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Invesco Solutions and Custom Strategies

Tactical asset allocation

September 2026

Synopsis

- Global risk appetite continues to follow a modestly decelerating monthly trend, indicating a slowing of forward growth expectations as the risk-return tradeoff between asset classes narrows. Strong fundamentals continue to provide a tailwind to equities, while geopolitical, inflation, and monetary policy risks remain escalated.
- Economic growth remains resilient, with above-trend readings across most sectors. US central bank policy remains in focus. The Federal Reserve (Fed) is tasked with taming above-target inflation, but risks doing so at the expense of slowing economic activity and negatively impacting a slow-and-steady labor market.
- Our positioning remains diversified, with a modest tilt toward equities over fixed income. Within equities, we continue to favor defensive factors and sectors, and within fixed income, we maintain an underweight to credit and an overweight to duration.

Our framework continues to suggest the global economy is in a slowdown regime, defined by growth above its long-term trend, albeit decelerating. Global risk sentiment continues to balance counteracting forces. While a robust economic and corporate earnings backdrop remains largely supported by the continuation of the artificial intelligence (AI) supercycle buildout, geopolitical and inflation-related risk lingers, resulting in ramifications for central bank policy globally. This tug-and-pull remains apparent in risk assets: The risk-return relationship between asset classes is becoming increasingly complex as higher yields have begun to challenge the growth proposition offered by equity markets. The resulting consolidation of global risk sentiment reinforces our position to remain diversified and hedge growth risks while preserving risk-on optionality. Therefore, we maintain an overweight to equity risk relative to fixed income, with an emphasis on diversification between and within asset classes.

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: Resilient growth, elevated uncertainty

The growth tailwinds stemming from the AI supercycle remain intact when viewed through the corporate earnings lens. Despite concerns that AI-related spending has become excessive, fundamental earnings continue to suggest that profitability and monetization of the AI buildout outweigh AI infrastructure-related cost concerns. As of the end of the second-quarter earnings results, cohorts of the Magnificent 7 have delivered earnings growth of 118.5%, which is the strongest since Q4 2021. Importantly, beneficiaries of the AI buildout are broadening too. The other 493 companies in the S&P 500 have generated nearly 32% earnings growth in the second quarter, also the strongest since late 2021.

Geopolitical risks remain elevated and cannot be discounted as the US-Iran conflict has dragged into its sixth month. While the intensity of strikes between both sides appears to have eased for the moment, the current uneasy stalemate has resulted in a state of protracted war, characterized by limited attacks and, importantly, little progress toward restoring traffic through the Strait of Hormuz to pre-conflict levels. As a result, tanker traffic through the Strait remains stalled, causing energy prices to remain meaningfully higher. The path forward remains highly uncertain. The timing of any resolution, the pace of rebuilding energy infrastructure, and the extent to which supply constraints ease all remain key risks.

Economic growth remains resilient. Led by the US, our measure of global economic growth, based on leading economic indicators, continues to register above trend. Strong consumer spending, which comprises about two-thirds of US economic activity, is coinciding with historic levels of business investment fueled by the continued AI buildout. Developed non-US economies also remain above trend, with similarities to the US, including stronger readings of consumer sentiment and business surveys. As a result, our framework remains in a slowdown regime, reflecting above-trend global economic growth alongside a continued deceleration in global risk appetite (**Figures 1a, 1b, 1c, 2**).

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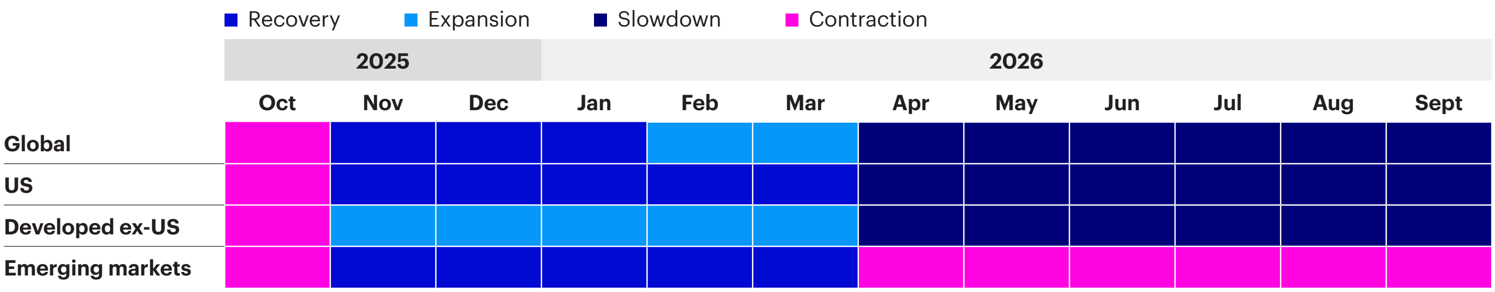
Figure 1a: Regional regime signals and components

