



Comments (data as of May 22 2026): The peak of the first of three optimistic episodes, which we call Anxiety-Free Periods (AFPs), likely ended the week ending May 22. Over the coming weeks, we expect an abrupt shift to more negative investor sentiment. If there is an economic need for a repricing of stocks, late-May is a strong candidate for that repricing to begin. The next strongest candidate for a rapid repricing of stocks is in December. This outlook is based on research described in this paper:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5482086

The Micro MRI, which is a measure of the stock index's price acceleration, is at about the 90th percentile of levels since 1918 for the DJIA. This level is high in its normal range and is up from the prior low at the week ending February 27, when it was at approximately the 1st percentile.

The Micro MRI for the NASDAQ index, which is not shown in this report, is at about the 87th percentile of its levels since 1972. The Micro MRI levels for these two indexes are extreme and are likely to shift to the downlegs of the cycles this coming week or the next. When they do, they will indicate negative sentiment in addition to the negative sentiment occurring after the AFP.

The following two AFPs in 2026 are not likely to be as strong as the first AFP that ended last week. The last AFP of 2026 ends in December. The period after it ends is also a strong candidate for an abrupt shift in sentiment and a repricing of stocks. AFPs are rare events. The previous cluster of AFPs occurred in late 2017 and early 2018, as shown in Figure 2.

Report Overview

Comments that may change each week are in shaded boxes. The sections of this report 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 shown below 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) - **begins early 2027**

Phase 3: Critical Thinking (Pessimism) During Low Market Volatility (0.04)

Anxiety-Free Period B: Investor Euphoria

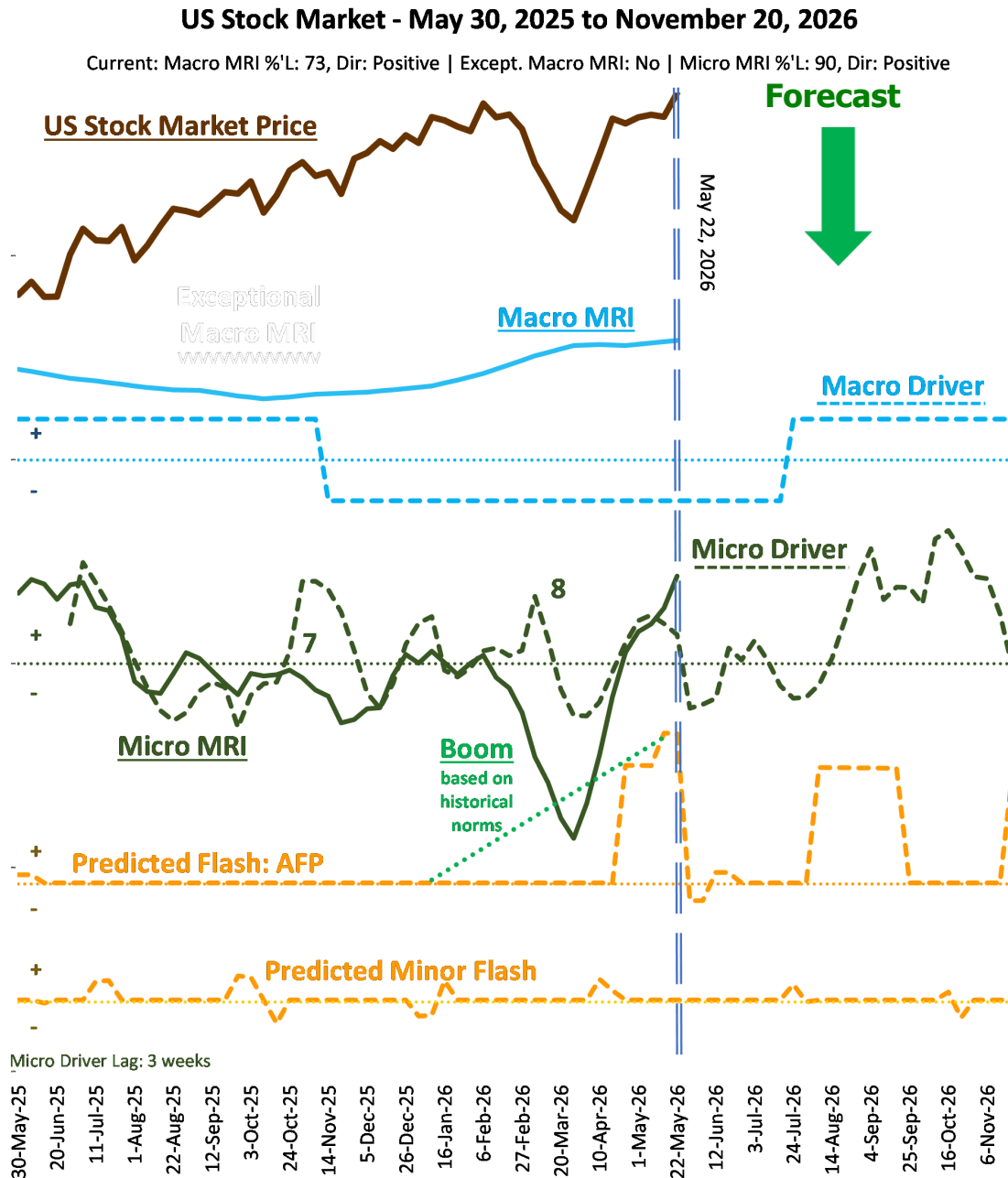
Phase 4: Critical Thinking (Pessimism) During High Market Volatility (0.05)

