



**CPM**  
INVESTING

ETF "RSP" | S&P 500® Equal Weighted Index  
Three-week Horizon  
**Jeffrey Hansen**  
[www.cpminvesting.com](http://www.cpminvesting.com)

*This three-week forecast of investor sentiment is an example of our perspective on stock market corrections and recoveries.*

*Request a subscription to our six-week forecast: [contact@cpminvesting.com](mailto:contact@cpminvesting.com)*

## Three-Week Forecasts (periods between shifts)

Physics-Based	Long-Term Sentiment (qtrs):	3 (1-4, with 4=Strongly Optimistic)	Figure 1
	Short-Term Sentiment (wks):	Pessimistic, then optimistic (see Outlook)	Figure 1
	Flash Sentiment:	None	Figure 1
	Market Price Momentum:	Lower, then trending higher (see Outlook)	Figure 3
Implied Economics-Based Sentiment:		Meaningfully Negative	Figures 2,3

Video summary of this week's report: <https://youtu.be/ul4gevbnUTw>

## Summary (data as of Feb 07 2025):

**Outlook** – Both the Short-Term Driver (Figure 1) and the Predicted Price Momentum (Figure 3) indicate reduced optimism through the week ending February 21, followed by a sharp shift toward optimism at the end of the month. Just beyond the three-week forecast horizon of this report, both revert to a more prolonged pessimistic reading in March. This suggests heightened short-term sentiment volatility over the next three to five weeks. However, this will occur within the context of Moderately Optimistic long-term sentiment, which has historically reduced the likelihood of major price declines (e.g., losses greater than 30%).

The reading for Implied Economics-Based Sentiment (Figure 3) is meaningfully negative. Stock market price momentum has been lower than the predicted level for a sufficiently long period to warrant concern. It suggests a growing economic need for a stock price decline.

Recent readings of our stock market return acceleration measures—the Macro and Micro Market Resilience Indexes (Figure 1)—indicate that both are currently in the downlegs of their cycles. This suggests that the market's trajectory remains negative. The Micro MRI is at a level of 39 on a 0 to 100 scale, positioning it near the middle of its normal range. Its failure to reach higher levels in its recent ascent is noteworthy and reinforces the view that market resilience remains low and is declining.

It would not be surprising to see the Micro MRI resume the upleg of its cycle in response to the expected spike in optimism later this month. However, the sentiment forecast above suggests that any move higher in the Micro MRI will likely be temporary.

