The great inversion: Investment opportunities amid a new paradigm

Franklin Templeton · 2026-08-26 · English original

The most durable assumption in global investing is also the most outdated: that the United States is fundamentally a consumption story and China is fundamentally a capital-expenditure story. This was true. It was the operating model of global growth for nearly two decades — China produced, America spent, and the imbalance between them was the engine that turned the world. Retailers, housing, consumer finance, and import distribution carried the US opportunity set. Property, steel, cement, machinery, ports, and banks carried China's. The trade was simple and it worked: long US consumption, long China capex.

But the configuration that made that trade sensible has quietly reversed. Holding it as a default assumption is no longer a conservative position. It is the risk.

If the marginal opportunity in the United States is no longer how much more its households can borrow and spend, but whether the country can convert capital into productive capacity — and if China's next sustainable growth lies not in another wave of investment-led expansion but in domestic absorption — then which assets are actually positioned for the decade ahead?

The inversion is real, but it is not symmetrical, and that asymmetry is where the difficulty lies.

In the United States, the shift is visible. Artificial intelligence infrastructure, data centers, power generation, transmission grids, semiconductors, defense capacity, automation, reshoring, and energy security are already drawing capital and already moving prices. The opportunity is active and increasingly consensus. The risk is valuation, concentration, and execution — not whether the build happens, but at what cost and in which names.

In China, the shift is the opposite: cheaper, more contrarian, and potentially larger — but conditional. A genuine consumption transition requires a transfer of resources from producers to households, from local-government investment to social welfare, from export competitiveness to domestic income. That is economically sensible. It is also politically and institutionally difficult. The opportunity may remain latent if policy does not fully pivot.

One side of the inversion is priced. The other side is unproven. Navigating both — without overpaying for the obvious or mistaking cheapness for inevitability — is the central challenge.

The paper builds its case on a mechanism that reframes external imbalances themselves. A deficit used to finance consumption and fiscal transfers is inherently more fragile than a deficit used to finance productive investment. A surplus built on excess capacity and weak household demand carries a different risk profile than one built on competitive strength. The quality of absorption determines durability.

From that distinction, our paper constructs a new asset-class map: which sectors express "the US must build," which express "China must consume," and how Europe, India, ASEAN, Mexico, Japan, Korea, and commodity producers sit around the edges of the adjustment. It also identifies six specific risks to the thesis and the conditions under which each would change the investment expression rather than invalidate the underlying logic.

Global imbalances have not disappeared. They have been rehoused; from a cooperative globalization regime into a competitive geopolitical one organized around resilience, security, and strategic capacity rather than maximum efficiency. Tariffs, export controls, industrial policy, and defense spending have moved from the periphery of economic policy to the center. The familiar framework for reading the US–China relationship was built for a world that no longer exists.

For investors allocating across regions, sectors, and asset classes, the cost of relying on the old map is not theoretical. It shows up in mispriced risk, in exposure to the wrong side of the inversion, and in missed opportunity sets that the previous framework was never designed to see.

The early-2000s imbalance was built on a powerful but ultimately unstable division of labor. Its successor is no more guaranteed to resolve cleanly. The US capex story is visible but expensive. China's consumption story is attractive but conditional. The adjustment may arrive through policy — or through markets, via higher yields, dollar volatility, and asset-price corrections. Recognizing the inversion is necessary. It is not sufficient.

Download the full paper to see the complete asset-class map, the six risks to the thesis, and the conditions under which the inversion redefines — rather than resolves — global imbalances.

All investments involve risks, including possible loss of principal.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default.

The allocation of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. The government's participation in the economy is still high and, therefore, investments in China will be subject to larger regulatory risk levels compared to many other countries. There are special risks associated with investments in China, Hong Kong and Taiwan, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Hong Kong and Taiwan could be adversely affected by its political and economic relationship with China.

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