

Tactical Asset Allocation

Moving to a maximum underweight in the US dollar and neutral regional equity exposures. We remain in a contraction regime with defensive portfolio positioning.



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Synopsis

- Our framework remains in a contraction regime. We maintain a defensive posture, overweighting fixed income relative to equities, favoring defensive sectors and factors, while holding the regional composition between US, international developed, and emerging market equities in line with the benchmark. In fixed income, we maintain a moderate overweight in duration and underweight in credit risk. We move to a maximum underweight in the US dollar.
- The dovish turn by the Federal Reserve at Jackson Hole is leading to a meaningful repricing of monetary policy expectations, with narrowing yield differentials between the US and the rest of the world. Expectations for US dollar depreciation lead our models to reduce US equity positioning back to neutral.

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: Narrowing yield differentials put downward pressure on the US dollar

The global picture remains broadly stable. Economic data are performing in line with expectations and macro volatility is subdued. Developed markets continue to grow at a slow but steady rate - below the long-term trend and last year's growth rate, but enough to maintain positive employment growth at this stage. Business and consumer sentiment surveys seem to have adjusted and stabilized in response to global trade policy uncertainty. However, the full impact of tariffs on both growth and inflation will likely be more visible in Q4, as the front-loading of imports and inventories from the first half of the year wears off.

Our barometer of global risk appetite improved marginally over the past month, with global equities outperforming fixed income markets and credit spreads stabilizing at cyclical lows, but remains on a decelerating trend. Therefore, our macro framework remains in a contraction regime for the global economy for the 15th consecutive month (**Figures 1 and 2**).

The perceived disconnect between equity market valuations and weakening economic fundamentals continues. The earnings season for US equities confirmed well-established trends, namely the discrepancy between the health of the mega-cap technology sector, seeing +20% earnings growth year-over-year, and the flat or negative performance in earnings growth for cyclical and defensive sectors, outside of tech. Nonetheless, US equities, in aggregate, continue to see strong upward revisions in earnings expectations, outpacing the rest of the world (**Figure 3**), indicators that have led us to maintain a moderate overweight in US equities versus the rest of the world in recent months.



Our framework remains in a contraction regime for the 15th consecutive month, with growth below trend and decelerating.

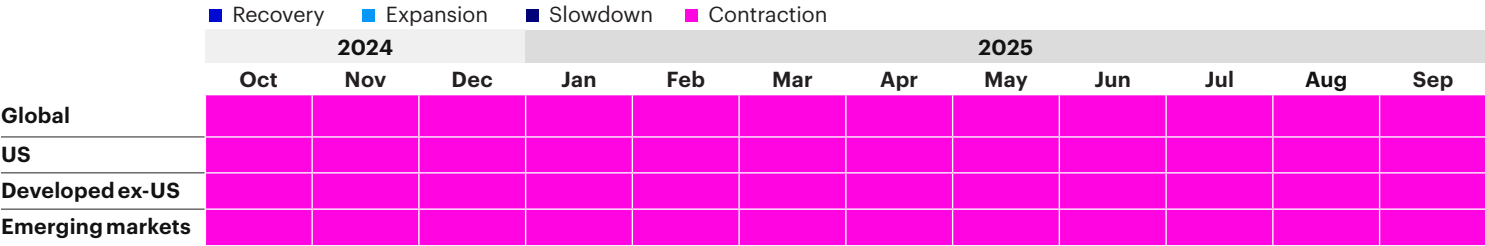
Figure 1a: Global macro framework remains in a contraction regime
Regional regime signals and components

LEIs		Global risk appetite	
Region	Current level of growth	Change in global growth expectations	Expected macro regimes
Global	Below trend	<div>&</div> <div>Growth expectation deteriorating</div> <div>=</div>	Contraction
United States	Below trend		Contraction
Developed markets ex-US	Below trend		Contraction
Europe	Below trend		Contraction
United Kingdom	Below trend		Contraction
Japan	Above trend		Slowdown
Emerging markets	Below trend		Contraction
China	Below trend		Contraction
Emerging markets ex-China	Below trend		Contraction

Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Aug. 31, 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 in a contraction phase with LEIs below their long-term trend and deteriorating growth expectations

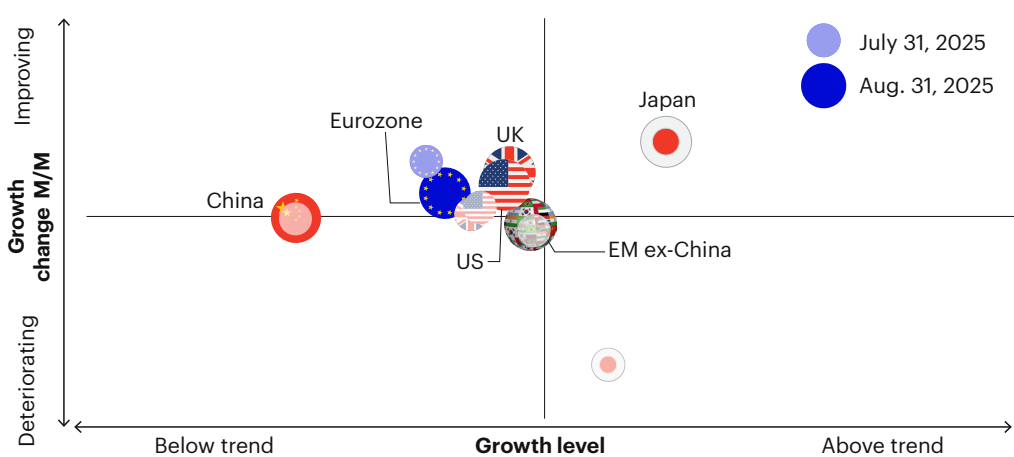


Source: Invesco Solutions as of Aug. 31, 2025.



Developed markets continue grow at a slow but steady rate.

Figure 1c: Global growth is stable and below its long-term trend, with improvements across developed markets



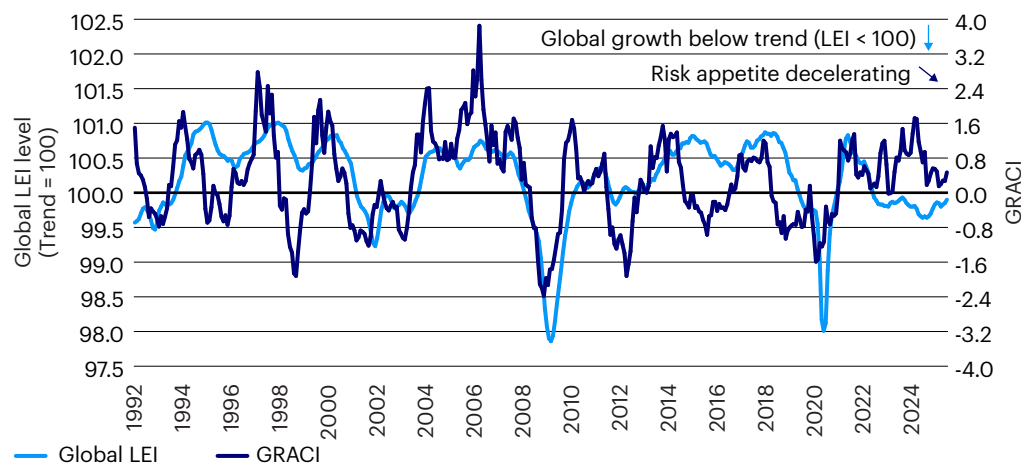
Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Aug. 31, 2025. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment.



Our barometer of global risk appetite improved marginally over the past month, with global equities outperforming fixed income.

