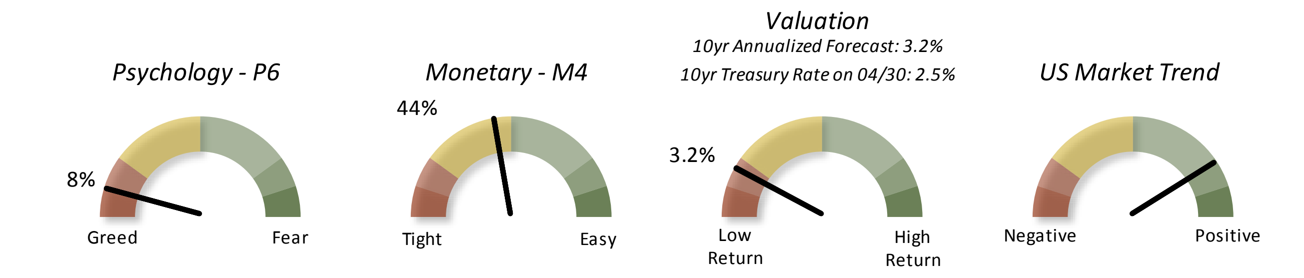
Cypress CAPITAL

Cypress Market Outlook

By Mark T Dodson, CFA



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	*Positive*
Leveraged Investments	*Negative*
Option Activity	*Positive*
Surveys	*Neutral*
Consumer Confidence	*Negative*
Technical Indicators	*Negative*
Trading Data	*Neutral*
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%

The Market Risk Index improved modestly again last week but remains in negative territory.

The market's trend is deteriorating, and the April market peak was not a broad one. Among a select list of indices that we believe are important ones to track in confirming market highs, only one was able to confirm the April S&P 500 highs. It was the advance/decline line; however, the advance/decline line was bucking the trend that we saw going on both from new highs/lows and what we saw in the performance of the Valueline Arithmetic and Russell 2000 indices. Both of those indices are often a good gauge of what is going one with the average stock. The Russell 2000 struggled throughout the spring to hold it's 200 day moving average, and a declining 200 day moving average at that.

The inverted yield curve has now become a substantial drag on our monetary readings. For the time being, enough of it is being offset by the continued rally in corporate bonds to keep the overall readings closer to neutral. Falling corporate bond yields are generally bullish for markets. Even more so for the last two cycles, as it has stimulated corporate buyback activity. There's evidence building though that corporations are beginning to taper some of this activity. The ultimate limit to the buyback phenomenon is not as much the level of interest rates as it is the level to which corporate balance sheets are capitalized with debt. With corporate debt as a percentage of GDP is at all-time highs, corporations will begin to look at borrowing from bond markets to buy back stock more with the same mindset reserved for traditional capital expenditures. Financial risk becomes more of a factor.

Taken as a whole, what we are seeing with both the yield curve and in the behavior in T-bill yields is consistent with a bond market begging for a rate cut. We still believe it's likely that we'll see a rate cut before the end of the summer.

Investor psychology readings have bottomed and are on the ascent but still in the bottom decile. If we dig deeper, looking only at the shorter-term psychology indicators, there are areas of notable improvement. Both the equity and total put/call ratios have hit levels that are consistent with short-term bottoms, levels that mark the point where even bad markets take a respite. The AAII survey data has also started to register some bearishness, but it's not yet consistent with levels that traditionally mark correction lows. There still isn't a pervasiveness to any extreme readings from investor sentiment that would lead someone to believe that the short-term wall of worry has been rebuilt.

It's also difficult to lean too heavily on some of the shorter-term psychology indicators when several long leading sentiment indicators suggest the 2019 stock market's only comparable analog is 1999. Case in point – Consumer Confidence in their Present Situation shot up to a 19-year high last month. In over 50 years of data, the only time consumers were more confident and complacent with their present situation was during the biggest stock market bubble in the history of the United States.

Another of our psychology indicators, margin debt, is well out of market enthusiasm territory, but this one is a double-edged sword, because the declines that we have seen in margin debt are consistent with readings from an economy that is in recession.

That should give some context to put/call ratios. Those indicators are of the ilk that they give buy signals every time the market sneezes, but other indicators suggest that the sneeze is a symptom of pneumonia or the flu. On balance, it has become difficult for our judgement of market risks to move into neutral territory with the current backdrop of conditions.

