The Big Picture

Global Asset Allocation 2026 Outlook

Quarterly update from Invesco's Strategy & Insights Team
9 November 2025

For professional/institutional/qualified/accredited investors only.

We expect the global economy to accelerate during 2026. Coupled with Fed easing and a weaker dollar, we expect this to favour cyclical assets. We reduce government bonds and investment grade credit to slightly Underweight within our Model Asset Allocation, while raising high yield to Neutral. We add AAA-rated CLOs (collateralised loan obligations) to our framework, preferring it to cash within the cash equivalents category. Among regions, we continue to favour emerging market and European assets.

Model asset allocation

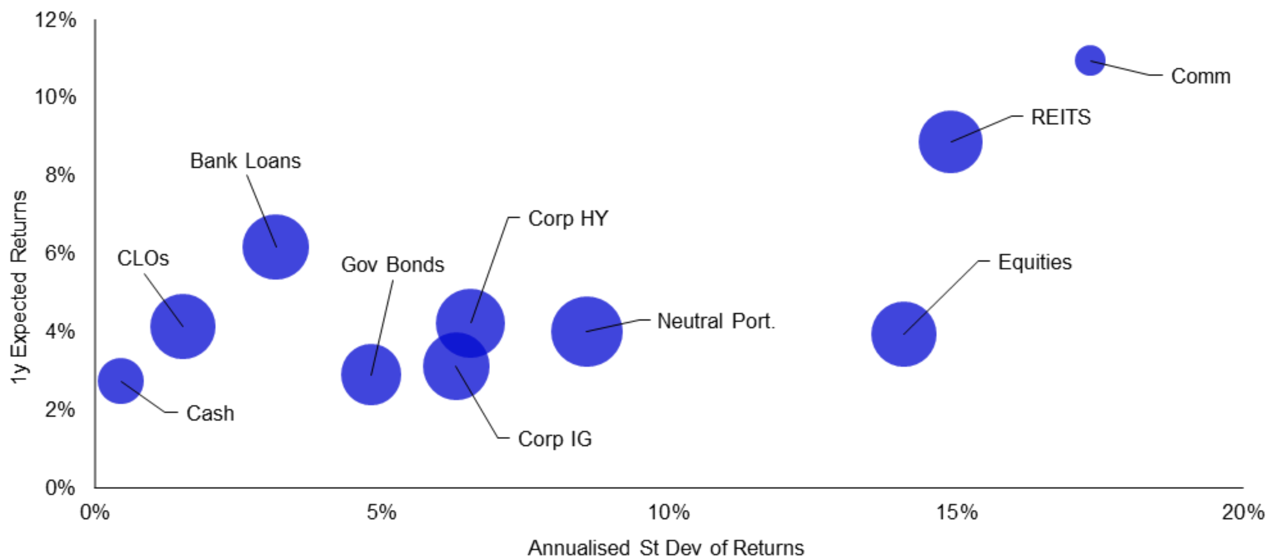
In our view:

- Commodities should benefit as the global economy improves. We stay at the Maximum.
- Real estate (REITS) may benefit as rates fall and economies accelerate. We remain Overweight.
- Bank loans offer an attractive risk-reward trade-off. We stay at the Maximum.
- Corporate high yield (HY) spreads are tight but may remain so. We increase to Neutral.
- Government bond yield direction will be mixed. We reduce to slightly Underweight.
- Corporate investment grade (IG) has a similar profile to government bonds. We reduce to Underweight.
- Equities have rebounded and we remain Underweight (Underweight the US, Overweight non-US).
- Cash equivalents Underweight, with the newly introduced AAA-rated CLOs preferred to cash.
- Gold may be helped by a soft dollar but geopolitics are improving, and it is expensive. We remain at Zero.
- Regionally, we favour Europe and EM.
- 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
- Japan REITS
- Industrial commodities
- European bank loans

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



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 5-year pairwise correlation with other assets (hollow bubbles indicate negative correlation). Cash is an equally weighted mix of USD, EUR, GBP and JPY. CLOs is AAA-rated CLOs. Neutral portfolio ("Neutral Port.") weights shown in Figure 3. As of 31 October 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, JP Morgan, MSCI, S&P GSCI, FTSE Russell, LSEG Datastream and Invesco Strategy & Insights

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Summary and conclusions: A barbell embrace of risk

We expect stronger economic growth in 2026 and further gains in cyclical asset prices

We expect the global economy to accelerate during 2026. Coupled with Fed easing and a weaker dollar, we expect this to favour cyclical assets. We reduce government bonds and investment grade credit to slightly Underweight within our Model Asset Allocation, while raising high yield to Neutral. We add AAA-rated CLOs (collateralised loan obligations) to our framework, preferring it to cash within the cash equivalents category. Among regions, we continue to favour emerging market and European assets.

We favour a barbell mix of the riskier and more defensive assets

Many factors will determine investment outcomes in 2026. We will be watching global growth, inflation, central banks (especially the Fed), US mid-term elections, French and UK politics, US-China relations and the war in Ukraine. **Figure 1** shows that we expect to be best rewarded at the extremes of the volatility spectrum (by both defensive and risky assets). **Figure 2** shows that among riskier assets we favour commodities, REITS and non-US equities. Among defensive assets, we favour **AAA-rated CLOs** (CLOs) and bank loans, both of which we think offer an attractive risk-reward trade off.

HY boosted, while IG and government bonds reduced, thus adding to the risk profile

Figure 3 shows that reductions in the **government bond** allocation are spread across the US, Eurozone and Japan, with emerging markets (EM) and the UK still favoured (helped by higher yields than elsewhere). Those two markets are also favoured in the **investment grade** (IG) category, with the reduced weighting concentrated in the US, where long benchmark yields have fallen more than we think is justified. Our growing confidence about a global economic upswing makes us more willing to accept the low spreads available in the **high yield** (HY) asset class, which is raised to Neutral by adding to the US allocation. These changes add to the risk profile of the allocations.

Overall, we prefer riskier assets and regions

Among riskier assets, we maintain the Maximum allocation to **commodities** (focusing on energy, industrial metals and agriculture) and the Overweight allocation to **real estate** (REITS), though reducing the US allocation and raising Japan. We remain slightly Underweight **equities** due to concerns about US valuations (we are Overweight non-US equities and now boost Japan while reducing the Eurozone). Finally, to emphasise the barbell nature of the allocations, we maintain the Maximum allocation to **bank loans**.

JPY is favoured

Among currencies, we prefer JPY and partially hedge from USD to JPY.

Figure 2: Asset scoring and Model Asset Allocation*

	Total Score	Model Asset Allocation*	Preferred assets
Cash		Underweight	JPY, EUR, GBP
CLOs		Overweight	US
Bank Loans		Overweight	US
Hedge Funds		N/A	
Government Bonds		Underweight	UK, EM
Investment Grade		Underweight	UK, EM
High Yield		Neutral	
Gold		Underweight	
Non-US equities		Overweight	China, Japan, EM
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 23** 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 Strategy & Insights

Model asset allocation*

Figure 3 – Model asset allocation (9/11/2025)

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**	↑	**4%**			
Cash	3%		↓	0%			
AAA CLOs	2%		↑	4%			
Bank Loans	**4%**	**0-8%**		**8%**			
US	3%			6%			
Europe	1%			2%			
Bonds	**40%**	**10-70%**	↓	**36%**			
Government	25%	10-40%	↓	22%			
US	8%		↓	7%		50%	JPY
Europe ex-UK (Eurozone)	7%		↓	6%			
UK	1%			2%			
Japan	7%		↓	3%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
Corporate IG	10%	0-20%	↓	9%			
US Dollar	5%		↓	4%		50%	JPY
Euro	2%			1%			
Sterling	1%			2%			
Japanese Yen	1%			0%			
Emerging Markets	1%			2%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↑	5%			
US Dollar	4%		↑	4%		50%	JPY
Euro	1%			1%			
Equities	**45%**	**25-65%**		**42%**			
US	25%			10%			
Europe ex-UK	7%		↓	10%			
UK	4%			6%			
Japan	4%		↑	7%			
Emerging Markets	5%			9%			
China**	2%			4%			
Real Estate	**4%**	**0-8%**		**6%**			
US	1%		↓	0%			
Europe ex-UK	1%			2%			
UK	1%			2%			
Japan	1%		↑	2%			
Emerging Markets	1%			0%			
Commodities	**2%**	**0-4%**		**4%**			
Energy	1%			2%			
Industrial Metals	0.3%			1%			
Precious Metals	0.3%			0%			
Agriculture	0.3%			1%			
Total	**100%**			**100%**			
Currency Exposure (including effect of hedging)							
USD	51%		↑	30%			
EUR	20%		↓	24%			
GBP	7%		↓	12%			
JPY	14%		↑	20%			
EM	9%			15%			
Total	**100%**			**100%**			

*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. The AAA CLOs category has been added in this edition and replaces gold in the cash equivalents group. See appendices for definitions, methodology and disclaimers.
Source: Invesco Strategy & Insights

A glance in the rear-view mirror

We started 2025 in a relatively optimistic mood

A year ago, we expected 2025 to be constructive for financial markets, as has often been the case in the first year of US presidential terms and when the Fed is easing. We also expected the US dollar to weaken, which we thought could benefit industrial commodities and emerging market assets. Consequently, we reduced cash to zero and government bonds to Neutral within our Model Asset Allocation, while increasing commodities, investment grade (IG), bank loans and REITS (all were Overweight) and high yield (HY, which remained Underweight). We were Overweight non-US equities (especially China) but Underweight the US. Across regions we preferred European and emerging market (EM) assets. We became more aggressive during the year, taking advantage of some equity market weakness (and what we think are improved growth prospects in Europe), while reducing IG and HY (as spreads tightened further).

Gold outperformed other assets, again

As of 31 October, gold was the best performing asset class during 2025 by some margin (among those shown in **Figure 4**). This may have been in response to falling treasury yields and a weakening dollar, but the magnitude of the move in gold suggests other factors were at play (perhaps central bank purchases, geopolitical instability and concerns about the stock of government debt in some developed countries).

Otherwise, cyclical assets seem to have been favoured

Gold can't really be described as cyclical but the assets that follow it in the 2025 performance rankings are. Stocks are once again among the top two assets, with China edging out Europe as the top performing stock market when measured in US dollars (see **Appendix 2**). REITS rank third, with another cyclical asset in fifth (HY). Commodities was the one cyclical asset that has been disappointing, with weakness in energy and agricultural prices offsetting the effect of strong precious and industrial metal prices. Defensive assets (cash, government bonds and bank loans) were among the assets generating the lowest returns (IG did better).

Gold has rarely generated such strong returns

It is hard to find historical templates for a period in which Gold and stocks have dominated the performance rankings for three years. Gold has rarely produced stronger returns than in 2025, the only examples since 1970 being 1973 (71.9%), 1974 (72.7%) and 1979 (132.6%). Of course, that was a period when inflation was much higher than today (and when the gold price had just been liberated). Those periods of extreme strength were followed by negative performance in the following years. Indeed, over the next two decades gold largely generated negative or low annual returns.

