Cypress CAPITAL

Market Outlook

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Consumer Confidence Anomalies

Market Risk Index moves back above 50

Market Psychology pushed further toward enthusiasm – driving the Market Risk Index back above 50%. Most of the categories that bottomed out in March have now reversed and are pushing risk readings higher. The volatility category is doing all the heavy work here, with every other category either neutral or negative. Consumer Confidence dropped sharply over the month, a positive sign for the wall of worry, but not to bear market killing levels. Our daily point total for the psychology composite moved further into negative territory this week, but it did not reach levels consistent with the ends of previous bear market rallies.

Something unprecedented is going on with the Consumer Confidence survey that seems to capture much of the mood behind the market's rally, beyond just having confidence in Powell's put and the Fed backstop. The Present Situation index saw a record drop this month, but the Expectations index (questions about the future) increased. Not only that, but consumers expectations that business conditions will improve and that there will be more jobs in six months shot higher by a record amount. Expectations for more jobs in six months also reached a record high.

This has never happened in a recession like this. Part of it likely stems from an enthusiasm that is building about the lockdowns ending and a narrative that that the economy, and markets, will quickly return to where they were in 2019. If the credit cycle or financial asset valuations were not a concern of yours in February (most of the public), then you likely consider the virus to be a short-lived economic phenomenon. Consumer expectations for stock prices rebounded in April as well, and the expectations there in March were stock market correction level readings but not what we're accustomed to seeing at the end of bear markets.

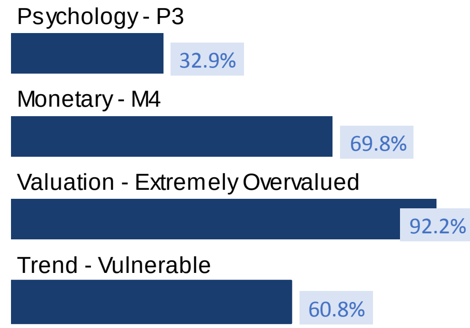
On its own, Psychology will be unable to improve MRI for anything beyond short trading windows. It is going to require a combination of valuation and monetary conditions to improve the margin of safety for stocks. Monetary conditions are still stuck for the time being, so long as velocity keeps dropping while we have such a shallow yield curve and tighter credit conditions offsetting Fed actions. Year over year growth in M2 shot to the highest level since 1983. Mutual Fund investors pulled a massive amount out of bond funds last month, not their stock funds, and

Market Risk Index

Neutral

50.2%

Category Percentiles



Largest Psychology Influences

Volatility	Positive
Fund Flows	Negative
Option Activity	Negative
Leveraged Investments	Negative

Largest Monetary Influences

Velocity	Negative
Monetary Aggregates	Negative
Yield Curve	Negative

Valuation

7-10 Year Rtn Forecast	3.4%
10Yr Treas Yield (on 04/23)	0.6%

Price Trends

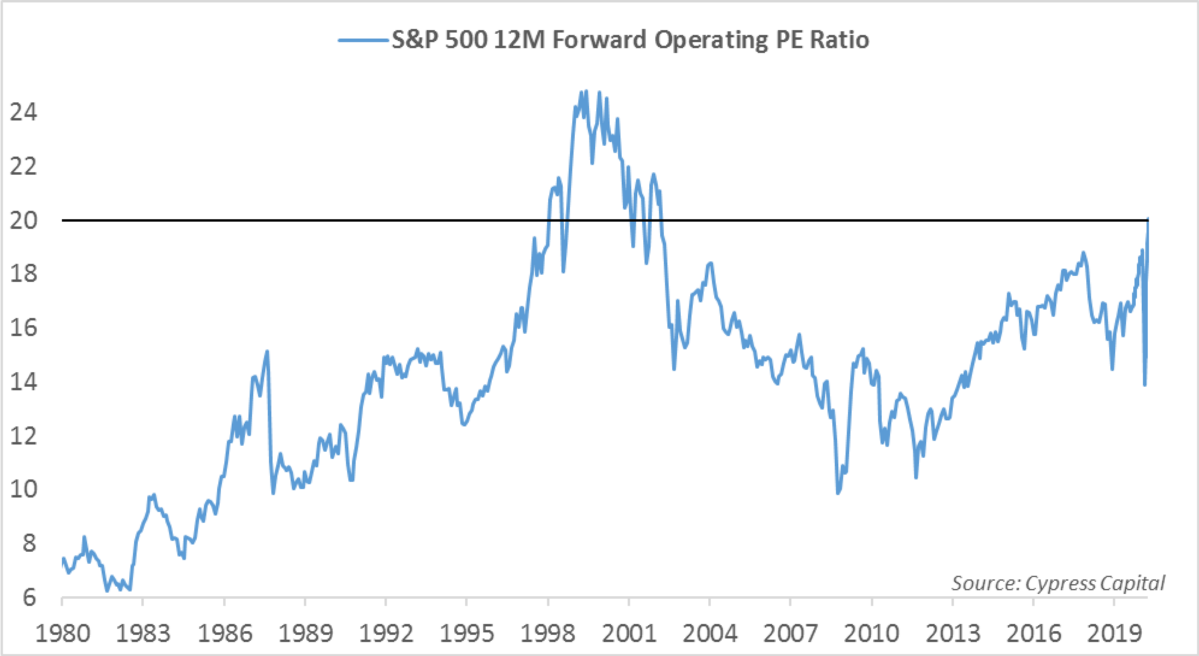
US Equities	Positive
Intl Equities	Negative
REITs	Negative
Broad Commodities	Negative

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.

parked them in money market funds. The Fed's bazookas are aimed at meeting this enormous demand for US dollars as monetary velocity collapses globally.

