Tactical Asset Allocation

The growth and inflation mix remains supportive. Overweight equities versus fixed income, favoring value, small and mid-caps. Moderately overweight credit risk, neutral duration, and underweight 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 broadening, with improvements in developed markets outside the US, and inflation continues to moderate across regions. This environment should support a broadening of equity market performance across sectors and regions.
- We maintain moderate overweight in equities versus fixed income, favoring value, cyclicals, 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, maintaining an underweight to the US dollar.

Macro update

Growth continues to gain momentum across developed markets outside the US. All countries covered in our framework improved over the past month and continue to move above their long-term trend, namely Eurozone, UK, Sweden, Switzerland, Japan, South Korea, Canada and Australia. Furthermore, the improvement was broad-based across economic sectors, such as consumer sentiment, trade, business surveys, manufacturing activity, and housing and construction activity.

The re-steepening of yield curves across developed markets, with long-term rates above short-term rates between 70-100bps, is indicative of easier monetary conditions which, coupled with expansionary fiscal policies, provide additional tailwinds to future growth. Overall, the composite Developed ex-US LEI moves further above its historical long-term trend, indicative of above-trend economic growth prospects.

Growth in emerging markets remains stable but below trend, with improvements in manufacturing activity, business surveys, and trade offsetting weakness in housing and consumer sentiment (**Figures 1** and **2**). Inflationary pressures continue to fade across regions, dissipating fears of tariff-induced price increases and increased labor costs due to immigration controls in the United States (**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.

> Risks remain asymmetrically skewed in the short term. This asymmetry is more evident in the technology sector.

However, given expensive valuations across most asset classes, risks remain asymmetrically skewed in the short term, with more downside risk to be expected in case of negative economic surprises relative to the upside potential from favorable news. This asymmetry is more evident in the technology sector where sentiment has somewhat soured in recent weeks, and a more balanced perspective has emerged regarding the distribution of risks and strength of fundamentals. In particular,

- **The size and cost of AI capex,** with increased competition and a more commoditized output, is raising awareness about a potentially wide range of future outcomes, with a spectrum of winners and losers likely to experience a different return on investments. Industry estimates see capex investments range between $5-10 trillion by 2030, mostly on data centers and power infrastructure, with uncertainty regarding which players will be able to create a sustainable revenue model to offset operating costs.
- **Free cash-flow uncertainty, and lower growth.** While earnings growth in the sector remains strong, it is likely to decelerate going forward. Earnings growth is projected to be 18% in 2026, the slowest in four years and only slightly better than the S&P 500, according to data compiled by Bloomberg. This could put pressure on buybacks and dividends.
- **Private debt financing, financial engineering and securitization** represent a growing source of funding for the industry, with AI-spending no longer being supported solely by free cash flows, therefore creating a more opaque understanding of credit channels and how risk is being distributed in the system.

> Our shift towards value, small and mid-caps has been helpful in navigating short-term equity volatility.

We believe broader diversification across equity sectors and regions is a prudent way to maintain an overweight posture in risky assets while avoiding the more expensive corners of the market. Since last November, our shift towards value, small and mid-caps has been helpful in navigating short-term equity volatility. Furthermore, broad diversification between US and non-US equities should benefit from expected US dollar depreciation, driven by narrowing yield differentials as the Federal Reserve continues to lower interest rates.

