



Market Outlook

By Mark T Dodson, CFA

No Blood in the Streets

Market Risk Index fell modestly to 87%. Monetary Conditions and Valuations improved but were almost evenly matched by deterioration in the Psychology Composite.

Volatility was the largest detractor for Psychology, as the VIX index spiked into the un-investable regime – levels that have bearish implications for markets over the near term. Signs that investor sentiment has become more cautious are limited, so there was little to offset the dramatic shift in volatility. Smart money futures traders added to their short positions, taking their net exposure to another new cycle low.

A week that started with a panic but finished with a sigh of relief did little to relieve the extreme greed within our Psychology composite. The about-face was best captured by headlines from famed economist Jeremy Siegel, who argued on Monday for an emergency Fed rate cut, only to change his mind three days later. Our Moral Hazard culture was on full display – pleas for help on Monday gave way to high fives on Friday.

Meanwhile, we learned that Warren Buffett has built up his largest cash position ever and the most cash as a percentage of total assets on his balance sheet in over 20 years. He holds more Treasury Bills than the Federal Reserve¹. Ironically, investors who doubled down and bought market weakness this week in an attempt to “buy when there’s blood in the streets” aren’t taking their cues from the investor who is most arguably considered the greatest of all time at putting the philosophy into practice.

The excess in markets – in positioning and overconfidence – is palpable. If bells were ringing on Monday, they sounded more like alarm bells than the sound of opportunity.

Market Risk Index

Rec Allocation 25% Underweight

87.0%

Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

Leveraged Investments	Negative
Surveys	Negative
Volatility	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	0.1%
10Yr US Treasury Yield	3.9%

Market Trends

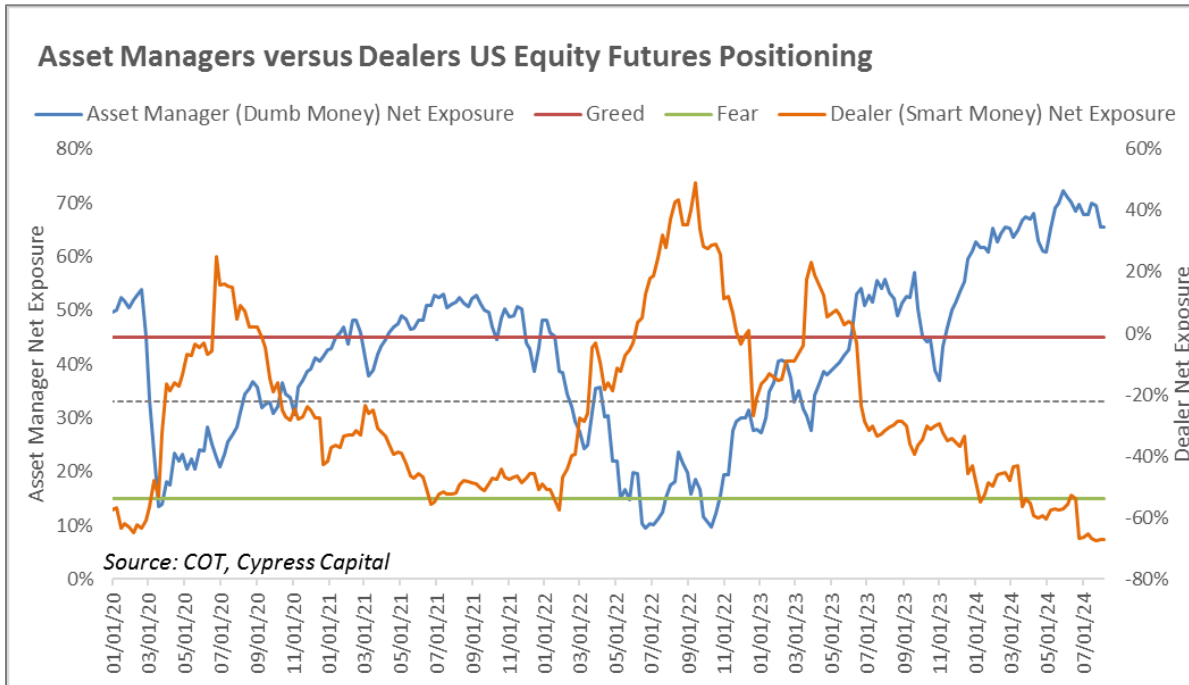
US Equities	Bullish Investment
Intl Equities	Bullish Investment
REITs	Bullish Investment
Broad Commodities	Bearish Trade

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.

