

Uncommon truths

Global Debt Review 2025

Global debt-to-GDP ratios continue to come down, after the sharp rise in seen in 2020 (debt is still rising but GDP is growing faster). Elevated debt ratios continue to be mainly a developed world phenomenon. The effect of higher interest rates on debt service ratios is starting to be seen.

The man from Mars may question whether planet Earth has a debt problem (if so, to whom is it owed?). However, the global financial crisis (GFC) showed that, even if net debt is zero, it is difficult to unwind that debt when there are so many interlinkages. We therefore assume that more debt brings more risk. Hence, our annual review of global debt. Now that the Bank for International Settlements (BIS) has published its 2024 data, we are able to deliver the next instalment.

With the projected rise in US government debt and the UK's Office for Budget Responsibility (OBR) suggesting UK government debt could rise to 270% of GDP by the early 2070s (from 94% at the end of 2024 – see the OBR's July 2025 Fiscal Risks and Sustainability Report), it is no surprise that investors are asking questions about debt.

The good news is that most of the record gain in global debt-to-GDP ratios in 2020 had been reversed by 2024 when using PPP (purchasing power parity) exchange rates (all had been reversed when using market exchange rates). However, the decline has had more

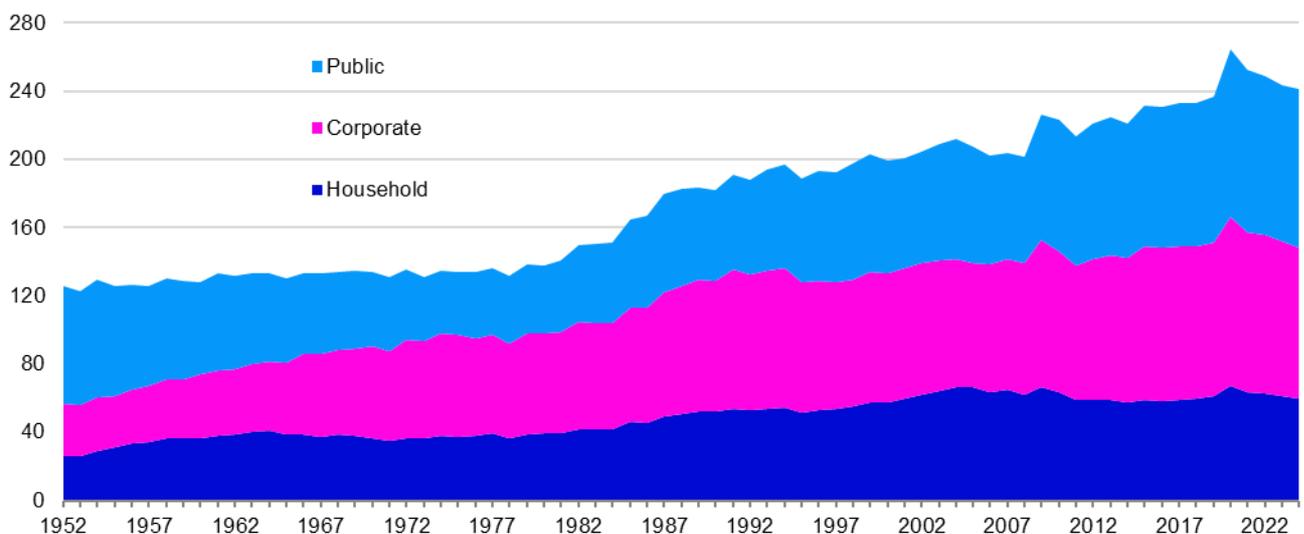
to do with rising GDP than falling debt. The global debt-to-GDP ratio fell to 229.8% in 2024 from 230.2% in 2023, based on the BIS "All Reporting Countries" non-financial sector debt-to-GDP ratio, using PPP exchange rates to convert to US dollars. That debt-to-GDP ratio was 223.7% in 2019.

We believe that using PPP exchange rates to calculate such aggregates avoids the volatility that comes with market exchange rates. For example, using market exchange rates, the BIS All-Country aggregate debt-to-GDP ratio rose from 243.2% in 2019 to 285.7% in 2020 and has since fallen back to 235.9%.

