Invesco

Tactical Asset Allocation

Maintaining defensive portfolio positioning, favoring fixed income over equities, and underweighting credit risk. Overweight low volatility and quality stocks and staying neutral developed ex-US equities relative to US equities.

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.

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Head of Asset Allocation
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Synopsis

- Earnings forecasts are deteriorating across developed and emerging markets, led by downward revisions in the United States.
- Our framework remains in a contraction regime for the 11th consecutive month. We maintain a cautious asset allocation versus benchmark, overweighting fixed income relative to equities. We remain neutral developed ex-US equities vs. US equities, underweight in emerging markets and overweight defensive sectors. In fixed income, overweight duration via inflation-linked bonds, and underweight credit risk.

Macro update

Following the 90-day pause on the implementation of US tariffs on most trading partners, equity markets have recovered most of the losses experienced in the first week of April, with the MSCI All Country World Index gaining more than 10% from the bottom registered on April 8, closing the month approximately unchanged and broadly in line with the global fixed income market, also posting marginally positive returns.

While on the surface April may have appeared to be uneventful, it planted the seeds for potentially meaningful shifts in economic and market trends. While hard economic statistics will take months to reflect the impact of global tariffs uncertainty on consumer spending and investments, surveys and financial markets are already pointing to a deteriorating outlook. The most notable declines are visible in US consumer sentiment surveys, reaching lows last seen in mid-2022, and US ISM employment surveys across manufacturing and services, falling respectively to 44.7 and 46.2. Despite the recovery in global equities, credit spreads have widened by approximately 20-30 bps over the month across sectors, ranging from investment grade and high yield corporates, bank loans, and emerging markets sovereign debt, pointing to a tightening in financial conditions at a time of weakening growth expectations. As a result, while leading economic indicators are yet to reflect the full adjustment due to a mix of survey-based and hard economic data, global market sentiment resumed its decline, and it is currently at its lowest level registered since June 2023, keeping our macro regime framework in a contraction regime for the 11th consecutive month (**Figures 1** and **2**).

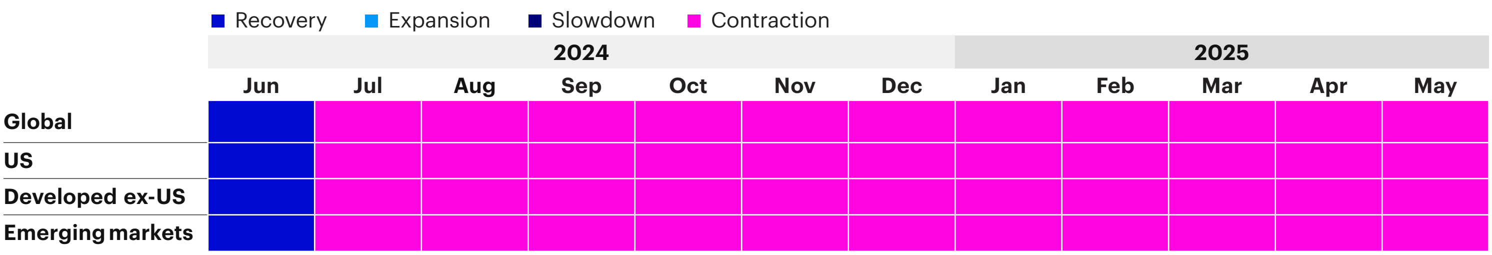
> Our framework remains in a contraction regime for the 11th consecutive month.

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

	LEIs		Global risk appetite		
Region	**Current level of growth**		**Change in global growth expectations**		**Expected macro regimes**
Global	**Below Trend**	&	**Growth expectation deteriorating**	=	**Contraction**
United States	**Below Trend**				**Contraction**
Developed markets ex-US	**Below Trend**				**Contraction**
Europe	Below Trend				Contraction
United Kingdom	Below Trend				Contraction
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 research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Apr. 30, 2025. 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-USA include the eurozone, UK, Japan, Switzerland, Canada, Sweden, Australia. Emerging markets include Brazil, Mexico, Russia, South Africa, Taiwan, China, South Korea, India.

