



Market Outlook

By Mark T Dodson, CFA

Psychology registers the most euphoria since the Bull Market’s Peak

Market Risk Index climbed to 86.7% as confidence in solid stock market breadth and the hope of a soft landing have pushed Psychology firmly into euphoria territory. Our Psychology Composite moved into the worst 5% of readings, the highest risk score for investor sentiment since the stock market peak in January 2022.

Monetary conditions also worsened and will likely continue to do so well into the spring. Valuations improved slightly, but the sharp increase in bond yields this week now puts the expected return on stocks more than 200 basis points under what one could earn by investing in US Treasuries.

Within Psychology, corporate Insider selling accelerated to the highest level since the SPAC bubble peak back in February 2021. The same goes for our NASDAQ to NYSE Volume indicator, which measures investor enthusiasm by looking for spikes in NASDAQ volume relative to volume in NYSE-listed stocks. That measure also surged to the highest level since February 2021.

Psychology and Monetary conditions are uncharacteristically in sync. The Monetary Composite crossed into the best half of readings (the easy money zone) on October 10th, just five days after the Psychology Composite moved into its best 20% of readings. Then, on February 6th, the Psychology Composite moved into the worst 10% of readings, and the Monetary Composite moved back into the tight money zone a day later.

The most bullish indications within our model at present are the impressive breadth readings that began implying the end of the bear market in January. While that evidence was compelling, it wasn’t a slam dunk and not enough to drive a robust bull market in the face of an even larger body of evidence that favors being more conservative in the current environment.

Market Risk Index

Rec Allocation 25% Underweight

86.7%

Category Percentiles

Psychology - P6



Monetary - M4



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

Leveraged Investments	Negative
Volatility	Negative
Option Activity	Negative
Consumer Confidence	Negative

