



Market Outlook

By Mark T Dodson, CFA

Market Risk Index climbs above 80%

Market Risk Index climbed further into the high drawdown risk zone, crossing above 80% for the first time since the bear market rally peak in August of 2022. It's higher today than at the July market peak, as Monetary conditions have worsened since the summer. Fear of missing out on the Fed's pivot to lower rates and a return to confidence in the soft-landing narrative have driven our Psychology composite into the worst 10 percent of readings.

We find ourselves in a similar position that we have seen on more than one occasion in the post-Covid era, with promising short-term technical developments appearing alongside a backdrop of a bifurcated market with poor valuations and frothy investor sentiment still on display. You can also add a cyclical outlook that appears pre-recessionary in this instance.

With the Federal government already running recession-level deficits in a full employment environment, it's become a popular argument that deficit spending will blunt the impact of the Fed tightening and stave off recession. It's a plausible argument for a soft landing.

We should also be wary of what else it might imply – that those same deficits coinciding with any reignition of animal spirits and the wealth effect will lead to a reacceleration of inflation, instead of a Fed pivot.

Market Risk Index

Rec Allocation 25% Underweight

80.1%

Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

Leveraged Investments	Negative
Surveys	Negative
Bank Sentiment	Negative
Consumer Confidence	Negative

Largest Monetary Influences

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

Valuation

7-10 Year Equity Return Forecast	1.6%
10Yr US Treasury Yield	4.2%

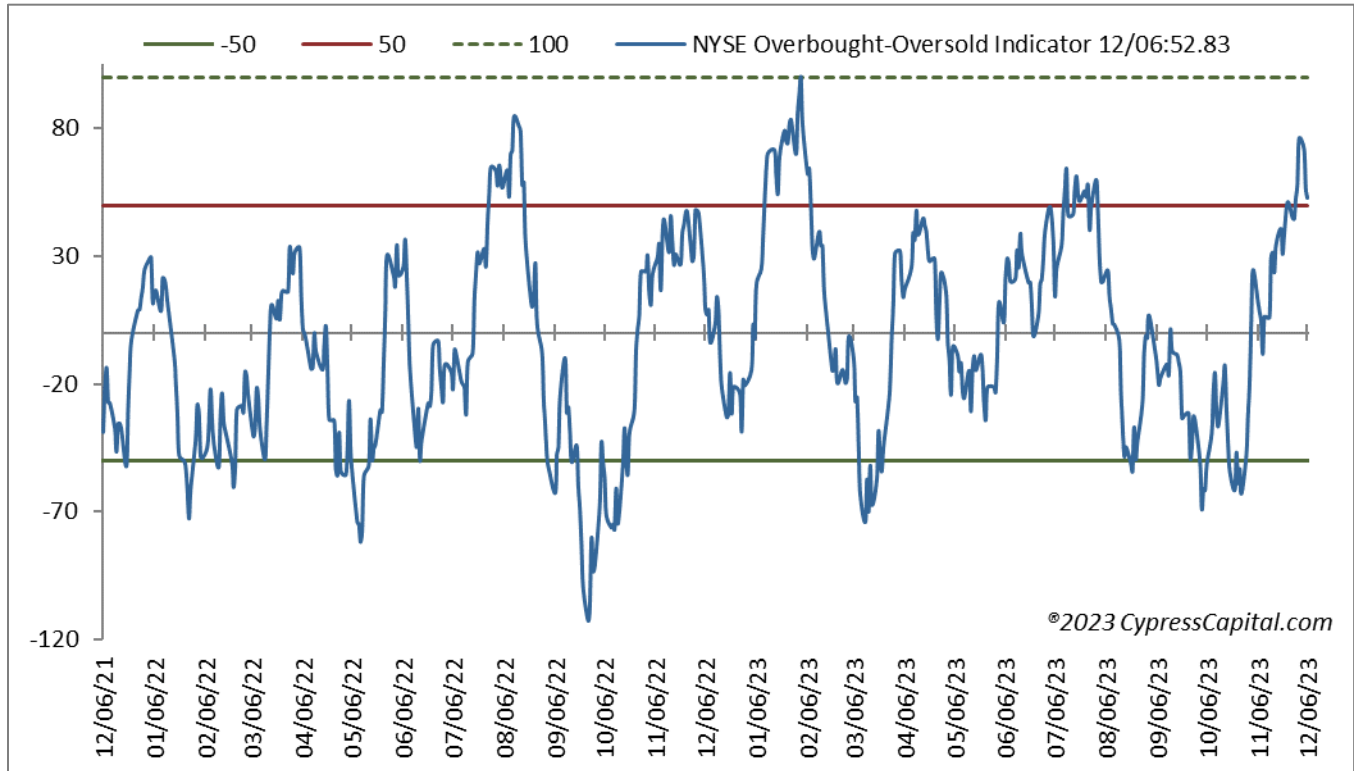
Market Trends

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

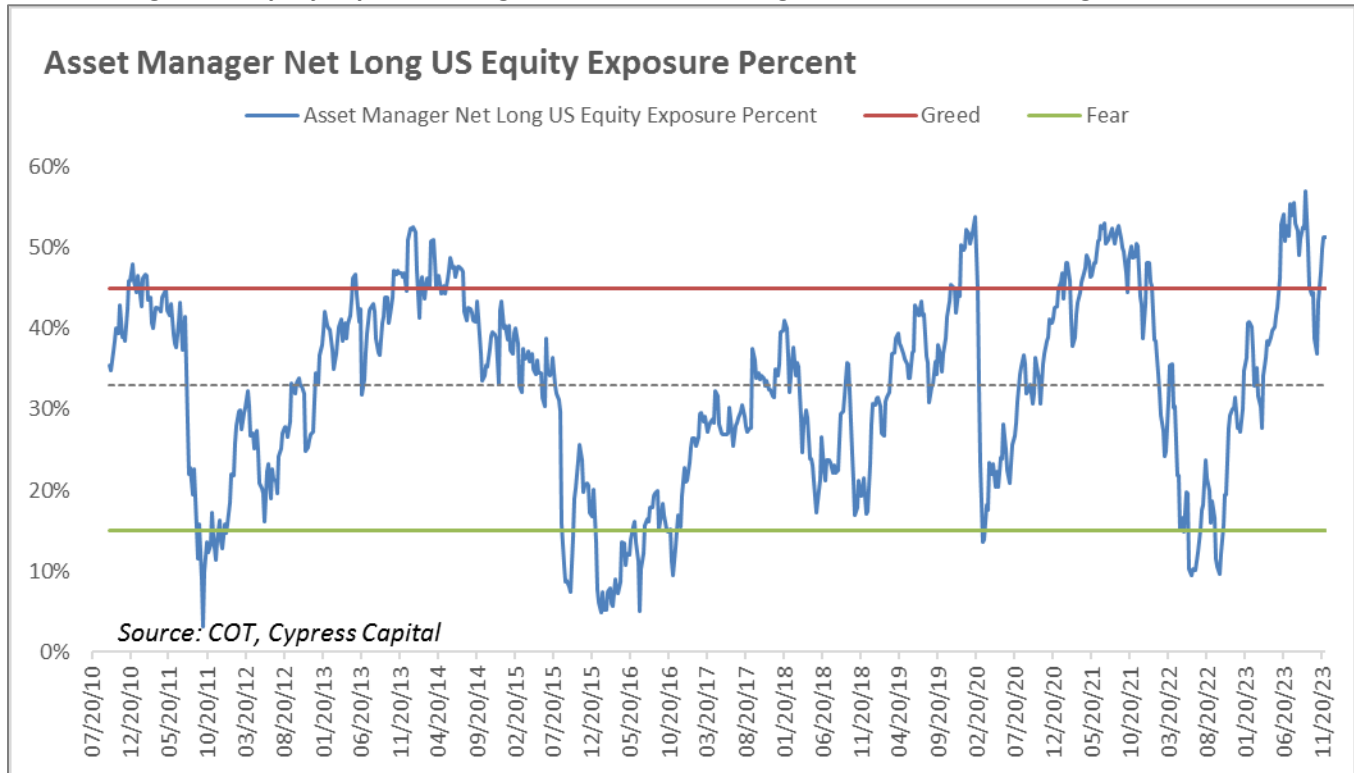
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

