



Market Outlook

By Mark T Dodson, CFA

Asset Managers' exposure to US equity futures hits a record high.

Market Risk Index climbed to 70%, as the Psychology Composite climbed further into the worst decile of readings, and the post-Fed meeting liquidity improvement to Monetary conditions ran out of steam.

Our Short-Term Sentiment composite improved after stocks declined for the first week of 2024, and NYSE Overbought/Oversold shows a market slowly working off its overbought position. However, measures of investor sentiment remain firmly biased to the side of too much greed. Asset Managers' net long position in US equity futures set another record for the second consecutive week.

An unexpected contraction in the ISM Services Employment index surprised investors this week and should keep the market pricing in a Fed rate cut this spring. However, investor euphoria surrounding the Fed pivot narrative dismisses considerable historical evidence that these periods coincide with mostly bad outcomes and sharply falling equity prices. Investor confidence in that narrative has led to positioning that doesn't match historical outcomes – it's a bet that it's different this time. That said, it's not unusual to see our Psychology Composite highlighting excessive enthusiasm for equities around the time of a Fed pivot to lower rates.

For those hoping for a Fed rate cut, our Valuation Composite says Treasuries are a more likely beneficiary. Treasuries yield 250 basis points more than our current forecast for equity returns. We've included a chart below. It doesn't happen often. Except for too-early warnings at the start of the dot-com era, it's a who's who list of market environments where it makes sense to be more neutral in your stance toward equities.

Market Risk Index

Rec Allocation 25% Underweight

70.0%

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	1.5%
10Yr US Treasury Yield	4.0%

