

SignalLab

Transcript

Interviewer (00:04):

The investment landscape has changed dramatically in recent years, faster market cycles, more complex sources of risk, and a flood of new data that's made it harder for investors to separate real insights from noise. Against that backdrop, asset managers and hedge funds are under growing pressure to move quickly, differentiate their process, and back their decisions with data they can trust. Here with us now to talk about how MSCI is helping investment managers and navigate these changes, we have Mark Carver, Managing Director and Global Head of Equity Solutions, and Peter Shepherd, Managing Director and Global Head of Equity Investing Research.

(00:45):

Well, starting with you, Mark, how has the industry landscape changed over the last few years, and what would you say is driving that shift?

Mark Carver (00:53):

Well, first of all, Jenna, it's great to see you. Haven't seen you in a while, so thanks for having us. I think there probably are three big changes that are shaping the industry today, and in truth, there's a lot of overlap in these changes. The first is maybe the macro dynamics where, for a long period of time, the global industry was more behaving in a period of convergence with global dynamics more converging than diverging. Today we see divergence in economic policy.

(01:25):

We've seen a number of physical conflicts. We've seen trade dynamics that are very different than the period that we've had been in for quite a long period of time. So that's one. The second is evident to everybody listening, it's market concentration. It continues to be a big theme both in terms of what's driving risk, what's driving return, where investors are allocating capital both globally and the types of products. Then third and probably most obvious and most important is the tools that we have available today leveraging artificial intelligence, and that means the ability to leverage unstructured data or alternative data in a way that we've never been able to do before.

(02:14):

The way to assess data that's been in our investment process for many years is different today. The types of applications, dashboards and investment decisions we can build via artificial intelligence is so much different today, and the speed of which all of these things are changing certainly is faster than any time I remember in my career.

Interviewer (02:36):

And Peter, what are some of the challenges that your clients are facing in responding to the market changes, and how is MSCI helping them?

Peter Shepard (02:43):

Yeah, so I think, very much along the lines of what Mark said, the challenge of the speed of change globally, the concentration in the markets, so the wide dispersion of this handful of winners and very different from the losers in different parts of the market, and then overall trying to make sense of AI both as an investment theme, but also as a major investment tool.

(03:16):

A lot of our clients see that it's very valuable but need structure to really put it to use. So what we're finding is, fortunately, all of these sort of come together. Traditional models, traditional frameworks like looking backward at lots of data and extrapolating forward, that doesn't work at all when things are changing so quickly and when things are so concentrated, but AI is really enabling us to push through that and using AI to pull together both traditional financial data along with text-based data and to create a framework to allow investors to respond very, very quickly to what matters going forward and not just looking backward.

Interviewer (04:05):

Now, Mark, tell us more about SignalLab. What is it and what makes it different from what's already out there?

Mark Carver (04:11):

Yeah. Well, thanks for that question. Obviously, you and I had talked a little bit about this some time ago, but we're excited at the introduction or launch of SignalLab. What it really is is a set of research-grade investment data sets that are organized by an investment domain that could be thematic-oriented like a micro industry or business activity, or AI. It could be factor-oriented like risk

premia that comes from the academic or the leading industry publications where we're organizing the data in ways that turn it from a concept to an investment signal that's tradable and investible.

(04:57):

It could be a factor-oriented type of domain. The exciting thing is that, for the first time, investors will be able to have multiple lenses of a security organized by the investment domain, but have some common characteristics such as the quality of the data and dependability of that, the speed of which it is delivered to you, the types of way it's delivered to you, and something that's often overlooked is how you identify the particular security of interest where we're using common identifiers or having a common security master. What that means is that you can look at one security with one identifier across multiple investment domains to give yourself more insight about the way the market is pricing that asset.

(05:50):

As a result, it hopefully will mean your research is more efficient and simpler, your onboarding of the data is more efficient, simpler, lower cost, and you have greater diversity in the way you might consider a security for your quantitative model or for your fundamental analysis.

Interviewer (06:09):

Peter, anything you'd like to add to Mark's comments?

Peter Shepard (06:12):

The tools that we're able to incorporate into SignalLab are the most exciting things that we've been able to develop in really all of my career enabled by AI. We're able to use AI in a lot of different ways. One is we are able to just do so much more with it. The things that in the past would've taken a research or a really long time to develop one by one, we're able to scale that.

(06:45):

So we're able to use an AI pipeline to bring just a huge amount of content into SignalLab altogether. But equally important to us is allowing the combination of traditional and new source of information into a model framework. You can say traditional models were math majors, AI is sort of an English major. How do we bring the two together to get all the information from both the numbers and the words?

(07:20):

We've been able to develop a framework using a combination of large language models and small language models that allow us to do this, to be able to spot a cluster, an emerging cluster that you couldn't see just from the numbers, you couldn't see it just from the words, but by looking at the two together, we're able to spot things much earlier. We're doing this both in terms of very, very detailed, so micro industries looking at semiconductors,

(07:50):

you've got Nvidia, Intel, solar panel manufacturers. They're all in the same kind of gig sub-industry, but they're experiencing completely different trajectories these days. These techniques allow us to pull apart the markets and identify these three stocks, these five stocks, they represent the true peer group or the true drivers of returns in this part of the market, really capturing that aspect of today's economy, and equally using very similar tools to spot, okay, there's these news articles, all of a sudden there's a burst of attention here.

