Cypress CAPITAL

Market Outlook

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Peculiar Start for a New Bull Market

Market Risk Index increased to 72.2% on a 4.8% increase in the Monetary Composite risk score.

Higher prices in broad cap-weighted indices aren't alleviating extremes in Psychology or Valuation. Instead, they are coming at the expense of liquidity in our Monetary Composite. The interest rate category of the Monetary Composite, which made a distinct shift to easy liquidity within a week of the Silicon Valley Bank failure, has returned to the tighter liquidity zone the same week that enthusiasm surrounding NVIDIA's sharp share price increase occurred. The fuel from the narrow mega-cap AI rally is pulling money not just from other stocks, but bonds now as well.

Assuming that this is a bull market, this one is an anomaly in terms of participation and the length of time that has passed without the customary 20% advance off the lows to denote a new bull market.

Since 1901, bull markets have been confirmed (a 20% advance from the most recent bear market low) within 96 days on average. Since 1980, our era of market history, we've grown accustomed to more immediate gratification, with an average of only 42 days before the market advances 20% off the lows. And, for the last four bear markets, we've been spoiled with almost half that number with an average of 23 days to the 20% advance off the bear market lows.

This market has gone 226 days without that confirmation for the lede that financial media craves, "It's a new bull market." It's the fourth most extended wait we have had to confirm a new bull market since 1901. The other three were bull markets that began in 1903, 1947, and 1957. For the latter two, we have statistics on breadth and participation in the percentage of NYSE stocks trading above their 200-day moving averages.

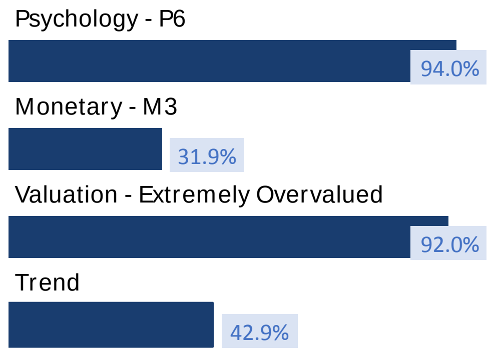
There's a strong relationship between this measure of breadth and the time to new bull market confirmation – over a 68% correlation since 1928. In that regard, this market rally is peculiar. With more than 200 days to pass before a 20% advance, the 1947 and 1957 markets had plenty of time to rally the troops and signal a broad rally, with more than 80% of stocks participating by the time the official bull market bell had rung. This one has less than 50% of stocks trading above their 200-day moving averages – it should be more in the range of 70-80% based on the historical relationship

Market Risk Index

Rec Allocation 25% Underweight

72.2%

Category Percentiles



Largest Psychology Influences	
Leveraged Investments	Negative
Option Activity	Negative
Volatility	Negative
Consumer Confidence	Negative

Largest Monetary Influences	
Interest Rate Spreads (Yield Curve)	Negative
Inflation	Positive
Lending & Leverage	Positive

Valuation	
7-10 Year Equity Return Forecast	2.9%
10Yr US Treasury Yield	3.7%

Market Trends	
US Equities	Bullish Trade
Intl Equities	Bullish Trade
REITs	Bearish 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.

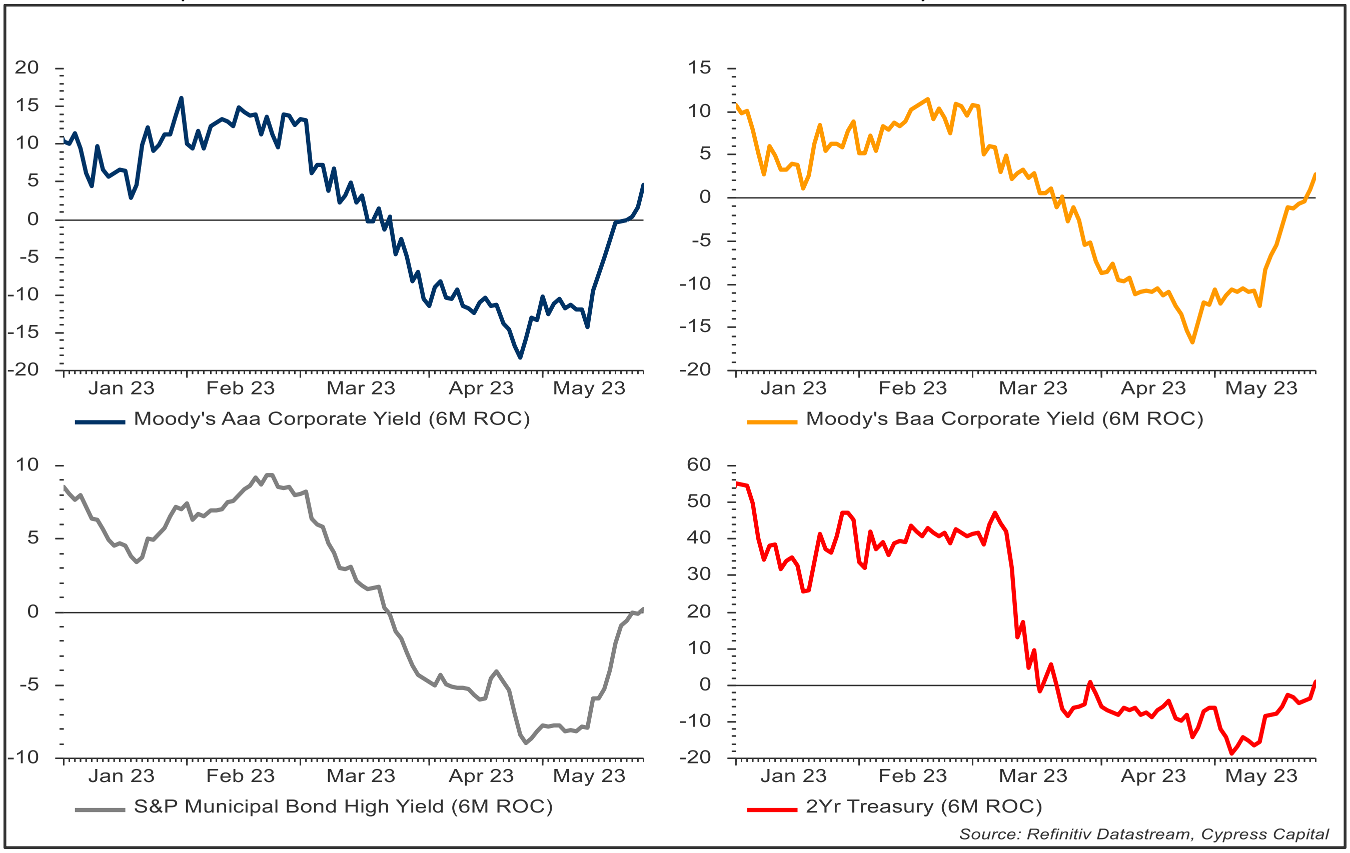
between the two statistics, or with current breadth readings, it should have confirmed its status as a bull market back in January.

