Invesco

Tactical Asset Allocation

Rising geopolitical tensions are beginning to weigh on global growth expectations, despite continued economic resilience. Decelerating risk appetite moves our framework to a slowdown regime, reflecting a more balanced and defensive posture in response to elevated uncertainty, rather than a fundamental shift in the economic cycle.

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.

Invesco Solutions and Custom Strategies

Synopsis

- Rising geopolitical tensions have begun to weigh on global growth expectations, despite continued economic resilience. The escalation of the US–Iran conflict has introduced a meaningful external shock to the prior expansion, raising uncertainty around inflation, policy flexibility, and the sustainability of risk-taking, moving our framework to a slowdown regime.
- The slowdown reflects a risk-management response to elevated uncertainty rather than a cycle-ending signal. With volatility remaining elevated and compensation for growth risk less predictable, a more defensive and balanced posture has historically helped to mitigate downside risks while preserving flexibility should growth momentum stabilize.

Historically large energy shock begins to weigh on the global economic cycle

The global economy entered the month supported by a relatively constructive backdrop, with growth running above trend and market sentiment benefiting from still-accommodative financial conditions. However, as discussed in our previous update, this environment remained vulnerable to a material escalation in geopolitical risks, particularly the potential for direct and sustained damage to energy infrastructure to disrupt global oil supply.

Since the onset of the conflict in late February, escalating attacks on key energy infrastructure, heightened security risks across the Persian Gulf, and disruptions to major transportation routes have sharply reduced effective global oil supply. Historically, the magnitude of supply at risk stands out relative to other major geopolitical oil disruptions, even as it unfolds during a period when global economic activity remains broadly resilient and above trend.

Forward-looking, scenario-based analysis underscores that the macroeconomic consequences of a disruption at the Strait of Hormuz depend at least as much on its duration as its initial scale. Modeling of geopolitically driven oil supply shortfalls suggests that even a closure lasting a single quarter — removing a substantial share of global oil flows — can lead to materially higher energy prices and a meaningful drag on global real GDP growth. Extensions of the disruption into a second or third quarter amplify these effects non-linearly, as energy prices rise further and growth impacts persist beyond the period of peak supply constraints.[1]

Crucially, while growth rates may rebound once oil shipments resume, the level of economic activity typically remains below its pre-shock trajectory, due to delayed investment, tighter financial conditions, and the cumulative effects of elevated energy costs on demand. More broadly, the macroeconomic relevance of this shock extends well beyond energy markets. Large oil supply disruptions have historically acted as a tax on global demand, disproportionately affecting oil-importing regions while constraining policy flexibility at a time when central banks remain sensitive to inflation risks. It's not only the level of energy prices but also the uncertainty surrounding the duration and persistence of supply shortfalls that amplifies the macroeconomic impact, as even the expectation of a prolonged disruption can weigh on confidence, investment, and growth.

1. Source: Federal Reserve Bank of Dallas, "What the Closure of the Strait of Hormuz Means for the Global Economy," March 20, 2026.

> Our latest readings of LEIs continue to point to a global economy that remains broadly resilient.

> Growth levels in the US and developed markets outside the US remain above trend, supported by resilient domestic demand and constructive cyclical dynamics.

