Cypress CAPITAL

Market Outlook

By Mark T Dodson, CFA

We only swing at pitches we like.

Market Risk Index increased for the fourth straight week, climbing to 78.7%. Improvements to our Psychology Composite were more than offset by additional weakening of Monetary Conditions, as the Monetary Composite edged out of the top third of readings.

Monetary Conditions worsened due to the Inflation category shifting to neutral from positive. It's worth noting that our inflation category has been bullish since October 2022, the month that the bear market ended. Additionally, the most recent ISM release showed the ISM Price Index climbing above 60, while the ISM New Orders Index fell under 50, indicating a contraction in activity. Similar stagflationary readings with stocks this close to new highs have only happened a few other times – 1980, 1995, and 2008. There's an analog in that group of years for everyone. Two were associated with recessionary bear markets, and the other was near the start of the Internet stock era. 1980 is notable in that the Fed's economic battle then was similar to today.

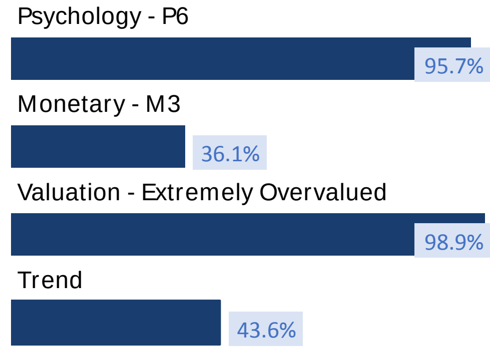
Valuations were unchanged. Warren Buffett was asked about deploying his large cash position at his annual meeting this weekend and summarized present market valuations quite well – *"I don't think anyone sitting at this table has any idea of how to use [$189B in cash] effectively, and therefore we don't use it. We don't use it now [with rates at] 5.4%, but we wouldn't use it if it was at 1% either. Don't tell the Federal Reserve that. We only swing at pitches we like."*

Market Risk Index

Rec Allocation 25% Underweight

78.7%

Category Percentiles



Largest Psychology Influences

Leveraged Investments	Negative
Technical Indicators	Negative
Consumer Confidence	Negative
Fund Flows	Negative

Largest Monetary Influences

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

Valuation

7-10 Year Equity Return Forecast	0.3%
10Yr US Treasury Yield	4.6%

Market Trends

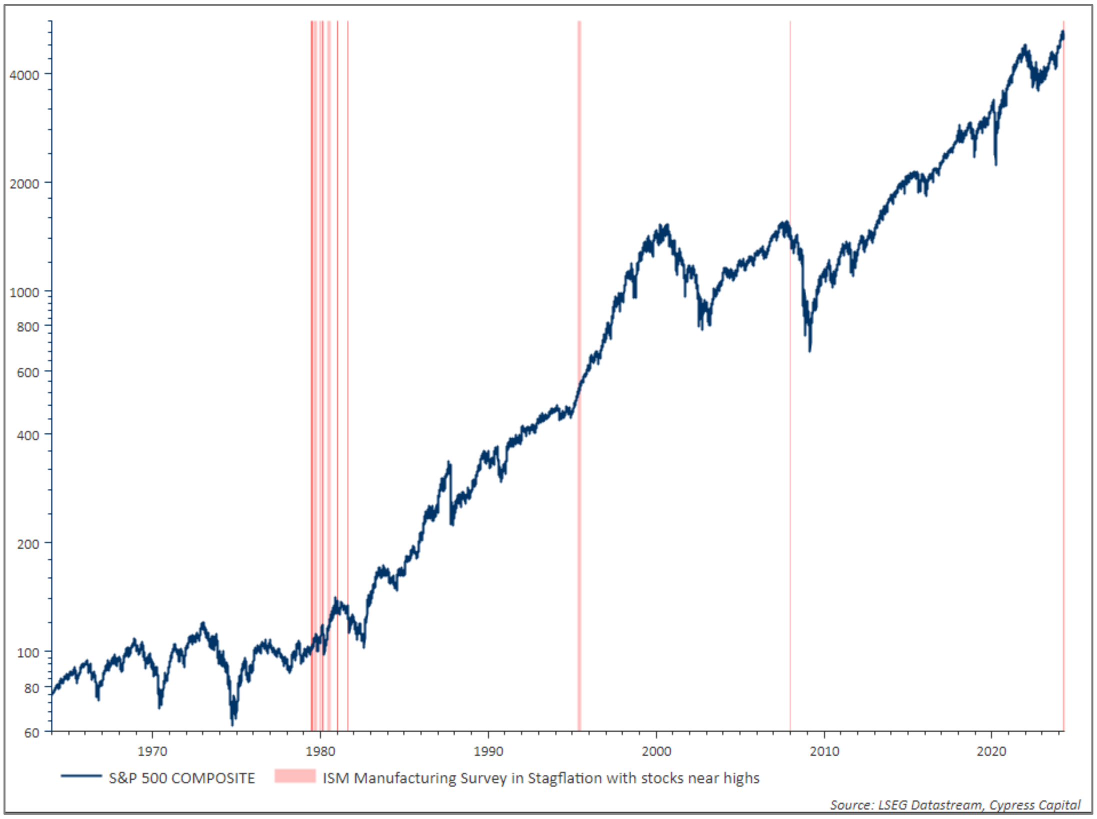
US Equities	Bullish Investment
Intl Equities	Bullish Investment
REITs	Neutral Trade
Broad Commodities	Bullish Investment

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.

