Cypress CAPITAL

# Market Outlook

By Mark T Dodson, CFA

## Record Low VIX Reading Inside of a Bear (or Early Bull) Market

Psychology, Monetary, and Valuation all worsened this week, driving Market Risk Index up to 74.4%, just below the 75% level that denotes market environments that are quantifiably vulnerable to a substantial drawdown.

The S&P 500 closed on Friday about 10 points shy of getting us a cornucopia of “It’s a new bull market!” headlines, and the Volatility Index (the VIX) closed at 14.6, very close to the lows from the most enthusiastic period in 2021. It’s the lowest VIX (including the period where VXO was the VIX) reading in a bear market on record. If this 2023 rise in stock prices meets the technical definition of a bull market, it’s the lowest volatility reading to ever occur so early in a bull.

Is it ironic that just as we find charts of breadth hitting record lows in a Tech-driven levitating narrow market, breadth improves sharply right before the next Fed rate hike? This market appears designed to suck in as many investors as possible. Or...it’s a new-era bull market, wrapped in two layers of new-era bull markets, that only artificial intelligence can understand.

We would gladly be sucked in, given Psychology indicating a substantial wall of worry, Monetary Conditions signaling a high likelihood of a forthcoming credit cycle, and Valuations anywhere but in the worst decile of readings. When you have a process, and it’s built around safety nets to keep you from taking risks unless you are adequately compensated for them, you are going to find yourself feeling uncomfortable in markets at times. This is such a time. We’re not going to sweat our feelings – they don’t matter. We’ll never forget rule number one – don’t lose money.

Unlike strategists and pundits who may talk bullish but be conservative with their own money (the perfect hedge to career risk as an investment professional), when you hear us talk the bullish talk, you’ll know it’s because the stars have lined up, and it has become a true Warren Buffett “blood in the streets” environment.

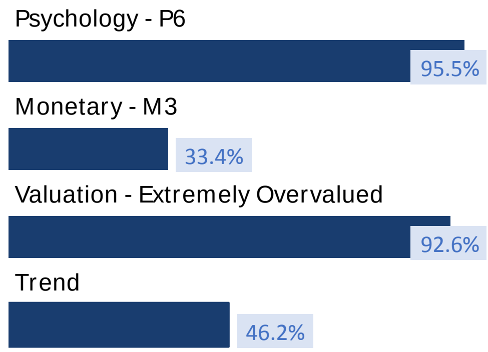
Absent the weight of that evidence, we will twiddle our thumbs, not with an allocation that puts everything on the line with making a perfect call, but with an allocation that minimizes both our regret of missing out and, most importantly, the loss of our capital.

### Market Risk Index

Rec Allocation 25% Underweight

**74.4%**

### Category Percentiles




**Largest Psychology Influences**

| | |
|---|---|
| Leveraged Investments | Negative |
| Option Activity | Negative |
| Flow of Funds | 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% |

