The Big Picture

Leaning into higher yields

Quarterly update from Invesco's Strategy & Insights Team
13 September 2026

For professional/institutional/qualified/accredited investors only

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Investment themes and asset class views

Many central banks are now tightening, and bond yields have risen. However, we believe the global economy remains in expansion mode, which encourages us to continue favouring cyclical assets, if not quite as much as before. Within our Model Asset Allocation*, we scale back the Overweighting to equities, while reducing the Underweighting to government and investment grade bonds (see Figure 20 for the details). While still favouring cyclical and riskier assets, we seek diversification in real estate and low duration assets such as the more liquid parts of the private credit universe.

Our themes

1. A resilient global economy favours cyclical assets

The global economy has so far withstood the rise in energy prices, helped by AI related investment spending. When energy prices eventually ease, we expect a mid-cycle upswing.

- ✓ Cyclical assets preferred
- ✓ Favoured equities: non-US, value and consumer, industrial, financial, material and technology sectors
- ✓ Commodity currencies supported

2. Opportunities are greater outside the US

US assets, especially equities, look expensive relative to history, while many international markets offer more attractive valuations and greater sensitivity to global economic expansion, in our view. US policy uncertainties and currency valuations suggest a weaker US dollar over time.

- ✓ US dollar weakness
- ✓ Commodities and emerging markets benefit

3. Seeking diversification in real estate and private credit

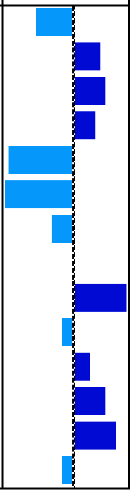
Though developed world long term yields have risen (and we now add to bond allocations), our main sources of diversification remain real estate and the more liquid parts of private credit.

- ✓ AAA-rated collateralised loan obligations (CLOs) as a cash alternative
- ✓ Bank loans among the preferred assets
- ✓ Direct real estate could offer mitigation against any threat of higher inflation

Asset class views

We evaluate a broad set of asset classes using a consistent framework built around multiple factors including the growth of the global economy, the direction of inflation and interest rates and the shape of the yield curve, market momentum, and valuations.

Figure 1: Global asset preferences



	Total Score	Model Asset Allocation*	Preferred assets	In our view
Cash		Underweight	INR, EUR	There are more attractive alternatives
CLOs		Overweight	US	Attractive alternative to cash
Bank Loans		Overweight	US	Valuations more attractive than high yield
Hedge Funds		N/A		
Government Bonds		Underweight	EM, UK	Long-term yields now more attractive but could go higher
Investment Grade		Underweight	EM, UK	Limited upside, income returns expected
High Yield		Neutral	Eurozone	Supported by economic upswing, selectivity will matter
Gold		Neutral		Momentum has improved but remains expensive
Non-US equities		Overweight	China, UK, EM	More attractive valuations and greater cyclical sensitivity than US market
US equities		Neutral	Tech, cons. staples	Supported by innovation/growth but high valuations temper potential
REITS		Overweight	Eurozone, Japan	Could benefit from prolonged economic upswing
Commodities		Overweight	Base metals, Ag	Supported by a stronger global economy and a weaker US dollar
Private Equity		N/A		Higher financing costs and valuation dispersion require selectivity
Bitcoin		N/A		Remains a highly volatile and speculative asset

Note: **There is no guarantee that these views will come to pass**. *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. “CLOs” is AAA collateralised loan obligations. N/A indicates asset classes that are not included in the Model Asset Allocation structure. See Figure 11 for more detail and the appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

Macro views

Economy: Growth has been surprisingly resilient, helped by strong investment spending. This has generated high rates of profit growth across many sectors.

Inflation: Core inflation is above 3%, which is a concern. We think core inflation will end 2027 closer to the 2% target.

Policy: We suspect the Fed will remain on hold for the foreseeable future (with risks tilted to tightening).

Economy: Growth remains patchy but is expected to gradually strengthen through late 2026 and early 2027.

Inflation: Core inflation has picked up but we suspect that will prove temporary. Overall, we expect inflation to be contained and close to the ECB target.

Policy: The ECB has just raised rates again. We expect policy rates to be the same in 12 months.

Economy: The UK has weathered the energy shock better than most expected. Growth is resilient but not stellar.

Inflation: Headline inflation pressures have increased in the UK, but core pressures remain contained and closer to target.

Policy: We think the Bank of England will remain on hold for the rest of the year but cut rates twice in 2027.

Economy: Growth has been strong (for Japan) and is expected to continue that way, helped in part by an expansionary fiscal stance.

Inflation: "Core-core" inflation is around 2% and is expected to remain thereabouts, even if headline rates fall due to reductions in consumer taxes on food.

Policy: The BOJ is likely to continue normalising its rates (we expect three hikes in the next 12 months).

Economy: GDP growth may wane but is expected to remain relatively stable (supported by policy initiatives).

Inflation: Consumer inflation has ticked up but pass-through from higher producer prices is limited.

Policy: Monetary policy should remain supportive, but fiscal and industrial policies will play a larger role.

Economy: Strong H1 growth was supported by government led investment spending.

Inflation: Despite the rise in inflation on higher energy costs, the RBI has reduced its 2027 inflation forecast.

Policy: The RBI maintains a neutral stance, but we think rate hikes are likely over the coming 12 months.

Notes: **These views may not come to pass.** They represent the views of Invesco's Strategy & Insights team.

Source: Invesco Strategy & Insights

The global macro backdrop remains supportive

Economic expansion continues

We continue to believe that the global economy is in expansion territory, as it has been since mid-2020:

- Global energy supplies have not been as disrupted as we feared at the outbreak of the war with Iran and most economies have been surprisingly resilient in the face of higher energy costs.
- Leading indicators remain above trend in most countries (see Figure 2), and the momentum in such indicators has improved again in recent months.
- Prior central bank easing is still having an effect via money supply growth.
- AI related spending could add to investment demand, thus providing mild support.
- If energy prices eventually trend lower (as we expect), higher real income growth could lead to an acceleration in consumer spending.

However, there are also factors that could dampen growth:

- We think the central bank easing cycle has ended. Policy rates may not be lifted aggressively but tightening is already underway (the BOJ and ECB, for example) and there are risks elsewhere (the Fed and the RBI, for example). That could temper economic growth.
- Long bond yields have risen. Though we think this is largely a reflection of improving economic conditions, it may also be related to the financing needs of governments and businesses (especially among AI model builders and hyperscalers). To the extent that real yields are rising due to this demand, it could crowd out other forms of borrowing.
- If we are wrong about energy prices, and they remain high, we fear real spending power could be reduced.

Overall, we are encouraged by the resilience of PMIs, especially in the manufacturing sector, and don't see signs that the global expansion is about to end. That encourages us to continue favouring cyclical assets (see Figure 6 which shows those assets that have tended to outperform at each stage of the economic cycle).

Inflation to ease…eventually

Inflation has fallen since 2022, which has allowed most central banks to ease. We think it has also been an important factor in the strong performance of financial assets.

However, the path to lower inflation had already flattened in some countries (see Figure 3) and is now threatened by the rise in energy prices that came with the closure of the Strait of Hormuz. Luckily, the rise in headline inflation rates during 2026 has been modest compared to what was seen in 2022 (see Figure 3). Further, oil prices have eased from the March/April peaks but remain volatile and reactive to events in the Middle East.

Though European natural gas prices continue to rise (and may go higher as countries try to fill their gas reserves ahead of winter), US natural gas prices have fallen this year (the S&P GSCI Natural Gas Spot Price Index is down around 20% year-to-date). That suggests national inflation rates could diverge, with those in Europe and Asia likely to face upward pressure from rising local gas prices. Food prices could provide another short-term boost to inflation, if the building El Nino impacts global harvests.

We believe central banks should be more focused on core inflation and that picture varies by country. Among our featured economies, there is no clear uptrend, though core CPI rates remain around 2.5% in the US, Eurozone and the UK, with the latter still enjoying a downtrend.

Risks

We think a prolonged closure of the Strait of Hormuz (into late 2026/early 2027, say), presents the greatest risk to our outlook. We fear this could bring energy shortages, demand destruction, substantially higher energy prices, higher inflation, and central bank tightening. We believe that would be damaging to most asset prices. Other risks include US wage pressures as the labour market tightens, policy errors by central bankers (tightening when it is not justified) and a retrenchment of AI investment spending by hyperscalers.

Figure 2 – Leading indicators above trend

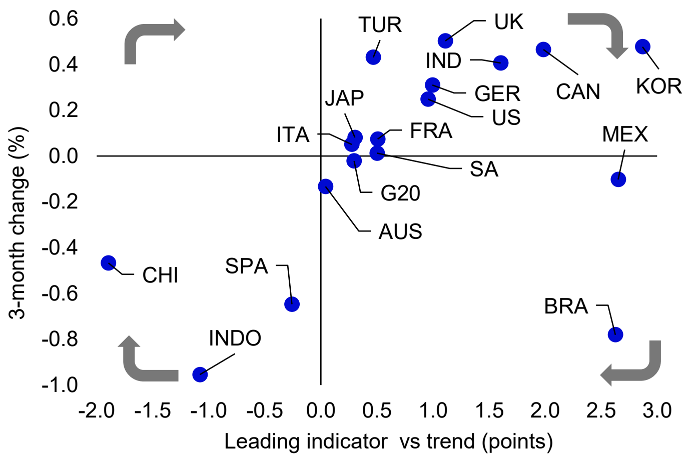
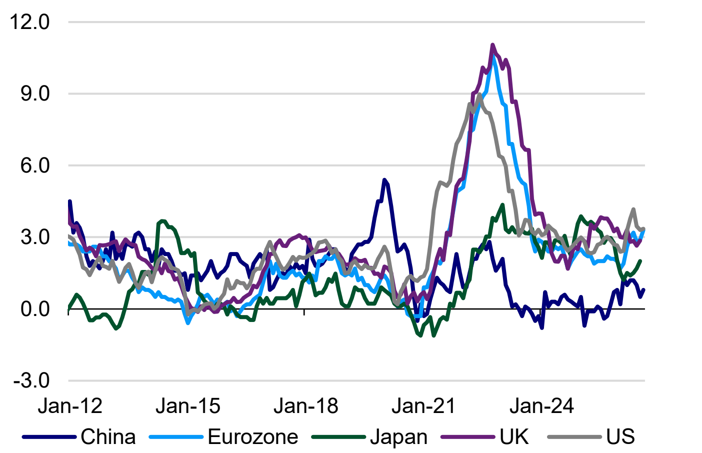


Figure 3 – Is headline inflation still easing? (%)



Notes: See appendices for country abbreviations. Figure 2 is based on monthly data up to August 2026. Leading indicators are amplitude and seasonally adjusted, as calculated by the OECD ("Leading indicator vs trend" is the leading indicator minus 100). Arrows indicate our view of the direction of movement around the chart. Figure 3 is based on monthly data from January 2012 to August 2026 (as of 11 September 2026) and shows the year-on-year change in headline consumer price indices.
Source: OECD, LSEG Datastream and Invesco Strategy & Insights

But the policy backdrop is mixed

Central bank cycle has shifted to tightening

We think the rise in energy prices has changed the outlook for policy rates in many countries, with the bias shifting from the easing seen in recent years to one of tightening. Among major central banks, we think the BOJ most needs to raise its policy rate, which is still only 1.00%, compared to a core inflation rate closer to 2% (see Figure 4). With a currency that remains under pressure, and with a US administration increasing the pressure on the BOJ to tighten, we expect three rate hikes in the next 12 months.

The Jackson Hole speech by Kevin Warsh put the emphasis on returning inflation to target, which seemed to harden the market's view that a Fed rate hike is imminent. With core PCE inflation at 3.3% in July, the US central bank may be tempted to tighten. However, that core PCE rate has not changed since April and with Warsh's favoured trimmed mean PCE measure at 2.3%, the debate within the FOMC is likely to be "interesting". We are not convinced the Fed needs to raise rates but accept that the risk of tightening is now higher (as per market expectations).

The ECB raised rates in June and September. The market implied path of ECB policy rates suggests there could be up to three rate hikes in the next 12 months (based on Reuters calculations, as of 10 September 2026). We are not convinced and suspect that ECB rates will be unchanged in 12 months (core inflation is not too far above target and growth remains patchy across eurozone economies).

We are also at odds with the market's view on the BOE. The market implied path of BOE rates suggests at least two rate hikes in the next 12 months, whereas we expect two rate cuts. Our view is based on the fact that domestic components of inflation continue to ease.

India's economy is growing strongly, and we expect the RBI to hike twice in the next 12 months. In the case of China, policy rates are already low, and we expect policy support to come more in the form of reductions in reserve requirement ratios and/or fiscal support.

Fiscal support is patchy

The projected fiscal impulses shown in Figure 5 paint a mixed picture over the next two years. On the one hand, there is pressure around the world to boost military spending, while on the other there is a need for fiscal consolidation in many countries.

Among our focus countries, we still expect Japan to lead the way. The super majority now enjoyed by Prime Minister Takaichi in the lower house of parliament, is enabling her to enact her desired fiscal programme. This includes defence spending, support for the technology sector and consumer support (including energy subsidies and a temporary cut in the consumption tax on food from April 2027). We expect a boost to the economy in the latter part of 2026 and in 2027.

In China, fiscal policy is expected to remain mildly supportive, with a continued focus on strategic sectors and industrial upgrading.

Though Germany has embarked on a large programme of fiscal support, and most European countries are boosting military spending, the Eurozone-wide fiscal boost is limited, due to expected consolidation in France, Italy and Spain. Likewise, the UK government is trying to meet its debt reduction targets, while accelerating the uplift in military spending. In the US, though the budget for 2026 prevented some pre-planned tax rises, we expect no fiscal impulse.

Risks

We foresee three risks to the above. First, that prolonged military conflict in the Middle East leads to a long-term boost to energy prices and inflation, causing most central banks to tighten aggressively. Second, that political instability in Germany reduces the desire to follow through with the full fiscal programme launched by Chancellor Merz. Finally, that high levels of government debt (and large deficits in some countries), and the ongoing rise in long term yields, could force fiscal consolidation.

