ABSOLUTE STRATEGY RESEARCH

ASR's Asset Allocation Survey

15th December 2023

Investors See Inflation Dragon Slain

Stocks & Bonds Expected to Deliver Similar Returns in 2024

AUTHOR:

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

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

Asset Allocators Have Already Discounted a Policy Pivot for 2024

Asset Allocators are convinced that core inflation is coming down and the monetary policy tightening cycle is over. They expect lower Bond yields (but not in Japan), and think there's a 70% probability of a more positive sloping US yield curve.

But the Euphoria around Lower Rates has Left Equities Cold

Asset Allocators were marginally more upbeat about Equities, but not because of Earnings and Valuations. Rather, the hope is that with inflation slain, policymakers will be able to help the markets "bridge" 2024's still 'challenging' fundamentals.

Bears now Outnumbered but have More Conviction on Risk Assets

Unlike recent surveys, the Bulls group is now larger than the Bears group. But the Bears have more conviction that a recession will led to weak risk assets, than Bulls have for strong risk assets, maybe because the Bulls see soft landing as priced-in.

RELATED RESEARCH:

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

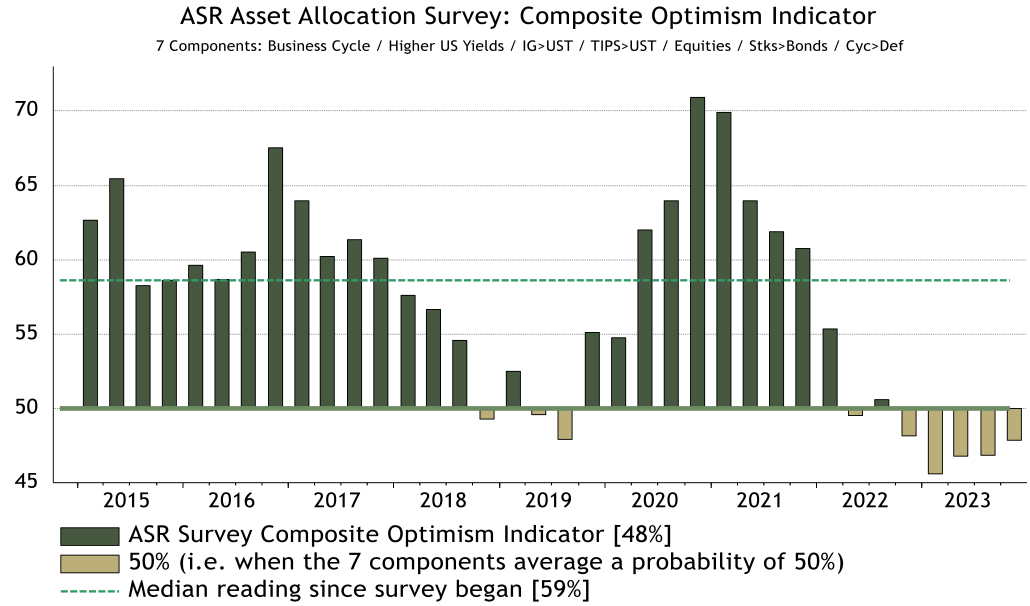
2023 Q2 Survey: Defensive Stance Despite Risk-on Markets, 29th June 2023

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

2022 Q4 Survey: Asset Allocators Fearful of Fed Pivot, 16th Dec 2022

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

Key Chart: ASR's "Composite Optimism Indicator" Still in Doldrums



Source: ASR Ltd.
Based on 277 respondents managing over $10trn AUM (Fieldwork: 30th November - 7th December 2023)

Investors See Inflation Dragon as Slain

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 <u>between 30th November and 7th December</u>, with 277 responses from investors overseeing over $10trillion of AUM. The survey was conducted before US Fed's FOMC December meeting.

Highlights from the Survey

There's a really clear baseline narrative for 2024

There is a clear baseline narrative for 2024 running through this survey.

The outlook for the real economy remains ambiguous, with low conviction around the cycle. Bottom line: "too soon to sound the all-clear"

1. At the margin, there was a slight improvement in the growth outlook, with a modest rise in the probability of a stronger business cycle a year from now (52%), and a modest decline in the probability of a Global recession (51%). Investors are also less sceptical that the level of Global corporate earnings will be higher in 12-months' time (48%). However, considerable doubt remains around China's ability to deliver 5% GDP growth. And there is still a high probability that the US unemployment rate will be higher a year from now (73%). <u>But the overall impression is that investors seem to have low levels of conviction around the direction of the real economy in 2024</u>.

However, very little doubt about where core inflation is headed … and it is not "higher"

Note the preference for Conventionals over Linkers

2. In contrast, the confidence that core inflation will NOT be higher a year from now has increased and remains at around record levels. <u>That core inflation will be lower a year from now is the overwhelming message</u> (see Charts 6, 7, and 8). Moreover, there was also a visible shift away from Inflation-linked Bonds in favour of Conventionals over the coming year, implying an expectation of lower inflation-breakevens and weaker pricing power.

Asset allocators think Central Banks have done all they need to, and have already discounted a "policy pivot" (and that was before December's dovish FOMC)

The prospect of lower inflation and lower policy rates is catnip for Bond investors, with roughly half the panel looking for lower yields and a steeper curve.

3. With investors clearly taking the view that the inflation crisis is over, <u>they see no obstacle to an easing monetary policy</u>. The probability that Global Monetary Conditions will be tighter in 12-months' time recorded a double-digit decline to just 32%, and unsurprisingly, the probability of higher Fed Funds and 2-year Yields fell to 21% and 25% respectively. Never mind what the Central Bankers say, <u>investors have already discounted a policy pivot</u> (and this was before December's FOMC meeting). With the "higher-for-longer" narrative now firmly consigned to history, asset allocators are looking for lower Bond yields in US and Germany (but not in Japan). The panel raised the probability of a steeper US yield curve to 70% - a view that sits comfortably with their probabilities of lower US inflation and higher US unemployment. The proportion of the panellists looking for lower yields <u>and</u> a steeper curve rose from 38% to 48%. The panel is also convinced that US Treasuries will beat "Cash" over the coming year, with a probability of 66% (up from 59% in Q3).

Positive on US Investment-Grade Credit but nervous around US High Yield

4. The lack-lustre prospects for growth and earnings, together with the loss of pricing power, has left investors still nervous of US High-Yield Credit, but they remain confident that US Investment-Grade can outperform Treasuries in 2024 (probability 53%).

Lower US rates => weaker USD – with JPY a winner

5. The prospect of lower US interest rates (62% of the panel expect both lower 2yr and lower 10yr rates over the coming year) has impacted FX expectations. Investors have downgraded the probability of a higher dollar (from 47% to 40%) and upgraded the probabilities of a stronger EM-FX, EUR, and particularly JPY

Euphoria around lower inflation and interest rates has left Equities cold

Prospect of easing policy has so far failed to boost Earnings or Valuations.

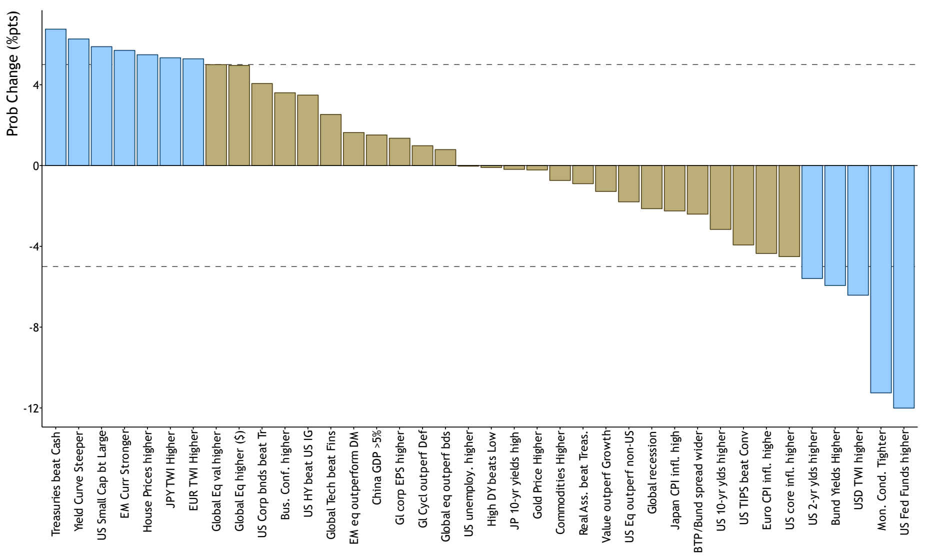
Little to choose between Global Equity and Global Bond returns in 2024

(now 65%) thanks to favourable bond differentials. Despite the prospect of a weaker dollar and lower interest rates, there was surprisingly no change in the prospects for Commodities or Gold.

6. What is interesting is that this dramatic shift in inflation and interest-rate expectations has left Equities cold. While the probability that Equities will be higher by the end of 2024 has risen to 54% (Chart 21), investors remain sceptical that earnings or valuations will be higher a year from now. Interestingly, asset allocators still think that there is little to choose between Global Equities and Global Bonds returns in 2024 (Chart 26).
7. In a new question, asset allocators thought there was a 54% probability that EM local-currency bonds would outperform their hard-currency peers – in line with ASR's own preference.

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

Blue bars show changes in implied probabilities in excess of 5% points



Source: ASR Ltd.

The table below highlights some of the Survey "extremes":

AAS. 2: The Most Certain, Most Uncertain & Most Divisive Questions

Interestingly, the highest probability is that the US unemployment rate will be higher – while the lowest probability is that higher Fed Funds rates.

