



# Market Outlook

By Mark T Dodson, CFA

## Nvidia gets hailed, and the Conference Board bails.

Market Risk Index edged slightly higher to 77.3%, staying above the 75% level for the third week in a row. Psychology moved into the worst 2% of readings since 1970, but its deterioration was offset by slight improvements to Monetary conditions and our Valuation composite.

Psychology's breach into the worst two percent of readings occurred before the broad enthusiasm from NVDA's earnings sent the market's excitement level into the stratosphere, so we're looking at a strong possibility that we can match euphoria readings from the pandemic bubble party in 2021, albeit this time with less liquidity and as many areas of speculation. This bull market's particular speculative commitment is locked onto a narrow theme.

In the same week that Nvidia caused market enthusiasm to bubble over, the Conference Board – the official arbiters and keepers of the Leading Economic Indicators, bailed on their recession forecast. Leading Economic Indicators, the yield curve, and tight lending conditions from banks all seem to be rendered irrelevant in the face of a two-fold punch from artificial intelligence – one from the Magnificent Seven's machines and another from politicians who have figured out that deficits in full employment environments solve all the world's ills. We're all momentum traders now – even the kids are opening Schwab accounts and searching for how to trade call options.

We expect some follow-through to the new highs this week, so speculators appear safe to party on for now. However, navigating bubbles and speculative environments is not in our toolkit – so we're content to sip some punch at the party with one foot next to the exit door. The market is frothy – it ain't cheap – and it's put egg on the face of many long-standing indicators. As disciples of Benjamin Graham, our trust in Mr. Market is compromised when he's too enthusiastic.

### Market Risk Index

Rec Allocation 25% Underweight

**77.3%**

### Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



### Largest Psychology Influences

Leveraged Investments	Negative
Option Activity	Negative
Consumer Confidence	Negative
Bank Sentiment	Negative

### Largest Monetary Influences

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

### Valuation

7-10 Year Equity Return Forecast	1.0%
10Yr US Treasury Yield	4.3%

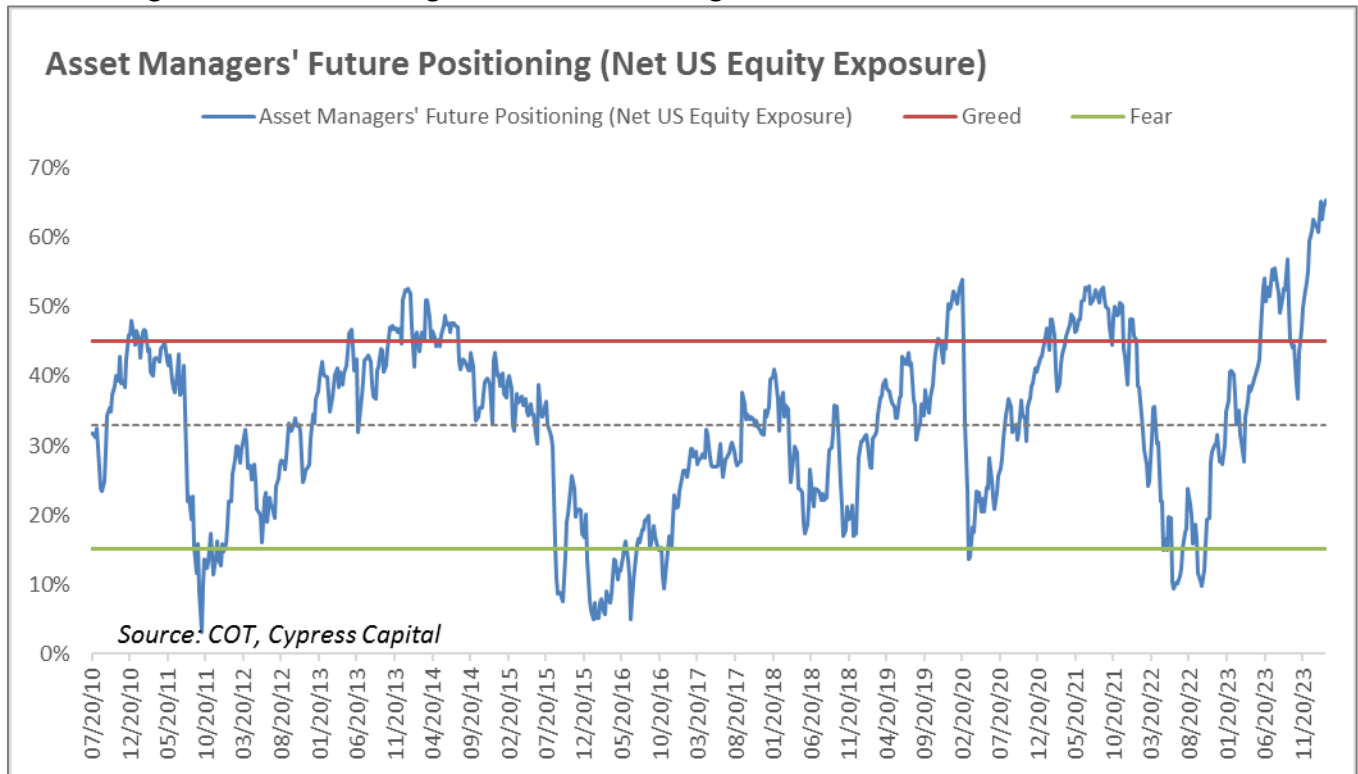
### Market Trends

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

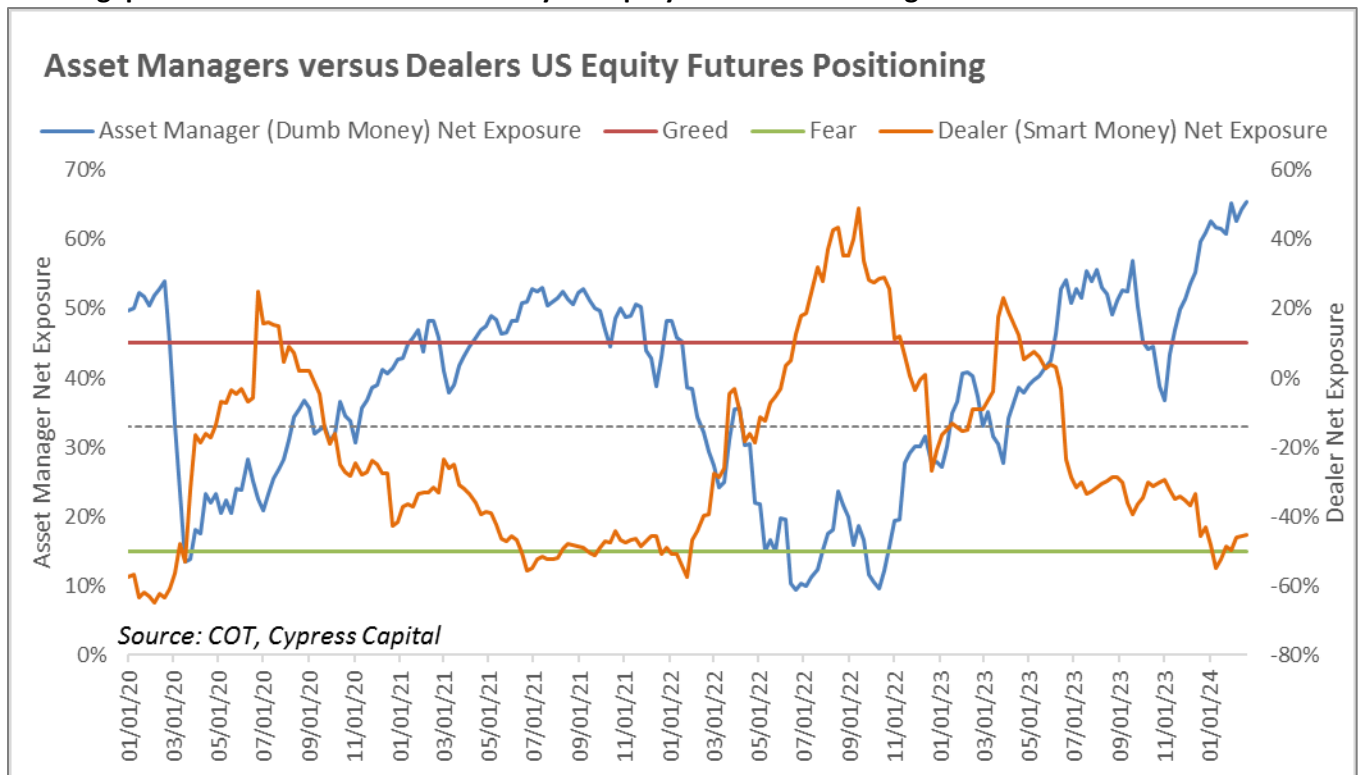
*Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.*

