ASR Asset Allocation Survey

27th August 2026

Investing in a "No Landing" World

Corporate-Earnings Expectations Dominate Macro Concerns

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Robust Corporate-Earnings Outlook Underpins Risk Assets

Asset allocators remain bullish. They believe that there is a 66% probability that Global Equities will be higher a year from now, a 69% likelihood that Global Stocks will beat Bonds, and a 60% chance that Corporate Credit will beat Treasuries.

Asset Allocators Shrug Off Inflation and Interest-Rate Risks

Biggest change is that investors are less worried about the prospects for core inflation, easing fears of stagflation. That said, they do not expect monetary conditions to ease. Bond yields will likely be higher but are not seen as a threat.

Panel Maintains Cyclical Bias … While Fewer Panellists are 'Bears'

Our panel remains confident that Cyclicals will beat Defensives but is less convinced about Tech beating this Financials. Our 'groups' analysis shows similarities with the last quarter but the proportion of 'Bears' has shrunk to a fifth.

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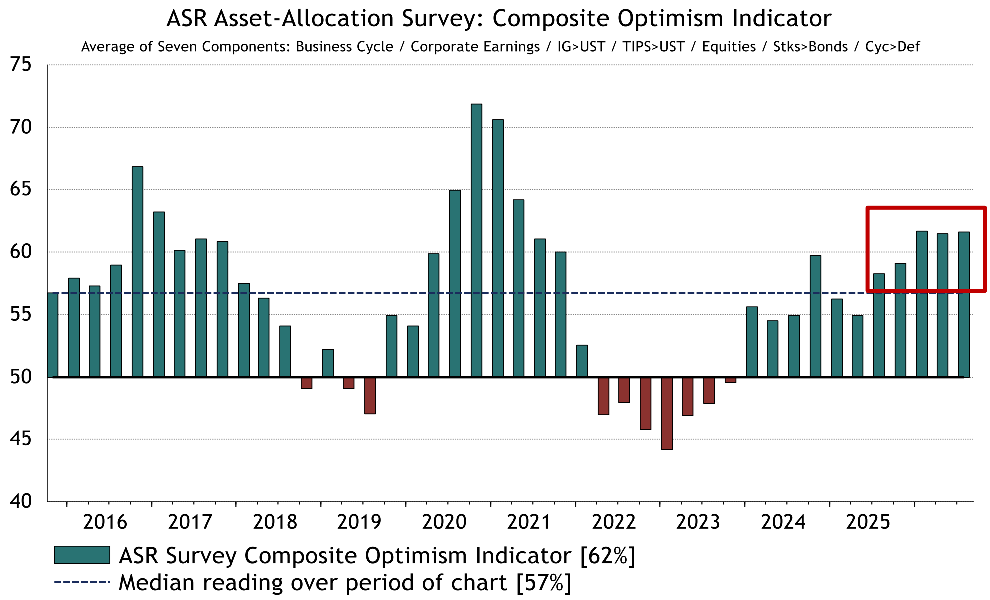
2025 Q3 Survey: Earnings Spearhead Renewed Optimism, 4th Sept 2025

Backtesting the performance of ASR's Asset Allocation Survey, 11th December 2025

Key Chart: Asset Allocators Remain Optimistic for the Next 12 Months



Source: ASR Ltd.
Based on 244 respondents in teams overseeing over $10.6trn AUM (Fieldwork: 12th - 19th Aug 2026)

Highlights from the Latest Survey

ASR's Asset Allocation Survey provides a Global benchmark of Financial-Market Probabilities going back more than a decade

ASR's AA Survey: "Benchmarking Financial Probabilities"

- *For more than 12 years we have asked CIOs and asset allocators about the outlook for financial markets over the next 12 months.*
- *Our survey is a Global Benchmark of Financial Probabilities: the likelihood of a financial event occurring in the next 12 months.*
- *The fieldwork took place between 12th and 19th August 2026.*
- *The panel comprised 244 responses, overseeing $10.6trn AUM.*

Key Takeaways from the Latest Survey

Asset allocators remain bullish for the next 12 months

Optimism remains above the median of the survey's history

1. Despite all the geopolitical upheaval so far this year, asset allocators remain fundamentally bullish for the next 12 months. For the fifth consecutive survey, our Composite Optimism Indicator (an aggregate of seven key questions taken from the Survey) remains above the median of the past decade (see front page chart). Asset allocators believe that there is a 66% probability that Global Equities will be higher a year from now, and a 69% probability that Global Stocks will beat Bonds.

Asset allocators are quietly confident about the business cycle …

… but very confident about the prospects for corporate earnings

2. Investors remain quietly confident that the Global business cycle will be stronger a year from now (55% probability), that world trade volumes will improve (61% probability), and that the risk of Global recession will stay well-below average (at 31%). No wonder that asset allocators are so upbeat about the prospects for stronger corporate earnings (69% probability). The only cloud on the horizon is that investors remain sceptical that China can deliver 5% GDP growth (34%) as Chinese domestic demand struggles to overcome the negative balance-sheet drag from China's housing bust.

Biggest change this quarter was that investors are more relaxed about the prospects for CORE inflation

However, Commodity prices are still expected to rise – and asset allocators still prefer Linkers over Conventionals

3. The biggest change this quarter is that investors have become much more relaxed about the prospects for core inflation across the major markets. The initial oil price shock from the US-Iran war (now in its sixth month) has *so far* not generated any adverse second-round impact on inflation expectations. Nor has it fuelled fears of a stagflationary shock. That said, asset allocators think there's a 63% probability that Commodity prices will be higher a year from now - and they still have a preference for inflation-linked bonds over conventional paper.

Monetary conditions no longer expected to ease,

55% chance that Fed Funds will be higher in 12m time

4. While asset allocators may not be fretting over inflation risks, they don't see an imminent return to the policy stance of ever easier monetary conditions that characterised the past three years (see Chart AAS 8). Indeed, they think there's a 55% chance that Fed Funds will be higher a year from now. This marks an important shift. But for our panel, it looks more like the end of the easing cycle rather the start of a tightening phase.

Investors expect bond yields to rise over the coming year … but fewer expect a more positive US yield curve

5. Despite the better core inflation outlook, asset allocators remain cautious on bonds, with the probability of higher Treasury, Bund and JGB yields put at 54%, 55% and 62% respectively. And if it isn't inflation that is driving yields higher, then that suggests the pressure may be coming from higher *real* yields. If so, then this would then be at odds with investors' expectations for a more positive-sloping US yield curve. Interestingly, the probability of a steeper curve has been steadily diminishing (with just 33% of the panel expecting a bear steepener). Our work suggests that

Fundamental drivers for a more positive yield curve are absent

the US yield curve only becomes materially more positive when the US output gap is getting more negative and when the unemployment rate is rising relative to the inflation rate … neither of which we see happening at this moment.

Buoyant corporate earnings imply strong cash flows which is supportive of corporate credit – despite the impending new issuance

Still concern of a turn in the default cycle next year

6. The bullish corporate-earnings outlook is seen as indicative of a robust cash-flow outlook which in turn has underpinned the prospects for US Corporate Credit. The probability that US Investment Grade (IG) will outperform US Treasuries rose to 60% (the highest reading in 5 years), while investors thought there was a 58% probability that US High Yield would outperform IG. Almost 43% of our panel believe that both will occur (the highest level since 2021). But the sting in the tail is that investors think there's a 61% probability that *speculative-grade default rates* will be higher a year from now.

Asset allocation remains unashamedly "risk on"

7. <u>When it comes to asset allocation, investors remain constructive</u>. The bull market in Equities is not over, with a 66% probability of higher levels a year from now. This optimism is fuelled not only by higher corporate earnings (69% probability) but also by expectations of stable multiples (52%). We are surprised how comfortable investors are about multiples given the uncertainty around the growth-inflation mix and the risk of higher defaults.

'Everything' set to beat Bonds … except Cash

8. Asset allocators expect TIPS to outperform Treasuries (56%), IG Credit to outperform Treasuries (60%); Real Assets to beat Treasuries (68%); and Global Equities to trounce Bonds (69%).

Dollar bears; Gold bulls (32% of the panel)

9. Investors remain bearish of the dollar despite the fading of further Fed easing. They give the dollar's DXY index a 43% probability of appreciating. In contrast, they think there's a 58% probability that the JPY will strengthen. Our panel has turned more positive on Gold (62% probability of a further appreciation) taking advantage of its 25% pull-back during US-Iran conflict.

Investors' expectations dominated by primacy of corporate-earnings expectations

10. As a Global benchmark of investor expectations, what stands out is the primacy of corporate-earnings expectations and exceptionally benign corporate-credit conditions. Macro risks (higher inflation, interest rates) continue to play second fiddle.

<u>BIGGEST CHANGES OVER THE PAST QUARTER:</u>

More hawkish of Fed Funds

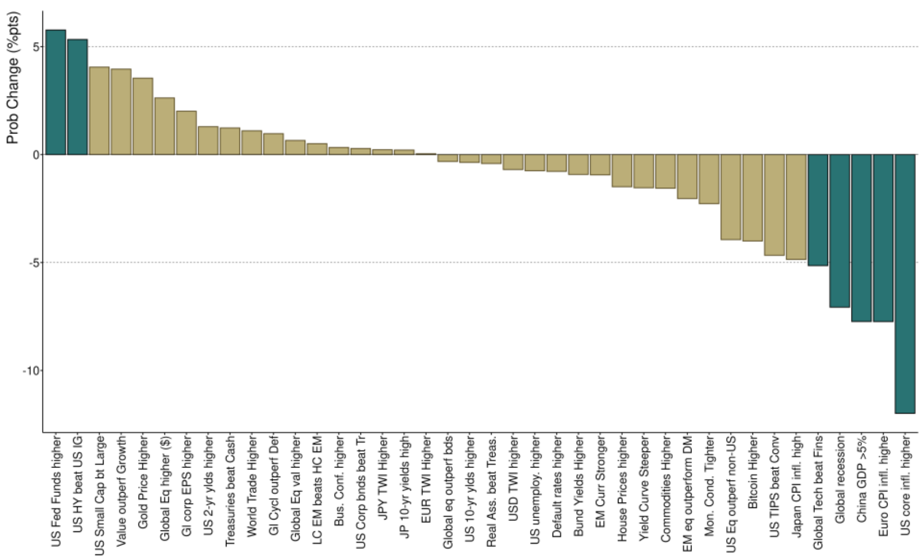
More positive towards HY

Less worried about core inflation

Less confident of Tech vs Financials

Less worried about Global recession despite being more sceptical of China's ability to deliver 5% GDP growth

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

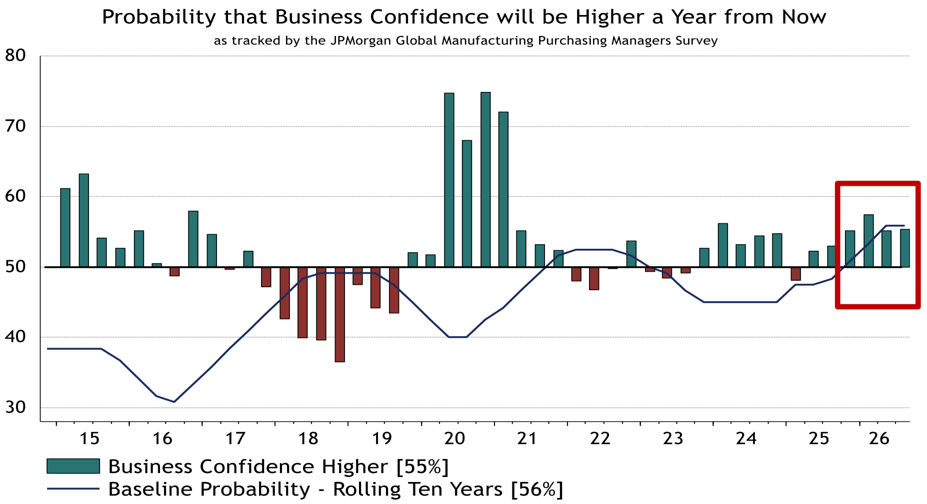


Source: ASR Ltd.