Lots of uncertainty around Commodities, EM FX and EUR

Arguments are raging around EM Equities, recession risks, and over Real Assets

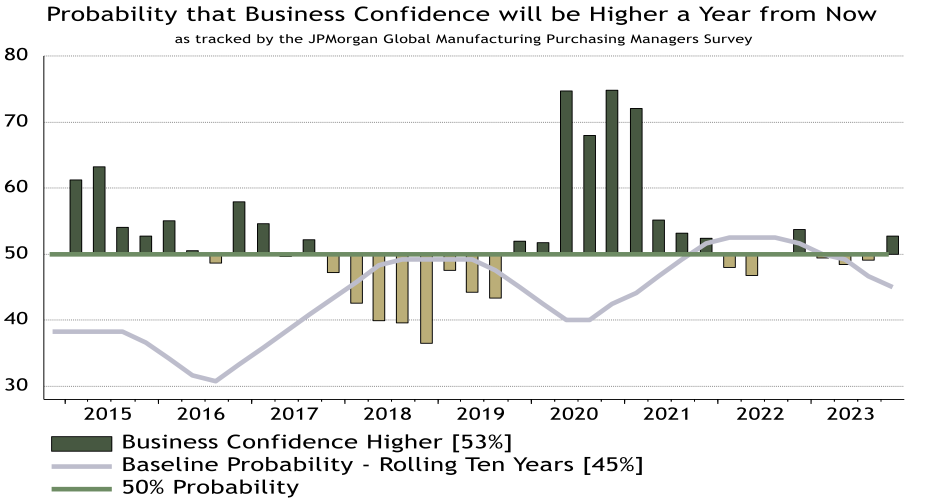
	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Implied Prob.
Most Likely (highest implied probability)						
US unemployment higher	35	53	7	4	1	73.4
Yield Curve Steeper	32	46	15	6	1	70.3
Treasuries beat Cash	23	46	20	10	1	65.5
Most Unlikely (lowest implied probability)						
US Fed Funds rate higher	0	2	4	39	55	20.7
US 2-yr yields higher	1	3	8	46	42	24.9
Euro CPI inflation higher	0	4	15	51	30	28.4
Most Uncertain (Highest proportion of Even Chances)						
Commodities Higher	6	29	42	22	2	53.2
EM Curr Stronger	5	37	40	16	2	55.8
EUR TWI Higher	4	30	40	26	2	51.7
Most Divisive (Most bimodal distribution)						
EM eq outperform DM	4	38	26	30	2	52.3
Global recession within 12 mths	7	31	27	32	3	51.2
Real Assets beat Treasuries	3	33	28	30	6	49.7

Source: ASR Ltd

Macro Assumptions

Marginal improvement in expectations for the Global business cycle over the next 12 months. The implied probability of stronger business confidence a year from now is 53%

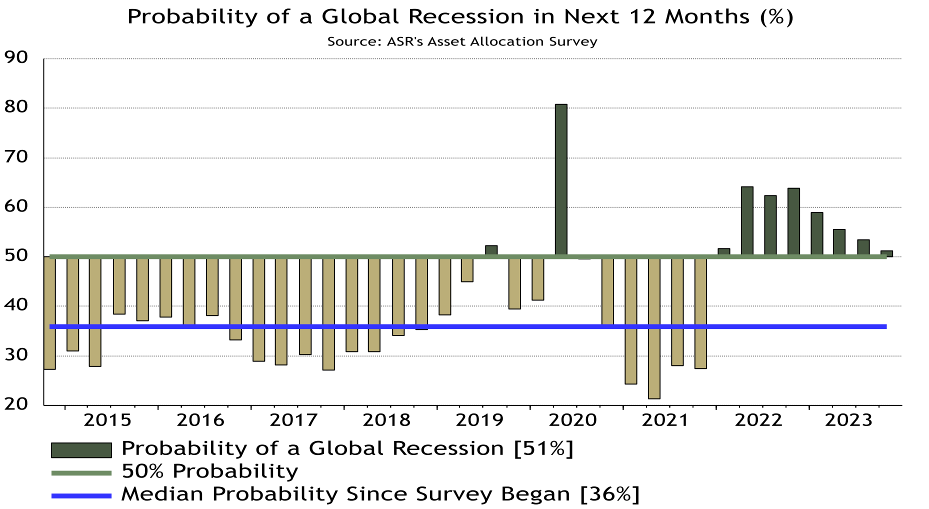
AAS. 3: Probability of Higher Business Confidence a Year from Now



Source: ASR Ltd. / LSEG Datastream

The panel continues to step back from expecting a Global recession in the next 12 months. The implied probability has fallen to 51%. That said, the panel still sees a recession as a coin toss – in part because the panel remains pessimistic about China, where the probability that GDP growth will exceed 5% over the next 12 months remains well below 50%

AAS. 4: Probability of a Global Recession in the Next 12 Months



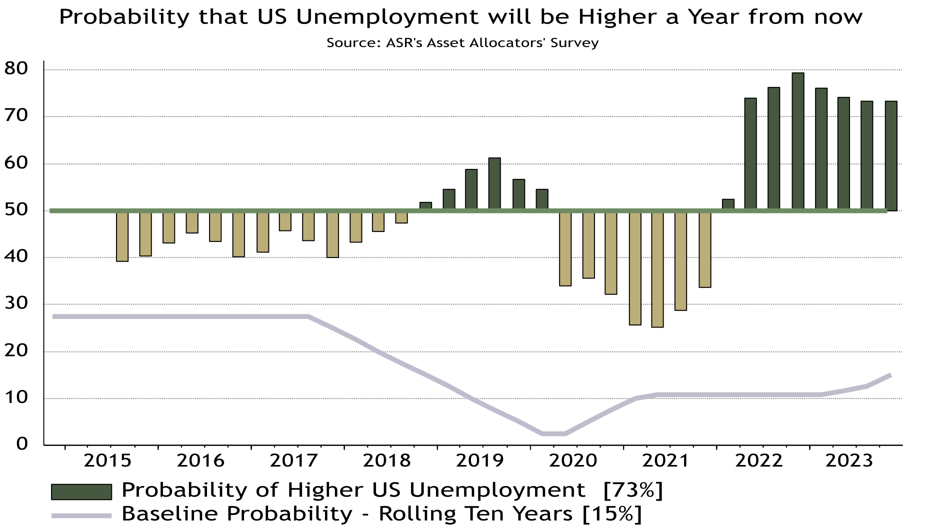
Source: ASR Ltd. / LSEG Datastream

Panel has high historical Accuracy for this Question

The panel remains very confident that the US unemployment rate will be higher in 12m time with an implied probability of 73%.

Implicitly, this means that the panel expects the US output gap to get more negative

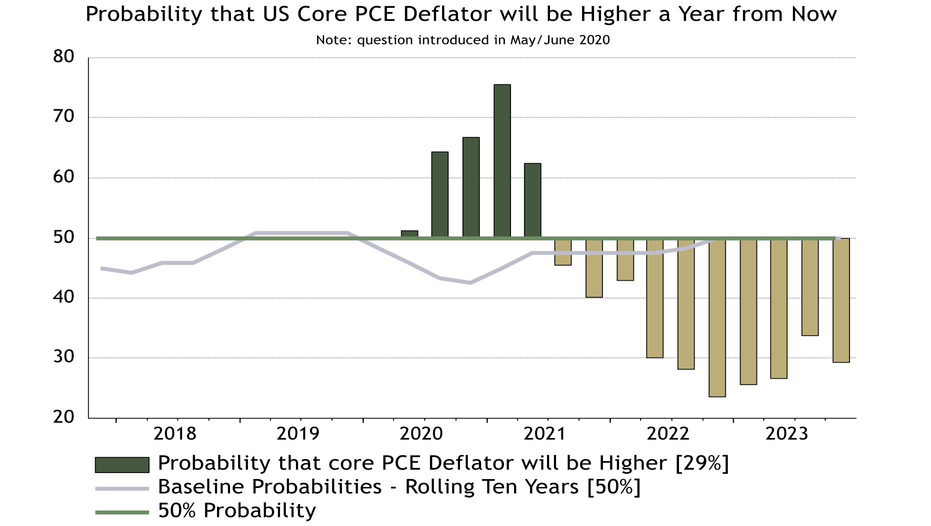
AAS. 5: Probability of Higher US Unemployment Rate in 12m Time



Source: ASR Ltd. / LSEG Datastream

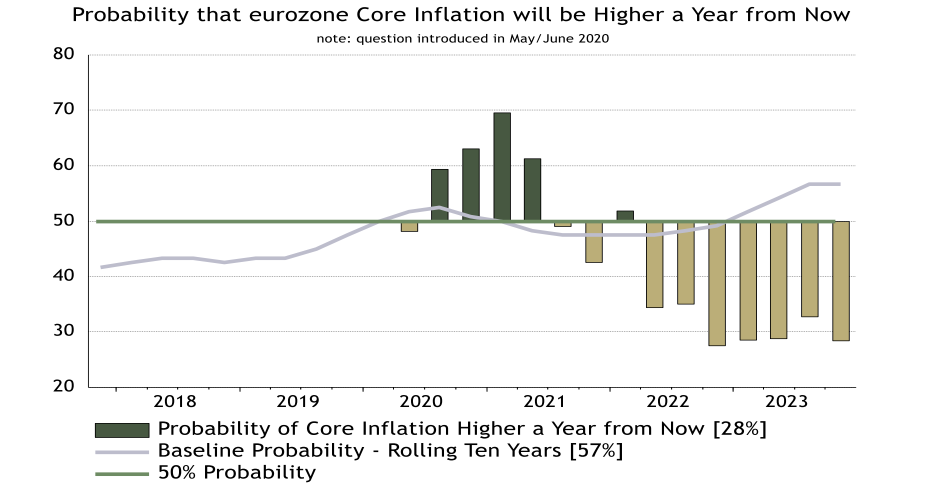
The three charts on this page make it clear that asset allocators think it highly unlikely that core inflation is going to be higher a year from now