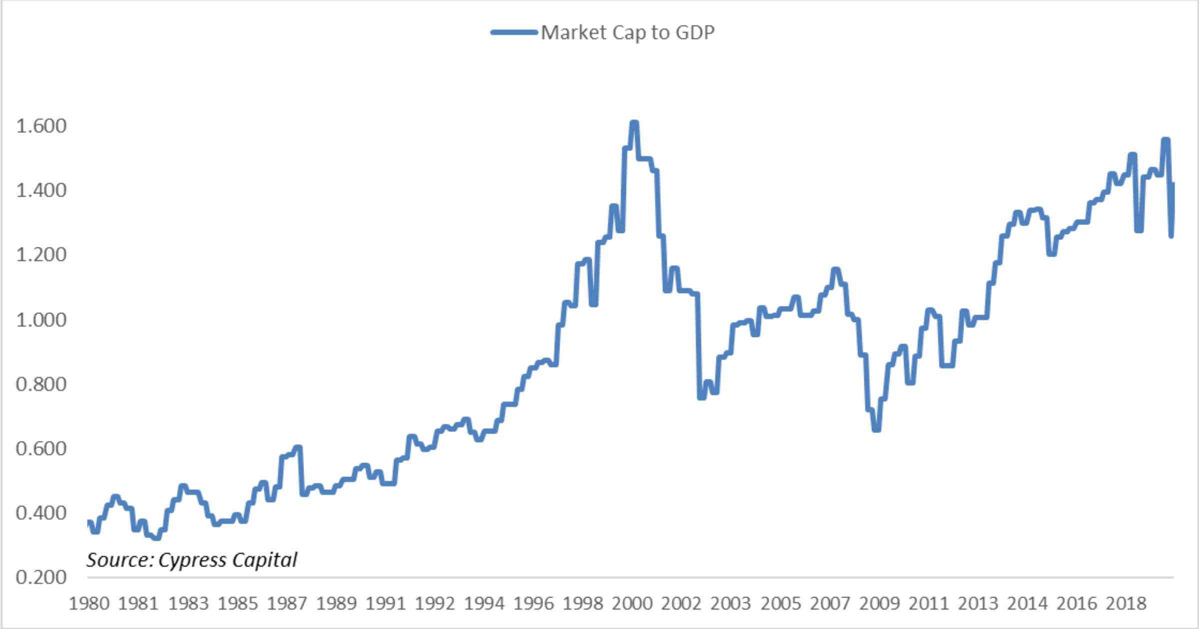
Valuations, outside of pockets of opportunity, are still too close to where they were at the February peak. Some indicators have already surpassed those levels. The forward PE briefly crossed above 20x on Wednesday's close, higher than any time since May 2002. Higher stock prices combined with a sharp drop in GDP during Q1 has also pushed the Market Cap to GDP higher. Bull markets require a few simple ingredients to generate returns – dividends, growth in earnings, and multiple expansion as markets follow a cycle from fear to greed. Bull markets rely heavily on multiple expansion as fuel, and broad US equity valuations cannot yet support a full bull market cycle here.

S&P 500 Forward PE went above 20 this week, the highest level since May 2002



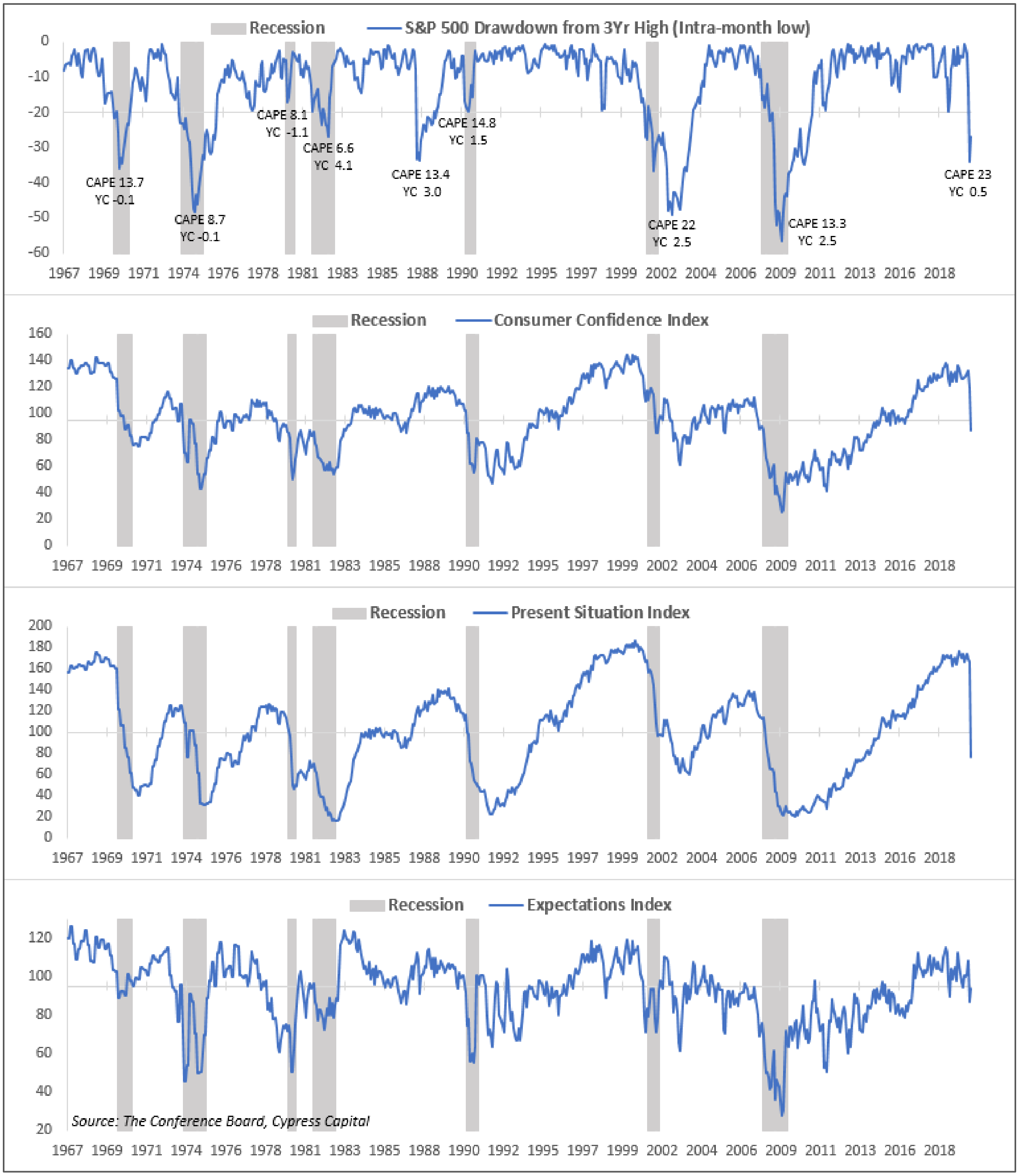
Buffett's Value Indicator

The stock market rally and weak GDP numbers have pushed Market Cap to GDP back to levels from October 2019.



