Cypress CAPITAL

Market Outlook

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The Golden Age of Grift

Market Risk Index dropped for the fourth week in a row - down to 77% - but still above the 75% level that roughly marks stock market environments with substantial drawdown risk. The Monetary composite was the driver again, as markets signal that we're clearly in an easy money environment.

We have three Monetary categories near their maximum positive rating – Interest rates, Exchange rates, and Velocity. Typically, this would be enough to signal a solid bullish setup for the Monetary composite, but those three horsemen are running straight into the giant wall that is our Inflation category. The Inflation category is at maximum negative, and the PPI release today did nothing to alleviate our inflationary concerns, with the rate of PPI inflation setting another new high. PPI inflation above 10% is something that we only witness a handful of times over our careers. Even in the economic environments where inflation proved to be transitory in hindsight, it doesn't eliminate the possibility or decrease the probability of a declining stock market.

The other roadblock for easy money – a roadblock in our willingness to put hard-earned capital at risk – comes from continuing signals of severe froth within Psychology and Valuations. Psychology worsened slightly, as Net Levered ETF Sentiment, which tracks the daily dollar volume going into levered long ETFs relative to inverse ETFs, set another new record this week.

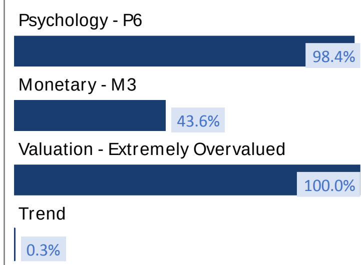
Surprisingly, the shortened Labor Day market week gifted us two golden nuggets for lovers of anecdotal signs of greed and overconfidence. First, Ken Rogoff penned an opinion piece in the Wall Street Journal entitled, "Why the Dow 36000 Forecast Was Right." He suggested that a revisit of the original Dow 36,000 forecast made by James Glassman and Kevin Hassett in 1999 was in order. *Dow 36,000* was the infamous book (and prediction) arguing that stocks were significantly undervalued at the height of the dot-com bubble. After two stock market crashes ensued over the following ten years, it was often lampooned and compared with Irving Fisher's "permanently high plateau" platitude from 1929.

Market Risk Index

Rec Allocation 25% Underweight

77.0%

Category Percentiles



Largest Psychology Influences	
Levered Investments	Negative
Option Activity	Negative
Consumer Confidence	Negative
Techincal Indicators	Negative

Largest Monetary Influences	
Inflation	Negative
Velocity	Positive
Interest Rates	Positive

Valuation	
7-10 Year Rtn Forecast	-0.4%
10Yr Treas Yield (on 09/07)	1.4%

Market Trends	
US Equities	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.

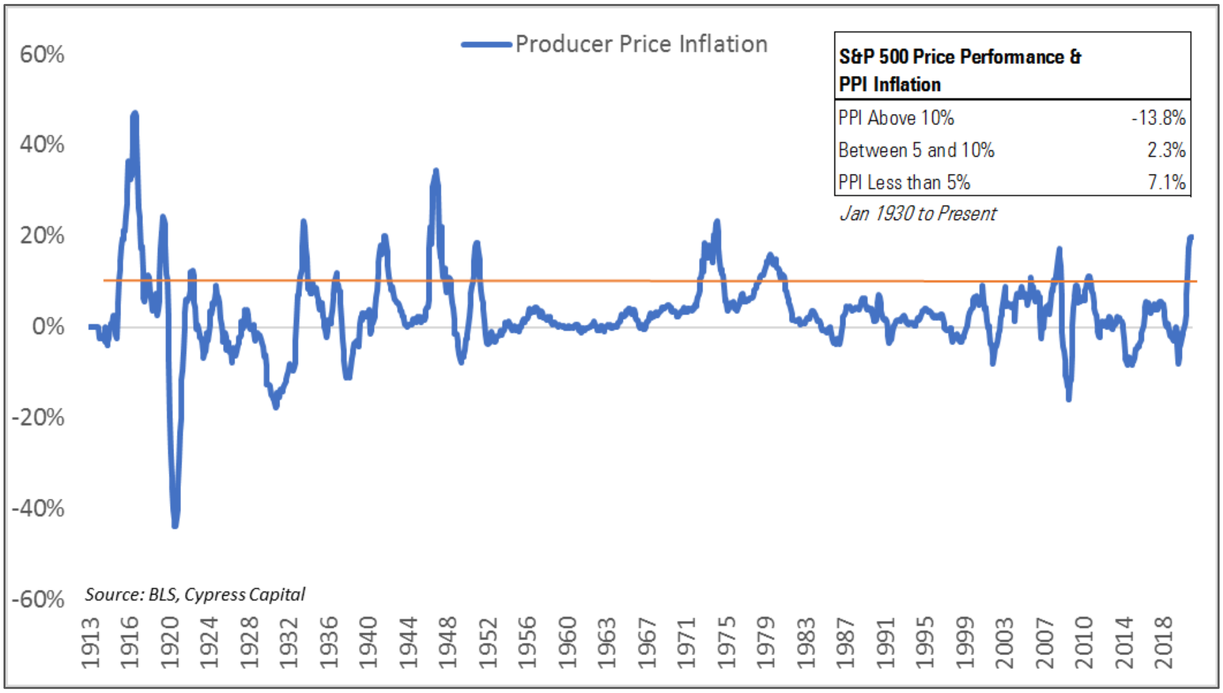
Rogoff argued that the Dow 36,000 forecast was on the money and not wrong at all. Ironically, that original Dow 36,000 forecast was released the last time our valuation model forecasted negative equity returns for the stock market. It is fitting that Ken Rogoff would come to defend it when valuations have again driven equity return expectations into negative territory.

