Central Bank Policy

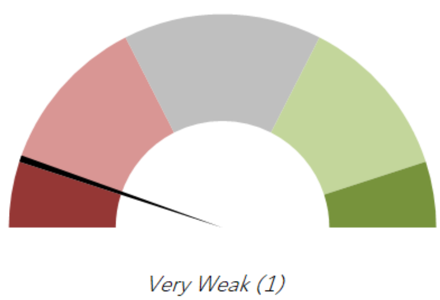
Narrative Structure Analysis for February 2021

Epsilon Theory

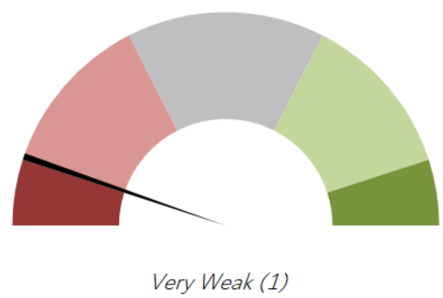
Dominant Narrative Structure for February 2021

Inflation-Focused Narrative

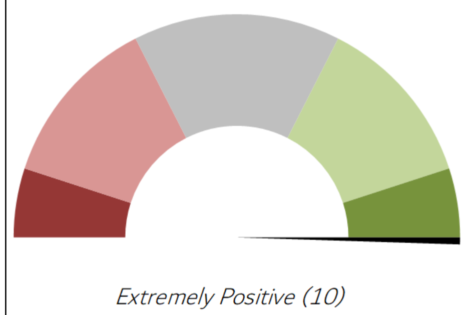
Narrative Strength



Narrative Cohesion



Narrative Sentiment



Analysis and Commentary

For two months, we have pointed out that the most interesting central bank language was the language of hawkishness that was making its first real appearance in many months. This became more true in January, as variations of "tapering" language started rearing their heads for the first time in a very long time.

As before, this language exists mostly in the hypothetical. "When", they ask, "will it be necessary to begin tapering?" Or, "When will it be time to start the process of tapering" the participation of the Fed in risky asset markets and debt markets alike.

These articles and research pieces do not have a conclusion or answer to those questions because they are *not designed* to have an answer or conclusion. The entire purpose, in our view, is to promote the flow-and-transactions idea of responding to the risk of tapering through preparatory portfolio rotation.

In the meantime, however, inflationary rhetoric remains the dominant narrative archetype around Central Banks. The gap between "will there be inflation" and "is it time for banks to become hawkish" closed slightly between December and January. But make no mistake—the language of central banks coverage continues to be explicitly focused on what investors ought to do about inflationary risks.

To be fair, we DO continue to believe that there is a strong backbone of Fed Put expectations that do not make their way into active narratives simply because they are so implicit and not worthy of coverage at a time when markets are performing relatively well.

But the strongest feature of Central Bank Policy narratives in January 2021, we feel, is the **absence** of common knowledge. Yes, Inflation is the dominant regime, but it is an exceedingly weak and incohesive regime. Investors, pundits, analysts and commentators are decidedly uncertain about the potential that current policy is inflationary and what to do about it.

In our view, that remains an indicator of two-way volatility in USD, commodities, key deflationary trade assets (e.g. long treasuries) and key inflationary trade assets across risk markets.

