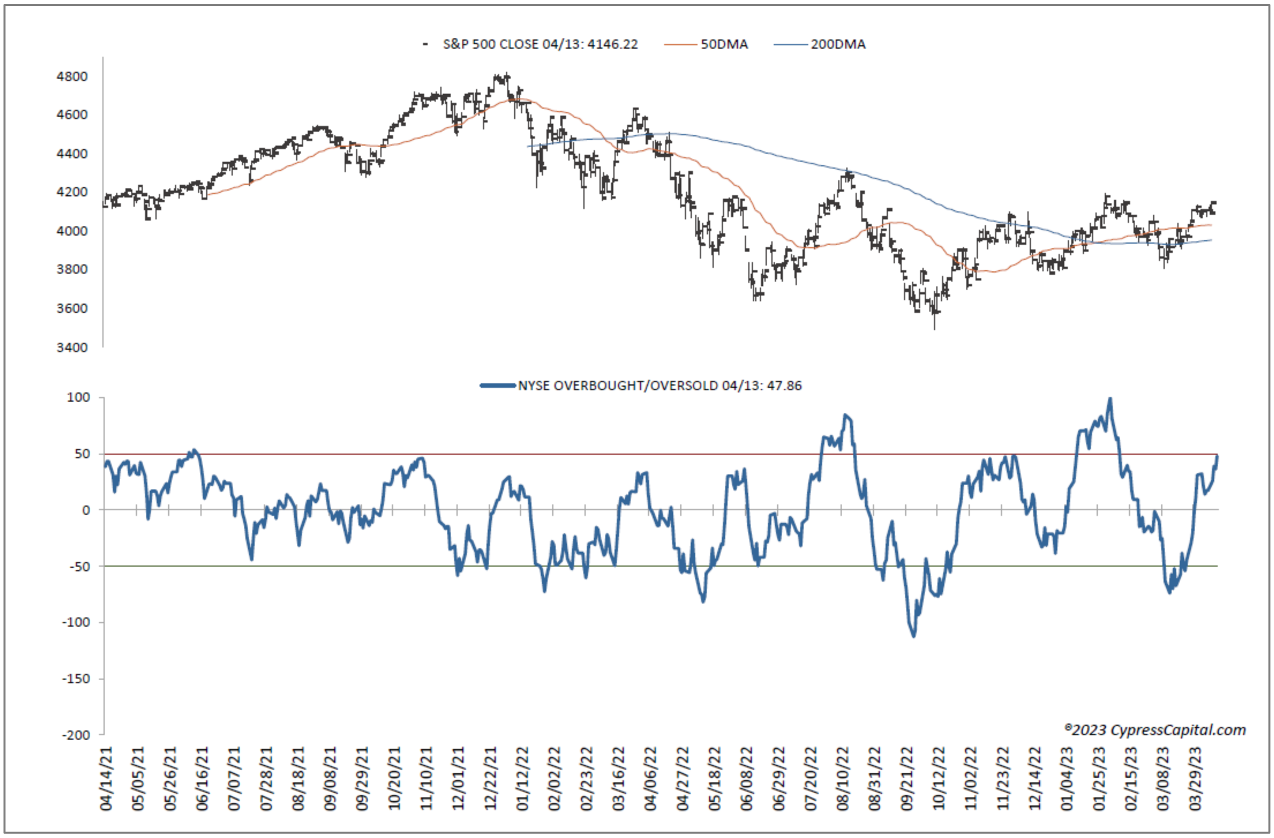
Charts of the Week

Bank Sentiment – Net Percent of Banks Tightening Credit

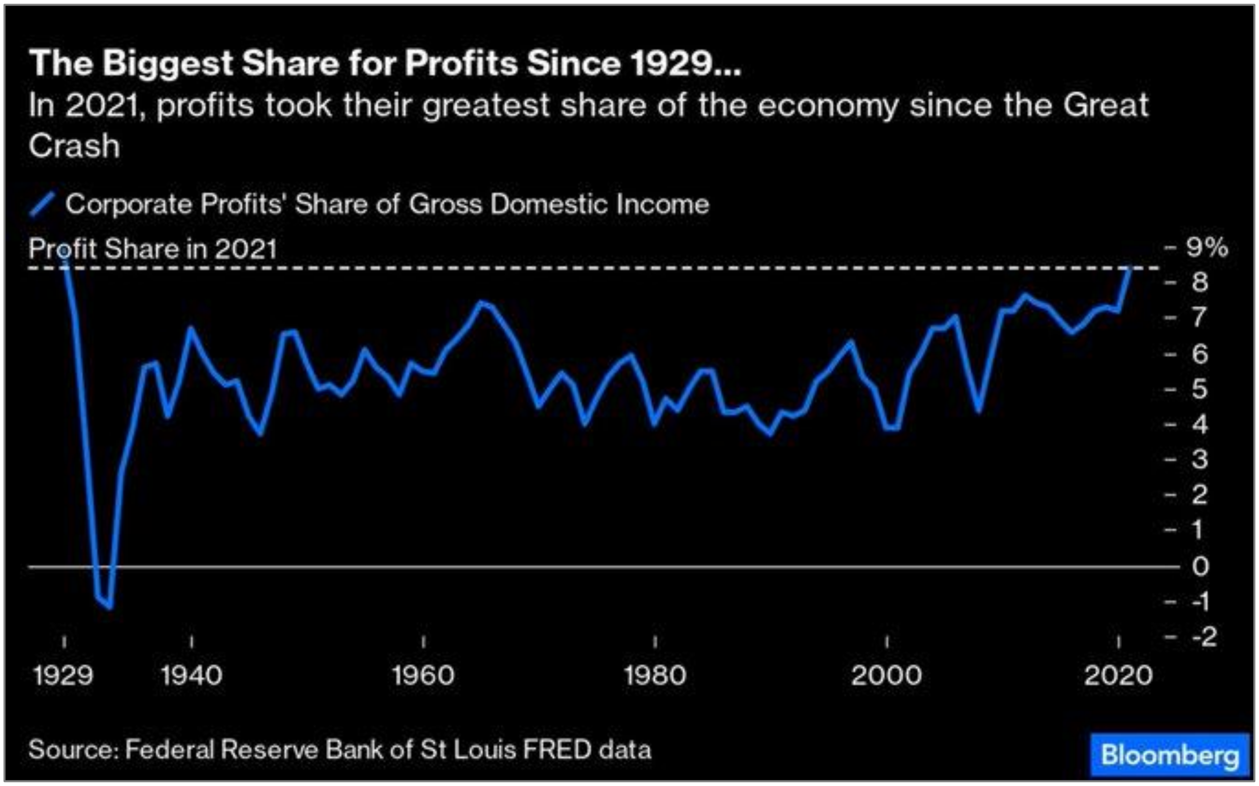


Source: Refinitiv Datastream, Cypress Capital

Stock Market is overbought for the first time since the February peak.



Corporate Profits share of Gross Domestic Income is the largest since 1929.



The end of a Fed rate hike cycle can be bullish or bearish, depending on the inflationary regime.

Table 1: We say 'sell the last rate hike'...just like in the '70s/'80s

DJIA returns after the last Fed rate hike

