2026 Invesco Capital Market Assumptions

Invesco Solutions and Custom Strategies | US Dollar (USD) | Q2 Update

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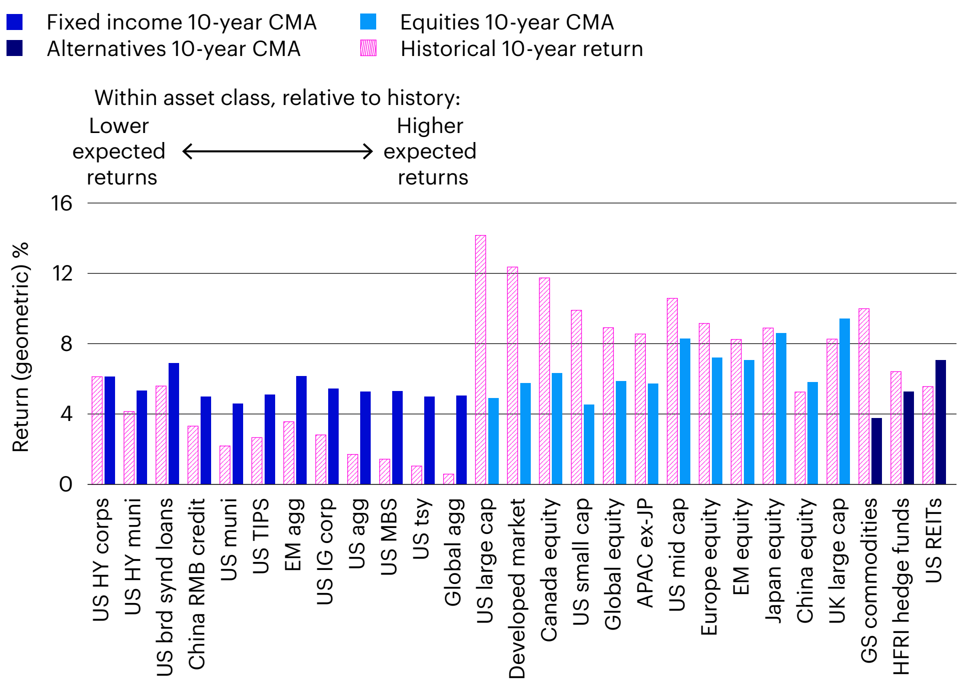
Executive Summary

- Market conditions continue to be shaped by elevated volatility, reflecting geopolitical tensions, inflation expectations and uncertainty around the Fed's messaging of its forward guidance path. These forces have kept monetary policy expectations in flux as the market rally broadens, spreading into small cap stocks.
- Equity performance has become more regionally differentiated. US equities have been more resilient, supported by technology earnings and the AI narrative. Japan has also been a strong performer,[1] benefiting from corporate reform and improving investor demand alongside the technology theme, illustrating the more attractive combination of earnings growth, shareholder yield and valuations that can still be found in several developed markets outside the US.
- At the same time, although inflation concerns are lower than their peak,[2] there are still expectations for higher policy rates into year end. This has kept yields elevated,[3] improving prospective income across bond markets and reinforcing the role of bonds as a diversifying allocation within long-term portfolios.

Figure 1: Expectations relative to historical average (USD)



Source: Invesco, estimates as of Mar. 31, 2026. Proxies listed in **Figure 6**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions and Custom Strategies; the views of other investment teams at Invesco may differ from those presented here. **Past performance is not a guarantee of future results.**

1. Source: Bloomberg L.P., as of Jun. 30, 2026. MSCI Japan Index returned 16.0% in H1 2026 versus 11.5% by MSCI ACWI Index.
2. Source: Bloomberg L.P., as at Jun. 30, 2026. US 10-yr breakevens fell to 2.2% end June 2026 from 2.5% end April 2026.
3. Source: Bloomberg L.P., as at Jul. 8, 2026. Average yield on US 10-yr Treasury was 4.4% in Q2 26 and 4.2% in Q1 26.

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Asset Allocation Insights

For further details on our process for defining scenarios and adjustments, please refer to our CMA Methodology paper.

Strategic perspective

Equity performance continues to demonstrate regional differences, although recent market moves have been shaped by easing geopolitical tensions and moderating inflation expectations. US equities have remained resilient, supported by earnings strength, particularly within technology, and continued enthusiasm around artificial intelligence-related investment. While many non-US equity markets have recovered from the weakness experienced during the Middle East conflict, performance has generally lagged that of the US as investors continue to favor markets with stronger earnings momentum and greater exposure to structural growth themes. The AI narrative continues to provide support to US equities, though some investors remain cautious about the long-term returns on the substantial capital being deployed across the sector.