Another irony is that Ken Rogoff wrote it. His popular book, *This Time is Different,* was released in 2009, and it scared most of the investing public into fearing government deficits. The book was released after the Great Financial Crisis was in the rear-view mirror and when the stock market could still be bought on the cheap. The contrarian in us would prefer to read the piece defending Dow 36,000 in September 2009 and the book warning about the dangers of government deficits run amok in September 2021, not the other way around.

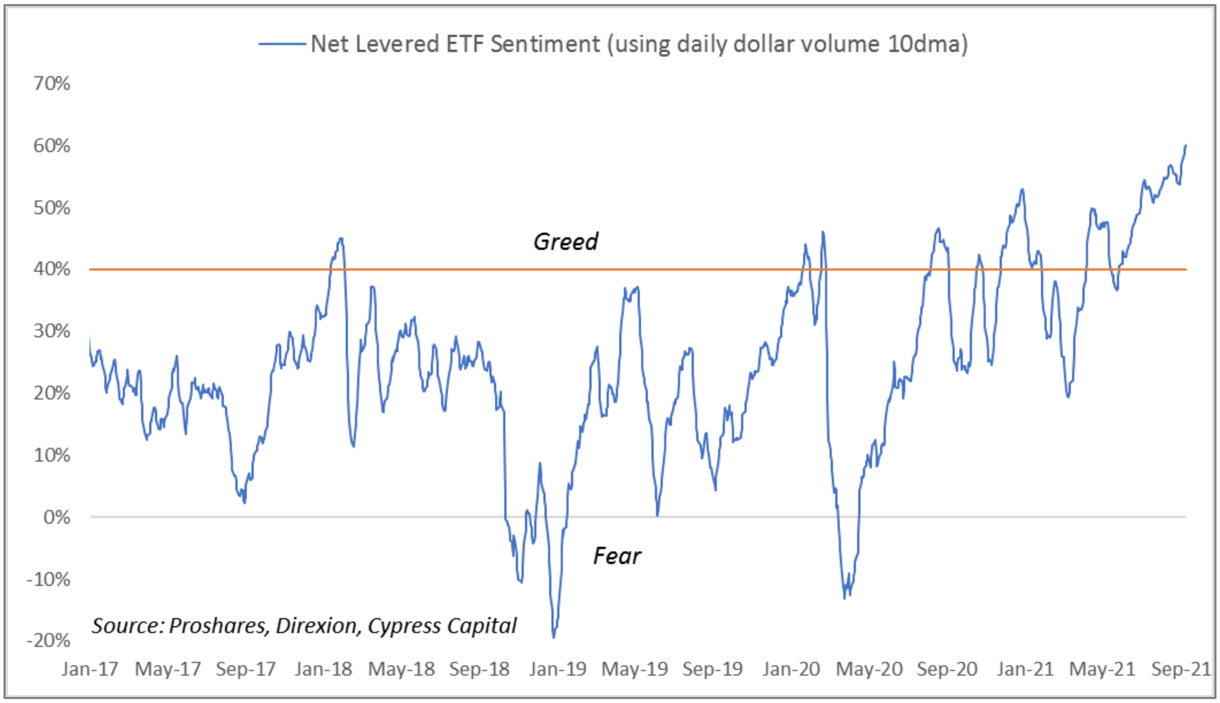
Second, this was also a week we learned that it isn't just our politicians who trade on policy-related inside information, but also our central bankers. Two Fed governors have been trading million-dollar positions in S&P futures, while also voting on historic quantities of experimental monetary stimulus. After it hit the wire, they showed contrition and agreed to sell their holdings – with stock market valuations near all-time-highs – what humility and integrity. This is the golden age of grift.

Charts of the Week

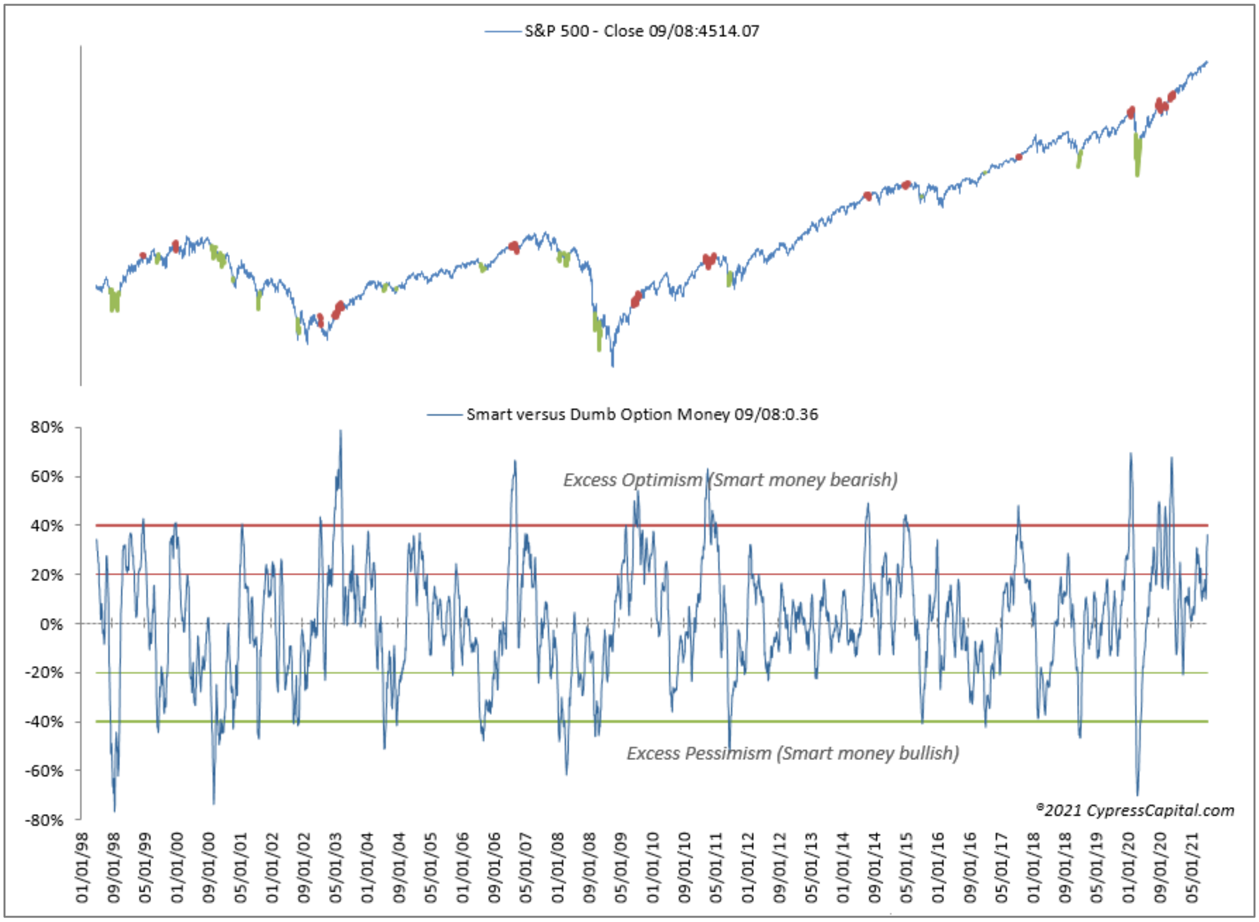
PPI moved higher in August. The stock market often struggles when PPI inflation is above 10%.



