Invesco

Tactical asset allocation

Our framework continues to suggest the global economy is in a slowdown regime, with growth above its long-term trend and decelerating. Risk sentiment is being pulled in opposing directions: renewed geopolitical escalation in the Middle East is pushing energy prices higher, while resilient economic growth and robust corporate earnings are continuing to provide support. These competing headwinds and tailwinds, coupled with persistent inflation and new uncertainty around the Federal Reserve's (Fed's) path, reinforce our position to remain diversified and hedge growth risks while preserving risk-on optionality. As a result, we maintain an overweight to equity risk relative to fixed income, with an emphasis on diversification between and within asset classes.

Invesco Solutions and Custom Strategies

Synopsis

- Global risk appetite continues to follow a modestly decelerating monthly trend, as positive momentum from AI-fueled market returns has paused after months of outperformance. Strong fundamentals continue to provide a tailwind to equities, while geopolitical risks have resurfaced, resulting in increased volatility.
- Economic growth remains resilient, as consumers continue to absorb higher inflationary pressures. Higher energy prices, persistent inflation, strong nominal gross domestic product (GDP) growth, and a Fed that remains on hold have put upward pressure on Treasury yields, forcing elevated equity market multiples to contend with higher discount rates.
- Our positioning remains diversified, with a modest tilt toward 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.

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 meets rising policy and geopolitical uncertainty

Positive earnings momentum continues, supported by another strong quarter of results. The blended earnings growth rate for the S&P 500 in the second quarter is nearly 38%, which, if sustained, would represent the highest year-over-year earnings growth rate since Q3 2021. Additionally, despite earnings strength being relatively concentrated within the energy, communication services, and information technology sectors, excluding notable Magnificent 7 outperformers such as Alphabet, the S&P 500 would still be on track for a year-over-year blended earnings growth rate of 26%. This would represent a seventh straight quarter of double-digit earnings growth, highlighting the corporate sector's broad resilience.

Geopolitical risks have resurfaced, as the previous ceasefire between the US and Iran ended and hostilities escalated. Tanker traffic through the Strait of Hormuz effectively stalled, causing energy prices to move meaningfully higher, and fueling renewed inflation concerns and cross-asset volatility. 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. While the full growth impact of the now six-month conflict has yet to appear in our economic indicators, inflation risks remain elevated, and risk assets remain vulnerable to related volatility.

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. These demand dynamics, combined with a tight labor market, have offset higher prices caused by the US-Iran conflict, despite weakening consumer sentiment. Developed non-US economies also remain above trend, with similarities to the US, including a recent rebound in consumer sentiment as energy levels, despite remaining elevated, have not returned to the highs seen a few months ago. 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**).

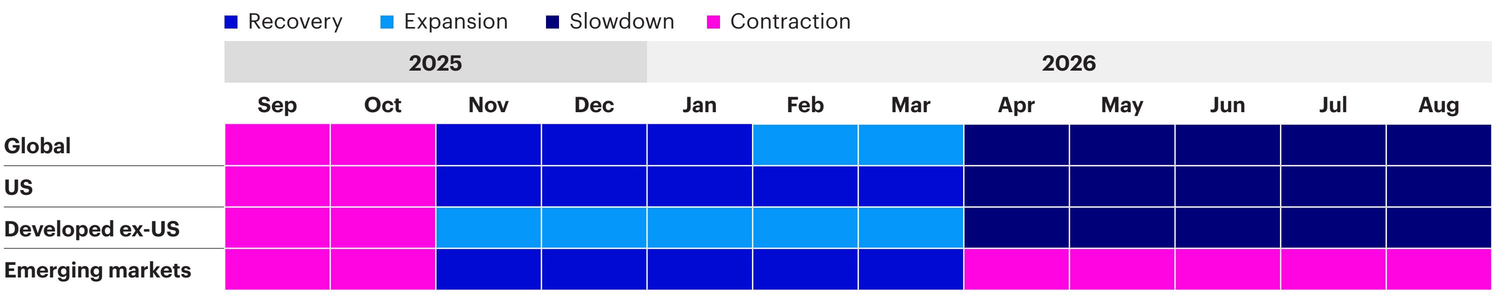
Our framework remains in a slowdown regime, reflecting above-trend global economic growth alongside a continued deceleration in global risk appetite.

