



ASR/WSJ Newsflow: Composite Newsflow tumbles again

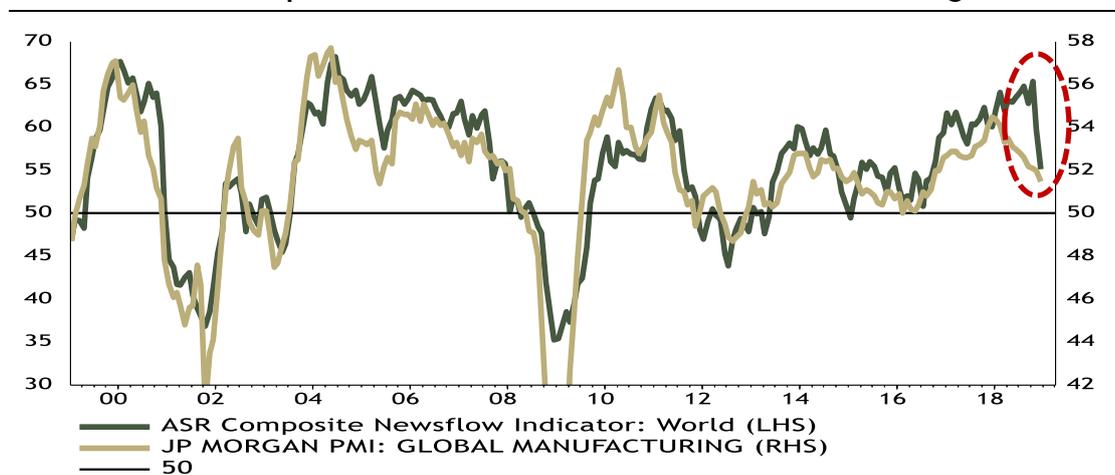
- **The ASR/WSJ Global Composite Newsflow Indicator (CNI) fell in December to 55.2, from 59.7 in November.**
- The Global CNI experienced its second consecutive fall of more than 5pts in December. While the CNI has belatedly caught up with its coincident indicator, the Global Manufacturing PMI (Chart 1), the scale of the drop is still significant. The indicator has only fallen at such a rate over two months twice in its 28-year history.
- The drop has been broad-based, only the Labour Market indicator avoided falling for two consecutive months. And, as the dark red shading in Table 1 illustrates, many of the recent falls represent 2 standard deviation events.
- Of the six sub-components, the Global Economic indicator deserves a special mention. It fell to 26.2 in December, its lowest point for almost a decade, and the second biggest month-on-month drop since August 2007. At a regional level (charts available on request), weakness can be seen across all regions. But the fall in the US, where the strong economy has until recently been considered an outlier, is worrying.
- **The Composite NewsFlow Indicator is not yet at a level consistent with a contraction in the global economy, but the developments of the past two months are concerning. Five of the CNI's six sub-components fell for the second consecutive month. The Global Economic NewsFlow is now at its lowest level in nearly a decade. In a possible sign of relief, the direction of the Monetary Policy NewsFlow looks to have turned.**

Table 1: ASR Composite NewsFlow Index at 55.2 in December 2018 (59.7 in Nov)

	Global CNI	Economic CNI	Earnings CNI	Revenues CNI	Labour Market CNI	Inflation CNI	Monetary Policy CNI
Jan-18	62.0	53.7	66.4	68.4	47.8	65.9	69.6
Feb-18	64.1	51.9	67.6	67.9	47.3	73.5	76.2
Mar-18	62.0	49.7	66.3	67.0	47.7	67.1	74.0
Apr-18	63.2	48.3	67.1	67.9	48.2	70.6	76.9
May-18	63.0	46.6	66.7	67.7	47.7	72.2	76.9
Jun-18	63.5	46.8	66.0	67.3	46.5	78.0	76.5
Jul-18	64.2	46.4	68.4	68.0	46.0	77.0	79.1
Aug-18	64.8	47.0	68.1	68.4	49.9	74.0	81.3
Sep-18	62.8	44.5	65.6	69.6	44.7	72.8	79.9
Oct-18	65.4	41.5	66.4	68.6	55.5	74.7	85.6
Nov-18	59.7	37.4	66.3	65.8	44.9	65.3	78.8
Dec-18	55.2	26.2	63.4	65.5	45.7	55.1	75.3

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

Chart 1: Global Composite NewsFlow Index and Global Manufacturing PMI



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

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The Components (Economic, Earnings, Revenues)