Region	LEIs Current level of growth		GRACI Expected change in global growth		Expected macro regime
Global	**Above trend** ▲	+	Decelerating ↓	=	**Slowdown**
US	**Above trend** ▲				**Slowdown**
Developed markets ex-US	**Above trend** ▲				**Slowdown**
Europe	Above trend ▲				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

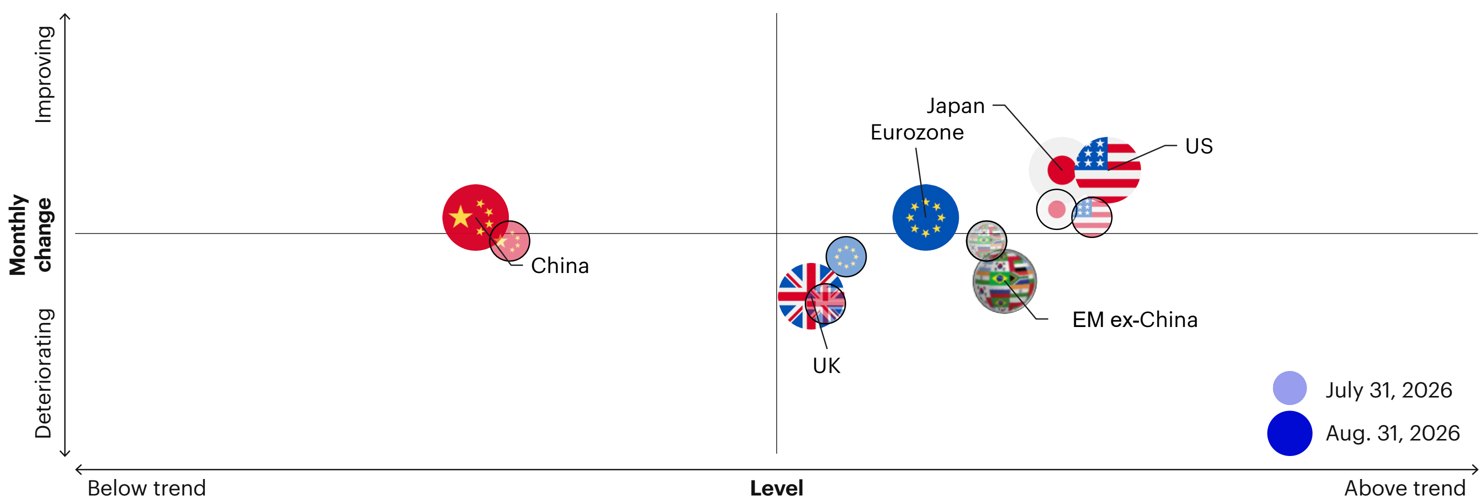
Sources: Bloomberg L.P., Macrobond, and Invesco Solutions and Custom Strategies research and calculations as of Aug. 31, 2026. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level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

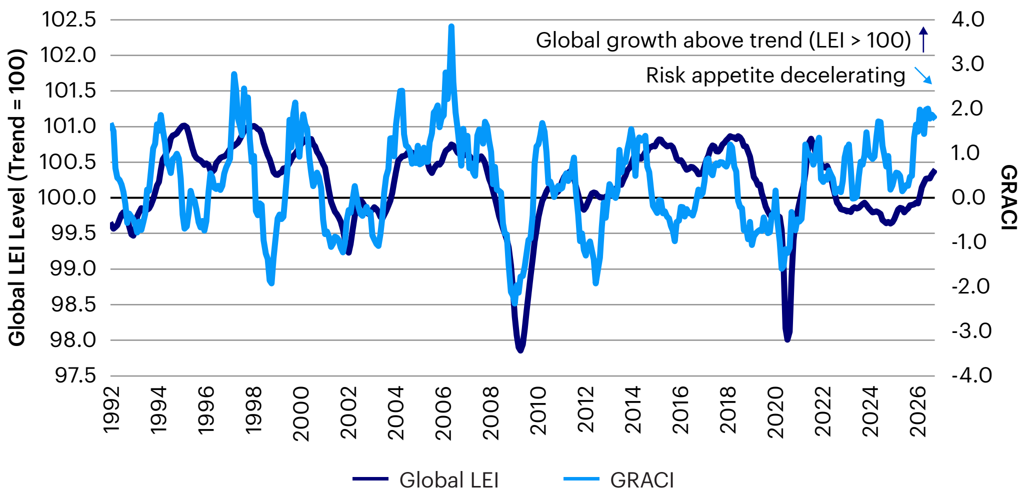
Figure 1c: Regional Leading Economic Indicator (LEI) level vs. monthly change