Largest Monetary Influences

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

Valuation

7-10 Year Equity Return Forecast	1.8%
10Yr US Treasury Yield	3.9%

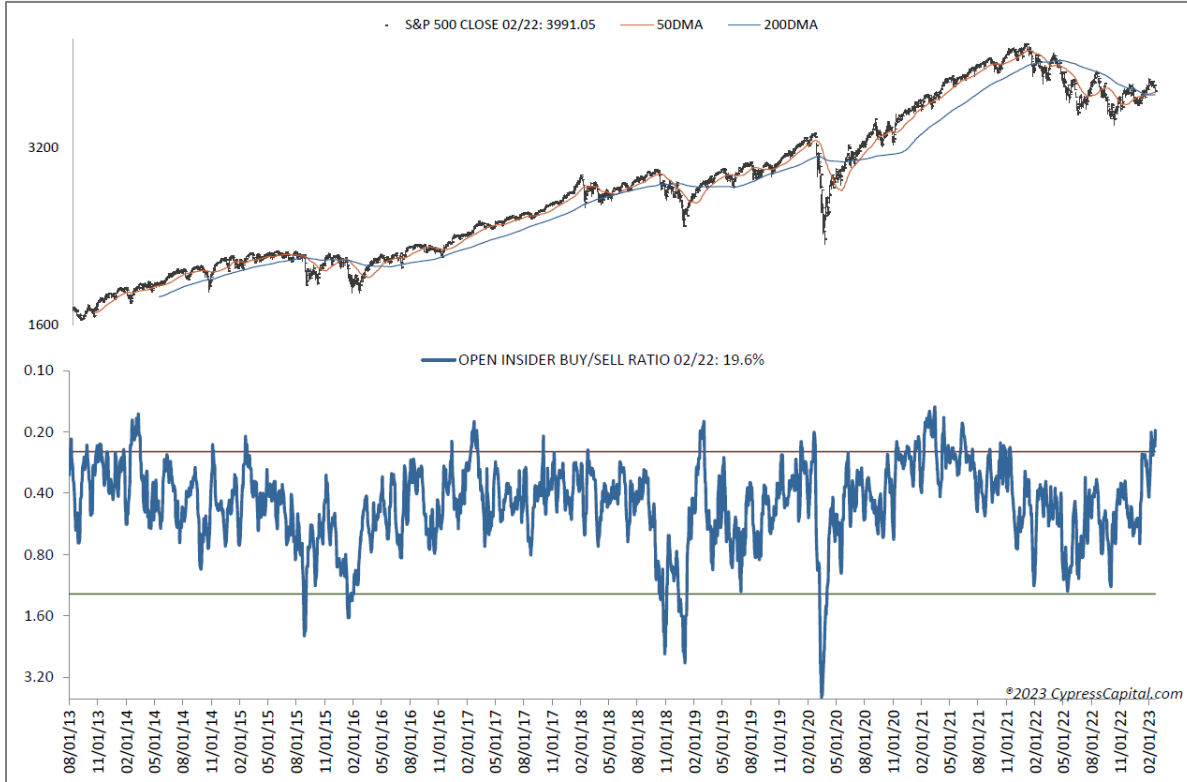
Market Trends

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

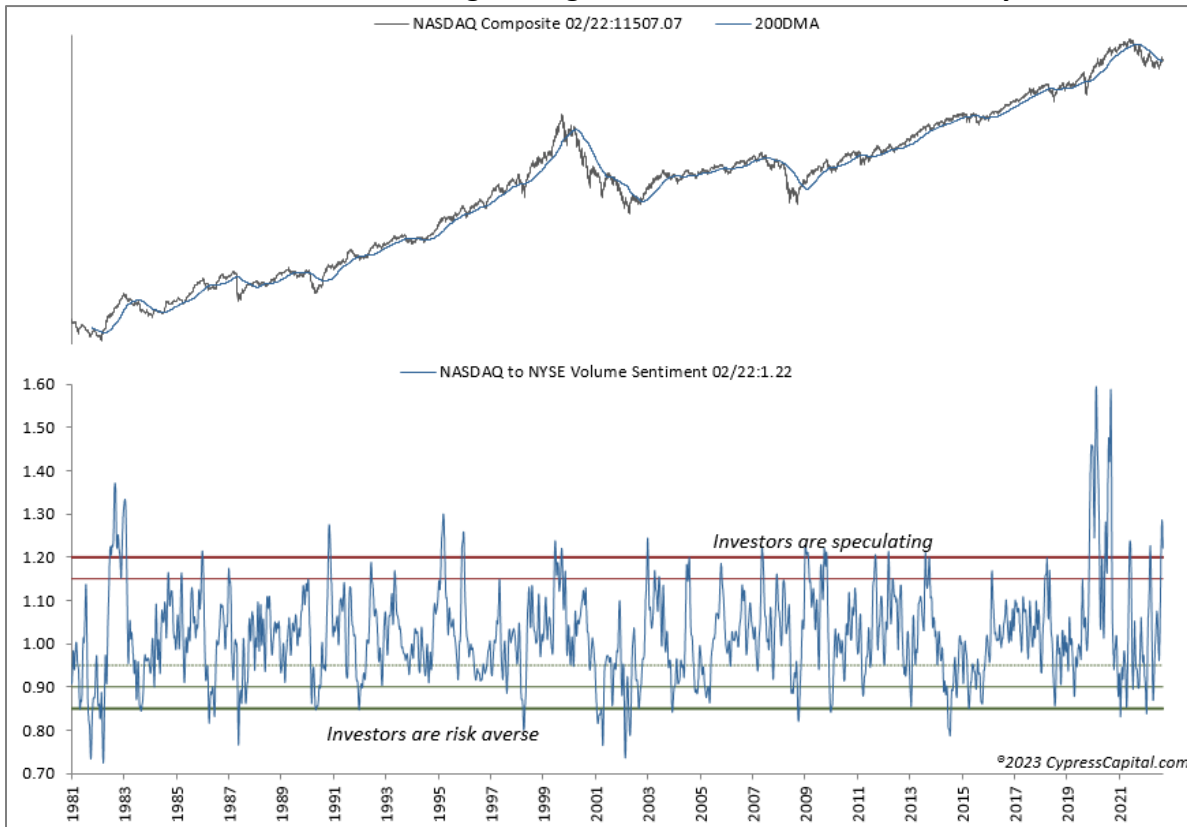
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

