# Uncommon truths

## Let's twist again!

**US Treasury Secretary Bessent believes that long yields have lost touch with economic fundamentals and has sanctioned a doubling of the purchase size allowed in the Treasury's buyback programme for long-dated bonds. We disagree that market have lost touch with reality. We are sanguine about higher yields (even if good news may now become bad news for stocks), though diversification possibilities may shrink.**

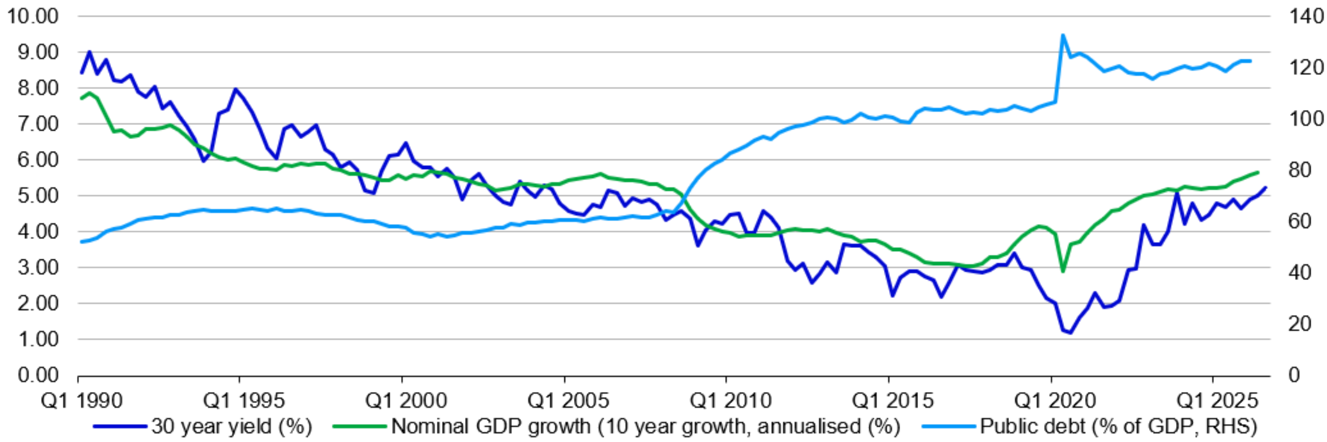
In a strange move reminiscent of the Fed's Operation Twist (both the 1961 original and the 2011 version), the US treasury has announced a doubling of the purchase size (to US$4bn) in its buyback programme of longer dated securities (10-30-year maturities). The desire seems to be to reduce those long-term yields. Why? Well, it is noticeable that mortgage yields have risen a lot in recent years, which could explain the weakness of the US housing market. Also, the term premium on a 10-year zero coupon bond has increased by around 25 basis points so far this year (according to calculations by the Board of Governors of the Federal Reserve System), while a recent auction of 30-year treasuries attracted yields of up to 5.22% (the highest since August 2001). Presumably, the long maturity buybacks are to be financed by the issuance of more short-term debt, which could push up those yields (hence the comparison with Operation Twist).

I say it is a strange move because it seems like the Dutch boy trying to prevent the flooding of Haarlem by sticking his finger in a hole in the dyke (which, continuing the musical analogies, evokes memories of "When the Levee Breaks"). The US government is issuing large amounts of debt and the idea that they can do so without using the full maturity spectrum seems unrealistic (admittedly, it would have been better to issue more ultra-long maturity debt when yields were artificially low in the 2012-2021 period, but that opportunity was spurned). At best, this seems like a temporary move that cannot be prolonged, especially given Kevin Warsh's desire to reduce the Fed's balance sheet, which may result in the release of treasuries (of all maturities) into the market. I believe the only sustainable way for the government to reduce long term yields would be to reduce the fiscal deficit, issue less debt and bring down the debt/GDP ratio (Treasury Secretary Scott Bessent has promised relevant announcements over the coming week).

Having said that, the relationship between the US government debt-to-GDP ratio and the 30-year yield is unclear (see Figure 1). Both have trended up in recent years but prior to that the two didn't seem particularly correlated. Rather, the 30-year yield appears to have been more correlated to recent growth in nominal GDP (a 10-year moving average of that growth rate is used in the chart, on the assumption that markets expect a repeat of the recent past).

