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Inflation narratives and risk premia

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Abstract

Theory suggests inflation risk premia are positive when supply shocks are expected to dominate demand shocks and negative otherwise. We measure these beliefs using demand and supply narratives derived from inflation news via Causality Extraction, which identifies causal relations between inflation and its drivers. Using narrative extracted from inflation news from the Financial Times for the Euro Area and the Wall Street Journal for the US, our key variable, NetDemand, measures the difference in articles attributing inflation to demand versus supply factors. Consistent with asset pricing theory, inflation risk premia are inversely related to NetDemand across maturities in both regions. This relationship holds even after controlling for the composite PMI and VIX, strengthens with risk aversion in the US and inflation volatility in the Euro Area, and is not subsumed by other measures of demand and supply contributions to inflation, views of professional forecasters, or narratives obtained from LLMs.

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Non-technical summary

Inflation risk premia reflect the compensation investors require for bearing risk about future inflation and are an important component of financial market prices because they influence nominal interest rates. Understanding what drives inflation risk premia is therefore relevant for policymakers, financial market participants and researchers.

Economic theory suggests that the sign of inflation risk premia depends on whether inflation is expected to be driven mainly by demand-side or supply-side factors. When inflation is associated with higher consumption growth, as is typically the case for demand-driven inflation, inflation risk premia tend to be negative. In contrast, when inflation is associated with weaker economic conditions, as is often the case for supply-driven inflation, inflation risk premia tend to be positive.

A key empirical challenge is that investors' beliefs about the relative importance of demand and supply factors are not directly observable. This paper addresses this issue by using demand and supply narratives from newspaper articles. Using a natural language processing method that identifies causal relations in text, the paper extracts instances in which journalists attribute inflation to specific demand-side or supply-side drivers for both the Euro Area and the United States.

The results show a strong relationship between inflation narratives and inflation risk premia. For both the Euro Area and the United States, inflation risk premia are lower when inflation is more frequently attributed to demand-side factors and higher when it is more frequently attributed to supply-side factors. This relationship is observed across different maturities and remains robust after accounting for commonly used indicators of economic activity and financial market uncertainty. In line with asset-pricing theory, the paper also finds that the relationship becomes stronger when investors are more risk averse in the United States and when inflation uncertainty is higher in the Euro Area.

Finally, the paper compares the information contained in newspaper-based narratives with that captured by alternative indicators constructed from macroeconomic data, surveys of professional forecasters, and large language models. Although these other measures are informative, they do not fully capture the explanatory power of the narrative-based measure. This indicates that inflation-related news conveys insights about investors' perceptions of economic risks that are not fully incorporated into standard measures. Moreover, news are observed at a much higher frequency.

Overall, the findings indicate that newspaper narratives provide an informative source of information about how financial markets perceive the drivers of inflation. They also suggest that shifts between demand- and supply-driven inflation narratives can help explain movements in inflation risk premia.

1 Introduction

Inflation risk premia — the compensation investors require for bearing uncertainty about future inflation — are a central object in both asset pricing and economic theory. They are, for example, an important component of nominal yields, thus affecting broader financing conditions, and they summarize how inflation risk is priced across the term structure of interest rates. A simple consumption-based asset-pricing model shows that the inflation risk premium (IRP) is inversely related to the covariance between future inflation and real consumption growth. We can interpret this covariance as a signal about which shocks are expected to determine the course of the macro economy. When the covariance is positive, consumption growth and inflation are expected to move together, suggesting aggregate demand (AD) shocks are expected to be the key source of macroeconomic dynamics. However, when consumption growth and inflation move in opposite directions, then supply (AS) shocks are expected to be more dominant in driving the economy.

Testing these relationships is inherently difficult because expected AD and AS shocks must be estimated from investors' real-time information set, which is not directly observable. In this paper, we address this issue by using demand and supply narratives from news articles about inflation in the Euro Area (EA) and the United States (US). These narratives serve as proxies for the information available to investors relevant for inflation risk premia. Based on our proxies, we then analyze their explanatory power toward inflation risk premia in the EA and the US and to what extent these premia reflect the structural macroeconomic relationships described above.

We construct our narrative measure based on the method outlined in Trebbi (2025). The author identifies inflation triggers as descriptions of what causes inflation and extracts inflation narratives from news articles using Causality Extraction (CE), a natural language processing (NLP) tool designed to identify causal relations in text. The author then categorizes inflation narratives into the demand or supply narrative categories by Andre, Haaland, Roth, Wiederholt, and Wohlfart (2025). The outcome of this procedure is a measure called *NetDemand*, which is calculated as the volume difference between articles with demand or supply narratives in a given period. Applied to inflation news from the WSJ, the author shows that *NetDemand* aligns with US SPF respondents' product of expected changes in inflation and unemployment, which should reflect their demand and supply views (Dräger, Lamla, & Pfajfar, 2016). We apply this method to EA inflation news from the Financial Times (FT) and US inflation news from the Wall Street Journal (WSJ) between 2005 and 2024 to measure demand and supply narratives

We highlight two main findings. First, for both the EA and the US, inflation risk premia - inferred

from inflation-linked swap and breakeven inflation rates - are inversely related to *NetDemand*: premia are higher when inflation is predominantly narrated as supply-driven and lower when it is narrated as demand-driven. This result remains consistent also after controlling for the composite PMI and VIX. Since our narrative classification includes six demand and supply categories, we also examine whether inflation risk premia relate differently to the volume of articles attributing inflation to various types of demand and supply narratives. Using these detailed narrative measures, the results support theory and previous empirical evidence. Specifically, for both the EA and US, inflation risk premia rise with the volume of news attributing inflation to supply narratives, especially Commodities/Energy.

Second, our results suggest that the link between our *NetDemand* measure and inflation risk premia is significantly strengthened if investors become more risk averse or inflation volatility increases. This aligns again with asset pricing theory which tells us that inflation risk premia are not only determined by the covariance between future inflation and real consumption growth, but also by investors' risk aversion and inflation volatility. These results are obtained by interacting our *NetDemand* measure with the variance risk premium by (Bollerslev, Tauchen, & Zhou, 2009) as measure for investors risk aversion and inflation volatility derived from inflation options. We find the expected negative coefficients for risk aversion in the US and inflation volatility in the EA, though only at short and medium maturities.

A key question is whether our narrative-based measure contains information beyond what is provided by indicators based on more conventional macroeconomic data or from surveys of professional forecasters. Across three such alternatives, we find that none subsumes the explanatory power of *NetDemand* for inflation risk premia, and *NetDemand* retains a negative and statistically significant slope. We first compare *NetDemand* to a macro-based net contribution measure derived from the demand and supply components of inflation by A. H. Shapiro (2024) and Gonçalves and Koester (2022). Second, we consider a survey-based measure, namely the correlation between expected inflation and GDP growth from the ECB and US SPF in Fonseca (2024). Third, we use an LLM-based narrative alternative from Kwon, Park, Rungcharoenkitkul, and Smets (2025), who extract demand and supply narratives from WSJ articles using GPT. In all three cases, these alternatives either add complementary information (especially in the case of survey-based measures) or have limited explanatory power, but they do not overturn or absorb the relationship between *NetDemand* and inflation risk premia.

