Cypress CAPITAL

Market Outlook

By Mark T Dodson, CFA

Generational Gap in Sentiment

Odds that the first bear rally ended went higher this week

Market Risk Market Risk Index moved to 58.1% this week on deterioration in psychology and valuation. The daily psychology readings started to improve mid-week as market volatility picked up, and the daily point total hit its worst readings on April 29th and has started moving back the other way. This rollover in psychology has increased the odds that the first bear market rally has ended.

Some interesting data were released this week that show a divergence in attitudes toward stocks by generations and even by investor status – professional or individual. Older generations of investors are more cautious, having experienced two brutal bear markets and a housing bubble over the last 20 years, where younger investors are not only more bullish, they have embraced trying to catch the falling knives in March. As Buffett announced he had used the market's strength off the March lows to liquidate his airline holdings, these younger investors have been piling in, hoping for a lottery ticket.

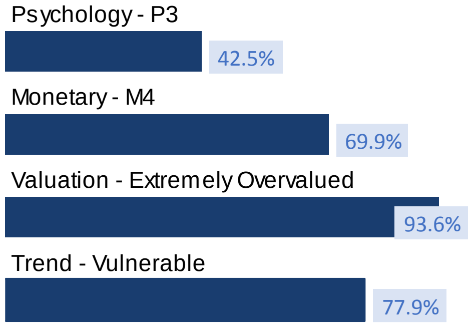
International and small cap valuations notwithstanding, broad cap-weighted US valuations are still pushing close to end of bull market levels. Accompanied by rapidly deteriorating fundamentals, some are challenging the 2000s, which is extreme for a bull market but a new paradigm for equities within such a severe recession. With valuations where they are and what looks like a nascent shift in psychology, we are comfortable with our cautious stance. Because we've quantified it back to 1970, we can highlight that we've never seen a bear market bottom without the Market Risk Index hitting sub 20% readings, and in 100 years of market history, there has never been a bear market that bottomed where valuations were at the end of March.

Market Risk Index

Neutral

58.1%

Category Percentiles



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	2.8%
10Yr Treas Yield (on 05/14)	0.6%

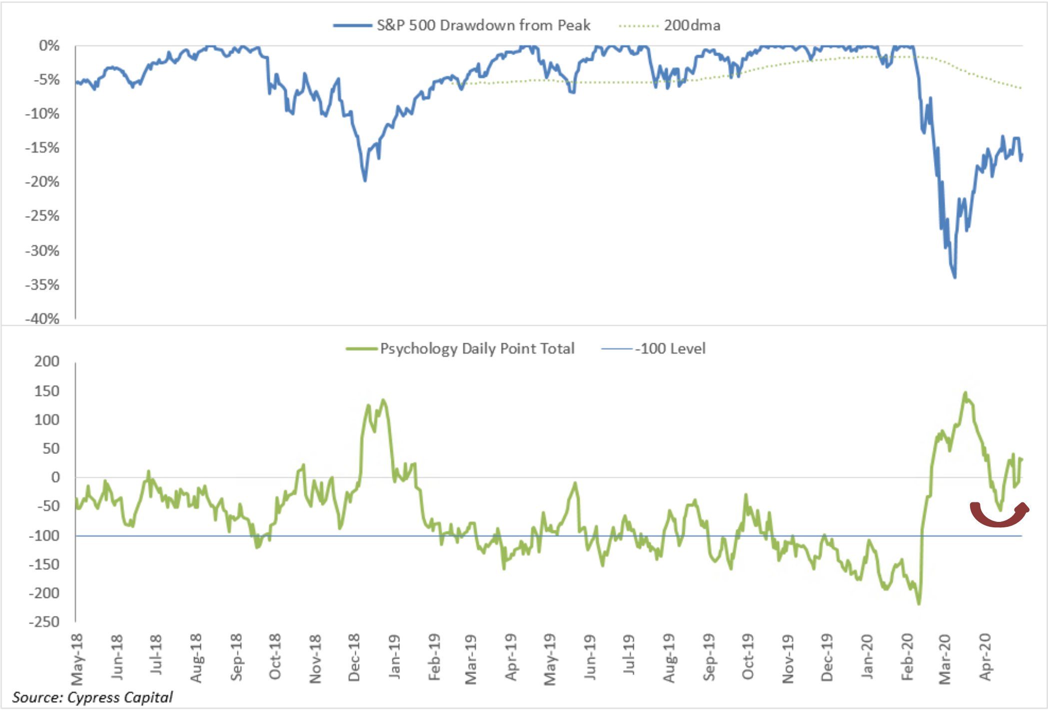
Price Trends

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.

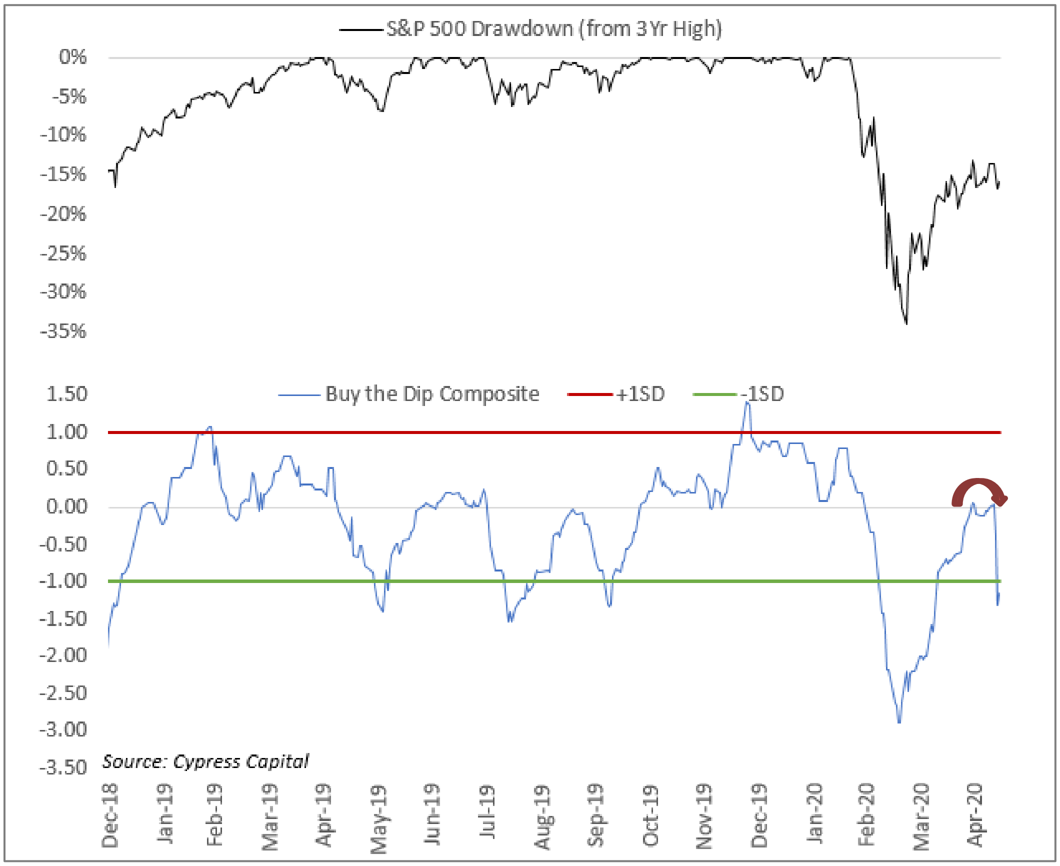
Daily Psychology Point Total

Our daily psychology readings hit their most euphoric on April 29th and have since rolled over. Because it is unusual to see a break like this without a regime change, this increases the odds that the first bear market rally has ended.



