NIRI Virtual Chapter

Program Wrap-Up

Program Title: Market Sentiment and Investor Attitudes

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IR is a profession with a three-month clock. Every quarter, there's another chance to succeed (or fail), another opportunity to build (or lose) new investor relationships, and another chapter in the evolution of the business (or its restructuring). But the investment horizons of some of the investment community (especially those highly-desired long-term investors) aren't measured in quarters; they're sometimes measured in decades, or generations. To think in terms of the needs of these investors, every once in a while, IROs need to step out of the cycle, and have the ability to look at market context for the long term.

The turn of the calendar into the 2020s is a perfect time for us to take that long look back, and see what we can learn from the history of investor sentiment viewed not over days but over decades. At the *NIRI Virtual Chapter*, we thought the best guide for this exercise would be Bob Dickey, Managing Director and Technical Strategist for *RBC Wealth Management*. As a general session speaker at the *NIRI National Conference* last year in Phoenix, Bob was able to share the insights he's seen from working on behalf of a wide range of RBC clients; here, he shared with the NIRI Virtual audience how to view shorter-term questions in a longer-term context, with NIRI Virtual Chapter board member John Nunziati serving as moderator.

Bob was kind enough to share his "Market Maps" presentation with participants (linked here for Virtual Chapter members) – but here's a few points that we thought stood out from the discussion and ensuing Q&A:

Investor sentiment changes slowly – and is measurable. Dickey uses a number of different sentiment indicators – one favorite is the American Association of Individual Investors (AAII) sentiment index, which measures the confidence level of retail investors. Viewing investor sentiment in conjunction with trend analysis can give an effective predictive view of the market over the long term. At this point in time, market performance has been strong both in the last year and since the financial crisis; however, sentiment is relatively negative across many major indicators as well as market commentary and leading opinions – there's no "irrational exuberance" today. Cash on the sideline tracks sentiment as well, meaning it's likely that any move upward in sentiment will bring along with it plenty of new money to help boost asset prices. We believe IROs should incorporate this "new money" potential when establishing their targeting plans for 2020.

Earnings growth is the core of the market performance within longer market cycles. Earnings growth tends to repeat in shorter, 3-5 year cycles, with earnings growth surging, then slowing to near zero, consistently over time. This correlates with stronger or weaker performance in longer bull cycles – currently, with S&P 500 earnings growth for 2019 at just 1% (and negative the prior year), we've got plenty of room for earnings improvement, which would portend better equity market performance if valuations hold. As with the "trend and sentiment" view above, earnings expectations represent

the sentiment portion, while the actuals represent the trend. IROs should consider incorporating their own earnings growth potential into their investor messaging.

Short-term market corrections often come from reasons that we're not considering at all, and can't be reflected in sentiment alone. The last two sharp market corrections (2008 and 1987) actually show little correlation with measures of sentiment by themselves; the mortgage and real estate markets seizing up in 2007 was reflected only later by moves in market sentiment, and the crash of 1987, often attributed to short-term causes like the expansion of automated trading and media coverage, occurred during a longer-term period of fairly strong sentiment. There are plenty of events that we can't predict; geopolitical issues, weather and natural disasters, and trade policy are just a few that we face today. However, on long enough time horizons, none of these have been able to break longer-term upward market trends.

Over a long enough time horizon, demographics is destiny. The presentation charts break down performance into generational cycles – with 16-18 years of strong performance following 16-18 year periods of flatter returns. However, the strong performance periods often correlate with demographic shifts – the progress of the baby boomer generation producing more savings and investment pushed corporate earnings higher over the long term, as one example. Going forward, immigration may represent a growth driver – if the U.S. continues to attract strong demand immigration from the rest of the world, earnings and asset prices are likely to rise.

Interest rates aren't just at 10-year lows, they're at 3,000-year lows. At no time in recorded financial history has it been this cheap to borrow money. Negative interest rates, sourced to exceedingly high demand for low-risk assets, are now a reality in some global markets. Dickey notes that trends in rates have timeframes measured in generations, and when rates bottom, they can tend to remain near a similar bottom for *long* periods of time, measured even in decades. Low rates may be one of the reasons we're seeing such consistent strong performance in the equity market, and if so, the charts bode well for that trend continuing. Also, companies building their balance sheets for the long term might breathe easier knowing that history is on the side of continued access to low-cost capital.