

# The Big Picture

## Global Asset Allocation 2025 Q2

Quarterly update from Invesco's Global Market Strategy Office  
**16 March 2025**

For professional/institutional/qualified/accredited investors only.



# The Big Picture

## Global Asset Allocation 2025 Q2

The world seems a less certain place but we think falling policy rates and rising real wages will boost global growth. We expect this to favour cyclical assets. Within our Model Asset Allocation we continue to favour commodities and boost REITS to the maximum allowed. We also raise equities to Neutral (Underweight the US and Overweight all other regions). For balance, we maintain the Maximum exposure to bank loans but reduce government bonds to Underweight and investment grade to Neutral. Across regions we prefer European and emerging market (EM) assets and continue to boost JPY exposure via hedges from USD.

### Model asset allocation

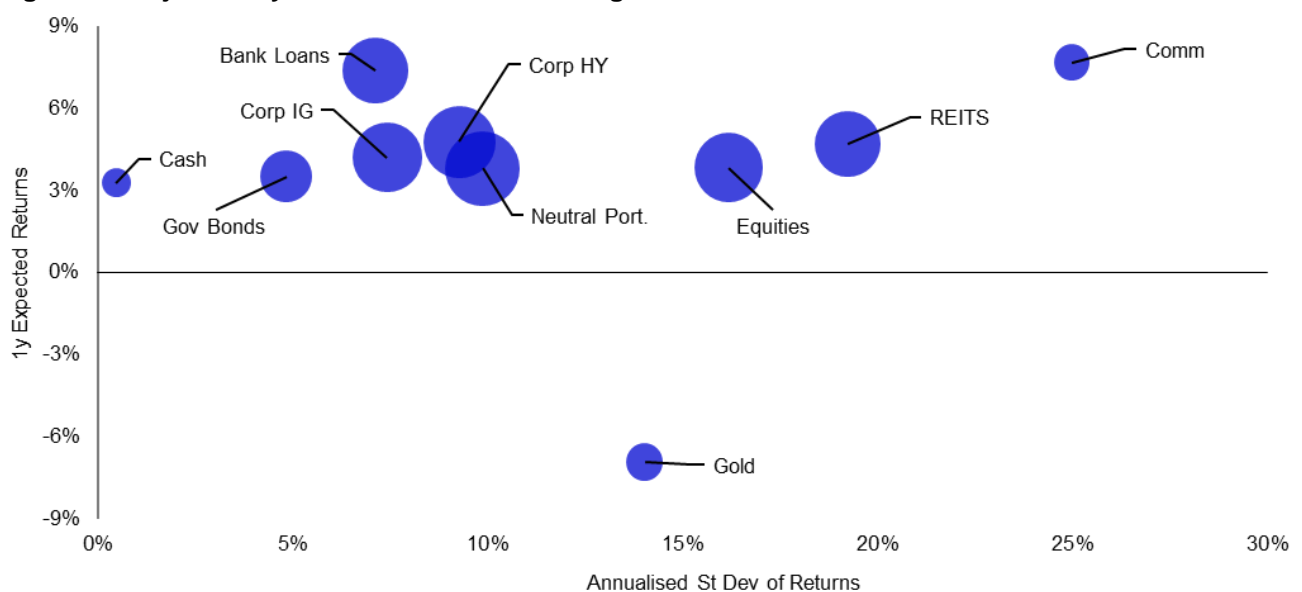
#### In our view:

- Commodities should benefit as the global economy improves. We stay at the Maximum.
- Real estate (REITS) have underperformed and may benefit as rates fall. We boost to the Maximum allowed.
- Bank loans offer an attractive risk-reward trade-off. We stay at the Maximum.
- Equities could benefit from economic acceleration. We boost to Neutral (though remain Underweight the US).
- Corporate investment grade (IG) has a similar profile to government bonds. We reduce to Neutral.
- Government bonds are less attractive after the fall in US yields. We go Underweight.
- Corporate high yield (HY) spreads are too tight. We remain Underweight.
- Cash will be disadvantaged as the global economy accelerates. We remain at Zero.
- Gold may be helped by a weakening dollar and geopolitics, but is expensive. We remain at Zero.
- Regionally, we favour Europe and EM and seek JPY exposure.
- US dollar is likely to weaken and we maintain the partial hedge into JPY.

#### Our best-in-class assets (based on 12m projected returns)

- China equities
- Eurozone REITS
- European bank loans

Figure 1: Projected 1-year return versus risk for global assets



Based on annualised local currency returns. Returns are projected but standard deviation of returns is based on 5-year historical data. Size of bubbles is in proportion to average 5-year pairwise correlation with other assets (hollow bubbles indicate negative correlation). Cash is an equally weighted mix of USD, EUR, GBP and JPY. Neutral portfolio weights shown in Figure 3. As of 12 March 2025. **There is no guarantee that these views will come to pass.** See Appendices for definitions, methodology and disclaimers.

Source: Credit Suisse/UBS, ICE BofA, MSCI, S&P GSCI, FTSE Russell, LSEG Datastream and Invesco Global Market Strategy Office

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We add to risk, despite some concerns

We favour REITS, commodities, non-US equities and bank loans

Equities raised to Neutral but we remain wary of the US market

Government bonds and IG reduced

Underweight US assets; favour Europe and EM

**Summary and conclusions: Adding to risk**

We think the global economy will accelerate over the next 12 months as central banks ease and real wages grow. This boosts our risk appetite, especially after recent market volatility. However, enthusiasm is tempered by still rich valuations in some assets (US equities and high yield, for example) and what appears to be a slowdown in the US economy. We think geopolitical risks have risen, including the tariff threat to growth.

**Figure 1** shows that we expect to be rewarded (a bit) for taking risk over the next 12 months and **Figure 2** shows that we favour REITS, commodities and non-US equities within our Model Asset Allocation. Among defensive assets, we favour bank loans, which we think still offer an attractive risk-reward trade off. Apart from the Neutral allocation to investment grade (IG), we are Underweight all other assets.

As shown in **Figure 3**, we bring the **equity** allocation up to Neutral. We add to US equities after the recent weakness but remain Underweight (we think it remains expensive and that there is an outside chance of recession in the US). We add to all other equity regions, all of which are Overweight (Europe could receive a defence related fiscal boost and we think Chinese stocks remain good value). We also add to **REITS**, going to the maximum allowed by adding to the US and emerging markets (EM). We maintain the maximum allocation to **commodities** in the belief that economic acceleration will boost industrial commodities but now focus on energy (after the recent price decline), rather than industrial metals and we remain Overweight agriculture.

We enable the above additions by reducing **government bonds** to Underweight (by taking the US to Underweight after the recent decline in yields) and by reducing **IG** to Neutral (reducing the US and eurozone). Elsewhere, we remain zero allocated to **cash** (believing more growth will favour other assets) and **gold** (we think it is too expensive). We also remain Underweight **high yield** (HY), on the basis of spreads being too tight.

Across assets we are Underweight the US and Overweight all other regions (especially Europe and EM). Among currencies, we prefer JPY and continue to partially hedge from USD to JPY.

**Figure 2: Asset scoring and Model Asset Allocation\***

	Total Score	Model Asset Allocation*	Preferred assets
Cash		Underweight	JPY, GBP
CLOs		N/A	
Hedge Funds		N/A	
Bank Loans		Overweight	Europe
Government Bonds		Underweight	EM, UK
Investment Grade		Neutral	UK, EM
High Yield		Underweight	US
Gold		Underweight	
Non-US equities		Overweight	China, EM, Europe
US equities		Underweight	Equal weight, banks
REITS		Overweight	Europe, Japan
Commodities		Overweight	Energy, agriculture
Private Equity		N/A	
Bitcoin		N/A	

Note: \*This is a theoretical portfolio and is for illustrative purposes only (see **Figure 3** 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. "Total Score" is a summary of subjective scores across a range of factors that we think will impact asset returns over the coming 12 months (see **Figure 16** for details). Positive (dark blue) scores indicate a positive outlook relative to other assets and negative scores (light blue) indicate the opposite. "N/A" indicates that the asset concerned is not part of our Model Asset Allocation framework. See appendices for definitions, methodology and disclaimers. Source: Invesco Global Market Strategy Office

**Model asset allocation\***

**Figure 3 – Model asset allocation (16/3/2025)**

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
<b>Cash Equivalents</b>	<b>5%</b>	<b>0-10%</b>	<b>0%</b>			
Cash	2.5%		0%			
Gold	2.5%		0%			
<b>Bonds</b>	<b>40%</b>	<b>10-70%</b>	↓ <b>35%</b>			
<b>Government</b>	<b>25%</b>	<b>10-40%</b>	↓ <b>21%</b>			
US	8%		↓ 6%			50% JPY
Europe ex-UK (Eurozone)	7%		7%			
UK	1%		2%			
Japan	7%		↑ 2%			
Emerging Markets	2%		4%			
China**	0.2%		0%			
<b>Corporate IG</b>	<b>10%</b>	<b>0-20%</b>	↓ <b>10%</b>			
US Dollar	5%		↓ 5%			50% JPY
Euro	2%		↓ 1%			
Sterling	1%		2%			
Japanese Yen	1%		0%			
Emerging Markets	1%		2%			
China**	0.1%		0%			
<b>Corporate HY</b>	<b>5%</b>	<b>0-10%</b>	<b>4%</b>			
US Dollar	4%		3%			50% JPY
Euro	1%		1%			
<b>Bank Loans</b>	<b>4%</b>	<b>0-8%</b>	<b>8%</b>			
US	3%		6%			
Europe	1%		2%			
<b>Equities</b>	<b>45%</b>	<b>25-65%</b>	↑ <b>45%</b>			
US	25%		↑ 12%			
Europe ex-UK	7%		↑ 12%			
UK	4%		↑ 6%			
Japan	4%		↑ 5%			
Emerging Markets	5%		↑ 10%			
China**	2%		4%			
<b>Real Estate</b>	<b>4%</b>	<b>0-8%</b>	↑ <b>8%</b>			
US	1%		↑ 1%			
Europe ex-UK	1%		2%			
UK	1%		2%			
Japan	1%		2%			
Emerging Markets	1%		↑ 1%			
<b>Commodities</b>	<b>2%</b>	<b>0-4%</b>	<b>4%</b>			
Energy	1%		↑ 2%			
Industrial Metals	0.3%		↓ 1%			
Precious Metals	0.3%		0%			
Agriculture	0.3%		1%			
<b>Total</b>	<b>100%</b>		<b>100%</b>			
<b>Currency Exposure (including effect of hedging)</b>						
USD	52%		↓ 30%			
EUR	19%		↓ 25%			
GBP	7%		12%			
JPY	13%		↑ 16%			
EM	9%		↑ 17%			
<b>Total</b>	<b>100%</b>		<b>100%</b>			

\*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 is 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. See appendices for definitions, methodology and disclaimers.