Figure 2: Global risk appetite has recently improved but remains on a weakening medium-term trend, pointing to weakening growth expectations

GRACI and Global LEI

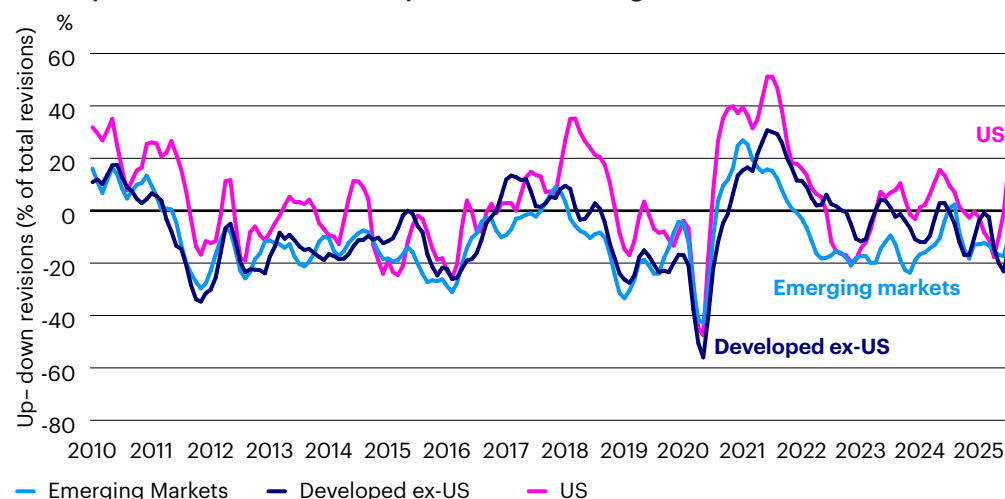


Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions research and calculations, from Jan. 1, 1992 to Aug. 31, 2025. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global 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.**



US equities, in aggregate, continue to see strong upward revisions in earnings expectations, outpacing the rest of the world.

Figure 3: Earnings revisions in the US continue to improve, led by mega-cap technology, while cyclicals and international equities are still seeing downward revisions



Sources: Bloomberg L.P., JPMorgan, Invesco Solutions research and calculations, from Jan. 31, 2010 to Aug. 31 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. **Past performance does not guarantee future results.**

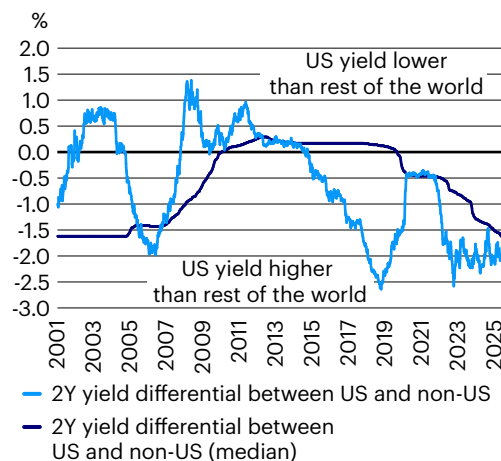
The recent dovish turn by the Federal Reserve at Jackson Hole is leading to a meaningful repricing of monetary policy expectations, with narrowing yield differentials between the US and the rest of the world. Our models indicate this trend is likely to continue (**Figure 4**). While the US dollar still enjoys higher yields than its developed market peers, this anticipated erosion of the US yield advantage has historically put downward pressure on the greenback. This provides a potential catalyst for outperformance in non-US equities, driven by US capital outflows seeking international diversification and foreign currency appreciation. Given these opposing macro forces, namely US earnings' upward revisions and US dollar depreciation pressures, our models lead us to neutralize the regional composition of our equity positioning, closing the moderate overweight in US equities and bringing exposures in line with global equity benchmarks.