### Notes:

Introductory video: <https://youtu.be/Czl67Md1s1w>

See this page for written notes: <https://cpminvesting.com/notes>

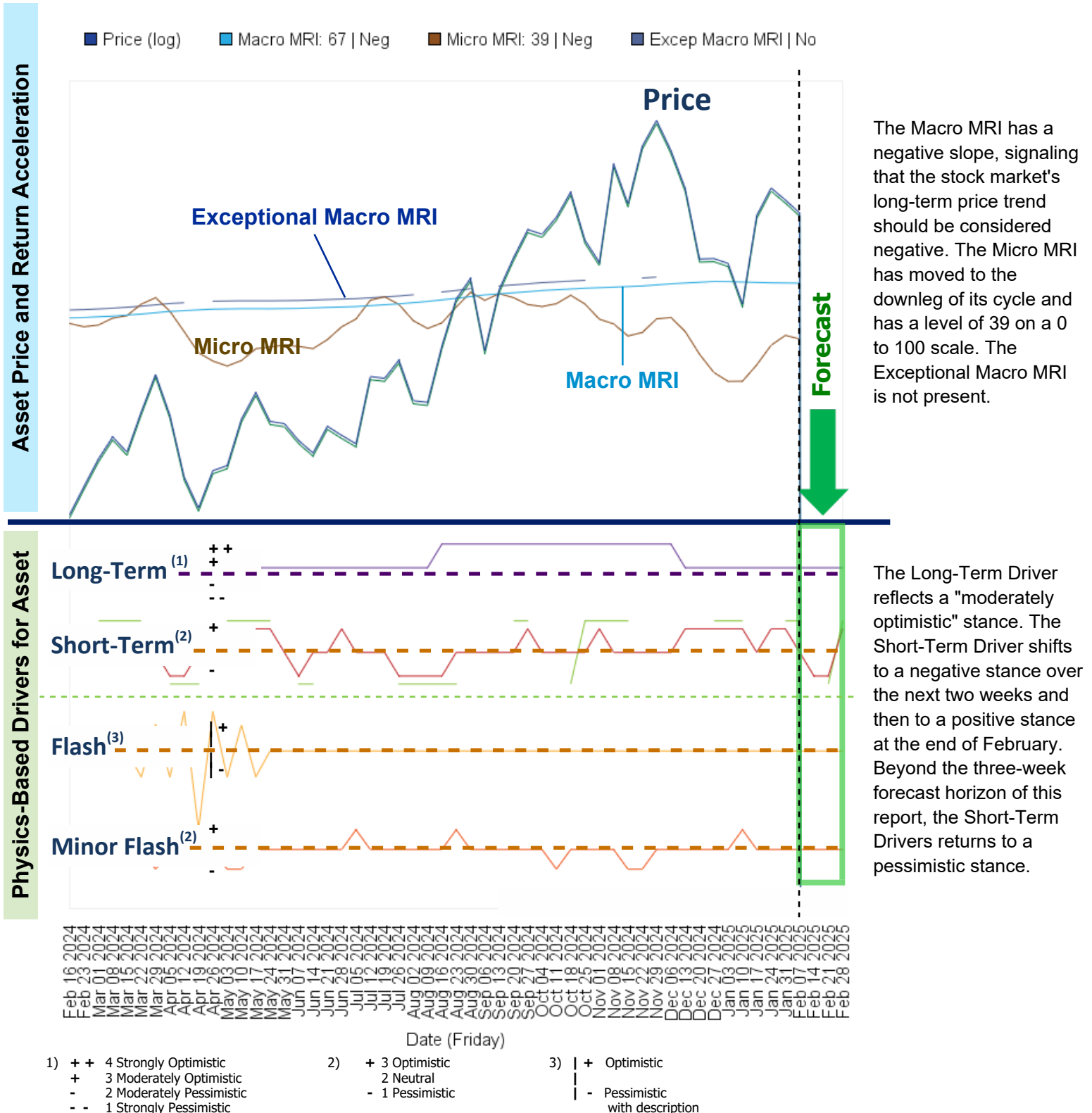


## MRI and Sentiment Drivers

Fig. 1

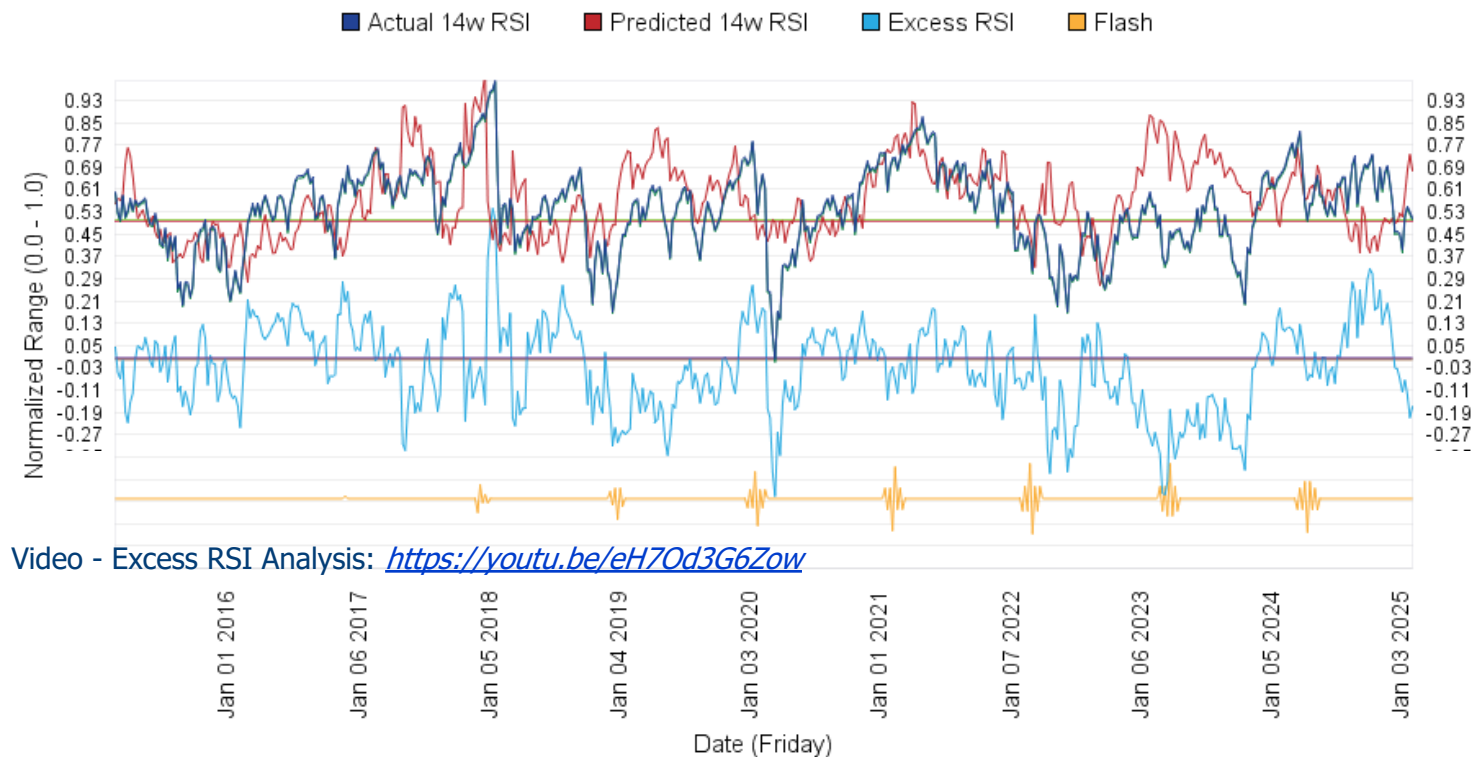
Video - Indicator Descriptions: [https://youtu.be/YOpocz\\_C8is](https://youtu.be/YOpocz_C8is)