Another important advantage of our news-based narratives vis-à-vis other proxies based on, e.g., monthly or quarterly surveys or macroeconomic data, is that they provide a timely and high-frequency picture of the macroeconomy as they are essentially available on a daily basis. In addition, these proxies are straightforward to infer from news articles and thus allow to connect macroeconomic shocks and

inflation risk premia without relying on statistically uncertain models. To the best of our knowledge, this paper is the first to make such a connection using demand and supply narratives from news articles.

Our paper contributes to the literature on the importance of macroeconomic shocks for inflation risk premia by providing evidence that is consistent with and complementary to existing macro-finance models. In line with Hördahl and Tristani (2014), who use a joint model of macroeconomic and term structure dynamics for the US and the EA and find that ten-year inflation risk premia are mostly driven by cost-push shocks, our results also point to a prominent role of supply-side forces. They are further in line with Breach, D’Amico, and Orphanides (2020), who estimate inflation risk premia using a quadratic term structure model with time-varying inflation risk. The authors show that ten-year premia are inversely related to the proxies for the conditional covariance of consumption growth and inflation proposed by Campbell, Sunderam, and Viceira (2017). Similarly, our findings are consistent with Bletzinger, Lemke, and Renne (2025), who develop a linear-quadratic equilibrium macro-finance model with time-varying inflation-consumption correlation and risk aversion. Their model implies that supply-driven episodes are associated with positive inflation risk premia, whereas demand-driven episodes are associated with negative or lower premia.

Our study is also connected to the burgeoning literature using NLP in Finance. NLP applications in this field initially focused on measuring investor sentiment using dictionary-based tone measures from newspaper articles and 10-Ks (e.g., Tetlock, 2007; Loughran & McDonald, 2011). Since then, additional NLP tools have been adopted to analyze financial market phenomena. Topic modeling, for instance, is used to improve news-based investor sentiment measures (Calomiris & Mamaysky, 2019) and to provide proxies for ICAPM state variables (Bybee, Kelly, & Su, 2023). In addition, supervised machine learning models have also been used to forecast returns (Jegadeesh & Wu, 2013) and volatility (Manela & Moreira, 2017). Furthermore, embedding models like word2vec and doc2vec have been used to measure economic sentiment (van Binsbergen, Bryzgalova, Mukhopadhyay, & Sharma, 2024) and news narrativity related to historical stock market crashes (Goetzmann, Kim, & Shiller, 2022). On the other hand, dictionary methods have recently been used beyond their original sentiment analysis purposes, specifically to develop news-based category-specific trackers for equity market volatility Baker, Bloom, Davis, and Kost (2026) and to assess firms’ exposure to political and geopolitical risks (Hassan, Hollander, Van Lent, & Tahoun, 2019; Caldara & Iacoviello, 2022). Overall, dictionary methods, topic models, supervised machine learning models, and embedding models can be effectively used to determine how words or phrases are semantically similar based on their co-occurrence. However, they cannot directly identify causal relationships between words or phrases and, therefore, cannot be used to measure narrative. Bypassing

these traditional NLP methods, more recent approaches use GPT models to measure narratives (Arndt & Tohme, 2025; Kwon et al., 2025). However, recent evidence highlights the limited capabilities of GPT models as causal reasoners, especially since they often misinterpret non-causal relations as causal (see e.g., Gao, Ding, Qin, & Liu, 2023). For these reasons, we measure demand and supply narratives using the CE method outlined in Trebbi (2025).

2 Methodology

2.1 Inflation Risk Premia

The inflation risk premium (IRP) generally describes the compensation demanded by investors in nominal assets for bearing the risk of unexpected changes in the level of inflation. Like many other risk premia, inflation risk premia are not directly observable, making the measurement of the IRP a challenge in itself. For the EA, our IRP estimation is based on an affine term structure model as developed by Joslin, Singleton, and Zhu (2011) and applied to inflation-linked swap (ILS) rates following Burban, De Backer, Schupp, and Vladu (2022). For the US, our IRP estimates are derived subtracting survey-based inflation expectations based on Borağan Aruoba (2020) from US break-even inflation (BEIR) data.¹ For both the EA and the US, we focus on IRP estimates at the two-, five-, and ten-year maturity.²

2.2 Demand/Supply Narratives

Our measures of demand and supply narratives are based on Trebbi (2025). He defines demand and supply narratives as the perceived demand and supply triggers of inflation. Therefore, the core of his narrative definition is an in-text causal relationship between inflation and its demand or supply triggers. To identify such causal relationships, the author uses a textual analysis tool called Causality Extraction (CE). CE detects causal relationships in text by identifying mentions of keywords that explicitly convey causality (e.g., *because*). As a result, CE can be used to extract descriptions of inflation triggers from text. Inflation triggers are then classified into demand and supply narratives depending on whether they

¹While we could have opted to rely on other estimates like those based on the term structure model by d’Amico, Kim, and Wei (2018), we found those IRP estimates behave less plausible over the sample.

²We refrain from analyzing any IRP at lower maturities as for the US these estimates are strongly affected by the indexation lag of market-based inflation compensation (see d’Amico et al. (2018)). While d’Amico et al. (2018) argue that the indexation lag can still be significant at maturities between 2 and 4 years, they are generally smaller on average, which is why we include this maturity, while acknowledging the possibility of some distortions. For the EA, similar issues do not prevail as the approach by Burban et al. (2022) corrects for the indexation lag following Camba-Méndez and Werner (2017))

mention keywords associated with the demand or supply categories from Andre et al. (2025).³

For both the EA and the US, we analyze demand and supply narratives using data between 2005 and 2024 to ensure consistency in their sample comparison. For the US, we update the author's series of demand narratives, $Demand_t^{US,WSJ}$, and supply narratives, $Supply_t^{US,WSJ}$, from the Wall Street Journal (WSJ) through the end of 2024. For the EA, we apply the same tools used in Trebbi (2025)⁴ to inflation articles published by the Financial Times (FT).⁵ Thus, we obtain the FT counterparts to the WSJ demand and supply narrative measures: $Demand_t^{EA,FT}$ and $Supply_t^{EA,FT}$. For each newspaper s , $Demand_t^s/Supply_t^s$ represents the monthly volume of newspaper s ' articles attributing inflation to demand/supply triggers. Our primary narrative variable is the difference between them, called $NetDemand_t^s$. This measure is positive when newspaper s publishes more articles attributing inflation to a demand trigger than to a supply trigger, and negative otherwise.