AAS. 6: Probability that US Core PCE Deflator will be Higher



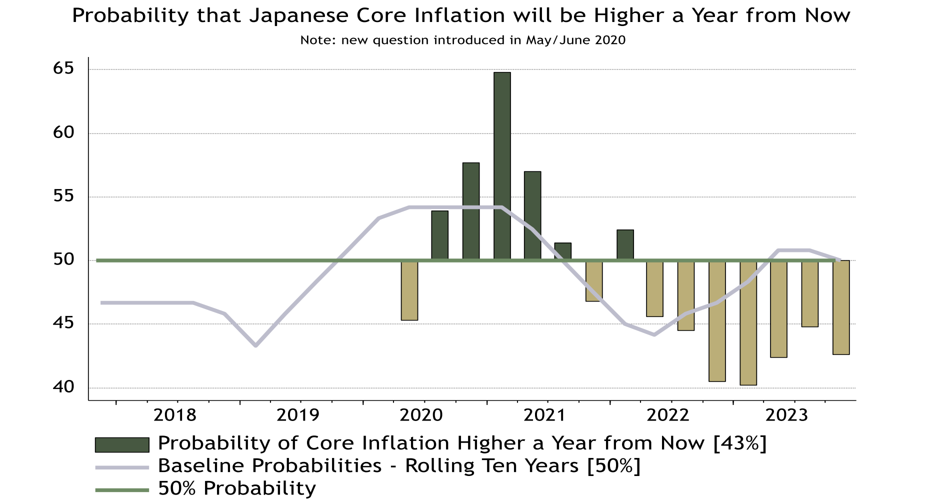
Source: ASR Ltd. / LSEG Datastream

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



Source: ASR Ltd. / LSEG Datastream

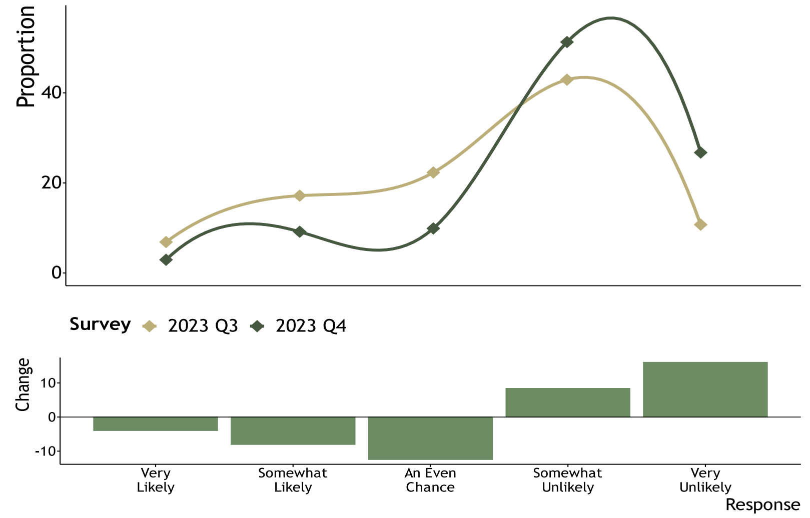
AAS. 8: Probability that Japanese Core CPI will be Higher



Source: ASR Ltd. / LSEG Datastream

AAS. 9: Probability that Global Monetary Conditions will be Tighter

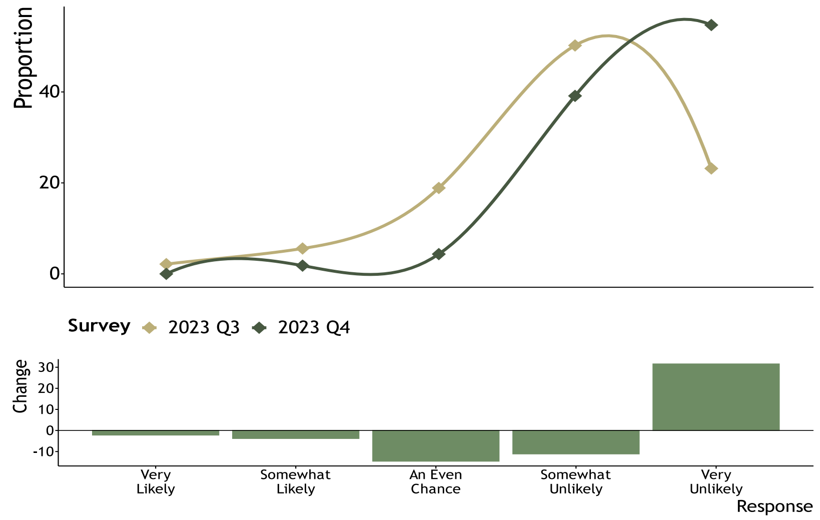
With the inflation dragon seemingly slain, the probability that Global monetary conditions will be tighter a year from now has fallen to just 32%



Source: ASR Ltd.

AAS. 10: Probability that US Fed Funds Rate will be Higher

The probability that Fed Funds will be higher a year from now has collapsed to just 20%



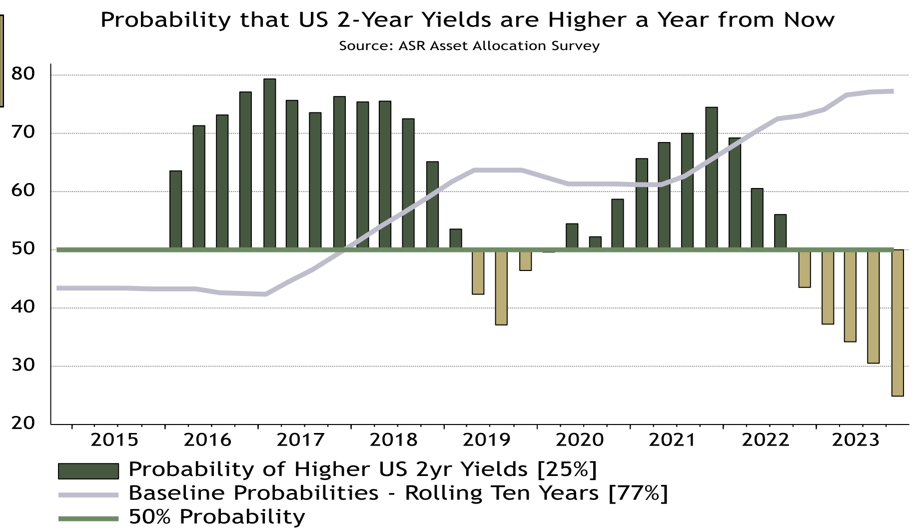
Source: ASR Ltd.

Bond Yields

Panel has high historical Accuracy for this Question

The probability that US 2yr yields will be higher a year from now has dropped to 25%

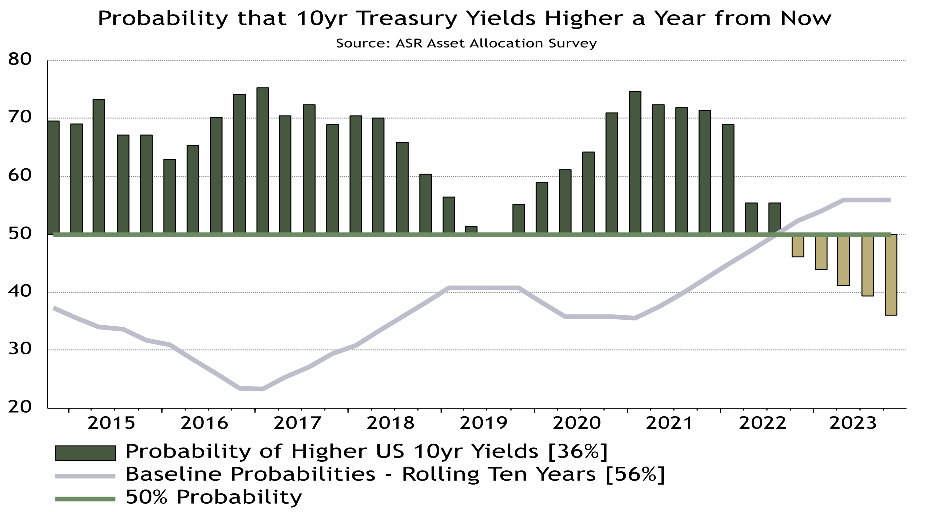
AAS.11: Probability of Higher 2yr Treasury Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

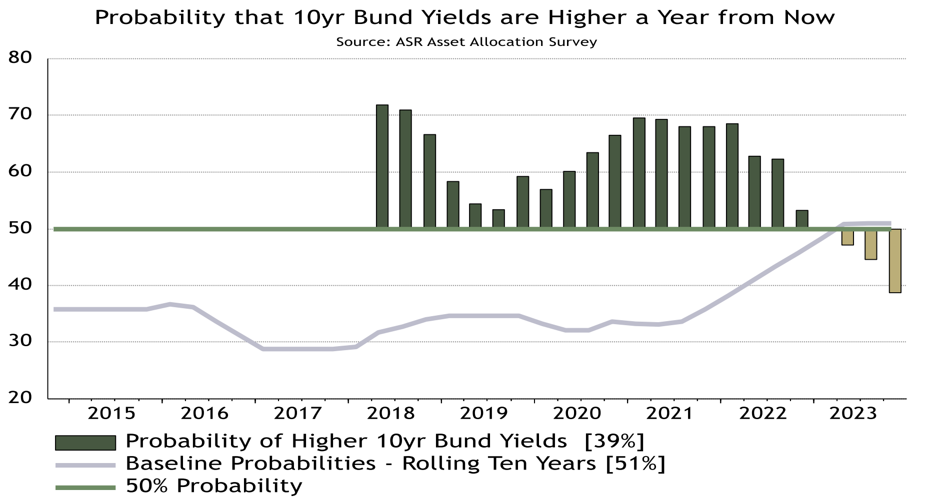
Lower inflation expectations and lower policy rates is catnip for Bond investors

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



Source: ASR Ltd. / LSEG Datastream

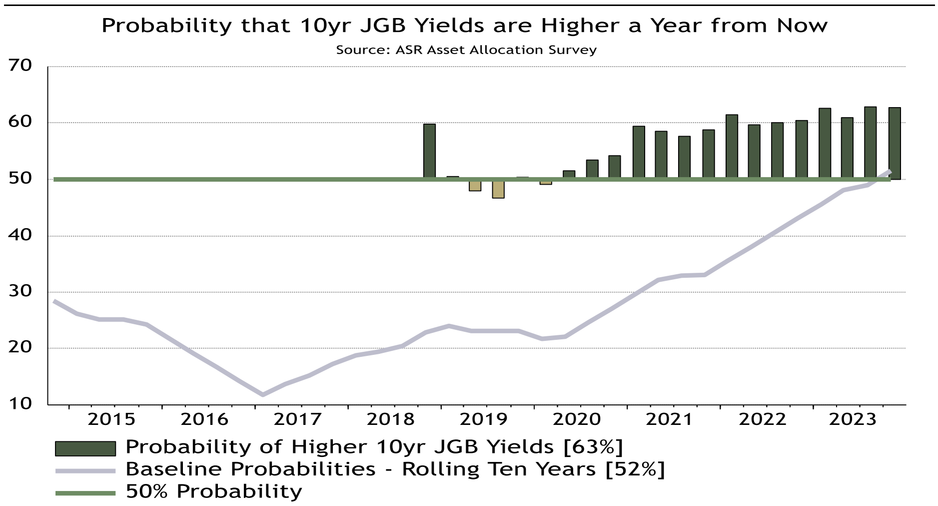
AAS. 13: Probability of Higher10yr Bund Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

