



Market Outlook

By Mark T Dodson, CFA

Record Prices Paid for ISM Services Index

Another increase in the Monetary composite risk score drove Market Risk Index to 89.2% on a slight worsening of a couple of bank credit indicators. It was another quiet week within the model, although psychology finally moved down from its 100% reading.

There are still no glaring technical flaws in the market at which to point, other than the NASDAQ High Low Logic Index sell signal from several weeks ago. However, the relative weakness in NASDAQ stocks managed to generate a modest buy signal on our NASDAQ to NYSE Volume indicator this week, but the record is mixed on that one when the market is still so close to highs. These indicators mainly highlight the underperformance and dramatic rotation out of popular tech stocks that fueled the market in 2020. Notably, the Tech stock and SPAC bubble peak in 2021 coincided with peak euphoria for many of our psychology indicators.

As AMC's continued meteoric speculative rise this week caught everyone's attention, we saw what looks like the beginning of another ramp in call buying in options markets as well as another push higher in both volume and assets of levered ETFs and funds.

Bond momentum (which gave the sell signal for Treasuries last August) is officially in oversold territory now. Still, an imminent buy signal is nearly impossible with the current state of that indicator. The correlation between Treasury bonds and stock prices has gone positive, emphatically, in a way that may end up looking like the point that marked a shift to an inflationary era, in hindsight.

There has been no letup in inflation pressure warnings. ISM Services Prices Paid Index hit an all-time high in May. Used car prices are still running hot, and rent prices are accelerating now too. Rents influence nearly 40% of CPI, so expect inflation readings to continue to push higher. Historically, it hasn't been the best timing to press bets on stocks when inflation pressures are running this hot. Until we see signs that either inflation or investor euphoria are easing, our equity allocation is unlikely to increase.

Market Risk Index

Rec Allocation 25% Underweight

89.2%

Category Percentiles

Psychology - P6



Monetary - M4



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

| | |
|---------------------|----------|
| Levered Investments | Negative |
| Flow of Funds | Negative |
| Volatility | Negative |
| Technicals | Negative |

Largest Monetary Influences

| | |
|----------------|----------|
| Inflation | Negative |
| Interest Rates | Negative |
| Velocity | Positive |

Valuation

| | |
|-----------------------------|-------|
| 7-10 Year Rtn Forecast | -0.3% |
| 10Yr Treas Yield (on 06/01) | 1.6% |