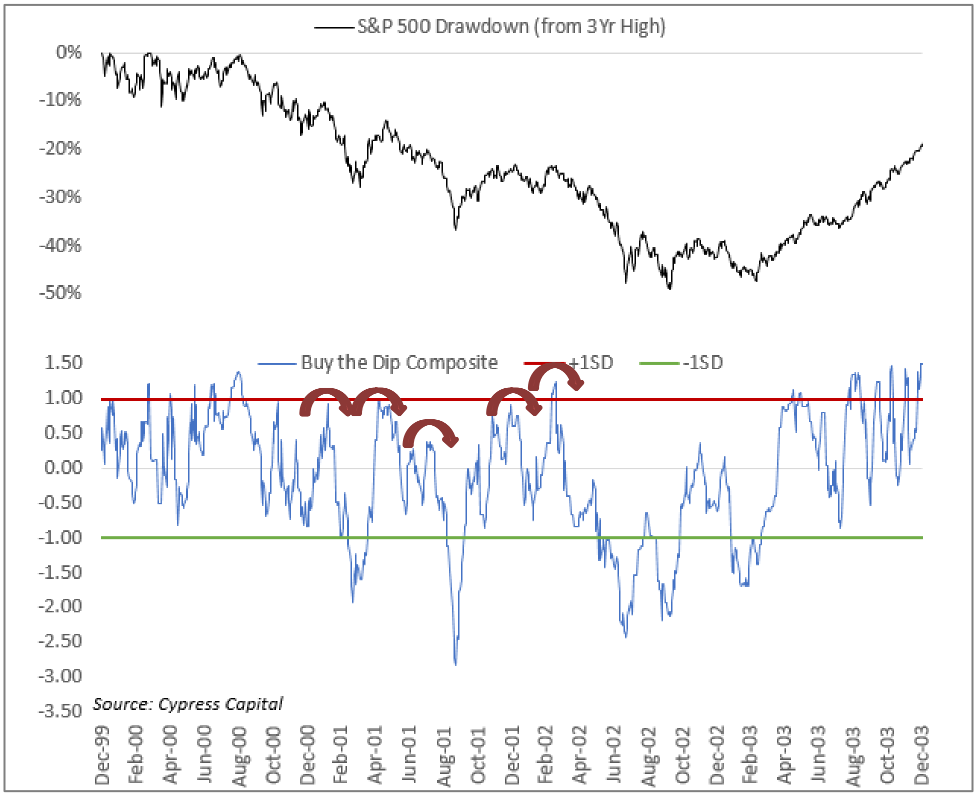
Buy the Dip Composite

This composite, which is made up of a handful of our timelier short term sentiment indicators, peaked on April 29th and again last week and has since rolled over.



Buy the Dip Composite – 2000 Bear Market

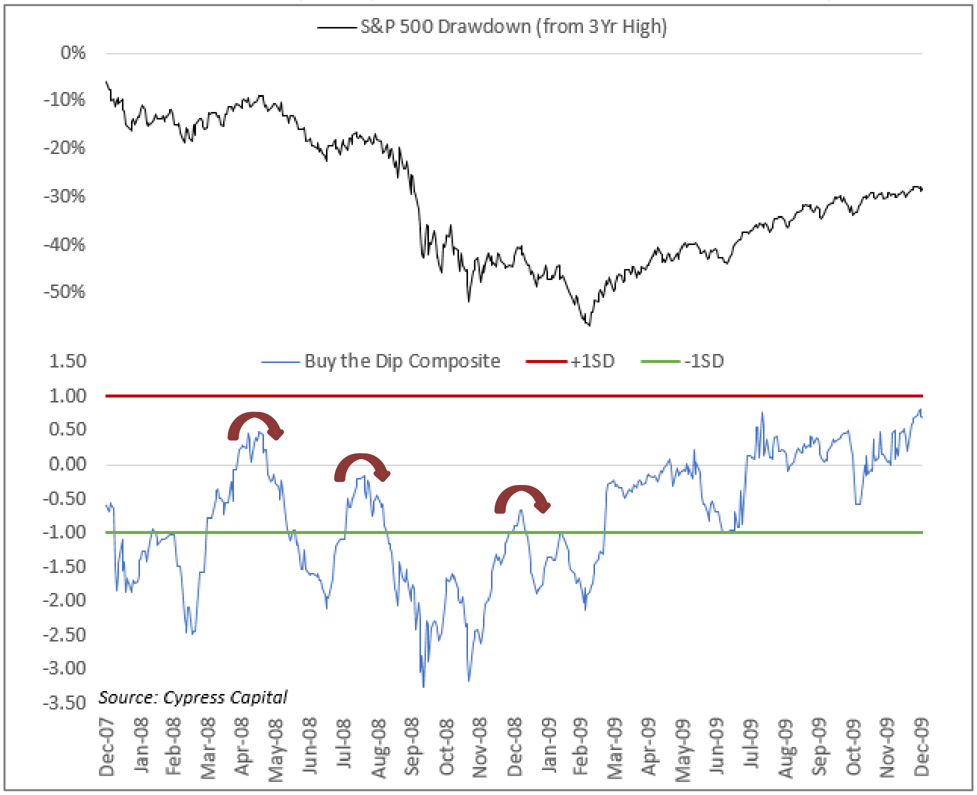
The 2000-2002 bear market saw more enthusiasm during bear market rallies, but by the point that sentiment had rolled back over below 0, it was a good indication that the bear market was about to deliver another blow.



