



Market Outlook

By Mark T Dodson, CFA

M2 Growth Turns Positive

Market Risk Index climbed to 77.5%. Psychology improved slightly, but both Valuations and Monetary Conditions worsened.

While our eyes have been glued to our Psychology indicators for signs of an improved wall of worry, the most notable development has been in the Monetary Aggregates category of our Monetary Composite. M2 Growth has turned positive for the first time in 16 months. The traditional take on the declines in money supply suggested it was a sign of tight Fed policy.

Instead, we believe that the historic decline in those aggregates has been the visual illustration of Households trying to spend down their COVID stimulus windfall – a key reason inflation has been so stubborn. It's the ongoing game of monetary hot potato that Milton Friedman described that the economy undergoes as households attempt to spend down excess cash balances. The game is futile, ultimately resulting in a higher price level for the broader economy.

It also illustrates the difficult job the Fed has had. Imagine COVID stimulus as a lottery that every Household in the United States won. Spending the lottery money has driven the inflation rate higher. That makes the Fed's job, using the hammer of interest rate policy, one of convincing all the lottery winners to keep the money in their bank accounts instead of spending it. How high would you have to take rates to keep people from wanting to spend that windfall? That has been the Fed's dilemma, and why higher for longer has become part of our financial vocabulary. This is the first sign that the Fed might be getting the upper hand, at least temporarily.

Now, the releases over the coming months will be more interesting. Bulls shouldn't hope for an acceleration of money supply growth here, as it would almost certainly coincide with a re-steepening of the yield curve. That would imply that the Fed has gotten inflation under control, but something broke in the process.

On the allocation front, we reduced our allocation to Gold within managed portfolios. Positioning in futures and options markets and the disconnect between gold prices and real yields in the economy made us comfortable realizing some of the gains from Gold's sharp rise in 2024.

Market Risk Index

Rec Allocation 25% Underweight

77.5%

Category Percentiles

Psychology - P6



Monetary - M3



Valuation - Extremely Overvalued



Trend



Largest Psychology Influences

Leveraged Investments	Negative
Surveys	Negative
Consumer Confidence	Negative
Fund Flows	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	4.6%

Market Trends

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

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.

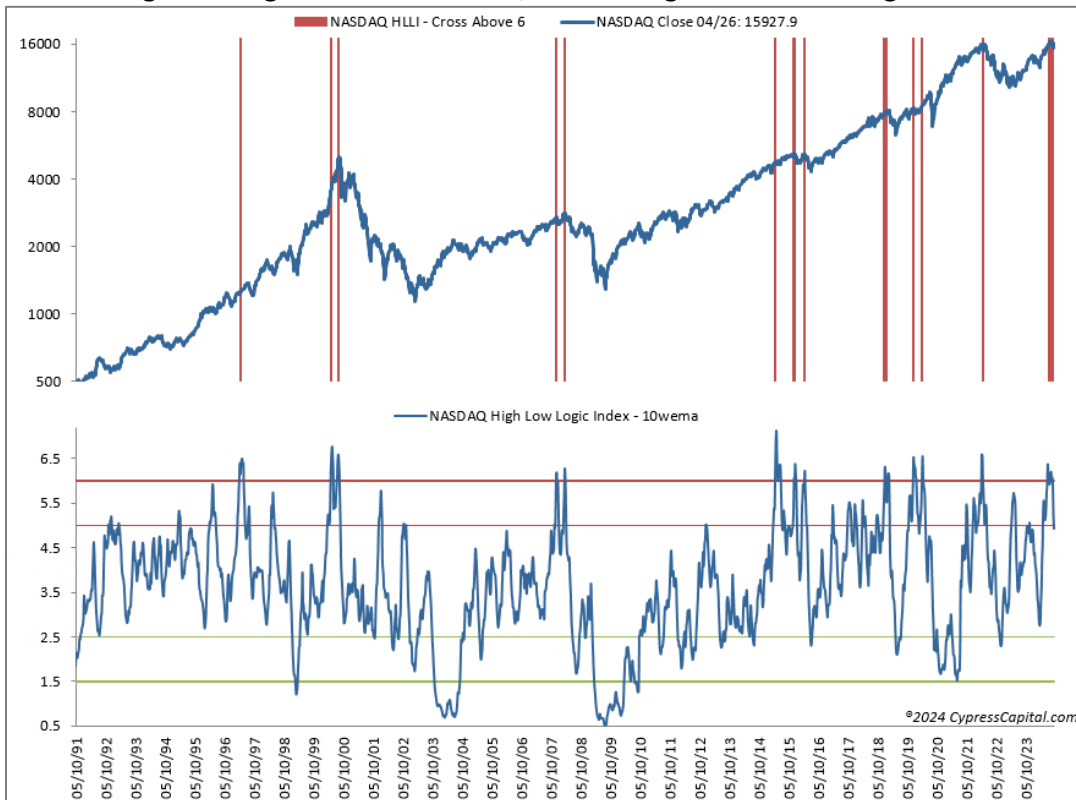
Charts of the Week

M2 Growth turned positive this month.

