

# Global equity strategy

## Tactical indicators for equities

**25<sup>th</sup> February 2010**

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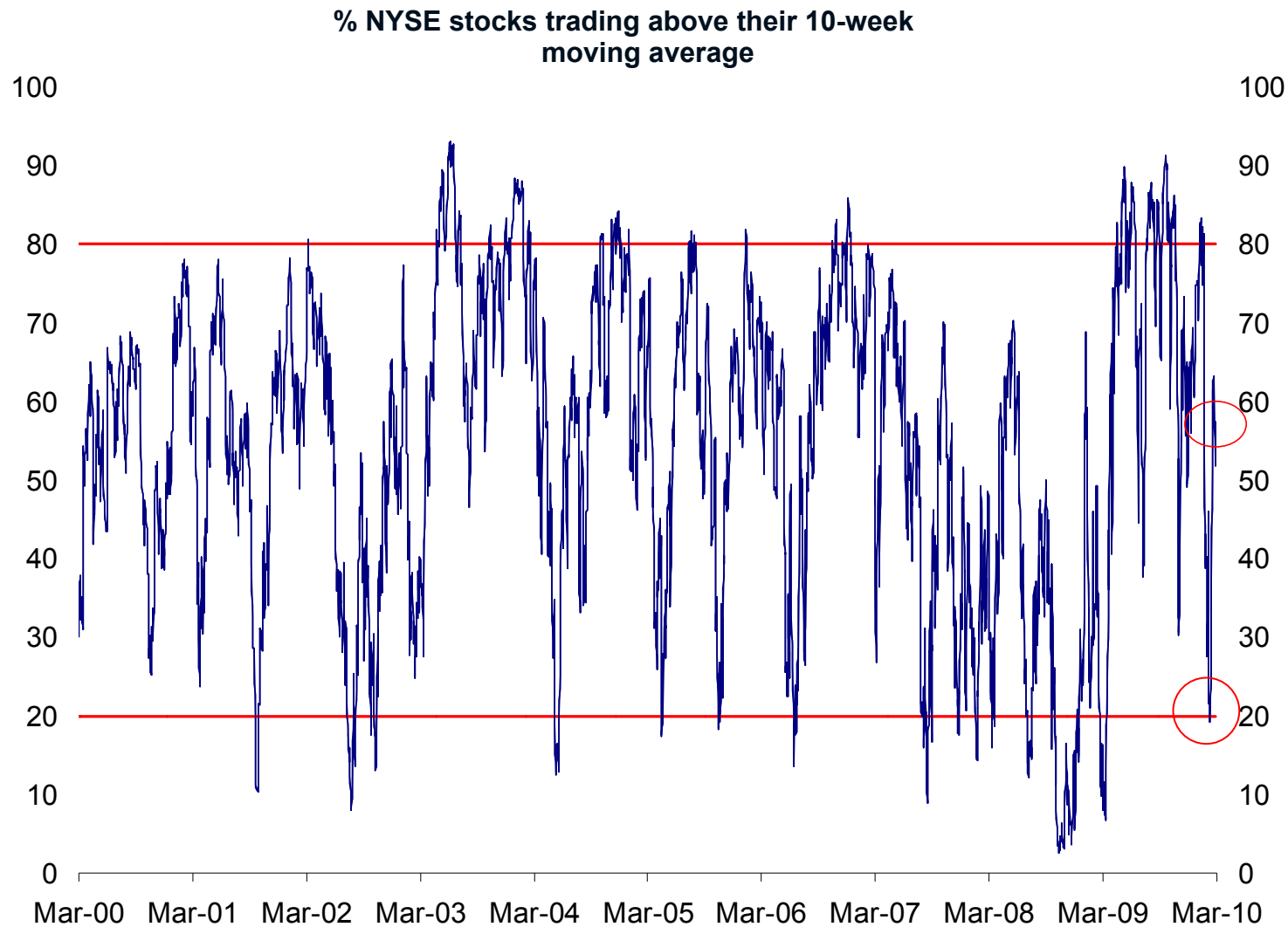
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# Overall, tacticals are mildly supportive of equities