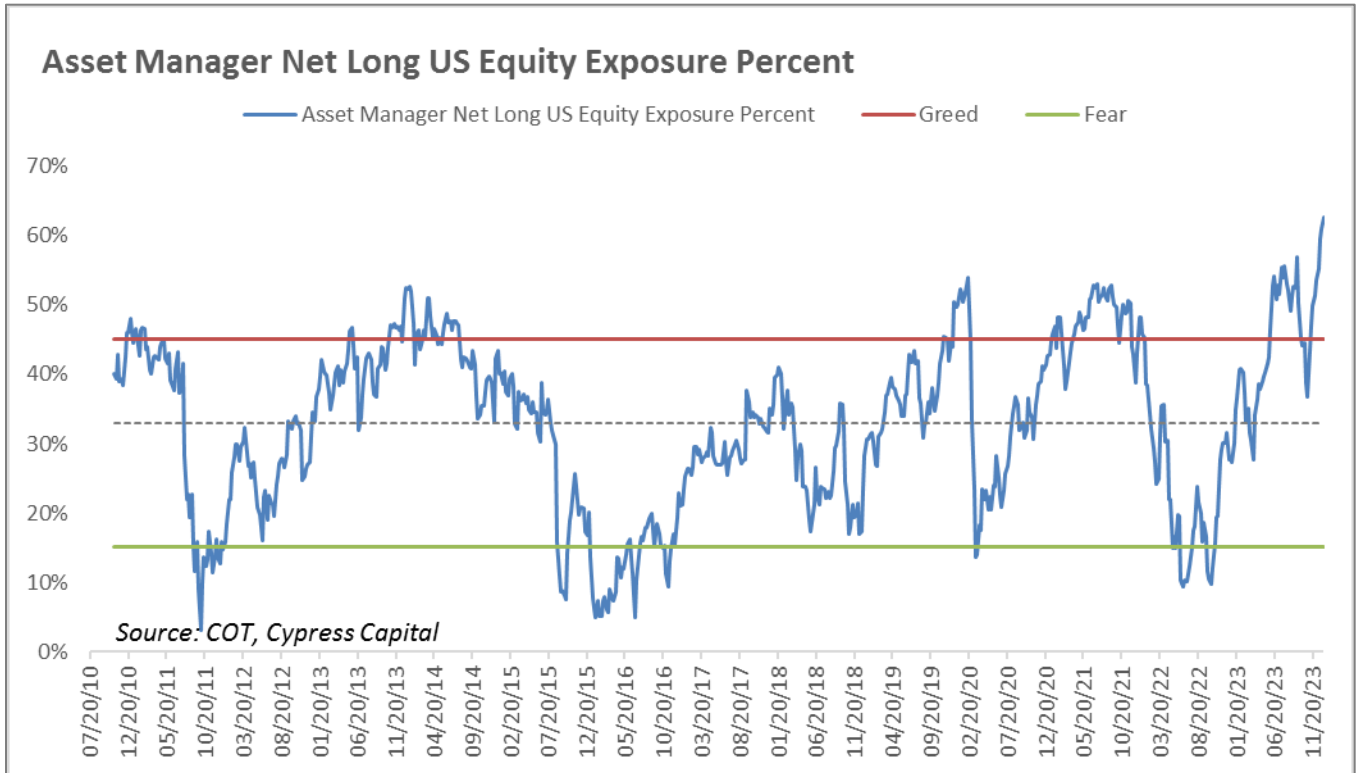
Market Trends

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

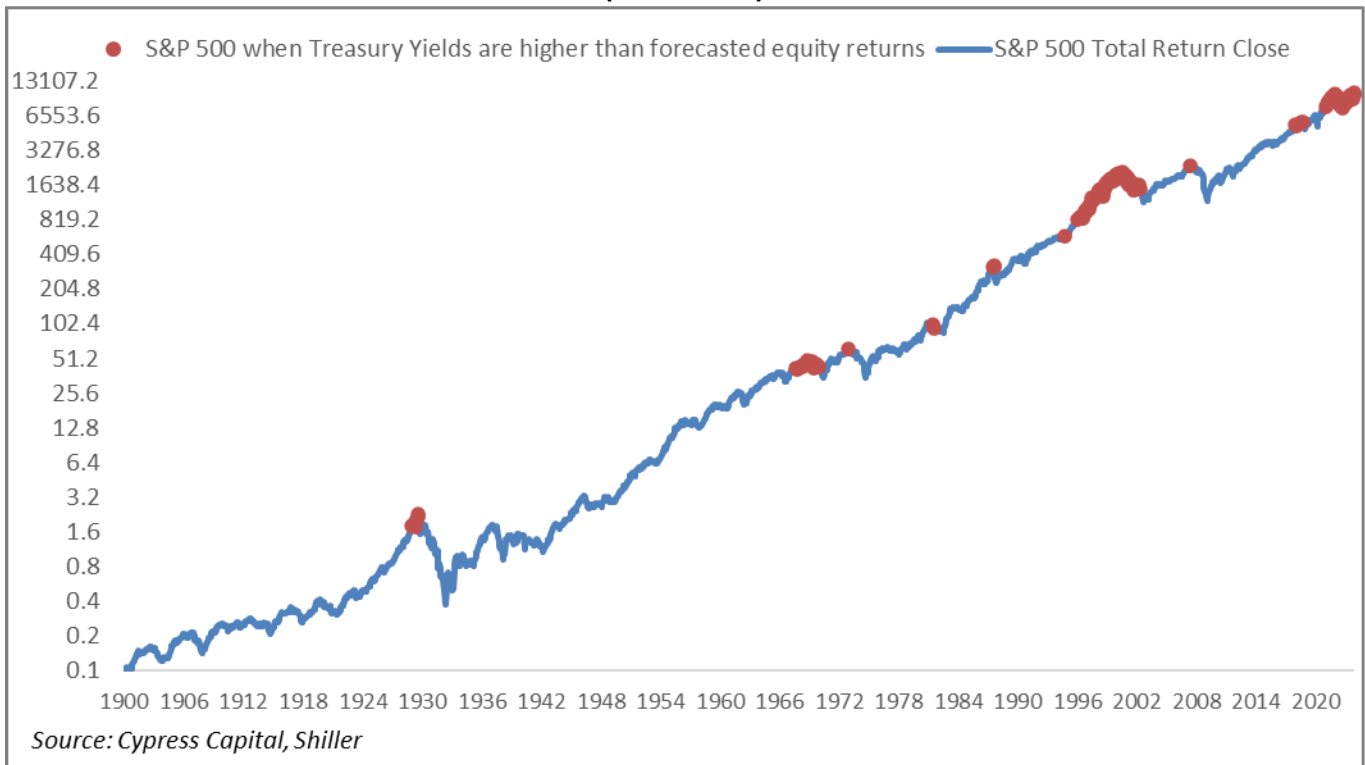
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