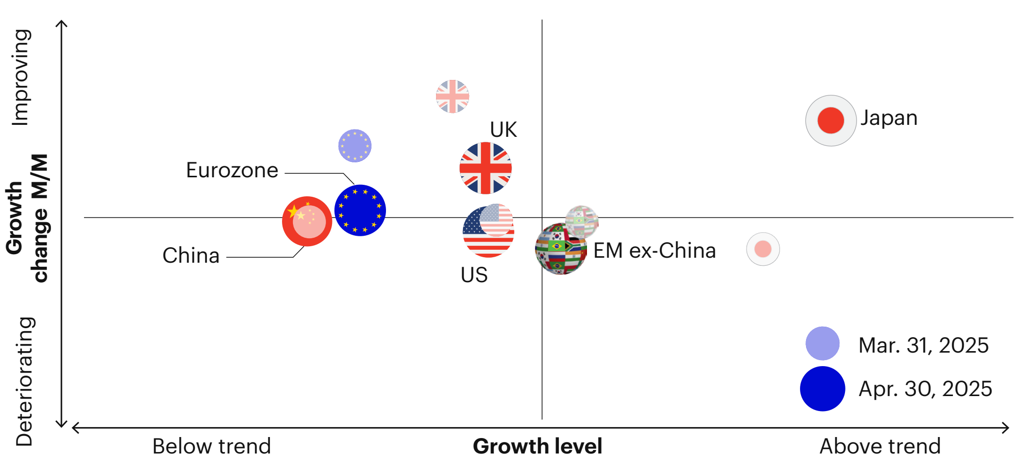
Figure 1b: Trailing 12-month regime history by region
Global economy in a contraction phase, with LEIs below their long-term trend and growth expectations deteriorating



Source: Invesco Solutions, as of Apr. 30, 2025.

> A mix of survey-based and hard economic data means leading economic indicators are yet to reflect the full adjustment in growth expectations.

Figure 1c: Global growth is deteriorating, led by the US slowdown

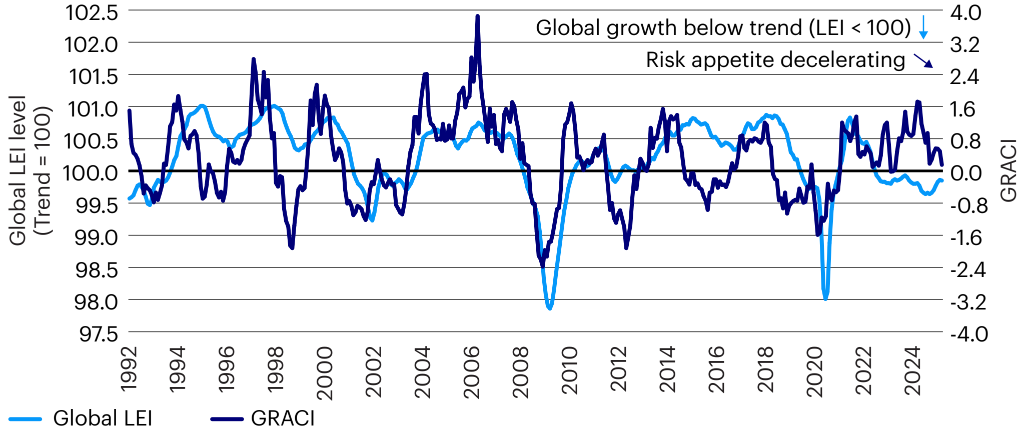


Sources: Bloomberg L.P., Macrobond. Invesco Solutions research and calculations. Proprietary leading economic indicators of Invesco Solutions. Macro regime data as of Apr. 30, 2025. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment.

> Market concerns surrounding global trade policy caused the global market sentiment to resume its decline.

Figure 2: Global risk appetite continues to decline on market concerns surrounding global trade policy

