PERSPECTIVES

Prediction Markets: The Signal Behind the Speculation



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Prediction markets are easy to dismiss as another way to gamble. For participants, that is exactly the appeal: the chance to speculate on what happens next.

I think dismissing these markets may overlook something important. Speculative trading can produce useful information. Even an investor with no interest in placing a bet may have reason to study what the prices imply.

Prediction markets have grown extraordinarily over the past two years. Kalshi's monthly trading volume rose from less than $1 billion during parts of 2024 to about $98 billion in October 2026. Meanwhile, Polymarket's monthly trading volume surged from roughly $1.3 billion in September 2024 to approximately $20 billion in October 2026. Robinhood, which launched its dedicated prediction markets hub in 2025, facilitated nearly 6 billion event contracts in October 2026 alone.

But popularity does not establish forecasting ability. For our investment team at Pitcairn, the more interesting question is whether these markets reveal changing expectations about major economic and political events, and whether those expectations challenge our own assessment.

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What the Prices Reveal

A typical prediction-market contract asks a yes-or-no question: Will inflation exceed a particular level? Will the Federal Reserve cut rates? Will a candidate win an election?

A contract priced at 65 cents that pays $1 if the event occurs is commonly interpreted as implying roughly a 65% probability. That figure reflects the market's assessment. It should not be mistaken for an objectively established probability.

The useful feature is that participants commit money to their views. As information and expectations change, trading prices can change with them. We can observe both the likelihood the market assigns to an event and how that assessment evolves.

These prices can also expose a gap between a widely accepted narrative and the expectations of people willing to trade on it. An outcome may be discussed as almost inevitable, while the market assigns it a considerably lower probability. That disagreement gives an investor something specific to investigate.

Financial commitment does not make the crowd right. It does give us another observable assessment to compare with other evidence and our own judgment.

> Kalshi's monthly trading volume surged from under $1 billion in 2024 to roughly $98 billion in October 2026.

Reading the Signal

A platform with lots of activity is not necessarily a well-informed market. Before taking a quoted probability seriously, it matters how much trading supports it and how far apart buyers' and sellers' prices are. Limited activity can make a few views look like broad agreement.



Changes in probability can be especially useful. Suppose, for example, the perceived likelihood of a major tariff taking effect rises from 30% to 50% over a few days. The appropriate response is to evaluate whether policy has genuinely shifted and new information has emerged, or if the move is simply a feature of a thin market.

Neither the level nor the change should be taken at face value. But a substantial move can direct attention to something that warrants a closer look. This is what we focus on.

How We Think of These Markets at Pitcairn

We use prediction-market data as one input in our investment work. We pay particular attention to elections, interest rates, inflation, tariffs, and fiscal decisions whose consequences can extend across countries and markets. We are most interested when probabilities move sharply or challenge a widely accepted assumption.

A disagreement with economic forecasts or conventional market pricing gives us a concrete question to pursue. What might we be missing? Are the markets addressing the same outcome over the same time horizon? Does the difference challenge our assessment, or reflect a limitation of the contract?

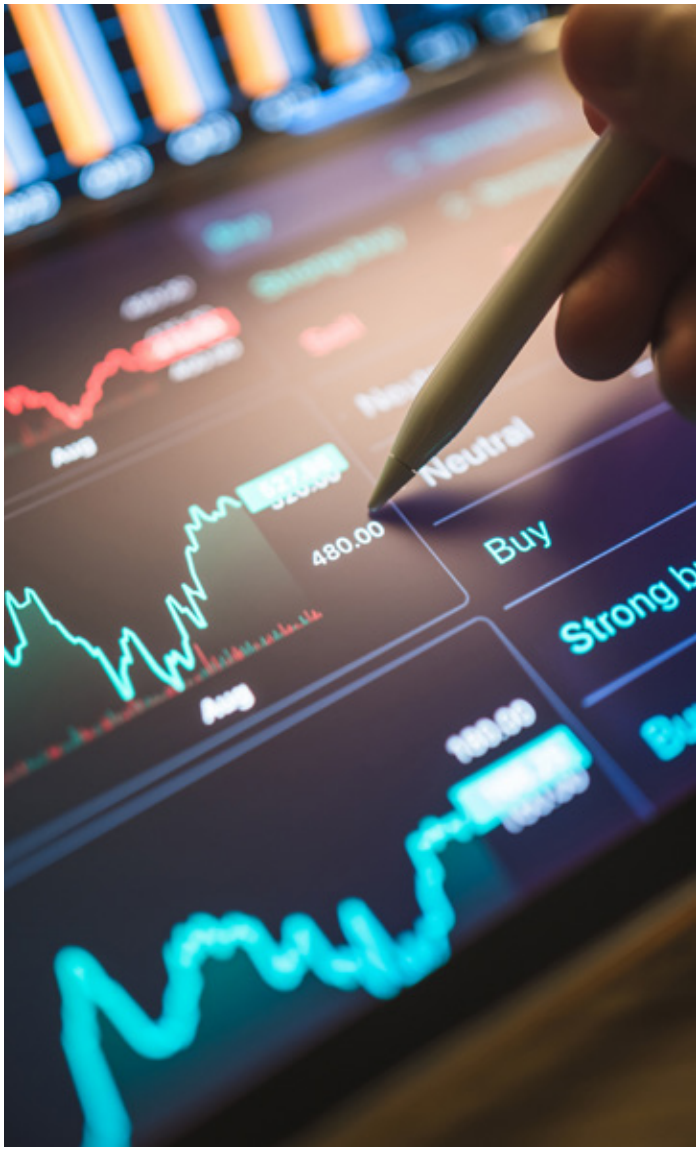
> Prediction markets' potential value lies in what they reveal about changing expectations around consequential events.

These questions help us test our thinking. We must still judge what an outcome could mean for our portfolios, how much is already reflected in asset prices, and whether a portfolio change is warranted.

For families investing across generations, that distinction matters. A change in the likelihood of the next Federal Reserve decision is not, by itself, a reason to reposition a portfolio. Asset allocation, diversification, tax awareness, valuation discipline and patience remain central to our approach. Better information should strengthen that discipline, not encourage activity for its own sake.

We do not view prediction markets as a new asset class for our families. Their potential value lies in what they reveal about changing expectations around consequential events.

Successful investing requires us to consider a range of outcomes, assess their likelihood and understand their implications for the portfolios we manage. Prediction markets may help us do that work with better information and a greater willingness to question our own assumptions.



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