



CoreData's Quarterly Equities Sentiment Report

Q2 2023

About the study

CoreData's Equities Sentiment Report is a quarterly gauge of US institutional investor sentiment on global equity markets, with a focus on the US market.

The findings reflect the opinions of 100 asset managers and asset owners based in the US from May to June 2023.

Executive Summary

**US Equities
Sentiment Index
shades bullish**



Thinking about the year ahead, the majority of investors expect the market to eke out positive absolute returns. In the context of other opportunities, US equities remain in the top 2 asset classes for risk-adjusted returns, only behind fixed income. The market's relative weakness is expected to continue over the next 5 years, as the majority believe it will underperform historical growth averages.

**Most expect inflation
and rates will remain
elevated**



Since inflation and rates are among the top 3 US equity outlook drivers, the belief that these will remain elevated over the next 12 months is a major determinant of the relatively soft expectations for the asset class. More investors are bearish than bullish for the next 3 months. With inflation expectations factored in, there is little upside on a real returns basis, but weak alternatives help to keep the market high on the list of investment opportunities.

**Globally, sentiment
is clustered around
the neutral range**



This phenomenon underscores the uncertainty embedded in the global economic outlook amid widespread inflation and restrictive monetary policy. Emerging markets (ex China) is the only geography that boasts a positive equity returns score, as investors turn from neutral in the short term to slightly bullish for 12 month returns.

**Heightened black
swan likelihood
looms over calm**



Asset owners and managers are split on most topics in terms of the US equity outlook, but there is widespread agreement that the likelihood of a left tail risk event in the short term is more likely than average. 38% believe Fed intervention during the banking crisis provided only temporary relief as they anticipate a more severe crisis on the horizon.

**Megacaps have
room to run but
could face reckoning**



Despite the greatest percentage of investors pointing to megacaps and quality stocks as the biggest performance drivers over the next 3 months, there is fear of a bubble forming as the majority pick out tech as the one market sector that is clearly overvalued.