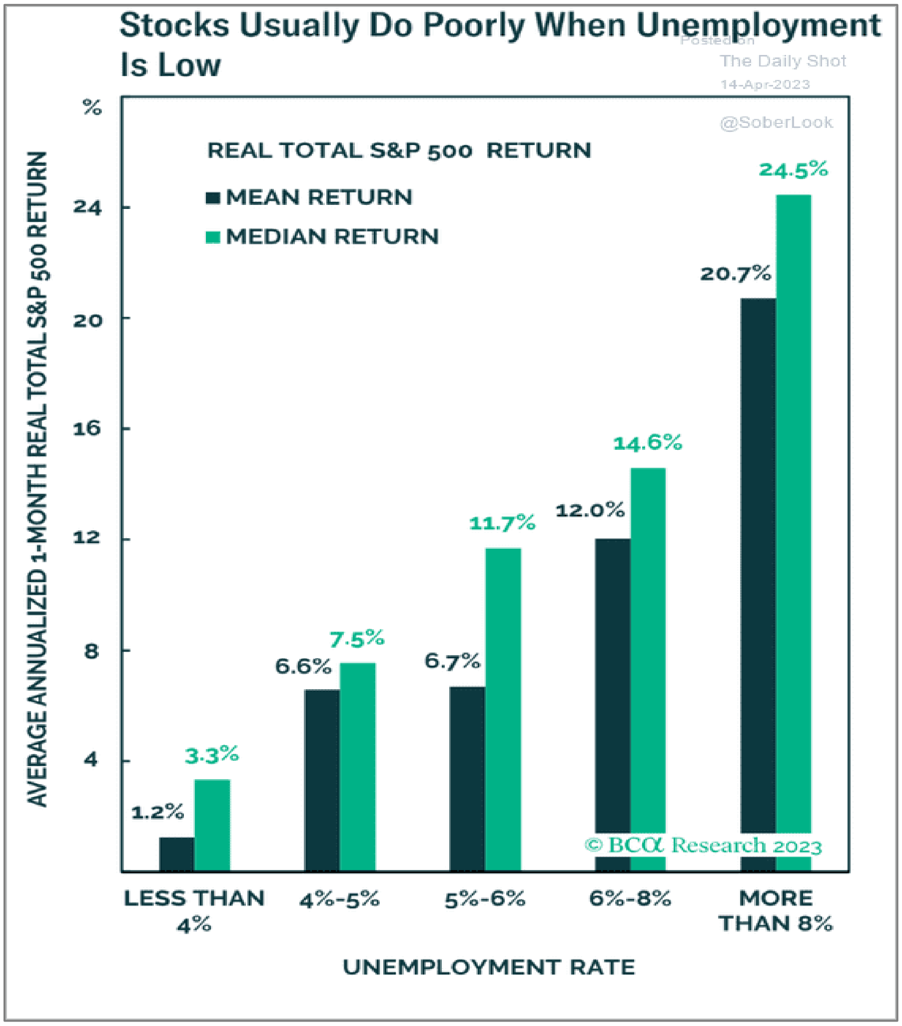
		Dow Jones return post-hike	
Date of last Fed hike	**Fed Funds %**	**3-mo**	**6-mo**
May 1, 1974	13.0%	(10.3%)	(22.8%)
March 3, 1980	20.0%	(0.4%)	9.2%
May 8, 1981	20.0%	(2.4%)	(12.0%)
January 4, 1982	15.0%	(5.0%)	(9.7%)
August 21, 1984	11.75%	(4.4%)	3.4%
Average return - inflationary period		**(4.5%)**	**(6.4%)**
February 24, 1989	9.75%	10.6%	21.8%
February 1, 1995	6.0%	12.5%	22.2%
May 16, 2000	6.5%	2.2%	(3.8%)
June 29, 2006	5.25%	4.5%	11.8%
December 19, 2018	2.375%	11.0%	13.5%
Average return - disinflationary period		**8.1%**	**13.1%**

