
WHAT IS MARKET SENTIMENT TELLING US?

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Sentiment: (a) An attitude, thought, or judgment prompted by feeling (predilection); (b) A specific view or notion (opinion).

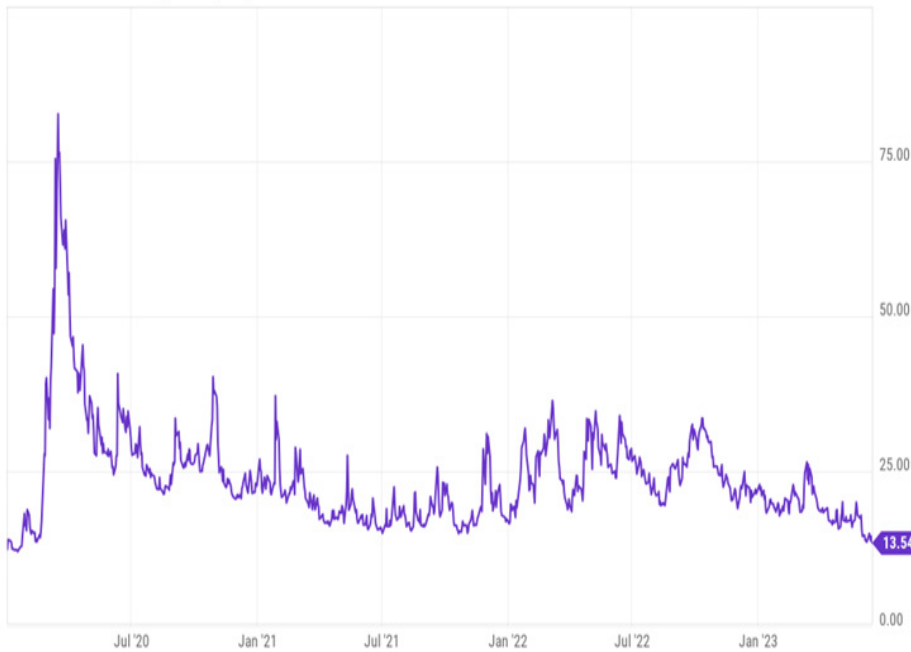
(Definition of “sentiment” from the Merriam-Webster dictionary)

Investors and market “pundits” pay a great deal of attention to “market sentiment” because, regardless of the quantitative facts on the ground, what investors believe also matters a great deal, at least in the short term. As Warren Buffett stated, “In the short run, the market is a voting machine [i.e., sentiment], but in the long run, it is a weighing machine.”

So, what is market sentiment currently telling us, and can we glean useful information from that? Let’s dive in.

Focusing on the equity market, one measure of market sentiment is the “[VIX](#),” which represents a measure of stock market [volatility](#)—the lower the indicator, the more “complacent” or optimistic the market is. By this measure, the market is as complacent as it’s been since pre-COVID-19 in January 2020.