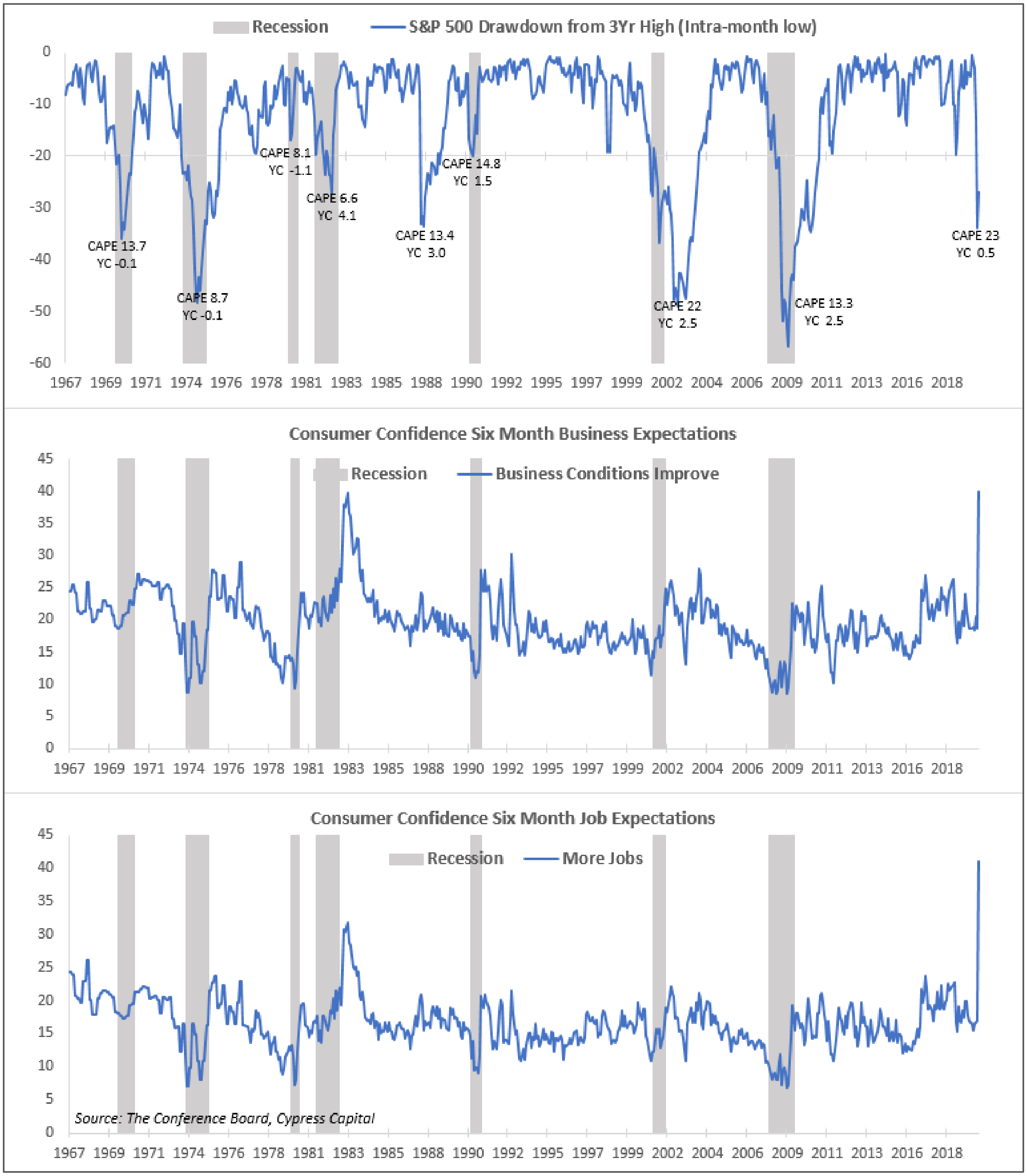
Record one month drop in Present Situation Index

This is the first major break in Consumer Confidence since 2007. Every bear market for the last 50 years has taken Consumer Confidence lower than this reading.