Charts of the Week

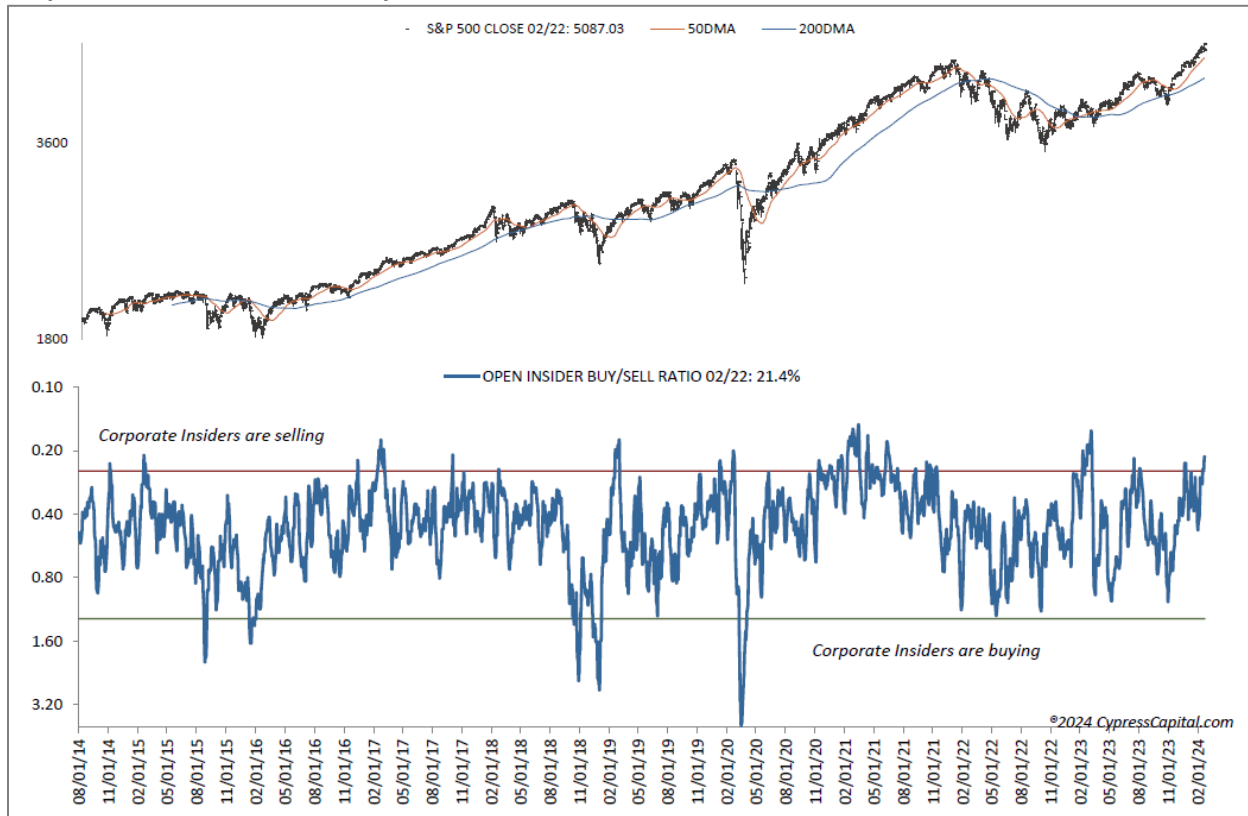
Asset Managers Futures Positioning set another Record high.



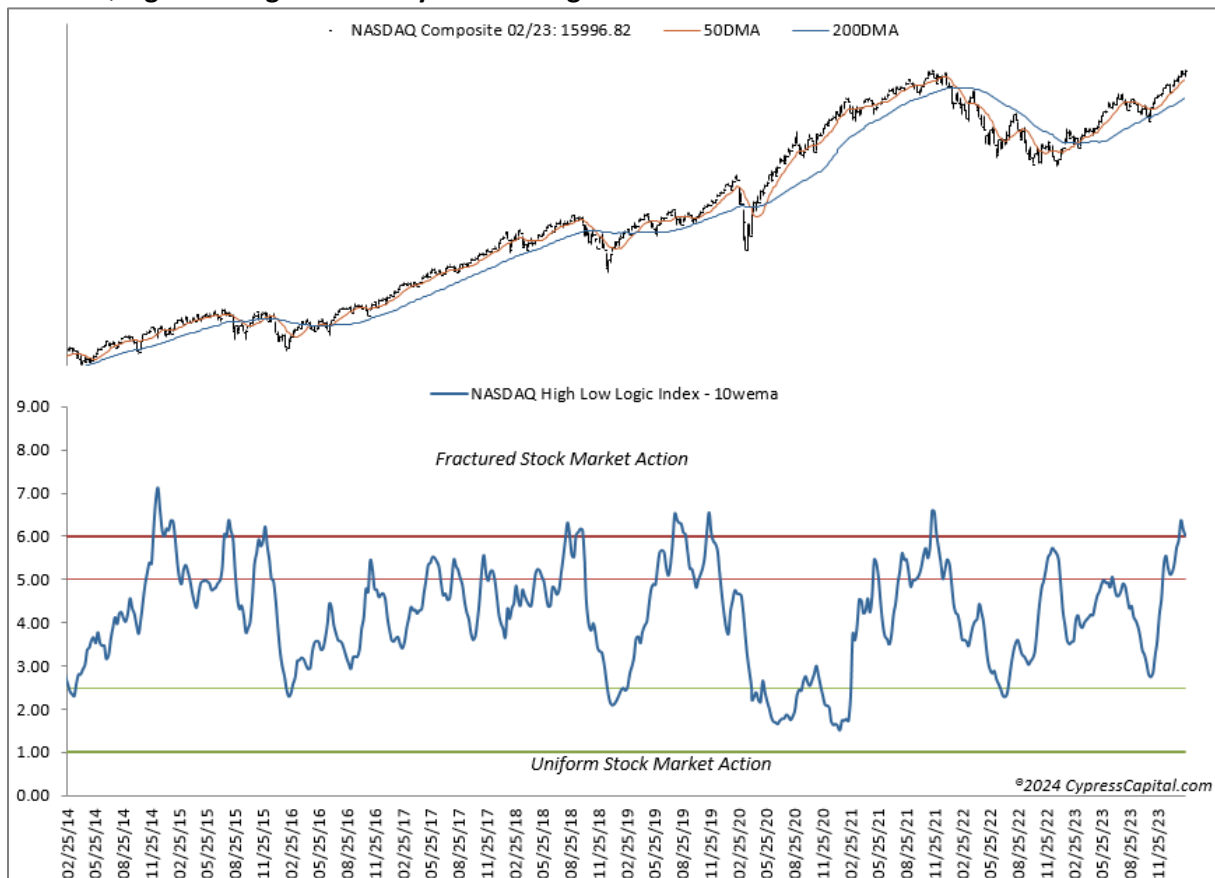
Record gap between smart and dumb money US Equity Futures Positioning.



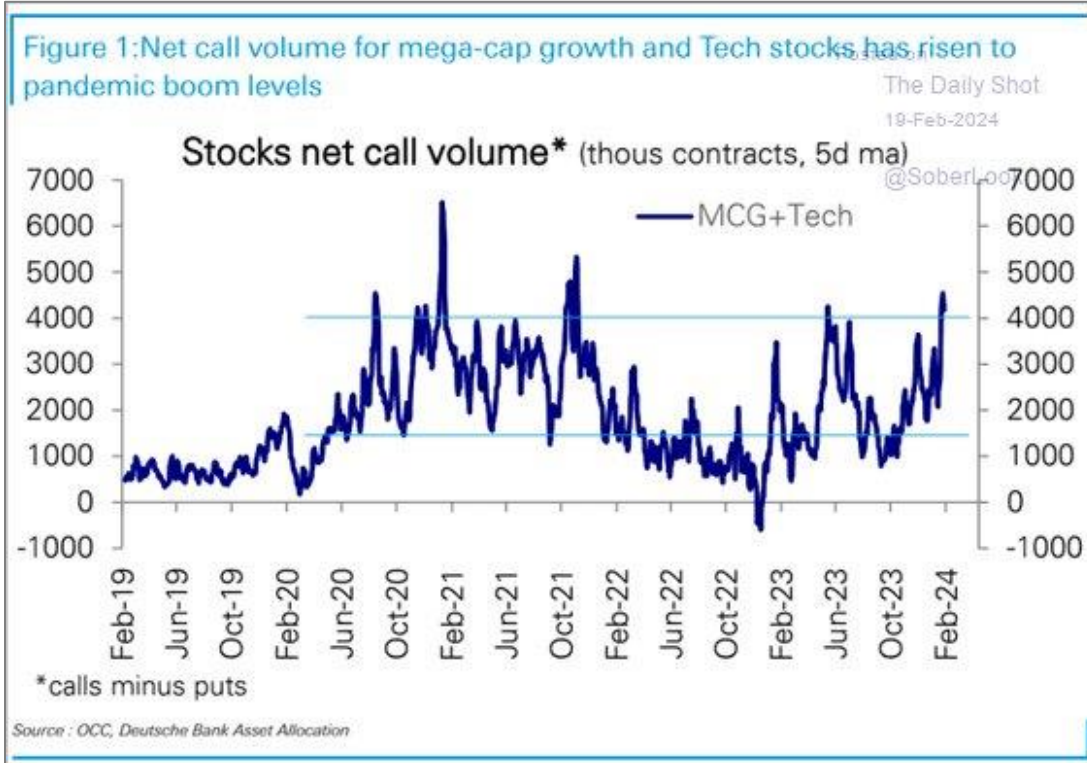
**Corporate Insiders sold the rally this week.**



