



Market Outlook

By Mark T Dodson, CFA

Banks Tighten Lending Standards

FAAAM pushes NASDAQ to NYSE Volume Indicator to 25Yr Highs

Market Risk ticked up, but enough of the wall of worry remains from the March decline to keep MRI in neutral territory. Psychology continued to move, just a little, in the direction of euphoria, but valuations were responsible for most of the deterioration to MRI this week.

Within psychology, our NASDAQ to NYSE volume indicator, an indication of short-term enthusiasm, shot to the highest level in over 25 years, as a result of narrow, frothy FAAAM stock leadership in US equities. Bank sentiment deteriorated as well. Banks are tightening lending standards by the largest amount since the 2008 recession.

All of this was offset by a surprise jump in bearishness in the AAI investor survey, a casualty of the recession, as it is more common for that survey to stay stalled in bearishness during recessions and bear markets than it is during bull markets. A lot occurred under the surface with the psychology composite but with little movement in aggregate.

Valuations continued to push higher, and valuations are not far from the bull market peak, which as we keep score was the second most overvalued bull market in US history. During a time when history says that cap-weighted US stock indices should be on sale, they are not. It is tempting to look at the year to date performance of the stock market and conclude that the worst has passed, but that's how bear markets work. At the end of the first bear market rally in 2008 that ended in May, the S&P 500 was down 2 percent year to date.

Admittedly, this might be the most unusual market we have ever witnessed. We see pockets of frothy valuations and hear stories of Robinhood investors and Millennials chasing glamour stocks and going long oil with fervor. Meanwhile, older investors, as measured by AAI, are hardened from a couple of really bad bear markets over the last 20yrs and are cautious as the most obvious recession in history unfolds in front of us.

We see lots of over-indebted zombie companies teetering on the edge of solvency and staggering amounts of government stimulus at the ready to help, which instead seems to find its way back into the pushing the largest, glamour stocks higher. Value has been declared dead, and instead of being declared America's hero during a trying time for America, Warren Buffett spent much of the week getting picked on for

Market Risk Index

Neutral

51.4%

Category Percentiles

Psychology - P3



Monetary - M4



Valuation - Extremely Overvalued



Trend - Vulnerable



Largest Psychology Influences

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

Largest Monetary Influences

| | |
|---------------------|----------|
| Velocity | Negative |
| Monetary Aggregates | Negative |
| Yield Curve | Negative |

Valuation

| | |
|-----------------------------|------|
| 7-10 Year Rtn Forecast | 2.6% |
| 10Yr Treas Yield (on 05/07) | 0.7% |

Price Trends

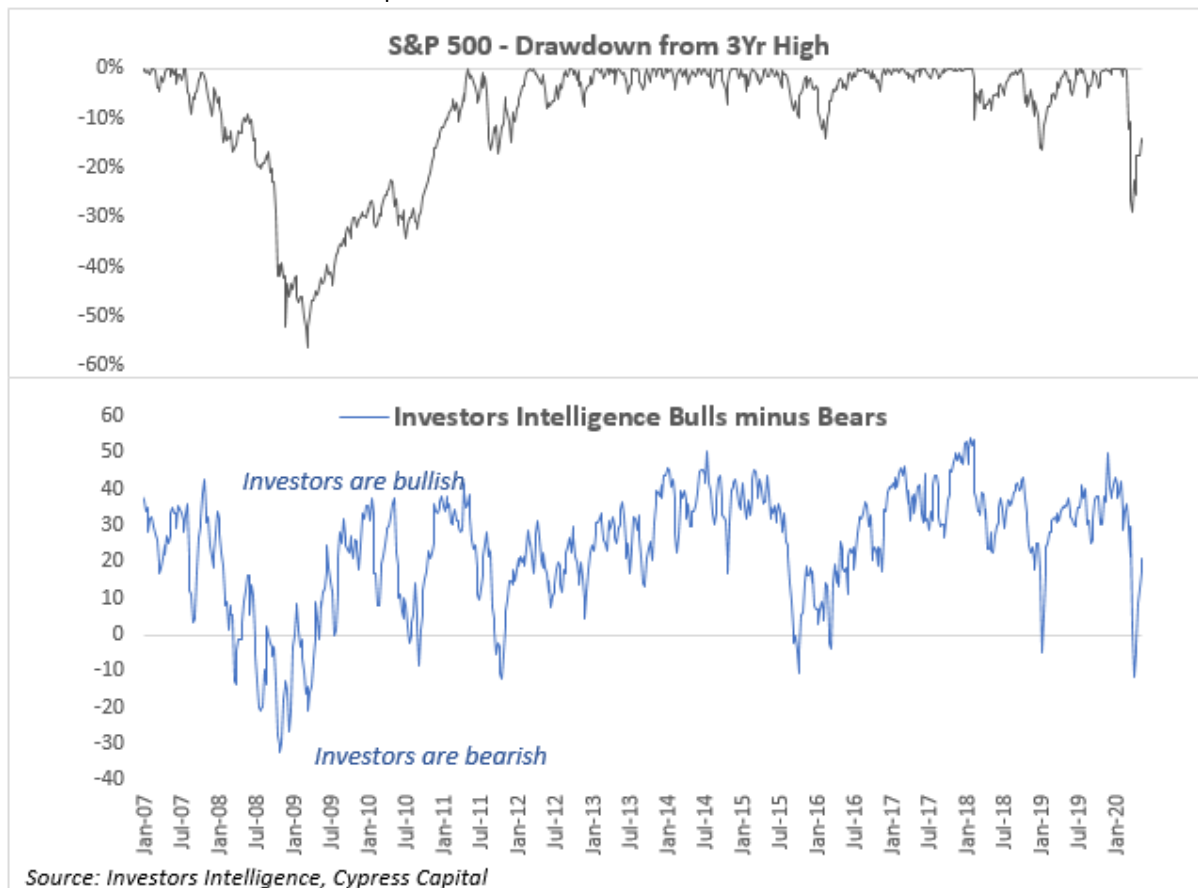
| | |
|-------------------|----------|
| US Equities | Positive |
| Intl Equities | Negative |
| REITs | Negative |
| Broad Commodities | Negative |

