Invesco Solutions and Custom Strategies

Tactical asset allocation

November 2026

Synopsis

- Resilient economic strength continues. Tight financial conditions reverberate across asset classes, as equities and spread-sensitive sectors begin to waver. Concerns over the speed of the AI buildout, the future trajectory of earnings growth, and political risks surrounding midterm elections warrant diversification.
- Modest overweight to equities over fixed income. Within equities, we continue to favor defensive factors and sectors. Within fixed income, we maintain an underweight to credit and an overweight to duration.

Tighter financial conditions continue to weigh on risk appetite, while economic growth remains resilient. Decelerating global risk appetite, when combined with above-trend economic growth levels, suggests that the global regime remains in a slowdown for the seventh consecutive month.

Our macro process drives tactical asset allocation decisions over a time horizon between six months and three years, on average, seeking to harvest relative value and return opportunities between asset classes (e.g., equity, credit, government bonds, and alternatives), regions, factors, and risk premia.

Macro update: Slowdown regime persists

Economic growth remains resilient. Our measure of global economic growth, based on leading economic indicators (LEI), continues to register above trend for the 10th consecutive month. The majority of the sub-components within our economic indicator are registering above-trend. Looking at every period of consecutive above-trend readings in the monthly data since 1988, the current positive streak has been unusually consistent. After the initial reading that began the streak, the LEI increased in eight of the nine subsequent month-to-month comparisons — the highest share among the eight historical streaks. This consistency highlights the underlying economic strength observed during the past year, suggesting a stable economic backdrop.

Our measures of risk appetite remain positive, though in a decelerating trend. Higher global yields and tighter financial conditions over the past weeks have begun to challenge growth expectations stemming from the artificial intelligence (AI) buildout, and the forecasted earnings level relative to the price multiple. The recent AI momentum-trade unwind has been most notably expressed in emerging market equities, where index-level returns were dragged down most significantly by countries including South Korea, China, and Taiwan (~64% weight), which fell -18%, -7%, and -3%, respectively, as well as US technology-heavy indexes coming under pressure. Early signs of stress have also been observed within credit markets. The difference in credit spreads between CCC-rated debt and the broader high yield benchmark has continued to widen, pushing up against levels last seen in 2020, 2016, and 2008. This all coincides with the beginning of third-quarter earnings. Results, despite being strong in absolute terms, have begun to be challenged on a relative basis, given historic levels of growth already priced into multiples this year. These dynamics, together with ongoing geopolitical risks and political uncertainty heading into the US midterm elections, in our view, justify prudent risk-taking as financial markets search for direction. As a result, our framework remains in a slowdown regime, reflecting above-trend global economic growth alongside a continued moderation in global risk appetite (**Figures 1a, 1b, 1c, 2**).

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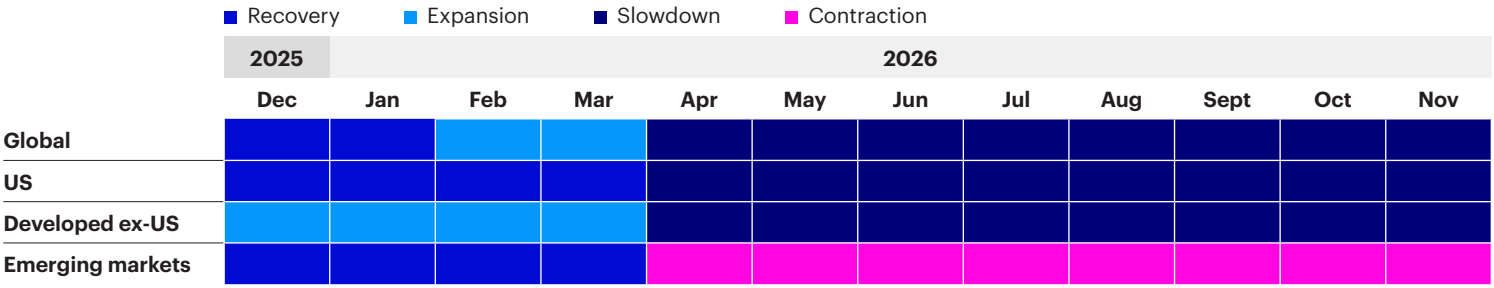
Our framework remains in a **slowdown** regime, reflecting above-trend global economic growth alongside a continued moderation in global risk appetite.

