Cypress CAPITAL

Market Outlook

By Mark T Dodson, CFA

Highlights

Broad commodities have suffered another downturn in short-term trend, putting our recommendation for the asset class back on defense. Every price trend change for commodities has failed in the last few years, so we prefer to invest this bucket in gold until we see a major breakout in commodities or signs that global growth is finally beginning to re-accelerate. The trend for gold remains positive.

Market Risk Index is now 88.4% - a substantial move higher over the last two weeks as animal spirits, measured by our Psychology composite, have come close to surpassing the level from early 2018. MRI is also close to the levels from early 2018, with a key difference being that we have now experienced more economic shots across the bow like an inverted yield curve and enough softening in key economic data that make recession more difficult to rule out than it was in early 2018.

Fed rate cuts and hope in more trade certainty have revived enthusiasm for equities. Equity price inflation seems to be the only inflation lever that the Fed can influence in this cycle, likely a source of frustration for monetary policymakers. The shift to animal spirits inside psychology could now be described as pervasive, as there are only two broad categories that we track that even score modestly positive for stocks, the Flow of Funds category and volatility. Flow of Funds remains positive, solely because the IPO market has cooled off from the excess earlier in the year. The other is volatility, which is a double-edged sword. While low volatility is a hallmark of markets with extreme enthusiasm, in the short-term it tends to be a positive for markets. For now, that outweighs the longer term implications of extremely low vol inside psychology.

Outside of these, we can throw a dart at indicators inside the psychology composite, and it would likely highlight an indicator registering investor enthusiasm. One of the biggest moves over the last couple of weeks is Investor's Intelligence – the spread between the bulls and bears on that survey has shot higher since our last report.

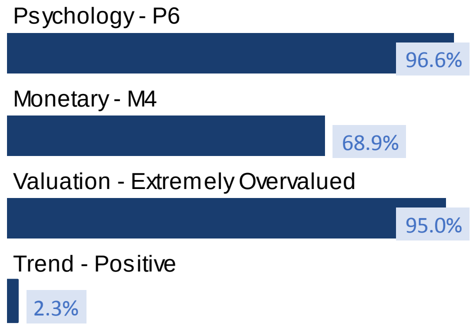
Our psychology composite has now spent 193 days without a move below the 80th percentile, only a couple of days shy of the length of time in 1999 that it spent mired in euphoria territory. We still think the 1999 market wins for most speculative in the US history, but in defensive of the enthusiasm in 1999, the story of the Internet was more transformative. This one is largely a reach for yield built on a belief in the efficacy of the Fed, buybacks, and a political narrative.

Market Risk Index

Elevated

88.4%

Category Percentiles



Biggest Psychology Influences

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

Biggest Monetary Influences

Falling Bond Yields	Positive
Velocity	Negative
Yield Curve	Negative

Valuation

7-10 Year Rtn Forecast	3.0%
10Yr Treas Yield (on 10/31)	1.7%

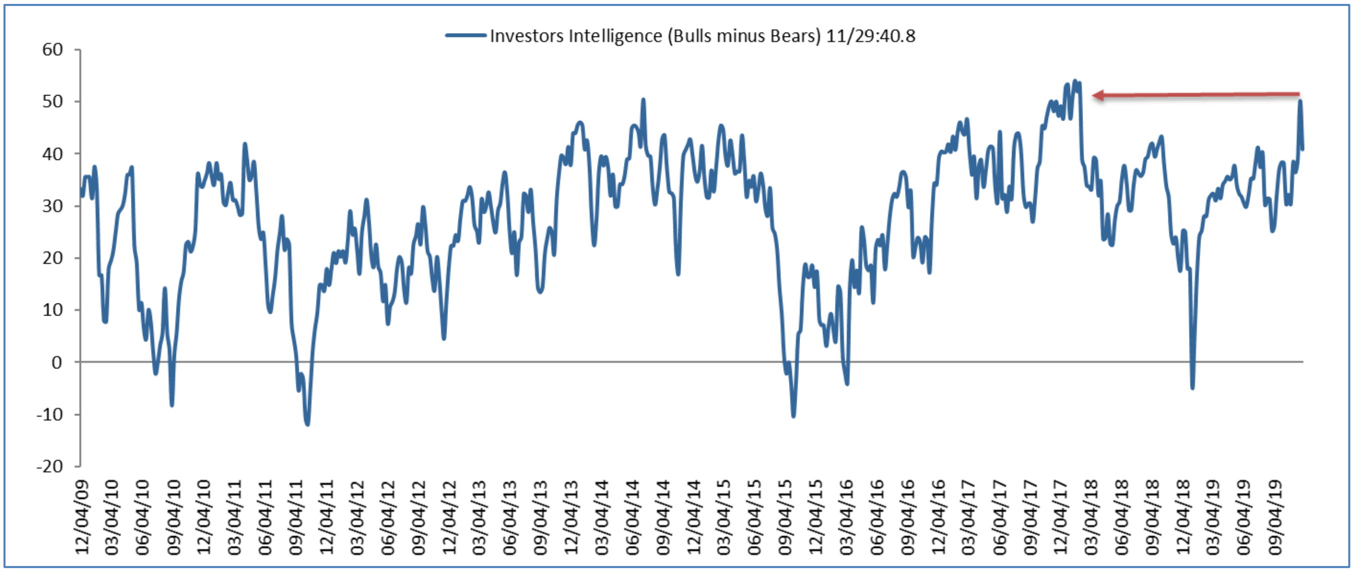
Price Trends

US Equities	Positive
Intl Equities	Positive
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.

Chart - Investor's Intelligence Survey: Spread between bulls and bears

The spread between bulls and bears on the Investor's Intelligence survey has grown to its widest level since peaking in January 2018.



Source: 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.