	VAL	CHG	% CHG
CBOE S&P 500 Volatility Index (^VIX)	13.54	-0.96	-6.62%

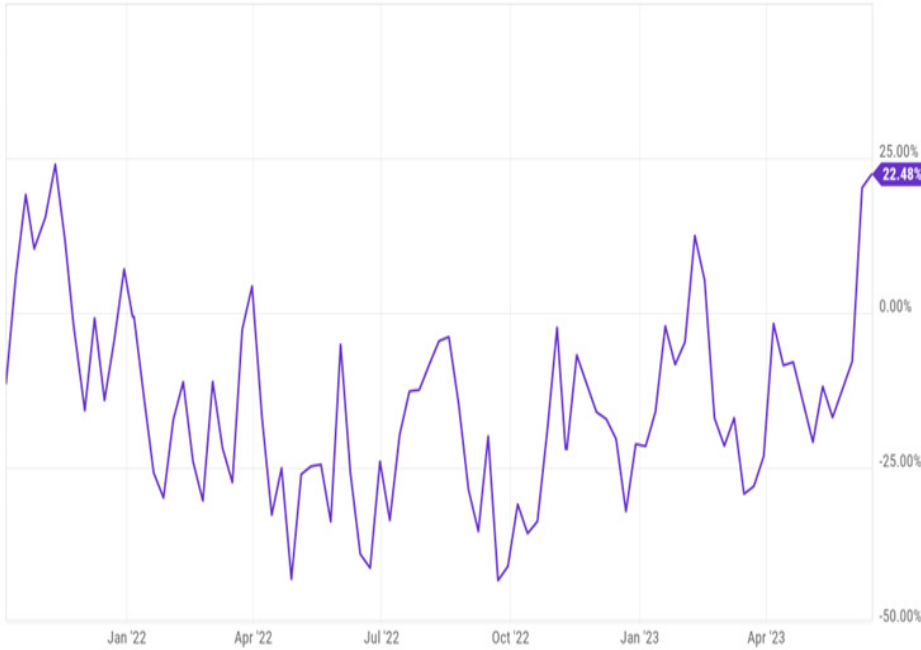


Jun 19 2023, 11:01AM EDT. Powered by **YCHARTS**

Source: YCharts, data from 1/1/20–6/16/23. The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX). Because it is derived from the prices of SPX options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or how fast prices change, is often seen as a way to gauge market sentiment and, in particular, the degree of fear among market participants. You cannot invest in an index, and past performance does not guarantee future results.

What about actual measures of investor sentiment? One common one is the American Association of Individual Investors (AII) Investor Sentiment Survey. It seems investors are as optimistic ([bullish](#)) as they've been since November 2021.

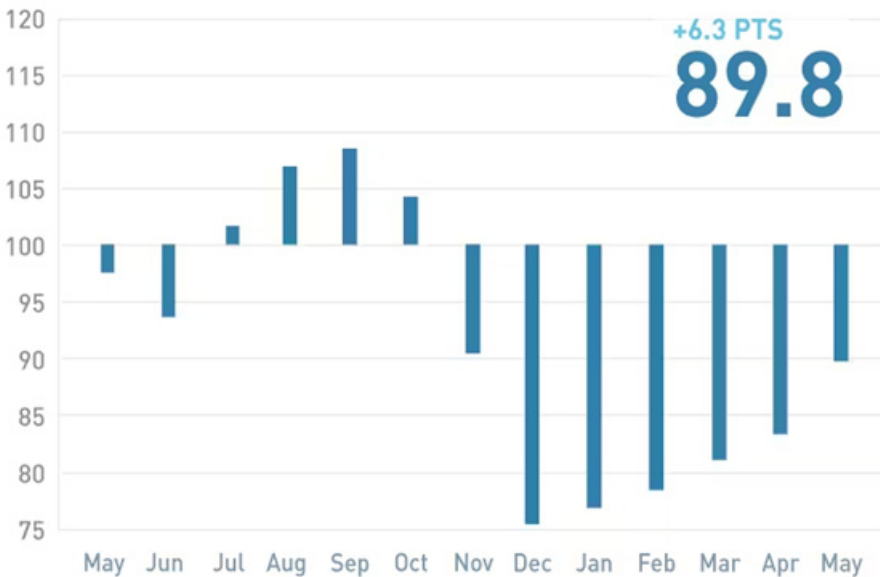
US Investor Sentiment, % Bull-Bear Spread (I:USISBBS)



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Source: YCharts, data from 10/2/21-6/16/23. The AAI Investor Sentiment Survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months and has been doing so since 1987. This market sentiment data is compiled and depicted below for individual use. Investor sentiment is measured with a weekly survey conducted from Thursday at 12:01 a.m. until Wednesday at 11:59 p.m. Tracking sentiment gives investors a forward-looking perspective of the market instead of relying on historical data, which tends to result in hindsight bias.

