



Market Outlook

By Mark T Dodson, CFA

ISM Price Index hits the highest level since 2008

Market Risk Index climbed to 96.1% on another increase in the Monetary composite risk score. It is all centered on inflation and rising interest rates.

The ISM Price index was released for February, and it was the highest reading since July 2008. It's the third consecutive high reading on ISM. By high, we mean the levels that are consistent with stock markets that experience weaker returns and inflation prints above 4%. To have inflation pressure already this hot, right before another big Federal stimulus hits, should make for an interesting summer.

It doesn't appear that the rising rates narrative has reached its climax and likely won't until the Fed flinches and finds a new way to appease markets. Markets are like a spoiled only-child that throws embarrassing tantrums in public, and the Fed's parenting style is total appeasement.

The psychology composite stands trapped in euphoria. Another record was breached by an indicator. The pace of corporate insider selling, a gauge of smart money, reached all-time highs. Ironic that insiders are selling en masse right as they have decided to ramp up stock buybacks again.

There was a big spike in both new highs and new lows this week, an emerging sign of unhealthy divergence, but it's too soon to draw conclusions from it. The High Low Logic Index, one of our favorite ways to measure stock market breadth, is based upon measuring these kinds of divergences. It is still on its previous buy signal and would several more weeks of a split market like we saw this week before it would begin to register a warning.

Our short-term sentiment composite backed off its all-time highs, but it gave little in the way of concrete evidence that short-term investor psychology hit levels that would make an investor want to aggressively buy the dip. Indications of fear have been confined to volatility indices.

Market Risk Index

Rec Allocation 25% Underweight

96.1%

Category Percentiles

Psychology - P6



Monetary - M5



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

Levered Investments	Negative
Volatility	Negative
Option Activity	Negative
Fund Flow s	Negative

Largest Monetary Influences

Velocity	Negative
Interest Rates	Negative
Inflation	Negative

Valuation

7-10 Year Rtn Forecast	0.4%
10Yr Treas Yield (on 03/03)	1.5%

Market Trends

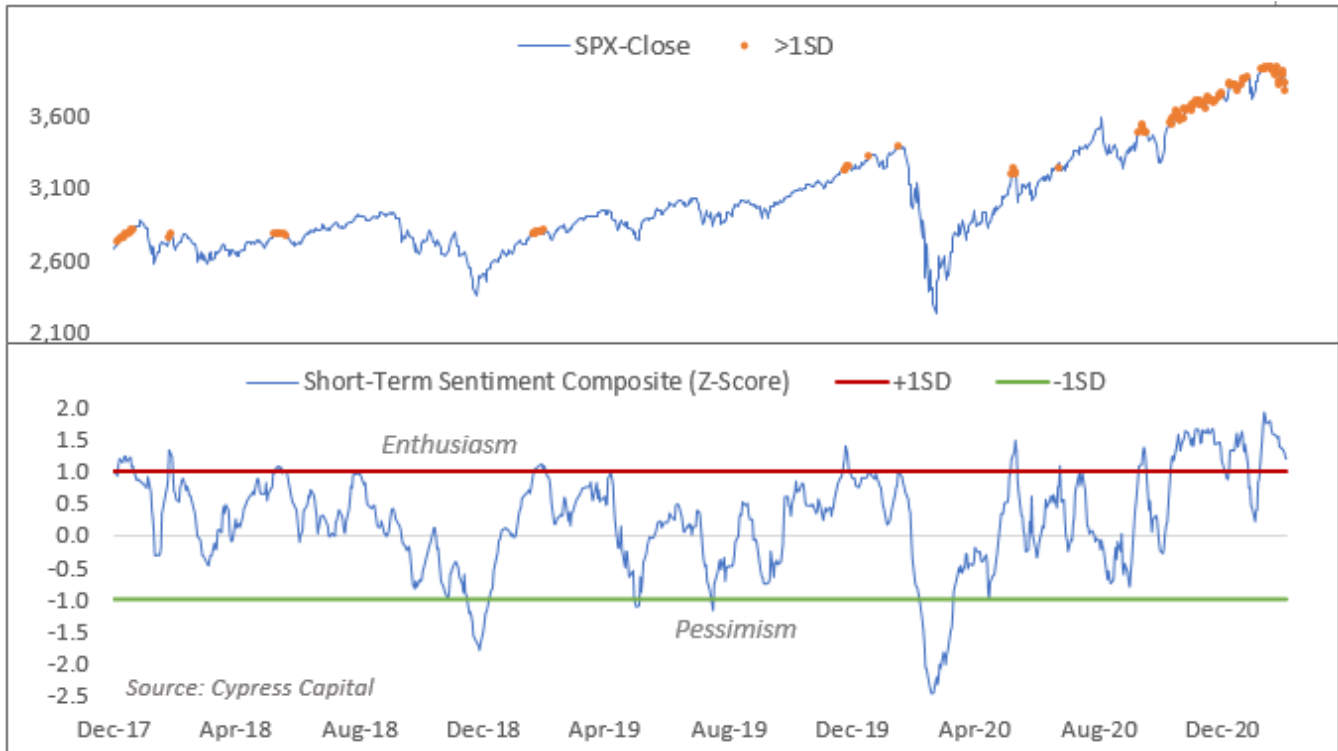
US Equities	Bullish Investment
Intl Equities	Bullish Trade
REITs	Bullish Trade
Broad Commodities	Bullish Trade

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.

