



Market Outlook

By Mark T Dodson, CFA

Inflation Pressures Aren't Letting Up

Market Risk Index ticked up slightly, but monetary conditions managed to improve again this week.

Velocity continues to heat up within our monetary composite. In a vacuum, that's a stock market positive, but the inflation category is redlining. The ISM Price Index was released this week, and it climbed again to 89.6, nearly matching the peak reading from the summer of 2008. We have very few indicators that imply negative short-term stock market returns outright, but the ISM Price Index is one of them, and ISM readings above 75 are a recipe for stock market volatility and corrections. Stock market returns when ISM is above 75 are -4.1% annualized.

Investor psychology is like a version of Euphoria Groundhog Day, with each week bringing news of something unexpected when it comes to speculative behavior. This week it was Dogecoin, the cryptocurrency that started as a joke, whose value surpassed the market capitalizations of General Motors and British Petroleum.

Week to week valuations are either at the 100th percentile or just shy of it, depending on whether the composite set a new record that week. For valuations, the 100th percentile doesn't just mean back to 1970, as is the case with our psychology composite. For the valuation composite, it means 120 years of US market history.

Still, there's nothing that we can point the finger at technically to say that the market is growing vulnerable to a bear market. Even the NASDAQ High Low Logic Index sell signal that we highlighted weeks ago has yet to progress beyond a minor sell signal. The market is solid on that front, but technicals often don't help gauge the risk or severity of stock market corrections. In this new, new era of Mt Everest level of stock market valuations, combined with some historic inflation pressures and investor euphoria, what prevents the severity of market corrections from entering a new era as well?

Market Risk Index

Rec Allocation 25% Underweight

89.2%

Category Percentiles

Psychology - P6

99.5%

Monetary - M4

63.3%

Valuation - Extremely Overvalued

99.9%

Trend

0.2%

Largest Psychology Influences

Levered Investments	Negative
Surveys	Negative
Fund Flows	Negative
Option Activity	Negative

