Cypress CAPITAL

Market Outlook

By Mark T Dodson, CFA

Lonely at the Top

Market Risk Index edged higher to 73.9%, shy of the 75% mark that we use to indicate a pervasive weight of the evidence for substantial stock market drawdown risk. Relatively favorable Monetary conditions, sans an inverted yield curve, provide enough cushion to keep us below that threshold. Meanwhile, the current combination of Psychology and Valuation scores are reserved for the most overbought and over-bullish markets in over 50 years.

The cap-weighted S&P 500 closed the week at a new all-time high, but the S&P was lonely at the top. Only the Tech sector made a high along with it, and only two sectors have made a new high within the last month. The Dow and NASDAQ 100 have made new highs, but several indices that would typically accompany the S&P 500's highs to indicate a broad, healthy cyclical market aren't faring as well. The Russell 2000 is arguably still in a bear market.

There was also unusual behavior in our breadth indicators coinciding alongside the new stock market high, and we've included charts below. The NYSE Overbought Oversold Indicator is moving into oversold territory coincident with a stock market high. It last happened in the months leading up to the 2022 bull market peak. It was also a regular occurrence leading up to the dot-com era blow-off, including the day the stock market made its ultimate bull market peak.

The NYSE ARMS (10DMA) climbed above 1.3 during the week, something associated with a stock market experiencing a price correction. In more than sixty years of data, it's never occurred outside the last four years.

And probably our favorite indicator of stock market breadth, the High Low Logic Index, is also picking up on the unusual nature of the current Magnificent Seven led market advance. The NASDAQ High Low Logic Index is giving a sell signal, while the NYSE High Low Logic Index has recently given a modest buy signal. The spread between the two indicators has set a record. Seeing a divergence between the messages isn't unprecedented, and it's yielded valuable clues for such a small sample size.

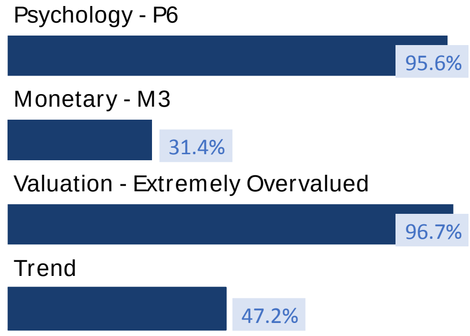
In a week where such a narrow group of stocks drove the market's new highs, it also didn't go unnoticed by us that Passive Management assets have finally surpassed those using Active Management. Given the unprecedented narrowness of the market's advance, the headline is fitting. This gives us pause, but as adherents to a philosophy of intelligent investing, it’s the exuberant state of investor sentiment and valuations surrounding the S&P 500's new high keeps us from drinking too much of the congratulatory punch at the Magnificent Seven's party.

Market Risk Index

Rec Allocation 25% Underweight

73.9%

Category Percentiles



Largest Psychology Influences

Leveraged Investments	Negative
Surveys	Negative
Trading Data	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	1.4%
10Yr US Treasury Yield	4.1%

