Cypress CAPITAL

Market Outlook

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Bull Market Enters its Doubting Buffett stage

Market Risk Index moved minimally. Monetary Conditions modestly improved, which was offset by the Psychology Composite's deterioration. Psychology worsened as Volatility moved back into a more bearish regime for markets for the second time in a month, and the S&P 500 fell short of a new high.

That uptick in stock market volatility has Treasury Bills pricing in higher chances of a 50 basis point cut this month. Additionally, the 10s and 2s version of the yield curve reverted to a positive slope this week, as yields on 2-year Notes have dropped rapidly. Seeing 2-year yields drop so far below the Fed Funds rate and 3M Treasury Bill yields is often a good indication of a bond market that thinks the Fed is getting "behind the curve."

While the 10s and 2s version of the yield curve has reverted to a positive slope, our preferred version of the yield curve, the 10yr minus 3M Bills, has not. We've included a plot below highlighting all the times this combination has been present. It should set off bear market and recession alarms for investors, but speculative sentiment has a different narrative – that all Fed rate cuts are an elixir for bull markets.

As more anecdotal evidence that the current status of our MRI may have pegged the current stock market mood, the Wall Street Journal published a story called *"Americans Are Really, Really Bullish on Stocks."* One of those interviewed was a 67-year-old dentist who said, *"This melt up is exactly what any investor should be waiting for...The most conservative approach is 'all in, all the time.'"*

There was also an article in the Economist this week entitled *"Has Warren Buffett lost his touch?"* We're old enough to remember that is the kind of headline that has appeared close to the end of two of the last three bull markets. The author of the current article must believe that the third time's a charm.

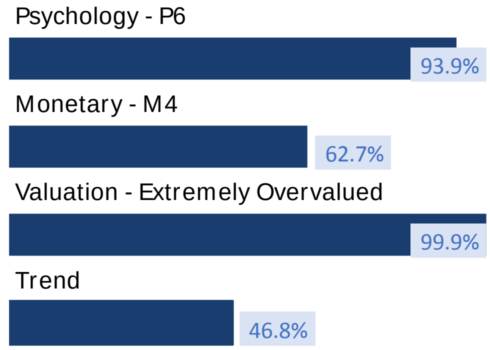
The article questions Buffett's large cash position and the market-lagging performance of Berkshire's holdings, after Apple's performance is excluded from the portfolio. In Mr. Buffett's defense, the performance of all our portfolios, if we exclude Apple and a handful of other mega-cap stock market darlings, is lackluster. Concentrated performance is a hallmark of late bull market behavior.

Market Risk Index

Rec Allocation 25% Underweight

91.8%

Category Percentiles



Largest Psychology Influences

Leveraged Investments	Negative
Option Activity	Negative
Consumer Confidence	Negative
Volatility	Negative