Largest Monetary Influences

Inflation	Negative
Velocity	Positive
Terms of Trade	Positive

Valuation

7-10 Year Rtn Forecast	-0.2%
10Yr Treas Yield (on 05/06)	1.6%

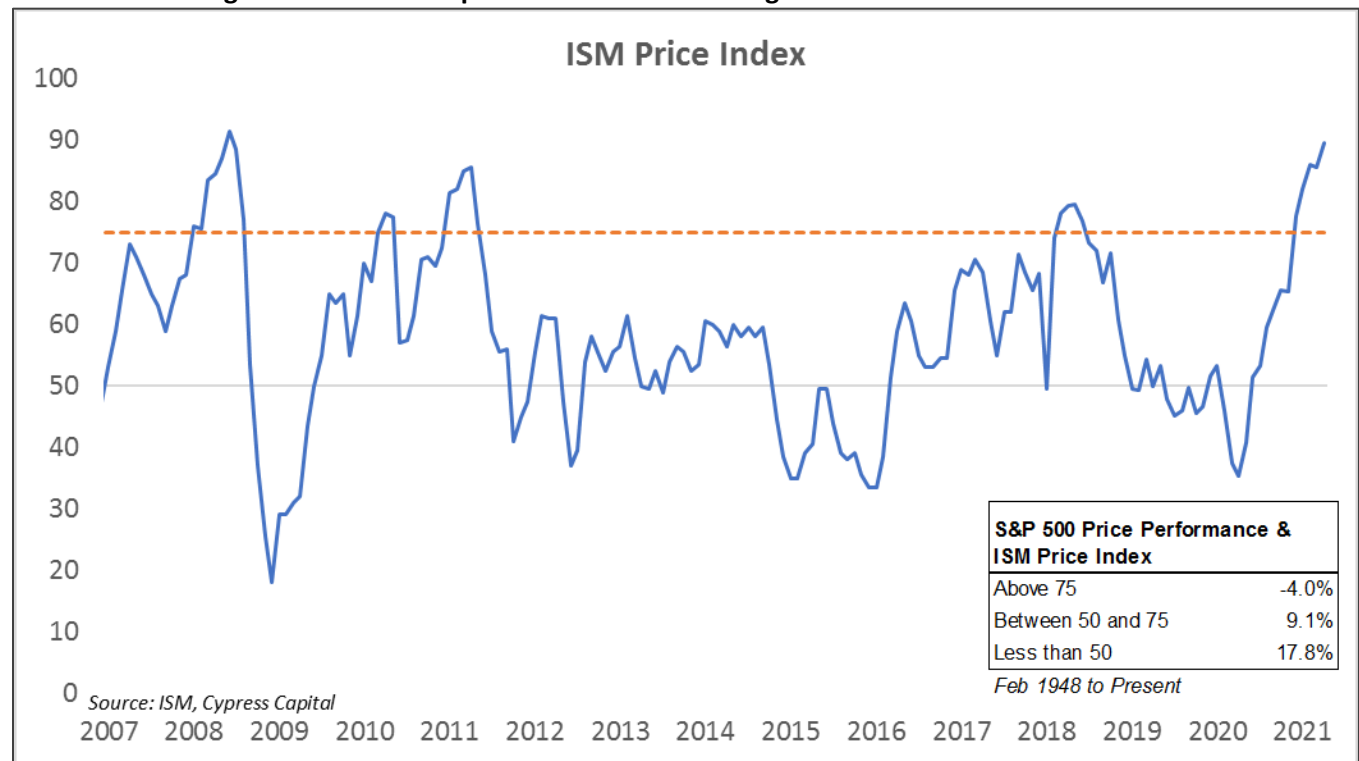
Market Trends

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

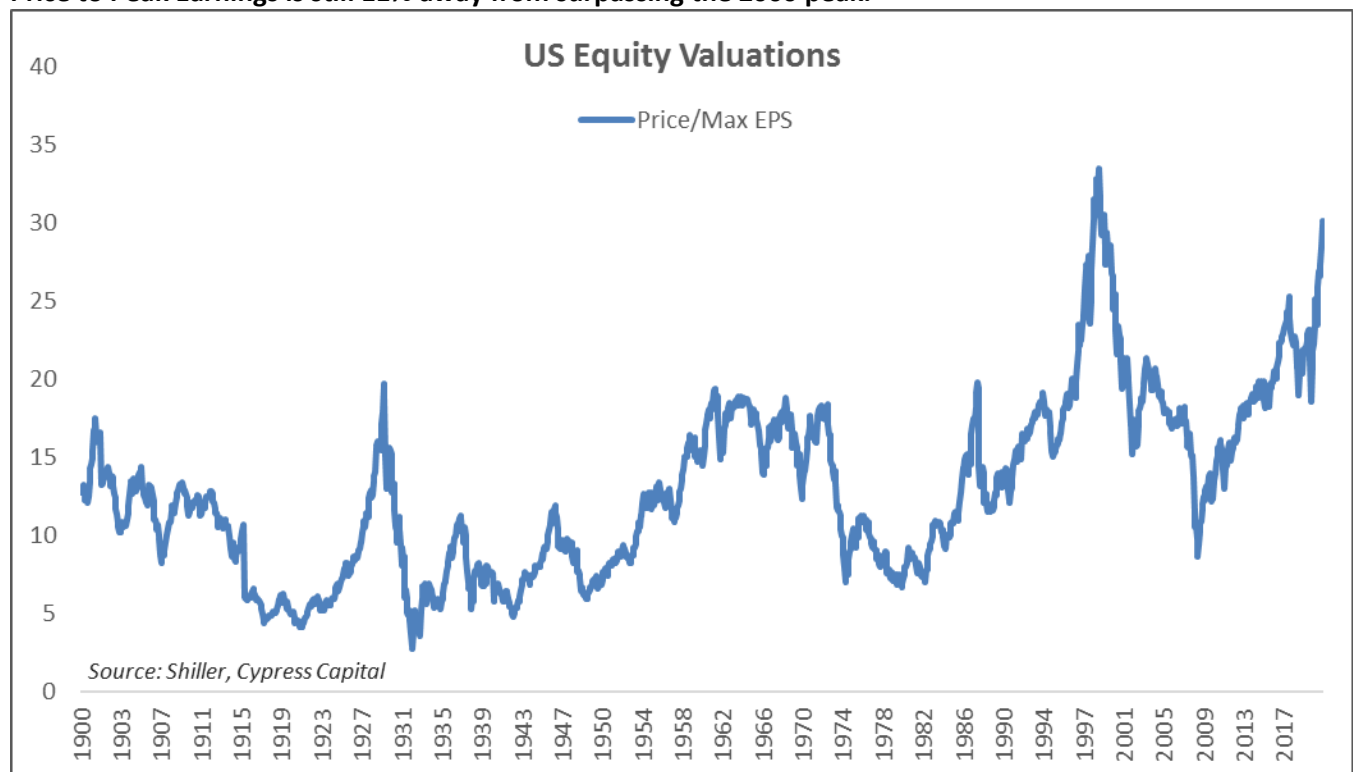
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