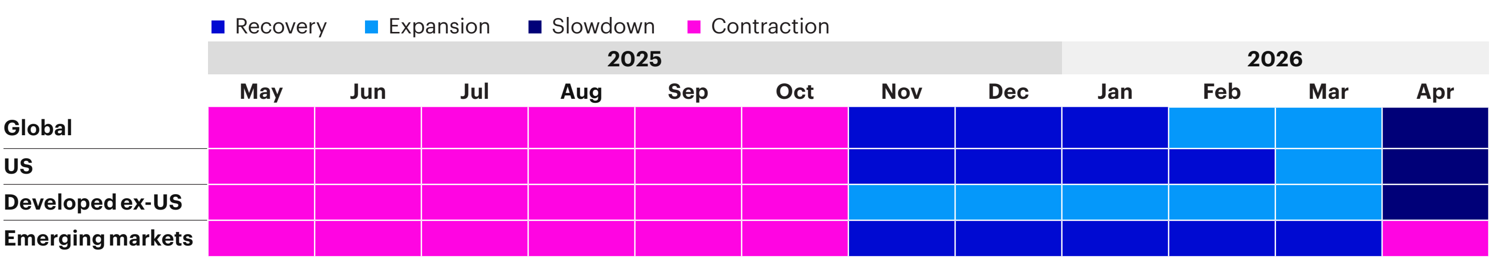
Against this backdrop, our latest readings of leading economic indicators (LEI) continue to point to a global economy that remains broadly resilient, with LEI stability intact across regions. Growth levels in the US and developed markets outside the US remain above trend, supported by resilient domestic demand and constructive cyclical dynamics. At the same time, the future path of leading indicators is increasingly contingent on developments in the Middle East, particularly the duration and eventual resolution of the conflict and its implications for energy supply. The transmission from large energy shocks to realized economic data typically occurs with a lag, as higher costs, uncertainty, and tighter financial conditions gradually feed through to consumption and investment. In this environment, the coexistence of still-firm economic fundamentals and cooling market-implied growth expectations leads our framework to identify a transition to a slowdown regime, defined by decelerating market-implied risk appetite rather than a deterioration in underlying economic activity (**Figures 1a, 1b**, and **1c**).

Figure 1a: Global macro framework switches to a slowdown regime
Regional regime signals and components

	LEIs		Global risk appetite		
Region	**Current level of growth**		**Change in global growth expectations**		**Expected macro regimes**
Global	**Above trend**	&	**Growth expectation deteriorating**	=	**Slowdown**
US	**Above trend**				**Slowdown**
Developed markets ex-US	**Above trend**				**Slowdown**
Europe	Above trend				Slowdown
UK	Above trend				Slowdown
Japan	Above trend				Slowdown
Emerging markets	**Below trend**				**Contraction**
China	Below trend				Contraction
Emerging markets ex-China	Above trend				Slowdown

Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Mar. 31, 2026. 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, and Australia. Emerging markets include Brazil, Mexico, Russia, South Africa, Taiwan, China, South Korea, and India.

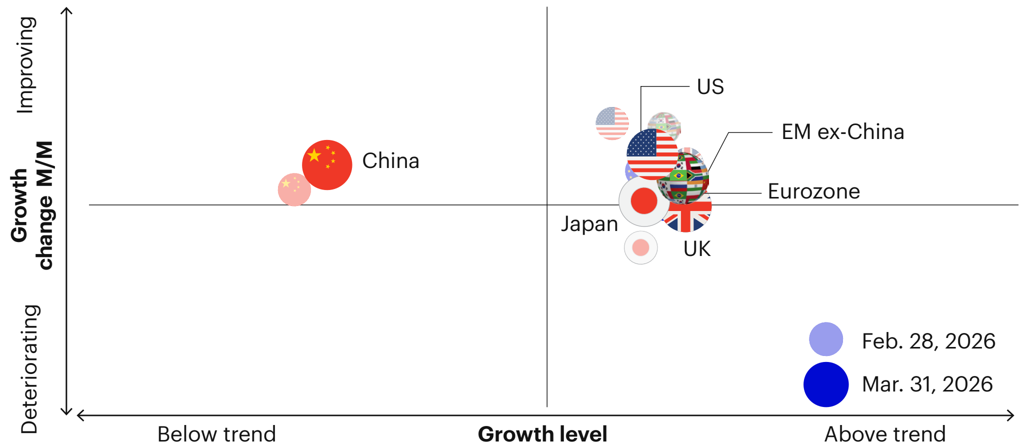
Figure 1b: Trailing 12-month regime history by region
Macro regime transitions reflect moderating growth dynamics across regions



Source: Invesco Solutions as of Mar. 31, 2026.