Figure 1a: Regional regime signals and components

Region	LEIs Current level of growth		GRACI Expected change in global growth		Expected macro regime	
Global	**Above trend**	▲			**Slowdown**	■
US	**Above trend**	▲			**Slowdown**	■
Developed markets ex-US	**Above trend**	▲			**Slowdown**	■
Europe	Above trend	▲	**Decelerating**		Slowdown	■
United Kingdom	Above trend	▲	+	=	Slowdown	■
Japan	Above trend	▲	↓		Slowdown	■
Emerging markets	**Below trend**	▼			**Contraction**	■
China	Below trend	▼			Contraction	■
Emerging markets ex-China	Above trend	▲			Slowdown	■

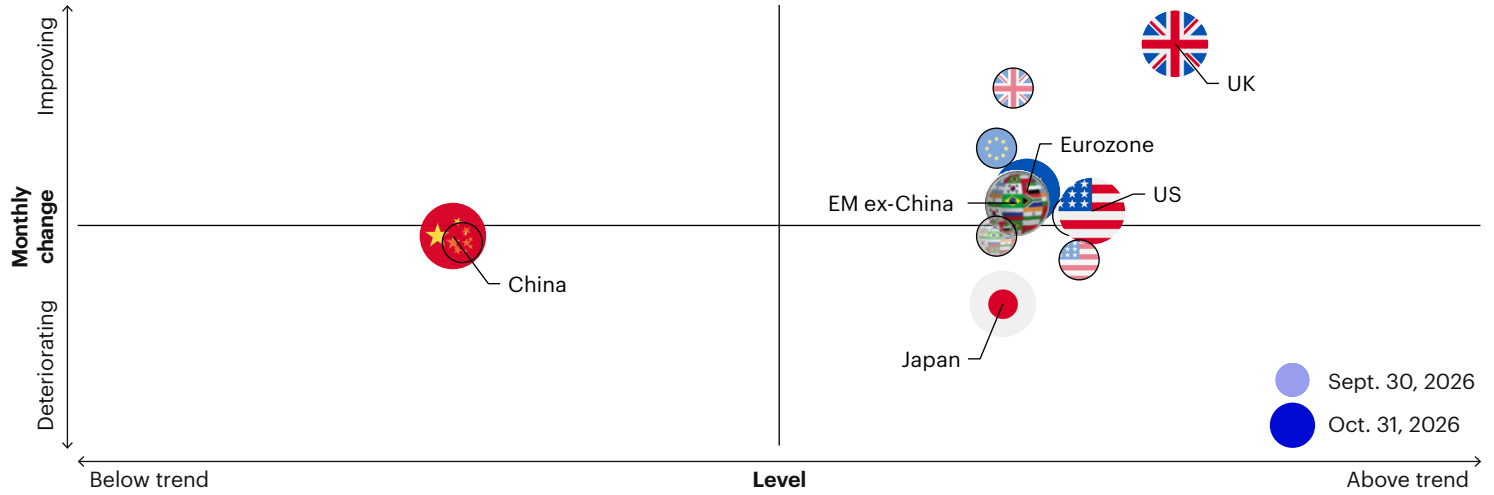
Sources: Bloomberg L.P., Macrobond, Invesco Solutions and Custom Strategies research and calculations as of Oct. 31, 2026. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment. Developed markets ex-US defined as Australia, Canada, the eurozone, Japan, Sweden, Switzerland, and UK. Emerging markets defined as Brazil, China, India, Mexico, Russia, South Africa, South Korea, and Taiwan.