Another sentiment indicator is the [State Street Investor Confidence Index](#), which focuses on institutional versus retail investors. Here we begin to notice some “dissonance” between the two groups—institutional investors are far less sanguine than retail investors, but the trend remains to the upside.

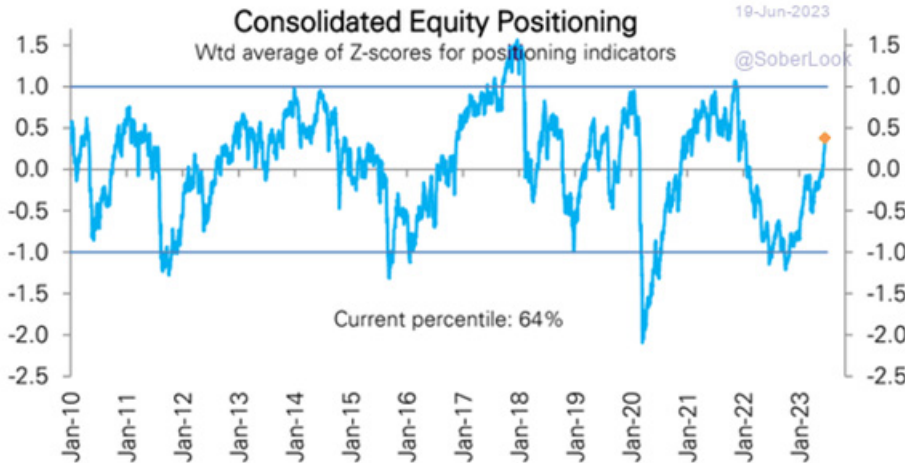


Source: State Street Investor Confidence Index, through May 2023. The State Street Investor Confidence Index measures investor confidence, or risk appetite, quantitatively by analyzing the actual buying and selling patterns of institutional investors. The Index assigns a precise meaning to changes in investor risk appetite: the greater the percentage allocation to equities, the higher the risk appetite or confidence, with 100 as the “neutral” level.

Still another sentiment indicator is the Deutsche Bank “Equity Positioning” indicator, which suggests equities currently are “overbought” by both “discretionary” and

“systematic” investors—another signal of (perhaps complacent) optimism.

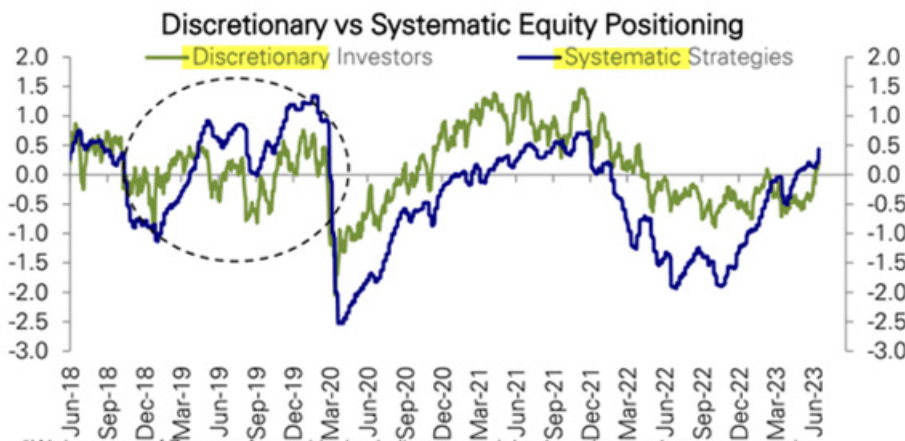
Figure 1: Equity positioning is now clearly overweight



*Weights based on explanatory power in regression of equity performance on indicators

Source : Deutsche Bank Asset Allocation

Figure 4: In 2019, discretionary investors followed systematic strategies into overweight. Are we seeing a similar dynamic today?