Figure 1a: Global macro framework remains in a slowdown regime
Regional regime signals and components

	LEIs		Global risk appetite		
Region	**Current level of growth**		**Change in global growth expectations**		**Expected macro regimes**
Global	**Above trend**	&	**Growth expectation deteriorating**	=	**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

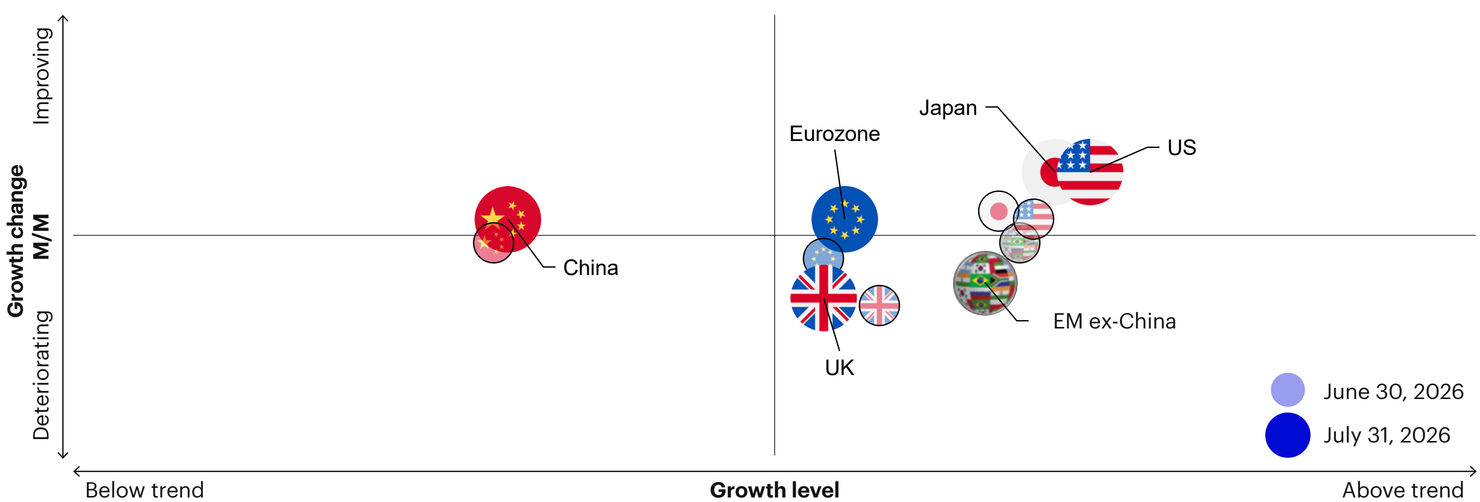
Sources: Bloomberg L.P., Macrobond, Invesco Solutions and Custom Strategies research and calculations. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. Macro regime data as of July 31, 2026. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures 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
Moderating global growth across regions; decelerating risk appetite



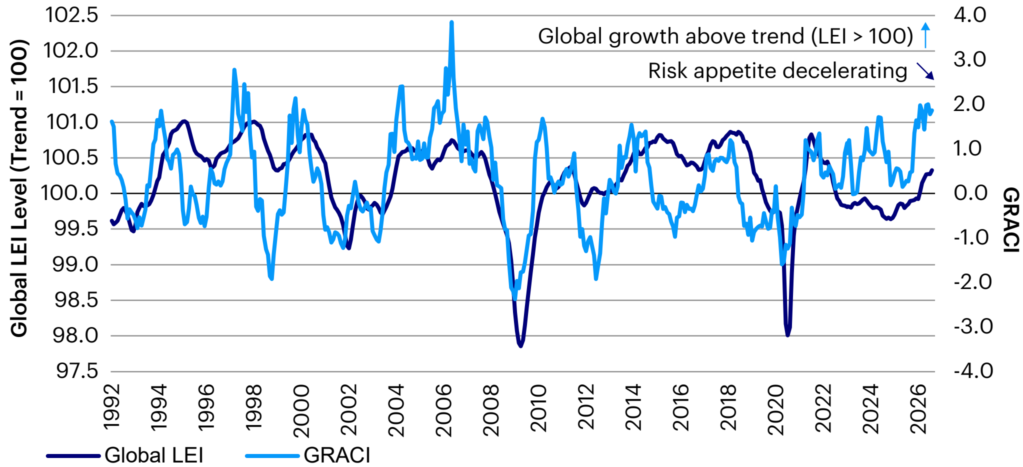
Source: Invesco Solutions and Custom Strategies as of July 31, 2026

Figure 1c: Above-trend growth moderating led by slowdowns across emerging markets and UK



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

Figure 2: Growth remains above trend; risk appetite remains on a decelerating path
GRACI and Global LEI



