RIA Advice

Using Consensus and Economic Numbers to Divine Market Direction

Our goal was to see if history can guide us in determining when an extreme in consensus will provide a high probability time to buy stocks. At the same time, we would like to observe economic data to see if that confirms the timing. **Spoiler ? consensus extreme should tell investors that if its not time to buy, its probably not time to sell.**

We used the following for analysis:

1. **Stocks** = S&P500

- **Economic indicators to track (data from Bloomberg)**
- GDP change (QoQ)
- Personal Consumption
- Unemployment
- ISM Manufacturing

- **Consensus** ? the Bank of America Global Fund Manager Survey (The December survey covered 281 fund managers with $728 billion under management.)

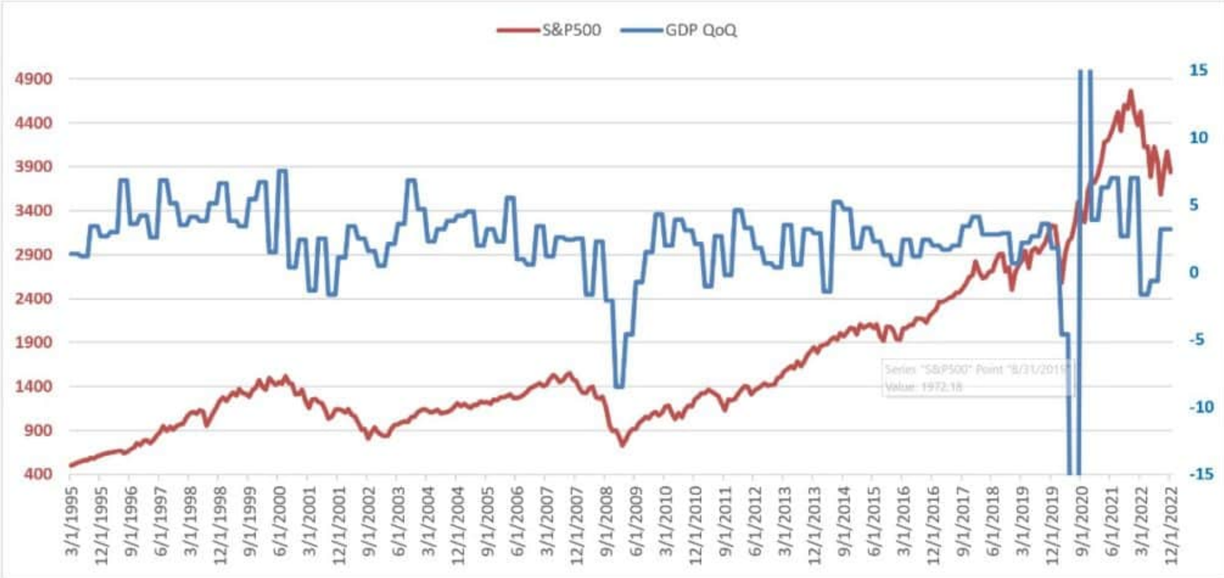
Their conclusion: ?BofA December Global Fund Manager Survey FMS in a Nut: investors bearish growth, bullish China reopening, v bullish inflation & bonds, bearish US$, short covering stocks, tech, EM, Europe; bond bears burnt but FMS cash levels still high (5.9%), risk appetite still low, allocation still defensive (BofA Bull & Bear Indicator @ 2.6)?**we say Jan/Feb ?pain trade? is up for bond yields & risk assets.?**

Consensus Indicators we used:

- Precent overweight long equities vs. bonds
- Percent that say a recession is likely
- Average cash level (%)

