Cypress CAPITAL

Market Outlook

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Highlights

Market Risk Index climbed to 85.7% and is less than a percentage point away from its worst readings of the year. Our scoring of data goes back to 1970, and this market only has a few analogs with a comparable combination of conditions: 1973, 1980, 1999-2000, and 2007. The highest margin of safety markets were in the summer of 1982, 1985, 1994/95, 2003, 2009, 2011/12 and for a short period in 2016. 2016 was also the last time that our recommended allocation to equities was aggressive.

Deterioration in MRI was all a result of movements in the psychology composite, which saw a lot of individual indicator movement internally and breached the worst 10% of readings late last week, after the inclusion of some data that gets released monthly. This trip to these extremes should prove shorter lived given that prices have already begun to decline, but these levels often pinpoint market environments that are the most vulnerable to sharp, short term declines.

IPO data, mutual fund flow data, Investor’s Intelligence and some lesser known interest rate questions from the Consumer Confidence survey pushed the psychology readings over the threshold.

We track the first day performance of IPOs, which was more of a detractor in the spring when Beyond Meat went public, but there was a modest uptick last month. That said, with the recent dud from Peloton and the pulling of the WeWork IPO, news from the IPO market are reading like unicorn fever is starting to break.

The bears to bulls reading from Investor’s Intelligence went back to levels that weigh down the psychology composite. This will likely be offset by readings from AAII over coming weeks, as we’ve already seen a shift in the sentiment of individual investors on the price declines this week.

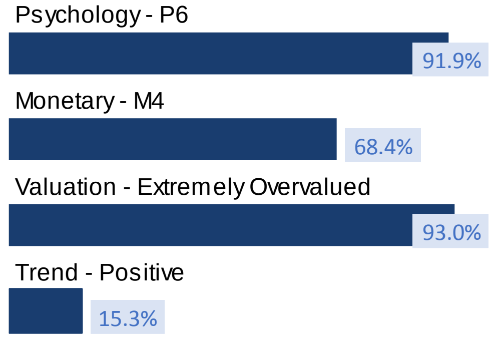
Inside the Consumer Confidence survey, respondents are asked whether they see interest rates higher, lower, or the same 12 months from now. The spread between expectations for higher versus lower rates has fallen to levels that are becoming consistent with economies vulnerable to recession or economies that were already in recession, which often doesn’t become apparent until after the fact. You would think that it would be bullish when

Market Risk Index

Elevated

85.7%

Category Percentiles



Biggest Psychology Influences

Trading Data	Positive
Leveraged Investments	Negative
Consumer Confidence	Negative
Investment Surveys	Negative

Biggest Monetary Influences

Falling Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

7-10 Year Rtn Forecast	3.7%
10Yr Treas Yield (on 7/31)	1.7%

Price Trends

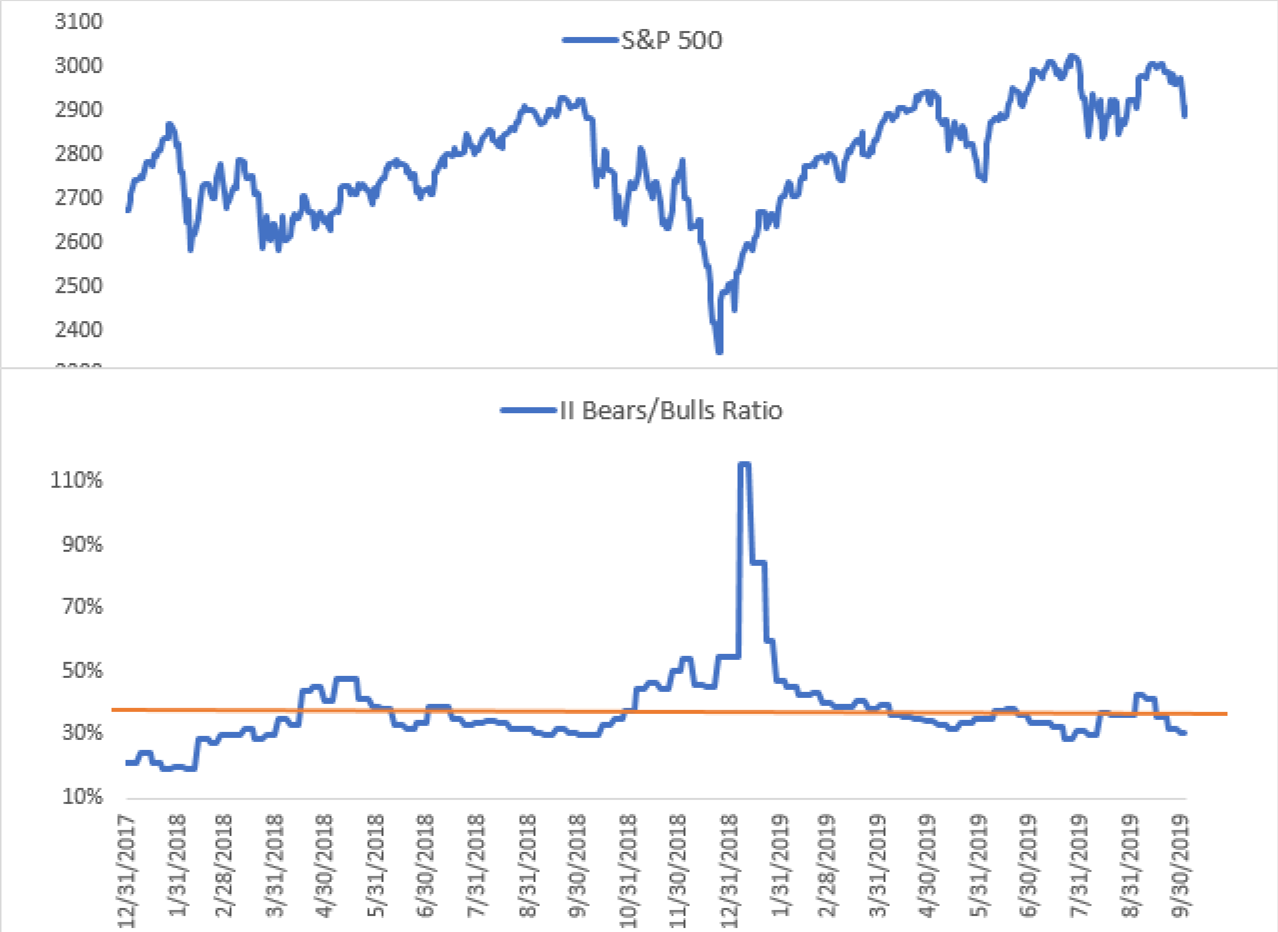
US Equities	Positive
Intl Equities	Negative
REITs	Positive
Broad Commodities	Negative

