

Uncommon truths

Fed surprises are not enough to save the dollar

A busy week included a Fed meeting that delivered several surprises. Markets have downgraded the likelihood of a December Fed rate cut but I think the broad path of rates over the next year is unlikely to change. I still expect the dollar to weaken but the arguments are more balanced.

A week dominated by “Andrew, formerly known as Prince” memes, and that did not see a change of prime minister in France, may be considered uneventful. However, there was plenty of action on the politics and policy fronts, with potential implications for global financial markets and currencies.

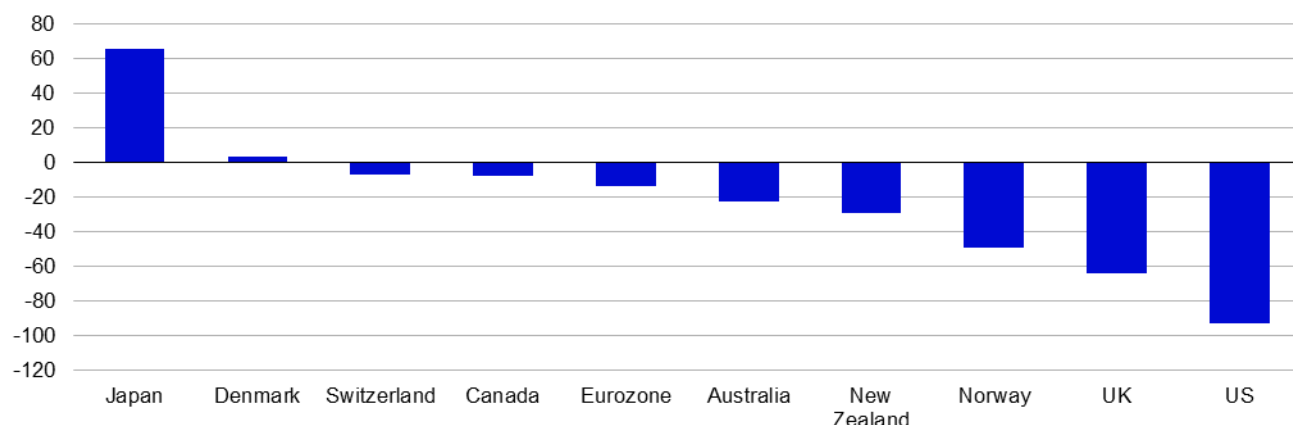
First, the meeting between Presidents Trump and Xi Jinping seemed to go well. It appears the US will cut the “fentanyl tariff” on Chinese goods from 20% to 10%, that China will start buying large quantities of US soybeans, that China will make it easier for the US to buy rare earth minerals and that the US will suspend an expansion of “Entity List” export controls (firms on this list face restrictions on receiving US exports). President Trump also suggested that a trade deal is close to being finalised. At the very least, the meeting seemed to improve US-China relations and the risk of a deepening trade war seems to have been averted. If that turns out to be the case, the world economy may have dodged a bullet, which I think is good news for cyclical assets (though markets didn’t reflect that).

Sticking with politics, the 29 October election in the Netherlands delivered a result that few would have predicted a week earlier. Up until that point, the far-right PVV party led by Geert Wilders looked set to again be the biggest party in the Dutch parliament (with opinion polls suggesting it would win 25-30 of the 150 seats, down from 37 at the 2023 election).

However, things didn’t go as expected. In the week running up to the election, opinion polls showed a surge in support for Democrats 66 (D66), a progressive centre-left party led by 38-year-old Rob Jetten. The latter appeared to win support after several impressive performances in TV debates (and an appearance in the final of a TV quiz show). The upshot is that D66 matched PVV in the polls, with both looking set to win 26 parliamentary seats (the ANP news agency suggests D66 will have slightly more votes). I think it will be “easier” for Jetten than for Wilders to form a coalition, with PVV unlikely to be part of the new government (other big parties refuse to work with it). Given the splintered nature of Dutch politics, it may take some time (perhaps into 2026) to negotiate a new coalition, but these elections have at least shown that the forward march of populism is far from inevitable.

