Cypress CAPITAL

Market Outlook

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A New Bull Market?

Market Risk Index rose sharply, climbing above 75%, the level that denotes markets possessing a mix of fundamentals that indicates elevated drawdown risk. Several weeks of sharply rising stock prices have alleviated much of the fear the Psychology composite registered in June and July, enough to move Psychology back into the worst quartile of readings.

If you follow markets closely, an anxious pack of pundits has gone on record in recent weeks to make sure we know whether they believe this is a new bull market or a bear market rally. We use a toolbox of our own, preferred pundits – they are four measures of market internals with over sixty years of objectively making that call. Breadth has been impressive enough that two of the four now vote in favor of a new bull market. Those two also happen to be the only indicators with any false signals. The other two, neither of which have failed since the 1960s, aren't convinced.

Let's assume the first two of our pundits have nailed it, and it's a new bull market. That means it's a bull market starting with valuations already in the 10th decile, with equities priced to return less than a 10Yr Treasury. It's a new bull market with an economy experiencing a significant inflation problem and no slack in the labor market. Consequently, it's a new bull market beginning with a Federal Reserve in the middle of an aggressive monetary policy tightening. It is also a new bull market starting with an inverted yield curve, signaling a recession is already on the horizon. If this is a new bull market, it's in its final innings before it can officially be declared. At least in this bull market, you can earn a 2.5% return on T-Bills, making it the first bull market to start with a T-bill yield above 2.5% in over 30 years.

Those of us anxious to get invested are likely fighting the last battle. It's reasonable. We have gone through over a decade of unprecedented, experimental monetary policy stimulus, which crescendoed in 2020 with a combination of fiscal and monetary stimulus that rivaled what the world did to fight World War II, except we dumped all that liquidity on the economy in a matter of months. It made what we did in the wake of the GFC look like amateur hour.

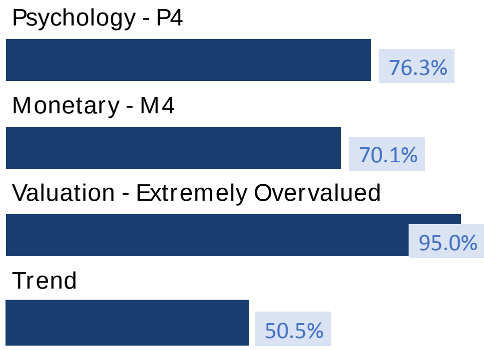
We all remember how that move off of those 2020 lows felt. It took us by surprise in its ferocity – no other bull market ever began like that. If you didn't make a decision quickly, you missed out on easy speculative gains. Maybe there's enough of that stimulus still

Market Risk Index

Rec Allocation 15% Underweight

77.6%

Category Percentiles



Largest Psychology Influences

Volatility	Negative
Leveraged Investments	Negative
Flow of Funds	Negative
Technical Indicators	Positive

Largest Monetary Influences

Interest Rates	Negative
Exchange Rates	Positive
Inflation	Negative

Valuation

7-10 Year Equity Return Forecast	2.0%
10Yr US Treasury Yield	2.8%

Market Trends

US Equities	Bullish Investment
Intl Equities	Bearish Trade
REITs	Neutral Trade
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.

reverberating through the system to blow off that speculative geyser again. That has to be a speculator's hope, because there's not another round of stimulus on the horizon.

If you put on your defensive investor glasses (in the spirit of Ben Graham), you'll quickly recognize that this is not a great opportunity to put all your hard-earned capital at risk. The current environment has the worst combination of metrics to start a bull market in the history of financial markets - unequivocally.

Charts of the Week

Chart – Appetite for Levered ETFs

Covid stimulus led to a speculative euphoria, which peaked late last year. Despite what investment surveys or your favorite investment strategist have told you, there has been no capitulation. Animal spirits are quiet, not dead.