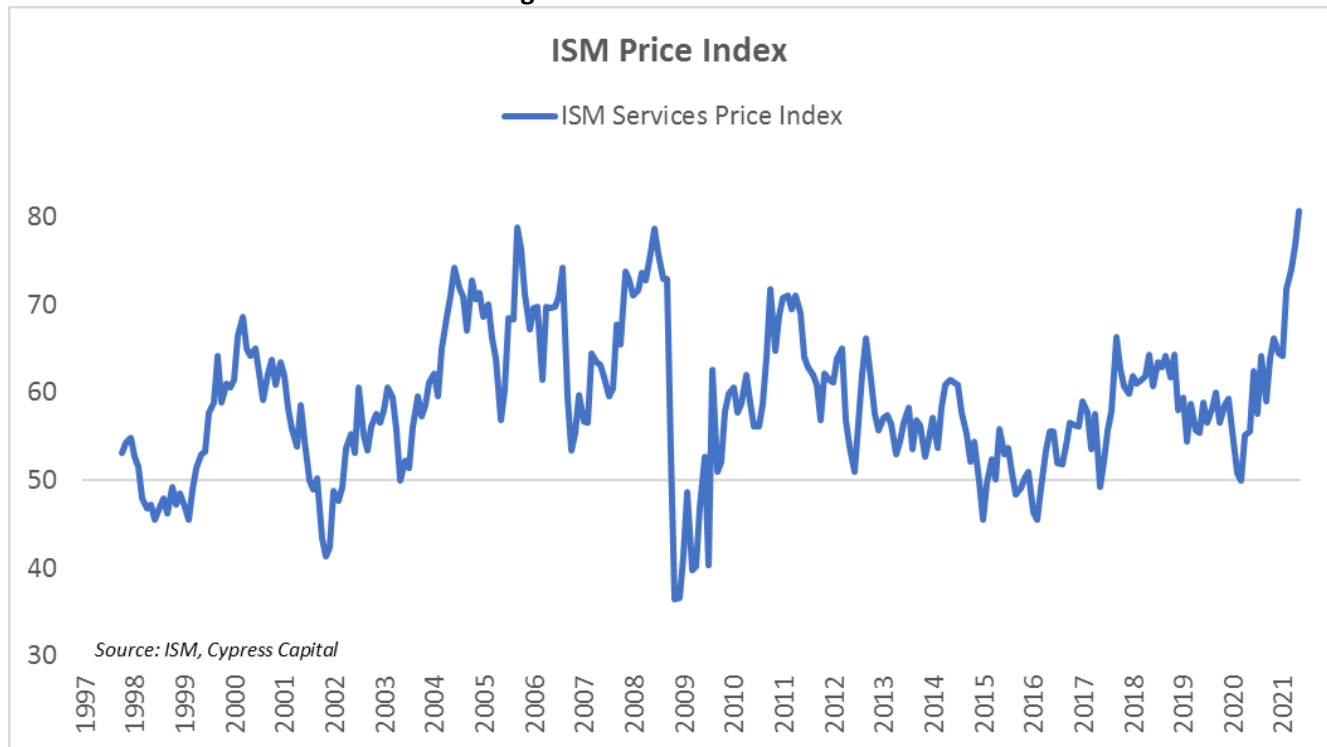
Market Trends

| | |
|-------------------|--------------------|
| USEquities | Bullish Investment |
| Intl Equities | Bullish Investment |
| REITs | Bullish Investment |
| Broad Commodities | Bullish Investment |

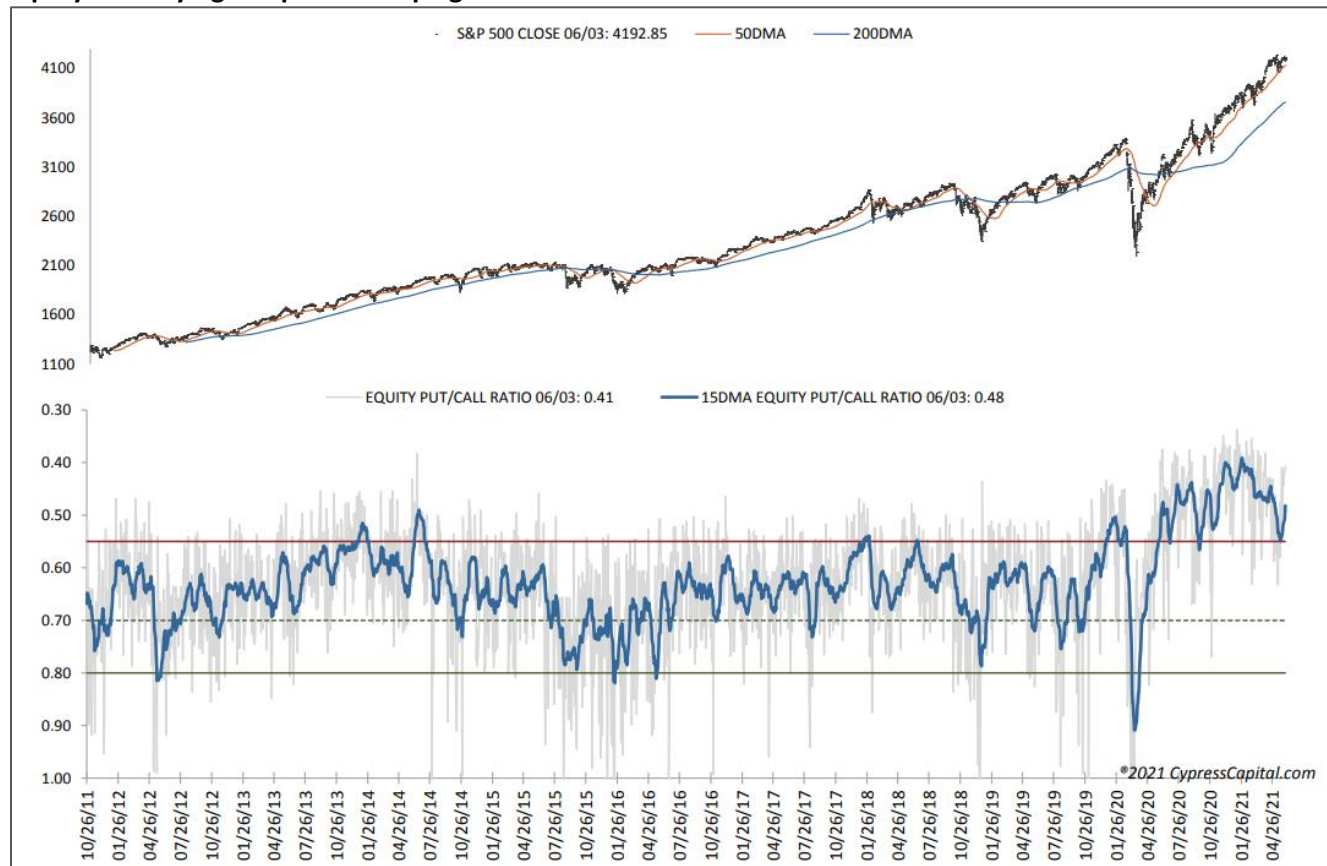
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

