



Epsilon Theory

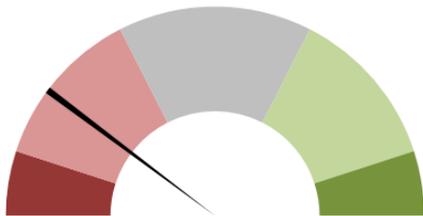
# Central Bank Policy

## Narrative Structure Analysis for December 2020

### Dominant Narrative Structure for December 2020

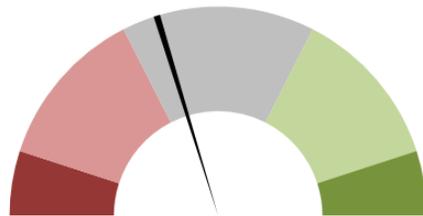
#### *Inflation-Focused Narrative*

#### Narrative Strength



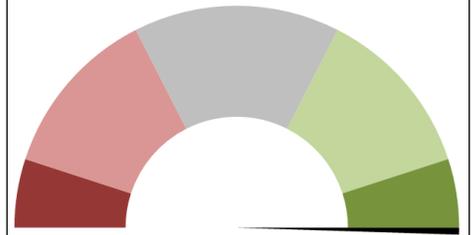
*Very Weak (2)*

#### Narrative Cohesion



*Average (4)*

#### Narrative Sentiment



*Extremely Positive (10)*

### Analysis and Commentary

Last month we concluded our update with the following:

*“Like most observers, we will be very interested to see how Central Bank narratives evolve following the election, especially if a transition delays any further fiscal response.”*

After — shall we say, an eventful — election season, the concern that congress would be slower than hoped to add additional fiscal response has been very real, in both narrative space and in financial markets. There was, however, also the small matter of Pfizer’s announcement on November 9th of a successful vaccine and that of Moderna in the days that followed.

A new narrative quickly emerged in financial media:

**Now’s the time to overreact on fiscal stimulus, and if we need to correct it later with monetary policy, so be it.**

From a central bank perspective, this is among the first observations of what we call “hawkish” language in a very long time. It doesn’t *feel* that hawkish to say that *“maybe, if things get really crazy, just perhaps we might need to use monetary policy*

*to correct it.”* But in comparison to months in which these words and phrases were unthinkable, and in a narrative environment in which there really isn’t any ambient point of view on central banks (since we’re still in assuming there’s a Fed Put mode), we think that alone is meaningful.

Yes, we **still** think there is a latent Fed Put narrative that isn’t present in the data because something that is assumed isn’t clamored for.

Yes, we **still** think this is an Inflation-Focused regime, by which we mean that most market conversations about central banks are trying to digest exactly what the long-term implications of this policy response will be (without any luck, generally).

And yes, we **also** think it is interesting to observe that Hawkish phraseology has finally made a return to markets. Not enough to peg it as the dominant regime, but enough to have some concern that a change in administration, oppositional congress and a couple of surprising (if still cartoonish) inflation prints could unexpectedly influence the central bank narrative.

**Important Disclosures:** This research is general in nature and does not reflect the analysis of any individual investor’s situation and does NOT represent advice to purchase or sell any security. Investors should consult a financial advisor to discuss their individual situation before making any decision. The S&P 500 and Barclays Aggregate Bond Index are total return indices tracking US Large Cap stocks and US domestic, investment-grade fixed income securities in the United States, respectively. They are indexes, and it is not possible to invest in an index. Products tracking those indices may charge additional fees which are not included here. Any returns presented represent historical periods, and such **historical performance is no guarantee of future results.** The regimes highlighted are determined using natural language processing-based techniques which are new and which may be riskier than more traditional analysis techniques.

