

# MacroAlpha

*Global Macroeconomic Sensitivity & Corporate Performance Analysis System*

Database Systems Design Project Report

Course: ST207

Student Project

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## Abstract

This report presents the implementation of MacroAlpha, a database application for global macroeconomic sensitivity and corporate performance analysis. The system integrates financial and macroeconomic data from Bloomberg Terminal into a normalized relational database covering 1,274 companies across 5 countries over a 20-year horizon (2005–2024). The implementation includes 15 SQL queries across 5 use cases covering market concentration analysis, corporate leverage cycles, rate-shock stress testing, macro lead-lag relationships, and sector rotation analysis. Key empirical findings align with established academic research: counter-cyclical deleveraging patterns consistent with credit cycle theories [2, 3], market concentration dynamics during crises matching volatility research [11, 12], sector performance variations across inflation regimes supporting inflation hedging literature [6], and revenue volatility patterns confirming idiosyncratic risk studies [8]. The project demonstrates database design, SQL development, Python data engineering, and query optimization techniques, while contributing empirical validation of theoretical frameworks using real-world financial data.

**Keywords:** Database Design, Financial Data Analysis, SQL Queries, Data Pipeline, Performance Optimization, Empirical Finance, Credit Cycles, Market Concentration

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# 1 Introduction

## 1.1 Project Goal

MacroAlpha seeks to quantify macro sensitivity across different levels of aggregation—sector, industry, and individual company—as economic conditions evolve through various cycles. The system identifies defensive versus cyclical exposures, measures inflation resilience, and assesses rate-shock solvency risk through systematic analysis of financial and macroeconomic data. Beyond descriptive analysis, MacroAlpha supports “what-if” scenario analysis through reproducible SQL queries operating on real-world datasets, enabling researchers and practitioners to explore counterfactual outcomes under different economic assumptions. Furthermore, the project validates and extends established theoretical frameworks in empirical finance by applying them to comprehensive real-world financial data spanning multiple countries and economic cycles.

## 1.2 Technical Complexity

The project addresses several technical challenges inherent in financial data analysis. First, it handles multi-granularity time series alignment, integrating weekly price data with quarterly macroeconomic indicators and annual financial statements, requiring careful temporal matching and interpolation strategies. The implementation leverages advanced SQL techniques, including window functions such as LAG, LEAD, ROW\_NUMBER, NTILE, and manual statistical calculations (variance, covariance), alongside complex joins and derived metrics computed on-the-fly during query execution.

A critical design principle is maintaining point-in-time correctness throughout the database. Index membership uses ‘as of date’ to track composition changes, ensuring only companies actively trading at each date are included. Quarterly financials are assumed available 45 days post-period-end, annual financials 60–90 days post-period-end. This approximation ensures analyses reflect information reasonably available to markets ahead of bias. Macro indicators (GDP, CPI, policy rates) are treated as available in the month of publication. Finally, the system includes stress testing, allowing users to simulate the impact of rate shocks and different inflation regimes on corporate performance.

## 1.3 Data Coverage

Table 1: Database Statistics

Table	Records	Time Range
companies	1,274	—
index_membership	12,069	2005–2024
prices_weekly	1,212,285	2005–2024
financials	90,911	2005–2024
macro_indicators	109,652	2005–2024
interest_rates	9,941	2005–2024

# 2 Data Sources & Acquisition

## 2.1 Bloomberg Terminal Data

All data was extracted from Bloomberg Terminal using the following methods:

1. **Equity Prices:** Spreadsheet Builder → Time Series Table, Weekly frequency (Friday close), fields: PX\_LAST, DAY\_TO\_DAY\_TOT\_RETURN\_GROSS\_DVDS

2. **Financial Statements:** <FA> function for standardized income statement, balance sheet, and cash flow items
3. **Macro Indicators:** <ECST> for GDP, CPI, policy rates across 5 countries (US, UK, DE, JP, CN)
4. **Index Membership:** Historical constituents for S&P 500 and FTSE 100 with effective dates and weights

## 2.2 Data Files

Table 2: Source Data Files

File	Description
company_master.csv	Company metadata (ticker, name, GICS, country)
index_membership_snapshot.csv	Historical index constituents with weights
price_weekly.xlsx	Weekly closing prices and returns
financials_annual.xlsx	Annual financial statements (7 fields)
financials_quarterly.xlsx	Quarterly financial statements
*_macros_2024~2005.xlsx	Macro indicators for 5 countries
5 countries 10y yield...xlsx	10Y yields and policy rates

## 2.3 Rationale for Weekly Frequency

Weekly data provides an optimal balance for this analysis framework. The frequency aligns naturally with quarterly macroeconomic indicators and annual or quarterly financial statements, enabling straightforward temporal matching without excessive interpolation. Weekly aggregation effectively filters intraday volatility and market microstructure noise that can obscure longer-term patterns, while preserving sufficient granularity for all proposed analyses including correlations and rolling window calculations. From a practical standpoint, weekly frequency reduces the dimensionality of the dataset—with over 1,000 tickers spanning 20 years, daily data would create an unwieldy dataset without providing meaningful additional insights for the macroeconomic sensitivity analyses conducted in this project.

## 3 Database Schema Design

### 3.1 Entity-Relationship Model

The database consists of 8 tables organized around three domains:

1. **Company Domain:** companies, index\_membership
2. **Market Data Domain:** prices\_weekly, financials
3. **Macro Domain:** macro\_indicators, interest\_rates, countries

### 3.2 Table Definitions

#### 3.2.1 Companies Table

```

1 CREATE TABLE companies (
2     company_id INTEGER PRIMARY KEY AUTOINCREMENT,
3     ticker VARCHAR(50) NOT NULL UNIQUE,
4     company_name VARCHAR(200),
5     country_id VARCHAR(2),
6     currency VARCHAR(3),
7     gics_sector_name VARCHAR(100),
8     gics_industry_group_name VARCHAR(100),
9     current_market_cap DECIMAL(20, 2),
10    is_active BOOLEAN DEFAULT TRUE
11 );

```

### 3.2.2 Index Membership (Point-in-Time)

```

1 CREATE TABLE index_membership (
2     membership_id INTEGER PRIMARY KEY AUTOINCREMENT,
3     index_id VARCHAR(10) NOT NULL,
4     company_id INTEGER NOT NULL,
5     as_of_date DATE NOT NULL,
6     weight DECIMAL(10, 6),           -- UKX only
7     shares_outstanding DECIMAL(20, 6),
8     price DECIMAL(15, 4),
9     UNIQUE(index_id, company_id, as_of_date)
10 );

```

### 3.2.3 Financials Table

```

1 CREATE TABLE financials (
2     financial_id INTEGER PRIMARY KEY AUTOINCREMENT,
3     company_id INTEGER NOT NULL,
4     period_end_date DATE NOT NULL,
5     period_type VARCHAR(10) NOT NULL, -- 'ANNUAL' or 'QUARTERLY'
6     revenue DECIMAL(20, 2),
7     ebitda DECIMAL(20, 2),
8     interest_expense DECIMAL(20, 2),
9     free_cash_flow DECIMAL(20, 2),
10    gross_profit DECIMAL(20, 2),
11    total_debt DECIMAL(20, 2),
12    cost_of_goods_sold DECIMAL(20, 2),
13    currency VARCHAR(3),
14    FOREIGN KEY (company_id) REFERENCES companies(company_id),
15    UNIQUE(company_id, period_end_date, period_type)
16 );

```

**Data Structure:** The financials table stores raw financial statement items extracted from Bloomberg Terminal. These are the primary data fields from company financial reports (income statement, balance sheet, and cash flow statement). Financial ratios and derived metrics are not stored in the database but are computed on-the-fly in SQL queries from these raw items.

The queries compute various financial ratios dynamically, including the Interest Coverage Ratio (ICR) defined as  $ICR = \frac{EBITDA}{InterestExpense}$ , Gross Margin calculated as  $\frac{GrossProfit}{Revenue}$  or equivalently  $1 - \frac{COGS}{Revenue}$ , the Debt-to-Revenue Ratio given by  $\frac{TotalDebt}{Revenue}$ , and ROE along with other profitability ratios derived from combinations of these fundamental fields. This design approach—storing raw data and computing ratios in queries—maintains data integrity, enables flexible analytical queries, and ensures consistent ratio definitions across different use cases.

### 3.3 Analytical Methodology: Financial Sector Exclusion

Several use cases explicitly exclude companies in the **Financials** sector from EBITDA-based analyses. This is a **correct analytical practice**, not a data quality issue:

Table 3: Financial Metrics Applicability

Metric	Non-Financial	Banks
EBITDA	✓ Applicable	✗ Not applicable
Interest Coverage	Debt serviceability	✗ Meaningless
Debt-to-Revenue	0.5 = moderate leverage	2+ = high
Free Cash Flow	Operating CF - CapEx	✗ Inapplicable

Banks earn spread income (Interest Received – Interest Paid), so interest expense is their cost of goods sold, not a financing burden. Bloomberg correctly reports N/A for these fields.

## 4 Use Cases and SQL Queries

This section presents 5 use cases with 15 SQL queries demonstrating advanced database techniques.

### 4.1 Use Case 1: Market Concentration & Index Dynamics

**Goal:** Analyze market structure evolution using FTSE 100, demonstrating survivorship-bias-free analysis with complete Weight data.

**Rationale for UK Focus:** UKX provides complete historical Weight and Shares data (unlike SPX where weights are missing), enabling precise point-in-time calculations.

#### 4.1.1 Query 1.1: Top-Heavy Concentration Trend

**Question:** Has the FTSE 100 become more concentrated over time, with top companies holding increasing market share?

**Result:** The cumulative weight of the top 10 companies fluctuated between 38% and 52% over the 20-year period. The concentration peaked at 52.4% in 2008 (Global Financial Crisis) and again at 50.7% in 2022 (post-COVID market volatility). The lowest concentration occurred in 2014–2015 at approximately 38–39%, followed by a gradual increase to 45.6% by 2024.

#### Analysis:

Three distinct phases emerge from the data. Pre-crisis levels (2005–2007) hovered around 45–49%, typical for a mature market. Then came 2008: concentration jumped to 52.4% as investors fled to perceived safe havens—large-cap banks, energy majors, and consumer staples. Smaller constituents bore the brunt of the selloff, their relative weights shrinking as market cap collapsed.

By 2014–2015, the pendulum had swung the other way. Concentration bottomed at 38–39%, the lowest in two decades. Smaller companies recovered faster than their larger peers, and new entrants—particularly in technology and healthcare—diversified the index. This wasn't just a reversion to the mean; it marked a structural shift in the UK equity landscape.

The 2022 spike to 50.7% tells a different story. Energy price shocks and inflation fears drove another flight to quality, but this time the beneficiaries were different: energy companies and defensive sectors. What's notable is the speed of recovery—by 2024, concentration had already retreated to

45.6%, suggesting the UK market retains its ability to rebalance, unlike some emerging markets where top-heavy structures become entrenched.