GRACI and Global LEI

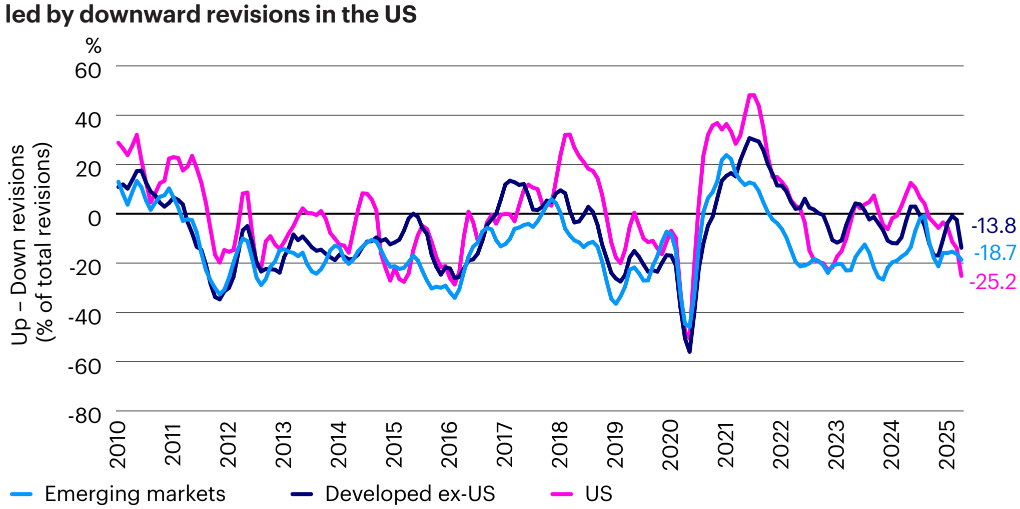


Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions research and calculations, from Jan. 1, 1992 to Apr. 30, 2025. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global 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.**

Consistent with this picture, earnings forecasts are deteriorating across developed and emerging markets, led by downward revisions in the United States. While other developed markets are outperforming on a relative basis, the deterioration in earnings forecasts is undoubtedly global and synchronized, confirming our assessment of a contractionary regime (**Figure 3**). As outlined over the past few months, we are waiting for additional fundamental catalysts to fuel additional outperformance of non-US equities relative to US equities, as well as further dollar depreciation. While long-term valuations on both equity and currency markets support this outlook over the long term, fresh near-term catalysts are needed following the sharp reversal year-to-date. We remain neutral in our regional equity positioning until we see a combination of rising global risk appetite, widening yield and growth differentials in favor of non-US markets.

> Our assessment of a contractionary regime is confirmed by the deterioration in earnings expectations.

Figure 3: Global tariffs causing a synchronized deterioration in earnings expectations, led by downward revisions in the US

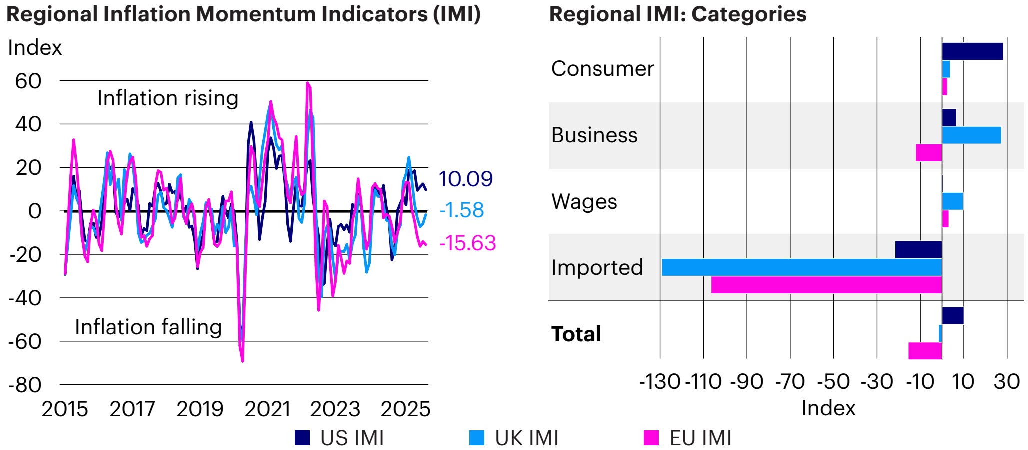


Sources: Bloomberg L.P., JPMorgan, Invesco Solutions research and calculations, from January 2010 to April 2025. 12-month forward earnings revisions computed as the number of upward revisions minus the number of downward revisions divided by total number of revisions. **Past performance does not guarantee future results.**

The macro picture is further complicated by an opaque inflation outlook. While the decline in commodity prices should help contain headline inflation, the pipeline of rising tariffs will place upward pressure on core inflation statistics over the next few quarters, causing central banks to be less proactive in cutting rates and assessing the evolution of inflation expectations, currently on the rise. Our indicators still point to rising inflation momentum in the US (**Figure 4**).

