Uncommon truths

Where will we gather new assets?

Our analysis suggests that annual global savings could more than double in real terms over the next 50 years. The US, China and India are deemed likely to be the sources of the biggest savings pools. Demographics could see the role of Europe diminish (though it will remain important), while boosting the role of Africa (from a low base).

This is the next in a series of papers over the summer about long-term issues. The topic is savings patterns and the link to demographics, development and lifecycle patterns of saving. The conclusions should be of interest to asset managers wondering where to look for clients over the coming decades.

An obvious place to look for savings flows is in countries with lots of savers. The answer will lie somewhere in the intersection between population size, income per head of population, and the share of population that is in the saving phase of life. The latter is on the assumption that we save while working to accumulate wealth that can be used when we retire – the life cycle hypothesis of savings (there is a short selection of suggested reading material about the life cycle hypothesis in the bibliography, for those who are interested). The focus is implicitly on private sector pension-type savings. Public sector funds that perform broadly the same function (sovereign wealth funds, say) could also be considered but they are much easier to identify and are not the topic of this paper.

Figure 1a shows the distribution of regional populations across the age spectrum (as of 2025, according to United Nations forecasts). A number of messages emerge from this chart: first, Asia has by far the largest population of the regions covered, accounting for 59% of the world's population in 2025 (Asia includes both China and India). Second, Africa's population is relatively young, whereas Europe's is relatively old (Asia's population is somewhere between Africa and Europe when it comes to age distribution).

To complete the picture, **Figure 1b** shows how the age distribution of Europe's population has and is expected to develop over time. There is a similar pattern for North America, South America and Asia, with the post-war baby boom creating a population hump that is moving through the age range as time passes. That population hump has been in the savings intensive age range (which I take to be 25-60), but is expected to soon pass into the dissaving (retirement) phase of life. That could have profound implications for the global flow of savings and where those savings are likely to be located.

The next consideration is income. **Figures 2a, 2b** and **2c** show how population and income per capita are forecast to evolve over the coming fifty years for around 160 countries (those with population below one million are excluded). The population estimates are taken from the United Nations World Population Prospects 2024 dataset (note that the size of the bubbles is in proportion to the 25-60 year age group as a share of the total 20-plus age group, to capture the share of "savers" within the adult population). Income per capita forecasts are based on World Bank 2024 data and our projections for real growth over the periods considered (using a combination of historical growth patterns and the notion of convergence). The highlighted countries are at the upper extremes of population or income per capita (or both), which suggests the potential for high savings volumes.

Figure 1a – Population by age tranche (2025, Mn)

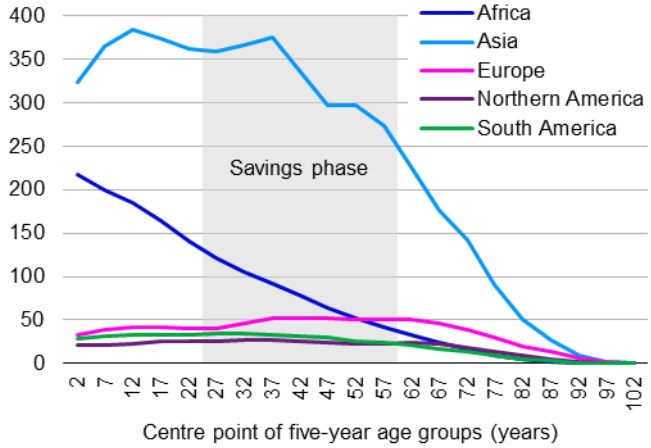
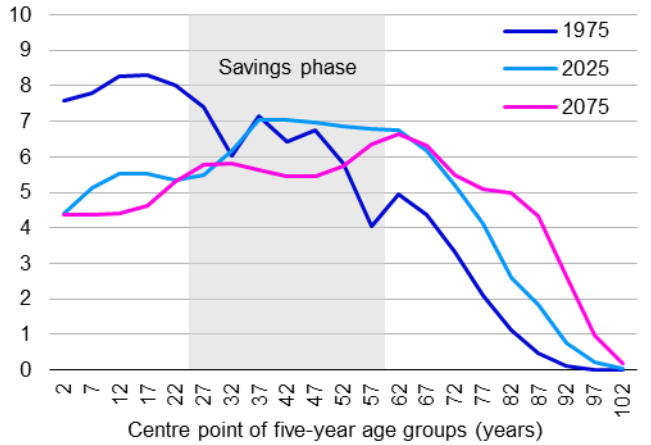


Figure 1b – Europe's population by age (% of total)



