# Market Outlook

By Mark T Dodson, CFA

## Short-Term Sentiment turns negative for the first time in 11 months.

Market Risk Index rose to 78.6% on weaker reading from the Monetary composite. Psychology improved marginally. Although Psychology is still in euphoria territory, it's notably the best reading since August of last year, right as speculative behavior went into overdrive – and stayed there.

Our short-term sentiment composite, made up of seven of our favorite shorter-term measures of investor sentiment, briefly crossed into pessimism territory before rebounding quickly on a sudden surge in corporate insider selling this week. While not an indication of panic or market pessimism, it is the first net bearish sentiment reading since the vaccines were approved last November – the event which marked the earnest start of the re-opening trade.

Much froth remains in options markets – 2021 is on pace to be the first year where options trades' notional value exceeds the value of shares traded in the underlying market. Because there is so much froth lurking in options markets, speculative bulls should hope to see the dip-buyers regain their nerve to move in quickly and keep confidence elevated. The worst thing for a euphoric market is for cracks to appear in rose-colored glasses.

The Monetary composite risk score increased again for the second week in a row after putting together an impressive string of improvements toward the second half of the summer. Our inflation scores first started throwing up big red flags in March, so we're nearly seven months into the Fed's transitory narrative, and many of the readings and indications of inflation pressures have worsened since then.

Releases of both the ISM Price Index and Richmond Fed Prices Paid Indices indicate that inflation will remain a big thorn in the side of our scoring of monetary conditions. This basket measures the fuel needed for bull markets to power forward. ISM Prices Paid index ticked up to 81.2. Since 1950, stock market returns annualized -3.6% when ISM was above 75. You have to give 2021's stock market a lot of credit – that annualized historical return is less negative than it was before the start of this year, as this market has shaken off a steady drumbeat of worsening inflation news thus far.

The unfolding inflation story is a simple one – global governments throw World War deficit quantities of money at households and businesses to stimulate demand in an economy that is constrained in how much it can supply. It puts central bankers in a pickle because any shocks to confidence in this environment will not be cured by more of the same until those inflation pressures are alleviated.

### Market Risk Index

Rec Allocation 25% Underweight

**78.6%**

### Category Percentiles

Psychology - P6: 97.6%

Monetary - M3: 47.6%

Valuation - Extremely Overvalued: 100.0%

Trend: 9.5%

**Largest Psychology Influences**

| | |
|---|---|
| Levered Investments | Negative |
| Fund Flows | Negative |
| Technical Indicators | Negative |

**Largest Monetary Influences**

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

**Valuation**

| | |
|---|---|
| 7-10 Year Rtn Forecast | -0.4% |
| 10Yr Treas Yield (on 09/22) | 1.3% |