As the BIS All Reporting Countries aggregates only go back to 2002, we have constructed our own global ratio based on the world's 25 largest economies (judged by GDP in 2019-24), which accounted for 84% of World GDP in 2024, based on IMF data. **Figure 1** shows the results and suggests that, after reaching a new high of 264.9% in 2020, the global debt-to-GDP ratio had fallen to 241.4% in 2024 (it was 236.7% in 2019). Our measure is based upon market exchange rates, so we use a smoothing process to dampen the effect of exchange rate swings (see the note to **Figure 1**).

On that basis, global debt-to-GDP ratios declined in household and corporate sectors in 2024 but climbed in the public sector, though debt increased in all three categories, especially the public sector.

Figure 1 – Global non-financial sector debt-to-GDP from 1952 to 2024 using market exchange rates (%)



Note: Based on annual data for the 25 largest economies in the world (as of 2019-2024). Data was not available for all 25 countries over the full period considered. Starting with only the US in 1952, the data set was based on a successively larger number of countries until in 2008 all 25 were included in all categories. The data for all countries is converted into US dollars using market exchange rates. Unfortunately, debt is a stock measured at the end of each calendar year, whereas GDP is a flow measured during the year so that when the dollar trends in one direction or the other it can distort the comparison between debt and GDP. To minimise this problem, we use a smoothed measure of debt which takes the average over two years (for example, debt for 2024 is the average of debt at end-2023 and at end-2024).

Source: BIS, IMF, OECD, Oxford Economics, LSEG Datastream and Invesco Global Market Strategy Office

Not surprisingly, given the size of its economy, the biggest contributor to the gain in global debt in 2024 (in US dollars) was the US, with a rise of \$2.9trn, followed by China with a gain of \$2.4trn. However, **Figure 2** shows that the US debt-to-GDP ratio fell by 3.9 percentage points (ppts), while that of China rose by 9.3 ppts. The reason for the discrepancy is that growth in nominal GDP in the US was greater than the growth in debt, while the reverse was true in China (nominal GDP growth was also stronger in the US than in China, when measured in US dollars).

The BIS All Reporting Countries global debt ratio fell by 0.4 percentage points (ppts), with declines in the household and corporate debt-to-GDP ratios offset only partially by a rise in the public sector debt ratio. Total debt ratios increased in 10 of the 25 countries that we follow, with the biggest gains in Sweden, Brazil and Saudi Arabia. Public sector debt played a role in all three, but the rise in corporate debt was the main contributor, especially in Sweden. At the other end of the spectrum, Argentina, the Netherlands and Turkey saw the biggest declines in overall debt ratios, with falling corporate debt a big factor (though in Argentina a reversal of the big 2023 increase in the public sector debt ratio was the dominant factor).

Looking to longer term trends, total debt ratios have risen in the last 10 years. The global debt-to-GDP ratio increased by 14.0 ppts in the 10 years to 2024 when using PPP exchange rates (or 15.8 ppts using market exchange rates). Most of that rise was already in place by 2019. The 10-year rise was largely due to

public sector debt, though household and corporate debt ratios were also up.