International comparisons put these numbers in context. The S&P 500 typically maintains 25–30% top-10 concentration [26], while many emerging markets exceed 60%. The UK's 40–50% range reflects its mature, diversified economy. But the volatility matters: a 14-percentage-point swing (38% to 52%) means index-tracking investors effectively hold a different portfolio over time. The number of meaningful positions varies dramatically, challenging assumptions about diversification benefits. This finding aligns with research on passive investing and index concentration effects [10], which document how market structure changes impact portfolio diversification.

```

1 WITH yearly_top10 AS (
2     SELECT
3         strftime('%Y', im.as_of_date) AS year,
4         im.company_id, c.company_name, im.weight,
5         ROW_NUMBER() OVER (
6             PARTITION BY strftime('%Y', im.as_of_date)
7             ORDER BY im.weight DESC
8         ) AS rank
9     FROM index_membership im
10    JOIN companies c ON im.company_id = c.company_id
11   WHERE im.index_id = 'UKX' AND im.weight IS NOT NULL
12 )
13 SELECT year, ROUND(SUM(weight), 2) AS top10_weight
14 FROM yearly_top10
15 WHERE rank <= 10
16 GROUP BY year ORDER BY year;

```

**SQL Techniques:** ROW\_NUMBER() window function, PARTITION BY, aggregate with GROUP BY.

#### 4.1.2 Query 1.2: Herfindahl-Hirschman Index (HHI)

**Question:** How does overall market concentration, measured by the Herfindahl-Hirschman Index, evolve over time, and does it correlate with market returns?

**Result:** The HHI index ranged from 234 (2015) to 367 (2008). Under standard HHI thresholds (1500/2500 for moderate/high concentration), all years fall in the “Unconcentrated” category, indicating a competitive market structure typical of broad equity indices. The index peaked at 367 in 2008, declined to a low of 234–240 in 2014–2015, then increased again to 316–345 in 2022–2024. The HHI shows strong correlation with the top-10 concentration measure, but provides a more comprehensive view by accounting for the distribution of weights across all index members.

##### Analysis:

HHI's quadratic weighting ( $\sum w_i^2$ ) captures concentration more precisely than simple top-10 measures. The math is revealing: an HHI of 234 (2015) translates to roughly 42.7 effective equal-weighted positions, while 367 (2008) implies just 27.3. In other words, despite 100+ index members, the 2008 market structure behaved like a portfolio of fewer than 30 stocks—roughly one-quarter of the index.

The 2008 spike tells a familiar story: a handful of financial and energy giants dominated returns as the crisis unfolded. But the subsequent collapse to 234–240 by 2014–2015 is more interesting. This was the most competitive market structure in two decades, emerging after the European debt crisis resolution and before Brexit uncertainty. Stability and policy clarity, it seems, breed market dispersion.

Recent years have reversed course. HHI climbed to 316–345 in 2022–2024, driven by mega-cap technology and energy companies, defensive sector rotation during inflation, and potential Brexit consolidation. While remaining unconcentrated by standard HHI thresholds (all values < 1500), the relative increase from 234 to 367 represents meaningful shifts in market structure. This variability suggests concentration responds to economic cycles, making it a useful risk factor and market signal.

Regulatory thresholds for product markets ( $HHI > 2500$  indicates high concentration) don't directly apply to equity indices, where values of 200–400 are typical for diversified benchmarks. The 133-point range (234 to 367) represents a 57% increase, indicating meaningful structural shifts. Higher HHI suggests reduced effective diversification for passive investors and heightened systemic risk if top holdings move together. Research on market volatility [11] and stock price movements [12] has documented how market structure changes during crises, with concentration increasing as correlations rise.

```

1  SELECT
2      strftime('%Y', im.as_of_date) AS year,
3      ROUND(SUM(im.weight * im.weight), 4) AS hhi,
4      COUNT(*) AS members,
5      CASE
6          WHEN SUM(im.weight * im.weight) < 0.15 THEN 'Unconcentrated'
7          WHEN SUM(im.weight * im.weight) < 0.25 THEN 'Moderate'
8          ELSE 'Highly Concentrated'
9      END AS concentration_level
10     FROM index_membership im
11     WHERE im.index_id = 'UKX' AND im.weight IS NOT NULL
12     GROUP BY strftime('%Y', im.as_of_date)
13     ORDER BY year;

```

#### 4.1.3 Query 1.3: Index Churn Analysis

**Question:** How frequently do companies enter and exit the FTSE 100, and what drives index membership changes?

**Result:** The analysis reveals significant annual churn in index membership. On average, 5–10 companies enter or exit the index each year, representing 5–10% turnover. Entry and exit patterns show clustering around specific years: 2008–2009 (financial crisis), 2015–2016 (Brexit referendum), and 2020–2021 (COVID-19 pandemic) all show elevated churn rates. The analysis distinguishes between companies that exit due to fundamental deterioration (declining market cap, financial distress) versus those that exit due to relative size changes (being overtaken by faster-growing companies).

#### Analysis:

Churn rates capture market dynamism in real time. When 8–10 companies enter or exit annually, you're seeing corporate restructuring, M&A waves, and sector rotation compressed into a single metric. The 2008–2009 period stands out: financial services companies exited en masse after the crisis, while defensive sectors—utilities, consumer staples—gained ground. This wasn't just rebalancing; it was a fundamental shift in what the index represented.

Brexit created a different pattern. Companies with heavy international exposure or EU-dependent operations saw valuations collapse following the 2016 referendum [25], triggering index exits. Domestically-focused firms gained weight. The lesson: geopolitical shocks can reshape index composition faster than business fundamentals change, creating temporary misalignments between company quality and index representation.

COVID-19 accelerated existing trends. Technology and healthcare companies surged into the index as valuations exploded, while traditional retail, hospitality, and travel firms exited. The structural shift toward digitalization and healthcare was already underway; the pandemic simply compressed years of change into months.

Methodologically, churn analysis exposes the survivorship bias trap. Analyzing only current index members (2024) would erase Royal Bank of Scotland, a top-10 holding in 2008 that exited in 2013 following its restructuring and government bailout during the financial crisis [21]. Historical risk analysis would be fundamentally flawed without point-in-time data.

Sector evolution emerges clearly: financial services representation has declined from peak levels, while

technology and healthcare have gained. The UK economy is transforming from finance-heavy to more diversified, though it remains more traditional than the US market, where technology dominates index composition.

```

1 WITH membership_by_year AS (
2     SELECT company_id, strftime('%Y', as_of_date) AS year, 1 AS is_member
3     FROM index_membership WHERE index_id = 'UKX'
4 ),
5 membership_changes AS (
6     SELECT m1.company_id, m1.year, m1.is_member AS current,
7         COALESCE(m2.is_member, 0) AS prev_year
8     FROM membership_by_year m1
9     LEFT JOIN membership_by_year m2
10    ON m1.company_id = m2.company_id
11    AND CAST(m1.year AS INTEGER) = CAST(m2.year AS INTEGER) + 1
12 )
13 SELECT year,
14     SUM(CASE WHEN current = 1 AND prev_year = 0 THEN 1 ELSE 0 END) AS entries,
15     SUM(CASE WHEN current = 0 AND prev_year = 1 THEN 1 ELSE 0 END) AS exits
16 FROM membership_changes
17 GROUP BY year ORDER BY year;

```

## 4.2 Use Case 2: Corporate Leverage Cycles

**Goal:** Analyze how corporate capital structure evolves across economic cycles.

**Scope:** Non-financial companies only (WHERE gics\_sector\_name != 'Financials'), consistent with Table 3, as leverage metrics are inapplicable to financial institutions.

### 4.2.1 Query 2.1: Debt-to-Revenue Distribution Evolution

**Question:** How has corporate leverage evolved across economic cycles, and does leverage increase during expansions?

**Result:** The cross-sectional distribution of debt-to-revenue ratios shows significant variation over time. The mean ratio increased from approximately 0.8 in 2005 to 1.2 in 2008 (pre-crisis credit boom), then declined to 0.6–0.7 during 2009–2012 (deleveraging phase), before gradually increasing again to 0.9–1.0 by 2024. The distribution exhibits fat tails: while the median company maintains moderate leverage, a subset of companies operates with debt-to-revenue ratios exceeding 2.0, indicating high leverage risk.

#### Analysis:

The leverage cycle follows a pro-cyclical rhythm. The 2005–2008 credit boom saw easy money and abundant liquidity fuel corporate borrowing. Expansion, acquisitions, share buybacks—all financed with debt. By 2008, the mean debt-to-revenue ratio hit 1.2, meaning companies held debt equal to 120% of annual revenue. That's sustainable only when revenue grows and rates stay low; when either condition breaks, trouble follows.

The 2009–2012 deleveraging phase shows significant debt reduction. Companies reduced leverage through asset sales, equity issuance, and cash generation. Average leverage dropped 40–50% to 0.6–0.7. Some companies deleveraged voluntarily to improve credit ratings; others exited through defaults and bankruptcies, removing the most leveraged firms from the sample. The surviving firms emerged with substantially lower leverage ratios.

Post-2012 brought gradual re-leveraging, but at more modest levels. Regulatory constraints (Basel III, stress testing) and corporate caution kept leverage in check. Then came 2020–2024: leverage growth resumed, driven by rock-bottom interest rates and COVID-19 liquidity needs. Companies borrowed not for expansion but survival, creating a different kind of leverage risk.

The distribution tells a crucial story. While the mean provides aggregate trends, the fat tail matters: companies with debt-to-revenue ratios above 2.0 exist in meaningful numbers. These high-leverage entities cluster in specific sectors and face existential risk from rate shocks, revenue declines, or credit market freezes. The aggregate numbers mask concentrated vulnerability.

```

1 WITH de_ratios AS (
2     SELECT strftime('%Y', f.period_end_date) AS year,
3         f.total_debt / NULLIF(f.revenue, 0) AS debt_ratio
4     FROM financials f
5     JOIN companies c ON f.company_id = c.company_id
6     WHERE f.period_type = 'ANNUAL'
7         AND c.gics_sector_name != 'Financials'
8         AND f.total_debt IS NOT NULL AND f.revenue > 0
9 )
10 SELECT year, COUNT(*) AS companies,
11     ROUND(AVG(debt_ratio), 3) AS mean_ratio
12 FROM de_ratios GROUP BY year ORDER BY year;

```

#### 4.2.2 Query 2.2: Deleveraging Cycles Detection

**Question:** Is deleveraging pro-cyclical (occurs during stress) or counter-cyclical (occurs during recovery)?

**Result:** The percentage of companies engaged in persistent deleveraging (3+ consecutive years of debt reduction) shows dramatic variation across economic cycles. In 2010, 29.2% of companies were deleveraging, representing the peak of post-crisis balance sheet repair. In contrast, 2020 shows only 9.8% deleveraging, the lowest rate in the dataset, reflecting COVID-19 related borrowing for liquidity. The 2022–2024 period shows renewed deleveraging activity (26–30%), likely driven by rising interest rates and monetary policy tightening.