Investors still believe that Japanese Bond yields are going to continue to normalise over the course of 2024, despite the optimism towards Treasuries and Bunds

AAS. 14: Probability of Higher10yr JGB Yields a Year from Now

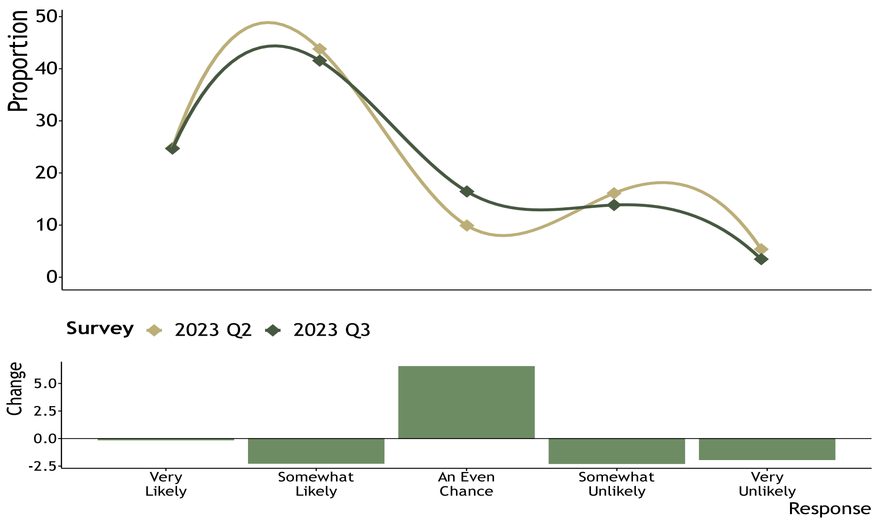


Source: ASR Ltd. / LSEG Datastream

The probability that the US yield curve is going to steepen rose to 70%.

This is consistent with the panel's expectations for a higher US unemployment rate and lower US inflation. But it is also consistent with a more negative output gap which can create a headwind for risk assets such as Equities and Credit

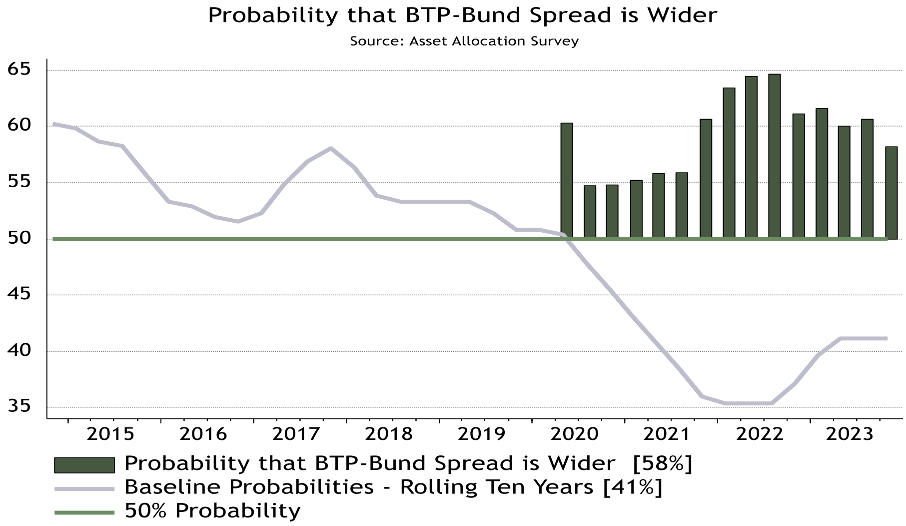
AAS.15: Probability that US Yield Curve will be Steeper



Source: ASR Ltd.

Investors continue to worry that the Italian BTP – German Bund spread is too low (despite being in line with the median of the past decade). They'd put a 58% probability on the spread widening over the course of 2024.

AAS.16: Probability that BTP-Bund Spread will be Wider



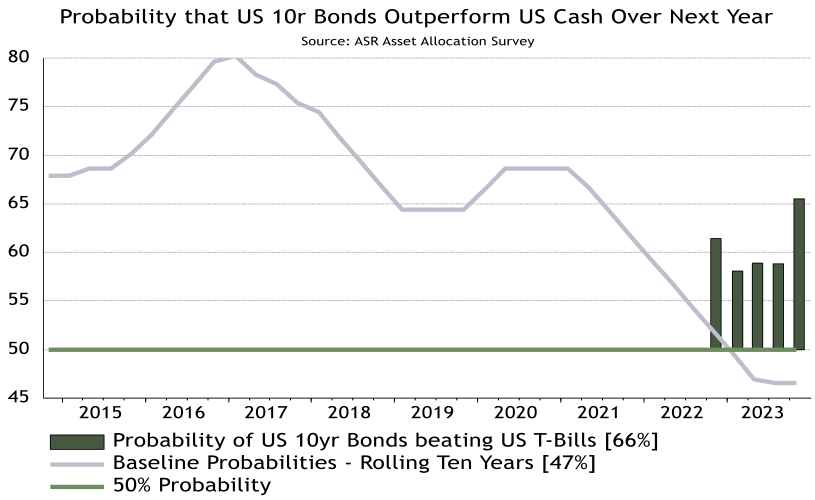
Source: ASR Ltd. / LSEG Datastream

NEW CHART

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

Consistent with the enthusiasm for "long duration", investors are increasingly convinced that Bonds will outperform Cash (in the form of US T-bills) over the coming year

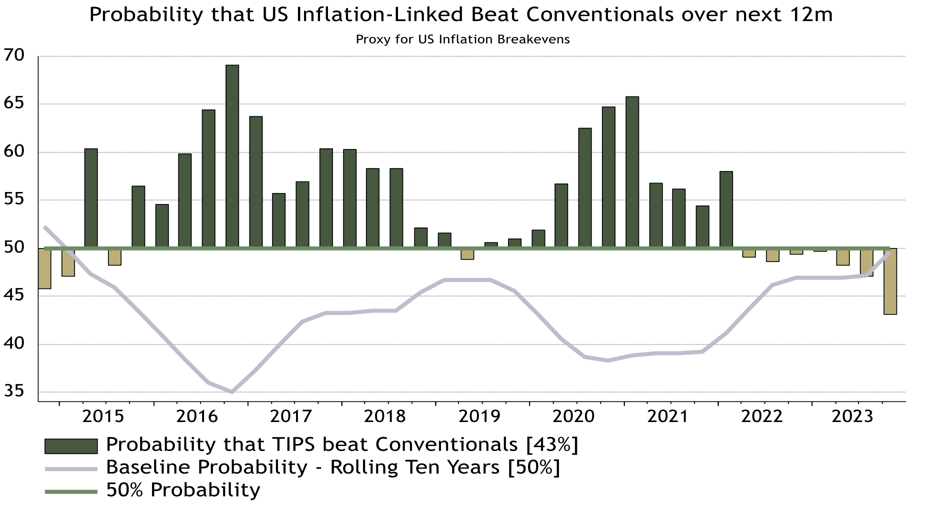
AAS.17: Probability that US Treasuries Will Outperform US Cash



Source: ASR Ltd. / LSEG Datastream

The collapse in inflation expectations is well captured by the shift in preferences away from inflation-linked Bonds and into conventional paper. This suggests that investors expect US inflation breakevens to fall over the coming year.

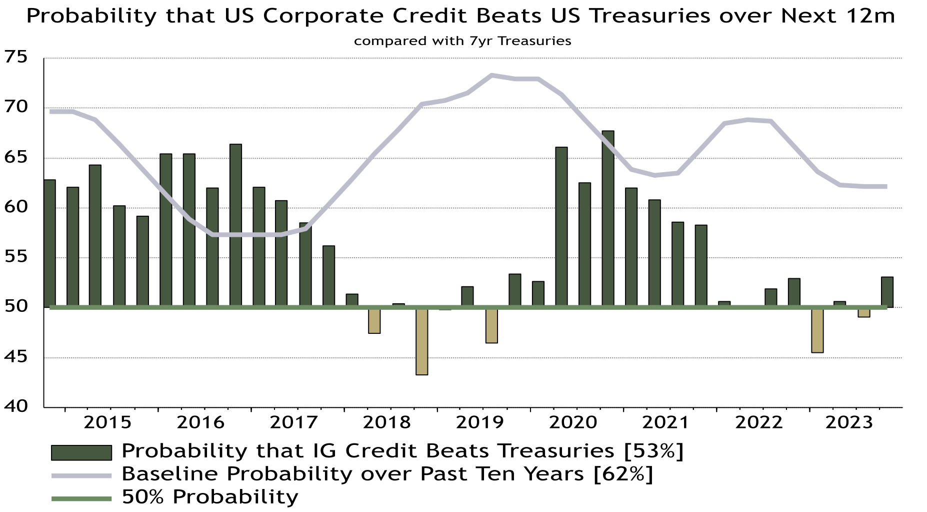
AAS.18: Probability that US TIPS Will Beat Conventionals



Source: ASR Ltd. / LSEG Datastream

Over the past quarter of a century there has been a good inverse relationship between inflation breakevens and Credit spreads. Spreads tend to widen as breakevens fall. So it is something of a puzzle to see a more positive view on IG Credit at a time when pricing power is under downward pressure

