Invesco

Presented by

Invesco Strategy & Insights

2026 ANNUAL INVESTMENT OUTLOOK

Resilience and rebalancing

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This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy.

Welcome to our 2026 Outlook

Uncertainty was a key theme in 2025, yet the market rallied with many investments delivering strong returns. Our end of year outlook reflects two key themes:

Resilience

Businesses have remained strong despite the economic and geopolitical shocks of the past year. Interest rate cuts in the US and increased government spending in Europe, Japan and China set the stage for global growth to pick up again.

Rebalancing

While US technology stocks, especially those linked to AI, have been priced at a premium, markets outside the US, smaller companies, and certain sectors within the US may hold interesting opportunities for investors to consider

We're entering 2026 with optimism. For investors, resilience means focusing on sectors that can withstand volatility, while rebalancing highlights opportunities beyond the dominant US technology giants. Diversification will be key as the types of investments that lead the market may change.

Investment outlook by asset type

Global Equities	
US Stocks	Government and central bank support should help U.S. stocks, but because prices are already high and politics are uncertain, we're keeping a smaller investment than in previous years.
Developed Markets outside the US	Stocks in Europe and other developed markets look more attractive than US equities, especially with broader economic recovery.
Emerging Markets	Emerging market stocks offer strong growth potential compared to other regions, though volatility remains high. We anticipate Chinese stocks to continue to outperform while India may struggle.

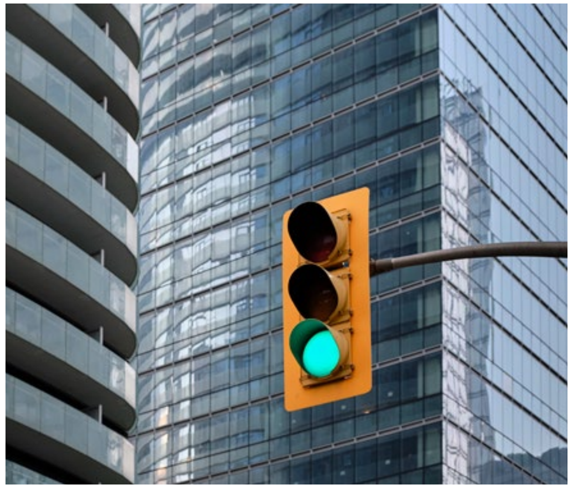
Corporate Credit	
Investment Grade Bonds	Investment grade credit is marginally preferred to government bonds. US bonds look attractive overall, but Europe offers more opportunities for active investors (active investing means actively buying and selling assets to try and outperform a market benchmark).

Commodities	
Industrial Metals	Better global growth and a weaker USD have tended to be conditions where industrial metals perform well.
Precious Metals	Central banks are likely to continue building gold stocks, and Exchange Traded Funds (ETFs), demand could remain steady. However, lower geopolitical risk and stable inflation mean prices are unlikely to rise as much as they did in 2025.

Alternatives	
Crypto	Cryptocurrencies could perform well as regulatory changes have increased adoption, with more investors and institutions participating in the digital asset ecosystem.

Views are presented with a 1–5-point rating, as indicated by the bars. The left-most value indicates the least favourable view, while the right-most value indicates the most favourable view. This commentary does not constitute buy/sell recommendations.

Macro-economic views

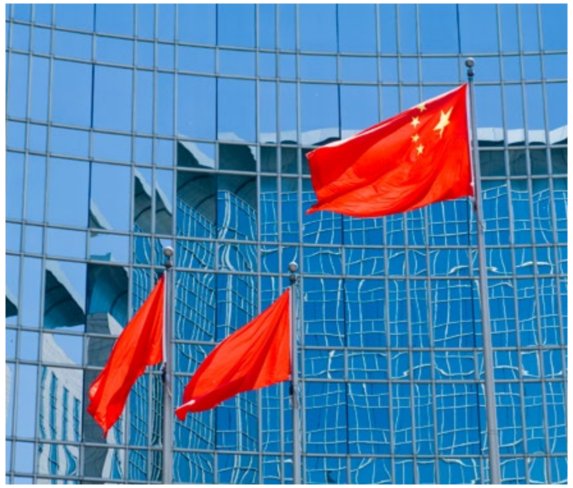


Economies and markets have been resilient in 2025

- Official growth numbers show the US economy looks healthy, but the jobs market has weakened, with reduced hiring activity, and small businesses have cut back on investment.
- Spending has been driven mainly by higher-income households, while AI investment has supported US Gross Domestic Product (GDP), a measure of the size of the economy, and corporate earnings.
- Businesses and households avoided heavy borrowing and maintained cash reserves. This caution has helped them weather policy uncertainty and sets the stage for growth in 2026.