However, I think the biggest policy events of the week came from central banks. Some because of what they did and others for what they didn’t do. Those not taking any action included the ECB and the BOJ, which came as little surprise. Having cut rates four times in the first half of 2025 (taking the Deposit Facility Rate to 2.00%), the ECB has made no changes at the last three meetings (including that of 30 October 2025). **Figure 1** suggests that financial markets anticipate little in the way of ECB policy changes in the period to end-2026. I think that is about right (there may be room for one more rate cut, in my opinion, but I wouldn’t expect more than that unless there is recession). I believe that ECB rates are already below the long-term neutral point, which I suspect is around 3.00%, and it may be time to allow the eight rate cuts since mid-2024 (and upcoming German fiscal expansion) to have their effect on the Eurozone economy.

Figure 1 – Market implied change in central bank rates to end-2026 (basis points)



Note: Based on calculations by LSEG Refinitiv (except for New Zealand which is based on Bloomberg calculations), concerning changes in central bank policy rates using interest rate futures or overnight index swaps. Changes are up to the final central bank meeting of 2026, except for New Zealand which is up to September 2026. As of 31 October 2025.

Source: LSEG Refinitiv, Bloomberg and Invesco Strategy & Insights

Nor was the BOJ expected to make any changes, though the direction of travel is likely towards tightening (the policy rate is only 0.5%, compared to a September CPI inflation rate of 2.9%). The recent change of prime minister may complicate BOJ decisions, with Sanae Takaichi appearing to favour low interest rates and a weaker yen (though the US wants the opposite). On the other hand, the mooted fiscal expansion could require more BOJ tightening, which I think could support the yen. The BOJ vote was split 7-2 at the 30 October meeting, with two members voting for a 25 basis point rate hike. **Figure 1** suggests that markets expect two-to-three rate hikes between now and the end of 2026. I expect two, a view affirmed by our Japan expert, Tomo Kinoshita.

The rate cuts that came last week, from the Bank of Canada (BOC) and the Fed, were widely anticipated. With its target rate at 2.25%, the BOC is perhaps approaching the end of its easing cycle (the first cut came in June 2024, and the rate is down a long way from its 5.00% peak). **Figure 1** shows that markets anticipate BOC rates to be stable to the end of 2026.

Turning to the Fed, though the 25 basis point rate cut was anticipated (taking the upper-end of its policy range to 4.00%), there were a number of surprises at the 29 October meeting. First, it was announced that the programme of quantitative tightening (reduction of securities holdings) will stop on 1 December. This ends a form of tightening. Second, it was revealed that two Fed members dissented from the decision to cut by 25 basis points (ten were in favour). The first was no surprise, with Stephen Miran again voting for a 50 basis point reduction. The other was more revealing, with Jeffrey Schmid voting for no change. That may suggest some resistance to future rate cuts. Indeed, the third surprise was Chairman Powell saying during his press conference that a December rate cut “is not a foregone conclusion, far from it”.

