



# Market Outlook

By Mark T Dodson, CFA

## Liquidity driven by speculation

Market Risk Index increased 1.5% to 66.2%, as Psychology crossed the threshold into the worst 5% of readings. Monetary Conditions and Valuations were unchanged from last week.

Three of the eleven categories in the Psychology Composite are neutral, and the other eight are negative. Coincidentally, we are seeing a peak in investor sentiment just as the seasonally strong November to April period after a mid-term election draws to a close.

The score on the Monetary Composite may not have moved this week, but the bullish, if temporary, easier money conditions created in the wake of the failure of Silicon Valley Bank failure has shown few signs of inflection or reversal. The most straightforward illustration of this is in the Dow Jones Bond oscillator's behavior, which moved further into the high liquidity zone than at any time since before the bear market began.

Markets behaving in a way that creates liquidity go hand in hand with improving investor moods. While not ebullient, Investment Advisors have grown the most bullish since the January 2022 stock market peak. Easing inflation and higher asset prices have investors leaning back into the traditional beliefs about the end of a Fed tightening cycle – that and maybe some memories of how the stock market rocketed higher after the shortest bear market on record in 2020.

The Monetary Composite has grown bullish in the face of an inverted yield curve, while the Psychology Composite's message is on the opposite end of the spectrum. Psychology scores like this tend to only occur during denial phases of a bear market or in a bull market reaching peak euphoria.

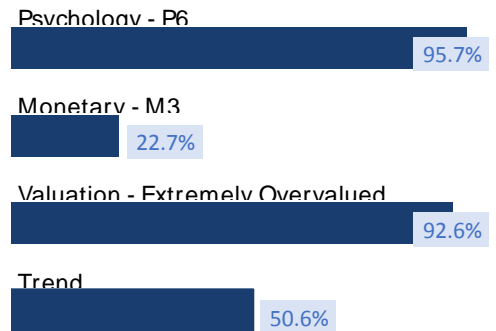
The fact that the Monetary improvement is not coming from a change in central bank policy gives us clues that we are seeing a shift in investor hopes instead of something that will drive a credit and market cycle. During traditional bear market bottoms, we see rampant fear that coincides with a Fed desperate to alleviate that fear by opening up the spigots. Regardless, we don't recommend significant allocation decisions when conditions are mixed – and MRI is not at extremes.

### Market Risk Index

Rec Allocation 25% Underweight

**66.2%**

### Category Percentiles



### Largest Psychology Influences

Leveraged Investments	Negative
Flow of Funds	Negative
Option Activity	Negative
Consumer Confidence	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	3.6%

