Uncommon truths
The UK is not alone when it comes to fiscal problems

The UK government is under a lot of pressure, not least in the budgetary realm. With an OBR forecast that net debt will be above 270% of GDP in the early 2070's, the situation looks dramatic. Our own forecasts suggest the UK is not alone and that many governments will struggle to avoid such debt ratios as populations decelerate and age.

The UK media and many commentators are downbeat about the prospects for the UK economy, the fiscal situation and the outlook for UK debt. This stems partly from the fact that the UK has seen little economic growth over recent years. For example, since the end of 2019, the UK economy has grown by only 4.5% (up to 2025 Q2). This may be better than the 0.1% seen in Germany but is around one-third of the 13.3% in the US and well below the 35.4% and 30.5% seen in India and China, respectively.

It also seems to be the result of inflation remaining stubbornly above the Bank of England's 2% target, with CPI inflation of 3.8% in August (up from a low of 1.7% in September 2024). This is preventing the BOE from cutting rates as rapidly as the ECB, with the BOE policy rate at 4.00%, while ECB's Deposit Rate is 2.00%. That may explain why gilt yields remain so elevated, with the 10-year yield around 4.74% versus a 10-year bund yield of 2.73%, a 10-year French yield of around 3.55% and a 10-year US yield of 4.15% (all as of 26 September 2025). **Figure 1b** shows the comparison with a range of countries that will feature in this report.

However, elevated UK yields may also be due to concern about the fiscal situation. The budget will be announced on 26 November and there is much speculation about how Chancellor Reeves will fill the fiscal hole that seems to be widening. For example, the cumulative public sector net borrowing requirement for the current fiscal year was £83.8bn in August 2025, £16.2bn higher than the year earlier period and £11.4bn above the monthly profile consistent with the Office for Budget Responsibility's (OBR) March forecast (the UK fiscal year starts in April). The problem seems to be more a shortfall of receipts versus forecast (largely VAT), than excess spending.

The Chancellor's self-imposed fiscal rules (that budget forecasts should predict that by 2029/30 the day-to-day budget, excluding investment spending, should be in surplus and that net debt/GDP should be falling) and electoral promises not to increase income tax, employee national insurance contributions nor VAT. Having already been forced to reverse her attempts to cut various forms of spending, Rachel Reeves is left trying to find extra sources of tax revenue. A 30-year gilt yield above 5.50% may suggest market scepticism on that front.

With the UK government's net debt-to-GDP ratio hitting 96.4% in August (according to the Office for National Statistics), just how bad is the debt outlook for the UK and how does it compare to elsewhere. The first item of bad news is that the OBR's latest Financial Risk and Sustainability Report (July 2025) envisages that UK government debt will be above 270% of GDP by the early 2070s (under pressure from an ageing population, which adds to state healthcare and pension costs, the impact of climate change and other factors). Another problem is that **Figure 1b** shows that the UK government's primary deficit is among the largest among our sample of countries.

Figure 1a – Long term government bond yields (%)

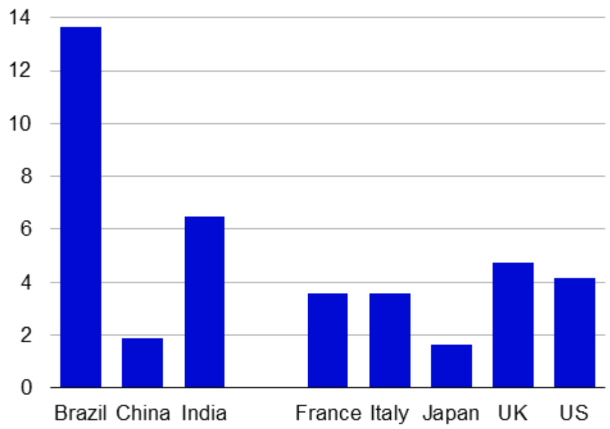
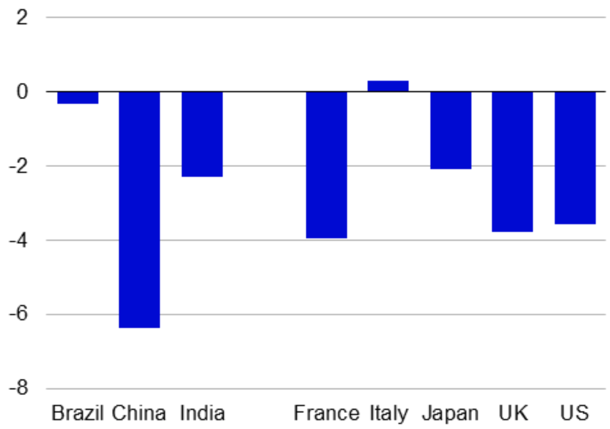


Figure 1b – General government primary net balance in 2024 (% of GDP)



Note: **Past performance is no guarantee of future results**. Left chart shows 10-year government bond yields as of 26 September 2025 (from Bloomberg). Right chart shows the primary net balance, which is the budget balance excluding interest costs, as estimated by the IMF (or OECD for the US). Source: IMF, OECD, Bloomberg, LSEG Datastream and Invesco Global Market Strategy Office

To be fair to the UK, few governments offer 50-year forecasts. The US Congressional Budget Office (CBO) issues a 30-year forecast. In a letter sent to Congress in March 2025, the CBO baseline estimate was that US government net debt will be 166% of GDP in 2054 (up from 102% in 2025). However, under an alternative scenario that allows for the non-reversal of 2017 tax cuts, the CBO estimates that net debt-to-GDP will be 214% in 2054 (those tax cuts will not be reversed under the new budget). So, the US debt situation seems as precarious that of the UK.

That is confirmed by my own calculations out to 2075, the results of which are shown in **Figure 2a**. My calculations use a simple approach that assumes constant annual growth in nominal GDP, constant primary budget deficits and constant government bond yields. For each country, my forecasts allow for possible demographic effects on GDP growth, primary budget deficits and bond yields (see the appendices for those assumptions).

The first point of note is that the developed economies shown in **Figure 2a** had higher debt-to-GDP ratios in 2024 than the chosen emerging economies. My forecasts suggest that will still be the case in 2075 (see "best guess yield" forecast). Among developed countries, Japan's debt-to-GDP ratio is predicted to be 334% in 2075 (up from 135% in 2024). The 2075 projection for France is 254% and that for the US is 268% (or 198% in 2054, versus the CBO estimate of 214% for that year). The forecast for the UK in 2075 is 265%, close to the OBR estimate that it will be above 270%.

Perhaps the most interesting country is Italy, with the debt-to-GDP ratio predicted to rise from 125% in 2024 to "only" 160% in 2075. The reason for this relatively limited growth in debt is found in **Figure 1b**, with Italy's primary budget (the balance before interest costs) in surplus in 2024, as it has been in all but six years since 1992. That makes an enormous difference to the debt path and shows other countries how to get their debt under better control. Improving the primary budget balance requires higher taxes and/or lower spending, which is easier said than done, especially as populations decelerate and age.

When it comes to debt sustainability, the important ratio is net interest payments-to-GDP (see **Figure 2b**). The low interest rates since the Global Financial Crisis mitigated the effect of rising debt on interest costs. For example, despite Japan having the highest debt ratio in 2024, its net interest-to-GDP ratio was virtually zero. However, interest rates have risen in most countries and that will boost those interest cost ratios over the coming years (see the 2075 "best-guess" forecasts). My projections suggest UK and US net interest-to-GDP ratios will be above 10% in 2075 (versus 2% and 4%, respectively, in 2024). Even worse, if investors demand higher yields to absorb more government debt, the path of debt-to-GDP will steepen and interest costs-to-GDP could approach 19% in both the UK and the US (if yields rise by 100 basis points). I doubt that is sustainable.

The UK may be in a fiscal bind but it is not alone.

Unless stated otherwise, all data as of 26 September 2025.

Figure 2a – General government net debt/GDP (%)

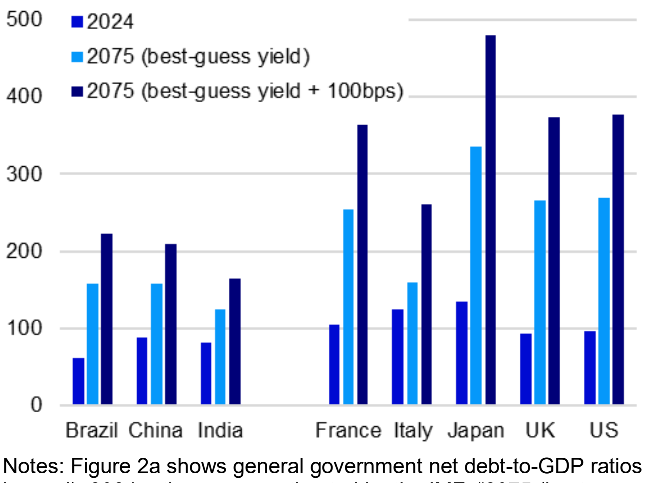
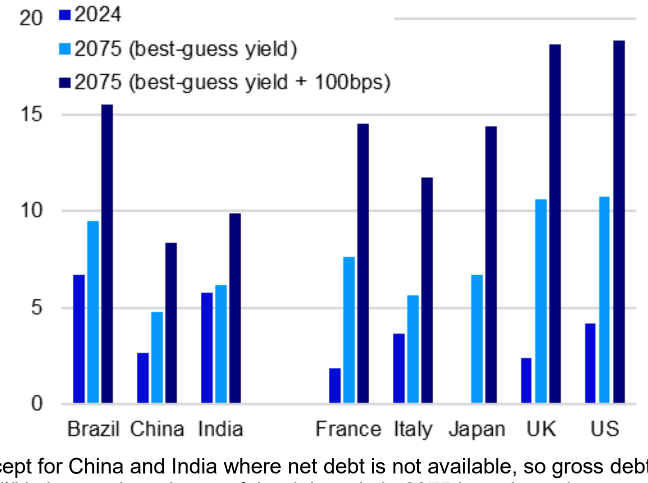


Figure 2b – net interest payments on general government debt (% of GDP)



Notes: Figure 2a shows general government net debt-to-GDP ratios (*except for China and India where net debt is not available, so gross debt is used). 2024 ratios are as estimated by the IMF. "2075 (best-guess yield)" is Invesco's estimate of the debt ratio in 2075 based on where we think government debt yields will be, along with assumptions about nominal GDP growth and primary balance/GDP ratios (all variables are held constant throughout the forecasting period). "2075 (best-guess yield + 100bps)" adds 100 basis points to the best-guess yield to show the ceteris paribus impact of a rise in yields. Figure 2b shows net interest payments on government debt as a percent of GDP (China and India are based on gross, rather than net debt). The 2024 interest payment data is provided by the IMF, except for Brazil, China and India which are our own estimates. **There is no guarantee that these views will come to pass**.
Source: IMF, OECD, LSEG Datastream and Invesco Global Market Strategy Office

Figure 3 – Asset class total returns (%)

Data as at 26 Sep 2025	Index	Current Level/RY	Total Return (USD, %)					Total Return (Local Currency, %)				
			1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Equities												
World	MSCI	977	-0.5	2.7	6.8	17.9	17.0	-0.2	2.7	7.4	15.2	16.8
Emerging Markets	MSCI	1326	-1.1	4.2	9.2	26.2	17.1	-0.5	4.4	10.9	23.2	18.5
China	MSCI	87	-0.9	4.4	17.2	37.6	37.3	-0.8	4.3	16.3	37.3	37.8
US	MSCI	6357	-0.3	3.0	7.4	14.2	17.8	-0.3	3.0	7.4	14.2	17.8
Europe	MSCI	2469	-0.4	0.6	2.5	26.8	13.9	0.1	0.4	3.2	13.5	9.7
Europe ex-UK	MSCI	3051	-0.6	0.9	1.9	27.4	13.4	-0.1	0.5	2.2	12.6	8.0
UK	MSCI	1477	0.2	-0.4	4.7	24.9	15.9	0.8	0.2	7.1	16.8	15.9
Japan	MSCI	4666	0.1	2.4	7.4	20.3	15.1	1.2	3.8	11.2	14.4	18.8
Government Bonds												
World	BofA-ML	3.31	-0.5	0.3	-0.7	6.6	0.2	-0.1	0.5	0.2	1.8	-0.2
Emerging Markets	JP Morgan	3.62	-0.5	0.4	0.7	7.3	3.2	-0.1	0.1	0.6	3.4	4.6
China	BofA-ML	1.70	-0.5	-0.1	-0.7	2.2	0.7	-0.2	-0.5	-1.1	-0.1	2.3
US (10y)	Datastream	4.16	-0.4	1.0	1.5	6.7	1.4	-0.4	1.0	1.5	6.7	1.4
Europe	Bofa-ML	2.88	-0.6	0.5	-0.9	13.1	4.9	0.0	0.2	-0.5	0.1	0.2
Europe ex-UK (EMU, 10y)	Datastream	2.70	-0.5	0.4	-0.6	11.9	2.6	0.1	0.0	-0.2	-0.9	-2.0
UK (10y)	Datastream	4.75	-0.8	-0.2	-3.0	9.4	-1.0	-0.2	0.3	-0.9	2.2	-1.0
Japan (10y)	Datastream	1.65	-1.2	-1.5	-4.7	1.6	-8.0	-0.1	-0.2	-1.4	-3.3	-5.0
IG Corporate Bonds												
Global	BofA-ML	4.35	-0.5	0.9	1.5	9.2	4.9	-0.2	0.9	1.8	5.3	3.8
Emerging Markets	BBloom	6.02	-0.4	1.3	4.2	10.9	8.8	-0.4	1.3	4.2	10.9	8.8
China	BofA-ML	2.27	-0.4	0.1	-0.1	2.9	0.7	-0.1	-0.3	-0.5	0.6	2.4
US	BofA-ML	4.88	-0.4	1.1	2.4	6.7	3.7	-0.4	1.1	2.4	6.7	3.7
Europe	BofA-ML	3.17	-0.6	0.6	0.4	15.9	8.5	0.0	0.2	0.8	2.6	3.7
UK	BofA-ML	5.43	-0.5	0.2	-1.7	11.3	3.7	0.1	0.8	0.5	4.0	3.7
Japan	BofA-ML	1.65	-1.1	-1.4	-3.9	4.3	-4.6	-0.1	0.0	-0.5	-0.8	-1.5
HY Corporate Bonds												
Global	BofA-ML	6.79	-0.3	0.9	2.3	9.4	8.3	-0.2	0.8	2.5	6.8	7.5
US	BofA-ML	7.05	-0.2	0.8	2.3	6.9	7.3	-0.2	0.8	2.3	6.9	7.3
Europe	BofA-ML	5.47	-0.6	0.8	1.4	18.1	11.5	0.0	0.5	1.8	4.6	6.5
Cash (Overnight rates)												
US		4.14	0.1	0.4	1.0	3.2	4.5	0.1	0.4	1.0	3.2	4.5
Euro Area		1.93	0.1	1.0	0.1	15.3	7.9	0.0	0.2	0.4	1.7	2.6
UK		3.97	-0.6	0.2	-1.0	11.1	6.0	0.1	0.4	0.9	3.2	4.6
Japan		0.48	-0.2	-0.2	-2.6	6.6	-3.2	0.0	0.0	0.1	0.3	0.4
Real Estate (REITs)												
Global	FTSE	1712	-0.2	1.1	3.5	10.6	0.6	0.3	0.8	3.9	-2.1	-3.9
Emerging Markets	FTSE	1318	-2.7	0.6	5.2	15.6	4.2	-2.2	0.3	5.6	2.3	-0.5
US	FTSE	3212	0.8	2.1	4.0	3.7	-1.9	0.8	2.1	4.0	3.7	-1.9
Europe ex-UK	FTSE	2644	-1.6	-3.8	-5.5	18.7	-1.1	-1.1	-4.1	-5.1	5.2	-5.5
UK	FTSE	877	0.2	-1.0	-9.3	11.0	-12.1	0.9	-0.4	-7.3	3.7	-12.1
Japan	FTSE	2554	0.3	2.7	11.0	35.5	18.8	1.4	4.1	14.9	28.9	22.6
Commodities												
All	GSCI	3958	2.9	4.0	6.2	8.3	12.8	-	-	-	-	-
Energy	GSCI	663	4.9	5.5	6.4	4.2	13.2	-	-	-	-	-
Industrial Metals	GSCI	1822	0.7	2.3	2.9	10.7	1.5	-	-	-	-	-
Precious Metals	GSCI	4196	3.4	12.0	15.6	43.6	40.1	-	-	-	-	-
Agricultural Goods	GSCI	479	-0.1	-0.8	-0.6	-7.0	-5.1	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.17	-0.4	0.5	-0.7	13.0	4.7	-	-	-	-	-
JPY		149.51	-1.0	-1.4	-3.7	5.1	-3.1	-	-	-	-	-
GBP		1.34	-0.6	-0.6	-2.2	7.0	0.0	-	-	-	-	-
CHF		1.25	-0.3	0.7	-0.6	13.7	6.1	-	-	-	-	-
CNY		7.13	-0.3	0.3	0.4	2.3	-1.7	-	-	-	-	-

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

Data as of 26 Sep 2025	Global				
	1w	**1m**	**QTD**	**YTD**	**12m**
Energy	**2.1**	**1.2**	**-0.5**	**-7.4**	**-6.9**
Basic Materials	**2.0**	**2.9**	**6.0**	**9.9**	**-4.6**
Basic Resources	3.2	7.3	13.4	21.3	4.5
Chemicals	-0.3	-4.6	-5.7	-6.7	-18.1
Industrials	**-0.2**	**-2.1**	**-3.0**	**0.2**	**-2.0**
Construction & Materials	-0.8	-3.4	-3.2	2.0	-4.0
Industrial Goods & Services	-0.1	-1.9	-3.0	-0.1	-1.7
Consumer Discretionary	**-0.3**	**-0.3**	**-0.5**	**-4.9**	**0.1**
Automobiles & Parts	1.9	7.7	14.4	-4.5	12.0
Media	-0.2	-1.9	-10.9	3.2	14.5
Retailers	-1.4	-1.1	-1.4	-6.2	-0.5
Travel & Leisure	0.0	-5.2	-5.2	-8.9	-4.2
Consumer Products & Services	-0.3	-1.6	-2.7	-3.4	-9.7
Consumer Staples	**-0.5**	**-4.5**	**-7.4**	**-6.5**	**-13.6**
Food, Beverage & Tobacco	-0.3	-4.8	-7.6	-6.0	-13.7
Personal Care, Drug & Grocery Stores	-0.9	-4.2	-7.1	-7.4	-13.3
Healthcare	**-1.5**	**-3.7**	**-5.0**	**-12.6**	**-21.0**
Financials	**0.1**	**-1.5**	**-1.4**	**4.9**	**7.4**
Banks	0.5	-0.4	1.4	11.5	15.1
Financial Services	-0.8	-2.3	-2.9	-1.4	2.2
Insurance	0.9	-3.2	-5.8	0.2	-1.5
Real Estate	**-0.1**	**-2.8**	**-3.4**	**-4.1**	**-10.8**
Technology	**-0.2**	**4.2**	**6.1**	**5.2**	**11.5**
Telecommunications	**-0.2**	**-1.4**	**-0.8**	**6.8**	**5.6**
Utilities	**1.8**	**-0.9**	**-2.7**	**-0.4**	**-6.1**

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 5a – US factor index total returns (%)

Data as of 26 Sep 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.4	1.8	4.2	10.5	9.3	0.7	-1.0	-3.0	-3.1	-6.7
Low volatility	1.0	-0.2	1.6	4.5	1.9	1.3	-2.9	-5.4	-8.4	-13.0
Price momentum	-0.4	4.0	7.3	14.3	18.1	-0.1	1.1	-0.1	0.2	0.8
Quality	0.4	1.3	8.6	15.3	9.9	0.7	-1.6	1.1	1.1	-6.2
Size	-0.4	-1.3	5.4	6.7	2.4	-0.1	-4.0	-1.8	-6.4	-12.6
Value	0.7	1.7	8.0	14.6	13.8	1.0	-1.1	0.6	0.5	-2.8
Market	-0.3	2.9	7.4	14.1	17.2					
Market - Equal-Weighted	0.1	0.7	4.2	9.2	7.7					

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

Data as of 26 Sep 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.9	-1.5	-0.2	6.5	4.0	-1.0	-1.6	-2.9	-5.3	-4.6
Low volatility	0.4	-1.5	-1.7	10.2	8.2	0.3	-1.6	-4.4	-2.0	-0.7
Price momentum	0.8	0.5	6.0	27.2	24.7	0.6	0.4	3.1	13.1	14.4
Quality	0.8	0.1	3.1	16.7	14.8	0.7	-0.1	0.2	3.7	5.3
Size	-0.8	-2.6	-1.8	8.5	4.0	-0.9	-2.7	-4.5	-3.5	-4.6
Value	0.8	-0.5	2.6	22.2	17.9	0.7	-0.7	-0.2	8.6	8.1
Market	0.1	0.1	2.8	12.5	9.0					
Market - Equal-Weighted	-0.2	-1.5	1.1	12.5	8.8					

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 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 Global Market Strategy Office

Figure 7 – 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 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

Assumptions used in net debt and net interest calculations in Figure 2 (constant values to 2075, %)

	Brazil	China	India	France	Italy	Japan	UK	US
Nominal GDP growth	6.0	5.0	7.0	3.0	3.0	2.0	4.0	4.0
Bond yield	6.0	3.0	5.0	3.0	3.5	2.0	4.0	4.0
Primary budget balance	-2.0	-4.0	-3.0	-3.0	0.0	-4.0	-3.5	-3.5

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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