

## Applied philosophy

### Strategist from East of the Elbe – Q2 2025

**The total returns on assets in Central and Eastern EU member countries (CEE11) have been mostly strong within equities and have been subdued in government bonds in the last four months. Inflation has picked up in most economies, and interest rate expectations rose at the same time as global economic growth seemed to have remained sluggish, while policy uncertainty rose in the US. We expect growth to reaccelerate in 2025 both within and outside the region and move towards trend, and we expect inflation to stay above central bank targets. In my view, this outlook should support both government bonds and equities in our CEE11 universe.**

Spring seems to have sprung even in London, where the climate has the cheeky habit of flaunting some pleasant weather in early-March just to cruelly take it away as a cold snap replaces warming sunshine. We can only hope spring will return to global equity markets after the recent pull-back. However, I think that partly depends on improving visibility for both US policymaking and the future path of the global economy.

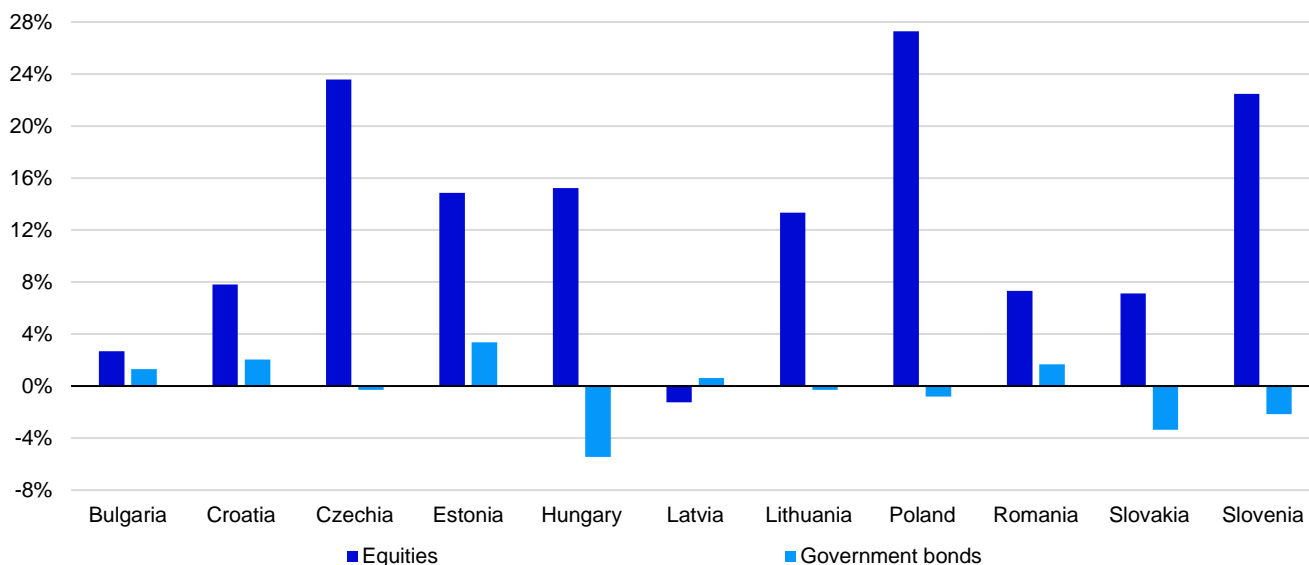
Equity returns since the end of November in the CEE11 countries within our universe have been mostly strong (apart from Bulgaria and Latvia), though government bond returns were more subdued. Within equities, we highlighted Slovenia and Poland as our most preferred markets in our last edition, while we thought Bulgaria and Hungary were likely to underperform (see [here](#) for

the full detail). As shown in **Figure 1**, Poland was the best performer with Slovenia not far behind. At the same time, while returns for Hungary were much stronger than we expected, Bulgaria was the second worst performer.

Government bond returns remained subdued for most countries and were negative for six countries, partly driven by an uptick in inflation. We chose Romania and Poland as our most preferred in our last edition. Although Romania was among the stronger performers, Poland had negative returns (Estonia had the strongest returns between 30 November and 28 March 2025). On the other hand, we highlighted Croatia and Slovenia as our least preferred. While Croatia was the second best performer, Slovenia's returns were negative.

Government bond yields rose in most countries due to a mix of stubbornly sticky inflation and expectations of higher government spending following Germany's revision of its "debt brake" policy. Apart from Czechia, Estonia and Lithuania, fiscal deficits may remain elevated partly due to higher spending on interest payments. Yields have remained high in Romania due to ongoing uncertainty around the presidential elections, in my opinion, which will be repeated in May 2025. However, the largest rise in yields (99 basis points between 30 November 2024 and 28 March 2025) happened in Hungary, where the government is planning to increase social spending ahead of elections in 2026.