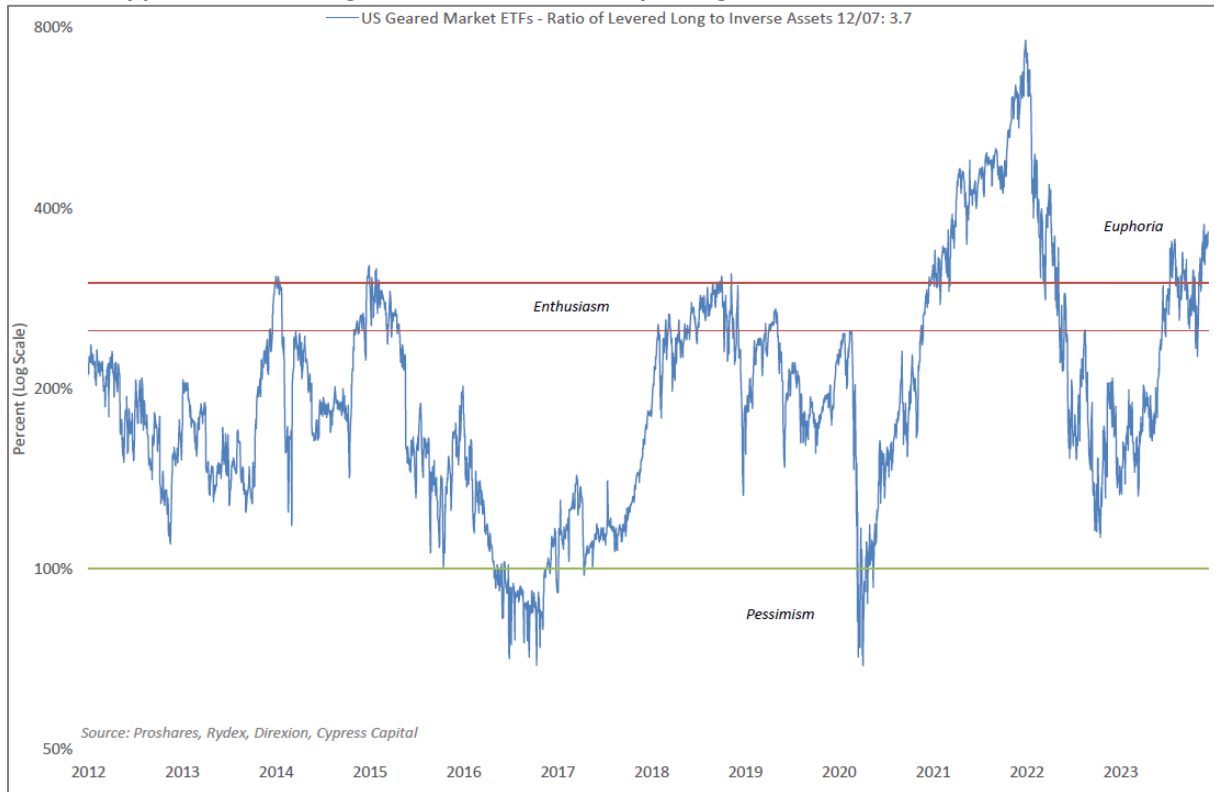
The market is still working off an overbought condition.



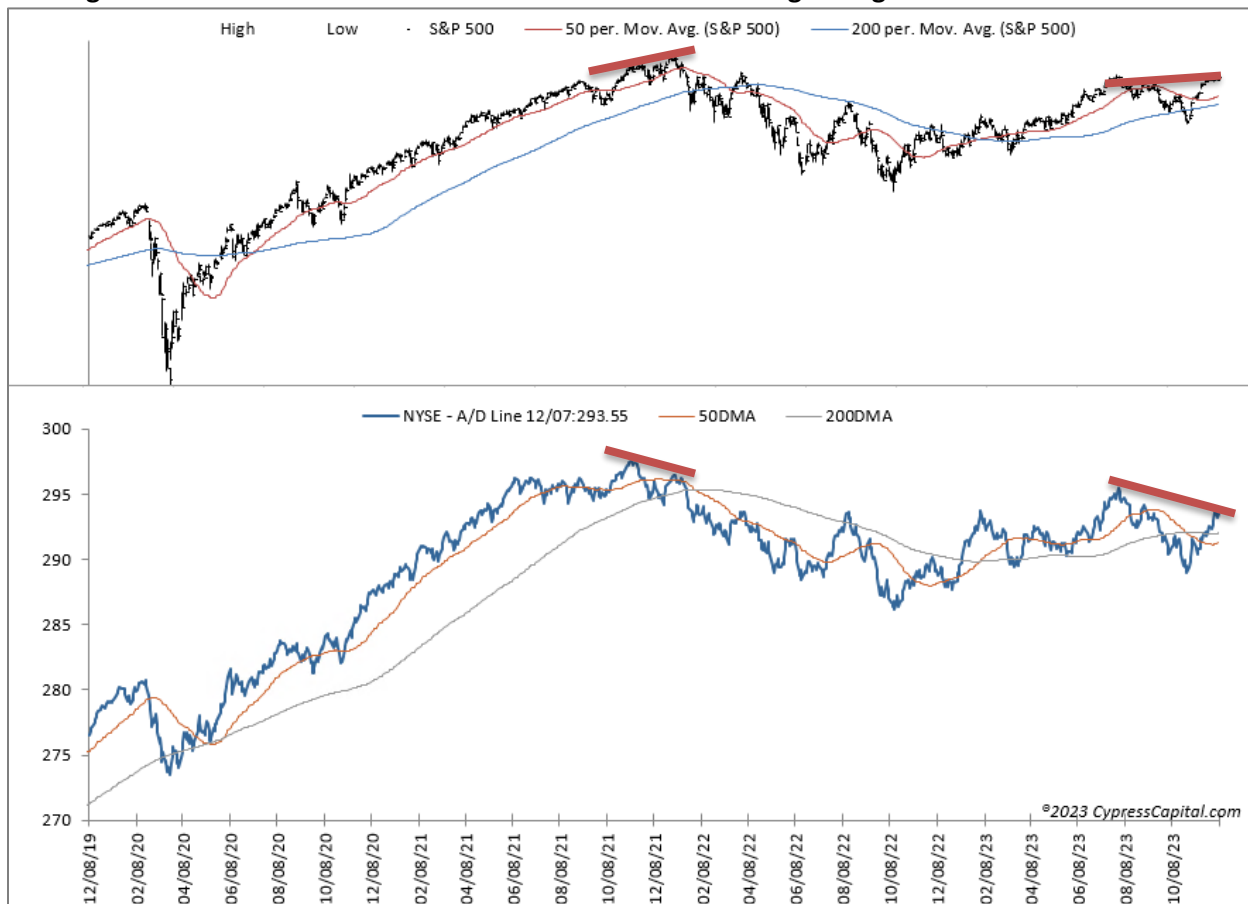
Asset Manager Net Equity Exposure using Derivatives is climbing back toward all-time highs.



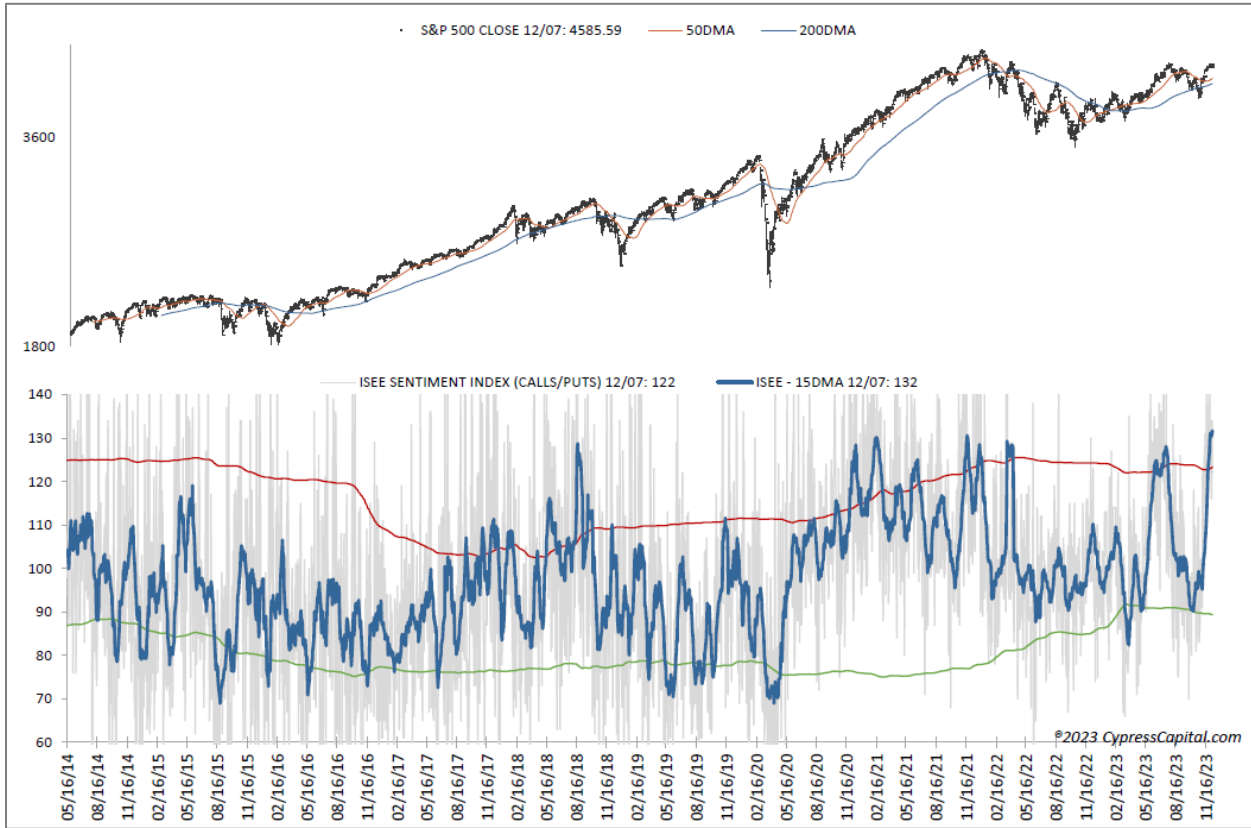
Investor appetite for Leveraged Funds has set new cycle highs.