The coexistence of still-firm economic fundamentals and cooling market-implied growth expectations leads our framework to identify a transition to a slowdown regime.

Figure 1c: Above-trend growth with moderating momentum across regions



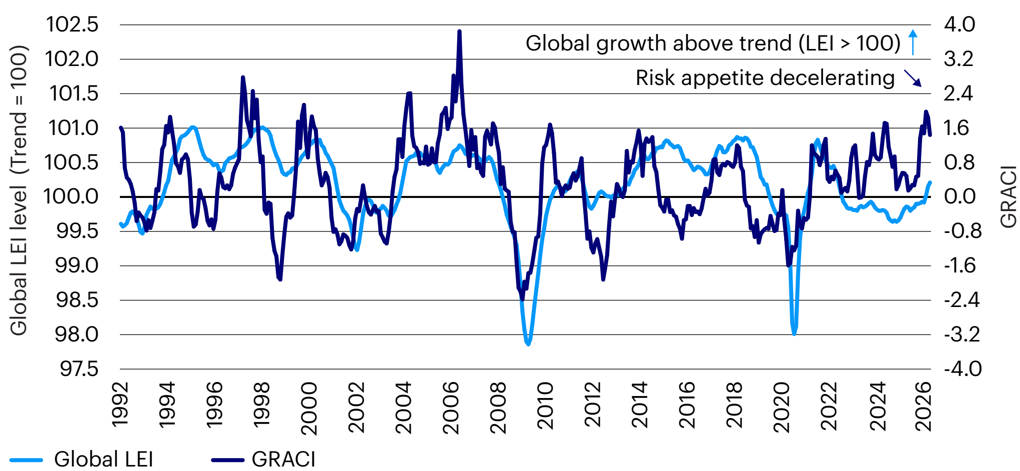
Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Mar. 31, 2026. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment.

In parallel, market-implied growth expectations have adjusted lower. Our measure of global risk appetite has decelerated materially from recent highs even as LEIs remain above trend, a combination consistent with historical transitions from expansion to slowdown (**Figure 2**). As compensation for growth risk diminishes, risk-sensitive assets become increasingly vulnerable to adverse surprises.

Our measure of global risk appetite has decelerated materially from recent highs, consistent with historical transitions from expansion to slowdown.

Figure 2: Growth remains above trend as risk appetite decelerates, signaling a transition to slowdown

GRACI and Global LEI

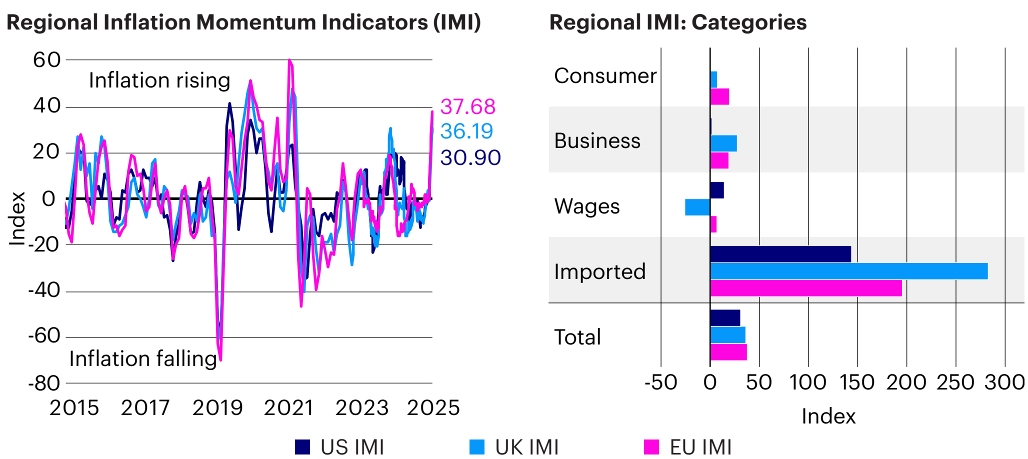


Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions research and calculations, from Jan. 1, 1992 to Mar. 31, 2026. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global 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.**

