Cypress CAPITAL

Market Outlook

By Mark T Dodson, CFA

MRI climbs to 80%

Market Risk Index climbed back above 80% this week, as higher corporate bond yields weighed on the Monetary composite for a second week in a row. The risk that inflation poses to Fed policy and the bull market has not subsided, and this remains the primary reason our Monetary composite cannot push beyond neutral readings. The pressures are so extreme that they outweigh several other indications of easy money. Policy still looks like what it would be early in a recovery, while inflation readings make the economic cycle look long in the tooth. The jobs market, too, with the number of people voluntarily leaving their jobs, is enough to make one question whether we have already managed to achieve full employment. This kind of confidence in the labor market took nearly a decade to accomplish after the 2008 recession.

Improvements to the Psychology composite stalled. Even the AAII composite, the only indicator to signal excess pessimism on recent stock market weakness, had a sharp reversal in sentiment this week back to a typical bullish response rate. Our Short-Term Sentiment Composite was close to moving one standard deviation back into enthusiasm as well. Insider selling increased, and the equity put/call ratio is still firmly entrenched in the speculative band that has been the hallmark of 2021.

On the breadth front, the NYSE High Low Logic index is incredibly close to triggering its first sell signal since the bull market began. A sell signal would confirm the NASDAQ version of the index, which started signaling a lack of uniformity in the stock market early in the summer.

Our broad valuation composite has not improved, but there has been a noticeable improvement in small-cap valuations. After price gains stalled in the spring, small-cap valuations have fallen from a record high back to something that looks more normal historically. A 7-10% drop in prices would bring the median PE in line with its long-term average. In an environment where most things look expensive, any asset class approaching an average level begins to look attractive by default. On an absolute basis, however, the appreciation potential for small caps is still muted.

Market Risk Index

Rec Allocation 25% Underweight

80.0%

Category Percentiles

Psychology - P6: 96.2%

Monetary - M4: 51.9%

Valuation - Extremely Overvalued: 99.4%

Trend: 8.6%

Largest Psychology Influences	
Levered Investments	Negative
Volatility	Negative
Consumer Confidence	Negative
Technical Indicators	Negative

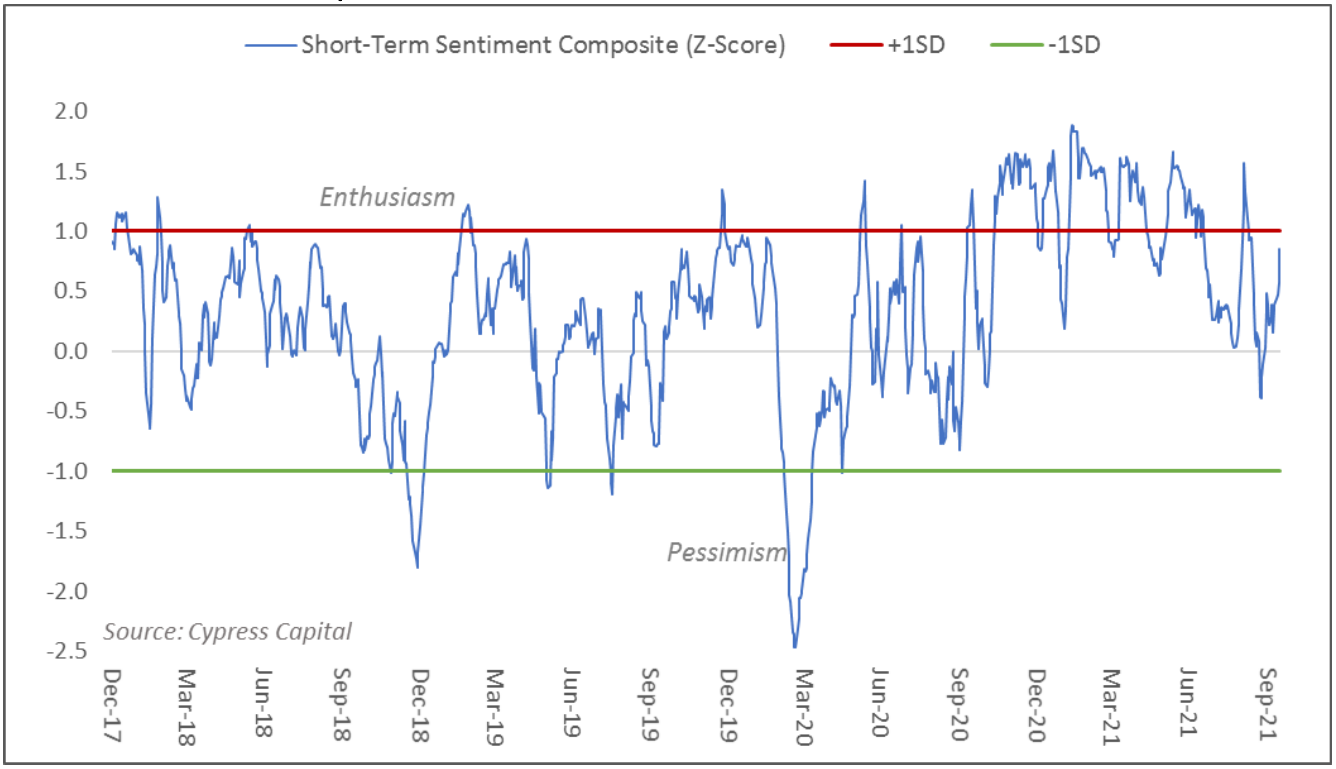
Largest Monetary Influences	
Inflation	Negative
Velocity	Positive
Exchange Rates	Positive

