ABSOLUTE STRATEGY RESEARCH

ASR's Asset Allocation Survey

27th March 2024

The Bears Capitulate

Asset Allocators Anticipate a More Reflationary 2025

AUTHOR:

David Bowers
+44(0) 7073 0733
david.bowers@absolute-strategy.com

Charles Cara
+44(0) 7073 0738
charles.cara@absolute-strategy.com

Major Shift in Asset Allocators' Expectations

Asset allocators have replaced fears of hard landings with hopes of economic recovery. Inflation is not seen as a constraint on Central Bank easing. Asset allocators now bullish on Stocks, Bonds, Credit, Commodities, Gold & Housing.

Equity Optimism Fuelled by Hopes of Stronger Corporate Earnings

Our panel believes that stronger Corporate Earnings means that Equities will not only be higher a year from now, but will also outperform Bonds (59% probability). Fears about US Corporate Credit have also evaporated.

A New, Third Group Emerges that is Worried about Sticky Inflation

Our 'groups' analysis shows that 'No-landing Bulls' now make up 56% of the panel, with the 'Soft-landing Bears' down to 34%. But a new, third group has emerged (comprising just 10% of the panel) that is worried about sticky inflation.

RELATED RESEARCH:

2023 Q4 Survey: Investors See Inflation Dragon Slain, 15th Dec 2023

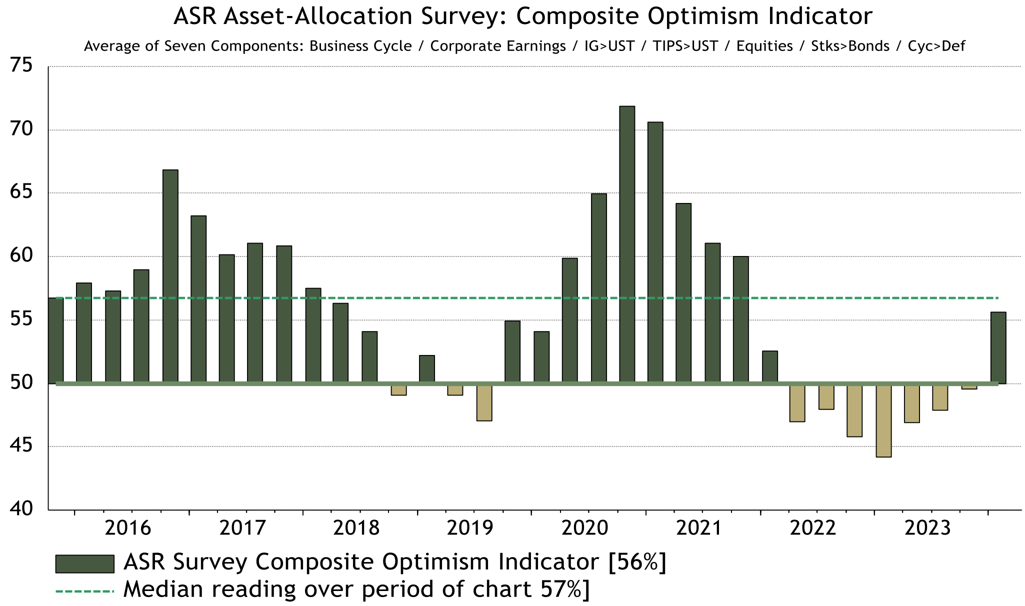
2023 Q3 Survey: Strong Conviction that Rates/Yields Won't be Higher, 28th Sept 2023

2023 Q2 Survey: Defensive Stance Despite Risk-on Markets, 29th June 2023

2023 Q1 Survey: Asset Allocator Optimism At Record Lows, 30th Mar 2023

Measuring the Skill of our Survey Panel, 15th June 2023

Key Chart: ASR's "Composite Optimism Indicator" in Positive Territory



Source: ASR Ltd.
Based on 225 respondents managing over $8trn AUM (Fieldwork: 13th March - 20th March 2024)

The Bears Capitulate

ASR's Asset Allocation Survey is a survey of financial market probabilities for the next 12 months

ASR's Asset Allocation Survey is a survey of financial probabilities. Every quarter we ask CIOs, asset allocators, economists, and strategists about the outlook for financial markets for the next 12 months. The fieldwork for this wave took place between 13th and 20th March, with 225 responses from investors overseeing over $8trillion of AUM. The survey was conducted before US Fed's FOMC December meeting.

Survey Highlights from the Survey

Major shift in investor expectations

The past three months have seen a major shift in investors' expectations, as many asset allocators abandoned the hard-landing narrative and embraced hopes of a stronger economy a year from now.

Hard landing swapped out for economic upswing and higher corporate earnings …

1. The probability that business confidence will be higher in a year's time rose to 56% - its highest level in three years
2. The probability of a Global recession in the next twelve months fell to 41% - its lowest level in more than two years
3. The probability of higher corporate earnings rose to 60% - its highest level in two years.
4. The probability of higher US unemployment declined sharply – although it remains elevated at 64%
5. China continues to be a concern, with the majority of the panel sceptical it can grow more than 5% in the coming year.

… despite expectations of sub-5% growth in China

Despite this impending recovery, investors still think it is unlikely that core inflation will rise and cause Central Banks to delay easing policy.

Asset allocators do not expect higher core inflation to spoil the show and cause Central Banks to delay easing policy

6. The likelihood of a higher US core PCE deflator remains subdued at 40%, while the probability of higher core inflation in the eurozone remains even lower at 35%. Interestingly, Japan is the region most likely to see a rise in core inflation.
7. That said, these probabilities are somewhat higher than three months ago. Moreover, investors now expect Commodity prices (a traditional indicator of pricing power) to be higher a year from now (59% probability). It is also noteworthy that they have closed their preference for US Treasuries over TIPS.
8. But even if there are concerns about how inflation behaves in this upswing, asset allocators still regard the likelihood of higher Fed Funds, higher US 2yr Treasury yields, and tighter Global Monetary Conditions as low at 24%, 30%, and 35% respectively.
9. Investors continue to place a high probability (68%) on a more positive sloping (i.e. steeper) US yield curve. This position looks consistent with the probability of a higher US unemployment rate but less consistent with the prospects of an economic recovery. Remember that US yield curve slopes typically only become more positively sloped when output gaps turn more negative.

Investors still confident of a more positive sloping (steeper) US yield curve

Asset allocators believe this macro backdrop to be positive for risk assets

This is seen as a much more positive backdrop for risk assets

10. The probability that Global Equities will be higher a year from now rose to 58% - its highest level in more than two years
11. The probability that Global Equities will outperform Bonds rose to 59% - again, its highest level in almost two years
12. US Corporate Credit is back in favour as recession fears recede. Investors now expect Investment Grade to beat US Treasuries

(56%). They have also closed their negative call on High Yield versus Investment Grade.

It's not just financial assets that are seen as winners; asset allocators now more upbeat on real assets like Housing and Commodities

13. It's not just sentiment towards financial assets that has improved; investors have also become more bullish towards real assets – including Commodities and Residential Real Estate. The probability that house prices will be higher now stands at 56% - the highest level since the question was introduced in 2022Q3.

Asset allocators expect widespread asset-price inflation

14. While asset allocators do not expect core inflation rates to rise, what is striking is that they do expect asset-price inflation, with gains across Stocks, Bonds, Credit, Commodities, Gold, and Residential Real Estate. Widespread asset-price inflation is usually a sign that monetary policy is far from tight and Financial Conditions far from restrictive. Sustained asset-price inflation is often a precursor to higher goods & services inflation.

Japan stands out

15. At the regional level, Japan stands out. It is the country where both core inflation and bond yields are most likely to be higher a year from now. The Yen is also the currency most likely to appreciate (65% probability), as interest-rate differentials close.

Our composite optimism indicator now back to the median of the past eight years

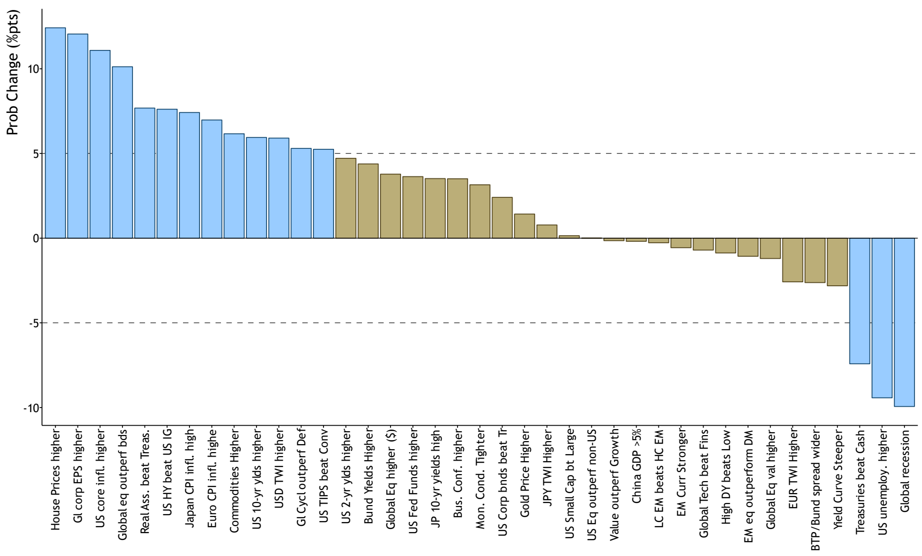
16. The scale of the shift in sentiment is well captured in the survey's "Composite Optimism Indicator" (shown in the front-page chart), which rebounded to the median reading of the past eight years.

17. The scale of the shift is also visible from the number of questions where there has been a change in the implied probabilities greater or equal to 5% points. These are the blue bars in the chart below – and indicate a major change in investors' perceptions. Six questions saw shifts of more than 10% points, with asset allocators notably much more upbeat on house prices, corporate earnings, and Equities versus Bonds as they jettisoned their fears of a 'hard landing'.

18. The questions where there is the greatest ambivalence include (1) US Inflation-Linked versus Treasuries; (2) USD vs Local Currency EM Debt; and (3) the outlook for EUR. Opinion is polarised around US Credit Spreads and EM vs DM Equities.

The scale of the shift in investor sentiment can be seen in the number of questions where there has been a change in implied probabilities of 5% points or more

AAS. 1: How Probabilities have Changed since the Previous Survey



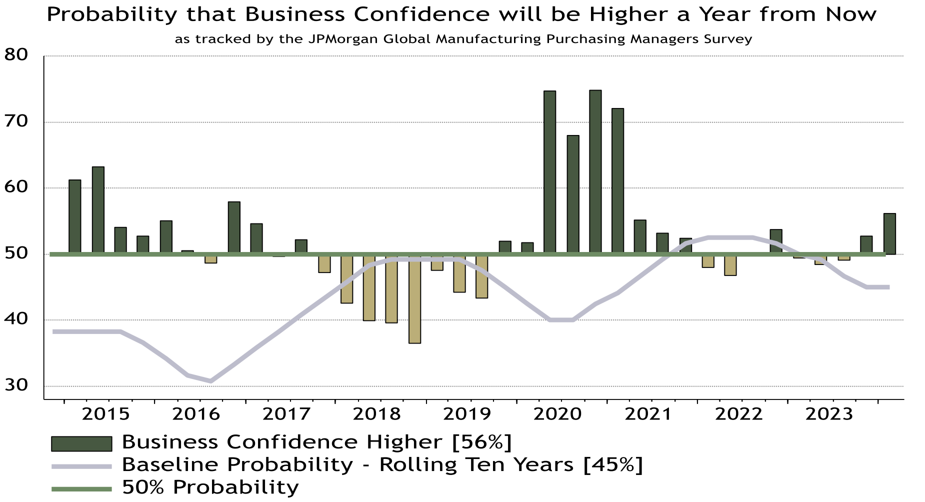
Source: ASR Ltd.

