

---

# 2025 Invesco Capital Market Assumptions

---

Invesco Solutions | United States Dollar (USD) | Q1 Update

---

This document is intended for Professional Clients in Continental Europe (as defined under Important Information); for Professional Clients in Dubai, Ireland, the Isle of Man, Jersey and Guernsey, and the UK; for Professional Clients, Financial Advisers, Qualified Clients/Sophisticated as defined in the important information at the end); for Sophisticated or Professional Investors in Australia; for Institutional Investors in the United States; in Canada, this document is restricted to investors who are (i) Accredited Investors as such term is defined in National Instrument 45-106, and (ii) Permitted Clients as such term is defined in National Instrument 31-103.; for Qualified Institutional Investors in Japan; for certain specific Institutional Investors in Malaysia upon request, in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific Institutional Investors in Brunei, for Qualified Institutional Investors and/or certain specific Institutional Investors in Thailand, for certain specific Institutional Investors in Indonesia and for qualified buyers in the Philippines for informational purposes only. It is not intended for and should not be distributed to or relied upon by the public or retail investors.

## 1

## Executive Summary



**Alessio de Longis, CFA®**  
Senior Portfolio Manager,  
Head of Asset Allocation,  
Invesco Solutions



**Jeff Bennett, CFA®**  
Head of Manager Selection,  
Invesco Solutions



**Drew Thornton, CFA®**  
Head of Solutions and Alternatives  
Thought Leadership

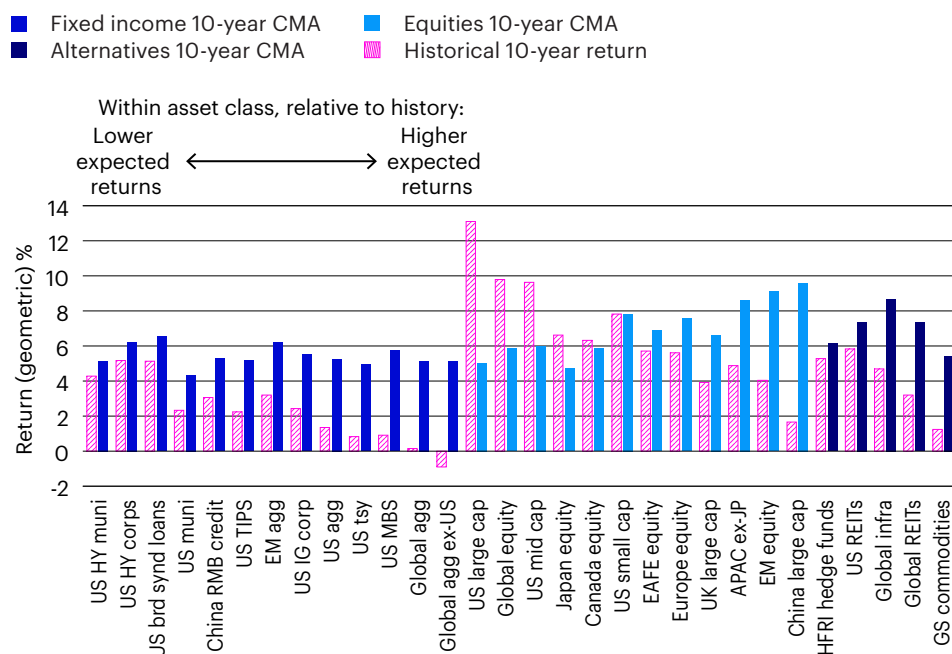
### Executive Summary

Asset Allocation Insights

2025 Capital Market Assumptions  
Q1 Update

- We have witnessed a dramatic repricing of risk in the first few months of 2025. Following the “Liberation Day” tariffs, US equity markets have posted their 16<sup>th</sup> worst two-day period since 1928.
- The once unstoppable US large cap equity market has underperformed its global counterparts since Trump’s election on November 4<sup>th</sup>, 2024, with a rotation into non-US equities and “risk-off” assets underway.
- Being both defensive and flexible is key for investors during these moments as trade policies could be reversed just as quickly as they have been imposed. We have written extensively about the risks looming over US equity markets for quite some time, with elevated valuations and market concentration being key themes of our capital market assumption (CMA) publications.

**Figure 1: Expectations relative to historical average (USD)**



Source: Invesco, estimates as of December 31, 2024. Proxies listed in **Figure 7**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here.

Invesco Solutions provides forecasts for 170+ assets in over 20 currencies, including 10 private assets. For additional CMA data, views, or analysis, please reach out to your Invesco representative.

# 2

## Asset Allocation Insights

For further details on our process for defining scenarios and adjustments, please refer to our CMA Methodology paper.

1. Bloomberg as of April 4, 2025.
2. 16<sup>th</sup> worst since 1928 for the S&P 500. The worst was Black Monday on October 19, 1987 at -24.6%.
3. Such as the limitation of fentanyl crossing into the US from Canada or Mexico.
4. Estimate from the Yale Budget lab, as of April 4, 2025.
5. 1 year probability of a US recession currently at 60% from Polymarket as of April 4, 2025, up from 21% on February 20<sup>th</sup>. This forecast matches JP Morgan's recent increase of their 2025 recession probability.

## Strategic perspective

We have witnessed a dramatic repricing of risk in the first few months of 2025. Equity markets in the US started their fall with a 7.7% correction from their peak mid-February up to the Trump administration's April 2<sup>nd</sup> tariff announcement, referred to as "Liberation Day", and continued to fall an additional 10.5% in the two trading days following the event<sup>1</sup>, amongst the worst two-day period for the US equity market in history<sup>2</sup>. What started with targeted tariffs on specific goods or countries with rough conditions for trade normalization<sup>3</sup> has fully evolved into a wholesale tax on all imports into the US, with the Trump administration now imposing the highest weighted effective tariff in a century at around 22%<sup>4</sup> with the potential to increase to 27% once factoring in sector specific tariffs. This current rate is higher than the Smoot-Hawley levels from the 1930's at around 20% which deepened the economic damage of The Great Depression. Tariffs, while a complex subject, are often considered taxes that are both inflationary and a negative growth shock with the potential to significantly lower corporate earnings. Clearly the current trade environment is volatile and may potentially be offset by unilateral negotiations or could develop into a full-fledged trade war should countries retaliate, as we have seen with China implementing a reciprocal 34% tariff on all US imports.