Posted on ISABELNET.com

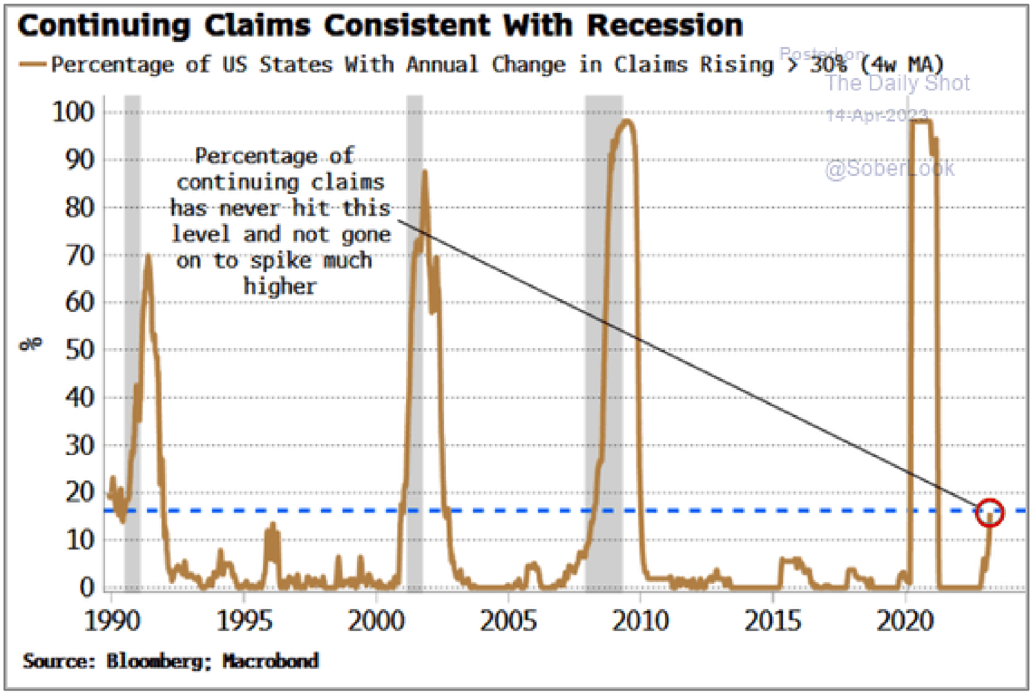
Source: BofA Global Investment Strategy, Bloomberg

Consumer Expectations for Inflation reversed higher last month.

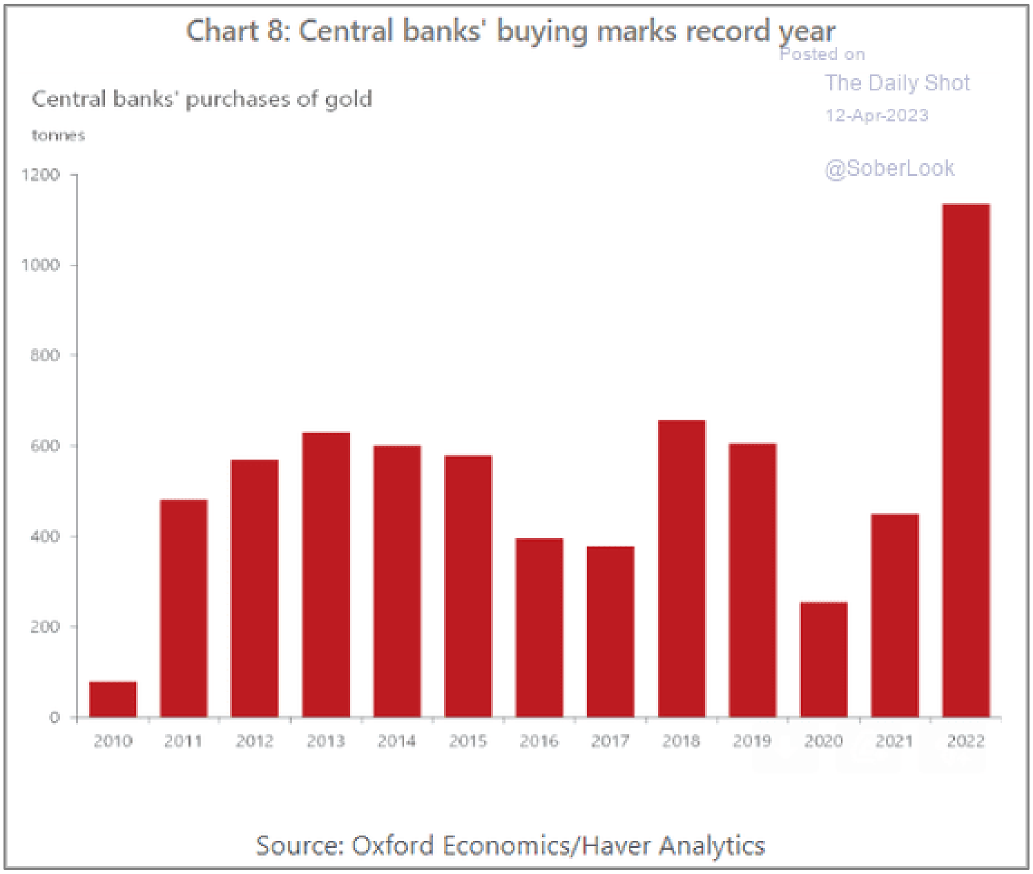
Low unemployment is bad for stocks, while high unemployment is good.