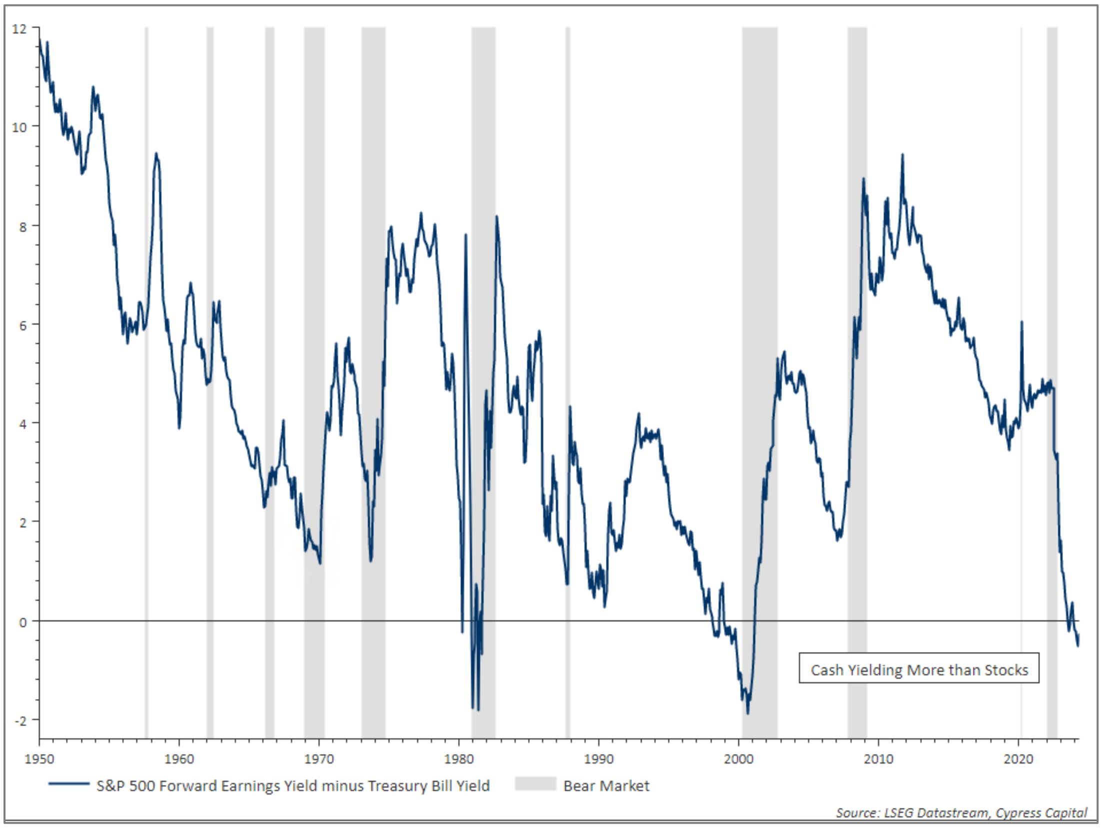
Charts of the Week

Periods where ISM signals stagflation while stocks are near new highs.

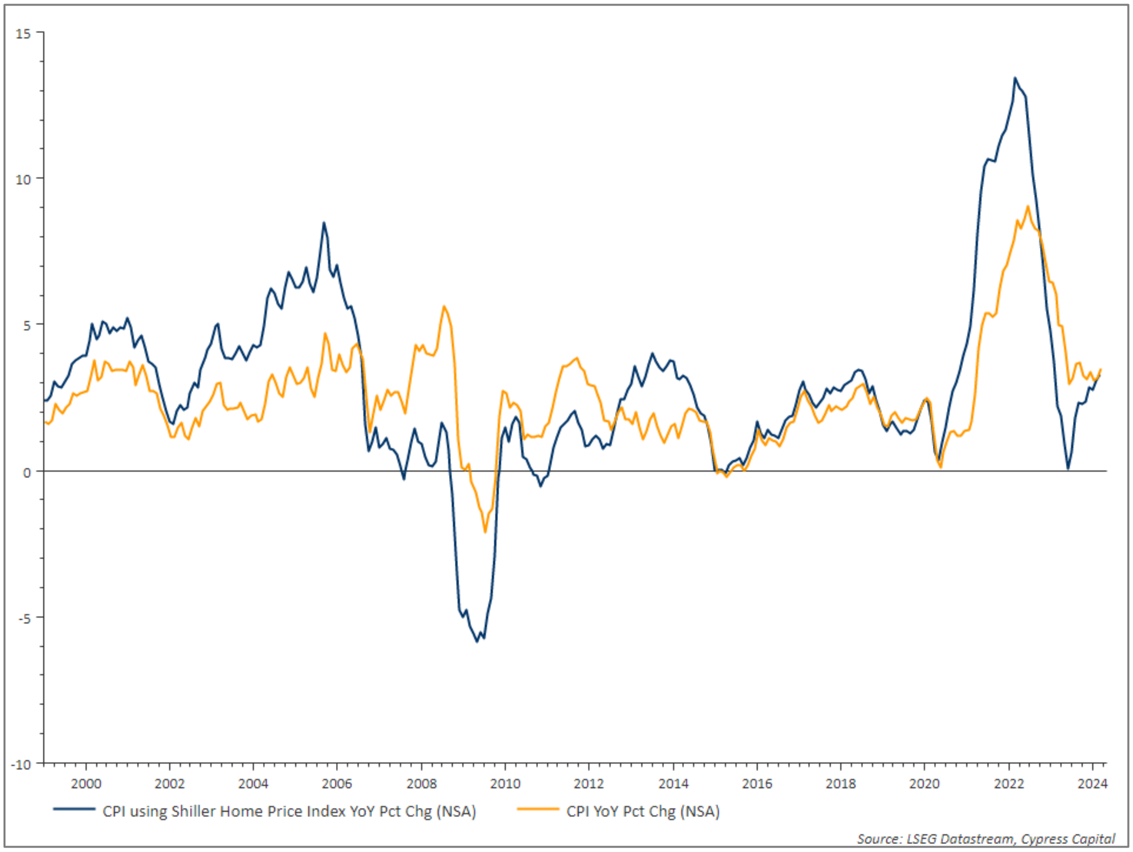
We define stagflation here as New Orders under 50 with the ISM Price Index above 60.