**Market Trends**

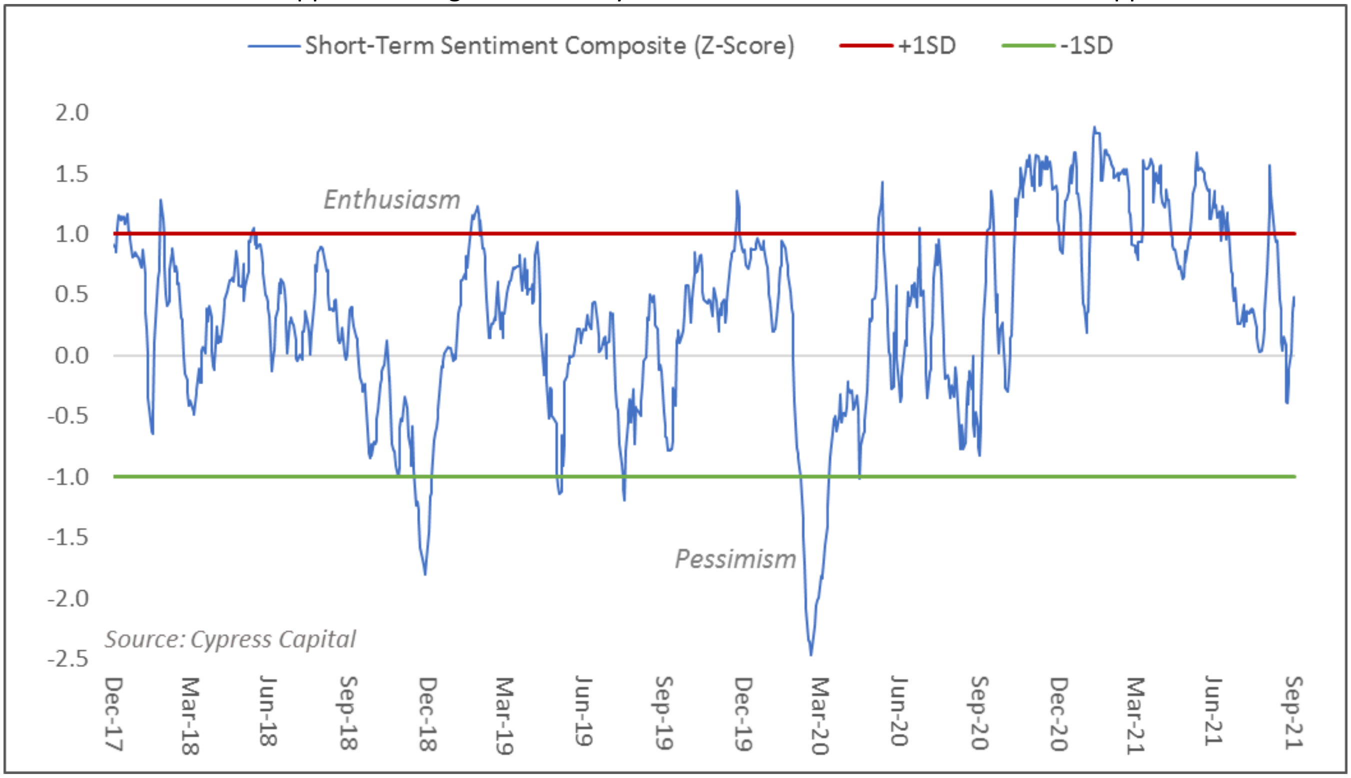
| | |
|---|---|
| US Equities | Bullish Investment |
| Intl Equities | Bullish Investment |
| REITs | Bullish Investment |
| Broad Commodities | Bullish Investment |

