

# The Big Picture

Looking beyond the fog of war

Quarterly update from Invesco's Strategy & Insights Team

15 March 2026



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## Investment themes and asset class views

Our themes		
<b>Improving global growth favours cyclical assets</b>	<b>Opportunities are greater outside the US</b>	<b>Favouring credit over government bonds</b>
<p>The global economy is gaining momentum as financial conditions ease, economic signals improve, real wages rise, and policy remains supportive across major economies. This points to a mid-cycle upswing rather than an approaching slowdown.</p> <ul style="list-style-type: none"> <li>Cyclical assets preferred</li> <li>Favoured equities: non-US, value, size, industrials and resource related</li> <li>Commodity currencies supported</li> </ul>	<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 also suggest a weaker US dollar over time.</p> <ul style="list-style-type: none"> <li>US dollar weakness</li> <li>Commodities and emerging markets benefit</li> </ul>	<p>Developed world government bonds offer limited upside as yields are likely to drift higher, in our opinion. We believe that improving growth supports selective credit exposure.</p> <ul style="list-style-type: none"> <li>AAA-rated collateralised loan obligations (CLOs) as a cash alternative</li> <li>Bank loans among the preferred assets</li> </ul>

### 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, EUR, GBP	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	UK, EM ex-China	Long-term yields likely to drift higher
Investment Grade		Underweight	UK, EM ex-China	Limited upside, income returns expected
High Yield		Neutral	US	Supported by improving growth, selectivity will matter
Gold		Neutral		Price already reflects a lot of geopolitical risk
Non-US equities		Overweight	China, Japan, EM	More attractive valuations and more cyclical than US market
US equities		Neutral	Cyclicals, value	Supported by innovation/growth but high valuations temper potential
REITS		Overweight	Europe, Japan	Stand to benefit from lower rates and improving economies
Commodities		Overweight	Base metals, Ag	Supported by stronger global economy and 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

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**Economy:** Growth is expected to improve to above trend as policy uncertainty fades and financial conditions ease.

**Inflation:** Likely to trend lower into the second half of 2026, though energy prices remain a risk.

**Policy:** The Fed is still expected to ease further, bringing rates closer to neutral later this year.

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**Economy:** Growth should improve modestly as easier policy offsets labour market softening.

**Inflation:** Inflation momentum is cooling and could fall below target absent sustained energy shocks.

**Policy:** The Bank of England has room to cut rates more than peers.

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**Economy:** Growth is expected to stabilise with targeted policy support.

**Inflation:** Inflation pressures remain limited, though consumer price inflation is now positive.

**Policy:** Support is likely through fiscal measures and reserve requirement ratio cuts.

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 real wage gains and modest fiscal support.

**Inflation:** Close to target and expected to remain contained.

**Policy:** The ECB is likely to keep rates steady, with downside risks if growth disappoints.

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**Economy:** Growth is expected to run above potential as real wages turn positive and fiscal support kicks in.

**Inflation:** Inflation should fall below 2 percent, supporting household spending.

**Policy:** The BOJ is likely to continue gradual policy normalisation (increasing rates).

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**Economy:** Growth remains resilient and structurally supported.

**Inflation:** Inflation is not a central concern in the near term.

**Policy:** Policy rates are expected to remain broadly stable.

# The global macro backdrop is supportive

## Economic acceleration

We expect the global economy to accelerate in 2026, which we think will support cyclical and riskier assets.

Reasons for expecting more growth are:

- The US economy was handicapped in 2025 by uncertainty caused by tariffs, the threat of government closures (DOGE), an actual government shutdown, forced deportations and the resulting civil unrest. We doubt the domestic policy setting backdrop will be as damaging in 2026.
- Most central banks have been easing for around two years and money supply growth has picked up in many countries. We believe this gives the potential for stronger growth this year, even if some central banks may have completed their easing cycles.
- Importantly, we believe the Fed still has more easing to do (see the policy section that follows), which could provide further impetus to the US economy. The same applies to the Bank of England and the UK economy.
- Fiscal policy may be supportive, especially in Japan and Europe (see the policy section).
- Real wages are still growing in most economies and we expect this to support household spending.
- AI related spending could add to investment demand, thus providing mild support.

PMIs in many countries have strengthened, suggesting that growth has already improved. More importantly, leading indicators have strengthened in most of the countries we analyse (see Figure 2). That suggests to us that the global economy will accelerate this year.

## 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. Importantly, we expect even lower inflation.

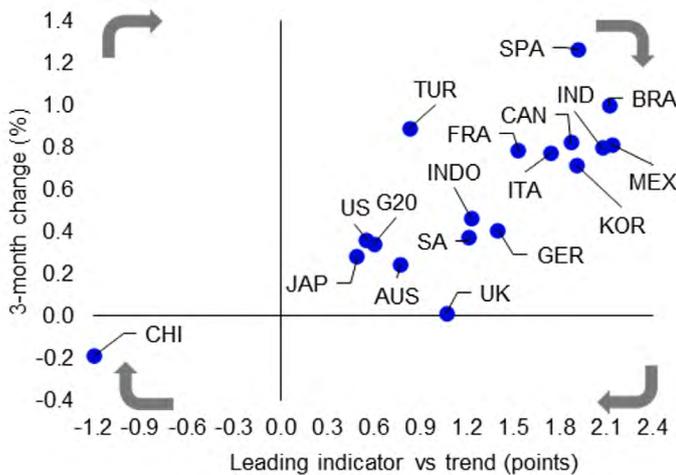
However, we note that the path toward lower inflation has flattened and inflation trends have become patchy. Even in the US, consumer price inflation continues to decline, helped by the large weighting of the shelter component (house price inflation is still falling), while the direction of personal consumer expenditures (PCE) inflation is erratic (the Fed focuses on the latter).

Nevertheless, we think inflation (and declines thereof) will continue to support financial assets during 2026. Though a weakening dollar may boost some prices in the US, we expect a bigger depressing effect on prices in other parts of the world (especially Europe). Also, if average US tariffs are lowered by the Supreme Court judgment, US inflation could be reduced.

## Risks

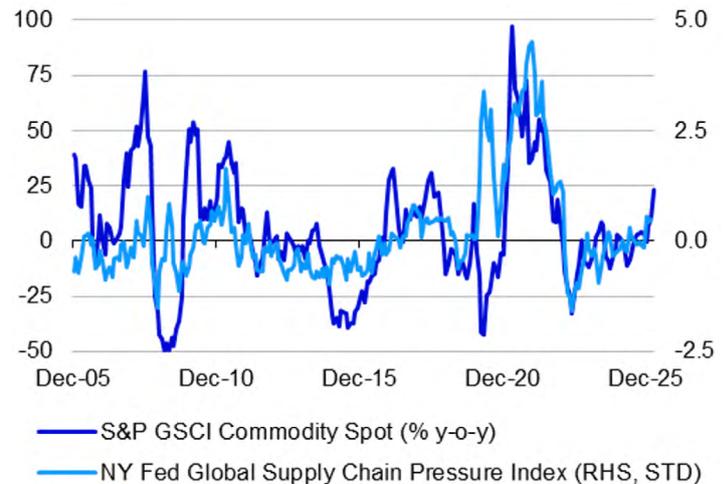
Recent events highlight that we live in an unstable world. Though we believe that geopolitical and military events usually have a limited and short-lived effect on asset prices, we are wary of energy shocks. At the time of writing, there has been an impact on oil and gas prices from the effective closure of the Strait of Hormuz, which could boost inflation (see Figure 3). Higher inflation could end central bank easing, weaken growth and cause further damage to asset prices. Other risks include US wage pressures as the labour market tightens despite low job growth and the possibility that US fiscal support doesn't materialise.

Figure 2 – Leading indicators improving



Notes: **Past performance is no guarantee of future results.** See appendices for country abbreviations. Figure 2 is based on monthly data up to January 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 March 2026 (as of 10 March 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.

Figure 3 – Inflation pressures building?



## But the policy backdrop is mixed

### Central bank outlook is mixed but Fed is easing

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) are tightening and a range of European central banks may have already reached their terminal rates. Importantly, however, we think the Fed and the BOE are still in easing mode.

The BOJ has belatedly started its policy normalisation process. Though we have been surprised at the slow pace of that normalisation (the policy rate is only 0.75% versus a core inflation rate of around 2.0%), and despite the efforts of Prime Minister Takaichi to slow the pace of tightening (including the nomination of doves to the BOJ Policy Board), we expect two rate hikes in the next 12-months (see Figure 4).

Elsewhere we expect little or no change in rates in the Eurozone, India and China. In the case of China, policy rates are already low and we expect policy support to come in the form of reductions in reserve requirement ratios and/or fiscal support.

However, there is one important exception to the above and that is the Fed, which we think is still in easing mode. First, at 3.75%, the upper end of the policy range is above what FOMC members consider to be the normal rate (closer to 3.00%). Second, the US housing and labour markets are weakening. Third, President Trump continues to agitate for lower rates, including the appointment of Kevin Warsh as the new Fed chair (from May). As seen in Figure 4, we also think the BOE remains in easing mode, with rates above what we consider to be neutral.

### 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.

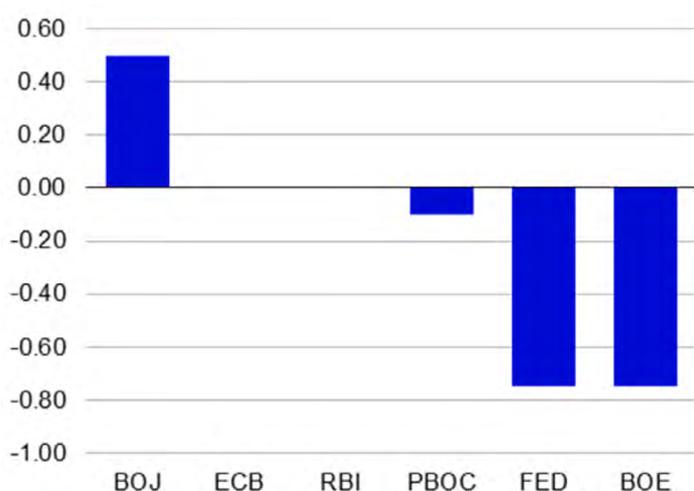
Among our focus countries, we expect Japan to lead the way. Prime Minister Takaichi now has a super majority in the lower house of parliament, enabling her to enact the desired fiscal boost. This is to include defence spending, support for the technology sector and consumer tax cuts. We expect a boost to the economy in the second half of 2026 and in 2027.