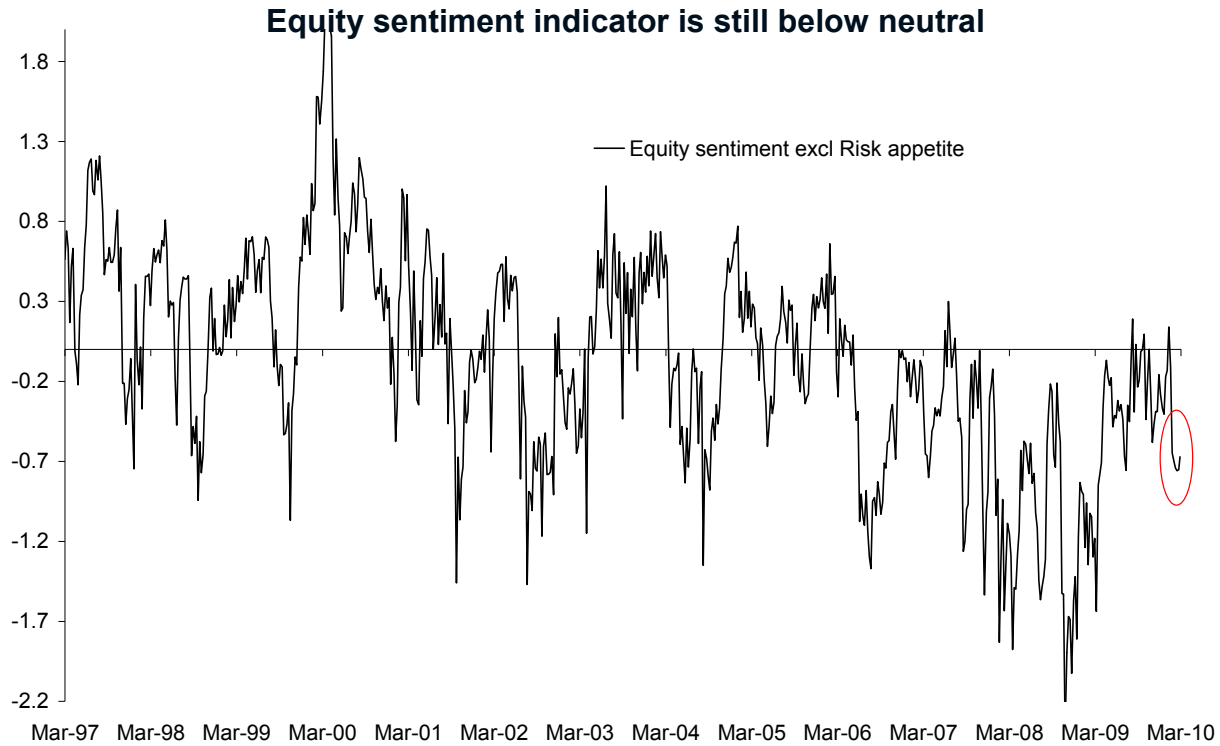
## Summary of our tactical indicators

	Score	Comment
Equity sentiment indicator	✓	Equity sentiment is 0.7std below neutral
Overbought/ oversold indicator (% of stocks above 10-week MA)	✓	fell to 19%, currently 57%
Corporate net buying	✓	Corporate net buying rose to 0.77% of mkt cap
Global earnings breadth	✓	still positive, though rolling over
Equity sector risk appetite	●	close to neutral
Market breadth	●	Breadth has rolled over and ticked up in line with the market
Economic macro surprises	✗	rolled over in the US and globally
Insider buying	✗	Insider buy/sell ratio is low, but not a sell signal
Overall tactical message for equities	●	Tacticals are mildly supportive
✓✓ = Strong positive, ✓ = Positive, ● = Neutral ✗ = Negative, ✗✗ = Strong Negative		

**57% of NYSE stocks are trading above their 10-week moving average. Normally a mild buy signal is when this indicator falls below 20%, which it did on the 8<sup>th</sup> Feb (when S&P fell to 1,056)**