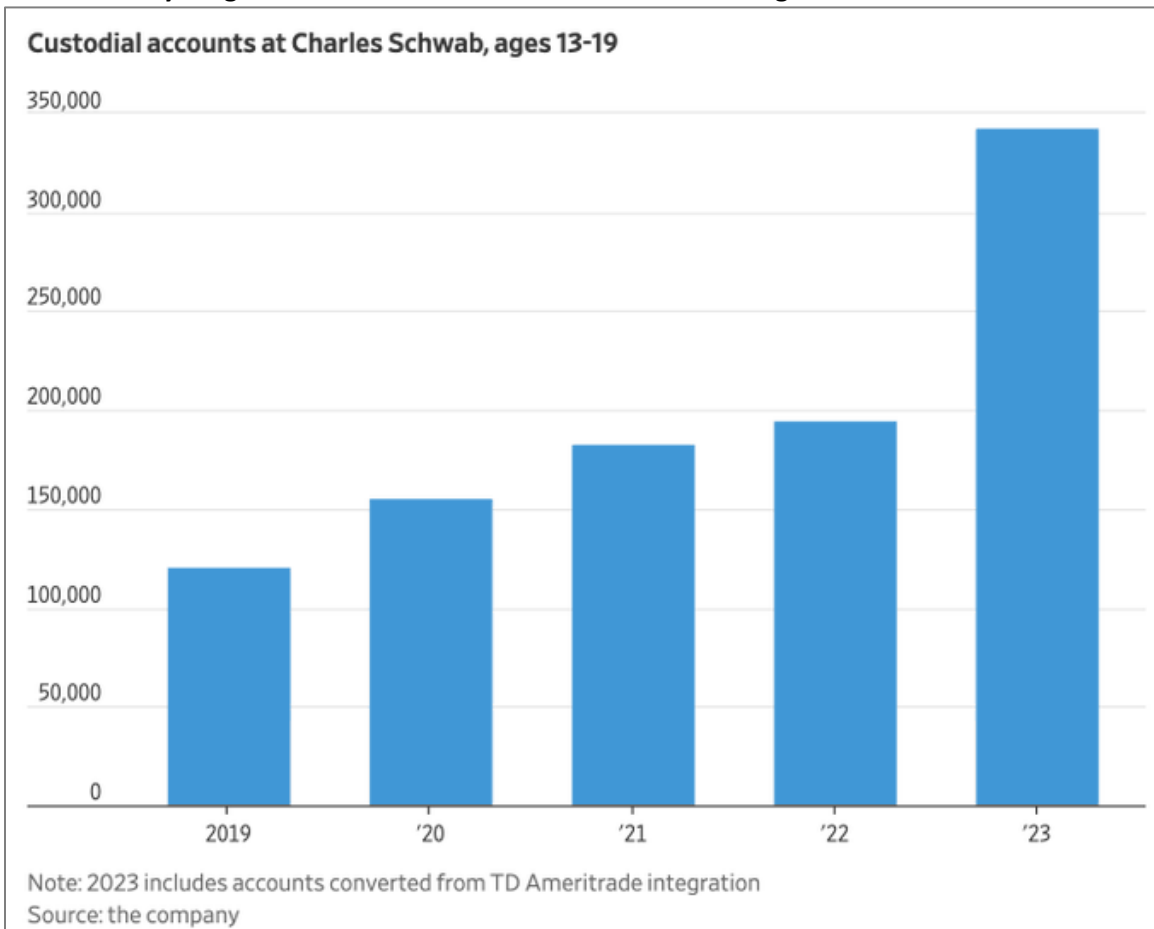
**NASDAQ High Low Logic Index stayed in the high-risk zone for the third week.**



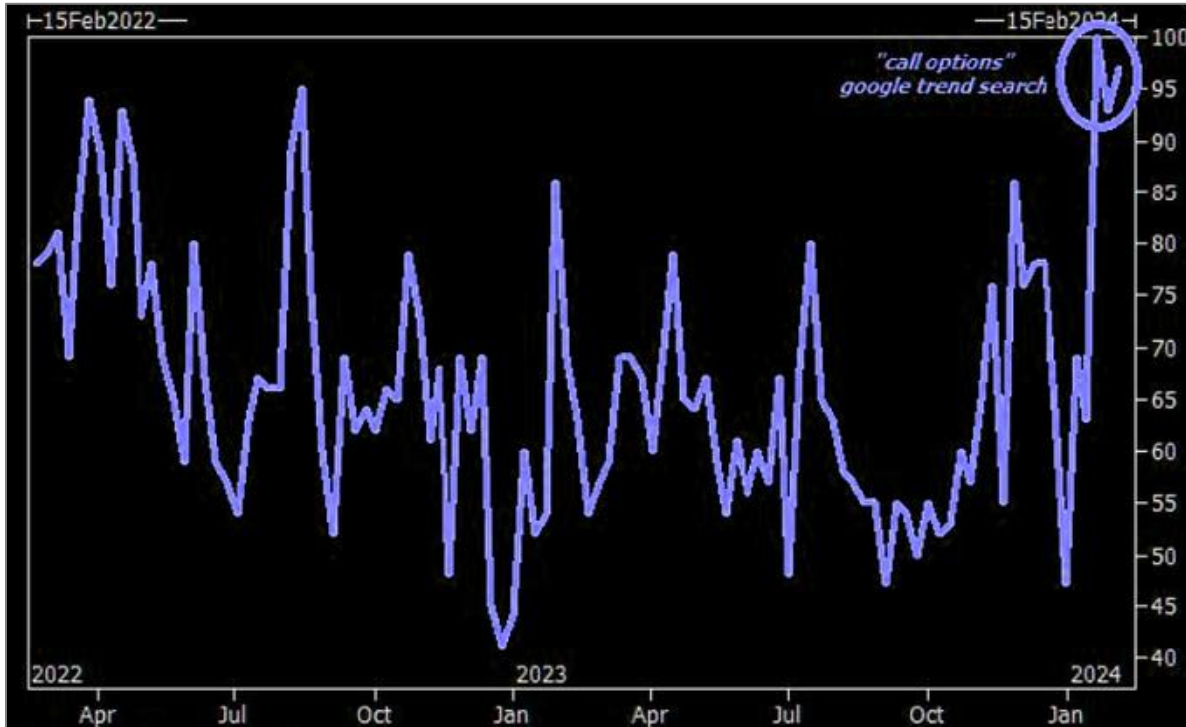
**Net call option volume for Big Growth and Tech is back to pandemic bubble territory.**