Though Germany is embarking on a similar 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 also accelerating the uplift in military spending. In the US, though the budget for 2026 prevented some tax rises that were due to happen, we expect limited fiscal impulse relative to 2025.

### Risks

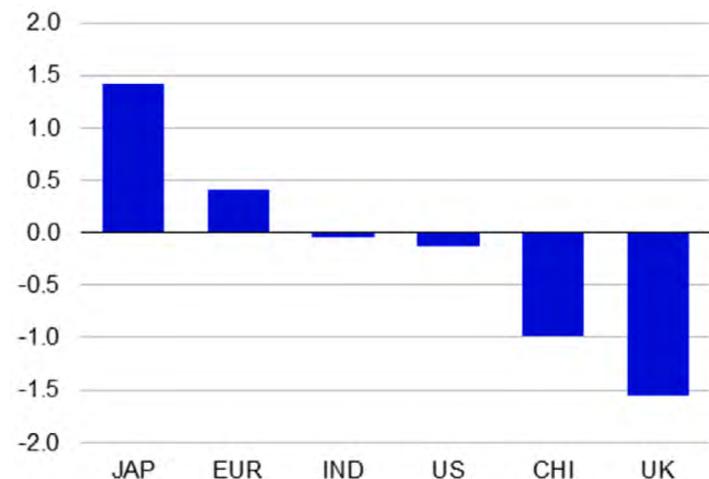
We foresee three risks to the above. First, that the US economy proves to be so robust that the Fed doesn't feel the need to ease. Second, that prolonged military conflict in the Middle East leads to a long-term boost to energy prices and inflation, causing central banks to tighten, rather than ease. Finally, the high levels of government debt (and large deficits in some countries) could lead to a rise in long term yields – perhaps exacerbated by political risks in countries like the UK.

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



Notes: 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 27 February 2026). Figure 5 is based on IMF Fiscal Monitor (October 2025) 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 (October 2025), LSEG Datastream and Invesco Strategy & Insights.

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



## From macro to markets – cyclical assets favoured

### Acceleration favours cyclical assets

We expect the global economy to accelerate in 2026, which we think will support cyclical and riskier assets.

Though the global economy has not been in recession, we think any acceleration from here will continue to be good for cyclical assets, though we doubt the broad based strong asset returns of 2025 will be repeated.

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 subsequent sections that analyse valuations.

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 will feel more like the early expansion phase of the cycle. In that stage of the cycle, the parts of the equity market that have tended to outperform have been early cyclicals, size and value.

### 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).

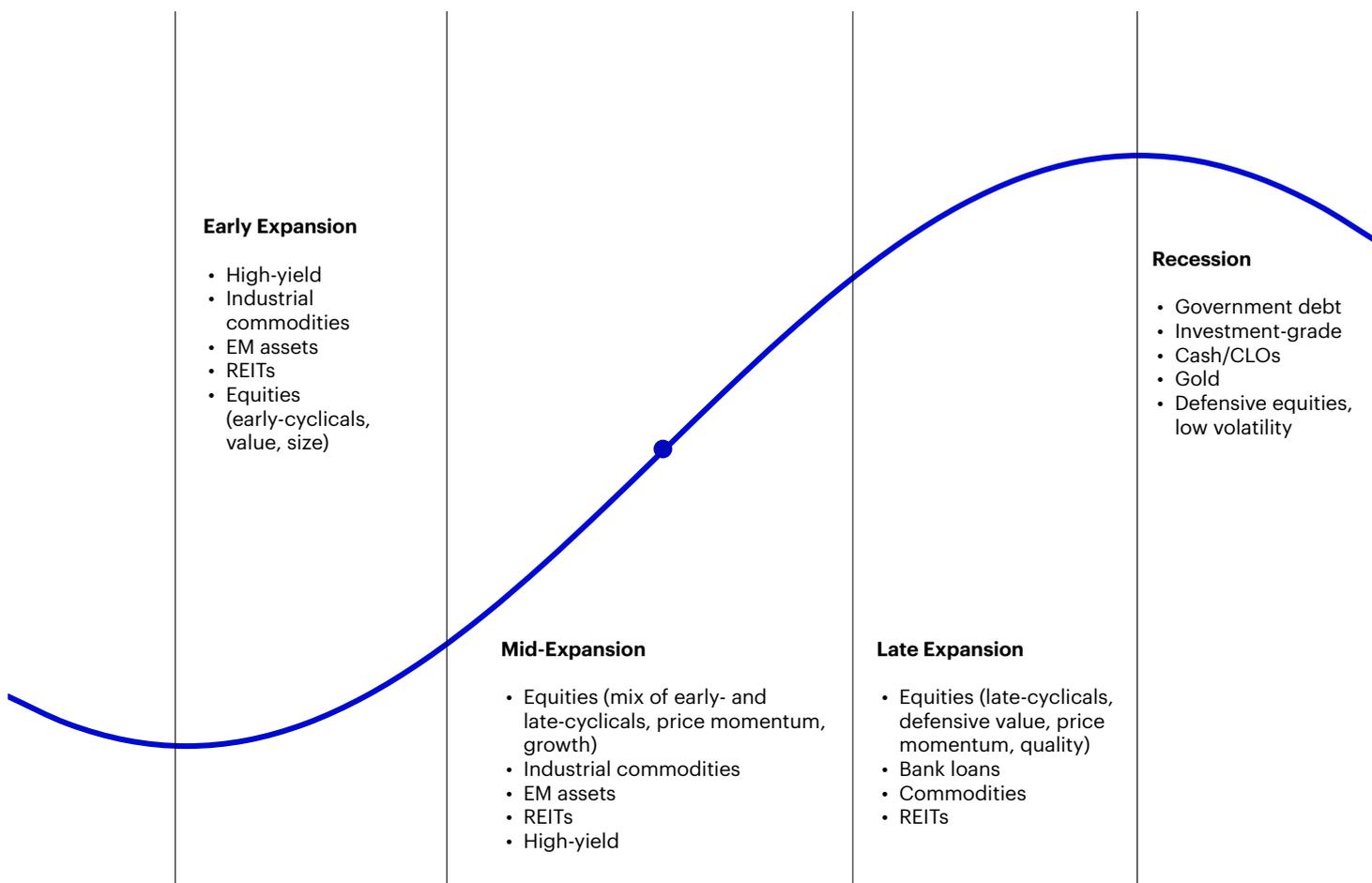
Within fixed income assets, the choice is hard: HY is more cyclical but the spreads are unusually tight, while we expect government and investment grade credit (IG) asset categories to suffer as long-yields rise.

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

### Risks

Clearly, the biggest risk to this cyclical positioning would be recession and/or central bank tightening that could raise the probability of such an outcome. If the ongoing disruption to energy supplies lasts more than a month, we believe that inflation would rise and growth suffer (the lack of energy would limit economic activity). We believe it would be hard to find assets that perform well in such a scenario, with the exception of energy commodities and resource related equities (and perhaps gold).

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 as a result of our bullish view on the global economic cycle. We believe they offer mitigation against a slowing economy, 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 (perhaps with the exception 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 be 4.30% in 12 months, despite our belief that the Fed will cut policy rates. On that basis, we expect low or negative returns on government bonds and IG in most of the markets featured in this document.

Even worse, HY spreads are abnormally narrow, which is why the yield on HY is much lower than normal (and is below the yield on bank loans, which is unusual). That may be OK if the global economy accelerates, as we expect. However, we believe the risks are asymmetric, such that any serious economic slowdown could cause a large widening of HY spreads.

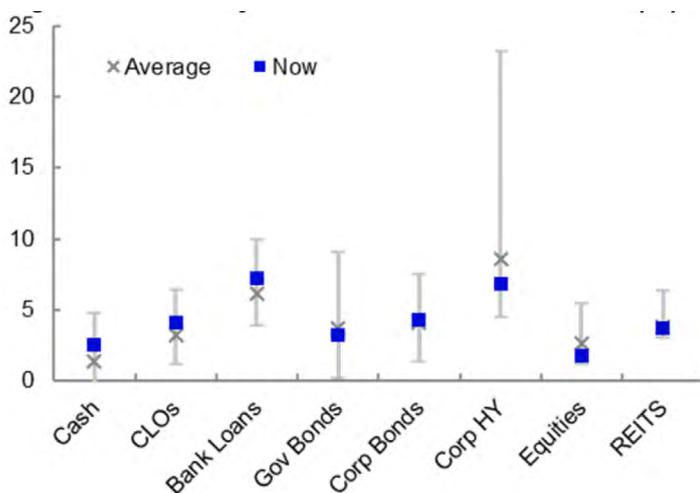
### Equity valuations favour non-US markets

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 = 44 at end-February 2026) is close to the historical peak (49), seen in March 2000.

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 very different valuation point, both in absolute and relative terms.

Among other equity markets, China remains cheaper than normal (CAPE 18), despite the strong performance of recent years. We believe this leaves scope for further outperformance. 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. European markets are a little more expensive than usual (as of 27 February 2026) but we don't think that presents an obstacle to further gains (and certainly not compared to the US market).

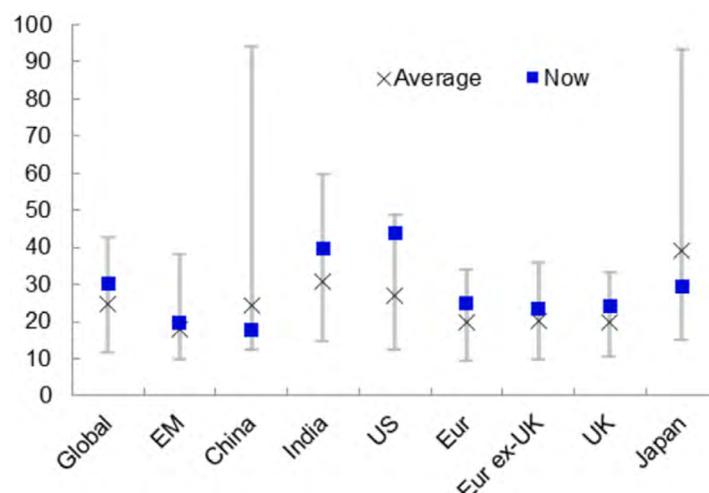
Figure 7 – Global yields in a historical context (%)



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 27 February 2026.