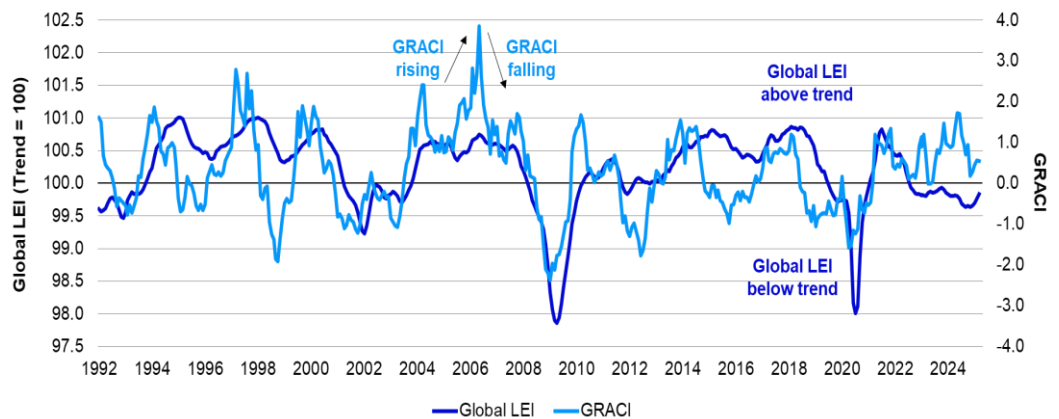
Source: Invesco Global Market Strategy Office

Market behaviour and leading indicators suggest we are in a contraction regime

**Economic momentum: improving, though tariffs pose a risk**

**Figure 4** shows two proprietary indicators from Invesco Solutions, designed to help decide where we are in economic and market cycles. The Global LEI (leading economic indicator) measure suggests global growth is improving (if below trend), while the GRACI (Global Risk Appetite Cycle Indicator) suggests risk appetite has deteriorated a lot over the last year (though still positive).

**Figure 4 – Global risk appetite and the global business cycle**

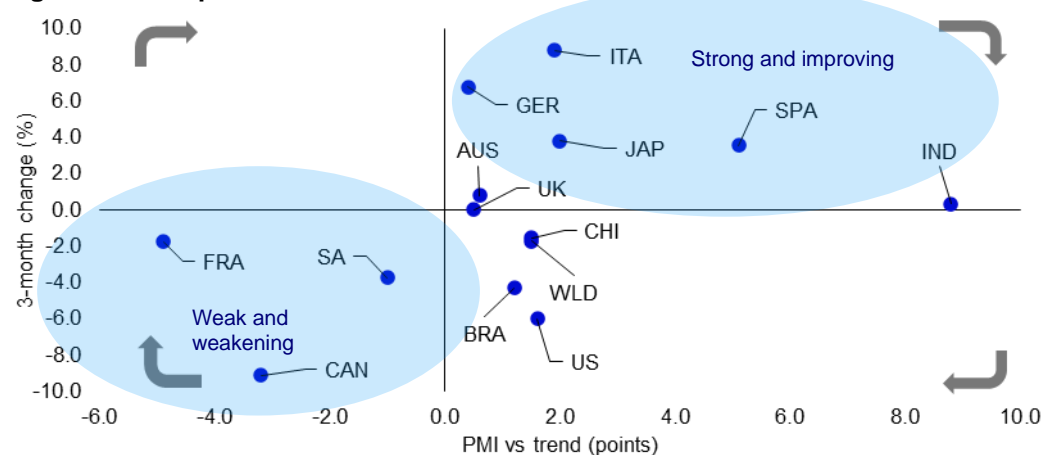


Note: **past performance does not guarantee future results.** Monthly data from January 1992 to February 2025 (as of 28 February 2025). Both Global LEI (Leading Economic Indicator) and GRACI (Global Risk Appetite Cycle Indicator) are proprietary tools provided by Invesco Solutions. Global LEI is a weighted average of leading indicators for 23 countries (both developed and emerging). A reading above (below) 100 signals growth above (below) a long-term average. GRACI measures the average incremental return received per incremental unit of risk taken in global financial markets (i.e., incremental return received for moving from government bonds to credit, from credit to developed equities, from developed equities to emerging equities, etc.). It is calculated using country-level total return indices across fixed income and equity markets. A reading above (below) zero signals a positive (negative) compensation for risk taking in global capital markets in the recent past. A rising index signals improving market sentiment and vice-versa.  
Sources: Bloomberg L.P., Macrobond, MSCI, FTSE, JP Morgan and Invesco Solutions

PMIs suggest service sector activity is mixed while manufacturing is improving (we expect global acceleration in 2025)

Recent PMI data has been mixed, though most national composite PMIs are above trend (see **Figure 5**). Manufacturing PMIs appear to be improving but indicators from the service sector are more balanced. Perhaps the transition from service to manufacturing sector leadership may cause some friction but we expect falling interest rates and rising real wages to enable economic acceleration in 2025 (as suggested by leading indicators). Among risks to the global economy we worry about US initiated tariff wars and geopolitical tensions, along with falling consumer sentiment in the US.

**Figure 5 – Composite PMIs are mixed**



Note: based on monthly data up to February 2025. PMI data is provided by S&P Global and "PMI vs trend" is the PMI for each country/region minus 50. Arrows indicate our view of the direction of movement around the chart. See appendices for country abbreviations.

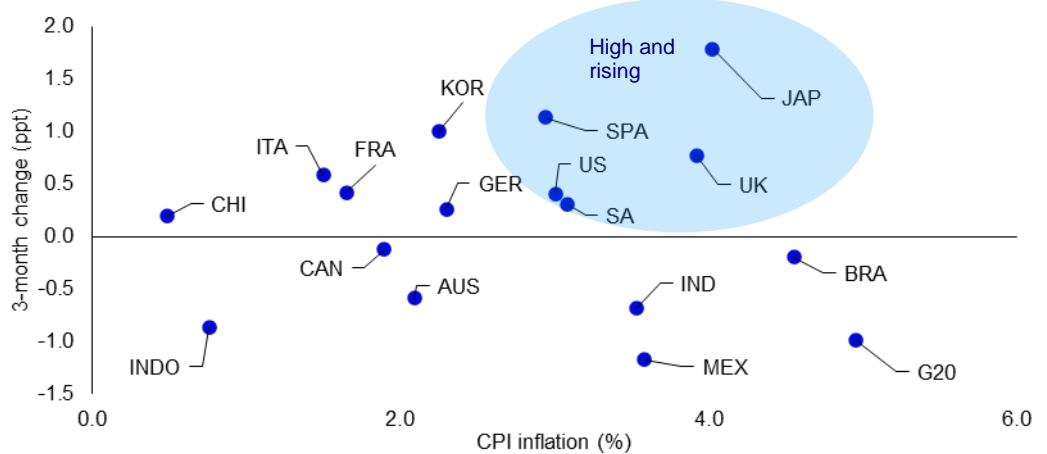
Source: S&P Global, LSEG Datastream and Invesco Global Market Strategy Office

Inflation appears to be flattening and even rising in many countries

**Inflation and policy rates: inflation bottoming but still scope for rates to fall**

Counter to our expectations, the path to lower inflation appears to have flattened, with inflation rising in many countries over recent months. In some cases inflation rates remain well above the common 2% target (see **Figure 6**). Japan now finds itself in the unusual position of having inflation above that in other developed countries (and rising).

**Figure 6 – Consumer price inflation (%)**



Note: Based on monthly data up to January 2025 (as of 28 February 2025). "ppt" is percentage point. See appendices for country abbreviations.  
Source: OECD, national sources, LSEG Datastream and Invesco Global Market Strategy Office

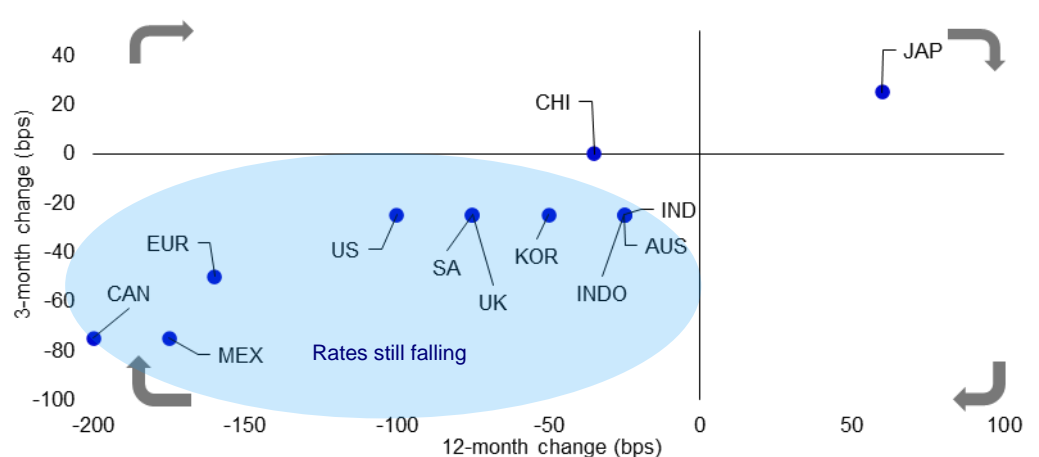
The outlook for inflation could depend critically upon the global use of tariffs

It is hard to know if inflation will continue rising. On the one hand, commodity prices had been rising, which has boosted producer price inflation in most of the countries we look at. On the other, money supply growth has eased in recent months (having picked up prior to that), which could limit any follow through in inflation. Also, oil prices have softened of late, and there appear to be no supply chain difficulties (based on the New York Fed's Global Supply Chain Pressure Index). Perhaps the critical issue for inflation will be the use of tariffs. If they are adopted globally, inflation could still move higher.