**FOMO starts young - the notion of a retail investor is broadening.**

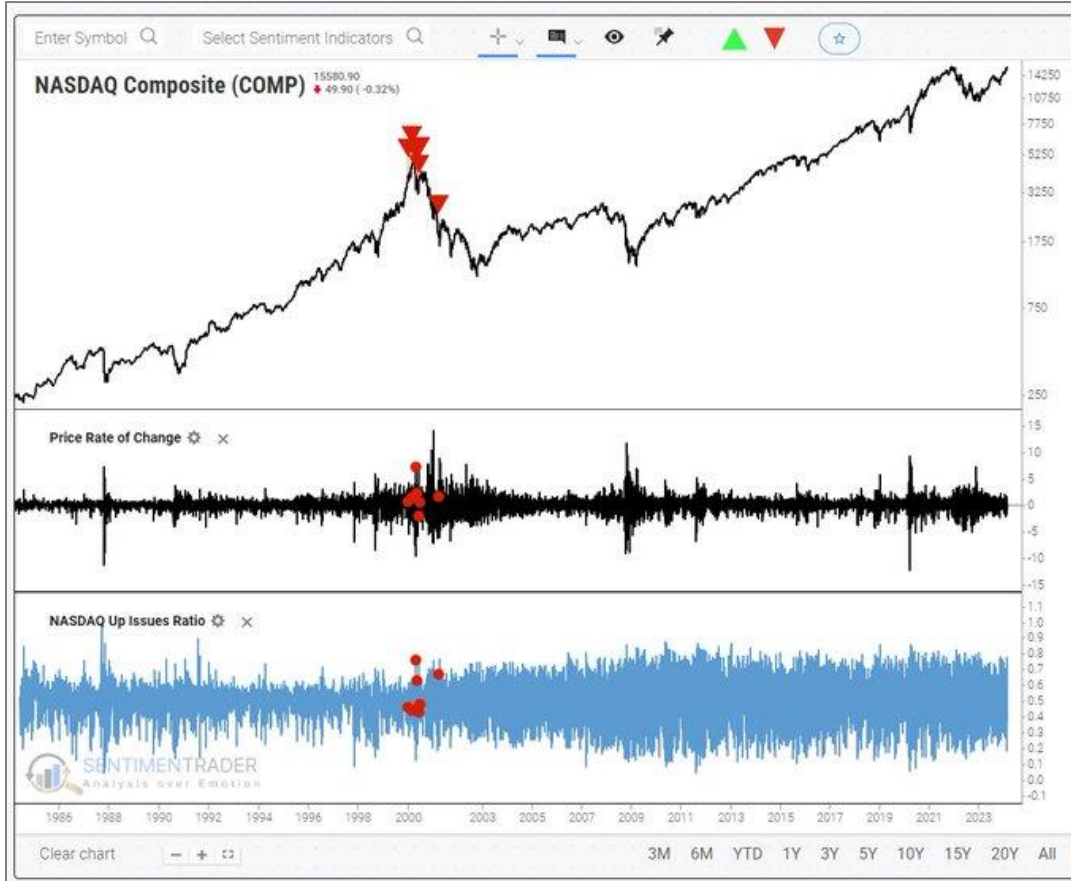


**Record Google Search interest in "Call Options."**



**Big gain in the NASDAQ with limited participation (AI at 1yr, looks like the Internet at 4.)**

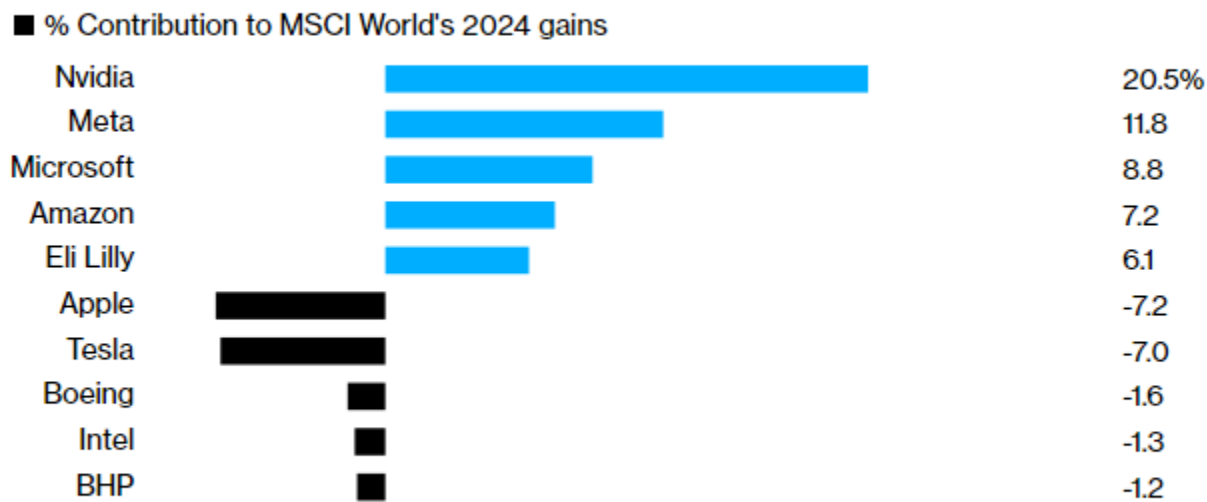
From Jason Goepfert of SentimenTrader – "Unusual situation developing. The Nasdaq Composite is up nearly 3%, with fewer than 55% of issues advancing. All five precedents occurred between 1999-2001."



Nvidia has made up 1/5<sup>th</sup> of Global stock market gains in 2024.

### AI Companies Are Powering World Stocks

Five top and bottom contributors to MSCI World, by points



Source: Bloomberg, MSCI

Nvidia breaks the Record for the largest Single-Day Market Cap Gain.

Note that it's a record made relevant by the pandemic stimulus.

### Top 10 Biggest Single-Day Market Cap Gains

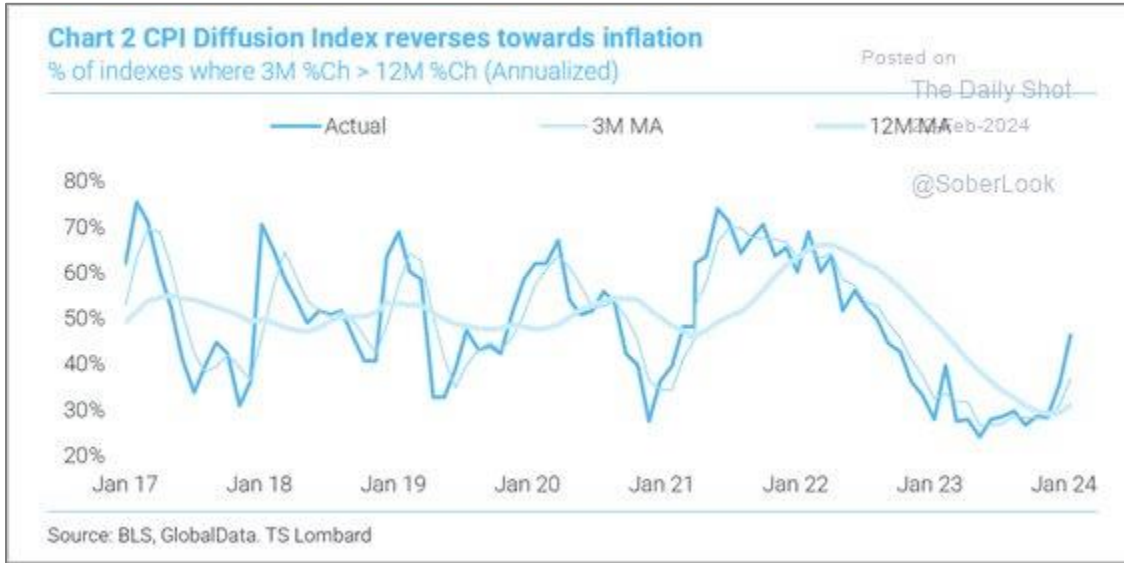
Nvidia's post-earnings rally propels stock to top of the leaderboard

	Date	Firm	Biggest single day market cap additions
1	Feb 22, 2024	Nvidia	\$230.0B
2	Feb 2, 2024	Meta	196.8
3	Nov 10, 2022	Apple	190.9
4	Feb 4, 2022	Amazon	190.8
5	May 25, 2023	Nvidia	184.1
6	Jan 28, 2022	Apple	178.9
7	Jul 31, 2020	Apple	169.0
8	Oct 28, 2022	Apple	150.5
9	Mar 13, 2020	Microsoft	150.4
10	Apr 26, 2023	Microsoft	148.3