**Figure 1 – Central and Eastern European country total returns since 30 November 2024 (local currency)**



Notes: **Past performance is no guarantee of future results.** Data as of 28 March 2025. We use Datastream Total Market indices for equity returns. Government bond returns for Czechia, Hungary and Poland are based on Datastream 10-year benchmark government bond indices. We create a monthly index of government bond returns for all other countries by calculating the net present value of coupon payments and capital repayment based on redemption yields.

Source: LSEG Datastream and Invesco Global Market Strategy Office

We expect Developed Market (DM) central banks to continue easing monetary policy, but we think that the process will be gradual as rate setters remain mindful of upside risks to inflation, especially if the rise in tariffs becomes widespread. I think CEE11 countries are highly exposed to disruptions in global trade, especially those outside the euro area, where currency movements can become volatile if investor sentiment sours. As **Figure 2** shows, the Hungarian, Polish and Romanian central banks have all left their rates unchanged since autumn 2024, while the Czech National Bank (CNB) proceeded with gradual rate cuts alongside the European Central Bank (ECB), although rate futures indicate that both may be close to reaching the end of this monetary easing cycle.

In our view, the global economy could reaccelerate in 2025 after going through a phase of weak growth, thus rapid rate cuts may increasingly seem inappropriate. In CEE11, GDP growth in Q4 2024 diverged, although remained positive (except for Latvia). I expect the laggards, especially those that are highly exposed to the slowdown in the German economy (for example, Hungary and Slovakia) to catch up to the better performers, such as Bulgaria, Croatia, Lithuania and Poland, especially if prospects for economic growth improve in the Euro Area. That probably implies no significant decline in inflation, and therefore interest rates may remain near current levels, in my view.

I think a lot will also depend on how long policy uncertainty remains and how much that impacts economic growth especially in the short term. It would not surprise me if central banks adopted a wait-and-see

approach and would lean towards holding rates at current levels, while monitoring economic indicators.

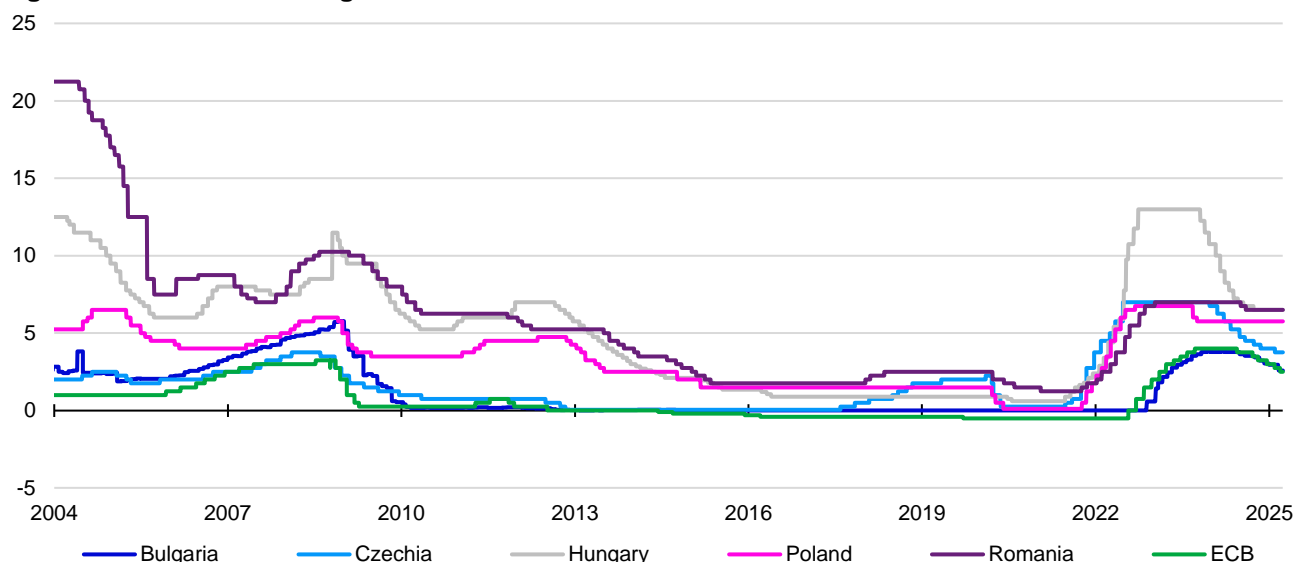
The political landscape, on the other hand, is likely to be stable in the next 12 months despite turbulence in Romania as we await the repeated presidential election. Markets also seem to have been unaffected by the Polish presidential election of May 2025, even though the current president, Andrzej Duda, is ineligible for re-election. In my view, the Czech parliamentary elections, which will be held in the autumn of 2025, is too far ahead to appear on the markets' radar.