Source: ICE BofA, Credit Suisse Indices/UBS, JP Morgan, LSEG Datastream and Invesco Strategy & Insights.

Figure 8 – Equity CAPEs within historical ranges



## What's in the price: commodities and currencies

### Some metals are expensive

Based on Figure 9, at the end of February 2026 (ahead of the conflict with Iran), precious metals prices were 5 to 6 standard deviations above historical norms in real terms. This suggests a lot of geopolitical concerns were already expressed in their prices, which may explain why gold and silver fell during the first week of the conflict (though rising bond yields and an appreciating dollar could also have been factors).

On the other hand, oil and energy prices ended February slightly below historical norms in real terms, which had previously encouraged us to be Overweight Energy within the Model Asset Allocation. Though the price of Brent has risen during March, even at \$100 per barrel, it would only be around 0.5 standard deviations above historical norms and at \$120 it would be one standard deviation more expensive than normal (in real terms). Compared to precious metals, that would leave oil at reasonable levels, though above our 12-month spot Brent target of \$75/barrel.

Among other industrial commodities, base metal prices are above normal but not egregiously so (though copper is two standard deviations above normal, in real terms). 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. These are largely non-cyclical products and are often more dependent on the vagaries of the weather. We like the valuations but it is hard to have great confidence.

### USD remains expensive and JPY is very cheap

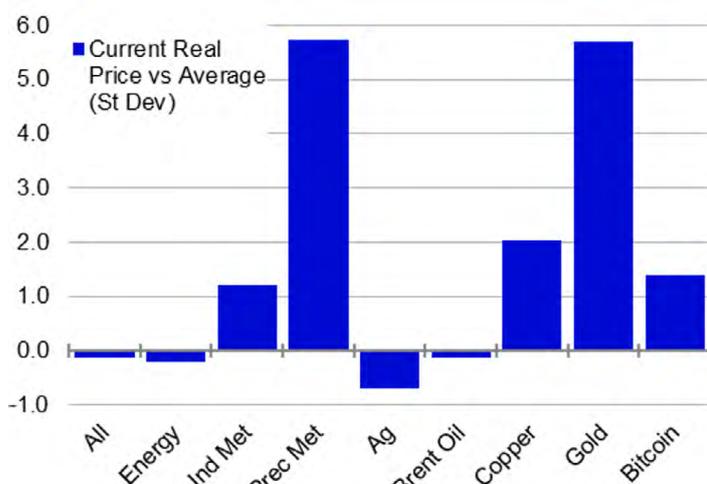
The US dollar has been stronger than normal over recent years in real trade weighted terms. In our opinion this is because interest rate and bond yield spreads have been wider than normal (in favour of the dollar). Though the dollar weakened during 2025 and the early part of 2026, it remained above historical norms at the end of February 2026 (see Figure 10).

At the other end of the spectrum, the Japanese yen has become 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 (as other central banks ease), spreads are narrowing (including at the long end of the bond spectrum) and we believe this will eventually offer support to the yen, which is more than 40% below historical norms in real trade weighted terms. However, we note that 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".

The US dollar has strengthened since the opening of hostilities against Iran, which some have interpreted as a sign of its so-called "safe haven" status. However, we think it is more to do with the status of the US as an energy producer, which offers the economy some protection and boosts the balance of payments as energy prices rise.

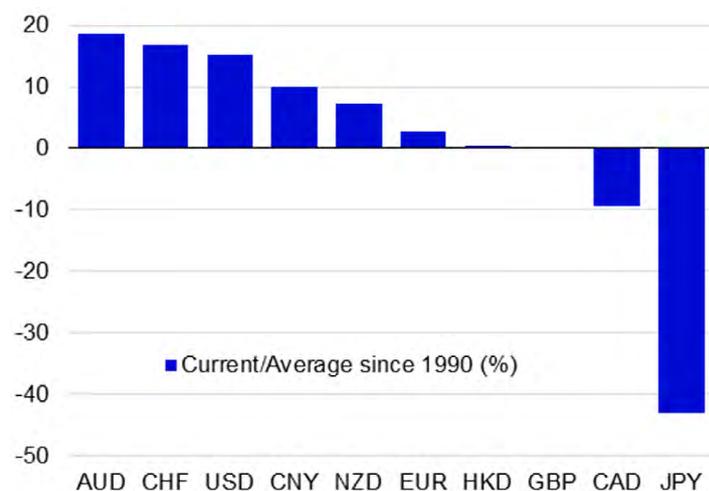
Figure 9 – Real commodity prices vs norms (%)



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 27 February 2026.

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

Figure 10 – Real trade weighted currency indices



## Asset preferences

We think the global economy could accelerate over the next 12 months in response to past (and some future) central bank easing, some fiscal support and real wage growth. The biggest risks appear to be geopolitical, with the ongoing conflict with Iran a good example. Nevertheless, we expect the improving cyclical forces to dominate over the 12-month forecast horizon.

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

- Geopolitics will bring only temporary volatility
- Global GDP growth will improve
- Global inflation will flatten
- The Fed and BOE will ease but other central banks have less need (the BOJ will tighten)
- Yield curves will mostly steepen (though not Japan)
- AAA CLO spreads will widen slightly (no defaults)
- Credit spreads will widen slightly and defaults rise a bit (from low levels)
- Bank loan current yield spreads will widen slightly and defaults rise (from low levels)
- Equity and REIT earnings/dividend growth will largely improve; multiples will be broadly stable
- USD will weaken as the Fed eases, especially versus JPY (as the BOJ tightens)
- Commodities will benefit from more global growth and USD weakness (energy prices are already up)

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, Europe and China (see the Model Asset Allocation in Figure 13). Across equity markets the preference is for industrials, materials, financials, technology and value (see the individual country sections in Appendix 1).

Within commodities, the effective closure of the Strait of Hormuz in early March pushed energy prices above levels that we were expecting, so we are reducing the energy allocation to Underweight while maintaining Overweight allocations to industrial metals and agriculture. We believe the former is cyclical, while the latter is good value. 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 asset categories that continue to offer attractive yields, in our opinion (see Figure 7). Hence, we are able to balance those allocations to risky assets with diversifying preferences for assets such as AAA-rated CLOs and bank loans (see the “Valuations” column in Figure 11). We are Overweight both those categories.

We find traditional fixed income assets (government bonds, IG and HY) to be unappealing: first, we think long term yields may rise in some countries (especially the US) and, second, we expect credit spreads to widen. We are Underweight government bonds and IG, and Neutral HY. Within government bonds and IG, we prefer UK and EM 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 preference**

	Growth Improving	Inflation Flattening	Rates Falling	Yield curve Steepening	Geopolitics Poor	Momentum	Valuations	Total	Model Asset Allocation*	Preferred assets
Cash	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	JPY, EUR, GBP
CLOs	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	US
Bank Loans	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	US
Hedge Funds	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	
Govt. Bonds	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	UK, EM ex-China
Investment Grade	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Underweight	UK, EM ex-China
High Yield	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Neutral	US
Gold	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Neutral	
Non-US equities	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	China, Japan, EM
US equities	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Neutral	Cyclicals, value
REITS	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	Europe, Japan
Commodities	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Overweight	Base metals, Ag
Private Equity	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	N/A	
Bitcoin	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	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

We have always believed that geopolitics tend to have a limited and temporary effect on global financial markets. However, the one clear exception was the Yom Kippur War of 1973 that led to an oil embargo and a near quadrupling of the oil price, global stagflation and a substantial impact on asset values.

That 1973 oil price gain lasted throughout the 1970s (a time when the global economy was less energy efficient than it is today). It was then added to by the doubling that came in 1979/80 upon the Iranian revolution. However, as shown in Figure 12, the price eventually returned into the \$25-\$80 per barrel range in which the WTI price has been for most of the period since 1870 (in today's prices). Subsequent geopolitical related price spikes (Iraq invasion of Kuwait in 1990, US invasion of Iraq in 2003 and Russia's 2022 invasion of Ukraine) have tended to be short lived.

Though WTI and Brent spot prices approached \$120 on 9 March 2026, they have since fallen back to the \$80-\$100 range (as of 11 March). This is above the \$55-\$75 range seen over the last year but not enough to pose a big threat to the global inflation and growth outlooks, in our view. We think such a threat would require an oil price at \$120 or above for a significant time (3-6 months). We believe that would require effective closure of the Strait of Hormuz for longer than a month. This is on the basis that Middle East countries produced around 30 million barrels per day (mbd) in 2024 and that International Energy Agency (IEA) member reserves total around 1.2 bn barrels.

If the Strait of Hormuz does remain closed for more than a month, it is possible that our base case of falling inflation, an easing Fed and an accelerating global economy could be under threat.

