

Bullish on Utilities and Energy, Bearish on Financial Services

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 conduct client interviews to supplement the data and analysis presented in our research notes. For privacy reasons, we never disclose identities.

In June, investors actively repositioned their portfolios, investing in international equities, while making defensive moves at the sector level out of financial services and into utilities and energy. This month's key highlights include:

- Investors continued to diversify away from U.S. equities into Canada, EMEA and Asia Pacific markets.
- After several months of bullish sentiment, investor sentiment turned neutral in emerging and frontier markets.
- Investors rotated into the defensive utilities sector and out of financial services, which has been following the downward path of long-term interest rates.
- Investor sentiment remained very bullish on energy, the top performing sector this year.
- Within the communications sector, investors are bearish on traditional telecommunications stocks such as AT&T, while remaining bullish on online ad revenue firms such as Alphabet and Facebook.

June sees rotation into EMEA Developed Market and Asia Pacific equities

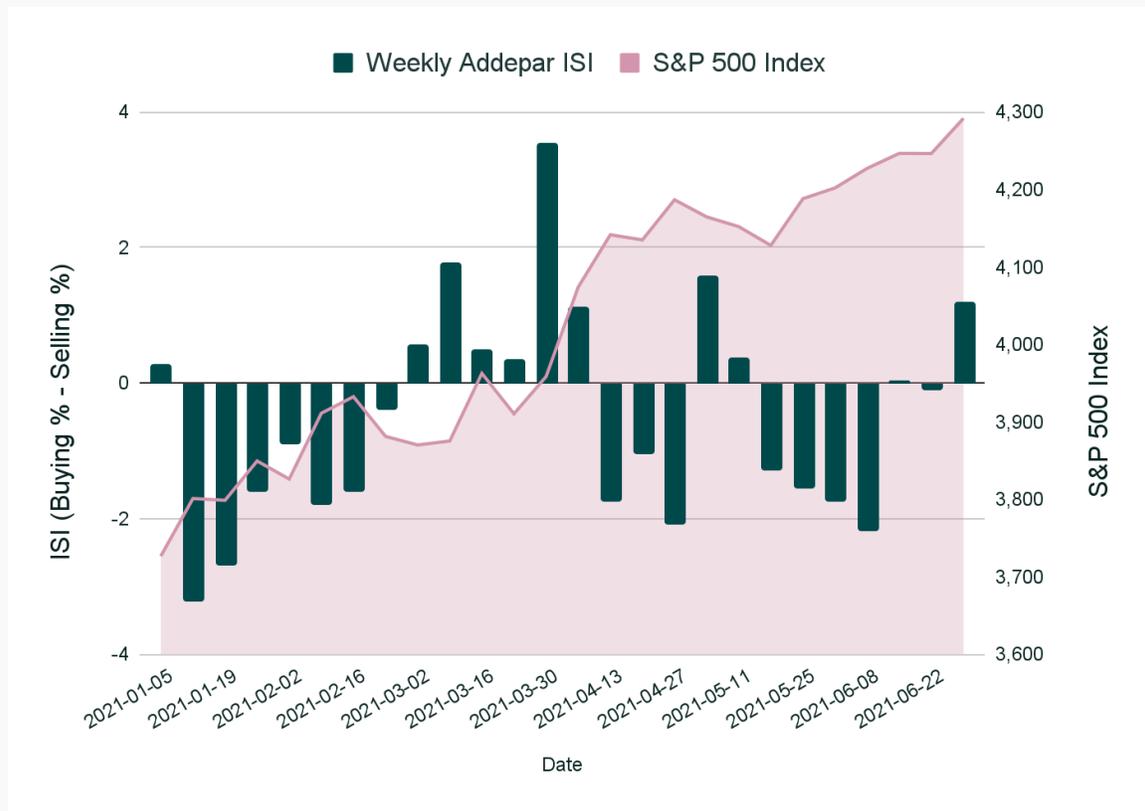
The S&P 500 returned 2.3% in the month of June, which to a large degree is attributable to the outperformance of big tech heavyweights—such as Apple,

Facebook and Tesla— which had led the post-pandemic rally but have recently been laggards¹. Long-term treasuries continued their rally that started in April. 10-year treasury rates have come down to 1.48%, primarily due to falling break-even inflation rates, while short-term rates modestly increased and the yield curve flattened. Together these paint a picture of growing investor anxiety about the longer-term economic outlook, heightened by concerns over the highly contagious Delta variant as well as the increasing likelihood of the Fed tightening monetary policy.