A number of conclusions could flow from that observation: first, reducing the debt/GDP ratio by raising GDP growth (as Bessent has hinted, via the adoption of AI) may not reduce yields if nominal GDP growth picks up. Second, bringing down the debt-to-GDP ratio more sustainably may rely on bringing down the primary budget deficit, preferably turning a sizeable deficit to balance or surplus. That requires higher taxes and/or lower spending (the current administration has tried to argue that that is what tariffs will eventually do). Third, given that the recent rise in nominal GDP growth seems to have more to do with higher inflation, rather than increased real GDP growth (though both played a role), the Fed may be more important than the government in reducing bond yields (if it succeeds in lowering inflation to the 2% target, say).

**Figure 1 – US 30-year treasury yield, nominal GDP growth and public sector debt**




Note: **Past performance is no guarantee of future results**. Based on quarterly data from 1990 Q1 to 2026 Q3 (as of 21 August 2026).
Source: Federal Reserve Bank of St. Louis, LSEG Datastream and Invesco Strategy & Insights

Interestingly, Scott Bessent is suggesting that long yields have lost touch with fundamentals. I'm not sure about that, but I accept it depends on how you define "fundamentals". My starting point for defining a "normal" long yield is to figure out the "normal" Fed policy rate over future economic cycles. For me, that comes back to nominal GDP growth (as per The Taylor Rule). Keeping things simple, I give the Fed the benefit of the doubt in expecting inflation to average 2% over multiple cycles. Adding a generous 2% real growth assumption gives a neutral Fed policy rate of 4%.

To that must be added a yield curve assumption to give "normal" long-term yields. Figure 2a shows the 10-year and 30-year spread versus the Federal Funds Target Rate. As we know, the slope of the yield curve varies over time but there has been a consistent range since the start of 1982. Since then, those spreads have averaged 1.32% for the 10-year treasury and 1.75% for the 30-year. Adding those historical averages to the assumed 4% neutral Fed rate gives "normal" 10-year and 30-year yields of 5.32% and 5.75%, respectively (still well above the current yields of 4.73% and 5.27%).

To believe the markets have lost touch with economic fundamentals requires a belief that the 4% nominal GDP growth assumption is too generous (which I doubt the US administration would suggest, especially given the evidence in Figure 1) and/or that the historical average for yield curve slopes no longer applies. While Figure 2a suggests there was a downtrend in spreads after the global financial crisis, I believe that was due to the unusual Fed asset purchases that no longer operate (in fact, Kevin Warsh has suggested he wants to do the opposite). Even using data from the start of 2016, gives 10-yr and 30-yr spreads of 0.38% and 0.81%, respectively, which translates to "normal" 10-yr and 30-yr yields of 4.38% and 4.81%, respectively. So, even stretching the analysis beyond what I think is reasonable, it is still hard to justify the claim that the market has lost touch with fundamentals (in my view).

In conclusion, I think yields are in the process of normalising, rather than overshooting. In my opinion, it was during the 10-15 years after the GFC that markets were forced (by QE) to lose contact with economic reality, not now. So, I think we need to get used to yields being higher than during most of the post-GFC period. That doesn't have to be a problem. In fact, I believe it should be celebrated (markets are now better reflecting underlying economic fundamentals and, as a by-product, offering more attractive yields to investors).

Perhaps the greatest risk is that higher yields may change the stock/bond relationship. Figure 2b suggests there is a weak link between the 10-year yield and the correlation between stocks and bonds. Higher yields appear to be associated with a greater likelihood that rising yields come with falling equity prices (as most of us imagine the relationship to be). Based on the history in the chart, a 10-year yield above 4.72% has tended to be associated with a negative correlation between bond yields and equity prices. In that environment, good news becomes bad news for equities. Apart from reduced diversification possibilities, I don't think it is anything to fear, as we survived a similar regime in the 1960-2000 period.

