



# Market Outlook

By Mark T Dodson, CFA

## Smells like Animal Spirits

Market Risk Index climbed to 77.3% on deterioration in both the Psychology and Valuation Composites.

The Monetary Composite remains buoyed by solid readings from the Inflation and Velocity categories, meaning a substantial push higher by MRI appears unlikely in the near term. The Velocity category of our Monetary Composite will not weaken until a recession is imminent. Our measures of velocity have run unusually hot for longer than we expected, considering the nearly nine months that have passed since the yield curve inverted. We suspect it's the remnants of \$5 trillion of Covid-related stimulus still reverberating through the economy.

Valuations crossed into the worst 5% of readings, merely a week after the market achieved official bull market status by the punditry. The spread between our return forecast on stocks and the yield on a 10Yr Treasury has climbed to 200 basis points in favor of US Treasuries. Stocks aren't rallying because there isn't an attractive alternative now – the TINA argument is extinct.

Several indicators within the Psychology breached Euphoria territory. AAI Sentiment survey bullishness hit the highest level since late 2021. Options markets are also beginning to register froth again, with our Smart versus Dumb Option money indicator hitting the second-highest level on record and the ISEE Index showing renewed enthusiasm by call option buyers.

Net volume and assets flowing into Levered ETFs and Funds relative to inverse funds are also hitting greed extremes – Leveraged assets are spiking back to 2021 levels of euphoria. Such a rapid return to this level of speculation so quickly is a clue that the previous bull's speculative excess was not wholly wrung out of financial markets.

Action in the CBOE Volatility Index (the VIX) supports this idea, with the VIX hitting lows this week that were lower than any level the previous bull market managed to achieve, and it's also coming just a week after the new bull market's existence was confirmed. Combined with the fact that this would be the only bull market since the VIX (or VXO) existed to begin without a reading above 40 to mark the previous bear market's capitulation, and this market starts looking like the old bull's after-party. Except, this bull is starting a party without the Federal Reserve supplying the punch bowl.

### Market Risk Index

Rec Allocation 25% Underweight

**77.3%**

### Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



### Largest Psychology Influences

Leveraged Investments	Negative
Option Activity	Negative
Flow of Funds	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	1.8%
10Yr US Treasury Yield	3.7%

### Market Trends

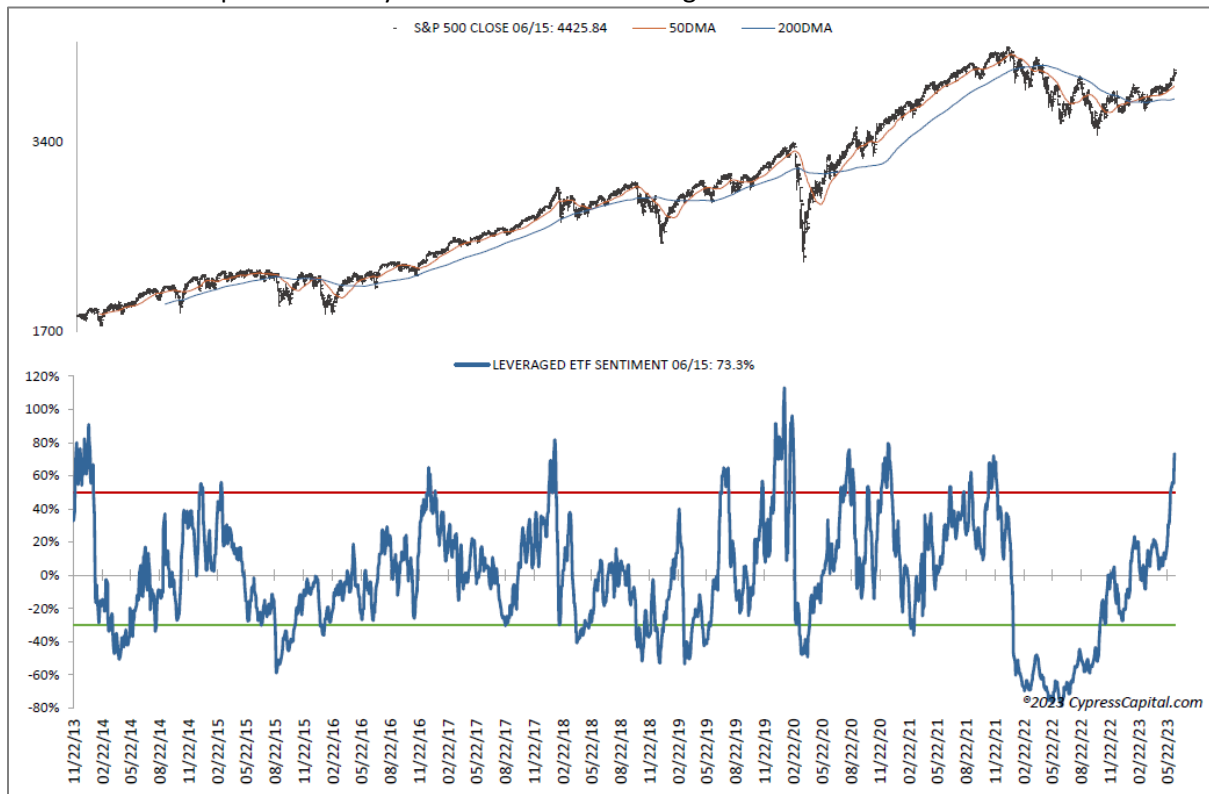
US Equities	Bullish Trade
Intl Equities	Bullish Trade
REITs	Bearish Trade
Broad Commodities	Bearish Trade

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.