Sources: Bloomberg L.P., Macrobond, and Invesco Solutions and Custom Strategies research and calculations as of Aug. 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 risk-return relationship between asset classes is becoming increasingly complex as higher yields have begun to challenge the growth proposition offered by equity markets.

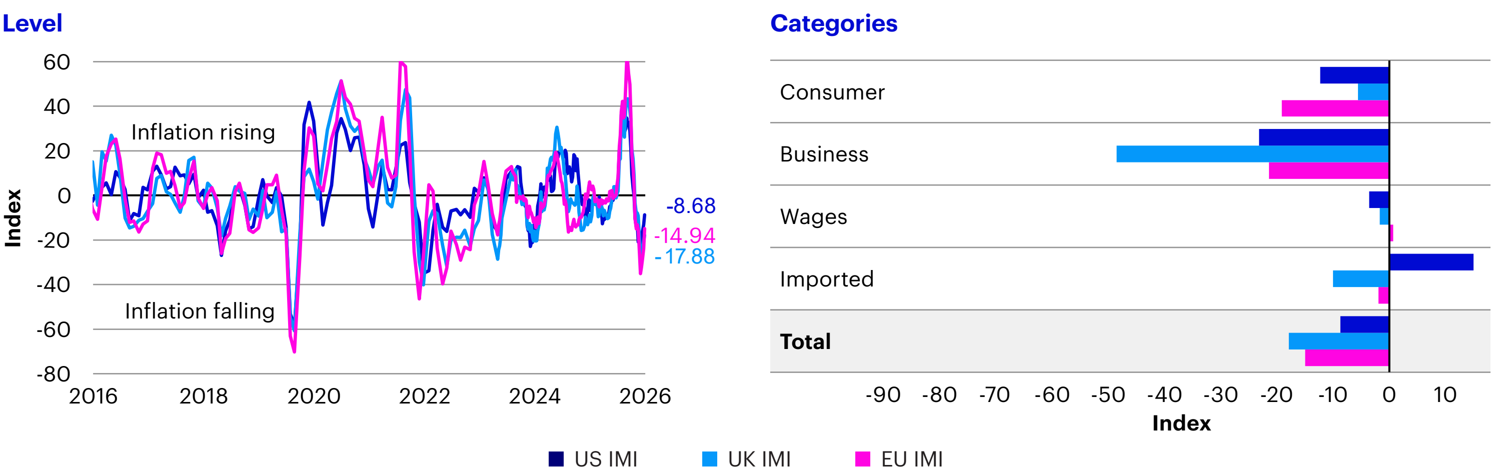
Figure 2: Global LEI and GRACI



Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, and Invesco Solutions and Custom Strategies research and calculations, from Jan. 1, 1992, to Aug. 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.**

Inflation momentum remains contained, despite energy prices remaining elevated (**Figure 3**). While the overall level of inflation remains relatively higher, recent energy price volatility remains below levels experienced earlier this year. With respect to the level of inflation over the month, the core Personal Consumption Expenditures Price Index (PCE), which measures overall price changes for goods and services purchased by consumers, excluding the more volatile food and energy components, registered at 3.6% in the second quarter, marking the 22nd month of above-2% target readings.

Figure 3: Regional Inflation Momentum Indicator (IMI)



Sources: Bloomberg L.P., Invesco Solutions and Custom Strategies calculations as of Aug. 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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Higher yields present an opportunity for multi-asset investors, as the prospective return per unit of risk is increasingly attractive relative to other, riskier investment options, while the diversification opportunities in a total portfolio context remain intact.

