

The Big Picture

Resilience endures

Quarterly update from Invesco's Strategy & Insights Team

14 June 2026



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Investment themes and asset class views

Despite rising energy prices and central banks becoming less dovish as a result of the war with Iran, the global economy appears resilient. We expect further declines in energy prices as the Strait of Hormuz reopens (which we foresee during Q3), and we think this will allow the global economy to accelerate. We continue to favour cyclical and riskier assets but seek diversification in real estate and low duration assets such as the more liquid parts of the private credit universe.

Our themes		
A resilient global economy favours cyclical assets	Opportunities are greater outside the US	Seeking diversification in real estate and private credit
<p>The global economy has so far withstood the rise in energy prices, helped by AI related investment spending. As energy prices ease, we expect a mid-cycle upswing.</p> <ul style="list-style-type: none"> Cyclical assets preferred Favoured equities: non-US, value, size, industrials, financials and metals & mining Commodity currencies supported 	<p>US assets, especially equities, look expensive relative to history, while many international markets offer more attractive valuations and greater sensitivity to improving global growth, in our view. Differences in policy paths and currency valuations suggest a weaker US dollar over time.</p> <ul style="list-style-type: none"> US dollar weakness Commodities and emerging markets benefit 	<p>Developed world government bonds offer limited upside as yields are likely to drift higher, in our opinion. Rather we seek diversification in real estate and the more liquid parts of private credit.</p> <ul style="list-style-type: none"> AAA-rated collateralised loan obligations (CLOs) as a cash alternative Bank loans among the preferred assets Direct real estate could offer mitigation against any threat of higher inflation

Asset class views

We evaluate a broad set of asset classes using a consistent framework built around multiple factors including the growth of the global economy, the direction of inflation and interest rates and the shape of the yield curve, market momentum, and valuations.

Figure 1: Global asset preferences

	Total Score	Model Asset Allocation*	Preferred assets	In our view
Cash		Underweight	JPY, INR, EUR	Reinvestment risks increasing
CLOs		Overweight	US	Attractive alternative to cash
Bank Loans		Overweight	US	Valuations more attractive than high yield
Hedge Funds		N/A		
Government Bonds		Underweight	EM, UK	Long-term yields likely to drift higher
Investment Grade		Underweight	EM, UK	Limited upside, income returns expected
High Yield		Neutral	US	Supported by improving growth, selectivity will matter
Gold		Neutral		More reasonably priced, but momentum is poor
Non-US equities		Overweight	China, Japan, EM	More attractive valuations and greater cyclical sensitivity than US market
US equities		Neutral	Tech, cons. staples	Supported by innovation/growth but high valuations temper potential
REITS		Overweight	Eurozone, Japan	Could benefit from lower rates and improving economic conditions
Commodities		Overweight	Base metals, Ag	Supported by a stronger global economy and a weaker US dollar
Private Equity		N/A		Higher financing costs and valuation dispersion require selectivity
Bitcoin		N/A		Remains a highly volatile and speculative asset

Note: **There is no guarantee that these views will come to pass.** *This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. "CLOs" is AAA collateralised loan obligations. N/A indicates asset classes that are not included in the Model Asset Allocation structure. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights.

Macro views



Economy: Energy independence is a help in the current circumstances and growth appears to be improving towards trend.

Inflation: Core inflation has been rising which is a concern. We think core inflation will end the year closer to 3% than to the target 2%.

Policy: We suspect the Fed will remain on hold for the foreseeable future.



Economy: Growth has held up well in H1, but the labour market is softening and PMIs have softened. Growth will likely remain below trend.

Inflation: Headline inflation pressures have increased in the UK, but core pressures remain contained and closer to target.

Policy: Market pricing suggests the Bank of England will tighten, but we think the BoE will hold rates before cutting later this year or early next year.



Economy: Recent activity data has disappointed relative to the start of the year, but exports and the industrial sector remain a bright spot.

Inflation: Consumer inflation has ticked up but pass through from higher producer prices is limited.

Policy: Recent communication from the PBOC points to a less urgent easing bias and a more calibrated policy stance.

Notes: **These views may not come to pass.** They represent the views of Invesco's Strategy & Insights team.

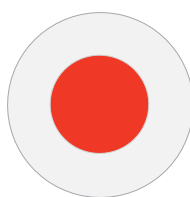
Source: Invesco Strategy & Insights.



Economy: Growth is expected to gradually strengthen, supported by past rate cuts and modest fiscal support.

Inflation: Core inflation has picked up but we suspect that will prove temporary. Overall, we expect inflation to be contained and close to the ECB target.

Policy: The ECB has just raised rates, and we expect one more hike in the next 12 months.



Economy: Growth is expected to run slightly below potential temporarily but should recover by the year-end as the impacts from the war with Iran subside.

Inflation: Inflation should fall below 2 percent, helped by reductions in consumer taxes, supporting household spending.

Policy: The BOJ is likely to continue gradual policy normalisation (we expect three rate hikes in the next 12 months).



Economy: After achieving strong growth, supported by a consumer-led recovery, growth may moderate if energy prices remain high.

Inflation: While inflation hasn't been a central concern, energy import dependence is becoming a key risk.

Policy: The RBI maintains a neutral stance, but we think interest rate hikes are likely in 2026 H2 and 2027.

The global macro backdrop remains supportive

Economic acceleration

We expect global economic acceleration in late 2026 and 2027, which we think will support cyclical and riskier assets.

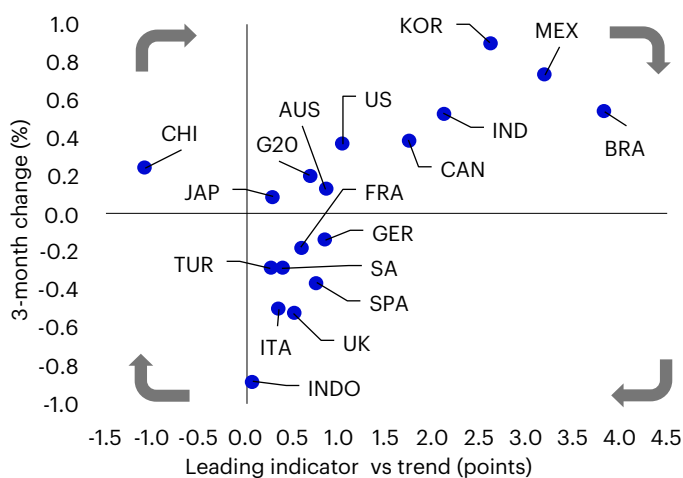
Reasons for expecting more growth are:

- In 2025, the US economy was held back by policy uncertainty, including tariffs, the threat of government closures, an actual shutdown, forced deportations, and related civil unrest.
- Prior central bank easing has caused money supply growth to pick up in many countries. We believe this gives the potential for stronger growth, even if a lot of central banks may have completed their easing cycles.
- Though we think the scope for Fed easing is now diminished (given the strengthening of the economy and the labour market), we do not envisage Fed rate hikes within the next 12 months (though we think some other central banks will raise rates).
- Fiscal policy may be supportive, especially in Japan and China (see the policy section).
- We expect real wage growth to recommence once energy prices normalise downward and headline inflation falls. We expect this to support household spending.
- AI related spending could add to investment demand, thus providing mild support.

Manufacturing PMIs have strengthened in many countries, despite the rise in energy prices. We view this as a sign of economic resilience, which bodes well for economic performance as energy prices fall.

Leading indicators remain above trend for most economies (see Figure 2). They had also been improving in most countries, though that is now a more nuanced picture (Figure 2 suggests that leading indicators in European countries have weakened in recent months). Nevertheless, we still expect global acceleration over the next year.

Figure 2 – Leading indicators above trend



Notes: **Past performance is no guarantee of future results.** See appendices for country abbreviations. Figure 2 is based on monthly data up to May 2026. Leading indicators are amplitude and seasonally adjusted, as calculated by the OECD ("Leading indicator vs trend" is the leading indicator minus 100). Arrows indicate our view of the direction of movement around the chart. Figure 3 is based on monthly data from December 2005 to May 2026 (as of 29 May 2026). NY Fed Global Supply Chain Pressure Index tracks the state of global supply chains using data from the transportation and manufacturing sectors, as constructed by the Federal Reserve Bank of New York. It is shown as standard deviations from the historical mean. Source: OECD, Federal Reserve Bank of New York, Global Supply Chain Pressure Index, S&P GSCI, LSEG Datastream and Invesco Strategy & Insights

Inflation easing

Inflation has fallen since 2022, which has allowed most central banks to ease. We think it has also been an important factor in the strong performance of financial assets.

However, the path to lower inflation had already flattened and is now threatened by the rise in energy prices as a result of the closure of the Strait of Hormuz. Indeed, headline inflation rates have risen across the globe over recent months, but we expect that to reverse as energy prices fall (as they have already done). Figure 3 shows that commodity price inflation fell in May and the New York Fed measure of supply chain disruption has likewise eased.

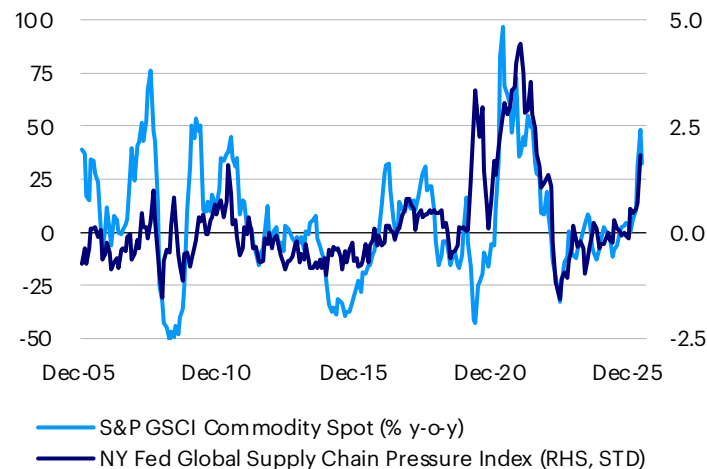
We believe that central banks should be more focused on core inflation and that picture varies by country. For example, UK core CPI inflation fell to 2.5% in April, the lowest it has been since July 2021. On the other hand, Eurozone core CPI rose to 2.5% in May, from 2.2% in April. Also, the Fed's favoured measure of inflation (core PCE) has been trending up since October.

Nevertheless, we think that as headline inflation falls below core (under the influence of falling energy prices) core inflation itself will stabilise and perhaps move lower, which we think could support financial assets over the next 12 months.

Risks

We think a prolonged closure of the Strait of Hormuz into the latter part of 2026 would present the greatest risk to our outlook. We think this would bring energy shortages, demand destruction, substantially higher energy prices, higher inflation, and central bank tightening. We believe that would be damaging to most asset prices. Other risks include US wage pressures as the labour market tightens, policy errors by central bankers (tightening when it is not justified) and a retrenchment of AI investment spending by hyperscalers.

Figure 3 – Inflation pressures easing?



But the policy backdrop is mixed

Central bank outlook is now less positive

Central banks have been very supportive of financial markets over the last three years, with rapid declines in policy rates. However, the BOJ and Reserve Bank of Australia (RBA) were already tightening, some European central banks had reached their terminal rates (in our view) and we think the rise in energy prices has changed the outlook for policy rates in many countries, including the US.

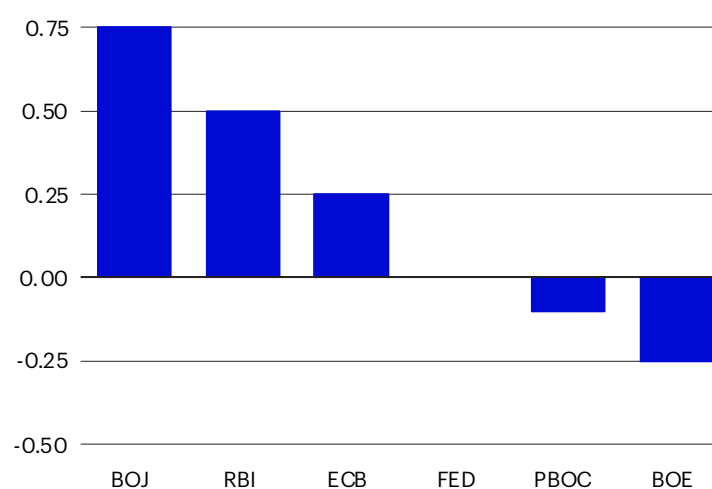
Having started the year expecting the Fed to cut rates three times during 2026, we now suspect the Fed will remain on hold over the next 12 months, having not changed rates since December 2025 (see Figure 4). The US economy has been more resilient than we expected and recent labour market data points to a pick-up in job gains. The economy is not booming but it has improved to a point where the Fed cannot use weakness to justify rate cuts. Further, the rise in core PCE inflation should stay the hand of policy makers, in our opinion. This could make for a difficult start to Kevin Warsh's tenure as Fed chair.