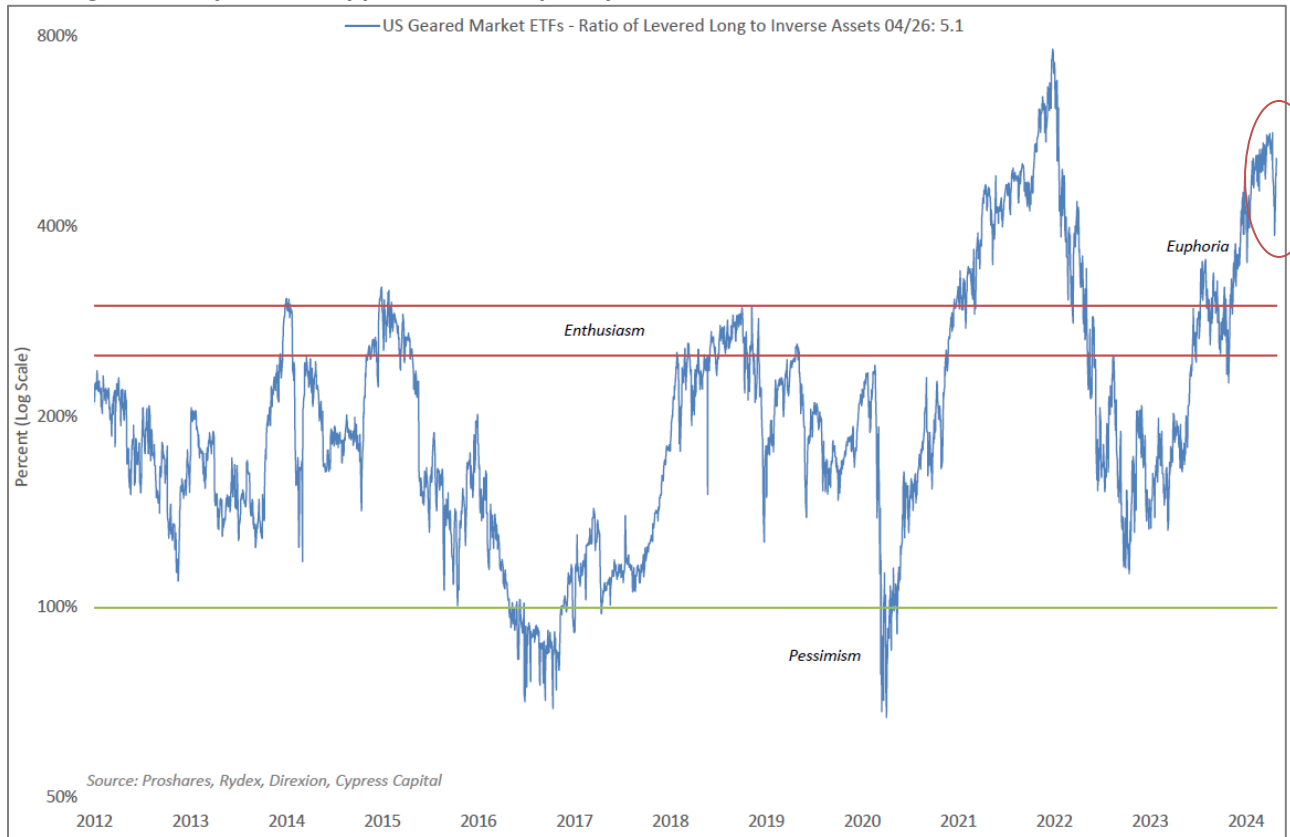
The first sign that Households have stopped spending their COVID-stimulus windfall.



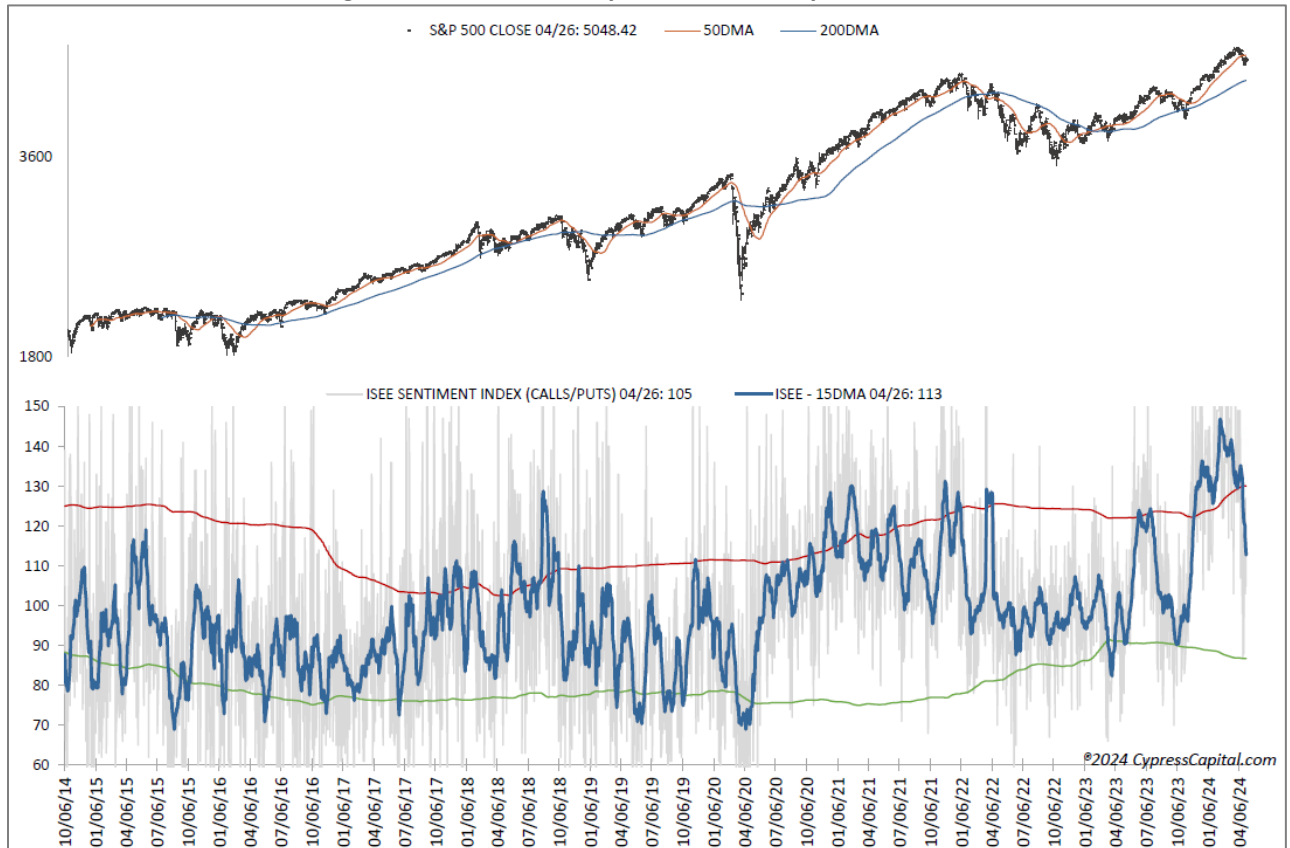
NASDAQ High Low Logic Index fell below 5, bookending the recent sell signal.