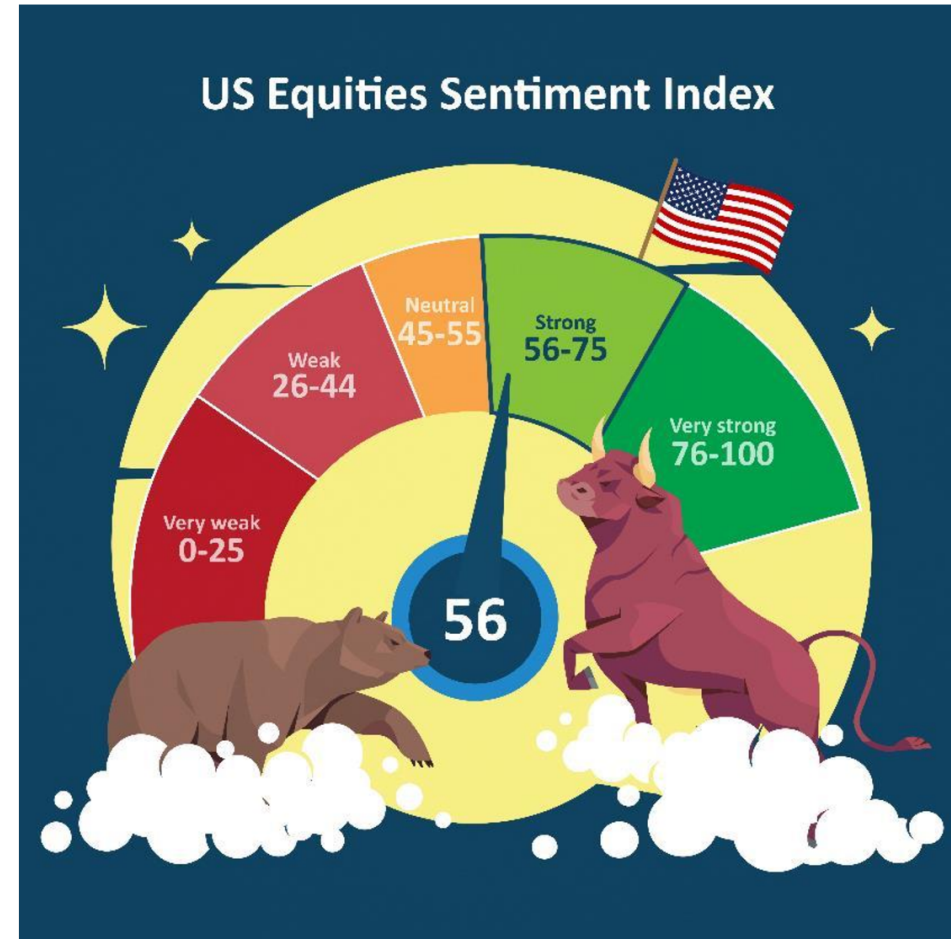


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US Equities Sentiment Index

US Equities Sentiment Index (ESI) reads marginally bullish

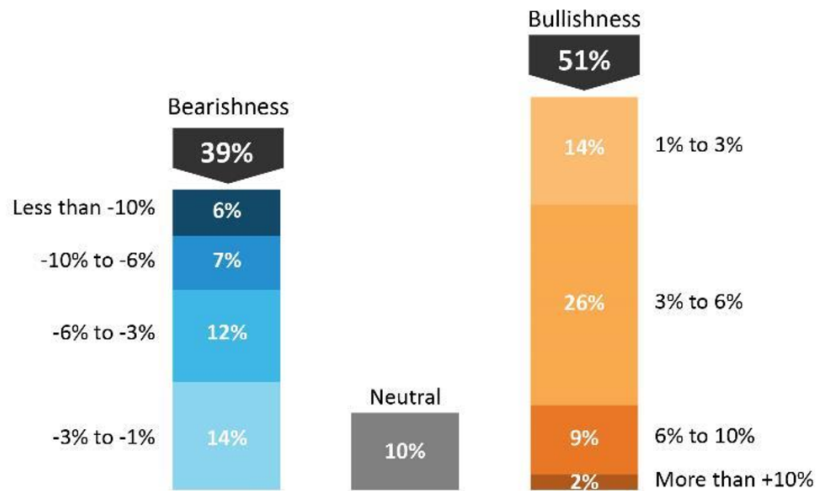
- The US ESI aggregates the views of 100 asset managers and asset owners into a single score, indicating the strength of the market for the year ahead in the context of other investment opportunities.
- Methodology: one half of the index reflects absolute return expectations i.e., the extent to which respondents are bullish or bearish. The second half of the index reflects respondents' outlook on how US equities stack up in terms of *risk-adjusted* returns vis a vis other asset classes. See slide 7 for a more detailed breakdown of the methodology.
- Institutional investors' expectations for the US equity market on a 12-month basis is a net positive story, but only slightly.
- This positivity stands in contrast to a dimmer outlook on the market on a short-term basis (3-month), as more respondents anticipate negative returns than positive ones.



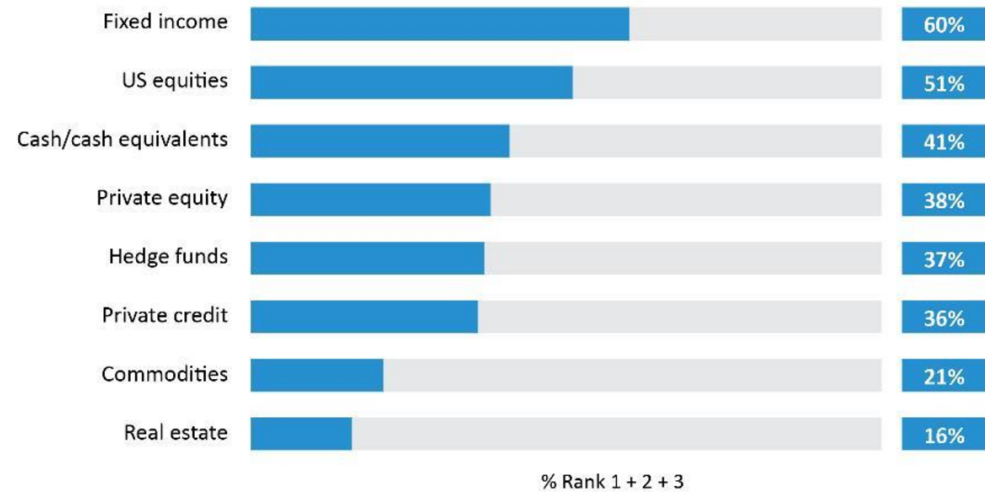
US ESI components reveal slight bullishness and risk-averse posturing

- Although 51% are bullish on US equities for the next 12 months, inflation will likely diminish most of this positivity on a real returns basis; most bulls (40%) expect the market to return just 1% - 6%. Asset owners tend to be slightly more pessimistic, with 44% expecting negative returns compared to 33% of managers.
- Given the lack of confidence in US equities and the inherent risks, it's no surprise that fixed income has come out as the top asset class for risk-adjusted returns over the next 12 months. Still, about half of respondents picked US equities in their top 3, suggesting there is little alternative to this historical growth engine. Perhaps most tellingly, cash beats out all other asset classes. Private equity, private credit, and hedge funds rank just below cash, while commodities and real estate are at the bottom.