I think the global macroeconomic backdrop will be supportive of regional assets in general. In our latest [The Big Picture](#), we reiterated the view that the prospects for growth may improve during 2025, although there is more uncertainty around the future path of inflation. Accordingly, we cautiously increased our allocation to risk assets (despite rich valuations in some cases), and we maintained our preference for Emerging Markets as a whole.

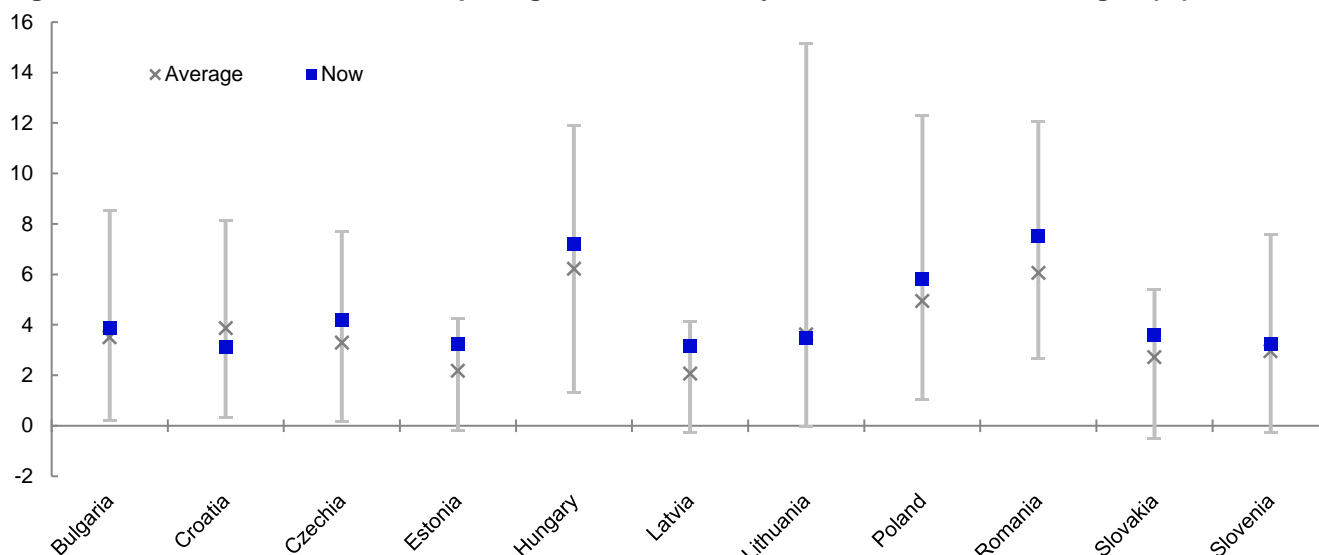
In CEE11 countries, I think growth will stay higher than in DM assuming decent real wage growth and no need for monetary tightening in response to higher inflation or currency weakness. In my view, fiscal policy is likely to be expansionary or neutral in most countries, although spending may be constrained somewhat by higher debt servicing costs.

What does this imply for markets? The main question, in my view, is how far and how quickly growth reaccelerates after getting through a potential soft patch, assuming the global economy avoids a deep

**Figure 2 – Central bank target rates since 2004**



Notes: **Past performance is no guarantee of future results.** Data as of 28 March 2025. Using daily data from 1 January 2004.  
Source: LSEG Datastream and Invesco Global Market Strategy Office

**Figure 3 – Central and Eastern European government bond yields within historical ranges (%)**


Notes: **Past performance is no guarantee of future returns.** Data as of 28 March 2025. Historical ranges and averages include daily data from 14 April 2006 for Bulgaria, 30 January 2008 for Croatia, 1 May 2000 for Czechia, 1 February 1999 for Hungary, 15 April 2003 for Lithuania, 1 January 2001 for Poland, 16 August 2007 for Romania, 7 January 2004 for Slovakia, 3 April 2007 for Slovenia and 24 November 2020 for Estonia and Latvia. We use Refinitiv Government Benchmark 10-year bond indices for Bulgaria, Croatia, Lithuania, Romania, Slovakia and Slovenia. We use Datastream benchmark 10-year government bond indices for Czechia, Hungary and Poland. We use OECD 10-year government bond yields for Estonia and Latvia as of 28 February 2025.