As seen in 2022, financial markets don't like inflation. Under a prolonged energy disruption scenario, we would foresee the following outcomes:

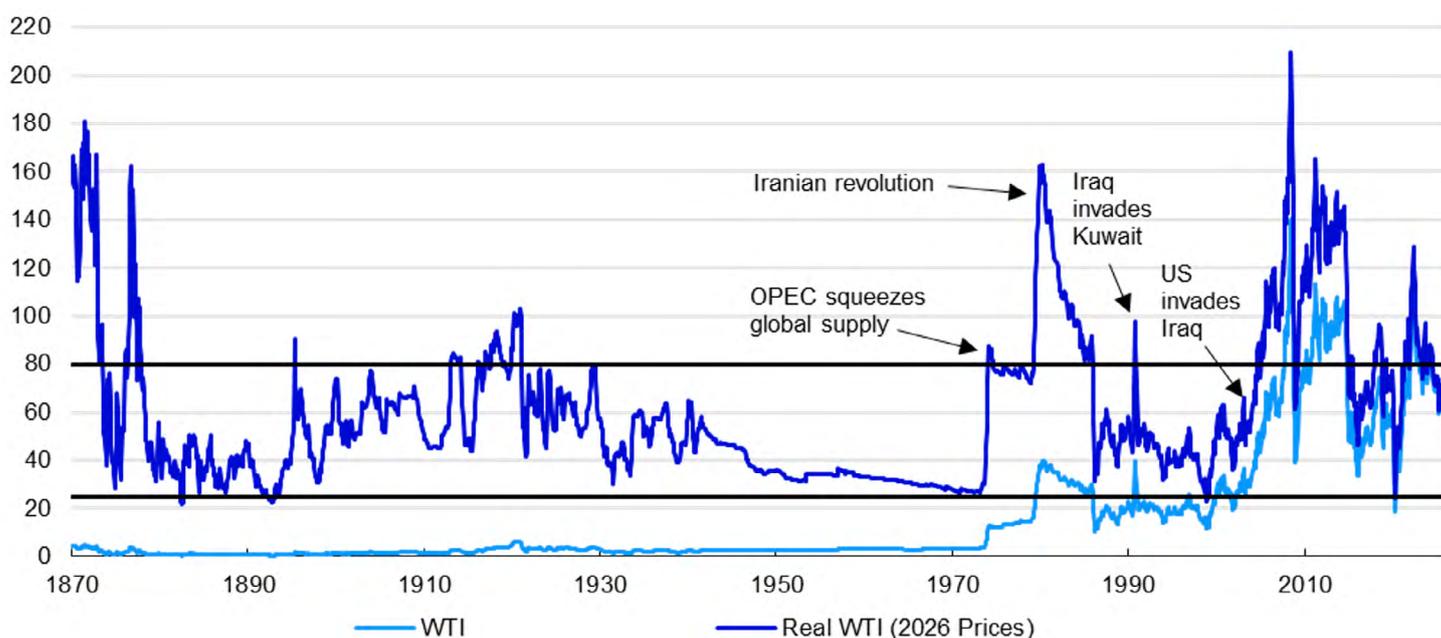
1. Energy prices would rise substantially.
2. Headline inflation would increase.
3. Central banks would tighten rather than ease.
4. Bond yields would rise along the yield curve.
5. Economies would suffer, with possible recession.
6. Asian economies would be the most impacted, followed by Europe (based on the importance of Middle East supplies within their energy mixes).
7. Equities would suffer (except energy stocks), with the US more sheltered (it is an energy producer).
8. The US dollar and the currencies of other non-Middle East energy producers would strengthen.

### Other risks

There were already other risks:

1. US economic policy remains erratic and this could damage confidence and growth.
2. Inflation was already flattening in some countries, suggesting some central banks could tighten.
3. Central banks (including the Fed) could commit policy errors due to conflicting economic signals.
4. AI disruption is causing problems for sectors that are heavily represented in some credit segments.

Figure 12 – Real WTI price since 1870 (\$ per barrel)



Notes: **Past performance is no guarantee of future results.** Based on monthly data from January 1870 to March 2026 (as of 10 March 2026). "WTI" is the West Texas Intermediate spot price. "Real WTI" expresses historical prices in 2026 terms, using the US consumer price index to make the transformation. The horizontal lines are at prices of \$25 and \$80, defining a range within which the real price has been for around 80% of months since 1871. Source: Global Financial Data, LSEG Datastream and Invesco Strategy and Insights.

## Model asset allocation\*

Figure 13 – Model asset allocation (15 March 2026)

	Neutral	Policy Range	Allocation	Position vs Neutral
<b>Cash Equivalents</b>	<b>5%</b>	<b>0-10%</b>	<b>4%</b>	
Cash	3%		0%	
AAA CLOs	2%		4%	
<b>Bank Loans</b>	<b>4%</b>	<b>0-8%</b>	<b>5%</b>	
US	3%		4%	
Europe	1%		1%	
<b>Bonds</b>	<b>40%</b>	<b>10-70%</b>	<b>31%</b>	
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%	
<b>Equities</b>	<b>45%</b>	<b>25-65%</b>	<b>53%</b>	
US	25%		25%	
Europe ex-UK	7%		9%	
UK	4%		5%	
Japan	4%		7%	
Emerging Markets	5%		7%	
China**	2%		3%	
India**	1%		1%	
<b>Real Estate</b>	<b>4%</b>	<b>0-8%</b>	<b>5%</b>	
US	1%		0%	
Europe ex-UK	1%		2%	
UK	1%		2%	
Japan	1%		1%	
Emerging Markets	1%		0%	
<b>Commodities</b>	<b>2.0%</b>	<b>0-4%</b>	<b>2.3%</b>	
Energy	1.0%		0.0%	
Industrial Metals	0.3%		1.0%	
Precious Metals	0.3%		0.3%	
Agriculture	0.3%		1.0%	
<b>Total</b>	<b>100%</b>		<b>100%</b>	
<b>Currency Exposure (including effect of hedging)</b>				
USD	51%		45%	
EUR	20%		21%	
GBP	7%		11%	
JPY	14%		10%	
EM	9%		13%	
<b>Total</b>	<b>100%</b>		<b>100%</b>	

\*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. India has been added in this edition. See appendices for definitions, methodology and disclaimers.

Source: Invesco Strategy & Insights.

US economy, policy and markets

Macro backdrop

The US economy grew at an above average year-on-year pace of 2.2% in 2025. Growth was supported by resilient consumer spending (buoyed by wealth effects) and robust business investment stemming from the AI infrastructure buildout. Both these tailwinds are expected to continue in 2026. When combined with reduced trade policy uncertainty from a stabilisation of tariff rates, potential additional fiscal stimulus, and monetary stimulus from past rate cuts, we expect these factors to contribute to an increase of US GDP growth to an above-trend 2.6% in 2026.

A growing economy, however, may not necessarily lead to robust job creation. In fact, 2025 was the first year since 2003 that strong GDP growth was accompanied by almost no job growth — a historically rare occurrence (see Figure 14). Fortunately, the labour market appeared to have gained momentum in Q4 2025, with hiring rates picking up, continuing jobless claims ticking down, and the unemployment rate potentially hitting a cyclical peak. Given the growth backdrop described earlier, hiring rates should improve over the next 12 months, though it's possible the pace of job gains may be weaker than in prior years.

As the labour market reaccelerated towards the end of 2025, inflation data consistently surprised to the downside. US core CPI hit a 5 year low of 2.5% in January 2026, while core PCE — the Federal Reserve's preferred inflation gauge — ended 2025 at 3%. Yet the inflation picture remains complicated. Services inflation is seemingly trapped above the Fed's 2% target and there have been signs of mounting pressure in goods inflation (see Figure 15). Combined with the potential impact of higher energy prices due to conflict in the Middle East, recent disinflationary progress could be disrupted in the first half of 2026.

However, moving into the second half of this year, tariff driven price increases should begin to drop out of inflation data, housing disinflation should continue to trend lower, and wage growth is expected to continue falling towards levels consistent with the Fed's 2% target. Taken together, the combination of inflationary and disinflationary forces results in us forecasting 2.7% CPI inflation for full year 2026.

Central bank policy

Strong growth, weak labour, and sticky inflation presents a difficult policy mix for the Federal Reserve. The 75bps worth of "risk management" cuts in the fall of 2025 appear to have provided support to the labour market and brought the Fed funds rate closer to neutral. Further rate cuts seem unlikely for now until at least the summer, as the FOMC assess how labour market and inflation conditions evolve, and await their new chairman — Kevin Warsh — whose term begins in May 2026 pending US Senate confirmation.

In the second half of the year, we believe at least two additional 25bp rate cuts are possible. This would bring the Fed funds rate down to 3.25%, approaching our estimate —and the FOMC's long run estimate — of neutral. Once at 3.25%, we expect the Fed will pause and reassess before making their next move, though the bar for further rate cuts may be raised significantly.

Asset views and preferences

We expect a steepening of the yield curve, led by a decline in short rates and rise in long rates. Within US equities, cyclicals and smaller capitalization stocks may outperform due to accelerating economic activity.

Favoured assets: Equities

Duration preference: Short/neutral

Favoured equity sectors/factors: Industrials, materials, cyclicals, value

Figure 14 – Annual change in US nonfarm payrolls vs. annual US GDP growth

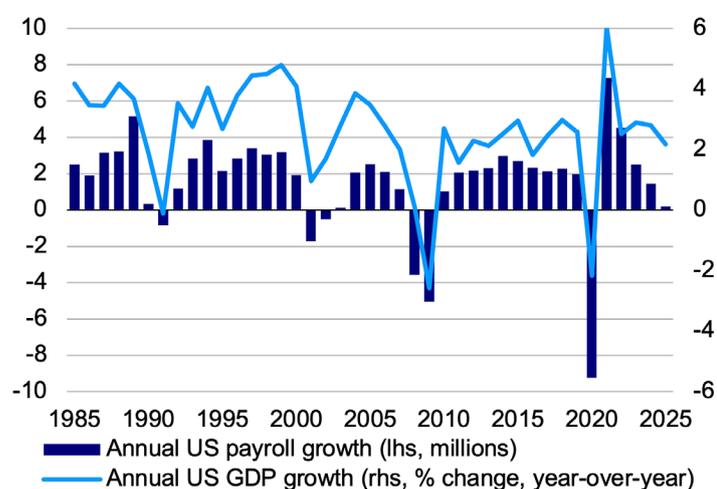
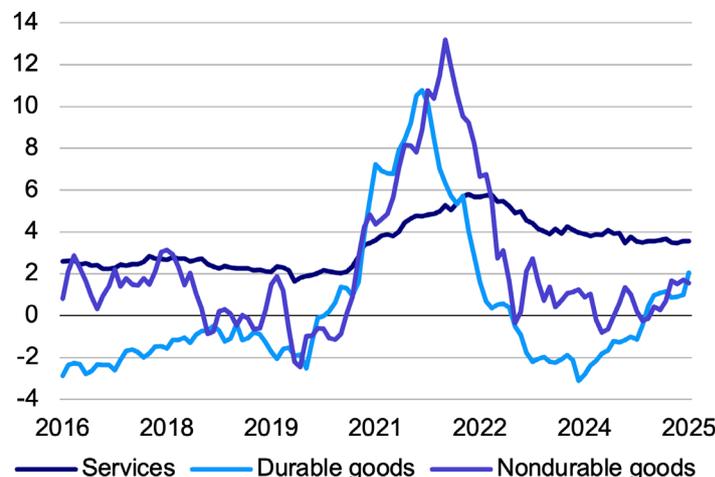


Figure 15 – US PCE inflation by component (% year-on-year)



Notes: Figure 14 is based on yearly data from December 1985 to December 2025. Figure 15 is based on monthly data from December 2016 to December 2025. PCE is personal consumer expenditures. Source: Bloomberg L.P. and Invesco Strategy & Insights.