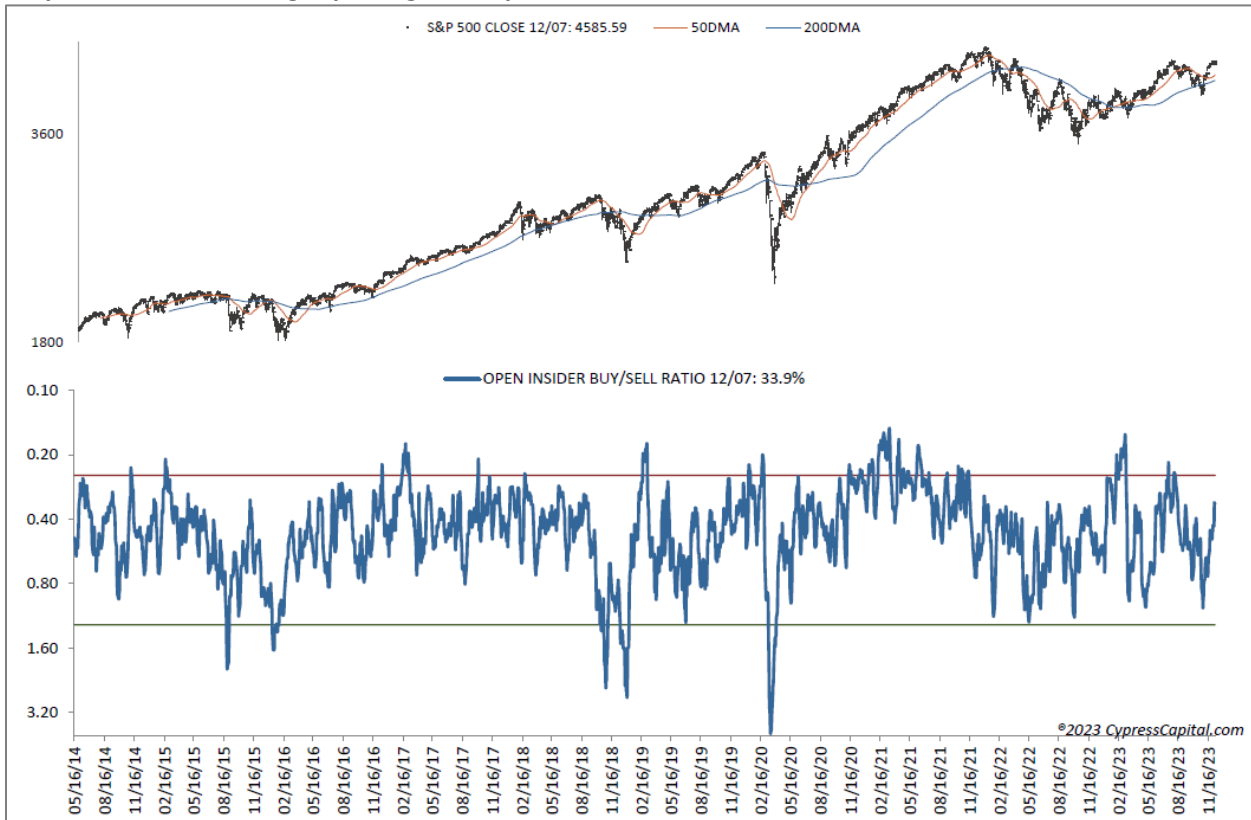
Waiting for the Advance Decline line to confirm the S&P 500's higher high.



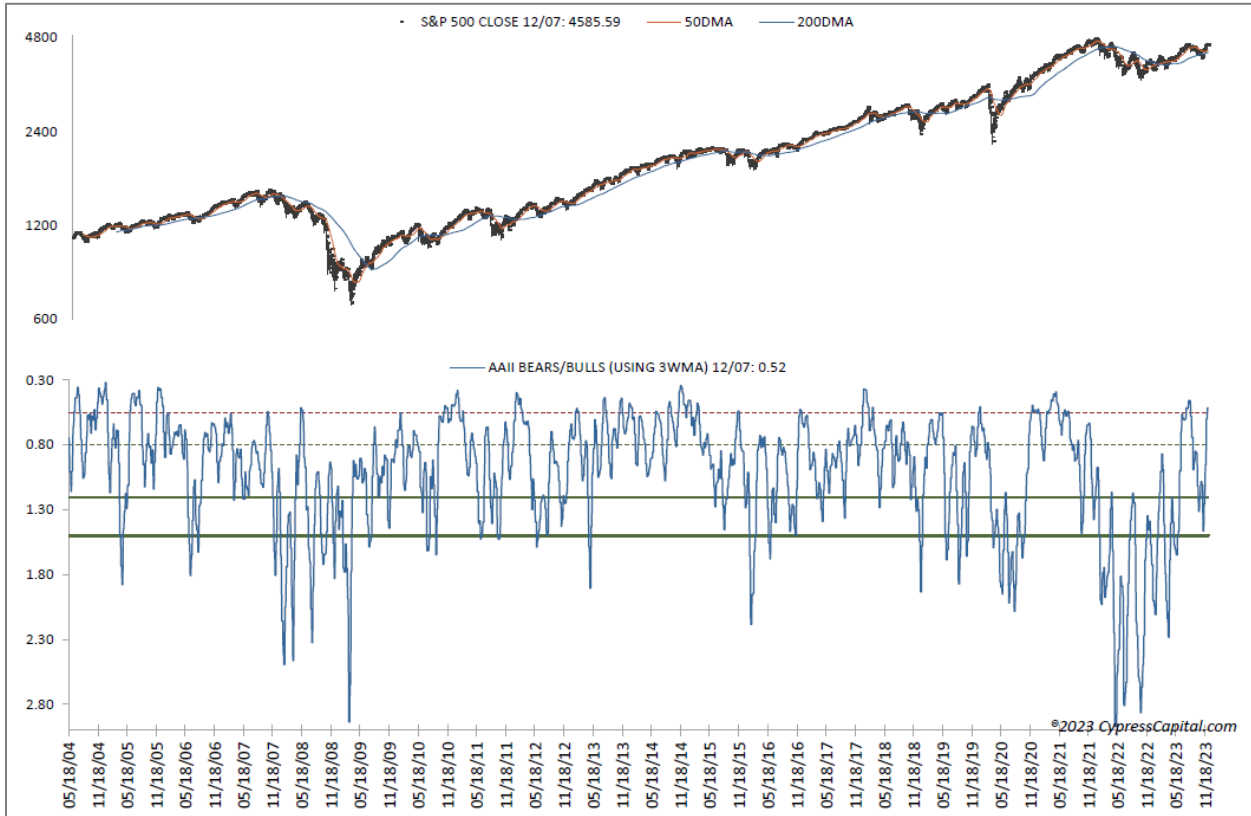
ISEE Sentiment index – investors are aggressively opening new call options positions.



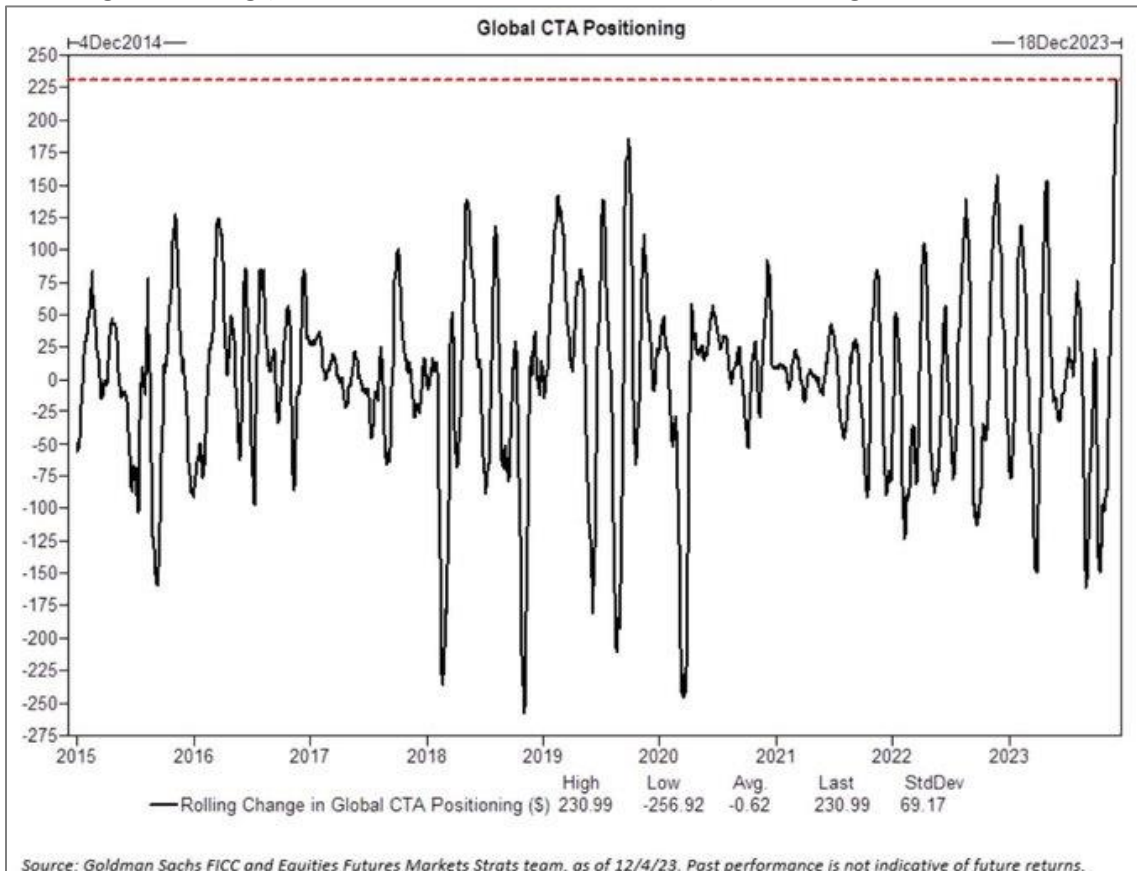
Corporate Insider selling is picking back up.