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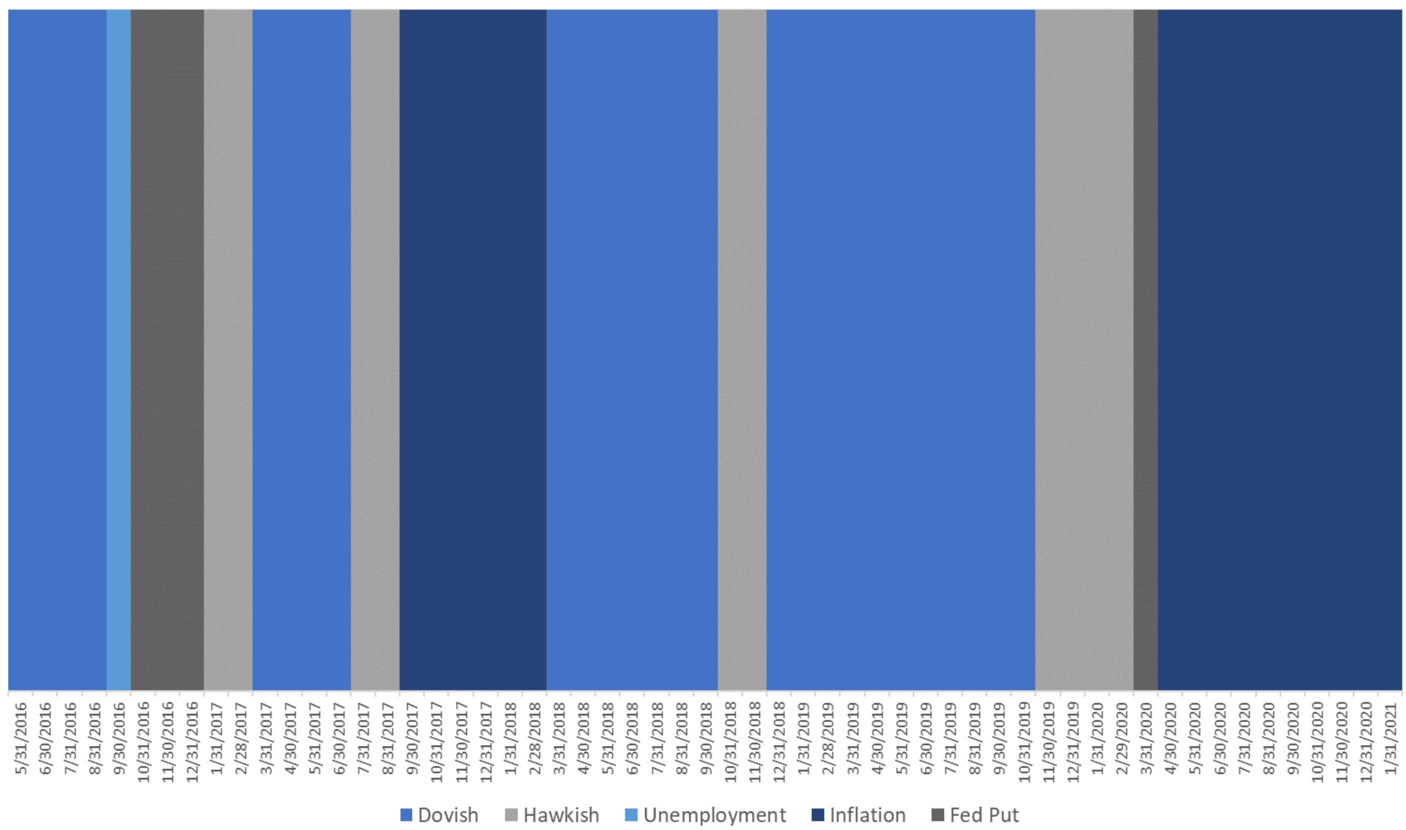
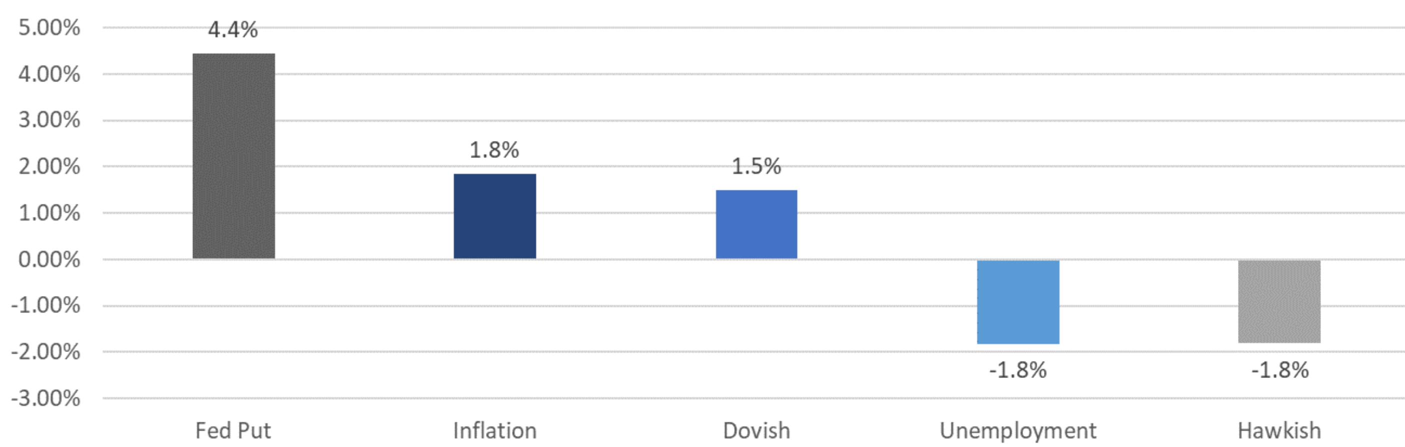
Dominant Central Bank Narrative Regimes (2016—January 2021)



Subsequent Month S&P 500 Index Returns By Narrative Regime (2016—January 2021)



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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Most Indicative (On-Narrative) News

Headline	Outlet	Link
We Don't Need No Stinkin' Valuation Metrics	Advisor Perspective	Article Here
Commentary Is Diversification Dead? by Rob Arnott, John West of Research Affiliates	Advisor Perspective	Article Here
Report: Pandemic Drives Demand for Higher-Priced Homes	New Orleans Business	Article Here
Bond Market' Reflation Trades Take Flight as Steepener Thrives	Bloomberg	Article Here
Gold Snaps Losing Run as Investors Weigh Dollar, Biden Stimulus	Bloomberg	Article Here
Jump in US inflation expectations not yet suggesting sustained rebound	S&P Global	Article Here
US Treasury Bond Yields Extend Surge As Inflation Pressures Build	The Street	Article Here
The macroeconomic implications of Biden's $1.9 trillion fiscal package	Brookings Institute	Article Here
Bondholders beware—inflation is coming, says Jeremy Siegel	MoneyWeek	Article Here
Fed has been successful at convincing markets it will be more dovish down the road, Bernanke says	MarketWatch	Article Here

Narrative Structure Measures by Archetype

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