*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.*

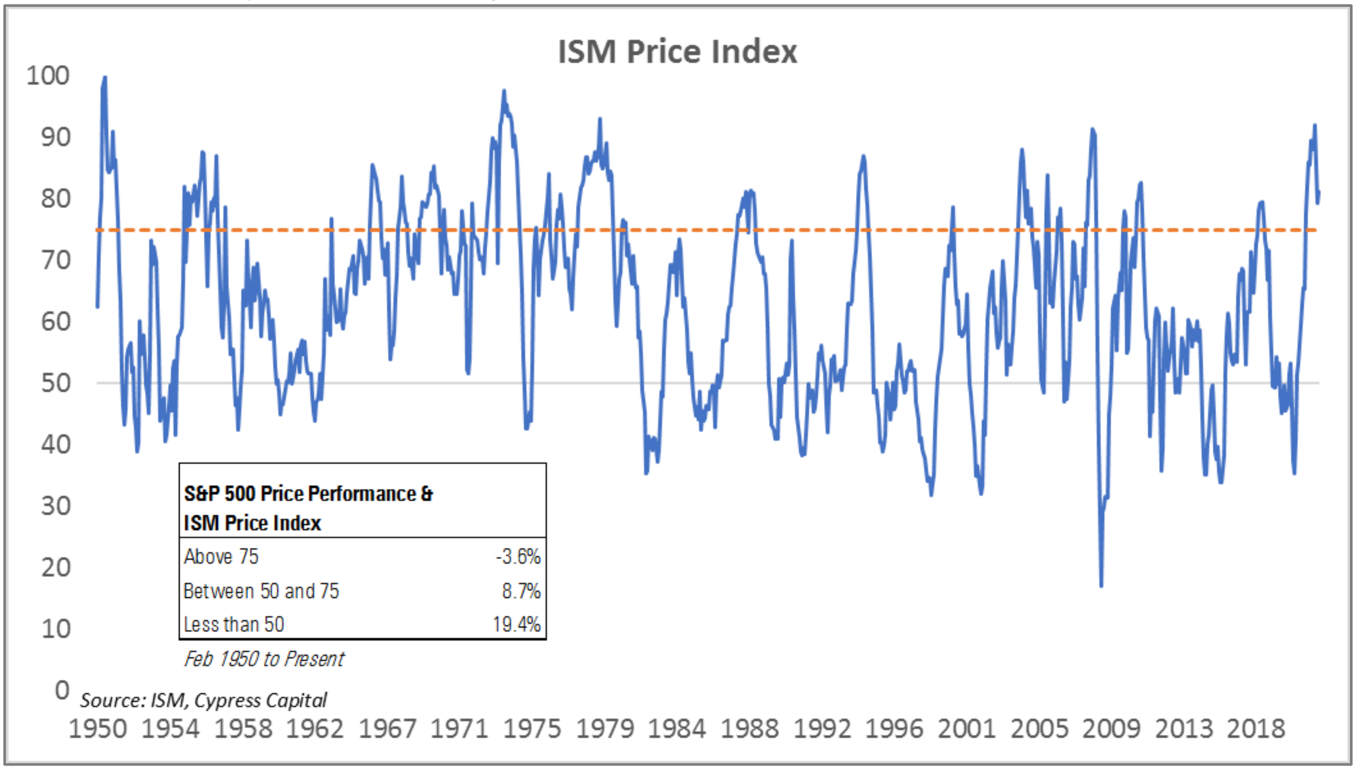
## Charts of the Week

**Short-Term Sentiment Composite**

Short-Term sentiment dipped into negative territory for the first time since the vaccine was approved.