This doesn't unequivocally come as a bad omen. That said, the most powerful bull markets are often identified soon after the lows, with a small percentage of stocks trading above their 200-day moving averages. Put another way – strong bulls often see clear, robust bull-confirming rallies from severely oversold, washed-out markets.

You are justified if you have felt this is an unusual start to a bull market because it is. It is unlike any bull market beginning in your recent memory or career. However, the overarching concerns for us aren't ones of breadth but will stem from a rise in Market Risk Index back above the 75th percentile, likely coinciding with the official declaration of a new bull market. Valuations are barely off the egregious highs from 2000 and 2021, and the labor market is still too tight for central bankers to relax their vigilance in keeping inflation under wraps.

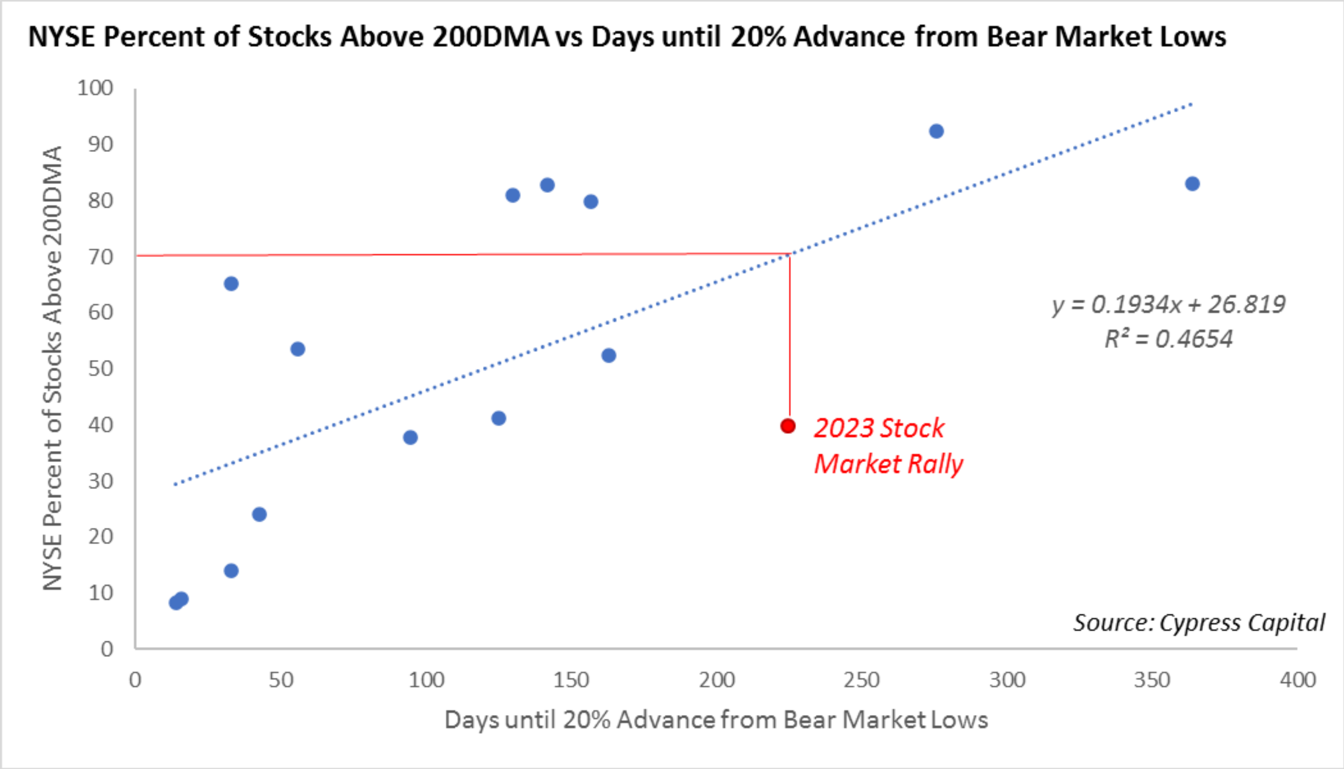
Charts of the Week

Tighter Money? Rate of Change on Key Interest Rates began tightening liquidity in unison this week.
The recent drop below zero came within a week of the failure of Silicon Valley Bank.