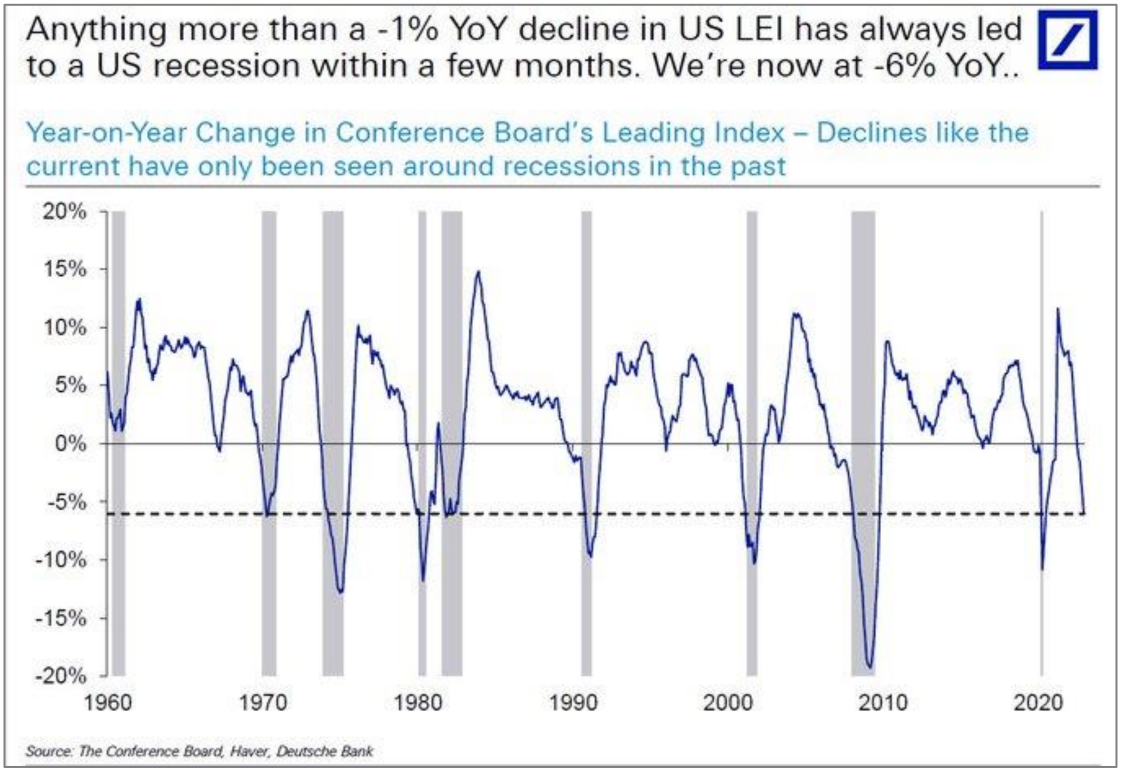
The rise in Continuing Claims is starting to look recessionary.