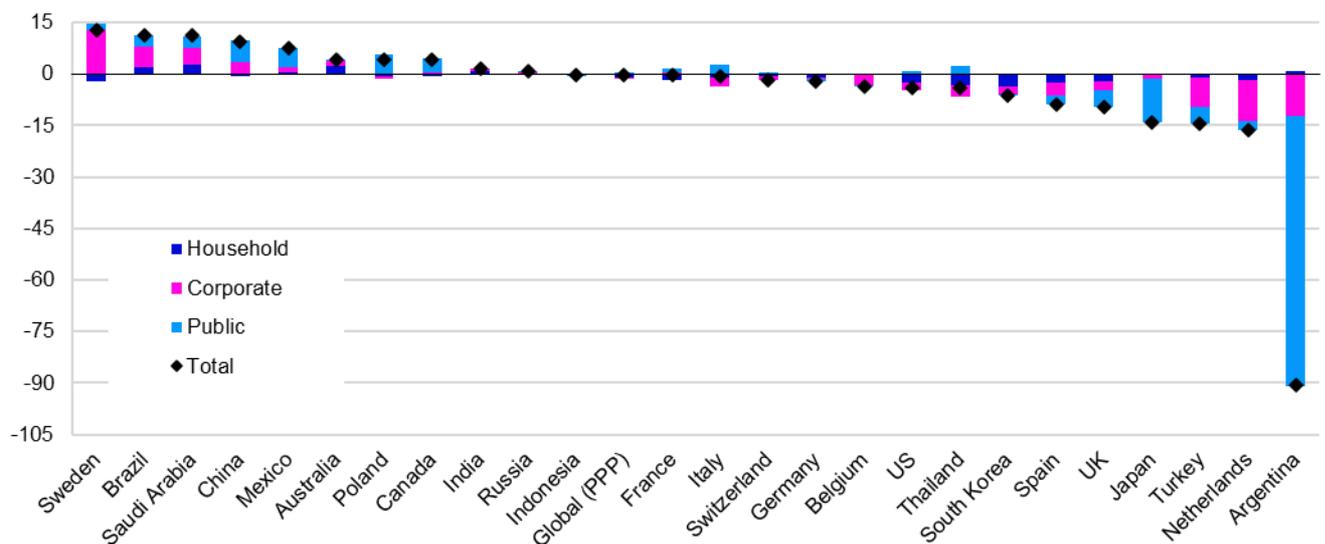
15 of the 25 countries that we highlight experienced a rise in their total debt-to-GDP ratio over the last 10 years, China being the most extreme with a gain of 75.2 ppts to 286.5% (largely due to public sector and household debt), followed by Saudi Arabia with a gain of 63.2 ppts to 111.8% (mainly the result of rising public sector and corporate debt).

The Netherlands (-116.8 ppts) and Spain (-86.9 ppts) experienced the most impressive declines in debt ratios over the last 10 years, with falling corporate debt ratios playing the biggest role in both countries.

So where does this leave accumulated debt across countries? The countries with the biggest debt burdens are to be found in the developed world (see **Figure 3**), with Japan once again leading the way, though its debt-to-GDP ratio fell once again, to 387.0% in 2024 from 401.1% in 2023 and a peak of 422.5% in 2020, according to BIS data. France is next in line (as last year), while Canada moves from #4 to #3 (switching places with the Netherlands).

At the other end of the spectrum, the three countries with the lowest debt ratios (Turkey, Indonesia and Mexico) were also in the bottom three last year, though Turkey and Mexico have switched places. Otherwise, countries with big moves in the rankings in 2024 are Argentina (from 17th to 22nd) and Italy (from 14th to 11th).

Figure 2 – Change in non-financial sector debt-to-GDP ratios during 2024 (percentage points)



Note: Based on year-end local currency non-financial sector debt-to-GDP ratios. "Global (PPP)" uses BIS "All reporting countries" data, using PPP exchange rates (it is based on a larger sample of countries than is shown in the chart). The change is calculated as the end-2024 debt-to-GDP ratios minus those of end-2023. The countries shown are the 25 largest in the world by GDP, as of 2019-24 (using IMF data). Source: BIS, IMF, LSEG Datastream, and Invesco Global Market Strategy Office

So, despite the angst about debt in some countries, the global picture continues to improve (slowly) after the sharp rise in debt ratios in 2020 and subsequent declines in 2021 and 2022. If economies continue to expand, we would normally expect a decline in debt ratios as public sector expenditure declines and public and private sector revenues increase. Though we expect economic acceleration outside the US, it is hard to be certain in the current environment.

Of course, debt only becomes a problem when debt service ratios increase. The rise in debt-to-GDP ratios during the global financial crisis was easily absorbed because bond yields fell to historical lows in the developed world. However, the sharp rise in yields during 2022/3 may have changed that. Governments have the luxury of being able to use the tax system to increase revenue if debt service ratios increase. The private sector has no such ability (raising prices may damage sales), so it is perhaps more important to focus on the affordability of private sector debt.

