Market Outlook

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Highlights

With the holiday shortened week interfering with publishing schedules, we are releasing a quick update this week. Market Risk Index improved on some unexpected boosts to investor psychology.

Corporate insiders are really picking up the buying activity due to the relative weakness in the average stock as small caps have continued to get left behind in the market's move to new highs. The OpenInsider Buy to Sell Ratio, which measures insider activity of all publicly held corporations, has seen the most buying activity since the December lows, and the ratio climbed above 100% in the last week. It's a substantial move, and the first time we've seen this much buying activity with a market so close to its highs. It means that there are likely some individual smaller cap stocks that have become attractive investments.

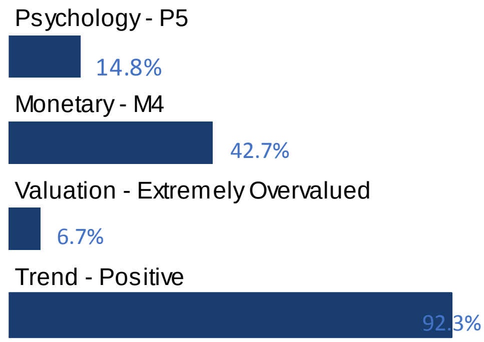
Technical indicators like the McClellan Oscillator and Summation also added points to the psychology basket this week as they point to short term momentum and breadth that has continued to improve. Both are based upon advance decline data; however, and we are still seeing less favorable readings of market internals when you base your view on new highs and lows being made by individual stocks. The relative weakness of small cap stocks also doesn't quite fit the narrative coming from advance decline based data.

Market Risk Index

Elevated

76.4%

Category Percentiles



Biggest Psychology Influences

Insider Sentiment	Positive
Leveraged Investments	Negative
Option Activity	Negative
Consumer Confidence	Negative

Biggest Monetary Influences

Falling Corporate Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

7-10 Year Rtn Forecast	3.7%
10Yr Treas Yield (on 5/31)	2.5%

Monetary conditions worsened slightly, and the tug of war for the underlying message of our monetary composite continues. The inverted yield curve and quantitative tightening are pulling readings down, while the short term drop in corporate interest rates and retreating inflation expectations are trying to push readings higher. The yield curve has the edge and has longer term ramifications for the economy and markets.

Earlier in the economic cycle, say with a more normally sloped yield curve, a pullback in inflation expectations and corporate bond yields would be enough to make monetary conditions extremely favorable. You tend to associate those conditions with a growth rate cycle downturn, and the bond market's short-term response acts like stimulus without any Fed intervention. When they occur in an environment with full employment and an inverted yield curve, they are associated with a higher risk of recession and bear markets.

Chart – Corporate Insiders Are Buying