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

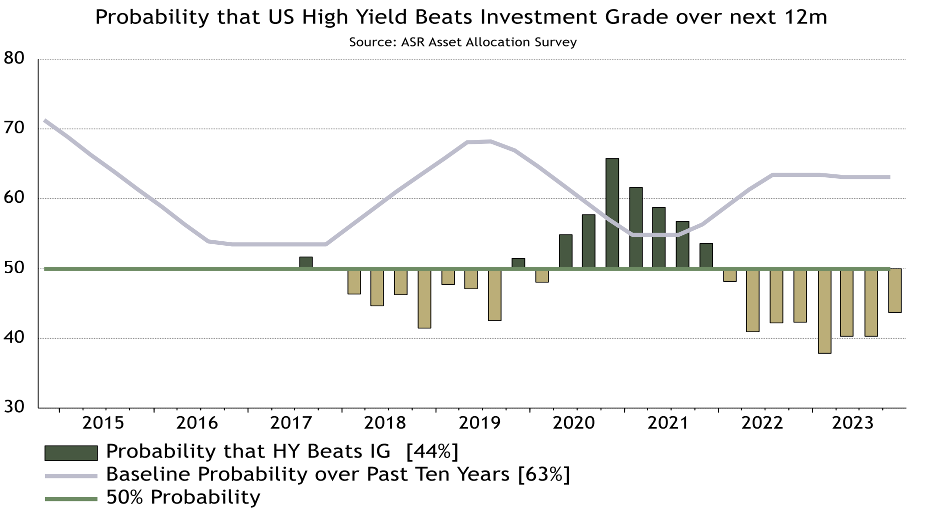


Source: ASR Ltd. / LSEG Datastream

Asset allocators remain nervous of US High-Yield Credit, which they think is unlikely to outperform US Investment-Grade paper

Weaker nominal GDP growth may put cash flows under pressure at a time speculative-grade default rates are already rising

AAS.20: Probability that US HY Credit will Beat US IG Credit



Source: ASR Ltd. / LSEG Datastream

As fears of Central Bank tightening evaporate and expectations of falling interest rates take hold, asset allocators can see how risk assets can bridge a tricky 2024 into what they hope will be a better 2025

AAS.21: Probability that Global Equities will be Higher in 12m Time

Source: ASR Ltd. / LSEG Datastream

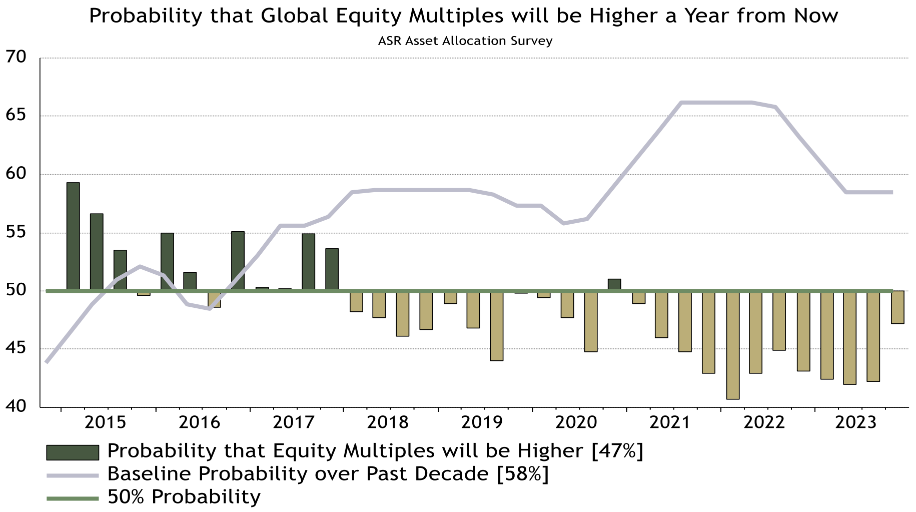
But fundamentally, the corporate-earnings outlook remains lack-lustre …

AAS.22: Probability that Global Corporate Earnings will be Higher

Source: ASR Ltd. / LSEG Datastream

… and Equity valuations are still seen more as a hindrance than a help

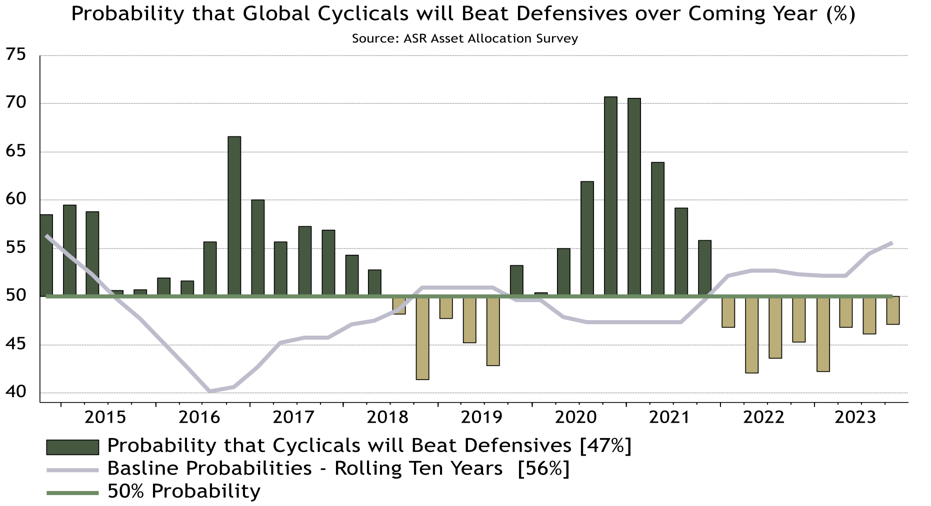
AAS.23: Probability that Global Equity PEs are Higher in 12m Time



Source: ASR Ltd. / LSEG Datastream

The lack of direction around the business cycle has contributed to the ambivalence around Cyclical and Defensive Equities

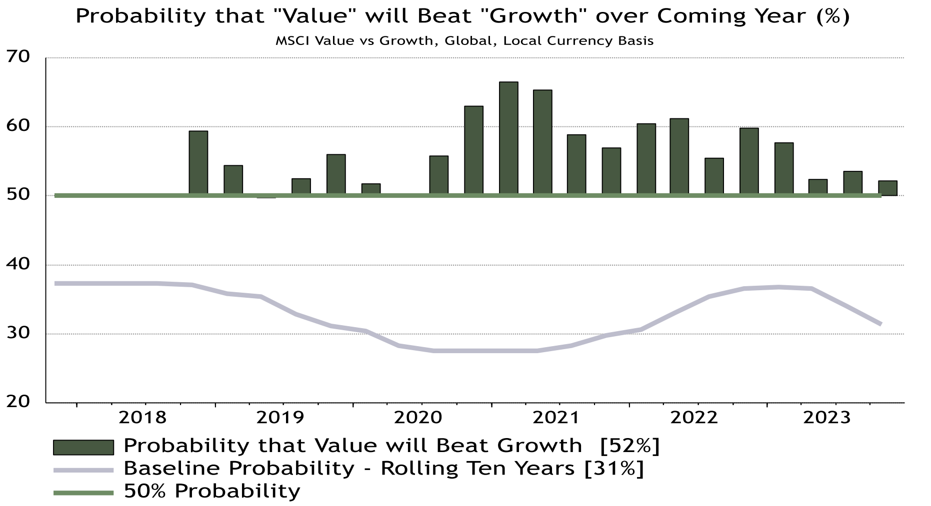
AAS.24: Probability that Cyclicals will Outperform Defensives…



Source: ASR Ltd. / LSEG Datastream

Similar ambivalence is evident when asking about Value vs Growth. However, there is less hesitation when Asset Allocators are asked about whether they prefer Technology or Financials – the former (Growth) are expected to beat the latter (Value) with a probability of 56%

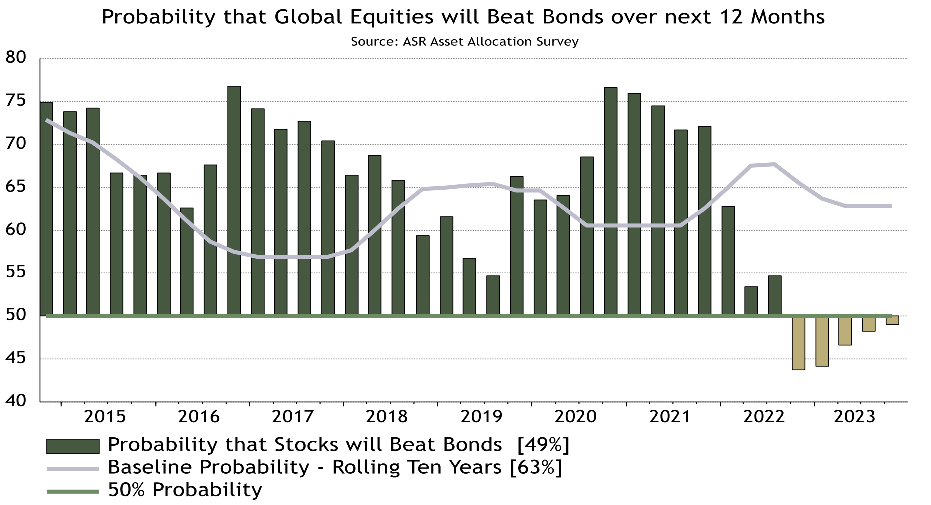
AAS.25: Probability that "Value" will Beat "Growth" …



Source: ASR Ltd. / LSEG Datastream

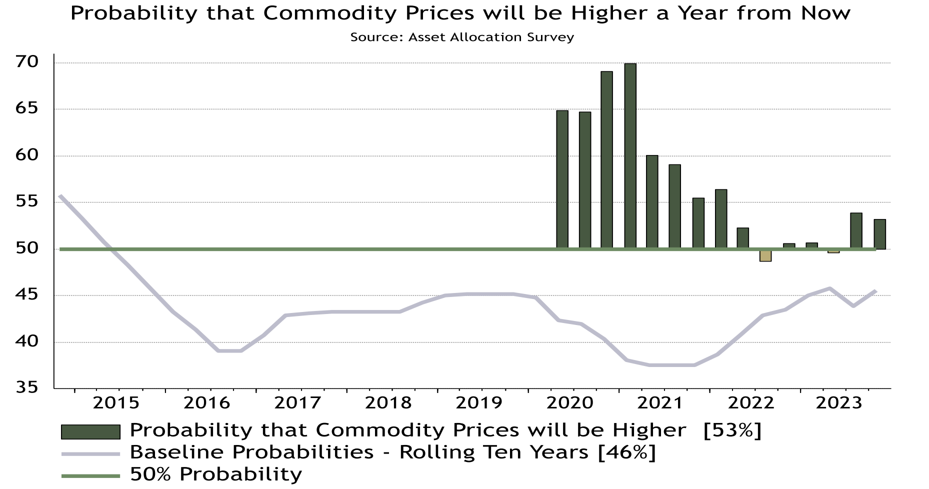
When all is said and done, Asset Allocators find it hard to differentiate between Stock and Bond returns for the coming year.