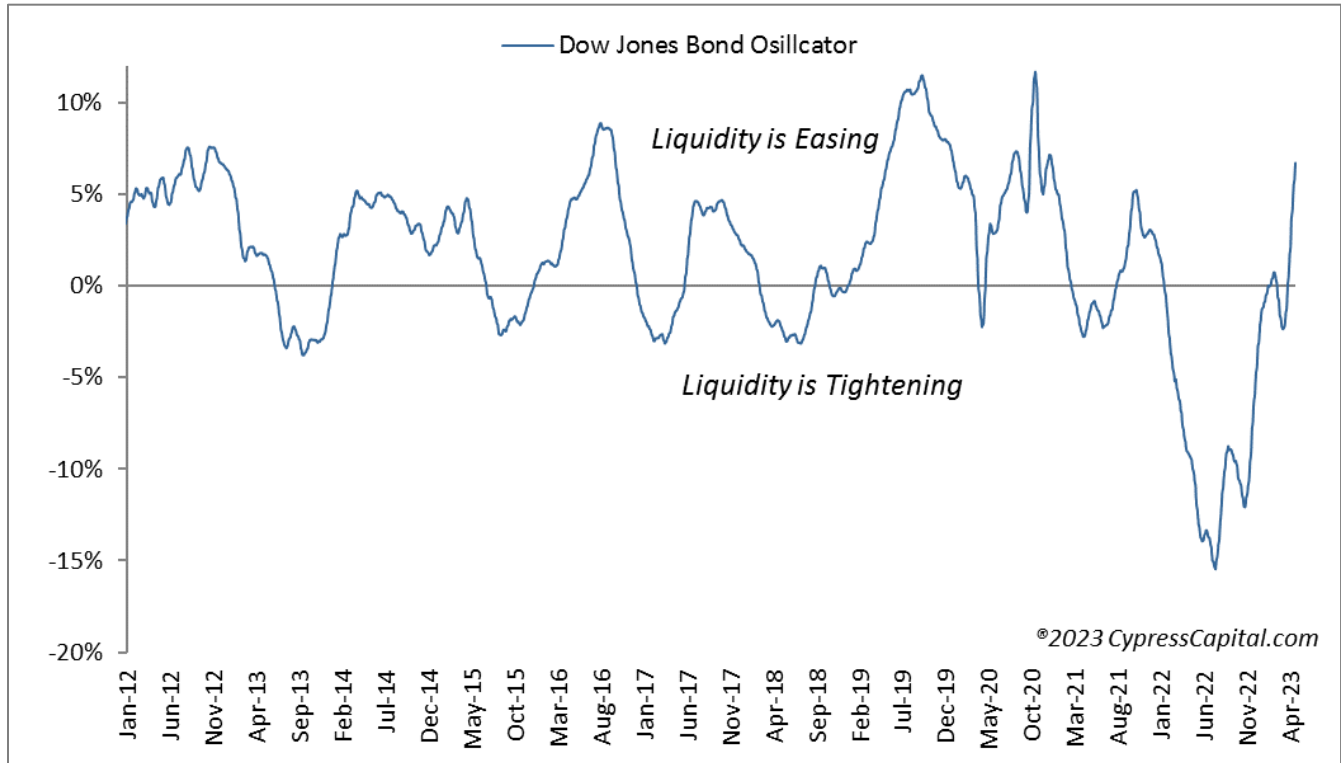
### Market Trends

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