Largest Monetary Influences

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

Valuation

7-10 Year Equity Return Forecast	-0.3%
10Yr US Treasury Yield	3.8%

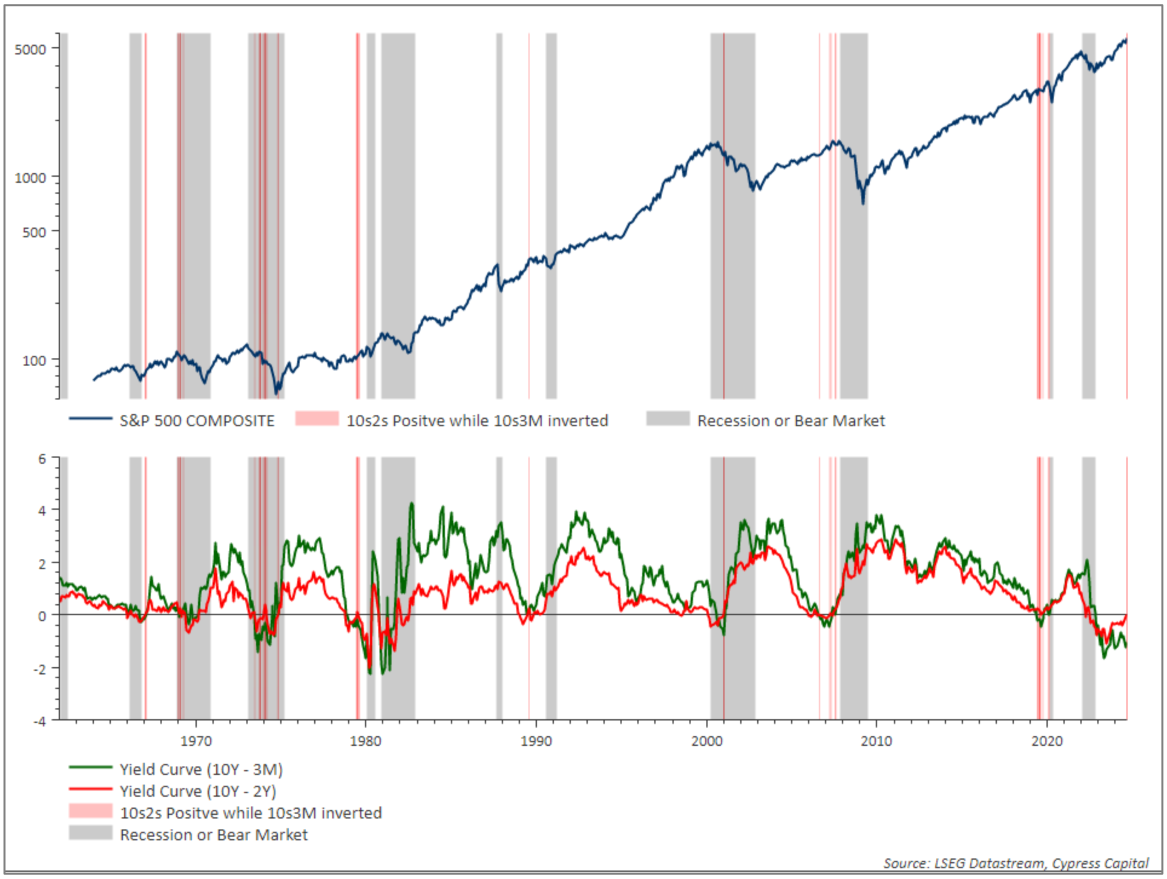
Market Trends

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

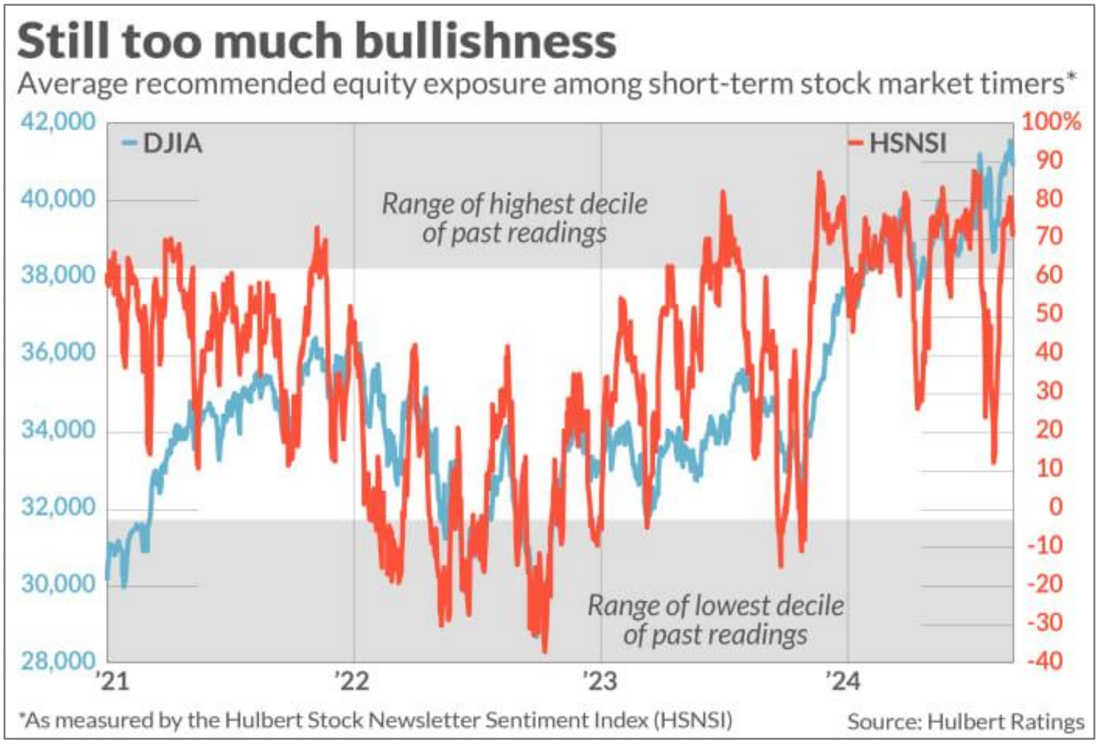
Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets based on our model & opinion. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Charts of the Week