AAS.26: Probability that Global Equities will Beat Bonds Returns



Source: ASR Ltd. / LSEG Datastream

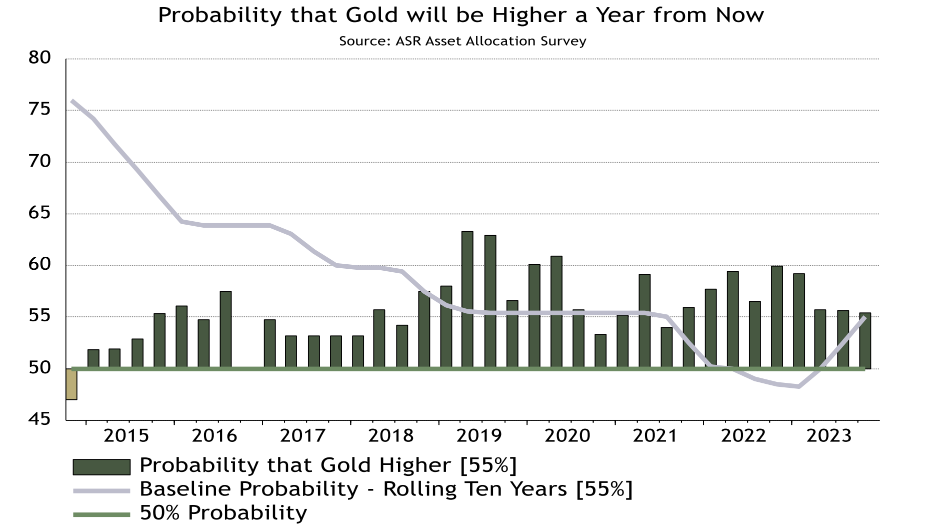
AAS.27: Probability that Commodity Prices will be Higher …



Source: ASR Ltd. / LSEG Datastream

Curiously, Commodity are expected to rise next year despite the disinflationary backdrop

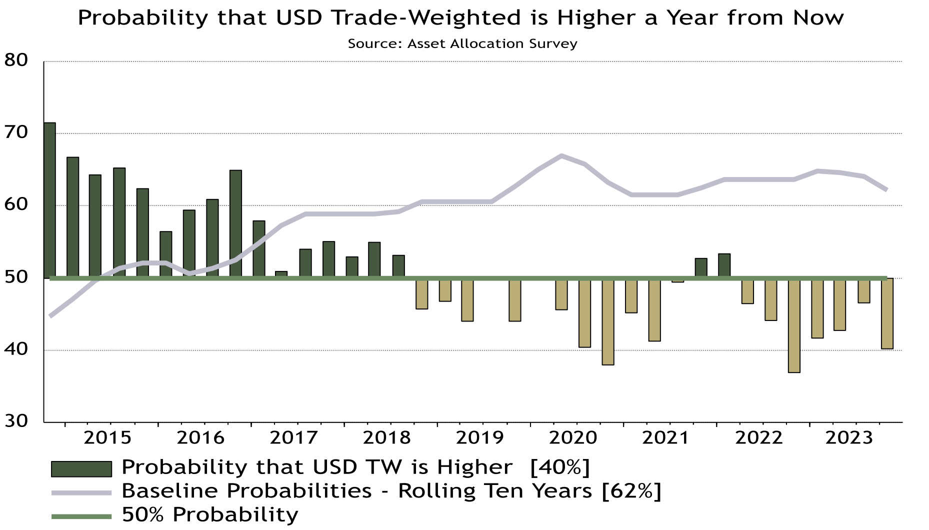
AAS.28: Probability that Gold will be Higher a Year from Now



Source: ASR Ltd. / LSEG Datastream

And there was surprisingly little change in expectations for Gold, despite the buzz around lower interest rates and a weaker dollar

AAS.29: Probability that US Dollar will be Higher a Year from Now



Source: ASR Ltd. / LSEG Datastream

The increased confidence that US short and long term interest rates are headed lower has raised doubts around the dollar's ability to appreciate over the coming year

Bears Outnumbered but have Greater Conviction

Most likely split of panel is into two groups

At first sight, our machine-earning algorithm (see explanation on page 16) has found that, similarly to the last survey, the views of our panellists divide into two groups, which we continue to name Bulls and Bears. However, this quarter the Bulls now form the largest group with 57% of the panel compared with 45% last quarter, reflecting the more optimistic tone of the survey. Although the Bulls are now in the ascendency, the conviction of the Bears is stronger, particularly around the outlook for Credit and Equity asset classes, which dragged our 'Composite Optimism Indicator' (front page chart) downwards.

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 (see AAS 30) to understand their responses better and to give the group an appropriate descriptive name.

The Bears are now the smaller group with 43% of the panel...

Despite taking opposing sides on the debate about whether Business Confidence will rise and whether there will be a Global Recession, there are many questions on which our panel are united. Perhaps because both groups see unemployment rising, they also see inflation falling in the US and around the world, even though neither group expects a sharp move in commodity prices. With inflation under control, both groups are convinced the Federal will cut interest rates and that monetary conditions will ease, leading to lower bond yields.

...but they have a strong conviction that there will be a recession and risk assets will underperform

But it is at this point that the views of the panel starts to diverge. Possibly because of differing views about the lags of monetary policy and their impact on physical assets such as real estate. For these panellists the cuts to interest rates will come too late to save the economy from Recession. So, the Bears expect Corporate Credit to underperform, and for Real Assets to underperform Treasuries. They see corporate earnings falling, so Equities will derate and fall in absolute terms, led by Cyclicals. Apart from Bonds, these panellists want to buy Dividend Yield, Gold, and the Japanese Yen.

In contrast the Bulls might be equally convinced about a soft landing

The Bulls see rate cuts arriving, like the US cavalry, just in time to save the economy, especially the housing market. With activity recovering, corporate earnings are expected to shrug off the rise in unemployment. So, these panellists are more comfortable with Credit outperforming and Global Equities rallying. But they do not have as much conviction about other risk assets outperforming, as the Bears have that these assets will underperform.

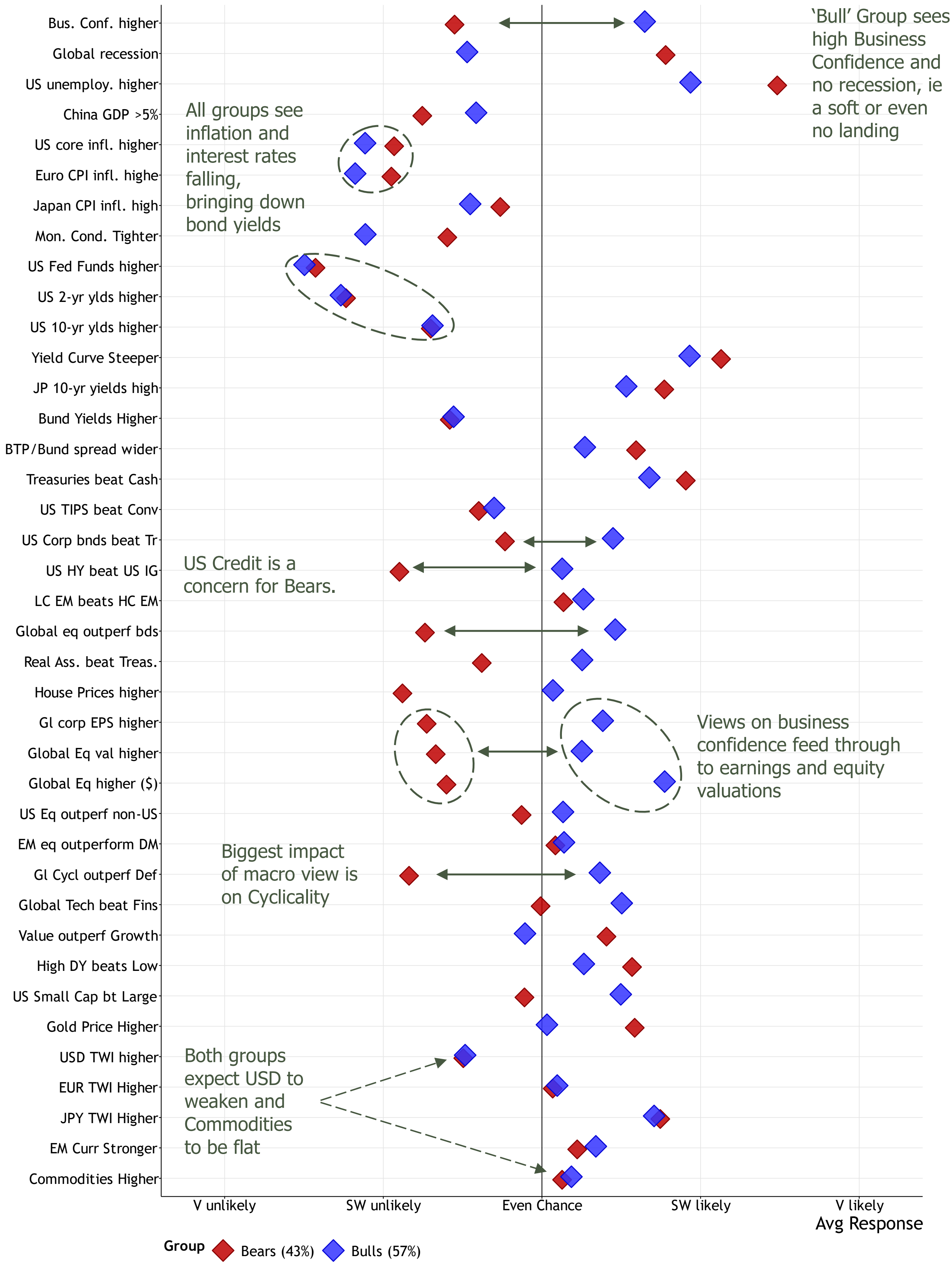
But are not as convinced that risk assets will outperform

This difference in conviction is strongest for Cyclicals vs Defensives, and for High Yield vs Investment Grade. Coupled with this group's neutral position on Equity Valuations being Higher, suggests that the Bulls believe much of the soft landing is already priced into the market.