Since the classification of inflation triggers into demand and supply narratives depends on six pre-defined categories, we also build individual measures for each category and newspaper. On the demand side, we develop the measures SDD_t^s , $SpendSent_t^s$, and $MonPol_t^s$ from the monthly volumes of articles attributing inflation to government spending/deficit/debt, consumer spending/sentiment, and monetary policy, respectively. On the supply side, we construct the measures $ComEx_t^s$, $Labor_t^s$, and SC_t^s from the monthly volumes of articles attributing inflation to commodities/energy, labor market events, and supply chain issues, respectively.

3 Hypotheses Development

We derive our testable hypotheses to explain how inflation risk premia are related to demand and supply narratives from a simple consumption-based asset pricing model. Our starting point is the standard pricing equation:

$$E_t \left(\exp \left(m_{t,\tau}^j + i_{t,\tau}^j \right) \right) = 1 \quad j \in \{N, R\} \quad (1)$$

Where $m_{t,\tau}^N$ ($m_{t,\tau}^R$) is the logarithm of the τ -period nominal (real) stochastic discount factor (SDF) at time t and $i_{t,\tau}^N$ ($i_{t,\tau}^R$) is the nominal (real) log yield at time t with a time-to-maturity $t + \tau$. Since a real bond

³The dictionaries for the demand and supply categories from Andre et al. (2025) come from Baker et al. (2026) and Ersahin, Giannetti, and Huang (2024).

⁴In line with the author's procedure, for each one of his causal keywords, we manually inspect a subset of causal relations to verify that they correctly identify inflation narratives. After removing causal keywords with an F-score below 54%, we find an overall F-scores of 79% for inflation narratives extracted from the FT.

⁵FT articles are directly sourced from the FT website through the FT API. Inflation-related articles from the Financial Times (FT) are selected based on the presence of the keywords "inflation" and "deflation." FT articles are further filtered using keywords referring to the EA, the European Union, its member states, and their respective languages.

has a payoff proportional to the price level in nominal terms, log nominal and real SDFs are connected through the following no-arbitrage relation:

$$m_{t,\tau}^N = m_{t,\tau}^R - \pi_{t,\tau} \quad (2)$$

Where $\pi_{t,\tau}$ is the inflation rate from time t to $t + \tau$. Combining 1 and 2 and assuming normality, the IRP, adjusted for a standard Jensen's inequality term (Campbell, Pflueger, & Viceira, 2020), is:

$$IRP_{t,\tau} = i_{t,\tau}^N - i_{t,\tau}^R - \pi_{t,\tau}^e + \frac{1}{2} \cdot Var_t(\pi_{t,\tau}) = Cov_t(m_{t,\tau}^R, \pi_{t,\tau}) \quad (3)$$

Thus, we can see that the IRP reflects the *conditional* time- t covariance between the log real SDF and inflation. To connect this covariance to real consumption growth, we need to model the log real SDF. Assuming the log real SDF derives from CRRA utility preferences yields the following formula for the IRP:

$$IRP_{t,\tau} = -\gamma \cdot Cov_t(g_{t,\tau}, \pi_{t,\tau}) \quad (4)$$

Where γ is the coefficient of relative risk aversion and $g_{t,\tau}$ is the log real consumption growth between time t and $t + \tau$.

Equation 4 indicates that the sign of the IRP changes with the sign of the *conditional* time- t covariance between consumption growth and inflation.⁶ This *conditional* time- t covariance is positive/negative when aggregate demand/supply (AD/AS) shocks are expected to prevail in the economy. Therefore, the IRP is positive/negative when AS/AD shocks are expected to prevail. Overall, equation 4 shows that the IRP is negatively related to the *conditional* time- t covariance between consumption growth and inflation. Using demand and supply narratives as proxies for expected AD and AS shocks leads us to our first testable hypothesis:

$$\text{The IRP is negatively related to } NetDemand. \quad (H1)$$

Equation 4 also shows us that risk aversion γ can influence the relationship between the IRP and *NetDemand*, namely as an amplifier. In addition, the *conditional* time- t covariance on the right-hand side of Equation 4 is the product between the *conditional* time- t correlation between inflation and real consumption growth, $\sigma_t(g_{t,\tau}, \pi_{t,\tau})$, and their *conditional* time- t volatilities, $\sigma_t(g_t)$ and $\sigma_t(\pi_{t,\tau})$. While the

⁶ Allowing for alternative preferences, such as Campbell and Cochrane (1999) external habit formation preferences or (Epstein & Zin, 1989) recursive preferences, yields similar implications for how the sign of the inflation risk premium changes with the sign of the *conditional* time- t covariance between consumption growth and inflation.

conditional time-t correlation signals whether AD or AS shocks are expected to dominate, the *conditional* time-t volatilities indicate how big they might be. Following the literature (e.g., Breach et al., 2020), we focus on the role of the *conditional* time-t volatility of inflation. Similarly to risk aversion, $\sigma_t(\pi_{t,\tau})$ should amplify the relationship between the IRP and *NetDemand*. This leads to our second and third testable hypotheses:

Risk aversion strengthens the relation between the IRP and *NetDemand*. (H2)

Inflation volatility strengthens the relation between the IRP and *NetDemand*. (H3)

4 Results

4.1 Demand/Supply Narratives

Figure 1 illustrates how *NetDemand* evolved over time across the two newspapers. Most months feature a predominance of demand or supply narratives across all newspapers, meaning that *NetDemand* is generally different from zero (78% and 85% of observations for FT and WSJ, respectively).

4.2 NetDemand and Inflation Risk Premia

Our first testable hypothesis is that inflation risk premia are negatively related to *NetDemand*. In other words, inflation risk premia become more negative/positive when newspapers publish relatively more demand/supply narratives. To test this hypothesis, we separately regress EA inflation risk premia IRP_m^{EA} , $m \in \{2y, 5y, 10y\}$, on standardized (demeaned and divided by standard deviation) $NetDemand^{EA,FT}$, as well as IRP_m^{US} on standardized $NetDemand^{US,WSJ}$. Figure 2 shows scatterplots of inflation risk premia against *NetDemand*, along with the slope estimates and their 95% confidence intervals. All plots indicate that inflation risk premia are negatively related to *NetDemand* for most maturities and for both the EA and US. In addition, the slopes of both $NetDemand^{EA,FT}$ and $NetDemand^{US,WSJ}$ flatten with the maturity. Table 1 reports the regression numbers in detail.