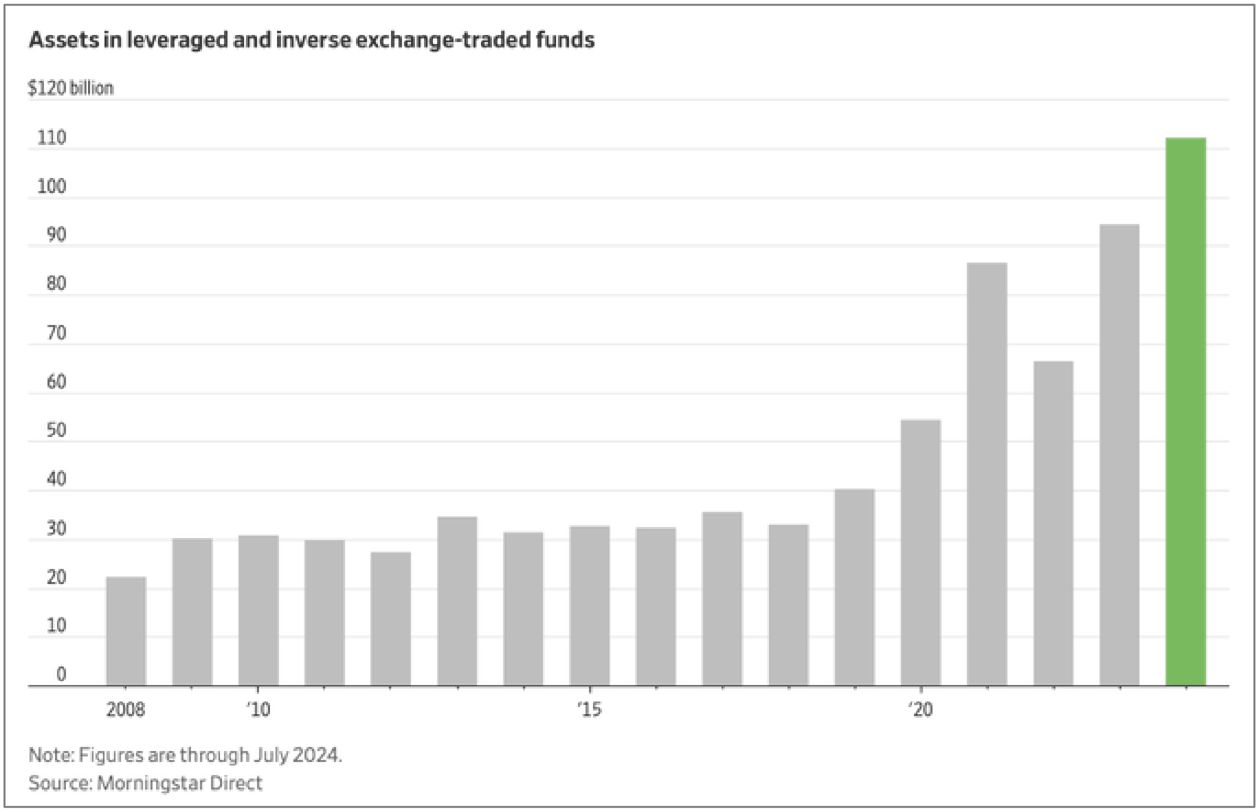
Yield Curves – When the 10s2s has a positive slope, and the 10Y-3M curve is still inverted.
Historically, it's been a bear market and recession warning, but maybe this time is different.