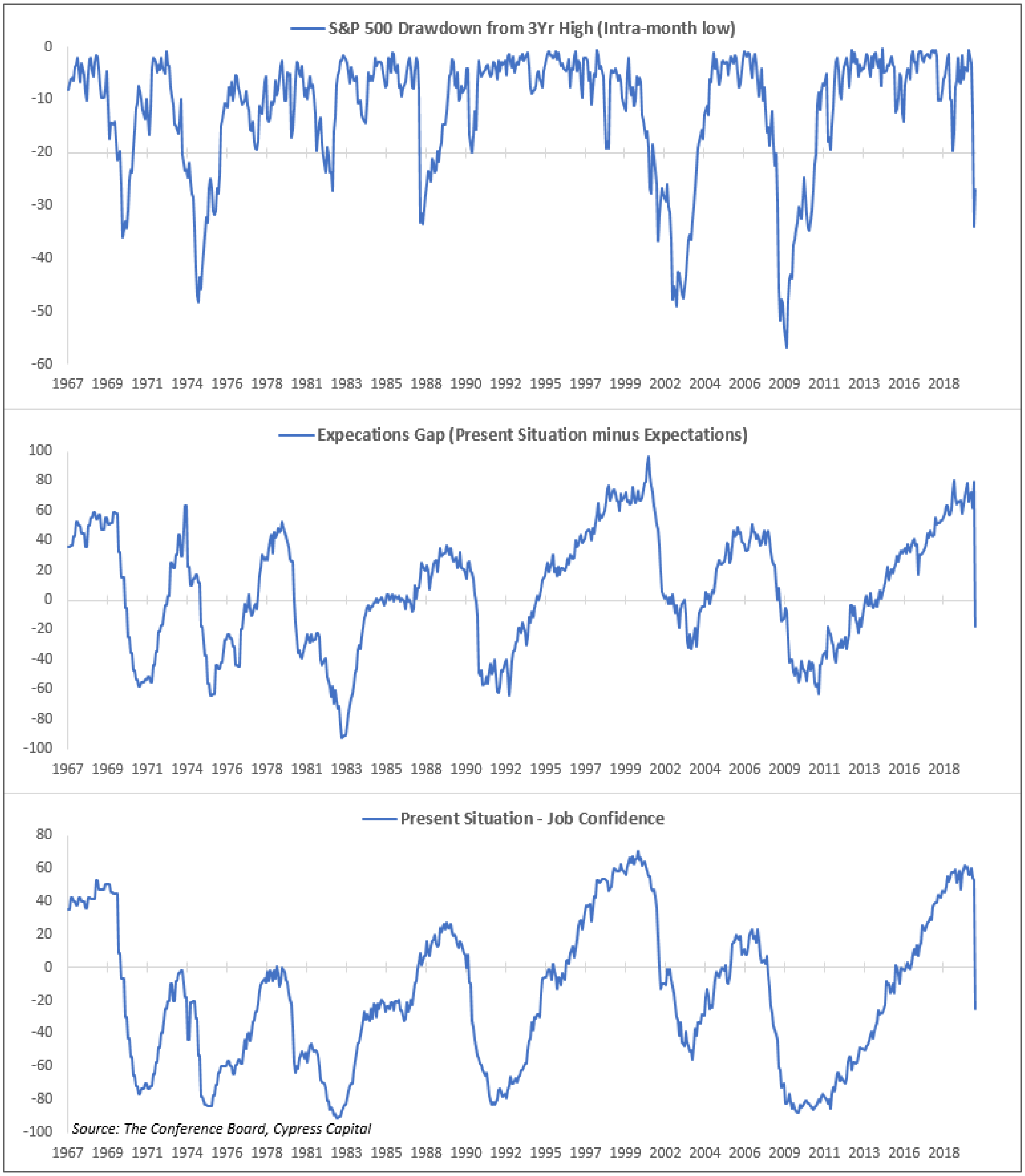


Record Increases in Expectations for Business Conditions and Jobs

In the history of the Conference Board's survey, expectations for a business turnaround have never been this high so soon.

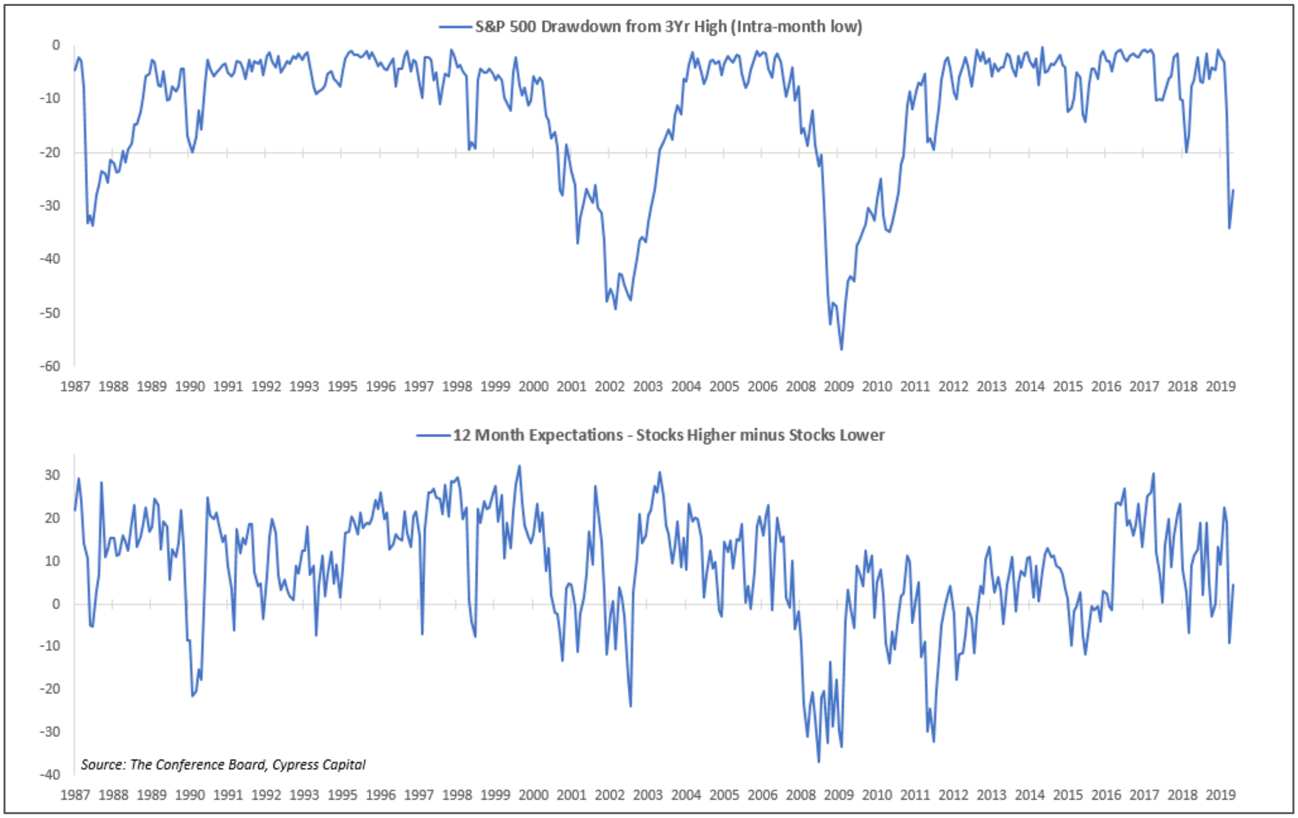


Job Confidence & Present Situation Gaps dropped like a rock, but not to bear market low levels

