



Tactical Asset Allocation

Favorable growth and inflation backdrop, supported by monetary and fiscal policy. Overweight equities versus fixed income, favoring value and small- and mid-caps. Moderately overweight credit risk, neutral duration, and underweight the US dollar.



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Synopsis

- Global growth sentiment is improving, accompanied by upward revisions in earnings across the US, developed ex-US, and emerging markets. Monetary policy easing and expansionary fiscal policy should provide tailwinds to risky assets, given limited inflationary pressures at this stage.
- We maintain moderate overweight in equities versus fixed income, favoring value, cyclical, and small- and mid-caps, with a neutral regional exposure between US, developed, and emerging markets. In fixed income, overweight a diversified exposure to risky credit sectors to harvest income, neutralizing duration versus the benchmark, and maintaining an underweight to the US dollar.

Our macro process drives tactical asset allocation decisions over a time horizon between six months and three years, on average, seeking to harvest relative value and return opportunities between asset classes (e.g., equity, credit, government bonds, and alternatives), regions, factors, and risk premia.

Macro update

The macro backdrop continues to improve at a gradual and steady pace, in a context that can be described as “no news is good news” for financial markets. The US economy is broadly stable, sustaining a growth rate that is just marginally below trend based on our framework. The resumption of economic data releases, after the US government opened, has not delivered any newsworthy negative surprises, as initially feared. While the health of the labor market remains the primary concern of the Federal Reserve and financial markets, retail spending shows resilience as we enter the holiday season, with preliminary data showing mid-single-digit growth year over year.¹

Noticeably, growth is gaining momentum in the rest of the world, led by developed markets outside the US. Leading economic indicators continue to improve at a noticeable clip in the eurozone and the UK, now moving above their long-term trend, with broad-based improvements across manufacturing business surveys, consumer sentiment surveys, housing, and trade activity. In emerging markets, growth remains stable but below trend, with weakness in trade and the construction sector offsetting the improvements seen in manufacturing activity and business surveys (**Figures 1 and 2**). This favorable global backdrop is exemplified by upward revisions in earnings expectations across all regions, with developed ex-US and emerging markets catching up with the US, a sign of broader participation in the growth cycle across countries and economic sectors (**Figure 3**).

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1. “Black Friday Sales Rise, Signaling US Consumers’ Resilience,” Bloomberg L.P., Dec. 1, 2025.



Our macro framework remains in a recovery regime, with the global macro backdrop continuing to improve at a gradual and steady pace.

Figure 1a: Global macro framework remains in a recovery regime
Regional regime signals and components

	LEIs		Global risk appetite		
Region	Current level of growth	&	Change in global growth expectations	Expected macro regimes	
Global	Below trend		Growth expectation improving		Recovery
United States	Below trend				Recovery
Developed markets ex-US	Above trend				Expansion
Europe	Above trend				Expansion
United Kingdom	Above trend				Expansion
Japan	Above trend				Expansion
Emerging markets	Below trend				Recovery
China	Below trend				Recovery
Emerging markets ex-China	Below trend				Recovery
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Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Nov. 30, 2025. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment. Developed markets ex-USA include the eurozone, UK, Japan, Switzerland, Canada, Sweden, Australia. Emerging markets include Brazil, Mexico, Russia, South Africa, Taiwan, China, South Korea, India.