(08:29):

It looks to be financially relevant and it hasn't really been priced in yet, but these names are the ones that are most likely affected by it.

Mark Carver (08:38):

And investors, hearing what Peter just said, Jenna, might say, "So what? What am I going to do with this?" The truth of the matter is that it should allow you to more effectively gain an edge in the things you already do. What do you do? You build portfolios, right? Many of our quantitative clients have alpha models that represented by many, many different investment signals or investment considerations. They can further diversify those alpha models by bringing in some of these data points and these data sets that we're building in SignalLab.

(09:14):

Many of our sell side organizations, some of our hedge fund clients have pair trading strategies. The micro industries, these narrow clusters that Peter is alluding to could be a great source of ideas for pair trading strategies in ways that maybe weren't obvious with the way we historically have done this. You might be able to leverage this data and develop new financial products. So if you're a

product manager at an insurance company, an asset management firm, you could use some of this data to develop new financial products and introduce that into your diversified product range.

(09:54):

The exciting thing about this is hopefully we're going to bring enhanced capabilities to build and construct portfolios, to do trading strategies, to build hedge baskets should you choose, or to launch new financial products all within the same set of data, just depending on the role you sit or the functional responsibility you have within your organization.

Interviewer (10:19):

Peter, Mark mentioned AI as one of the biggest shifts in how we work and invest. How has AI shaped the development of SignalLab?

Peter Shepard (10:27):

Yeah, so both in terms of the agentic pipeline that we're able to stand up, we're basically able to use AI as an army of analysts to scale research that previously would've taken months and months and months per signal. We're able to do that very, very broadly. Human in the loop still, but letting the agents do a huge amount of work.

Interviewer (10:58):

Now let's walk through some use cases. Mark, as Peter mentioned, MSCI used AI to help build SignalLab, but for a client who's already using AI in their own day-to-day investment process, what can they actually do with SignalLab? How does it help them?

Mark Carver (11:14):

Yeah, SignalLab, because it's organized in a set of data sets that we refer to as modules, and those modules are domain-specific, what our clients are going to be able to do is construct portfolios in different ways than they have before by getting new sources of diversification. They'd be able to build hedges against their existing portfolios by having more insight into cluster relationships through using micro industries.

(11:48):

So that's another important use case. I mentioned earlier this notion around product development. We would anticipate that many of our clients are going to use some of the modules within the SignalLab to look for ways to build and construct new products that they offer to their clients through a financial product like an exchange traded fund, separately managed account, a custom portfolio, all by leveraging the modules within the SignalLab.

(12:20):

From there, Peter and I are obsessing about effectively sort of two higher-level decisions, which is, do these modules help clients create greater capital efficiency, some of those use cases I just mentioned, or do they bring new sources of risk transparency? Do you better understand the risk, particularly with the market moving as quickly as it is with these macro dynamics shifting as much with these types of events that are going on? People want to understand and have some level of transparency and what that means to the price of their portfolio to the price of the assets inside of their portfolio.

(13:00):

They're going to be able to leverage SignalLab to be able to do that. So greater capital efficiency, new product development, further risk transparency I hope will be highly beneficial to clients we already work with and those that we don't.

Interviewer (13:16):

Peter?

Peter Shepard (13:17):

Yeah, I think I'd add to that. I think there's a lot of use cases that we're explicitly building out. Mark mentioned the pairs trading strategy, basket building, broader risk management capabilities, diversification capabilities. We see these as really important building blocks for building thematic strategies and exploring different scenarios.

Interviewer (13:40):

Finally, as we wrap up, Mark, where do you see SignalLab going from here?



Mark Carver (13:45):

Well, I think Peter just hinted at some of the ways. The thing that we will be working on from here will be the way clients can leverage the data itself. That could be through customization. They might take an idea that Peter and I spin up and put into SignalLab and they might want to adjust it by bringing in their own perspective on customizing that particular signal that sits in an investment domain.

(14:17):

They also might want to construct a portfolio against this and they might want that portfolio to be an index. So the ability for us to bring the insights in SignalLab and the data there into our index infrastructure for clients to be able to find an index will be super exciting. And then, I talk a lot about this idea of risk transparency. We're going to be looking at ways we can deliver new insights via our factory models in a truly differentiated factor model that has the considerations of these cluster or micro-industry relationships of business activities, of the impact of news and events on what today sits inside the idio.

(15:01):

All of that should benefit investors who are allocating capital, those who are hiring you to sit inside a sleeve of their portfolio. So whether you're an investor or an allocator, hopefully you'll get tremendous benefit from the insights we can bring through the extension of SignalLab.

Interviewer (15:26):

Well, we better leave it there. Mark, Peter, thank you so much for joining us today, and thank you to everyone out there watching. Once again, that was Mark Carver and Peter Shepard from MSCI, and I'm your host, Jenna Dagenhart with Asset TV.

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