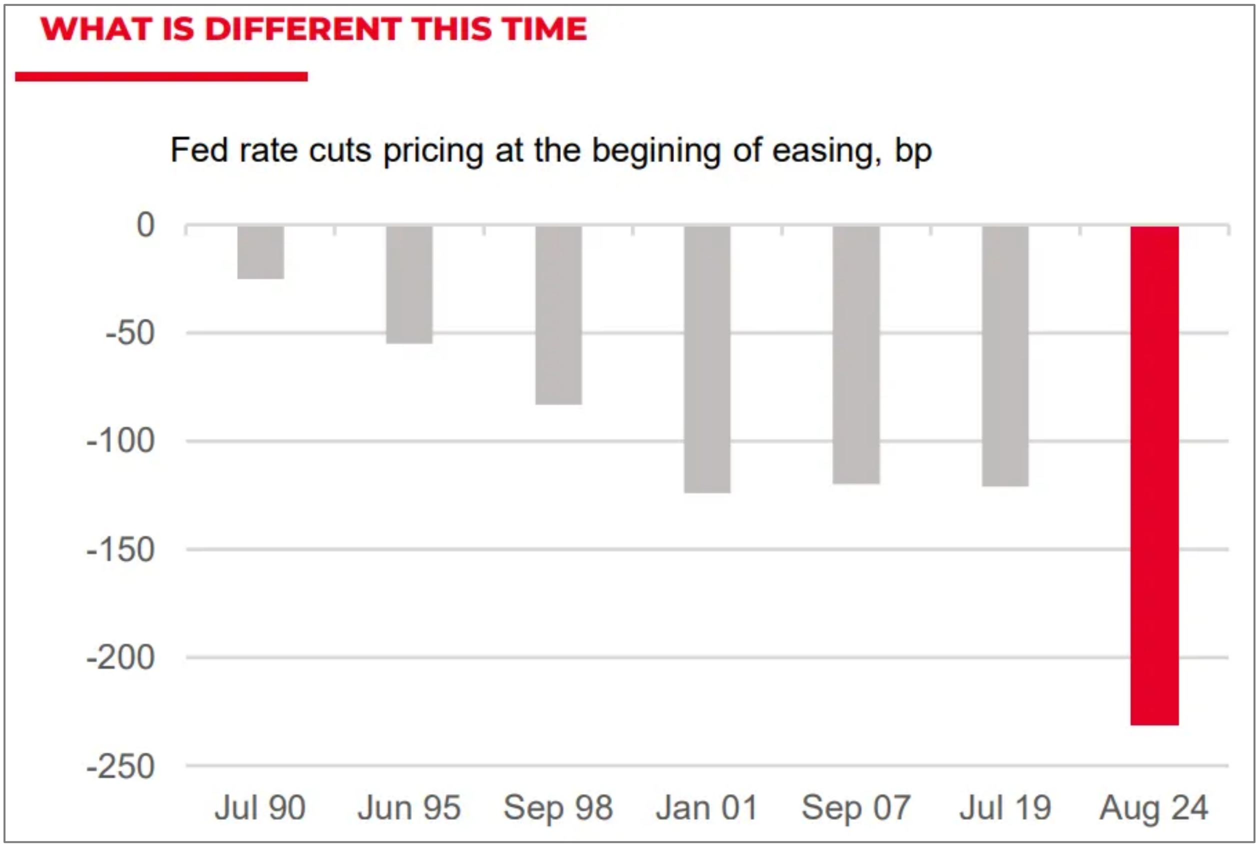
Hulbert's Composite of Stock Market Timers shows too much bullishness.



