



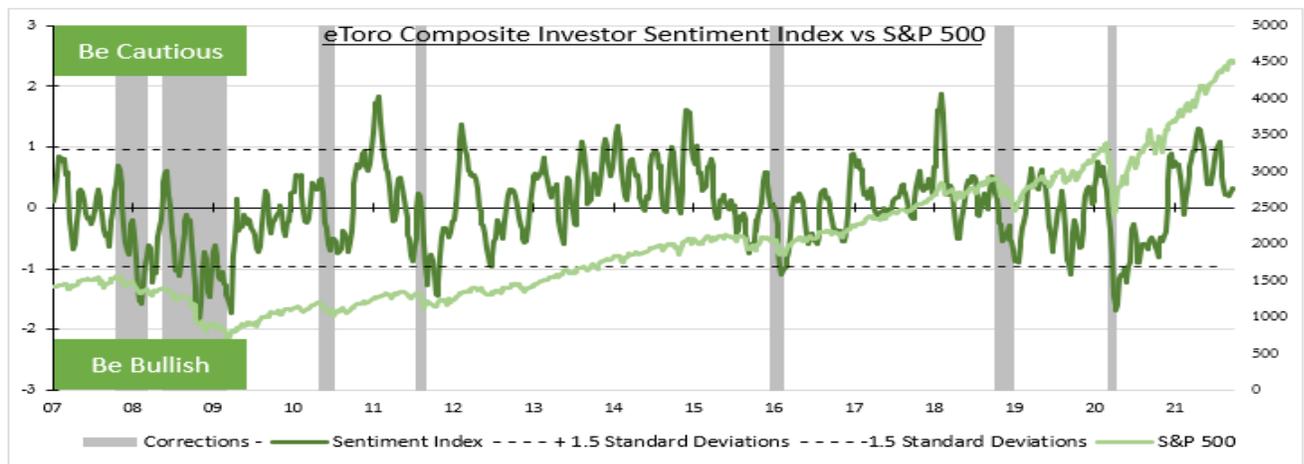
Daily Macro Insights: Poorer sentiment a positive

SENTIMENT FALLS: Our proprietary investor sentiment indicator has been falling, and is now nearing long-term average. Fewer retail investors are bullish, strong fund inflows have eased back, and VIX volatility has risen. This is not surprising given the depressing headlines, from China's Evergrande to US debt ceiling and shutdown talks, Fed tapering, and virus cases. But it is not bad news. If 'everyone' is bullish there is no marginal buyer to take markets higher.

FOCUS ON FUNDAMENTALS: Volatility may continue as markets work through the current 'noise' from China and Washington DC. We think these issues get resolved with little lasting impact. Our focus is more on 1) the firming growth outlook, with global virus cases down 30% from highs, and low earnings expectations heading into Q3 results in two weeks. Consensus is looking for an unlikely Q3 profits fall, versus Q2, and for sub-10% growth next year. 2) The still huge policy support, with Fed tightening to be relatively slow, modest, and to leave bond yields significantly lower than prior recoveries. This will help keep valuations at above average levels.

OUR INDEX: Our proprietary investor sentiment index is made of four inputs: 1) equity mutual fund flows, 2) the long running American Association of Individual Investors (AAII) sentiment survey, 3) the VIX volatility index of expected S&P 500 volatility, and 4) the S&P 500 put/call ratio: the proportion of put buying (option to sell in future) versus calls (to buy in future). Its lows have been strong buy signals, whilst highs signalled lower, but not negative, returns ahead.

TODAY: China's September purchasing manager (PMI) data showed some stabilisation. Services rebounded to an expansionary 53, but manufacturing still in borderline recession and needs help.



Source: Refinitiv, AAI, eToro calculations

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