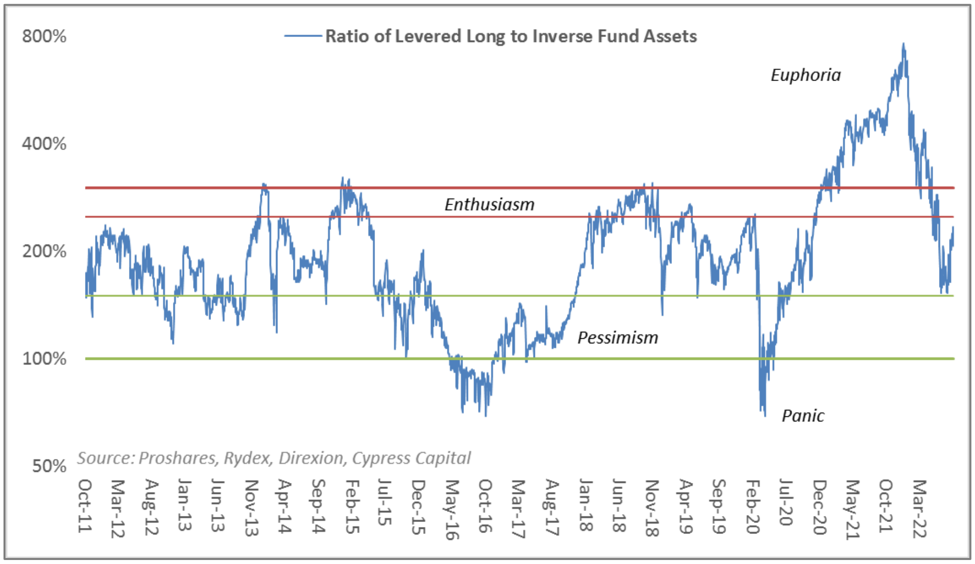


Chart – Equity Put/Call Ratio

The most significant speculative era in the options market since the dot-com bubble hasn't officially ended either. It looks more like speculation went dormant – but no capitulation.

