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JUNE 23, 2021

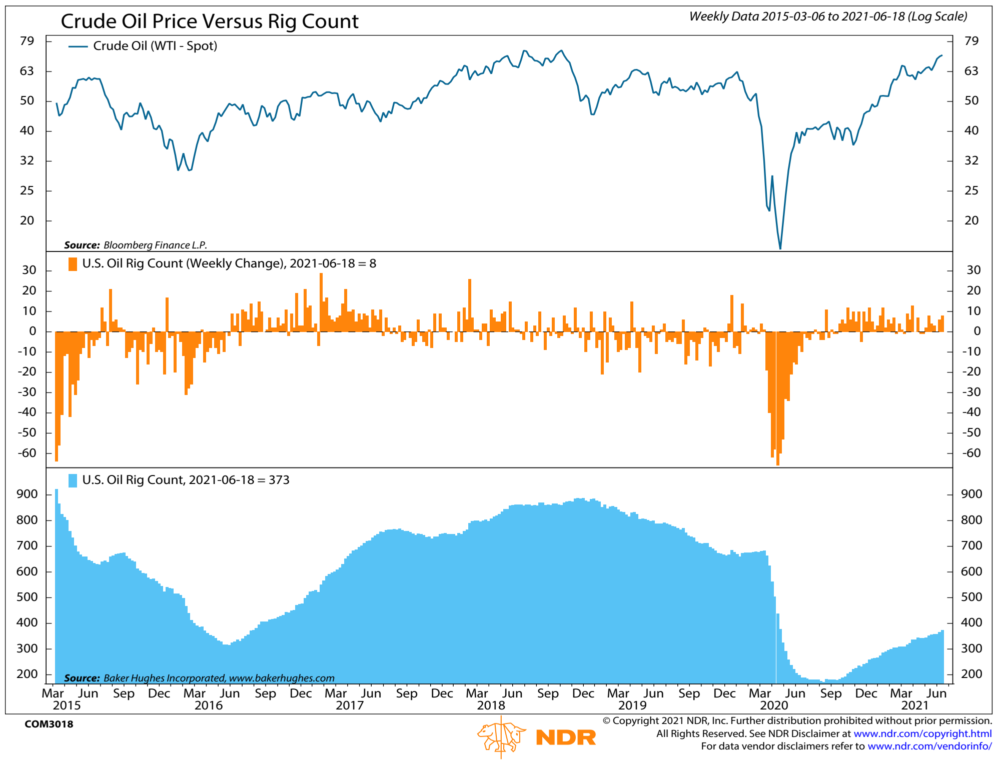
SENTIMENT UPDATE

Sentiment on oil, gold, bonds, and stocks

Key Takeaways

- Oil prices have soared, and the "crowd" is bullish, but I am impressed at the caution of producers to come back online.
- Gold rallied nicely from record low optimism, but optimism has risen.
- 10-year T-note yields are hard to predict and are often contrary to crowd psychology.
- S574A was recently still excessively optimistic. ETF flows and record margin debt confirm that optimism. Real dividend yields plunge.

Rig count has remained relatively low despite rise in oil price



Optimism in oil, but producers cautious

Oil has moved up sharply, and crowd psychology has gotten a little too optimistic, as shown at the top of page 2. That should make me "wary," but I am inclined to give the bull market in oil the benefit of the doubt because of the chart at right.

While producers (insiders) have been opening rigs and producing more oil in the U.S., for whatever reason, rig counts are still very low and supply is fairly tight, just as we move into vacation season.

Some of the reasons could be the pressure to move away from fossil fuels, many producers going broke in 2020, producers getting spooked by too much debt, fracking wells running low on oil and gas, etc. I would be wary if we got up to a high number of rigs, as shown on the bottom clip of the chart above.

More optimism in gold, bonds, and stocks

In my March 24 Hotline, I featured crowd psychology on gold, and it was about as low as it has ever been. As shown at the bottom of page 2, gold rallied and the optimists came back, and thus, any correction in gold needs to stay above its uptrend line to confirm a new major leg up.