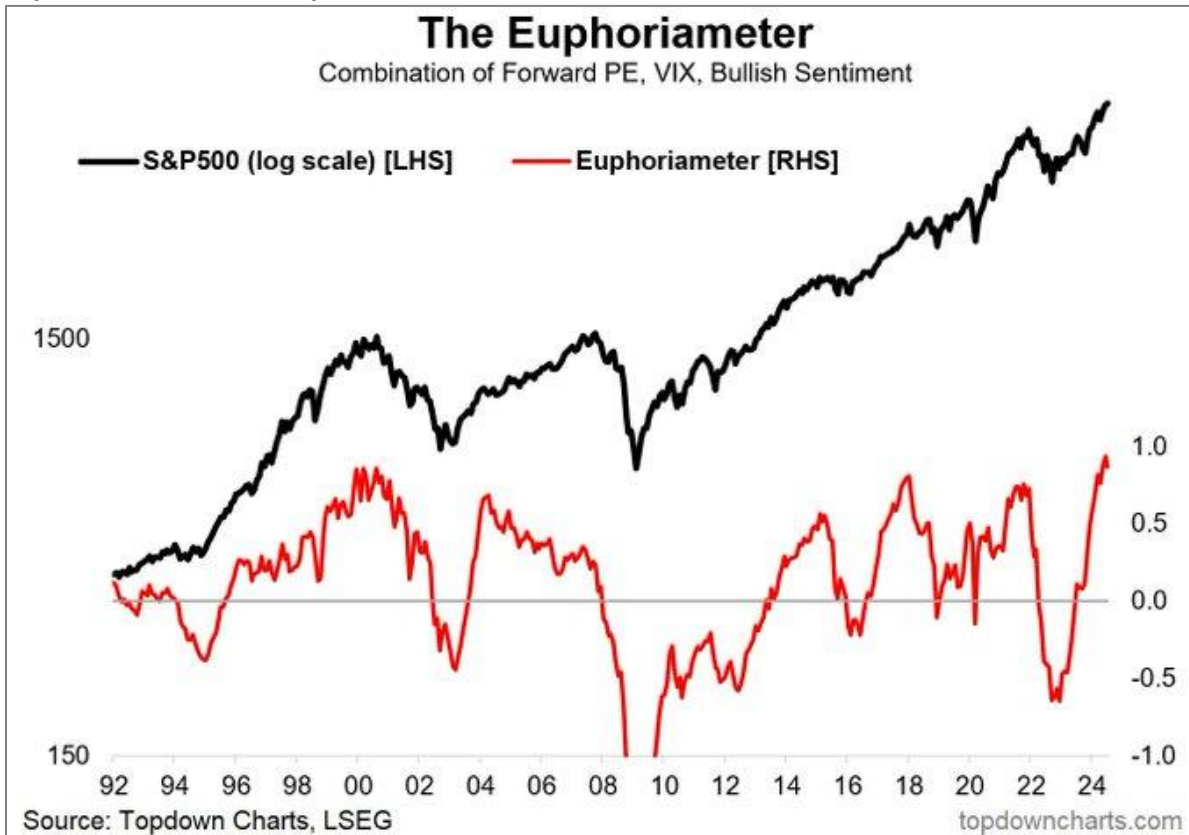
Charts of the Week

Smart versus Dumb Money US Equities Derivatives Exposure

Asset Managers (dumb money) pulled back from record long exposure modestly, while Dealers (smart money) got more short, setting another cycle record.



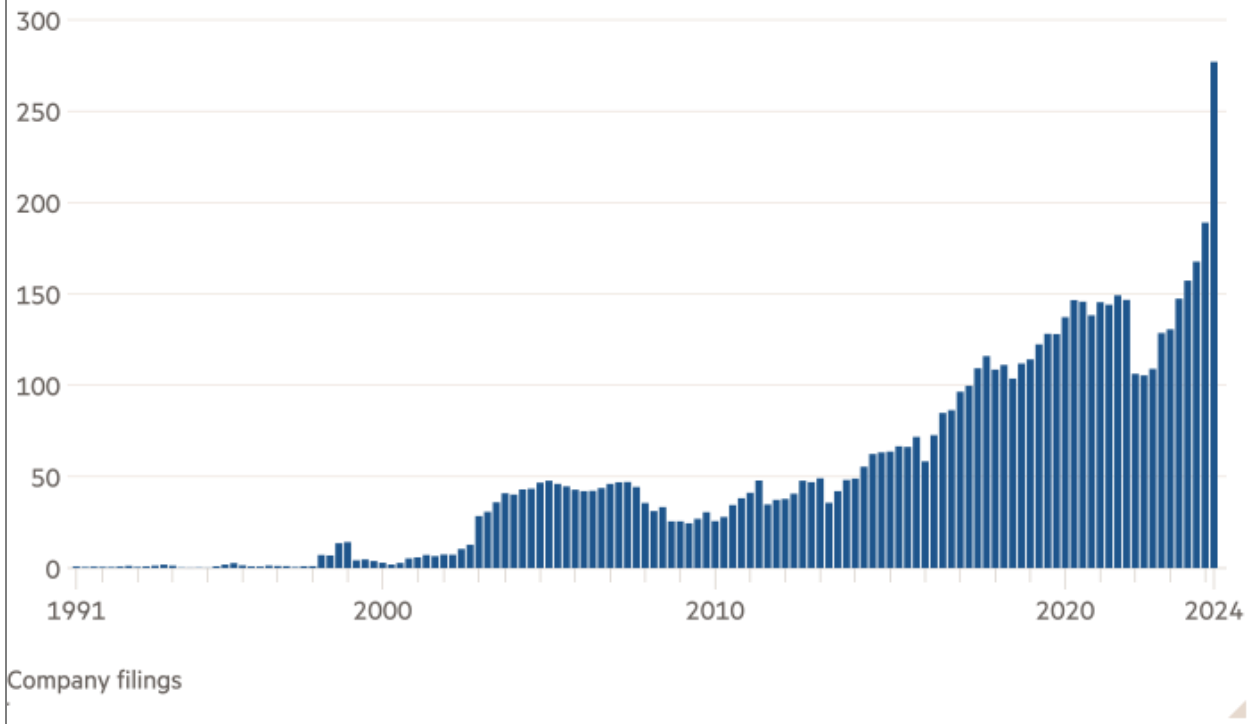
Euphoria is still the most prevalent emotion in markets.



Warren Buffett's cash pile sets a record. Berkshire holds more Treasury Bills than the Federal Reserve.

