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# Is Sentiment Turning?

**Toby Warburton**

Global Head of Portfolio Management, Systematic Equity — Active

Equity markets started to wobble in July, before whipsawing in early August. Probing deeper, we saw signs of a shift in Sentiment before the market turned dramatically. To shed light on the changes, we examine equity markets through factor and sector lenses.

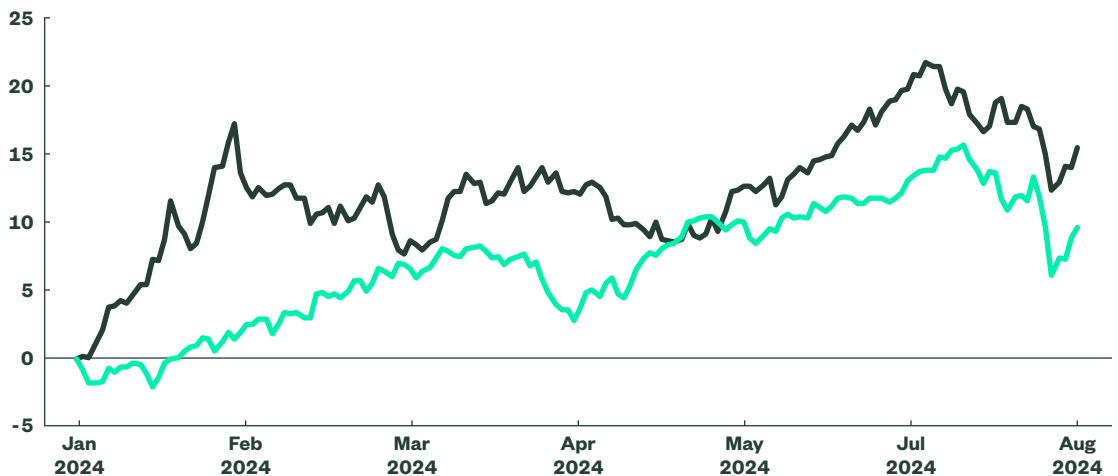
## Equity Markets Slide and Momentum Turns

From their highs on July 16, global equity indices started a slide that accelerated into August. Rationalization behind the panic attributed it to several factors, including: an unwinding of the yen carry trade; weak payroll numbers in the US; slowing growth and recession risk; and fatigue in the AI rally. In this commentary, our focus is not on the drivers of the recent market drop, but rather on market sentiment itself and the signs of a shift in market sentiment that we noticed prior to the recent volatility.

Earlier this year, we wrote about the strength of the Momentum, or Sentiment, factor,<sup>1</sup> and how it has helped to drive markets toward all-time highs. Momentum latches on to prevailing market trends. Therefore, a shift in its return patterns may signify a rotation in outlook or sentiment from market participants. While global equity markets hit a local peak on July 16, the Momentum factor's strong performance turned south a few days earlier as it started to underperform (Figure 1). In what was a very dramatic period, the very sharp drop and partial rebound in Momentum returns during the first week of August coincided with the fall in equity markets.

Figure 1  
**Momentum and Global  
Equity Markets Returns**

■ Momentum Factor  
■ All Country World Index



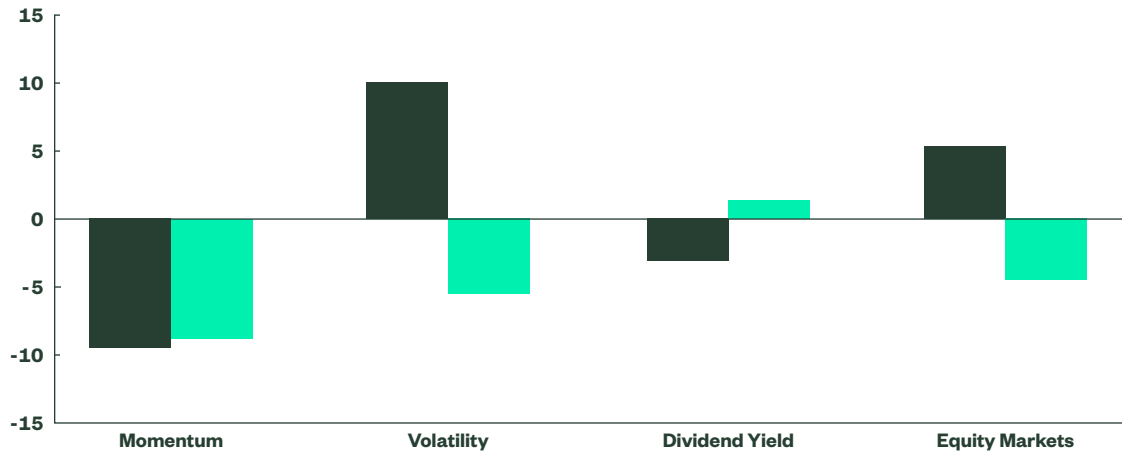
Source: State Street Global Advisors, MSCI, FactSet, Axioma. Momentum factor spread returns for Axioma fundamental factor in All Country World Large Cap Universe. As of August 13, 2024.