The AII Investor Bears to Bulls ratio has sunk to its lowest since July (inverted scale).

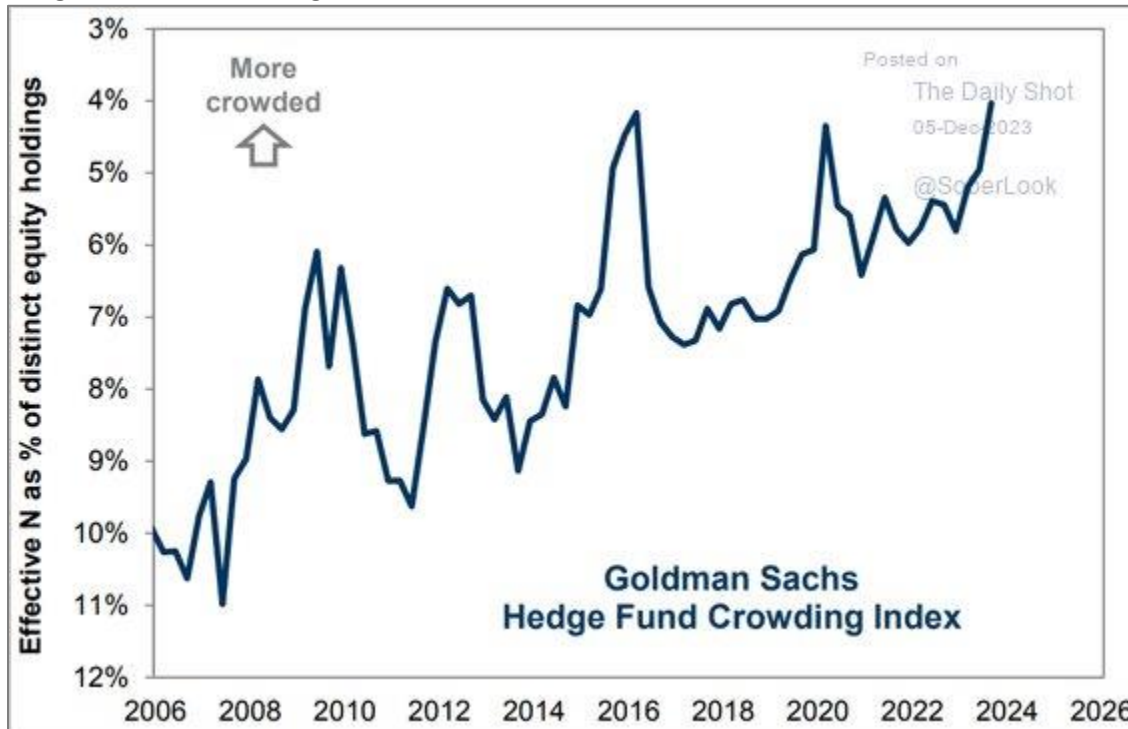


CTA Long Positioning (trend followers that use derivatives) hits 8Yr Highs.

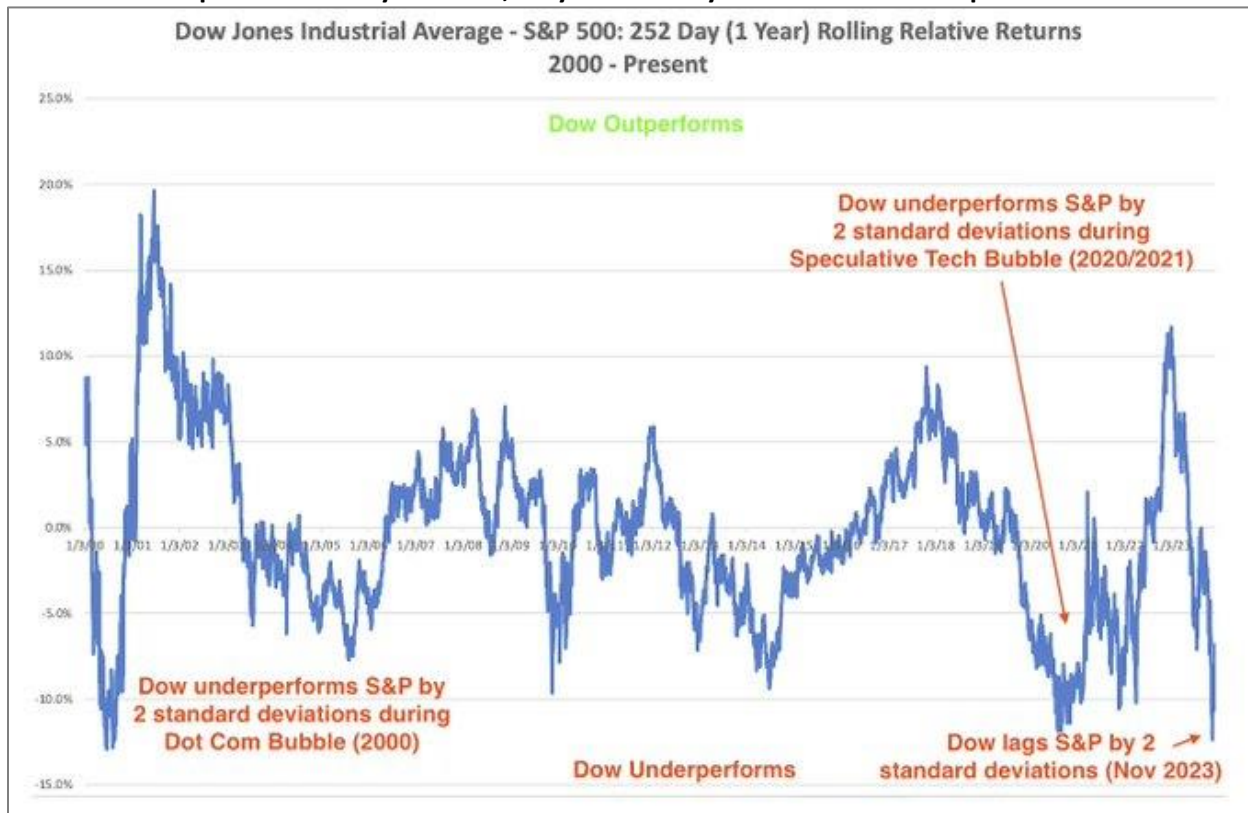


Source: Goldman Sachs FICC and Equities Futures Markets Strats team, as of 12/4/23. Past performance is not indicative of future returns.

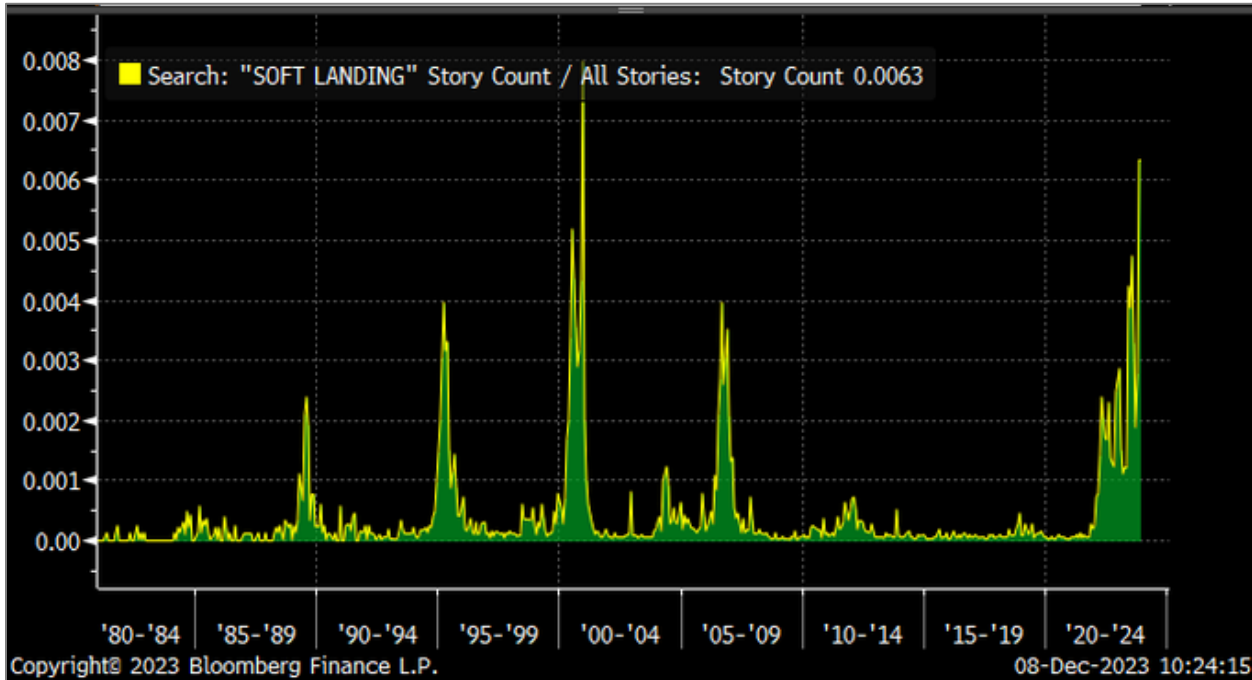
Hedge funds are crowding into the same stocks as never before.