Figure 4 – Projected 12m central bank policy rate change (%)

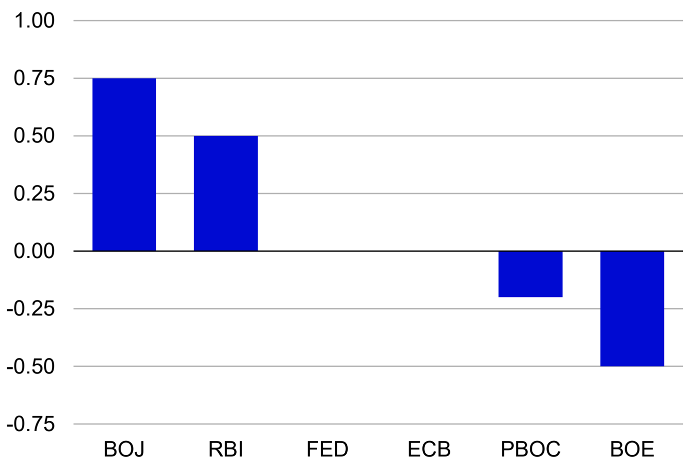
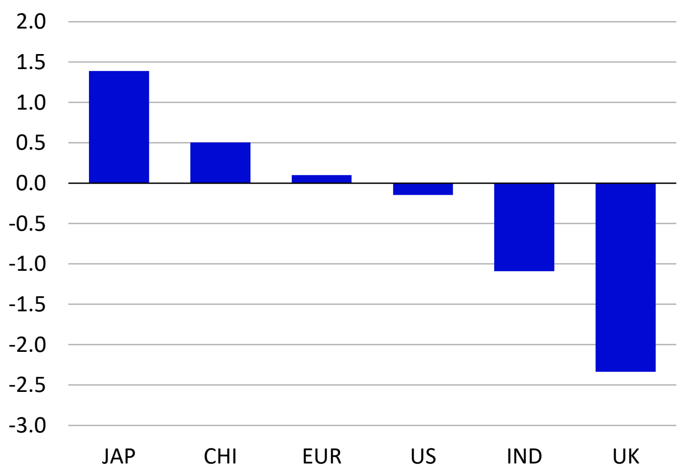


Figure 5 – Projected fiscal impulse (2025 to 2027, % of GDP)



Notes: **There is no guarantee that these views will come to pass**. See appendices for central bank and country abbreviations. Figure 4 shows our forecast for the change in central bank rates over the coming 12 months (as of 10 September 2026). Figure 5 is based on IMF Fiscal Monitor (April 2026) calculations, with fiscal impulse being the change between 2025 and 2027 in the cyclically adjusted primary government balance (as percent of potential GDP), according to Invesco estimates. The primary balance is the government budget balance before allowing for debt interest payments. Source: IMF Fiscal Monitor (April 2026), LSEG Datastream and Invesco Strategy & Insights.

From macro to markets – cyclical assets favoured

Expansion favours cyclical assets

We started the year confident the global economy would accelerate, which led us to prefer cyclical assets (with some balancing preferences for short duration assets such as AAA-rated CLOs and bank loans), though we doubted the broad-based strong asset returns of 2025 could be repeated.

The closure of the Strait of Hormuz and consequent rise in energy prices could have threatened that economic scenario. But the US and global economies have been resilient. However, the outlook for central bank policy rates now appears less positive than we imagined at the start of the year, and higher headline inflation is squeezing real incomes. Nevertheless, our view that energy prices will eventually normalise downward (global energy supplies have been less impacted by the closure of the Strait of Hormuz than we feared, though the situation is volatile), leads us to stick to a base case of global economic expansion.

In the context of Figure 6, we view the global economy as being in the mid-expansion phase. Our analysis of historical asset returns suggests that cyclical assets are typically favoured in this stage of the cycle. This includes assets such as industrial commodities (energy and base metals), equities, emerging market (EM) assets, REITs and high yield credit (HY). Of course, a lot of good news may already be in the price of some of those assets, which is the subject of later sections that analyse valuations.

Asset views and preferences

Globally, we continue to favour cyclical assets such as industrial commodities, real estate and non-US equities (we believe the US market is less cyclical than others).

We think that fixed income assets are now more attractive due to the rise in yields, though we fear there may be more to come. Within fixed income assets, the choice is hard: HY is more cyclical, but the spreads are unusually tight, while we expect some government bonds and investment grade credit (IG) to suffer if long-yields continue upward. Short duration assets (such as private credit) have tended to suffer less when yields rise.

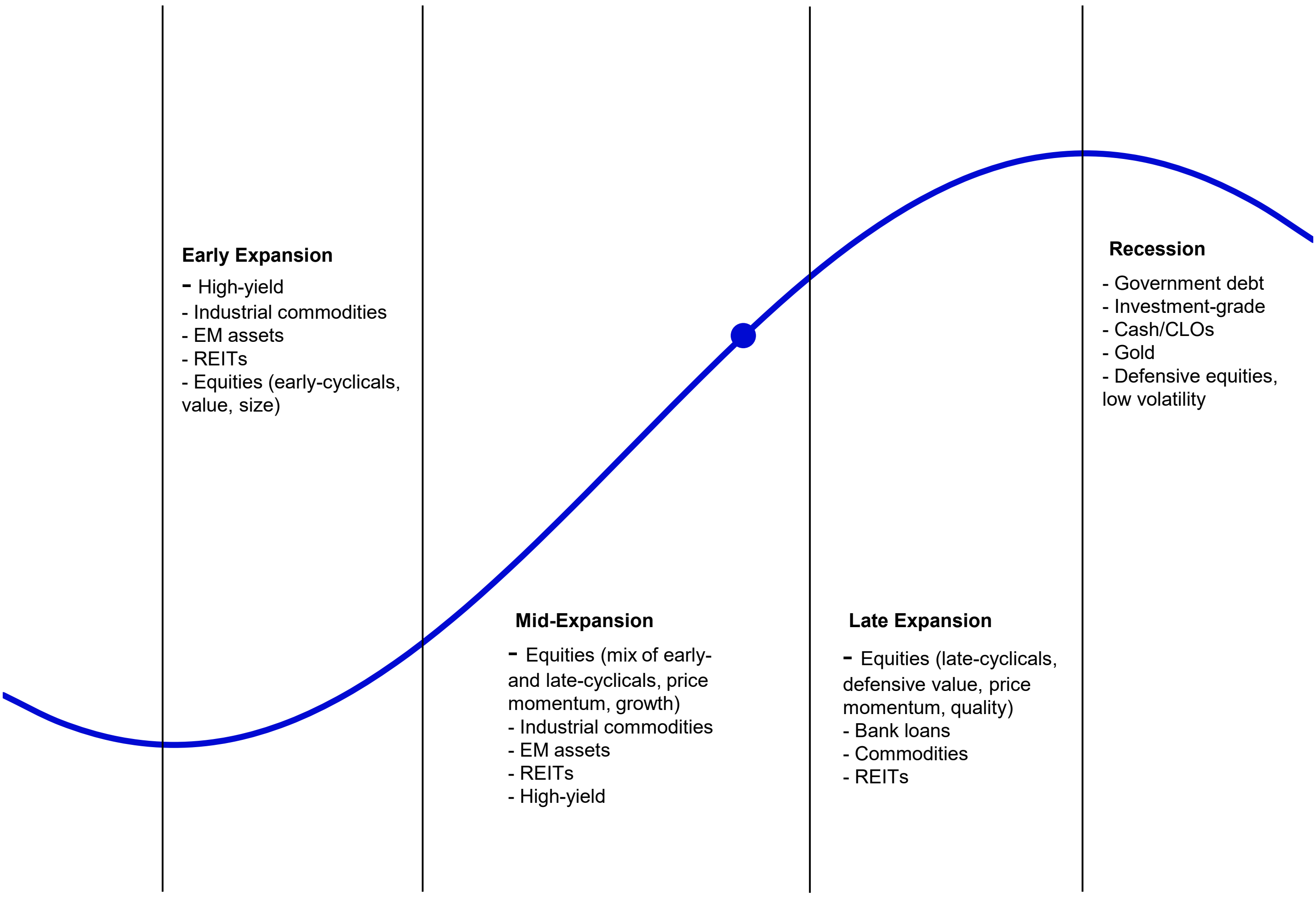
Different economies may be at different stages of their economic cycles, which complicates the choice of assets across regions. For example, the German economy has been in shallow recession over recent years, so any acceleration may feel like the early expansion phase.

Across assets we prefer emerging market and European assets, both regions that we believe bring more cyclicality.

Risks

The biggest risk to this cyclical positioning would be recession. Further, if energy and food prices continue to rise, inflation could go higher. We believe it would be hard to find assets that perform well in such a scenario, except for energy/agricultural commodities and resource related stocks.

Figure 6 – The economic roller coaster: preferred assets at each stage of the economic cycle



Note: The chart shows a schematic representation of how we expect assets to perform at each stage of the economic cycle, based on research published in *Asset allocation in pictures* (November 2017). Source: Invesco Strategy & Insights

What's in the price: fixed income and equities

Valuations become more balanced across assets

A feature of financial markets over the last year or so has been that yields on short duration assets (cash, AAA-rated CLOs and bank loans) have remained above historical norms, while those on longer duration assets have either been in line with or below norms. As seen in Figure 7, that is no longer quite so obvious given the rise in long yields.

We still believe that those short duration (and low volatility) assets offer attractive diversification versus the riskier assets that we are favouring because of our bullish view on the cycle. We believe they offer mitigation against the risk of higher inflation and slowing economies, without surrendering too much in the way of potential return.

On the other hand, until the recent rise in longer term yields, we didn't feel that longer dated bonds were compelling (with the exception perhaps of the UK and emerging markets). At the start of the year, we expected 10-year US treasury yields to rise, despite our earlier belief that the Fed would cut policy rates. Well, those 10-year US yields have now risen beyond our previous target of 4.75%. We expect little change in that yield over the next 12 months, which leads us to expect mildly positive returns on US treasuries (an improvement on the negative returns we expected in the last edition).

We expect a similar outcome in the Eurozone, though with a slight rise in yields (assuming no further hikes from the ECB and slight steepening of yield curves). The prospects for the UK gilt market may be better than for US treasuries, given our view that gilt yields are relatively high and that the BOE will cut rates over the next 12 months. Elsewhere, we expect gains on Japanese government bonds, despite our view that the BOJ will raise rates (we expect some flattening of the yield curve).

Given that credit spreads are tighter than normal, we suspect that IG and HY bond returns will be limited (especially in the Eurozone).

Equity valuations favour non-US markets

As already outlined, we favour non-US equity markets in a stronger economic environment. This conclusion is also supported by valuations. Figure 8 shows that the US market is both more expensive than normal and more expensive than other regions, based on our cyclically adjusted price earnings ratios (CAPEs). On this basis, the US market (CAPE = 46 at end-August 2026) is close to the March 2000 historical peak (49), though lower than it was at the end of May 2026 (47).

It is easy to believe that the US market has always been more expensive than other markets, but this is not true. When the US market started its trend outperformance in February 2008 (based on MSCI US versus MSCI World ex-US in US dollars), the US CAPE was 25, below the long-term average of 27 (as of today) and below the CAPEs on China (68), Japan (38), EM (33) and Europe ex-UK (28). That period of consistent outperformance started from a valuation point that is markedly different from that of today, both in absolute and relative terms.

Among other equity markets, China remains cheaper than normal (CAPE 17), despite the strong performance of recent years (though the market has underperformed during 2026). We believe this leaves scope for further outperformance over the medium-to-long term. Japan (30) also appears to be less expensive than normal, but the historical average is distorted by the bubble of the 1980s (elevated valuations persisted for several decades after the bursting of that bubble). Nevertheless, relative to the US, we think the market represents good value, though recent strength renders it less so than it was (and any yen strength could dampen local currency equity performance). European markets are a little more expensive than usual (at 24 versus a historical average of 20, as of 31 August 2026) but we don't think that presents an obstacle to further gains if the global economy remains in expansion mode (and certainly not compared to the US market).

Figure 7– Global yields in a historical context (%)

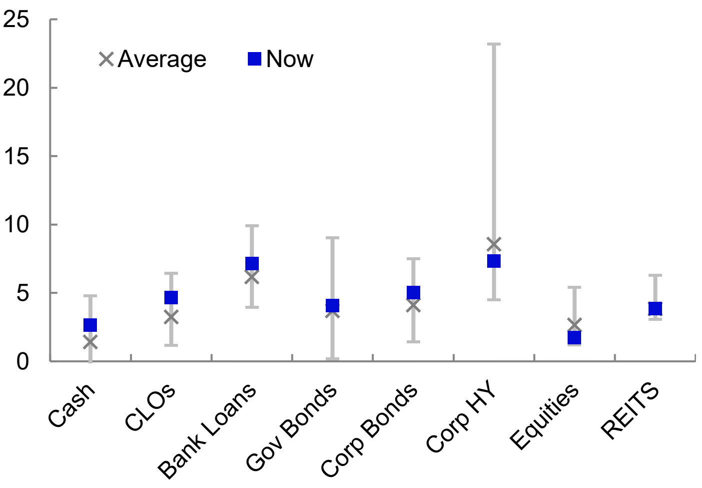
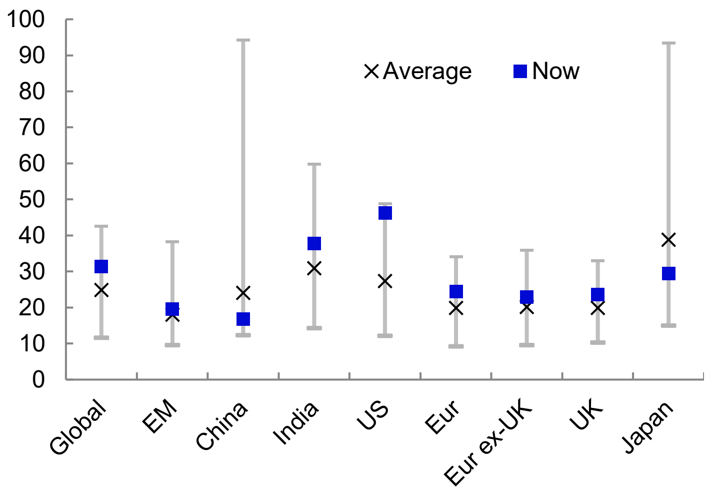


Figure 8 – Equity CAPEs within historical ranges



Notes: in Figure 7 start dates for historical ranges are Cash 1 January 2001; CLOs 30 December 2011; Bank Loans 31 January 1998; Gov Bonds 31 December 1985; Corp Bonds 31 December 1996; Corp HY 31 December 1997; Equities 1 January 1973; REITs 18 February 2005. CLOs is AAA collateralised loan obligations. Abbreviations: "Gov" is government, "Corp" is corporate. See appendices for definitions, methodology and disclaimers. In Figure 8 "CAPE" is cyclically adjusted price/earnings and uses a 10-year moving average of earnings. Based on daily data from 3 January 1983 (except for China from 1 April 2004, India from 31 December 1999 and EM from 3 January 2005), using Datastream indices. As of 31 August 2026.
Source: ICE BofA, S&P UBS, JP Morgan, Bloomberg, LSEG Datastream and Invesco Strategy & Insights

What's in the price: commodities and currencies

Energy prices to normalise downward

Three months ago, it looked as though the price of oil was moving back towards pre-war levels. However, since the end-June low of around $72, Brent crude has risen to above $100 (using the Brent first future price, as of 11 September 2026). Despite that seemingly elevated price, the price of oil is not far above historical norms in real terms. Though oil prices remain susceptible to developments in the Strait of Hormuz, our 12-month spot Brent target is $85/barrel, and we remain zero allocated to energy commodities (even if we think European natural gas prices could continue to rise as winter approaches).