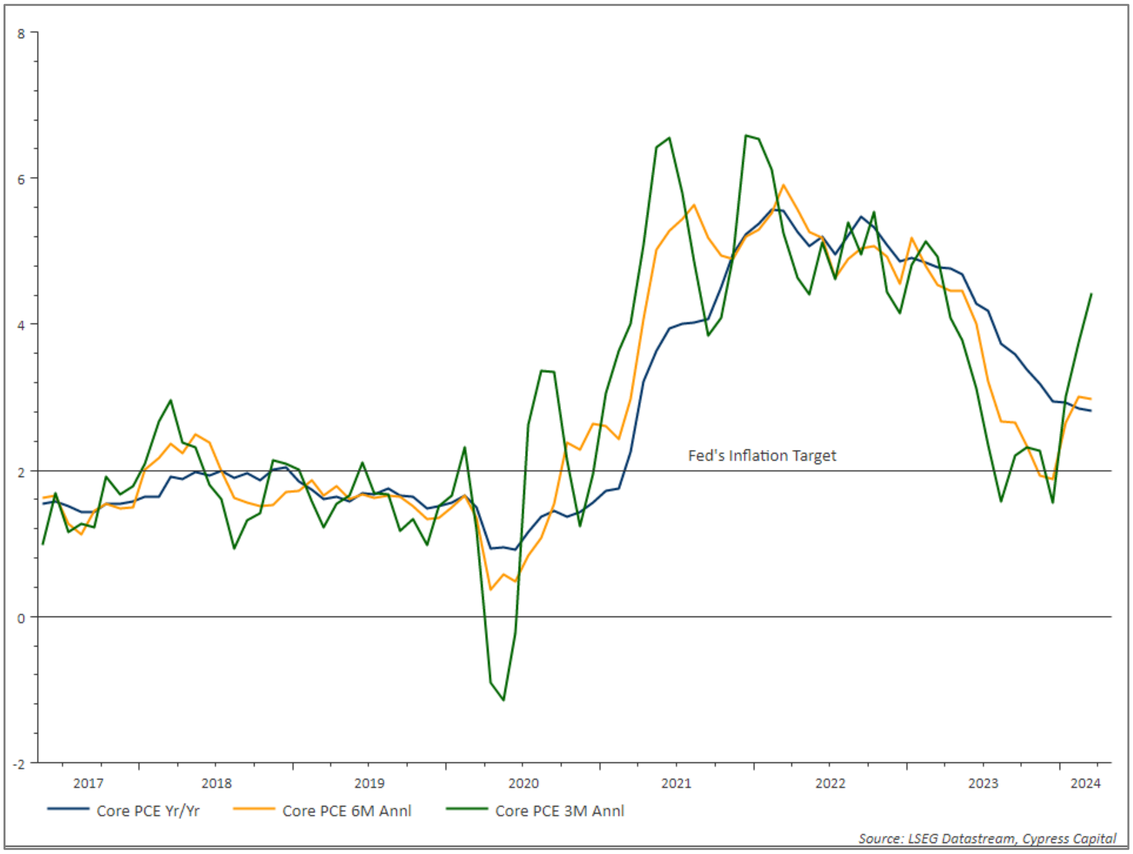
Earnings Yields vs T-Bills: Why Buffett is holding his cash – he's getting paid to wait.



