



Richard  
Bernstein  
Advisors

The Leaders In Pactive® Management

# RBA Quick Insights



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## Investors have capitulated so much, they're bullish

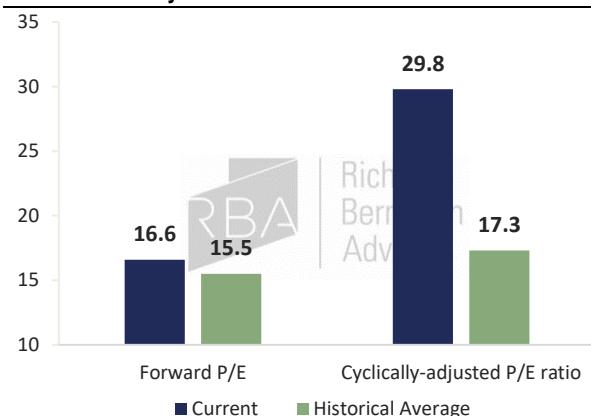
We've all heard the famous Yogi Berra quote, "Nobody goes there anymore. It's too crowded." Investors today seem jazzed up on an opposite but similarly absurd concept: Wall Street thinks it's a huge buying opportunity because everybody's too bearish.

### We think true investor capitulation is a ways off

The topic du jour is investor "capitulation," the idea that investors have given up hope in stocks as an attractive investment. With such immense bearishness embedded into today's stock prices, some suggest now is the time to add significant equity exposure. To be sure, markets very well may be oversold technically, and we think the long-run outlook for stock returns has improved markedly since the start of the year, but that is very different from saying the markets have bottomed. If everybody is itching to get into the market at the bottom, it probably means we are still quite a ways from true capitulation. Here are seven other signs that suggest that investors have yet to capitulate (see accompanying charts on following pages):

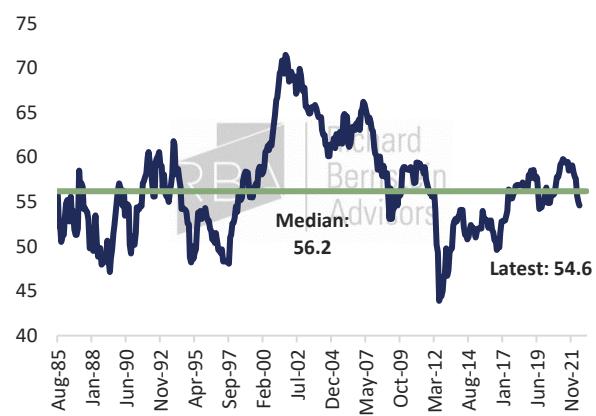
1. **Valuations are still elevated.** While down significantly from the peak, the S&P 500® still trades at a premium to history on forward P/E (16.6x vs. the long-term average of 15.5x) based on EPS forecasts that are still near a potential cyclical peak. Stocks also trade rich on a cyclically-adjusted basis, which admittedly has its flaws (29.9x vs. long-term average of 17.3x). (Chart 1)
2. **Wall Street is pretty neutral on stocks.** While Wall Street strategists have gotten more cautious, their recommended equity allocation of 54.6% is only slightly below the long-term median of 56.2%. (Chart 2)
3. **Analysts are the most bullish in a decade.** Of all the Wall Street analyst ratings on stocks, 57% are Buy ratings vs. the 53% 5-year average, near the highest in over a decade. (Chart 3)
4. **Traders aren't panicking.** The CBOE Volatility Index (VIX) below 25 and CBOE ratio of equity puts to calls below its historical median suggests that traders aren't panicked or fleeing for downside protection. (Charts 4 & 5)
5. **Bubble stocks still dominate portfolios and headlines.** Despite the bear market and ever-tightening liquidity, the market's concentration in bubble stocks has barely budged from the peak. In the last Tech bubble collapse, the share of the S&P 500® market cap in Tech and Telecom stocks went from 41% to 16%. This time it's only gone from 40% to 37%. (Chart 6)
6. **US household equity allocations are near record highs** as of the first quarter. Even if these fell by as much as the biggest quarterly drop in history (during the pandemic), they would still be in the 92<sup>nd</sup> percentile of their historical range. (Chart 7)
7. **Investors are still buying.** Perhaps most importantly, it is hard to call for capitulation when investors are still buying stocks. According to Bank of America, their client equity flows actually accelerated last week to \$2bn, with participation from all client types except hedge funds. (Chart 8)