Most central banks are still easing but the pace may slow

Among the central banks that we monitor, the majority have reduced policy rates in recent months (see **Figure 7**). The CentralBankRates website suggests that 25 central banks have cut rates during 2025 versus seven that have tightened (as of 6 March 2025). Not surprisingly, given the inflation data above and the relatively low level of its policy rates, the Bank of Japan is among those that have raised rates (we expect it to continue in that direction). However, we suspect that most other central banks still have an easing bias, though the pace of reductions could ease (especially in the US).

**Figure 7 – Central bank policy rates continue to fall**



Note: Based on monthly data up to February 2025 (as of 28 February 2025). Arrows indicate our view of the direction of movement around the charts. See appendices for country abbreviations.  
Source: LSEG Datastream and Invesco Global Market Strategy Office

It has been a strong 12 months for most assets, especially the more volatile categories

But recent months have seen a reversal, with a notable change of leadership towards more defensive assets

So long as the global economy accelerates, we expect a reversion to outperformance by riskier assets

But, US equities, gold, Bitcoin and USD are extended, in our opinion

### Asset momentum: a turning point or just a correction?

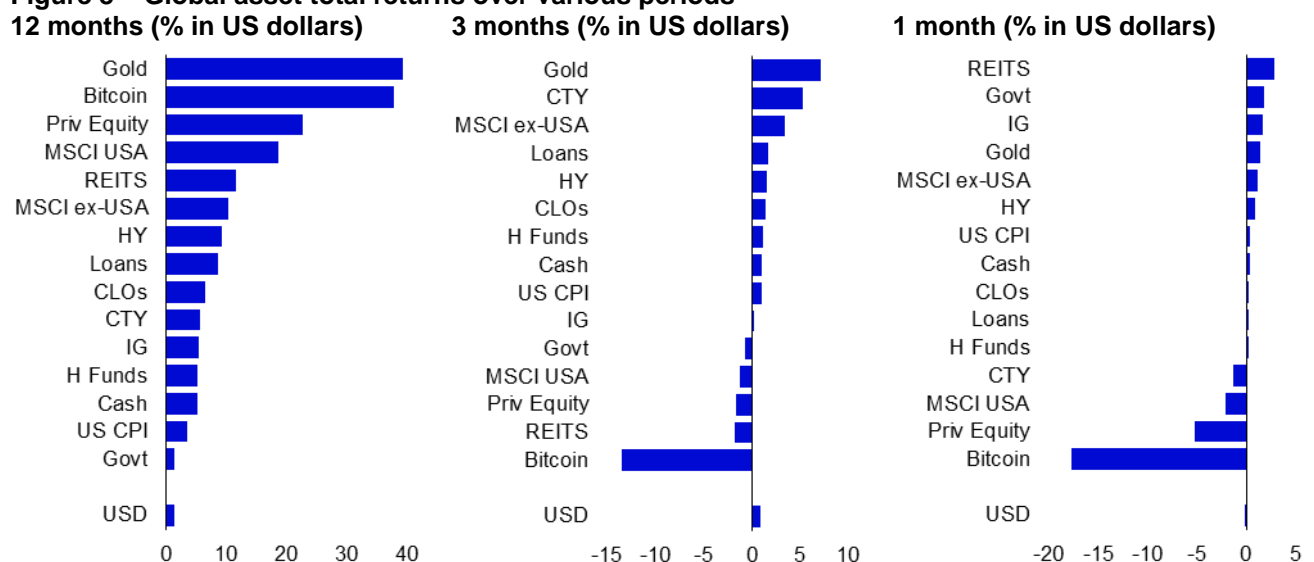
Total returns were positive on all fourteen of the global assets that we cover in the last 12 months (see **Figure 8**). The strongest returns were delivered by gold, Bitcoin, private equity and US equities. Regional detail for some of those assets is shown in **Appendix 2**. Though the US equity market has been strong, China has produced the best returns by a large margin (luckily, we were Overweight that market, though we were Underweight the US). Among fixed income assets, returns were strongest in emerging markets (where we were also Overweight). The US dollar (USD) has appreciated over the last 12 months, though the Japanese yen (JPY) has held its own (see **Appendix 2**).

However, momentum seems to have reversed, with some assets generating negative returns during February 2025 (and an even larger number failing to beat US CPI inflation over recent months). This is notably the case for Bitcoin, private equity and US equities. However, gold remains among the better performing assets, though REITS, government bonds and IG were the best performers in February (a reversal of previous lagging behaviour). Also, it is noticeable that non-US equities have outperformed the US market over recent months, with China and Europe leading the way (see **Appendix 2**). From a fixed income perspective, EM has continued to perform well. Further, USD has lost ground during 2025, with the JPY the strongest of the major currencies (**Appendix 2**).

The question is whether this change in momentum is a short term correction of a longer trend or a durable turnaround. The simple answer is that it probably depends upon the economic cycle (in our opinion). Without a marked slowdown in global GDP growth, we doubt that defensive assets such as government bonds and IG will continue to be among the best performers (especially with the rise in European yields since the cut-off date for this analysis). Rather than such a slowdown, we expect global acceleration during 2025, which in our opinion points to the recent performance being a short term correction.

Even with economic acceleration there are some elements of the recent change in momentum that we believe could persist. In particular, valuations make us wary of US equities (we believe that European equities are more likely to benefit from a global upswing and that Chinese equities remain relatively cheap). Other assets that we believe are extended are USD, gold and Bitcoin (see the following section on valuations).

**Figure 8 – Global asset total returns over various periods**



**Past performance is no guarantee of future results.** Based on monthly total return data for global assets in US dollars up to 28 February 2025. 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, Credit Suisse/UBS, GPR, JP Morgan, MSCI, S&P GSCI, LPX, Hedge Fund Research, Bloomberg, LSEG Datastream and Invesco Global Market Strategy Office



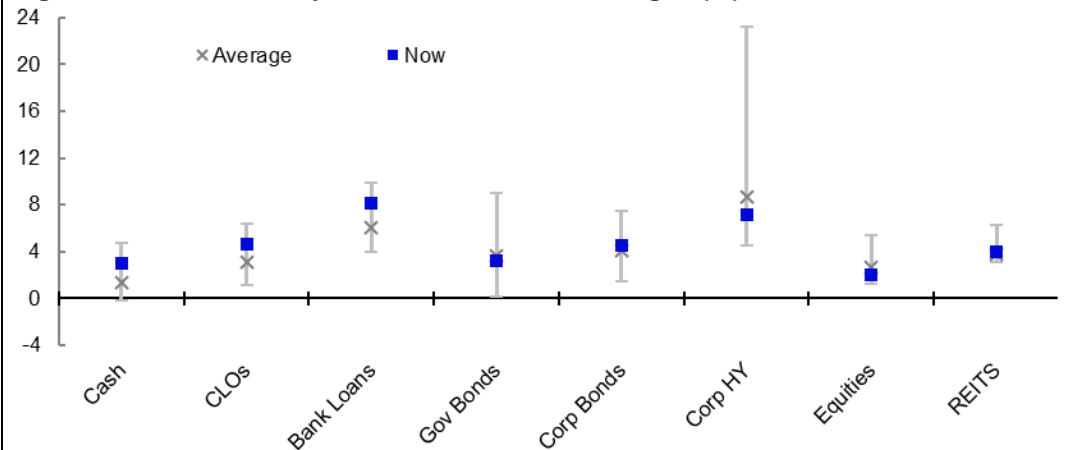
Cash rates and CLO/bank loan yields remain higher than normal, so being defensive isn't that costly (in our view)

**Asset valuations: defensive assets have a valuation advantage**

Judging by asset yields, valuations vary depending upon the duration of assets. The yields on shorter duration instruments such as cash, CLOs and bank loans remain above historical norms (see **Figure 9**). On the other hand, the yield on cyclical longer duration assets such as HY and equities are below historical averages. Those on more defensive longer duration instruments (government bonds and IG) are close to historical norms.

**Appendix 1** shows the regional detail.

**Figure 9 – Global asset yields within historical ranges (%)**



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. See appendices for definitions, methodology and disclaimers. As of 28 February 2025.

Source: Credit Suisse Indices/UBS, JP Morgan, LSEG Datastream and Invesco Global Market Strategy Office

EM and eurozone bond yields are relatively attractive, while HY spreads are narrow

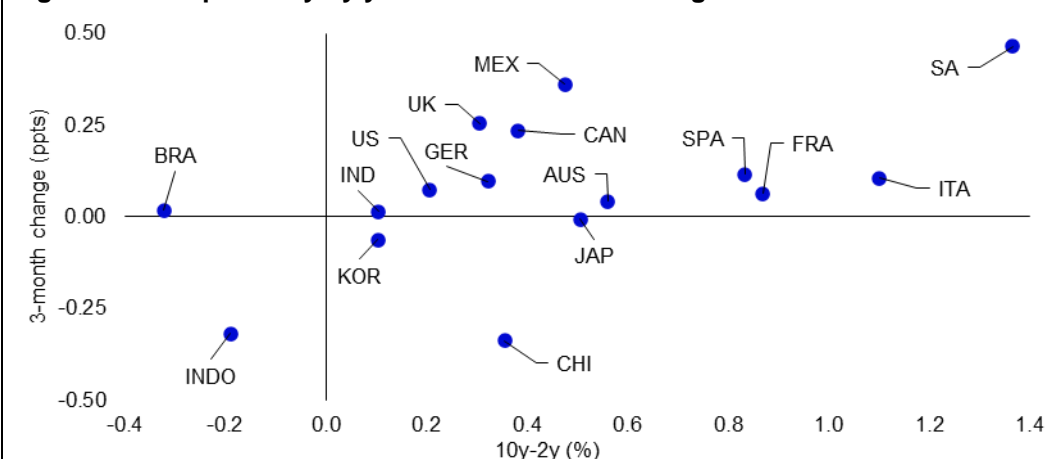
As already noted, within government bond and IG markets, EM has outperformed over the last 12 months (see **Appendix 2**). This has brought EM yields down towards historical norms (see **Appendix 1**). This reduces the valuation attraction of EM bonds but we note that US (and Chinese) yields are below historical norms, which suggests that EM fixed income assets may still have a relative advantage (in our opinion).