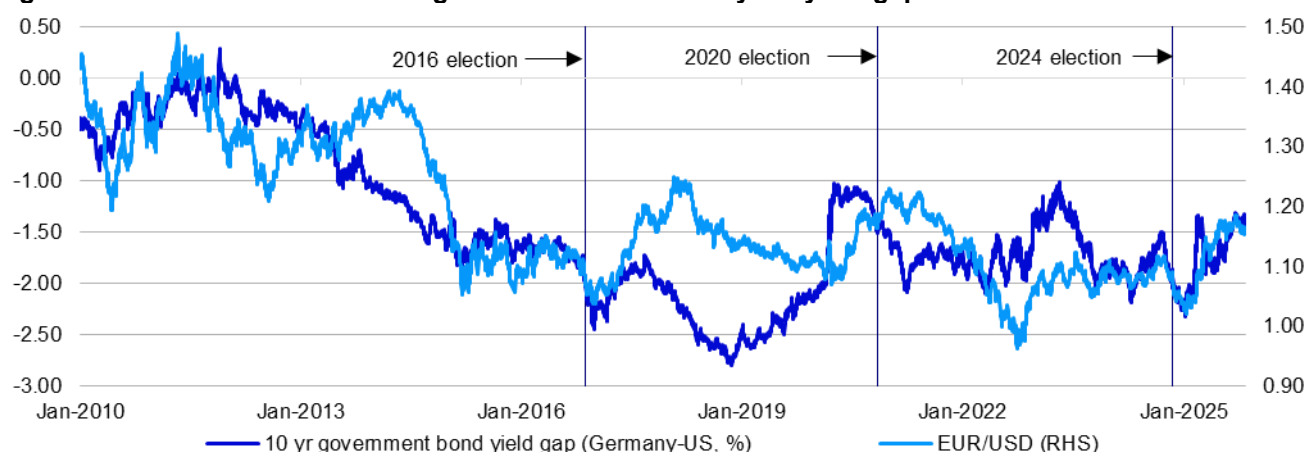
The upshot is that financial markets now believe a December Fed rate cut is less likely (a 68% probability versus 92% on the day before the Fed meeting, according to Bloomberg calculations based on Fed Funds futures). Yields rose by around 10 basis points along the treasury yield curve (up to 10 years), driving losses on US bonds for the week, though US equities did relatively well, driven by the performance of mega caps (see **Figures 3** and **5**).

Figure 3 also shows that the dollar strengthened, which should be no surprise given the tempering of market expectations for a rate cut at the next Fed meeting. I continue to believe that the dollar will weaken over the coming year (see [FX Pulse](#)) but the arguments now appear more balanced. Against dollar weakness is the renewed optimism around the US economy and anything to do with AI (which is a disproportionate benefit to the US stock market). In particular, a 10-year treasury yield below 4.00% seemed unsustainable to me and I wouldn't be surprised to see a bit more upside (into the 4.25%-4.50% range over the course of 2026). I don't see the same scope for European yields to rise, which could argue for a weaker EUR/USD (see **Figure 2**).

However, I think the dollar remains expensive (based on real trade weighted indices) and I agree with the broad message contained in **Figure 1** that the Fed will ease more than other major central banks. That could narrow the interest rate spread that I believe has supported the dollar over recent years, thus reducing the attraction of short-term US assets, while lowering the cost of hedging out of the dollar. On balance, I think dollar weakening has further to go, especially against the Japanese yen. By end-2026, I expect EUR/USD to be in the 1.20-1.30 range, GBP/USD to be 1.35-1.45 and USD/JPY to be 130-140.

Unless stated otherwise, all data as of 31 October 2025.

Figure 2 – EUR/USD tends to strengthen when the Germany-US yield gap widens



Note: **Past performance is no guarantee of future results.** Based on daily data from 1 January 2010 to 31 October 2025 (as of 31 October 2025). “2016 election” etc. show the dates US presidential elections. Source: LSEG Refinitiv and Invesco Strategy & Insights

Figure 3 – Asset class total returns (%)