### Physics-Based Sentiment Forecasts ETF "RSP" | S&P 500® Equal Weighted Index as of Feb 07 2025 MRI and Their Drivers: Feb 9 2024 - Feb 28 2025



## RSI Analysis - Excess RSI Over 10-Year Horizon Fig. 2

ETF "RSP" | S&P 500® Equal Weighted Index  
14-Week RSI - Actual and Predicted: Feb 20 2015 - Feb 7 2025



Video - Excess RSI Analysis: <https://youtu.be/eH7Od3G6Zow>

The 14-week RSI is a component within the Short-Term Driver shown in Figure 1. RSI is a widely used measure of asset price momentum. Our predicted RSI explains much of the weekly volatility in the actual RSI over the last several decades. | The upper portion of Figure 2 displays the predicted and actual 14-week RSI for an asset price (not shown) over the past 10 years. The light blue line in the middle of the figure, labeled "Excess RSI," represents the difference between the two series. High values of "Excess RSI" indicate stronger-than-expected price momentum, which may be caused by positive economic or market conditions. Conversely, low values suggest weaker-than-expected momentum, likely reflect negative conditions. Excess RSI reflects investor sentiment related to a range of factors including investor views of stock valuations, inflation, interest rates, and economic growth. | The Flash Driver is included for reference.

