Dan Golosovker
dan.golosovker@addepar.com

Fund Sentiment

This Addepar Investor Sentiment Index (ISI) research note is designed to provide transparency into the investment behavior of the wealthiest tier of investors. Leveraging Addepar's network of RIAs and family offices, we analyze anonymized investment data on our platform to gain insight into how ultra-high-net-worth (U/HNW) investors are making portfolio adjustments, effectively capturing their views on the economy and markets. Additionally, where relevant, we conduct client interviews to supplement the data analysis presented. To ensure privacy, we never disclose identities.

Key insights:

- U.S. equities rallied in July. Sentiment was modestly bullish during the first three weeks of the month, although it turned bearish as the rally picked up steam.
- Most sectors showed mildly positive sentiment in July, with four showing negative sentiment.
- Many investors chose to rotate out of the industrials sectors. This behavior coincided with declining industrial production and other economic indicators.
- Sentiment to fund categories was also generally bearish with the exception of non-traditional equities, where it was bullish.
- Sentiment to commodities funds, which generally track commodity prices, started to diverge. While commodity prices enjoyed a recent rally, fund sentiment remained bearish.

In this note, we introduce our equity fund category investor sentiment index (ISI), which expands on our coverage of aggregate U.S. equity sentiment and single stocks (through sectors) to now also include funds (exchange-traded funds and mutual funds) aggregated to Morningstar categories.

Investment professionals and academics alike view asset flows as a reliable gauge of demand for an asset. Increasing demand, in theory, should be linked to rising asset prices, while decreasing demand should correspond with falling prices. For investors, asset flows are therefore an important point of triangulation that can validate other traditional valuation techniques.

Moreover, our ISI seeks to solve two primary limitations with traditional aggregate flows data sets that we aim to improve upon with the Addepar ISI.

> 1) Traditional flows data are aggregated across all market participants: asset managers, institutional investors, insurance, HNW, retail investors and others. It's therefore impossible to disaggregate this data to isolate individual investors or groups of investors to make an accurate comparison.

> 2) In other flows data, the definition of asset flows is often quite simple. It's the net amount of money moving into or out of an asset. Because flows are effectively dollar-weighted, an individual investor can have an outsized impact on the aggregate flow by virtue of having the largest flow. This makes it challenging to discern whether the flows we want to evaluate are the result of broad-based sentiment or of an individual investor's decisions and circumstances. For this reason, analysts generally look at long-term trends in flows data and don't rely too much on the shorter-term wiggles.

The Addepar ISI is designed to address these two challenges. The ISI is computed as the percentage of U/HNW portfolios meaningfully adding exposure to their portfolios minus the percentage of portfolios meaningfully subtracting exposure from their portfolios. Through this simple methodology, the ISI enables wealth managers to isolate the aggregate sentiment across a large slice of portfolios in this U/HNW private wealth segment, while portfolio-weighting the flows.

Aggregate Sentiment to U.S. Equities

After a prolonged drawdown, U.S. Equities (proxied by the S&P 500) rallied in July. Per figure 1, investor sentiment was modestly bullish during the first three weeks of the month, although it became bearish as the rally picked up steam.

Figure 1: Weekly ISI vs S&P 500

November 30, 2021–August 2, 2022
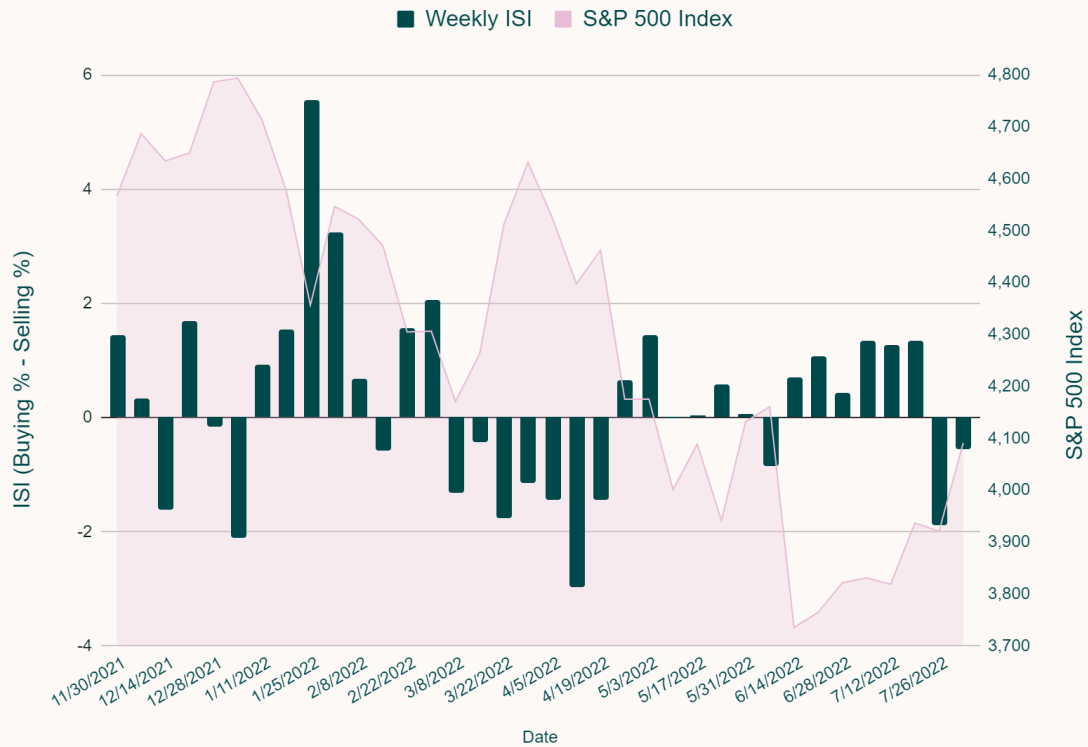
Source: Addepar