Fed Chairman Kevin Warsh focused on above-target inflation during his widely anticipated remarks at the Jackson Hole Economic Symposium, where he struck a hawkish tone and reconfirmed the Federal Open Market Committee’s (FOMC) intolerance of the current level. His remarks translated into interest rate market pricing, with the short end of the yield curve reflecting greater confidence in near-term rate hikes, while the long end of the yield curve declined, calming credibility fears priced in earlier this month. Overall, higher yields, both nominal and inflation-adjusted, remain elevated and represent a combination of multiple forces. They include monetary policy uncertainty, potential fiscal spending concerns, geopolitical and resulting inflation risks, a higher economic growth environment, and supply considerations from issuers selling greater amounts of long-term debt. As a result, higher yields present an opportunity for multi-asset investors, as the prospective return per unit of risk is increasingly attractive relative to other, riskier investment options, while the diversification opportunities in a total portfolio context remain intact.

In summary, the current mix of above-trend economic growth and a modestly decelerating trend in risk sentiment supports a continuation of the slowdown regime. While this environment doesn’t point to an immediate cycle-ending contraction, the current mix of elevated geopolitical risks, resilient corporate earnings, a healthy US consumer, and an increasingly complicated inflationary backdrop warrants an emphasis on portfolio diversification. Historically, periods of above-trend but slowing growth have been associated with modestly positive returns across asset classes, along with 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 outlined below (**Figures 4 to 7**).

Investment positioning

Within this context, 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, allowing 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 continue to 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. This 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 nominal bonds.
- In **currency markets**, we maintain an underweight 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 Chinese renminbi, Colombian peso, Czech koruna, Mexican peso, and South African rand.

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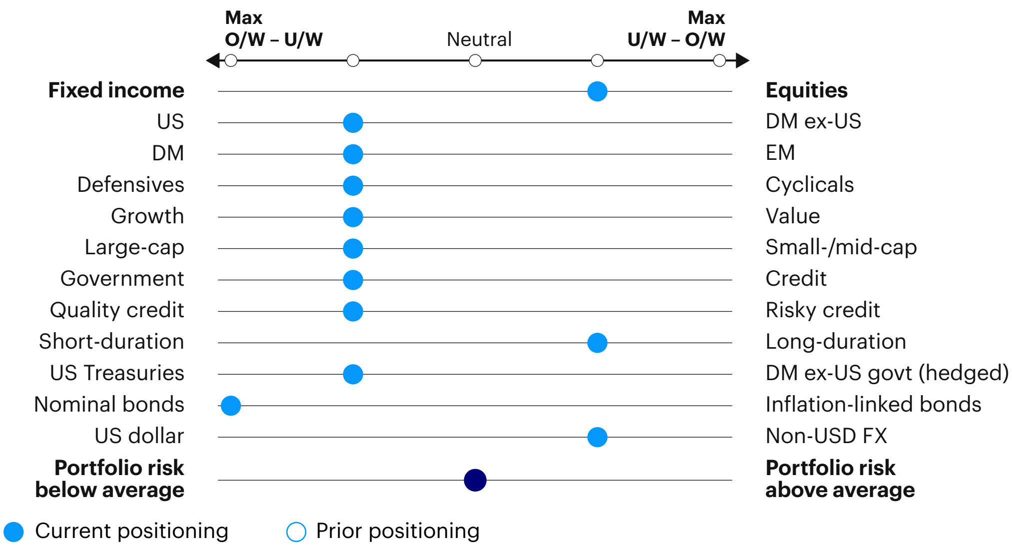
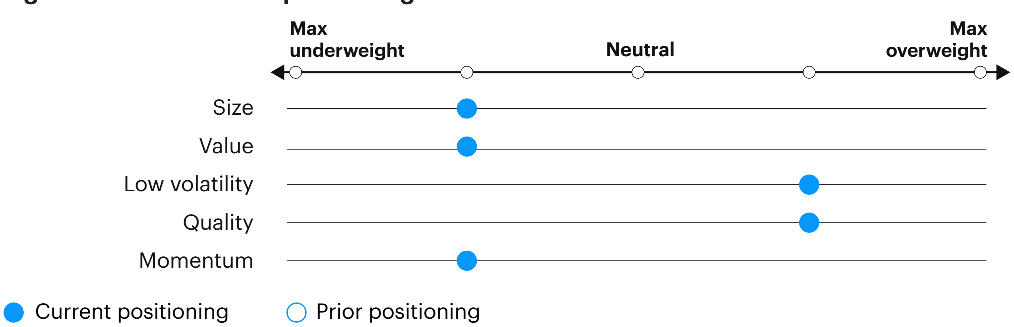
Figure 4: Relative tactical asset allocation positioning