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.

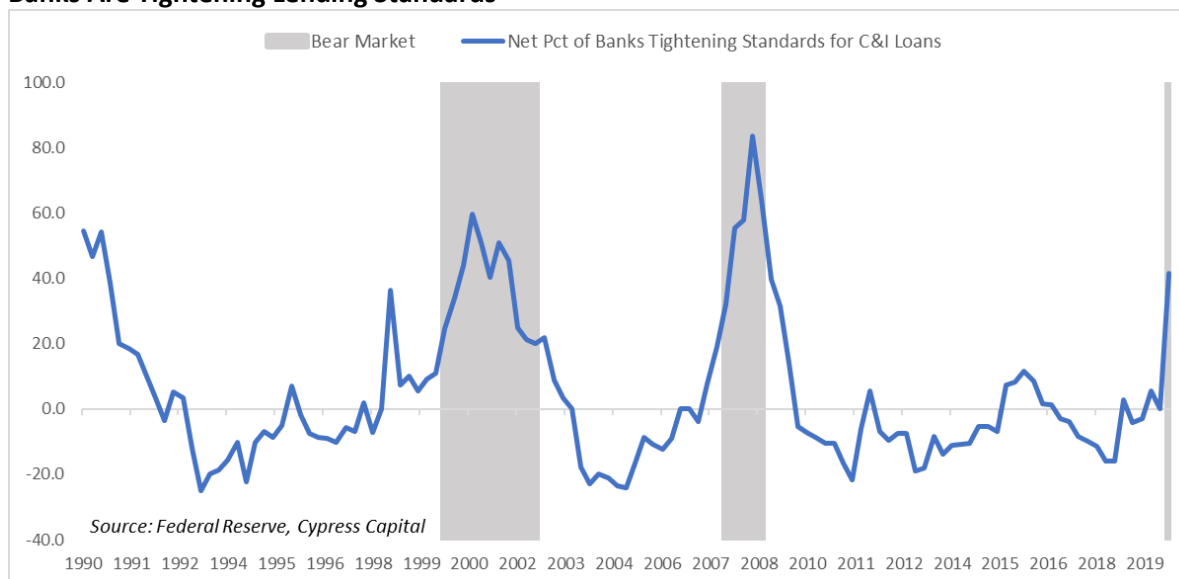
sounding too cautious over the weekend and not buying up shares of Netflix on its March decline. To be able to make perfectly legitimate comparisons to the Great Depression and the Dot Com Bubble simultaneously is astounding. Bravo, Mr. Market – you have surprised us all again.