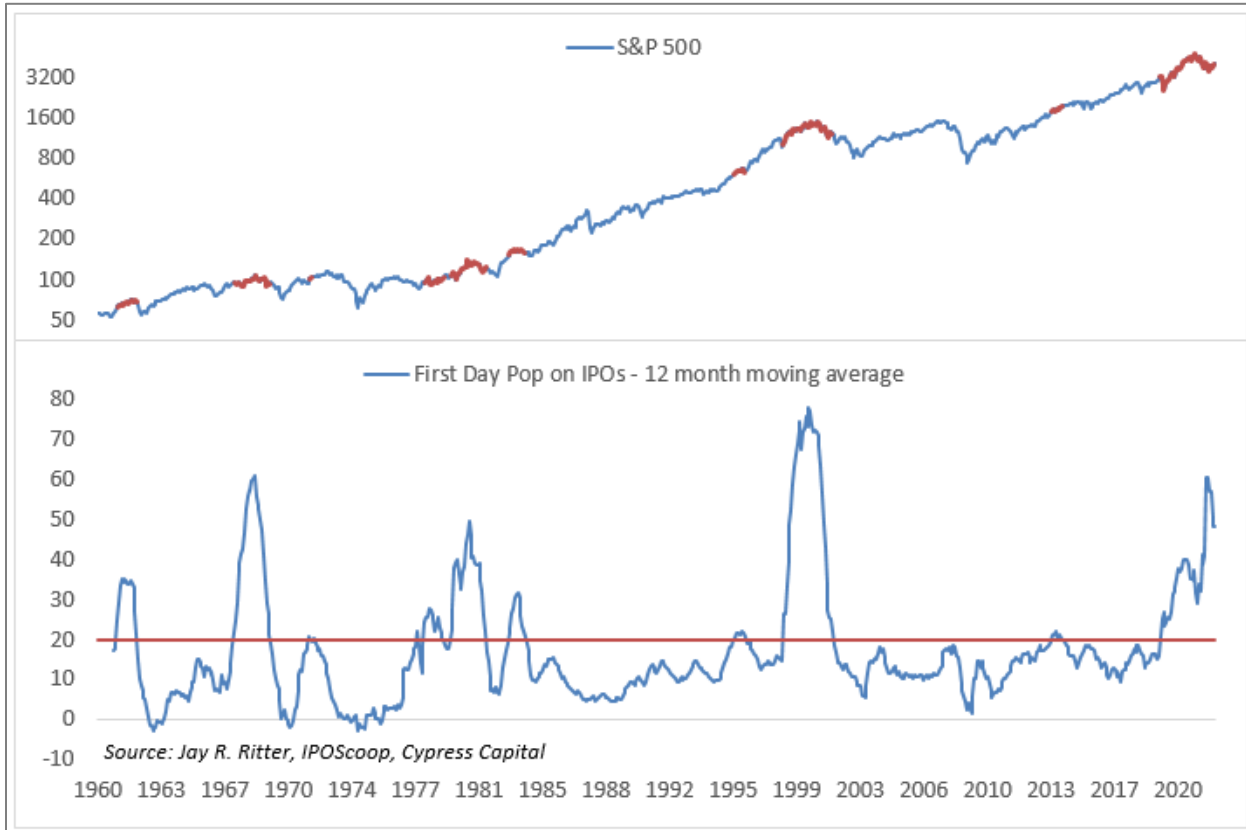
Corporate Insiders are selling stock at the fastest pace since peak Euphoria in 2021.