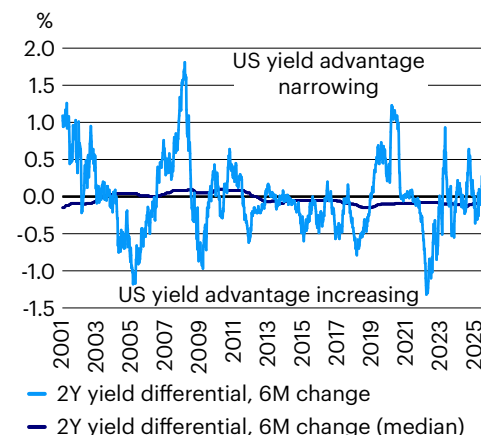
The dovish turn by the Fed is leading to a meaningful repricing of monetary policy expectations, with narrowing yield differentials between the US and the rest of the world.

Figure 4: The yield advantage of the US is slowly eroding with expectations of easier monetary policy, putting downward pressure on the US dollar

**Developed markets versus US:
2-year yield spread**



**Developed markets versus US:
6-month change in 2-year yield spread**



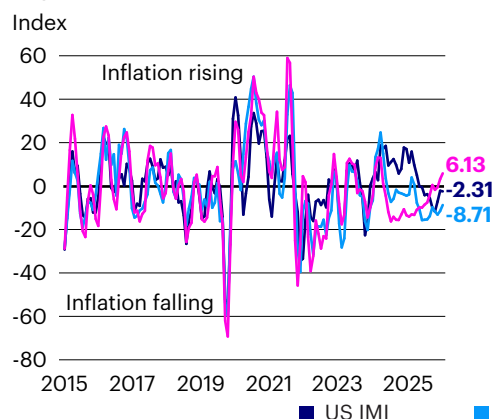
Source: Bloomberg L.P., Macrobond, and Invesco Solutions calculations. 2-year bond yield differential between the US and basket of developed bond markets including Australia, Canada, Eurozone, Japan, New Zealand, Norway, Singapore, Sweden, Switzerland, UK. Median lines plot the median value over trailing 10-years. Data from January 2001 to Aug. 31, 2025.



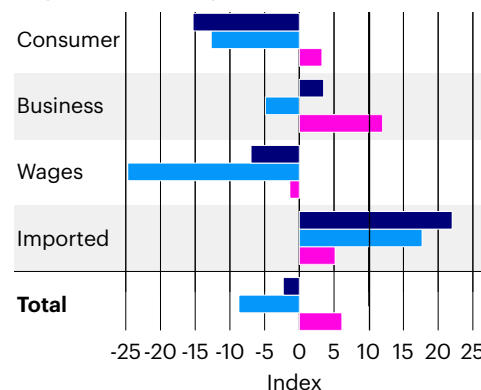
Weaker inflation momentum causes us to favor nominal Treasuries versus TIPS.

Figure 5: Inflation momentum is broadly stable around the world

Regional Inflation Momentum Indicators (IMI)



Regional IMI: Categories



Sources: Bloomberg L.P. data as of Aug. 31, 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.



We implemented a few changes this month to the Global Tactical Allocation Model.

Investment positioning

We implemented a few changes this month to the Global Tactical Allocation Model.¹ We continue to hold a lower risk profile than the benchmark, underweighting equities relative to fixed income. We have increased the exposure to international developed markets and emerging market equities at the expense of US equities. This change is driven by increased bearish (bullish) positioning in our models towards the US dollar (foreign currency exposure). The regional composition of the equity portfolio is now neutral and in line with the benchmark. We continue to overweight defensive sectors with quality and low volatility characteristics. In fixed income, we underweight credit risk² relative to benchmark and overweight duration via nominal Treasuries (**Figures 6 to 9**). In particular:

- Reference benchmark 60% MSCI ACWI, 40% Bloomberg Global Aggregate Hedged Index.
- Credit risk defined as duration times spread (DTS).



