



Market Outlook

By Mark T Dodson, CFA

Correction starting to influence Psychology

Market Risk Index decreased to 77% this week on an improvement in three of the four factors that make up MRI. The Valuation composite was unchanged.

Better scores from the Inflation category drove the improvement in Monetary Conditions, although we expect the headline rate of inflation to tick up on every release through year-end.

Psychology showed significant short-term improvements this week under the surface, which hasn't worked its way through the overall Composite score quite yet. The daily point total that gets smoothed and aggregated into the Psychology Composite score hit peak greed on July 27th, two days before the most recent stock market peak. Investors had diamond hands during that first week of August, but this second weekly decline was enough to shake some investors from previous euphoric positioning. Most notable - options traders backed off their aggressive risk-taking, with more than one indicator in that category moving back to neutral.

One of our favorite indicators to highlight overbought and oversold market environments, appropriately named the NYSE Overbought/Oversold Indicator, is approaching the most oversold levels since the March bottom of this year. For bull markets, it means the time for a price rebound is drawing nigh. However, with this bull market's backdrop, as judged by the condition of MRI, buying the dip is akin to picking up pennies in front of a steamroller. Meanwhile, our large position in Treasury Bills gives us quarters and dollars without a steamroller in sight.

Market Risk Index

Rec Allocation 25% Underweight

77.0%

Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

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

Largest Monetary Influences

Interest Rate Spreads (Yield Curve)	Negative
Lending and Leverage	Positive
Inflation	Positive