On net, sentiment at the monthly level remained bearish in April, May and June. Drilling down to the weekly level, investors were bearish on U.S. equities in the first two weeks of June, then turned moderately bullish by the final week of the month (figure 1).

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

December 30, 2020–June 29, 2021



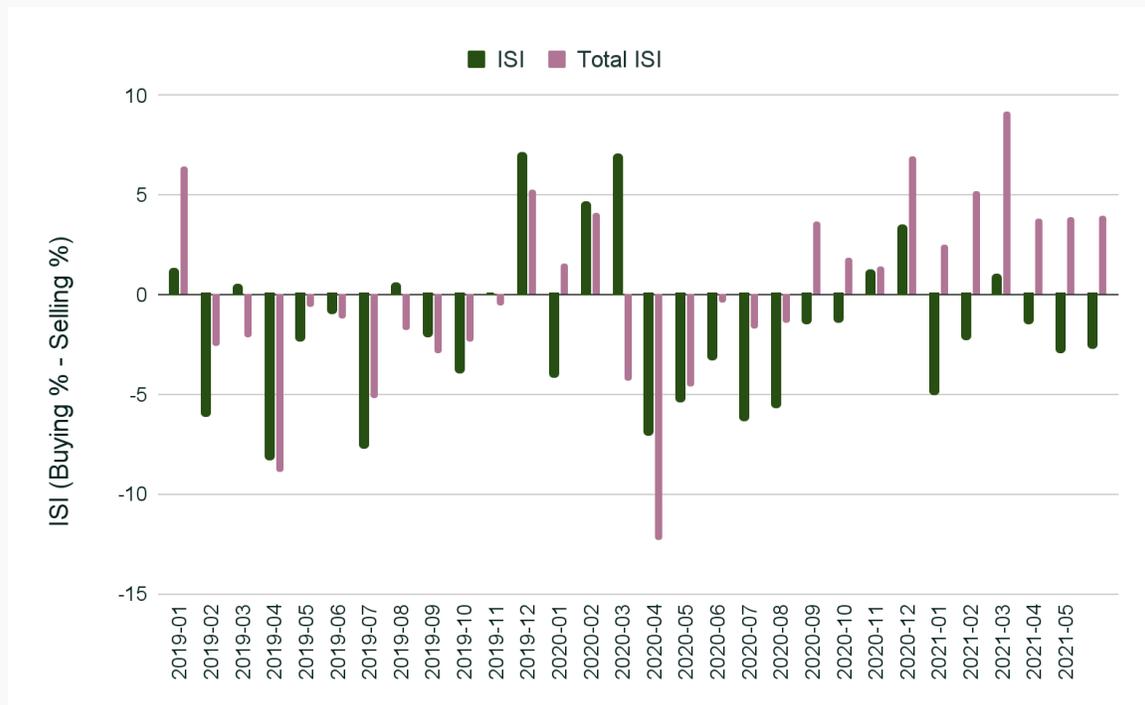
Source: Addepar, S&P Global

¹ Wall Street Journal: "Another Big Stock-Market Rotation Is Under Way, and Tech Is on Top Again"

As one might expect, the Addepar ISI for U.S. markets and total ISI readings across all geographies have generally tracked each other (figure 2), but they've begun to diverge in 2021². With the exception of a modestly bullish reading in March, the ISI sentiment for U.S. markets has been bearish. In contrast, sentiment across all geographies (total ISI) has been bullish. This implies that investors have been bullish on international equities while bearish on domestic ones.