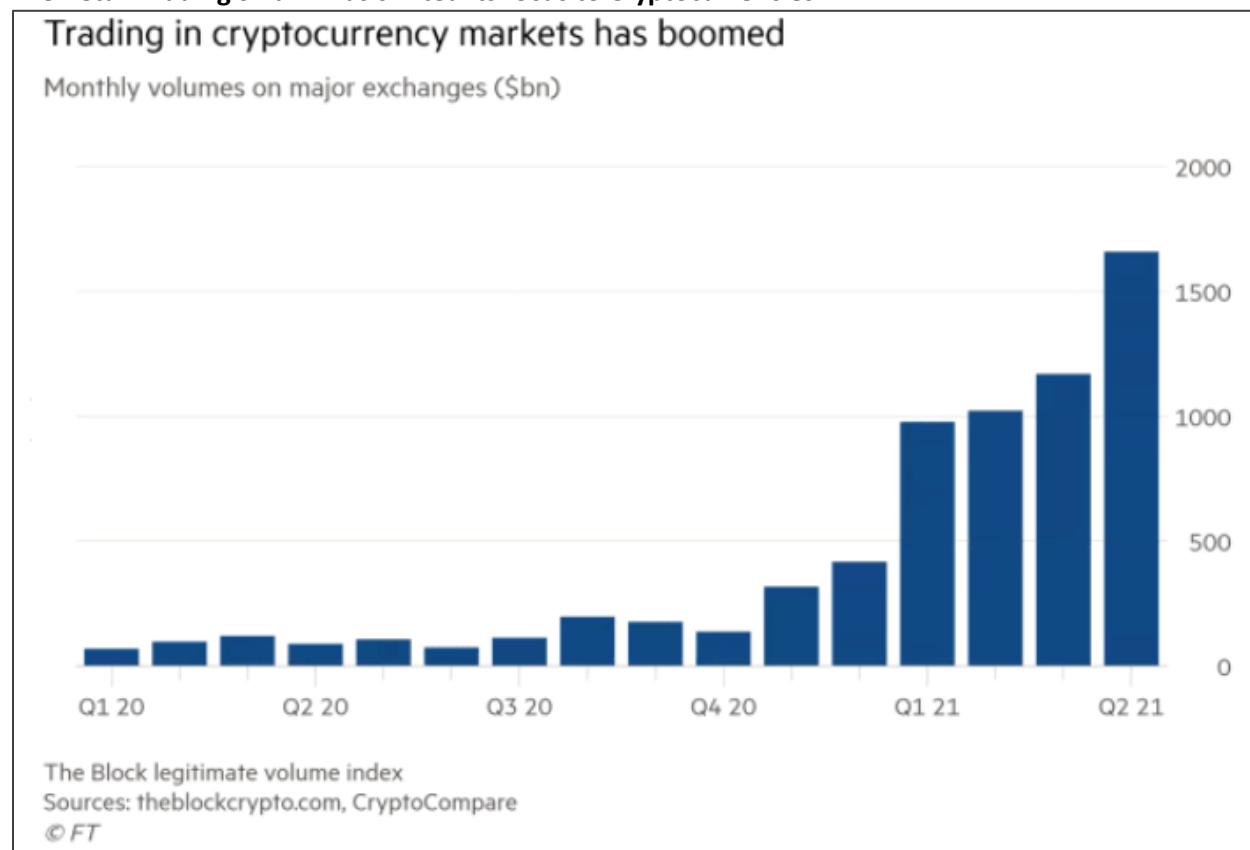
ISM Price Index signals that inflation pressures are still building.