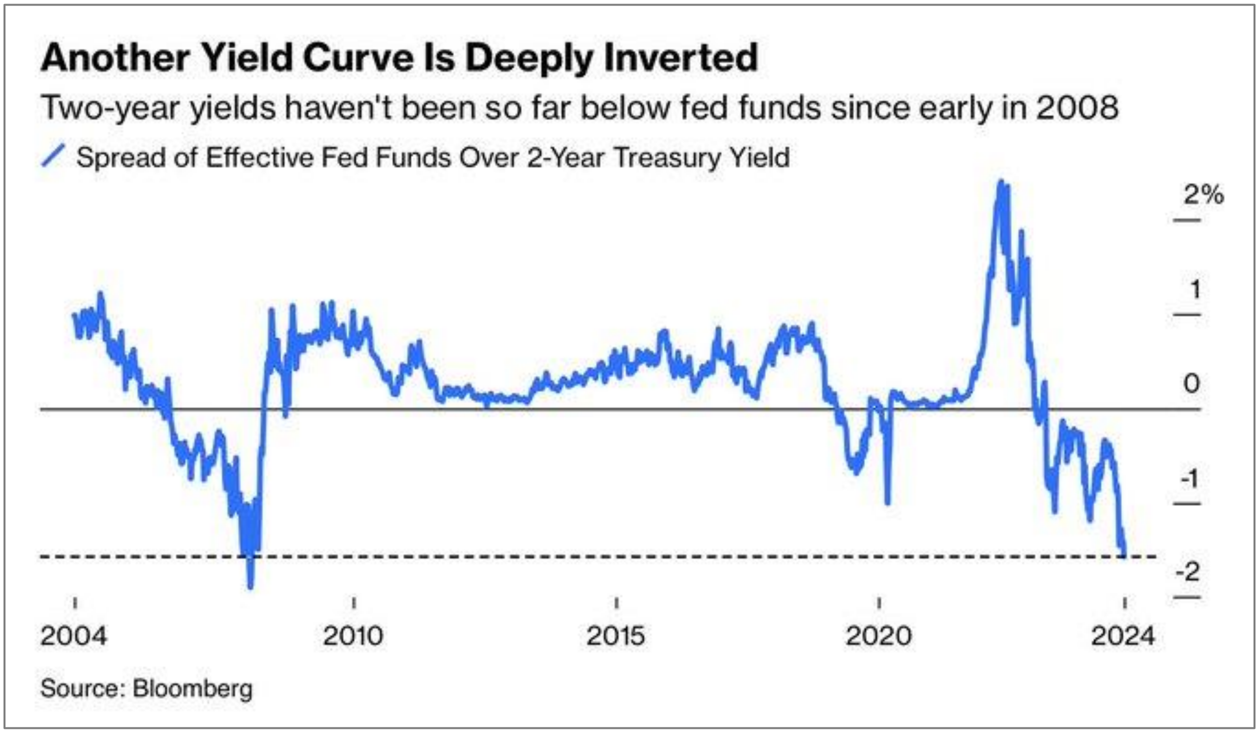
Assets in Leveraged and Inverse ETFs are setting a record high in 2024.



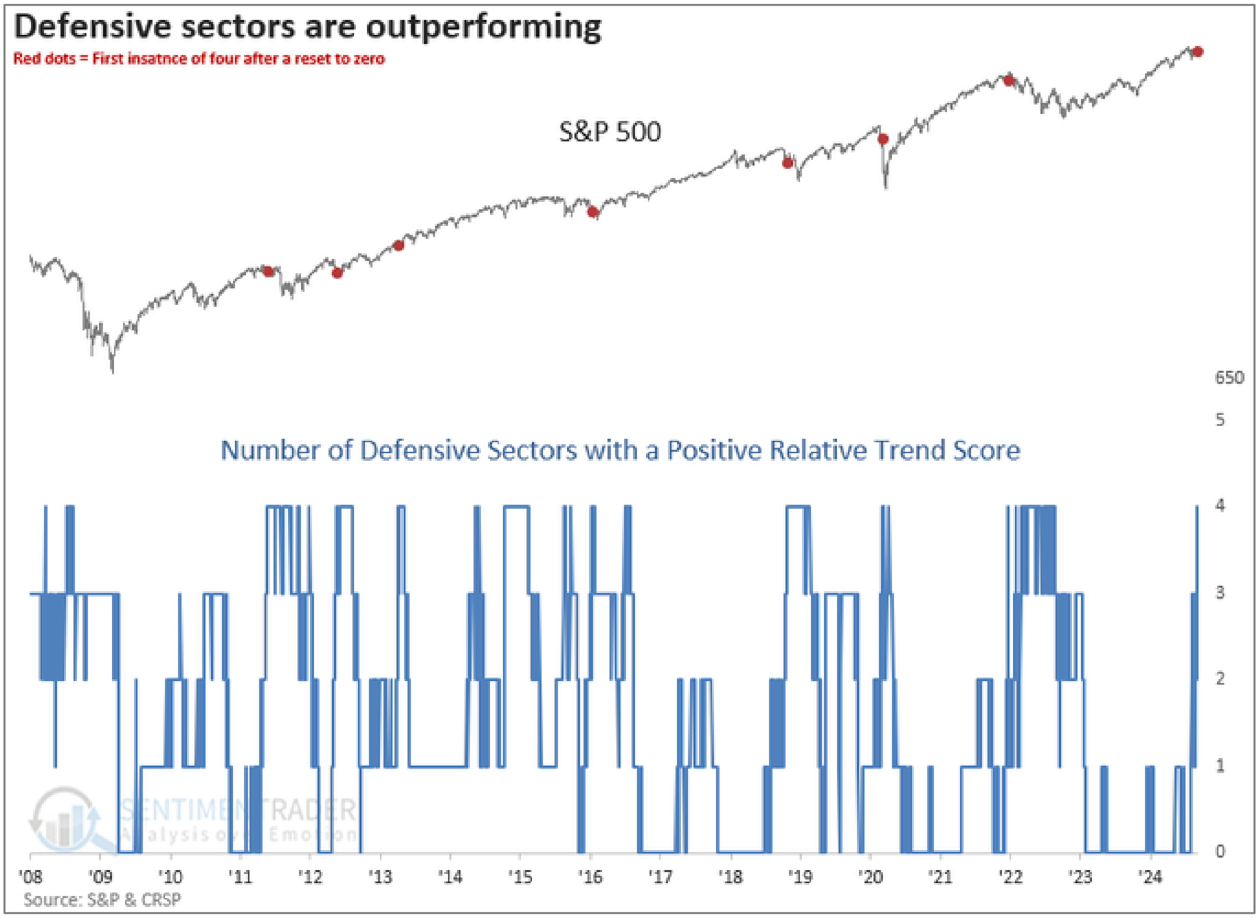
Markets expect more Fed rate cuts than usual for the start of a Fed easing.