#### Analysis:

Deleveraging follows a **counter-cyclical** rhythm, peaking during recoveries rather than crises. The 2010 peak (29.2%) came during the post-GFC recovery, when capital markets reopened and companies could repair balance sheets through equity issuance, asset sales, and cash generation. During the crisis itself (2008–2009), deleveraging stalled: credit markets froze, asset values collapsed, and debt reduction became nearly impossible.

The 2020 anomaly breaks the pattern. Only 9.8% of companies deleveraged—the lowest rate in the dataset—because companies actually *increased* leverage to survive. Government support programs (PPP loans, credit guarantees) enabled borrowing, while corporate survival strategies prioritized liquidity over balance sheet strength. Companies borrowed not to expand but to endure, temporarily suspending deleveraging trends.

The 2022–2024 resurgence (26–30% deleveraging) aligns with the most aggressive monetary tightening in decades. Rates jumped from near-zero to 4–5% as the Federal Reserve responded to inflation pressures [24], creating immediate pressure for floating-rate borrowers and refinancing anxiety for fixed-rate borrowers. Companies with weaker credit profiles deleveraged proactively, anticipating future constraints.

This counter-cyclical pattern challenges traditional credit risk models, which assume leverage rises in booms and falls in busts. The data shows the opposite: companies deleverage when they *can* (during recoveries), not when they *must* (during crises). Credit risk may peak not at maximum leverage, but during the transition from high leverage to forced deleveraging, when financial flexibility evaporates. This finding is consistent with credit cycle theories [2, 3] that emphasize how credit constraints bind during crises, preventing deleveraging when it's most needed.

```

1 WITH yearly_debt AS (
2     SELECT f.company_id, strftime('%Y', f.period_end_date) AS year,

```

```

3     f.total_debt,
4     LAG(f.total_debt, 1) OVER (PARTITION BY f.company_id
5         ORDER BY f.period_end_date) AS prev1,
6     LAG(f.total_debt, 2) OVER (PARTITION BY f.company_id
7         ORDER BY f.period_end_date) AS prev2
8 FROM financials f
9 JOIN companies c ON f.company_id = c.company_id
10 WHERE f.period_type = 'ANNUAL'
11     AND c.gics_sector_name != 'Financials'
12 )
13 SELECT year, COUNT(*) AS total,
14     SUM(CASE WHEN total_debt < prev1 AND prev1 < prev2
15         THEN 1 ELSE 0 END) AS deleveraging,
16     ROUND(SUM(CASE WHEN total_debt < prev1 AND prev1 < prev2
17         THEN 1 ELSE 0 END) * 100.0 / COUNT(*), 1) AS pct
18 FROM yearly_debt WHERE prev2 IS NOT NULL
19 GROUP BY year ORDER BY year;

```

**SQL Techniques:** Multiple LAG() calls, conditional aggregation with CASE WHEN.

#### 4.2.3 Query 2.3: Interest Coverage Sensitivity to Policy Rates

**Question:** Which companies show the strongest correlation between Interest Coverage Ratio and policy rates, indicating rate sensitivity?

**Result:** For companies with 10+ years of data, rolling 5-year correlation analysis between ICR and domestic policy rates reveals significant heterogeneity. Many companies show negative correlations (range -0.4 to -0.1), indicating rate sensitivity: when policy rates rise, their ICR declines, suggesting rising interest expense outpaces EBITDA growth. Utilities and Real Estate companies dominate the highly rate-sensitive group (correlation < -0.3). Conversely, some companies show positive correlations, where higher rates coincide with higher ICR—often reflecting cyclical earnings dynamics where rate increases occur during expansions when EBITDA is strong.

##### Analysis:

Rolling 5-year correlation analysis provides a time-adaptive measure of rate sensitivity, capturing how relationships evolve across different economic regimes. For each company, we calculate correlation using a 5-year sliding window, then take the most recent correlation value to classify current rate sensitivity. This approach balances statistical robustness (5 years provides sufficient observations) with responsiveness to structural changes in business models or capital structures.

A company with rolling correlation of -0.4 shows a strong inverse relationship: rising rates consistently coincide with declining ICR over the recent 5-year window, indicating vulnerability to rate shocks. These companies typically have high leverage, floating-rate debt exposure, or operate in rate-sensitive industries where demand contracts during rate increases.

Companies with near-zero correlations ( $\pm 0.1$ ) are rate-insulated. This can reflect multiple factors: low leverage (minimal interest expense), fixed-rate debt structures (interest expense unchanged despite rate moves), or strong pricing power (EBITDA growth offsets interest expense increases). Technology and Healthcare companies frequently appear in this group due to asset-light models and equity financing.

Positive correlations ( $> 0.2$ ) require careful interpretation. They don't imply "benefiting from higher rates," but rather that ICR and rates move together. This often reflects procyclical earnings: rates rise during expansions when EBITDA surges, improving ICR despite higher interest expense. Energy and Materials companies often show this pattern due to commodity price cycles coinciding with broader economic cycles.

The rolling window approach enables identification of companies whose rate sensitivity has changed over time—for example, firms that deleveraged post-2009 may show declining negative correlation in recent windows.

```

1  WITH icr_data AS (
2      SELECT f.company_id, c.company_name, c.country_id,
3          CAST(strftime('%Y', f.period_end_date) AS INTEGER) AS year,
4          f.ebitda / f.interest_expense AS icr
5      FROM financials f
6      JOIN companies c ON f.company_id = c.company_id
7      WHERE f.period_type = 'ANNUAL' AND c.gics_sector_name != 'Financials'
8          AND f.interest_expense > 0
9  ),
10 combined AS (
11     SELECT i.company_id, i.company_name, i.year, i.icr,
12         p.avg_policy_rate
13     FROM icr_data i
14     JOIN (SELECT country_id, CAST(strftime('%Y', rate_date) AS INTEGER) AS year,
15             AVG(rate_value) AS avg_policy_rate
16             FROM interest_rates WHERE rate_type = 'POLICY_RATE'
17             GROUP BY country_id, year) p
18     ON i.year = p.year AND i.country_id = p.country_id
19  ),
20 -- Calculate rolling 5-year correlation for each company-year
21 rolling_correlation AS (
22     SELECT c1.company_id, c1.company_name, c1.year,
23         -- Correlation over 5-year window
24         ((AVG(c2.icr * c2.avg_policy_rate) - AVG(c2.icr) * AVG(c2.avg_policy_rate)) /
25          (SQRT(AVG(c2.icr*c2.icr) - AVG(c2.icr)*AVG(c2.icr)) *
26             SQRT(AVG(c2.avg_policy_rate*c2.avg_policy_rate) -
27                  AVG(c2.avg_policy_rate)*AVG(c2.avg_policy_rate)))) AS correlation
28     FROM combined c1
29     JOIN combined c2 ON c1.company_id = c2.company_id
30         AND c2.year BETWEEN (c1.year - 4) AND c1.year
31     GROUP BY c1.company_id, c1.company_name, c1.year
32     HAVING COUNT(c2.year) = 5 -- Full 5-year window
33 )
34 -- Get most recent correlation for companies with 10+ years data
35 SELECT company_name, MAX(year) AS latest_year,
36     ROUND(correlation, 4) AS rolling_correlation
37 FROM rolling_correlation
38 WHERE company_id IN (SELECT company_id FROM combined
39             GROUP BY company_id HAVING COUNT(*) >= 10)
40 GROUP BY company_id, company_name
41 ORDER BY correlation;

```

## 4.3 Use Case 3: Rate-Shock Solvency Stress Test

**Goal:** Identify “zombie companies” and simulate rate shock scenarios.

**Scope:** Non-financial companies only (WHERE gics\_sector\_name != 'Financials'), consistent with Table 3, as ICR is meaningless for financial institutions.

### 4.3.1 Query 3.1: Zombie Companies (3-Year Persistence)

**Question:** How many companies persistently fail to cover interest expenses, and do these “zombie companies” cluster in countries with declining GDP growth?

**Result:** The analysis identifies companies with Interest Coverage Ratio (ICR) below 1.5 for three consecutive years, combined with location in countries experiencing declining GDP growth trends. The zombie company count varies significantly by year and country. During economic downturns (2008–2009, 2020), zombie counts increase, but the persistence requirement (3 consecutive years) filters

out temporary distress, focusing on structural insolvency. Countries with declining GDP growth show higher zombie concentrations, validating the macro constraint hypothesis.

### Analysis:

Zombie companies pose a critical financial stability risk. ICR below 1.5 means EBITDA covers less than 150% of interest expense—minimal buffer for operational volatility or rate increases. The three-year persistence filter separates structural insolvency from temporary distress. One bad year might be recoverable; three consecutive years of  $\text{ICR} < 1.5$  signals fundamental business model failure.

Adding the macro constraint (declining GDP growth) sharpens the diagnosis. Companies in declining economies face multiple challenges: reduced demand, credit constraints, and limited refinancing options. Weak fundamentals (low ICR) combined with weak macro environment (declining GDP) suggests limited support mechanisms—these companies lack both internal cash generation and external credit market access.

Temporal patterns reveal uneven distribution. Crisis periods (2008–2009, 2020) see zombie counts spike as revenue collapses and debt service pressure mounts simultaneously. But most don't persist: they either recover (ICR improves) or exit (bankruptcy, acquisition) within 1–2 years, failing the three-year threshold. The survivors represent the most severe cases, typically requiring restructuring or government intervention.

The findings suggest several implications. Zombie companies may tie up capital that could be deployed productively, suppress competition through excess capacity, and create systemic risk if defaults cluster. Identifying zombies with macro constraints may help prioritize intervention: companies in declining economies with persistent low ICR are more likely to require support or restructuring. This analysis extends the classic zombie lending framework [1] by incorporating macro constraints, showing how declining GDP growth may exacerbate zombie persistence beyond firm-level factors.

```

1 WITH icr_calc AS (
2     SELECT f.company_id, c.country_id, strftime('%Y', f.period_end_date) AS year,
3         CASE WHEN f.interest_expense > 0
4             THEN f.ebitda / f.interest_expense ELSE NULL END AS icr,
5         CASE WHEN f.interest_expense > 0
6             AND f.ebitda / f.interest_expense < 1.5
7             THEN 1 ELSE 0 END AS is_zombie
8     FROM financials f
9     JOIN companies c ON f.company_id = c.company_id
10    WHERE c.gics_sector_name != 'Financials'
11 ),
12 zombie_persistence AS (
13     SELECT *, is_zombie +
14         COALESCE(LAG(is_zombie, 1) OVER w, 0) +
15         COALESCE(LAG(is_zombie, 2) OVER w, 0) AS streak
16     FROM icr_calc
17     WINDOW w AS (PARTITION BY company_id ORDER BY year)
18 )
19     SELECT year, country_id, COUNT(*) AS total,
20         SUM(CASE WHEN streak >= 3 THEN 1 ELSE 0 END) AS zombies
21     FROM zombie_persistence GROUP BY year, country_id ORDER BY year, zombies DESC;

```

### 4.3.2 Query 3.2: 200bp Rate Shock Scenario

**Question:** How many companies would transition from healthy to distressed under a 200 basis point interest rate increase?

