MAJOR TREND INDEX

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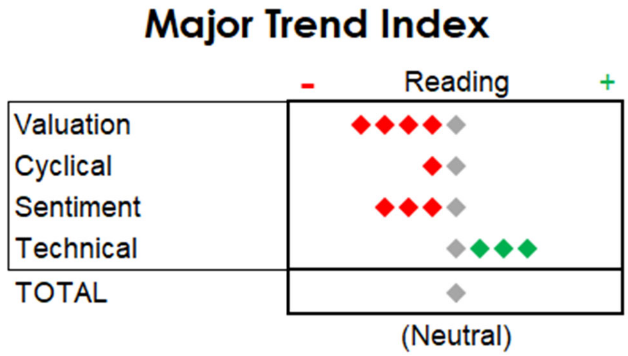
Data for Week Ending: February 7, 2025



Question: *"What do the stock market and my wife have in common?"*
Answer: *"They're both always right!"*

Our current market stance brought this riddle to mind, which was posed many years ago by now-retired market analyst Eckart Mildenstein of Brown Brothers Harriman. The Technical category of the Major Trend Index has remained consistently—and correctly—bullish, helping to offset the other, more cautionary elements.

We have kept exposure to stocks in our tactical funds fairly high (a "net" level of 58%, currently) in light of late-cycle economic risks and bubble-like S&P 500 valuations.

Over the last two weeks, one can't help but be impressed with the way the stock market has shrugged off the DeepSeek scare, the opening shots of another trade war, and the mostly uninspiring round of Q4 Tech earnings reports. This tells us that investor sentiment is probably not as frothy as we feared. (See below for a notable development in that regard.) If investor/trader psychology had been truly euphoric, any of those events (if not *all*) "should" have knocked the stock market off its perch by now. Instead, the S&P 500 is only a dovish Fed leak away (or another tariff flip-flop?) from a new all-time high.

That said, stock market internals and industry group leadership aren't as broadly supportive as they were a couple of months ago: The S&P MidCap 400, Russell 2000, Dow Utilities, and Dow Transports have retraced less than half of their peak-to-trough losses from their late-November highs. If the S&P 500 makes a new bull market high later this week, the only index among our eight bellwethers that's likely to "confirm" that high is the S&P 500 Financials.

Statistically, we consistently find that the NYSE Daily Advance/Decline Line is the most important bellwether in terms of intermediate-term predictive ability (3-6 months) and it is still laboring below the cycle high it made 2½ months ago. However, the bullish action in Financials impresses us (perhaps because 30% of our Select Industries equity portfolio is now parked there?), and so does the healthy behavior of high-yield credit spreads. On the whole, the uptrend is solid enough that we are willing to give the market some time to see if it can seal the minor cracks that have opened up.

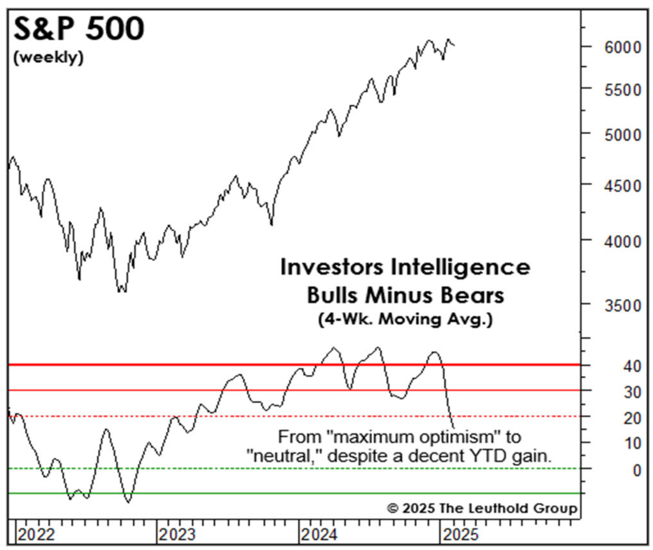
Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com

- On the sentiment front, we noted in the January Green Book that bullish psychology among stock market-newsletter writers had become extremely ingrained. The average Bull-Bear spread in 2024 was 38.2%—the third-highest reading since Investors Intelligence launched this weekly survey in 1964. Prior to last year, the top five years of inflated sentiment saw subsequent year declines in the S&P 500. Note, though, that persistently elevated Bull-Bear spreads in 2018, 2019, and 2020 were *not* precursors to poor market years. Inflated sentiment can sometimes become a self-fulfilling prophecy.

Years of Inflated Sentiment & Subsequent Market Action

Ten Highest Average Sentiment Years	Average Investors Intelligence Bull-Bear Spread	Subsequent Year's Gain Or Loss In S&P 500
1976	50.6 %	-11.5 %
2017	39.9	-6.2
2024	**38.2**	?
2014	36.7	-0.7
2021	34.7	-19.4
1965	33.7	-13.1
2019	33.2	16.3
2018	33.0	28.9
2020	31.9	26.7
1972	31.6	-17.4
	Average Return:	0.4 %

- We don't send our analysis to Investors Intelligence because we don't want our views to "contaminate" their weekly tally of Bulls and Bears. (In economists' terms, we want the data series to remain "exogenous".) Yet, it's almost as if they read our January note since the Bull-Bear spread proceeded to immediately collapse—from the zone of "maximum optimism" entering the year to "neutral" with the latest four-week smoothing. This suggests that while stock prices haven't been shaken by DeepSeek, tariffs, and middling EPS reports, market-newsletter writers clearly *have*.



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