Source: Cypress Capital

Buy the Dip Composite – 2008 Bear Market

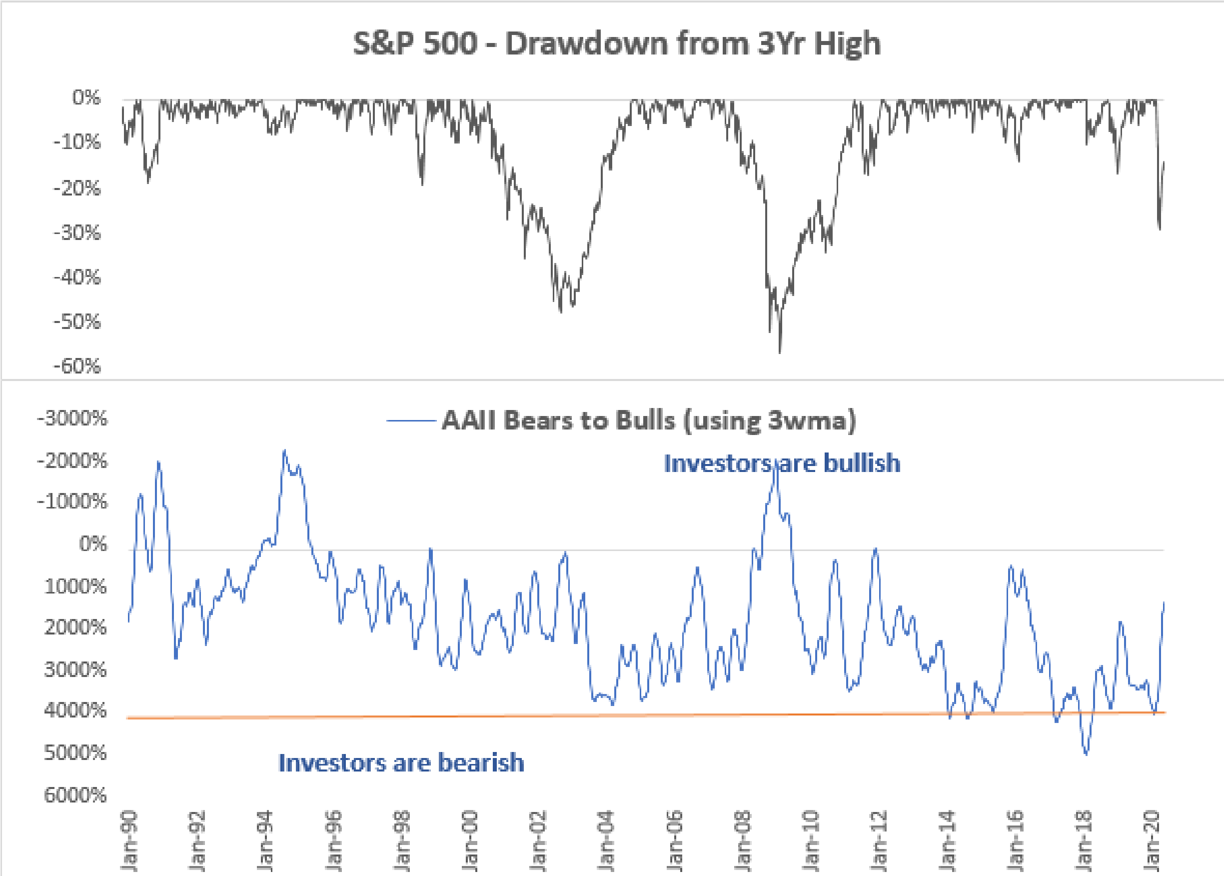
Bear market rallies in the 2008 market did not produce the same enthusiasm as the 2000-02 bear market, but the same rollover in sentiment was again a good indication that sentiment was shifting back toward risk aversion.



Source: Cypress Capital

AAII Investor Sentiment

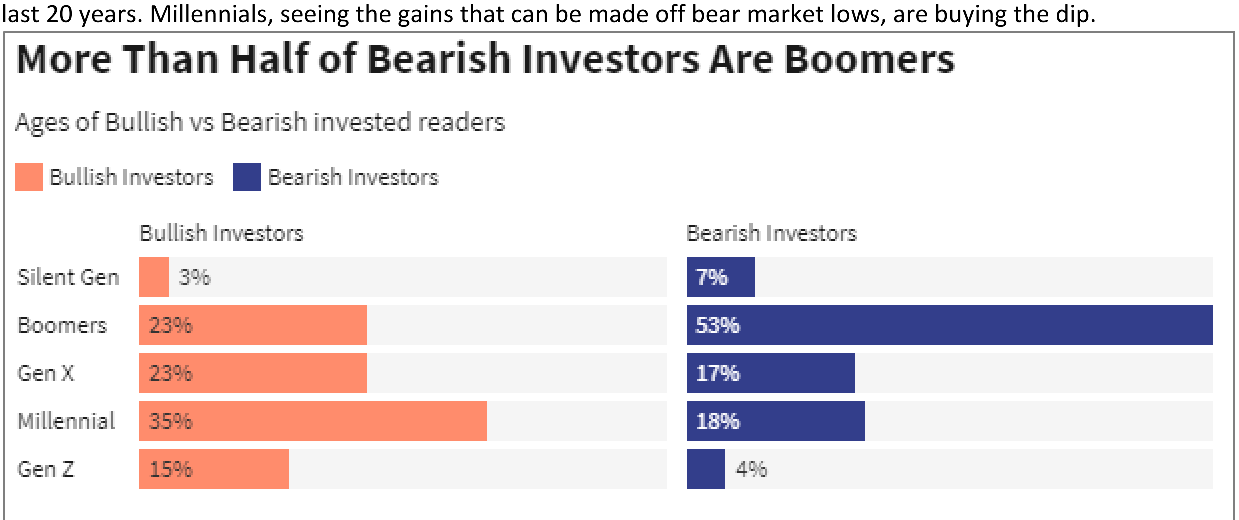
AAII survey worsened again this week and continues to stay mired in bearish readings - par for the course in bear markets.



Source: Cypress Capital

Boomers are bearish - Millennials are Bullish

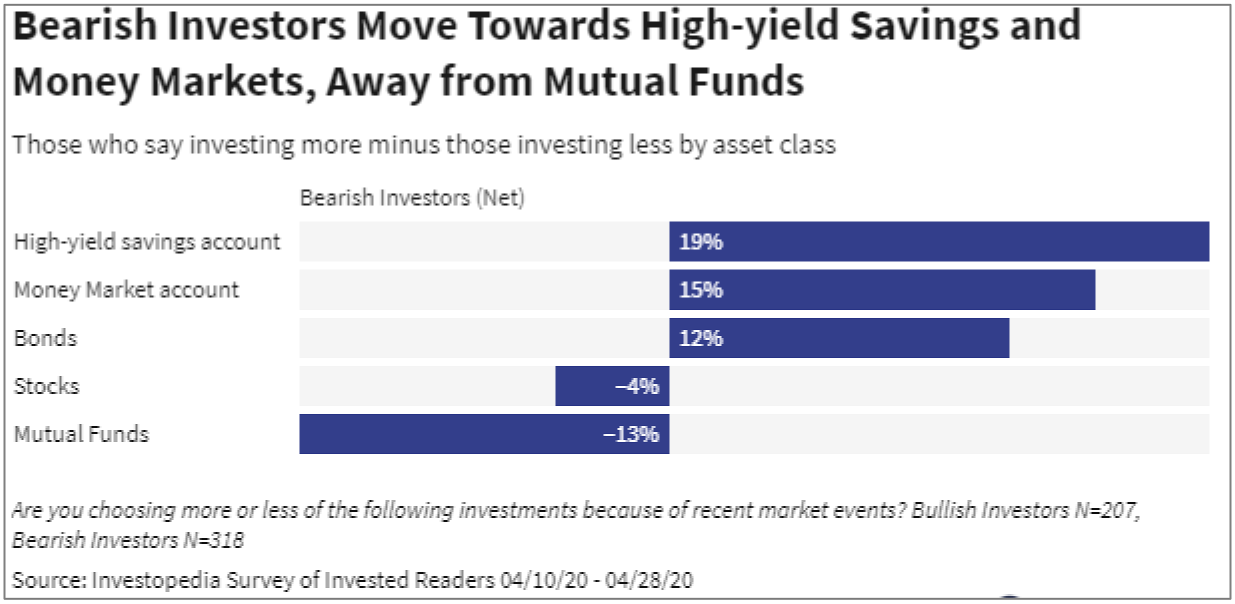
The AAII survey is largely a reflection of Boomer sentiment – hardened by two bear markets and a housing bubble in the last 20 years. Millennials, seeing the gains that can be made off bear market lows, are buying the dip.