The once unstoppable US large cap equity market has underperformed its global counterparts since President Trump's election on November 4<sup>th</sup>, 2024, as many of the market leaders, such as the tech-heavy Mag-7, rely significantly on global revenues outside of the US, exposing them to weakness from potential trade slowdowns. As an additional signal of the reduction in US risk sentiment, more cyclically oriented small caps have underperformed large caps and defensive assets, such as long duration investment grade fixed income and gold, have rallied through the economic uncertainty. Recessionary warnings such as high yield credit spreads and jobless claims are beginning to rise, leading many economists and market participants to increase their probability of a US recession in the near term<sup>5</sup>. The dollar, usually a safe haven during a selloff, has begun to weaken, signaling a lack of appetite for US denominated assets and may be the start of a rotation out of the US for investors. Options markets are beginning to price in lower base rates with the potential for three slowdown-induced cuts this year, however a Fed put is no guarantee as the Federal Reserve is tasked with combatting sticky inflation that may accelerate depending on the implementation and duration of tariffs.

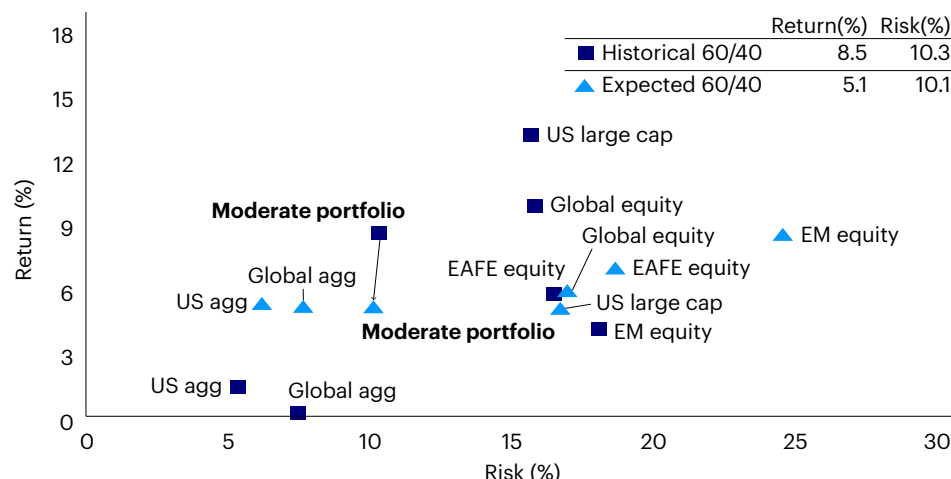
Being both defensive and flexible is key for investors during these moments as trade policies could be reversed just as quickly as they have been imposed. We have written extensively about the risks looming over US equity markets for quite some time, with elevated valuations and market concentration being key themes of our capital market assumption (CMA) publications. While CMAs cannot forecast trade policy or identify the next trigger for valuation reversals, they can underscore potential risks and the likelihood of a future that diverges significantly from the past, with market leadership transitioning from equities to fixed income and from the US to other global regions. Following this significant downward revision of growth expectations, a once promising soft landing is less likely given a looming trade war. As long-term investors we continue to emphasize the value of diversification, which statistically will prevent a portfolio from being the top performer in any given period, yet it will likely reduce the overall volatility of an asset allocation during moments like these.

Executive Summary

**Asset Allocation Insights**

2025 Capital Market Assumptions  
Q1 Update

**Figure 2: Comparing historical and expected risk and return for a moderate 60/40 portfolio (USD)**



Source: Invesco Solutions, as of December 31, 2024. Proxies listed in **Figure 7**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. The 60/40 Portfolio is a blend of 60% S&P 500 Index and 40% Bloomberg US Aggregate Index.

### 1Q25 CMA Observations (10Y, USD)

**Equities:** US large cap equities are hovering around a 5% nominal expected return, a slight improvement (+0.3%) from last quarter, mostly driven by higher inflation expectations (+0.2%). Our return estimate for global equities is slightly higher at 5.8% (+0.4% quarter-over-quarter), however we would like to highlight that the US equity market is roughly 65% of the global equity market, making it highly dependent on the path of the US. Assuming tariffs hold, we would expect lower growth rates, higher inflation, and improved levels of valuations. Within the US, small caps are expected to fare better at 7.8% (+0.1% QoQ), given faster expected growth rates and significantly better valuations, however our model expresses that these levels of valuations are still negative given today's interest rate and inflation environment. Outside of the US, developed equities (6.7%) are likely to outperform the US, with Europe the standout at 7.5% (+1.2% QoQ from improved valuations and a weaker expected dollar) compared to Japan at 4.7% (+0.1%) due to slower earnings growth and deflation. Emerging markets are a standout (9.1%, +0.6% QoQ) due to positive expected valuations, a rarity in today's equity markets, and faster expected growth rates than developed markets.

**Fixed income:** Investment grade aggregate bonds (5.25%) have surpassed US equity markets in terms of expected returns, with US treasuries fast approaching equity returns as well (4.9%, +0.7% QoQ). Yields on most fixed income assets increased towards year end as real yields priced in faster growth rates and the reduction of expected interest rate cuts. The increase in forward pricing improved the outlook of floating rate, broadly syndicated loans (6.5%, + 0.8% QoQ). While yield curves have fallen post tariff announcements, with the 10Y now below 4%, this is not currently reflected in our CMA data and will likely result in lower fixed income expected returns. Non-dollar, unhedged, fixed income such as EM local debt (7.7%, +1% QoQ) has a significant positive currency adjustment from a weakening US dollar.

**Alternatives:** We reiterate our comments on alternatives, especially during volatile periods for markets. Global REITs, hedge funds, and commodities are all attractive relative to traditional assets as they are all expected to outperform US equities on a forward basis. Real assets have sold off significantly over the past year leading to attractive valuations relative to public equities. Equity REITs have outperformed US large cap equities during the current drawdown by 10.5%<sup>6</sup> as they are often viewed as a defensive bond proxy. From a risk adjusted perspective, all major alternative assets that we cover have expected return-to-risk ratios near double that of US equities with hedge funds (0.8) standing out.

6. Bloomberg from the period of February 19, 2025 to April 4, 2025.

There are many considerations for investors beyond CMAs when it comes to asset allocation decisions. To learn more about our investment process or discuss your own portfolio needs, please reach out to your Invesco Solutions representative.