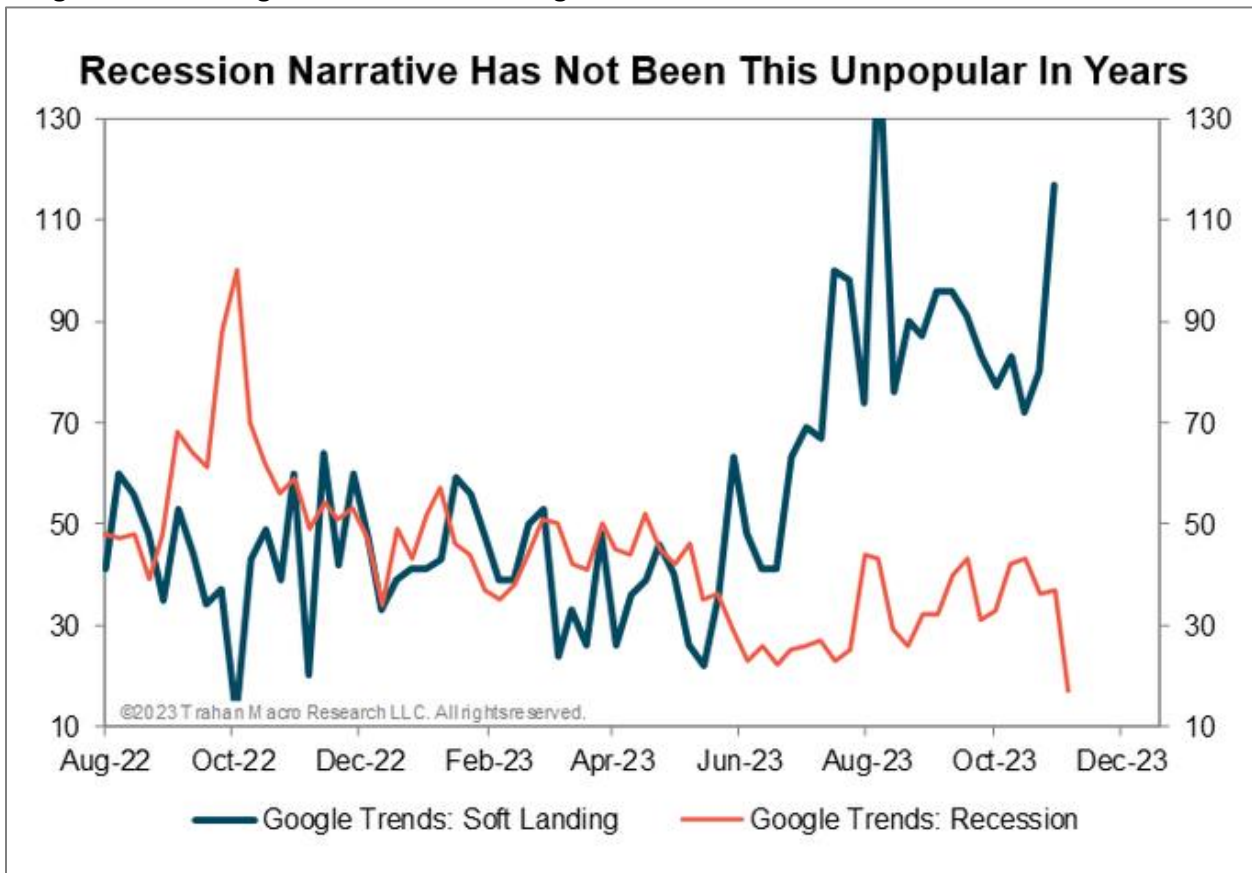
2 Std Dev underperformance by the Dow, only matched by the 2000 and 2021 speculative bubbles.



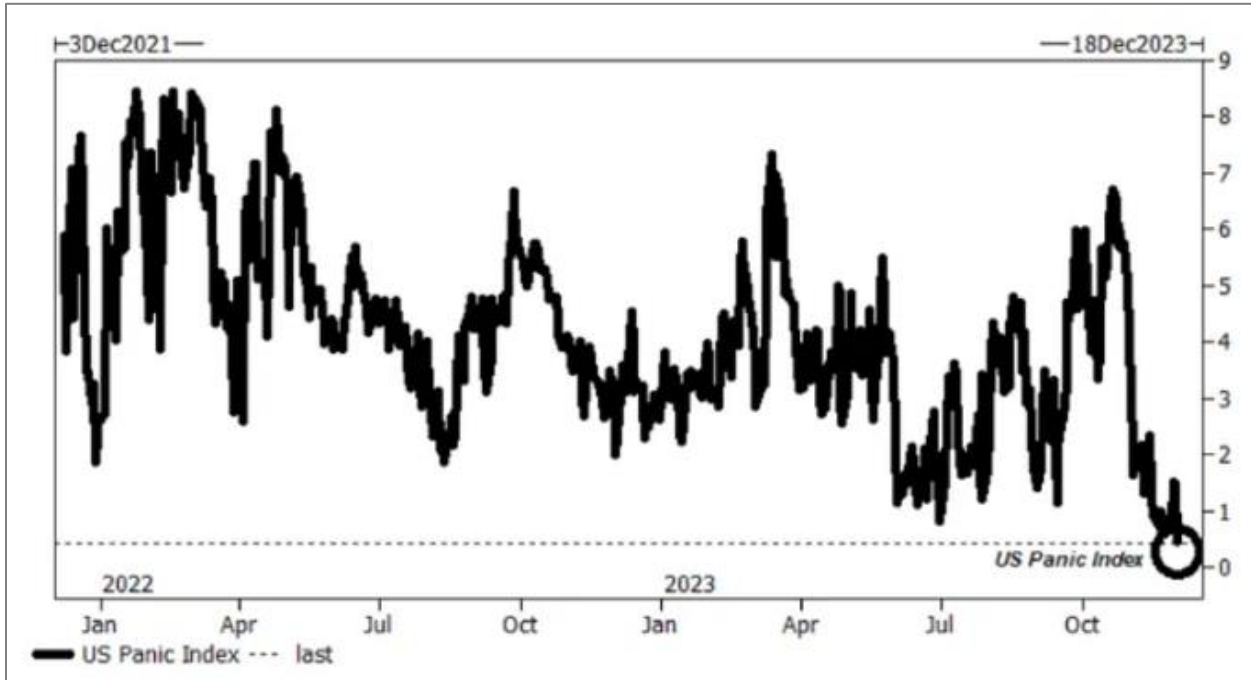
The percentage of Soft Landing stories in the news hit a new cycle high.



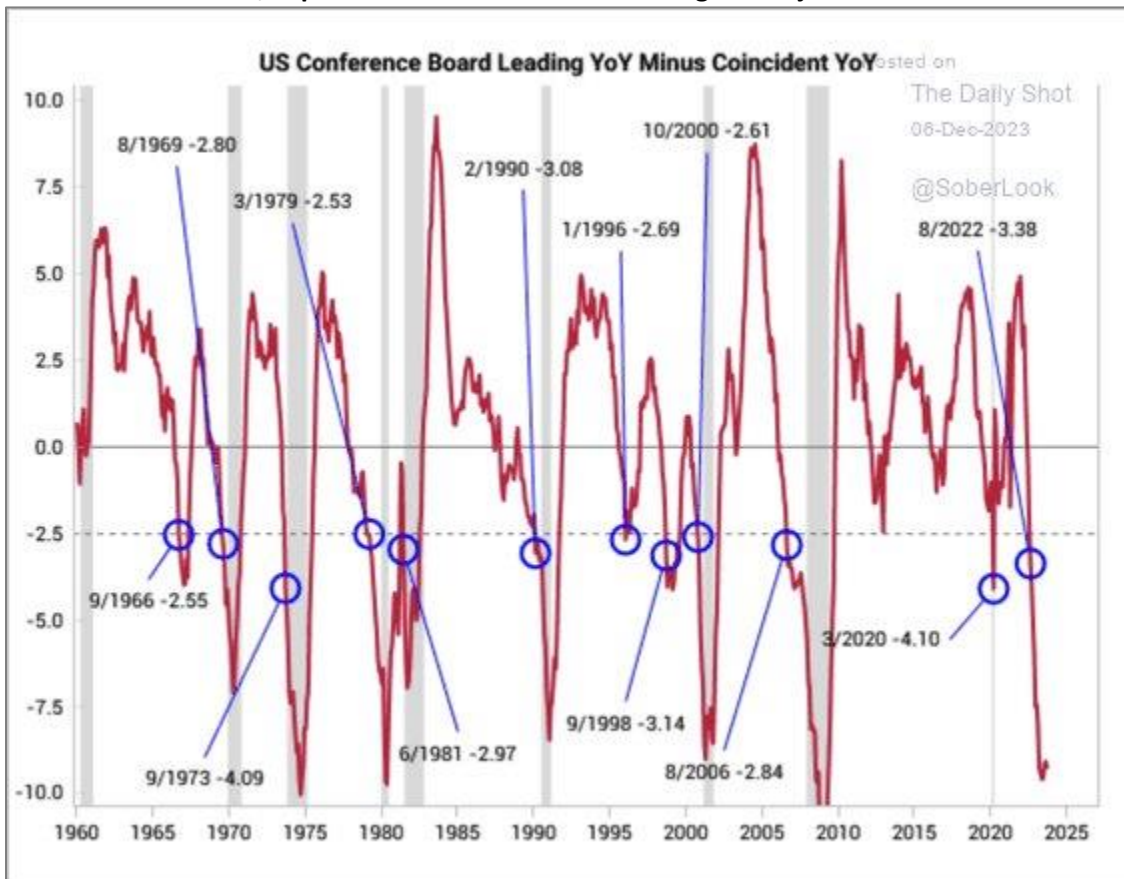
Google shows a vast gulf between soft landing and recession search trends.



