Please refer to Appendix – Important Disclosures.

**Curiosities and Conundrums Keep Focus On Weight of Evidence**

**Key Takeaways:**
- Utilities & Financials making multi-year lows versus S&P 500
- Investor surveys show sentiment is mixed
- Breadth stalling after failing to produce follow-through

We were encouraged this week to see a favorite phrase of ours used by Joint Chiefs of Staff Chairman Army Gen. Mark Milley: "The weight of the evidence - nothing's conclusive - the weight of the evidence is that it was natural and not man-made." While his comments had little to do with the financial markets, his implicit endorsement of the methodological approach is heartening. We can put away narratives and noise and the need for certainty. We can allow the evidence to speak and lean in the direction of its voice. That has been and remains our approach when it comes to considering risks and opportunities for investing. Our goal is to provide a clear and unbiased assessment of what is happening beyond just what is seen in the headlines. Sometimes the actions are clear, at other times we are left with more questions than answers. Right now, as the financial markets digest a record-setting rebound in the wake of a record-setting decline, we see the weight of the evidence as still mixed.

While the weight of the evidence is our primary lens, it does not prevent the observation of what we might call curiosities. Some developments seem important even if their implications are not yet clear. Having both Financials and Utilities making new multi-year lows versus the S&P 500 yesterday is an example. This may be just a reflection of recent Technology sector strength (and its relative importance in the index), or it may be a signal of higher yields and slower growth for the economy going forward.
The sentiment backdrop is a bit of a conundrum right now. Advisory services sentiment (as measured by Investors Intelligence) shows bulls rising and bears falling in each of the past six weeks. After dipping briefly into negative territory, the bull-bear spread has now climbed back above +20%. Even at its lows, the bull-bear spread was more consistent with the non-recession lows seen in 2011 and 2016 than the recession-related weakness that was experienced in 2008 and early 2009.

Individual investors, however, see things a bit differently. This week’s AAII survey showed bears moving to their highest level of the year (and highest since 2013). Bulls dropped to their lowest level of 2020, though they are higher than the lows that were observed at several points in the past two years (most recently in October 2019).

A similar conundrum: Money market assets showed a record spike in March but even with that, household exposure to equities remained above average and cash remained a historically unloved asset class.
In last week’s Market Commentary we discussed some of the hopeful developments being seen beneath the surface. Some evidence of small-cap strength had emerged and the equal-weighted version of the S&P 500 was showing signs of leadership versus the cap-weighted version of the index. Those improvements have not (yet at least) provided much follow through. The ratio between the equal-weighted and cap-weighted S&P 500 indexes gave back much of its recent strength and momentum is rolling over. While it is not breaking down, the break-out appears to have been a false start.

Another under-the-hood look is provided by our sector-level trend model. This model improved as the S&P 500 rallied off of the March lows, but it has not gotten back into positive territory. Over the past week it has deteriorated even as the S&P 500 has been consolidating. The failure to see sector-level trends turn broadly positive suggests the index rally off of the lows may have gotten ahead of itself from a price perspective. We continue to look for broad market follow-through but so far it has not materialized. When we see it, we will be able to upgrade our view of breadth in our weight of the evidence framework.
Appendix – Important Disclosures and Analyst Certification

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