Source: LSEG Datastream, Organisation for Economic Co-operation and Development, Invesco Global Market Strategy Office

recession the probability of which has increased recently. I think that markets may start pricing in stronger growth only if US policy uncertainty decreases, potentially boosting risk assets, although we may see some weakness and volatility in the near term.

A risk-off environment in the near term could mean that until we get more clarity on the outlook for growth (especially for the Euro Area) CEE11 assets may underperform EM and Global benchmarks. However, on a 12-month view, I think the economic environment could be favourable for both equities and government bonds within CEE11 (we consider them risk assets within a global asset allocation context).

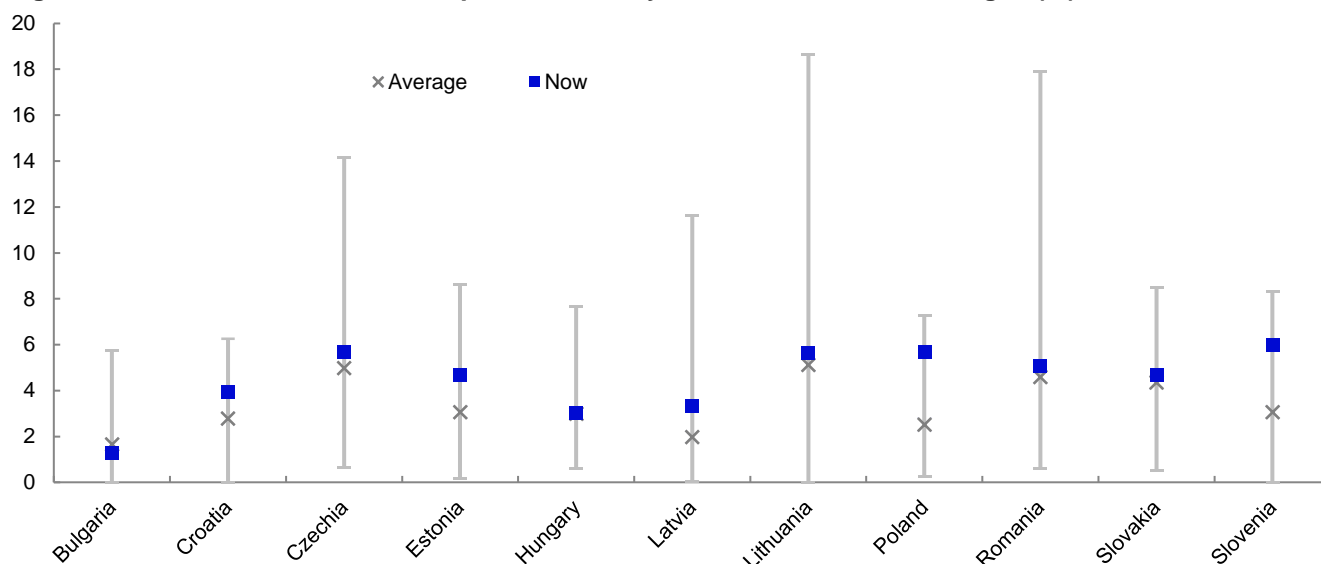
For those markets outside the Euro Area, currencies may also play a major part in determining returns, especially within equities, where weakness may contribute to higher profits (up to a point). However, I think the probability of further weakening in 2025 is limited especially against the US dollar, assuming that interest rates behave as expected by futures markets and consensus.

Regional currencies strengthened against the euro in the last four months, which is not surprising given the divergence of monetary policy in Hungary and Poland. Czech rate expectations have also been repriced, although monetary policy easing has continued for now. I expect limited rate cuts from both major DM and

local central banks, which are likely to proceed at a similar pace, thus we may be close to the end of the widening in rate spreads. Rate futures and Reuters consensus forecasts indicate rate cuts of at least 100bps for Poland, around 50bps for Czechia and Romania and 25bps for Hungary compared to about 50bps for the ECB and just under 75bps for the Fed until the end of 2025 (as of 28 March 2025). Thus, apart from the PLN which could weaken in the next 12 months, I expect moderate movements in exchange rates versus both the euro and the US dollar, unless there is a sudden deterioration of economic momentum (either within the region or globally).

I believe the biggest risk to regional returns remains a deep global economic slowdown, which could trigger a “flight to safety”. The probability of such an event has increased, driven by higher policy uncertainty in the US. A further increase in tariffs against European economies – especially Germany – may also have an indirect impact on these economies as they are embedded in the supply chains of a number of large companies within developed Europe.