China is a good example of how rising debt over the last 10 years didn't turn into a financing problem, probably because interest rates have fallen. BIS private non-financial sector data shows that China's debt service ratio (interest payments plus amortisations divided by income) increased by only 0.8 ppts (from 17.7% in 2014 Q4 to 18.5% in 2024 Q4), despite a 26.2 ppt increase in the private sector debt-to-GDP ratio (to 198.1%).

However, interest rates and bond yields have risen in other countries, which could boost debt service ratios, once old debt is refinanced. Over the last three years

there were noticeable gains in private sector debt service ratios in Russia (+11.0 ppts to 23.2%), Turkey (+10.3 ppts to 29.6%) and Brazil (+5.9 ppts to 26.3%). The rise in private sector debt service ratios in Russia and Turkey came despite a fall in debt-to-GDP ratios.

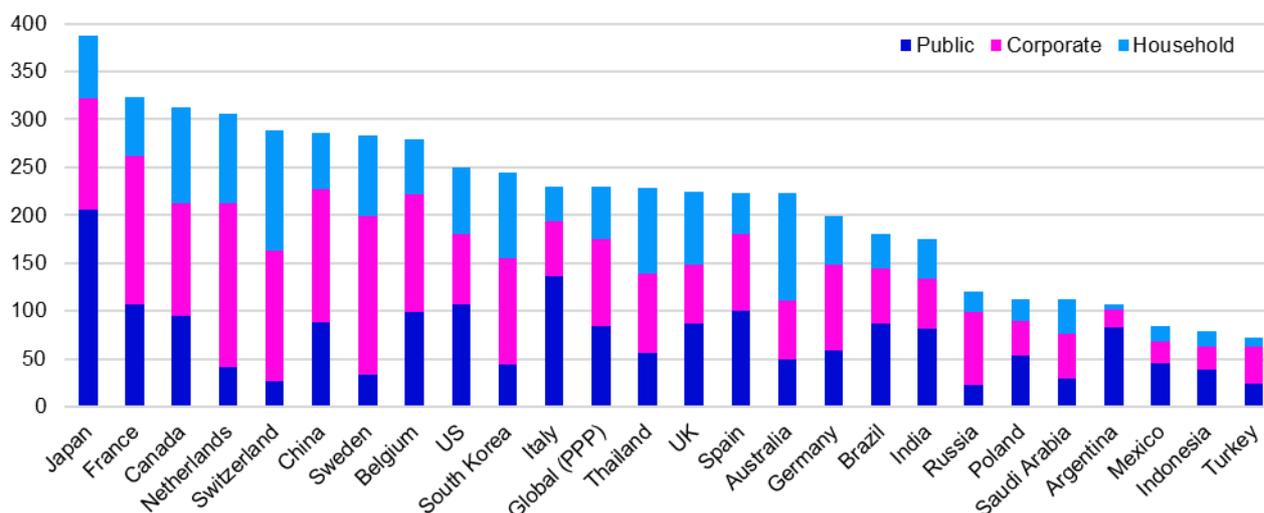
Among the 25 largest economies, the only one to enjoy a sizeable decline in the private sector debt service ratio was the Netherlands (-3.9 ppts to 26.4%). This reflects a 57.4 ppts decline in the private sector debt-to-GDP ratio to 264.1%, with the corporate sector accounting for around three-quarters of that (and it also experienced a bigger decline in the debt service ratio than the household sector).

For the most part it is not the household sector that faces high debt service ratios. More problematic is corporate debt and we suppose the biggest threat would be in countries where service ratios are the highest. As of 2024 that list of countries would be France (non-financial corporations debt service ratio of 60.6%), Canada (58.6%), Sweden (52.5%) and the Netherlands (49.8%). For the most part, those are the countries in which corporate sector debt is the most elevated (unfortunately, the BIS does not show the split between household and corporate sector debt service ratios in China or Switzerland).