Berkshire's cash pile hits a record \$277bn as it slashes Apple stake

Cash, cash equivalents and short-term Treasuries held by Berkshire Hathaway (\$bn)

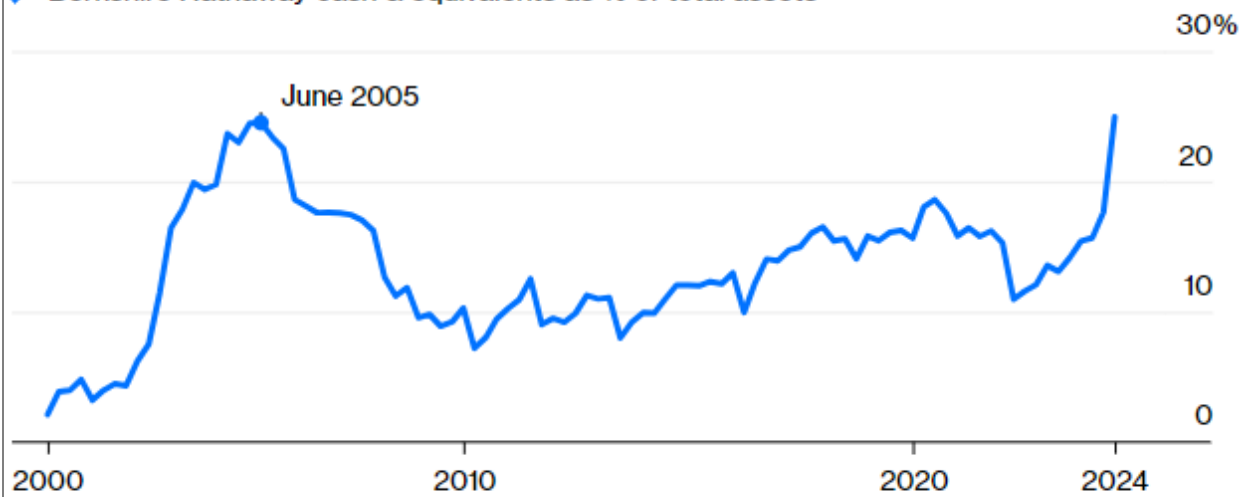


Buffett's cash pile as a percent of total assets is the highest in over 20 years.

Buffett's Cash Pile

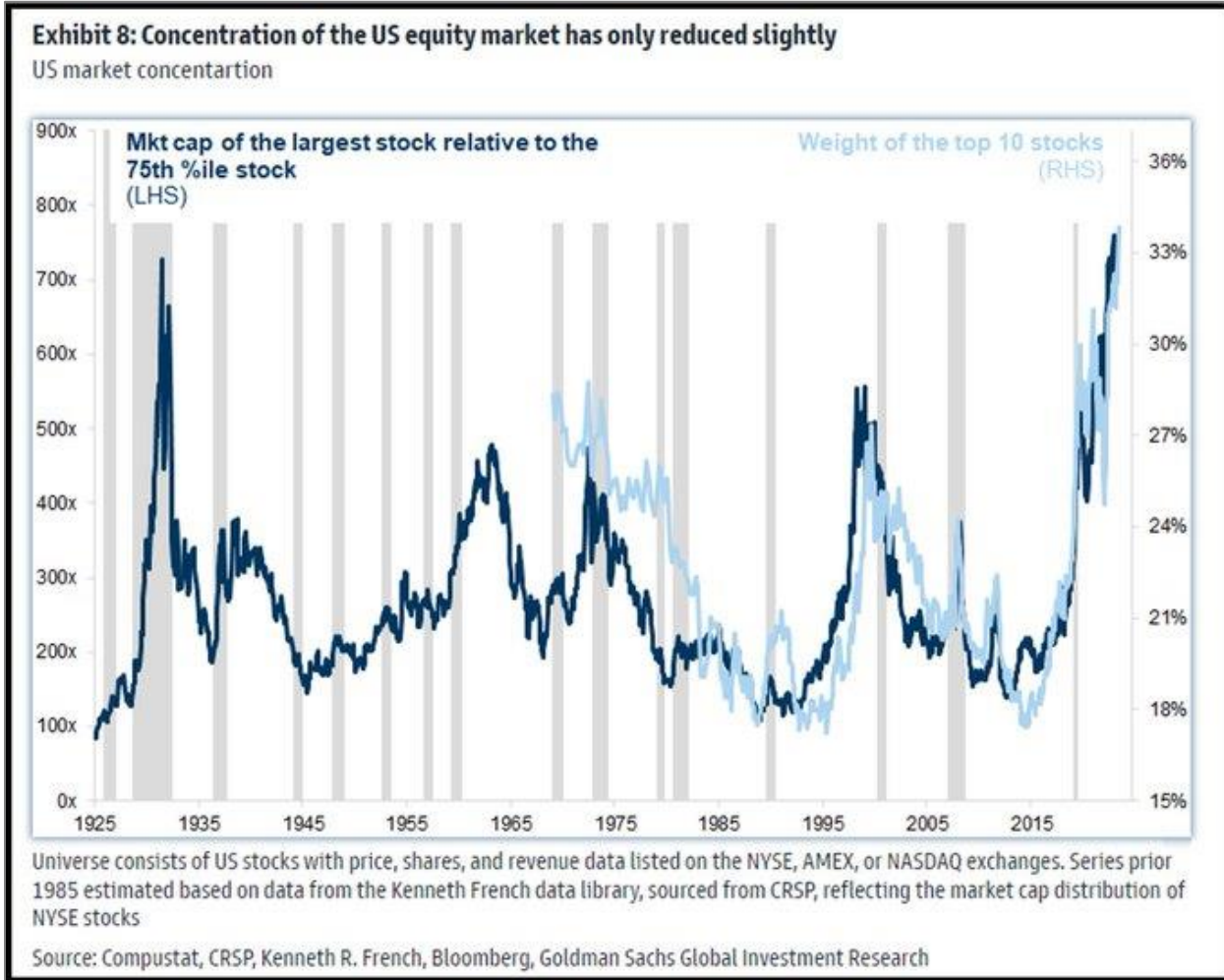
Relative to total assets, Berkshire's cash position is surging again