Record greed reading on our Net Levered ETF Sentiment indicator

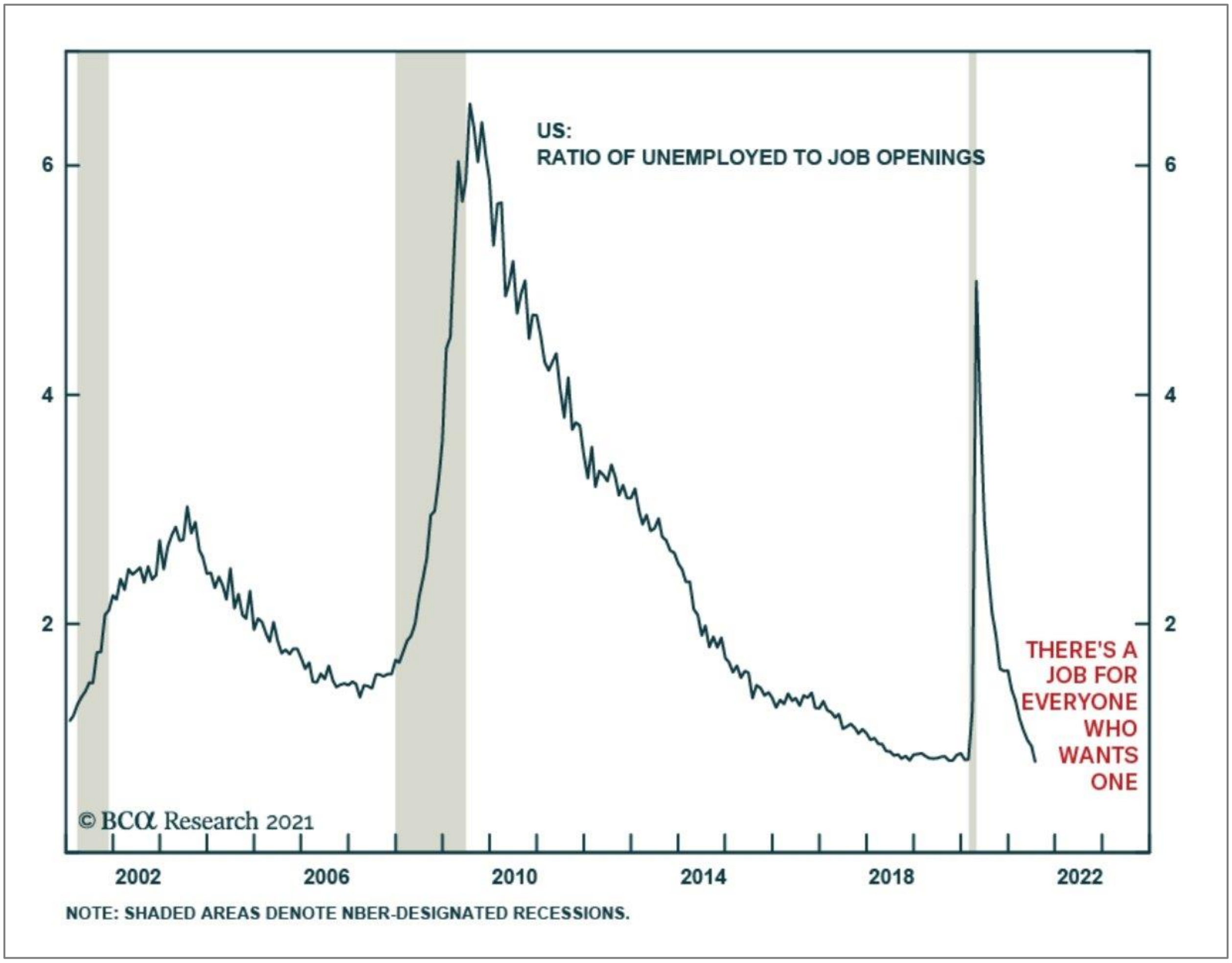


Smart versus Dumb Money Option indicator is moving back up toward extremes.



What a chart. Blue-collar wage growth exceeds white-collar.