Surprisingly, precious metals are less expensive than they were at the end of February 2026 (just before the conflict with Iran). At that time, they were five to six standard deviations above historical norms in real terms, and we might normally have expected such geopolitical tensions to have increased demand for gold and other precious metals. Despite a recent rebound, gold is only just above where it started the year and the premium to historical norms had fallen to around four standard deviations by the end of August. Indeed, gold was the weakest of the assets that we monitor over the three months to the end of August (see Appendix 3).

We suspect that a lot of bad news was already priced into gold ahead of the war and the rise in bond yields has not helped. Our 12-month target for gold is $5000.

On the other hand, industrial metals have performed well so far this year (see Appendix 4), leaving this metals group just over one standard deviation above historical norms in real terms, with copper two standard deviations above normal. Nevertheless, if the global economy continues to expand, we think these metals could benefit as markets tighten.

Finally, agricultural commodities remain cheaper than normal and have performed well this year. Support could come from the disruption to supplies of fertiliser and the impending El Nino pattern in the Eastern Pacific. We like this category.

USD remains expensive and JPY is very cheap

The US dollar has been stronger than normal over recent years in real trade weighted terms. In our opinion this is because interest rate and bond yield spreads have been wider than normal (in favour of the dollar). Though the dollar weakened during 2025 and the early part of 2026, it recovered some of those losses on the outbreak of the conflict with Iran. We presume this is because its energy independence makes the US economy less vulnerable than many others to potential energy shortages.

As seen in Figure 10, USD remained above historical norms at the end of August 2026. Market pricing suggests the Fed is expected to raise rates (we are less sure), which may help the dollar. However, we still think the dollar has some fundamental issues, not helped by recent policy announcements about repurchases of long bonds.

At the other end of the spectrum, the Japanese yen remains very cheap. We believe this is because the Bank of Japan (BOJ) didn't tighten in 2022/23 when most other central banks tightened aggressively, which caused a sharp widening of spreads against the yen. The BOJ is now tightening, spreads are narrowing (including at the long end of the bond spectrum) and we believe this will eventually offer support to the yen (especially with pressure from the US Treasury to strengthen the yen).

Otherwise, the Australian dollar (AUD) has appreciated on central bank tightening (as inflation has surprised to the upside) and the Swiss franc (CHF) remains expensive, perhaps helped by its reputation as a so-called "safe haven".

CNY has again been the strongest major currency over the last three months, and we expect it to strengthen further against USD over 12 months. Among European currencies, both EUR and GBP are close to historical norms in real terms. We suspect EUR will receive more support from central bank policies than GBP (see Figure 4).

Figure 9 – Real commodity prices vs norms (%)

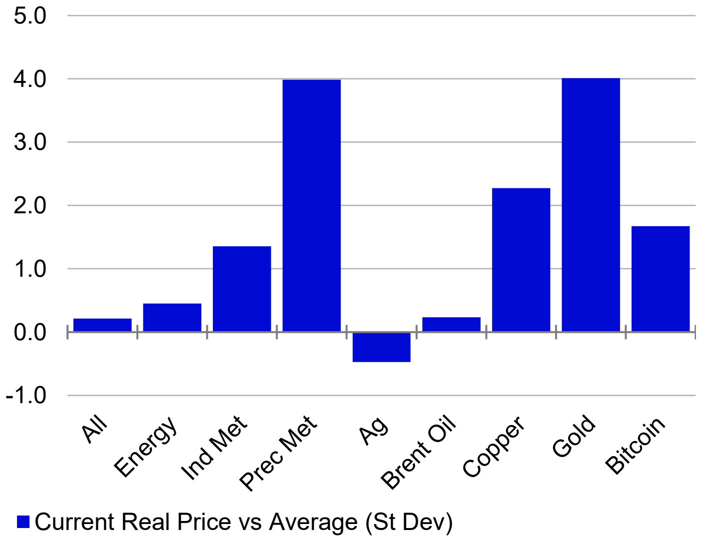
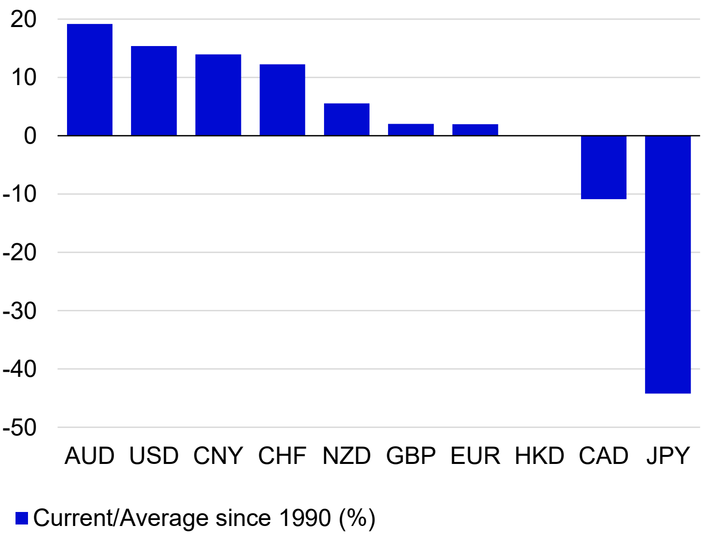


Figure 10 – Real trade weighted currency indices



Notes: Figure 9 abbreviations: "Ind Met" is industrial metals, "Prec Met" is precious metals and "Ag" is agriculture. Historical ranges start on: All and Ag 31 December 1969; Energy 31 December 1982; Ind Met 31 January 1977; Prec Met 31 December 1974; Brent 29 May 1987; copper 31 January 1974, gold 31 January 1974, Bitcoin 30 November 2010. Prices are deflated by the US consumer price index. See appendices for definitions, methodology and disclaimers. In Figure 10 currency indices are measured against a trade-weighted basket of currencies and adjusted for inflation differentials (based on Goldman Sachs Real Trade-Weighted Indices). As of 31 August 2026.
Source: GSCI, Goldman Sachs, LSEG Datastream, Bloomberg and Invesco Strategy & Insights.

Asset preferences

Many central banks are now tightening, and bond yields have risen. However, we believe the global economy remains in expansion mode, which encourages us to continue favouring cyclical assets, if not quite as much as before (we reduce the allocation to equities and boost government and investment grade bonds).

Underpinning our views for the next 12 months are the following assumptions:

- Geopolitics may bring temporary volatility
- Global GDP will continue to expand
- Global inflation will eventually ease, with energy prices
- Some central banks will tighten but not the Fed (the BOE and PBOC will ease)
- Yield curves will be mixed (steepening in the UK but flattening in Japan, say)
- AAA CLO spreads will widen slightly (no defaults)
- Bank loan current yield spreads will widen slightly and defaults rise (from low levels)
- Credit spreads will widen slightly, and defaults rise a bit (from low levels)
- Equity and REIT earnings/dividend growth will ease but be positive; multiples will be broadly stable
- USD will weaken slightly as the Middle East crisis eases and some other central banks tighten
- Commodities will benefit from global expansion and USD weakness (energy prices excepted)

The expected cyclical upswing leaves us continuing to lean toward cyclical assets such as commodities, REITs and equities in our Model Asset Allocation (with a preference for non-US equity markets, as shown in the "Global Expansion" column of Figure 11). At this stage, we do not think central bank tightening will derail either the global economy or cyclical assets.

Among non-US equity markets, we favour the UK, China and other emerging markets (we reduce the Overweighting to Eurozone and Japanese stocks - see the Model Asset Allocation in Figure 20). Across equity markets the preference is for value and consumer, industrial, material, financial and technology sectors (see the country sections in Appendix 1).

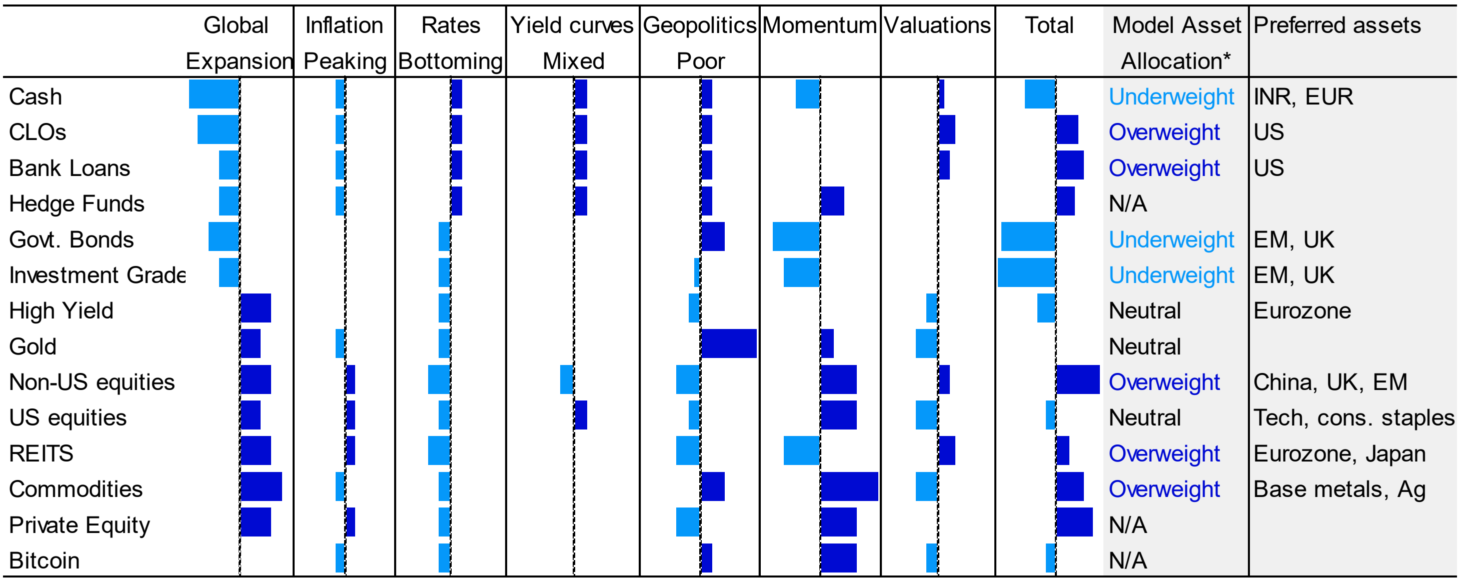
Within commodities, we stick to the Underweight in energy (we expect lower prices over 12 months), while maintaining Overweight allocations to industrial metals and agriculture. We believe the former is cyclical, while the latter is still good value (and may further benefit from fertiliser shortages and the building El Nino). We are neutral on precious metals (we think they are expensive but can offer mitigation in times of crisis).

There remain some short duration/low volatility assets that continue to offer attractive yields, in our opinion (see Figure 7). Hence, we balance those allocations to risky assets with diversifying Overweight preferences for assets such as AAA-rated CLOs and bank loans (see the "Valuations" column in Figure 11).

We are now less cautious about traditional fixed income assets, given the rise in long-term yields. Those higher yields offer higher income, and we think there is scope for a decline in yields in some markets (the UK, say). We reduce the Underweighting to government debt and investment grade credit (by adding in Japan) and remain Neutral on HY (a cyclical asset).

Across assets, we favour European (especially UK) and EM exposures.

Figure 11 – Factors affecting relative global asset returns over the next 12 months and asset preferences



Note: *This is a theoretical portfolio and is for illustrative purposes only (see **Figure 20** for the details). It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. "CLOs" is AAA collateralised loan obligations. The chart shows our subjective assessment of various factors that we believe will impact the performance of assets over the next 12 months (assets are ordered based on historical volatility). Positive (dark blue) scores suggest a factor that we believe will improve returns, while negative (light blue) scores imply the opposite. "Momentum" is based on recent returns in US dollars. "Total" is an average of the scores, with "Valuations" given three times the weighting of any other factor. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

Risks and opportunities #1: Global energy supply

The US-Iran conflict marked its 6-month anniversary at the end of August, having lasted far longer than initially thought. Prior to the conflict, analysts had anticipated that a closure of the Strait of Hormuz would result in a dramatic impact to global energy markets, on par or worse than the experience of 2022 when Russia invaded Ukraine. The headline shock – about one fifth of the world's hydrocarbon flows disrupted – suggested the largest disruption to oil supply in history, yet the macro environment has so far shown little sign of meaningful damage. Might this change as the conflict drags on?

While ~20% of global oil and natural gas supply was potentially impacted by closure of the Strait of Hormuz, alternative shipping routes have helped mitigate the impact on oil supply and prices. We estimate that, of the 15 million barrels per day (mb/d) that flowed through the Strait before the conflict, only around 3.2 mb/d are failing to reach global markets. Pipelines in Saudi Arabia and the United Arab Emirates have provided alternative export routes that bypass the Strait of Hormuz, while US military escorts and 'dark fleet' shipments have helped keep a portion of oil flows moving through the waterway (see Figure 12). These alternative routes have provided relief to global oil markets.

Another factor that has helped soften the energy impact of today's conflict is that world oil markets were in oversupply at the outset of the conflict, helped by a multi-year surge in US oil production. According to the International Energy Agency, world oil supply stood at 108 mb/d in December 2025 versus demand of 105 mb/d.

Most economies also entered the year with substantial strategic reserves. The IEA estimates that net oil importers held 141 days of inventory before the conflict, a figure which had barely changed to 136 days of inventory as of May (latest available data). We anticipate that reserves have been drawn down further in subsequent months but remain adequate for the time being, especially as the amount of oil leaving the Gulf has picked up with US navy escorts and dark fleet shipping activity.

Our third point of reassurance is a long-term trend: economic activity is becoming more energy efficient. By measuring energy consumption relative to total GDP, we find that most economies have become less exposed to disruptions to energy supply. We estimate that, since 1970, the US uses 60% less energy per dollar of output, a phenomenon repeated elsewhere (-67% for Germany, -62% for the UK, and -20% for China, for example).

Together, these factors have helped mitigate the impact of today's energy shock. Still, oil prices are elevated versus pre-conflict levels (though in real terms they remain only modestly above long-term averages). However, the situation remains volatile, as shown by the closure of Saudi Arabia's East-West pipeline in early September. Moreover, refined products are still constrained, as those supplies face greater difficulty in exiting the Gulf, which is reflected in higher crack spreads (see Figure 13).

As a result of these price pressures, inflation has moved higher in many regions and shifted the central bank policy outlook. Still, we do not view this as a repeat of 2022, when the Russia-Ukraine war combined with post-pandemic policy support resulted in a large shift in the inflation outlook.

