

# Sell Side Indicator

## Getting warmer

### Strategists nudged up equity allocations in February

Our Sell Side Indicator (SSI) is a contrarian sentiment barometer that tracks sell side strategists' average recommended allocation to equities in a balanced fund. The indicator ticked up 33bp to 54.7% in February as the S&P 500 rose for a fourth consecutive month (+5.2%). The shift to equities was funded by a move out of bonds, with the average bond allocation dropping 33bp m/m to 33.5% (still at an elevated 86<sup>th</sup> percentile since 2006). Cash allocations were unchanged at 2.1%.

### Indicator is now above its long-term average

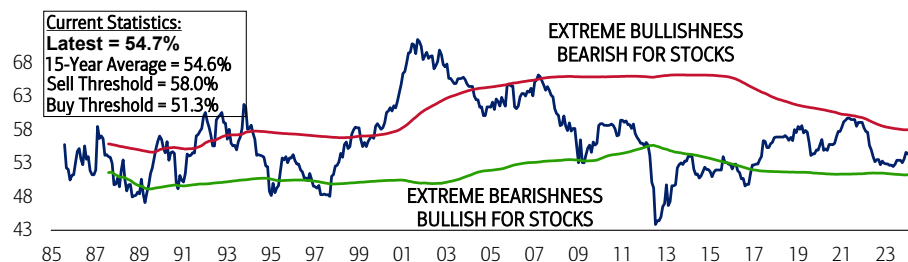
The SSI has been a reliable contrarian indicator – in other words, it has been a bullish signal when Wall Street was extremely bearish and vice versa. The SSI is in “Neutral” territory, a less predictive range than the more extreme “Buy” or “Sell” thresholds. Last month's increase pushed the indicator above its 15yr avg. of 54.6%, moving it a hair's breadth closer to a contrarian “Sell” signal than a “Buy” (3.3 vs. 3.5ppt) for the first time since April 2022. The SSI's current level indicates a price return of +13% over the NTM or 5650 for the S&P 500 by year-end 2024. When we have been here or lower, S&P 500 returns were positive 94% of the time over the next 12m vs. 81% overall.

### Retail sentiment more bullish than bearish

Our SSI signal is firmly “Neutral”, but retail sentiment has grown increasingly bullish. Responses from our recent [survey of Merrill financial advisors](#) were generally optimistic, with only 4% expecting a recession this year and 77% expecting the bull market to continue beyond 2024. On a scale of 1-10, advisors ranked their bullishness over the next 12 months as 7.5, the highest level in our survey history. Moreover, AAI's bull-bear spread indicates that individual investors are now 25% net bullish, up from a low of 26% net bearish last fall. However, we note that AAI seems to have little predictive power over the S&P 500's 12m fwd returns, yielding an r-sq of 2% (i.e., no relationship) vs. a higher explanatory power of 24% R-sq for the SSI.

#### Exhibit 1: Equity sentiment ticked up 33bp in February, moving above its 15yr average

Sell Side Indicator, 8/1985-2/2024



**Source:** BofA US Equity & Quant Strategy Note: Buy and Sell signals are based on rolling 15-year +/- 1 standard deviation from the rolling 15-year mean. A reading above the red line indicates a Sell signal and a reading below the green line indicates a Buy signal

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AAII: American Association of Individual Investors

**Exhibit 2: Bond allocations fell m/m but remain elevated vs. history (86<sup>th</sup> percentile)**

Average recommended allocation to bonds by Wall Street strategists (2006-2/2024)

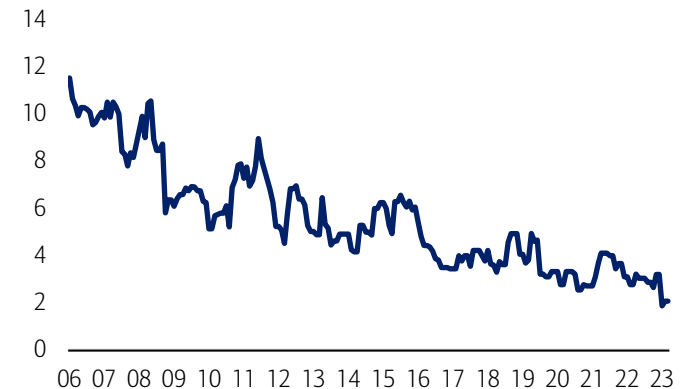


Source: BofA US Equity &amp; Quant Strategy

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**Exhibit 3: Cash allocations were unchanged, just off a survey history low**

Average recommended allocation to cash by Wall Street strategists (2006-2/2024)



Source: BofA US Equity &amp; Quant Strategy

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## About the Sell Side Indicator

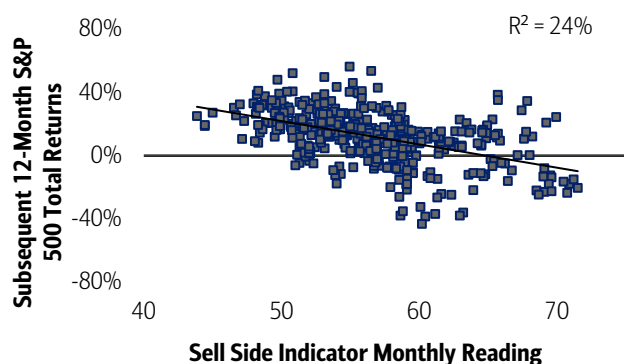
The Sell Side Indicator (SSI) is based on our survey of the Wall Street Strategists that submit their asset allocation recommendations to us (currently, there are nine; note that post the Global Financial Crisis, the number of respondents has typically ranged between 6 and 11). For this indicator, we use the simple average of the recommended equity weighting for each strategist as of the last business day of each month. The thresholds for the Buy and Sell readings are rolling 15-year +/- 1 standard deviations from the rolling 15-year mean.