*Unless stated otherwise, all data as of 21 August 2026.*

**Figure 2a – US long-term treasury spreads vs Fed policy rate**

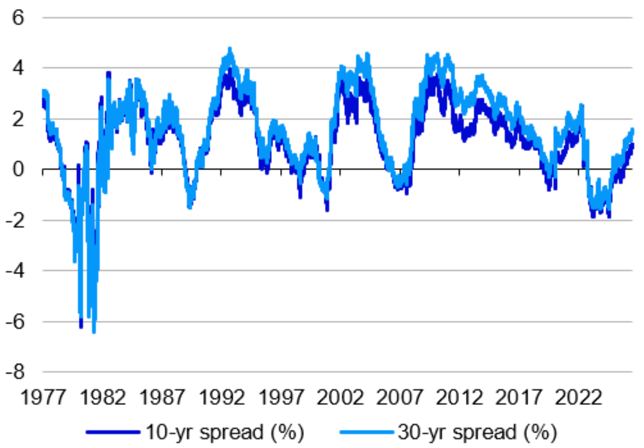
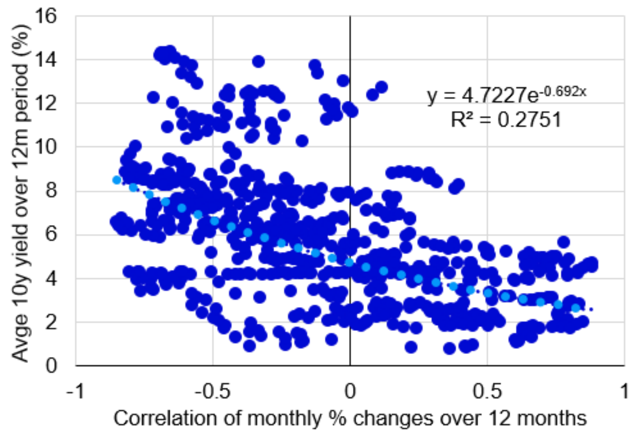



**Figure 2b – US equity/bond yield correlation and the 10-year yield (1963-2026)**




Notes: **Past performance is no guarantee of future results.** Figure 2a is based on daily data from 15 February 1977 to 21 August 2026. "10-yr spread" is the 10-year US treasury yield minus the Federal Funds Target Rate (upper bound). "30-yr spread" is the 30-year US treasury yield minus the Federal Funds Target Rate (upper bound). Figure 2b is based on monthly data from December 1963 to July 2026 (as of 31 July 2026). Correlation is measured between monthly percent changes in the S&P 500 index and the 10-year treasury yield. The chart shows how the 12-month moving average of those correlations compares with the 12-month moving average of the 10-year yield.
Source: LSEG Datastream and Invesco Strategy & Insights