ISM Services Price Index hits an all-time high.



Equity Call buying ramped back up again in all the excitement around AMC Entertainment.



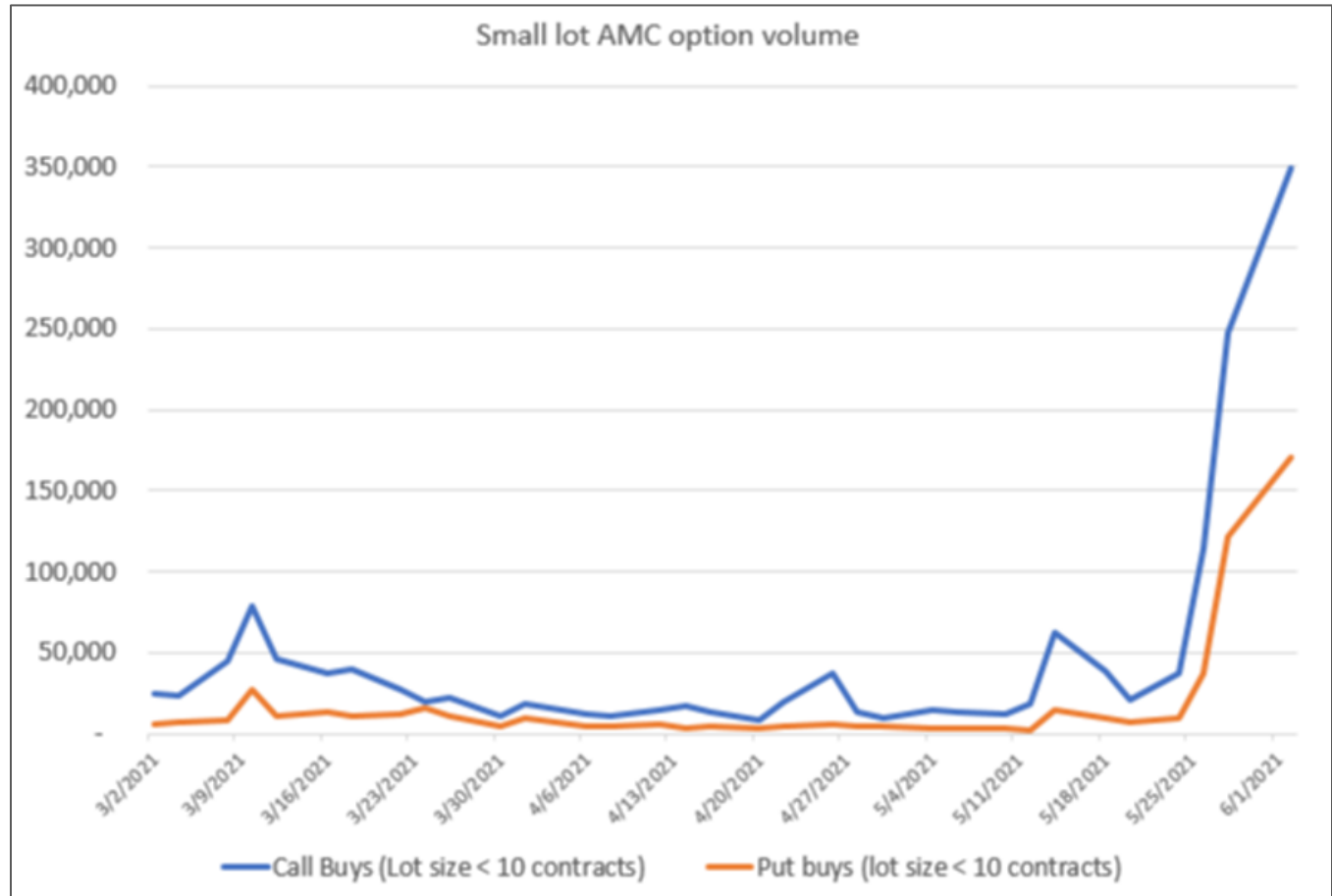
AMC's Market Cap has zoomed past Zoom!