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.

consumers expect lower rates, but they often delay major purchases when expecting lower rates 12 months from now in anticipation of a better financing deal.

It's unusual to see expectations for interest rate declines so widespread with confidence and stock prices still so high. The only other comparable example to this period was late in 1998, which saw high levels of confidence and expectations for falling rates, and consumers stayed buoyant until the tech bubble break. That environment also saw a drop in manufacturing PMI comparable to the one that has rattled markets in the last week. If this is a bullish argument for stocks, it's purely a timing argument not a margin of safety one. With the broad readings that we are seeing from investor psychology, buying the dip that we have seen thus far isn't a contrarian call.

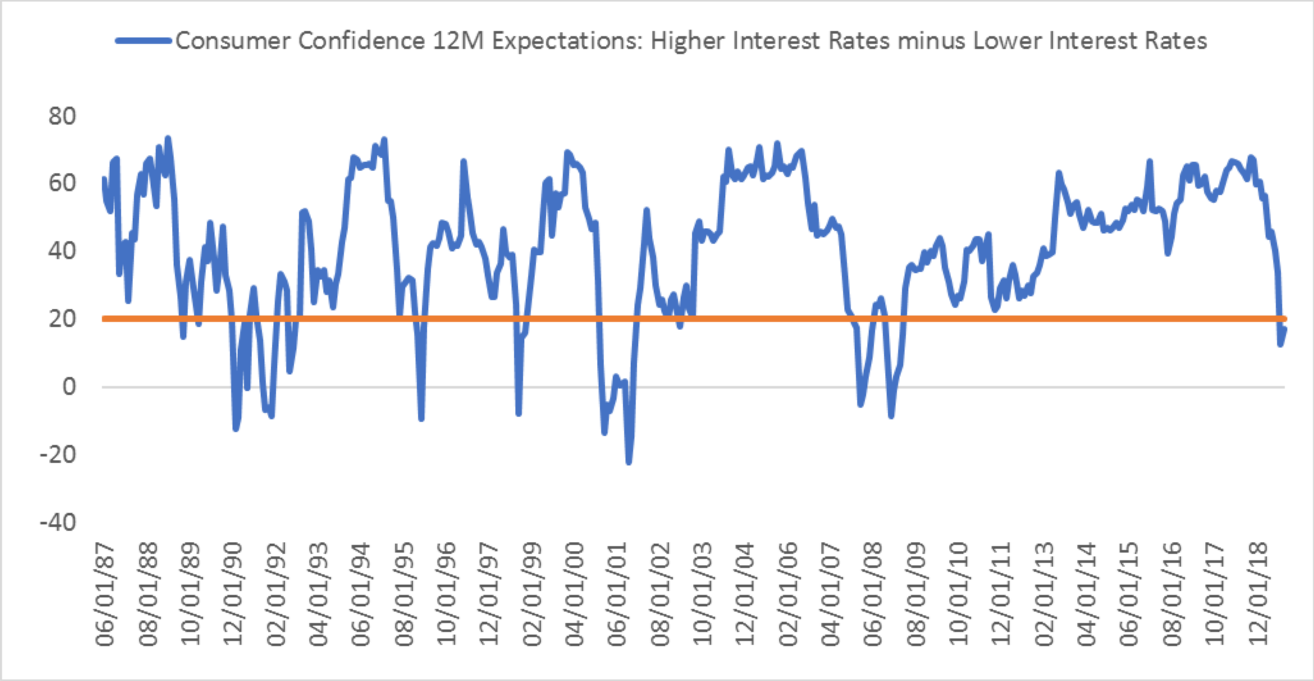
Chart: Investor's Intelligence



Source: Cypress Capital

Chart – Consumer Interest Rate Expectations

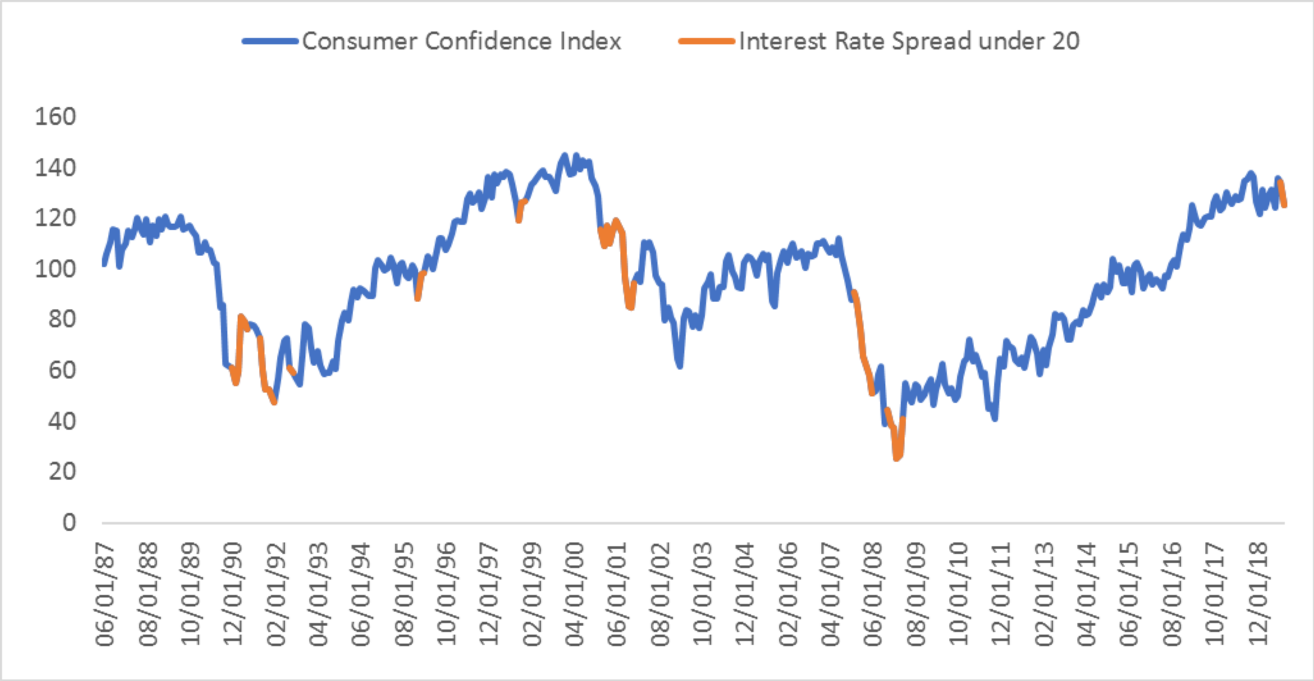
Consumers expectations for declines in interest rates has grown consistent with an economy either in or vulnerable to recession.



Source: Conference Board, Cypress Capital

Chart – Consumer Confidence Index and Falling Interest Rate Expectations

Interest rate expectations are falling from an unusually high level of consumer confidence.



Source: Conference Board, Cypress Capital

Asset Management – Portfolio Lineup

The essence of investment management is the management of risks, not the management of returns.
– Benjamin Graham

