

# Ahead of the Curve Consensus is totally consensus—a contrarian's strategic scenarios

From the Field  
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## Key Insights

- Tactical contrarian investing can exploit market fluctuations that run counter to consensus predictions that tend to build on themselves.
- Consensus views are for continuing U.S. exceptionalism, but active managers can apply contrarian strategies that would benefit from growth outside the U.S.
- In the contrarian scenario of U.S. inflation rebounding to troubling levels, the bond market will create a huge tightening of financial conditions.



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When our global fixed income portfolio managers and analysts gathered as a team for our usual monthly policy week meetings in mid-December, our email inboxes were brimming with year-ahead outlooks. The conclusion we came to was that, in broad strokes, everyone thinks the same. Yes, there may be some differences in asset recommendations, but at the heart of it, the vast majority look forward to another good year of U.S. growth, buttressed by loose financial conditions, a supportive Federal Reserve, and possibly renewed fiscal stimulus.

### Consensus builds on itself

Some components of the consensus view seem obviously one-sided. The consensus

recognizes that elevated inflation could potentially be a risk, but very few are deeply worried about it. The broad belief that the U.S. will continue to outperform the rest of the world in each and every possible way presents an even starker example of how the consensus builds on itself as observers abandon alternative points of view. The consensus is that Europe will continue to struggle and that China's challenges will persist. Like in previous periods, the consensus is totally consensus.

### Three strategies that can benefit from one-sided consensus

In periods like this when consensus is strong, I believe there are broadly three ways to benefit.

- 1. Be a contrarian.** Invest against the consensus. This is potentially highly profitable, but many times it can be a total bust. After all, so many smart people disagree with you.
- 2. Be more tactical.** The consensus may ultimately be right, but the route will not be a straight line. If we end up in the predicted bull market, then it is unlikely it will be a direct trip to the top. The key here is to stay disciplined. If you know the destination, don't go too far off course for too long. However, as the Fed reassesses incoming data—or maybe postinaugural noise and social media threats, hyperbole, and posturing pick up—there will likely be opportunities to buy at much cheaper levels.

**3. Go bigger and stay longer.** This is generally a strategy that has worked well in equities. For a while now, the only mistakes you could have made involving the “Magnificent Seven” was to simply not own enough and to ever think of owning anything else. I know that’s not entirely true, but I’m sure you get the point.

How could this play out more broadly in terms of fixed income markets? Well, how about instead of a soft landing, the U.S. economy actually reaccelerates strongly? Similarly, if the consensus about Europe is right, why wouldn’t the European Central Bank (ECB) end up at the zero rate bound again? At our December policy week meetings, Tomasz Wieladek, our chief European macro strategist, put a 20% probability on the ECB getting to a 0% main policy rate. Switzerland is already heading in that direction, and the eurozone is not too far behind. Given that the bond market was pricing in a terminal rate just under 2% in Europe as of mid-December,<sup>1</sup> there is plenty of opportunity for investors willing to aggressively position for lower eurozone rates.

### Simple contrarian scenarios

But I must confess, I am a natural-born contrarian at heart, which brings me back to strategy one. What could the winning contrarian-ism be? First, I am very cynical about the goldilocks consensus scenario

for the U.S. I feel like inflation has a much bigger chance of being a problem than markets currently seem to anticipate. If U.S. inflation does rebound to troubling levels, the bond market will have the final say and create a massive tightening of financial conditions, especially if fiscal largesse is also punished by higher long-maturity Treasury yields.

Second, I can imagine some pretty simple scenarios whereby Europe impresses to the upside. Imagine, for example, a peaceful solution is found in Ukraine, and cheaper oil and gas start to flow again into Europe. Further imagine that Germany changes its debt brake rules that limit budget deficits, resulting in sustained fiscal stimulus. Finally, imagine all of these outcomes combined with China unleashing the long-desired, all-encompassing stimulus (maybe as a result of the U.S. imposing new tariffs?). None of these are crazy, outlandish scenarios.

### Active managers can employ all three strategies

For me, successful investors in 2025 will need to employ all three of these broad strategies. However, the simple point is that such a strong consensus offers opportunities for active managers to generate positive outcomes for clients.

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If U.S. inflation does rebound to troubling levels, the bond market will have the final say...

– Arif Husain  
Head of Fixed Income and CIO

<sup>1</sup> Source: Bloomberg Finance L.P.

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