Investors Intelligence Rebounds

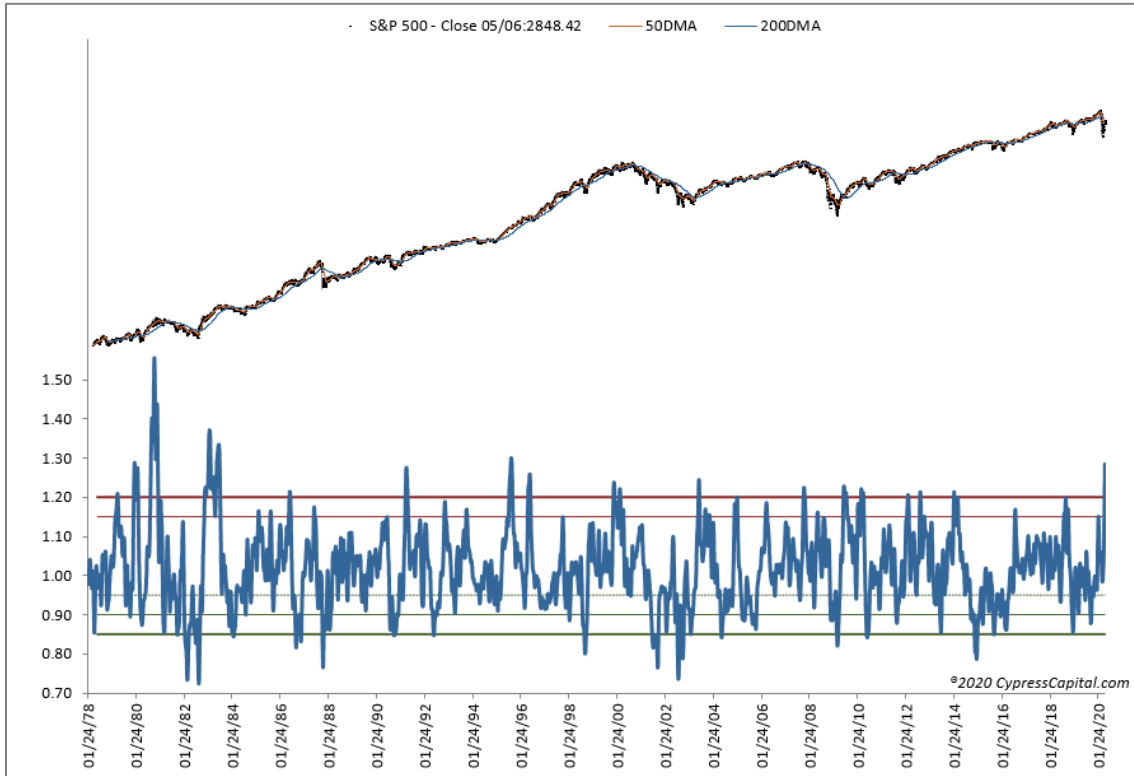
In the 50+ year history of this survey, bear market rallies have fizzled anywhere between 16% and 32% net bulls. We hit 21% this week. The 2008 bear market was the low end for the survey, as the bear market rally that ended in May 2008 coincided with 16.5% in net bullish percent.