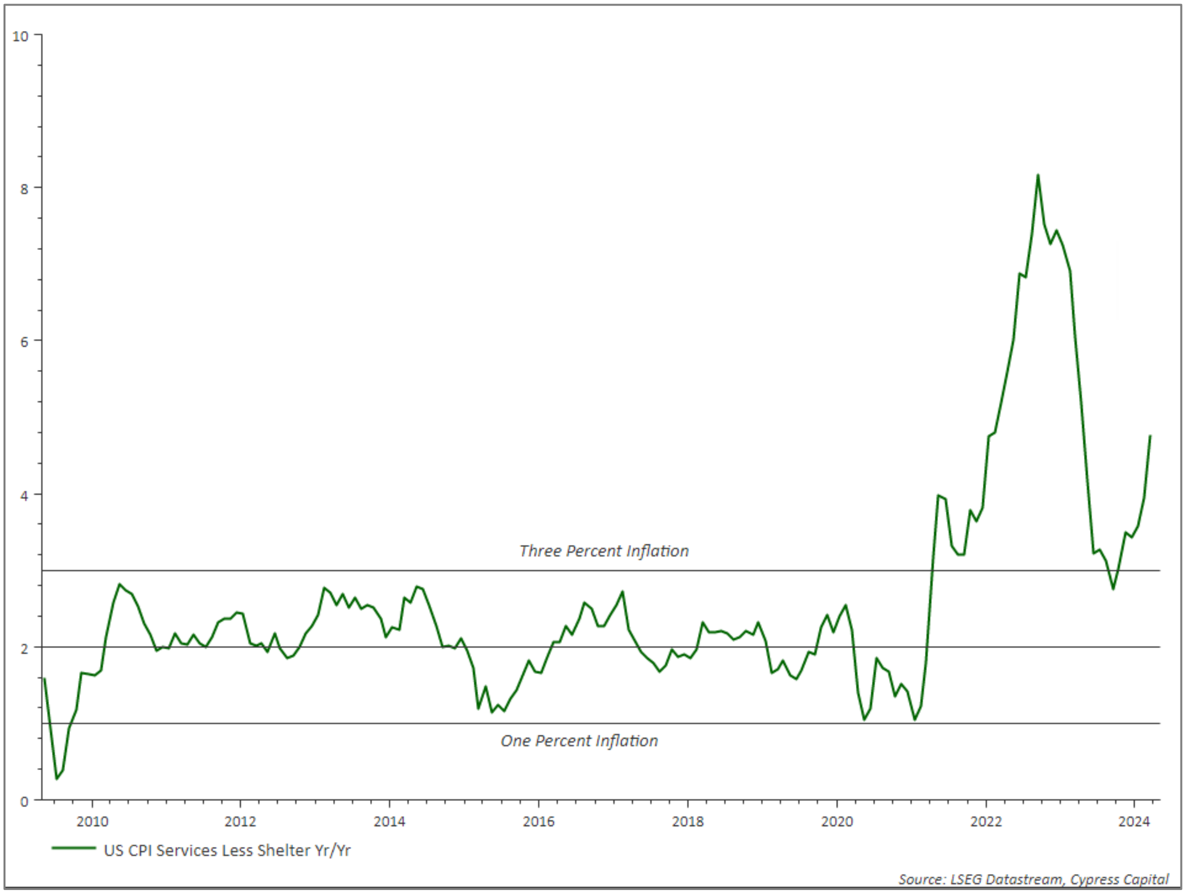
Re-Acceleration of Inflation becomes more evident when we use actual Home Prices in CPI.



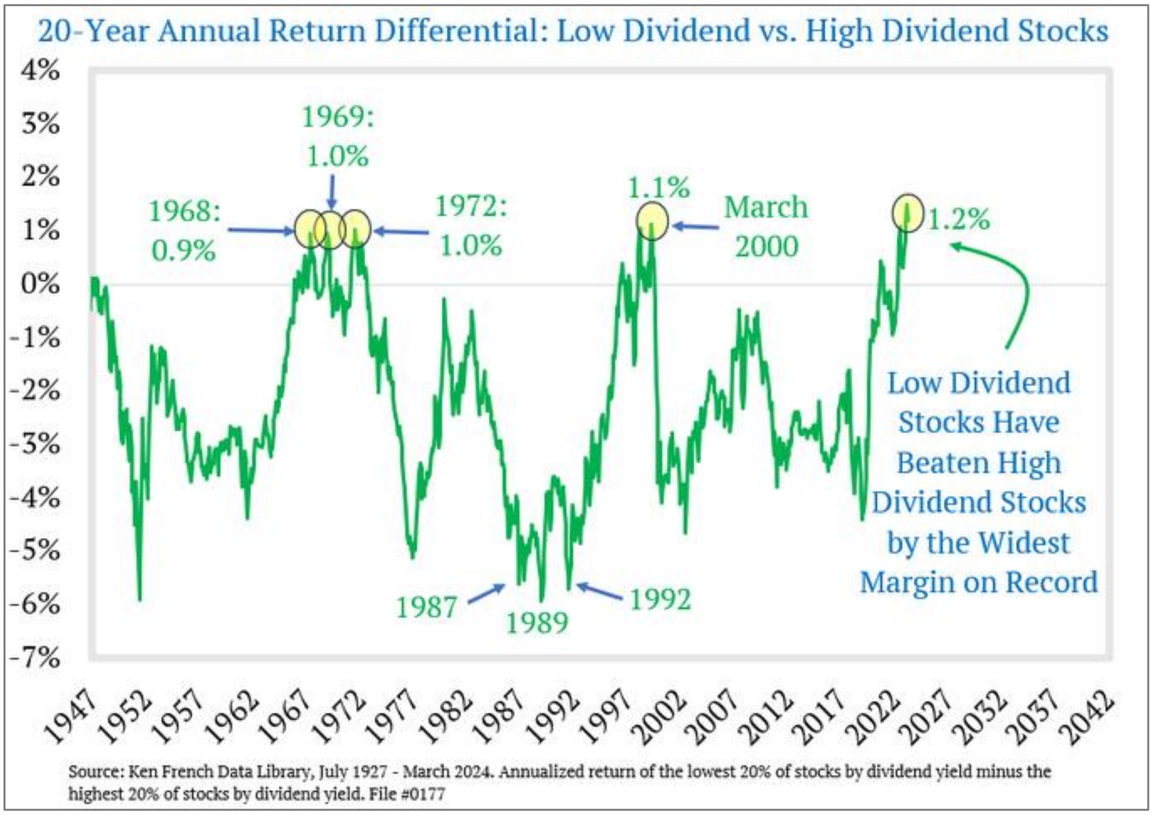
Core PCE Inflation has been accelerating back above the Fed's 2% target.



