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Sovereign Investors' Snapshot Survey: US, China, and the Rise in Private Credit

- **Sovereign investors still attracted to the US but recent policy volatility has led to growing concerns over the impacts of a tariff war on inflation and increasing trade tensions**
- **There are both economic transition challenges and opportunities seen for China**
- **Private credit moving from a tactical allocation to a more strategic one for sovereigns, with infrastructure debt emerging as a key focus area**

London, 17 March 2025 – Despite increasing uncertainty in trade and geopolitics, sovereign investors remain optimistic about opportunities in the US and China, and are shifting their strategic allocation within fixed income in **2025**, according to Invesco.

As a precursor to the **Invesco Global Sovereign Asset Management Study 2025**, which will be published in the summer of 2025, Invesco conducted a pulse survey of a small group of sovereign investors with total assets under management of US$1 trillion.

In these conversations the uncertain macro environment around the White House policy agenda and the trade and tariff issues has become a growing concern among sovereign wealth funds and central banks, despite their continuing favour of US markets. The survey also found that these institutions were increasing allocations to fixed income and private credit as well as balancing the economic challenges and opportunities being presented by China.

Navigating the uncertainty between trade and geopolitics

Sovereign investors are seeing a growing divergence between the US and Europe. While the exceptional growth story for the US continues and the new administration's business friendly policies and reduced red tape are seen as attractive to foreign investors, Europe faces structural headwinds. As a result, investment flows from sovereign investors continue to favour the US market. This is partially due to the manufacturing weakness in Europe, which is seen as particularly acute and shows little sign of recovery.

However sovereign investors still have significant concerns over the impact of tariffs inflicted by the US on inflation and therefore interest rates. They are also concerned about the growing trade tensions which have expanded beyond US-China to Mexico and Canada, these trade tensions are new, so the impact is seen as more uncertain.

As one Asian Sovereign Wealth fund commented *"Increased trade protectionism is likely to sustain higher inflation in developed markets. We believe deglobalisation poses risks in our investment returns."*

Despite sovereign investors anticipating higher levels of volatility on the back of this, they anticipate that there could also be benefits. As long-term investors they can ride out short term volatility and seize on dislocation opportunities.

China: Balancing economic challenges with opportunities

Sovereign investors see a number of economic transitional challenges for China, such as relatively weak confidence in the private sector and regulatory risks.

Despite these challenges sovereign investors are seeing pockets of positivity, for example China's leading position in strategic sectors such as Electric vehicles, batteries and AI and its manufacturing competitiveness. As a result, some sovereign investors are reporting increased confidence in China's long-term direction and are reassessing the "China discount" as valuations become more attractive and are building long-term strategic positions, especially in private markets.

Fixed Income from safe haven to alpha engine

Sovereign investors are strategically adjusting their fixed income allocations. The increase in these allocations is fuelled by yield opportunities and the growth of the private credit market. Private credit is transitioning from a more tactical move to a key component of portfolios, with growing sovereign private credit allocations helping to fill the gap left by banks retreating from lending in certain markets, due to a combination of regulatory pressures and change in strategy.

Within this, infrastructure debt is emerging as a key focus area, especially for the liability-driven sovereign investors, as it provides both yield and inflation protection characteristics. AI-related infrastructure investments such as data centres, are seen as a significant growth opportunity within the infrastructure debt space, allowing sovereign investors to gain additional exposure to this fast growing space that has a substantial ongoing need for capital.

Due to private credit's growing importance, the survey found that some sovereign investors were building specialised in-house lending teams to source and structure deals, reducing their reliance on external managers.

As one North American sovereign wealth fund commented "The *key challenge isn't just finding deals - it's building teams that can originate and structure them directly. We're evolving from pure investors to becoming lenders."*

As private markets allocations by sovereign investors increases, liquidity management is also becoming more important. Higher allocations to illiquid investments requires more sophisticated strategies to ensure funds can meet obligations while maintaining sufficient flexibility to capture new opportunities in volatile markets.

At the same time, the traditional hedging role of fixed income is being seen as less reliable and forcing funds to find new portfolio protection strategies. The changing correlation between bonds and equities is seen as diminishing fixed income's effectiveness as a portfolio stabiliser. Sovereign investors are therefore increasingly exploring derivative-based strategies and alternative risk premia approaches to achieve more reliable downside protection in a volatile interest rate environment.

Rod Ringrow, head of official institutions, Invesco said: “Sovereign investors are navigating an increasingly complex geopolitical environment. The challenges of strategic asset allocation are underscored by high-tempo policy shifts and tensions over trade and tariffs. However, they are finding opportunities within China’s advancement in strategic areas and as long-term investors, enabling them to ride out the short-term volatility anticipated from the US. Additionally, the role of fixed income is evolving within their portfolios. Allocations previously considered niche, such as real estate debt, private credit, and infrastructure debt, are now becoming core allocations due to their ability to provide both yield and long-term strategic benefits.”

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About Invesco

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. NYSE: IVZ; www.invesco.com.

Important Information

Sourced by NMG Consulting: total assets of those sampled stands at US$1 trillion as of February 2025

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