Figure 1b: Trailing 12-month regime history by region



Source: Invesco Solutions and Custom Strategies as of Oct. 31, 2026

Figure 1c: Regional Leading Economic Indicator (LEI) level vs. monthly change

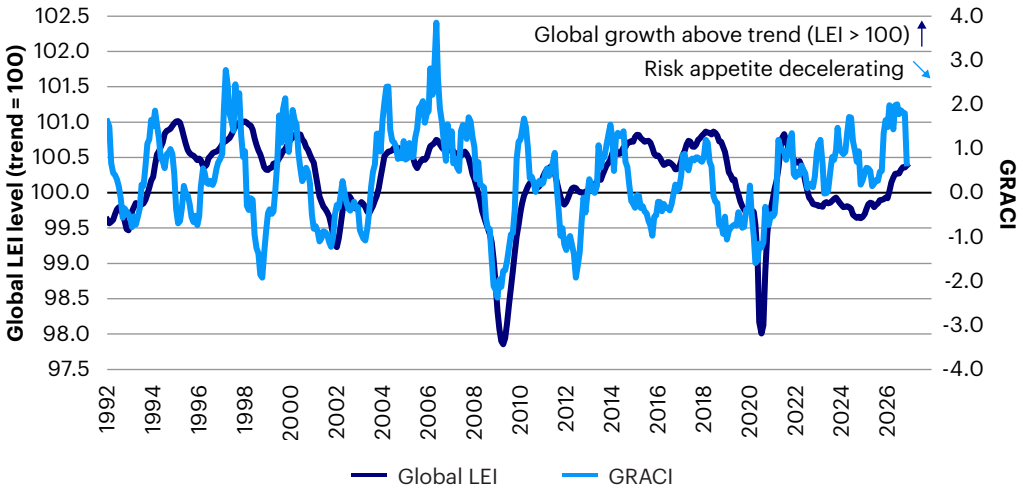


Sources: Bloomberg L.P., Macrobond, Invesco Solutions and Custom Strategies research and calculations as of Oct. 31, 2026. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth.

Higher global yields and tighter financial conditions over the past weeks have begun to challenge growth expectations stemming from the artificial intelligence (AI) buildout, and the forecasted earnings level relative to the price multiple.

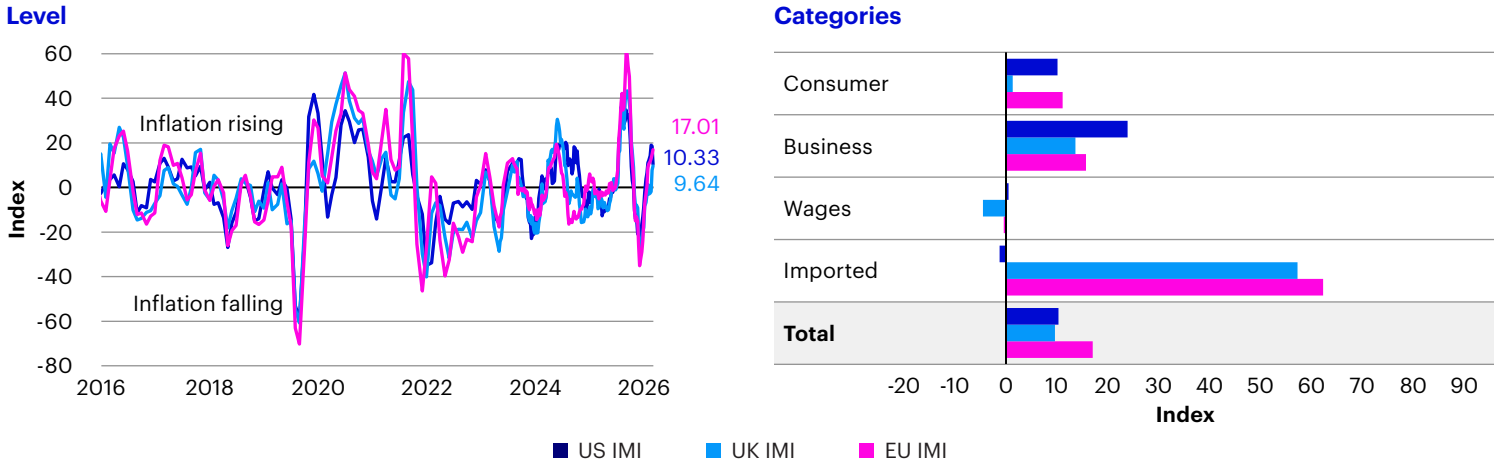
Our inflation momentum indicator continues to signal elevated price pressures, most notably through global energy prices (**Figure 3**). Increasingly, these pressures extend beyond the price of crude oil. Research suggests that oil freight costs have risen sharply, adding to the cost of delivering crude to refiners and reinforcing pressure on refined products, including gasoline, diesel, and heating oil. These additional transportation costs could sustain energy-related inflation pressures even if benchmark oil prices stabilize, posing a risk that the strength captured by our indicators proves more persistent.