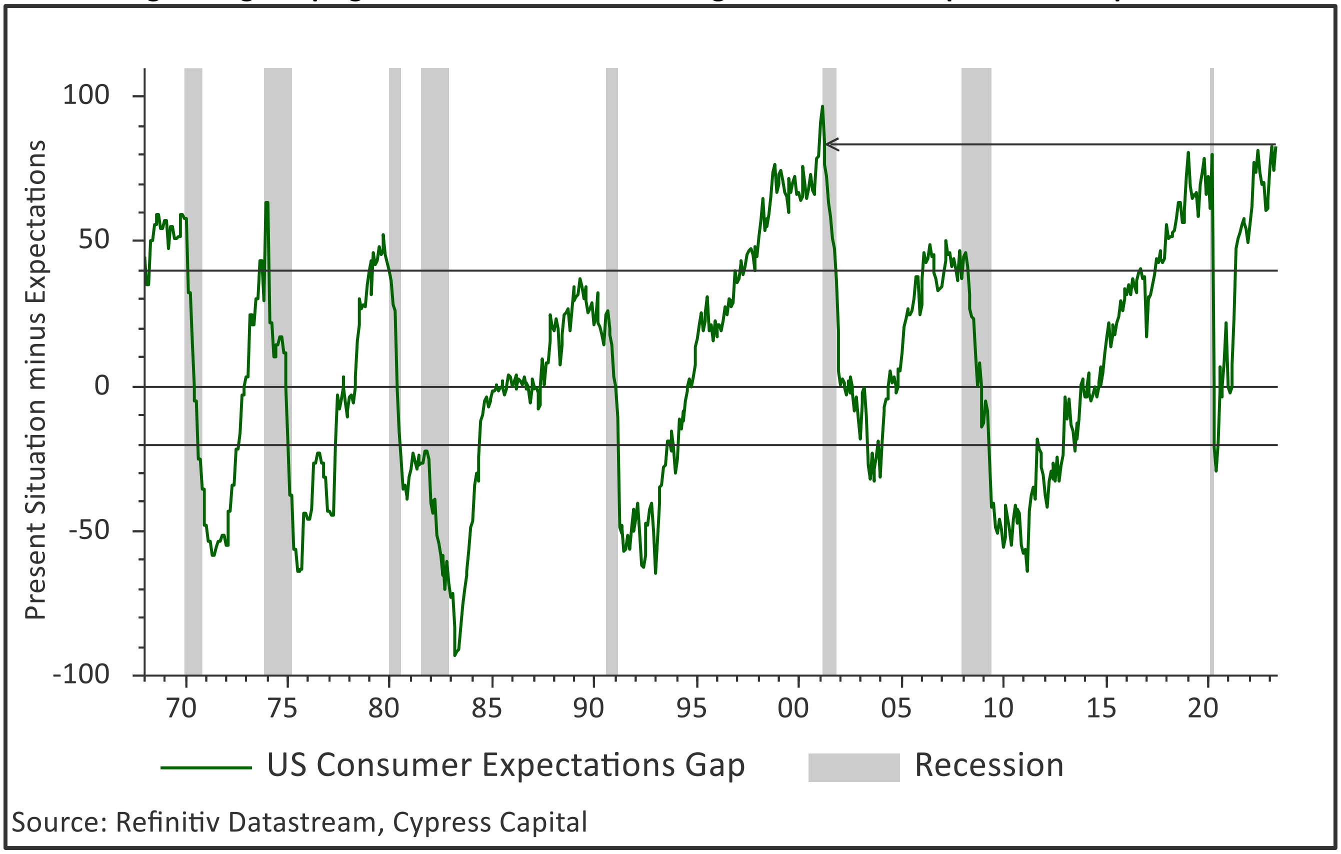


NYSE Breadth versus Days Until Bull Market Confirmation

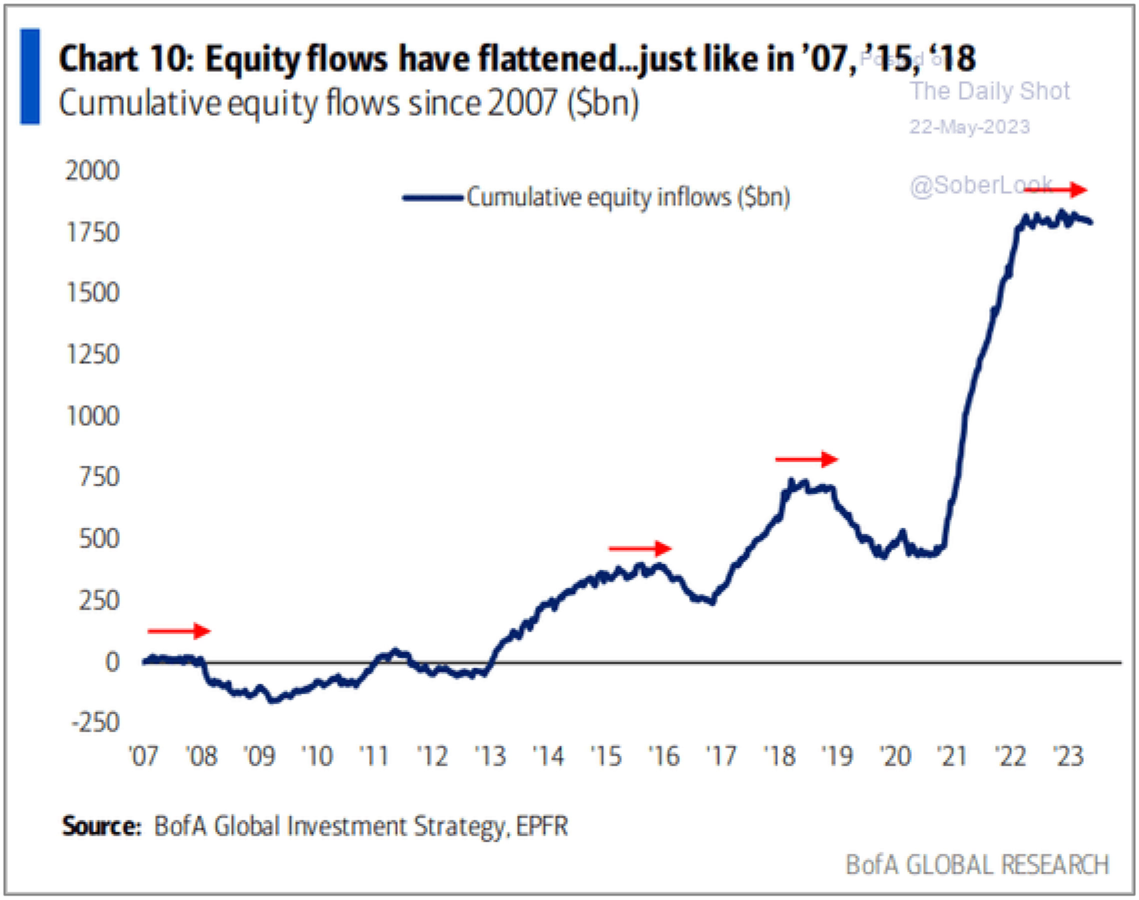
This is the third longest time to pass without a 20% advance off bear market lows since 1928. It's also lagging in participation compared to the starts of previous bull markets historically.