# Equity sentiment is well below neutral (being 0.7std below average)- this is a positive for equities

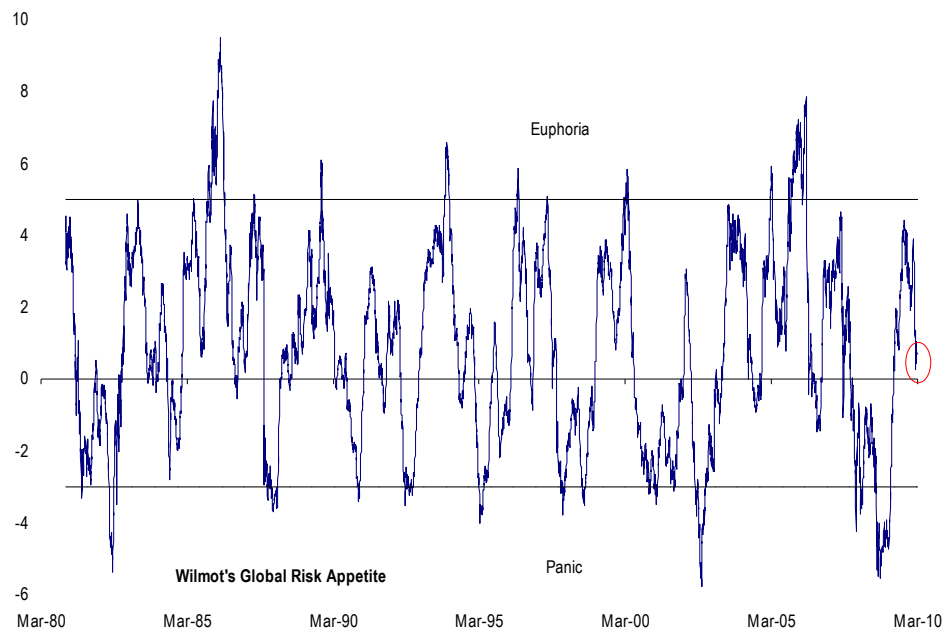


## Our equity sentiment indicators

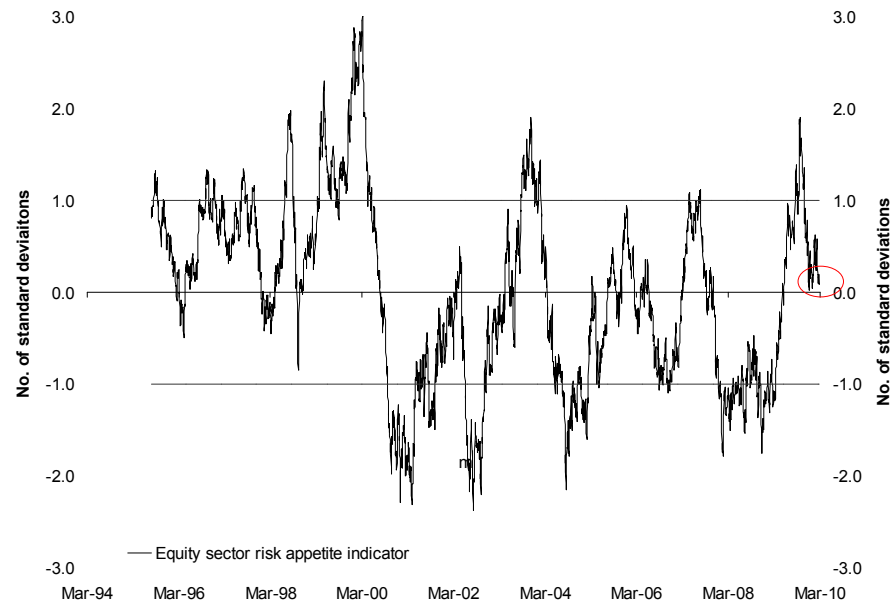
Date	Bullish sentiment	Inflows into US Agg. Growth funds	Put/call ratio	Equity risk appetite	Slope of implied vol. skew	S&P 500 VIX
<b>Current (25th February 10)</b>	37.4	0.01	0.64	0.09	0.246	20.27
Average	45.7	0.27	0.58	0.02	0.216	27.78
<b>No. of standard deviations current value away from long-term average</b>	<b>-1.00</b>	-0.52	-0.39	<b>0.70</b>	<b>-0.78</b>	0.58

# Equity sector risk appetite rolled over to neutral level. Wilmot's risk appetite indicators has also rolled over to be close to zero. Normally the sell signal is 6 weeks after its hit euphoria zone

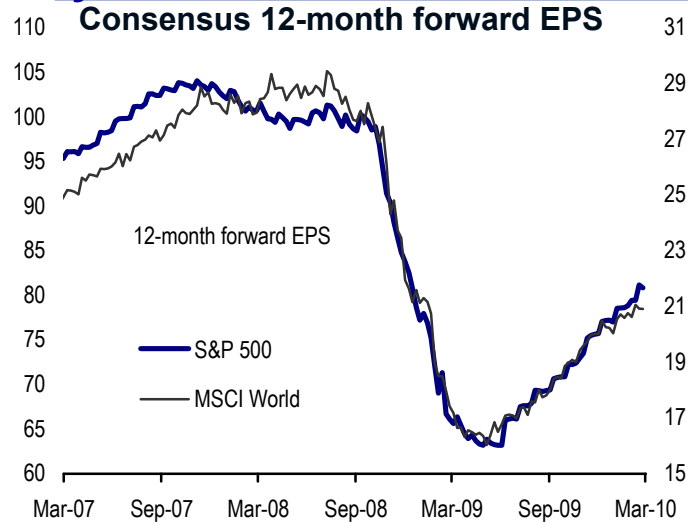
**Wilmot's global risk appetite rolled over close to zero**



**Equity sector risk appetite (number of standard deviations): close to neutral level**

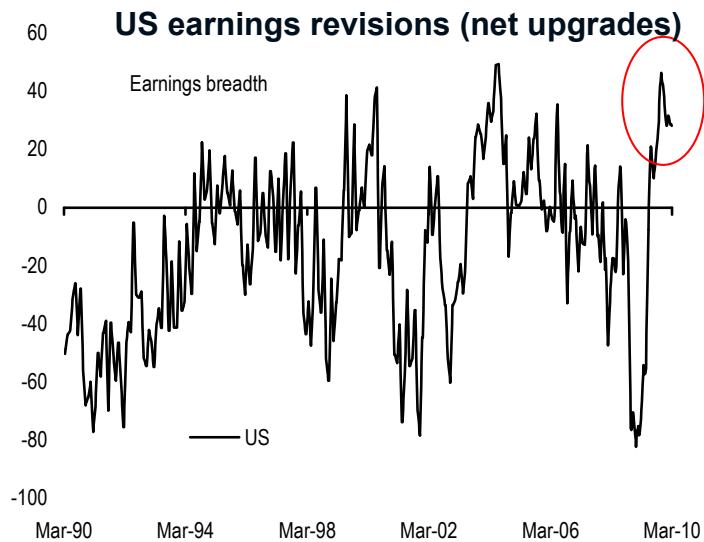


**Global earnings revisions are strong (though they may have peaked) but they have been improving again since early Jan. Note that typically earnings get revised up for around a year. The current upgrade cycle started in May 2009, implying positive momentum until May 2010**