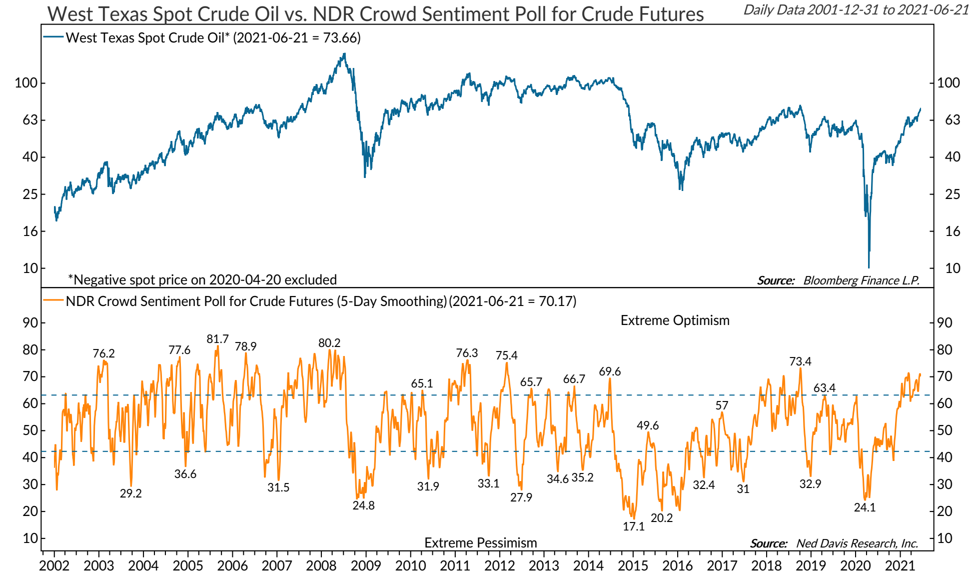
10-year T-note yields and their one-year forecast is shown at the top of page 3. There was extreme pessimism in bonds, but sentiment is now more neutral, as shown at the bottom of page 3.

Turning to stocks, I remain concerned about the excessive optimism shown in recent weeks in the Crowd Sentiment Poll at the top of page 4. Extreme inflows to equity ETFs (bottom page 4), record high margin debt showing excess speculation (top page 5), and a plunge in real dividend yields (bottom page 5) are also worrying.

Crude sentiment extremely optimistic

Crude sentiment, shown on the chart at right, is excessively optimistic. This is offset somewhat by the lack of rigs coming back online, as shown on page 1.

West Texas Spot Crude Oil vs. NDR Crowd Sentiment Poll for Crude Futures — *Daily Data 2001-12-31 to 2021-06-21*



Crude Oil Performance Full History: 1992-07-30 to 2021-06-21		
Crude Sentiment is:	% Gain/ Annum	% of Time
Above 63.2	-10.93	22.04
42.3 - 63.2	8.65	51.02
Below 42.3	9.82	26.94
Buy/Hold = 4.29% Gain/Annum		

Crude Oil Performance Chart View: 2001-12-31 to 2021-06-21		
Crude Sentiment is:	% Gain/ Annum	% of Time
Above 63.2	-3.99	23.03
42.3 - 63.2	13.57	54.30
Below 42.3	3.49	22.67
Buy/Hold = 6.98% Gain/Annum		