Figure 2 below outlines sector-level sentiment. These sentiment values are based on flows from individual equity positions without "looking through" into fund instruments, which may also hold equities (see below for fund-level sentiment). The sentiment values are shown as "z-scores," which are measures of how unusual values are relative to past history (in this case, January 2, 2018 through August 2, 2022)[1].

---

[1] Z-scores (or "standard scores") are defined as $z = (x - \mu) / \sigma$, where μ is the mean and σ is the standard deviation of the population. In this case, we calculate the mean of quarterly flows (i.e., Buys–Sells) from Q1 2016 to Q1 2022. Similarly, the standard deviation is calculated based on quarterly flows over the same timeframe. For reference, a z-score with a magnitude larger than -1 or 1 has a probability of ~16%. A z-score with a magnitude larger than -2 or 2 has a probability of ~4%.

Figure 2: Sector Sentiment (4–week average) and Performance
July 1, 2022–July 30, 2022

Sector	Sentiment	Performance
Technology	0.9	13.5%
Healthcare	0.8	3.3%
Energy	0.5	9.7%
Financial Services	0.4	7.2%
Real Estate	0.2	8.5%
Utilities	0.2	5.5%
Consumer Cyclical	0.1	18.9%
Materials	-0.3	6.1%
Communication Services	-0.3	3.7%
Consumer Defensive	-0.4	3.3%
Industrials	-1.6	9.5%
Bullish/Bearish		
Relative to own history:		
Strong -		
Moderate -		
Moderate +		
Strong +		

Eight of the nine sectors had relatively mild sentiment in July despite strong performance broadly, and particularly in consumer cyclical and technology. The industrials sector had the lowest sentiment. The Purchasing Managers Index (PMI), a monthly indicator of economic activity, has been steadily declining after peaking in November 2021. Industrial production also declined modestly in June.

We also now examine sentiment based on flows into and out of mutual funds and ETFs by Morningstar fund category. Again, we provide the data in terms of z-scores, which represent how unusual the size of the flow is relative to the history of that particular fund category.

Figure 3: Fund Sentiment (4–week average)

May 31, 2022–July 31, 2022

Fund Category	7/30/2022	6/30/2022	5/30/2022
Allocation	-1.0	-1.3	-1.2
Alternative	-0.9	-1.0	-1.7
Commodities	-2.2	-1.6	-0.9
International Equity	-1.4	-1.0	-1.4
Municipal Bond	-0.9	-0.7	-0.7
Nontraditional Equity	0.4	-0.4	1.5
Sector Equity	-1.5	-0.8	-0.2
Taxable Bond	-1.0	-1.5	-1.3
U.S. Equity	-1.5	-0.8	0.6
Bullish/Bearish			
Relative to own history:			
Strong -			
Moderate -			
Moderate +			
Strong +			

Source: Addepar, Morningstar

Sentiment to fund categories was generally bearish, with commodities decreasing to record low levels. Per figure 4, sentiment to commodities funds has historically loosely tracked the direction of the market. When commodity prices increase, sentiment to commodities funds also improves and vice versa. As this was written, sentiment to commodities funds has remained relatively bearish even as commodities prices have enjoyed a modest rally. Intriguingly, sentiment to energy stocks remains moderately bullish.

