The Big Picture

Global Asset Allocation 2025 Q3

Quarterly update from Invesco's Global Market Strategy Office
10 June 2025

For professional/institutional/qualified/accredited investors only.

We think the global economy will accelerate over the next 12 months as central banks ease and real wages grow. However, we think some market valuations understate the risks to the US economy. We continue to embrace risk with caution and emphasise non-US assets within our Model Asset Allocation. We reduce equities (to Underweight) and REITS (but remain Overweight), while adding to government bonds and high yield credit (taking both to Neutral). Seeking balance, we maintain maximum exposures to both bank loans and commodities.

Model asset allocation

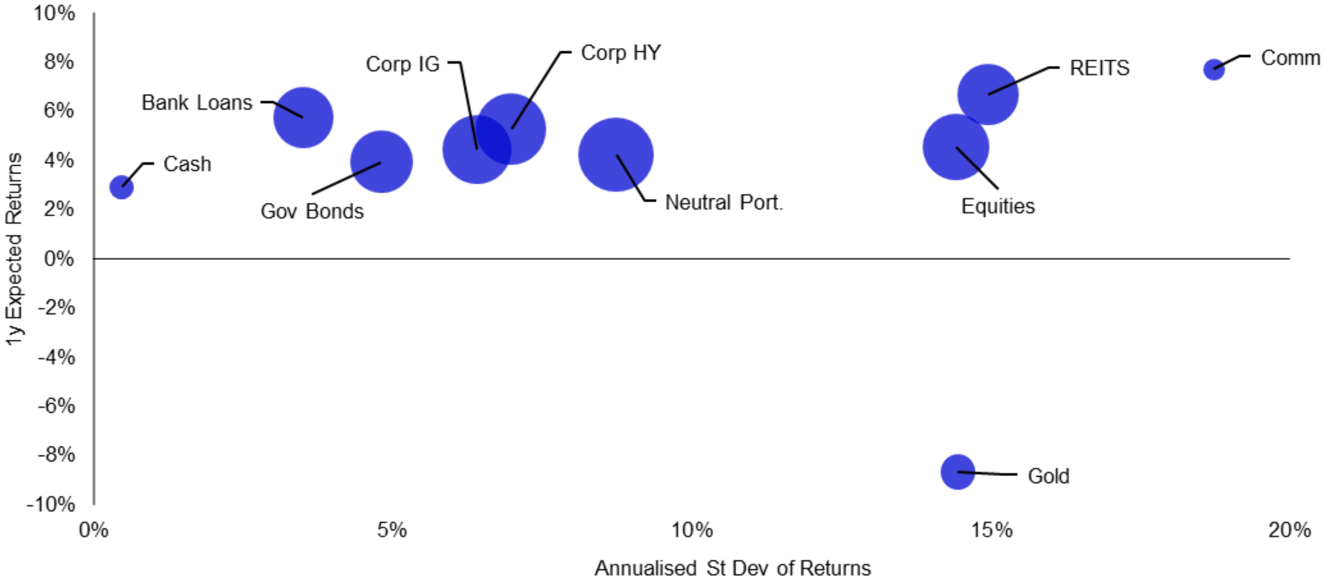
In our view:

- Commodities should benefit as the global economy improves. We stay at the Maximum.
- Bank loans offer an attractive risk-reward trade-off. We stay at the Maximum.
- Real estate (REITS) have rebounded but may benefit as rates fall. We reduce but stay Overweight.
- Government bond yields have risen. We increase to Neutral (and lengthen duration beyond Neutral).
- Corporate investment grade (IG) has a similar profile to government bonds. We remain at Neutral.
- Corporate high yield (HY) spreads are tight but the improved growth outlook helps. We boost to Neutral.
- Equities have rebounded and we reduce to slightly Underweight (and remain Underweight the US).
- Cash will be disadvantaged as the global economy accelerates. We remain at Zero.
- Gold may be helped by a weakening dollar and geopolitics, but is expensive. We remain at Zero.
- Regionally, we favour Europe and EM and seek JPY exposure.
- US dollar is likely to weaken and we maintain the partial hedge into JPY.

Our best-in-class assets (based on 12m projected returns)

- China equities
- Eurozone REITS
- European bank loans
- EM government bonds

Figure 1: Projected 1-year return versus risk for global assets



Based on annualised local currency returns. Returns are projected but standard deviation of returns is based on 5-year historical data. Size of bubbles is in proportion to average 5-year pairwise correlation with other assets (hollow bubbles indicate negative correlation). Cash is an equally weighted mix of USD, EUR, GBP and JPY. Neutral portfolio weights shown in Figure 3. As of 30 May 2025. **There is no guarantee that these views will come to pass**. See Appendices for definitions, methodology and disclaimers.
Source: Credit Suisse/UBS, ICE BofA, MSCI, S&P GSCI, FTSE Russell, LSEG Datastream and Invesco Global Market Strategy Office

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Summary and conclusions: Learning to live with the chaos

We feel more confident but this is reflected in some asset prices

We think the global economy will accelerate over the next 12 months as central banks ease and real wages grow. However, we think some market valuations understate the risks to the US economy. We continue to embrace risk with caution and emphasise non-US assets within our Model Asset Allocation.

We favour REITS, commodities, non-US equities and bank loans

Figure 1 shows that we expect to be rewarded (a bit) for taking risk over the next 12 months and **Figure 2** shows that we favour REITS, commodities and non-US equities within our Model Asset Allocation. Among defensive assets, we favour bank loans, which we think still offer an attractive risk-reward trade off. We have a Neutral allocation to fixed income assets and are Underweight cash, gold and US equities.

Equities reduced to Underweight and REITS reduced but still Overweight

As shown in **Figure 3**, after the recent rebound we reduce the **equity** allocation to slightly Underweight by reducing US equities (to further Underweight) and non-China emerging markets (EM), though remaining Overweight the latter. We remain Overweight all non-US equity regions (we believe the US market is expensive, while Europe could receive a defence and infrastructure related fiscal boost, and we think Chinese stocks remain good value). We also reduce **REITS** (by cutting allocations to the UK and Japan), but remain Overweight with a preference for non-UK Europe.

Government bonds and HY raised to Neutral

After the recent rise in yields, we boost **government bonds** to Neutral, by adding to the US and Japan (remaining Underweight the latter). We also bring **high yield** (HY) up to Neutral (by adding to the US). Though we think HY spreads are tight, this could be justified if recession is avoided. We remain Neutral in investment grade credit (IG).

Remain maximum allocated to bank loans and commodities

We maintain the maximum allocation to **bank loans**, which we believe offers the best combination of risk and reward (see **Figure 1**). We also remain maximum allocated to **commodities** in the belief that economic acceleration will boost industrial commodities. Elsewhere, we remain zero allocated to **cash** (believing more growth will favour other assets) and **gold**, which we think is too expensive.

Underweight US assets; favour Europe and EM

Across assets we Underweight the US and Overweight all other regions (especially EM and Europe). Among currencies, we prefer JPY and partially hedge form USD to JPY.

Figure 2: Asset scoring and Model Asset Allocation*

	Total Score	Model Asset Allocation*	Preferred assets
Cash		Underweight	JPY, GBP
CLOs		N/A	
Bank Loans		Overweight	Europe
Hedge Funds		N/A	
Government Bonds		Neutral	EM, UK
Investment Grade		Neutral	UK, EM
High Yield		Neutral	
Gold		Underweight	
Non-US equities		Overweight	China, Europe, EM
US equities		Underweight	Equal weight, banks
REITS		Overweight	Europe, EM
Commodities		Overweight	Energy, agriculture
Private Equity		N/A	
Bitcoin		N/A	

Note: *This is a theoretical portfolio and is for illustrative purposes only (see **Figure 3** for the details). It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. “CLOs” is AAA collateralised loan obligations. “Total Score” is a summary of subjective scores across a range of factors that we think will impact asset returns over the coming 12 months (see **Figure 18** for details). Positive (dark blue) scores indicate a positive outlook relative to other assets and negative scores (light blue) indicate the opposite. “N/A” indicates that the asset concerned is not part of our Model Asset Allocation framework. See appendices for definitions, methodology and disclaimers. Source: Invesco Global Market Strategy Office

Model asset allocation*

Figure 3 – Model asset allocation (10/6/2025)

	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%**

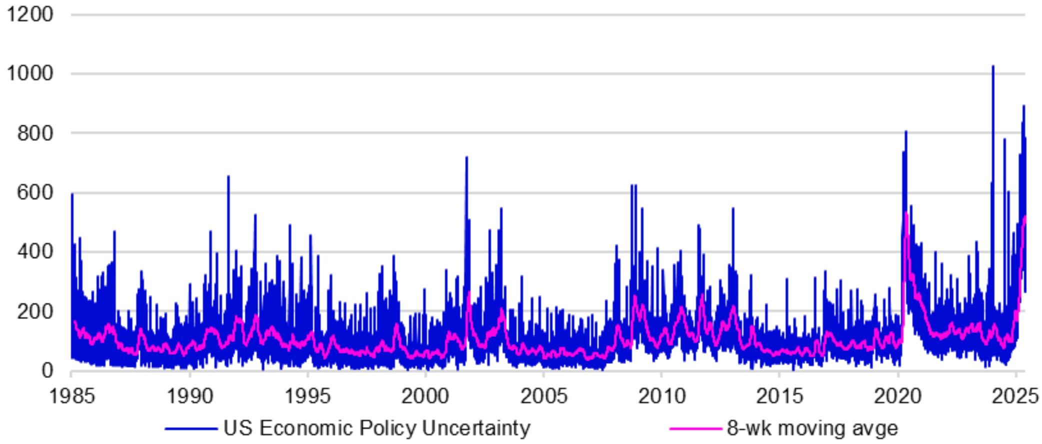
*This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. **China is included in Emerging Markets allocations. Cash is an equally weighted mix of USD, EUR, GBP and JPY. Currency exposure calculations exclude cash. Arrows show direction of change in allocations. See appendices for definitions, methodology and disclaimers.
Source: Invesco Global Market Strategy Office

Learning to live with the chaos

2025 has brought many policy shocks from the US, possibly impacting the global economy

Uncertainty is the enemy of economies and financial markets, in our view. **Figure 4** shows that uncertainty about US economic policy has rarely been higher than in recent months. That has been destabilising for the US consumer and US businesses. Given the importance of the US to the world economy, and the uncertainty surrounding US trade policy, we think the broader global economy is also likely to have suffered.