To aid investors in identifying the relative risks between our near-term tactical asset allocation and our longer-term CMAs, we have added a new **Figure 3**, which plots the positioning of the two distinct time horizons for common asset class pairs. These relative CMA signals are calculated by taking the Z-score of the return spread between the CMA pairs, showcasing the relative attractiveness of the signal compared to history and are aimed to be used as a guide for making relative asset class level decisions for a portfolio over a year time horizon. We utilize a separate methodology for tactical asset allocation, driven by our macro process, which makes allocation decisions over a time horizon between six months and three years, on average.<sup>1</sup> Our tactical asset allocation positioning is updated monthly, while our CMA signals are updated quarterly.<sup>2</sup>

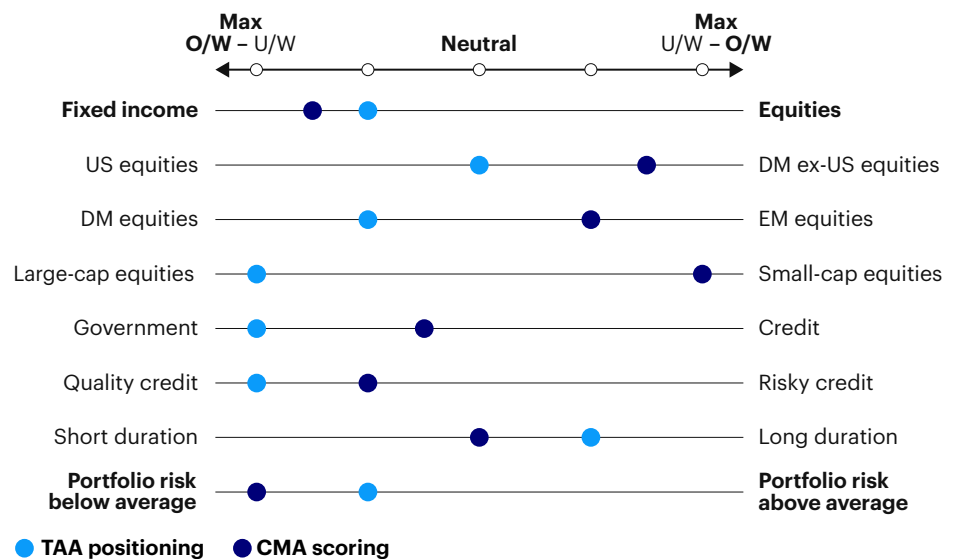
### CMA signals relative to tactical asset allocation (TAA) positioning

Our CMA scoring aligns closely with our latest tactical positioning in a contraction regime, both at the portfolio risk level and when comparing equities to fixed income. Both time horizons recommend taking below-average levels of risk, with a preference for sourcing that risk from fixed income rather than equities. This is intuitive, as the relative expected return of fixed income compared to equities is elevated. Further, the possibility of downside risks to the economy and markets is heightened in a contraction regime.

The first major divergence between the two time horizons appears when comparing US equities to developed markets outside the US. US equities, despite their high valuations—which pose a longer-term headwind for CMAs—benefit from a large concentration of defensive, high-quality companies. These companies tend to perform well during a tactical contraction as they are less tied to the business cycle. From a tactical perspective, we have begun to rotate into non-US equities and currently remain neutral given relative earnings within developed ex-US equities have improved versus the US. Tactically, our view on the dollar remains neutral; while long-term currency valuations suggest a meaningful period of dollar depreciation, tighter monetary policy and high yields are offset by positive growth surprises in the rest of the world. Tariffs may be the catalyst for a change in the model for the greenback.

This logic extends to comparisons between developed market (DM) and emerging market (EM) equities, as well as large-cap versus small-cap equities. Long-duration government bonds offer the greatest potential downside protection in a tactical contraction due to their defensive properties and inverse correlation to equities as long interest rates fall, leading to a tactical maximum overweight position.

**Figure 3: Relative tactical asset allocation (TAA) positioning (Apr. 2025) and CMA scoring (1Q25)**



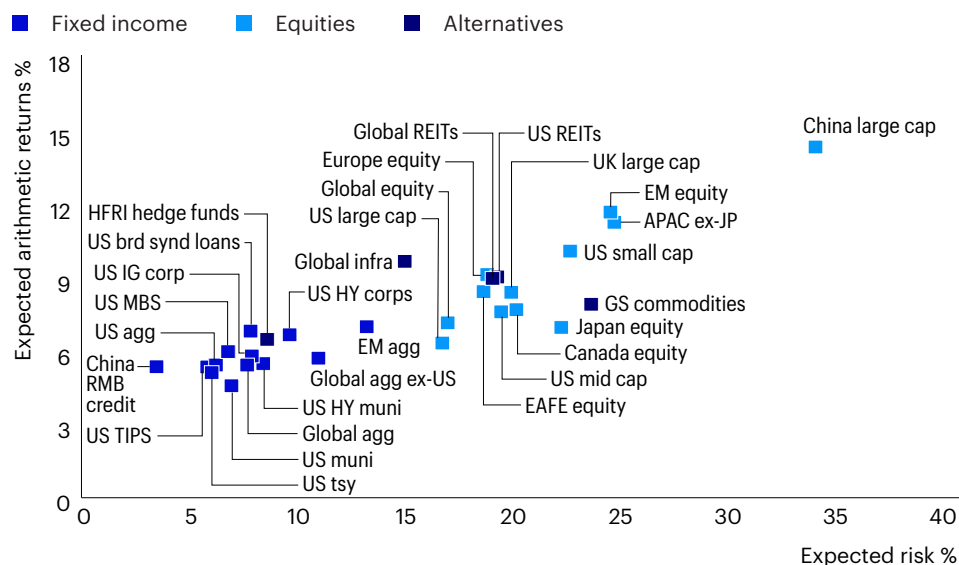
Source: Invesco Solutions, April 1, 2025. DM = developed markets. EM = emerging markets. For illustrative purposes only. Portfolios mentioned are hypothetical models. Benchmark is a global, moderate-risk portfolio consisting of 60% global equities (MSCI ACWI) and 40% global bonds (BBG global agg).

1. To learn more about our tactical asset allocation process, please refer to our series of white papers, "Dynamic Asset Allocation through the Business Cycle" (de Longis, 2019) and "Market Sentiment and the Business Cycle" (de Longis and Ellis, 2019).
2. For the most recent TAA positioning, please refer to our monthly tactical asset allocation blog.