Members of the ECB Council have been sounding more hawkish of late and raised rates by 25 basis points on 11 June. The recent rise in Eurozone core CPI inflation may be tilting them in the direction of more tightening. Though we think it may be a mistake, we suspect the ECB will raise rates again within the next 12 months.

We expect the BOJ to continue its normalisation process and expect three rate hikes over the next 12 months, which would make it the most aggressive among major central banks (see Figure 4), though admittedly from a low level.

India's economy is growing strongly, and we expect the RBI to hike twice in the next 12 months. In the case of China, policy rates are already low, and we expect policy support to come more in the form of reductions in reserve requirement ratios and/or fiscal support.

Figure 4 – Projected 12m central bank policy rate change (%)



Notes: **There is no guarantee that these views will come to pass.** See appendices for central bank and country abbreviations. Figure 4 shows our forecast for the change in central bank rates over the coming 12 months (as of 29 May 2026). Figure 5 is based on IMF Fiscal Monitor (April 2026) calculations, with fiscal impulse being the change between 2025 and 2027 in the cyclically adjusted primary government balance (as percent of potential GDP), according to Invesco estimates. The primary balance is the government budget balance before allowing for debt interest payments.

Source: IMF Fiscal Monitor (April 2026), LSEG Datastream and Invesco Strategy & Insights.

Fiscal support is patchy

The projected fiscal impulses shown in Figure 5 paint a mixed picture over the next two years. On the one hand, there is pressure around the world to boost military spending, while on the other there is a need for fiscal consolidation in many countries.

Among our focus countries, we still expect Japan to lead the way. The super majority now enjoyed by Prime Minister Takaichi in the lower house of parliament, is enabling her to enact her desired fiscal programme. This includes defence spending, support for the technology sector and consumer support (including energy subsidies and a temporary cut in the consumption tax on food from April 2027). We expect a boost to the economy in the second half of 2026 and in 2027.

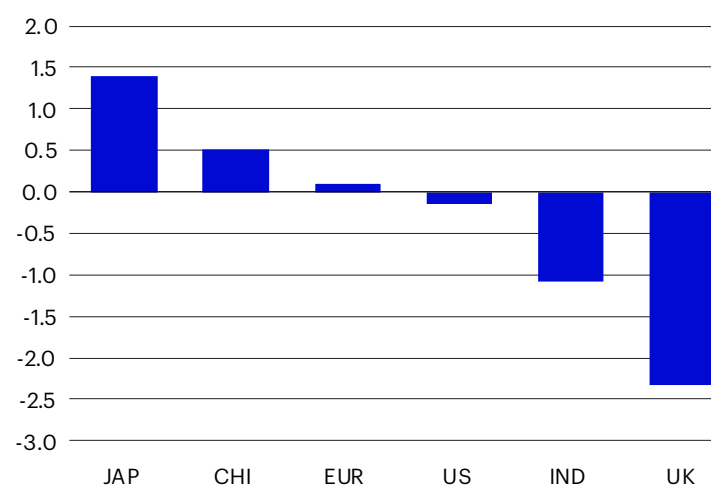
In China, fiscal policy is expected to remain mildly supportive, with a continued focus on strategic sectors and industrial upgrading.

Though Germany has embarked on a large programme of fiscal support, and most European countries are boosting military spending, the Eurozone-wide fiscal boost is limited, due to expected consolidation in France, Italy and Spain. Likewise, the UK government is trying to meet its debt reduction targets, while accelerating the uplift in military spending. In the US, though the budget for 2026 prevented some pre-planned tax rises, we expect no fiscal impulse.

Risks

We foresee three risks to the above. First, that prolonged military conflict in the Middle East leads to a long-term boost to energy prices and inflation, causing most central banks to tighten. Second, that the US economy proves to be so robust that the Fed feels the need to tighten. Finally, that high levels of government debt (and large deficits in some countries) could lead to a rise in long term yields, thus forcing fiscal consolidation.

Figure 5 – Projected fiscal impulse (2025 to 2027, % of GDP)



From macro to markets – cyclical assets favoured

Acceleration favours cyclical assets

We started the year confident that the global economy would accelerate, which led us to prefer cyclical assets (with some balancing preferences for short duration assets such as AAA-rated CLOs and bank loans), though we doubted the broad-based strong asset returns of 2025 could be repeated.

The closure of the Strait of Hormuz and consequent rise in energy prices could have threatened that economic scenario. But the US and global economies appear more resilient than we might have feared. However, the outlook for central bank policy rates now appears less positive than we imagined three months ago, and higher headline inflation could squeeze real incomes, so the short-term prospects for the global economy may have dimmed. Nevertheless, our view that energy prices will continue to normalise downward (we expect a reopening of the Strait of Hormuz during Q3), leads us to stick to a base case of global economic acceleration.

In the context of Figure 6, we view the global economy as being in the mid-expansion phase. Our analysis of historical asset returns suggests that cyclical assets are typically favoured in this stage of the cycle. This includes assets such as industrial commodities (energy and base metals), equities, emerging market (EM) assets, REITs and high yield credit (HY). Of course, a lot of good news may already be in the price of some of those assets, which is the subject of later sections that analyse valuations.

Asset views and preferences

Globally, we continue to favour cyclical assets such as industrial commodities, real estate and non-US equities (we believe the US market is less cyclical than others).

Within fixed income assets, the choice is hard: HY is more cyclical, but the spreads are unusually tight, while we expect government bonds and investment grade credit (IG) to suffer as long-yields rise. Short duration assets (such as private credit) have tended to suffer less when yields rise.

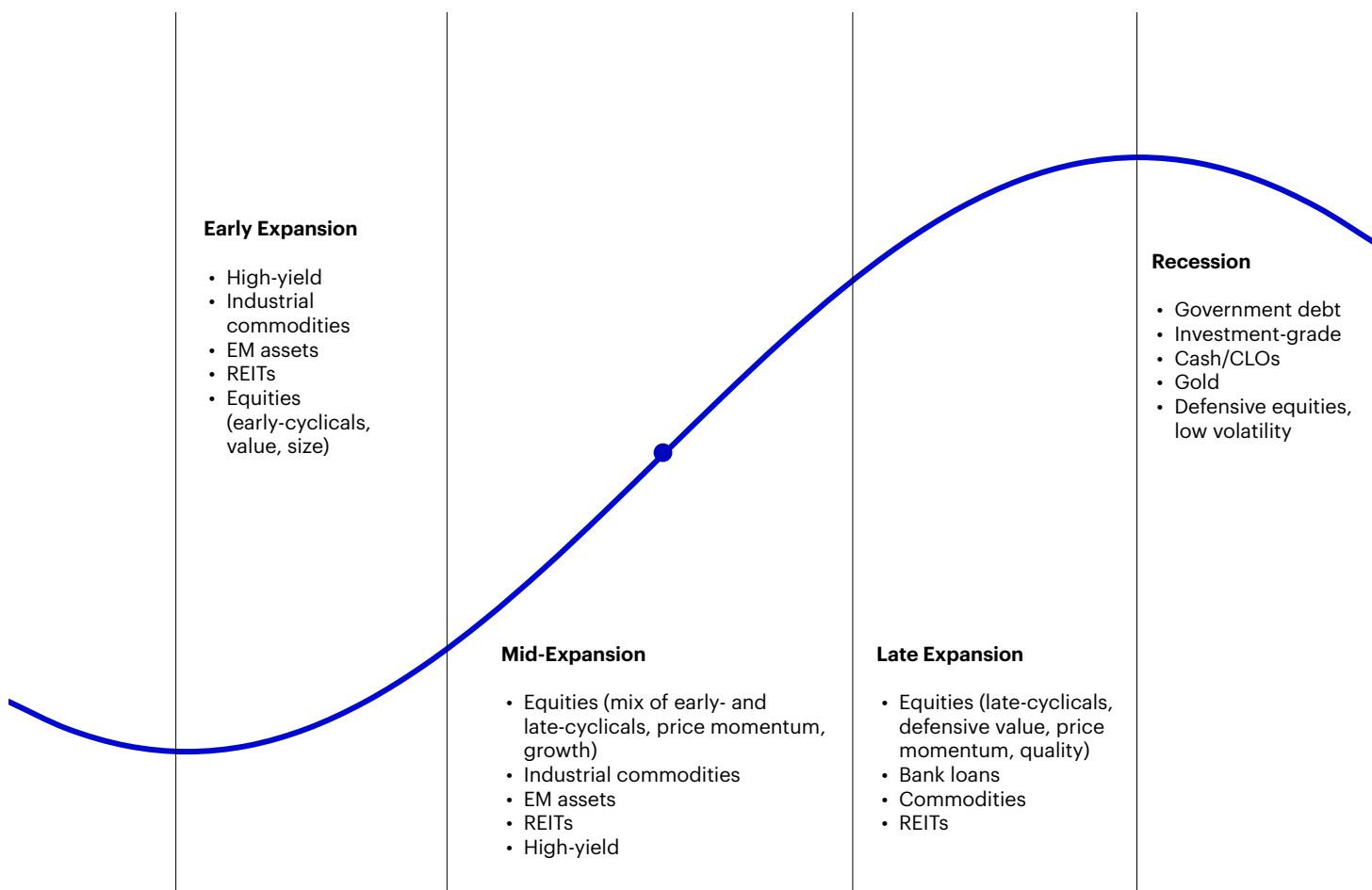
Different economies may be at different stages of their economic cycles, which complicates the choice of assets across regions. For example, the German economy has been in shallow recession over recent years, so any acceleration may feel like the early expansion phase.

Across assets we prefer emerging market and European assets, both regions that we believe bring more cyclicity.

Risks

The biggest risk to this cyclical positioning would be recession. If the ongoing disruption to energy supplies lasts into Q4 we believe energy rationing may be needed and that inflation would go much higher. We believe it would be hard to find assets that perform well in such a scenario, except for energy commodities and resource related equities.

Figure 6 – The economic roller coaster: preferred assets at each stage of the economic cycle



Note: The chart represents a schematic representation of how we expect assets to perform at each stage of the economic cycle, based on research published in Asset allocation in pictures (November 2017). Source: Invesco Strategy & Insights.

What's in the price: fixed income and equities

Short duration yields remain higher than usual

A feature of financial markets over the last year or so has been that yields on short duration assets (cash, AAA-rated CLOs and bank loans) have remained above historical norms, while those on longer duration assets have either been in line with or below norms. As seen in Figure 7, that continues to be the case.

In our view, that suggests that those short duration (and low volatility) assets offer attractive diversification versus the riskier assets that we prefer because of our bullish view on the global economic cycle. We believe they offer mitigation against the risk of higher inflation and slowing economies, without surrendering too much in the way of potential return.

On the other hand, until the recent rise in longer term yields, on the back of the conflict in the Middle East, we didn't feel that longer-dated yields were compelling (with the exception perhaps of the UK and emerging markets). Even before the threat of higher energy costs and higher inflation, we expected 10-year US treasury yields to rise, despite our earlier belief that the Fed would cut policy rates. Now that we see little scope for the Fed to cut rates, due to the strengthening of the labour market and rising core inflation (judging by core PCE), we suspect that 10-year US yields will continue to rise (we expect 4.75% in 12 months). This leads us to expect mildly negative returns on US treasuries.

We think the outlook is even worse in the Eurozone, given our view that the ECB will raise rates over the coming year. The prospects for the UK gilt market may be better than for US treasuries, given our view that gilt yields are relatively high and that the BOE will cut rates over the next 12 months. Elsewhere, we expect further losses on Japanese government bonds as the BOJ tightens.

Given that credit spreads are tighter than normal, we suspect that IG and HY bonds will suffer along with government bonds.

Equity valuations favour non-US markets

As already outlined, we favour non-US equity markets in a stronger economic environment. This conclusion is also supported when we look at valuations. Figure 8 shows that the US market is both more expensive than normal and more expensive than other regions, based on our cyclically adjusted price earnings ratios (CAPEs). On this basis, the US market (CAPE = 47 at end-May 2026) is close to the March 2000 historical peak (49).

It is easy to believe that the US market has always been more expensive than other markets, but this is not true. When the US market started its trend outperformance in February 2008 (based on MSCI US versus MSCI World ex-US in US dollars), the US CAPE was 25, below the long term average of 27 (as of today) and below the CAPEs on China (68), Japan (38), EM (33) and Europe ex-UK (28). That period of consistent outperformance started from a valuation point that is markedly different from that of today, both in absolute and relative terms.

Among other equity markets, China remains cheaper than normal (CAPE 18), despite the strong performance of recent years (though the market has underperformed during 2026). We believe this leaves scope for further outperformance over the medium-to-long term. Japan (29) also appears to be less expensive than normal, but the historical average is distorted by the bubble of the 1980s (elevated valuations persisted for several decades after the bursting of that bubble). Nevertheless, relative to the US, we think the market represents good value, though recent strength renders it less so than it was. European markets are a little more expensive than usual (as of 29 May 2026) but we don't think that presents an obstacle to further gains if the global economy accelerates (and certainly not compared to the US market).

