Uncommon truths

The Aristotle List: 10 improbable but possible outcomes for 2026

It is time to forget central scenarios and think about improbable but possible outcomes. A reversal of some strong and popular trends is built into my list of surprises (these hypothetical predictions are my views of what could happen even if they do not form part of our central scenario).

Aristotle said that "probable impossibilities are to be preferred to improbable possibilities", meaning that we find it easier to believe in interesting impossibilities (B52s on the moon, say) than in unlikely possibilities. The aim of this document is to seek those unlikely possibilities -- out-of-consensus ideas for 2026 that I believe have at least a 30% chance of occurring. The concept was borrowed from former colleague Byron Wien.

I believe the biggest returns are earned (or the biggest losses avoided) by successfully taking out-of-consensus positions. A year ago, the "Trump trade" was a popular idea, so two of my ideas leant against that ("US dollar weakens during 2025" and "US stocks underperform global indices"). Those were among the five successful ideas but the same number didn't work ("Bitcoin falls below $50,000, for example). In a world where nothing surprises me any longer, the challenge is greater than ever. Given the bullish market outcomes in 2025, I feature a reversal of some trends. Don't look for internal consistency, as there is none.

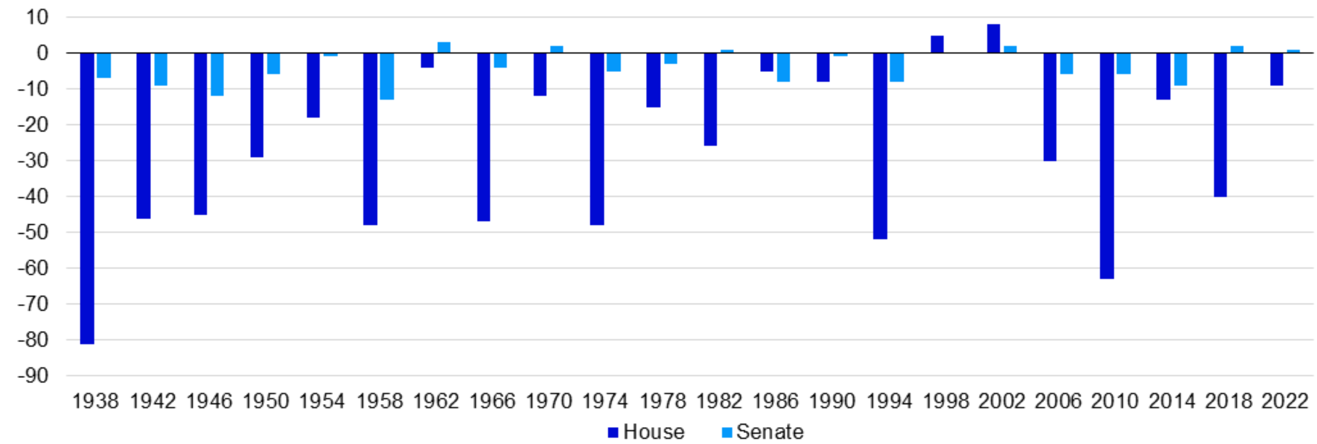
1. US Democrats win both houses at mid-terms
Republican control of both houses of Congress has enabled President Trump to implement his policy agenda. However, US mid-term elections are due on 3 November 2026 and the party of the president usually loses seats in both houses (see **Figure 1**). The only occasions when this was not true for the House of Representatives was during the second term of Bill Clinton and the first term of George W. Bush (when both had Gallup job approval ratings above 60%).

The House swinging to the Democrats is something of a consensus idea (the Republicans only have 220 seats, versus the 218 needed for a majority). However, the Senate appears more challenging, as the Democrats would need to flip four of the 22 Republican seats that are up for grabs (only 35 of the 100 senators face re-election in 2026). That is a big ask, but with President Trump's job approval rating falling to 36%, I think a big swing against the Republicans is on the cards. This may lead to big policy initiatives in 2026 (Venezuela, Greenland, 50% boost to defence spending), as one last hurrah before Congress turns awkward or in an effort to bolster the Republican vote.