Figure 4 – Total returns on global assets by calendar year (in USD)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*
Gold 29.3%	Gold 11.1%	REITS 27.3%	Stocks 27.4%	REITS 12.1%	Loans 0.2%	HY 14.8%	Stocks 23.1%	Cash 2.0%	Stocks 28.4%	Gold 24.8%	CTY 40.4%	CTY 26.0%	Stocks 24.4%	Gold 27.1%	Gold 64.7%
REITS 18.6%	Govt 6.8%	HY 19.3%	HY 8.0%	Stocks 5.5%	Cash 0.2%	CTY 11.4%	REITS 13.9%	Loans 1.6%	REITS 21.7%	Stocks 16.5%	REITS 23.1%	Cash 1.5%	Gold 13.8%	Stocks 19.2%	Stocks 24.7%
HY 13.9%	IG 4.5%	Stocks 16.5%	Loans 6.8%	IG 3.1%	REITS 0.1%	Loans 9.6%	Gold 12.6%	Govt -0.3%	Gold 18.7%	IG 10.3%	Stocks 22.3%	Gold -0.4%	Loans 13.4%	Loans 9.3%	REITS 16.1%
Stocks 12.3%	HY 2.6%	IG 11.1%	REITS 3.3%	Loans 2.0%	Stocks -0.3%	Gold 9.0%	HY 10.2%	Gold -1.7%	CTY 17.6%	Govt 9.2%	Loans 5.4%	Loans -1.1%	HY 13.4%	CTY 9.2%	IG 11.6%
Loans 9.6%	Loans 1.1%	Loans 9.8%	Cash 0.2%	Govt 0.2%	Govt -2.6%	Stocks 8.2%	IG 9.2%	HY -3.3%	HY 13.7%	HY 8.0%	HY 1.4%	HY -13.2%	REITS 9.5%	HY 7.5%	HY 11.3%
CTY 9.0%	Cash 0.2%	Gold 5.6%	IG 0.1%	Cash 0.2%	IG -3.8%	REITS 4.4%	Govt 6.5%	IG -3.5%	IG 11.4%	Loans 3.0%	Cash 0.0%	IG -16.7%	IG 9.5%	Cash 5.3%	CTY 9.1%
IG 6.0%	CTY -1.2%	Govt 1.7%	CTY -1.2%	HY -0.1%	HY -4.2%	IG 4.3%	CTY 5.8%	REITS -5.4%	Loans 8.2%	Cash 0.5%	IG -3.0%	Stocks -17.7%	Cash 5.1%	IG 1.2%	Govt 8.0%
Govt 5.6%	Stocks -5.0%	Cash 0.2%	Govt -4.3%	Gold -1.8%	Gold -10.4%	Govt 1.7%	Loans 4.4%	Stocks -8.2%	Govt 5.5%	REITS -6.3%	Gold -4.0%	Govt -18.0%	Govt 3.6%	REITS 1.1%	Loans 6.0%
Cash 0.3%	REITS -5.6%	CTY 0.1%	Gold -27.3%	CTY -33.1%	CTY -32.9%	Cash 0.5%	Cash 1.1%	CTY -13.8%	Cash 2.3%	CTY -23.7%	Govt -6.9%	REITS -22.8%	CTY -4.3%	Govt -4.2%	Cash 4.3%

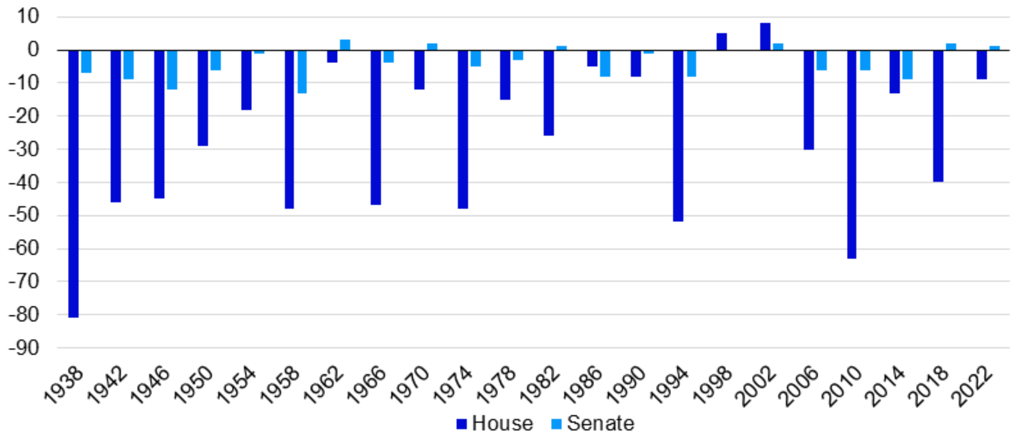
Notes: **Past performance is no guarantee of future results.** Based on annual total return data from 2010 to 2025 in USD (*2025 is created by annualising data up to 31 October). Calculated using spot price of gold, ICE BofA 0-3-month US treasury index (Cash), ICE BofA Global Government Index (Govt), ICE BofA Global Corporate Index (IG), ICE BofA Global HY Index (HY), Credit Suisse Leveraged Loan Indices (Loans, with the global index constructed by Invesco Strategy & Insights as a weighted average of the US and Western European indices), GPR General World Index (REITS), S&P GSCI total return index for commodities (CTY) and MSCI World Index (Stocks).
Source: ICE BofA, GPR, MSCI, S&P GSCI, LSEG Datastream and Invesco Strategy & Insights.

2025 was another busy year for politics and geopolitics

Politics in 2026: Another pivotal year in the US

2025 was again busy in terms of geopolitics, with President Trump launching trade wars, while trying to end conflict in the Middle East and Ukraine. OPEC+ has continued to boost output, which has depressed the price of oil. In Europe, German elections resulted in a change of government and a radical change of attitude towards government spending and debt. France and Japan didn't have elections but both had a change of prime minister. In the case of France the change was associated with political chaos, whereas in Japan it brought hope of a fiscal impulse.

Figure 5 – Seats gained/lost by the president's party in US mid-term elections



Notes: Based on mid-term elections from 1938 to 2022.
Source: The American Presidency Project and Invesco Strategy & Insights

The main focus in 2026 is likely to be US mid-term elections, but France, Hungary, Israel and the UK could also be in the spotlight

US mid-term elections are likely to be the dominant political event in 2026. History suggests that President Trump will lose control of Congress (and his ability to legislate at will). The president's party has lost ground in 20 of the last 22 mid-term House elections and the Republican's currently hold 219 seats, only one more than the 218 needed for a majority (see **Figure 5**). The only exceptions to this were during the second term of Bill Clinton and the first term of George W. Bush, when both presidents enjoyed Gallup approval ratings above 60% (Donald Trump's latest rating is 41%, as of October 2025). Elsewhere, UK local elections could deepen the sense of despair for the government (if Labour loses a lot of seats) and opinion polls suggest there could be a change of government in Hungary. Though not scheduled, legislative elections may take place in France. Finally, the much anticipated elections in Israel could see a change of government and, perhaps, a change of approach to the broader Middle East.

Figure 6: Selected elections during 2026

12 January	Uganda	President & Parliament
8 March	Colombia	Parliament
29 March	Thailand	Parliament
12 April	Peru	President & Congress
April	Hungary	Parliament
7 May	UK	Local
By June	Algeria	Parliament
June	Ethiopia	Parliament
13 September	Sweden	Parliament
By 20 September	Russia	Parliament
September	Morocco	Parliament
4 & 25 October	Brazil	President & Congress
By 27 October	Israel	Parliament
3 November	USA	Mid-term Congressional

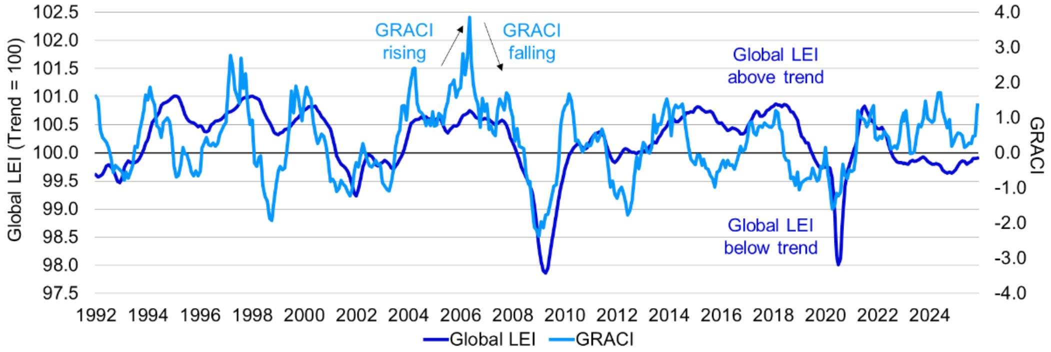
Source: National Democratic Institute, Wikipedia, Invesco Strategy & Insights

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

Economic momentum: improving, despite concerns about the US

Figure 7 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 (though below trend), while the GRACI (Global Risk Appetite Cycle Indicator) suggests risk appetite has improved.

Figure 7 – Global risk appetite and the global business cycle

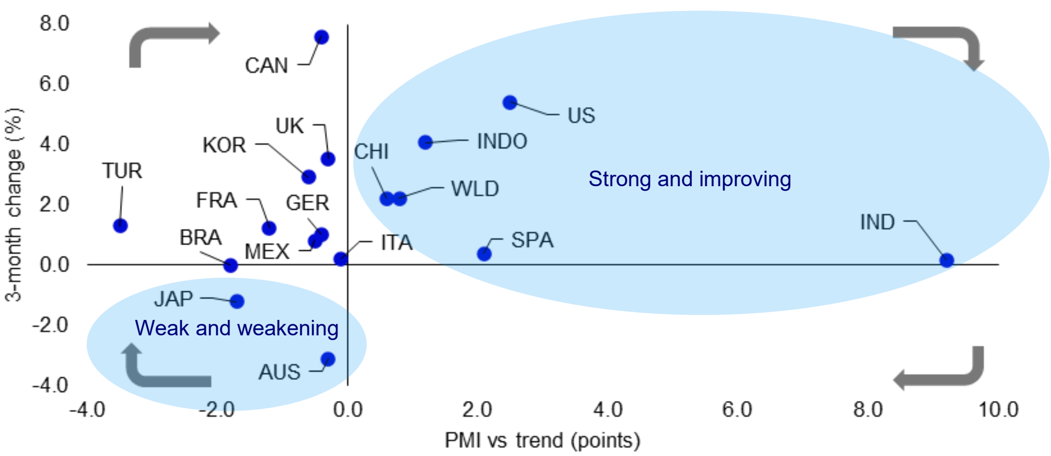


Note: **past performance does not guarantee future results**. Monthly data from January 1992 to October 2025 (as of 31 October 2025). Both Global LEI (Leading Economic Indicator) and GRACI (Global Risk Appetite Cycle Indicator) are proprietary tools provided by Invesco Solutions. Global LEI is a weighted 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 are improving and we expect global acceleration into 2026

PMI data has been improving. **Figure 8** shows that manufacturing PMI indices have largely improved over recent months. Also, some are above trend (50), suggesting that manufacturing sectors are in expansionary territory, which we think is good news for the economic cycle overall (Japan and Australia are obvious exceptions). In the absence of official data from the US, we are more reliant than usual on private sector data sources and, though the PMI data looks promising, the more popular ISM Manufacturing survey has been below 50 since March 2025. The improvement in the global economy hinted at by this PMI data is exactly what we would expect given the decline in policy rates and growth in real wages in many countries. Among risks, we worry that trade conflicts are dampening global growth and that inflation is no longer falling.