Figure 1b: Trailing 12-month regime history by region

Global economy remains in a recovery phase with LEIs below their long-term trend and growth expectations improving

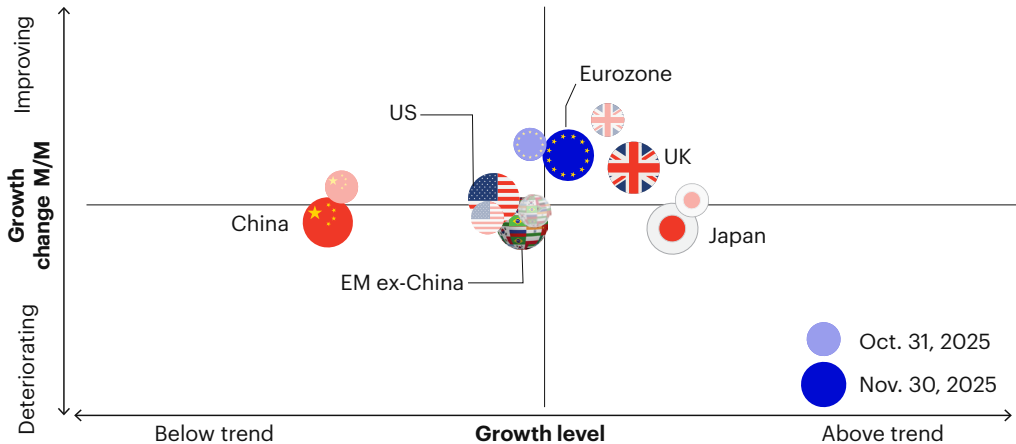


Source: Invesco Solutions as of Nov. 30, 2025.



Growth is gaining momentum, led by developed markets outside the US.

Figure 1c: Global growth improved, led by developed markets which are now above trend in aggregate. The global economy is moving closer to trend-growth



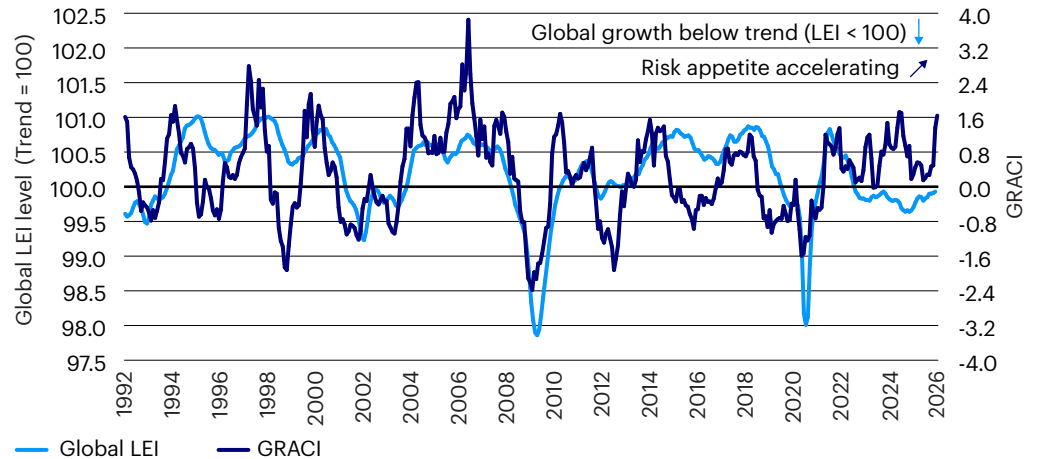
Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Nov. 30, 2025. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment.



Leading economic indicators continue to improve at a noticeable clip in the eurozone and the UK.

Figure 2: Global LEI improving and approaching its long-term trend, while global risk appetite continues to increase, signaling improving growth expectations

