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Is now the time to be bullish on equities?

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It seems like the hits keep coming for equity investors.

First it was rapidly rising interest rates in December. Then it was DeepSeek and firmer inflation readings. And now investors are contending with an onslaught of tariff threats that can make your head spin—not to mention the uncertainty about government policy in general.

It's probably not surprising that stocks and equity investor sentiment have started to crack. This week the American Association of Individual Investors (AAII) reported that only 19% of respondents to their weekly survey are expecting stocks to be higher over the next six months. This is an extremely low reading—lower than 98% of all observations since the survey started in 1987. More quantitative measures of investor sentiment (e.g., the put-call ratio) are also suggesting high levels of investor fear.

But very low sentiment readings tend to be a contrarian indicator. Perhaps somewhat counterintuitively, stocks typically perform well after poor sentiment readings. Not only do returns tend to be higher, but there is also a higher probability of a market gain—a year later stocks are higher 85% of the time.

There is some logic to this dynamic. Investors usually de-risk in the face of bad news. If that bad news dissipates, investors typically reengage with markets. Our message has been consistent over the last few months. We think the bull market is intact driven by healthy economic and profit growth, supportive Fed policy, and AI spending/adoption. But we have also cautioned that volatility would likely be higher this year due to policy uncertainty and trade frictions. Therefore, we have been highlighting that short-term hedges may be worth considering.

It's certainly possible that stocks experience some additional policy-driven downside risk in the near term. But ultimately, we don't think the Trump administration will take measures that have long-lasting negative impacts on economic growth or inflation. That is certainly not a winning political strategy. We therefore stick with our view that stocks will post healthy gains this year, despite higher levels of volatility. Our year-end S&P 500 price target remains 6,600.

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