



Market Outlook

By Mark T Dodson, CFA

Volatility, tighter money, and a break from euphoria.

Market Risk Index increased to 63.2%. Investor Psychology crossed back into the worst 20% of readings, as the Volatility category became one of the largest negative influences on the composite. We score Volatility in regimes. Readings in the tails, either high or low, are bullish for markets, while readings that cross from the low end and move into the middle are bearish readings for Volatility. That threshold for VIX is roughly around 20.

However, there were some improvements. The indicators that comprise the Leveraged Investments category started moving in the right direction. The stock market's drop below the widely followed 200-day moving average was enough to pull levered investors out of euphoric positioning. Also, corporate insiders have started to nibble in the hardest-hit areas of the stock market.

On the Monetary side, bond markets are growing significantly tighter. The Dow Jones Bond Composite oscillator that we often show as a proxy for the Interest Rates category of our Monetary Composite shows bond markets are tightening like they did in the first days of the 2022 bear market.

Stocks are about to enter their traditionally strong season from November to April. Outside of this, we aren't seeing anything that would compel us to increase equity exposures here. Our next shifts are most likely to be a recommendation to further increase the duration on fixed income after initiating a position in longer maturity TIPS at the end of September.

Market Risk Index

Rec Allocation 25% Underweight

63.2%

Category Percentiles

Psychology - P5



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

| | |
|-----------------------|----------|
| Leveraged Investments | Negative |
| Flow of Funds | Positive |
| Volatility | Negative |
| Bank Sentiment | Negative |

Largest Monetary Influences

| | |
|-------------------------------------|----------|
| Interest Rate Spreads (Yield Curve) | Negative |
| Interest Rates | Negative |
| Lending & Leverage | Positive |

Valuation

| | |
|----------------------------------|------|
| 7-10 Year Equity Return Forecast | 2.0% |
| 10Yr US Treasury Yield | 4.8% |

