

Reviewed Paper Title: FOMC Sentiment Index

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Summary:

The project aims to build an FOMC sentiment index by conducting sentiment analysis on the policy statements made by the Chair of the Federal Reserve Board (FRB). Main objective is determining meaningful and important signals from sentiment in statements about economic and financial market conditions. FinBERT was planned to be used in project which designed to measure sentiment in financial text. As a stated in proposal, the FOMC sentiment index, can be used for various purposes including studying the relationship between FOMC sentiment and financial market conditions.

Strong Parts:

Clear objective: The project clearly defines its objective, which is to investigate the informational value of FOMC sentiment in policy statements for financial markets and economic conditions.

Structured approach: The proposal outlines a well-defined approach for constructing the FOMC sentiment index. It was specified how sample of policy statements to be used and analyzed. In addition, reason behind of specific model selection was explained. Finally, process of averaging sentiment values to build the index clearly explained in proposal.

Availability of Data Source: The project intends to use publicly available data which can be easily downloaded from the posted website. The availability of data ensures the feasibility of the project and enables a comprehensive analysis.

Potential applications: The proposal identifies potential applications of the FOMC sentiment index, such as regression analysis to investigate the link between sentiment and financial market conditions.

To be Improved:

Lack of benefits of end user: You can add predefined aspects as inflation, growth, and employment, because they are widely monitored economic themes in the market to your analysis. Then, you can improve your methodology with below suggested ways. As a result, financial analysts can easily use semi-automated method to evaluate how these sentiment indices affect to different area of economics.

Methodological limitations: While sentiment analysis is a valuable approach, it is not recommended to relying only on sentiment analysis for assessing economic conditions. Secondly, I would suggest to also apply topic modelling to identify outliers and other cases that can lead to wrong analysis. Finally, I would also suggest to apply aspect classification to get more impactful results on economics condition.

Data limitations: The proposal mentions that the available data for analysis includes policy statements from the Chairs since 2000. To evaluate sentiment results you need to collect data about different

economic rate for each timeframe after meetings. Comparing model results with observed one is correct way to measure real impact of analysis.

Evaluation metrics: The proposal describes FinBERT's sentiment analysis outputs, including probabilities for positive, negative, and neutral sentiment, a compound score, and trinary sentiment prediction. However, there is no information about which evaluation metric will be used to evaluate results. I would suggest to show comprehensive comparison of statistical results and observed result in final demonstration.

Conclusion:

Overall, the project proposal demonstrates a clear objective and a well-structured approach for constructing the FOMC sentiment index using sentiment analysis. Addressing the areas for improvement would enhance the project's methodology and provide a more comprehensive analysis for end-users.