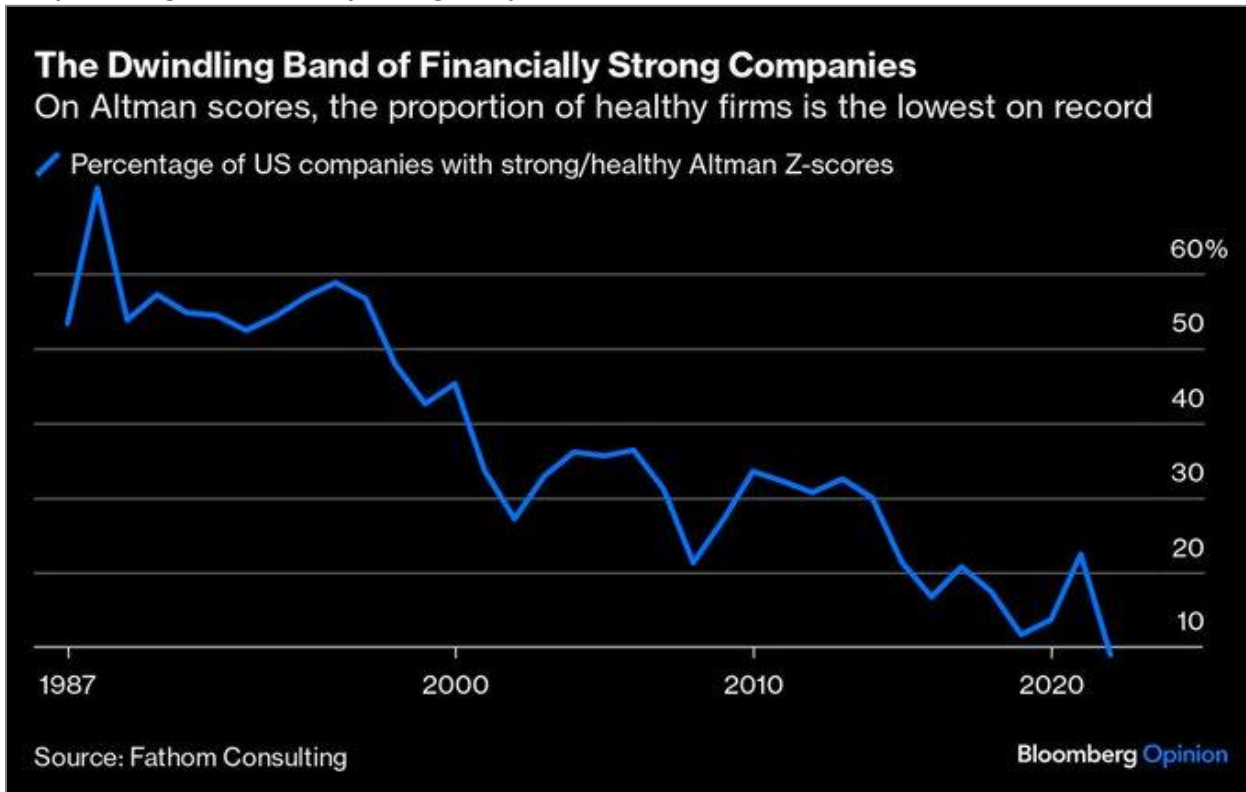
There is an absence of panic among investors.



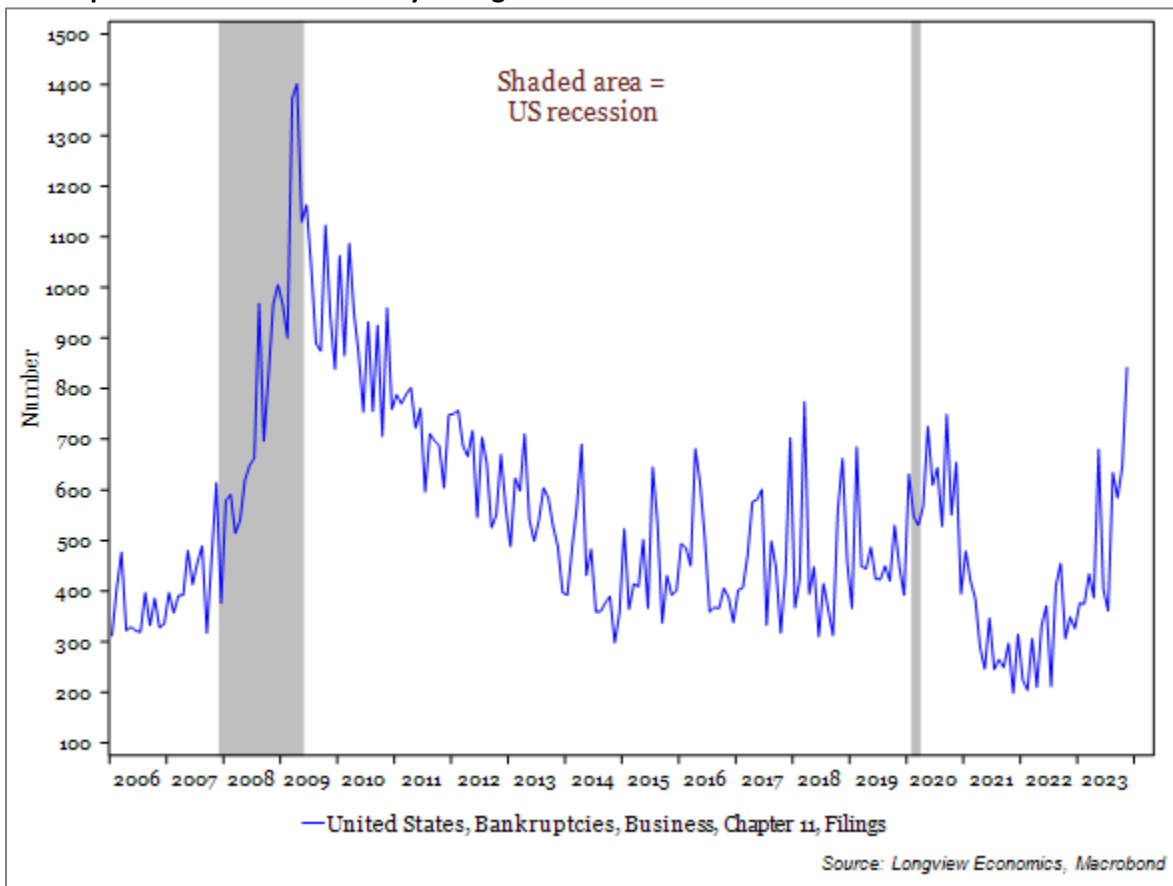
If we avoid recession, expect the Conference Board to begin a major overhaul of their Leading Index.