2. Russell 2000 outperforms the Magnificent 7
Conversations with investors around the world suggest a strong consensus that US mega caps will continue to outperform, driven by the AI phenomenon. Recent history offers support for this view: in the five years to 31 December 2025, the annualised return on Bloomberg's Magnificent 7 Total Return index was 51.2%, versus "only" 10% on the Russell 2000 index (total return). However, in 2025 the performance gap was reduced to 24.7% (Magnificent 7) versus 12.8% (Russell 2000) and the performance within the former was concentrated in two stocks (the rest had share price gains of less than 15%, with three below 10%). If the US economy accelerates, it could be time (at last) for smaller caps to shine and I think it is possible that the wheels fall off the mega cap bandwagon, especially as doubts arise about the economics of AI investments.

3. USD/JPY falls to 140
The list of surprises for 2025 contained a prediction that the US dollar would weaken, which it did, but the decline against the Japanese yen was minimal (see **Figure 4**). The yen is extremely weak in real trade weighted terms (more than 40% below post-1990 norms, based on Goldman Sachs indices). I think it

Figure 1 – Mid-term congressional seats won or lost by the party of the president



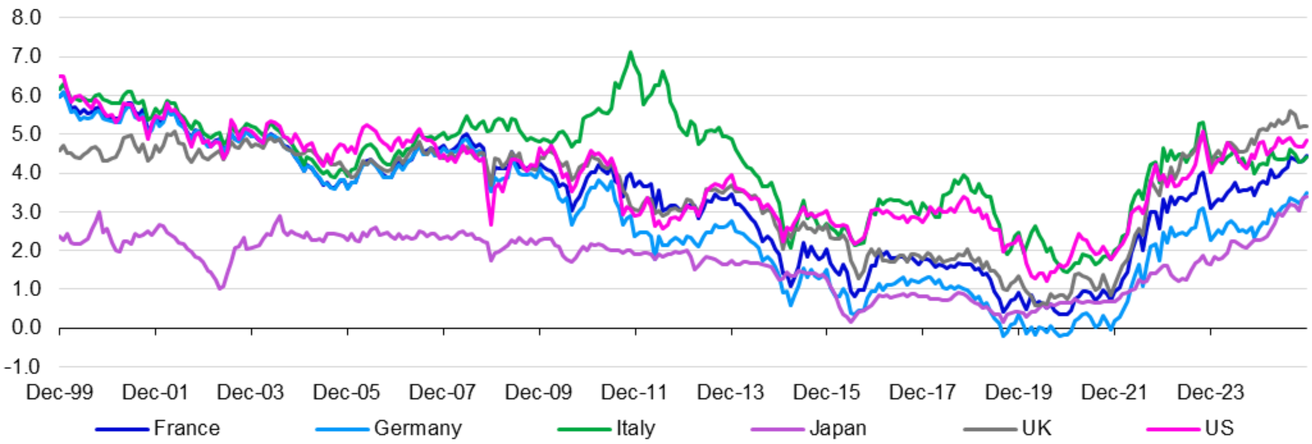
Notes: Based on mid-term elections from 1938 to 2022. Source: The American Presidency Project and Invesco Strategy & Insights became so because the Bank of Japan (BOJ) refrained from the global tightening of 2022/23, thus creating a wide gap between its interest rates and those of other countries. That is now changing, with the BOJ gradually normalising rates upward as many other central banks ease. In 2026, I expect the BOJ to raise its rates by 50 basis points, while I think the Fed will move in the opposite direction. At some stage, I expect that narrowing of spreads to support the yen and, given the degree of undervaluation, I think it will move rapidly. USD/JPY at 140 may seem a long way from the current 158, but it is not when considering the valuation gap.

4. UK 30-year yield ends 2026 below that of the US
30-year government yields appear to have normalised upward from the post-GFC and pandemic lows (see **Figure 2**). Whether they have now reached long-term norms is hard to know but I suspect they are close (based on notions of long-term nominal GDP growth and appropriate term premia). There have also been some interesting relative moves: Japanese yields have caught up with those of Germany; French yields are now closer to Italian than German yields and US yields are again above those of Italy. Highest of all is the 5.12% seen in the UK (as of 9 January). Despite political instability, I expect the UK 30-year yield to finish 2026 below that of the US. First, UK long rates have often been lower than those of the US and should be so (in my opinion) because long-term nominal GDP growth is likely to be lower in the UK. Second, the US fiscal position appears more precarious than in the UK, especially given the desire to boost the popularity of Republicans ahead of the mid-term elections (see the recently proposed 50% boost to defence spending) and this could raise US long yields.