Casiraghi and Miccoli (2019) show that inflation risk premia can be well explained by the composite PMI and VIX. Intuitively, while the PMI might capture the potential cyclical nature of inflation risk premia, these premia should widen with equity market uncertainty. To verify whether *NetDemand* adds any explanatory power above and beyond the PMI and VIX, we estimate the following equations:

$$IRP_{t,m}^{EA} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{EA,FT} + \alpha_3 \cdot PMI_t^{EA} + \alpha_4 \cdot VIX_t + \epsilon_{t,m}^{EA} \quad (5)$$

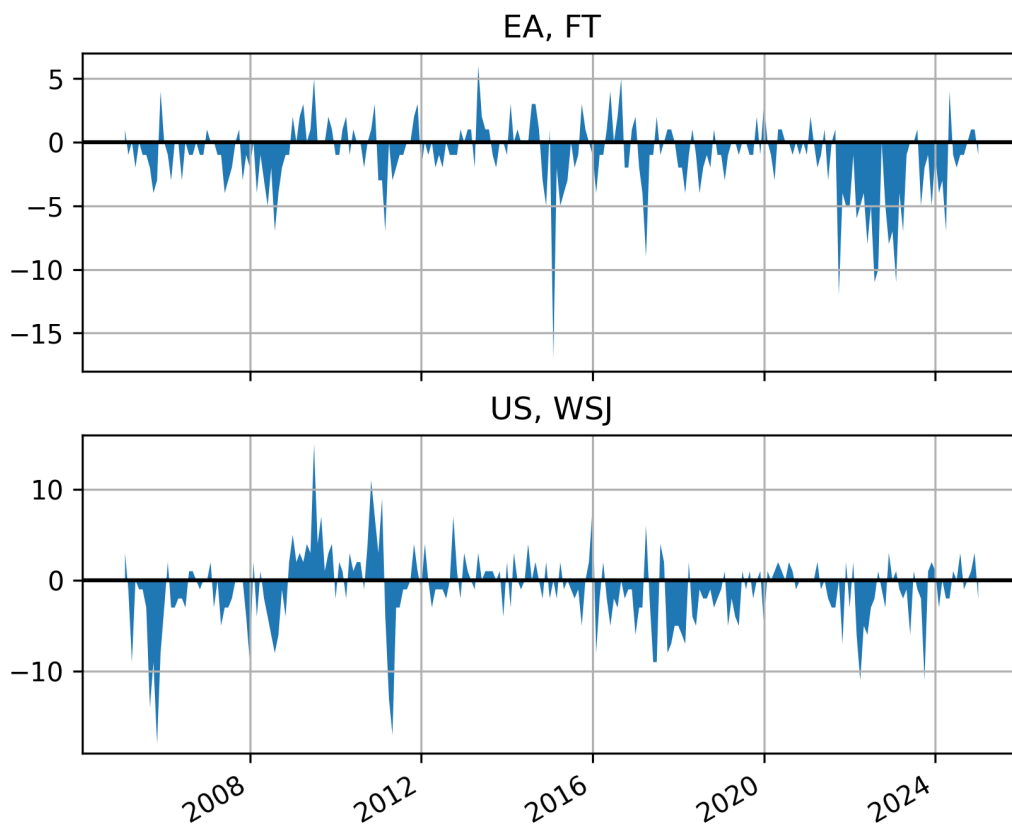


Figure 1: NetDemand

Table 1: NetDemand and Inflation Risk Premia

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.112*** (0.019)	-0.075*** (0.019)	-0.039** (0.019)
R-squared Adj.	0.127	0.058	0.013

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.337*** (0.067)	-0.166*** (0.034)	-0.086*** (0.024)
R-squared Adj.	0.092	0.088	0.045

$$IRP_{t,m}^{US} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot PMI_t^{US} + \alpha_4 \cdot VIX_t + \epsilon_{t,m}^{US} \quad (6)$$

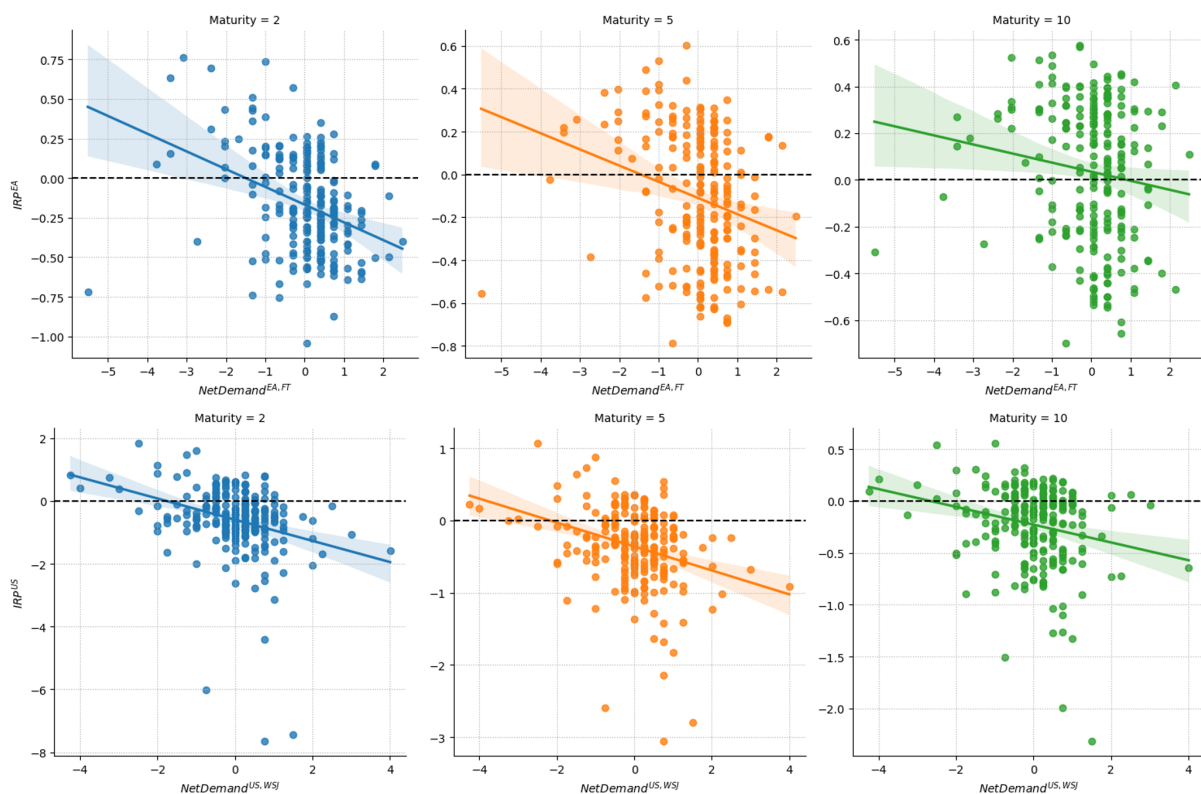


Figure 2: NetDemand and Inflation Risk Premia

The results in Table 2 show that inflation risk premia remain negatively related to *NetDemand* after controlling for the PMI and VIX.⁷

All in all, we do not reject our first testable hypothesis that inflation risk premia are negatively related to *NetDemand*.