Bullish Investors N=207, Bearish Investors N=318

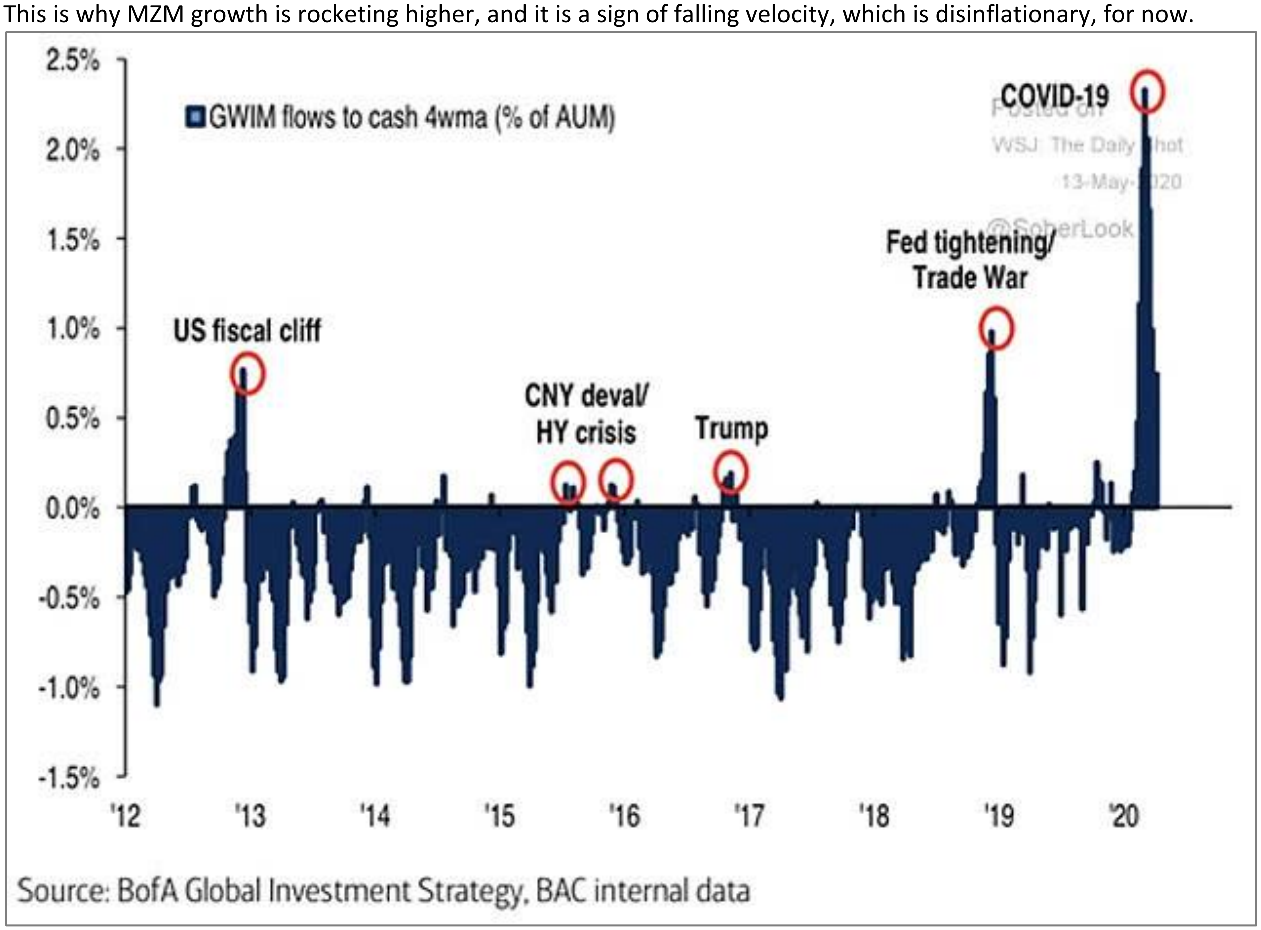
Source: Investopedia Survey of Invested Readers 04/10/20 - 04/28/20