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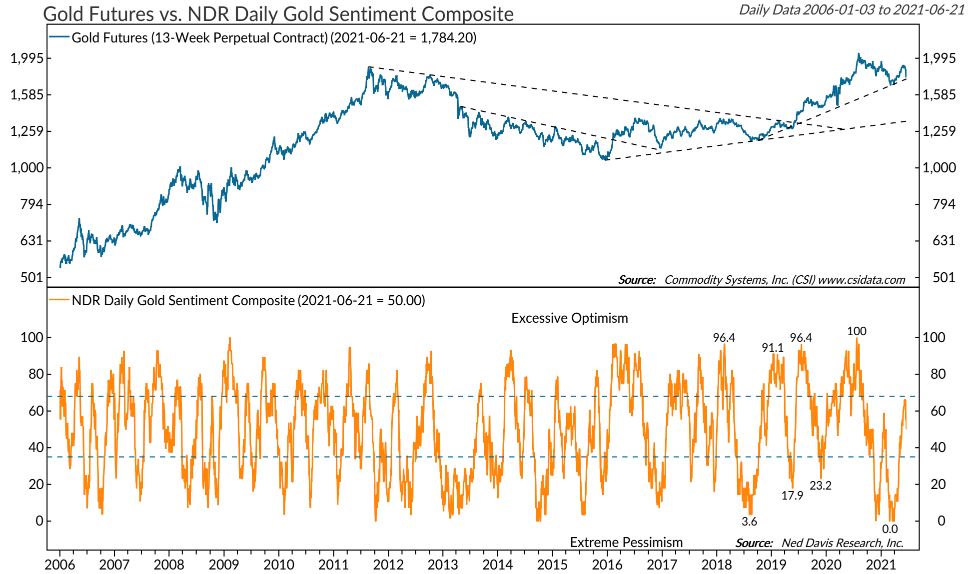
Gold sentiment more optimistic since bottoming in March

Gold Futures vs. NDR Daily Gold Sentiment Composite — *Daily Data 2006-01-03 to 2021-06-21*



Gold Futures Performance Full History: 1994-12-30 to 2021-06-21		
NDR Daily Gold Sentiment Composite is	% Gain/ Annum	% of Time
Above 68.0	-1.72	26.13
35.0 - 68.0	7.76	44.29
Below 35.0	10.32	29.58
Buy/Hold = 5.93% Gain/Annum		

Gold Futures Performance Chart View: 2006-01-03 to 2021-06-21		
NDR Daily Gold Sentiment Composite is	% Gain/ Annum	% of Time
Above 68.0	2.45	26.04
35.0 - 68.0	10.14	43.48
Below 35.0	10.09	30.47
Buy/Hold = 8.07% Gain/Annum		

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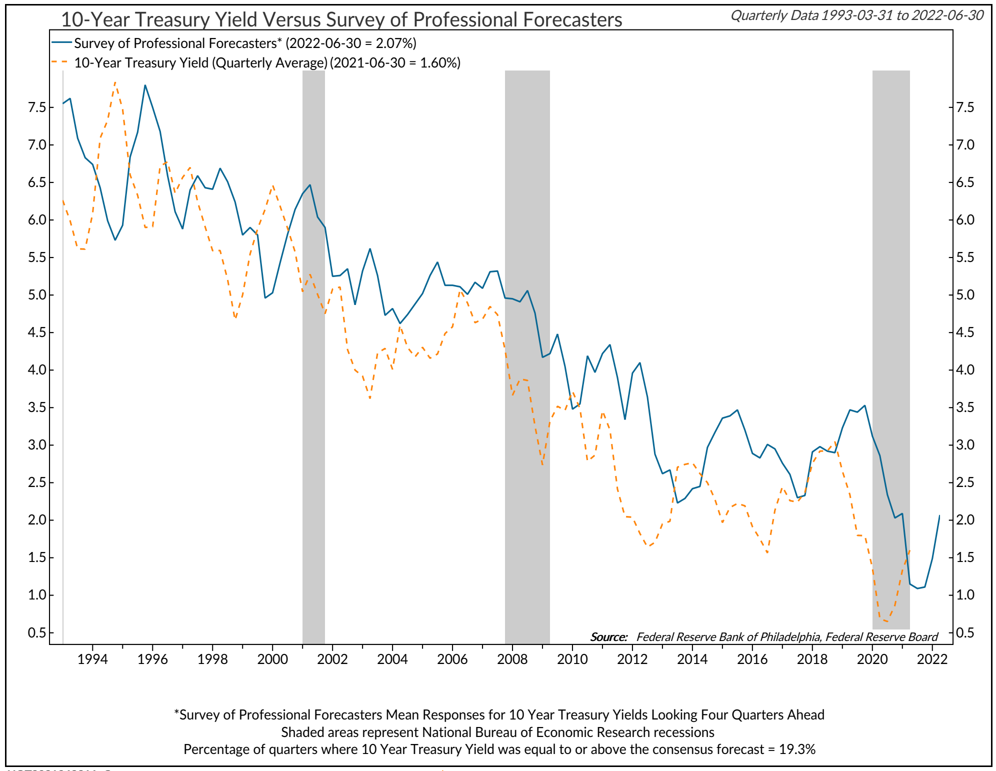
Gold sentiment has been growing more optimistic, as featured on the chart at left. Any correction, such as the sharp decline last week, needs to stay above its uptrend line to confirm a new leg up.