GRACI and Global LEI

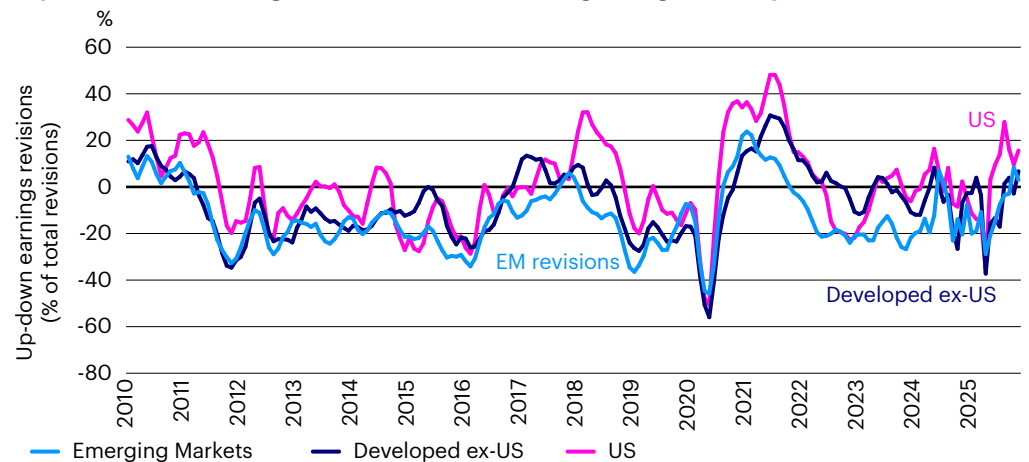


Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions research and calculations, from Jan. 1, 1992 to Nov. 30, 2025. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global LEI signals growth above (below) a long-term average. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment. A reading above (below) zero signals a positive (negative) compensation for risk-taking in global capital markets in the recent past. **Past performance does not guarantee future results.**



The favorable global backdrop is exemplified by upward revisions in earnings expectations across all regions.

Figure 3: Earnings revisions are now positive across all regions, confirming the improvement in leading economic indicators and global growth expectations



Sources: Bloomberg L.P., JPMorgan, Invesco Solutions research and calculations, from January 31, 2010 to Nov. 25, 2025. 12-month forward earnings revisions computed as the number of upward revisions minus the number of downward revisions divided by total number of revisions, and then a 3-month moving average is calculated. **Past performance does not guarantee future results.**



While we are in the later stages of the economic cycle, we believe this Goldilocks scenario remains supportive of risky assets, with more upside in equities than credit.

Overall, as we approach the end of 2025, the global economy has demonstrated remarkable resilience despite noticeable headwinds from global trade policy uncertainty, fear of renewed inflationary pressures, and a significant deceleration in employment growth. As we enter 2026, our barometer of global risk appetite points to improving growth expectations, supported by monetary policy easing, expansionary fiscal policy across developed markets, mainly the US and Europe, and lack of inflationary pressures (**Figure 4**). While we are in the later stages of the economic cycle, we believe this goldilocks scenario remains supportive of risky assets, with more upside in equities than credit. However, given expensive valuations and historically tight credit spreads, risks remain asymmetrically skewed, with more downside risk to be expected in case of negative economic surprises relative to the upside potential from favorable news. In this regard, our recent shift towards value and small- and mid- caps, and broad diversification between US and non-US equities, should provide better downside protection from cheaper equity valuations, tailwinds from US dollar depreciation, and broader equity sector participation.



Our barometer of global risk appetite points to improving growth expectations and lack of inflationary pressures.



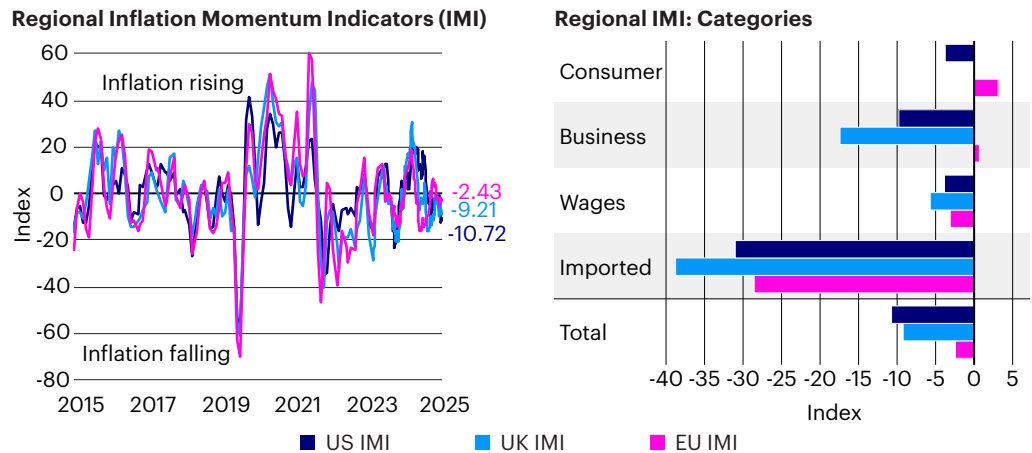
We maintain overall portfolio risk above benchmark, with a moderate overweight in equities relative to fixed income.