Macro Assumptions

Asset allocators remain quietly confident that the Global business cycle will remain on an improving trend … with a 55% probability that it will be stronger a year from now

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

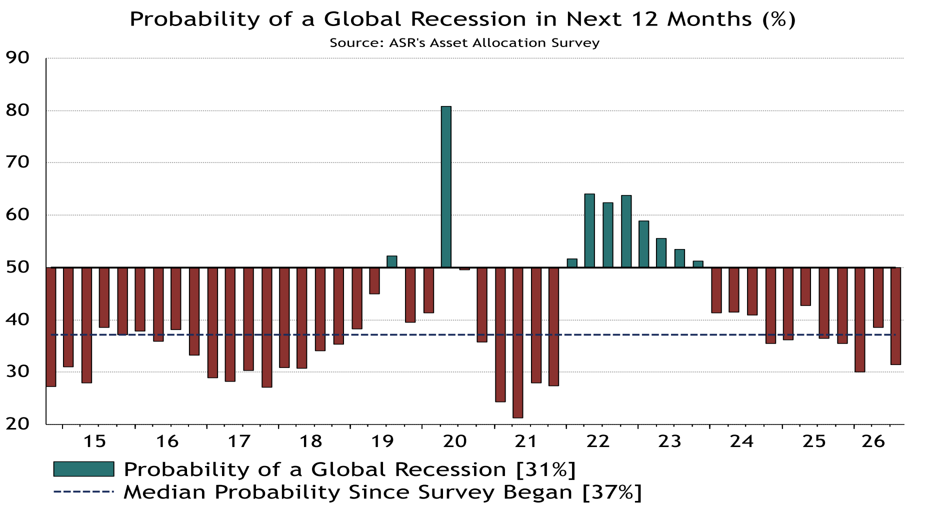


Source: ASR Ltd. / LSEG Datastream

The probability of a Global recession remains very low – at just 31%

Investors just can't see the catalyst that would disrupt the Global economy enough to create a material economic contraction

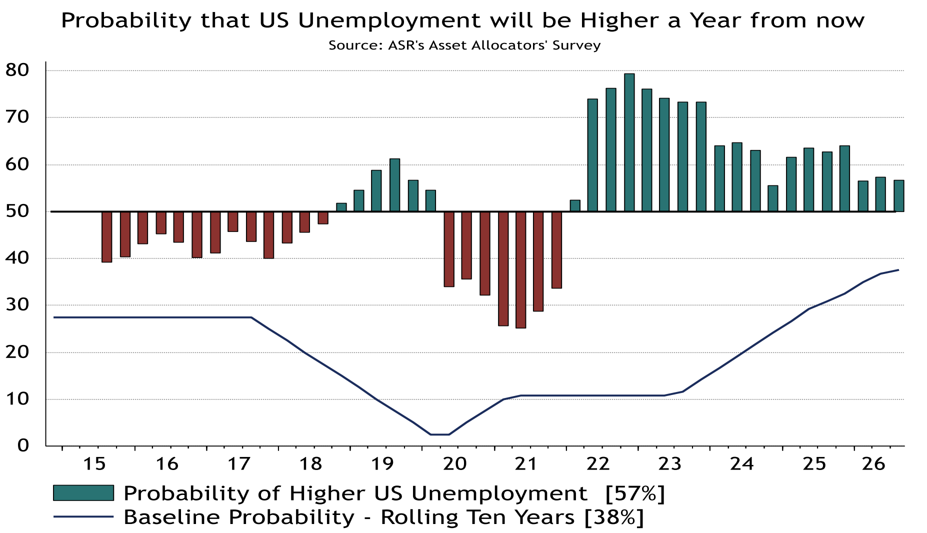
AAS. 3: Probability of a Global Recession in the Next 12 Months



Source: ASR Ltd. / LSEG Datastream

However, doubts exist about the health of the US labour market – where investors are putting a 57% probability that the unemployment rate will be higher a year from now

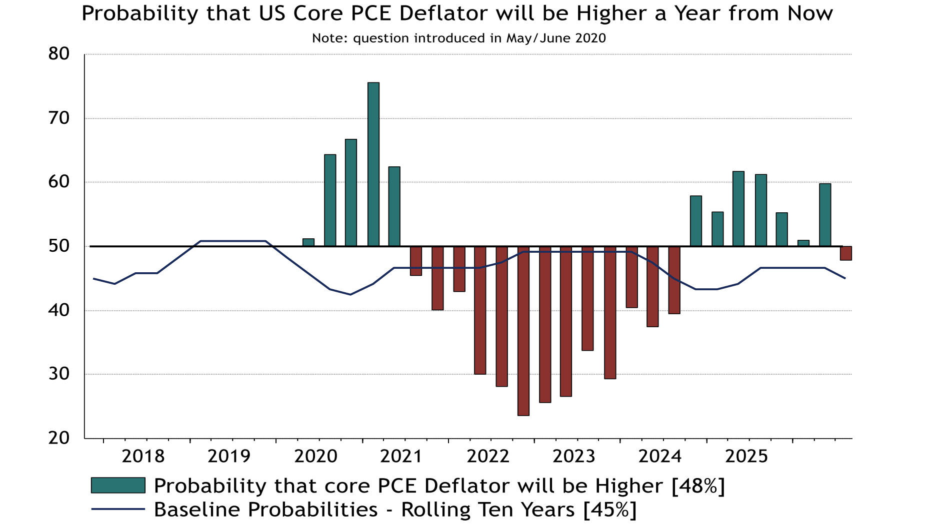
AAS. 4: Probability of Higher US Unemployment Rate in 12m Time



Source: ASR Ltd. / LSEG Datastream

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

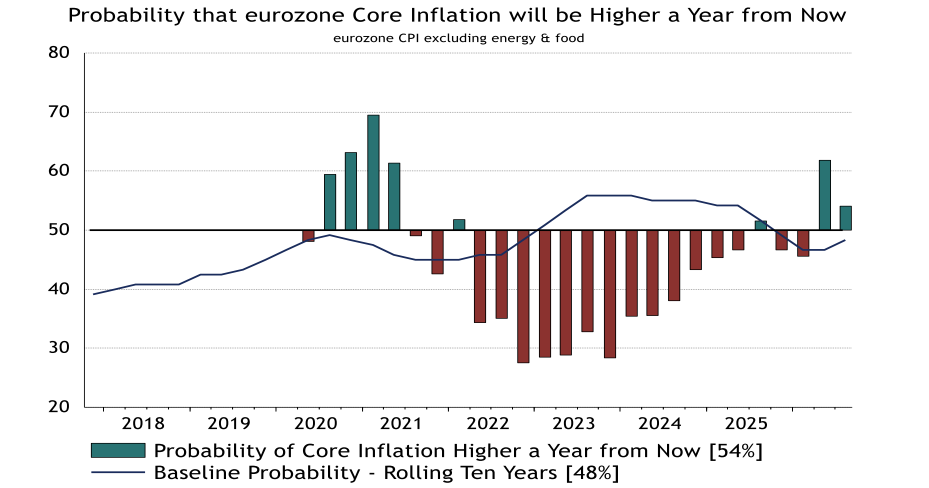
This will be welcome news for Kevin Warsh: a material downward shift in US inflation probabilities. The odds that CORE inflation will be higher a year from now have dropped below 50%



Source: ASR Ltd. / LSEG Datastream

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

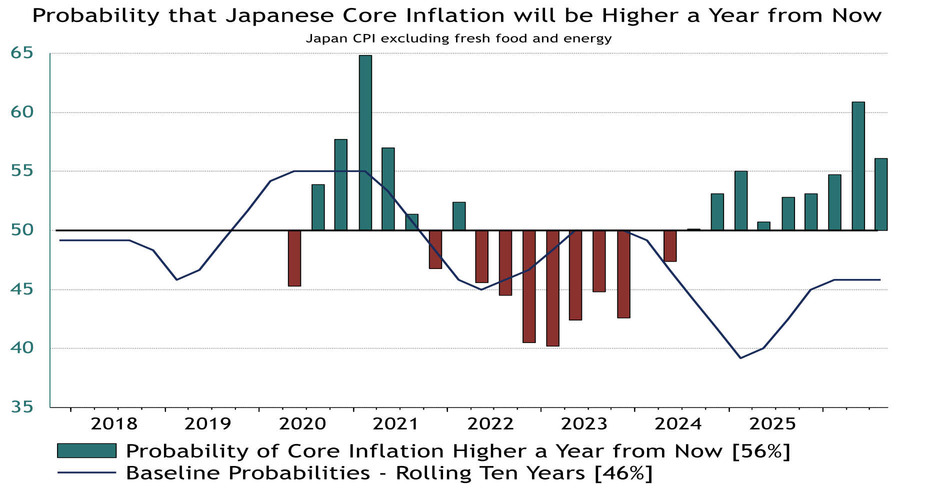
A similar decline in inflation concerns can be seen in the eurozone



Source: ASR Ltd. / LSEG Datastream

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

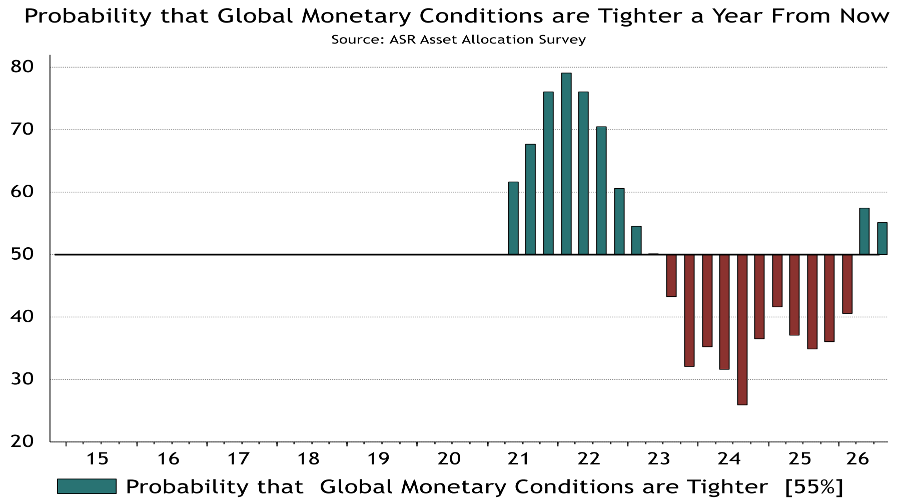
Japan also saw a pull-back in inflation concerns over the past quarter – but investors still think there is a 56% probability that core-core inflation will be higher a year from now



Source: ASR Ltd. / LSEG Datastream

While inflation concerns may have abated, asset allocators believe the period of accommodative monetary conditions (2023-2025) may be over for now. They are putting a 55% probability of tighter conditions a year from now. This could mark the start of an important transition

