



Market Outlook

By Mark T Dodson, CFA

Cash isn't Trash Anymore

Market Risk Index improved by more than 2% to 75.5% on better readings from our Monetary Composite. MRI is still above 75%, which denotes markets vulnerable to a substantial drawdown.

The Interest Rates category led to the Monetary Composite improvement. Bond Markets are riding an edge between signaling neutral monetary policy and tight monetary policy. However, our Monetary Composite suggests that money still leans toward easy overall, which probably conflicts with where central bankers think they are. Deep down, central bank bureaucrats are still afraid of a repeat of 2008, so they are currently erring on the side of another ramp in the inflation rate.

This leaves our Psychology and Valuation Composites red-lined, which also happen to be the areas of our model that we are fond of most – they are our favorite children. If you are a serious student of markets and interested in absolute levels of risk and protecting your wealth, those are your go-tos.

On the Psychology front – the VIX is already hitting lows that the previous bull market never managed to achieve, and it took the bull market that began in 2009 five years to reach a VIX reading this low.

And, on the valuation front, the spread between the Forward Earnings Yield on US stocks and the yield on US Treasury Bills has fallen to the lowest since 2001. Investors should prefer a more balanced investment allocation considering the level of interest rates, but Household Equity Allocations will likely finish the quarter within two percentage points of their peak in Q4 2021 – the high water mark for the bull market.

Market Risk Index

Rec Allocation 25% Underweight

75.5%

Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

| | |
|-----------------------|----------|
| Leveraged Investments | Negative |
| Option Activity | Negative |
| Flow of Funds | Negative |
| Bank Sentiment | 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

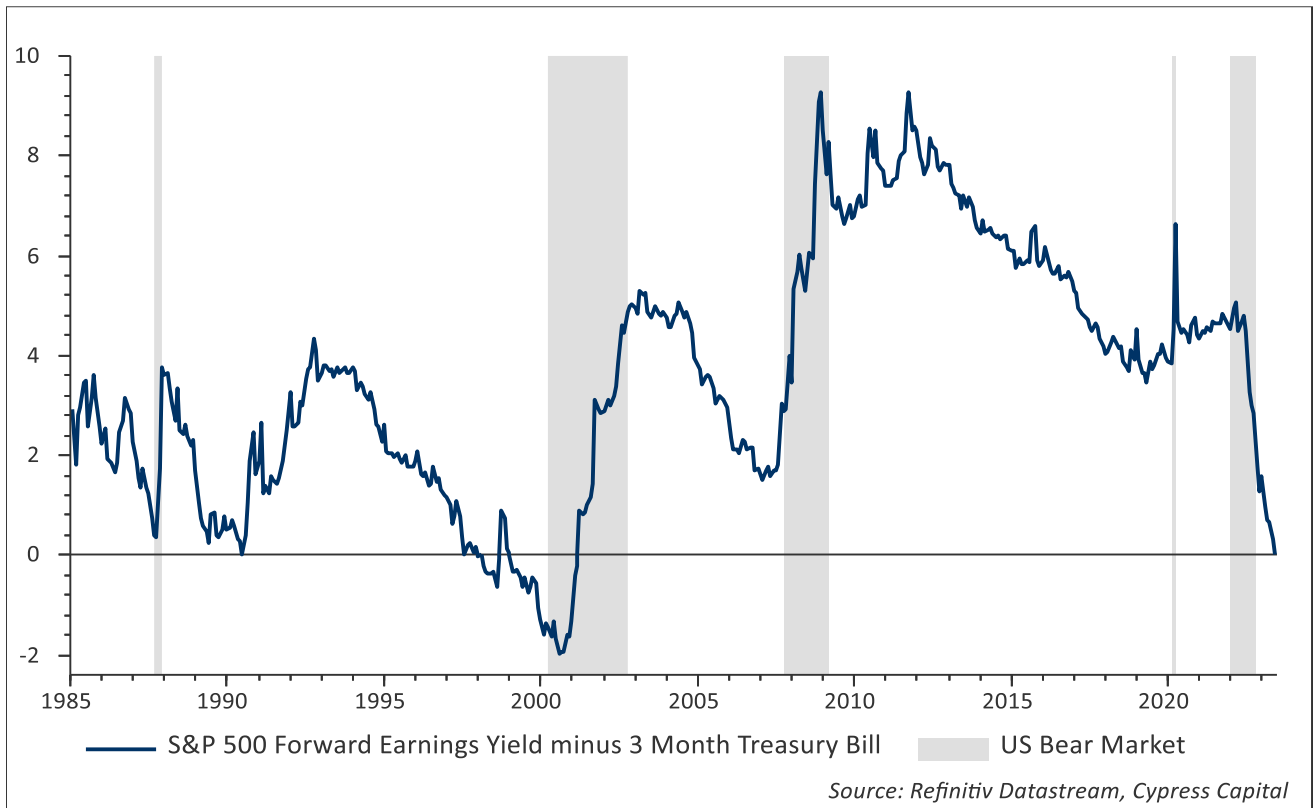
| | |
|-------------------|---------------|
| US Equities | Bullish Trade |
| Intl Equities | Bullish Trade |
| REITs | Bearish Trade |
| Broad Commodities | Bearish Trade |

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.