Figure 4 – US Economic Policy Uncertainty Index



Note: US Economic Policy Uncertainty Index is based on daily data from 1 January 1985 to 28 May 2025 and is compiled by Economic Policy Uncertainty, based on searches for words implying uncertainty in the output of news outlets.
Source: Economic Policy Uncertainty, LSEG Datastream and Invesco Global Market Strategy Office

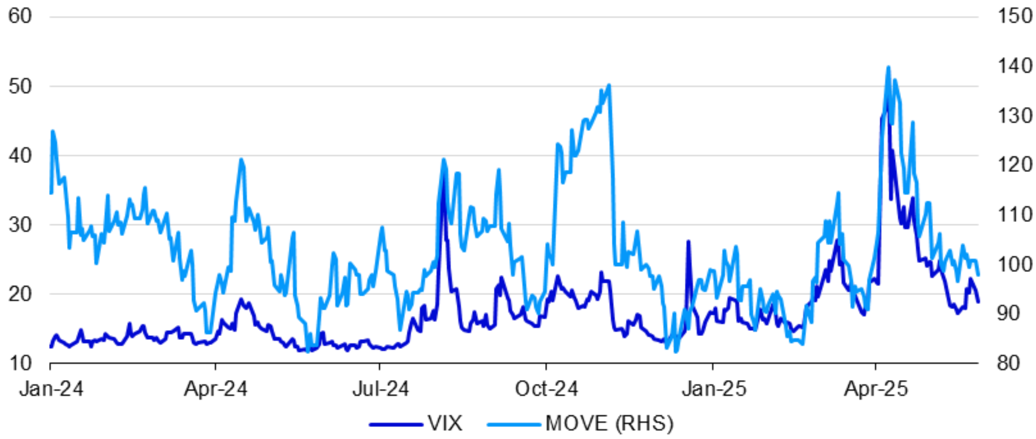
However, we are learning to live with the swings in policy

Psychologically, we may be getting used to the shocks. Even better, we have learned to expect frequent changes of direction, which is becoming built into our reactions to announcements. Hence it is no surprise that the Economic Policy Uncertainty Index has fallen in recent weeks (it is difficult for anybody to continue surprising to that degree!).

Financial markets are calmer but we keep an eye on the economy

This also applies to financial markets where “fear gauges” such as the CBOE VIX and ICE BofA MOVE indices have subsided to more normal levels after the April “excitement” brought on by US reciprocal tariffs and White House antipathy towards the Fed (see **Figure 5**). The panic appears to be over but remember that volatility tends to spike during recessions, so we are keeping an eye on state of the economy.

Figure 5 – Markets are no longer so fretful



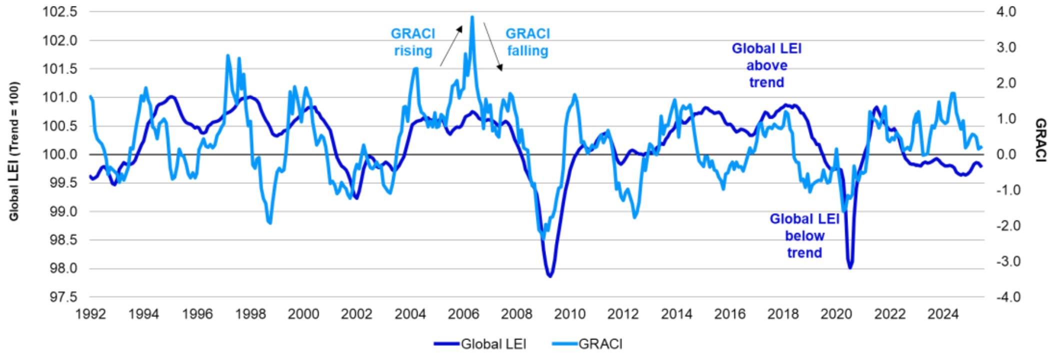
Note: **Past performance is no guarantee of future results**. Based on daily data from 1 January 2024 to 27 May 2025. “VIX” is the CBOE VIX Index and is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX℠) call and put options. “MOVE” is the Merrill Lynch Option Volatility Estimate. It is a measure of US bond market volatility provided by ICE BofA and tracks implied normal yield volatility of a yield curve weighted basket of at-the-money one-month options on the 2-year, 5-year, 10-year and 30-year constant maturity US interest rate swaps.
Source: CBOE, ICE BofA, Bloomberg, LSEG Datastream and Invesco Global Market Strategy Office

Market behaviour and leading indicators suggest we are in a contraction regime

Economic momentum: mixed with downside risk in the US

Figure 6 shows two proprietary indicators from Invesco Solutions, designed to help decide where we are in economic and market cycles. The Global LEI (leading economic indicator) measure suggests global growth has waned (and is below trend), while the GRACI (Global Risk Appetite Cycle Indicator) suggests risk appetite has deteriorated a lot over the last year.

Figure 6 – Global risk appetite and the global business cycle

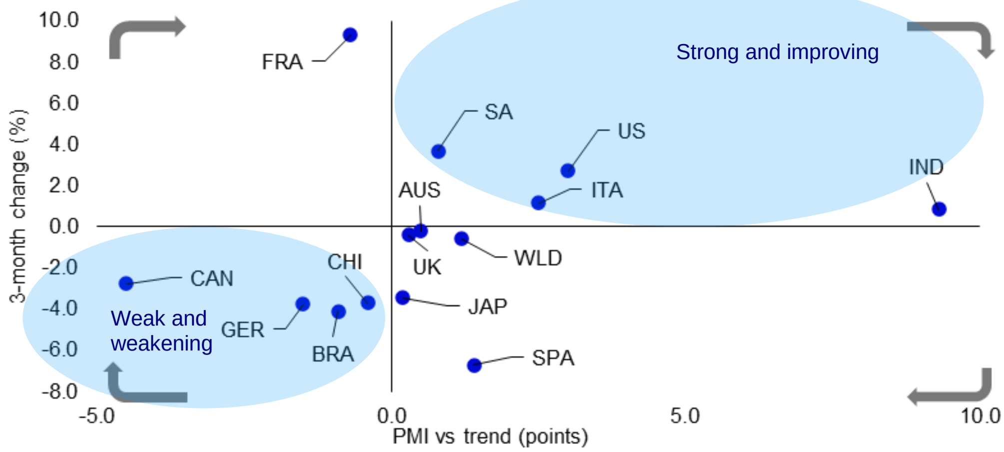


Note: **past performance does not guarantee future results**. Monthly data from January 1992 to May 2025 (as of 30 May 2025). Both Global LEI (Leading Economic Indicator) and GRACI (Global Risk Appetite Cycle Indicator) are proprietary tools provided by Invesco Solutions. Global LEI is a weighted average of leading indicators for 23 countries (both developed and emerging). A reading above (below) 100 signals growth above (below) a long-term average. GRACI measures the average incremental return received per incremental unit of risk taken in global financial markets (i.e., incremental return received for moving from government bonds to credit, from credit to developed equities, from developed equities to emerging equities, etc.). It is calculated using country-level total return indices across fixed income and equity markets. A reading above (below) zero signals a positive (negative) compensation for risk taking in global capital markets in the recent past. A rising index signals improving market sentiment and vice-versa.
Sources: Bloomberg L.P., Macrobond, MSCI, FTSE, JP Morgan and Invesco Solutions

PMIs are mixed and US policies pose a risk but we expect global acceleration in 2025

Recent PMI data has been mixed. Though many national composite PMIs are above trend (see **Figure 7**), a lot have weakened over recent months. Despite its tariff polices, the composite PMI for the US has improved of late and remains above trend (though we note this is not true of the more popular ISM surveys). Manufacturing PMIs remain below trend, with recent weakening. Many service sector PMIs have also weakened but most remain above trend. Despite the mixed data messages, we expect falling interest rates and rising real wages to enable economic acceleration in 2025 (as suggested by many national leading indicators). Among risks to the global economy we worry about the volatility of US tariffs and geopolitical tensions, along with concerns about US debt.

Figure 7 – Composite PMIs are mixed



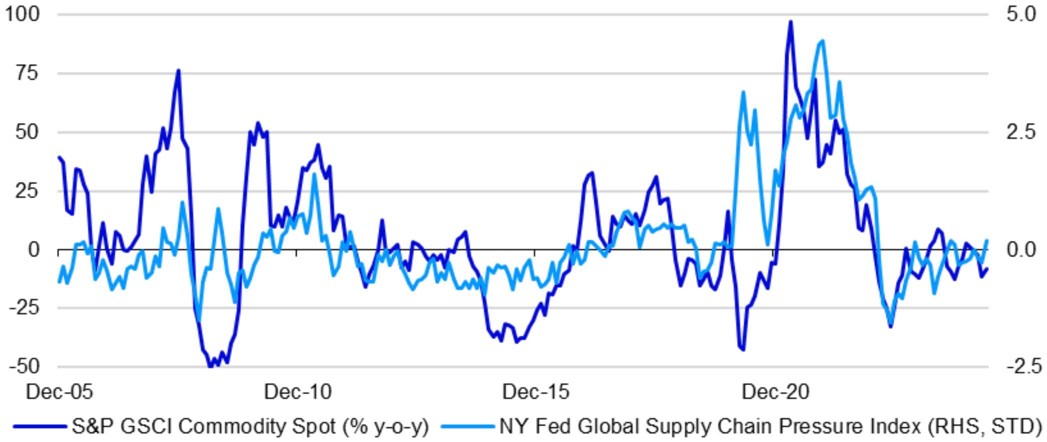
Note: based on monthly data up to May 2025. PMI data is provided by S&P Global and “PMI vs trend” is the PMI for each country/region minus 50. Arrows indicate our view of the direction of movement around the chart. See appendices for country abbreviations.
Source: S&P Global, LSEG Datastream and Invesco Global Market Strategy Office

Falling commodity prices have helped drive inflation lower

Inflation and policy rates: falling commodity prices help reduce inflation, for now

Though the path to lower inflation seemed to stall around the turn of the year, the decline in commodity prices shown in **Figure 8** appears to be helping once again. We think commodity prices have been weak for two reasons: concern about the effect of US tariffs on the global economy and the decision by OPEC+ to boost oil production.