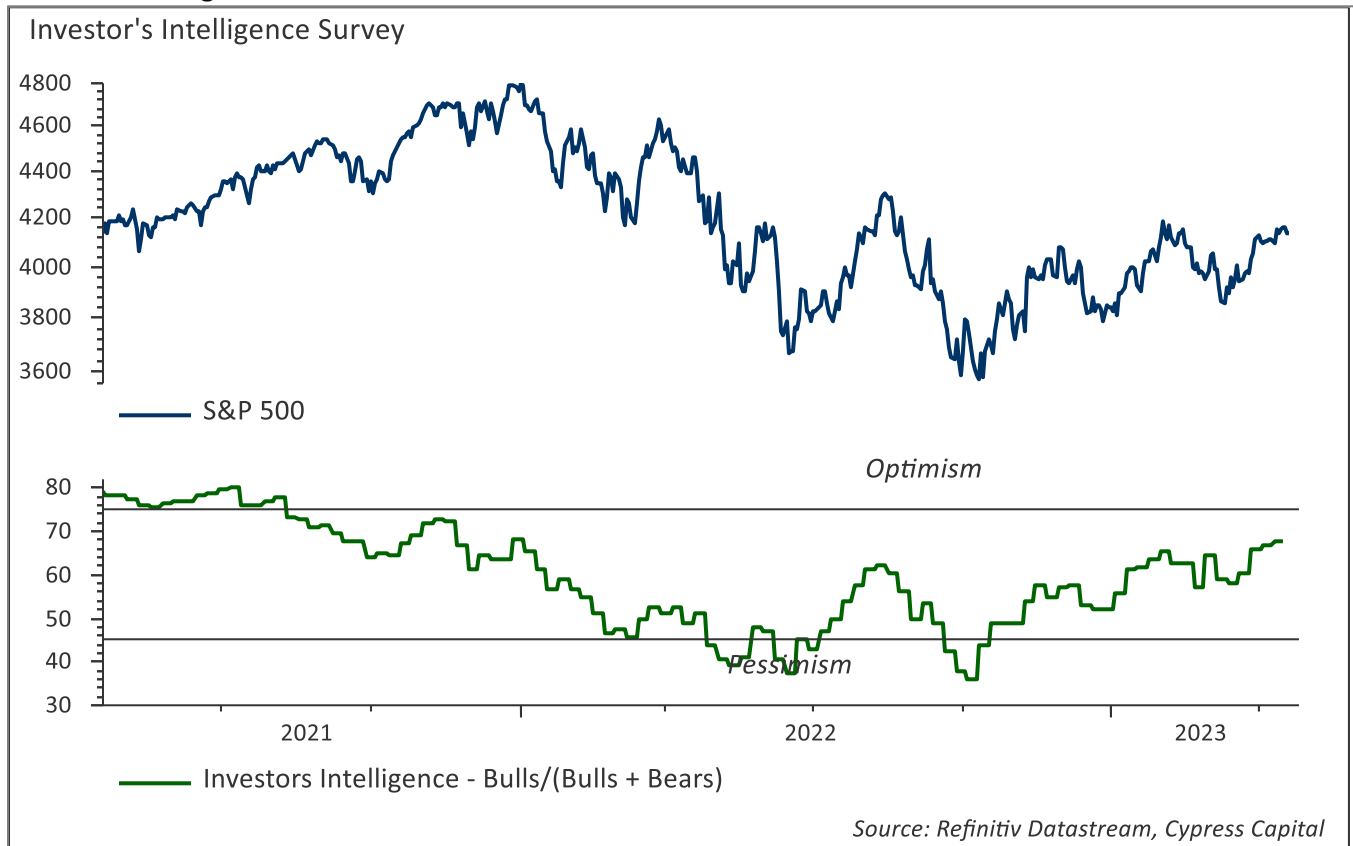
*Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.*

