Market Outlook

By Mark T Dodson, CFA

Corporate Insiders are selling the rally.

Market Risk Index increased to 67.1% on the deterioration of all three of our counter-cyclical factors (Psychology, Monetary, and Valuation), with Psychology having the most significant impact this week.

Within Psychology, Option Activity and the Surveys categories are still close to the maximum positive score, so the deterioration didn't stem from there. Instead, Technical Indicators and Insider Sentiment categories showed the most movement. Insider Sentiment shifted sharply bearish, as selling by smart money Corporate Insiders shot to the highest level since the fall of 2021 before the bear market began. This degree of corporate insider selling didn't occur within the 2000 or 2008 bear markets, so a ready analog for this behavior in the context of a bear market doesn't exist.

The Technical Indicators category offset that rapid bearish shift by Corporate Insiders, as market internals showed noticeable improvement. Breadth was strong enough that one of the four measures of market internals that we watch to confirm a new bull market has given us a confirming signal – that signal being a breach above 50 for our NYSE Overbought/Oversold Indicator. In the rally last August, two of the four did so, of which NYSE OBOS was one.

The number of breadth thrusts and technical indicators based upon advance/decline statistics whose signals failed in 2022 was as many as we can ever remember occurring in a single calendar year. Consequently, we'd like to see all four of our favorites give an all-clear before we'd be willing to say that stock market breadth is signaling and supportive of a new bull market. We chose those four based on their success over every bear market in the last 60+ years.

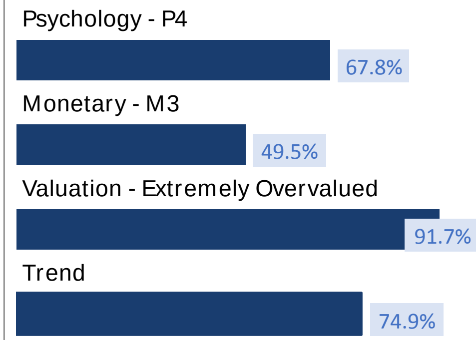
On the Monetary front, the Yield Curve inversion sank to fresh lows as T-Bill yields climbed above 4.5% and the yields on 10Yr Treasuries fell under 3.5%. Yields on the 10Yr Treasury have fallen enough that those bonds are on the cusp of a Bond Momentum buy signal, as are Investment Grade corporate bonds. We'll likely have more to report on that development next week.

Market Risk Index

Rec Allocation 25% Underweight

67.1%

Category Percentiles



Largest Psychology Influences

Surveys	Positive
Option Activity	Positive
Volatility	Negative
Leveraged Investments	Negative

Largest Monetary Influences

Interest Rates	Negative
Exchange Rates	Positive
Interest Rate Spreads (Yield Curve)	Negative