Figure 8 – Proximate drivers of global inflation



Note: **Past performance is no guarantee of future results**. Monthly data from December 2005 to May 2025. NY Fed Global Supply Chain Pressure Index tracks the state of global supply chains using data from the transportation and manufacturing sectors, as constructed by the Federal Reserve Bank of New York. It is shown as standard deviations from the historical mean. Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, S&P GSCI, LSEG Datastream and Invesco Global Market Strategy Office

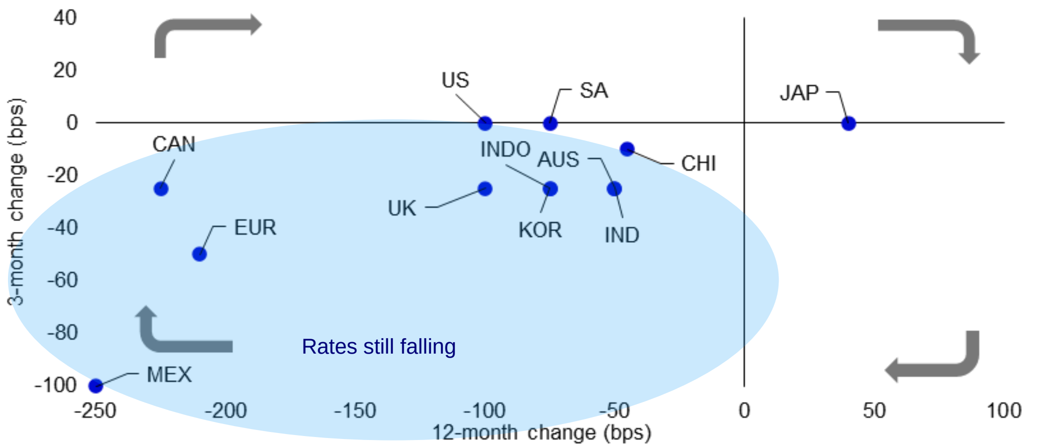
And supply chain disruptions haven't yet emerged

Interestingly, despite concerns about disruption to supply chains (again due to US trade policies), there is limited evidence of that so far in the New York Fed's Global Supply Chain Pressure Index (see **Figure 8**). This data set is up to May 2025, so the evidence may come through later, but, so far, so good.

Most central banks are still easing and the Fed may eventually catch up

If there were a country that risks bucking the disinflationary trend, it is the US, with tariffs potentially boosting producer and consumer prices. Hence, the Fed has not cut interest rates since December 2024 and members of the FOMC have indicated they are happy to delay the next rate cut until later in the year (see **Figure 9**). On the other hand, falling commodity prices and a weakening dollar should help the disinflationary process elsewhere. This, along with fears about the effect of US tariffs on their economies, is making it easy for other central banks to continue the easing process (see **Figure 9**). We suspect the Fed will catch up rapidly once it starts to ease.

Figure 9 – Central bank policy rates continue to fall



Note: Based on monthly data up to May 2025 (as of 30 May 2025). Arrows indicate our view of the direction of movement around the charts. See appendices for country abbreviations.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Asset momentum: is the correction over?

It has been a good 12 months for most assets, especially the more volatile categories

Total returns were positive on all fourteen of the global assets that we cover over the last 12 months, except commodities (see **Figure 10**). The strongest returns were delivered by Bitcoin, gold and equities (US and non-US). Regional detail for some of those assets is shown in **Appendix 2**. Though the US equity market has been strong, China has produced the best returns (luckily, we were Overweight that market, though we were Underweight the US). Among fixed income assets, returns were strongest in emerging markets (where we were also Overweight). The US dollar (USD) has been broadly stable over the last 12 months (based on the Goldman Sachs Trade Weighted Index), though it has weakened against some major currencies (see **Appendix 2**).

But recent months have seen some reversal, with US stocks suffering and global government bonds performing well

However, there appear to have been some changes in momentum over the last three months, with more assets generating negative returns since the end of February 2025. This is notably the case for private equity and commodities, though US equities also fall into this category. Bitcoin and gold remain the best performing assets, along with non-US equities (with Japanese stocks leading the way). Government bonds have moved up the rankings, while the US dollar has weakened. All this being said, we are surprised that the market turmoil of early April has not had a more lasting effect on asset performance. Indeed, US stocks rebounded during the most recent month, while so-called “safe haven” assets such as government bonds and gold have struggled.

So long as the global economy accelerates, we expect better performance from riskier assets

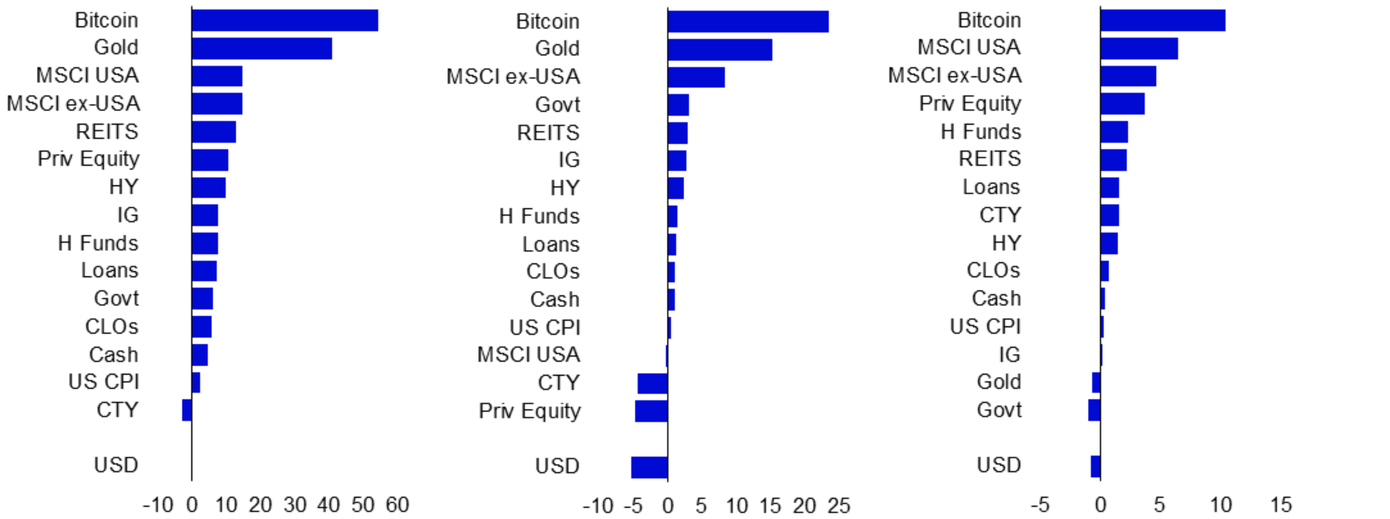
The question is whether the more bullish performance of the last month, with stocks outperforming government bonds and US equities outperforming other markets, represents a return to pre-2025 patterns or whether it is just a relief rally that will fizzle out. Our view is that it depends upon the economic cycle. Without a marked slowdown in global GDP growth, we doubt that defensive assets such as government bonds and IG will be among the best performers. Rather than such a slowdown, we expect global acceleration over the next 12 months, which in our opinion points to outperformance by selective riskier assets (non-US equities and industrial commodities come to mind).

But risks remain

Even with global economic acceleration, our concerns about the US economy and valuations make us wary of US equities. Other assets that we believe are extended are USD, gold and Bitcoin (see the following section on valuations).

Figure 10 – Global asset total returns over various periods

12 months (% in US dollars) | **3 months (% in US dollars)** | **1 month (% in US dollars)**



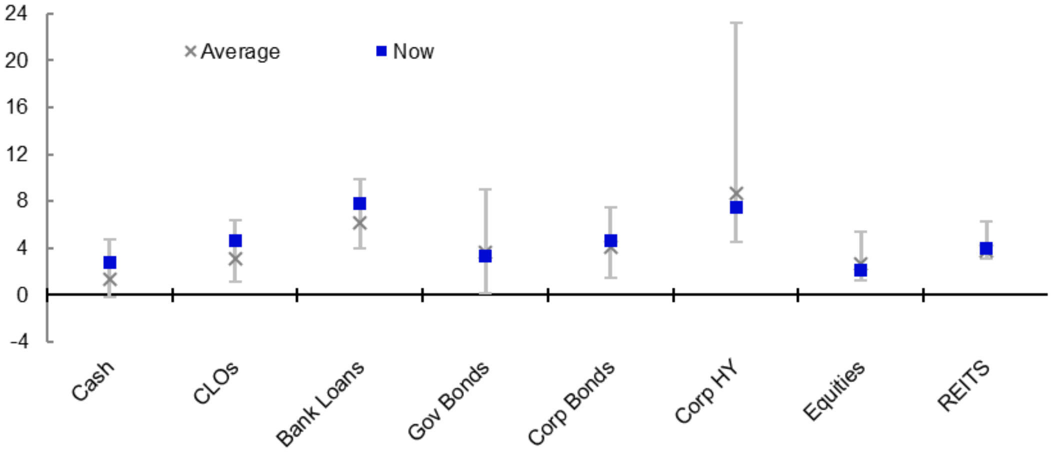
Past performance is no guarantee of future results. Based on monthly total return data for global assets in US dollars up to 30 May 2025. Abbreviations are as follows: “CTY” is commodities, “Govt” is government debt”, “H Funds” is hedge funds, “HY is high yield credit, “IG” is investment grade credit, “Loans” is bank loans or leveraged loans, “MSCI ex-USA” is MSCI ACWI ex USA Index, “Priv Equity” is private equity, “CLOs” is AAA collateralised loan obligations, “US CPI” is the US Consumer Price Index and “USD” is a trade weighted US dollar index. See appendices for definitions of asset categories and sources.
Source: ICE BofA, Credit Suisse, Credit Suisse/UBS, GPR, Goldman Sachs, JP Morgan, MSCI, S&P GSCI, LPX, Bloomberg, LSEG Datastream and Invesco Global Market Strategy Office

Cash rates and CLO/bank loan yields remain higher than normal, so being defensive isn't that costly (in our view)

Asset valuations: defensive assets have a valuation advantage

Judging by asset yields, valuations vary depending upon the duration of assets. The yields on shorter duration instruments such as cash, CLOs and bank loans remain above historical norms (see **Figure 11**). On the other hand, the yield on cyclical longer duration assets such as HY and equities are below historical averages. Those on more defensive longer duration instruments (government bonds and IG) are close to historical norms. **Appendix 1** shows the regional detail.