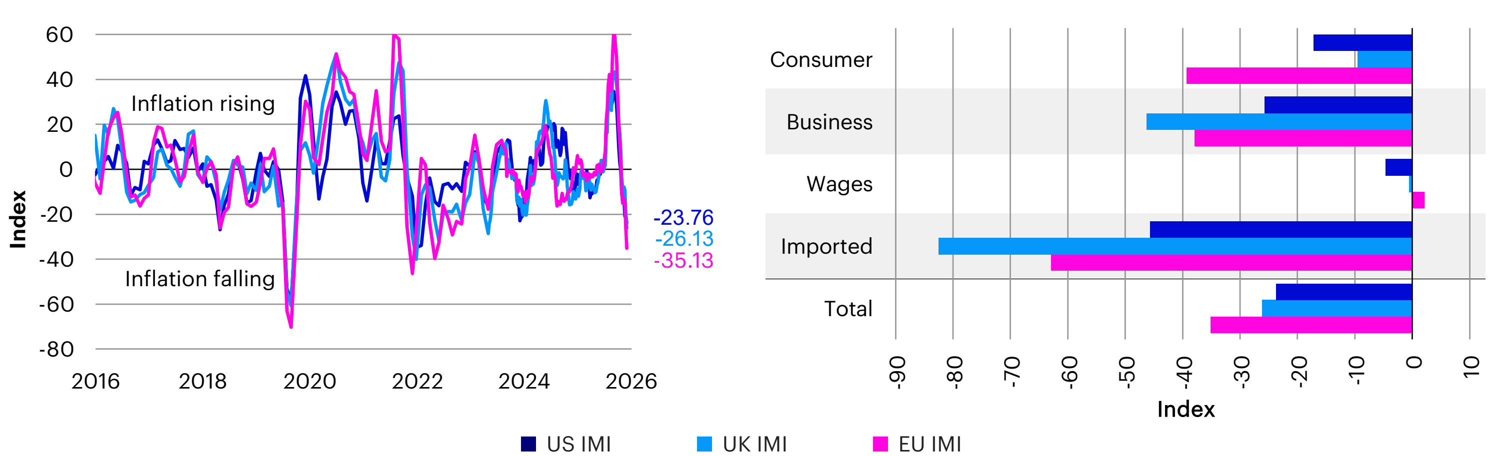
Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions and Custom Strategies research and calculations, from Jan. 1, 1992, to July 31, 2026. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 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.**

> This subsequent rise in higher yields poses a headwind to risk assets, placing pressure on equity market valuations as higher real interest rates complicate the risk-reward tradeoff for global investors.

Inflation momentum remains subdued, despite higher energy prices over the month (**Figure 3**). While inflation remains elevated and ongoing hostilities in the Middle East have pushed energy prices higher, recent energy price volatility remains below levels experienced earlier this year. However, elevated energy prices relative to pre-conflict levels, combined with years of inflation running above target, leave the Fed in a position of combatting higher price pressures — a challenge that new Chairman Kevin Warsh has reiterated numerous times. However, financial markets are beginning to question the commitment and ability of the Federal Open Market Committee (FOMC) to successfully bring inflation back to target. That is reflected in the recent steepening of the yield curve and increase in term premium. This subsequent rise in higher yields poses a headwind to risk assets, placing pressure on equity market valuations as higher real interest rates complicate the risk-reward tradeoff for global investors.

Figure 3: Inflation momentum remains contained

Regional Inflation Momentum Indicators (IMI) | **Regional IMI: Categories**



Sources: Bloomberg L.P., Invesco Solutions and Custom Strategies calculations as of July 31, 2026. The US 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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The current mix of above-trend economic growth and a modestly decelerating trend in risk sentiment supports continuation of the slowdown regime.

In summary, the current mix of above-trend economic growth and a modestly decelerating trend in risk sentiment supports 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 a convergence in performance 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**).