Rising energy prices are also translating into higher inflation momentum across regions. Our inflation momentum indicators have accelerated for a third consecutive month, driven primarily by energy inputs (**Figure 3**). This dynamic complicates the policy outlook, particularly for central banks in energy-importing economies, where stronger near-term inflation pressures may coexist with deteriorating medium-term growth prospects.

> Our inflation momentum indicators have accelerated for a third consecutive month, driven by energy inputs.

Figure 3: Inflation momentum rises, driven primarily by imported cost pressures



Sources: Bloomberg L.P. data as of Mar. 31, 2026, 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.

Taken together, these developments suggest that the global expansion is transitioning into a phase of slower growth rather than ending abruptly. While upside scenarios — such as a rapid de-escalation of the conflict and normalization of energy supply — could re-establish stronger momentum, the escalation of geopolitical risk has introduced a more uncertain operating environment. Elevated energy costs, tighter financial conditions, and heightened uncertainty are beginning to weigh on growth expectations, even as underlying activity remains broadly resilient.

> In these environments, maintaining a more balanced portfolio posture has historically proved effective as the cycle enters a more uncertain phase.

Consistent with historical transitions from expansion to slowdown, this phase of the cycle has typically been associated with a moderation in excess returns across risky assets and a narrower margin for error as growth expectations adjust. In these environments, dispersion across assets tends to compress, sensitivity to adverse surprise increases, and maintaining a more balanced portfolio posture has historically proved effective as the cycle enters a more uncertain phase.

Investment positioning

Transitions from expansion to slowdown regimes have historically been associated with modest but generally positive returns across asset classes, alongside a convergence in performance between growth-sensitive and defensive assets. As markets adjust to near-term expectations rather than long-term growth trajectories, compensation for growth risk tends to moderate, and the balance of risks becomes less asymmetrically favorable. In these environments, portfolio outcomes have typically been driven less by broad directional exposure and more by balance, selectivity, and flexibility as uncertainty evolves (**Figures 4 to 7**).

> We've moved to an overall risk-neutral stance relative to the benchmark, reflecting a deliberate risk-management response.

- Within this context, we've moved to an overall risk-neutral stance relative to the benchmark, reflecting a deliberate risk-management response, rather than a shift to a defensive, risk-off posture. This positioning is intended to preserve optionality, allowing portfolios to participate should growth momentum stabilize, while maintaining resilience to adverse developments. Within this framework, we remain moderately overweight equities relative to fixed income, but with a clear emphasis on defensiveness and earnings visibility rather than cyclical acceleration.

> In equities, we overweight defensive factors such as quality and low volatility.

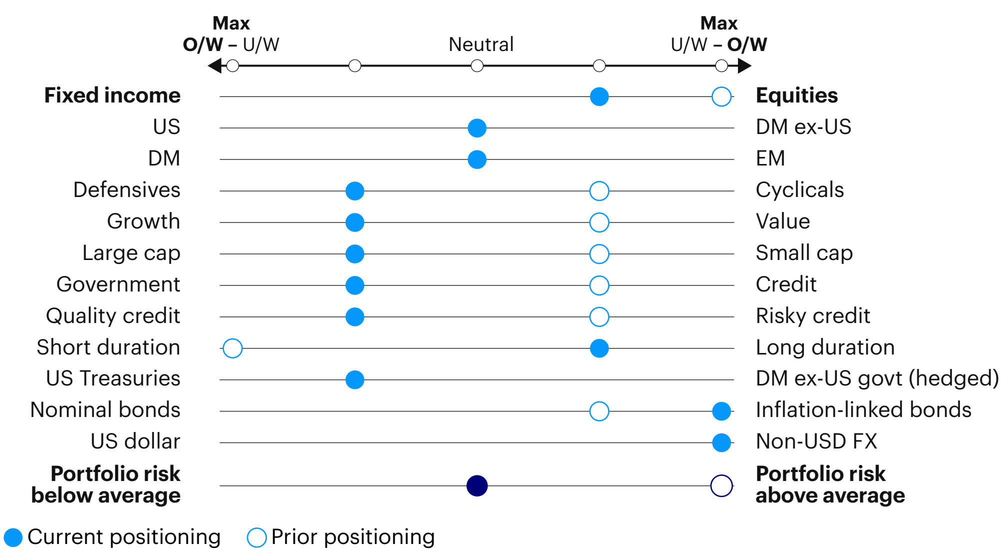
> In fixed income, we've adjusted exposures toward a moderate underweight in overall credit risk.