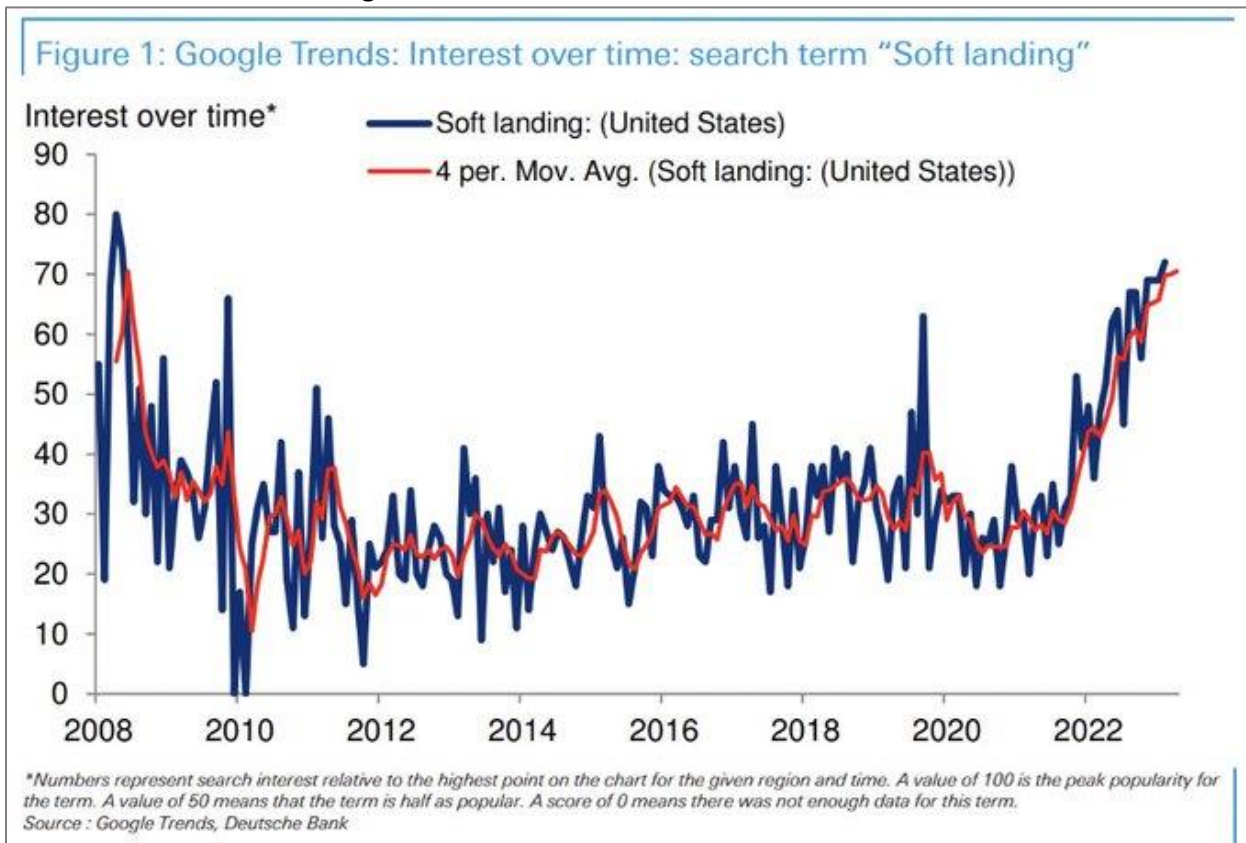
NASDAQ to NYSE Volume is also registering the most enthusiasm since early 2021.