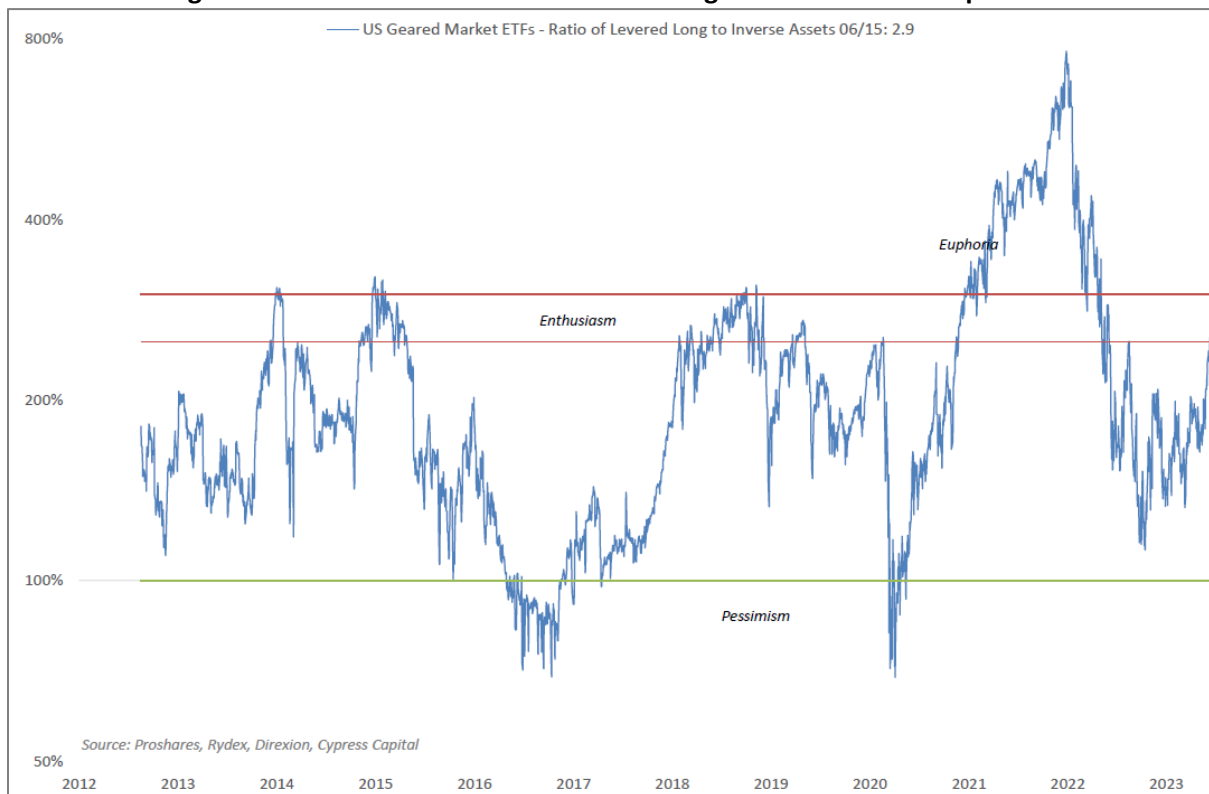
### Charts of the Week

#### Leveraged ETF Sentiment hits the most euphoric level since November 2021.

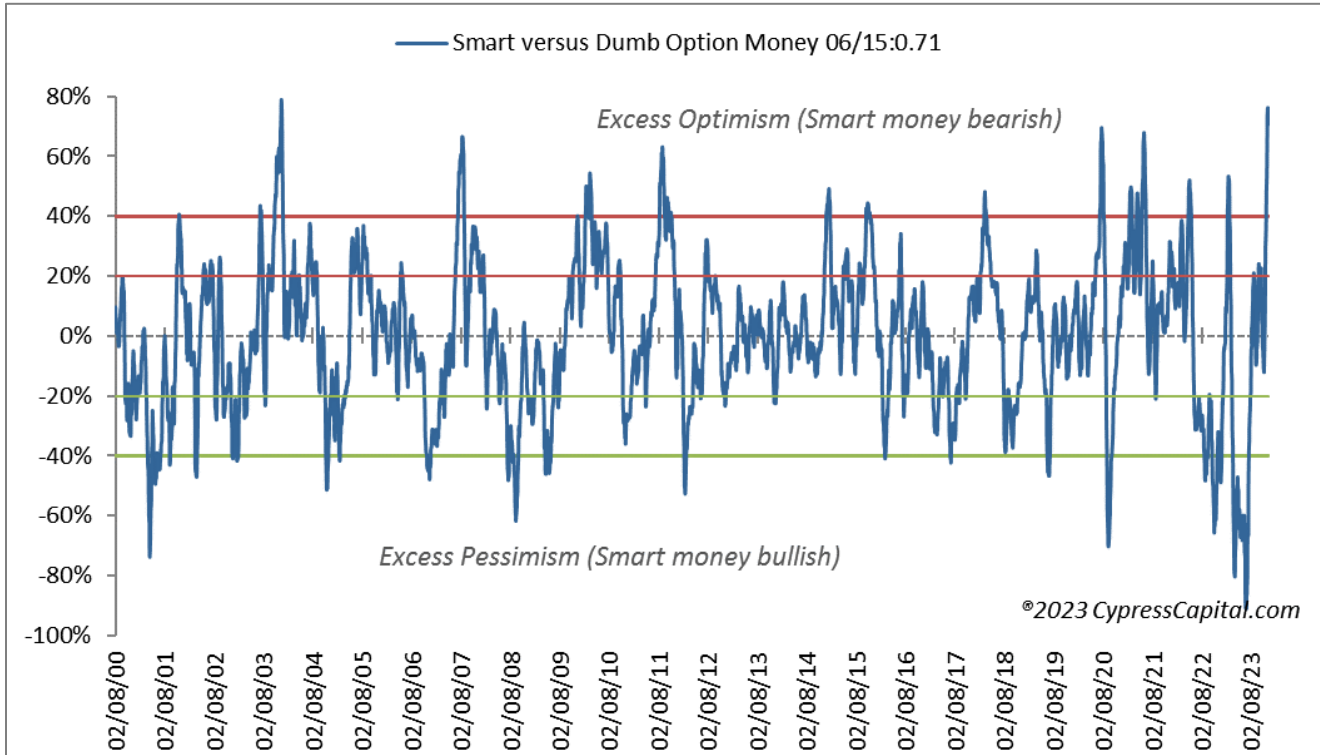
The indicator compares the daily dollar volume of Leveraged ETFs relative to Inverse ETFs.