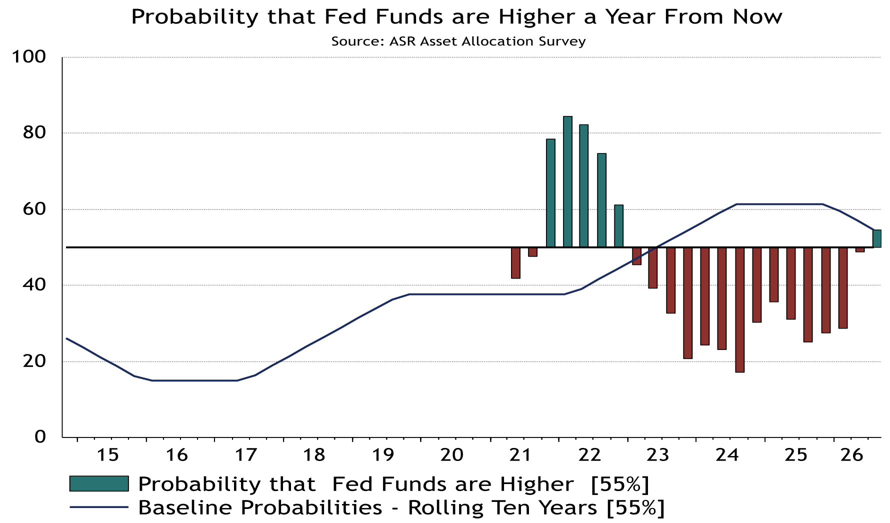
AAS. 8: Probability that Global Monetary Conditions will be Tighter



Source: ASR Ltd. / LSEG Datastream

Asset allocators believe the Fed is done with easing – and put a 55% probability that the Fed Funds rate will be higher a year from now

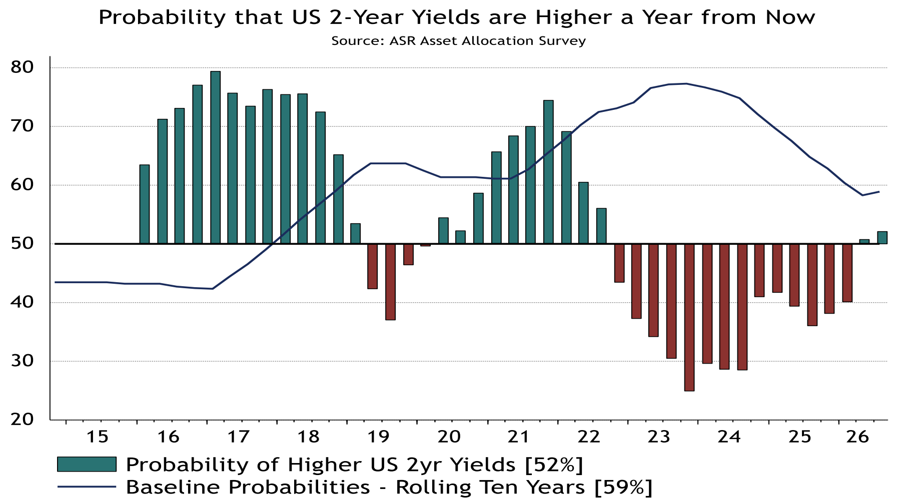
AAS. 9: Probability that US Fed Funds Rate will be Higher



Source: ASR Ltd./ LSEG Datastream

Investors also believe that US 2yr yields will be higher a year from now

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

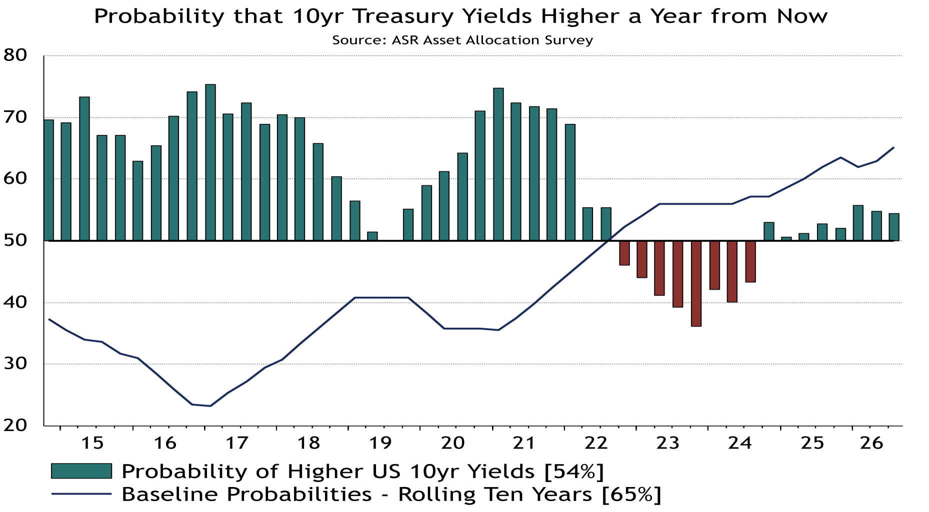


Source: ASR Ltd. / LSEG Datastream

Despite the better news on inflation, investors expect 10-year Treasury yields to be higher a year from now

Interestingly, the degree of conviction around bond yield directionality is much lower than in the pre-COVID period

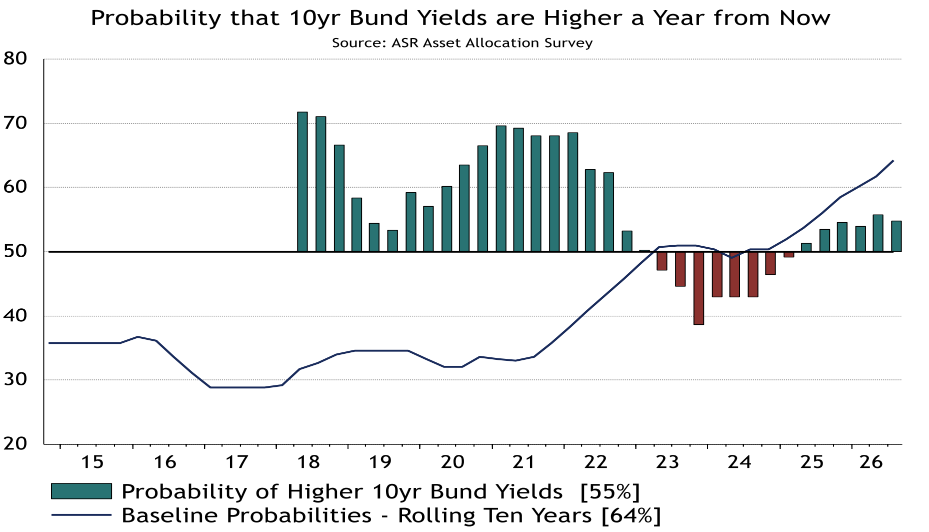
AAS. 11: Probability of Higher 10yr UST Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

Investors expect the upward pressure on Bund yields to continue …

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

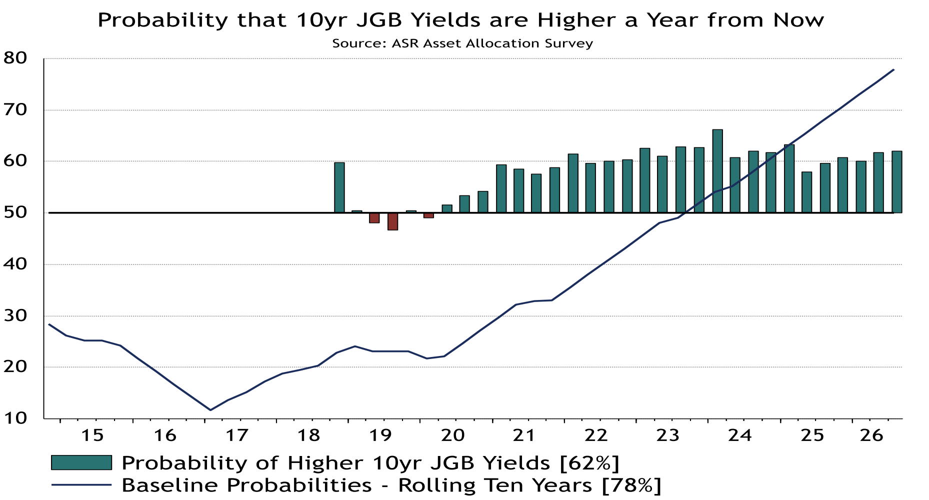


Source: ASR Ltd. / LSEG Datastream

… and likewise, for JGBs – where investors think that there is a 62% probability of higher yields a year from now

The persistence of this bearish stance on JGBs – which has lasted for more than five years should be of concern to policymakers

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

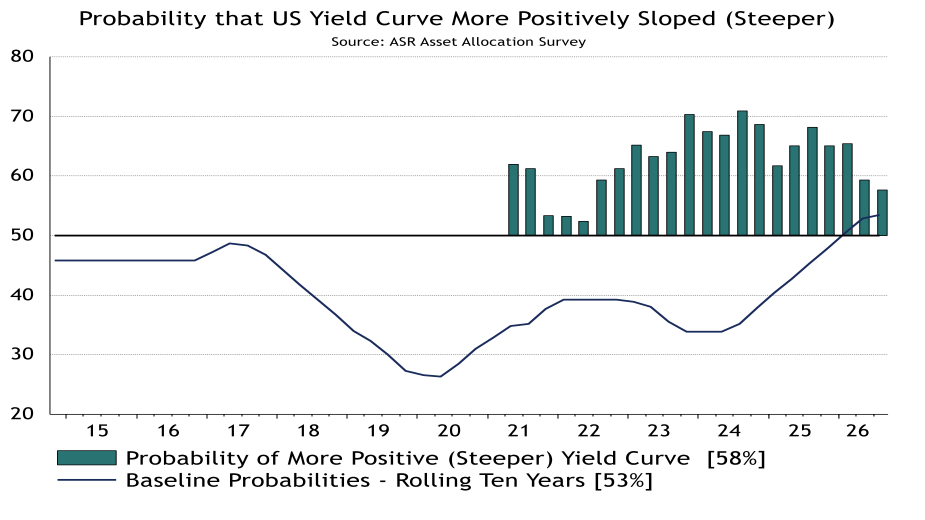


Source: ASR Ltd. / LSEG Datastream

The consensus still expects the US yield curve slope to steepen (turn more positive) over the next 12 months

This seems unlikely given the strength of corporate-profits growth and an economy growing above trend. Unless expectations of unemployment rise sharply and/or inflation expectations fall sharply, the curve is unlikely to change much

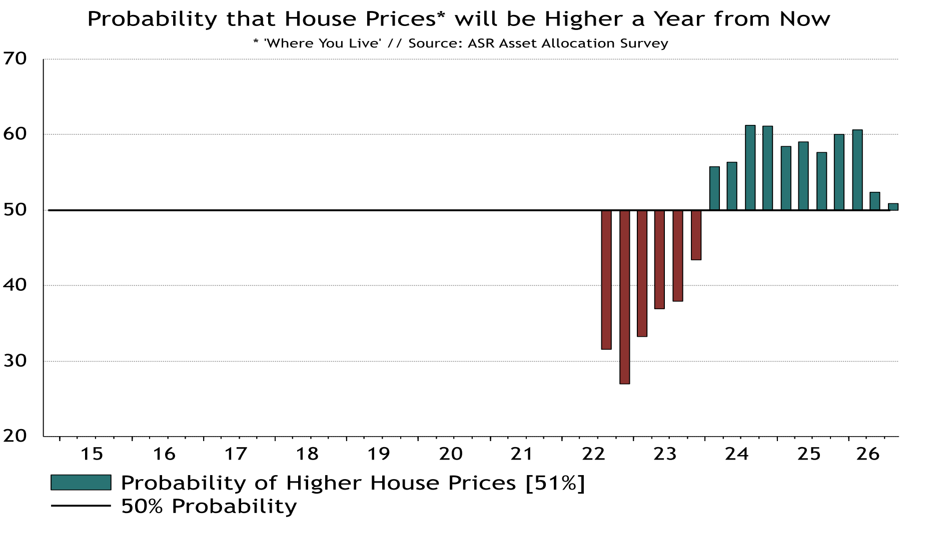
AAS.14: Probability that US Yield Curve will be Steeper