**Charts of the Week**

**Bond Markets are giving bullish signals for markets.**

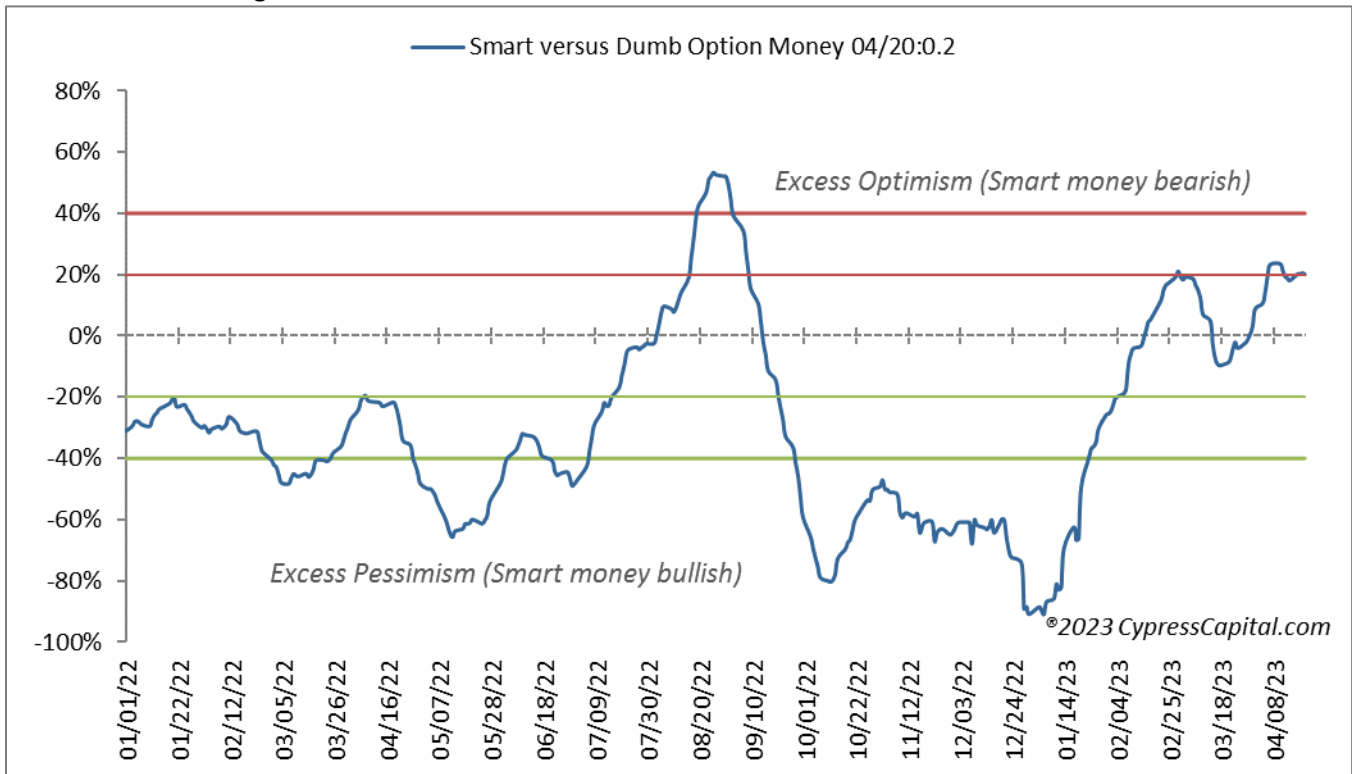


**Investor's Intelligence – Advisor Sentiment is the most bullish since the start of the bear market.**

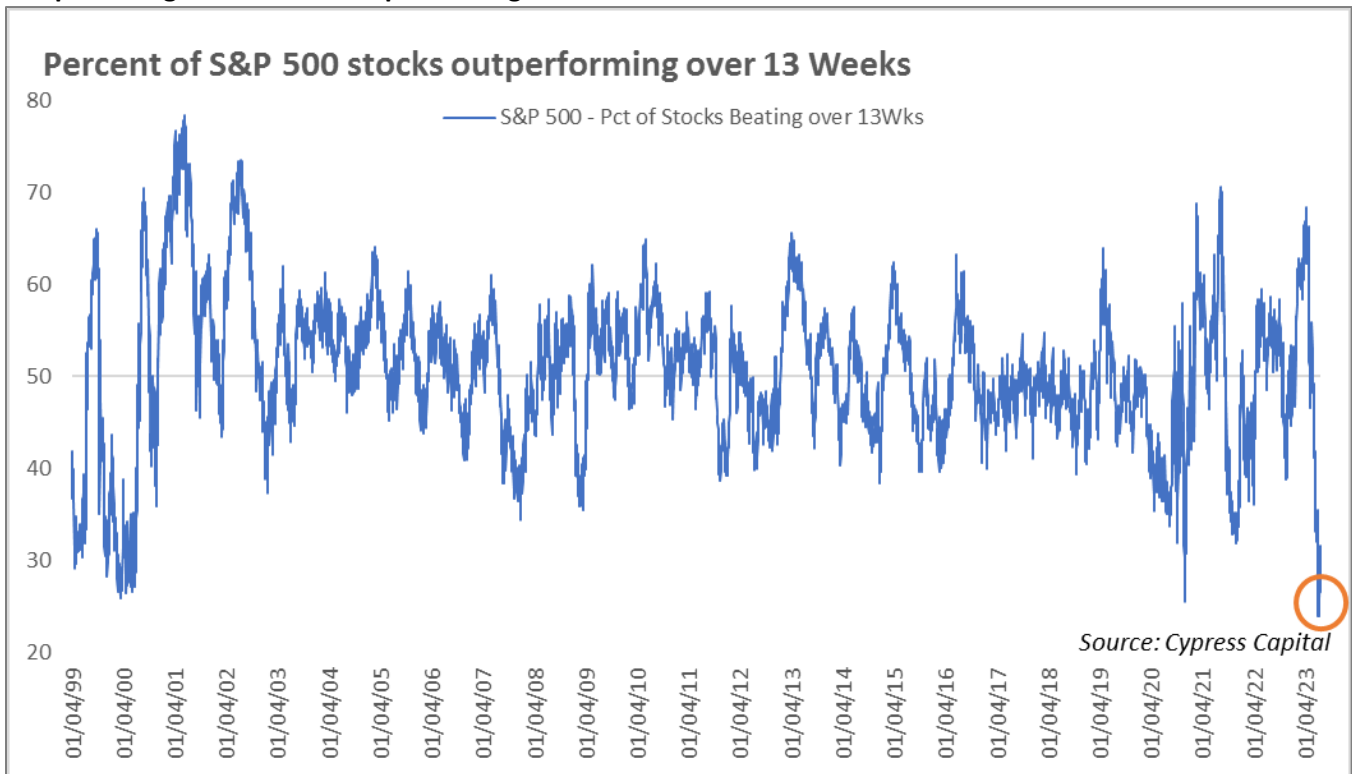


**Smart versus Dumb Option Money signaling caution.**

While the indicator was little help during the bear declines, those moves into the red zone have been sound short-term caution signals.