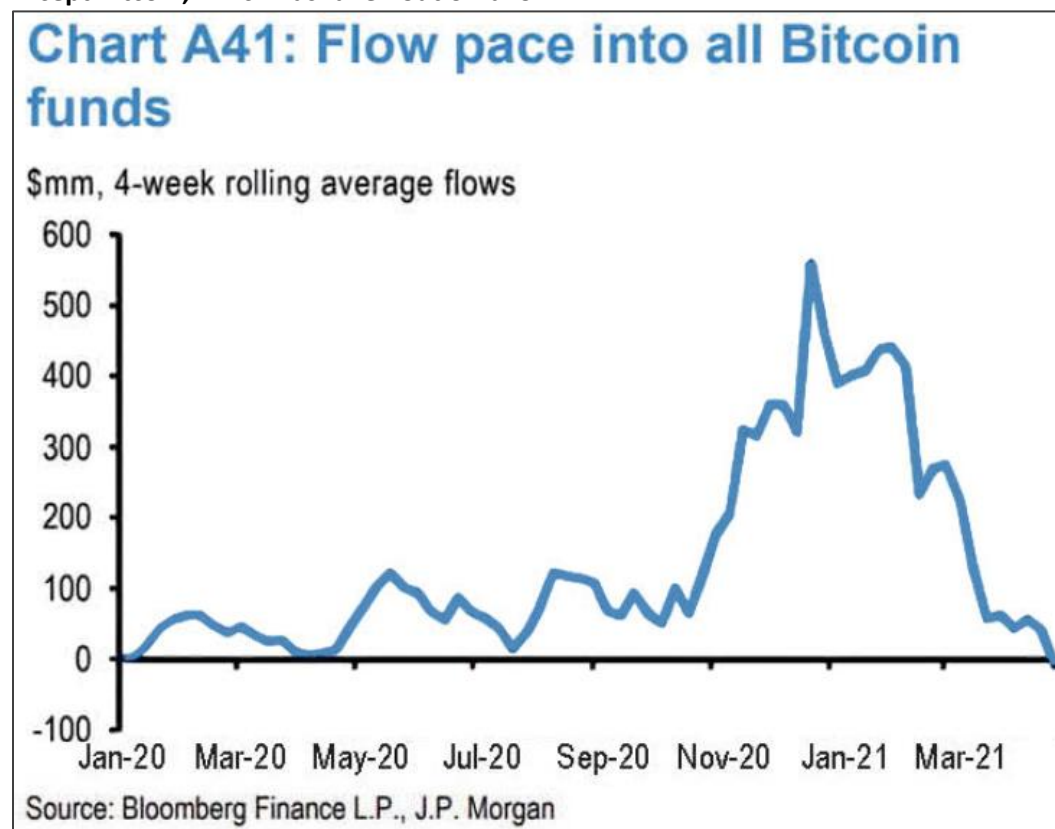
Price to Peak Earnings is still 11% away from surpassing the 2000 peak.



The Retail Trading Swarm has shifted its focus to Cryptocurrencies.



