Mid-Term Forecast - US Stocks*

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Comments (data as of Apr 10 2026): While not suggesting causation, recent stock market dynamics have been consistent with the Micro Market Resilience Index (Micro MRI) and the physics-based sentiment drivers. Stock prices declined with the onset of the Iran conflict on February 28, 2026 (point 1 in Figure 1) and continued their decline until March 26 (point 2 in Figure 1).

Much of the decline coincided with the downleg of the Micro MRI, which reached a very low level by historical standards. On March 27 it was below the 1st percentile of levels since 1918 (point 3 in Figure 1). This reading suggests that the selloff was extreme by historical standards. Because the Micro MRI typically exhibits a strong mean-reverting pattern, the low level on March 27 established a condition for the subsequent move higher.

The increase in stock prices since March 26 has coincided with the upleg of the Micro MRI. The stock market has moved higher since then, a move reinforced by the announcement of the two-week ceasefire on April 7.

The market advance since late March is also consistent with the presence of the forecasted flash of optimism shown as the "Predicted Flash" in Figure 1. We expect three major flashes of optimism in 2026, two of which are shown in Figure 1, and we expect the first one to have the greatest impact on investor sentiment. These periods, referred to as Anxiety-Free Periods (AFPs), are described in this research paper:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5482086

Continued on page 8.

Report Overview

Comments that may change each week are in shaded boxes. The sections include:
- Mega Sentiment Cycle (p1)
- Market Resilience Indexes and Physics-Based Drivers (Figure 1)
- Price Momentum (14-week RSI) - 10 Years (Figure 2)
- Price Momentum (14-week RSI) - 1 Year (Figure 3)
- Dominant News Narratives (Figure 4)

See this link for additional information about the sections: **https://cpminvesting.com/notes**

Mega Sentiment Cycle

The phases of an approximately 13-year cycle have distinct biases regarding returns, volatility, and price-to-earnings ratios. Anxiety-Free Periods (AFPs) occur between Phases 1 & 2, and 3 & 4. Historical average weekly Sharpe ratios are in parentheses. For additional information: **https://cpminvesting.com/notedrivers**

Phase 1: Aspirational Thinking (Optimism), Tolerance for High Valuations (0.09) - **ends May 2026**
Anxiety-Free Period A: Investor Euphoria
Phase 2: Aspirational Thinking (Optimism), High Sensitivity to Valuations (0.11)
Phase 3: Critical Thinking (Pessimism) During Low Market Volatility (0.04)
Anxiety-Free Period B: Investor Euphoria
Phase 4: Critical Thinking (Pessimism) During High Market Volatility (0.05)

* Note: References to US stocks in this report refer to the SPDR Dow Jones Industrial Average ETF Trust (DIA), which tracks the Dow Jones Industrial Average (DJIA). See Additional Notes at the end of this report.