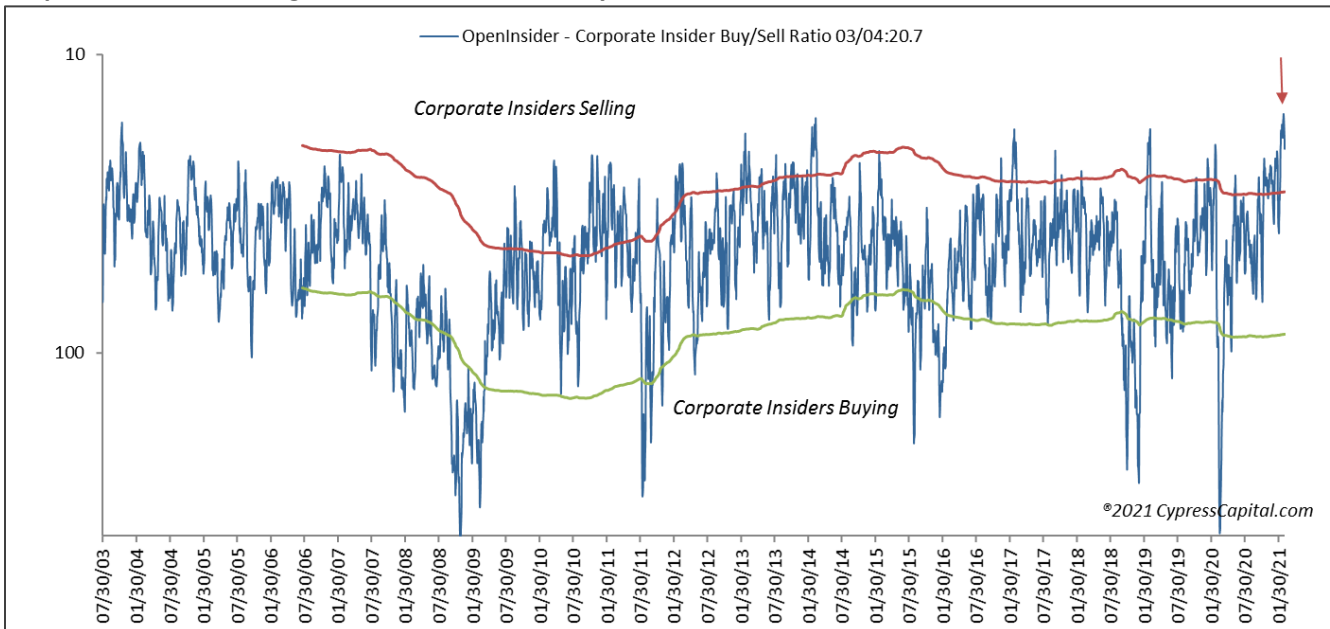
Charts of the Week

Short-Term Sentiment Composite

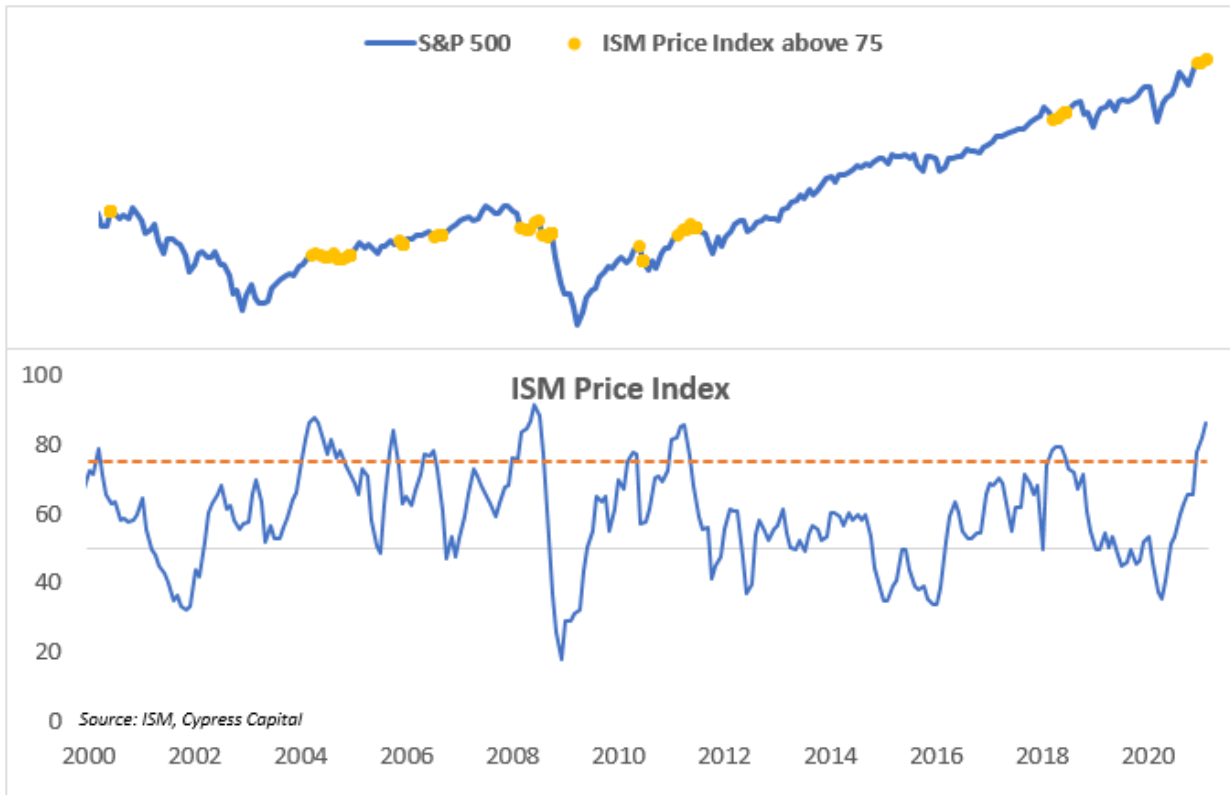
This basket of short-term, timely indications of investor sentiment did not budge from enthusiasm.