Select Dividend – Bottom up risk managed dividend portfolio of up to 40 stocks that can hold cash and fixed income when markets aren't presenting attractive individual equity opportunities. Portfolio built upon Cypress Capital's own metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks with above average yields and a long-term history of paying dividends, where the dividend is perceived to be safe. Growers are companies with high total shareholder yields and perceived to be high quality, franchise companies. The portfolio is generally made up with familiar, household names.

Global Allocation – Multi-asset class portfolio that invests in low cost exchange traded funds across eight asset classes based upon the margin of safety offered by each asset class in an effort to avoid significant drawdowns.

Strategic Income – Disciplined, value biased income portfolio that practices patience in awaiting excellent risk reward opportunities in fixed income. Disciplined in its refusal to reach for yield and put capital at risk of permanent impairment.

Asset Neutral – Absolute return focused multi-asset class portfolio that allocates assets based upon the margin of safety offered in each asset class. Portfolio can go defensive and hold up to 100% cash in some environments.

US Opportunity – Concentrated value portfolio of up to 50 stocks that increases allocations to cash and fixed income when the margin of safety offered by equities is too narrow. Portfolio quantitatively buys the cheapest, highest quality stocks that it can find. Quantitative sell discipline sells individual holdings based on value and momentum factors.

Contact us for more information.