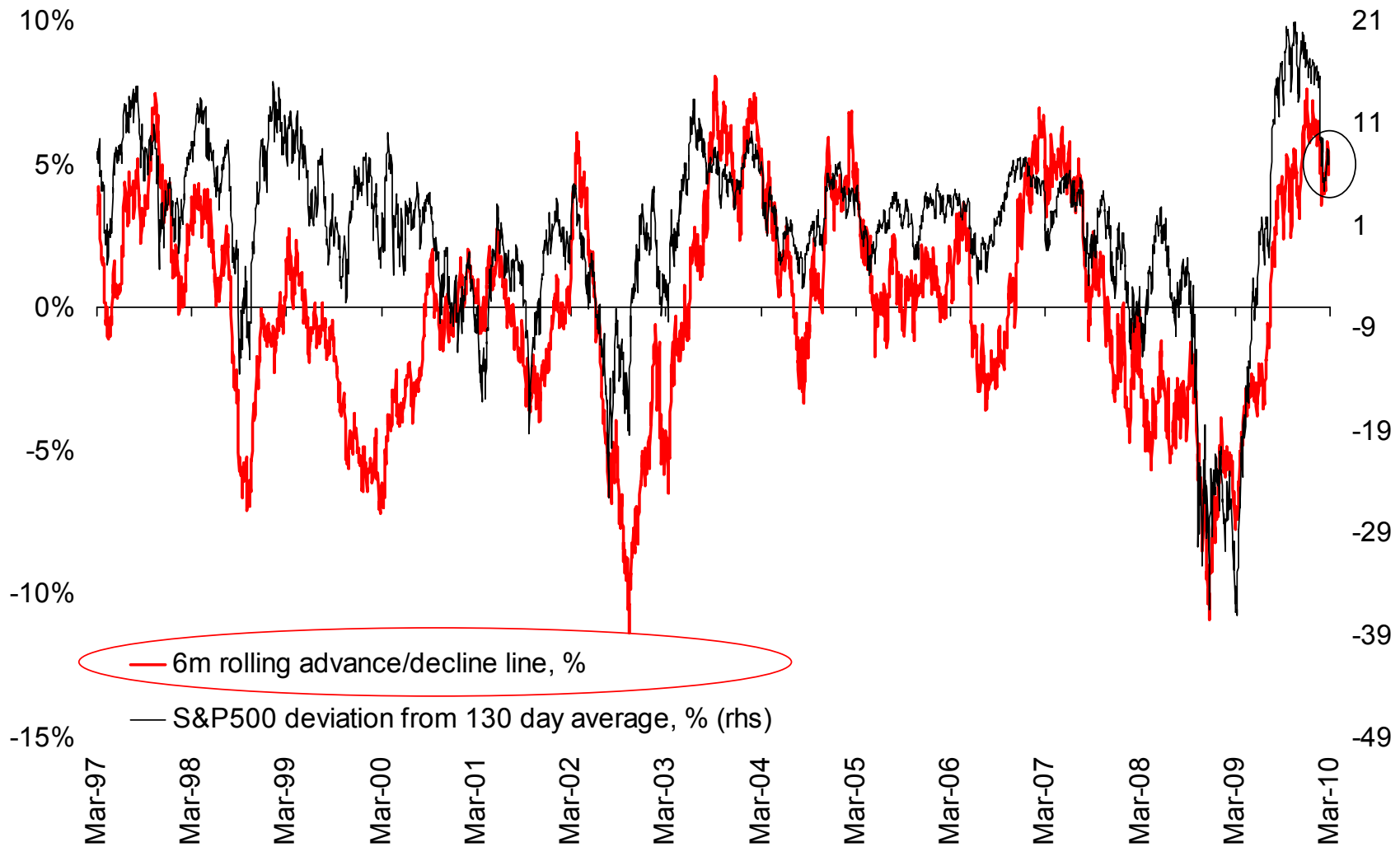


**When earnings are revised up, upgrades usually continue for eleven months**

Earnings Breadth turns positive		
From	To	Period (m)
20-Jul-94	20-Jan-95	6
20-May-99	20-Sep-00	16
20-Feb-02	20-Jun-02	4
20-Jun-03	20-Nov-05	29
<b>Average</b>		<b>14</b>
<b>Median</b>		<b>11</b>