Valuation

7-10 Year Equity Return Forecast	1.7%
10Yr US Treasury Yield	4.2%

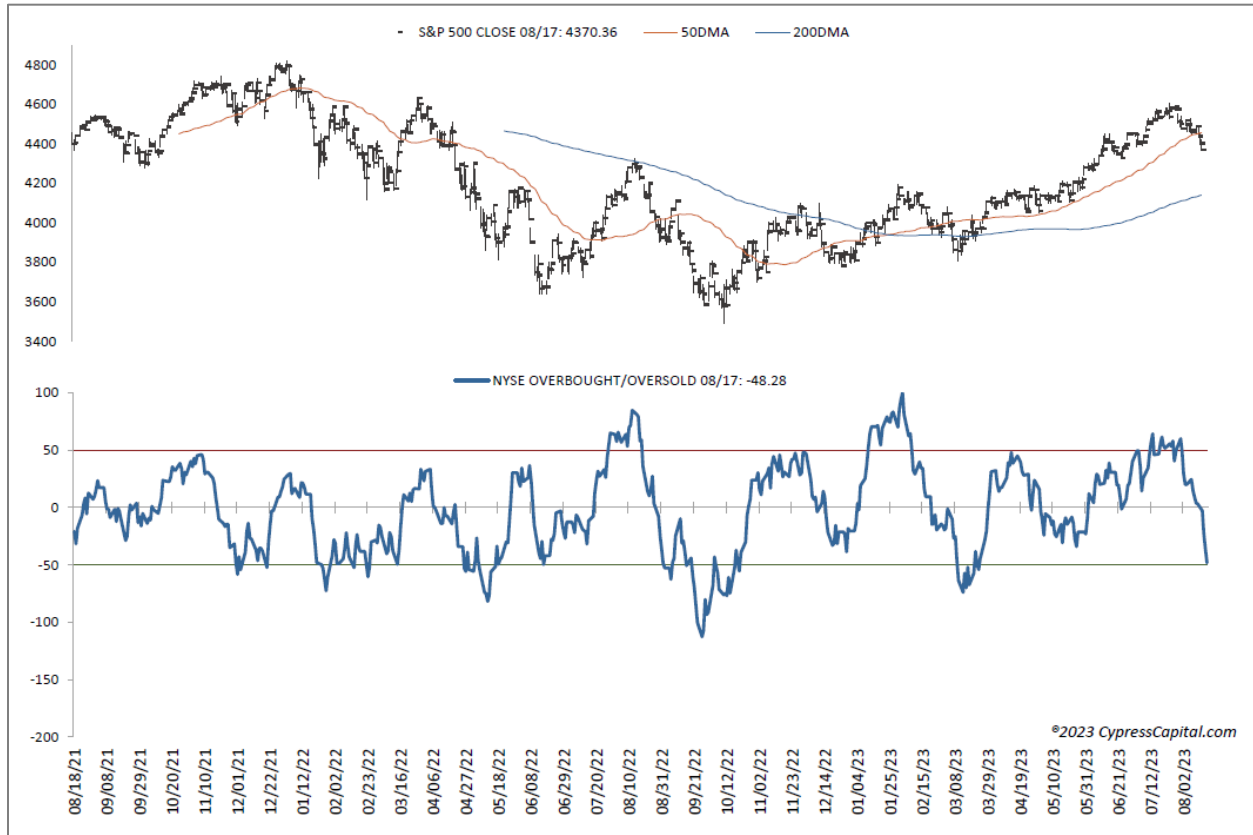
Market Trends

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

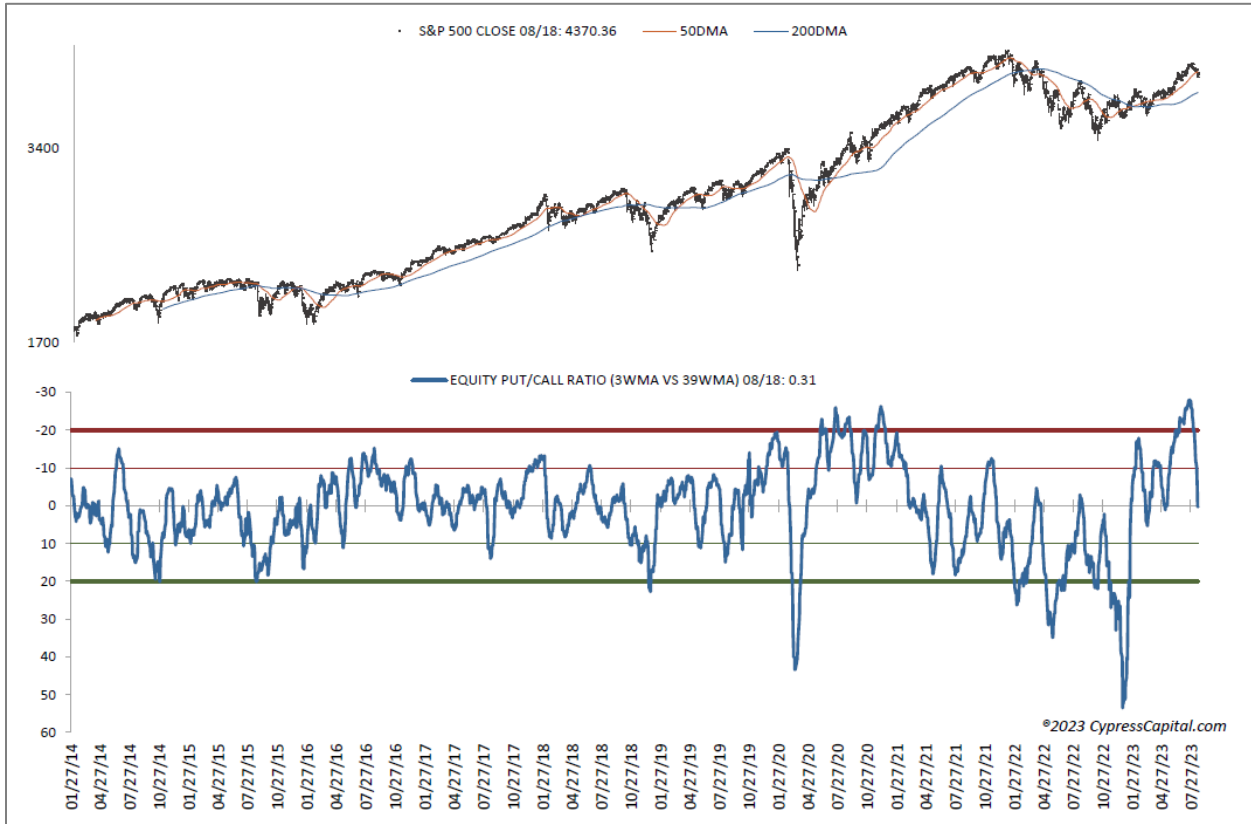
Stock market is the most oversold since the March bottom.



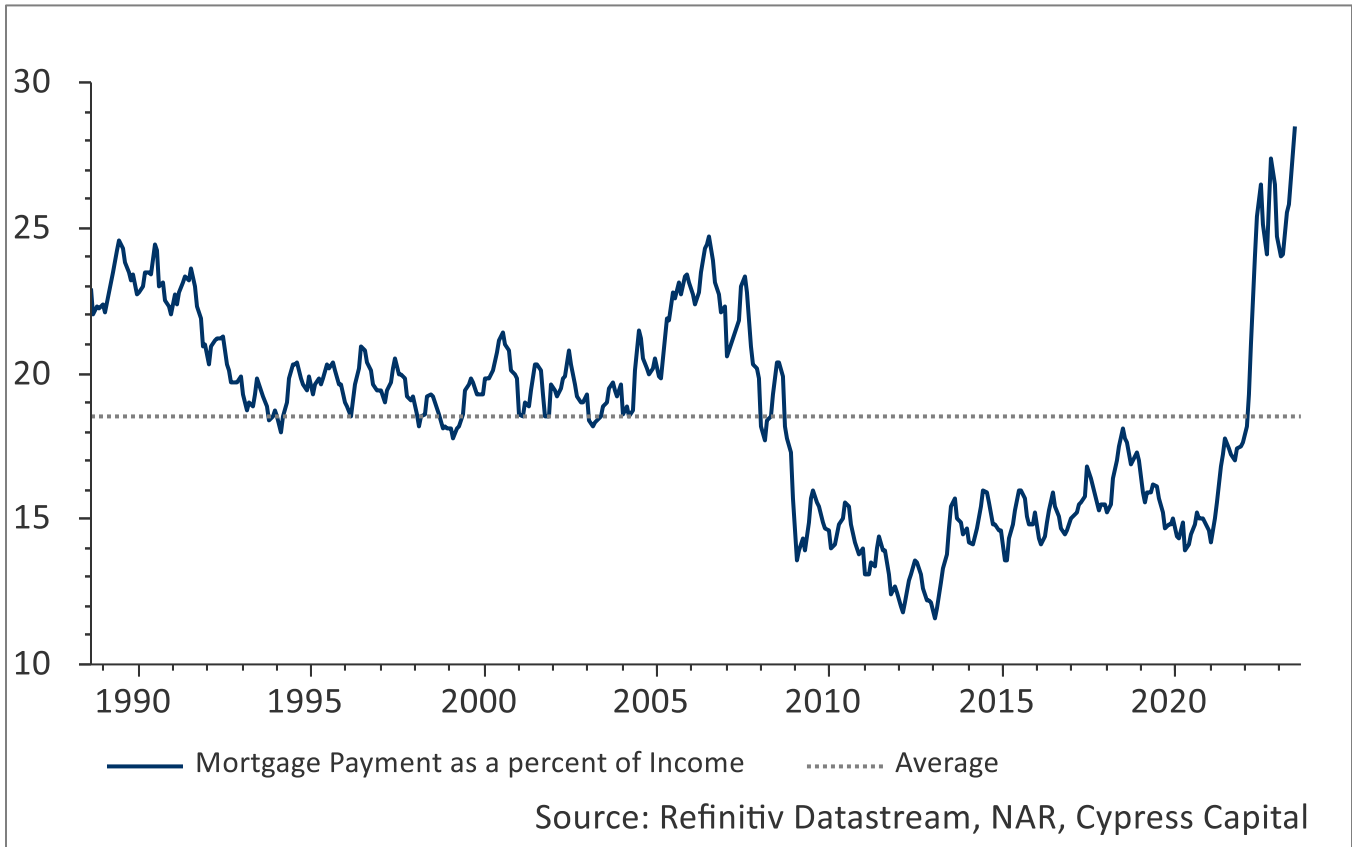
Psychology hit peak greed in July and made its first break back toward fear.



Options traders backed off the risk-taking - equity put/call ratio dropped back to neutral.

