

Bearish on Domestic, Bullish on International

We recently introduced our Addepar Investor Sentiment Index (ISI) (methodology found [here](#)), which uses portfolio-level transaction data to gauge investor sentiment. We analyze the investment data on our platform to gain insight into how ultra-high-net-worth (U/HNW) investors are making adjustments at the portfolio, sector and stock levels. Additionally, we use client interviews to supplement the data and analysis presented in our Research Notes. For privacy reasons, we never disclose identities.

In the month of May, investors largely remained net sellers of U.S. equities, although there was buying during the short sell-off in the second week of the month. At the sector level, investors continued their rotation into the consumer cyclical sector and out of financial services.

This month's key highlights are:

- Sentiment for U.S. and international equities have historically been correlated. Over the last 4 months, investors broke with tradition and started rotating out of domestic and into international equities.
- In 2021, real economy sectors that have benefited from the economic reopening and stimulus have outperformed. Investors have also been more bullish on these sectors.
- Though broadly bullish on the consumer cyclical sector, investors became bearish for the first time on Tesla since its inclusion in the S&P 500 last year.
- The bearish turn on financial services was triggered when long-term treasury rates started their decline in April and May.
- The communications sector was the most bullish it's been since the start of the pandemic due to Facebook and Alphabet, which coincidentally both reported strong Q1 performance on significant ad revenue growth.

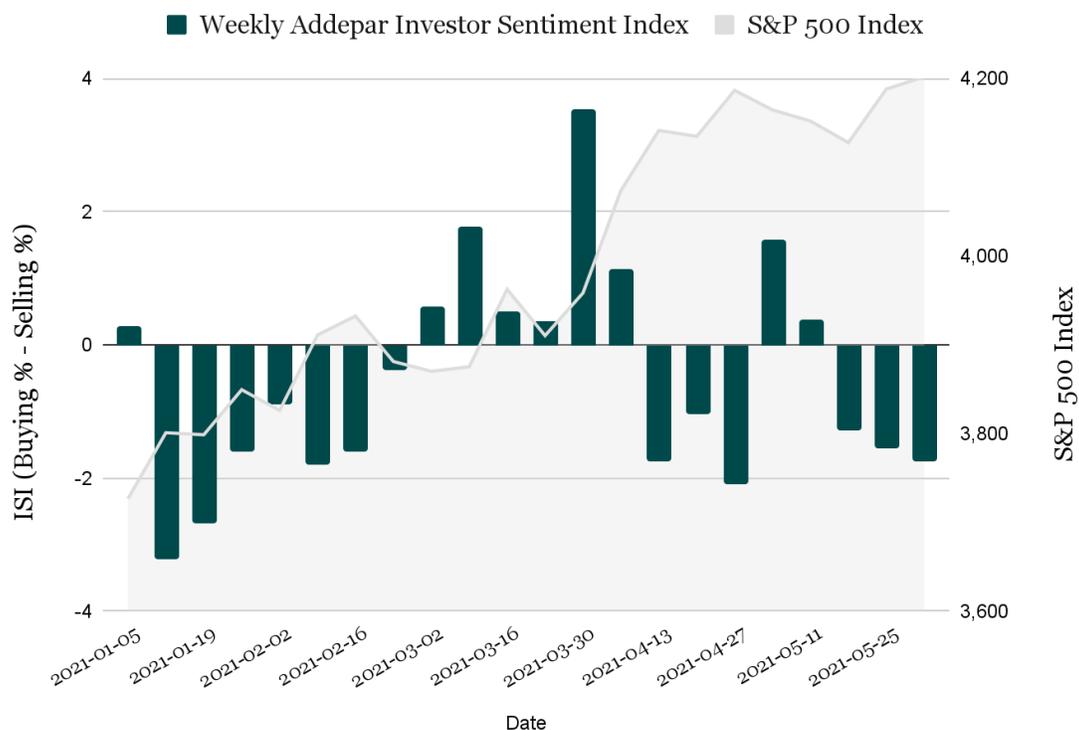
After buying the dip in early May, investors return to being bearish on the market

May began with U.S. equities rallying and hitting a peak on May 7th, the day the Colonial Pipeline was hacked. The market subsequently sold off and bottomed out on May 12th, which was also the day the April inflation print came out at 4.2% on an annual basis. Over the remainder of the month, much was written about the cross currents of fiscal stimulus and economic recovery versus the likelihood of a Fed pullback due to higher inflation. Markets recovered from the sell-off with S&P 500 gains at .5% for the month.

