

Alt' Data as Political Risk Manager



The 45th president of the United States has shown that his 140-character Tweets have the power to move markets. Messages from European politicians may not have quite the same impact, yet investors continue to incorporate social media into their analysis of political risk. Last year's unexpected vote by the UK to leave the European Union had an impact on markets, and surprises in the forthcoming elections in the Netherlands, France, and Germany could cause further volatility, and opportunities, for investors.

Mark Robertson, senior portfolio manager, multi-asset, at NN Investment Partners said



Mark Robertson, NN IP

in an email that the Dutch investment fund monitors both social media and traditional news media for changes in sentiment related to political risks.

“There are a number of categories that we monitor, including anger and instability, to calculate our own proprietary measure of political risk,” said Robertson. “This measure had been relatively stable through the fourth quarter of 2016, however we saw a sharp rise in political risk in early 2017.”

He added this pattern continued through February with all the sub-components on a rising trend. The increase in political risk has been accompanied by an increase in NN IP’s overall measure of uncertainty, derived from news media, which could indicate that some fragility may be entering into financial markets ahead of several important European elections.

To start, the Dutch parliamentary elections are on March 15, and a win for far-right populist Geert Wilders and his Party for Freedom could lead to an EU Referendum in the Netherlands. The first round of the French presidential election is in April with the second and final round occurring in May. Another far-right populist, Marine le Pen of France’s National Front Party, is likely to reach the run-off. If Le Pen gains France’s highest office, she also intends to hold a referendum on leaving the EU. The German parliamentary elections are in September and Chancellor Angela Merkel, a powerful supporter of the European project, could face a backlash against her refugee policy.

Robertson said NN IP’s investment scorecard for German sovereign debt led to the fund manager forecasting a ‘Buy’ signal based on the political risk measure derived from social media and the uncertainty measure from news media. He added: “In conjunction with other observed market dynamics, including the ongoing demand for highly-rated collateral, we have subsequently adjusted our asset allocation stance to incorporate further exposure to German Bunds.”

Dataminr, an alternative data provider, was able to help clients position themselves for the impact of the surprise Brexit in the early hours of June 24 last year. The startup surfaced signals from Twitter 55 minutes before confirmation of the result that subsequently sent sterling to a 31-year low against the US dollar.

As the votes were counted Dataminr began to detect signals from polling stations in northeastern England – and from the large cities of Sunderland and Newcastle, that the “Leave” vote was much stronger than previously forecast.

George Goldman, vice president, head of finance sales at Dataminr, said: “Our ability to turn big data into relevant and targeted real-time insights helps our clients cover their blind spots and better react to signals impacting their particular sector, topic, or company focus. Our ability to surface critical insight coming from unknown sources during the Brexit voting gave our clients a clear edge when compared to those waiting on updates from traditional news sources.”



George Goldman, Dataminr

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Dataminr alerted clients almost an hour before the Brexit result was announced and some used the time to make strategic preparations, such as repricing assets, widening margins or aligning positions. “Others made tactical moves to find alpha opportunities, particularly in the over the counter markets that were open at the time,” added the firm.

In addition to the volatility in the foreign exchange market, Dataminr also helped clients identify related effects such as movement in bank stocks through their service’s customized watch lists that “see” relevant connections among thousands of companies, topics, and sectors without the need for clients to specify individual search criteria. In fact, the majority of Dataminr clients are still following Brexit due to its continuing market impact. Dataminr translates Tweets from over 60 languages, enabling the service to identify similar early signals for the elections in Netherlands, France and Germany. Goldman said: “One of our differentiators is the ability to highlight new sources to our clients.”

Institutional Uptake

A report from consultancy Greenwich Associates at the beginning of this year found that 80% of institutional investors want greater access to alternative data sources to boost investment returns.

“However, the sheer ubiquity of much of the data used in the investment process makes finding alpha others have yet to unearth increasingly difficult,” added Greenwich.

In addition to social media, other alternative data sources used by investors include satellite images of parking lots, logistics data, private company data, and alternative public company data, such as credit scores and payment history.

For example, BlackRock said in a report on China last month that their investors

need not depend solely on government data when making investment decisions. Instead, they can use satellite imagery, mobile phone data usage, and text mining of [public] corporate filings.

Satellite data in particular, available from independent vendors, can identify sectors that are experiencing the highest level of growth while credit card data can provide a sense of which brands are growing in popularity in China.

BlackRock said in the report that mining the published text of conference calls conducted by companies conducting business in China, an activity tracked by BlackRock’s Scientific Active Equity team, can provide insights. After declines in 2014 and 2015, global executives began speaking more positively about China last year.

The fund manager also tallies the number of articles on a subject in newspapers as a unique way to get a sense of the direction authorities are taking. “By our measure, we have seen a growing emphasis on the government’s supply-side reform campaign,” added BlackRock.

Kevin McPartland, head of research in Greenwich Associates Market Structure and Technology Practice warned in the report: “Alternative data will only be alternative for so long. These data sources and providers will quickly become part of portfolio managers’ standard toolkits once the existing roadblocks are taken down.”

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