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**On Bloomberg:**



## Don't Get Emotional About Stock, Gordon

As of last Thursday the market has enjoyed its strongest 23-day rally since 1933. With the recent market gains, sentiment continues to shift towards a more complacent market environment. The ISE Sentiment All Equities Index (ISEE <go> on Bloomberg), a gauge of customer sentiment that looks at the ratio of long call positions over long put positions on individual stocks, is currently at its highest one month average reading since spring of 2008. This leads us to believe investors are not only bullish on the market, but may be more willing to commit their money to single stocks again, something many participants avoided over the past year. Our belief is that sentiment matters a great deal in a market that is so fragile and the overall level of volatility means that bear market bounces are necessarily substantial. There is a great deal of beta chasing and short covering occurring as long only managers fear missing the tremendous rally and absolute return investors were not positioned for it. To wit, long/short equity returned less than 2% in March even as the SPX rallied 8.5%. We don't believe the economic fundamentals have improved in any measurable way and think this rally will ultimately fail as corporate profits disappoint.

Below we look at a chart of the DB G10 Currency Harvest Fund (ticker DBV). This is an ETF that tracks the performance of buying government bond futures in higher yielding countries against shorting the government bond futures of lower yielding countries. We can see that the price of this ETF has perked up recently, suggesting appetite for risk continues to increase. Better performance of carry trades such as these support the arguments we made regarding beta chasing on April 3<sup>rd</sup> in our note titled "*Blue Horseshoe Loves EEM Vol*".