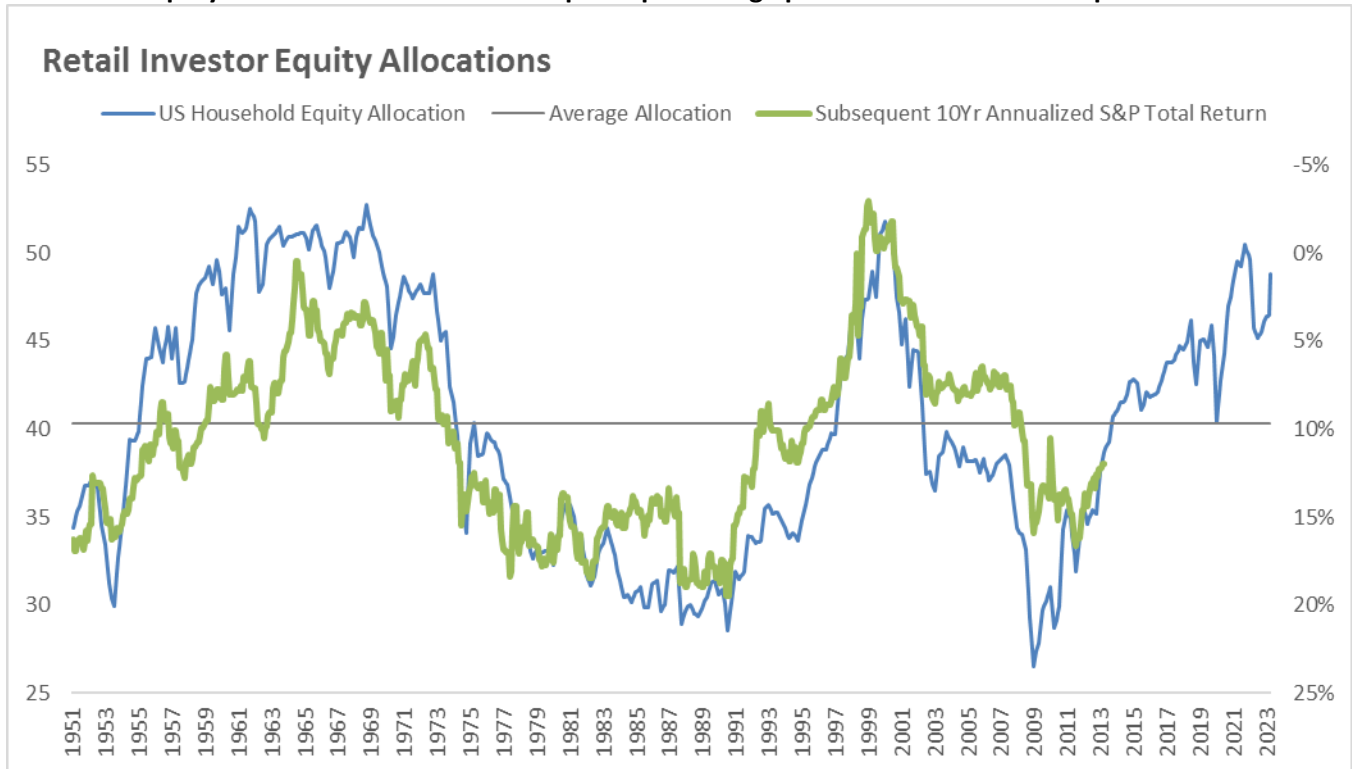
Charts of the Week

Spread between Earnings Yield on Stocks and the US Treasury Bill is the lowest since 2001.

Put another way, what you can earn buying stocks versus what you can earn holding cash has fallen to the lowest levels since the start of the dot-com bust.

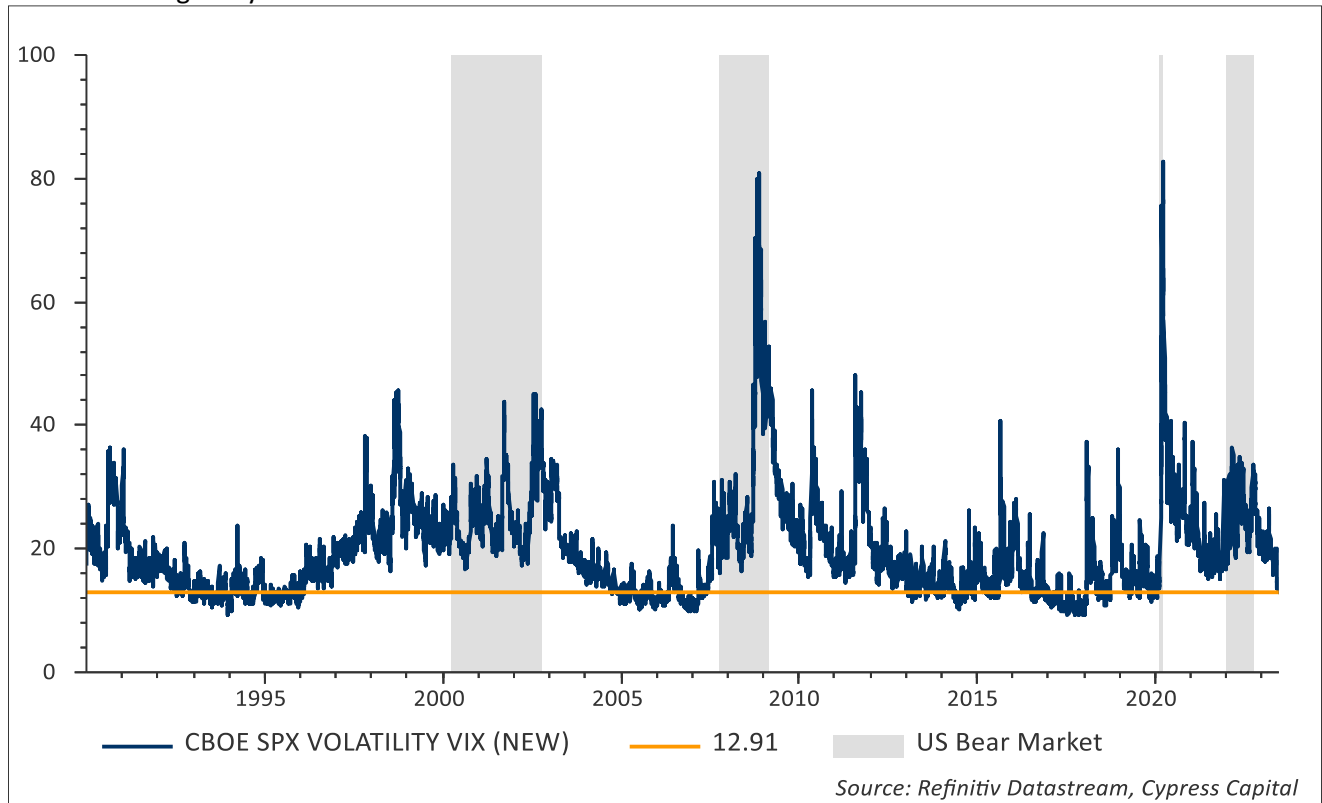


Household Equity Allocations are within a couple of percentage points of the bull market peak.