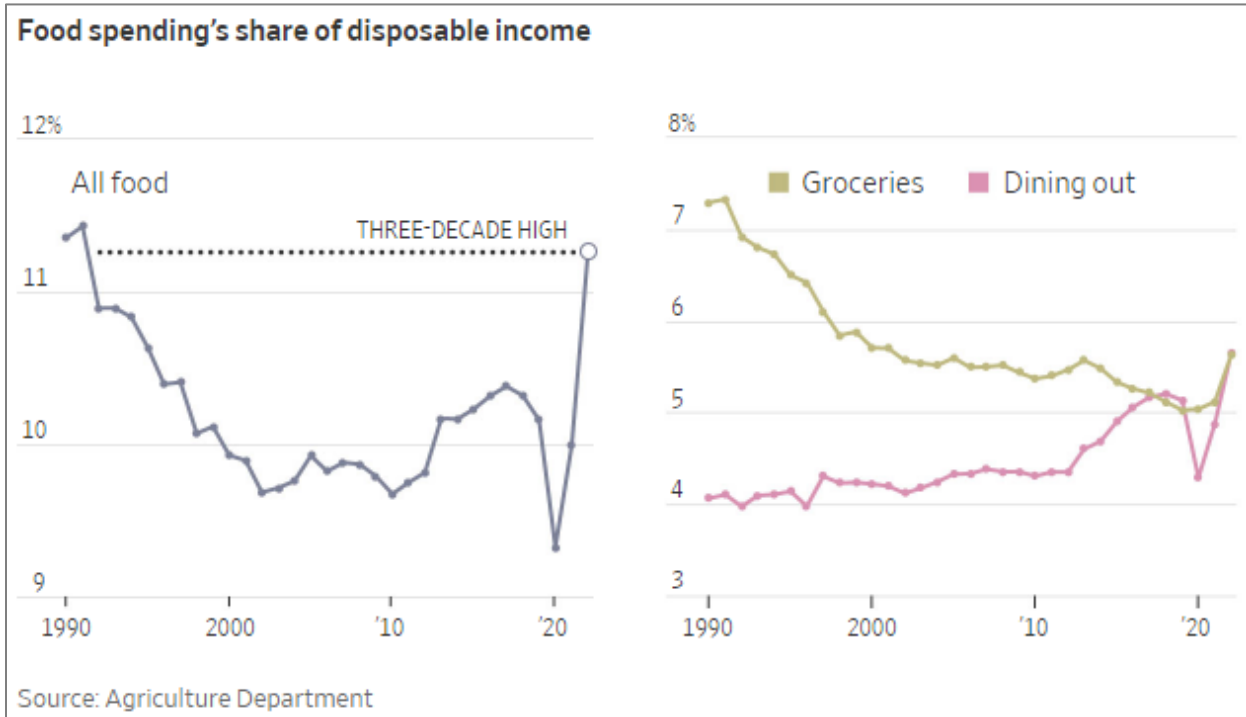
Source: Bloomberg

Note: Nvidia data is from Feb. 22 intraday trading

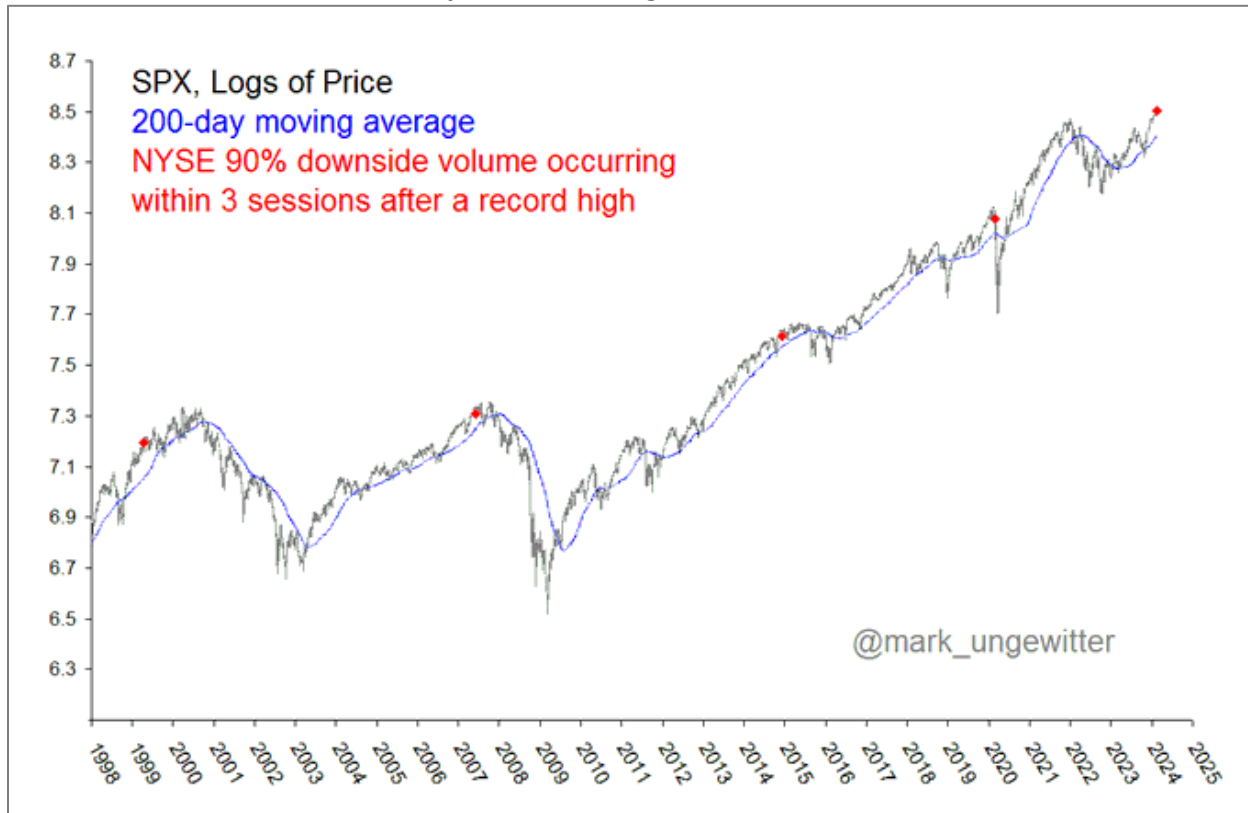
**Inflation pressures appear to be moving higher.**



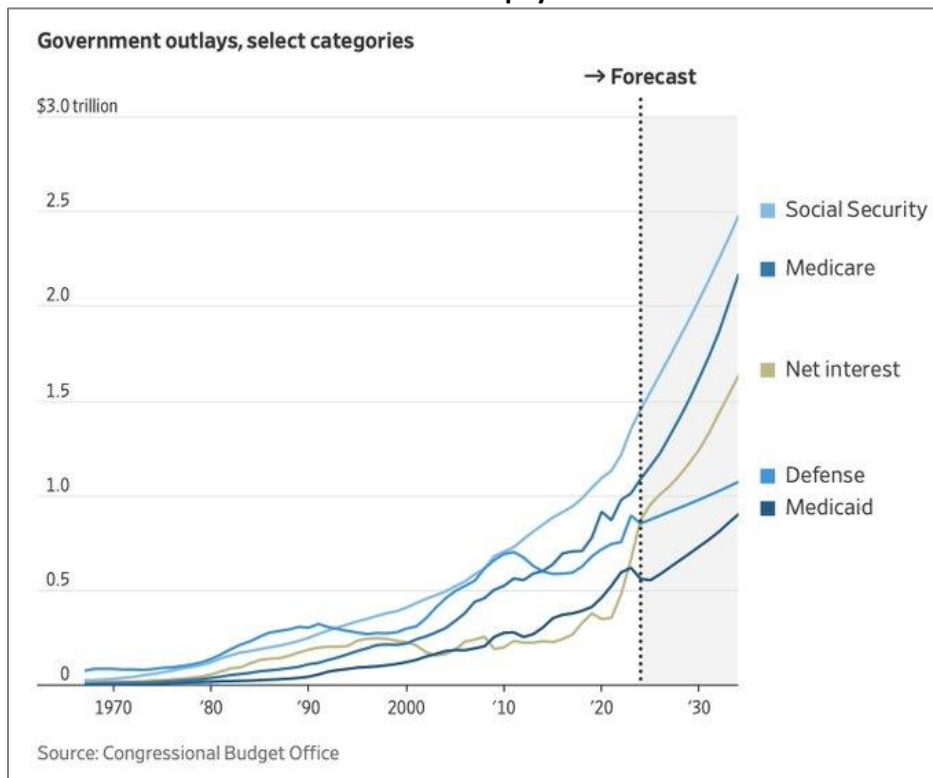
**Consumer spending on food hits a 30-year high.**