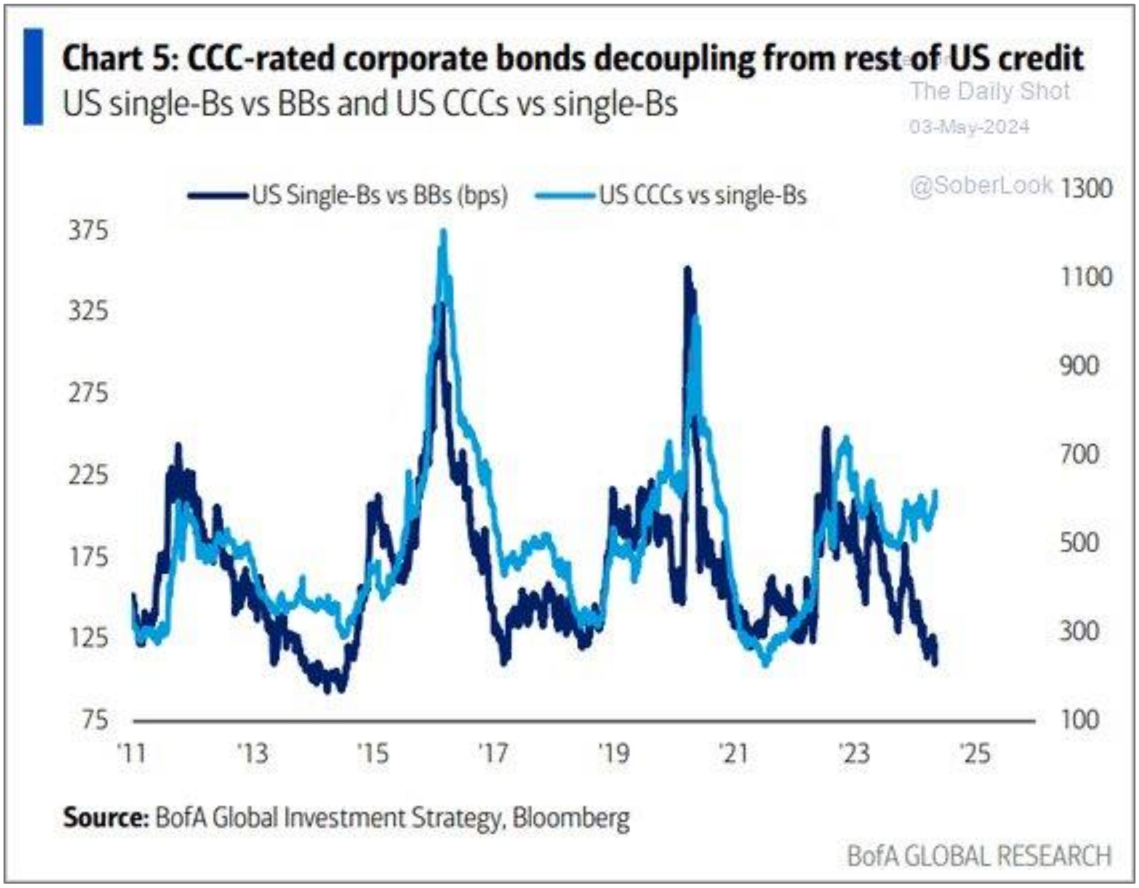
CPI Core Services Inflation (less housing) stopped falling eight months ago.