Conclusions and investment implications

We continue to view this crisis as having only incremental economic effects. However, the risk of broader spillovers increases the longer the conflict persists, particularly if naval escorts become less frequent or if the conflict escalates through damage to critical energy infrastructure. A meaningful disruption to global energy supplies would likely put upward pressure on inflation and could lead central banks to be less accommodative.

Conversely, a meaningful resolution would help increase global oil supply and potentially drive some central bank policy easing. We take comfort in historical precedent, which suggests that past geopolitical events have tended to presage positive forward equity returns. In other words, markets tend to overstate the durable impact of such events.

Figure 12 – Crude oil flows before and during the conflict (barrels, millions per day)

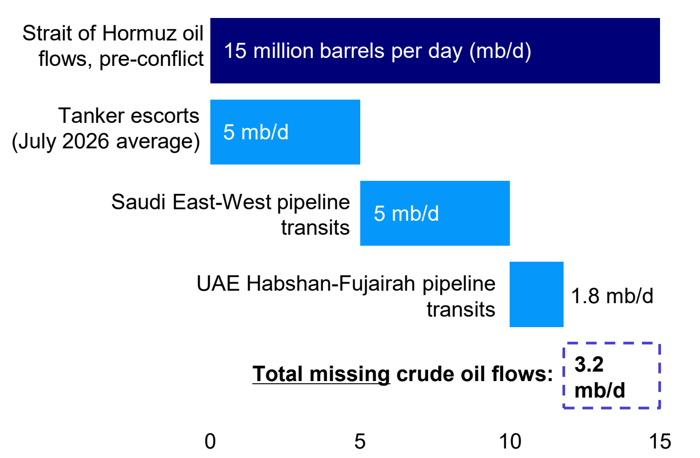
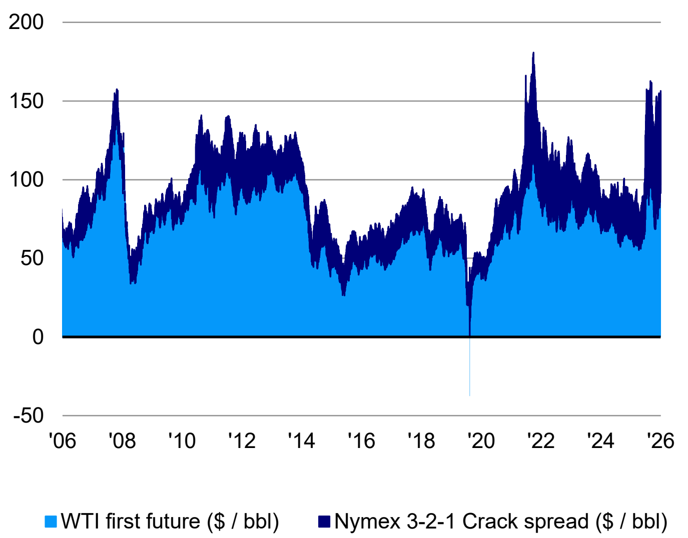


Figure 13 – Crack spreads ($ per barrel)



Notes: **Past performance is no guarantee of future results.** In Figure 12, the East-West pipeline has a capacity of approximately 7 million barrels per day, but the export terminal on the Red Sea can only process up to about 5 mb/d. Figures are estimates based on reported data, reported in millions of barrels per day (mb/d). Aso f31 August 2026. Figure 13 is based on daily data from 9 September 2006 to 9 September 2026. Crack spreads estimate the gross profit margin a refinery makes by converting three barrels of crude oil into two barrels of gasoline and one barrel of distillate.
Sources: Bloomberg L.P., Windward, International Energy Agency, Reuters, CNBC, and Invesco Strategy & Insights.

Risks and opportunities #2: Rising long yields

Long-term government bond yields have been on a renewed uptrend since October 2025, continuing the multi-year trend that started after the record lows seen in 2020 (see Figures 14 and 15). This shift to a higher yield environment has focused attention on whether higher borrowing costs threaten economic growth, financial markets, and government finances.

We view higher yields partly as a return to a more normal environment. Long-term government bond yields tend to reflect nominal GDP growth, which has recently emerged from a prolonged low-inflation environment (see Figure 15, for example). Investors spent much of the post-2008 period anchored to an unusually low-rate environment that is unlikely to return, in our view. Now, a resilient US economy has exerted upward pressure on the real neutral rate, pulling real yields upward. We believe higher yields are symptomatic of a structural shift, where the developed world is moving from an era of excess savings and cheap capital to one where capital is again demanded and has a cost.

We also note that the corporate sector has increased investment spending in recent years, ending a period in which many large corporates – particularly in the technology sector – were accumulating savings or returning capital to shareholders instead of increasing investment. Today, the artificial intelligence investment super cycle has turned this story on its head and pushed large technology companies to increasingly turn to debt markets to raise capital (see next topic). This year, Goldman Sachs estimates that AI-related debt has grown more than $500 billion year-to-date. The supply coming to market is likely raising yields, in our view.

Perhaps the most important driver of yields in recent months has been a growing focus on fiscal sustainability. Term premia have been increasing as investors fret over the state of government budgets and growing debt loads. Other trends, such as ageing populations (and the resulting pressures on social programs), spending on alternative energy, and other forces suggest budget deficits will remain under upward pressure. In other words, we think yields are likely to remain elevated versus the post-GFC environment.

As long bond yields continue to rise, some bondholders may be shifting allocations as well. For instance, in early September Norway's largest pension fund announced it would reduce its US Treasury bond holdings to help improve returns. Such moves are likely driven by the recent poor track record of long duration bonds, but the allocation shift suggests reduced demand for government bonds that may also be contributing to higher yields.

Despite higher rates, we anticipate a limited near-term macro impact. We believe that economies can continue to grow and markets perform well. In many respects, higher bond yields reflect an economy that has been more resilient than expected. In the developed world, households and corporations entered the post-pandemic environment with stronger balance sheets after a prolonged deleveraging cycle, helping to insulate the private sector from the effects of higher yields; a core driver of the macro resilience theme we have previously discussed.

We suspect rising long yields are most challenging for the fiscal outlook in a handful of major economies such as the US, UK, France, and Japan. Since 2020, many governments have run persistently large deficits (see Figure 16). As debt burdens have grown relative to GDP, government budgets are now more exposed to higher interest rates, compounding the fiscal challenge. In the US, for instance, debt service costs have eclipsed defence spending to become the 3rd largest category of spending. As interest rates trend up in a higher-for-longer environment, interest costs are increasingly weighing on budgets and increasing the focus on deficits.

Figure 14 – 30-year government bond yields (%)

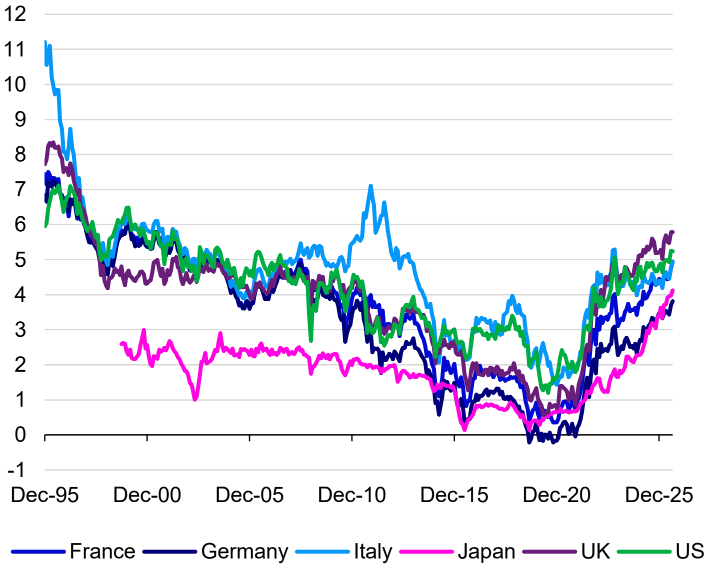
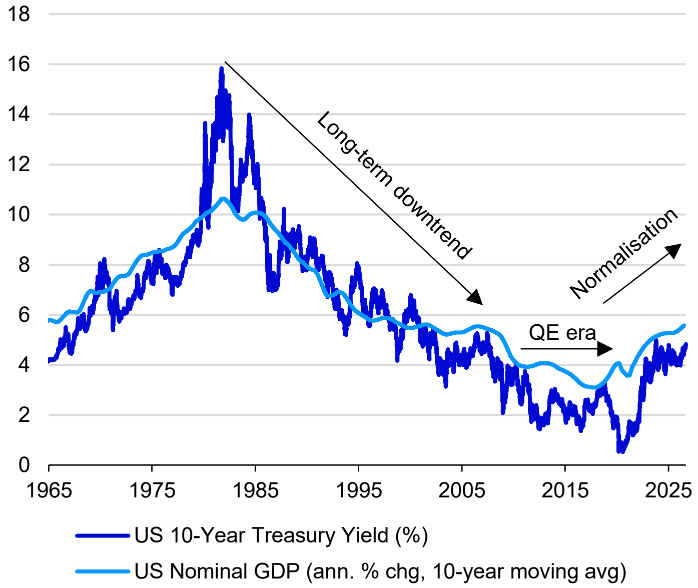


Figure 15 – US 10-year yields and nominal GDP growth (%)



Notes: **Past performance is no guarantee of future results.** Figure 14 is based on monthly data from December 1995 to August 2026 (as of 31 August 2026). Figure 15 is based on daily data from 1 January 1965 to 9 September 2026 (for the 10-year bond yield) and quarterly data from 1965 Q1 to 2026 Q2 (for GDP). Source: LSEG Datastream, Macrobond and Invesco Strategy & Insights.

We do not view this as a recipe for an imminent fiscal crisis. Large developed economies retain substantial financing flexibility, deep capital markets and significant institutional credibility. Moreover, sovereign debt is issued in local currencies, meaning inflation and other forms of financial repression are more likely avenues for managing sovereign debt loads rather than a significant fiscal event (including radical budget resets or even default).

However, rising yields increase the likelihood that fiscal policy becomes a larger part of the market conversation over the coming years. Investors may become more willing to scrutinise government spending plans, deficit projections and debt issuance trends than they have during the ultra-low-rate era. In late August, the US Treasury captured market attention through a shift in its bond repurchases in a move that some characterised as a version of yield curve control. We suspect that a more interventionist approach is likely for as long as interest rates and deficits remain elevated, including moments of volatility as investors focus on such fiscal issues.

How might governments manage their debt loads? We see two possibilities and anticipate that governments will use some combination of these levers. Importantly, these choices are likely to determine the investment implications.

First, governments may seek to manage their fiscal balances more prudently. This is evident in the UK, which has sought to appease bond markets by managing expenditures and raising taxes (see the projections in Figure 16). However, long-term forces such as demographics suggest deficit and debt ratios will remain under upward pressure (see the long-term debt projections in Figure 17). For as long as markets judge that governments are doing too little to address their debt loads, we suspect yields will be subject to upward pressure, particularly term premia on long-dated bonds.

The other option is some form of financial repression, which may include interest rate suppression, inflation, currency devaluation, yield curve control, capital controls and/or regulatory requirements. The specific conclusions here are likely to depend on which combination of policies is chosen, but we suspect that inflation, currency devaluation, and sovereign curves would be the tools of choice.

Conclusions and investment implications

We see two sets of investment conclusions based on the regime of focus: higher bond yields or financial repression.

Higher bond yields would likely exert a downward force on assets through discount rates. The era of very-low discount rates rewarded duration. Conversely, higher bond yields may place greater emphasis on cash-flow generation, balance-sheet strength, and valuation discipline. It can place downward pressure on valuation multiples, particularly for long-duration growth assets whose profits are expected further into the future. Higher bond yields are also likely to be negative for the value of zero-yielding assets such as gold and bitcoin. Meanwhile, where higher bond yields drive yield curve steepening, we anticipate this could benefit financial stocks (especially banks).

On the other hand, financial repression, were it to be used, could cause the opposite effects and provoke the “debasement trade”. Here, we expect investors would anticipate higher inflation and increase allocations to real assets, including assets like gold and bitcoin. Indeed, when the US Treasury intervention news first broke in late-August, gold and bitcoin rallied, but investors soon returned focus to higher bond yields and reversed course on some of this trade. Other assets that we think could offer mitigation against inflation include inflation-protected government bonds and real estate. Conversely, higher inflation would wear on long duration assets, in our view.

Figure 16 – Government balances (% of GDP)

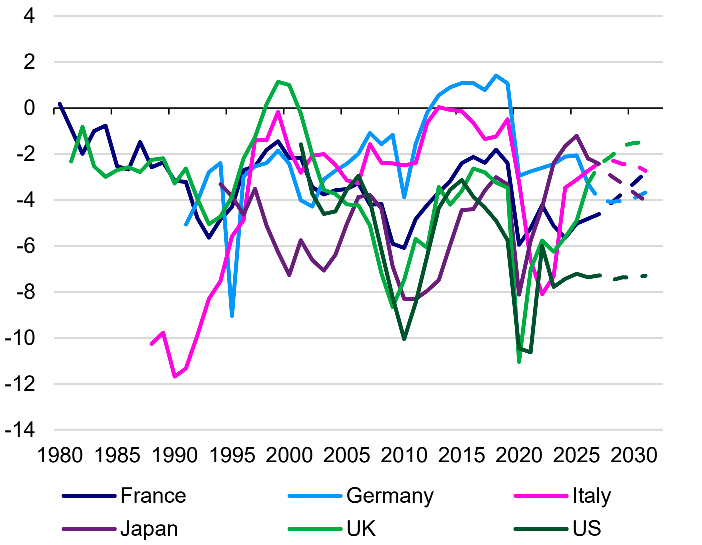
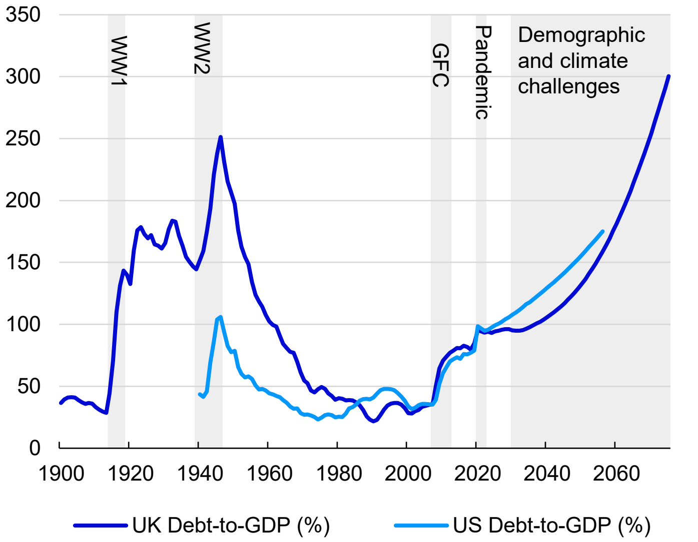


Figure 17 – Net government debt to GDP (%)



Notes: Figure 16 is based on annual data from 1980 to 2031 and shows general government budget balances as a percent of GDP (from the IMF’s World Economic Outlook, April 2026). Figures from 2026 onward are IMF projections. Figure 17 is based on annual data from 1900 to 2075. Projections are taken from the UK Office for Budget Responsibility Fiscal Risks and Sustainability Report (July 2026) and US Congressional Budget Office Long-Term Budget Projections (February 25, 2026).
Source: IMF World Economic Outlook (April 2026), UK Office for Budget Responsibility, US Congressional Budget Office, Macrobond and Invesco Strategy & Insights

Risks and opportunities #3: AI expenditures, the global economy and debt

Artificial intelligence has transitioned from a technology story focused on model development into a broad-based investment cycle spanning semiconductors, data centres, power infrastructure, and networking. As an illustration of the scale of this build-out, Gartner (a technology intelligence firm) estimates that global AI spending will reach $2.5 trillion in 2026. The financing and flow of this capital is likely to continue to be a major force in markets going forward, in our view.