### SSI compares well historically

We have found that Wall Street's consensus equity allocation has historically been a reliable contrarian indicator. While the SSI does not catch every rally or decline in the stock market, the indicator has historically had better predictive capability for subsequent 12-month S&P 500 total returns (Exhibit 4) than many other market timing tools. Although an R-squared of 24% might sound low, it is significantly higher than that of other popular single-factor market timing models (Exhibit 5).

**Exhibit 4: Sell Side Indicator has historically been a reliable contrarian indicator**

Sell Side Indicator Monthly Readings &amp; Subsequent 12-Month S&amp;P 500 Total Return (8/1985-2/2023)



Source: BofA US Equity &amp; Quant Strategy, Haver Analytics

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**Exhibit 5: Sell Side Indicator has a higher R-squared than most other single factor market timing models**

Predictive Power of Selected Indicators Forecasting 12-Month S&amp;P 500 Returns (8/1985-2/2023)

Indicator	R <sup>2</sup>
Sell Side Indicator	24%
Sell Side Indicator at extremes (Buy or Sell)	34%
S&P 500 Dividend Yield	11%
Proforma PE	10%
Adj. Fed Model (EPS Yld - Real 10-Yr Tsy Yld)	4%
M1 Growth	3%
Fed Model (EPS Yield - 10-Yr Treasury)	1%
10-Yr Treasury Yield	0%
3-Mo T-Bill Rate	0%
GAAP PE	0%
M2 Growth	0%
BBB to Treasury Spread	0%
Yield Curve (10-Yr - 3-Mo)	0%

Source: BofA US Equity &amp; Quant Strategy, Haver Analytics

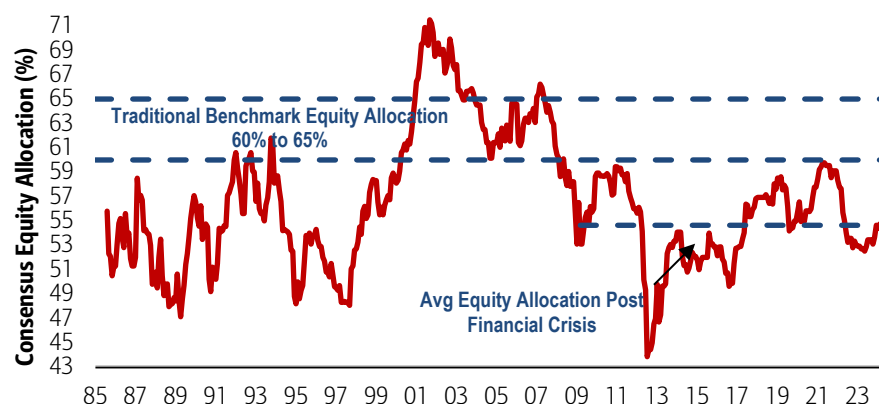
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Exhibit 6 demonstrates the Sell Side Indicator against a band of 60-65% that represents the traditional “normal” equity allocation for a balanced fund. The 2008 Financial Crisis pushed the indicator below that band for the first time since 2000. And while sentiment has improved significantly off of the 2012 bottom (the indicator reached an all-time low of 43.9%) and the indicator came close to reaching 60% in 2021, today’s sentiment levels are still below this benchmark.

Wall Street recommended underweighting equities through the entire bull market of the 1980s and 1990s as well as the 2009 to 2020 bull market.

#### Exhibit 6: GFC pushed stock allocations below the traditional 60-65% band

Sell Side Indicator, 8/1985-2/2024



Source: BofA US Equity & Quant Strategy

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## Sell Side Indicator performance

**Performance calculation methodology:** In the table below, we show the subsequent 12-month S&P 500 total return performance based on any monthly data points that fall within each of the three thresholds of our Sell Side Indicator. The Buy, Sell, and Neutral thresholds are based on rolling 15-year +/- 1 standard deviation from the rolling 15-year mean since August 1985, with threshold classifications beginning in 1987 when there was at least two years of data available (see cover chart). **Past performance cannot and should not be viewed as an indicator of future performance.**

#### Exhibit 7: The S&P 500 tends to exhibit the weakest returns during "Sell" vs other thresholds

S&P 500 subsequent 12-month total return statistics during Sell Side Indicator thresholds (based on Sell Side Indicator thresholds, 8/1987-2/2023)

Sell Side Statistics	Buy	Sell	Neutral
Avg Subsequent 12m Perf	20.5%	2.7%	12.1%
Median Subsequent 12m Perf	19.7%	6.8%	14.0%
High Subsequent 12m Perf	49.8%	38.5%	56.4%
Low Subsequent 12m Perf	-6.2%	-26.6%	-43.3%
% Neg	3.4%	38.9%	15.3%
Number of months	89	90	248
Subsequent 12m Perf Volatility	11.8%	15.8%	15.9%

Source: BofA US Equity & Quant Strategy, Bloomberg

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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