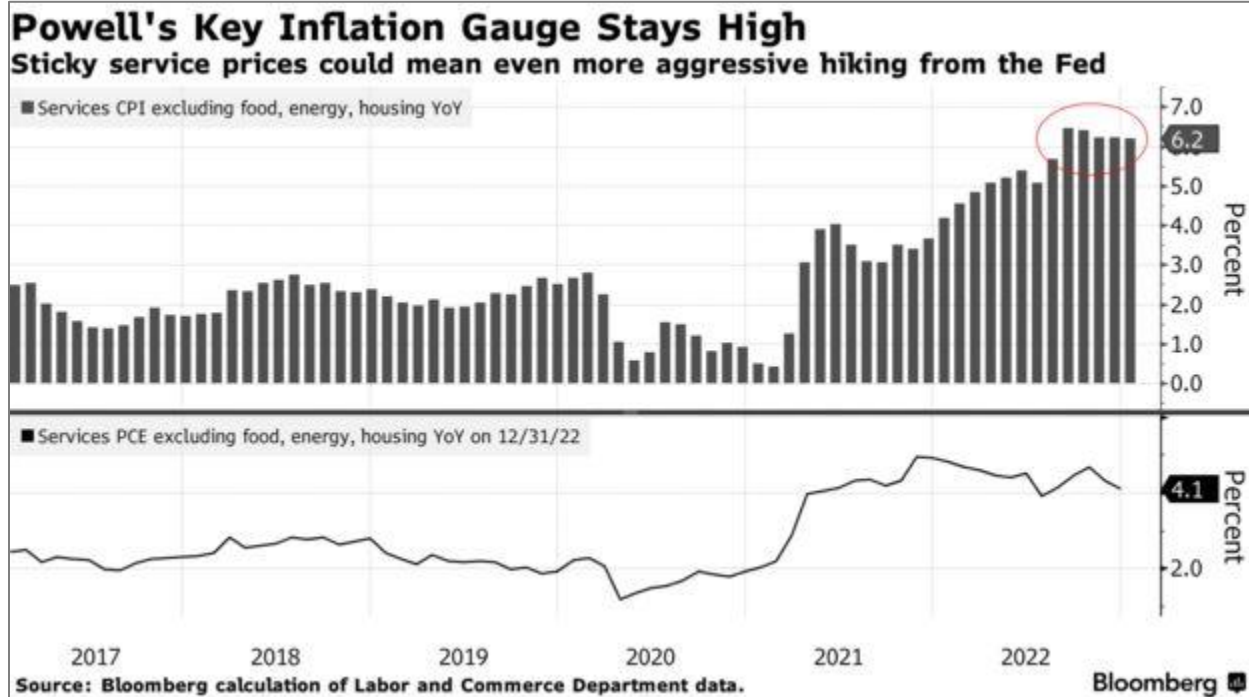
1st Day Pop on IPOs has not receded enough to imply that the October lows was bear market capitulation.



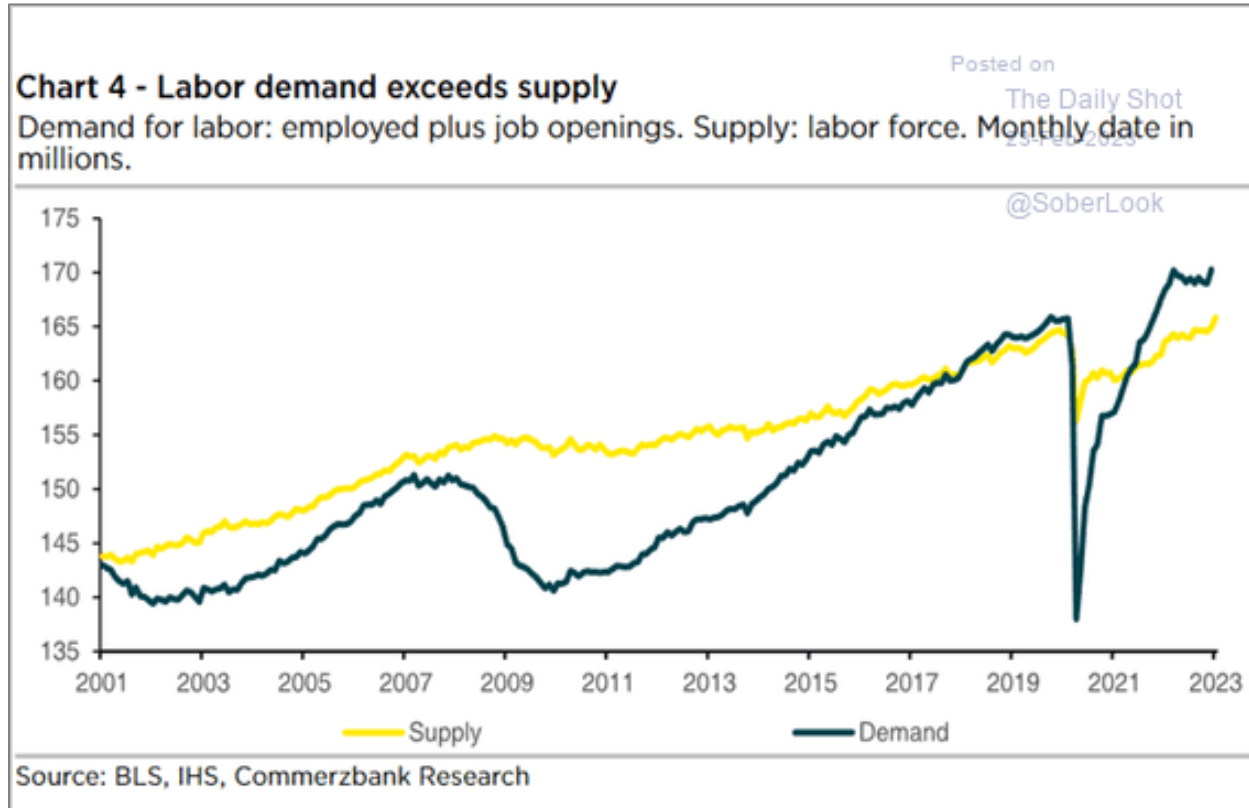
Search interest in Soft-Landing hits 2008 levels.