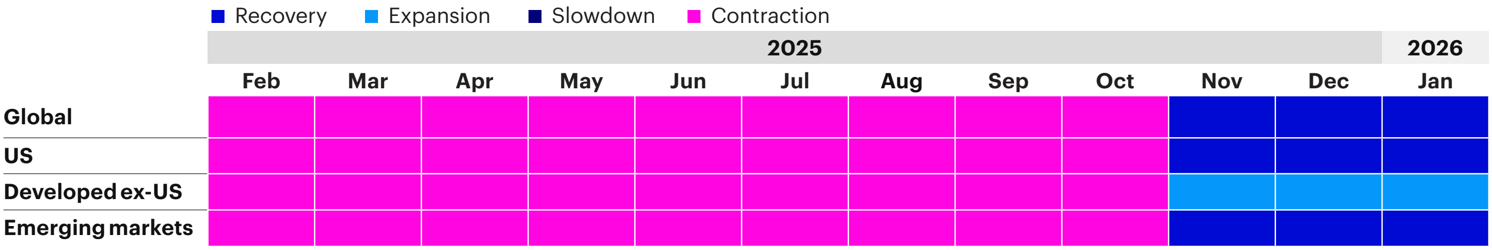
> Our macro regime remains in a recovery regime with growth continuing to gain momentum across developed markets outside of the US.

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

Region	LEIs: Current level of growth		Global risk appetite: 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

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



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

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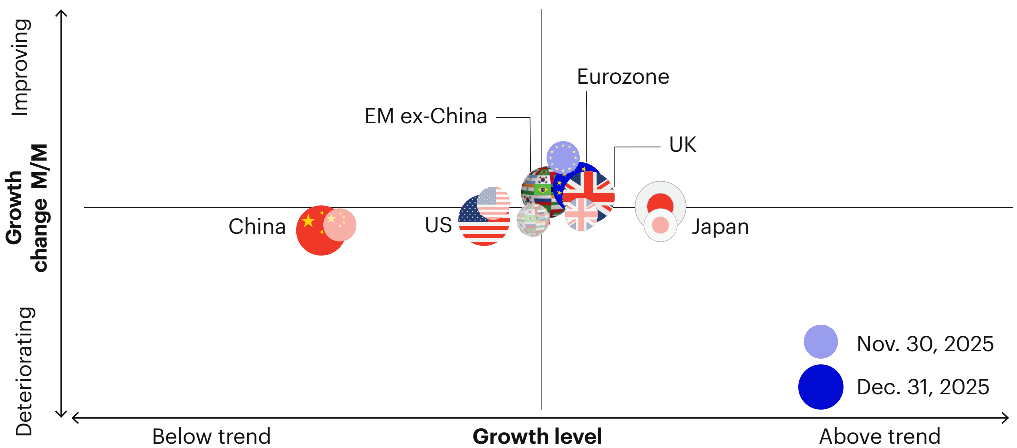
Developed markets outside the US show broad-based growth improvement; growth in emerging markets remains stable but below trend.

Figure 1c: Global growth is improving, led by developed markets outside the US, and is now expected to deliver above-trend growth in aggregate



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

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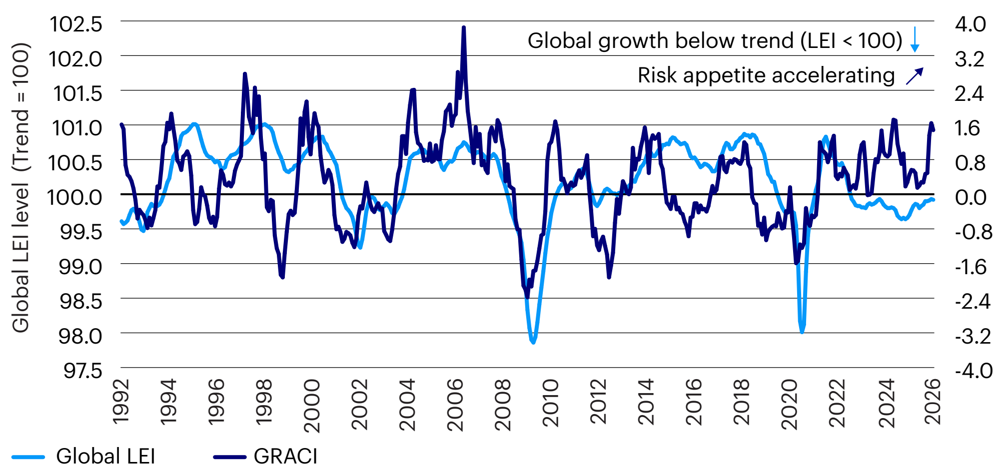
As the global LEI is stable and approaching its long-term trend, the composite Developed ex-US LEI moves further above its historical long-term trend, indicative of above-trend economic growth prospects.