We maintain overweight exposure in cyclical sectors, value, and small- and mid-cap equities.

In fixed income, we maintain a moderate overweight in credit but given spreads near all-time lows, the case for risky credit is limited to harvesting relatively higher yields.

We continue to underweight the US dollar, driven by narrowing yield differentials relative to the rest of the world, and positive surprises in economic data outside the US.

Figure 4: Inflation momentum is declining across regions



Sources: Bloomberg L.P., data as of Nov 30, 2025, Invesco Solutions calculations. The US Inflation Momentum Indicator (IMI) measures the change in inflation statistics on a trailing three-month basis, covering indicators across consumer and producer prices, inflation expectation surveys, import prices, wages, and energy prices. A positive (negative) reading indicates inflation has been rising (falling) on average over the past three months.

Investment positioning

We have not made any changes in the Global Tactical Allocation Model² over the past month. We maintain overall portfolio risk above benchmark, with a moderate overweight in equities relative to fixed income, tilting towards value and small-/mid-capitalizations, and a regional exposure in line with the benchmark. In fixed income, we maintain a moderate overweight in credit risk³ and neutral duration (**Figures 5 to 8**). In particular:

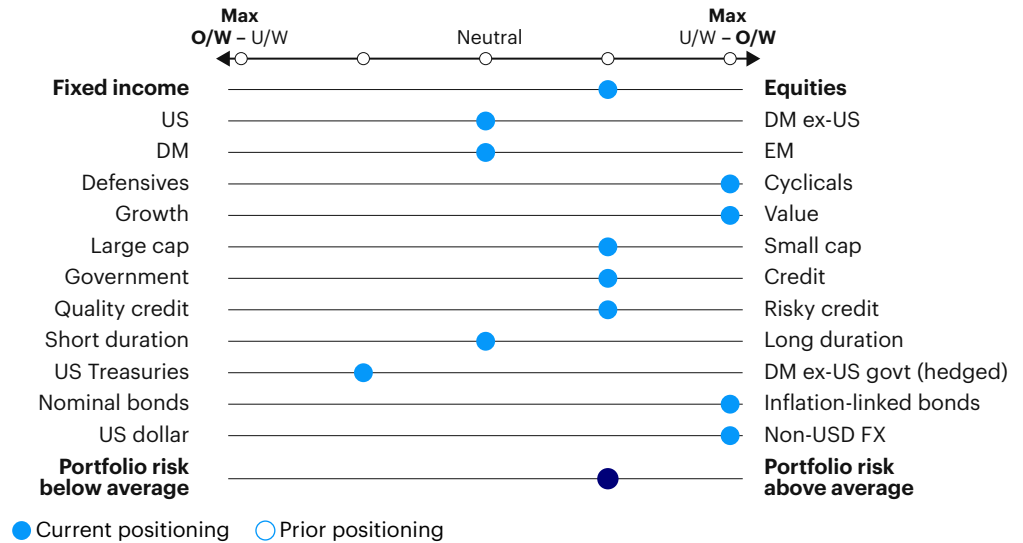
- In **equities**, we maintain overweight exposure in cyclical sectors, value, and small- and mid-cap equities as these segments of equity markets carry higher operating leverage and tend to outperform during cyclical rebounds. Hence, we favor sectors such as financials, industrials, materials, and energy at the expense of health care, staples, utilities, and technology. We maintain a regional composition in line with the benchmark, given mixed signals among key drivers of relative performance between US, developed ex-US, and emerging market equities. On one hand, US earnings momentum continues to outperform other markets. On the other hand, our expectations for dollar depreciation, driven by narrowing yield differentials for the greenback and positive surprises in global growth, favor international equity markets. As a result, we express no active views in regional exposures at this stage.
- In **fixed income**, we maintain a moderate overweight in credit but given spreads near all-time lows, the case for risky credit is limited to harvesting higher yields relative to investment grade and government bonds in an environment of improving growth and stable inflation. Therefore, we look for diversification across high yield, leveraged loans, and emerging markets dollar debt, and underweight investment grade credit and sovereign fixed income. Our bearish positioning on the US dollar also favors emerging markets local debt and global fixed income, currency unhedged, relative to core domestic fixed income. We maintain an overweight to TIPS relative to nominal Treasuries following the transition to a recovery regime, historically accompanied by widening breakeven inflation.
- In **currency markets**, we continue to underweight the US dollar, driven by narrowing yield differentials relative to the rest of the world, and positive surprises in economic data outside the US. Within developed markets, we favor the euro, the British pound, Norwegian kroner, Australian dollar, and Japanese yen relative to the Swiss franc, Canadian dollar, Swedish krona, and Singapore dollar. In emerging markets, we favor high yielders with attractive valuations, such as the Colombian peso, Brazilian real, Indian rupee, and Indonesian rupiah, relative to low-yielding and more expensive currencies like the Korean won, Philippine peso, Thai baht, and Chinese renminbi.

