



While investor sentiment is still low from a long-term perspective, it has moved up to near highs for the year. (UBS)

# Sentiment at levels that preceded recent market sell-offs

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**As we highlighted last week, it's hard to see much market upside with the S&P 500 forward P/E now slightly above 17x.**

Historically, when the P/E has been more than 18x, expected earnings growth averages 14%. Currently, bottom-up consensus expects much lower growth (5% over the next year), and we believe earnings will fall 4% next year. In other words, we think it's hard to justify much—if any—valuation expansion right now.

This week we take a look at sentiment measures, which also seem to suggest caution. While investor sentiment is still low from a long-term perspective, it has moved up to near highs for the year. When sentiment reached similar levels earlier in the year, the S&P 500 subsequently experienced three sell-offs with an average decline of 16%.

We don't think sentiment in and of itself is reason for concern. But it does suggest that investor positioning is more "neutral" right now and the market could be vulnerable to any negative news. We maintain a defensive bias in US equity sectors with most preferred views on consumer staples and healthcare. Energy is our other most preferred sector, which has a very attractive valuation, in our view. We also like high quality stocks that have less earnings risk. We are overweight value vs growth. Our June and December 2023 price targets remain 3,700 and 4,000, respectively.

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**Content is a product of the Chief Investment Office (CIO).**

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