■ Berkshire Hathaway cash & equivalents as % of total assets

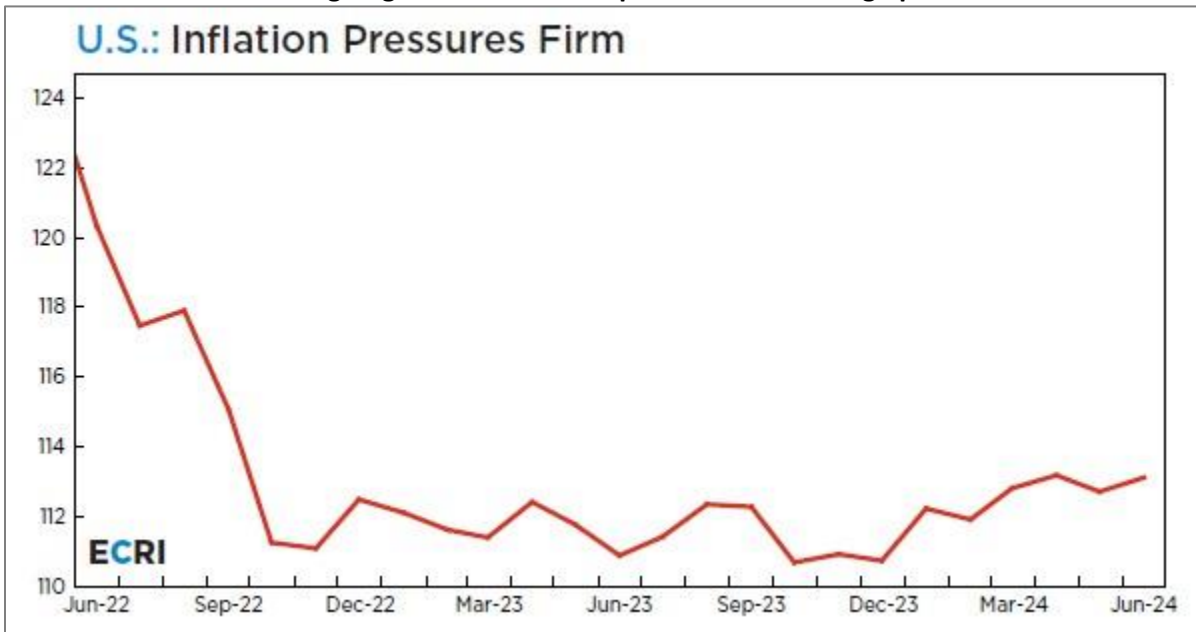


Source: Bloomberg

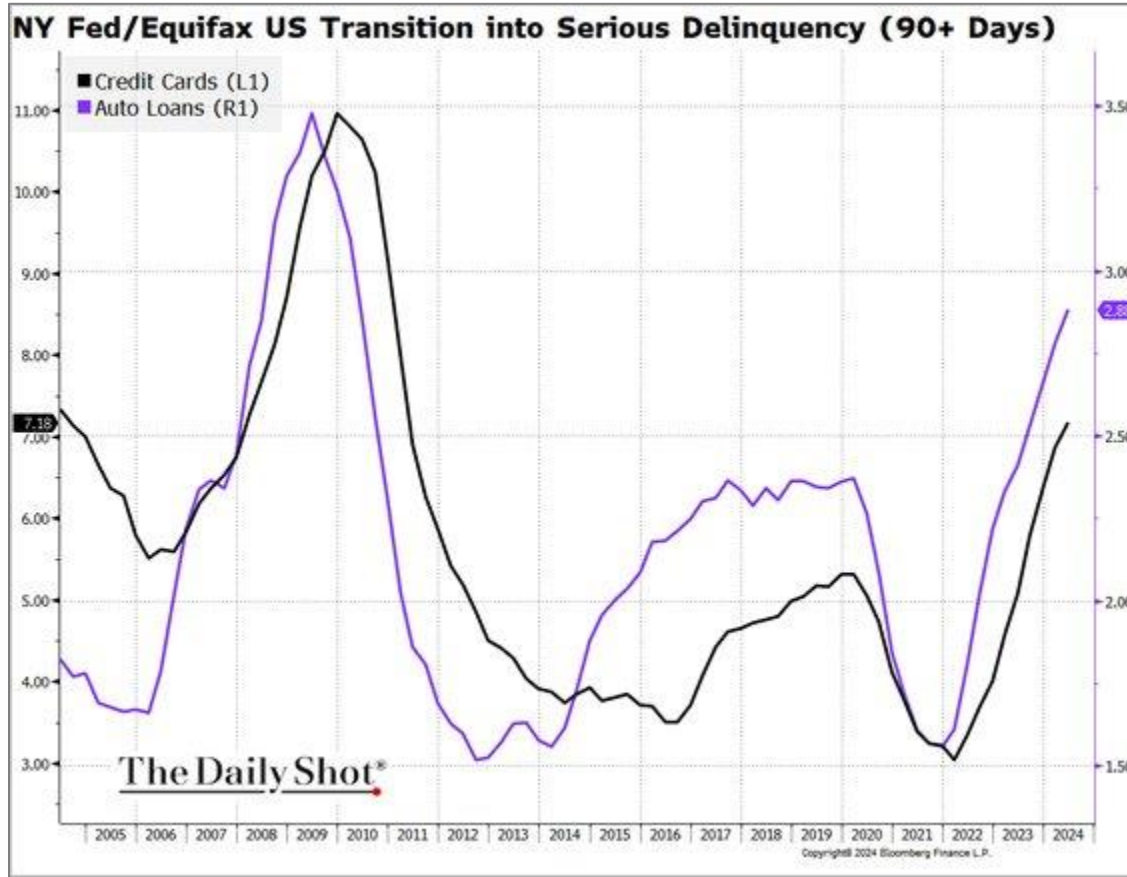
Stock market weakness hasn't put a dent in stock market concentration.