# 3

## 2025 Capital Market Assumptions

**Figure 4: 10-year asset class expectations (USD)**



Source: Invesco, estimates as of December 31, 2024. Proxies listed in **Figure 7**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. **Past performance is not a guarantee of future results.**

Figure 5a: Equity CMA and building block contribution (USD) (%)

■ Expected return



Figure 5b: Equity CMA quarter-over-quarter change and building block contribution (USD) (%)

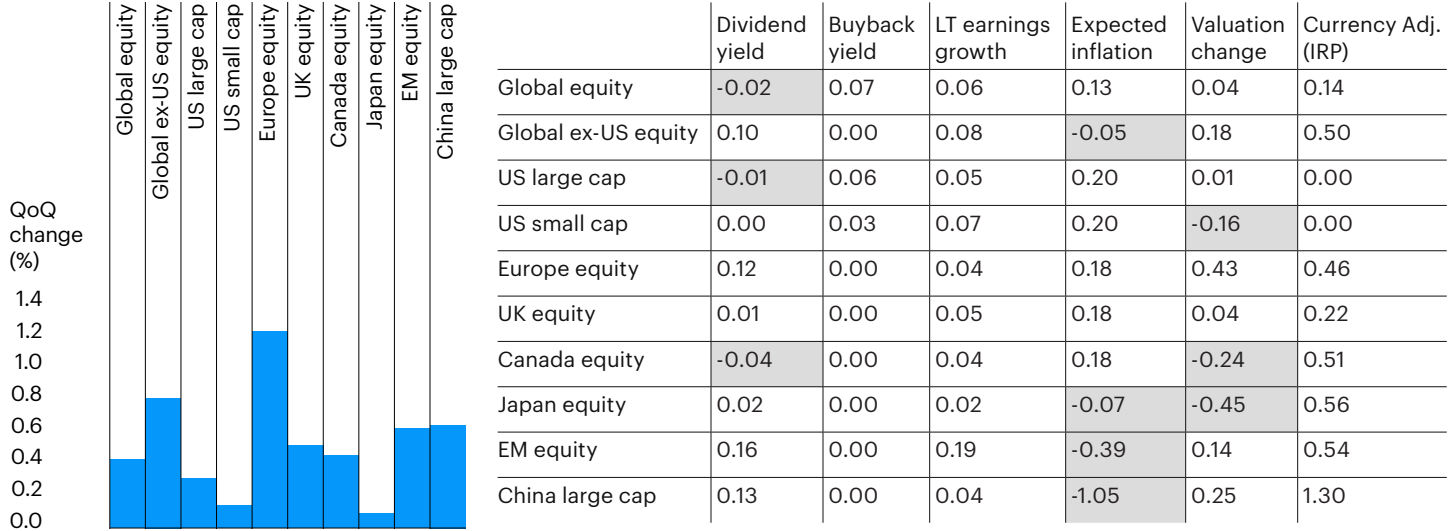
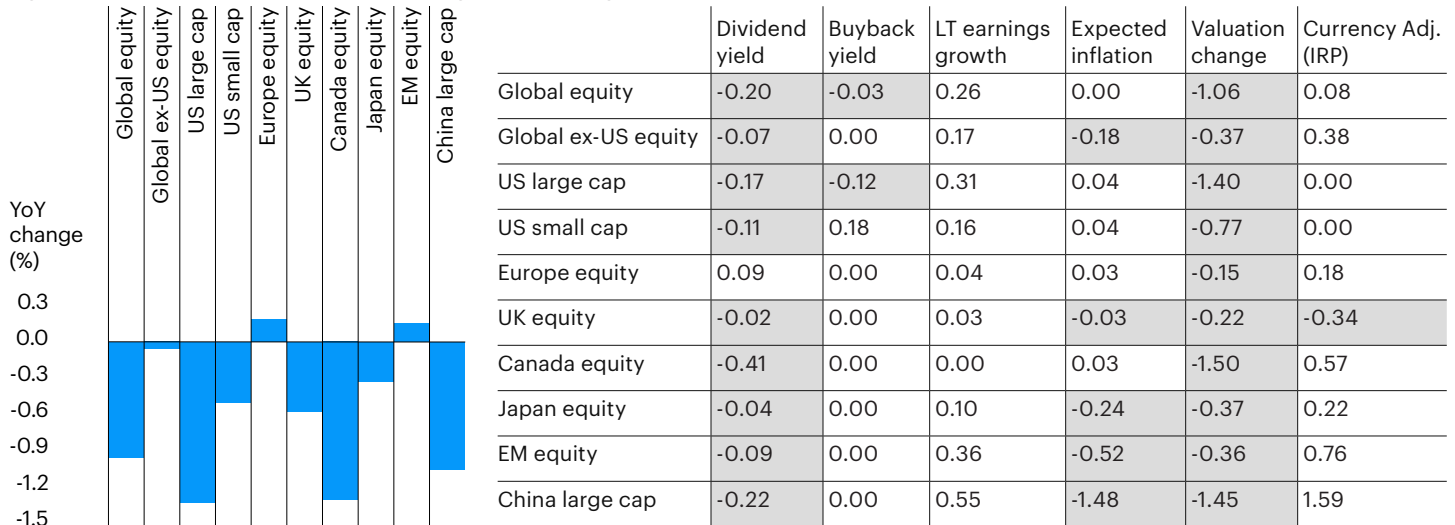


Figure 5c: Equity CMA year-over-year change and building block contribution (USD) (%)

