Market Outlook

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Highlights

Market Risk Market Risk Index worsened again this week moving from 82.4 to 83.7 as both psychology and monetary conditions deteriorated further. The drop-in psychology comes as a result of the volatility, Consumer Confidence and Trading Data categories. Volatility moved higher out of the extremely low band that tends to mark complacency but was shorter term bullish for stocks. In trading data, the ARMS indices and 21-day oscillators have moved to levels that are modest short-term negatives for markets.

The biggest mover in the psychology composite was the Consumer Confidence category, as consumer sentiment rebounded in July to within a couple of percent of the market cycle highs reached last fall. It was no doubt related to stock prices and interest rates, as the categories in the survey seeing the largest percentage shifts were both consumer expectations for higher stock prices and lower interest rates. Up until Powell's remarks after the Fed rate cut on Wednesday, the thought of a rate cut was just what a late cycle bull market needed to shore up confidence and keep people drinking from the punch bowl. Ironically, the uncertainty created around Powell's more hawkish sounding statement has likely increased the odds of additional rate cuts this year.

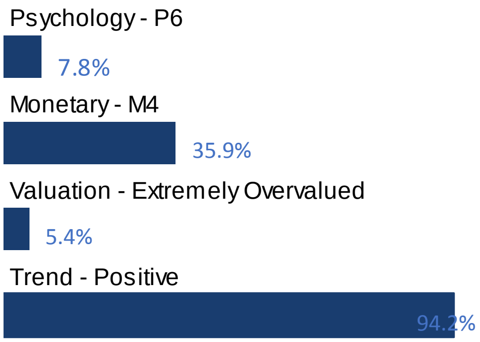
Monetary conditions also worsened, but some of that was offset from some improvement in one of our monetary velocity indicators, which shifted from negative to neutral. We expect that the shift will be temporary. Our velocity category has been weighed down by the drawdown in the Fed's balance sheet for quite some time. Even though the announcement that the drawdown will stop a month early, that won't be enough to move our velocity indicators back to positive for quite some time – the acceleration in growth of monetary aggregates will not help this category either. We cannot re-iterate enough that the last thing that bullish investors should hope for here is an acceleration in the growth of monetary aggregates and/or a normalization of the yield curve. The money on the sidelines argument you hear anytime money market assets increase is wrong-headed. At this point in the cycle, both of those would be bearish phenomena. Maintaining both elevated confidence and the status quo in the bond market should be top priority for stock market bulls.

Market Risk Index

Elevated

83.7%

Category Percentiles



Biggest Psychology Influences

Flow of Funds	Positive
Leveraged Investments	Negative
Investment Surveys	Negative
Consumer Confidence	Negative

Biggest Monetary Influences

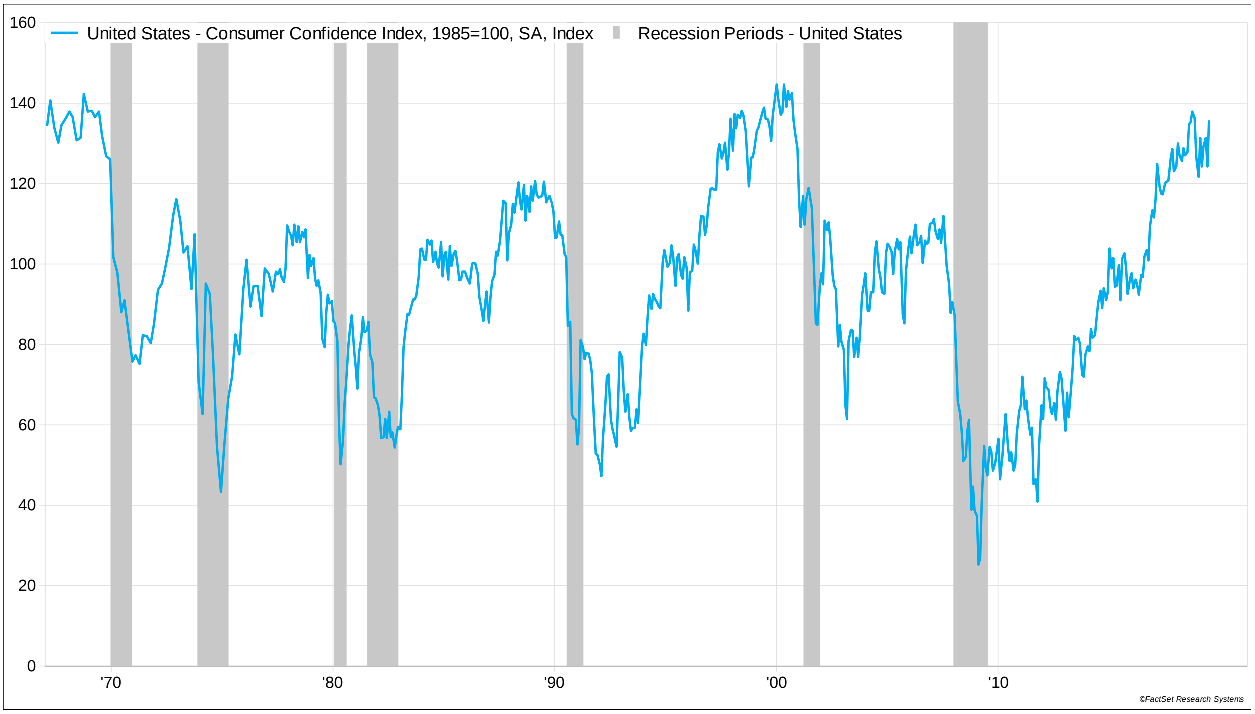
Falling Corporate Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

7-10 Year Rtn Forecast	3.4%
10Yr Treas Yield (on 5/31)	2.1%

Chart – Consumer Confidence Rebound

Consumer Confidence rebounded on the consumers expectations for lower rates and higher stock prices.



Source: Factset