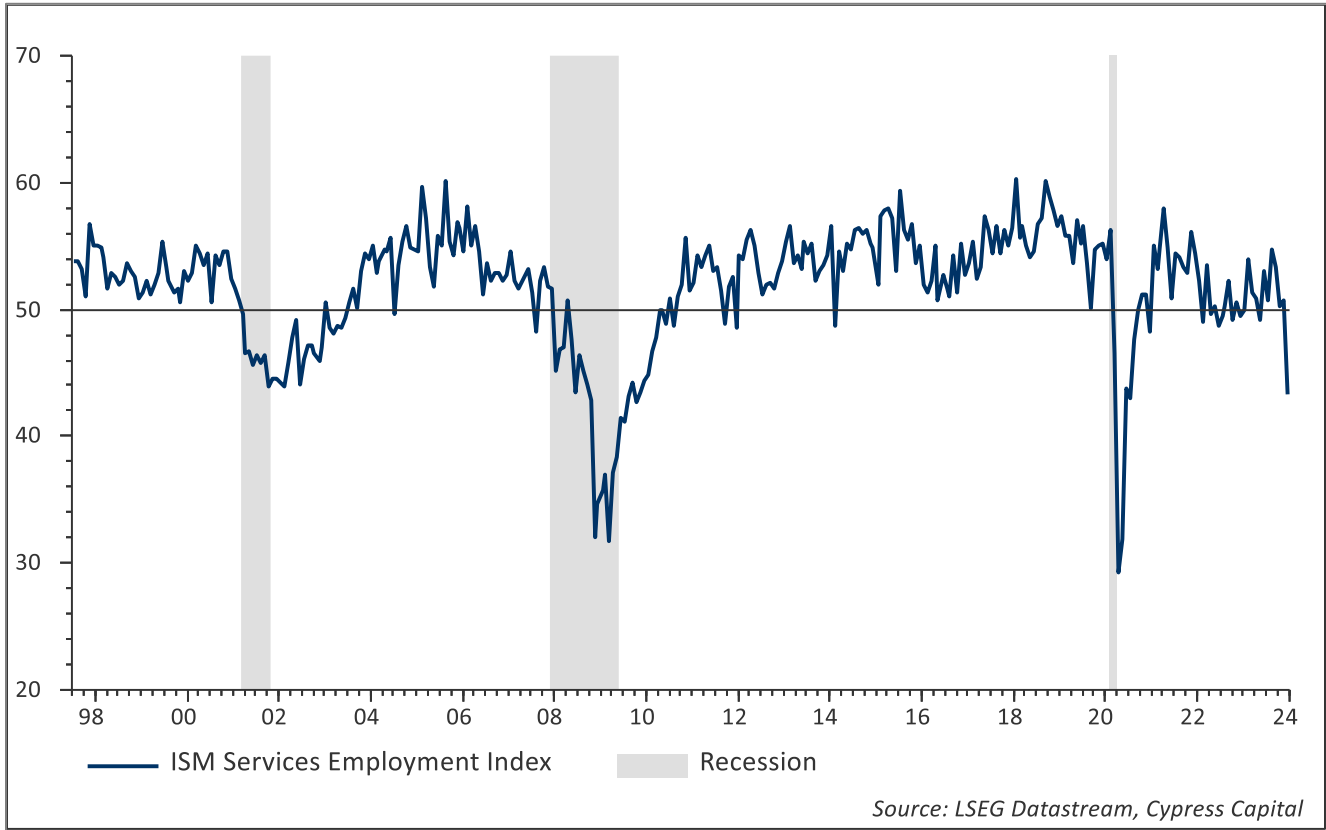
Asset Manager exposure to US Equity Futures sets a new high for a second consecutive week.



