



# Retail Investors Turn Bearish as Coronavirus Cases Spike

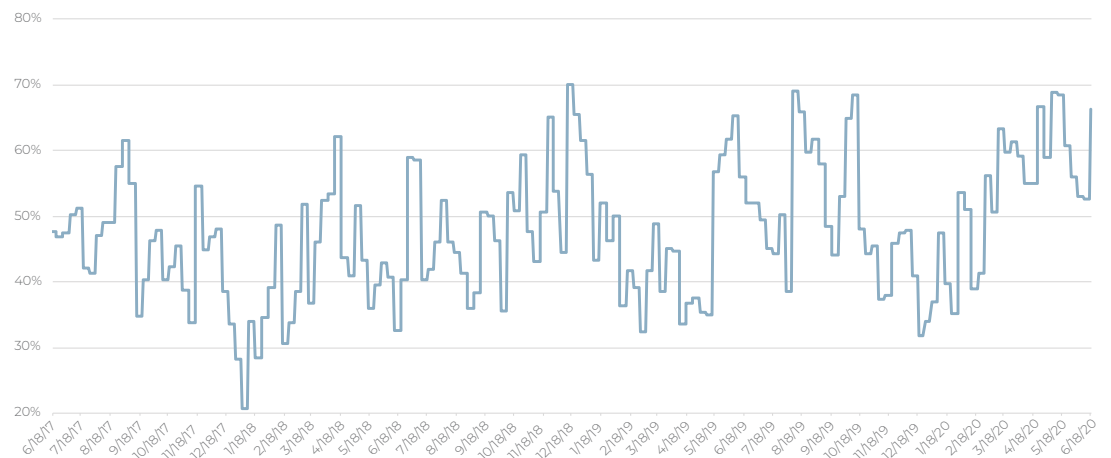
BY ABE SHEIKH, CO-CIO AND JOE BELL, PORTFOLIO MANAGER · JUNE 2020

## KEY TAKEAWAYS:

- » We expect short-term support for stocks based on indicators from our investment models. One such indicator—the AAI U.S. Investor Sentiment Index—is near bearish extremes.
- » We are likely near the end of the Federal Reserve’s extremely accommodative policy stance. Looking ahead, the Fed is likely to gradually become less accommodative, as the U.S. and global economies recover from the coronavirus driven recession.
- » Recent spike in coronavirus cases across the U.S. is a serious issue that could derail the economic recovery. We are closely monitoring developments and at this stage, we do not believe a full-scale shutdown of the global economy is in the cards.
- » We believe a disciplined systematic process is our differentiator and key to achieving long-term positive results for clients.

## 1. RETAIL INVESTORS TURN BEARISH

AAII% BEARISH / (AAII % BULLISH + AAII % BEARISH)



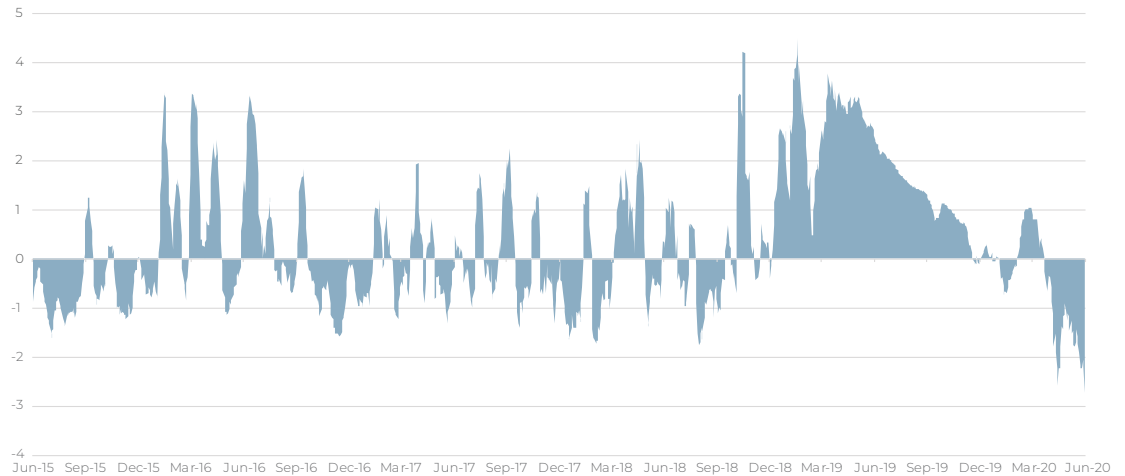
Source: AAII Sentiment, Meeder Investment Management.