**NYSE 90% down volume within 3 Days of a Record high.**

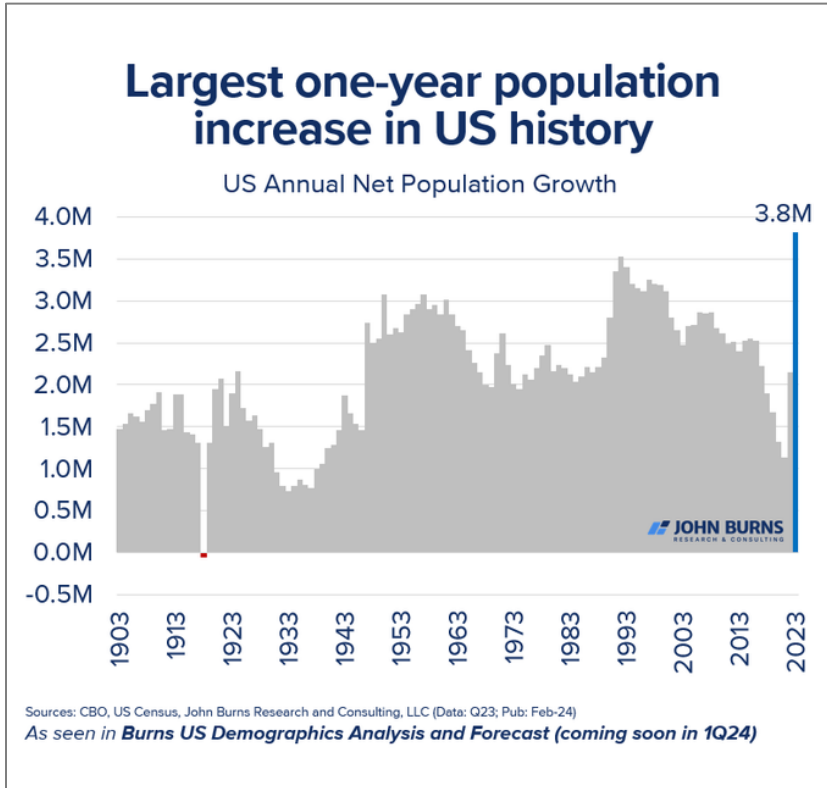


**Government Deficits run amok - Interest payments are set to overtake Defense spending.**

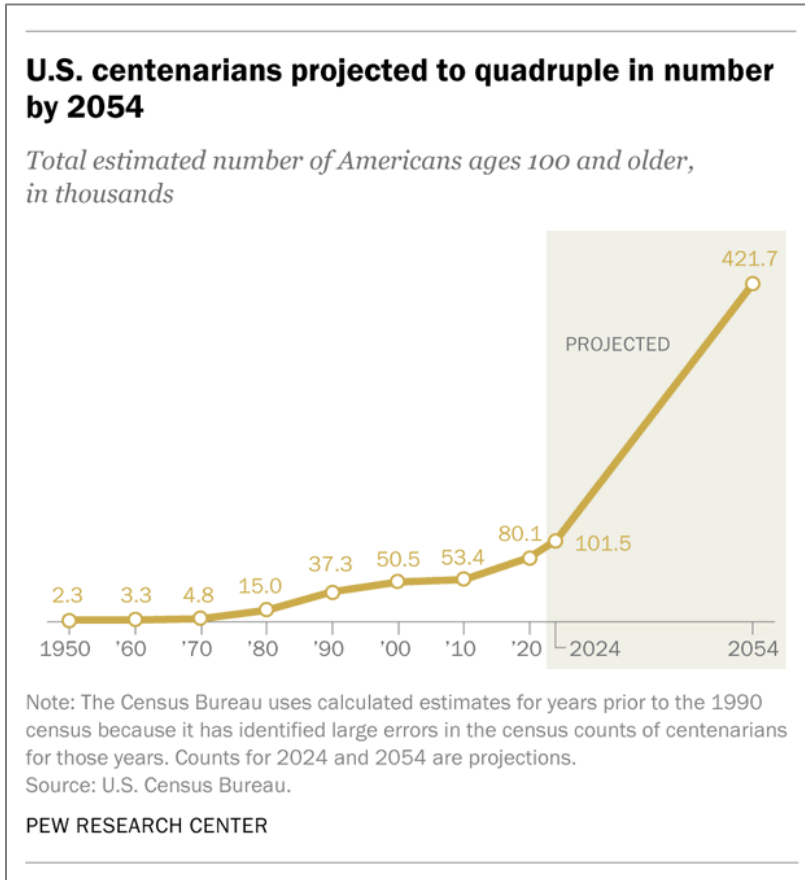




**2023 US Population growth was the biggest in US history.**  
 Higher population growth equals higher economic growth.



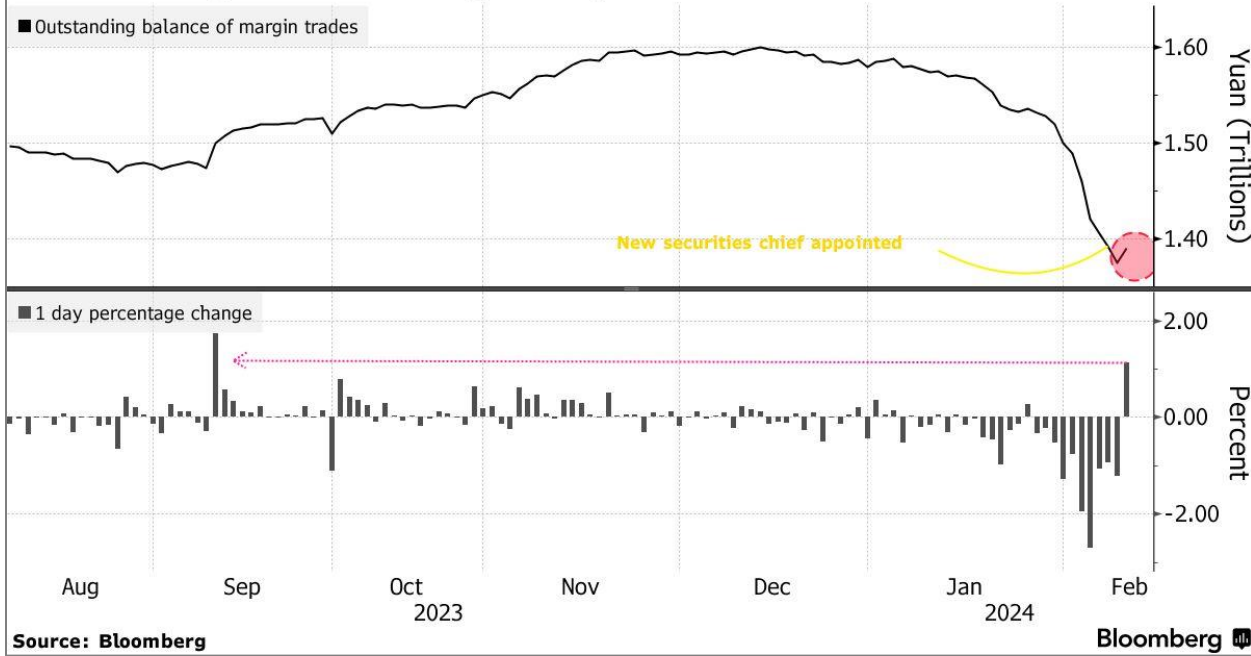
**The number of Centenarians in the US is projected to quadruple.**



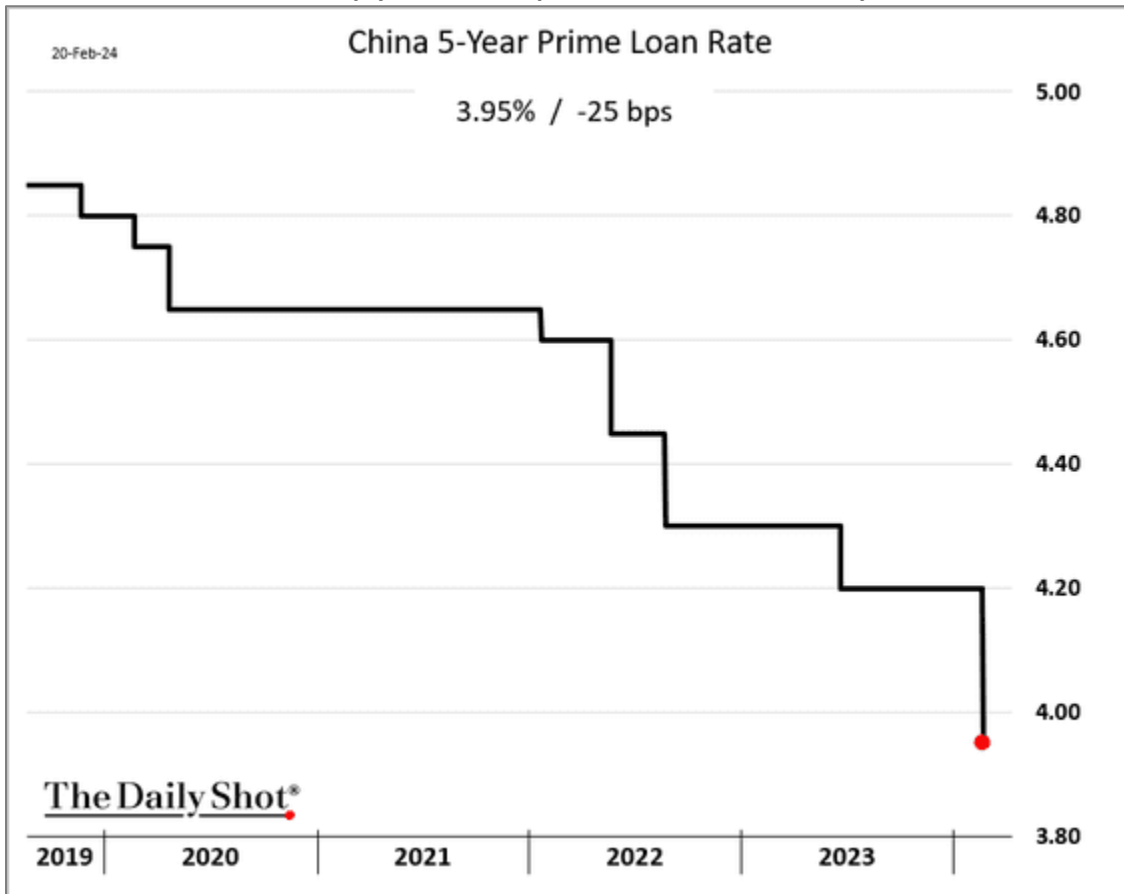
**Time to catch the falling knife in China stocks?**

After weeks of declines, margin balances in China see the largest move higher in five months.

**China Margins Post Largest Uptick in Five Months**



**China cut its Prime Rate sharply in an attempt to stimulate its economy.**



Japan's stock market sets a record high after 34 years in the wilderness. Ironically, it happened the same week it was announced that their economy had fallen into recession.

