

# All quiet on the sentiment front

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.

## Summary:

- Investors remain on the sidelines as markets dip into bear market territory.
- Bullish sentiment in utilities appears to be tied to the escalation of tensions in Ukraine.
- Financial services sentiment is no longer tracking changes to long-term interest rates, not seen since the onset of the pandemic.

A bear market is when a market experiences a significant (and sometimes prolonged) price decline and it's generally accepted that a decline of 20% or more (for no magic reason) from the most recent highs is a bear market. Most definitions also say that in bear markets there's widespread pessimism and negative sentiment. This research note examines how U/HNW private wealth investors are reacting to current conditions.

The S&P 500 index most recently peaked at the turn of the year at 4796.56 on 1/3/2022. As of the writing of this piece, the S&P 500 closed at 3666.67 on June 16, a decline of more than 23%. Putting this into perspective, basic data compiled from the Bespoke Investment Group shows<sup>1</sup> that since WWII there have been 14 bear markets, with the median pullback over that timeframe at approximately 30%, and

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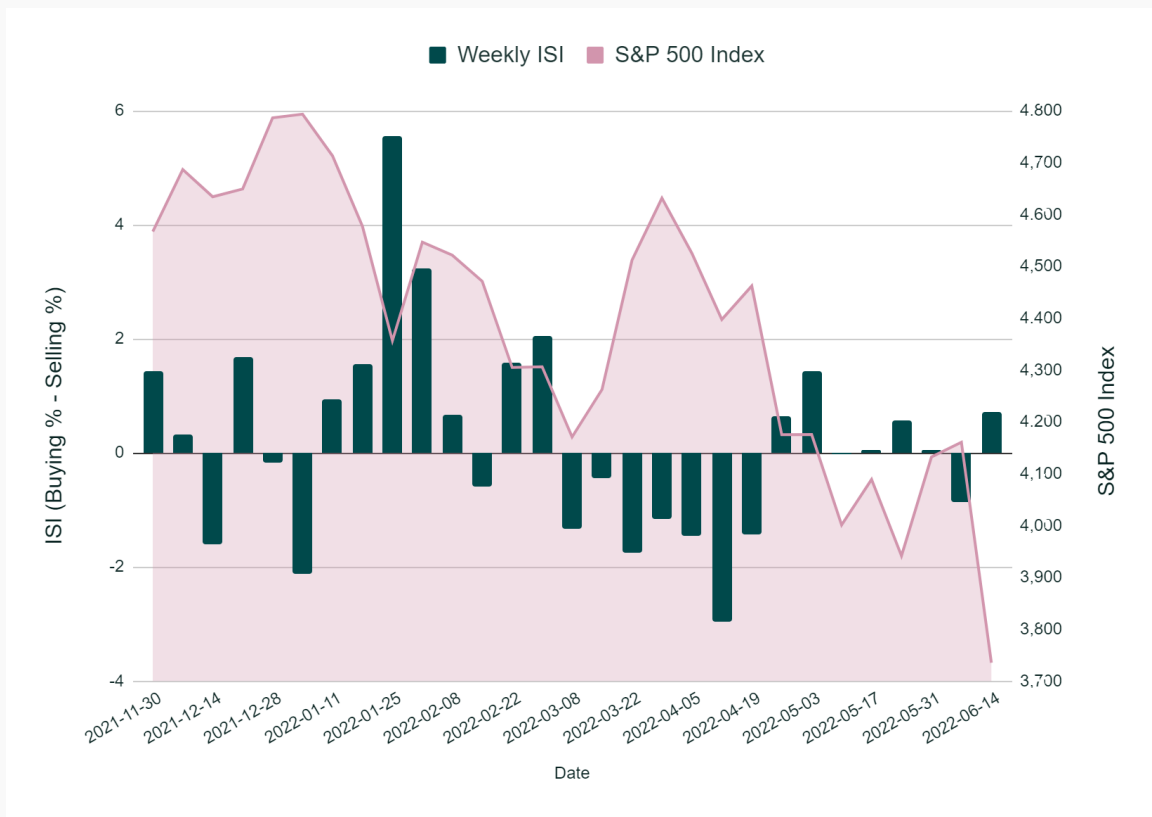
<sup>1</sup> CNBC, Samantha Subin, published 6/12/2022

downturns lasting a median of 359 days. If history proves to be a guide, then one should prepare for what may still precipitate.