Note: Based on United Nations (UN) estimates up to 2023 and UN Medium Variant forecasts thereafter. The horizontal axes show the centre point of the five year age ranges for which population is shown. Shaded areas show the 25-60-year age range, which is chosen to represent the part of the average person's life cycle in which they accumulate most savings, thus enabling dissaving in later life.
Source: United Nations World Population Prospects 2024 and Invesco Global Market Strategy Office

Figure 2a – National population, GDP per capita and savers as a share of post-20 population in 2024

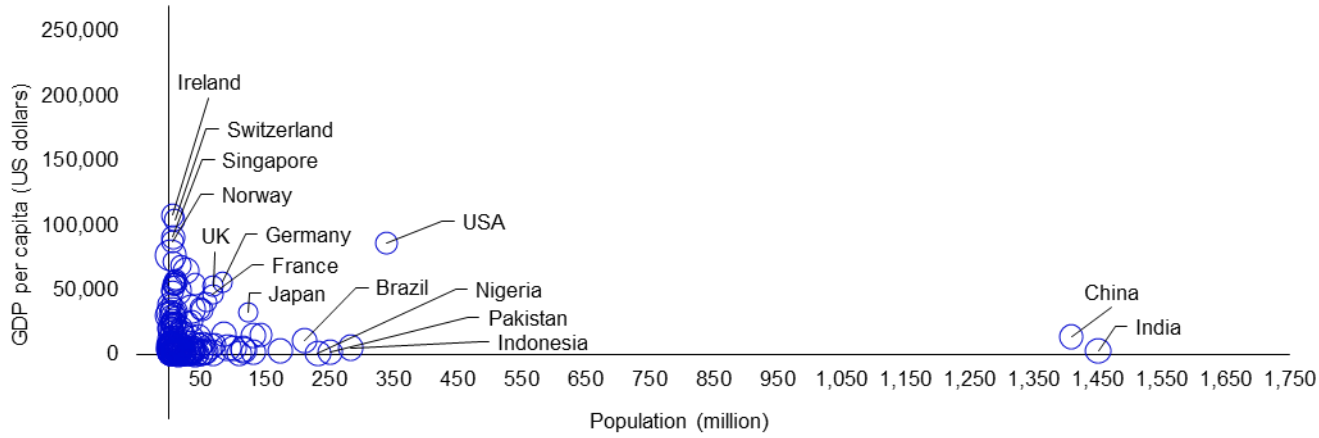


Figure 2b – National population, GDP per capita and savers as a share of post-20 population in 2050

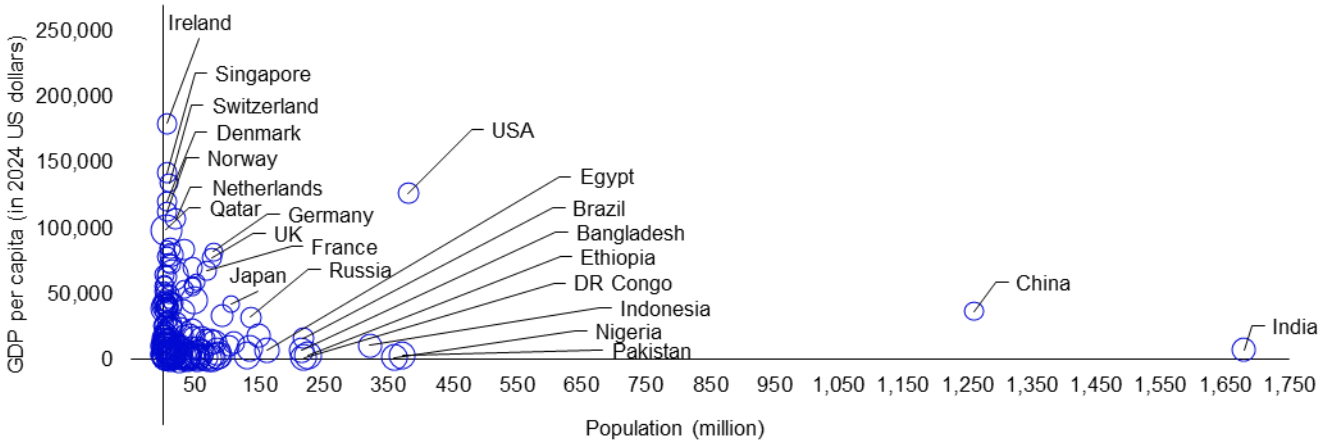
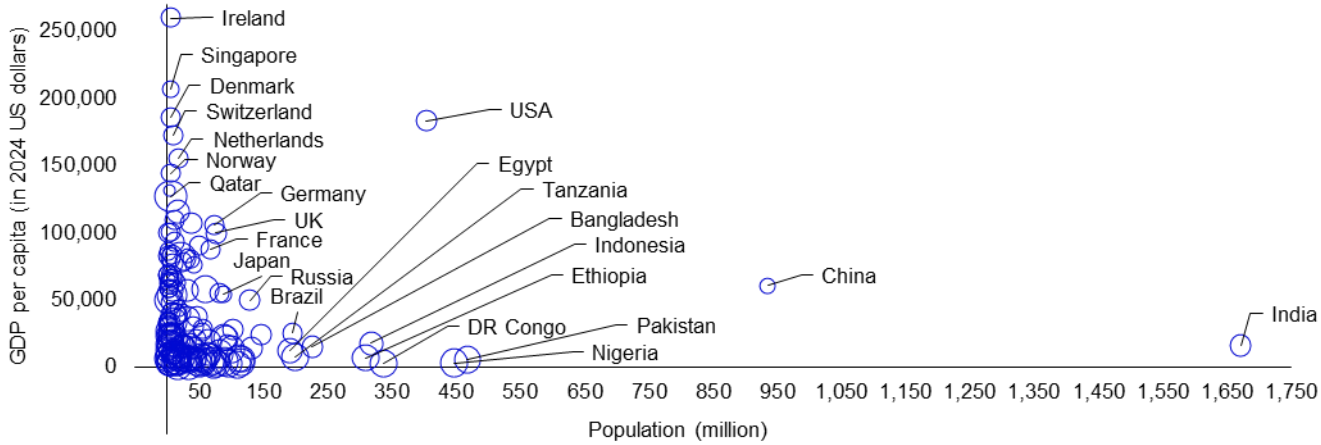