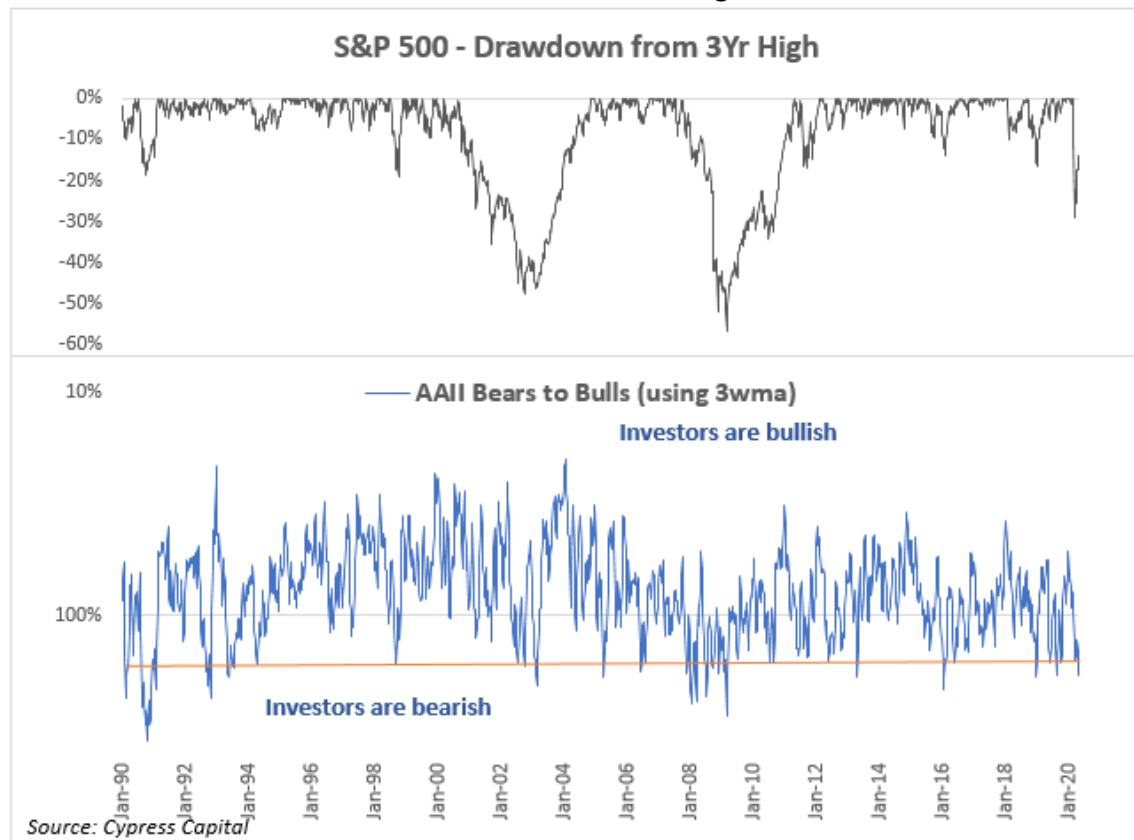
Banks Are Tightening Lending Standards



NASDAQ to NYSE Volume Indicator – Highest Reading Since 1995

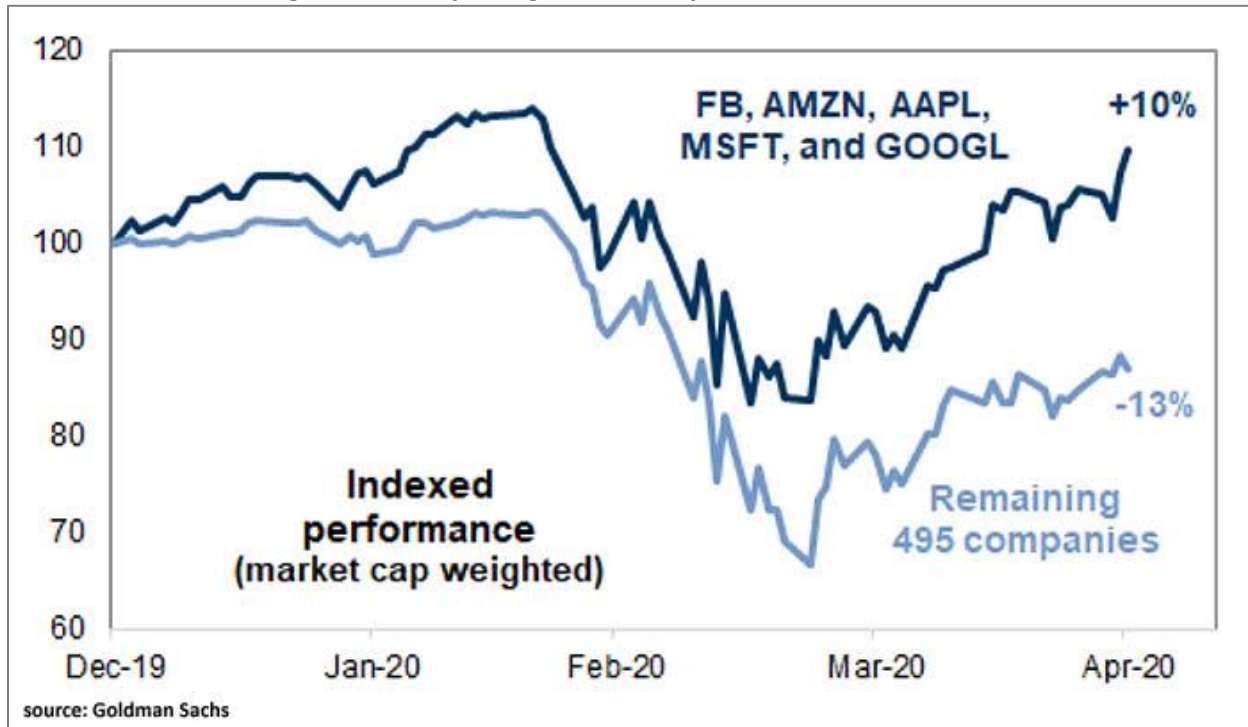


AAll Investor Sentiment – Individual Investors continue to grow more bearish



Source: Cypress Capital

FAAAM stocks are doing all the heavy lifting domestically