Figure 2: Global LEI and GRACI



Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions and Custom Strategies research and calculations, from Jan. 1, 1992, to Oct. 31, 2026. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global LEI signals growth above (below) a long-term average. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment. A reading above (below) zero signals a positive (negative) compensation for risk-taking in global capital markets in the recent past. **Past performance does not guarantee future results.**

Figure 3: Regional Inflation Momentum Indicator (IMI)



Sources: Bloomberg L.P., Invesco Solutions and Custom Strategies calculations as of Oct. 31, 2026. The Inflation Momentum Indicator (IMI) measures the change in inflation statistics on a trailing three-month basis, covering indicators across consumer and producer prices, inflation expectation surveys, import prices, wages, and energy prices. A positive (negative) reading indicates inflation has been rising (falling) on average over the past three months.

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These dynamics, together with ongoing geopolitical risks and political uncertainty heading into the US midterm elections, in our view, justify prudent risk-taking as financial markets search for direction.

Last month, we made the case for duration as a diversifier, highlighting the risk of higher real rates beginning to pose a headwind to growth. October offered an early illustration of that. As the 10-year real yield fell 27 basis points from its September peak, Treasuries returned 2.4% and the S&P 500 fell 0.9%, partially reversing the pressure that rising real rates had placed on duration. This is consistent with the broader history. In the 35 months since 2002 when real yields declined by at least 25 basis points (bps), Treasuries averaged a 2.1% return. Additionally, when negative equity returns coincided with a decline of at least 25 bps in real yields, Treasuries were positive 94% of the time and outperformed equities in every instance. While one month does not establish a new regime, October reinforces the view that duration can remain a valuable hedge if tighter financial conditions begin to weaken growth and pull real rates lower.

Looking ahead, we believe that the current balance of risks warrants portfolio diversification, with an emphasis on maintaining exposure to assets that can outperform in potential upside scenarios, while hedging growth risks. Historically, periods of above-trend but slowing growth have been associated with modestly positive returns across asset classes, and performance convergence between growth-sensitive and defensive assets. This convergence continues to shape our tactical view and is reflected in the balanced and targeted investment positioning (**Figures 4 to 7**).