Figure 2: Global LEI is stable and approaching its long-term trend. Global risk appetite stabilizing at cyclical highs and continues to signal 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 Dec. 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.**

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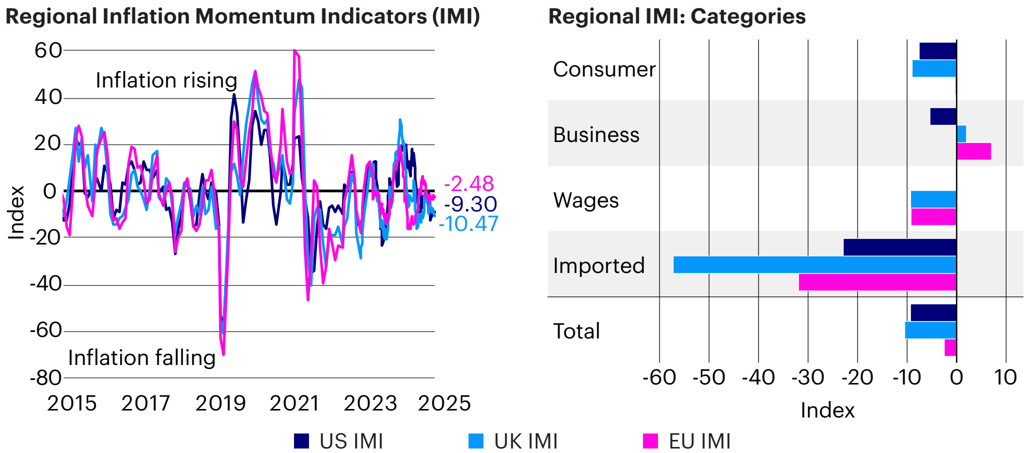
Inflationary pressures continue to fade across regions, dissipating fears of tariff-induced price increases and increased labor costs due to immigration controls in the United States.

Figure 3: Inflation momentum continues to decline across regions



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

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We have not implemented changes in the model over the past month.

In equities, we maintain overweight exposure in cyclical sectors, value, small-/mid-cap equities.

In fixed income, we maintain a moderate overweight in credit.

In currency markets, we continue to underweight the US dollar.

Investment positioning

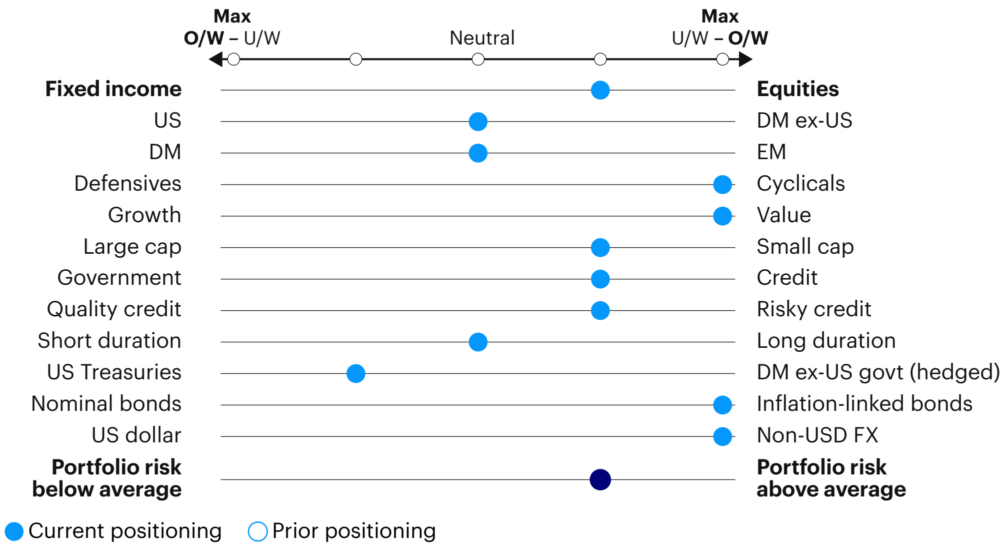
We have not implemented changes in the Global Tactical Allocation Model[1] over the past month. We maintain overall portfolio risk above benchmark, with a moderate overweight in equities relative to fixed income, tilting towards value and small-mid-capitalizations, and a regional exposure in line with the benchmark. In fixed income, we maintain a moderate overweight in credit risk[2] and neutral duration (**Figures 4** to **7**). In particular:

