ABSOLUTE STRATEGY RESEARCH

ASR Asset Allocation Survey

4th March 2025

US Assets Lose Post-Election Lustre

…In What is Otherwise a 'Risk-On' 'Business-as-Usual' Allocation

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Froth comes off US Assets as Investors Trim Post-election Euphoria

The biggest shift over the quarter was a 19%-point decline in the probability of US equities outperforming non-US (international) equities. Investors were also USD negative. And US Big Tech AI narrative has been disturbed by DeepSeek's arrival.

An 'Equity-Bullish' 'Risk-On' 'Business-as-Usual' Asset Allocation

Investors expect Equities, Real Assets, and Corporate Credit to outperform US Treasuries over the next 12 months in the absence of a Global recession. But this business-as-usual allocation does not appear to have discounted a tariff shock.

Panel debates whether to worry about stagflation

This might be a positive survey, but the division of groups by our cluster analysis reveals strong debates within the panel. 45% of panellists worry that US inflation will rise and business confidence fall, disrupting equity valuations and prices.

RELATED RESEARCH:

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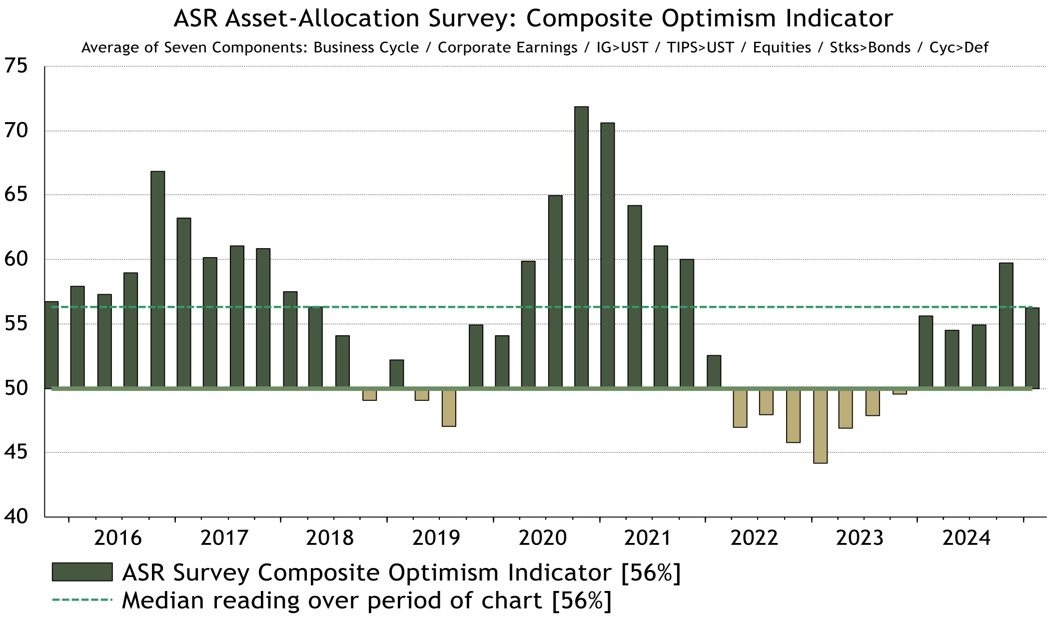
2024 Q1 Survey: The Bears Capitulate, 27th Mar 2024

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

Key Chart: ASR's "Composite Optimism Indicator" Signals Improvement



Source: ASR Ltd.
Based on 284 respondents overseeing over $13trn AUM (Fieldwork: 20th - 26th February 2025)

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 10 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 was conducted between 20th and 26th Feb 2025.
- The panel comprised 284 responses, overseeing $13 trn AUM.

Key Takeaways from the Latest Survey

There have been some big changes in investor expectations between Trump's election victory and one month into his new Administration

1. This is an important survey because it shows how investor expectations have changed between President Trump's election victory in November and the end of his first month in office.
2. Looking at Chart AAS 1, there have been some big shifts in implied probabilities (typically a 5%+ shift in probabilities represents a significant change in expectations). Some of the biggest changes relate to FX: investors have become more bearish of the USD and more bullish of EUR and JPY.

Big change in FX perceptions

And a big change in the preference for US Equities over non-US (international) Equities

3. But the biggest shift was a 19% point decline in the probability that US equities were going to outperform non-US (international) equities over the next 12 months. This is consistent with the more cautious stance on USD. This probably reflects four drivers. First, the market has already begun to move against US equities, which had already lagged the international peers by 3% between the two fieldwork periods. Secondly, it represents an unwind of some of the pro-business euphoria in the immediate aftermath of Donald Trump's victory. Thirdly, investors have become more confident that the US unemployment rate will be higher a year from now, in part due to government job shedding and cuts in public spending. And fourthly, there is the impact of China's DeepSeek on the US "AI" strategy. This is also echoed in a more negative attitude towards equity valuations, towards Bitcoin, and towards Global Tech versus Global Financials.

More negative on the USD, on Tech, on Bitcoin, and on Valuations

Premature to argue that this marks a repudiation of US exceptionalism … looks more like an unwinding of the post-election euphoria

4. Does this mark a repudiation of US exceptionalism by asset allocators? We think it is too early to draw that conclusion. But what we can say is that it appears that investors have stepped back from the post-election euphoria around US assets.
5. Moreover, we should not let this shift in the relative attractiveness of US assets distract us from what is in essence quite a positive survey. While our "Composite Optimism Indicator" (see the front-page chart) dropped slightly over the past quarter, it remains well above 50 and in line with the median reading over the past decade. Investors remain "risk on".

Important to remember that this is still quite a positive survey. Investors remain "risk on"

Recession risks remain low (despite some ambivalence around the business cycle), less negative on China, and upbeat about the prospects for corporate earnings …

6. While they remain ambivalent about the direction of the global business cycle, there is not enough concern to make our panel change its recession probability which remains low and in line with the median reading of the past decade. While investors are more worried that the US unemployment rate will be higher a year from now, they are less negative towards China. They still think China is unlikely to deliver 5% GDP growth, but they are not as sceptical as they were six months ago. And importantly, asset allocators remain upbeat about the prospects for corporate profits, with a 65% probability of higher earnings

Investors still concerned that core inflation is becoming sticky, especially in the US

Preference for Linkers over Conventionals

Still expect an easing of Global Monetary Conditions and lower US rates at the front end of the curve

But less convinced that the US curve will turn more positive

Our panel positioned for a “risk-on” asset allocation

They remain bullish of Equities on a 12-month view, underpinned by the prospects for corporate earnings, and expect Stocks to outperform Bonds

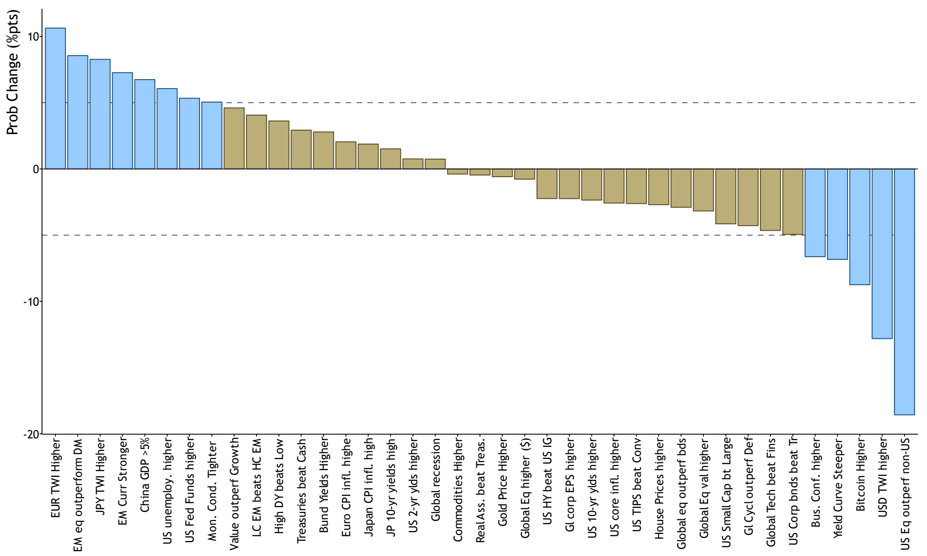
This is very much a ‘business as usual’ asset allocation … but this does not look like a ‘business as usual’ Administration

If US does go ahead with aggressive tariff hikes, then this could have a serious negative impact on growth, inflation, trade, and corporate earnings (especially for US companies with cross-border supply chains). There is little in this survey to suggest that those risks are discounted.

Investors seem under-prepared for Scott Bessent’s [‘grand global economic reordering’](#)

7. Investors share our view that core inflation is turning sticky, with a 55% probability that US core inflation will be higher a year from now. There is less concern about the inflation outlook in the eurozone, but investors are most worried about Japan. They still expect US inflation-linked TIPS to outperform conventional Treasuries – which is consistent with their positive corporate-earnings outlook, and with their expectations that Commodity prices will be higher a year from now.
8. Investors still believe that Global Monetary Conditions will ease over the next 12 months, in part due to lower rates at the front end of the curve. But expectations of lower rates are more muted, and investors no longer as convinced that the US yield curve will turn more positive over the coming year. It is also striking how our panel is ambivalent towards the outlook for Treasuries and Bunds. In contrast, investors expect Japanese JGB yields to head higher (63% probability).
9. <u>This is a “risk-on” survey</u>. Asset allocators expect Treasuries to outperform Cash (56% probability). They expect Corporate Credit to outperform Treasuries (54%) – and at the margin they also expect High Yield to outperform Investment Grade (52%). They expect Real Assets to outperform Treasuries (62%), thanks in part to an expectation of higher Commodity prices (59%).
10. <u>The prospect of stronger corporate earnings supports their view that Global Equities will be higher a year from now</u> (60% probability), despite a more cautious stance on Equity valuations as investors digest the impact of DeepSeek on US ‘Big Tech’. Given the low probability of a Global recession (36%), it is no surprise that asset allocators expect Global Equities to outperform Global Bonds (61%).
11. <u>This is very much a ‘business-as-usual’ asset allocation; but this is not a business-as-usual US Administration</u>, with threats of 25% tariffs on Canada and Mexico, and another 10% to come on China. The potential impact on growth, inflation, trade, and corporate earnings is notable by its absence from the survey.