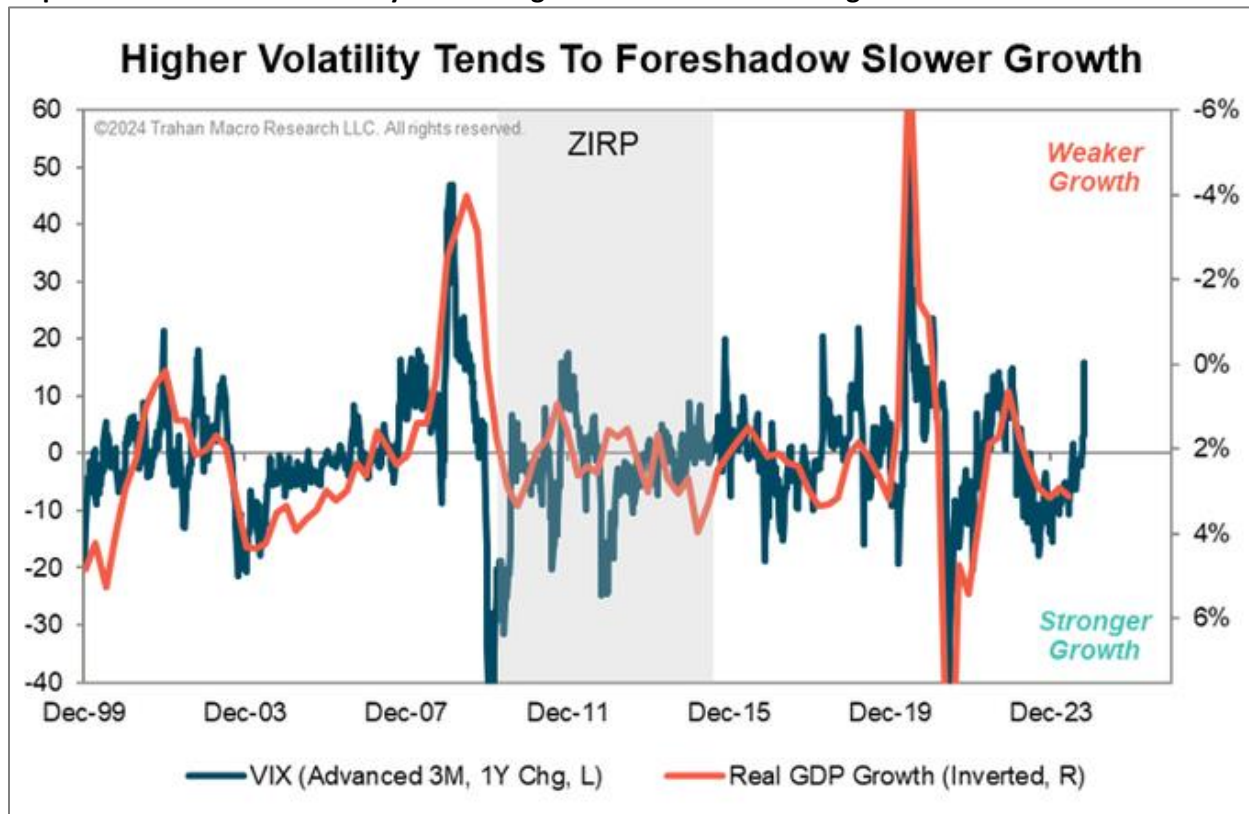
ECRI's Future Inflation Gauge signals that inflation pressures are firming up.



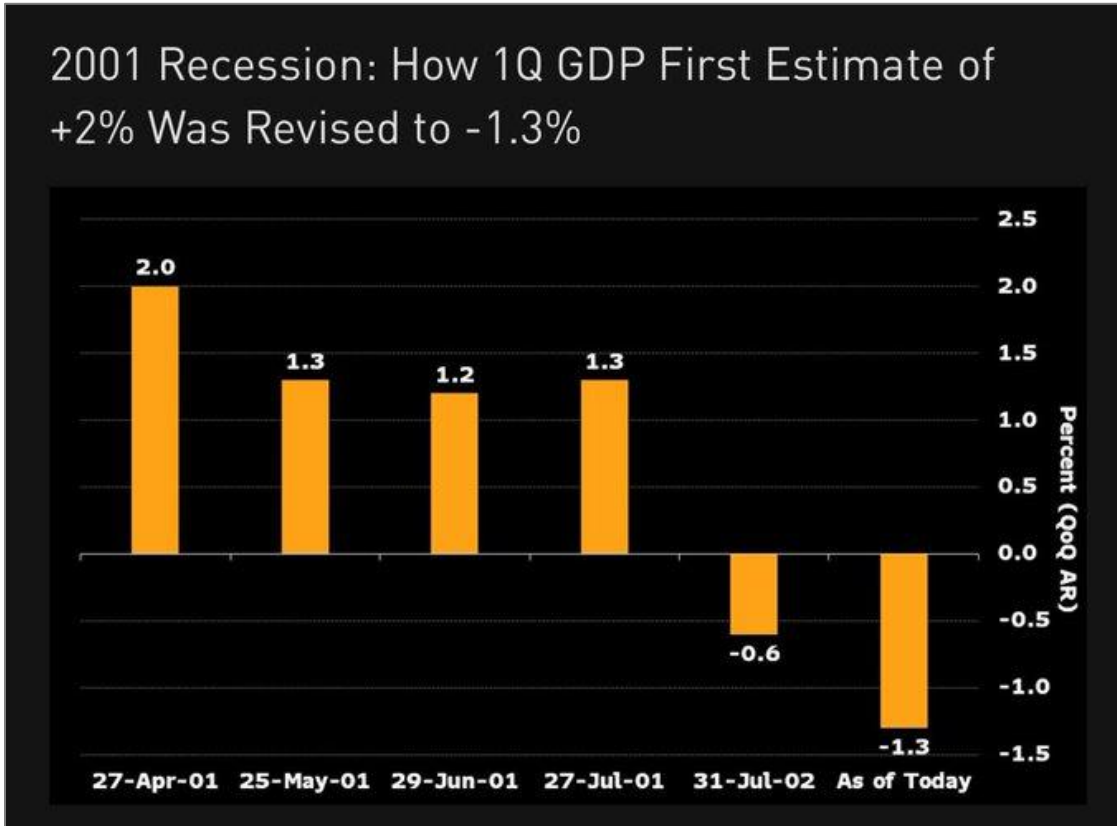
Credit Card and Auto Loan delinquencies hit 10-year highs.