Bearish Boomers are Loading up on Cash

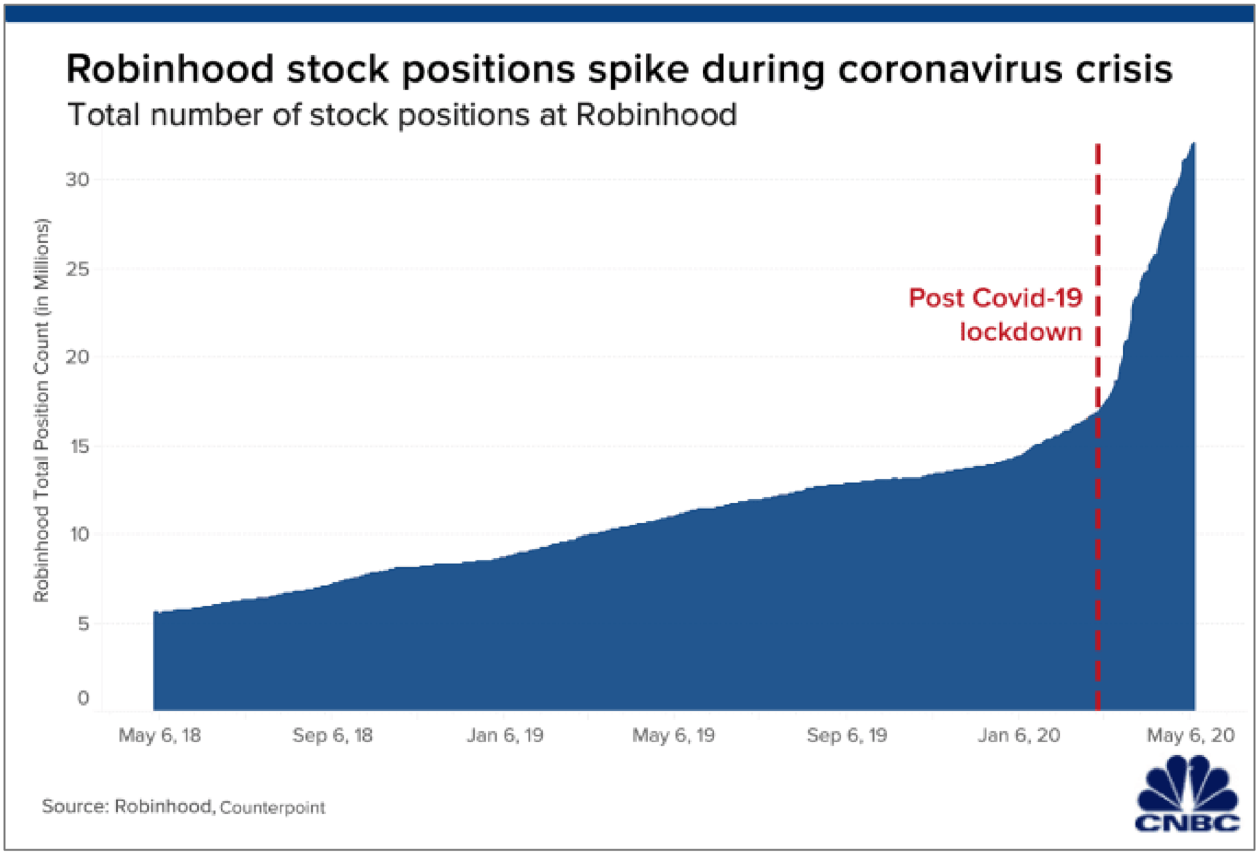


Flows to Cash are Dwarfing Other Economic Crises

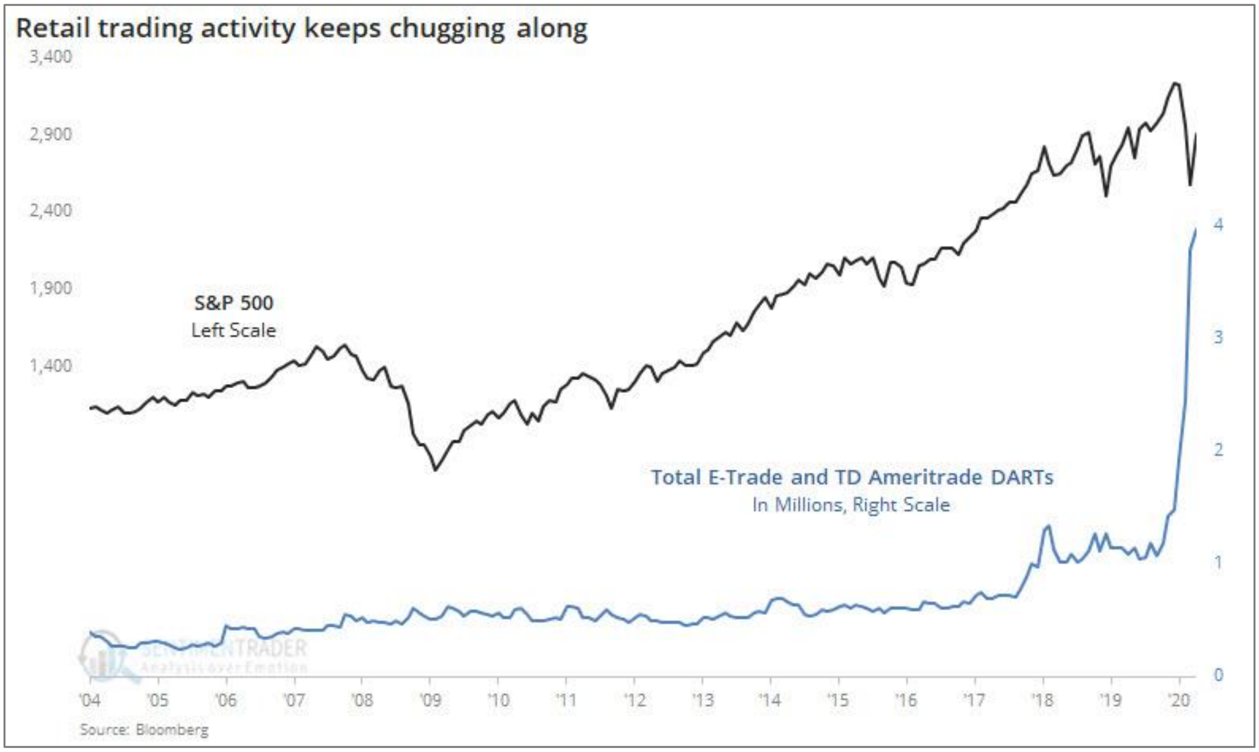
This is why MZM growth is rocketing higher, and it is a sign of falling velocity, which is disinflationary, for now.



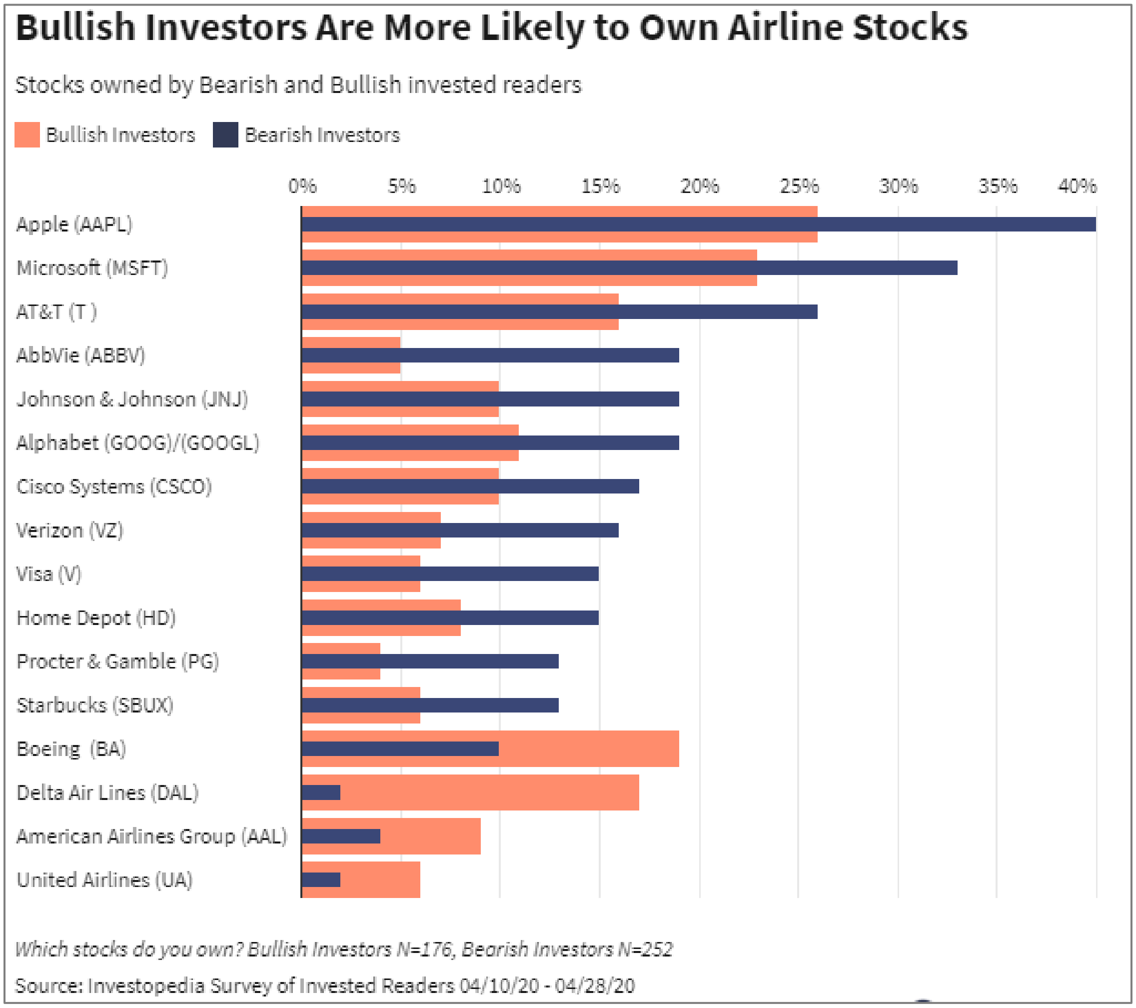
While Boomers have been raising cash, Millennials have been ramping up their Robinhood accounts