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



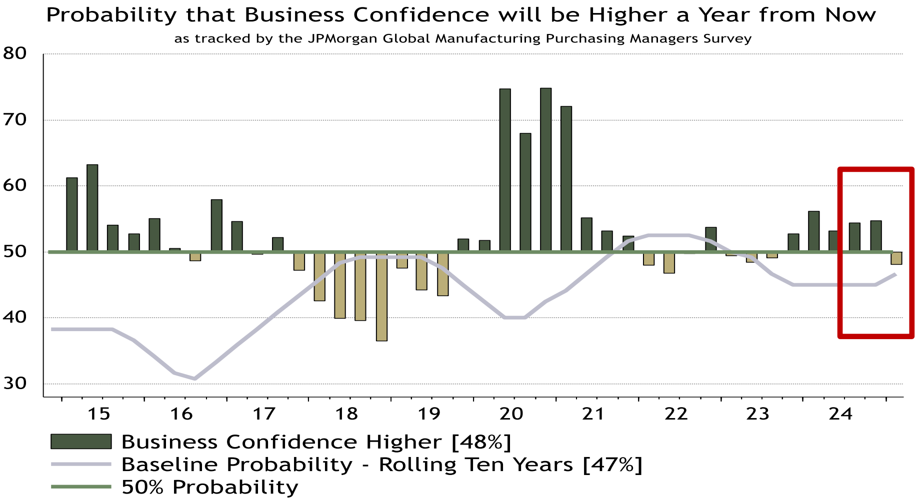
Source: ASR Ltd.

Macro Assumptions

Asset allocators are marginally less confident of an upturn in the Global business cycle than they were three months ago.

This is despite less pessimism about the likelihood of China delivering 5% GDP growth over the coming year (the probability of that happening is put at 43%)

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

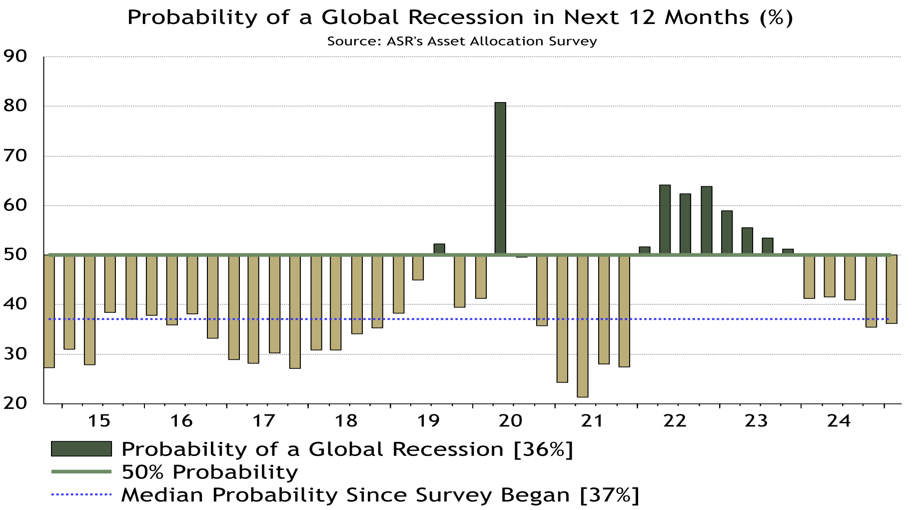


Source: ASR Ltd. / LSEG Datastream

Despite a marginally less positive view of the Global business cycle, there has been very little change in the likelihood of a Global recession (which is still in line with the median reading of the past decade).

It doesn't look like investors have discounted the consequences of a Global trade war. Talk of higher tariffs does not seem to have rocked growth expectations

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

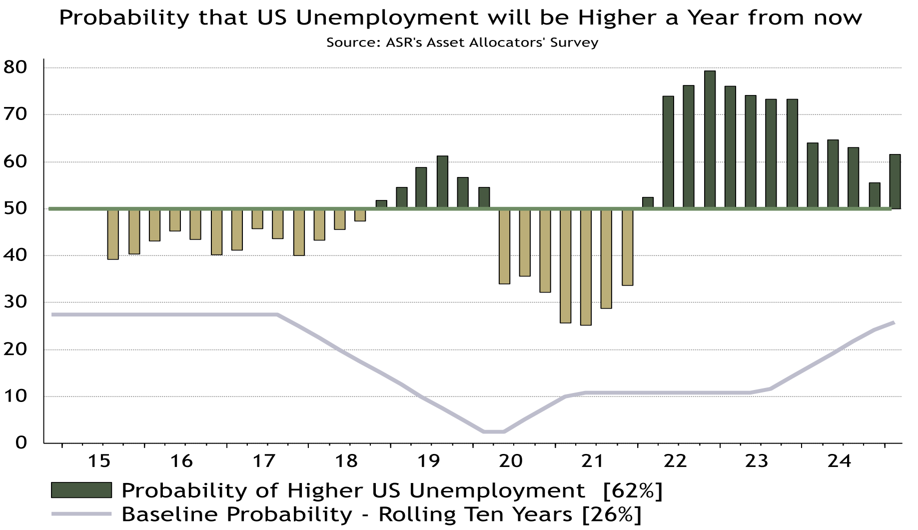


Source: ASR Ltd. / LSEG Datastream

However, there is increased concern that the US unemployment rate a year from now, with an implied probability of 62%.

This probably reflects a belief that Elon Musk will be successful in cutting the number of Federal Government employees

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

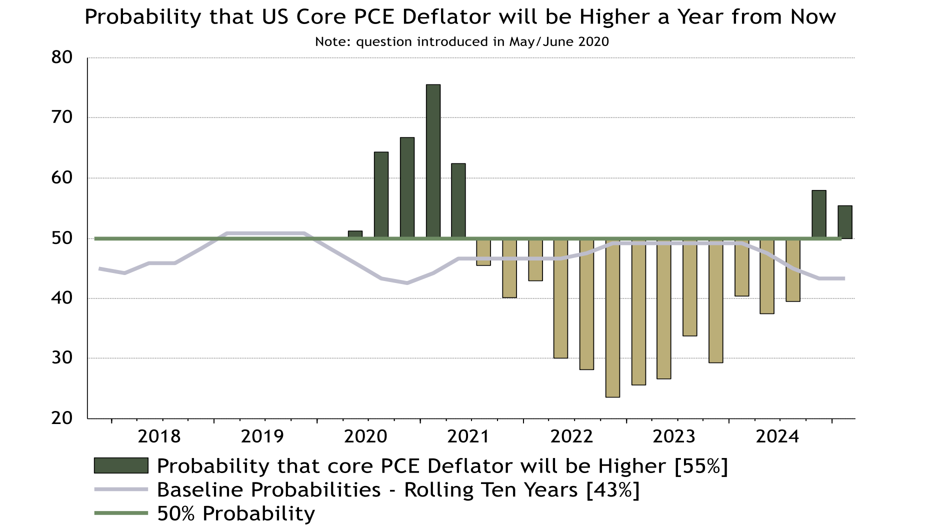


Source: ASR Ltd. / LSEG Datastream

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

With US core PCE inflation hovering around 2.5%, asset allocators believe that there is a 55% probability that it will likely be higher a year from now.

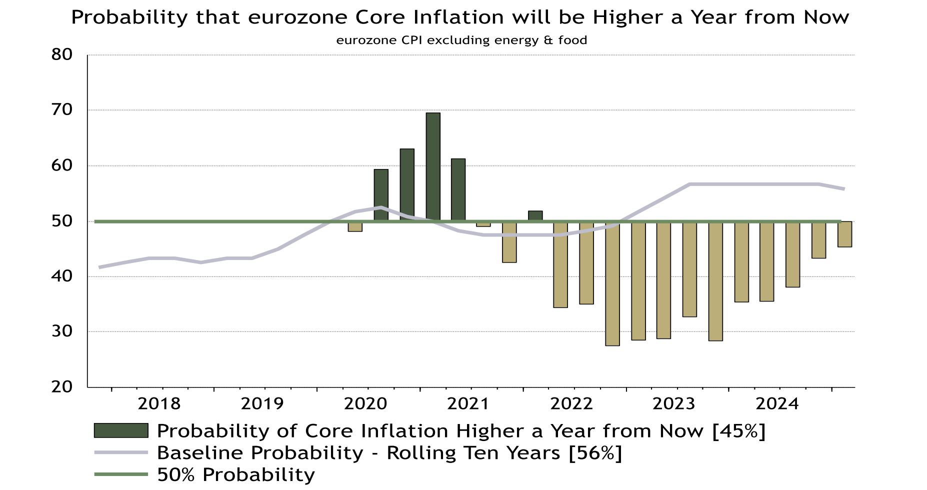
While it is hard to be sure, it is not obvious that the impact of higher tariffs on US imports has been factored into these expectations



Source: ASR Ltd. / LSEG Datastream

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

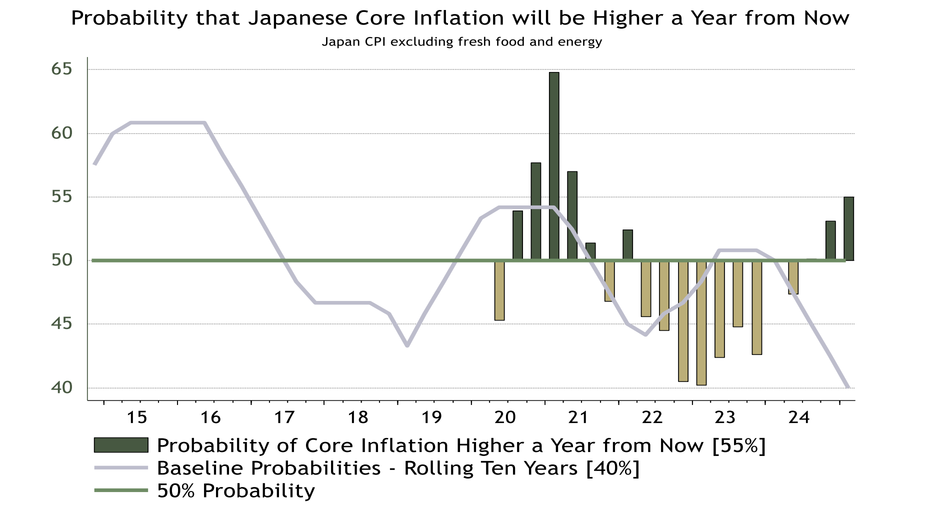
Investors are slightly more relaxed about inflation pressures in the eurozone, where the probability of higher core inflation a year from now remains below 50%