2. Reference benchmark 60% MSCI ACWI, 40% Bloomberg Global Aggregate Hedged Index.

3. Credit risk defined as duration times spread (DTS).

Figure 5: Relative tactical asset allocation positioning

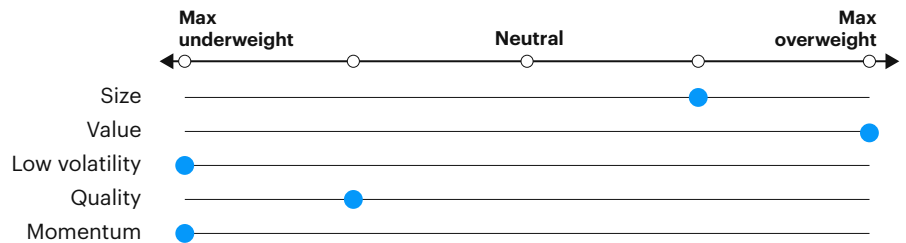
Overweight equities vs. fixed income, favoring value, underweight US dollar, and neutral duration



Source: Invesco Solutions, Dec. 1, 2025. DM = developed markets. EM = emerging markets. Non-USD FX refers to foreign exchange exposure as represented by the currency composition of the MSCI ACWI Index. For illustrative purposes only.