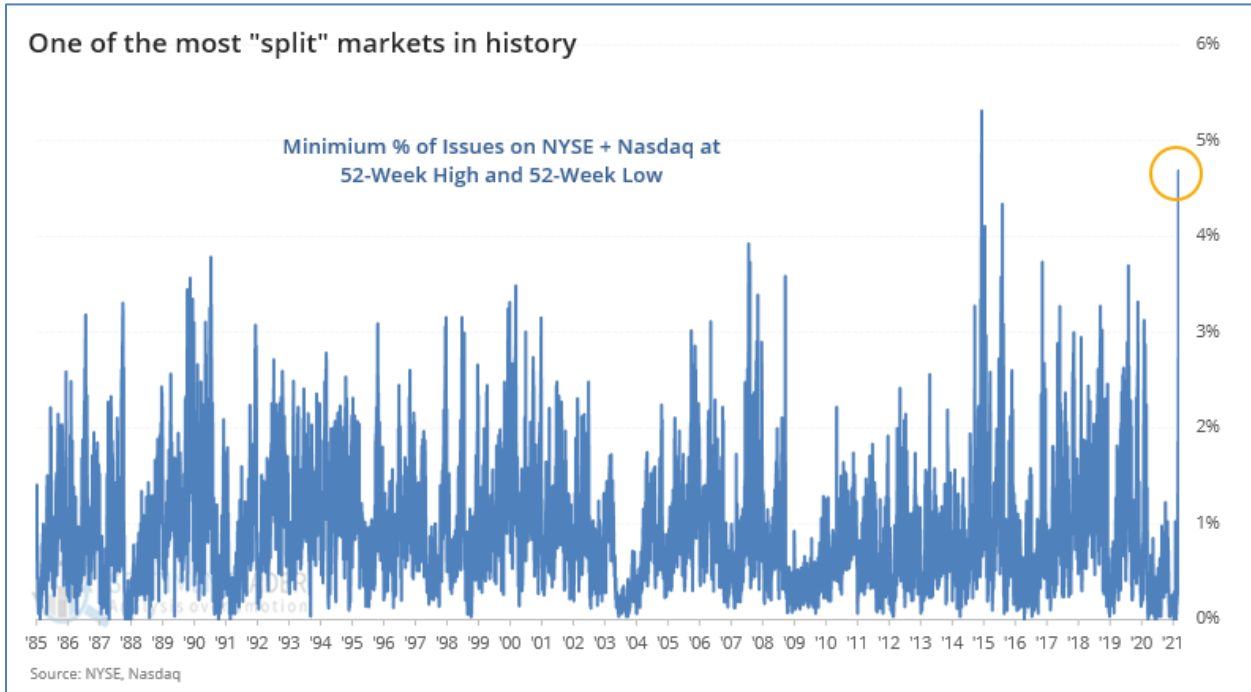
Corporate Insider Selling made a new record early in the week.



ISM Price Index hits the highest levels since July 2008.



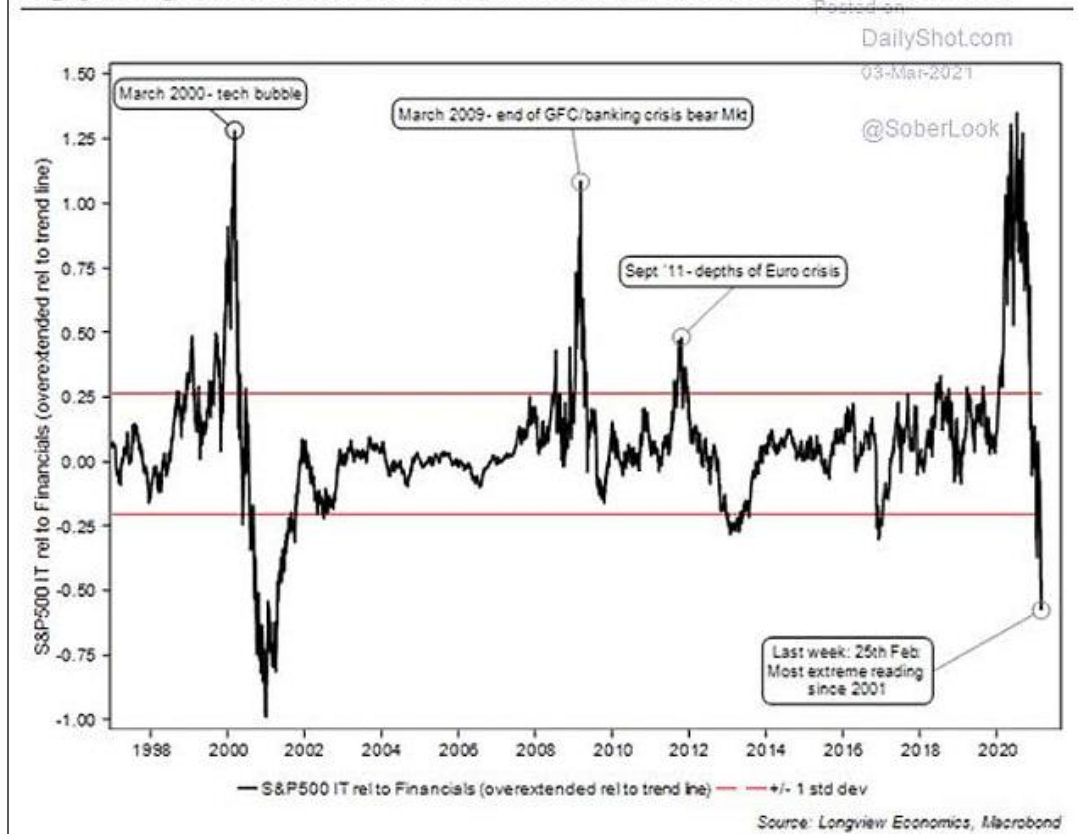
Split Market – A large number of stocks making highs and lows at the same time.



