

On the Mark – Multi Asset Strategy

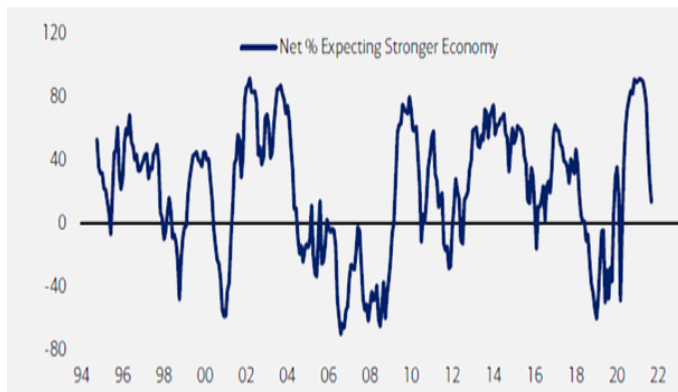
Mark Harris – Head of Multi Asset

October 2021 – Something and Perhaps Nothing

Sometimes there are things that just do not make sense. In our opinion, there is quite a puzzle in markets in terms of growth outlook, sentiment, and positioning. We believe this is nicely illustrated in the following charts.

If surveys are to be believed, investors' growth outlooks have faded considerably recently with the Bank of America Global Fund Manager Survey (BoFA Securities GFMS) for September showing this quite clearly (Figure 1). Indeed, we are fast approaching the zero reading.

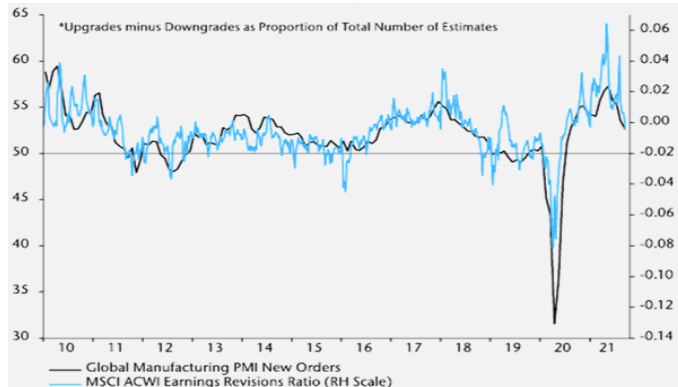
Figure 1: Investors Expecting Stronger Economy.



Source: Garraway, BofA Securities GFMS.

Perhaps this should come as no real surprise given that global manufacturing PMI's new orders have peaked and are now rolling down. As the following chart from Simon Ward at Money Moves Markets shows (Figure 2), this indicator has lead earnings revisions lower, and it is now tipped into negative territory.

Figure 2: Global Manufacturing PMI Rolling Over.



Source: Garraway, Simon Ward: Money Moves Markets.

By way of confirmation, Société Générale's (SG) leading indicator shows that US earnings momentum is about to turn lower (Figure 3).

Figure 3: US Earnings Momentum.

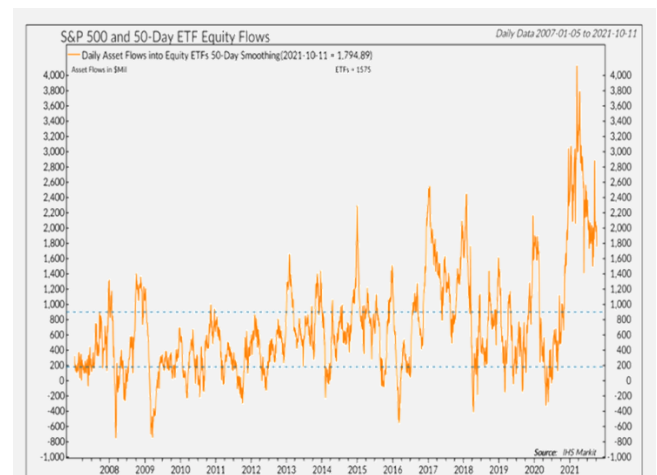


Source: Garraway, Datastream, SG Cross-Asset Research/Equity Strategy.

Mike Wilson at Morgan Stanley points to these effects and the potential for margin deterioration as his reasons to expect a correction of up to 20% in the S&P 500 index.

However, if we look at ETF flows in the US, they are incredibly strong. The chart below (Figure 4) plots the 50-week moving average of daily flows, from which you can see that, whilst flow has peaked recently, it is still very elevated.

Figure 4: Equity ETF Flows, 50-day Smoothing.



Source: Ned Davis Research.

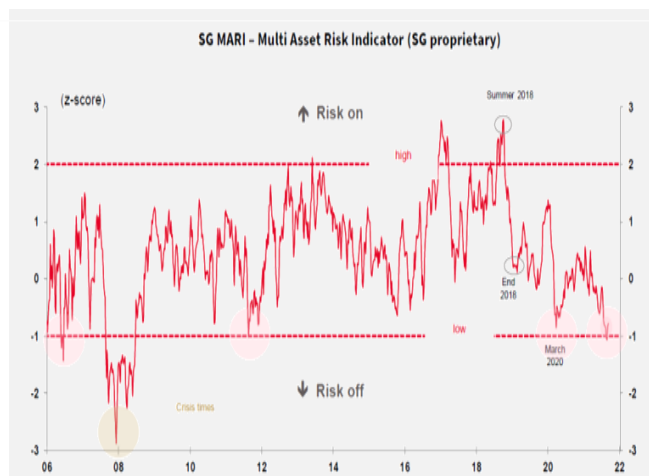
US household stock holdings as a percentage of financial assets hit a new record high in Q2. While not a record high, US institutions' allocation to stocks increased in Q2 and remains very high. Equally, several global investor surveys that we monitor confirm that those investors remain fully weighted in equities.

Given that investors are piling into equities one would expect to see investor sentiment measures at very elevated levels. However - and here comes the puzzling bit - many measures of investor sentiment have become very depressed.

Ned Davis Research's Daily Trading Sentiment Composite fell to just 18.9% bulls on 21 September 2021. When it has crossed below the 20% level that their work has shown to be important, it leads to a bullish outcome for at least a month, if not longer. NDR's longer-term sentiment indicators are not yet in the deep pessimism zone, but they have retraced from peak optimism into the neutral zone

SG's Proprietary Multi Asset Risk Indicator (Figure 5) supports this view given it has now moved into the Risk off Zone.

Figure 5: SG Proprietary risk indicator



Source: Garraway, SG.

Perhaps we are soon to witness a reconciliation of these facts with a correction in equities or maybe there is another explanation such as T.I.N.A (There Is No Alternative to equities, so we must be fully weighted). It also is worth considering that investors are looking through the more immediate issues around earnings and can see the uptick in US economic surprises but as we discussed at our team meeting, sometimes things are just unfathomable.

The Multi Asset Team

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