Figure 6: Tactical factor positioning

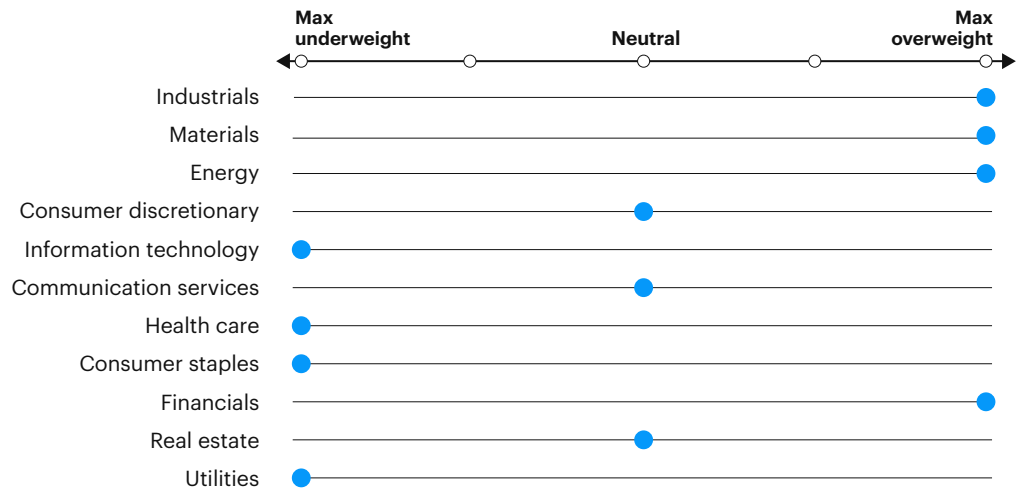
Overweight value and small size; underweight quality, low volatility and momentum



Source: Invesco Solutions, Dec. 1, 2025. For illustrative purposes only. Neutral refers to an equally weighted factor portfolio.

Figure 7: Tactical sector positioning

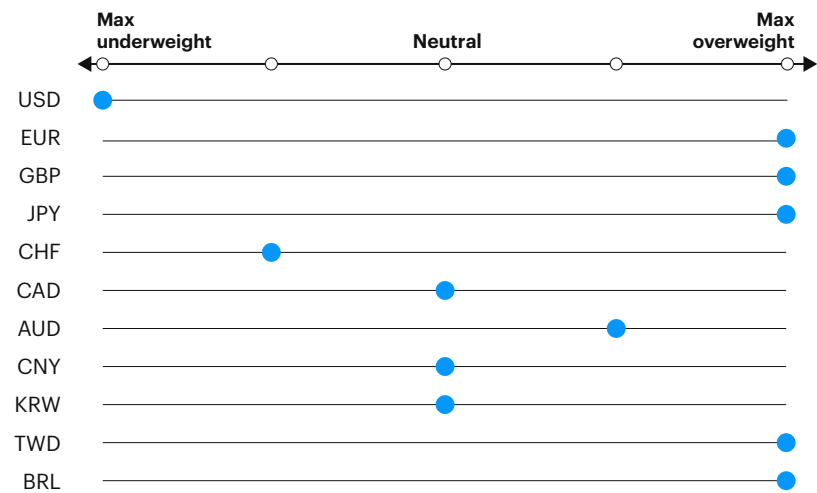
Sector exposures favoring cyclicals



Source: Invesco Solutions, Dec. 1, 2025. For illustrative purposes only. Sector allocations derived from factor and style allocations based on proprietary sector classification methodology. As of December 2023, Cyclicals: energy, financials, industrials, materials; Defensives: consumer staples, health care, information technology, real estate, utilities; Neutral: consumer discretionary and communication services.

Figure 8: Tactical currency positioning

Underweight US dollar, favoring euro and sterling vs. other developed currencies



Source: Invesco Solutions, Dec. 1, 2025. For illustrative purposes only. Currency allocation process considers four drivers of foreign exchange markets: 1) US monetary policy relative to the rest of the world, 2) global growth relative to consensus expectations, 3) currency yields (i.e., carry), 4) currency long-term valuations.