Market Resilience Indexes and Physics-Based Drivers

Fig. 1

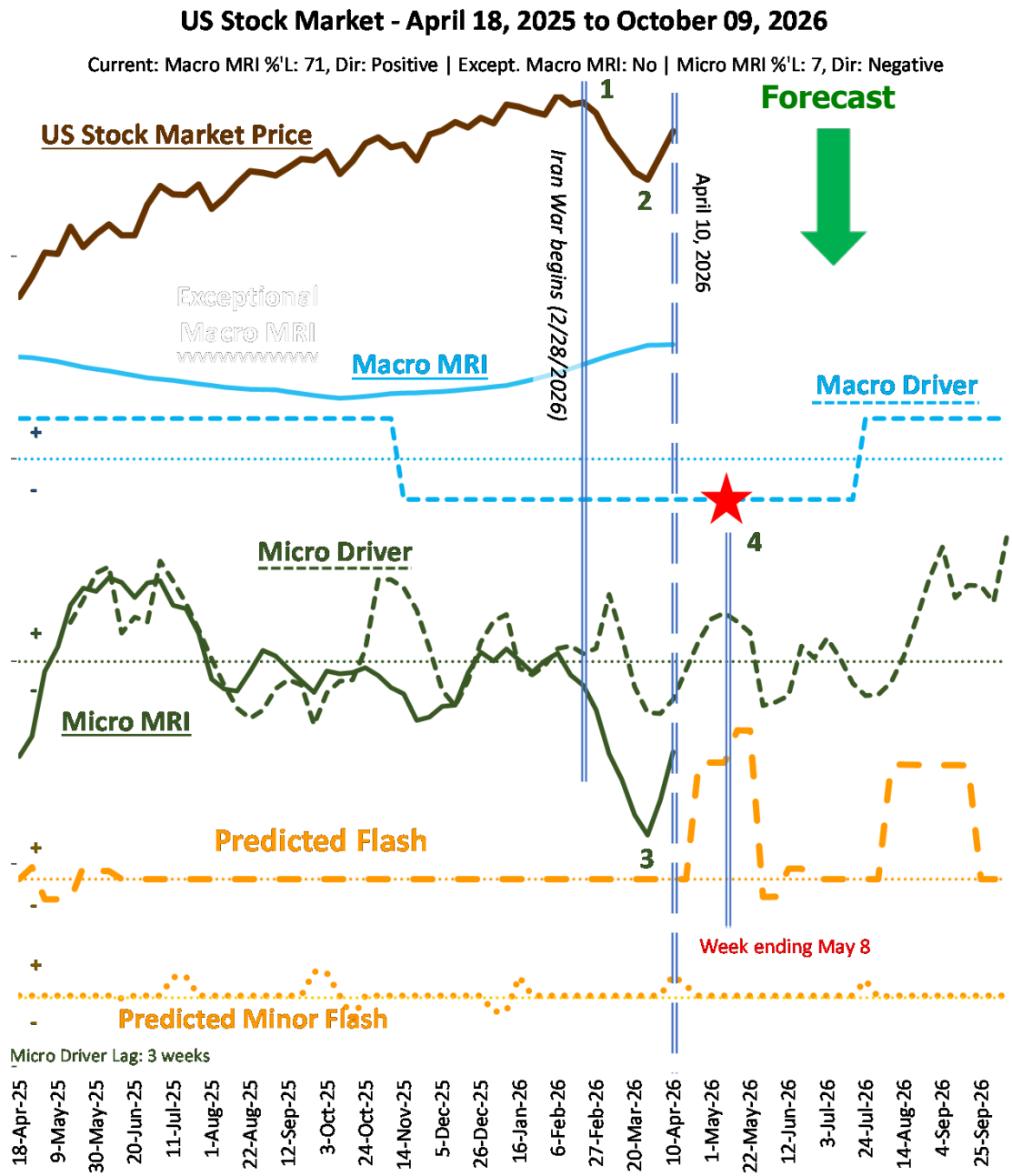

Figure 1. The Micro Market Resilience Index (MRI) measures the actual acceleration of short-term price momentum and reflects trends lasting several weeks. It is derived from the widely used RSI, a measure of price momentum shown in Figures 2 and 3. The Macro MRI reflects actual price momentum acceleration trends lasting several quarters. The Exceptional Macro MRI appears when the Macro MRI is likely to develop a more positive slope. The physics-based drivers indicate the likely paths for the Micro and Macro MRI during periods of economic and market stress. When an MRI is moving higher than its physics-based driver, it suggests that investors have a positive view of economic and market conditions or there are other drivers affecting the MRI. When an MRI converges with its driver, it suggests that naturally occurring investor emotion is driving market fluctuations. Persistent convergence suggests that prices may decline when the driver shifts to a negative trend. The MRI and drivers move above and below center lines. Figure 1 also shows the predicted Flash and Minor Flash drivers indicating abrupt episodes of optimism and pessimism. Percentile levels for the MRI are relative to historical observations.

Comments: The Macro MRI currently has a slight positive trend at the 71st percentile, despite the Macro Driver indicating a negative stance. The positive divergence of the Macro MRI relative to its driver is consistent with a stock market boom related to an AFP.

The Micro MRI recently shifted to the upleg of its cycle and is at the 7th percentile.

An Exceptional Macro MRI signal is not present.

The Flash Driver indicates a period of strong optimism, an AFP, beginning in April and ending in May. The last AFP was in 2017-2018.

