

Sell Side Indicator

The return of bears

Equity sentiment declined for the first time since May

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 declined 37bp last month to 53.1% as the S&P 500 fell 2.2% (its third consecutive month of losses). This marks the first drop in equity sentiment since May and the largest m/m drop since last October. The current SSI level indicates +15.5% price return over the next 12 months (S&P 500 at ~4850).

Reliable contrarian indicator; 3x more bearish than bullish

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. Although the indicator is currently in “Neutral” territory (a less predictive range than the more extreme “Buy” or “Sell” thresholds), it is far more bearish than bullish, nearly 3x closer to a “Buy” signal than a “Sell” (1.8ppt vs. 5.0ppt). Historically, when the indicator has been here or lower, 12m forward S&P 500 returns were positive 95% of the time (vs. 81% overall) with a median return of 21%.

Strategists nudged up their cash allocations

Strategists' average cash allocation increased by 56bp last month, a move funded mostly by equities (-37bp) but also by bonds (-18bp). Despite this shift, cash allocations remain near our survey history lows (15th percentile) and bond allocations remain elevated (90th percentile), vulnerable to a further move higher in rates. While higher rates have weighed on equity sentiment, we believe corporates and consumers may hold up better than expected as they have time to adapt – over 75% of S&P 500 debt is long-term fixed (vs. <50% in 2008), and only 15% of US mortgage loans are adjustable-rate.

Exhibit 1: Equity sentiment declined by 37bp in October (largest decline in a year)

Sell Side Indicator, 8/1985-10/2023



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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Refer to important disclosures on page 4 to 6.

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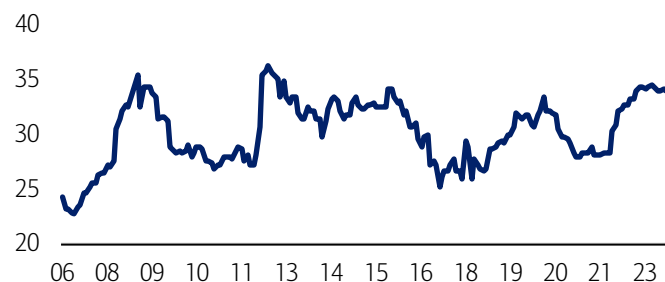
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Exhibit 2: Bond allocations declined m/m but are still elevated (90th percentile)

Average recommended allocation to bonds by Wall Street strategists (2006-10/2023)

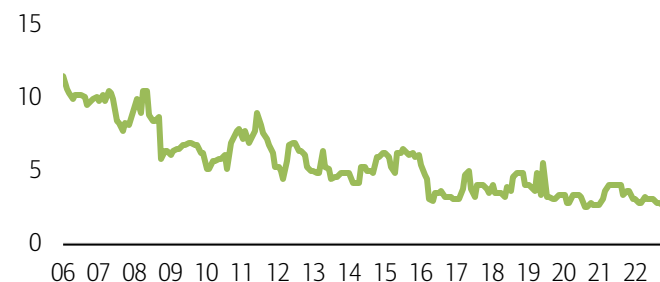


Source: BofA US Equity & Quant Strategy

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Exhibit 3: Cash allocations increased m/m but are still low vs. history (15th percentile)

Average recommended allocation to cash by Wall Street strategists (2006-10/2023)



Source: BofA US Equity & Quant Strategy

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About the Sell Side Indicator

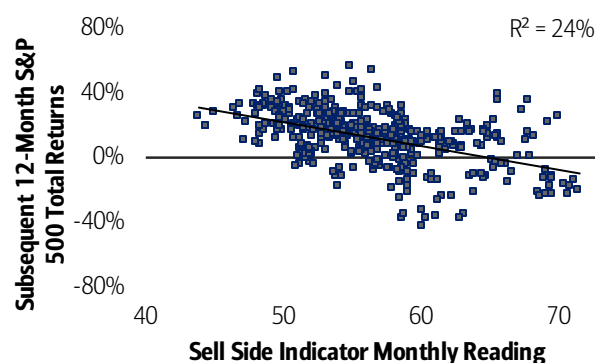
The Sell Side Indicator (SSI) is based on our survey of the Wall Street Strategists that submit their asset allocation recommendations to us (currently, there are nine. Note that post the Global Financial Crisis, the number of respondents has typically ranged between 6 and 11). For this indicator, we 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.

One of the most reliable market timing indicators

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 & Subsequent 12-Month S&P 500 Total Return (8/1985-10/2022)



Source: BofA US Equity & 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&P 500 Returns (8/1985-10/2022)

Indicator	R ²
Sell Side Indicator	24%
Sell Side Indicator at extremes (Buy or Sell)	34%
S&P 500 Dividend Yield	12%
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%
Yield Curve (10-Yr - 3-Mo)	0%
BBB to Treasury Spread	0%

Source: BofA US Equity & Quant Strategy, Haver Analytics

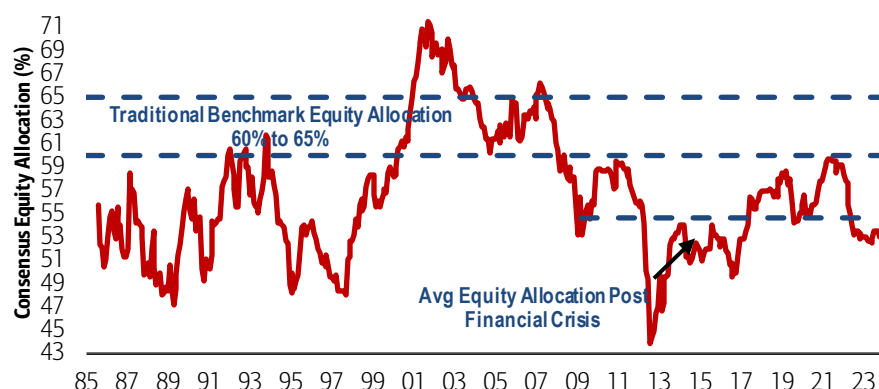
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Exhibit 6 demonstrates the Sell Side Indicator against a band of 60-65% that represents the traditional “normal” equity allocation for a balanced fund. The 2008 Financial Crisis pushed the indicator below that band for the first time since 2000. And 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, 8/1985-10/2023



Source: BofA US Equity & Quant Strategy

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Sell Side Indicator performance statistics

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, 8/1987-10/2022)

Sell Side Statistics	Buy	Sell	Neutral
Avg Subsequent 12m Perf	20.5%	2.7%	11.9%
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%	15.6%
Number of months	89	90	244
Subsequent 12m Perf Volatility	11.8%	15.8%	16.0%

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 ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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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