> We maintain an underweight exposure to the US dollar, reflecting higher and rising short-term interest rates outside the US.

- In **equities,** we overweight defensive factors such as quality and low volatility, which have historically performed well in slowdown regimes through more stable cash-flow profiles and lower sensitivity to changes in growth dynamics. At the sector level, we favor exposures with defensive characteristics and durable fundamentals, including information technology, health care, and consumer staples, at the expense of more cyclical areas. From a regional perspective, we maintain benchmark-aligned allocations, as opposing macroeconomic forces continue to offset one another. While the US continues to exhibit the strongest earnings momentum across regions, higher short-term interest rates and ongoing positive economic surprises outside the US provide important counterweights for international equity markets. In this environment, we remain neutral across US, developed markets ex-US, and emerging markets, awaiting a clearer and more durable alignment across earnings trends, interest-rate differentials, and growth dynamics before expressing active regional tilts.
- In **fixed income,** we've adjusted portfolio exposures toward a moderate underweight in overall credit risk, reflecting a balance of risks that currently appears less favorable for spread-based compensation relative to other sources of return within a diversified portfolio. Additionally, we've increased exposure to interest-rate duration, primarily as a risk-management tool. As the framework transitions into a slowdown regime, risks become increasingly skewed toward weaker growth outcomes, and duration has historically provided diversification and downside protection under such conditions. Finally, given the recent acceleration in inflation momentum, we express this duration exposure with a preference for inflation-linked securities over nominal Treasuries, allowing portfolios to retain sensitivity to real-rate dynamics while addressing near-term inflation risks.
- In **currency markets,** we maintain an underweight exposure to the US dollar, reflecting higher and rising short-term interest rates outside the US, alongside continued positive economic surprises in several non-US economies. Within developed markets, we favor the euro, Canadian dollar, Norwegian kroner, Singapore dollar, and Japanese yen relative to the Swiss franc, British pound, Swedish krona, New Zealand dollar, and Australian dollar. Within emerging markets, we favor higher-yielding currencies with attractive valuations, including the Colombian peso, Brazilian real, Indian rupee, and Taiwan dollar, relative to low-yielding or more expensive currencies such as the South African rand, Mexican peso, Czech koruna, and South Korean won.

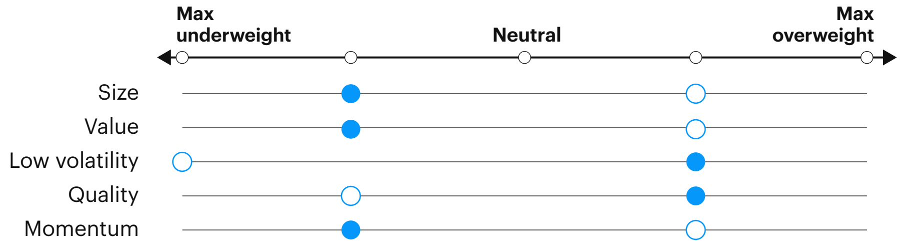
Figure 4: Relative tactical asset allocation positioning