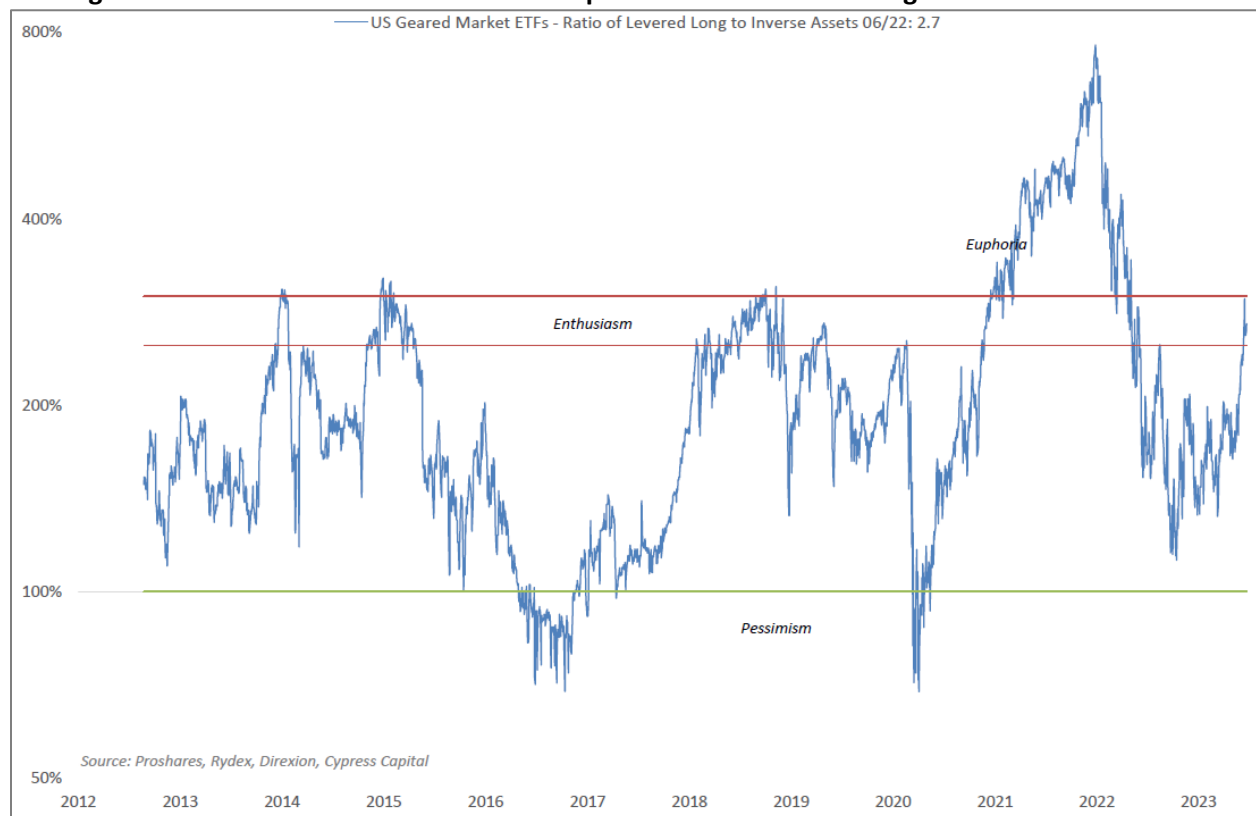


What is happening with the VIX?

The first bear market to conclude without a VIX reading above 40 is followed by a VIX hitting late-stage bull market readings only months into its existence.

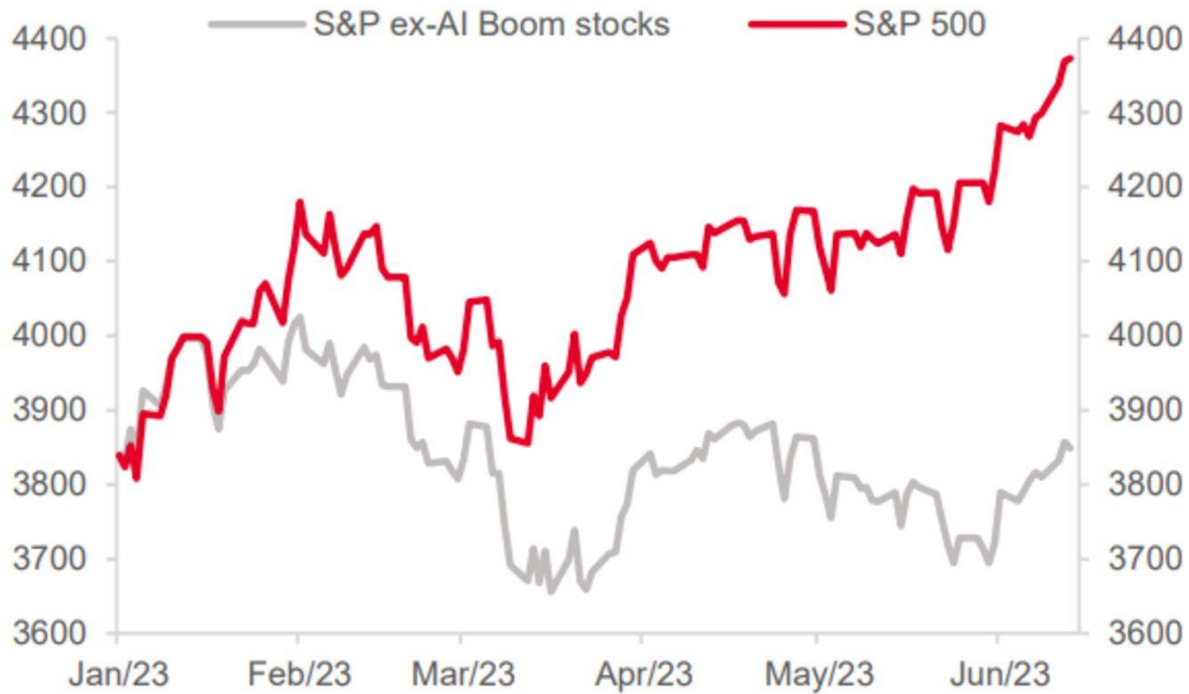


Leveraged to Inverse ETF Assets touched the Euphoria zone before backing off on market weakness this week.



