# Cypress Market Outlook

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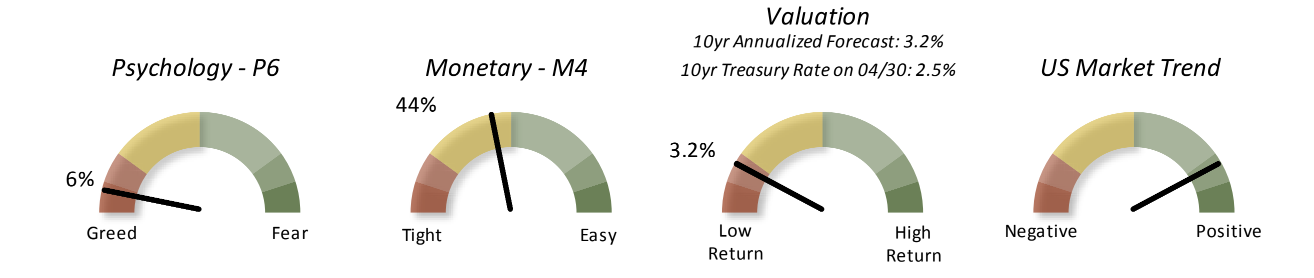


**Recommended Equity Exposure: 60-70% of Maximum Allocation**

| Market Trend Analyzers | Phase |
|---|---|
| Domestic Equities | *Investment Phase: 60-70% Invested* |
| International Equities | *Trading Phase: ST Trend Negative, MT Trend Positive* |
| Real Estate | *Investment Phase: All Trends Positive* |
| Commodities | *Trading Phase: ST & MT Trends Negative* |

## Monetary

| Components | Condition |
|---|---|
| Exchange Rates | *Neutral* |
| GDP | *Positive* |
| Inflation | *Neutral* |
| Interest Rate Spreads | *Negative* |
| Interest Rates | *Positive* |
| Lending & Leverage | *Neutral* |
| Monetary Aggregates | *Neutral* |
| Velocity | *Negative* |

## Psychology

| Components | Condition |
|---|---|
| Bank Sentiment | *Negative* |
| Flow of Funds | *Positive* |
| Fund Flows | *Neutral* |
| Insider Sentiment | *Neutral* |
| Leveraged Investments | *Negative* |
| Option Activity | *Neutral* |
| Surveys | *Neutral* |
| Consumer Confidence | *Neutral* |
| Technical Indicators | *Negative* |
| Trading Data | *Positive* |
| Volatility | *Neutral* |

## Valuation

| Components | Level |
|---|---|
| 10Yr Annl Equity Return Forecast | 3.2% |
| 10Yr Treasury Yield (on 04/30) | 2.5% |
| 5Yr Annl Valueline App Potential Forecast | 5.1% |

There was little movement in market risk conditions this week as mild improvements to both investor psychology and monetary conditions were offset by a drop in our valuation composite. The Market Risk Index still suggests that the margin of safety for stocks is thin. For our portfolios where applicable, we pulled back on equity allocations during the last week of April and first week of May. Equity allocations now stand between 60-70% of maximum exposure.

The market's valuation score dropped to the 5th percentile, as our 10-year return forecast for equity markets fell to 3.2%, now less than 80 basis points above the return that can be earned in risk free 90-day Treasury bills. We build that forecast from the bottom up, including the likely return to be earned from dividends, growth, and as a result of valuations reverting to their mean. We don't factor in any overshoot in valuations that occur during bear markets. For valuations based upon corporate earnings, we also don't factor in a reversion to the mean for profit margins, which are elevated in relation to the last 10-20 years of already above average profit margins. Instead we assume the recent trend in profits will hold and that earnings and the economy will continue their historical growth rates. These are optimistic assumptions considering the mean reverting tendencies in profit margins as well as downward trends in both population and productivity growth. We point all this out to note that our valuation forecasts implicitly have a bias in favor of equities. We give stocks and the economy the benefit of the doubt in building that forecast.

The trough in readings in our psychology composite that occurred on the day that the Beyond Meat IPO soared over 160% is holding, and the trend has rolled over and is moving toward fear, but volatility in the last week hasn't caused any dramatic shifts in sentiment. Shorter term breadth measures became modestly oversold and put/call data has begun to improve. For example, CNN's Fear/Greed Index, which is made up of short-term sentiment indicators, has edged back toward fear. There's enough there to give a short-term speculator some conviction, but for a longer-term investor looking for a margin of safety, the case cannot be made using investor sentiment.

For monetary conditions, the tailwind from the decline in bond yields has begun to recede from readings, although it's still positive when we look at the rate of change in BAA Corporate bond yields. As these positive inputs begin to recede over the summer, the flat yield curve is going will begin putting an additional weight on monetary conditions. Without a rate cut or some intervention, monetary conditions are set to worsen over coming months. With leading economic indicators beginning to indicate that the global economy may be sinking into recession, we believe that calls for rate cuts will begin to grow into a shout before the end of the summer.