Figure 7- Global yields in a historical context (%)

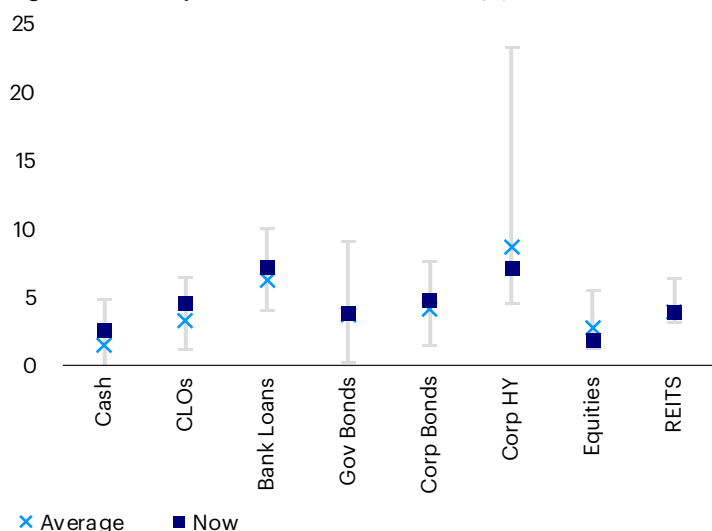
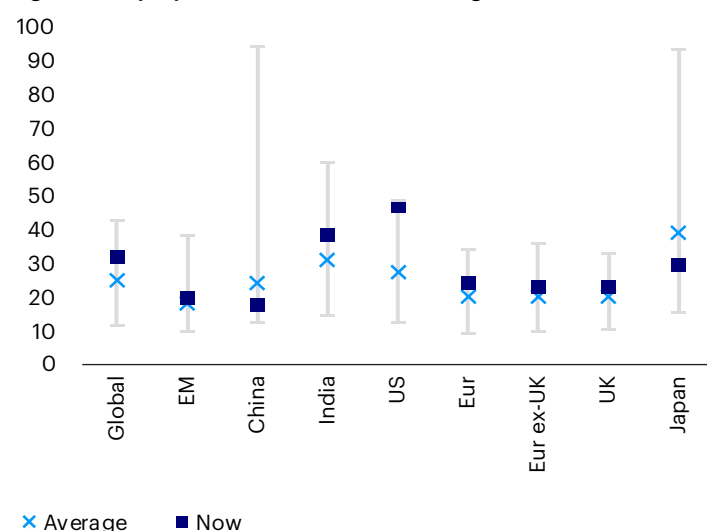


Figure 8 - Equity CAPEs within historical ranges



Notes: in Figure 7 start dates for historical ranges are Cash 1 January 2001; CLOs 30 December 2011; Bank Loans 31 January 1998; Gov Bonds 31 December 1985; Corp Bonds 31 December 1996; Corp HY 31 December 1997; Equities 1 January 1973; REITS 18 February 2005. CLOs is AAA collateralised loan obligations. Abbreviations: "Gov" is government, "Corp" is corporate. See appendices for definitions, methodology and disclaimers. In Figure 8 "CAPE" is cyclically adjusted price/earnings and uses a 10-year moving average of earnings. Based on daily data from 3 January 1983 (except for China from 1 April 2004, India from 31 December 1999 and EM from 3 January 2005), using Datastream indices. As of 29 May 2026.

Source: ICE BofA, S&P UBS, JP Morgan, LSEG Datastream and Invesco Strategy & Insights.

What's in the price: commodities and currencies

Energy prices to normalise downward

Energy prices jumped in March and April in reaction to the closure of the Strait of Hormuz. However, oil and other energy prices have since surrendered some of those gains and ended May 2026 only slightly above historical norms in real terms (see Figure 9). Though we expect lower global energy prices upon reopening of the Strait of Hormuz, we do not see significant downside if the global economy continues to strengthen. Our 12-month spot Brent target is \$85/barrel, and we remain zero allocated to energy commodities.

Surprisingly, precious metals are less expensive than they were at the end of February 2026 (just before the conflict with Iran). At that time, they were five to six standard deviations above historical norms in real terms, and we might normally have expected such geopolitical tensions to have increased demand for gold and other precious metals. However, by the end of May that premium to historical norms had fallen to just above four standard deviations. Indeed, gold was the weakest of the assets that we monitor over the three months to the end of May (see Appendix 3).

We suspect that a lot of bad news was already priced into gold ahead of the war and the rise in bond yields has not helped (nor the slight strengthening of the US dollar). Our 12-month target for gold is \$4500.

On the other hand, industrial metals have performed well over the last three months (see Appendix 4), leaving this metals group between one and two standard deviations above historical norms in real terms, with copper two standard deviations above normal. Again, if the global economy accelerates, we think these metals could benefit, which may justify the higher-than-normal valuations.

Finally, agricultural commodities remain cheaper than normal, as they have been for some time. Support could come from the disruption to supplies of fertiliser and the emerging El Niño pattern in the Eastern Pacific. We like this category.

USD remains expensive and JPY is very cheap

The US dollar has been stronger than normal over recent years in real trade weighted terms. In our opinion this is because interest rate and bond yield spreads have been wider than normal (in favour of the dollar). Though the dollar weakened during 2025 and the early part of 2026, it has recovered some of those losses since the outbreak of the conflict with Iran. We presume this is because its energy independence makes the US economy less vulnerable than many others to potential energy shortages.

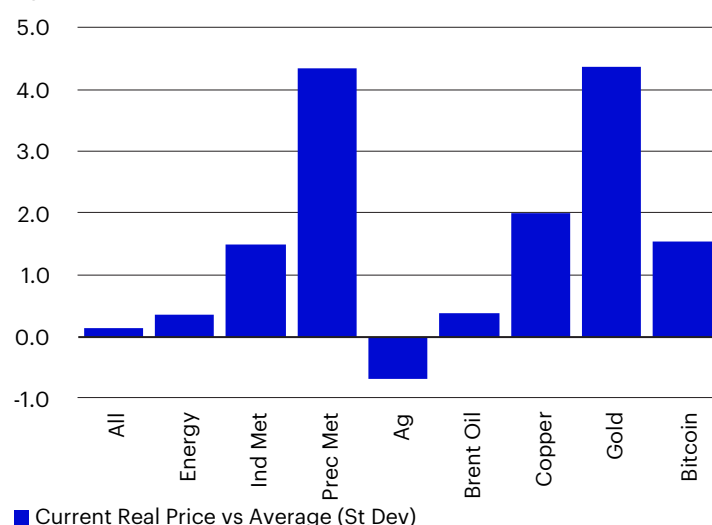
As seen in Figure 10, USD remained above historical norms at the end of May 2026. Given the recent strengthening of the US economy and lessened probability of Fed rate cuts (in our opinion), we suspect the potential US currency downside may be less than we previously anticipated.

At the other end of the spectrum, the Japanese yen remains very cheap. We believe this is because the Bank of Japan (BOJ) didn't tighten in 2022/23 when most other central banks tightened aggressively, which caused a sharp widening of spreads against the yen. The BOJ is now tightening, spreads are narrowing (including at the long end of the bond spectrum) and we believe this will eventually offer support to the yen. However, we think Japan's current account surpluses suggest there will still be capital outflows.

Otherwise, the Australian dollar (AUD) has appreciated as the central bank has started to raise rates again (as inflation has surprised to the upside) and the Swiss franc (CHF) remains expensive, perhaps helped by its reputation as a so-called "safe haven".

CNY has been the strongest major currency over the last three months, and we expect it to strengthen further against USD over 12 months. Among European currencies, both EUR and GBP are close to historical norms in real terms. We suspect EUR will receive more support from central bank policies than GBP (see Figure 4).

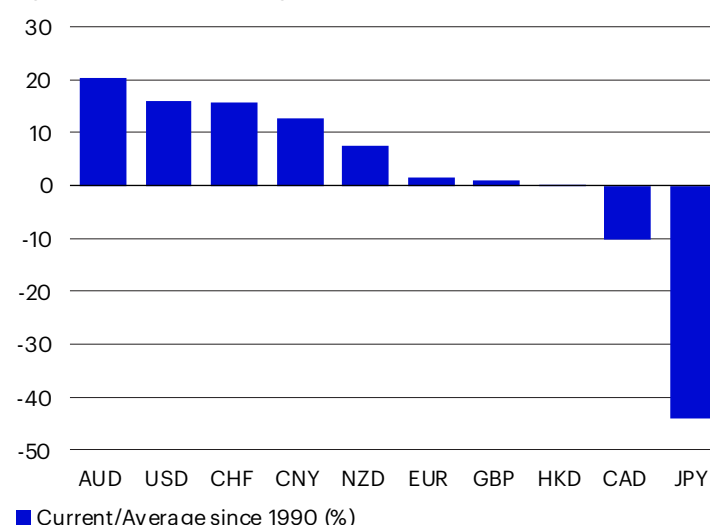
Figure 9 – Real commodity prices vs norms (%)



Notes: Figure 9 abbreviations: "Ind Met" is industrial metals, "Prec Met" is precious metals and "Ag" is agriculture. Historical ranges start on: All and Ag 31 December 1969; Energy 31 December 1982; Ind Met 31 January 1977; Prec Met 31 December 1974; Brent 29 May 1987; copper 31 January 1974, gold 31 January 1974, Bitcoin 30 November 2010. Prices are deflated by the US consumer price index. See appendices for definitions, methodology and disclaimers. In Figure 10 currency indices are measured against a trade-weighted basket of currencies and adjusted for inflation differentials (based on Goldman Sachs Real Trade-Weighted Indices). As of 29 May 2026.

Source: GSCI, Goldman Sachs, LSEG Datastream, Bloomberg and Invesco Strategy & Insights.

Figure 10 – Real trade weighted currency indices



Asset preferences

Despite obvious risks coming from the war with Iran, we think the global economy will accelerate over the next 12 months as energy prices normalise downward and on the back of past monetary easing and AI-related investment spending. We expect the improving cyclical forces to dominate over the 12-month forecast horizon.

Underpinning our asset views for the next 12 months are the following assumptions:

- Geopolitics will bring only temporary volatility
- Global GDP growth will improve
- Global inflation will peak after a short rise
- Some central banks will tighten but not the Fed (the BOE and PBOC will ease)
- Yield curves will be mixed (steepening in US but flattening in Japan, say)
- AAA CLO spreads will widen slightly (no defaults)
- Bank loan current yield spreads will widen slightly and defaults rise (from low levels)
- Credit spreads will widen slightly, and defaults rise a bit (from low levels)
- Equity and REIT earnings/dividend growth will ease but be positive; multiples will be broadly stable
- USD will weaken slightly as the Middle East crisis eases and some other central banks tighten
- Commodities will benefit from more global growth and USD weakness (energy prices excepted)

The expected cyclical upswing leaves us continuing to lean toward cyclical assets such as commodities, REITs and equities in our Model Asset Allocation (with a preference for non-US equity markets, as shown in the “Growth Improving” column of Figure 11).

Among non-US equity markets, we favour Japan, China and other emerging markets (see the Model Asset Allocation in Figure 13). Across equity markets the preference is for consumer, industrials, materials, financials, technology and value (see the individual country sections in Appendix 1).

Within commodities, we stick to the Underweight allocation to energy (as announced after prices rose in early March) while maintaining Overweight allocations to industrial metals and agriculture. We believe the former is cyclical, while the latter is good value (and may benefit from fertiliser shortages and the impending El Nino). We are neutral on precious metals (we believe they are expensive, but we think they can offer mitigation in times of crisis).

There remain some short duration/low volatility assets that continue to offer attractive yields, in our opinion (see Figure 7). Hence, we balance those allocations to risky assets with diversifying Overweight preferences for assets such as AAA-rated CLOs and bank loans (see the “Valuations” column in Figure 11).

We find traditional fixed income assets to be unappealing: first, we think long term yields may rise in some countries and, second, we expect credit spreads to widen. We are Underweight government bonds and IG, and Neutral HY (the latter has the advantage of being cyclical). Within government bonds and IG, we prefer EM and UK markets.

Across assets, we favour European (especially UK) and EM exposures.