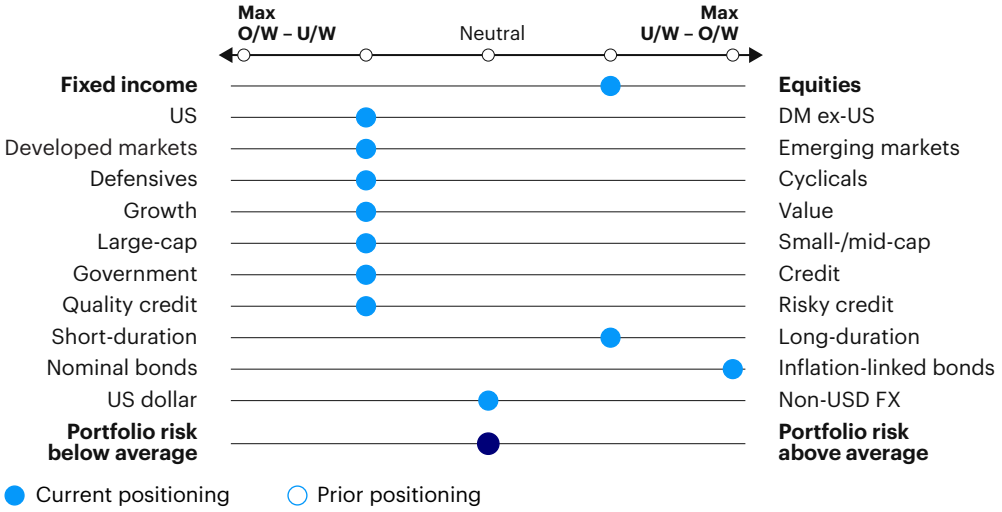
Investment positioning

We maintain an overall risk-neutral stance relative to the benchmark, reflecting a continued emphasis on risk management. This positioning is designed to preserve optionality and emphasize diversification. It allows portfolios to remain positioned for further upside while identifying relative value opportunities within asset classes. Within this framework, we remain moderately overweight equities relative to fixed income, with an emphasis on defensiveness rather than cyclical acceleration.

- In **equities**, we maintain an overweight to defensive factors such as quality and low volatility. Defensive factors have historically performed well during slowdown regimes due to more stable cash flow profiles and lower sensitivity to changes in growth dynamics. At the sector level, we favor exposures with defensive characteristics and durable fundamentals, including select areas within information technology, health care, and consumer staples, at the expense of more cyclical areas. From a regional perspective, we maintain a moderate preference for the US relative to developed ex-US markets, and developed relative to emerging markets.
- In **fixed income**, we maintain a moderate underweight to overall credit risk. Broad high yield credit spreads remain tight relative to historic standards, despite the spreads of lowest-rated bonds continuing to widen significantly. This widening of spreads among the lowest quality issuers has not yet permeated the broader high yield index. As a result, our moderate underweight to credit risk reflects a balance of risks that appears less favorable for spread-based compensation than alternative sources of return within a diversified portfolio. We also maintain exposure to interest rate duration as a risk management tool and a hedge against downside growth risks, with a preference for inflation-linked bonds as inflation momentum continues to be elevated.
- In **currency markets**, we maintain a neutral stance on the US dollar. Within developed markets, we remain underweight the Australian dollar, British pound, New Zealand dollar, Swedish krona, and Swiss franc, while maintaining overweight positions in the Canadian dollar, euro, Japanese yen, Norwegian krone, and Singapore dollar. Within emerging markets, we favor higher yielding currencies with relatively attractive valuations, such as the Indian rupee, Indonesian rupiah, Malaysian ringgit, Taiwanese dollar, and Thai baht, funded by underweights in the Colombian peso, Czech koruna, Mexican peso, and South African rand.

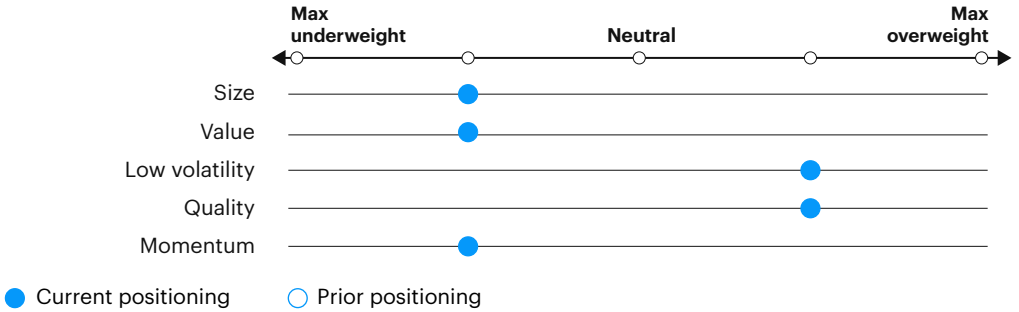
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Figure 4: Relative tactical asset allocation positioning



