

Investors Bullish on Consumers

We recently introduced our Addepar Investor Sentiment Index (ISI) (methodology found [here](#)), which uses portfolio-level transaction data to gauge investor sentiment. With economic data supporting a robust recovery, we apply our analytical toolkit to provide insight into how ultra-high-net-worth (U/HNW) investors are positioning at the portfolio, sector and stock level.

Following bearish sentiment in January and February, investors turned moderately bullish on the market in March. Comparing fund flow data, U/HNW investors have recently been more cautiously optimistic than the broader market.

In March, investors positioned their portfolios for improving consumer confidence and a continued recovery of the real economy. The highlights are:

- Consumer cyclical and consumer defensive sector sentiment hit highs. The consumer defensive sector in particular reached historic levels. Recent economic data on retail sales and unemployment seems to paint a consistent picture of U/HNW investors' views.
- The consumer defensive sector sentiment hit historical highs as the sector rallied significantly in March. Much of this bullish sentiment can be attributed to Dollar General, a stock that typically trades tightly with this sector.
- Notably, tobacco stocks do not appear in the consumer defensive sentiment data—potentially showing a distaste for the industry among U/HNW investors.
- Basic materials, real estate, industrials and utilities also show relatively high sentiment pointing to an increasingly positive outlook on the continued improvement of the real economy.

Investors turn cautiously optimistic

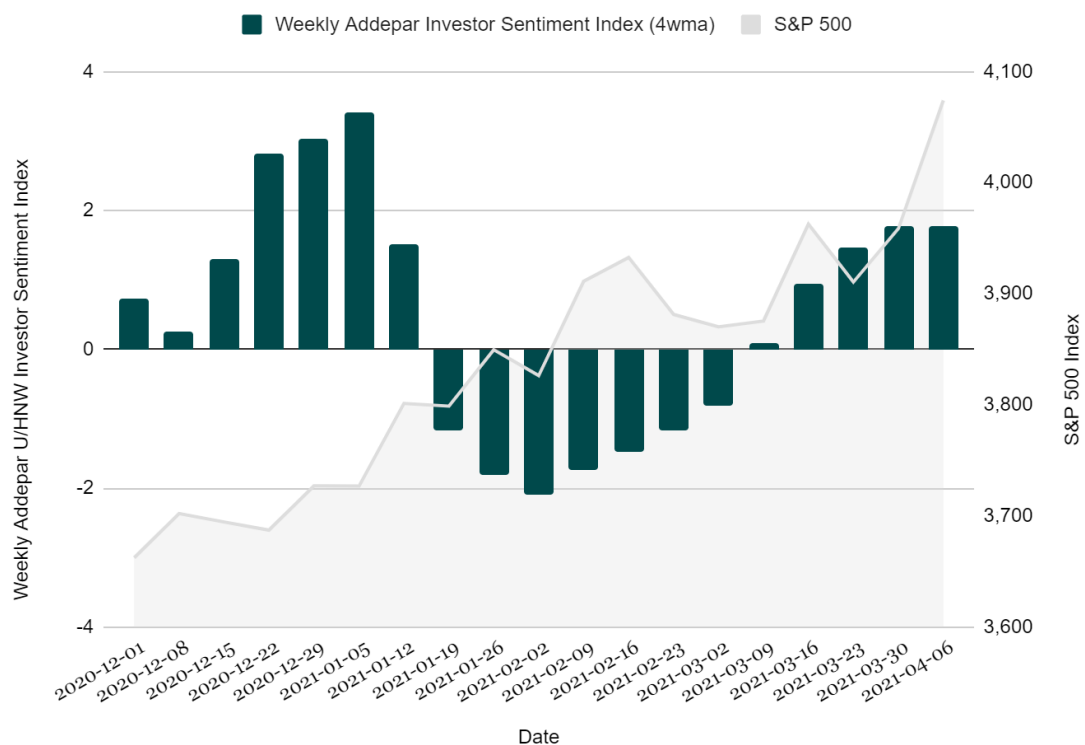
In March, equity markets continued their rally to record highs while recent economic data supports a picture of continued, robust economic recovery. The manufacturing

and services sectors show record levels of improvement. Equally impressive has been consumer data with retail sales and unemployment trending favorably. In this note, we look into how U/HNW investors positioned themselves during March and to what degree the sentiment analytics support the unfolding macro picture.