Eurozone yields are in line with historical norms, which improves the comparison with US and UK bonds. HY spreads remain too narrow, in our opinion.

Positively sloped yield curves make it easier to extend duration

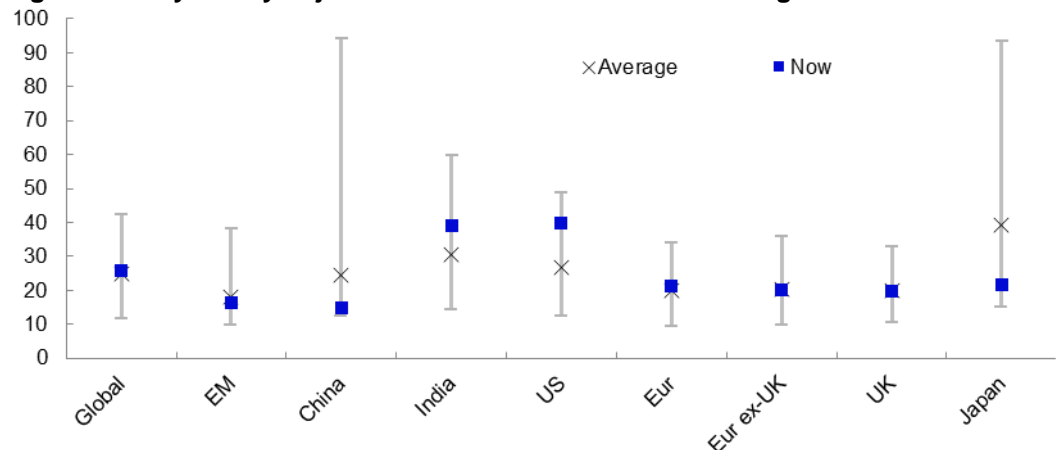
Yield curves have continued to steepen in most countries (see **Figure 10**) and are now positively sloped (on the whole). In our opinion, positively sloped yield curves make it easier to favour longer duration bonds, especially in Europe where yields have risen sharply since the cutoff date for this analysis (while they have fallen in the US).

**Figure 10 – Slope of 10y-2y yield curves and the change in the last three months**



Note: **Past performance is no guarantee of future results.** As of 28 February 2025. Based on a comparison of 10-year and 2-year government bond yields. "ppts" is percentage points. See appendices for country abbreviations. Source: LSEG Datastream and Invesco Global Market Strategy Office

**Figure 11 – Cyclically adjusted PE ratios within historical ranges**



Note: Cyclically Adjusted Price/Earnings 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 7 March 2025.

Source: LSEG Datastream and Invesco Global Market Strategy Office

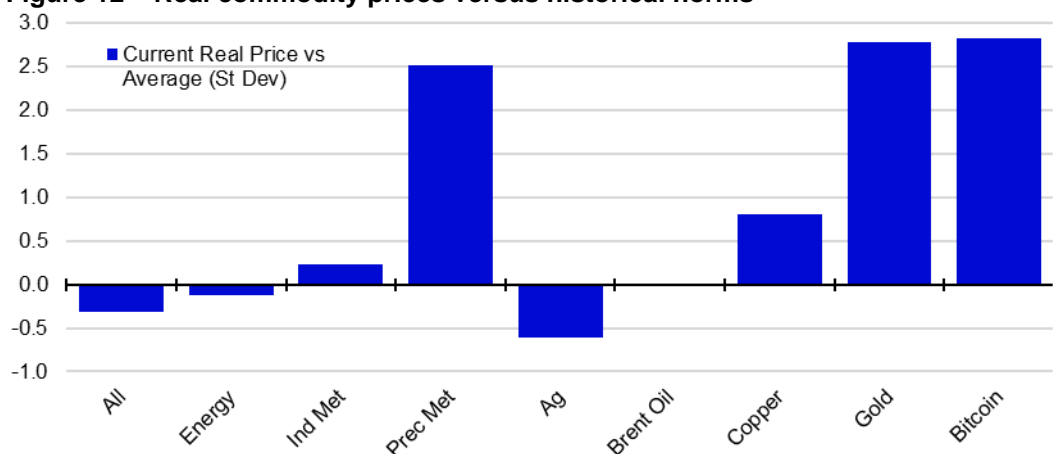
US and Indian equities remain expensive, while those of China are still below historical norms

**Appendix 1** shows that the low yield on global equity indices is due to the 1.3% yield on US equities (less than half of the historical norm of 2.8%). **Figure 11** makes the same case using cyclically adjusted PE ratios (CAPE). The CAPE on the US market on 7 March 2025 was 39.7, versus a historical norm of 26.8. On the other hand, China’s CAPE was 14.9 (compared to a historical average of 24.7). Despite the recent market strength, the CAPEs on European indices are in line with historical norms (20.1 for Europe including the UK). The CAPE on the Indian market had been higher than that of the US but the recent sell-off has lowered it to 38.9 (from a recent peak of 50), though we think it remains expensive.

Gold and Bitcoin are unusually expensive. Industrial commodities may be an inexpensive way to get exposure to a global upswing

Turning to commodities, **Figure 12** shows that gold (and precious metals in general) and Bitcoin are significantly above historical norms in real terms (Bitcoin is not normally thought of as a commodity but it shares some characteristics with gold and it is not clear where else to put it). There may be good reasons why gold and Bitcoin have strengthened but they are unusually expensive. On the other hand, industrial commodities (energy and industrial metals such as copper) are in line with historical norms and we think they could benefit if the global economy accelerates. Agricultural commodities remain cheaper than usual.

**Figure 12 – Real commodity prices versus historical norms**



Note: 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. As of 28 February 2025. See appendices for definitions, methodology and disclaimers.

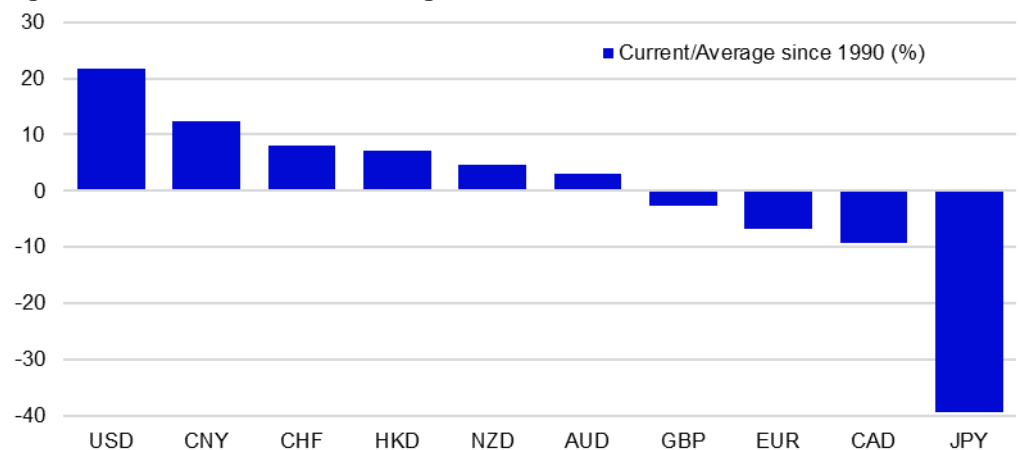
Source: GSCI, LSEG Datastream and Invesco Global Market Strategy Office

The yen remains cheap, despite the recent rebound (and the dollar is expensive)

**Currency outlook: the yen looks good value and the euro has newfound strength**

Among developed world currencies, the Japanese yen remains the cheapest, when compared to historical norms in real terms (see **Figure 13**). Now that the BOJ has started to tighten, while most other central banks are easing (and with 10-year Japanese government yields at levels not seen since mid-2009), the yen has started to strengthen. We expect this to continue over the next year or so and suspect the yen could be the strongest major currency, while we expect the dollar to weaken.