#### Ratio of Leveraged ETF Assets to Inverse Assets rockets higher – close to the Euphoria zone.

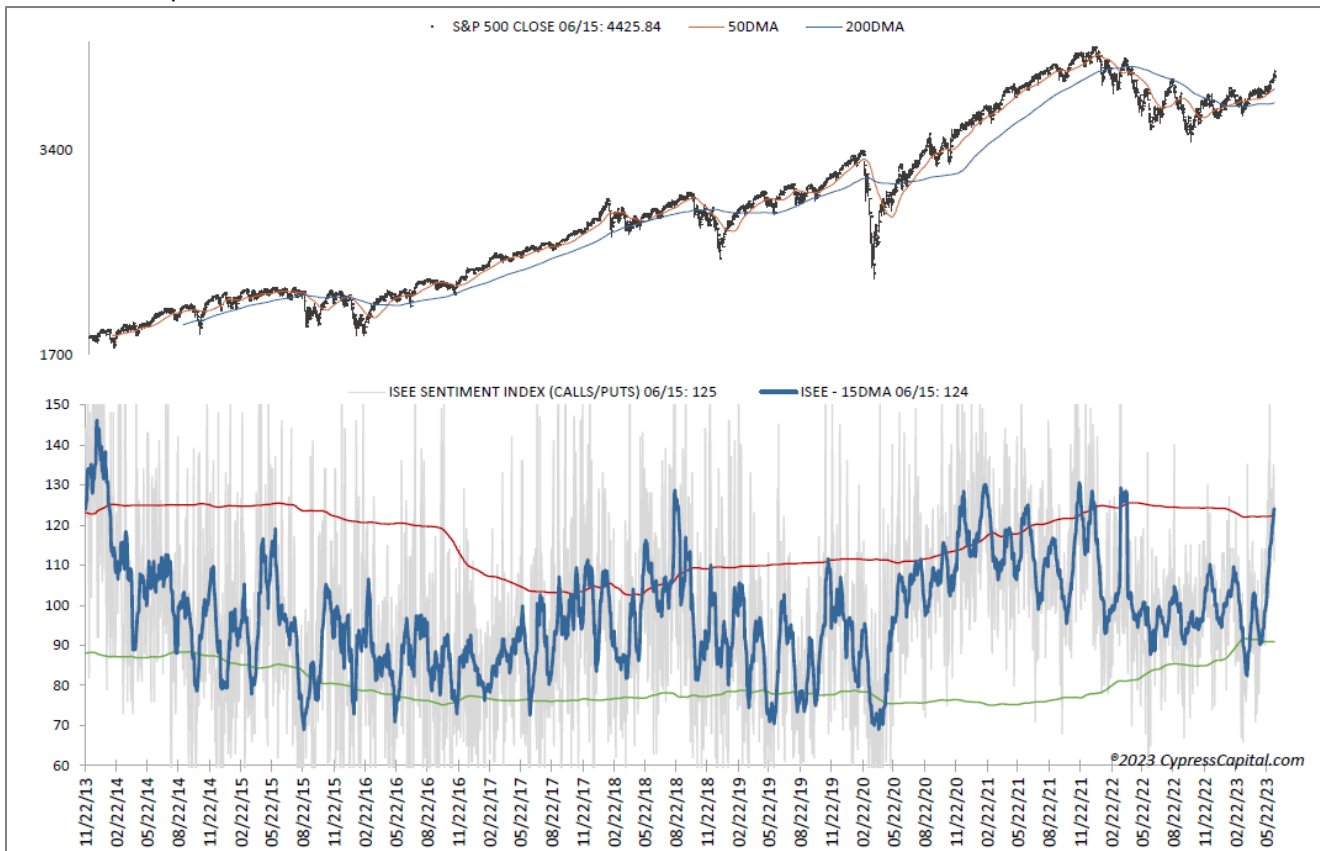


**Smart versus Dumb Option Money Indicator hit the second highest level on record.