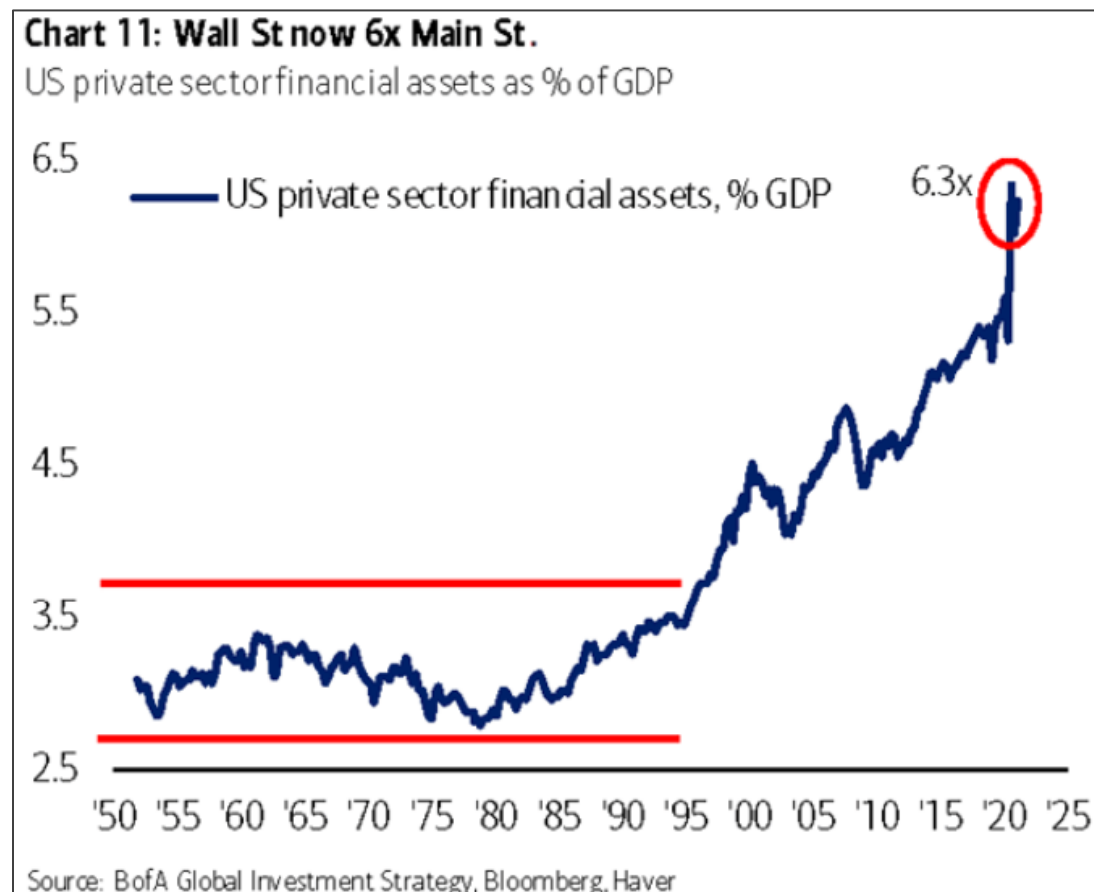
Except Bitcoin, which has fallen out of favor.



Global markets have added \$27 trillion in market cap over the course of a global pandemic.



Financial Assets to GDP climbs above 6x.



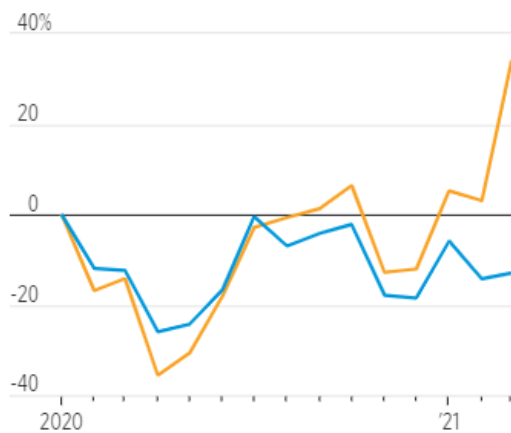
Alligator jaws forming between the number of job openings and job applicants.

Applicant Gap

Recruiting platform iCIMS has seen more job openings lately, but fewer applications by job seekers.

Change in job openings and applications since January 2020

■ Applications ■ Openings



Note: Among iCIMS's 4,000 clients, mainly large businesses

Source: iCIMS

Employment Cost Index is the highest since 2007.