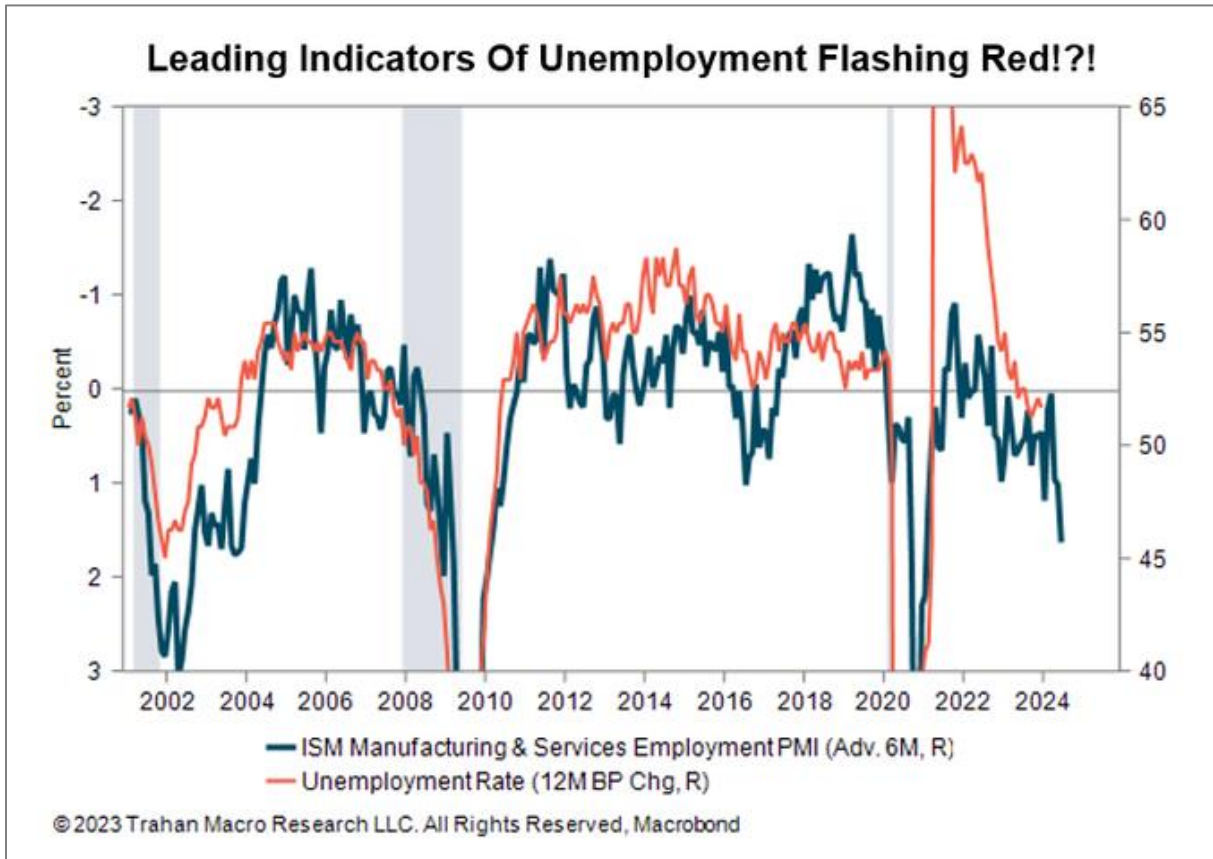
Relative Valuations – Periods since 1900 where Equities were priced to return less than Treasuries



Sharp, unexpected drop in ISM Services Employment Index looks recessionary.