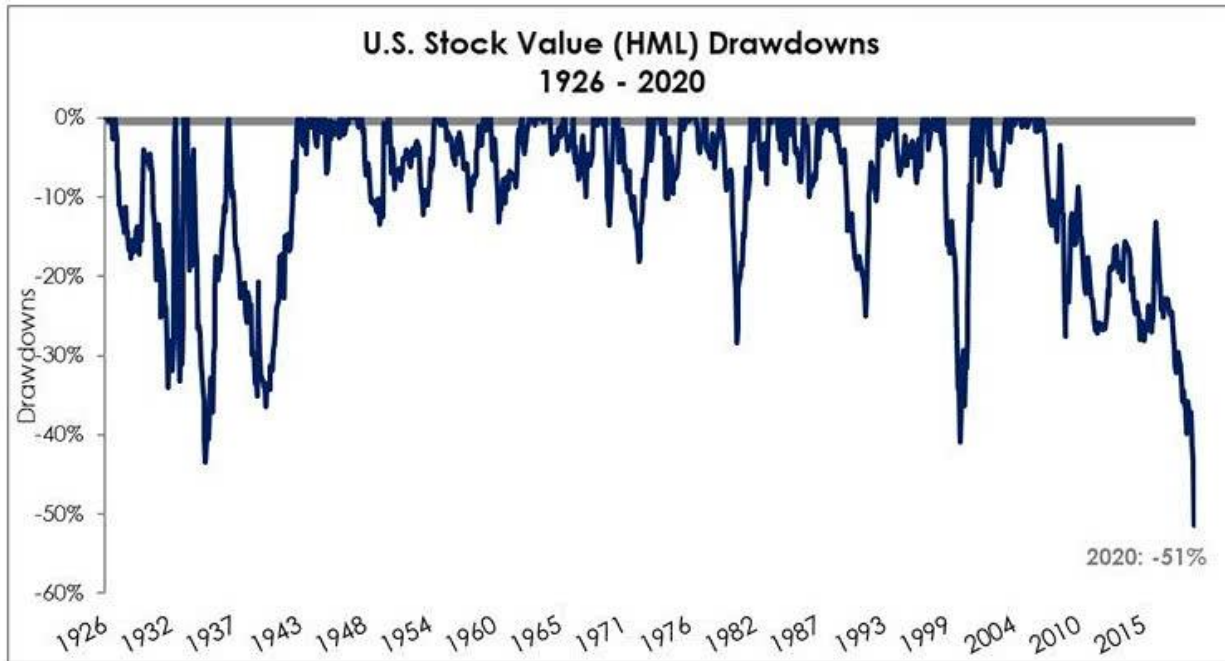


And, FAAAM stocks are doing all the heavy lifting globally



Value Factor Underperformance

The value factor drawdown in 2020 was the worst on record.



...Causing Growth stocks to be priced at 12X the level of Value Stocks

If value isn't dead, it's poised for a monster resurgence.

