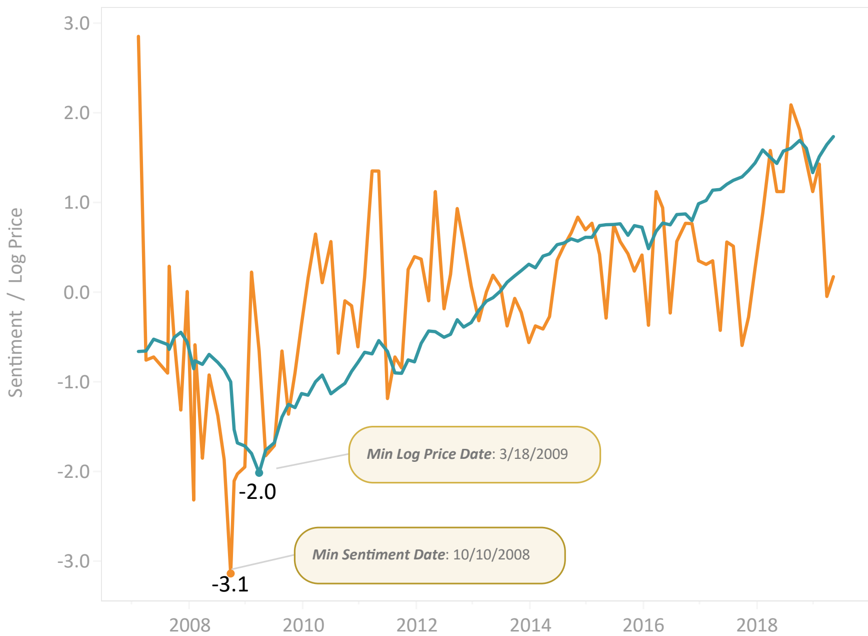
Equity Prices Explained by FOMC Sentiment 2007 - 2019

Sentiment vs Russell 1000 Index



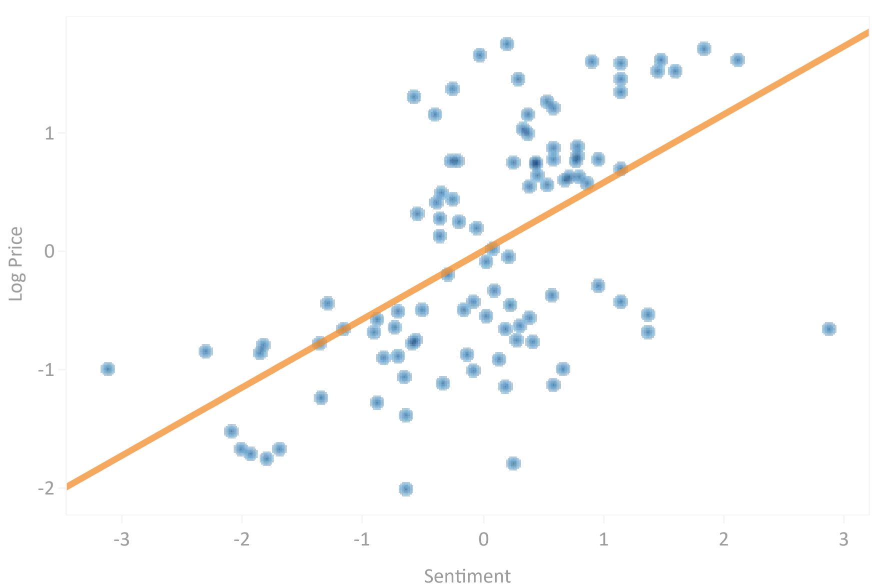
A New Leading Indicator

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.

Regression of Price by Sentiment

X = Sentiment, Y = Russell 1000 Index



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

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

The adjusted R-squared of 38% indicates the linear model can explain over 1/3 of the Russell 1000

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

Notes: *Data normalized to z-score as the Russell and sentiment indices are in different units. Z-scores of the Russell Index are observed on FOMC dates.*

Author: Michael Creegan