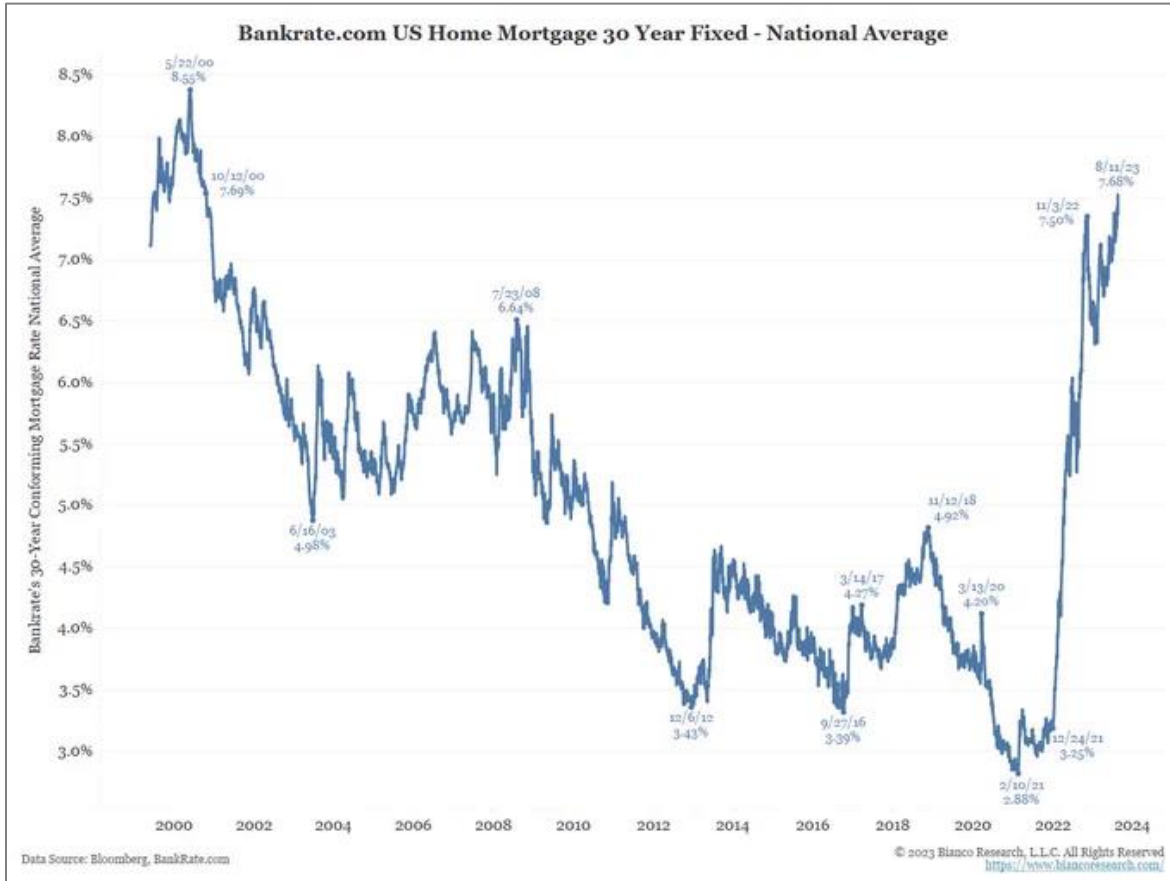


Housing Affordability - Mortgage Payment on a home purchase as a Pct of Income is at 35Yr Highs.

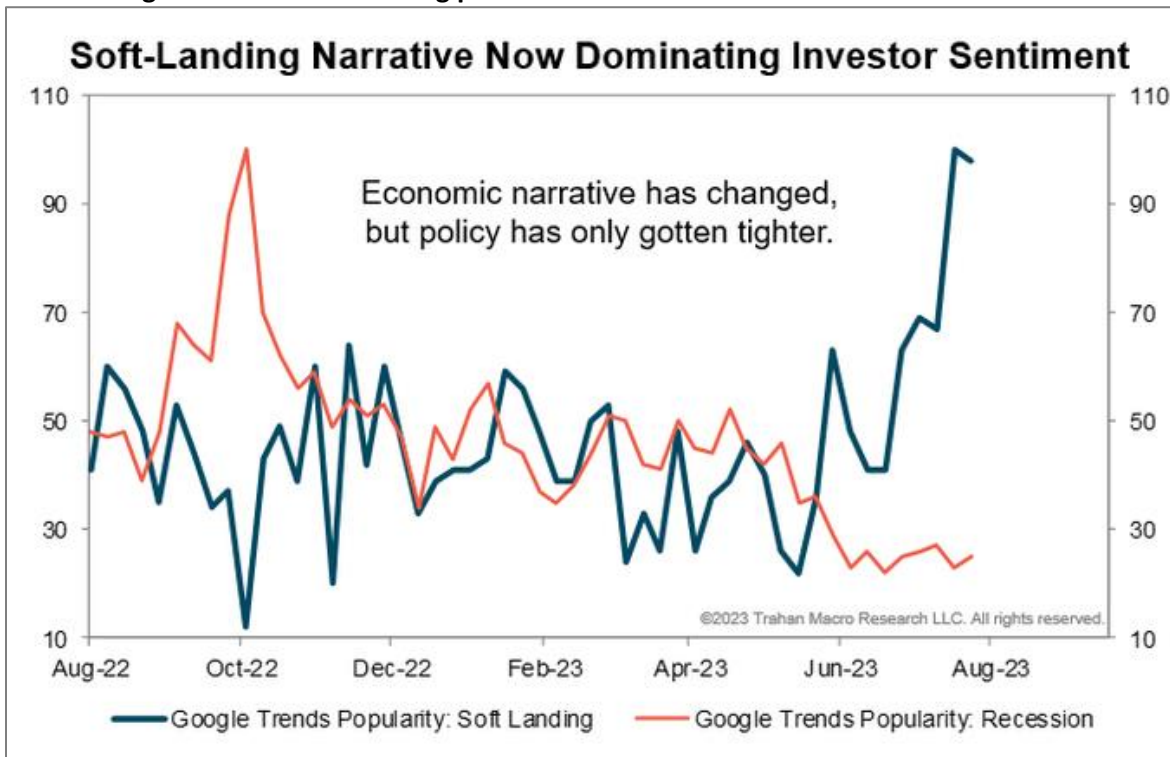


Mortgage Rates hit the highest level in over 20 years.

