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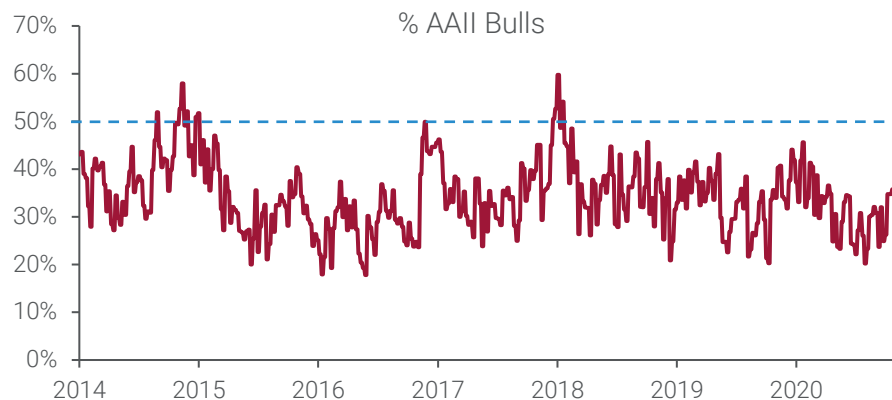
## MARKET PERSPECTIVE *from the Investment Advisory Group* Digestion Period Likely Near Term

**Summary:** We remain positive on a 12-month basis, and our work continues to suggest that we are in the early stages of a multi-year economic expansion and the primary market trend remains higher. However, after a 9% rise in the S&P 500 since October 30, much of the fuel from the release of tension due to positive coronavirus vaccine news and moving past election night appears to have been exhausted. Our work suggests the market is likely set to transition to a digestion period near term.

Markets tend to rise or fall based on how data and events come in “relative” to expectations. With the Volatility Index (VIX) at twice the level heading into this election compared to the last two elections, investors were already braced for uncertainty. That backdrop allowed a little bit of good news in terms of clarity to go a long way in the market. However, sentiment, from a contrarian standpoint, no longer appears to be a market asset in the short term.

The Hulbert Sentiment Index, which reflects the average equity allocation recommended by newsletter writers, has jumped from 22% at the beginning of November to 64% currently. Similarly, the latest survey from the American Association of Individual Investors (AAII) shows the percentage of investors who consider themselves bullish surged over the last week by 17.6 percentage points to 55.8%. This is the highest level of optimism since January 2018.

### % of Individual Investors That Are Bullish Jumps to the Highest Level Since January 2018



Data Source: SunTrust IAG, AAI, FactSet.

Past performance does not guarantee future results.

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WEALTH

When we look back at times when bullishness jumped more than 15 percentage points in just a week, and the overall level of bullishness exceeded 50%, we find 26 prior instances since the survey was developed in 1987.

Over the next 1, 3, 6 and 12 months, returns for the S&P 500 averaged between -0.4% to +0.5% over those periods (Table 1). However, there was a wide variation between the outcomes. The average returns were dragged down by the 1987 market crash and the 2000-2002 bear market. However, the nine signals since 2003 were all followed by positive 12-month returns and an average gain of 11%.

As we often discuss, we use a weight-of-the-evidence approach to the market. This rise in optimism is less supportive for stocks. However, sentiment is just one element in our outlook, and it is offset by several factors, including very strong price momentum signals that were recently triggered.

Based on Monday's close, the S&P 500 jumped more than 8% over a six-day period. Following past instances since WWII, market returns were relatively flat near term, gaining about 1% over the next month. However, 12 months later, stocks were up an average of 18% and rose 88% of the time.

Similarly, more than 70% of stocks in the S&P 500 made fresh one-month highs on Monday. That reflects very strong momentum and broad market participation. When we look back at the 25 unique signals since 1990, when this indicator breached the 60% threshold, one month later the market averaged a 0% return. However, over the next 12 months, stocks rose an average of 13% and gained 92% of the time (Table 2).

### Bottom Line

After largely focusing on what could go wrong, markets were set up for a positive surprise heading into the election or regarding upbeat vaccine news. Now, along with the market's sharp rise, investor expectations have also risen. This simply means that markets are more vulnerable to unexpected bad news and we anticipate a digestion period of recent gains. This would be normal and somewhat expected.

Markets are also contending with rising COVID-19 cases, the ongoing stalemate on additional fiscal stimulus, and the unresolved status regarding control of the Senate. However, we appear to be moving closer to the other side of this pandemic, we are likely in the very early innings of a multi-year economic expansion, monetary policy remains very supportive, and relative valuations continue to favor stocks. Therefore, on a net-basis, we expect the market to trade in a choppy fashion near-term and the strong gains to moderate. But we do not want to lose sight of the primary market trend, which our work suggests is higher. For those investors working excess cash into the market, we would continue to average in but look to be more aggressive on pullbacks.