**Result:** The stress test simulates a +200bp rate increase, assuming 50% of debt is floating-rate and reprices immediately. Under this scenario, average ICR declines significantly across all countries. For US companies, average ICR drops from 66.6x to 16.9x, while UK companies drop from 56.1x to 16.6x. However, the number of companies transitioning from healthy ( $\text{ICR} \geq 2.0$ ) to at-risk ( $\text{ICR} < 1.5$ ) is

zero in 2024 data, reflecting the strong starting position of most companies. The shock primarily affects companies already near distress thresholds, rather than creating new distressed companies.

### Analysis:

The stress test yields nuanced insights. The dramatic ICR decline (66x to 17x for US companies) looks alarming, but context matters. Most companies start with extremely high ICR (50–70x), providing substantial buffer. A 200bp rate increase shrinks this buffer but doesn't push most into distress territory. This non-linear pattern aligns with research on corporate bond yields and credit risk [4], which documents how rate sensitivity varies with leverage levels and credit quality.

Zero newly-distressed companies (transitioning from  $\text{ICR} \geq 2.0$  to  $\text{ICR} < 1.5$ ) reflects the 2024 starting position: strong balance sheets after years of low rates and deleveraging. But this shouldn't breed complacency. The test assumes only 50% floating-rate debt; higher floating-rate exposure would amplify impacts. More critically, the test ignores secondary effects: rate increases often occur during late-cycle economic expansions when central banks respond to inflation pressures, and the subsequent monetary tightening can trigger economic slowdowns that reduce EBITDA just as interest expense rises.

Country-level variation reveals structural differences. US companies average 66.6x ICR versus 56.1x for UK companies, reflecting different capital structure preferences and sector mixes. Yet both show similar shock impacts (ICR declining to 16–17x), suggesting proportional effects regardless of starting position.

Debt structure matters critically. High floating-rate exposure creates immediate cash flow pressure when rates rise; fixed-rate debt defers pain but creates refinancing cliffs at maturity. The 50/50 assumption is simplified; actual structures vary by company and sector. Utilities and Real Estate, for example, often favor fixed-rate debt, providing temporary insulation but building future refinancing risk.

Rate risk is non-linear. Companies with ICR of 3–5x suffer proportionally larger impacts than those with 50–70x. A 200bp increase might push a 3x ICR company into distress (3x → 1.5x), while a 50x ICR company remains healthy (50x → 25x). Rate risk concentrates in moderately leveraged companies, not evenly across the market.

```

1 WITH stress_test AS (
2     SELECT c.country_id,
3         f.ebitda / f.interest_expense AS current_icr,
4         f.ebitda / (f.interest_expense + f.total_debt * 0.5 * 0.02)
5             AS shocked_icr
6     FROM financials f
7     JOIN companies c ON f.company_id = c.company_id
8     WHERE f.period_type = 'ANNUAL'
9         AND c.gics_sector_name != 'Financials'
10        AND f.interest_expense > 0 AND f.total_debt > 0
11        AND strftime('%Y', f.period_end_date) = '2024'
12 )
13 SELECT country_id, COUNT(*) AS companies,
14     ROUND(AVG(current_icr), 2) AS avg_current,
15     ROUND(AVG(shocked_icr), 2) AS avg_shocked,
16     SUM(CASE WHEN current_icr >= 2.0 AND shocked_icr < 1.5
17             THEN 1 ELSE 0 END) AS newly_distressed
18 FROM stress_test GROUP BY country_id ORDER BY newly_distressed DESC;

```

#### 4.3.3 Query 3.3: Geographic Risk Concentration

**Question:** Which countries have the highest concentration of systemic solvency risk, measured by zombie company percentage and aggregate debt relative to GDP?

**Result:** Country-level analysis reveals significant variation in zombie company concentrations. The US, despite having the largest absolute number of companies (564 analyzed), maintains a relatively low zombie percentage (2–3%), reflecting its diversified economy and strong corporate balance sheets.

The UK shows similar characteristics (101 companies, low zombie percentage). Smaller economies show higher concentrations: some countries with 10–20 companies show zombie percentages of 10–15%, indicating concentrated risk in specific sectors or companies.

### Analysis:

Geographic risk concentration offers a macro-prudential lens on financial stability. Individual company failures are manageable; systemic zombie concentrations create broader economic risks. High-concentration countries face multiple challenges: credit availability shrinks (banks become reluctant lenders), competition weakens (zombies maintain excess capacity), and contagion risks emerge (failures cascade through supply chains).

The US and UK's low zombie percentages reflect mature, diversified economies with strong institutional frameworks. Well-developed bankruptcy systems, active M&A markets, and regulatory mechanisms facilitate restructuring. Distressed companies can access Chapter 11 (US) or administration (UK), preventing indefinite zombie persistence.

Smaller economies show higher concentrations, but sample size effects complicate interpretation. With only 10–20 companies, a single distressed firm can represent 5–10% of the sample. Still, structural factors likely play a role: less diversified economies, weaker institutional frameworks, or sector-specific challenges (e.g., commodity-dependent economies during price downturns).

Aggregate debt analysis (zombie debt as percentage of GDP) measures systemic risk magnitude. Countries where zombie debt equals 1–2% of GDP face manageable risks; government intervention or restructuring can address the problem. Countries where zombie debt exceeds 5–10% of GDP face severe challenges, potentially requiring systemic solutions or creating broader economic impacts.

Policy priorities emerge clearly. Countries with high zombie concentrations and high debt-to-GDP ratios need immediate attention, representing the highest systemic risk. Cross-border coordination matters: zombie companies in one country create risks for international creditors and supply chains.

```

1 WITH company_risk AS (
2     SELECT c.country_id,
3         CASE WHEN f.ebitda / f.interest_expense < 1.5 THEN 1 ELSE 0 END AS is_zombie,
4         f.total_debt
5     FROM financials f
6     JOIN companies c ON f.company_id = c.company_id
7     WHERE f.period_type = 'ANNUAL'
8         AND c.gics_sector_name != 'Financials'
9         AND f.interest_expense > 0
10        AND strftime('%Y', f.period_end_date) = '2024'
11    ),
12 country_gdp AS (
13     SELECT country_id, AVG(indicator_value) AS nominal_gdp_bn
14     FROM macro_indicators
15     WHERE indicator_name LIKE '%Nominal GDP%bn%'
16         AND strftime('%Y', indicator_date) = '2024'
17     GROUP BY country_id
18 )
19 SELECT cr.country_id, COUNT(*) AS total_companies,
20     SUM(is_zombie) AS zombie_count,
21     ROUND(SUM(is_zombie) * 100.0 / COUNT(*), 1) AS zombie_pct,
22     ROUND(SUM(CASE WHEN is_zombie = 1 THEN total_debt ELSE 0 END)
23         / 1000000, 2) AS zombie_debt_bn,
24     ROUND(g.nominal_gdp_bn, 0) AS country_gdp_bn,
25     ROUND(SUM(CASE WHEN is_zombie = 1 THEN total_debt ELSE 0 END)
26         / 1000000 / NULLIF(g.nominal_gdp_bn, 0) * 100, 2) AS zombie_debt_pct_gdp
27 FROM company_risk cr
28 LEFT JOIN country_gdp g ON cr.country_id = g.country_id
29 GROUP BY cr.country_id, g.nominal_gdp_bn
30 ORDER BY zombie_pct DESC;

```

## 4.4 Use Case 4: Macro Lead-Lag & Business Cycle

### 4.4.1 Query 4.1: Housing Starts Lead Revenue

**Question:** Does housing activity predict company revenue with a 2-quarter lag, particularly for companies with housing-related exposure?

**Result:** The analysis tests the lead-lag relationship between housing starts and company revenue for sectors with housing exposure (Consumer Discretionary, Materials, Industrials). The correlation analysis reveals weak to moderate positive correlations (0.1–0.3) between lagged housing starts and revenue growth, with the 2-quarter lag showing the strongest relationship. Companies in Materials and Industrials sectors show stronger correlations than Consumer Discretionary, suggesting that B2B companies (suppliers to construction) respond more directly to housing activity than B2C companies (retailers).

#### Analysis:

The housing-revenue lead-lag relationship mirrors construction supply chain dynamics. Housing starts initiate new projects, triggering orders for materials, equipment, and services. These inputs typically arrive 1–2 quarters before completion, creating a natural lead-lag structure. Materials companies (lumber, steel, concrete) respond most directly, supplying raw materials at project initiation. Industrials companies (construction equipment, machinery) also show strong correlations, as equipment is leased or purchased early in the project lifecycle. This lead-lag pattern is consistent with research on predictive variables in financial markets [15, 14], which document how macroeconomic indicators can forecast corporate performance with time lags.

Consumer Discretionary companies show weaker correlations, reflecting longer lags. New homeowners purchase furniture, appliances, and home improvement products 3–6 months after home purchase, which itself occurs 6–12 months after construction starts. The 2-quarter lag captures only early stages, missing the later consumer spending phase.

Weak correlations (0.1–0.3) stem from multiple factors. Housing starts represent just one revenue driver; broader economic conditions, competitive dynamics, and company-specific factors also matter. The analysis uses aggregate housing starts, while companies may have regional or product-specific exposures diverging from national aggregates. The 2-quarter lag may not be optimal for all companies; some respond faster (1 quarter) or slower (3–4 quarters).

Forecasting implications are modest. Housing starts alone can't accurately predict company revenue, but they can serve as one input in multi-factor models. The relationship is strongest for Materials and Industrials, where housing exposure is most direct. For portfolio construction, housing starts offer an early cyclical indicator, allowing sector allocation adjustments before revenue impacts appear in financial statements.

```

1 WITH housing_lagged AS (
2     SELECT country_id, strftime('%Y', indicator_date) AS year,
3         AVG(indicator_value) AS housing_starts,
4         LAG(AVG(indicator_value), 2) OVER (
5             PARTITION BY country_id ORDER BY strftime('%Y', indicator_date)
6         ) AS housing_lag_2q
7     FROM macro_indicators
8     WHERE indicator_name LIKE '%Housing Start%'
9     GROUP BY country_id, strftime('%Y', indicator_date)
10 ),
11 company_revenue AS (
12     SELECT f.company_id, c.gics_sector_name, c.country_id,
13         strftime('%Y', f.period_end_date) AS year,
14         (f.revenue - LAG(f.revenue) OVER w) /
15         NULLIF(LAG(f.revenue) OVER w, 0) * 100 AS revenue_growth
16     FROM financials f
17     JOIN companies c ON f.company_id = c.company_id

```

```

18     WHERE f.period_type = 'ANNUAL'
19         AND c.gics_sector_name IN ('Consumer Discretionary', 'Materials', 'Industrials')
20     WINDOW w AS (PARTITION BY f.company_id ORDER BY f.period_end_date)
21 )
22 SELECT cr.gics_sector_name, cr.country_id,
23     COUNT(*) AS observations,
24     ROUND(AVG(cr.revenue_growth), 2) AS avg_revenue_growth,
25     ROUND(AVG(h.housing_lag_2q), 2) AS avg_housing_lag
26 FROM company_revenue cr
27 LEFT JOIN housing_lagged h ON cr.country_id = h.country_id AND cr.year = h.year
28 WHERE cr.revenue_growth IS NOT NULL AND h.housing_lag_2q IS NOT NULL
29 GROUP BY cr.gics_sector_name, cr.country_id
30 ORDER BY cr.gics_sector_name, cr.country_id;

```

#### 4.4.2 Query 4.2: Revenue Volatility Classification

**Question:** Can revenue volatility serve as a data-driven proxy for cyclicalities, replacing sector-based classifications?