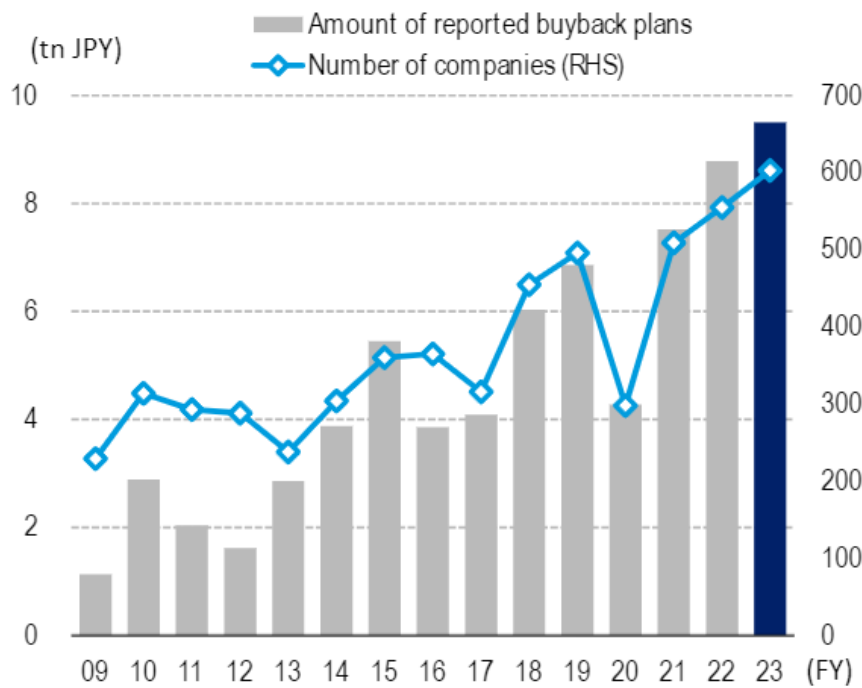
### Japan Stocks Hit Record After 34 Years Weak yen, sustainable growth, tech stocks drive rally



Japan has started following the US corporate playbook when it comes to buybacks.

### Exhibit 3: TOPIX cumulative buyback value and plans (FYTD)

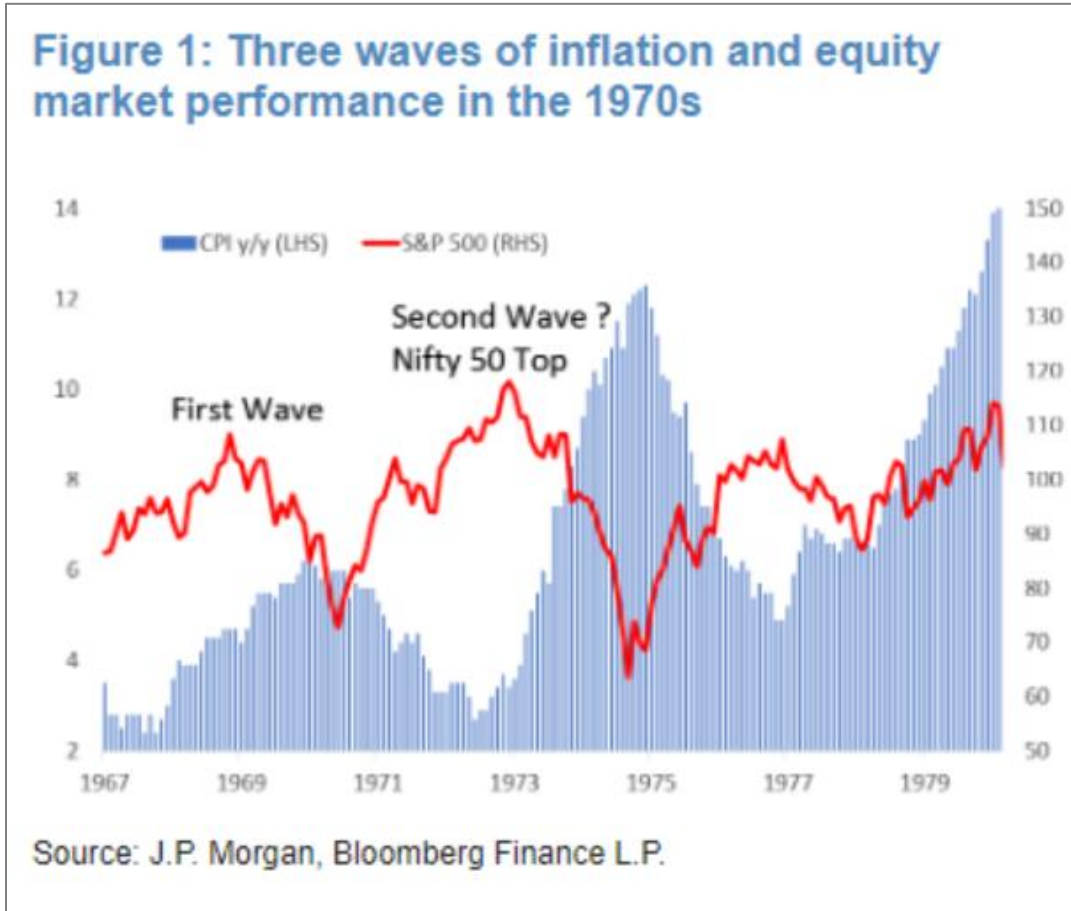
Record-high buyback number and value since 2009



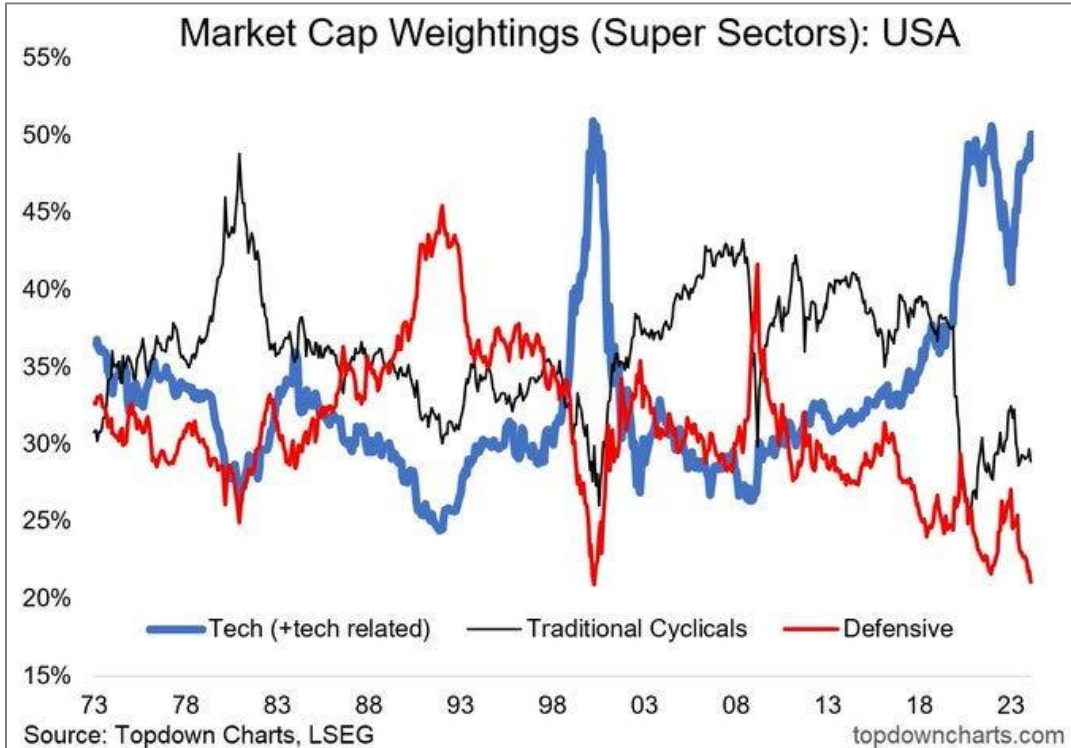
Source: QUICK, BofA Global Research

Note: we aggregate share buybacks from Apr 1 to Feb 14 for each fiscal year.

Historical Analog – the Nifty 50 boom peaked when inflation wouldn't stay down.

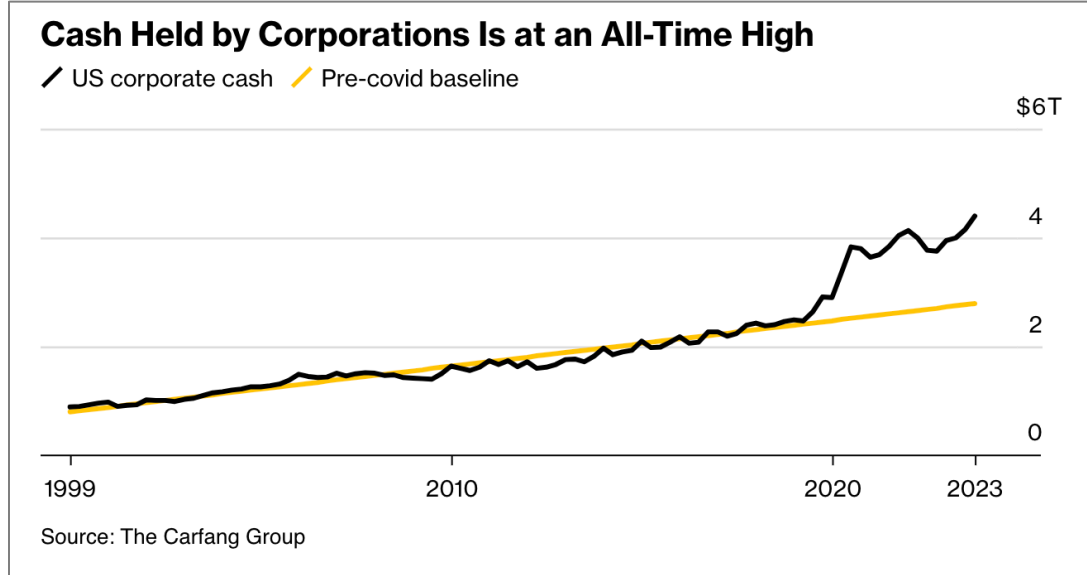


The spread between Tech and Defensive Market Cap Weightings looks reminiscent of 2000.