10-Year T-note yield forecasts have been too high since 1993

Besides GDP and inflation, T-note yields are among the most widely forecast items for economists, and because they are so critical, the Philly Fed aggregates the forecasts for the year ahead. I plot them on the chart at right.

It looks like economists expect T-note yields will be going higher to 2.1% next year. That sounds reasonable until one looks at the historical record of forecasts since 1993.

The forecasters are almost always looking for higher rates, and for whatever reason (debt, demographics) in only 19% of the cases was the market equal to or higher than predictions one year later. That is rather incredible to me, and explains why I tend to be wary of crowd forecasts.



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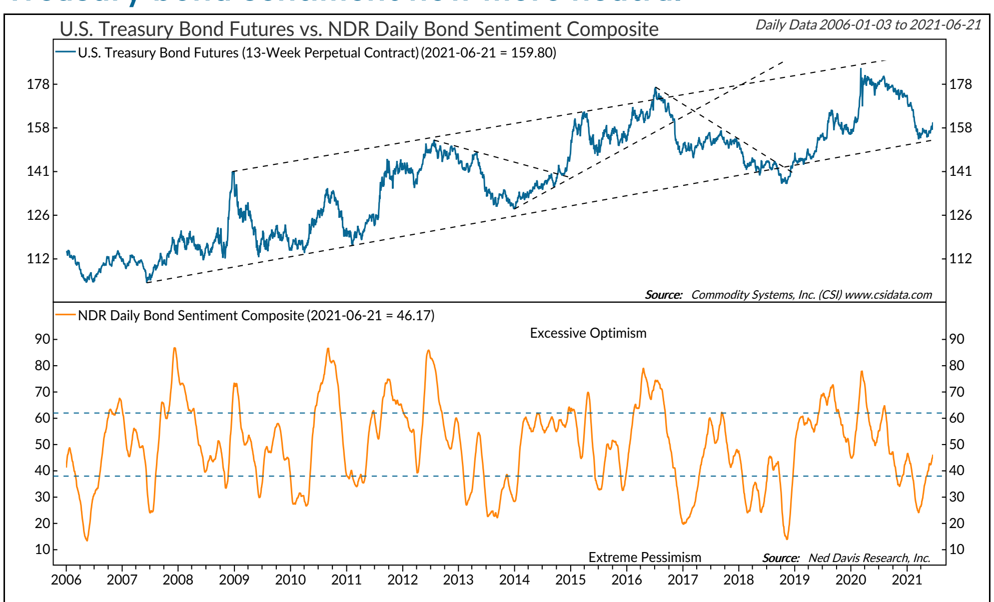
Treasury bond sentiment now more neutral



T-Bond Futures Performance Full History: 1984-06-06 to 2021-06-21		
NDR Daily Bond Sentiment Composite is	% Gain/ Annum	% of Time
Above 62.0	-2.91	21.04
38.0 - 62.0	3.81	54.82
Below 38.0	7.14	24.13
Buy/Hold = 3.14% Gain/Annum		

T-Bond Futures Performance Chart View: 2006-01-03 to 2021-06-21		
NDR Daily Bond Sentiment Composite is	% Gain/ Annum	% of Time
Above 62.0	2.65	22.45
38.0 - 62.0	-0.28	52.76
Below 38.0	7.21	24.79
Buy/Hold = 2.19% Gain/Annum		