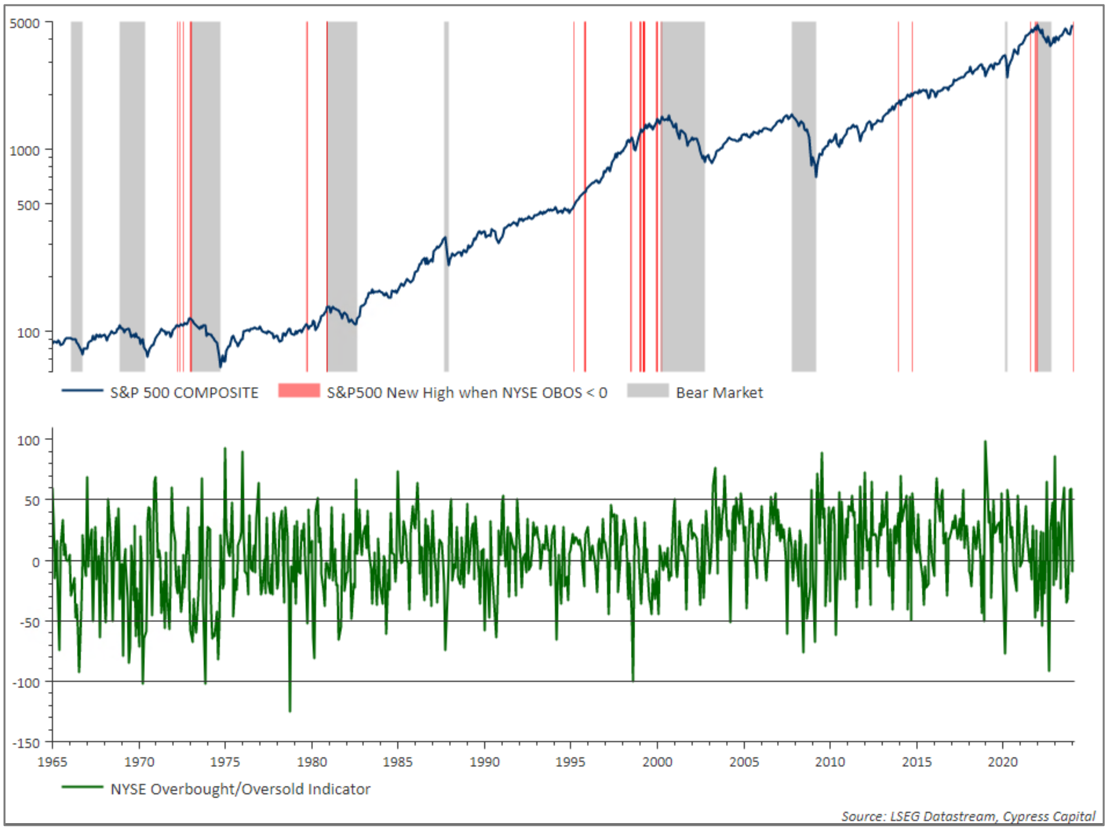
Market Trends

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

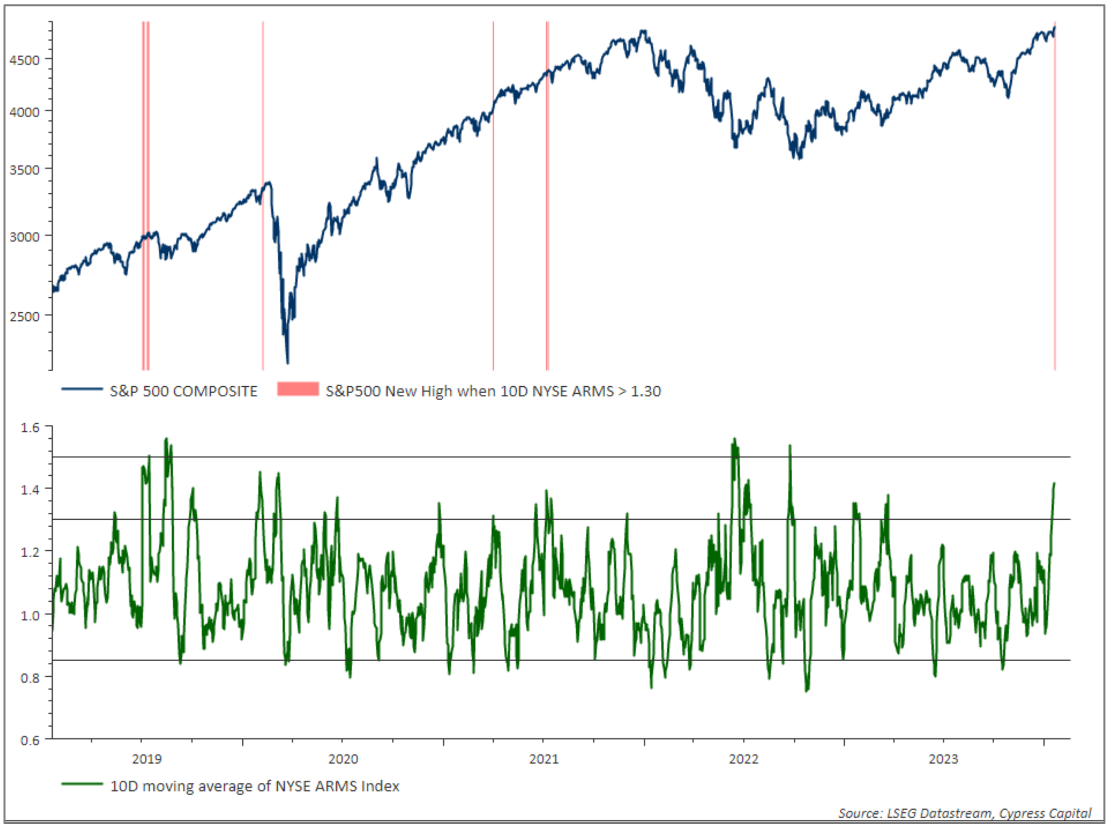
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

Periods where the S&P 500 is making a new high while NYSE Overbought/Oversold is negative.

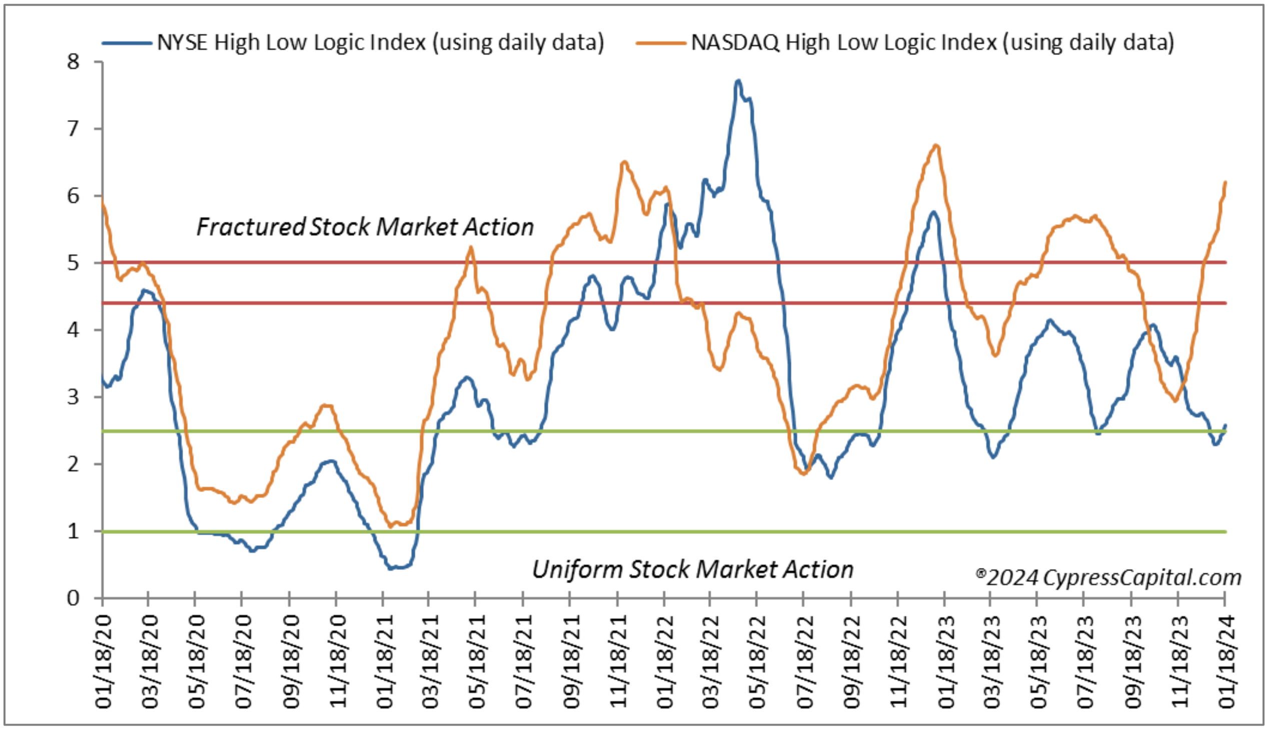


Periods where the S&P 500 is making a new high, and the ARMS Index is above 1.3.