In absolute terms, the 10-year yields of Romania and Hungary at 7.5% and 7.2% respectively are the highest, which is not surprising given that they also have the highest central bank rates within the region (as of 28 March 2025 – see **Figure 3**). In general, I would expect CEE11 yields to be lower than the 6.9% yield on the broader EM universe (**Figure 6** – based on

**Figure 4 – Central and Eastern European dividend yields within historical ranges (%)**


Notes: **Past performance is no guarantee of future returns.** Data as of 28 March 2025. Based on daily data using Datastream Total Market indices. Historical ranges and averages include daily data from 2 October 2000 for Bulgaria, 3 October 2005 for Croatia, 27 January 1994 for Czechia, 5 June 1997 for Estonia, 21 June 1991 for Hungary, 3 November 1997 for Latvia, 1 April 1998 for Lithuania, 1 March 1994 for Poland, 29 December 1997 for Romania, 1 March 2006 for Slovakia and 31 December 1998 for Slovenia.  
Source: LSEG Datastream and Invesco Global Market Strategy Office

the Bloomberg Aggregate Sovereign Bond Index in USD as of 28 March 2025) due to their structurally lower inflation and interest rate expectations.

The political turbulence in Romania may have temporarily pushed yields higher, which could present an opportunity assuming they normalise in the next 12 months. However, in Hungary's case, plans for fiscal loosening may not leave much room for strong returns, especially if interest rates remain higher than in the rest of the region. On the other hand, I think Poland has more potential for outperformance, especially if rate cuts start earlier than mid-2025. Polish government bonds have the third highest yield in the region at 5.8% (see **Figure 3**) and their spreads vs German bunds are also higher than historical norms. At the same time, Croatian and Lithuanian bonds seem to have the least attractive valuations with yields and spreads versus Bunds below historical averages.

Despite the increasingly uncertain economic outlook in the short term, I expect healthy equity returns in the region based on our assumption of a global economic recovery in 2025. While there may be a few bumps on the road in the near term, valuations look favourable in

most markets within the CEE11. Apart from Bulgaria and Hungary, they also offer higher yields in absolute terms than the 3.3% of the broader EM universe (using Datastream Total Market indices as of 28 March 2025). In my view, Slovenia and Poland continue to be in the sweet spot of having a dividend yield well-above historical norms and relative to their peers in the region (see **Figure 4**) despite over 20% returns year-to-date. Polish dividend yields are also significantly higher than historical averages and the market has lower levels of concentration than other markets, while it provides exposure to cyclical sectors, which may outperform if economic growth picks up. At the same time, I still view Czechia as an attractive hedge against potential market volatility in the near term with its dominance by the country's largest utility company.

On the other hand, I cannot overlook the low yields on offer on Bulgarian equities, which are also the only ones below their historical averages. At the same time, both the dividend yield and the yield premium compared to historical norms is now the second lowest within the region for Hungary, thus I view these markets as having the least potential for outperformance.

**Figure 5 – Our most favoured and least favoured markets in Central and Eastern Europe**

	Government bonds	Equities
<b>Most favoured</b>	Romania, Poland	Slovenia, Poland
<b>Least favoured</b>	Croatia, Lithuania	Bulgaria, Hungary