Source: ASR Ltd. / LSEG Datastream

This is a new survey question that we are tracking … over the past six months, there appears to have been a significant deterioration in expectations for Global house prices. This could be signalling a shift in Global monetary conditions as Bond yields (and mortgage rates) trend higher

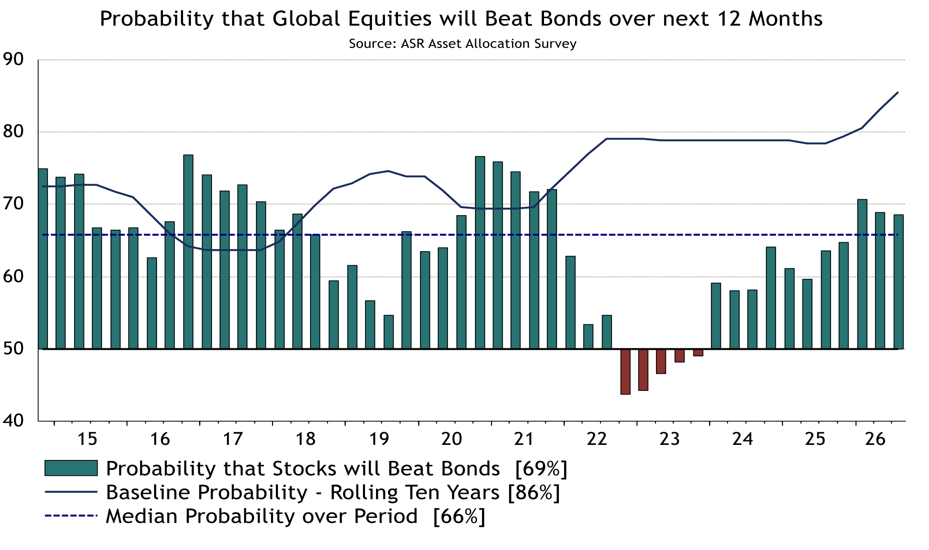
AAS.15: Probability that Global House Prices will be Higher



Source: ASR Ltd.

In this "no landing" world, where corporate profits are expected to grow strongly, it is easy to understand why asset allocators continue to believe that there is close to a 70% chance that Global Stock returns will beat Bonds over the coming year

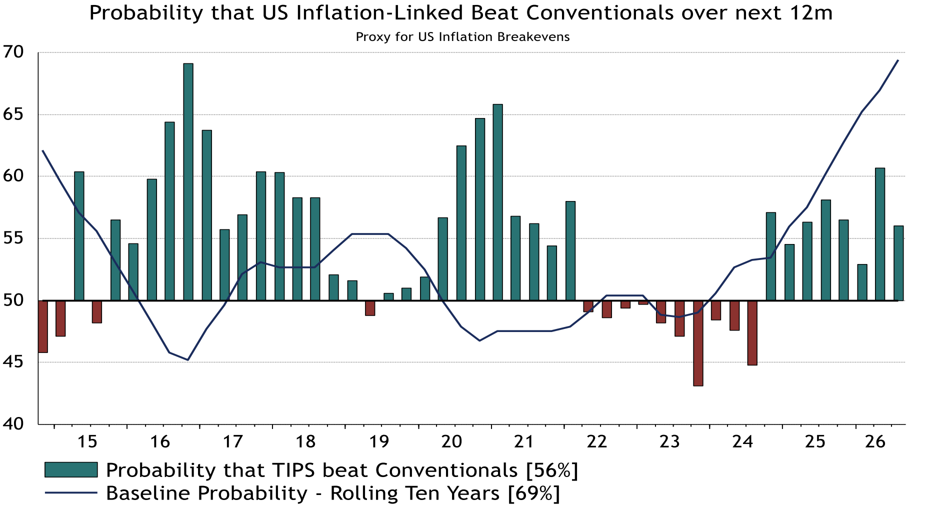
AAS.16: Probability that WD Equities will Outperform WD Bonds



Source: ASR Ltd. / LSEG Datastream

AAS.17: Probability that US TIPS Will Beat Conventionals

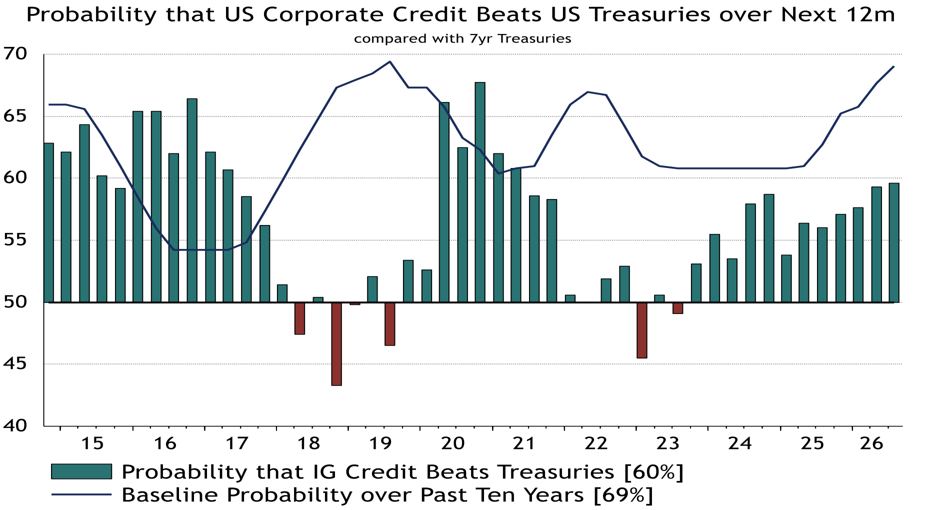
For the eighth survey running, asset allocators believe that inflation-linked Bonds will outperform Conventionals. However, the more relaxed view of inflation in the survey explains why the probability of that outperformance has dropped to 56%



Source: ASR Ltd. / LSEG Datastream

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

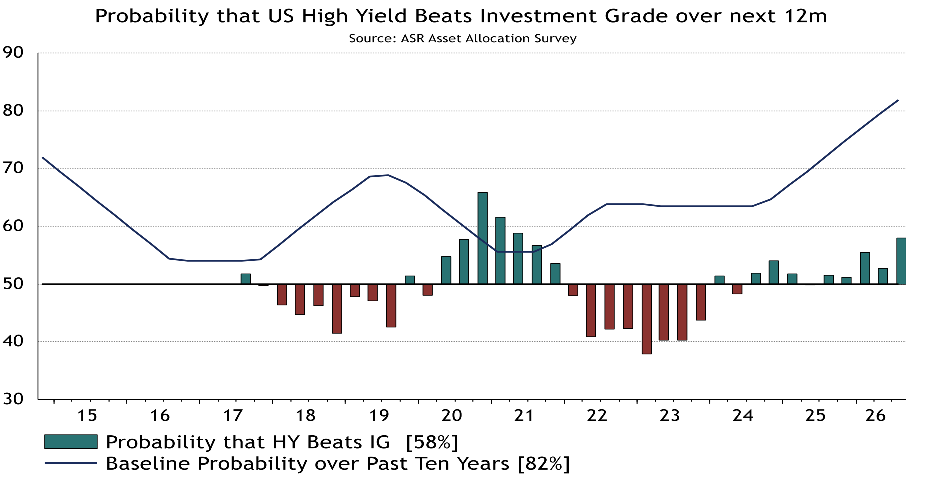
Asset allocators continue to prefer US Investment Grade Bonds to US Treasuries. They believe there's a 60% probability that US corporate credit will outperform – that's the highest probability in more than five years



Source: ASR Ltd. / LSEG Datastream

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

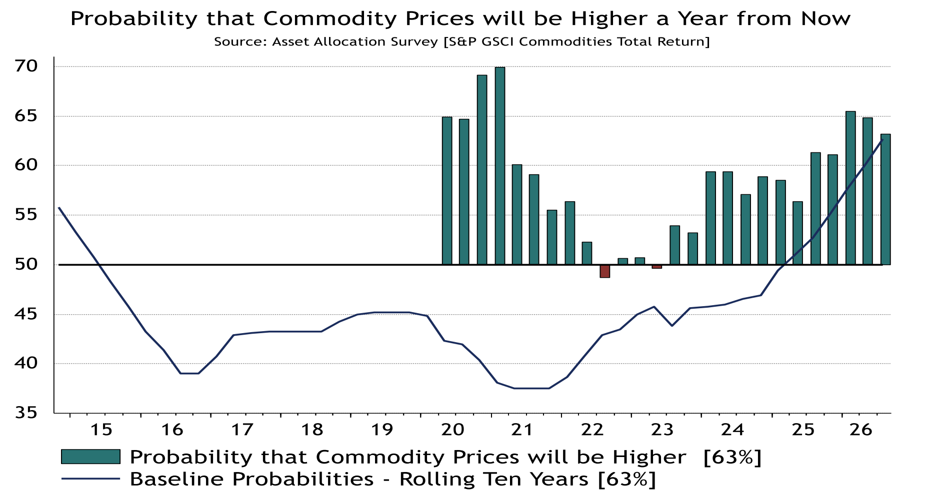
The appetite for US Corporate Credit has spilled over into High Yield, with a 58% probability that HY will beat IG paper – the highest probability in more than five years



Source: ASR Ltd. / LSEG Datastream

Despite the more relaxed view about core inflation, asset allocators remain bullish about the prospects for commodity prices, with a 63% probability that they will be higher a year from now

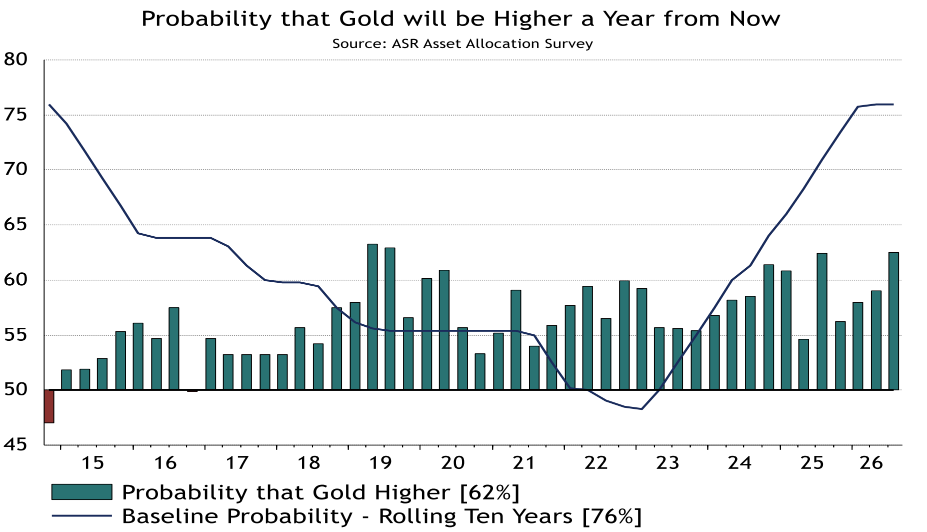
AAS.20: Probability that Commodity Prices will be Higher …



Source: ASR Ltd. / LSEG Datastream

Despite the 25% pullback earlier this year, investors have once again turned positive on gold, with a 62% probability that gold will be higher in 12m time (the highest recorded probability in six years)