Moderate overweight equities vs. fixed income, favoring defensives, underweight US dollar, and credit



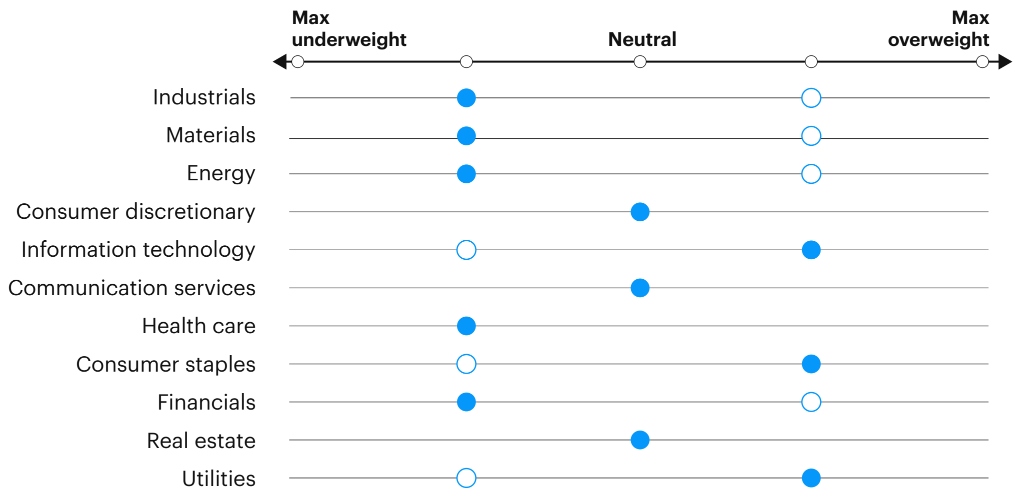
Source: Invesco Solutions, Apr. 1, 2026. DM = developed markets. EM = emerging markets. Non-USD FX refers to foreign exchange exposure as represented by the currency composition of the MSCI ACWI Index. For illustrative purposes only.

Figure 5: Tactical factor positioning
Overweight quality and low volatility; underweight value, small size, and momentum



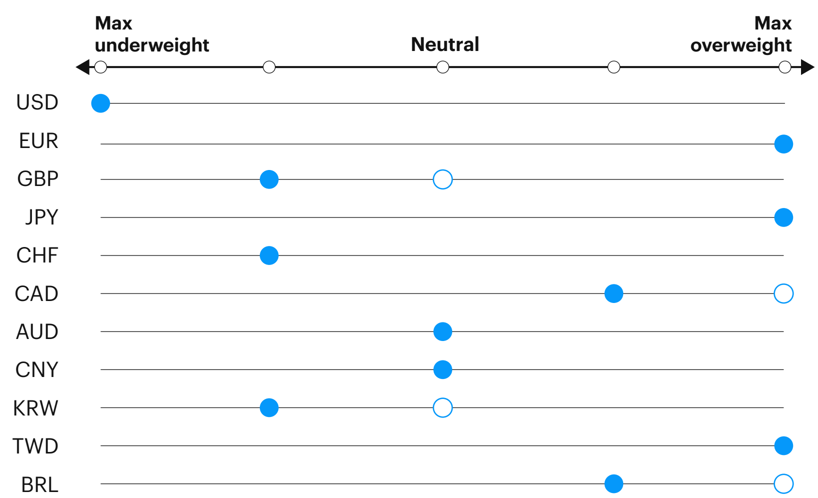
Source: Invesco Solutions, Apr. 1, 2026. For illustrative purposes only. Neutral refers to an equally weighted factor portfolio.

Figure 6: Tactical sector positioning
Sector exposures favoring defensives



Source: Invesco Solutions, Apr. 1, 2026. For illustrative purposes only. Sector allocations derived from factor and style allocations based on proprietary sector classification methodology. As of Dec. 2023, cyclicals: energy, financials, industrials, materials; defensives: consumer staples, health care, information technology, real estate, utilities; neutral: consumer discretionary and communication services.