Against this backdrop, investors were bearish in the first week of May (Figure 1), and then turned bullish through the May sell-off with temporarily increased buying activity. Throughout the month, selling activity remained roughly at historical levels. Buying activity slowed after the May U.S. equities sell-off and the ISI has since returned to the moderately bearish levels witnessed in April.

Figure 1: Weekly Addepar Investor Sentiment Index

December 30, 2020–June 1, 2021



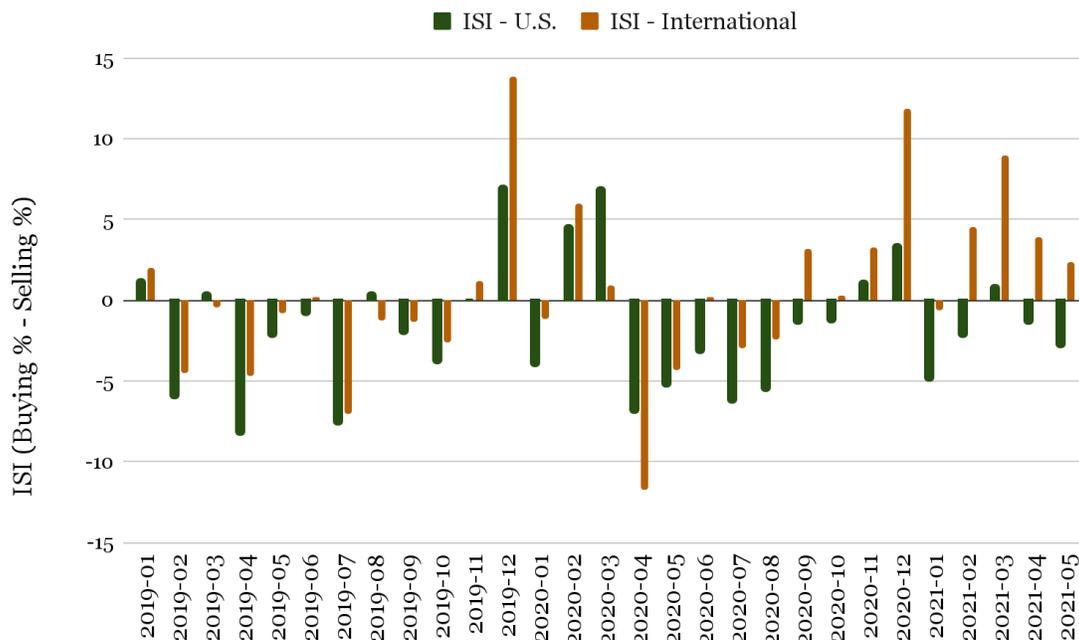
Source: Addepar, S&P Global

Investors have turned bullish on international equities

In this month’s client interviews, we heard a fairly consistent view on U.S. equities. “Domestic valuations are broadly expensive. We’re also not really that excited about bonds. So where do you go?” said one family office client. “We see some more room to grow in pockets of international equities and we are more aggressively moving into private assets.”

Figure 2 depicts the ISI (based on U.S. equity transactions) and international equity sentiment since 2019. While historically, international equity sentiment generally tracks domestic sentiment, we’ve started seeing a divergence between the two indices in 2021. Investors have recently been bullish on international equities while bearish on U.S. equities. In a subsequent Research Note, we’ll look more closely into sentiment across the major geographical regions of the world..

Figure 2: Monthly Domestic and International Sentiment Index
January 2019–May 2021



Source: Addepar

Strong sentiment and performance in the real economy sectors

Figure 3 shows sector-level sentiment and historical z-scores (a statistical measure of how strong sentiment is in each sector relative to its historical mean). In the month of May, investors rotated into consumer cyclical and communication services sectors while rotating out of financial services and industrials.

Figure 3: Sector Sentiment

May 2021

Sector	Sentiment	Z-score
Consumer Cyclical	2.3	1.1
Communication Services	1.7	0.8
Energy	0.9	0.4
Real Estate	0.6	0.4
Healthcare	0.6	0.3
Utilities	0.1	0.0
Basic Materials	0.0	-0.1
Technology	-0.5	0.7
Consumer Defensive	-0.7	-0.3
Industrials	-0.8	-0.3
Financial Services	-1.4	-0.8

Bullish/Bearish

Relative to own history:

Strong -
Moderate -
Strong +
Moderate +

Source: Addepar

To put recent sentiment into perspective, in Figure 4 we show a scatter plot of the average weekly sector ISI along the x-axis and the respective sector performance along the y-axis for 2021. Real economy sectors—including industrials, basic materials, energy and real estate—which have benefitted from reopening and stimulus have had strong positive sentiment and have performed well this year. Reflecting on this chart, one client noted, “Energy is very hot this year. We are seeing older [energy-focused private equity] funds selling their assets and dry powder is very quickly being deployed in newer funds.”