Figure 8 – Manufacturing PMIs are improving



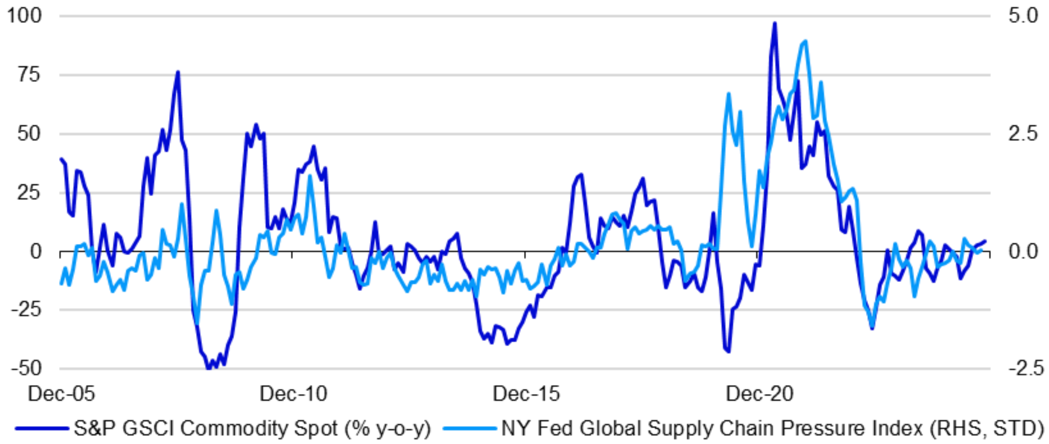
Note: based on monthly data up to October 2025. PMI data is provided by S&P Global and "PMI vs trend" is the PMI for each country/region minus 50. Arrows indicate our view of the direction of movement around the chart. See appendices for country abbreviations.
Source: S&P Global, LSEG Datastream and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

Inflation: No longer trending down and could become an issue

Proximate causes of inflation are in neutral territory

Since peaking in 2022, global inflation has been on a clear downward path. **Figure 9** shows that part of the reason was the weakening of commodity prices and the reversal of pandemic era supply chain pressures. However, both those factors are now in neutral territory, so it should come as no surprise that inflation appears to be stabilising.

Figure 9 – Proximate drivers of inflation remain neutral



Past performance is no guarantee of future results. Monthly data from December 2005 to October 2025 (as of 31 October). NY Fed Global Supply Chain Pressure Index tracks the state of global supply chains using data from the transportation and manufacturing sectors, as constructed by the Federal Reserve Bank of New York. It is shown as standard deviations from the historical mean. Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, S&P GSCI, LSEG Datastream and Invesco Strategy & Insights

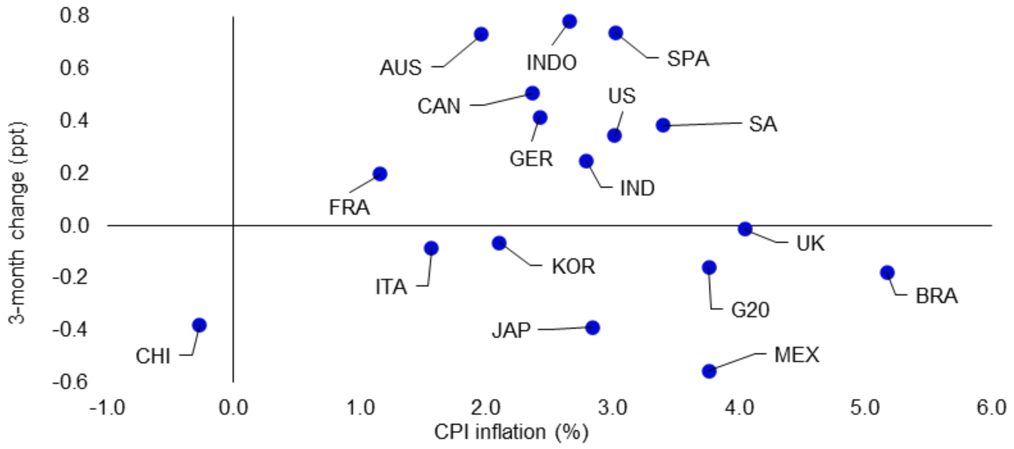
Inflation remains above target in many countries and is no longer trending down

Of course, the picture varies by country. **Figure 10** shows national inflation rates across a range of economies (and the G20 aggregate), along with how those inflation rates have changed in the last three months. Few are the countries where inflation is below the 2% target that is commonly employed by central banks. Even worse, a number of economies have seen an uptick in inflation over recent months. That is unsurprising in the case of the US, with tariffs adding to price pressures. It is more surprising in countries such as France, Germany and Spain. Obvious exceptions are China, where inflation is close to zero and falling, and Japan, where inflation may be above target but is at least falling.

It could become a focus during 2026

Looking ahead, given that we expect economies to accelerate, we suspect that inflation will pick up during 2026 (as wages and commodity prices increase). Further, **Figure 12** suggests that money supply growth is picking up, which we think could be associated with higher inflation over the next year or two. Hence, we suspect that inflation may become a discussion topic during 2026.

Figure 10 – Consumer price inflation trends are mixed



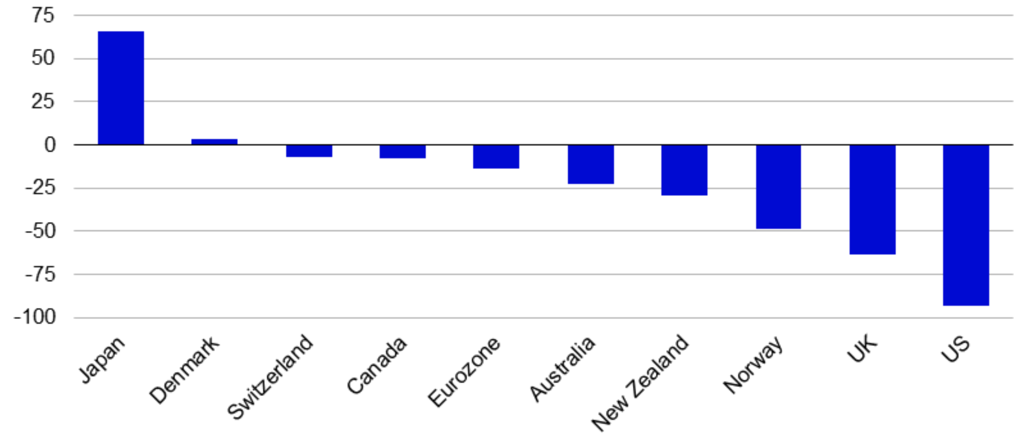
Note: Based on monthly data up to September 2025. See appendices for country abbreviations.
Source: OECD, national sources, LSEG Datastream and Invesco Strategy & Insights

The Fed is expected to continue easing in 2026 but some central banks are near the end of their easing cycles

Policy rates: desynchronised cycles

Most central banks have cut rates in 2024 and 2025 and we expect an easing bias in 2026. However, some European central banks seem close to the end of their easing cycles. **Figure 11** shows that markets see little scope for further rate cuts by the ECB and SNB. On the other hand, the Fed has lagged other central banks, having waited to assess the tariff impact on inflation. Market pricing now suggests the Fed will undertake the most aggressive easing to end-2026 among the central banks shown, with nearly 100 basis points of cuts (taking the upper end of its policy range to just above 3.00%). The BOJ is expected to move in the opposite direction, as it continues to normalise its policy. We are broadly in agreement with these market views (see **Figure 25**).

Figure 11 – Market implied change in central bank rates to end-2026 (basis points)

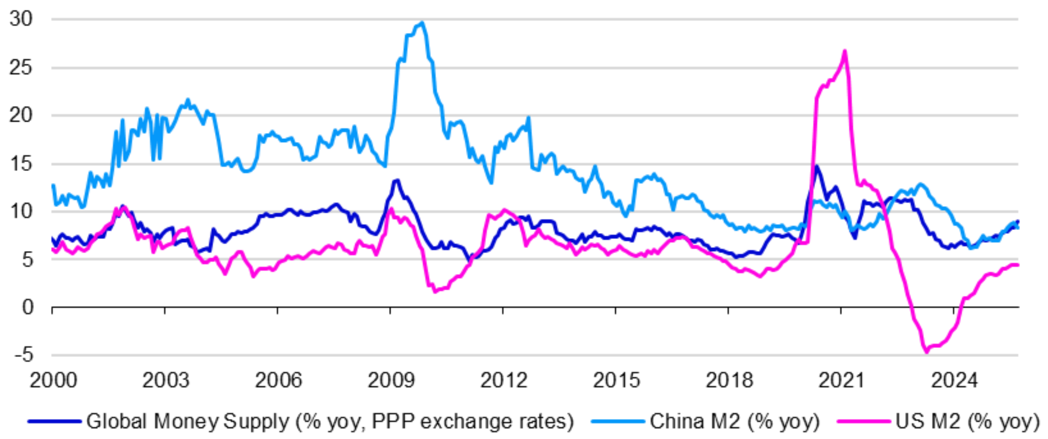


Note: Based on calculations by LSEG Refinitiv (except for New Zealand which is based on Bloomberg calculations), concerning changes in central bank policy rates using interest rate futures or overnight index swaps. Changes are to the final central bank meeting of 2026, except for New Zealand which is up to September 2026. As of 31 October 2025.
Source: LSEG Refinitiv, Bloomberg and Invesco Strategy & Insights

Past and future easing could support growth

We anticipate that past and future rate cuts will be supportive of economic growth and are encouraged by the pick-up in money supply growth shown in **Figure 12**. China and the US are a big part of the acceleration in our global aggregate, while the Eurozone is a notable exception with money supply growth easing since February 2025. Also, though money supply growth has recently picked up in Japan, it remains limited (around 1.0%).