Artificial Intelligence is fighting the Fed.

AI-related stocks drove virtually all S&P 500 returns this year



Data as of 14/06/2023. Source: Datastream, SG Cross Asset Research/ Equity Strategy

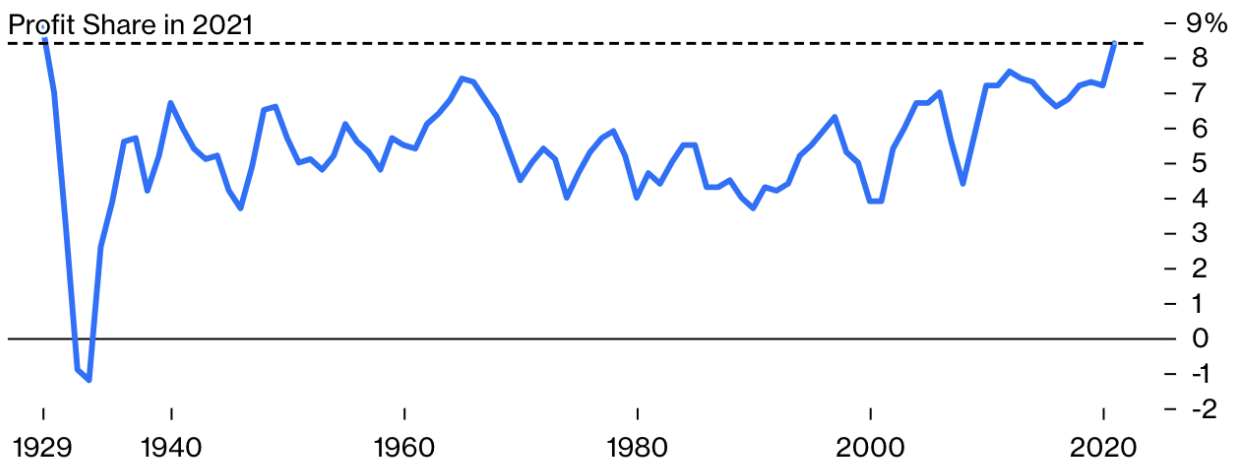
Corporate Profit Margins are close to taking out the 1929 record.

Unseen Since the Great Crash

Profits are taking a century-high share of the US economy

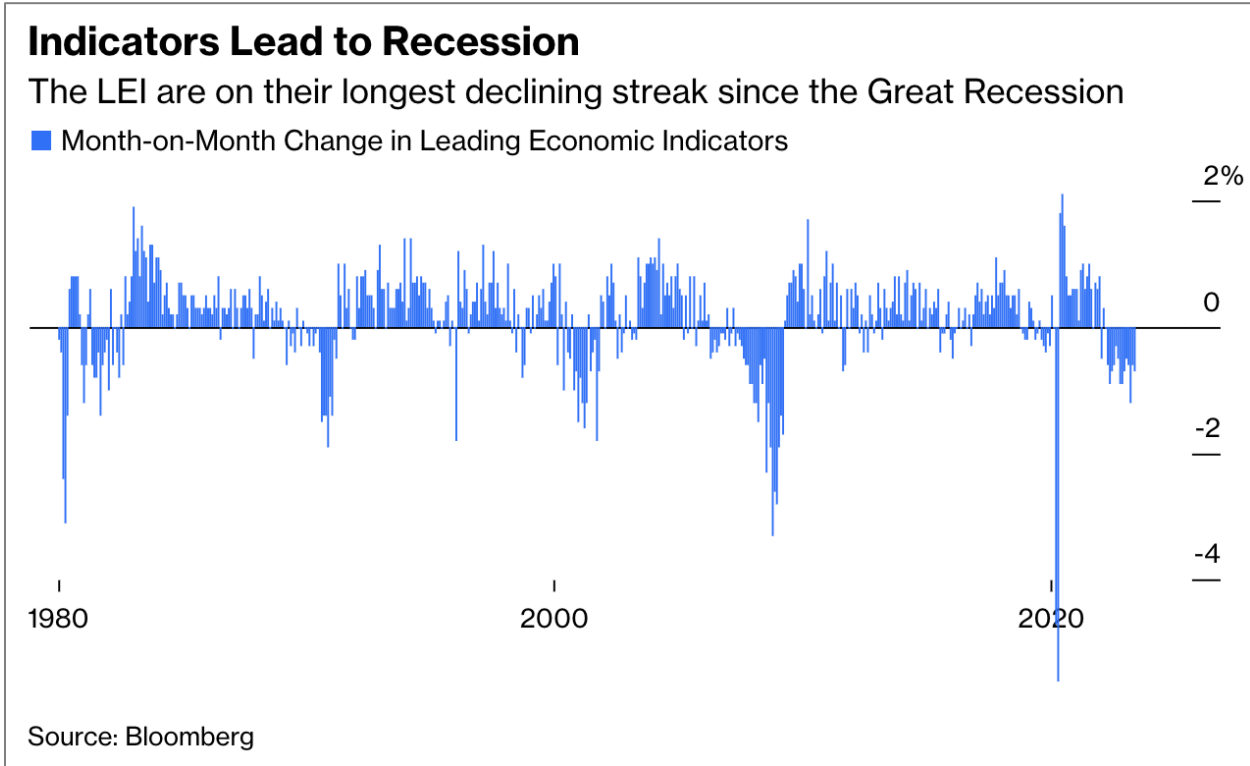
Corporate Profits' Share of Gross Domestic Income