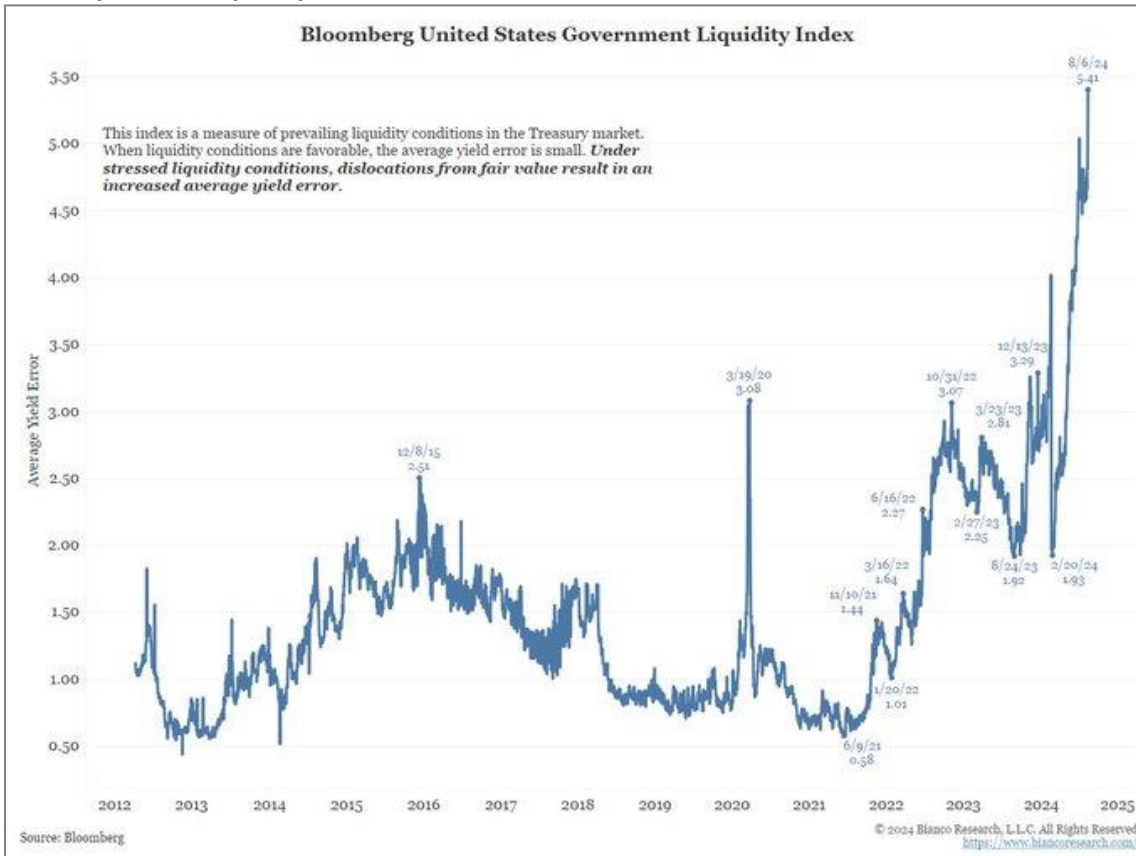
A spike in stock market volatility is a leading indicator of slower GDP growth.



