



Market Outlook

By Mark T Dodson, CFA

A Broken Slot Machine

Our monetary composite improved significantly this week, taking Market Risk Index down to 93%. The velocity category has made a herculean swing to positive readings in the monetary composite over recent weeks. Growth in monetary aggregates is beginning to soften even as the Fed shows no signs of doing the same with the pace of monetary base growth.

It's the first time the category has been positive since the end of 2017 and the most positive that it has been since 2015. The good news is that positive velocity readings tend to be good for equities. The bad news is that the improvement in velocity is colliding with some solidly negative readings from our inflation category. It's a combination that implies a cycle that is overheating. It's rare to see this combination when we haven't even gotten the most robust economic growth readings yet. In this case, it is economic growth so widely anticipated that it's a forgone conclusion.

There is a temptation to look at the remarkable level in monetary aggregates and anticipate implications for a multi-year melt-up in stock prices. We learned from experience that there are some flaws in the conventional "money on the sidelines" argument. Once money has been dropped from the helicopter, there is ultimately no "spending" it. It's there, and it's not going away. We can only try to get rid of it like a hot potato, bidding up the prices of financial assets first, and possibly the prices of goods and services later. Judging by the equity allocations of households and the value of stocks relative to the value of monetary aggregates, we have already done that.

The result is higher valuations and lower expected returns on equities. We see its effects in our valuation composite, where our return forecast for equities has fallen below zero compared to a 1.6% return that can be earned from investing in a 10 Year Treasury. At current valuations, we'd argue that bonds are a better inflation hedge than stocks, but that isn't saying much.

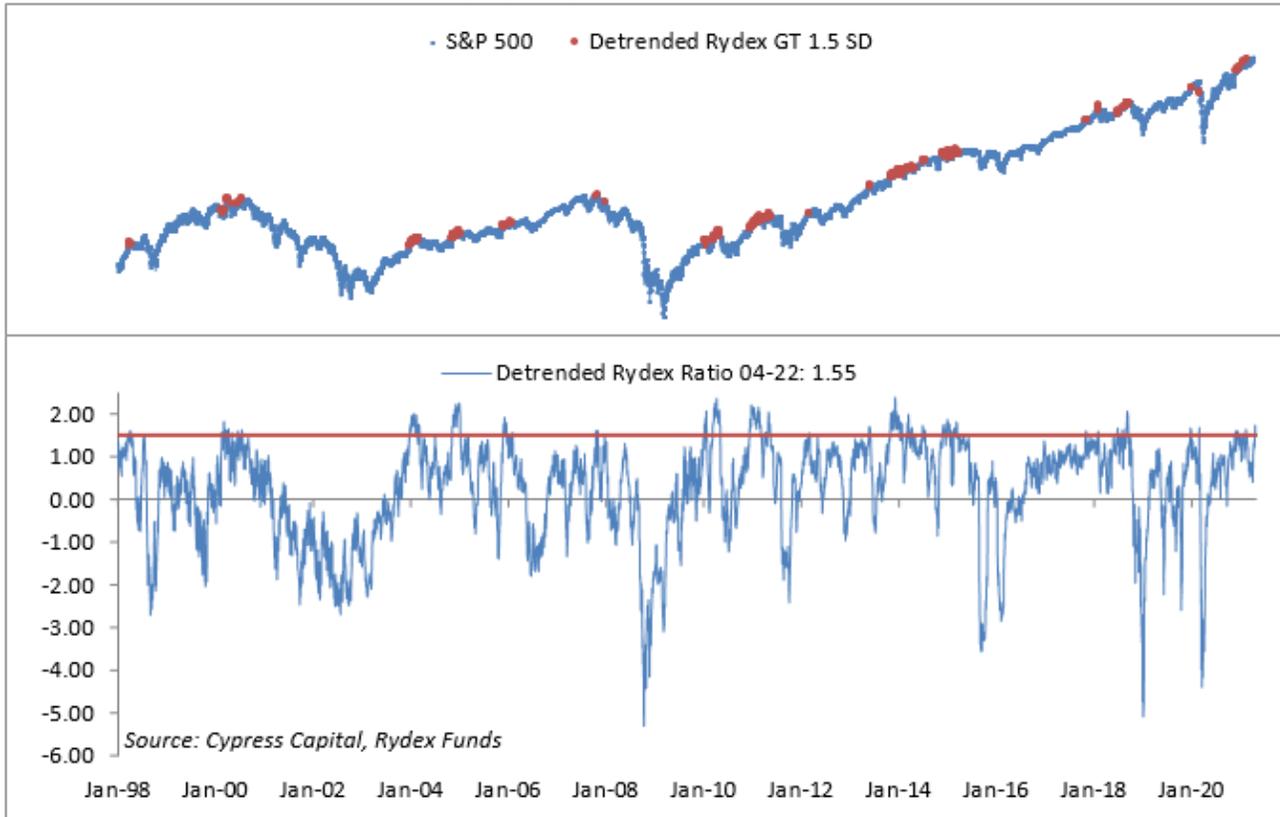
The helicopter money has improved the national mood and added about 25 self-perceived IQ points to the most speculative among us, as enthusiasm persists within our psychology composite. Each time that record euphoric sentiment has appeared ready to roll over, another round of speculative behavior manages to top the previous one. If stock market speculation were a game, you have only needed to use one button on the controller – the buy the dip button. Just hit that button. It's a broken slot machine that the casino has yet to discover.