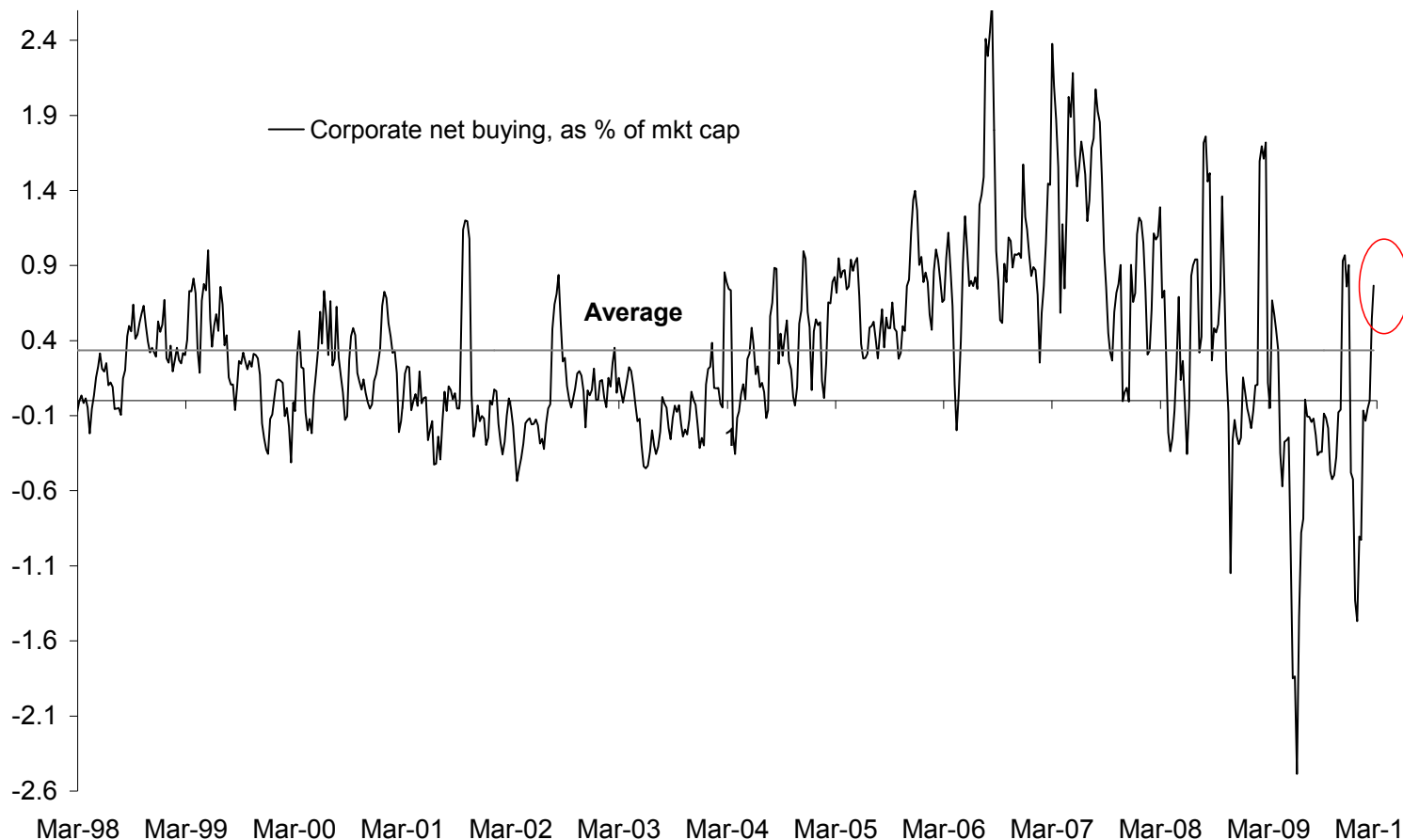


## Market breadth (i.e. advance/ decline line) has moved in line with the market- this is good news



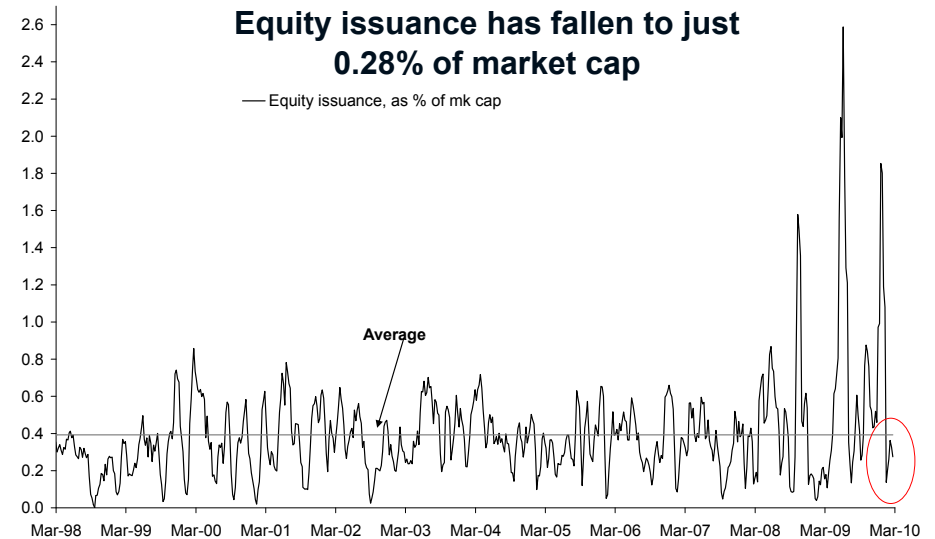
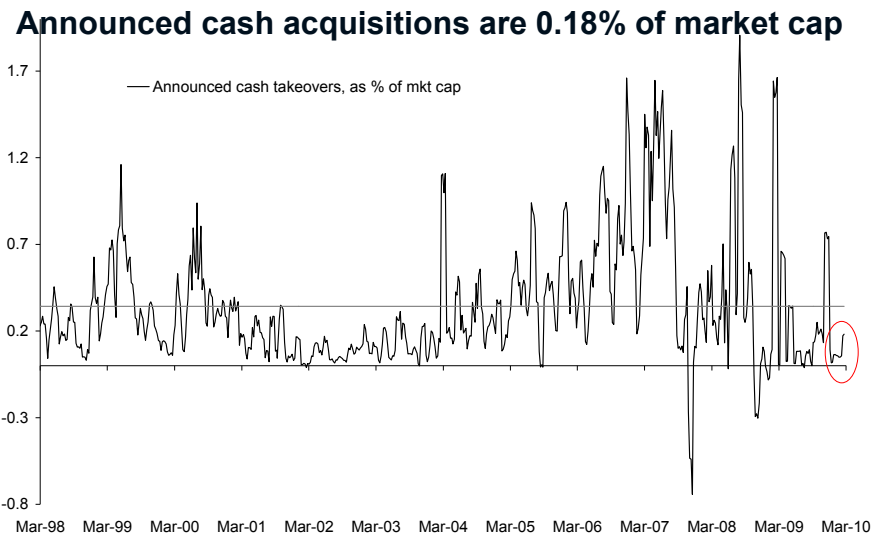
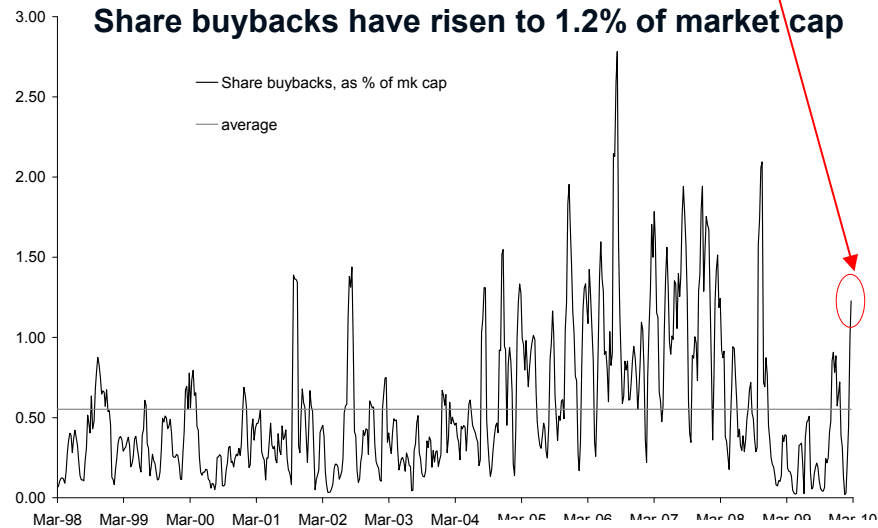
US corporate net buying (that is cash financed bid activity plus buybacks less IPOs and secondaries) has risen to 0.77% of market cap. This is good news as since early Dec corporates were net sellers of equity for 6 weeks in a row. Corporate net buying increased on the back of a rise in share buybacks (to 1.2% of market cap)