Source: ASR Ltd. / LSEG Datastream

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

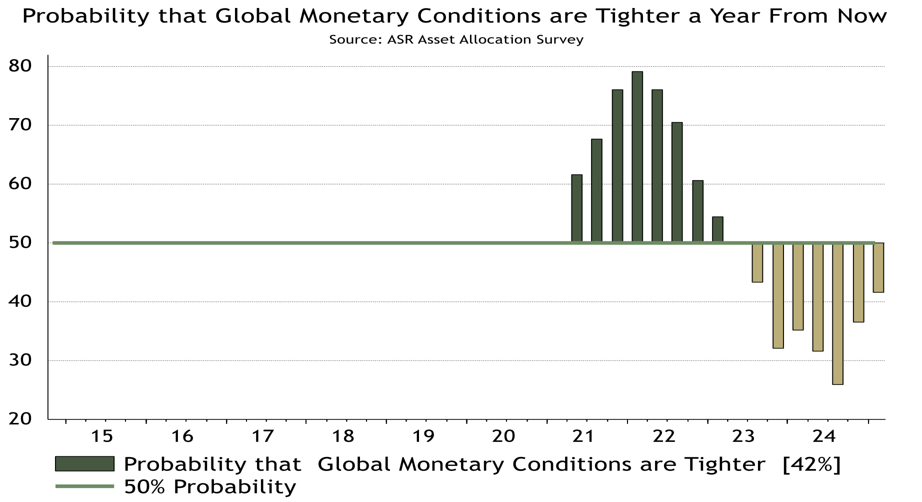
January's 4% inflation 'print' in Japan probably explains the increased conviction that the BoJ's preferred inflation measure would be higher a year from now. This would also support the notion that BoJ policy normalisation has further to run



Source: ASR Ltd. / LSEG Datastream

For choice, investors still think it is unlikely that Global monetary conditions will be tighter a year from now. However, their conviction has waned over the past 6 months

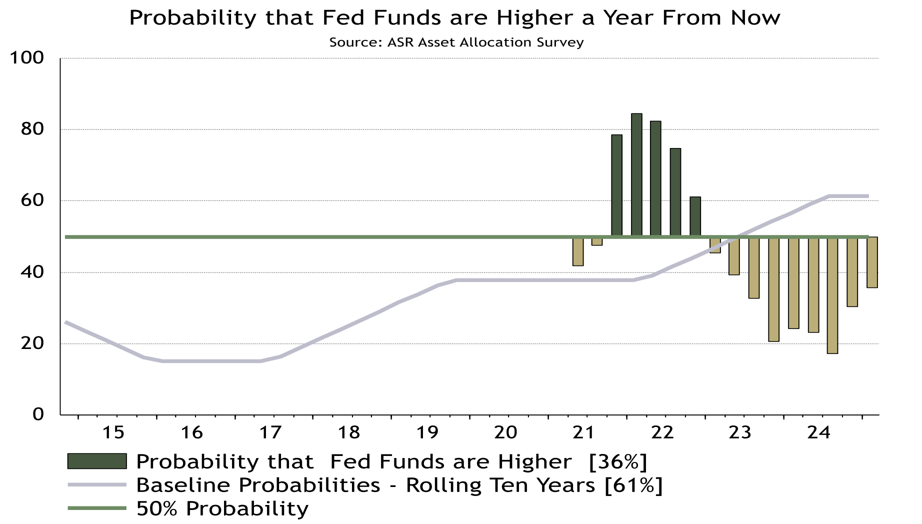
AAS. 8: Probability that Global Monetary Conditions will be Tighter



Source: ASR Ltd. / LSEG Datastream

Investors still think it unlikely that US Fed Funds will be higher a year from now – but that view is now held with slightly less conviction than three months ago

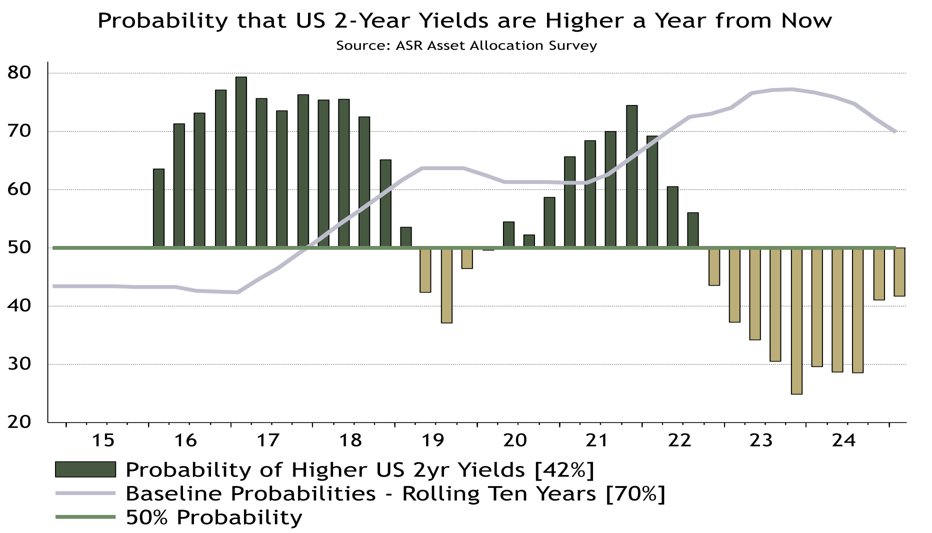
AAS. 9: Probability that US Fed Funds Rate will be Higher



Source: ASR Ltd./ LSEG Datastream

Investors also still think that it is unlikely that two-year yields will be higher a year from now

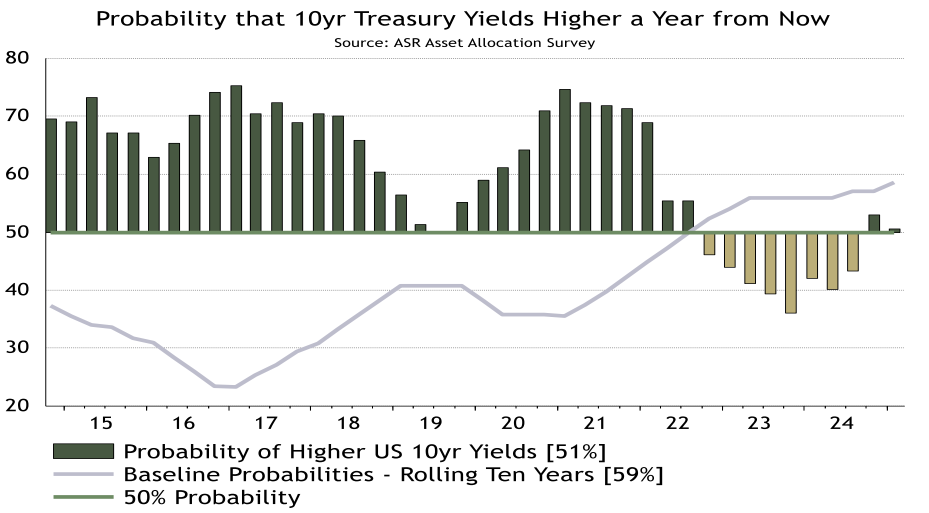
AAS.10: Probability of Higher 2yr Treasury Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

Interestingly, asset allocators are ambivalent about whether US 10yr yields will be higher or lower in 12 months' time

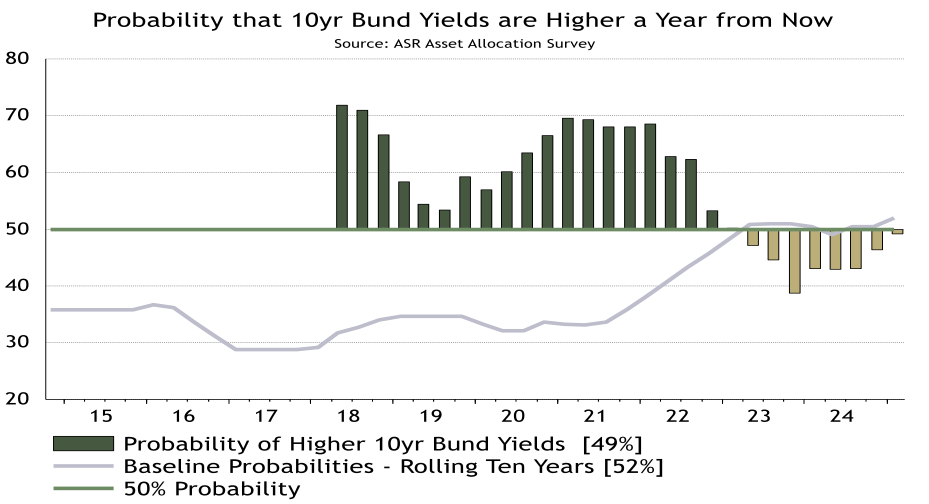
AAS. 11: Probability of Higher 10yr UST Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

Similarly, they are unsure about where Bund yields will be a year from now

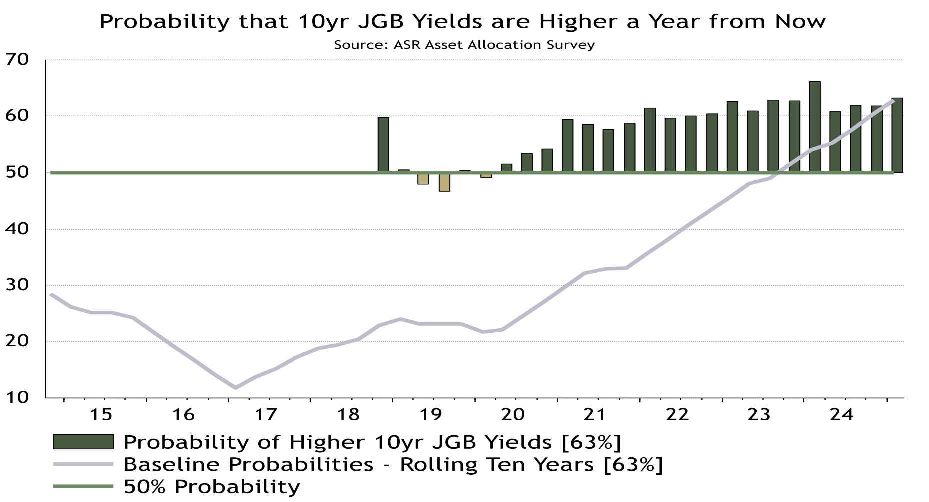
AAS. 12: Probability of Higher 10yr Bund Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