Possibly because they see this as priced in

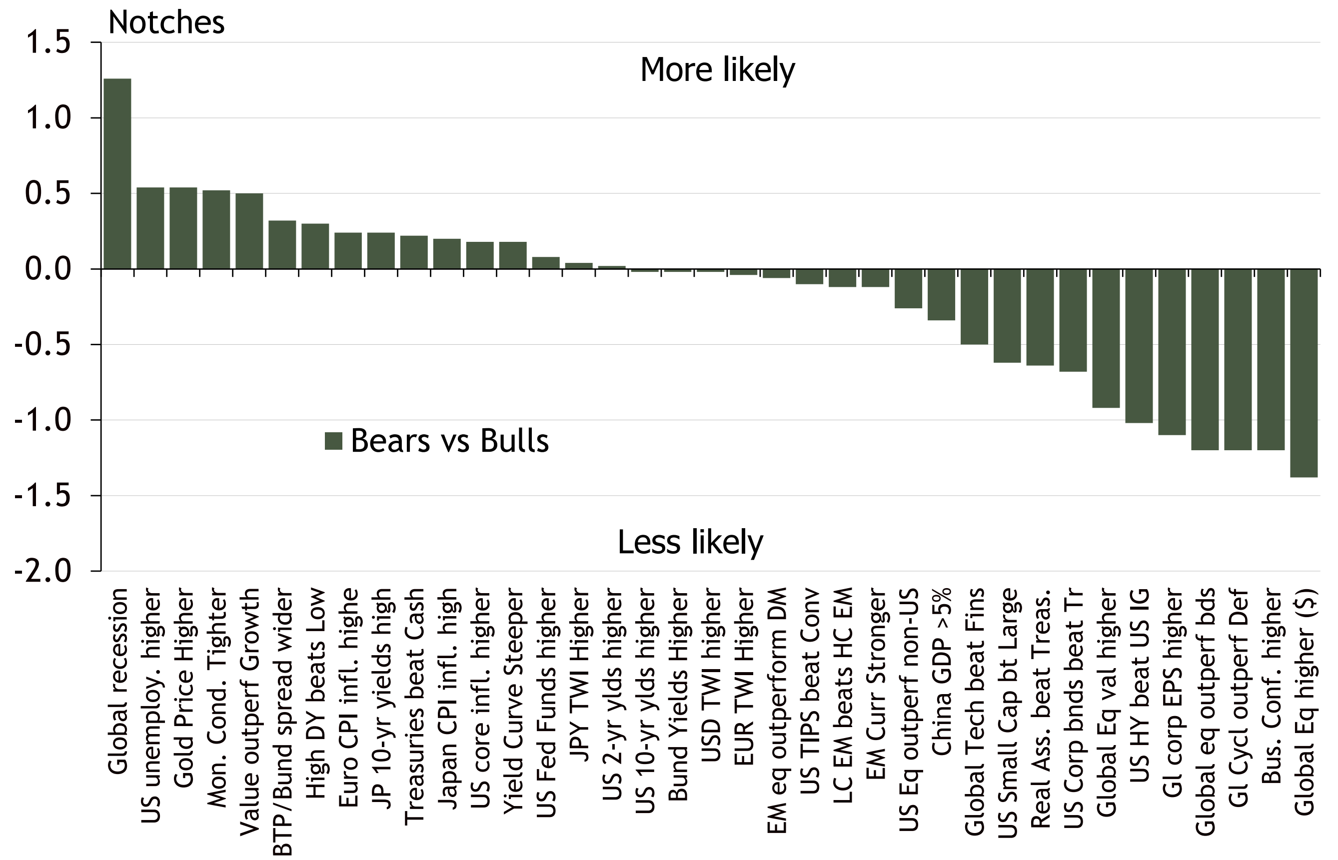
Our group analysis can sometimes reveal possible inconsistencies in the panels' views. What is difficult for us to reconcile in this survey is that despite strongly differing views about Recession and the performance of Cyclicals vs Defensives, both groups (and the panel as a whole, AAS 34) have an ambivalent attitude about EM Currencies, about Emerging Market Equities vs Developed Equities, and about US vs non-US Equities.

AAS.30: Average Response of the Two Groups Identified by our Machine Learning Analysis



Source: ASR Ltd.

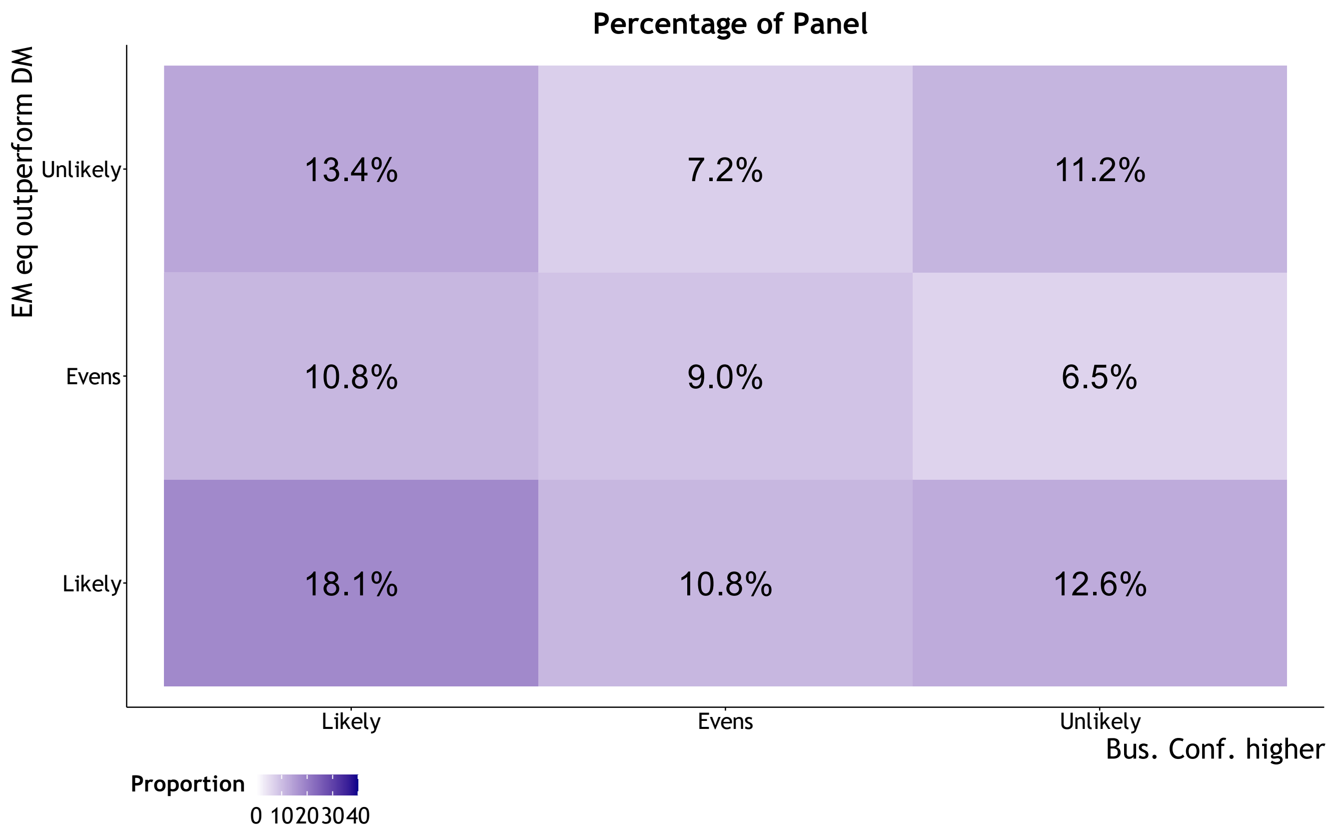
AAS.31: Comparison of 'Bulls' Group (57%) with 'Bears' Group (43%)



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

Source: ASR Ltd.

AAS.32: Lack of Relationship between Responses for Business Conf vs EM Equities outperf. DM



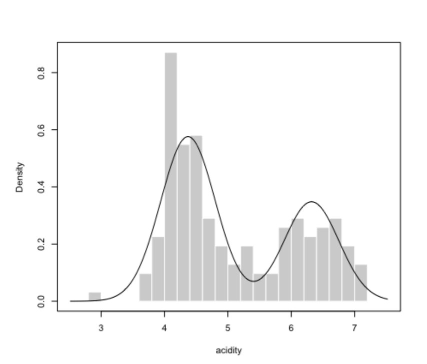
Source: ASR Ltd.

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. 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. 35, 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 how the goodness of fit is.