For long-term investors, these market conditions reinforce the need to focus on the underlying drivers of expected return and benefits of diversification. Our CMAs continue to see relatively strong earnings growth and consistent shareholder yield, through dividends and buybacks, as core supports to equity returns across developed markets. While elevated valuations, especially in the US, are likely to temper long-term returns, several developed markets outside the US offer a more balanced mix of earnings, shareholder yield and starting valuations, supporting comparatively more attractive long-term opportunities.

In line with these regional equity disparities, shaped by market sentiment and evolving economic pressures, expectations for the path of interest rates have also shifted substantially over a short period. Earlier in the year, concerns around higher energy prices and renewed inflationary pressures led investors to reduce expectations for policy easing and increasingly price in further tightening. While market pricing in several major economies (US, Eurozone and UK) continues to imply rate hikes rather than rate cuts before year-end,[4] easing geopolitical tensions, lower oil prices and signs of moderating inflation have reduced the likelihood of a more aggressive tightening cycle. As concerns over further policy tightening have eased, investors have increasingly focused on the timing of future policy easing, supporting broader participation across equity markets, including US small cap stocks.

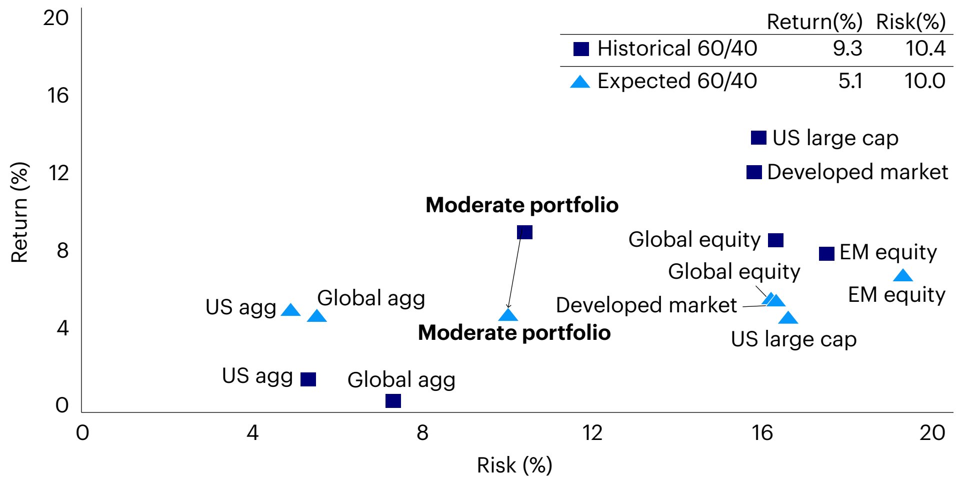
At the same time, the factors driving changes in policy expectations continue to reverberate through fixed income markets. Government bond yields remain elevated relative to recent history, supporting attractive income opportunities across fixed income markets, though yields have retraced from their recent highs as inflation expectations have eased. The combination of resilient economic activity, moderating inflation pressures and lower energy prices has helped support bond markets while reinforcing the diversification benefits of high-quality fixed income. In the near term, developments in inflation and labor-market data are likely to remain the key drivers of sovereign bond yields, particularly in the US, where policymakers continue to balance resilient growth against the prospect of further disinflation.

With Kevin Warsh now as Fed Chair, markets expect a more hawkish Fed stance as the new Chair has previously spoken about reducing the size of the Fed's balance sheet, which is potentially supportive for US Treasury yields, especially at the longer end of the yield curve. Warsh has also, however, signalled a departure from the Fed's recent reliance on forward guidance, leaving investors with less visibility on the likely path of policy and increasing sensitivity to incoming economic data. This has a direct bearing on our CMA expected returns, since current and expected yields are a cornerstone of our projections. In parallel, the USD has remained relatively strong this year as investors have sought shelter from volatility, pushing back expectations for USD weakness as interest rate differentials have also supported USD.

4. Source: Bloomberg L.P., as at Jul. 14, 2026.

Our CMA framework is built on long-term projections that capture the ebb and flow of economic cycles, emphasizing structural trends rather than short-term fluctuations. For investors, this means using our estimates to guide strategic asset allocation decisions rather than reacting to short-term market moves. We monitor near-term developments, but they should only prompt portfolio reassessment if they begin to signal a sustained change in the underlying economic regime. While short-term volatility may affect individual outcomes, investors should remain anchored to long-term return expectations and avoid making shifts based solely on market noise. If temporary factors evolve into lasting trends, we will update our assumptions accordingly, providing investors with a disciplined basis for recalibrating portfolio positioning when warranted.

Figure 2: Comparing historical and expected risk and return for a moderate 60/40 portfolio (USD)



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2Q26 CMA Observations (10Y, USD)

Equities: Over the 10-year forecast horizon, global equities are expected to return 5.9% (-0.2% qoq and -0.3% versus a year prior). The modest decline in expected global equity returns reflects a heavier valuation headwind, as the US share of global market capitalization has risen to 63%,[5] leaving the index more exposed to derating risk despite still-solid earnings and shareholder yield support.