Source: Invesco Global Market Strategy Office

**Figure 6 – Asset class total returns (% annualised)**

Data as at 28 Mar 2025		Current Level/Ry	Total Return (USD, %)					Total Return (Local Currency, %)				
Index	1w		1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m	
<b>Equities</b>												
World	MSCI	830	-1.3	-3.6	-0.9	-0.9	8.0	-1.3	-4.2	-1.8	-1.8	8.2
Emerging Markets	MSCI	1121	-0.9	2.4	4.8	4.8	10.9	-0.7	2.0	4.5	4.5	13.9
China	MSCI	75	-1.0	3.5	16.8	16.8	43.1	-1.0	3.5	16.8	16.8	42.4
US	MSCI	5320	-1.6	-6.3	-5.0	-5.0	7.6	-1.6	-6.3	-5.0	-5.0	7.6
Europe	MSCI	2237	-1.1	1.5	12.5	12.5	9.3	-1.3	-2.1	7.9	7.9	7.9
Europe ex-UK	MSCI	2766	-1.6	1.4	13.0	13.0	7.5	-1.8	-2.4	8.0	8.0	6.4
UK	MSCI	1335	0.6	1.8	10.9	10.9	15.7	0.3	-0.9	7.3	7.3	12.9
Japan	MSCI	4042	-1.6	3.8	4.0	4.0	2.1	-0.7	3.5	-0.6	-0.6	1.4
<b>Government Bonds</b>												
World	BofA-ML	3.34	0.0	0.4	2.7	2.7	1.4	0.1	-0.8	0.5	0.5	1.3
Emerging Markets	BBloom	6.92	-0.7	-1.1	2.7	2.7	9.9	-0.7	-1.1	2.7	2.7	9.9
China	BofA-ML	1.74	0.1	-0.2	-0.3	-0.3	5.5	0.3	-0.5	-0.8	-0.8	6.0
US (10y)	Datastream	4.26	0.0	-0.1	3.6	3.6	3.8	0.0	-0.1	3.6	3.6	3.8
Europe	BofA-ML	2.87	0.4	2.2	3.3	3.3	1.5	0.3	-1.8	-1.2	-1.2	1.3
Europe ex-UK (EMU, 10y)	Datastream	2.70	0.5	1.4	2.1	2.1	-0.8	0.3	-2.5	-2.3	-2.3	-1.0
UK (10y)	Datastream	4.70	0.5	1.8	3.6	3.6	1.1	0.2	-1.0	0.3	0.3	-1.3
Japan (10y)	Datastream	1.53	-1.0	-1.1	0.9	0.9	-4.8	-0.2	-1.4	-3.5	-3.5	-5.4
<b>IG Corporate Bonds</b>												
Global	BofA-ML	4.64	0.0	0.5	2.8	2.8	4.9	-0.1	-0.6	1.5	1.5	4.9
Emerging Markets	BBloom	6.43	0.0	0.0	4.0	4.0	11.4	0.0	0.0	4.0	4.0	11.4
China	BofA-ML	2.45	0.0	0.1	0.3	0.3	3.8	0.2	-0.2	-0.2	-0.2	4.4
US	BofA-ML	5.19	-0.2	-0.5	2.1	2.1	5.1	-0.2	-0.5	2.1	2.1	5.1
Europe	BofA-ML	3.31	0.3	3.1	4.7	4.7	4.7	0.2	-0.9	0.2	0.2	4.5
UK	BofA-ML	5.66	0.2	1.5	3.8	3.8	4.7	-0.2	-1.2	0.4	0.4	2.2
Japan	BofA-ML	1.55	-0.9	-0.2	3.5	3.5	-1.0	-0.1	-0.5	-1.1	-1.1	-1.7
<b>HY Corporate Bonds</b>												
Global	BofA-ML	7.50	-0.3	0.0	2.1	2.1	8.2	-0.3	-0.8	1.2	1.2	8.2
US	BofA-ML	7.81	-0.5	-1.0	1.0	1.0	7.7	-0.5	-1.0	1.0	1.0	7.7
Europe	BofA-ML	6.02	-0.1	3.2	5.4	5.4	8.0	-0.2	-0.8	0.8	0.8	7.8
<b>Cash (Overnight LIBOR)</b>												
US		4.36	0.1	0.3	1.1	1.1	5.0	0.1	0.3	1.1	1.1	5.0
Euro Area		2.42	0.2	4.6	5.3	5.3	3.8	0.0	0.2	0.7	0.7	3.4
UK		4.46	0.3	3.2	4.6	4.6	7.7	0.1	0.3	1.1	1.1	5.0
Japan		0.48	-0.3	0.6	5.0	5.0	1.3	0.0	0.0	0.1	0.1	0.2
<b>Real Estate (REITs)</b>												
Global	FTSE	1607	0.6	-2.1	1.6	1.6	4.6	0.5	-5.9	-2.8	-2.8	4.4
Emerging Markets	FTSE	1165	-0.9	0.5	-0.3	-0.3	0.4	-1.0	-3.4	-4.7	-4.7	0.2
US	FTSE	3161	0.8	-4.5	0.0	0.0	8.6	0.8	-4.5	0.0	0.0	8.6
Europe ex-UK	FTSE	2372	1.2	-0.6	3.3	3.3	2.1	1.1	-4.5	-1.2	-1.2	1.9
UK	FTSE	803	1.3	5.0	6.3	6.3	-4.6	0.9	2.2	2.9	2.9	-6.9
Japan	FTSE	2177	2.3	5.8	14.0	14.0	-0.7	3.2	5.5	9.0	9.0	-1.4
<b>Commodities</b>												
All	GSCI	3782	0.5	1.5	3.5	3.5	2.4	-	-	-	-	-
Energy	GSCI	650	1.5	0.6	2.1	2.1	-3.0	-	-	-	-	-
Industrial Metals	GSCI	1747	-1.3	2.2	6.1	6.1	8.9	-	-	-	-	-
Precious Metals	GSCI	3419	2.4	8.8	17.0	17.0	37.8	-	-	-	-	-
Agricultural Goods	GSCI	507	-2.0	-1.9	-1.5	-1.5	-2.0	-	-	-	-	-
<b>Currencies (vs USD)*</b>												
EUR		1.08	0.1	4.4	4.6	4.6	0.4	-	-	-	-	-
JPY		149.84	-0.3	0.5	4.9	4.9	1.0	-	-	-	-	-
GBP		1.29	0.4	2.8	3.3	3.3	2.4	-	-	-	-	-
CHF		1.14	0.3	2.6	3.1	3.1	2.4	-	-	-	-	-
CNY		7.26	-0.2	0.3	0.5	0.5	-0.5	-	-	-	-	-