Outlook on US Equities for the next 12 months



Top asset classes for risk-adjusted returns over the next 12 months

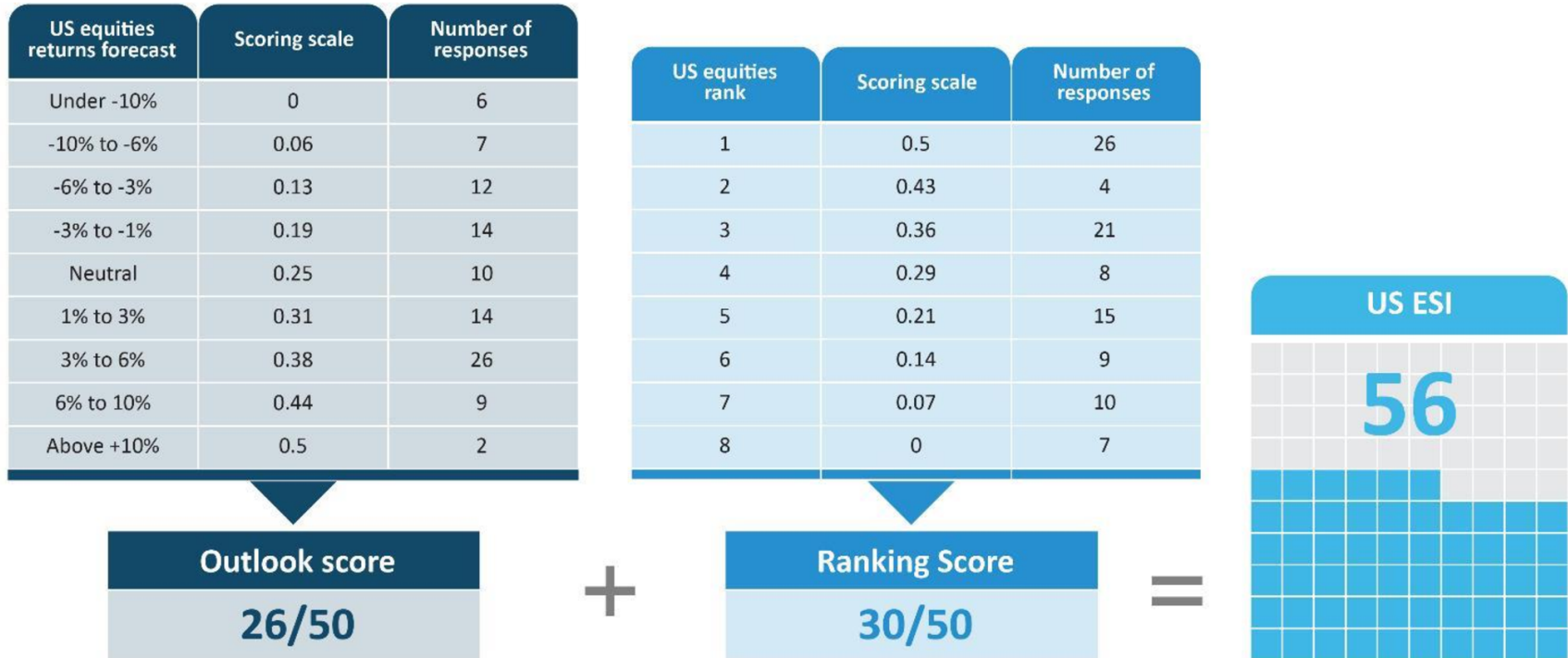


Are you bullish or bearish on the US equity market over the next 12 months?

Please rank the following asset classes in order of the best opportunities for risk-adjusted returns over the next 12 months.

US ESI Methodology

- Each of the 100 respondents represents a maximum value of 1 and minimum value of 0 based on their responses to the following two questions about the next 12 months. These two inputs are equally weighted so that they each make up 50% of the index. The values are aggregated to create an overall score from 0-100.



Are you bullish or bearish on the US equity market over the next 12 months?

Please rank the following asset classes in order of the best opportunities for risk-adjusted returns over the next 12 months.