Table 1: S&P 500 Forward Returns After a 15 Percentage Point Weekly Rise in AAI Bull and the Overall Level of Bulls > 50%

Date	1-Month Later	3-Months Later	6-Months Later	12-Months Later
08/07/87	-2.9%	-21.2%	-22.3%	-16.1%
08/21/87	-4.9%	-28.5%	-20.9%	-22.5%
08/11/89	1.1%	-2.4%	-3.2%	-2.7%
04/26/91	0.8%	0.5%	1.6%	7.9%
11/01/91	-2.6%	4.7%	6.5%	7.0%
12/18/92	-1.8%	1.7%	1.1%	5.7%
01/15/93	-0.7%	2.7%	2.0%	8.1%
02/01/96	1.9%	0.8%	1.8%	22.8%
02/27/97	-4.8%	6.2%	14.9%	32.0%
03/08/00	9.9%	7.7%	9.2%	-7.5%
03/23/00	-6.4%	-4.9%	-5.1%	-25.4%
06/08/00	1.0%	2.8%	-7.5%	-13.5%
07/06/00	0.4%	-1.5%	-8.5%	-18.3%
10/26/00	-1.1%	0.0%	-8.4%	-20.5%
11/30/00	-2.4%	-5.6%	-3.6%	-11.2%
05/03/01	1.5%	-2.2%	-10.4%	-14.1%
09/27/01	8.4%	13.6%	12.6%	-18.8%
04/24/03	2.4%	7.7%	13.0%	25.1%
05/29/03	2.8%	5.0%	11.0%	18.1%
06/26/03	1.1%	1.8%	11.0%	15.0%
04/01/04	-1.3%	-0.6%	-0.1%	3.9%
06/10/04	-1.9%	-1.1%	4.6%	5.4%
10/07/04	3.1%	5.1%	4.5%	5.4%
07/28/05	-3.1%	-4.2%	3.2%	2.8%
11/10/05	2.4%	2.6%	5.2%	12.2%
01/12/06	-1.8%	0.2%	-3.9%	11.3%
11/12/20	?	?	?	?

Bulk of negative returns after technology bubble burst

Last nine signals followed by positive 12-month returns

Average	0.0%	-0.4%	0.3%	0.5%
% Positive	50%	58%	58%	58%

Data Source: SunTrust IAG, FactSet.  
Past performance does not guarantee future results.

Table 2. S&P 500 Returns After >60% of Stocks Make 20-day Highs

	1-Month Later	3-Months Later	6-Months Later	12-Months Later
05/14/90	2.9%	-4.5%	-11.6%	6.2%
12/06/90	-4.3%	13.9%	15.3%	14.7%
12/30/91	-1.2%	-2.9%	-1.5%	5.8%
05/05/97	1.2%	14.5%	10.2%	34.4%
04/18/01	4.1%	-2.5%	-12.0%	-11.7%
01/06/03	-9.2%	-5.3%	8.5%	21.0%
03/21/03	1.7%	11.2%	15.7%	22.3%
06/02/03	1.6%	4.2%	9.4%	15.9%
11/05/04	0.9%	3.0%	1.1%	4.6%
09/19/07	0.7%	-4.8%	-13.0%	-21.1%
01/06/09	-9.5%	-12.7%	-5.7%	21.6%
03/18/09	9.5%	14.6%	32.5%	46.8%
06/01/09	-2.5%	9.3%	17.8%	15.5%
07/21/09	4.4%	15.0%	19.2%	13.5%
09/16/09	2.6%	3.7%	9.1%	5.3%
03/17/10	2.2%	-4.4%	-3.9%	11.2%
07/26/10	-5.7%	6.1%	15.1%	20.6%
09/13/10	4.3%	10.6%	16.3%	2.9%
12/07/10	4.3%	8.0%	5.0%	2.7%
07/01/11	-6.4%	-15.5%	-6.1%	1.9%
10/24/11	-5.3%	5.7%	10.9%	12.7%
09/14/12	-1.7%	-3.2%	5.9%	15.8%
09/18/13	0.4%	3.2%	8.5%	16.6%
01/18/19	3.9%	8.6%	12.9%	21.2%
06/03/20	0.2%	12.1%	?	?
11/9/20	?	?	?	?
<b>Average</b>	<b>0.0%</b>	<b>3.2%</b>	<b>6.6%</b>	<b>12.5%</b>
<b>% Positive</b>	<b>64%</b>	<b>64%</b>	<b>71%</b>	<b>92%</b>

1-month forward returns flat, but market up 92% of time 12-months later

Data Source: SunTrust IAG, FactSet.  
Initial reading used (clusters removed)  
Past performance does not guarantee future results.

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