Figure 12 – Money supply growth is picking up



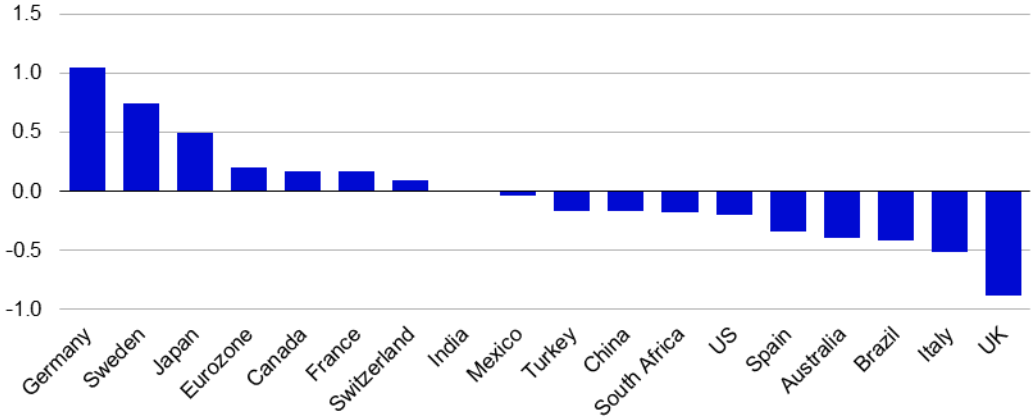
Note: based on monthly data from January 2020 to September 2025. "Global Money Supply" is based on an aggregation of broad money supply aggregates (usually M3) for the following countries: Australia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, Eurozone, Hungary, India, Indonesia, Israel, Japan, Mexico, New Zealand, Norway, Poland, Russia, South Africa, South Korea, Sweden, Switzerland, Turkey, United Kingdom and United States. The aggregation is based on national money supplies using purchasing power parity (PPP) exchange rates to convert to US dollars (PPP exchange rates are those which equalise spending power across countries and are usually more stable than market exchange rates).
Source: OECD, Oxford economics, LSEG Datastream and Invesco Strategy & Insights

Fiscal support will be selective in 2026, led by Germany and possibly Japan

Fiscal policy: mildly supportive in some regions during 2026

Figure 13 is based on IMF projections and suggests that Germany will be the major economy that experiences the biggest fiscal impulse in 2026 (of around 1.0% of GDP), due to extra military and infrastructure spending. Elsewhere, the Japanese government is also expected to support its economy, with newly installed prime minister Takaichi emphasising cost of living measures, investment in growth industries and military spending, though it is too soon to know the extent of the extra support (the forecast in **Figure 13** preceded her appointment as PM). Given all of the talk about President Trump's One Big Beautiful Bill Act, it may seem surprising that the US is not expected to receive a fiscal boost 2026. This is because some of the important measures in that budget were about cancelling tax rises that had been programmed, rather than cutting taxes. Therefore it is avoiding a fiscal squeeze rather than offering a boost.

Figure 13 – IMF estimate of fiscal impulse in 2026 (% of potential GDP)

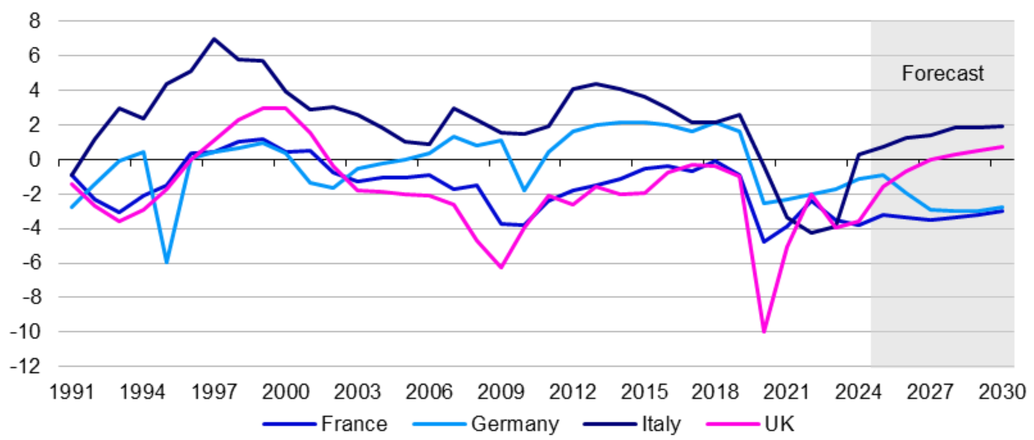


Note: Based on IMF Fiscal Monitor (October 2025) calculations, with fiscal impulse being the change between 2025 and 2026 in the cyclically-adjusted primary government balance (as percent of potential GDP). The primary balance is the government budget balance before allowing for debt interest payments.
Source: IMF Fiscal Monitor (October 2025), LSEG Datastream and Invesco Strategy & Insights

The fiscal impulse in Germany could continue into 2027 but not much beyond that

To underline the mixed nature of the fiscal outlook in 2026, **Figure 14** shows the IMF forecast path of cyclically-adjusted primary budget balances. While Germany is expected to provide a fiscal boost to its economy (via higher deficits), Italy and the UK are expected to do the opposite by consolidating their government finances. Basically, Germany has a much lower debt burden then Italy and the UK (and France) and is now in a much better position to support its economy via military and infrastructure spending. That advantage is expected to continue into 2027, after which point Germany's deficits are expected to stabilise, while France, Italy and the UK are expected to tighten further.

Figure 14 – Cyclically-adjusted primary government balances (% of potential GDP)



Note: Annual data from 1991 to 2030, based on IMF Fiscal Monitor (October 2025) calculations and forecasts. Primary balances are government budget balances before taking debt interest payments into account.
Source: IMF Fiscal Monitor (October 2025), LSEG Datastream and Invesco Strategy & Insights

Asset momentum: cyclical assets outperformed over the last three months

It has been a good three months for most assets, especially gold and the more cyclical categories…

Total returns were positive on nearly all of the fourteen monitored global assets over the last three months, measured in US dollars (see **Figure 15**). With the exception of gold, the strongest returns were delivered by what we consider to be cyclical assets: equities (non-US and US) and REITS, though commodities did less well and private equity delivered negative returns. We were Overweight all of those except US equities and private equity (the latter is not in our Model Asset Allocation framework). Regional detail for some of those assets is shown in **Appendix 2**. Among equity markets, China, Japan and the US were among the best performers since the last Big Picture document was published two months ago (we were Overweight China and Japan). Among commodities, the best returns were delivered by energy. The US dollar was broadly stable over the last three months (based on the Goldman Sachs Trade Weighted Index).

… reflecting 12-month performance, though Bitcoin has moved down the rankings and REITS have climbed

Those three-month returns largely reflect the pattern of the last 12 months. However, Bitcoin, which was top of the rankings over 12 months, generated negative returns over three months. It is also noticeable that commodities have had a good 12 months, aided by the performance of metals (see **Appendix 2**). Strikingly, private equity does not appear to have benefitted from the performance of publicly quoted markets (it is our observation that it is often a high-beta version of those public markets).

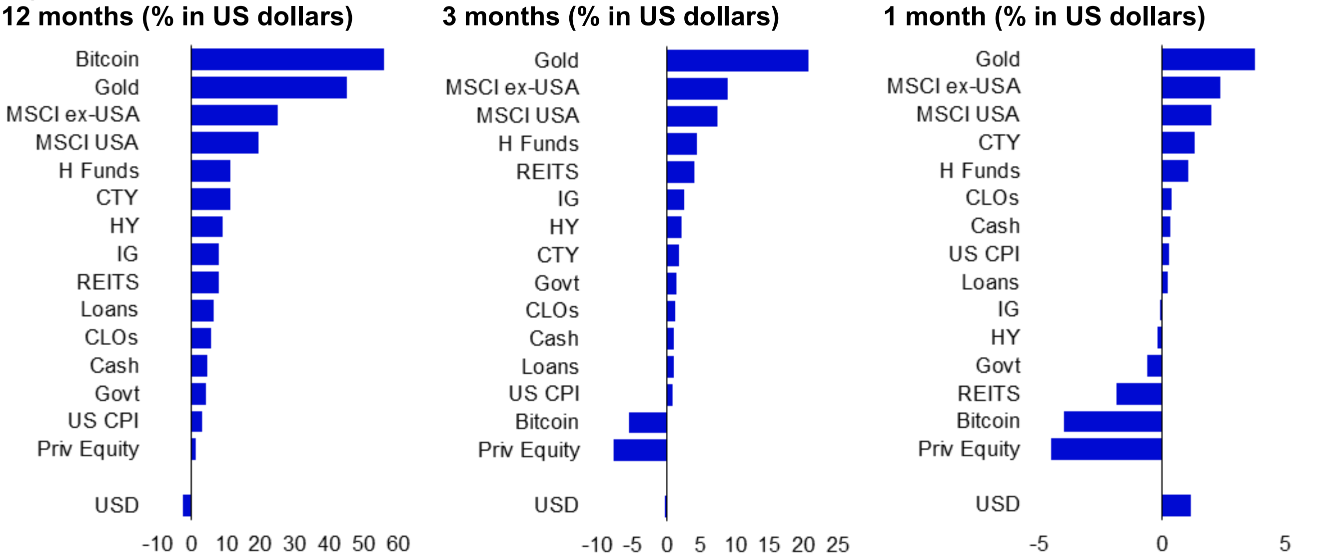
So long as the global economy accelerates, we expect continued outperformance by riskier assets

The question is whether the bullish performance of recent months, with stocks outperforming government bonds and non-US equities outperforming the US, can continue into 2026. Our view is that it will depend upon the economic cycle. Without a marked slowdown in global GDP growth, we doubt that defensive assets such as government bonds and IG will be among the best performers. Rather than such a slowdown, we expect global acceleration over the next 12 months, which in our opinion points to outperformance by riskier assets (non-US equities and industrial commodities, for example). Among defensive assets, we believe that cash, AAA-rated CLOs and bank loans will deliver better risk-adjusted returns than fixed income counterparts.

But risks remain

Even with global economic acceleration, our concerns about the volatility of US policy and valuations make us wary of US equities. Other assets that we believe are extended are USD, gold and Bitcoin (see the following section on valuations).