### Figure 3 – Asset class total returns (%)

| Data as at 21 Aug 2026 | | Current | Total Return (USD, %) | | | | | Total Return (Local Currency, %) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Index | Level/RY | 1w | 1m | QTD | YTD | 12m | 1w | 1m | QTD | YTD | 12m |
| **Equities** | | | | | | | | | | | | |
| World | MSCI | 1150 | -0.9 | 3.1 | 2.8 | 14.6 | 24.1 | -1.1 | 2.3 | 2.0 | 14.6 | 24.2 |
| Emerging Markets | MSCI | 1722 | 1.2 | 4.4 | 0.4 | 24.5 | 39.5 | 0.5 | 2.3 | -2.0 | 24.4 | 40.5 |
| China | MSCI | 76 | 2.9 | 2.4 | 10.0 | -6.4 | -4.1 | 2.8 | 2.3 | 9.8 | -6.4 | -4.7 |
| US | MSCI | 7320 | -1.4 | 2.3 | 2.6 | 12.9 | 21.7 | -1.4 | 2.3 | 2.6 | 12.9 | 21.7 |
| Europe | MSCI | 2908 | 0.3 | 4.3 | 4.2 | 12.8 | 21.4 | -0.5 | 2.2 | 2.1 | 13.2 | 20.4 |
| Europe ex-UK | MSCI | 3585 | 0.0 | 4.2 | 3.5 | 12.7 | 21.3 | -0.9 | 2.0 | 1.6 | 13.5 | 20.4 |
| UK | MSCI | 1752 | 1.3 | 4.9 | 6.7 | 13.3 | 21.9 | 0.7 | 3.0 | 4.0 | 11.9 | 20.3 |
| Japan | MSCI | 5658 | -3.3 | 3.5 | 2.8 | 19.2 | 26.9 | -3.4 | 0.9 | 0.5 | 20.9 | 36.2 |
| **Government Bonds** | | | | | | | | | | | | |
| World | BofA-ML | 4.00 | 0.1 | 0.9 | -0.1 | -1.4 | -0.8 | -0.2 | -0.3 | -1.3 | -1.1 | 0.0 |
| Emerging Markets | JP Morgan | 6.25 | 0.4 | 2.0 | 1.8 | 3.4 | 8.8 | -0.1 | 0.4 | 0.2 | 2.7 | 5.8 |
| China | BofA-ML | 1.47 | 0.4 | 1.3 | 1.7 | 6.7 | 9.5 | 0.1 | 0.7 | 0.7 | 2.6 | 2.5 |
| US (10y) | Datastream | 4.72 | -0.2 | -0.3 | -1.5 | -1.5 | 1.5 | -0.2 | -0.3 | -1.5 | -1.5 | 1.5 |
| Europe | Bofa-ML | 3.46 | 0.4 | 2.0 | 0.0 | -1.5 | 0.4 | -0.4 | -0.4 | -2.1 | -0.9 | -0.1 |
| Europe ex-UK (EMU, 10y) | Datastream | 3.23 | 0.4 | 1.9 | -0.4 | -1.4 | -0.3 | -0.4 | -0.5 | -2.5 | -0.8 | -0.8 |
| UK (10y) | Datastream | 5.14 | 0.5 | 2.1 | 1.0 | 0.5 | 4.5 | -0.1 | 0.2 | -1.6 | -0.8 | 3.0 |
| Japan (10y) | Datastream | 2.86 | 0.1 | 1.6 | 1.2 | -5.9 | -13.7 | 0.1 | -0.9 | -1.1 | -4.5 | -7.5 |
| **IG Corporate Bonds** | | | | | | | | | | | | |
| Global | BofA-ML | 4.97 | 0.1 | 0.6 | -0.4 | -0.1 | 2.3 | -0.2 | -0.2 | -1.2 | -0.1 | 2.0 |
| Emerging Markets | JP Morgan | 6.69 | 0.0 | 0.3 | 0.1 | 2.3 | 5.0 | 0.0 | 0.3 | 0.1 | 2.3 | 5.0 |
| China | BofA-ML | 2.01 | 0.3 | 1.1 | 1.4 | 6.3 | 9.7 | 0.0 | 0.4 | 0.5 | 2.2 | 2.8 |
| US | BofA-ML | 5.47 | -0.2 | -0.2 | -1.3 | -0.4 | 2.3 | -0.2 | -0.2 | -1.3 | -0.4 | 2.3 |
| Europe | BofA-ML | 3.84 | 0.5 | 2.3 | 1.1 | -0.2 | 1.6 | -0.3 | 0.0 | -0.9 | 0.4 | 1.1 |
| UK | BofA-ML | 5.82 | 0.4 | 2.4 | 1.7 | 1.3 | 5.2 | -0.2 | 0.4 | -0.9 | 0.0 | 3.7 |
| Japan | BofA-ML | 2.60 | 0.1 | 2.1 | 1.7 | -2.3 | -8.3 | 0.1 | -0.5 | -0.5 | -0.9 | -1.7 |
| **HY Corporate Bonds** | | | | | | | | | | | | |
| Global | BofA-ML | 7.22 | 0.0 | 0.9 | 0.8 | 2.6 | 5.4 | -0.1 | 0.4 | 0.4 | 2.7 | 5.2 |
| US | BofA-ML | 7.50 | -0.1 | 0.4 | 0.5 | 2.4 | 5.4 | -0.1 | 0.4 | 0.5 | 2.4 | 5.4 |
| Europe | BofA-ML | 5.97 | 0.7 | 2.5 | 2.1 | 1.3 | 3.5 | -0.1 | 0.1 | 0.0 | 1.9 | 2.9 |
| **Cash (Overnight rates)** | | | | | | | | | | | | |
| US | | 3.66 | 0.1 | 0.3 | 0.0 | 1.9 | 4.0 | 0.1 | 0.3 | 0.0 | 1.9 | 4.0 |
| Euro Area | | 2.18 | 0.5 | -1.2 | 0.2 | -1.7 | -0.8 | 0.0 | 0.2 | 0.0 | 1.0 | 2.0 |
| UK | | 3.73 | 1.2 | -0.2 | 0.7 | 1.0 | 1.6 | 0.1 | 0.3 | 0.0 | 1.9 | 3.9 |
| Japan | | 0.98 | 0.3 | -0.7 | 0.7 | -2.5 | -9.6 | 0.0 | 0.1 | 0.0 | 0.4 | 0.6 |
| **Real Estate (REITs)** | | | | | | | | | | | | |
| Global | FTSE | 1850 | -0.1 | -1.3 | 1.9 | 11.4 | 13.8 | -0.9 | -3.6 | -0.2 | 12.1 | 13.2 |
| Emerging Markets | FTSE | 1316 | 1.3 | 1.7 | 4.1 | 3.6 | 4.0 | 0.5 | -0.7 | 2.0 | 4.2 | 3.5 |
| US | FTSE | 3670 | -0.3 | -2.4 | 1.4 | 19.3 | 21.9 | -0.3 | -2.4 | 1.4 | 19.3 | 21.9 |
| Europe ex-UK | FTSE | 2584 | -0.1 | 1.2 | 0.7 | -1.0 | -1.9 | -0.9 | -1.1 | -1.3 | -0.4 | -2.3 |
| UK | FTSE | 892 | -0.6 | 4.6 | 7.6 | 14.3 | 21.7 | -1.1 | 2.7 | 4.9 | 12.8 | 20.0 |
| Japan | FTSE | 2312 | 0.3 | -3.6 | -0.4 | -9.5 | -4.9 | 0.3 | -6.0 | -2.6 | -8.3 | 2.0 |
| **Commodities** | | | | | | | | | | | | |
| All | GSCI | 5800 | 4.6 | 6.0 | 19.4 | 48.1 | 52.6 | - | - | - | - | - |
| Energy | GSCI | 1197 | 6.5 | 7.3 | 30.6 | 98.1 | 88.6 | - | - | - | - | - |
| Industrial Metals | GSCI | 2423 | 0.4 | 3.1 | 6.4 | 13.8 | 38.4 | - | - | - | - | - |
| Precious Metals | GSCI | 5200 | 5.7 | 14.0 | 15.1 | 5.5 | 41.0 | - | - | - | - | - |
| Agricultural Goods | GSCI | 542 | 3.7 | 5.6 | 15.5 | 14.9 | 12.2 | - | - | - | - | - |
| **Currencies (vs USD)*** | | | | | | | | | | | | |
| EUR | | 1.17 | 0.9 | 2.5 | 2.3 | -0.6 | 0.6 | - | - | - | - | - |
| JPY | | 158.95 | 0.2 | 2.7 | 2.3 | -1.4 | -6.7 | - | - | - | - | - |
| GBP | | 1.36 | 0.6 | 1.9 | 2.7 | 1.3 | 1.5 | - | - | - | - | - |
| CHF | | 1.25 | 1.5 | 1.4 | 0.9 | -1.1 | 1.0 | - | - | - | - | - |
| CNY | | 6.72 | 0.3 | 0.7 | 1.0 | 4.1 | 6.8 | - | - | - | - | - |