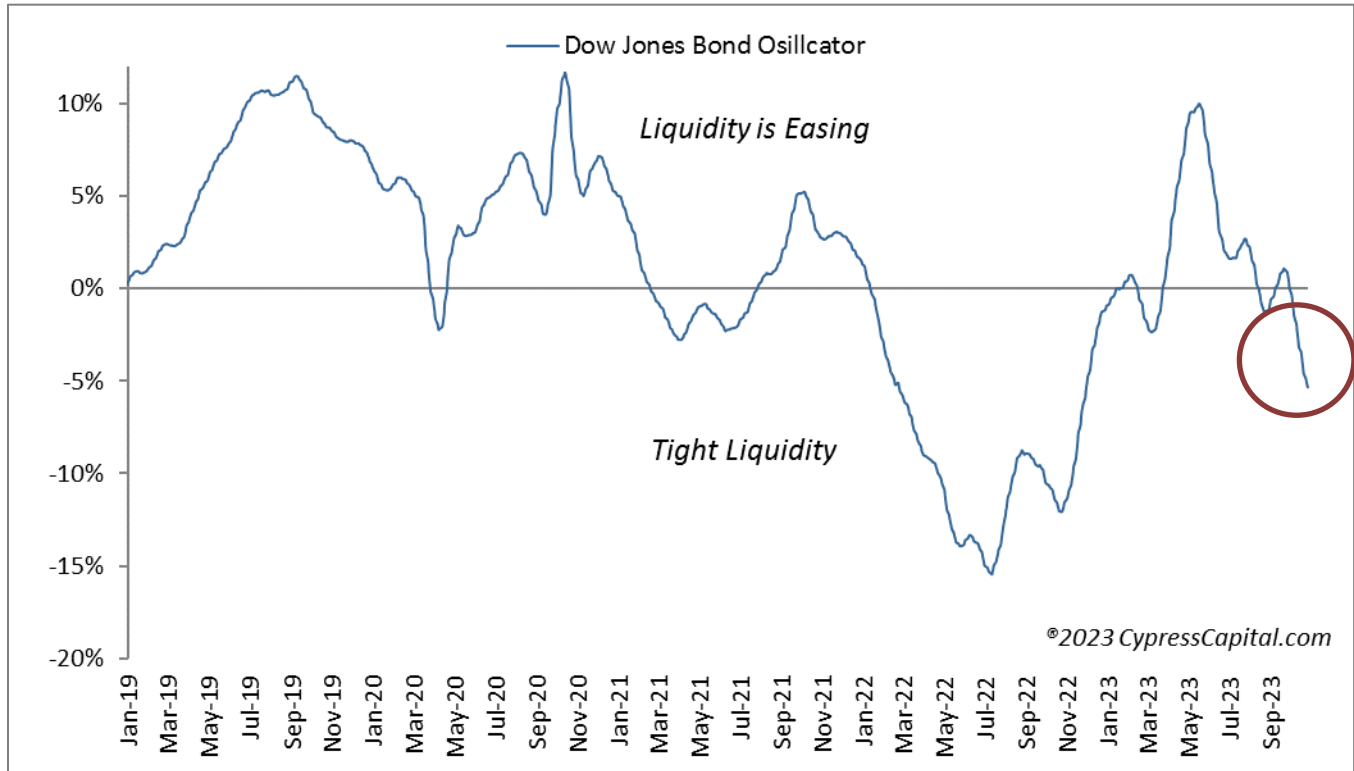
Market Trends

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

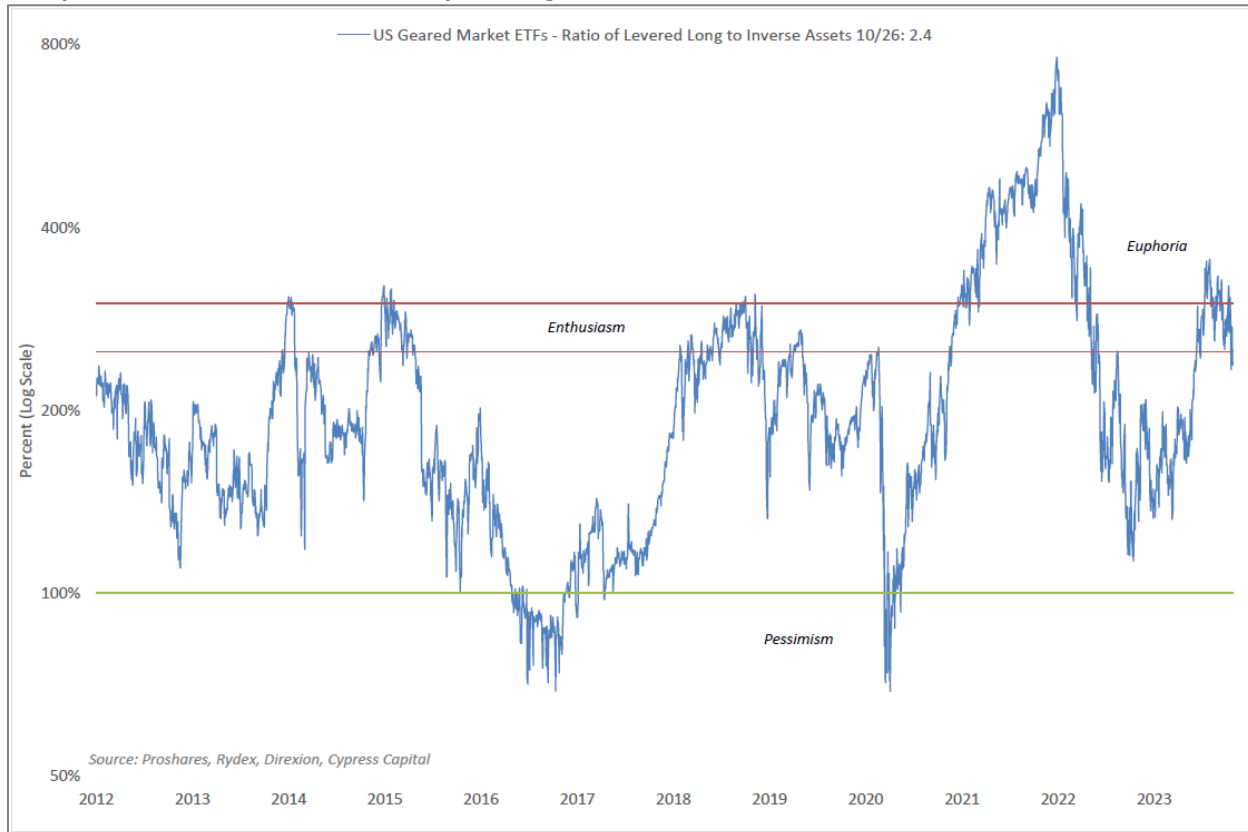
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

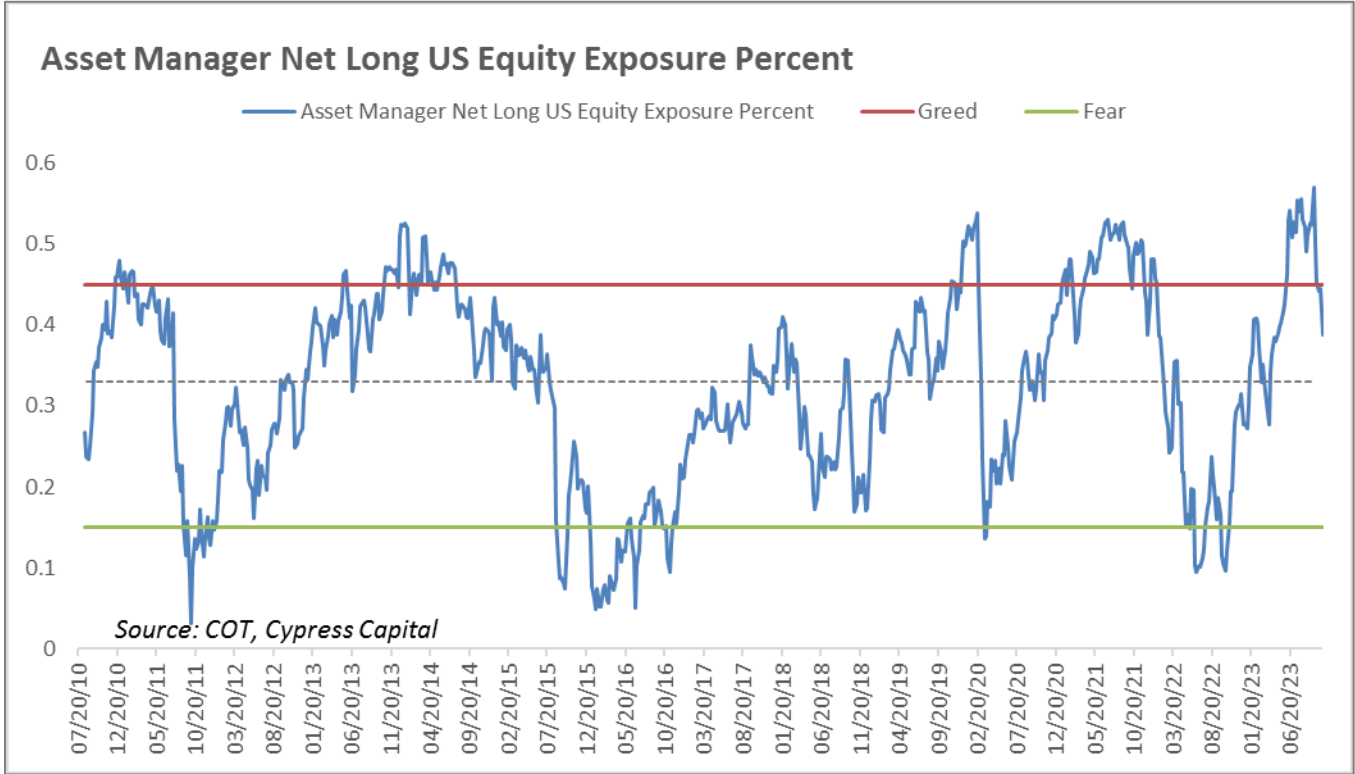
Bond Market Liquidity has started to tighten up sharply.



