EUROMONEY

Covid-19 shows the value to investors of alternative data

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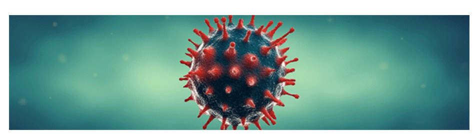
Alternative data can tell in near real time the story of economic and financial market disruption now playing out, but asset managers need artificial intelligence to read it.

At the start of April, Exabel, an artificial intelligence (AI) and machine learning platform for active asset managers, partnered with 1010data, an alternative data provider to the retail, consumer packaged goods and financial services industries, to develop their Covid-19 Impact Dashboard.



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The dashboard derives information from multiple sets of live credit and debit card transaction data, as well as some geolocation data that show declining visits to stores.

Taken together, these give investors a close to real-time insight into how the pandemic and lockdowns have impacted consumer spending in the US at companies across 11 subsectors of the travel, general merchandise and grocery, and retail industries.

While sell-side analysts struggle to update projections based on slow-to-arrive and already-out-of-date-when-they-do official and audited numbers, such as GDP and quarterly corporate earnings, the dashboard offers searing insights.

> In recent years, the landscape of alternative data has become almost bewildering in its variety, quantity and very wide range of quality. But it can be very valuable

> - Neil Chapman, Exabel

Consumer behaviour started to change around February 25 even before the first death in the US. By March 28, it was showing a year-on-year aggregate decline in spending of 46.3%, although by April 1, this had recovered to a 32.9% decline.

That aggregate number breaks down into wide variations. In the travel sector, by late March, cruise companies were showing a 95.6% decline in consumer spending and airlines a 98% decline.

By contrast, grocery stores showed a 97% rise in year-on-year spending by March 18, although this subsequently declined, presumably after initial stockpiling, to show a 27.5% rise as at March 25.

Even while visits to stores stocking office supplies fell, consumer spending rose to 48.1% higher year on year by March 25. Clearly Euromoney wasn't alone in forgetting to stock up on notebooks and pens before we fled Fleet Street to shelter in Tooting.

Clothes shopping did less well, down 77.8%.

For asset managers, and especially for discretionary portfolio managers that strive to distinguish themselves through fundamental research, the dashboard also offers an insight into the potential for big data to inform their thinking.

"Our mission is to help our asset management clients become more data driven," Neil Chapman, chief executive of Exabel, tells Euromoney. "In recent years, the landscape of alternative data has become almost bewildering in its variety, quantity and very wide range of quality. But it can be very valuable.

"Credit and debit card transaction data is clearly highly correlated to consumer spending. And while that may not be of much interest to investors in oil majors or heavy industry, it is very relevant for retail or other consumer staples. For some problems you need datasets with

Neil Chapman, Exabel

sufficient history to train AI models on them, but when you do those data sets give up their story quite easily."

Readers be wary. The dashboard is something of a teaser. Data comes in with a lag of several days. That's why Euromoney can't see beyond the start of April. Investors that pay for a premium license get a more up to date view by about seven days. Better yet, they get to drill down beyond the aggregate sector level and see not just how spending is unfolding for pharmacies or grocery stores in general but what is happening at specific companies and chains.

It's worth remembering too that more subtle stories can emerge from using multiple data sets.

It seems obvious that we are all spending more on essentials from groceries, but revenue isn't the whole picture.

Adam Vettese, eToro

"Coronavirus-induced panic buying has caused perhaps the greatest disruption to food supply chains since the Second World War. While it would be easy to assume supermarkets were cashing in as a result, the reality is very different," says Adam Vettese, analyst at multi-asset investment platform eToro.

He points to the preliminary results announcement in April from Tesco, which suggests that just covering for staff absent through sickness or self-isolation might add between £650 million and £925 million to annual operating costs.

"For investors, this is a classic lesson in due diligence: just because the stores are full doesn't mean everything is rosy behind the scenes," says Vettese.

Information advantage

"Investors are constantly looking for an information advantage," says Chapman. "While fundamental asset managers that are not paying attention to this data prepare for quarterly earnings releases, those using these kinds of data typically find a point of maximal information advantage, roughly 60 or 62 days into a quarter, where the data has told its story ahead of the quarterly earnings release."

One might argue that that is not what happened in the first quarter of 2020. It was only in the last 30 days that Armageddon suddenly arrived. But the sell-side strategists haven't done much for their credibility with their initial talk of V-shaped recoveries and their painfully slow realization of the enormity of the economic shutdown.

Nowcasting and alternative data look set to exert an increasing allure amid this overturning of financial markets.

"This kind of data has been around for a long time," Chapman points out. "The first to use it were the great quant funds – Renaissance Technologies, Two Sigma, Acadian Asset Management – that bought the premium datasets and hired armies of advanced mathematicians, data scientists and software engineers to harness them. Your typical discretionary fundamental manager doesn't have that infrastructure to receive, ingest and model the data to provide insights to portfolio managers, which might support or challenge their investment hypotheses.

"It is for these less-technical firms that Exabel delivers most accessible value, via an instantly available software-as-a-service platform."

The pitch here is that assets managers can mutualize the costs of all those data scientists and software engineers and let firms like Exabel do the heavy lifting. Exabel doesn't sell research – although the Covid-19 impact dashboard is an exception – or build complete investment models. But it can take valuable raw data and present from it information that might tell portfolio managers a story.

Consumer spending is just a quick and easy one to read and quite gripping right now.

"Many fundamental managers might follow, say, a momentum strategy and from a universe of tens of thousands of companies screen for maybe 20 to 50 that they analyze in great depth. They often lack a quantitative model to back test that initial screening, even though a few tweaks to the list of companies they focus on might add several percentage points of alpha," says Chapman.

"We are data agnostic and we do not group buy data. But we do have a role in helping vendors articulate the value of alternative data to the buy side. And we also believe that efficient markets are good markets.

"Having just a few very large quantitative hedge funds outperforming a long tail of investors with no access to these data modelling tools doesn't look sustainable."

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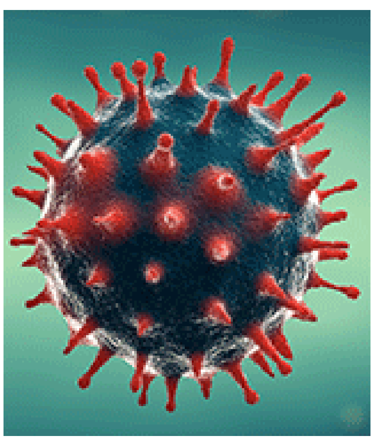

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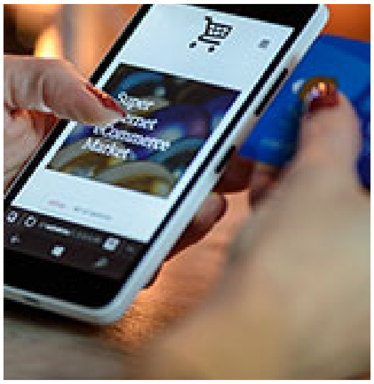

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