Figure 11 – Factors affecting relative global asset returns over the next 12 months and asset preferences

	Growth Improving	Inflation Peaking	Rates Bottoming	Yield curves Mixed	Geopolitics Poor	Momentum	Valuations	Total	Model Asset Allocation*	Preferred assets
Cash	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Underweight	JPY, INR, EUR
CLOs	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Overweight	US
Bank Loans	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Overweight	US
Hedge Funds	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	N/A	
Govt. Bonds	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Underweight	EM, UK
Investment Grade	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Underweight	EM, UK
High Yield	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Neutral	US
Gold	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Neutral	
Non-US equities	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Overweight	China, Japan, EM
US equities	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Neutral	Tech, cons. staples
REITs	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Overweight	Eurozone, Japan
Commodities	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Overweight	Base metals, Ag
Private Equity	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	N/A	
Bitcoin	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	N/A	

Note: *This is a theoretical portfolio and is for illustrative purposes only (see Figure 13 for the details). It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. “CLOs” is AAA collateralised loan obligations. The chart shows our subjective assessment of various factors that we believe will impact the performance of assets over the next 12 months (assets are ordered based on historical volatility). Positive (dark blue) scores suggest a factor that we believe will improve returns, while negative (light blue) scores imply the opposite. “Momentum” is based on recent returns in US dollars. “Total” is an average of the scores, with “Valuations” given three times the weighting of any other factor. See appendices for definitions, methodology and disclaimers.

Source: Invesco Strategy & Insights.

Risks

Extended conflict in the Middle East

The central known unknown remains the trajectory of the conflict in the Middle East. To be clear, the Strait of Hormuz has remained largely closed for longer than we had previously anticipated. Equally, though, we did not anticipate that other parts of the energy system would adapt so quickly. For example, we have observed increased pipeline flows through Saudi Arabia and UAE, increased flows from the Americas and substitution towards other fuels. Some demand destruction has taken place, but it has been limited. Further, rapid inventory draws around the world, including from China, have helped cushion the shock.

That buys time, but it does not resolve the underlying problem. There is only so far that inventory drawdowns can go. A naïve linear extrapolation of the last four weeks of draws from the US Strategic Petroleum Reserve (SPR), for example, suggests that practical limits will be reached late in 2026. These reserves cannot physically be run to zero. We think that 150 million barrels is a sensible estimate of the practical low.

In such a scenario, inflationary pressure would increase and significant oil demand would need to be destroyed. That is the stagflationary scenario markets fear – we think there is little that investors could do to mitigate such a scenario. Central banks would face a difficult dilemma: hike to preserve credibility in the face of rising inflationary expectations and risk crashing the economy or don't hike and risk inflationary expectations moving higher.

Thus far, oil and energy prices have risen to levels that only take them a little above historical norm in real terms. We believe that consumers and business can weather these prices for the most part. As we noted last quarter, pressure on consumers could emerge if oil prices stay above \$120 per barrel for a sustained period.

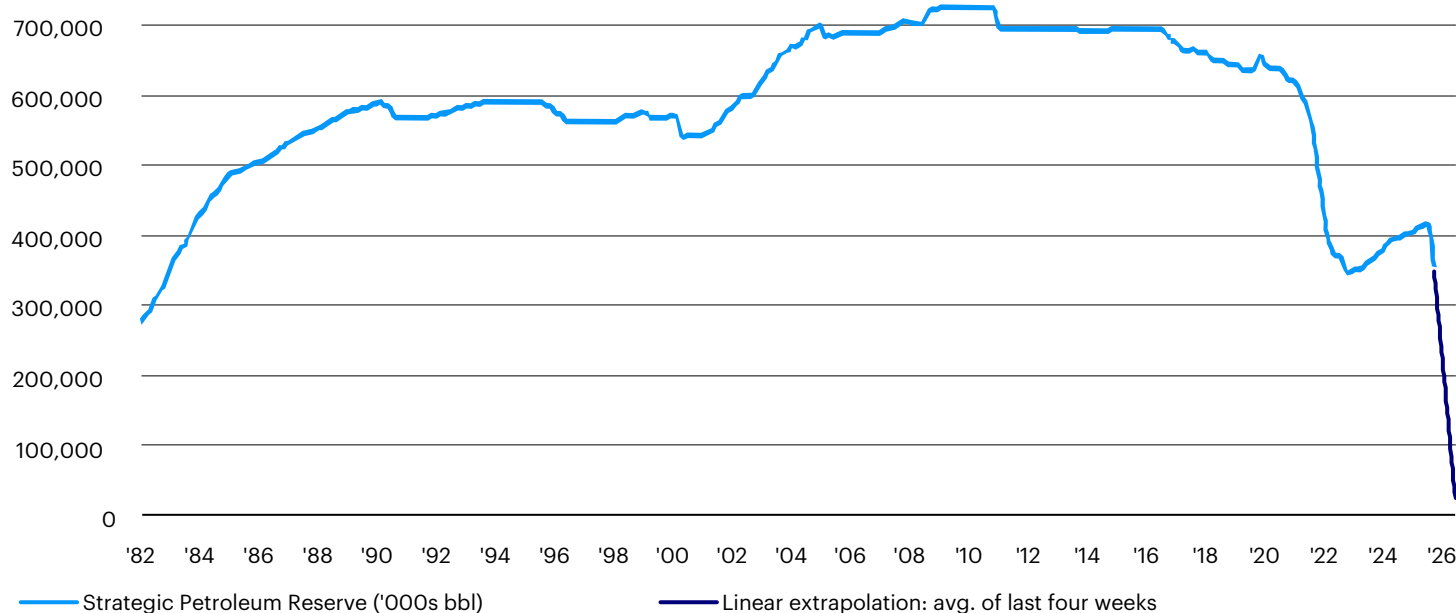
With no change in the Middle East, we think there would be a risk of higher core inflation, particularly in the United States. While goods disinflation has been evident in recent quarters, services and labour-driven components of inflation have proven more persistent. If core measures continue to trend sideways or higher, central banks will have limited scope to ease policy. This increases the risk that interest rates remain restrictive for longer than currently priced by markets.

Under such a scenario we would expect both global stocks and sovereign bonds to fall. We would also expect that energy importers in Europe and Asia without solid reserves would be hit hardest. Oil and energy would be among only a few real diversifiers, in our view.

Other risks

1. Central banks could commit policy errors due to conflicting economic signals. Should the ECB tighten aggressively into a still-fragile growth environment consumer sentiment in the region could suffer. While not the base case, such an outcome could raise the risk of weaker growth and increased market volatility, particularly in rate-sensitive sectors.
2. In the US the risk is perhaps the reverse. Should Chair Warsh try to push an overly dovish stance, the credibility of the Fed could be called into question, perhaps provoking a rise in bond yields and term premia. We believe that equities and US treasuries would come under pressure in such a scenario.
3. US economic policy remains erratic, which we think could damage confidence and growth.
4. A meaningful slowdown in capex spending by the hyperscalers and/or failure to monetise ongoing investments could lead to a fall in their share prices, causing a negative wealth effect on the US economy.

Figure 12 – US Strategic Petroleum Reserves are being drawn down rapidly (thousands of barrels)



Notes: Based on weekly data from 8 October 1982 to 19 February 2027. "Linear extrapolation: avg. of last four weeks" is a linear extrapolation based on the drawdown between 1 May 2026 and 29 May 2026. Source: Bloomberg, and Invesco Strategy and Insights.

Model asset allocation*

Figure 13 – Model asset allocation (14 June 2026)

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	5%	0-10%	4%			
Cash	3%		0%			
AAA CLOs	2%		4%			
Bank Loans	4%	0-8%	5%			
US	3%		4%			
Europe	1%		1%			
Bonds	40%	10-70%	31%			
Government	25%	10-40%	18%			
US	8%		5%			
Europe ex-UK (Eurozone)	7%		5%			
UK	1%		2%			
Japan	7%		2%			
Emerging Markets	2%		4%			
China**	0.2%		0%			
India**	0.1%		1%			
Corporate IG	10%	0-20%	8%			
US Dollar	5%		3%			
Euro	2%		1%			
Sterling	1%		2%			
Japanese Yen	1%		0%			
Emerging Markets	1%		2%			
China**	0.1%		0%			
Corporate HY	5%	0-10%	5%			
US Dollar	4%		4%			
Euro	1%		1%			
Equities	45%	25-65%	53%			
US	25%		25%			
Europe ex-UK	7%		9%			
UK	4%		5%			
Japan	4%		7%			
Emerging Markets	5%		7%			
China**	2%		3%			
India**	1%		1%			
Real Estate	4%	0-8%	5%			
US	1%		0%			
Europe ex-UK	1%		2%			
UK	1%		2%			
Japan	1%		1%			
Emerging Markets	1%		0%			
Commodities	2.0%	0-4%	2.3%			
Energy	1.0%		0.0%			
Industrial Metals	0.3%		1.0%			
Precious Metals	0.3%		0.3%			
Agriculture	0.3%		1.0%			
Total	100%		100%			

Currency Exposure (including effect of hedging)

USD	51%	45%	
EUR	20%	21%	
GBP	7%	11%	
JPY	14%	10%	
EM	9%	13%	
Total	100%	100%	

*This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. **China and India are included in Emerging Markets allocations. Cash is an equally weighted mix of USD, EUR, GBP and JPY. Currency exposure calculations exclude cash. Arrows show direction of change in allocations. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights.

US economy, policy and markets

Macro backdrop

Headwinds and tailwinds collided in 2026 Q2, producing a volatile economic backdrop. On the one hand, business investment remained robust, consumer spending proved resilient, and manufacturing activity accelerated. On the other hand, input costs surged, interest rates climbed, and wage growth slowed.

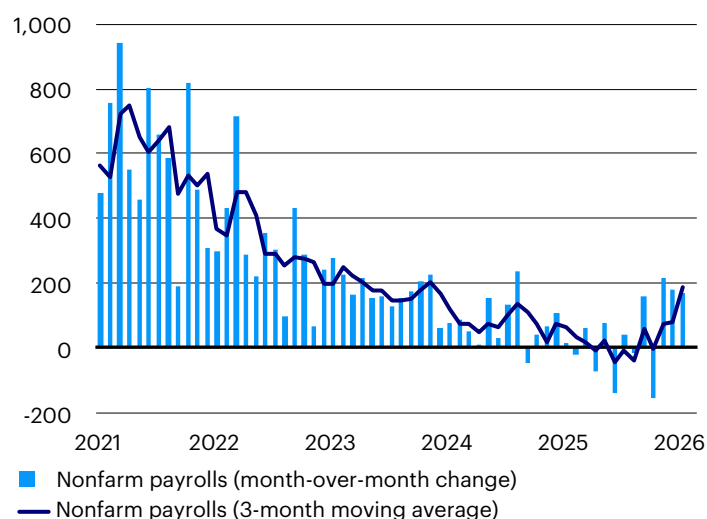
The net result is a US economy that had once been expected to grow at an above trend pace of 2.6% is now expected to track more closely to potential around 2%. At the same time, the disinflationary progress seen towards the end of 2025 has largely reversed, as price pressures have begun to mount. In our view, it seems likely that core inflation will once again end the year closer to 3% than 2%.

Over the first half of 2026, the US economy benefited from a reduction of tariff rates, the continued AI infrastructure buildout, an increase in household income tax receipts, and multiple new all-time highs in the US stock market.

First-quarter GDP growth was an annualized 1.6% -- below expectations, but still solid given the sharp rise in energy prices over the same period. Growth was driven by non-residential investment, particularly AI-related capital expenditures, alongside consumer spending that remained resilient despite higher inflation weighing on real wages.

Areas of the economy that began 2026 on an uncertain footing, such as the manufacturing sector and labour market, also improved meaningfully. Manufacturing activity moved from contraction (ISM Manufacturing PMI of 47.9 in December 2025) into expansionary territory (54.0 PMI in May 2026). Similarly, the three-month average pace of nonfarm payroll growth rebounded sharply, from -39,000 in December 2025 to 188,000 as of May 2026 (see Figure 14), well above the estimated pace of job growth needed to prevent the unemployment rate rising.

Figure 14 – US nonfarm payrolls: Monthly change vs. 3-month moving average (thousands)



Notes: Figure 14 is based on monthly data from May 2021 to May 2026. Figure 15 is based on monthly data from January 2001 to April 2026 and is based on models from the Federal Reserve Bank of San Francisco. Acyclical core inflation is the subset of core PCE inflation that is not driven by broad economic demand or the business cycle. Source: Bloomberg L.P. and Invesco Strategy & Insights.

Central bank policy

The risk of more persistent inflation now appears greater than the risk of labour market deterioration. Recent statements from Federal Reserve (Fed) officials suggest that the US central bank is adopting a similar view, presenting new chairman Kevin Warsh with an early challenge as he begins his term as head of the Fed.

Headline and core PCE inflation were 3.8% and 3.3% year-over-year in April, respectively, marking the fifth consecutive year with core inflation above the Fed's 2.0% target. While much of this year's inflationary pressure has been supply driven, and therefore outside of the Fed's direct control, data has begun to show that demand driven cyclical inflation -- more responsive to monetary policy -- is also beginning to firm (see Figure 15).