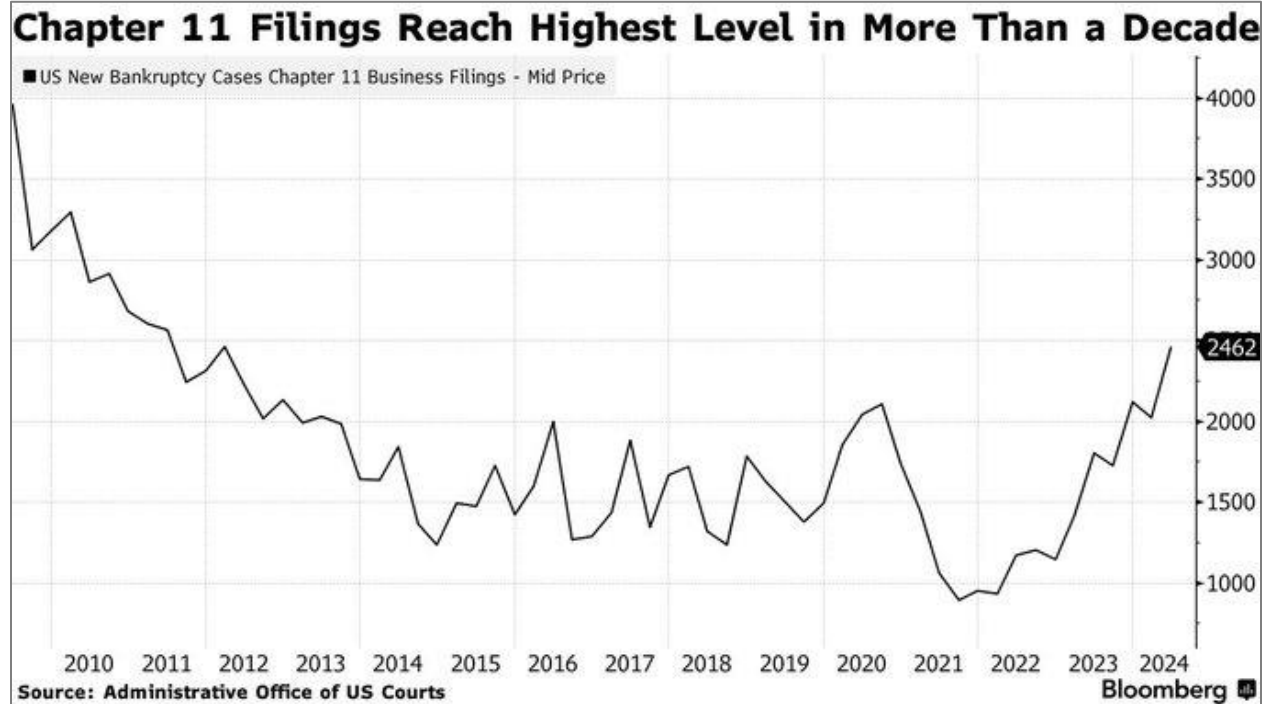
The 2001 Recession became clear...after GDP numbers were revised were revised lower a year later.



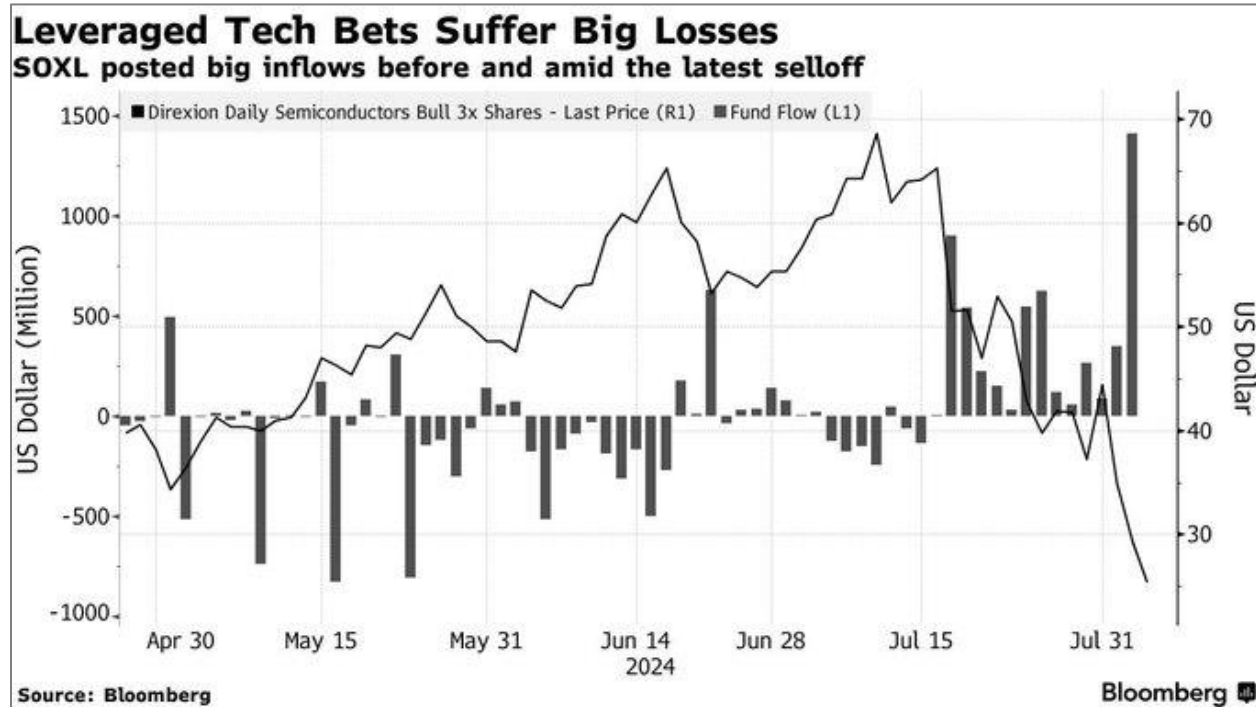
Treasury market liquidity has become unfavorable.