So, global debt ratios appear to have stabilised but gains have recently been notable in Sweden, Brazil and Saudi Arabia. On the other hand, private sector debt service ratios have climbed in some countries, especially where interest rates have risen sharply.

Unless stated otherwise, all data as of 11 July 2025.

Figure 3 – Non-financial sector debt-to-GDP in 2024 (%)



Note: "Global" uses BIS "All reporting countries" data and is calculated using PPP exchange rates (it is based on a larger sample of countries than is shown in the chart). The countries shown were the 25 largest in the world by GDP, as of 2019-2024.

Source: BIS, LSEG Datastream and Invesco Global Market Strategy Office

Figure 4 – Asset class total returns (%)**

Data as at 8 Jul 2025	Index	Current Level/Ry	Total Return (USD, %)					Total Return (Local Currency, %)				
			1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Equities												
World	MSCI	919	0.2	3.2	0.2	10.5	14.5	0.5	2.9	0.4	7.7	12.5
Emerging Markets	MSCI	1232	0.3	4.7	0.9	16.6	14.4	0.5	4.0	0.9	12.1	12.2
China	MSCI	75	0.8	2.2	0.9	18.5	35.0	0.9	2.2	0.9	19.2	35.3
US	MSCI	5951	0.5	3.8	0.3	6.7	13.8	0.5	3.8	0.3	6.7	13.8
Europe	MSCI	2427	0.3	1.2	0.4	24.2	17.3	1.2	-0.9	1.0	11.0	8.6
Europe ex-UK	MSCI	3017	0.5	1.4	0.6	25.7	17.1	1.2	-1.2	0.9	11.2	7.7
UK	MSCI	1421	-0.4	0.4	0.0	19.3	17.8	0.9	0.2	1.2	10.3	11.6
Japan	MSCI	4200	-3.1	0.1	-3.3	8.2	7.6	-0.8	1.5	-1.7	1.2	-1.6
Government Bonds												
World	BofA-ML	3.35	-1.5	0.7	-1.2	6.1	6.1	-0.8	0.2	-0.8	0.9	2.1
Emerging Markets	BBloom	6.62	-0.5	2.4	-0.1	7.1	13.0	-0.5	2.4	-0.1	7.1	13.0
China	BofA-ML	1.56	0.0	0.7	0.0	2.9	7.3	0.2	0.5	0.1	1.1	5.9
US (10y)	Datastream	4.41	-1.2	1.1	-1.3	3.7	3.3	-1.2	1.1	-1.3	3.7	3.3
Europe	BofA-ML	2.77	-1.3	2.3	-0.8	13.2	11.5	-0.6	-0.4	-0.4	0.2	3.4
Europe ex-UK (EMU, 10y)	Datastream	2.64	-1.3	2.2	-0.7	11.8	9.5	-0.6	-0.5	-0.3	-1.0	1.5
UK (10y)	Datastream	4.63	-2.5	0.6	-2.2	10.4	6.3	-1.2	0.5	-1.0	2.1	0.7