Our analysis from January's note showed that, on a historical basis, investors tend to diligently rebalance up until they start experiencing drawdowns in the 15–20% range, after which they tend to reduce exposures. Given this analysis, in the current circumstances, one would expect negative sentiment. However, contrary to this history, net sentiment has been quite muted, showing that the majority of investors are staying on the sidelines even while markets are selling off and becoming quite volatile.

**Figure 1: Weekly ISI vs S&P 500**

December 27, 2021–May 28, 2022



Source: Addepar

Performance was quite negative across all sectors with the exception of energy. Sentiment was broadly muted except for strongly bullish sentiment to utilities and negative sentiment to consumer defense.

### Figure 3: Sector Sentiment (4-week average) and Performance

May 16, 2022–June 14, 2022

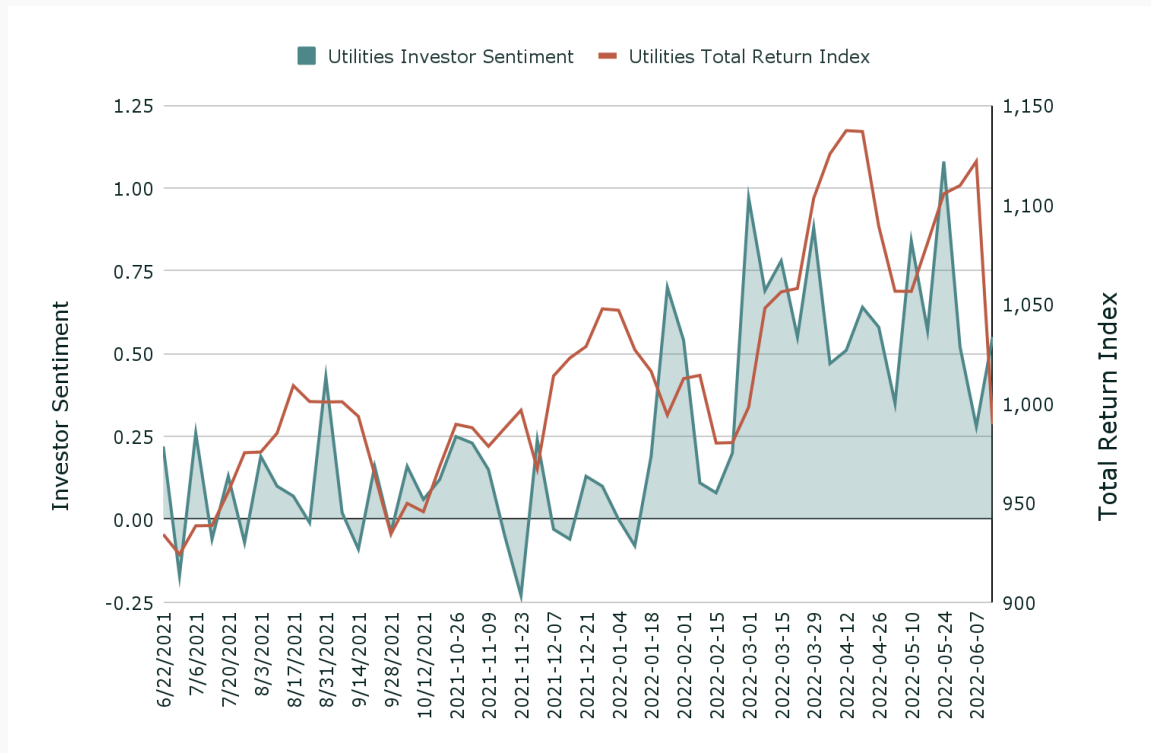
Sector	Sentiment	Performance
Utilities	2.1	-7.5%
Communication Services	0.9	-7.8%
Materials	0.6	-5.5%
Technology	0.5	-6.5%
Energy	0.4	1.9%
Financial Services	0.2	-6.0%
Healthcare	-0.2	-7.0%
Industrials	-0.6	-5.5%
Consumer Cyclical	-0.8	-7.6%
Real Estate	-0.9	-9.0%
Consumer Defensive	-1.2	-10.5%
Bullish/Bearish		
Relative to own history:		
Strong -		
Moderate -		
Moderate +		
Strong +		