Charts of the Week

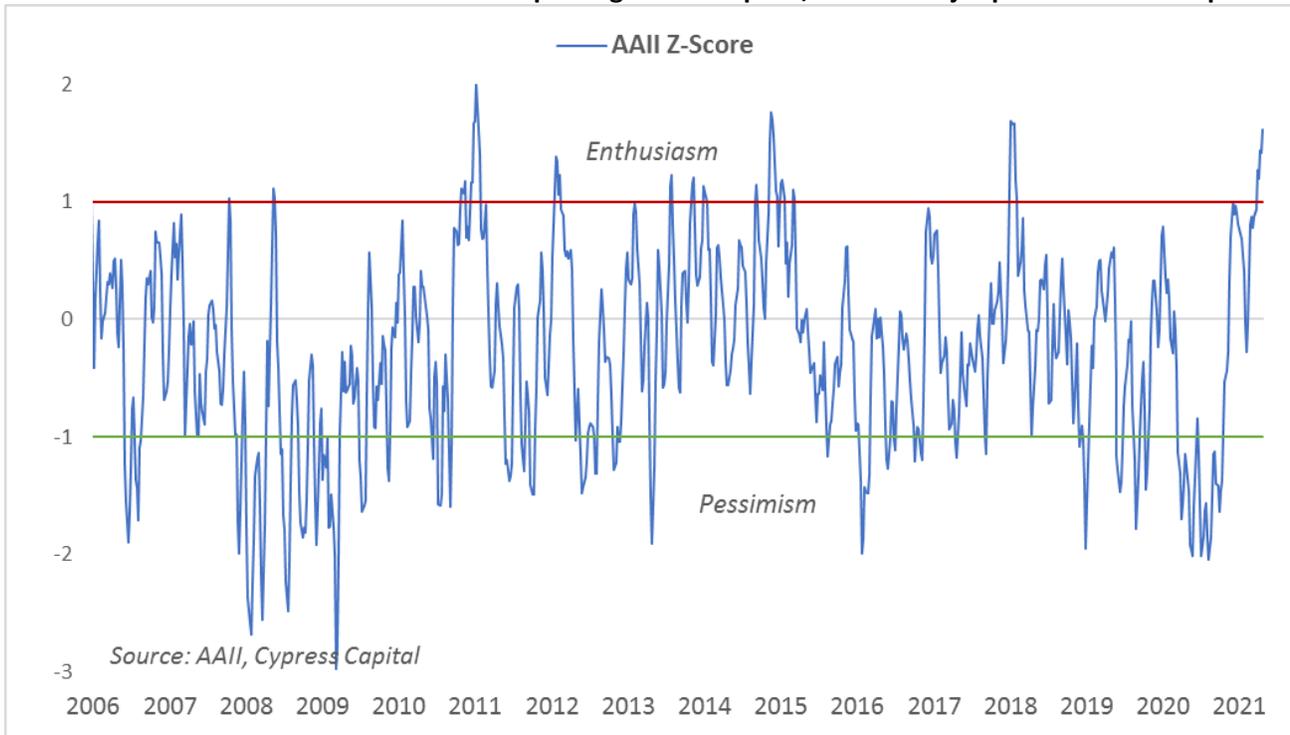
De-Trended Rydex Ratio is back in the red zone.

These levels have a decent record of highlighting markets vulnerable to corrections.



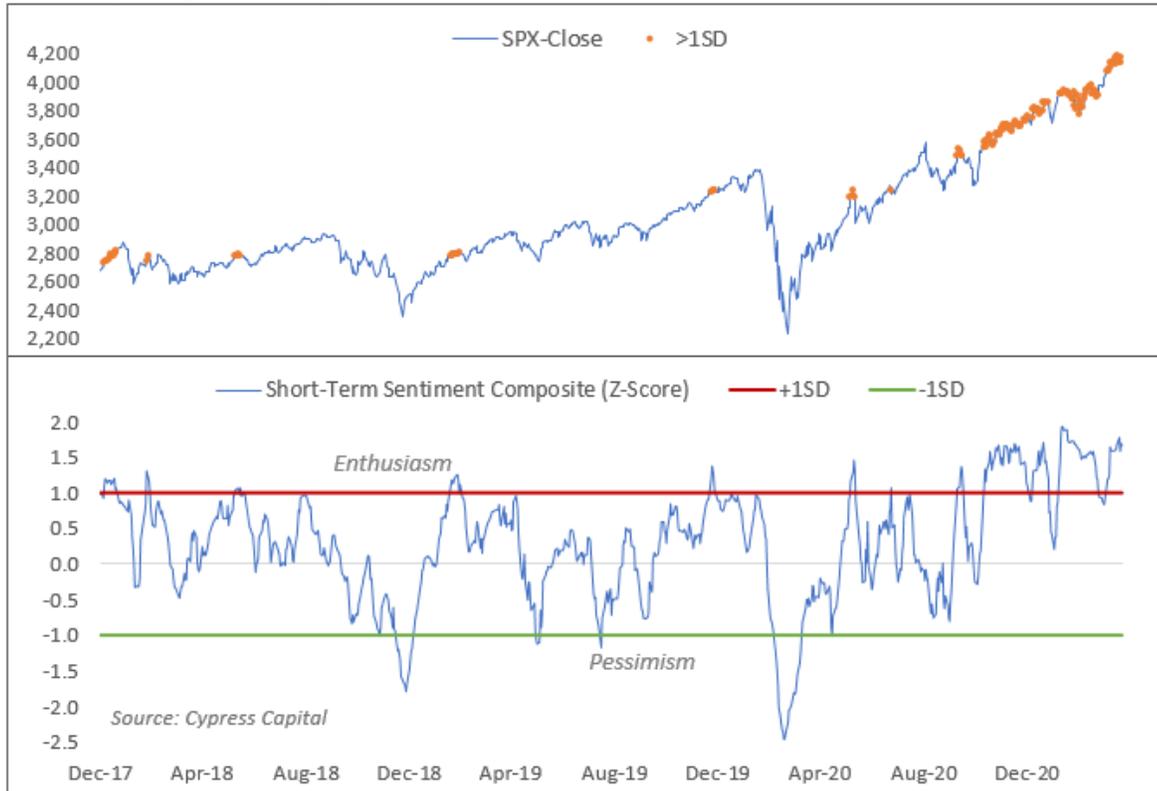
The indicator measures assets in levered Rydex funds relative to inverse funds.