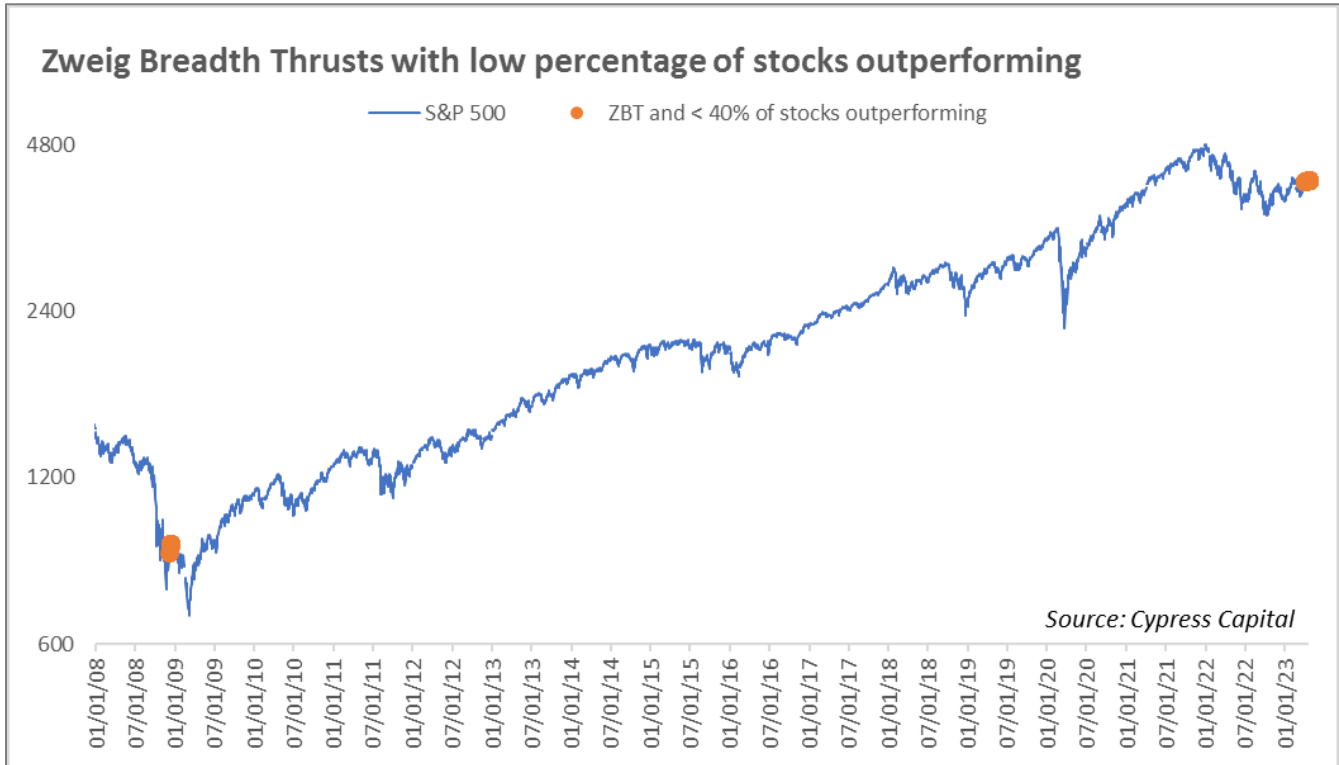


**The percentage of stocks underperforming the S&P 500 over the last 13 weeks is lower than in 2000.**

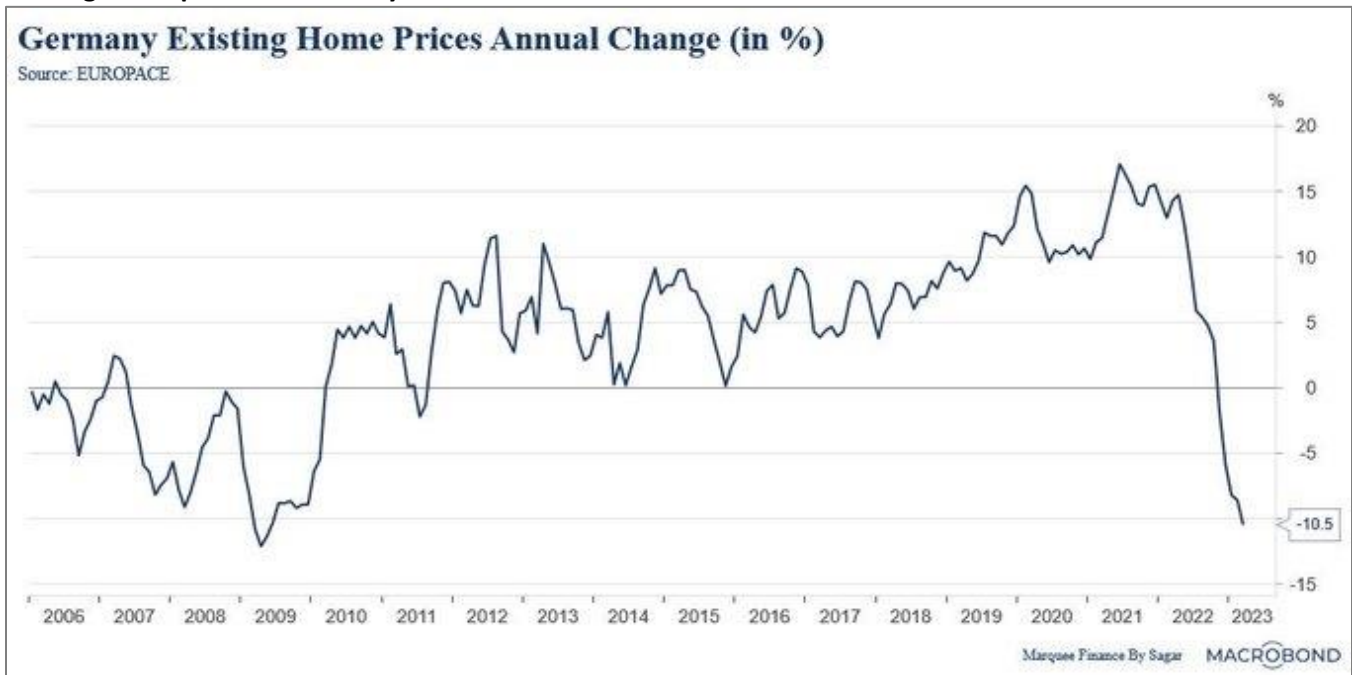


**Zweig Breadth Thrusts while few stocks are outperforming.