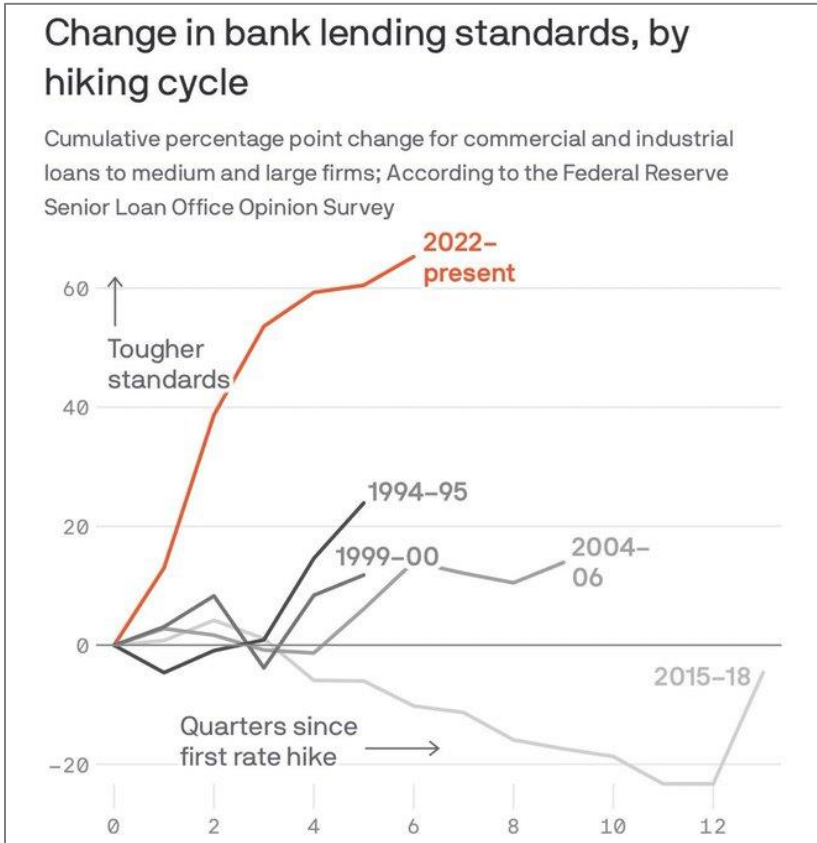
If you have a mortgage older than 12 months, swapping into another home will give you sticker shock.



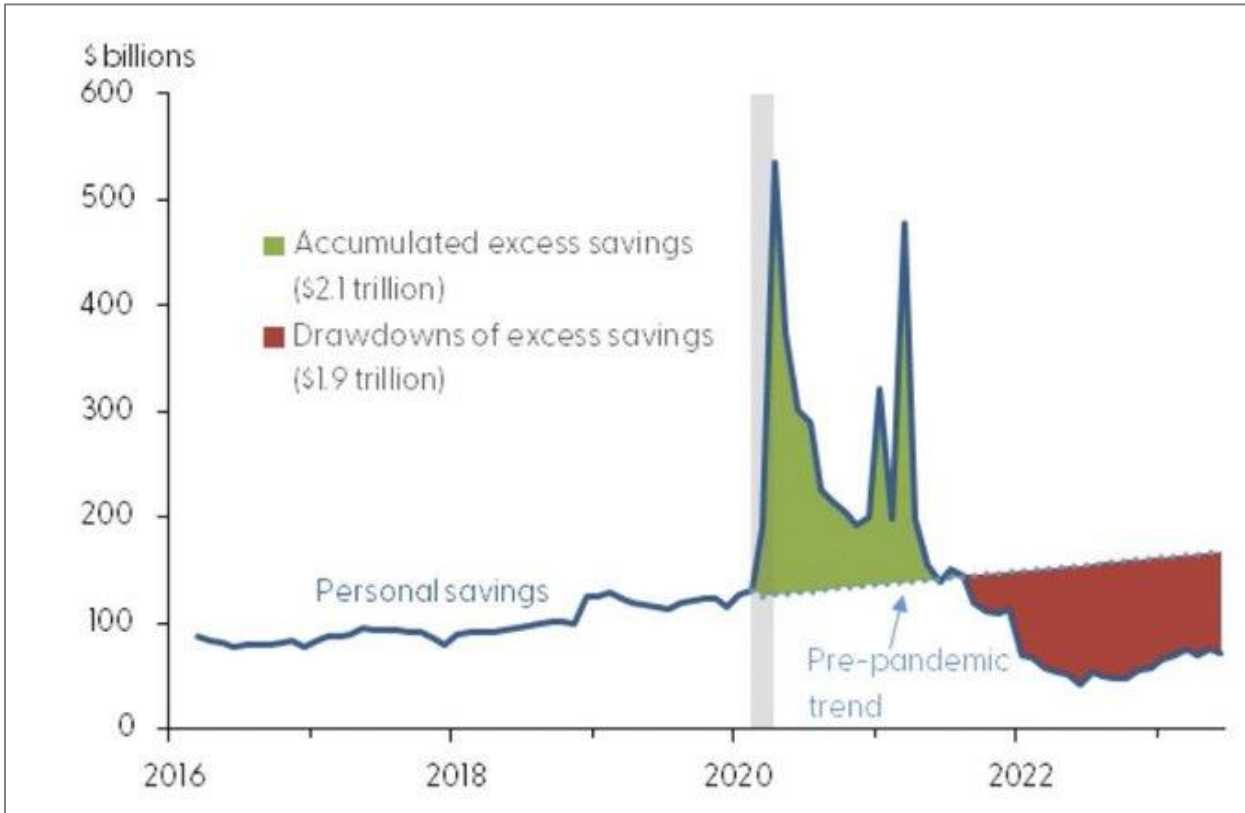
Soft-Landing Narrative is dominating public sentiment.



Banks have never tightened lending standards so aggressively this early in a tightening cycle.