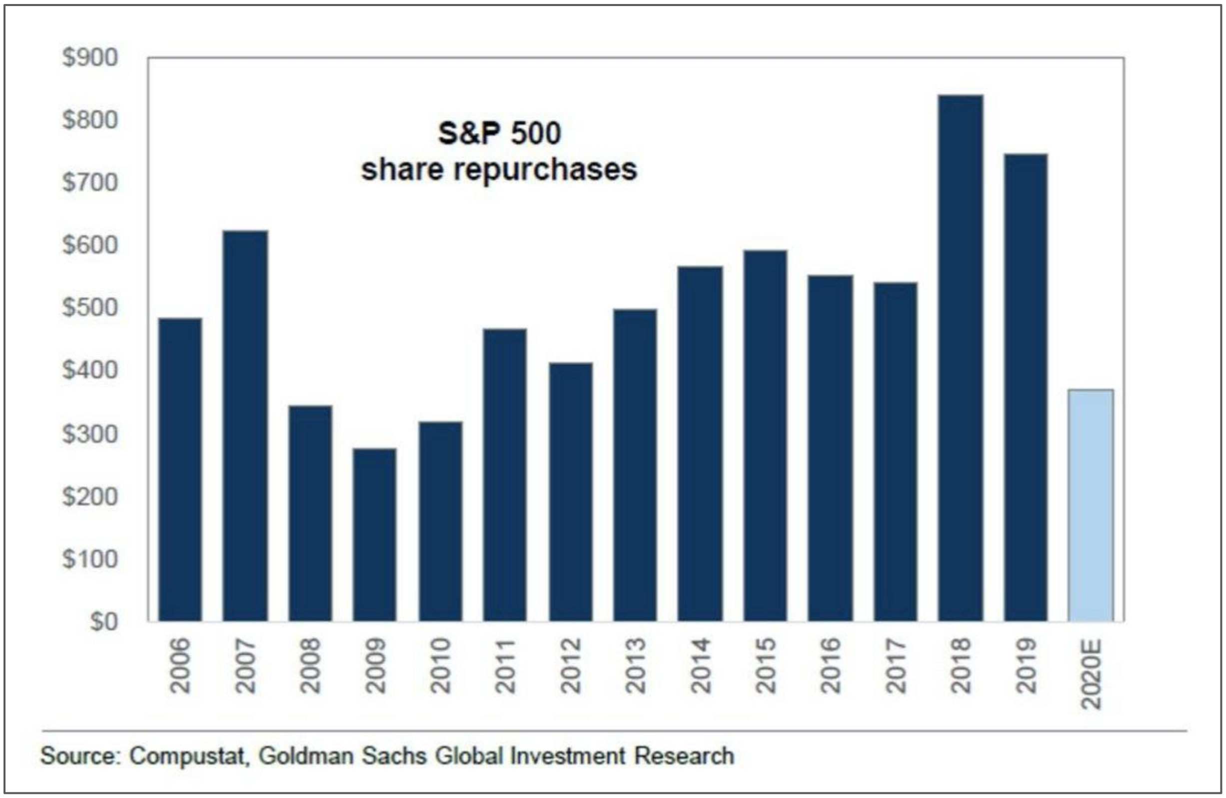


Consumer Expectations for stock prices rebound, but still muted

The drop in expectations that we saw in March for stock prices hit stock market correction levels, but not recessionary bear markets yet.

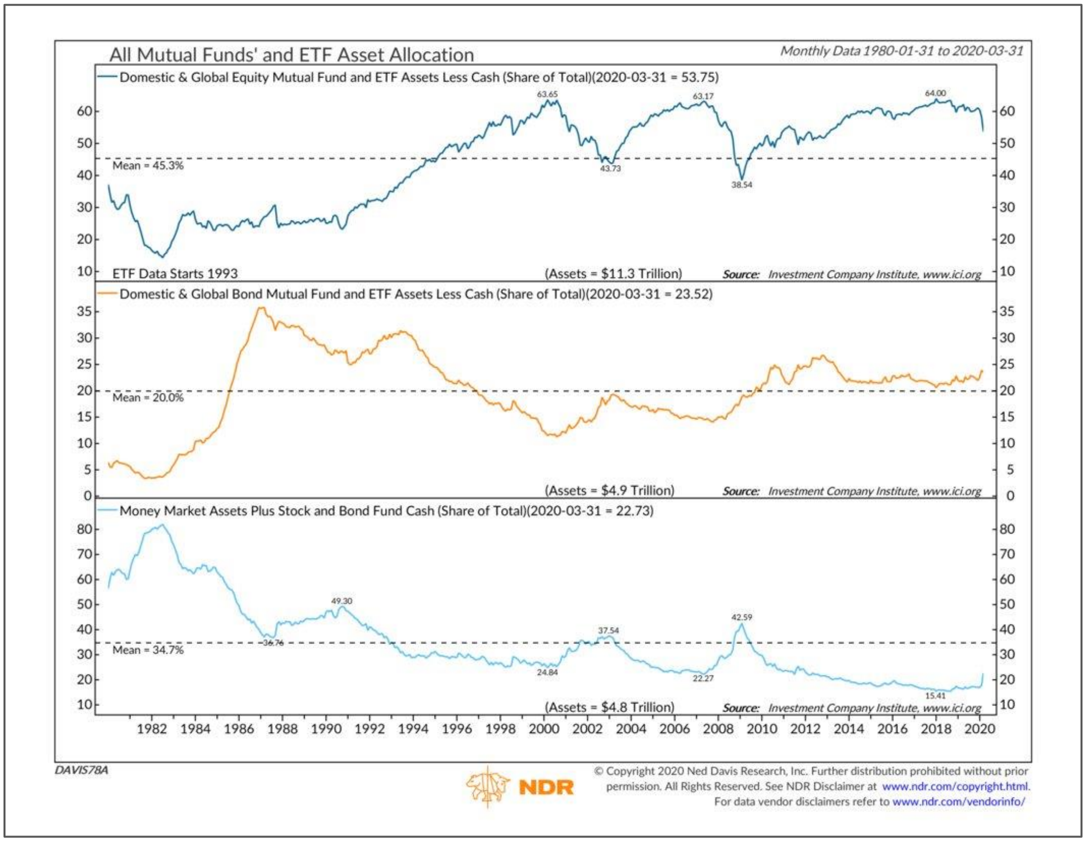


Buybacks, fuel for both of the previous two bull markets, are expected to drop by half in 2020