Japan (10y)	Datastream	1.46	-2.9	-1.4	-2.0	4.6	7.8	-0.6	0.0	-0.2	-2.2	-1.4
IG Corporate Bonds												
Global	BofA-ML	4.55	-0.8	1.8	-0.6	6.9	7.8	-0.5	1.1	-0.4	3.0	5.4
Emerging Markets	BBloom	6.40	-0.3	2.0	-0.2	6.1	10.6	-0.3	2.0	-0.2	6.1	10.6
China	BofA-ML	2.25	-0.1	0.5	0.0	3.0	5.7	0.1	0.3	0.1	1.2	4.3
US	BofA-ML	5.18	-0.7	1.4	-0.6	3.5	5.3	-0.7	1.4	-0.6	3.5	5.3
Europe	BofA-ML	3.13	-0.7	3.3	-0.2	15.2	14.1	0.0	0.6	0.2	2.1	5.8
UK	BofA-ML	5.41	-2.0	1.0	-1.6	11.4	10.0	-0.8	0.9	-0.4	3.0	4.2
Japan	BofA-ML	1.45	-2.4	-1.2	-1.8	6.6	9.1	-0.1	0.1	-0.1	-0.4	-0.2
HY Corporate Bonds												
Global	BofA-ML	7.15	-0.2	1.8	0.0	6.8	11.0	0.0	1.3	0.1	4.3	9.3
US	BofA-ML	7.41	-0.1	1.4	-0.1	4.5	9.7	-0.1	1.4	-0.1	4.5	9.7
Europe	BofA-ML	5.68	-0.4	3.2	0.0	16.5	16.6	0.3	0.5	0.4	3.1	8.1
Cash (Overnight rates)												
US		4.33	0.1	0.4	0.1	2.3	4.7	0.1	0.4	0.1	2.3	4.7
Euro Area		1.92	-0.6	3.1	-0.5	14.7	11.5	0.0	0.2	0.0	1.3	2.9
UK		4.22	-1.1	0.8	-1.0	11.1	11.2	0.1	0.4	0.1	2.3	4.8
Japan		0.48	-2.1	-1.1	-1.7	7.5	10.1	0.0	0.0	0.0	0.2	0.3
Real Estate (REITs)												
Global	FTSE	1660	-0.9	0.3	-0.4	6.5	11.0	-0.2	-2.3	0.0	-5.7	2.9
Emerging Markets	FTSE	1284	0.8	3.6	1.6	11.7	11.4	1.5	0.9	2.0	-1.1	3.3
US	FTSE	3107	-0.5	-1.2	-0.1	-0.4	8.4	-0.5	-1.2	-0.1	-0.4	8.4
Europe ex-UK	FTSE	2710	-4.2	1.3	-3.1	21.6	17.0	-3.5	-1.3	-2.8	7.7	8.4
UK	FTSE	907	-5.5	-0.7	-4.5	16.9	1.9	-4.3	-0.8	-3.3	8.1	-3.4
Japan	FTSE	2272	-2.5	0.2	-1.9	19.8	16.6	-0.2	1.5	-0.2	11.9	6.7
Commodities												
All	GSCI	3816	2.2	2.8	2.4	4.4	2.1	-	-	-	-	-
Energy	GSCI	655	4.2	7.2	5.0	2.8	-3.7	-	-	-	-	-
Industrial Metals	GSCI	1758	-0.9	2.9	-0.7	6.8	-0.3	-	-	-	-	-
Precious Metals	GSCI	3648	-0.7	-0.4	0.5	24.9	36.7	-	-	-	-	-
Agricultural Goods	GSCI	472	-1.0	-6.9	-1.9	-8.3	-2.3	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.17	-0.7	2.9	-0.5	13.3	8.3	-	-	-	-	-
JPY		146.57	-2.1	-1.2	-1.7	7.2	9.7	-	-	-	-	-
GBP		1.35	-1.3	0.1	-1.2	8.1	5.6	-	-	-	-	-
CHF		1.26	-0.6	3.2	-0.4	14.0	12.8	-	-	-	-	-
CNY		7.17	-0.1	0.2	-0.1	1.7	1.3	-	-	-	-	-