We maintain the maximum overweight exposure to US TIPS relative to US Treasuries as inflation continues to accelerate in the US.

Figure 4: Inflation continues to accelerate in the US while moderating in Europe



Sources: Bloomberg L.P. data as of Apr. 30, 2025, Invesco Solutions calculations. 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.

Investment positioning

There has been no change to the asset allocation model this month.

In equities we remain neutral between US and developed ex-US equities, still favoring defensive sectors with quality and low volatility characteristics.

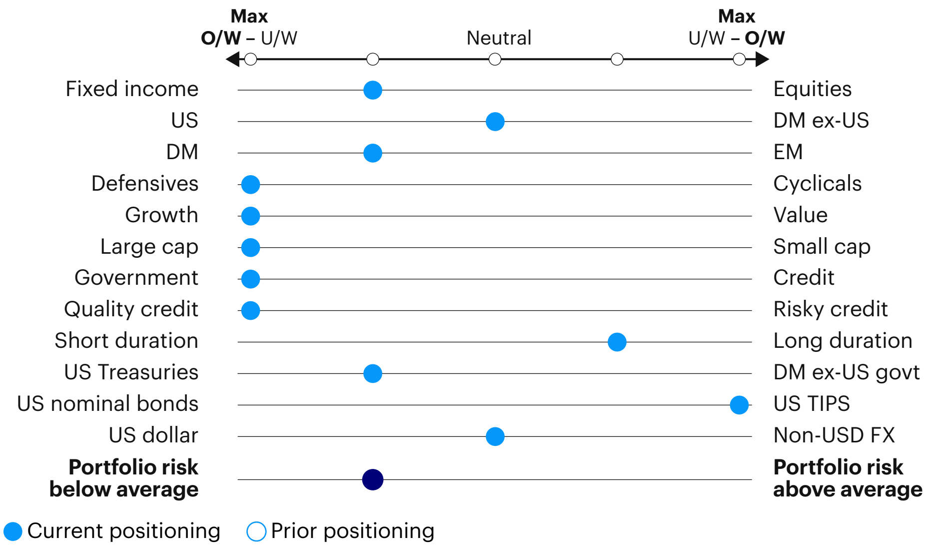
We implemented no changes to our asset allocation this month in the Global Tactical Allocation Model.[1] We remain underweight risk relative to benchmark, underweighting equities relative to fixed income, primarily via an underweight to emerging markets versus developed markets. We maintain a neutral stance between US and international developed market equities, and overweight to defensive sectors with quality and low volatility characteristics. In fixed income, we underweight credit risk[2] relative to benchmark and overweight duration via inflation-linked bonds at the expense of nominal Treasuries (**Figures 5** to **8**). In particular:

- In **equities**, we remain neutral between US and developed ex-US equities. Going forward, a bearish outlook for the US dollar or a rebound in global risk appetite would be necessary for our framework to trigger an overweight to developed markets outside the US, assuming the recent relative momentum in earnings remains in place. We maintain a moderate underweight in emerging market equities relative to developed markets and still favor defensive sectors with quality and low volatility characteristics, tilting towards larger capitalizations at the expense of value, mid and small caps. We maintain exposures to defensive sectors such as health care, staples, utilities, and technology at the expense of cyclical sectors such as financials, industrials, materials, and energy.
- In **fixed income**, we continue to underweight credit risk and overweight duration, favoring investment grade and sovereign emerging fixed income relative to high yield. Given the decelerating growth environment and historically tight credit spreads, we believe the risk-reward in this position is attractive. The recent spread widening across credit sectors continues to support this position. In sovereigns, we maintain a maximum overweight exposure to US TIPS relative to nominal Treasuries, given the rising inflation momentum in the US (**Figure 4**).
- In **currency markets**, we maintain a neutral stance on the US dollar. While economic data outside the US are still surprising to the upside, wider yield differentials towards the greenback lead our models to a neutral position in aggregate. Within developed markets, we favor the euro, the British pound, Norwegian kroner, Swedish krona, and Singapore dollar, relative to the Swiss franc, Japanese yen, Australian, and Canadian dollars. In EM, we favor high yielders with attractive valuations, such as the Colombian peso, Brazilian real, Indian rupee, Indonesian rupiah, and Mexican peso, relative to low yielding and more expensive currencies, such as the Korean won, Taiwan dollar, Philippines peso and Chinese renminbi.