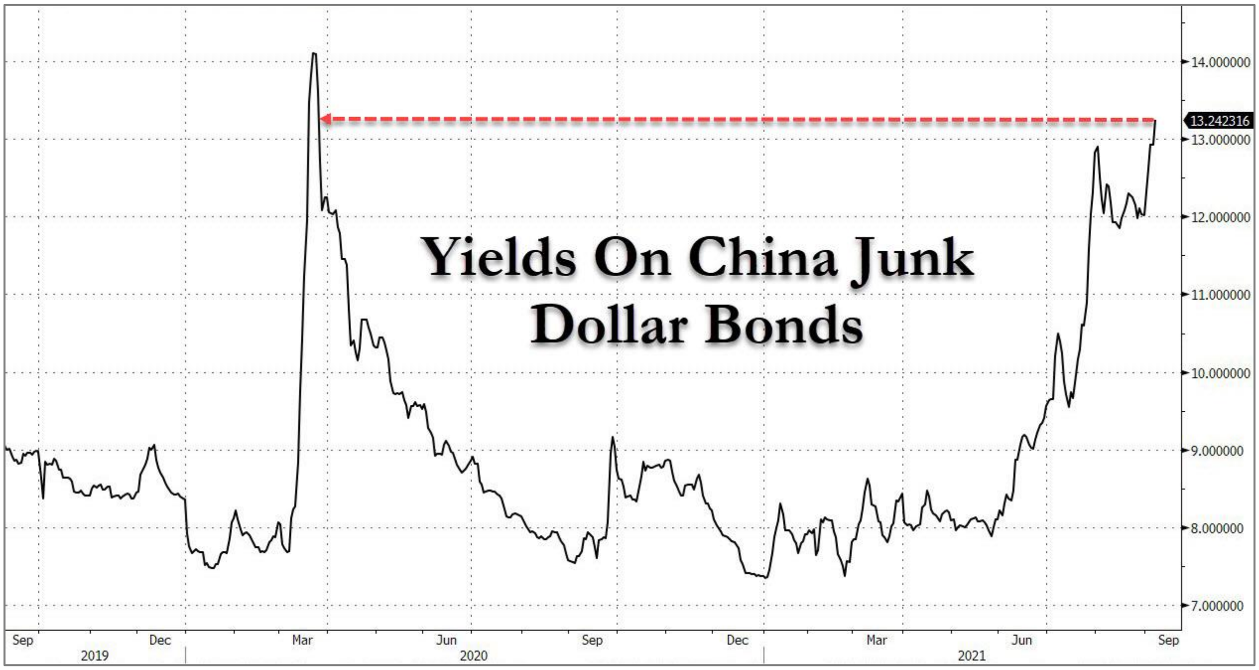
Jobs for everyone. Record low in the ratio of Unemployed to Job Openings



Financial conditions have never been easier while inflation is running hot in a tight labor market.

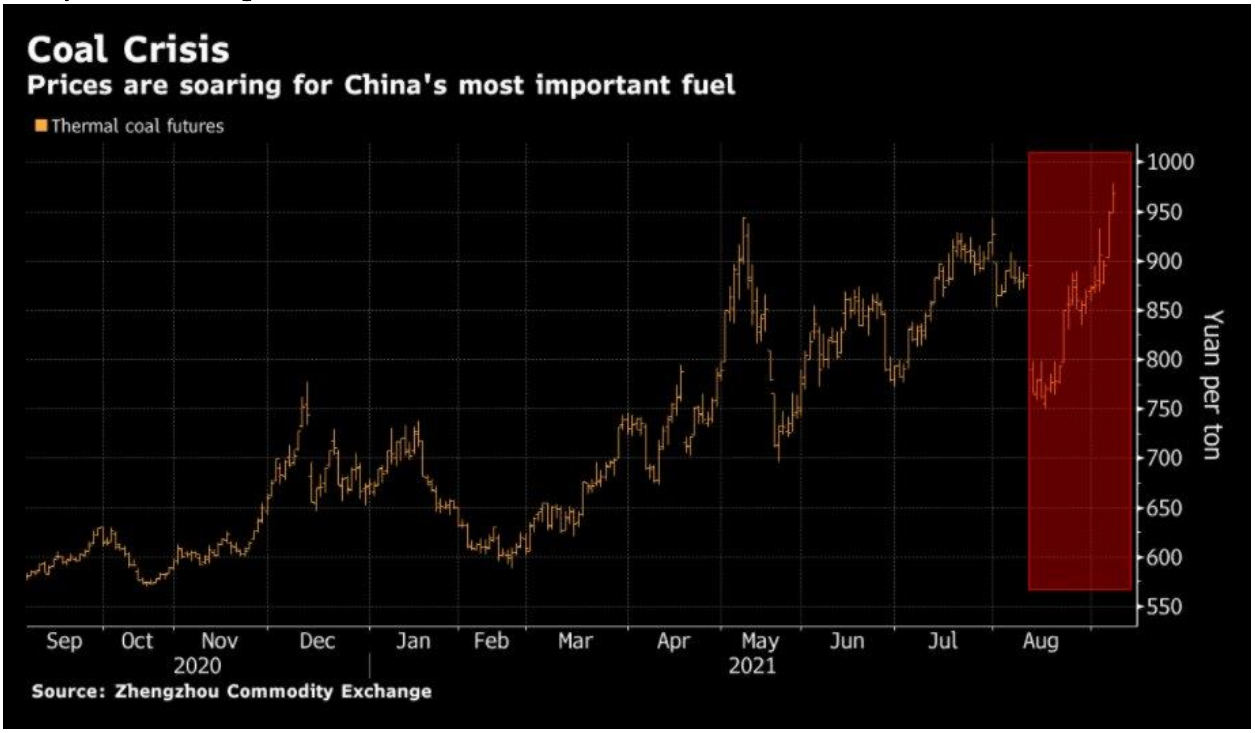
Record low junk bond yields and near record-low spreads.