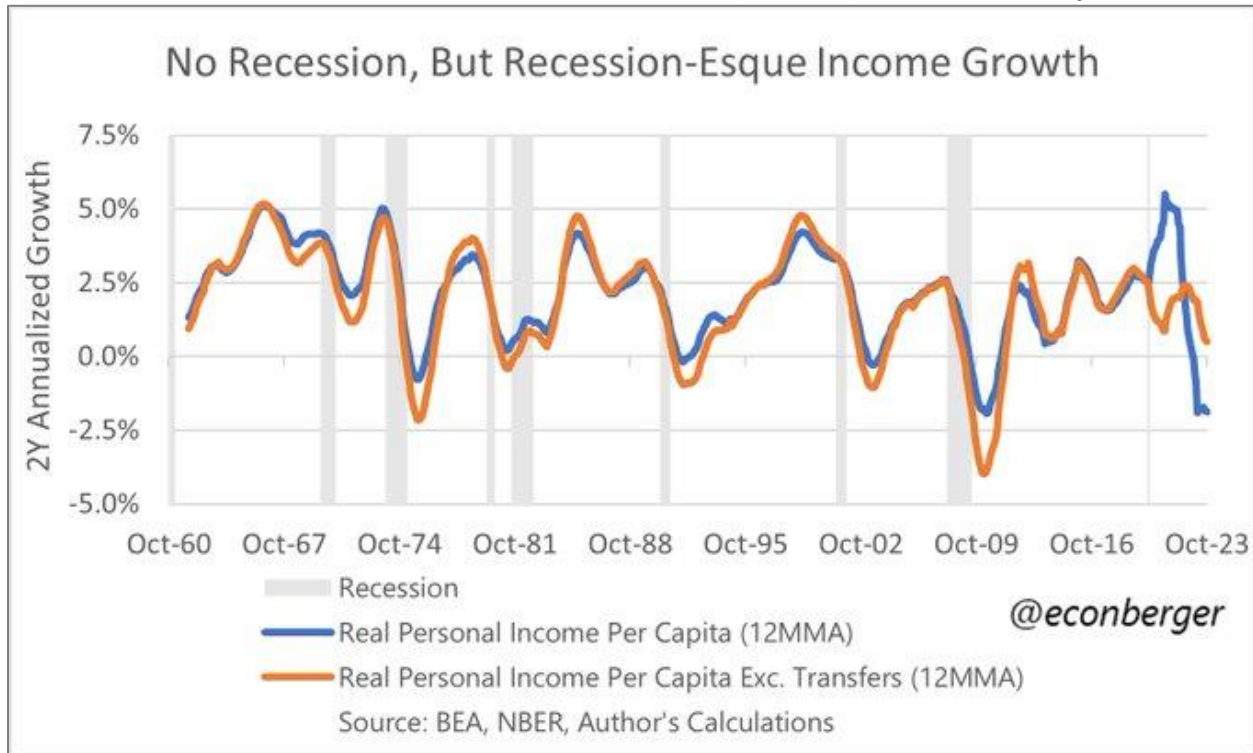
The percentage of Financially Strong Companies falls to the lowest on record.



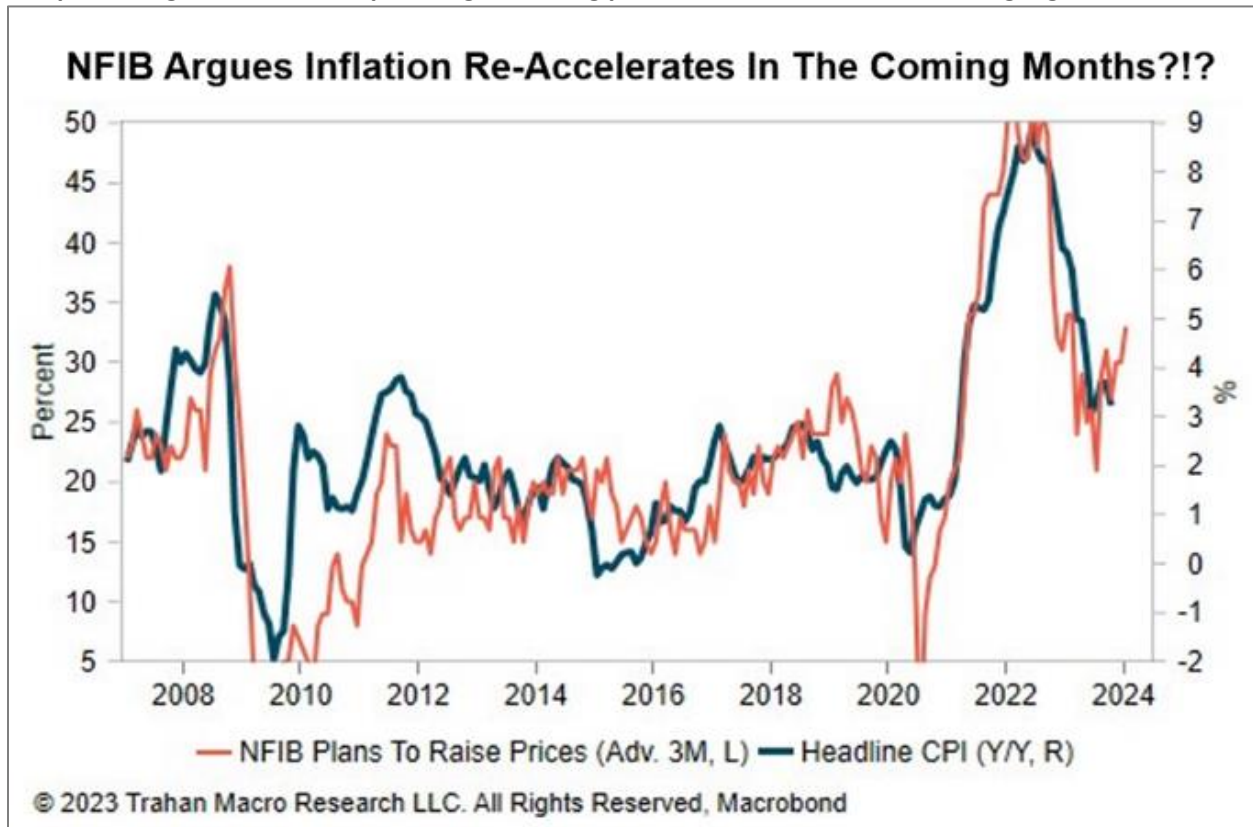
Bankruptcies have climbed to 10-year highs.



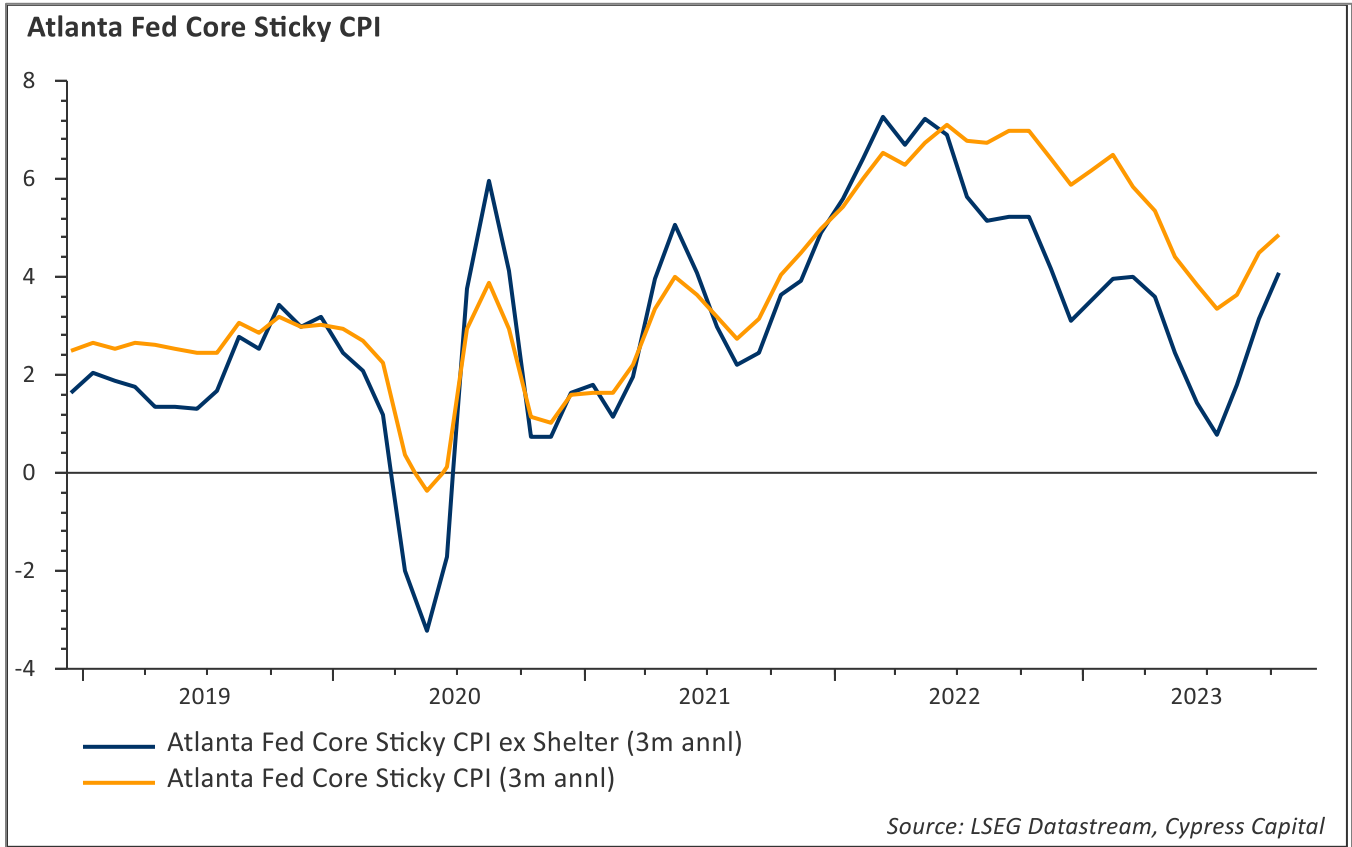
Personal Income Growth excl. Government stimulus checks (blue line) looks recessionary.