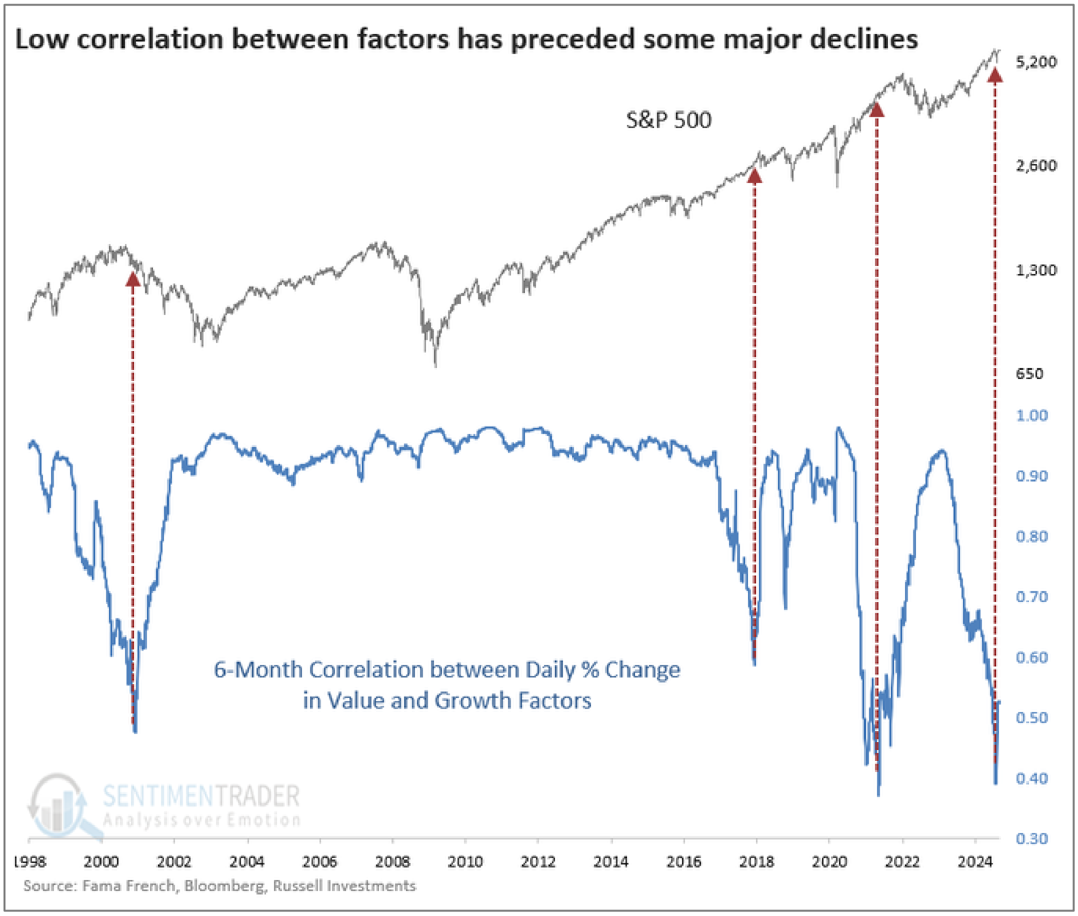
2-Year Treasury Yield hasn't been this far below the Fed Funds Rate since early 2008.



