



E Q U I T I E S

Why Are Bond Investors Contrarian While Equity Investors Extrapolate?

Understanding Return Expectations, Part 3

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Survey data reveal a striking difference in how investors form long-run expectations in equity and bond markets. Equity investors tend to extrapolate recent trends in returns and earnings growth, while bond investors tend to expect mean reversion in rates. This article explores the contrast and possible explanations for it, proposing information salience as the key driver. It also examines very long run trends in financial market variables and potential implications for the future.

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