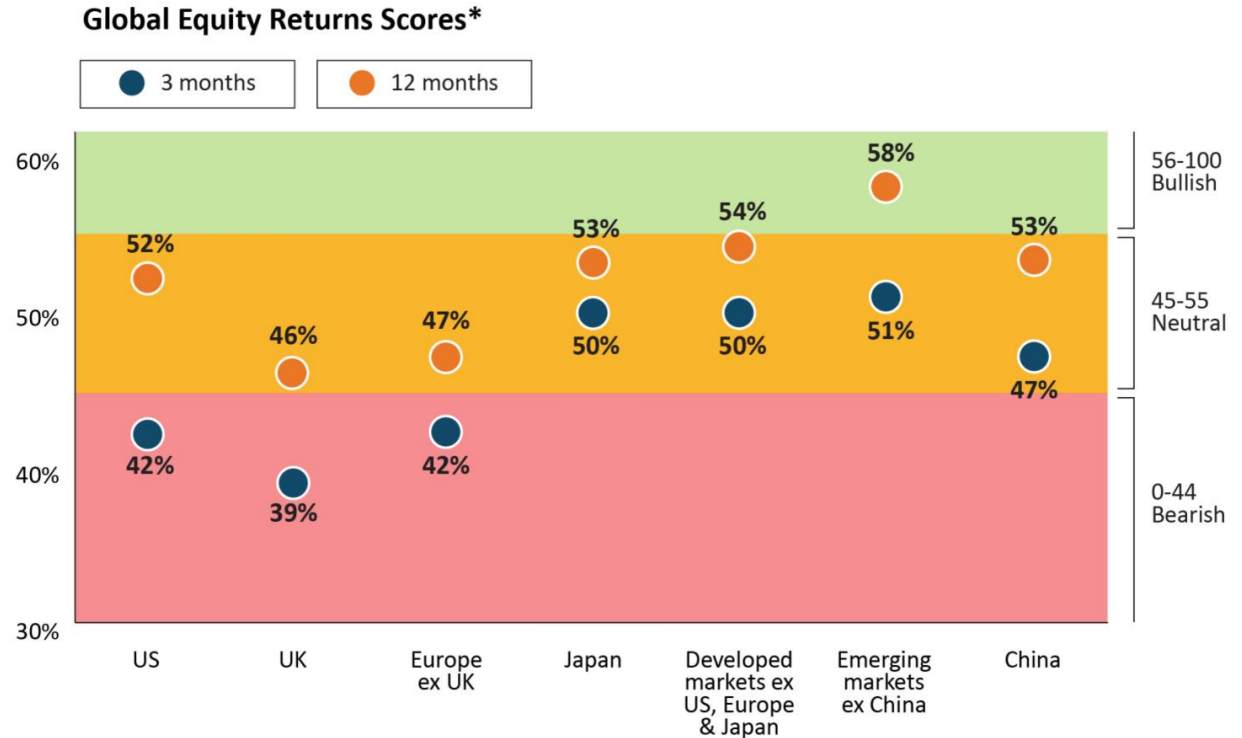


Global Equity Returns Scores



Equities outlook across global markets is clustered around the neutral range

- On a three-month basis, the US, UK and Europe are expected to be the weakest in terms of absolute returns, while the US sees the largest uptick in sentiment (10%) from 3 to 12 months.
- Emerging markets (ex China) is the only geography that boasts a positive equity returns score for either time horizon, as investors turn bullish for 12 month returns.
- The clustering of sentiment in and around the neutral range across geographies underscores the uncertainty embedded in the global economic outlook amid widespread inflation and restrictive monetary policy. Less than half (44%) of professional investors say they're confident in their prediction for the US market over the next 3 months.



*Expected returns for each market are scaled from 0 (extremely bearish) to 1 (extremely bullish) and then aggregated to produce an overall sentiment score with a maximum of 100.

Are you bullish or bearish on the following equity markets over the next 3 & 12 months?



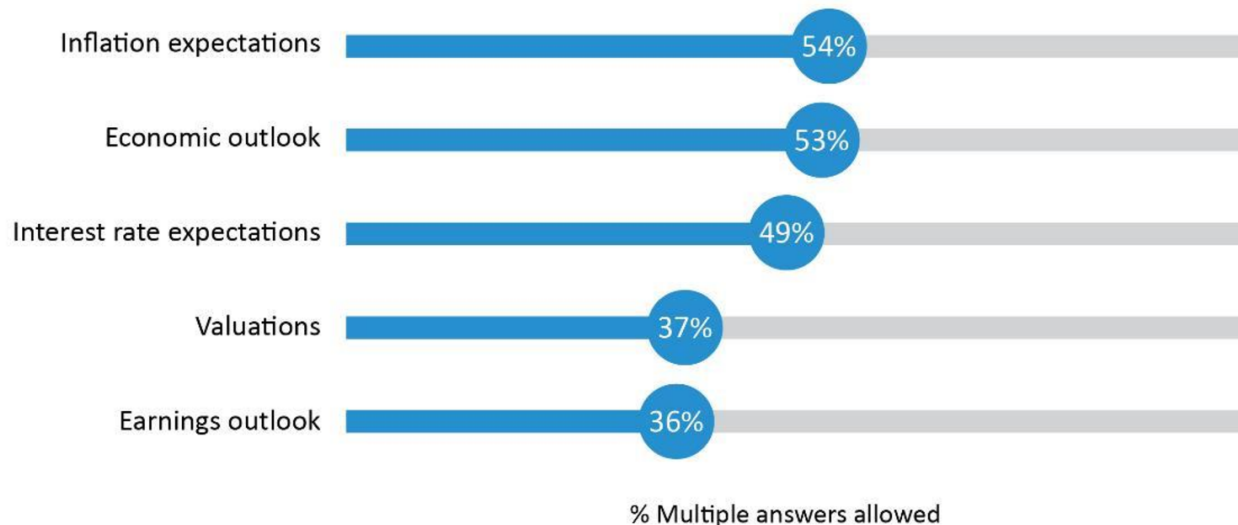
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US Equities Outlook

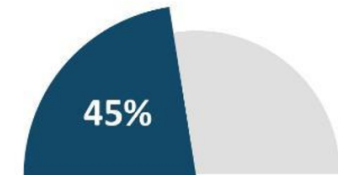
Inflation, the economy and rates are the dominant US equity outlook drivers

- On a short-term basis, investors are fixated on these three areas which have clouded the outlook for well over a year. Valuations (37%) and the earnings outlook (36%) are also important factors.
- Zooming further out, about 2 in 3 asset managers and owners believe rates and inflation will remain elevated for the next 12 months, while just under half expect US sovereign debt levels will be a major headwind for the economy in the medium term.