Source: SentimenTrader

Echoes of the tech bubble burst in the recent relative performance of Tech vs Financials.

Fig 4: S&P500 tech sector relative to financials (overextended relative to trend)

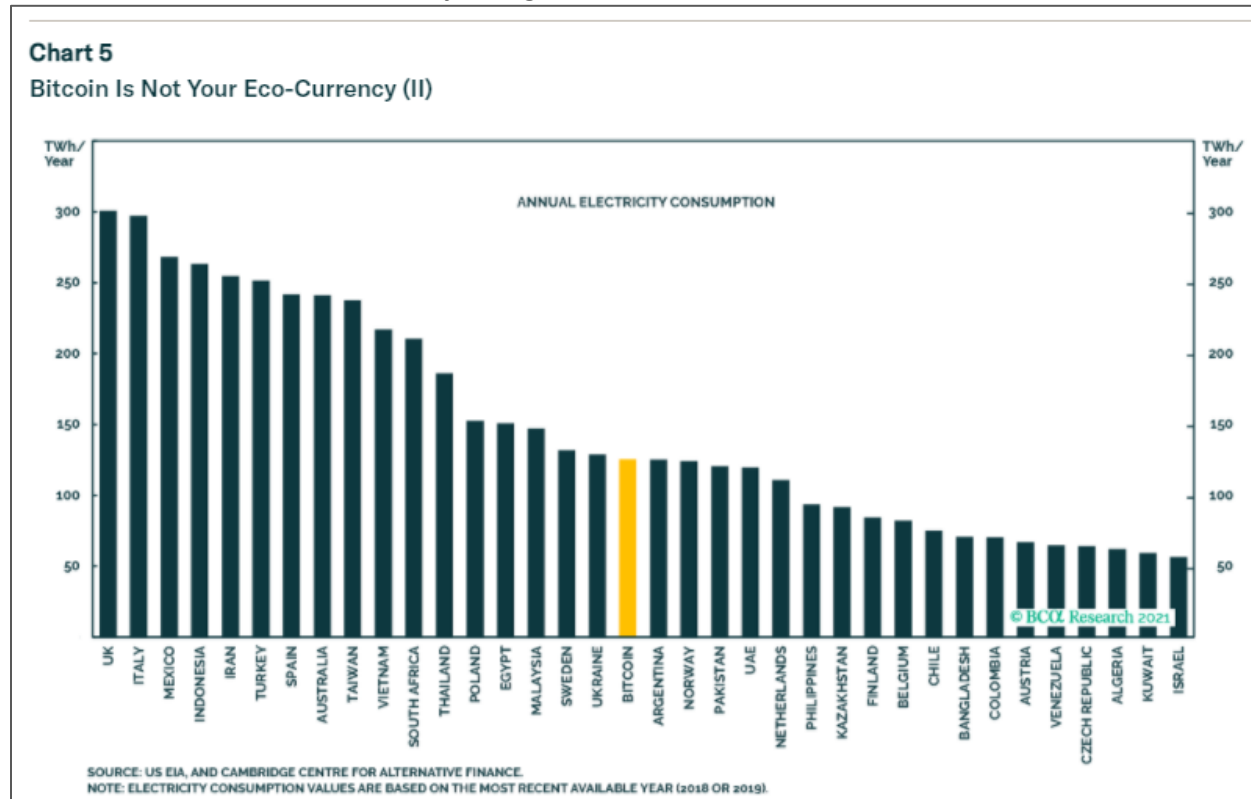


Treasury yields climbed back above the S&P 500 Dividend Yield.



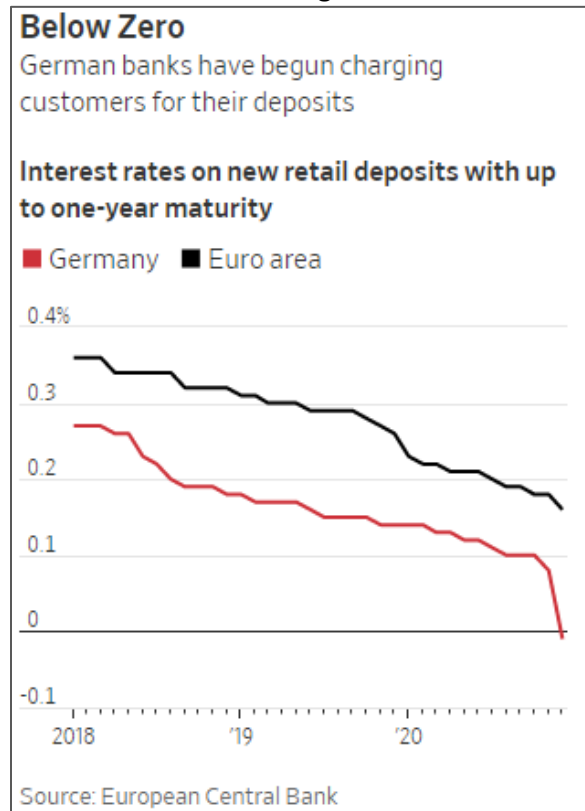
Source: Jeroen Blokland

Bitcoin consumes as much electricity as Argentina.