Note: a cross check of panellists who completed both this and the previous survey shows the same shift in views

Macro Assumptions

Asset Allocators are starting to anticipate a recovery in the Global business cycle. The probability of higher business confidence a year from now rose to 56% - its highest level in three years

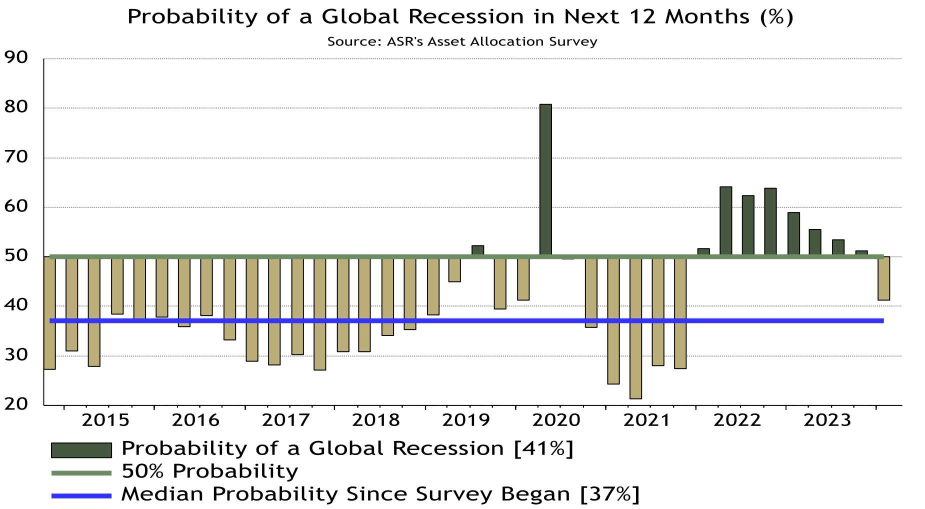
AAS. 2: Probability of Higher Business Confidence a Year from Now



Source: ASR Ltd. / LSEG Datastream

The probability of a Global recession has fallen sharply to stand at 41% - the lowest reading in more than two years. However, the latest probability is still higher than its median reading of 37%

AAS. 3: Probability of a Global Recession in the Next 12 Months

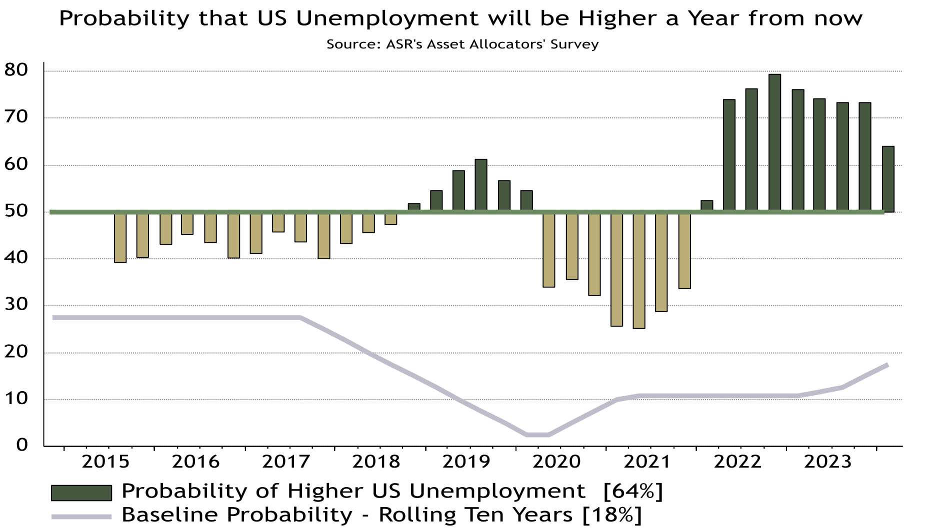


Source: ASR Ltd. / LSEG Datastream

Panel has high historical Accuracy for this Question

Despite the more confident Global macro outlook, asset allocators still expect the US unemployment rate to be higher a year from now. However, the probability of such an outcome has fallen to just 64%

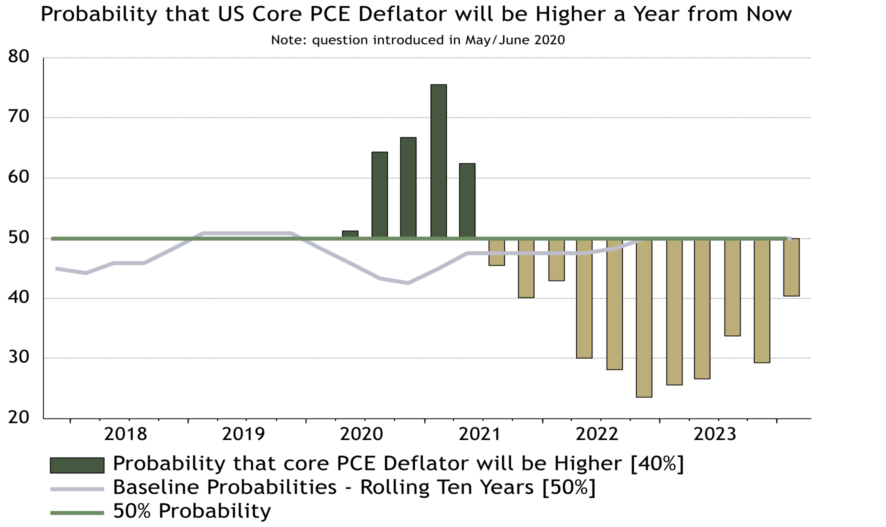
AAS. 4: Probability of Higher US Unemployment Rate in 12m Time



Source: ASR Ltd. / LSEG Datastream

Asset allocators continue to believe that the probability of seeing higher US core PCE deflator a year from now is still below 50%. However, the possibility that US core PCE deflator a year from now might be higher than its current reading of 2.6% has risen from three months ago

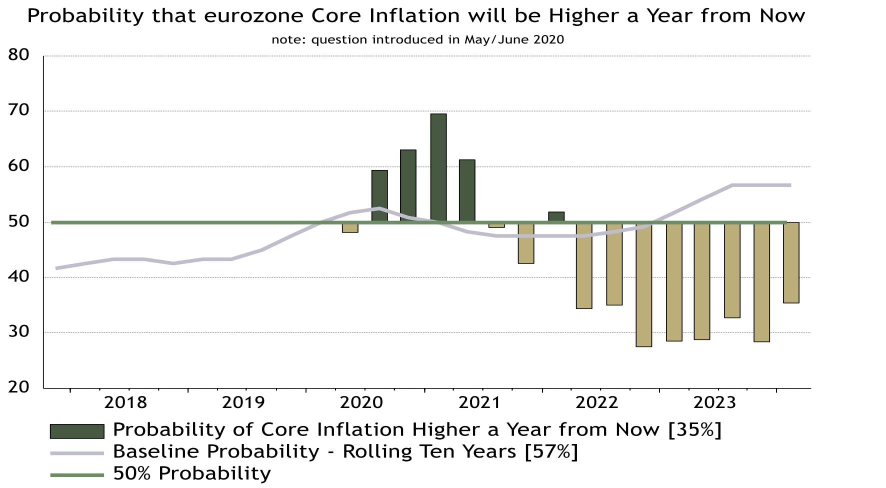
AAS. 5: Probability that US Core PCE Deflator will be Higher



Source: ASR Ltd. / LSEG Datastream

The probability of higher core inflation in the eurozone a year from now remains well below 50%

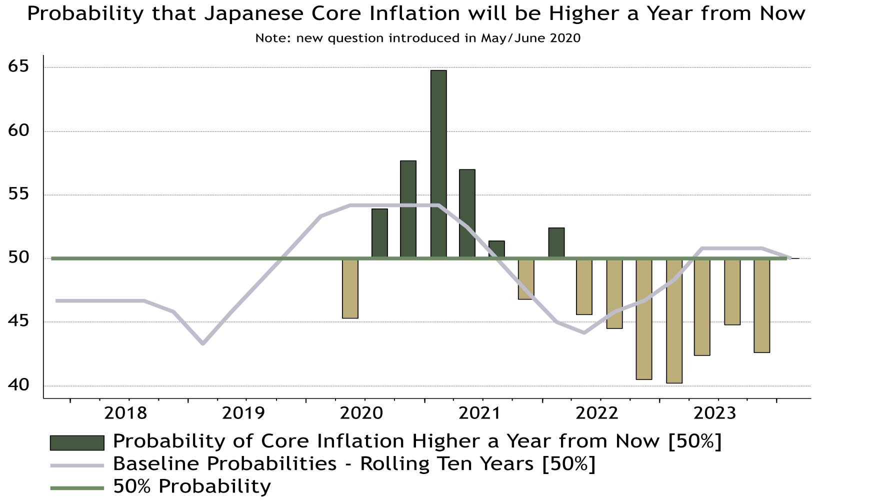
AAS. 6: Probability that eurozone Core CPI will be Higher



Source: ASR Ltd. / LSEG Datastream

The picture in Japan is very different. Asset allocators believe that there is a 50% probability that Japanese core inflation will be higher a year from now

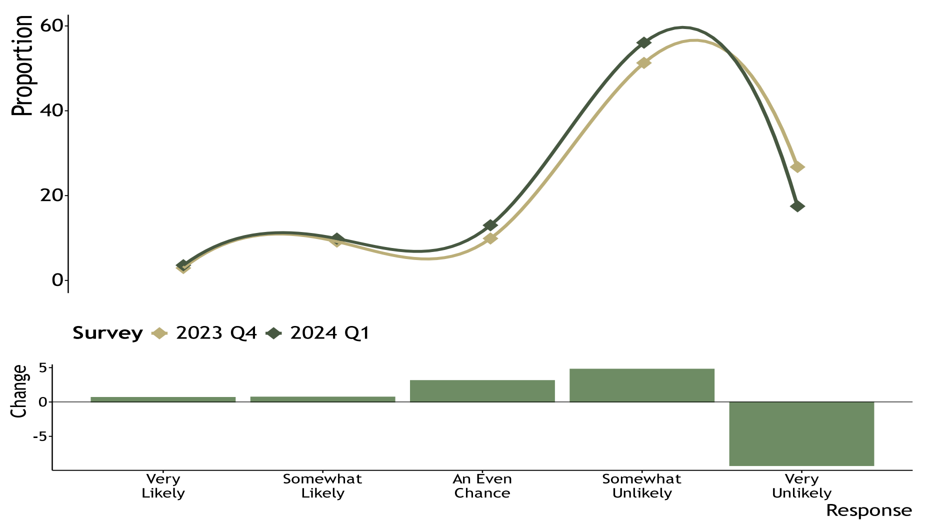
AAS. 7: Probability that Japanese Core CPI will be Higher