Figure 15 – Global asset total returns over various periods



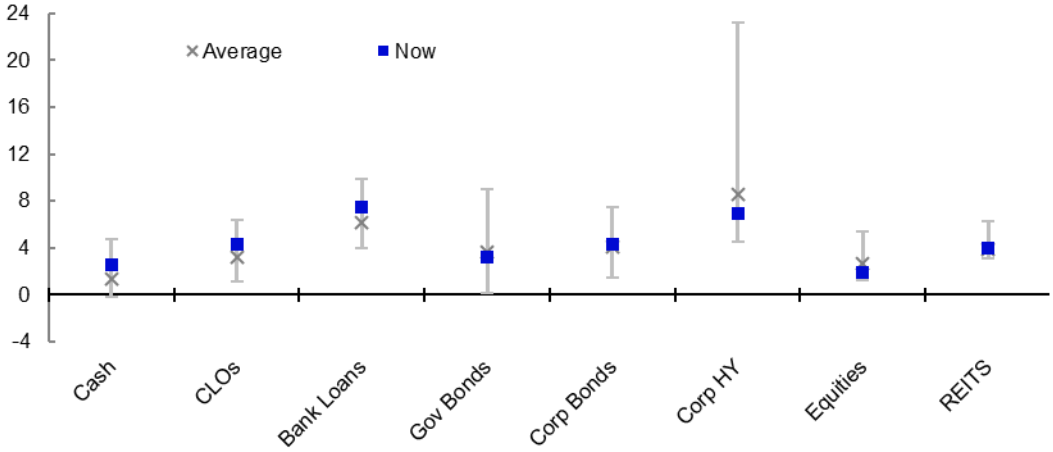
Past performance is no guarantee of future results. Based on monthly total return data for global assets in US dollars up to 31 October 2025. Abbreviations are as follows: "CTY" is commodities, "Govt" is government debt", "H Funds" is hedge funds, "HY" is high yield credit, "IG" is investment grade credit, "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, Credit Suisse/UBS, GPR, Goldman Sachs, JP Morgan, MSCI, S&P GSCI, LPX, Bloomberg, LSEG Datastream and Invesco Strategy & Insights

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

Asset valuations: short duration assets still have a yield advantage

Judging by asset yields, valuations vary depending upon duration. Despite policy rate cuts, the yields on shorter duration instruments such as cash, CLOs and bank loans remain above historical norms (see **Figure 16**). 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 16 – 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 31 October 2025. Source: ICE BofA, Credit Suisse Indices/UBS, JP Morgan, LSEG Datastream and Invesco Strategy & Insights

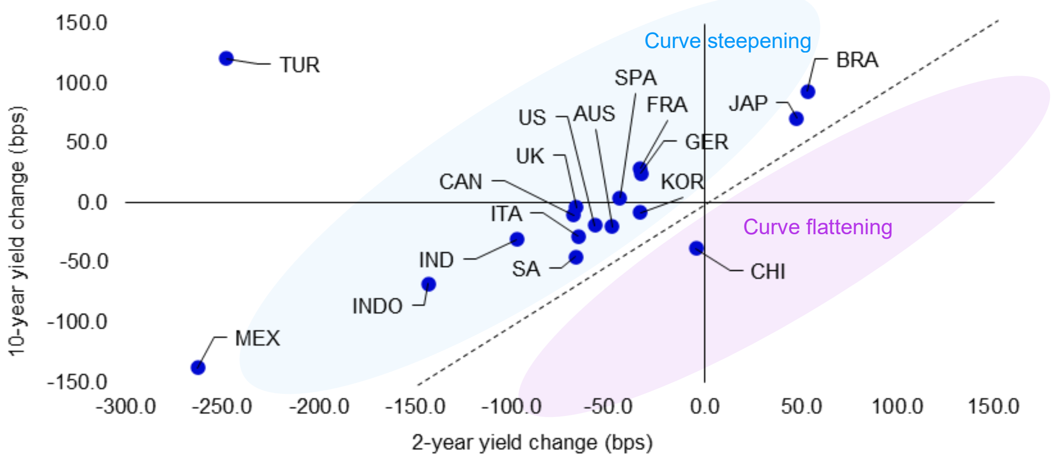
EM and eurozone bond yields are relatively attractive, while HY spreads are narrow

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 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 the US, while UK yields are relatively high. HY spreads remain too narrow, in our opinion, but may remain narrow.

It is still not clear we will be rewarded for taking duration risk

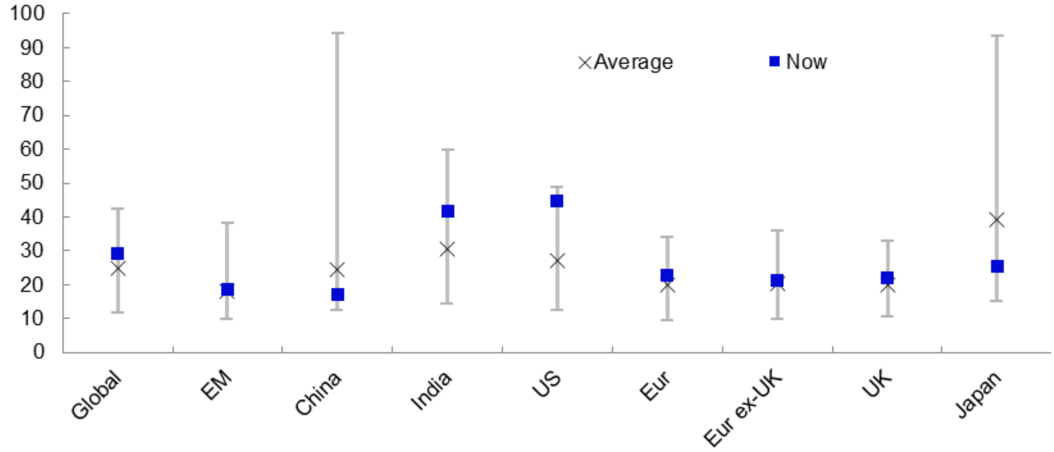
Yield curves have steepened in most countries (see **Figure 17**) and are now positively sloped (on the whole). Though a decline in shorter (2-year) yields has been an important factor in the steepening of curves over the last 12 months, a rise in 10-year yields has also played a role in some countries, making it hard to benefit from extending duration.

Figure 17 – Change in 2-year and 10-year government yields over last year



Note: **Past performance is no guarantee of future results**. The chart shows the change in government bond yields in the 12 months to 31 October 2025. "bps" is basis points. See appendices for country abbreviations. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 18 – 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 31 October 2025.
Source: LSEG Datastream and Invesco Strategy & Insights

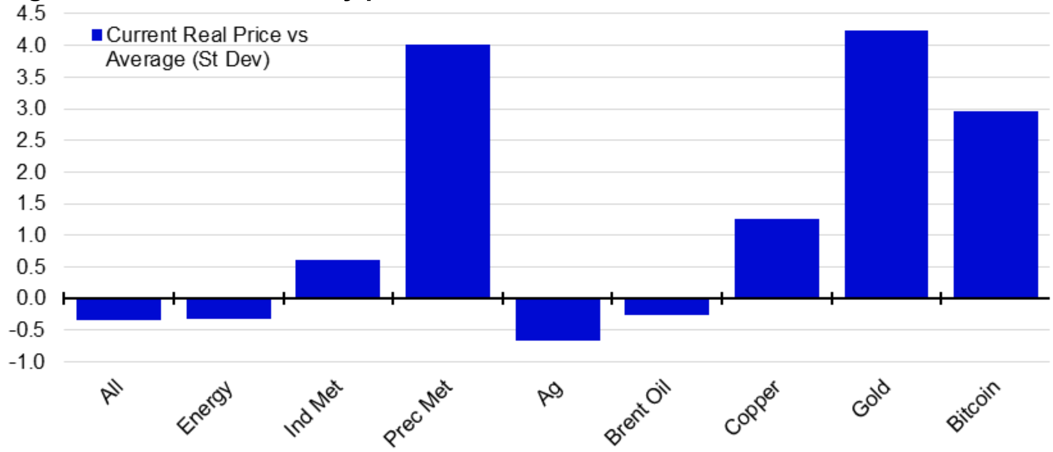
US and Indian equities remain expensive, while those of China are still below historical norms

Judging by cyclically adjusted P/E ratios, equity markets are more expensive than when we wrote about the outlook for 2025 in November 2024. All of the markets in **Figure 18** are now more expensive than at end-October 2024, with the exception of India (which nonetheless remains more expensive than usual). However, the rankings are broadly similar, with the US very expensive (relative to other regions and relative to its own history), Europe close to historical norms (with Japan at a similar level in absolute terms) and China at the lower end of its own historical range and cheaper than other regions. As a result we believe there is more scope for returns in non-US markets, especially China, and we think there may be catalysts for growth in Europe, which has not always been the case.

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

Turning to commodities, **Figure 19** 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). There may be good reasons why gold and Bitcoin have strengthened but they are unusually expensive (admittedly, it is hard to judge Bitcoin, as it only came into existence in 2009). On the other hand, industrial commodities (energy and industrial metals) are in line with historical norms and we think they could benefit if the global economy accelerates.

Figure 19 – Real commodity prices versus historical norms



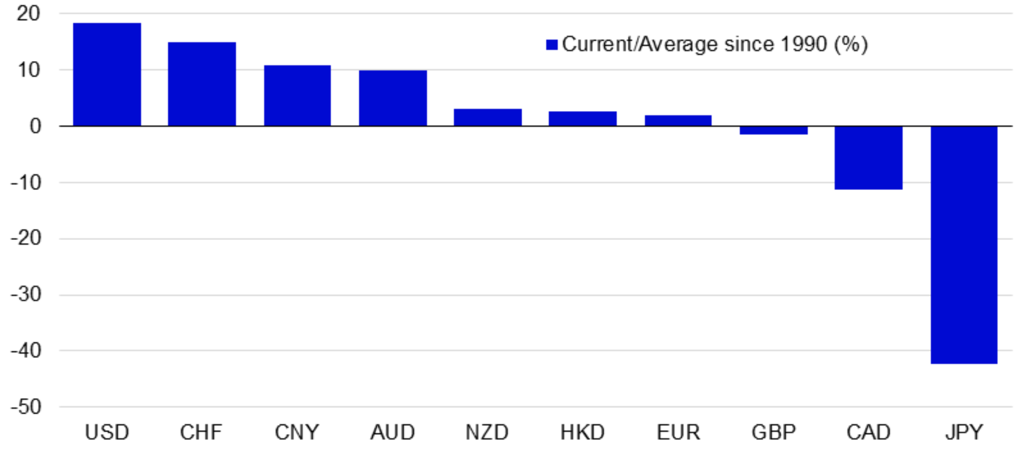
Note: Abbreviations: “Ind Met” is industrial metals, “Prec Met” is precious metals and “Ag” is agriculture. Historical ranges start on: All and Ag 31 December 1969; Energy 31 December 1982; Ind Met 31 January 1977; Prec Met 31 December 1974; Brent 29 May 1987; copper 31 January 1974, gold 31 January 1974, Bitcoin 30 November 2010. Prices are deflated by the US consumer price index. As of 31 October 2025. See appendices for definitions, methodology and disclaimers.
Source: GSCI, LSEG Datastream and Invesco Strategy & Insights

The Aussie dollar has been in the ascendant, while the yen has weakened

Currency outlook: US dollar expected to weaken further

Among the most traded currencies, the Australian dollar has been the strongest in trade weighted terms over recent months, followed by the Chinese yuan (according to Goldman Sachs indices). Both may have been supported by optimism about the global economy, in our view. The Japanese yen has been among the weakest over the last three months and remains the cheapest, when compared to historical norms in real trade weighted terms (see **Figure 20**).

