

Word of the Year

Policy moves to centre stage

- ‘Tariffs’ is our Word of the Year in a time of policy change
- Despite the serious backdrop, company executives are increasingly happy

By Alex Ions, Head of Alternative Data Research at Rosenberg Equities

As we continue to develop our NLP (Natural Language Processing) stock-picking models, we have also been looking at the most recent changes in US companies’ quarterly results calls transcripts. We hope to spot the latest emerging patterns in companies’ priorities, and we’ll pick a distinctive 2018 ‘Word of the Year’.

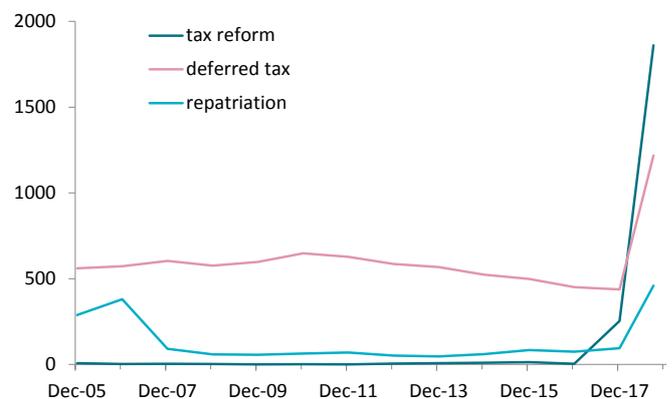
In summary, we find that political and regulatory developments are rapidly becoming prominent. We think this gives a good sense of a changing mood in the market as companies struggle to emphasise their own ‘growth stories’, including technological progress, against this backdrop of important external events.

Tax reform arrives

The Tax Cuts and Jobs Act was passed in December 2017, so this year companies explained its impact on their financial position. Following **tax reform**, **deferred taxation** naturally saw much more discussion (Chart 1)¹. Most distinctively, in our view, the new **repatriation** tax on the accumulated earnings of foreign subsidiaries has been increasingly discussed in detail by multinational companies. This word has been virtually unused since the 2004 tax holiday policy measures. How companies respond is having important consequences for their choices on distributions to shareholders including buybacks.

¹ In all the charts we show the number of meetings where each word is mentioned. Over the 2005-2018 period, the annual total meetings remained constant at around 13,000.

Chart 1: Boring but important - tax reform

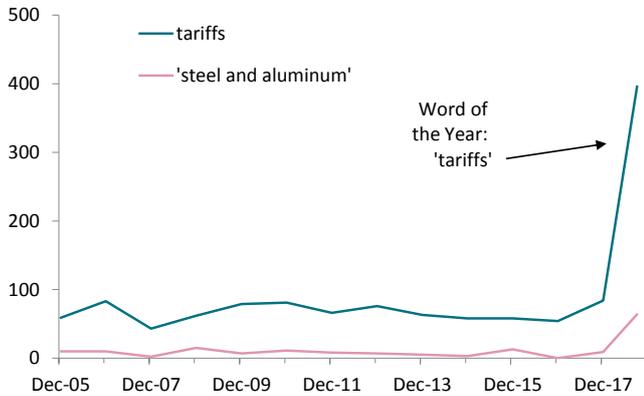


Source: AXA Investment Managers Rosenberg Equities, Factset. Management Presentation section. Chart shows number of meetings in which word is used. Based on Rosenberg Equities’ internal universe of US securities during the timeframe shown.

Trade tensions impose themselves

Ideally for companies, trade policy would remain a background topic. But with the introduction of **tariffs** on metals, washing machines, solar panels and goods from China during 2018, this subject has come to the fore. The duties on **steel and aluminum** (25% and 10% tariffs respectively) have needed discussion (Chart 2). This is a major change in the operating environment for many US companies, and we choose ‘tariffs’ as our Word of the Year.

Chart 2: Trade tensions

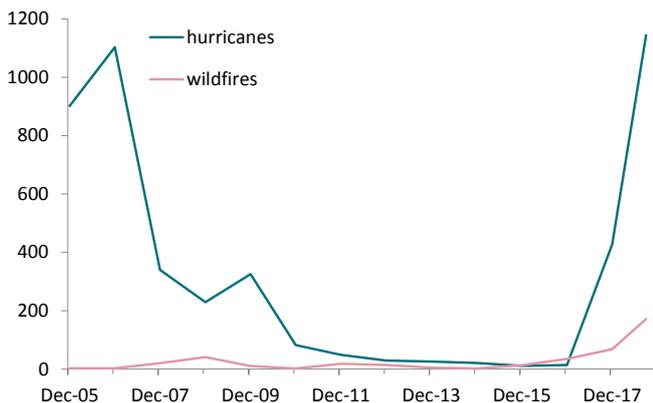


Source: AXA Investment Managers Rosenberg Equities, Factset. Management Presentation section. Chart shows number of meetings in which word is used. Based on Rosenberg Equities' internal universe of US securities during the timeframe shown.