Meanwhile, in China, junk bond yields are on the rise.



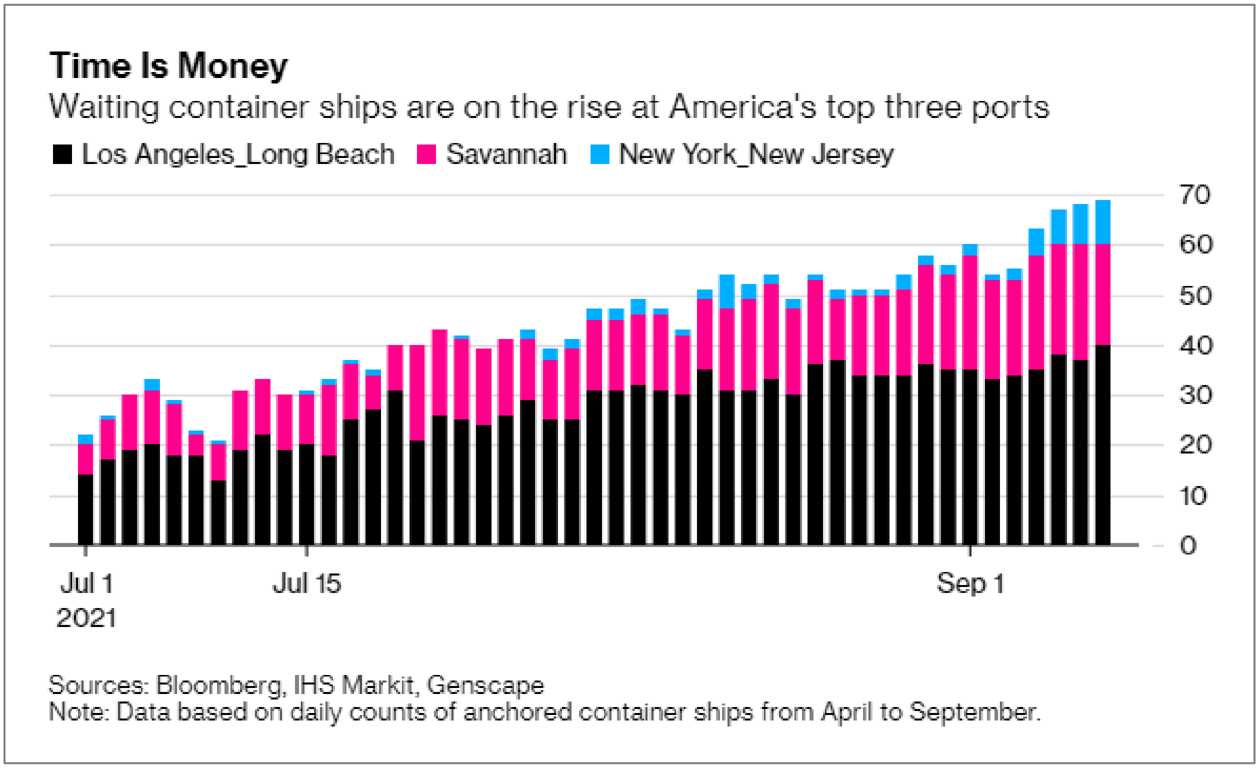
Source: Zerohedge

Coal prices are rising in China.

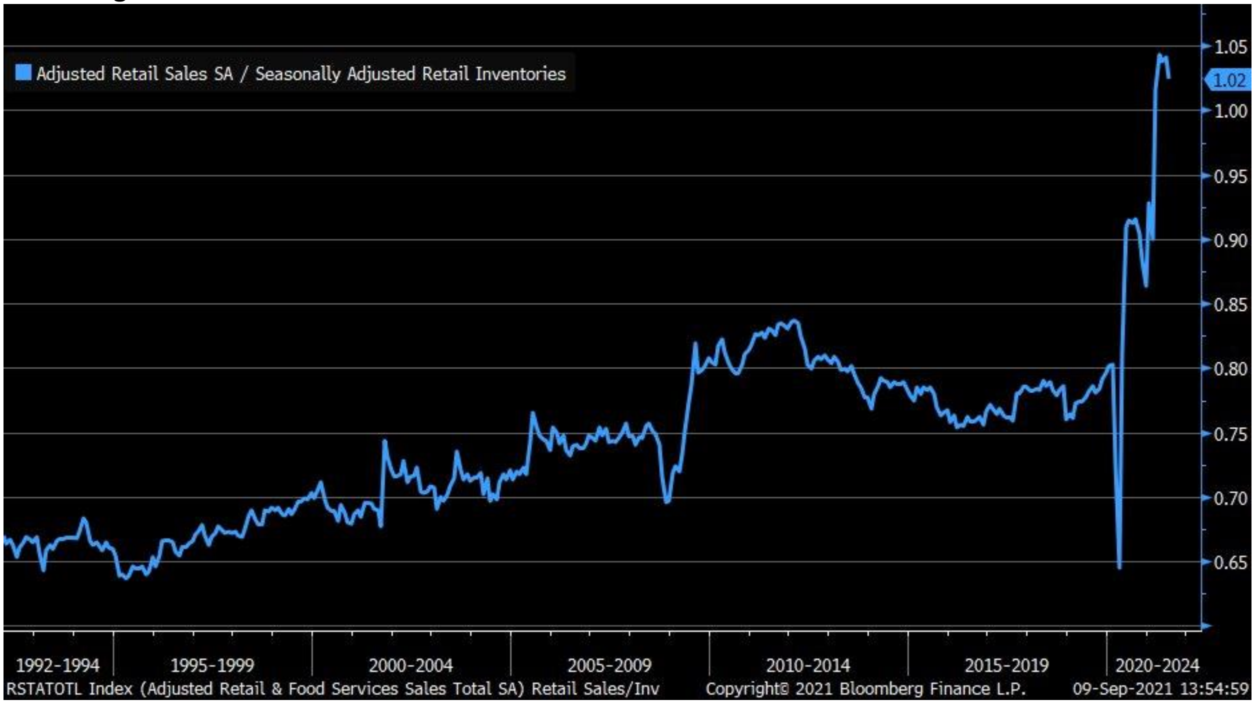


Electricity prices are rising in Europe.