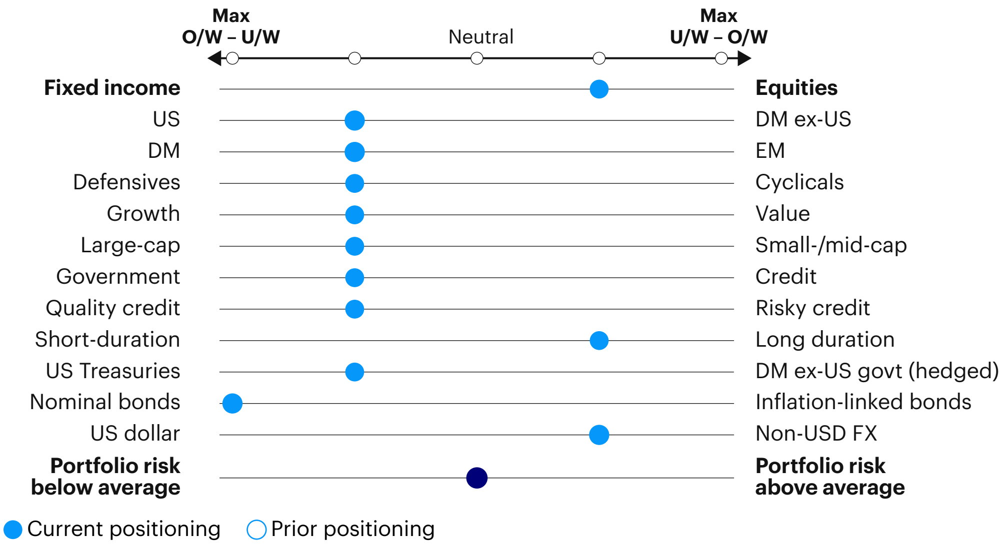
Investment positioning

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. Additionally, the low volatility factor has demonstrated desirable hedging qualities during momentum unwinds, evident most recently in semiconductor-related companies. 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 such as energy and financials. 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 to 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.

Figure 4: Relative tactical asset allocation positioning

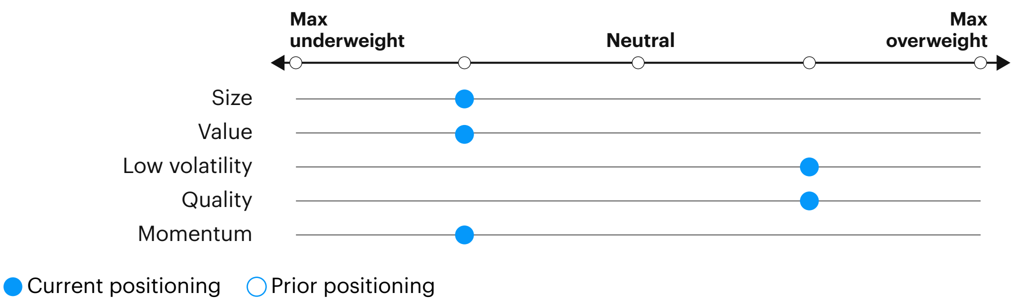
Moderate overweight equities vs. fixed income, favoring defensives, and underweight credit



Source: Invesco Solutions and Custom Strategies as of Aug. 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

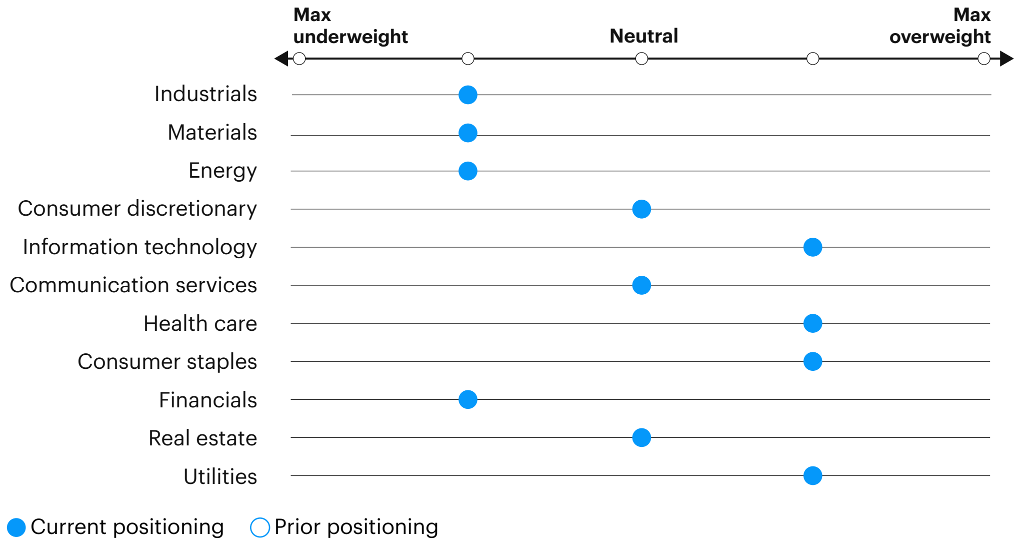
Overweight quality and low volatility; underweight value, small size, and momentum