Chart – Shorter Term Sentiment - Equity Put/Call Ratio Hitting Correction Level Extremes

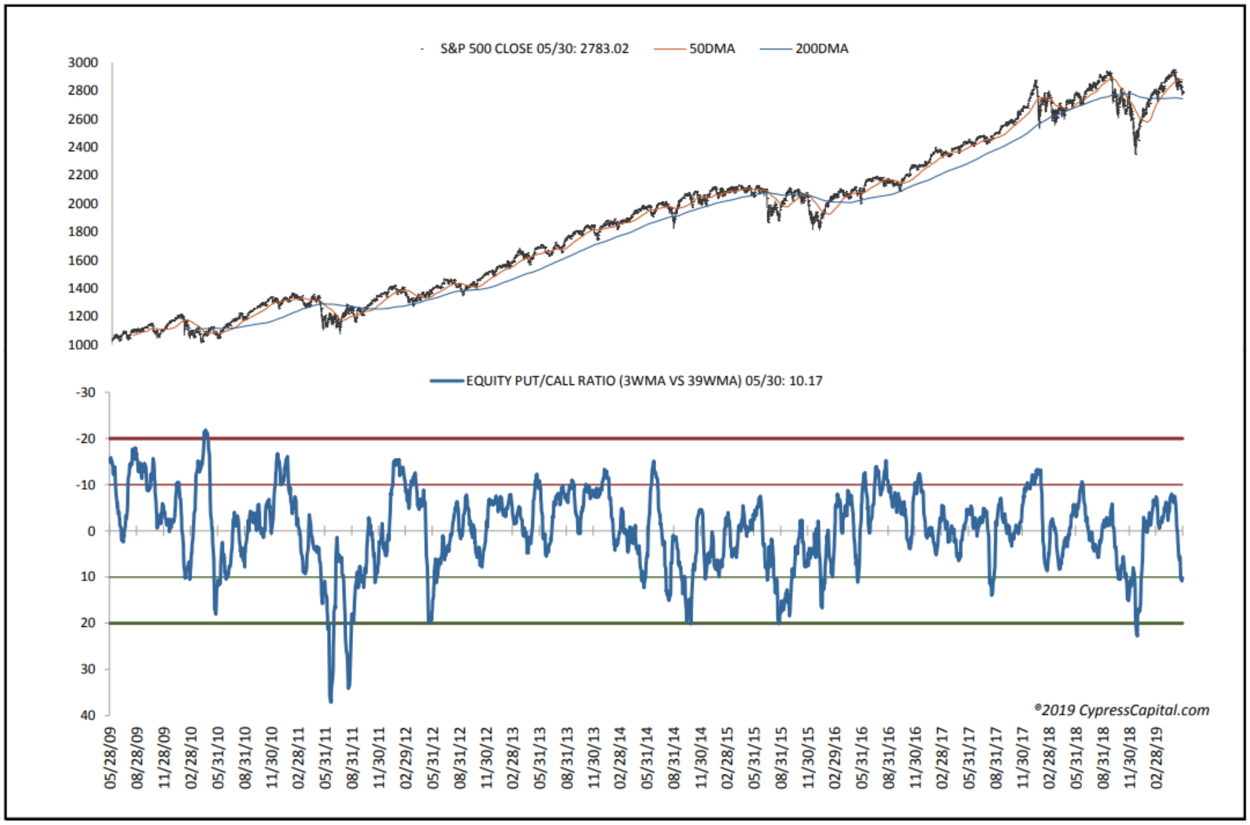
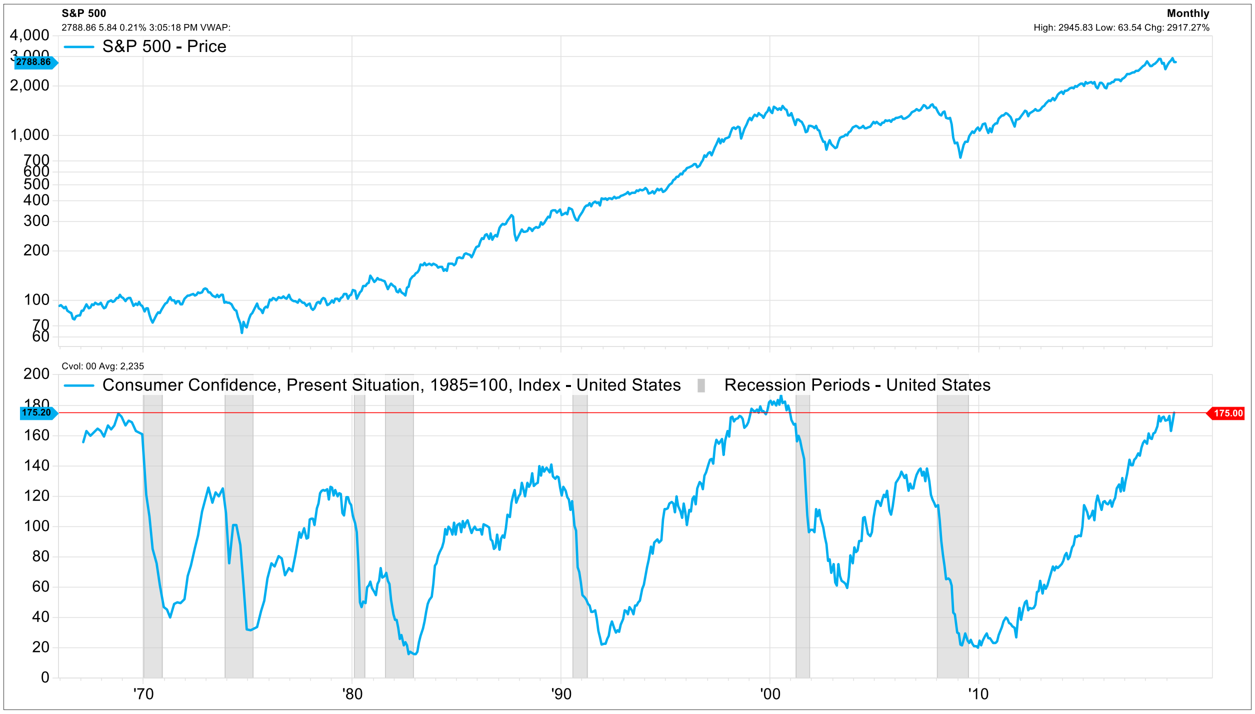
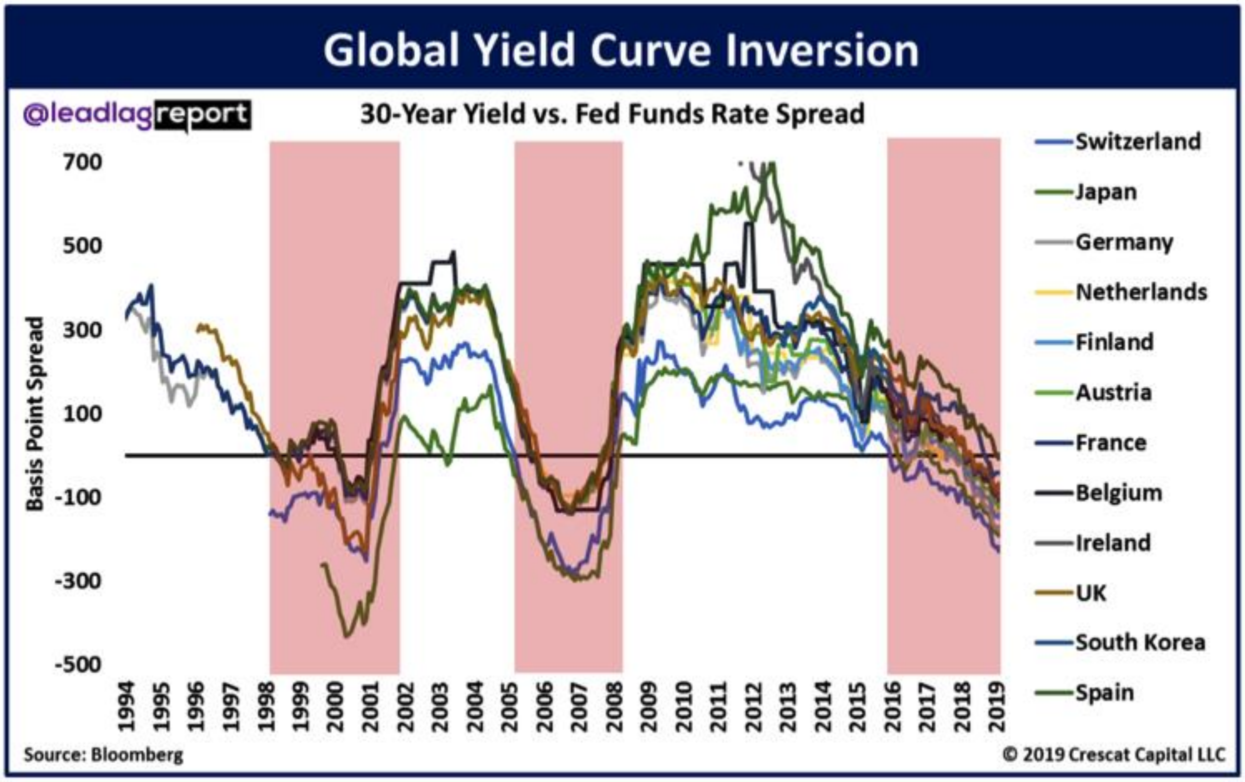


Chart – Longer Term Sentiment – Consumer Confidence in Present Situation at 19 Year High



Source: Factset

Chart – Yield Curves are Inverting Across the Globe



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