Leveraged ETF Exposure dropped and then quickly rebounded.



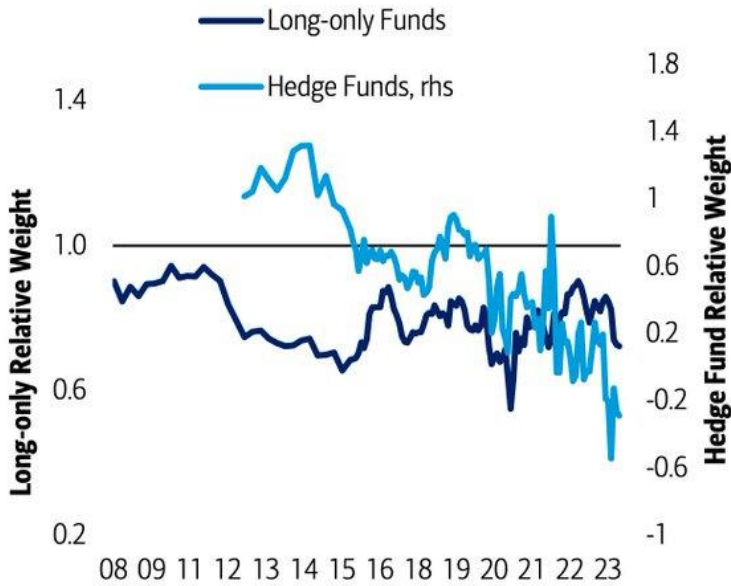
ISEE Sentiment Index undergoes the first notable pullback in call option enthusiasm of 2024.



Energy's run appears to have some legs, given a lack of crowding by Hedge Funds.

Exhibit 11: LO exposure to Energy is well below average; HF exposure is just off an all-time low

Funds' relative weight in Energy vs. S&P 500 index over time (as of Mar. 2024)

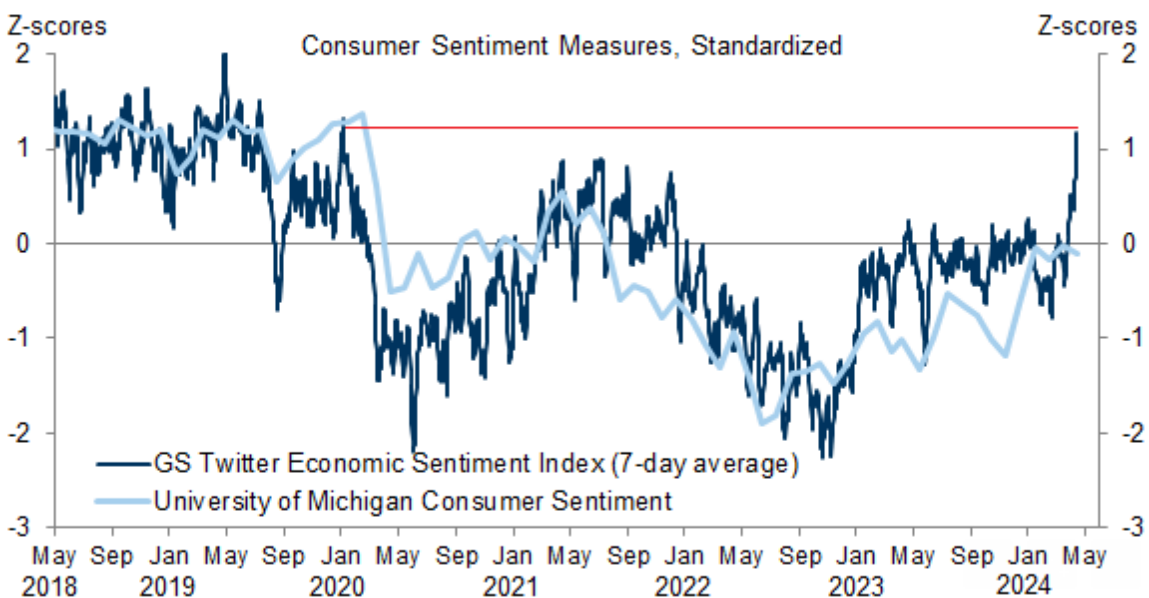


Source: BofA US Equity & Quant Strategy, FactSet Ownership

BofA GLOBAL RESEARCH

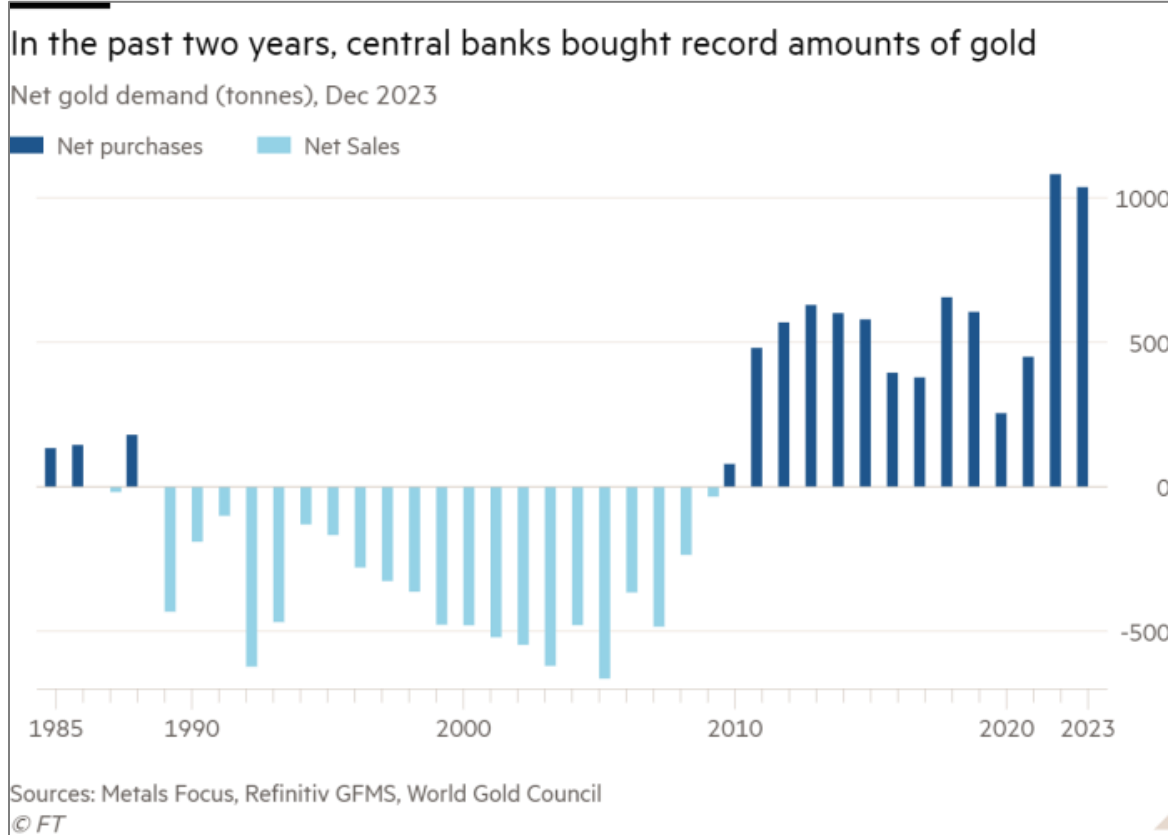
Economic Sentiment on Twitter has hit the highest level since early 2020.