**

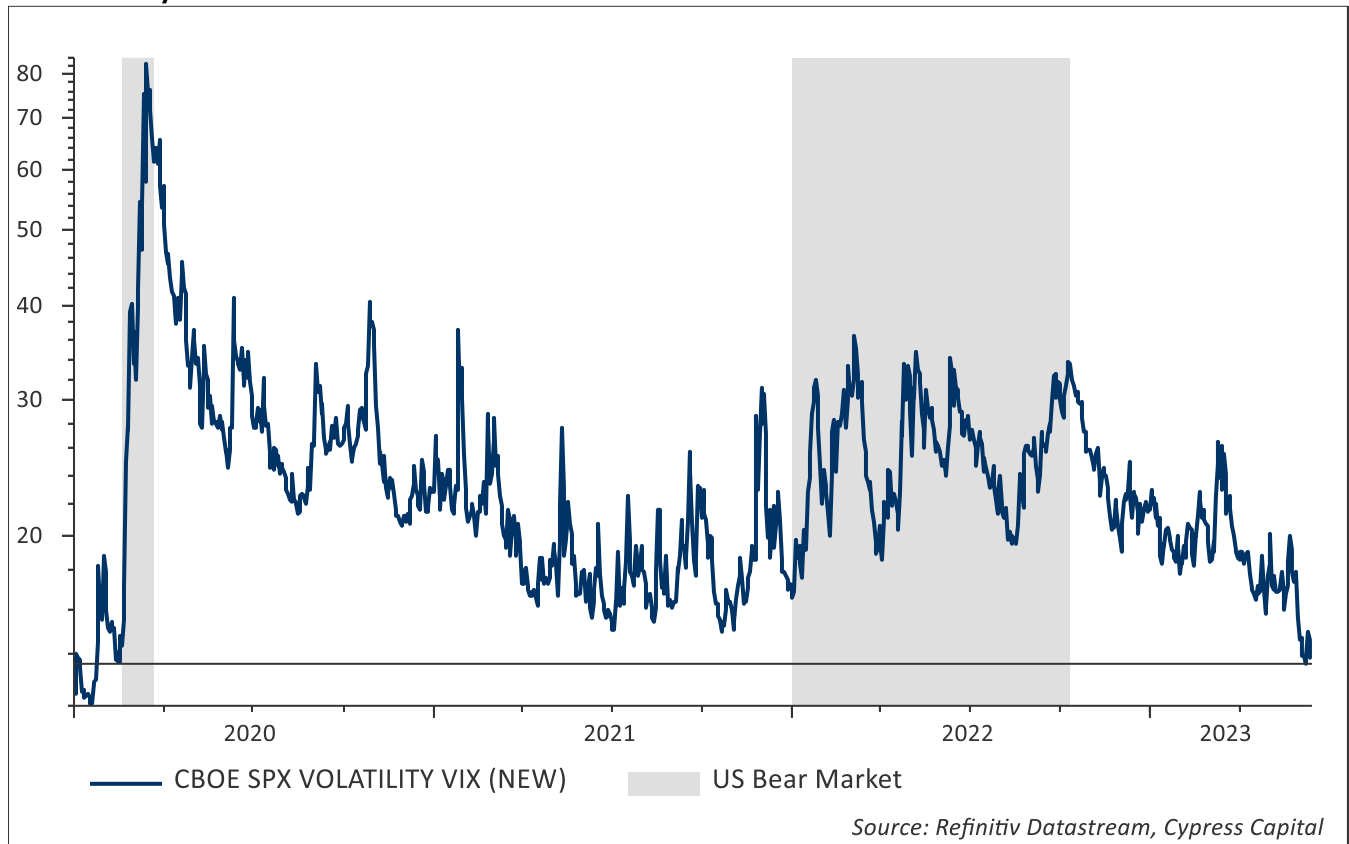


**ISEE Index shot enthusiastically higher.**

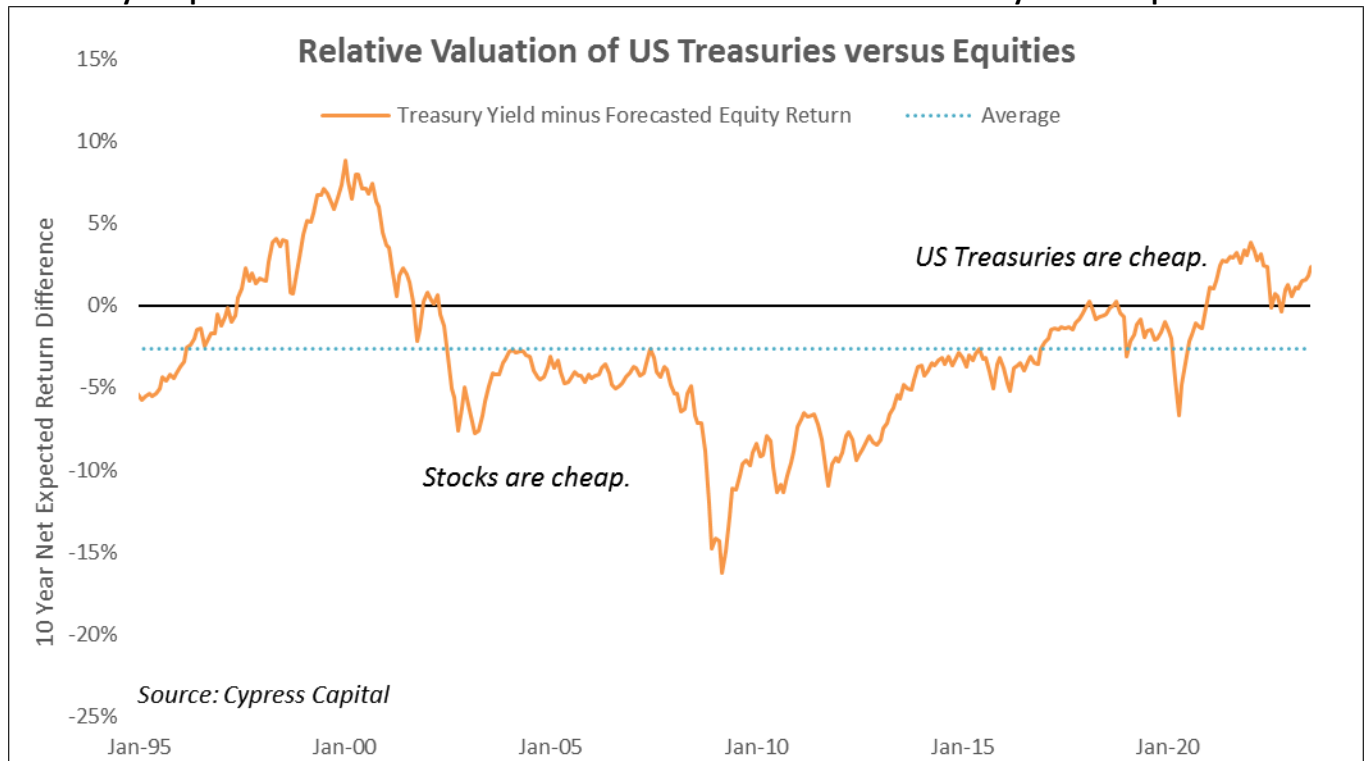
ISEE Index measures only open transactions in