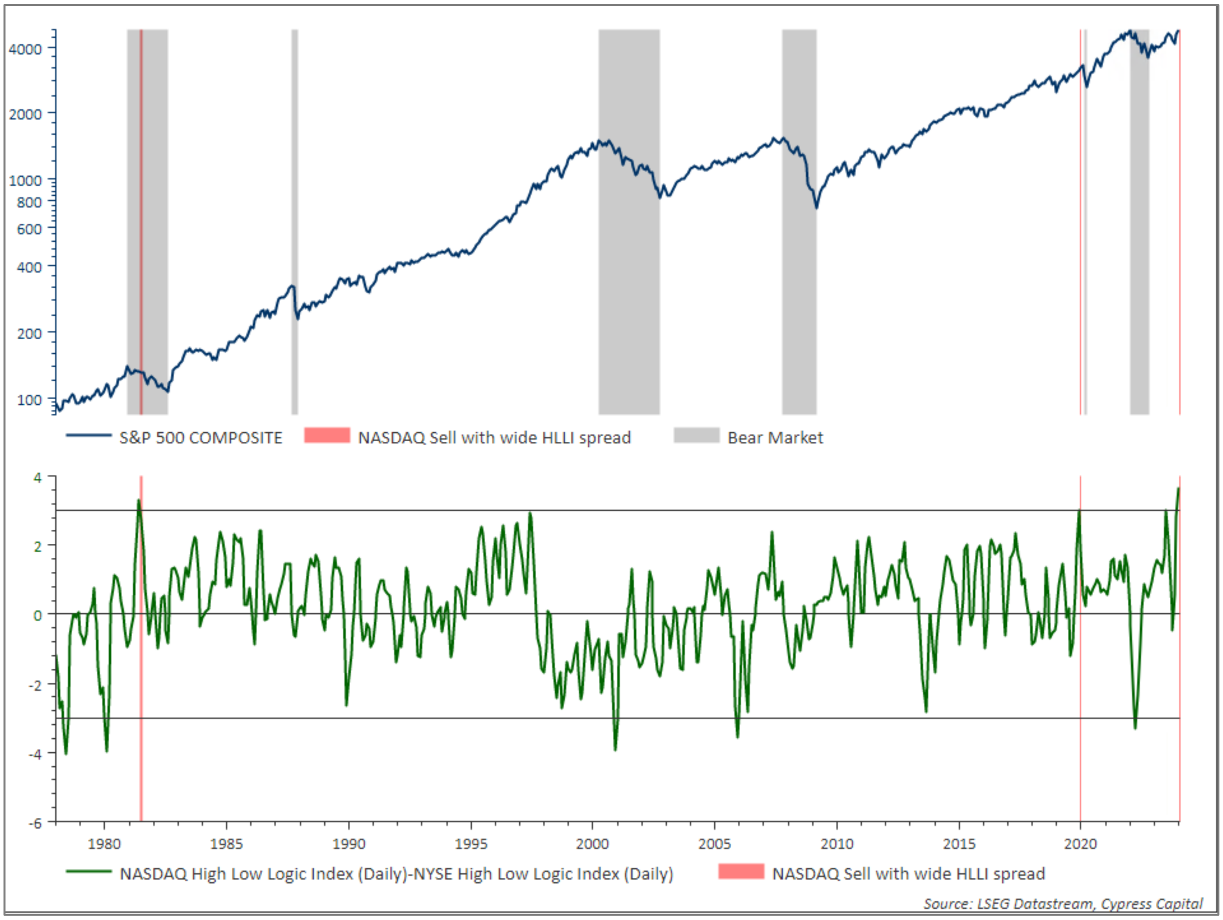
NASDAQ HLLI says sell, while NYSE HLLI says buy.

A record-wide gulf has opened up between the NASDAQ High Low Logic Index and the NYSE High Low Logic Index.