## Macro backdrop

The eurozone economy grew by 1.5% in 2025, up from 0.8% in 2024 and the strongest growth since 2022 (and 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 slowed progressively during 2025, from 1.6% year-on-year in Q1 to 1.3% in Q4, and the pattern varies across member countries (see Figure 16). Ireland's growth rate of 3.7% in 2025 Q4 was impressive but was well below the 20% seen in Q1 (perhaps exports to the US were boosted by the threat of tariffs). Despite the promise of a fiscal boost, Germany's GDP grew by only 0.4% in 2025, though that was better than the mild recessions seen in 2023 and 2024 and year-on-year growth picked up as the year progressed.

We remain optimistic that regional growth can pick up in 2026 (assuming the disruption to Middle East energy supplies is short lived). That stems partly from the fiscal boost that may accompany higher military spending across the region, along with Germany's infrastructure spending programme. Further, we think that prior ECB rate cuts may continue to support growth. Finally, real wages continue to grow in many countries, which we think could support consumer spending. Overall, we expect annual GDP growth of 1.5%-2.0% in 2026 and 2027.

Core consumer price inflation has fallen gradually towards the 2.0% ECB target (it was 2.2% in January 2026), with headline inflation even lower (1.7%). We expect the headline rate to settle at around 2.0% over the coming years.

## Central bank policy

The ECB's deposit facility rate has been stable at 2.00% since June 2025, having peaked at 4.00% in 2023/24 (see Figure 17). Market implied rates now suggest a belief the ECB will raise rates once or twice during 2026 (according to calculations by Reuters, as of 11 March 2026).

Though the situation in the Middle East increases the upside risk on ECB rates, we think the risks are more balanced, especially if the Strait of Hormuz quickly reopens (core inflation could fall below 2.0% in our view). Any weakening of the eurozone economy could persuade the ECB to remain on hold, in our opinion.

Concerning the relationship between ECB policy rates and core inflation, Figure 17 suggests that in periods when core inflation has been below the target rate of 2.0%, the ECB deposit facility rate has tended to be below the inflation rate and vice versa (except for the period in 2022/23 when inflation rose sharply and the ECB struggled to catch up). Though we expect inflation to stabilise as the economy accelerates (and due to short term energy price gains), a further prolonged decline in core inflation could see further ECB easing.

## Asset views and preferences

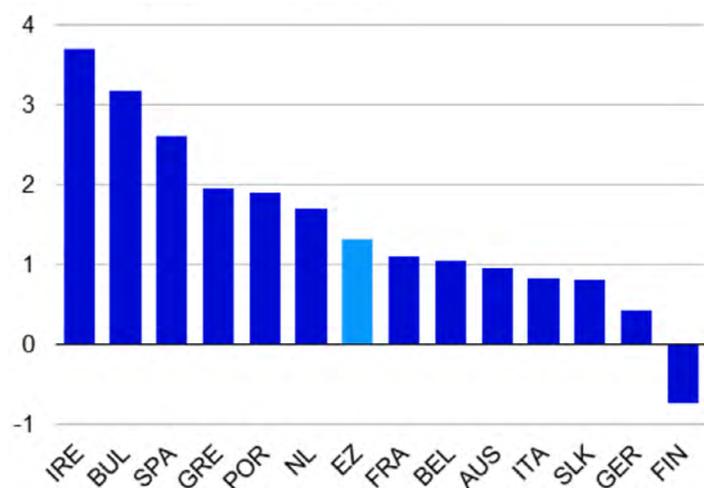
We expect a rise in long yields and a steepening of the yield curve (short duration preferred). We continue to favour equities among Eurozone assets but also favour the diversification qualities of bank loans and AAA rated CLOs.

**Favoured assets:** Equities, bank loans, AAA CLOs

**Duration preference:** Short

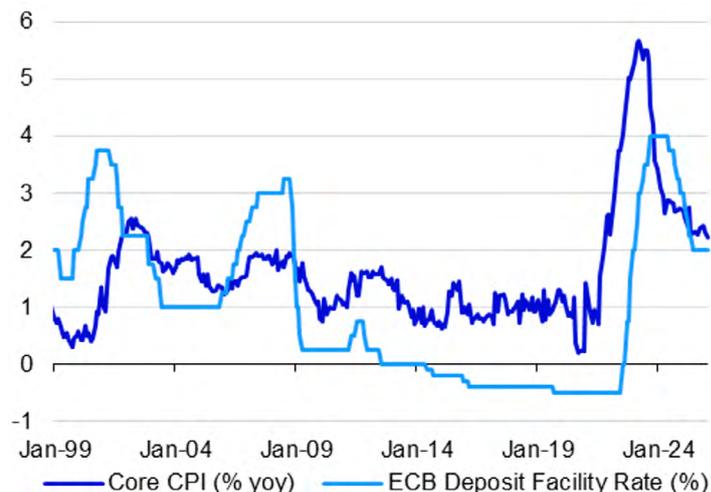
**Favoured equity sectors/factors:** Industrials, energy, metals & mining, banks, value, size.

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



Notes: Figure 16 is based on quarterly data up to 2025 Q4 and shows the year-on-year growth for the last quarter of data that is available for a selection of Eurozone countries ("EZ" is the Eurozone). See appendices for country abbreviations. Figure 17 is based on monthly data from January 1999 to January 2026. Source: LSEG Datastream and Invesco Strategy & Insights.

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



## Macro backdrop

The UK economy grew by 1.3% in real terms in 2025, an improvement on the 1% seen in 2024. The UK Office for Budget Responsibility (OBR) recent forecast update lowered its 2026 GDP growth rate by 0.3 percentage points (ppt) to 1.1%. However, 2027 and 2028 growth rates were revised up by +0.1 ppt to 1.6% for both. We agree with that upgrade, despite cracks in the labour market (the unemployment rate has risen to 5.2%, the highest since December 2020, and redundancies are creeping higher).

While services price inflation is still a concern for some on the Monetary Policy Committee (MPC) of the Bank of England (BoE), the monthly annualised rate has softened noticeably in recent months. The annualised rate of headline inflation prints suggest inflation could soon be below target – assuming oil prices are not sustainably and materially raised (see Figure 18).

UK households have significantly reduced their leverage ratios since 2008. However, there still appears to be a degree of precautionary saving taking place with the savings ratio at a relatively high 9.5%. Falling mortgage rates could help lower the savings rate but fears of higher energy costs temper our expectations. Still, should policy rates, bond yields, and mortgage rates move lower we see the conditions for a gradual improvement in the UK economy.

Labour's loss of the Gorton and Denton by-election to the Green Party raises the risk that Labour are pushed to the left and engage in policies that are viewed by the bond market as fiscally irresponsible. However, the recent Spring Forecast pointed to stability and neither gilt yields nor sterling have been as reactive to political shifts in recent weeks.

## Central bank policy

Market expectations for UK policy rates have moved significantly in recent weeks, as investors weigh the risk of sustainably higher energy prices. At the end of February, a full two rate cuts were priced for 2026. Now, no cut is priced (as of 11 March 2026, according to Reuters).

We expect the BoE to look through this supply shock, especially if it becomes apparent that the energy shock will be short-lived. The weaker labour market and prior weaker inflation prints should carry more weight in their decision-making process, in our view. We believe the Bank of England has scope to cut rates more than most other central banks in 2026.

## Asset views and preferences

Amid rising geopolitical tensions and renewed volatility, we believe UK stocks offer an attractive means of diversification – both to the AI disruption questions and conflict in the Middle East. Technology is a very small weight in UK indices while commodity sectors carry a larger weight (see Figure 19). Equally the higher weights in consumer staples and health care provide some defensive characteristics, in our view.

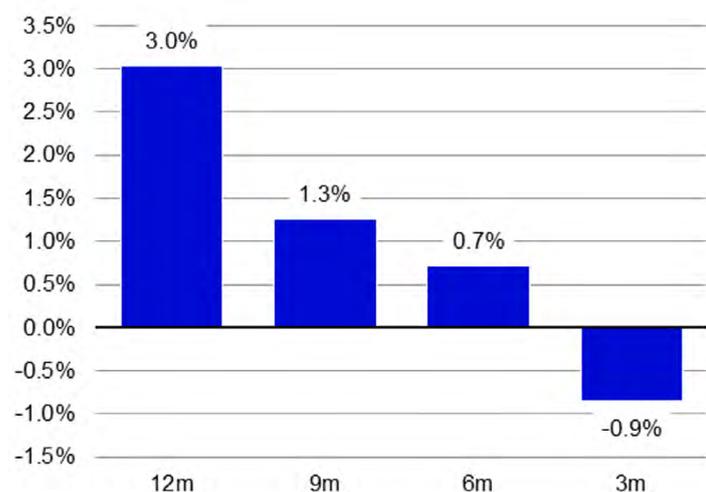
The UK's Debt Management Office (DMO) has continued to shorten the maturities of gilt offerings, with 70% of supply in sub-15 year nominal paper in the years since 2022/23 (and nearly 90% so far in 2025/26). We believe that lower supply of longer dated gilts could make them more attractive than similar bonds in other countries.

