Tactical Asset Allocation

Global growth is moving above trend, and risk appetite continues to accelerate. Our framework enters an expansion regime for the first time since 2022. We increase our overweight in equities versus fixed income, and underweight duration and 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.

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Synopsis

- Global growth is moving above trend, with broad-based contributions across regions. Our framework enters an expansion regime for the first time since 2022.
- We increase the overweight to equities versus fixed income, favoring value and a moderate overweight to mid-cap equities relative to large caps. Maintain neutral regional exposure between US, developed and emerging markets relative to benchmark. In fixed income, overweight a diversified exposure to risky credit sectors, moving to underweight duration versus benchmark, and maintain an underweight to the US dollar.

Macro update

Global markets inaugurated 2026 with strong positive momentum in equities. Cyclical assets with higher operating leverage and sensitivity to global growth strongly outperformed in January, confirming the inflection point we registered in early November when our framework moved to a recovery regime. Value, small and mid-caps have strongly outperformed more defensive characteristics such as quality, low volatility and large capitalization.

Global risk appetite was fueled by confirmation of resilient growth around the world, stable inflation, and a supportive backdrop from both fiscal and monetary policy. The re-steepening of yield curves across developed markets, with long-term rates above short-term rates by 70-100 basis points, is indicative of easier credit conditions going forward, increasing the odds of a longer cycle.

Our global leading economic indicator suggests growth is gaining momentum across regions and is finally moving above trend for the first time since 2022 which, coupled with improving global risk appetite, moves our macro framework to an expansionary regime for the global economy. The improvement was broad-based across nearly all countries covered in our framework, led by the US, developed markets ex-US, and emerging markets, except for China where growth remains positive and stable but without clear signs of sustained acceleration yet (**Figures 1** and **2**).

In terms of economic sectors, consumer sentiment is gaining momentum across regions. Manufacturing activity, housing indicators and business surveys are gradually bottoming out. Inflationary pressures remain muted, but noticeable volatility in commodity prices, particularly metals and energy, have the potential to change this picture in the near term (**Figure 3**).

Overall, our framework confirms a growth and inflation mix consistent with a goldilocks scenario, favorable for risk assets and cyclical exposures with more upside for equities than credit given historically tight spreads across sectors. We reiterate our main takeaway that broader diversification across equity sectors and regions provides a prudent strategy to maintain an overweight posture in risky assets while mitigating exposures to the expensive corners of US equity markets.

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Figure 1a: Global macro framework moves into an expansion regime

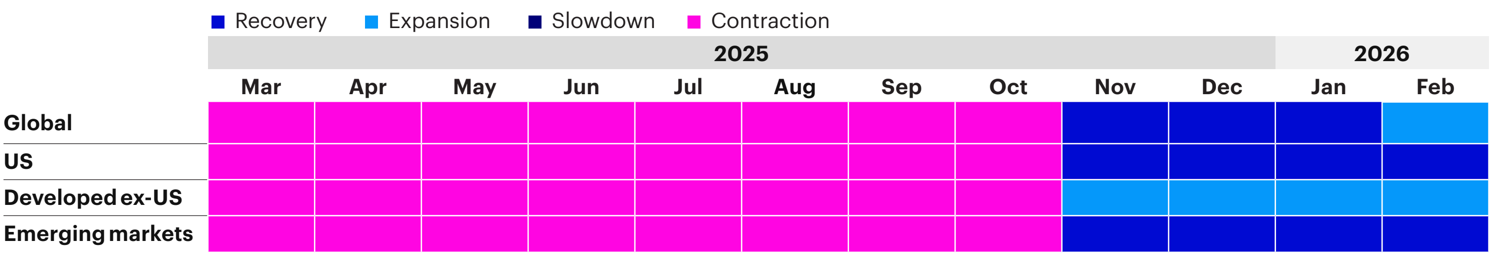
Regional regime signals and components

Region	LEIs: Current level of growth	&	Global risk appetite: Change in global growth expectations	=	Expected macro regimes
Global	**Above trend**	&	Growth expectation improving	=	**Expansion**
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	Above trend				Expansion

Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Jan. 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, 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 moves into an expansion phase with LEIs above their long-term trend and growth expectations improving