5. Keir Starmer survives the year
To those outside the UK, it may seem odd that we are talking about the demise of Prime Minister Keir Starmer (his Labour Party won 411 out of 450 parliamentary seats in July 2024) and he is playing an important role on the global stage). But to those in the UK, his demise is widely anticipated. His government has upset businesses, farmers, junior doctors, pensioners, the disabled, those wanting a firmer stance against the US and those wanting nothing to do with the EU. His government has been forced into a number of embarrassing U-turns by its own backbenchers and it's YouGov net approval rating has collapsed from a post-election peak of -2% to -59% (they are usually negative). That is worse than any rating given to Boris Johnson, and close to the worst suffered by Theresa May and Rishi Sunak (the Liz Truss low was -76%). With the Reform Party of Nigel Farage leading in every opinion poll since May 2025, and Labour recently losing ground to the Green Party, I think it likely that it will suffer in the 7 May local elections. Whether before those elections or after, there may be a growing desire within the Labour party for a leader who can give a better sense of direction. However, a challenger would need the open support of 81 sitting Labour MPs before a leadership contest could be launched (and support will be split across numerous potential candidates). That may prove an insurmountable hurdle.

6. Argentine govt. bonds outperform global indices
The three best performing government bond markets in 2025 (among the 35 that we follow, in local currency terms and based on ICE BofA government bond indices), now have USD denominated 10-year yields of 5.9% (Mexico), 6.1% (South Africa) and 6.6% (Turkey). They are interesting but I am not convinced the spread is enough versus a US 10-year yield of 4.17%, so have chosen to go with the 9.8% available on Argentina's USD denominated 10-year bonds (NY Law). Given the USD denominated nature of these bonds, the risks are focused on default and IMF forecasts suggest the gross debt to GDP ratio will fall to 74% in 2026 (from a recent peak of 155% in 2023). The big opportunity may have gone (the recent peak was 31% in October 2022), but with enthusiasm for Milei's reforms and support offered by the US, I suspect the returns will be hard to beat.

Figure 2 – The normalisation of 30-year government bond yields (%)



Note: **Past performance is no guarantee of future results**. Based on monthly data from December 1999 to December 2025 (as of 31 December 2025). Source: LSEG Datastream and Invesco Strategy & Insights

7. EU carbon price goes above €100 per tonne

ESG may no longer be fashionable but I believe climate change is the biggest externality we face and that making the polluter pay is the most efficient way to deal with it. The EU's Emissions Trading System tries to set appropriate pricing signals by systematically reducing the volume of CO2 emission allowances. The rate of reduction in the allowances cap has been doubled from 2.2% per year in the 2021-23 period to 4.3% from 2024 to 2027, which should support the price of allowances (carbon price). The EU carbon price bottomed at €56 per tonne in February 2024 and recently peaked just below €89 (just short of my 2025 target of €90). An upturn in the EU economy (which I expect) could boost demand for allowances, just as supply falls more rapidly. So I am doubling down and predicting that the EU carbon price will go above €100 in 2026.

8. Kenyan stocks outperform for third year in a row

In my search for exotic stock market opportunities, I usually look for the holy grail of a dividend yield that exceeds the price/earnings ratio. The options are very limited this year, with Botswana and Romania the only markets I can find that meet the above criteria when using historical valuation ratios. However, after a 51% local currency gain in the Nairobi All Share Index (NAS) in 2025, I stick with Kenya. The estimated 2026 NAS P/E is 7.2 and the 2026 dividend yield is 7.4% (as of 9 January 2026, according to Bloomberg consensus estimates). Usually, whenever valuation metrics are at such levels it signifies either that a big opportunity has presented itself or that something is about to go very wrong. Bloomberg consensus estimates suggest that both earnings and dividends are expected to rise in 2026 and 2027. So, no problem there. Also, the usual macro metrics (growth, inflation and economic balances) do not signal big problems, and in 2025 the shilling was broadly stable against the US dollar. The drawback is a market capitalisation of only $21bn.

