ETF "RSP" | S&P 500® Equal Weighted Index
Three-week Horizon
Jeffrey Hansen
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

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):	Mixed. Optimism then pessimism	Figure 1
	Flash Sentiment:	None	Figure 1
	Market Price Momentum:	Higher, then trending lower in March	Figure 3
	Implied Economics-Based Sentiment:	Meaningfully Negative	Figures 2,3

Video summary of this week's report: ***https://youtu.be/O_u1c1JDG0Q***

Summary (data as of Feb 14 2025):

Expect heightened short-term sentiment volatility over the next three weeks, with no strong long-term trend in either direction. Both the Short-Term Driver (Figure 1) and Predicted Price Momentum (Figure 3) indicate rising optimism through the week ending February 28, followed by a shift toward pessimism in March. Despite this volatility, long-term sentiment remains Moderately Optimistic, a sentiment level that historically has had few major price declines (e.g., losses greater than 30%).

Implied Economics-Based Sentiment (Figure 3) is meaningfully negative, reflecting stock market price momentum that has remained below predicted levels for an extended period. This suggests investors have a negative outlook on economic and market conditions and that there is an increasing economic need for a stock price decline.

Recent readings of stock market return acceleration measures—the Macro and Micro Market Resilience Indexes (Figure 1)—do not indicate strong positive or negative trends, aligning with the physics-based forecasts. Both indexes have entered the uplegs of their cycles. However, the Macro MRI's upward movement may be temporary, as it is at a historically high level (68 on a 0-100 scale).

The Micro MRI's movement is less surprising, as it remains near the middle of its normal range at a moderate level (40 on a 0-100 scale). Given the expected rise in optimism later this month, it would not be unexpected for the Micro MRI to continue its upward cycle.

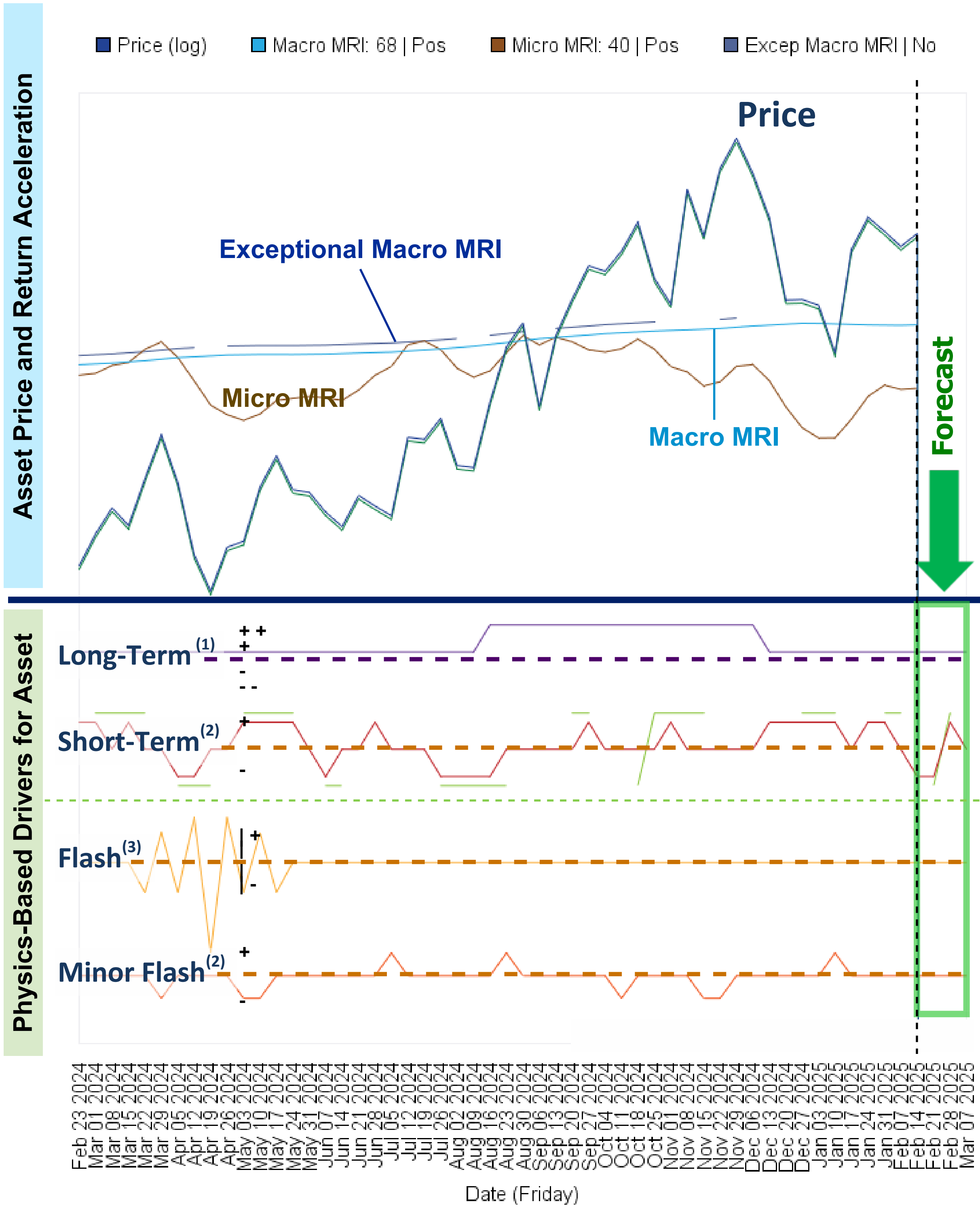
Notes:
Introductory video: *https://youtu.be/CzI67Md1s1w*
See this page for written notes: *https://cpminvesting.com/notes*