JGB yields have moved higher over the past three months, but asset allocators are placing a relatively high 63% probability that yields will be higher still a year from now

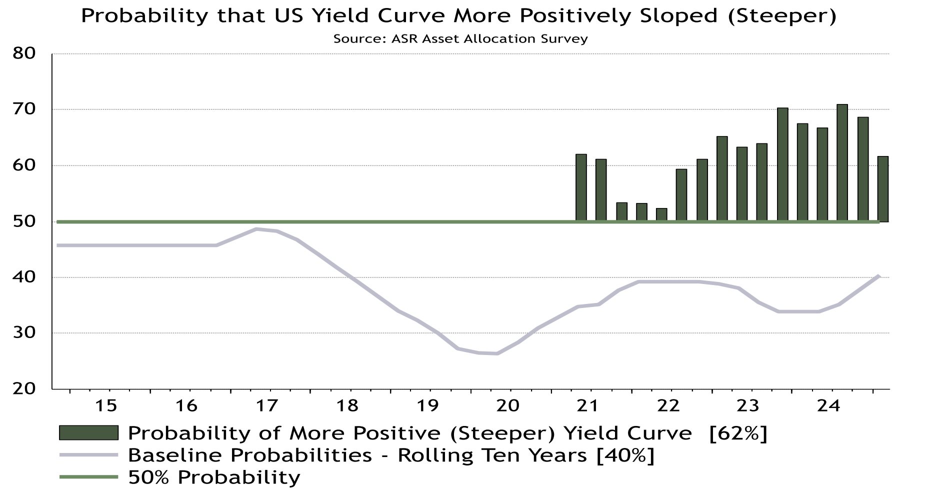
AAS. 13: Probability of Higher 10yr JGB Yields a Year from Now



Source: ASR Ltd. / LSEG Datastream

There has been a major shift in expectations for the US yield curve. Six months ago, investors were placing a 71% probability that the curve would steepen; that has now fallen to 62%.

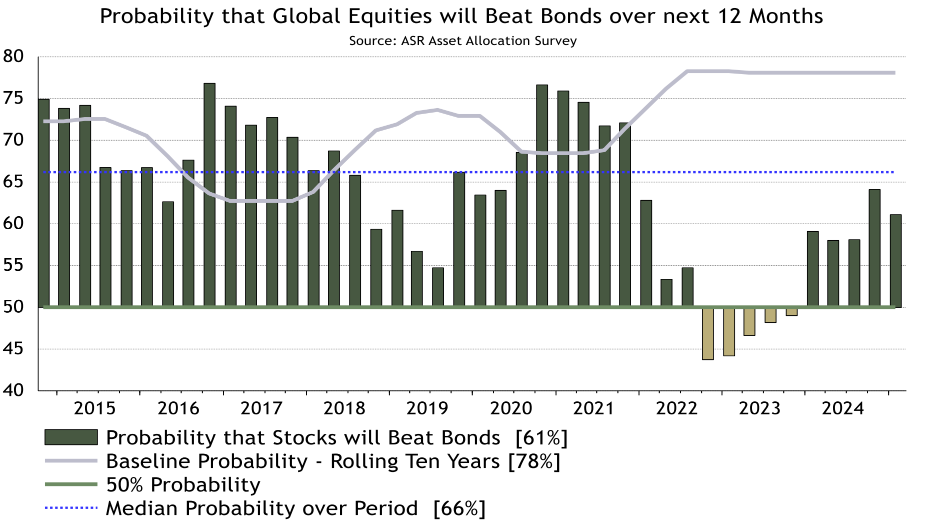
AAS.14: Probability that US Yield Curve will be Steeper



Source: ASR Ltd.

Asset allocators continue to believe that Global Equities will beat Bonds over the coming year. The conviction is slightly lower than the median reading over the past years, but it is consistent with the positive outlook for corporate earnings and the low level of recession risk

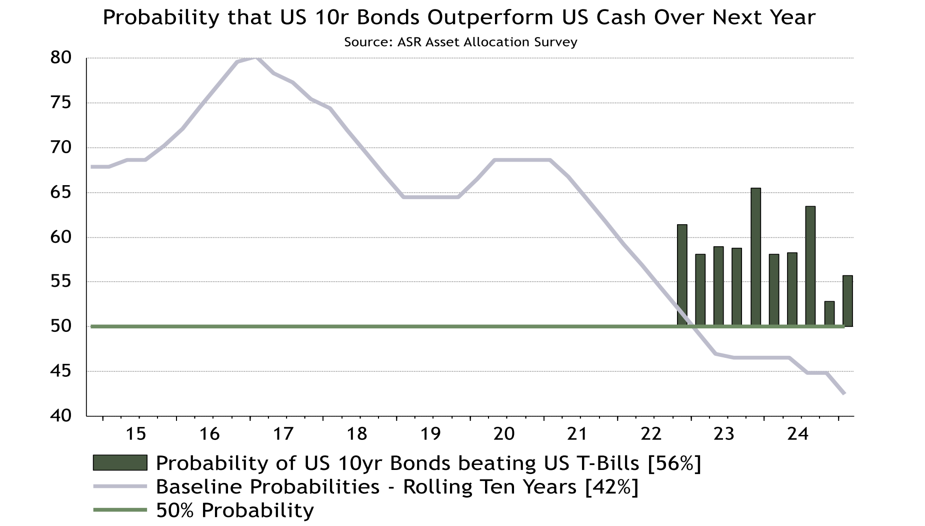
AAS.15: Probability that WD Equities will Outperform WD Bonds



Source: ASR Ltd. / LSEG Datastream

Asset allocators continue to believe that 10yr Treasuries are likely to outperform US T-bills over the next 12 months

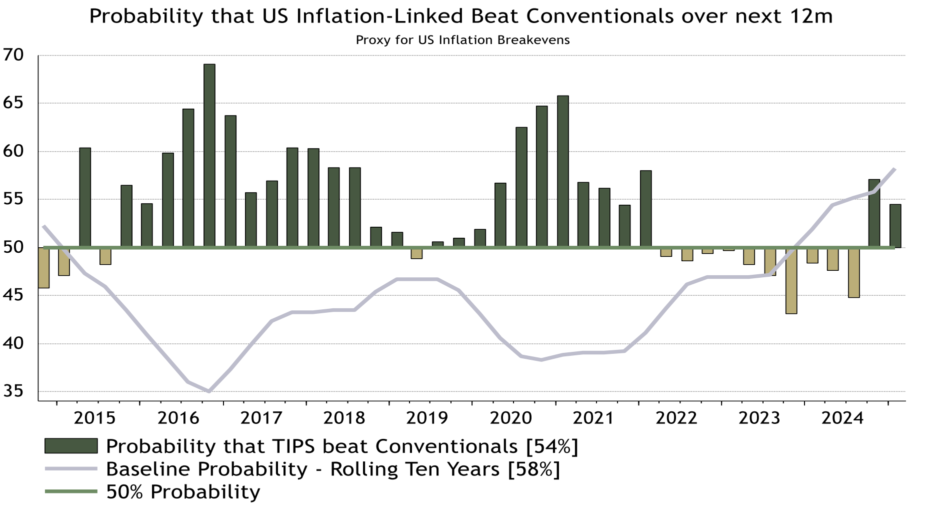
AAS.16: Probability that US Treasuries Will Outperform US Cash



Source: ASR Ltd. / LSEG Datastream

There is still a preference for Inflation-Linked bonds over Conventional issues. This is consistent with investors' perceptions that US core inflation is likely to remain 'sticky'. It is also consistent with the optimism around corporate earnings growth

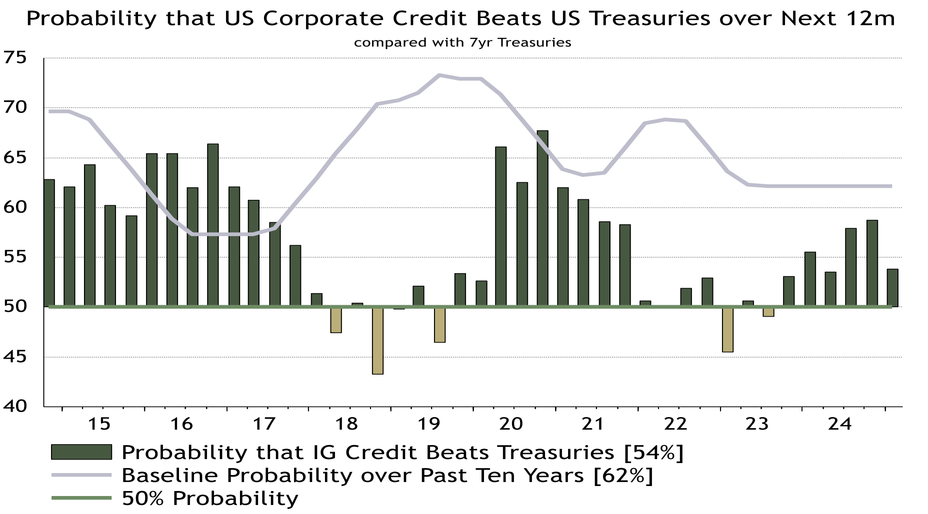
AAS.17: Probability that US TIPS Will Beat Conventionals



Source: ASR Ltd. / LSEG Datastream

The latest survey saw a setback to the optimism around US Investment Grade Corporate Credit. Investors still think that it can beat the returns from Treasuries, but with lower conviction

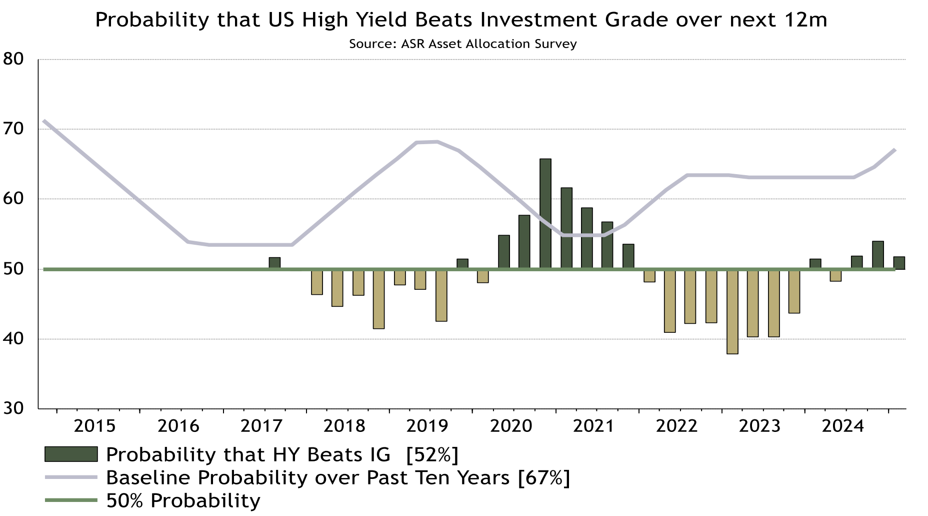
AAS.18: Probability that US IG Credit will Beat Treasuries