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

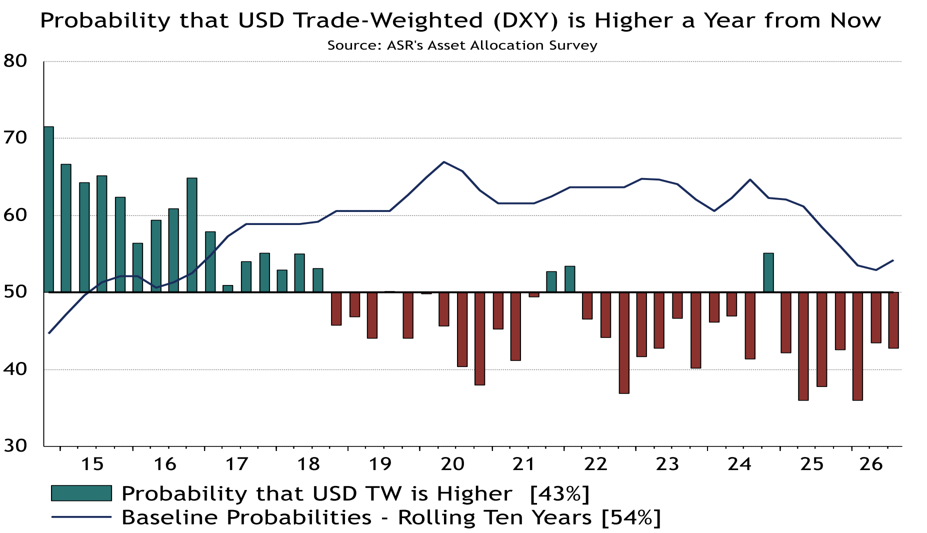


Source: ASR Ltd. / LSEG Datastream

Asset allocators remain Gold bulls and Dollar bears

Investors continue to believe that the dollar is more likely to depreciate, than appreciate, over the next 12 months

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



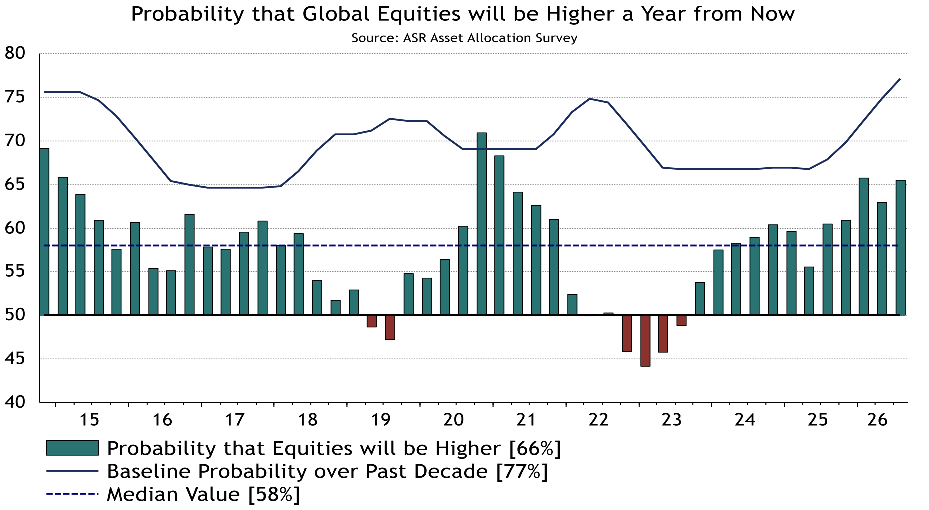
Source: ASR Ltd. / LSEG Datastream

Equity Markets

Asset allocators are convinced that this Equity bull market is not yet over.

They put the probability that Equities will be higher a year from now at 66%

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

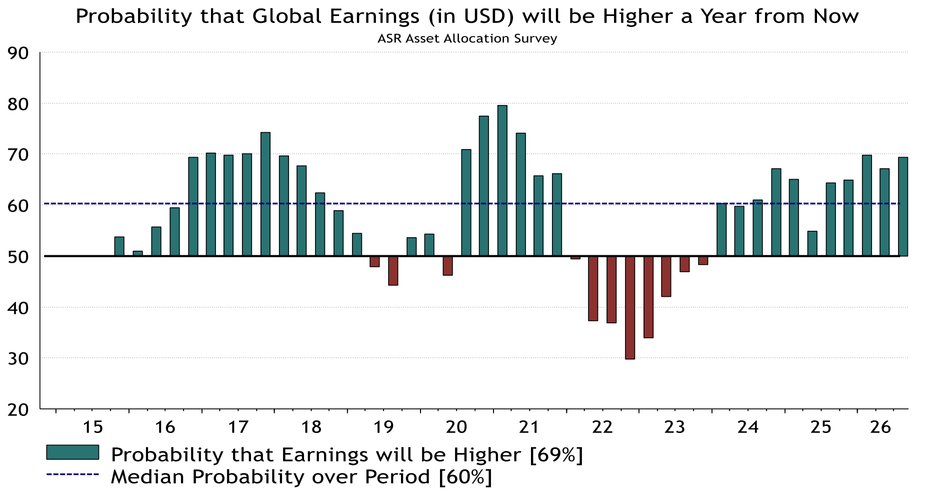


Source: ASR Ltd. / LSEG Datastream

Underpinning this optimism is the continuing robust outlook for corporate earnings

Asset allocators put a 69% probability on corporate earnings being higher a year from now

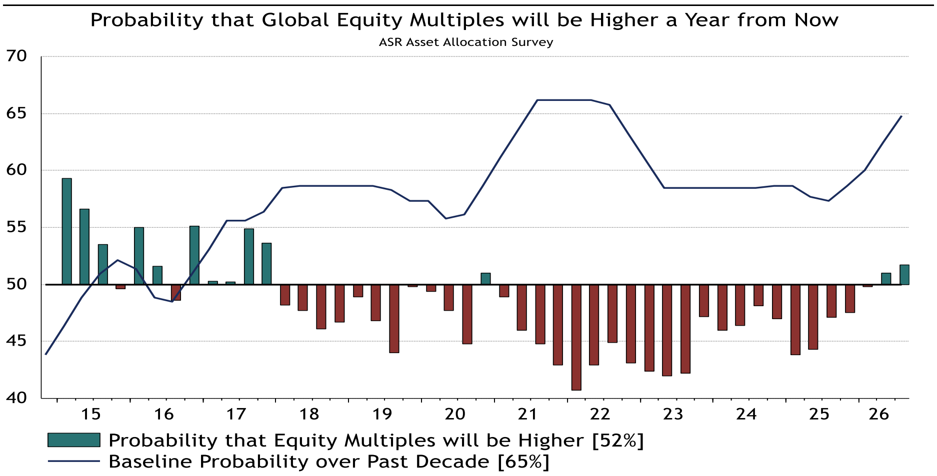
AAS.24: Probability that Global Corporate Earnings will be Higher



Source: ASR Ltd. / LSEG Datastream

A surprising development is that asset allocators are no longer as worried about Equity valuations. Indeed. Investors would place a 52% probability on PE multiples being higher a year from now. Our models suggest that is most likely to happen if the growth-inflation mix continues to improve

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



Source: ASR Ltd. / LSEG Datastream

Charles Cara

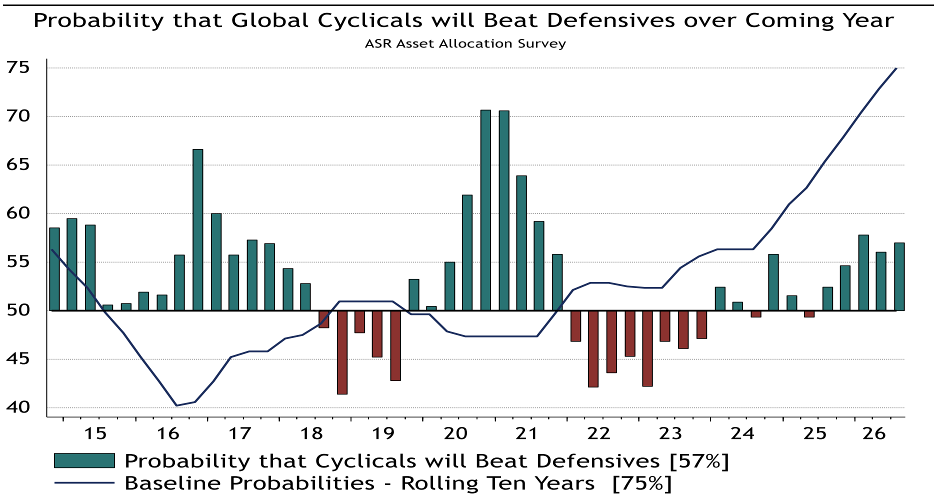
Intra-Equity Views - sticking with Cyclicals

Having strongly shifted intra-equity views in the last quarter, our panel has largely stuck with these new views this quarter. So, in keeping with the optimism of the wider survey, the panel remains confident that the Cyclicals will beat Defensives over the coming 12 months (implied probability of 57%, up 1%pt). The panel is just as confident that Emerging Markets will beat Developed ones (57%, down 2%pts).

But the panel is starting to believe that the AI/Tech boom is stretched: the greatest intra-equity shift in views is for Tech vs Financials where the implied probability fell 5% to 53%. The proportion of panellists strongly convinced that Tech will beat Fin fell from 12% to 5%. Still only 1% of the panel are strongly convinced that the Financials will win. The view on AI is probably behind the shift in views about US vs non-US equities (50%, down 4%pts) as the correlation of panellists' responses for the two questions is 0.48, and for Value vs Growth (52%, up 4%). Curiously, while the other large shift, towards US Small Caps over Large (53%, up 4%pts), might appear to be linked to AI/Tech views, there is little correlation in the responses of individual panellists.

Our panel has remained positive on Cyclicals

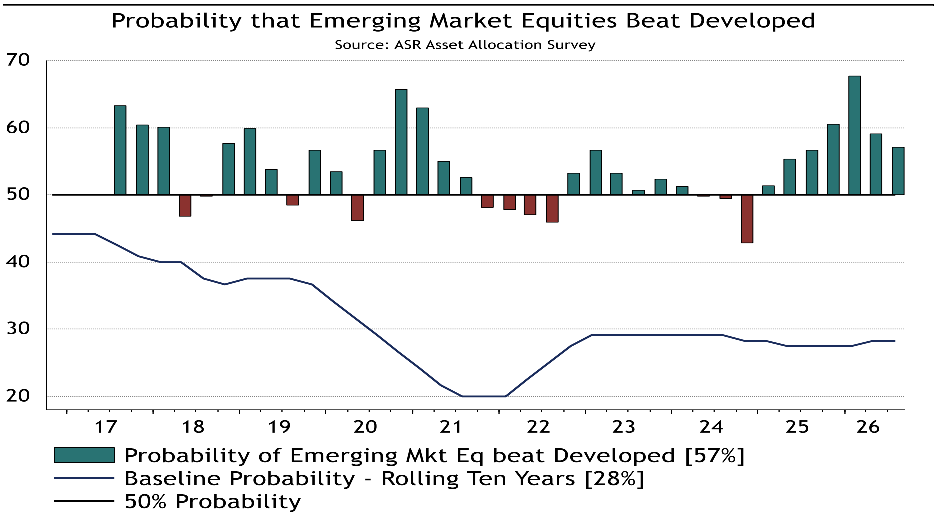
AAS.26: Probability that Cyclicals will outperform Defensives