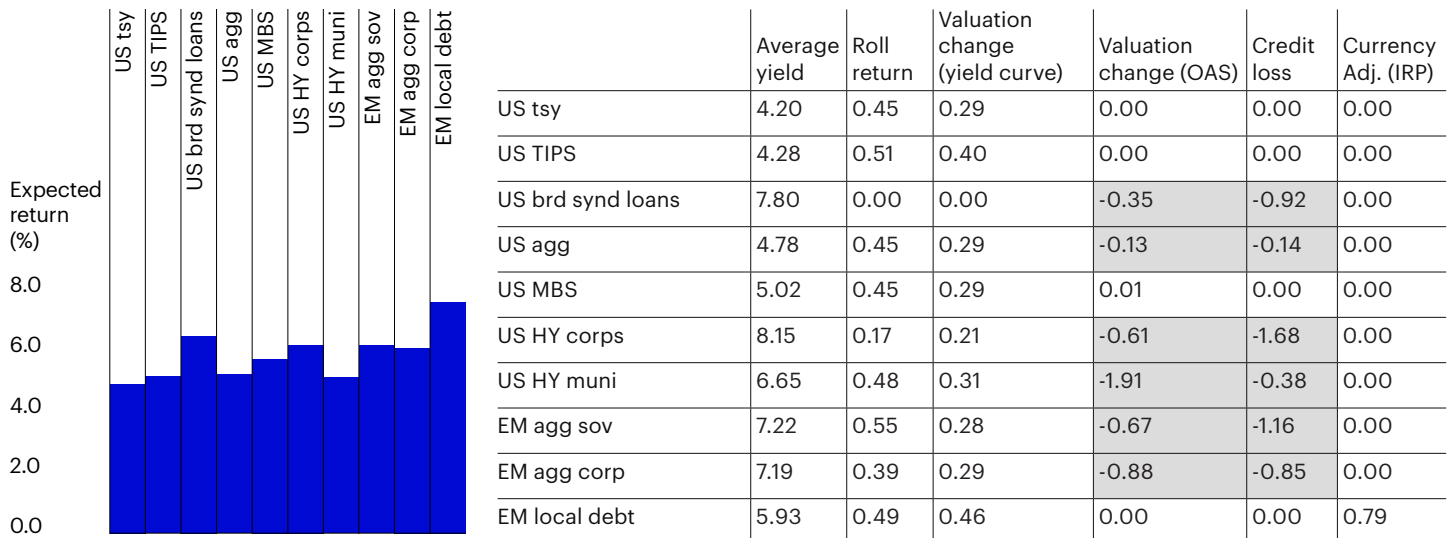
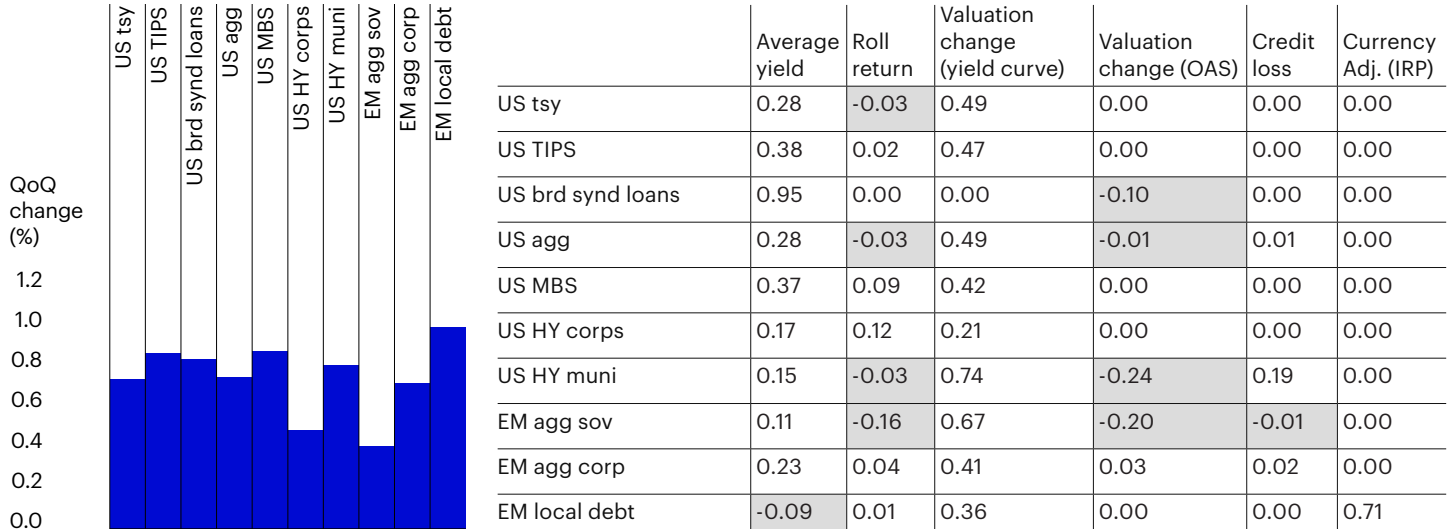
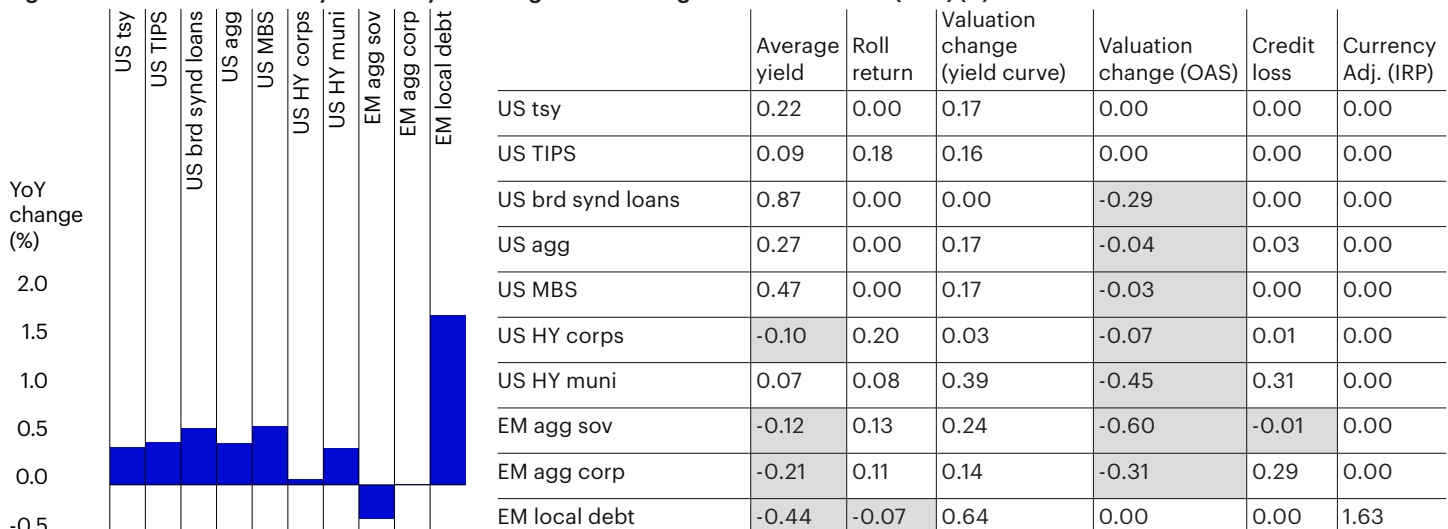


Source: Invesco, estimates as of December 31, 2024. Proxies listed in **Figure 7**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. **Past performance is not a guarantee of future results.**



**Figure 6a: Fixed income CMA and building block contribution (USD) (%)**

■ Expected return

**Figure 6b: Fixed income CMA quarter-over-quarter change and building block contribution (USD) (%)****Figure 6c: Fixed income CMA year-over-year change and building block contribution (USD) (%)**

Source: Invesco, estimates as of December 31, 2024. Proxies listed in **Figure 7**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. **Past performance is not a guarantee of future results.**



Figure 7: 10-year asset class expected returns, risk, and return risk (USD)

|              | Asset class           | Index                                   | Expected<br>geometric<br>return<br>% | Expected<br>arithmetic<br>return<br>% | Total<br>yield<br>% | Expected<br>risk<br>% | Arithmetic<br>return<br>to risk<br>ratio |
|--------------|-----------------------|---|--------------------------------------|---------------------------------------|---------------------|-----------------------|--|
| Fixed income | US tsy short          | BBG US tsy short                        | 3.4                                  | 3.4                                   | 4.3                 | 1.5                   | 2.32                                     |
|              | US tsy IM             | BBG US tsy IM                           | 4.7                                  | 4.8                                   | 4.4                 | 4.6                   | 1.03                                     |
|              | US tsy long           | BBG US tsy long                         | 5.3                                  | 6.0                                   | 4.9                 | 12.2                  | 0.49                                     |
|              | US TIPS               | BBG US TIPS                             | 5.2                                  | 5.3                                   | 4.6                 | 5.7                   | 0.93                                     |
|              | US brd synd loans     | CSFB leverage loan                      | 6.5                                  | 6.8                                   | 8.2                 | 7.7                   | 0.88                                     |
|              | US agg                | BBG US agg                              | 5.2                                  | 5.4                                   | 4.9                 | 6.1                   | 0.88                                     |
|              | US IG corp            | BBG US IG                               | 5.5                                  | 5.8                                   | 5.3                 | 7.8                   | 0.74                                     |
|              | US MBS                | BBG US MBS                              | 5.8                                  | 6.0                                   | 5.3                 | 6.7                   | 0.89                                     |
|              | US preferred stocks   | BOA ML fixed rate pref securities       | 5.4                                  | 6.0                                   | 6.6                 | 11.6                  | 0.52                                     |
|              | US HY corps           | BBG US HY                               | 6.2                                  | 6.7                                   | 7.5                 | 9.6                   | 0.70                                     |
|              | US muni               | BOA ML US muni                          | 4.3                                  | 4.6                                   | 3.7                 | 6.9                   | 0.67                                     |
|              | US muni (taxable)     | ICE BOA US taxable muni securities plus | 5.7                                  | 6.0                                   | 5.3                 | 8.0                   | 0.74                                     |
|              | US HY muni            | BBG muni bond HY                        | 5.2                                  | 5.5                                   | 5.5                 | 8.3                   | 0.66                                     |
|              | Global agg            | BBG global agg                          | 5.2                                  | 5.4                                   | 4.7                 | 7.6                   | 0.71                                     |
|              | Global agg ex-US      | BBG global agg ex-US                    | 5.1                                  | 5.7                                   | 4.7                 | 10.9                  | 0.52                                     |
|              | Global tsy            | BBG global tsy                          | 5.2                                  | 5.6                                   | 4.6                 | 9.0                   | 0.62                                     |
|              | Global sov            | BBG global sov                          | 5.3                                  | 5.6                                   | 5.2                 | 8.4                   | 0.67                                     |
|              | Global corp           | BBG global corp                         | 5.4                                  | 5.8                                   | 5.4                 | 8.3                   | 0.70                                     |
|              | Global IG             | BBG global corp IG                      | 5.5                                  | 5.8                                   | 5.4                 | 8.4                   | 0.69                                     |
|              | Eurozone corp         | BBG euro agg credit corp                | 5.3                                  | 6.1                                   | 5.4                 | 13.8                  | 0.45                                     |
|              | Eurozone tsy          | BBG euro agg gov tsy                    | 5.5                                  | 6.3                                   | 4.9                 | 13.2                  | 0.48                                     |
|              | Asian dollar IG       | BOA ML AC IG                            | 5.4                                  | 5.7                                   | 5.3                 | 8.3                   | 0.68                                     |
|              | EM agg                | BBG EM agg                              | 6.2                                  | 7.0                                   | 6.7                 | 13.2                  | 0.53                                     |
|              | EM agg IG             | BBG EM USD agg IG                       | 5.6                                  | 6.0                                   | 5.6                 | 9.1                   | 0.66                                     |
|              | China policy bk & tsy | BBG China PB tsy TR                     | 4.7                                  | 4.8                                   | 4.4                 | 3.9                   | 1.23                                     |
|              | China RMB credit      | BBG China corporate                     | 5.3                                  | 5.4                                   | 5.2                 | 3.4                   | 1.59                                     |
| Equities     | Global equity         | MSCI ACWI                               | 5.8                                  | 7.1                                   | 3.0                 | 16.9                  | 0.42                                     |
|              | Global ex-US equity   | MSCI ACWI ex-US                         | 7.5                                  | 9.0                                   | 4.5                 | 18.7                  | 0.48                                     |
|              | US broad market       | Russell 3000                            | 4.4                                  | 5.8                                   | 2.4                 | 17.4                  | 0.33                                     |
|              | US large cap          | S&P 500                                 | 5.0                                  | 6.3                                   | 2.3                 | 16.7                  | 0.38                                     |
|              | US mid cap            | Russell midcap                          | 6.0                                  | 7.7                                   | 2.8                 | 19.4                  | 0.40                                     |
|              | US small cap          | Russell 2000                            | 7.8                                  | 10.1                                  | 2.3                 | 22.6                  | 0.45                                     |
|              | EAFE equity           | MSCI EAFE                               | 6.9                                  | 8.4                                   | 5.1                 | 18.6                  | 0.45                                     |
|              | Europe equity         | MSCI Europe                             | 7.5                                  | 9.1                                   | 5.0                 | 18.8                  | 0.49                                     |
|              | Eurozone equity       | MSCI euro ex-UK                         | 7.7                                  | 9.4                                   | 5.4                 | 19.8                  | 0.47                                     |
|              | UK large cap          | FTSE 100                                | 6.6                                  | 8.4                                   | 3.9                 | 19.9                  | 0.42                                     |
|              | UK small cap          | FTSE small cap UK                       | 8.2                                  | 11.0                                  | 4.6                 | 25.4                  | 0.43                                     |
|              | Canada equity         | S&P TSX                                 | 5.9                                  | 7.7                                   | 4.1                 | 20.1                  | 0.38                                     |
|              | Japan equity          | MSCI JP                                 | 4.7                                  | 7.0                                   | 5.7                 | 22.2                  | 0.31                                     |
|              | EM equity             | MSCI EM                                 | 9.1                                  | 11.7                                  | 3.3                 | 24.5                  | 0.48                                     |
|              | APAC ex-JP            | MSCI APXJ                               | 8.6                                  | 11.3                                  | 3.1                 | 24.7                  | 0.46                                     |
|              | China large cap       | CSI 300                                 | 9.6                                  | 14.4                                  | 5.5                 | 34.1                  | 0.42                                     |
| Alternatives | Global infra          | DJ Brookfield global infra              | 8.7                                  | 9.7                                   | 4.5                 | 14.9                  | 0.65                                     |
|              | Global REITs          | FTSE EPRA/NAREIT developed              | 7.3                                  | 9.0                                   | 4.3                 | 19.0                  | 0.47                                     |
|              | HFRI hedge funds      | HFRI HF                                 | 6.1                                  | 6.5                                   | -                   | 8.5                   | 0.76                                     |
|              | GS commodities        | S&P GSCI                                | 5.4                                  | 7.9                                   | -                   | 23.6                  | 0.34                                     |
|              | Agriculture           | S&P GSCI agriculture                    | 4.1                                  | 6.2                                   | -                   | 21.1                  | 0.29                                     |
|              | Energy                | S&P GSCI energy                         | 7.3                                  | 12.9                                  | -                   | 36.7                  | 0.35                                     |
|              | Industrial metals     | S&P GSCI industrial metals              | 4.6                                  | 7.1                                   | -                   | 23.8                  | 0.30                                     |
|              | Precious metals       | S&P GSCI precious metals                | -3.0                                 | -1.3                                  | -                   | 18.3                  | -0.07                                    |