Data as at 31 Oct 2025		Current Level/RY	Total Return (USD, %)					Total Return (Local Currency, %)				
	Index		1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Equities												
World	MSCI	1006	0.5	2.3	2.3	21.5	23.2	0.7	2.8	2.8	19.2	22.2
Emerging Markets	MSCI	1402	0.9	4.2	4.2	33.6	28.7	0.9	4.6	4.6	30.7	28.7
China	MSCI	86	-1.5	-3.8	-3.8	36.4	33.9	-1.5	-3.9	-3.9	35.9	33.9
US	MSCI	6544	0.8	2.4	2.4	17.7	21.9	0.8	2.4	2.4	17.7	21.9
Europe	MSCI	2512	-1.3	0.8	0.8	29.2	24.0	-0.5	2.5	2.5	17.2	17.2
Europe ex-UK	MSCI	3097	-1.6	0.5	0.5	29.4	23.2	-0.8	2.1	2.1	15.7	15.3
UK	MSCI	1515	-0.4	1.7	1.7	28.4	26.6	0.8	4.2	4.2	22.4	23.9
Japan	MSCI	4814	1.9	3.4	3.4	25.2	25.6	2.7	7.9	7.9	22.7	27.1
Government Bonds												
World	BofA-ML	3.26	-0.6	-0.6	-0.6	6.6	4.0	-0.2	0.8	0.8	2.9	2.5
Emerging Markets	JP Morgan	3.55	0.2	0.6	0.6	8.3	7.3	0.3	0.7	0.7	4.2	6.2
China	BofA-ML	1.62	0.6	0.8	0.8	3.2	3.7	0.4	0.7	0.7	0.6	3.7
US (10y)	Datastream	4.08	-0.7	0.8	0.8	7.8	6.1	-0.7	0.8	0.8	7.8	6.1
Europe	Bofa-ML	2.77	-0.6	-0.9	-0.9	13.0	8.6	0.1	0.9	0.9	1.3	2.1
Europe ex-UK (EMU, 10y)	Datastream	2.60	-0.8	-0.9	-0.9	11.7	7.2	0.0	0.8	0.8	0.2	0.8
UK (10y)	Datastream	4.48	-0.9	0.4	0.4	10.8	7.7	0.3	2.9	2.9	5.6	5.4
Japan (10y)	Datastream	1.64	-0.8	-4.0	-4.0	-1.1	-5.3	0.0	0.1	0.1	-3.1	-4.2
IG Corporate Bonds												
Global	BofA-ML	4.33	-0.7	0.0	0.0	9.6	8.0	-0.4	0.6	0.6	6.2	6.2
China	BofA-ML	2.24	0.5	0.6	0.6	3.9	3.3	0.4	0.6	0.6	1.2	3.3
US	Bofa-ML	4.87	-0.8	0.4	0.4	7.4	6.8	-0.8	0.4	0.4	7.4	6.8
Europe	BofA-ML	3.10	-0.6	-1.1	-1.1	15.3	11.3	0.1	0.7	0.7	3.5	4.7
UK	BofA-ML	5.17	-0.9	-0.3	-0.3	11.8	10.1	0.3	2.2	2.2	6.5	7.7
Japan	BofA-ML	1.66	-0.8	-3.9	-3.9	1.5	-2.0	0.0	0.3	0.3	-0.5	-0.9
HY Corporate Bonds												
Global	BofA-ML	6.90	-0.1	-0.2	-0.2	9.3	9.1	0.0	0.2	0.2	7.1	7.8
US	BofA-ML	7.17	-0.1	0.2	0.2	7.3	8.0	-0.1	0.2	0.2	7.3	8.0
Europe	BofA-ML	5.49	-0.5	-1.7	-1.7	16.7	12.6	0.2	0.1	0.1	4.7	5.9
Cash (Overnight rates)												
US		4.20	0.1	0.4	0.0	3.3	4.5	0.1	0.4	0.0	3.3	4.5
Euro Area		1.92	0.5	0.8	-0.1	15.1	8.7	0.0	0.2	0.0	1.7	2.5
UK		3.97	0.8	0.7	0.0	11.0	5.9	0.1	0.3	0.0	3.3	4.5
Japan		0.48	1.7	0.8	0.5	7.1	-0.1	0.0	0.0	0.0	0.3	0.4
Real Estate (REITs)												
Global	FTSE	1697	-2.6	-1.5	-1.5	9.9	4.6	-1.9	0.3	0.3	-1.4	-1.6
Emerging Markets	FTSE	1305	-1.1	-1.6	-1.6	14.6	6.8	-0.4	0.1	0.1	2.8	0.5
US	FTSE	3172	-2.9	-1.6	-1.6	2.8	-0.7	-2.9	-1.6	-1.6	2.8	-0.7
Europe ex-UK	FTSE	2675	-3.7	-1.0	-1.0	20.2	11.5	-3.0	0.7	0.7	7.8	4.9
UK	FTSE	890	-4.6	0.4	0.4	13.7	2.3	-3.4	2.9	2.9	8.4	0.1
Japan	FTSE	2452	-1.8	-3.7	-3.7	30.9	25.8	-1.0	0.4	0.4	28.3	27.3
Commodities												
All	GSCI	3931	-0.3	1.3	1.3	7.5	11.1	-	-	-	-	-
Energy	GSCI	639	0.0	0.5	0.5	0.4	6.4	-	-	-	-	-
Industrial Metals	GSCI	1953	0.1	6.2	6.2	18.6	12.7	-	-	-	-	-
Precious Metals	GSCI	4412	-3.1	3.5	3.5	51.0	43.9	-	-	-	-	-
Agricultural Goods	GSCI	488	1.8	3.1	3.1	-5.2	0.0	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.15	-0.8	-1.7	-1.7	11.4	6.0	-	-	-	-	-
JPY		154.00	-0.7	-3.9	-3.9	2.1	-1.3	-	-	-	-	-
GBP		1.31	-1.2	-2.4	-2.4	4.9	2.2	-	-	-	-	-
CHF		1.24	-1.1	-1.0	-1.0	12.8	7.4	-	-	-	-	-
CNY		7.12	0.1	0.0	0.0	2.6	0.0	-	-	-	-	-