Notes: **Past performance is no guarantee of future results.** *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). ****Due to data problems, this table is only as of 8 July 2025 and not 11 July 2025.** Please see appendix for definitions, methodology and disclaimers.

Source: LSEG Datastream and Invesco Global Market Strategy Office

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

Data as of 11 Jul 2025	Global				
	1w	1m	QTD	YTD	12m
Energy	1.2	-0.3	2.3	-4.9	-10.5
Basic Materials	0.1	-0.3	1.4	5.2	-8.7
Basic Resources	0.3	0.8	2.2	9.2	-6.8
Chemicals	-0.3	-2.0	0.4	-0.6	-11.4
Industrials	0.1	-0.4	-0.1	3.2	4.4
Construction & Materials	1.1	1.6	1.3	6.7	3.9
Industrial Goods & Services	0.0	-0.8	-0.3	2.7	4.6
Consumer Discretionary	-0.2	-1.3	-0.5	-4.9	1.4
Automobiles & Parts	0.4	-3.9	0.1	-16.4	-6.5
Media	-2.0	-1.6	-5.0	10.1	23.9
Retailers	-0.6	-1.6	-0.6	-5.5	2.5
Travel & Leisure	1.3	2.0	1.9	-2.2	8.2
Consumer Products & Services	-0.4	-0.5	-0.3	-1.0	-5.4
Consumer Staples	-1.0	-3.7	-0.9	0.0	-4.5
Food, Beverage & Tobacco	-1.1	-3.9	-0.8	1.0	-4.5
Personal Care, Drug & Grocery Stores	-0.9	-3.4	-1.3	-1.6	-4.6
Healthcare	-0.1	-3.4	-0.2	-8.2	-16.1
Financials	0.0	0.8	-0.1	6.3	11.6
Banks	0.1	1.7	0.6	10.6	15.7
Financial Services	0.3	1.3	0.2	1.8	8.3
Insurance	-0.6	-2.6	-2.3	3.9	7.8
Real Estate	-0.2	-1.6	-0.2	-0.9	-1.1
Technology	0.3	3.0	0.3	-0.4	0.0
Telecommunications	-1.6	-0.8	-1.9	5.5	6.4
Utilities	-0.3	-1.4	-0.8	1.4	0.0

Notes: **Past performance is no guarantee of future results.** Returns shown are for Datastream sector indices versus the total market index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 6a – US factor index total returns (%)

Data as of 11 Jul 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.5	3.6	1.4	7.5	8.5	-0.2	-0.4	0.5	0.3	-4.5
Low volatility	-0.7	0.5	-0.3	2.6	9.5	-0.4	-3.4	-1.2	-4.3	-3.6
Price momentum	-1.0	3.6	-0.5	6.1	14.9	-0.7	-0.4	-1.4	-1.0	1.2
Quality	-0.8	3.1	1.2	7.3	9.7	-0.5	-0.9	0.2	0.2	-3.4
Size	0.0	4.0	3.2	4.5	9.6	0.3	-0.1	2.2	-2.5	-3.5
Value	0.3	4.4	3.0	9.4	16.8	0.6	0.4	2.1	2.0	2.8
Market	-0.3	4.1	0.9	7.2	13.6					
Market - Equal-Weighted	-0.4	3.4	1.4	6.3	12.4					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

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

Data as of 11 Jul 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	1.5	0.0	1.6	8.4	6.4	0.3	0.7	0.5	-2.1	-2.3
Low volatility	-0.1	-1.8	0.0	12.1	16.5	-1.2	-1.2	-1.2	1.3	7.0
Price momentum	1.8	1.9	1.1	21.3	23.4	0.7	2.5	-0.1	9.7	13.3
Quality	1.8	1.6	1.9	15.3	14.0	0.6	2.2	0.7	4.2	4.7
Size	0.8	0.7	1.1	11.7	7.5	-0.3	1.4	0.0	1.0	-1.3
Value	1.3	0.9	1.0	20.3	18.4	0.2	1.6	-0.1	8.7	8.7
Market	1.2	-0.6	1.2	10.6	8.9					
Market - Equal-Weighted	1.0	0.1	1.0	12.3	11.9					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 7 – Model asset allocation

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	5%	0-10%	0%			
Cash	2.5%		0%			
Gold	2.5%		0%			
Bonds	40%	10-70%	40%			
Government	25%	10-40%	25%			
US	8%		8%			50% JPY
Europe ex-UK (Eurozone)	7%		7%			
UK	1%		2%			
Japan	7%		4%			
Emerging Markets	2%		4%			
China**	0.2%		0%			
Corporate IG	10%	0-20%	10%			
US Dollar	5%		5%			50% JPY
Euro	2%		1%			
Sterling	1%		2%			
Japanese Yen	1%		0%			
Emerging Markets	1%		2%			
China**	0.1%		0%			
Corporate HY	5%	0-10%	5%			
US Dollar	4%		4%			50% JPY
Euro	1%		1%			
Bank Loans	4%	0-8%	8%			
US	3%		6%			
Europe	1%		2%			
Equities	45%	25-65%	42%			
US	25%		10%			
Europe ex-UK	7%		12%			
UK	4%		6%			
Japan	4%		5%			
Emerging Markets	5%		9%			
China**	2%		4%			
Real Estate	4%	0-8%	6%			
US	1%		1%			
Europe ex-UK	1%		2%			
UK	1%		1%			
Japan	1%		1%			
Emerging Markets	1%		1%			
Commodities	2%	0-4%	4%			
Energy	1%		2%			
Industrial Metals	0.3%		1%			
Precious Metals	0.3%		0%			
Agriculture	0.3%		1%			
Total	100%		100%			
Currency Exposure (including effect of hedging)						
USD	52%		30%			
EUR	19%		25%			
GBP	7%		11%			
JPY	13%		19%			
EM	9%		16%			
Total	100%		100%			