* 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 beginning on page 6.



Market Resilience Indexes and Physics-Based Drivers

Fig. 1



Comments: The Macro MRI currently has a slight positive trend at the 73rd percentile of levels since 1918.

The Micro MRI is in the upleg of its cycle and is at the 90th percentile. The recent move higher is consistent with the presence of the Predicted Flash: Anxiety-Free Period. The high level of the Micro MRI suggests it will soon shift to the downleg of its cycle.

An Exceptional Macro MRI signal is not present.

The Predicted Flash Driver indicates a period of strong optimism, referred to as an AFP, which ends in May. It also indicates AFPs that begin in July and November. Our research suggests these will not be as strong as the AFP ending in May.

The shift in the Macro Driver (blue dashed line) to a positive condition in July is not likely to be as dramatic as depicted in the figure. Should widespread panic occur in June, the price recovery in July may be comparatively mild.

Figure 1. The Micro Market Resilience Index (MRI) measures the actual acceleration of the index and reflects trends lasting several weeks. The Macro MRI reflects the 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 MRI series are shown as solid lines. The physics-based drivers are shown as dashed lines and indicate the likely paths for the Micro and Macro MRI during periods of moderate 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 become vulnerable to declines when the driver shifts to a negative trend. The MRI and their 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.



Price Momentum (14-week RSI) - 10 Years

Fig. 2

US Stock Market - Actual, Predicted, and Excess Price Momentum
June 10, 2016 to May 22, 2026

