Cypress CAPITAL

Market Outlook

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Highlights

Market Risk Index was unchanged for the week. Small improvements to investor psychology were completely offset by weakening monetary conditions. The additional improvements that we've been hoping to see with investor psychology have stalled and are moving in the wrong direction again, making this one of the longest periods where our psychology composite remains stuck in the worst decile of readings, rivaling only a period in early 1999 and in early 2000.

Survey data is the biggest positive for the psychology composite, but that is likely to move back to neutral after this week. Option Activity has swung back to negative, and bets on lower near-term volatility are higher than any time since the market peak that was made in the fall of 2018.

The Consumer Confidence Survey was also released this week – several questions of which are components of our Market Risk Index. The report did little to improve things, as Consumers' confidence in their present situation rebounded, inching closer to cycle highs from August. The survey goes back more than half a century, and current readings from the Present Situation index have only been higher than these levels for a few months in the year 2000. The 2000 comparison may highlight the risk to the economy and markets going forward, but for now consumers remain resilient, and the Fed's rate cuts appear to have helped sustain their confidence close to these record levels.

The stock market, large cap US equities rather, hit new highs this week. We've also entered the seasonally strong Nov-Apr period for markets. Are there participation warts under the surface of the new highs that we can point to – yes. But, purely from a momentum standpoint, there were enough good things that occurred in the price action of both international stocks and small cap stocks this week, that it would be careless to dismiss the potential for higher prices.

Market Risk Index

Elevated

86.9%

Category Percentiles

Psychology - P6: 94.5%

Monetary - M4: 68.0%

Valuation - Extremely Overvalued: 95.0%

Trend - Positive: 0.8%

Biggest Psychology Influences

Investment Surveys	Positive
Consumer Confidence	Negative
Leveraged Investments	Negative
Technical Indicators	Negative

Biggest Monetary Influences

Falling Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

7-10 Year Rtn Forecast	3.0%
10Yr Treas Yield (on 09/30)	1.7%

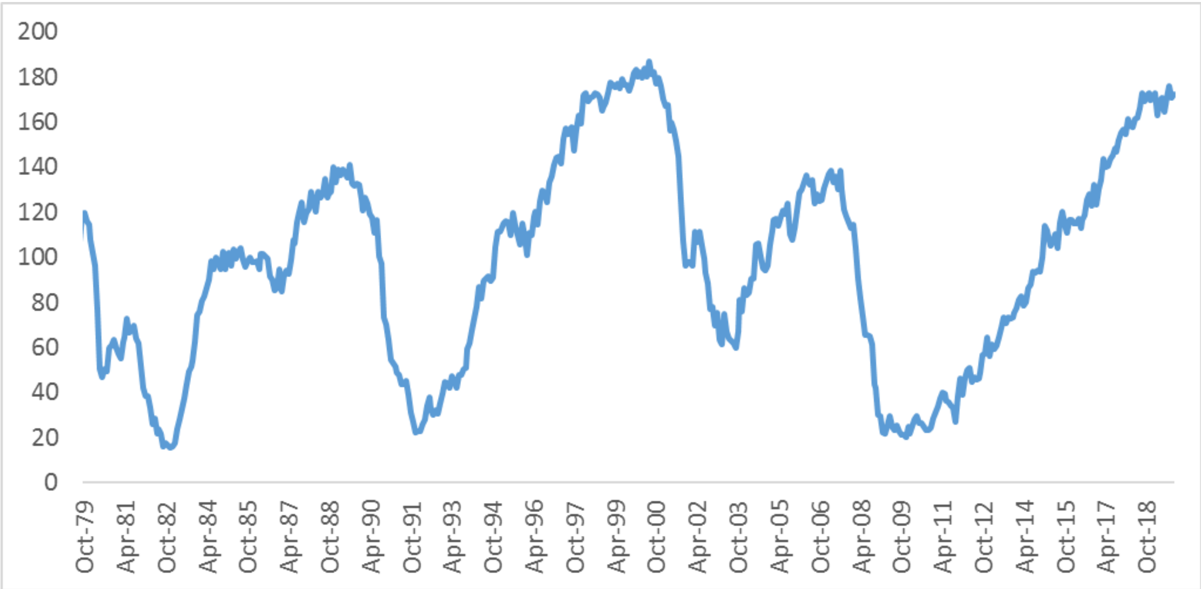
Price Trends

US Equities	Positive
Intl Equities	Cautious
REITs	Positive
Broad Commodities	Cautious

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.

The odds got a little better this week for those arguing the case of mid-cycle adjustment, consequently the odds got a little higher that conservative investing based upon the margin of safety offered by stocks might feel a little more painful in the short-term. If we increase equity exposure, it's likely to be in beaten up areas seeing trend improvements, but our increases to US equity allocations will not be significant here. The potential pitfalls and drawdown risk highlighted by the combined message of psychology, monetary, and valuation outweigh the short-term potential for profits from a momentum chasers' market. We have skin in the game, and if it would be careless to tell you dismiss the possibility of higher prices in the short term, it would be reckless not to highlight that we believe the risks to being aggressive here dramatically outweigh the rewards.

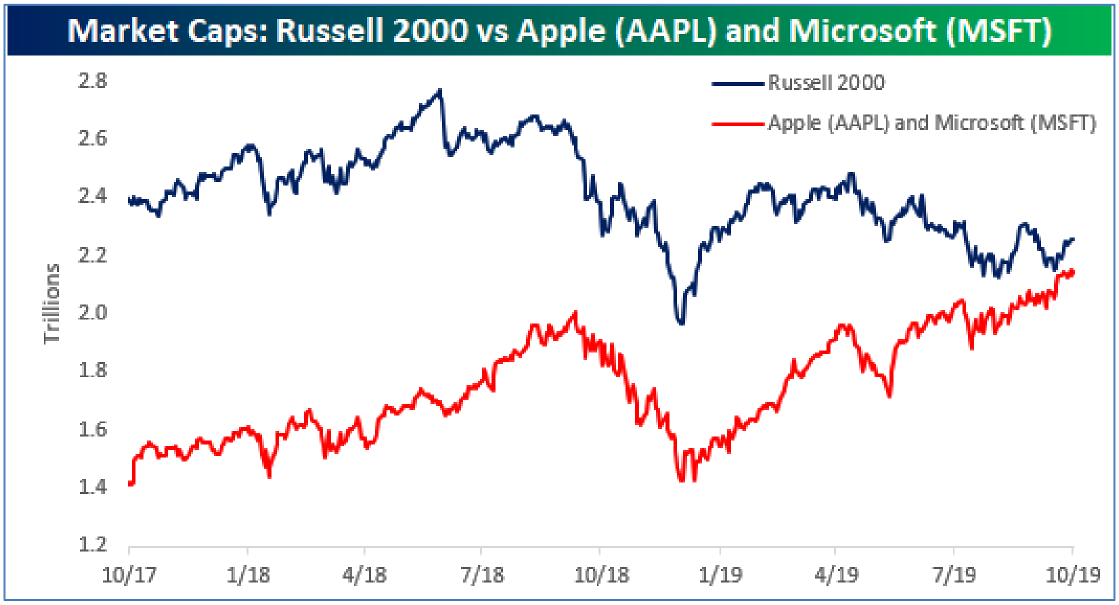
Chart – Consumer Confidence in Present Situation



Source: Conference Board, Cypress Capital

Chart – Market Cap of Russell 2000 versus Apple & Microsoft

Call it chart of the week, but we were blown away with how close the combined market caps of Apple and Microsoft are to surpassing the entire Russell 2000 index.



Source: Bespoke Investment Group

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.