Source: ASR Ltd. / LSEG Datastream

AAS. 8: Probability that Global Monetary Conditions will be Tighter

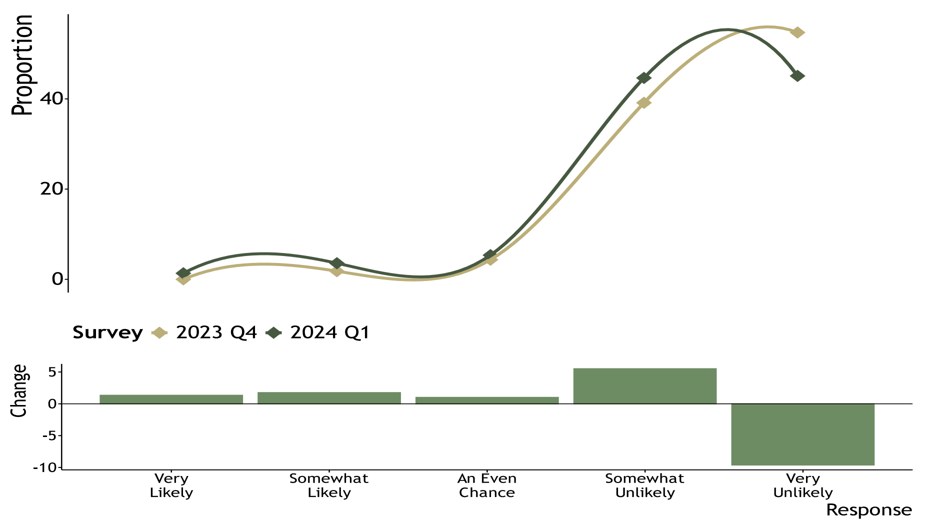
Asset allocators continue to believe that it is unlikely that Global monetary conditions will be tighter a year from now. However, the probability of tighter policy has increased to 35% from 32% in December – perhaps on the back of concerns that inflation may prove sticky at a time when labour markets remain tight



Source: ASR Ltd.

AAS. 9: Probability that US Fed Funds Rate will be Higher

The probability that Fed Funds will be higher a year from now remains very low at 24% - although some of the conviction appears to have been trimmed at the margin

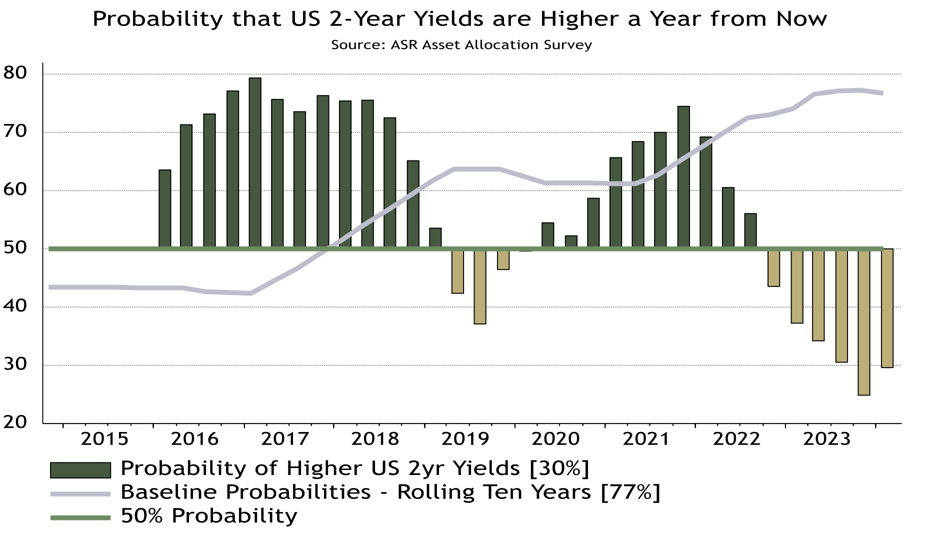


Source: ASR Ltd.

AAS.10: Probability of Higher 2yr Treasury Yields a Year from Now

Panel has high historical Accuracy for this Question

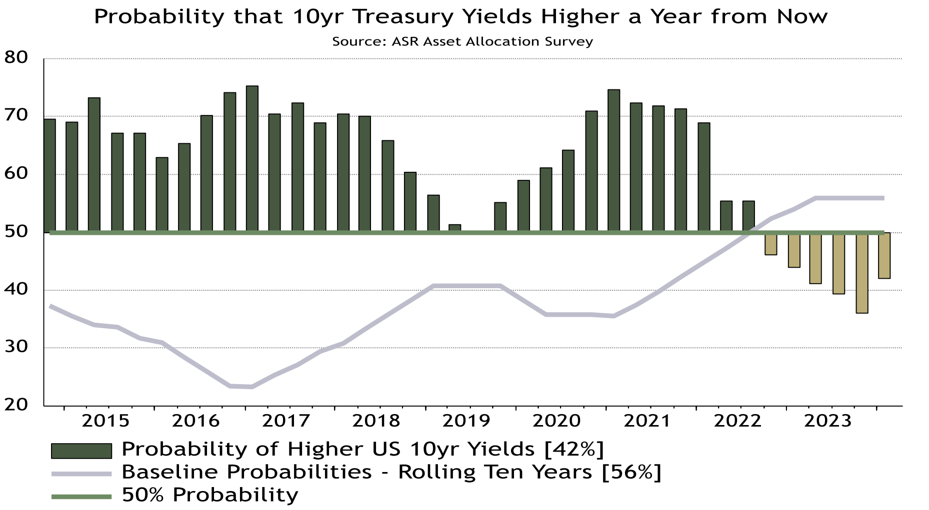
The probability that US 2yr yields will be higher a year from now remains very low at 30% - although it is marginally higher than three months' ago



Source: ASR Ltd. / LSEG Datastream

Asset allocators still think it is unlikely that 10yr Treasury yields will be higher a year from now. However, the conviction has been trimmed as investors start to anticipate an economic upswing

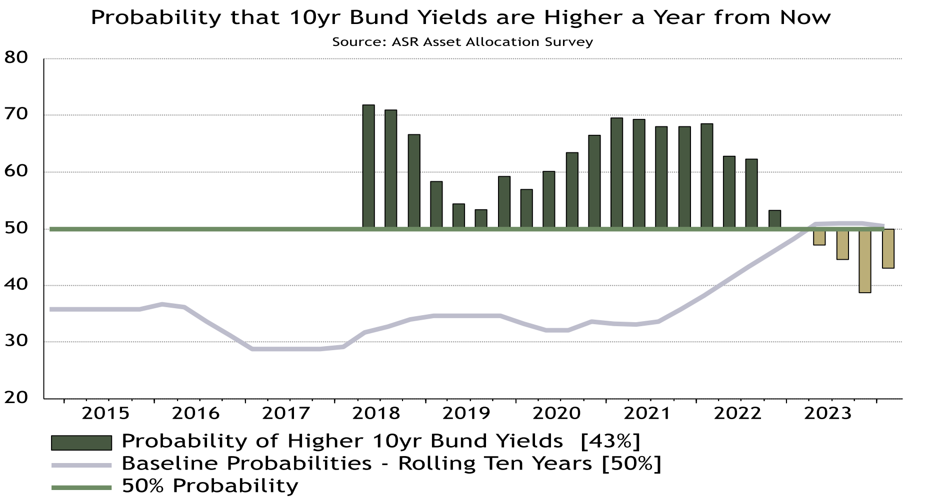
AAS. 11: Probability of Higher 10yr UST Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

Investors still think it is unlikely that Bund yields will be higher a year from now

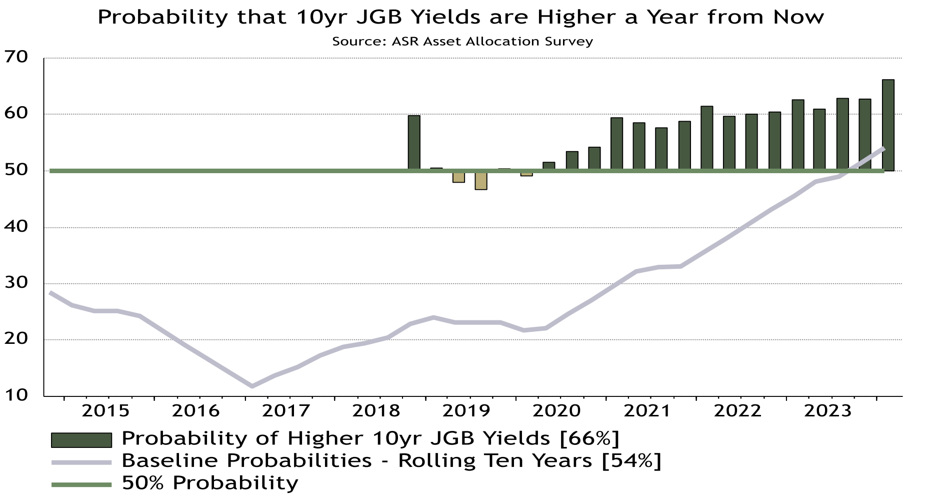
AAS. 12: Probability of Higher 10yr Bund Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

However, expectations for Japanese JGB yields are strikingly different from those for Bunds and Treasuries. The probability of higher JGB yields a year from now stands at a record 66%

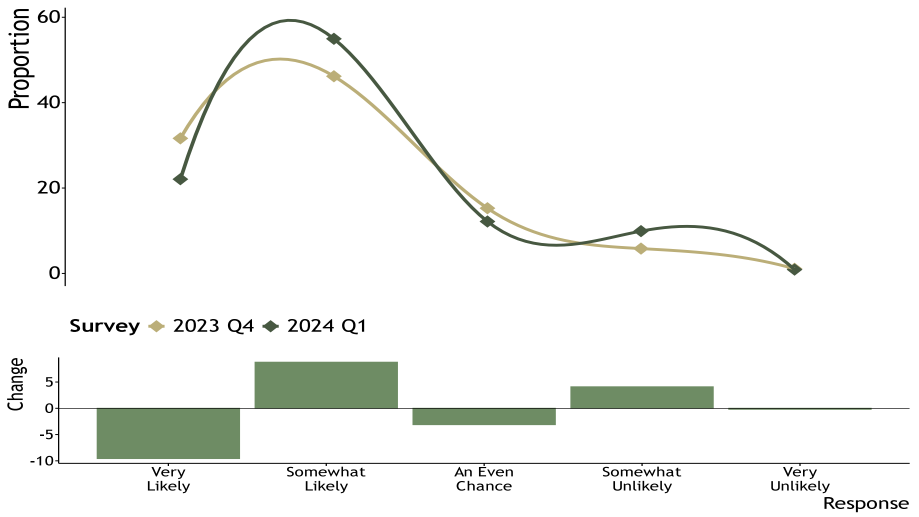
AAS. 13: Probability of Higher 10yr JGB Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

The probability that the US yield curve is going to steepen remains at a high-conviction 68%. However, it is worth noting that aggressive curve steepeners typically occur during recessions – a view that asset allocators have stepped back from.