Growth expected to widen as government support takes effect

- Our core theme for 2026, particularly in the first half, is one of improved global growth compared to 2025.
- In the US, this should be helped by lower interest rates, strong foreign investment, and a weakening US dollar.
- Outside the US, government spending and a general improvement in global inflation should support economic growth.
- With less political and geopolitical uncertainty in the US, private businesses and consumers are likely to feel more confident about increasing their spending and investing, both in the US and around the world.

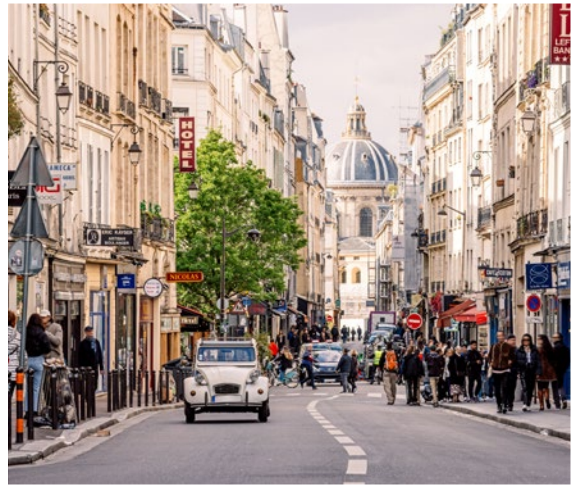


China's policy support keeps growth on track despite external pressures

- Global trade has also been surprisingly resilient in 2025.
- China's exports grew despite higher US tariffs, and shifting trade patterns are creating new opportunities for some emerging markets and sectors.
- China's economy is expected to grow by about 5% in 2026[1], driven by lower interest rates, government spending, and a new Five-Year Plan focused on boosting domestic demand and innovation in areas such as AI and advanced manufacturing.
- A weaker US dollar has also helped bring down inflation in many emerging markets, allowing central banks to cut interest rates.
- This matters for investors, as emerging-market debt bonds issued by governments or companies in developing countries performed well in 2025. Similar trends are expected in 2026, especially in markets outside China.

1 Sources: Bloomberg L.P., and Invesco Strategy & Insights, as of September 30, 2025.

Macro-economic views

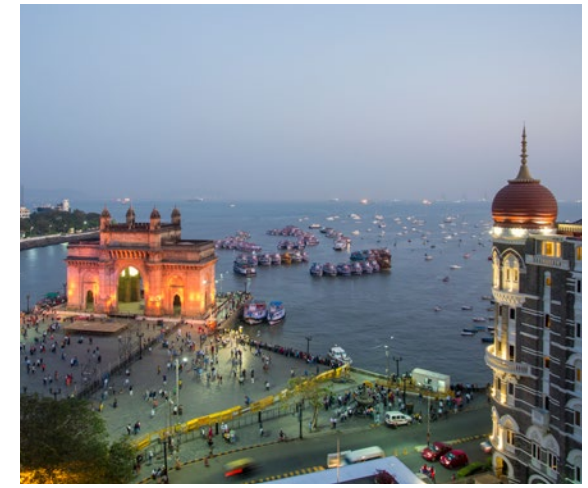


Europe on the mend: Policy is turning positive for the region

- After years of weak growth, Europe is showing signs of recovery.
- Germany plans to increase spending on their military and infrastructure, and other countries are following suit.
- These changes are encouraging businesses to invest, and early signs of growth are appearing.
- But challenges remain, such as ageing populations and political uncertainty.
- The UK faces hurdles as inflation is above the Bank of England's target, public finances are under pressure, and overall growth is weak. However, falling interest rates, stronger wages, and healthy savings are lifting retail sales. If these trends continue, UK growth could beat expectations in 2026.