Biggest drivers of 3-month US equity outlook



Inflation and rates will remain elevated for the next 12 months.

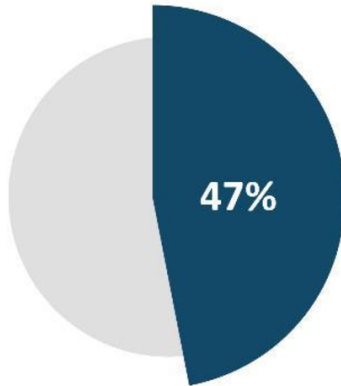


US sovereign debt levels will be a major headwind for the economy in the medium term.

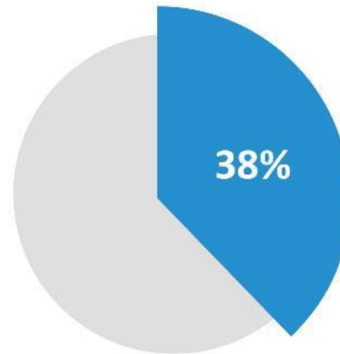
Biggest drivers of 3-month US equity outlook

Half expect US banking crisis will have widespread impact on lending conditions, leading to slower growth

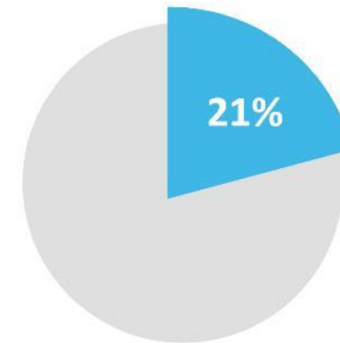
- The lasting impact of the banking crisis is another area of tremendous uncertainty for investors – 31% are on the other side of the fence, believing that this event was a minor blip, and the remaining 22% can't make up their mind. 1 in 5 believe the Fed made a mistake in saving US banks, perhaps taking the view that this will increase the likelihood of moral hazard in the future.
- 38% are convinced that a bigger crisis is on the horizon for investors, as the fastest rate hike cycle in a generation has only begun to expose the cracks in financial markets.



The US banking crisis will have a long term and widespread impact on lending conditions and therefore slow economic growth.



Fed intervention at US banks has shored up market conditions for now, but it is only a matter of time before a bigger crisis unfolds.



The Fed should have let US banks fail.

% Agree (Strongly agree + Agree)

Heightened black swan likelihood looms over market's relative calm

- Asset owners and managers are split on most topics in terms of the US equity outlook, but there is widespread agreement that the likelihood of a left tail risk in the short term is more likely than average.
- This heightened risk environment is likely holding investors back from adding risk to the portfolio, or indeed hedging their positions, as they look to mitigate the potential downside.

Likelihood of tail risk event in the next 3 months



Likelihood of black swan

Megacaps expected to continue powering growth in short term

While it's not a clear majority viewpoint, investors believe the larger end of the market will be responsible for the largest share of gains, as 44% point to megacaps and 24% to large caps. A meaningful number disagree however; 1 in 3 expect the biggest gains will come from small or mid caps, reversing the current market dynamic.