- In **equities**, we maintain overweight exposure in cyclical sectors, value, small-/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 are 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 the Japanese yen relative to the Swiss franc, Canadian dollars, 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.

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

Figure 4: Relative tactical asset allocation positioning

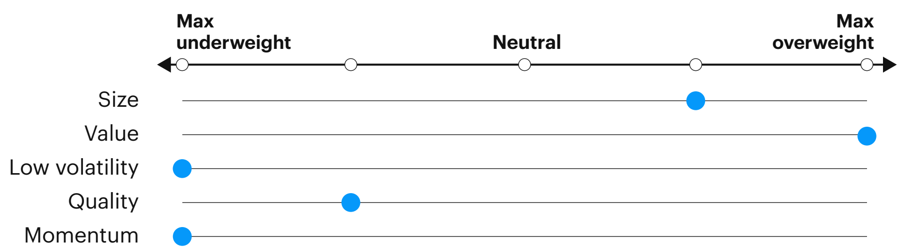
Overweight equities versus fixed income, favoring value, underweight US dollar, and neutral duration



Source: Invesco Solutions, Jan. 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

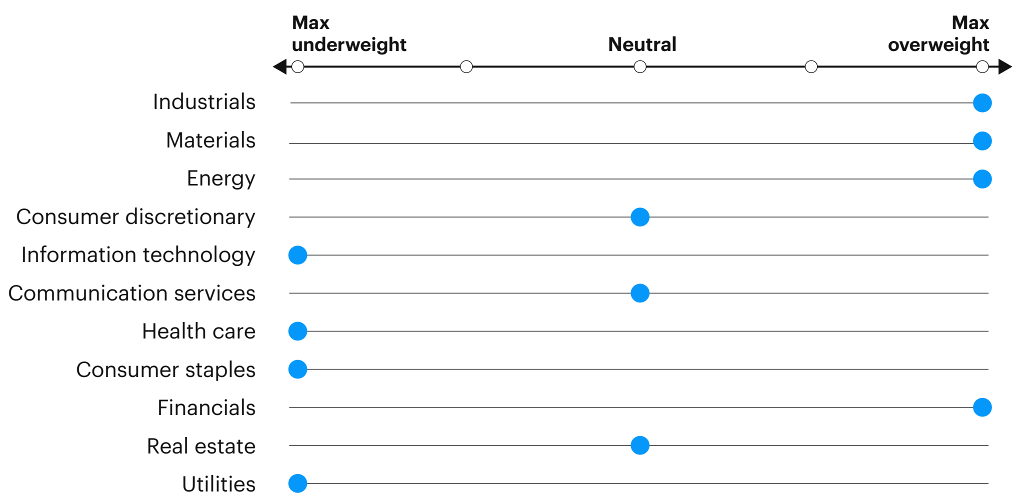
Overweight value and small size; underweight quality, low volatility, and momentum