### **Chart 1: S&P 500® forward & cyclically-adjusted P/E ratios: current vs. history**



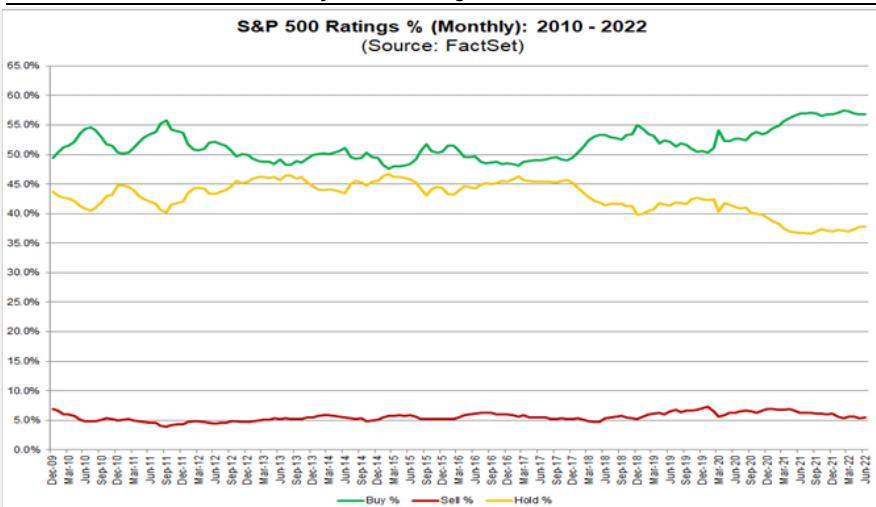
Source: Richard Bernstein Advisors LLC, Robert Shiller

### **Chart 2: Wall Street Sentiment Indicator (Aug '85 – Jun '22)**



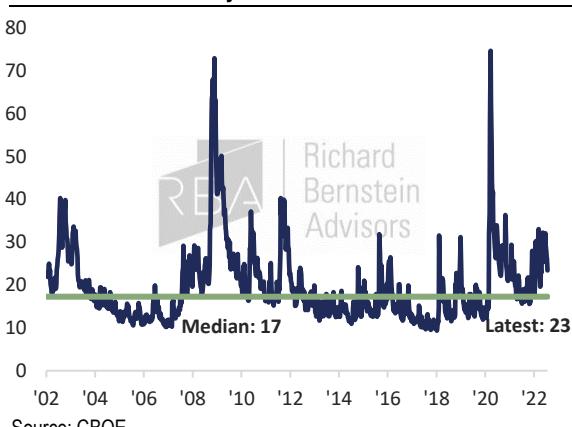
Source: Richard Bernstein Advisors LLC

**Chart 3: Share of Wall Street analyst stock ratings**



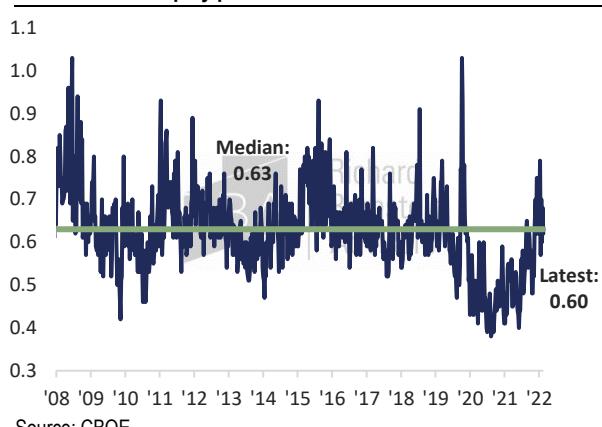
Source: FactSet

**Chart 4: CBOE Volatility Index since 2002**



Source: CBOE

**Chart 5: CBOE equity put/call ratio since 2008**



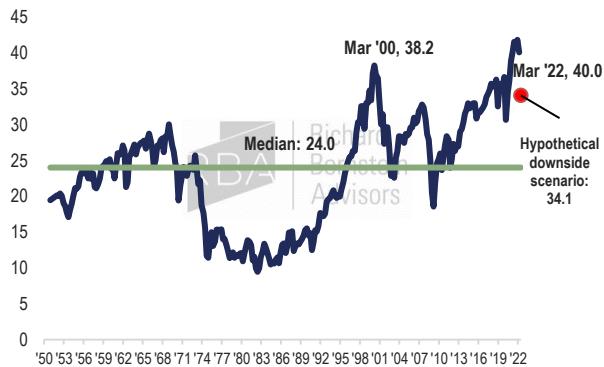
Source: CBOE

**Chart 6: Tech & Comm Svcs combined weight within S&P 500® since 1990**



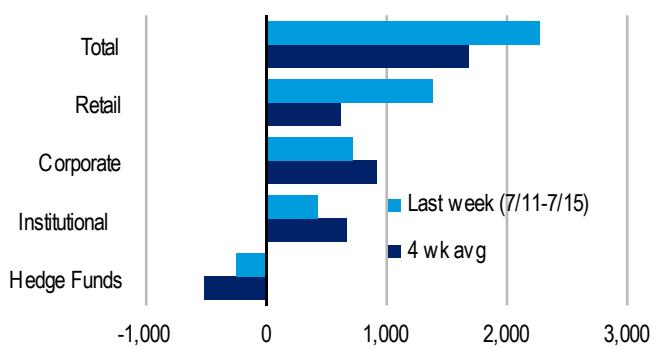
Source: Richard Bernstein Advisors LLC, S&P, Bloomberg

**Chart 7: Households and nonprofit organizations: directly & indirectly held corporate equities as % of financial assets**



Source: Richard Bernstein Advisors LLC, Federal Reserve

**Chart 8: BofA net purchases of stocks by client grouping for the week of July 11<sup>th</sup>**



Source: BofA Global Research

**Dan Suzuki, CFA**

Deputy Chief Investment Officer

Please feel free to contact your regional portfolio specialist with any questions:

Phone: 212 692 4088

Email: [sales@rbadvisors.com](mailto:sales@rbadvisors.com)

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