Shipping delays are still rising.

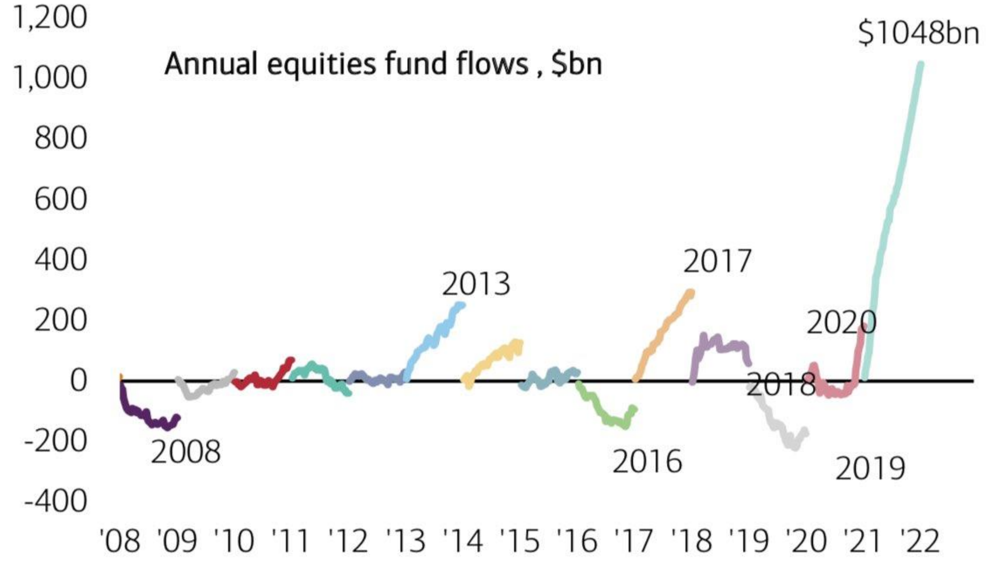


Record tight inventories



Sentiment check - record Inflows into the stock market.

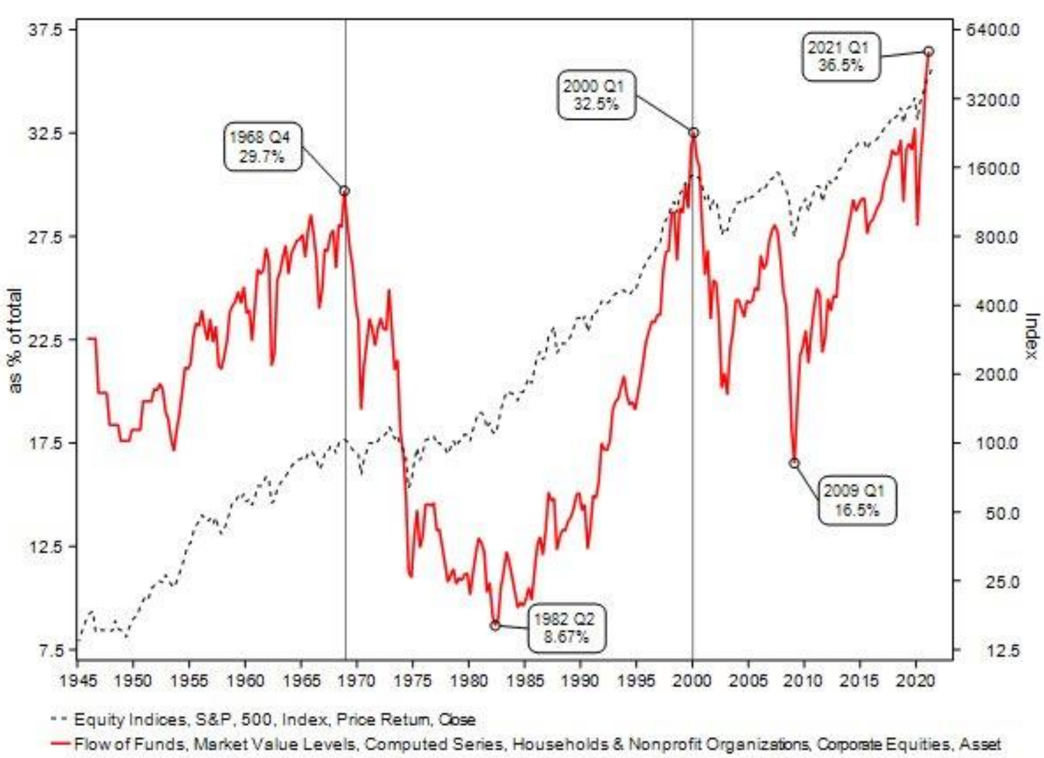
Chart 5: Record annualized inflow to global stocks in 2021
Annual equities fund flows ($bn)