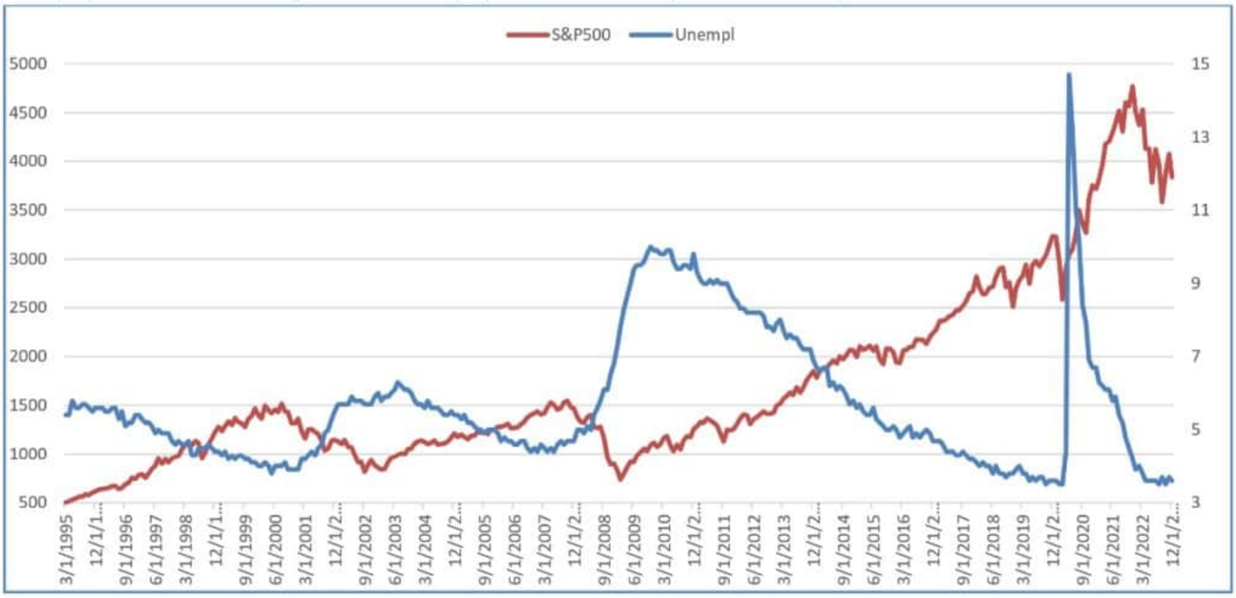
ECONOMIC DATA AND STOCKS

GDP qtr chg and S&P500 when GDP has a serious decline, stocks decline as well, but it is difficult to see GDP as a leading indicator for stocks.



Personal Consumption & S&P500 Personal Consumption does fall when stocks decline, but a lot of the changes in consumption do not seem to correspond to a specific stock direction.

Unemployment% & S&P500 Unemployment is obviously negatively correlated to stocks, but stocks seem to react to unemployment before or during a move in unemployment, so it is not a predictor of stock performance.

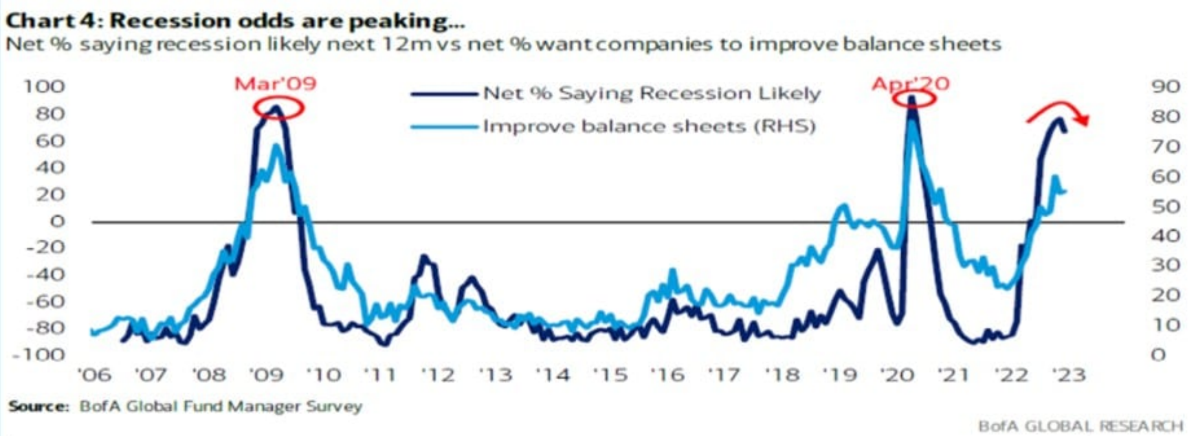


ISM Manufacturing & S&P500 ISM may be the best leading indicator, but there are often changes that do not immediately result in stocks price changes.