Figure 2c – National population, GDP per capita and savers as a share of post-20 population in 2075



Note. Population data is based on United Nations World Population Prospects (2024) and the size of the bubbles is in proportion to population of the 25-60 age range as a share of the 20-plus age group (designed to show the share of savers in the post-20 age group). GDP per capita in 2024 shows World Bank data in US dollars. GDP per capita for 2050 and 2075 is expressed in 2024 prices and is based on our own projections of real GDP growth (using constant growth for the 2024-50 and 2050-2075 periods, based on historical trends and assumptions about some convergence of income across countries). "DR Congo" is the Democratic Republic of the Congo. "UK" is the United Kingdom. "USA" is the United States of America. Source: World Bank, United Nations World Population Prospects (2024) and Invesco Global Market Strategy Office

The first point worth noting in those charts is how well the US is placed, with the ideal combination of a large population and high income per capita. No wonder the US has such a large financial services sector. Comparing the charts, it appears the US will continue to enjoy this advantage. However, with the passage of time, the size of the US bubble is expected to decrease, suggesting that the share of the adult population in the peak-saving age range will diminish.

China and India are notable for the size of their populations. However, they are expected to diverge over the coming decades, with UN projections suggesting the population of India will rise, while that of China will fall (though still remaining well above that of any country outside India). The problem for these two countries is the limited income per capita, though our estimates suggest they will improve on this score (we expect India to enjoy better growth but the lower starting point disguises that fact in the charts).

Some European countries (and Singapore) have the opposite problem, with high income per capita but very small populations. Germany, France and the UK enjoy high income and reasonably sized populations but demographic trends could be challenging over the next 50 years (and the importance of high savers within those populations is expected to diminish).

Going in the opposite direction are a range of African countries, with populations expected to grow rapidly, taking many above European nations and some above the US. Today, Nigeria is the obvious large population African country, with a headcount of 232 million in 2024. That is expected to grow to around 447 million by 2075. The populations of DR Congo and Ethiopia are expected to be above 300 million by that point, while those of Egypt and Tanzania are expected to be near 200 million. Unfortunately, per capita incomes are expected to continue lagging well behind China and India, let alone Europe and the US.

So, where will the savings of the future come from? **Figures 3a** and **3b** show our attempt to quantify this. We do not calculate projected savings but rather focus on "savings potential", which we define as GDP (the product of forecast population and forecast GDP per capita), multiplied by the share of the post-20 year old population accounted for by those in the prime savings age range (25-60). *The good news for asset gatherers is that our projections suggest global savings could increase by two-thirds in real terms by 2050 and more than double by 2075 (from 2024)*. **Figure 3a** suggests that Asia (including China and India) will continue to dominate, accounting for around 40% of the global savings potential over the next 50 years. North America (including the US) is next, with a relatively stable 25%-27% share, while Europe's share is expected to decline from 24% to 19% (Latin America's share is also expected to decline). Our forecasts suggests the slack will be taken up by Africa, with its share rising from 3% to above 8%.

Figure 3b suggests that among nations, the US will continue to be important. In fact the top-5 nations in 2075 are expected to be the same as in 2025. But the share accounted for by China and major European nations is expected to fall, with the slack largely taken up by India. Though African countries are expected to move up the rankings, they will continue to fall short of the top-10 (Egypt, Ethiopia, South Africa and Tanzania are expected to move into the top-30).