**Favoured assets:** Equities (FTSE 100)

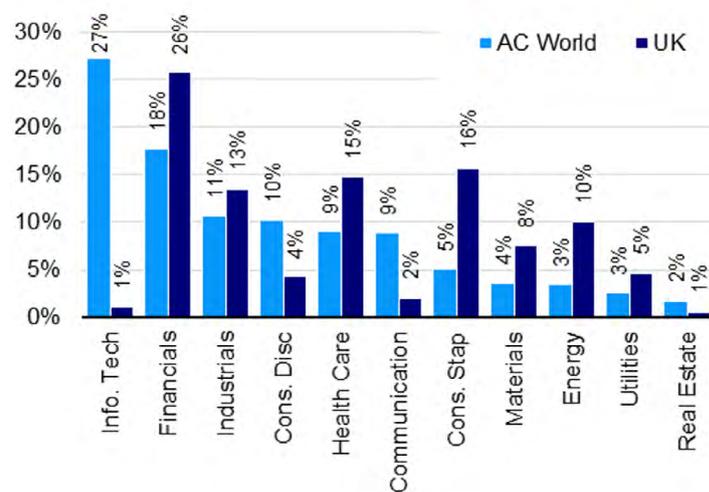
**Duration preference:** Mid-to-long maturities

**Favoured equity sectors/factors:** Financials, materials, industrials

**Figure 18 – UK CPI inflation annualised from monthly data (January 2026)**



**Figure 19 – Sector weightings (UK versus MSCI ACWI)**



Notes: Figure 18 shows UK consumer price inflation, based on annualising monthly data up to January 2026 over the time periods shown. Figure 19 shows sector weightings within the MSCI UK and MSCI All-Country World Index, as of 6 March 2026.

Source: MSCI, Bloomberg L.P., LSEG Datastream and Invesco Strategy & Insights.

**Macro backdrop**

Japan's economy in 2026 is projected to grow above its potential rate, supported by resilient private consumption driven by a return to positive real wage growth and by the Takaichi administration's expansionary fiscal policy. Although nominal wages have been rising at around 3% year-on-year (YoY) since 2023, headline CPI inflation has also hovered near 3%, keeping real wage growth close to zero. In 2026, however, we expect headline inflation to fall below 2%, reflecting a sharp drop in price gains for rice and fresh food, as well as the gasoline tax reduction and subsidies for electricity bills. In fact, CPI inflation in January slowed to 1.5% (see Figure 20). As a result, we think real wages are likely to increase, supporting private consumption and broader domestic demand.

On the policy front, the Takaichi administration -- buoyed by its decisive victory in the February Lower House election -- is expected to implement investment incentives across strategic sectors such as semiconductors, AI and biotech, to foster economic security. These measures and inflation relief initiatives should further bolster domestic demand.

Key risks to Japan's economic outlook include a prolonged military confrontation between US/Israel and Iran, which could disrupt crude oil and natural gas supplies and lead to significant price spikes. Should this risk materialize, elevated inflation and energy shortages would likely weigh on economic activity.

**Central bank policy**

The Bank of Japan (BOJ) is expected to continue its rate-hike cycle in 2026. With core-core CPI (excluding food and energy) running in the 1.3–1.6% YoY range in

recent months, the BOJ's 2% inflation target has not yet been achieved. Nevertheless, the Bank expects underlying inflation to reach around 2% between autumn 2026 and spring 2028. In line with this outlook, the BOJ has signalled an intention to gradually raise the policy rate—currently at 0.75%—toward the nominal neutral rate range of 1.0–2.5% (BOJ estimate). While the Takaichi administration has shown some reluctance toward rapid tightening, the outlook for domestic-demand-led economic expansion suggests the BOJ is likely to raise rates around mid-2026, followed by another hike in early 2027.

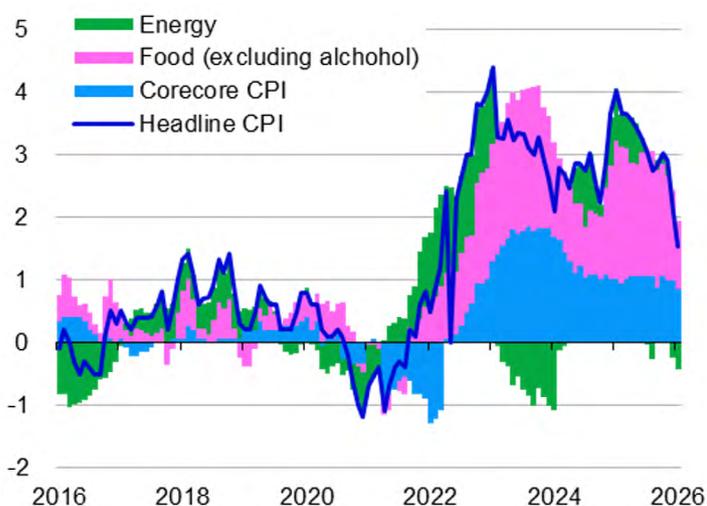
**Asset views and preferences**

We expect Japanese equities to benefit from robust domestic demand, improved corporate earnings growth (supported by government policies), and strengthening foreign investor appetite for Japan. We believe that long-term interest rates will rise further, reflecting higher inflation expectations, concerns over the administration's aggressive fiscal stance and the current BOJ policy to continue its QT (quantitative tightening) program until at least March 2027 (see Figure 21). As for the yen exchange rate, the LDP's (Liberal Democratic Party) landslide victory in the general election in February appears to have brought an end to the "Takaichi trade"-driven yen depreciation. Looking ahead over the next year, a narrowing of the Japan-US short-term rate differential is expected to exert moderate upward pressure on the yen.

**Favoured assets:** Equities, Japanese yen

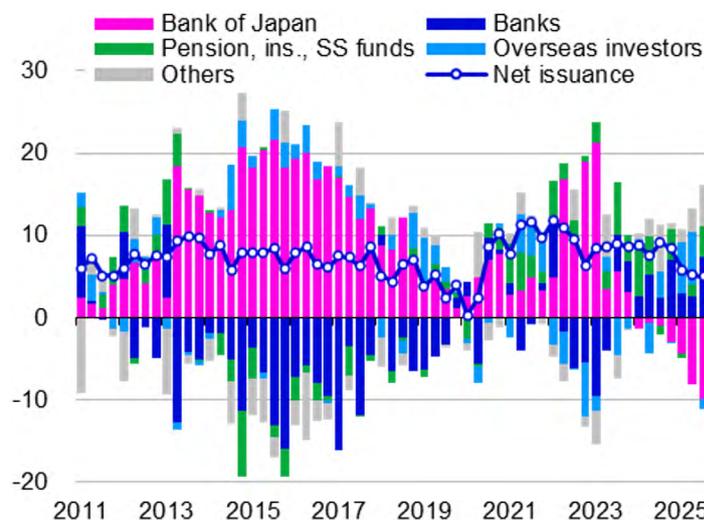
**Favoured equity sectors/factors:** Domestic demand related sectors (consumer discretionary, capital goods and services, financials), information technology, healthcare and defence.

**Figure 20 – Japan: CPI inflation (% year-on-year)**



Notes: Figure 16 is based on quarterly data up to 2025 Q4 and shows the year-on-year growth for the last quarter of data that is available for a selection of Eurozone countries ("EZ" is the Eurozone). See appendices for country abbreviations. Figure 17 is based on monthly data from January 1999 to January 2026. Source: LSEG Datastream and Invesco Strategy & Insights.

**Figure 21 – Quarterly supply and demand for long-term Japanese Government Bonds (JGBs)**



## Macro backdrop

China's economy grew by 5.0% in 2025, meeting the government's target of "around 5%". Growth was supported predominantly by strong export growth. While exports to the US declined due to tariffs, China successfully redirected trade flows elsewhere.

This resilience came despite ongoing challenges in the property sector, which weighed on both property fixed investment and household sentiment via wealth effects. To counter these pressures, the government introduced targeted measures to support consumption, including retail coupons for elderly households and a "trade-in" scheme encouraging consumers to replace older durable goods with new purchases.

Looking ahead, Chinese growth is expected to remain resilient in 2026. At the "Two Sessions", policymakers lowered the GDP target to a range of 4.5%–5.0%, after three consecutive years of "around 5%" targets. This shift underscores the emphasis on stability and "high-quality development," with a focus on rebalancing growth toward domestic consumption and structural upgrading rather than headline expansion alone. Notably, the decision to deploy RMB 800 bn of capital into strategic industries through a newly established policy based financial instrument signifies a policy orientation toward prioritising investment in 2026.

External demand tailwinds may fade slightly in 2026, but China's currency remains competitive in real effective exchange rate terms, supporting export performance. At the same time, the government's renewed emphasis on domestic demand may help offset softer external conditions. As outlined above, fiscal policy is expected to remain supportive, to both investment and consumption.

## Central bank policy

China's monetary policy framework relies on a broad range of policy instruments to balance growth, employment and stability alongside traditional inflation targeting. The shift to multiple-price bidding in the medium term lending facility in 2025 diluted its clarity as a policy signal, pushing investors to focus more on short-term repo rates. As a result, the PBOC can now manage liquidity flexibly without the optics of rate cuts.

We expect further measured easing through reserve requirement ratio reductions and 7 day repo rate trims, in line with the PBOC's "moderately loose" stance. The emphasis will likely be placed on sustaining growth momentum and stabilising RMB expectations rather than aggressive stimulus. Low inflation leaves real rates elevated, giving scope for rate reductions.

## Asset views and preferences

We expect Chinese assets to benefit from supportive policy tailwinds and resilient growth. We think equity markets may offer opportunities in sectors aligned with industrial and technological upgrading, with "AI" champions well positioned.