Figure 2: Monthly Domestic and International Sentiment Index

January 2019–June 2021



Source: Addepar

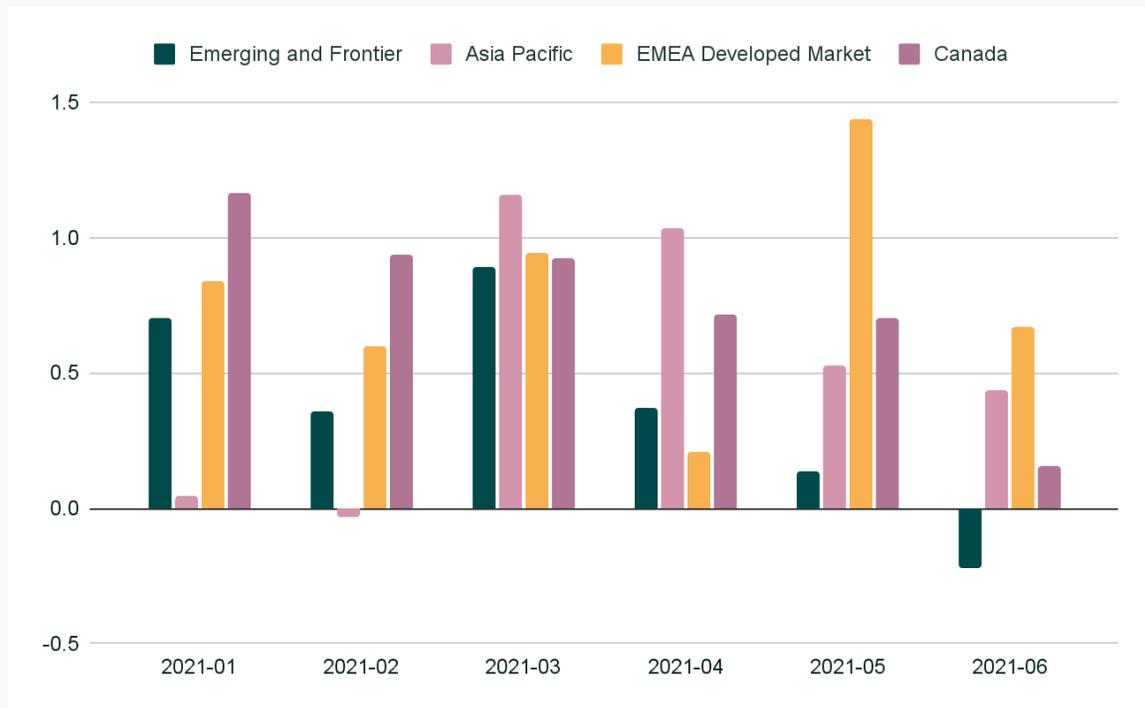
Although sentiment has been broadly bullish internationally, there are differences within specific geographies (figure 3). Due to variations in magnitude of sentiment scores across geographies, we normalize values using z-scores (a statistical measure of how strong sentiment is in each geography relative to its historical mean). Sentiment in emerging and frontier markets was particularly bullish in January through March, but has since become neutral. Sentiment in Asia Pacific was neutral at the start of the year, but picked up in March. Sentiment scores in EMEA and

² Geography based on country of equity, not country of investor.

Canada have largely been bullish this year, although they were somewhat more muted in June.

Figure 3: Monthly Sentiment Z-Scores By Geography

January, 2021–June, 2021



Source: Addepar

In reviewing figure 3, a family office client pointed out that by many traditional measures, U.S. valuations are at historically expensive levels and appear high relative to other countries (see example in figure 10 and 11 of the appendix). It's perhaps in this context that investors are diversifying their portfolios out of U.S. equities.

Bullish on utilities and energy, bearish on financial services and communications

Figure 4 shows sector-level sentiment, historical z-scores and sector performance. In June, investors rotated into utilities and energy sectors and out of financial services and communications services. These rotations ran somewhat counter to the broader market where the technology sector outperformed and basic materials underperformed.

Prevailing wisdom would suggest that utilities tend to perform relatively better when economic growth is slowing and underperform when growth picks up. The industry has steady revenues due to consumers' need for these essential services in any market environment and therefore investors typically view this sector in a defensive light. Additionally, low and falling Treasury rates benefit this capital expenditure-heavy industry, while rising energy costs are passed through to consumers.

At first glance, it may seem counterintuitive to see energy and consumer cyclicals (which do better in a rising growth environment) showing strong positive sentiment alongside utilities. Changes in the Treasury yield curve help clarify this. Falling Treasury rates in June at the long end of the curve imply that long-term growth expectations have decreased. This benefits utilities even though rates at the front-end of the curve have actually risen—suggesting expectations of robust short-term growth that traditionally serves cyclical industries well.