According to our 2Q-2026 CMAs, we expect the broad US equity universe to return 5.1%, unchanged from last quarter, as strong real earnings (4.1%) continue to be offset by elevated valuations that are projected to mean revert (-4.4%). Within the US market, mid-caps stand out with a forecast return of 8.3%, as they combine a stronger earnings outlook (5.0%) with less stretched valuations (-2.1%) than large caps. By contrast, small caps are anticipated to return 4.5%, they face less valuation drag (-2.7%), and their weaker long-term earnings growth (2.5%) leaves them less compelling than mid-caps on a relative basis.

Again, this quarter we see relative opportunities outside of US equities, with DM-ex US expected to outperform the US. Aggregate UK equities are projected to offer an expected return of 8.6% (-0.5% qoq). Real earnings growth remains the strongest among equity assets, reaching 5.8% (-0.3% qoq). Valuations have improved by 0.3% quarter over quarter (qoq), though they remain a drag on overall expected returns, estimated at -2.9%. UK equities are anticipated to continue their historically strong dividend yield at 3.4% (-0.1% qoq).[6] Japanese equities are also anticipated to return 8.6% (0.8% qoq) as valuations are forecast to detract 2.8% from total return (0.9% qoq) and real earnings remain stable qoq at 4.3%.

5. Source: MSCI ACWI Index, as at May 21, 2026.

6. Source: Bloomberg L.P., as at Jul. 21, 2026. Based on monthly data over the past 10 years, the average 12-month dividend yield was 4.1% for the MSCI UK Index, 1.6% for the S&P 500 Index, 3.0% for the MSCI Europe ex-UK Index, and 2.2% for the MSCI Japan Index.

There are many considerations for investors beyond CMAs when it comes to asset allocation decisions. To learn more about our investment process or discuss your own portfolio needs, please reach out to your Invesco Solutions and Custom Strategies representative.

By contrast, Europe ex-UK equities are expected to return 7.1% (-1.3% qoq), as weaker valuations have increased the drag on returns to -3.1%, making the region less compelling than the UK or Japan on a relative basis.

Emerging markets are estimated to return 7.1% over the forecast period, an improvement of 0.9% qoq. The improvement is largely due to a 0.4% increase in valuations qoq to -1.8%, while an uplift of 0.3% qoq to the currency adjustment improved the currency contribution in 2Q-2026 to 0.8%. Even so, the asset class still screens below developed markets ex-US, reflecting a less supportive overall earnings and valuation backdrop. Looking specifically at Chinese equities, the currency adjustment has improved this quarter by 0.2%, giving Chinese equities the strongest currency tailwind when evaluating returns in USD and adding 2.5% to total expected returns of 5.8% (+0.4% qoq).

Fixed income: Expected returns have increased this quarter as higher yields, driven by firmer inflation concerns and geopolitical pressure on energy prices, improved the return outlook across the asset class. Global aggregate returns are estimated at 5.0% (+0.2% qoq), narrowing the gap with global equities, which are expected to return 5.9% over the same horizon. The increase in fixed income returns reflects a stronger contribution from yield, up 0.1% qoq to 3.8%, while the currency adjustment, although flat qoq, contributed 0.6% to estimated total return.

The projected return for US aggregate is 0.2% higher qoq as current yields increased 0.3% qoq for the asset. The market repriced its expectations for Fed rate cuts lower by year-end as inflation concerns intensified through 1Q-2026, which drove the increase in yields. Return revisions have been most pronounced in higher-yielding segments, with global high yield rising 0.8% qoq to 6.6%, driven primarily by a stronger contribution from total yield (+0.5% qoq).

Alternatives: US REITs, hedge funds, and commodities continue to offer distinct return drivers, enhancing diversification. On a risk-adjusted basis, hedge funds stand out as an efficient allocation of risk-taking capital, with a return-to-risk ratio of 1.4. US REITs persist in demonstrating a relatively strong return-to-risk ratio of 0.5 in comparison to US large-cap equities (0.4), while also generating expected returns above their 10-year historical return. Our 10-year return estimates show a slight qoq improvement in expected returns for REITs and commodities, reflecting a somewhat more supportive outlook for real assets, while hedge funds are expected to moderate modestly after an exceptional performance in 2025.