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 Strategy & Insights

Figure 4 – Global equity sector total returns relative to market (%)

Data as of 31 Oct 2025	Global				
	1w	1m	QTD	YTD	12m
Energy	0.1	0.5	0.5	-8.7	-9.8
Basic Materials	-1.4	-2.6	-2.6	8.0	-3.6
Basic Resources	0.0	-0.8	-0.8	22.1	7.8
Chemicals	-4.1	-6.1	-6.1	-12.7	-20.7
Industrials	-0.9	-0.5	-0.5	-0.2	-2.2
Construction & Materials	-1.5	-0.9	-0.9	1.5	-2.6
Industrial Goods & Services	-0.8	-0.5	-0.5	-0.5	-2.1
Consumer Discretionary	-0.2	-2.1	-2.1	-7.4	-1.3
Automobiles & Parts	1.9	-0.1	-0.1	-5.2	14.7
Media	0.6	-6.3	-6.3	-4.0	3.1
Retailers	1.3	-0.1	-0.1	-6.7	-0.8
Travel & Leisure	-3.8	-6.3	-6.3	-15.9	-14.2
Consumer Products & Services	-2.9	-3.2	-3.2	-6.6	-7.5
Consumer Staples	-2.6	-2.9	-2.9	-9.4	-14.1
Food, Beverage & Tobacco	-2.8	-2.9	-2.9	-9.1	-14.9
Personal Care, Drug & Grocery Stores	-2.2	-2.8	-2.8	-10.0	-12.6
Healthcare	-1.5	0.9	0.9	-10.3	-17.0
Financials	-0.4	-2.9	-2.9	1.6	2.5
Banks	1.0	-1.2	-1.2	9.6	11.4
Financial Services	-1.6	-4.0	-4.0	-5.5	-4.6
Insurance	-1.7	-5.6	-5.6	-5.0	-6.3
Real Estate	-3.1	-3.5	-3.5	-7.4	-12.5
Technology	2.2	3.9	3.9	9.6	14.3
Telecommunications	0.8	0.9	0.9	7.4	5.3
Utilities	-1.5	0.0	0.0	-0.4	-5.2

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 Strategy & Insights

Figure 5a – US factor index total returns (%)