A bad year for weather

This year **hurricanes** saw the most mentions since 2005/06 (Katrina and its aftermath) as hurricane Florence and other Atlantic storms disrupted businesses (Chart 3). **Wildfires** also saw a big jump as a topic in earnings calls as a result of the second consecutive year of severe fires in California, although mentions remain relatively rare.

Chart 3: Worse weather



Source: AXA Investment Managers Rosenberg Equities, Factset. Management Presentation section. Chart shows number of meetings in which word is used. Based on Rosenberg Equities' internal universe of US securities during the timeframe shown.

Revenue recognition: ASC 606

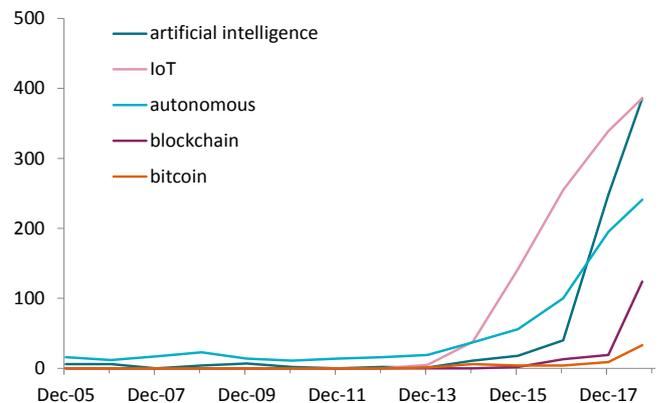
The **ASC 606 revenue recognition** accounting standards came into effect, starting with December 2017 reports. They

particularly affect subscription-based business models; over 6% of companies discussed revenue recognition this year, up from 1.7% in 2016.

Please can we have some new technology now?

Ordinarily, we would expect to see a few brand new technologies being discussed during earnings calls. 2017 saw a breakthrough in mentions for artificial intelligence, IoT ('Internet of Things') and so on, which have been sustained this year (Chart 4). But in 2018 we have very little genuinely new technology to talk about. Just one exception: **blockchain** saw a big jump in mentions. In fact, it seems that mentions peaked in Q2 2018 and have since been falling (not shown on the chart). Furthermore, the associated **Bitcoin** and **cryptocurrency** trends get fewer mentions so maybe companies are mostly seeing distributed ledger technologies as a chance to improve their operations, rather than as a financial opportunity.

Chart 4: Technology - no major breakthroughs



Source: AXA Investment Managers Rosenberg Equities, Factset. Management Presentation section. Chart shows number of meetings in which word is used. Based on Rosenberg Equities' internal universe of US securities during the timeframe shown.

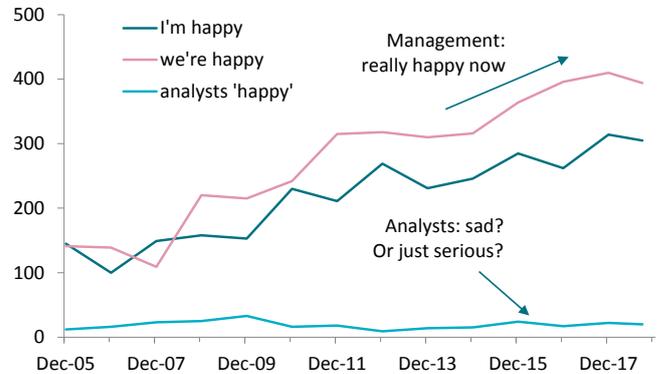
Some relief from Brexit

It's fair to say that most of us, apart from a few diehard politics nerds, are growing tired of the discussion of the important issues around Brexit. US companies are no exception: we saw much less discussion of **Brexit** in 2018 (mentioned in 114 meetings) than in 2017 (338) or 2016 (553). Indeed analysts' questions on Brexit dwindled to almost zero this year. During 2019 it will be worth paying attention to whether US companies' and their analysts' apparently relaxed approach to Brexit preparation is justified.

Happy holidays

Lastly, we all know that company management teams are a serious group. So we looked for evidence that executives were looking forward to relaxation during the forthcoming holiday season. **Thanksgiving, Christmas and happy holidays** don't get many mentions unfortunately. This was somewhat concerning. We wanted to check that the top people were content despite this, and found a reassuring trend. Over the past 15 years, there has been a rapid growth in executives saying **I'm happy** and **we're happy** during their prepared remarks. On the other hand when we looked at analyst colleagues' questions we were more alarmed. They have not been sharing their happiness to the same degree (Chart 5). So we would like to wish them, especially, happy holidays, with good wishes for a new year full of interesting quarterly meetings, maybe with some new and exciting words.

Chart 5: Spare a thought for the analysts



Source: AXA Investment Managers Rosenberg Equities, Factset. Management Presentation and analysts' Questions sections. Chart shows number of meetings in which word is used. 'Analysts happy' is the sum of meetings including a participant question including the phrases 'I'm happy' and 'we're happy'. Based on Rosenberg Equities' internal universe of US securities during the timeframe shown.

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