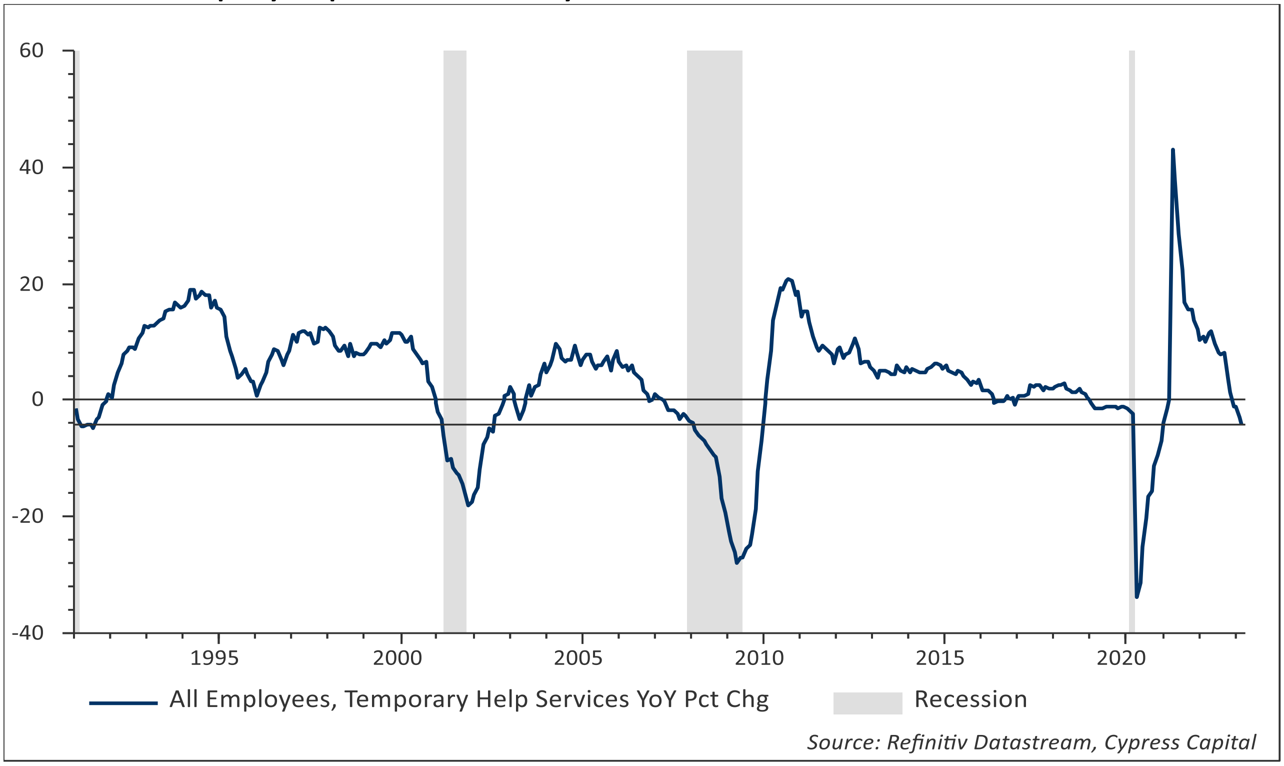
Central Banks are all stocking up on gold.



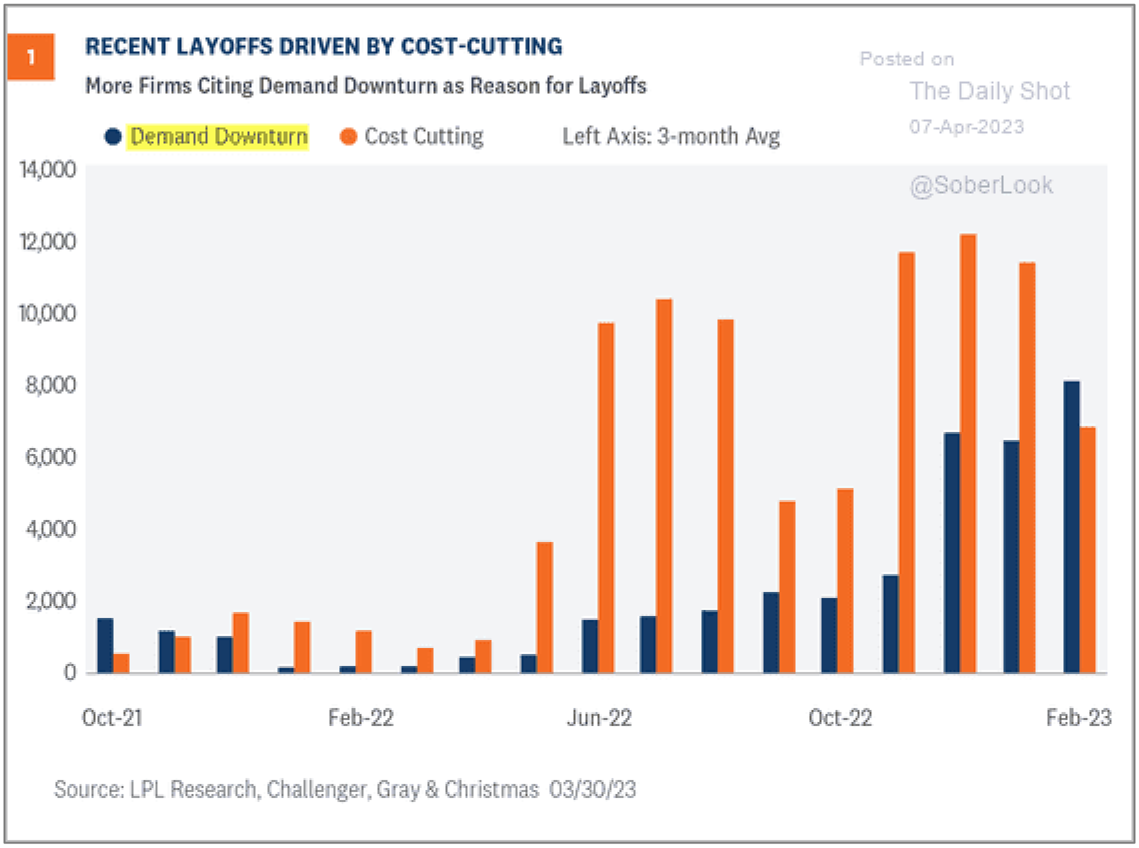
LEI is either predicting a recession or a future revision to how LEI is constructed...