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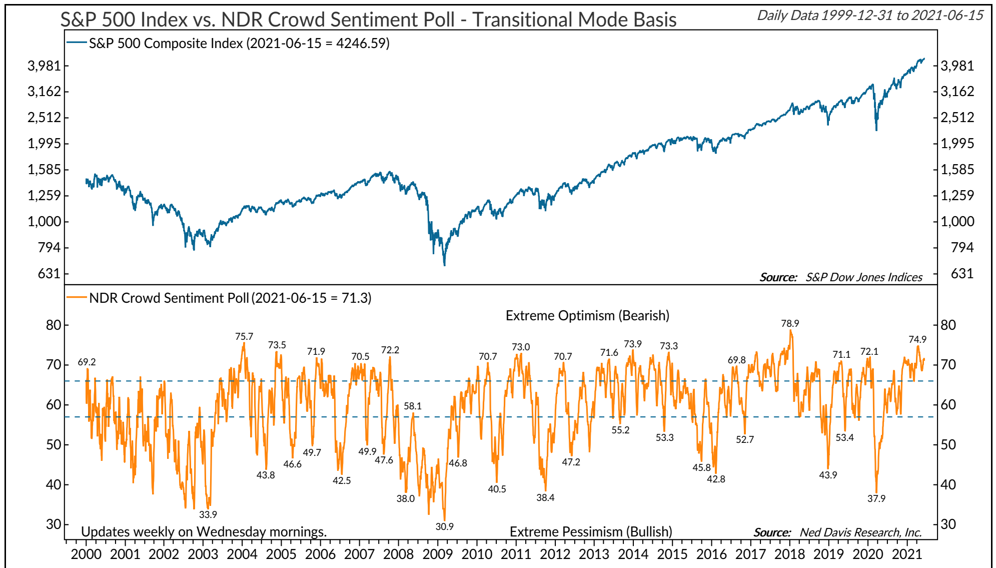
For example, on March 24, despite my views that the economy was booming, and inflation would jump, I featured the chart now updated at left. We saw very extreme pessimism in March regarding bonds, and that did indeed lead to a “surprising” rally. Bonds are no longer “oversold,” and thus sentiment is now neutral.

Crowd sentiment may have peaked at 74.9% on 4/17

Turning to stocks, I remain concerned about the excessive optimism shown in recent weeks on our Crowd Sentiment Poll at right. It appears to have peaked at 74.9% bulls. While there are no guarantees, peaks in excessive optimism have almost always proved to be areas where the crowd eventually proved to be wrong.