Source: ASR Ltd. / LSEG Datastream

The panel is just as convinced that Emerging Markets will beat Developed

AAS.29: Probability that EM will beat DM

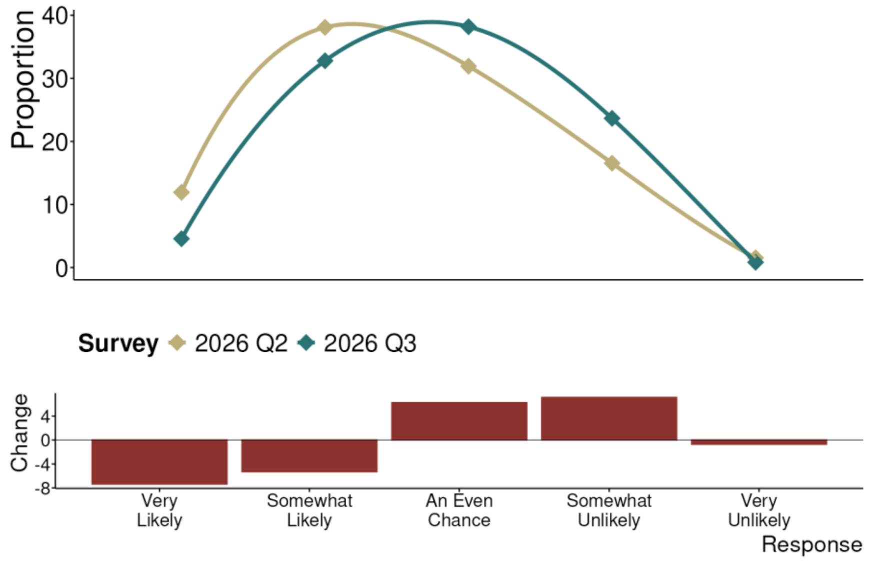


Source: ASR Ltd. / LSEG Datastream

Proportion of panellists strongly positive on Tech/AI has fallen...

...but few panellists are strongly against Tech vs Financials

AAS.30 Probability that Tech will beat Financials

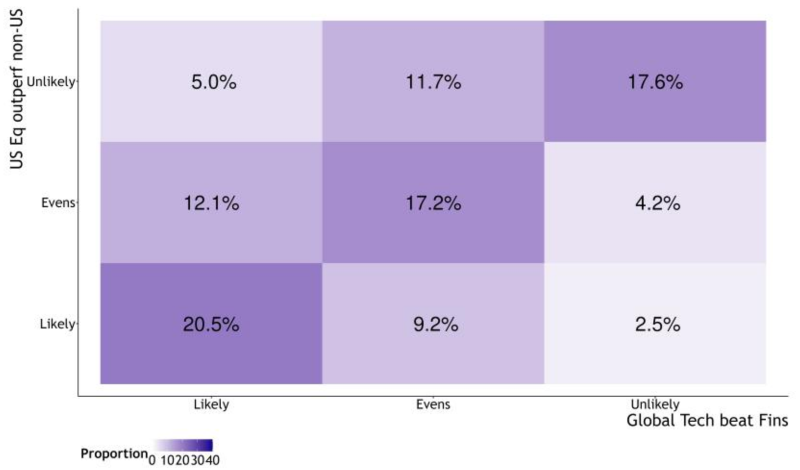


Source: ASR Ltd.

Responses to US vs non-US are strongly correlated to Tech vs Financials

Value vs Growth has a similarly high correlation

AAS.28: Correlation of responses of Tech vs Fin and US vs non-US

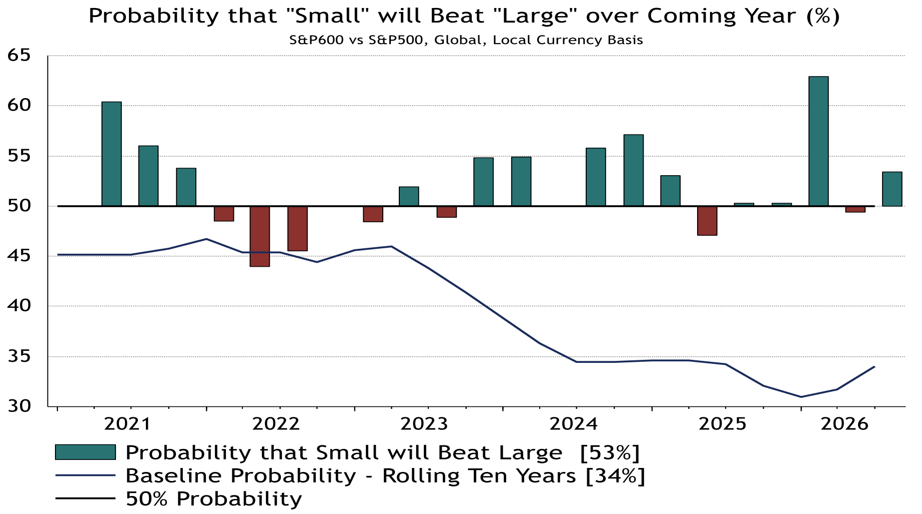


Source: ASR Ltd. / LSEG Datastream

While the panel moved back in favour of US Small vs Large...

...this shift was not correlated to the Tech trade

AAS.27: Probability that US Small Cap beat Large



Source: ASR Ltd. / LSEG Datastream

The most likely split of the panel is into three groups:

- **41% Little inflation**
- **38% Inflation resilience**
- **21% Inflationary bears**

Bears in retreat and no longer pin slow-down on inflation

Our Bayesian cluster analysis has kept its split into three groups, but the bearish cluster has shrunk from a third in Q2 to a fifth of the panel now. On the face of it the views of the clusters have changed little from the last survey, but there are differences. For instance, the bearish group appear to have stepped back from expecting inflation to trigger monetary tightening and hence a slowdown. Instead, it appears an equity market shock might be this group's greatest fear.

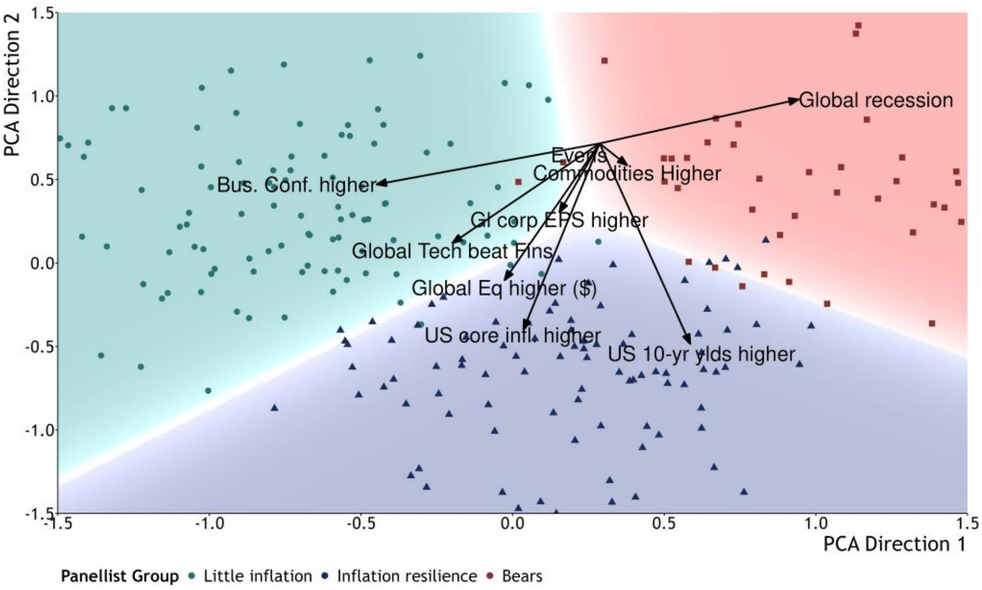
The marginally largest group sees **Little Inflation** on the horizon, expecting inflation pressures to ease, despite expecting commodity prices to be higher. This group do not expect monetary conditions to tighten, and marginally expect the Fed to cut rates over the next 12 months, dragging yields lower, with the curve steady. With everything fine, this group is very happy to buy Equities over Bonds, Cyclicals over Defensives and Tech over Financials, since they believe earnings will be higher. Half of the US panellists fall into this group.

Our Bayesian grouping algorithm is unsupervised, since we do not pre-define the number of groups or each group's views. Instead, we interpret the average response of each group (AAS.32), to understand their views and to give the group an appropriate descriptive name

The second group is more concerned about inflation and commodity prices, but they also expect **Inflation resilience** from the economy, as they expect business confidence to be higher in 12 months' time. This group is the most confident that monetary conditions will be tighter and that yields especially at the back end of the curve will rise. But with the economy and earnings growing, this group expects Equities to rally and beat Bonds. Maybe one surprise is that this group is not more bullish for Cyclicals vs Defensives and Value vs Growth.

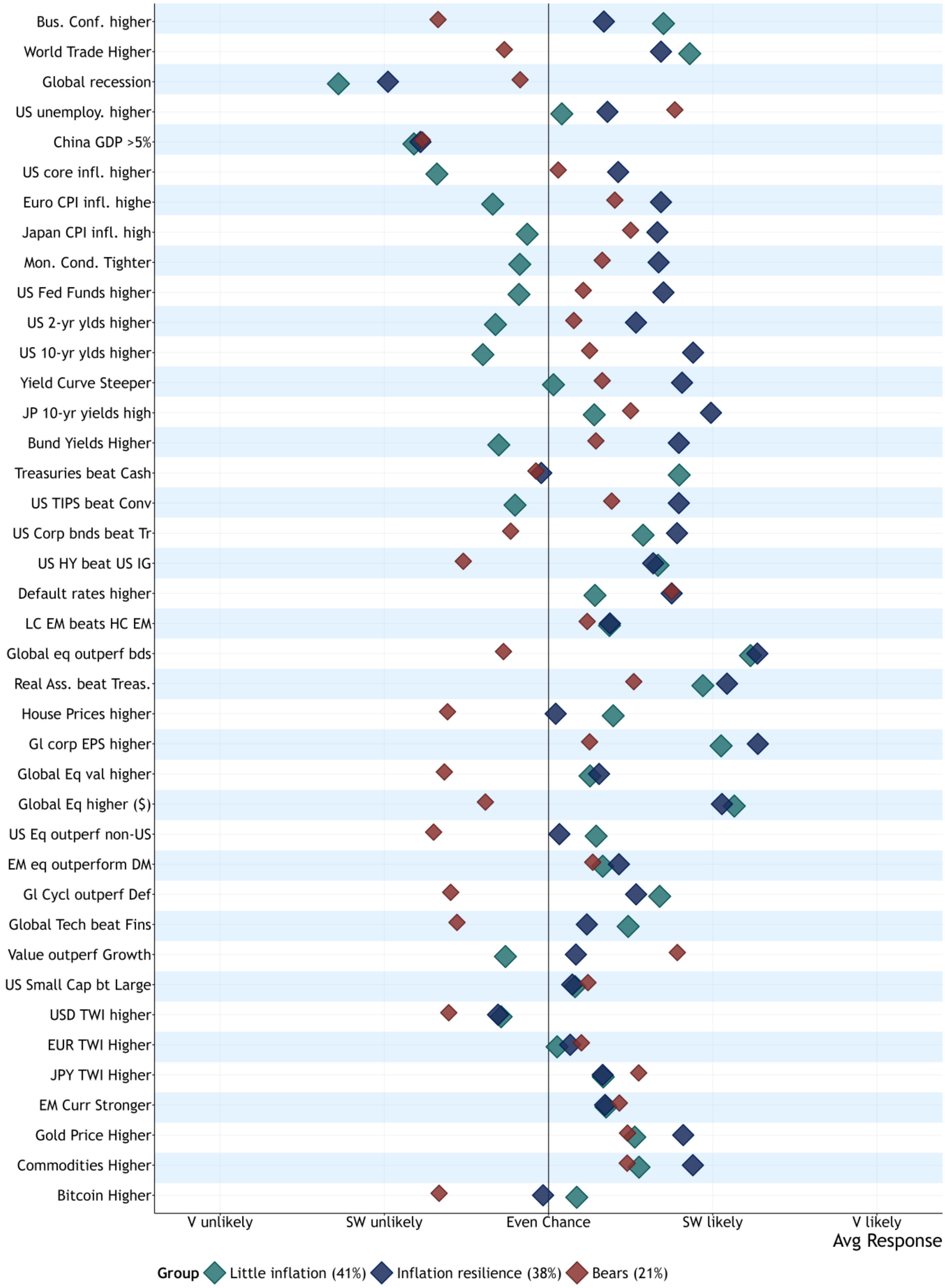
Our final group of **Bears** has shrunk to a fifth of the panel. They see a slowdown in business activity, rising unemployment, although not a recession. They see little inflation in the US, as well as less in Europe and Japan than the 'Inflation Resilience' group. The bearish group in the last survey was driven by inflation and rising yields, but instead this group seems to have worries about equity market valuations. Hence the group expects Value to beat Growth, Defensives to beat Cyclicals and non-US to beat US equities, and US Inv Grade bonds to beat HY.