U.S. equity markets largely traded sideways in January and February and then rallied in March. Investor sentiment turned moderately bullish with a reading at the long-term average for the index by the end of the month (figure 1). Buying and selling activity also reverted to their long-term means. By comparison, equity fund flows data recorded robust inflows in February and March, suggesting a more optimistic viewpoint from the broader market relative to the cautious risk-on behavior of the U/HNW investor base¹.

Figure 1: Weekly Addepar Investor Sentiment Index (4wma)

December 1, 2020–April 6, 2021



Source: Addepar, Morningstar

¹ Morningstar U.S. Fund Flows Report

Consumer defensive sentiment hits historical highs

The headline bullish sentiment is also translating to the sector level with 8 of 11 sectors showing bullish sentiment. The two consumer-oriented sectors were both strong reads, perhaps corroborating some of the recent retail sales data (figure 2). Surprisingly, consumer defensive sentiment was a particularly strong read relative to its history. This is notable because the robust economic recovery would generally support an investment thesis oriented more toward cyclicals and less toward defensive stocks, which are generally less affected by changes in the business cycle. Interestingly, the consumer defensive sector also outperformed the consumer cyclical sector in March. Below, we dive down to the stock level of the consumer defensive sector to gain further insight.

Basic materials and real estate also had relatively strong bullish signals, followed by industrials and utilities, indicating continued bullish sentiment on the recovery of the real economy.

Figure 2: Sector Sentiment

March 2021

Sector	Index Weight	March 2021	March 2021	Z-score
		Sentiment	Returns	
Consumer Defensive	7%	1.6	8%	1.7
Consumer Cyclical	13%	2.1	4%	1.1
Basic Materials	3%	1.0	8%	1.1
Real Estate	2%	1.1	7%	1.0
Industrials	8%	1.0	9%	0.7
Utilities	3%	0.5	11%	0.7
Technology	28%	-0.4	2%	0.6
Energy	2%	0.7	3%	0.3
Financial Services	10%	-0.1	6%	0.2
Communication Services	11%	0.1	3%	-0.2
Healthcare	13%	-0.6	4%	-0.3

Bullish/Bearish

Relative to own history:

Strong -
Moderate -
Strong +
Moderate +

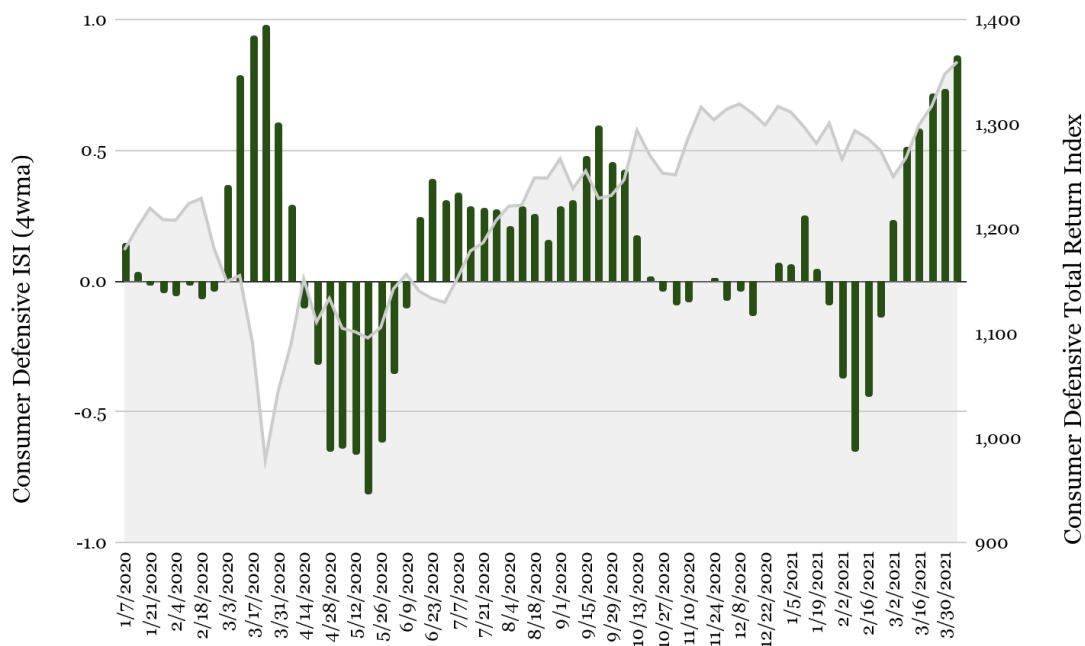
* Index is S&P 500

Source: Addepar

Per figure 3, the consumer defensive sector has been trading sideways from September 2020 through March 2021 when it appreciated by 8%. Over the same time frame, sentiment has been broadly neutral to bearish and then turned bullish at levels not seen since March of last year. Looking over even longer time frames², the reading has only been this high 5% of the time.