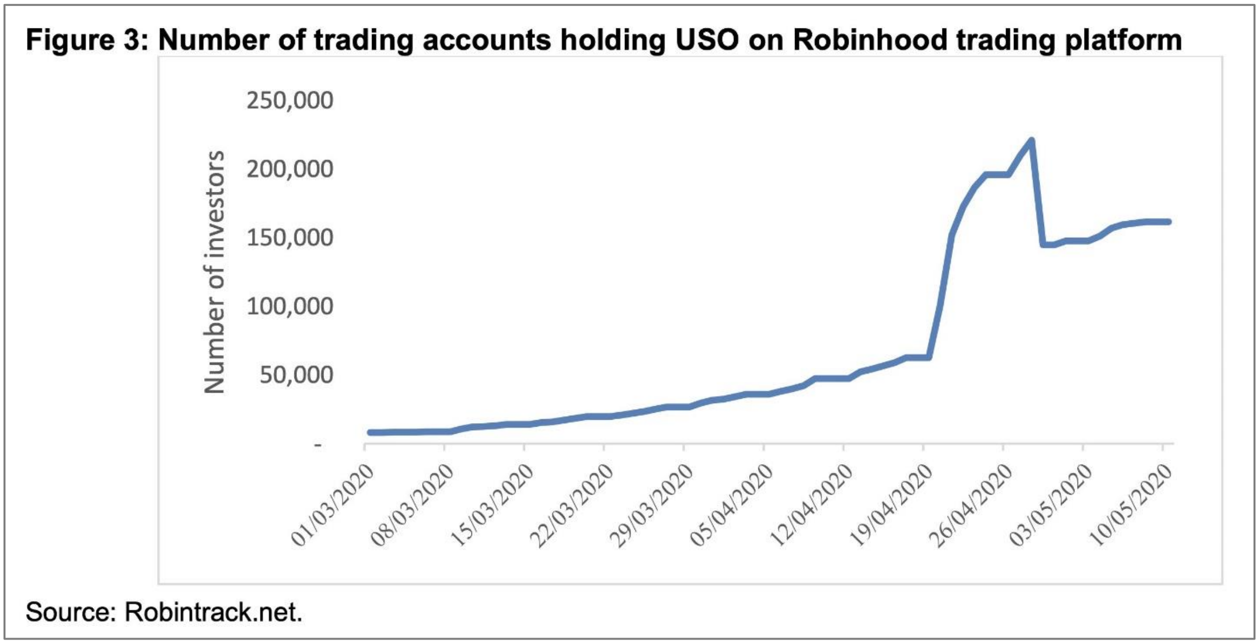
...With zero commissions driving retail trading activity to record highs



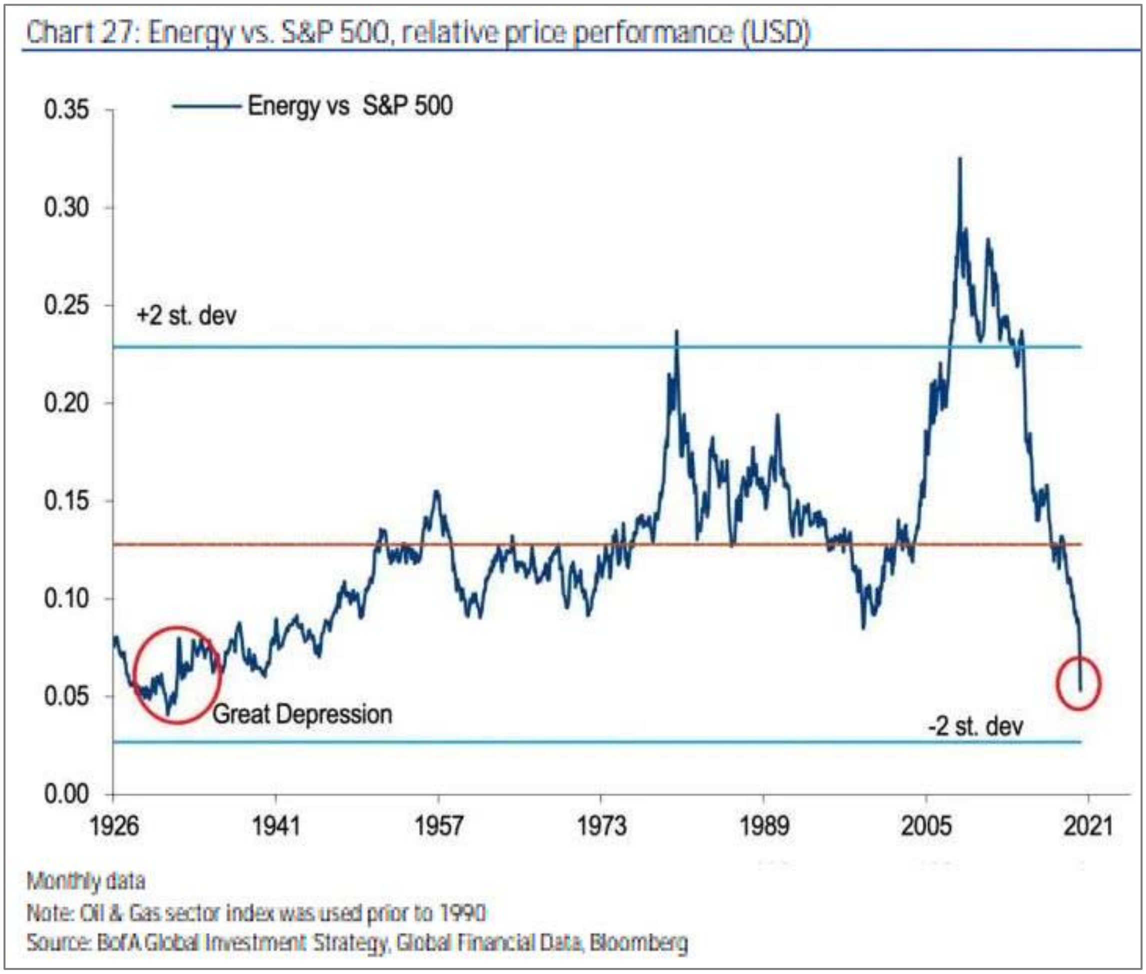
As Warren Buffett was selling all of his airline holdings, and Millennials have been backing up the truck



Millennials are loading up on oil too.