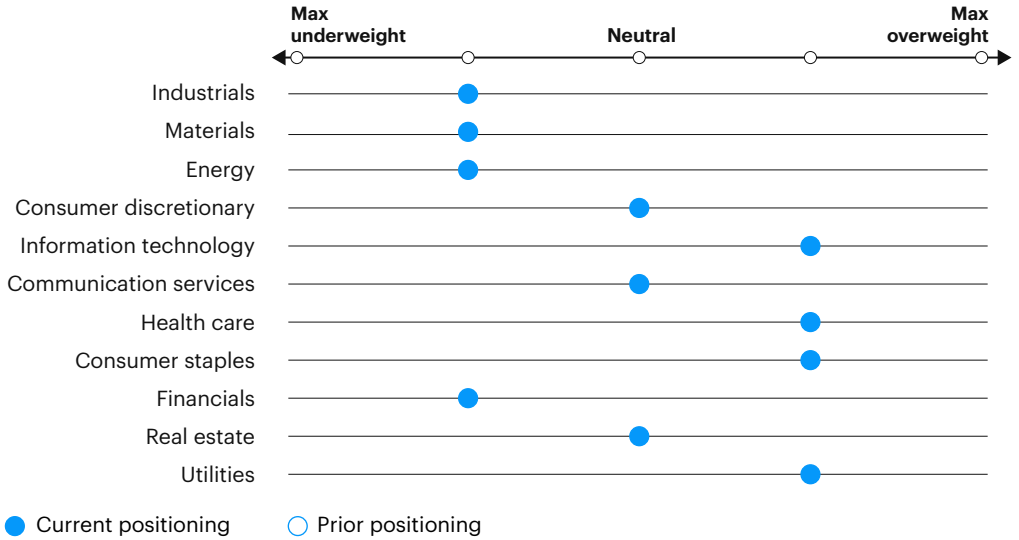
Source: Invesco Solutions and Custom Strategies as of Nov. 1, 2026. Non-USD FX refers to foreign exchange exposure as represented by the currency composition of the MSCI ACWI Index. For illustrative purposes only.

Figure 5: Tactical factor positioning



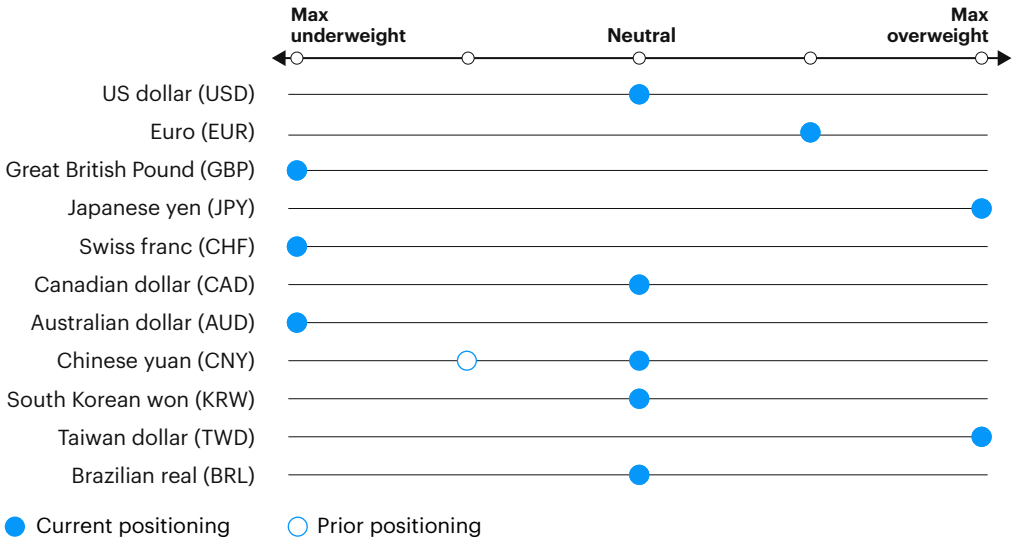
Source: Invesco Solutions and Custom Strategies as of Nov. 1, 2026. Neutral refers to an equally weighted factor portfolio. For illustrative purposes only.