Highest expected returns on percentage basis over the next 3 months

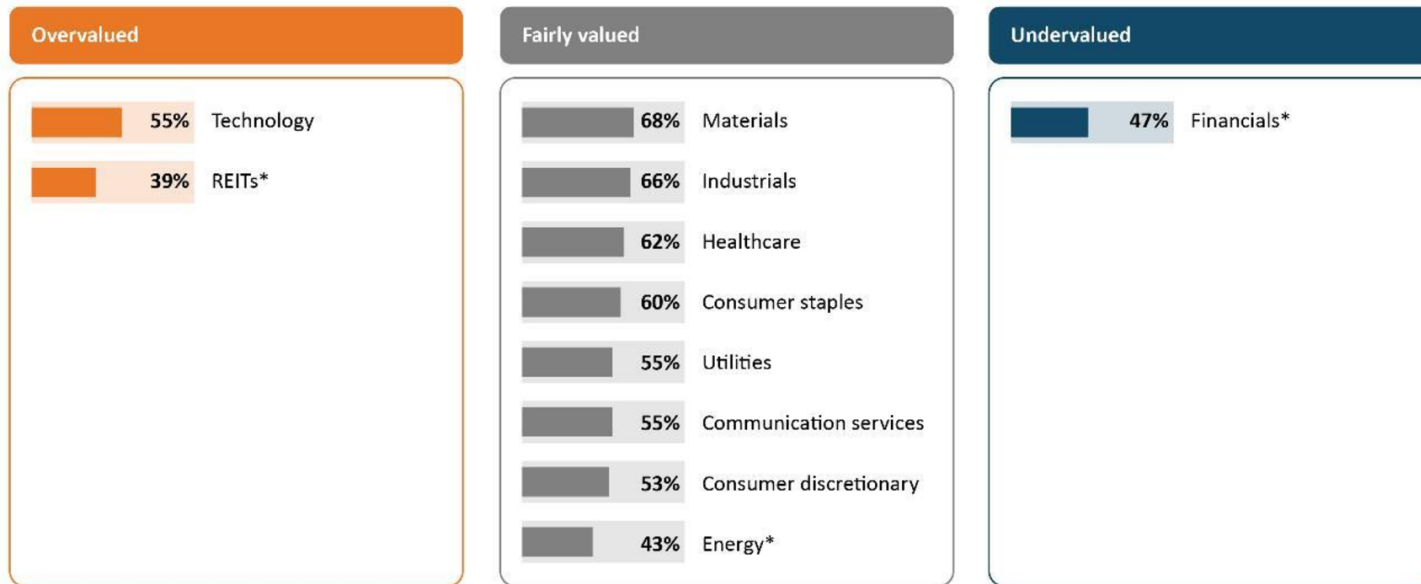


% Rank 1

Most sectors are viewed as fairly valued; tech stands out as overvalued

- Despite the intuition that megacaps will drive the greatest share of gains over the next three months, tech is pinpointed as the one sector that is out of step with reality – suggesting that while tech likely has room to run in the short term, it may face a reckoning before long.
- There was no majority view on REITs, Energy and Financials, underlining the uncertainty in these areas. REITs face pressure from the office sector – reeling from shifting worker and employer preferences, while financials have been beaten up by the banking crisis.

Majority viewpoint on US equity sector valuations

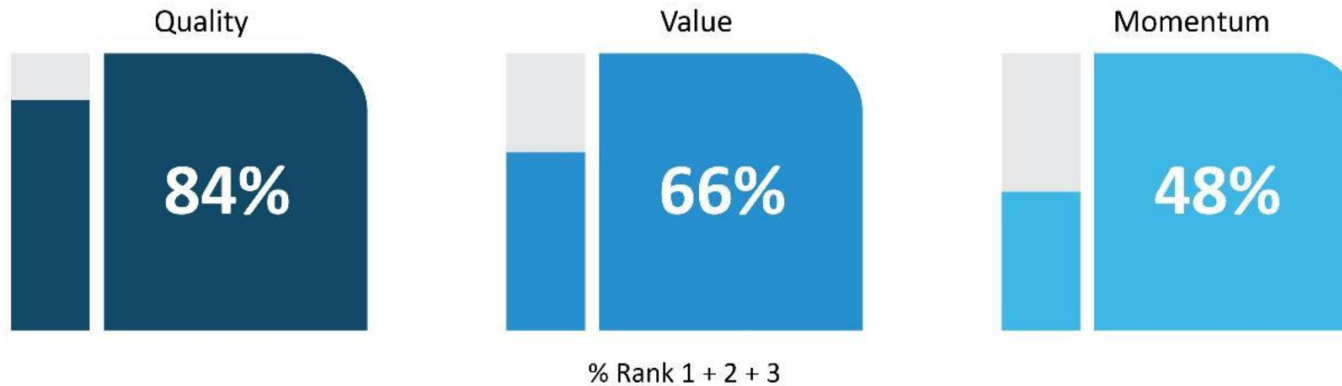


*Relative majority is shown

Most investors say quality will be a top driver of outperformance in short term

- Given the bearish sentiment on US equities in the short term, it's sensible that investors would identify quality as the top style factor for outperformance. Value also rates very highly, as these stocks tend to do well in an environment with high inflation and elevated rates.
- Minimum volatility, size and carry are lower on the list, but some investors see potential in these areas. Asset managers are more likely to say size (51% vs 30% of asset owners) will be a key factor, whereas asset owners are more likely to point to minimum vol (46% vs 36% of managers).

