

Information overflow in macro and how to tackle it

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Overview

Alternative data challenges in Macro

Targeted NLP solutions

News Inflation Pressure Indices

Macro specific challenges

Adoption rate of Alt Data in Macro has been a bit slower than elsewhere

1) connection between fundamentals and asset pricing less straightforward

2) information overflow: multiple factors and accessible sources

⇒ Different recipes needed

Inflation use case

- Inflation is directly tradable (challenge #1 less relevant)
- 1 to 6 months ahead, inflation volatility dominated by
 - Idiosyncratic shocks
 - Events that do not always fit in time series
 - Or when they do, we figure out too late
- For instance: indirect taxes, rent control, supply disruptions, competition, weather effects on food or insurance premiums, product regulation, administered prices,...
- Solid times series models are not enough in the near-term
 - ⇒ *We need to track unstructured data*
 - ⇒ *Can this be done in a systematic way?*

Micro shock, Macro impact

Verizon 2017: Mobile data plans changes or how to miss a market-moving macro factor

- Starting point, Feb 2017:
 - “Verizon brings back unlimited data plan on 4G network” Feb 12, 2017
 - Followed by Sprint and AT&T within a week. T-Mobile improving its offers.
- **US CPI impact:** March and April releases (12th Apr, 10th May)
- **Fed:** increasingly dovish in Q2 after March 15 hike
- **Markets:** 2y rates flatten throughout Q2, in the middle of a starting rate hike cycle
 - ⇒ To get just a heads-up about core inflation risks in Feb. 17 would have been incredibly valuable

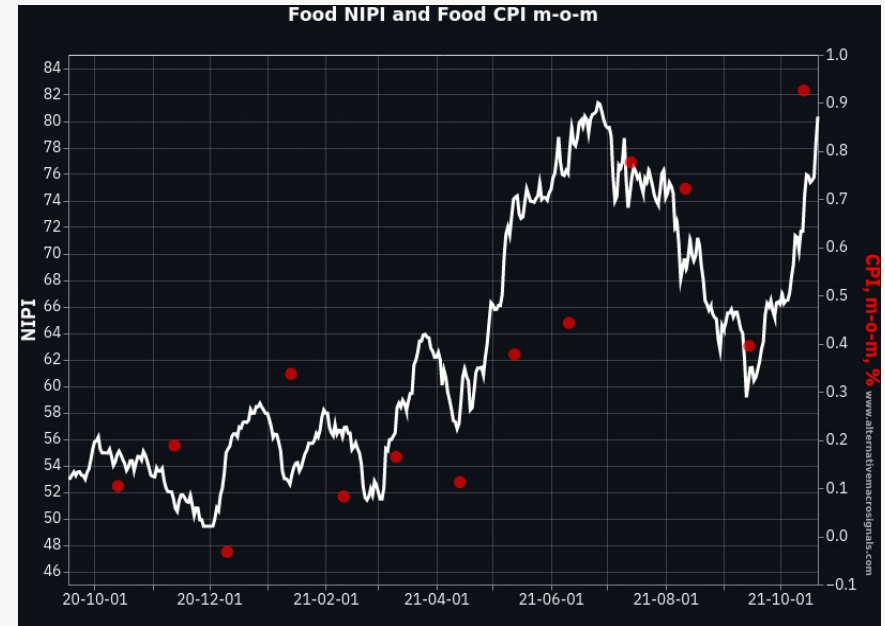
Some good news

To track systematically macro narratives is now possible, under conditions

- New language models generation: Transformers models are now efficient, for **targetted** tasks
Incomparable accuracy levels, can pick context not just words
- Sector or field knowledge needs can be passed on to the machine (Supervised learning)
- No “sentiment” here but, rather, a narrow approach to replicate some of the analysts specific tasks
- Define goals:
 - Detect relevant news
 - Aggregate the info