4.3 NetDemand and Risk Aversion

Our second testable hypothesis posits that risk aversion amplifies the magnitude of the IRP commanded by *NetDemand*. To test this, we estimate the following equations:

$$\begin{aligned}
 IRP_{t,m}^{EA} = & \alpha_1 + \alpha_2 \cdot NetDemand_t^{EA,FT} + \alpha_3 \cdot NetDemand_t^{EA,FT} \cdot VRP_t \\
 & + \alpha_4 \cdot VRP_t + \alpha_5 \cdot PMI_t^{EA} + \epsilon_{t,m}^{EA}
 \end{aligned} \tag{7}$$

⁷Figure 2 indicates the presence of a few extreme observations in inflation risk premia, raising the question of their impact on the estimates in Table 2. To address these outliers, we calculate each observation's Cook's distance (Cook, 1977, 1979) across all models and follow the common rule of thumb of excluding any observation with Cook's distance above $4/N$, where N is the total number of observations. We then re-estimate Equations 5 and 6 without these influential points. Table A1 in Appendix A indicates that our findings are robust to the exclusion of influential observations.

Table 2: NetDemand and Inflation Risk Premia

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.106*** (0.019)	-0.071*** (0.019)	-0.036* (0.019)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.150	0.070	0.018

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.187*** (0.054)	-0.096*** (0.028)	-0.036* (0.020)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.443	0.394	0.360

$$\begin{aligned}
IRP_{t,m}^{US} = & \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot NetDemand_t^{US,WSJ} \cdot VRP_t \\
& + \alpha_4 \cdot VRP_t + \alpha_5 \cdot PMI_t^{US} + \epsilon_{t,m}^{US}
\end{aligned} \tag{8}$$

Where VRP_t is the variance risk premium measure from Bollerslev et al. (2009) and calculated from the difference between the squared VIX and the realized (annualized) variance of S&P 500 returns. Since the VIX represents the risk-neutral expected variance of S&P 500 returns, the variance risk premium represents the expected premium from selling stock market variance in a swap contract, which is a measure correlated with risk aversion (Rosenberg & Engle, 2002). As the variance risk premium is constructed from the VIX, we exclude the VIX as a control. The variance risk premium is standardized to improve interpretation. In line with the second testable hypothesis, both α_2 and α_3 should be negative.

The results in Table 3 show that VRP has the expected negative and statistically significant interaction coefficient for the two- and five-year maturities for the US. The size of this coefficient implies a one-standard-deviation increase in the VRP almost doubles the relationship between NetDemand and inflation risk premia. Importantly, the main slope of $NetDemand$ remains negative and statistically significant.

Overall, we do not reject our second testable hypothesis that risk aversion strengthens the relationship between the IRP and $NetDemand$ in the US.

Table 3: Inflation Risk Premia: NetDemand and Risk Aversion

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.148*** (0.025)	-0.111*** (0.024)	-0.075*** (0.023)
$NetDemand^{EA,FT} * VRP$	0.056 (0.069)	0.024 (0.064)	-0.014 (0.062)
PMI	Yes	Yes	Yes
R-squared Adj.	0.184	0.127	0.065

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{5y}^{US}
$NetDemand^{US,WSJ}$	-0.240*** (0.055)	-0.118*** (0.029)	-0.052** (0.021)
$NetDemand^{US,WSJ} * VRP$	-0.199** (0.092)	-0.106** (0.048)	-0.021 (0.035)
PMI	Yes	Yes	Yes
R-squared Adj.	0.425	0.377	0.335

4.4 NetDemand and Inflation Volatility

Our third testable hypothesis posits that inflation volatility amplifies the magnitude of the IRP commanded by *NetDemand*. To test this, we estimate the following equations:

$$IRP_{t,m}^{EA} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{EA,FT} + \alpha_3 \cdot NetDemand_t^{EA,FT} \cdot \sigma_t(\pi_{t,\tau}^{EA}) + \alpha_4 \cdot Var_t(\pi_{t,\tau}^{EA}) + \alpha_5 \cdot VIX_t + \alpha_6 \cdot PMI_t^{EA} + \epsilon_{t,m}^{EA} \quad (9)$$

$$IRP_{t,m}^{US} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot NetDemand_t^{US,WSJ} \cdot \sigma_t(\pi_{t,\tau}^{US}) + \alpha_4 \cdot Var_t(\pi_{t,\tau}^{US}) + \alpha_5 \cdot VIX_t + \alpha_6 \cdot PMI_t^{US} + \epsilon_{t,m}^{US} \quad (10)$$

Where $\sigma_t(\pi_{t,\tau}^{EA})$ and $\sigma_t(\pi_{t,\tau}^{US})$ are the (standardized) option-based measures of the volatility of EA and US inflation developed by Garcia et al. (2024)⁸ In line with our third testable hypothesis, both α_2 and α_3 should be negative.

The results in Table 4 indicate that inflation volatility has the expected negative and statistically significant interaction coefficient for the two- and five-year maturity for the EA. The magnitude of the interaction coefficient implies that a one-standard-deviation increase in inflation volatility strengthens the relationship between NetDemand and inflation risk premia roughly by between 30% and 50% at those

⁸See their slides here. Due to data limitation, the sample used starts in October 2009. Being derived by financial market measures, inflation volatility might be highly correlated with the VIX, which is why we exclude the VIX as a control. We restandardize the *NetDemand* measures over this sample.

two maturities. Importantly, the main slope of *NetDemand* remains negative and statistically significant. This result is important because one could have expected the production of narratives to spike with increases in inflation volatility, hereby implying a statistically insignificant main slope estimate. However, this is not the case empirically.

All in all, we do not reject our third testable hypothesis that inflation volatility strengthens the relationship between the IRP and *NetDemand* for the EA.

Table 4: Inflation Risk Premia: NetDemand and Inflation Volatility

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.089*** (0.018)	-0.076*** (0.015)	-0.058*** (0.015)
$NetDemand^{EA,FT} * \sigma(\pi_m^{EA})$	-0.030* (0.017)	-0.043** (0.018)	0.010 (0.020)
PMI	Yes	Yes	Yes
R-squared Adj.	0.381	0.493	0.529
	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{5y}^{US}
$NetDemand^{US,WSJ}$	-0.171*** (0.050)	-0.091*** (0.033)	-0.040 (0.024)
$NetDemand^{US,WSJ} * \sigma(\pi_m^{US})$	-0.076 (0.053)	-0.023 (0.030)	0.007 (0.018)
PMI	Yes	Yes	Yes
R-squared Adj.	0.155	0.107	0.134