Price-to-Book Spread, Academic Style

December 31, 1967 - March 31, 2020

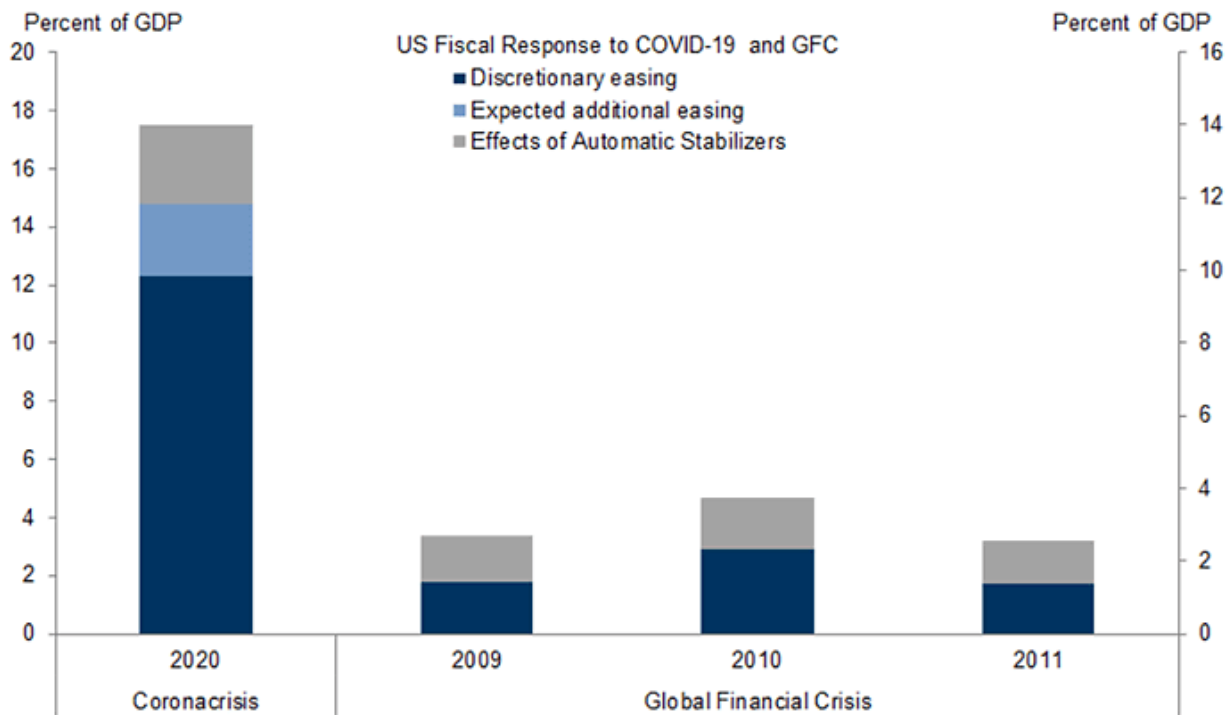


Source: AQR, CRSP, XPressFeed. Please see Appendix for more detail on data and assumptions. For illustrative purposes only and not representative of any portfolio that AQR currently manages. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

Lots of Money Getting Thrown at the Economy

We insist on rigorous testing protocols for vaccines. For Modern Monetary Theory, we just roll with it - live in real time.

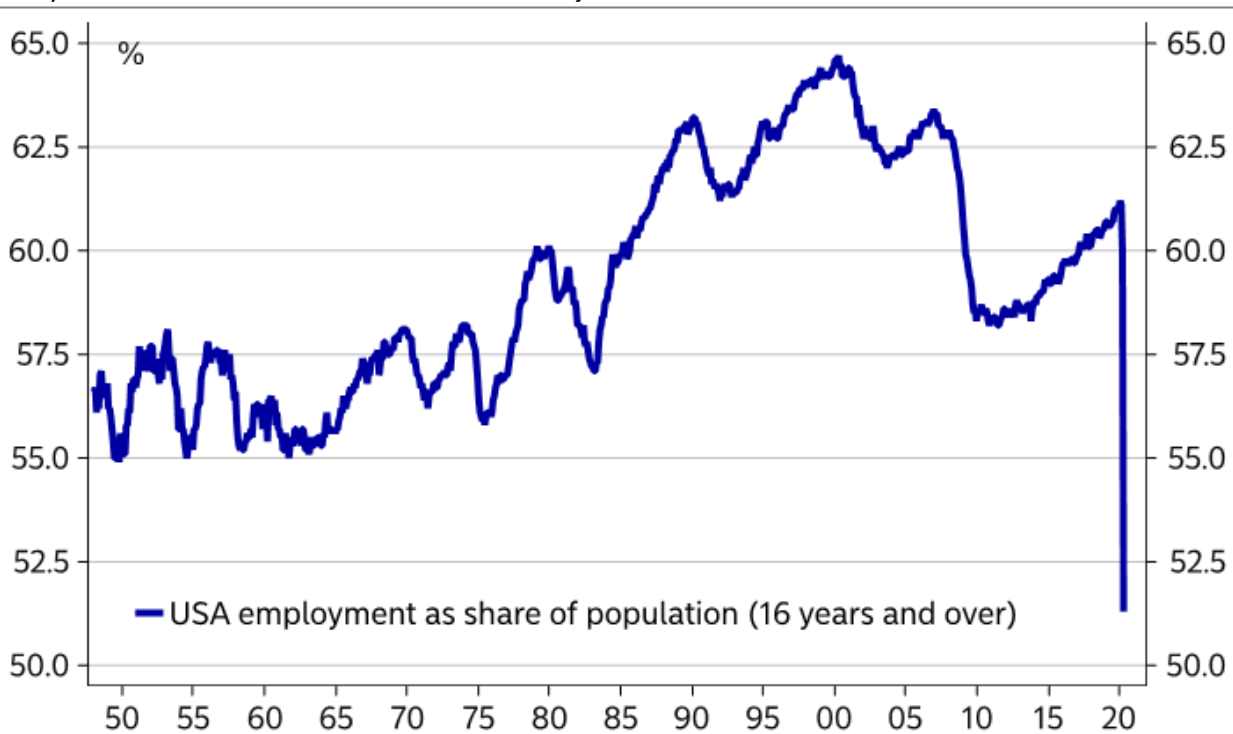
Exhibit 1: The Fiscal Response in 2020 Has Been Swift and Powerful



Source: Congressional Budget Office, IMF, Goldman Sachs Global Investment Research