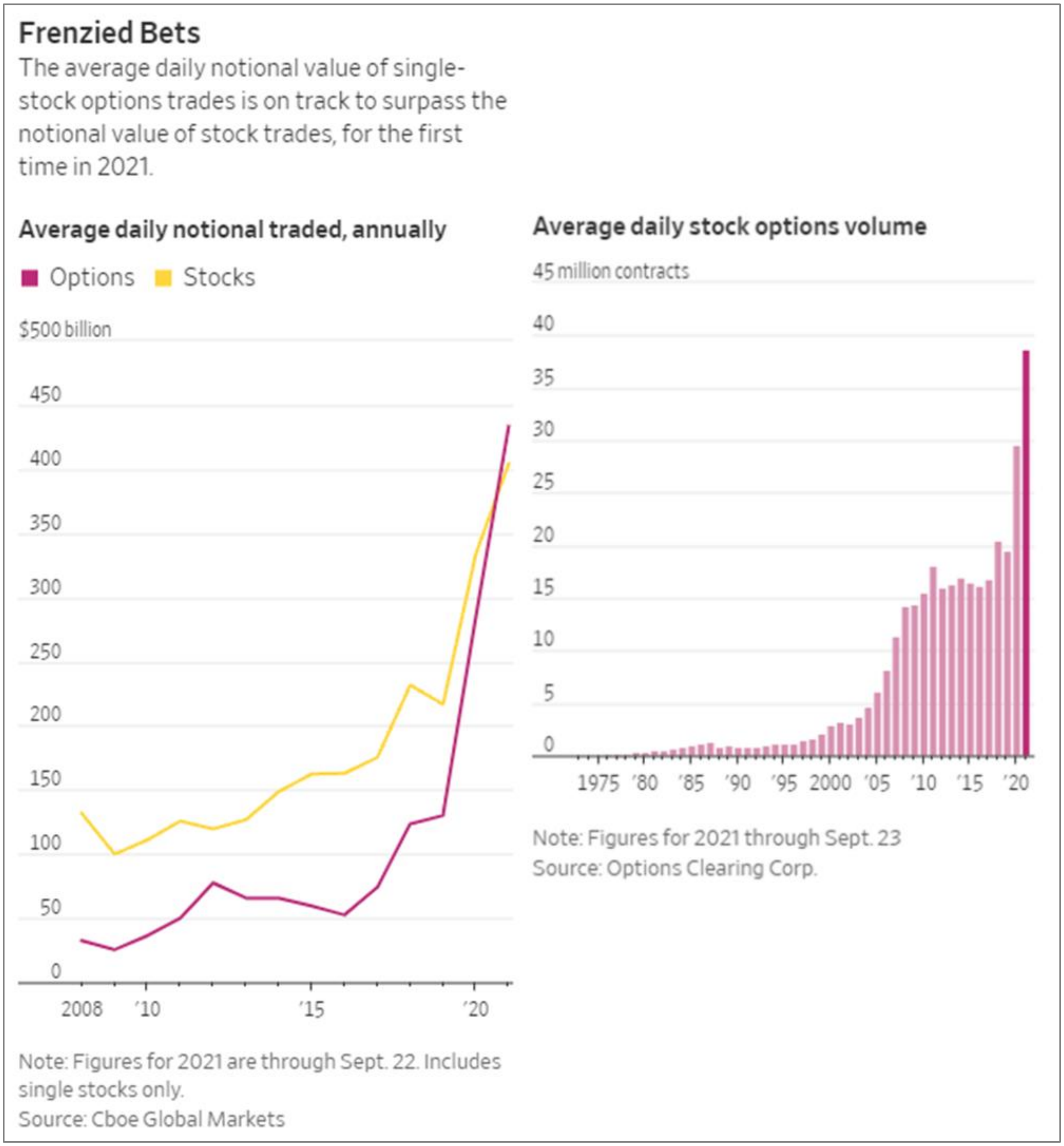

**ISM Price Index has peaked but is too high.**




| S&P 500 Price Performance & ISM Price Index | |
|---|---|
| Above 75 | -3.6% |
| Between 50 and 75 | 8.7% |
| Less than 50 | 19.4% |