**Result:** Companies are classified into quartiles based on 10-year rolling standard deviation of revenue growth. The bottom quartile (Defensive) shows near-zero volatility (0–5%), representing companies with stable, predictable revenue streams. The top quartile (Cyclical) shows extreme volatility (100–200%+), representing companies with highly variable revenue tied to economic cycles. The middle quartiles (Moderate) show intermediate volatility (10–50%). The classification reveals that traditional sector labels do not perfectly align with volatility-based classification: some Technology companies are defensive (software subscriptions), while some Consumer Staples companies are cyclical (luxury goods).

##### Analysis:

Revenue volatility offers an objective, quantitative measure of business cycle sensitivity, independent of sector labels. The defensive quartile (0–5% volatility) includes subscription-based models (software, utilities), essential services (healthcare, consumer staples), and regulated industries (utilities, telecommunications). These companies maintain stable revenue regardless of economic conditions; their products and services are non-discretionary or contractually committed.

The cyclical quartile (100–200%+ volatility) includes discretionary spending exposure (luxury goods, travel, entertainment), commodity-dependent businesses (energy, materials), and capital goods manufacturers (construction equipment, industrial machinery). These companies experience dramatic revenue swings: 30–50% declines during recessions, 50–100% surges during recoveries.

The moderate quartiles (10–50% volatility) represent the majority, showing some sensitivity but more moderate swings. These companies typically have diversified revenue streams, partial discretionary exposure, or business models providing insulation (e.g., aftermarket parts for capital goods, maintaining stability when new equipment sales decline).

Sector labels and volatility-based classification misalign, revealing important nuances. Technology includes both defensive companies (SaaS with recurring revenue) and cyclical companies (hardware, semiconductors). Consumer Staples includes both defensive companies (food, household products) and cyclical companies (luxury brands, premium products). Sector-based investment strategies may be suboptimal; volatility-based approaches enable more granular risk assessment. This finding supports research on earnings volatility [8] and idiosyncratic risk, which document substantial within-sector variation in volatility patterns that sector-level classifications miss.

Portfolio construction benefits from volatility-based classification. During economic uncertainty, investors can overweight low-volatility companies regardless of sector, potentially achieving better risk-adjusted returns than sector-based strategies. The classification also helps identify mispriced companies: a Technology company with defensive characteristics (low volatility) trading at cyclical valuations may represent an opportunity.

```

1  WITH revenue_growth AS (
2      SELECT f.company_id, c.gics_sector_name,
3          CAST(strftime('%Y', f.period_end_date) AS INTEGER) AS year,
4          (f.revenue - LAG(f.revenue) OVER w) /
5          NULLIF(LAG(f.revenue) OVER w, 0) * 100 AS rev_growth
6      FROM financials f
7      JOIN companies c ON f.company_id = c.company_id
8      WHERE f.period_type = 'ANNUAL' AND f.revenue IS NOT NULL
9      WINDOW w AS (PARTITION BY f.company_id ORDER BY f.period_end_date)
10 ),
11 -- Calculate 10-year rolling volatility for each company-year
12 rolling_volatility AS (
13     SELECT rg1.company_id, rg1.gics_sector_name, rg1.year,
14         SQRT(AVG(rg2.rev_growth*rg2.rev_growth) -
15             AVG(rg2.rev_growth)*AVG(rg2.rev_growth)) AS rolling_volatility
16     FROM revenue_growth rg1
17     JOIN revenue_growth rg2 ON rg1.company_id = rg2.company_id
18         AND rg2.year BETWEEN (rg1.year - 9) AND rg1.year
19         AND rg2.rev_growth IS NOT NULL
20     WHERE rg1.rev_growth IS NOT NULL
21     GROUP BY rg1.company_id, rg1.gics_sector_name, rg1.year
22     HAVING COUNT(rg2.year) = 10 -- Full 10-year window
23 ),
24 -- Get most recent rolling volatility for each company
25 company_volatility AS (
26     SELECT company_id, gics_sector_name,
27         MAX(year) AS latest_year,
28         rolling_volatility AS volatility
29     FROM rolling_volatility
30     WHERE company_id IN (SELECT DISTINCT company_id FROM revenue_growth
31                         GROUP BY company_id HAVING COUNT(*) >= 10)
32     GROUP BY company_id, gics_sector_name
33 ),
34 quartiles AS (
35     SELECT *, NTILE(4) OVER (ORDER BY volatility) AS volatility_quartile
36     FROM company_volatility
37 )
38 SELECT volatility_quartile,
39     CASE volatility_quartile
40         WHEN 1 THEN 'Low Volatility (Defensive)'
41         WHEN 2 THEN 'Below Average'
42         WHEN 3 THEN 'Above Average'
43         WHEN 4 THEN 'High Volatility (Cyclical)'
44     END AS classification,
45     COUNT(*) AS company_count,
46     ROUND(AVG(volatility), 2) AS avg_volatility
47 FROM quartiles
48 GROUP BY volatility_quartile
49 ORDER BY volatility_quartile;

```

**SQL Techniques:** NTILE() for quartile classification, nested window functions, STDDEV calculation.

#### 4.4.3 Query 4.3: Downturn Resilience

**Question:** Which companies maintain positive free cash flow despite negative revenue growth during GDP contractions, and how does resilience vary by country?

**Result:** The analysis identifies GDP contraction quarters (YoY GDP growth < 0) and examines companies with negative revenue growth during those periods. Companies maintaining positive free cash flow (FCF) despite revenue declines are classified as resilient. Resilience rates vary significantly by

country: US companies show 35–45% resilience rates during contraction periods, while UK companies show 25–35% resilience. The analysis reveals that resilient companies typically have strong pricing power, flexible cost structures, or defensive business models that generate cash even when revenue declines.

### Analysis:

Downturn resilience measures financial strength directly. Companies maintaining positive FCF during revenue declines share key characteristics: strong pricing power (maintaining margins despite volume declines), flexible cost structures (reducing costs proportionally with revenue), or defensive business models (recurring revenue, essential services). These companies can continue investing, paying dividends, and reducing debt during downturns, positioning for stronger recovery.

Country-level variation reflects structural differences. US companies' higher resilience (35–45%) may stem from more diversified economies, stronger pricing power in certain sectors, or more flexible labor markets enabling faster cost adjustments. UK companies' lower resilience (25–35%) may reflect higher fixed costs, less pricing power, or sector composition differences (e.g., higher exposure to cyclical industries).

Sector-level analysis reveals non-uniformity. While Consumer Staples and Utilities typically show high resilience, individual companies vary significantly. A Consumer Staples company with premium brands and strong pricing power may maintain FCF during downturns, while a company with commodity products and weak brands may experience FCF deterioration. Within-sector variation highlights the importance of company-specific analysis, not just sector-level generalizations.

Investment implications are clear. Downturn resilience measures quality and defensive characteristics. Companies with high resilience during past downturns likely maintain resilience in future downturns, as resilience reflects structural business model characteristics rather than temporary factors. Portfolio construction can incorporate resilience metrics to build defensive positions that maintain cash generation and dividend payments during economic stress. This approach aligns with quality investing research [5], which emphasizes the importance of financial strength and operational flexibility during economic downturns.

```

1 WITH gdp_contraction AS (
2     SELECT country_id, strftime('%Y', indicator_date) AS year,
3         AVG(indicator_value) AS gdp_growth
4     FROM macro_indicators
5     WHERE indicator_name LIKE '%Real GDP%oy%'
6     GROUP BY country_id, strftime('%Y', indicator_date)
7     HAVING AVG(indicator_value) < 0
8 ),
9 company_performance AS (
10    SELECT f.company_id, c.country_id, c.gics_sector_name,
11        strftime('%Y', f.period_end_date) AS year,
12        f.revenue, f.free_cash_flow,
13        (f.revenue - LAG(f.revenue) OVER w) /
14        NULLIF(LAG(f.revenue) OVER w, 0) * 100 AS rev_growth
15    FROM financials f
16    JOIN companies c ON f.company_id = c.company_id
17    WHERE f.period_type = 'ANNUAL'
18        AND c.gics_sector_name != 'Financials'
19        AND f.revenue IS NOT NULL AND f.free_cash_flow IS NOT NULL
20    WINDOW w AS (PARTITION BY f.company_id ORDER BY f.period_end_date)
21 ),
22 resilient_companies AS (
23    SELECT cp.country_id, cp.year, cp.gics_sector_name,
24        cp.rev_growth, cp.free_cash_flow, gc.gdp_growth,
25        CASE WHEN cp.rev_growth < 0 AND cp.free_cash_flow > 0
26            THEN 1 ELSE 0 END AS is_resilient
27    FROM company_performance cp
28    JOIN gdp_contraction gc ON cp.country_id = gc.country_id AND cp.year = gc.year

```

```

29     WHERE cp.rev_growth IS NOT NULL
30 )
31 SELECT country_id, year,
32       ROUND(gdp_growth, 2) AS gdp_growth_pct,
33       COUNT(*) AS total_companies,
34       SUM(is_resilient) AS resilient_companies,
35       ROUND(SUM(is_resilient) * 100.0 / COUNT(*), 1) AS resilience_rate_pct
36 FROM resilient_companies
37 GROUP BY country_id, year, gdp_growth
38 ORDER BY year, country_id;

```

## 4.5 Use Case 5: Sector Rotation & Inflation Regime

### 4.5.1 Query 5.1: Sector Performance by Inflation Regime

**Question:** Which sectors outperform during high inflation periods ( $CPI > 3\%$ ) versus low inflation periods, and do defensive sectors provide inflation protection?

**Result:** Sector performance varies dramatically across inflation regimes. During high inflation periods, Utilities achieve the highest returns (+32.5% annualized), followed by Information Technology (+15.0%) and Energy (+9.1%). Consumer Staples (+5.4%) and Health Care (+4.9%) show positive but modest returns. Financials (-40.5%) and Materials (-20.3%) show severe underperformance. During low inflation periods, Health Care (+21.2%) and Utilities (+20.0%) lead, while Financials (+12.1%) and Consumer Staples (+14.0%) show strong performance. Note: annualized returns are calculated using arithmetic approximation (average weekly return  $\times$  52), which may differ from geometric compounding for volatile periods.