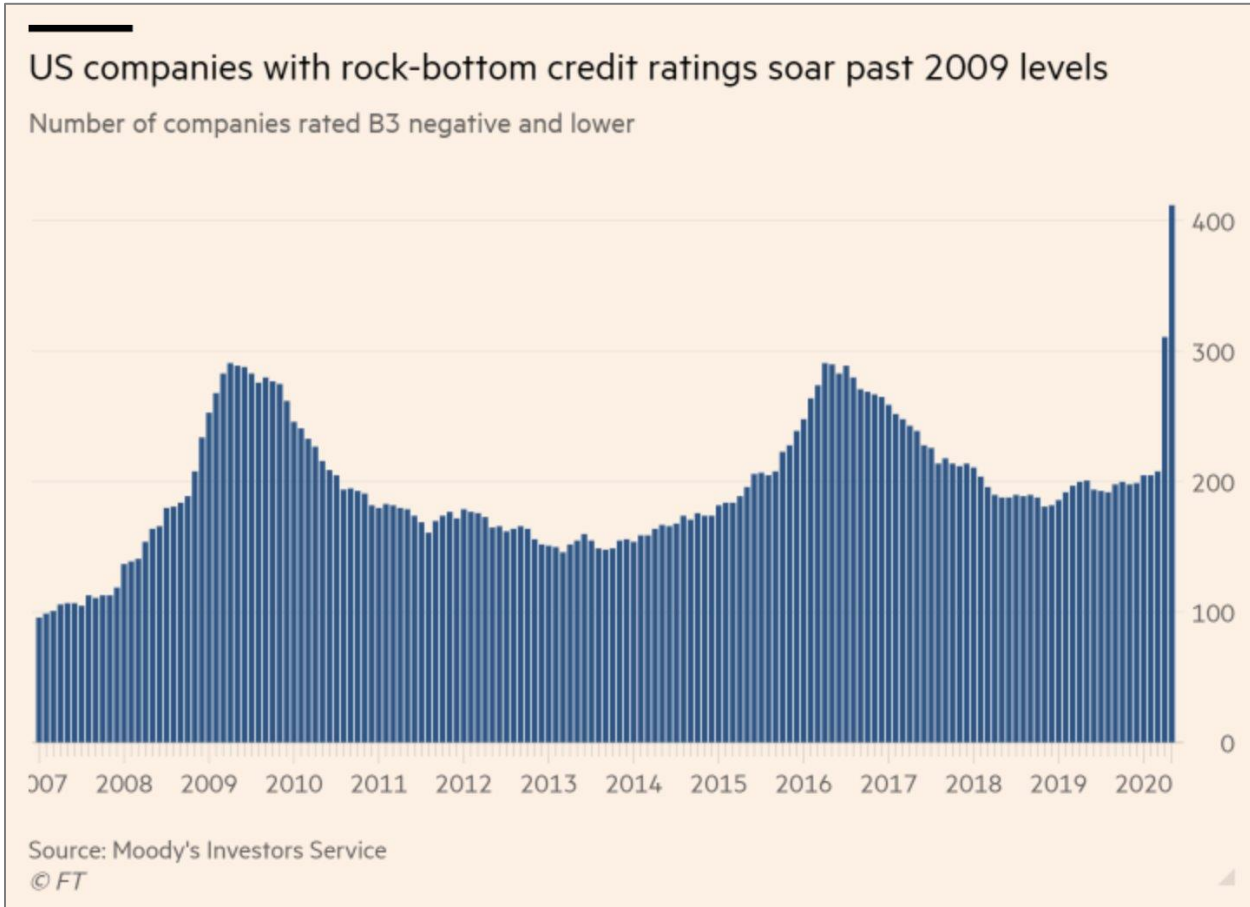
Employment as a Share of Population

Nearly one in two Americans does not work or have a job – wow.