Price Momentum (14-week RSI) - 10 Years

Fig. 2

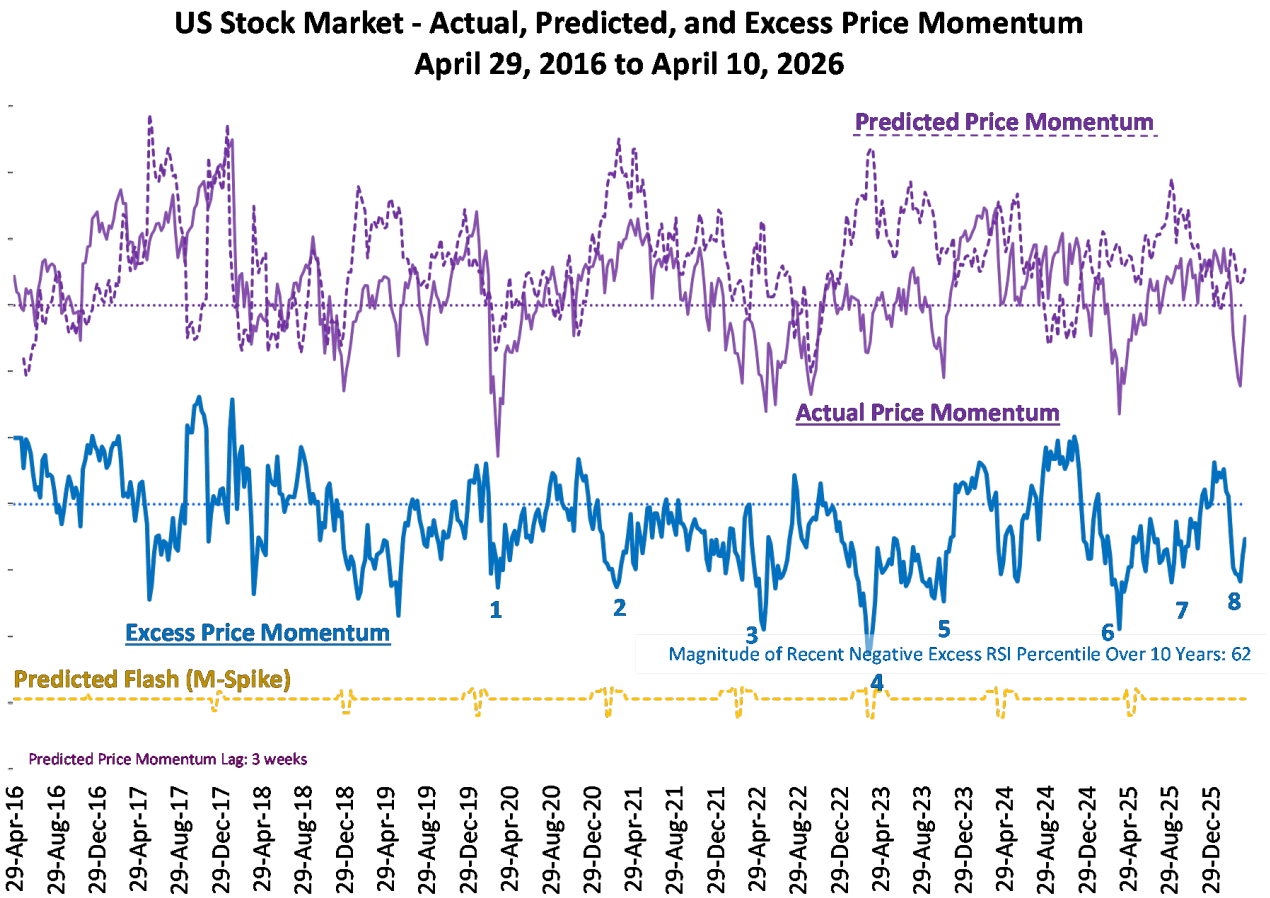

Figure 2. The 14-week RSI is a measure of price momentum that blends short- and long-term influences and is a good single indicator of overall medium-term market sentiment of the U.S. stock market. This figure shows Actual and Predicted Price Momentum using the 14-week RSI to indicate price momentum. Our Predicted Price Momentum metric indicates the likely path of Actual Price Momentum during normal market conditions. The upper portion of Figure 2 shows the Predicted and Actual Price Momentum for the past 10 years. The blue line in the middle, labeled Excess Price Momentum, represents the difference between the two series. High values of Excess Price Momentum indicate stronger-than-expected momentum, often reflecting positive investor sentiment regarding economic and market conditions. Low values suggest weaker-than-expected price momentum, reflecting negative sentiment. Excess Price Momentum captures investor sentiment related to factors such as stock valuations, inflation, interest rates, economic growth, and physics-based factors that are not reflected in the Predicted Price Momentum series. The Predicted Flash Driver series is included for reference.