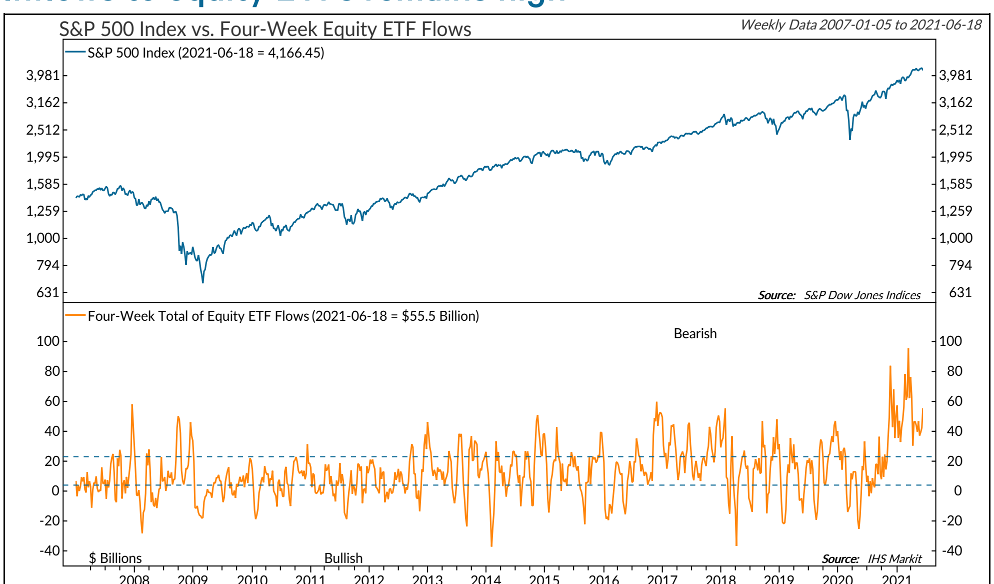


S&P 500 Index Performance **Full History:** 1995-12-01 to 2021-06-15		
NDR Crowd Sentiment Poll is	% Gain/ Annum	% of Time
Above 66.0	-0.83	27.24
57.0 - 66.0 From Above	1.85	17.99
57.0 - 66.0 From Below	22.28	19.23
Below 57.0	11.10	35.11
Buy/Hold = 7.91% Gain/Annum		

S&P 500 Index Performance **Chart View:** 1999-12-31 to 2021-06-15		
NDR Crowd Sentiment Poll is	% Gain/ Annum	% of Time
Above 66.0	-0.51	30.25
57.0 - 66.0 From Above	2.44	19.00
57.0 - 66.0 From Below	25.96	17.28
Below 57.0	1.97	33.47
Buy/Hold = 5.07% Gain/Annum		

S574A

Inflows to equity ETFs remains high



S&P 500 Index Performance **Full History:** 2007-01-05 to 2021-06-18		
Four-Week Flows Are:	% Gain/ Annum	% of Time
Above 23.0	-17.05	23.99
4.0 - 23.0	12.14	47.18
Below 4.0	25.59	28.84
Buy/Hold = 7.78% Gain/Annum		

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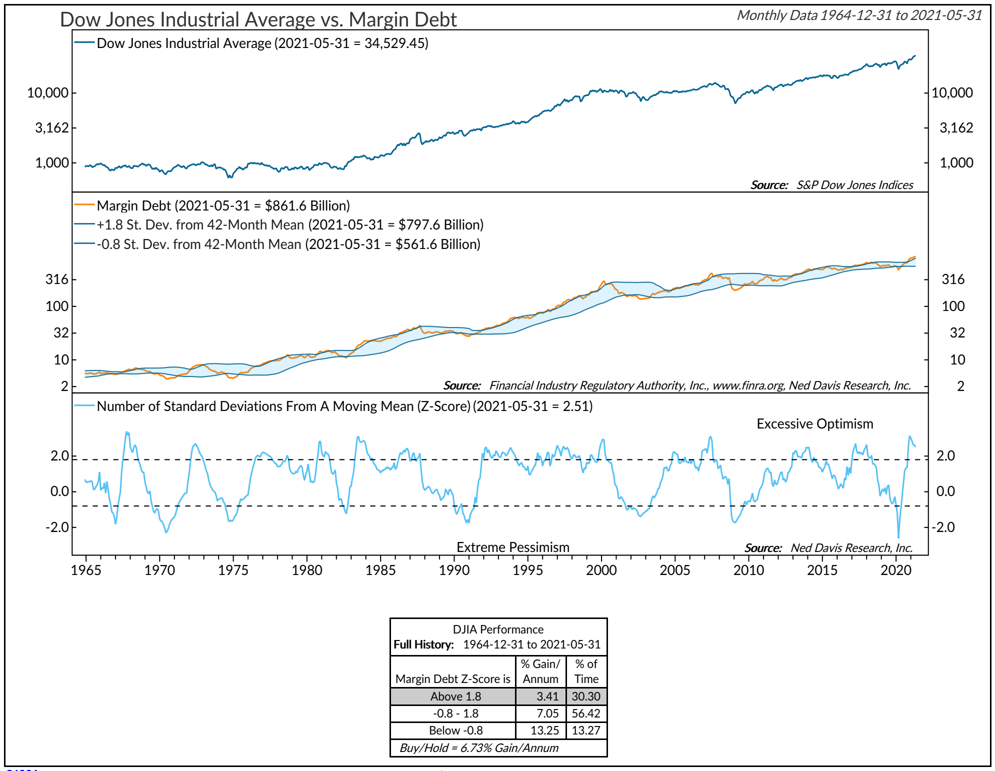
The market has been held up by extreme inflows to equity ETFs, as shown on the chart at left, but that is often a sign of concern as well.