We think compute demand has entered a prolonged undersupply period. Artificial intelligence continues to see capability improvements driven by more powerful - and therefore more resource intensive - models. Meanwhile, falling costs and greater comfort with the technology have seen adoption rise across individuals and businesses. These forces are likely to drive sustained demand for the technology, in our view. Other long-term forces, such as robotics, are also likely to exert upward pressure on computing resource demand in the coming years.

The supply-side has been racing to meet this demand. Hyperscalers, neoclouds, and in-house outfits are investing heavily in data centres. The major US AI hyperscalers make up a substantial chunk of total expected investment this year, comprising $700 billion. Chinese players are also beginning to invest. Protracted compute demand through 2030 implies potentially trillions in cumulative capital expenditure.

Beneficiaries of this spending include technology and industrial stocks, from data centres to their key inputs such as equipment for power delivery and grid interconnection, power generation, cooling, networking, and semiconductors. Within semiconductors, advanced logic chips and high-bandwidth memory are in high demand, and pressures within their supply chains have seen subsegments such as packaging come under pressure.

This extraordinary investment of capital has characterised global market performance this year. Korean and Taiwanese equity markets have seen just a handful of names drive a dramatic rally in their respective equity market indices. Similarly, AI-exposed companies have helped drive a surge in index profit margins.

Over the past year, major American and European markets have also seen a concentration of performance and weight in a narrow cohort of technology and industrial stocks. This year, hyperscalers have participated less in the AI trade, while infrastructure supply chain beneficiaries have continued to perform well (see Figure 18).

Perhaps the most interesting story – and risk – is the shift in capital structure and financial characteristics of companies investing in data centres. AI is rapidly transforming Big Tech players into asset-heavy infrastructure players. Growing depreciation expense is likely to begin to weigh on Big Tech earnings in the coming quarters, and these companies may also become subject to a regular hardware upgrade cycle. Over time, these forces may weigh on earnings, in our view.

Hyperscalers entered the investment boom with ample free cash flow and substantial cash balances. Today, these companies (along with other infrastructure builders like neoclouds) are turning to capital markets to finance this investment boom, especially through debt issuance. These companies have become a defining feature of investment grade credit supply, with direct implications for spreads, portfolio construction, market liquidity and the long-term absorptive capacity of global bond markets. According to Barclays estimates, AI infrastructure builders have issued $337 bn in debt as of August, representing 17% of IG issuance and 18% of HY issuance year-to-date (see Figure 19).

As we have emphasised in recent publications, future returns in the AI theme are likely to depend on issuer selection and, within credit, maturity discipline and tactical new issue participation.

Conclusions and investment implications

The rising presence of AI in equities and now credit suggests growing concentration challenges. A substantial pipeline of new data centre projects, increasingly financed by debt, also suggests that the risk profile of companies involved in the data centre build-out may be sensitive to perceived and actual compute demand shocks.

Figure 18 – Performance of major AI infrastructure-related equities (rebased to 100 on 2 January 2026)

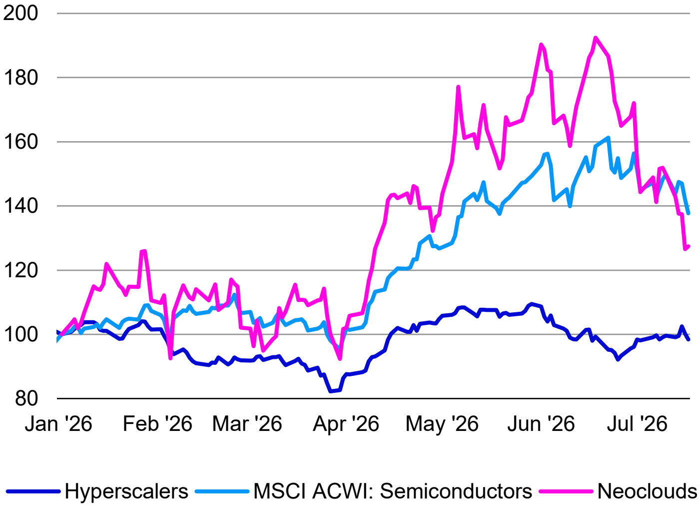
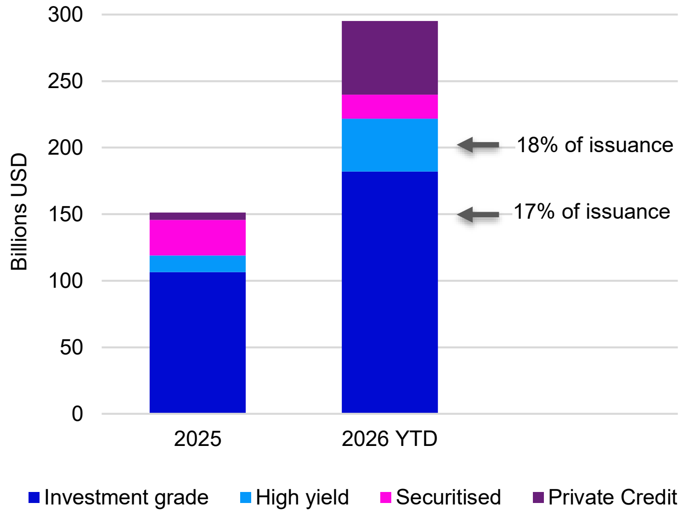


Figure 19 – Data centre and hyperscaler issuance in US credit markets



Notes: **Past performance is no guarantee of future results**. Figure 18 is based on custom market capitalisation-weighted indices of hyperscalers and neoclouds, comprised of companies publicly traded in the US and displayed with daily data from 2 January to 31 August 2026. Figure 19 is based on company filings and collated by Barclays from 2025 to 20 August 2026 (latest available data) for US credit markets. Percentage figures displayed indicate share of total year-to-date issuance for 2026 in the respective asset class. Figures are incomplete for private credit as the market is less transparent. As of 31 August 2026.
Sources: Bloomberg L.P., Barclays and Invesco Strategy & Insights.

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%**	↑ **34%**			
Government	25%	10-40%	↑ 20%			
US	8%		5%			
Europe ex-UK (Eurozone)	7%		5%			
UK	1%		2%			
Japan	7%		↑ 4%			
Emerging Markets	2%		4%			
China**	0.2%		0%			
India**	0.1%		1%			
Corporate IG	10%	0-20%	↑ 9%			
US Dollar	5%		3%			
Euro	2%		1%			
Sterling	1%		2%			
Japanese Yen	1%		↑ 1%			
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%**	↓ **50%**			
US	25%		25%			
Europe ex-UK	7%		↓ 8%			
UK	4%		5%			
Japan	4%		↓ 5%			
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%	↓ 20%	
GBP	7%	11%	
JPY	14%	↑ 11%	
EM	9%	13%	
Total	**100%**	**100%**	

*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. As of 13 September 2026. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

Appendices

Appendix 1: Country profiles

US economy, policy and markets

Macro backdrop

The US economy remained resilient during the third quarter of 2026. Consumer spending stayed firm, business investment continued to benefit from AI-related capital expenditure, and labour market conditions remained broadly stable. At the same time, persistent inflation, higher long-term borrowing costs, and growing monetary policy uncertainty created a more challenging backdrop than investors faced at the start of the year.

Despite lingering inflation and rising interest rates, underlying demand has been strong. Final sales to private domestic purchasers rose by 4.2% annualised in 2026 Q2 – its fastest pace in more than three years – supported by a 3.4% increase in consumer spending and significant 8.5% increase in non-residential fixed investment.

Strong spending and investment were backed by encouraging activity data. The ISM Manufacturing PMI registered 54.6 in August, marking its eighth consecutive month in expansion, while the Services PMI climbed to 55.4, its highest reading since the onset of the conflict with Iran.

Robust business activity also appears to have been reflected in corporate earnings results: the S&P 500 Index posted 50% year-over-year earnings growth in the second quarter – its strongest earnings season in five years –- and nearly every sector delivered double-digit earnings growth.

Though business activity has remained strong, labour market conditions have become more balanced. Hiring demand has moderated, but low layoff rates and a declining labour force participation rate have kept labour supply roughly in-line with labour demand, helping pull the unemployment rate lower.

While a declining unemployment rate has historically put upward pressure on wages, wage growth has remained relatively subdued (see Figure 21). This suggests that labour market conditions are not heavily contributing to ongoing inflation pressures, potentially allowing the Federal Reserve to keep policy rates on hold for now.

Central bank policy

Core PCE inflation began 2026 at 2.97% and climbed to 3.34% by July. Over the same period, markets shifted from pricing three potential rate cuts by January 2027 to pricing three potential rate hikes by the end of 2026. In our view, that repricing reflects three main factors: resilient economic data, concerns about persistent inflation, and uncertainty surrounding the Federal Reserve's reaction function under new chair Kevin Warsh.

The recent rise in Treasury yields has largely been driven by higher real yields rather than rising inflation expectations, suggesting that investors believe stronger growth may require the Federal Reserve keep rates higher for longer. At the same time, policymakers continue to wrestle with inflation that has remained above target for the past five years and the possibility that recurring supply-side shocks are becoming a more persistent feature of modern economies.

Uncertainty around the Fed's policy framework has added another layer of complexity. Chair Warsh has suggested that financial markets should play a greater role in informing policy decisions. Yet if markets are pricing what they believe the Fed *will do*, while the Fed is simultaneously looking to markets for guidance about what they *should do*, it becomes less clear whether markets are reflecting policy expectations or shaping policy itself.

With labour market conditions relatively stable, inflation measures sending mixed signals (see Figure 22) and the rise in bond yields implicitly doing some tightening, we believe the Fed should remain on hold for the foreseeable future (despite the market expectation for tightening, mentioned above). However, if the bond market forces the Fed to reestablish credibility, then rate hikes remain a distinct possibility.

Asset views and preferences

While the recent rise in Treasury rates has made fixed income assets increasingly attractive, we maintain a preference for equities. Within US equities, we favour higher-quality large cap companies given their more durable earnings power and lower rate sensitivity.

Favoured assets: Equities

Duration preference: Short-to-intermediate

Favoured equity sectors/factors: Technology, consumer staples, utilities, healthcare

Figure 21 – US unemployment and wage growth

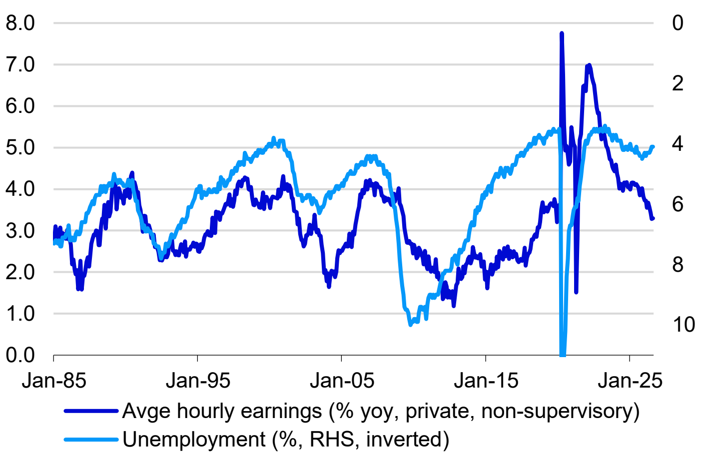
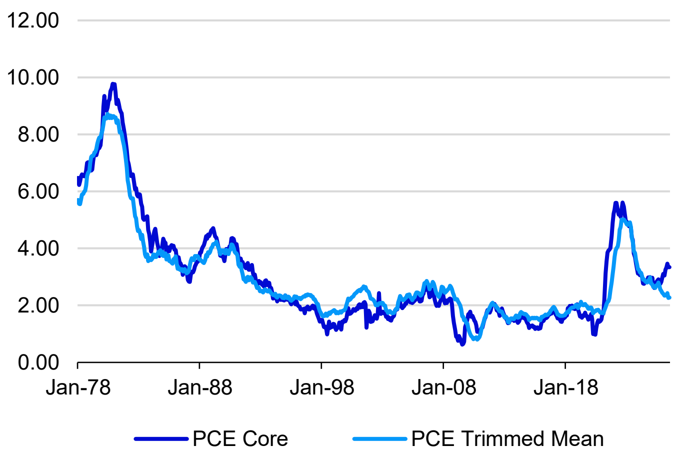


Figure 22 – US PCE (core and trimmed mean, %)



Note: Figure 21 is based on monthly data from January 1985 to August 2026. Figure 22 is based on monthly data from January 1978 to July 2026. Source: Federal Reserve Bank of Dallas, LSEG Datastream and Invesco Strategy & Insights.

Eurozone economy, policy and markets

Macro backdrop

After showing no growth in 2026 Q1, the eurozone economy advanced by 0.4% in the second quarter of the year, which is like the growth seen in the US (quarter-on-quarter growth rates). The lack of growth in the first quarter was largely due to a 7.0% decline in Ireland (whose data has been volatile due to the impact of US tariffs) and France (-0.1%). The year-on-year growth rate slipped to 0.5% in Q1 (not helped by the 19% jump in Irish GDP in 2025 Q1) but recovered to 1.0% in Q2.

Without that drag from Ireland, we think Eurozone year-on-year growth would have been closer to 1.2% in 2026 Q1. Figure 23 shows that growth has varied across the major economies, with Spain still growing faster than other big regional economies (2.7% yoy in 2026 Q1), while France has become the biggest drag on regional growth (0.7%). Growth in German GDP has picked up from 0.3% yoy in 2025 Q2 to 0.9% in 2026 Q2, with the fiscal boost now seeming to have an effect.