Comments (data as of Apr 10 2026): On the far right of Figure 2, Excess Price Momentum (actual minus predicted momentum), shown as the solid blue line, is below the neutral line (horizontal dotted blue). This indicates negative Excess Price Momentum and suggests negative investor sentiment toward economic and market conditions.

Eight abrupt and large changes in Excess Price Momentum since 2020 are indicated by numbers 1 through 8. The news narratives associated with these changes are shown in Figure 4.

Price Momentum (14-week RSI) - 1 Year

Fig. 3

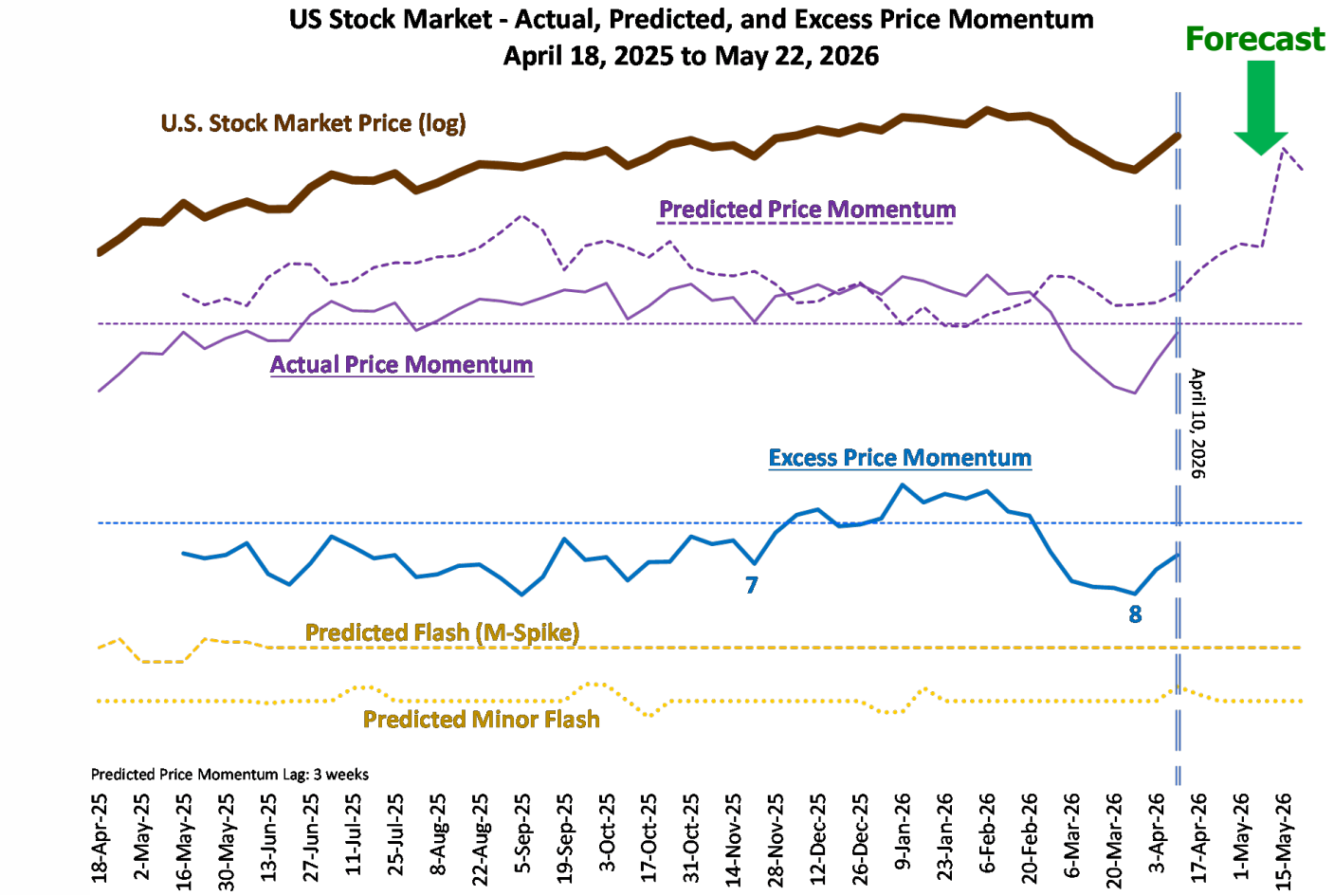

Figure 3. The top panel shows the US stock market price (log scale) as the brown line. Actual Price Momentum (14-week RSI) is shown as the solid purple line and Predicted Price Momentum as the dotted purple line. The Predicted Price Momentum series includes the AFP commencing at the end of the expected three-week timeframe. The Excess Price Momentum is shown as the blue line and deviates from its neutral level (dashed horizontal blue line) when Excess Price Momentum is above or below normal. The interpretation of Excess Price Momentum is described in the caption under Figure 2 on the prior page.