Valuation

7-10 Year Equity Return Forecast	3.0%
10Yr US Treasury Yield	3.6%

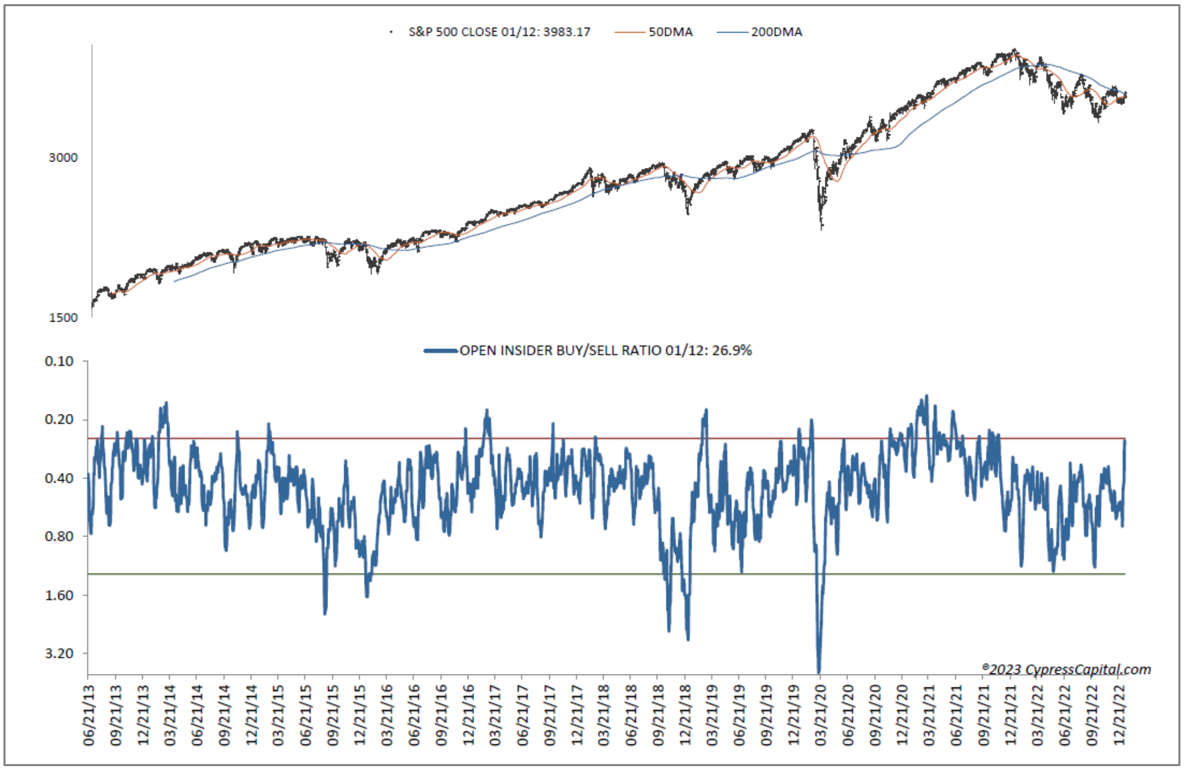
Market Trends

US Equities	Neutral Trade
Intl Equities	Bullish Trade
REITs	Neutral Trade
Broad Commodities	Bearish Trade

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.

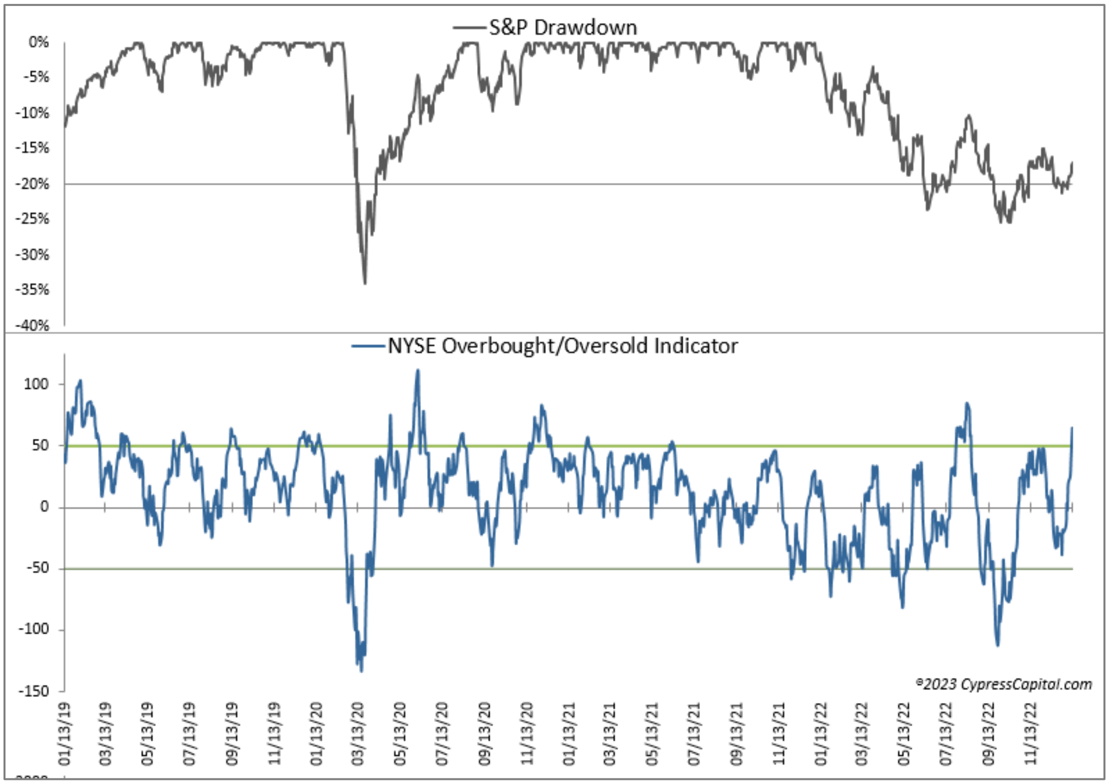
Charts of the Week

Corporate Insiders aggressively sold the stock market rally this week.