Source: Jeroen Blokland

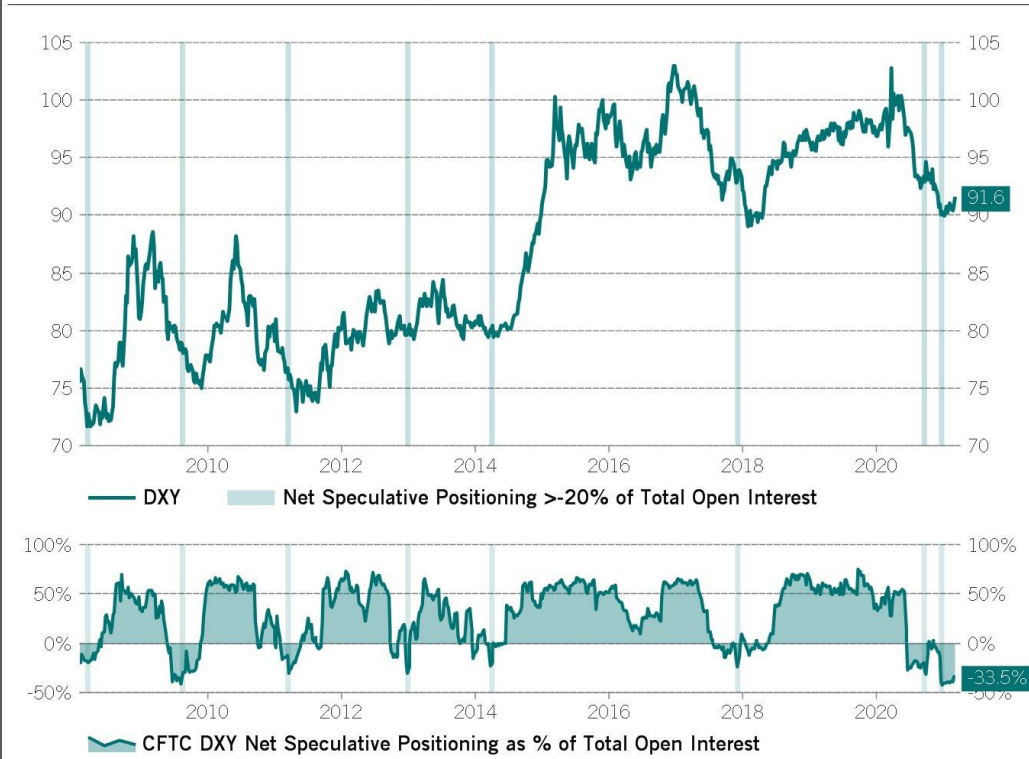
German banks are running off their customers – charging negative rates on deposits.



Source: WSJ

Speculative positioning on the US Dollar is hovering near record short.

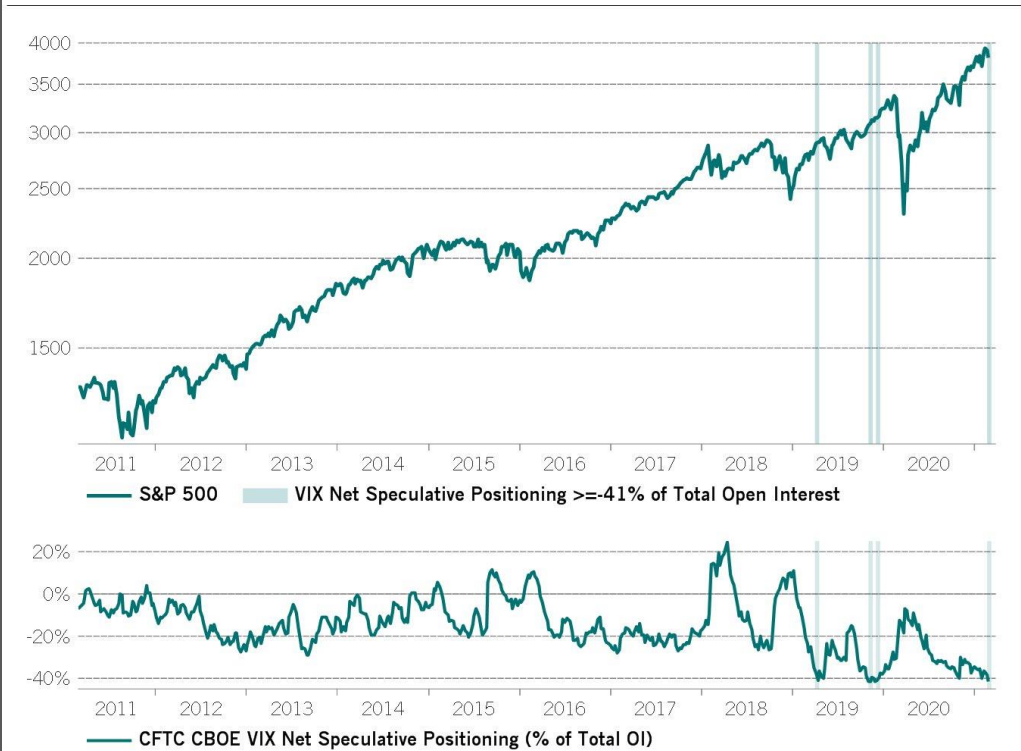
CFTC DXY Net Speculative Positioning (% of Total OI) vs. DXY Index