Source: ASR Ltd. / LSEG Datastream

There's not a great deal of conviction around US High Yield – but that may in part be because investor interest has shifted to Private Credit

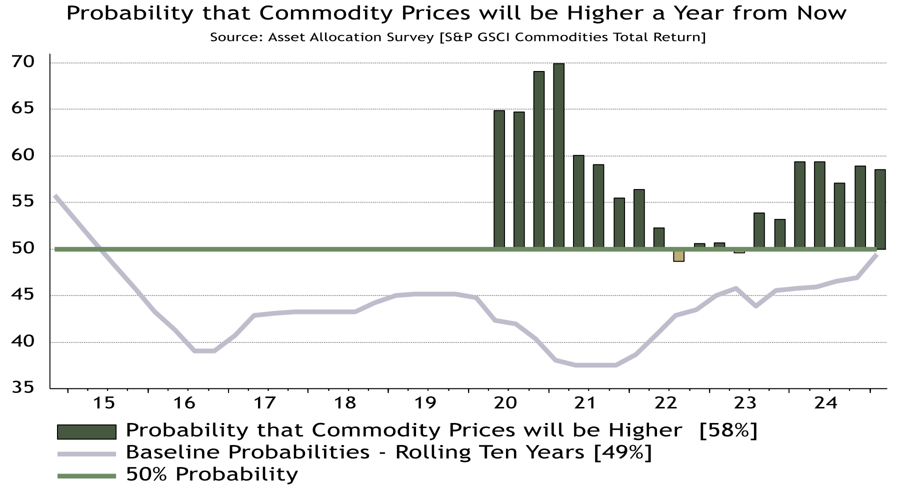
AAS.19: Probability that US HY Credit will Beat US IG Credit



Source: ASR Ltd. / LSEG Datastream

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

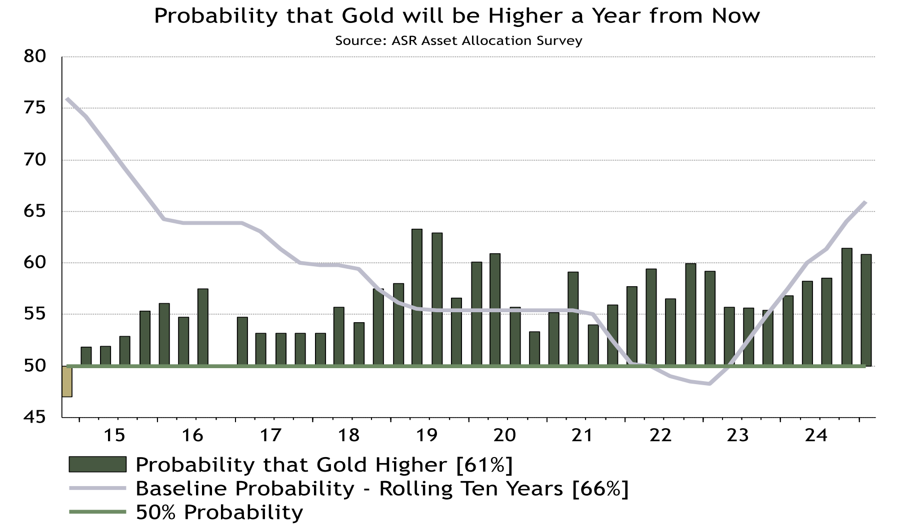
Asset allocators remain well-disposed towards Commodities, with a 58% probability that they will be higher a year from now. This is despite an 8% surge in the S&P GSCI Commodities index since the last survey.



Source: ASR Ltd. / LSEG Datastream

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

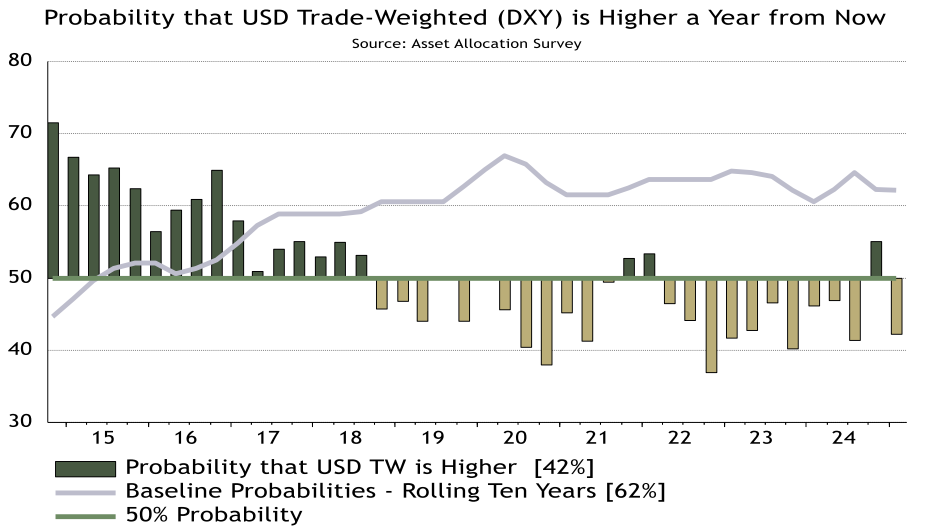
Investors still expect Gold to make further gains over the coming year – despite gaining 12% since the previous survey. Interestingly, at least 45% of our panel believe that Gold is likely outperform Bitcoin – (typically associated with a defensive rotation)



Source: ASR Ltd. / LSEG Datastream

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

There has been a notable deterioration in investors' perception of the USD trade-weight exchange rate (DXY). While this is a big change on the quarter (to the benefit of the euro), the level of USD bearishness is not especially unusual.

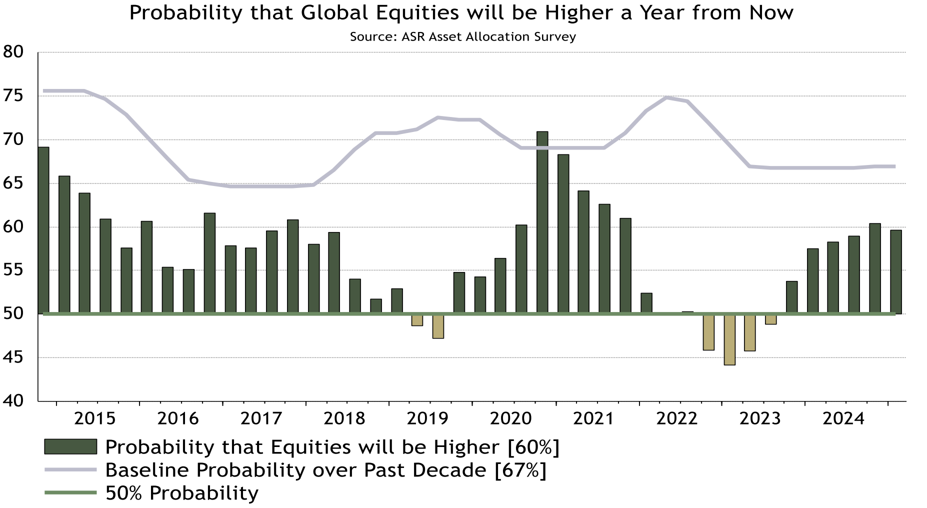


Source: ASR Ltd. / LSEG Datastream

Equity Markets

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

Asset allocators continue to be positive about the outlook for Global Equities, with a 60% probability that that they will be higher a year from now



Source: ASR Ltd. / LSEG Datastream

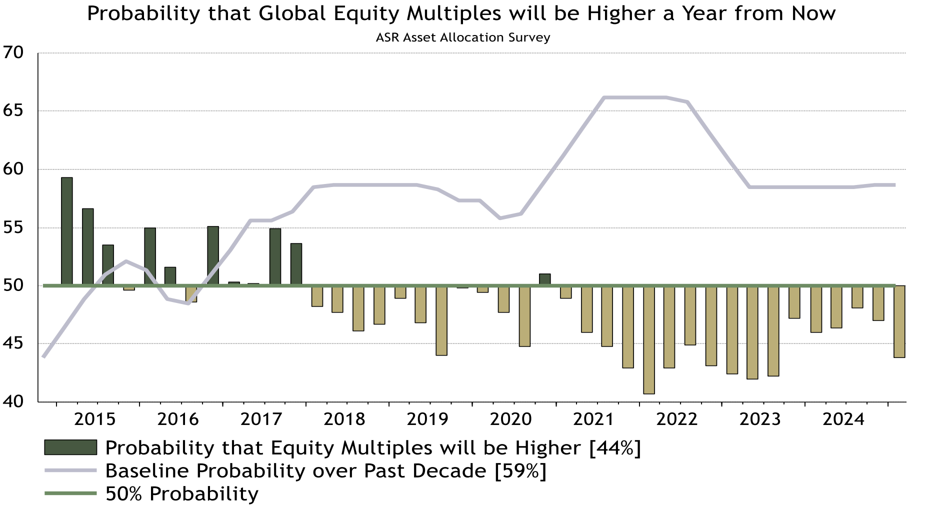
AAS.24: Probability that Global Corporate Earnings will be Higher

There remains a strong positive conviction around the outlook for corporate earnings, with a 65% probability that earnings (in USD) will be higher a year from now

Source: ASR Ltd. / LSEG Datastream

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

However, there is more concern around Equity valuations. This may reflect worries about what happens to the growth-inflation mix in the event of tariff war. Or it may reflect investor concerns that DeepSeek has introduced uncertainty into America's AI narrative and Big Tech valuations