Individual Investor Sentiment is close to surpassing the 2018 peak, the last major peak for Global equities.

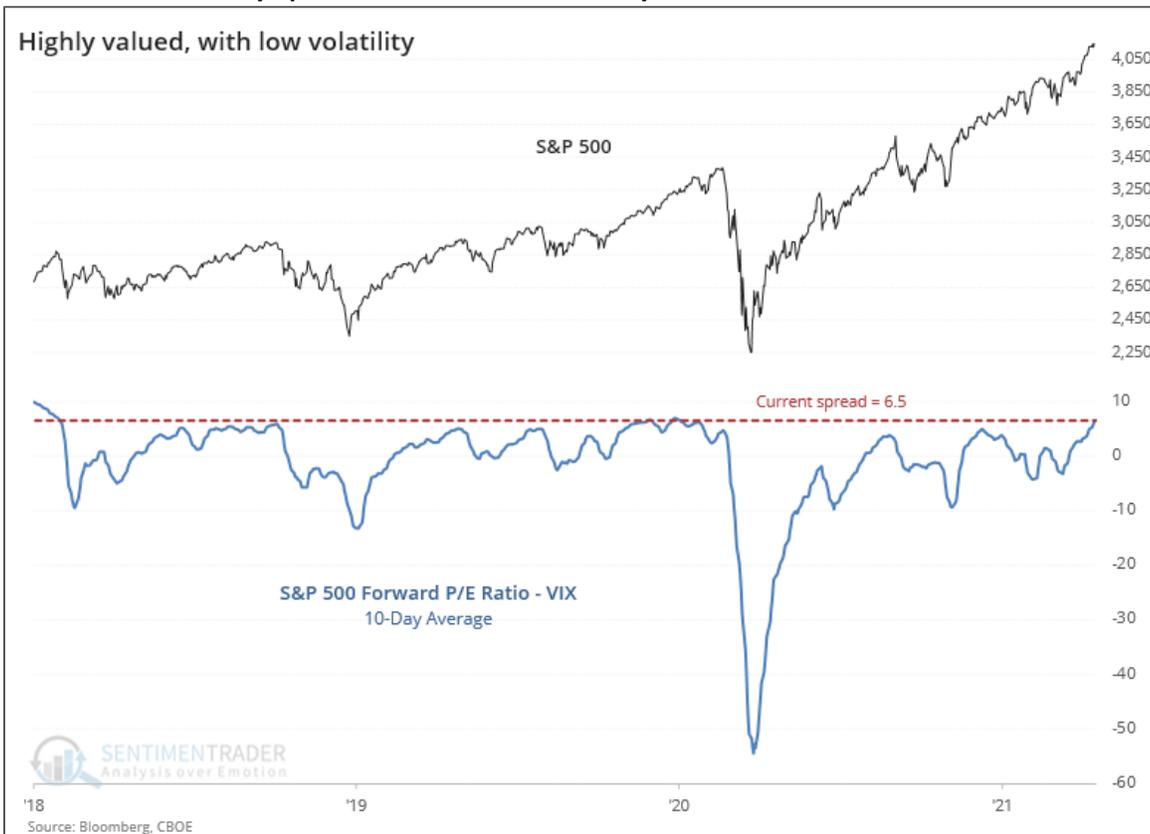


Short-Term Sentiment Composite

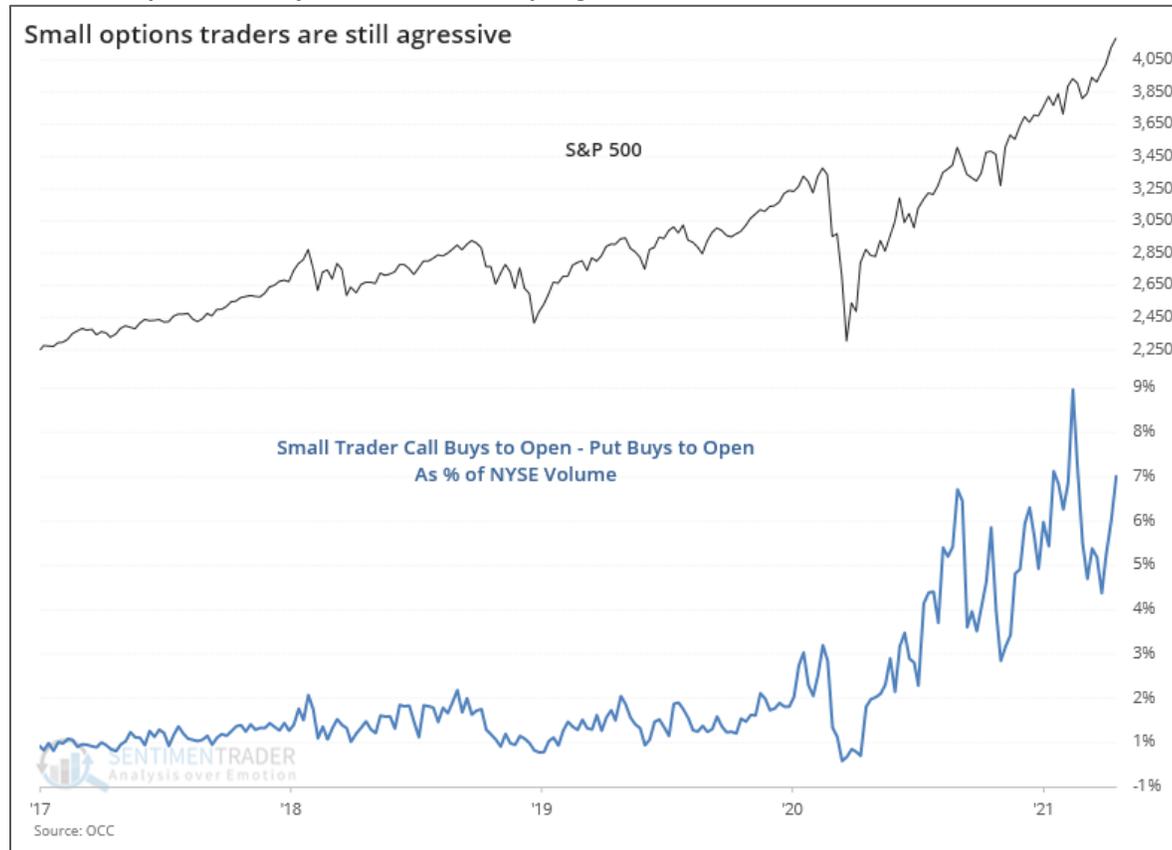