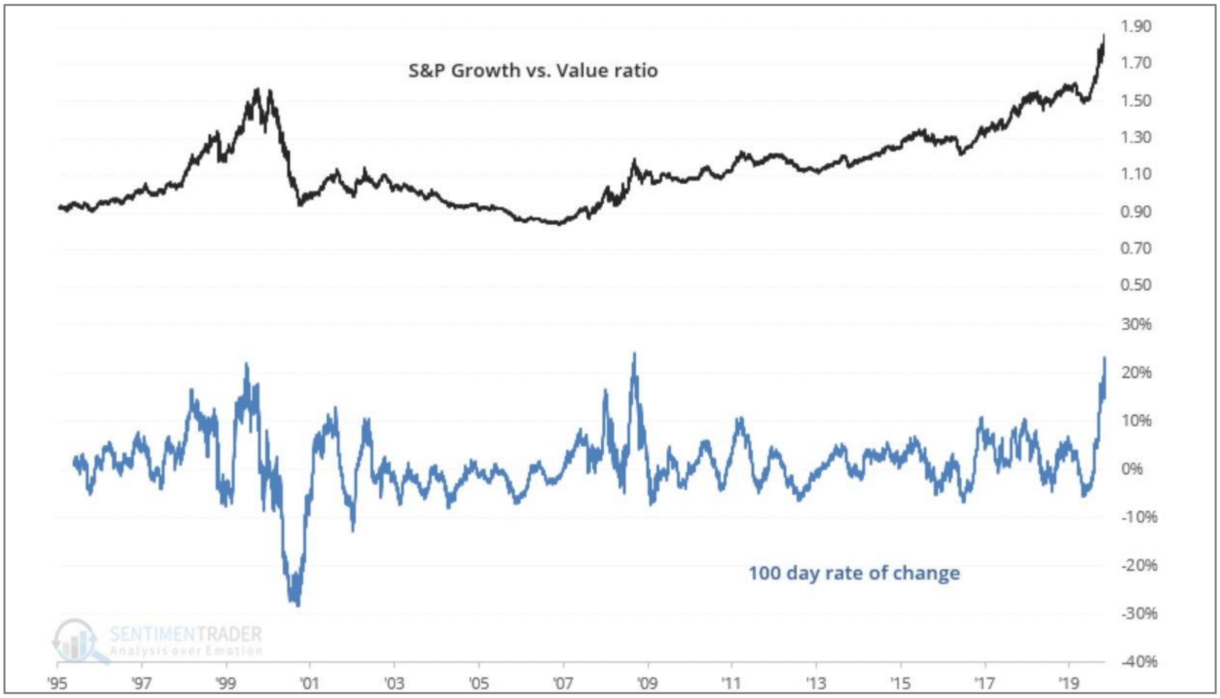


Energy Underperformance Flirting with Hundred Year Lows



Source: Driehaus Capital

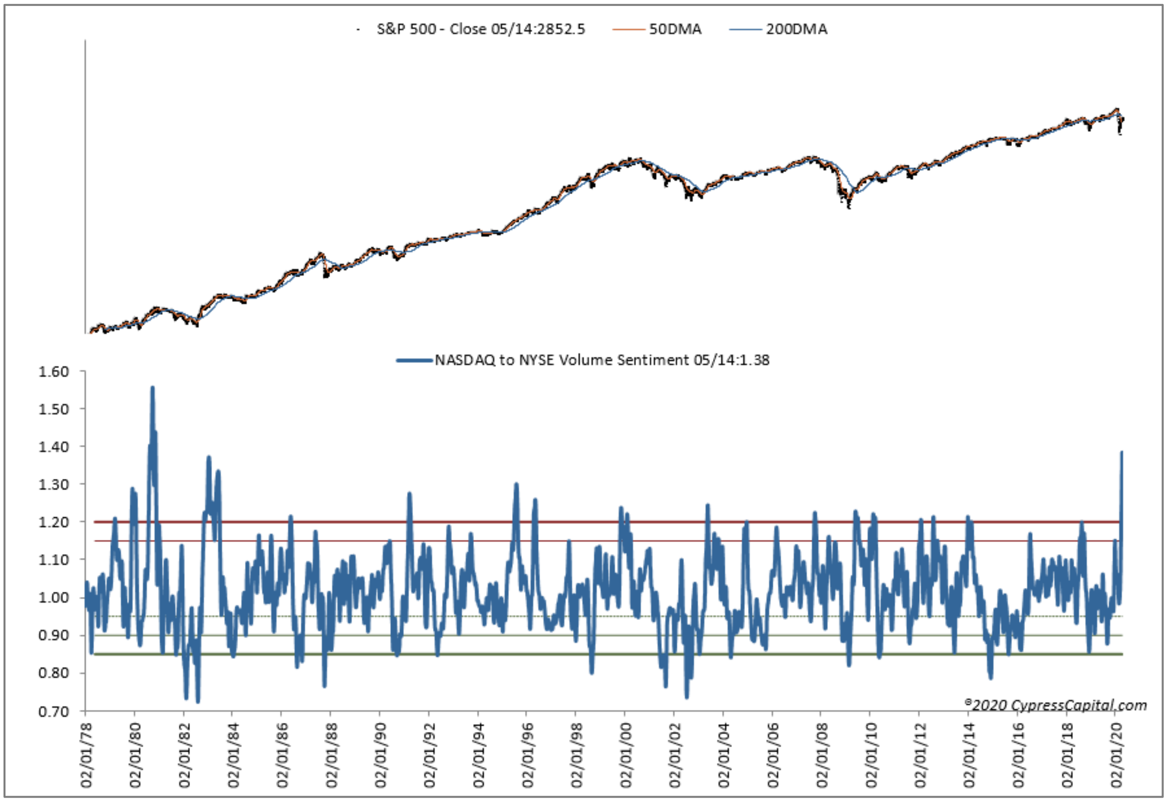
Growth to Value Underperformance Challenging 2000 Records



Source: SentimenTrader

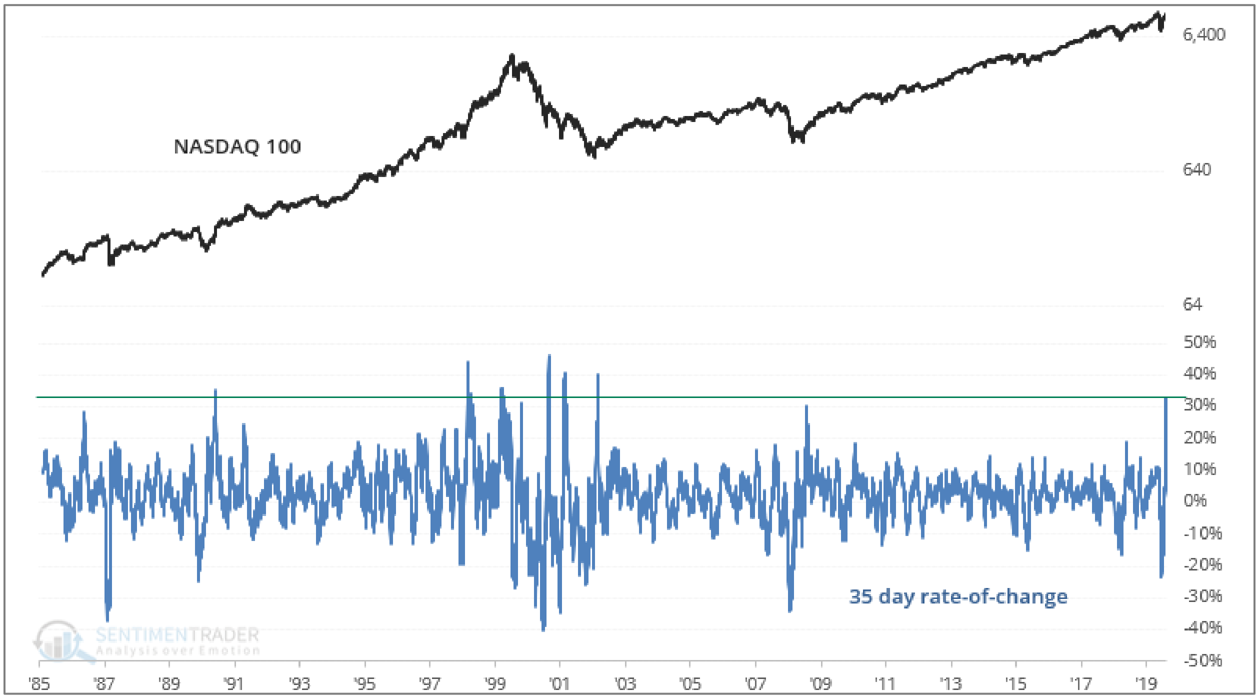
NASDAQ to NYSE Volume Indicator

The NASDAQ to NYSE Volume indicator, a good indication of short-term investor enthusiasm, shot even higher into record territory this week to the highest level since 1983.