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 21 Aug 2026 | Global | | | | |
|---|---|---|---|---|---|
| | 1w | 1m | QTD | YTD | 12m |
| **Energy** | **2.4** | **1.6** | **9.2** | **12.2** | **11.2** |
| **Basic Materials** | **5.8** | **9.7** | **9.9** | **6.5** | **16.6** |
| Basic Resources | 8.0 | 15.0 | 15.0 | 8.4 | 31.9 |
| Chemicals | 0.6 | -1.7 | -1.3 | 1.9 | -9.4 |
| **Industrials** | **-1.6** | **0.4** | **-1.3** | **-0.5** | **-2.9** |
| Construction & Materials | -1.6 | -4.0 | -9.0 | -8.5 | -12.4 |
| Industrial Goods & Services | -1.6 | 1.0 | -0.1 | 0.8 | -1.4 |
| **Consumer Discretionary** | **0.1** | **-0.4** | **-0.1** | **-13.7** | **-16.9** |
| Automobiles & Parts | 3.9 | -2.2 | -5.7 | -20.6 | -11.9 |
| Media | 1.9 | 6.5 | 7.1 | -19.6 | -31.7 |
| Retailers | -2.0 | -1.4 | 0.7 | -8.0 | -11.6 |
| Travel & Leisure | -0.2 | 1.3 | -0.1 | -10.2 | -17.7 |
| Consumer Products & Services | 0.5 | 0.2 | 1.8 | -17.1 | -23.3 |
| **Consumer Staples** | **1.1** | **-1.9** | **0.4** | **-5.0** | **-13.6** |
| Food, Beverage & Tobacco | 1.5 | -1.1 | 1.1 | -1.8 | -10.2 |
| Personal Care, Drug & Grocery Stores | 0.4 | -3.4 | -0.8 | -10.6 | -19.2 |
| **Healthcare** | **5.2** | **5.0** | **5.5** | **-2.8** | **0.1** |
| **Financials** | **-0.3** | **-0.5** | **3.4** | **-1.4** | **-1.8** |
| Banks | -1.2 | -0.7 | 3.5 | 2.4 | 6.0 |
| Financial Services | 0.6 | 0.4 | 3.9 | -6.6 | -10.1 |
| Insurance | 0.7 | -1.6 | 2.5 | -3.1 | -7.4 |
| **Real Estate** | **1.1** | **-2.6** | **0.5** | **-5.9** | **-11.9** |
| **Technology** | **-2.0** | **-2.0** | **-4.7** | **6.8** | **12.2** |
| **Telecommunications** | **0.7** | **3.1** | **-2.6** | **11.1** | **7.3** |
| **Utilities** | **-0.3** | **-5.4** | **-4.5** | **-8.0** | **-11.1** |