Looking ahead, we expect inflation to end 2026 around 3.3%, likely requiring the Fed to keep the policy rate unchanged at 3.75% through year-end, assuming the labour market remains stable. Encouragingly, recent labour market momentum has not been accompanied by a reacceleration in wage growth, which should help services prices remain contained and make rate hikes unlikely this year, in our view. At the same time, a reopening of the Strait of Hormuz would likely result in lower commodity prices, helping ease pressure on headline inflation and potentially limiting the risk of an unanchoring of inflation expectations.

Asset views and preferences

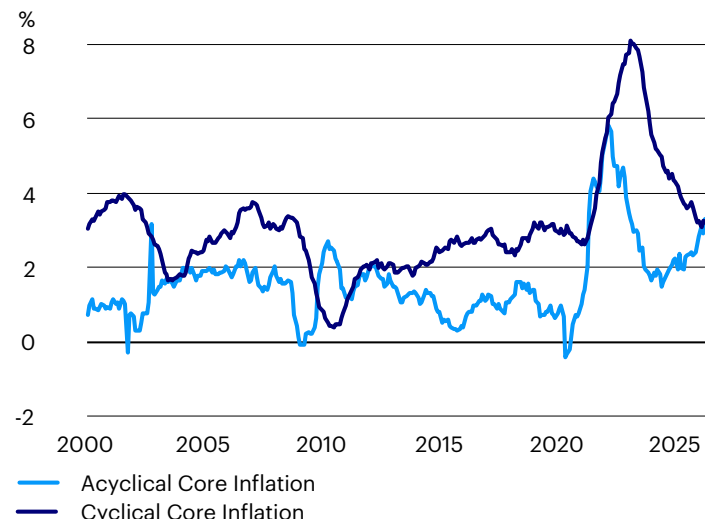
We expect a steepening of the yield curve, with stable short-term rates and rising long-term yields, as US growth remains firm and inflation potentially increases. Within US equities, we favour higher-quality large cap companies given their more durable earnings power/lower rate sensitivity.

Favoured assets: Equities

Duration preference: Short

Favoured equity sectors/factors: Technology, consumer staples, utilities

Figure 15 – Acyclical and Cyclical Core PCE Inflation (% change year-over-year)



Macro backdrop

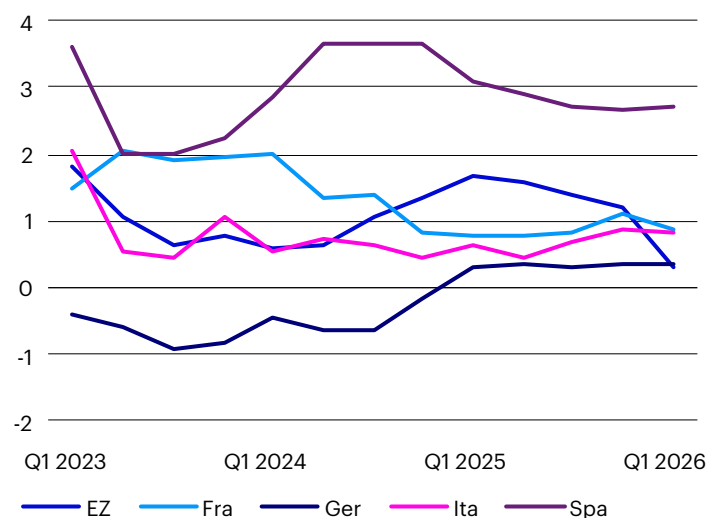
The eurozone economy grew by 1.5% in 2025, up from 0.9% in 2024 and the strongest growth since 2022 (the rebound from the Covid pandemic). Given the minimal population growth in the region, that equates to around 1.2% per capita growth in 2025, which is not as anaemic as the headline number suggests.

Nevertheless, growth has slowed progressively, from 1.6% year-on-year in 2025 Q1 to 1.2% in Q4 and 0.3% in 2026 Q1. That disappointing growth at the start of 2026 was due in part to the -16.8% GDP growth in Ireland, which we think was due to base effects versus the 18.6% growth seen in 2025 Q1 (due to strong export growth ahead of the imposition of US tariffs). Without that drag from Ireland, we think the Eurozone growth would have been closer to 1.0% in 2026 Q1. Figure 16 shows that growth has varied across the major economies, with Spain still growing faster than other regional economies (2.7% yoy in 2026 Q1), while Germany remains a drag on regional growth (0.3%), despite the promise of a fiscal boost.

Figure 2 suggests that leading indicators for Eurozone economies are above trend, though they have stopped improving (up to May). There has been an interesting divergence between the manufacturing and services sectors, according to PMI surveys (up to May), with the Eurozone service sector appearing to suffer over recent months, while manufacturing conditions have improved in many countries (despite the rise in energy costs).

We remain optimistic that regional growth can pick up in 2026 and 2027. Apart from the above-mentioned distortions related to Ireland, our optimism reflects the fiscal boost that may accompany higher European military spending, along with Germany's infrastructure spending programme (see Figure 5). Further, we think that prior ECB rate cuts may continue to support growth. On the negative side, the ECB has just raised its policy rates, and higher inflation is causing a squeeze on real incomes. Overall, we expect annual GDP growth of 1.0%-2.0% in 2026 and 2027.

Figure 16 – GDP growth in selected Eurozone countries (% year-on-year)



Notes: Figure 16 is based on quarterly data from 2023 Q1 to 2026 Q1 ("EZ" is the Eurozone). See appendices for country abbreviations. Figure 17 is based on monthly data from January 1999 to December 2026. "Projected ECB Rate" is the market implied path of the ECB Deposit Facility Rate, based on LSEG Refinitiv calculations based on the Euro Short Term Rate. As of 11 June 2026.

Source: LSEG Datastream, LSEG Refinitiv and Invesco Strategy & Insights.

Central bank policy

Inflation has picked up in recent months, with headline consumer price (CPI) inflation rising to 3.2% in May from the low of 1.7% in January. That should not be a surprise given the rise in energy prices. More problematic for the ECB will be the rise in core CPI inflation to 2.5%, up from 2.2% in January and April. The rise in core inflation appears to be largely due to a pick-up in services inflation to 3.5% in May from 3.0% in April, though we lack detail (services account for around two-thirds of the core CPI index). Nevertheless, we expect the headline rate to settle in the 2.0%-3.0% range once energy prices come down.

The ECB increased its deposit facility rate to 2.25% on 11 June 2026 (it had been stable at 2.00% since June 2025 -- see Figure 17). Market-implied rates now suggest investors expect the ECB to raise rates up to two more times over the next 12 months (based on calculations by Reuters, as of 11 June 2026).

We think the risks are more balanced than that. First, energy prices have already started to come down (see Figure 3) and, if the Strait of Hormuz reopens during Q3 (as we expect), we anticipate downside in headline inflation rates. Second, in the absence of an explanation for the rise in services inflation in May, we suspect there could be a reversal over the coming months, especially considering the weak PMIs in the services sector. An easing of core inflation could temper the ECB's desire to raise rates, even if we think rates are currently below neutral.

Asset views and preferences

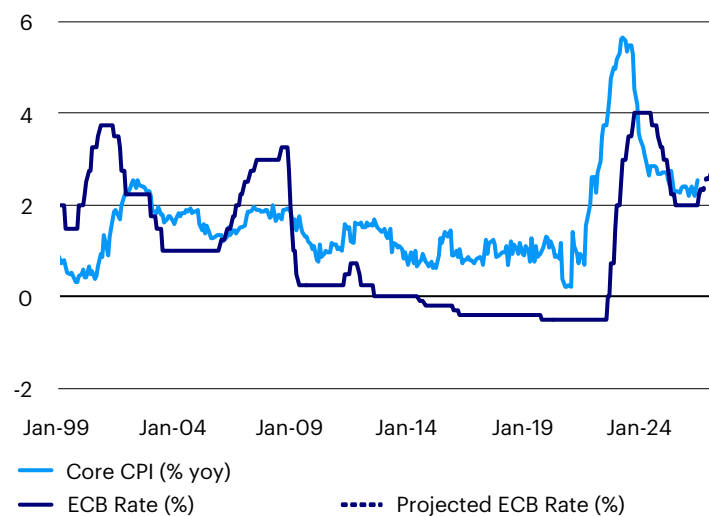
We expect a rise in long yields but little change in the slope of the yield curve (short duration preferred). We favour equities and REITs among Eurozone assets but also like the diversification qualities of bank loans and AAA-rated CLOs.

Favoured assets: Equities, bank loans, AAA CLOs

Duration preference: Short

Favoured equity sectors/factors: Industrials, metals & mining, value, size.

Figure 17 – Eurozone core consumer price inflation and ECB Deposit Facility Rate



Macro backdrop

The UK economy held up better than many feared in the first half of 2026. Q1 GDP growth came in at 0.6% quarter-on-quarter (1.1% year-on-year), albeit that was recorded before the full effects of the Middle East conflict were felt. April composite PMI data surprised to the upside at 52.0 but then fell back to 49.7 in May. There is some resilience in nominal terms, but the real picture is less encouraging.

The conflict in the Middle East and its impact on oil and energy prices remains the dominant exogenous variable shaping the UK outlook. Headline CPI rose to 3.3% in March, driven almost entirely by surging energy prices (+5.4% MoM), while services inflation ticked up to 4.5%, suggesting that domestic price pressures were already stickier than the Bank of England had assumed. April, however, brought some relief. Headline CPI fell to 2.8% helped by the Ofgem price cap mechanism smoothing the pass-through of higher wholesale energy costs into household bills. Core inflation dropped to 2.5%, and services inflation decelerated to 3.2%. Absent the energy shock, our estimates would have headline CPI closer to the 2% target.

The labour market presents a weaker, but not collapsing, picture. Headline unemployment fell to 4.9% in February from 5.2% in January but then rose back to 5% in March. Vacancies continue to fall, redundancies remain elevated, and HMRC payroll data showed a decline in employment over the last three months (see Figure 18). April data were particularly weak. Private sector regular pay growth slowed to 3.0% YoY, close to the level the Bank of England considers consistent with its 2% inflation target. In nominal terms, the consumer still looks to be in a decent position with retail sales (ex-fuel) growing 4.6% compared to last year in April. But real retail sales growth slowed to 1.1% YoY in April. MoM fuel sales were down 10% highlighting the impact of higher prices.

The May local elections confirmed a significant shift. Labour lost 1,496 council seats while Reform UK gained 1,451, and the traditional two-party duopoly that has governed since 1945 now appears to be weakening materially.

A risk remains that the government responds to its electoral losses with a more aggressive redistributive policy stance that markets interpret as fiscally irresponsible.

But for investors, the fiscal implications have so far been contained. The 2025–26 full-year deficit was revised down to £129 billion in May 2026, slightly under the Office for Budget Responsibility (OBR) forecast and the lowest since 2023. This allowed the Debt Management Office (DMO) to revise its 26-27 net financing requirement lower by £5.9 billion.

Central bank policy

Markets continue to price roughly two hikes in 2026. We disagree. The April inflation data make the hawkish case harder to defend, and the labour market data do not support hikes, in our view. We therefore do not expect the Bank of England to raise rates in 2026. Our view is that the MPC will remain on hold for an extended period. We continue to believe the next move will be a cut, though the timing is very hard to call given the uncertainty around the duration of the conflict and its second-round effects on energy, food, and wage-setting behaviour.

Asset views and preferences

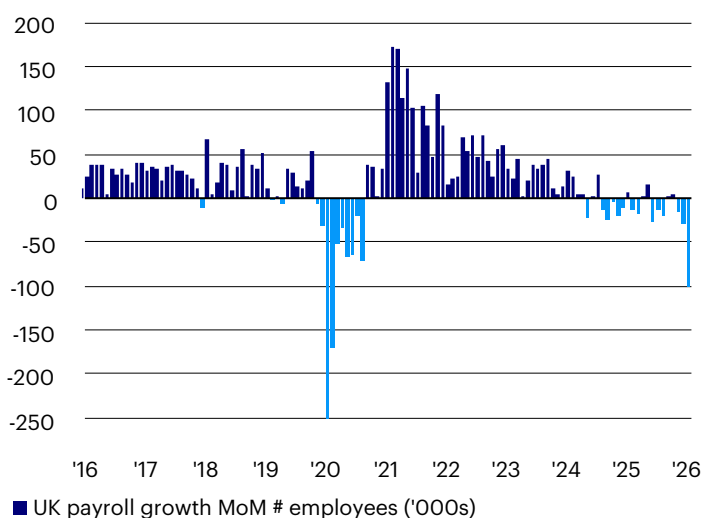
UK equities continue to offer an attractive means of diversification, in our view. The FTSE 100 carries low exposure to the technology sector and higher weights in commodities, financials, consumer staples, and healthcare, providing both cyclical upside and defensive characteristics in the current environment. The DMO has continued to shorten the maturity of gilt supply, with 70% of issuance in sub-15-year nominal paper. Lower supply of longer-dated gilts, combined with our expectation that yields will fall as the BoE eventually eases, makes these an attractive hold relative to duration elsewhere. With 30-year gilt yields near a 30-year high, we think the pessimism towards UK fixed income is overdone (see Figure 19). On sterling, we do not have strong conviction, but reduced concern around fiscal irresponsibility following the elections should provide modest support for the pound against the US dollar.

