Cypress CAPITAL

# Market Outlook

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## Highlights

Market Risk Index worsened on a drop in monetary conditions. The loss was from the Exchange rates category, as one of our terms of trade indicators went from positive to neutral this week. Exposure in our portfolios mirrors the defensive readings coming from MRI, with approximately 60% of maximum equity exposure. This correction is beginning to take on the look of an inflection point, as our multi-asset portfolios have experienced very minor drawdowns relative to US equities when compared with other recent corrections. It's the first crack in the impervious wall that has surrounded big cap US equities and the bull market's theme.

While the investor psychology composite has not made major improvements, shorter-term measures of sentiment are in the early stages of suggesting some exhaustion, giving readings that are increasing the odds of a short-term reprieve. With more work, these could push the psychology to a level that would cause us to put very modest amounts of capital back to work. Put/Call ratios have moved higher, and for the second week in a row the AAII survey has registered above average bearish readings. The 10-day average of the NYSE ARMs index has thrown off its highest reading since the December decline. By the same token, the High Low Logic index, an indicator that we have featured often over the last 18 months, gave a fresh, forceful sell signal within the last week. The message from psychology is far from giving an all-clear.

Looking at psychology alone, our trust has been affirmed in following its overall message with its distinct combination of both short-leading and long-leading sentiment indicators. It's timeliness in highlighting the pending risk at each peak since global equities ultimate peak in early 2018 has been noteworthy, but it has also highlighted the likely limited nature that each rally off ensuing lows would provide. Should only short-term measures of sentiment mark come to hit extremes that mark August lows, it's not one on which we would place a heavy bet. If you are following objective signposts and the collective message of monetary, psychology and valuation: this is a precarious time in the market cycle.

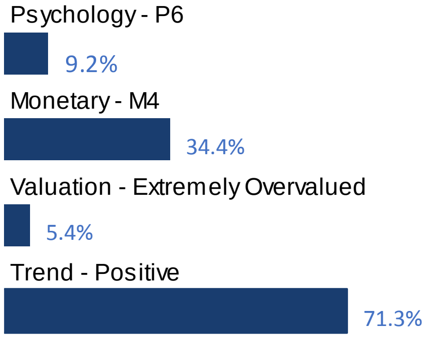
The yield curve is now detracting its maximum negative number of points from the monetary composite, and the brunt of its full recessionary force is being offset by the coincidental fall in corporate bond yields. Monetary conditions should stabilize here until we begin to see corporate bond yields start moving in the other direction, which would mean we have gone from the bond

### Market Risk Index

Elevated

**83.8%**

### Category Percentiles




**Biggest Psychology Influences**

| | |
|---|---|
| Option Activity | Positive |
| Leveraged Investments | Negative |
| Volatility | 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% |

**Price Trends**

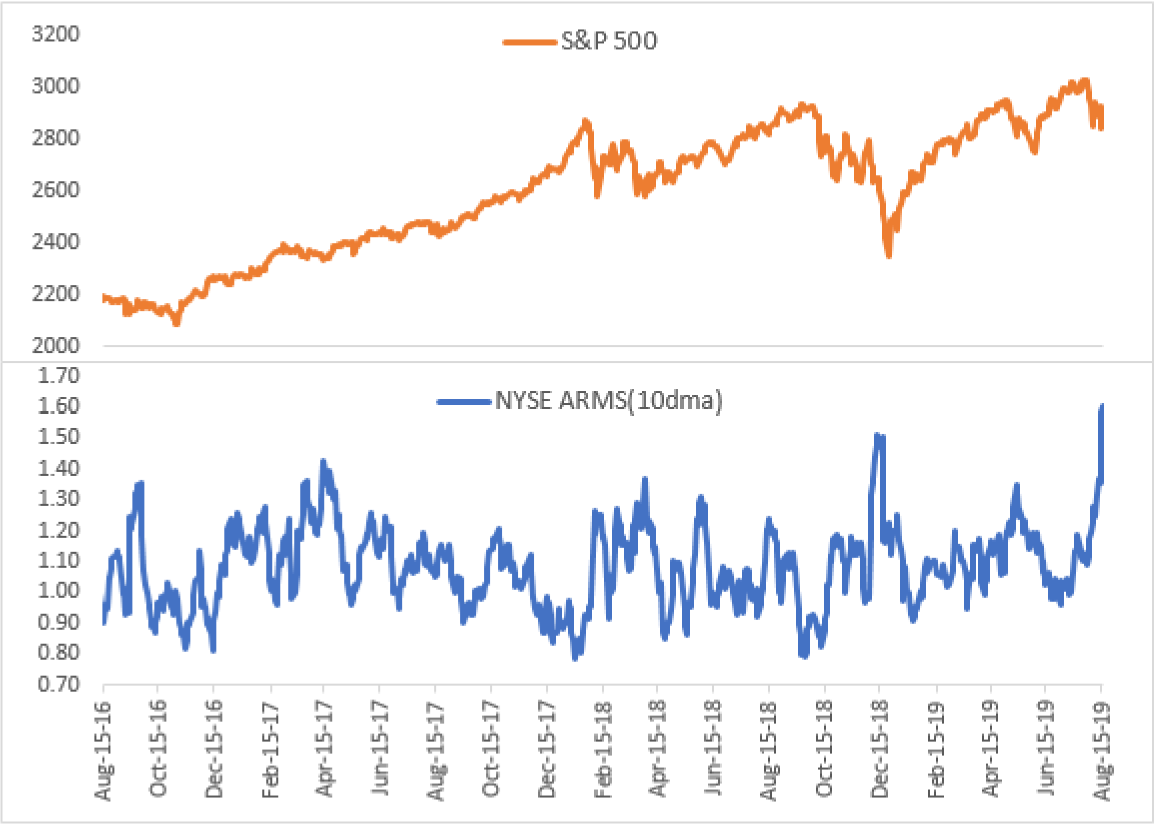
| | |
|---|---|
| US Equities | Positive |
| Intl Equities | Cautious |
| REITs | Positive |
| Broad Commodities | Negative |

*Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.*

market's broad equivalent of a monetary easing to something that would more classically be considered a flight to safety. The stock market will have already suffered some damage by that point, but the additional deterioration in monetary conditions would keep us from getting too aggressive with equity allocations based up on investor psychology alone. When optimistic sentiment breaks in a bear market and becomes recessionary, the same kinds of signals and levels that presented superb opportunities for dip buyers in the bull market become short term trades that you quickly come to regret in a bear market.

For fixed income watchers, our bond momentum gauge is in positive territory but overbought, making this a good opportunity to trim (not eliminate) exposure to long duration fixed income securities. From a timeliness standpoint, bond momentum at these levels occurs when bond prices have accelerated in rapid fashion and often precedes a reversal in yields.

**Chart – ARMS Index surpasses December 2018 Levels**




*Source: Cypress Capital*
*Note: Advancing and Declining Volume based upon total volume in underlying securities. The chart on our website is based upon primary market volume only.*

**Chart – Put/Call Ratios are hitting important correction levels**

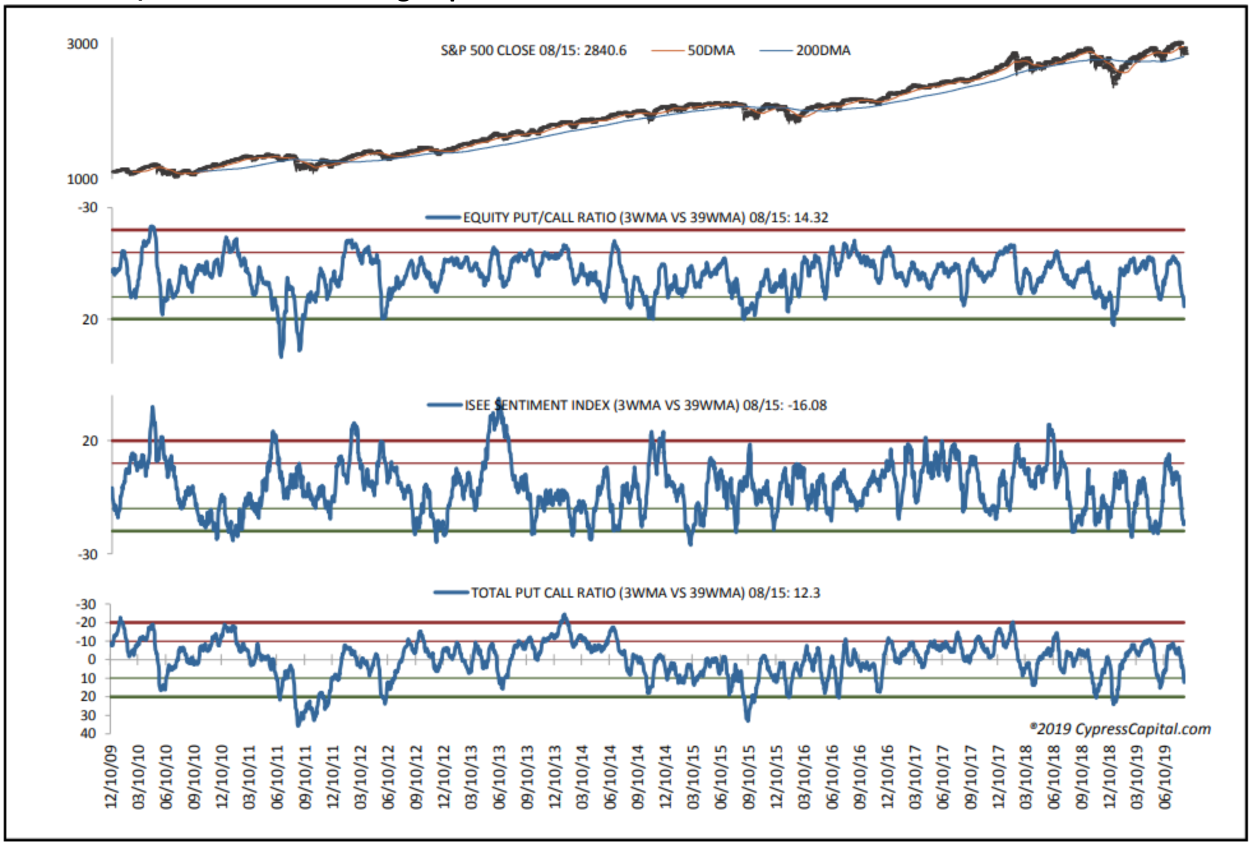
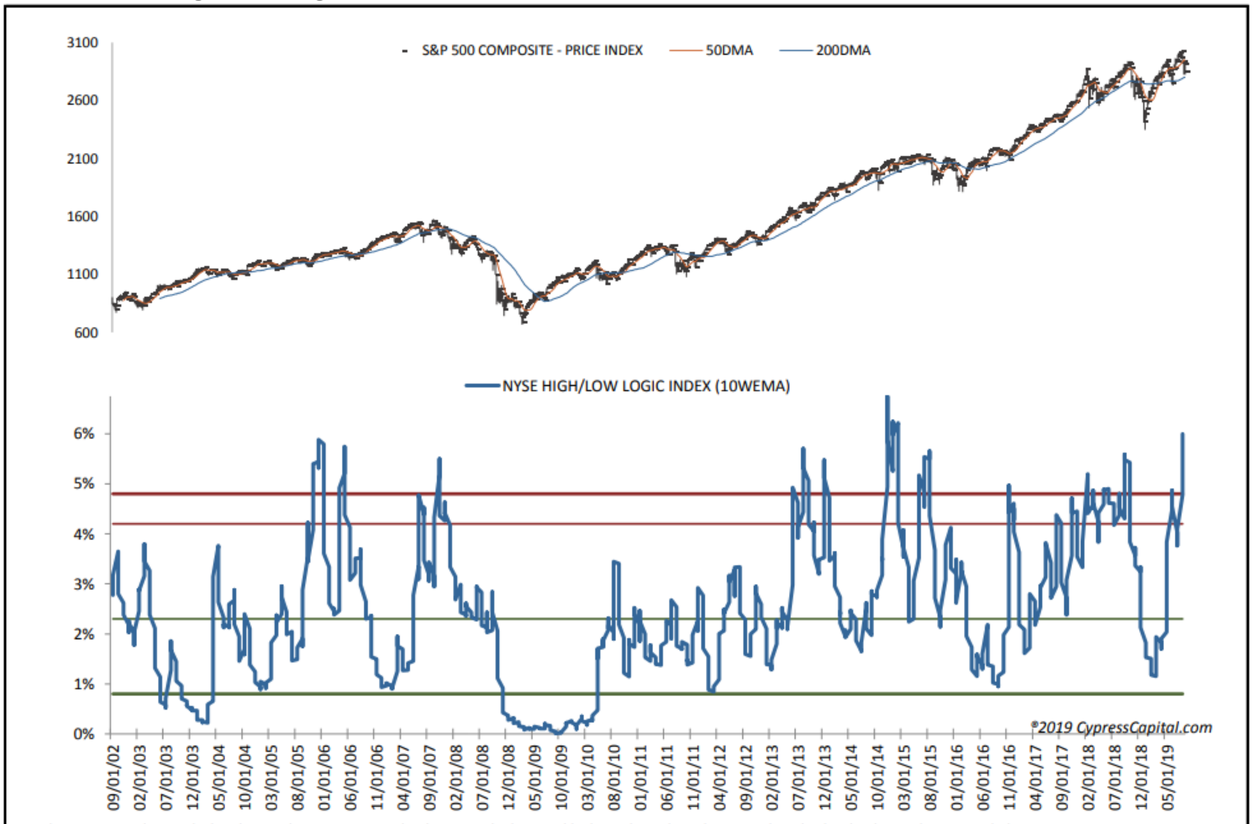



**Chart – NYSE High Low Logic Index worsens**




High Low Logic Index is calculated using the minimum number between the lows and highs each week on the NYSE, then dividing by the total issues traded.

**Chart – Positive bond momentum reaches overbought levels**