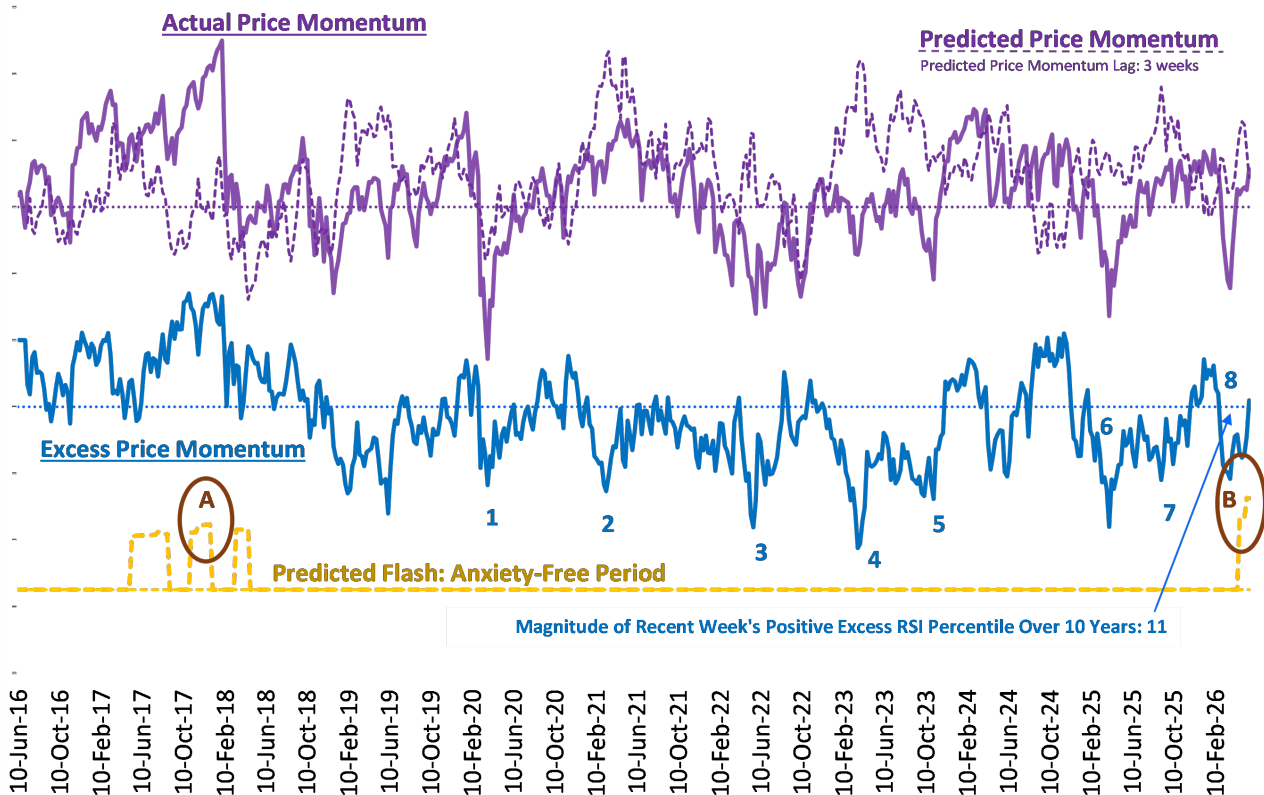


Figure 2. The 14-week RSI is a measure of price momentum that blends short- and long-term influences and is a good single indicator of overall medium-term investor sentiment of the U.S. stock market. This figure shows Actual and Predicted Price Momentum using the 14-week RSI. Our Predicted Price Momentum 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 price 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 lower portion of the figure highlights the Predicted Flash: Anxiety-Free Period, which, until May 15, 2026, was included in the Predicted RSI.

Comments (data as of May 22 2026): On the far right of Figure 2, Excess Price Momentum (actual minus predicted momentum), shown as the solid blue line, is slightly above the neutral line (horizontal dotted blue). This indicates positive Excess Price Momentum. Its recent move higher coincides with the Anxiety-Free Period shown as the yellow line. Eight changes in Excess Price Momentum since 2020 are indicated by numbers 1 through 8.

In 2017 and 2018, there were three AFPs. The height of the columns indicates the strength of the AFP. The highest point occurred in the middle column (indicated by "A"), which coincided with the highest point in the actual RSI. The third AFP of that cluster appears to have had little effect on the RSI. In the 2026 cluster of three AFPs, the highest column is the first, and its peak occurred the week ending May 22 ("B"). If historical patterns hold, the next two AFPs of 2026 will likely not correspond to the strong momentum of the first AFP.