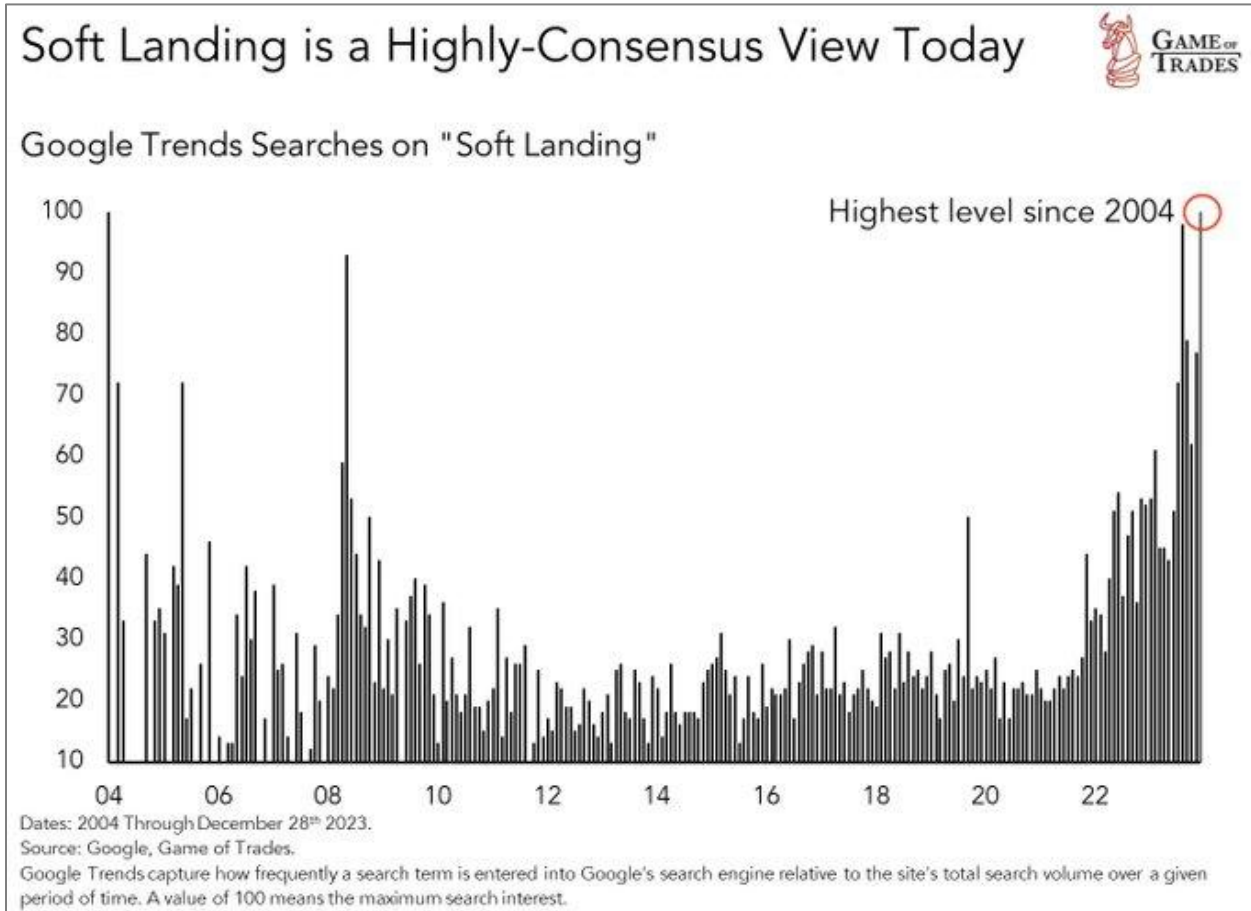
ISM Services and Manufacturing Employment imply a higher Unemployment Rate over the next six months.