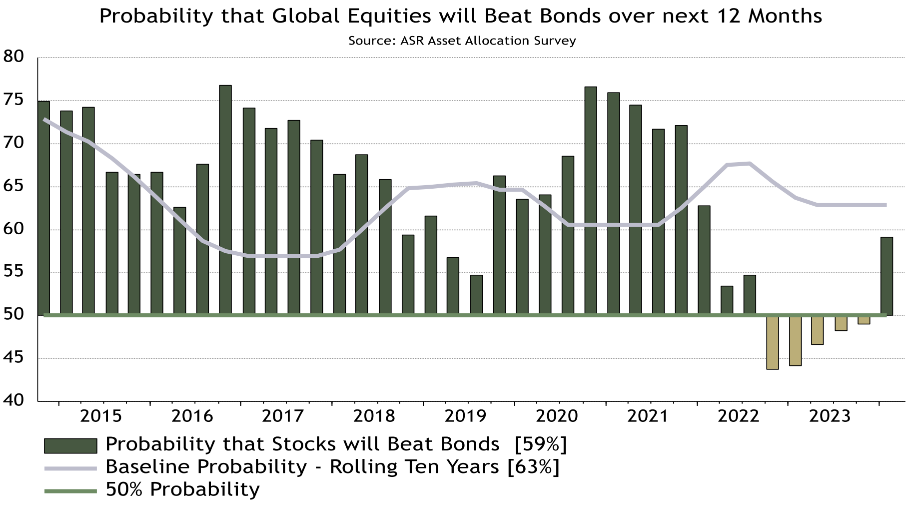
AAS.14: Probability that US Yield Curve will be Steeper



Source: ASR Ltd.

This chart shows the degree to which the bears have capitulated. After five quarters believing that Bonds would outperform Stocks, there has now been a major shift. Asset allocators now believe that there is a 59% probability that Stocks will do better than Bonds over the next 12 months

AAS.15: Probability that Global Equities will Outperform Gl Bonds

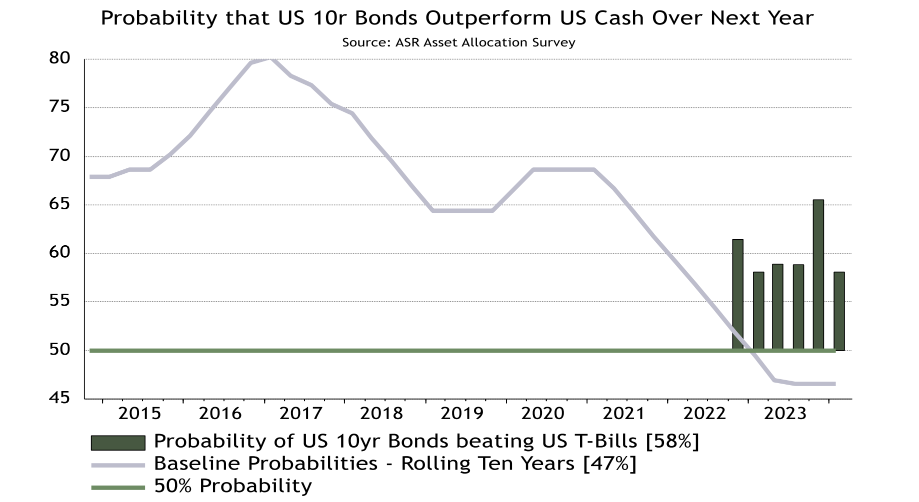


Source: ASR Ltd. / LSEG Datastream

We introduced this question in 2022, and now have some history.

Investors are convinced that US Treasuries will outperform Cash (in the form of US T-bills) over the coming year

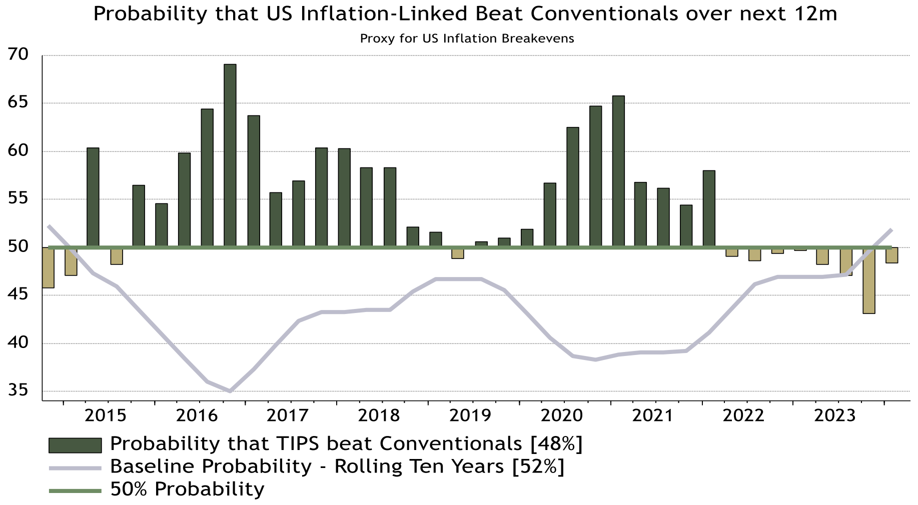
AAS.16: Probability that US Treasuries Will Outperform US Cash



Source: ASR Ltd. / LSEG Datastream

Three months ago, investors were convinced that US Conventionals were set to do better than Inflation-Linked bonds. This quarter that conviction has evaporated, which could signal that pricing power may be stronger than was the case in December

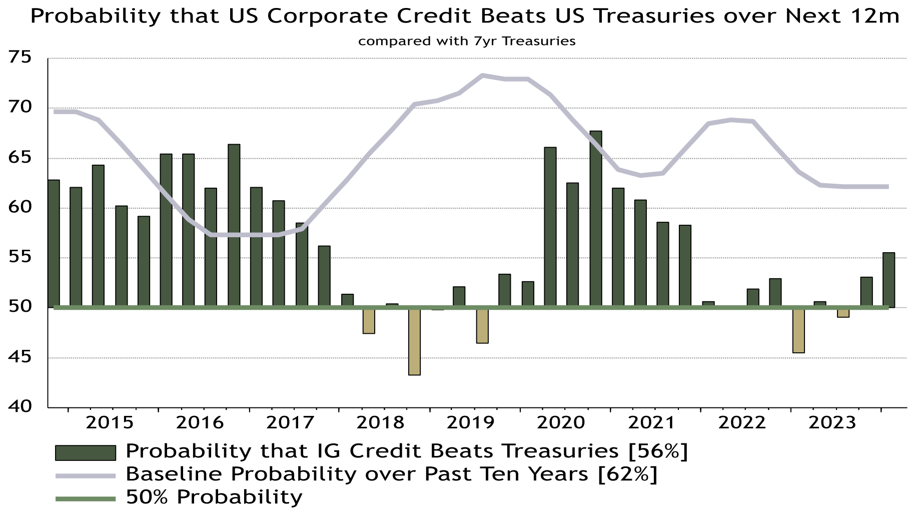
AAS.17: Probability that US TIPS Will Beat Conventionals



Source: ASR Ltd. / LSEG Datastream

With recession off the agenda along with improved expectations for corporate earnings, it is no surprise that asset allocators feel more confident that US Investment Grade credit is set to outperform US Treasuries over the coming year

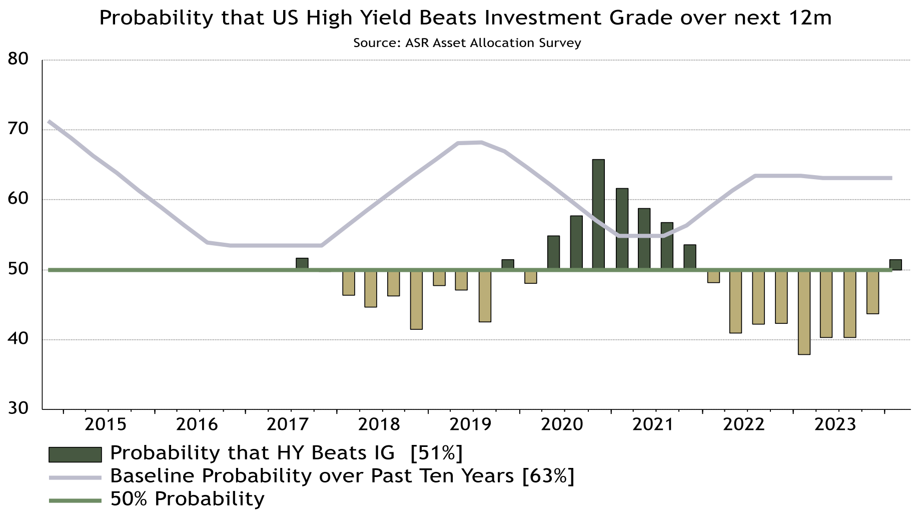
AAS.18: Probability that US IG Credit will Beat Treasuries



Source: ASR Ltd. / LSEG Datastream

For the past two years, asset allocators have been sceptical whether US High Yield paper can outperform Investment Grade – particularly while recession risks loomed large. Those concerns have dissipated, and investors have turned more positive on the asset class

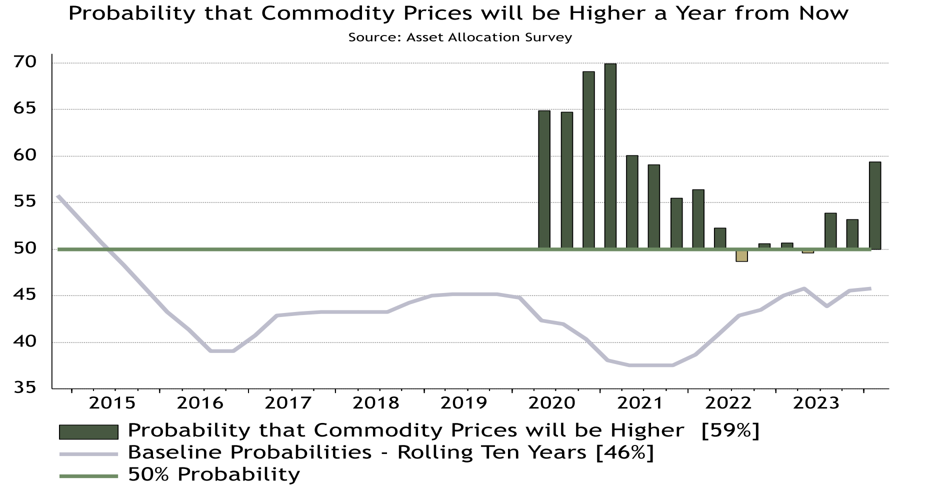
AAS.19: Probability that US HY Credit will Beat US IG Credit



Source: ASR Ltd. / LSEG Datastream

The prospect of an economic recovery may have contributed to Asset Allocators' more positive stance on Commodities. The probability that they will be higher a year from now recorded its highest level in two and a half years at 59%