put and call options. Lots of opening call options being purchased in the last couple of weeks.



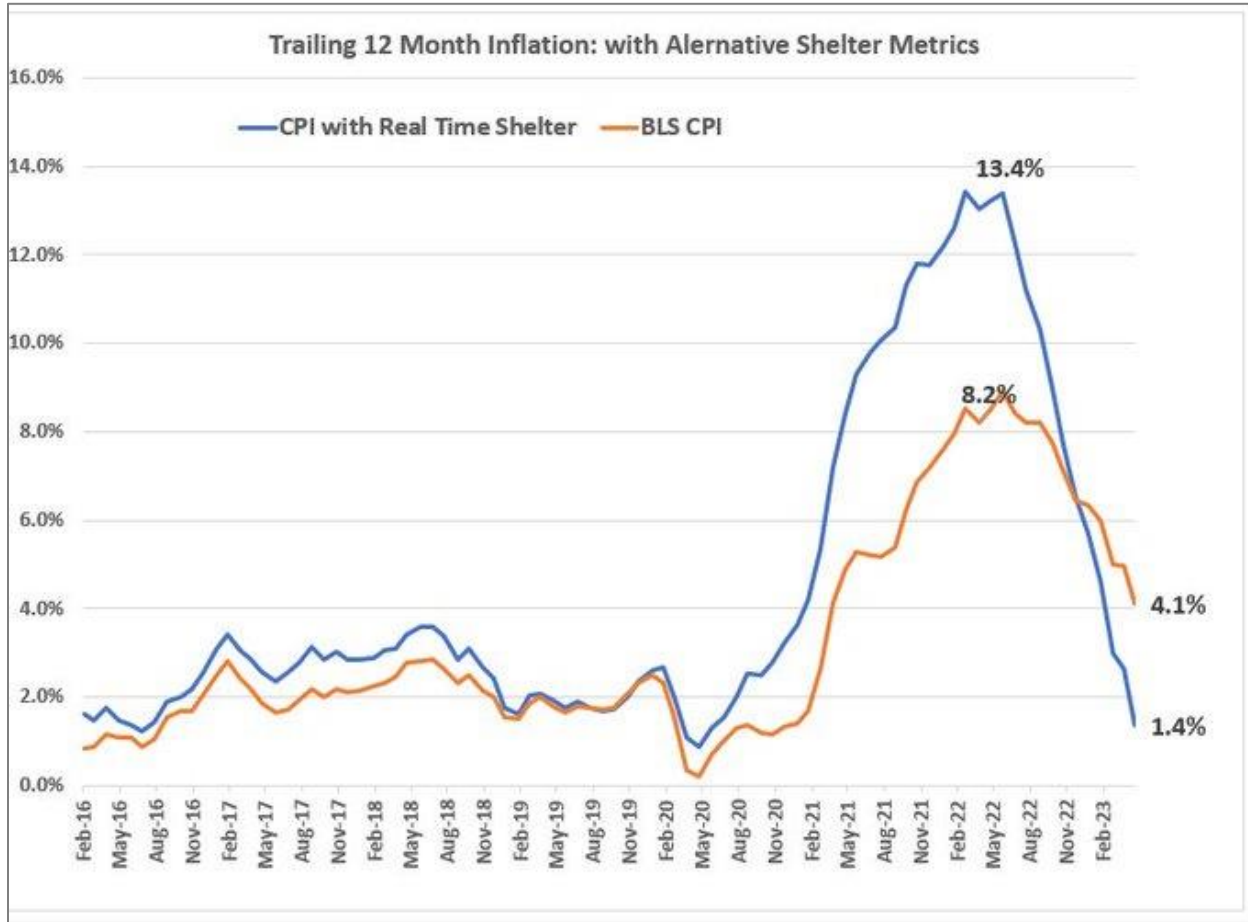
**VIX is already below the 2020-2022 bull market's low.**