**Figure 13 – Real effective exchange rates\* relative to historical norms**



\*Currency indices measured against a trade-weighted basket of currencies and adjusted for inflation differentials (based on JP Morgan Real Trade Weighted Indices). As of 28 February 2025. Source: JP Morgan, LSEG Datastream and Invesco Global Market Strategy Office

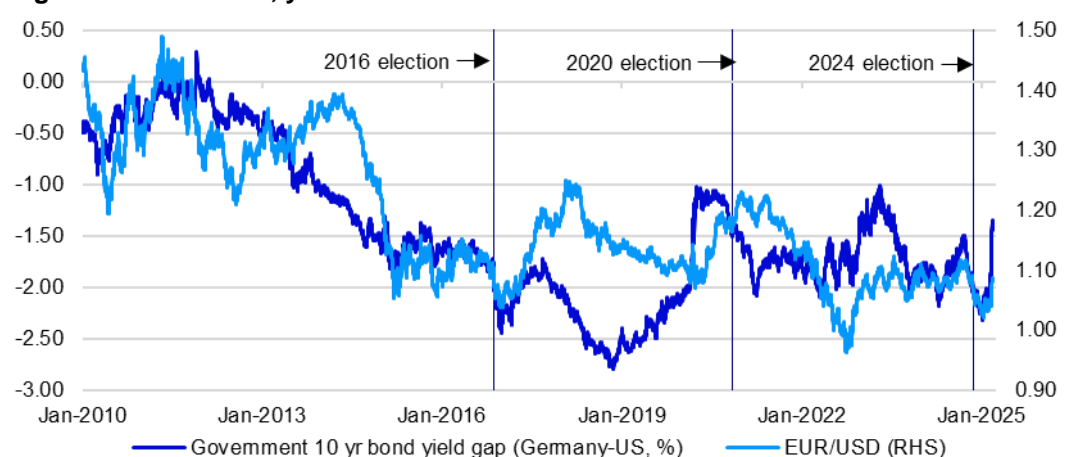
The euro strengthens on the promise of a fiscal boost

The euro is not as compelling as the yen from a valuation perspective but it has strengthened, based on higher bond yields (on the promise of more government spending). **Figure 14** shows a recent sharp closing of the gap between US and German yields, which has coincided with a strengthening of the euro (similar to that after the 2016 US election). Given the low starting point for expectations about German growth and the enormous fiscal package that is being prepared by the new coalition (we think up to €1trillion or nearly 25% of 2024 GDP), we expect a significant boost to German growth over the coming decades. At the same time, other European countries seem likely to increase defence spending, resulting in a lifting of growth across the region. Finally, **Figure 13** suggests that the euro remains relatively cheap compared to USD.

We expect more from both yen and euro

We believe that the "normal" rate for EURUSD is closer to 1.20, based on a historical analysis in real terms. A similar "normal" rate for the USDJPY is below 100, in our view.

**Figure 14 – EURUSD, yield differentials and US elections**



Note: **Past performance is no guarantee of future results.** Based on daily data from 1 January 2010 to 10 March 2025 (as of 10 March 2025). US elections refer to the date of US presidential elections. Source: LSEG Datastream and Invesco Global Market Strategy Office

We were optimistic about the outlook for 2025

But some risks appear to have shifted to the downside

Though there are some balancing factors

Our risk appetite is little changed and slightly positive

We cautiously embrace risk

### Threats, opportunities and risk appetite assessment

When looking ahead to 2025, prior to the US election, we were optimistic about the downward path of inflation and central bank interest rates, and about an upturn in global growth. Hence, we were willing to embrace risk, though the enthusiasm was tempered by the extreme valuation of some assets (notably US stocks and US HY).

Since then, it is our feeling that some risks have shifted to the downside:

- Leading indicators may be improving but the use of tariffs could undermine growth
- US consumer confidence appears to have been damaged by the threat of tariffs, government layoffs, forced deportations and the volatility of policy (consumer spending was down in January). We suspect that business confidence will also suffer and worry that the US economy could be a drag on global growth
- Inflation has picked up in many countries and this could slow future rate cuts
- Geopolitical risks have increased, in our view, with the new US administration upsetting neighbours, Europe and the Middle East. As a result, anxiety has risen

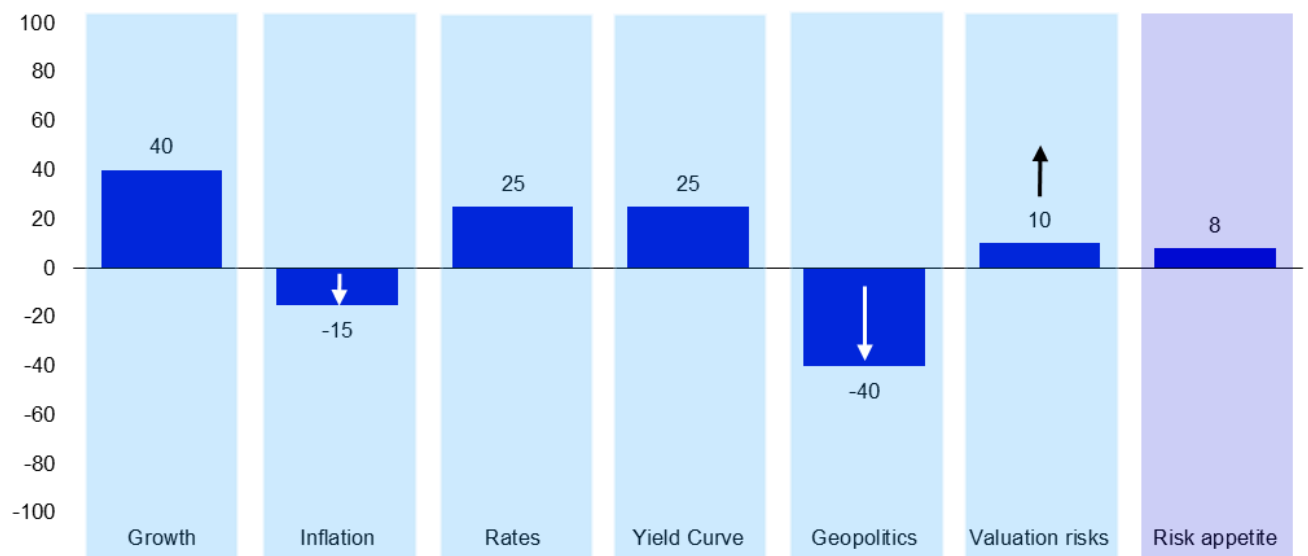
This being said, we think there are some new opportunities:

- If President Trump does bring peace in Ukraine and the Middle East, it could be good for risk appetite, though presumably bad for gold
- European countries are being forced to confront the risks from Russia without support from the US, implying more defence spending and a deeper and broader European military industrial complex (good for European economic growth)
- The OPEC+ promise to boost production from April has weakened oil prices, which could dampen inflation and boost spending power
- Chinese stocks have performed strongly in the last 12 months and investor attitudes to the market seem to be improving
- The struggles of mega-cap US share prices has partially reduced valuation excesses

**Figure 15** shows our assessment of factors that impact our risk-appetite. The arrows suggest the recent changes in risk appetite factors have been balanced. The worsening of the outlook for inflation and geopolitics has been balanced by an improvement in valuation risks (the excess valuation of US and Indian stocks has been reduced). The average "Risk appetite" score is little changed and remains slightly positive.

Hence, we remain willing to cautiously embrace some risk within our Model asset Allocation framework.

**Figure 15: Risk appetite assessment**



Note: The chart shows how various factors are impacting our risk appetite. Positive scores suggest an addition to risk appetite, while negative scores imply the opposite. "Risk appetite" is an average of the other scores in the chart. Arrows indicate the direction of recent changes in our views. Source: Invesco Global Market Strategy Office

Economies to accelerate but there are risks

Central banks to continue easing but at a slower pace

Geopolitical risks appear to have risen and asset performance leadership may be changing

We favour bank loans, non-US equities, REITS and commodities

### Projections and asset preferences

We think the global economy will accelerate over the next 12 months as central banks ease and real wages grow. This pushes us to have more risk appetite. However, some cyclical assets have performed well over recent years (equities and high yield, for example), while the US economy may be experiencing a growth pause and trade conflicts pose a threat to the global economy. We think geopolitical risks have risen.

Underpinning our projections for the next 12 months are the following assumptions (see **Appendix 4** for detail):

- Global GDP growth will improve
- Global inflation will flatten and remain above central bank targets
- Major central banks will ease but at a slower pace (the BOJ will tighten)
- Yield curves will mostly steepen (largely due to falling short rates)
- Credit spreads will widen slightly and defaults rise a bit (from low levels)
- Bank loan current yield spreads will be mixed but defaults rise (from low levels)
- Equity and REIT dividend growth will be minimal; yields will have a downward bias
- USD will weaken as the Fed eases, especially versus JPY (as the BOJ tightens)
- Commodities will benefit from more global growth and USD weakness

**Figure 16** shows our assessment of the likely impact of a range of factors on asset returns over the next 12 months. For example, improving growth is likely to benefit cyclical assets, while the apparent bottoming out of inflation could be a drag on most assets. What we see as a worsening geopolitical situation is likely to benefit gold, commodities and Bitcoin, though a breakout of peace in Ukraine and the Middle East could have the opposite effect. As shown in an earlier section, performance leadership has recently changed and, if this persists, could be bad news for some of the assets that had previously led the way (US equities, private equity and Bitcoin, for example). The “Total” score is an average of the individual scores, except that “Valuations” is given three times the weighting of any other category (based on our value orientation).

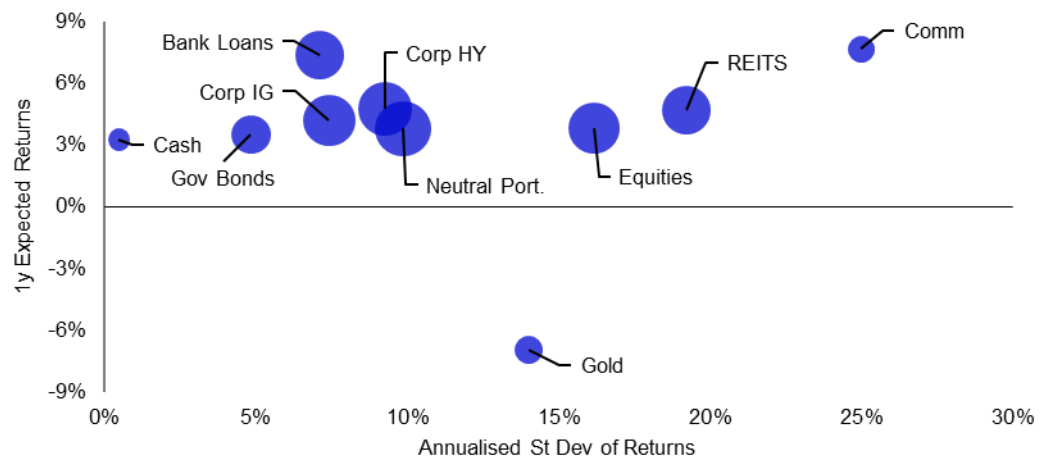
The total scores push us to favour bank loans, non-US equities, REITS and commodities (see **Figure 3** for more detail). This is confirmed by the projected returns shown in **Figure 17**. The highest returns are expected on commodities, REITS and bank loans, with the latter having the advantage of low volatility, while the former has low correlation to other assets (correlation is in proportion to the size of the bubbles). The equity projected return is unimpressive but is dragged down by our negative view on US stocks.