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

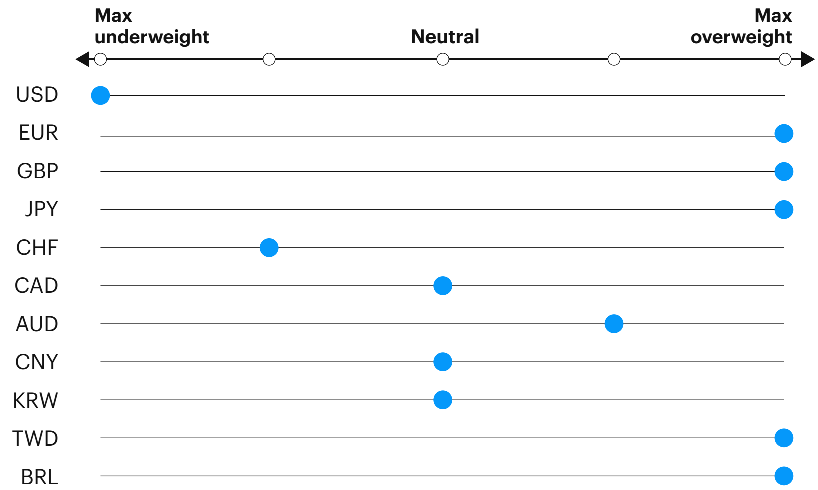
Figure 6: Tactical sector positioning

Sector exposures favoring cyclicals



Source: Invesco Solutions, Jan. 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.

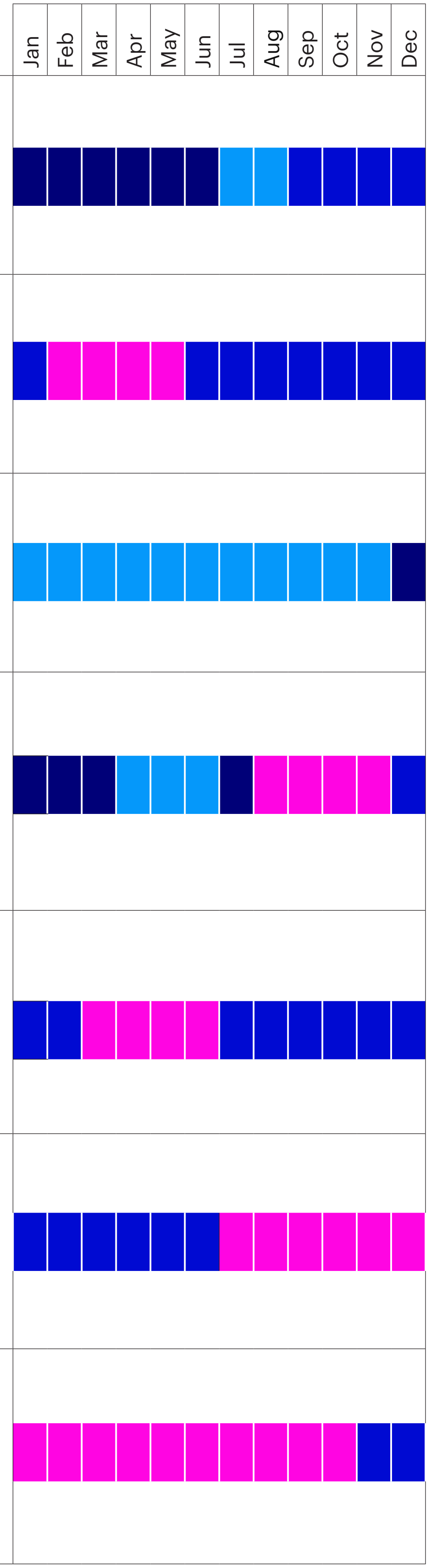
Figure 7: Tactical currency positioning
Underweight US dollar, favoring euro and sterling vs. other developed currencies



Source: Invesco Solutions, Jan. 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



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.

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 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

- **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 Dec. 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 Dec. 31, 2025, in USD, unless stated otherwise.

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