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 Strategy & Insights

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

| Data as of 21 Aug 2026 | Absolute | | | | | Relative to Market | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1w | 1m | QTD | YTD | 12m | 1w | 1m | QTD | YTD | 12m |
| **Growth** | -0.7 | 4.2 | 4.3 | 13.6 | 18.3 | 0.7 | 1.8 | 1.7 | 0.6 | -2.9 |
| **Low volatility** | -1.4 | -0.8 | 0.4 | 6.9 | 4.1 | 0.0 | -3.1 | -2.1 | -5.3 | -14.6 |
| **Price momentum** | -1.2 | 2.1 | -1.7 | 28.7 | 37.8 | 0.1 | -0.2 | -4.1 | 14.0 | 13.0 |
| **Quality** | 0.1 | 6.1 | 9.1 | 14.2 | 18.4 | 1.5 | 3.7 | 6.4 | 1.1 | -2.9 |
| **Size** | -0.1 | 6.2 | 6.9 | 15.0 | 17.4 | 1.3 | 3.8 | 4.3 | 1.8 | -3.7 |
| **Value** | -0.7 | 3.9 | 7.0 | 22.8 | 32.1 | 0.7 | 1.5 | 4.4 | 8.7 | 8.4 |
| **Market** | -1.4 | 2.3 | 2.5 | 12.9 | 21.9 | | | | | |
| **Market - Equal-Weighted** | -0.5 | 4.2 | 4.2 | 16.8 | 21.5 | | | | | |

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 21 Aug 2026 | Absolute | | | | | Relative to Market | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1w | 1m | QTD | YTD | 12m | 1w | 1m | QTD | YTD | 12m |
| **Growth** | -0.9 | 3.9 | 5.4 | 16.2 | 20.7 | -0.3 | 1.9 | 3.0 | 2.5 | 0.0 |
| **Low volatility** | -0.4 | -0.1 | 1.6 | 7.7 | 10.1 | 0.1 | -2.0 | -0.7 | -5.0 | -8.8 |
| **Price momentum** | -1.0 | 1.7 | 0.5 | 15.5 | 26.7 | -0.4 | -0.2 | -1.8 | 1.9 | 5.1 |
| **Quality** | 0.0 | 4.1 | 5.6 | 14.8 | 23.2 | 0.6 | 2.1 | 3.2 | 1.3 | 2.2 |
| **Size** | -1.1 | 4.6 | 9.1 | 10.5 | 13.1 | -0.6 | 2.6 | 6.7 | -2.6 | -6.2 |
| **Value** | -1.2 | 3.1 | 7.1 | 13.9 | 23.6 | -0.7 | 1.1 | 4.7 | 0.5 | 2.4 |
| **Market** | -0.5 | 1.9 | 2.3 | 13.4 | 20.6 | | | | | |
| **Market - Equal-Weighted** | -0.7 | 2.8 | 4.7 | 12.9 | 17.6 | | | | | |

