Insights
Active Quantitative Equity (AQE)

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Extracting Complex Investment Insights from Earnings Calls

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The language and tone a management team uses can signal how it feels about quarterly results or how it expects the market to react to them. Subconscious communications in earnings calls can carry important insights for investors.

Each quarter, the Active Quantitative Equity (AQE) team closely examines conference call language and tone for subconscious communications from company management to investors. We use natural language processing to evaluate individual company conference call transcripts and assign each company a score for Conference Call Sentiment (CCS). Specifically, this CCS "factor" seeks to reflect the tone, the level of optimism or pessimism, and the type of verbiage in the call, providing an indication of the attractiveness or unattractiveness of a particular stock.

Given the current uncertainty of the macroeconomic landscape and the increased focus on second quarter earnings, the CCS factor can contribute valuable insights to our research process. Management teams have a closer proximity to and understanding of the drivers of return for their companies and industry, and the language they use during conference calls can give subtle, unscripted signals of their expectations.

Our focus in this piece is on the interpretation of our CCS factor. However, it is important to note that no one signal in our process is used on a standalone basis to assess the returns potential of a stock, sector, or industry; rather, CCS is incorporated with several diversified factors in the AQE team's multi-factor stock selection model to arrive at an investment decision.

Reading Sector Results for Insights

The findings from the AQE team's CCS factor can offer valuable insights in the research process. The latest results from our CCS factor results are shown in Figure 1, followed by some insights.

Figure 1
Conference Call Sentiment Factor Results

Attractive and Improving (Q/Q)	Sector	Attractive but Declining (Q/Q)	Sector
Interactive Media & Services	Communication Services	Diversified Telecommunication Services	Communication Services
Internet & Direct Marketing Retail	Consumer Discretionary	Software	Information Technology
Personal Products	Consumer Staples	IT Services	Information Technology
Food & Staples Retailing	Consumer Staples	Construction & Engineering	Industrials
Health Care Providers & Services	Health Care	Textiles Apparel & Luxury Goods	Consumer Discretionary
Gas Utilities	Utilities	Leisure Products	Consumer Discretionary
Electric Utilities	Utilities	Multiline Retail	Consumer Discretionary
Air Freight & Logistics	Industrials	Hotels Restaurants & Leisure	Consumer Discretionary
Road & Rail	Industrials		
Unattractive and Declining (Q/Q)	**Sector**	**Unattractive but Improving (Q/Q)**	**Sector**
Consumer Finance	Financials	Independent Power and Renewable Electricity Producers	Utilities
Diversified Financial Services	Financials	Communications Equipment	Information Technology
Banks	Financials	Technology Hardware Storage & Peripherals	Information Technology
Construction Materials	Materials		
Household Products	Consumer Staples		
Automobiles	Consumer Discretionary		
Health Care Technology	Health Care		
Semiconductors & Semiconductor Equipment	Information Technology		

Source: State Street Global Advisors, analysis as of August 31, 2022.

The AQE team sees a relationship between improving Conference Call Sentiment and cyclical versus defensive characteristics broadly. The global economy has been stuttering this year, and company management and investors are worried about the impact of inflation and slowing growth on company earnings. It is understandable, therefore, that the majority of the industries with "attractive and improving" quarter-over-quarter CCS scores are non-cyclical or defensive in nature, as they are better able to withstand the current environment. The opposite is true within the "attractive but declining" bucket, where the majority of industries are cyclical and the outlook may be starting to wane.

Among industries with unattractive CCS scores, we again find a relationship with cyclicality; the majority of industries where management is showing less confidence reside in the cyclical space, notably Financials and IT Hardware.

However, some industries do not show a relationship between CCS and cyclicality. The Internet and Direct Marketing Retail, Air Freight and Logistics, and Road and Rail sectors are cyclical but have a CCS factor that is positive and still improving.

On the flip side, management in Health Care Technology and Household Product companies, although within naturally defensive sectors, seem less confident about the outlook and demonstrate a declining CCS.

The Bottom Line

As concerns about inflation transitioning to stagflation mount in today's market, the AQE team is seeing significant trends in the preference for, and expectations of, cyclical versus non-cyclical sectors. By digging deeper and assessing sectors using our CCS lens, the AQE team believes that there are strong corporate distinctions across the industries within these sectors.

We believe opportunities remain for some cyclicals, while some defensive industries appear less sanguine. Adopting a nuanced view that takes conference call sentiment into account enables us to glean additional insights and to construct portfolios that better navigate today's current turbulent environment.

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* Pensions & Investments Research Center, as of December 31, 2021.
† This figure is presented as June 30, 2022 and includes approximately $66.43 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.