Comments (data as of Apr 10 2026): The dotted purple line shows that Predicted Price Momentum remains above the neutral line over the forecast period. The Predicted Price Momentum series includes the AFP commencing at the end of the expected three-week timeframe.

Excess Price Momentum is currently below its neutral level, indicating negative investor sentiment regarding economic and market conditions. The large and abrupt changes in Excess Price Momentum since 2020 are indicated by numbers 7 and 8. The news narratives associated with these changes are shown in Figure 4.

Dominant News Narratives

Fig. 4

Figure 4 shows dominant narratives for the weeks highlighted in prior figures. A topic is included if it appears in at least three of six major financial news outlets during the week. Tone (Pos, Neg, Neu) reflects the economic implications in the coverage. Numbers in parentheses indicate the number of outlets reporting the topic. Table A also shows the percentile ranks of the magnitude of the negative Excess Price Momentum over the recent 10 years.

For additional details, see the endnote and **https://cpminvesting.com/noteexcess.**

A. Notable Weeks With Large Negative Sentiment Divergence

		Dominant		Second		Third	
8	3/27/2026 %ile: 92	Bond yields rise on inflation fears	Neg (6)	Oil prices jump on Iran conflict	Neg (5)	Fed cut hopes fade as inflation rises	Neg (5)
7	11/21/2025 %ile: 70	Artificial intelligence investment surge	Pos (5)	Fed rate-cut timing	Neu (4)	Commercial property refinancing	Neg (3)
6	4/4/2025 %ile: 99	Artificial intelligence investment surge	Pos (5)	Fed rate-cut debate	Neu (4)	Commercial property refinancing	Neg (3)
5	11/3/2023 %ile: 98	Israel-Hamas war risk	Neg (5)	Oil price volatility	Neg (4)	Higher-for-longer Fed	Neu (4)
4	3/17/2023 %ile: 99	Regional banking crisis	Neg (5)	Bank stabilization measures	Neu (4)	Fed policy dilemma	Neg (4)
3	5/13/2022 %ile: 99	High inflation surge	Neg (5)	Fed rate-hike cycle	Neg (5)	Ukraine war commodities	Neg (4)
2	3/12/2021 %ile: 95	American Rescue Plan	Pos (5)	Rising Treasury yields	Neg (4)	Vaccine reopening optimism	Pos (4)
1	3/27/2020 %ile: 95	COVID economic shutdowns	Neg (5)	Fed emergency stimulus	Pos (5)	Historic market volatility	Neg (4)

Table B shows the news narratives for recent weeks.

B. Recent Weeks

4/10/2026	Oil prices rise on Middle East tensions	Neg (5)	Stock markets volatile on rate uncertainty	Neg (5)	Strong economic data delays expected rate cuts	Neg (4)
4/3/2026	Oil prices jump on Iran tensions	Neg (6)	Federal Reserve signals rate hold	Neg (5)	Fed seen holding rates for longer	Neg (5)
3/27/2026	Bond yields rise on inflation fears	Neg (6)	Oil prices jump on Iran conflict	Neg (5)	Fed cut hopes fade as inflation rises	Neg (5)
3/20/2026	Oil prices jump on Iran war	Neg (6)	Federal Reserve holds rates steady	Neg (6)	Rate-cut hopes fade as yields rise	Neg (6)
3/13/2026	Oil surge from Iran war escalation	Neg (5)	Weak jobs data raises recession fears	Neg (5)	Federal Reserve expected to hold rates	Neg (4)
3/6/2026	Iran regional conflict risk	Neg (5)	Hormuz oil disruption risk	Neg (4)	Fed rate-cut timing	Neu (4)
2/27/2026	Iran regional conflict risk	Neg (5)	Oil supply disruption concerns	Neg (4)	Federal Reserve policy uncertainty	Neu (4)
2/20/2026	Oil market volatility	Neg (4)	Federal Reserve rate-cut expectations	Neu (4)	Artificial intelligence investment surge	Pos (4)

