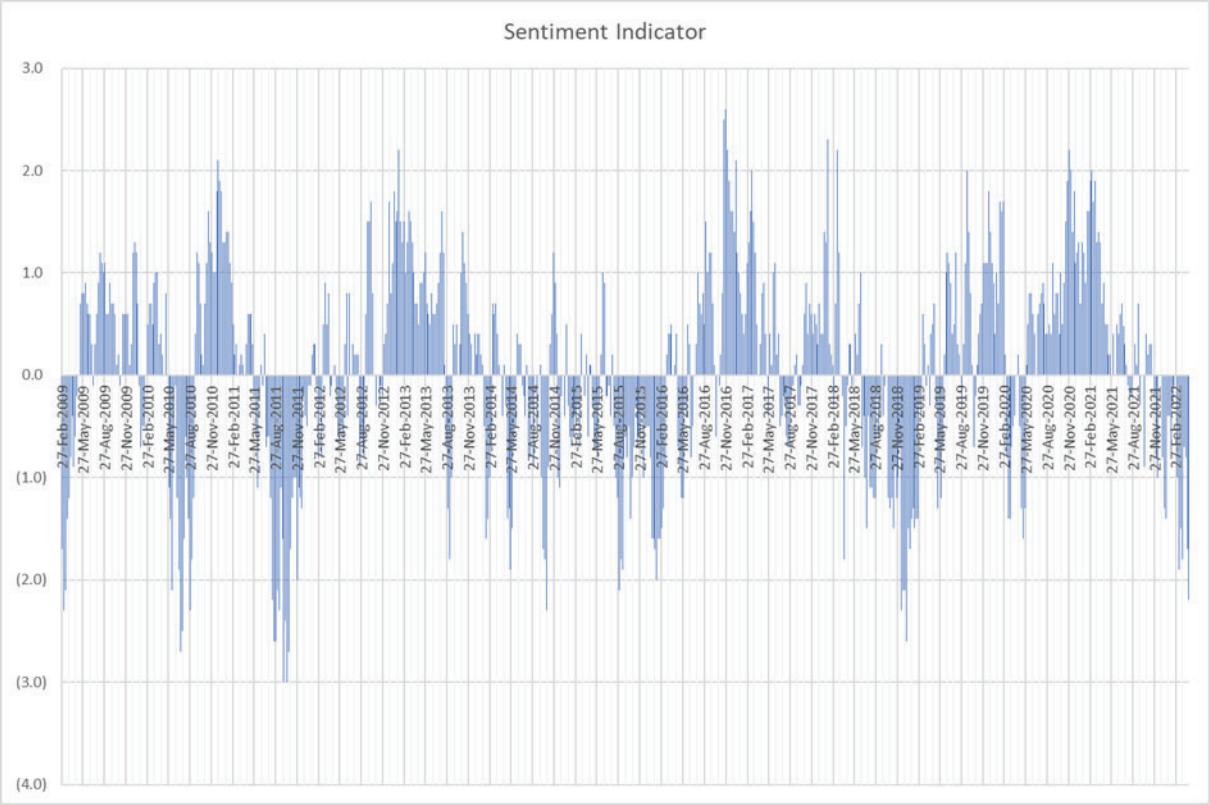
MARKET SENTIMENT AT LOWS COINCIDING WITH MAJOR SHORT TERM MARKET BOTTOMS

Goldman Sachs (GS) publishes their proprietary Sentiment Indicator (SI) on a weekly basis. The SI is a measure of aggregate positioning and risk sentiment in the US equity market. It tracks investor positioning across the more than 80% of the US equity market that is owned by institutional, retail, and foreign investors. To calculate the Sentiment Indicator Goldman Sachs runs an analysis on six weekly and three-monthly indicators that span these three investor types.

The nine indicators track changes in hedge fund, actively managed mutual fund, and passive equity flows versus cash and bond positions. Additionally, more speculative indicators such as margin debt levels and net futures positioning are also tracked.

Readings of +1.0 or higher have historically signaled stretched (overbought) equity positioning. Readings of -1.0 or lower have signaled very light (oversold) positioning and have historically been a statistically significant signal for future S&P 500 performance.

Below is a historical chart of the proprietary GS Sentiment Indicator going back to 2009. If you look at the most recent reading on the far right, we are at levels coinciding with the December 2018 selloff, the last interest rate taper tantrum in 2015, the European bailouts of 2011 (Greek, Irish Spanish bailouts), May flash crash in 2010 and the depths of the global financial crisis in 2009. If history repeats itself, the chart suggests the market could be near a short-term bottom.



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INSIGHTS

As we've relayed before... we can't truly call the market bottom in declines. A quote from Mark Twain is always helpful in a temporary market decline we are experiencing, "History doesn't repeat itself, but it often rhymes."

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