Profit Share in 2021

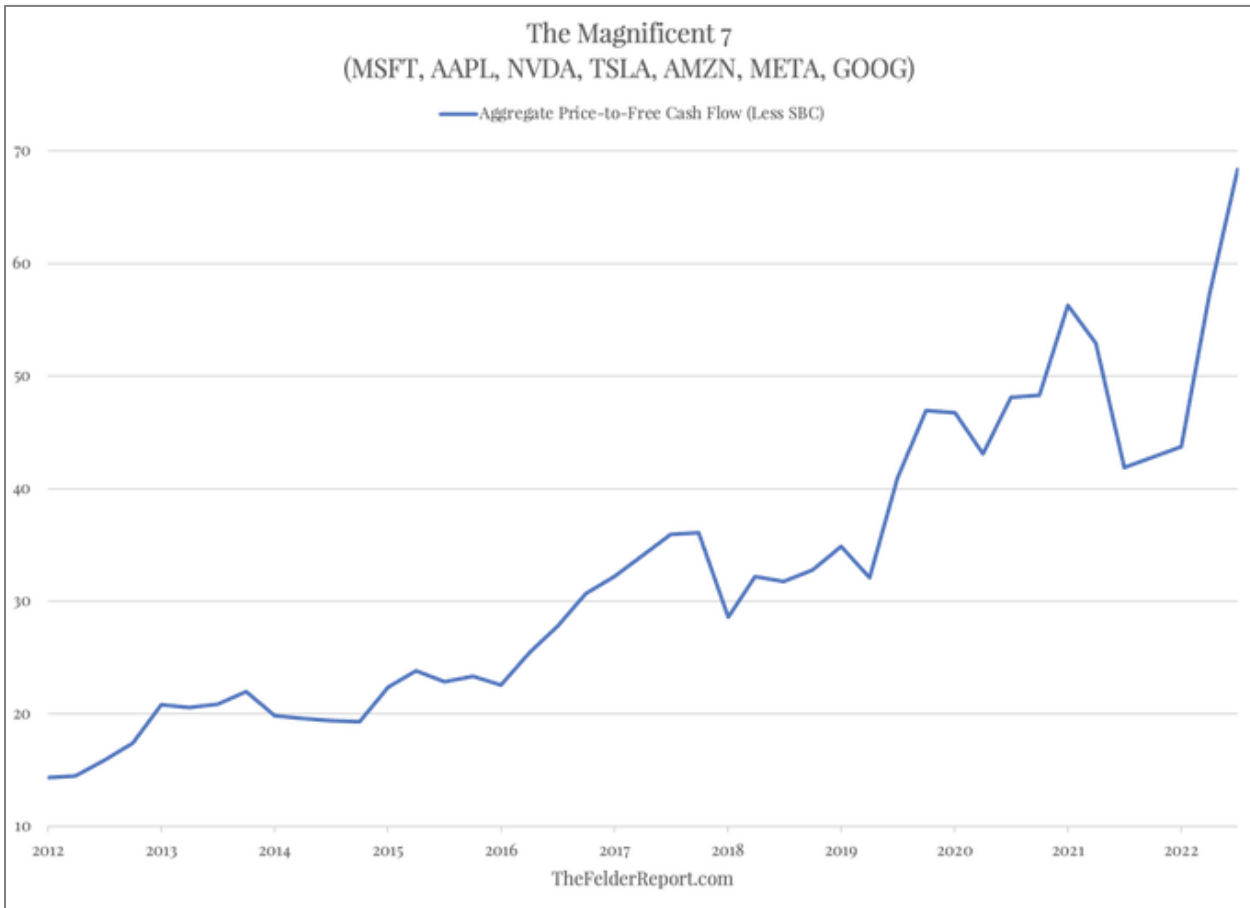


Source: Federal Reserve Bank of St Louis FRED data

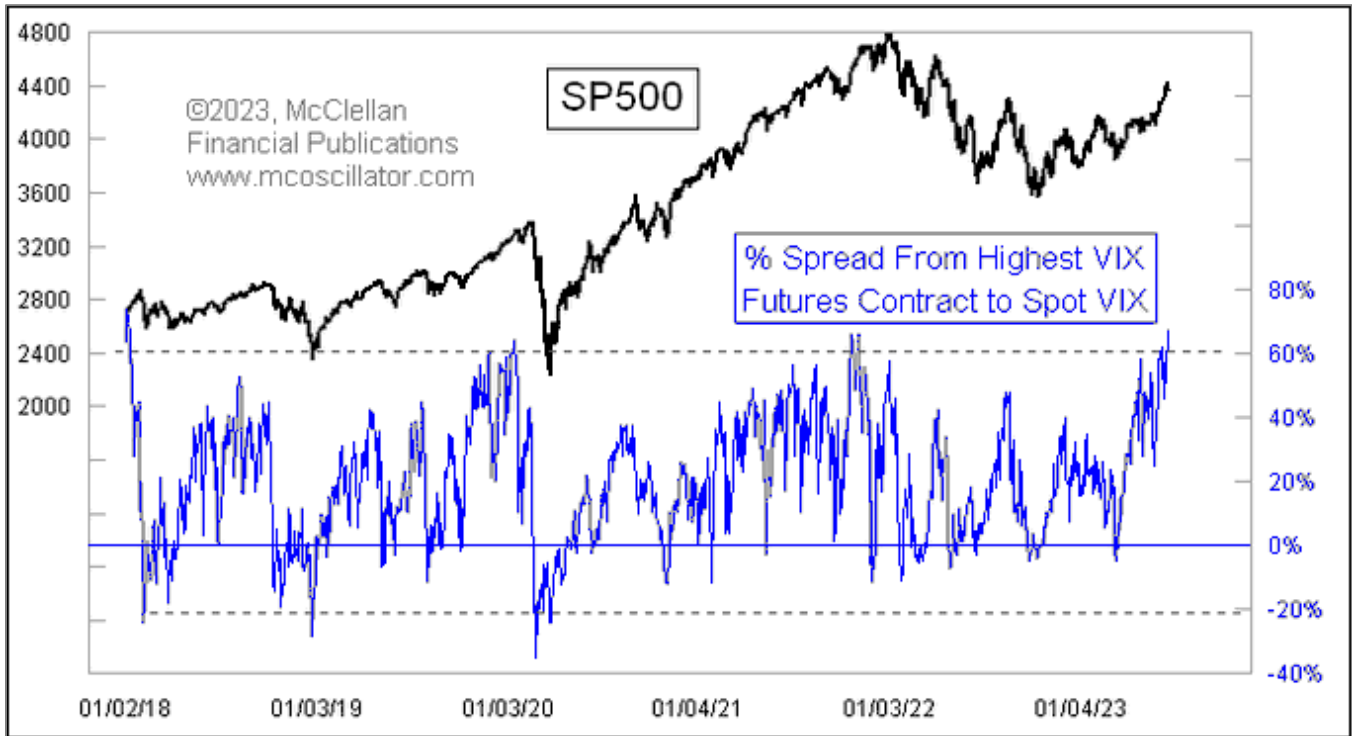
Leading Economic Indicators are on their longest declining streak since 2008.