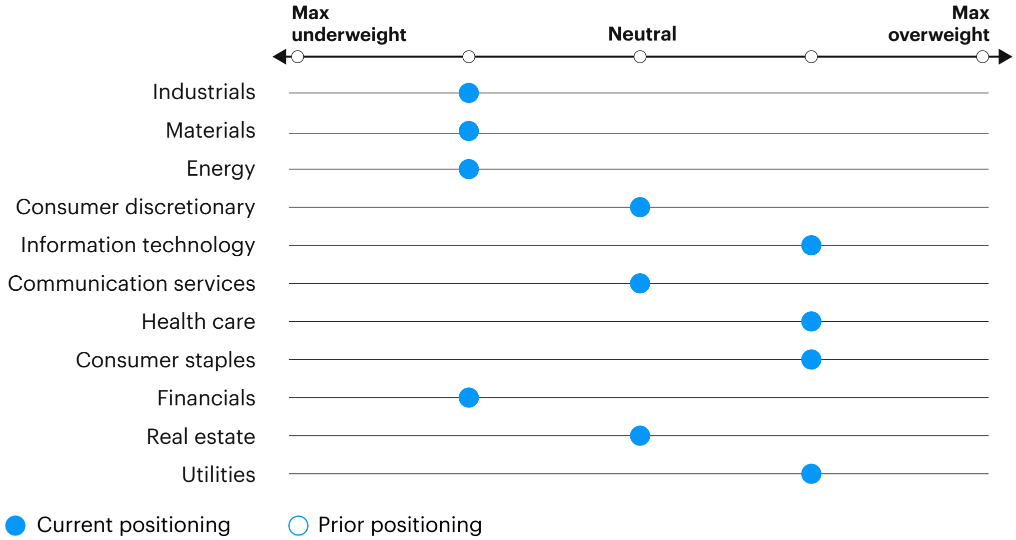
Source: Invesco Solutions and Custom Strategies as of Sept. 1, 2026. DM = developed markets. EM = emerging markets. Non-USD FX refers to foreign exchange exposure as represented by the currency composition of the MSCI ACWI Index. For illustrative purposes only.

Figure 5: Tactical factor positioning



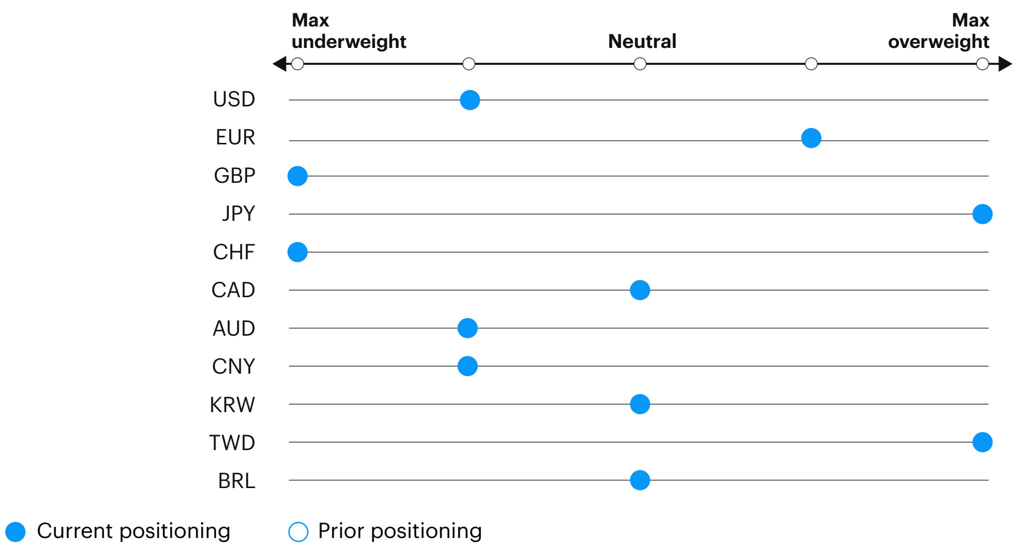
Source: Invesco Solutions and Custom Strategies as of Sept. 1, 2026. Neutral refers to an equally weighted factor portfolio. For illustrative purposes only.