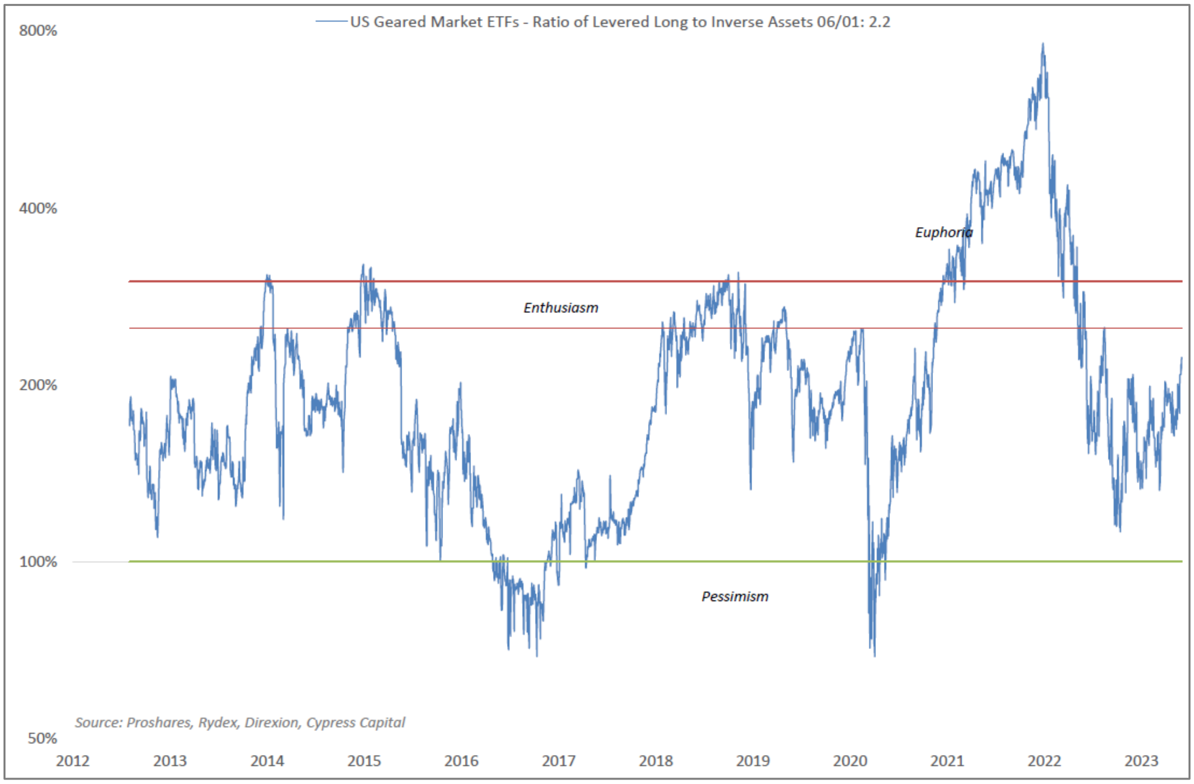
**Market Trends**

| | |
|---|---|
| US Equities | Bullish Trade |
| Intl Equities | Bullish Trade |
| REITs | Bearish Trade |
| Broad Commodities | Bearish Trade |

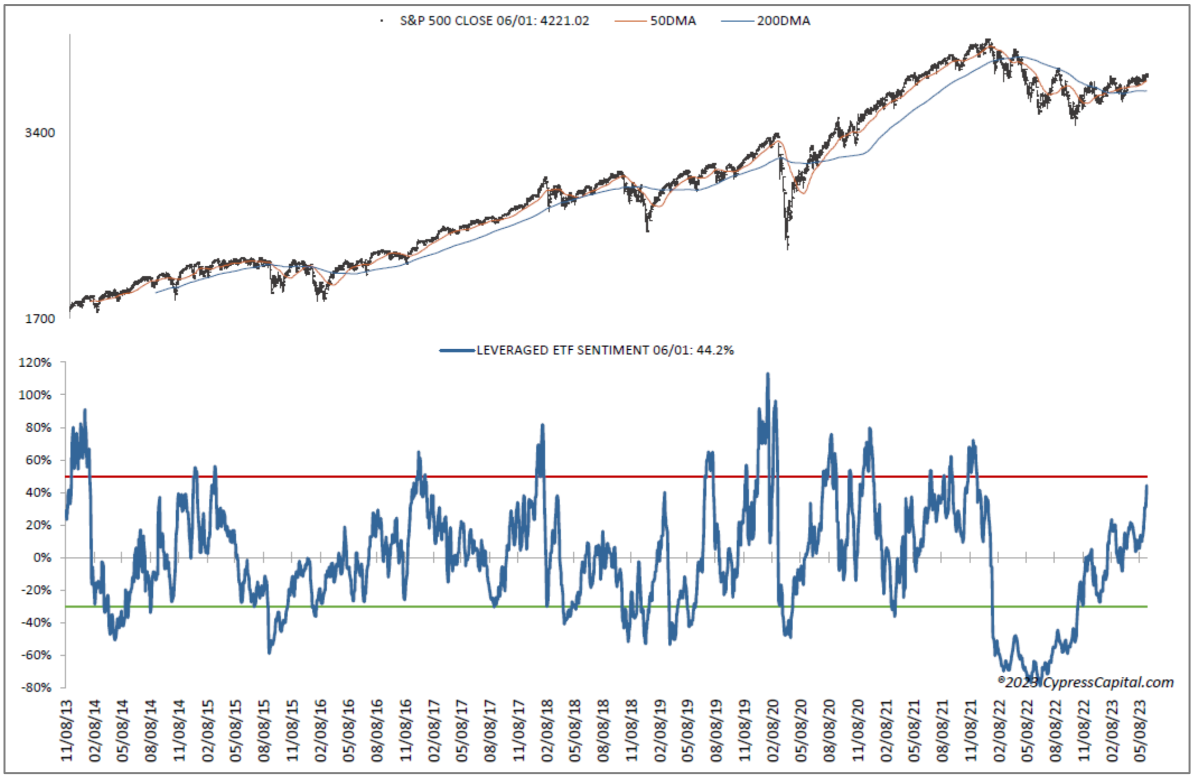
*Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.*