Valuation	
7-10 Year Rtn Forecast	0.1%
10Yr Treas Yield (on 10/14)	1.5%

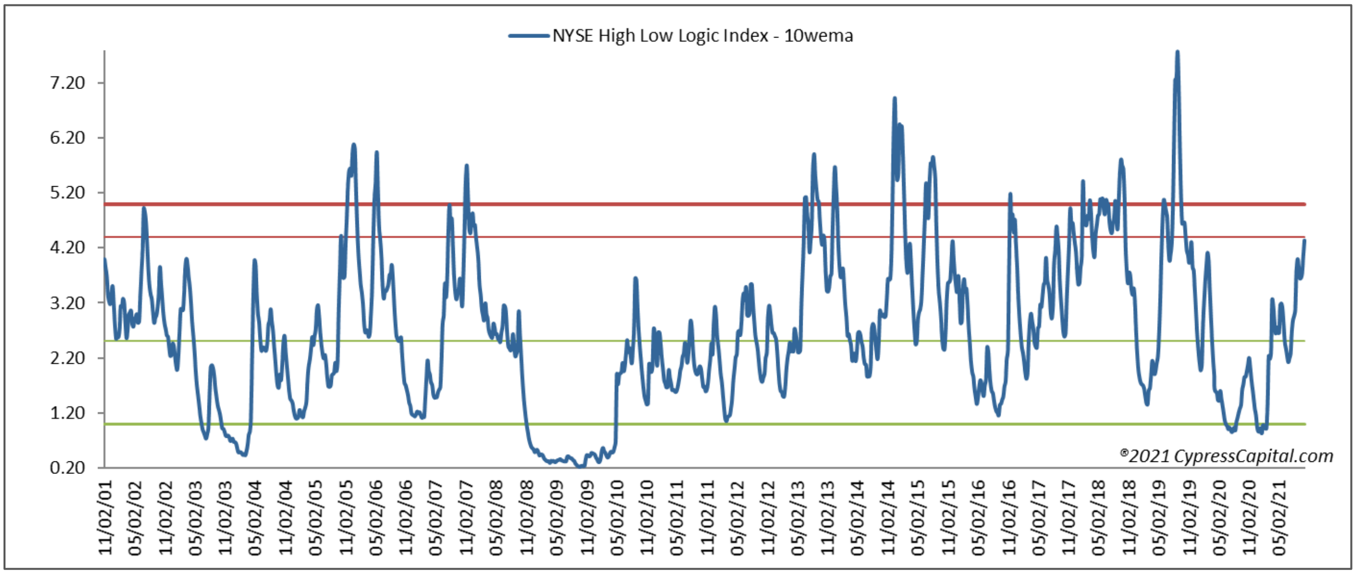
Market Trends	
US Equities	Bullish Investment
Intl Equities	Bullish Investment
REITs	Bullish Investment
Broad Commodities	Bullish Investment