Figure 3a – Share of global savings potential (%)

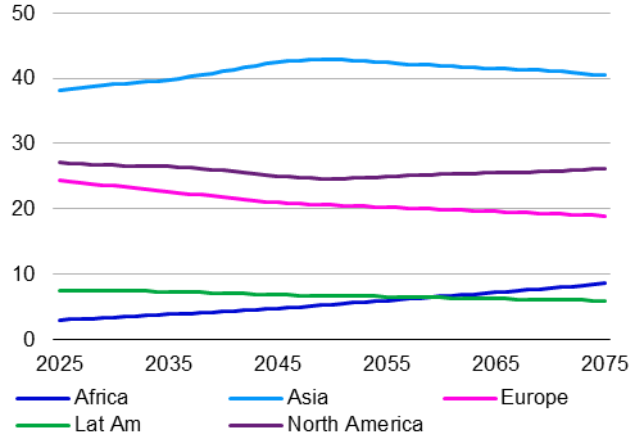
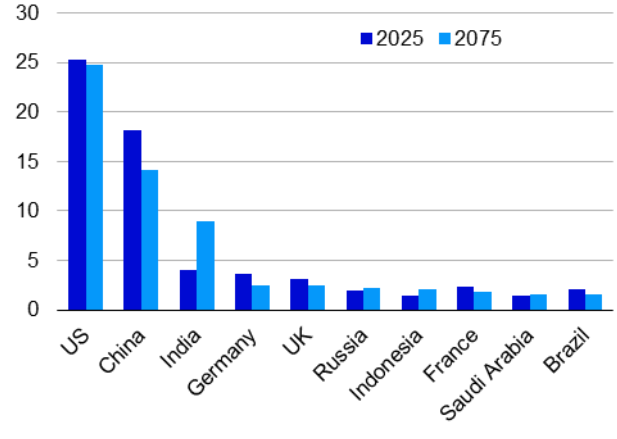


Figure 3b – Share of global savings potential (%)



Note: "Share of global savings potential" is constructed as the product of population, GDP per capita and the 25-60 population share of total 20-plus population, divided by the global savings potential. Population projections are taken from the United Nations World Population Prospects 2024 dataset (Medium Variant). GDP per capita is based on World Bank data for 2024 GDP per capita in US dollars, with our own forecasts for inflation-adjusted growth for years after 2024. Figure 3a shows annual data from 2025 to 2075. "Asia" uses the countries in the United Nations' (UN) Asia-Pacific categorisation, "Europe" includes both East and West Europe and "Lat Am" follows the UN's Latin America and Caribbean definition (and includes Mexico). Figure 3b shows the ten countries that are projected to have the largest share of global savings potential in 2075. Source: United Nations World Population Prospects 2024, World Bank and Invesco Global Market Strategy Office

Of course, these calculations are just the starting point and the forecasts can no doubt benefit from more detailed consideration of potential growth in GDP per capita, for example. They also ignore differences in national savings behaviour, income distribution and pension systems.

Further analysis can allow for such factors but we can already imagine some ways in which those savings potential calculations could be misleading. First, savings rates vary enormously by country, so that actual savings may deviate from what our savings potential numbers suggest. For example, the US may have the highest savings potential but its gross savings/GDP ratio was only 18% in 2024 and has rarely been above 20% since 1980 (according to IMF data), while that of China was 43% and has been above 40% since 2003. Though the US appears to have greater savings potential than China, that seems unlikely to translate into an actual savings advantage. Indeed, World Bank data suggests that China's gross savings (in US dollars) exceed those of the US, by some margin.

For comparison purposes, India's savings rate has been above 30% for most of this century, while Japan's has largely been in the 25%-30% range and that of the EU has been in the 20%-25% range. The savings rates of African nations vary enormously from -12% in Malawi to 40% in Nigeria (in 2024) and can be expected to change radically as they develop.

Another factor worthy of consideration is income distribution. It could be argued that an unequal distribution may lead to more aggregate saving (how much can one individual spend?). However, for the purposes of considering where asset managers are likely to be able to tap into savings pools, I suspect that a more equal distribution of income will give more opportunities. Comparing the income distribution of the US to Europe and Japan, the former has a less equal distribution, with a Gini coefficient of 41.8 in 2023 (according to World Bank data), compared to 31.2 in France (2022), 32.4 in the UK (2021), 32.4 in Germany (2020) and 32.3 in Japan (2020). A higher Gini coefficient implies greater inequality. Is it mere coincidence that greater income inequality in the US is associated with a lower national savings rate? For comparison purposes, China's Gini coefficient was 35.7 in 2021, while that of India was 25.5 in 2022.