## Charts of the Week

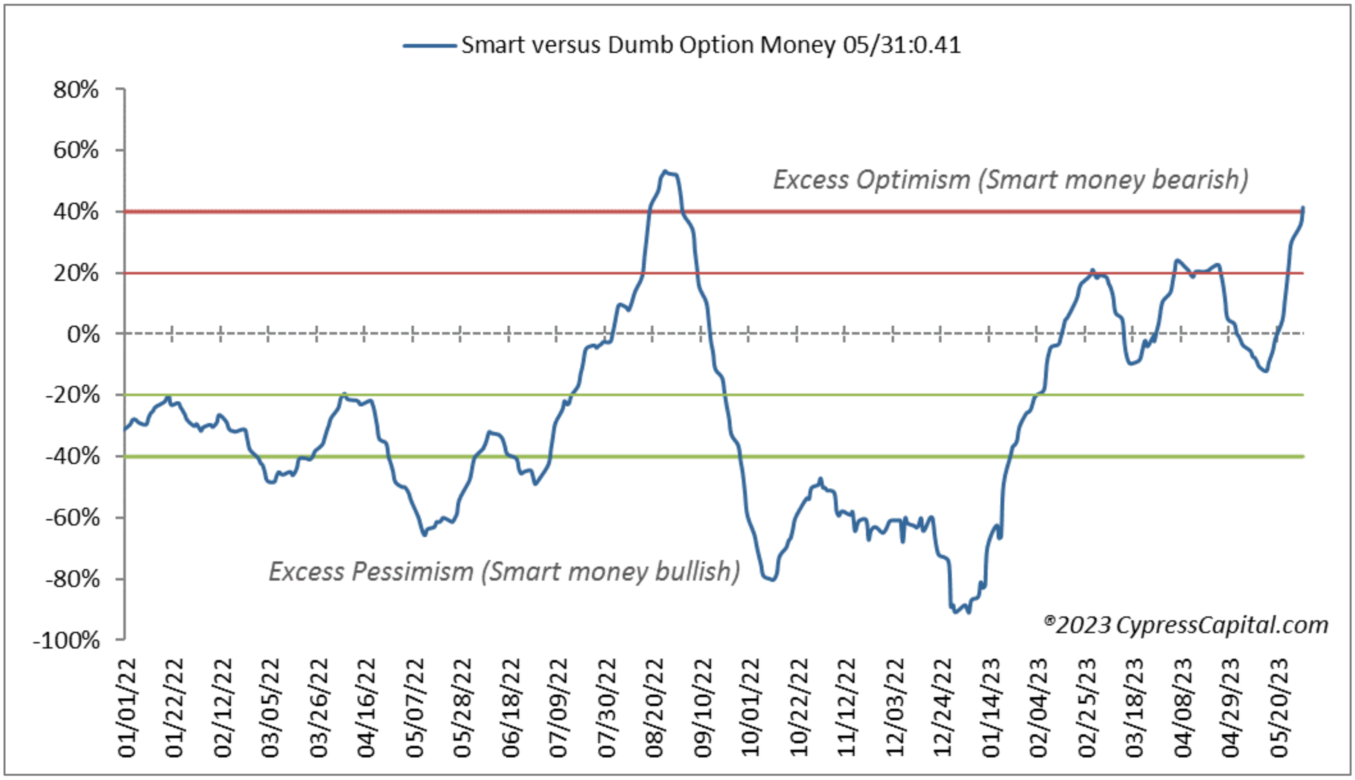
**Levered ETF Assets broke out of their bear market range toward the Enthusiasm line.**