1. Reference benchmark 60% MSCI ACWI, 40% Bloomberg Global Aggregate Hedged Index.
2. Credit risk defined as duration times spread (DTS).

Figure 5: Relative tactical asset allocation positioning

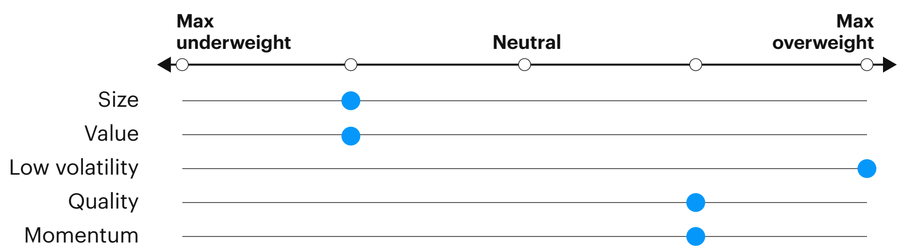
Maintaining defensive positioning, favoring fixed income over equities



Source: Invesco Solutions, May 1, 2025. 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 6: Tactical factor positioning

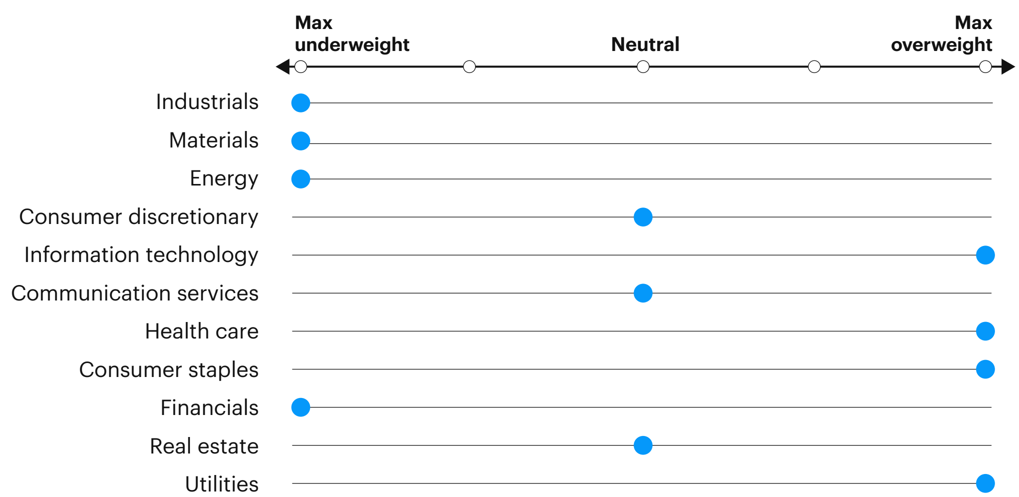
Overweight quality, low volatility, and momentum



Source: Invesco Solutions, May 1, 2025. For illustrative purposes only. Neutral refers to an equally weighted factor portfolio.