Figure 2 suggests that leading indicators for most major Eurozone economies are above trend and improving (up to August). There has been an interesting divergence between the manufacturing and services sectors, according to PMI surveys (up to August), with the Eurozone service sector appearing to suffer after the outbreak of war with Iran (though with a rebound in recent months), while manufacturing conditions have improved (despite the rise in energy costs).

We remain optimistic that regional growth can pick up in 2026 and 2027. Apart from the above-mentioned distortions related to Ireland, our optimism reflects the fiscal boost that may accompany higher European military spending, along with Germany's infrastructure spending programme (see Figure 5). Further, we think that prior ECB rate cuts may continue to support growth. On the negative side, the ECB has just raised its policy rates again, and higher inflation is causing a squeeze on real incomes. Overall, we expect annual GDP growth of 1.0%-2.0% in 2026 and 2027.

Central bank policy

Inflation has picked up since the outbreak of war with Iran, with headline consumer price (CPI) inflation at 3.3% in August, from 1.7% in January. That should not be a surprise given the rise in energy prices. More problematic for the ECB will be the rise in core CPI inflation to 2.4%, up from 2.2% in January and April (though down from 2.5% in July). The rise in core inflation appears to be largely due to a pick-up in goods inflation, with industrial goods ex-energy inflation rising from 0.4% in January to 1.2% in August (the inflation rate for services, around two-thirds of the CPI index, has been relatively stable at just above 3.0% in most months since the start of the year).

The ECB increased its deposit facility rate to 2.25% on 11 June 2026 and then again to 2.50% on 10 September (it had been stable at 2.00% since June 2025 - see Figure 24). At the September meeting, the ECB raised its inflation forecasts for 2027 and 2028. Market implied rates now suggest a belief the ECB will raise rates up to three times over the next 12 months (Reuters calculations, as of 10 September 2026).

We think the risks are more balanced than that, given that a lot of the rise in inflation is due to rising energy costs, over which the ECB has no control. The oil price is below the March/April peaks, though Europe also remains vulnerable to a rise in the price of natural gas. Further, core inflation is not too far above target. With growth still patchy, we fear that further rate hikes could endanger the eurozone economy.

Asset views and preferences

We expect a small rise in long yields but little change in the slope of the yield curve (short duration preferred). We favour equities and REITs among Eurozone assets but also like the diversification qualities of bank loans and AAA-rated CLOs.

Favoured assets: Equities, bank loans, AAA CLOs

Duration preference: Short

Favoured equity sectors/factors: Industrials, metals & mining, value, size.

Figure 23 – GDP growth in selected Eurozone countries (% year-on-year)

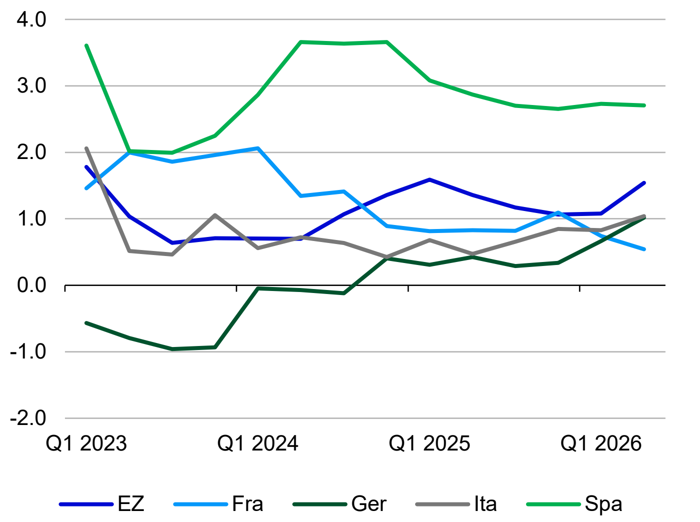
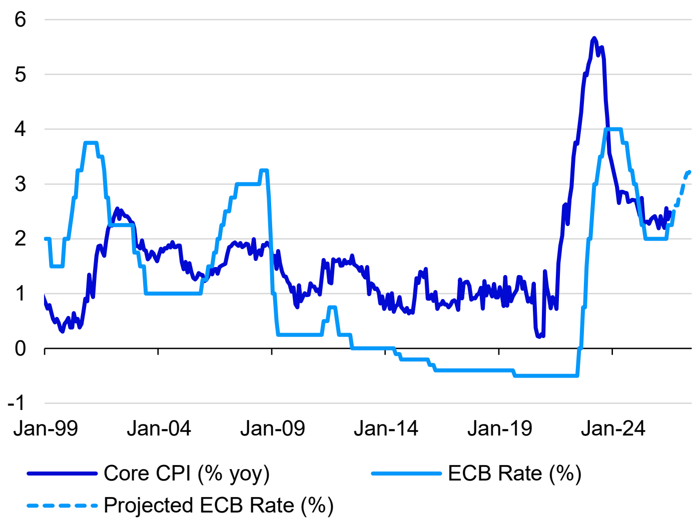


Figure 24 – Eurozone core consumer price inflation and ECB Deposit Facility Rate



Notes: Figure 23 is based on quarterly data from 2023 Q1 to 2026 Q2 ("EZ" is the Eurozone). See appendices for country abbreviations. Figure 24 is based on monthly data from January 1999 to June 2027. "Projected ECB Rate" is the market implied path of the ECB Deposit Facility Rate, based on Reuters calculations based on the Euro Short Term Rate. As of 10 September 2026.
Source: LSEG Datastream, Reuters and Invesco Strategy & Insights.

UK economy, policy and markets

Macro backdrop

The UK economy has again proved harder to knock than many feared. Q2 GDP growth of 0.4% quarter-on-quarter comfortably beat consensus, despite the drag from higher energy costs (see Figure 25). Resilience is not the same as strength, particularly when inflation and fiscal constraints leave little room for policy support. But it is another sign that pessimism towards the UK, and towards UK assets, is overdone (in our view). UK assets continue to trade at a discount to many other regions.

At the start of 2026 we expected two or three cuts from the Bank of England, with falling mortgage rates then supporting an improvement in UK consumption. The cuts never came and yields and mortgage rates have risen. But higher rates have not been a universal negative: UK households, in aggregate, now receive more in interest income than they pay out (see Figure 26). Savers and borrowers spend differently, so this is not necessarily stimulative. But it reinforces a point we have made for a while: the UK economy, like the global economy, is less sensitive to rates than it used to be.

Markets took Andy Burnham becoming prime minister well. Gilts rallied, sterling firmed and large-cap equities edged up. His appointment removed some political uncertainty and that outweighed any fears of an immediate fiscal shift.

Consumer confidence has improved since his appointment, especially among younger age groups, perhaps a Burnham bounce. Or perhaps the labour market is simply holding up better than expected: unemployment is back below 5%.

Attention now turns to the October Budget. Chancellor Healey has so far avoided a UK-specific credibility shock, and we expect that to hold in October. He already appears to be moderating his views on defence spending, for example. But October will show more clearly whether the government can square higher spending with its fiscal rules. We anticipate the mix will be more spending, more borrowing and more tax, but not a break with the fiscal framework. The risk is less a sudden “mini-Budget” moment and more a gradual loss of credibility if spending rises faster than durable revenues.

Central bank policy

Resilience does not justify tightening, in our view. The market is now fully pricing 60 basis points of hikes through the end of 2027. Headline inflation remains above target, but energy prices are doing most of the work. Services inflation, which the MPC watches closely, has continued to cool. Private sector regular pay growth has slowed too. If energy prices stay range-bound and second-round effects stay limited, we expect inflation pressure to ease further. Governor Bailey’s recent comments suggest the MPC is not yet persuaded the energy shock requires a response. We think the BOE will ultimately deliver two rate cuts in the coming year.

We would be wrong if second-round and services inflation re-accelerate and the Bank turns more hawkish. In that scenario, however, UK risk assets could still do well, because stronger nominal growth would support earnings. An October Budget that breaks the fiscal framework is the other key risk, and one that could push yields higher and undo the recent improvement in confidence.

Asset views and preferences

UK equities remain a useful diversifier, in our opinion. The FTSE 100 holds little technology and more in commodities, financials, consumer staples and healthcare — a mix that offers cyclical upside and some defence.

Our view that the UK is the place to take duration risk this year has been challenged. There are still good valuation reasons for thinking UK gilts are attractive, but we are wary of fighting a global duration sell-off. Rising term premia globally, and continuing concerns about the Budget, are likely to weigh on long gilts over the coming months. We still don’t have a strong view on sterling, but assuming the Budget sticks to the fiscal rules, we can see a little strength in GBP versus the USD.

Favoured assets: Equities (FTSE 100)

Duration preference: Short-to-intermediate

Favoured equity sectors/factors: Financials, materials, industrials

Figure 25 – Energy price cap, QoQ, %

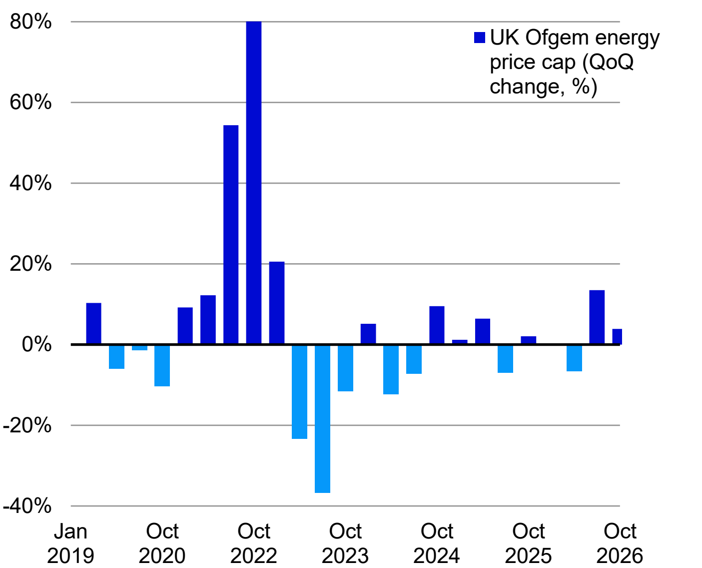
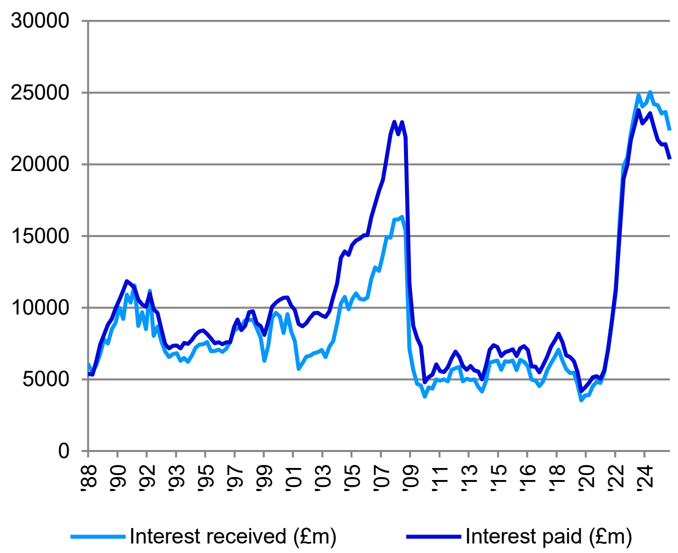


Figure 26 – UK household interest paid & received



Notes: As of 2 September 2026. Figure 25 is based on quarterly data from April 2019 to July 2026 and shows UK Ofgem energy price cap direct debit basis. Source: Ofgem quarterly price cap announcements. Figure 26 is based on quarterly data from 1988 Q2 to 2026 Q1 and shows UK household total interest income received and interest paid. Source: UK Office for National Statistics.

Japan economy, policy and markets

Macro backdrop

Japan's economy expanded at an annualised rate of 1.4% QoQ in Q2 2026, a relatively strong pace for Japan's economy. However, the headline figure overstated the underlying strength of the economy, as growth was largely driven by lower imports and inventory accumulation following the Iran war, while private domestic demand remained soft. Although employee compensation recorded its strongest growth in nine quarters, private consumption was constrained by weak consumer sentiment stemming from the situation in the Middle East. Private capital expenditure declined from the previous quarter. However, as this mainly reflects a pullback in software spending after strong growth in Q1, we expect business investment to regain momentum.

Japan's crude oil imports from the Middle East fell sharply after the outbreak of the Iran war but recovered to pre-war levels in July as procurement from alternative suppliers increased. Inflation remains relatively subdued at present, partly due to fuel subsidy measures implemented by the Takaichi administration. However, we think that higher petrochemical prices and the weaker yen are likely to push inflation into the upper part of 2%-3% range by Q1 2027 (see Figure 27), which may weigh on household spending in the near term. That said, the government has announced plans to reduce the consumption tax rate on food products from the current 8% to 1% for a two-year period beginning in April 2027, which we think should boost consumption thereafter.

The government is also expected to boost Japan's capital spending through a multi-year investment program targeting 17 strategic sectors. It also plans to introduce cash payouts for low- and middle-income households from April 2029, replacing the expiring food tax cut with a similar level of fiscal support. Consequently, among the economies featured in this document, Japan is where we expect the biggest fiscal impulse over the coming years.

Central bank policy

At its July meeting, the Bank of Japan emphasised the risk that underlying inflation could rise above 2% and signalled a greater willingness to accelerate the pace of tightening. With the negative impact of higher interest rates on economic activity remaining limited (see Figure 28), we expect the BOJ to raise rates in September and to deliver two additional hikes by mid-2027. Depending on developments in the yen and pressure from the US, we believe the third rate hike of 2026 could be implemented in December.

Asset views and preferences

The rally in semiconductor and electronic component stocks, driven by global data centre demand, has paused since July. As energy exports from the Middle East through the Strait of Hormuz recover, we believe that sectors beyond AI-related stocks could rebound, supporting a gradual rise in the broader equity market. In the first half of 2027, stronger domestic demand, improved earnings expectations under the Takaichi administration, and increased foreign investor interest could provide additional support. We think that long-term interest rates will face less upward pressure as the inflationary effects of the Iran war fade, though investors remain cautious about the implications of fiscal expansion.

The yen strengthened sharply after coordinated intervention by Japanese and US authorities and gained further after the BOJ signalled a willingness to discuss rate hikes at every meeting. Expectations for additional BOJ tightening and continued vigilance over possible intervention may limit near-term yen depreciation, but volatility could remain elevated.