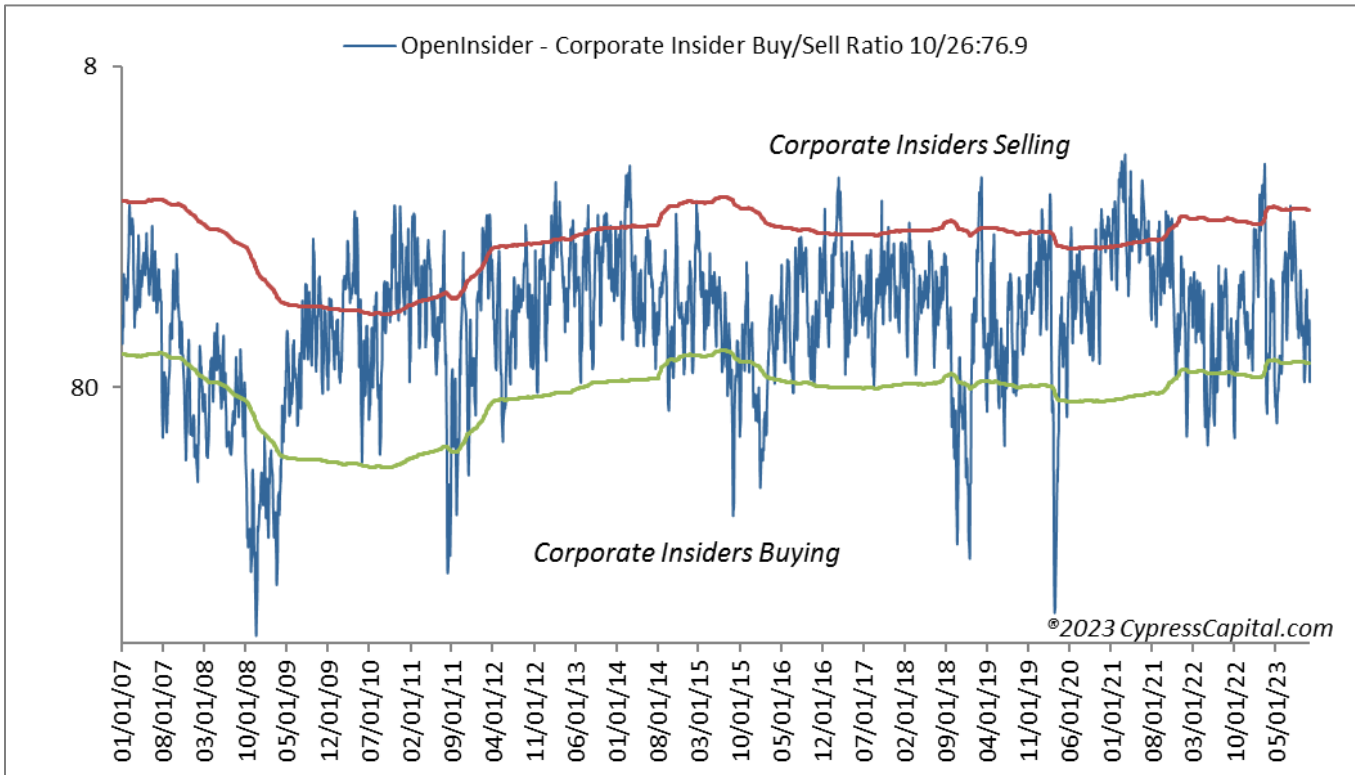
Is Euphoric Levered Sentiment finally starting to break?



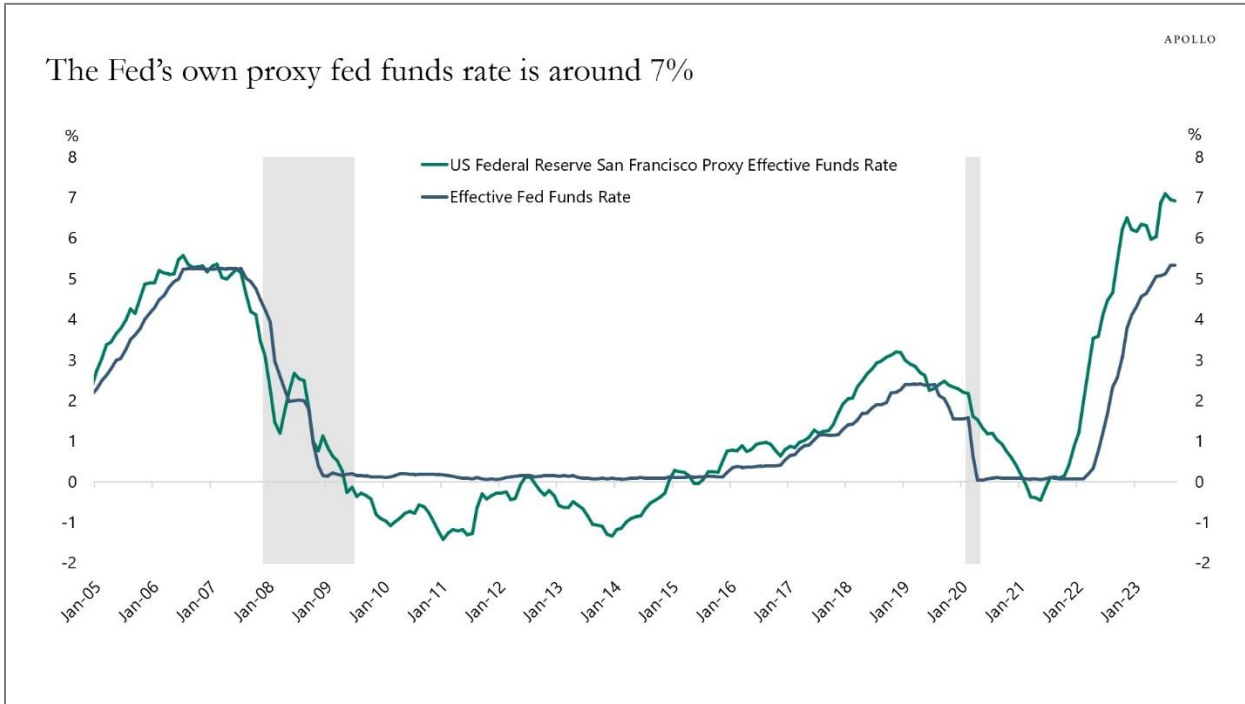
Asset Managers bullish positioning in Futures broke lower this week as well.



