Cypress CAPITAL

Market Outlook

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Big Improvement in Psychology Composite

Note: This is an abbreviated report without charts, as we spent spring break with family this week.

Market Risk Index improved to 75.1% on a more than 15% weekly improvement in the Psychology composite score, just shy of the level that loosely denotes markets with a reasonable risk/reward profile for defensive long-term investors. There weren't any standout indicators hitting extremes, more of a broad but modest improvement across multiple categories, enough to drive a sizeable one-week drop in the risk score. The Surveys category remains near a max positive reading for markets – readings associated with equity markets at short-term bottoms.

The Monetary composite was unchanged – nada, nothing, absolutely no change whatsoever on the week of the Fed's first rate hike. Tighter policy has been discounted by the composite for several months now. Despite the tighter monetary conditions, our inflation category, which tends to lead CPI, has not broken away from its maximum negative reading.

If the Fed continues to tighten throughout 2022 at the pace that the bond market expects, the yield curve will invert, negating any improvement that might come on the inflation front. This is still the Benjamin Button economy – young in age but old in appearance. Unemployment, inflation, and the yield curve are consistent with a ripe old economic cycle.

Because the nature of the improvement to our Psychology composite has been short-term, a short-term rally in the stock market will quickly drive the Market Risk Index back to higher levels. The longer-term, more fundamental concerns highlighted by elevated MRI readings have not been assuaged.

Market Risk Index

Rec Allocation 25% Underweight

75.1%

Category Percentiles

Category	Percentile
Psychology - P4	60.9%
Monetary - M4	79.5%
Valuation - Extremely Overvalued	97.2%
Trend	49.6%

Largest Psychology Influences

Surveys	Positive
Leveraged Investments	Negative
Technical Indicators	Positive
Bank Sentiment	Positive

Largest Monetary Influences

Inflation	Negative
Interest Rates	Negative
Exchange Rates	Positive

Valuation

7-10 Year Rtn Forecast	1.0%
10Yr US Treasury Yield	2.2%

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.

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.