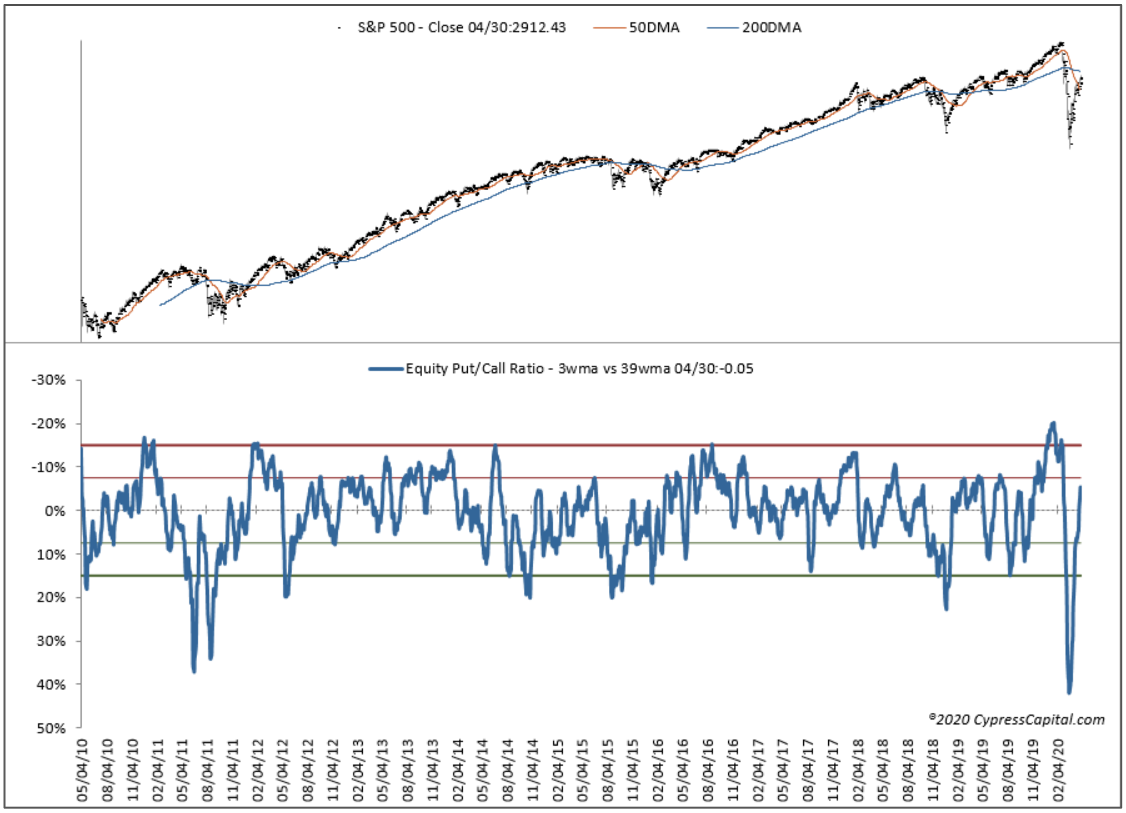
Money on the Sidelines

Cash levels are surging, but as a percentage of investor portfolios, it is not to bear market levels.

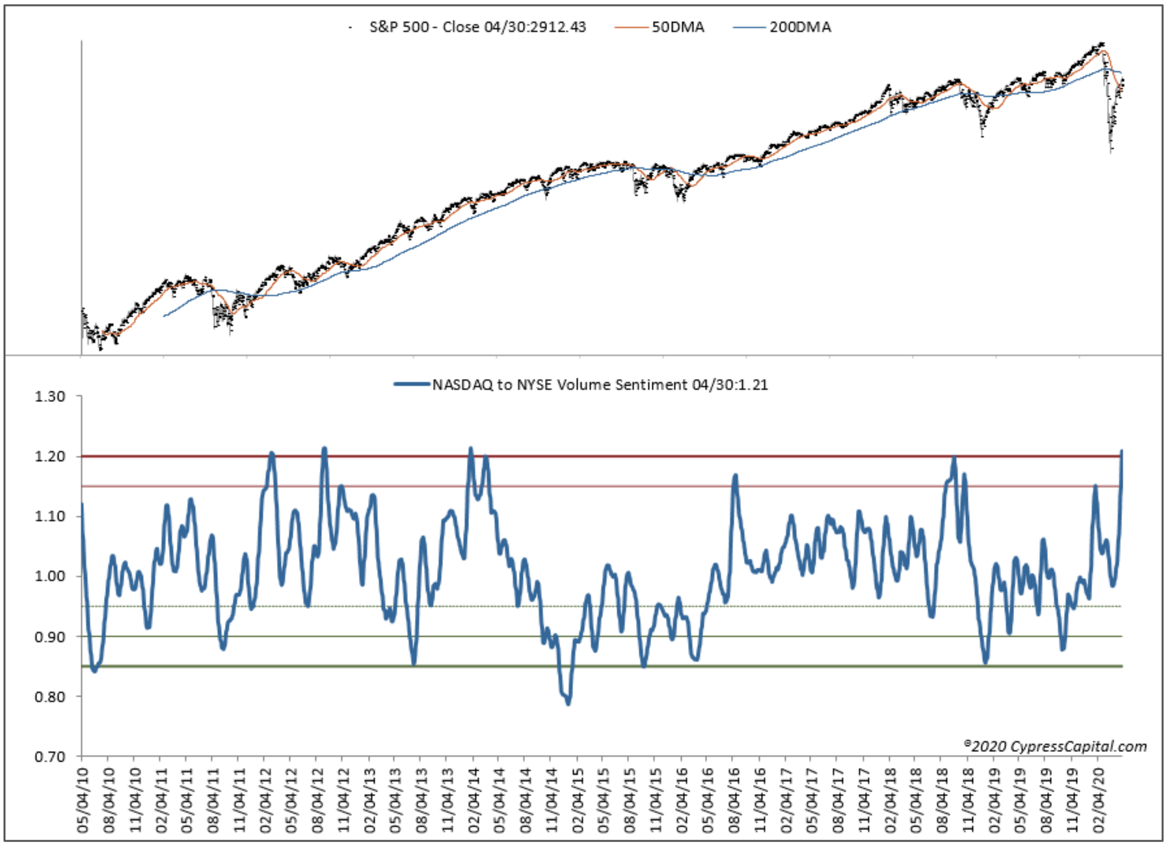


Equity Put/Call Ratio

Volume into calls relative to puts started to make a significant move higher early this week.