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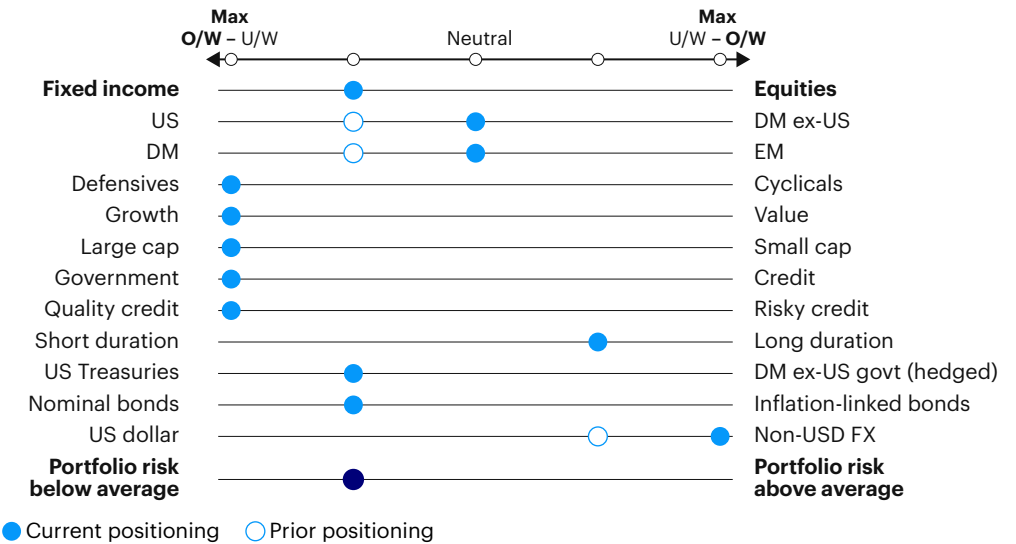


We moved to max underweight the US dollar, driven by continued narrowing in yield differentials, and positive surprises in economic data outside the US.

- In **equities**, opposing macro forces lead our models to neutralize the regional composition versus benchmark. On the one hand, Q2 earnings season delivered renewed upward revisions to US earnings, primarily in the mega-cap technology sector, strongly outperforming international developed and emerging markets (**Figure 3**). On the other hand, increased expectations for Fed easing are leading to a rapid spread compression in yield differentials between the US and the rest of the world. That has been historically conducive of US dollar depreciation and outperformance in unhedged developed ex-US and emerging market equities (**Figure 4**). Conflicting signals lead our models to a neutral positioning in emerging markets relative to developed markets, and US relative to developed ex-US equities. We favor defensive sectors with quality and low volatility characteristics, tilting towards larger capitalizations at the expense of value, and mid- and small-caps. Hence, we favor sectors such as health care, staples, utilities, and technology at the expense of cyclical sectors such as financials, industrials, materials, and energy.
- In **fixed income**, we underweight credit risk and overweight duration, favoring investment grade and sovereign emerging fixed income relative to high yield. Given the decelerating growth environment and historically tight spreads, we believe the risk-reward in this position is attractive. Our bearish positioning on the US dollar also favors emerging markets local debt relative to core domestic fixed income. We favor nominal Treasuries versus TIPS given weaker inflation momentum (**Figure 5**).
- In **currency markets**, we moved to a max underweight exposure in the US dollar, driven by continued narrowing in yield differentials relative to the rest of the world and positive surprises in economic data outside the US (**Figure 4**). As described in recent months, we believe this positioning is further supported by the deteriorating fiscal position of the US and rising funding requirements, putting downward pressure on the greenback. Within developed markets we favor the euro, the British pound, Norwegian kroner, Australian dollar, and the Japanese yen relative to the Swiss franc, Canadian dollar, Swedish krona and Singapore dollar. In EM, 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 such as the Korean won, Philippines peso, Thai baht, and Chinese renminbi.

