Market Outlook

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Highlights

Market Risk Index worsened on declines in both monetary and psychology categories. The MRI is at 78% out of 100%, still firmly in defensive/cautious territory. Readings above 75% coincide with the riskiest market periods going back to 1970. They also coincide with the periods where the desire to hold cash is at its lows.

There are nascent signs that the desire to hold cash is beginning to change. Short term growth in monetary aggregates like M2 and MZM have started moving higher. Pundits will lead you to believe that this means that money is getting easier, attributing it to the Fed. That's not the case. Short term changes, even year over year changes, in aggregates like MZM are mostly due to increases and decreases in the demand for money, and these shift with investor appetites for risk. Peaks in the growth rate of aggregates tend to occur in the middle of recessions and bear markets, because this is when risk aversion and the demand for money is at its peak. Seeing an upturn from a low level of growth means money is growing tighter, not easier.

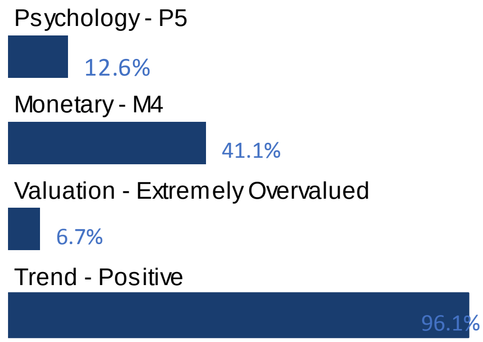
The aggregate that the Fed directly controls, monetary base, is still shrinking unlike anything that anyone alive has witnessed, and this is after it grew unlike anything that anyone has ever witnessed. QE took several years to impact markets, and QT seems to be doing the same. A bear market will coincide with higher growth rates in monetary aggregates, and a steepening of the yield curve. This dynamic continues to weigh down our velocity score in the monetary composite.

Market Risk Index

Elevated

78.0%

Category Percentiles



Biggest Psychology Influences

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

Biggest Monetary Influences

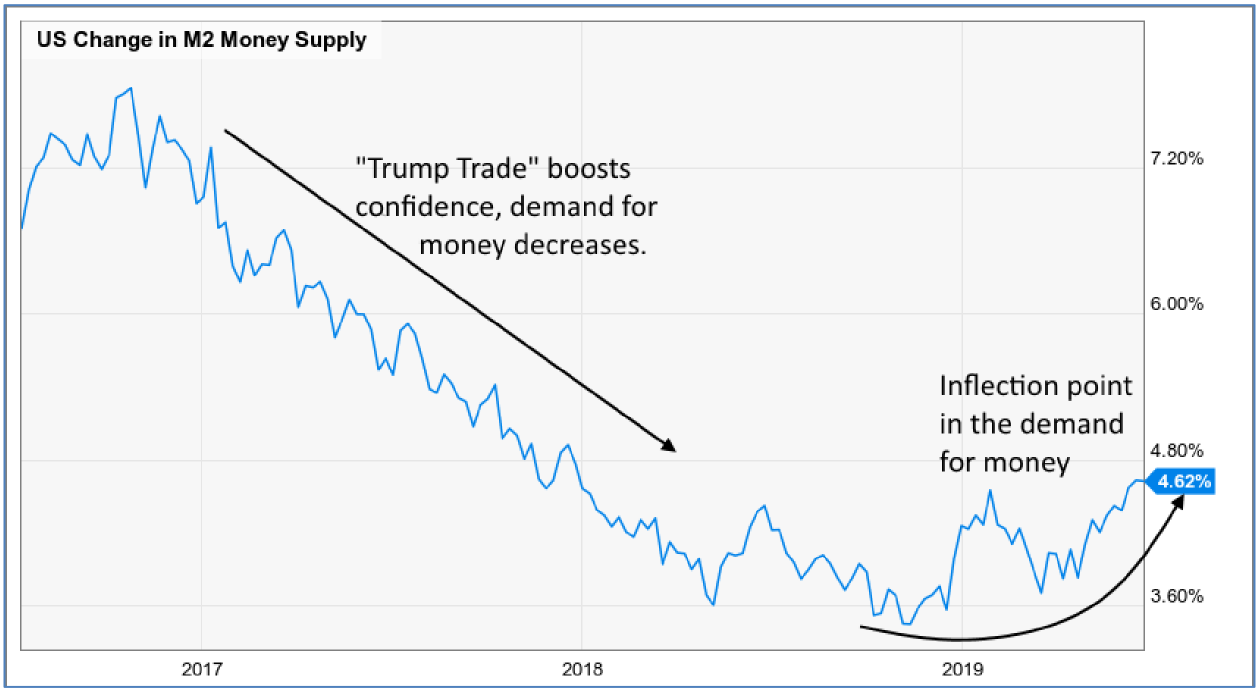
Falling Corporate Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