Tracking narratives: US Food prices —

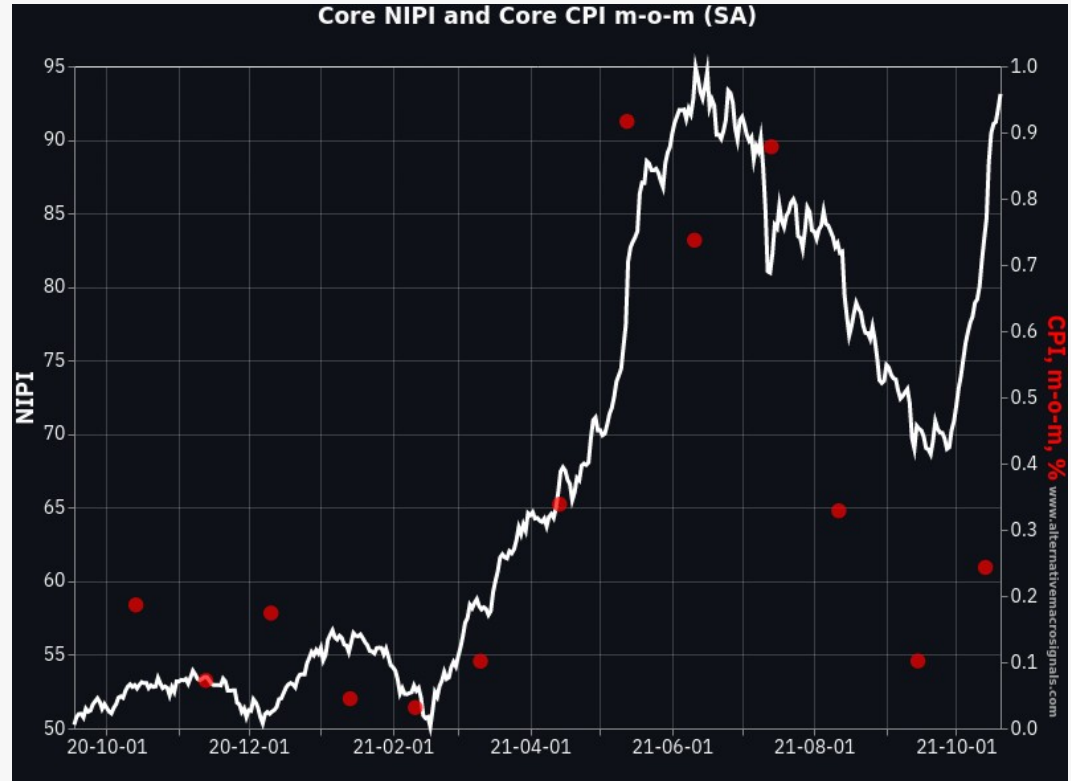
Agriculture prices capture a small portion of the story compared with our news-based indicator (NIPI)



NIPI: News Inflation Pressure Index
50=balance flow of positive and negative news

Tracking narratives: Core Inflation —

Core inflation turning points signalled a few weeks ahead of release



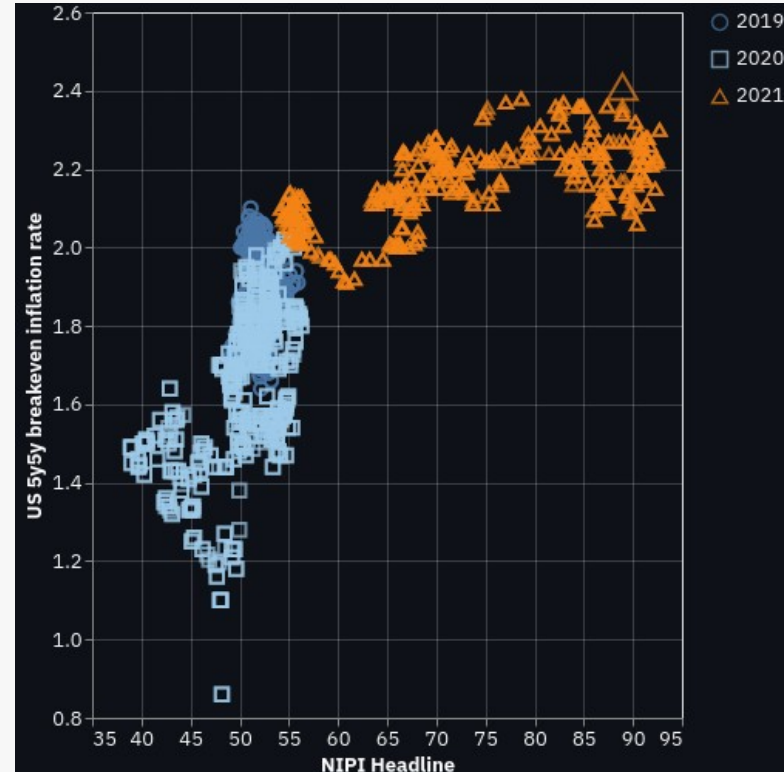
NIPI as a fundamental input for inflation premium

Headline NIPI

VS

5y5y Breakeven

Inflation rates



Thank you!