AMC Really Overtakes Zoom!

After issuing stock, the cinema chain's market cap is up 2400% in 17 months



Small lot options trading in AMC surged.

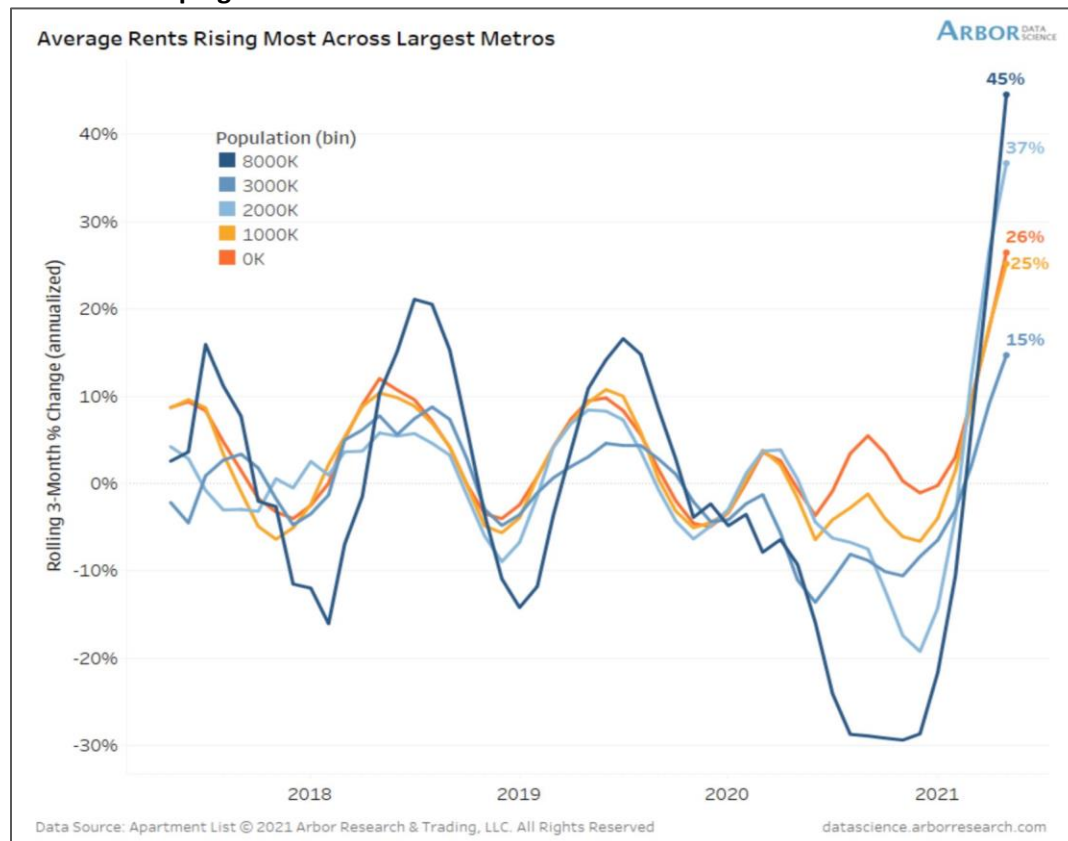


Source: Financial Times

Record delivery delays in production materials for manufacturers.