It is more difficult to allow for differences in pension systems. For example, it might be assumed that in countries with public sector pension systems there may be less need to save out of after-tax income. However, properly accounted for, savings in such countries may follow the pattern suggested by the life cycle hypothesis (see, for example, the paper by Jappelli and Modigliani mentioned in the bibliography).

Overall, my conclusions are that global savings will grow strongly over the coming decades, as the world's population expands and incomes increase (especially in developing countries). I expect that Asia, North America and Europe will continue to be the main sources of savings. Though the above analysis may overstate the role of the US (and understate that of China) as a source of savings, I believe that the US, China and India will be the three countries likely to generate most savings (and therefore potential for asset gatherers). Though remaining important, I believe the role of Europe will diminish, while that of Africa will grow. However, as a source of savings, Africa is likely to suffer from relatively low income per capita (even allowing for faster growth than elsewhere) and geographic and regulatory dispersion across 54 countries. The analysis suggests that Egypt, Ethiopia, South Africa, Tanzania, Nigeria and Kenya could offer the best potential but are geographically far apart in some cases. Ethiopia, Kenya and Tanzania may be the most promising contiguous grouping.

Unless stated otherwise, all data as of 22 August 2025.

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Figure 4 – Asset class total returns (%)

Data as at 22 Aug 2025	Index	Current Level/RY	Total Return (USD, %) 1w	1m	QTD	YTD	12m	Total Return (Local Currency, %) 1w	1m	QTD	YTD	12m
Equities												
World	MSCI	955	0.4	2.9	4.3	15.1	18.3	0.4	3.1	4.7	12.3	17.6
Emerging Markets	MSCI	1267	-0.4	1.8	4.2	20.4	18.3	0.0	2.6	5.6	17.3	18.6
China	MSCI	82	1.6	4.3	10.6	29.9	47.6	1.5	3.9	10.2	30.1	47.9
US	MSCI	6181	0.3	2.6	4.3	11.0	18.2	0.3	2.6	4.3	11.0	18.2
Europe	MSCI	2499	1.4	3.3	3.7	28.3	18.0	1.4	3.4	4.2	14.6	12.3
Europe ex-UK	MSCI	3087	1.3	3.0	3.0	28.8	17.4	1.2	3.2	3.2	13.8	11.1
UK	MSCI	1497	1.8	4.4	6.1	26.6	20.0	2.1	4.2	7.5	17.2	16.3
Japan	MSCI	4623	-0.6	9.1	6.4	19.1	16.7	-0.6	9.4	8.2	11.3	17.2
Government Bonds												
World	BofA-ML	3.30	0.2	0.0	-0.8	6.6	1.4	0.2	0.1	-0.3	1.4	0.1
Emerging Markets	JP Morgan	3.60	-0.1	0.0	0.1	6.7	5.7	-0.1	0.0	0.3	3.2	5.6
China	BofA-ML	1.66	-0.3	-0.8	-1.0	1.9	3.2	-0.3	-0.7	-0.8	0.2	3.8
US (10y)	Datastream	4.24	0.6	1.2	0.5	5.6	1.3	0.6	1.2	0.5	5.6	1.3
Europe	Bofa-ML	2.82	0.4	-0.8	-0.6	13.4	6.5	0.3	-0.7	-0.4	0.2	1.0
Europe ex-UK (EMU, 10y)	Datastream	2.68	0.6	-0.9	-0.4	12.1	4.2	0.6	-0.8	-0.3	-0.9	-1.1
UK (10y)	Datastream	4.69	-0.1	-0.3	-2.2	10.4	2.3	0.2	-0.5	-0.9	2.2	-0.9
Japan (10y)	Datastream	1.61	-0.4	-1.1	-2.8	3.6	-4.8	-0.4	-0.8	-1.2	-3.1	-4.3
IG Corporate Bonds												
Global	BofA-ML	4.40	0.3	0.8	0.8	8.4	5.8	0.3	0.8	1.0	4.4	4.2
Emerging Markets	BBloom	6.13	0.4	2.2	2.9	9.4	9.8	0.4	2.2	2.9	9.4	9.8
China	BofA-ML	2.30	-0.1	-0.4	-0.6	2.4	2.7	-0.1	-0.3	-0.4	0.8	3.3
US	BofA-ML	4.95	0.4	1.3	1.2	5.5	4.1	0.4	1.3	1.2	5.5	4.1
Europe	BofA-ML	3.15	0.2	-0.2	0.4	15.9	10.2	0.1	-0.2	0.5	2.4	4.5
UK	BofA-ML	5.45	-0.3	0.2	-1.3	11.7	6.8	0.0	0.0	0.0	3.5	3.4
Japan	BofA-ML	1.59	-0.1	-0.7	-2.1	6.2	-1.6	-0.1	-0.4	-0.4	-0.7	-1.2
HY Corporate Bonds												
Global	BofA-ML	6.86	0.2	0.9	1.4	8.4	9.4	0.2	1.0	1.5	5.7	8.3
US	BofA-ML	7.14	0.3	0.8	1.2	5.8	8.2	0.3	0.8	1.2	5.8	8.2
Europe	BofA-ML	5.46	-0.2	0.6	1.1	17.8	13.4	-0.2	0.6	1.3	4.1	7.5
Cash (Overnight rates)												
US		4.36	0.1	0.3	0.3	2.5	4.7	0.1	0.3	0.3	2.5	4.7
Euro Area		1.92	-0.9	-1.0	-1.5	13.5	9.8	0.0	0.2	0.1	1.4	2.8
UK		4.22	-0.9	-2.3	-2.4	9.5	8.6	0.1	0.3	0.3	2.5	4.7
Japan		0.48	-0.8	-2.6	-3.0	6.1	3.9	0.0	0.0	0.0	0.3	0.3
Real Estate (REITs)												
Global	FTSE	1712	1.9	1.4	3.1	10.2	5.8	1.9	1.4	3.2	-2.7	0.4
Emerging Markets	FTSE	1325	0.4	1.9	5.2	15.6	16.0	0.3	2.0	5.4	2.2	10.0
US	FTSE	3181	2.7	0.1	2.5	2.2	0.9	2.7	0.1	2.5	2.2	0.9
Europe ex-UK	FTSE	2797	1.4	1.1	0.0	25.6	12.1	1.4	1.1	0.2	11.0	6.3
UK	FTSE	924	0.9	-2.8	-6.7	14.2	-5.0	1.1	-3.0	-5.4	5.8	-7.9
Japan	FTSE	2534	1.7	11.3	9.7	33.9	18.6	1.7	11.6	11.5	25.1	19.1
Commodities												
All	GSCI	3818	2.1	0.0	2.5	4.4	9.4	-	-	-	-	-
Energy	GSCI	634	2.5	-1.6	1.6	-0.5	2.5	-	-	-	-	-
Industrial Metals	GSCI	1772	0.5	-1.3	0.1	7.7	6.0	-	-	-	-	-
Precious Metals	GSCI	3732	1.3	-1.9	2.8	27.8	34.4	-	-	-	-	-
Agricultural Goods	GSCI	486	1.8	1.7	0.9	-5.7	5.9	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.17	0.2	-0.3	-0.6	13.2	5.4	-	-	-	-	-
JPY		146.94	0.2	-0.2	-2.0	7.0	-0.4	-	-	-	-	-
GBP		1.35	-0.3	0.2	-1.3	8.0	3.2	-	-	-	-	-
CHF		1.25	0.6	-1.1	-1.1	13.2	6.3	-	-	-	-	-
CNY		7.17	0.2	0.1	0.0	1.9	-0.3	-	-	-	-	-