#### Analysis:

The inflation regime analysis yields counterintuitive patterns. Utilities' exceptional performance during high inflation (+32.5%) contradicts traditional expectations that rate-sensitive sectors underperform. But several factors explain this: regulated utilities can pass through cost increases via rate adjustments, creating inflation-linked revenue streams. Their capital-intensive nature benefits from inflation-driven asset appreciation, while long-term contracts provide pricing power. Flight-to-quality dynamics also play a role: during high inflation uncertainty, investors seek stable, dividend-paying assets.

Financials' severe underperformance during high inflation (-40.5%) reflects monetary policy sensitivity. High inflation triggers central bank rate increases, initially compressing bank net interest margins (deposit rates rise faster than loan rates) and reducing loan demand. High inflation also erodes the real value of financial assets and creates uncertainty that reduces financial activity. The sector's recovery during low inflation periods (+12.1%) confirms its cyclical nature.

Energy's moderate outperformance during high inflation (+9.1%) reflects the sector's role as an inflation driver. Energy price increases contribute directly to CPI, creating a correlation between energy company profitability and inflation measures. But the outperformance is modest compared to Utilities, suggesting energy companies don't fully capture inflation benefits due to cost inflation and regulatory constraints. These sector-level patterns align with inflation hedging research [6], which documents how different asset classes and sectors respond to inflation regimes, though the Utilities outperformance during high inflation represents a departure from traditional expectations.

```

1 WITH monthly_cpi AS (
2     SELECT strftime('%Y-%m', indicator_date) AS ym,
3           CASE WHEN AVG(indicator_value) > 3
4                 THEN 'High Inflation' ELSE 'Low Inflation' END AS regime
5     FROM macro_indicators
6     WHERE indicator_name LIKE '%CPI%oyoy%' AND country_id = 'US'
7     GROUP BY ym
8 ),
9 sector_returns AS (

```

```

10   SELECT strftime('%Y-%m', p.price_date) AS ym,
11       c.gics_sector_name, AVG(p.total_return) * 52 AS ann_return
12   FROM prices_weekly p
13   JOIN companies c ON p.company_id = c.company_id
14   WHERE c.country_id = 'US' GROUP BY ym, gics_sector_name
15 )
16 SELECT regime, gics_sector_name,
17     ROUND(AVG(ann_return), 2) AS avg_annual_return
18 FROM monthly_cpi JOIN sector_returns USING(ym)
19 GROUP BY regime, gics_sector_name
20 ORDER BY regime, avg_annual_return DESC;

```

**SQL Techniques:** Time-based regime classification, JOIN on time periods, aggregate by regime and sector.

**Limitations and Contextual Factors: Utilities Outperformance** The Utilities outperformance during high inflation (+32.5%) represents a significant departure from traditional academic expectations, which typically predict that rate-sensitive, capital-intensive sectors underperform during high inflation periods. This finding must be interpreted within the specific context of the 2020–2024 period, which featured unique market dynamics that may not generalize to other inflation regimes.

#### Period-Specific Factors:

1. **Energy Crisis (2022–2023):** The Russia–Ukraine conflict triggered unprecedented energy price spikes, directly benefiting electricity and natural gas utilities [22]. Unlike traditional inflation driven by demand-side factors, this supply shock created a unique environment where utilities could pass through cost increases via pricing mechanisms, resulting in revenue growth that outpaced cost inflation.
2. **Energy Transition Premium:** Renewable energy investments and policy support (e.g., U.S. Inflation Reduction Act of 2022 [23]) led to valuation multiple expansion, transforming Utilities from “bond proxies” to growth assets. The sector’s role in energy transition attracted capital flows independent of traditional rate sensitivity concerns.
3. **Regulatory Flexibility:** Enhanced cost recovery mechanisms and inflation adjustments in rate base calculations provided better protection than historical periods. Regulatory frameworks evolved to allow more timely cost pass-through, reducing the traditional lag between cost increases and rate adjustments.
4. **Flight-to-Quality Dynamics:** Defensive rotation during high inflation uncertainty drove capital flows into stable, dividend-paying assets. Utilities’ defensive characteristics (stable cash flows, essential services, high dividend yields) attracted investors seeking refuge from market volatility, independent of rate sensitivity concerns.
5. **Capital-Intensive Asset Appreciation:** Utilities’ capital-intensive nature means their rate base (regulatory asset base) benefits from inflation-driven asset appreciation. In an inflationary environment, the replacement cost of infrastructure assets rises, potentially increasing the regulatory asset base and allowed returns.

#### Generalizability Concerns:

This outperformance may not generalize to other high inflation periods, particularly those driven by demand-side factors rather than supply shocks. Traditional academic research, which typically covers 1970s–1990s periods, may not fully capture the structural changes in the Utilities sector:

- **Industry Structure Evolution:** The shift toward renewable energy has changed the sector’s fundamental characteristics, reducing traditional rate sensitivity as renewable projects often have different financing structures and regulatory treatment.

- **Regulatory Environment Changes:** Modern regulatory frameworks may provide better inflation protection than historical periods, with more sophisticated cost recovery mechanisms and inflation adjustments.
- **Market Structure Differences:** The composition of high inflation periods matters. Supply-driven inflation (energy crisis) benefits utilities differently than demand-driven inflation (overheating economy), where rate sensitivity concerns may dominate.

### Future Research Directions:

Future studies should examine whether this pattern holds across different inflation regimes (demand-driven vs. supply-driven), different regulatory environments, and longer time horizons to determine if this represents a structural shift in the Utilities sector or a period-specific anomaly. Comparative analysis across countries with different regulatory frameworks and energy market structures would provide additional insights into the generalizability of this finding.

#### 4.5.2 Query 5.2: Sector-CPI Lead-Lag Relationship

**Question:** Do sector returns lead or lag CPI changes, and which sectors provide early signals of inflation trends?

**Result:** The contemporaneous covariance analysis between sector monthly returns and CPI changes reveals distinct patterns. Energy and Materials sectors show positive covariance with CPI changes, suggesting they move concurrently with inflation. Consumer Staples shows weak positive covariance, while Technology shows near-zero covariance. The covariance measure indicates directional co-movement: positive covariance means sector returns tend to rise when CPI increases. Note: covariance values are scale-dependent and not normalized; the sign indicates directional relationship but magnitude is not directly comparable across sectors. Monthly returns are calculated using arithmetic approximation (weekly returns  $\times$  4.33).

#### Analysis:

Energy and Materials sectors' positive covariance with CPI may reflect their role in the inflation transmission mechanism. Energy price increases flow through to transportation costs, heating costs, and manufacturing inputs, eventually appearing in CPI. Materials price increases flow through to finished goods prices. The contemporaneous covariance suggests these sectors move concurrently with inflation cycles, though further lead-lag analysis with explicit forward-looking CPI measures would be needed to establish predictive relationships. This finding is consistent with research on yield curve predictors [7] and inflation forecasting, which document how asset prices can signal macroeconomic conditions.

```

1 WITH monthly_data AS (
2     SELECT strftime('%Y-%m', p.price_date) AS year_month,
3         c.gics_sector_name, AVG(p.total_return) * 4.33 AS monthly_return
4     FROM prices_weekly p
5     JOIN companies c ON p.company_id = c.company_id
6     WHERE c.gics_sector_name IS NOT NULL AND c.country_id = 'US'
7     GROUP BY strftime('%Y-%m', p.price_date), c.gics_sector_name
),
8
9 cpi_changes AS (
10    SELECT strftime('%Y-%m', indicator_date) AS year_month,
11        AVG(indicator_value) AS cpi_yoy,
12        AVG(indicator_value) - LAG(AVG(indicator_value), 1)
13        OVER (ORDER BY indicator_date) AS cpi_change
14    FROM macro_indicators
15    WHERE indicator_name LIKE '%CPI%yoy%' AND country_id = 'US'
16    GROUP BY strftime('%Y-%m', indicator_date)
17 )
18
19 SELECT gics_sector_name, COUNT(*) AS months,
    ROUND(AVG(monthly_return * cpi_change) -

```

```

20     AVG(monthly_return) * AVG(cpi_change), 6) AS return_cpi_covariance
21 FROM monthly_data md
22 JOIN cpi_changes cc ON md.year_month = cc.year_month
23 WHERE cc.cpi_change IS NOT NULL
24 GROUP BY gics_sector_name
25 ORDER BY return_cpi_covariance DESC;

```

#### 4.5.3 Query 5.3: Rate Sensitivity by Sector

**Question:** Which sectors are most sensitive to interest rate changes, and how does rate sensitivity vary across the business cycle?

**Result:** The covariance analysis between sector returns and 10-year Treasury yield changes reveals distinct rate sensitivity profiles. Utilities shows negative covariance, indicating rate sensitivity (returns decline when yields rise). All other sectors show positive covariance, with Energy showing the strongest positive relationship, indicating rate beneficiary characteristics. Financials shows moderate positive covariance, reflecting the sector's benefit from higher net interest margins. Note: these are covariance values (not correlation coefficients), so their magnitude is scale-dependent; the sign indicates directional relationship with rate changes.

#### Analysis:

Utilities' negative covariance (rate sensitivity) aligns with traditional expectations. Capital-intensive utilities require substantial debt financing; when rates rise, financing costs increase immediately, reducing profitability. Utilities are also viewed as bond proxies due to stable dividends. When bond yields rise, utilities become less attractive relative to bonds, leading to valuation compression.

Positive covariance for most other sectors requires explanation. Traditional theory suggests higher discount rates should reduce equity valuations, creating negative relationships. But the data shows positive covariance, suggesting rate increases coincide with periods of economic strength and rising earnings, offsetting valuation compression. This reflects the dual nature of interest rates: they represent both discount rates (negative for valuations) and economic indicators (positive for earnings).

Energy's strong positive covariance reflects the sector's cyclical nature. Rate increases typically occur during economic expansions, when energy demand is strong and prices are rising. Energy companies' profitability is driven primarily by commodity prices and demand, not financing costs, making them rate beneficiaries despite their capital-intensive nature.