Twitter Economic Sentiment Index:

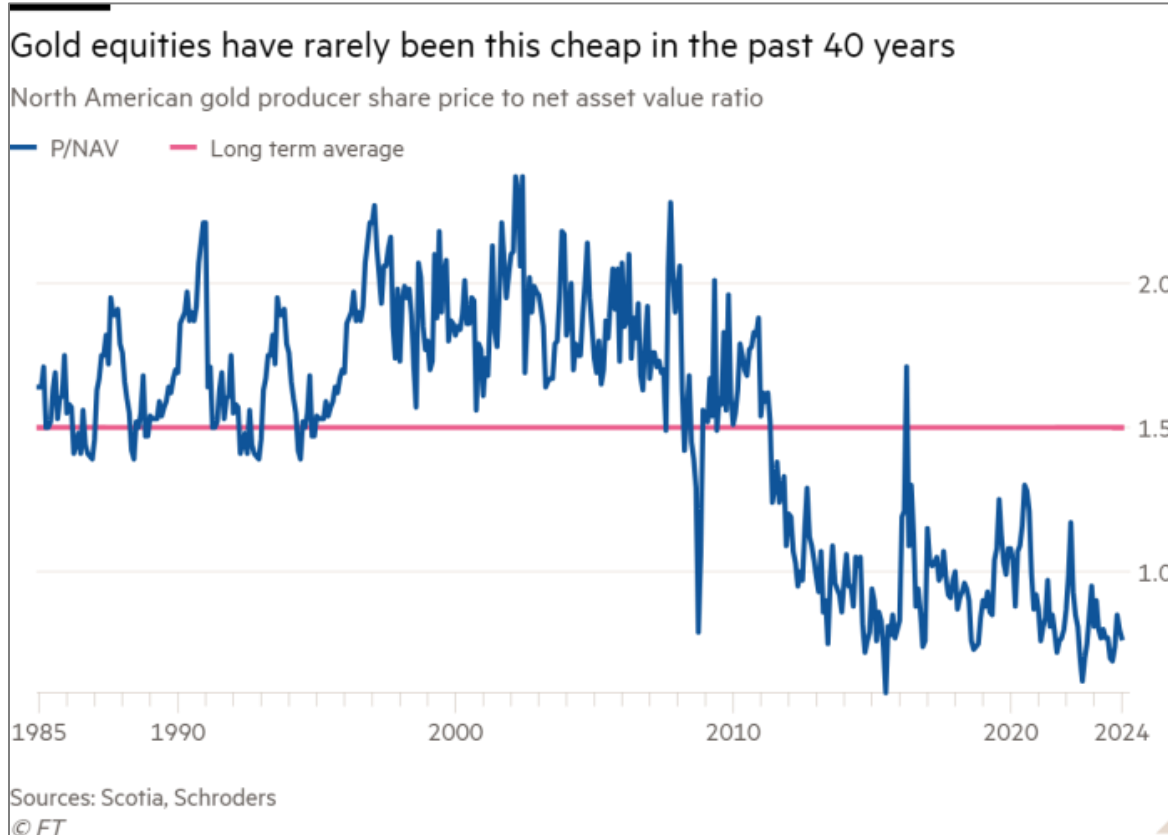


Source: University of Michigan, Goldman Sachs Global Investment Research

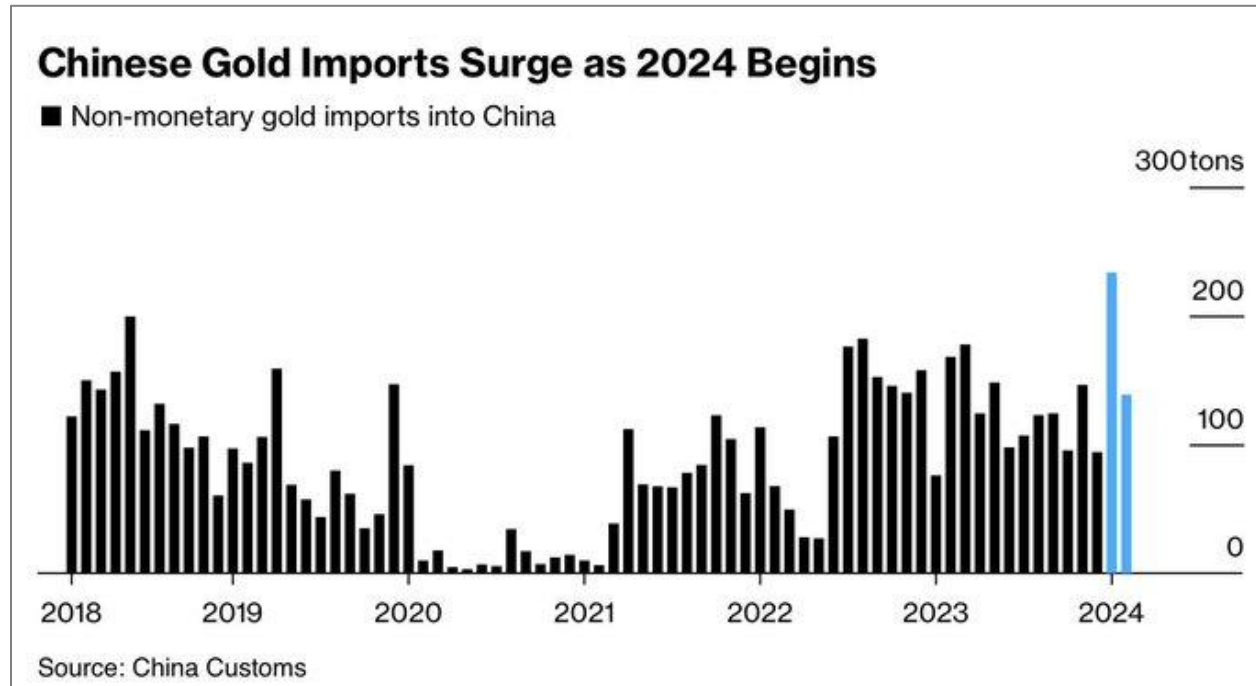
Global Central banks have been persistent gold buyers for the last decade.