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2026 Capital Market Assumptions

Figure 3: 10-year asset class expectations (USD)

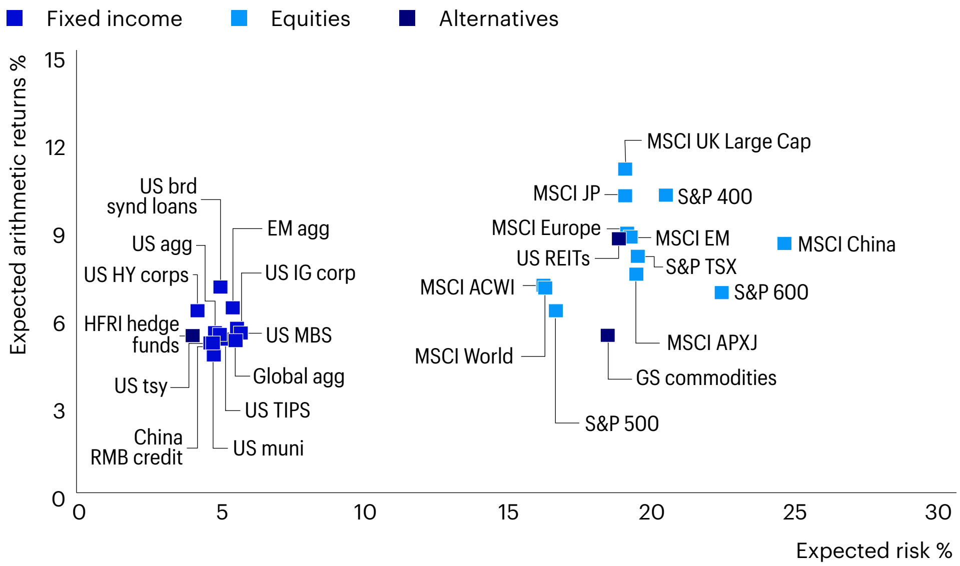

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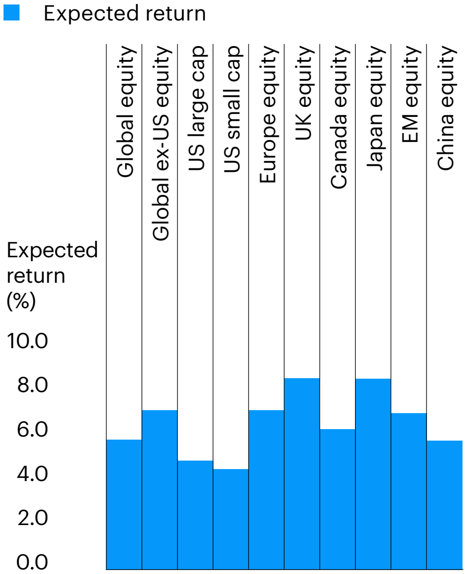
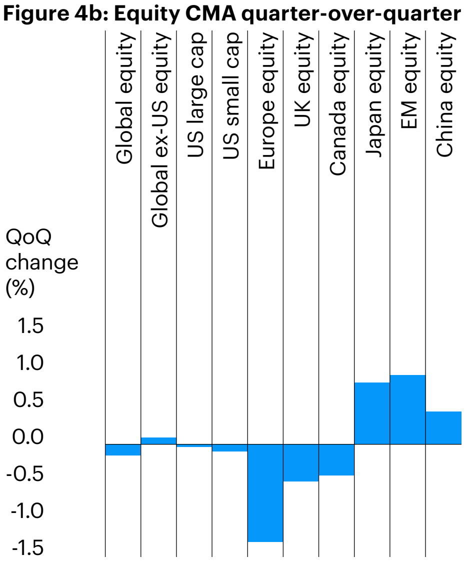
Figure 4a: Equity CMA and building block contribution (USD) (%)



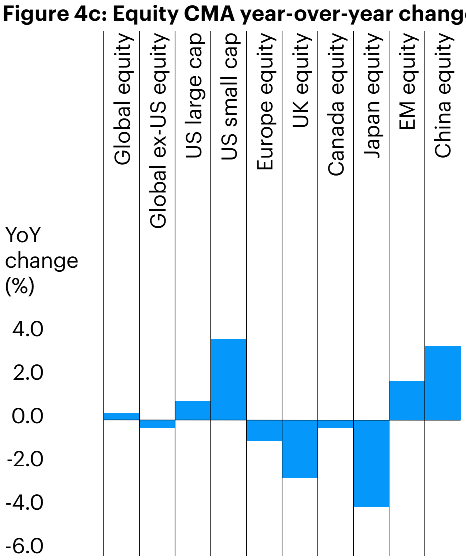
	Dividend yield	Buyback yield	LT earnings growth	Expected inflation	Valuation change	Currency adj. (IRP)
Global equity	1.74	1.35	3.97	2.12	-3.75	0.34
Global ex-US equity	2.46	0.59	3.80	2.00	-2.68	0.94
US large cap	1.31	1.81	4.04	2.19	-4.52	0.00
US small cap	1.50	0.97	2.49	2.19	-2.66	0.00
Europe equity	2.73	0.56	4.23	1.80	-3.06	0.87
UK equity	3.37	0.81	5.77	2.03	-2.93	-0.52
Canada equity	2.62	0.75	2.53	1.95	-2.43	0.88
Japan equity	2.05	0.91	4.33	2.00	-2.75	1.99
EM equity	2.08	-0.07	3.73	2.20	-1.75	0.79
China equity	1.33	-0.64	1.30	1.75	-0.46	2.51