This week’s American Association of Individual Investors (AAII) Sentiment survey<sup>1</sup> showed that more than 66% of respondents are bearish over the next six months. With U.S. stocks—as measured by the S&P 500 Index—less than 10 percent from their all-time high, many retail investors are feeling quite skittish over worrisome headlines related to COVID-19, the re-opening of the economy, and civil unrest. Our research shows that such extreme bearish sentiment has historically been associated with positive performance of the stock market in the weeks that follow.

<sup>1</sup> Since 1987, members of the American Association of Individual Investors (AAII) have been answering the same question each week: Which direction do you feel the stock market will go in the next six months? The responses are tracked by the AAII Sentiment Survey, which provides a useful gauge of the expectations of individual investors.

## 2. FED LIKELY TO BE LESS ACCOMMODATIVE

EXPECTATIONS FOR FED POLICY

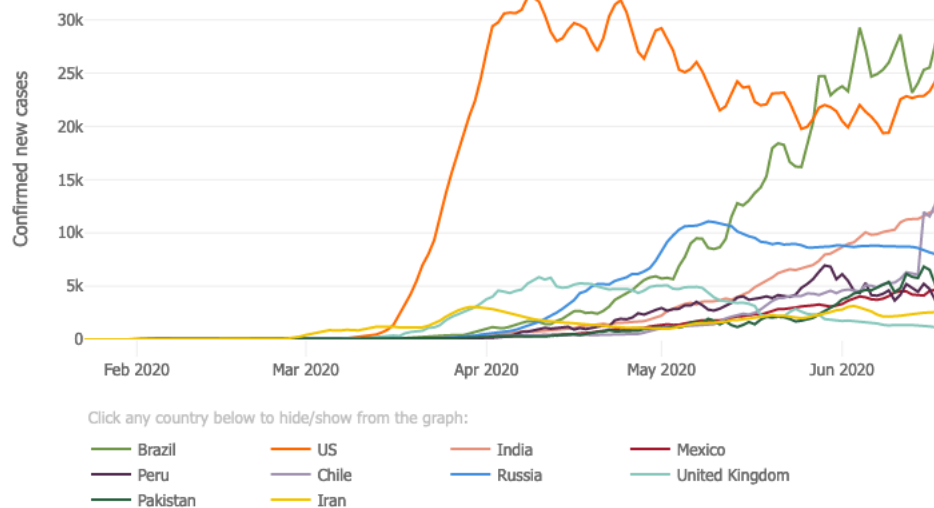


Source: RavenPack, Meeder Investment Management. The chart shows the standardized 10-day moving average of interest rate forecast sentiment. This is calculated by analyzing relevant news stories and assigning a score to each one, depending on the implied interest rate forecast. This score is then smoothed and standardized over the last year. Extreme positive readings imply expectations of loosening Fed policy and vice versa.

The stock market's tailwind from Fed policy is likely to be less impactful going forward. Although lower interest rates and quantitative easing have historically been positive for equities, our quantitative measure of Fed expectations has decreased recently. With economic data quickly improving and the Fed's balance sheet reaching record levels, the path forward is likely to be less accommodative than we have witnessed during the first half of 2020. We do not expect the Fed "put" to be as effective at buoying stock markets in the future, as it has been over the past few months.

## 3. SPIKING CORONAVIRUS CASES COULD DERAIL ECONOMIC RECOVERY

DAILY CONFIRMED NEW CASES (5-DAY MOVING AVERAGE)  
OUTBREAK EVOLUTION FOR THE CURRENT 10 MOST AFFECTED COUNTRIES



Source: John Hopkins

Several states across the U.S. are experiencing a resurgence in new coronavirus cases. With China shutting down schools, many people wonder if the U.S. will soon follow. While different states and countries re-open their economies with varying degrees of success, researchers from around the world continue to focus on drug and vaccine testing. While this recent surge is important to monitor, we don't believe there will be a global shutdown like we experienced this spring.





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