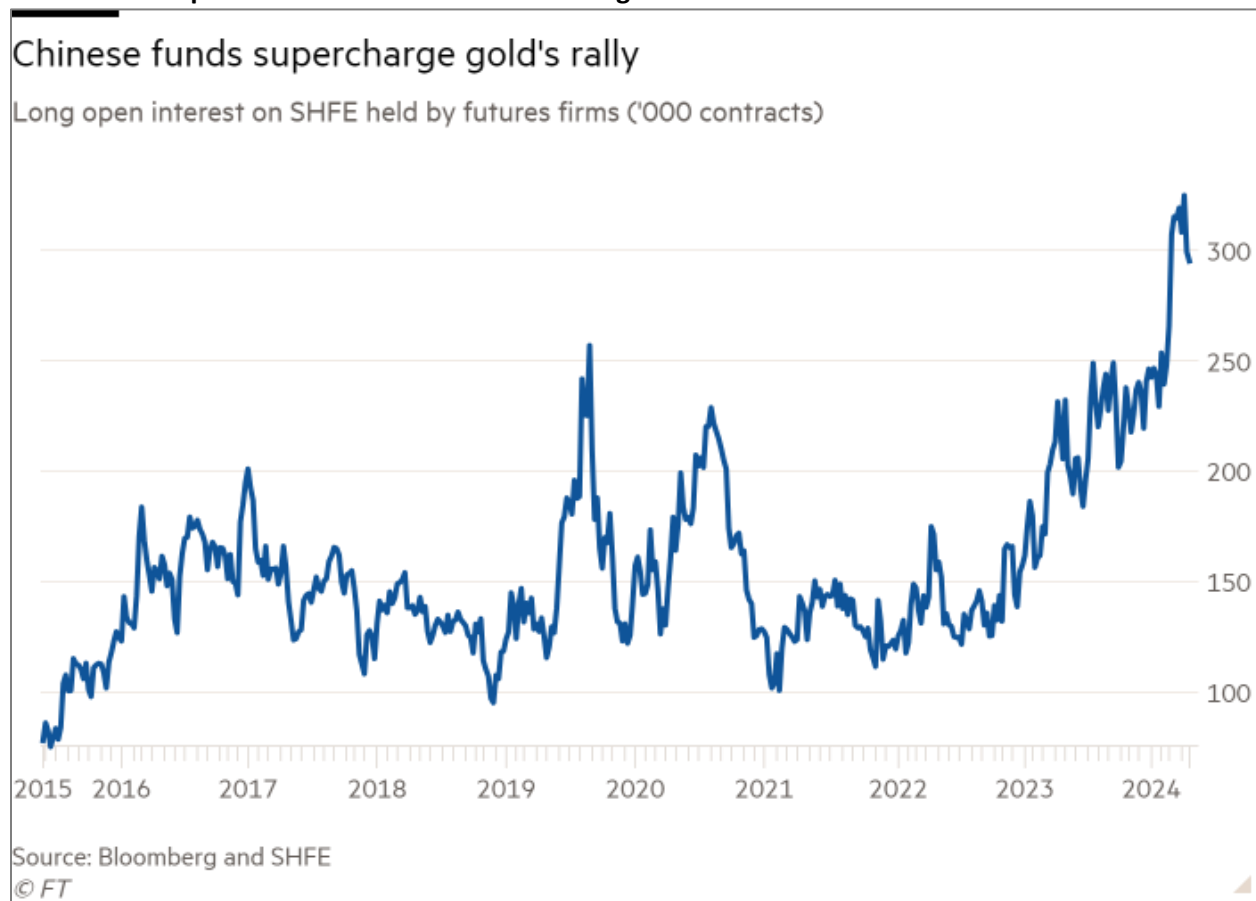
Central bank Gold purchases have also coincided with a persistent discount in Gold producer stocks.



Investors in China have become enthusiastic about Gold in 2024.