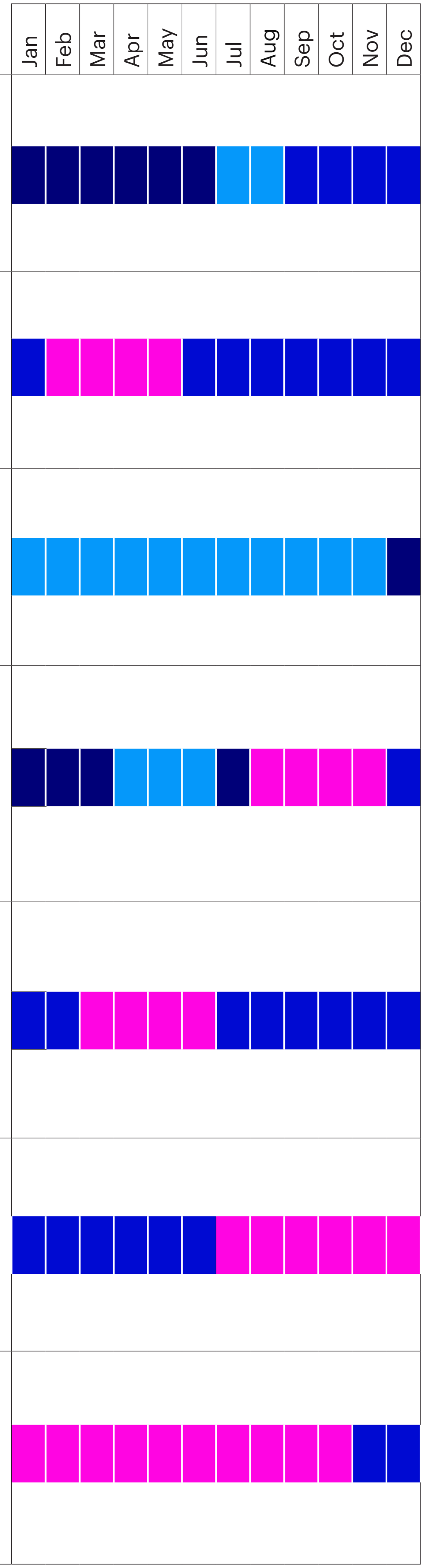
Figure 7: Tactical currency positioning
Underweight US dollar, favoring euro, yen, and Canadian dollar



Source: Invesco Solutions, Apr. 1, 2026. For illustrative purposes only. Currency allocation process considers four drivers of foreign exchange markets: US monetary policy relative to the rest of the world, global growth relative to consensus expectations, currency yields (i.e., carry), currency long-term valuations.

Regime signal history

■ Recovery ■ Expansion ■ Slowdown ■ Contraction



2019

- **Market sentiment:** Bottomed early and made a significant turnaround midyear as the Federal Reserve (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

- **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

- **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

- **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

- **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 artificial intelligence (AI) advancements and China's post-COVID-19 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

- **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.

2025

- **Market sentiment:** Stayed positive but slowed through Q3 as tariff uncertainty and AI-competition risks drove volatility. Improved sharply in Q4 as tariff pressures eased, AI optimism strengthened, and supportive fiscal and monetary policies boosted cyclical assets.
- **Economic data:** Stable but persistently below trend as the labor market weakened while consumer spending held firm. The Fed continued easing as inflation pressures remained subdued.
- **Our regime framework (1 shift):** Defensive until rising sentiment drove a shift to recovery in Q4. Absolute returns were positive across multiple asset classes, with supportive fiscal and monetary policy helping cyclical assets broaden as market participation widened late in the year.

Source: Invesco Solutions, as of Mar. 31, 2026.

Investment risks

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

Important information

All information as of Mar. 31, 2026, in USD, unless stated otherwise.

This document is issued in: