



Global Inflation Newsflow at Near-2-Year High

Key Message: Global Composite Newsflow rose in August, buoyed by a large increase in the Inflation component. Inflation Newsflow rose for a fourth consecutive month, reaching a near-2-year high. It has a strong relationship with US inflation breakevens (see chart 2).

- The **ASR/WSJ Global Composite Newsflow Indicator (CNI)** rose to 53.0 in August from 51.6, but remains below the 55 level typically associated with sustained outperformance of equities relative to bonds.
- Alongside the Inflation component the Economic and Revenues indices both rose, while the Earnings, Labour Market and Monetary Policy components fell in a mixed month.
- The rise in Global Inflation Newsflow is consistent with the recent increases in US inflation breakevens, but we are seeing an ongoing disconnect with other Newsflow components (charts 3 and 4).
- What is unusual is to see Inflation Newsflow hitting a near 2-year high when Corporate Revenues Newsflow remains well down year-to-date. Similarly strong Inflation Newsflow is untypical when increasing numbers of monetary easing stories are pushing Monetary Newsflow lower.

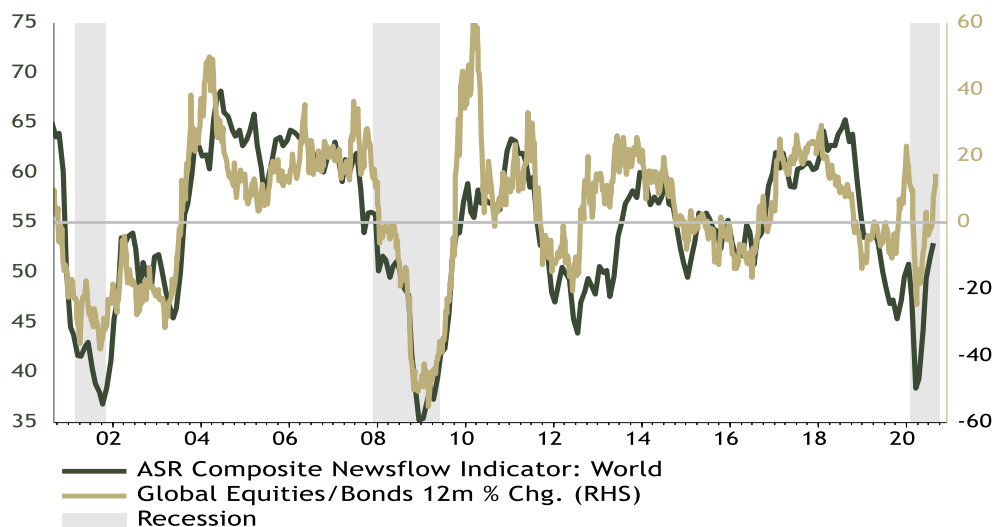
Table 1: Global Composite NewsFlow Index at 53.0 in August (from 51.6)

	Global CNI	Economic CNI	Earnings CNI	Revenues CNI	Labour Market CNI	Inflation CNI	Monetary Policy CNI
Sep-19	47.3	24.7	63.3	63.7	42.9	59.2	30.0
Oct-19	45.4	24.5	61.0	62.4	40.4	55.5	28.6
Nov-19	47.2	29.8	61.4	63.0	41.1	58.8	29.1
Dec-19	49.6	34.4	62.8	64.1	41.4	65.1	29.8
Jan-20	50.9	37.6	63.9	63.9	42.4	66.5	31.3
Feb-20	47.6	34.6	60.1	60.4	39.8	61.8	28.8
Mar-20	38.4	21.2	56.2	53.8	29.8	54.9	14.8
Apr-20	39.4	30.7	50.1	48.3	23.0	54.4	29.9
May-20	44.2	41.9	56.9	54.1	22.1	56.3	33.9
Jun-20	49.4	48.9	61.7	55.3	29.6	58.5	42.6
Jul-20	51.6	50.2	60.3	55.9	33.2	64.1	46.1
Aug-20	53.0	53.2	58.6	57.9	32.0	70.9	45.4