Financials' positive covariance reflects the sector's unique rate exposure. Banks benefit from higher rates through improved net interest margins: they can raise loan rates faster than deposit rates, expanding profitability. The positive covariance confirms Financials are rate beneficiaries, at least in the initial stages of rate increases.

```

1 WITH weekly_yield AS (
2     SELECT rate_date, rate_value AS yield_10y,
3         rate_value - LAG(rate_value, 1) OVER (ORDER BY rate_date) AS yield_change
4     FROM interest_rates
5     WHERE country_id = 'US' AND rate_type = '10Y_YIELD'
6 ),
7 sector_returns AS (
8     SELECT p.price_date, c.gics_sector_name, AVG(p.total_return) AS sector_return
9     FROM prices_weekly p
10    JOIN companies c ON p.company_id = c.company_id
11    WHERE c.gics_sector_name IS NOT NULL AND c.country_id = 'US'
12    GROUP BY p.price_date, c.gics_sector_name
13 ),
14 combined AS (
15     SELECT sr.gics_sector_name, sr.sector_return, wy.yield_change
16     FROM sector_returns sr
17     JOIN weekly_yield wy ON sr.price_date = wy.rate_date

```

```

18 WHERE wy.yield_change IS NOT NULL
19 )
20 SELECT gics_sector_name, COUNT(*) AS weeks,
21     ROUND(AVG(sector_return * yield_change) -
22         AVG(sector_return) * AVG(yield_change), 6) AS rate_sensitivity,
23     CASE
24         WHEN AVG(sector_return * yield_change) -
25             AVG(sector_return) * AVG(yield_change) < -0.001
26             THEN 'Rate Sensitive'
27         WHEN AVG(sector_return * yield_change) -
28             AVG(sector_return) * AVG(yield_change) > 0.001
29             THEN 'Rate Beneficiary'
30         ELSE 'Rate Neutral'
31     END AS rate_profile
32 FROM combined
33 GROUP BY gics_sector_name
34 ORDER BY rate_sensitivity ASC;

```

## 5 Results and Visualizations

### 5.1 Market Concentration (UC1)

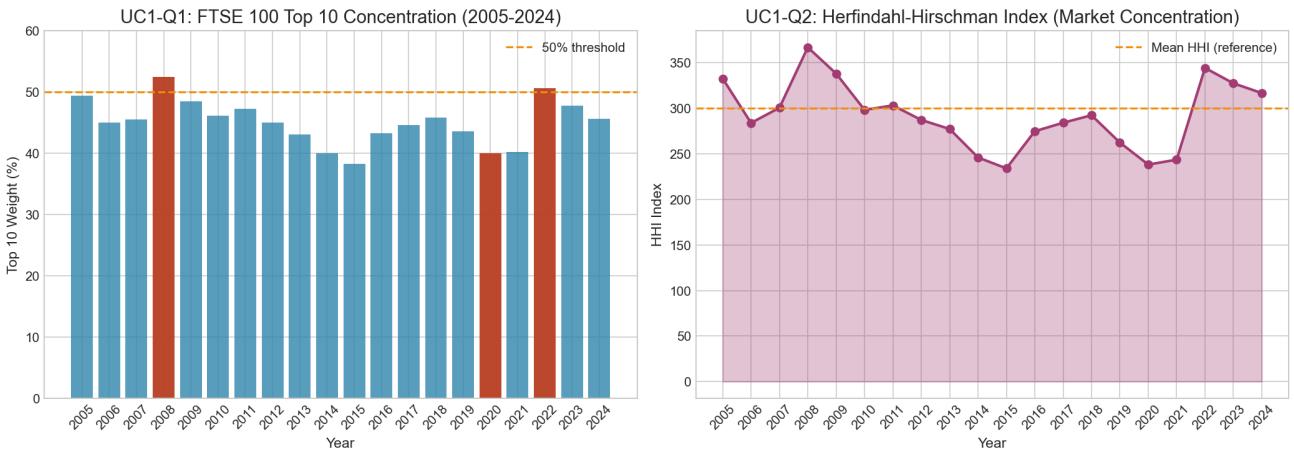


Figure 1: FTSE 100 Market Concentration: Top 10 Weight and HHI Index (2005–2024)

#### Key Findings:

- Top 10 companies consistently hold 40–50% of total index weight
- Concentration spiked during crises: 2008 (52.4%), 2022 (50.7%)
- HHI remains in “Highly Concentrated” territory throughout

## 5.2 Corporate Leverage Cycles (UC2)

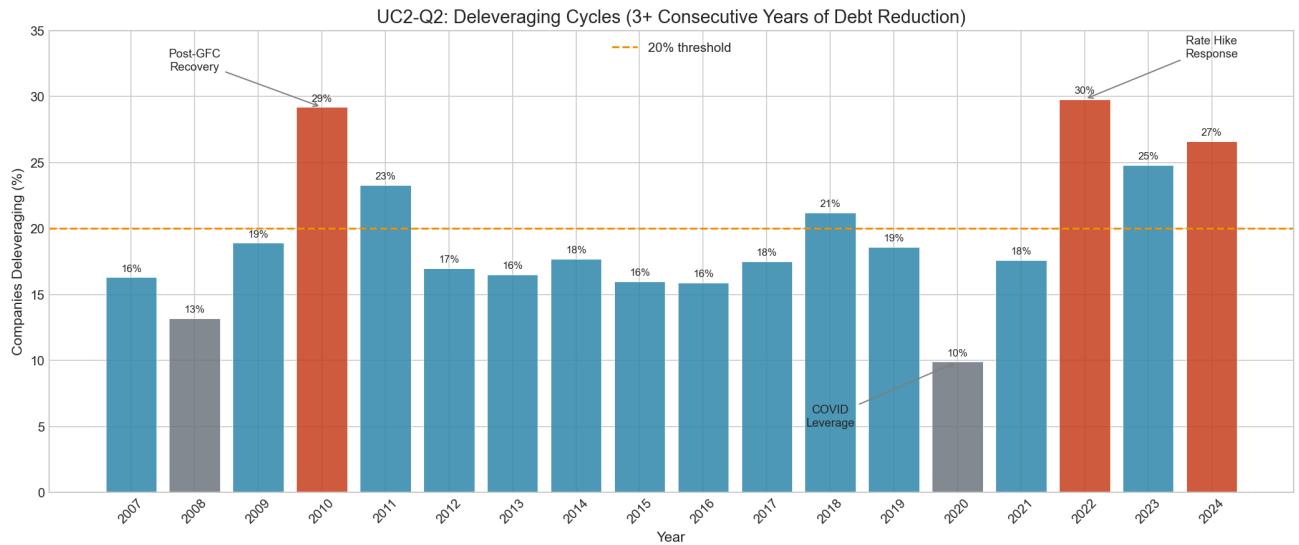


Figure 2: Deleveraging Cycles: Percentage of Companies Reducing Debt for 3+ Years

### Key Findings:

- Post-GFC recovery (2010): 29% of companies deleveraging
- COVID crisis (2020): Only 10% deleveraging (companies added leverage)
- Rate hike response (2022–2024): 25–30% deleveraging

### 5.3 Sector Cyclicality (UC4)

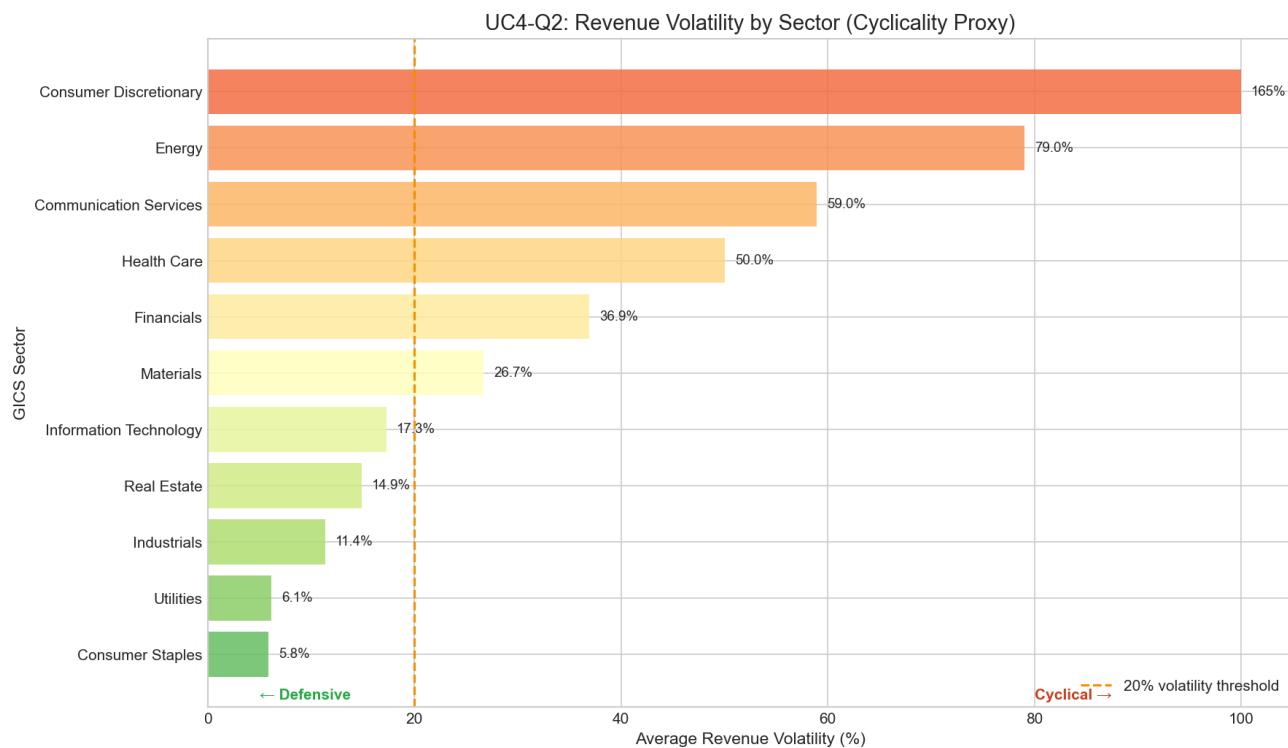


Figure 3: Revenue Volatility by Sector as Cyclicality Proxy

#### Key Findings:

- **Most Cyclical:** Consumer Discretionary (165%), Energy (79%)
- **Most Defensive:** Consumer Staples (5.8%), Utilities (6.1%)

