

Analytics Risk Summit London 2024

Quantifying qualitative information

Peter Shepard, head of analytics research and product at MSCI

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In my role, the goal is to understand what problems our clients have and then how can we bring the large team of researchers to bear on it.

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So, that includes the traditional Barra and Riskmetrics models.

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But these days, it really includes, you know, AI and everything else tackling the new and emerging challenges that our clients have that, you know, analytic tools can really help with.

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Yes, so I think looking outward there, the world is changing at a faster pace.

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So we had 20 years of crises, but the structure of the markets was very stable.

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And, you know, moving toward globalization today, there's a lot more uncertainty than ever.

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And that really requires much more of a forward-looking view to understand. In terms of how we tackle that the rise of AI is disruptive.

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There's so much information in numbers that we've modelled in the past with traditional means.

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There's so much information in words as well.

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And being able to combine the two together to I think is critical to taking a much more forward-looking view rather than just looking at a kind of backward history that is much less relevant today.

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Yeah. So MSCI's Portfolio Insights uses AI to really surface what matters most and make it a lot easier to use information.

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So rather than saying, here's a tool, here's a bunch of numbers, go for it, it says, we've looked at your portfolio, we've read the news. These are the things that you should be focused on this morning.

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You have questions rather than clicking around to look at reports to drill out the number - just ask it.

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Just ask it what you need to know.

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And it's been kind of a guardrail.

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It's not Chat GPT, where it's just going to make stuff up.

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It's been really tightly guard-railed and really trained to know our space, so that it can really give the most relevant answer and also allow you to, you want to see a chart rather than clicking at it, just ask for it and it'll generate the chart that you need to see.

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So we think of it in terms of alerting you to, you know, pay attention.

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Here's the headline. This is what you should focus on then giving you a really new way to explore it and then to act on it as a third step and acting in a way where it's described in English rather than, you know, traditional algorithm.

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The Macro Finance Analyzer is a really new way of looking forward. It combines a forward-looking view of the key drivers of returns across asset classes from a horizon anywhere from tomorrow to 20-30 years out.

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And then it also combines that with looking at valuations.

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And so it can be used in two ways.

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One, it can be to say, this is my view of what I think the economy will do.

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This is what the markets are saying.

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That means here's the expected returns.

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So it's giving a framework for thinking about expected returns using market valuations, using macro assumptions in a very transparent way consistent across asset classes.

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And then the other way is to say, OK, this isn't what I think is going to happen, but this is what might happen.

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Here's a scenario, here's a risk and propagating that back to understand, OK, what does that mean for asset prices in the short-term?

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And then how will that play through?

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So we looked in the bottom of the COVID cycle, we looked and market has just fallen 25%.

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What assumptions did you need to make to justify that?

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And what does that mean for how things would go forward?

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So if you wanted to explain that entirely in terms of the fundamentals, you needed to assume a decade of severe recession. A much more intuitive explanation was fear.

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And so we, we made the call on March 13th, 2020, that equity looked to be significantly undervalued according to the model.

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And that's very much in line with the recovery that happened thereafter.

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So MSCI is leveraging AI across the board.

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So we think of it in terms of a number of levels at the foundation is around data.

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So there's so much data that is now accessible by using AI to mine a lot of different sources and bring it together.

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The next level is around models and signals.

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And we think AI already can really change the way a model works.

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So rather than just taking numbers and spitting out numbers, looking at the information and news and combining that with the information and numbers.

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So rather than looking at, OK, this one up and this one up at the same time, this one up and this one up.

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And there was this news article explaining the cause to really getting at the root cause of things allows you to understand the narrative of what's happened.

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And it also allows you to project forward into events that haven't happened before.

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Then the third level of it is really changing how people interact with it.

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So making it much more about the insights than the underlying information.

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So we can use AI to look at here's what the models think is most relevant to you today given what's going on in the world and tell you that in English rather than in numbers, and then allow you to inquire further, explore asking questions rather than clicking around to make it much more easy for you to get at the real insights that the models are getting at.

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