Note: Colours represent in excess of +/- 0.5 and 1.0 STDEV

Source: ASR Ltd. / Factiva.com / Datastream from Refinitiv

Chart 1: ASR/WSJ Global Composite Newsflow Indicator (CNI)



Source: ASR Ltd. / Factiva.com / Datastream from Refinitiv

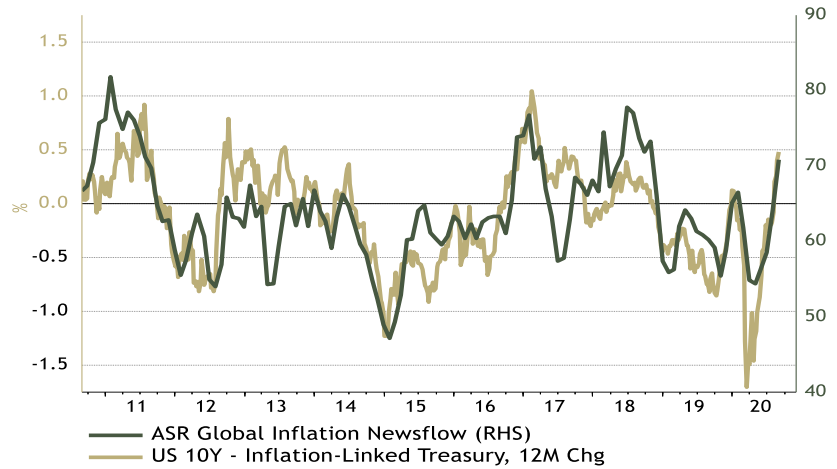
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Increasing Inflation Chatter

Our Global Inflation Newsflow Index has a strong relationship with the 12-month change in US Inflation Breakevens

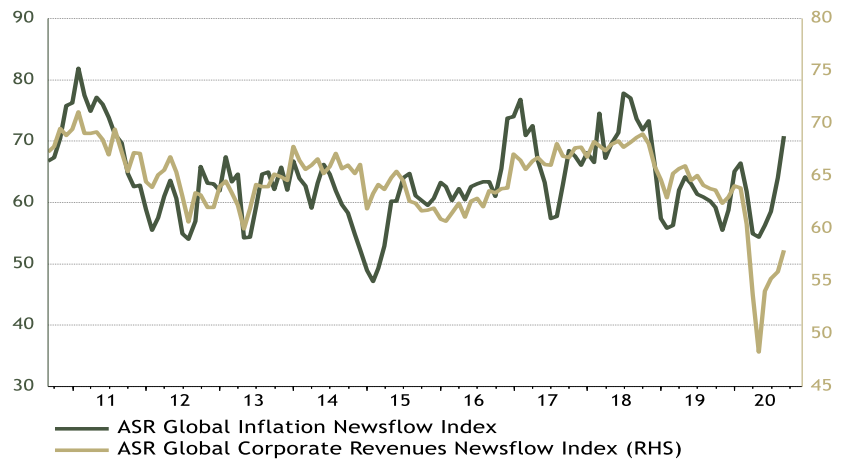
Chart 2: Global Inflation Newsflow vs US Breakevens Proxy



Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

A large and unusual gap has opened up between the Inflation and Corporate Revenues Newsflow components

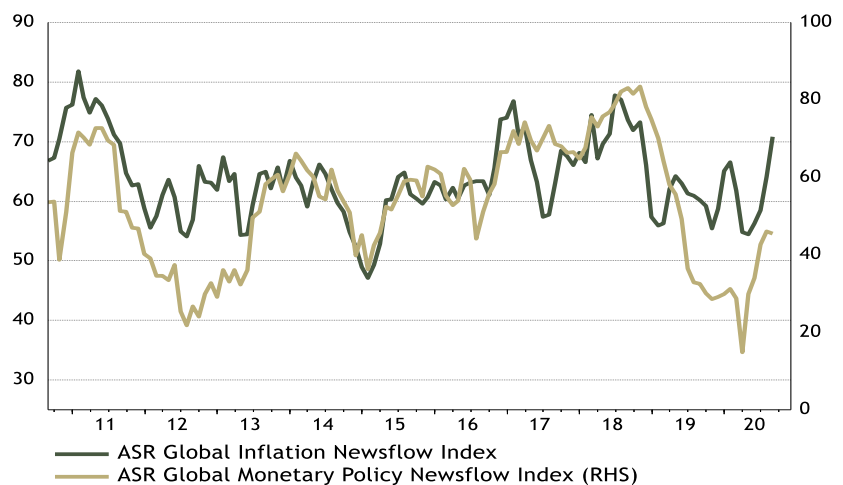
Chart 3: Global Inflation Newsflow vs Revenues Newsflow



Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

We see a similar picture with the Monetary Policy component, with Inflation Newsflow outpacing what we would expect given the amount of Newsflow around loosening monetary conditions

Chart 4: Global Inflation Newsflow vs Monetary Newsflow



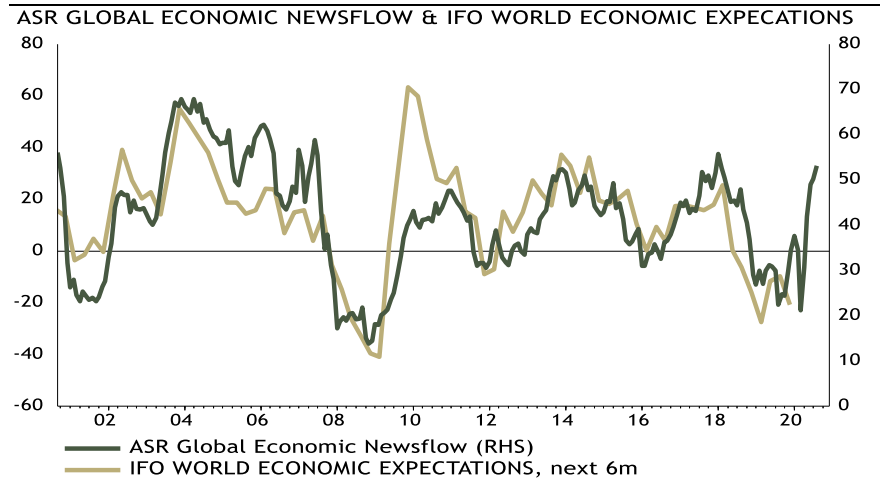
Source: ASR Ltd./Factiva.com/Datastream from Refinitiv



ASR/WSJ Newsflow Components (Part 1)

Global Economic Newsflow strengthened for a fifth consecutive month, reaching 53.2 in August from 50.2. It is back to 2018 levels

