

AII Sentiment Survey: Bullish Sentiment Above 40% for First Time since Early March

A jump in optimism put bullish sentiment back above 40% for the first time in nearly two months, according to the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 9.8 percentage points to 40.8%. This is an eight-week high. It is also the first time since March 14, 2013, that optimism is above its historical average of 39%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined 1.3 percentage points to 31.8%. This is the first time since September 2012 that neutral sentiment is above its historical average of 30.5% on three consecutive weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 8.5 percentage points to 27.4%. This is the lowest level of pessimism registered by our survey since January 31, 2013 and the first time pessimism has been below its historical average since April 4, 2013. Though seemingly low, bearish sentiment is just 3.1 percentage points below its historical average of 30.5%.

Bullish sentiment has risen by a cumulative 21.5 percentage points since bottoming on April 11, 2013. The rise has put the number of bulls above the number of bears for the first time since April 4, 2013. New record highs by the Dow Jones industrial average and the S&P 500, better-than-forecast earnings, signs of continued economic growth and a lack of new bad news are all contributing to the higher level of optimism. This is a cautious optimism, however, as many investors remained concerned about current valuations, the actual pace of economic growth and a lack of progress on key issues by the White House and Congress.

This week's special question asked AII members for their opinion of first-quarter earnings. Responses varied with 20% of respondents saying earnings were good, 15% saying results were mixed or so-so, and 14% describing profits as disappointing or weak. Slow revenue growth or the impact of widening margins were cited by 18% of respondents.

Here is a sampling of the responses:

- "Stronger than most felt they would be."
- "So far, so good. Most companies are meeting expectations."
- "Earnings are better than revenues suggest they should be."

- “Earnings were okay, but revenues were weak.”
- “The earnings increase was due to cost cutting, not top-line revenue growth. This is a bad sign.”

This week’s AAI Sentiment Survey results:

- Bullish: 40.8%, up 9.8 percentage points
- Neutral: 31.8%, down 1.3 percentage points
- Bearish: 27.4%, down 8.5 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.6%
- Bearish: 30.6%

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>