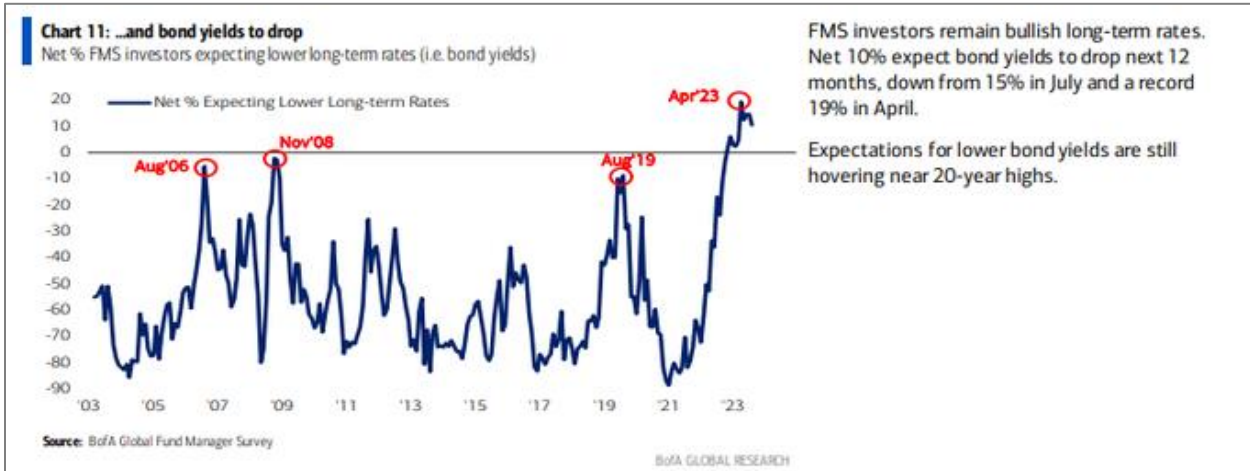


It has taken two years, but Consumers have finally spent almost all of their gov't Covid stimulus.



Source: Federal Reserve

Investors expect lower rates.

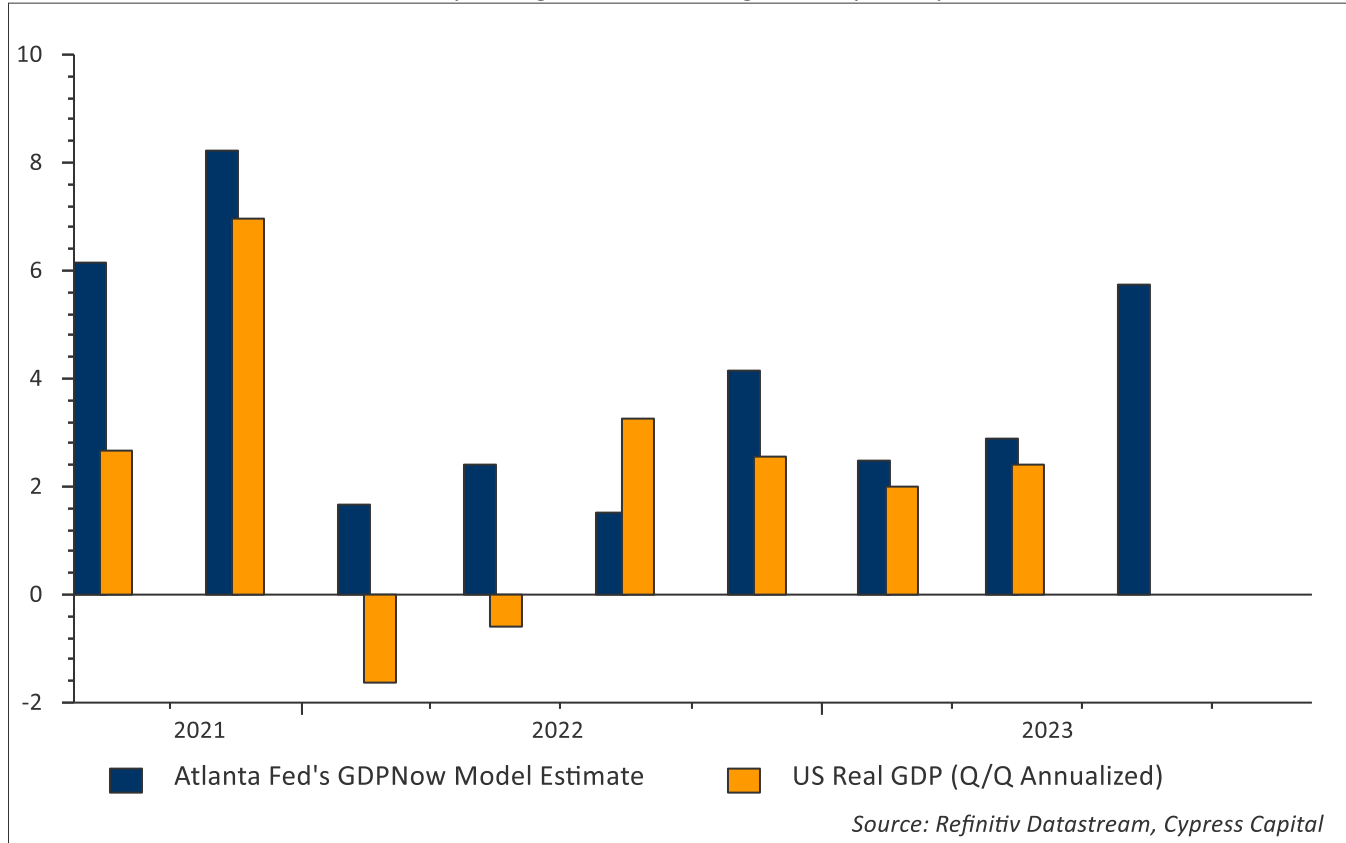


Investors expect lower inflation.