9. Gold falls below $3,500

Everything seems to favour gold at the moment: mounting government debt, rising geopolitical tensions and a weakening dollar. Most of the investors that I meet like gold: understandably given the doubling of its price in less than two years (see **Figure 3**). But I would expect demand to fall when prices rise so much. Indeed, World Gold Council data shows the following year-on-year declines in the first three quarters of 2025: central bank purchases -13%, jewellery demand -20% and technology demand -1%. The only component of demand to rise was investment (+87%), largely on the back of a reversal of ETF outflows. I am concerned that, at some stage, investors will start to focus on the level rather than the momentum of prices. When that happens, I think the fall could be rapid.

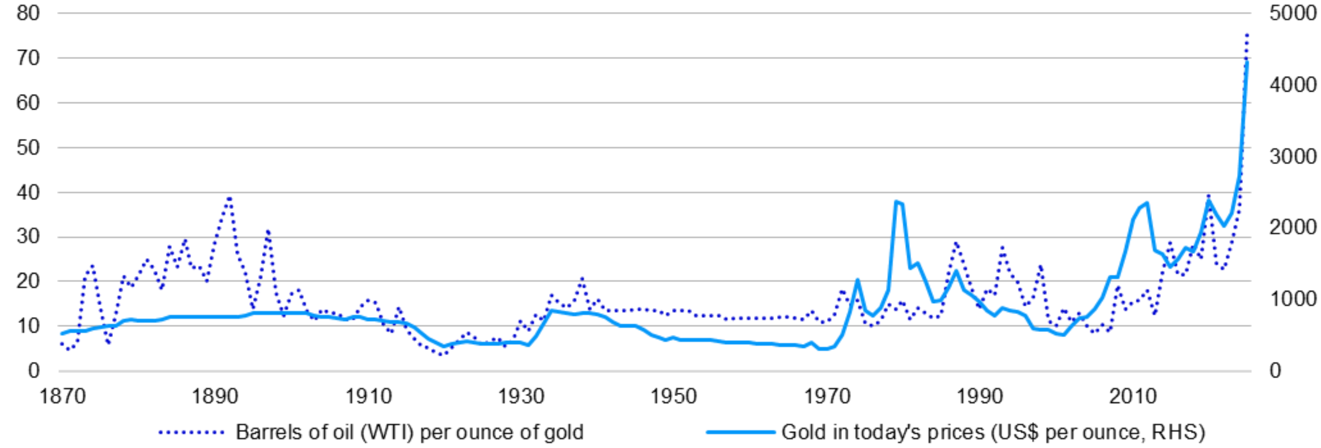
10. England reach the FIFA World Cup final

FIFA's 2026 World Cup in Canada, Mexico and the US could be one of the more chaotic given US visa requirements, eye-watering ticket prices, the expansion to 48 teams, the lack of attention to player and spectator welfare (too hot!) and the heightened security whenever the US president attends. As for the football, FIFA has rigged matters so that the top 4 ranked teams can't meet until the semi-finals (if all goes to plan). With the information currently available, I think those four teams will contest the semi-finals. En route, I have England beating Mexico in the round of 16 (in Mexico City) and Brazil in the quarter final. Then for the big surprise: I expect England to beat Argentina in the semi-final, thus reaching the final for the first time since 1966. Unfortunately, I think they will then face #1 ranked Spain, who I think will prevail.

As a gift for the new year, **Figures 4, 5** and **6** show long term data across assets, sectors and factors.