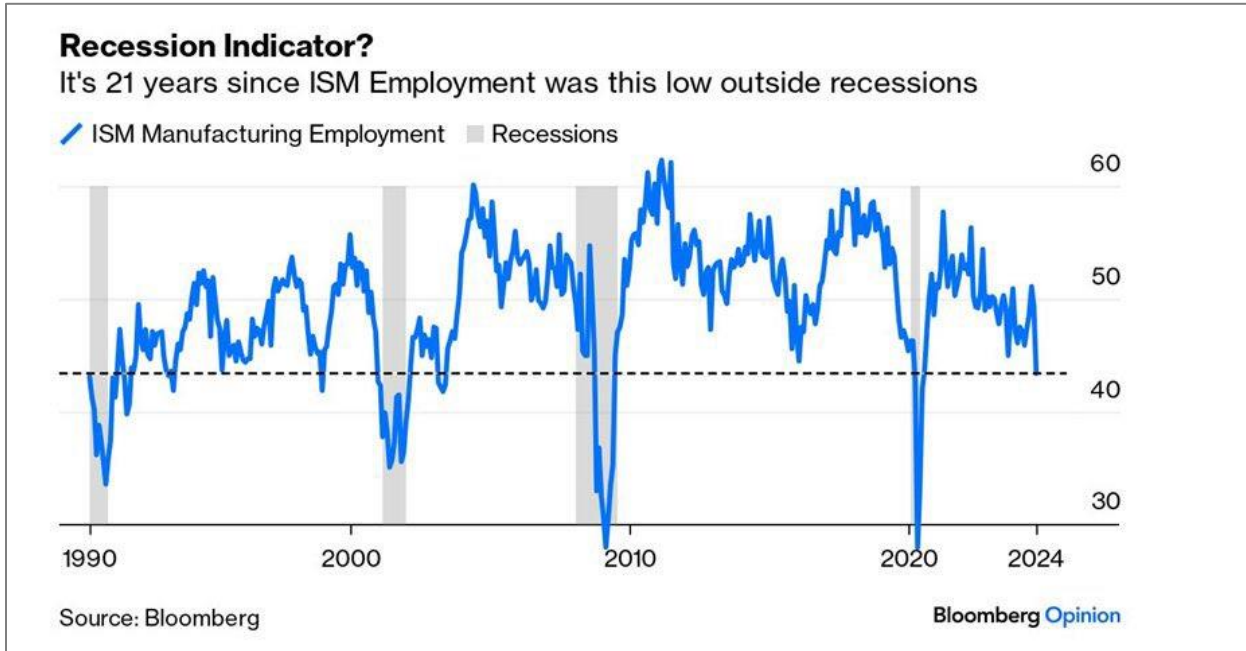
Chapter 11 Filings hit 10-year highs.



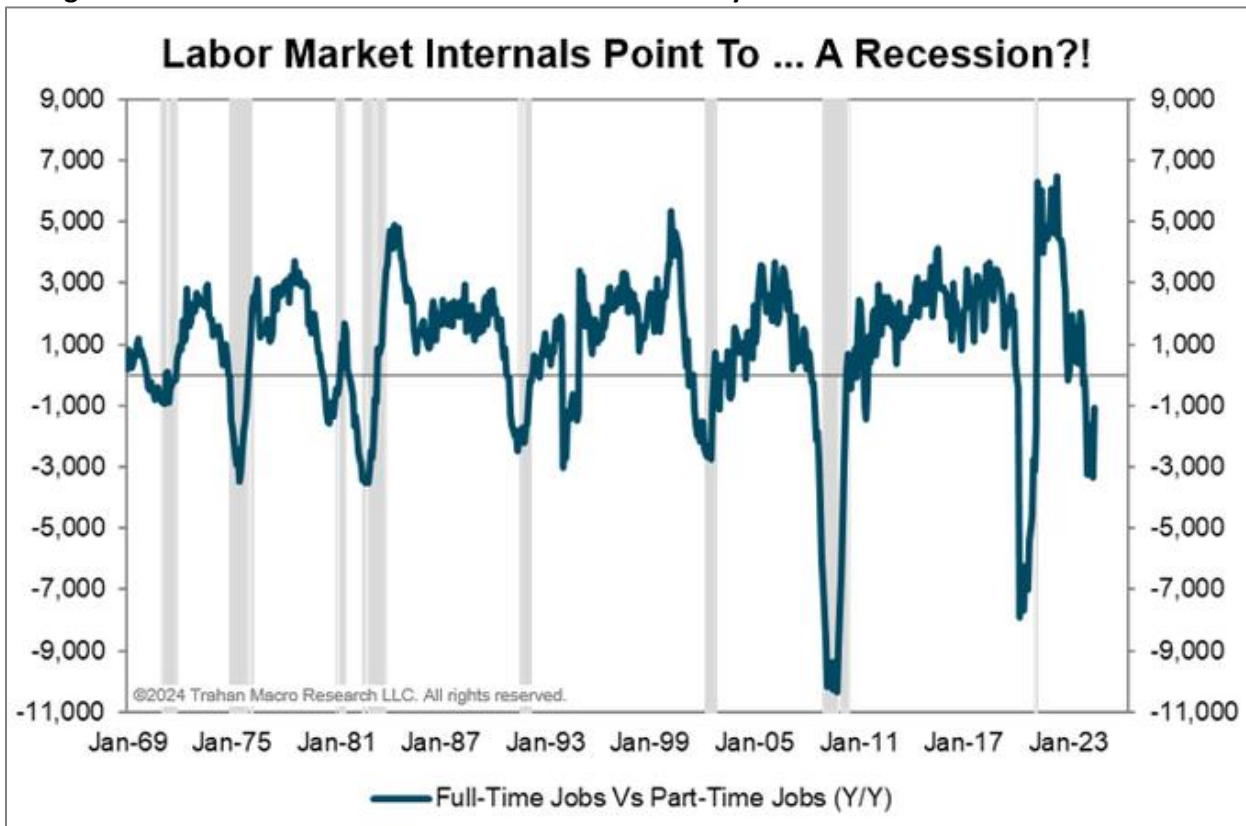
Levered Tech Investors bought the dip – flows surged into the 3X Semiconductor ETF.



ISM Manufacturing Employment looks recessionary.



Change in Full-Time versus Part-Time Jobs looks recessionary.



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.

ⁱ https://x.com/Geiger_Capital/status/1819853684798320672