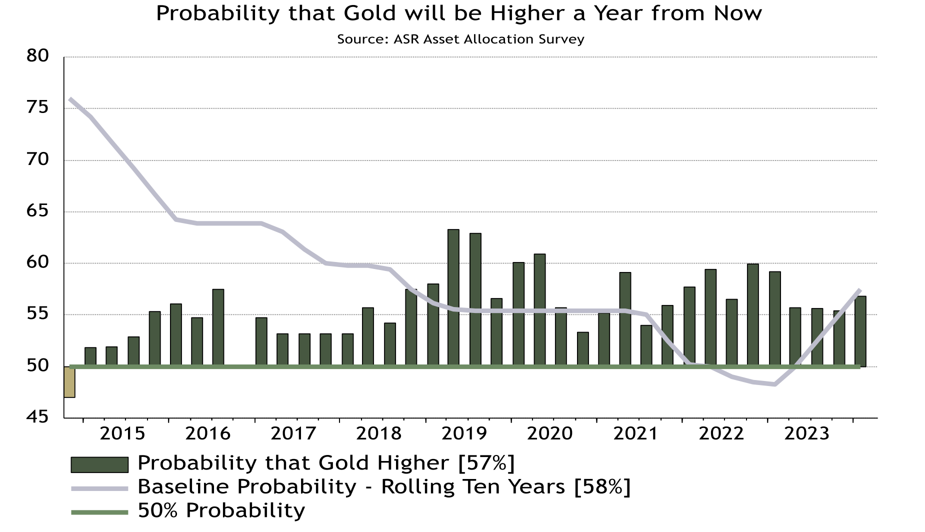
AAS.20: Probability that Commodity Prices will be Higher …



Source: ASR Ltd. / LSEG Datastream

Curiously, that enthusiasm for Commodity Prices is not reflected in a more positive outlook for Gold

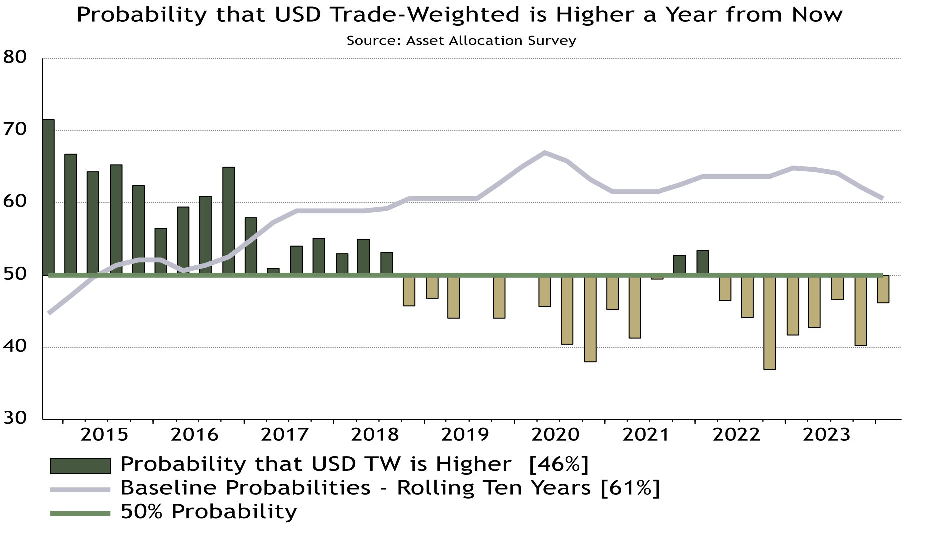
AAS.21: Probability that Gold will be Higher a Year from Now



Source: ASR Ltd. / LSEG Datastream

Asset allocators still think it is unlikely that the dollar will appreciate over the coming year – but they have stepped away from expecting a major dollar depreciation

AAS.22: Probability that US Dollar will be Higher a Year from Now

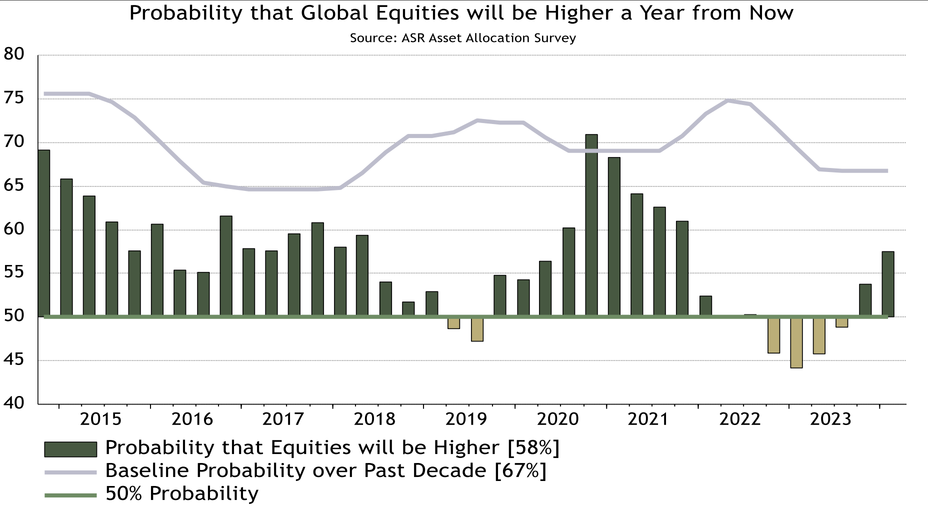


Source: ASR Ltd. / LSEG Datastream

Equity Markets

AAS.23: Probability that Global Equities will be Higher in 12m Time

Our panel has increasing confidence that global equities will rally further over the next 12 months. At 58% the implied probability is the highest in two years



Source: ASR Ltd. / LSEG Datastream

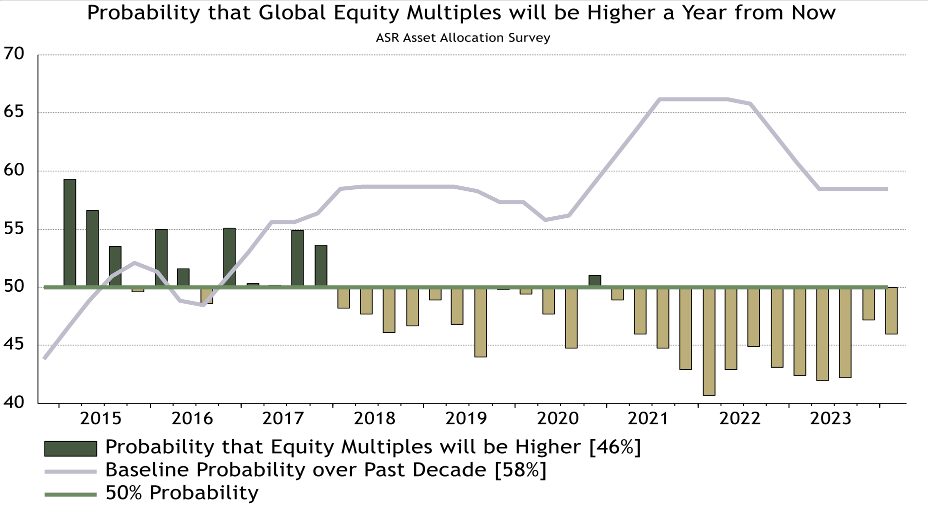
AAS.24: Probability that Global Corporate Earnings will be Higher

Key to this increasing confidence in global equities is the view that Corporate Earnings will grow in the next 12 months, with an implied probability of 60%

Source: ASR Ltd. / LSEG Datastream

AAS.25: Probability that Global Equity PEs are Higher in 12m Time

But our panel doesn't expect any help from valuations – believing that the probability of higher multiples is only 46%



Source: ASR Ltd. / LSEG Datastream

Survey Results - Intra-Equity Expectations

We take a deeper dive into the responses to the intra-equity market questions

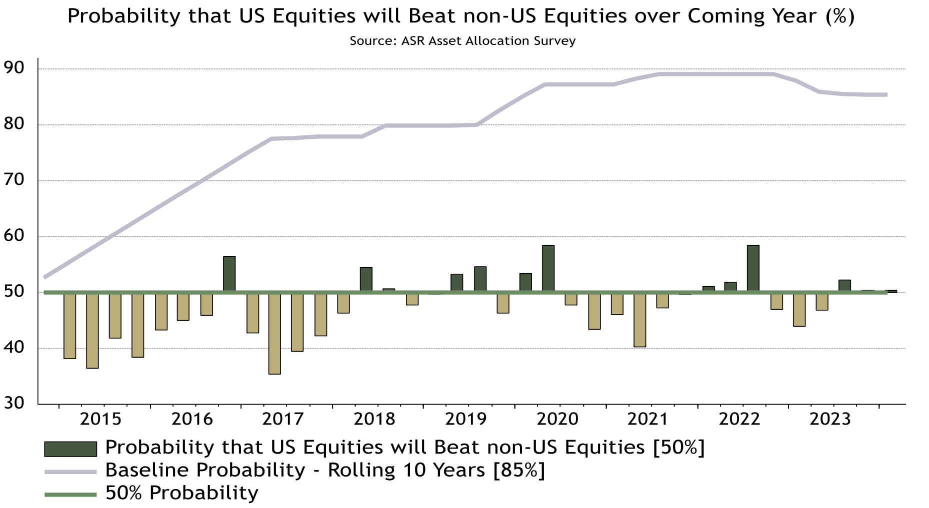
Our survey has seven questions that look at investor preferences within the equity market. Despite the strong performance of US relative to Non-US Equities and a historic 85% chance of the region outperforming in the last decade our panel puts just a 50% Implied Probability of US beating non-US (AAS 26), which might, we suspect, be due to the US's high valuation. Likewise, the expectations for EM equities to outperform DM has been falling with the Implied Probability down to 51% (AAS 27). We often highlight tensions in the views of the panel, and so flag that despite the falling attraction of EM stocks, our panel has become more positive about Cyclicals outperforming Defensives (AAS 28), with the Implied Probability rising from 47% to 52%.

A cross-tabulation of responses to that question and Global Tech vs Financials (AAS 29), shows that panellists have a strong tendency to favour both Cyclicals and Tech. But there is another tension: between the preference for Tech, where the companies tend to be large, and our panel's preference for Small Cap over Large Cap (AAS 30).

Despite the historically high probability of US outperforming non-US, our panel only puts the Implied Probability at 50%...