Service inflation has remained stubbornly high.



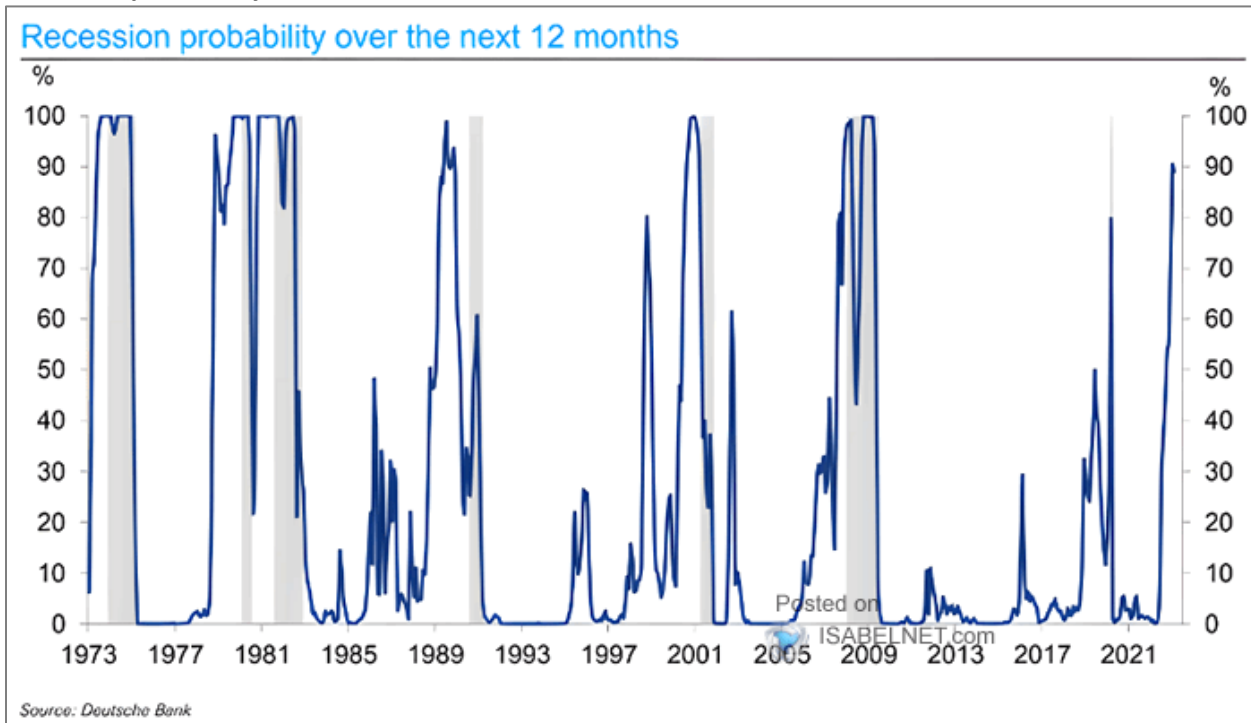
Labor demand still exceeds supply – implying that a soft landing will cause inflation to reaccelerate.