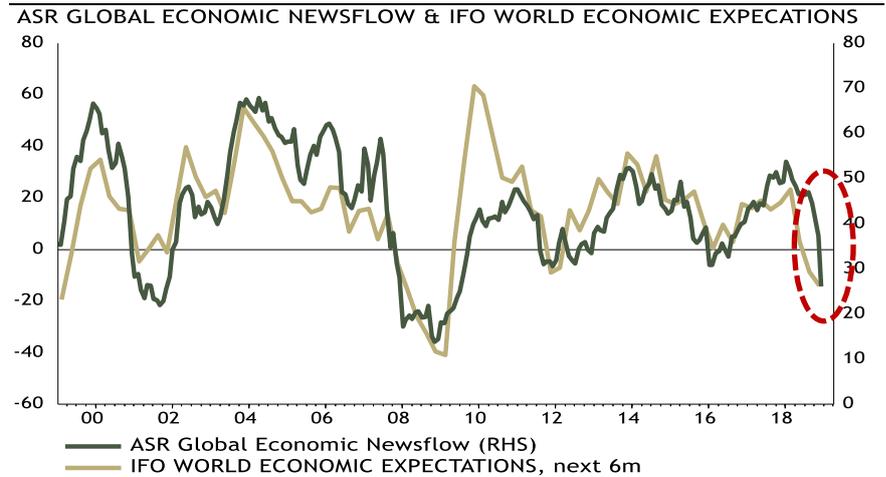
Global Economic Newsflow fell to 26.2 in December, a level not seen since the first half of 2009.

At the regional level, only the eurozone has experienced a lower number than its current reading in the past decade - and that was during the peak of the Eurocrisis.

The Global Corporate Earnings Newsflow is arguably the only sub-index that looks out of kilter with its coincident indicator.

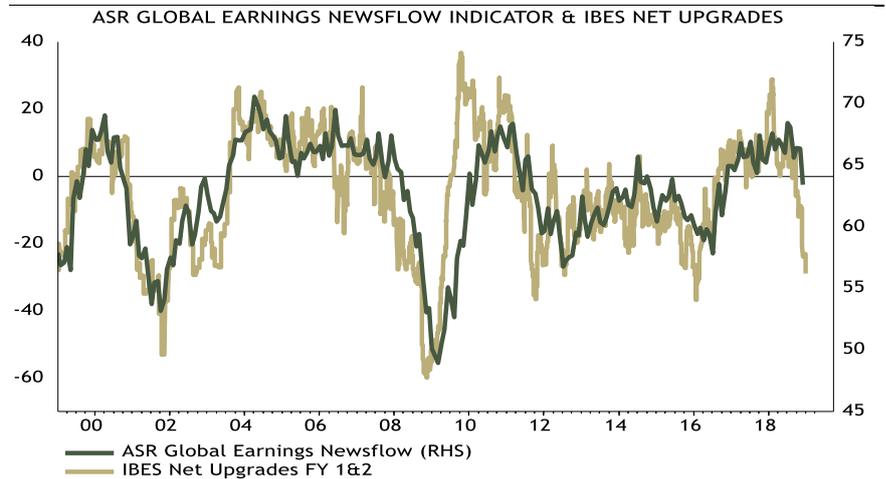
In contrast, the Global Revenues Newsflow points to stable or falling nominal growth.

Chart 2: Global Economic NewsFlow



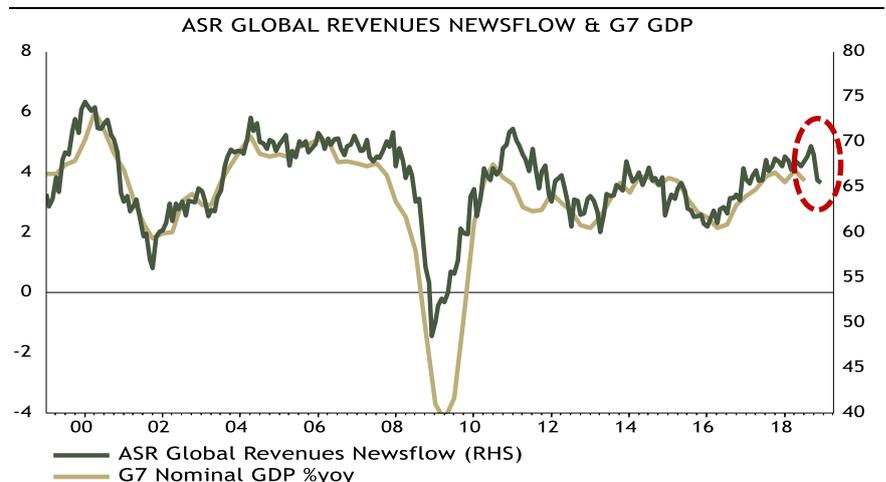
Source: ASR Ltd./Factiva.com/Datastream from Refinitiv