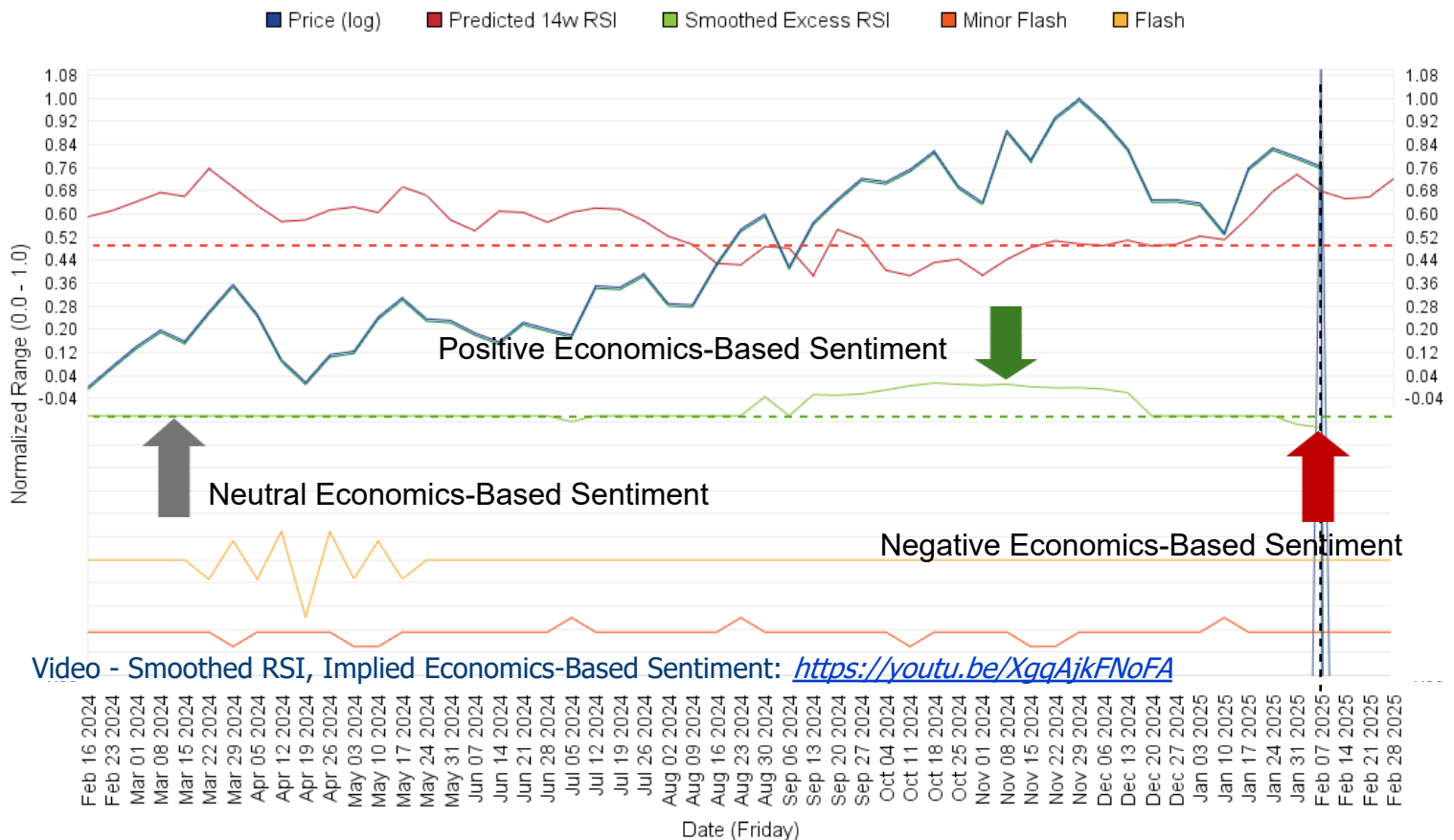
**Comments (data as of Feb 07 2025):** [No change from last week.] On the far right of Figure 2, the light blue line indicates that the 'Excess RSI' remains below the center line. This condition marks a departure from the economics-based optimism observed in the latter half of 2024, suggesting that investors have now adopted a pessimistic outlook on economic, market, and other real-world conditions.



## RSI Analysis - Smoothed Excess RSI

Fig. 3

ETF "RSP" | S&P 500® Equal Weighted Index  
Index Price, Predicted 14-Week RSI: Feb 9 2024 - Feb 28 2025



The upper panel of Figure 3 shows the asset price (heavy blue line) and the predicted price momentum, measured as the 14-week Relative Strength Index (RSI, red line). The "Smoothed Excess RSI" is displayed as the light green line, which deviates from its neutral level (represented by the dashed light green line) when the actual 14-week RSI of the market (not shown) remains meaningfully higher or lower than the expected level over several weeks. | Smoothed Excess RSI represents the "Implied Economics-Based Sentiment" and can signal unusually strong or weak economic conditions. | Smoothed Excess RSI is calculated as the exponential moving average (EMA) of the difference between the actual 14-week RSI and the predicted 14-week RSI (labeled "Excess RSI" on the prior page). To emphasize meaningful deviations, only z-score values exceeding  $\pm 0.5$  are shown. A horizontal line indicates that the actual 14-week RSI is not significantly different from what is expected due to natural sentiment shifts.