Notes: **Past performance is no guarantee of future results.** *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 5 – Global equity sector total returns relative to market (%)

Data as of 22 Aug 2025	Global				
	1w	1m	QTD	YTD	12m
Energy	**0.4**	**-1.1**	**-1.9**	**-8.8**	**-12.9**
Basic Materials	**1.0**	**0.2**	**2.6**	**6.3**	**-5.1**
Basic Resources	0.8	0.5	4.7	11.9	0.5
Chemicals	1.2	-0.3	-0.8	-1.7	-13.1
Industrials	**0.6**	**-0.6**	**-0.7**	**2.6**	**1.7**
Construction & Materials	0.1	0.7	1.6	7.0	3.3
Industrial Goods & Services	0.7	-0.8	-1.1	1.9	1.5
Consumer Discretionary	**0.7**	**0.3**	**-0.2**	**-4.6**	**3.1**
Automobiles & Parts	2.6	3.3	4.9	-12.4	6.3
Media	-1.1	-3.1	-9.7	4.6	16.6
Retailers	-0.4	0.1	0.0	-5.0	4.2
Travel & Leisure	1.6	-1.5	0.1	-3.9	6.8
Consumer Products & Services	1.3	0.9	-0.5	-1.2	-7.3
Consumer Staples	**1.6**	**-0.9**	**-1.9**	**-1.0**	**-9.3**
Food, Beverage & Tobacco	1.6	-1.1	-1.6	0.1	-9.2
Personal Care, Drug & Grocery Stores	1.6	-0.4	-2.3	-2.7	-9.4
Healthcare	**1.1**	**1.0**	**-0.7**	**-8.6**	**-20.9**
Financials	**0.5**	**0.7**	**0.6**	**7.0**	**10.1**
Banks	0.4	1.8	2.2	12.4	16.3
Financial Services	0.5	-1.1	-0.8	0.8	4.9
Insurance	0.6	1.2	-1.3	5.0	4.8
Real Estate	**1.1**	**-1.3**	**-0.3**	**-1.0**	**-5.8**
Technology	**-1.9**	**-0.1**	**0.9**	**0.1**	**5.8**
Telecommunications	**-0.1**	**1.9**	**0.7**	**8.3**	**7.0**
Utilities	**-0.1**	**-2.0**	**-1.1**	**1.2**	**-3.4**