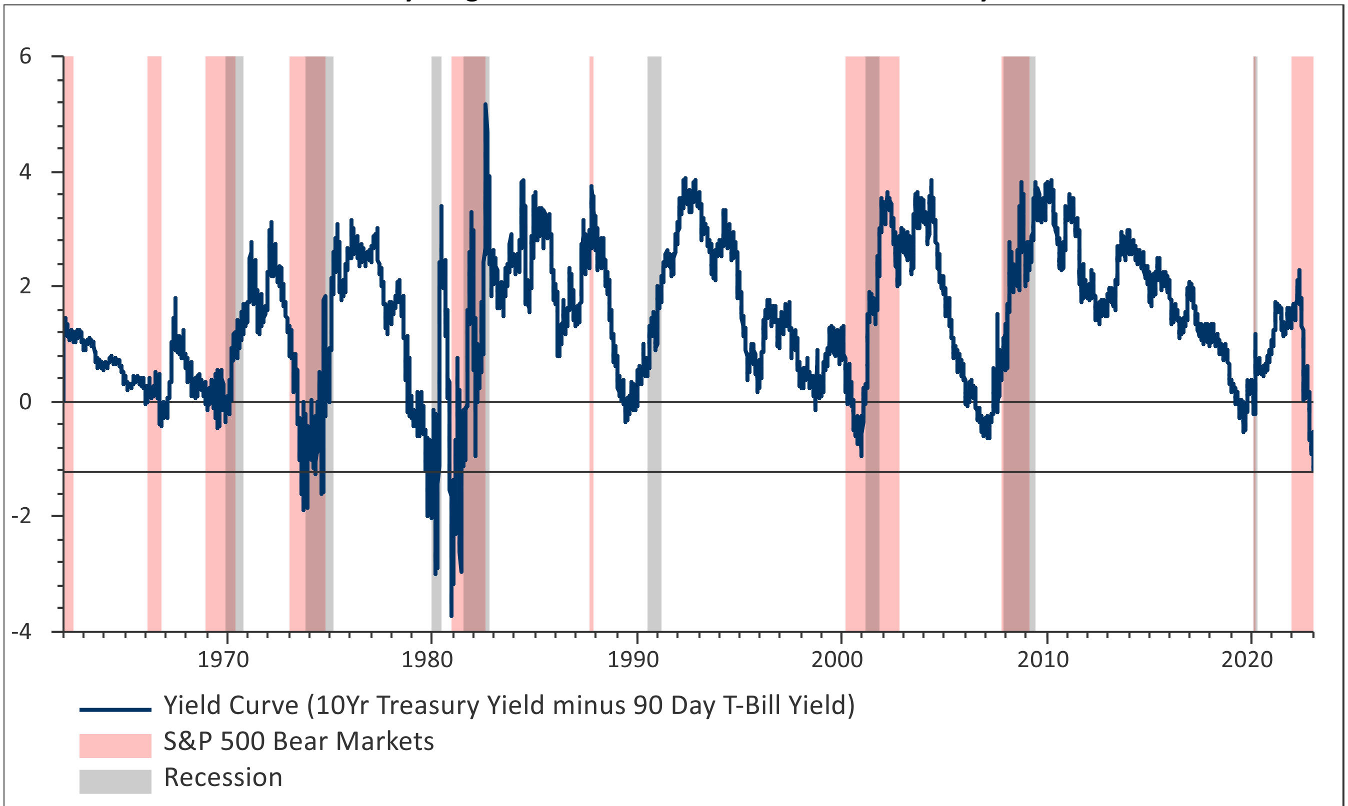


NYSE Overbought/Oversold Indicator

A reading above 50 on this indicator is one of four things that we look for from stock market breadth when coming out of a bear market. It's the first of four indicators to signal so far. Worth noting that the signal in August 2022 was a failure, as were all of the breadth based buy signals that market technicians pointed to throughout 2022.