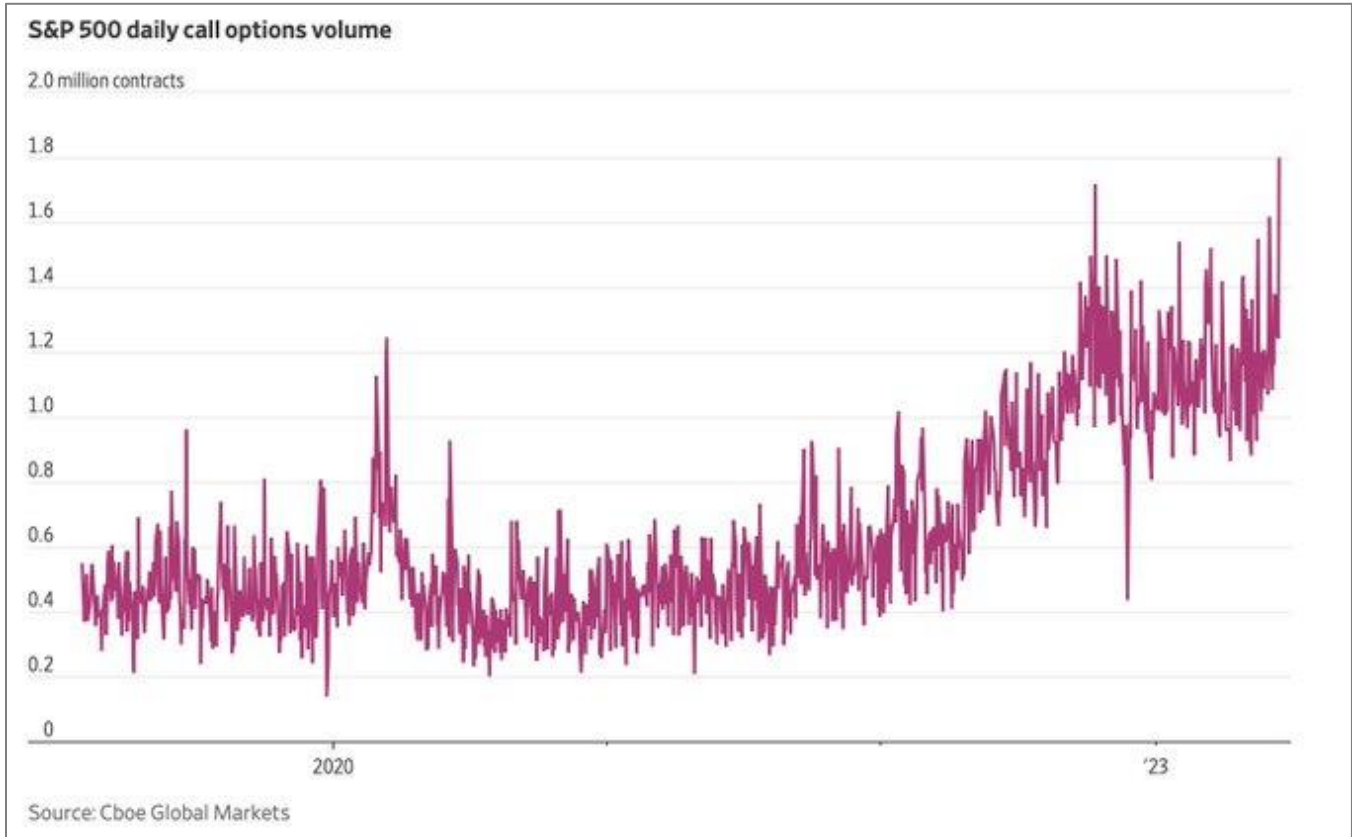
Valuations on 2023's Darlings, the Magnificent 7, are at nosebleed levels.