S&P 500 Price to Sales has only retreated enough to erase the euphoria from 2021.



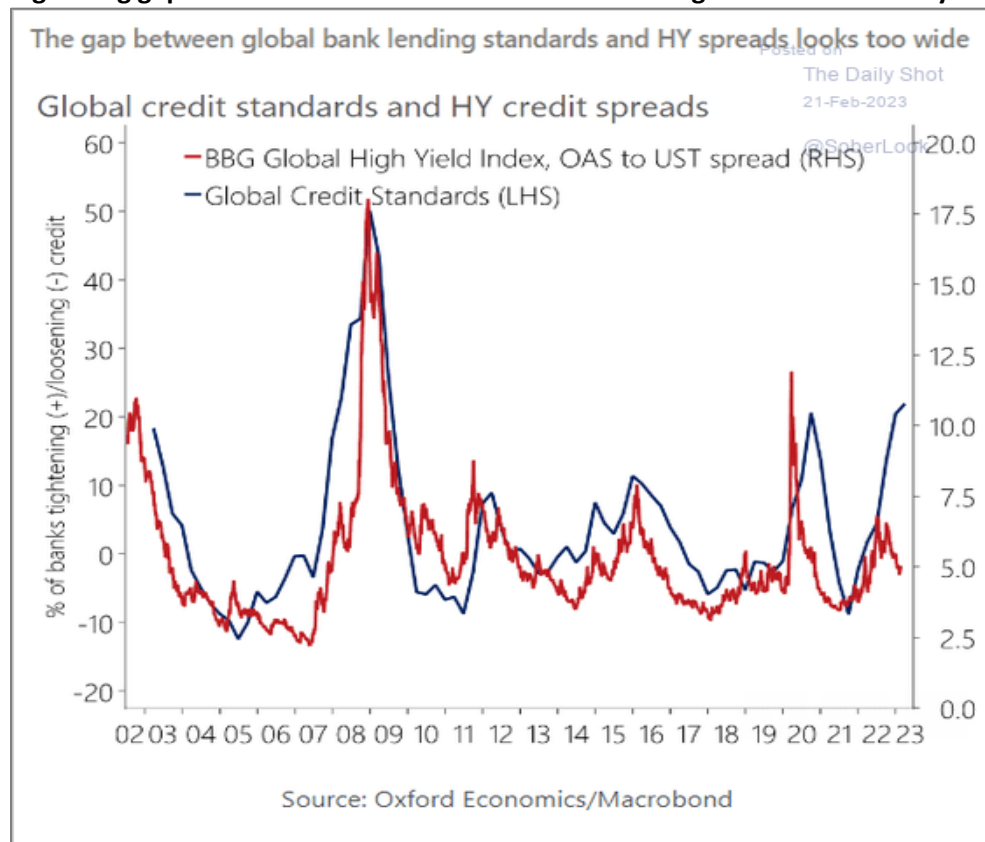
Recession probability over the next 12 months has climbed above 90%.



China is no longer a labor cost saving option for manufacturers.