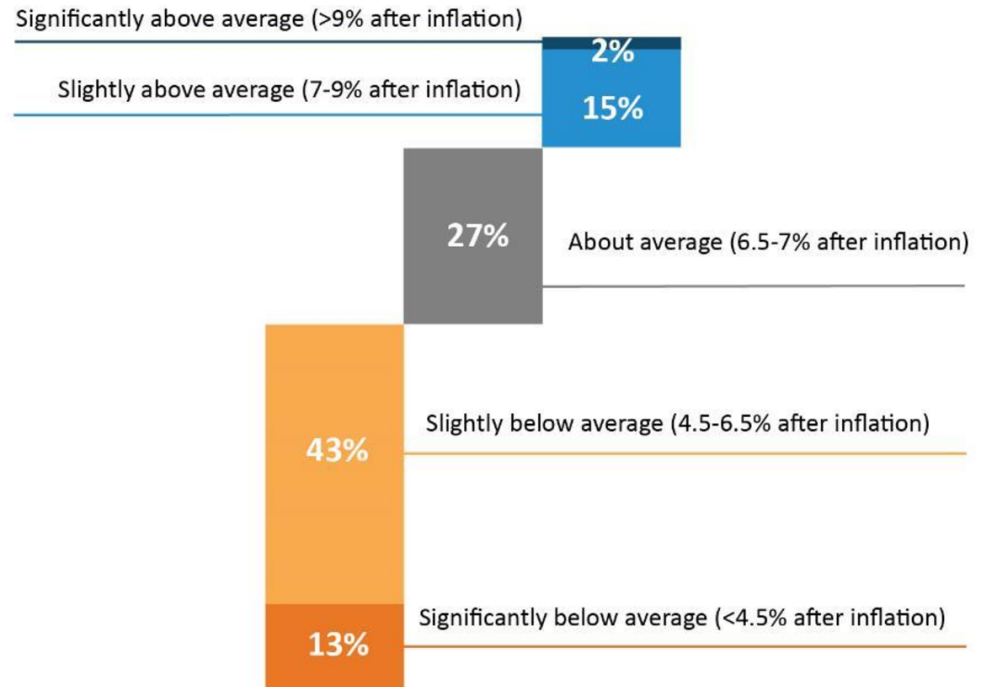
Top style factors for outperformance over the next 3 months



Majority don't believe US equity market will reach or exceed historical growth averages over the next 5 years

- Despite investor sentiment improving from the 3-month to 12-month time horizon, there is little hope of the type of resurgence needed to power returns beyond historical averages in the next 5 years.
- While the majority shades pessimistic, just under half (44%) say growth rates will meet or exceed historical averages, demonstrating yet another example of a lack of consensus about the path ahead.
- The specter of persistent inflation is undoubtedly a big influence on expectations, as if rates continue to hold around the 4% mark, that means the market would need to generate absolute returns of at least 10.5% to clear the historical average threshold.

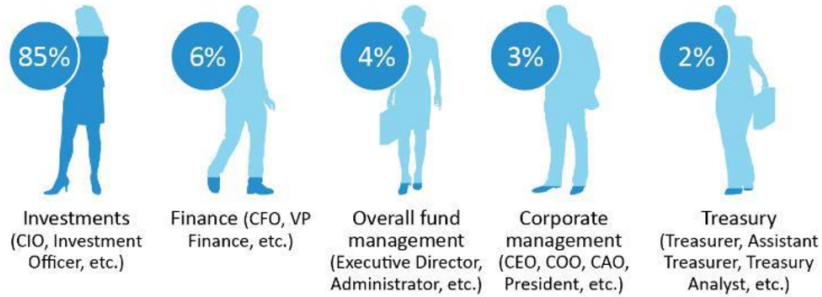
Expectations for average US equity market returns over the next 5 years (on annual basis)



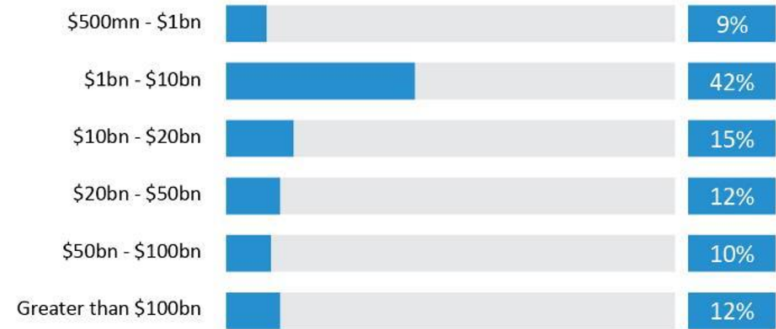
Expected five-year market returns

Sample demographics

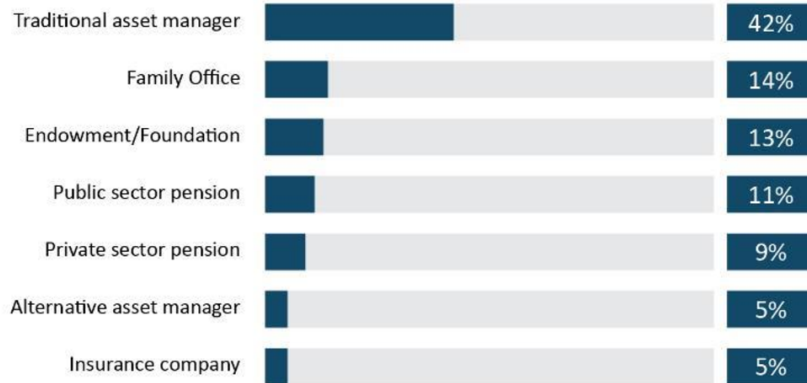
What is your primary function at your organization?