MRI and Sentiment Drivers

Fig. 1

Video - Indicator Descriptions: https://youtu.be/YOpocz_C8is

Physics-Based Sentiment Forecasts
ETF "RSP" | S&P 500® Equal Weighted Index as of Feb 14 2025
MRI and Their Drivers: Feb 16 2024 - Mar 7 2025



The Macro MRI has moved to a positive slope and is doing so at a relatively high level in its range (a level of 68 on a 0-100 scale, with 100=highest), This change signals that the stock market's long-term price trend should be considered positive. The Micro MRI has moved to the upleg of its cycle and has a level of 40 on a 0 to 100 scale. The Exceptional Macro MRI is not present.

The Long-Term Driver reflects a "moderately optimistic" stance. The Short-Term Driver has a mixed stance over the next three weeks. Beyond the three-week forecast horizon of this report, the Short-Term Driver shifts to a pessimistic stance.

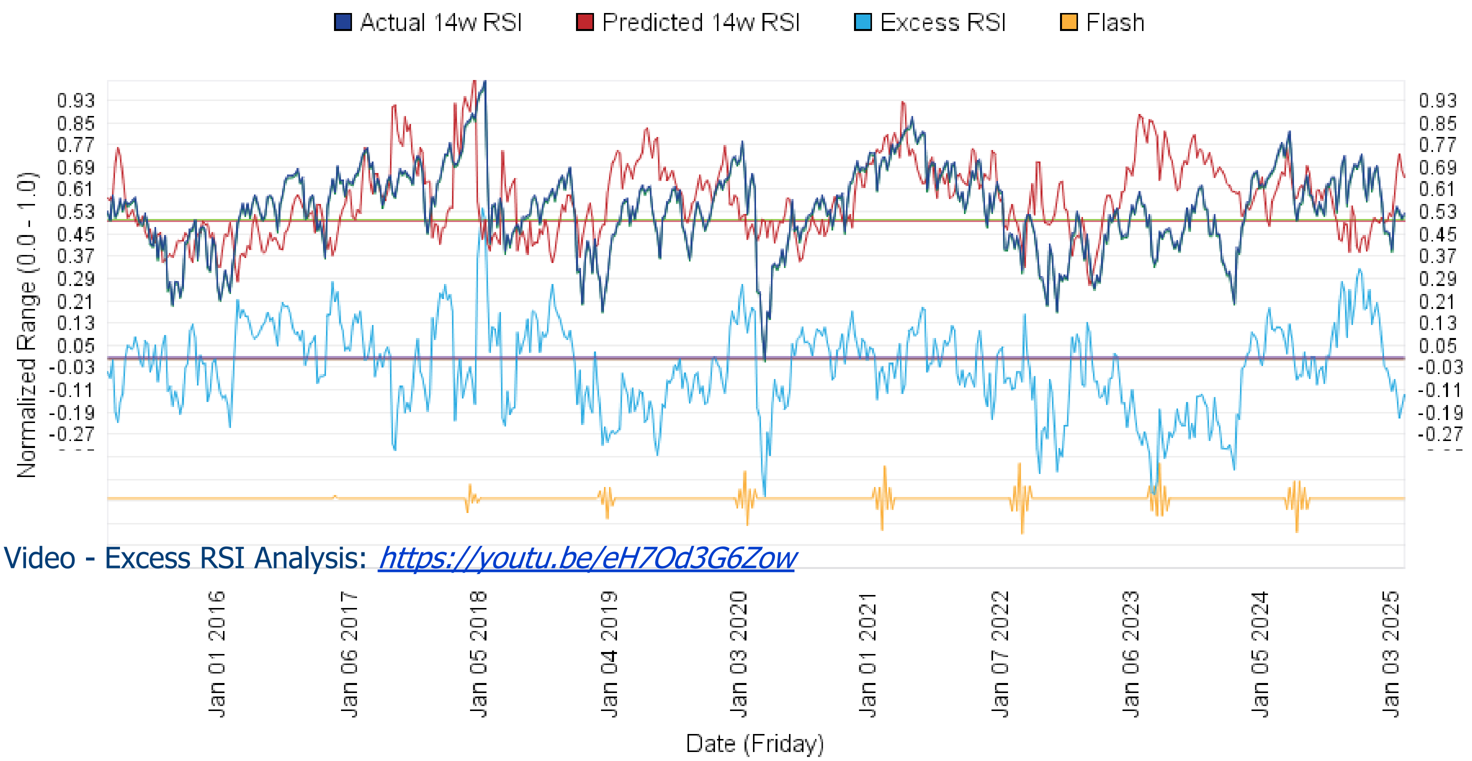
1) + + 4 Strongly Optimistic
   \+ 3 Moderately Optimistic
   \- 2 Moderately Pessimistic
   \- - 1 Strongly Pessimistic