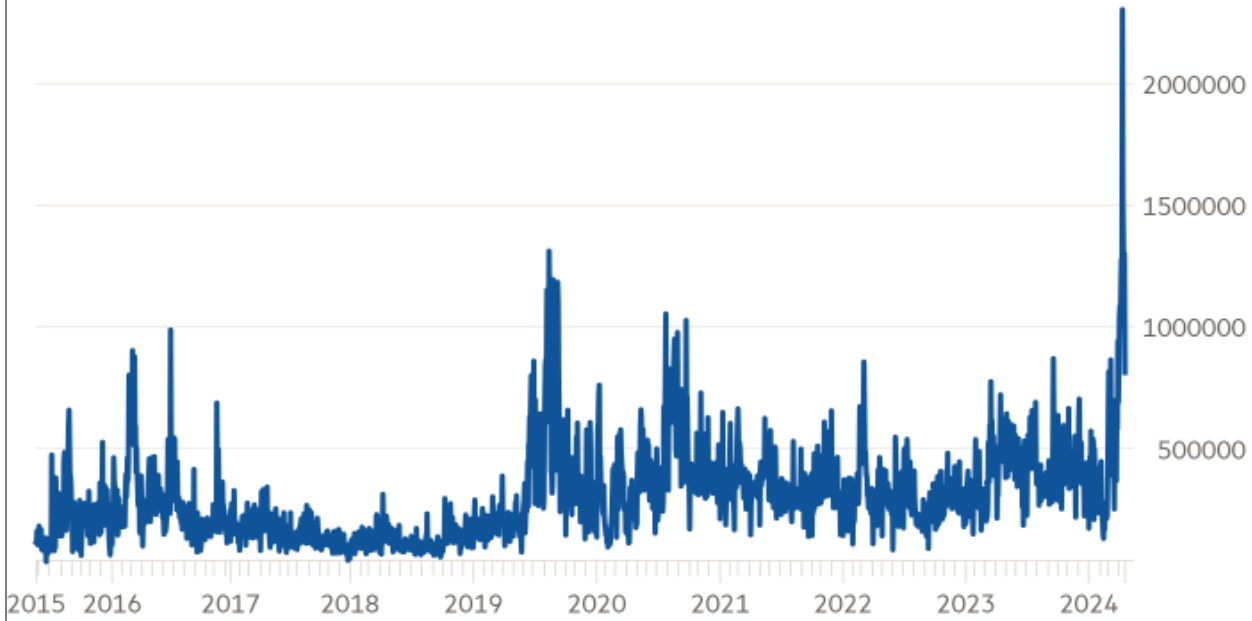
Gold Futures Open Interest in China is at record highs.



Volume in Gold Futures in China has exploded.

Chinese gold trading activity explodes

SHFE trading volume (mn)



Source: Bloomberg
© FT

The United States dominates the world in AI Research.

Private investment in AI by geographic area, 2013–23

Source: Guid, 2023 | Chart: 2024 AI Index report

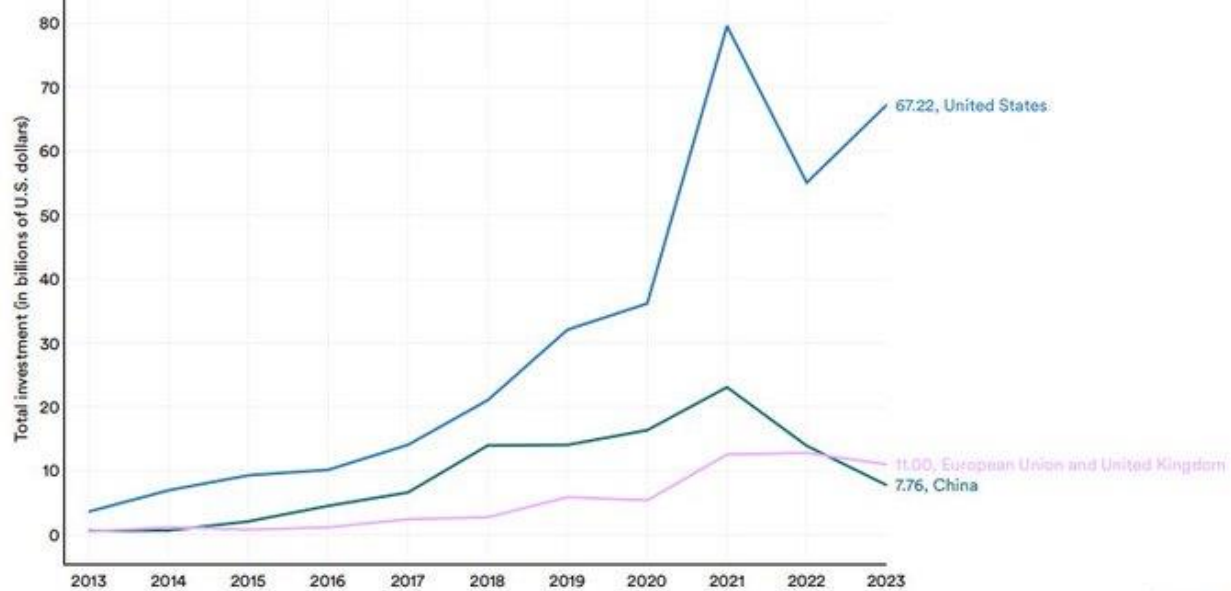
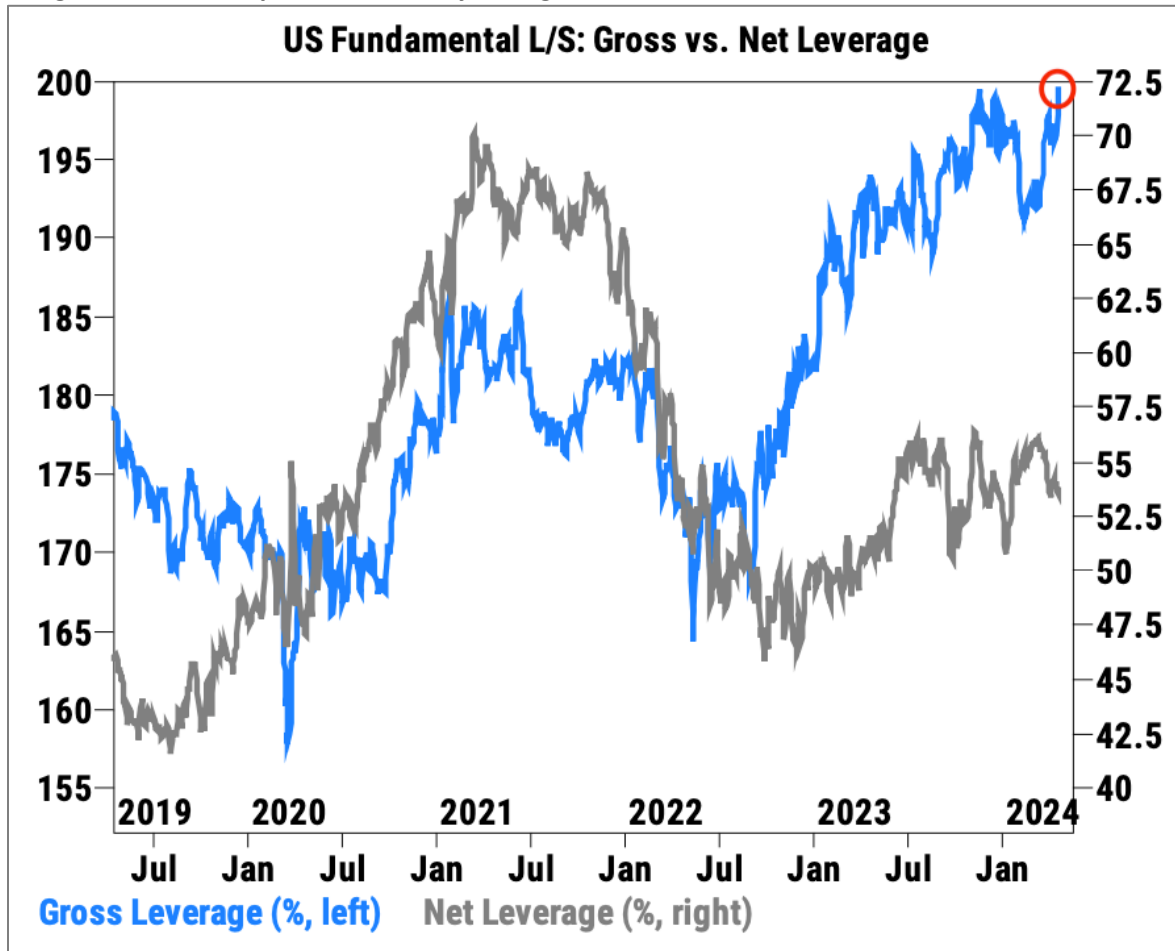