Regime signal history

■ Recovery ■ Expansion ■ Slowdown ■ Contraction

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	<ul style="list-style-type: none"> Market sentiment: Decelerated following Q1 as equity markets had two significant corrections: The Federal Reserve (Fed) hiked rates four times, privacy and regulatory concerns took hold of the technology sector, and trade tensions between the US and China escalated. Economic data: Was supported by a tight labor market and strong services sector, despite gradual weakening in manufacturing. Our regime framework (2 shifts): Risk-on in Q1 and rotated to a defensive stance throughout the year. Defensive asset classes outperformed, led by global fixed income. 												
2019	<ul style="list-style-type: none"> Market sentiment: Bottomed early and made a significant turnaround midyear as the Fed switched to a dovish stance, eventually leading to rate cuts in H2. US-China trade tensions eased amidst a "Phase One" deal. Economic data: Deteriorated due to weaker manufacturing and services data. Yield curve inversion raised recessionary concerns. Our regime framework (3 shifts): Defensive in H1, then shifted into a recovery with the combination of below-trend growth but improving market sentiment. Equities posted strong returns led by the US, credit spreads tightened, and duration was supported by interest rate cuts. 												
2020	<ul style="list-style-type: none"> Market sentiment: Deteriorated quickly as emerging market equities underperformed in response to COVID-19. Sentiment reversed in the summer as large monetary and fiscal stimulus supported the economy. Reopening post-lockdown and vaccine news fueled positive sentiment in Q4. Economic data: Weakened to historic levels before the eventual economic reopening and resulting rebound. Overall economic data remained below-trend throughout the year. Our regime framework (2 shifts): Rotated into a contraction in February, ahead of the depths of market volatility, and shifted into recovery in June as the global economy reopened, benefiting from cyclical assets outperforming in H2 2020. 												
2021	<ul style="list-style-type: none"> Market sentiment: Moved higher following the economic reopening in H2 2020. Market volatility fell significantly. Historic levels of fiscal stimulus were enacted in the US, and COVID-19 vaccines were slowly deployed. Economic data: Continued to normalize and moved to above-trend despite supply chain bottlenecks and supply-demand disruptions. Inflationary pressures emerged, and Fed rhetoric became more hawkish in December. Our regime framework (2 shifts): Was in an expansionary regime throughout the year. This was validated as equities, led by the US, outperformed, credit spreads tightened, and bond yields rose. 												
2022	<ul style="list-style-type: none"> Market sentiment: Peaked early in the year and deteriorated following Russia's invasion of Ukraine, the surge in energy prices, and inflationary pressures. Aggressive monetary policy tightening led to negative growth implications. Economic data: Weakened from 2021 peaks but remained above-trend for roughly half the year. Consumers benefitted from a tight labor market, fueling strong retail sales, which helped buoy a supply chain-constrained manufacturing sector. Our regime framework (4 shifts): Changed multiple times but spent the bulk of the year positioned defensively. This was beneficial as equities underperformed and duration also sold off meaningfully due to higher rates. 												
2023	<ul style="list-style-type: none"> Market sentiment: Declined in Q1 following US regional banking failures. Turned positive again in H2 as inflation showed signs of moderating, leading to the end of the Fed hiking cycle. Markets became optimistic on themes including AI advancements and China's post-COVID reopening. Economic data: Remained below-trend, although supported by consumer spending, business investment, and government spending. Our regime framework (2 shifts): Significantly pivoted from defensive to cyclical in H2, consistent with tightening credit spreads, equity outperformance, and rising bond yields. However, cyclical equities underperformed due to a relentless bid for AI-related, quality, and growth equities. 												
2024	<ul style="list-style-type: none"> Market sentiment: Rose in H1 as inflation decelerated, markets rewarded AI adoption, and consumer spending remained resilient. Deteriorated in H2 with US election uncertainty, fears over a weakening labor market, and corporate earnings growth concentrated in expensive mega-cap names. Economic data: Below-trend as the unemployment rate rose despite resilient consumer spending. The Fed began easing, and the yield curve began to steepen. Our regime framework (1 shift): Risk-on until midyear when below-trend and decelerating growth triggered a contraction. Cross-asset class performance in H1 was consistent with this stance, while equity returns were led by the Magnificent 7 and AI theme rather than cyclical fundamental drivers. 												

Source: Invesco Solutions, as of Nov. 30, 2025.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested.

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All information as of Nov. 30, 2025, in USD, unless stated otherwise.

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