News Release

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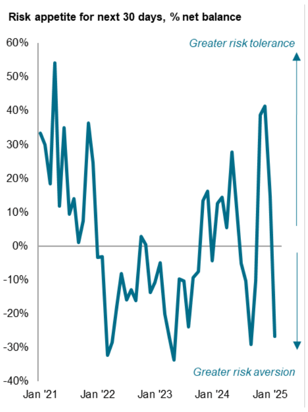
S&P Global Investment Manager Index™ (IMI™)

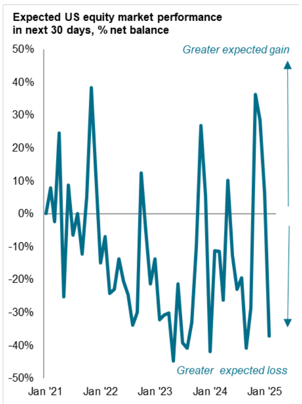
Risk appetite slumps in February as investors reassess policy impact

- Investor sentiment turns sharply risk averse.
- Expectations of market performance and next quarter's earnings revised lower.
- Views deteriorate on political landscape, macro environment, and policy support.
- Sentiment cools sharply from tech, energy, and consumer discretionary, leaving financials and healthcare as most favored.

Risk appetite



Near-term market outlook



Source: S&P Global IMI survey.

Risk appetite among US equity investors has slumped in February amid a re-evaluation of policy impact, according to the latest S&P Global's Investment Manager Index™ (IMI™) survey. The IMI's headline Risk Appetite Index has fallen from +15% in January to -27% in February.

The sharp decline signals a return to risk aversion on balance, contrasting with the revival of risk appetite seen in the prior three months following the Presidential election. February's reading takes risk appetite further from December's 44-month high, down close to the level plumbed last September. In fact, since data were first collected in October 2020, only four months have recorded higher risk aversion than that currently being reported.

February has also seen investors' expectations of US equity returns over the coming month turn sharply negative, falling further from the near-survey high recorded back in November to now sit at one of the most pessimistic levels in over four years of survey history.

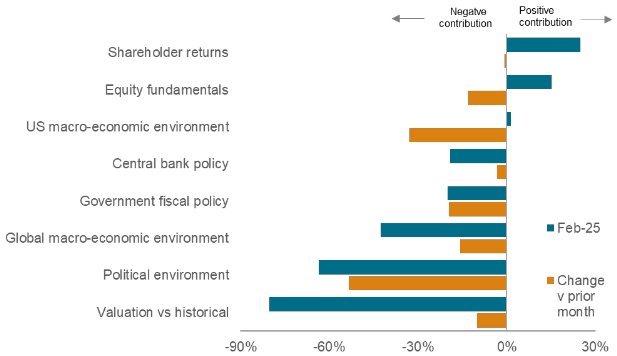
Political and macro worries intensify

The single biggest change to investors' views on what's driving the markets is a perceived deterioration in the political environment, which is now reported as the biggest drag on US equities barring only concerns over high valuations – albeit with concerns over the latter now at the highest since the survey began in October 2020.

However, February has also seen a major reassessment of the US macroeconomic environment, which investors now perceive to be only a negligible positive driver of equity returns. In contrast, the prior two months had witnessed investors consider the US economy the most important driver of equities. February is likewise seeing investors report the global macro environment as an increasing drag on US equities.

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.

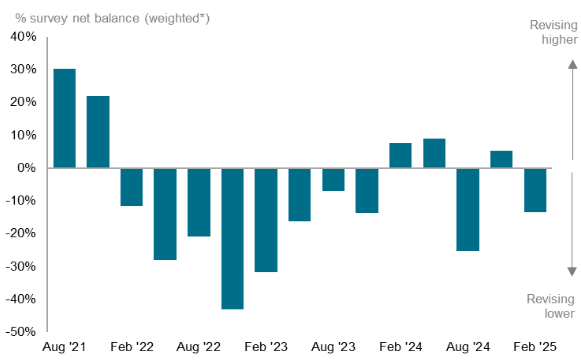
Concerns are focused on tariffs and the scope for escalatory trade protectionism to weaken economic growth both within the US and globally, with concerns also intensifying in relation to second-round effects, such as higher US inflation and an accompanying hawkishness from the Fed. Whereas late-2024 saw investors view central bank policy as a key driver of equity returns, Fed policy has now been viewed as a drag for two successive months.

Similarly, despite pledged tax cuts, fiscal policy is now perceived as a drag on equities in February, exerting its biggest pull for over a year.

S&P Global

That leaves shareholder returns and equity fundamentals as the only two significantly perceived market drivers in February. Moreover, in both cases, these are viewed as exerting a reduced influence compared with January, especially in the case of fundamentals, which has in turn been reflected in lower earnings expectations. When asked about the key risks to dividend growth, investors remained cautious, citing the uncertainty at play given the increased risks for prolonged tariff implementation.

Given the recent US earnings results, how will you be revising your overall expectations for next quarter?



Data compiled February 2025.
Source: S&P Global Market Intelligence.
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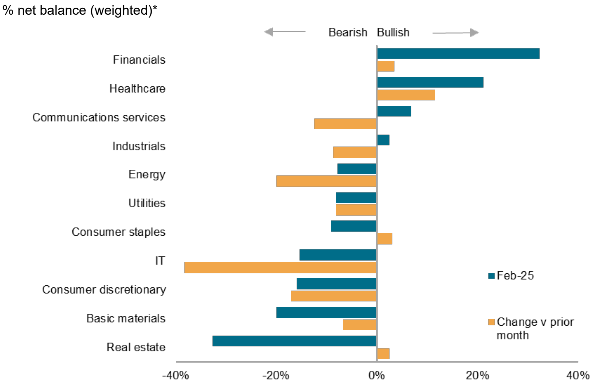
Changing sector preferences

Looking at sector preferences, investors continue to favor financials the most, in part reflecting the shift to lesser regulation, now followed by healthcare. Previously highly ranked tech and communication services sectors have meanwhile lost favor, with the former falling into bearish territory for the first time in five months.

The downturn in sentiment recorded toward tech has been greater than for any other sector, though notably steep falls in investor appetite are also recorded toward energy and consumer discretionary, as well as industrials and utilities. However, real estate remains the least-favored sector, followed by basic materials.

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 mood has soured among US equity investors to one of the most risk averse we've seen over the past five years. Having been initially buoyed by the return of President Trump, investors are now taking a darker view of market prospects, including the re-evaluation of likely near-term market gains and earnings potential.

"Talk of tariffs and rising geopolitical tensions have clearly exerted a toll on investor sentiment, with the political environment, fiscal policy, and central bank policy all now seen as drags on the market, while positive views on the US economy have faltered."

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

"After the initial post-election buoyancy, investors are now pragmatically weighing the risks to earnings and dividend growth emanating from the new administration. Potential changes to trade policies, inflation, and Fed policy shifts are at the forefront. Rising input costs and a stronger dollar could squeeze earnings, while M&A may take priority over buybacks as firms adapt to a new political and economic landscape."

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

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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 in assets under management. Data were collected between 3-6 February 2025.

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