Figure 4: Commodities Sentiment vs Rising/Falling Commodity Prices

October 1, 2021–July 31, 2022
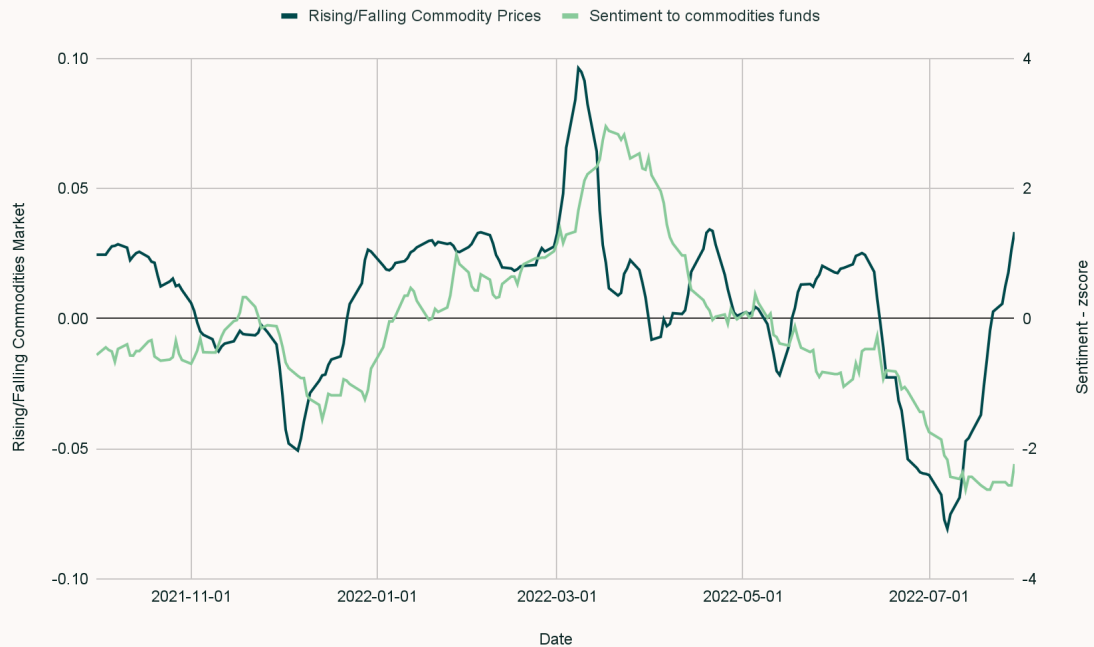
Commodity prices are based on the Bloomberg Commodity Index. Rising/Falling indicator is computed as the average price of the previous week divided by the average price over the previous month.
Source: Addepar, Morningstar

As noted above, sentiment specific to the nontraditional equity category turned bullish in July while all other fund categories were bearish. Figure 5 lays out nontraditional equity sentiment and U.S. equity fund sentiment. Sentiment across these categories may be starting to diverge. We'll continue to monitor this development and report back to you.

Figure 5: U.S. Equity and Nontraditional Equity

October 1, 2021–July 31, 2022
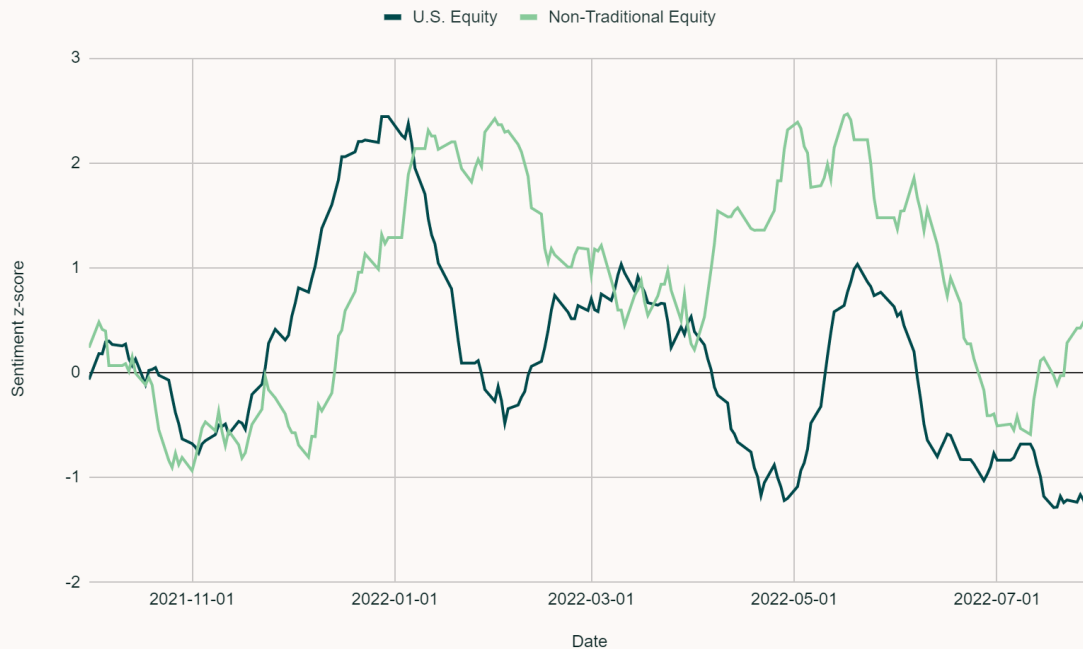
Commodity prices are based on the Bloomberg Commodity Index. Rising/Falling indicator is computed as the average price of the previous week divided by the average price over the previous month.
Source: Addepar, Morningstar

Stay tuned

In this research note, we've expanded our coverage of net sentiment and sectors to fund categories. We'll continue to develop analytics that provide additional value to our clients through the aggregated and anonymized investment data on our platform. We'll also keep posting the monthly ISI index, our key observations and periodic research notes on our website.

Notice and disclaimers