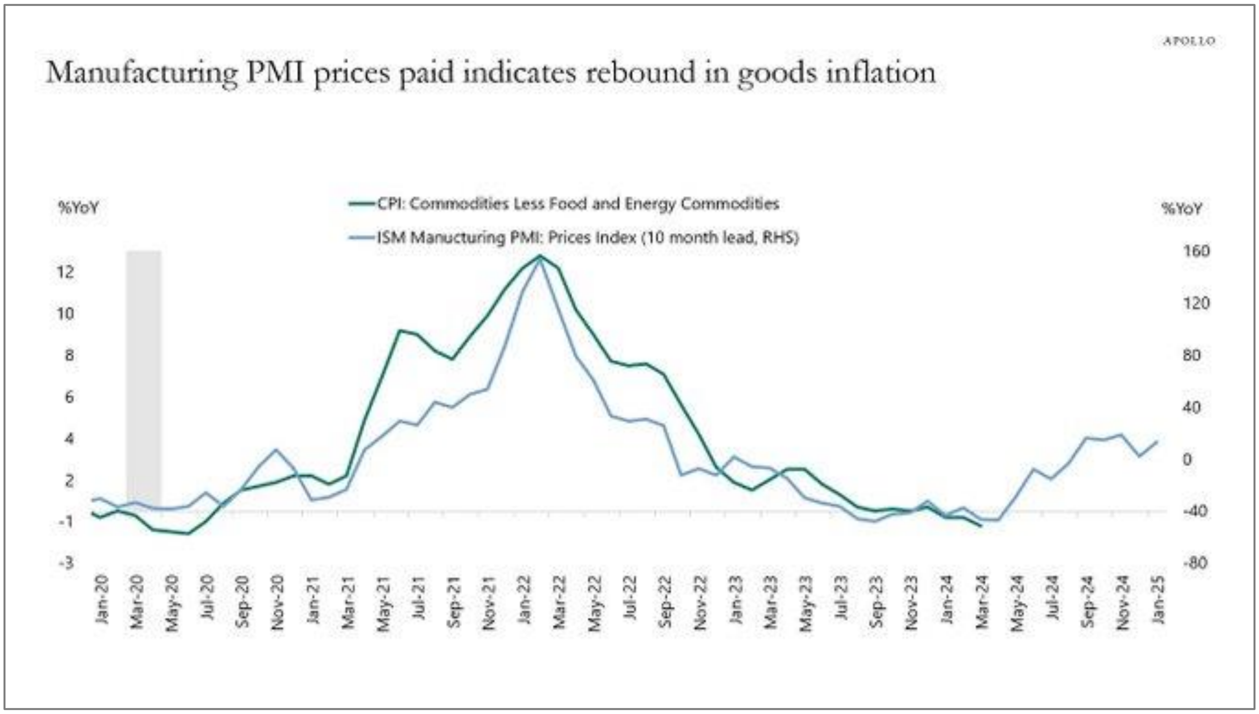
Low Dividend Stocks have outperformed by the largest margin ever.



The most speculative high-yield bonds have decoupled from other US credit.

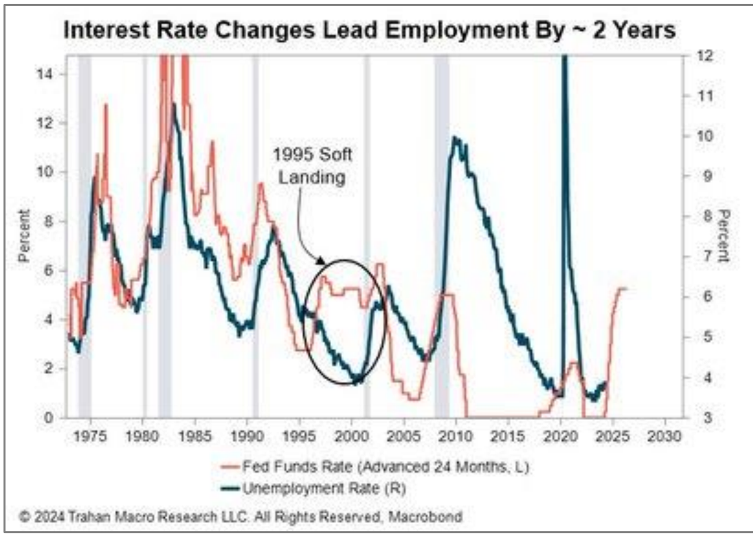


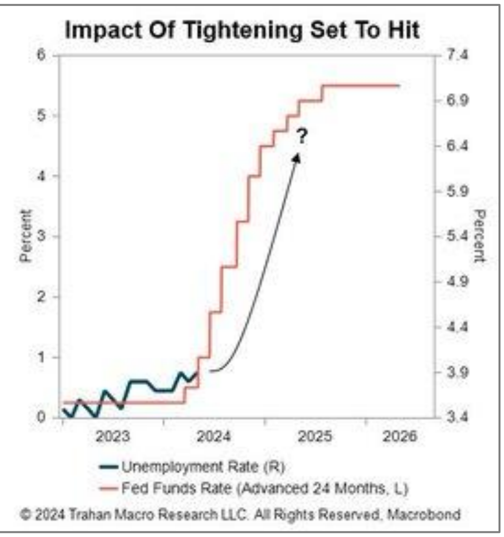
Goods price inflation appears set to reaccelerate over the next ten months.