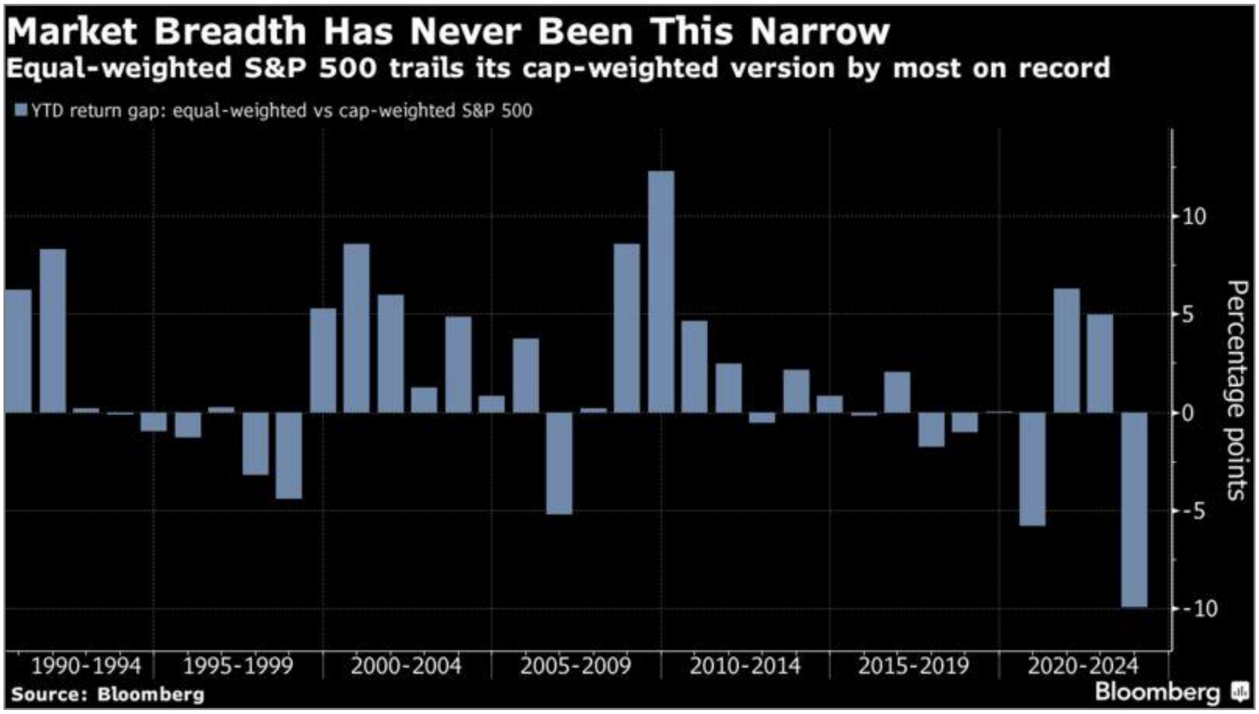

**Volume in Levered versus Inverse ETFs is approaching the Greed Line.**



**Smart versus Dumb Option Money hit the highest level since the August 2022 bear market rally.**



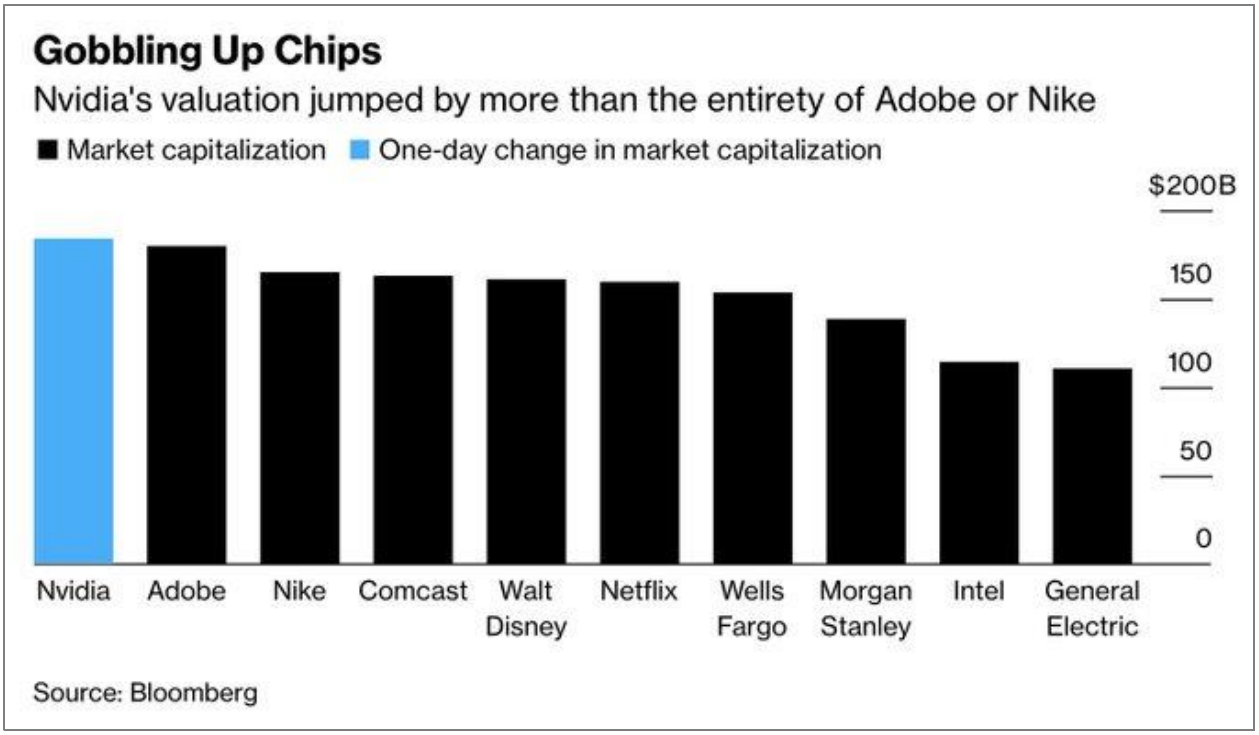