...possibly reflecting the higher valuation of the US relative to non-US

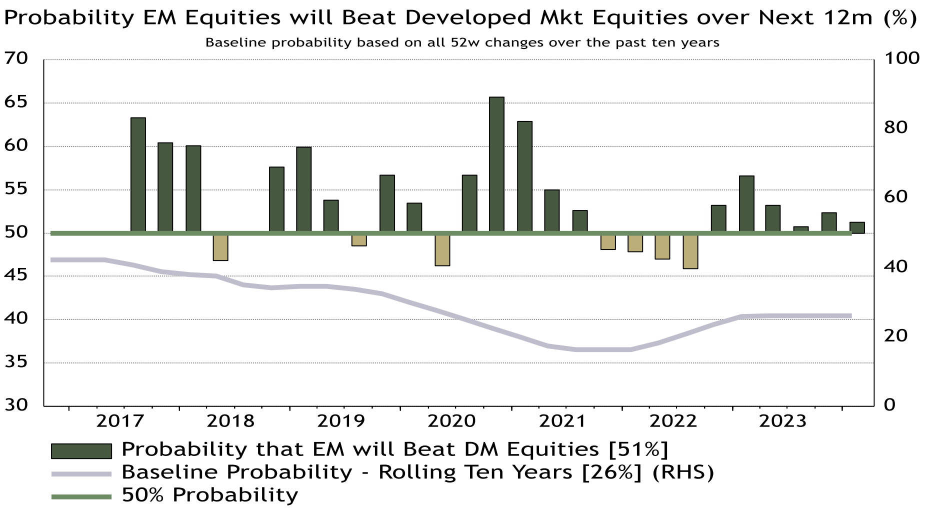
AAS.26: Probability that US Equities will outperform Non-US



Source: ASR Ltd. / LSEG Datastream

The panel has also been inching away from EM vs DM with the Implied Probability falling from 52% to 51%

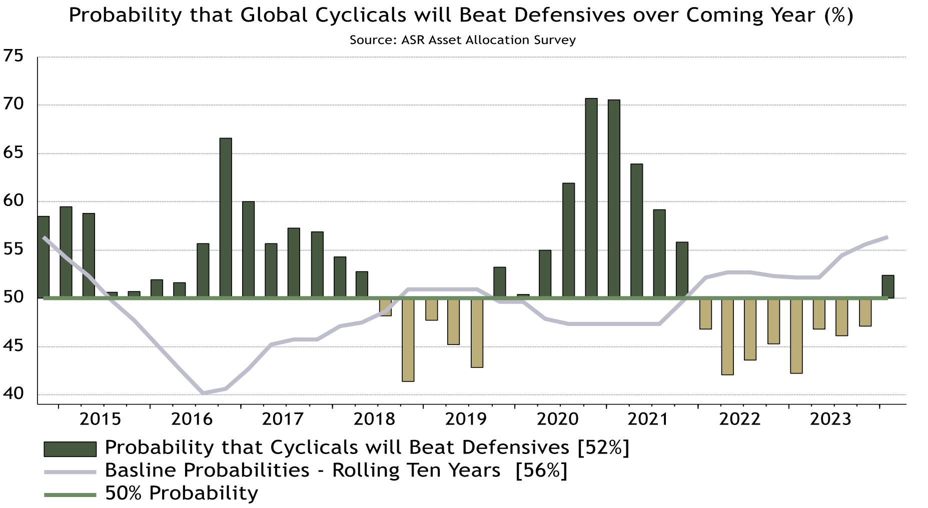
AAS.27: Probability that EM Equities will outperform DM



Source: ASR Ltd. / LSEG Datastream

There is some tension between the EM vs DM views and the rising preference for Cyclicals vs Defensives, where the Implied Probability has risen from 47% to 52%

AAS.28: Probability that Cyclicals will Outperform Defensives…

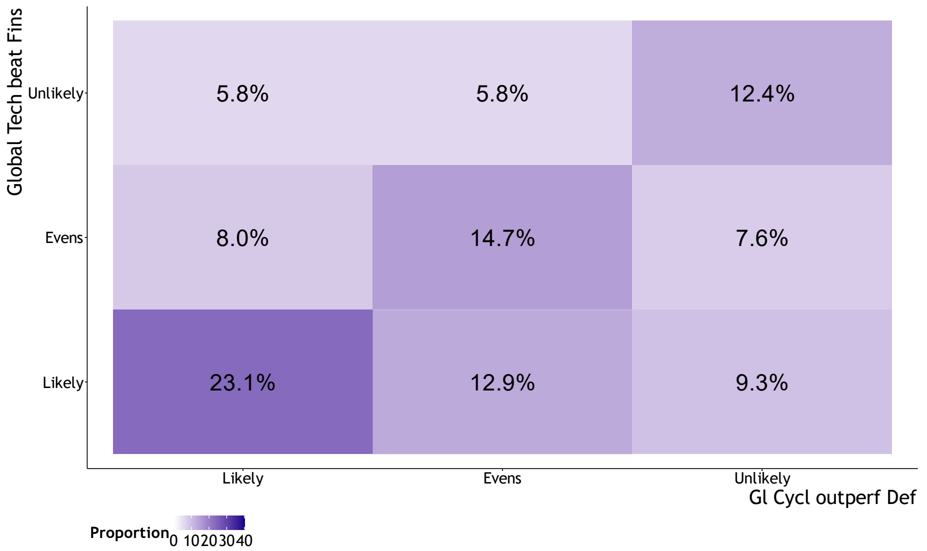


Source: ASR Ltd. / LSEG Datastream

Our panellists' individual views on Cyclicals vs Defensives tend to be aligned with their views on Tech vs Financials...

...implying they see Tech as more cyclical than Financials

AAS.29: Prob "Cycl. / Defn.". Vs "Global Tech / Financials"

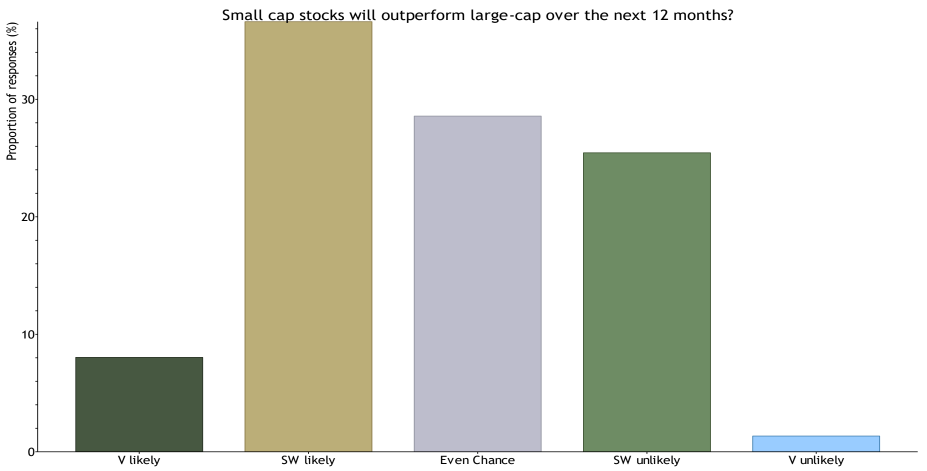


Source: ASR Ltd. / LSEG Datastream

There is a tension between the panel's preference for Tech companies, which tend to be large cap...

...and their expectation that US Small Cap will beat Large. Implied Probability of 55%, which is one of the strongest intra-equity views.

AAS.30: Probability that "US Small Cap" will Beat "Large Cap"



Source: ASR Ltd. / LSEG Datastream

Bears Outnumbered but have Greater Conviction

Most likely split of panel is into three groups

Our machine-learning algorithm, which groups panellists with similar views (see explanation on page 17), has this quarter found an additional third group, compared with the two groups found in recent surveys. The extra group, comprising a tenth of the panel, has starkly different views on inflation and bond yields relative to the rest of the panel.

Two groups are united in their view that inflation will fall, rates will be cut and that yields are going to fall

Our Bayesian grouping algorithm is unsupervised, since we do not pre-define each group's views. Instead, we interpret the average response of each group (AAS 30) to understand their views and to give the group an appropriate descriptive name.

The third group sees inflation as sticky and likely to rise

In line with the positive composite Optimism indicator (front page chart) the largest group is bullish (56% of the panel, a similar proportion as in Q4). This group expects Business Confidence to rise, and does not see a recession as likely, even if it does not expect China to grow quickly. This confidence might be based on the expectation that Fed Funds will fall and Monetary Conditions will ease as inflation comes down sharply. This group is the most confident that corporate earnings will rise, helping US corporate bonds to outperform Treasuries and that Global Equities will rally. The group likes Tech and prefers Cyclical Equities. We have called this group the 'No landing Bulls'

56% of the panel expects a 'no-landing' scenario of accelerating growth with falling inflation

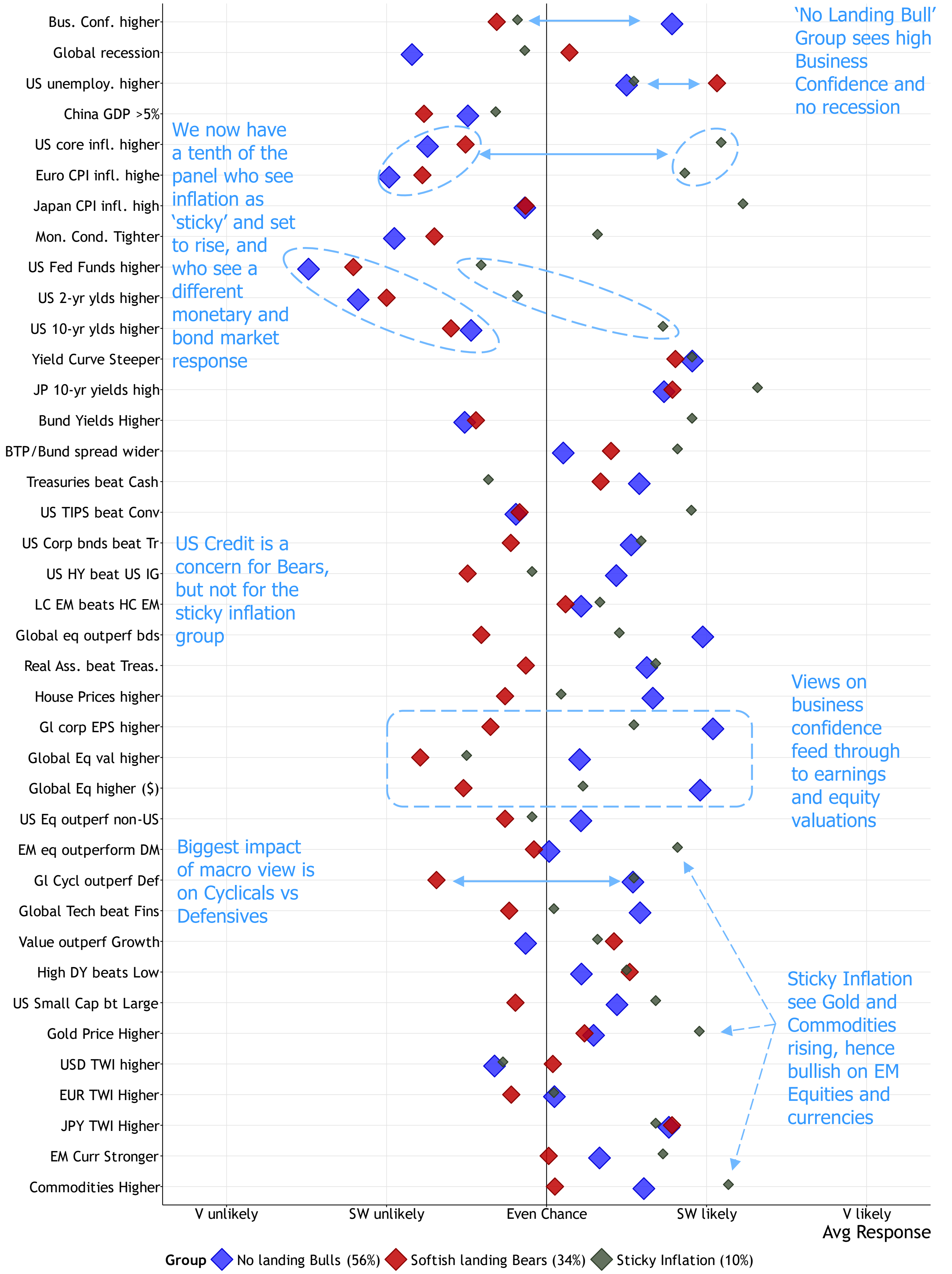
Taking the opposite view on the economy is the group that contains 34% (down from 43% in Q4) of the panel. As well containing fewer panellists, this group's economic views are less bearish than the last survey (except on China). But the group is not fully in the soft-landing camp as the panellists expect Business Confidence to only fall slightly, so we have named the group 'softish landing bears'. The group also sees inflation falling due to weak activity and so expects companies to lose pricing power. This is the only group that expects earnings to fall. Coupled with equities de-rating, this group expects equities to fall in absolute terms and relative to bonds. This bearish group strongly prefers Defensives over Cyclicals, along with Value to beat Growth, and Large Cap to beat Small. This group is cautious on High Yield Corporate Bonds but less so on Investment Grade.