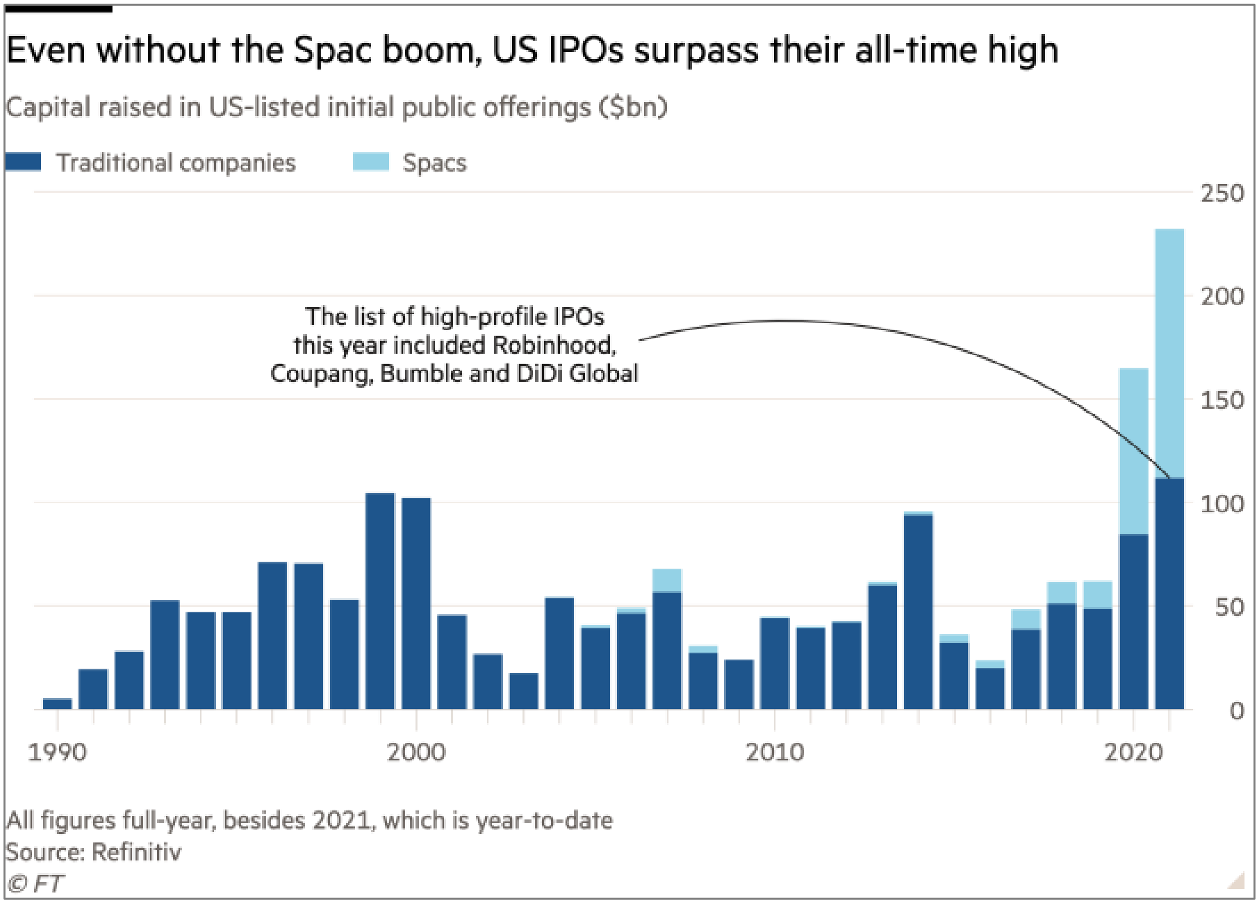
*Feb 1950 to Present*

**The notional value of options trades is on track to surpass underlying stock trades for the first time.**
From the WSJ - *On average, Apple options with a notional value of more than $20 billion have changed hands daily this year, compared with roughly $12 billion of the iPhone-maker's stock, according to a Wall Street Journal analysis of Cboe data. About $80 billion of Tesla options have changed hands daily this year, roughly quadruple the figure in the stock.*