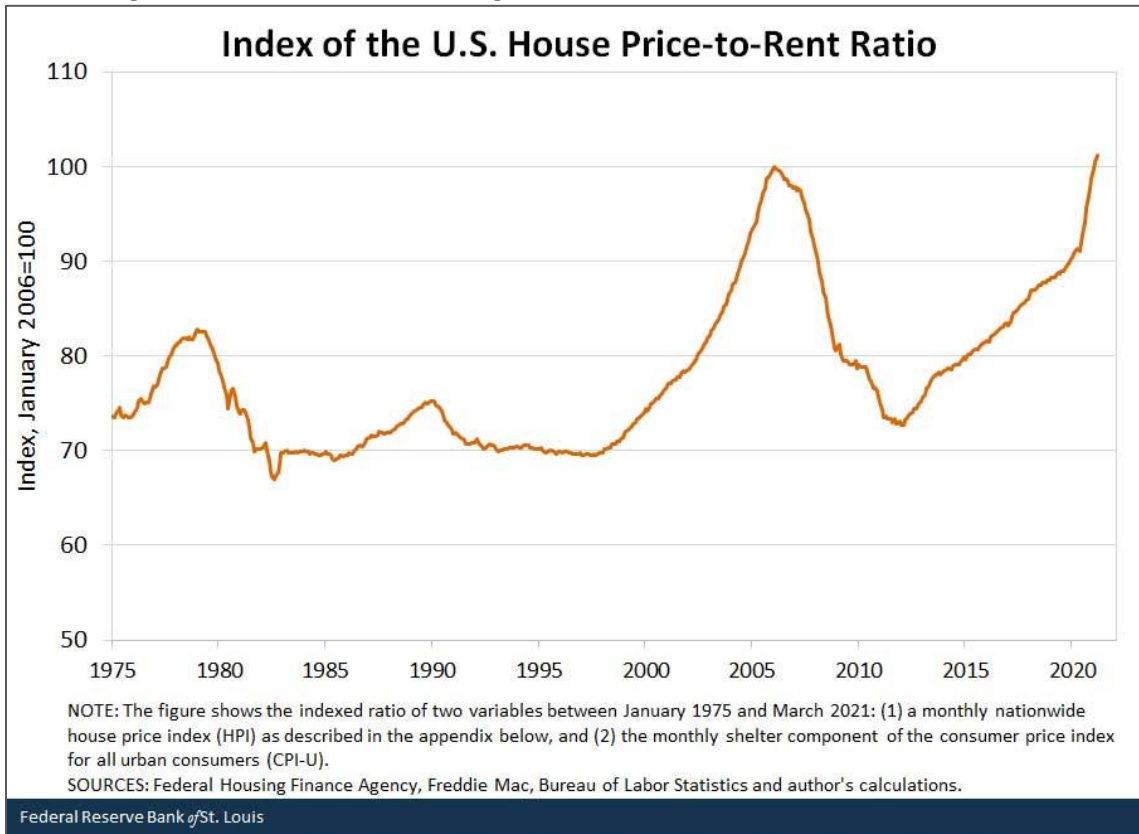


Rents are ramping.