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

Source: Invesco Global Market Strategy Office

Figure 8 – Model allocations for global sectors

	Neutral	Invesco	Preferred Region
Energy	6.3%	Overweight	EM
Basic Materials	3.4%	Neutral	Japan
Basic Resources	2.0%	Neutral	Japan
Chemicals	1.3%	Overweight ↑	US
Industrials	13.1%	Underweight	US
Construction & Materials	1.7%	Underweight	US
Industrial Goods & Services	11.4%	Underweight ↓	US
Consumer Discretionary	14.2%	Underweight	US
Automobiles & Parts	2.3%	Underweight	Europe
Media	1.2%	Overweight	US
Retailers	5.5%	Overweight	US
Travel & Leisure	1.9%	Underweight	EM
Consumer Products & Services	3.2%	Underweight	Japan
Consumer Staples	5.3%	Neutral	US
Food, Beverage & Tobacco	3.4%	Neutral ↓	US
Personal Care, Drug & Grocery Stores	2.0%	Overweight ↑	Europe
Healthcare	8.8%	Underweight	US
Financials	17.2%	Overweight	US
Banks	8.2%	Overweight	US
Financial Services	5.6%	Underweight ↓	US
Insurance	3.3%	Neutral	US
Real Estate	2.7%	Overweight ↑	Japan
Technology	22.0%	Neutral	EM
Telecommunications	3.6%	Neutral ↑	US
Utilities	3.4%	Overweight ↑	US

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest [Strategic Sector Selector](#) for more details.

Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix

Methodology for asset allocation, expected returns and optimal portfolios

Which asset classes?

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

Neutral allocations and policy ranges

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

Expected/projected returns

The process for estimating expected returns is based upon yield (except commodities, of course). After analysing how yields vary with the economic cycle, and where they are situated within historical ranges, we forecast the direction and amplitude of moves over the next year. Cash returns are calculated assuming a straight-line move in short term rates towards our targets (with, of course, no capital gain or loss). Bond returns assume a straight-line progression in yields, with capital gains/losses predicated upon constant maturity (effectively supposing constant turnover to achieve that). Forecasts of corporate investment-grade, high-yield and bank loan spreads are based upon our view of the economic cycle (as are forecasts of credit losses). Coupon/interest payments are added to give total returns. Equity and REIT returns are based on dividend growth assumptions. We calculate total returns by applying those growth assumptions and adding the forecast dividend yield. No such metrics exist for commodities; therefore, we base our projections on US CPI-adjusted real prices relative to their long-term averages and views on the economic cycle. All expected returns are calculated in local currency and then, where necessary, converted into other currency bases using our exchange rate forecasts.

Currency hedging

We adopt a cautious approach when it comes to currency hedging as currency movements are notoriously difficult to accurately predict and sometimes hedging can be costly. Also, some of our asset allocation choices are based on currency forecasts. We use an amalgam of central bank rate forecasts, policy expectations and real exchange rates relative to their historical averages to predict the direction and amplitude of currency moves.

Definitions of data and benchmarks for Figure 4

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

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

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

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the ICE BofA government bond total return index for the World and Europe. The emerging markets yields and returns are based on the Bloomberg emerging markets sovereign US dollar bond index.

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

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

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

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Investment risks

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

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