Price Momentum (14-week RSI) - 1 Year

Fig. 3

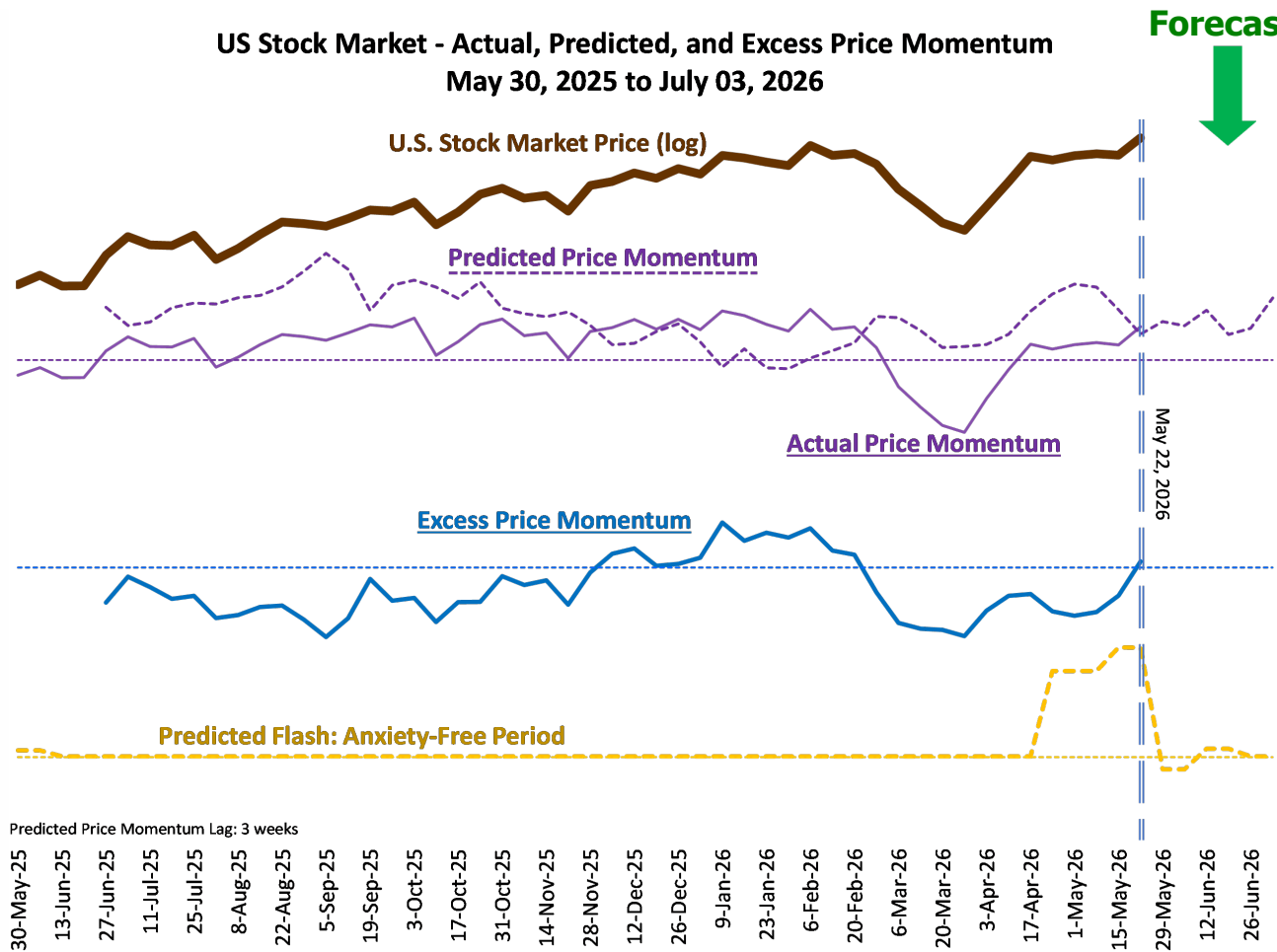


Figure 3. The top panel shows the US stock market price (log scale) as the brown line. Actual Price Momentum (ETF "DIA," 14-week RSI) is shown as the solid purple line and Predicted Price Momentum as the dotted purple line. The Excess Price Momentum is shown as the blue solid line and deviates from its 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.

