

AAII Sentiment Survey: Pessimism Surges Close to a Two-Year High

Pessimism surged to its highest level in nearly two years in the latest AII Sentiment Survey. Optimism plunged, while neutral sentiment fell below 40% for the first time since April.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged by 11.4 percentage points to 21.1%. The drop puts optimism at a seven-week low. This is the 21st consecutive week with bullish sentiment below its historical average of 39.0%, the longest such streak since a 29-week stretch in 1993. Readings below 28.5% are considered to be unusually low.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, fell 3.7 percentage points to 38.2%. This is the first time neutral sentiment has been below 40% since April 2, 2015 (32.6%), ending a record 16-week streak. The decline is not large enough to keep neutral sentiment from staying above its historical average of 31.0% for a 30th consecutive week, however.

Bearish sentiment, expectations that stock prices will fall over the next six months, spiked 15.1 percentage points to 40.7%. Pessimism was last higher on August 22, 2013 (42.9%). The historical average is 30.0%. Readings above 40.1% are considered to be unusually high.

This week's jump in pessimism is the largest one-week surge since a 26.3-point rise on April 11, 2013. It puts bearish sentiment above 40% for only the fourth time since November 2012. The rise comes as the major stock indexes fell during much of the survey period. This is also the fourth time in eight weeks that bearish sentiment has been above its historical average after spending much of the previous 12 months below 30%.

The link between unusually high levels of pessimism and above-average returns for the S&P 500 is not as strong as the link between unusually low levels of optimism and higher market returns. For the period of June 24, 1987 through May 7, 2015, the S&P 500 has had a median six-month gain of 5.6% following unusually high bearish sentiment readings. Over the same period, the large-cap index has a median six-month gain of 7.1% following unusually low bullish sentiment readings. These numbers compare to a median six-month gain of 5.3% for all rolling six-month periods over the timespan analyzed. For more information, see my May 21 AII Investor Update, [Unusually High Neutral Sentiment Often Followed by Good Returns](#). (There is no guarantee that history will repeat.)

Causing many AII members to be cautious are concerns about the possibility of a sizeable decline in stock prices occurring, the pace of economic growth, the lack of wage growth, valuations, the

impact of the stronger dollar on earnings and geopolitical events. Keeping some AAI members optimistic is the Federal Reserve's still-accommodative monetary policy, the ongoing bull market, sustained economic expansion and earnings growth.

This week's AAI Sentiment Survey results:

- Bullish: 21.1%, down 11.4 percentage points
- Neutral: 38.2%, down 3.7 percentage points
- Bearish: 40.7%, up 15.1 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 31.0%
- Bearish: 30.0%

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>.