AAS.31: Division between groups – using PCA which reduces 40 questions into two dimensions



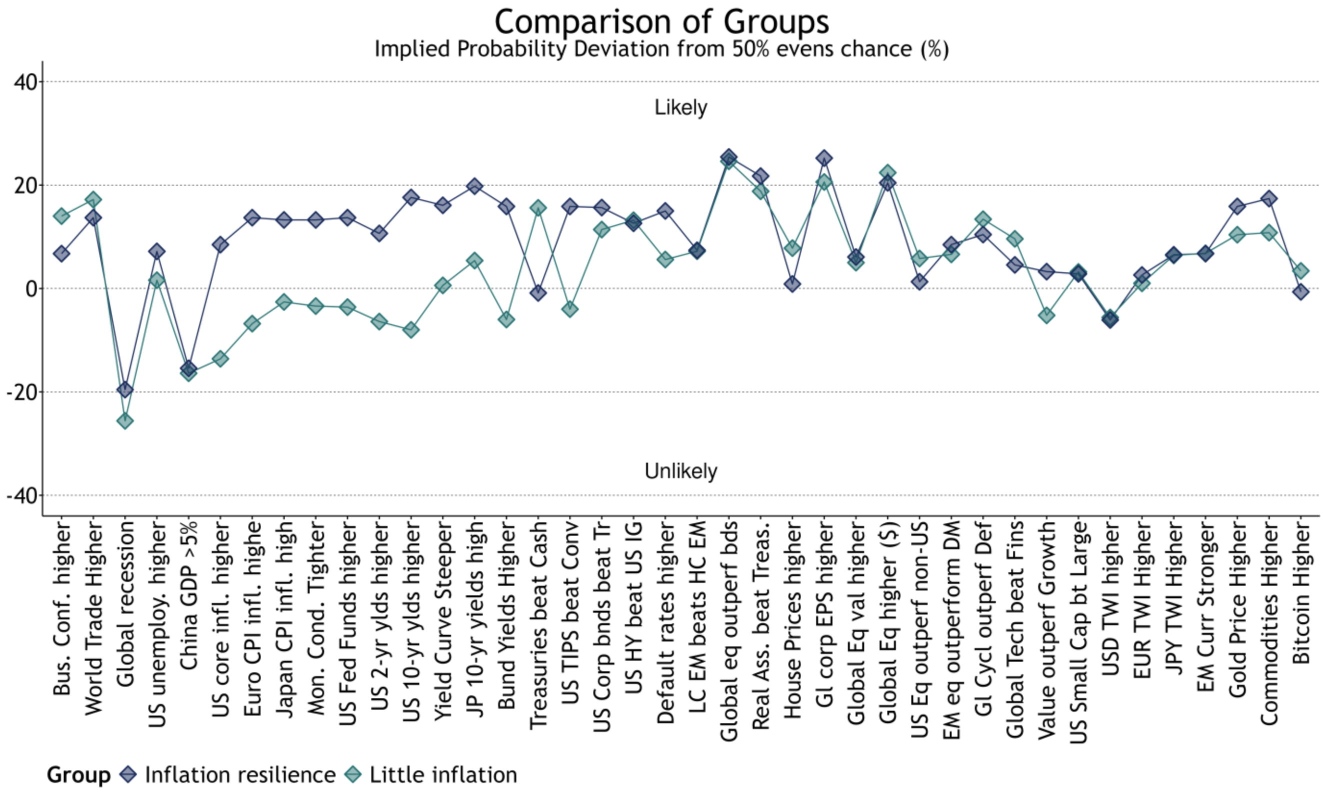
Source: ASR Ltd.

AAS.32: Average Response of the Three Groups Identified by our Machine-Learning Analysis



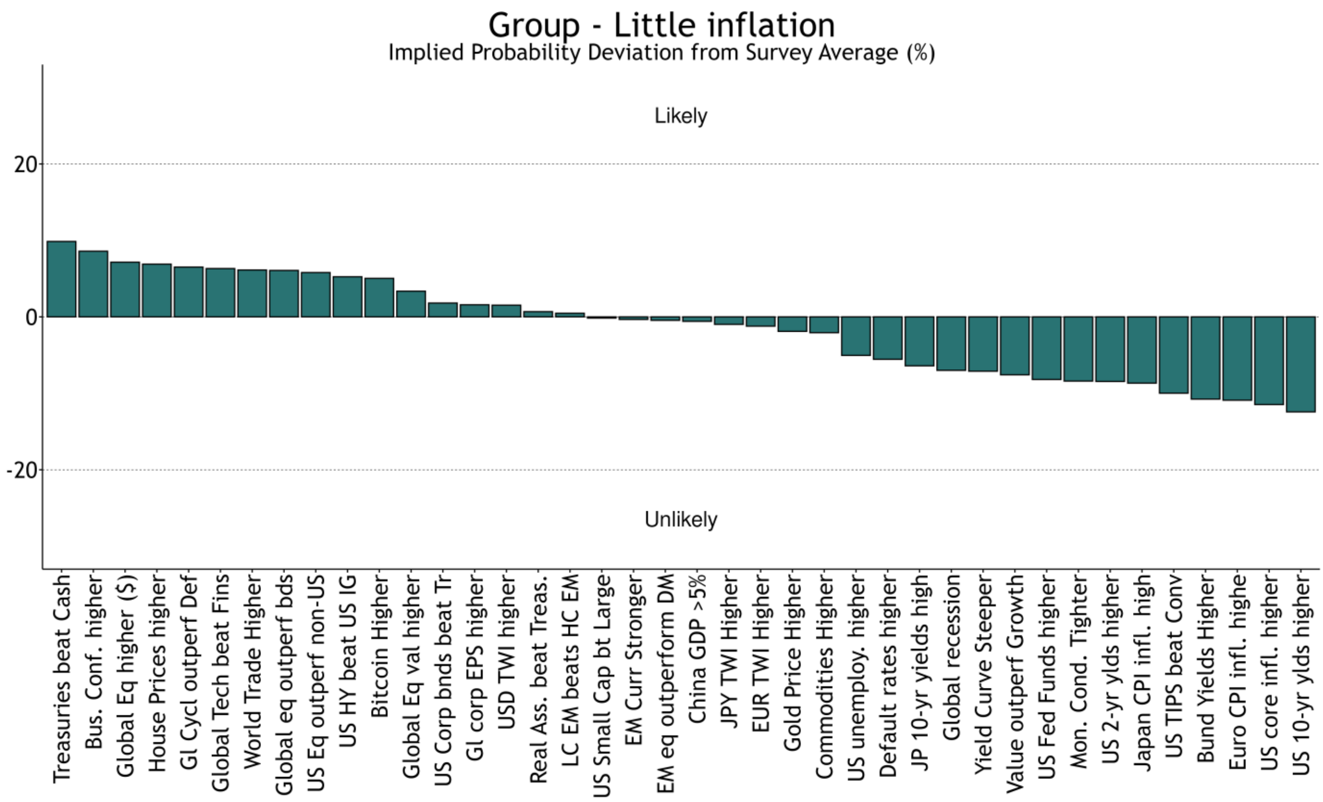
Source: ASR Ltd.

AAS.33: Comparison of 'Little inflation' (41%) with 'Inflation Resilience' (38%)



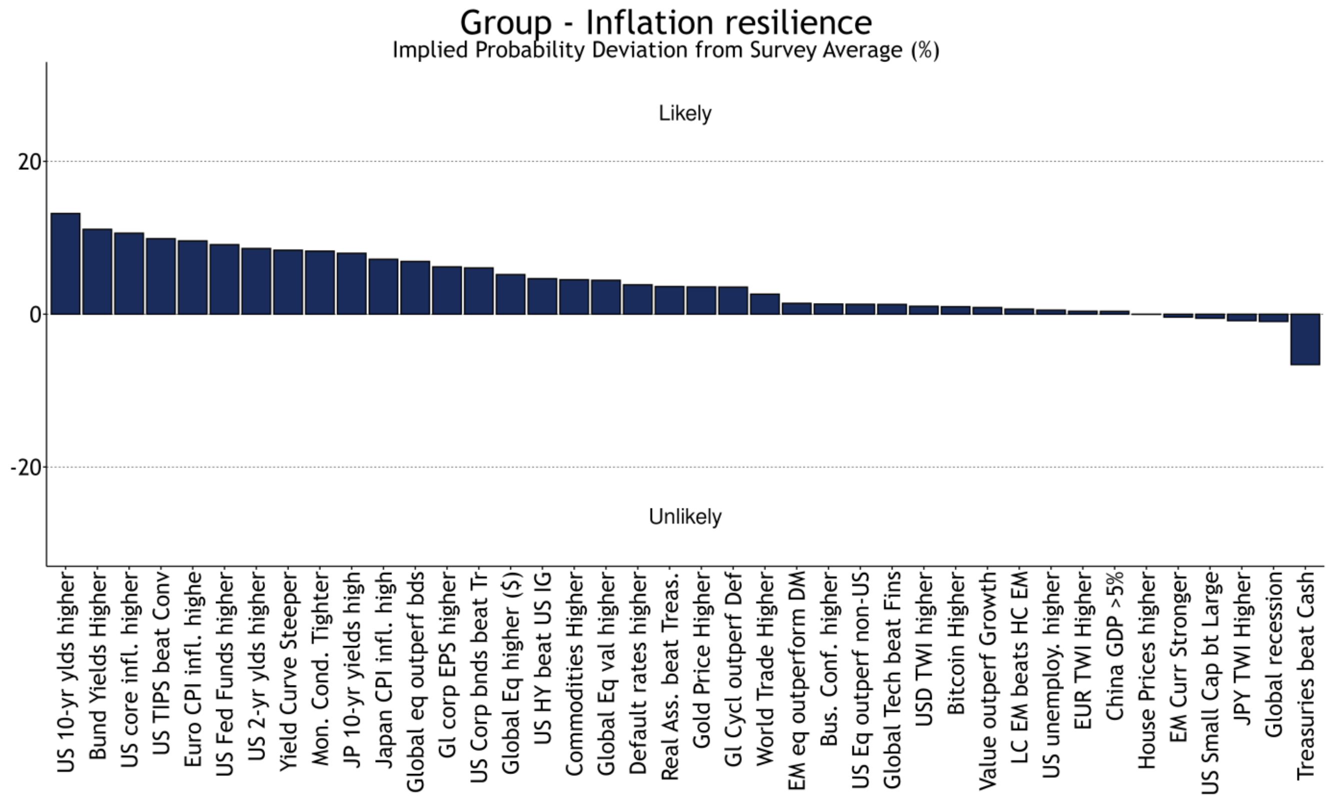
Source: ASR Ltd.