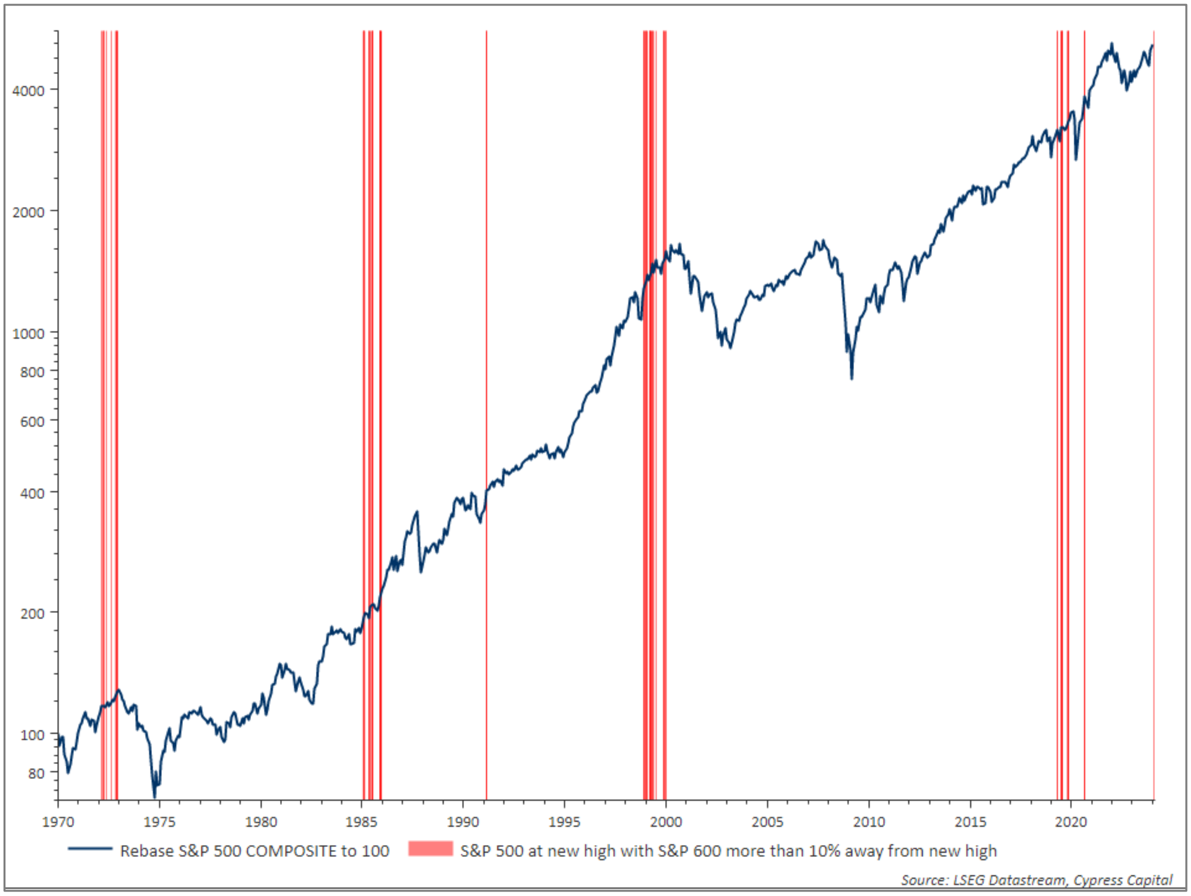


The combination has only happened twice before...

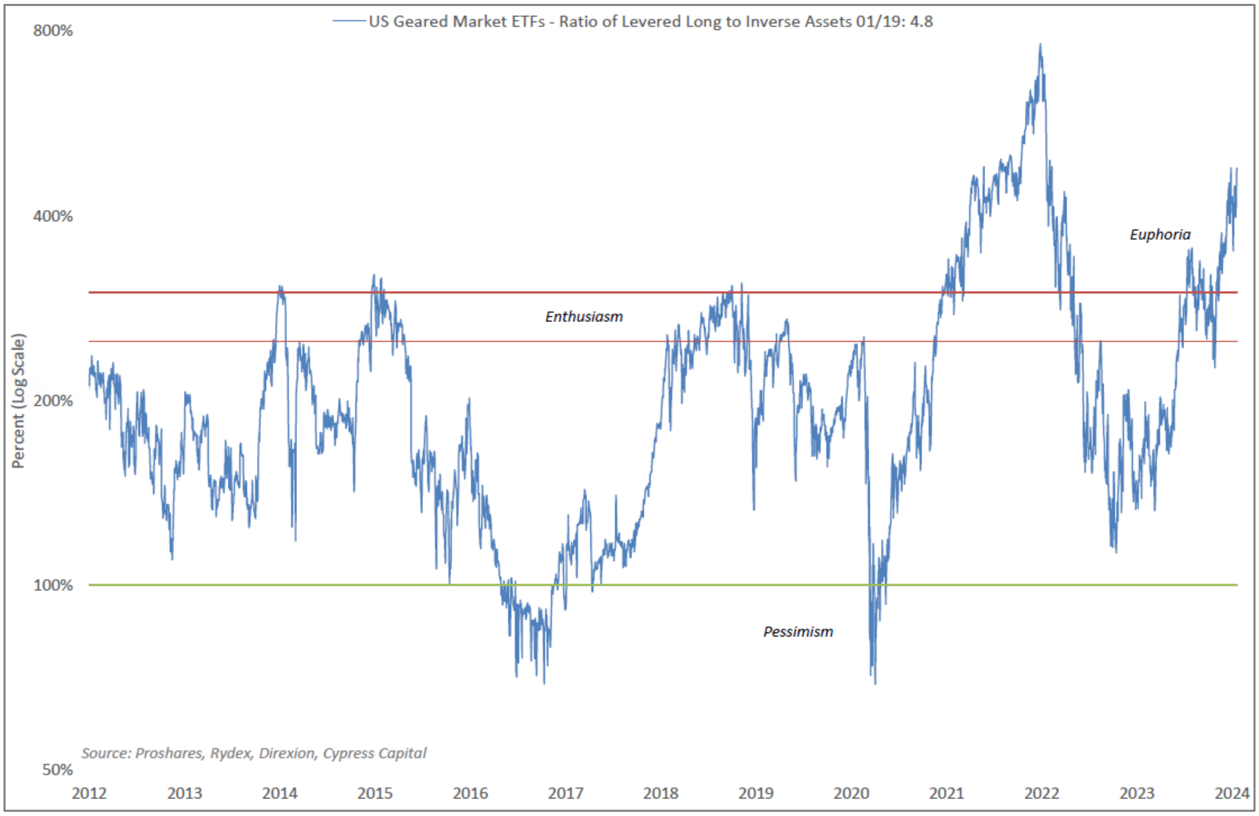
...during the onset of the 1982 bear market and right before the 2020 bear market.



