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Approaching bear market territory

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:

- Investor sentiment turned bearish in March and April as markets resumed their sell-off.
- While real growth slows, investors and the market alike are rotating into defensive sectors and out of cyclical sectors.
- Technology, a sector that's susceptible to rising discount rates, is also showing bearish investor sentiment.

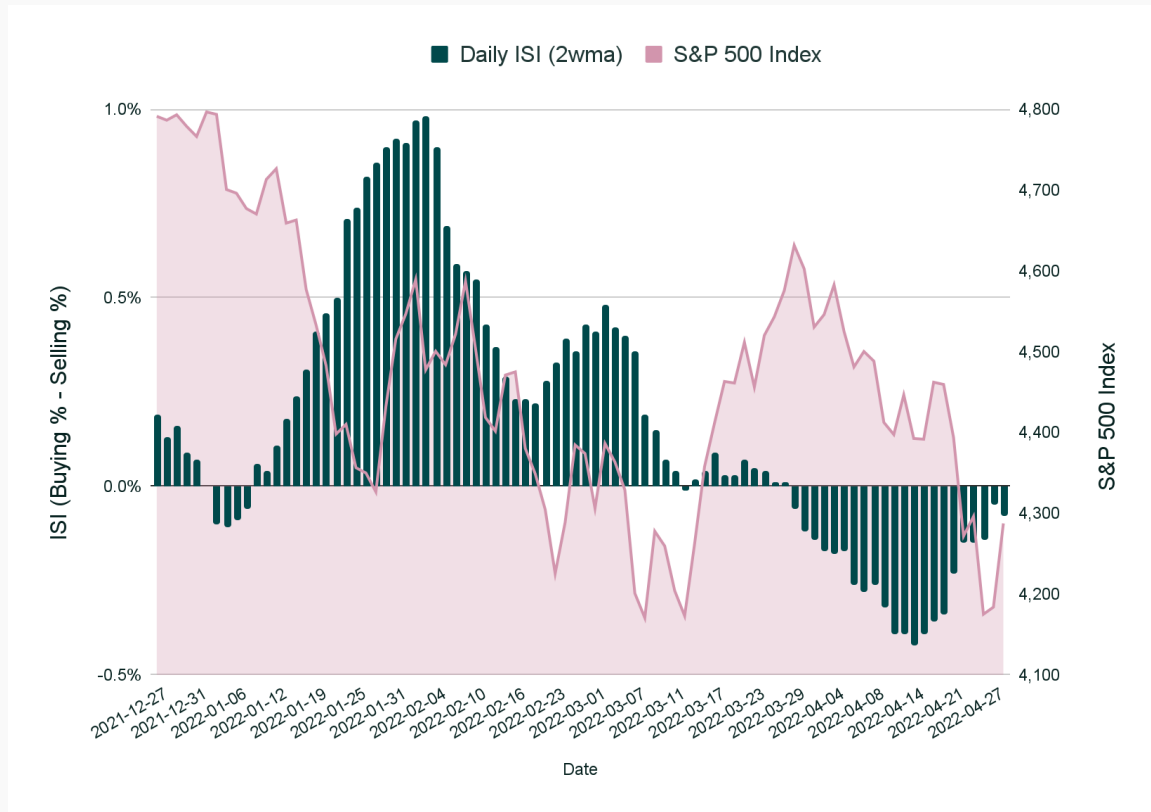
Starting in March, markets rallied and then sold off again—heading back to the bottom of the drawdown that started at the end of 2021. The yield curve flattened to levels last witnessed at the start of the pandemic and even briefly inverted at the start of April. After buying the dips in January and February, investors represented in the ISI turned bearish in March and April.

Our analysis from January's brief 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. In current circumstances, markets are now starting to test this range. Should markets continue to sell off, and investors are

consistent with their historical behavior in these circumstances, we may see 15–30% of portfolios reduce their exposure.