**

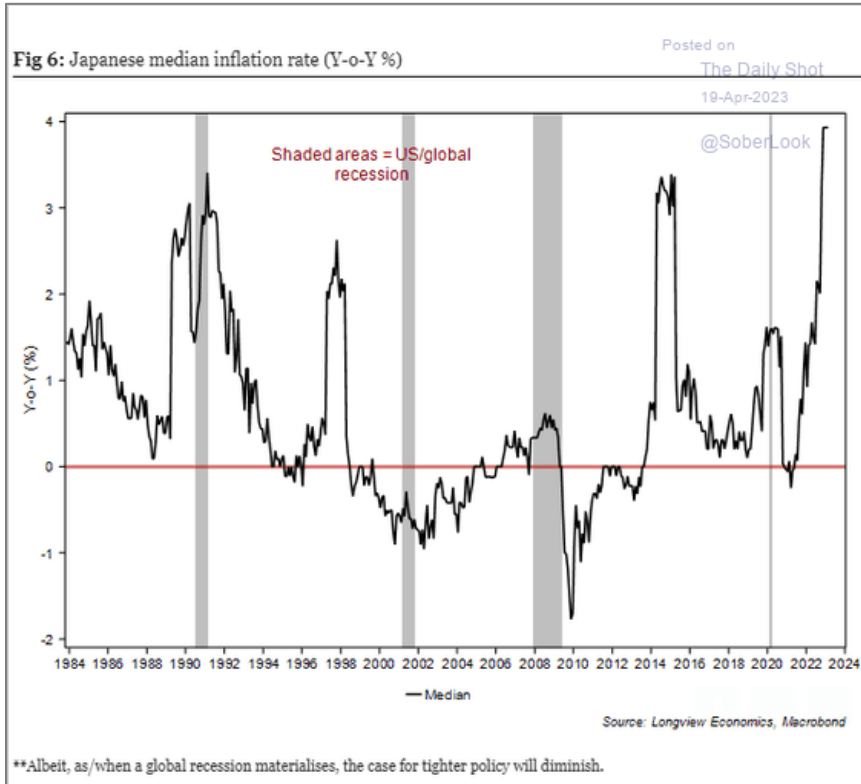
Given the recent bullish technical signal from the Zweig Breadth Thrust, we thought it was unusual to see such a small percentage of stocks outperforming the S&P 500 (see chart above). The