**Figure 16 – Factors affecting global asset returns over the next 12 months and asset preferences**

	Growth Improving	Inflation Mixed	Rates Falling	Yield curve Steepening	Geopolitics Worsening	Momentum	Valuations	Total	Model Asset Allocation*	Preferred assets
Cash	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	JPY, GBP
CLOs	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	
Hedge Funds	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	
Bank Loans	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	Europe
Govt. Bonds	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	EM, UK
Investment Grade	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Neutral	UK, EM
High Yield	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	US
Gold	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	
Non-US equities	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	China, EM, Europe
US equities	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	Equal weight, banks
REITS	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	Europe, Japan
Commodities	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	Energy, agriculture
Private Equity	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	
Bitcoin	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	

Note: \*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. 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 Global Market Strategy Office

**Figure 17 – Projected 12m return versus risk for global assets**



Notes: based on local currency returns. Returns are projected but standard deviation of returns is based on 5-year historical data. Size of bubbles is in proportion to average pairwise correlation with other assets (hollow bubbles indicate negative correlation). Cash is an equally weighted mix of USD, EUR, GBP and JPY. Neutral portfolio weights are shown in **Figure 3**. As of 12 March 2025. **There is no guarantee that these views will come to pass.** See Appendices for definitions, methodology and disclaimers. Source: ICE BofA, Credit Suisse Indices/UBS, FTSE Russell, MSCI, S&P GSCI, LSEG Datastream and Invesco Global Market Strategy Office

Market forecasts suggest further downside for US stocks

**Figure 18** shows a conversion of these expectations into market targets. Though we expect policy rates to continue falling (except in Japan), our 10-year yield forecasts are mixed, with an expectation of upside in the US but downside in the UK, for example. Further downside is expected in the US dollar, especially versus the Japanese yen as the BOJ tightens. As already mentioned, we see upside in most stock markets but the US is an exception. We believe that US concentration and valuations remain too high and expect the S&P 500 to be lower in 12 months. Industrial commodities are expected to benefit from an uptick in growth, while gold is already very expensive (in our view).

**Figure 18 – Market forecasts**

		Current (12/03/25*)	Forecast 12-month
<b>Central Bank Rates</b>	US	4.50	3.75
	Eurozone	2.50	2.00
	China	3.10	3.00
	Japan	0.50	1.00
	UK	4.50	3.50
<b>10yr Bond Yields</b>	US	4.28	4.50
	Eurozone	2.87	2.75
	China	1.91	2.00
	Japan	1.51	1.75
	UK	4.68	4.25
<b>Exchange Rates/US\$</b>	EUR/USD	1.09	1.12
	USD/CNY	7.24	7.00
	USD/JPY	148.26	130.00
	GBP/USD	1.30	1.35
	USD/CHF	0.88	0.85
<b>Equity Indices</b>	S&P 500	5599	5400
	Euro Stoxx 50	5359	6000
	FTSE A50	13257	15000
	Nikkei 225	36819	38000
	FTSE 100	8541	9000
<b>Commodities (US\$)</b>	Brent/barrel	72	80
	Gold/ounce	2934	2750
	Copper/tonne	9639	10000

Notes: \* except for central bank rates which take account of subsequent changes. **There is no guarantee that these views will come to pass.** See Appendices for definitions, methodology and disclaimers. Source: LSEG Datastream and Invesco Global Market Strategy Office

Invesco's 10-year CMAs have been published

**The long term view: focusing on the next decade using Invesco's CMAs**

Having considered projections for the next year, it may be instructive to use longer term return projections as a guide. Invesco Solutions have just published their 10-year capital market assumptions (CMAs). **Figure 19** shows their projected returns for global asset classes in a range of currency bases (their framework differs from ours, so we have had to adapt some of their categories – for instance, we use their US Treasury Short category to represent cash and Precious Metals is used for gold). A more detailed version showing regional projections is contained in **Appendix 3**.

	USD	EUR	GBP	CHF
<b>Cash &amp; Gold</b>	0.2	-1.7	0.0	-3.6
Cash - US Treasury Short	3.4	1.5	3.2	-0.4
Gold	-3.0	-4.9	-3.2	-6.8
<b>Government Bonds</b>	5.2	3.3	5.0	1.3
<b>Corporate IG</b>	5.5	3.6	5.3	1.7
<b>Corporate HY - US HY</b>	6.2	4.3	6.0	2.4
<b>Bank Loans (US)</b>	6.5	4.6	6.3	2.7
<b>Equities</b>	5.8	3.9	5.6	2.0
<b>Real Estate (REITS)</b>	7.3	5.4	7.1	3.5
<b>Commodities</b>	5.4	3.5	5.2	1.6

Note: Estimates as of 31 December 2024 and based on the 10-year capital market assumptions published by Invesco Solutions in Long-Term Capital Market Assumptions (March 2025). The USD version of the CMAs is reproduced in Appendix 3. The above table uses the geometric expected return version for global asset classes ("gold" is based on the projections for precious metals and the "Cash & Gold" category shows the average of those two assets). These estimates reflect the views of Invesco Solutions, the views of other investment teams at Invesco may differ from those presented here. **There is no guarantee that these views will come to pass.** Source: Invesco Solutions

HY and bank loans dominate 10-year CMA based optimal portfolios

The further we move along the risk spectrum, the higher the projected returns tend to be, though it is a relatively flat curve and equities and commodities don't appear to offer enough return given the extra volatility. When it comes to CMA based optimal solutions, the only consistent overweighting across currency bases and objectives is for HY and bank loans (see **Figure 20**). At the other extreme, gold is always zero weighted, while equities are nearly always underweighted. Cash, government bonds, IG, real estate and commodities allocations are mixed, with real estate preferred when maximising return and cash/government bonds preferred when we maximise the Sharpe ratio.

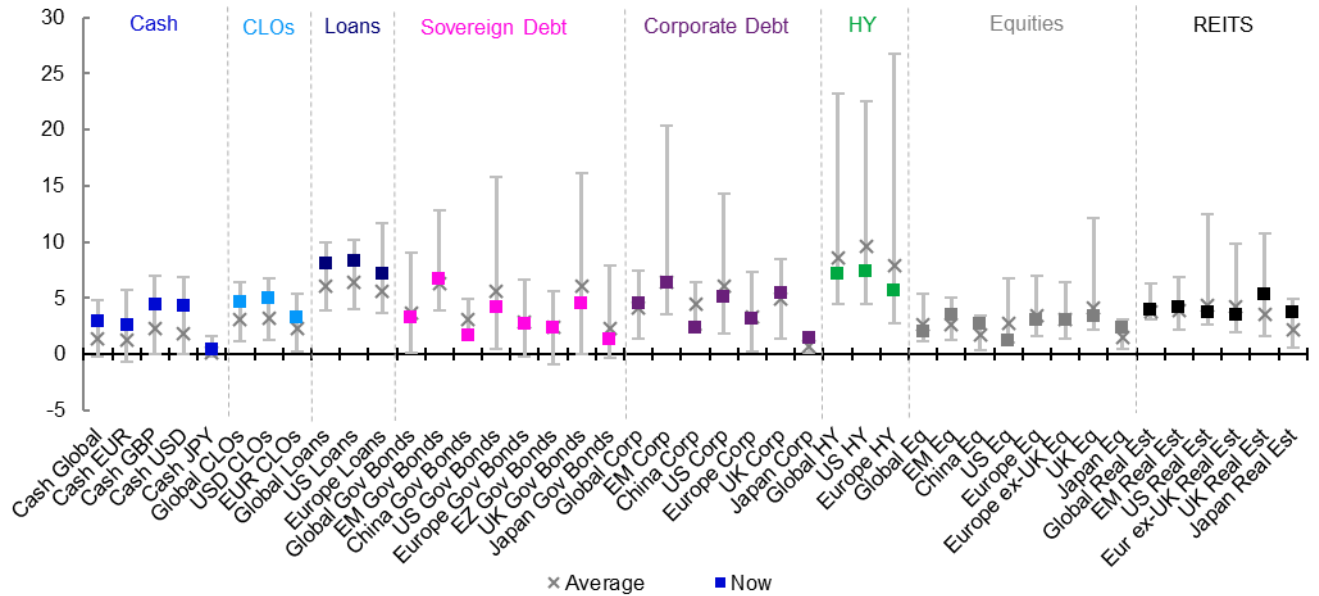
	Neutral Portfolio	Policy Range	Maximise Sharpe Ratio				Maximise Return			
			USD	EUR	GBP	CHF	USD	EUR	GBP	CHF
<b>Cash &amp; Gold</b>	5%	0-10%	10%	10%	10%	0%	10%	0%	0%	0%
Cash	2.5%	0-10%	10%	10%	10%	0%	10%	0%	0%	0%
Gold	2.5%	0-10%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Government Bonds</b>	25%	10-40%	40%	40%	40%	40%	40%	10%	19%	10%
<b>Corporate IG</b>	10%	0-20%	20%	3%	3%	9%	20%	1%	20%	10%
<b>Corporate HY</b>	5%	0-10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>Bank Loans</b>	4%	0-8%	8%	8%	8%	8%	8%	8%	8%	8%
<b>Equities</b>	45%	25-65%	25%	25%	25%	25%	42%	62%	32%	54%
<b>Real Estate (REITS)</b>	4%	0-8%	0%	0%	0%	8%	8%	8%	8%	8%
<b>Commodities</b>	2%	0-4%	1%	4%	4%	0%	4%	1%	3%	0%