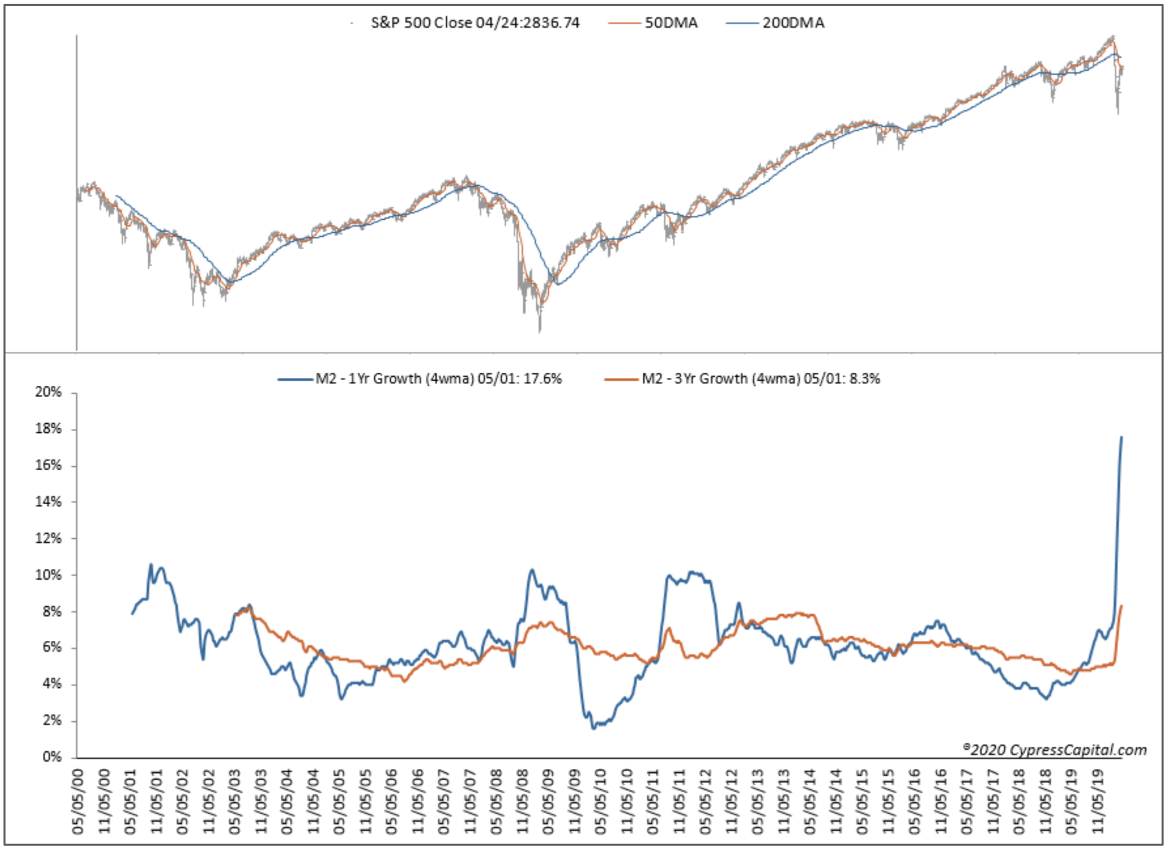


FAAM stock strength is pushing our NASDAQ to NYSE Volume Indicator Higher



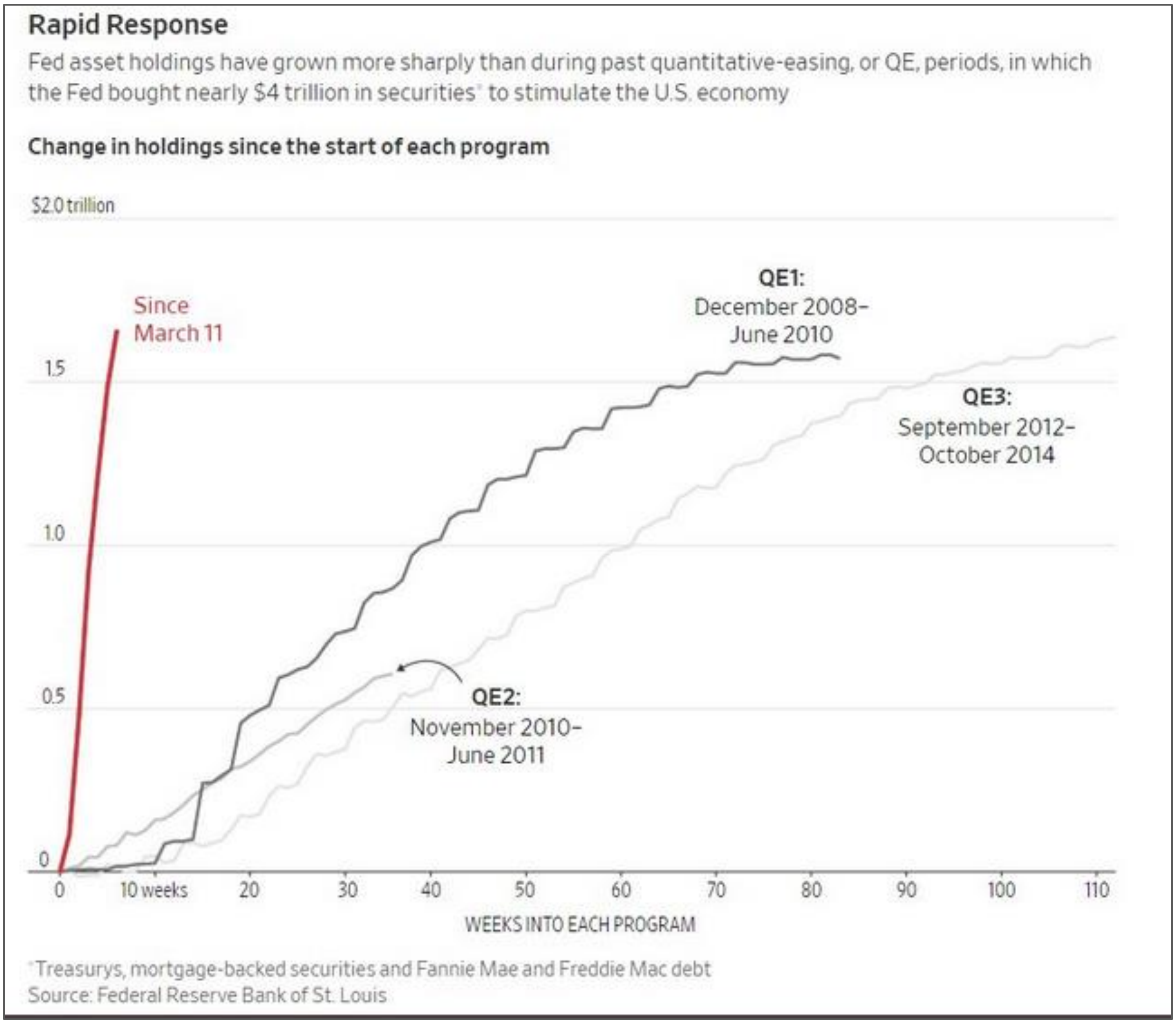
M2 Growth hits the highest level since 1983

As mentioned last week, this is a result of a big increase in money demand, not Fed action.



