News Release

Embargoed until 0001 EDT (0401 UTC) 13 August 2024

S&P Global Investment Manager Index™ (IMI™)

Equity investor risk aversion hits one-year high on economic growth worries

- Risk appetite falls to lowest since August 2023, near-term market expectations remain negative.
- Sentiment hit by intensifying US and global economic growth worries amid ongoing political uncertainty and concerns over valuations.
- Central bank policy now seen more supportive than at any time in past three years.
- Sector sentiment shifts more defensive, but lower rate prospects bolster real estate and utilities.

Risk appetite

Near-term market outlook

Source: S&P Global IMI survey.

Risk appetite has fallen for a third successive month in August, according to S&P Global's Investment Manager Index™ (IMI™) survey. The IMI's headline Risk Appetite Index has deteriorated further from a two-and-a-half-year high in May, down to a one-year low of -10% in August from -5% in July. The latest data were collected between 6-9 August 2024; a period in which global markets saw a high degree of volatility.

Investors also remain downbeat in relation to near-term market expectations, with a majority anticipating US equities to lose value over the coming 30 days, albeit to a slightly lesser degree than seen in July.

Market drivers

The heightened risk aversion reflects intensifying concerns over the macro environment. The US macroeconomy is now perceived to be exerting the biggest drag on US equities since last November, while the drag from the global macro environment is seen as its strongest since May of last year.

At the same time, the political environment and valuations remain severe ongoing perceived drags on equity returns, the former reflecting concerns over the US election as well as conflicts in the Middle East and Ukraine.

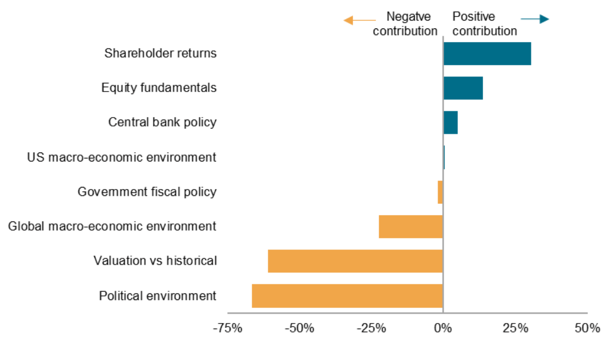
Worries over earnings potential have meanwhile led investors to consider equity fundamentals to now be exerting a negative impact on returns for the first time since January, in stark contrast to the 27-month high positive contribution seen back in May. Following the Q2 earnings season, investors have downgraded their expectations of Q3 earnings to the greatest extent for a year, contrasting with the upward revision seen after Q1 earnings.

A corollary of the reduced economic growth prospects among investors has been a broadening conviction of more aggressive interest rate cuts by central banks. Central bank policy is accordingly now seen as the strongest positive contributor to market returns of all factors tracked by the IMI, exerting their greatest positive influence for three years.

This anticipated lower interest rate environment has also meant that shareholder returns remain a strongly positive driver of equity returns, notably with respect to rising investor sentiment toward dividends. Investor interest in dividend stocks has hit its highest for two years.

What's driving US equity returns over the next 30 days?

% survey net balance*



* The net balance shows the percentage of those reporting an expected positive contribution minus those expecting a negative contribution. Those only reporting a 'slight' positive or negative contribution count as half a response, while those reporting a 'strong' positive or negative contribution count as one-and-a-half responses.

Source: S&P Global IMI survey.

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Sector preferences

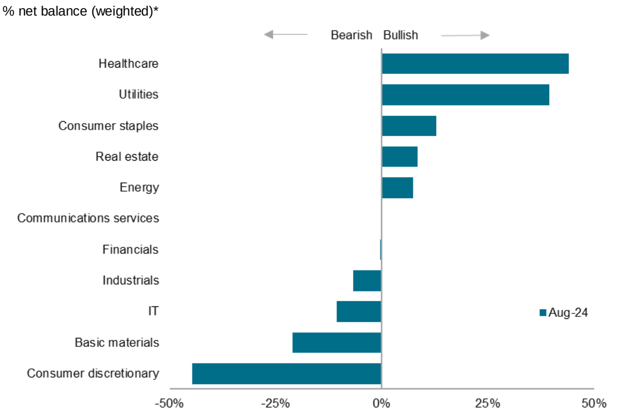
Rising concerns over the macro environment have meanwhile led to a further shift in investor favor toward defensive stocks, while the prospect of lower interest rates has also favored sectors such as Utilities and Real Estate.

The top-ranked sector in August is Healthcare followed by Utilities, the latter now sitting at their highest position in the rankings seen since the survey began. Consumer Staples have moved up into third place in the rankings – their highest position since January. In contrast, Consumer Discretionary has fallen to the foot of the rankings, suffering the lowest degree of investor sentiment since November 2022, underscoring the investor shift from cyclicals to defensives.

Recession worries have also curbed investor appetite for Basic Materials and Industrials, as well as Energy and IT/Tech stocks. Whereas Tech was investors' highest-ranked sector in June, sentiment has since soured sharply to push appetite into negative territory for the first time since January.

Amid rising hopes for interest rate cuts, investor favor toward Real Estate has jumped to its highest since August 2021, elevating it to an unprecedented fourth place in the rankings.

What is your sector outlook for the next 30 days?



* The net balance shows the percentage of those bullish minus those bearish. Those only reporting a 'slight' bullish or bearish outlook count as half a response, while those reporting a 'strong' bullish or bearish outlook count as one-and-a-half responses.

Source: S&P Global IMI survey.

Commentary

Chris Williamson, Executive Director at S&P Global Market Intelligence and author of the report, said:

"The risk-off mood has intensified among US equity investors in August. The latest IMI survey has seen a big change, with investors becoming increasingly concerned about economic growth and earnings potential, while simultaneously ratcheting up their expected support to the market from lower interest rates. The latter has helped drive investor interest in real estate and dividend-focused utility stocks, but the broader concern over economic growth has dampened demand for many other sectors, most notably tech and consumer discretionary."

Mohammad Hassan, Equities Dividend Forecasting Director at S&P Global Market Intelligence and co-author of the report, added:

"Investor sentiment has turned markedly bearish, yet it is worth noting that, beyond the bulls and the bears, roughly 63% of respondents remain neutral on future earnings growth expectations. With markets on edge due to geopolitical tensions and the looming US election, Q4 will be a tough test for shareholder returns. S&P Global MI Equities Dividend Forecasting projects a 4.54% increase in total aggregate dividends for the S&P 500 Index in 2024, which should provide a solid anchor for investor expectations."

For a copy of the full report and data, please contact economics@spglobal.com.

For further information, please contact:

Katherine Smith, Public Relations
Telephone +1 781 301 9311
E-mail katherine.smith@spglobal.com

Note to Editors

This edition of the Investment Manager Index survey includes monthly responses from a panel of just under 300 participants employed by firms that collectively represent approximately $3,500 bn assets under management. Data were collected between 6-9 August 2024.

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