Figure 20 – 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 Goldman Sachs Real Trade-Weighted Indices). As of 31 October 2025.
Source: Goldman Sachs, Bloomberg and Invesco Strategy & Insights

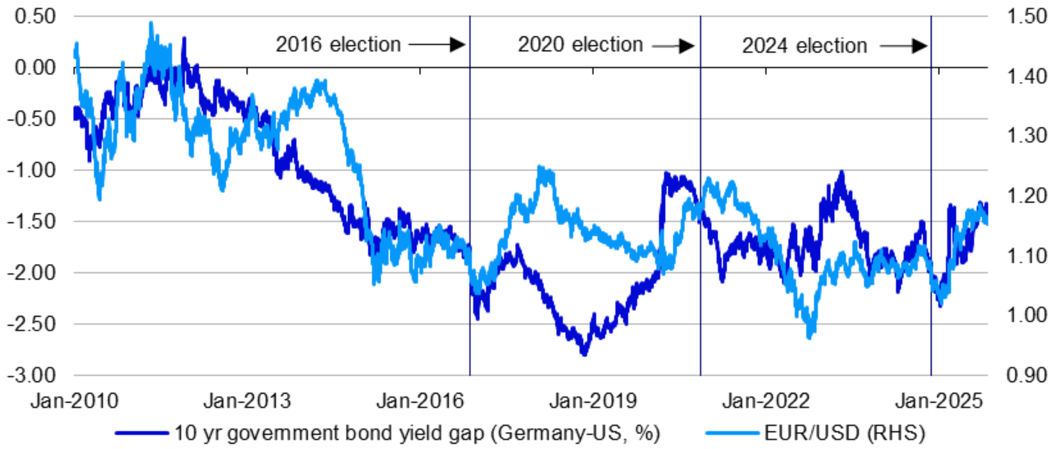
We think the yen has a lot of upside potential

With the BOJ expected to further tighten, while most other central banks ease (and with 10-year Japanese government yields at levels not seen since mid-2008), we believe the yen has potential to strengthen. In fact, we expect it to be the strongest major currency.

We expect the dollar to continue weakening but not as much as in 2025

The arguments for and against dollar weakness are more balanced than they were. Against the dollar weakness argument is that US 10-year yields have already fallen a lot and that a rebound (as we expect) has historically strengthened the greenback if not matched by yields elsewhere (see **Figure 21** as an example). Also, a recovering US economy as the Fed eases and, perhaps, the Supreme Court rules against the use of tariffs could strengthen the US currency. However, we think the dollar remains expensive (see **Figure 20**) and we expect US short rates to fall more than in other major economies due to the Fed easing more aggressively than other central banks. Finally, policymaking in the US remains erratic, which could work against the currency.

Figure 21 – EUR/USD and bond yield spread



Note: **Past performance is no guarantee of future results**. Based on daily data from 1 January 2010 to 31 October 2025 (as of 31 October 2025). "2016 election" etc. show the dates US presidential elections.
Source: LSEG Refinitiv and Invesco Strategy & Insights

We were cautiously optimistic about asset returns

Threats, opportunities and risk appetite assessment

When the last Big Picture was published in September, we continued to cautiously embrace risk, believing the global economy could accelerate (helped by falling interest rates and rising real wages). The caution came largely from policy uncertainties in the US and the extended valuation of some US assets (notably stocks and HY).

But some risks appear to have deepened

Since then, it is our feeling that some risks have deepened:

- The current condition of the US economy is hard to assess, given the lack of official data due to the ongoing government shutdown. Private sector data is mixed: consumer confidence has worsened but business surveys have improved. Labour market data remains weak, with layoffs appearing to increase.
- The French government remains fragile, and elections may be needed. A swing to the right in any election could weaken the role of France in the European Union.
- Some geopolitical risks have deepened, with no end in sight to the conflict in Ukraine and US-Russia relations perhaps worsened by the imposition of further sanctions.
- Inflation and some central bank policy rates may be bottoming out.
- Government debt is a problem in many developed countries and could impact yields.

But there are some positive factors

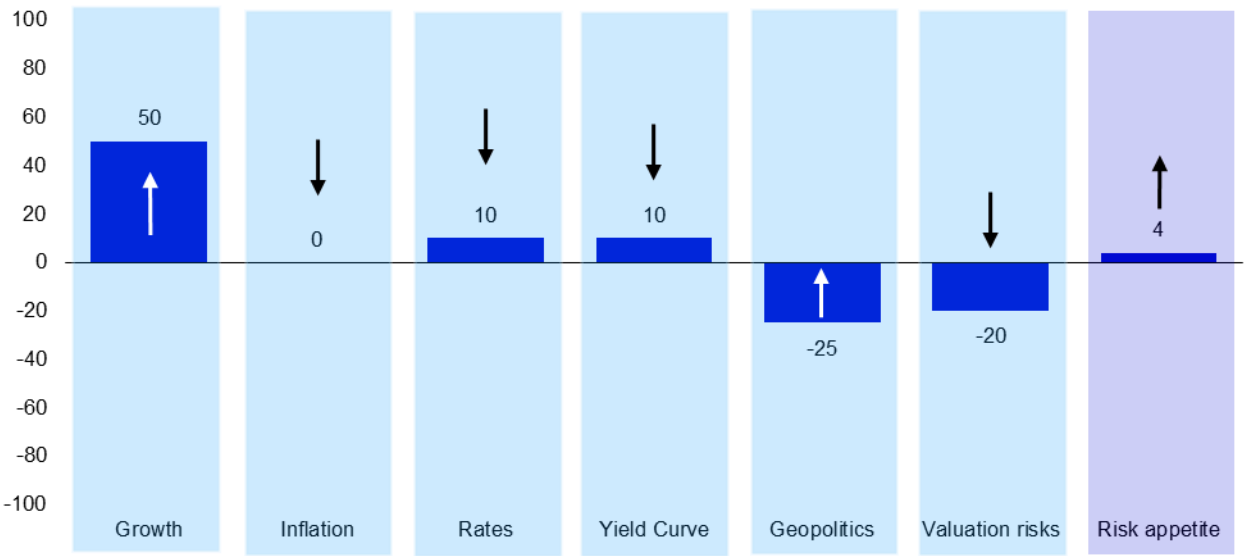
This being said, we think there are some new opportunities:

- The Fed has started a new round of easing. There have been two rate cuts in recent months and we think there is more to come over the next year.
- The global economy appears to be accelerating (judging by leading indicators and PMIs), which we think is good news for cyclical assets.
- There have been some improvements on the geopolitical front, notably the ceasefire in Gaza, engineered by the US and a coalition of Middle East countries.
- The recent meeting between the leaders of China and the US appears to have reduced tensions between the two countries. We welcome anything that could avert a full trade war between them. There is also a possibility that the US Supreme Court will rule against the president's use of tariffs, which could help the global economy.

Our risk appetite has improved but remains only slightly positive

Figure 22 shows our assessment of factors that impact our risk-appetite. The arrows suggest the recent changes in risk appetite factors have mainly been negative (some rate easing cycles close to ending, valuation risks growing in some assets, such as gold and US equities, for example). However, the exceptions are important, with both the outlook for growth and geopolitics deemed to have improved. The upshot is the average "Risk appetite" score has risen slightly (from 3 to 4). Hence, we feel slightly more comfortable in embracing cyclical risk within our Model Asset Allocation framework.

Figure 22: 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 Strategy & Insights

Projections and asset preferences

Economies to accelerate but there are risks and some assets are expensive

We think the global economy could accelerate over the next 12 months in response to central bank easing and real wage growth (including in the US, where ongoing Fed rate cuts could help end the current growth pause). Inflation may pick up in 2026. Despite recent improvement in some areas, geopolitical risks remain. Some asset categories appear to be focused on the good news and ignore the risks, in our opinion.

Central banks to continue easing but some are close to the end of that process

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

- Global GDP growth will improve
- Global inflation is no longer trending down and money supply growth is picking up
- The Fed will ease but other central banks have less need (the BOJ will tighten)
- Yield curves will mostly steepen (though flatten in Japan)
- Credit spreads will widen slightly and defaults rise a bit (from low levels)
- Bank loan current yield spreads will widen slightly and defaults rise (from low levels)
- Equity and REIT dividend growth improves but is low; yield direction will be mixed
- USD will weaken as the Fed eases, especially versus JPY (as the BOJ tightens)
- Commodities will benefit from more global growth and USD weakness

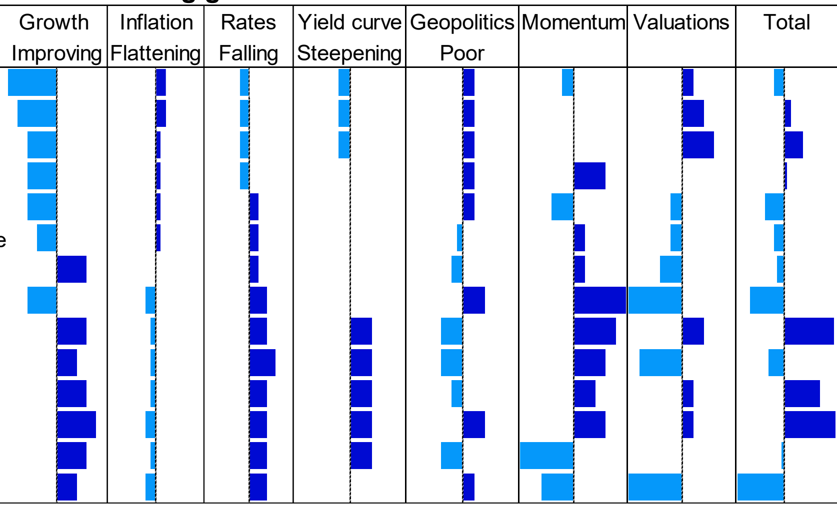
More growth, falling policy rates and easing geopolitical concerns could help riskier assets

Figure 23 shows our assessment of the likely impact of a range of factors on asset returns over the next 12 months. For example, we believe improving growth is likely to benefit cyclical assets, while geopolitical risks and valuations favour lower duration and defensive assets. Falling central bank rates could be more beneficial to riskier assets, as would yield curve steepening but these trends are likely to become less generalised (perhaps more focused on the US and UK, for example). A tense geopolitical situation may have benefited gold, commodities and Bitcoin but we think those risks are easing. Momentum has recently swung towards riskier and more cyclical assets (and gold). The "Total" score is an average of the individual scores, except that "Valuations" is given three times the weighting of other categories (reflecting our value bias).

We favour non-US equities, REITS and commodities. Among defensive assets, we favour bank loans

The total scores push us to favour non-US equities, commodities, REITS and bank loans (see **Figure 3** for detailed allocations). This is confirmed by the projected returns shown in **Figure 24**. 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 caution on US stocks.