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.

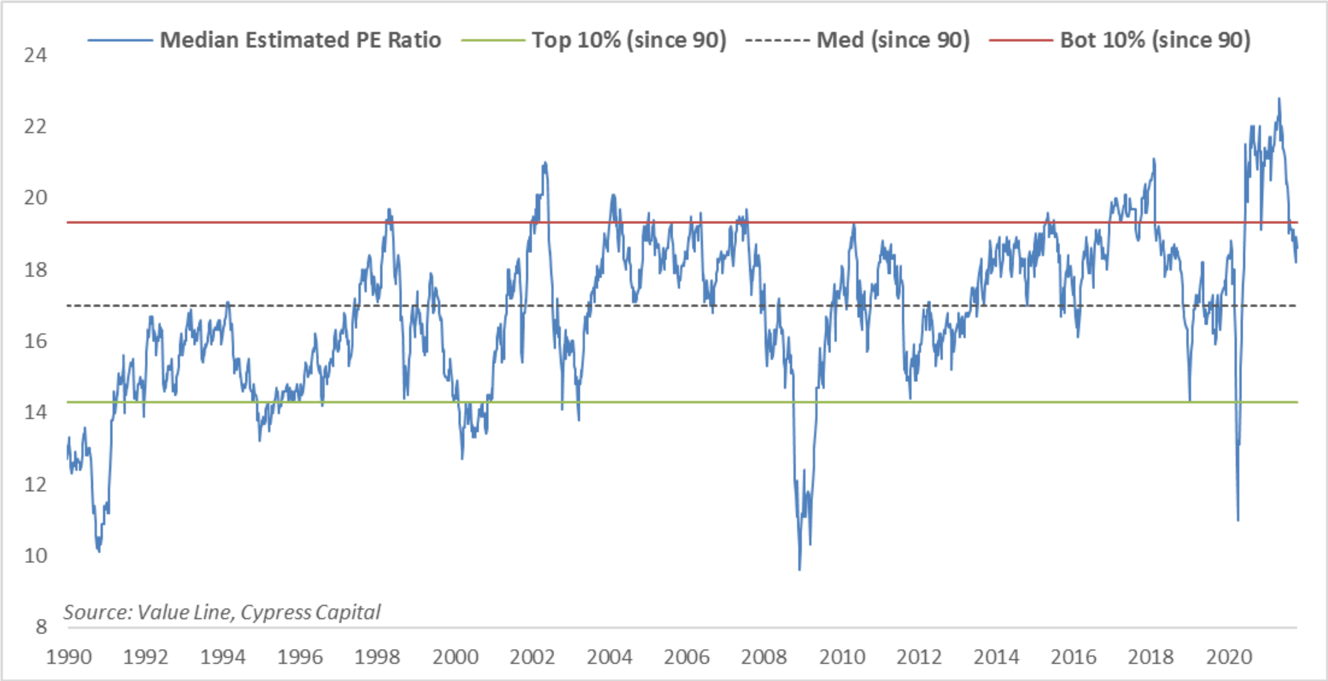
Short-Term Sentiment Composite



NYSE High Low Logic Index edged close to it first sell signal since the bull market began.



The Median PE ratio has fallen noticeably since the record reading back in April.



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.