Record margin debt showing excessive optimism

The market has also been helped by record high margin debt, but as shown on the chart at right, stocks often struggle when speculation gets this excessive.



DJIA Performance
Full History: 1964-12-31 to 2021-05-31

Margin Debt Z-Score is	% Gain/ Annum	% of Time
Above 1.8	3.41	30.30
-0.8 - 1.8	7.05	56.42
Below -0.8	13.25	13.27

Buy/Hold = 6.73% Gain/Annum

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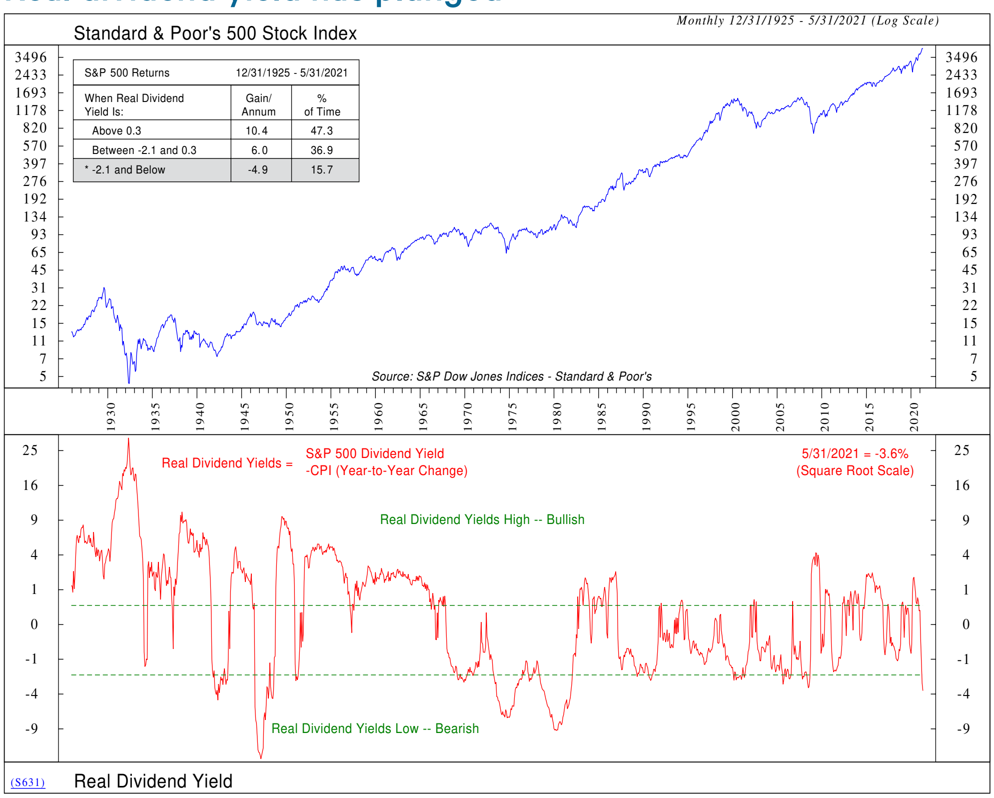
Real dividend yield has plunged



S&P 500 Returns 12/31/1925 - 5/31/2021

When Real Dividend Yield Is:	Gain/ Annum	% of Time
Above 0.3	10.4	47.3
Between -2.1 and 0.3	6.0	36.9
* -2.1 and Below	-4.9	15.7

(S631)

In terms of valuation and what that says about sentiment, see the real dividend yield going back to 1925 on the S&P 500 at left. On average, the S&P 500 has declined in price when the yield was -2.1% and lower. We are now considerably lower.

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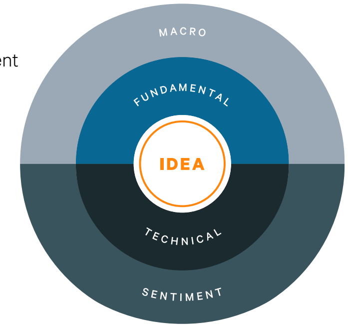

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