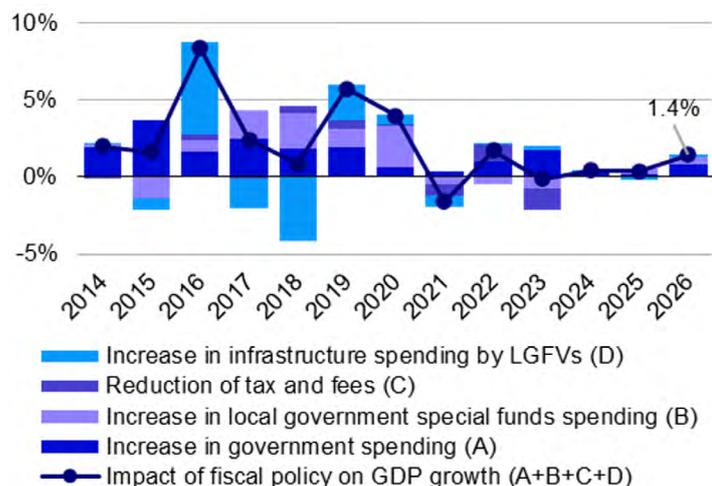
Earnings growth could be supported by "anti-involution" efforts aimed at curbing aggressive price competition. We think equity valuations look attractive relative to global peers, particularly offshore equities which continue to see strong flows via the southbound stock connect. In fixed income, we lean toward a short duration stance, as long yields may not provide compelling compensation in the current environment.

**Favoured assets:** Equities

**Duration preference:** Short

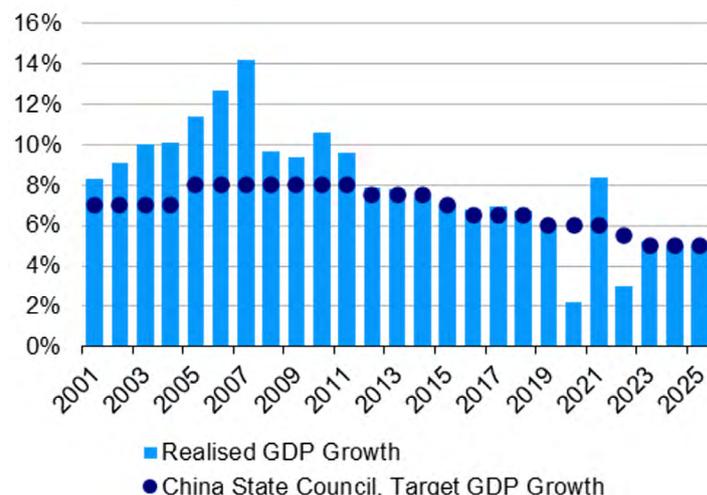
**Favoured equity sectors/factors:** Technology, cyclicals, value

**Figure 22 – China estimated contribution to GDP growth from fiscal policy**



Notes: Figure 22 is based on yearly data from 2014 to 2025. Figure 23 is based on yearly data from 2001 to 2025. Source: China National Bureau of Statistics (NBS), China's Ministry of Finance, Xinhua News Agency, IMF and Invesco Strategy & Insights

**Figure 23 – China annual GDP target vs. realized growth (% year-on-year)**



## Macro backdrop

India's economy is expected to have expanded by 7.6% in the year ending March according to estimates from the National Statistical Office, a pace that stands out in today's global environment. Manufacturing has emerged as a bright spot, reflecting stronger output, with the recent GDP rebasing to 2022–23 also widening coverage of unincorporated firms.

India remains a consumption driven economy, and recent retail activity has been supported by government stimulus measures around the festival season. India's festive spending hit a record 67.6 billion USD in 2025, fuelled by GST (Goods and Sales Tax) cuts. High frequency indicators remain resilient and suggest an acceleration in domestic demand. Vehicle registrations rose sharply in February. Still, rural consumption appears more resilient than urban activity, particularly due to corporate hiring softness in IT hardware and networking. Services activity overall as measured by PMIs remained expansionary.

Looking ahead, we expect India's growth to remain resilient in 2026. Support from recent trade agreements with the EU and the US should provide tailwinds. Risks remain from energy import dependency, with around 60% of LNG sourced from the Middle East, and geopolitical tensions, but our overall outlook is constructive.

We think India remains a compelling source of long term global growth, supported by strong demographics. Sweeping labour reforms passed in late 2025 are expected to ease compliance and modernise rules that had constrained hiring flexibility. The reforms lay a foundation for growth but should be paired with land reform and investment in infrastructure, in our view.

## Central bank policy

The RBI left the policy rate unchanged at 5.25% in its February 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.

Headline CPI was rebased alongside GDP and continues to reflect a benign inflation environment, with January 2026 CPI inflation at 2.75%, well below the 4% target (see Figure 25). We see risks tilted modestly to the upside but expect the RBI to remain on hold through the year, retaining a "neutral" stance.

The central bank has been prudent, balancing strong domestic momentum with geopolitical uncertainty and the effect of the cumulative 125bps of cuts delivered so far. With transmission still ongoing, we expect the RBI to closely watch incoming data before easing further.

## Asset views and preferences

India's equity forward price/earnings ratio has fallen and looks reasonable relative to its own history but remains expensive relative to global equities, in our view. We expect earnings growth to pick up after the recent slowdown but we worry about headwinds from AI outsourced services disruption and geopolitics.

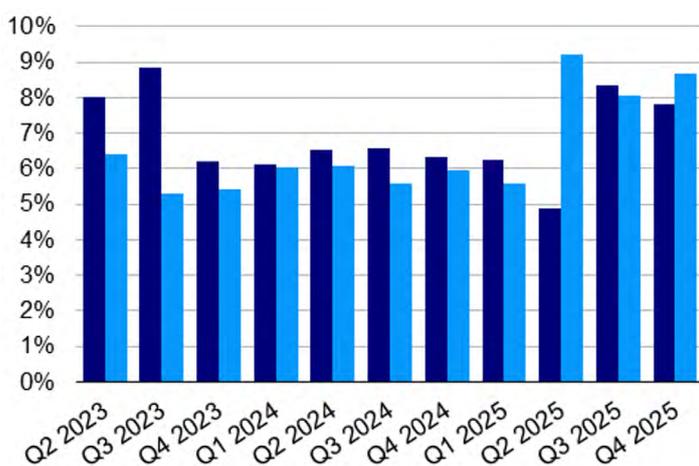
We think the currency is reasonably valued in real traded weighted terms, particularly as the RBI is expected to remain on hold. Government bonds look relatively attractive in a benign inflation environment.

**Favoured assets:** Government bonds

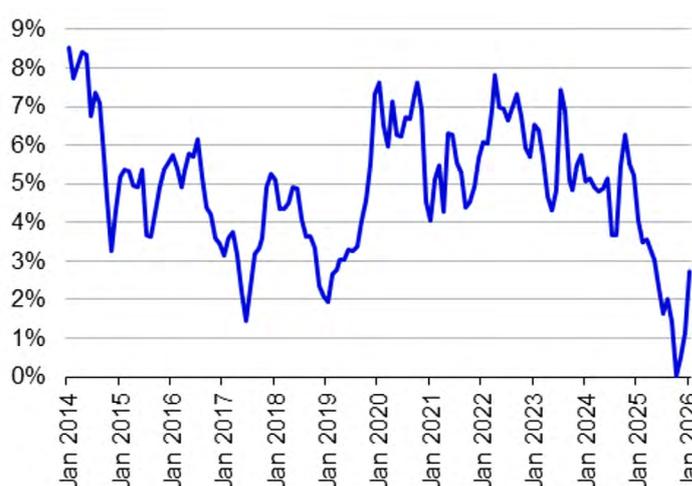
**Duration preference:** Neutral

**Favoured equity sectors/factors:** Defensives, Consumer

**Figure 24 – India fixed capital formation and consumption expenditure (year-on-year growth)**



**Figure 25 – India Consumer Price Index (newly rebased, year-on-year change)**

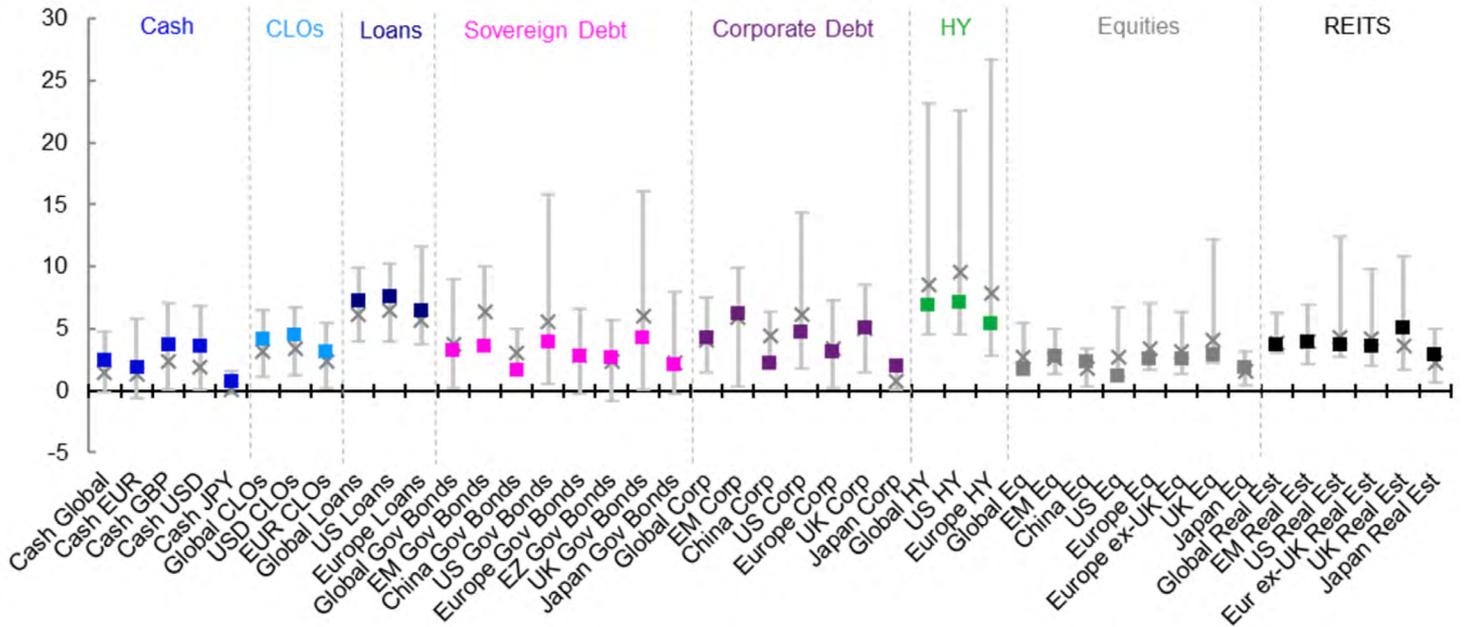


Notes: Figure 24 is based on quarterly data from Q2 2023 to Q4 2025. Figure 25 is based on monthly data from Jan 2014 to Jan 2026.