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

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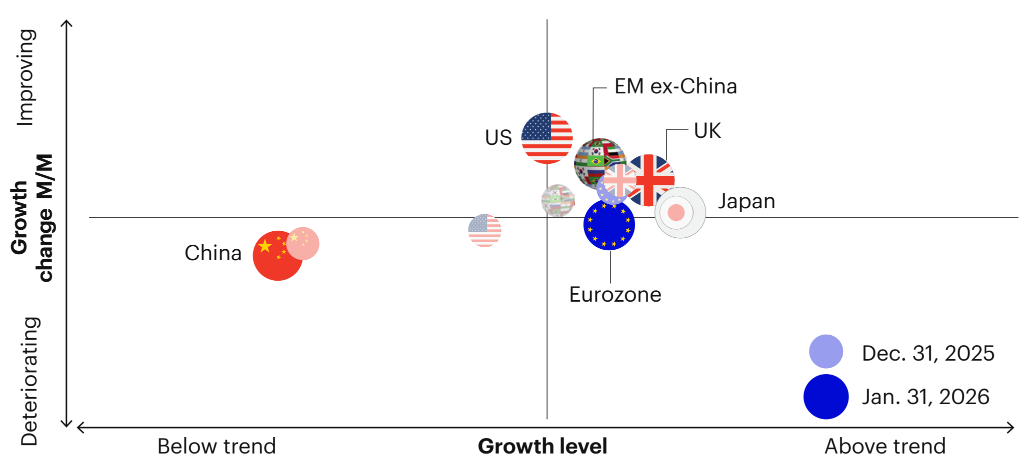
> The growth improvement was broad-based across nearly all countries covered in our framework, led by the US, developed markets ex-US, and emerging markets.

Figure 1c: Global growth is improving and above trend, led by developed markets outside the US and emerging markets ex-China



Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Jan. 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.

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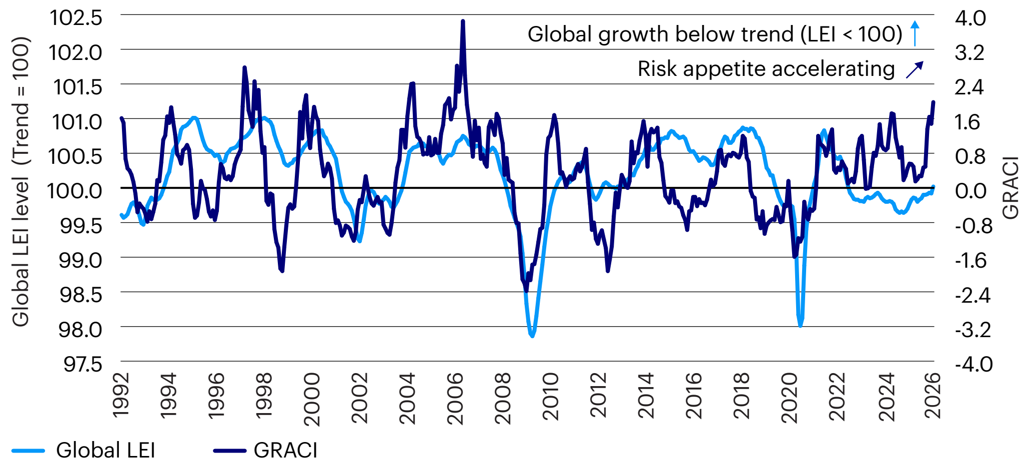
An improving global risk appetite also supports our macro framework move to an expansionary regime.

Figure 2: Global LEI moves above its long-term trend for the first time since 2022. Global risk appetite rising to new cyclical highs, 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 Jan. 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.**

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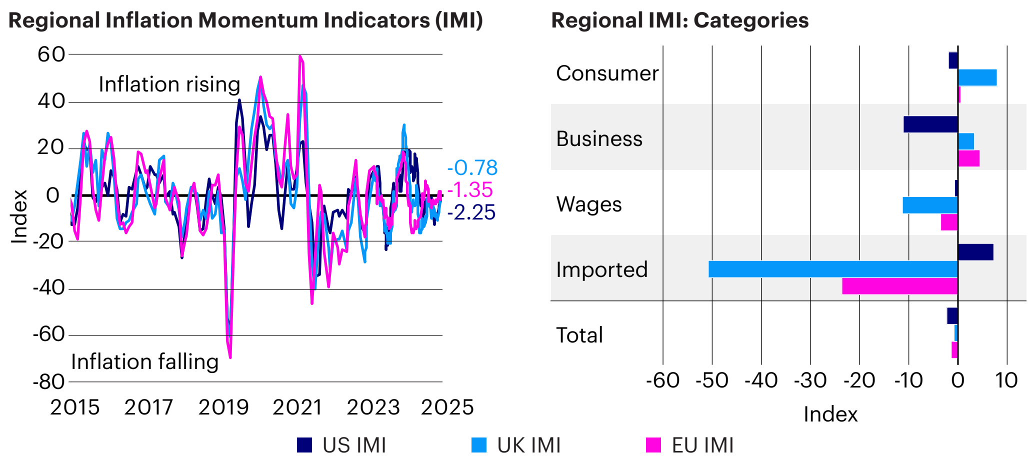
Inflationary pressures remain muted, but noticeable volatility in commodity prices has the potential to change this picture in the near term.