5 Robustness Checks

5.1 Individual Types of Demand/Supply Narratives

Figures B1 and B2 in Appendix B illustrate the publication volumes of the six specific types of demand and supply narratives across newspapers. Monetary Policy and Commodities/Energy are generally the dominant demand and supply narratives across both newspapers, respectively. There are some exceptions for the US. In particular, Supply Chain was (as expected) the dominant supply narrative in 2022, while the dominant demand narrative at the end of the Great Recession was Government Spending/Sentiment/Debt. As the predominance of specific types of demand and supply narratives varies over time, an important question is whether inflation risk premia are similarly related to different types of demand and supply

narratives. To answer this question, we estimate the following model:

$$\begin{aligned}
IRP_{t,m}^{EA} = & \alpha_1 + \alpha_2^{MonPol} \cdot MonPol_t^{EA,FT} + \alpha_2^{SDD} \cdot SDD_t^{EA,FT} \\
& + \alpha_2^{SpendSent} \cdot SpendSent_t^{EA,FT} + \alpha_2^{ComEx} \cdot ComEx_t^{EA,FT} \\
& + \alpha_2^{Labor} \cdot Labor_t^{EA,FT} + \alpha_2^{SC} \cdot SC_t^{EA,FT} \\
& + \alpha_3 \cdot PMI_t^{EA} + \alpha_4 \cdot VIX_t + \epsilon_{t,m}^{EA}
\end{aligned} \tag{11}$$

$$\begin{aligned}
IRP_{t,m}^{US} = & \alpha_1 + \alpha_2^{MonPol} \cdot MonPol_t^{US,WSJ} + \alpha_2^{SDD} \cdot SDD_t^{US,WSJ} \\
& + \alpha_2^{SpendSent} \cdot SpendSent_t^{US,WSJ} + \alpha_2^{ComEx} \cdot ComEx_t^{US,WSJ} \\
& + \alpha_2^{Labor} \cdot Labor_t^{US,WSJ} + \alpha_2^{SC} \cdot SC_t^{US,WSJ} \\
& + \alpha_3 \cdot PMI_t^{US} + \alpha_4 \cdot VIX_t + \epsilon_{t,m}^{US}
\end{aligned} \tag{12}$$

All six narrative measures are standardized to ease interpretation. In line with their demand or supply nature, for both equations, α_2^{SDD} , $\alpha_2^{SpendSent}$, and α_2^{MonPol} should be negative, while α_2^{ComEx} , α_2^{Labor} , and α_2^{SC} should be positive.

The results in Table B1 in Appendix B reveal interesting commonalities across the EA and the US. In particular, only supply narratives have statistically significant slopes, which also take the positive sign, as expected. This result echoes the findings of Hördahl and Tristani (2014) that inflation risk premia are mostly driven by cost-push shocks across the two geographies. This is especially the case for the slope of the supply narrative Commodities/Energy. In the EA, in addition, the slope of the supply narrative Labor is also statistically significant at the shortest horizon. While the slope of the supply narrative Supply Chain is also statistically significant for the WSJ, Figure B2 reveals that this narrative might mainly capture the post-Covid supply-chain issues.

All in all, both EA and US inflation risk premia are most closely linked with supply narratives.

5.2 Alternatives to Demand/Supply Narratives

Our tests use *NetDemand* as proxy for the expected predominance of AD or AS shocks in the economy. A natural question is whether this expected predominance can be inferred from measures built from alternative information sources like observable macroeconomic quantities and surveys of professional forecasters, or by applying alternative NLP methods like LLMs. We address this question using three such alternatives in this section. All results are reported in Appendix C.

5.2.1 Demand/Supply Contributions to Inflation

A. H. Shapiro (2024) produces demand- and supply-driven contributions to US headline personal consumption expenditures (PCEs) inflation. These contributions are derived by separately applying sign restrictions (Faust, 1998; Uhlig, 2005) to each category underlying PCE inflation. Gonçalves and Koester (2022) adapt this methodology to derive demand- and supply-driven contributions to EA headline HICP inflation.⁹ As such, these contributions serve as real-time indicators of AD and AS shocks and, hence, potential alternatives to *NetDemand*.

Since these contributions can be both positive and negative depending on the sign of the shock, we derive a unique demand-supply contribution measure from the difference between their absolute values. For both the EA and the US, we obtain the measures $\pi_{t,DmS}^{EA}$ and $\pi_{t,DmS}^{US}$, which take positive values when the magnitudes of the demand contributions to headline inflation surpass those of their supply contributions, and negative otherwise.

We evaluate whether the contribution measure absorbs the explanatory power of *NetDemand* toward inflation risk premia. To do so, we estimate the following models:

$$IRP_{t,m}^{EA} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{EA,FT} + \alpha_3 \cdot \pi_{t,DmS}^{EA} + \alpha_4 \cdot PMI_t^{EA} + \alpha_5 \cdot VIX_t + \epsilon_{t,m}^{EA} \quad (13)$$

$$IRP_{t,m}^{US} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot \pi_{t,DmS}^{US} + \alpha_4 \cdot PMI_t^{US} + \alpha_5 \cdot VIX_t + \epsilon_{t,m}^{US} \quad (14)$$

As before, we test whether α_2 and α_3 are negative. The results in Table C1 generally indicate that the contribution measure never absorbs the explanatory power of *NetDemand* toward inflation risk premia. In particular, the slope of $NetDemand^{EA,FT}$ is always negative and statistically significant across all maturities. In contrast, the slope of $\pi_{t,DmS}^{EA}$ is always negative, but statistically significant only at the 10-year maturity, which is where adding $\pi_{t,DmS}^{EA}$ to the model improves its explanatory power meaningfully. On the other hand, the slope of $NetDemand^{US,WSJ}$ is statistically significant at the two- and five-year horizons, while the slope of $\pi_{t,DmS}^{US}$ is never statistically significant.

Overall, the regressions above show that our *NetDemand* measure explains variation in market-based IRP estimates over and above the contribution by the measures based on A. H. Shapiro (2024).

5.2.2 Survey-based Expected inflation-GDP growth Comovement

Fonseca (2024) uses the individual responses regarding expectations for future inflation and GDP growth

⁹The EA measures are only available from December 2012, unlike their US counterparts.

to estimate the covariance and correlation of the joint distribution of future GDP growth and inflation. Intuitively, in periods where demand shocks are expected to be more prevalent, forecasters are likely to disagree on the magnitude of such shocks, leading to a positive correlation between the cross-sectional forecasts for GDP growth and inflation, and conversely for supply shocks.¹⁰ His results show that the EA survey-based measure of the correlation between expected GDP growth and inflation for the fifth calendar year ahead aligns well with the equivalent horizon inflation risk premia estimated by Burban et al. (2022), especially after 2013. This suggests that SPF responses could also be used to construct alternatives to *NetDemand*.

Following Fonseca (2024), we evaluate whether $\rho_{\pi,g}^{SPF}$ captures the explanatory power of *NetDemand* toward inflation risk premia. To do so, we estimate the following model:

$$IRP_{t,m}^j = \alpha_1 + \alpha_2 \cdot NetDemand_t^{EA,FT} + \alpha_3 \cdot \rho_{\pi,g}^{EA,SPF} + \alpha_4 \cdot VIX_t + \alpha_5 \cdot PMI_t^{EA} + \epsilon_{t,m}^{EA} \quad (15)$$

$$IRP_{t,m}^{US} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot \rho_{\pi,g}^{US,SPF} + \alpha_4 \cdot VIX_t + \alpha_5 \cdot PMI_t^{US} + \epsilon_{t,m}^{US} \quad (16)$$

As before, we test whether α_2 and α_3 are negative. The results are shown in Table C2. Adding $\rho_{\pi,g}^{SPF}$ to the models yields meaningful gains in explanatory power, especially for the EA. However, the slopes of *NetDemand* remain statistically significant and in the ballpark of those for Table 2. Therefore, the SPF-based measures do not absorb the explanatory power of *NetDemand* toward inflation risk premia.