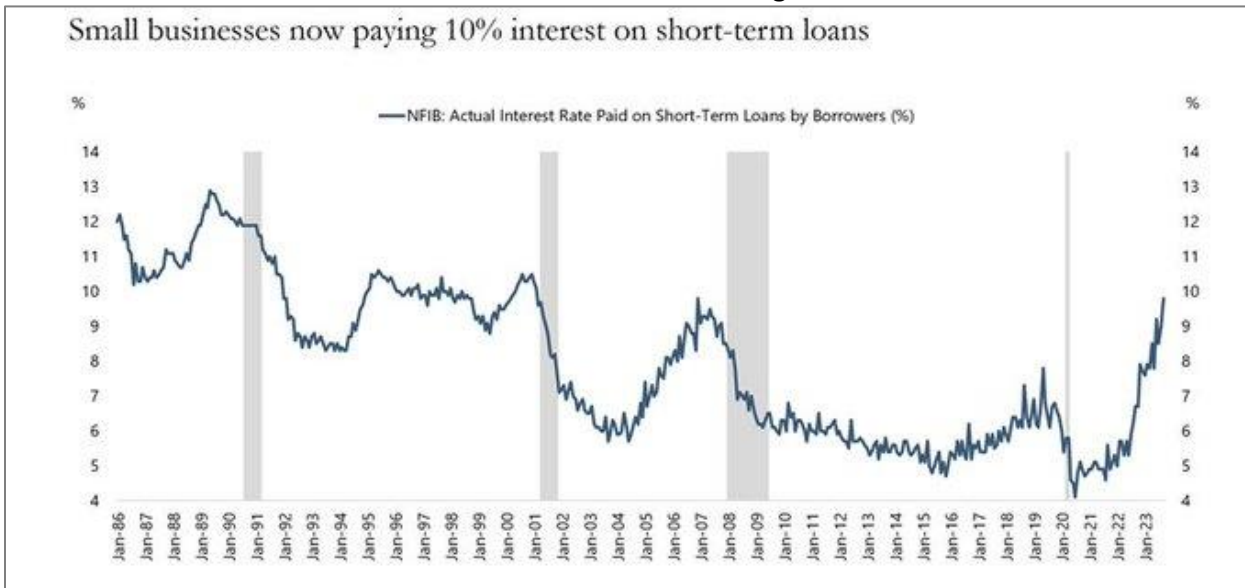
Corporate Insiders finally started to show some interest in purchasing company stock.



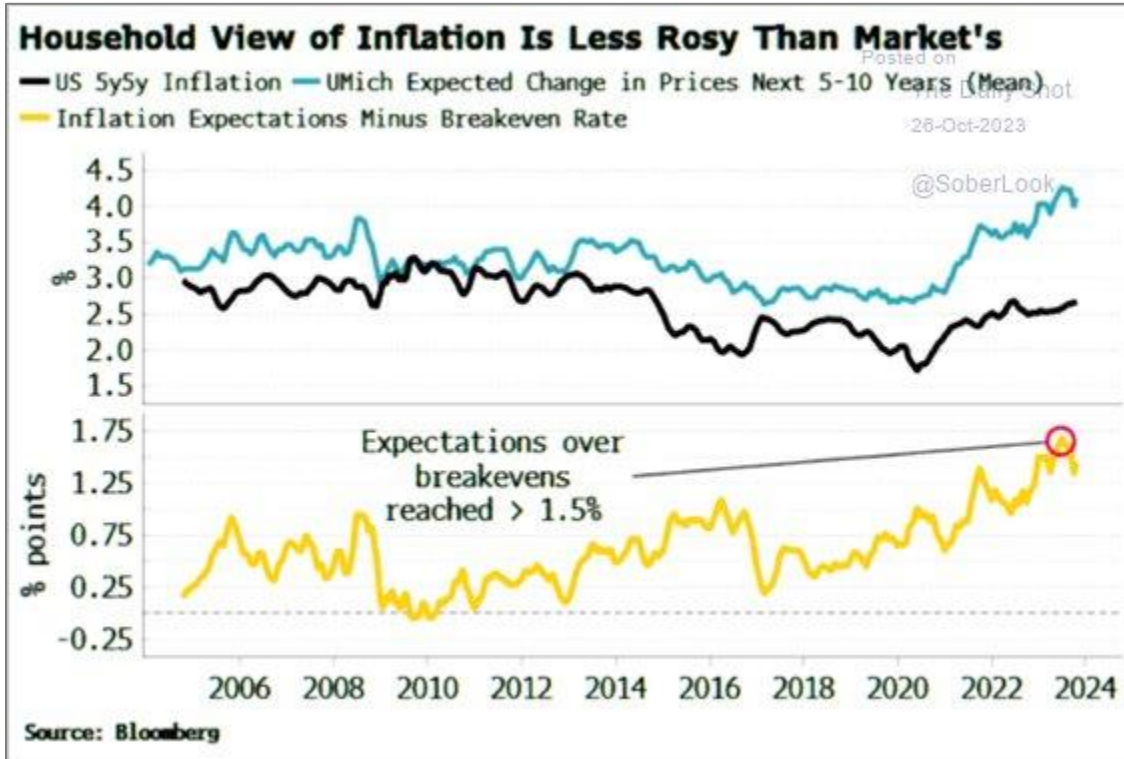
When adjusting for the impact of Quantitative Tightening, the Fed Funds rate is close to 7%.