Figure 4: Sector Sentiment

June 2021

| Sector | Sentiment | Z-Score | Total Return |
|--------------------------|-----------|---------|--------------|
| Utilities | 0.5 | 0.7 | -2.2% |
| Energy | 1.3 | 0.6 | 4.6% |
| Consumer Cyclical | 1.5 | 0.6 | 3.8% |
| Consumer Defensive | 0.1 | 0.4 | -0.2% |
| Technology | -1.3 | 0.1 | 7.0% |
| Industrials | -0.1 | 0.1 | -2.2% |
| Basic Materials | 0.0 | 0.0 | -5.3% |
| Real Estate | -0.2 | -0.4 | 3.2% |
| Healthcare | -1.3 | -0.7 | 2.3% |
| Communication Services | -0.7 | -0.7 | 2.7% |
| Financial Services | -2.5 | -1.5 | -3.0% |
| Bullish/Bearish | | | |
| Relative to own history: | | | |
| Strong - | | | |
| Moderate - | | | |
| Strong + | | | |
| Moderate + | | | |

Source: Addepar

Bullish energy sentiment and strong YTD returns

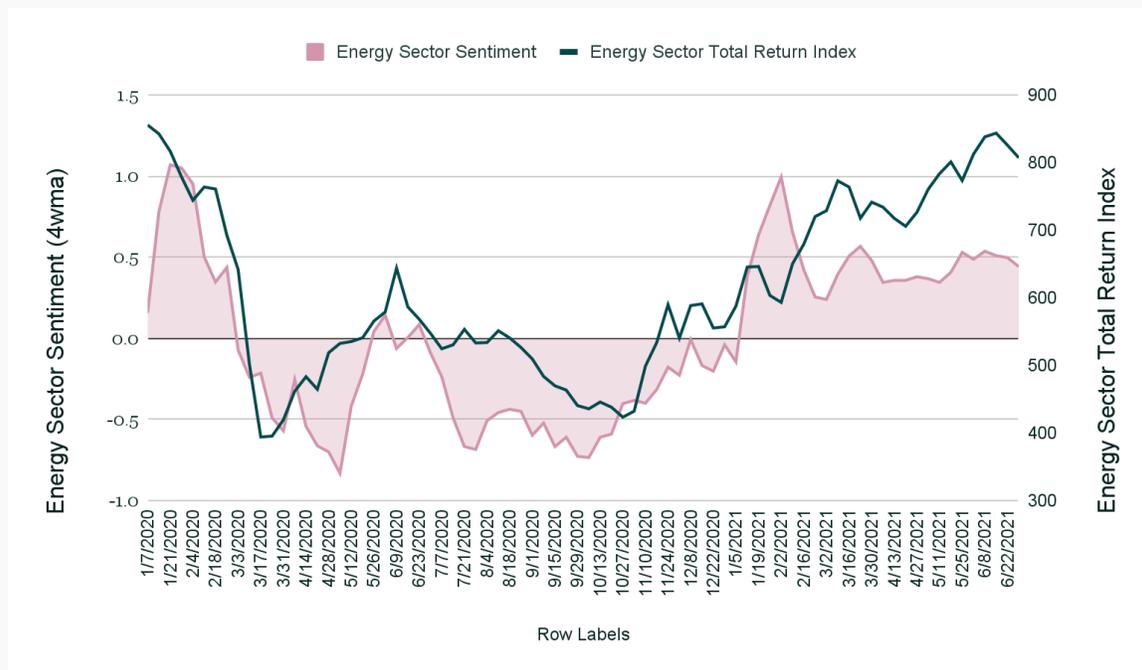
Investors have now been consistently bullish on the energy sector since January of this year (figure 5). With oil prices at levels not seen since the beginning of 2018, this sector has outperformed all others with a return of 45.6% year-to-date.

In figure 5, one can easily see that energy sector sentiment and the total return index seem to move in unison, which mathematically translates into a correlation of .7 since 2020. Interestingly, this behavior is relatively uncharacteristic. For the energy sector, correlation between sentiment and the total return index in 2018 was .4, and it was only .1 in 2019. In the other sectors, there tends to be no correlation or it's modestly negative. This indicates U/HNW are trading the energy sector consistently with the broader market. In subsequent research notes, we'll update you on how this trend evolves.