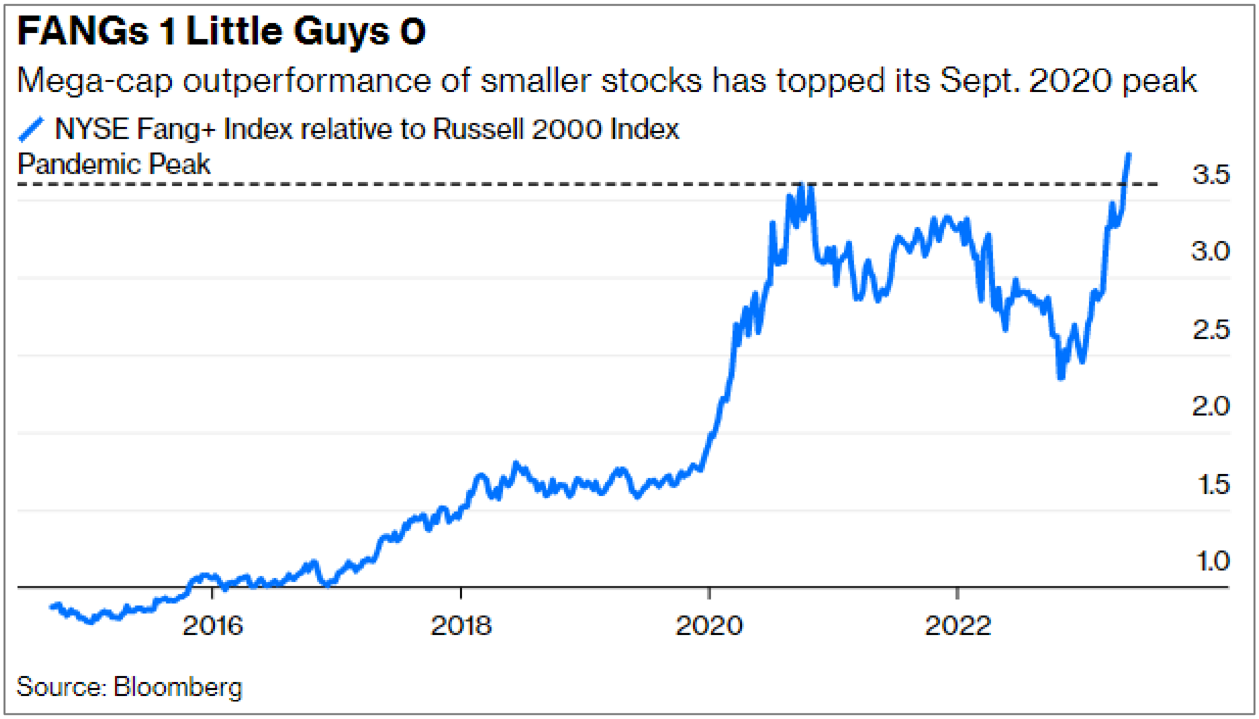
The Fed's Tightening campaign has not dented the uber-high US Consumer Expectations Gap.