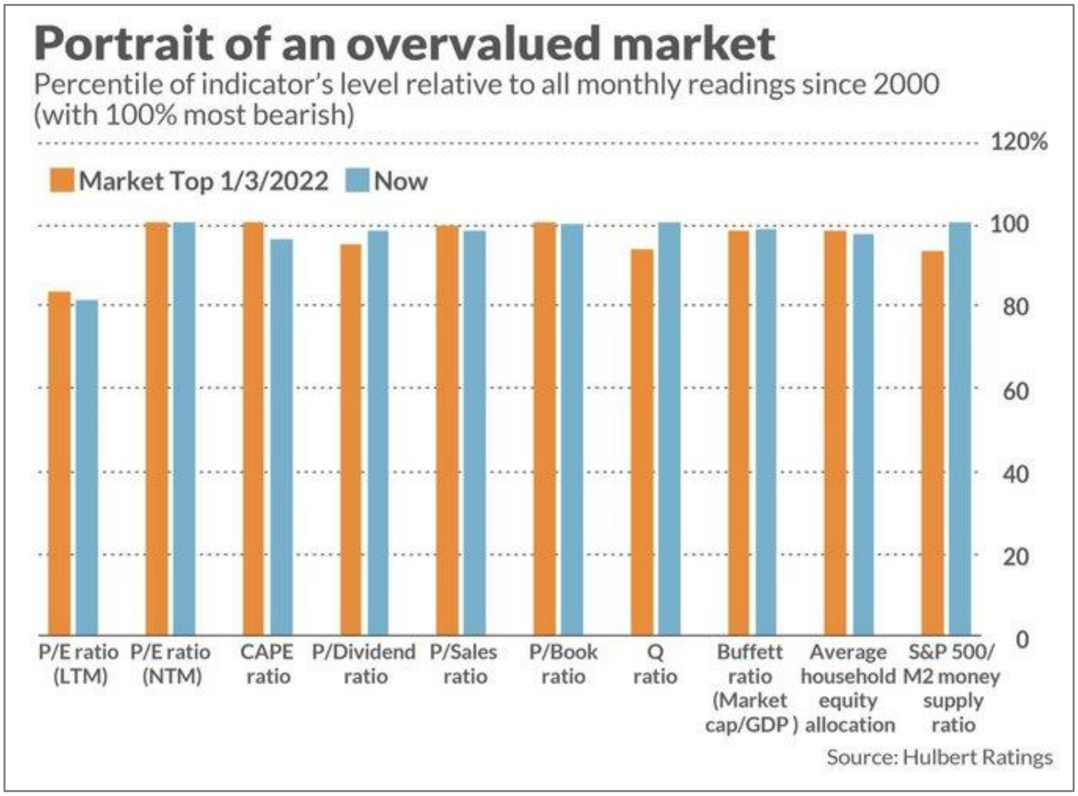
Defensive sectors have started outperforming.



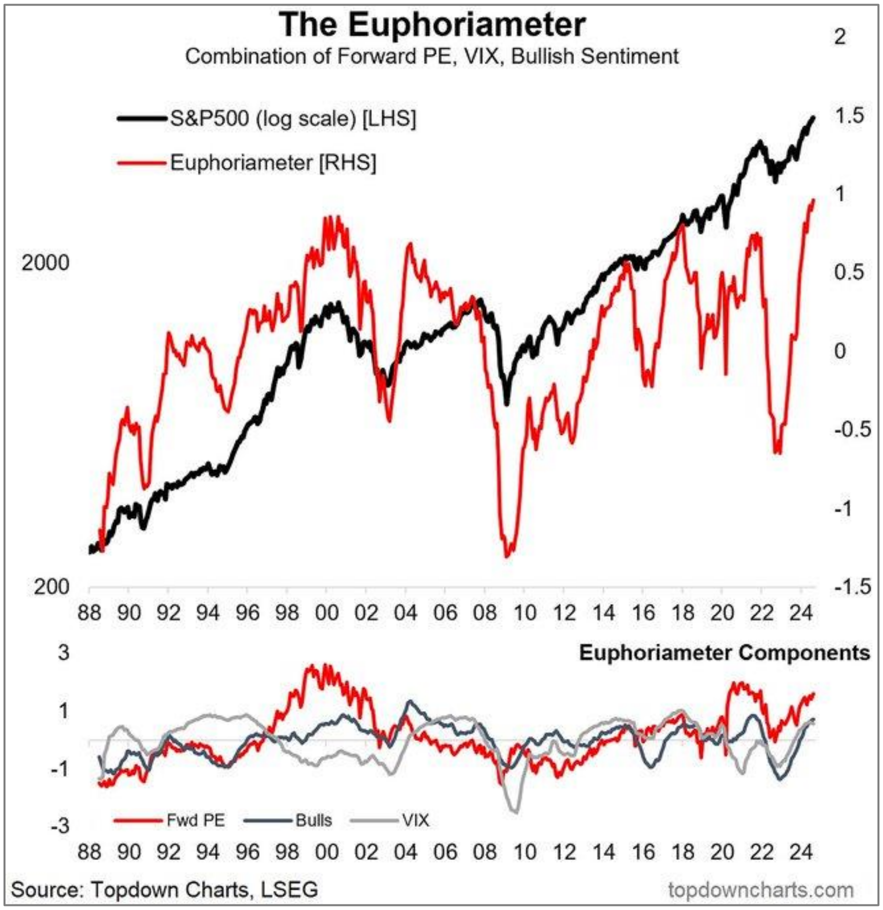
Low correlation between Value and Growth has been a precursor to market declines.