34% of the panel is more bearish, seeing a 'softish' landing for the economy

Our final group is the smallest, but that does not make it less interesting. 10% of the panel take the view that the 'inflation dragon' has not been slain and expect higher inflation in the US, Eurozone and Japan. Despite this, the group still expects the Fed to cut and Business Confidence to be stable. This group expects lower 2-year Treasury yields but higher 10-year ones. Unlike the other two groups which see an implicit bull steepening of the Treasury yield curve, this group might be expecting a bear steepening. This group finds TIPs attractive. Maybe because this group equates inflation with corporate pricing power, this group is not bearish about global equities. The panellists expect any de-rating to be offset by higher earnings. The group's view that Gold and Commodity prices will be higher logically leads to the preference for EM over DM equities.

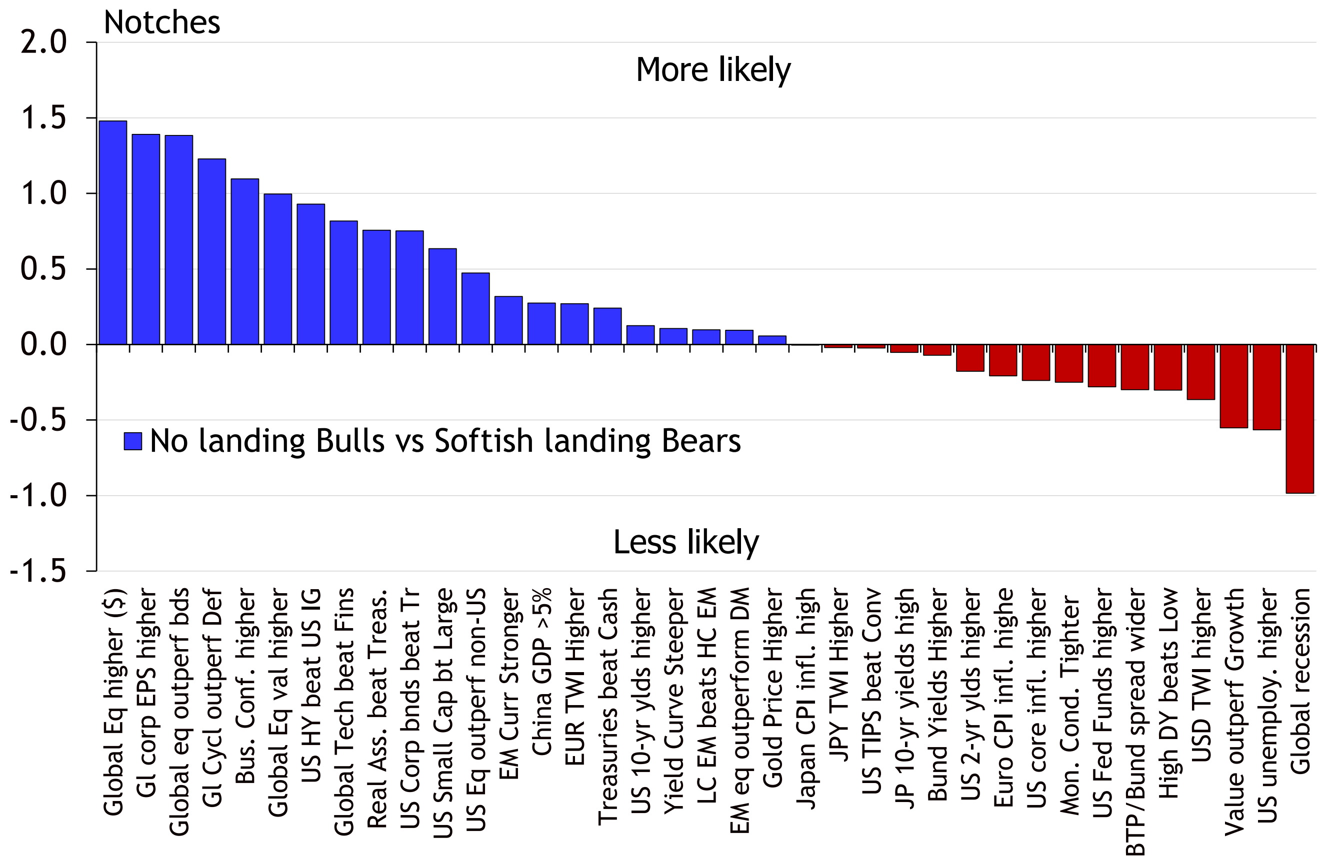
This quarter a new group is identified who see rising commodities and inflation with higher bond yields, but this group is not bearish on corporate profits and equities

AAS.31: Average Response of the Three Groups Identified by our Machine Learning Analysis



Source: ASR Ltd.

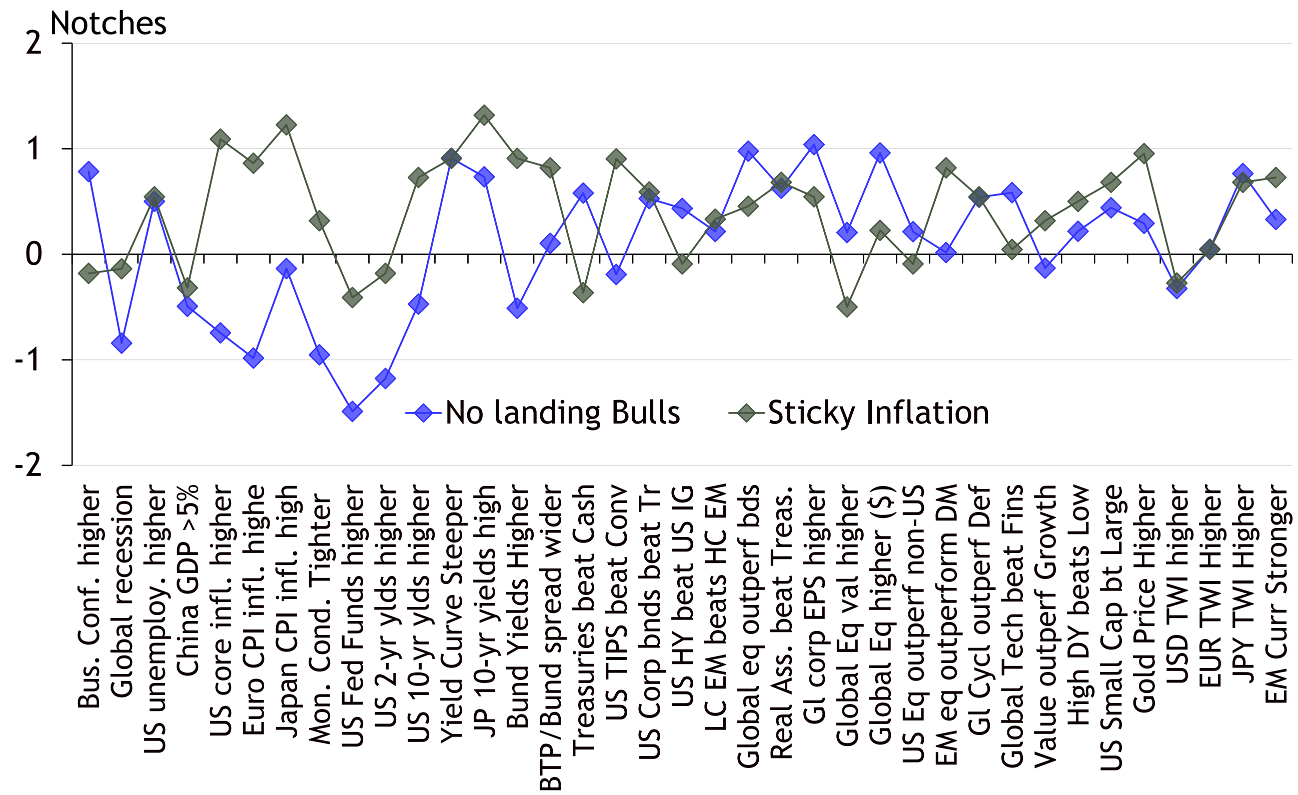
AAS.32: Comparison of 'No landing Bulls' Group (56%) with 'Softish landing Bears' Group (34%)



A **Notch** is the difference between each possible answer

Source: ASR Ltd.

AAS.33: Comparison of 'No landing Bulls' Group (56%) with 'Sticky Inflation' Group (10%)



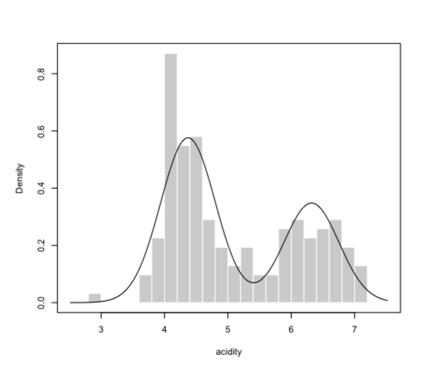
Source: ASR Ltd.

Methodology - How we find our groups of similar investors

The basis of this group analysis is that there are only a limited number of generic categories of investor and an investor's answers are the combination of their generic categories' answer and some individual variation (i.e. 'noise').

We try to classify investors into one of these generic categories. Our approach is 'unsupervised': ahead of the analysis we do not know either the number of generic categories, or even their views! However, this is not an insurmountable problem. We can use a Bayesian approach: that is, we create a model of the generic categories and see whether we can get it to fit the data. The parameters of the model (the number of clusters and their means and variances) are then adjusted until the 'most likely' model is found. So, in the example in AAS. 34, the data are the bars, which are modelled by superimposing two normal distributions (each distribution represents a generic type). Increasing the number of distributions might lead to a better fit. However, this runs the risk of over-fitting, and so each extra group increases a penalty factor when calculating the *goodness of fit*.