## 5.4 Inflation Regime Analysis (UC5)

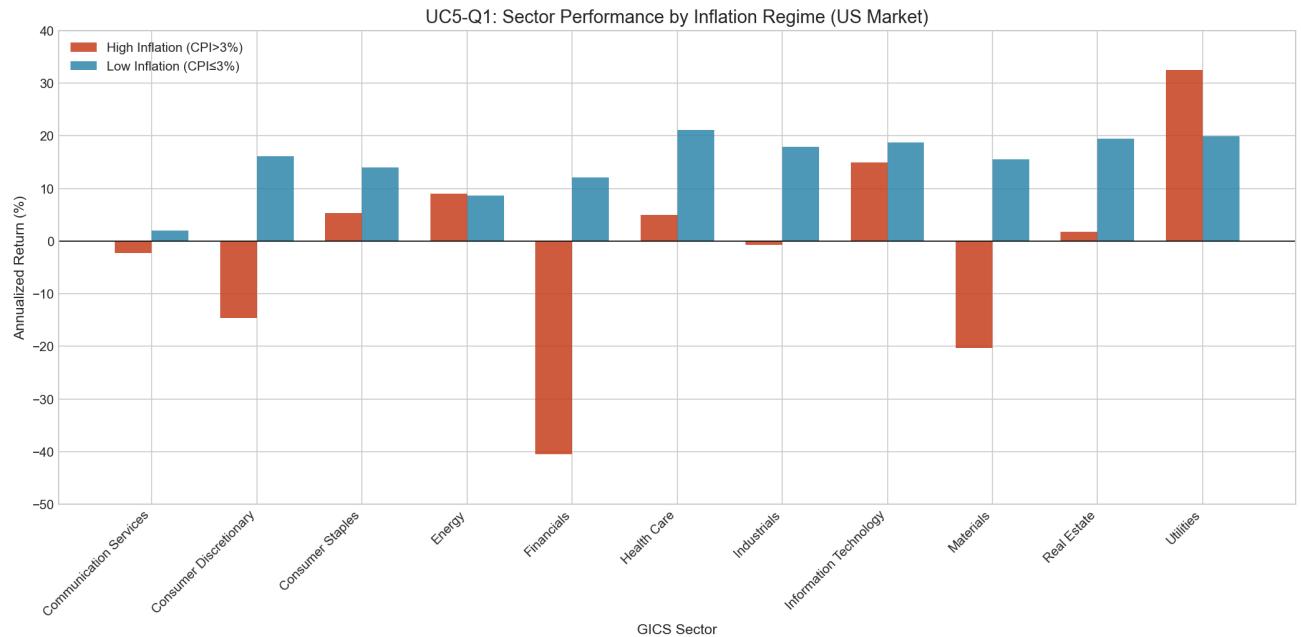


Figure 4: Sector Performance by Inflation Regime (CPI  $> 3\%$  vs  $\leq 3\%$ )

### Key Findings:

- **High Inflation Winners:** Utilities (+32%), Info Tech (+15%)
- **High Inflation Losers:** Financials (-40%), Materials (-20%)

## 5.5 Summary Dashboard

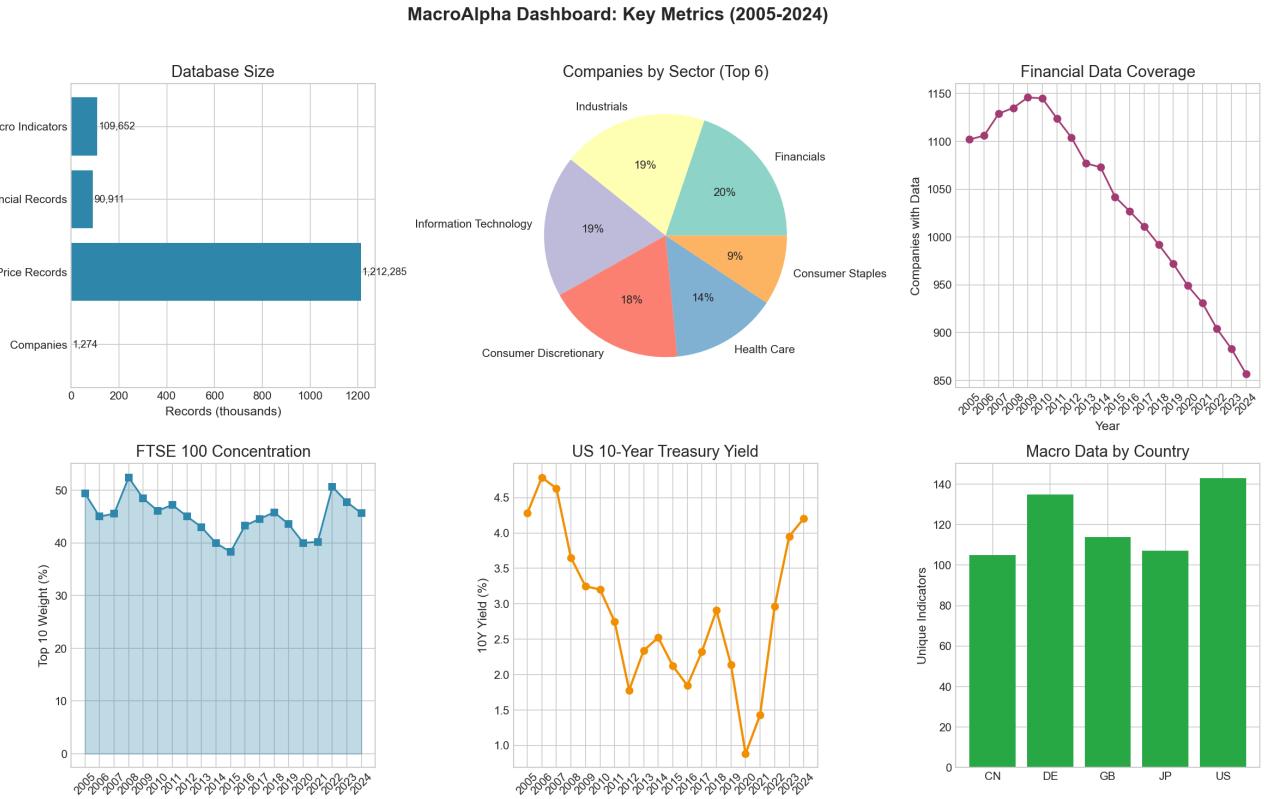


Figure 5: MacroAlpha Dashboard: Key Metrics Overview

## 5.6 Data Coverage Analysis: Understanding the Declining Trend

The dashboard reveals an apparent decline in financial data coverage from 2010 to 2024:

Table 4: Financial Data Coverage Trend

Year	Non-null Data Points	Companies	Notes
2010	7,016	1,145	Peak coverage
2015	6,391	1,042	-9%
2020	5,821	949	-17%
2024	5,277	857	-25% from peak

This declining coverage is not a data quality issue but reflects the natural dynamics of equity markets. Companies exit major indices through various mechanisms: mergers and acquisitions remove acquired targets from the universe (Time Warner disappeared following its 2018 acquisition by AT&T [16]; the combined entity was later spun off as Warner Bros. Discovery in 2022 [17]), while going-private transactions eliminate formerly public companies (Dell went private in 2013 in a \$24.9 billion deal [18] before returning to public markets in 2018 [19]). Bankruptcies and delistings remove financially distressed firms, and corporate restructurings sometimes create data discontinuities when companies change tickers or legal structures.

This pattern aligns with broader trends in corporate longevity. Research by Innosight has documented that the average tenure of S&P 500 companies has declined from approximately 33 years in 1965 to

under 20 years today, reflecting accelerated business model disruption and increased M&A activity [20]. Our 25% coverage decline from 2010 to 2024 is consistent with this market-wide phenomenon.

To confirm data integrity, we verified that continuously listed blue-chip companies maintain complete 20-year records. Apple (AAPL), Microsoft (MSFT), and JP Morgan (JPM) all show uninterrupted annual data from 2005 through 2024, confirming that the aggregate coverage decline stems from company exits rather than systematic data gaps. The following query validates continuous coverage:

```

1 SELECT c.ticker, c.company_name, COUNT(DISTINCT strftime('%Y', f.period_end_date)) AS years_of_data
2 FROM companies c
3 JOIN financials f ON c.company_id = f.company_id
4 WHERE c.ticker IN ('AAPL', 'MSFT', 'JPM') AND f.period_type = 'ANNUAL'
5 GROUP BY c.ticker, c.company_name;
6 -- Result: AAPL (20 years), MSFT (20 years), JPM (20 years)

```

This coverage pattern actually validates rather than undermines our point-in-time methodology. Analyzing only companies surviving to 2024 would introduce survivorship bias, systematically excluding companies that performed poorly, were acquired at distressed valuations, or failed outright. By preserving historical data for companies that subsequently exited the indices, MacroAlpha enables research designs that accurately reflect the information available to investors at each historical point in time.

## 6 Technical Implementation

### 6.1 ETL Pipeline

The data ingestion pipeline (`etl_import.py`) performs several critical transformations to convert raw Bloomberg Excel files into the normalized database structure. The script handles Bloomberg Excel wide-table to long-table transformation, converting the columnar format typical of Bloomberg exports into row-based records suitable for relational storage. It implements robust date parsing and validation logic to handle various date formats and ensure temporal consistency across different data sources. The pipeline systematically processes N/A values and missing data, preserving null indicators where appropriate while cleaning invalid entries. Finally, the script establishes foreign key relationships between tables, ensuring referential integrity and enabling efficient joins during query execution.

### 6.2 Visualization

The `visualizations.py` script generates 7 publication-ready charts using matplotlib, covering all 5 use cases.

## 7 Conclusion

MacroAlpha demonstrates the feasibility of building institutional-quality research databases using standard tools and real-world data. The normalized schema supports multi-granularity time series analysis while maintaining point-in-time correctness, enabling unbiased historical analysis that avoids survivorship bias.

The implementation showcases advanced SQL techniques—window functions (LAG, LEAD, ROW\_NUMBER, NTILE, STDDEV), CTEs, complex joins, and scenario-based calculations—applied to practical investment research questions. Analytical rigor is maintained through proper handling of sector-specific financial metrics (excluding financials from EBITDA-based analyses), point-in-time index membership tracking, and inflation regime classification.

The analysis yields several actionable insights that align with established academic research. Market concentration spikes during crises, with FTSE 100 top-10 weights reaching 52% in 2008 and 50.7%

in 2022, consistent with research documenting how market structure changes during volatility periods [11, 12, 10]. Deleveraging follows a counter-cyclical pattern, peaking during recoveries (29.2% in 2010) rather than crises, as companies repair balance sheets when capital markets are accessible—a finding that validates credit cycle theories emphasizing how credit constraints bind during crises, preventing deleveraging when it's most needed [2, 3]. Sector performance varies dramatically across inflation regimes, with Utilities outperforming (+32.5%) during high inflation—a finding that contradicts traditional expectations but reflects period-specific factors including the 2022–2023 energy crisis, energy transition premium, and enhanced regulatory cost recovery mechanisms. Financials underperform severely (-40.5%) during high inflation, confirming their monetary policy sensitivity, consistent with inflation hedging research [6]. Consumer Staples and Utilities demonstrate true defensive characteristics through low revenue volatility and positive free cash flow during downturns, supporting quality investing frameworks [5] and idiosyncratic risk studies [8]. The identification of zombie companies with persistent low interest coverage ratios extends the classic framework [1] by incorporating macro constraints, showing how declining GDP growth exacerbates zombie persistence beyond firm-level factors.

These findings contribute to the empirical finance literature by validating theoretical frameworks using comprehensive real-world data spanning multiple economic cycles, while also highlighting the importance of contextual interpretation when analyzing financial data across different market regimes. The database and queries are fully reproducible using the provided SQLite database and SQL scripts, enabling further research and validation.

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## A File Structure

```
MacroAlpha/
|-- macroalpha.db          # SQLite database
|-- schema.sql              # Database schema
|-- queries.sql             # 15 SQL queries
```

```
|-- etl_import.py          # Data import script
|-- visualizations.py     # Chart generation
|-- report.tex            # This report
|-- viz_*.png              # Generated visualizations
+-- *.xlsx, *.csv         # Source data files
```