

Pallas Perspective

FEBRUARY 9, 2024

Equity Market Sentiment Has Turned Bullish: Strong Recent Performance May be Due for a Pause

Returns in the U.S. equity market have continued the upward march in 2024. Driving the positive returns has been positive economic growth, stable interest rates, positive earnings (at least from the mega caps), and improving investor sentiment. The last factor, investor sentiment, has been a historically good contra indicator for future returns. Bearish sentiment reached a one-year high over 50% and well above the historical average for the week ending 11/1/2023 and has since receded to under 25%. The S&P 500 has risen by nearly 20% over that period.

WHAT DIRECTION DO AAII MEMBERS FEEL THE STOCK MARKET WILL BE IN THE NEXT 6 MONTHS?



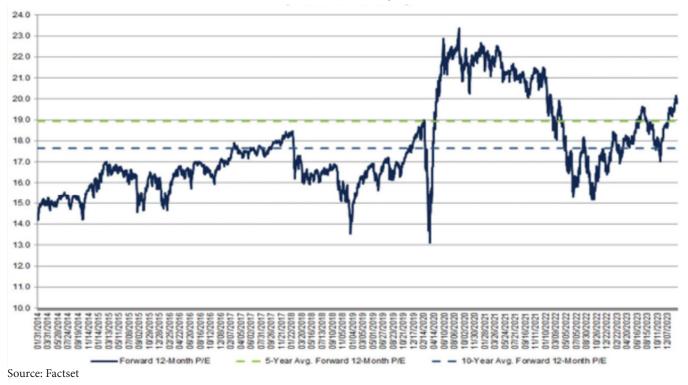
Source: American Association of Individual Investors

However, now that negative sentiment has fallen, other market indicators are now flashing yellow. Notably among these is valuation multiples. Over the past few months, valuation multiples have been expanding faster than forward earnings expectations, serving as a key driver for market appreciation. The forward price-to-earnings ratio (P/E) has moved back above 20X, a level well above longer-term averages. However, dispersion exists for P/E multiples when breaking out sectors of the economy. Technology is currently trading well above history, while most other sectors are trading in line with history or, in the case of utilities, well below history.

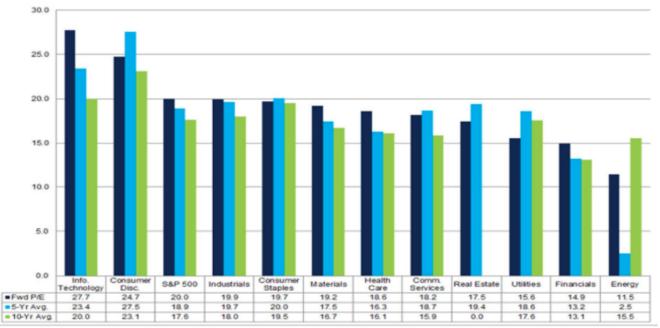
1



s&p 500 forward 12-month p/e ratio: 10 years



s&p 500 forward 12-month p/e ratio: 10 years



Source: Factset



While relatively bullish investor sentiment and elevated valuation metrics suggest near term caution, ultimately earnings growth will drive the market over the longer term. The potential for technology to deliver strong long-term growth above that of other sectors may well justify the premium at which it trades. However, elevated multiples also reflect high expectations for the future and a higher bar for the sector and companies to clear.

At Pallas Capital Advisors, we seek to balance growth expectations and valuation with our equity selection and allocation. The current market dynamic suggests diversification and a longer-term outlook for equities to allow earnings to drive returns. Near-term bullish sentiment and valuation suggests a pause in markets may be in order.

The preceding information is for general educational purposes only. It is not intended to be investment advice, and is not specific to any individual's personal situation. Any decision about investing should be undertaken only after careful consideration of the investments risks, costs, liquidity or lack thereof, and the investor's timeframe. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product referred to directly or indirectly in this newsletter will be profitable, or equal any corresponding indicated historical performance level(s) investment Advice offered through Pallas Capital Advisors, LLC, a registered investment advisor. CRN24_185