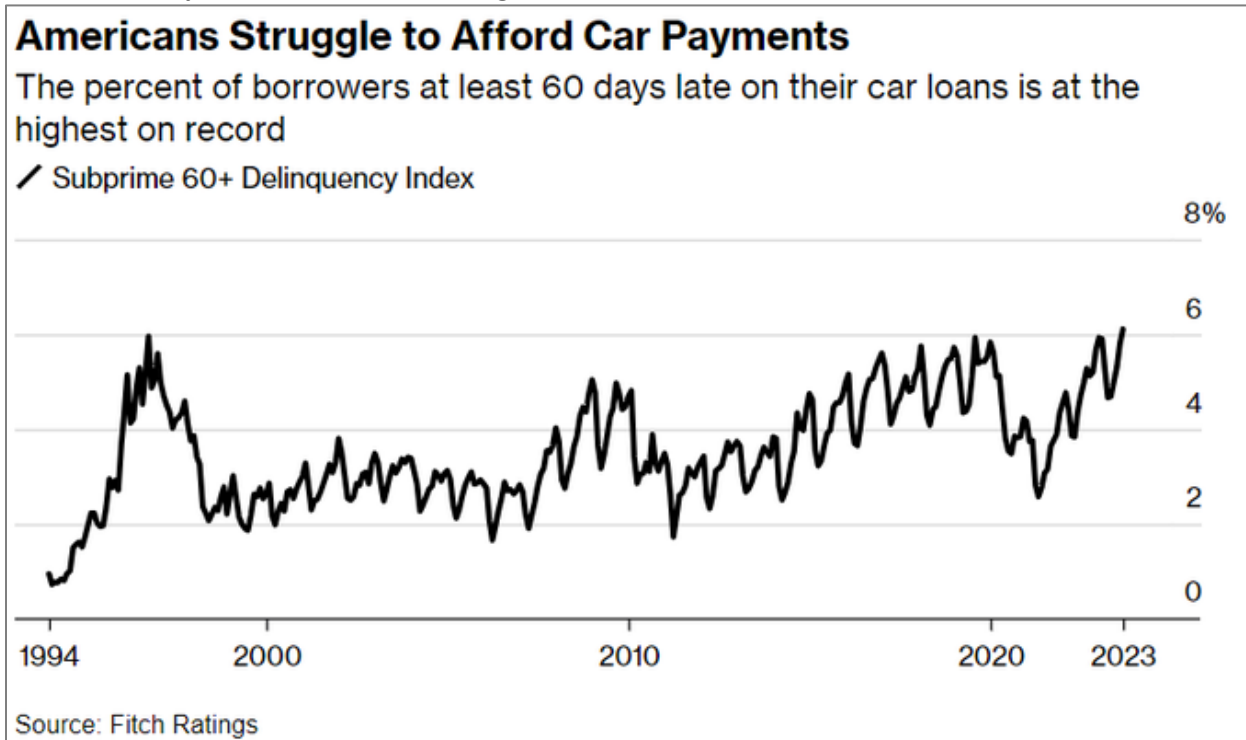
Small business interest rates on short-term loans hits double-digits.



Consumer Inflation expectations relative to the bond market's expectations have been widening.



Car Loan delinquencies made a record high.



The shift in personal interest payment burdens has been dramatic.

Interest Payments Start to Bite

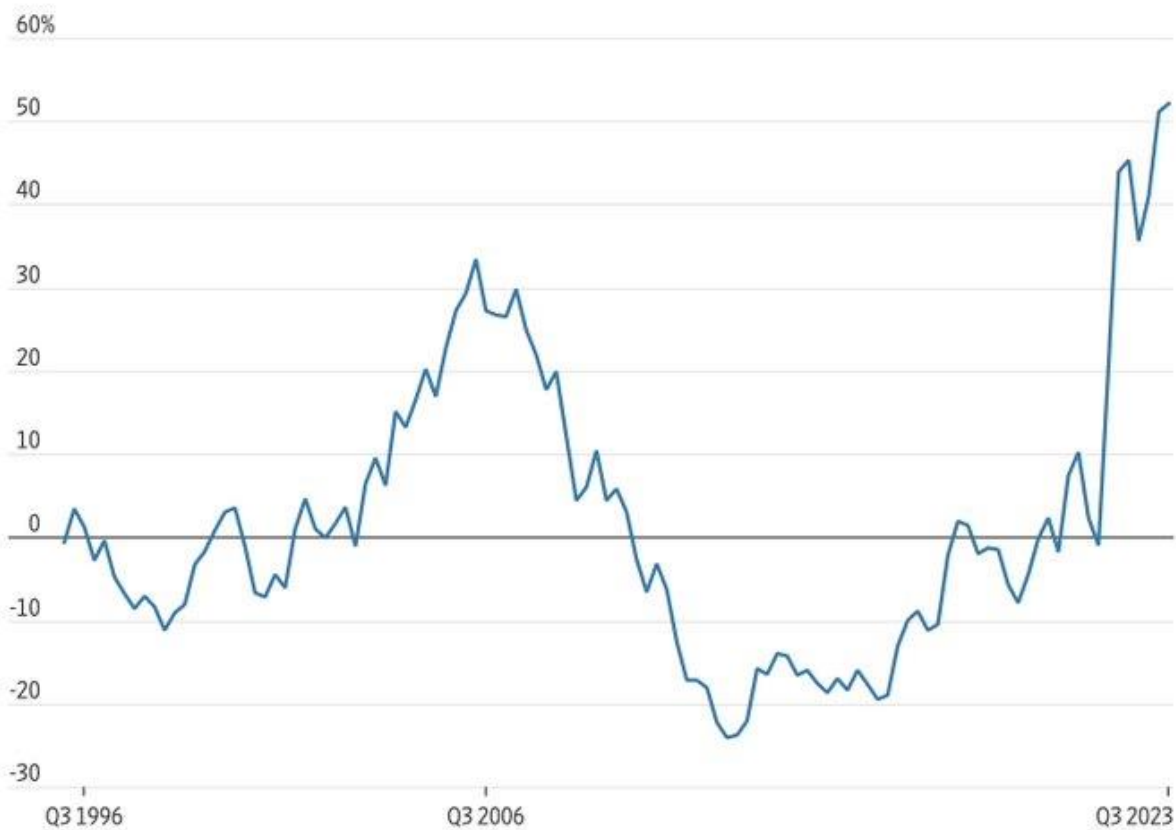
As a share of income, this is the biggest spike in debt charges on record