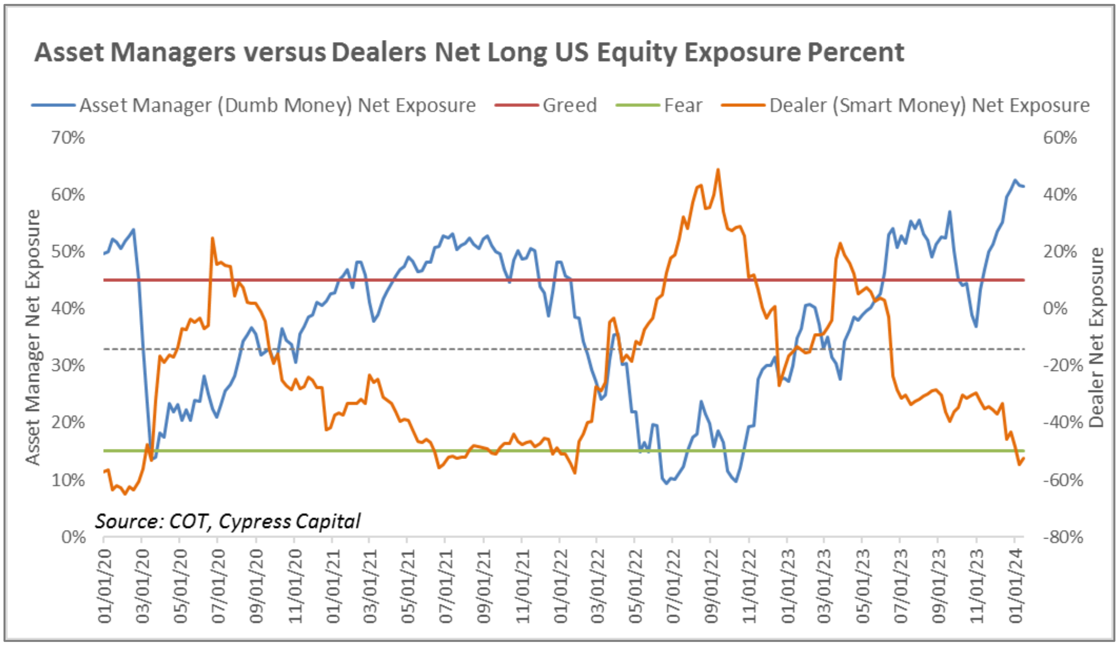
Periods where the S&P 500 is making a new high and small caps are more than 10% away from a high.



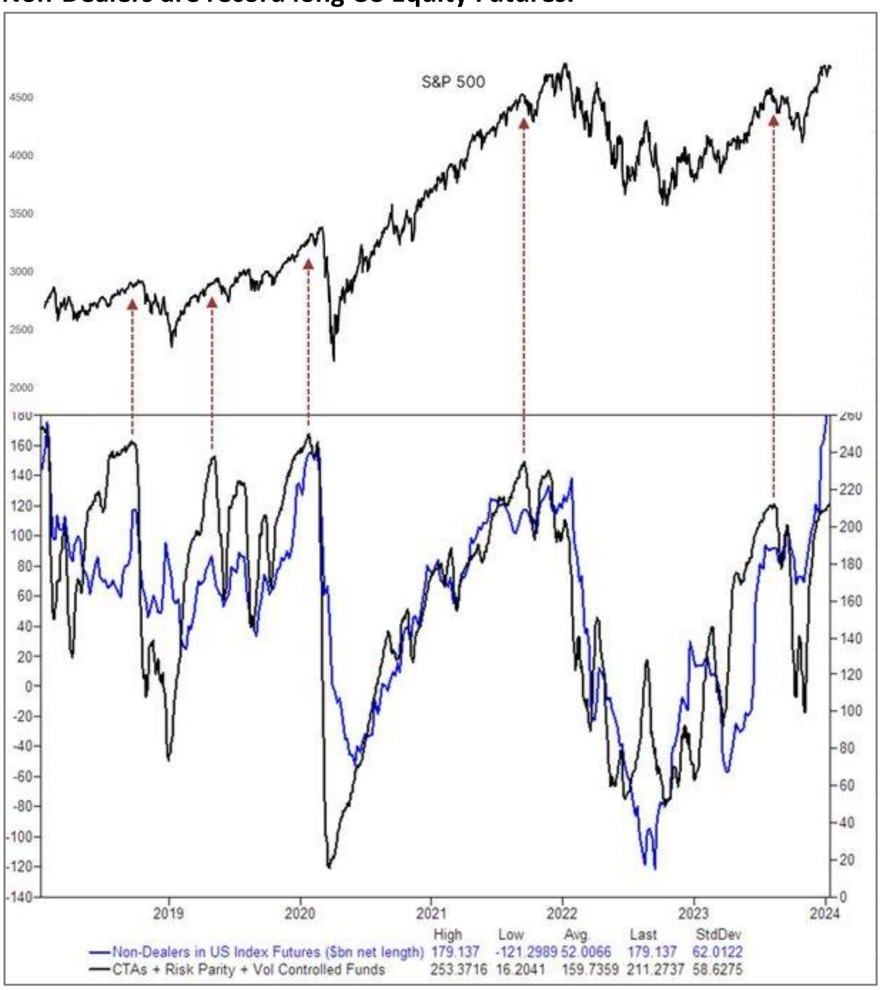
Leveraged Fund Investors still have the 2021 euphoric peak in sight.



Asset Managers versus Dealers Net US Equity Exposure using Derivatives.
Asset managers, dumb money, are sitting near record long exposure. Meanwhile, Dealers, the smart money, have exceeded 50% net short. The divergence hasn't been this wide since the onset of the 2022 bear market.