Figure 4.3.10

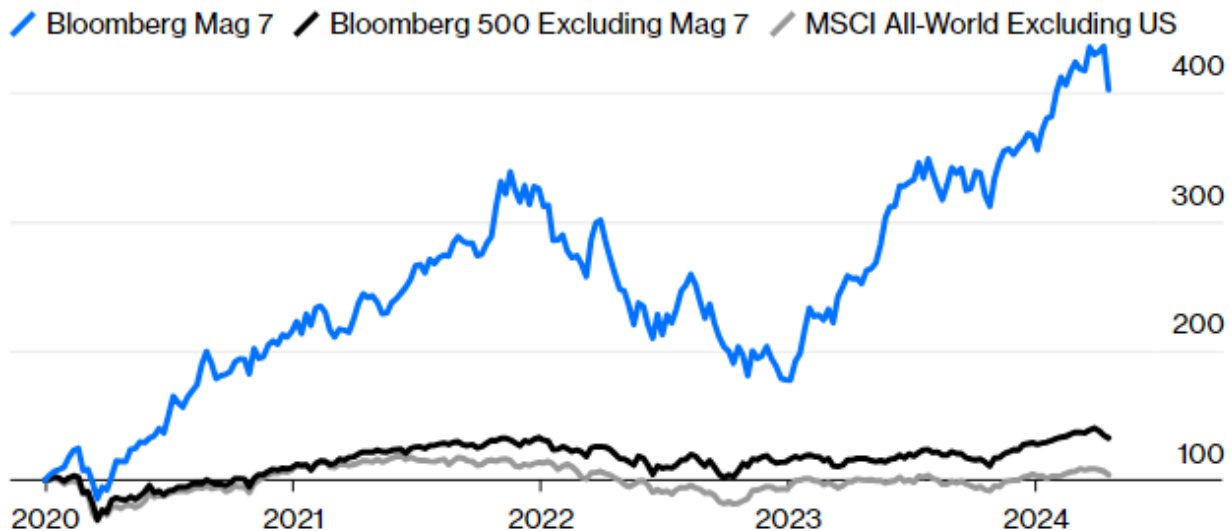
Hedge Fund Gross Exposure hits five-year highs.



COVID stimulus hasn't been so magnificent for most companies.

Magnificence Isn't For Everyone

The post-pandemic financial world would look very different without Big Tech



Source: Bloomberg
 Note: 100 = 01/01/2020

Stock market concentration in the S&P 500 continues to break records.

Chart 2: “Anything But Bonds” bull = “long monopolies, short leverage”