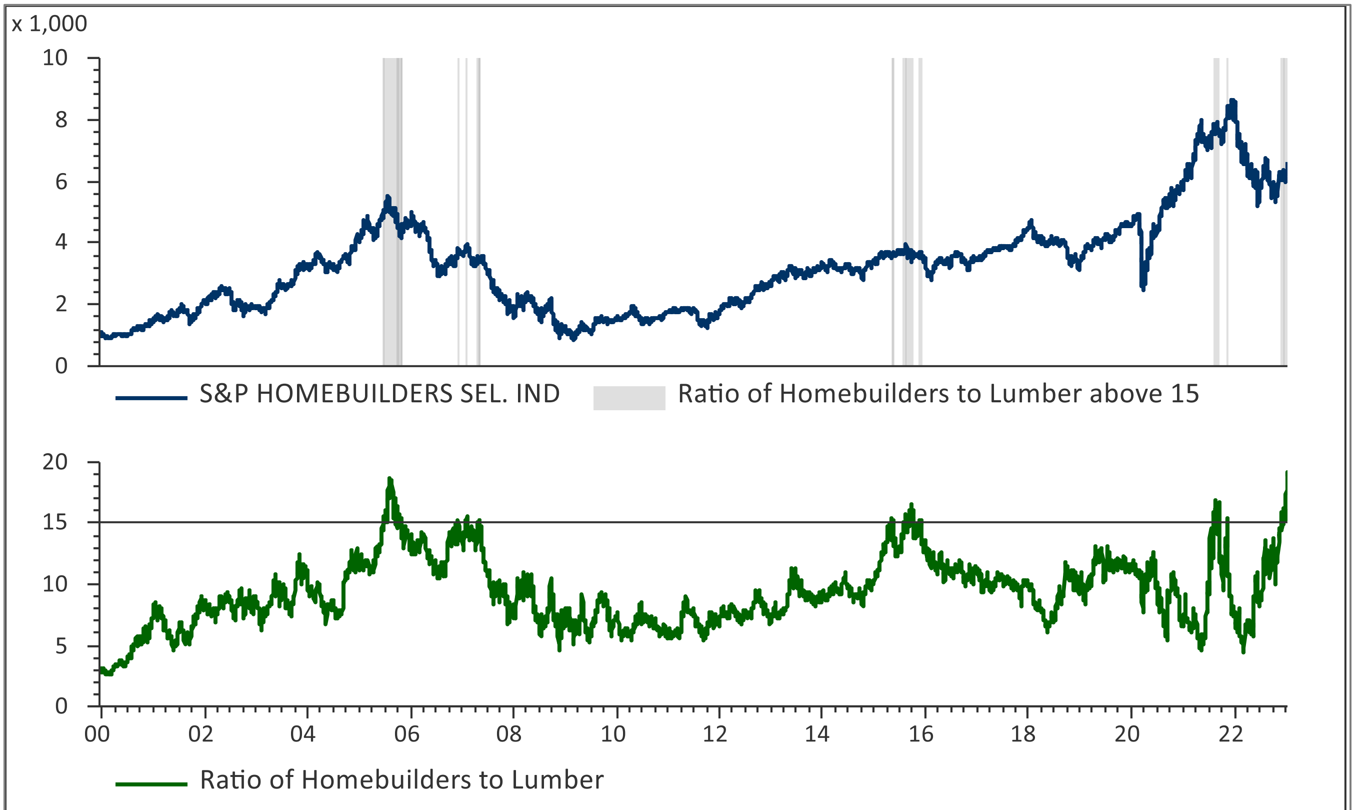


A Yield Curve Inversion unlike anything we have seen since the mid-70s and early 80s.



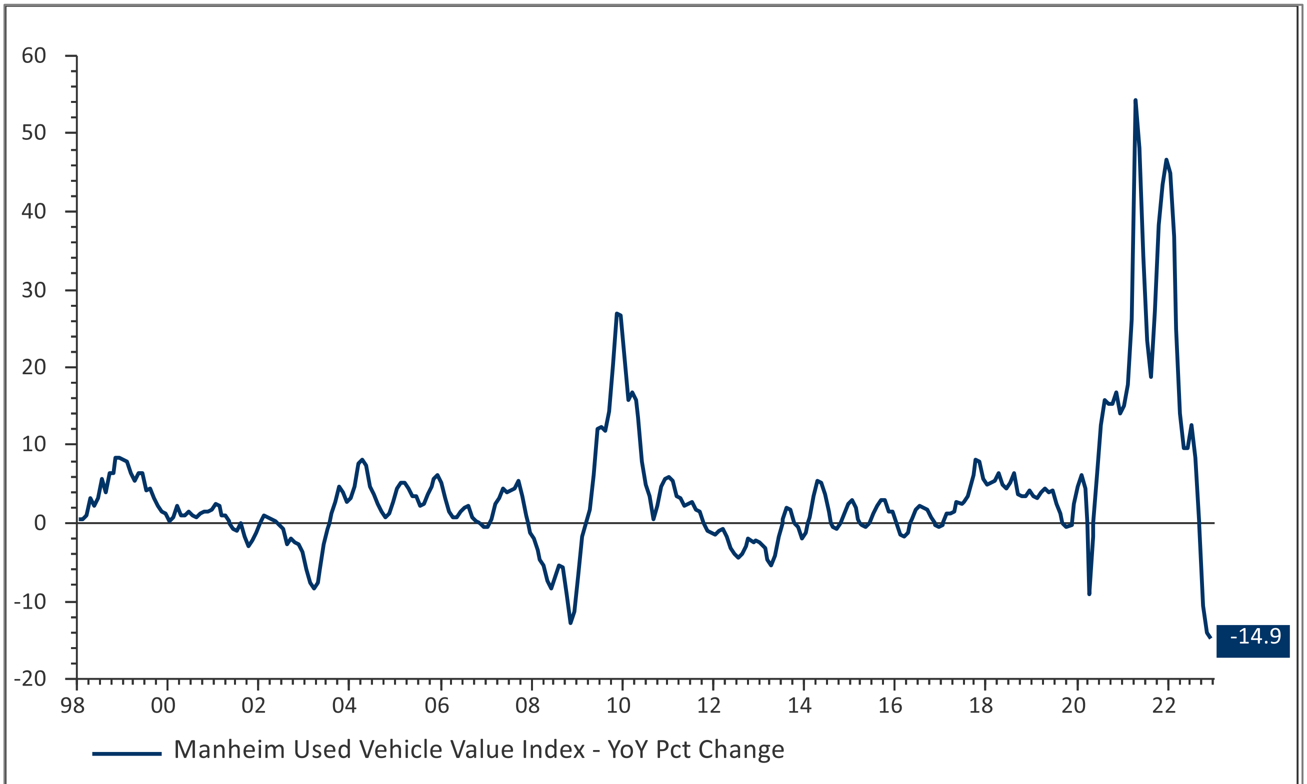
Source: Refinitiv Datastream, Cypress Capital