All in all, regressions again imply that our *NetDemand* measure explains variation in market-based IRP estimates over and above the variation explained by the alternative survey-based measures of the expected comovement between inflation and GDP growth for both the EA and the US.

5.2.3 LLM-based narratives

The CE algorithm described in Trebbi (2025) and used to construct our *NetDemand* measure identifies inflation narratives based on intrasentential, explicit causal relations. As such, the CE algorithm might not identify other implicit or intersentential inflation narratives. The recent LLM-based approach by Kwon et al. (2025) offers a possibly more comprehensive way of measuring inflation narratives from inflation news. In particular, the authors apply GPT models to WSJ articles about US inflation since 2000 to inquire whether inflation is driven by demand or supply forces. We refrain from using GPT to identify

¹⁰While a simple covariance calculation of the responses in each survey round would be a first step toward this goal, this approach uses a model to address several issues, such as forecaster turnover, outlier responses, and potential forecaster biases.

in-text causal relationships due to recent evidence indicating its limited capabilities as a causal reasoner, especially since it often mistakenly identifies non-causal relations as causal (see e.g., Gao et al., 2023). However, the authors' narrative measure might capture a more comprehensive set of inflation narratives than ours. Therefore, their use of WSJ articles and objective of measuring the news-based drivers of inflation lend themselves for an ideal comparison with our *NetDemand* measure for the US.

We access the authors' updated dataset as on 24 September 2025.¹¹ For each month, we sum the authors' daily demand (supply) series, $S_{d,t}^{US,WSJ}$ and $S_{s,t}^{US,WSJ}$, that measure the difference between positive and negative demand (supply) articles. As the nature of these series resemble those developed in M. D. Shapiro and Watson (1988), we similarly construct a unique demand-supply measure from the difference between their absolute values. The outcome of this process is $S_{t,s-d}^{US,WSJ}$, which take positive values when the magnitude of the demand measure surpasses that of its supply counterpart, and negative otherwise.

Next, we evaluate whether the LLM-based measure captures the explanatory power of *NetDemand* toward inflation risk premia. To do so, we estimate the following model:

$$IRP_{t,m}^{US} = \alpha_1 + \alpha_2 \cdot NetDemand_t^{US,WSJ} + \alpha_3 \cdot S_{d-s,t}^{US,WSJ} + \alpha_4 \cdot PMI_t^{US} + \alpha_5 \cdot VIX_t + \epsilon_{t,m}^{US} \quad (17)$$

As before, we test whether α_2 and α_3 are negative. The results in Table C3 remarkably indicate similar explanatory powers across horizons. Therefore, while $S_{d-s}^{US,WSJ}$ might capture a more comprehensive set of inflation narratives, its comprehensiveness does not take away the explanatory power of our non-LLM-based $NetDemand^{US,WSJ}$ measure that captures a narrower set of inflation narratives.

Overall, the LLM-based narrative measure by Kwon et al. (2025) does not subsume the explanatory power of *NetDemand* toward inflation risk premia.

6 Conclusion

This paper studies whether inflation risk premia in the Euro Area and the United States are inversely related with demand and supply narratives from inflation news. We measure EA narratives from the Financial Times and US narratives from the Wall Street Journal using the approach developed by Trebbi (2025). Our inflation risk premia measures are derived from inflation-linked swaps for the EA and breakeven inflation rates for the US. At the two-, five-, and ten-year maturities and both in the EA and the US, inflation

¹¹ Available here.

risk premia fall when newspapers publish relatively more demand narratives than supply narratives, and rise otherwise. This relationship is robust to controlling for the latest PMI and VIX levels and strengthens with risk aversion in the US and inflation volatility in the EA. Importantly, this relationship is not subsumed by alternative proxies for investors' expectations about the dominance of aggregate demand and supply shocks. For monetary policymakers, these results indicate that movements in inflation risk premia can be rationalized using newspapers' narratives attributing inflation to demand-side factors versus supply-side factors at high frequency. As the results indicate that the inflation-hedging properties of nominal bonds differ across demand and supply narratives, a possible venue for future research could be to study if the inflation-hedging properties of other assets also differ across demand and supply narratives.

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A No Influential Observations

Table A1: NetDemand and Inflation Risk Premia

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.095*** (0.019)	-0.066*** (0.019)	-0.028 (0.019)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.134	0.058	0.003
	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.170*** (0.042)	-0.091*** (0.026)	-0.034* (0.020)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.302	0.297	0.261