Downturn in Temprary Help looks recessionary.

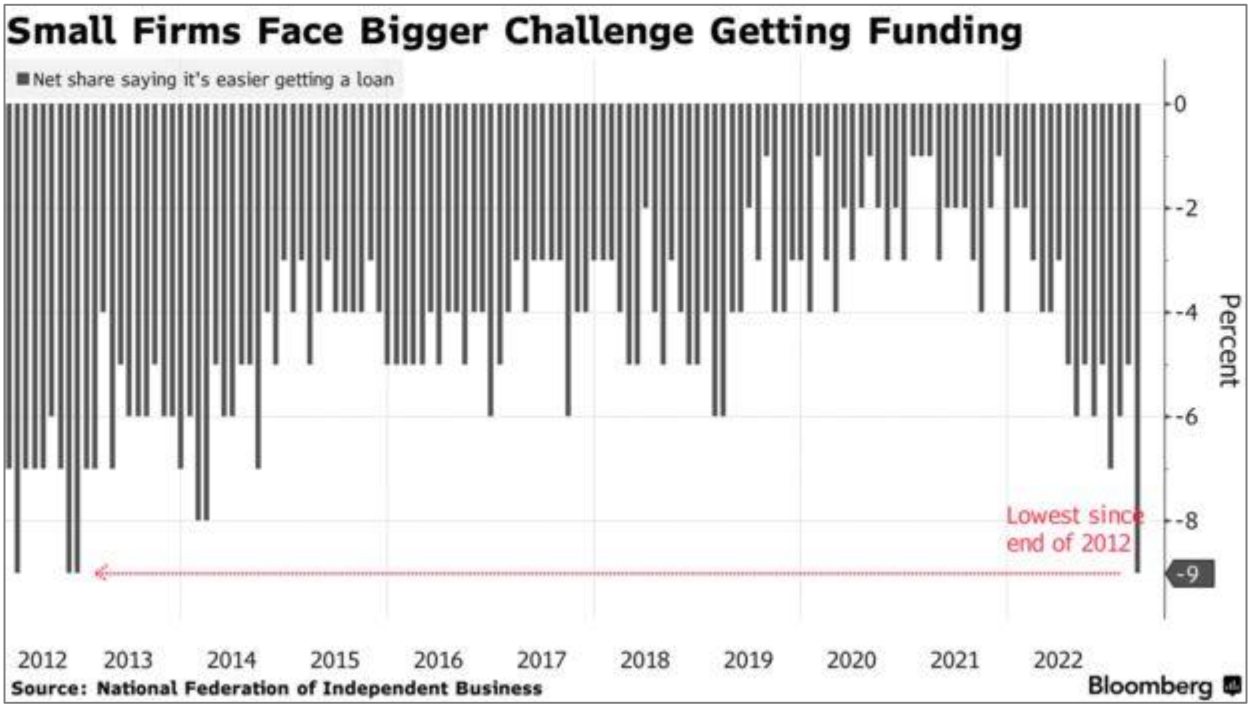


Demand downturn is the primary reason for layoffs for the first time since November 2021.