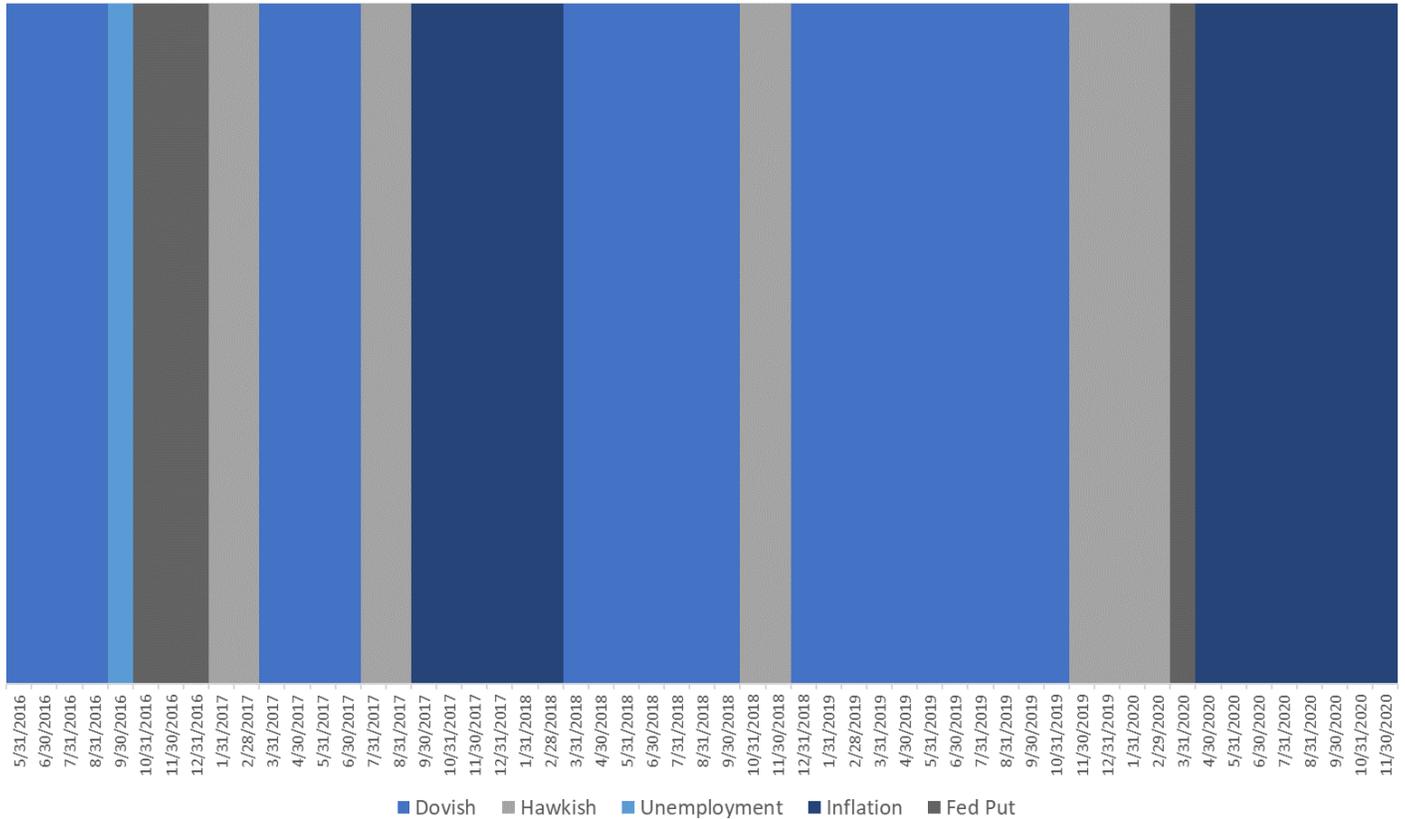


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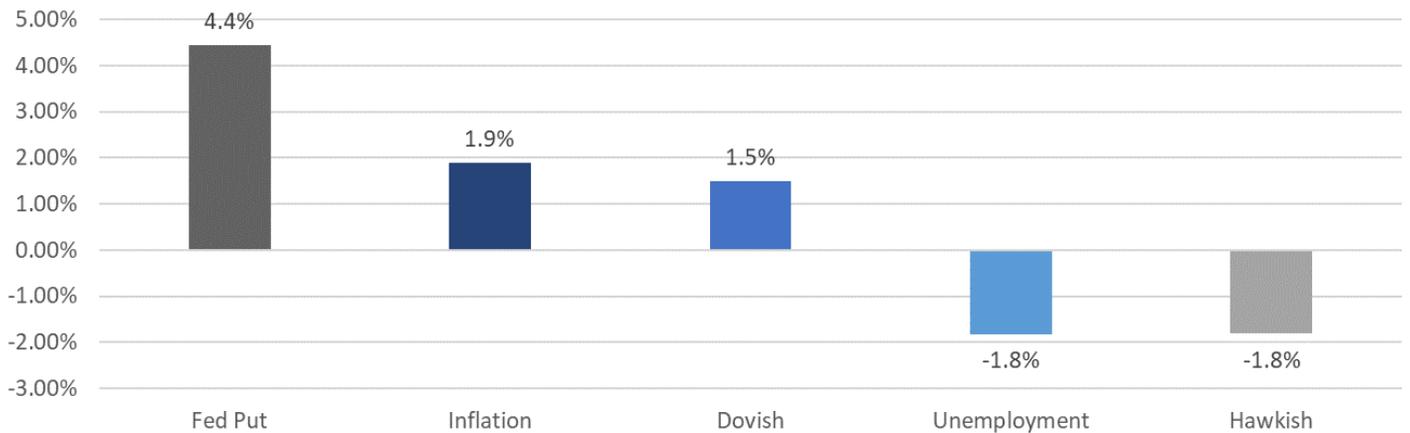
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## Narrative Structure Analysis for December 2020

### Dominant Central Bank Narrative Regimes (2016—November 2020)



### Subsequent Month S&P 500 Index Returns By Narrative Regime (2016—November 2020)



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## Narrative Structure Analysis for December 2020

### Most Indicative (On-Narrative) News

Headline	Outlet	Link
Homebuyers' down payments rise as US home prices climb	ABC News	Article <a href="#">Here</a>
Why the Left Should Ally With Small Business	The Nation	Article <a href="#">Here</a>
Air comes out of the reflation trade	Headlines	Article <a href="#">Here</a>
Inflation May Be About to Pick Up Sharply	Bloomberg	Article <a href="#">Here</a>
US election: gridlock	Fidelity	Article <a href="#">Here</a>
Goldman Sachs: Gold Bull Market To Resume In 2021	Forbes	Article <a href="#">Here</a>
Rethinking the ECB's inflation objective	Vox EU	Article <a href="#">Here</a>
Boom town means entrance for some, exit ramp for others	Aspen Daily News	Article <a href="#">Here</a>
Voters Raise Florida Minimum Wage; Restrict Rights of 'Cali' Gig Workers	The Chief Leader	Article <a href="#">Here</a>
Federal Reserve survey: Prices, government support lift expectations	Agrinews	Article <a href="#">Here</a>

### Narrative Structure Measures by Archetype

	Strength	Cohesion	Sentiment
Easing / Dovish Policy	Very Weak (1)	Weak (3)	Extreme Positive (10)
Tightening / Hawkish Policy	Very Weak (2)	Average (4)	Extreme Positive (10)
Central Bank 'Put'	Very Weak (1)	Very Weak (1)	Extreme Positive (10)
Inflation Focus	Very Weak (2)	Average (4)	Extreme Positive (10)
Unemployment Focus	Very Weak (1)	Very Strong (8)	Extreme Positive (10)