Japan benefits from healthy inflation and policy support

- Japan is seeing a steady return of inflation, which is lifting wages and encouraging people to spend more.
- The labour market is strong, and businesses are investing heavily compared to other global economies.
- We expect economic growth in Japan will continue to improve in 2026, helped by new government spending.
- Interest rates are likely to rise slowly, with rates staying low enough to support growth and investment.



India's economy improves amid geopolitical challenges

- India is expected to continue with economic reforms in 2026 alongside an improvement in US-India relations.
- This can help lift Indian stocks higher, and we expect India to remain the fastest-growing major economy, with growth picking up as the Reserve Bank of India cuts interest rates.
- Domestic economic reforms are key for long-term growth, and we expect to see gradual progress in 2026, given political constraints in the region.

What could shift this outlook?

We remain mindful of scenarios that could alter the investment landscape.
Here are the key uncertainties we're watching:

	Our economic expectation	What might happen instead?	What could that mean for investors?
Will the world economy recover or go into a recession?	We expect the world economy to improve next year.	Global growth could slow and key economies slip towards a recession.	• Developed market sovereign bonds would likely perform better than stocks. • US stocks and the dollar might do better than expected. • Gold and other precious metals could hold up well. • Emerging markets and sectors that depend on strong economic growth may struggle
Could inflation rise while economic growth stalls?	We expect inflation to stay slightly above target but stable next year.	Disruptions in supply such as China limiting rare earth exports, trade issues, an oil price spike, or an unexpected global event could push inflation higher while slowing growth.	• Short and long-term interest rates may move closer together. • Smaller companies and sectors tied to economic growth could struggle. • Emerging markets may lose momentum. • The US dollar could strengthen depending on the nature of the supply shock.
Could AI breakthroughs cause US stocks to rally?	We expect rest of world stocks to outperform the US and the USD to weaken.	If businesses find a way to make big profits from AI or show clear productivity gains, US technology giants could see a resurgence.	• Equity markets would likely rise overall, but gains would be led by US stocks. • The US dollar could rise if overseas investors put money into US markets without taking steps to protect themselves from changes in exchange rates.
Could political instability disrupt growth in Europe?	We expect improved growth in Europe next year.	Extreme parties could gain greater influence in Germany and France, leading to a drop in investor confidence. In Germany, this could block promised government spending, while in France, political uncertainty adds further strain.	• European and German stocks may underperform. • The Euro could weaken against the US dollar.
Could politics undermine the Federal Reserve's credibility?	The Fed will cut interest rates, and its decisions won't be viewed as overly political.	Political interference in central banks is increasing. So far, financial markets have largely shrugged off these challenges. However, the credibility of the U.S. Federal Reserve could come under pressure if, for instance, a board member were dismissed or a new Chair appeared overtly political.	• Investors may focus on real assets like property or commodities for stability. • US stocks may get a quick boost from lower interest rates, but it might not last. Non-US stocks could outperform. • Long-term bonds could lose value if inflation expectations rise, and the US dollar could weaken.

Opportunities shaping the year ahead

The global economy is evolving, and with it, the investment landscape. Here are the themes we believe will matter most for investors in 2026:

Stronger growth, more market participation

The global economy is picking up again after a slowdown, which could lead to a wider variety of sectors doing better.

A weaker US dollar

Diverging central bank policies are weakening the dollar, supporting the case for investing in emerging markets and commodities.

Managing AI investment risks

Big-name AI companies are currently very expensive, and there's no clear sign of change. Spreading investments across different areas can help reduce the risk of being too concentrated in one sector.

Emerging markets look strong

Global growth is improving, inflation in emerging markets is low, and a weaker US dollar could help emerging markets perform well in 2026.

Private credit offers diversification

Private credit is lending directly to businesses instead of buying public stocks or bonds which can be used to diversify an investment portfolio. With steady economic growth, stable prices, and lower borrowing costs in the US, conditions could be positive for private credit to deliver strong returns.

As we enter 2026, diversification and a global perspective will be key to capturing opportunities in a shifting market landscape.

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.

Important information

Data as at 10 November 2025, unless otherwise stated. This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

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