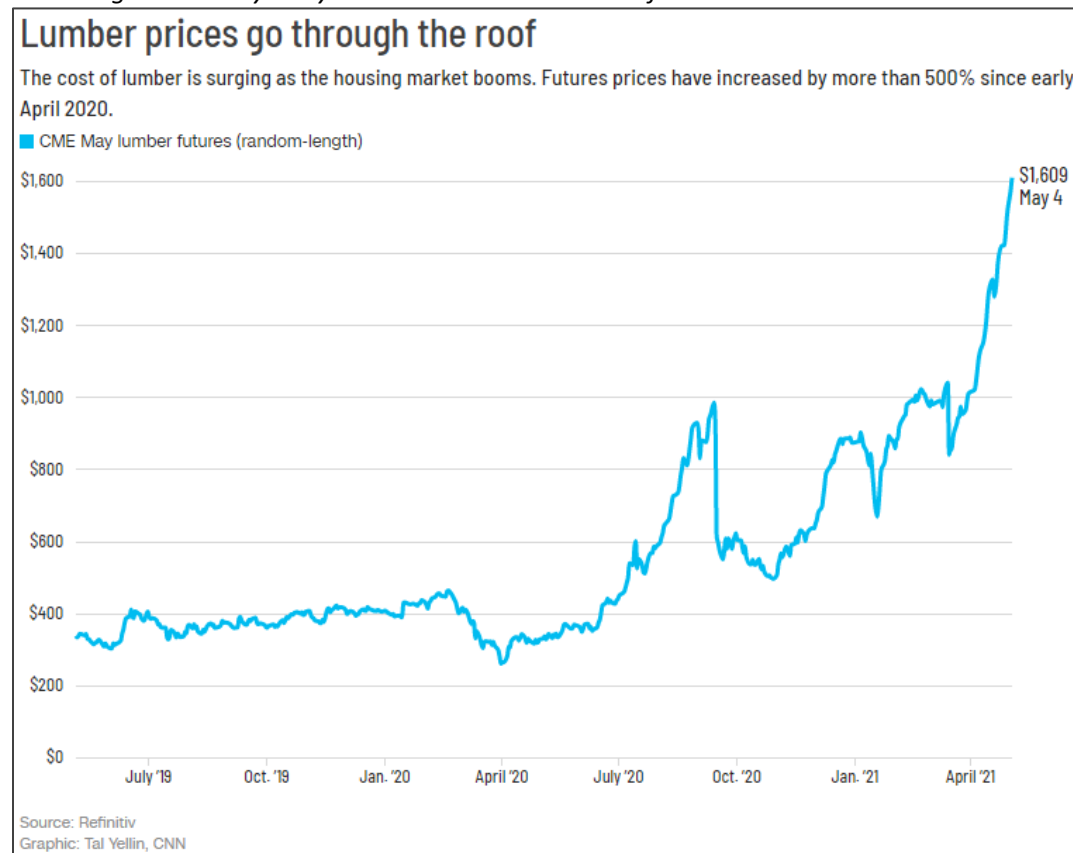
Rising Wages

1Q21 Employment Cost Index grew most since 2007



Lumber prices are making homes more expensive.

"Surging lumber prices alone have pushed the price of an average new single-family home \$35,872 higher, according to an analysis by the National Association of Home Builders." - CNN



Source: CNN, Jesse Felder

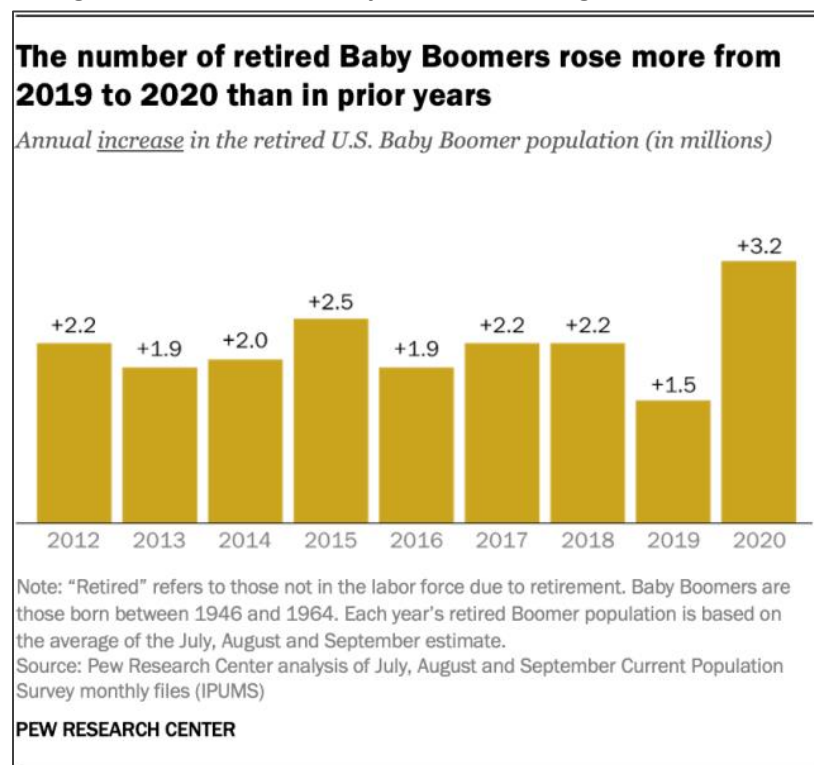
High Yield spreads sink to the lowest since 2007.



Stock allocations among US Households break the record set in 2000.



A surge in the number of Baby Boomers retiring.



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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