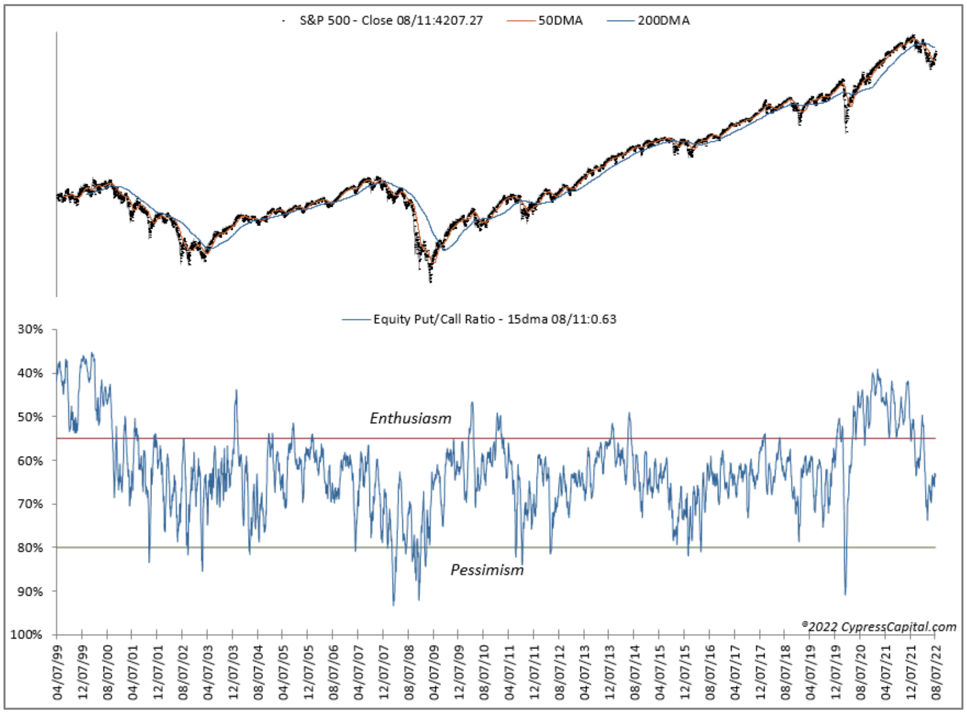
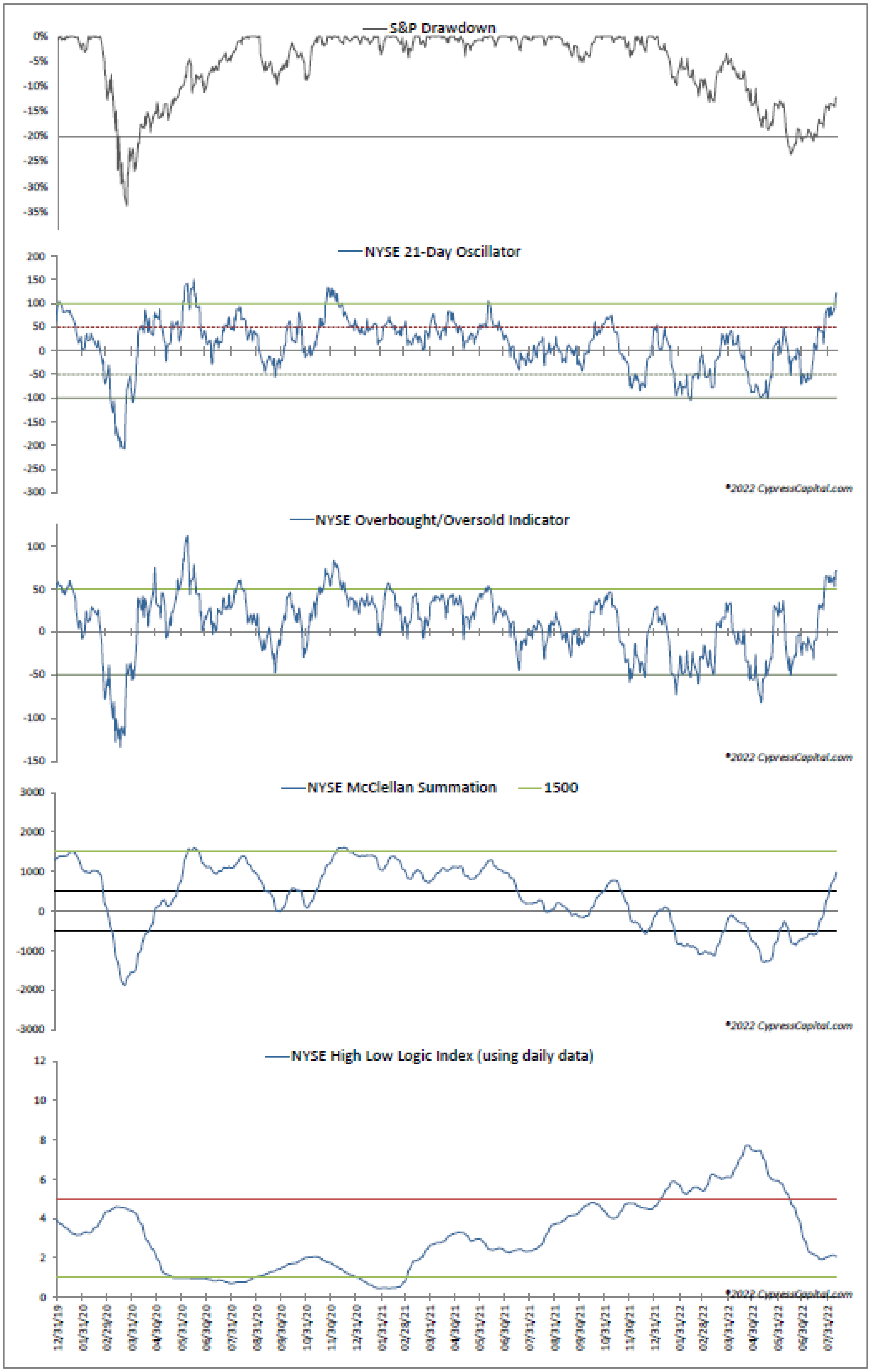


Chart – The Four Horsemen of New Bull Market Market Internals

Two of our four horsemen, the 21-Day Oscillator and NYSE Overbought/Oversold Indicator, are giving bear market killing breadth signals, but the other two are not. Notably, those two are nearly always the first to signal a new bull market, but they are also the only indicators to have given false signals in the past. If we were to rely on only one, it would be the High Low Logic Index.



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.