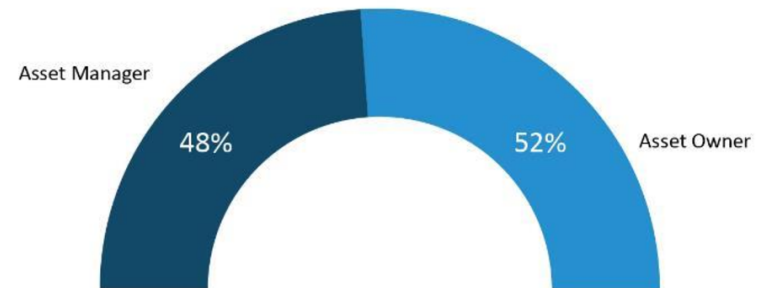
What is the AUM of your organization?



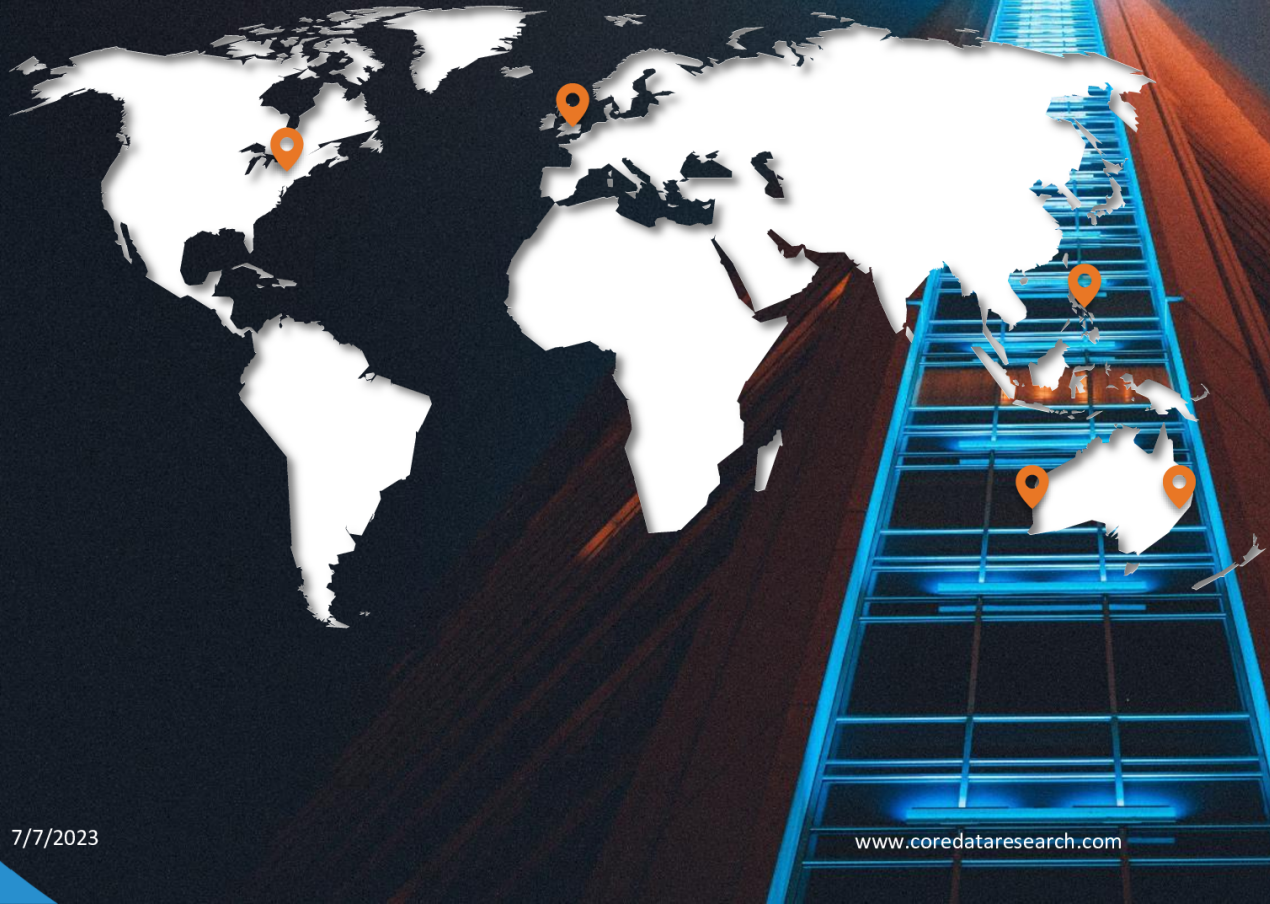
Which of the following best describes your organization and primary investment portfolio?



AO vs AM



About us



Coredata Research

CoreData Research is a global specialist financial services research and strategy consultancy, founded in 2002 and headquartered in Australia, with operations in Sydney, Perth, London, Boston and Manila.

It provides clients with bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research, database hosting and outsourcing services.

CoreData provides both business-to-business and business to consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.



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