Additional Notes

Links

See additional notes:
www.cpminvesting.com/notes
For information on our Anxiety-Free Period (AFP) research see this paper (preprint):
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5482086
Please contact us with questions:
contact@cpminvesting.com

ETFs Tracking Non-Capitalization-Weighted Indexes: References to US stocks in this report refer to the SPDR Dow Jones Industrial Average ETF Trust (DIA), which tracks the Dow Jones Industrial Average (DJIA). Non-cap-weighted indexes, such as the S&P 500 Equal Weight Index and the Dow Jones Industrial Average Index, more clearly reveal the effects of physics-based sentiment drivers. In capitalization-weighted indexes, themes influencing the largest companies can overwhelm these drivers.

The sentiment shifts observed in non-cap-weighted indexes are baseline shifts affecting stocks in general. These baseline effects are additive to sentiment shifts associated with dominant themes in the largest capitalization stocks. Physics-based drivers are better understood as influencing the average stock, rather than the average dollar invested in the stock market.

Sentiment Shifts

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 affect investor decision making:

> Economic and behavioral 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

Naturally Occurring Shifts Have a Large Impact: These shifts have a larger impact than many investors realize. Our out-of-sample simulation indicates that 88% of the actual short-term inflection points in the 14-week Relative Strength Index (RSI) occur within +/- 1 week of the predicted inflection points. A binomial test indicates a very low probability of achieving this alignment by chance ($p < 0.0001$).
https://cpminvesting.com/simulated-rsi-forecast

We Infer the Impact of Economic and Market Conditions: When total sentiment deviates meaningfully from the natural shifts, we can infer that economic and market conditions 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 and market conditions on the acceleration of price momentum. This impact is shown in Figure 2.

Early Indicators of Market Declines: Key early indicators of an impending market correction are a) when Excess RSI moves to negative levels, and b) when actual sentiment metrics, such as one of our Market Resilience Indexes or the 14-week RSI, converge with a negatively trending predicted metric. See this page:
https://cpminvesting.com/notes

Two Types of Physics-Based Drivers: We maintain over three dozen physics-based drivers. There are two general types:
a) Cyclic drivers - sentiment changes gradually over time. The Macro and Micro drivers are cyclic.
b) 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 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 RSI to measure price momentum for a market index. Upward-sloping MRI readings indicate positive sentiment:
https://en.wikipedia.org/wiki/Relative_strength_index

We also forecast our own Market Resilience Index® (MRI) series. The MRI measure the acceleration of price momentum. Upward-sloping MRI indicate positive sentiment. MRI readings 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 the investment industry
- Effective in identifying market bottoms
- Less effective in identifying market tops, as RSI can peak several months before the index price.

MRI (Market Resilience Index)
- Designed to identify accurately both market tops and bottoms

For descriptions of each driver, see this page:
https://cpminvesting.com/notes

Dominant News Narratives: Each calendar week ending Friday, we identify the dominant economic, policy, and broad market narratives appearing across six major financial news outlets (Reuters, Bloomberg, CNBC, Yahoo Finance, Financial Times, and The Wall Street Journal). A topic qualifies only if it appears in at least three of these sources during that same week. Narratives are ranked primarily by the number of outlets reporting the theme. When counts are equal, broader economic or market relevance is used as a tiebreaker. The three most widely reported narratives are shown each week. Tone classifications, Positive (Pos), Negative (Neg), or Neutral (Neu), reflect the prevailing economic implications in the coverage, and the number of outlets reporting each theme is shown in parentheses. The analysis is performed using data available as of Saturday so that weekend “Week in Review” coverage summarizing the prior trading week can be incorporated. This analysis uses AI and may contain errors. For additional information, see this page:
https://cpminvesting.com/noteexcess

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Historically, AFPs have moderately abrupt beginnings and highly abrupt endings. Historical patterns since 1935 suggest that the beginning of the upcoming AFP likely began lifting stock prices in February 2026. The rise in the Macro MRI in early 2026 may reflect the AFP.

The next observable impact of the first AFP in 2026 may occur near its expected peak, around the week ending May 8 (point 4 in Figure 1). After that point, investors are likely to react more aggressively to negative economic conditions and events, such as higher energy costs, many of which are currently evident. This period of natural market vulnerability may result in notable market losses. The last similar period occurred at the end of 2017.