Unless stated otherwise, all data as of 9 January 2026

Figure 3 – The real price of gold scales new heights



Notes: **past performance is no guarantee of future results**. Based on annual data from 1870 to 2025 (as of 31 December 2025)."Gold in today's prices" deflates historical gold prices using the US consumer price index, so that historical prices are expressed in 2025 prices. Barrels of oil (WTI) per ounce of gold, is derived by dividing the price of an ounce of gold by the price of a barrel West Texas Intermediate oil (using spot prices in both cases). Source: LSEG Datastream and Invesco Strategy & Insights

Figure 4 – Asset class total returns (%, annualised)

Data as at 31/12/2025	Index	Current Level/RY	Total Return (USD, %) 1y	3y	5y	10y	Total Return (Local Currency, %) 1y	3y	5y	10y
Equities										
World	MSCI	1015	22.9	21.2	11.7	12.3	20.2	21.1	12.7	12.5
Emerging Markets	MSCI	1404	34.4	17.0	4.7	8.9	32.1	18.3	7.1	10.0
China	MSCI	83	31.4	11.8	-3.0	5.7	30.7	11.9	-2.7	5.8
US	MSCI	6532	17.7	23.2	13.9	14.8	17.7	23.2	13.9	14.8
Europe	MSCI	2643	36.3	19.0	11.0	9.2	21.3	14.8	11.4	8.8
Europe ex-UK	MSCI	3262	36.6	19.2	10.3	9.7	20.1	15.0	10.7	8.6
UK	MSCI	1587	35.1	18.4	13.3	7.9	25.8	14.0	13.7	8.9
Japan	MSCI	4800	25.1	18.0	7.0	8.0	24.7	24.9	16.3	10.9
Government Bonds										
World	BofA-ML	3.39	6.4	1.8	-4.2	0.0	2.3	2.0	-2.1	0.5
Emerging Markets	JP Morgan	3.57	10.3	6.4	1.2	4.0	4.5	6.1	3.2	6.1
China	BofA-ML	1.67	4.6	4.5	3.3	3.1	0.1	4.7	4.7	3.9
US (10y)	Datastream	4.14	8.1	3.3	-2.2	1.3	8.1	3.3	-2.2	1.3
Europe	Bofa-ML	2.94	14.1	6.3	-3.7	0.8	0.6	3.0	-2.9	0.0
Europe ex-UK (EMU, 10y)	Datastream	2.82	12.1	5.3	-4.8	0.4	-1.2	2.0	-4.0	-0.4
UK (10y)	Datastream	4.55	13.6	6.7	-4.2	-0.4	5.8	2.8	-3.9	0.5
Japan (10y)	Datastream	2.04	-5.8	-7.7	-9.7	-3.1	-6.0	-2.2	-1.8	-0.5
IG Corporate Bonds										
Global	BofA-ML	4.41	10.3	6.9	-0.2	2.9	6.2	5.9	0.1	2.8
Emerging Markets (USD)	JP Morgan	6.30	8.4	7.6	1.2	4.3	8.4	7.6	1.2	4.3
China	BofA-ML	2.26	5.8	3.8	2.5	2.5	1.3	4.0	3.9	3.3
US	BofA-ML	4.88	7.8	6.3	0.1	3.4	7.8	6.3	0.1	3.4
Europe	BofA-ML	3.32	16.9	8.6	-1.0	2.2	3.0	5.2	-0.2	1.4
UK	BofA-ML	5.22	15.0	10.2	-1.7	1.7	7.1	6.2	-1.3	2.6
Japan	BofA-ML	1.94	-1.2	-5.7	-8.4	-2.6	-1.4	-0.2	-0.5	0.0
HY Corporate Bonds										
Global	BofA-ML	6.88	10.8	10.5	3.5	6.0	8.1	9.8	3.7	5.9
US	BofA-ML	7.08	8.5	10.0	4.5	6.4	8.5	10.0	4.5	6.4
Europe	BofA-ML	5.58	19.3	12.1	2.4	5.0	5.1	8.6	3.2	4.2
Cash (Overnight LIBOR)										
US		3.92	4.4	4.9	3.2	2.2	4.4	4.9	3.2	2.2
Euro Area		1.93	12.5	6.7	0.8	1.3	2.3	3.1	1.7	0.6
UK		3.97	9.0	7.9	2.9	0.5	4.4	4.7	3.1	1.7
Japan		0.48	-2.9	-4.0	-7.6	-2.3	0.4	0.2	0.1	0.0
Real Estate (REITs)										
Global	FTSE	1700	11.0	7.4	3.1	4.0	-2.1	4.0	3.9	3.2
Emerging Markets	FTSE	1307	15.5	2.9	-3.7	1.8	1.8	-0.3	-2.9	1.0
US	FTSE	3143	2.7	7.9	6.2	5.0	2.7	7.9	6.2	5.0
Europe ex-UK	FTSE	2714	22.1	12.1	-2.8	3.0	7.6	8.6	-2.0	2.2
UK	FTSE	907	19.3	6.7	-1.3	-1.5	11.1	2.8	-0.9	-0.6
Japan	FTSE	2603	39.7	10.3	3.3	3.6	39.3	16.8	12.3	6.3
Commodities										
All	GSCI	3916	7.1	3.9	14.6	6.1	-	-	-	-
Energy	GSCI	604	-5.1	-0.4	17.7	5.1	-	-	-	-
Industrial Metals	GSCI	2130	29.4	8.3	8.8	8.4	-	-	-	-
Precious Metals	GSCI	4928	68.7	33.4	17.5	14.3	-	-	-	-
Agricultural Goods	GSCI	472	-8.3	-5.5	3.4	0.5	-	-	-	-
Currencies (vs USD)**										
EUR		1.17	13.4	3.1	-0.8	0.8	-	-	-	-
JPY		156.67	0.3	-5.8	-8.0	-2.6	-	-	-	-
GBP		1.35	7.4	3.8	-0.3	-0.9	-	-	-	-
CHF		1.26	14.5	5.3	2.2	2.4	-	-	-	-
CNY		6.99	4.4	-0.5	-1.4	-0.7	-	-	-	-