Source: Datastream, Pictet Asset Management

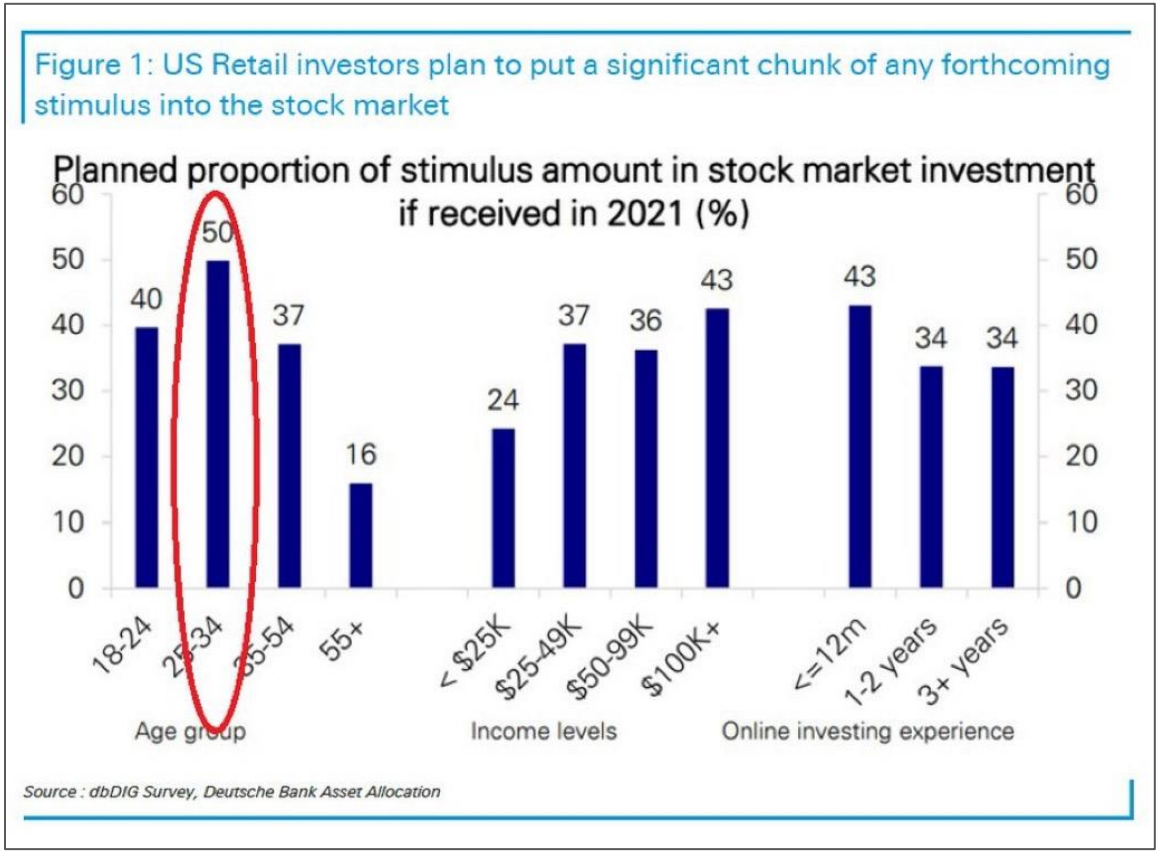
Speculative positioning on the VIX is also hovering near record short.

S&P 500 w/ CFTC CBOE VIX Net Speculative Positioning (% of Total OI)