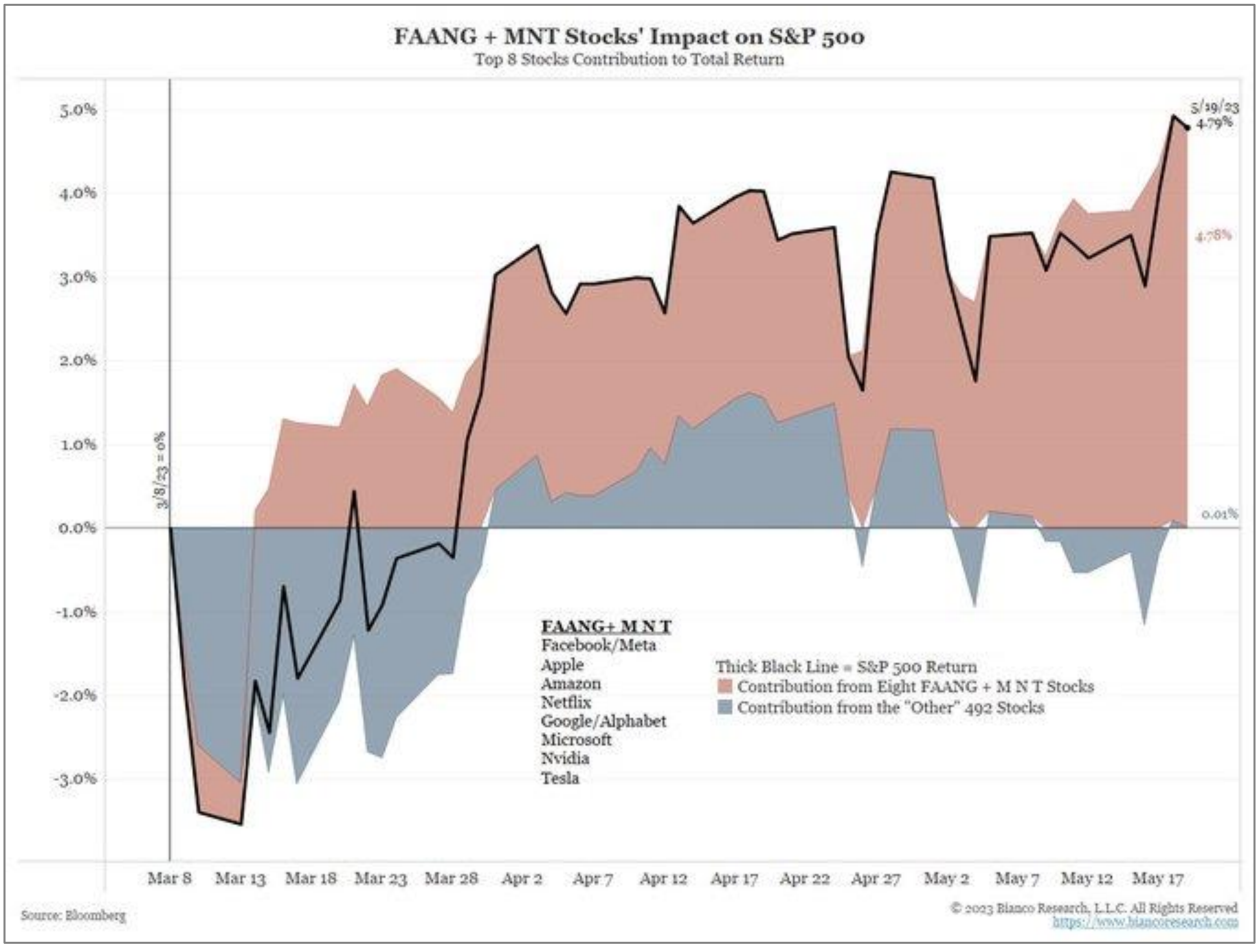
Equity Fund Flows have flattened.



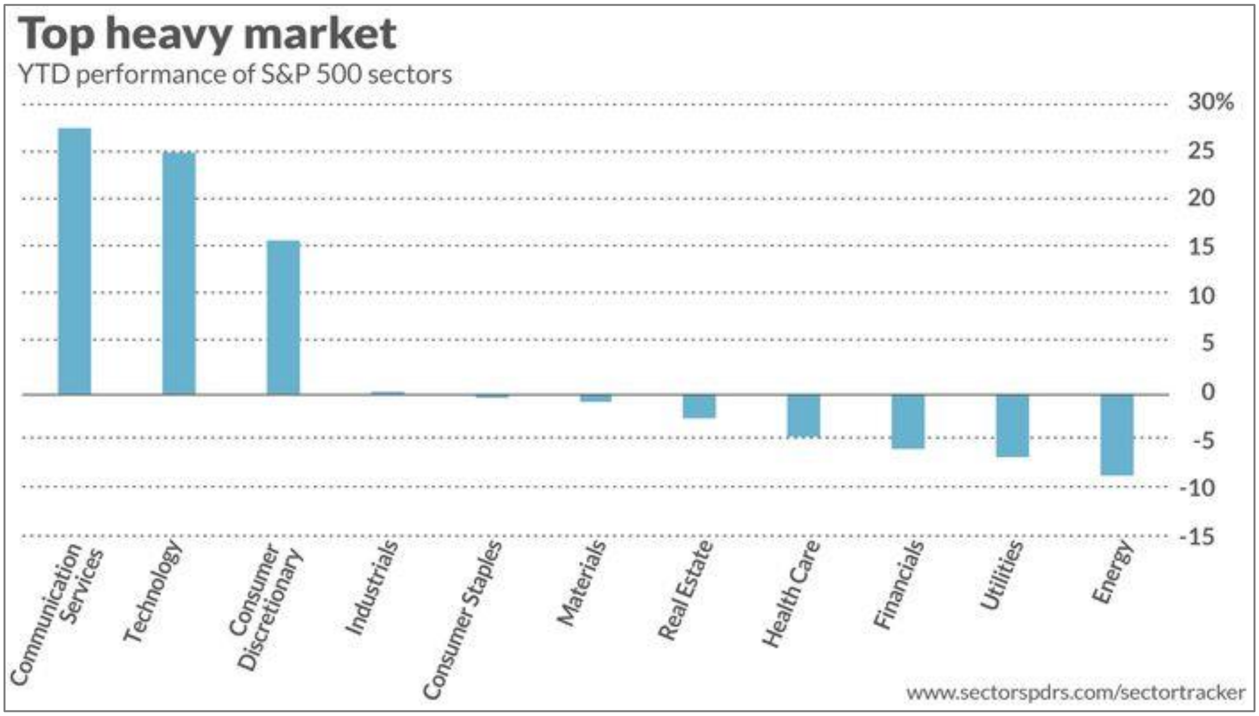
With no new flows, the 2023 advance in FANGs is coming at the expense of other stocks…