The “re-opening” is the longest unbroken run of enthusiasm around the stock market since 1999.



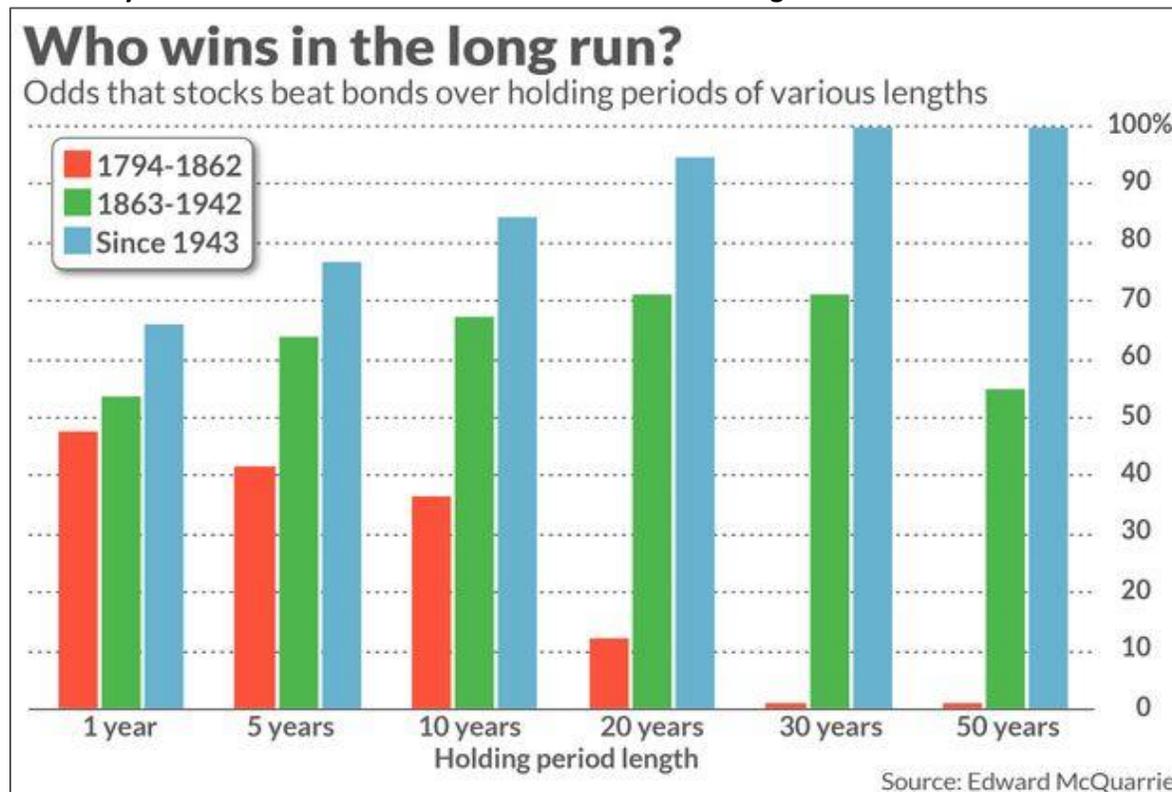
Valuation to Volatility Spread has widened to January 2020 levels.