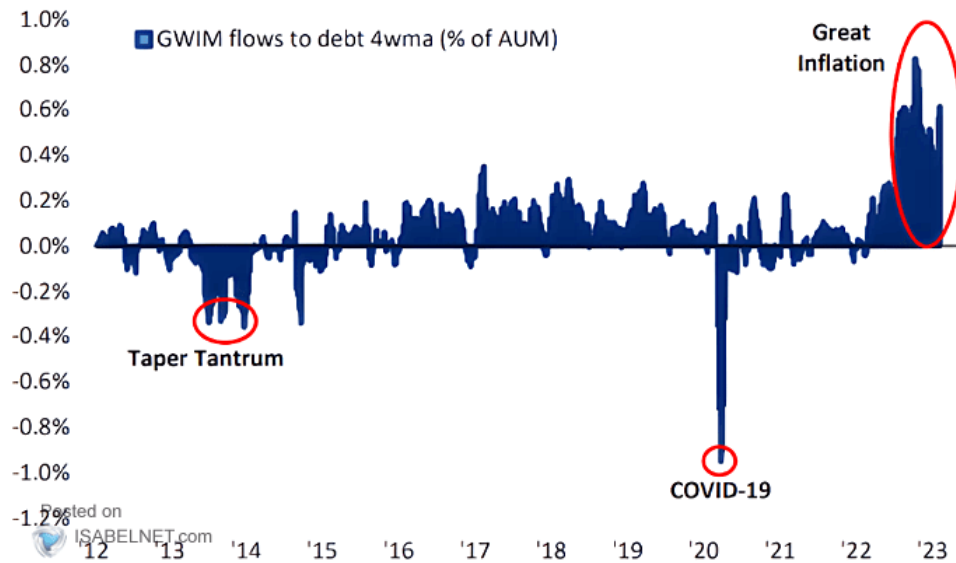
A growing gap between Banks and Bond Market's Willingness to Lend Money



The lure of high yields is driving money into fixed income.

Chart 9: 3rd largest week of private client bond purchases ever

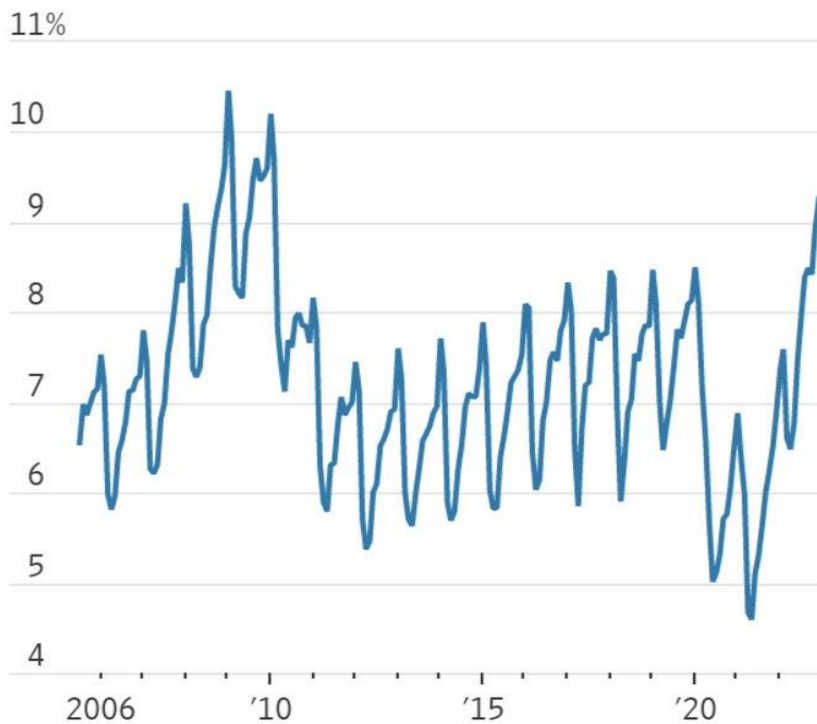
GWIM private client debt flows 4wma (% of AUM)



Source: BofA Global Investment Strategy

Delinquencies on subprime auto debt are surging.

Share of outstanding subprime auto debt that is 30 or more days delinquent



Note: Subprime defined as sub-660 credit score.
Source: Moody's Analytics analysis

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.