Figure 11 – Global asset yields within historical ranges (%)



Start dates for historical ranges are Cash 1 January 2001; CLOs 30 December 2011; Bank Loans 31 January 1998; Gov Bonds 31 December 1985; Corp Bonds 31 December 1996; Corp HY 31 December 1997; Equities 1 January 1973; REITs 18 February 2005. CLOs is AAA collateralised loan obligations. See appendices for definitions, methodology and disclaimers. As of 30 May 2025. Source: ICE BofA, Credit Suisse Indices/UBS, JP Morgan, LSEG Datastream and Invesco Global Market Strategy Office

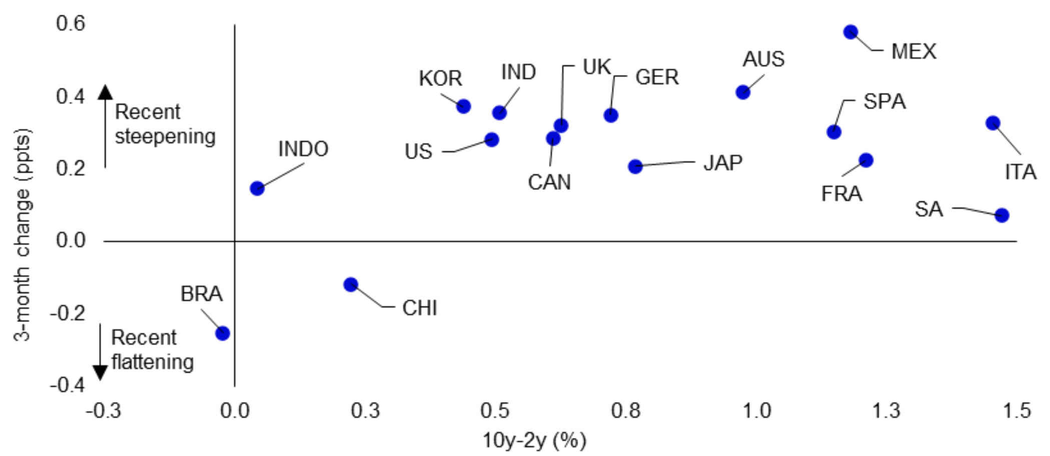
EM and eurozone bond yields are relatively attractive, while HY spreads are narrow

Within government bond and IG markets, EM has outperformed over the last 12 months (see **Appendix 2**). This has brought EM yields down towards historical norms (see **Appendix 1**). This reduces the valuation attraction of EM bonds but we note that US yields are below historical norms, which suggests that EM fixed income assets may still have a relative advantage (in our opinion). Eurozone yields are in line with historical norms, which improves the comparison with US and UK bonds. HY spreads remain too narrow, in our opinion.

Positively sloped yield curves make it easier to extend duration

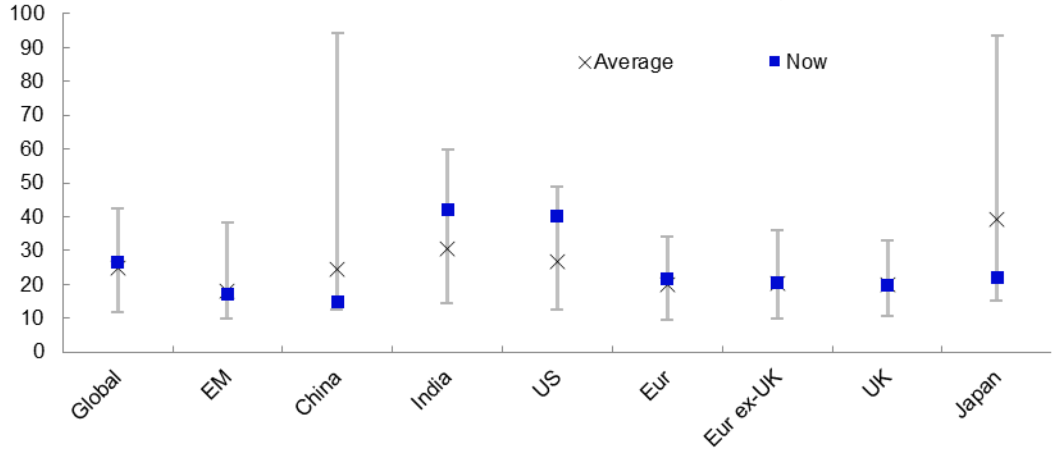
Yield curves have continued to steepen in most countries (see **Figure 12**) and are now positively sloped (on the whole). In our opinion, positively sloped yield curves make it easier to favour longer duration bonds, especially in Europe where the ECB has cut policy rates by 100 basis points during 2025, while the Fed has made no changes.

Figure 12 – Slope of 10y-2y yield curves and the change in the last three months



Note: **Past performance is no guarantee of future results**. As of 30 May 2025. Based on a comparison of 10-year and 2-year government bond yields. "ppts" is percentage points. See appendices for country abbreviations. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 13 – Cyclically adjusted PE ratios within historical ranges



Note: Cyclically Adjusted Price/Earnings uses a 10-year moving average of earnings. Based on daily data from 3 January 1983 (except for China from 1 April 2004, India from 31 December 1999 and EM from 3 January 2005), using Datastream indices. As of 30 May 2025.
Source: LSEG Datastream and Invesco Global Market Strategy Office

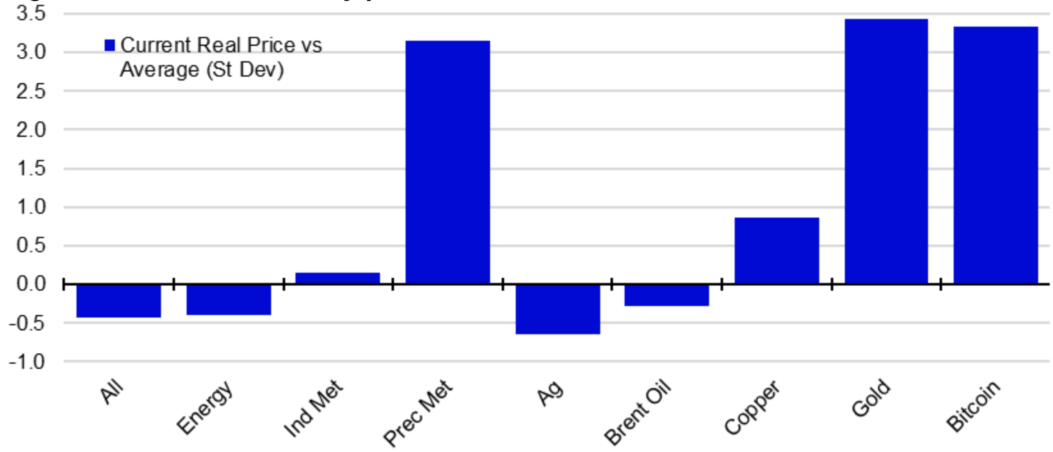
US and Indian equities remain expensive, while those of China are still below historical norms. Europe now has an interesting growth outlook

After the gyrations of recent months, there has been surprisingly little change in the valuation of major equity markets. Though US stocks have underperformed during 2025 (see **Appendix 2**), they remain expensive compared to both historical norms and other markets (see the cyclically adjusted price earnings ratios shown in **Figure 13**). At the same time, and despite strong outperformance over the last 12 months, Chinese stocks continue to be cheap relative to their own history and other markets. European stocks have a good year so far but their valuations remain in line with historical norms. On this basis, we continue to favour China and Europe over the US (Europe now has a more compelling economic growth outlook due to an expected uplift in both European military outlays and German infrastructure spending).

Gold and Bitcoin are unusually expensive. Industrial commodities may be an inexpensive way to get exposure to a global upswing

Turning to commodities, **Figure 14** shows that gold (and precious metals in general) and Bitcoin are significantly above historical norms in real terms (Bitcoin is not normally thought of as a commodity but it shares some characteristics with gold and it is not clear where else to put it). There may be good reasons why gold and Bitcoin have strengthened but they are unusually expensive. On the other hand, industrial commodities (energy and industrial metals such as copper) are in line with historical norms and we think they could benefit if the global economy accelerates.

Figure 14 – Real commodity prices versus historical norms



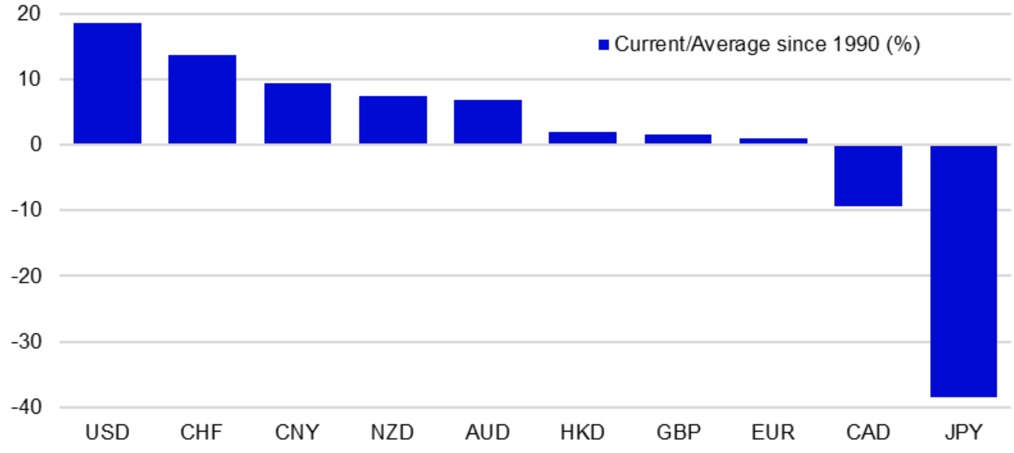
Note: Abbreviations: “Ind Met” is industrial metals, “Prec Met” is precious metals and “Ag” is agriculture. Historical ranges start on: All and Ag 31 December 1969; Energy 31 December 1982; Ind Met 31 January 1977; Prec Met 31 December 1974; Brent 29 May 1987; copper 31 January 1974, gold 31 January 1974, Bitcoin 30 November 2010. Prices are deflated by the US consumer price index. As of 30 May 2025. See appendices for definitions, methodology and disclaimers.
Source: GSCI, LSEG Datastream and Invesco Global Market Strategy Office

The yen remains cheap, despite the recent rebound (and the dollar is expensive)

Currency outlook: the yen looks good value and the euro has newfound strength

Among the most traded currencies, the Japanese yen remains the cheapest, when compared to historical norms in real terms (see **Figure 15**). With the BOJ expected to further tighten, while most other central banks are easing (and with 10-year Japanese government yields at levels not seen since mid-2009), the yen has strengthened. We expect this to continue over the next year or so and suspect the yen could be the strongest major currency, while we expect the dollar to weaken.