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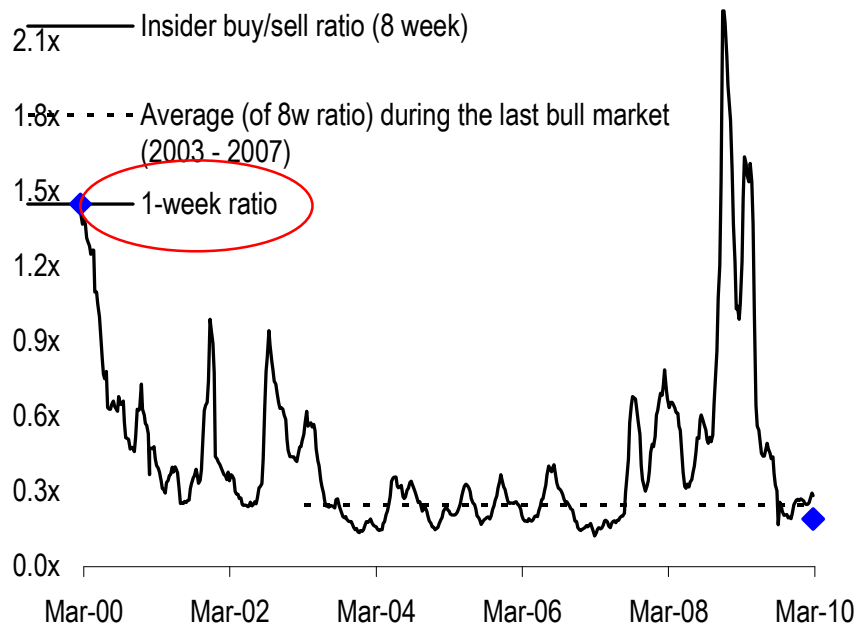


**US corporate net buying: DETAILS.** Share buybacks rose sharply to 1.2% of market cap (the \$ amount is much higher than in each of the previous six post-earnings periods. 23 US companies announced buybacks in the past week, with Transocean, Sara Lee and Direct TV accounting for 76% of new buybacks). Announced cash takeovers also picked up, while new equity issuance remained lacklustre

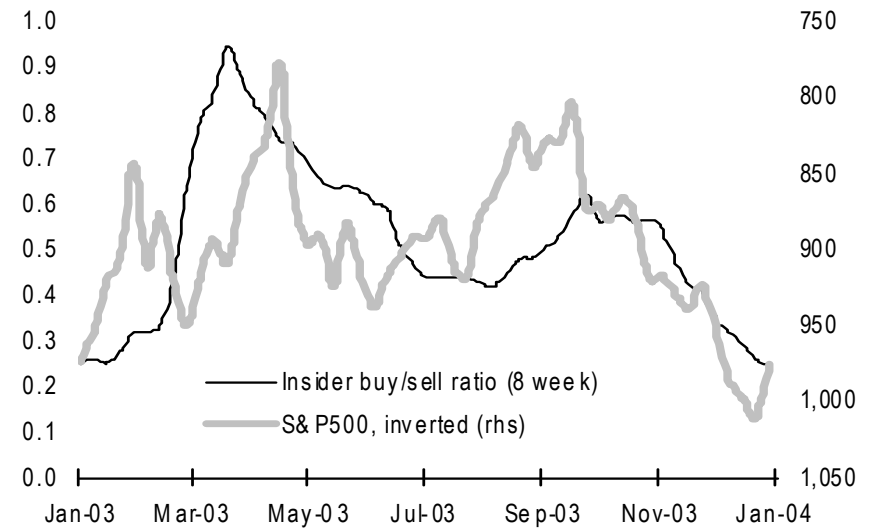


**Insider buying is still low but is in line with the average of the last bull market (03-07). (Incidentally, insider buying stayed at very low levels throughout the 2003-07 bull market). Moreover, when we back-test insider buying, we find that low levels on this index have been a very poor sell signal**