Retail call option activity is on another ramp higher.



New study shows that sometimes it's bonds that win in the long run.

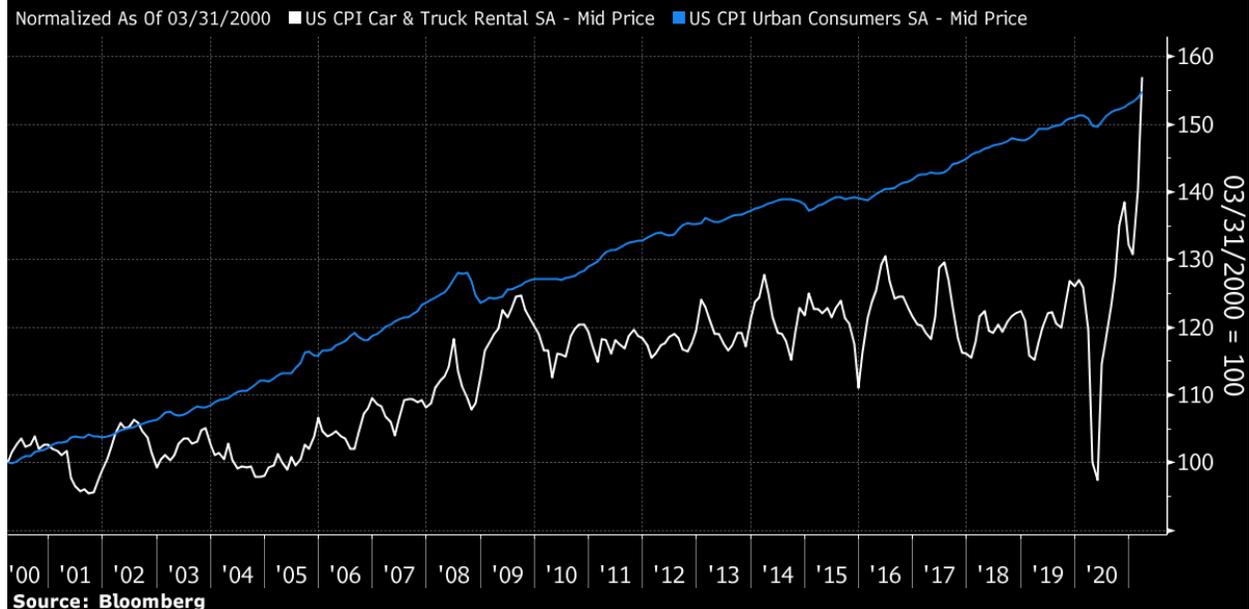


Source: Mark Hulbert and [New Lessons from Market History: Sometimes Bonds Win](#)

Rental Car Inflation has gone berserk.

Rental Car Inflation

The cost of renting a car has risen almost 60% in less than a year



Manufacturers see the biggest backlog on record.