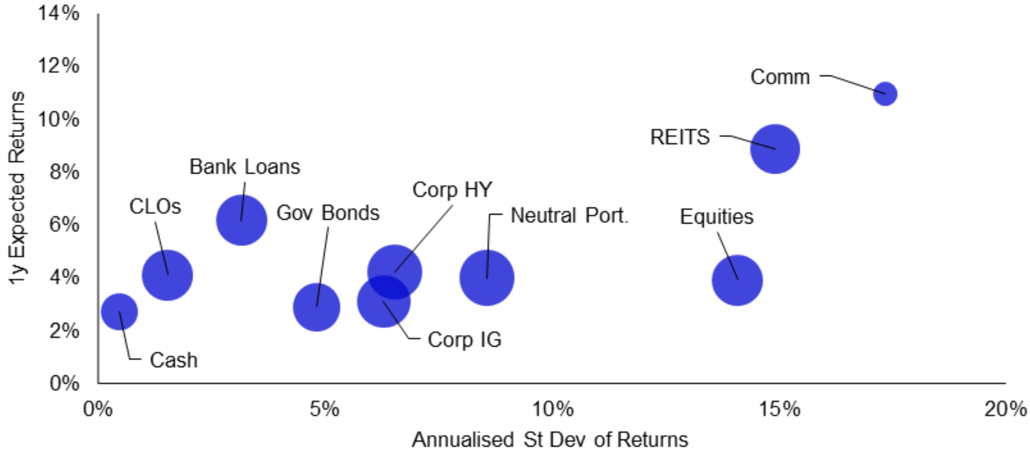
Figure 23 – Factors affecting global asset returns over the next 12 months and asset preferences



	Model Asset Allocation*	Preferred assets
Cash	Underweight	JPY, EUR, GBP
CLOs	Overweight	US
Bank Loans	Overweight	US
Hedge Funds	N/A	
Govt. Bonds	Underweight	UK, EM
Investment Grade	Underweight	UK, EM
High Yield	Neutral	
Gold	Underweight	
Non-US equities	Overweight	China, Japan, EM
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. 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 Strategy & Insights

Figure 24 – 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. Cash is an equally weighted mix of USD, EUR, GBP and JPY. "CLOs" is AAA-rated CLOs. Neutral portfolio ("Neutral Port.") weights are shown in **Figure 3**. As of 31 October 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, JP Morgan, MSCI, S&P GSCI, LSEG Datastream and Invesco Strategy & Insights

Our market forecasts suggest upside for non-US stocks

Figure 25 shows a conversion of these expectations into market targets. Though we expect policy rates to continue falling (except in Japan), we feel that some central banks are near the end of their easing cycles. Our 10-year yield forecasts are mixed, with an expectation of upside in Japan and the US but downside in Europe, for example. Further downside is expected in the US dollar, especially versus the Japanese yen as the BOJ tightens. We see upside in most stock markets but the US is an exception. We believe that US concentration and valuations remain too high, and feel that the US market is less cyclical than others and may be dampened by rising long yields. We believe gold is very expensive, while industrial commodities can benefit from an uptick in global growth.

Figure 25 – Market forecasts

		Current (31/10/25*)	Forecast 12-month
Central Bank Rates	US	4.00	3.00
	Eurozone	2.00	1.75
	China	3.00	2.80
	Japan	0.50	1.00
	UK	4.00	3.25
10yr Bond Yields	US	4.08	4.30
	Eurozone	2.60	2.50
	China	1.76	1.80
	Japan	1.64	1.90
	UK	4.48	4.30
Exchange Rates/US$	EUR/USD	1.15	1.25
	USD/CNY	7.12	7.00
	USD/JPY	154.01	135.00
	GBP/USD	1.32	1.40
	USD/CHF	0.80	0.76
Equity Indices	S&P 500	6840	6600
	Euro Stoxx 50	5662	6100
	FTSE A50	15276	16000
	Nikkei 225	52411	60000
	FTSE 100	9717	10500
Commodities (US$)	Brent/barrel	65	75
	Gold/ounce	3979	3500
	Copper/tonne	10873	11500

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 Strategy & Insights

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 strategic guide. Invesco Solutions have just published their 10-year capital market assumptions (CMAs). **Figure 26** 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**.

Figure 26: Invesco 10-yr capital market assumptions (global assets, % ann.)

	USD	EUR	GBP	CHF
Cash & Gold	-1.5	-3.0	-1.0	-5.5
Cash - US Treasury Short	3.2	1.8	3.8	-0.7
Gold	-6.3	-7.8	-5.8	-10.3
Government Bonds	4.8	3.3	5.3	0.8
Corporate IG	5.0	3.5	5.5	1.0
Corporate HY - US HY	5.6	4.1	6.1	1.6
Bank Loans (US)	6.0	4.6	6.6	2.1
Equities	4.2	2.7	4.7	0.2
Real Estate (REITS)	6.9	5.4	7.4	2.9
Commodities	5.7	4.3	6.2	1.7

Note: Estimates as of 30 September 2025 and based on the 10-year capital market assumptions published by Invesco Solutions in Long-Term Capital Market Assumptions (November 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

Bank loans, HY, government bonds and commodities 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 bank loans and (almost) HY, government bonds and commodities (see **Figure 27**). Though commodities offer a limited risk premium, the low correlation with other assets helps. At the other extreme, gold is always zero weighted, while equities is always underweighted. The allocations for other assets are mixed.

Figure 27: Optimised global allocations based on Invesco's 10-year CMA projected returns

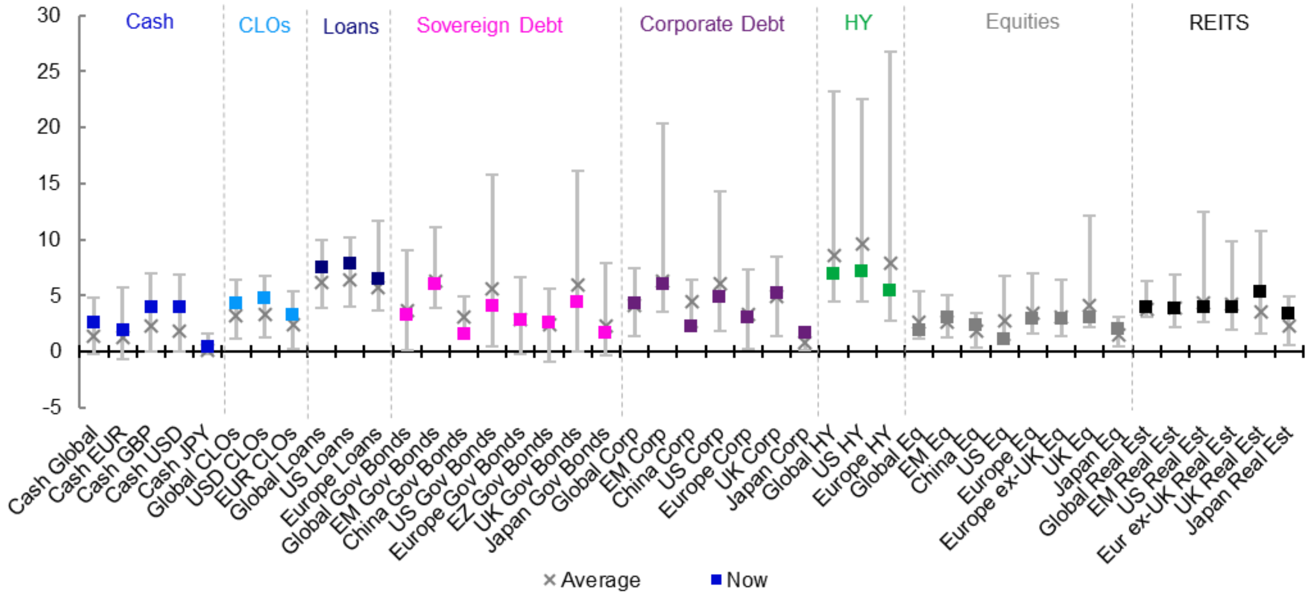
	Neutral Portfolio	Policy Range	Maximise Sharpe Ratio				Maximise Return			
			USD	EUR	GBP	CHF	USD	EUR	GBP	CHF
Cash & Gold	5%	0-10%	10%	10%	10%	0%	10%	0%	7%	0%
Cash	2.5%	0-10%	10%	10%	10%	0%	10%	0%	7%	0%
Gold	2.5%	0-10%	0%	0%	0%	0%	0%	0%	0%	0%
Government Bonds	25%	10-40%	40%	40%	40%	40%	40%	25%	36%	25%
Corporate IG	10%	0-20%	20%	15%	3%	8%	20%	20%	2%	20%
Corporate HY	5%	0-10%	10%	0%	10%	10%	10%	10%	10%	10%
Bank Loans	4%	0-8%	8%	8%	8%	8%	8%	8%	8%	8%
Equities	45%	25-65%	25%	25%	25%	25%	33%	25%	25%	25%
Real Estate (REITS)	4%	0-8%	0%	0%	0%	8%	8%	8%	8%	8%
Commodities	2%	0-4%	4%	2%	4%	1%	4%	4%	4%	4%

Note: optimisations are based on the 10-year projected returns published by Invesco Solutions in Long-Term Capital Market Assumptions (November 2025), as shown in **Figure 26** above. Optimisations are performed by the authors of this document 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 Strategy & Insights

Appendices

Appendix 1: Global valuations vs history

Regional yields within historical ranges (%)



Notes: **Past performance is no guarantee of future results.** As of 31 October 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 Strategy & Insights

