

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

From the Field
January 2025

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.



Arif Husain

*Head of Fixed Income and
Chief Investment Officer,
Fixed Income*

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,¹ 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.

“

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

¹ Source: Bloomberg Finance L.P.

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

T. Rowe Price cautions that economic estimates and forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual outcomes could differ materially from those anticipated in estimates and forward-looking statements, and future results could differ materially from historical performance. The information presented herein is shown for illustrative, informational purposes only. Any historical data used as a basis for analysis are based on information gathered by T. Rowe Price and from third-party sources and have not been verified. Forecasts are based on subjective estimates about market environments that may never occur. Any forward-looking statements speak only as of the date they are made. T. Rowe Price assumes no duty to, and does not undertake to, update forward-looking statements.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

DISCLOSURE CONTINUES ON THE FOLLOWING PAGE.

Important Information (cont.)

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

Colombia, Chile, Mexico, Perú, Uruguay—This material is prepared by T. Rowe Price International Ltd - Warwick Court, 5 Paternoster Square, London, EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority - and issued and distributed by locally authorized distributors only. For professional investors only.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

EEA—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

Korea—This material is intended only to Qualified Professional Investors. Not for further distribution.

Mainland China—This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

Malaysia—This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2025 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.