Bottled Up Like Never Before

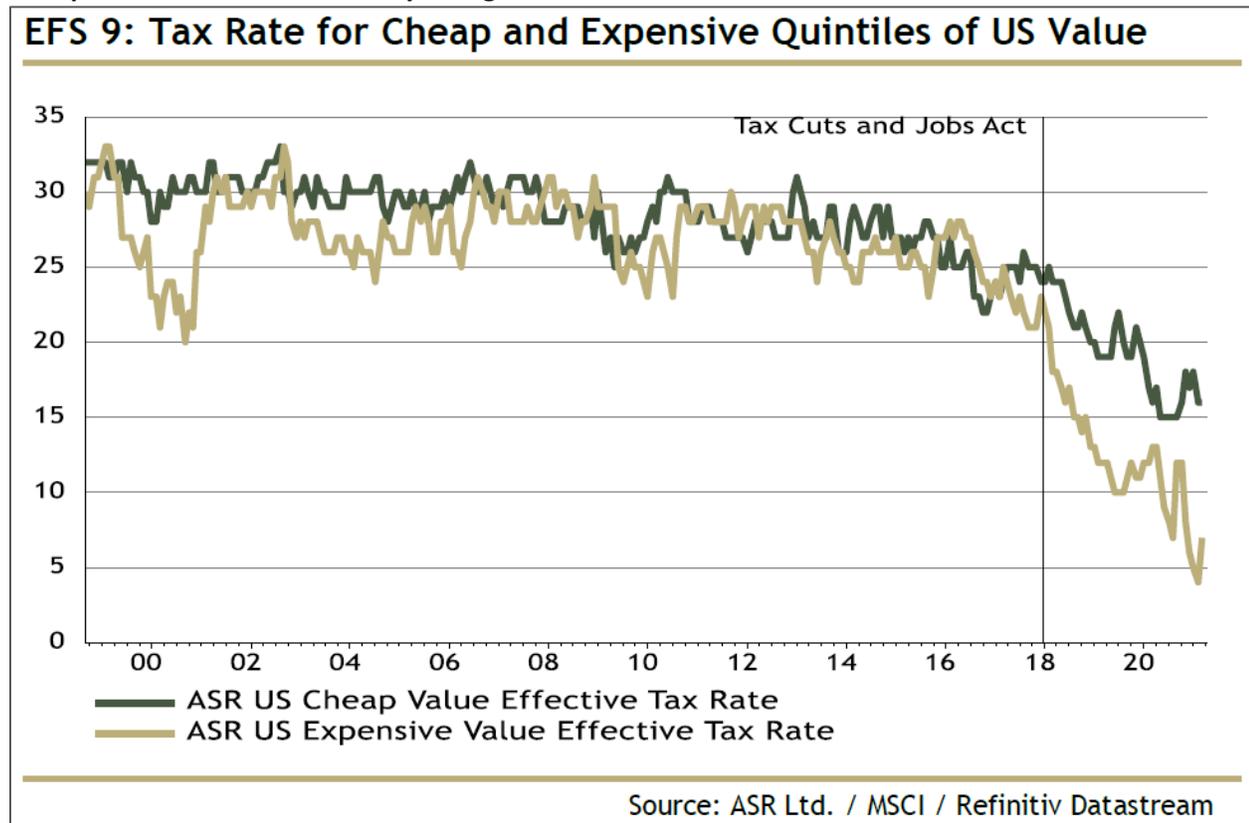
Backlogs reported by U.S. Manufacturers are worst since inception in 1993



China’s economic growth has slowed.



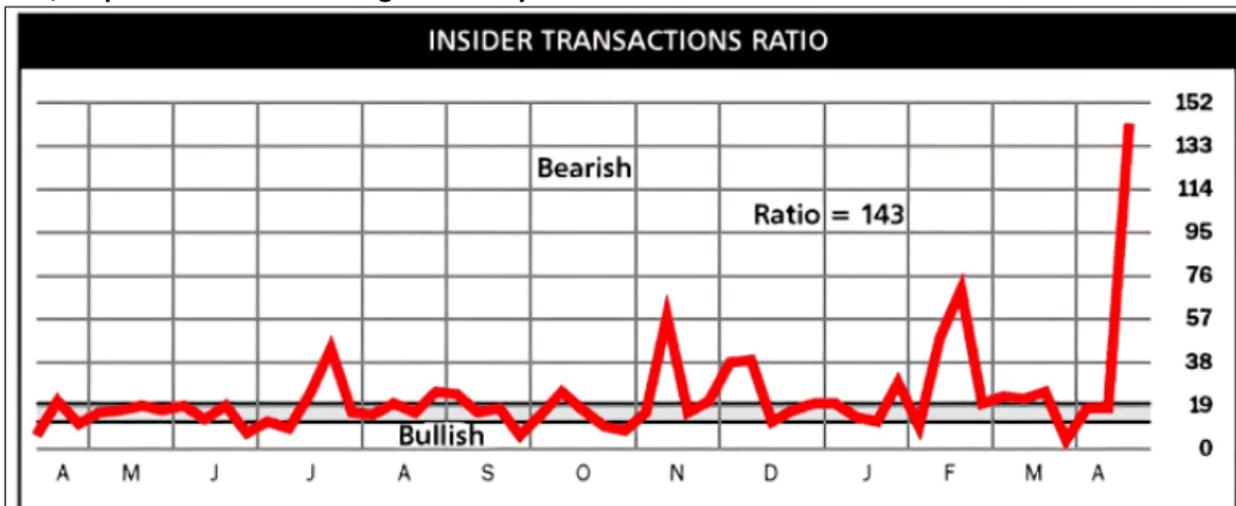
A corporate tax rate increase may hurt growth stocks more than value.



If you have a big itch to buy stocks, investment bankers will always scratch it for you.



And, corporate insiders will be glad to sell you their shares too...



Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish.

The total top 20 sales and buys are 566,388,349 and 3,957,406 respectively;

Source: Thomson Reuters

Source: Barron's

A record number of small businesses are reporting that jobs are hard to fill.