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 Strategy & Insights

Figure 5 – Global equity sector total returns relative to market (%, annualised)

Data as at 31/12/2025	Global			
	1y	3y	5y	10y
Energy	**-9.4**	**-10.8**	**1.4**	**-3.8**
Basic Materials	**16.5**	**-4.7**	**-1.0**	**0.5**
Basic Resources	36.0	1.1	4.1	5.2
Chemicals	-12.2	-14.3	-8.8	-5.0
Industrials	**-0.4**	**-1.3**	**-0.7**	**0.0**
Construction & Materials	2.2	2.5	1.5	-0.5
Industrial Goods & Services	-0.8	-1.9	-1.0	0.1
Consumer Discretionary	**-8.8**	**-0.7**	**-4.9**	**-2.0**
Automobiles & Parts	-4.9	4.5	-2.8	-1.3
Media	-10.7	1.9	-6.2	-3.3
Retailers	-9.1	3.2	-3.5	-0.1
Travel & Leisure	-12.2	-4.7	-5.0	-4.7
Consumer Products & Services	-9.2	-8.2	-7.6	-2.8
Consumer Staples	**-8.7**	**-12.8**	**-6.8**	**-5.5**
Food, Beverage & Tobacco	-7.5	-13.1	-6.3	-5.7
Personal Care, Drug & Grocery Stores	-10.6	-12.3	-7.7	-5.5
Healthcare	**-5.5**	**-9.8**	**-5.0**	**-2.7**
Financials	**6.8**	**2.9**	**4.9**	**0.4**
Banks	16.7	5.8	7.1	0.2
Financial Services	-3.3	0.4	2.3	1.6
Insurance	1.1	0.0	4.0	0.3
Real Estate	**-7.3**	**-9.6**	**-7.3**	**-5.9**
Technology	**5.0**	**16.0**	**5.9**	**9.3**
Telecommunications	**5.1**	**-1.9**	**-2.3**	**-3.8**
Utilities	**-1.5**	**-6.3**	**-1.9**	**-1.5**

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 6a – US factor index total returns (%, annualised)

Data as at 31/12/2025	Absolute				Relative to Market			
	1y	3y	5y	10y	1y	3y	5y	10y
Growth	11.9	18.5	11.9	14.2	-5.1	-3.7	-2.2	-0.6
Low volatility	2.1	7.3	8.6	11.8	-13.4	-12.7	-5.1	-2.6
Price momentum	15.5	16.7	12.8	12.3	-2.0	-5.1	-1.4	-2.2
Quality	16.4	14.6	12.3	13.0	-1.3	-6.8	-1.8	-1.6
Size	8.5	9.9	9.6	10.2	-7.9	-10.7	-4.2	-4.0
Value	19.2	15.5	15.2	12.9	1.1	-6.1	0.7	-1.7
Market	17.9	23.0	14.4	14.8				
Market - Equal-Weighted	11.4	12.8	10.5	11.7				