**Record Relative Underperformance from the Average Stock**



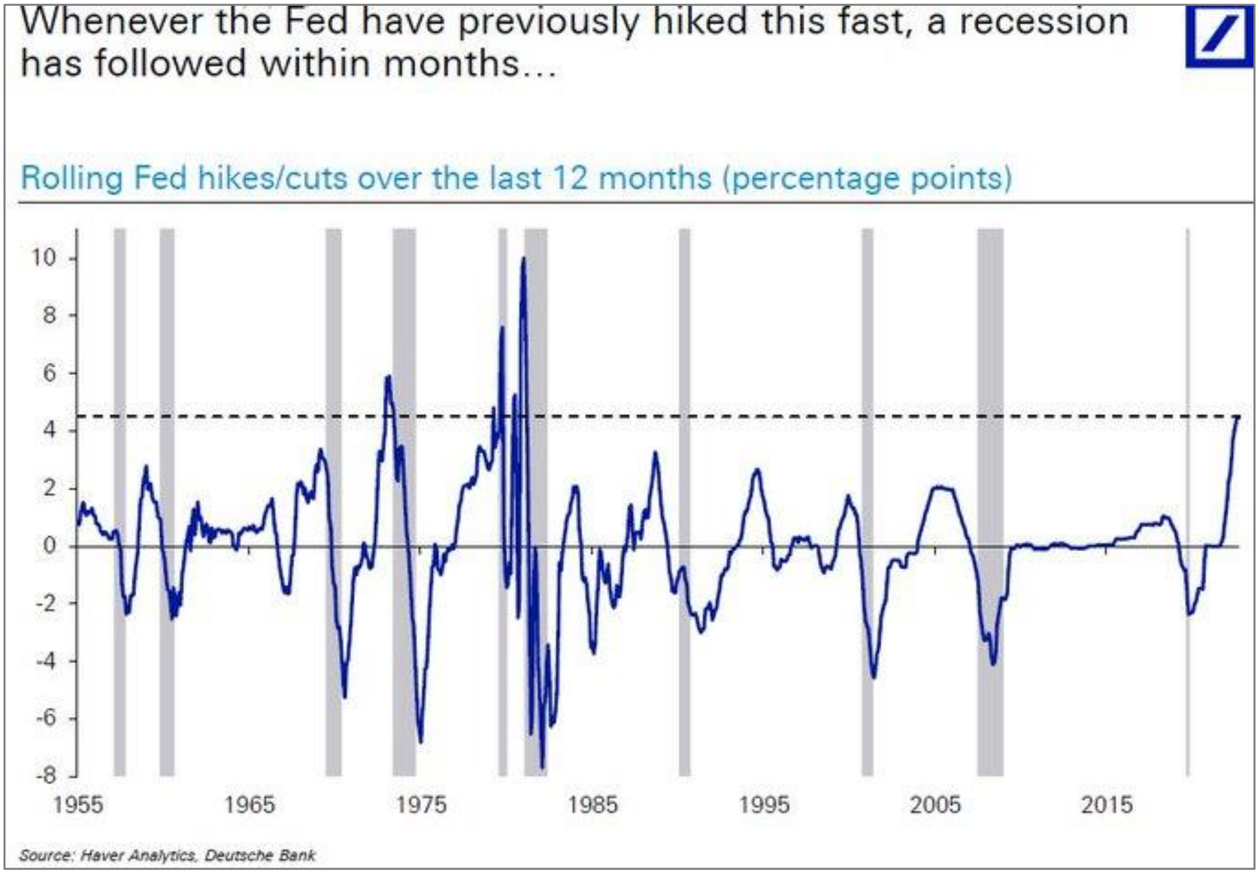
**NASDAQ 100 to Russell 2000 performance breaks out and nearly matches the Dot-Com era high.**