Figure 6: Tactical sector positioning



Source: Invesco Solutions and Custom Strategies as of Sept. 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 Sept. 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

■ Recovery ■ Expansion ■ Slowdown ■ Contraction

Year		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	• **Market sentiment:** Bottomed early and made a significant turnaround midyear as the Federal Reserve (Fed) switched to a dovish stance, eventually leading to rate cuts in H2. US-China trade tensions eased amidst a "Phase One" deal. • **Economic data:** Deteriorated due to weaker manufacturing and services data. Yield curve inversion raised recessionary concerns. • **Our regime framework (3 shifts):** Defensive in H1, then shifted into a recovery with the combination of below-trend growth but improving market sentiment. Equities posted strong returns led by the US, credit spreads tightened, and duration was supported by interest rate cuts.	Slowdown	Slowdown	Slowdown	Slowdown	Slowdown	Slowdown	Expansion	Expansion	Recovery	Recovery	Recovery	Recovery
2020	• **Market sentiment:** Deteriorated quickly as emerging market equities underperformed in response to COVID-19. Sentiment reversed in the summer as large monetary and fiscal stimulus supported the economy. Reopening post-lockdown and vaccine news fueled positive sentiment in Q4. • **Economic data:** Weakened to historic levels before the eventual economic reopening and resulting rebound. Overall economic data remained below-trend throughout the year. • **Our regime framework (2 shifts):** Rotated into a contraction in February, ahead of the depths of market volatility, and shifted into recovery in June as the global economy reopened, benefiting from cyclical assets outperforming in H2 2020.	Recovery	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
2021	• **Market sentiment:** Moved higher following the economic reopening in H2 2020. Market volatility fell significantly. Historic levels of fiscal stimulus were enacted in the US, and COVID-19 vaccines were slowly deployed. • **Economic data:** Continued to normalize and moved to above-trend despite supply chain bottlenecks and supply-demand disruptions. Inflationary pressures emerged, and Fed rhetoric became more hawkish in December. • **Our regime framework (2 shifts):** Was in an expansionary regime throughout the year. This was validated as equities, led by the US, outperformed, credit spreads tightened, and bond yields rose.	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Expansion	Slowdown
2022	• **Market sentiment:** Peaked early in the year and deteriorated following Russia's invasion of Ukraine, the surge in energy prices, and inflationary pressures. Aggressive monetary policy tightening led to negative growth implications. • **Economic data:** Weakened from 2021 peaks but remained above-trend for roughly half the year. Consumers benefitted from a tight labor market, fueling strong retail sales, which helped buoy a supply chain-constrained manufacturing sector. • **Our regime framework (4 shifts):** Changed multiple times but spent the bulk of the year positioned defensively. This was beneficial as equities underperformed and duration also sold off meaningfully due to higher rates.	Slowdown	Slowdown	Slowdown	Expansion	Expansion	Expansion	Slowdown	Contraction	Contraction	Contraction	Contraction	Recovery
2023	• **Market sentiment:** Declined in Q1 following US regional banking failures. Turned positive again in H2 as inflation showed signs of moderating, leading to the end of the Fed hiking cycle. Markets became optimistic on themes including artificial intelligence (AI) advancements and China's post-COVID-19 reopening. • **Economic data:** Remained below-trend, although supported by consumer spending, business investment, and government spending. • **Our regime framework (2 shifts):** Significantly pivoted from defensive to cyclical in H2, consistent with tightening credit spreads, equity outperformance, and rising bond yields. However, cyclical equities underperformed due to a relentless bid for AI-related, quality, and growth equities.	Recovery	Recovery	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
2024	• **Market sentiment:** Rose in H1 as inflation decelerated, markets rewarded AI adoption, and consumer spending remained resilient. Deteriorated in H2 with US election uncertainty, fears over a weakening labor market, and corporate earnings growth concentrated in expensive mega-cap names. • **Economic data:** Below-trend as the unemployment rate rose despite resilient consumer spending. The Fed began easing, and the yield curve began to steepen. • **Our regime framework (1 shift):** Risk-on until midyear when below-trend and decelerating growth triggered a contraction. Cross-asset class performance in H1 was consistent with this stance, while equity returns were led by the Magnificent 7 and AI theme rather than cyclical fundamental drivers.	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
2025	• **Market sentiment:** Stayed positive but slowed through Q3 as tariff uncertainty and AI-competition risks drove volatility. Improved sharply in Q4 as tariff pressures eased, AI optimism strengthened, and supportive fiscal and monetary policies boosted cyclical assets. • **Economic data:** Stable but persistently below trend as the labor market weakened while consumer spending held firm. The Fed continued easing as inflation pressures remained subdued. • **Our regime framework (1 shift):** Defensive until rising sentiment drove a shift to recovery in Q4. Absolute returns were positive across multiple asset classes, with supportive fiscal and monetary policy helping cyclical assets broaden as market participation widened late in the year.	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery

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

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