Source: ASR Ltd. / LSEG Datastream

Intra-Equity Expectations

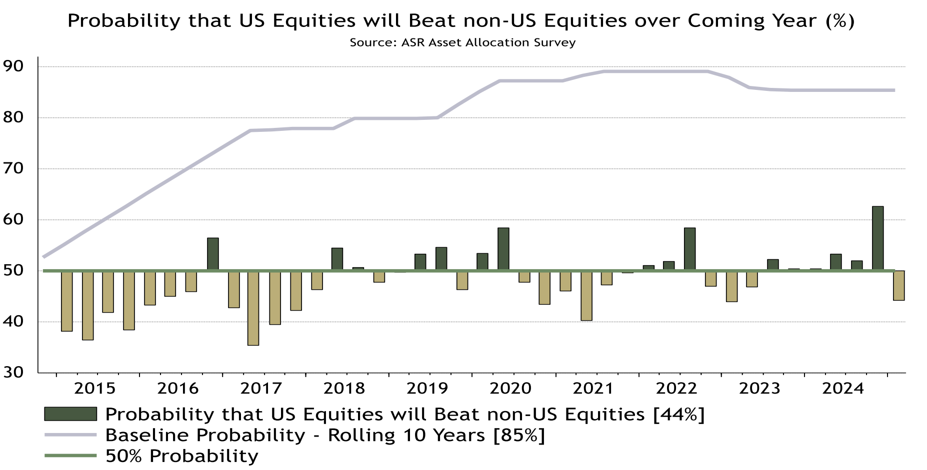
We take a deeper dive into the responses to the intra-equity market questions

Our panel has reassessed its preference for the US equity market over non-US equities. This has been the greatest shift in the panel's views (see AAS.1 as well). This shift is most extreme among the European panellists but is still present when we just look at the North American panellists with 19%pt shift in implied probability (AAS27). There are signs that it is the impact of the first month of Trump's presidency that has triggered this reappraisal as the panellists who expect the US to lag also saw a much higher risk that inflation would rise and that business confidence would not be higher, while equity valuations were also a concern for these panellists. Our panel also reassessed its views on Tech vs Financials (-5%pt shift in implied probability to 45%, AAS28), and for Value vs Growth (AAS. 29), so we believe concerns about DeepSeek and the AGI investments could also be playing a part in the shift of views. But they have not shifted views completely away from Cyclicals vs Defensives, the implied probably remains positive at 52% down 4%. Meanwhile our panel has lost confidence in small caps: the implied probability of Small beating Large has fallen by 4%pts to 53%.

Whether it is DeepSeek, valuations or the first month of Trump's presidency, our panel has reassessed its preference for the US vs non-US

This was the biggest shift of views in this quarters survey

AAS.26: Probability that US Equities outperform non-US

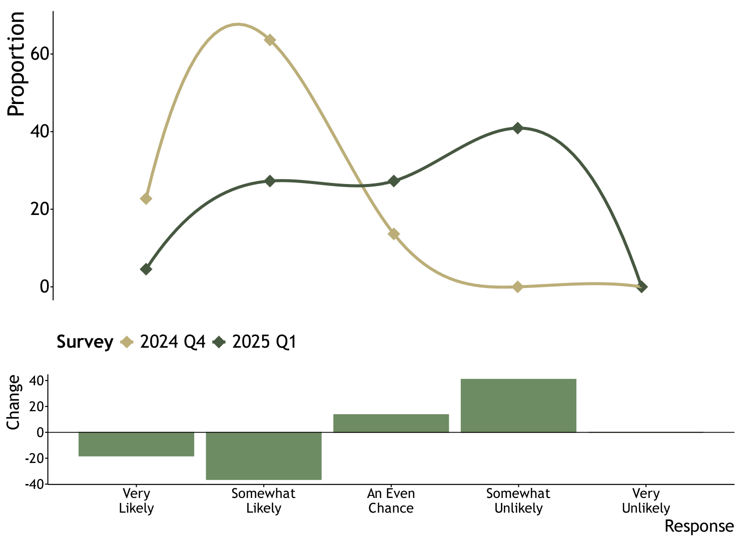


Source: ASR Ltd.

AAS.27: US vs Non-US Equities for North American panellists

And was just as significant among the North American panellists...

...as for the European ones



Source: ASR Ltd. / LSEG Datastream

For the first time in two years, our panel expects Financials to beat Tech

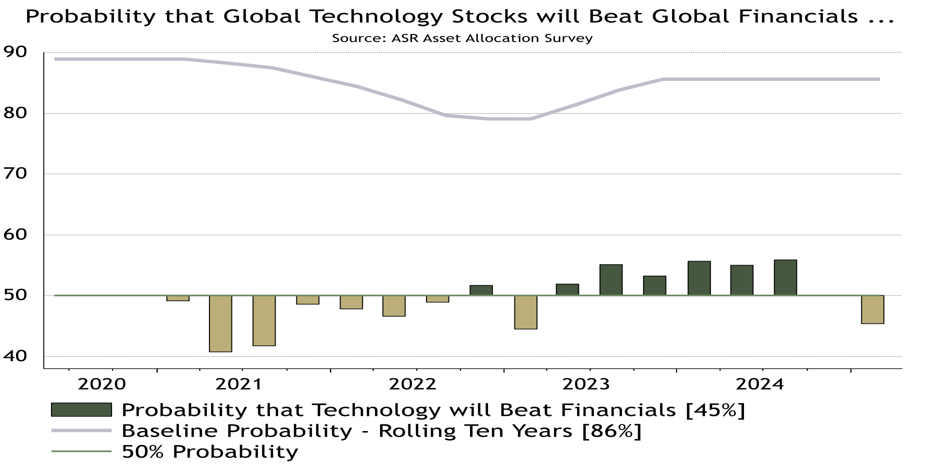
..and our panel has strengthened its view that Value will beat Growth...

...although they have always tended to have a Value bias

Despite this shift towards Value, our panel has also become less confident on Cyclicals

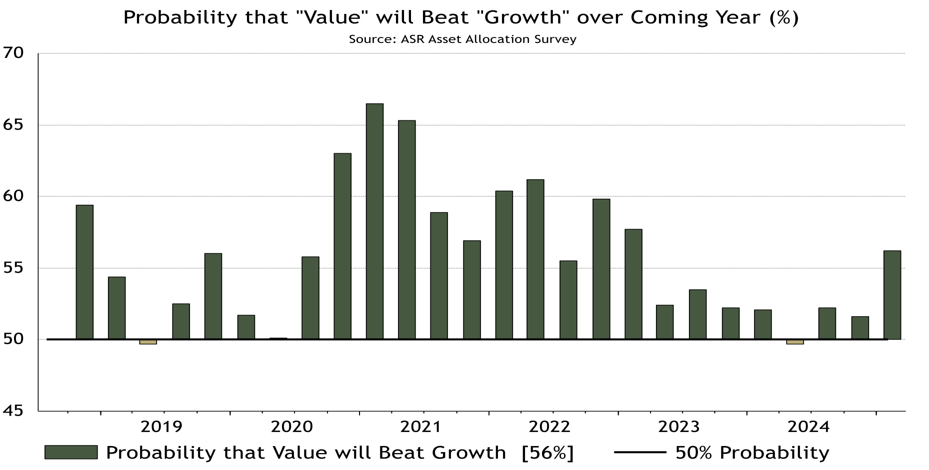
...and stepped back from expecting Small to beat Large

AAS.28: Probability that Tech will beat Financials



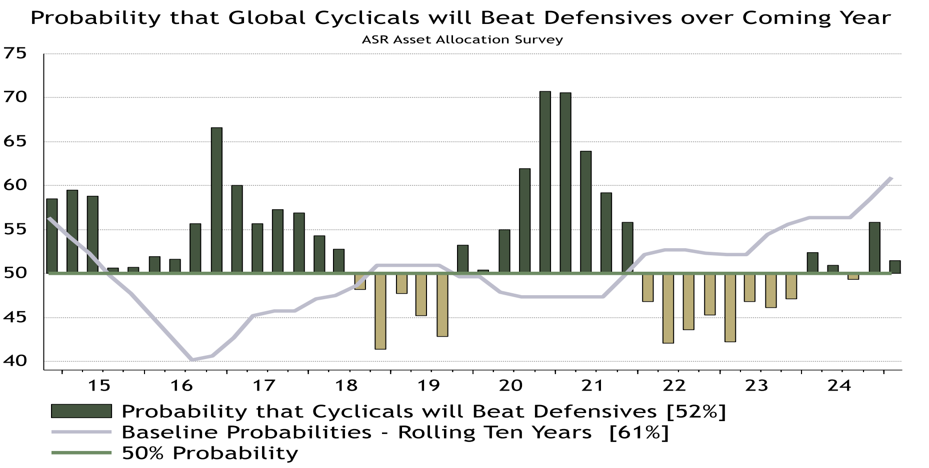
Source: ASR Ltd. / LSEG Datastream

AAS.29: Probability that Value will beat Growth



Source: ASR Ltd. / LSEG Datastream

AAS.30 Probability that Cyclicals will outperform Defensives



Source: ASR Ltd. / LSEG Datastream

Our most likely split of the panel is into two groups:

- 55% Bulls
- 45% Stagflation Worry

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

Bulls and Bears in the market

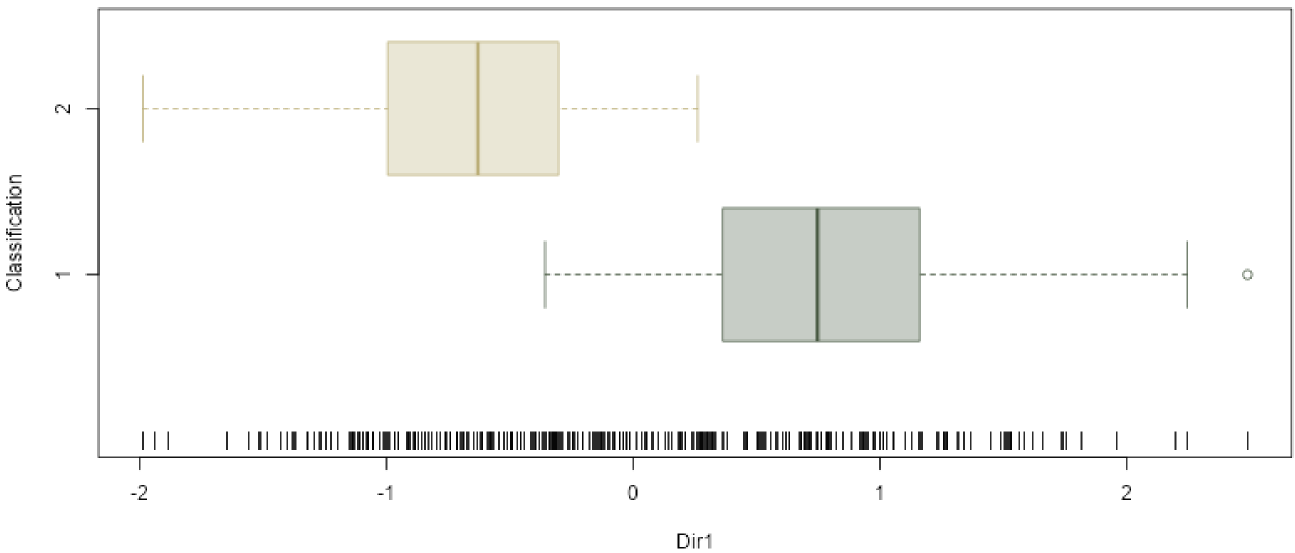
Our Bayesian cluster analysis has this quarter divided the panel into just two evenly sized groups, having split them into three previously. It also suggests the panel's views can be effectively compressed into a single question: do you fear inflation will derail the economy?