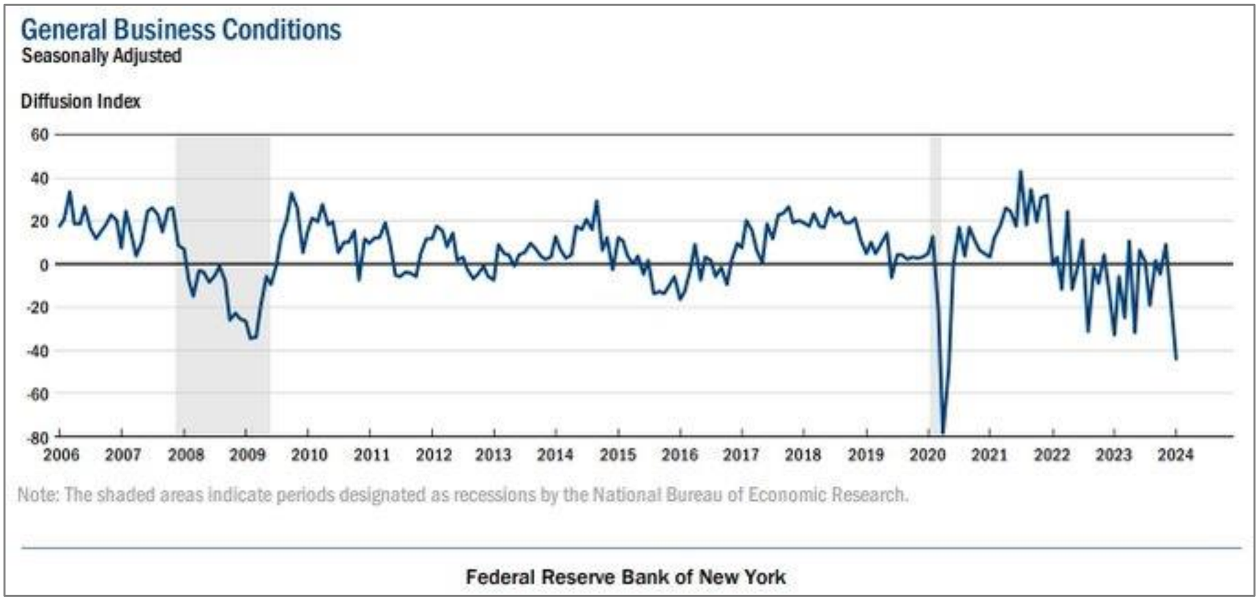


Non-Dealers are record long US Equity Futures.

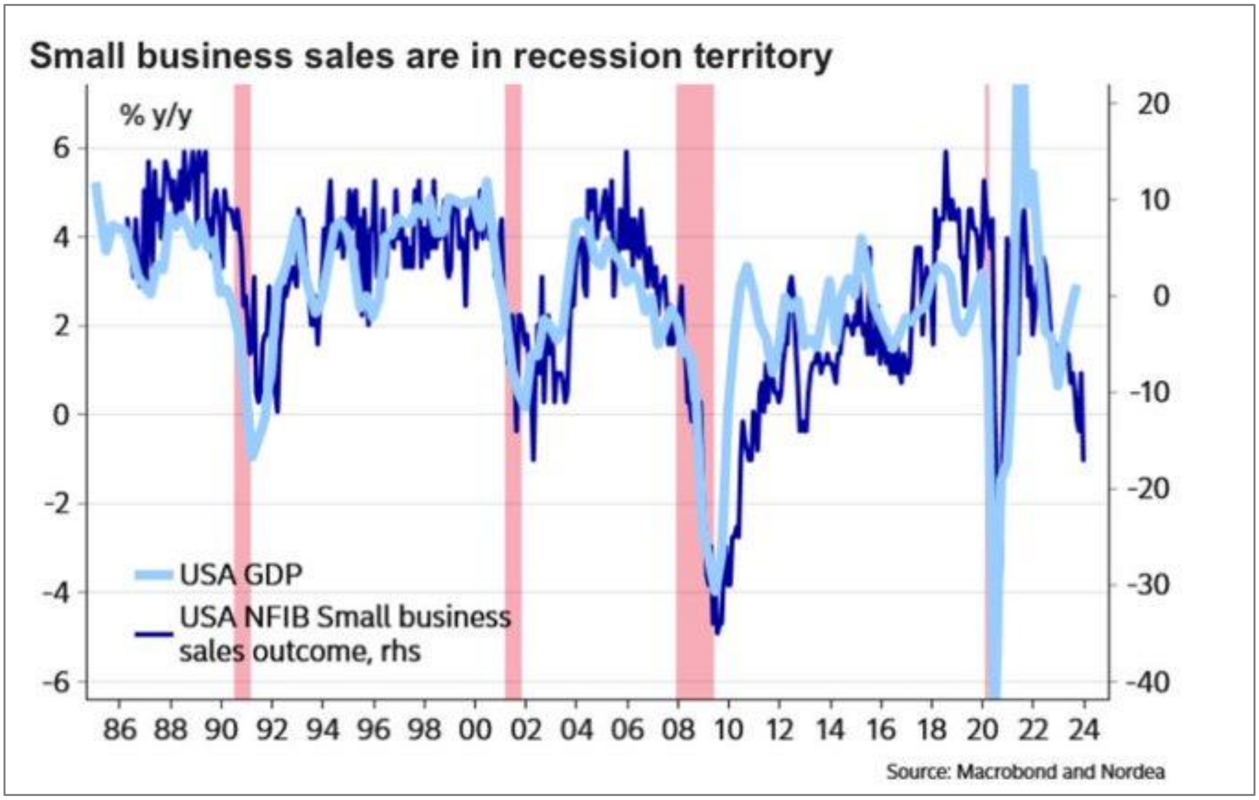


Source: Jason Goepfert, Jesse Felder

US Empire State Manufacturing Survey is giving recessionary readings.