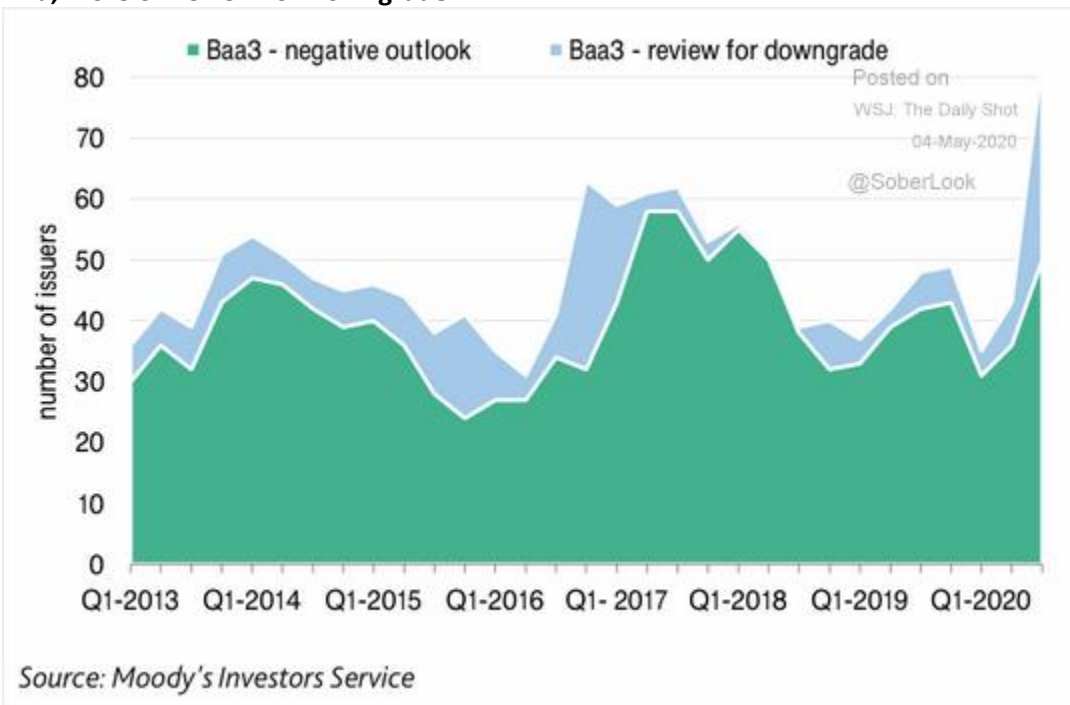


Source: Macrobond and Nordea

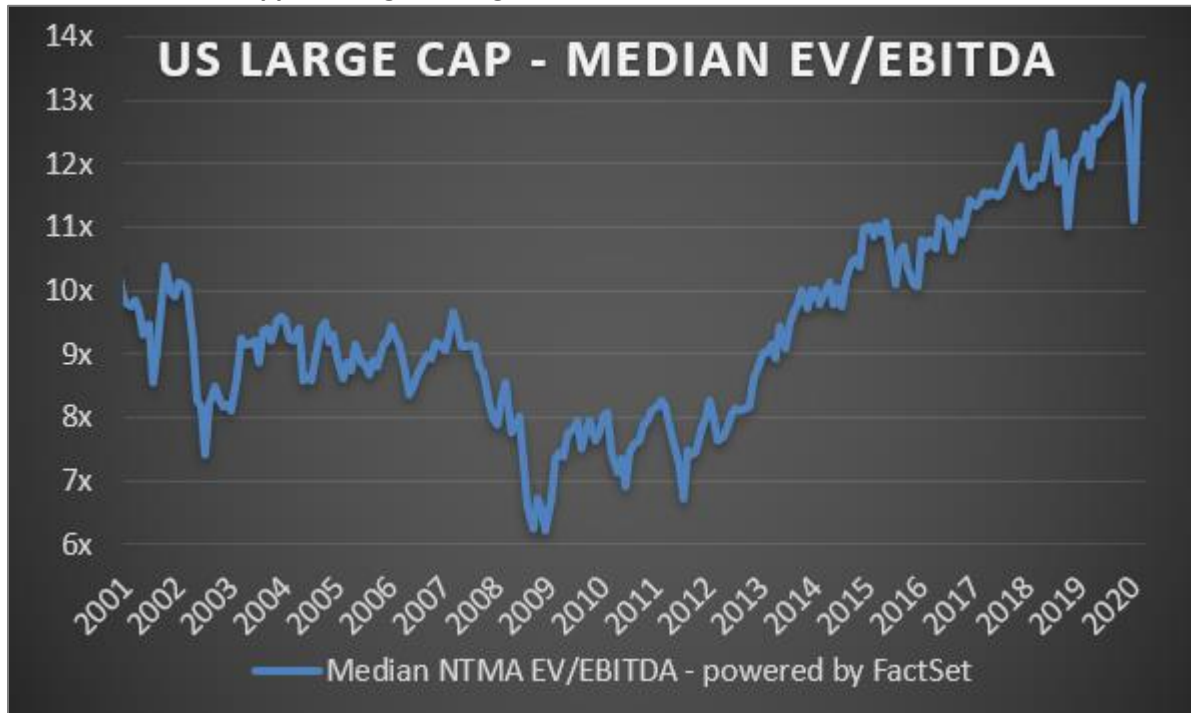
US Companies with Poor Credit Ratings



And, more on review for Downgrade



Median Valuations Approaching New Highs



Growth to Value Surging Like It's 1999



Long/Short Hedge Fund Net Equity Exposure Back to 2018 Levels

Net Exposure – Equity L/S Funds



Exhibit 3: Net Equity Exposure for ELS Funds Globally on CS Prime Services platform through Apr 30th, 2020. Source: CS Prime Services Risk Advisory

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.