Figure 6: Tactical sector positioning



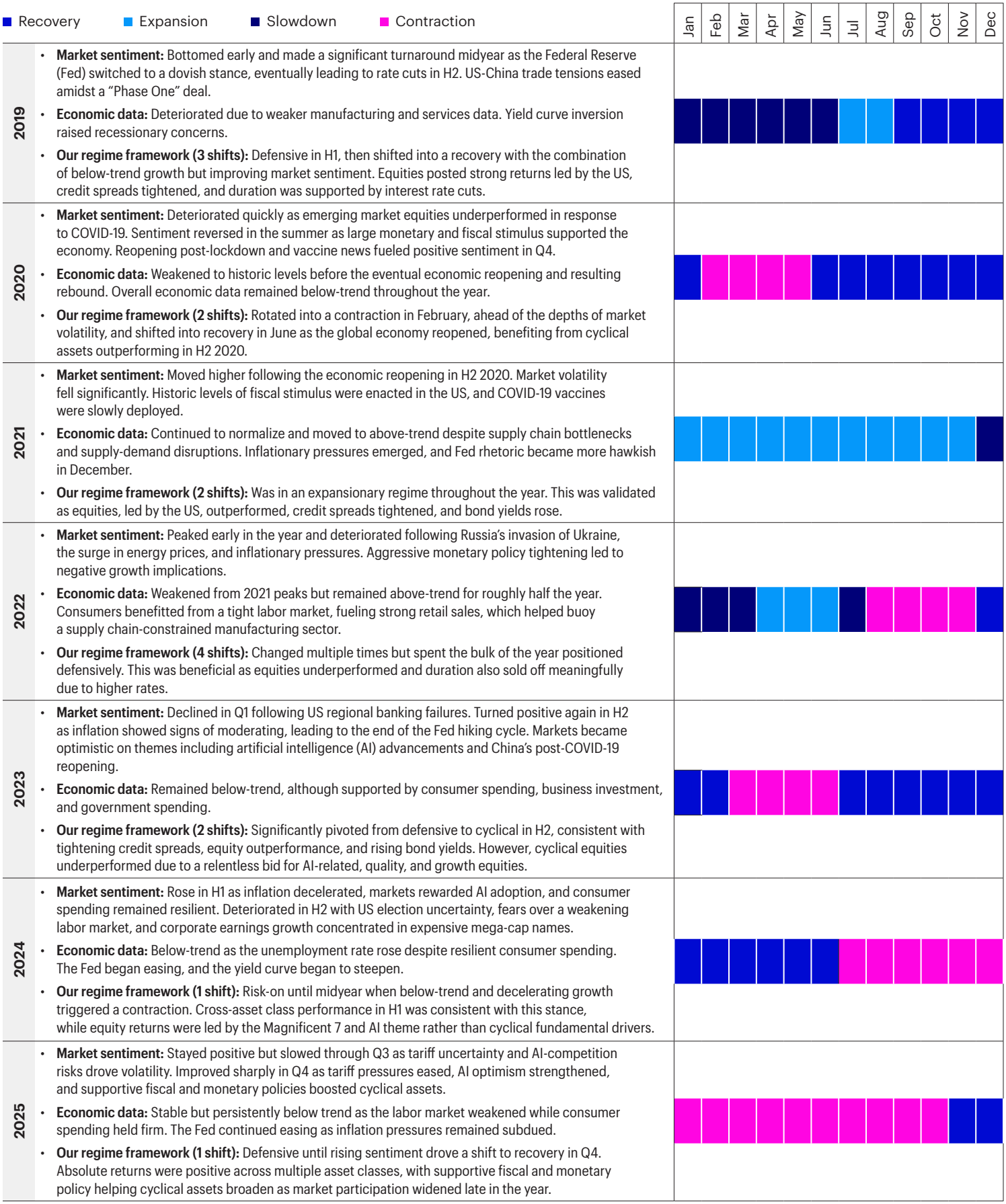
Source: Invesco Solutions and Custom Strategies as of Nov. 1, 2026. Sector allocations derived from factor and style allocations based on proprietary sector classification methodology. As of December 2023, cyclicals are energy, financials, industrials, and materials; defensives are consumer staples,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

Figure 7: Tactical currency positioning



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

Regime signal history



Source: Invesco Solutions and Custom Strategies as of Dec. 31, 2025

Investment risks

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

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All information as of Oct. 31, 2026, in the US dollar, unless stated otherwise.

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