Data as of 31 Oct 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-1.6	-0.4	3.4	9.6	9.9	-2.3	-2.7	-6.5	-6.7	-9.5
Low volatility	-2.2	-3.5	-1.0	1.8	0.0	-2.9	-5.7	-10.6	-13.4	-17.7
Price momentum	0.1	0.7	8.4	15.5	19.6	-0.7	-1.6	-2.0	-1.7	-1.6
Quality	-1.5	-2.1	6.5	13.0	10.3	-2.2	-4.3	-3.8	-3.8	-9.1
Size	-3.0	-2.3	3.7	5.0	3.1	-3.7	-4.5	-6.3	-10.7	-15.1
Value	-2.3	-1.7	6.3	12.8	12.0	-3.0	-3.9	-4.0	-4.0	-7.8
Market	0.7	2.3	10.7	17.5	21.5					
Market - Equal-Weighted	-1.7	-0.9	3.8	8.9	8.6					

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 Strategy & Insights

Figure 5b – European factor index total returns relative to market (%)

Data as of 31 Oct 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.7	3.0	3.4	10.3	13.2	0.0	0.4	-2.6	-5.1	-3.2
Low volatility	-0.8	1.6	0.6	12.8	13.3	-0.2	-0.9	-5.2	-2.9	-3.1
Price momentum	1.3	2.0	8.8	30.5	33.1	2.0	-0.6	2.4	12.4	13.8
Quality	-0.5	2.6	6.4	20.4	22.8	0.1	0.0	0.2	3.6	5.0
Size	-2.1	0.9	-0.2	10.3	10.5	-1.5	-1.6	-6.0	-5.1	-5.5
Value	-1.1	3.0	6.4	26.7	27.7	-0.4	0.5	0.2	9.1	9.2
Market	-0.6	2.6	6.2	16.1	16.9					
Market - Equal-Weighted	-1.1	2.3	4.2	15.9	16.9					

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 Strategy & Insights

Figure 6 – Model asset allocation

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	5%	0-10%	3%	↑		
Cash	3%		3%	↑		
Gold	2%		0%			
Bonds	40%	10-70%	37%	↓		
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%	2%			
US Dollar	4%		1%			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%		2%			
Japan	1%		1%			
Emerging Markets	1%		0%			
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%		29%	↓		
EUR	20%		26%	↑		
GBP	7%		13%	↑		
JPY	13%		18%	↓		
EM	9%		15%	↓		
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 Strategy & Insights

Figure 7 – Model allocations for global sectors

	Neutral	Invesco	Preferred Region
Energy	5.3%	Overweight	US
Basic Materials	3.6%	Neutral	Europe
Basic Resources	2.4%	Underweight ↓	Europe
Chemicals	1.2%	Overweight	US
Industrials	13.0%	Neutral	US
Construction & Materials	1.7%	Neutral	Europe
Industrial Goods & Services	11.3%	Neutral	US
Consumer Discretionary	14.1%	Underweight	Europe
Automobiles & Parts	2.7%	Underweight	Europe
Media	1.2%	Underweight	Europe
Retailers	5.4%	Neutral	US
Travel & Leisure	1.8%	Overweight ↑	EM
Consumer Products & Services	3.0%	Underweight	Europe
Consumer Staples	4.5%	Neutral	US
Food, Beverage & Tobacco	2.8%	Neutral	US
Personal Care, Drug & Grocery Stores	1.7%	Overweight	Europe
Healthcare	7.5%	Overweight	US
Financials	16.4%	Neutral	US
Banks	8.0%	Overweight	US
Financial Services	5.4%	Neutral ↑	Japan
Insurance	3.0%	Neutral	US
Real Estate	2.6%	Overweight	Japan
Technology	26.3%	Underweight ↓	US
Telecommunications	3.5%	Underweight	US
Utilities	3.2%	Neutral ↓	Europe

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 Strategy & Insights

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 3

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 JP Morgan Emerging Markets Global Composite 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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