Source: BofA Global Investment Strategy, EPFR

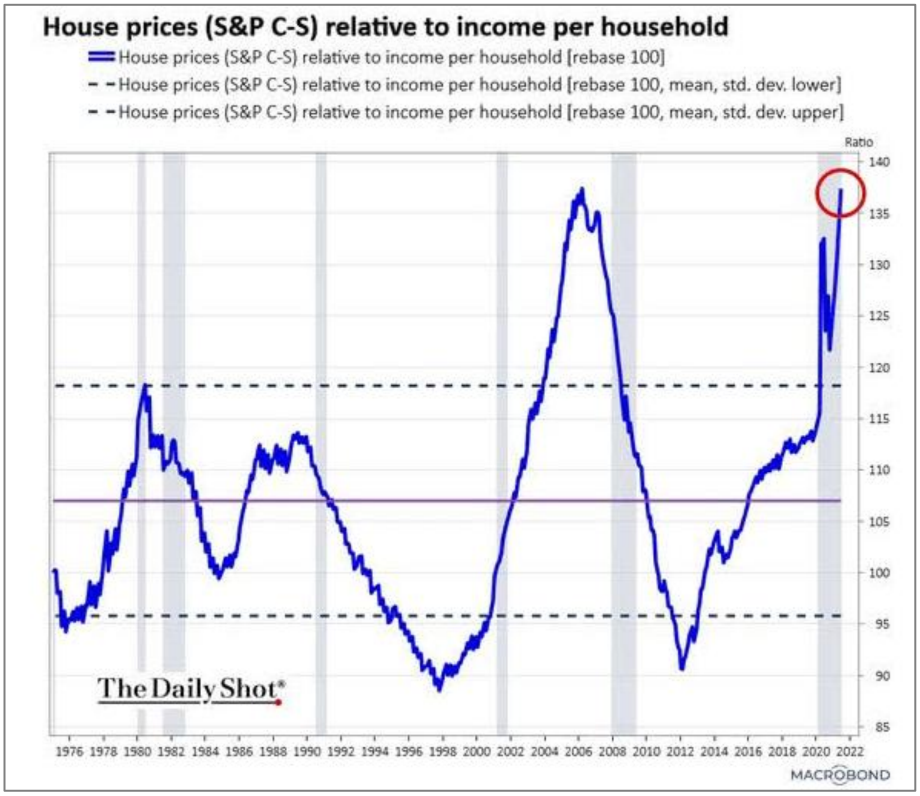
Households have record exposure to equities.

FIG 2: US households' direct exposure to equities (as % of their financial assets)

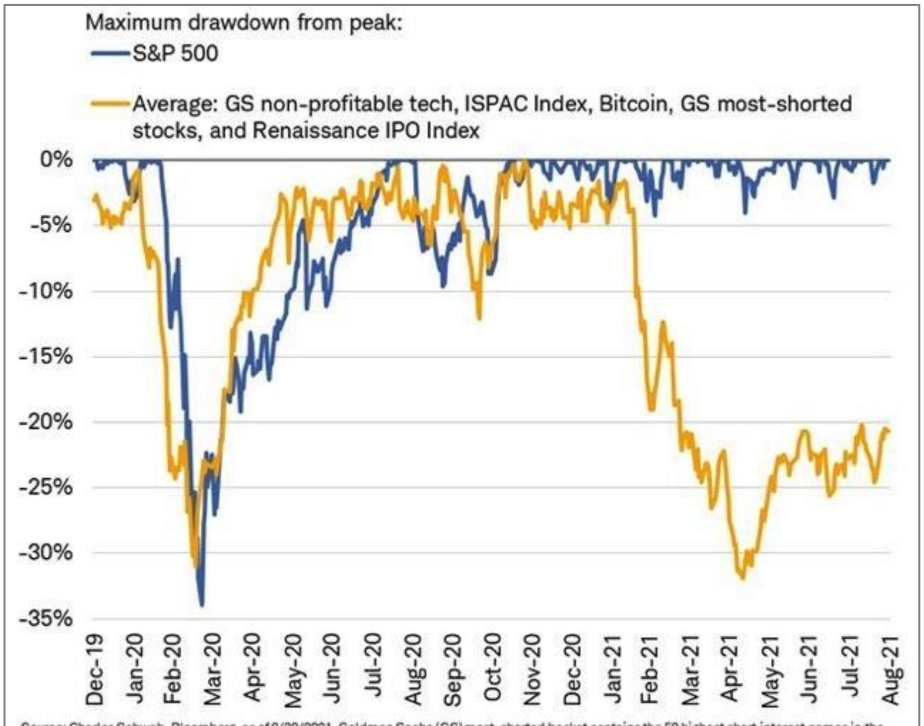


Source: Longview Economics, Macrobond

Home prices relative to income beats the housing bubble record.