Source: Invesco, estimates as of December 31, 2024. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here. Agg = Aggregate, Infra = Infrastructure, Corp = Corporate, DJ = Dow Jones, HY = High Yield, Muni = Municipals, Tsy = Treasury, IM = Intermediate, ML = Merrill Lynch, Sov = Sovereign, EM = Emerging Markets, IG = Investment Grade, APAC = Asia Pacific, Gov = Government, MBS = Mortgage-Backed Securities, TIPS = Treasury Inflation-Protected Securities.

Figure 8: 10-year correlations (USD)

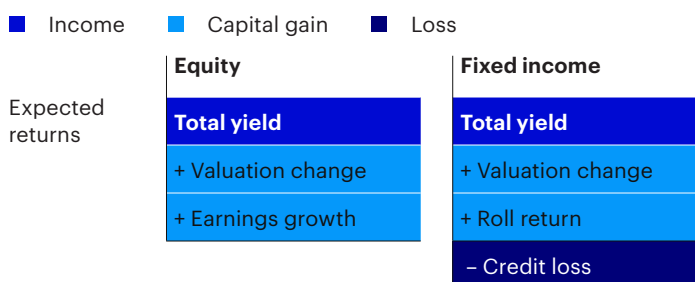
|                  |                   | Fixed income |         |                   |        |            |             |         |            |            |                  |        | Equities         |               |                 |              |            |              |             |              |               |              | Alternatives |              |              |                |
|------------------|-------------------|--------------|---------|-------------------|--------|------------|-------------|---------|------------|------------|------------------|--------|------------------|---------------|-----------------|--------------|------------|--------------|-------------|--------------|---------------|--------------|--------------|--------------|--------------|----------------|
|                  |                   | US tsy IM    | US TIPS | US brd synd loans | US agg | US IG corp | US HY corps | US muni | US HY muni | Global agg | Global agg ex-US | EM agg | China RMB credit | Global equity | China large cap | US large cap | US mid cap | US small cap | EAFE equity | UK large cap | Canada equity | Japan equity | EM equity    | Global REITs | Global infra | GS commodities |
| Fixed income     | Asset class       | 1.00         |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US tsy IM         |              | 1.00    |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US TIPS           |              |         | 1.00              |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US brd synd loans |              |         |                   | 1.00   |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US agg            |              |         |                   |        | 1.00       |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US IG corp        |              |         |                   |        |            | 1.00        |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US HY corps       |              |         |                   |        |            |             | 1.00    |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US muni           |              |         |                   |        |            |             |         | 1.00       |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | US HY muni        |              |         |                   |        |            |             |         |            | 1.00       |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | Global agg        |              |         |                   |        |            |             |         |            |            | 1.00             |        |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | Global agg ex-US  |              |         |                   |        |            |             |         |            |            |                  | 1.00   |                  |               |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | EM agg            |              |         |                   |        |            |             |         |            |            |                  |        | 1.00             |               |                 |              |            |              |             |              |               |              |              |              |              |                |
| China RMB credit |                   |              |         |                   |        |            |             |         |            |            |                  |        | 1.00             |               |                 |              |            |              |             |              |               |              |              |              |              |                |
| Equities         | Global equity     |              |         |                   |        |            |             |         |            |            |                  |        |                  | 1.00          |                 |              |            |              |             |              |               |              |              |              |              |                |
|                  | China large cap   |              |         |                   |        |            |             |         |            |            |                  |        |                  |               | 1.00            |              |            |              |             |              |               |              |              |              |              |                |
|                  | US large cap      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 | 1.00         |            |              |             |              |               |              |              |              |              |                |
|                  | US mid cap        |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              | 1.00       |              |             |              |               |              |              |              |              |                |
|                  | US small cap      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            | 1.00         |             |              |               |              |              |              |              |                |
|                  | EAFE equity       |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              | 1.00        |              |               |              |              |              |              |                |
|                  | UK large cap      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             | 1.00         |               |              |              |              |              |                |
|                  | Canada equity     |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              | 1.00          |              |              |              |              |                |
|                  | Japan equity      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               | 1.00         |              |              |              |                |
|                  | EM equity         |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              | 1.00         |              |              |                |
| Alternatives     | Global REITs      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              | 1.00         |              |                |
|                  | Global infra      |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              | 1.00         |                |
|                  | GS commodities    |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              | 1.00         |                |
|                  | HFRI hedge funds  |              |         |                   |        |            |             |         |            |            |                  |        |                  |               |                 |              |            |              |             |              |               |              |              |              | 1.00         |                |

Source: Invesco, estimates as of December 31, 2024. Proxies listed in Figure 7. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 11 for information about our CMA methodology. These estimates reflect the views of Invesco Solutions; the views of other investment teams at Invesco may differ from those presented here.

## About our capital market assumptions methodology

We 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 (Figure 9). Here, we provide a summary of key elements of the methodology used to produce our long-term (10-year) estimates. Five-year assumptions are also available upon request. Please see Invesco’s Capital Market Assumptions: Methodology update whitepaper for more details.

**Figure 9: Our building block approach to estimating returns**



For illustrative purposes only.

**Fixed income** returns are composed of:

- **Average yield:** The average of the starting (initial) yield and the expected yield for bonds.
- **Valuation change (yield curve):** Estimated changes in valuation given changes in the Treasury yield curve.
- **Roll return:** Reflects the impact on the price of bonds that are held over time. Given a positively sloped yield curve, a bond’s price will be positively impacted as interest payments remain fixed, but time to maturity decreases.
- **Credit adjustment:** Estimated potential impact on returns from credit rating downgrades and defaults.

**Equity** returns are composed of:

- **Dividend yield:** Dividend per share divided by price per share.
- **Buyback yield:** 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.
- **Long-term (LT) earnings growth:** The estimated rate of the growth of earnings based on the long-term average real GDP per capita and inflation.

**Currency adjustments** are based on the theory of interest rate parity (IRP), which suggests a strong relationship between interest rates and the spot and forward exchange rates between two given currencies. Interest rate parity theory assumes that no arbitrage opportunities exist in foreign exchange markets. It is based on the notion that, over the long term, investors will be indifferent between varying rates of returns on deposits in different currencies because any excess return on deposits will be offset by changes in the relative value of currencies.

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

**Correlation estimates** are calculated using trailing 20 years of monthly returns. Given that recent asset class correlations could have a more meaningful effect on future observations, we place greater weight on more recent observations by applying a 10-year half-life to the time series in our calculation.

**Arithmetic versus geometric returns.** Our building block methodology produces estimates of geometric (compound) asset class returns. However, standard mean-variance portfolio optimization requires return inputs to be provided in arithmetic rather than in geometric terms. This is because the arithmetic mean (of a weighted sum (e.g., a portfolio) is the weighted sum of the arithmetic means (of portfolio constituents). This does not hold for geometric returns. Accordingly, we translate geometric estimates into arithmetic terms. We provide both arithmetic returns and geometric returns, given that the former informs the optimization process regarding expected outcomes, while the latter informs the investor about the rate at which asset classes might be expected to grow wealth over the long run.

## Contributors



**Alessio de Longis**  
CFA®  
Senior Portfolio Manager,  
Head of Asset Allocation,  
Invesco Solutions



**Jeff Bennett**  
CFA®  
Head of Manager Selection,  
Invesco Solutions



**Chang Hwan Sung**  
PhD, CFA®, FRM  
Portfolio Manager,  
Solutions Research, APAC



**Meirambek Idrissov**  
Senior Analyst,  
Investment Research,  
Invesco Solutions



**Debbie Li**  
CFA®  
Senior Analyst  
Invesco Solutions



**Jared Greenberg**  
Analyst,  
Investment Research,  
Invesco Solutions



**Joseph Hubner**  
Research Analyst,  
Investment Research,  
Invesco Solutions



**Drew Thornton**  
CFA®  
Head of Solutions and  
Alternatives Thought  
Leadership

## Invesco Solutions

Invesco Solutions is an experienced multi-asset team that seeks to deliver desired client outcomes using Invesco's global capabilities, scale and infrastructure. We partner with you to fully understand your goals and harness strategies across Invesco's global spectrum of active, passive, factor, and alternative investments that address your unique needs. From robust research and analysis to bespoke investment solutions, our team brings insight and innovation to your portfolio construction process. Our approach starts with a complete understanding of your needs:

- We help support better investment outcomes by delivering insightful and thorough analytics.
- By putting analytics into practice, we develop investment approaches specific to your needs.
- We work as an extension of your team to engage across functions and implement solutions.

Assisting clients in North America, Europe, and Asia, Invesco's Solutions team consists of over 75 professionals with 20+ years of experience across the leadership team. The team benefits from Invesco's on-the-ground presence in 25 countries worldwide, with over 150 professionals to support investment selection and ongoing monitoring.

## 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.

Invesco Solutions develops CMAs that provide long-term estimates for the behavior of major asset classes globally. The team is dedicated to designing outcome-oriented, multi-asset portfolios that meet the specific goals of investors. The assumptions, which are based on 5- and 10-year investment time horizons, are intended to guide these strategic asset class allocations. For each selected asset class, we develop assumptions for estimated return, estimated standard deviation of return (volatility), and estimated correlation with other asset classes. This information is not intended as a recommendation to invest in a specific asset class or strategy, or as a promise of future performance. Estimated returns are subject to uncertainty and error, and can be conditional on economic scenarios. In the event a particular scenario comes to pass, actual returns could be significantly higher or lower than these estimates.

## Important information

**This document is intended for Professional Clients in Continental Europe (as defined below); for Professional Clients in Dubai, Ireland, the Isle of Man Jersey and Guernsey, and the UK; for Professional Clients, Financial Advisers, Qualified Clients/Sophisticated as defined in the important information at the end); for Sophisticated or Professional Investors in Australia; for Institutional Investors in the United States; in Canada, this document is restricted to investors who are (i) Accredited Investors as such term is defined in National Instrument 45-106, and (ii) Permitted Clients as such term is defined in National Instrument 31-103.; for Qualified Institutional Investors in Japan; for certain specific Institutional Investors in Malaysia upon request, in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific Institutional Investors in Brunei, for Qualified Institutional Investors and/or certain specific Institutional Investors in Thailand, for certain specific Institutional Investors in Indonesia and for qualified buyers in the Philippines for informational purposes only. It is not intended for and should not be distributed to or relied upon by the public or retail investors.**

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. This overview contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations. The opinions expressed are those of the Invesco Solutions team and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions, and are subject to change without notice. **Past performance is not a guarantee of future results.** Diversification and asset allocation do not guarantee a profit or eliminate the risk of loss.

Unless otherwise stated, all information is sourced from Invesco, in USD and as of December 31, 2024.

Further information is available using the contact details shown on the overleaf.

**This document is issued in:**

- **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia, which holds an Australian Financial Services Licence number 239916.
- **Canada** by Invesco Canada Ltd., 16 York Street, Suite 1200, Toronto, Ontario, M5J 0E6.
- Issued in **Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Norway, Portugal, Spain and Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- **Dubai** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- **Austria and Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.
- **Hong Kong** by Invesco Hong Kong Limited 景順投資 管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (Kinsho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia, which holds an Australian Financial Services Licence number 239916.
- **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, CH-8001 Zurich, Switzerland.
- **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- **Israel, the Isle of Man, Jersey, Guernsey and the United Kingdom** by Invesco Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. Invesco Asset Management Ltd, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH, UK.
- **The United States of America** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309.

## Notes



## Contact

Peter Miller, CFA®  
Head of Institutional Client Solutions  
617 345 8281  
[peter.miller@invesco.com](mailto:peter.miller@invesco.com)