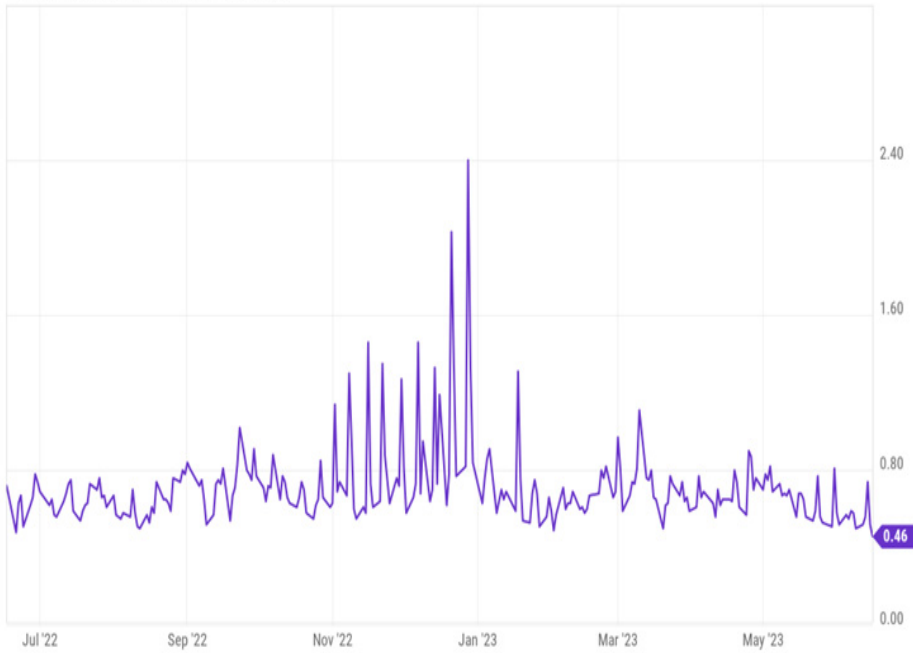
*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source : Deutsche Bank Asset Allocation

Sources: Deutsche Bank and the Daily Shot, as of 6/19/23. The “Z-score” measures, in terms of standard deviations, how far away from the historic mean a given level is. Since markets historically “regress to the mean,” a level above zero (the mean) suggests an “overbought” market, while a level below zero suggests an “underbought” market.

Finally, let’s look at a commonly used measure of market sentiment—the “[put/call ratio](#).” Investors purchasing put options suggests a negative market sentiment, while purchasing call options represents a positive market sentiment. So, the lower the put/call ratio (i.e., the more call options purchased versus put options), the more optimistic the market is behaving. While this is a highly volatile indicator, we can once again see that investor optimism, as measured by this ratio, is as high as it has been over the past 12 months.

CBOE Equity Put/Call Ratio (I:CBOEPCR)



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Source: YCharts, 12-month data through 6/16/23. The CBOE Put-Call Ratio is a market sentiment indicator that helps traders gauge the overall mood of the market. By comparing the volume of put options to call options traded on the Chicago Board Options Exchange (CBOE), the Put-Call Ratio can provide valuable insights into trader sentiment and market trends. Past performance does not guarantee future results.