AAS.34: Fitting two normal distributions to a dataset

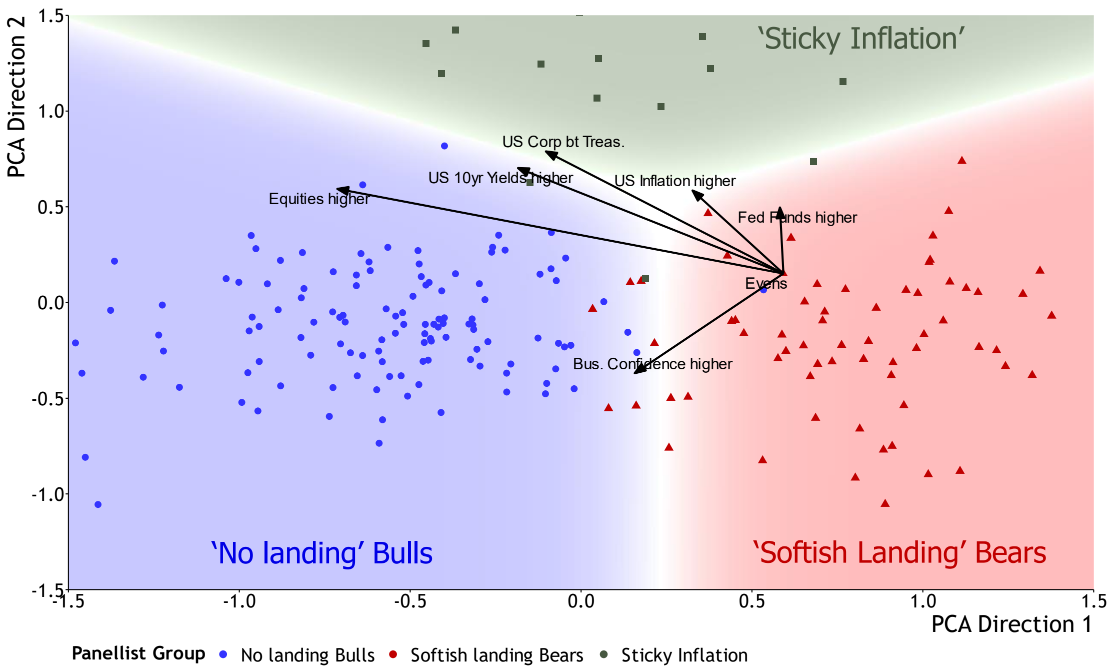


Source: W. Härdle, Fraley & Raftery

Transferring this idea to our survey, the bars would be the responses to a question, and so the two distributions in the chart are equivalent to two basic investor categories. Of course, our survey has over 37 questions with discrete responses, which makes the maths more complex in practice, but we are still able to solve using the algorithms provided by the `mclust` package in R.

A Principal Component Analysis provides a view of how good the division found by the algorithm is. The PCA reduces the survey questions to two dimensions and then plotting distribution of panellists in each group shows that for this survey there is a clear separation between the views of the three groups (AAS 35). The arrows show the direction that 'Very Likely' responses to particular questions can change the position of a panellist, starting from answering an Evens chance.

AAS.35: Division between three groups - after PCA which Reduces Responses to 2 dimensions



Note: the length of the arrows have been extended for clarity

Source: ASR Ltd.

Demographics of Panel and Summary Results

The table below highlights some of the Survey "extremes"

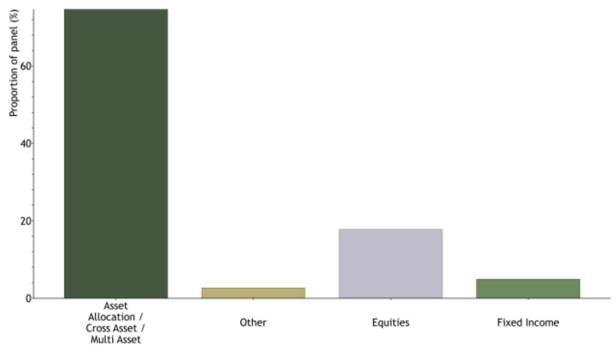
AAS. 36: Most Certain, Most Uncertain & Most Divisive Questions

	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Implied Prob.
Most Likely (highest implied probability)						
Yield Curve Steeper	22	55	12	10	1	67.5
JP 10-yr yields higher	18	50	26	5	0	66.2
JPY TWI Higher	18	50	24	7	1	65.3
Most Unlikely (lowest implied probability)						
US Fed Funds rate higher	1	4	5	45	45	24.3
US 2-yr yields higher	0	7	10	57	27	29.6
Monetary Conditions Tighter	4	10	13	56	18	35.2
Most Uncertain (Highest proportion of Even Chances)						
EUR TWI Higher	1	27	41	30	1	49.1
Loc Cur EM bonds beat Hard Cur	3	35	41	19	1	53.9
US TIPS beat Conv	2	23	41	31	2	48.4
Most Divisive (Most bimodal distribution)						
US HY beat US IG	3	39	24	30	4	51.4
EM eq outperform DM	5	32	30	33	1	51.2

Source: ASR Ltd

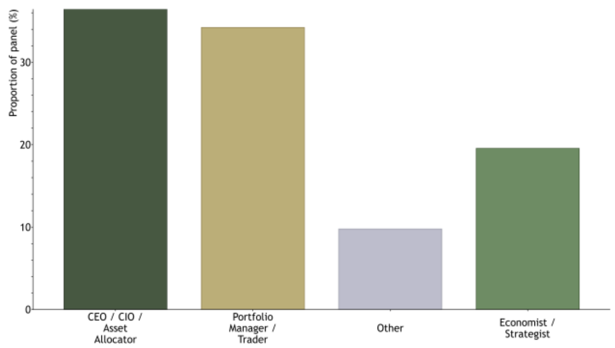
.

AAS. 37: Asset Class Expertise



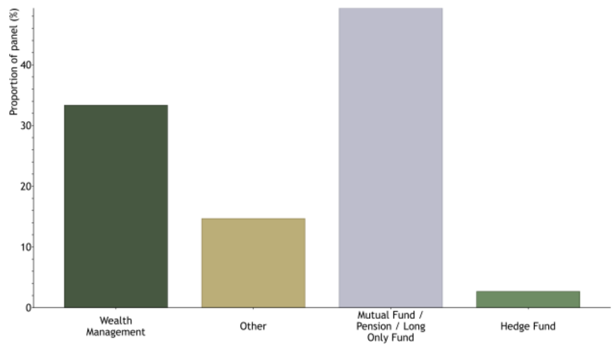
Source: ASR Ltd

AAS. 38: Role



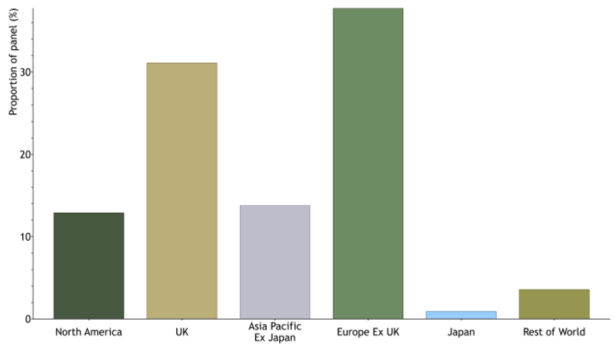
Source: ASR Ltd

AAS. 39: Type of Investor



Source: ASR Ltd

AAS. 40: Geography



Source: ASR Ltd

Our 225 panellists work in teams that manage over $8trillion of assets. The fieldwork for the survey was conducted through an on-line survey between 13th to 20th March 2024.

AAS.41: Summary of Responses – 2024 Q1

	Proportion of Panel					Implied
(%)	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Probability
Business Confidence higher	10	39	27	22	3	56
Global recession within 12 months	1	19	23	50	7	41
US unemployment higher	13	56	21	9	1	64
China Real GDP Growth >5%	3	12	26	42	16	39
US core inflation higher	3	12	25	52	7	40
Euro CPI inflation higher	1	10	15	61	12	35
Japan CPI inflation higher	4	31	31	31	4	50
Monetary Conditions Tighter	4	10	13	56	18	35
US Fed Funds rate higher	1	4	5	45	45	24
US 2-yr yields higher	0	7	10	57	27	30
US 10-yr yields higher	3	15	30	45	8	42
Yield Curve Steeper	22	55	12	10	1	68
JP 10-yr yields higher	18	50	26	5	0	66
Bund Yields Higher	5	15	30	42	8	43
BTP/Bund spread wider	4	39	40	17	0	56
Treasuries beat Cash	11	40	29	18	2	58
US TIPS beat Conv	2	23	41	31	2	48
US Corp bnds beat Treas	4	44	32	17	4	56
US HY beat US IG	3	39	24	30	4	51
Loc Cur EM bonds beat Hard Cur	3	35	41	19	1	54
Global eq outperf bonds	13	43	24	20	1	59
Real Assets beat Treasuries	7	44	29	19	1	57
House Prices higher	8	39	29	21	3	56
Gl corp earnings higher	13	48	19	18	2	60
Global equity val higher	3	20	37	35	5	46
Global equities higher ($)	9	45	25	18	3	58
US eq outperform non-US	2	31	38	24	4	50
EM eq outperform DM	5	32	30	33	1	51
Global cycl outperf def	5	32	33	28	1	52
Global Tech beat Fins	8	38	30	20	5	55
Value outperf Growth	3	35	34	27	2	52
High DY beats Low	6	41	35	17	1	57
US Small Cap beat Large	8	37	29	25	1	55
Gold Price Higher	10	34	36	17	2	57
USD TWI higher	2	21	34	41	2	46
EUR TWI Higher	1	27	41	30	1	49
JPY TWI Higher	18	50	24	7	1	65
EM Curr Stronger	3	40	38	18	1	55
Commodities Higher	9	42	37	12	0	59

Source: ASR Ltd.

Methodology – What we Mean by 'Implied Probabilities'

- ASR's Multi-Asset Survey is a Survey of Probabilities.
- Every quarter we contact over 200 asset allocators and multi-asset strategists from around the world.
- We ask them "how likely" they think certain financial and economic events are to occur in the next 12 months. All thirty questions are framed with a binary outcome (will 'X' happen, or will it not happen?) with a fixed time horizon. Each question offers five options: (1) very likely (2) somewhat likely, (3) even chance, (4) somewhat unlikely, (5) very unlikely.
- We then ascribe notional probabilities to each of the five options. For example, if someone responds "very likely", we apply a 90% probability to their response, "somewhat likely" is given a 70% probability. If they reply "very unlikely", we apply a 10% probability. If someone says "even chance", then we apply a 50% probability.
- By applying different probabilities to the responses, we can calculate an overall probability. This is more sophisticated than other surveys, which just calculate a "net balance" (e.g. % respondents that are 'optimists' minus % respondents that are 'pessimists'). Our approach captures differences in convictions.
- Small changes in the implied probabilities matter: a 5%-point change over a quarter can indicate an important shift. A 10%-point change can reflect a profound change in expectations.
- These "implied probabilities" are powerful as they can be used in multiple ways. First, we can compare them with the probabilities that are implied in the market. Secondly, we can compare them with our own views and see where we are most different from the consensus. And thirdly, we can compare them with the historic baseline probability (how often has this event occurred over the past decade).
- For example, an implied probability of 50% may sound like a neutral call, but if the event has only occurred 20% of the time over the past decade, then this 50% probability is in fact a much more aggressive call that it may first appear. It is 'big' relative to the history of the past ten years.

Absolute Strategy Research Ltd. 36-38 Cornhill, London, EC3V 3NG. Phone: +44 (0) 20 7073 0730. www.absolute-strategy.com.

Absolute Strategy Research Ltd is registered in England and Wales. Company number 5727405. Registered Office: Salisbury House, Station Road, Cambridge CB1 2LA.