Source: Bloomberg

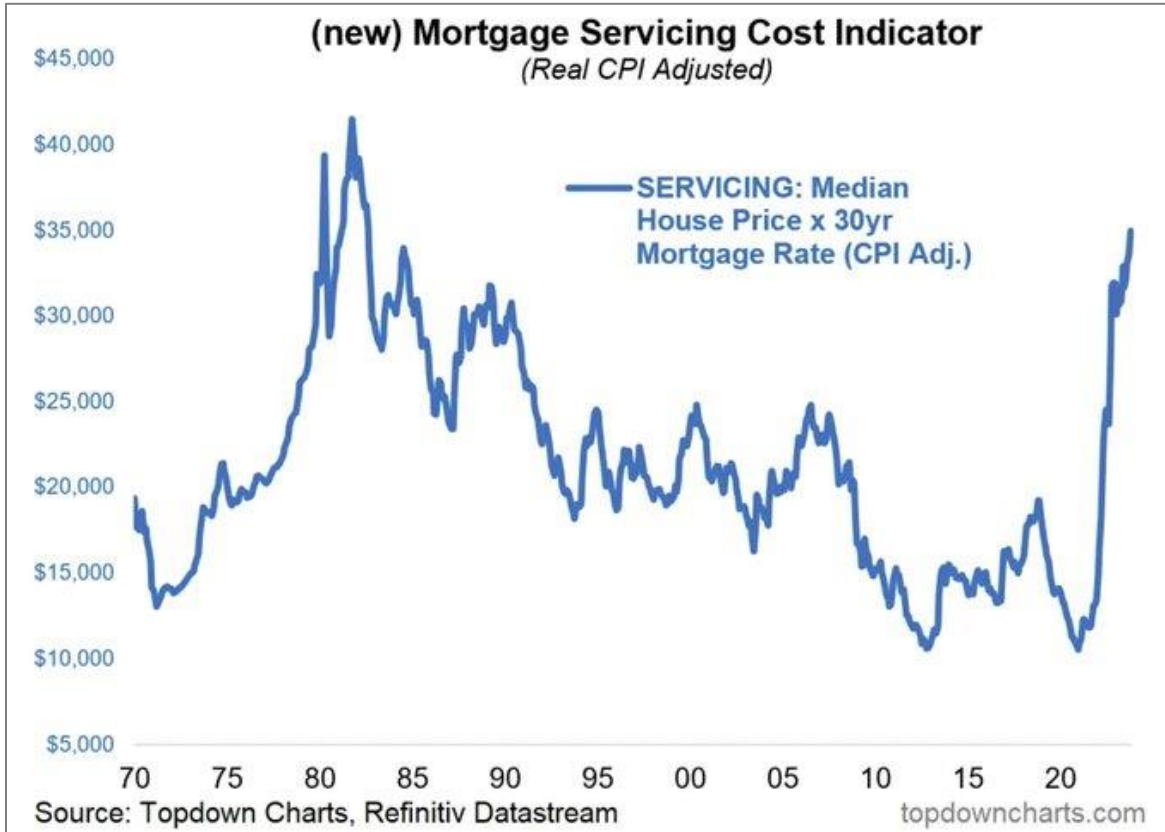
It's never been more expensive to buy instead of renting a home.