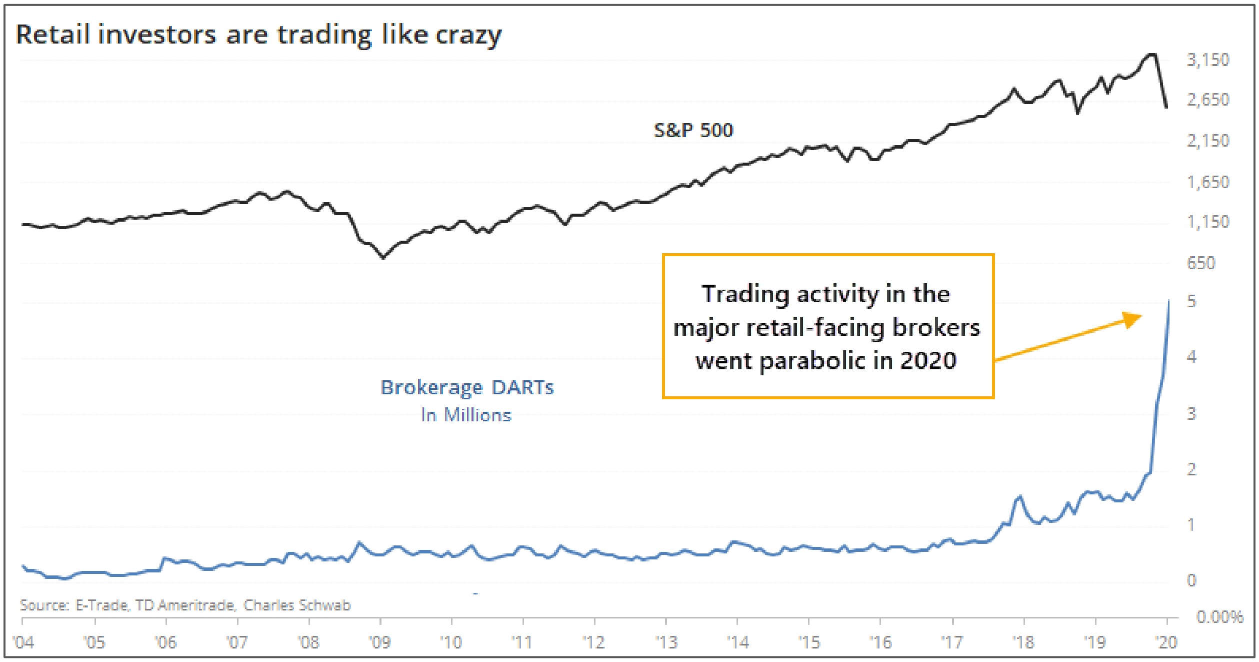
Rapid Fed Response

In recent reports, we included chart of headlines coinciding with previous yield curve reversions to show how historically aggressive Fed action has been this time around. Here is another example. If the shape of these lines looks familiar, it is because you have been inundated with Covid case curve charts. This is the money printing version, and the 2020 Fed curve has dwarfed every other quantitative easing response in a matter of weeks. Balance sheet expansion has officially replaced interest rate policy as the Fed's primary monetary policy tool.



Parabolic Retail Investor Trading Activity

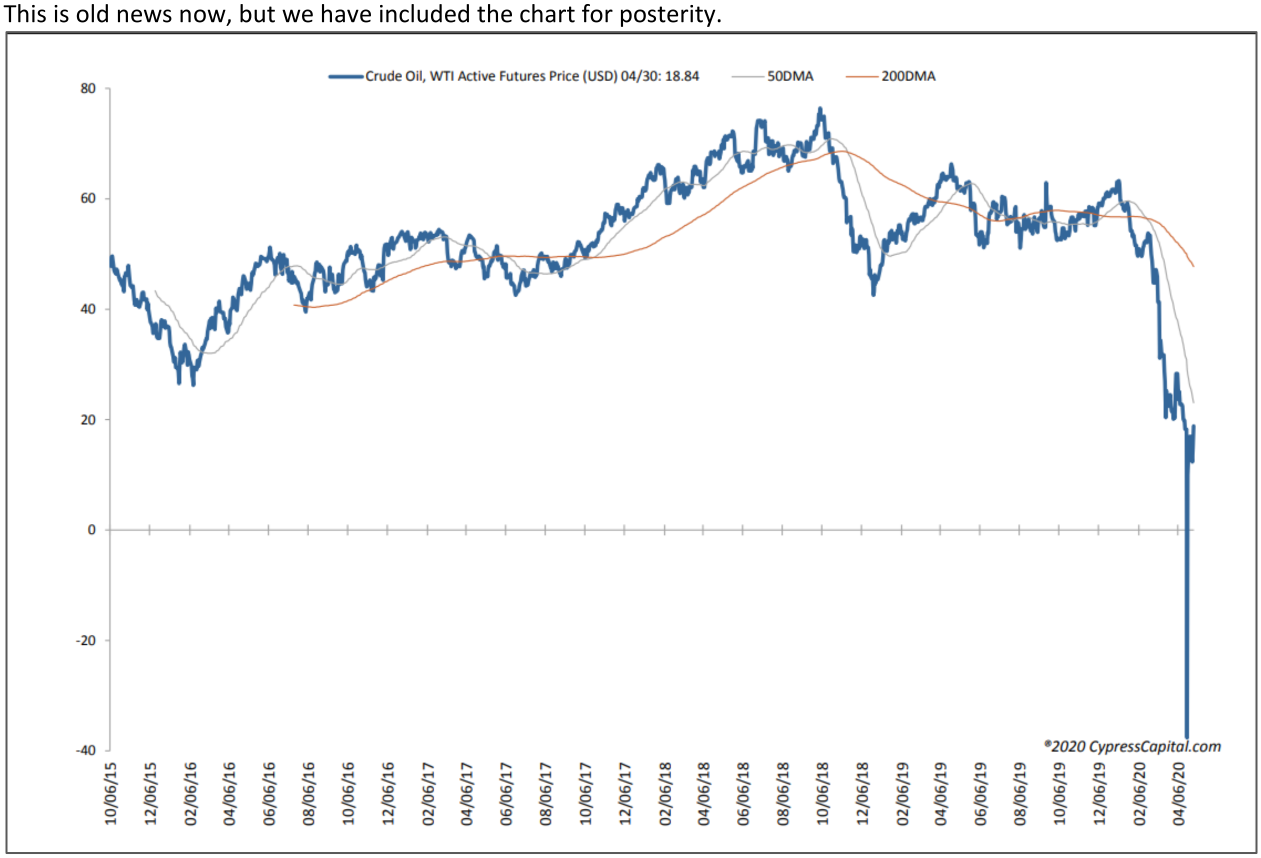
The elimination of retail commissions is a big driver, but March saw a lot of speculation by small retail investors in stocks and a surge in popularity of the oil futures tracking ETF USO, among other glamour stocks.



Source: SentimentTrader.com

Crude Oil Futures go negative

This is old news now, but we have included the chart for posterity.



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.