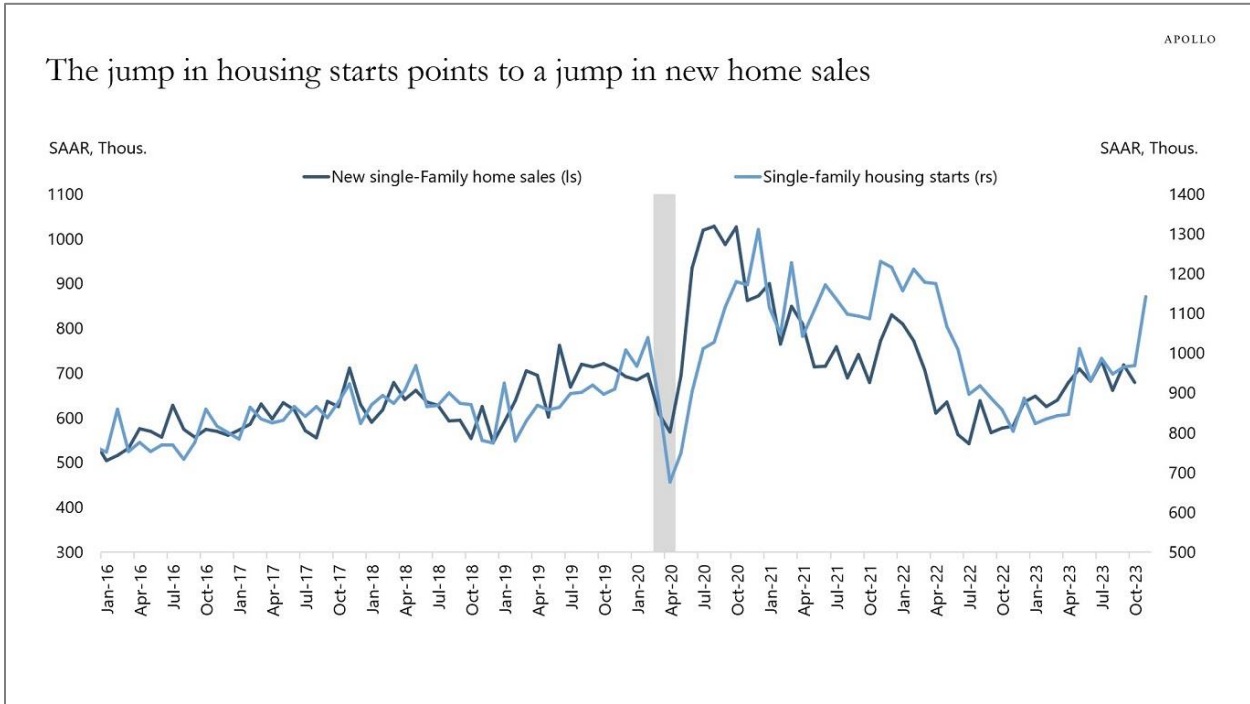
Twenty months of Consecutive Monthly Declines in Leading Economic Indicators.