2) + 3 Optimistic
   2 Neutral
   \- 1 Pessimistic

3) | + Optimistic
   |
   | - Pessimistic
   with description

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 27 2015 - Feb 14 2025



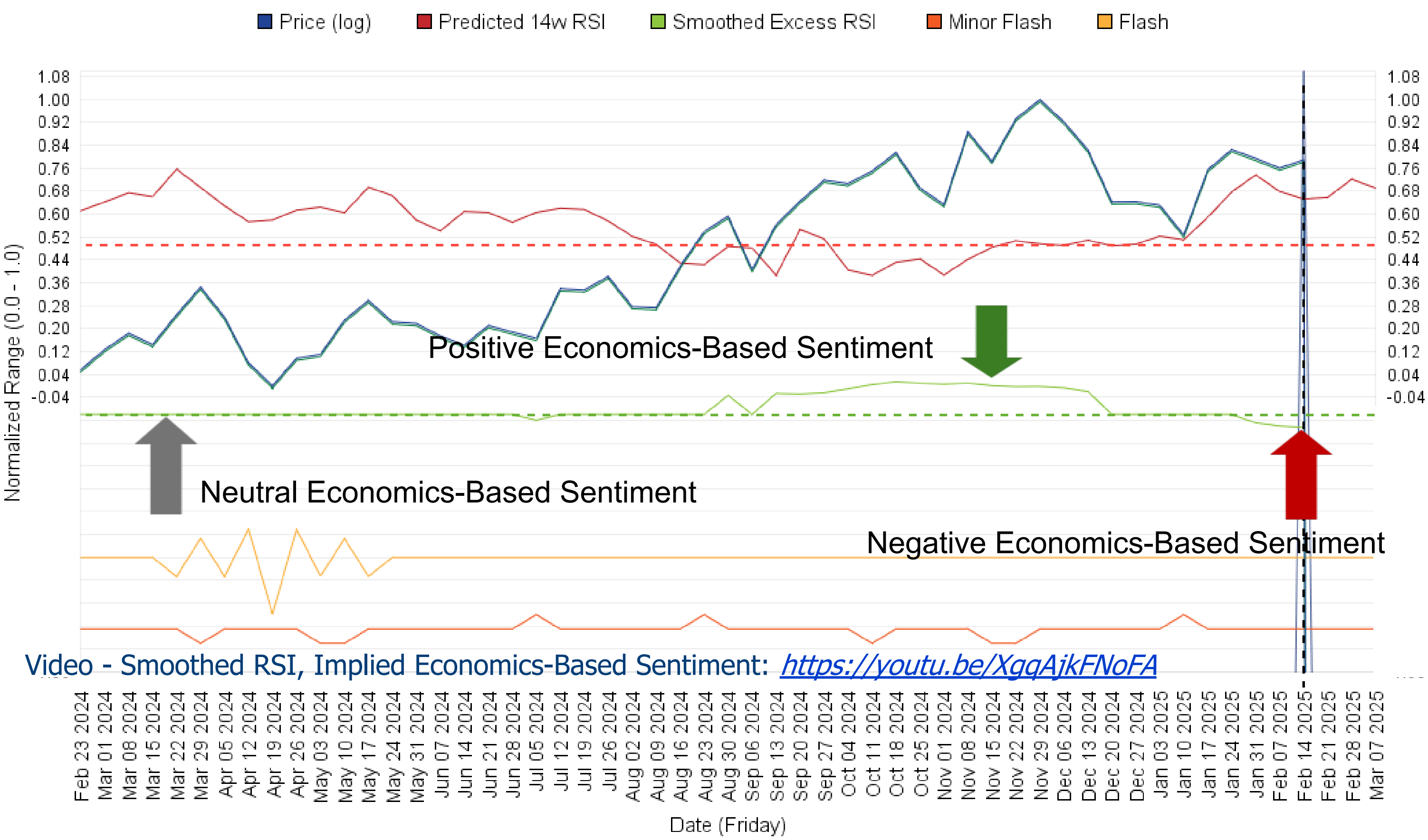
Video - Excess RSI Analysis: https://youtu.be/eH7Od3G6Zow

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 14 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 more 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 16 2024 - Mar 7 2025



Video - Smoothed RSI, Implied Economics-Based Sentiment: https://youtu.be/XgqAjkFNoFA

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 ±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 14 2025): The Smoothed Excess RSI (green line) is below the neutral (dashed green) line, indicating meaningfully negative investor sentiment regarding economic conditions. Should this condition continue, it will likely amplify price declines when they occur. The solid red line shows the predicted price momentum (i.e., 14w RSI) stabilizing over the next two weeks, moving higher, and then moving lower in March.

Additional Notes

Links

Please contact us with questions: contact@cpminvesting.com
See additional notes: www.cpminvesting.com/notes
General information: 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

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).

Legal Disclaimer:

The S&P 500® and the S&P 500 Equal Weight Index® are registered trademarks of S&P Dow Jones Indices LLC, a division of S&P Global. Dow Jones Industrial Average®, DJIA®, and Dow Jones® are trademarks of Dow Jones Trademark Holdings LLC.