Note: optimisations are based on the 10-year projected returns published by Invesco Solutions in Long-Term Capital Market Assumptions (March 2025), as shown in **Figure 19** above. Optimisations are performed by the Asset Allocation Research team using our historical 10-year covariance matrices (for each currency). "Gold" is based on the projections for precious metals and the "Cash & Gold" category shows the sum of allocations for those two assets. "Maximise Sharpe Ratio" optimisations are performed by maximising the Sharpe Ratio subject to not violating the constraints implied by the policy ranges shown in the table. "Maximise Return" optimisations are performed by maximising return subject to the policy range constraints but also subject to the standard deviation of returns not exceeding that of the Neutral Portfolio. The Neutral Portfolio and Policy Range settings are designed to give a benchmark against which the optimal allocations can be judged. Though based on the projected returns provided by Invesco Solutions, these optimal allocations do not represent their views, nor those of any other investment team at Invesco. See appendices for definitions, methodology and disclaimers. Source: Invesco Solutions and Invesco Global Market Strategy Office

Appendices

Appendix 1: Global valuations vs history

Regional yields within historical ranges (%)



Notes: **Past performance is no guarantee of future results.** As of 28 February 2025. "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, Credit Suisse Indices/UBS, FTSE Russell, ICE BofA, JP Morgan, LSEG Datastream and Invesco Global Market Strategy office



## Appendix 2: Asset class total returns

Data as at 28/02/2025	Index	Current Level/Ry	Total Return (USD, %)				Total Return (Local Currency, %)			
			4m	YTD	12m	5y*	4m	YTD	12m	5y*
<b>Equities</b>										
World	MSCI	863	2.3	2.8	16.1	13.3	3.1	2.5	17.2	14.1
Emerging Markets	MSCI	1097	-3.0	2.3	10.9	4.7	-0.8	2.4	15.0	7.0
China	MSCI	73	8.3	12.8	39.8	-0.1	8.7	12.8	39.3	0.1
US	MSCI	5686	3.0	1.4	19.2	16.8	3.0	1.4	19.2	16.8
Europe	MSCI	2215	3.6	10.8	11.8	10.4	7.3	10.2	15.2	11.1
Europe ex-UK	MSCI	2740	3.4	11.4	9.7	10.6	7.3	10.8	13.9	11.4
UK	MSCI	1319	4.1	8.9	19.0	9.8	7.3	8.4	19.6	10.1
Japan	MSCI	3937	2.4	0.2	1.9	7.6	0.7	-3.9	1.8	15.0
<b>Government Bonds</b>										
World	BofA-ML	3.25	-0.3	2.3	1.7	-3.8	0.8	1.4	3.0	-2.0
Emerging Markets (USD)	BBloom	6.75	3.8	3.8	15.0	0.8	3.8	3.8	15.0	0.8
China	BofA-ML	1.68	0.7	-0.1	5.4	3.7	2.9	-0.3	6.6	4.6
US (10y)	Datastream	4.20	2.1	3.7	4.8	-2.2	2.1	3.7	4.8	-2.2
Europe	Bofa-ML	2.69	-3.1	1.0	0.3	-3.6	0.8	0.6	4.5	-2.5
Europe ex-UK (EMU, 10y)	Datastream	2.39	-3.9	0.6	-1.0	-4.9	-0.1	0.2	3.2	-3.8
UK (10y)	Datastream	4.52	-3.4	1.8	1.5	-4.5	-0.4	1.2	2.0	-4.3
Japan (10y)	Datastream	1.36	-1.3	2.1	-4.0	-7.7	-3.0	-2.1	-4.1	-1.3
<b>IG Corporate Bonds</b>										
Global	BofA-ML	4.56	0.6	2.3	5.5	-0.2	1.9	2.1	6.9	0.2
Emerging Markets (USD)	BBloom	6.33	3.5	4.0	13.5	0.9	3.5	4.0	13.5	0.9
China	BofA-ML	2.41	0.0	0.2	3.6	3.0	2.1	0.0	4.8	3.8
US	BofA-ML	5.13	2.0	2.6	6.9	0.3	2.0	2.6	6.9	0.3
Europe	BofA-ML	3.15	-2.3	1.5	2.5	-1.3	1.6	1.1	6.8	-0.2
UK	BofA-ML	5.45	-1.6	2.2	5.1	-1.5	1.5	1.7	5.6	-1.2
Japan	BofA-ML	1.45	0.7	3.6	-1.0	-6.8	-0.9	-0.6	-1.1	-0.4
<b>HY Corporate Bonds</b>										
Global	BofA-ML	7.16	1.9	2.1	9.4	3.7	2.7	2.1	10.3	4.0
US	BofA-ML	7.39	2.6	2.0	10.2	4.8	2.6	2.0	10.2	4.8
Europe	BofA-ML	5.70	-1.2	2.1	4.7	2.3	2.8	1.7	9.1	3.4
<b>Cash (Overnight LIBOR)</b>										
US		4.36	1.5	0.7	5.1	2.6	1.5	0.7	5.1	2.6
Euro Area		2.67	-3.1	0.7	-0.9	0.0	1.0	0.5	3.5	1.3
UK		4.45	-1.5	1.3	4.4	2.0	1.6	0.8	5.1	2.4
Japan		0.48	1.9	4.4	0.2	-6.4	0.1	0.1	0.2	0.0
<b>Real Estate (REITs)</b>										
Global	FTSE	1648	-2.9	3.7	10.8	1.4	1.0	3.3	15.4	2.5
Emerging Markets	FTSE	1166	-7.8	-0.8	-0.3	-7.8	-4.1	-1.3	3.9	-6.8
US	FTSE	3325	-0.9	4.7	16.6	6.0	-0.9	4.7	16.6	6.0
Europe ex-UK	FTSE	2400	-6.6	3.9	11.7	-4.4	-2.8	3.4	16.4	-3.3
UK	FTSE	804	-12.9	1.2	-1.7	-4.2	-10.2	0.7	-1.2	-3.9
Japan	FTSE	2068	4.2	7.7	4.3	-2.7	2.5	3.3	4.2	4.1
<b>Commodities</b>										
All	GSCI	3726	6.7	1.9	5.7	12.0	-	-	-	-
Energy	GSCI	646	10.1	1.4	1.9	11.7	-	-	-	-
Industrial Metals	GSCI	1709	-2.3	3.8	10.8	8.8	-	-	-	-
Precious Metals	GSCI	3141	1.9	7.5	38.2	11.6	-	-	-	-
Agricultural Goods	GSCI	517	7.1	0.4	3.8	9.5	-	-	-	-
<b>Currencies (vs USD)**</b>										
EUR		1.04	-4.0	0.2	-4.3	-1.2	-	-	-	-
JPY		150.63	1.8	4.4	0.0	-6.4	-	-	-	-
GBP		1.26	-3.0	0.5	-0.5	-0.3	-	-	-	-
CHF		1.11	-4.2	0.4	-2.7	1.3	-	-	-	-
CNY		7.28	-2.2	0.2	-1.2	-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). Please see appendix for definitions, methodology and disclaimers. Source: LSEG Datastream and Invesco Global Market Strategy Office.

Appendix 3: Invesco 10-year Capital Market Assumptions (USD version)

	Asset Class	Index	Expected geometric return %	Expected arithmetic return %	Expected Risk %	Arithmetic return to risk ratio
Fixed Income	US Treasury Short	BBG US Treasury Short	3.4	3.4	1.5	2.32
	US Treasury Intermediate	BBG US Treasury Intermediate	4.7	4.8	4.6	1.03
	US Treasury Long	BBG US Treasury Long	5.3	6.0	12.2	0.49
	US TIPS	BBG US TIPS	5.2	5.3	5.7	0.93
	US Bank Loans	Credit Suisse Leverage Loan Index	6.5	6.8	7.7	0.88
	US Aggregate	BBG US Aggregate	5.2	5.4	6.1	0.88
	US Inv Grd Corps	BBG US Investment Grade	5.5	5.8	7.8	0.74
	US MBS	BBG US MBS	5.8	6.0	6.7	0.89
	US Preferred Stocks	BOA ML Fixed Rate Pref Securities	5.4	6.0	11.6	0.52
	US High-Yield Corps	BBG US High Yield	6.2	6.7	9.6	0.70
	US Muni	BOA ML US Muni	4.3	4.6	6.9	0.67
	US Muni (Taxable)	ICE BOA US Taxable Muni Securities Plus	5.7	6.0	8.0	0.74
	US HY Muni	BBG US Muni Bond HY	5.2	5.5	8.3	0.66
	Global Aggregate	BBG Global Aggregate	5.2	5.4	7.6	0.71
	Global Aggregate-Ex US	BBG Global Aggregate- Ex US	5.1	5.7	10.9	0.52
	Global Treasury	BBG Global Treasuries	5.2	5.6	9.0	0.62
	Global Sovereign	BBG Global Sovereign	5.3	5.6	8.4	0.67
	Global Corporate	BBG Global Corporate	5.4	5.8	8.3	0.70
	Global Inv Grd	BBG Global Corporate Inv Grd	5.5	5.8	8.4	0.69
	Eurozone Corporate	BBG Euro Aggregate Credit - Corporate	5.3	6.1	13.8	0.45
	Eurozone Treasury	BBG Euro Aggregate Government - Treasury	5.5	6.3	13.2	0.48
	Asian Dollar Inv Grd	BOA Merrill Lynch ACIG	5.4	5.7	8.3	0.68
	EM Aggregate	BBG EM Aggregate	6.2	7.0	13.2	0.53
EM Agg IG	BBG EM USD Agg IG	5.6	6.0	9.1	0.66	
China Policy Bk & Tsy	BBG China PB Tsy TR	4.7	4.8	3.9	1.23	
China RMB Credit	BBG China Corporate	5.3	5.4	3.4	1.59	
Equities	World Equity	MSCI ACWI	5.8	7.1	16.9	0.42
	World Ex-US Equity	MSCI ACWI Ex-US	7.5	9.0	18.7	0.48
	US Broad	Russell 3000	4.4	5.8	17.4	0.33
	US Large Cap	S&P 500	5.0	6.3	16.7	0.38
	US Mid Cap	Russell Midcap	6.0	7.7	19.4	0.40
	US Small Cap	Russell 2000	7.8	10.1	22.6	0.45
	MSCI EAFE	MSCI EAFE	6.9	8.4	18.6	0.45
	MSCI Europe	MSCI Europe	7.5	9.1	18.8	0.49
	Eurozone	MSCI Euro X UK	7.7	9.4	19.8	0.47
	UK Large Cap	FTSE 100	6.6	8.4	19.9	0.42
	UK Small Cap	FTSE Small Cap UK	8.2	11.0	25.4	0.43
	Canada	S&P TSX	5.9	7.7	20.1	0.38
	Japan	MSCI JP	4.7	7.0	22.2	0.31
	Emerging Market	MSCI EM	9.1	11.7	24.5	0.48
Asia Pacific Ex JP	MSCI APXJ	8.6	11.3	24.7	0.46	
China Large Cap	CSI 300	9.6	14.4	34.1	0.42	
Alternatives	Global Infra	DJ Brookfield Global Infra	8.7	9.7	14.9	0.65
	Global REITs	FTSE EPRA/NAREIT Developed Index	7.3	9.0	19.0	0.47
	Hedge Funds	HFRI HF Index	6.1	6.5	8.5	0.76
	Commodities	S&P GSCI	5.4	7.9	23.6	0.34
	Agriculture	S&P GSCI Agriculture	4.1	6.2	21.1	0.29
	Energy	S&P GSCI Energy	7.3	12.9	36.7	0.35
	Industrial Metals	S&P GSCI Industrial Metals	4.6	7.1	23.8	0.30
Precious Metals	S&P GSCI Precious Metals	-3.0	-1.3	18.3	-0.07	