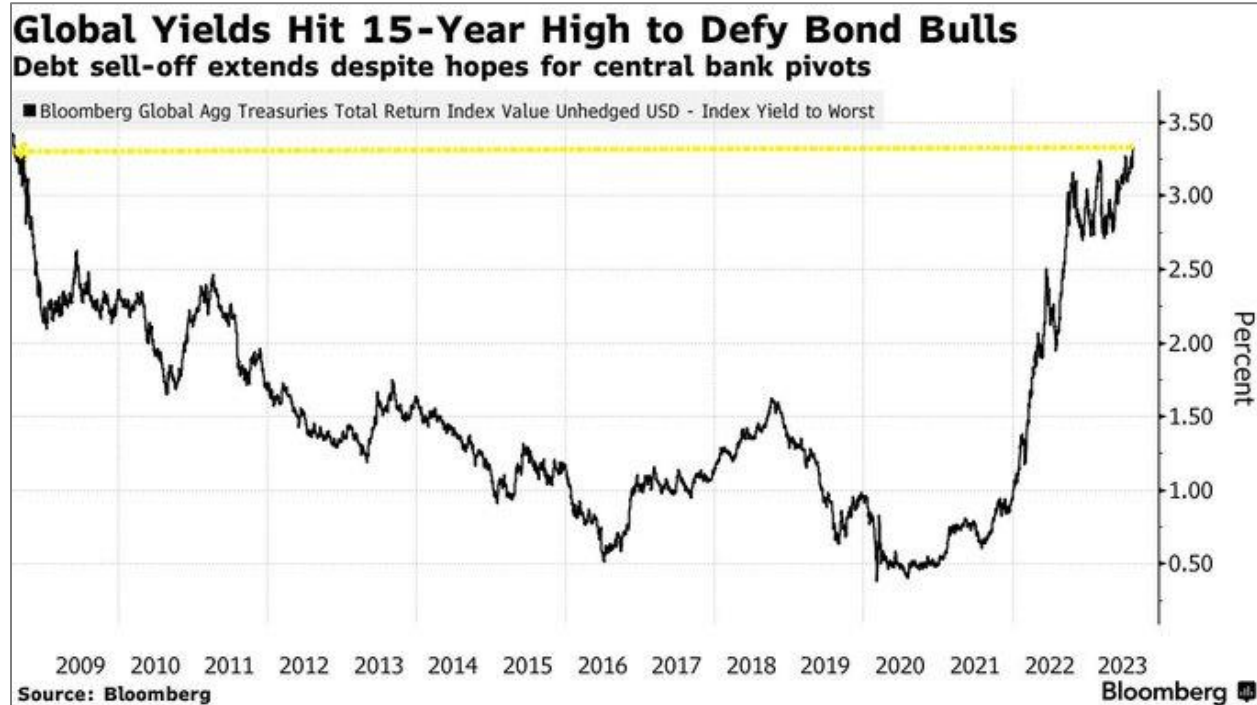


Atlanta Fed's GDPNow Estimate for Q3 GDP is accelerating.

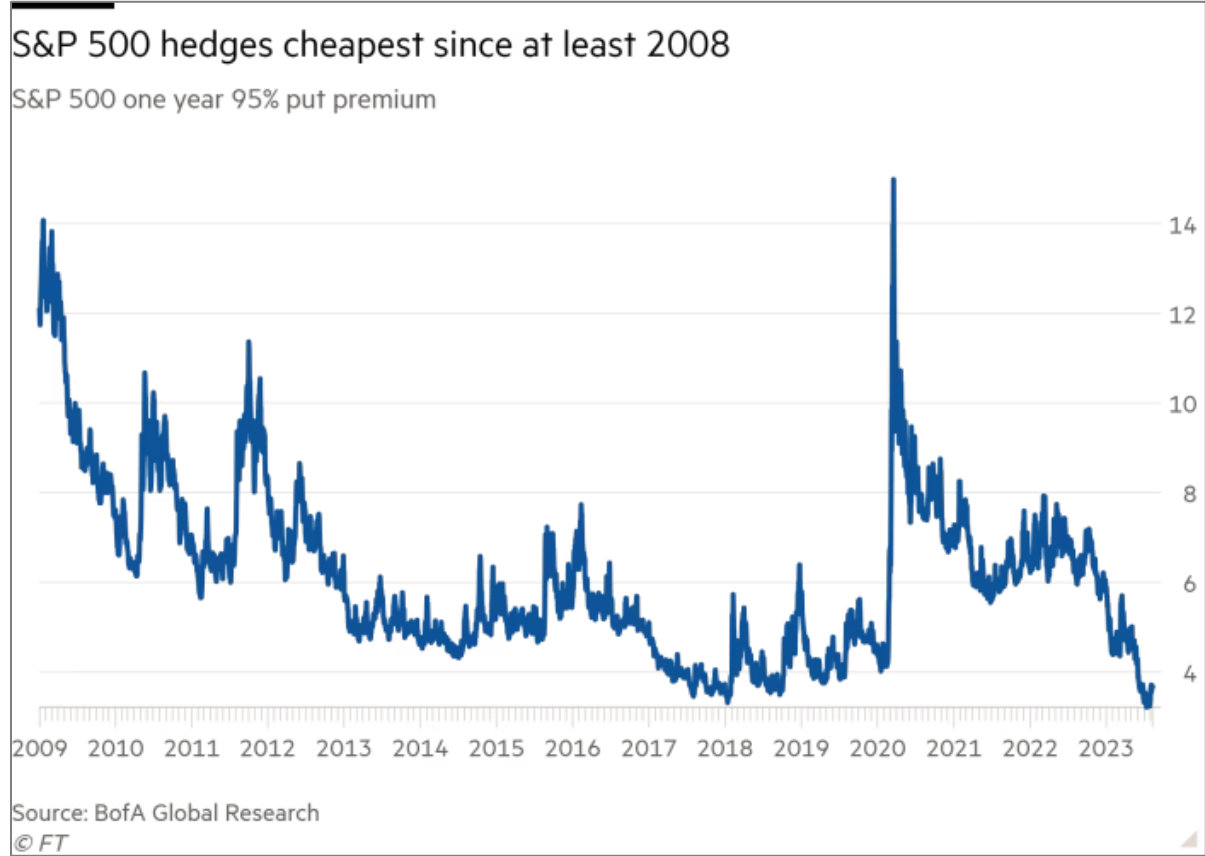
With this, investors should instead expect higher rates for longer and upward pressure on the rate of inflation.