**Comments (data as of Feb 07 2025):** Although difficult to see in Figure 3, the Smoothed Excess RSI (green line) has fallen below the neutral (dashed green) line, indicating meaningfully negative investor sentiment regarding economic conditions. This condition will likely amplify price declines when they occur. The solid red line shows the predicted RSI declining over the next two weeks, then moving higher, signaling a pause in the decline. Just beyond the forecast horizon, the predicted RSI resumes its decline.



## Additional Notes

### Links

Please contact us with questions: [contact@cpminvesting.com](mailto:contact@cpminvesting.com)

See additional notes: [www.cpminvesting.com/notes](http://www.cpminvesting.com/notes)

General information: [www.cpminvesting.com](http://www.cpminvesting.com)

Join our Discord Server: <https://discord.gg/3c6327VwbW>

### Citations

**RSP** is an ETF issued by Invesco that seeks to track the performance of the S&P 500® Equal Weight Index, providing equal exposure to each of the 500 largest publicly traded U.S. companies.

For more information, visit: <https://www.invesco.com>

### Background

Sentiment shifts occur periodically and are described as changes between:

Optimism|Pessimism Risk-on|Risk-off Resilience|Vulnerability Euphoria|Panic Aspirational thinking|Critical thinking

Total sentiment reflects economic forces and the naturally occurring forces that directly affect human behavior:

> Economic forces

- Investor views on economic conditions
- Investor views on market fundamentals
- Investor behavior (e.g., trend following, mean reverting, calendar effects, response to current events)

> Natural forces - Our focus is here

**Naturally Occurring Shifts Have a Big Impact:** Naturally occurring sentiment shifts have a bigger impact than many investors realize, and typically explain over 70% of the weekly variability of widely used index price momentum measures such as the Relative Strength Index (RSI). In addition, systematically predicting the future strength of the natural forces can be done more easily and reliably than predicting the future strength of economic forces.

**We can Infer Impact of Economic and Market Conditions:** When total sentiment deviates meaningfully from the natural shifts, we can infer that economic forces have a higher impact. If we take the actual RSI, for example, which reflects both economic and natural forces, and subtract the effect of the natural forces (represented by the predicted series), the difference is a reasonable gauge of the impact of the economic forces.

**Early Indicators of Market Declines:** Key early indicators of an impending market correction are a) when Excess RSI (EMA) moves to negative levels, and b) when actual sentiment metrics, such as one of our Market Resilience Indexes or the 14-week RSI, converges with a negatively trending predicted metric. See Note #4 on this page:

<https://cpminvesting.com/notes>

**Two types of Physics-Based Sentiment Drivers:** We maintain over two dozen physics-based drivers. There are two general types:

- > Cyclic Drivers - sentiment changes gradually over time. The Long- and Short-Term drivers are cyclic.
- > Episodic Drivers - sentiment changes abruptly. The Flash and Minor Flash drivers are episodic. Our forecasts of Episodic Drivers tend to be more accurate than those for the Cyclic Drivers.

For descriptions of each driver, see Note #2 on this page (<https://cpminvesting.com/notes>).

**Two Sentiment-Related Metrics:** We use two different metrics in our forecasts of sentiment. We forecast the 14-week



Relative Strength Index (RSI) to measure price momentum for a market index. Upward sloping RSI indicates positive sentiment:

[https://en.wikipedia.org/wiki/Relative\\_strength\\_index](https://en.wikipedia.org/wiki/Relative_strength_index)

We also forecast our own Market Resilience Index® (MRI) series. The MRI measure return acceleration. Upward sloping MRI indicate positive sentiment. MRI indicate short- and long-term shifts in market resilience for each market index:

- > Micro MRI - short-term trends lasting several weeks
- > Macro MRI - long-term trends lasting several quarters

The RSI and MRI have different features.

RSI (Relative Strength Index)

- Widely used in investment industry
- Effective in identifying market bottoms
- Less effective in identifying market tops. RSI can peak several months before the index price peaks.

MRI (Market Resilience Index)

- Designed to identify accurately both market tops and bottoms

For descriptions of each driver, see Note #1 on this page (<https://cpminvesting.com/notes>).

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