Notes: \*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). **Past performance is no guarantee of future results.** Please see appendix for definitions, methodology and disclaimers.

Source: LSEG Datastream and Invesco Global Market Strategy Office

**Figure 7 – Global equity sector total returns relative to market (%)**

Data as at 28 Mar 2025	Global				
	1w	1m	QTD	YTD	12m
<b>Energy</b>	<b>2.6</b>	<b>5.6</b>	<b>4.5</b>	<b>4.5</b>	<b>-7.4</b>
<b>Basic Materials</b>	<b>0.3</b>	<b>5.8</b>	<b>6.7</b>	<b>6.7</b>	<b>-8.7</b>
Basic Resources	0.4	8.2	9.2	9.2	-4.8
Chemicals	0.2	2.3	3.0	3.0	-14.1
<b>Industrials</b>	<b>-0.2</b>	<b>1.3</b>	<b>1.7</b>	<b>1.7</b>	<b>-2.0</b>
Construction & Materials	-0.5	4.1	1.9	1.9	-4.4
Industrial Goods & Services	-0.2	0.9	1.7	1.7	-1.7
<b>Consumer Discretionary</b>	<b>0.3</b>	<b>-3.4</b>	<b>-4.6</b>	<b>-4.6</b>	<b>-2.8</b>
Automobiles & Parts	0.7	-1.2	-16.1	-16.1	-7.8
Media	-0.5	-2.2	1.1	1.1	7.8
Retailers	0.8	-4.9	-4.3	-4.3	3.4
Travel & Leisure	-0.2	-4.3	-4.3	-4.3	-3.7
Consumer Products & Services	-0.3	-2.1	2.5	2.5	-11.0
<b>Consumer Staples</b>	<b>2.2</b>	<b>5.1</b>	<b>7.8</b>	<b>7.8</b>	<b>-1.7</b>
Food, Beverage & Tobacco	2.2	5.6	8.8	8.8	-2.1
Personal Care, Drug & Grocery Stores	2.4	4.3	6.1	6.1	-0.8
<b>Healthcare</b>	<b>-0.3</b>	<b>0.1</b>	<b>4.1</b>	<b>4.1</b>	<b>-7.1</b>
<b>Financials</b>	<b>1.1</b>	<b>2.7</b>	<b>7.3</b>	<b>7.3</b>	<b>12.2</b>
Banks	0.9	3.0	8.7	8.7	14.4
Financial Services	0.4	0.0	3.1	3.1	7.8
Insurance	2.6	7.0	11.9	11.9	14.7
<b>Real Estate</b>	<b>1.5</b>	<b>2.0</b>	<b>3.0</b>	<b>3.0</b>	<b>-1.2</b>
<b>Technology</b>	<b>-2.7</b>	<b>-5.6</b>	<b>-10.1</b>	<b>-10.1</b>	<b>-0.2</b>
<b>Telecommunications</b>	<b>1.3</b>	<b>4.3</b>	<b>9.5</b>	<b>9.5</b>	<b>10.1</b>
<b>Utilities</b>	<b>2.0</b>	<b>6.1</b>	<b>4.8</b>	<b>4.8</b>	<b>5.6</b>

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

**Figure 8a – US factor index total returns (%)**

Data as at 28 Mar 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
<b>Growth</b>	-1.7	-5.2	-5.6	-5.6	-5.3	-0.2	1.0	-0.9	-0.9	-12.0
<b>Low volatility</b>	0.9	-2.1	4.1	4.1	10.8	2.4	4.4	9.4	9.4	3.0
<b>Price momentum</b>	-1.0	-6.9	-4.0	-4.0	4.4	0.5	-0.8	0.8	0.8	-3.0
<b>Quality</b>	-0.3	-3.4	-0.8	-0.8	-3.2	1.2	2.9	4.2	4.2	-10.0
<b>Size</b>	-0.2	-2.6	-2.1	-2.1	-1.4	1.3	3.8	2.9	2.9	-8.4
<b>Value</b>	-0.6	-2.3	2.0	2.0	9.7	0.9	4.1	7.2	7.2	1.9
<b>Market</b>	-1.5	-6.2	-4.8	-4.8	7.6					
<b>Market - Equal-Weighted</b>	-0.7	-4.1	-1.4	-1.4	3.3					