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

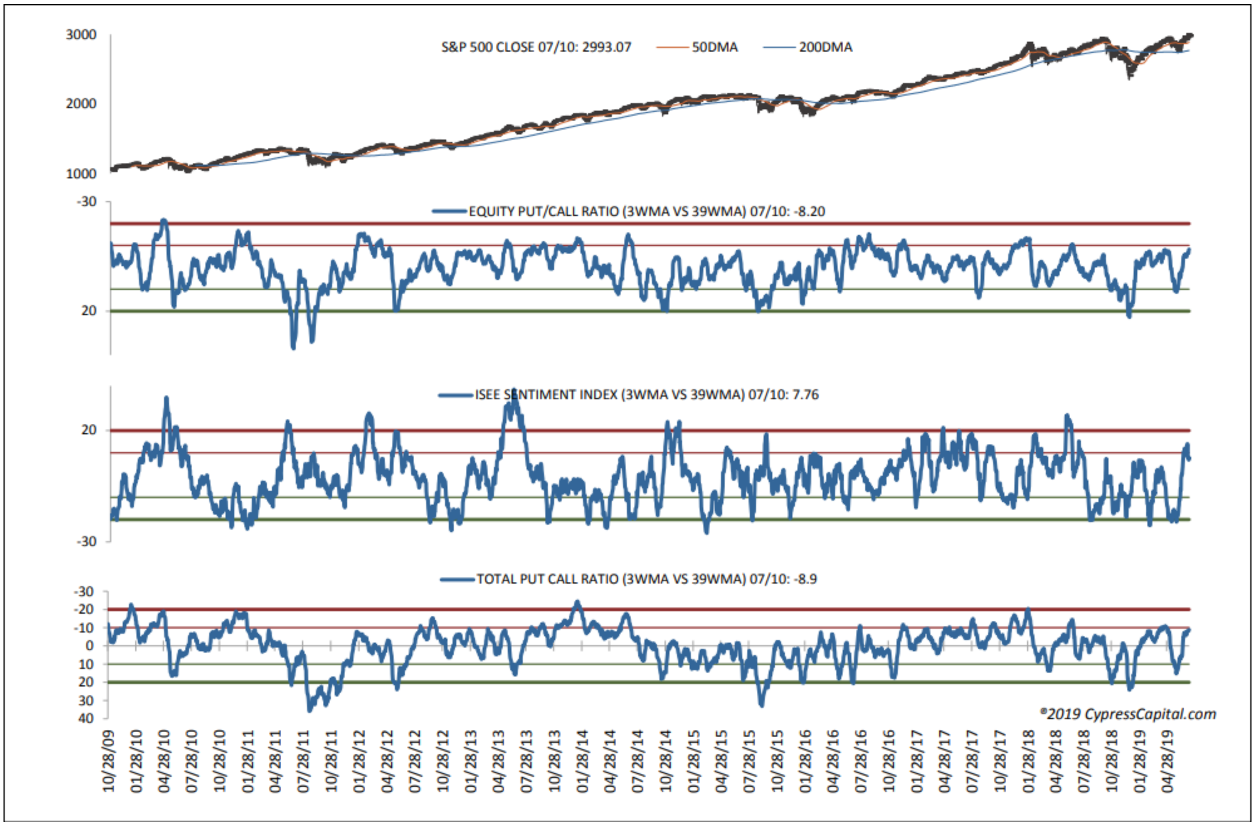
On the psychology front, the beginning of this summer rally coincided with extremes reached in AAII sentiment survey and activity in option activity. In mid-June, bearish responses to the AAII survey shot higher, and option traders were shunning calls in favor of puts. Both have reversed on the market achieving new highs. AAII is back to neutral, and both the CBOE Equity and Total put/call ratios have swung to the other extremes and are responsible for the declines in our psychology composite this week. The psychology composite is again knocking on the door of the worst 10% of readings, the levels that marked the market's peak in April.

Chart – Money demand is beginning to increase



Source: YCharts

Chart – Sentiment tailwind from Put/Call Ratios has reversed



Source: Cypress Capital