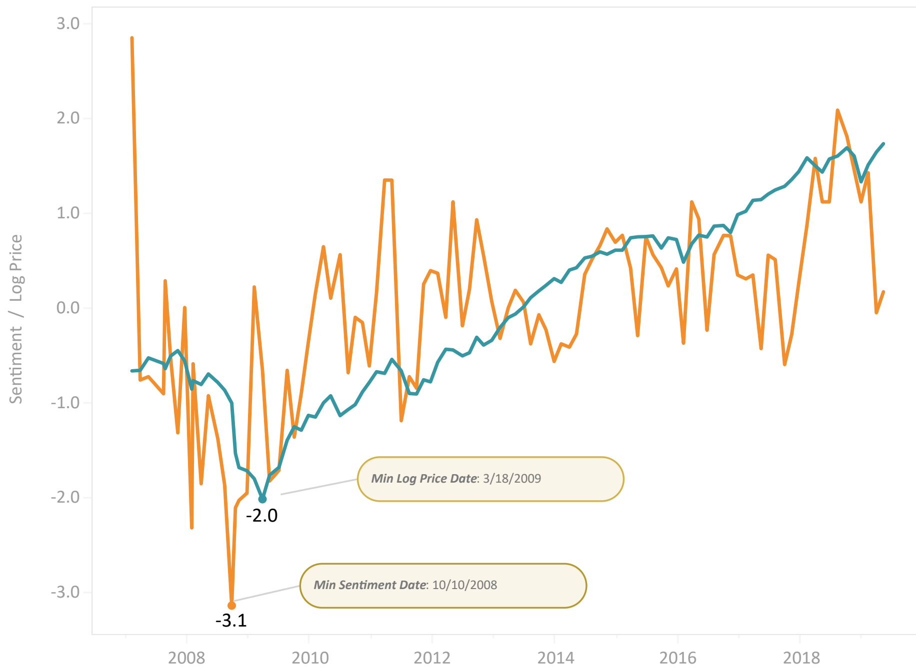
Sentiment is the New Leading Indicator for Recessions

The equity market has closely tracked FOMC sentiment for over a decade...



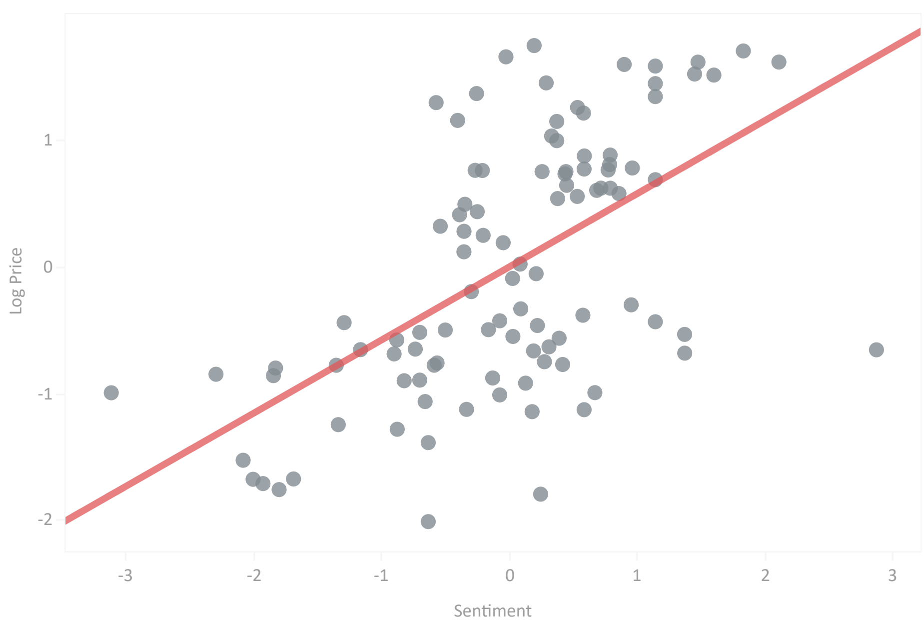
A New Leading Indicator

Sentiment *is at its lowest point toward the end of 2008, a few months before the equity market bottomed out in early 2009. We see the equity market recovered in the second half of 2009 after sentiment spiked upward.*

The Russell 1000 Index *reached record level highs in mid 2018 before sharply declining in December; sentiment in Q4 2018 declined right before the observed market selloff during the same period.*

...and sentiment is consistently statistically significant in its predictive capabilities

X = Sentiment, Y = Russell 1000 Index



When the p-value is low, the null hypothesis must go!

The linear model *has an adjusted R-squared of 38%, indicating that it can explain over 1/3 of the Russell 1000 Index*

Sentiment is a statistically significant predictor of price because it's p-value is below 0.0001

Sentiment driving equity markets or vice versa is too complex to answer with a simple linear model; however, the regression suggests there is predictive explanatory value from sentiment analysis

Sources: Journal, Wall Street. “RUI | Russell 1000 Index Historical Prices - WSJ.” WSJ, Dow Jones & Company.
Notes: *Data normalized to z-score as indices are in different units. Z-scores of the Russell Index are observed on FOMC dates.*

Author: Michael Creegan