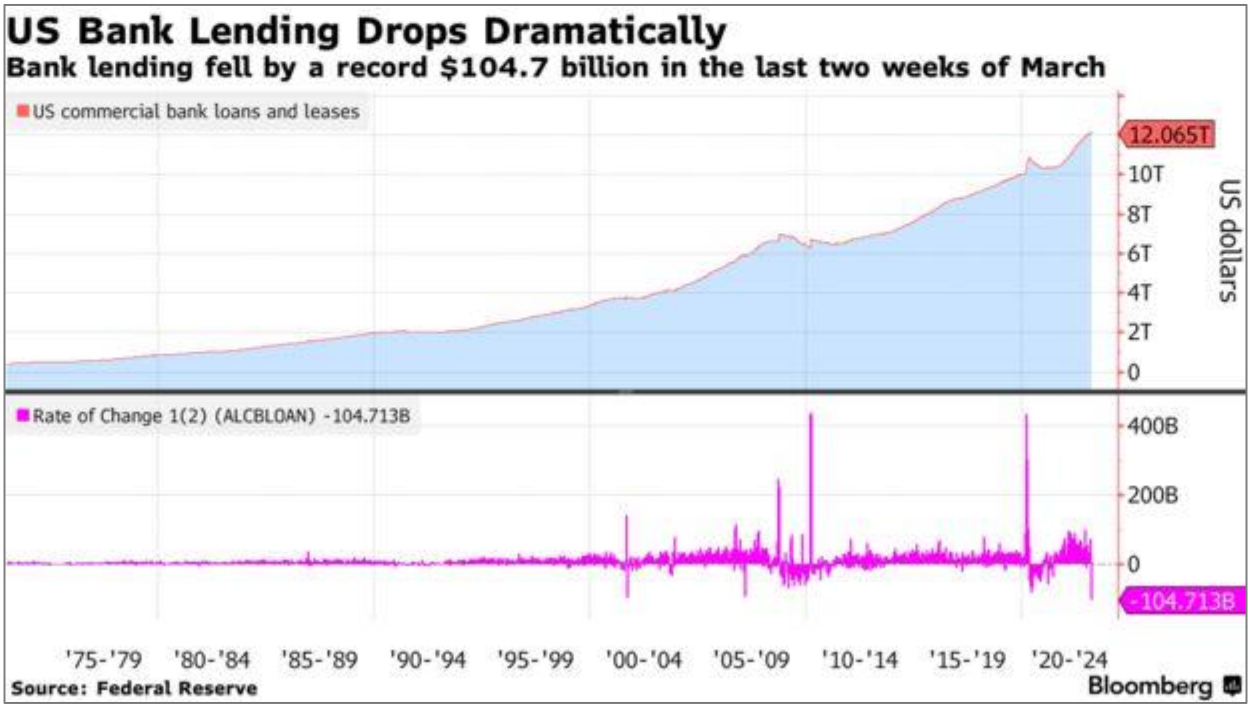


Small Business Hiring Plans have rolled over.

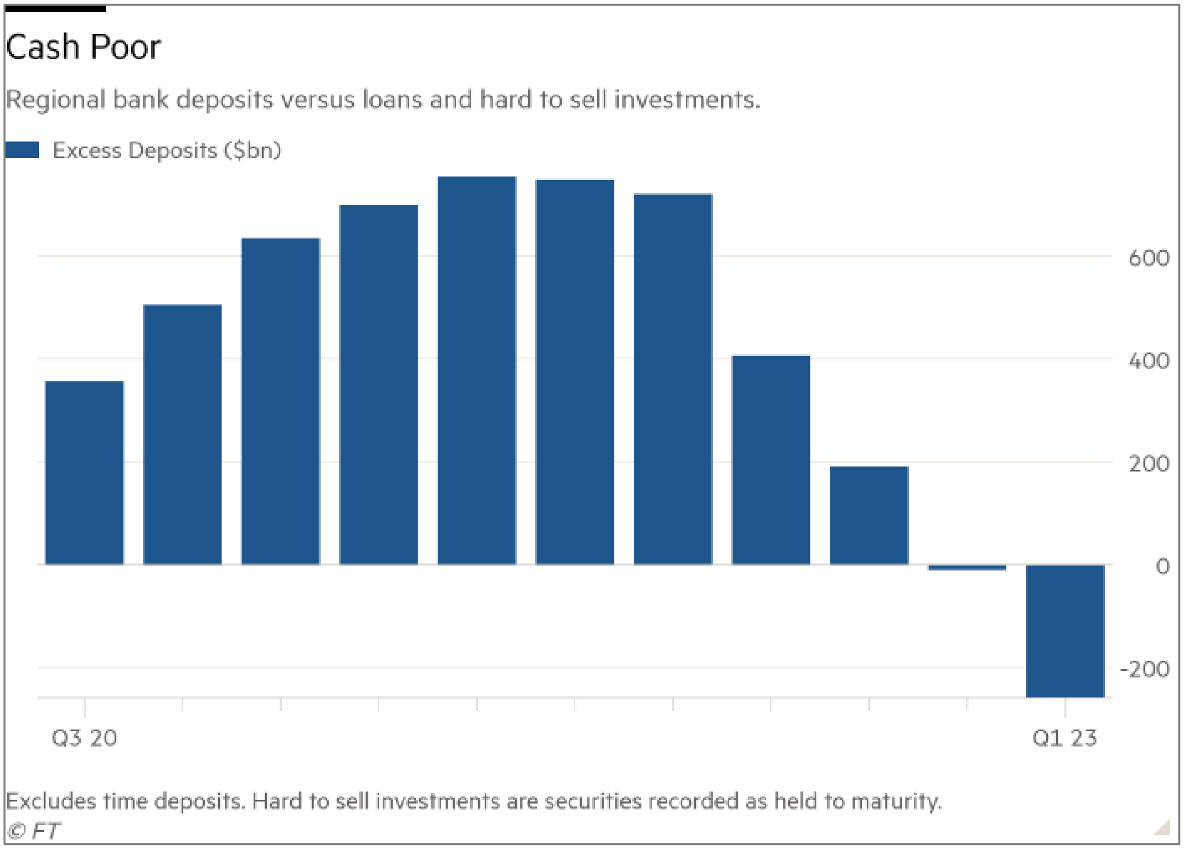
Small Businesses are having a harder time getting loans.