**From Weak to Strong Hands**

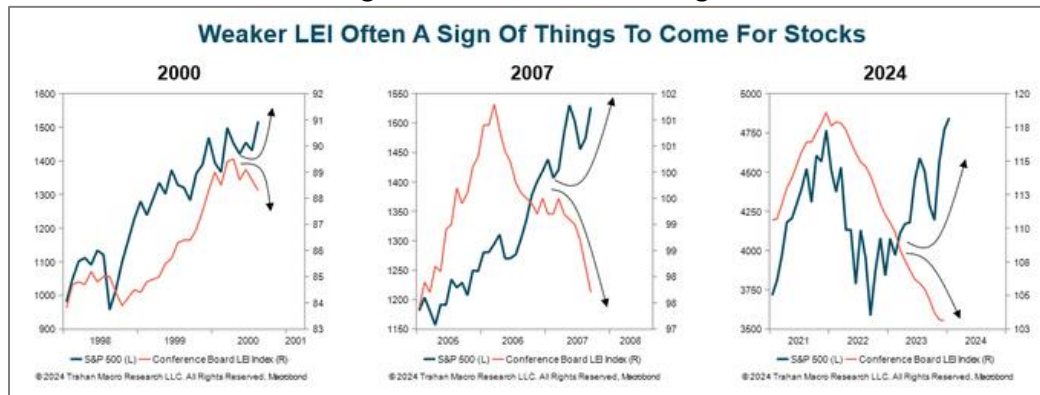
As consumers have spent their Covid cash, it has found itself in corporate coffers.



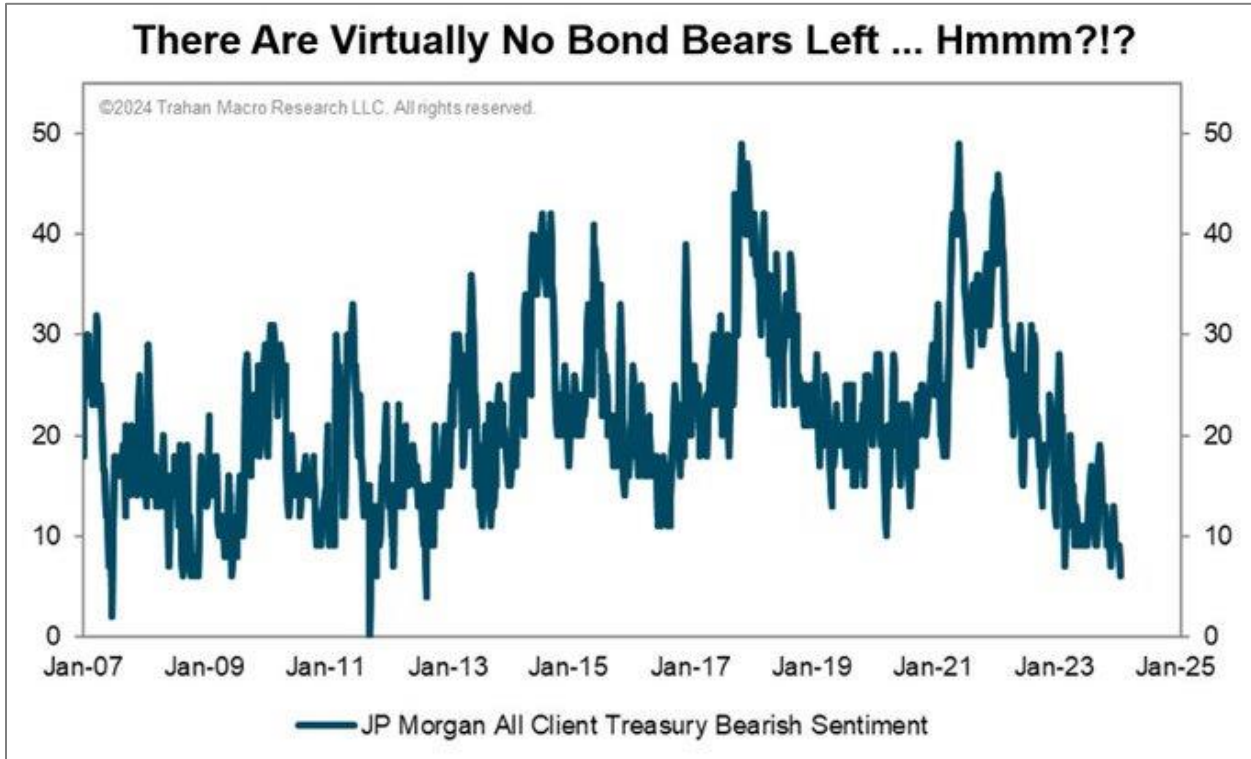
**Global financial stress is the lowest since the Pandemic Bubble.**



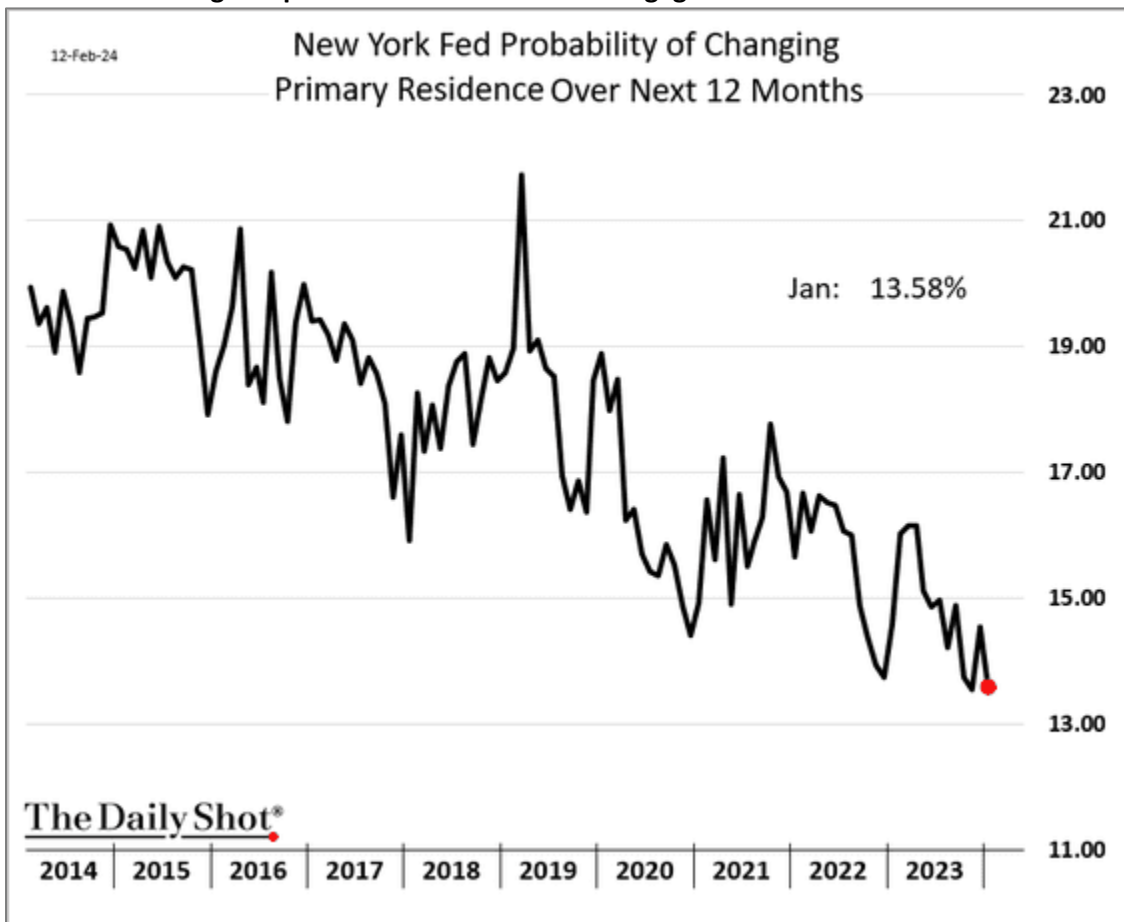
**It's not unusual to see Leading Economic Indicators diverge from stocks.**



Not many investors appear to be expecting higher interest rates from here.



No one wants to give up their low-interest-rate mortgage.



## 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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