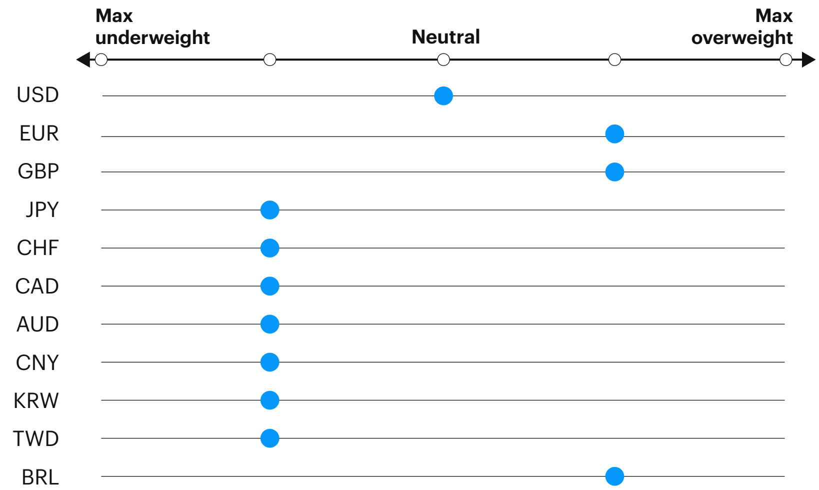
Figure 7: Tactical sector positioning

Sector exposures favoring defensives



Source: Invesco Solutions, May 1, 2025. For illustrative purposes only. Sector allocations derived from factor and style allocations based on proprietary sector classification methodology. As of December 2023, Cyclicals: energy, financials, industrials, materials; Defensives: consumer staples, health care, information technology, real estate, utilities; Neutral: consumer discretionary and communication services.

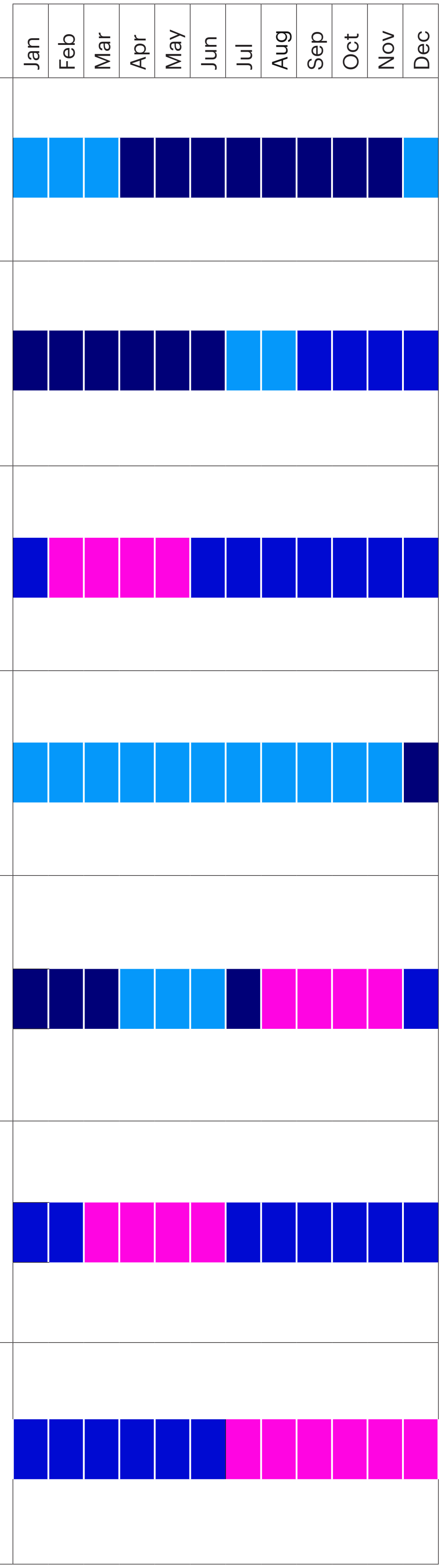
Figure 8: Tactical currency positioning
Neutral US dollar, favoring euro and sterling vs. other developed currencies



Source: Invesco Solutions, May 1, 2025. For illustrative purposes only. Currency allocation process considers four drivers of foreign exchange markets: 1) US monetary policy relative to the rest of the world, 2) global growth relative to consensus expectations, 3) currency yields (i.e., carry), 4) currency long-term valuations.

Regime signal history

■ Recovery ■ Expansion ■ Slowdown ■ Contraction



2018

- **Market sentiment:** Decelerated following Q1 as equity markets had two significant corrections: The Federal Reserve (Fed) hiked rates four times, privacy and regulatory concerns took hold of the technology sector, and trade tensions between the US and China escalated.
- **Economic data:** Was supported by a tight labor market and strong services sector, despite gradual weakening in manufacturing.
- **Our regime framework (2 shifts):** Risk-on in Q1 and rotated to a defensive stance throughout the year. Defensive asset classes outperformed, led by global fixed income.

2019

- **Market sentiment:** Bottomed early and made a significant turnaround midyear as the 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 AI advancements and China's post-COVID 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. But 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 (2 shifts):** 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.

Source: Invesco Solutions, as of Apr. 30, 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 Apr. 30, 2025, in USD, unless stated otherwise.

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