Figure 3: Inflation broadly stable around the world



Sources: Bloomberg L.P. data as of Jan. 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.

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The transition to an expansion regime leads to several portfolio changes, including increasing the equity overweight relative to fixed income.

Investment positioning

The transition to an expansion regime for the global economy leads to several portfolio changes in the Global Tactical Allocation Model[1] this month. We increase the portfolio risk profile relative to benchmark, increasing the overweight in equities relative to fixed income while maintaining regional exposures in line with the benchmark. In fixed income, we maintain a moderate overweight in credit risk[2] but reduce portfolio duration from neutral to underweight versus benchmark (**Figures 4** to **7**). In particular:

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

> In equities, we maintain overweight exposure in cyclical sectors with a tilt to value and a moderate overweight to mid-cap equities relative to large caps.

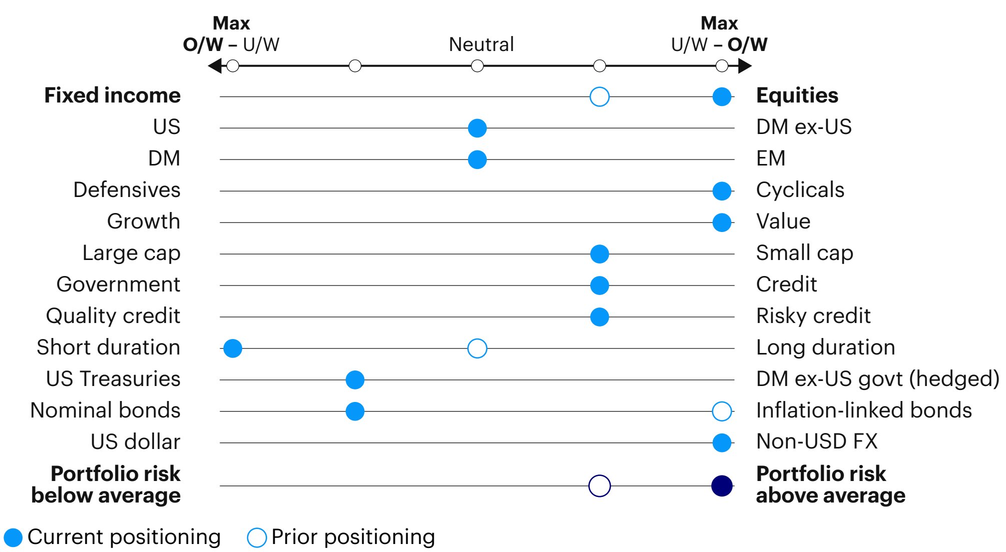
> In fixed income, we maintain a moderate overweight in credit risk but reduce portfolio duration from neutral to underweight versus benchmark.

> We continue to underweight the US dollar.

- In **equities**, we maintain overweight exposure in cyclical sectors with a tilt to value and a moderate overweight to mid-cap equities relative to large caps. As the economy improves and global yield curves steepen, we continue to expect sectors with higher operating leverage to outperform. Hence, we favor 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. While the US continues to exhibit the strongest earnings momentum across regions, dollar depreciation pressures driven by narrowing yield differentials, and positive surprises in global growth, provide offsetting tailwinds for international equity markets. As a result, we maintain a neutral position and express no active views in regional exposures at this stage, waiting for a more decisive alignment in macro drivers.
- In **fixed income**, we maintain a moderate overweight in risky credit, harvesting higher yields relative to investment grade and government bonds in an environment of improving growth and stable inflation. Further spread compression is highly unlikely at this stage, but a stable macro environment remains favorable for credit markets and carry trades more broadly. Therefore, we look for diversification across high yield, leveraged loans and emerging markets dollar debt, and underweight investment grade credit and sovereign fixed income. As global growth moves above trend, we move to an underweight duration posture, expecting global yield curves to continue to steepen. 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. Following the year-to-date widening in breakevens, we close the overweight in TIPS and move to a moderate underweight relative to nominal Treasuries.
- 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 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 4: Relative tactical asset allocation positioning