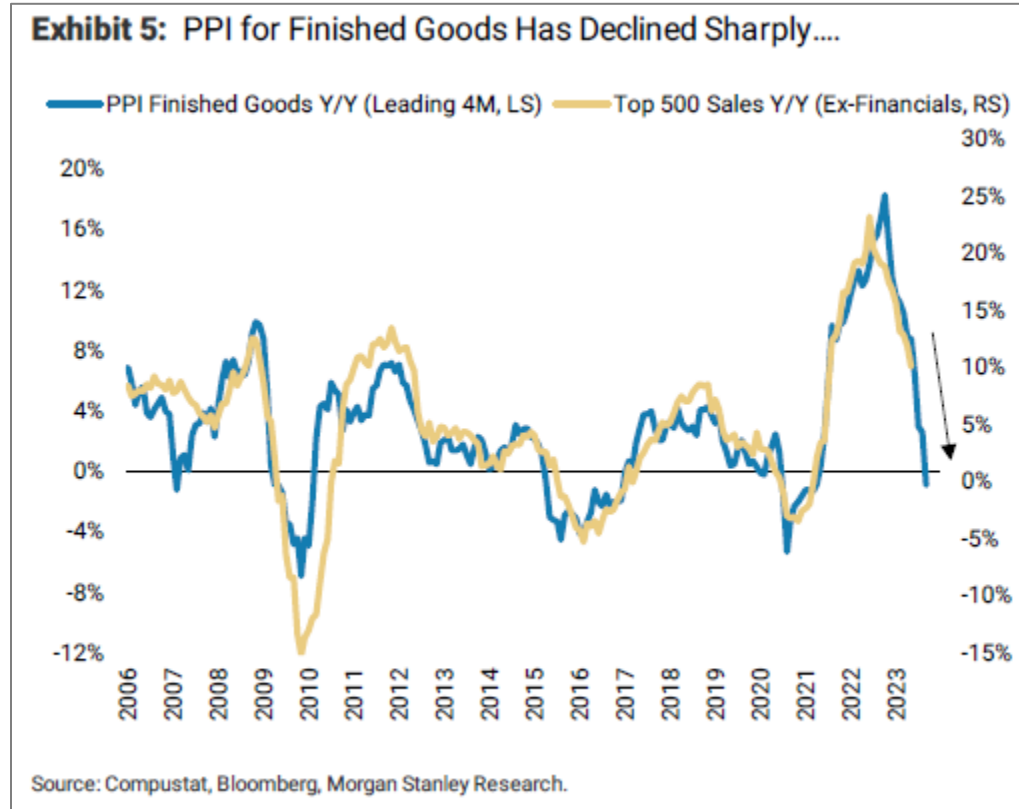
Spread between VIX Futures and VIX Spot are the highest since the bull market peak.



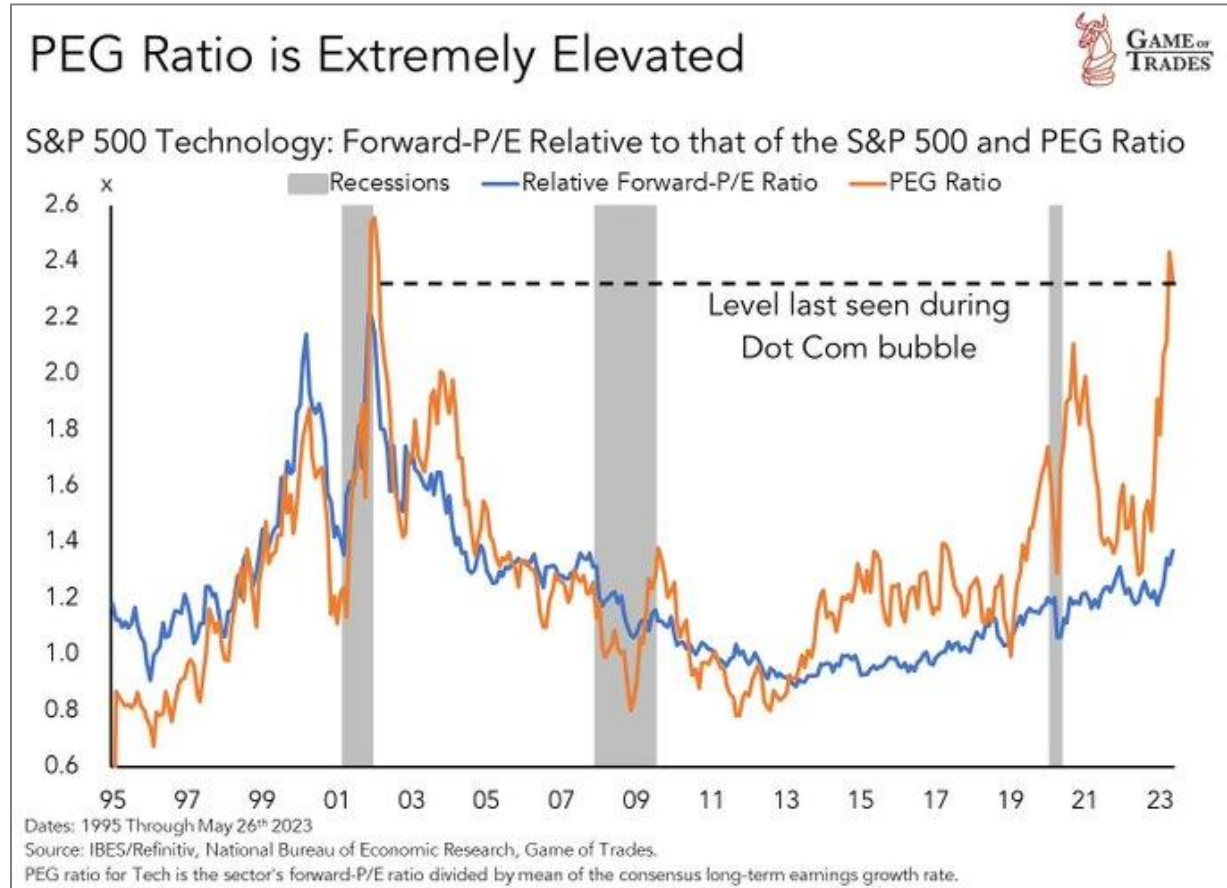
Record Volume in Call Options on the S&P 500.