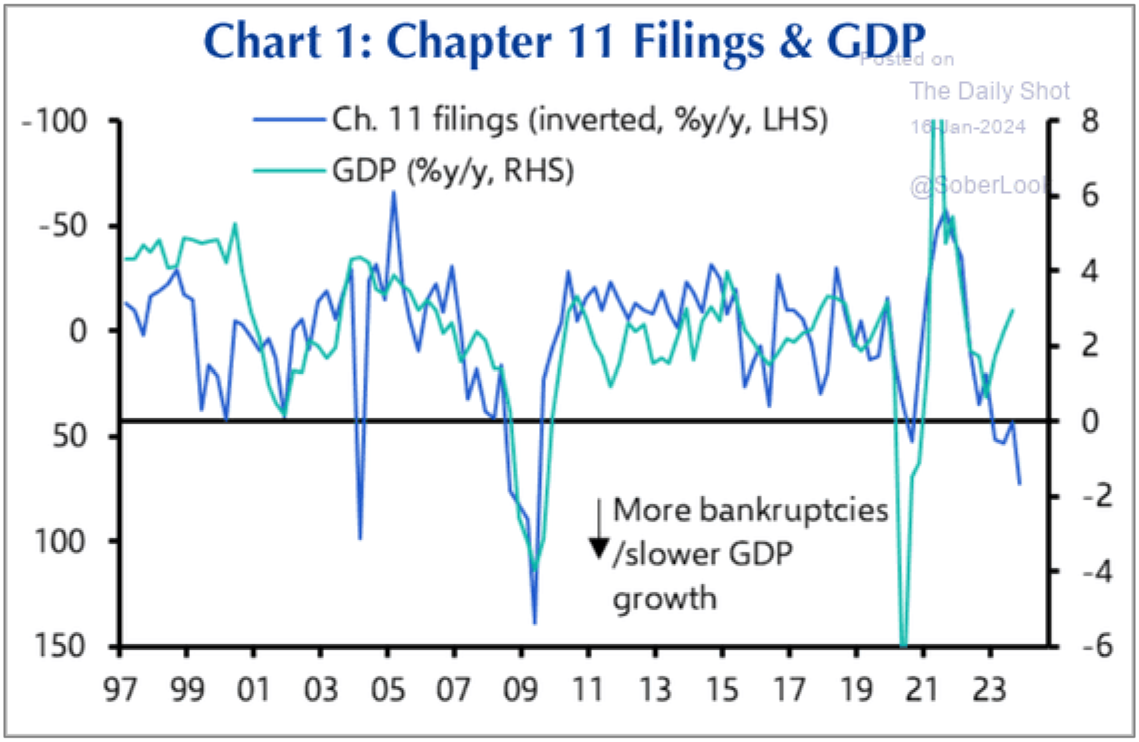


Small Business sales are in recession territory.



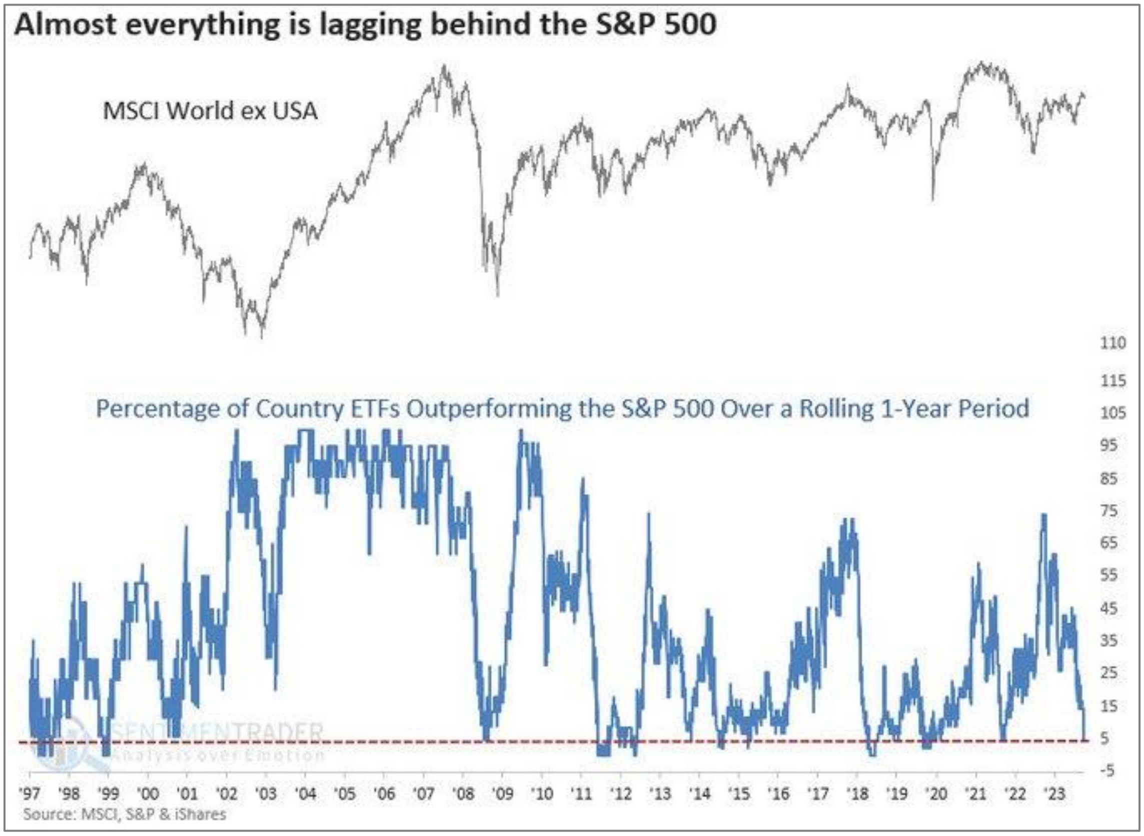
Chapter 11 Filings look recessionary.

An unusual divergence between GDP and bankruptcies is developing – not unlike the divergence between GDP and GDI.