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 8b – European factor index total returns (%)**

Data as at 28 Mar 2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
<b>Growth</b>	-1.5	-4.3	1.4	1.4	1.7	-0.4	-2.1	-5.7	-5.7	-6.9
<b>Low volatility</b>	0.7	1.3	9.7	9.7	16.9	1.9	3.6	2.0	2.0	7.1
<b>Price momentum</b>	-1.0	0.6	10.3	10.3	18.1	0.1	2.9	2.6	2.6	8.1
<b>Quality</b>	-1.1	-0.9	6.4	6.4	8.0	0.0	1.4	-1.1	-1.1	-1.1
<b>Size</b>	-1.4	-2.0	2.9	2.9	3.4	-0.3	0.3	-4.3	-4.3	-5.3
<b>Value</b>	-0.7	-0.5	10.0	10.0	15.2	0.4	1.8	2.3	2.3	5.5
<b>Market</b>	-1.2	-2.3	7.5	7.5	9.2					
<b>Market - Equal-Weighted</b>	-1.1	-1.4	5.9	5.9	8.8					

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 9 – Model asset allocation**

	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>	↓		
Government	25%	10-40%	21%	↓		
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%			
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%	4%			
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>			

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



**Figure 10 – Model allocations for Global sectors**

	<b>Neutral</b>	<b>Invesco</b>	<b>Preferred Region</b>
<b>Energy</b>	<b>6.1%</b>	<b>Overweight</b>	<b>EM</b>
<b>Basic Materials</b>	<b>3.3%</b>	<b>Neutral</b>	<b>Japan</b>
Basic Resources	2.0%	Neutral	Japan
Chemicals	1.3%	Neutral	US
<b>Industrials</b>	<b>12.9%</b>	<b>Underweight</b>	<b>US</b>
Construction & Materials	1.7%	Underweight	US
Industrial Goods & Services	11.2%	Neutral	US
<b>Consumer Discretionary</b>	<b>14.8%</b>	<b>Underweight</b>	<b>US</b>
Automobiles & Parts	2.8%	Underweight	Europe
Media	1.2%	Overweight	US
Retailers	5.6%	Overweight	US
Travel & Leisure	2.0%	Underweight	EM
Consumer Products & Services	3.1%	Underweight	Japan
<b>Consumer Staples</b>	<b>4.9%</b>	<b>Neutral</b>	<b>US</b>
Food, Beverage & Tobacco	3.1%	Overweight	US
Personal Care, Drug & Grocery Stores	1.8%	Neutral	Europe
<b>Healthcare</b>	<b>8.4%</b>	<b>Underweight</b>	<b>US</b>
<b>Financials</b>	<b>16.1%</b>	<b>Overweight</b>	<b>US</b>
Banks	7.6%	Overweight	US
Financial Services	5.5%	Overweight	US
Insurance	3.0%	Neutral	US
<b>Real Estate</b>	<b>2.6%</b>	<b>Neutral</b>	<b>Japan</b>
<b>Technology</b>	<b>24.4%</b>	<b>Neutral</b>	<b>EM</b>
<b>Telecommunications</b>	<b>3.3%</b>	<b>Underweight</b>	<b>US</b>
<b>Utilities</b>	<b>3.2%</b>	<b>Underweight</b>	<b>US</b>

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: Refinitiv Datastream and Invesco

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## Appendix

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### Definitions of data and benchmarks for Figure 6

**Sources:** we source data from 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 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<sup>st</sup> 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 the World and Europe. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate government bond index.

**Corporate investment grade (IG) bonds:** Bank of America Merrill Lynch investment grade corporate bond total return indices. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate corporate bond index.

**Corporate high yield (HY) bonds:** Bank of America Merrill Lynch high yield total return indices

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

**Commodities:** Goldman Sachs Commodity total return indices

**Real estate:** FTSE EPRA/NAREIT total return indices

**Currencies:** Global Trade Information Services spot rates

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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 March 2025 unless stated otherwise.*

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**Authors**

András Vig  
Multi-Asset Strategist  
Telephone +44(0)20 3370 1152  
[andras.vig@invesco.com](mailto:andras.vig@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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