**Stock rally has pushed relative valuations in favor of investment in US Treasuries by 200 basis points.**



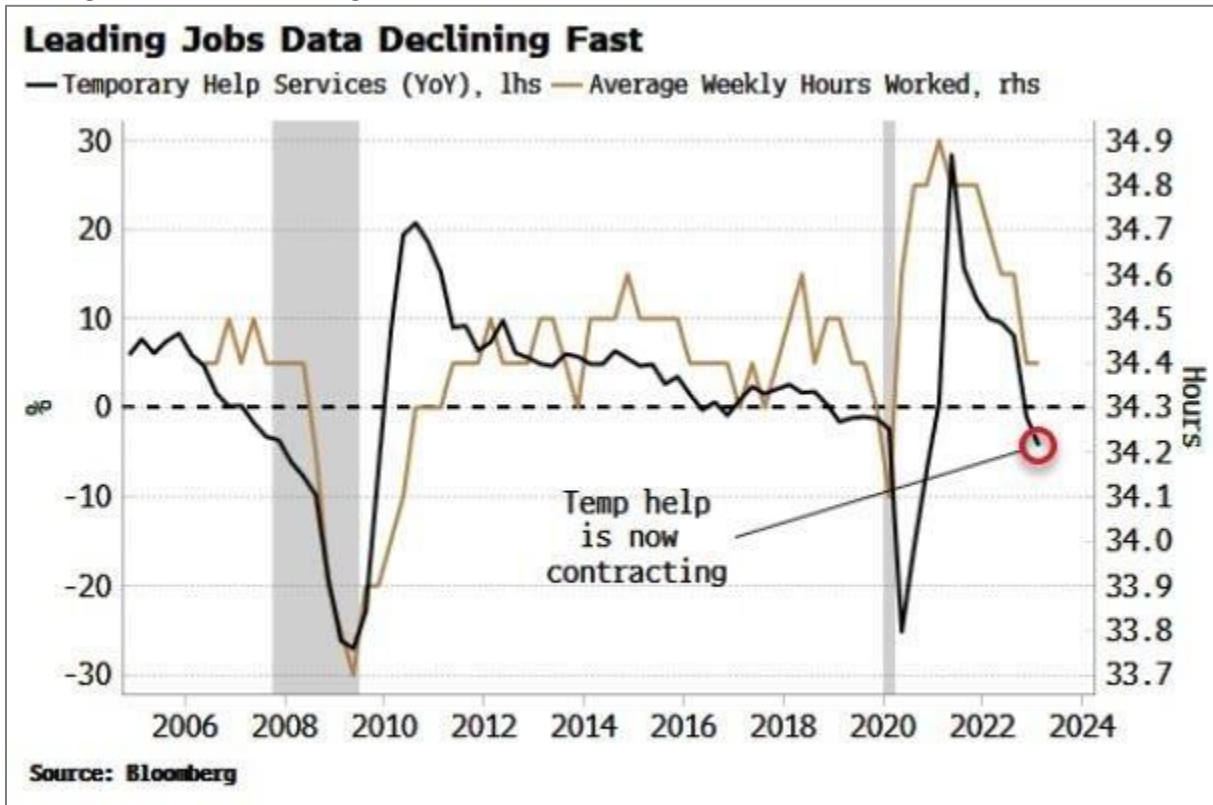
Inflation calculated using higher frequency measures of home prices has fallen sharply.



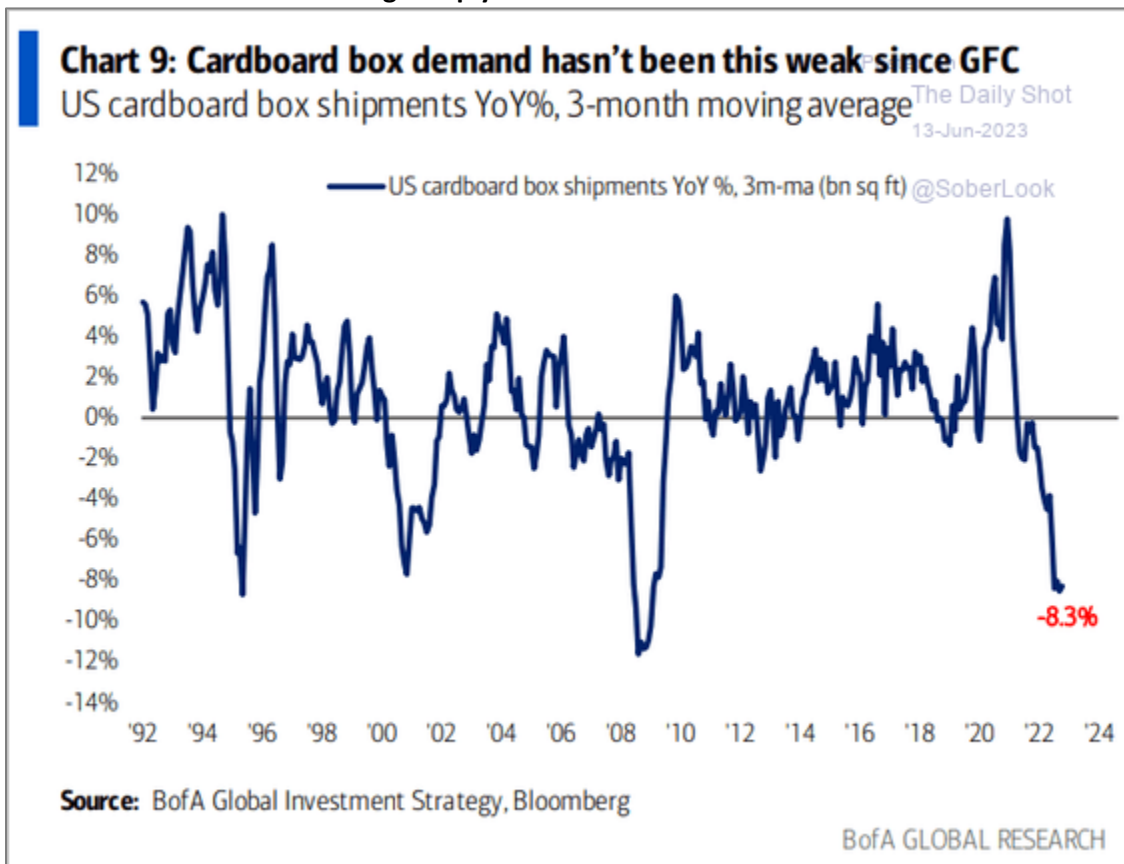
Bull market breaks the precedent of waiting for the Fed's blessing to begin.