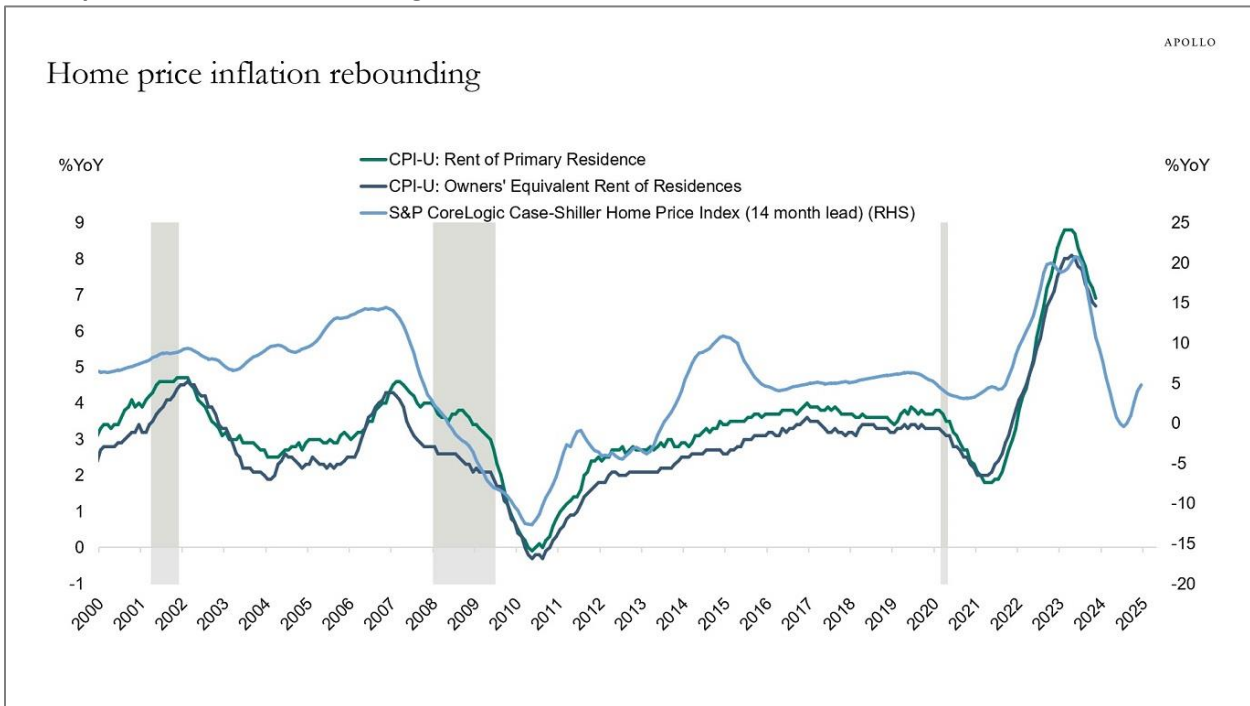
Soft Landing is the Consensus View



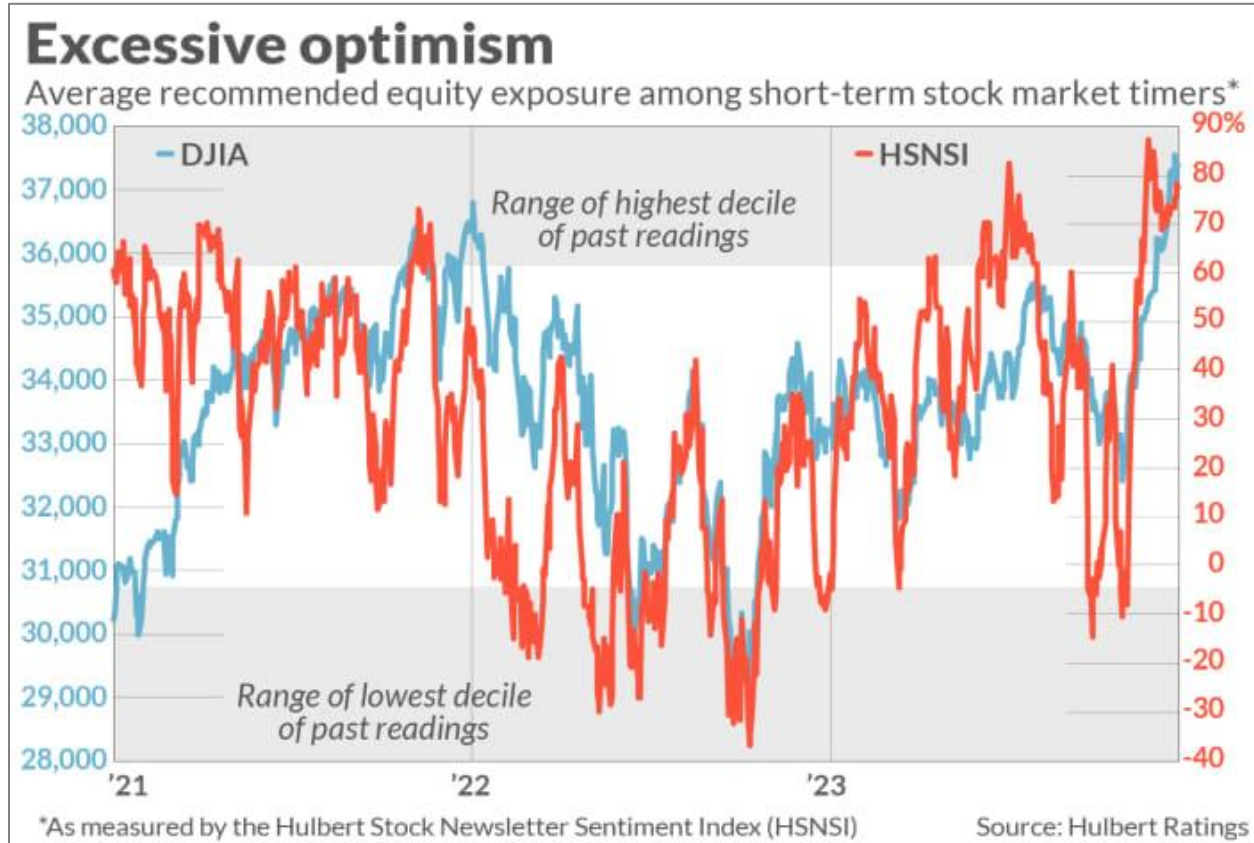
Housing Starts jump.