Just over half the panel (55%) take the view that inflation is not a concern for the economy, reflecting the positive level of our Composite Optimism indicator (front page). These '**Bulls'** expect business confidence to rise and have little doubt that recession will be avoided. As inflation is not an issue, they expect the yield curve to steepen via the Fed cutting rates. In their view Treasuries will beat cash while Credit beats both. This group is very confident that rising corporate earnings will allow Equities to rally. But interestingly they see a Cyclical rather than Tech driven equity rally, which might be why this group sees the US vs non-US equity call as an evens chance.

In contrast, just under a half of our panel (45%) is worried about US (but not European) inflation returning. That they simultaneously expect business confidence to fall and unemployment to rise, while not seeing a recession, to us says that **Stagflation** is a **Worry** for this group. This group also sees the Fed cutting rates and 2-year yields falling. In contrast to the Bulls they take the view that 10-year yields are going to rise, and so the Yield curve steepening that they see is probably of the bear variety. This group sees corporate earnings rising but equity falling as they de-rate. They expect Defensive equities to beat Cyclicals along with non-US equities beating US, Banks outperforming Tech and Value beating Growth.

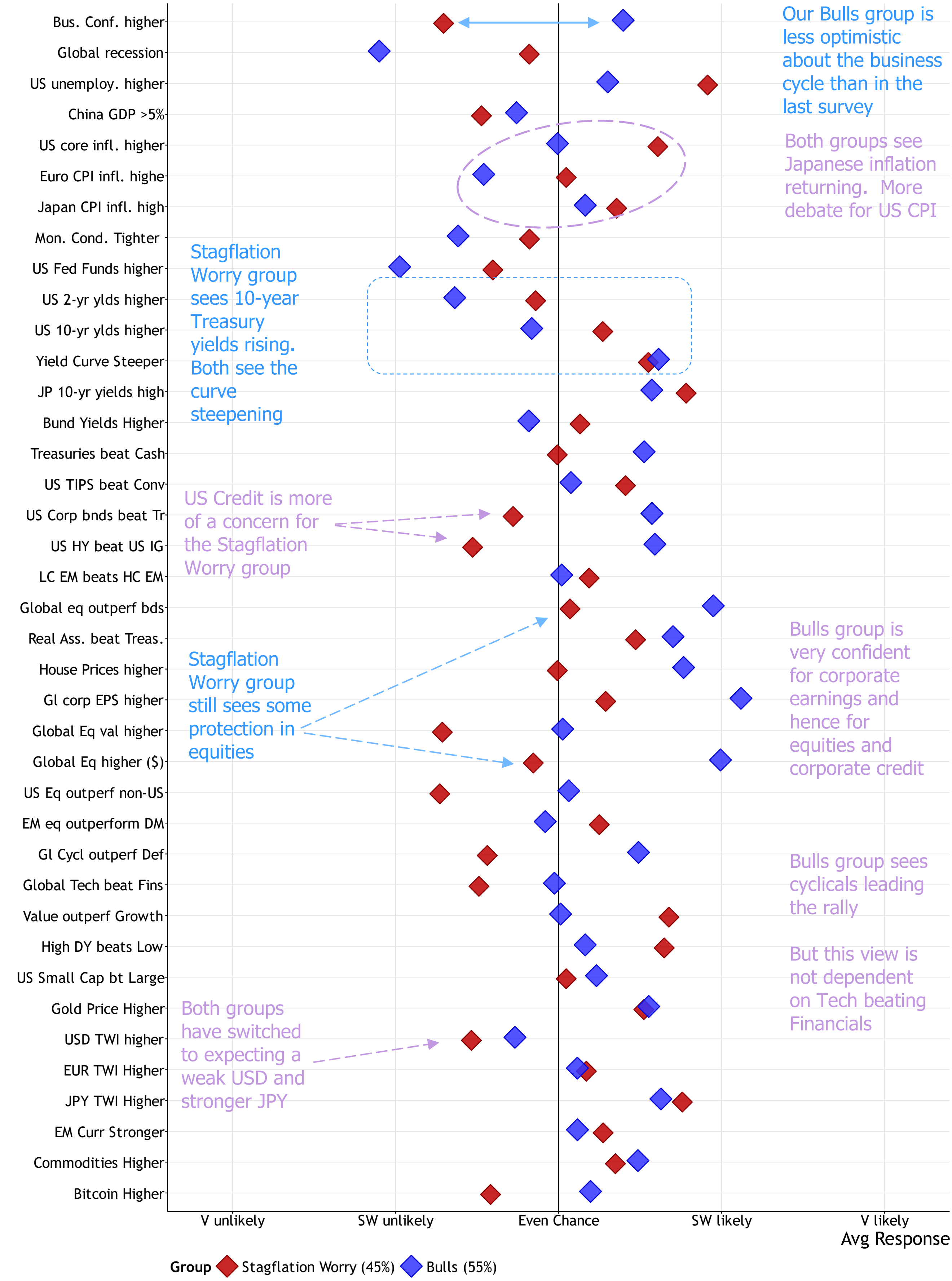
A Principal Component Analysis reveals that nearly all of the variance in the panellists' responses can be explain by a single PCA component. So the panellists group depends on where they lie along this single dimension (**AAS 31**). The chart also shows that there is a clear separation of the views of the two groups.

AAS.31: Division between two groups - after PCA which reduces 39 questions into one dimension



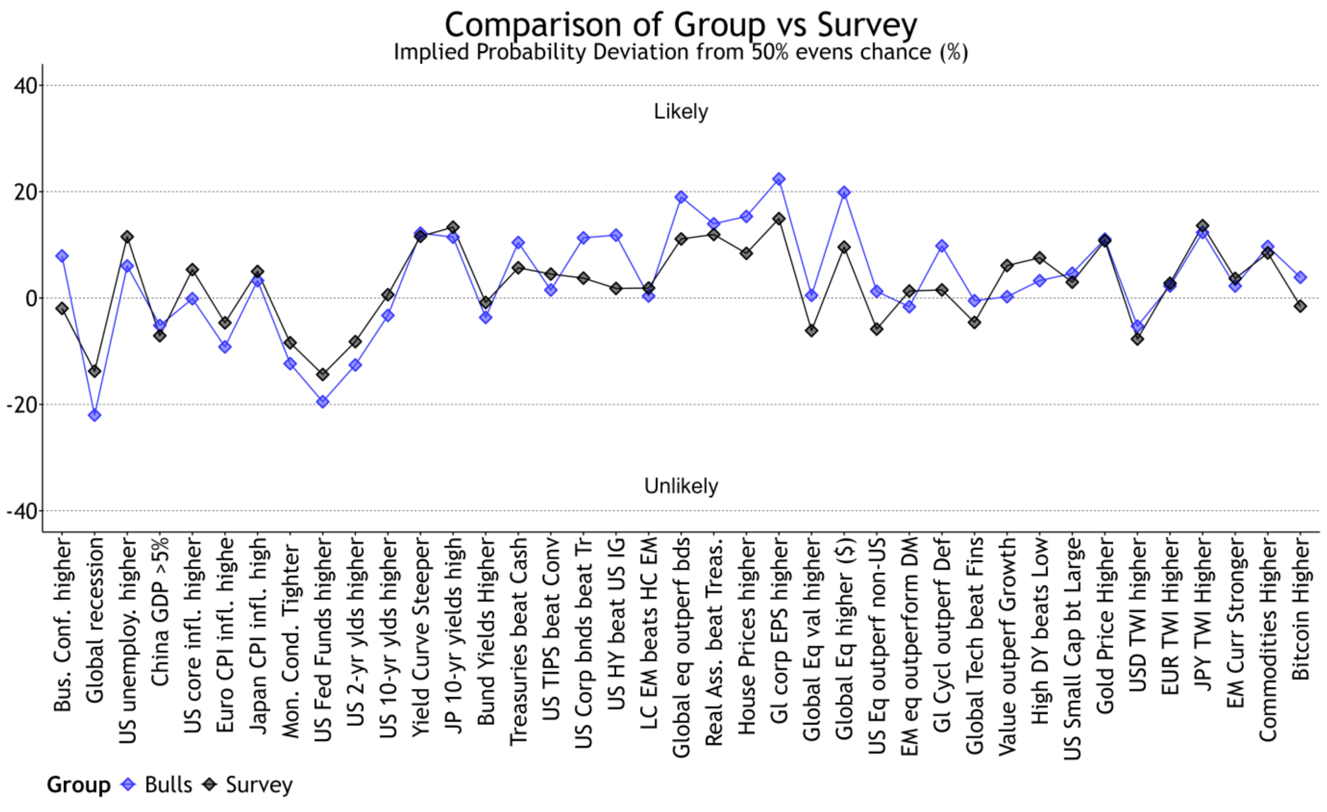
Source: ASR Ltd.