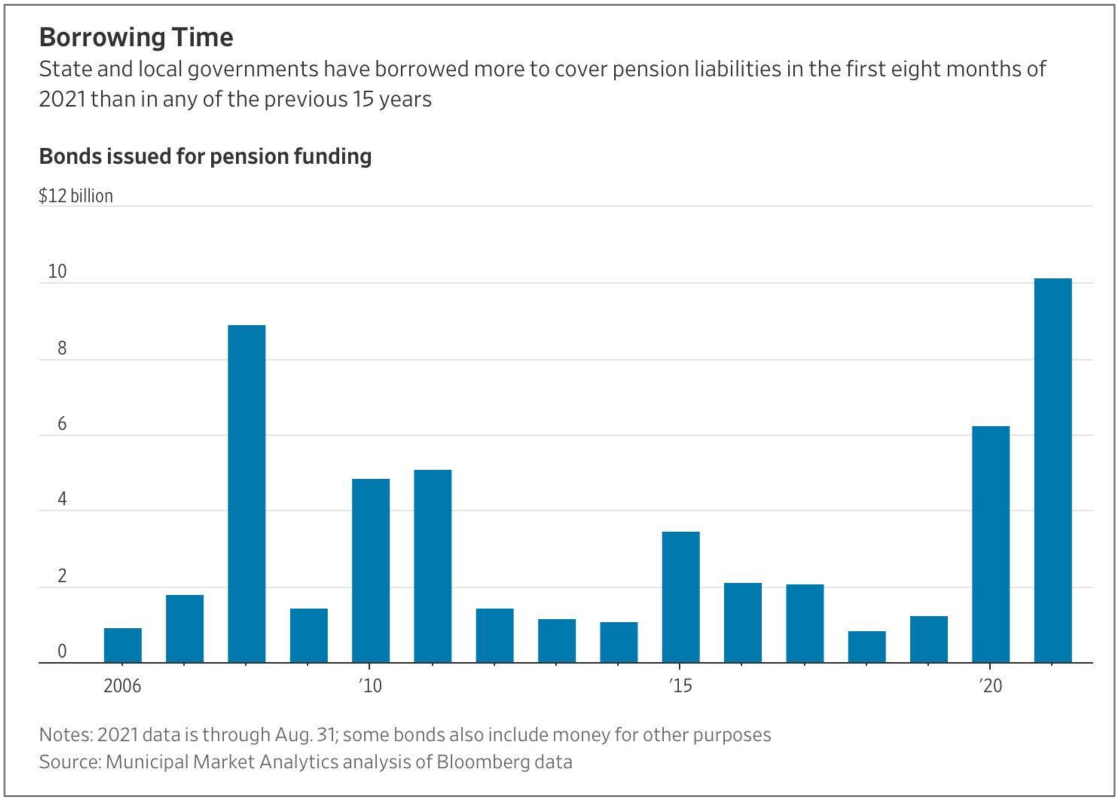


Correction occurring under the surface in the market's most speculative names.

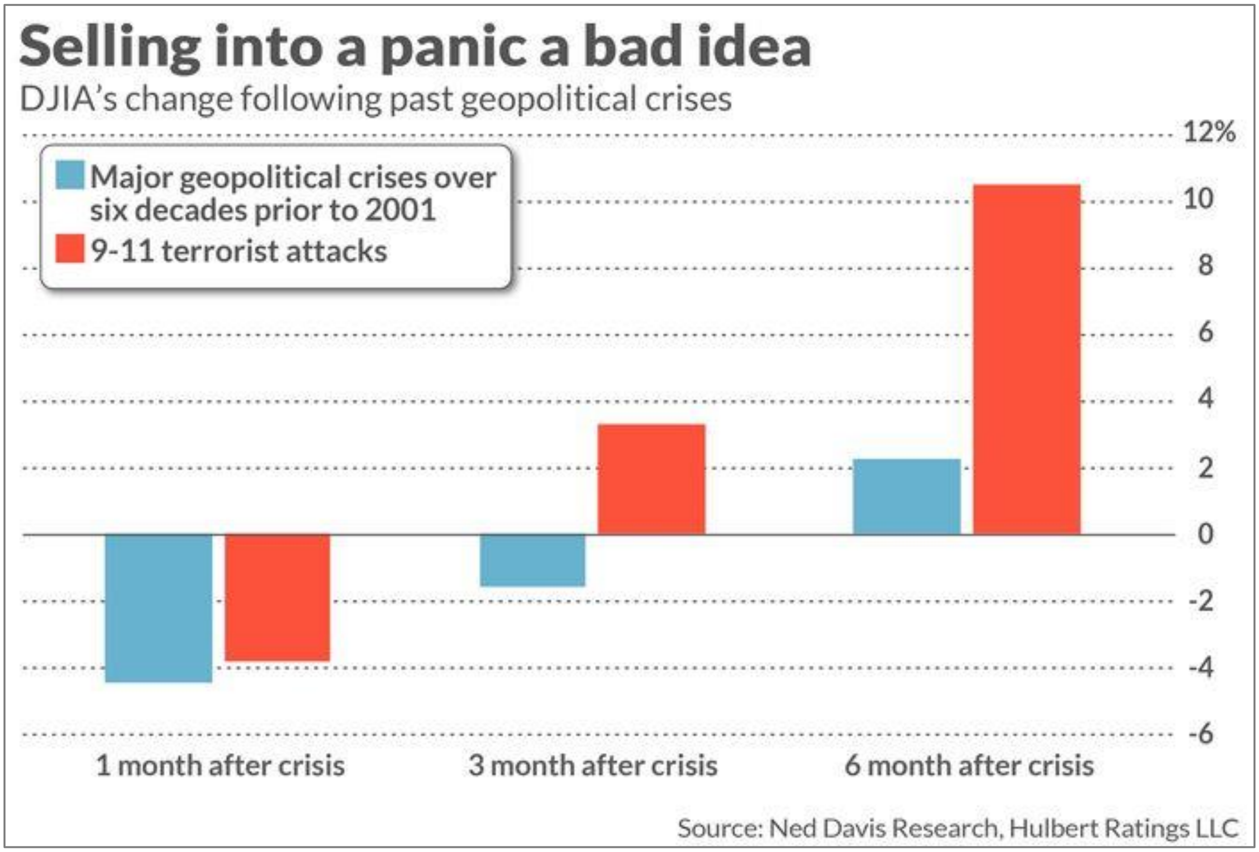


Source: Charles Schwab, Bloomberg, as of 8/30/2021. Goldman Sachs (GS) most-shorted basket contains the 50 highest short interest names in the Russell 3000; names have a market cap greater than $1 billion. GS non-profitable tech basket consists of non-profitable U.S.-listed companies in innovative industries. Technology is defined quite broadly to include new economy companies across GICS industry groupings. ISPAC Index is a passive rules-based index that tracks the performance of the newly listed Special Purpose Acquisitions Corporations ("SPACs") ex- warrant and initial public offerings derived from SPACs since August 1, 2017. Renaissance IPO Index is a diversified portfolio of US-listed newly public companies that provides exposure to securities under-represented in broad benchmark indices. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee future results.

Record borrowing by state governments to cover pension fund liabilities.



Geopolitical crises are common concerns of investors and typically a poor reason for concern.



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.

for more information.