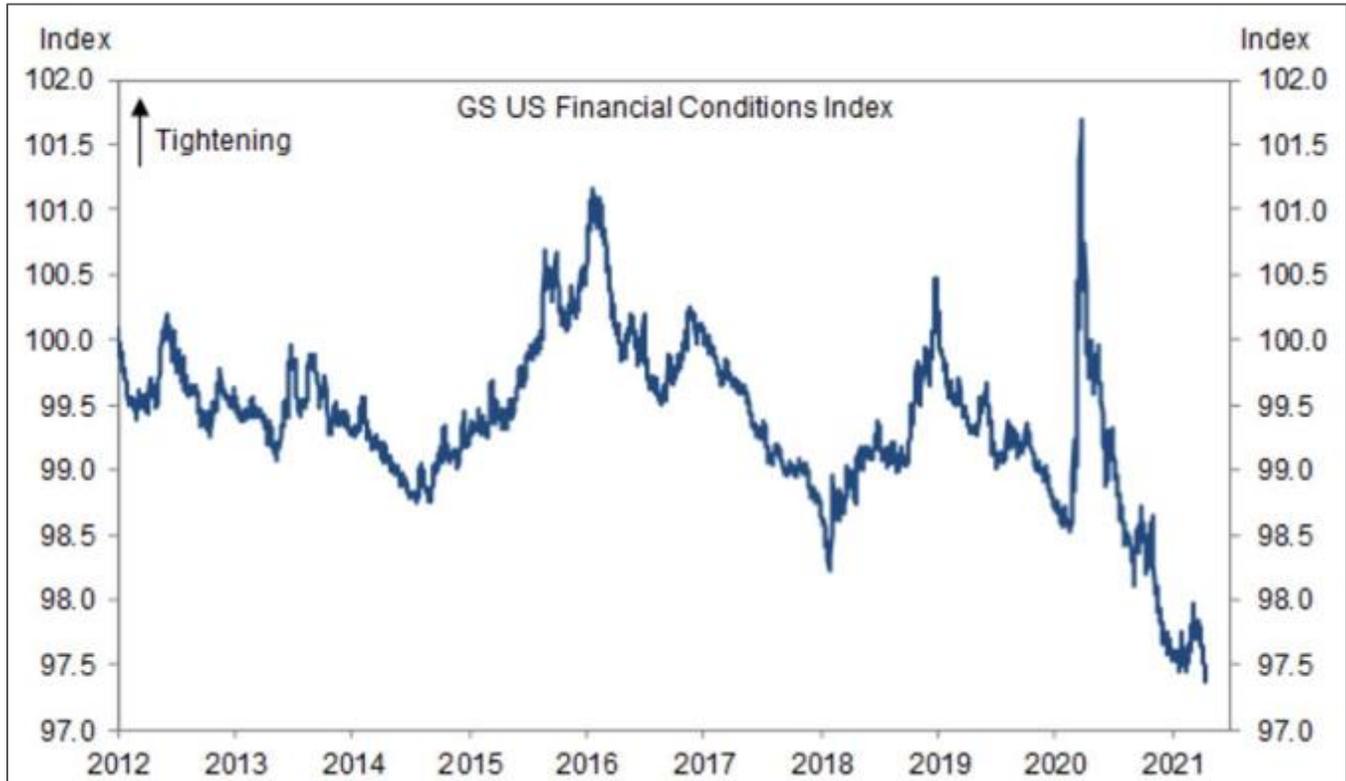
Chart 7: Small businesses reporting record unfillable positions

NFIB small business job openings hard to fill, SA, % Balance/ Diffusion Index



Source: BofA Global Investment Strategy, Bloomberg

Financial Conditions have never been so easy.



Source: Goldman Sachs

Dogecoin, the cryptocurrency that started as a joke, briefly surpassed Kraft Heinz and Ford in market cap.

Every Dog Has Its Day

Dogecoin's market cap makes it bigger than Ford and Kraft Heinz



Source: Bloomberg, CoinMarketCap.com

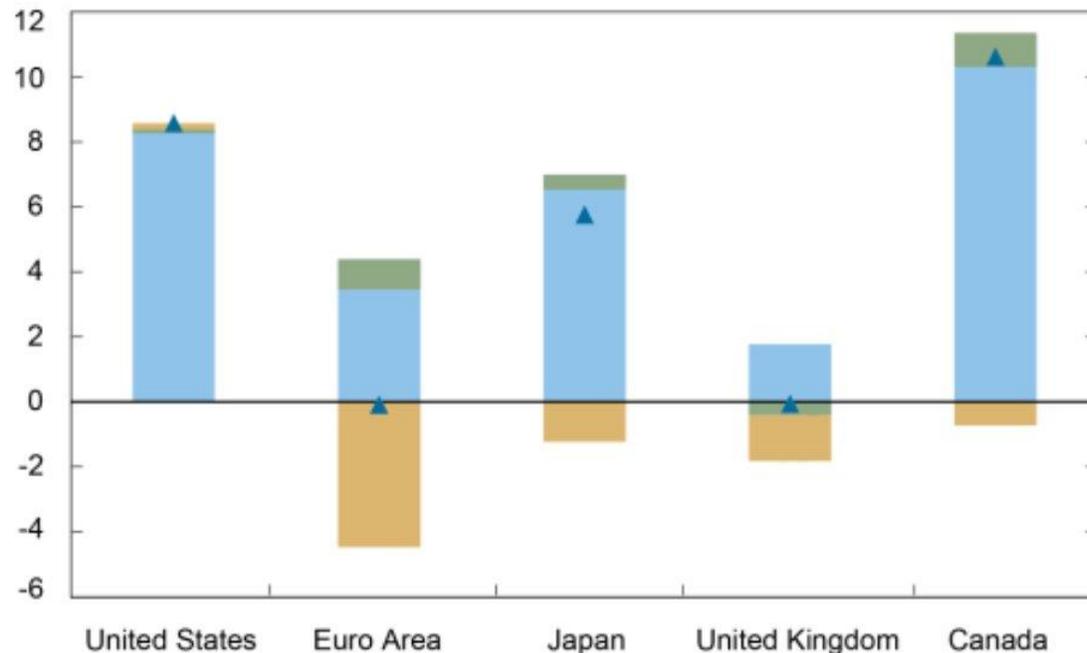
Note: Dogecoin figure represents the total market value of its circulating supply

Government was the source of almost all disposable income growth last year.