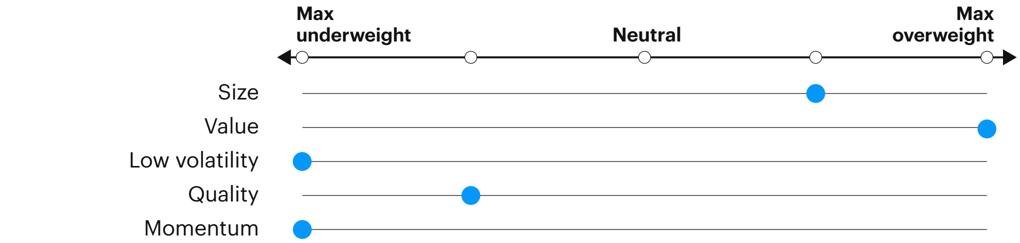
Overweight equities vs. fixed income, favoring value; underweight US dollar and duration



Source: Invesco Solutions, Feb. 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

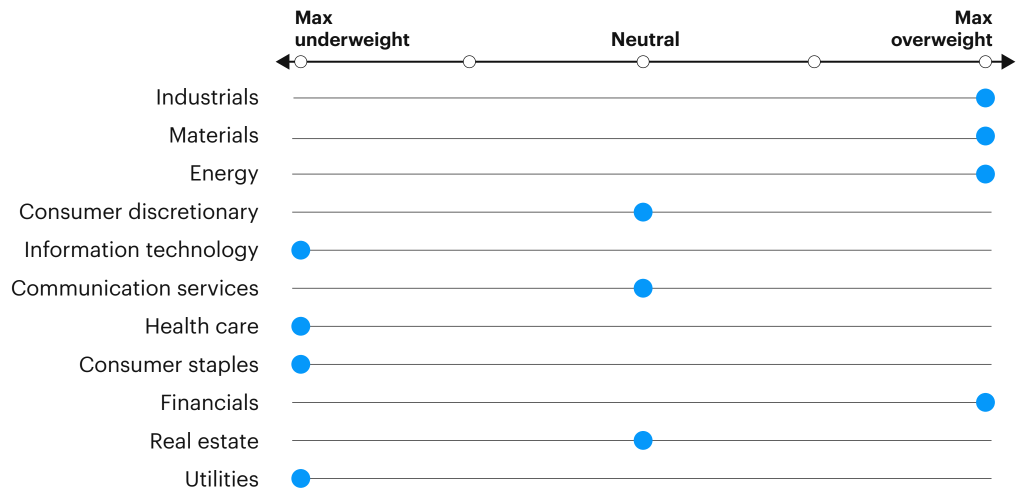
Overweight value and small size; underweight quality, low volatility and momentum



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

Figure 6: Tactical sector positioning

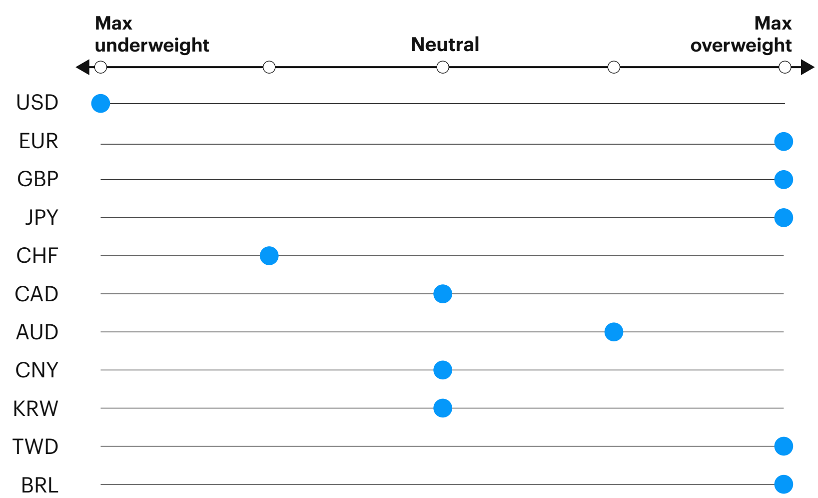
Sector exposures favoring cyclicals



Source: Invesco Solutions, Feb. 1, 2026. 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 7: Tactical currency positioning

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



Source: Invesco Solutions, Feb. 1, 2026. 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

Year	Commentary	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	• **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.	Slowdown	Slowdown	Slowdown	Slowdown	Slowdown	Slowdown	Expansion	Expansion	Recovery	Recovery	Recovery	Recovery
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.	Recovery	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
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.	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Slowdown
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.	Slowdown	Slowdown	Slowdown	Expansion	Expansion	Expansion	Slowdown	Contraction	Contraction	Contraction	Contraction	Recovery
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 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.	Recovery	Recovery	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
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.	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
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.	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery

Source: Invesco Solutions, as of Jan. 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.

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