Every popular valuation metric is at levels on par or worse than the 2022 stock market peak.



TopDownCharts Euphoriameter pegs current stock market euphoria on par with 2000.



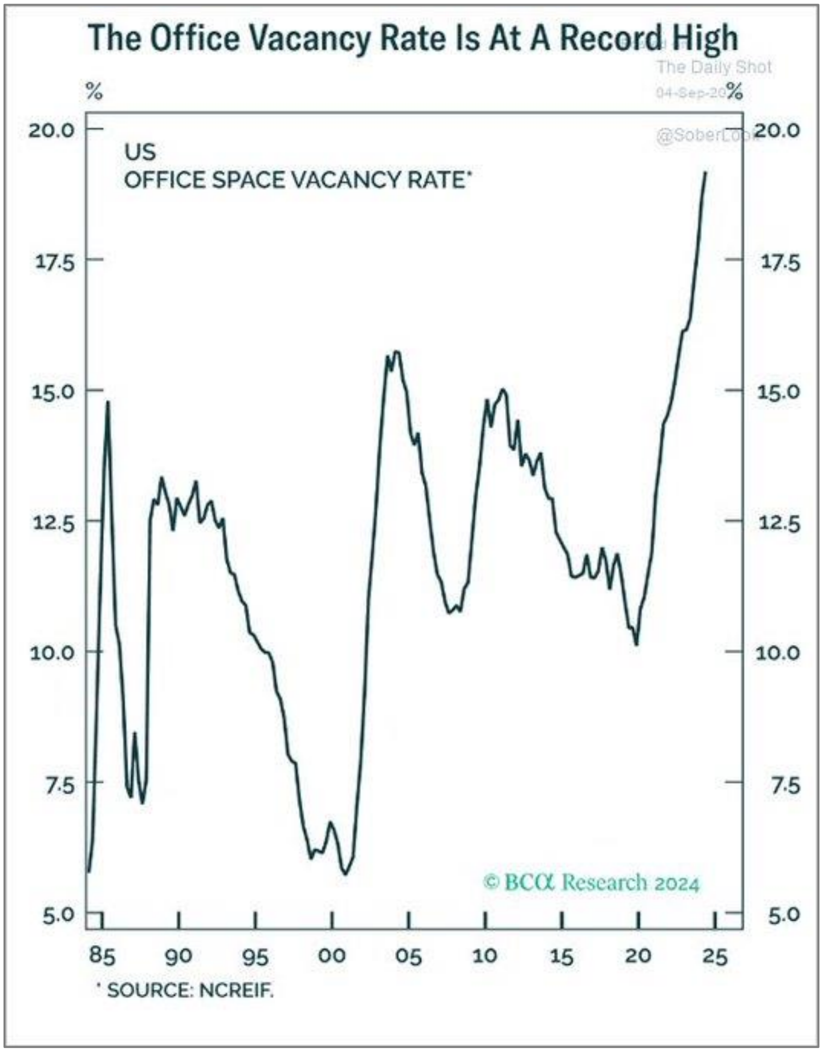
2024 is shaping up to be the third most concentrated in performance terms.

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2023	68.4%	24.2%
2024	**59.4%**	**18.4%**
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

Source: Strategas, Bloomberg, 9/2/24

Office Vacancy Rate hits a record high.



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.