Ratio of Homebuilders to Lumber broke above the 2005 housing bubble record.



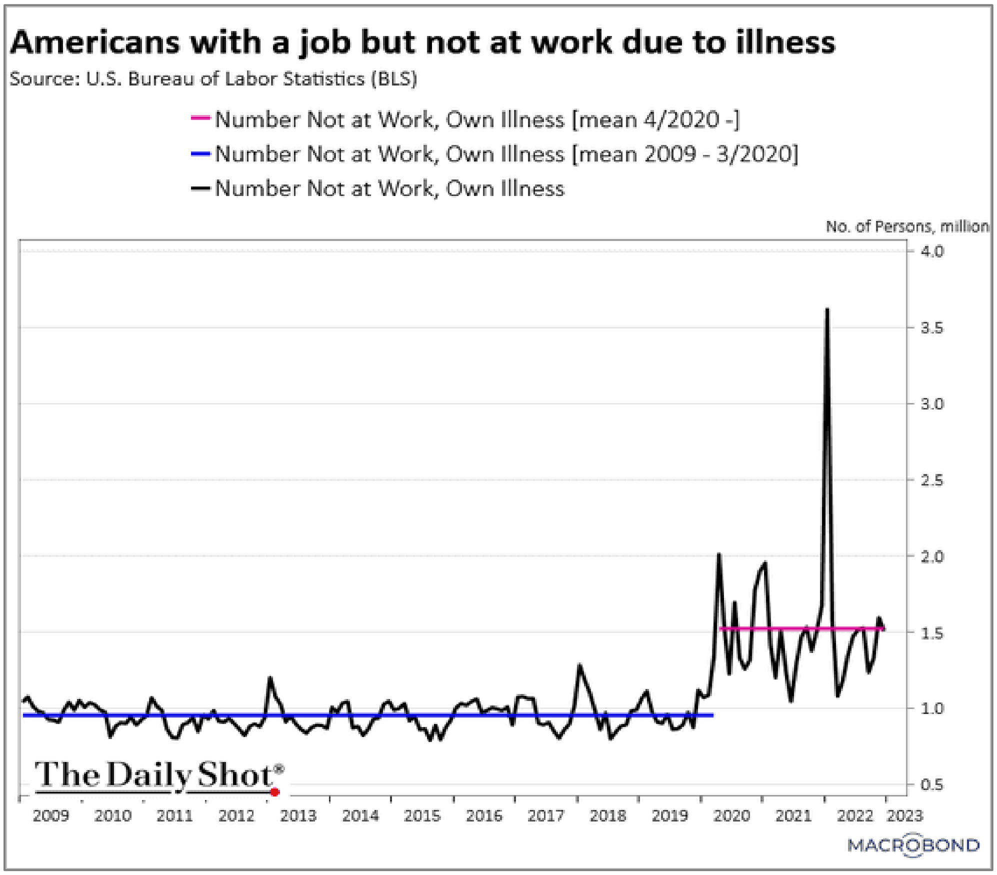
Source: Refinitiv Datastream, Cypress Capital

The largest increases in Used Car Prices on record have given way to the largest decreases on record.



Source: Refinitiv Datastream, Cypress Capital

A notable and persistent post-Covid shift in the number of Americans not working due to illness.



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.