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 Strategy & Insights

Figure 6b – European factor index total returns relative to market (%, annualised)

Data as at 31/12/2025	Absolute				Relative to Market			
	1y	3y	5y	10y	1y	3y	5y	10y
Growth	11.7	10.5	4.3	8.3	-7.3	-4.2	-6.6	0.0
Low volatility	16.0	13.6	10.6	9.4	-3.8	-1.6	-0.9	0.9
Price momentum	40.1	23.1	11.1	11.0	16.2	6.6	-0.5	2.5
Quality	25.9	16.5	10.3	8.8	4.4	0.9	-1.2	0.4
Size	14.0	10.0	4.5	6.0	-5.4	-4.7	-6.4	-2.2
Value	33.6	19.5	15.9	9.5	10.8	3.6	3.8	1.0
Market	20.6	15.4	11.6	8.3				
Market - Equal-Weighted	19.4	14.1	8.2	7.3				

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 7 – 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%**		**8%**			
US	3%			6%			
Europe	1%			2%			
Bonds	**40%**	**10-70%**	↓	**36%**			
Government	25%	10-40%	↓	22%			
US	8%		↓	7%		50%	JPY
Europe ex-UK (Eurozone)	7%		↓	6%			
UK	1%			2%			
Japan	7%		↓	3%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
Corporate IG	10%	0-20%	↓	9%			
US Dollar	5%		↓	4%		50%	JPY
Euro	2%			1%			
Sterling	1%			2%			
Japanese Yen	1%			0%			
Emerging Markets	1%			2%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↑	5%			
US Dollar	4%		↑	4%		50%	JPY
Euro	1%			1%			
Equities	**45%**	**25-65%**		**42%**			
US	25%			10%			
Europe ex-UK	7%		↓	10%			
UK	4%			6%			
Japan	4%		↑	7%			
Emerging Markets	5%			9%			
China**	2%			4%			
Real Estate	**4%**	**0-8%**		**6%**			
US	1%		↓	0%			
Europe ex-UK	1%			2%			
UK	1%			2%			
Japan	1%		↑	2%			
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	51%	↑	30%	
EUR	20%	↓	24%	
GBP	7%	↓	12%	
JPY	14%	↑	20%	
EM	9%		15%	
Total	**100%**		**100%**	

Notes: **China is included in Emerging Markets allocations. This is a theoretical portfolio and is for illustrative purposes only. See the latest The Big Picture document for more details. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. Arrows indicate the direction of the most recent changes.
Source: Invesco Strategy & Insights

Figure 8 – Model allocations for global sectors

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

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest Strategic Sector Selector for more details.
Source: LSEG Datastream and Invesco Strategy & Insights

Appendix

Methodology for asset allocation and expected returns

Which asset classes?

We look for investibility, size and liquidity. We have chosen to include equities, bonds (government, corporate investment grade and corporate high yield), bank loans, REITs to represent real estate, commodities and cash (all across a range of geographies). We use cross-asset correlations to determine which decisions are the most important.

Neutral allocations and policy ranges

We use market capitalisation in USD for major benchmark indices to calculate neutral allocations. For commodities, we use industry estimates for total ETP market cap + assets under management in hedge funds + direct investments. We use an arbitrary 5% for the combination of cash and gold. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

Expected/projected returns

The process for estimating expected returns is based upon yield (except commodities, of course). After analysing how yields vary with the economic cycle, and where they are situated within historical ranges, we forecast the direction and amplitude of moves over the next year. Cash returns are calculated assuming a straight-line move in short term rates towards our targets (with, of course, no capital gain or loss). Bond returns assume a straight-line progression in yields, with capital gains/losses predicated upon constant maturity (effectively supposing constant turnover to achieve that). Forecasts of corporate CLO, 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 4

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1 January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the ICE BofA government bond total return index for the World and Europe. The emerging markets yields and returns are based on the JP Morgan Emerging Markets Global Composite Index.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond total return indices, except for in emerging markets where we use the Bloomberg emerging markets corporate US dollar bond index.

Corporate high yield (HY) bonds: ICE BofA high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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