Figure 6: Relative tactical asset allocation positioning

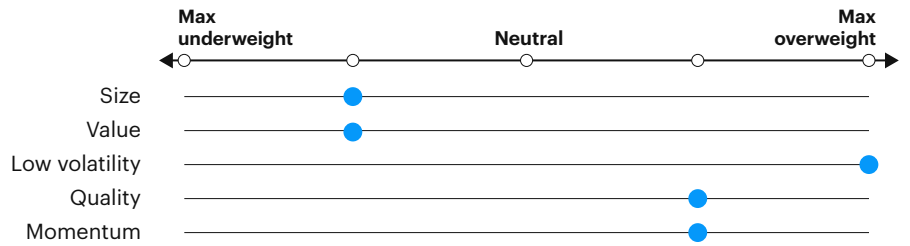
Maintaining defensive positioning, favoring fixed income over equities



Source: Invesco Solutions, Sept. 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 7: Tactical factor positioning

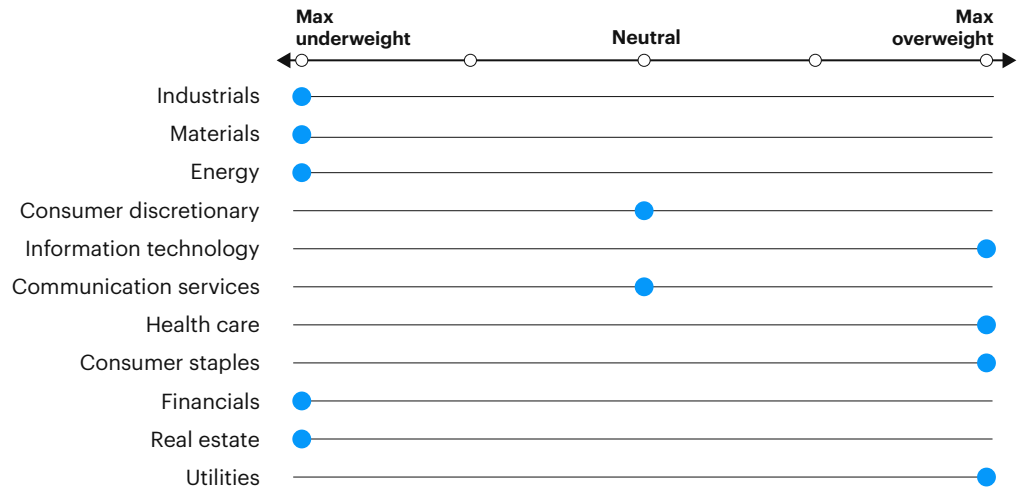
Overweight quality, low volatility, and momentum



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

Figure 8: Tactical sector positioning

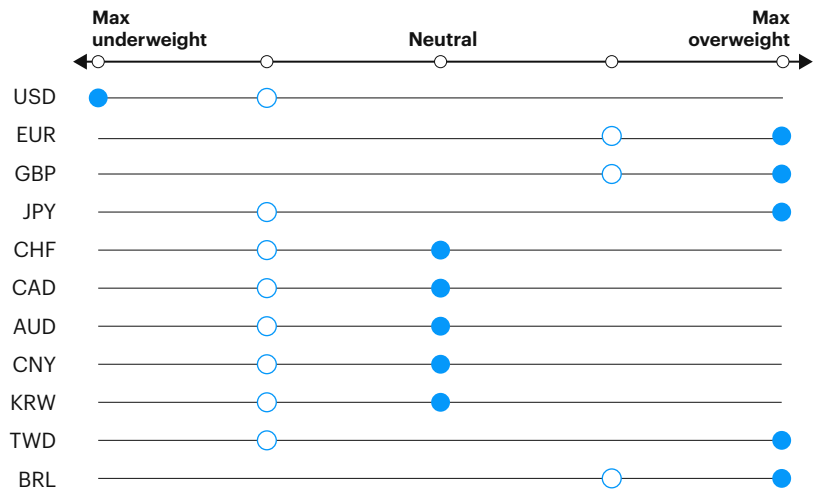
Sector exposures favoring defensives



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

Figure 9: Tactical currency positioning

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



Source: Invesco Solutions, Sept. 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 Aug. 31, 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 Aug. 31, 2025, in USD, unless stated otherwise.

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