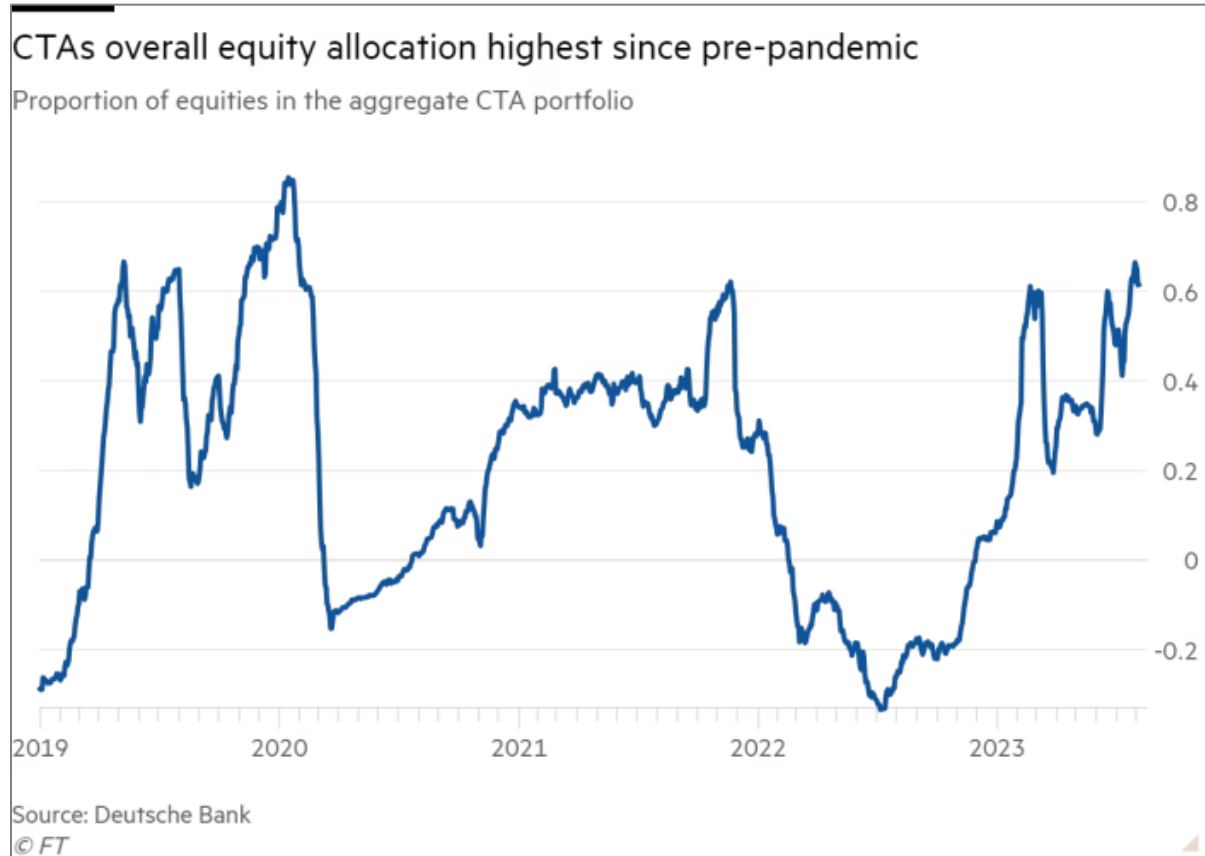
Global bond yields hit 15-year highs.



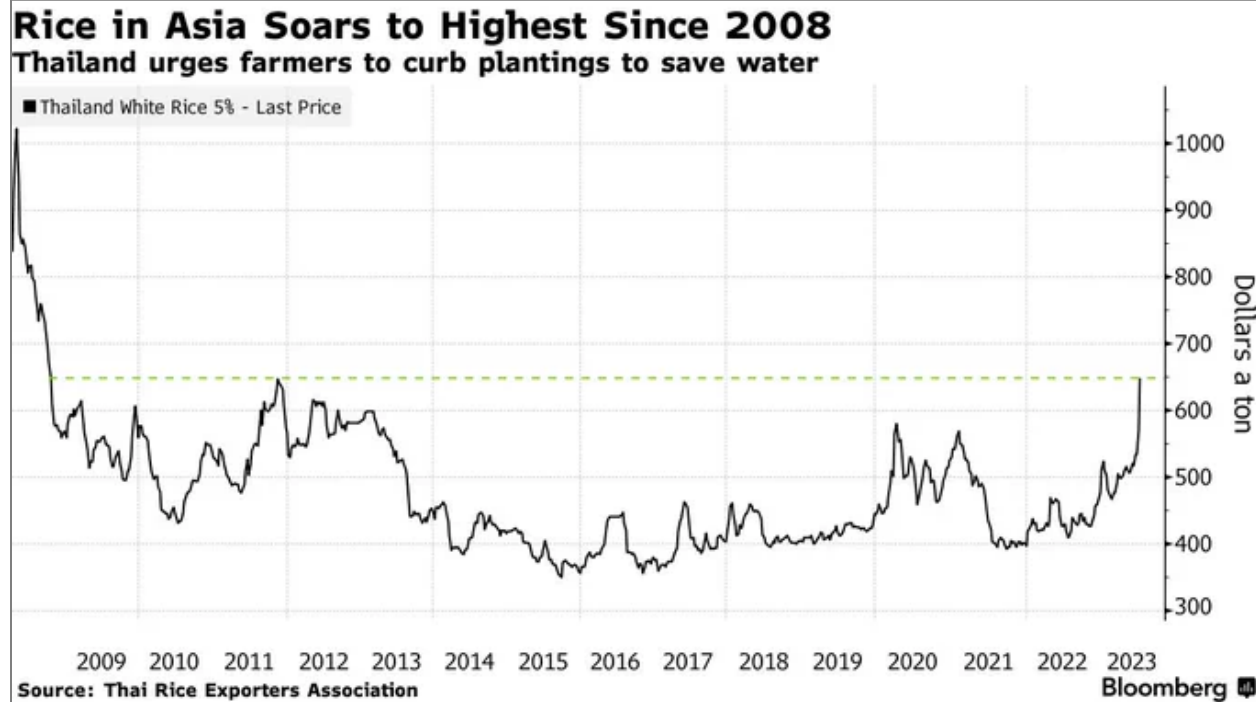
Hedging the S&P 500 is extremely cheap (a sign of complacency in options markets).