The lower portion of the figure shows the Predicted Flash: Anxiety-Free Period.

Comments (data as of May 22 2026): The dotted purple line shows that Predicted Price Momentum moves lower over the forecast period but remains above the neutral line.

Excess Price Momentum is currently just above its neutral level, indicating stronger-than-expected price momentum. This condition is likely affected by the presence of the AFP shown as the yellow line.

The AFP ended last week, which suggests that naturally occurring investor sentiment will shift abruptly to negative over the coming weeks.



Dominant News Narratives

Fig. 4

Figure 4 shows the 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. The tables also show percentile ranks for the magnitude of Excess Price Momentum over the past 10 years.

For additional details, see the endnote at <https://cpminvesting.com/noteexcess>.

A. Notable Weeks With Large Negative Sentiment Divergence

	Dominant	Second	Third			
8	2/27/2026 %ile: -33	Iran regional conflict risk Neg (5)	Oil supply disruption concerns Neg (4)	Federal Reserve policy uncertainty Neu (4)		
7	11/7/2025 %ile: -24	Treasury yields rise on inflation concerns Neg (5)	Fed signals rates higher for longer Neg (5)	Earnings growth supports resilient equity markets Pos (4)		
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: -96	Israel-Hamas war risk Neg (5)	Oil price volatility Neg (4)	Higher-for-longer Fed Neu (4)		
4	3/17/2023 %ile: -97	Regional banking crisis Neg (5)	Bank stabilization measures Neu (4)	Fed policy dilemma Neg (4)		
3	5/13/2022 %ile: -98	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: -93	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

5/22/2026 %ile: 11	AI earnings keep the stock rally intact Pos (3)	Bond yields and oil pressure markets Neg (3)	Middle East peace hopes lift risk appetite Pos (3)
5/8/2026 %ile: -62	AI chip rally lifts market records Pos (6)	Iran talks ease oil market pressure Pos (6)	Resilient jobs data supports growth Pos (4)
5/1/2026 %ile: -67	Tech earnings drive record stock rally Pos (4)	Oil shock raises inflation concerns Neg (4)	Fed holds rates amid inflation pressure Neg (4)
4/24/2026 %ile: -61	Oil surge fuels inflation and market fears Neg (5)	Middle East conflict disrupts global markets Neg (5)	Investors question timing of Fed rate cuts Neg (4)
4/17/2026 %ile: -37	Strait reopening lifts stocks, sinks oil Neg (5)	Oil shock keeps inflation risks elevated Neg (5)	Technology rebound extends market rally Pos (3)
4/10/2026 %ile: -40	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 %ile: -60	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 %ile: -88	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)



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, which cap-weighted indexes track.

Sentiment Shifts

Sentiment shifts occur periodically and are described as changes between: Optimism and Pessimism. Risk-on and Risk-off, Resilience and Vulnerability, Euphoria and Panic and Aspirational thinking and 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)
- > Naturally occurring 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 that the probability of achieving this alignment by chance is very low ($p < 0.0001$).

<https://cpminvesting.com/simulated-rsi-forecast>

We Infer the Impact of Sentiment Related to Economic and Market Conditions: When total investor sentiment deviates meaningfully from the natural shifts, we infer the sentiment related to economic and market conditions. If we take the actual 14-week 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>



Physics-Based Sentiment Forecasts - US Stocks May 22 2026

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. See this page for information on the RSI:

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 series have different characteristics.

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 Indexes)

- 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 incorporates AI-assisted methods and may contain errors. For additional information, see this page:

<https://cpminvesting.com/noteexcess>

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