

Sell Side Indicator

Wall Street is skeptical as market hits new highs

Equity sentiment ticked down for the first time since Oct.

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 down 24bp to 54.4% in January after rising the prior two months. Strategists lowered their equity allocations in January despite the S&P 500 gaining for a third straight month (+2%), hitting an all-time high for the first time in two years.

Indicator is firmly "Neutral", slightly below its 15yr avg.

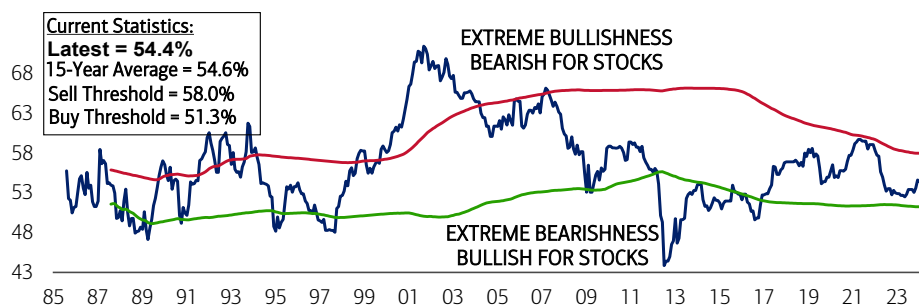
The SSI has been a reliable contrarian indicator – in other words, it has been a bullish signal when Wall Street was extremely bearish, and vice versa. The SSI is in "Neutral" territory, a less predictive range than the more extreme "Buy" or "Sell" thresholds. Last month's decline puts the indicator slightly below its 15yr average of 54.6%, just 50bp closer to a contrarian "Buy" signal than a "Sell" (3.1ppt vs. 3.6ppt). The SSI's current level indicates an expected price return of +14% over the next 12 months or 5450 for the S&P 500 by year-end 2024. When the SSI has been here or lower, 12m fwd S&P 500 returns were positive 94% of the time (vs. 81% overall) with a median return of 20%.

Everyone says everyone else is bullish

With consensus expecting a soft landing (see [FMS](#)), investors are increasingly concerned that there are no bears left on Wall Street. Although bearish sentiment may not provide the tailwind to equities that it did last year (see [Dec. 2022 SSI](#)), sentiment has not risen to levels of euphoria that we typically see at the end of bull markets, in our view. Our SSI improved from a low of 52.5% in mid-2023 to 54.4% today, still far below the 59.8% level reached in 2021. While sentiment has warmed, concerns over China growth, the market's pricing of Fed cuts and geopolitical tensions continue to dominate headlines. Moreover, few investors appear positioned for a macro recovery – exposure to cyclical, small caps, and high beta stocks remains low vs. history (see [holdings update](#)).

Exhibit 1: Equity sentiment ticked down 24bp in January, its first decline since October

Sell Side Indicator, 8/1985-1/2024



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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Refer to important disclosures on page 4 to 6.

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Exhibit 2: Bond allocations were unchanged m/m, remaining elevated vs. history (87th percentile)

Average recommended allocation to bonds by Wall Street strategists (2006-1/2024)

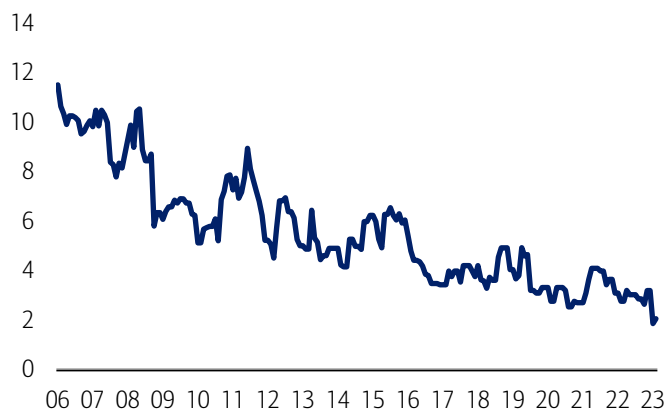


Source: BofA US Equity & Quant Strategy

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Exhibit 3: Cash allocations ticked up m/m, just off a survey history low

Average recommended allocation to cash by Wall Street strategists (2006-1/2024)



Source: BofA US Equity & Quant Strategy

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About the Sell Side Indicator

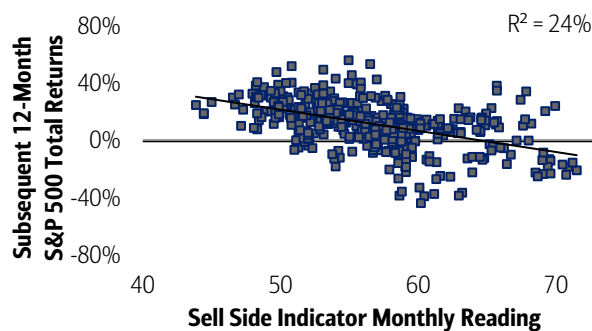
The Sell Side Indicator (SSI) is based on our survey of the Wall Street Strategists that submit their asset allocation recommendations to us (currently, there are nine; note that post the Global Financial Crisis, the number of respondents has typically ranged between 6 and 11). For this indicator, we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

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 & Subsequent 12-Month S&P 500 Total Return (8/1985-1/2023)



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 (8/1985-1/2023)

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%
BBB to Treasury Spread	0%
Yield Curve (10-Yr - 3-Mo)	0%

Source: BofA US Equity & Quant Strategy, Haver Analytics

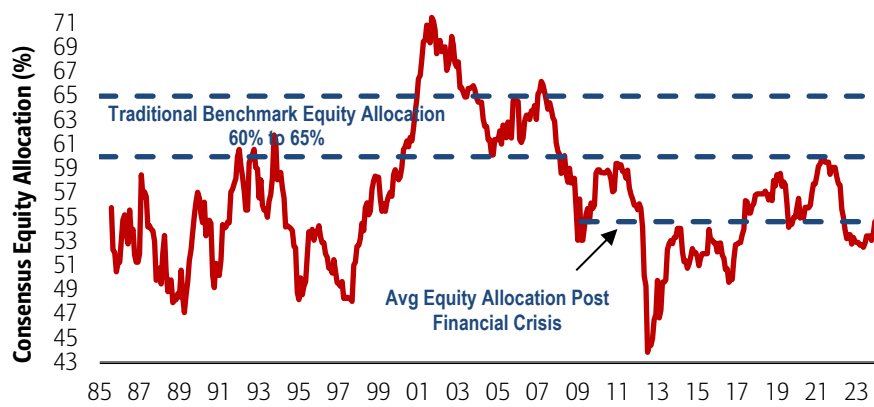
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Exhibit 6 demonstrates the Sell Side Indicator against a band of 60-65% that represents the traditional “normal” equity allocation for a balanced fund. The 2008 Financial Crisis pushed the indicator below that band for the first time since 2000. And 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, 8/1985-1/2024



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, 8/1987-1/2023)

Sell Side Statistics	Buy	Sell	Neutral
Avg Subsequent 12m Perf	20.5%	2.7%	12.0%
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%	15.4%
Number of months	89	90	247
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 ^{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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