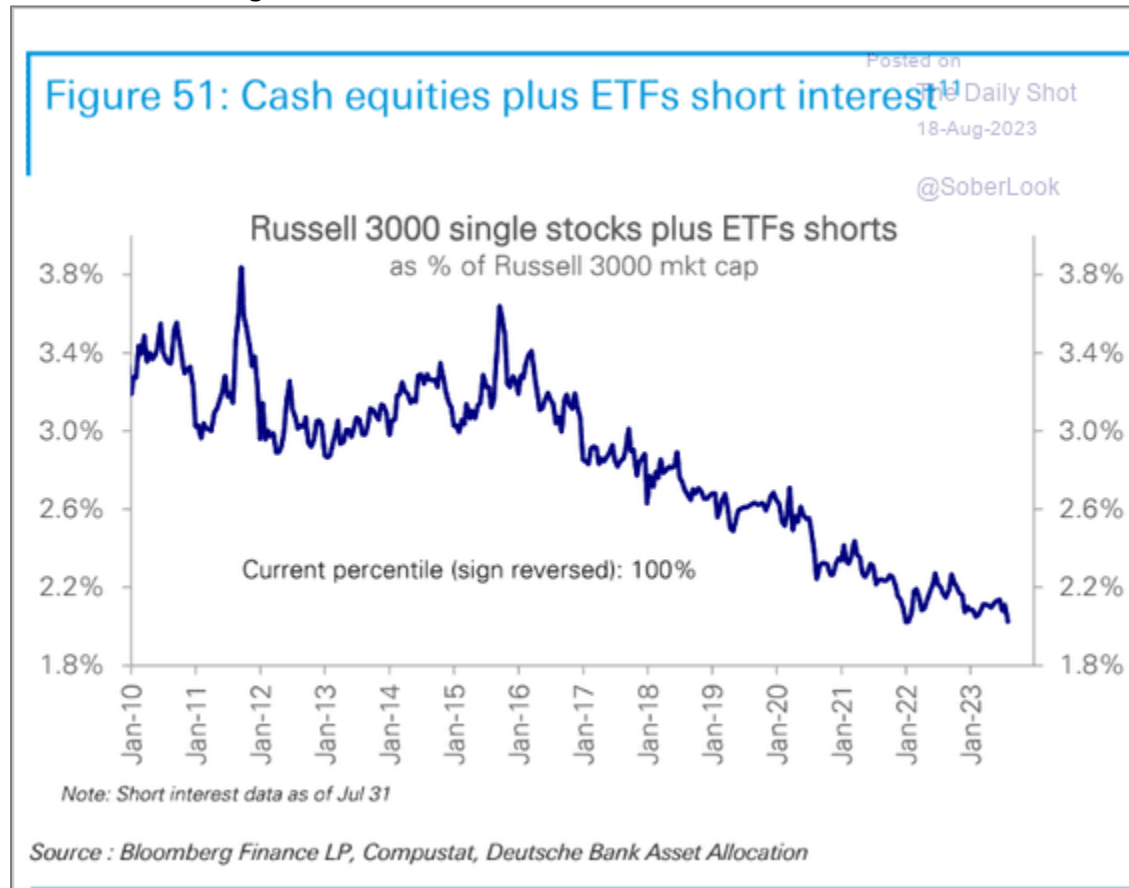
Systematic futures traders have the highest equity exposure since the 2020 bull market peak.



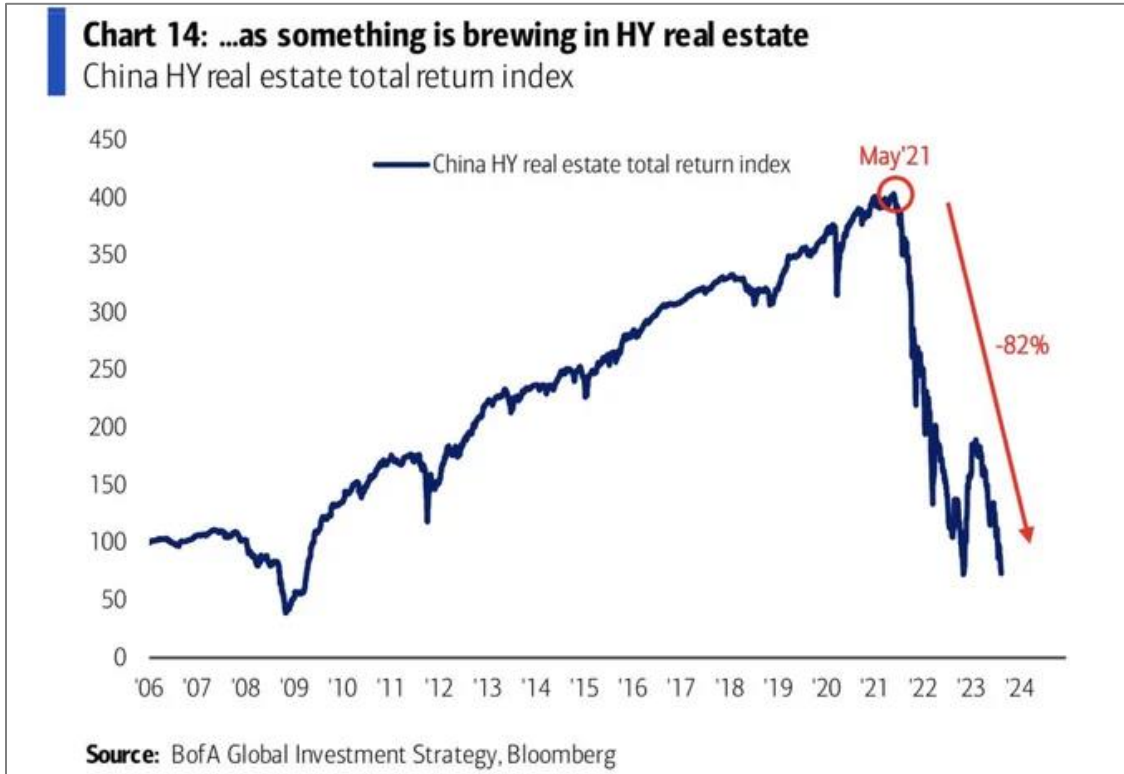
Rice prices hit the highest level since 2008.



Short Interest hitting record lows.



Real Estate market in China worsens.



China's Credit Impulse tends to lead shifts in US Risk Aversion by nine months.



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.

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