last time it happened was during the rally in Q4 2008, which gave way to the bear market bottom in March 2009.



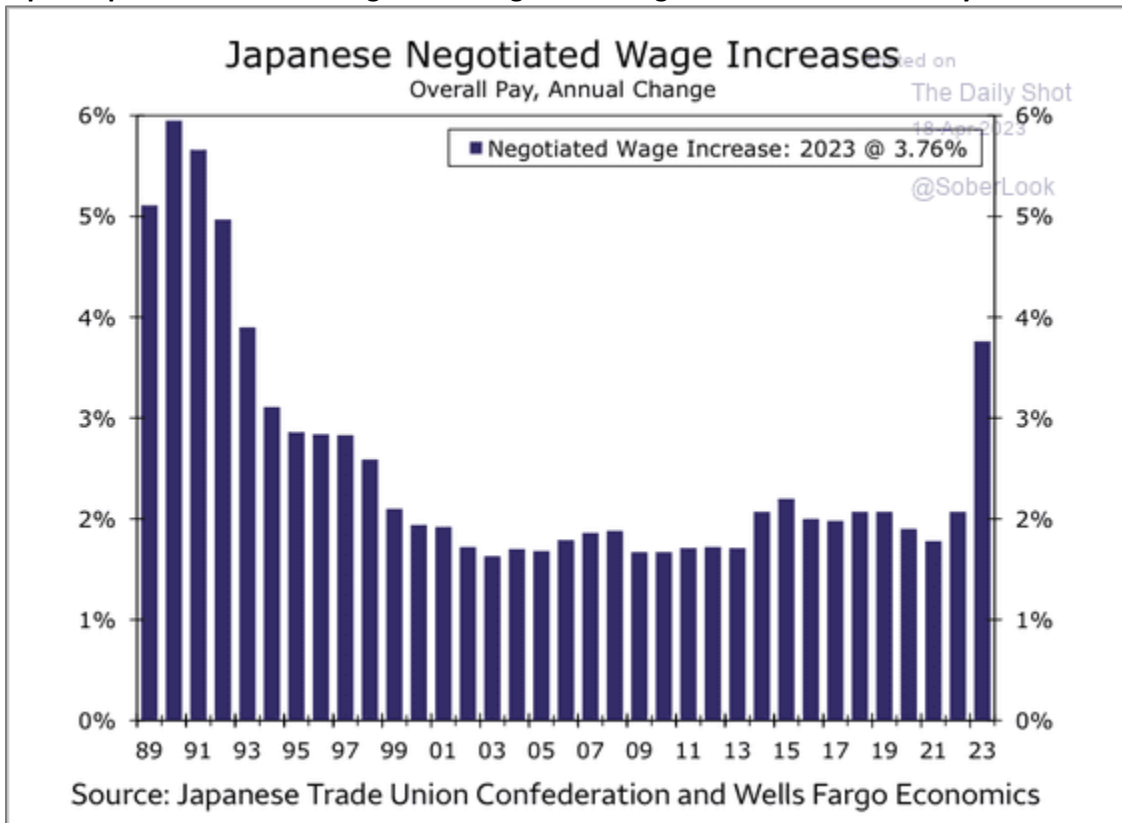
**Existing home prices in Germany have fallen at the fastest rate since 2009.**



