



- **Sovereigns generally expect a soft landing, with global political shocks posing the greatest risk**
- **Private credit shines, with sovereigns increasing allocations and building up their capabilities**
- **AI prominent among sovereigns as they look for investment opportunities and enhancements to internal processes**

**London, 21 February 2024** – The potential for major global political shocks and uncertainty around the long-term path for interest rates have not deterred sovereign investors, who remain optimistic about the outlook for 2024 according to Invesco.

As a precursor to the **Invesco Global Sovereign Asset Management Study 2024**, which will be published in the summer of 2024, Invesco conducted a pulse survey of a small group of sovereign investors with total assets under management of US\$0.5 trillion. In these conversations anticipated interest rate adjustments were found to be shaping investment strategies among sovereign wealth funds and central banks. Invesco also found these institutions increasingly drawn to opportunities in private credit and artificial intelligence.

### **Optimism persists despite macroeconomic uncertainty**

Sovereign investors acknowledge global political instability as a major risk to growth forecasts this year. Yet, their overall economic outlook remains positive, with most expecting a soft landing, continued inflation moderation and interest rates falling steadily during 2024.

While the long-term path for interest rates remains unclear, some sovereigns believe the neutral long-term rate may be lower than they have previously anticipated. *“In the next decade, interest rates may be half a percentage point higher than the previous decade. However, I don’t see as much of a difference as the market is projecting, which creates opportunities,”* said **one central bank in Europe**.

Though sovereigns are positive about the prospect of falling rates, the higher rates of recent times have dampened returns due to mark-to-market write-downs. Higher available yields have also driven sovereign investors to fixed income and credit in particular, which is often viewed as attractive relative to equities.

### **Diversification benefits drive growth in private credit**

The allure of private credit among sovereigns is intensifying, propelled by the offer of immediate cash flow generation, strong yields, and diversification benefits. Despite prior apprehensions concerning

rising rates, the sector has demonstrated remarkable growth and resilience. *“A lot of people expected private credit to show some weakness; instead, the sector is growing like crazy,”* noted a representative from a **North American sovereign wealth fund**.

Sovereign investors are attracted to evergreen private credit funds, which enable money to be deployed and invested immediately, allowing them to achieve immediate returns which can align well with their targets. Factors such as liquidity management and US tax exemptions play a significant role in shaping sovereign' private credit investment decisions, and they also anticipate particular growth in emerging markets focused strategies.

### **Leveraging AI for investments and insights**

Sovereign investors expect the role of AI in investment strategies to become increasingly pronounced, offering insights into complex relationships in large data sets and enhancing alternative information analysis through natural language processing.

*“We have started to apply AI to our process and in the next 10 years, we are likely to see dramatic changes in how investment decisions are made,”* said one **Asian sovereign wealth fund**.

Despite this optimism, sovereigns continue to wrestle with regulatory uncertainty, as well as questions around transparency and the 'black box' aspect of AI models.

When it comes to investing, sovereigns are actively exploring AI opportunities across sectors including healthcare, finance, transportation, manufacturing, and agriculture, prioritising industries where they possess expertise or leverage. While high valuations are a concern for some, sovereigns were uncovering potentially lucrative investments while also developing expertise via knowledge transfer from investee companies.

**Rod Ringrow, head of official institutions, Invesco said:** “Our survey underscores the resilience of sovereign investors in the face of evolving market dynamics. Their optimism is founded not just on the potential for short-term rate cuts and a more attractive longer-term monetary policy environment, but also on their ability to capitalise on growing asset classes, such as private credit, and emerging technologies, like AI.

“While this year could pose significant challenges, not least from the political sphere, sovereign investors are well placed to leverage new opportunities and navigate the complexities of the global economy.”

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Sourced by NMG Consulting: total assets of those sampled stands at US\$0.5 trillion as of February 2024

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