Notes: **Past performance is no guarantee of future results.** Returns shown are for Datastream sector indices versus the total market index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 6a – US factor index total returns (%)

Data as of 22 Aug 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	2.2	1.0	2.6	8.8	10.8	1.9	-1.5	-1.7	-1.9	-5.8
Low volatility	1.6	1.0	2.6	5.6	6.0	1.3	-1.6	-1.7	-4.8	-9.9
Price momentum	0.9	2.0	2.6	9.4	17.2	0.6	-0.6	-1.7	-1.4	-0.3
Quality	2.3	5.6	8.0	14.6	13.3	2.0	2.9	3.5	3.4	-3.7
Size	3.3	3.6	8.0	9.3	10.4	3.0	1.0	3.4	-1.4	-6.1
Value	3.4	3.4	6.9	13.4	16.9	3.1	0.8	2.3	2.3	-0.6
Market	0.3	2.6	4.4	10.9	17.6					
Market - Equal-Weighted	2.0	1.9	4.2	9.2	12.1					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 6b – European factor index total returns relative to market (%)

Data as of 22 Aug 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	1.4	1.7	2.4	9.2	9.3	-0.1	-1.6	-1.5	-4.0	-2.9
Low volatility	1.2	0.9	1.3	13.6	16.0	-0.2	-2.3	-2.6	-0.1	3.1
Price momentum	0.5	5.0	6.3	27.6	29.8	-0.9	1.5	2.2	12.2	15.4
Quality	0.7	1.9	4.0	17.6	18.8	-0.7	-1.4	0.0	3.4	5.6
Size	2.1	1.1	2.1	12.8	10.8	0.7	-2.2	-1.8	-0.8	-1.5
Value	2.0	3.6	4.8	24.7	25.4	0.5	0.2	0.7	9.7	11.5
Market	1.4	3.4	4.0	13.7	12.5					
Market - Equal-Weighted	1.6	2.7	3.9	15.5	15.8					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 7 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**		**0%**			
Cash	2.5%			0%			
Gold	2.5%			0%			
Bonds	**40%**	**10-70%**	↑	**40%**			
Government	25%	10-40%	↑	25%			
US	8%		↑	8%		50%	JPY
Europe ex-UK (Eurozone)	7%			7%			
UK	1%			2%			
Japan	7%		↑	4%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
Corporate IG	10%	0-20%		10%			
US Dollar	5%			5%		50%	JPY
Euro	2%			1%			
Sterling	1%			2%			
Japanese Yen	1%			0%			
Emerging Markets	1%			2%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↑	5%			
US Dollar	4%		↑	4%		50%	JPY
Euro	1%			1%			
Bank Loans	**4%**	**0-8%**		**8%**			
US	3%			6%			
Europe	1%			2%			
Equities	**45%**	**25-65%**	↓	**42%**			
US	25%		↓	10%			
Europe ex-UK	7%			12%			
UK	4%			6%			
Japan	4%			5%			
Emerging Markets	5%		↓	9%			
China**	2%			4%			
Real Estate	**4%**	**0-8%**	↓	**6%**			
US	1%			1%			
Europe ex-UK	1%			2%			
UK	1%		↓	1%			
Japan	1%		↓	1%			
Emerging Markets	1%			1%			
Commodities	**2%**	**0-4%**		**4%**			
Energy	1%			2%			
Industrial Metals	0.3%			1%			
Precious Metals	0.3%			0%			
Agriculture	0.3%			1%			
Total	**100%**			**100%**			

Currency Exposure (including effect of hedging)							
USD	52%			30%			
EUR	19%			25%			
GBP	7%		↓	11%			
JPY	13%		↑	19%			
EM	9%		↓	16%			
Total	**100%**			**100%**			

Notes: **China is included in Emerging Markets allocations. This is a theoretical portfolio and is for illustrative purposes only. See the latest The Big Picture document for more details. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. Arrows indicate the direction of the most recent changes.
Source: Invesco Global Market Strategy Office