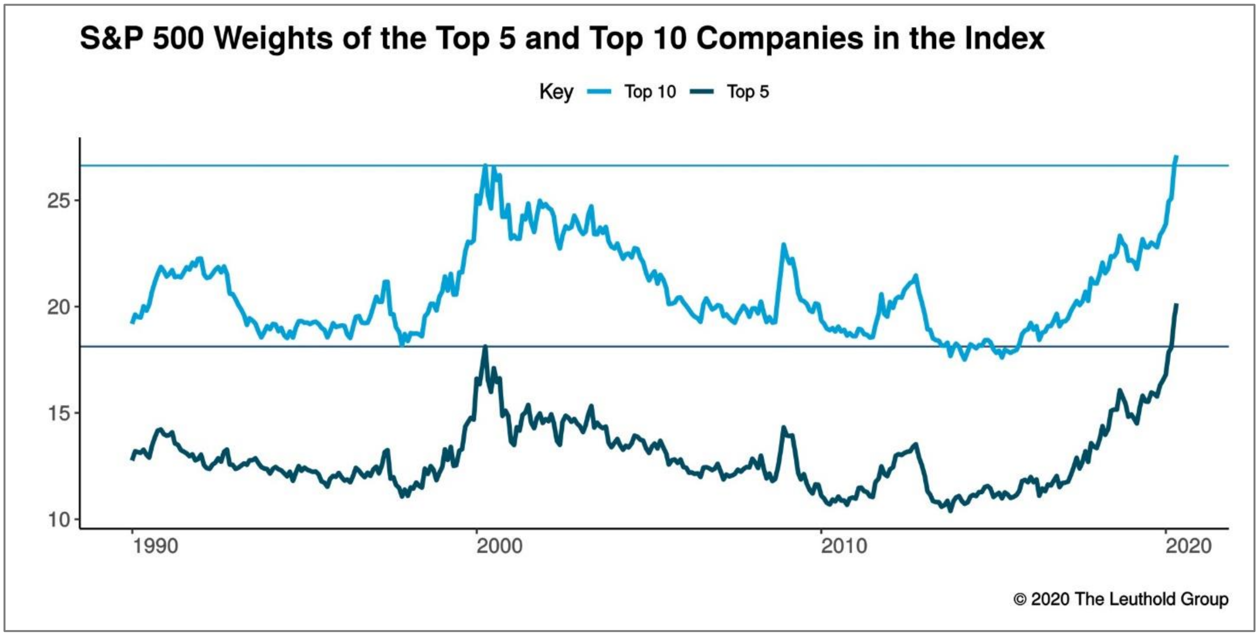
Highest Seven Week Rate of Change in NASDAQ 100 since 2000 era

That record volume spike has pushed NASDAQ stocks higher – to a level that historically leads to short-term underperformance soon after.

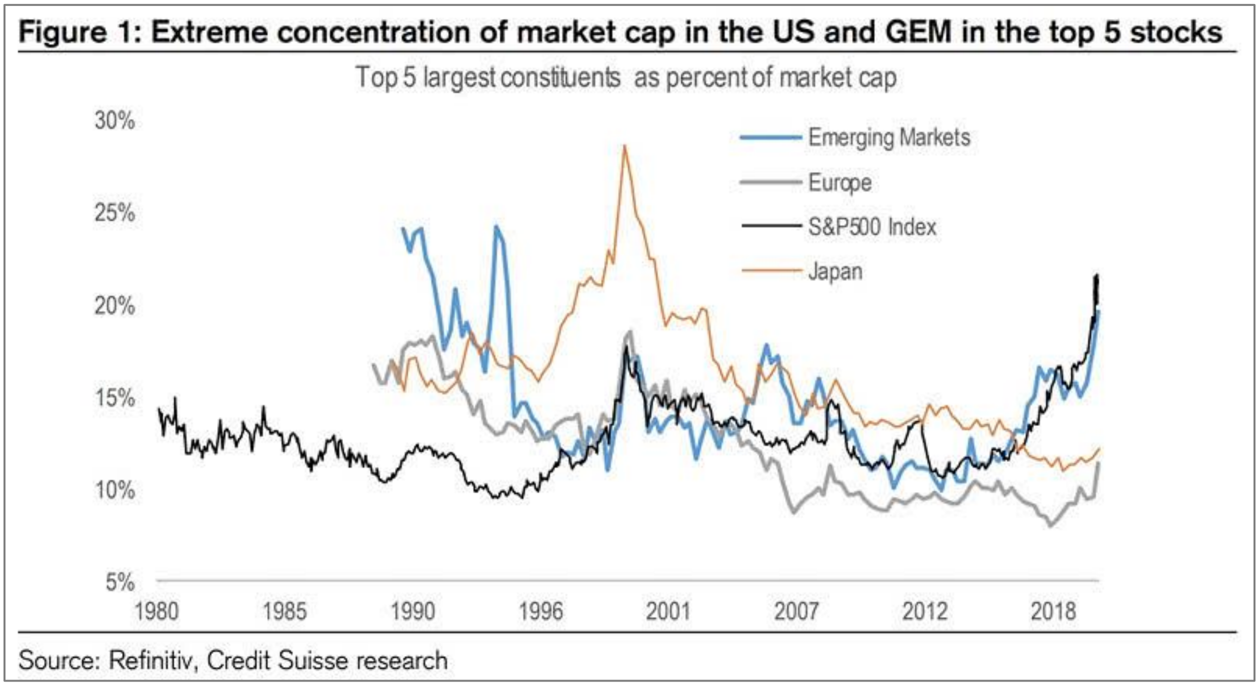


Source: SentimenTrader

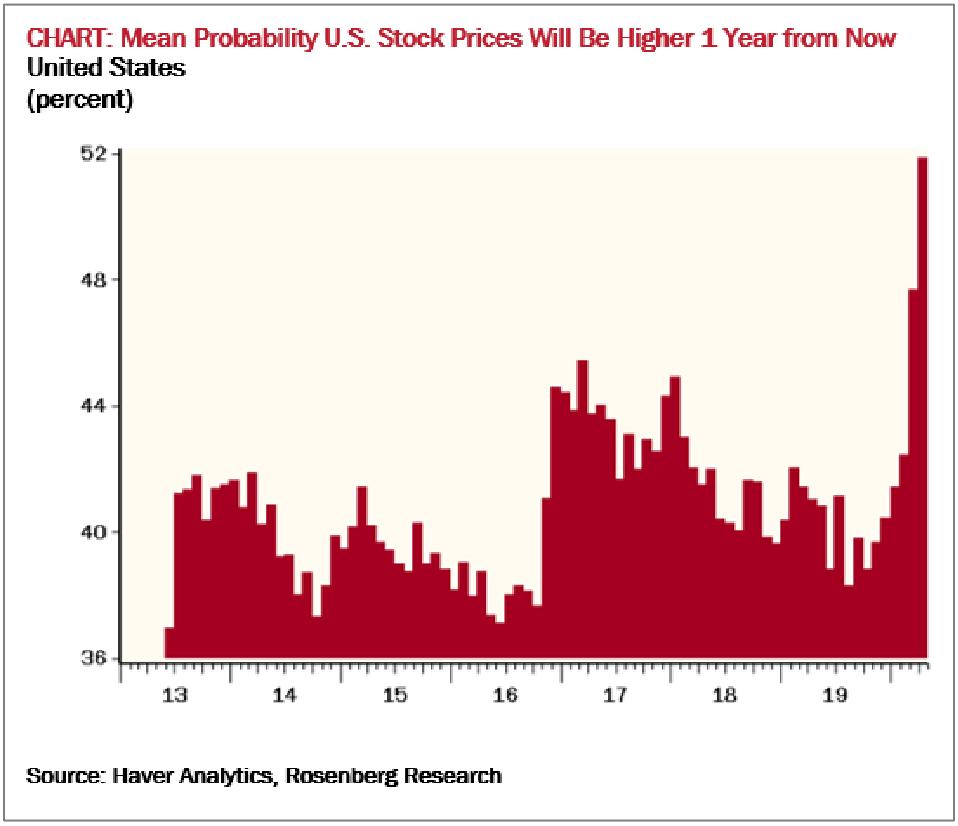
S&P500 More Top Heavy than in 2000



Emerging Markets, while much cheaper, are Top Heavy Too



NY Fed Survey – Surprising spike in Expectations for Higher Stock Prices



Source: NY Fed Consumer Expectation Survey

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.