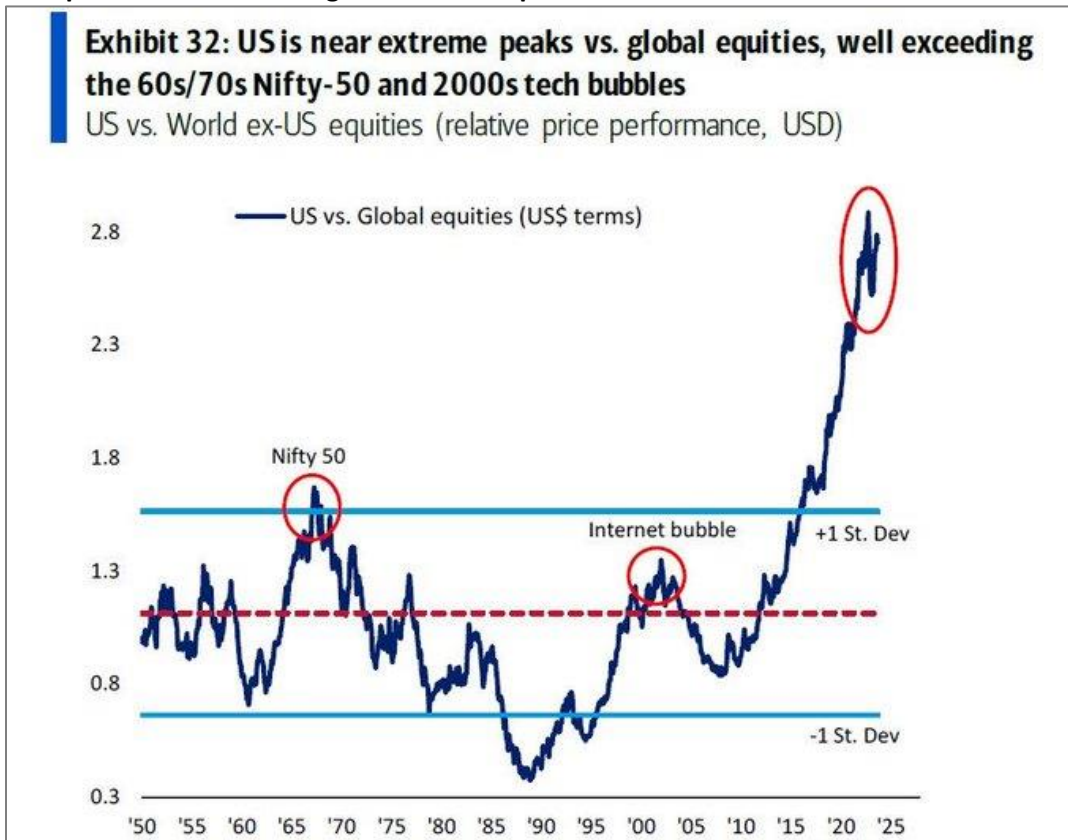
The percentage of Businesses planning on raising prices has reversed and is moving higher.



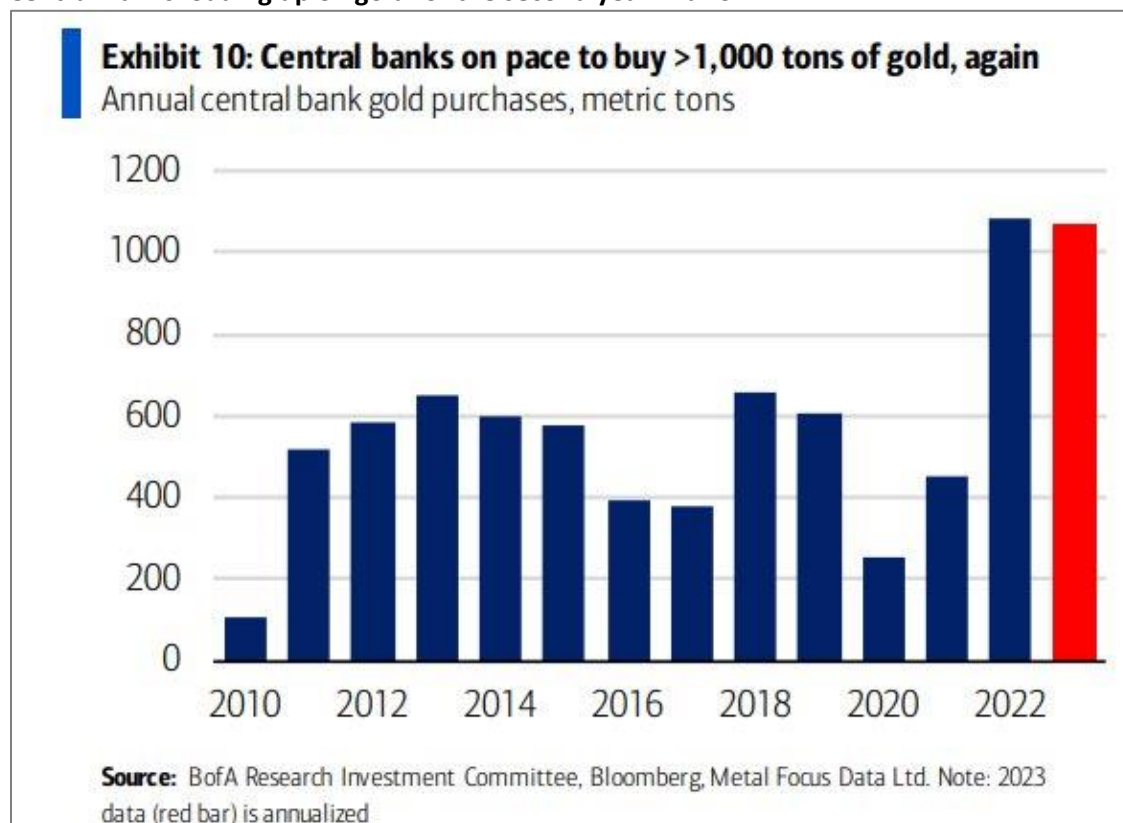
Atlanta Fed's Core Sticky CPI has been reaccelerating since the summer.



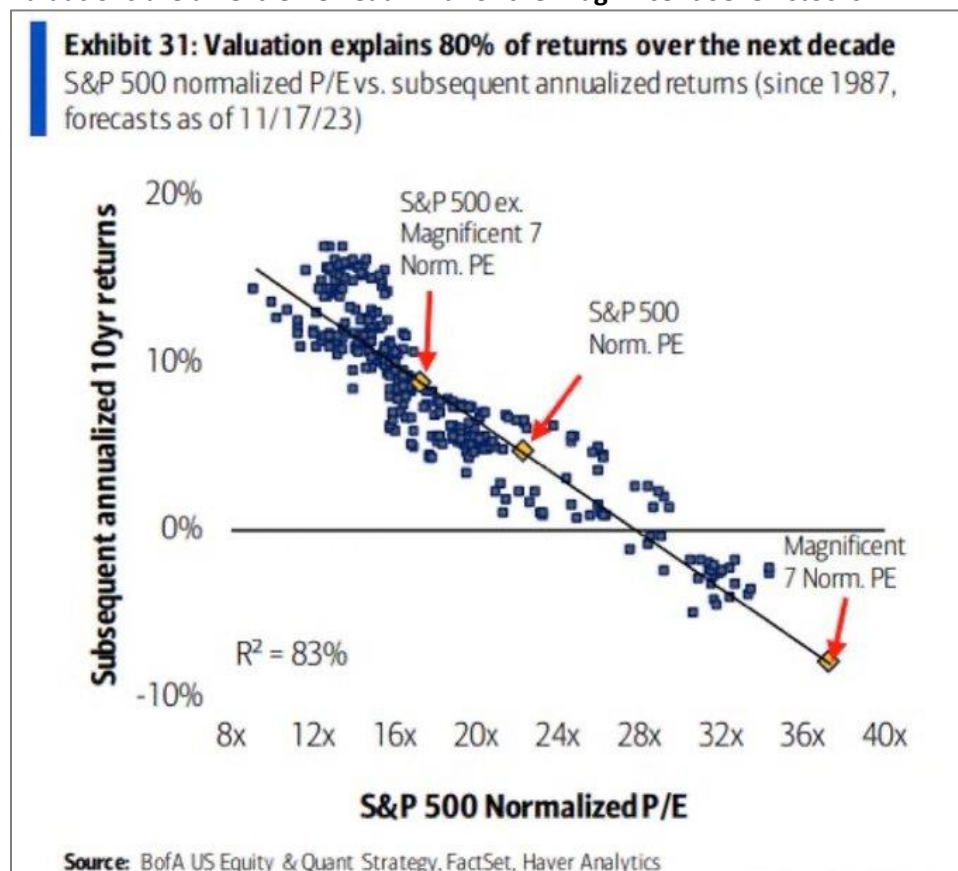
US Equities have smashed global stocks in performance terms over the last decade.



Central Banks loading up on gold for the second year in a row.



Valuations are an extreme headwind for the Magnificent Seven stocks.



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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