**Insider buying is still low but it has risen to be above the 2003-07 bull market average**

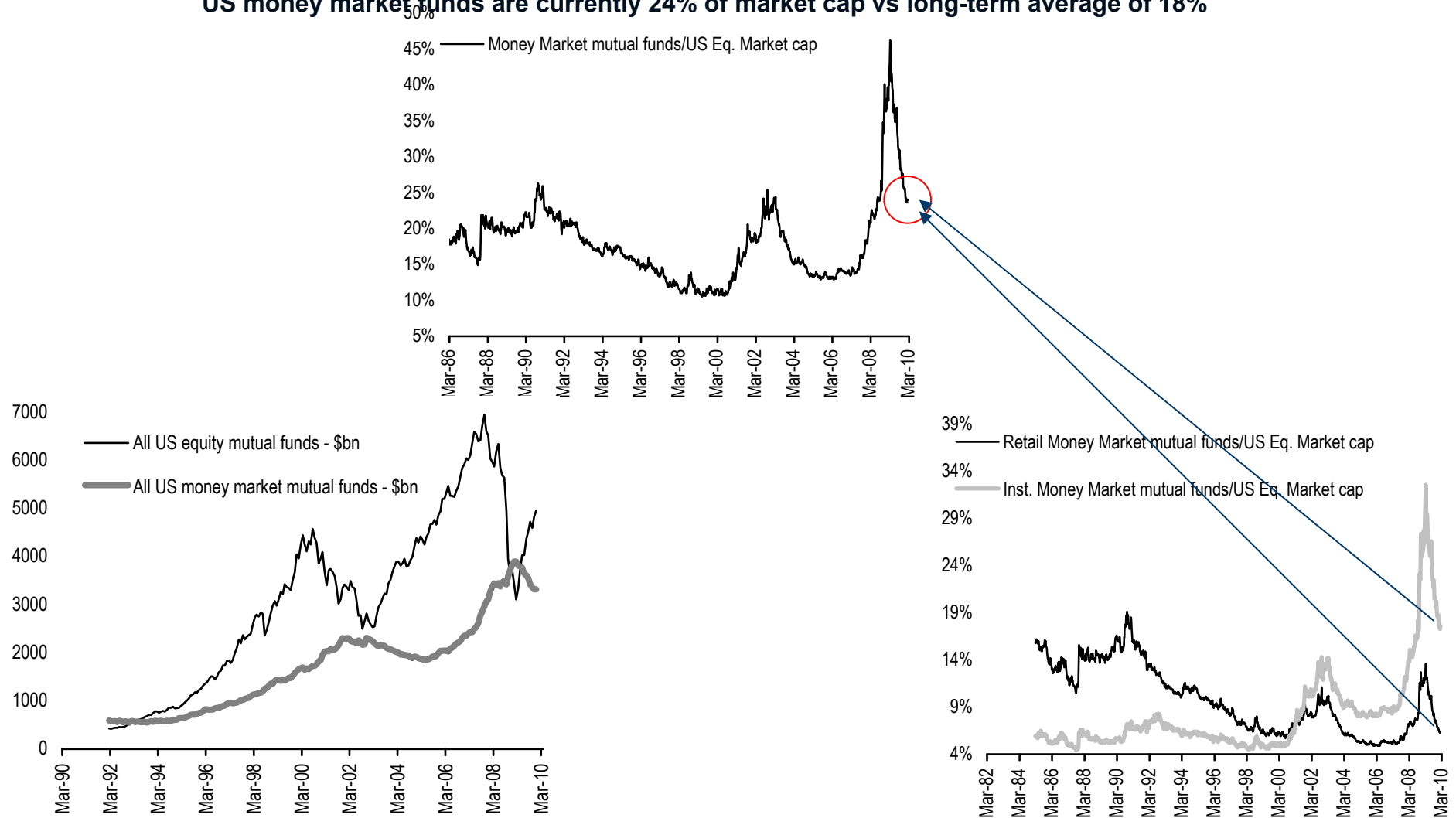


**Insider buying fell sharply in 2003, but this did not signal a down market**

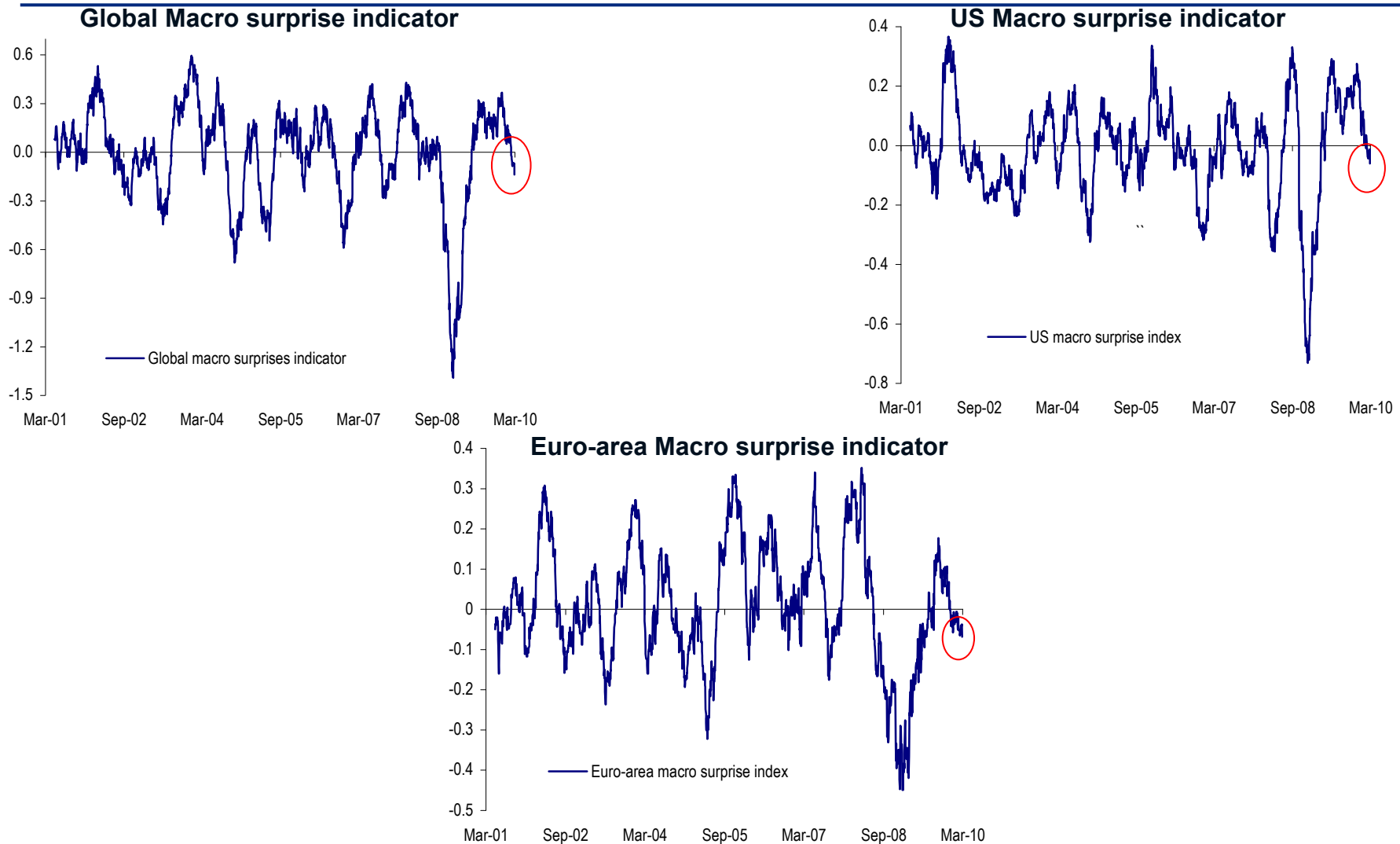


# Positioning is still supportive: US money market funds are currently 24% of market cap vs their long-term average of 18%

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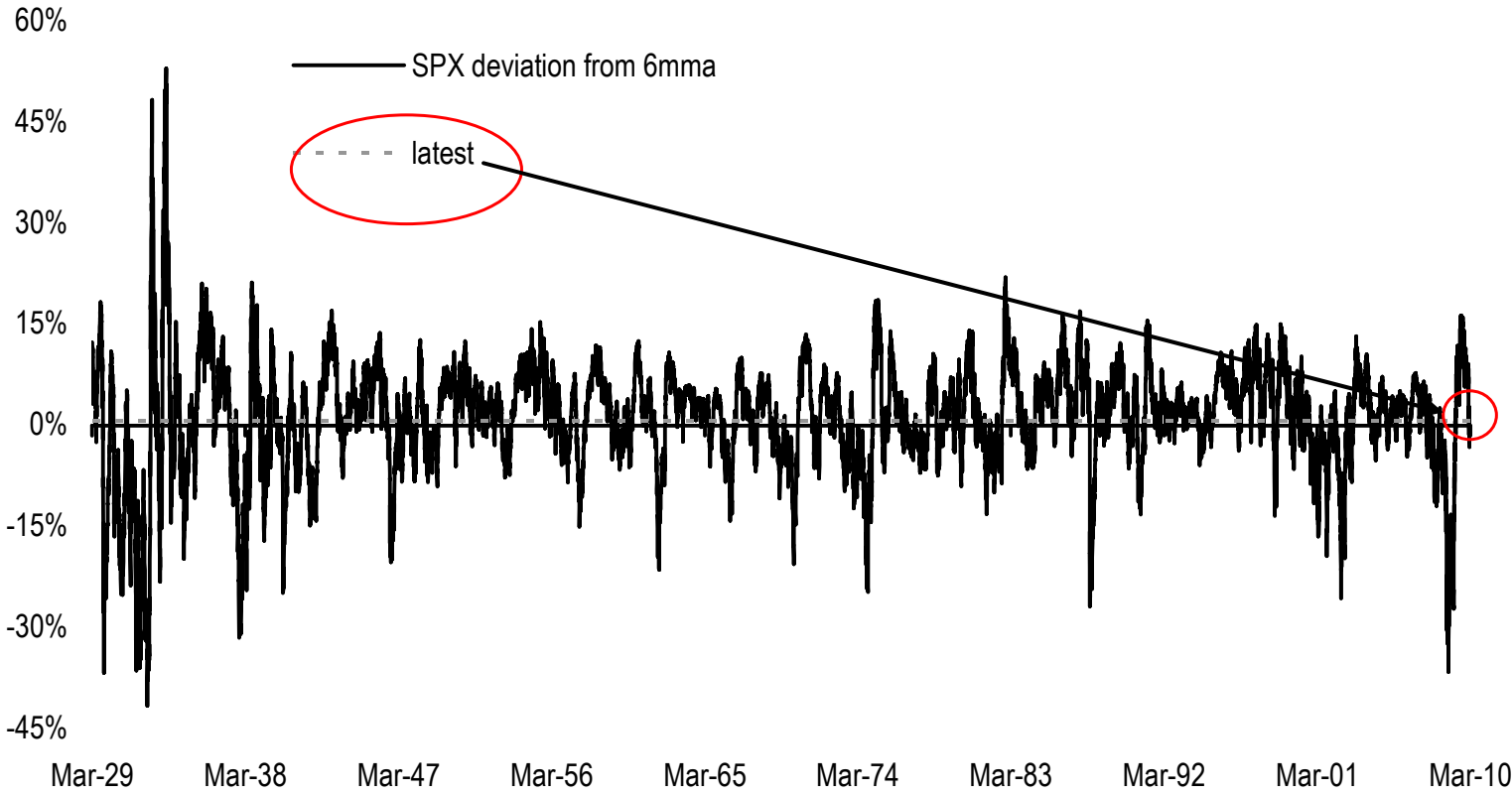


The global and US economic surprise index (constructed by Credit Suisse's economics team) have rolled over to be just below zero. This is slightly worrying and we need to monitor this



# If we look at the S&P deviation from its 6-month MA- market looks neutral

S&P 500 deviations from 6-month moving average



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