Favoured assets: Equities (FTSE 100)

Duration preference: Mid-to-long maturities

Favoured equity sectors/factors: Financials, materials, industrials

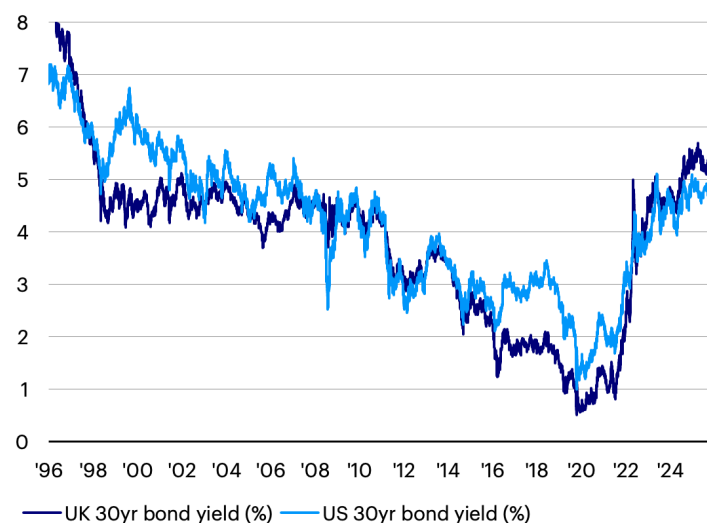
Figure 18 – UK payroll growth (MoM, '000s)



Notes: **Past performance is no guarantee of future results.** Figure 18 shows UK HMRC monthly payrolled employee growth from January 2016 to April 2026. Figure 19 is based on daily data from 31 May 1996 to 9 June 2026.

Source: UK HMRC (His Majesty's Revenue and Customs), MSCI, Bloomberg L.P. and Invesco Strategy & Insights.

Figure 19 – UK & US 30yr bond yield (%)



Macro backdrop

In Q1 2026, Japan's economy recorded a solid annualised quarter-on-quarter growth rate of 1.8%, supported by resilient private consumption and increased government spending, despite the onset of the Iran conflict in March. Strong consumption was underpinned by the return to positive real wage growth (see Figure 20). Although the negative macroeconomic effects of the Iran conflict—mainly via weaker consumer sentiment and more cautious capital expenditure—are expected to emerge in Q2 and Q3, the impact is likely to be more limited than in other advanced economies. This reflects modest gasoline price increases due to subsidies, as well as the containment of energy shortages through the release of strategic oil reserves.

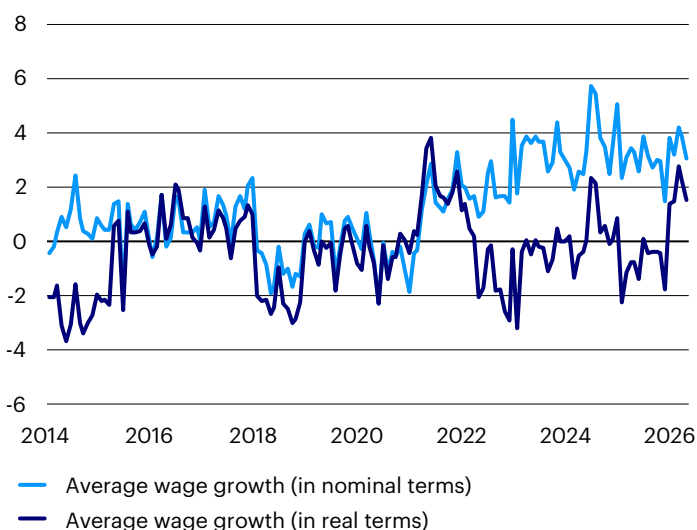
The Takaichi administration is expected to maintain downward pressure on energy costs by extending subsidies for fuel, electricity, and gas under the FY2026 supplementary budget. It is also promoting investment in strategic sectors such as semiconductors, AI, biotechnology, and solar energy from an economic security perspective. Together with the recovery in real wages and strengthening domestic demand, these measures are expected to push growth above its potential rate once the effects of the Iran conflict fade. In addition, the planned temporary reduction of the food consumption tax rate from 8% to 1% starting in April 2027 is likely to support growth in mid-2027, in our view.

Central bank policy

Bank of Japan Governor Kazuo Ueda, in a speech on June 3, strongly signaled the possibility of a rate increase at the June meeting. Even if a rate hike is not implemented in June, we believe there is a high likelihood of a move in July.

The BOJ expects underlying inflation to broadly reach its 2% target during the period from the second half of FY2026 through FY2027 (from autumn 2026 to spring 2028). In line with this outlook, policy rate hikes are expected to continue at a pace of approximately one every half year through the first half of 2027.

Figure 20 – Japan: Average real wage (% YoY)



Notes: Figure 20 is based on monthly data from January 2014 to April 2026. Figure 21 is based on weekly data provided by Tokyo Stock Exchange from 2 May 2022 to 25 May 2026. Source: Japan Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare and CEIC.

Asset views and preferences

In the Japanese equity market, semiconductor-related and electronic component stocks have surged since April, driven by an expected, sharp increase in global demand for data centres, thereby lifting the Nikkei 225. Following the resolution of the Iran conflict, we anticipate a rebound in lagging stocks. Thereafter, we expect Japanese equities to be on a moderate rising trend, supported by expanding domestic demand, improved corporate earnings driven by government policies, and a growing preference among overseas investors for Japanese equities (see Figure 21).

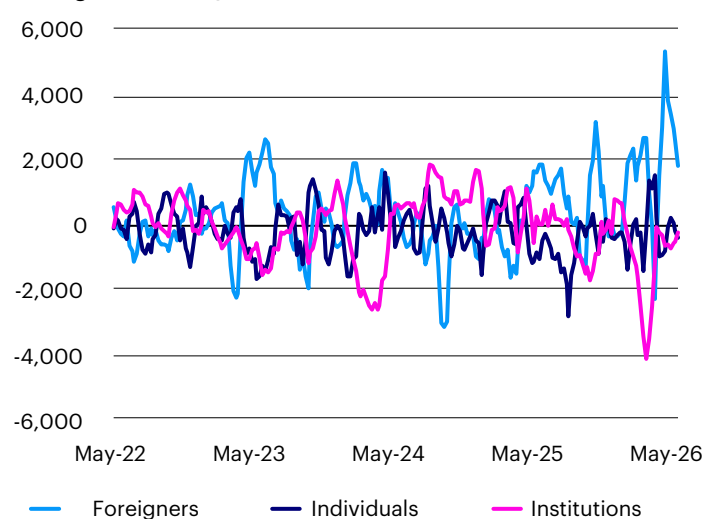
Long-term interest rates have risen sharply in recent months, reflecting concerns over the Takaichi administration's expansionary fiscal policy. While the end of the Iran conflict may temporarily stabilise yields, we expect market vigilance toward fiscal expansion to persist.

As for the exchange rate, we foresee a gradual appreciation of the yen toward the end of 2026, driven by a narrowing short-term interest rate differential between Japan and the United States.

Favoured assets: Equities, Japanese yen

Favoured equity sectors/factors: Domestic demand-related sectors (consumer discretionary, consumer services, capital goods, financials), defence-related sectors.

Figure 21 – Japan: Net equity purchase by investors (4 weeks moving sum, JPY bn)



Macro backdrop

China's growth showed solid momentum earlier in the year, but more recent data releases have raised concerns around underlying softness. April economic data disappointed across several indicators, including industrial production and retail sales, reinforcing the conditionality of policy support (see Figure 22).

Still, a single month's data point doesn't make a trend. Exports remain firm and May trade data suggest renewed momentum with exports up 19.4% y/y. The external sector is likely to remain the dominant driver. Even without leadership in the most advanced semiconductor segments, China is benefiting from strong global demand for intermediate and upstream products, including data centre components and power equipment. This is reflected in continued gains in China's share of global exports, particularly in higher value-added industrial segments.

Consumption remains the key point of uncertainty, in our view. Policy measures such as trade-in programmes have provided some support, but their effectiveness may be fading. A more durable recovery in retail demand may depend on stronger income growth, which sustained export growth could help support.

The property sector remains a drag, though the magnitude of the drag is gradually moderating. While it seems unlikely to be a positive contributor in the near term, we think the worst of the contraction phase may be passing, reducing its negative impulse to growth.

Policymakers have signalled a more measured growth target of 4.5%–5.0%, reinforcing a shift toward stability and "high-quality development." We expect fiscal policy to remain supportive, with a continued focus on strategic sectors and industrial upgrading, alongside more targeted efforts to stabilise domestic demand.

Central bank policy

Recent communication from the PBOC points to a less urgent easing bias and a more calibrated policy stance. In particular, officials have removed explicit references to policy rate cuts and emphasised "guiding interest rate levels," alongside a more neutral tone on reserve requirement ratio (RRR) policy. This shift, combined with stronger growth and inflation signals earlier this year, suggests policymakers are becoming more comfortable with the current macro trajectory.

Higher energy prices have fed into producer prices, raising the bar for aggressive easing (see Figure 23). We view near term rate cuts as less likely. Day-to-day operations suggest a preference for stabilisation measures.

Asset views and preferences

Chinese equities have largely been left on the sidelines this year relative to the North Asian peers of Korea and Taiwan, but we suspect the market may be underestimating China's involvement in AI supply chains outside of semiconductors. As Chinese exports broaden from tech to non-tech this may also help improve overall corporate sector revenue.

We think equity valuations in certain segments of the market look attractive relative to global peers, particularly if improving exports gradually feed into margins.

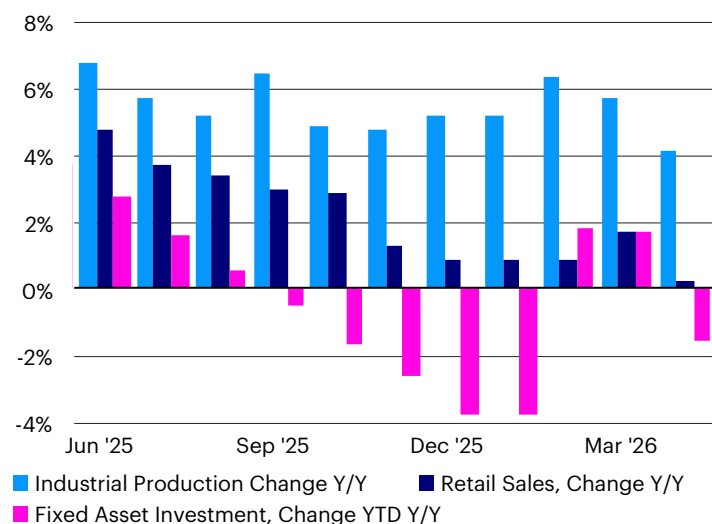
In fixed income, policy behaviour suggests an intent to anchor the curve and limit excessive moves. We believe that long end yields look less compelling at these levels.

Favoured assets: Equities

Duration preference: Short

Favoured equity sectors/factors: AI-exposed, value.

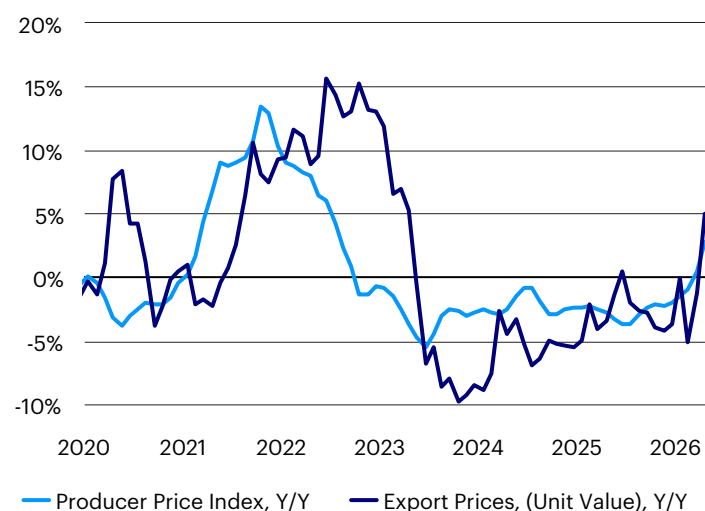
Figure 22 – China monthly activity indicators



Notes: Figure 22 is based on monthly data from June 2025 to April 2026. Figure 23 is based on monthly data from January 2020 to April 2026.

Source: China National Bureau of Statistics (NBS), China's General Administration of Customs (GAC), and Invesco Strategy & Insights.

Figure 23 – China PPI and export prices



Macro backdrop

India posted stronger than expected growth in the first quarter of the calendar year (to March), supported by firm domestic demand. GDP rose 7.8% year-on-year (y/y), with the previous quarter revised up to 8%. This magnitude of growth is impressive when compared to other large economies, reflecting a still resilient domestic cycle, underpinned by consumption and services activity even as external conditions remain uneven.