Figure 15 – Real effective exchange rates* relative to historical norms



*Currency indices measured against a trade-weighted basket of currencies and adjusted for inflation differentials (based on Goldman Sachs Real Trade-Weighted Indices). As of 30 May 2025.
Source: Goldman Sachs, Bloomberg and Invesco Global Market Strategy Office

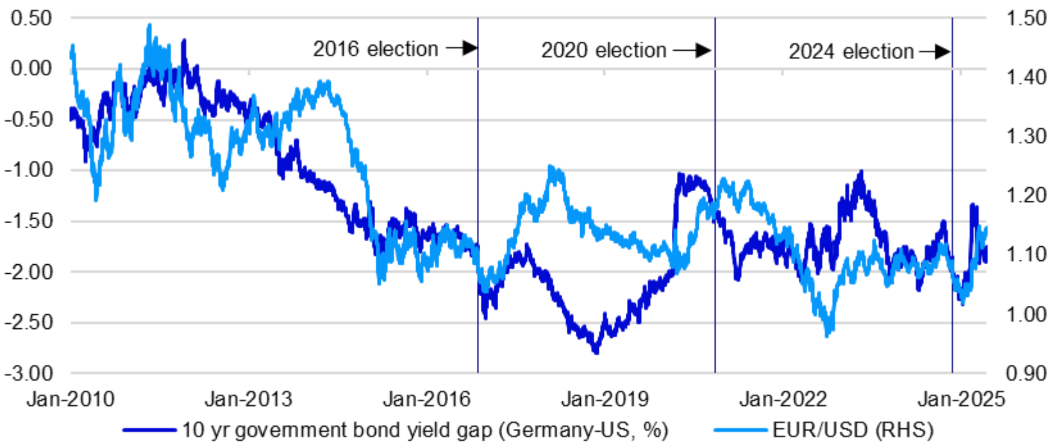
The euro strengthens on the promise of a fiscal boost

The euro is not as compelling as the yen from a valuation perspective but it has strengthened on the promise of more government spending and economic growth (in our view). **Figure 16** shows a closing of the gap between US and German yields during 2025, which has coincided with a strengthening of the euro (similar to that after the 2016 US election). We expect a significant boost to German and European growth over the coming decades, on the back of European defence spending and German infrastructure plans. Interestingly, the spread between US and German yields has again widened since early April but the euro has not weakened. We presume this is because US yields have risen on concerns of a potential worsening of the US fiscal position.

We expect more from both yen and euro

We think a stronger European economy will boost the euro. We believe that the ”normal” rate for EURUSD is closer to 1.20, based on a historical analysis in real terms. A similar “normal” rate for the USDJPY is below 100, in our view.

Figure 16 – EURUSD, yield differentials and US elections



Note: **Past performance is no guarantee of future results**. Based on daily data from 1 January 2010 to 6 June 2025. As of 6 June 2025. US elections refer to the date of US presidential elections.
Source: LSEG Datastream and Invesco Global Market Strategy Office

We were cautiously optimistic about the outlook for 2025

But some US related risks appear to have shifted to the downside

Though there are some balancing factors elsewhere

Our risk appetite has fallen but remains slightly positive

We emphasise diversification

Threats, opportunities and risk appetite assessment

A lot has happened since the last Big Picture was published in March. At that time we were willing to cautiously embrace risk, believing that the global economy could accelerate (helped by falling interest rates and rising real wages). The caution came largely from the extended valuation of some assets (notably US stocks and US HY).

Since then, it is our feeling that risks have deepened:

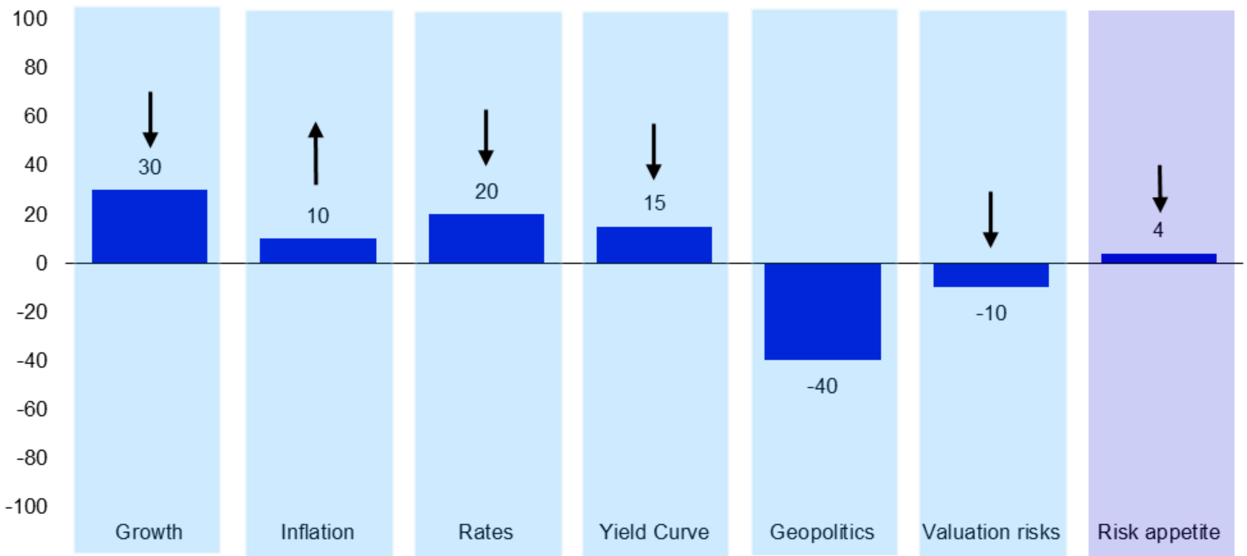
- The tariff policy announced by President Trump on 2 April 2025 was more disruptive than we had anticipated. Though he has since worked hard to mitigate the risks, it looks as though a 10% tariff is the new normal, suggesting higher inflation and lower growth in the US than we had imagined (see here). The Fed is hesitant to ease.
- Geopolitical risks remain elevated, in our view, with the new US administration upsetting neighbours and allies. Peace remains elusive in Ukraine and Gaza.
- The US budget deficit appears likely to widen as a result of the One Big Beautiful Bill Act working its way through Congress (the Congressional Budget Office estimates it will add around $2.3trn to the sum of national deficits over the next 10 years, before allowing for interactions across the various measures).

This being said, we think there are some new opportunities:

- The price of oil (Brent) has fallen more than 10% since we last published, which was bad news for our Overweight in energy. But it is depressing inflation, which we think will allow many central banks to support growth via further easing.
- European countries are being forced to confront the risks from Russia without support from the US, implying more defence spending and a deeper and broader European military industrial complex (good for European economic growth). Along with the promised uplift in German infrastructure spending, this should see stronger growth than for some time in the German and broader European economies.
- The outperformance of European and Chinese stocks shows there are options beyond the US market, allowing for better diversification across regions and assets.

Figure 17 shows our assessment of factors that impact our risk-appetite. The arrows suggest the recent changes in risk appetite factors have mainly been negative. Exceptions are the outlook for inflation, which we think may have improved in many countries and geopolitical risks, which may have stabilised. The average ”Risk appetite” score has fallen from 8 to 4 but remains slightly positive. Hence, we remain cautious in our embrace of risk within our Model Asset Allocation framework.

Figure 17: Risk appetite assessment



Note: The chart shows how various factors are impacting our risk appetite. Positive scores suggest an addition to risk appetite, while negative scores imply the opposite. “Risk appetite” is an average of the other scores in the chart. Arrows indicate the direction of recent changes in our views. Source: Invesco Global Market Strategy Office

Projections and asset preferences

Economies to accelerate but there are risks and some assets are expensive

We think the global economy could accelerate over the next 12 months as central banks ease and real wages grow. However, the US economy may be experiencing a growth pause and trade conflicts pose a global threat. We think geopolitical risks have risen. Many asset categories appear to ignore these risks, in our opinion.

Central banks to continue easing but at a slower pace

Underpinning our projections for the next 12 months are the following assumptions (see **Appendix 4** for detail):

- Global GDP growth will improve (despite risks in the US)
- Global inflation will ease further towards central bank targets
- Major central banks will ease but at a slower pace (the BOJ will tighten)
- Yield curves will mostly steepen (largely due to falling short rates)
- Credit spreads will widen slightly and defaults rise a bit (from low levels)
- Bank loan current yield spreads will be mixed but defaults rise (from low levels)
- Equity and REIT dividend growth will be low; yields will have a downward bias
- USD will weaken as the Fed eases, especially versus JPY (as the BOJ tightens)
- Commodities will benefit from more global growth and USD weakness

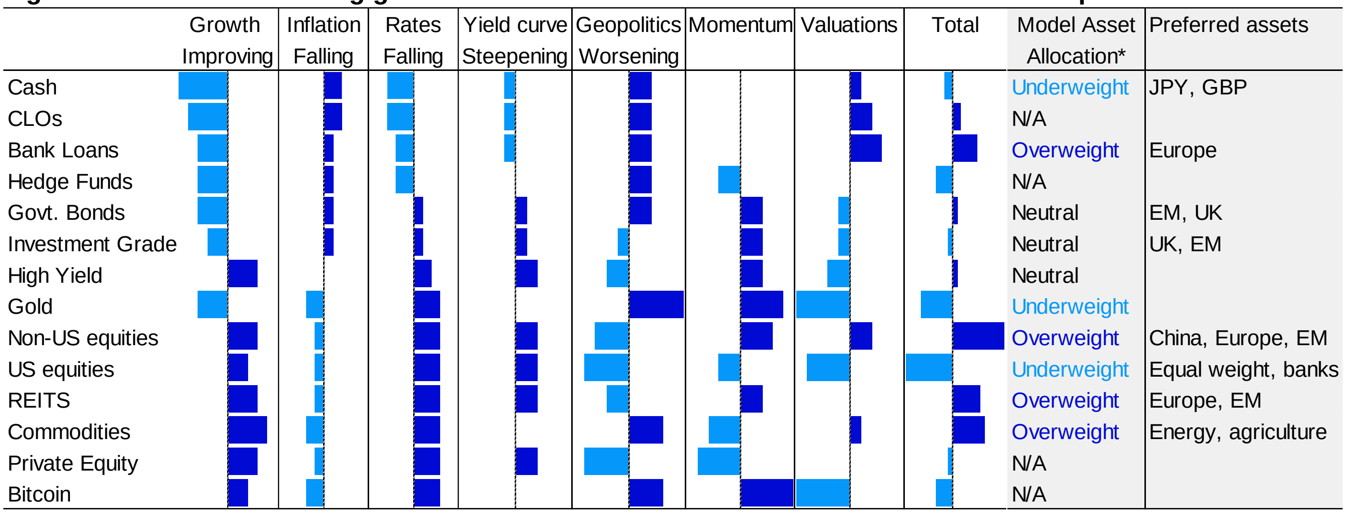
Geopolitical risks remain high, but falling interest rates could help riskier assets

Figure 18 shows our assessment of the likely impact of a range of factors on asset returns over the next 12 months. For example, we believe improving growth is likely to benefit cyclical assets, while the decline in inflation could help fixed income assets. Having said that, we think falling central bank rates could be more beneficial to riskier assets, as would yield curve steepening (because of what it says about the economic environment). A tense geopolitical situation is likely to benefit gold, commodities and Bitcoin, though an easing of tensions could have the opposite effect (in our view). As shown earlier, performance leadership has changed to some extent (US equities now lagging) but some previous leaders such as Bitcoin and gold have again been strong in recent months. The "Total" score is an average of the individual scores, except that "Valuations" is given three times the weighting of other categories (given our value bias).