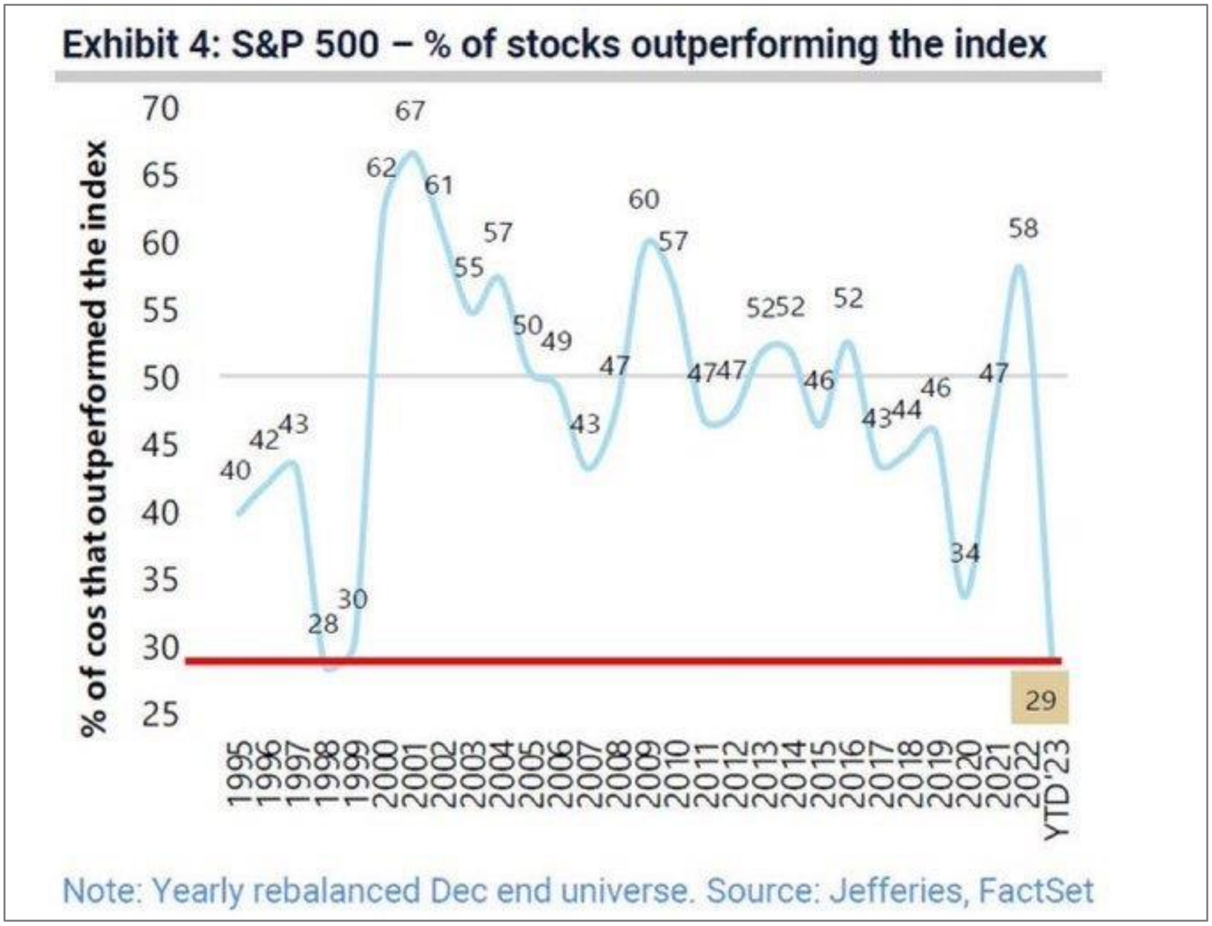
Eight Mega-Cap stocks have driven all the stock market gains since SVB's failure.



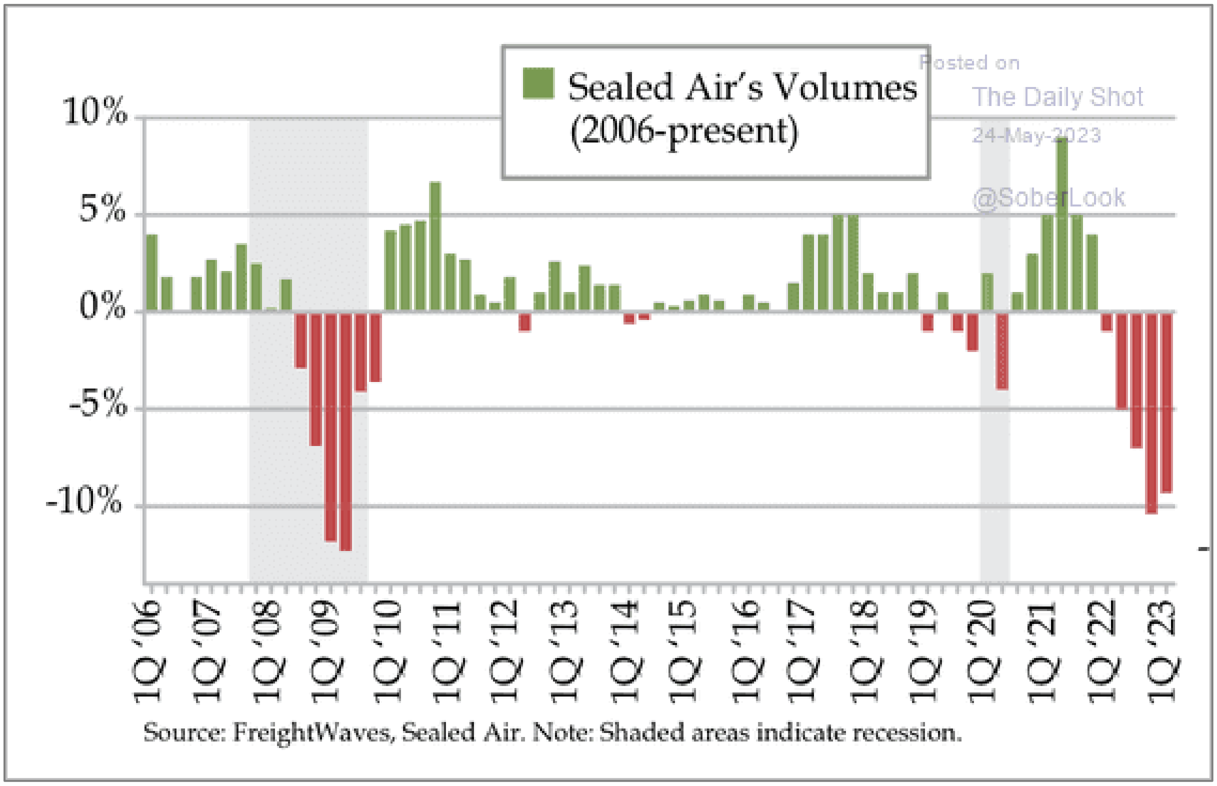
Only three sectors are up Year-To-Date.