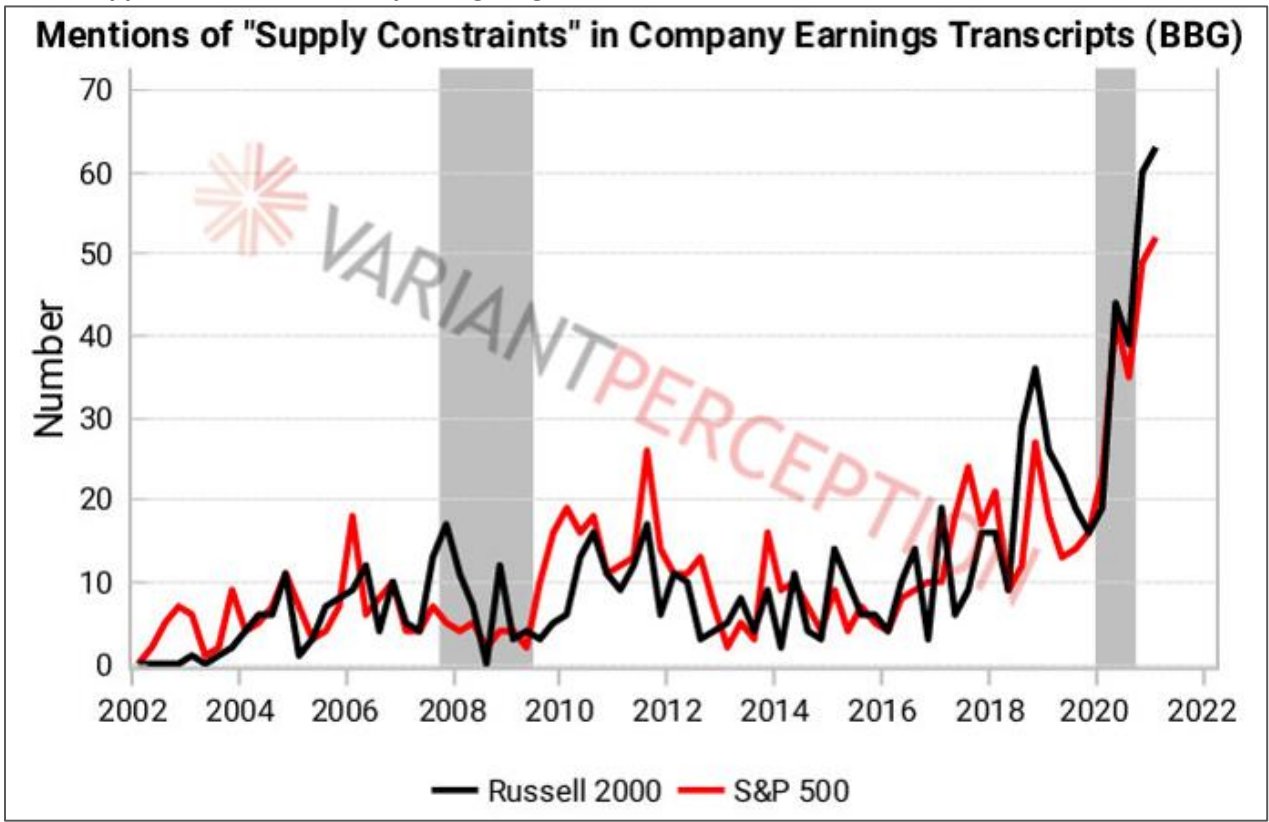


Source: Datastream, Pictet Asset Management

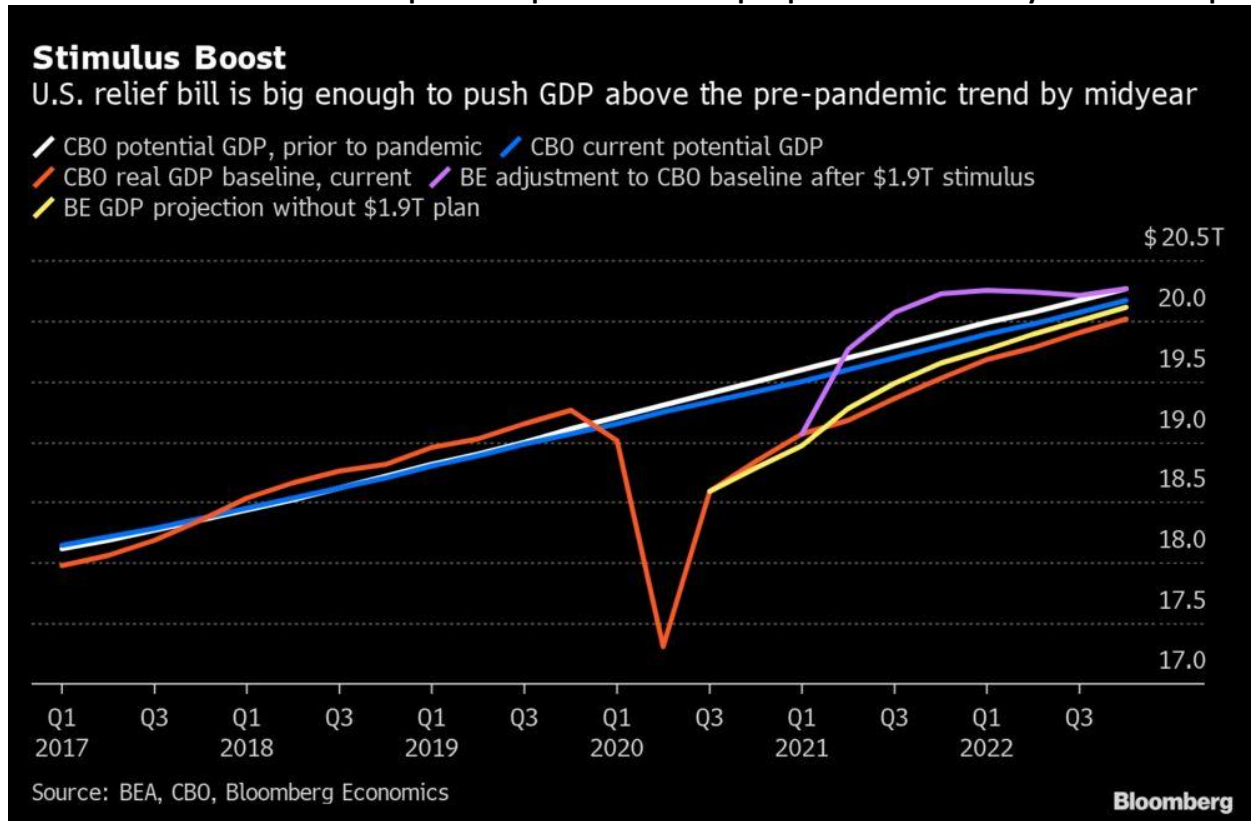
Retail plans on trading a big chunk of their stimulus check.