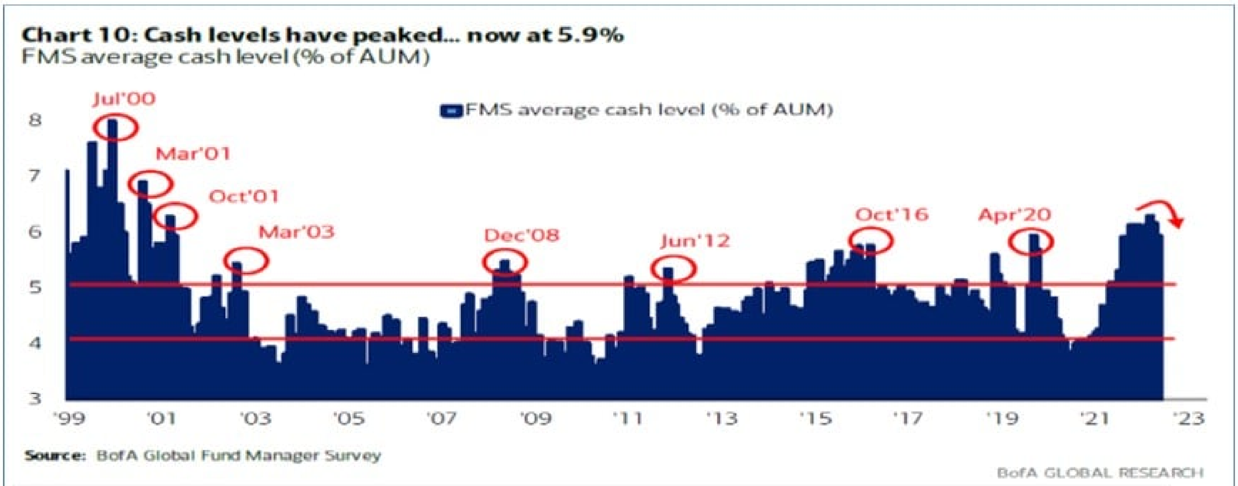
BOFA CONSENSUS NUMBERS

The percent of managers overweight equities vs. bonds is at a low extreme. The extreme is lower than it was in 2020, but not quite as low as it got in 2009. Regardless, these extremes would indicate that at the very least this is not the place to sell stocks and at the very best it is a buying opportunity.

As with the consensus indicator above, the percent of managers that say a recession is likely is also at an extreme. A similar extreme was reached in 2009 and 2020, which also marked the low of the S&P500 in those timeframes.



Cash levels as an indicator was inconsistent until 2003. The cash levels right now are higher than they were at the "buy points" in March 2003, December 2008, June 2012, October 2016, and April 2020. The S&P lows in those periods happened on 3/11/03, 3/9/09, 11/15/2012, 11/4/16, and 3/23/20. Importantly, cash level highs were 3 months early in 2008-2009 and dead on (given the reporting lag) for 2020.



Conclusions:

1. ***The economy has yet to show the problems many are forecasting. Looking at the current numbers versus historical averages, the economy looks like it is still in good shape.***

- ***2 of the 3 economic variables have declines as the stock market has retreated (employment remains strong). It is difficult to know what to take away from these recent declines as we look at the historic evidence.***

- ***Consensus numbers speak of true panic. Historically, when the numbers have reached these extremes, the market is closer to a buy than a sell.***