Figure 4b: Equity CMA quarter-over-quarter change and building block contribution (USD) (%)



	Dividend yield	Buyback yield	LT earnings growth	Expected inflation	Valuation change	Currency adj. (IRP)
Global equity	-0.10	0.34	0.05	-0.02	-0.45	0.03
Global ex-US equity	0.07	0.46	-0.02	0.03	-0.52	0.07
US large cap	-0.03	-0.03	0.03	0.00	-0.02	0.00
US small cap	-0.01	0.14	0.06	0.00	-0.29	0.00
Europe equity	-0.02	0.02	-0.01	0.01	-1.24	-0.08
UK equity	-0.08	-0.01	-0.29	-0.21	0.33	-0.22
Canada equity	-0.08	0.02	-0.46	0.00	-0.02	0.14
Japan equity	0.01	0.02	0.03	0.00	0.89	-0.12
EM equity	-0.04	0.24	0.00	-0.04	0.43	0.34
China equity	0.00	-0.09	-0.10	0.00	0.45	0.18

Figure 4c: Equity CMA year-over-year change and building block contribution (USD) (%)



	Dividend yield	Buyback yield	LT earnings growth	Expected inflation	Valuation change	Currency adj. (IRP)
Global equity	0.15	-0.60	-1.91	-0.08	2.77	0.03
Global ex-US equity	0.45	-0.59	-1.73	-0.44	1.89	0.13
US large cap	0.02	-0.66	-1.98	0.11	3.43	0.00
US small cap	0.01	0.14	0.78	0.11	2.65	0.00
Europe equity	0.43	-0.56	-2.75	0.10	1.65	0.19
UK equity	0.28	-0.81	-4.11	0.09	1.89	0.06
Canada equity	0.10	-0.75	-0.83	0.01	0.82	0.33
Japan equity	0.34	-0.91	-3.47	-3.06	2.50	0.71
EM equity	0.57	0.07	-0.16	-0.14	1.82	-0.33
China equity	1.52	0.64	2.20	-1.76	0.94	-0.12

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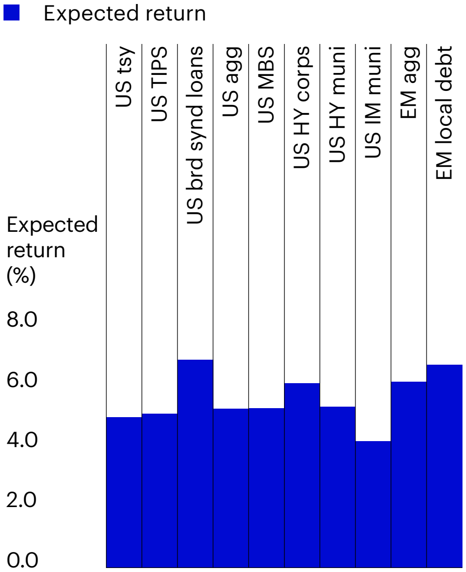
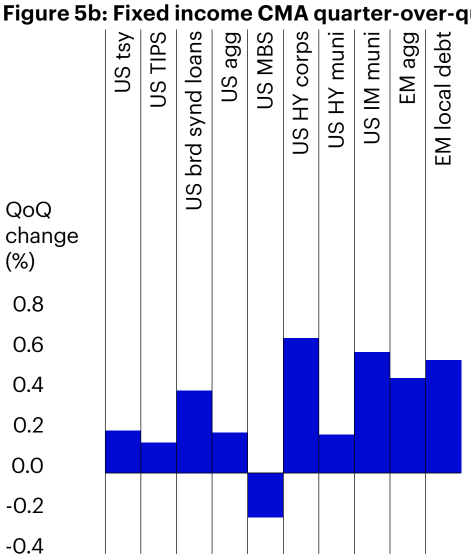
Figure 5a: Fixed income CMA and building block contribution (USD) (%)



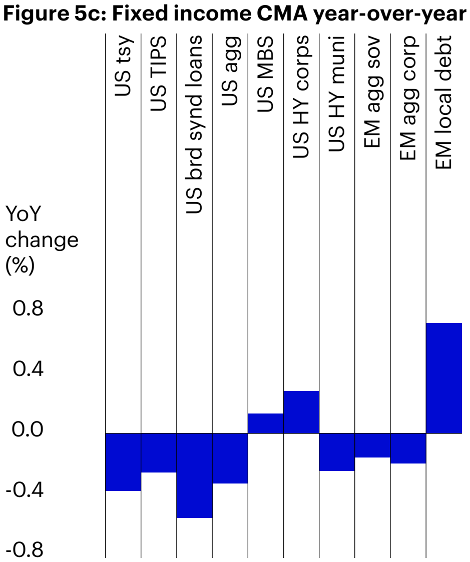
	Average yield	Roll return	Valuation change (yield curve)	Valuation change (OAS)	Credit loss	Currency adj. (IRP)
US tsy	4.01	0.83	0.15	0.00	0.00	0.00
US TIPS	3.97	0.88	0.26	0.00	0.00	0.00
US brd synd loans	7.91	0.00	0.00	-0.09	-0.92	0.00
US agg	4.56	0.83	0.15	-0.15	-0.12	0.00
US MBS	4.81	0.46	0.10	-0.09	0.00	0.00
US HY corps	8.00	0.16	0.11	-0.48	-1.68	0.00
US HY muni	6.63	0.88	0.16	-1.79	-0.54	0.00
US IM muni	3.27	0.83	0.15	-0.05	0.00	0.00
EM agg	6.80	0.83	0.15	-0.78	-0.84	0.00
EM local debt	5.57	0.34	0.77	0.00	0.00	0.05

Figure 5b: Fixed income CMA quarter-over-quarter change and building block contribution (USD) (%)



	Average yield	Roll return	Valuation change (yield curve)	Valuation change (OAS)	Credit loss	Currency adj. (IRP)
US tsy	0.15	-0.06	0.12	0.00	0.00	0.00
US TIPS	0.01	0.05	0.09	0.00	0.00	0.00
US brd synd loans	0.21	0.00	0.00	0.20	0.00	0.00
US agg	0.13	-0.06	0.12	0.03	-0.01	0.00
US MBS	0.11	-0.43	0.07	0.03	0.00	0.00
US HY corps	0.46	-0.04	0.09	0.17	0.00	0.00
US HY muni	0.02	0.01	0.16	-0.04	0.04	0.00
US IM muni	0.14	0.32	0.15	-0.01	0.00	0.00
EM agg	0.31	-0.06	0.12	0.22	-0.12	0.00
EM local debt	0.39	-0.03	0.10	0.00	0.00	0.10

Figure 5c: Fixed income CMA year-over-year change and building block contribution (USD) (%)



	Average yield	Roll return	Valuation change (yield curve)	Valuation change (OAS)	Credit loss	Currency adj. (IRP)
US tsy	0.08	-0.33	-0.13	0.00	0.00	0.00
US TIPS	0.09	-0.17	-0.18	0.00	0.00	0.00
US brd synd loans	-0.42	0.00	0.00	-0.14	0.00	0.00
US agg	0.12	-0.33	-0.13	0.02	-0.02	0.00
US MBS	0.12	0.04	-0.08	0.05	0.00	0.00
US HY corps	0.29	-0.04	-0.03	0.06	0.00	0.00
US HY muni	0.08	-0.22	-0.27	0.18	-0.02	0.00
US IM muni	0.32	-0.33	-0.13	-0.03	0.00	0.00
EM agg	0.26	-0.33	-0.13	0.11	-0.11	0.00
EM local debt	0.40	0.20	-0.45	0.00	0.00	0.58

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Figure 6: 10-year asset class expected returns, risk, and return risk (USD)

	Asset class	Index	Expected geometric return %	Expected arithmetic return %	Total yield %	Expected risk %	Arithmetic return to risk ratio
Fixed income	US tsy	BBG US tsy	5.0	5.1	4.1	4.7	1.09
	US TIPS	BBG US TIPS	5.1	5.2	4.2	5.0	1.05
	US brd synd loans	CSFB leverage loan	6.9	7.0	8.4	4.9	1.42
	US agg	BBG US agg	5.3	5.4	4.6	4.9	1.10
	US IG corp	BBG US IG	5.5	5.6	5.1	5.5	1.02
	US MBS	BBG US MBS	5.3	5.4	4.8	5.6	0.96
	US HY corps	BBG US HY	6.1	6.2	7.4	4.1	1.50
	US muni	BOA ML US muni	4.6	4.7	3.8	4.7	1.00
	US HY muni	BBG muni bond HY	5.3	5.4	5.7	4.7	1.15
	Global agg	BBG global agg	5.0	5.2	4.3	5.5	0.95
	Global tsy	BBG global tsy	4.9	5.1	4.1	5.8	0.87
	Global IG	BBG global corp IG	5.6	5.9	5.2	8.4	0.71
	EM agg	BBG EM agg	6.2	6.3	6.3	5.4	1.18
	China RMB credit	BBG China corporate	5.0	5.1	4.6	4.6	1.11
Equities	Global equity	MSCI ACWI	5.9	7.1	3.4	16.2	0.44
	Global ex-US equity	MSCI ACWI ex-US	7.2	8.5	4.0	17.3	0.49
	US broad market	S&P 1500	5.1	6.4	3.1	16.8	0.38
	US large cap	S&P 500	4.9	6.2	3.1	16.6	0.37
	US mid cap	S&P 400	8.3	10.1	3.2	20.5	0.50
	US small cap	S&P 600	4.5	6.8	2.5	22.4	0.30
	Developed market	MSCI World	5.8	7.0	-	16.3	0.43
	Europe equity[7]	MSCI Europe	7.2	8.8	4.2	19.1	0.46
	Europe ex-UK equity[8]	MSCI euro ex-UK	7.1	8.9	4.3	19.8	0.45
	UK large cap	MSCI UK Large Cap	9.4	11.0	3.9	19.1	0.58
	Canada equity	S&P TSX	6.3	8.1	4.3	19.5	0.41
	Japan equity	MSCI JP	8.6	10.2	4.9	19.1	0.54
	EM equity	MSCI EM	7.1	8.7	2.8	19.3	0.45
	APAC ex-JP	MSCI APXJ	5.7	7.5	2.7	19.4	0.38
	China equity	MSCI China	5.8	8.5	-	24.6	0.35
Alternatives	US REITs	FTSE NAREIT equity	7.1	8.7	-	18.8	0.46
	HFRI hedge funds	HFRI HF	5.3	5.4	-	4.0	1.35
	GS commodities	S&P GSCI	3.8	5.4	-	18.4	0.29

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7. Europe refers to developed markets in Europe including the UK.

8. Europe ex-UK refers to developed markets in Europe excluding the UK.

Figure 7: 10-year correlations (USD)

- Greater than 0.70
- 0.30 to 0.70
- Less than 0.30

		Fixed Income											Equities										Alternatives		
	Asset class	US tsy	US TIPS	US brd synd loans	US agg	US IG corp	US HY corps	US muni	US HY muni	Global agg	EM agg	China RMB credit	Global equity	China equity	US large cap	US mid cap	US small cap	Developed market	UK large cap	Canada equity	Japan equity	EM equity	US REITs	GS commodities	HFRI hedge funds
Fixed Income	US tsy	1.00																							
	US TIPS	0.70	1.00																						
	US brd synd loans	-0.20	0.22	1.00																					
	US agg	0.98	0.76	-0.05	1.00																				
	US IG corp	0.87	0.78	0.24	0.94	1.00																			
	US HY corps	0.21	0.52	0.74	0.38	0.62	1.00																		
	US muni	0.56	0.60	0.32	0.64	0.71	0.53	1.00																	
	US HY muni	0.47	0.55	0.43	0.56	0.67	0.58	0.95	1.00																
	Global agg	0.77	0.70	0.10	0.82	0.82	0.49	0.56	0.51	1.00															
	EM agg	0.58	0.69	0.46	0.70	0.84	0.81	0.64	0.64	0.72	1.00														
	China RMB credit	0.21	0.22	0.11	0.24	0.25	0.25	0.17	0.16	0.41	0.27	1.00													
Equities	Global equity	-0.08	0.26	0.55	0.06	0.24	0.67	0.22	0.27	0.28	0.50	0.19	1.00												
	China equity	-0.03	0.17	0.33	0.06	0.18	0.41	0.14	0.17	0.22	0.37	0.26	0.62	1.00											
	US large cap	-0.10	0.22	0.52	0.02	0.19	0.61	0.19	0.24	0.19	0.43	0.14	0.97	0.53	1.00										
	US mid cap	-0.15	0.22	0.57	-0.02	0.17	0.64	0.18	0.24	0.18	0.42	0.13	0.90	0.48	0.90	1.00									
	US small cap	-0.16	0.20	0.56	-0.03	0.16	0.62	0.17	0.23	0.17	0.39	0.12	0.86	0.45	0.86	0.98	1.00								
	Developed market	-0.08	0.25	0.54	0.05	0.23	0.65	0.22	0.26	0.26	0.48	0.17	1.00	0.58	0.98	0.91	0.87	1.00							
	UK large cap	-0.04	0.26	0.49	0.08	0.25	0.61	0.21	0.25	0.36	0.47	0.22	0.82	0.54	0.73	0.73	0.70	0.81	1.00						
	Canada equity	-0.09	0.28	0.54	0.04	0.22	0.64	0.22	0.26	0.30	0.46	0.19	0.85	0.53	0.78	0.81	0.79	0.84	0.76	1.00					
	Japan equity	0.06	0.25	0.34	0.16	0.27	0.49	0.22	0.23	0.32	0.42	0.17	0.68	0.46	0.59	0.55	0.52	0.67	0.60	0.58	1.00				
	EM equity	-0.03	0.28	0.50	0.10	0.27	0.62	0.23	0.27	0.34	0.53	0.28	0.84	0.79	0.73	0.70	0.66	0.80	0.73	0.75	0.63	1.00			
Alternatives	US REITs	0.08	0.34	0.48	0.19	0.34	0.59	0.29	0.32	0.32	0.50	0.15	0.68	0.33	0.68	0.75	0.73	0.68	0.58	0.62	0.39	0.53	1.00		
	GS commodities	-0.27	0.08	0.34	-0.20	-0.09	0.27	-0.02	0.03	-0.02	0.09	0.07	0.33	0.25	0.29	0.35	0.34	0.32	0.34	0.45	0.20	0.34	0.22	1.00	
	HFRI hedge funds	-0.09	0.24	0.50	0.03	0.19	0.58	0.19	0.23	0.21	0.41	0.15	0.82	0.48	0.81	0.81	0.79	0.82	0.67	0.73	0.52	0.67	0.54	0.37	1.00

Source: Invesco, estimates as of Mar. 31, 2026. Proxies listed in **Figure 6.** These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions and Custom Strategies; the views of other investment teams at Invesco may differ from those presented here.