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

Figure 6: Tactical sector positioning

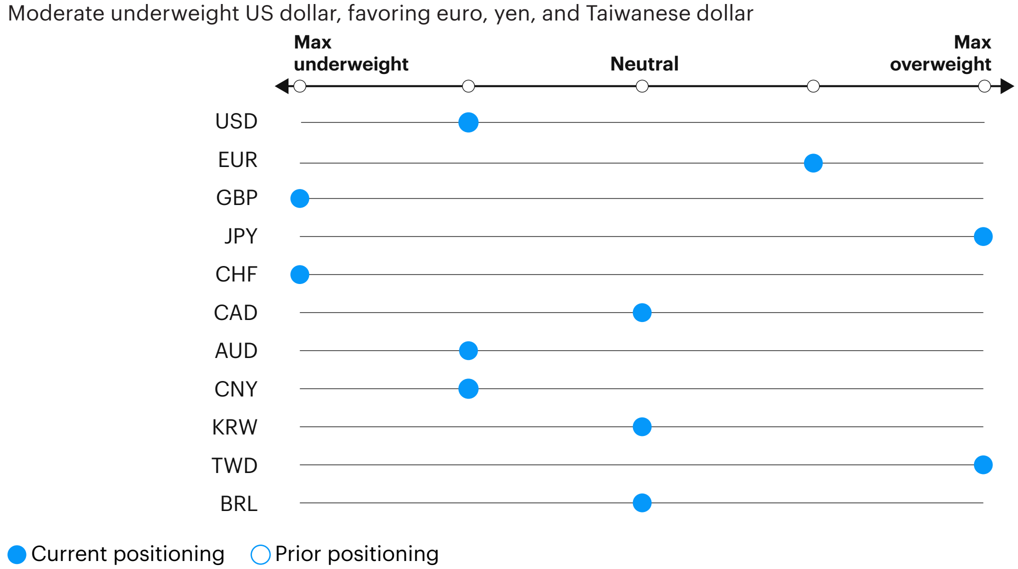
Sector exposures favoring defensives



Source: Invesco Solutions and Custom Strategies as of Aug. 1, 2026. For illustrative purposes only. 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.

Figure 7: Tactical currency positioning

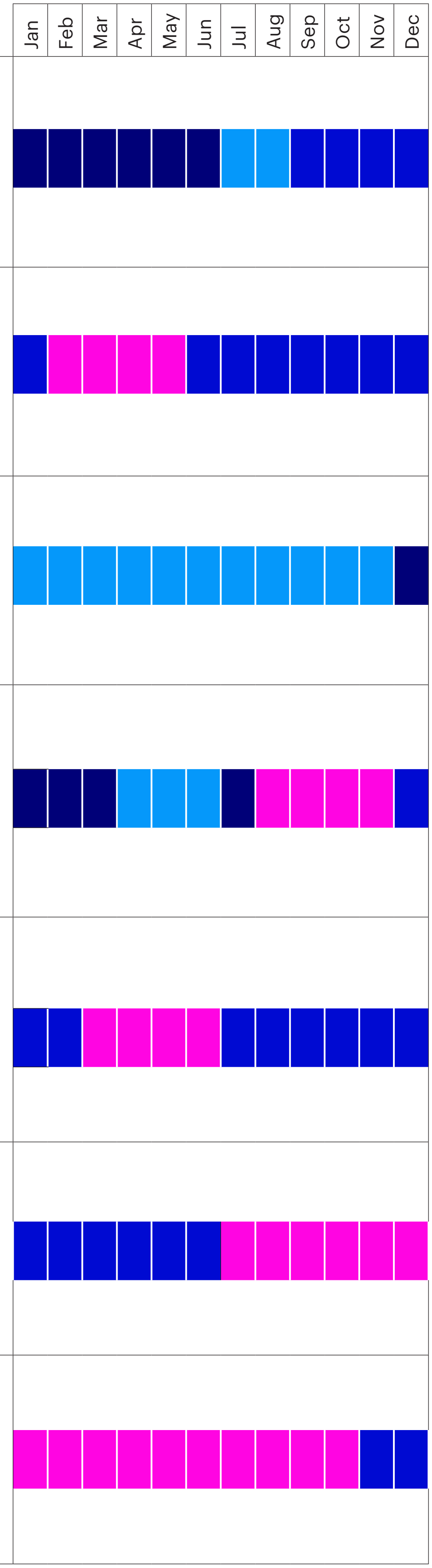
Moderate underweight US dollar, favoring euro, yen, and Taiwanese dollar



Source: Invesco Solutions and Custom Strategies as of Aug. 1, 2026. For illustrative purposes only. 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.

Regime signal history

Recovery | Expansion | Slowdown | Contraction



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.

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.

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.

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.

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.

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.

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.

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 July 31, 2026, in the US dollar, unless stated otherwise.

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