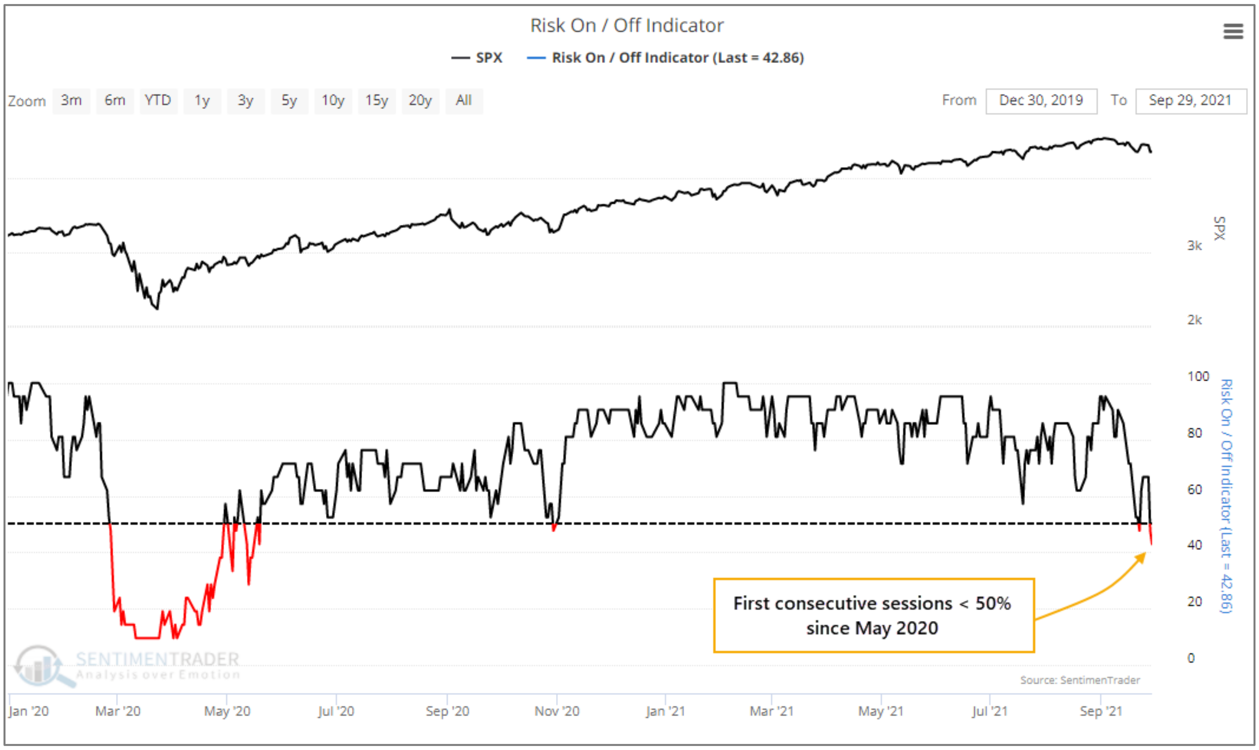



*Source: WSJ*

**IPOs ex the SPAC boom hits a new all-time high.**

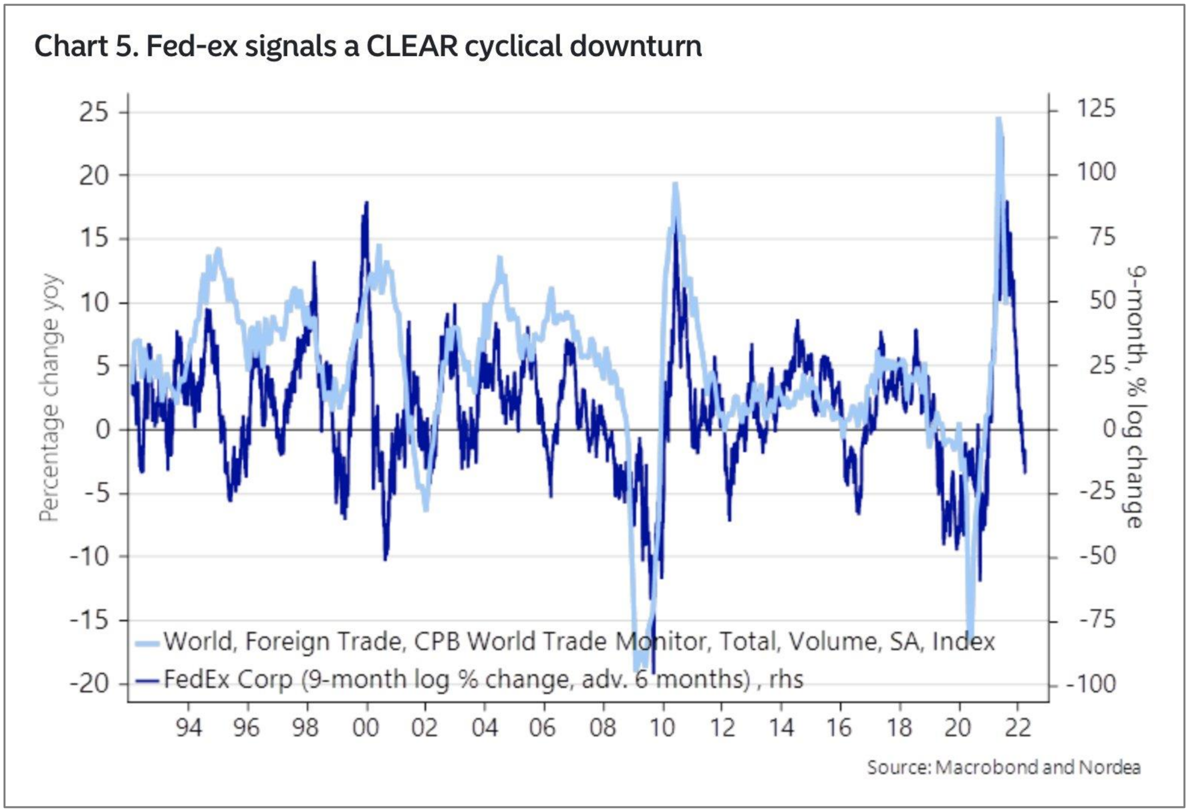



**Is the Robinhood army of stock speculators throwing in the towel on buying the dip?**
Per the folks at SentimenTrader, we just completed the longest streak of risk-on behavior in 22 years.