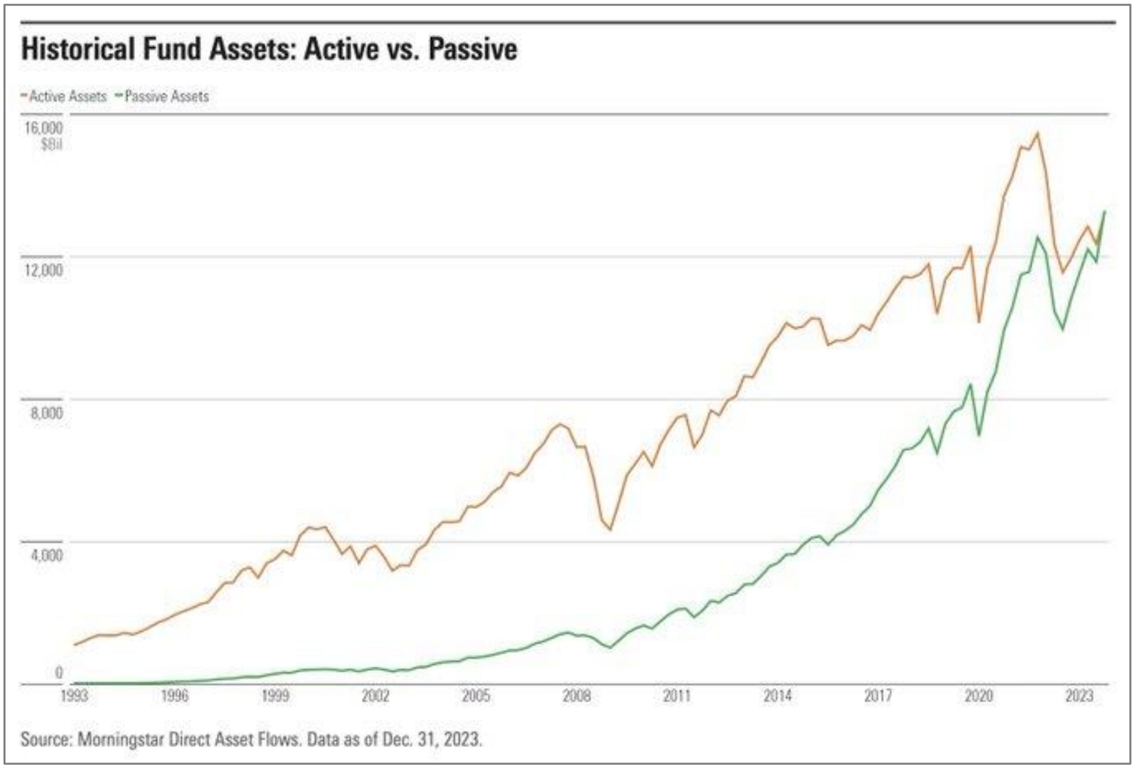
Bitcoin has become a useful signal for for liquidity condition in the economy.

Most countries are lagging the S&P 500.



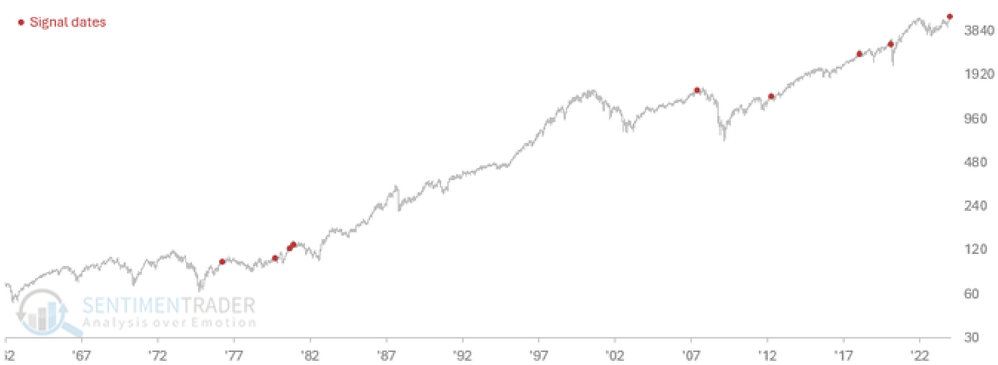
Most US stocks are lagging the S&P 500.

Passive has finally overtaken Active Management



Periods when lots of volume is going into declining stocks and the S&P 500 is making highs.

S&P 500 after consecutive 85% NYSE down volume days w/in week of high



Dates of 8 Signals	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	12 Months Later
1976-04-09	1.1	2.1	2.6	-0.8	5.5	2.2	-1.5
1979-10-09	-3.2	-6.0	-6.3	0.8	2.3	-3.3	22.9
1980-09-29	6.6	6.9	3.7	13.7	9.5	10.1	-6.2
1980-12-08	-0.9	4.0	1.9	0.0	-0.1	1.0	-4.1
2007-06-07	2.2	2.1	2.8	-0.9	-0.8	-0.4	-8.7
2012-04-10	2.4	1.0	-0.3	-2.4	-1.3	7.2	16.9
2018-02-05	0.3	2.5	2.9	-1.7	0.9	7.6	3.1
2020-02-25	-4.0	-7.9	-20.9	-9.3	-4.4	9.7	25.5
2024-01-17							
Mean	**0.6**	**0.6**	**-1.7**	**-0.1**	**1.5**	**4.3**	**6.0**
Median	**0.7**	**2.1**	**2.2**	**-0.9**	**0.4**	**4.7**	**0.8**
% Positive	**63%**	**75%**	**63%**	**25%**	**50%**	**75%**	**50%**
Avg Max Loss	-1.7	-2.9	-5.0	-6.5	-6.7	-6.9	-11.6
Avg Max Gain	1.7	2.8	3.5	4.6	5.1	8.5	13.6
Z-Score	0.5	1.0	0.6	-0.9	-0.8	0.8	-1.2

© SENTIMENTRADER Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2 suggests significance.

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.