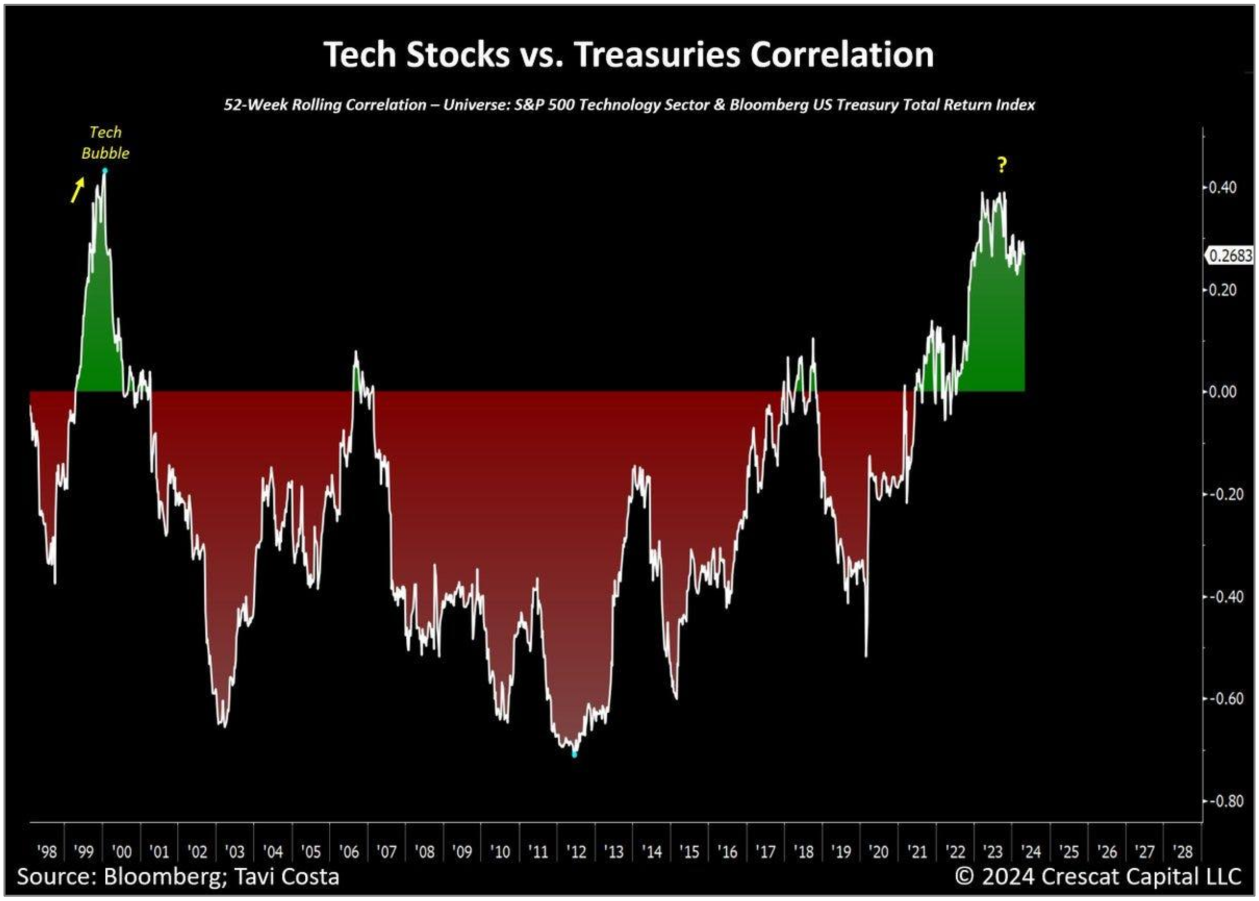
The history of Fed tightening cycles suggests a higher vol regime is on the horizon.

Fed Tightening Cycles Lead Unemployment by about two years as well.