Figure 1: Daily ISI vs S&P 500

December 27, 2021–May 28, 2022

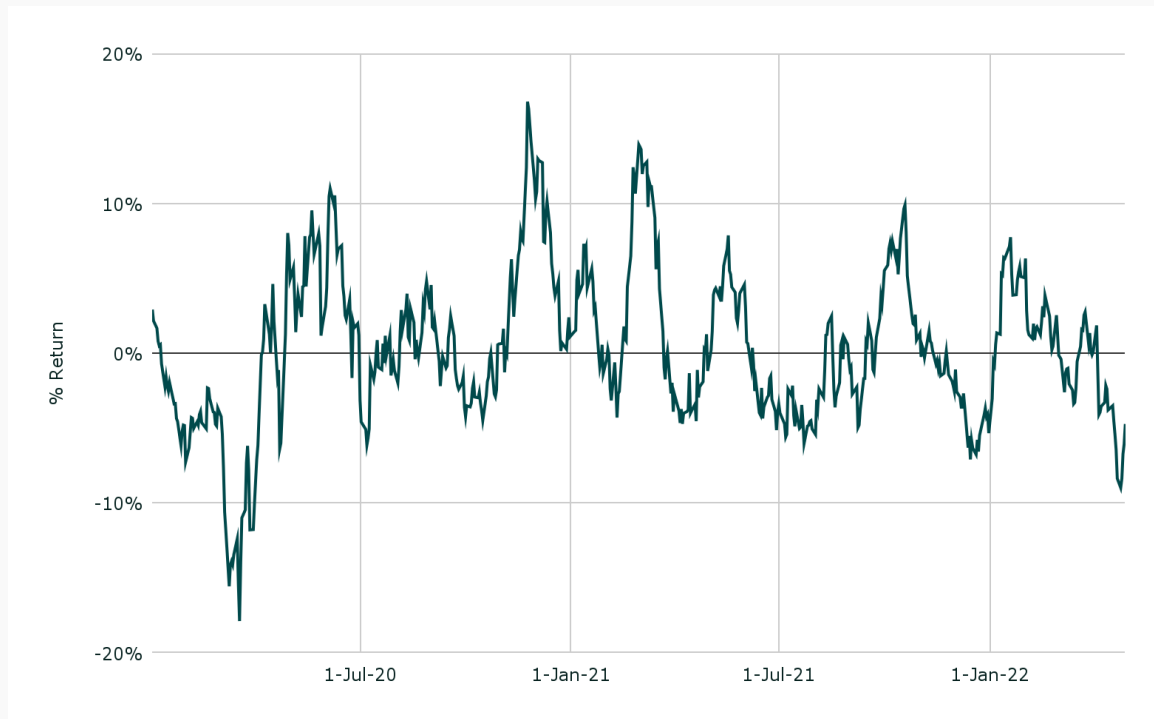


Source: Addepar

Real growth continues to show signs of moderating across a number of leading indicators. Figure 2 shows that this slowing growth is being reflected in the relative pricing of sectors. The trailing 1-month return of defensive sectors is outperforming cyclical ones to a degree we have not seen since the early months of the pandemic.

Figure 2: Cyclical–Defensive Sector Returns (1-month trailing)

January 2020–April 2022



Source: S&P Global, Federal Reserve Bank of Saint Louis

To a large extent, defensive sectors such as utilities and consumer defensive are showing positive sentiment, while communication services sector stocks—particularly Netflix—are showing signs of weakness. Investors are also selling the technology sector, whose long-duration cash flows have been negatively impacted by swiftly rising discount rates.

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

April 2022

Sector	Sentiment	Performance
Utilities	0.6	-4.3%
Energy	0.4	-1.5%
Consumer defensive	0.4	2.6%
Real estate	0.2	-3.6%
Industrials	-0.2	-7.5%
Financial services	-0.3	-9.9%
Materials	-0.3	-3.5%
Consumer cyclical	-0.4	-13.0%
Healthcare	-0.4	-4.7%
Communication services	-0.4	-15.6%
Technology	-0.7	-11.3%
Bullish/Bearish		
Relative to own history:		
Strong -		
Moderate -		
Strong +		
Moderate +		

Source: Addepar, Refinitiv

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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