**One-Day Jump in Nvidia in Perspective**

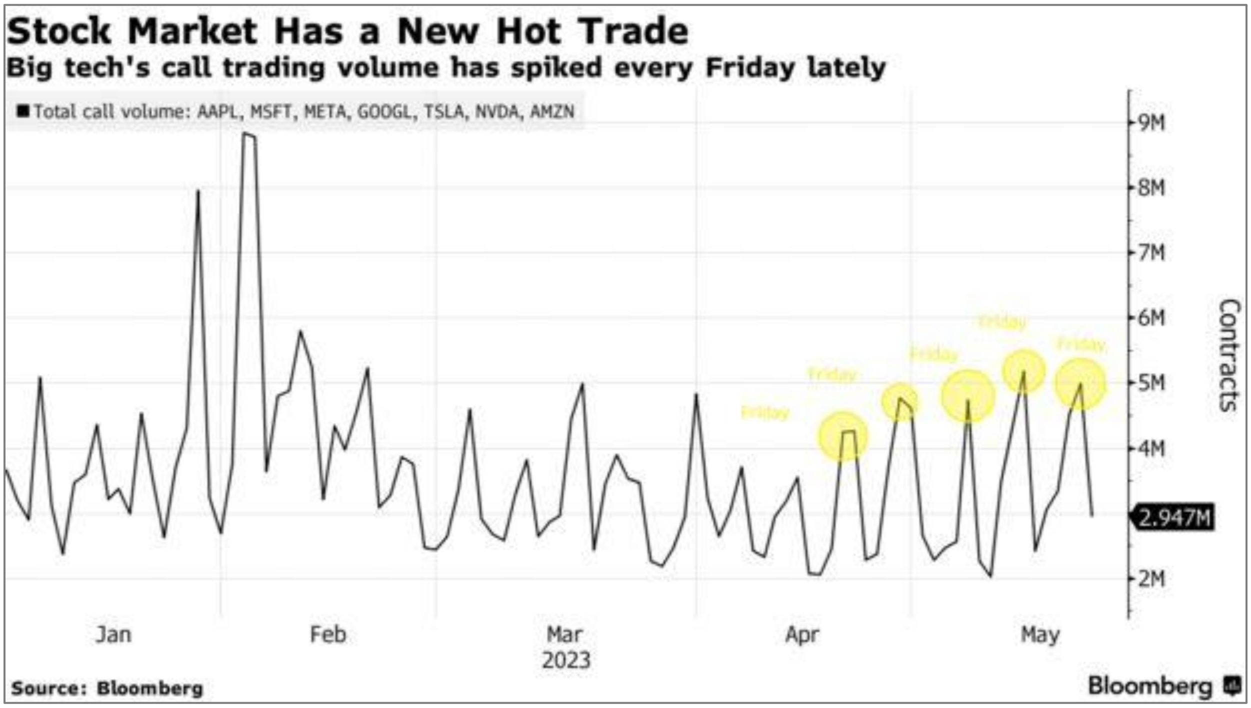
The one-day AI-news-driven bump in NVDA's valuation was larger than the entire value of Nike, as well as other mega-cap behemoths.



**Similar periods with Rapid Fed Hikes have led to recession.**




**Call Option Trading in Big Tech Stocks has been spiking on Fridays.**



**Hedge Funds have been chasing Tech and ramping exposure all year.**


*Source: GS*

## 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.

Contact us for more information.