Source: Indian Ministry of Statistics & Programme Implementation (MoS&PI) and Invesco Strategy & Insights

## Appendix 2: Global valuations vs history

### Regional yields within historical ranges (%)

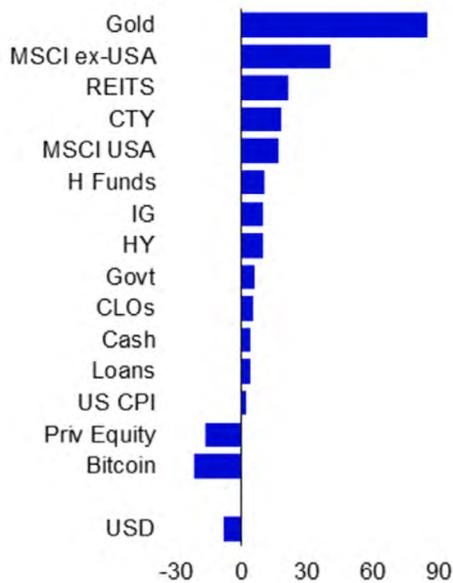


Notes: **Past performance is no guarantee of future results.** As of 27 February 2026. "Corporate Debt" is investment grade credit, "HY" is high yield credit, "Loans" are bank loans, "CLOs" are AAA collateralised loan obligations. See appendices for definitions, methodology and disclaimers.

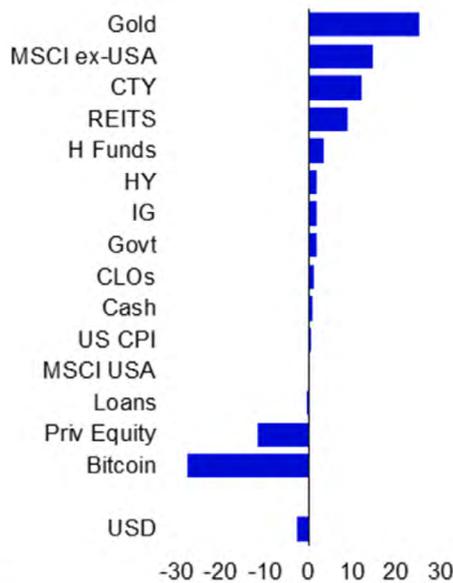
Source: Bloomberg, Credit Suisse Indices/UBS, FTSE Russell, ICE BofA, JP Morgan, LSEG Datastream and Invesco Strategy & Insights.

## Appendix 3: Global asset total returns

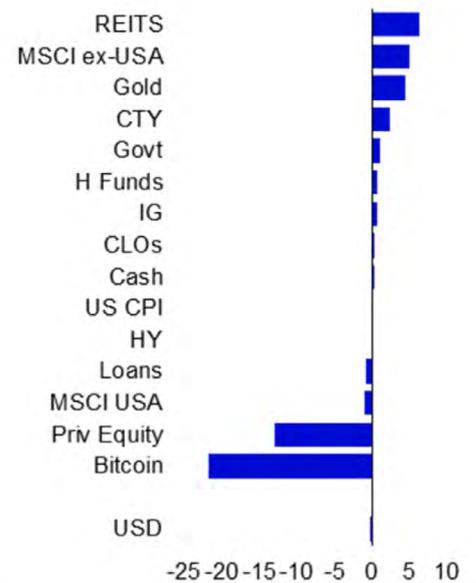
### 12 months (% in US dollars)



### 3 months (% in US dollars)



### 1 month (% in US dollars)



**Past performance is no guarantee of future results.** Based on monthly total return data for global assets in US dollars up to 27 February 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, Credit Suisse/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

### Regional yields within historical ranges (%)

Data as at 27/02/2026	Index	Current Level/RY	Total Return (USD, %)				Total Return (Local Currency, %)			
			4m	YTD	12m	5y*	4m	YTD	12m	5y*
<b>Equities</b>										
World	MSCI	1017	4.8	4.3	25.6	12.2	4.4	4.0	22.9	13.1
Emerging Markets	MSCI	1500	15.0	14.9	47.2	6.8	15.0	14.2	44.2	8.9
China	MSCI	79	-8.0	-1.3	10.7	-4.5	-7.9	-1.2	10.3	-4.1
US	MSCI	6417	0.0	0.4	18.4	13.6	0.0	0.4	18.4	13.6
Europe	MSCI	2637	11.9	7.9	32.5	12.5	10.0	7.0	17.9	12.6
Europe ex-UK	MSCI	3222	10.9	7.1	31.1	11.7	8.7	5.9	14.8	11.6
UK	MSCI	1638	15.5	10.5	37.5	14.9	14.5	10.6	29.2	15.8
Japan	MSCI	5192	15.9	15.7	40.6	10.1	18.2	15.3	46.4	18.8
<b>Government Bonds</b>										
World	BofA-ML	3.44	1.2	2.1	6.4	-3.1	0.9	1.7	3.0	-1.1
Emerging Markets	JP Morgan	3.61	4.9	2.8	12.2	2.3	1.5	1.0	5.0	3.7
China	BofA-ML	1.60	4.2	2.5	7.2	3.5	0.5	0.6	1.0	4.7
US (10y)	Datastream	4.14	1.9	2.4	7.4	-0.9	1.9	2.4	7.4	-0.9
Europe	BofA-ML	3.03	2.9	2.7	16.0	-2.5	1.4	2.1	2.3	-2.0
Europe ex-UK (EMU, 10y)	Datastream	2.83	2.5	3.1	14.7	-3.5	1.0	2.5	1.1	-3.0
UK (10y)	Datastream	4.63	3.7	2.6	14.2	-3.1	2.8	2.6	7.2	-2.3
Japan (10y)	Datastream	2.16	-4.8	0.4	-7.6	-8.8	-2.9	0.0	-3.9	-1.6
<b>IG Corporate Bonds</b>										
Global	BofA-ML	4.48	1.6	1.8	10.0	0.6	1.0	1.5	5.8	0.9
Emerging Markets (USD)	JP Morgan	6.29	2.0	1.6	7.7	1.6	2.0	1.6	7.7	1.6
China	BofA-ML	2.18	4.7	2.5	8.2	2.6	0.9	0.5	2.0	3.9
US	BofA-ML	4.93	1.0	1.6	7.0	1.1	1.0	1.6	7.0	1.1
Europe	BofA-ML	3.44	2.4	1.9	17.2	-0.3	0.9	1.3	3.3	0.3
UK	BofA-ML	5.45	3.1	1.6	14.1	-1.0	2.3	1.6	7.2	-0.2
Japan	BofA-ML	2.02	-2.5	0.7	-4.4	-7.7	-0.6	0.3	-0.4	-0.4
<b>HY Corporate Bonds</b>										
Global	BofA-ML	7.08	2.0	1.0	9.6	3.6	1.7	0.9	6.9	3.8
US	BofA-ML	7.34	1.4	0.6	7.0	4.5	1.4	0.6	7.0	4.5
Europe	BofA-ML	5.73	3.0	1.5	18.5	2.6	1.5	1.0	4.5	3.2
<b>Cash (Overnight rates)</b>										
US		3.66	1.2	0.7	4.2	3.4	1.2	0.7	4.2	3.4
Euro Area		1.94	1.3	-0.7	9.9	1.3	0.6	0.3	2.0	1.8
UK		3.73	3.4	0.2	8.4	2.6	1.3	0.7	4.1	3.2
Japan		0.73	-2.8	-0.6	-5.7	-7.1	0.2	0.1	0.5	0.1
<b>Real Estate (REITs)</b>										
Global	FTSE	1812	8.9	11.2	19.0	4.7	7.3	10.6	5.0	5.2
Emerging Markets	FTSE	1343	10.8	11.5	26.7	-2.3	9.2	10.9	11.7	-1.7
US	FTSE	3406	7.4	11.2	10.0	7.4	7.4	11.2	10.0	7.4
Europe ex-UK	FTSE	2819	10.7	12.6	31.8	1.0	9.1	12.0	16.3	1.6
UK	FTSE	936	9.5	9.0	27.9	-0.1	8.6	9.0	20.1	0.7
Japan	FTSE	2821	18.8	13.9	46.4	4.8	21.1	13.4	52.4	13.1
<b>Commodities</b>										
All	GSCI	4403	12.1	12.4	16.8	13.9	-	-	-	-
Energy	GSCI	720	12.5	19.2	10.3	16.5	-	-	-	-
Industrial Metals	GSCI	2263	15.3	6.2	31.3	7.7	-	-	-	-
Precious Metals	GSCI	6011	35.9	22.0	88.2	24.3	-	-	-	-
Agricultural Goods	GSCI	472	-2.1	0.0	-10.2	1.7	-	-	-	-
<b>Currencies (vs USD)**</b>										
EUR		1.18	1.5	0.6	13.6	-0.4	-	-	-	-
JPY		156.06	-2.0	0.4	-4.0	-7.3	-	-	-	-
GBP		1.34	0.9	0.0	6.5	-0.8	-	-	-	-
CHF		1.30	3.5	3.1	17.0	3.4	-	-	-	-
CNY		6.86	3.7	2.0	6.2	-1.1	-	-	-	-

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.

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## 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 Global Emerging Markets Government Bond index with the historical range starting on 2 January 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 Corporate Emerging Markets Broad 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:** Credit Suisse 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 Credit Suisse Indices/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 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.

**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 Global Emerging Markets Government Bond total return index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices and the JP Morgan Corporate Emerging Markets Broad 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

AUS	Austria
BEL	Belgium
BUL	Bulgaria
EZ	Eurozone
FIN	Finland
FRA	France
GER	Germany
GRE	Greece
IRE	Ireland
ITA	Italy
NL	Netherlands
POR	Portugal
SLK	Slovakia
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), Credit Suisse 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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