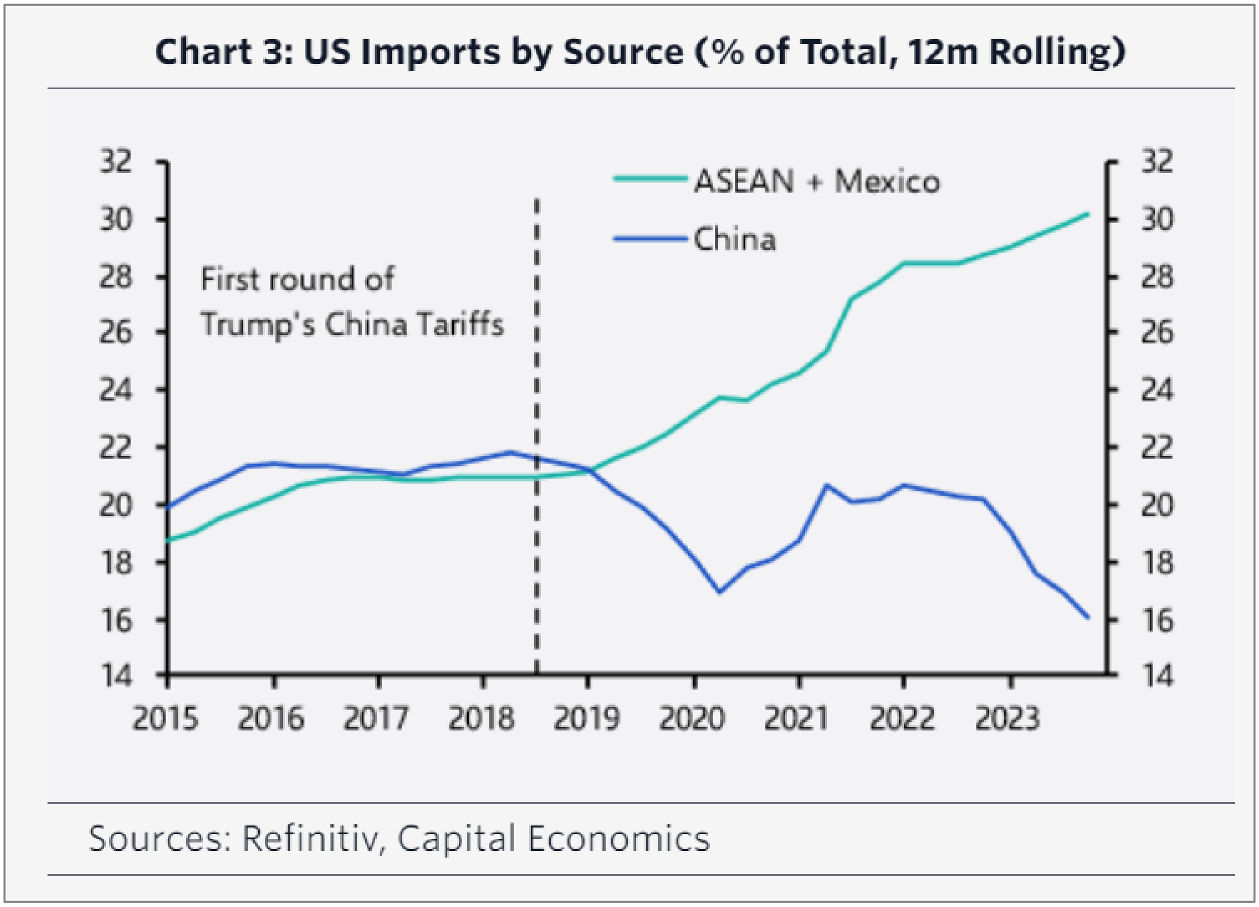


Tech Stocks vs Treasuries Correlation looks reminiscent of the dot-com bubble.



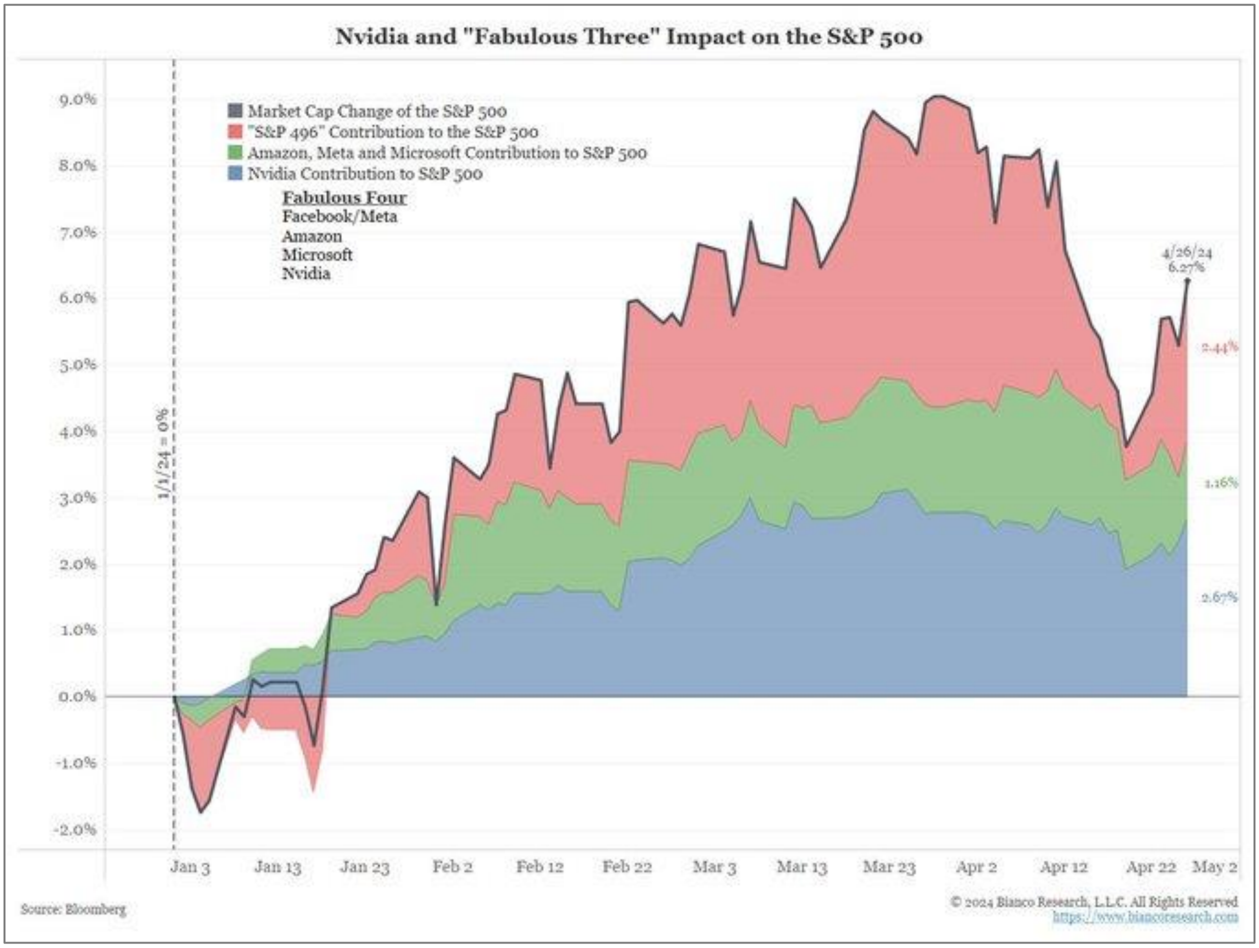
Gold demand, both central bank and retail, has been strong in China.

China Tariffs have benefited Mexico and ASEAN member states.



Breadth Thrust looks bullish for Hong Kong stock prices.

Four stocks account for more than 60% of the S&P 500's gain in 2024.



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.