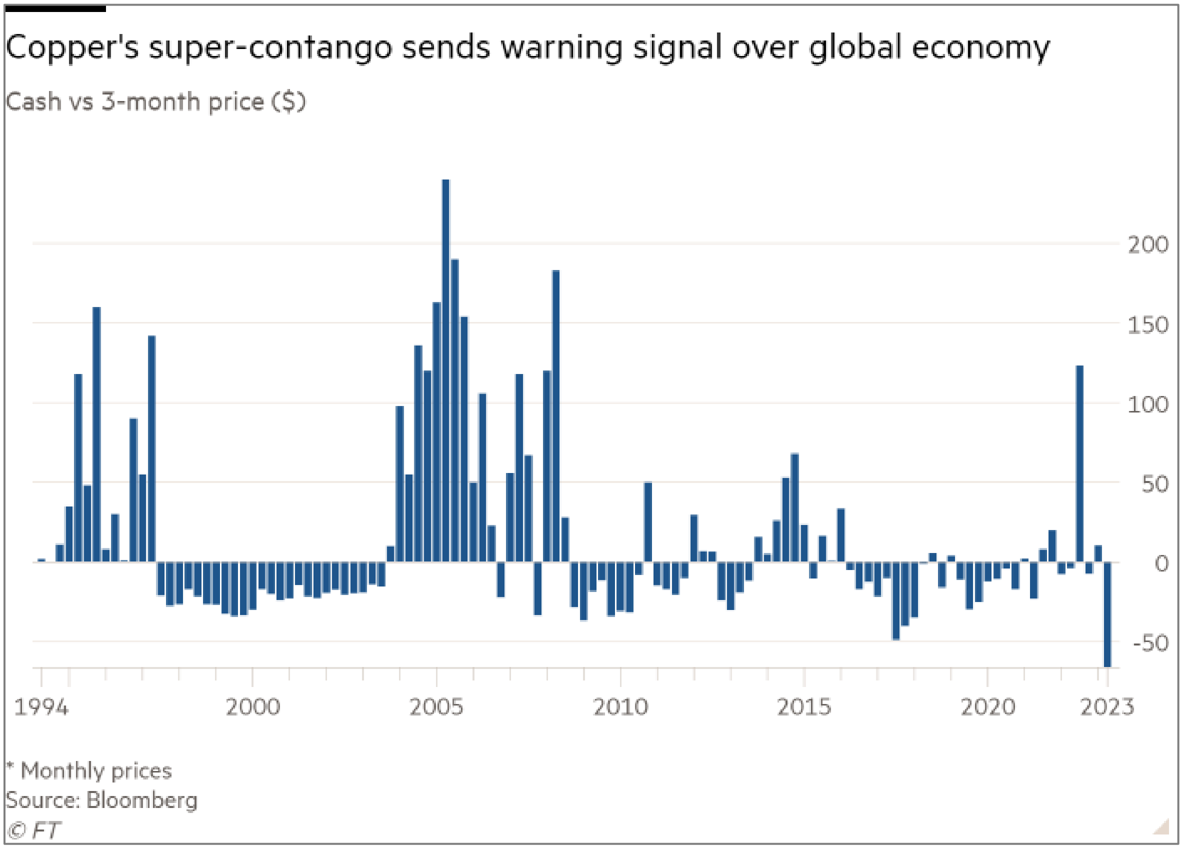
The percentage of individual stocks underperforming the market is close to a new record.