Chart 3: Global Corporate Earnings NewsFlow



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

Chart 4: Global Revenues NewsFlow



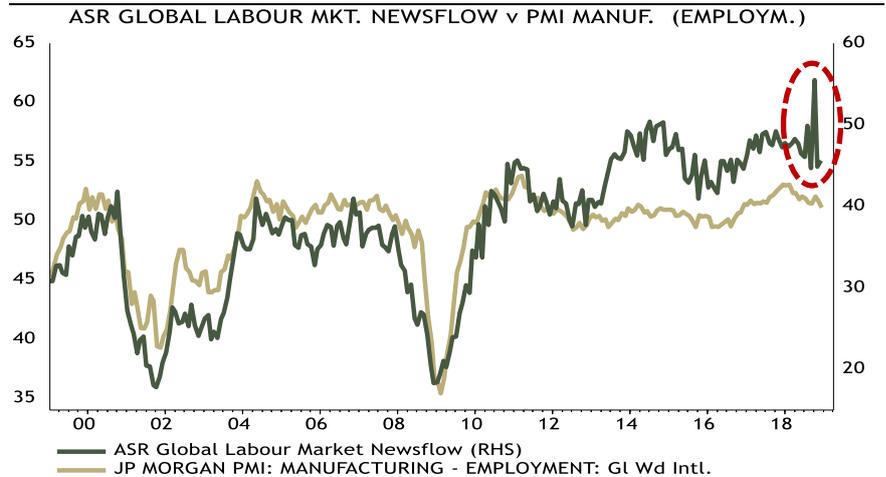
Source: ASR Ltd./Factiva.com/Datastream from Refinitiv



The Components (Labour Market, Inflation, Monetary)

The Labour Market Newsflow's volatility looks somewhat odd. Yet it might reflect mixed signals that are typically sent in 'late-cycle'. In the US, labour demand is strong, as capacity constraints are starting to bite.

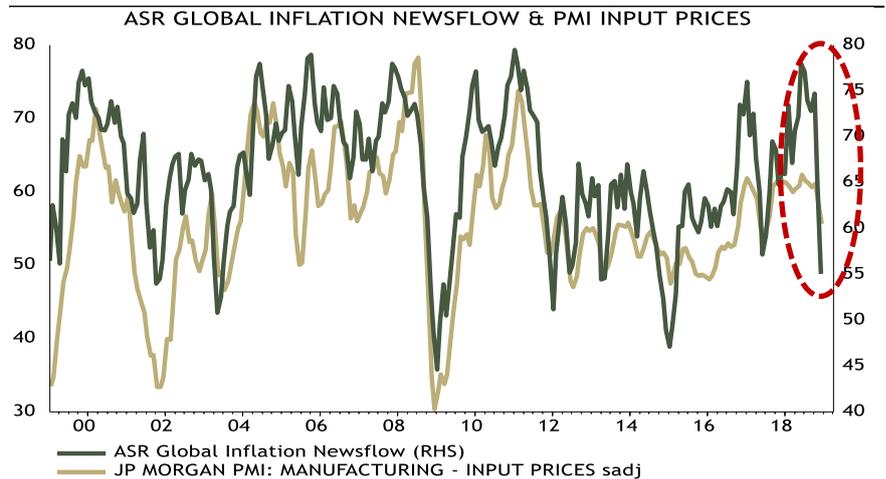
Chart 5: Global Labour Market NewsFlow



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

The Global Inflation Newsflow fell substantially for the second consecutive month. Again, this series has experienced some volatile moves, but the fall in commodity prices is likely to have weighed on the December number.

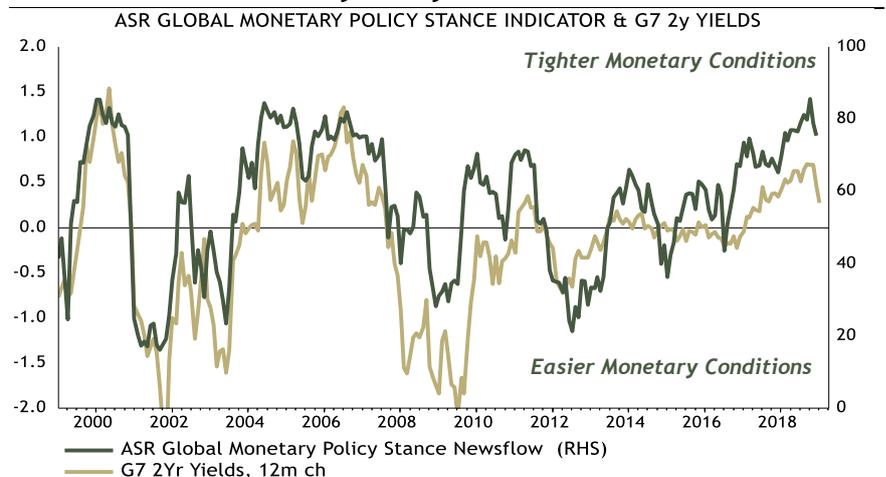
Chart 6: Global Inflation NewsFlow & PMI Input Prices



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

Though it remains elevated, the 'chatter' around tighter monetary conditions fell, relative to talk of looser policy. China's incremental loosening of monetary policy is likely to have played a role, as might more dovish comments from Jerome Powell and co.

Chart 7: Global Monetary Policy NewsFlow



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 and Misha Boskovic in helping to create and update these indicators.**

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