Counter to the direction of market pricing, one client commented, "Shale oil is now profitable, OPEC is discussing increasing production, and the dollar is rising." These comments imply that production is likely to rise and place downward pressure on pricing. Because oil is priced in dollars and it's a hard asset, there tends to be a negative correlation between the dollar and oil prices. This would suggest that oil prices could fall as the dollar rises.

Figure 5: Energy Sector Sentiment (4wma) vs Total Return Index

Jan 1, 2020–June 30, 2021



Source: Addepar

Financial services sentiment continues to decline

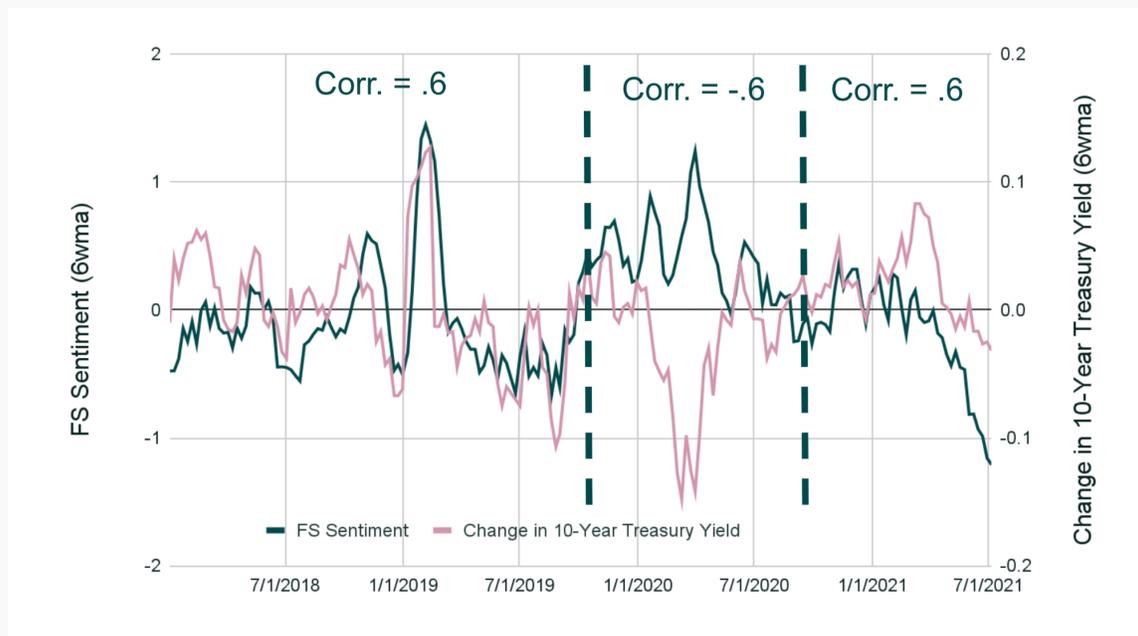
In a recent edition of this note, we had observed that prior to the pandemic, investors in the financial services sector responded to changes in treasury yields. When yields would go up, sentiment increased, and the opposite happened when yields declined. However, throughout the pandemic, this relationship has broken down.

Since the fourth quarter of last year, investor sentiment has again started responding to Treasury yields. Figure 6 shows the weekly financial services sector sentiment and changes in the 10-year Treasury yield computed on a 6-week moving average basis. From October 2020 through June 2021, the two series have a correlation of .6, similar to what we saw prior to the pandemic.

Treasury yields have declined since April and investors have responded with decreasing sentiment to the financial services sector.

Figure 6: Financial Services Sentiment and Treasury Yields

Jan 1, 2018–June 30, 2021



Source: Addepar

Bearish on traditional telecommunications firms

Investors were bullish on the communications sector over the past 3 months, but have turned strongly bearish in June. Per figure 7, there’s a distinct split of sentiment in the communications sector. Investors were bearish on traditional telecommunications firms including AT&T, Verizon and Comcast while continuing to be bullish on ad revenue-generating firms such as Facebook, Alphabet and Pinterest.