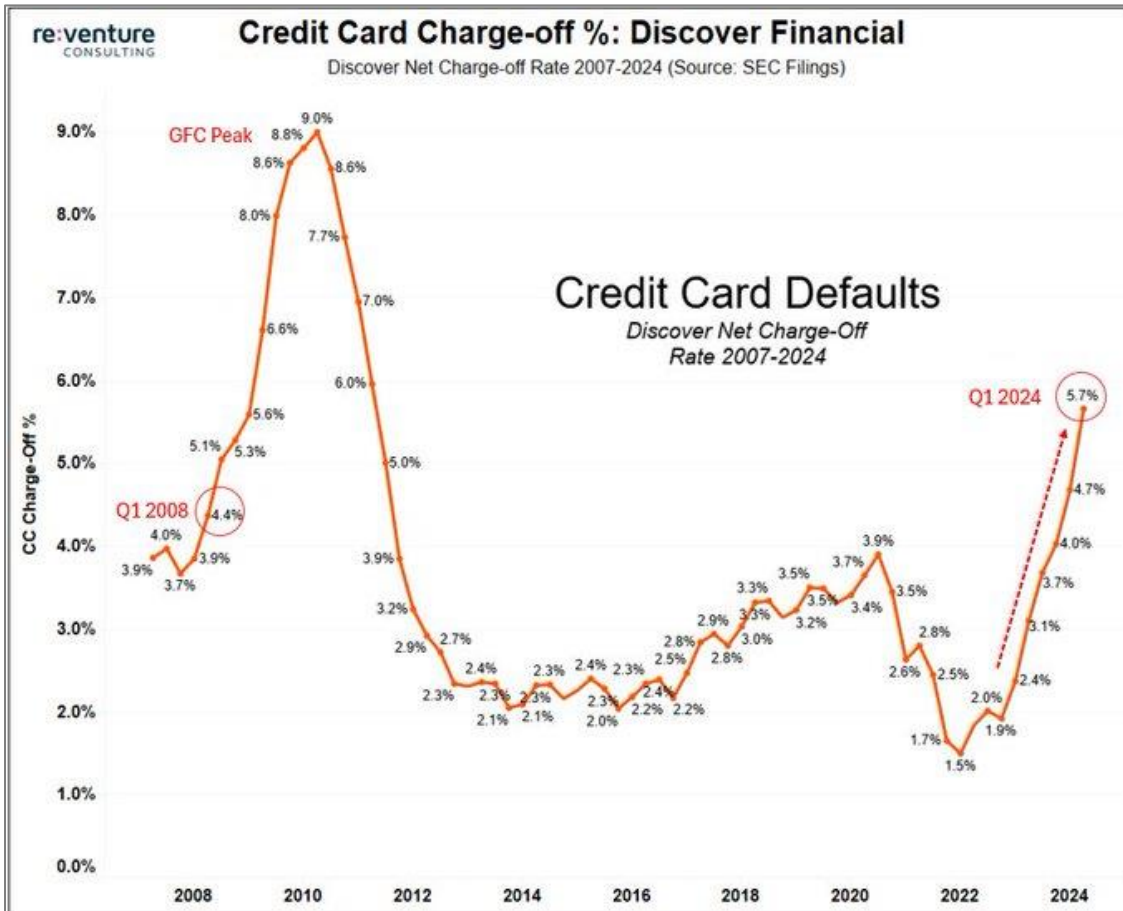
Top 10 companies % of S&P 500 market cap



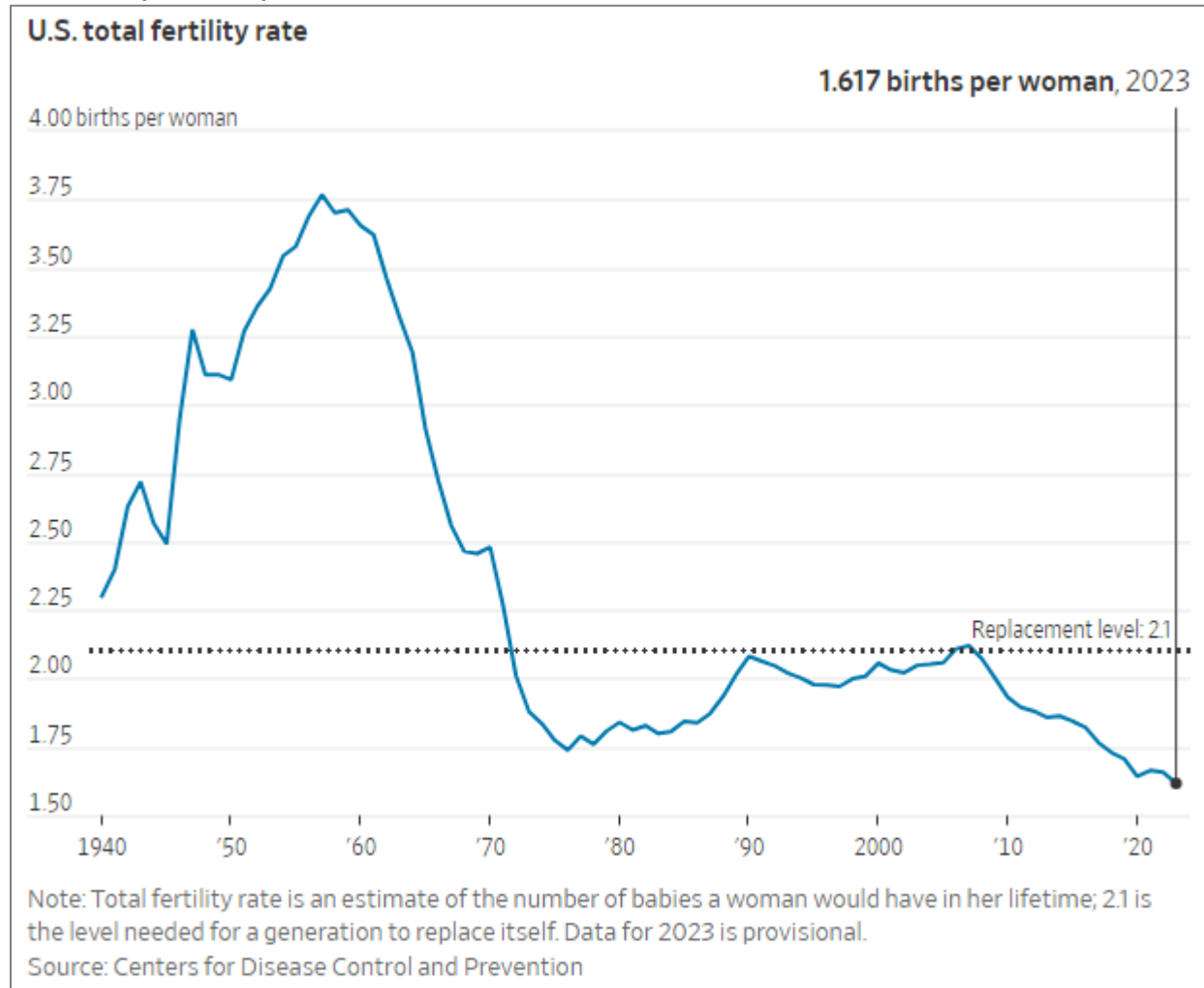
Source: BofA Global Investment Strategy, Bloomberg.

BofA GLOBAL RESEARCH

Credit Card Defaults are at 10-year highs.



U.S. Fertility Rate drops to record lows.



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.