We favour bank loans, non-US equities, REITS and commodities

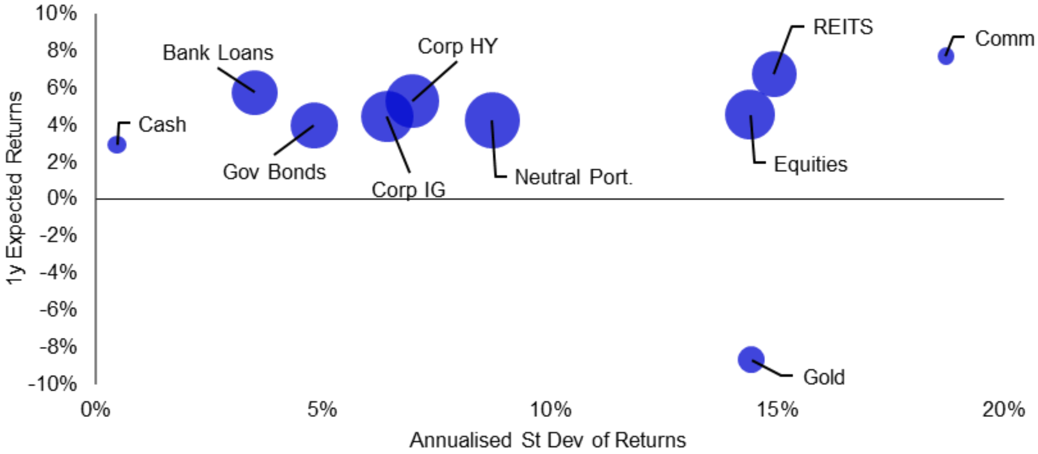
The total scores push us to favour bank loans, non-US equities, REITS and commodities (see **Figure 3** for more detail). This is confirmed by the projected returns shown in **Figure 19**. The highest returns are expected on commodities, REITS and bank loans, with the latter having the advantage of low volatility, while the former has low correlation to other assets (correlation is in proportion to the size of the bubbles). The equity projected return is unimpressive but is dragged down by our negative view on US stocks.

Figure 18 – Factors affecting global asset returns over the next 12 months and asset preferences



Note: *This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. "CLOs" is AAA collateralised loan obligations. The chart shows our subjective assessment of various factors that we believe will impact the performance of assets over the next 12 months (assets are ordered based on historical volatility). Positive (dark blue) scores suggest a factor that we believe will improve returns, while negative (light blue) scores imply the opposite. "Momentum" is based on recent returns in US dollars. "Total" is an average of the scores, with "Valuations" given three times the weighting of any other factor. See appendices for definitions, methodology and disclaimers. Source: Invesco Global Market Strategy Office

Figure 19 – Projected 12m return versus risk for global assets



Notes: based on local currency returns. Returns are projected but standard deviation of returns is based on 5-year historical data. Size of bubbles is in proportion to average pairwise correlation with other assets. Cash is an equally weighted mix of USD, EUR, GBP and JPY. Neutral portfolio ("Neutral Port.") weights are shown in **Figure 3**. As of 30 May 2025. **There is no guarantee that these views will come to pass**. See Appendices for definitions, methodology and disclaimers. Source: ICE BofA, Credit Suisse Indices/UBS, FTSE Russell, MSCI, S&P GSCI, LSEG Datastream and Invesco Global Market Strategy Office

Market forecasts suggest downside for US stocks

Figure 20 shows a conversion of these expectations into market targets. Though we expect policy rates to continue falling (except in Japan), our 10-year yield forecasts are mixed, with an expectation of upside in Japan but downside in the UK, for example. Further downside is expected in the US dollar, especially versus the Japanese yen as the BOJ tightens. We see upside in most stock markets but the US is an exception. We believe that US concentration and valuations remain too high and expect the S&P 500 to be lower in 12 months. Industrial commodities are expected to benefit from an uptick in growth, while gold is already very expensive (in our view).

Figure 20 – Market forecasts

		Current (30/05/25*)	Forecast 12-month
Central Bank Rates	US	4.50	3.50
	Eurozone	2.00	1.50
	China	3.00	2.80
	Japan	0.50	1.00
	UK	4.25	3.50
10yr Bond Yields	US	4.38	4.30
	Eurozone	2.51	2.30
	China	1.70	1.70
	Japan	1.50	1.75
	UK	4.65	4.30
Exchange Rates/US$	EUR/USD	1.13	1.20
	USD/CNY	7.20	7.00
	USD/JPY	144.06	125.00
	GBP/USD	1.35	1.40
	USD/CHF	0.82	0.78
Equity Indices	S&P 500	5912	5750
	Euro Stoxx 50	5367	5825
	FTSE A50	13365	15000
	Nikkei 225	37965	40000
	FTSE 100	8772	9500
Commodities (US$)	Brent/barrel	64	70
	Gold/ounce	3285	3000
	Copper/tonne	9548	10000

Notes: * except for central bank rates which take account of subsequent changes. **There is no guarantee that these views will come to pass**. See Appendices for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

The long term view: focusing on the next decade using Invesco's CMAs

Invesco's 10-year CMAs have been published

Having considered projections for the next year, it may be instructive to use longer term return projections as a guide. Invesco Solutions have just published their 10-year capital market assumptions (CMAs). **Figure 21** shows their projected returns for global asset classes in a range of currency bases (their framework differs from ours, so we have had to adapt some of their categories – for instance, we use their US Treasury Short category to represent cash and Precious Metals is used for gold). A more detailed version showing regional projections is contained in **Appendix 3**.

Figure 21: Invesco 10-yr capital market assumptions (global assets, % ann.)

	USD	EUR	GBP	CHF
Cash & Gold	-0.6	-2.1	-0.2	-4.3
Cash - US Treasury Short	3.3	1.8	3.8	-0.3
Gold	-4.6	-6.1	-4.1	-8.2
Government Bonds	4.8	3.2	5.2	1.1
Corporate IG	5.2	3.7	5.6	1.5
Corporate HY - US HY	6.4	4.9	6.9	2.7
Bank Loans (US)	6.3	4.8	6.8	2.7
Equities	6.2	4.7	6.6	2.5
Real Estate (REITS)	6.9	5.4	7.4	3.3
Commodities	5.2	3.7	5.6	1.5

Note: Estimates as of 31 March 2025 and based on the 10-year capital market assumptions published by Invesco Solutions in Long-Term Capital Market Assumptions (June 2025). The USD version of the CMAs is reproduced in Appendix 3. The above table uses the geometric expected return version for global asset classes ("gold" is based on the projections for precious metals and the "Cash & Gold" category shows the average of those two assets). These estimates reflect the views of Invesco Solutions, the views of other investment teams at Invesco may differ from those presented here. **There is no guarantee that these views will come to pass.** Source: Invesco Solutions

HY, bank loans and REITS dominate 10-year CMA based optimal portfolios

The further we move along the risk spectrum, the higher the projected returns tend to be, though it is a relatively flat curve and equities and commodities don't appear to offer enough return given the extra volatility. When it comes to CMA based optimal solutions, the only consistent overweighting across currency bases and objectives is for HY, bank loans and (almost) REITS (see **Figure 22**). At the other extreme, gold is always zero weighted, while commodities and equities are nearly always underweighted. Cash, government bonds and IG allocations are mixed, with IG preferred when maximising return.

Figure 22: Optimised global allocations based on Invesco's 10-year CMA projected returns

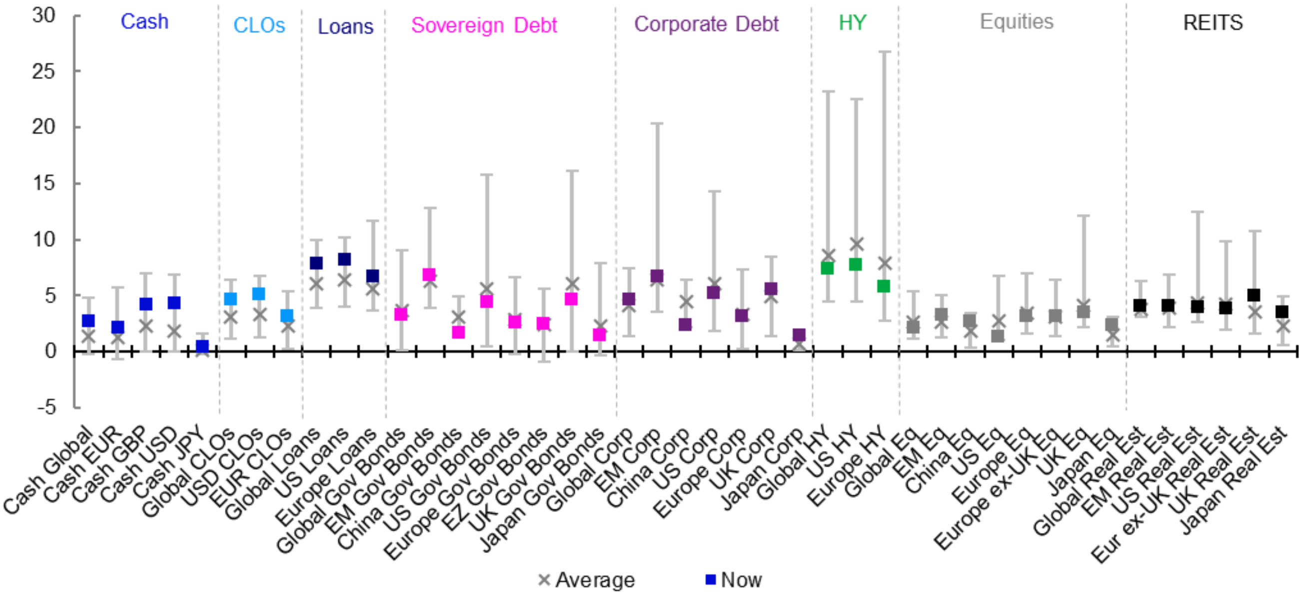
	Neutral Portfolio	Policy Range	Maximise Sharpe Ratio				Maximise Return			
			USD	EUR	GBP	CHF	USD	EUR	GBP	CHF
Cash & Gold	5%	0-10%	10%	0%	0%	0%	10%	0%	10%	0%
Cash	2.5%	0-10%	10%	0%	0%	0%	10%	0%	10%	0%
Gold	2.5%	0-10%	0%	0%	0%	0%	0%	0%	0%	0%
Government Bonds	25%	10-40%	40%	10%	10%	40%	40%	20%	16%	18%
Corporate IG	10%	0-20%	20%	0%	0%	9%	20%	20%	20%	20%
Corporate HY	5%	0-10%	10%	10%	10%	10%	10%	10%	10%	10%
Bank Loans	4%	0-8%	8%	8%	8%	8%	8%	8%	8%	8%
Equities	45%	25-65%	25%	64%	64%	25%	35%	34%	26%	36%
Real Estate (REITS)	4%	0-8%	0%	8%	8%	8%	8%	8%	8%	8%
Commodities	2%	0-4%	2%	0%	0%	0%	4%	0%	1%	0%