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%** | **4%** | | | |
| Cash | 3% | | 0% | | | |
| AAA CLOs | 2% | | 4% | | | |
| **Bank Loans** | **4%** | **0-8%** | **5%** | | | |
| US | 3% | | 4% | | | |
| Europe | 1% | | 1% | | | |
| **Bonds** | **40%** | **10-70%** | **31%** | | | |
| Government | 25% | 10-40% | 18% | | | |
| US | 8% | | 5% | | | |
| Europe ex-UK (Eurozone) | 7% | | 5% | | | |
| UK | 1% | | 2% | | | |
| Japan | 7% | | 2% | | | |
| Emerging Markets | 2% | | 4% | | | |
| China** | 0.2% | | 0% | | | |
| India** | 0.1% | | 1% | | | |
| Corporate IG | 10% | 0-20% | 8% | | | |
| US Dollar | 5% | | 3% | | | |
| 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% | | | |
| Euro | 1% | | 1% | | | |
| **Equities** | **45%** | **25-65%** | **53%** | | | |
| US | 25% | | 25% | | | |
| Europe ex-UK | 7% | | 9% | | | |
| UK | 4% | | 5% | | | |
| Japan | 4% | | 7% | | | |
| Emerging Markets | 5% | | 7% | | | |
| China** | 2% | | 3% | | | |
| India** | 1% | | 1% | | | |
| **Real Estate** | **4%** | **0-8%** | **5%** | | | |
| US | 1% | | 0% | | | |
| Europe ex-UK | 1% | | 2% | | | |
| UK | 1% | | 2% | | | |
| Japan | 1% | | 1% | | | |
| Emerging Markets | 1% | | 0% | | | |
| **Commodities** | **2.0%** | **0-4%** | **2.3%** | | | |
| Energy | 1.0% | | 0.0% | | | |
| Industrial Metals | 0.3% | | 1.0% | | | |
| Precious Metals | 0.3% | | 0.3% | | | |
| Agriculture | 0.3% | | 1.0% | | | |
| **Total** | **100%** | | **100%** | | | |

| **Currency Exposure (including effect of hedging)** | | | | |
|---|---|---|---|---|
| USD | 51% | | 45% | |
| EUR | 20% | | 21% | |
| GBP | 7% | | 11% | |
| JPY | 14% | | 10% | |
| EM | 9% | | 13% | |
| **Total** | **100%** | | **100%** | |

Notes: *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 and India are 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. India has been added in this edition. See the latest The Big Picture document for more details. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

**Figure 7 – Model allocations for global sectors**

| | Neutral | Invesco | | Preferred Region |
|---|---|---|---|---|
| **Energy** | **6.7%** | **Overweight** | | **Europe** |
| **Basic Materials** | **4.3%** | **Neutral** | | **Europe** |
| Basic Resources | 3.0% | Overweight | ↑ | Europe |
| Chemicals | 1.3% | Underweight | ↓ | US |
| **Industrials** | **12.8%** | **Neutral** | | **US** |
| Construction & Materials | 1.8% | Overweight | ↑ | Europe |
| Industrial Goods & Services | 11.0% | Neutral | | US |
| **Consumer Discretionary** | **12.9%** | **Underweight** | | **Europe** |
| Automobiles & Parts | 2.6% | Underweight | | Europe |
| Media | 0.9% | Underweight | | Europe |
| Retailers | 5.2% | Underweight | ↓ | US |
| Travel & Leisure | 1.7% | Underweight | ↓ | EM |
| Consumer Products & Services | 2.5% | Neutral | ↑ | Europe |
| **Consumer Staples** | **4.5%** | **Neutral** | | **US** |
| Food, Beverage & Tobacco | 2.9% | Neutral | | US |
| Personal Care, Drug & Grocery Stores | 1.6% | Overweight | | Europe |
| **Healthcare** | **7.9%** | **Neutral** | | **US** |
| **Financials** | **16.2%** | **Neutral** | ↓ | **US** |
| Banks | 8.3% | Neutral | ↓ | Japan |
| Financial Services | 5.0% | Overweight | | Japan |
| Insurance | 2.9% | Neutral | | US |
| **Real Estate** | **2.5%** | **Overweight** | | **Japan** |
| **Technology** | **24.9%** | **Neutral** | ↑ | **US** |
| **Telecommunications** | **3.8%** | **Underweight** | | **US** |
| **Utilities** | **3.4%** | **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 Strategy & Insights

# Appendix

### Methodology for Model Asset Allocation

**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 AAA CLOs. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

**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 Global Emerging Markets Government Bond Index.

**Corporate investment grade (IG) bonds:** ICE BofA investment grade corporate bond total return indices, except for in emerging markets where we use the JP Morgan Corporate Emerging Market Broad 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.