Communication services, healthcare, technology, utilities and consumer defensive sectors have underperformed and had lower average sentiment scores. Financial services and the consumer cyclical sectors stand out with a mismatch between sentiment and performance.

Bearish sentiment in financial services as rates decline

In our [April Research Note](#), we covered the financial services and consumer cyclical sectors in some depth, which we will not repeat here. We note however that average sentiment regarding financial services was neutral through the end of March and only turned bearish after long-term treasury rates started their decline in April and May.

Within the consumer cyclical sector, Tesla, a key driver of the bullish sentiment this year, turned bearish in May. This was the first time investors have been bearish on Tesla since its inclusion in the S&P 500 last year. While a number of factors could be powering the change in sentiment, one client provided an interesting technical explanation. A number of short-term dislocation funds started during the pandemic have wound down by transferring their holdings in-kind to avoid short-term capital gains. Investors are now winding down those positions (including Tesla) as the one-year mark approaches.

Figure 4: Average Weekly Sector ISI vs. Total Sector Return

January 1, 2021–May 28, 2021

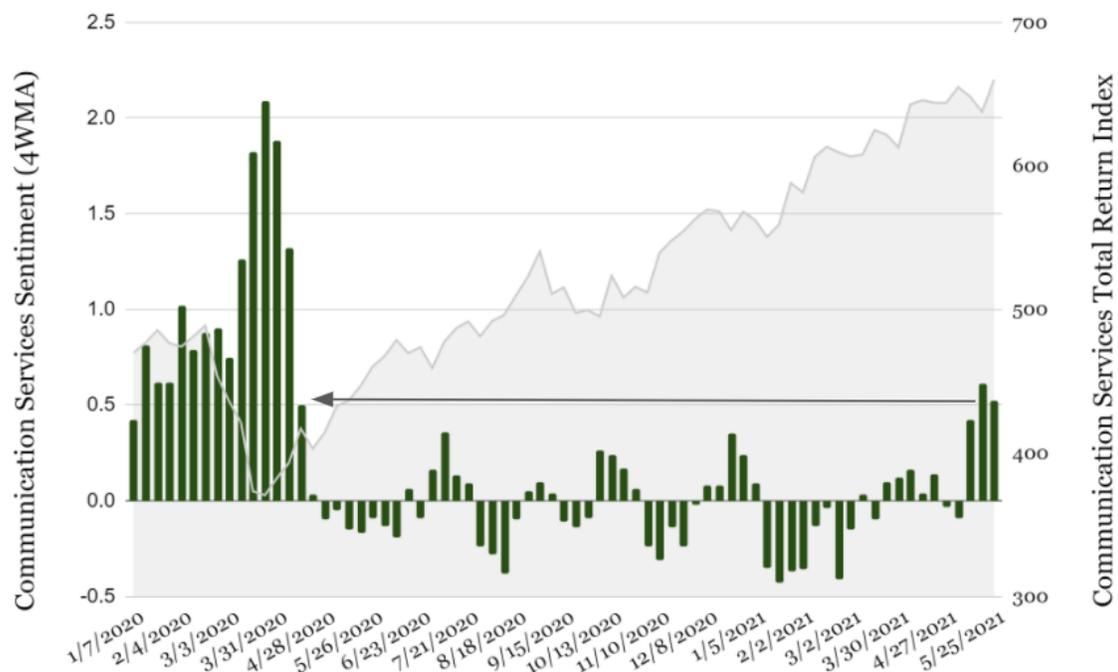


Source: Addepar

Bullish sentiment for Facebook and Alphabet

The communication services sector is now about the most bullish it's been since the start of the pandemic. In March of last year, investors were bullish on equities in general and this included all sectors. May's positive sentiment is largely attributed to Facebook and Alphabet. Coincidentally, both firms showed very solid Q1 performance on significant growth in ad revenue, which had dipped during the pandemic.

Figure 5: Communication Services Sector Sentiment vs Total Return Index
Jan 1, 2020–May 30, 2021



Source: Addepar

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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