Source: Addepar, Refinitiv

Utilities are typically a pretty quiet sector, with generally lower levels of sentiment. However, this changed abruptly in late January with sentiment jumping to record high levels (figure 2). Perhaps not coincidentally, on January 24th, NATO put forces on standby, while some western nations started the evacuation of embassies in Ukraine. Utilities sector returns subsequently also performed well during this time frame, although utilities have most recently sold off along with other equities.

## Figure 2: Utilities Sentiment vs Returns

June 12, 2021–June 14, 2022

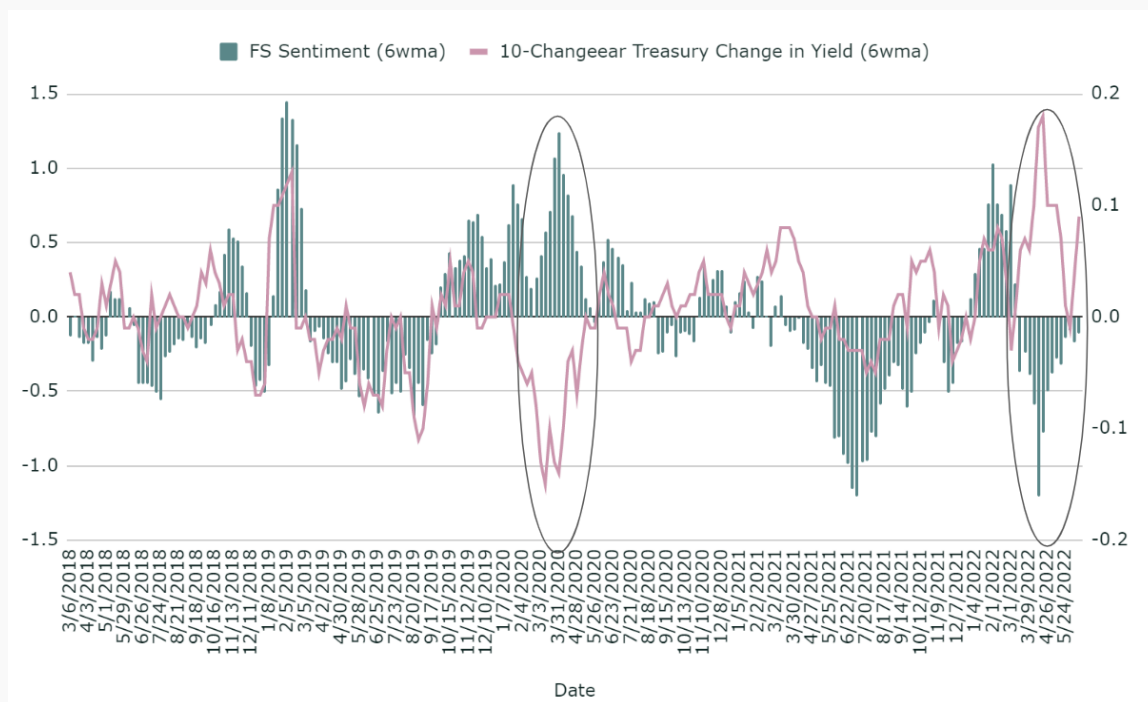


Source: Addepar

Sentiment in financial services has shown a significant shift in investor behavior. While generally sentiment closely tracks the path of long-term interest rates, there have been two major deviations from this trend since we've been tracking investor sentiment: the start of the pandemic and our current environment (figure 3). It seems that during stressed market conditions, investors break with their model of trading on long-term interest rates. If you remove these two time frames from the analysis, correlations are generally quite high (.5–.6).

### Figure 3: Financials Sentiment vs 10-year Treasuries

March 6, 2018–June 14, 2022



Source: Addepar, Federal Reserve Bank of St. Louis

### Stay tuned

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](#).

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