Government Support Bolstered Incomes

■ Net benefits ■ Net other ■ Earnings ▲ Disposable income

Percent change in disposable income in 2020:Q1-Q3 from a year earlier and contributions to that change



Sources: Bureau of Economic Analysis; Eurostat; Japanese Cabinet Office; Statistics Canada; U.S. data are from the Integrated Macroeconomic Accounts.

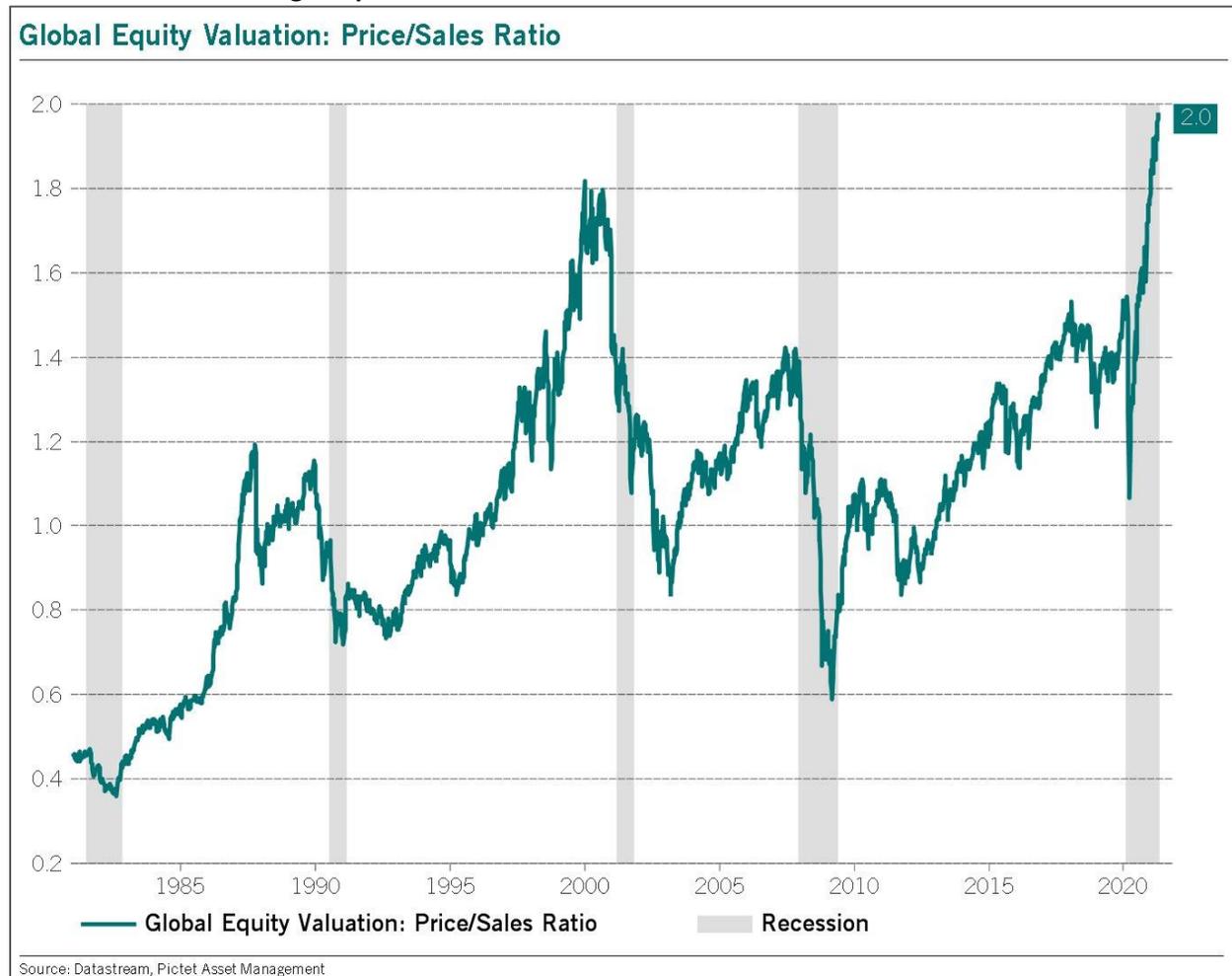
Notes: Disposable income and saving are net of depreciation. Data for the United Kingdom exclude a reported pension valuation adjustment. The bars show the changes in nominal income streams for 2020:Q1-Q3 versus 2019:Q1-Q3, measured as a percentage of disposable income in the earlier period. These changes add up to the percentage increase in nominal disposable income.

It's never been cheaper for low-quality companies to borrow money.



Source: Lisa Abramowicz

Global Valuations have gone parabolic.



Source: Datastream, Pictet Asset Management

This kind of activity isn't normal.



Source: The Long View

Global Consumer Confidence hits a new high.

Consumers around the world are feeling upbeat

The Conference Board global consumer confidence index



Source: The Conference Board
© FT

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.

[Contact us](#) for more information.