Note: optimisations are based on the 10-year projected returns published by Invesco Solutions in Long-Term Capital Market Assumptions (June 2025), as shown in **Figure 21** above. Optimisations are performed by the Asset Allocation Research team using our historical 10-year covariance matrices (for each currency). "Gold" is based on the projections for precious metals and the "Cash & Gold" category shows the sum of allocations for those two assets. "Maximise Sharpe Ratio" optimisations are performed by maximising the Sharpe Ratio subject to not violating the constraints implied by the policy ranges shown in the table. "Maximise Return" optimisations are performed by maximising return subject to the policy range constraints but also subject to the standard deviation of returns not exceeding that of the Neutral Portfolio. The Neutral Portfolio and Policy Range settings are designed to give a benchmark against which the optimal allocations can be judged. Though based on the projected returns provided by Invesco Solutions, these optimal allocations do not represent their views, nor those of any other investment team at Invesco. See appendices for definitions, methodology and disclaimers. Source: Invesco Solutions and Invesco Global Market Strategy Office

Appendices

Appendix 1: Global valuations vs history

Regional yields within historical ranges (%)



Notes: **Past performance is no guarantee of future results.** As of 30 May 2025. “Corporate Debt” is investment grade credit, “HY” is high yield credit, “Loans” are bank loans, “CLOs” are AAA collateralised loan obligations. See appendices for definitions, methodology and disclaimers. Source: Bloomberg, Credit Suisse Indices/UBS, FTSE Russell, ICE BofA, JP Morgan, LSEG Datastream and Invesco Global Market Strategy office

Appendix 2: Asset class total returns

Data as at 30/05/2025	Index	Current Level/RY	Total Return (USD, %) 3m	YTD	12m	5y*	Total Return (Local Currency, %) 3m	YTD	12m	5y*
Equities										
World	MSCI	879	2.7	5.5	14.8	13.9	0.7	3.2	13.3	14.2
Emerging Markets	MSCI	1157	6.4	8.9	12.7	7.5	3.3	5.8	12.1	8.7
China	MSCI	72	0.3	13.2	25.1	0.2	0.9	13.8	25.3	0.5
US	MSCI	5650	-0.3	1.1	14.9	15.8	-0.3	1.1	14.9	15.8
Europe	MSCI	2371	9.3	21.2	14.7	13.5	0.5	10.7	8.3	12.4
Europe ex-UK	MSCI	2938	9.7	22.2	14.0	13.4	0.4	11.2	7.6	12.4
UK	MSCI	1403	8.0	17.6	16.8	14.0	0.8	9.2	10.3	12.1
Japan	MSCI	4276	9.8	10.1	13.0	8.8	5.2	1.0	4.1	15.3
Government Bonds										
World	BofA-ML	3.28	3.2	5.5	6.6	-3.4	-0.5	0.9	3.5	-2.2
Emerging Markets (USD)	BBloom	6.86	0.3	4.2	12.2	2.4	0.3	4.2	12.2	2.4
China	BofA-ML	1.63	1.9	1.8	6.9	4.3	0.7	0.4	6.1	4.5
US (10y)	Datastream	4.38	-0.3	3.4	5.7	-3.4	-0.3	3.4	5.7	-3.4
Europe	Bofa-ML	2.64	9.4	10.6	10.0	-1.7	0.2	0.8	5.1	-2.1
Europe ex-UK (EMU, 10y)	Datastream	2.51	8.8	9.5	8.7	-3.2	-0.3	-0.1	3.8	-3.6
UK (10y)	Datastream	4.65	7.3	9.3	8.4	-3.1	0.2	1.5	2.4	-4.8
Japan (10y)	Datastream	1.50	3.8	5.9	6.5	-6.7	-0.6	-2.7	-1.9	-1.1
IG Corporate Bonds										
Global	BofA-ML	4.60	2.7	5.1	7.9	0.7	0.0	2.1	6.4	0.5
Emerging Markets (USD)	BBloom	6.66	0.0	4.0	10.8	1.9	0.0	4.0	10.8	1.9
China	BofA-ML	2.33	2.0	2.2	5.3	3.5	0.8	0.7	4.6	3.7
US	BofA-ML	5.26	-0.3	2.3	6.2	0.4	-0.3	2.3	6.2	0.4
Europe	BofA-ML	3.13	9.7	11.4	11.6	1.0	0.5	1.6	6.6	0.6
UK	BofA-ML	5.58	7.0	9.4	11.0	0.7	0.0	1.6	4.9	-1.1
Japan	BofA-ML	1.46	4.5	8.3	8.1	-5.8	0.0	-0.6	-0.4	-0.2
HY Corporate Bonds										
Global	BofA-ML	7.44	2.3	4.5	10.2	5.2	0.5	2.6	9.2	5.1
US	BofA-ML	7.71	0.6	2.6	9.5	5.8	0.6	2.6	9.5	5.8
Europe	BofA-ML	5.83	9.8	12.1	13.4	5.1	0.6	2.3	8.3	4.6
Cash (Overnight LIBOR)										
US		4.27	1.1	1.7	4.9	2.7	1.1	1.7	4.9	2.7
Euro Area		2.17	8.1	10.1	7.2	1.9	0.6	1.0	3.2	1.4
UK		4.21	6.9	8.9	10.6	4.5	1.1	1.7	4.9	2.6
Japan		0.48	3.7	9.0	8.4	-5.7	0.1	0.2	0.3	0.0
Real Estate (REITs)										
Global	FTSE	1656	1.7	5.5	12.7	5.6	-6.8	-3.7	7.6	5.2
Emerging Markets	FTSE	1218	6.1	5.3	5.2	-3.0	-2.8	-4.0	0.5	-3.4
US	FTSE	3154	-4.2	0.3	14.1	9.2	-4.2	0.3	14.1	9.2
Europe ex-UK	FTSE	2695	15.8	20.3	14.7	1.8	6.1	9.7	9.5	1.4
UK	FTSE	908	17.5	19.0	3.0	2.7	9.7	10.5	-2.7	0.9
Japan	FTSE	2281	11.2	19.8	16.3	2.4	6.5	10.0	7.2	8.5
Commodities										
All	GSCI	3567	-4.3	-2.4	-3.5	17.8	-	-	-	-
Energy	GSCI	576	-10.9	-9.6	-10.5	22.2	-	-	-	-
Industrial Metals	GSCI	1686	-1.4	2.4	-9.2	10.1	-	-	-	-
Precious Metals	GSCI	3603	14.7	23.3	35.2	12.3	-	-	-	-
Agricultural Goods	GSCI	499	-3.4	-3.0	-6.3	10.8	-	-	-	-
Currencies (vs USD)**										
EUR		1.13	9.4	9.6	4.8	0.4	-	-	-	-
JPY		144.05	4.6	9.1	8.9	-5.6	-	-	-	-
GBP		1.35	7.1	7.7	5.9	1.8	-	-	-	-
CHF		1.22	9.8	10.3	9.8	3.2	-	-	-	-
CNY		7.20	1.2	1.4	0.5	-0.2	-	-	-	-

Notes: **Past performance is no guarantee of future results**. *Five-year returns are annualised. **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.

Appendix 3: Invesco 10-year Capital Market Assumptions (USD version)

	Asset Class	Index	Expected geometric return %	Expected arithmetic return %	Expected Risk %	Arithmetic return to risk ratio
Fixed income	US Treasury Short	BBG US Treasury Short	3.3	3.3	0.2	18.77
	US Treasury Intermediate	BBG US Treasury Intermediate	4.3	4.3	3.1	1.41
	US Treasury Long	BBG US Treasury Long	4.8	5.5	12.2	0.45
	US TIPS	BBG US TIPS	4.9	5.0	5.2	0.95
	US Bank Loans	Credit Suisse Leverage Loan Index	6.3	6.5	5.5	1.17
	US Aggregate	BBG US Aggregate	4.9	5.1	5.1	0.99
	US Inv Grd Corps	BBG US Investment Grade	5.3	5.4	6.2	0.89
	US MBS	BBG US MBS	5.4	5.6	6.5	0.87
	US Preferred Stocks	BOA ML Fixed Rate Pref Securities	5.3	5.8	10.0	0.58
	US High-Yield Corps	BBG US High Yield	6.4	6.6	6.9	0.96
	US Muni	BOA ML US Muni	4.5	4.6	5.4	0.86
	US Muni (Taxable)	ICE BOA US Taxable Muni Securities Plus	5.4	5.7	8.0	0.71
	US HY Muni	BBG US Muni Bond HY	5.1	5.3	7.2	0.74
	Global Aggregate	BBG Global Aggregate	4.8	4.9	5.7	0.87
	Global Aggregate-Ex US	BBG Global Aggregate- Ex US	4.7	4.9	7.3	0.68
	Global Treasury	BBG Global Treasuries	4.8	4.9	6.0	0.82
	Global Sovereign	BBG Global Sovereign	5.1	5.4	7.8	0.69
	Global Corporate	BBG Global Corporate	5.1	5.3	6.1	0.86
	Global Inv Grd	BBG Global Corporate Inv Grd	5.2	5.5	8.4	0.65
	Eurozone Corporate	BBG Euro Aggregate Credit - Corporate	4.8	5.2	9.4	0.56
	Eurozone Treasury	BBG Euro Aggregate Government - Treasury	5.1	5.5	9.9	0.56
	Asian Dollar Inv Grd	BOA Merrill Lynch ACIG	5.0	5.1	4.4	1.17
	EM Aggregate	BBG EM Aggregate	6.0	6.2	6.9	0.90
	EM Agg IG	BBG EM USD Agg IG	5.3	5.4	5.9	0.92
	China Policy Bk & Tsy	BBG China PB Tsy TR	4.3	4.4	5.1	0.87
	China RMB Credit	BBG China Corporate	5.0	5.1	4.8	1.06
Equities	World Equity	MSCI ACWI	6.2	7.4	16.3	0.45
	World Ex-US Equity	MSCI ACWI Ex-US	6.8	8.2	17.2	0.48
	US Broad	Russell 3000	5.1	6.5	17.0	0.38
	US Large Cap	S&P 500	5.8	7.1	16.6	0.43
	US Mid Cap	Russell Midcap	6.7	8.2	18.5	0.44
	US Small Cap	Russell 2000	8.3	10.6	23.2	0.46
	MSCI EAFE	MSCI EAFE	6.0	7.4	17.6	0.42
	MSCI Europe	MSCI Europe	6.2	7.9	19.0	0.41
	Eurozone	MSCI Euro X UK	6.3	8.0	19.7	0.41
	UK Large Cap	FTSE 100	5.4	7.0	19.1	0.37
	UK Small Cap	FTSE Small Cap UK	8.5	10.6	22.0	0.48
	Canada	S&P TSX	6.0	7.8	19.9	0.39
	Japan	MSCI JP	4.6	6.3	19.1	0.33
	Emerging Market	MSCI EM	8.9	10.4	18.6	0.56
	Asia Pacific Ex JP	MSCI APXJ	8.5	10.1	19.0	0.53
	China Large Cap	CSI 300	9.2	11.7	23.8	0.49
Alternatives	Global REITs	FTSE EPRA/NAREIT Developed Index	6.9	8.4	18.3	0.46
	Hedge Funds	HFRI HF Index	6.0	6.1	3.9	1.59
	Commodities	S&P GSCI	5.2	7.0	20.1	0.35
	Agriculture	S&P GSCI Agriculture	4.3	5.8	18.2	0.32
	Energy	S&P GSCI Energy	7.2	11.7	32.4	0.36
	Industrial Metals	S&P GSCI Industrial Metals	4.1	6.0	20.4	0.30
	Precious Metals	S&P GSCI Precious Metals	-4.6	-3.3	16.2	-0.20