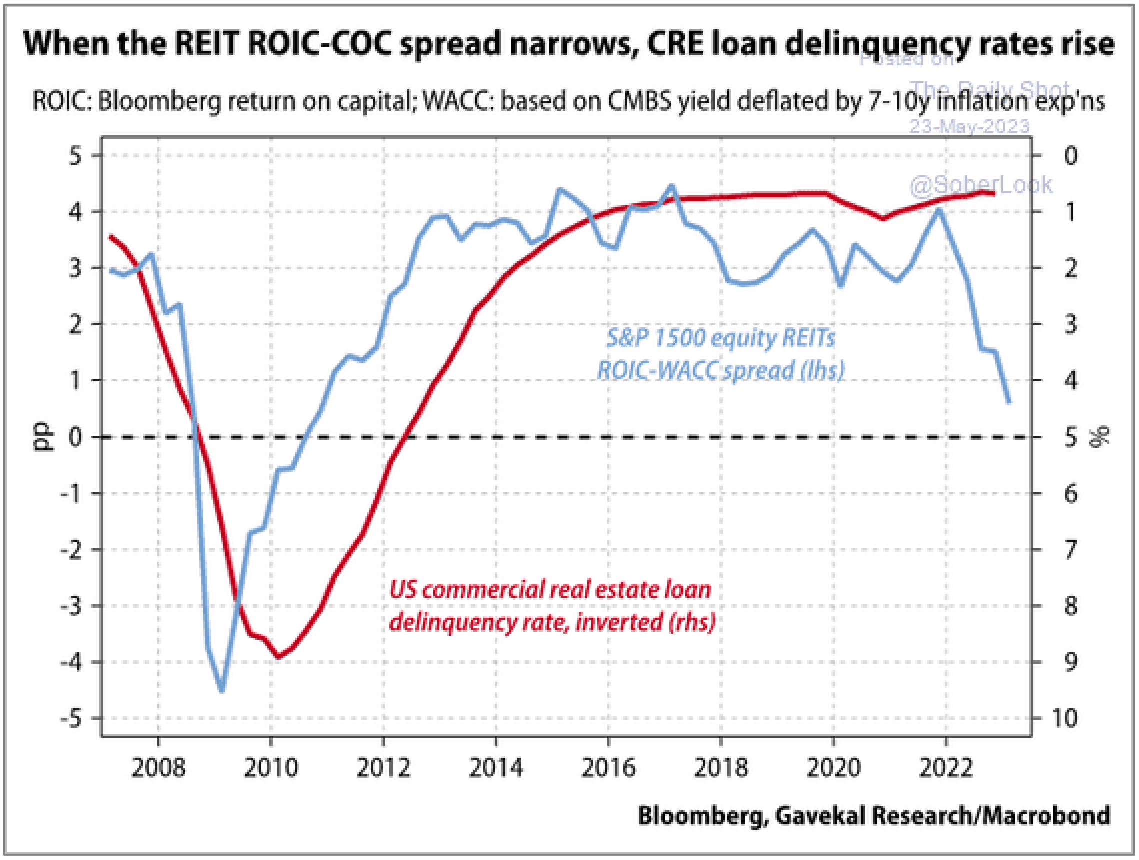
Sealed Air's packaging volumes look recessionary.



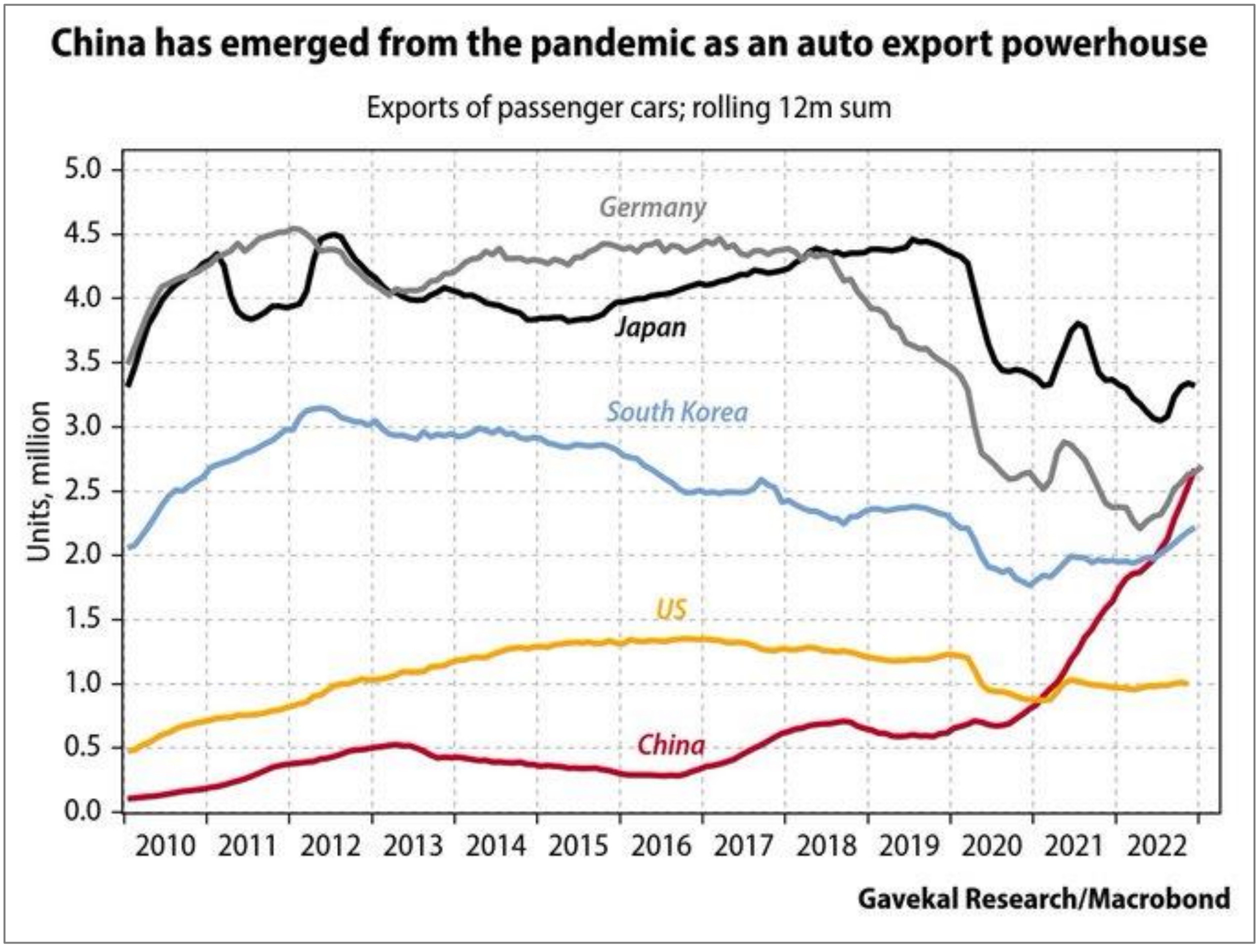
Is extreme contango in the Copper market signaling falling economic demand?



Net return on REITS is falling. Expect higher Commercial Real Estate Loans delinquencies.



China's auto exports have been surging since Covid.



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.