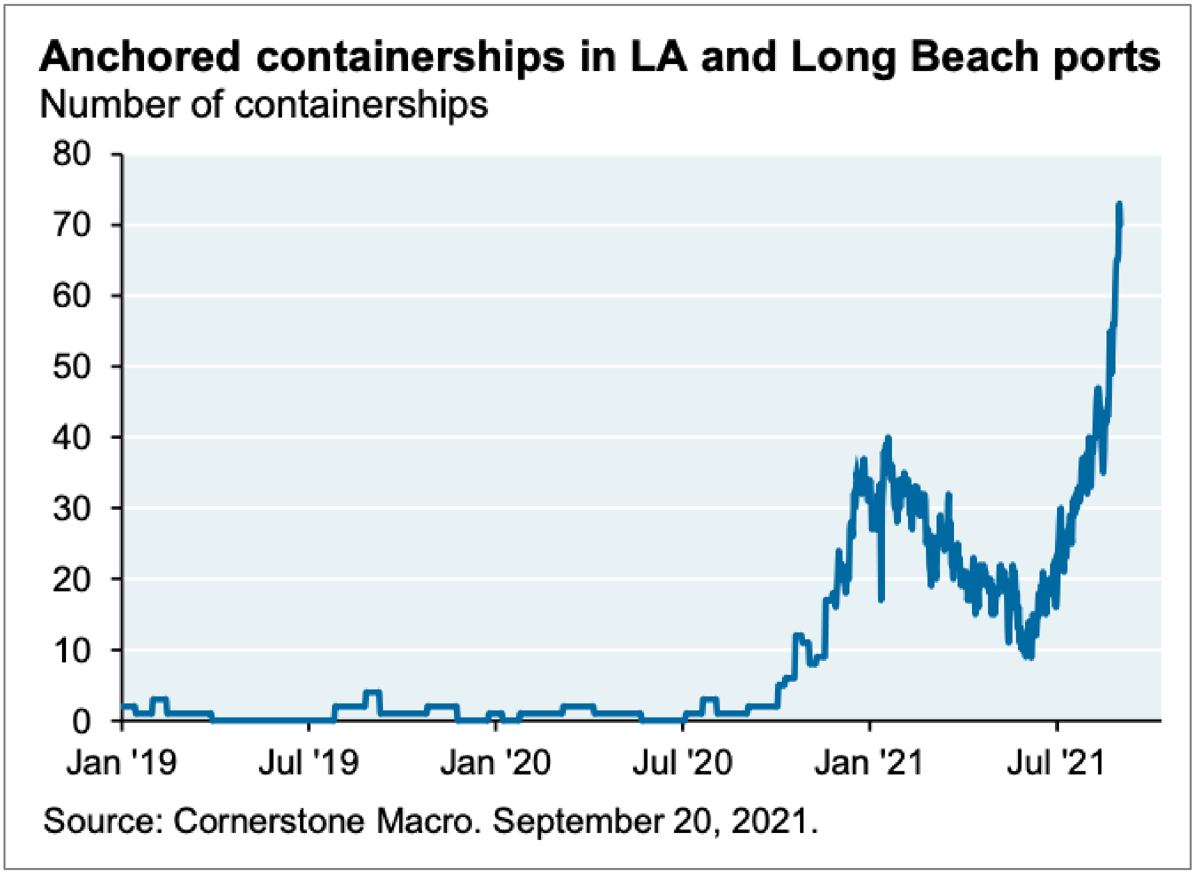



*Source: SentimenTrader*

**FedEx Corp's stock price is signaling a slowdown in global growth.**




**It's becoming obligatory to make sure we have a chart showing new records in shipping delays.**



## 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.