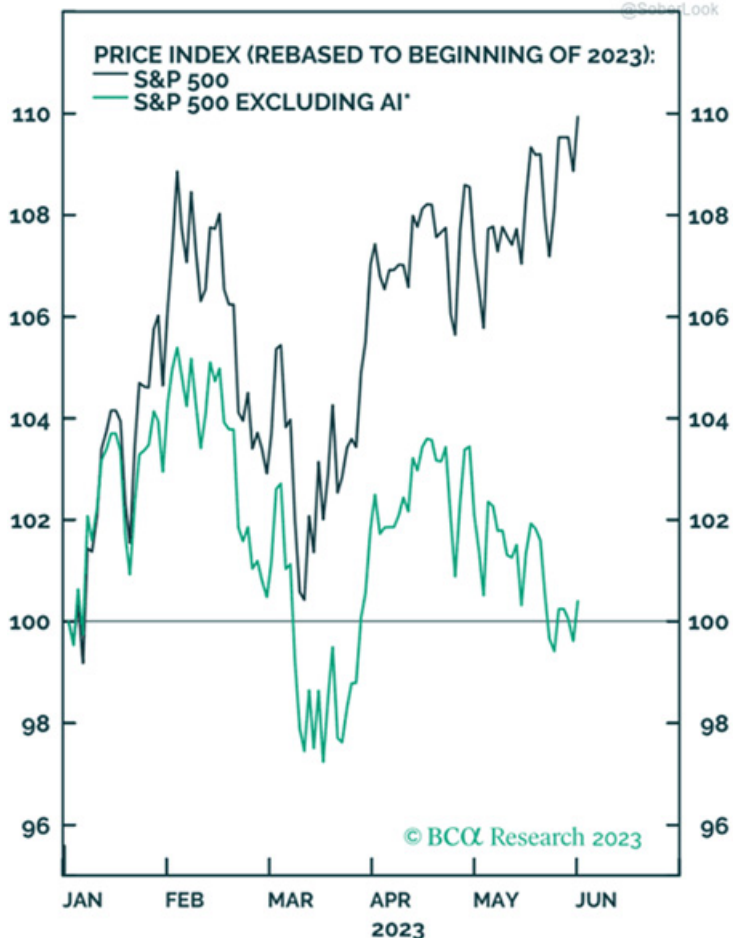
So, what Does This All Mean?

Market sentiment, to us, seems elevated and complacent, especially considering elevated valuations (at least in some portions of the market), slowing economic growth, decelerating corporate earnings, uncertain [Fed](#) policy, still-too-high [inflation](#) and an uncertain geopolitical environment.

Markets determined to run higher can certainly continue to do so—[momentum](#) and sentiment can be powerful catalysts. It is also relevant to recognize that much of the market performance has been driven by this year’s “meme theme”—[artificial intelligence \(AI\)](#).

AI Stocks Have Lifted The S&P 500 This Year

on The Daily Shot
02-Jun-2023
@SoborLook



* EXCLUDES THE FOLLOWING STOCK PRICES: NVIDIA CORP, ADVANCED MICRO DEVICE, MICRON TECHNOLOGY, MICROSOFT CORP, ORACLE CORP, SALESFORCE.COM, ACCENTURE CLASS A, ADOBE SYSTEMS INC, IBM, SERVICENOW, ARISTA NETWORKS, DEERE & CO, TESLAMOTORS, AMAZON.COM, BOOKING HOLDINGS, EBAY, ETSY, ALPHABET 'A' (GOOGLE), ALPHABET 'C' (GOOGLE), META PLATFORMS A, ACTIVISION BLIZZARD, AND ELECTRONIC ARTS.

Sources: The Daily Shot and BCA Research, as of 6/2/23. You cannot invest in an index, and past performance does not guarantee future results.

Historically, however, fundamentals eventually have always mattered again. We are not market timers, nor are we bearish on the longer-term performance of the stock market.

The current complacency among many investors gives us pause because most investors are notoriously poor market timers. We are not “Chicken Little” and are not claiming “the sky is falling.”

But we do suggest paying closer attention to underlying market fundamentals and not just current market momentum.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

- + [A Nice Dose of “Don’t Fight the Fed”](#)
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DEFINITIONS

CBOE Volatility Index® (VIX®): a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. It is the premier benchmark for U.S. stock market volatility.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Bullish: a position that benefits when asset prices rise.

State Street Investor Confidence Index: An index that measures institutional investor confidence. The index looks at actual levels of risk taken by investors in their portfolios and reports the figure on the last wednesday of each month.

Put/call ratio: The ratio of the trading volume of put options to call options and is used as an indicator of investor sentiment in the markets.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Inflation: Characterized by rising price levels.

Momentum: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

Artificial intelligence: machine analysis and decision-making.