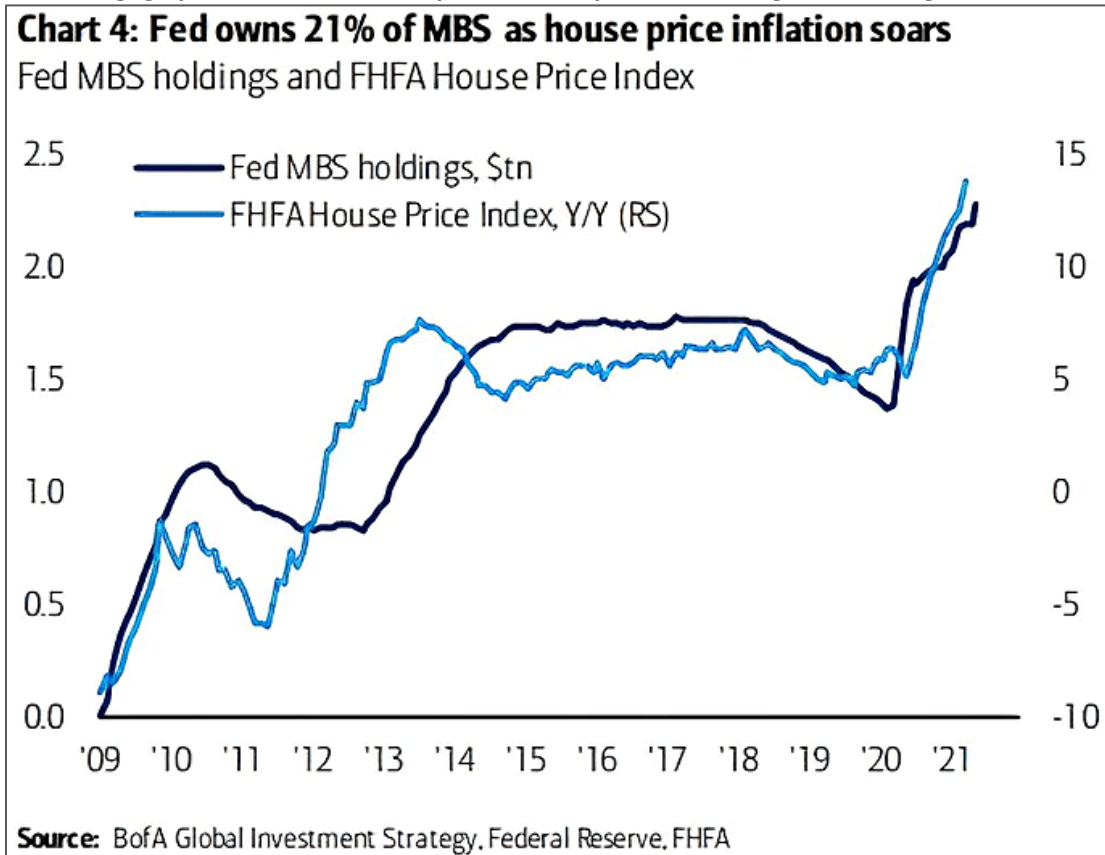


Source: Liz Anne Sonders

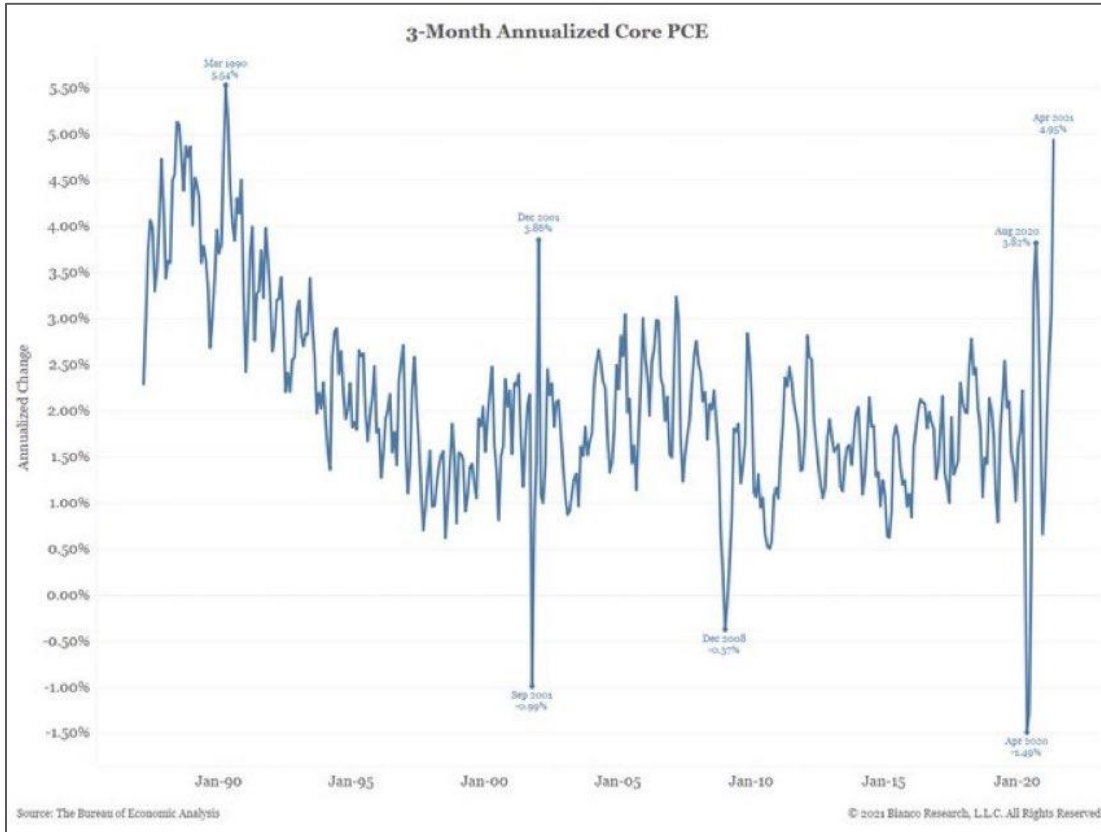
US Housing Valuations broke the housing bubble record.



Fed mortgage purchases and home prices tend up and down together. Go figure.



Fastest PCE Inflation since the early 1990s.



Cost of hedging against a crash is the highest since early 2018.



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.