Notes: Estimates as of 31 March 2025, as published in Long-Term Capital Market Assumptions (June 2025). These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. Please note that as of March 31, 2025, Invesco Solutions have changed the methodology of their risk model for estimating volatility and correlations, now utilizing the MSCI Barra Multi-Asset Class (MAC) factor model. **There is no guarantee that these views will come to pass.** TIPS = treasury inflation protected securities, MBS = mortgage-backed securities.
Source: Invesco Solutions

Appendix 4: Key assumptions

Key assumptions for 1-year projected returns

	US	Eurozone/ Europe ex-UK	UK	Japan	EM	China
Central bank rates (%)	3.50	1.75	3.50	1.00	-	2.80
Sovereign spreads vs rates (bps)	75	75	75	75	-	-
Corporate IG spread vs sovereign (bps)	130	60	130	15	-	-
Corporate HY spread vs sovereign (bps)	400	350	-	-	-	-
Bank Loan spread vs 3M cash rates (bps)	400	450	-	-	-	-
Corporate HY default rates (%)	2.0	2.0	-	-	-	-
Corporate HY recovery rates (%)	40	40	-	-	-	-
Bank Loan default rates (%)	1.5	1.0	-	-	-	-
Bank Loan recovery rates (%)	45	45	-	-	-	-
Equities dividend growth (%)*	5.0	5.0	5.0	2.0	5.0	2.0
Equities dividend yield (%)*	1.4	3.0	3.4	2.3	3.3	2.6
Real estate (REITS) dividend growth (%)*	2.0	5.0	0.0	5.0	5.0	-
Real estate (REITS) dividend yield (%)*	4.0	3.7	5.0	3.6	4.2	-

Notes: *assumptions for Europe ex-UK. One-year assumptions are based on our analysis of how current values compare to historical norms (assuming some degree of reversion to the mean, except where our analysis suggests historical norms are unlikely to be a guide to the future), adjusted for our view about the development of the economic and financial market cycles over the next year in each region.
There is no guarantee that these views will come to pass.
Source: Invesco Global Market Strategy Office

Appendix 5: 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 government bond yields consider the forecast change in cash rates and our assumptions about the slope of the yield curves. 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). Along with the view on government bond yields, this allows a forecast of credit yields and thereby capital gains/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.

Appendix 6: Definitions of data and benchmarks

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 Refinitiv overnight deposit rate for euro, British pound and 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

Bitcoin: Spot price of Bitcoin (Bitstamp) in US dollars

Government bonds: Current values in the market forecast table (**Figure 20**) use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK and the Thomson Reuters China benchmark 10-year yield for China. Historical and projected yields and returns (**Figures 1, 11, 19, 20**) are based on ICE BofA government bond indices with historical ranges starting on 31 December 1985 for the Global, Europe ex-UK, UK and Japanese indices, 30 January 1978 for the US and 31 December 2004 for China. The emerging markets yields and returns are based on the Bloomberg emerging markets sovereign US dollar bond index with the historical range starting on 28 February 2003. The same indices are used to construct **Appendix 1**.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond indices with historical ranges starting on 31 December 1996 for the Global, 31 January 1973 for the US dollar, 1 January 1996 for the euro, 31 December 1996 for the British pound, 6 September 2001 for the Japanese yen and 31 December 2004 for the China indices. The emerging markets yields and returns are based on the Bloomberg emerging markets corporate US dollar bond index with the historical range starting on 28 February 2003.

Corporate high yield (HY) bonds: ICE BofA high yield indices with historical ranges starting on 29 August 1986 for the US dollar, and 31 December 1997 for the Global and euro indices.

Bank Loans: Credit Suisse Leveraged Loan Indices with historical ranges starting on 31 January 1992 for the US index, 31 January 1998 for the Western Europe Index and 31 January 1998 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices, using market capitalisation as the weighting factor). **Figure 11** and **Appendix 1** are based on current yield. Data is sourced from Credit Suisse Indices/UBS and Bloomberg.

Collateralised Loan Obligations: JP Morgan AAA indices with historical ranges starting on 30 December 2011 for the JP Morgan US CLOIE AAA Index, 29 December 2017 for the JP Morgan European CLOIE AAA Index and 29 December 2017 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices, using market capitalisation as the weighting factor). Yields are based on yield to worst calculations. Data sourced from Bloomberg.

Equities: We use MSCI benchmark indices to calculate projected returns and calculate total returns with historical ranges starting on 31 December 1969 for the Global, US, Europe ex-UK, UK and Japanese indices, 31 December 1987 for the emerging markets index and 31 December 1992 for the China index (**Figures 1, 19, 20**). Equity index valuations (**Figures 11, 13 and Appendix 1**) are based on dividend yields and price-earnings ratios using Datastream benchmark indices with historical ranges starting on 1 January 1973 for the Global, US, Europe ex-UK and Japanese indices, 31 December 1969 for the UK index, 2 January 1995 for the Emerging Markets index, 26 August 1991 for the China A-Shares index.

Real estate: We use FTSE EPRA/NAREIT indices with historical ranges starting on 29 December 1989 for the US, Europe ex-UK, UK and Japanese indices, 18 February 2005 for the Global index, and 31 October 2008 for the Emerging Markets index.

Commodities: Goldman Sachs Commodity Index with historical ranges starting on 31 December 1969 for the All Commodities and Agriculture indices, 31 December 1982 for the Energy index, 3 January 1977 for the Industrial Metals index, and 2 January 1973 for the Precious Metals index. "Industrial commodities" is oil & gas and industrial metals.

Private equity: LPX Major Market Listed Private Equity Index, sourced from Bloomberg.

Hedge Funds: Credit Suisse Hedge Fund Index, sourced from Bloomberg.

Definitions of data and benchmarks for Appendix 2

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 LSEG overnight deposit rate for the euro, the British pound and 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 Bank of America Merrill Lynch government bond total return index for China, the World and Europe. The emerging markets yields and returns are based on the Barclays Bloomberg emerging markets sovereign US dollar bond index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices and the Barclays Bloomberg emerging markets corporate US dollar bond total return index for emerging markets.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch 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

Country abbreviations for Figures 7, 9, 12

AUS	Australia
BRA	Brazil
CAN	Canada
CHI	China
EUR	Eurozone
FRA	France
GER	Germany
IND	India
INDO	Indonesia
ITA	Italy
JAP	Japan
KOR	South Korea
MEX	Mexico
SA	South Africa
SPA	Spain
TUR	Turkey
UK	United Kingdom
US	United States of America
WLD	World

Definitions of and sources for asset categories used in the asset momentum chart (Figure 10)

Based on monthly total return data for global assets in US dollars (unless stated otherwise). Calculated using spot price of gold, spot price of Bitcoin, BofAML 0-3-month US treasury index (Cash), BofAML Global Government Index (Govt), BofAML Global Corporate Index (IG), BofAML Global HY Index (HY), Credit Suisse Leveraged Loan Indices (Loans, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices), JP Morgan CLOIE CLO AAA Indices (CLOs, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices), GPR General World Index (REITS), S&P GSCI total return index for commodities (CTY), MSCI USA Index (MSCI USA), MSCI ACWI ex USA Index (MSCI ex-USA), Credit Suisse Hedge Fund Index (H Funds) with the Bloomberg All Hedge Fund Index used for the last month of data, LPX Major Market Listed Private Equity Index (Priv Equity), Goldman Sachs Trade-Weighted US Dollar Index (USD) and US Consumer Price Index (US CPI). Data is sourced from LSEG Datastream and Bloomberg.

Appendix 7: Invesco Solutions Capital Market Assumptions methodology (Figure 21 & Appendix 3)

We show a summary of the Capital Market Assumptions produced by Invesco's Solutions team (Solutions) and this is a summary of their methodology.

Invesco Solutions employ a fundamentally based "building block" approach to estimating asset class returns. Estimates for income and capital gain components of returns for each asset class are informed by fundamental and historical data. Components are then combined to establish estimated returns. This is a summary of key elements of the methodology used to produce long-term (10-year) estimates.

Fixed income returns are composed of the average of the starting (initial) yield and expected yield for bonds, estimated changes in valuation given changes in the Treasury yield curve, roll return which reflects the impact on the price of bonds that are held over time, and a credit adjustment which estimates the potential impact on returns from credit rating downgrades and defaults.

Equity returns are composed of: a dividend yield, calculated using dividend per share divided by price per share, buyback yield, calculated as the percentage change in shares outstanding resulting from companies buying back or issuing shares, valuation change, the expected change in value given the current Price/Earnings (P/E) ratio and the assumption of reversion to the long-term average P/E ratio, and the estimated growth of earnings based on the long-term average real GDP per capita and inflation.

Alternative returns are composed of a variety of public versus private assets with heterogenous drivers of return given their distinct nature. They range from a beta driven proxy to public markets or a bottom up, building block methodology like that of fixed income or equities, depending on whether they are more bond like or stock like.

Risk estimates, including individual volatilities, cross-asset correlations, and the covariance matrix, for the different asset classes displayed are derived using the MSCI Barra Multi-Asset Class (MAC) factor model. Please refer to the MSCI MAC methodology for more information about the model.

For the full Capital Market Assumptions methodology, please contact the Solutions team.

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.

Important information

Data as of 30 May 2025 unless stated otherwise.

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