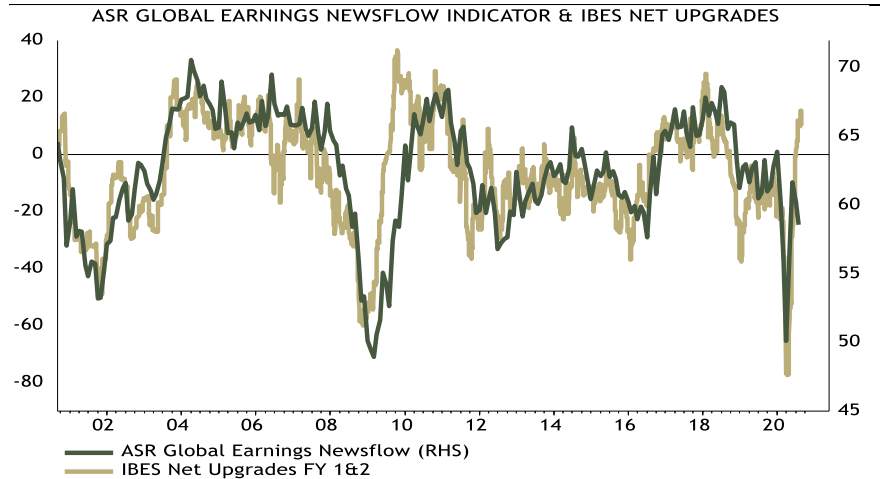
Chart 5: Global Economic NewsFlow



Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

Global Corporate Earnings Newsflow weakened following several months of gains

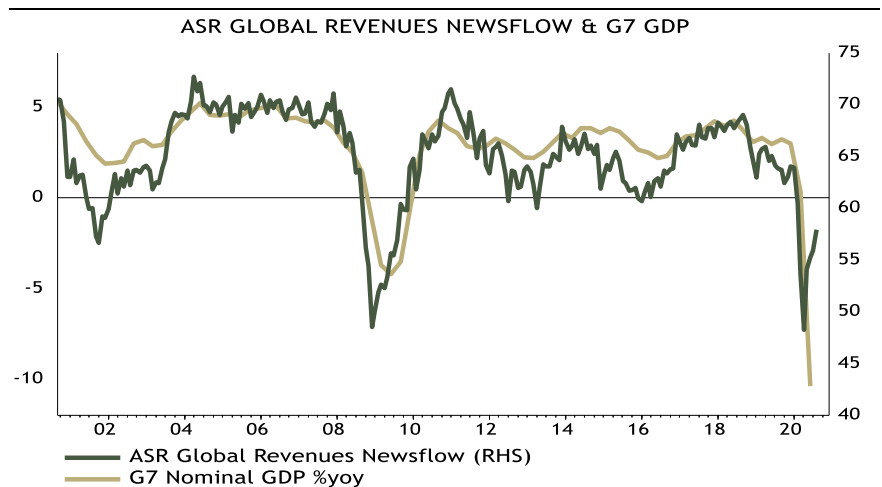
Chart 6: Global Corporate Earnings NewsFlow



Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

Corporate Revenues Newsflow continued to climb but remains weak

Chart 7: Global Revenues NewsFlow

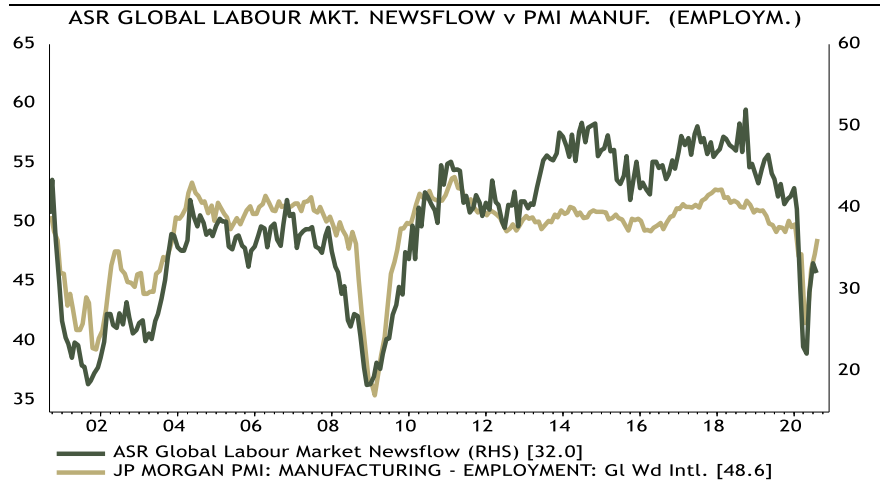


Source: ASR Ltd./Factiva.com/Datastream from Refinitiv



ASR/WSJ Newsflow Components (Part 2)

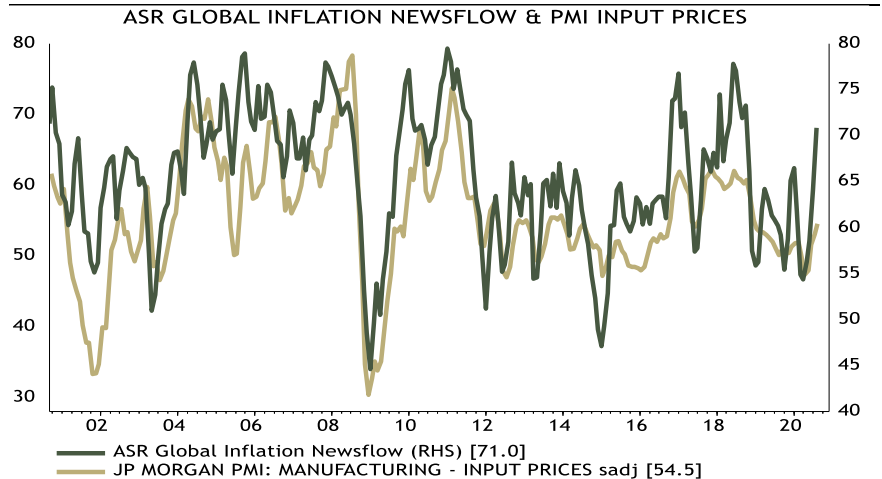
Chart 8: Global Labour Market NewsFlow



Global Labour Market Newsflow fell slightly following two months of gains and remains well below pre-COVID levels

Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

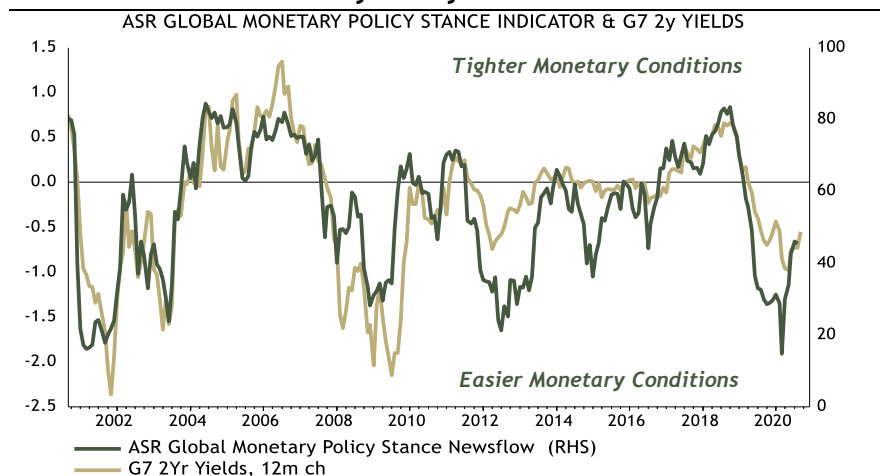
Chart 9: Global Inflation NewsFlow & PMI Input Prices



Global Inflation Newsflow approached a 2-year high in August

Source: ASR Ltd./Factiva.com/Markit/Datastream from Refinitiv

Chart 10: Global Monetary Policy NewsFlow



Global Monetary Policy Newsflow declined slightly, as the ratio of easing monetary conditions stories to tightening stories increased

Source: ASR Ltd./Factiva.com/Datastream from Refinitiv



Methodology

These series are created by searching the Dow Jones Factiva database for ‘positive’ and ‘negative’ macroeconomic news stories, counting them, and then calculating the difference (the ‘net’ news flow).

The searches are done in English, so the global series will be dominated by stories from and about the Anglo sphere. But they still capture global trends surprisingly well.

The Global CNI is built up from six sub-indices: Economics; Corporate earnings; Revenues; Labour market; Inflation; Monetary conditions.

Global CNI readings of more than 50 have tended to be associated with stock returns beating bond returns on a year-on-year basis.

Sample of keywords or principles for each sub-component:

Economics:

Economic upturn, recovery, expansion etc. versus economic downturn, slowdown, pessimism etc.

Corporate earnings:

Stronger, improving expanding versus weaker, declining, contracting company earnings, profits, income, margins etc.

Revenues:

Higher, better, increasing, encouraging etc. or weakening, declining, slumping or falling revenues, sales, demand etc.

Labour market:

Rising, increasing payrolls, employment etc. versus falling, lower, declining unemployment, jobs etc.

Inflation:

Stories on inflation, either rising, higher, increasing etc. or slowing, falling, lower etc.

Monetary policy:

News articles referring to easier, stimulative, monetary policy, lower interest rates or quantitative easing versus tight, restrictive policy or interest rate rises.

Absolute Strategy Research (ASR) and the Wall Street Journal (WSJ) are now working together on the production and development of the Absolute Strategy /WSJ NewsFlow indices. ASR is responsible for the production of the data and the analysis embodied in this research report. WSJ may simultaneously publish the data and provide independent commentary.

**This publication is part of a wider ASR research project analysing news flow.
We are grateful for the research efforts of Tom Malone in helping to create these indicators.**

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