

AAII Sentiment Survey: Optimism Plunges to a Two-Year Low

Optimism plunged to a two-year low as pessimism surged to its highest level in nine months, according to the latest AAI Sentiment Survey. Neutral sentiment continued its streak of unusually high readings.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 7.3 percentage points to 20.0%. Optimism was last lower on April 11, 2013 (19.3%). The drop puts bullish sentiment below its historical average of 39.0% for the 14th consecutive week. Optimism is also below 30% for a sixth consecutive week, the longest such streak since a seven-week stretch between January 16 and February 27, 2003.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined by 0.7 percentage points to 47.4%. The minor change keeps neutral sentiment at or above 45% for a record 10th consecutive week. This week is also the 23rd consecutive week with a neutral sentiment reading above its historical average of 31.0%.

Bearish sentiment, expectations that stock prices will fall over the next six months, surged 8.0 percentage points to 32.6%. Pessimism was last higher on October 16, 2014 (33.7%). The jump puts bearish sentiment above its historical average of 30.0% for just the fifth time this year and for the first time since April 2, 2015.

Bullish sentiment readings below 28.6% are unusually low, and unusually low levels of optimism have typically been followed by better-than-average six- and 12-month returns for the S&P 500. Similarly, the S&P 500 has realized better-than-average returns when neutral sentiment is at an unusually high level, as it currently remains. For more information, see my May 21 AAI Investor Update, [Unusually High Neutral Sentiment Often Followed by Good Returns](#). (There is no guarantee, however, that history will repeat.)

It's worth noting that the S&P 500 declined throughout most of the survey period, before rebounding yesterday. This decline may have contributed to concerns about the stock market having established a short-term top or being close to doing so. In addition to nervousness about the recent price volatility and possibility of a notable decline in stock prices occurring, some AAI members are also concerned about the pace of economic growth, the impact of the stronger dollar on earnings growth and geopolitical events. Keeping other AAI members encouraged are the ongoing bull market, sustained economic expansion, earnings growth and still-accommodative monetary policy.

This week's AAI Sentiment Survey results:

- Bullish: 20.0%, down 7.3 percentage points
- Neutral: 47.4%, down 0.7 percentage points
- Bearish: 32.6%, up 8.0 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>.