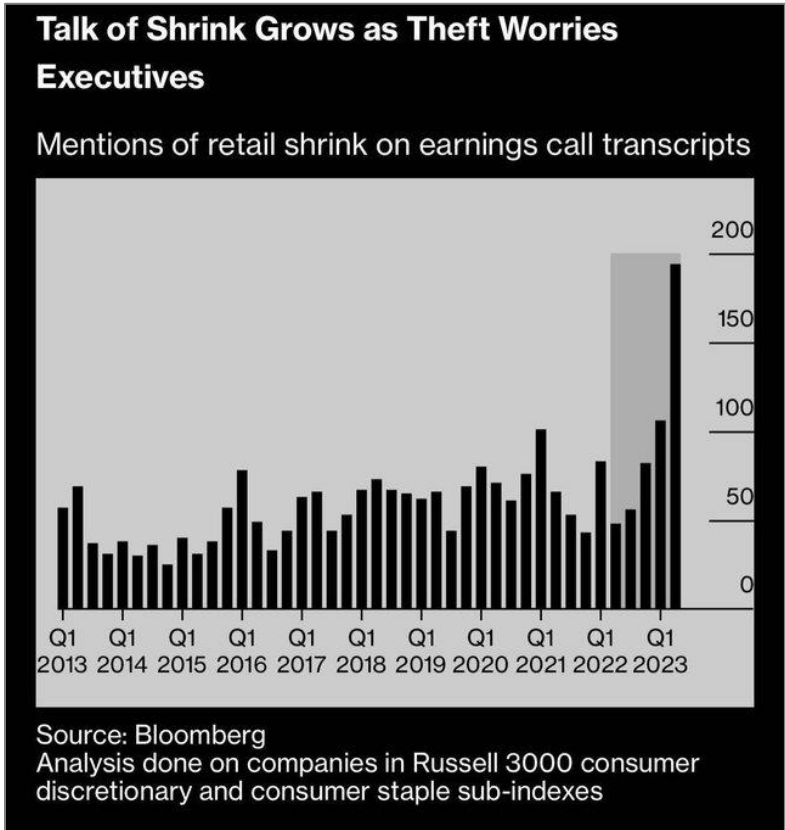
Leading Jobs Data is declining.



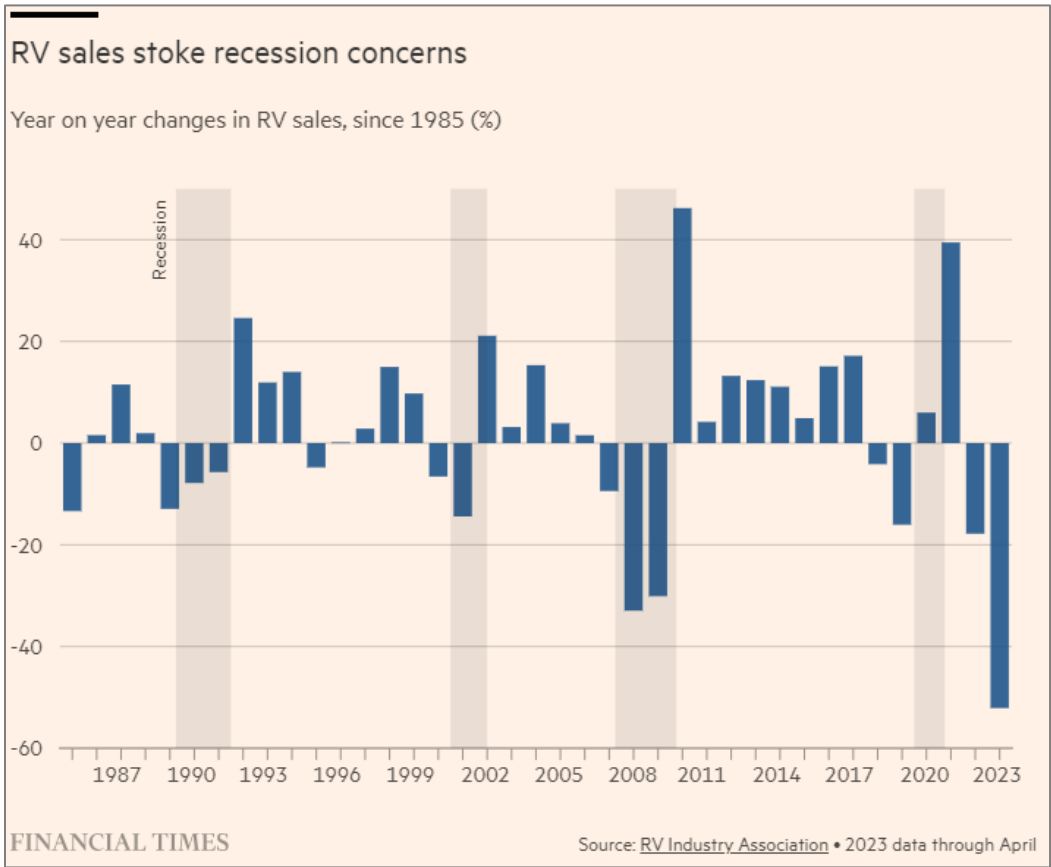
Cardboard box demand is falling sharply.



**Mentions of Theft on quarterly earnings calls shoots higher.**



**Record decline in RV sales.**



**Nvidia's P/E Ratio surpasses 200.**

The market is pricing in some monster growth expectations for a company already worth \$1 Trillion.

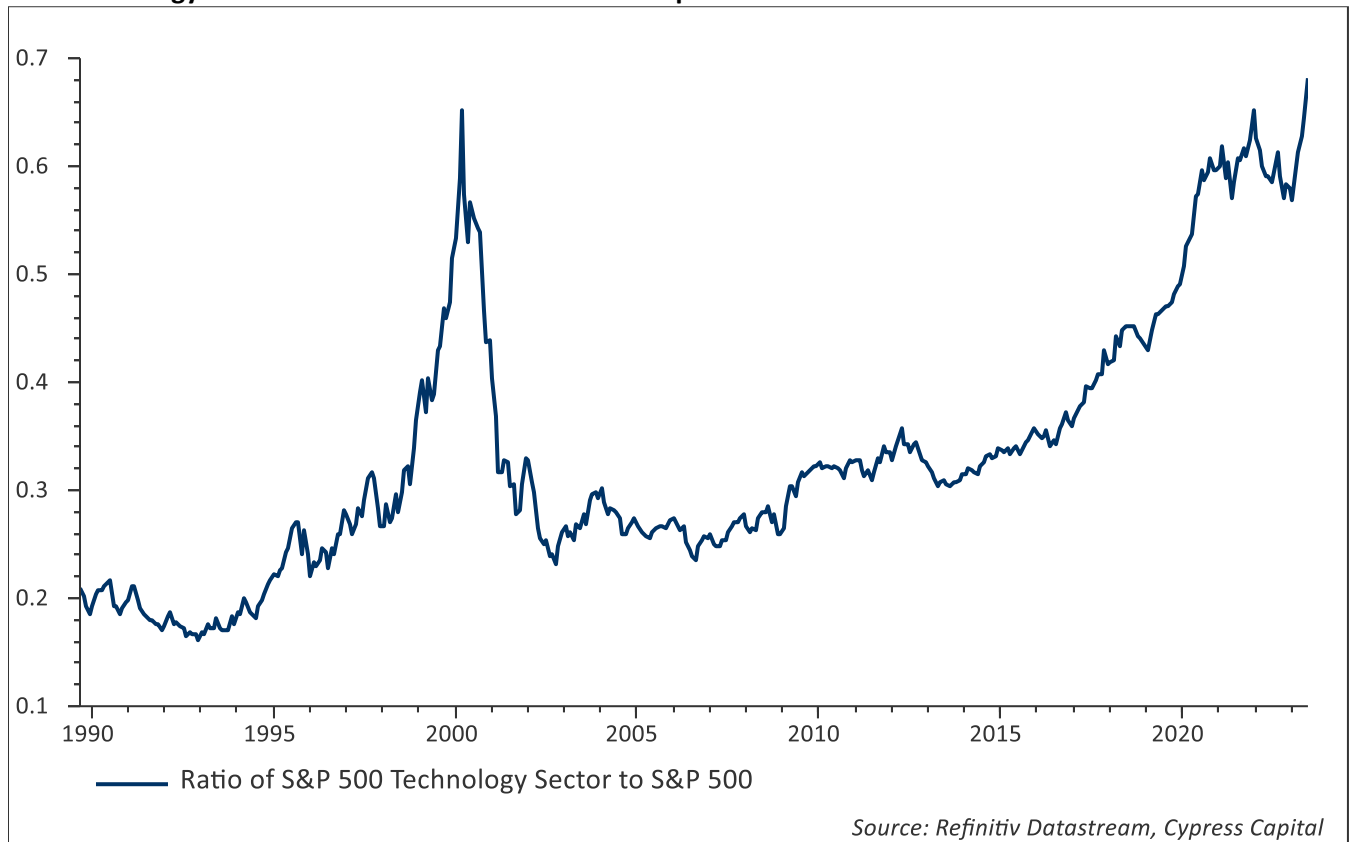
**To Infinity and Beyond!**

Nvidia's valuation has stopped obeying gravity

— Nvidia, Price Earnings Ratio (P/E)



**The Technology Sector broke the Dot-Com Era relative performance record this week.**





## 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.