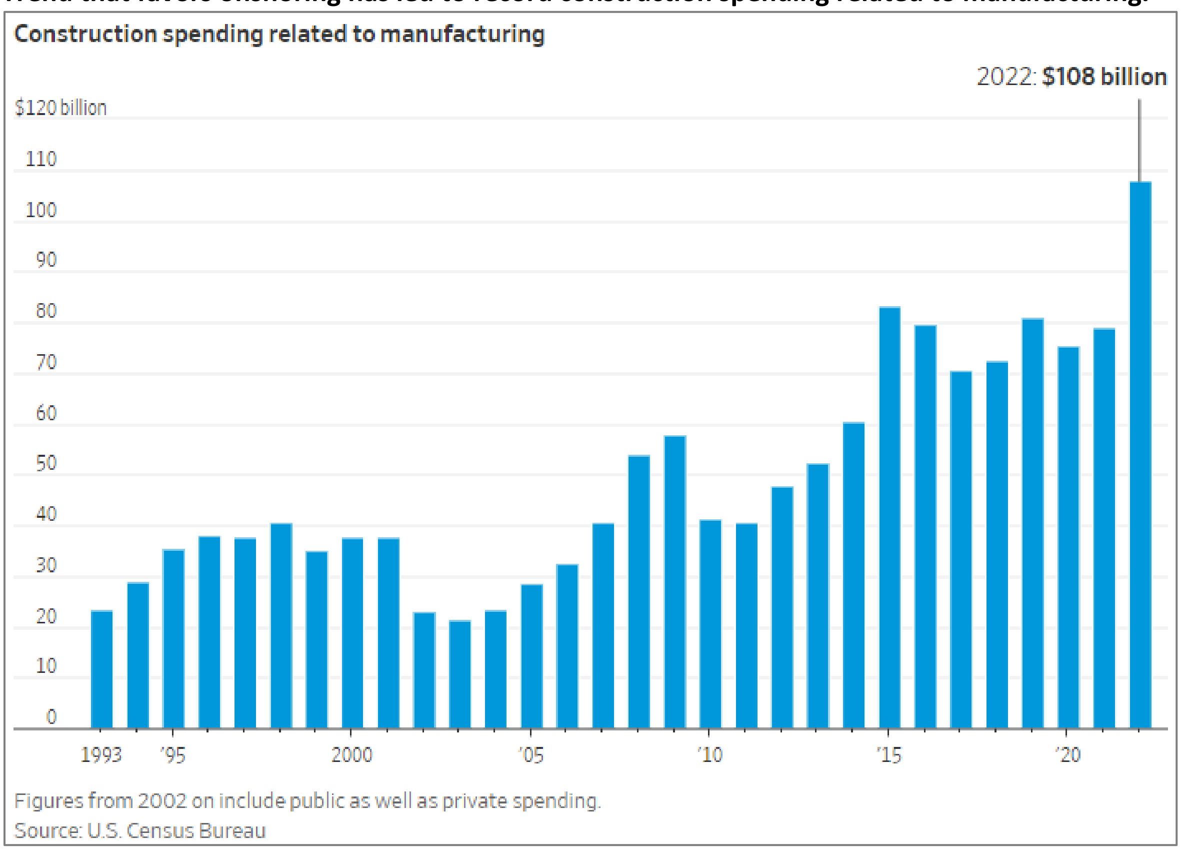
US Bank Lending suffered a record drop – falling by more than $100 billion the last 2wks of March.



Regional banks liquidity buffer has disappeared.



Trend that favors onshoring has led to record construction spending related to manufacturing.



Asset Management – Portfolio Lineup

The essence of investment management is the management of risks, not the management of returns.
– Benjamin Graham

Select Dividend – Bottom-up risk-managed dividend portfolio of up to 40 stocks that can hold cash and fixed income when markets aren't presenting attractive individual equity opportunities. A portfolio built upon Cypress Capital's metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks having above-average yields with a long-term history of paying dividends, where the dividend is perceived to be safe. Growers are companies with high total shareholder yields and perceived to be high-quality, franchise companies. The portfolio is generally made up of familiar, household names.

Global Allocation – Multi-asset class portfolio that invests in low-cost exchange-traded funds across eight asset classes based upon the margin of safety offered by each asset class to avoid significant drawdowns.

Strategic Income – Disciplined, value-biased income portfolio that practices patience in awaiting excellent risk-reward opportunities in fixed income. Disciplined in its refusal to reach for yield and put capital at risk of permanent impairment.

Asset Neutral – Absolute return-focused multi-asset class portfolio that allocates assets based upon the margin of safety offered in each asset class. The portfolio can go defensive and hold up to 100% cash in some environments.

US Opportunity – Concentrated value portfolio of up to 50 stocks that increases allocations to cash and fixed income when the margin of safety offered by equities is too narrow. Portfolio quantitatively buys the cheapest, highest quality stocks that it can find. Quantitative sell discipline sells individual holdings based on value and momentum factors.

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