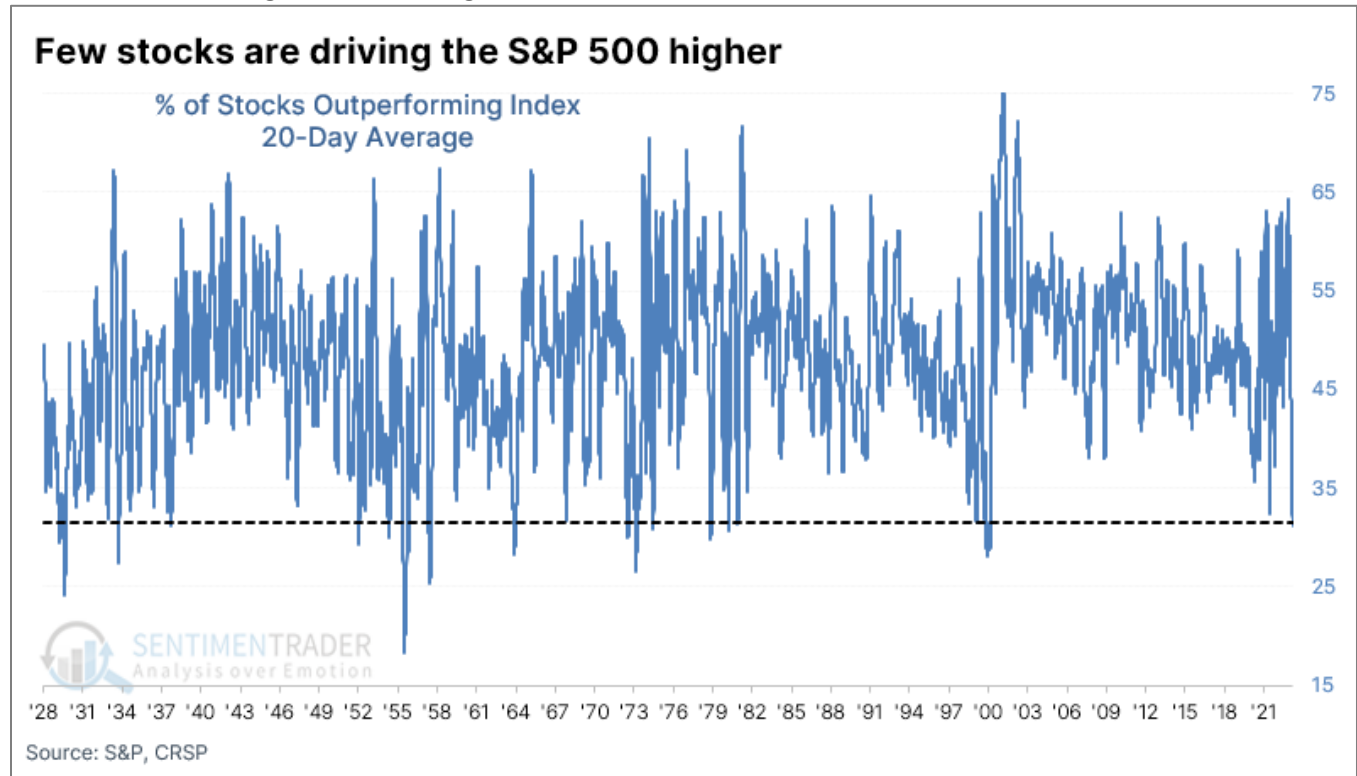
**Median inflation in Japan sets record high.**



**Japan experiences the most significant negotiated wage increase since the early 90s.**



Few stocks are driving the S&P 500 higher.



Wage growth ticked higher in March



Office vacancy rate hits new highs.



## 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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