AAS.33: Fitting two normal distributions to a dataset

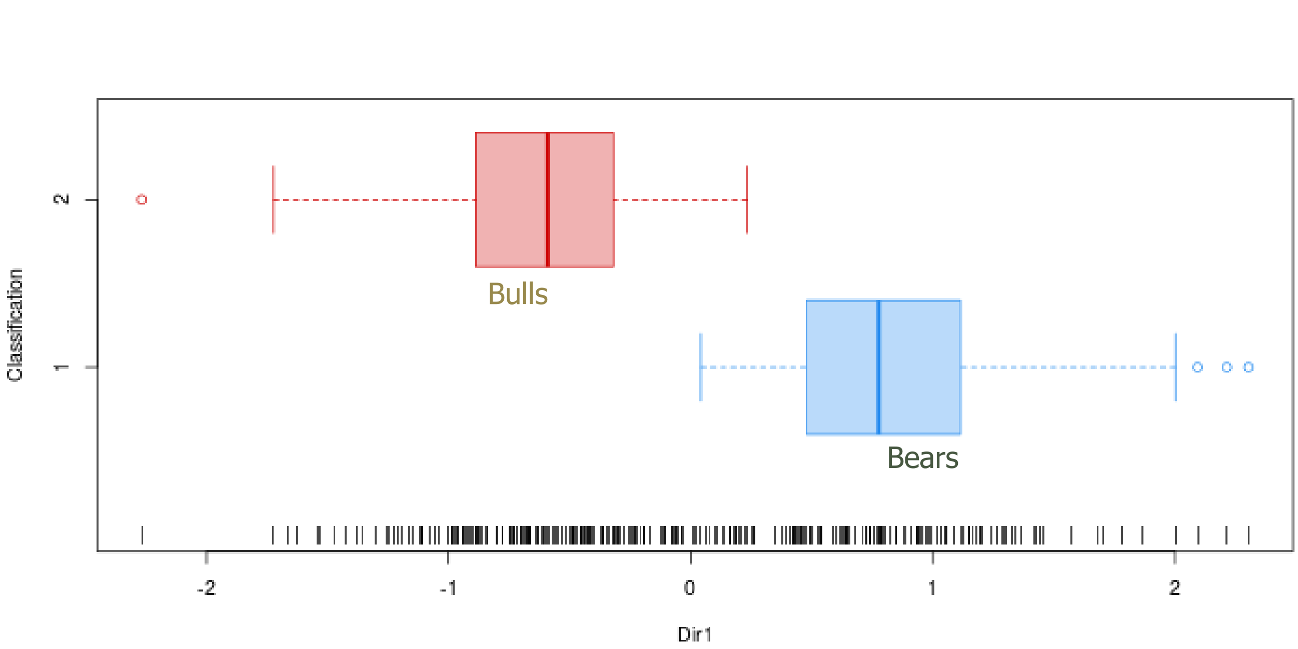


Source: W. Härdle, Fraley & Raftery

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 40 questions to a single scale and plotting distribution of panellists in each group on this scale shows that for this survey there is a clear separation between the two groups (AAS 36)

AAS.34: Clear Division between two groups - after PCA which Reduces Responses to 1 dimension



Source: ASR Ltd.

Consensus Portfolio: Underweight Cash

This '**survey consensus**' portfolio is implied by the average panel response…

The portfolio weights shown in AAS. 36 are our judgement on how the 'average' asset allocator would position their portfolio to match their views for the next 12 months, based on the survey responses. We construct this 'survey consensus' portfolio with the aim of limiting the tracking error to 0%-2.5% relative to a 'SAA benchmark index' as calculated by our DAART risk tool.

…while the portfolio that reflects ASR's asset allocation views is available here (p.26)

This exercise highlights the dilemmas that most investors might be grappling with this quarter. The strong view that 10 year Treasury yields are not going to rise (Implied Probability 36%) implies a large overweight Core Fixed Income. But at the same time the panel is putting a near evens chance (ImPr 49%) that Equities will outperform Bonds, and they expect Equities to be higher in absolute terms (ImPr 54%). This 'everything' rally expectation means the overweight of Bonds cannot be funded by an underweight in Equities, but instead by taking cash in the consensus portfolio down to practically zero.

The 'survey consensus' portfolio would overweight Core Fixed Income...

We suspect that the consensus asset allocator would want to be holding more equities than the benchmark but if they are constrained by no leverage mandate, then they would lack a funding source for an overweight equities position. So, involuntarily asset allocators are seeing their tracking error fall.

...funded from having zero cash

Within the Core Fixed Asset detail, we would expect the consensus allocator to be overweight Treasuries and Bunds but still underweight JGBs and TIPs.

With no ability to gear up, it would have only a benchmark weight in equities

Meanwhile, the responses to the questions on US vs non-US equity (ImPr 50%) and EM vs DM equity (ImPr 52%) suggest that the allocator would be close to their regional equity benchmarks.

It is likely to be slightly underweight Extended Fixed Income, due to the panel's concerns about High Yield

Within the Extended Fixed Income sleeve, we expect consensus asset allocator would be overweight Investment Grade, funded by underweights in High Yield and EM hard currency bonds.

AAS.35: Sensitivity of 'Implied Consensus Portfolio'

Net Change (PF/Index)	Correlation	Beta
S&P 500	1.00	0.98
US 10y Yield	-0.39	-0.38
US 10yr Inflation SWAPs	0.97	0.96
Gold	1.08	1.07
Oil	1.01	0.99

Portfolio	Correlation	Beta
S&P 500	0.90	0.41
US 10y Yield	0.01	0.07
US 10yr Inflation SWAPs	0.28	4.41
Gold	0.19	0.11
Oil	0.33	0.07

Source: ASR Ltd.

AAS.36: Implied Consensus Asset Allocation Portfolio

Portfolio	AAS Consensus	Date	08-Dec-2023

High Level Asset Allocation

	Index Weight	Portfolio	Deviation	Asset Class Risk	Intra-Asset Class Risk	Total Risk
Global Equities	47.5	47.5	0.0	0.00	0.09	0.09
Core Fixed Income	25.0	27.8	2.8	0.10	0.07	0.17
Extended Fixed Income	15.0	14.5	-0.5	0.02	0.05	0.07
Alternatives	10.0	10.0	0.0	0.00	0.17	0.17
Cash (US 3m T Bills)	2.5	0.3	-2.3	0.01	0.00	0.01
Total	**100.0**	**100.0**	**0.0**	**0.09**	**0.23**	**0.32**
				0.28	*0.72*	

Asset Class Detail

Global Equities	**Index Weight**	**Portfolio**	**Deviation**	**Active Risk**	**Annualised Vol**	**Ann Return**
US	27.9	28.4	0.5	0.09	17.69	11.84
Eurozone	6.9	6.5	-0.4	0.08	19.88	4.92
UK	2.2	2.1	-0.1	0.02	19.08	2.51
Japan	3.3	3.4	0.1	0.02	17.87	5.06
Australia	1.5	1.4	-0.1	0.02	20.21	4.19
EM	5.7	5.7	0.0	0	15.91	2.42
Total	**47.5**	**47.5**	**0.0**	**0.09**	**14.58**	**8.64**

Core Fixed Income	**Index Weight**	**Portfolio**	**Deviation**	**Active Risk**	**Annualised Vol**	**Ann Return**
US Treasuries	10.0	13.5	3.5	0.17	4.78	0.97
Bunds	4.0	4.8	0.8	0.04	5.02	1.55
JGBs	5.0	4.0	-1.0	0.02	2.34	1.99
Gilts	1.5	1.5	0.0	0	9.28	1.13
BTPs	2.0	2.0	0.0	0	6.66	3.60
TIPs	2.5	2.0	-0.5	0.03	5.44	2.17
Total	**25.0**	**27.8**	**2.8**	**0.17**	**3.89**	**1.50**

Extended Fixed Income	**Index Weight**	**Portfolio**	**Deviation**	**Active Risk**	**Annualised Vol**	**Ann Return**
IG Corporates	8.0	9.0	1.0	0.05	5.38	2.70
HY Corporates	3.0	2.0	-1.0	0.05	5.46	4.23
EMD Hard External	2.0	1.5	-0.5	0.03	6.23	2.79
EMD Local	2.0	2.0	0.0	0	6.53	1.00
Total	**15.0**	**14.5**	**-0.5**	**0.07**	**4.51**	**2.69**

Alternatives	**Index Weight**	**Portfolio**	**Deviation**	**Active Risk**	**Annualised Vol**	**Ann Return**
Gold	2.0	2.5	0.5	0.07	14.61	4.08
GSCI Commodities	2.0	2.5	0.5	0.11	22.49	-3.62
Listed Infrastructure	3.0	2.5	-0.5	0.08	15.12	5.56
Listed Real Estate	3.0	2.5	-0.5	0.08	15.32	3.52
Total	**10.0**	**10.0**	**0.0**	**0.17**	**11.82**	**2.39**

	Annualised Vol	**Ann Return**
Total Index	**8.20**	**5.20**
Total Portfolio	**8.08**	**5.15**

Source: ASR Ltd.

AAS.37: Summary of Responses – 2023 Q4

	Proportion of Panel					Implied
(%)	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Probability
Business Confidence higher	8	34	27	24	7	53
Global recession within 12 months	7	31	27	32	3	51
US unemployment higher	35	53	7	4	1	73
China Real GDP Growth >5%	2	12	28	44	14	39
US core inflation higher	1	6	12	54	29	29
Euro CPI inflation higher	0	4	15	51	30	28
Japan CPI inflation higher	2	17	35	38	10	43
Monetary Conditions Tighter	3	9	10	51	27	32
US Fed Funds rate higher	0	2	4	39	55	21
US 2-yr yields higher	1	3	8	46	42	25
US 10-yr yields higher	2	11	23	44	20	36
Yield Curve Steeper	32	46	15	6	1	70
JP 10-yr yields higher	15	47	26	11	1	63
Bund Yields Higher	2	11	28	44	14	39
BTP/Bund spread wider	5	46	34	12	2	58
Treasuries beat Cash	23	46	20	10	1	66
US TIPS beat Conv	2	17	31	43	7	43
US Corp bnds beat Treas	5	36	31	26	2	53
US HY beat US IG	3	22	26	41	9	44
Loc Cur EM bonds beat Hard Cur	5	37	35	21	3	54
Global eq outperf bonds	6	25	32	32	5	49
Real Assets beat Treasuries	3	33	28	30	6	50
House Prices higher	3	21	26	39	11	43
Gl corp earnings higher	4	31	28	29	9	48
Global equity val higher	3	24	33	35	5	47
Global equities higher ($)	6	38	30	22	5	54
US eq outperform non-US	5	29	33	28	4	50
EM eq outperform DM	4	38	26	30	2	52
Global cycl outperf def	5	25	27	39	5	47
Global Tech beat Fins	9	35	33	20	3	56
Value outperf Growth	7	30	35	26	3	52
High DY beats Low	8	43	31	16	1	58
US Small Cap beat Large	9	34	31	23	3	55
Gold Price Higher	11	33	32	21	3	55
USD TWI higher	1	13	30	47	9	40
EUR TWI Higher	4	30	40	26	2	52
JPY TWI Higher	18	48	24	9	1	65
EM Curr Stronger	5	37	40	16	2	56
Commodities Higher	6	29	42	22	2	53

Source: ASR Ltd.

Our 277 panellists work in teams that manage over $10trillion of assets. The fieldwork for the survey was conducted through an on-line survey between 30th November to 7th December 2023.

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.