At the same time, India's macro resilience is increasingly being tested through external channels. The recent rise in oil prices – driven by the Iran conflict – highlights the country's structural reliance on imported energy, with the lion's share of crude sourced externally. While the government has attempted to shield consumers via reductions in excise duties and some degree of state absorption, such measures are difficult to sustain without placing pressure on the fiscal balance. Elevated energy prices risk weighing on the economy and are already being reflected in downward revisions to forward growth expectations.

These dynamics are also feeding through to the external balance. A widening oil import bill is expected to widen the current account deficit, adding to balance of payments pressures. India's oil and gas trade deficit was around 3.4% of GDP on a 12-month rolling basis to March, which is high relative to regional peers. The INR (Indian rupee) has been weakening on a real effective basis as external vulnerabilities become more visible.

Yet, high frequency indicators suggest domestic demand remains intact. Metrics such as bank credit growth, two-wheeler and passenger vehicle sales and the services PMI continue to point to steady underlying momentum (see Figure 24). This highlights a growing divergence between softer forward-looking projections and still resilient activity on the ground.

Central bank policy

The Reserve Bank of India (RBI) left the policy rate unchanged at 5.25% at its June meeting, with the Monetary Policy Committee voting unanimously to maintain a neutral stance. Policymakers pointed to resilient domestic demand and anchored inflation expectations, while also noting the need to allow transmission from earlier easing.

Still, the FY27 GDP forecast was cut to 6.6% from 6.9% and the CPI inflation outlook was revised higher to 5.1% from 4.6% for FY27 due to higher crude prices, supply-chain disruptions and geopolitical tensions. Indeed, consumer price inflation has rebounded during 2026 (see Figure 25). Due to these factors, we think the RBI is no longer in an easing mode and the risk is tilting towards hawkishness, not just through the end of the year but also into 2027.

Asset views and preferences

From an investor perspective, India's performance is often judged relative to the broader Asia and EM universe. In that context, the composition of growth matters: India's heavier exposure to services, particularly IT exports, contrasts with North Asia's hardware and manufacturing bias, sectors that have recently been more directly geared to the global AI and capex cycle. This partly explains why, despite solid domestic fundamentals, India's relative market performance has appeared subdued.

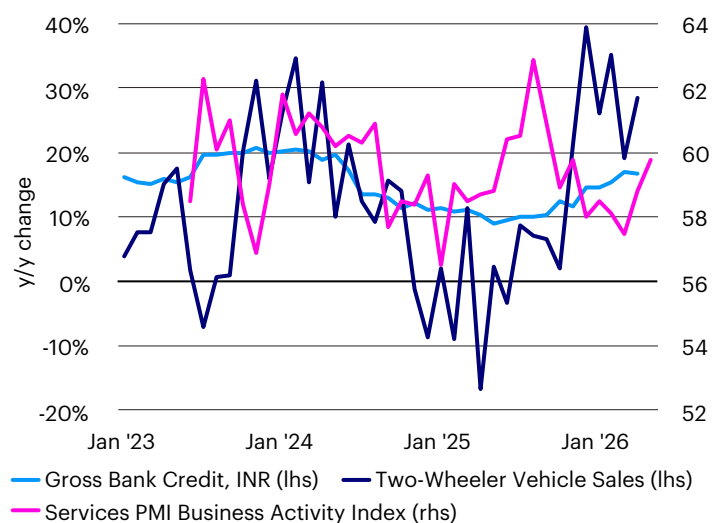
The real trade weighted value of INR has fallen significantly relative to its trend due to rising oil imports and a widening trade deficit. Government bond yields look relatively attractive in local currency terms, but FX is a risk, alongside a potentially more hawkish RBI.

Favoured assets: Government bonds

Duration preference: Neutral

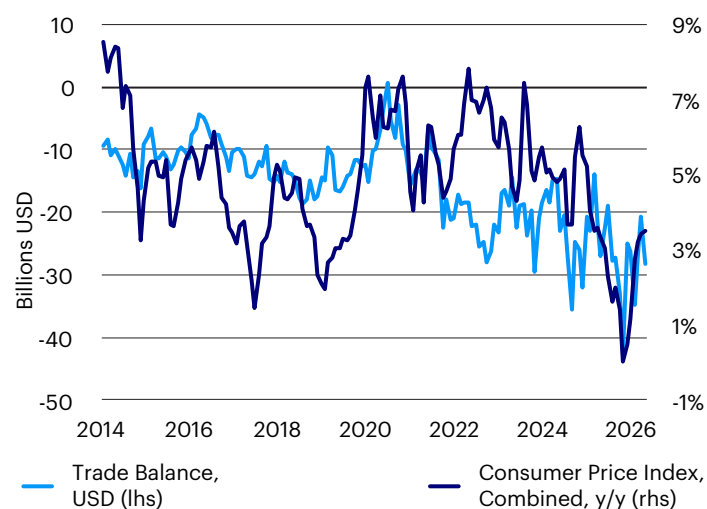
Favoured equity sectors/factors: Defensives, consumer.

Figure 24 – India high frequency indicators: Bank credit, passenger vehicle sales, services PMI



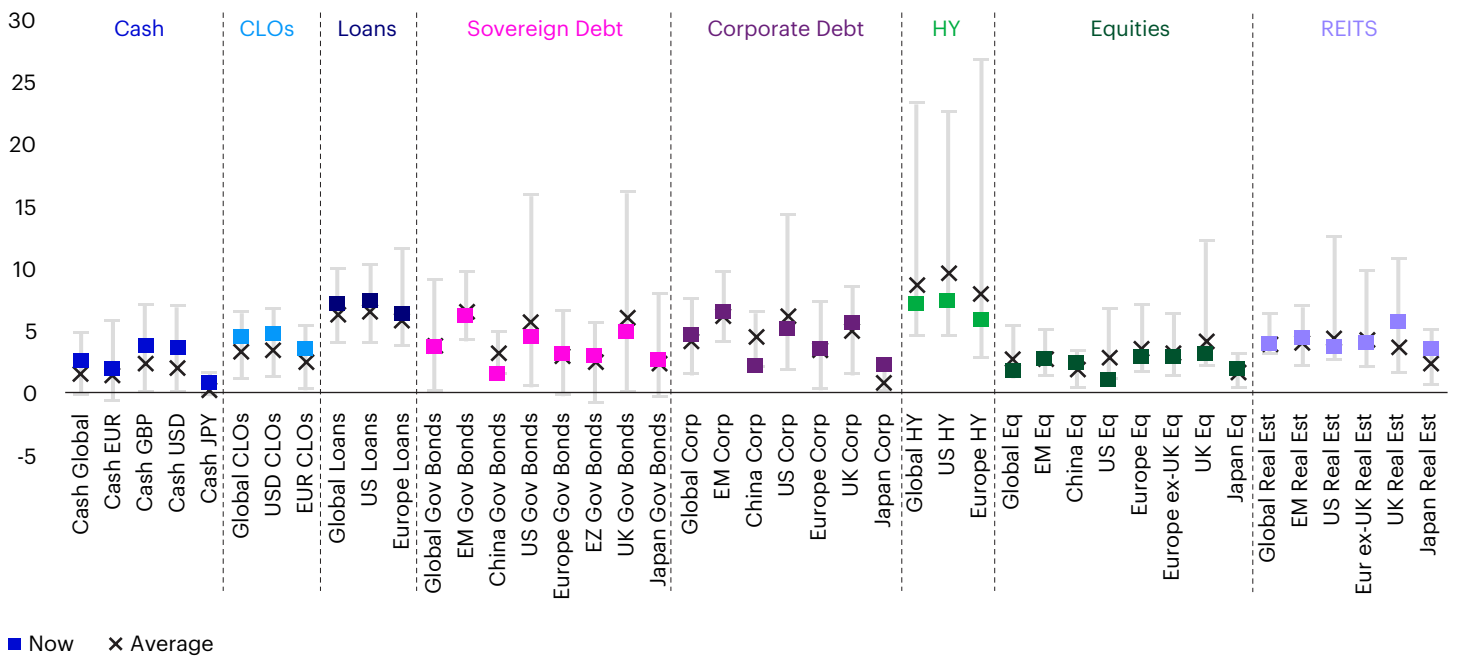
Notes: Figure 24 is based on monthly data from January 2023 to May 2026. Figure 25 is based on monthly data from January 2014 to April 2026. As of 11 June 2026. Source: Indian Ministry of Statistics & Programme Implementation (MoS&PI), India Ministry of Commerce & Industry (Department of Commerce) and Invesco Strategy & Insights.

Figure 25 – India consumer price index rising alongside trade deficit



Appendix 2: Global valuations vs history

Regional yields within historical ranges (%)

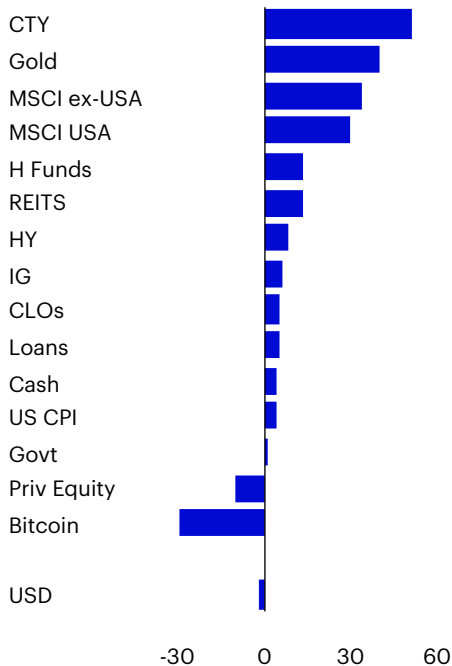


Notes: **Past performance is no guarantee of future results.** As of 29 May 2026. "Corporate Debt" is investment grade credit, "HY" is high yield credit, "Loans" are bank loans, "CLOs" are AAA collateralised loan obligations. See appendices for definitions, methodology and disclaimers.

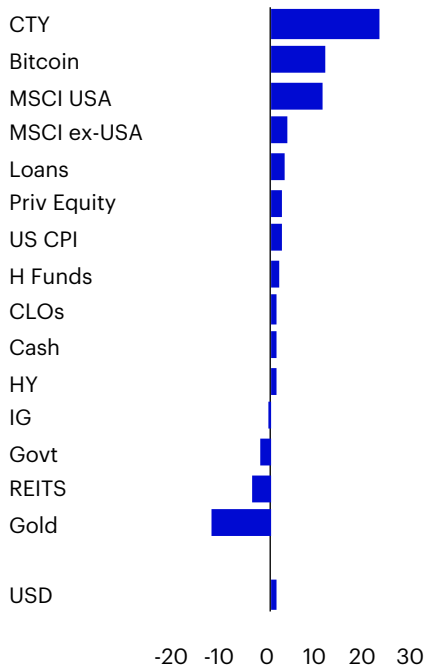
Source: Bloomberg, S&P UBS, FTSE Russell, ICE BofA, JP Morgan, LSEG Datastream and Invesco Strategy & Insights.

Appendix 3: Global asset total returns

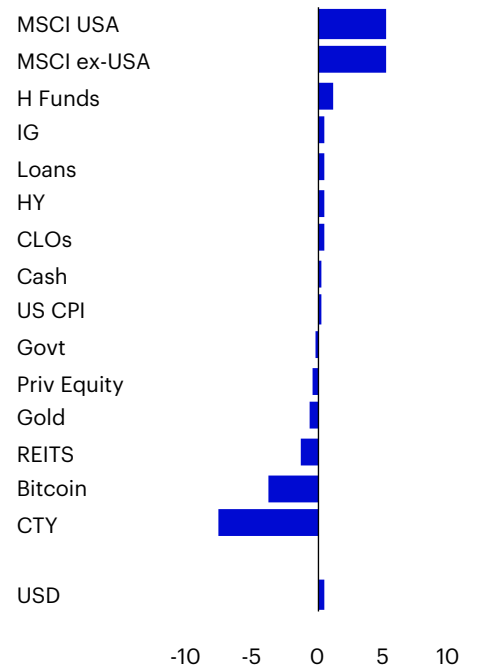
12 months (% in US dollars)



3 months (% in US dollars)



1 month (% in US dollars)



Notes: **Past performance is no guarantee of future results.** Based on monthly total return data for global assets in US dollars up to 29 May 2026. Abbreviations are as follows: "CTY" is commodities, "Govt" is government debt, "H Funds" is hedge funds, "HY" is high yield credit, "IG" is investment grade credit, "Loans" is bank loans or leveraged loans, "MSCI ex-USA" is MSCI ACWI ex USA Index, "Priv Equity" is private equity, "CLOs" is AAA collateralised loan obligations, "US CPI" is the US Consumer Price Index and "USD" is a trade weighted US dollar index. See appendices for definitions of asset categories and sources.