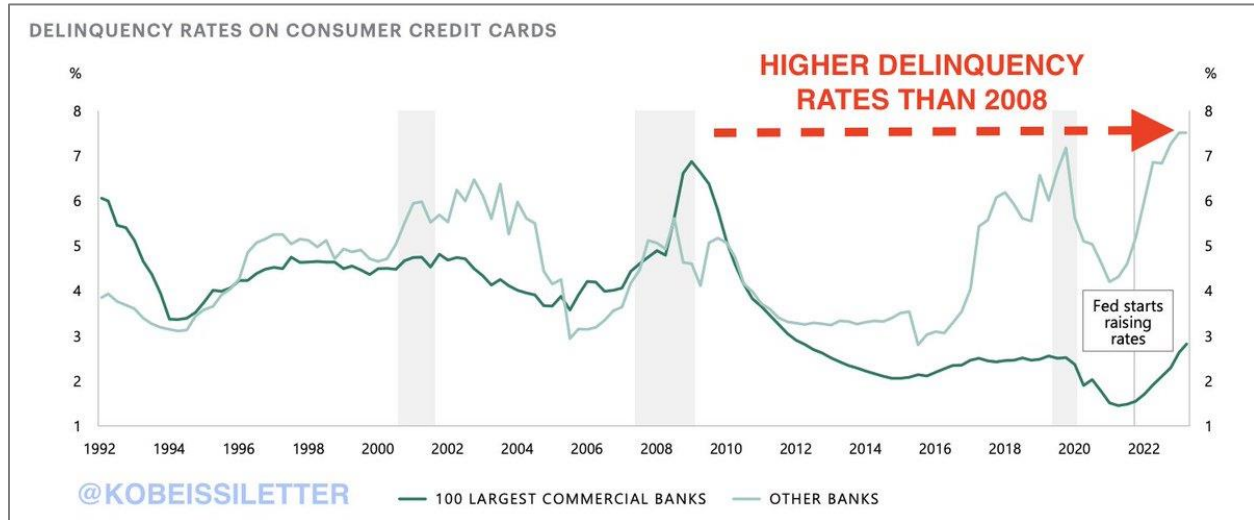
Home price inflation is rebounding.



Newsletter writers are very bullish on stocks.



Smaller banks are seeing higher credit card delinquency rates than 2008.



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.