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



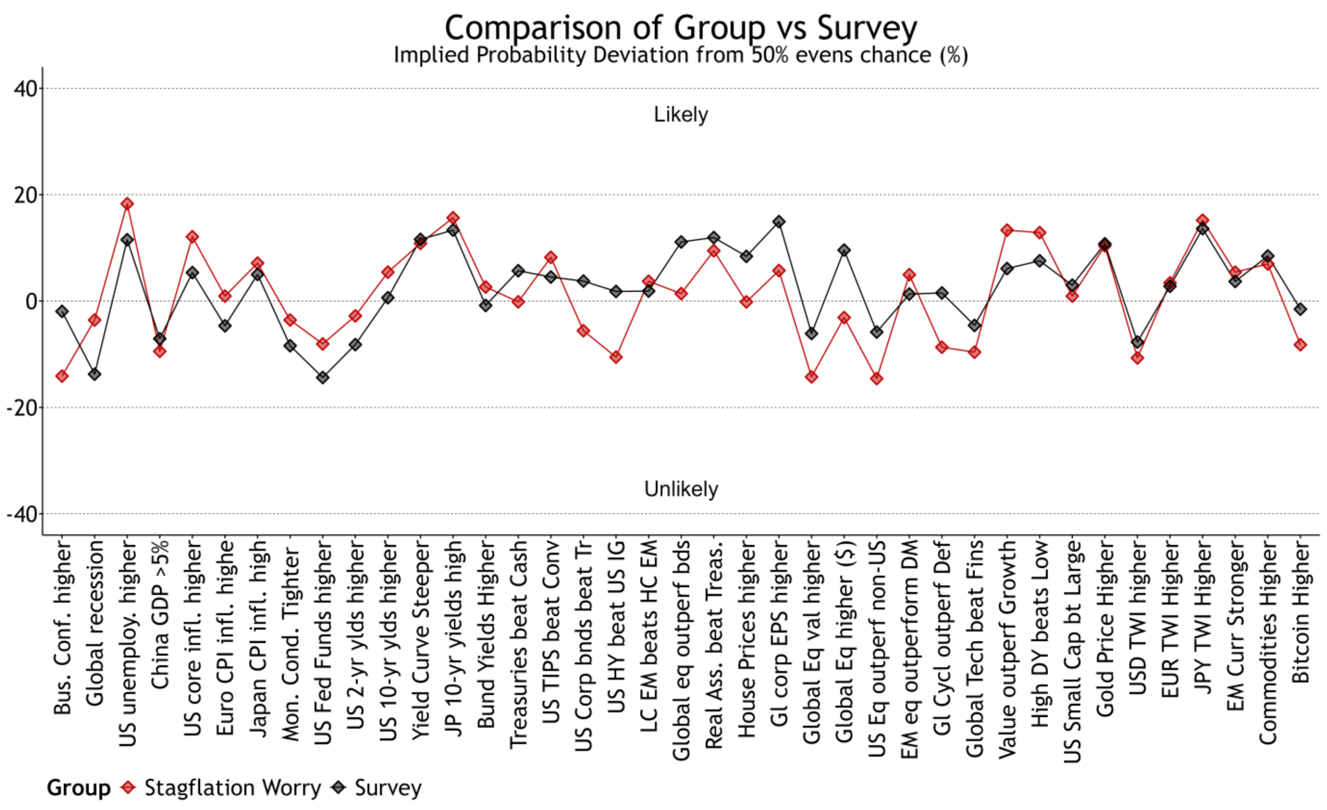
Source: ASR Ltd.

AAS.33: Comparison of ‘Bulls’ (55%) with Survey



Source: ASR Ltd.

AAS.34: Comparison of ‘Stagflation Worry’ (45%) with Survey Consensus

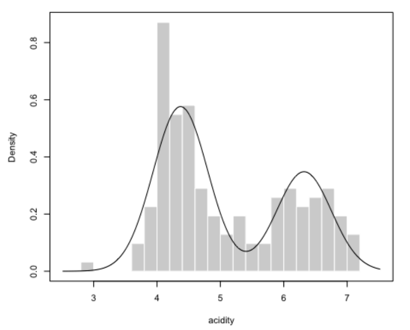


Source: ASR Ltd.

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.35: 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. 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 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 39 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"

Our panel has most conviction that corporate earnings will rise...

...and that Fed Funds will fall

EM currencies are the most uncertain

High Yield vs Investment Grade is the most divisive question

AAS. 36: 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	16	56	16	11	1	65.0
JPY TWI Higher	13	48	34	5	0	63.8
JP 10-yr yields higher	12	49	32	6	1	63.3
Most Unlikely (lowest implied probability)						
US Fed Funds rate higher	1	6	27	49	16	35.6
Global recession within 12 montł	1	9	23	55	13	36.2
Monetary Conditions Tighter	3	15	26	52	5	41.6
Most Uncertain (Highest proportion of Even Chances)						
EM Curr Stronger	4	33	43	20	1	53.7
Loc Cur EM bonds beat Hard Cur	3	30	43	24	1	51.9
Japan CPI inflation higher	5	35	42	16	2	55.0
Most Divisive (Most bimodal distribution)						
US HY beat US IG	6	37	25	27	6	51.8

Source: ASR Ltd

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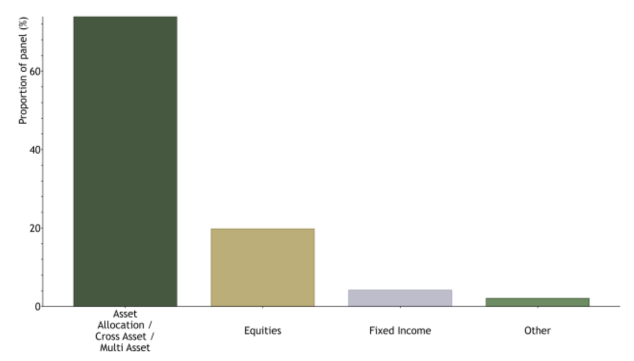
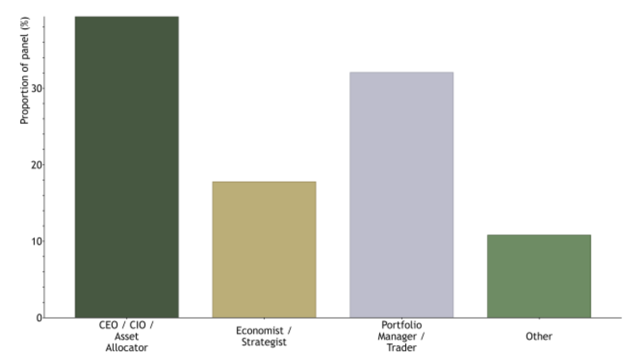
AAS. 37: Asset Class Expertise



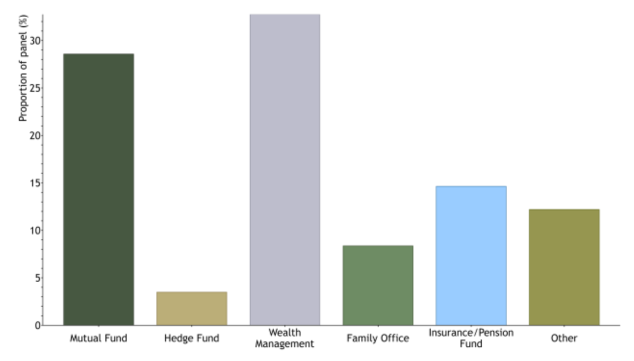
Source: ASR Ltd

AAS. 38: Role



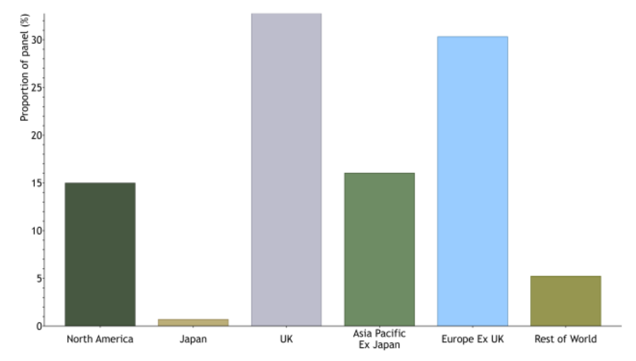
Source: ASR Ltd

AAS. 39: Type of Investor Firm



Source: ASR Ltd

AAS. 40: Location



Source: ASR Ltd

Our 288 panellists work in teams that manage over $13trillion of assets. The fieldwork for the survey was conducted through an on-line survey between 20th to 26th February 2024.

AAS.41: Summary of Responses – 2025 Q1

(%)	Very Likely	Likely	Even Chance	Unlikely	Very Unlikely	Implied Probability
		Proportion of Panel				
Business Confidence higher	5	25	31	32	7	48
Global recession within 12 months	1	9	23	55	13	36
US unemployment higher	11	48	30	10	1	62
China Real GDP Growth >5%	3	19	29	37	12	43
US core inflation higher	8	36	34	20	2	55
Euro CPI inflation higher	3	20	35	36	6	45
Japan CPI inflation higher	5	35	42	16	2	55
Monetary Conditions Tighter	3	15	26	52	5	42
US Fed Funds rate higher	1	6	27	49	16	36
US 2-yr yields higher	2	13	34	44	7	42
US 10-yr yields higher	3	30	37	28	2	51
Yield Curve Steeper	10	52	27	11	1	62
JP 10-yr yields higher	12	49	32	6	1	63
Bund Yields Higher	4	25	37	32	2	49
Treasuries beat Cash	8	38	31	22	2	56
US TIPS beat Conv	5	35	40	20	1	55
US Corp bnds beat Treas	4	42	30	21	5	54
US HY beat US IG	6	37	25	27	6	52
Loc Cur EM bonds beat Hard Cur	3	30	43	24	1	52
Global eq outperf bonds	12	48	26	12	2	61
Real Assets beat Treasuries	11	52	26	10	1	62
House Prices higher	12	40	27	18	2	58
Gl corp earnings higher	16	56	16	11	1	65
Global equity val higher	1	17	36	42	4	44
Global equities higher ($)	10	48	26	14	2	60
US eq outperform non-US	4	17	32	41	6	44
EM eq outperform DM	4	33	32	29	2	51
Global cycl outperf def	5	33	32	27	4	52
Global Tech beat Fins	3	17	36	41	3	45
Value outperf Growth	8	39	31	20	2	56
High DY beats Low	7	41	38	13	1	58
US Small Cap beat Large	4	33	39	21	2	53
Gold Price Higher	12	45	32	11	1	61
USD TWI higher	2	13	35	45	6	42
EUR TWI Higher	2	34	40	23	1	53
JPY TWI Higher	13	48	34	5	0	64
EM Curr Stronger	4	33	43	20	1	54
Commodities Higher	5	49	31	13	2	59
Bitcoin Higher	6	20	41	26	7	49

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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