
Rebalancing amid bearish sentiment

Investor Sentiment Research Note | July 2023

Ron Akke, Dan Golosovker

Introduction

This Addepar Investor Sentiment Index (ISI) research note is designed to provide transparency into the investment behavior of the wealthiest tier of investors. Leveraging Addepar's network of RIAs and family offices, we analyze anonymized investment data on our platform to gain insight into how ultra-high-net-worth (U/HNW) investors are making portfolio adjustments, effectively capturing their views on the economy and markets. Additionally, where relevant, we conduct client interviews to supplement the data analysis presented. To ensure privacy, we never disclose identities.

Key takeaways

- Investor sentiment was extremely bearish in the second quarter, likely due to investors rebalancing their portfolios.
 - Aggregate weekly sentiment was far below historic averages in most weeks of the quarter.
 - Sector sentiment was lowest in those growth sectors that had the best performance.
 - Mega cap stocks, which had the best performance in the quarter, had historically bearish sentiment.
- We reviewed the relationship between investor sentiment and performance in mega cap stocks and found no connection. This suggests that the first half rally

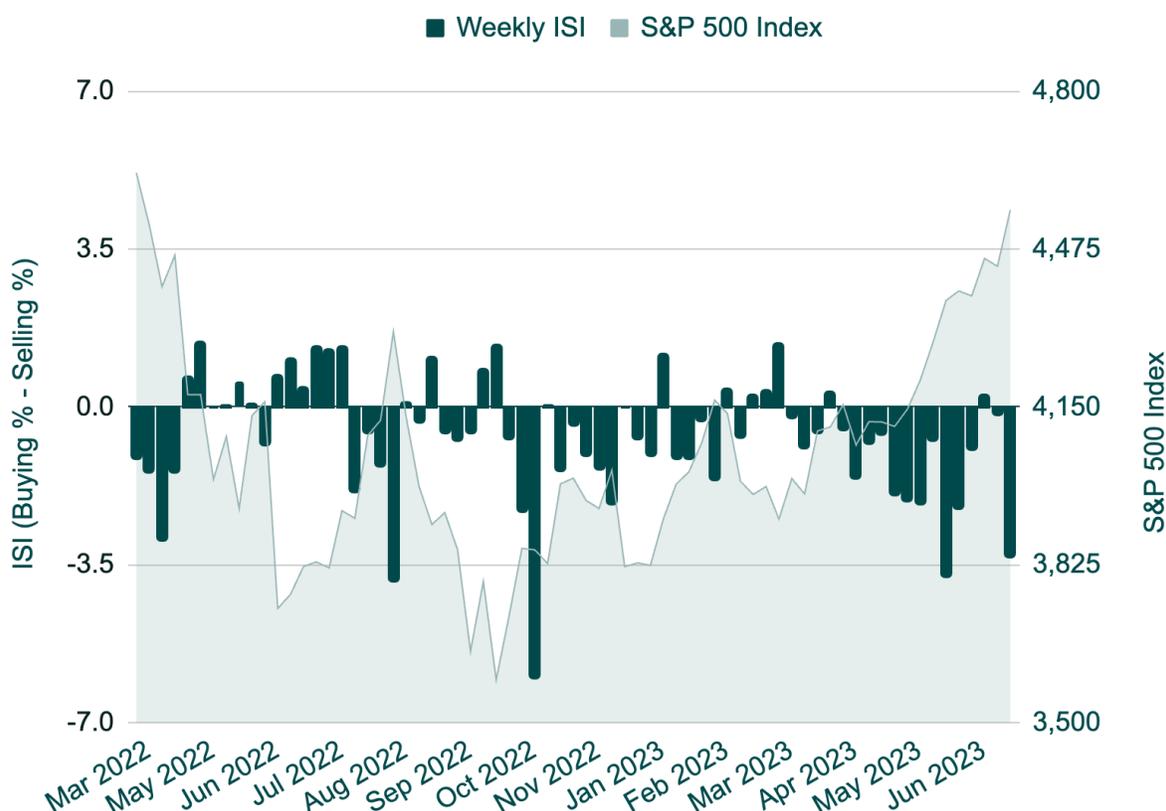


was largely driven by changes in valuation, as discussed in our [July Monthly Market Update](#).

Second quarter investment sentiment among U/HNW investors was extremely bearish. This aligns with historical trends suggesting that as equity markets rise, the wealthiest investors tend to reduce their positions by rebalancing their portfolios¹ (Gabaix et al., 2023).

Exhibit 1

Investor sentiment was extremely bearish throughout the quarter while equities roared upwards
Weekly ISI vs. S&P 500, March 2022–July 2023



Source: Addepar

This rebalancing behavior was seen at the sector level as well. Those sectors with the highest performance, namely technology and communications, also had the most bearish sentiment in the quarter.

¹ Note that the Addepar Investor Sentiment Index is based only on portfolios with greater than \$10mm in assets. Our companion Q2 2023 Asset Allocation note is based on all portfolios, regardless of size.



We also reviewed the connection between investor sentiment and performance in the seven mega cap companies² that led the rally. We found no relationship, suggesting that first half performance was largely driven by changes in valuation as discussed in our [July Monthly Market Update](#).

Exhibit 2

Growth investors were bearish despite outsized performance in the sector

Monthly sector-specific ISI and quarterly sector performance, shaded by Z-score, Q2 2023

Sector	Apr.	May	June	Perf.
Communication services	0.1	-0.6	-1.1	13.1%
Consumer cyclical	-0.3	-0.7	0.5	14.6%
Consumer defensive	-0.5	-0.2	-0.5	0.5%
Energy	0.2	-0.2	0.0	-0.9%
Financial services	-0.7	0.1	0.3	5.3%
Healthcare	0.4	-0.4	-0.2	3.0%
Industrials	-0.4	-0.1	0.0	6.5%
Materials	0.0	-0.1	0.0	3.3%
Real estate	0.0	0.1	0.1	1.4%
Technology	-0.7	-1.1	-2.1	17.2%
Utilities	0.1	-0.1	0.0	-2.5%

Source: Addepar

Light shading signifies monthly ISI or quarterly performance values that were 1+ standard deviations from the mean, while dark shading signifies values that were 2+ standard deviations from the mean, as measured starting Jan 2016.

Conclusion

In this research note, we've discussed how investor sentiment has responded to the rally in equities. We'll continue to develop macro lenses as well as analytics that provide additional value to our clients through the aggregated and anonymized investment data on our platform. We'll also keep posting the monthly ISI index, our key observations and periodic research notes on our website.

² We define mega cap as the seven largest companies by market capitalization as of June 30th, 2023. These are: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.



References

Gabaix, Xavier and Koijen, Ralph S. J. and Mainardi, Federico and Oh, Sangmin and Yogo, Motohiro, Asset Demand of U.S. Households (June 23, 2023). Available at SSRN: <https://ssrn.com/abstract=4251972> or <http://dx.doi.org/10.2139/ssrn.4251972>



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