Premium/discount to buy a U.S. home versus renting it

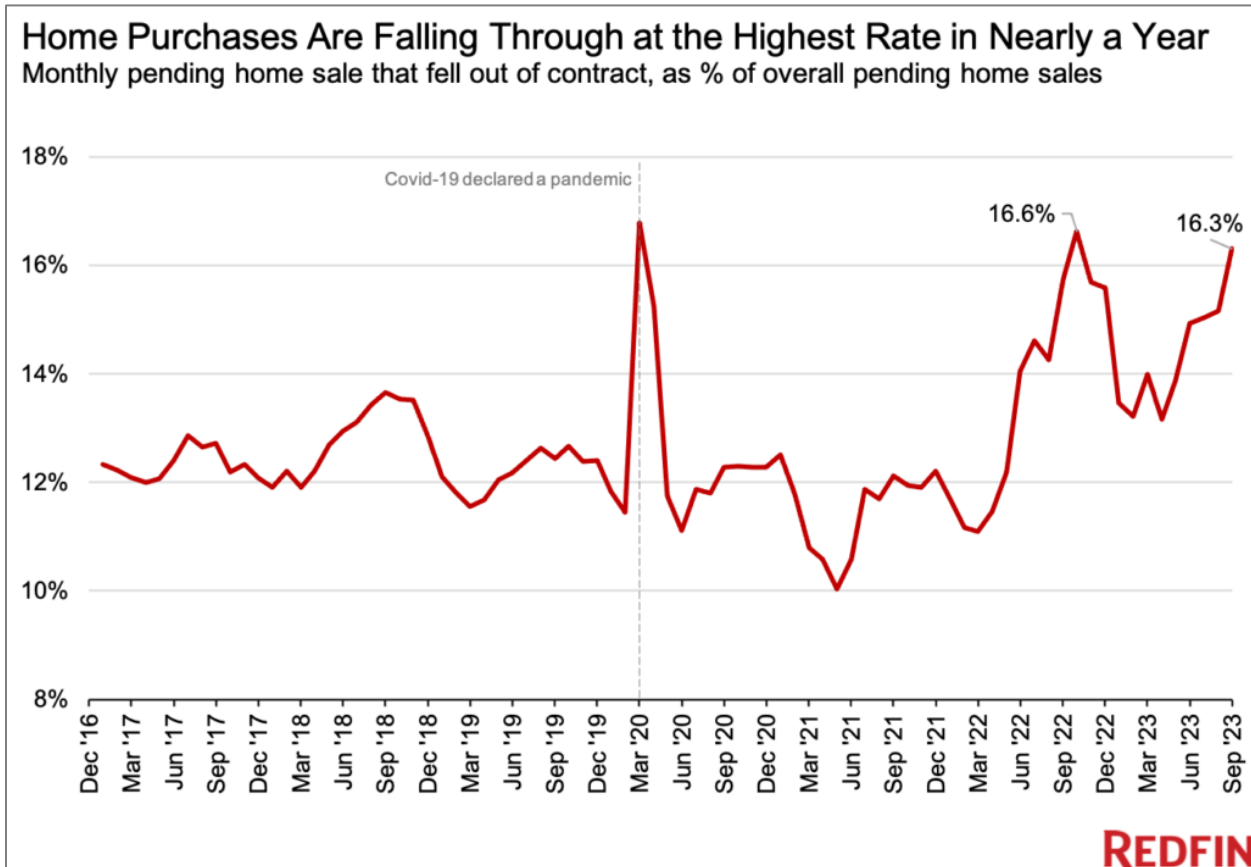


Source: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com®, FHFA

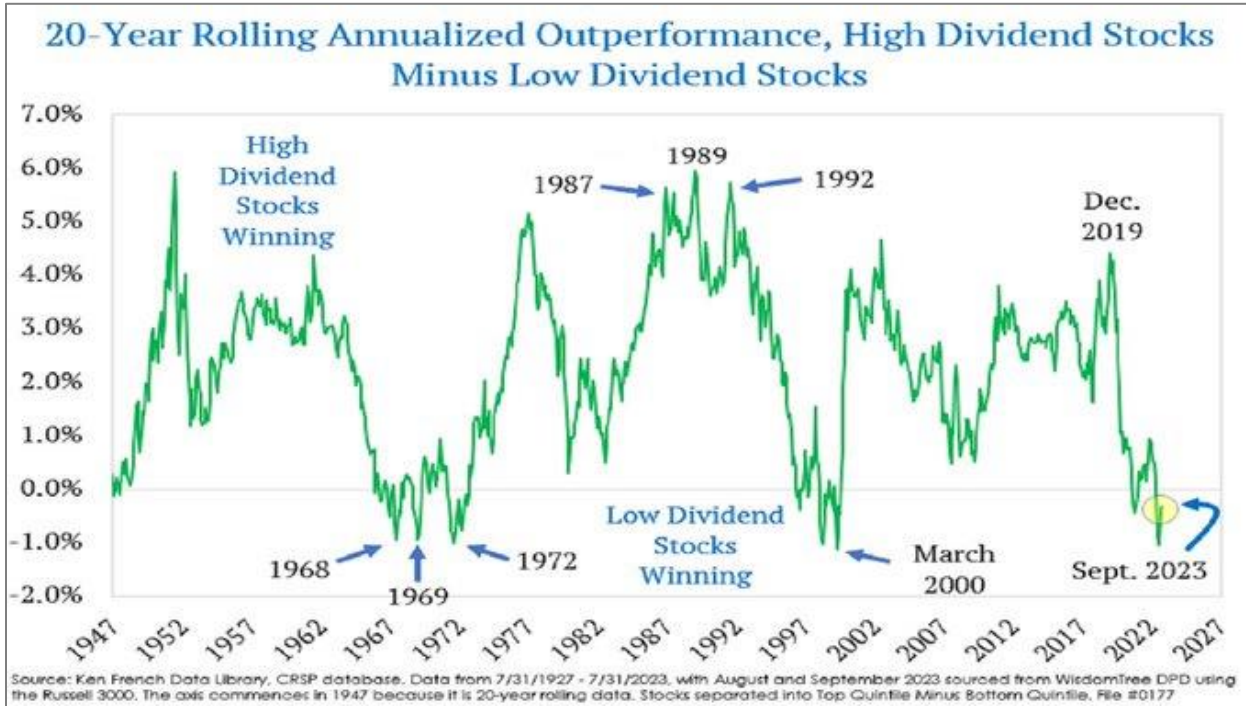
The cost of Servicing a Mortgage is close to 40-year highs.



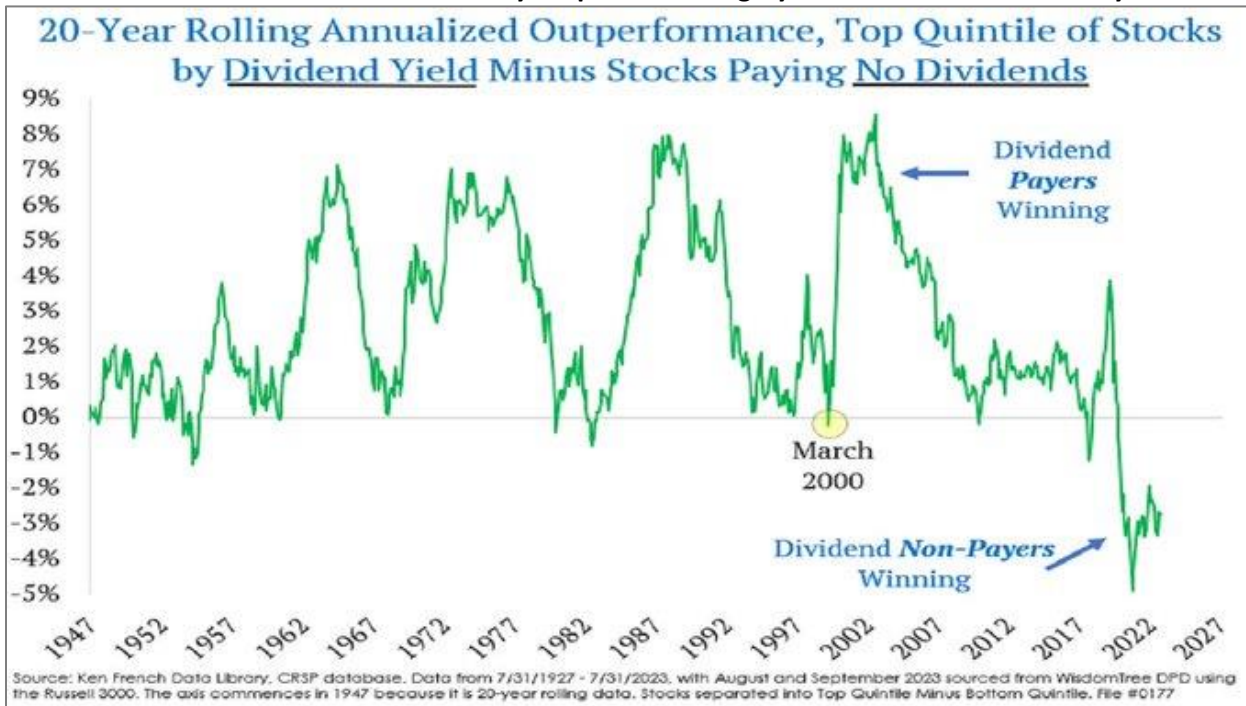
The percentage of home purchases falling through has risen to last year's highs.



High Dividend stocks haven't underperformed Low Dividend stocks this much since March 2000.