About our capital market assumptions methodology

We 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 (Figure 8). Here, we provide a summary of key elements of the methodology used to produce our long-term (10-year) estimates. Five-year assumptions are also available upon request. Please see Invesco's Capital Market Assumptions: Methodology update whitepaper for more details.

Figure 8: Our building block approach to estimating returns

Income Capital gain Loss

	Equity	Fixed income
Expected returns	**Total yield**	**Total yield**
	+ Valuation change	+ Valuation change
	+ Earnings growth	+ Roll return
		– Credit loss

For illustrative purposes only.

Fixed income returns are composed of:

- **Average yield:** The average of the starting (initial) yield and the expected yield for bonds.
- **Valuation change (yield curve):** Estimated changes in valuation given changes in the Treasury yield curve.
- **Roll return:** Reflects the impact on the price of bonds that are held over time. Given a positively sloped yield curve, a bond's price will be positively impacted as interest payments remain fixed, but time to maturity decreases.
- **Credit adjustment:** Estimated potential impact on returns from credit rating downgrades and defaults.

Equity returns are composed of:

- **Dividend yield:** Dividend per share divided by price per share.
- **Buyback yield:** Percentage change in shares outstanding resulting from companies buying back or issuing shares.
- **Valuation change:** The expected change in value given the current cyclically adjusted price-to-earnings (P/E) ratio and the assumption of reversion to the long-term average P/E ratio.
- **Long-term (LT) earnings growth:** The estimated rate of the growth of earnings based on geographic revenues and margins adjusted for inflation.

Currency adjustments are based on the theory of interest rate parity (IRP), which suggests a strong relationship between interest rates and the spot and forward exchange rates between two given currencies. Interest rate parity theory assumes that no arbitrage opportunities exist in foreign exchange markets. It is based on the notion that, over the long term, investors will be indifferent between varying rates of returns on deposits in different currencies because any excess return on deposits will be offset by changes in the relative value of currencies.

For volatility estimates for the different asset classes, we use rolling historical quarterly returns of various market benchmarks. Given that benchmarks have differing histories within and across asset classes, we normalize the volatility estimates of shorter-lived benchmarks to ensure that all series are measured over similar time periods.

Correlation estimates are calculated using trailing 20 years of monthly returns. Given that recent asset class correlations could have a more meaningful effect on future observations, we place greater weight on more recent observations by applying a 10-year half-life to the time series in our calculation.

Arithmetic versus geometric returns. Our building block methodology produces estimates of geometric (compound) asset class returns. However, standard mean-variance portfolio optimization requires return inputs to be provided in arithmetic rather than in geometric terms. This is because the arithmetic mean of a weighted sum (e.g., a portfolio) is the weighted sum of the arithmetic means (of portfolio constituents). This does not hold for geometric returns. Accordingly, we translate geometric estimates into arithmetic terms. We provide both arithmetic returns and geometric returns, given that the former informs the optimization process regarding expected outcomes, while the latter informs the investor about the rate at which asset classes might be expected to grow wealth over the long run.

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Invesco Solutions and Custom Strategies

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- We help support better investment outcomes by delivering insightful and thorough analytics.
- By putting analytics into practice, we develop investment approaches specific to your needs.
- We work as an extension of your team to engage across functions and implement solutions.

Assisting clients in North America, Europe, and Asia, Invesco's Solutions team consists of over 75 professionals with 20+ years of experience across the leadership team. The team benefits from Invesco's on-the-ground presence in 25 countries worldwide, with over 150 professionals to support investment selection and ongoing monitoring.

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.

Invesco Solutions and Custom Strategies develop CMAs that provide long-term estimates for the behavior of major asset classes globally. The team is dedicated to designing outcome-oriented, multi-asset portfolios that meet the specific goals of investors. The assumptions, which are based on 5- and 10-year investment time horizons, are intended to guide these strategic asset class allocations. For each selected asset class, we develop assumptions for estimated return, estimated standard deviation of return (volatility), and estimated correlation with other asset classes. This information is not intended as a recommendation to invest in a specific asset class or strategy, or as a promise of future performance. Estimated returns are subject to uncertainty and error, and can be conditional on economic scenarios. In the event a particular scenario comes to pass, actual returns could be significantly higher or lower than these estimates.

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Further information is available using the contact details shown on the overleaf.

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