## Important information

By accepting this document, you consent to communicating with us in English, unless you inform us otherwise.

This marketing communication is for informational purposes only and is intended only for Professional Clients and Financial Advisers in Continental Europe (as defined below); Professional Clients only in Dubai, Ireland, the Isle of Man, Jersey, Guernsey and the UK; for Qualified Clients/Sophisticated Investors in Israel; for Professional/Qualified/Sophisticated Investors in Bahrain, Jordan, Kuwait, Lebanon, Mauritius, Oman, Qatar, Saudi Arabia, South Africa, Tunisia, Turkey, and the United Arab Emirates; for Professional Investors in Hong Kong; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for Sophisticated/Professional Investors in Australia; for Institutional Investors in the United States, India and Peru; for institutional and/or accredited investors in Singapore and Mexico; for AFPs and Qualified Investors in Chile and Colombia; for one-on-one use for Institutional Investors in Brazil; for Wholesale Investors (as defined in the Financial Markets Conduct Act) in New Zealand; for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan; for Qualified Professional Investors in Korea; for certain specific institutional investors in Brunei and Indonesia; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for qualified buyers in Philippines and for certain specific institutional investors in Malaysia, upon request, for informational purposes only. This document is only intended for use with Qualified Institutional Investors in Japan; in Canada, this document is restricted to Institutional Investors and Advisors, is for educational purposes only, does not constitute investment, tax or legal advice and should not be relied on as such. It is not intended for and should not be distributed to the public. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed.

Continental Europe is defined as Andorra, Austria, Belgium, Bulgaria, Czech Republic, Croatia, Denmark, Finland, France, Germany, Gibraltar, Greece, Hungary, Italy, Kosovo, Latvia, Lithuania, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and Switzerland.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

These materials may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return, future performance targets, sample or pro forma portfolio structures or portfolio composition, scenario analysis, specific investment strategies and proposed or pro forma levels of diversification or sector investment. These forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," "target," "believe," the negatives thereof, other variations thereon or comparable terminology. Forward looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict, are beyond the Issuer's control, and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement.

**Australia**

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.
You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

**New Zealand**
This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco. It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

Issued in Australia and New Zealand by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence no. 239916.

**Israel**: This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law"). Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

**India**: This document is for intended recipient only and should not be distributed to, or relied upon, by members of the public or retail investors. The information herein is presented for discussion and illustrative purposes only and is not a recommendation or an offer to buy or sell any securities or investment advisory services. The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. This document is not to be distributed to any other party. It should not be distributed to clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. It is not an offering for any securities or services and is intended for information purposes only. Certain information included herein is based on information obtained from sources considered to be reliable, however, Invesco Ltd. and its affiliates ("Invesco Ltd.") do not guarantee the accuracy of such information, and such information may be incomplete or condensed and are provided for discussion purposes only. This presentation may not be transmitted, reproduced or made available to any other person. The information contained herein is proprietary and confidential to Invesco Ltd. and its affiliates and may not be disclosed to third parties or duplicated or used for any purpose other than the purpose for which it has been provided. Any unauthorized use, duplication or disclosure of this presentation is prohibited by law. Please note that the information appearing herein is accurate only as of the date hereof or as specifically indicated herein. It may contain statements that are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented. Certain data and other information contained herein have been supplied by outside sources and are believed to be reliable as of the date of this document.

## Author

Paul Jackson
Global Market Strategist, EMEA
paul.jackson@invesco.com
London, EMEA

## Strategy & Insights Team

Brian Levitt
Head of Strategy & Insights
brian.levitt@invesco.com
New York, Americas

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

Paul Jackson
Global Market Strategist, EMEA
paul.jackson@invesco.com
London, EMEA

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

Ben Jones, CFA®
Global Head of Research
benjamin.jones@invesco.com
London, EMEA

Ashley Oerth, CFA®
Senior Investment Strategist
ashley.oerth@invesco.com
London, EMEA

James Anania, CFA®
Investment Strategist
james.anania@invesco.com
New York, Americas

András Vig
Investment Strategist
andras.vig@invesco.com
London, EMEA

Thomas Wu
Investment Strategist
thomas.wu@invesco.com
Hong Kong, Asia Pacific