Appendix 2: Asset class total returns

Data as at 31/10/2025	Index	Current Level/RY	Total Return (USD, %) 2m	YTD	12m	5y*	Total Return (Local Currency, %) 2m	YTD	12m	5y*
Equities										
World	MSCI	1006	6.0	21.5	23.2	15.1	6.6	19.2	22.2	15.9
Emerging Markets	MSCI	1402	11.7	33.6	28.7	7.9	12.0	30.7	28.7	9.8
China	MSCI	86	5.6	36.4	33.9	-1.2	5.3	35.9	33.9	-0.9
US	MSCI	6544	6.1	17.7	21.9	17.3	6.1	17.7	21.9	17.3
Europe	MSCI	2512	2.8	29.2	24.0	14.4	4.3	17.2	17.2	14.1
Europe ex-UK	MSCI	3097	2.7	29.4	23.2	13.6	3.9	15.7	15.3	13.3
UK	MSCI	1515	3.0	28.4	26.6	17.0	5.9	22.4	23.9	16.6
Japan	MSCI	4814	6.1	25.2	25.6	10.5	11.3	22.7	27.1	19.4
Government Bonds										
World	BofA-ML	3.26	0.0	6.6	4.0	-3.7	1.4	2.9	2.5	-1.9
Emerging Markets	JP Morgan	3.55	1.2	8.3	7.3	2.4	1.0	4.2	6.2	3.6
China	BofA-ML	1.62	0.5	3.2	3.7	3.7	0.3	0.6	3.7	5.0
US (10y)	Datastream	4.08	1.7	7.8	6.1	-2.3	1.7	7.8	6.1	-2.3
Europe	Bofa-ML	2.77	0.0	13.0	8.6	-2.9	1.4	1.3	2.1	-2.7
Europe ex-UK (EMU, 10y)	Datastream	2.60	-0.3	11.7	7.2	-4.0	1.1	0.2	0.8	-3.9
UK (10y)	Datastream	4.48	0.6	10.8	7.7	-3.5	3.5	5.6	5.4	-3.8
Japan (10y)	Datastream	1.64	-4.8	-1.1	-5.3	-8.5	-0.1	-3.1	-4.2	-1.2
IG Corporate Bonds										
Global	BofA-ML	4.33	1.1	9.6	8.0	0.5	1.7	6.2	6.2	0.6
Emerging Markets (USD)	BBloom	6.08	1.0	7.5	7.2	1.1	1.0	7.5	7.2	1.1
China	BofA-ML	2.24	0.6	3.9	3.3	2.7	0.4	1.2	3.3	4.0
US	BofA-ML	4.87	1.9	7.4	6.8	0.7	1.9	7.4	6.8	0.7
Europe	BofA-ML	3.10	-0.3	15.3	11.3	0.0	1.1	3.5	4.7	0.2
UK	BofA-ML	5.17	0.3	11.8	10.1	-0.4	3.1	6.5	7.7	-0.7
Japan	BofA-ML	1.66	-4.5	1.5	-2.0	-7.7	0.2	-0.5	-0.9	-0.2
HY Corporate Bonds										
Global	BofA-ML	6.90	0.6	9.3	9.1	4.7	1.0	7.1	7.8	4.8
US	BofA-ML	7.17	1.0	7.3	8.0	5.5	1.0	7.3	8.0	5.5
Europe	BofA-ML	5.49	-0.8	16.7	12.6	4.0	0.7	4.7	5.9	4.2
Cash (Overnight LIBOR)										
US		4.20	0.7	3.3	4.5	3.1	0.7	3.3	4.5	3.1
Euro Area		1.92	1.5	15.1	8.7	1.6	0.3	1.7	2.5	1.6
UK		3.97	1.9	11.0	5.9	3.7	0.7	3.3	4.5	2.9
Japan		0.48	0.2	7.1	-0.1	-6.4	0.1	0.3	0.4	0.1
Real Estate (REITs)										
Global	FTSE	1697	-0.4	9.9	4.6	6.1	1.0	-1.4	-1.6	6.3
Emerging Markets	FTSE	1305	0.7	14.6	6.8	-1.9	2.1	2.8	0.5	-1.8
US	FTSE	3172	-0.4	2.8	-0.7	9.3	-0.4	2.8	-0.7	9.3
Europe ex-UK	FTSE	2675	-1.5	20.2	11.5	1.0	-0.1	7.8	4.9	1.2
UK	FTSE	890	2.9	13.7	2.3	1.7	5.8	8.4	0.1	1.3
Japan	FTSE	2452	-1.5	30.9	25.8	4.5	3.4	28.3	27.3	13.0
Commodities										
All	GSCI	3931	2.0	7.5	11.1	18.7	-	-	-	-
Energy	GSCI	639	0.3	0.4	6.4	25.2	-	-	-	-
Industrial Metals	GSCI	1953	9.6	18.6	12.7	9.1	-	-	-	-
Precious Metals	GSCI	4412	14.8	51.0	43.9	15.3	-	-	-	-
Agricultural Goods	GSCI	488	-0.3	-5.2	0.0	7.0	-	-	-	-
Currencies (vs USD)**										
EUR		1.15	-1.3	11.4	6.0	-0.2	-	-	-	-
JPY		154.00	-4.5	2.1	-1.3	-7.4	-	-	-	-
GBP		1.31	-2.8	4.9	2.2	0.3	-	-	-	-
CHF		1.24	-0.5	12.8	7.4	2.6	-	-	-	-
CNY		7.12	0.2	2.6	0.0	-1.2	-	-	-	-

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 Strategy & Insights.

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	3.2	3.2	0.2	17.87
	US Treasury Intermediate	BBG US Treasury Intermediate	4.1	4.2	3.0	1.38
	US Treasury Long	BBG US Treasury Long	5.4	6.1	12.0	0.51
	US TIPS	BBG US TIPS	4.8	4.9	5.0	0.98
	US Bank Loans	Credit Suisse Leverage Loan Index	6.0	6.1	3.2	1.90
	US Aggregate	BBG US Aggregate	4.8	4.9	5.1	0.98
	US Inv Grd Corps	BBG US Investment Grade	5.1	5.3	5.7	0.93
	US MBS	BBG US MBS	5.3	5.5	6.3	0.88
	US Preferred Stocks	BOA ML Fixed Rate Pref Securities	5.1	5.4	7.9	0.68
	US High-Yield Corps	BBG US High Yield	5.6	5.7	5.3	1.08
	US Muni	BOA ML US Muni	4.5	4.6	5.6	0.82
	US Muni (Taxable)	ICE BOA US Taxable Muni Securities Plus	5.4	5.7	8.0	0.72
	US HY Muni	BBG US Muni Bond HY	5.2	5.4	6.9	0.79
	Global Aggregate	BBG Global Aggregate	4.6	4.8	5.6	0.85
	Global Aggregate-Ex US	BBG Global Aggregate- Ex US	4.7	4.9	7.3	0.68
	Global Treasury	BBG Global Treasuries	4.8	4.9	6.0	0.83
	Global Sovereign	BBG Global Sovereign	4.9	5.1	7.3	0.70
	Global Corporate	BBG Global Corporate	4.9	5.1	5.7	0.89
	Global Inv Grd	BBG Global Corporate Inv Grd	5.0	5.3	8.5	0.63
	Eurozone Corporate	BBG Euro Aggregate Credit - Corporate	4.7	5.1	9.3	0.55
	Eurozone Treasury	BBG Euro Aggregate Government - Treasury	4.9	5.4	10.0	0.54
	Asian Dollar Inv Grd	BOA Merrill Lynch ACIG	4.8	4.9	4.3	1.13
	EM Aggregate	BBG EM Aggregate	5.6	5.8	6.3	0.93
	EM Agg IG	BBG EM USD Agg IG	5.1	5.2	5.6	0.94
	China Policy Bk & Tsy	BBG China PB Tsy TR	4.3	4.4	5.0	0.88
	China RMB Credit	BBG China Corporate	4.8	4.9	4.8	1.02
Equities	World Equity	MSCI ACWI	4.2	5.4	16.4	0.33
	World Ex-US Equity	MSCI ACWI Ex-US	5.6	7.0	17.3	0.40
	US Broad	Russell 3000	3.2	4.6	17.3	0.27
	US Large Cap	S&P 500	3.4	4.7	16.8	0.28
	US Mid Cap	Russell Midcap	5.0	6.6	19.2	0.35
	US Small Cap	Russell 2000	6.1	8.8	24.7	0.36
	MSCI EAFE	MSCI EAFE	4.9	6.3	17.8	0.36
	MSCI Europe	MSCI Europe	5.6	7.3	19.4	0.38
	Eurozone	MSCI Euro X UK	5.9	7.8	20.1	0.39
	UK Large Cap	FTSE 100	3.5	5.2	19.2	0.27
	UK Small Cap	FTSE Small Cap UK	7.4	9.4	21.5	0.44
	Canada	S&P TSX	3.3	5.1	19.7	0.26
	Japan	MSCI JP	2.4	4.1	19.2	0.21
	Emerging Market	MSCI EM	7.6	9.2	18.5	0.50
	Asia Pacific Ex JP	MSCI APXJ	7.4	9.0	18.8	0.48
	China Large Cap	CSI 300	8.5	10.9	23.6	0.46
Alternatives	Global REITs	FTSE EPRA/NAREIT Developed Index	6.9	8.3	18.1	0.46
	Hedge Funds	HFRI HF Index	5.8	5.9	3.8	1.53
	Commodities	S&P GSCI	5.7	7.3	19.0	0.39
	Agriculture	S&P GSCI Agriculture	4.9	6.3	17.7	0.36
	Energy	S&P GSCI Energy	8.4	12.8	32.5	0.39
	Industrial Metals	S&P GSCI Industrial Metals	3.6	5.5	20.2	0.27
	Precious Metals	S&P GSCI Precious Metals	-6.3	-5.0	16.0	-0.31

Notes: Estimates as of 30 September 2025, as published in Long-Term Capital Market Assumptions (November 2025). These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. Please note that as of March 31, 2025, Invesco Solutions have changed the methodology of their risk model for estimating volatility and correlations, now utilizing the MSCI Barra Multi-Asset Class (MAC) factor model. **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 (%)	3.00	1.75	3.25	1.00	-	2.80
AAA CLO spreads vs 3M cash rates (bps)	80	115	-	-	-	-
Bank Loan spread vs 3M cash rates (bps)	400	440	-	-	-	-
Sovereign spreads vs rates (bps)	100	100	100	100	-	-
Corporate IG spread vs sovereign (bps)	120	50	100	15	-	-
Corporate HY spread vs sovereign (bps)	375	300	-	-	-	-
Corporate HY default rates (%)	2.0	1.2	-	-	-	-
Corporate HY recovery rates (%)	45	50	-	-	-	-
Bank Loan default rates (%)	1.3	1.5	-	-	-	-
Bank Loan recovery rates (%)	40	40	-	-	-	-
Equities dividend growth (%)*	5.0	8.0	5.0	8.0	5.0	2.0
Equities dividend yield (%)*	1.2	2.9	3.0	2.0	2.9	2.4
Real estate (REITS) dividend growth (%)*	2.0	5.0	2.0	5.0	3.0	-
Real estate (REITS) dividend yield (%)*	3.9	3.9	5.1	3.2	4.0	-

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 Strategy & Insights

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, CLOs, 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 AAA CLOs. 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). AAA CLO returns assume a straight line move in yields (based on assumed cash rates and assumptions about spreads), with capital gains/losses predicated upon constant maturity (effectively supposing constant turnover to achieve that). 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 1st 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 25**) 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, 16, 24, 25**) are based on ICE BofA 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: ICE BofA 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: ICE BofA 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 16** and **Appendix 1** are based on current yield. Data is sourced from Credit Suisse Indices/UBS and Bloomberg.

Collateralised Loan Obligations (CLOs): 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, 24, 25**). Equity index valuations (**Figures 16, 18 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: Credit Suisse Hedge Fund Index and the Bloomberg All Hedge Fund Index, both 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 1st 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 JP Morgan Emerging Markets Global Composite Index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices and the 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 8, 10, 17

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 and sources for asset categories used in the asset momentum chart (Figure 15)

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, ICE BofA 0-3-month US treasury index (Cash), ICE BofA Global Government Index (Govt), ICE BofA Global Corporate Index (IG), ICE BofA 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, with the latter hedged into US dollars), 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, with the latter hedged into US dollars), 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), Credit Suisse Hedge Fund Index (H Funds, with the latest month based on the Bloomberg All Hedge Fund Index), LPX Major Market Listed Private Equity Index (Priv Equity), Goldman Sachs 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 26 & 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) 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 heterogenous 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.

Risk estimates, including individual volatilities, cross-asset correlations, and the covariance matrix, for the different asset classes displayed are derived using the MSCI Barra Multi-Asset Class (MAC) factor model. Please refer to the MSCI MAC methodology for more information about the model.

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

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.

Important information

Data as of 31 October 2025 unless stated otherwise.

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