

AII Sentiment Survey: Pessimism Rises to Highest Level since August

Short-term pessimism among individual investors rose to levels not seen last since last August, according to the latest AII Sentiment Survey. Meanwhile, bullish sentiment fell for the fifth time in six weeks.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 4.3 percentage points to 27.9%. This is the lowest level of optimism registered by our survey since April 18, 2013. It is also the first time bullish sentiment has been below 30% since August 22, 2013. The historical average is 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, edged up 0.6 percentage points to 35.7%. This is the fifth consecutive week with a neutral sentiment reading above the historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 3.6 percentage points to 36.4%. This is the highest level of pessimism registered by our survey since August 22, 2013. It is also the first time bearish sentiment has been above its historical average of 30.5% on consecutive weeks since September 5, 2013.

As noted above, optimism among individual investors continues to fall. Bullish sentiment is down a cumulative 27.2 percentage points since reaching 55.1% on December 26, 2013. Bearish sentiment, meanwhile, is up a cumulative 17.9 percentage points over the same period.

The market's pullback continues to cast clouds over AII members' short-term outlook, likely heightening concerns about both stock valuations and whether the market established a short-term top at the start of the year. Also playing a role is the pace of economic growth and Washington politics. Tempering the pessimism is earnings growth, economic growth and the Federal Reserve's tapering of its bond purchases.

This week's special question asked AII members what impact emerging markets are having on their six-month outlook for U.S. stocks. Approximately 30% of respondents said emerging markets are not influencing their outlook for U.S. stocks, while 23% said emerging markets are having a negative influence. The level of how negative the influence was varied by respondent, but many of the respondents in this second group thought emerging market countries are creating downward pressure on U.S. stocks. A smaller group, about 10%, said emerging markets are having a small impact on their outlook for U.S. stocks.

This week's AAI Sentiment Survey results:

- Bullish: 27.9%, down 4.3 percentage points
- Neutral: 35.7%, up 0.6 percentage points
- Bearish: 36.4%, up 3.6 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.5%
- Bearish: 30.5%

The AAI Sentiment Survey has been conducted weekly since July 1987 and asks AAI members whether they think stock prices will rise, remain essentially flat, or fall over the next six months. The survey period runs from Thursday (12:01 a.m.) to Wednesday (11:59 p.m.) The survey and its results are available online at: <http://www.aai.com/sentimentsurvey>