B Individual Types of Demand/Supply Narratives

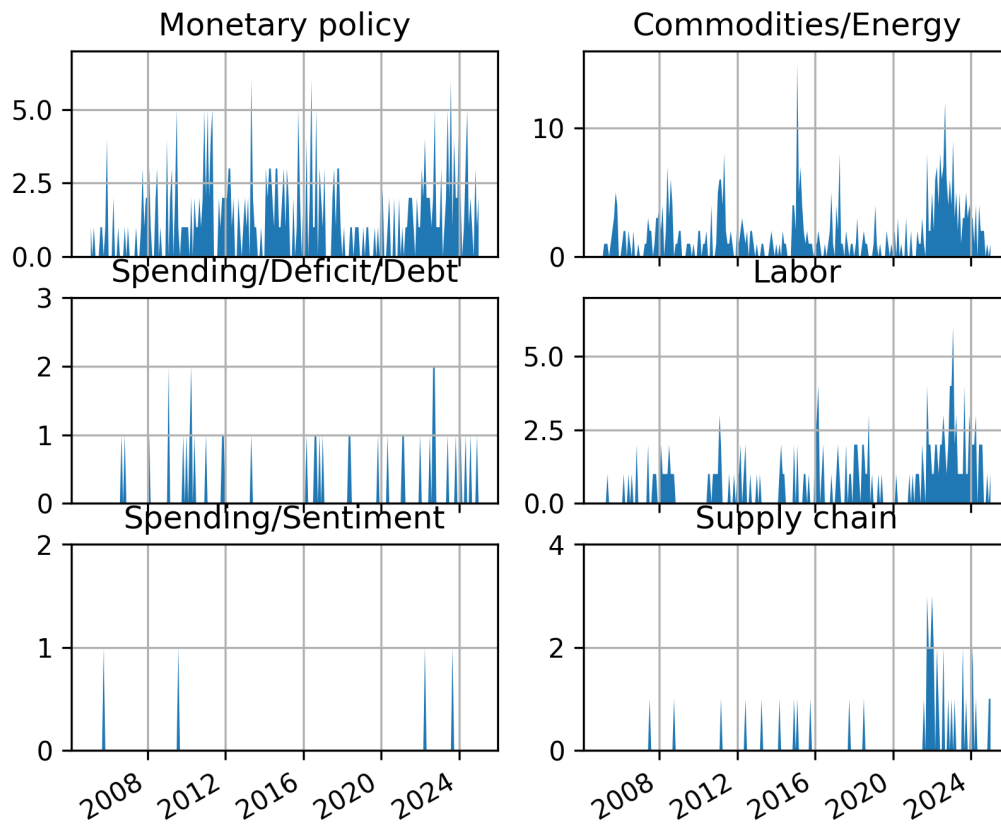


Figure B1: Types of Demand and Supply Narratives — FT

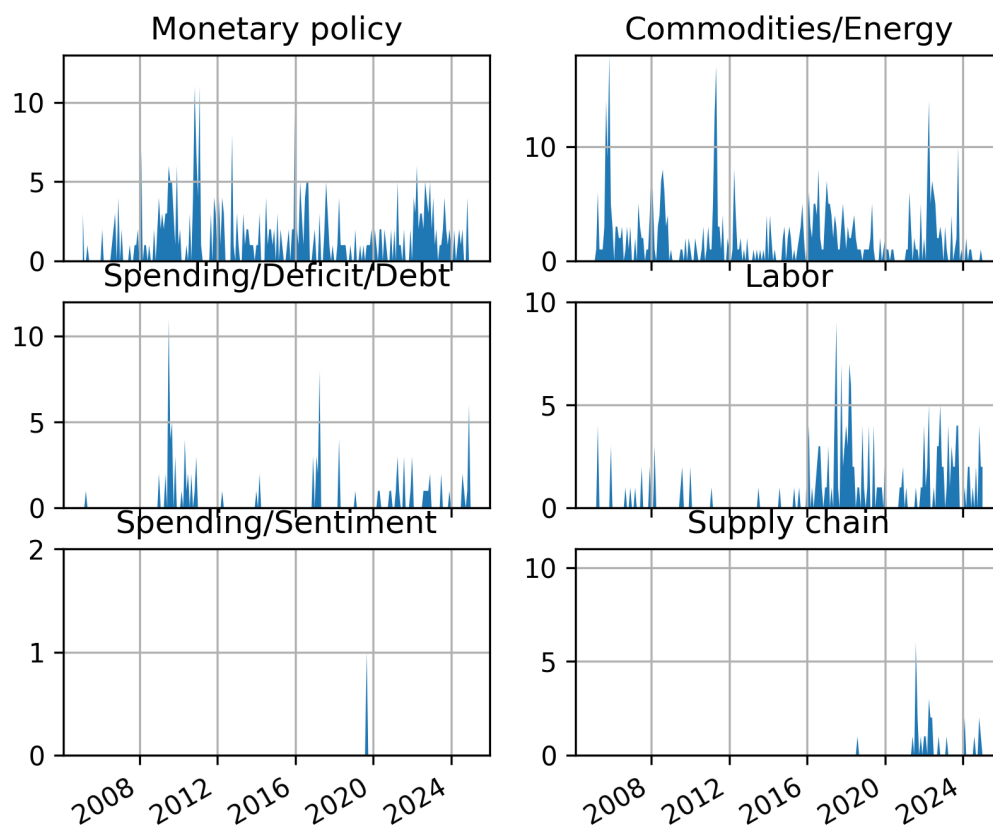


Figure B2: Types of Demand and Supply Narratives — WSJ

Table B1: Individual Types of Demand/Supply Narratives and Inflation Risk Premia

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$MonPol^{EA,FT}$	-0.015 (0.019)	0.001 (0.020)	0.020 (0.020)
$SDD^{EA,FT}$	0.032* (0.019)	0.016 (0.019)	0.006 (0.019)
$SpendSent^{EA,FT}$	0.024 (0.018)	0.033* (0.019)	0.036* (0.019)
$ComEx^{EA,FT}$	0.075*** (0.021)	0.055** (0.022)	0.039* (0.022)
$Labor^{EA,FT}$	0.056*** (0.021)	0.033 (0.022)	0.009 (0.022)
$SC^{EA,FT}$	0.027 (0.019)	0.015 (0.020)	0.002 (0.020)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.197	0.096	0.037

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$MonPol^{US,WSJ}$	-0.025 (0.053)	-0.028 (0.027)	-0.003 (0.020)
$SDD^{US,WSJ}$	-0.042 (0.053)	-0.017 (0.027)	-0.015 (0.020)
$SpendSent^{US,WSJ}$	0.011 (0.051)	-0.015 (0.026)	-0.017 (0.020)
$ComEx^{US,WSJ}$	0.161*** (0.052)	0.066** (0.027)	0.029 (0.020)
$Labor^{US,WSJ}$	0.058 (0.053)	0.038 (0.027)	-0.002 (0.020)
$SC^{US,WSJ}$	0.215*** (0.052)	0.137*** (0.027)	0.076*** (0.020)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.474	0.445	0.387

C Alternatives to Demand/Supply Narratives

Table C1: Inflation Risk Premia: NetDemand vs. Demand/Supply Contributions to Inflation

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.136*** (0.026)	-0.111*** (0.023)	-0.086*** (0.022)
π_{DmS}^{EA}	-0.014 (0.026)	-0.045* (0.024)	-0.064*** (0.022)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.163	0.138	0.158

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.192*** (0.055)	-0.095*** (0.029)	-0.034 (0.021)
π_{DmS}^{US}	0.027 (0.055)	-0.004 (0.029)	-0.012 (0.021)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.441	0.391	0.359

Table C2: Inflation Risk Premia: NetDemand vs. SPF-based inflation-GDP growth correlations

	IRP_{2y}^{EA}	IRP_{5y}^{EA}	IRP_{10y}^{EA}
$NetDemand^{EA,FT}$	-0.115*** (0.024)	-0.073*** (0.024)	-0.030 (0.025)
$\rho_{\pi,g}^{EA,SPF}$	-0.189*** (0.025)	-0.223*** (0.025)	-0.227*** (0.026)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.536	0.553	0.502

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.198** (0.089)	-0.114*** (0.039)	-0.039 (0.031)
$\rho_{\pi,g}^{US,SPF}$	-0.416*** (0.091)	-0.282*** (0.040)	-0.194*** (0.032)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.564	0.657	0.604

Table C3: US Inflation Risk Premia: WSJ Netdemand vs. Demand-Supply Sentiment

	IRP_{2y}^{US}	IRP_{5y}^{US}	IRP_{10y}^{US}
$NetDemand^{US,WSJ}$	-0.167*** (0.053)	-0.087*** (0.028)	-0.031 (0.020)
$S_{d-s}^{US,WSJ}$	-0.197*** (0.054)	-0.087*** (0.028)	-0.045** (0.021)
PMI	Yes	Yes	Yes
VIX	Yes	Yes	Yes
R-squared Adj.	0.471	0.415	0.370

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