Favoured assets: Equities

Duration preference: Short

Favoured equity sectors/factors: Domestic demand-related sectors (Consumer Discretionary, Consumer Services, Capital Goods, Financials), defence-related sectors

Figure 27 – Japan: Inflation (%)

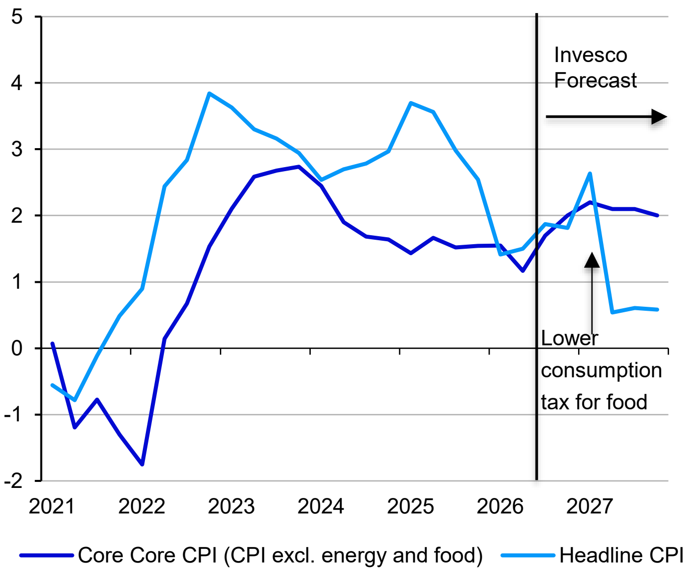
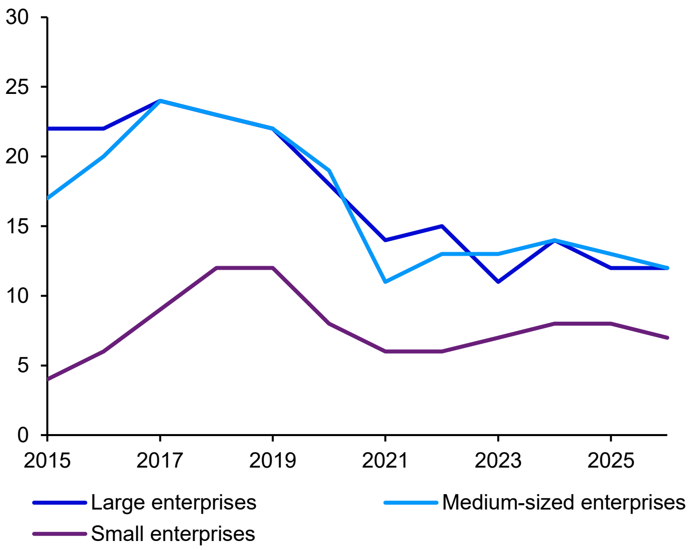


Figure 28 – Japan: Financial Position Diffusion Index ("easy"-"tight", % points)



Note: Figure 27 is based on quarterly data from 2021 Q1 to 2027 Q4 (with Invesco forecasts shown for the period 2026 Q3 to 2027 Q4). Figure 28 is based on quarterly data from 2015 Q1 to 2026 Q2. Data as of 31 August 2026. Source: CEIC and Invesco Strategy & Insights.

China economy, policy and markets

Macro backdrop

China's economy started the year strong, though momentum has waned due to a soft patch in domestic consumption and lower government spending (see Figure 29). Still, export growth continues to provide an important source of support, with Chinese firms gaining share in a range of higher value-added industries including advanced manufacturing, industrial automation, power equipment and AI-related supply chains (see Figure 30). Even without leadership in the most advanced semiconductor segments, China has expanded its role across the broader technology ecosystem, supporting industrial activity and external demand.

The key uncertainty remains domestic demand. Trade-in programs and targeted consumption support measures have helped stabilise spending, but household confidence remains constrained by a still-weak property sector. The drag from real estate is gradually diminishing as we believe the worst phase of the property correction is likely behind us. This should reduce its negative contribution to growth. Encouragingly, there are signs that consumption is gradually broadening beyond traditional goods purchases toward services, experiences, travel, entertainment and healthcare. Policymakers have increasingly emphasised the importance of turning China into a "major consumer powerhouse", suggesting that supporting household demand will remain a central policy objective over the medium term.

Looking ahead, we expect growth to moderate but remain relatively stable. External demand may become less supportive as the effects of front-loaded exports fade and global trade uncertainty persists. Nevertheless, China's competitive position across a range of manufacturing industries, together with continued policy support, should provide an important cushion. Policymakers appear increasingly comfortable with a slower but higher-quality growth trajectory, prioritising industrial upgrading, innovation, national competitiveness and domestic demand resilience over short-term headline growth targets. Fiscal policy is therefore likely to remain supportive and highly targeted, with resources directed toward strategic industries, technological self-sufficiency and measures aimed at stabilising consumption.

Central bank policy

The slowdown in growth from the start of the year coupled with subdued inflation suggest additional easing is likely in the coming months. We expect policymakers to rely on a combination of liquidity operations, reserve requirement ratio reductions and targeted credit support to bolster the domestic economy.

Overall, monetary policy should remain supportive, but we believe fiscal policy and industrial policy will play a larger role in driving growth as China continues its transition toward a more technology-driven and consumption-oriented economy. Policymakers are likely to balance growth stabilisation with longer-term economic rebalancing.

Asset views and preferences

We remain constructive on Chinese equities despite a challenging macro backdrop. While concerns around property, trade tensions and domestic demand persist, we believe investors may be underestimating China's ability to generate growth through industrial upgrading, innovation and expanding participation in global AI-related supply chains. Chinese companies are increasingly competing in higher value-added segments, which could support earnings growth even in a more moderate economic environment.

Recent policy efforts aimed at reducing excessive competition across certain industries may also support profitability and improve pricing power over time. Valuations remain attractive relative to many global markets, providing a potentially favourable starting point for long-term investors.

In fixed income, we expect policymakers to continue managing liquidity conditions in a way that promotes financial stability and anchors the yield curve. With policy easing becoming more targeted and growth proving relatively resilient, we see limited value in long-duration government bonds at current levels and prefer a shorter duration stance.

Favoured assets: Equities

Duration preference: Short

Favoured equity sectors/factors: AI-exposed, Value

Figure 29 – China monthly activity indicators

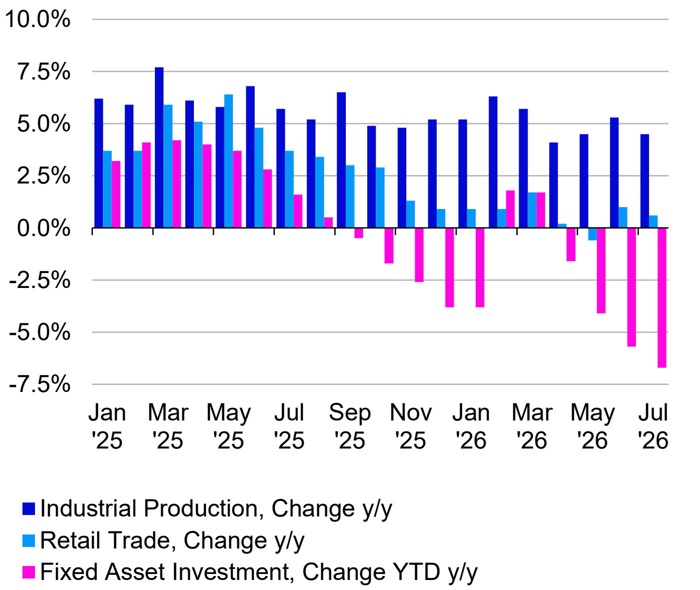
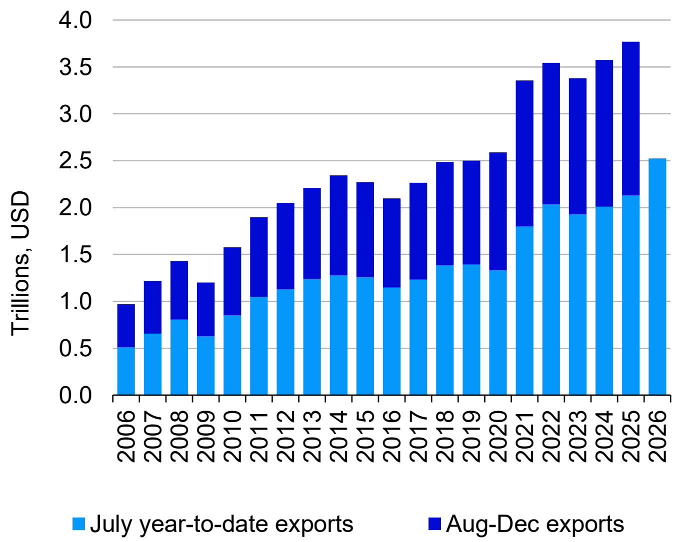


Figure 30 – China aggregate exports



Notes: Figure 29 is based on monthly data from Jan 2025 to July 2026. Figure 30 is based on monthly data from Jan 2006 to July 2026, as of 31 August 2026. Source: China National Bureau of Statistics (NBS), China's General Administration of Customs (GAC), Invesco Strategy & Insights.

India economy, policy and markets

Macro backdrop

India again posted stronger than anticipated growth in the June quarter, which was relatively broad based and supported by a firm investment cycle and a large net-export contribution. Real GDP rose 7.8% year-on-year, above consensus, with the previous quarter revised sharply higher to 8.6%.

This magnitude of growth stands out against other large economies, reflecting a still-resilient domestic cycle. Fixed investment accelerated to a four-year high growth rate of 11.9%, manufacturing reached a three-quarter high of 9.2%, and services held firm even as private consumption moderated slightly from a high base.

The composition, however, may point to sequential moderation ahead. Front-loaded central government capex is likely to fade over the next two quarters as the fiscal year progresses. While there are green shoots, it is yet to be seen whether investment strength broadens into a genuine private capex cycle as consumption normalises.

External channels are where the resilience could be tested. The improvement in net exports is helping to stabilise the external balance near term and speaks to the strength of certain goods exports, such as electronics. But the country’s structural reliance on imported oil remains a key vulnerability, with the Indian crude basket recently crossing $100 on the renewed US-Iran conflict. Portfolio outflows and softer reserves have weakened the rupee.

For now, the harder activity data continues to hold up better than the forward-looking signals. Bank credit and power demand remain firm, and the services PMI has steadied, even as softer goods & services tax (GST) receipts and cooling sentiment hint at a more cautious tone ahead.

Central bank policy

At its 5 August meeting, the RBI left the repo rate at 5.25% for a fourth straight time and held its neutral stance in a unanimous vote. The tone, though, was more balanced than dovish. The central bank nudged its FY27 growth forecast up to 6.7% and, despite an oil-driven pickup in headline inflation, trimmed its inflation projections slightly, to 5.0% on the headline and 4.3% on core, alongside language suggesting that the headline inflation overshoot was mostly food and energy driven.

While that characterisation may give the RBI more room to wait, the balance of risks may skew towards modest tightening over the next 12 months. El Niño clouds the food and rural outlook, and the rupee is under pressure.

Asset views and preferences

India's macro strength has not yet translated into equity outperformance. Despite Q2 GDP surprising to the upside, overall stock returns have been relatively muted, and notably soft when stacked against the rest of EM. The disconnect is most visible in the primary market, which remains very active (India is on track for a record global listing year) even as secondary performance has lagged, a sign of a market still open for fundraising but increasingly selective. Even so, firmer growth and active issuance make for a more constructive medium-term backdrop. India lacks the clear AI winners that have driven much of Asia's recent equity leadership, but that same idiosyncrasy is arguably its value as a diversifier.

All in bond yields look attractive in local currency terms, but FX remains the main risk.

Favoured assets: Government bonds

Duration preference: Neutral

Favoured equity sectors/factors: Industrials, broad-index

Figure 31 – India GDP Constant Prices, Fiscal Year (April-March) Basis, INR

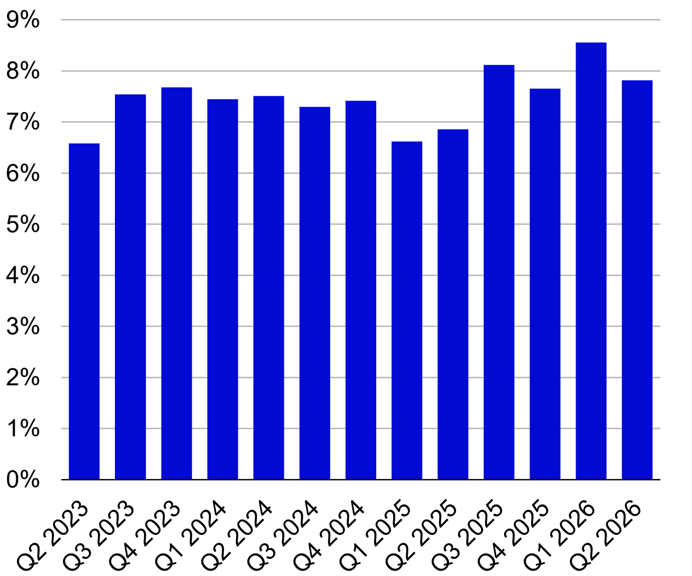
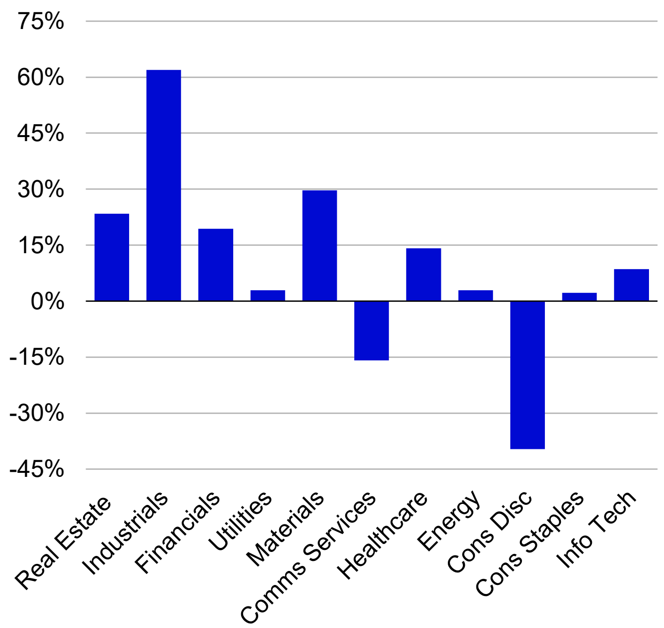


Figure 32 – MSCI India 1-year forward earnings growth by sector



Notes: Figure 31 is based on quarterly data from Q2 2023 to Q2 2026. Figure 32 as of 7 September 2026. **There is no guarantee that forecasts will come to pass. An investment cannot be made directly into an index.**
Source: Indian Ministry of Statistics & Programme Implementation (MoS&PI), Bloomberg and Invesco Strategy & Insights.