Source: ICE BofA, HedgeIndex, S&P UBS, GPR, Goldman Sachs, JP Morgan, MSCI, S&P GSCI, LPX, Bloomberg, LSEG Datastream and Invesco Strategy & Insights.

Appendix 4: Asset class and regional total returns

Data as at 29/05/2026

	Index	Current Level/RY	Total return (USD, %)				Total return (USD, %)			
			3m	YTD	12m	5y*	3m	YTD	12m	5y*
Equities										
World	MSCI	1131	7.7	12.4	30.7	12.0	8.1	12.4	30.9	12.9
Emerging Markets	MSCI	1752	9.5	25.7	53.5	8.3	11.2	27.0	57.1	11.0
China	MSCI	75	-7.2	-8.5	4.3	-4.8	-7.3	-8.4	3.3	-4.4
US	MSCI	7221	10.6	11.1	29.3	13.7	10.6	11.1	29.3	13.7
Europe	MSCI	2776	-0.5	7.3	20.9	9.7	0.4	7.4	17.8	10.2
Europe ex-UK	MSCI	3425	0.2	7.4	20.1	9.0	1.5	7.5	16.2	9.3
UK	MSCI	1669	-3.2	7.0	23.8	11.7	-3.4	6.8	23.9	12.9
Japan	MSCI	5528	0.5	16.3	31.5	9.7	2.5	18.1	45.0	18.2
Government Bonds										
World	BofA-ML	3.70	-2.5	-0.5	0.5	-3.5	-1.9	-0.2	1.3	-1.5
Emerging Markets	JP Morgan	6.19	-2.1	1.3	10.2	1.9	-0.4	1.1	6.7	3.8
China	BofA-ML	1.50	2.4	4.9	7.7	3.2	1.1	1.6	1.4	4.5
US (10y)	Datastream	4.43	-2.6	-0.3	4.7	-1.3	-2.6	-0.3	4.7	-1.3
Europe	Bofa-ML	3.10	-2.4	0.2	3.5	-2.9	-1.3	0.9	0.7	-2.1
Europe ex-UK (EMU, 10y)	Datastream	2.90	-2.8	0.2	2.7	-4.0	-1.6	0.8	-0.1	-3.2
UK (10y)	Datastream	4.82	-2.2	0.3	4.3	-3.8	-2.5	0.1	4.3	-2.9
Japan (10y)	Datastream	2.63	-5.5	-5.1	-15.4	-9.4	-3.6	-3.6	-6.7	-2.5
IG Corporate Bonds										
Global	BofA-ML	4.65	-1.0	0.8	5.9	0.3	-0.7	0.8	5.0	0.7
Emerging Markets (USD)	JP Morgan	6.50	0.1	1.8	7.9	2.8	0.1	1.8	7.9	2.8
China	BofA-ML	2.09	2.4	4.9	8.7	2.5	1.1	1.6	2.3	3.8
US	BofA-ML	5.13	-0.7	0.8	6.4	0.8	-0.7	0.8	6.4	0.8
Europe	BofA-ML	3.53	-1.6	0.2	5.2	-0.7	-0.5	0.9	2.3	0.2
UK	BofA-ML	5.59	-1.1	0.5	5.6	-1.6	-1.3	0.2	5.7	-0.6
Japan	BofA-ML	2.25	-2.7	-2.0	-10.5	-7.7	-0.7	-0.5	-1.3	-0.6
HY Corporate Bonds										
Global	BofA-ML	7.06	0.7	1.7	7.8	3.4	0.9	1.9	7.3	3.7
US	BofA-ML	7.30	1.0	1.6	7.4	4.4	1.0	1.6	7.4	4.4
Europe	BofA-ML	5.75	-0.9	0.6	7.1	2.1	0.2	1.2	4.1	3.0
Cash (Overnight rates)										
US		3.56	0.9	1.4	4.1	3.5	0.9	1.4	4.1	3.5
Euro Area		1.93	-1.6	-0.3	5.9	1.0	0.5	0.7	2.0	1.9
UK		3.73	-1.5	0.3	4.2	2.2	0.9	1.4	4.0	3.4
Japan		0.73	-3.6	-1.1	-7.7	-7.1	0.2	0.3	0.6	0.1
Real Estate (REITs)										
Global	FTSE	1821	-2.2	8.7	14.5	2.1	-1.1	9.4	11.4	3.0
Emerging Markets	FTSE	1334	6.7	4.0	13.4	-3.6	-5.6	4.7	10.3	-2.8
US	FTSE	3541	2.6	14.1	16.9	5.2	2.6	14.1	16.9	5.2
Europe ex-UK	FTSE	2683	-9.4	2.0	3.9	-3.7	-8.3	2.7	1.0	-2.8
UK	FTSE	896	-7.7	0.6	0.9	-4.0	-8.0	0.3	1.0	-3.0
Japan	FTSE	2372	-18.9	-7.7	8.1	-0.3	-17.3	-6.2	19.1	7.4
Commodities										
All	GSCI	5391	22.4	37.7	50.3	16.7	-	-	-	-
Energy	GSCI	1065	47.9	76.3	83.4	24.1	-	-	-	-
Industrial Metals	GSCI	2470	9.2	16.0	45.5	7.3	-	-	-	-
Precious Metals	GSCI	5189	-13.7	5.3	42.8	18.6	-	-	-	-
Agricultural Goods	GSCI	482	2.2	2.2	-3.4	0.3	-	-	-	-
Currencies (vs USD)**										
EUR		1.17	-1.3	-0.7	2.5	-0.9	-	-	-	-
JPY		159.28	-2.0	-1.6	-9.5	-7.2	-	-	-	-
GBP		1.35	0.3	0.2	0.0	-1.0	-	-	-	-
CHF		1.28	-1.6	1.5	5.3	2.9	-	-	-	-
CNY		6.77	1.4	3.4	6.2	-1.2	-	-	-	-

Notes: **Past performance is no guarantee of future results.** *Five-year returns are annualised. **The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). "RY" is redemption yield or interest rate (in the case of cash). Please see appendix for definitions, methodology and disclaimers.

Source: LSEG Datastream and Invesco Strategy & Insights.

Appendix 5: Methodology for Model Asset Allocation

Which asset classes?

We look for investibility, size and liquidity. We have chosen to include equities, bonds (government, corporate investment grade and corporate high yield), bank loans, CLOs, REITs to represent real estate, commodities and cash (all across a range of geographies). We use cross-asset correlations to determine which decisions are the most important.

Neutral allocations and policy ranges

We use market capitalisation in USD for major benchmark indices to calculate neutral allocations. For commodities, we use industry estimates for total ETP market cap + assets under management in hedge funds + direct investments. We use an arbitrary 5% for the combination of cash and AAA CLOs. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

Currency hedging

We adopt a cautious approach when it comes to currency hedging as currency movements are notoriously difficult to accurately predict and sometimes hedging can be costly. Also, some of our asset allocation choices are based on currency forecasts. We use an amalgam of central bank rate forecasts, policy expectations and real exchange rates relative to their historical averages to predict the direction and amplitude of currency moves.

Appendix 6: Definitions of data and benchmarks

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1 January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce

Bitcoin: Spot price of Bitcoin (Bitstamp) in US dollars

Government bonds: Historical yields and returns (Figure 7) are based on ICE BofA government bond indices with historical ranges starting on 31 December 1985 for the Global, Europe ex-UK, UK and Japanese indices, 30 January 1978 for the US and 31 December 2004 for China. The emerging markets yields and returns are based on the JP Morgan GBI-EM Global Diversified Composite Index with the historical range starting on 31 December 2002. The same indices are used to construct Appendix 2.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond indices with historical ranges starting on 31 December 1996 for the Global, 31 January 1973 for the US dollar, 1 January 1996 for the euro, 31 December 1996 for the British pound, 6 September 2001 for the Japanese yen and 31 December 2004 for the China indices. The emerging markets yields and returns are based on the JP Morgan CEMBI Broad Diversified Bond Index with the historical range starting on 29 December 2006.

Corporate high yield (HY) bonds: ICE BofA high yield indices with historical ranges starting on 29 August 1986 for the US dollar, and 31 December 1997 for the Global and euro indices.

Bank Loans: S&P UBS Leveraged Loan Indices with historical ranges starting on 31 January 1992 for the US index, 31 January 1998 for the Western Europe Index and 31 January 1998 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices, using market capitalisation as the weighting factor). Figure 7 and Appendix 2 are based on current yield. Data is sourced from S&P UBS and Bloomberg.

Collateralised Loan Obligations (CLOs): JP Morgan AAA indices with historical ranges starting on 30 December 2011 for the JP Morgan US CLOIE AAA Index, 29 December 2017 for the JP Morgan European CLOIE AAA Index and 29 December 2017 for the Global Index (the global index is constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices, using market capitalisation as the weighting factor). Yields are based on yield to worst calculations. Data sourced from Bloomberg.

Equities: We use MSCI benchmark indices to calculate total returns with historical ranges starting on 31 December 1969 for the Global, US, Europe ex-UK, UK and Japanese indices, 31 December 1987 for the emerging markets index and 31 December 1992 for the China index (Appendix 4). Equity index valuations (Figure 7, Figure 8 and Appendix 2) are based on dividend yields and price-earnings ratios using Datastream benchmark indices with historical ranges starting on 1 January 1973 for the Global, US, Europe ex-UK and Japanese indices, 31 December 1969 for the UK index, 2 January 1995 for the Emerging Markets index, 26 August 1991 for the China A-Shares index, 31 December 1999 for the India Index.

Real estate: We use FTSE EPRA/NAREIT indices with historical ranges starting on 29 December 1989 for the US, Europe ex-UK, UK and Japanese indices, 18 February 2005 for the Global index, and 31 October 2008 for the Emerging Markets index.

Commodities: Goldman Sachs Commodity Index with historical ranges starting on 31 December 1969 for the All Commodities and Agriculture indices, 31 December 1982 for the Energy index, 3 January 1977 for the Industrial Metals index, and 2 January 1973 for the Precious Metals index. "Industrial commodities" is oil & gas and industrial metals.

Private equity: LPX Major Market Listed Private Equity Index, sourced from Bloomberg.

Hedge Funds: HedgeIndex Main Index and the Bloomberg All Hedge Fund Index, both sourced from Bloomberg.

Definitions of data and benchmarks for Appendix 4

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the Bank of America Merrill Lynch government bond total return index for China, the World and Europe. The emerging markets yields and returns are based on the JP Morgan GBI-EM Global Diversified Composite total return index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices and the JP Morgan CEMBI Broad Diversified Bond total return index.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Abbreviations

Country abbreviations for Figures 2 and 5

AUS	Australia
BRA	Brazil
CAN	Canada
CHI	China
EUR	Eurozone
FRA	France
GER	Germany
IND	India
INDO	Indonesia
ITA	Italy
JAP	Japan
KOR	South Korea
MEX	Mexico
SA	South Africa
SPA	Spain
TUR	Turkey
UK	United Kingdom
US	United States of America
WLD	World

Country abbreviations for Figure 16

EZ	Eurozone
FRA	France
GER	Germany
ITA	Italy
SPA	Spain

Central bank abbreviations for Figure 4

BOE	Bank of England
BOJ	Bank of Japan
ECB	European Central Bank
FED	US Federal Reserve
PBOC	People's Bank of China
RBI	Reserve Bank of India

Abbreviations for currencies in Figure 10

AUD	Australian dollar
CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan (onshore)
EUR	Euro
GBP	British pound (sterling)
HKD	Hong Kong Dollar
JPY	Japanese yen
NZD	New Zealand dollar
USD	US dollar

Definitions and sources for asset categories used in the asset momentum chart (Appendix 3)

Based on monthly total return data for global assets in US dollars (unless stated otherwise). Calculated using spot price of gold, spot price of Bitcoin, ICE BofA 0-3-month US treasury index (Cash), ICE BofA Global Government Index (Govt), ICE BofA Global Corporate Index (IG), ICE BofA Global HY Index (HY), S&P UBS Leveraged Loan Indices (Loans, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and Western European indices, with the latter hedged into US dollars), JP Morgan CLOIE CLO AAA Indices (CLOs, with the global index constructed by Invesco Global Market Strategy Office as a weighted average of the US and European indices, with the latter hedged into US dollars), GPR General World Index (REITS), S&P GSCI total return index for commodities (CTY), MSCI USA Index (MSCI USA), MSCI ACWI ex USA Index (MSCI ex-USA), HedgeIndex Main Index (H Funds, with the latest month based on the Bloomberg All Hedge Fund Index), LPX Major Market Listed Private Equity Index (Priv Equity), Goldman Sachs Trade-Weighted US Dollar Index (USD) and US Consumer Price Index (US CPI). Data is sourced from LSEG Datastream and Bloomberg.

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