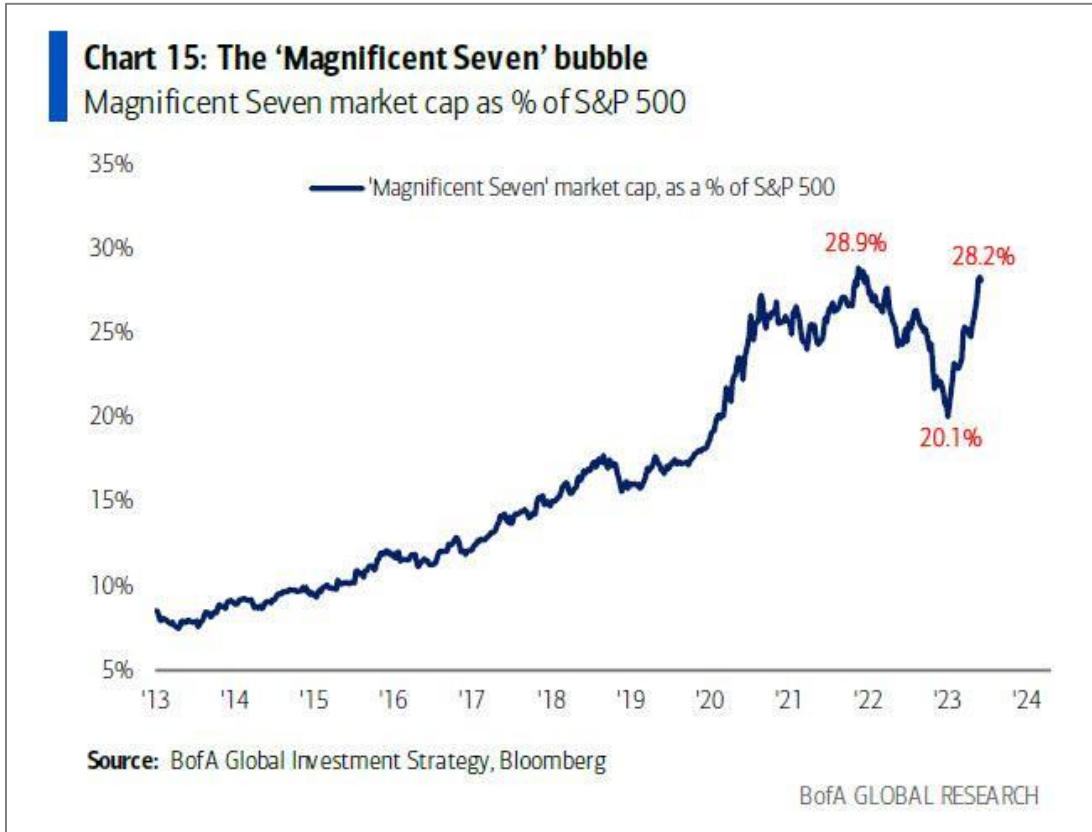
Weak PPI implies Lower Corporate Revenues on the horizon.



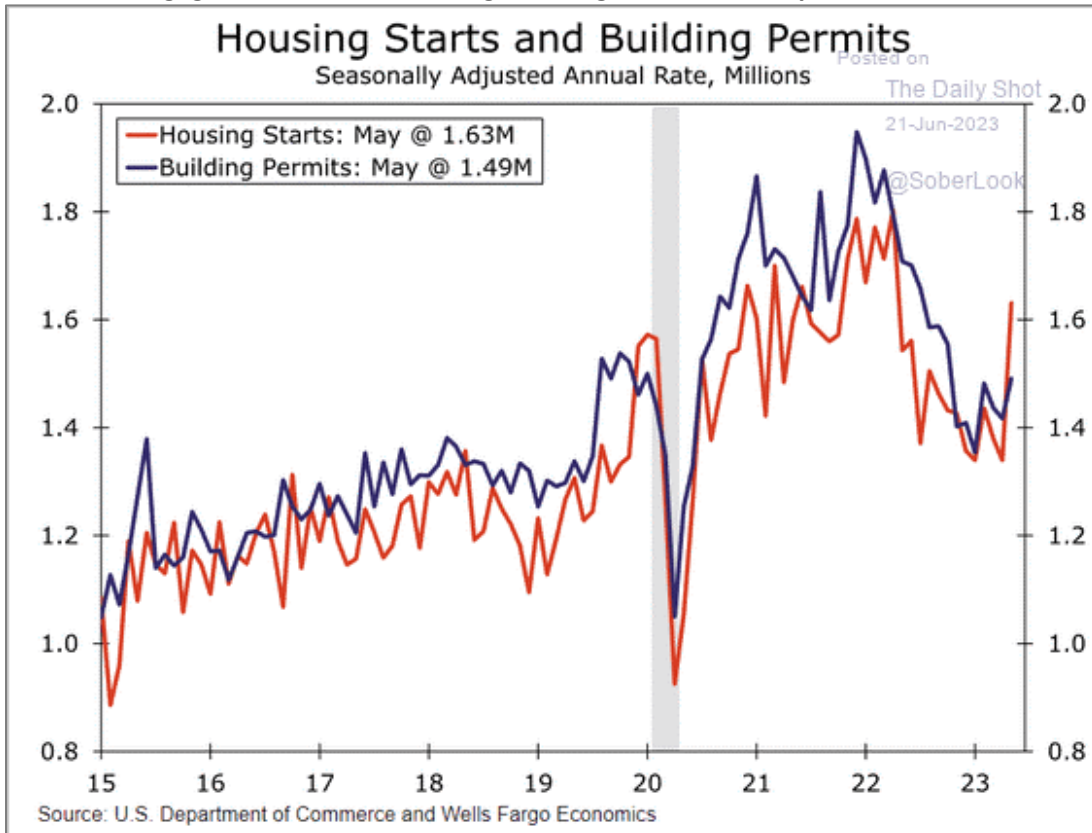
Valuations versus Growth Rates on Technology stocks is the highest since the dot-com era.



Top-Heavy: Magnificent Seven stocks' weight in the S&P 500 are approaching a record.



Current mortgage rates notwithstanding, Housing Starts turned up.



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.