Figure 8 – Model allocations for global sectors

	Neutral	Invesco	Preferred Region
Energy	**5.6%**	**Overweight**	**EM**
Basic Materials	**3.3%**	**Neutral**	**US**
Basic Resources	2.0%	Neutral	US
Chemicals	1.3%	Overweight	Europe
Industrials	**13.3%**	**Neutral** ↑	**Europe**
Construction & Materials	1.7%	Neutral ↑	Europe
Industrial Goods & Services	11.6%	Neutral ↑	Europe
Consumer Discretionary	**14.2%**	**Underweight**	**Europe**
Automobiles & Parts	2.3%	Underweight	Europe
Media	1.3%	Underweight ↓	Europe
Retailers	5.5%	Neutral ↓	Europe
Travel & Leisure	2.0%	Underweight	EM
Consumer Products & Services	3.1%	Underweight	Europe
Consumer Staples	**4.9%**	**Neutral**	**US**
Food, Beverage & Tobacco	3.1%	Neutral	US
Personal Care, Drug & Grocery Stores	1.8%	Overweight	Europe
Healthcare	**7.8%**	**Overweight** ↑	**US**
Financials	**16.7%**	**Overweight**	**Europe**
Banks	8.1%	Overweight	Europe
Financial Services	5.5%	Underweight	Japan
Insurance	3.2%	Neutral	US
Real Estate	**2.7%**	**Overweight**	**Japan**
Technology	**24.7%**	**Neutral**	**EM**
Telecommunications	**3.6%**	**Underweight** ↓	**US**
Utilities	**3.3%**	**Overweight**	**US**

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest Strategic Sector Selector for more details.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix

Methodology for asset allocation and expected returns

Which asset classes?

We look for investibility, size and liquidity. We have chosen to include equities, bonds (government, corporate investment grade and corporate high yield), bank loans, REITs to represent real estate, commodities and cash (all across a range of geographies). We use cross-asset correlations to determine which decisions are the most important.

Neutral allocations and policy ranges

We use market capitalisation in USD for major benchmark indices to calculate neutral allocations. For commodities, we use industry estimates for total ETP market cap + assets under management in hedge funds + direct investments. We use an arbitrary 5% for the combination of cash and gold. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

Expected/projected returns

The process for estimating expected returns is based upon yield (except commodities, of course). After analysing how yields vary with the economic cycle, and where they are situated within historical ranges, we forecast the direction and amplitude of moves over the next year. Cash returns are calculated assuming a straight-line move in short term rates towards our targets (with, of course, no capital gain or loss). Bond returns assume a straight-line progression in yields, with capital gains/losses predicated upon constant maturity (effectively supposing constant turnover to achieve that). Forecasts of corporate investment-grade, high-yield and bank loan spreads are based upon our view of the economic cycle (as are forecasts of credit losses). Coupon/interest payments are added to give total returns. Equity and REIT returns are based on dividend growth assumptions. We calculate total returns by applying those growth assumptions and adding the forecast dividend yield. No such metrics exist for commodities; therefore, we base our projections on US CPI-adjusted real prices relative to their long-term averages and views on the economic cycle. All expected returns are calculated in local currency and then, where necessary, converted into other currency bases using our exchange rate forecasts.

Currency hedging

We adopt a cautious approach when it comes to currency hedging as currency movements are notoriously difficult to accurately predict and sometimes hedging can be costly. Also, some of our asset allocation choices are based on currency forecasts. We use an amalgam of central bank rate forecasts, policy expectations and real exchange rates relative to their historical averages to predict the direction and amplitude of currency moves.

Definitions of data and benchmarks for Figure 4

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1 January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the ICE BofA government bond total return index for the World and Europe. The emerging markets yields and returns are based on the Bloomberg emerging markets sovereign US dollar bond index.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond total return indices, except for in emerging markets where we use the Bloomberg emerging markets corporate US dollar bond index.

Corporate high yield (HY) bonds: ICE BofA high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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Telephone calls may be recorded.

Author

Paul Jackson
Global Head of Asset Allocation Research
paul.jackson@invesco.com
London, EMEA

Global Market Strategy Office

Paul Jackson
Global Head of Asset Allocation Research
paul.jackson@invesco.com
London, EMEA

András Vig
Multi-Asset Strategist
andras.vig@invesco.com
London, EMEA

Arnab Das
Global Macro Strategist
arnab.das@invesco.com
London, EMEA

Ashley Oerth
Associate Global Market Strategist
ashley.oerth@invesco.com
London, EMEA

Brian Levitt
Global Market Strategist, Americas
brian.levitt@invesco.com
New York, Americas

James Anania
Investment Strategy Analyst, Americas
james.anania@invesco.com
New York, Americas

David Chao
Global Market Strategist, Asia Pacific
david.chao@invesco.com
Hong Kong, Asia Pacific

Thomas Wu
Market Strategy Analyst, Asia Pacific
thomas.wu@invesco.com
Hong Kong, Asia Pacific

Tomo Kinoshita
Global Market Strategist, Japan
tomo.kinoshita@invesco.com
Tokyo, Asia Pacific

Telephone calls may be recorded