Figure 7: 10 Most-Traded Stocks in Communications sector

June, 2021

| Stock | Sentiment | Market Cap |
|-----------|-----------|------------|
| AT&T | -0.9 | 197 |
| Verizon | -0.4 | 230 |
| Comcast | -0.3 | 265 |
| Zoom | 0.1 | 106 |
| ViacomCBS | 0.2 | 26 |

| | | |
|-----------|-----|-------|
| Netflix | 0.2 | 225 |
| Alphabet | 0.3 | 1,690 |
| Twilio | 0.4 | 65 |
| Facebook | 0.5 | 951 |
| Pinterest | 0.5 | 45 |

Source: Addepar

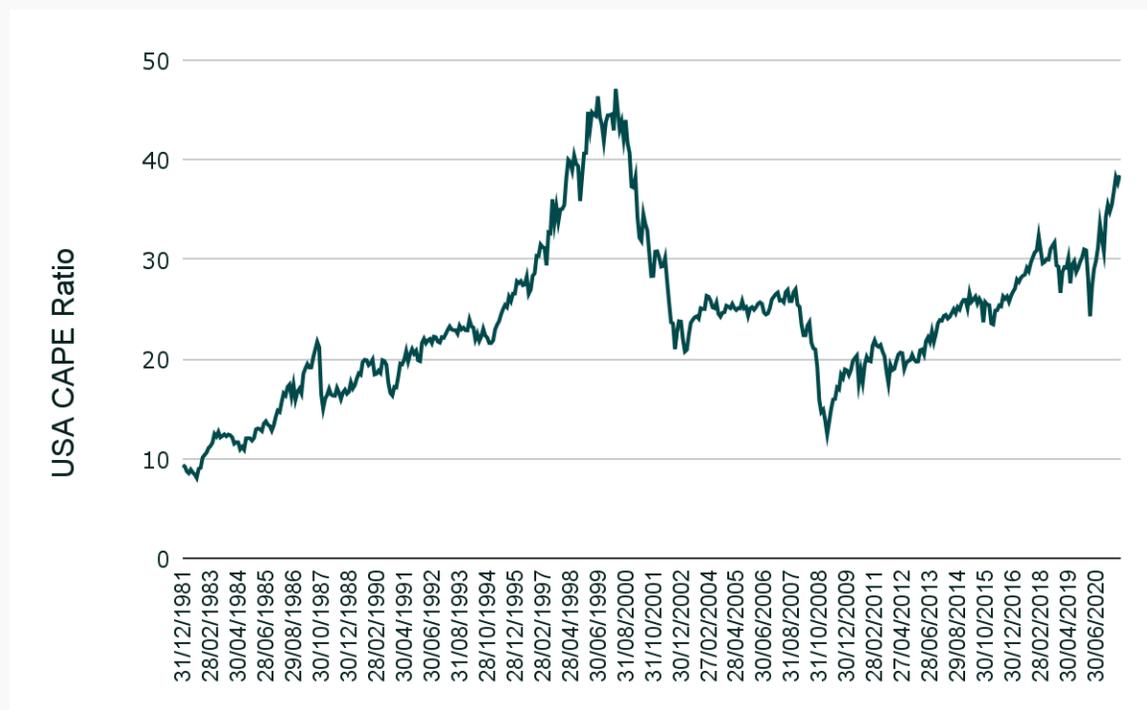
Stay tuned

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](#).

Appendix

Figure 10: US CAPE Ratio

December 31, 1981–June 30, 2021



Source: Barclays

Figure 11: CAPE Ratios by Country

June 30, 2021

| Nation | Calculated Using | 6/30/2021 |
|-----------|----------------------------------|-----------|
| Canada | S&P/TSX Composite | 25.49 |
| US | S&P 500 | 37.73 |
| UK | FTSE 100 | 15.05 |
| Italy | FTSE MIB | 24.17 |
| Spain | IBEX 35 | 18.22 |
| Russia | MOEX | 10.96 |
| India | NIFTY 50 | 33.38 |
| Japan* | All public companies, (consol.)* | 25.34 |
| China | SSE Composite | 18.43 |
| Hong Kong | Hang Seng | 14.62 |
| Australia | ASX All Ordinaries | 19.83 |

Source: Sibilis Research

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