Notes: Estimates as of 31 December 2024, as published in Long-Term Capital Market Assumptions (March 2025). These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. **There is no guarantee that these views will come to pass.** TIPS = treasury inflation protected securities, MBS = mortgage-backed securities.

Source: Invesco Solutions

Appendix 4: Key assumptions

Key assumptions for 1-year projected returns

	US	Eurozone/ Europe ex-UK	UK	Japan	EM	China
Central bank rates (%)	3.75	2.00	3.50	1.00	-	3.00
Sovereign spreads vs rates (bps)	75	75	75	75	-	-
Corporate IG spread vs sovereign (bps)	125	70	125	15	-	-
Corporate HY spread vs sovereign (bps)	400	380	-	-	-	-
Bank Loan spread vs 3M cash rates (bps)	410	460	-	-	-	-
Corporate HY default rates (%)	1.5	1.5	-	-	-	-
Corporate HY recovery rates (%)	40	30	-	-	-	-
Bank Loan default rates (%)	1.0	1.0	-	-	-	-
Bank Loan recovery rates (%)	40	40	-	-	-	-
Equities dividend growth (%)*	4.0	4.0	5.0	4.0	5.0	2.0
Equities dividend yield (%)*	1.5	3.0	3.5	2.3	3.3	2.5
Real estate (REITS) dividend growth (%)*	2.0	5.0	0.0	2.0	2.0	-
Real estate (REITS) dividend yield (%)*	3.8	3.6	5.2	3.6	4.2	-

Notes: \*assumptions for Europe ex-UK. One-year assumptions are based on our analysis of how current values compare to historical norms (assuming some degree of reversion to the mean, except where our analysis suggests historical norms are unlikely to be a guide to the future), adjusted for our view about the development of the economic and financial market cycles over the next year in each region.

**There is no guarantee that these views will come to pass.**

Source: Invesco Global Market Strategy Office

## **Appendix 5: Methodology for asset allocation and expected returns**

### **Which asset classes?**

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

### **Neutral allocations and policy ranges**

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

### **Expected/projected returns**

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

## 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 1<sup>st</sup> January 2022, we use the Refinitiv overnight deposit rate for euro, British pound and 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:** Current values in the market forecast table (**Figure 18**) use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK and the Thomson Reuters China benchmark 10-year yield for China. Historical and projected yields and returns (**Figures 1, 9, 17, 18**) are based on Bank of America Merrill Lynch 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 Bloomberg emerging markets sovereign US dollar bond index with the historical range starting on 28 February 2003. The same indices are used to construct **Appendix 1**.

**Corporate investment grade (IG) bonds:** Bank of America Merrill Lynch 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 Bloomberg emerging markets corporate US dollar bond index with the historical range starting on 28 February 2003.

**Corporate high yield (HY) bonds:** Bank of America Merrill Lynch 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:** Credit Suisse 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 9** and **Appendix 1** are based on current yield. Data is sourced from Credit Suisse Indices/UBS and Bloomberg.

**Collateralised Loan Obligations:** 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 projected returns and 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 (**Figures 1, 17, 18**). Equity index valuations (**Figures 9, 11 and Appendix 1**) 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.

**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:** Hedge Fund Research Global Hedge Fund Index, sourced from Bloomberg.

## Definitions of data and benchmarks for Appendix 2

**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 1<sup>st</sup> January 2022, we use the LSEG overnight deposit rate for the euro, the British pound and 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 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 Barclays Bloomberg emerging markets sovereign US dollar bond index.

**Corporate investment grade (IG) bonds:** Bank of America Merrill Lynch investment grade corporate bond total return indices and the Barclays Bloomberg emerging markets corporate US dollar bond total return index for emerging markets.

**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 5, 6, 7, 10**

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

**Definitions of and sources for asset categories used in the asset momentum chart (Figure 8)**

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, BofAML 0-3-month US treasury index (Cash), BofAML Global Government Index (Govt), BofAML Global Corporate Index (IG), BofAML Global HY Index (HY), Credit Suisse 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), 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), 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), Hedge Fund Research Global Hedge Fund Index (H Funds), LPX Major Market Listed Private Equity Index (Priv Equity), JP Morgan Nominal Broad Trade Weighted US Dollar Index (USD) and US Consumer Price Index (US CPI). Data is sourced from LSEG Datastream and Bloomberg.

## Appendix 7: Invesco Solutions Capital Market Assumptions methodology (Figure 19 & Appendix 3)

We show a summary of the Capital Market Assumptions produced by Invesco's Solutions team (Solutions) and this is a summary of their methodology.

Invesco Solutions employ a fundamentally based "building block" approach to estimating asset class returns. Estimates for income and capital gain components of returns for each asset class are informed by fundamental and historical data. Components are then combined to establish estimated returns. This is a summary of key elements of the methodology used to produce long-term (10-year) and medium term (5-year) estimates.

**Fixed income** returns are composed of the average of the starting (initial) yield and expected yield for bonds, estimated changes in valuation given changes in the Treasury yield curve, roll return which reflects the impact on the price of bonds that are held over time, and a credit adjustment which estimates the potential impact on returns from credit rating downgrades and defaults.

**Equity** returns are composed of: a dividend yield, calculated using dividend per share divided by price per share, buyback yield, calculated as the percentage change in shares outstanding resulting from companies buying back or issuing shares, valuation change, the expected change in value given the current Price/Earnings (P/E) ratio and the assumption of reversion to the long-term average P/E ratio, and the estimated growth of earnings based on the long-term average real GDP per capita and inflation.

**Alternative** returns are composed of a variety of public versus private assets with heterogeneous drivers of return given their distinct nature. They range from a beta driven proxy to public markets or a bottom up, building block methodology like that of fixed income or equities, depending on whether they are more bond like or stock like.

**Volatility** estimates for the different asset classes are derived using rolling historical quarterly returns of various market benchmarks. Given that benchmarks have differing histories within and across asset classes, volatility estimates of shorter-lived benchmarks are normalised to ensure that all are measured over similar time periods.

For the full Capital Market Assumptions methodology, please contact the Solutions team.



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### 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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### Important information

Data as of 28 February 2025 unless stated otherwise.

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## Authors

Paul Jackson  
Global Head of Asset Allocation Research  
[paul.jackson@invesco.com](mailto:paul.jackson@invesco.com)  
London, EMEA

## Global Market Strategy Office

Kristina Hooper  
Chief Global Market Strategist  
[kristina.hooper@invesco.com](mailto:kristina.hooper@invesco.com)  
New York, Americas

Ashley Oerth  
Associate Global Market Strategist  
[ashley.oerth@invesco.com](mailto:ashley.oerth@invesco.com)  
London, EMEA

Brian Levitt  
Global Market Strategist, Americas  
[brian.levitt@invesco.com](mailto:brian.levitt@invesco.com)  
New York, Americas

James Anania  
Investment Strategy Analyst, Americas  
[james.anania@invesco.com](mailto:james.anania@invesco.com)  
New York, Americas

David Chao  
Global Market Strategist, Asia Pacific  
[david.chao@invesco.com](mailto:david.chao@invesco.com)  
Hong Kong, Asia Pacific

Thomas Wu  
Market Strategy Analyst, Asia Pacific  
[thomas.wu@invesco.com](mailto:thomas.wu@invesco.com)  
Hong Kong, Asia Pacific

Tomo Kinoshita  
Global Market Strategist, Japan  
[tomo.kinoshita@invesco.com](mailto:tomo.kinoshita@invesco.com)  
Tokyo, Asia Pacific

Arnab Das  
Global Macro Strategist  
[arnab.das@invesco.com](mailto:arnab.das@invesco.com)  
London, EMEA

Paul Jackson  
Global Head of Asset Allocation Research  
[paul.jackson@invesco.com](mailto:paul.jackson@invesco.com)  
London, EMEA

András Vig  
Multi-Asset Strategist  
[andras.vig@invesco.com](mailto:andras.vig@invesco.com)  
London, EMEA

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