## Momentum and Global Equity Markets Returns

Year to date, Momentum has not only turned in other periods of underperformance, but also has generated intervals of strongly positive returns. The behavior of other factors appears to be different in this most recent drawdown, thereby suggesting a turn in risk appetite from previous episodes. In the large Momentum drawdown from early February to mid-March, for example, equity markets continued to rally, riskier factors such as Volatility performed very well, while cyclical Value as well as the more defensive Dividend Yield underperformed. By contrast, between the July 16 and the market lows on August 6, equity markets plummeted, the Volatility factor tumbled, while higher dividend paying stocks managed to outperform (Figure 2).

Figure 2  
**Select Factor and Global Equity Markets During Large Momentum Drawdowns in 2024**

■ February 5 to March 13  
 ■ July 10 to August 6



Source: State Street Global Advisors, MSCI, FactSet, Axioma. Factor spread returns for Axioma fundamental factors in All Country World Large Cap Universe. As of August 13, 2024.

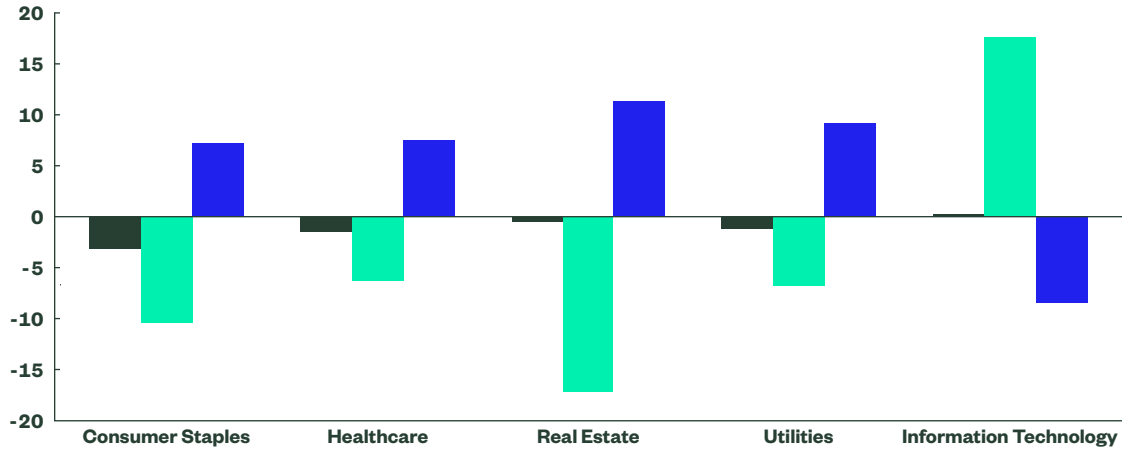
## The Rotation Within Sectors

The shift in the market in the current drawdown has also been noticeable within sectors. Defensive sectors, such as Consumer Staples, Healthcare, Real Estate, and Utilities have underperformed the broader market this year, and indeed last year. The Momentum drawdown earlier this year did not provide any respite for these sectors either as they underperformed during that period. Further, the previous Momentum drawdown did not provide much of a headwind for Information Technology, a sector which has been the strongest performing sector year to date.

In the most recent drawdown, however, Consumer Staples, Healthcare, Real Estate, and Utilities all outperformed the broader market. Information Technology was by far the weakest performing sector, followed by Communication Services, signalling a significant rotation in sector leadership during this Momentum rotation.

Figure 3  
**Market-Relative  
Performance of  
Defensive Sectors in  
the MSCI ACWI Index**

February 5 to March 13  
YTD to July 10  
July 10 to August 6



Source: State Street Global Advisors, MSCI, FactSet. As of August 13, 2024.

## The Bottom Line

The rebound in equity markets in early August from their July lows suggests a veneer of calm may descend again. However, the downturn in returns for the Momentum factor and concurrent risk aversion may indicate a broader shift in sentiment from equity market participants.

Time will tell us whether this recent drawdown was a warning shot about market events to come, or whether it marked the start of another stage of the Momentum rally. However, given the swirling risks and uncertainties around global growth, elections, inflation, and geopolitics, it seems unlikely that we will not experience further bouts of volatility through the remainder of the year.

Overall, we caution against betting against a single outcome, and recommend building diversified portfolios and explicitly consider risk in their construction. In times of heightened volatility, it is important not to feel pressured into making knee-jerk reactions amid dramatic shift in markets. We acknowledge not everything is forecastable, but consider it unlikely that we have seen the end of the volatility within equity markets given the current landscape. We may not know what is to come, but we reaffirm that diversification in drivers of return and an attention to risk mitigation remain important hedges against uncertainty.

## Endnote

1 [A Time for Sentiment \(ssga.com\)](https://www.ssga.com).

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\* Pensions & Investments Research Center, as of December 31, 2023.

<sup>†</sup> This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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