Figure 3: Consumer Defensive ISI (4wma) vs Total Return Index

January 1, 2020–April 6, 2021



Source: Addepar

Strong bullish view on Dollar General drives view on consumer defensive sector

In figure 4, we look at the most-traded consumer defensive stocks in the ISI data set. Because investors often invest on a market cap-weighted basis, we also include these figures to evaluate the relative importance of each stock. As we scan down the list of stocks, we see a mixed picture of bullish and bearish sentiment with the exception of Dollar General (and to a degree Costco). This is even more intriguing when one notes that Dollar General tends to trade very tightly with the broader consumer cyclicals index, having a correlation of .8 over the past year (figure 5).

² April 2016–March 2021

Figure 4: Most traded Consumer Defensive Stocks

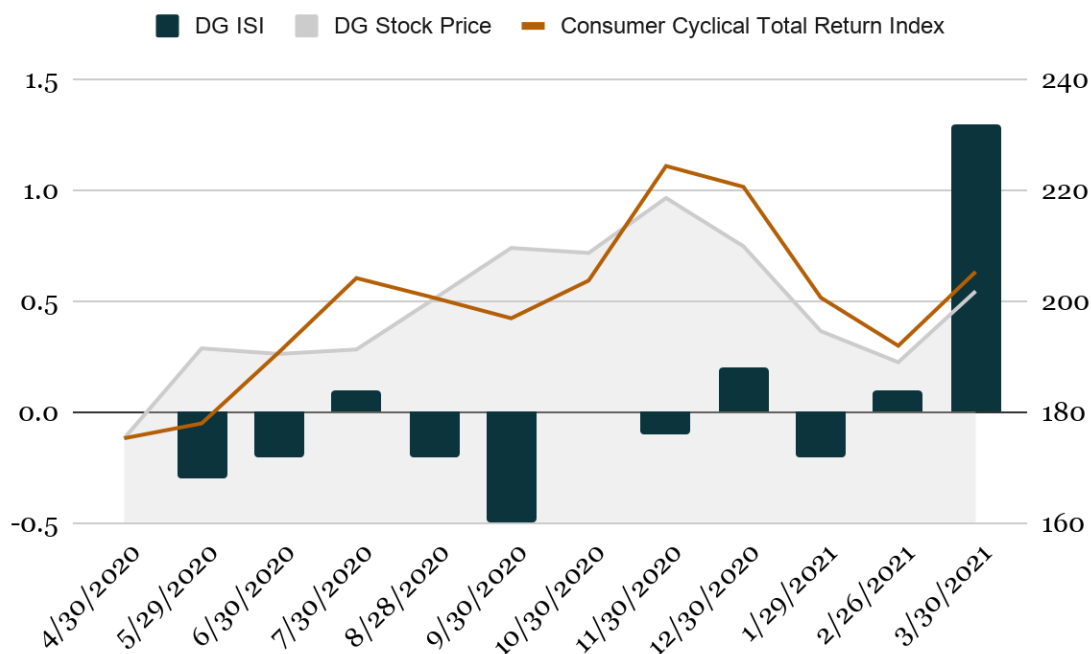
March 2021

Stock	Market Cap	Sentiment
WalMart	395	-0.2
P&G	338	0.2
Coca-Cola	230	0.2
Pepsico	196	-0.3
Costco	163	0.7
Estee Lauder	111	-0.2
Target	103	0.3
Mondelez	82	-0.1
Colgate-Palmolive	68	-0.5
Dollar General	52	1.3
Constellation Brands	45	0.1
Sysco	41	0.0
Clorox	24	0.1

Source: Addepar

Figure 5: Dollar General ISI vs Stock Price

April 2020–March 2021



Source: Addepar

Tobacco is not traded by the U/HNW group

Notably, figure 4 is missing two large and notable consumer defensive names. Phillip Morris and Altria show no meaningful activity among U/HNW investors, potentially indicating a distaste for tobacco (although Constellation brands—a producer and marketer of alcoholic beverages—does make the list).

Stay tuned

We will 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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