AAS.34: Comparison of 'Little Inflation' (41%) with Survey



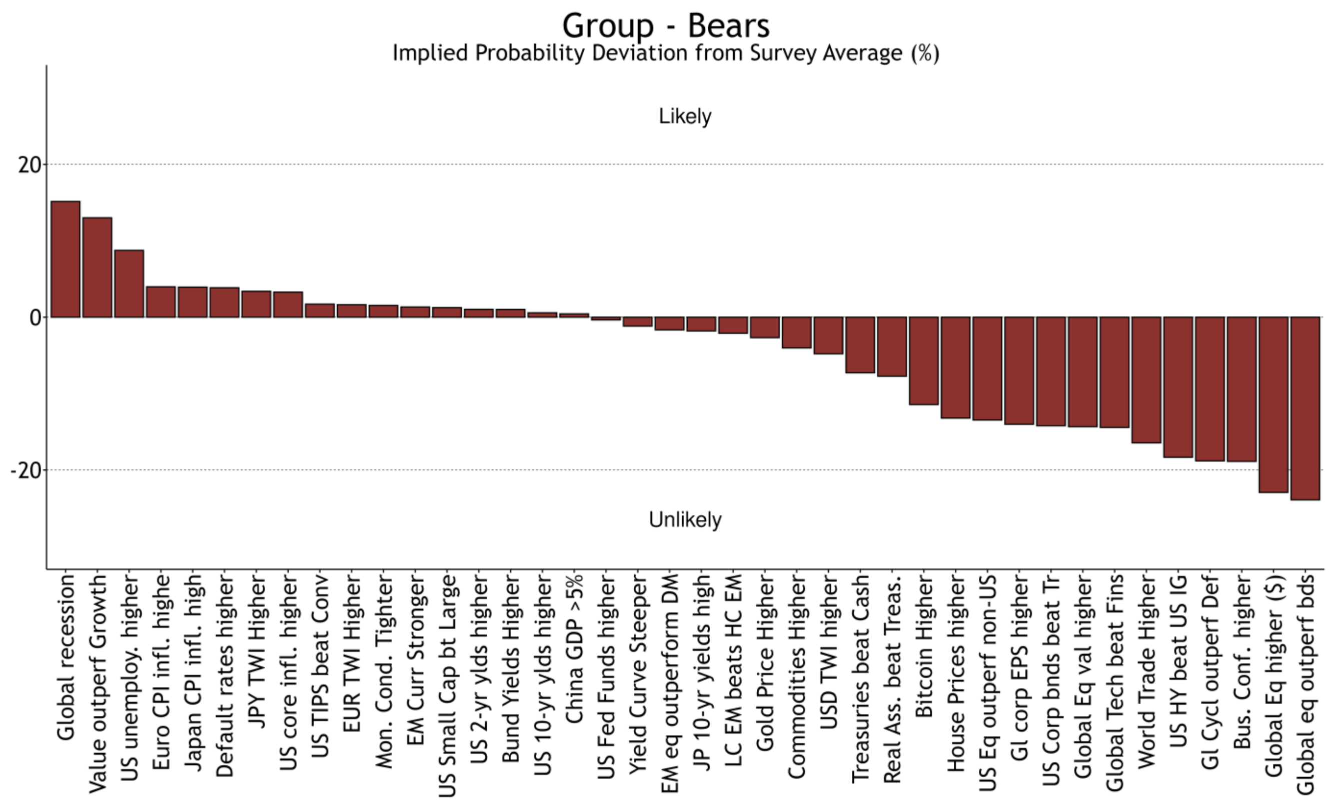
Source: ASR Ltd.

AAS.35: Comparison of 'Inflation Resilience' (38%) with Survey



Source: ASR Ltd.

AAS.36: Comparison of 'Bears' (21%) with Survey

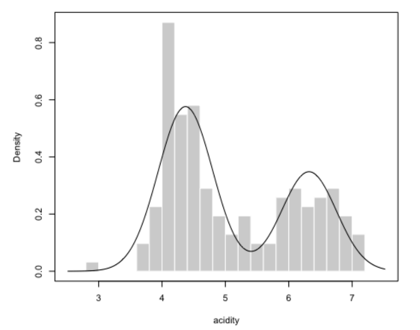


Source: ASR Ltd.

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').

AAS.37: Fitting two normal distributions to a dataset



Source: W. Härdle, Fraley & Raftery

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. 37, 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*.

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 40 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.

Demographics of Panel and Summary Results

This table highlights some of the Survey "extremes"

The panel is most convinced that corporate earnings will rise and that there will not be a recession

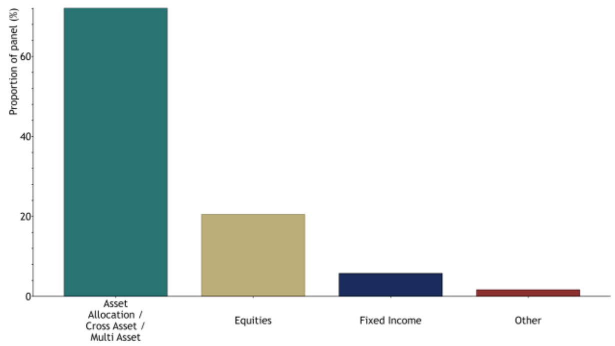
There are two questions that are divisive, House prices and US Inflation

AAS. 38: Most Certain, Most Uncertain & Most Divisive Questions

	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Implied Prob.
Most Likely (highest implied probability)						
Gl corp earnings higher	28	49	13	9	0	69
Global eq outperf bonds	27	49	16	8	1	69
Real Assets beat Treasuries	21	54	19	6	0	68
Most Unlikely (lowest implied probability)						
Global recession within 12 montl	1	5	15	57	22	31
China Real GDP Growth >5%	1	7	20	56	17	34
USD TWI higher	1	15	34	46	4	43
Most Uncertain (Highest proportion of Even Chances)						
EUR TWI Higher	0	32	49	18	1	52
Global equity val higher	5	27	43	22	3	52
Bitcoin Higher	6	20	43	22	9	48
Most Divisive (Most bimodal distribution)						
House Prices higher	11	28	23	30	8	51
US core inflation higher	3	28	28	37	4	48

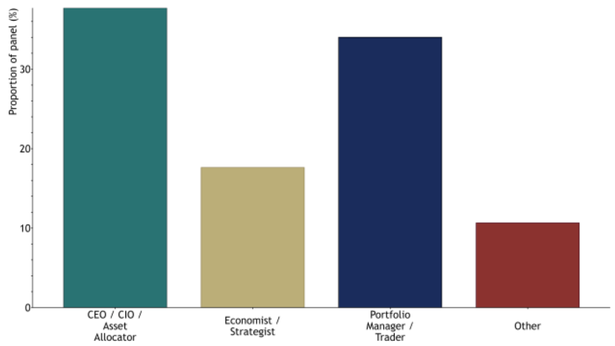
Source: ASR Ltd

AAS. 39: Asset Class Expertise



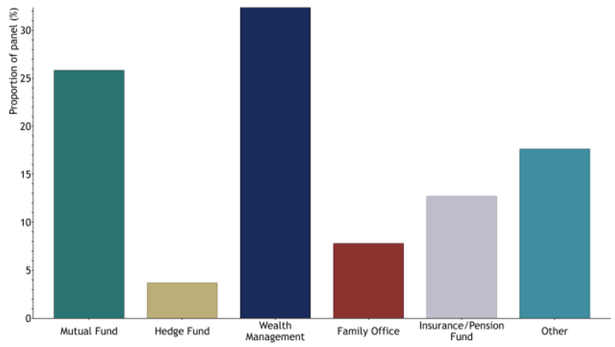
Source: ASR Ltd

AAS. 40: Role



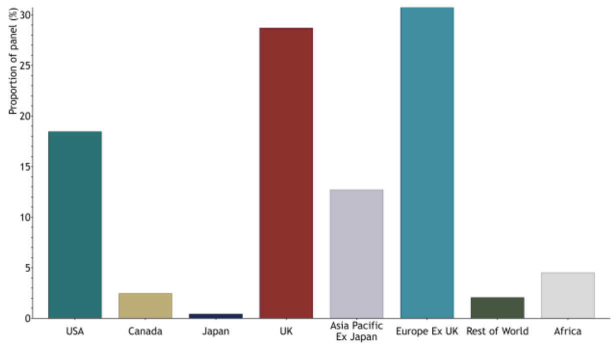
Source: ASR Ltd

AAS. 41: Type of Investor Firm



Source: ASR Ltd

AAS. 42: Location



Source: ASR Ltd

Our 244 panellists work in teams that manage over $10.6 trillion of assets. The fieldwork for the survey was conducted through an on-line survey between 12th and 19th August 2026.

AAS.43: Summary of Responses – 2026 Q3

Question	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Implied Probability
Business Confidence higher	8	34	37	18	2	55.4
Volume of World Trade Higher	12	48	24	14	1	61.1
Global recession within 12 months	1	5	15	57	22	31.4
US unemployment higher	4	42	37	16	1	56.7
China Real GDP Growth >5%	1	7	20	56	16	34.1
US core inflation higher	3	28	28	37	4	47.9
Euro CPI inflation higher	5	37	34	23	2	54.1
Japan CPI inflation higher	6	39	38	16	2	56.1
Monetary Conditions Tighter	4	42	31	22	1	55.1
US Fed Funds rate higher	8	33	33	24	1	54.6
US 2-yr yields higher	5	29	37	26	2	52.1
US 10-yr yields higher	7	35	34	23	2	54.4
Yield Curve Steeper	9	43	27	20	1	57.7
JP 10-yr yields higher	11	50	29	10	1	62.0
Bund Yields Higher	6	35	37	21	1	54.8
Treasuries beat Cash	12	35	28	24	2	55.8
US TIPS beat Conv	7	37	34	20	1	56.0
US Corp bnds beat Treas	7	51	24	17	0	59.6
US HY beat US IG	7	49	23	19	2	58.0
Speculative Grade default rates higher	8	53	27	11	1	61.2
Loc Cur EM bonds beat Hard Cur	5	39	42	13	0	56.9
Global eq outperf bonds	27	49	16	8	1	68.6
Real Assets beat Treasuries	21	54	19	6	0	68.1
House Prices higher	11	28	23	30	8	50.9
Gl corp earnings higher	28	49	13	9	0	69.3
Global equity val higher	5	27	43	22	3	51.7
Global equities higher ($)	19	51	21	8	2	65.5
US eq outperform non-US	5	27	33	30	4	50.0
EM eq outperform DM	6	42	33	18	0	57.1
Global cycl outperf def	7	44	27	20	2	57.0
Global Tech beat Fins	5	33	38	24	1	53.3
Value outperf Growth	3	36	34	25	2	52.4
US Small Cap beat Large	5	34	36	24	1	53.4
USD TWI higher	1	15	34	46	4	42.7
EUR TWI Higher	0	32	49	18	1	52.3
JPY TWI Higher	11	38	32	18	2	57.6
EM Curr Stronger	3	43	41	12	1	57.3
Gold Price Higher	16	46	23	14	1	62.5
Commodities Higher	13	54	20	13	0	63.2
Bitcoin Higher	6	20	43	22	9	48.3

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.

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