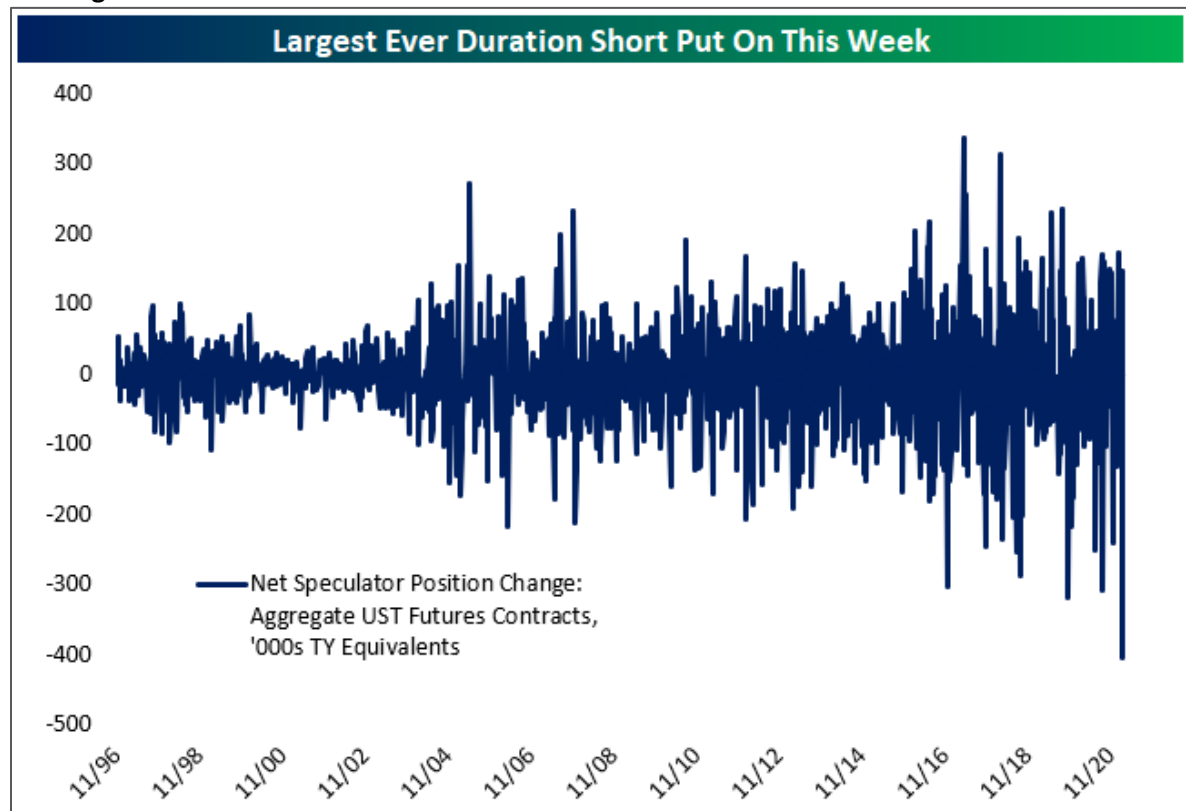
When supplies are constrained, prices go higher.



This round of fiscal stimulus is expected to push GDP above pre-pandemic trend. Keynes would be proud.

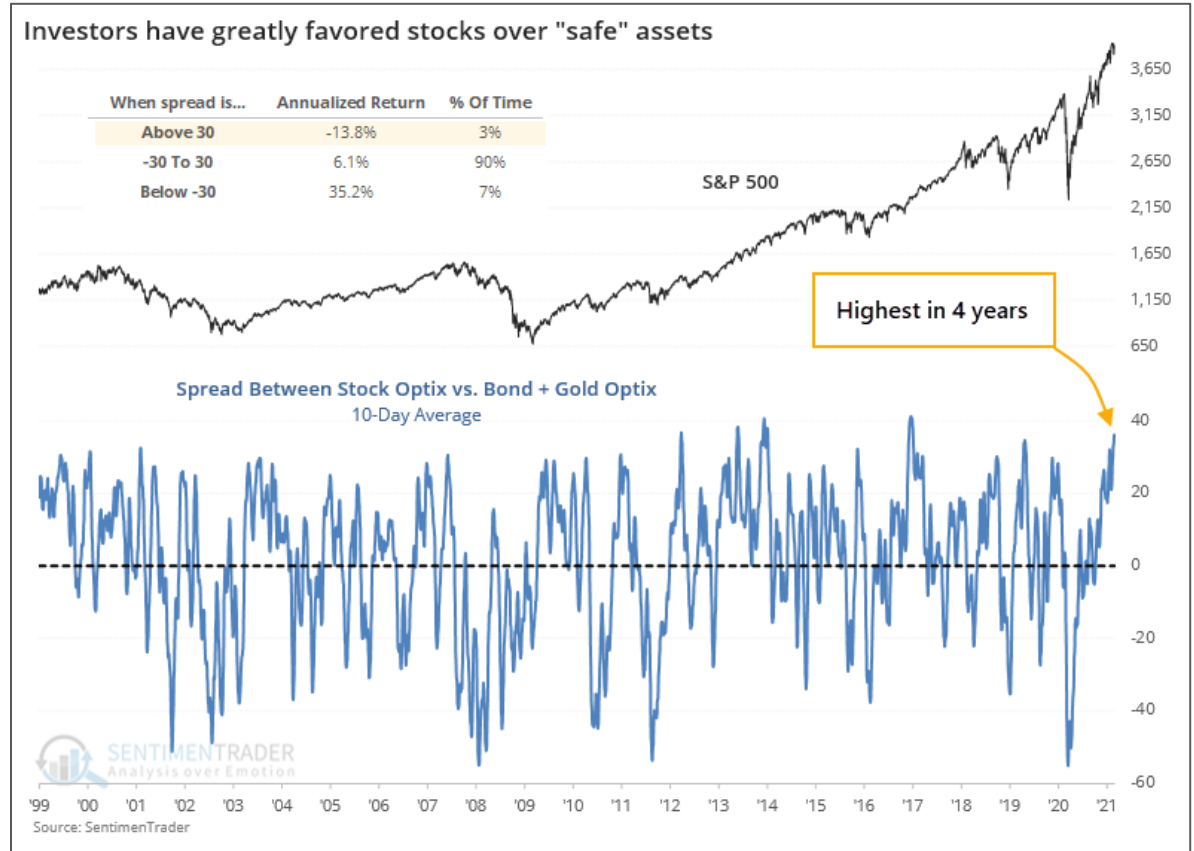


The largest-ever short bet on Treasuries occurred this week.



Source: Bespoke

The spread between sentiment on Stocks vs Bonds & Gold has surged.



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. A portfolio built upon Cypress Capital's metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks having above-average yields with 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 of 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 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. The 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.

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