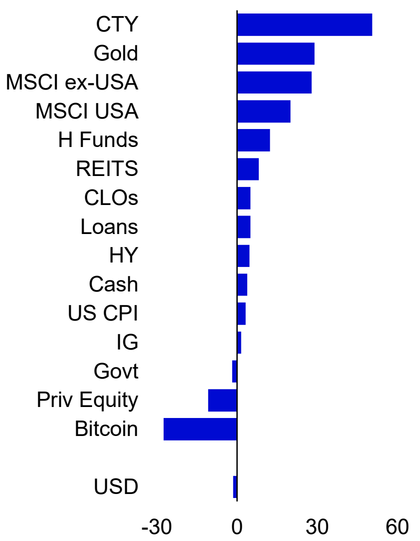
Appendix 2: Global valuations vs history

Regional yields within historical ranges (%)

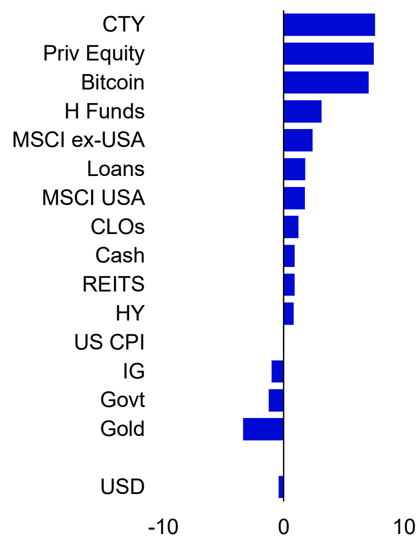
Notes: **Past performance is no guarantee of future results**. As of 31 August 2026. "Gov" is government debt", "Corporate Debt" is investment grade credit, "HY" is high yield credit, "Loans" are bank loans, "CLOs" are AAA collateralised loan obligations. See appendices for definitions, methodology and disclaimers. Source: Bloomberg, S&P UBS, FTSE Russell, ICE BofA, JP Morgan, LSEG Datastream and Invesco Strategy & Insights.

Appendix 3: Global asset total returns

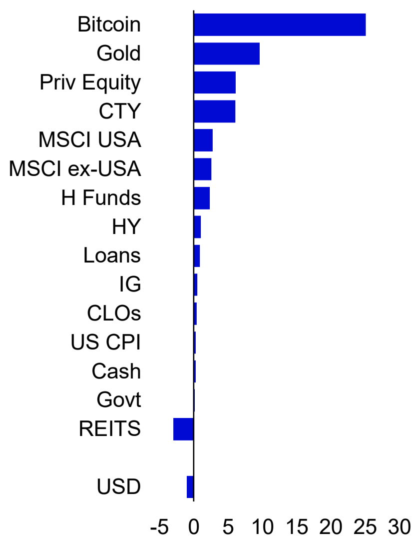
12 months (% in US dollars)



3 months (% in US dollars)



1 month (% in US dollars)



Past performance is no guarantee of future results. Based on monthly total return data for global assets in US dollars up to 31 August 2026. Abbreviations are as follows: "CTY" is commodities, "Govt" is government debt", "H Funds" is hedge funds, "HY" is high yield credit, "IG" is investment grade credit, "Loans" is bank loans or leveraged loans, "MSCI ex-USA" is MSCI ACWI ex USA Index, "Priv Equity" is private equity, "CLOs" is AAA collateralised loan obligations, "US CPI" is the US Consumer Price Index and "USD" is a trade weighted US dollar index. See appendices for definitions of asset categories and sources.
Source: ICE BofA, HedgeIndex, S&P UBS, GPR, Goldman Sachs, JP Morgan, MSCI, S&P GSCI, LPX, Bloomberg, LSEG Datastream and Invesco Strategy & Insights.

Appendix 4: Asset class and regional total returns

Data as at 31/08/2026	Index	Current Level/RY	Total Return (USD, %) 3m	YTD	12m	5y*	Total Return (Local Currency, %) 3m	YTD	12m	5y*
Equities										
World	MSCI	1149	2.0	14.6	22.8	11.4	2.0	14.7	23.3	12.2
Emerging Markets	MSCI	1719	-1.1	24.4	39.7	8.7	-2.5	23.8	40.1	10.9
China	MSCI	75	1.0	-7.5	-6.0	-2.0	0.9	-7.5	-6.4	-1.7
US	MSCI	7330	1.8	13.0	20.0	12.3	1.8	13.0	20.0	12.3
Europe	MSCI	2877	4.1	11.7	21.0	10.1	4.9	12.6	21.7	10.2
Europe ex-UK	MSCI	3543	3.7	11.4	20.7	9.3	5.0	12.9	21.7	9.2
UK	MSCI	1741	5.3	12.7	22.1	13.0	4.7	11.8	21.7	13.3
Japan	MSCI	5748	4.1	21.1	28.3	10.5	4.4	23.4	39.5	19.0
Government Bonds										
World	BofA-ML	4.07	-1.3	-1.7	-1.9	-3.8	-1.1	-1.3	-0.4	-2.0
Emerging Markets	JP Morgan	6.33	1.4	2.7	7.6	2.3	1.4	2.5	5.3	3.8
China	BofA-ML	1.48	1.7	6.7	8.7	3.5	0.9	2.6	2.4	4.3
US (10y)	Datastream	4.74	-1.2	-1.5	0.5	-2.2	-1.2	-1.5	0.5	-2.2
Europe	Bofa-ML	3.53	-2.4	-2.2	-1.2	-3.1	-1.9	-1.1	-0.4	-2.8
Europe ex-UK (EMU, 10y)	Datastream	3.30	-2.6	-2.4	-2.3	-4.3	-2.1	-1.3	-1.6	-4.0
UK (10y)	Datastream	5.15	-0.2	0.1	3.3	-3.6	-0.7	-0.7	2.9	-3.3
Japan (10y)	Datastream	2.92	-1.7	-6.7	-15.4	-9.9	-1.4	-4.9	-7.9	-2.9
IG Corporate Bonds										
Global	BofA-ML	5.03	-1.0	-0.3	1.5	-0.1	-0.8	0.0	1.7	0.1
Emerging Markets (USD)	JP Morgan	6.69	0.5	2.3	4.7	2.5	0.5	2.3	4.7	2.5
China	BofA-ML	2.03	1.4	6.3	9.0	2.8	0.6	2.2	2.7	3.6
US	BofA-ML	5.52	-1.0	-0.2	2.0	0.1	-1.0	-0.2	2.0	0.1
Europe	BofA-ML	3.93	-1.2	-1.0	0.0	-0.5	-0.7	0.1	0.8	-0.2
UK	BofA-ML	5.85	0.5	1.0	4.2	-1.4	-0.1	0.2	3.9	-1.1
Japan	BofA-ML	2.68	-1.0	-3.0	-9.8	-8.0	-0.7	-1.2	-1.9	-0.8
HY Corporate Bonds										
Global	BofA-ML	7.31	0.8	2.6	4.6	3.4	0.9	2.8	4.8	3.5
US	BofA-ML	7.57	1.0	2.6	4.8	4.1	1.0	2.6	4.8	4.1
Europe	BofA-ML	6.08	0.2	0.8	2.2	2.5	0.6	1.9	3.0	2.8
Cash (Overnight rates)										
US		3.66	0.9	1.9	4.0	3.6	0.9	1.9	4.0	3.6
Euro Area		2.18	-0.2	-1.7	-0.8	1.2	0.5	1.0	2.0	2.0
UK		3.73	2.1	1.0	1.6	2.8	0.9	1.9	3.9	3.5
Japan		0.98	-0.9	-2.5	-9.6	-7.0	0.2	0.4	0.6	0.2
Real Estate (REITs)										
Global	FTSE	1809	0.3	9.1	9.7	1.3	0.8	10.3	10.6	1.6
Emerging Markets	FTSE	1281	-3.0	0.9	2.4	-2.3	-2.5	2.1	3.2	-1.9
US	FTSE	3590	2.3	16.7	16.2	3.8	2.3	16.7	16.2	3.8
Europe ex-UK	FTSE	2496	-6.3	-4.4	-4.3	-5.9	-5.9	-3.3	-3.6	-5.6
UK	FTSE	866	12.6	13.2	22.3	-3.3	11.9	12.3	21.9	-3.0
Japan	FTSE	2307	-1.8	-9.4	-4.7	-1.0	-1.5	-7.7	3.6	6.7
Commodities										
All	GSCI	5802	7.6	48.1	50.6	17.6	-	-	-	-
Energy	GSCI	1188	11.6	96.7	86.4	25.0	-	-	-	-
Industrial Metals	GSCI	2438	-1.3	14.5	36.8	7.0	-	-	-	-
Precious Metals	GSCI	4981	-4.0	1.1	29.6	19.0	-	-	-	-
Agricultural Goods	GSCI	572	18.6	21.2	16.9	4.1	-	-	-	-
Currencies (vs USD)**										
EUR		1.16	-0.4	-1.1	-0.6	-0.3	-	-	-	-
JPY		159.74	-0.3	-1.9	-7.9	-7.2	-	-	-	-
GBP		1.36	0.6	0.8	0.4	-0.3	-	-	-	-
CHF		1.24	-3.4	-1.9	-1.0	2.5	-	-	-	-
CNY		6.72	0.7	4.1	6.1	-0.8	-	-	-	-

Notes: Past performance is no guarantee of future results. *Five-year returns are annualised. **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). “RY” is redemption yield or interest rate (in the case of cash). Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights.

Appendix 5: 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, CLOs, 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.

Appendix 6: Definitions of data and benchmarks

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.

Bitcoin: Spot price of Bitcoin (Bitstamp) in US dollars.

Government bonds: Historical yields and returns **(Figure 7)** are based on ICE BofA government bond indices with historical ranges starting on 31 December 1985 for the Global, Europe ex-UK, UK and Japanese indices, 30 January 1978 for the US and 31 December 2004 for China. The emerging markets yields and returns are based on the JP Morgan GBI-EM Global Diversified Composite Index with the historical range starting on 31 December 2002. The same indices are used to construct **Appendix 2.**

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond indices with historical ranges starting on 31 December 1996 for the Global, 31 January 1973 for the US dollar, 1 January 1996 for the euro, 31 December 1996 for the British pound, 6 September 2001 for the Japanese yen and 31 December 2004 for the China indices. The emerging markets yields and returns are based on the JP Morgan CEMBI Broad Diversified Bond Index with the historical range starting on 29 December 2006.

Corporate high yield (HY) bonds: ICE BofA high yield indices with historical ranges starting on 29 August 1986 for the US dollar, and 31 December 1997 for the Global and euro indices.

Bank Loans: S&P UBS Leveraged Loan Indices with historical ranges starting on 31 January 1992 for the US index, 31 January 1998 for the Western Europe Index and 31 January 1998 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices, using market capitalisation as the weighting factor). **Figure 7** and **Appendix 2** are based on current yield. Data is sourced from S&P UBS and Bloomberg.

Collateralised Loan Obligations (CLOs): JP Morgan AAA indices with historical ranges starting on 30 December 2011 for the JP Morgan US CLOIE AAA Index, 29 December 2017 for the JP Morgan European CLOIE AAA Index and 29 December 2017 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices, using market capitalisation as the weighting factor). Yields are based on yield to worst calculations. Data sourced from Bloomberg.

Equities: We use MSCI benchmark indices to calculate total returns with historical ranges starting on 31 December 1969 for the Global, US, Europe ex-UK, UK and Japanese indices, 31 December 1987 for the emerging markets index and 31 December 1992 for the China index **(Appendix 4)**. Equity index valuations **(Figure 7, Figure 8 and Appendix 2)** are based on dividend yields and price-earnings ratios using Datastream benchmark indices with historical ranges starting on 1 January 1973 for the Global, US, Europe ex-UK and Japanese indices, 31 December 1969 for the UK index, 2 January 1995 for the Emerging Markets index, 26 August 1991 for the China A-Shares index, 31 December 1999 for the India Index.

Real estate: We use FTSE EPRA/NAREIT indices with historical ranges starting on 29 December 1989 for the US, Europe ex-UK, UK and Japanese indices, 18 February 2005 for the Global index, and 31 October 2008 for the Emerging Markets index.

Commodities: Goldman Sachs Commodity Index with historical ranges starting on 31 December 1969 for the All Commodities and Agriculture indices, 31 December 1982 for the Energy index, 3 January 1977 for the Industrial Metals index, and 2 January 1973 for the Precious Metals index. “Industrial commodities” is oil & gas and industrial metals.

Private equity: LPX Major Market Listed Private Equity Index, sourced from Bloomberg.

Hedge Funds: HedgeIndex Main Index and the Bloomberg All Hedge Fund Index, both sourced from Bloomberg.

Definitions of data and benchmarks for Appendix 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.

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 Bank of America Merrill Lynch government bond total return index for China, the World and Europe. The emerging markets yields and returns are based on the JP Morgan GBI-EM Global Diversified Composite total return index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices and the JP Morgan CEMBI Broad Diversified Bond total return index.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch 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.

Country abbreviations for Figures 2 and 5

AUS	Australia
BRA	Brazil
CAN	Canada
CHI	China
EUR	Eurozone
FRA	France
GER	Germany
IND	India
INDO	Indonesia
ITA	Italy
JAP	Japan
KOR	South Korea
MEX	Mexico
SA	South Africa
SPA	Spain
TUR	Turkey
UK	United Kingdom
US	United States of America
WLD	World

Country abbreviations for Figure 23

EZ	Eurozone
FRA	France
GER	Germany
ITA	Italy
SPA	Spain

Central bank abbreviations for Figure 4

BOE	Bank of England
BOJ	Bank of Japan
ECB	European Central Bank
FED	US Federal Reserve
PBOC	People’s Bank of China
RBI	Reserve Bank of India

Abbreviations for currencies in Figure 10

AUD	Australian dollar
CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan (onshore)
EUR	Euro
GBP	British pound (sterling)
HKD	Hong Kong Dollar
JPY	Japanese yen
NZD	New Zealand dollar
USD	US dollar

Definitions and sources for asset categories used in the asset momentum chart (Appendix 3)

Based on monthly total return data for global assets in US dollars (unless stated otherwise). Calculated using spot price of gold, spot price of Bitcoin, ICE BofA 0-3-month US treasury index (Cash), ICE BofA Global Government Index (Govt), ICE BofA Global Corporate Index (IG), ICE BofA Global HY Index (HY), S&P UBS Leveraged Loan Indices (Loans, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices, with the latter hedged into US dollars), JP Morgan CLOIE CLO AAA Indices (CLOs, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices, with the latter hedged into US dollars), GPR General World Index (REITS), S&P GSCI total return index for commodities (CTY), MSCI USA Index (MSCI USA), MSCI ACWI ex USA Index (MSCI ex-USA), HedgeIndex Main Index (H Funds, with the latest month based on the Bloomberg All Hedge Fund Index), LPX Major Market Listed Private Equity Index (Priv Equity), Goldman Sachs Trade-Weighted US Dollar Index (USD) and US Consumer Price Index (US CPI). Data is sourced from LSEG Datastream and Bloomberg.

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