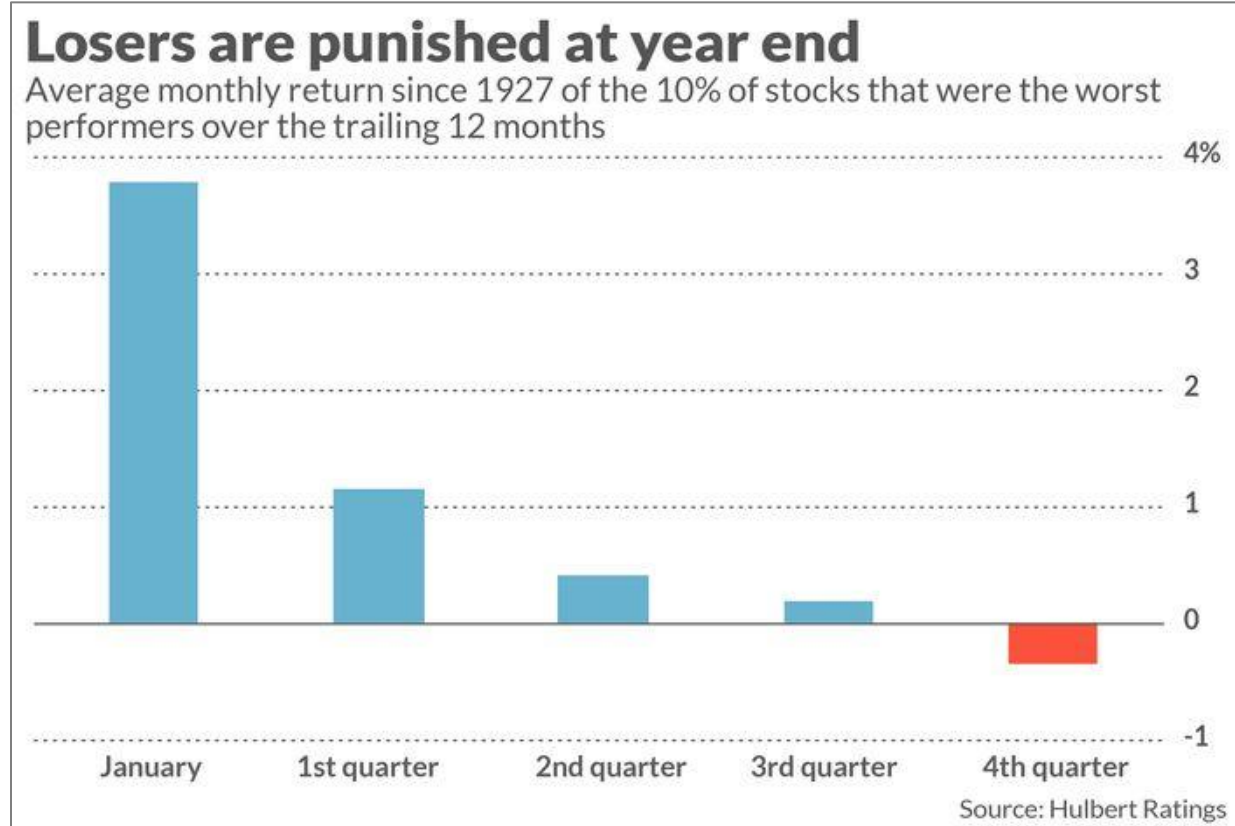


Stocks with no dividends have dramatically outperformed high-yield stocks over the last 20yrs.

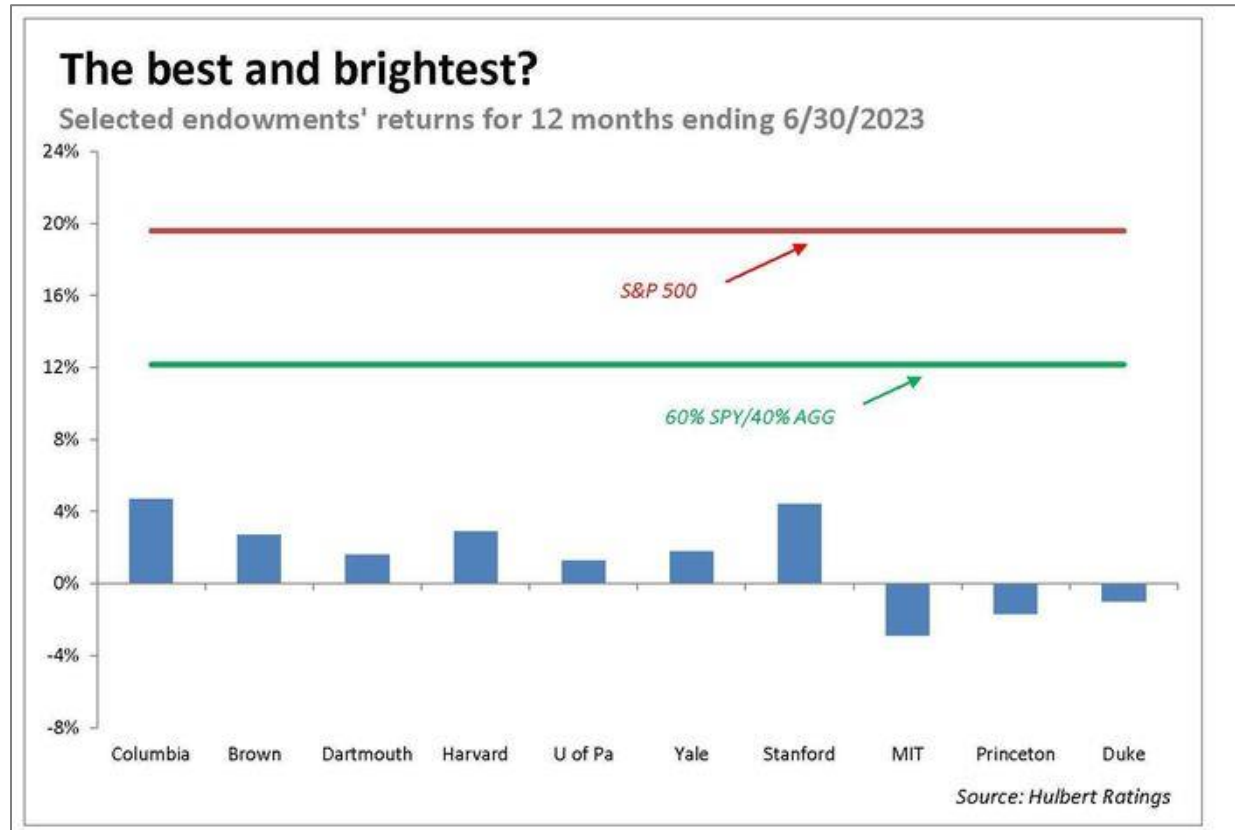


Don't try to catch the falling knife before the fourth quarter.

Stocks that are the biggest losers tend to get dumped in Q4, because of tax-loss selling.



Are alternative investments getting too crowded? Endowment returns aren't so envious anymore.



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.