Invesco

Tactical Asset Allocation

Growth is slowing. We are overweight equity relative to fixed income, with a tilt toward defensive factors and sectors, and maintain an overweight duration stance.

Alessio de Longis, CFA
Senior Portfolio Manager,
Head of Tactical Asset Allocation,
Invesco Investment Solutions

Synopsis

- Following last month's regime transition, our framework continues to suggest the global economy is in a slowdown regime.
- Historically, this economic backdrop has led to modest but positive returns across asset classes, with a convergence in performance between growth-sensitive and defensive assets, as compensation for growth risk diminishes.
- We maintain a neutral risk stance relative to our benchmark,[1] with an overweight to equites versus fixed income but a tilt toward defensive equity factors (low volatility and quality) and sectors, and an overweight to developed market equities relative to emerging markets. We are overweight duration and neutral on credit risk, with an exposure to short and intermediate maturities.

Macro update

Following last month's regime transition, our framework continues to suggest the global economy is in a slowdown regime, with growth above its long-term trend and decelerating (Figure 1a, 1b & 2). Market participants are revising down future growth expectations as the economy transitions its engine from fiscal stimulus to private sector demand. Hawkish rhetoric by the Federal Reserve has contributed on the margin to this repricing of future growth, causing global yield curves to flatten and price-in very low nominal and real long-term rates. The emergence of the Omicron COVID-19 variant has increased the uncertainty of growth and inflation expectations for the next few quarters, justifying this softening in risk appetite. Omicron is an additional catalyst for lower growth expectations due to selective lockdown measures in parts of Europe and more stringent measures in China, where authorities pursue a zero-tolerance COVID policy. On the positive side, preliminary evidence from countries first hit by Omicron (South Africa and UK) suggest that while this variant is far more contagious, it's been less severe in terms of symptoms and hospitalization rates (in part because of the incrementally higher proportion of vaccinated population). Hence, this wave may have a shorter duration and less severe economic impact than previous ones.

Figure 1a: Macro framework points to a slowdown regime

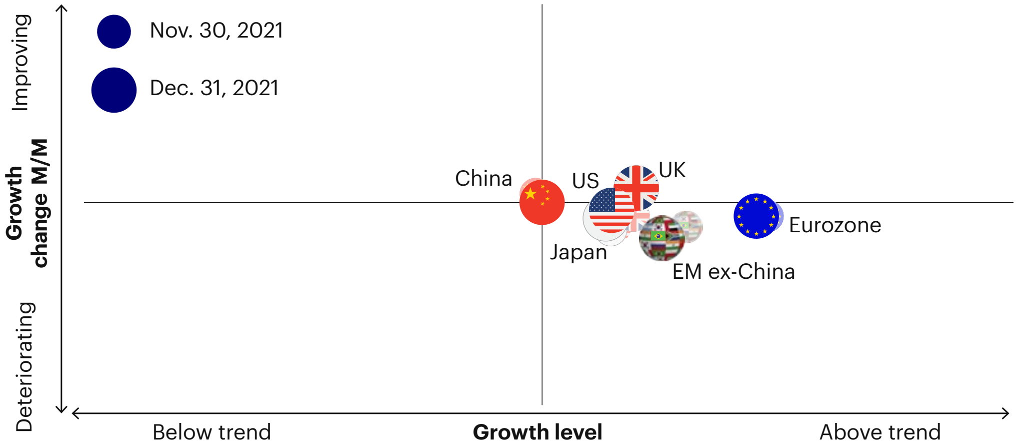
	LEIs		Global risk appetite		
Region	**Current level of growth**		**Change in global growth expectations**		**Expected macro regimes**
Global	**Above trend**	&	**Growth expectation deteriorating**	=	**Slowdown**
United States	**Above trend**				**Slowdown**
Developed markets ex-USA	**Above trend**				**Slowdown**
Europe	Above trend				Slowdown
United Kingdom	Above trend				Slowdown
Japan	Above trend				Slowdown
Emerging markets	**Above trend**				**Slowdown**
China	Below trend				Contraction
Emerging markets ex-China	Above trend				Slowdown

Sources: Bloomberg L.P., Macrobond. Invesco Investment Solutions research and calculations. Proprietary leading economic indicators of Invesco Investment Solutions. Macro regime data as of Dec. 31, 2021. 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.

1 Global 60/40 benchmark (60% MSCI ACWI / 40% Bloomberg Barclays Global Agg USD hedged)

Following last month's regime transition, our framework continues to suggest the global economy is in a slowdown regime, with growth above its long-term trend and decelerating.

Figure 1b: Leading economic indicators continue to decelerate at a moderate pace across regions

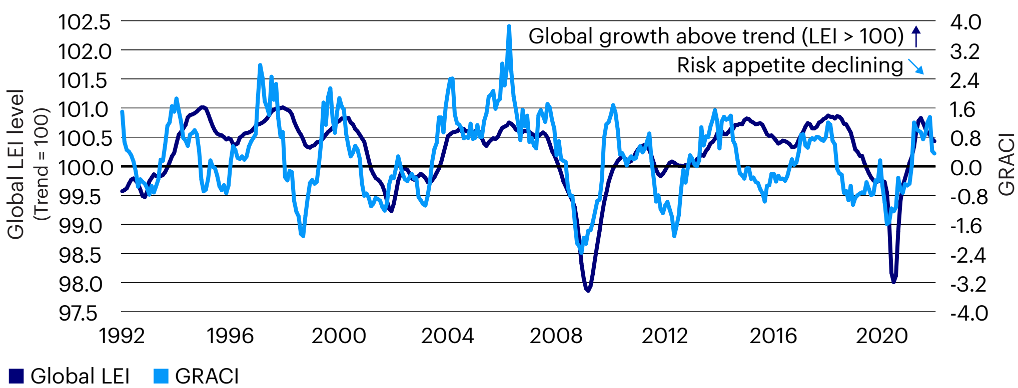


Sources: Bloomberg L.P., Macrobond. Invesco Investment Solutions research and calculations. Proprietary leading economic indicators of Invesco Investment Solutions. Macro regime data as of Dec. 31, 2021. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment.

The emergence of the Omicron COVID-19 variant has increased the uncertainty of growth and inflation expectations for the next few quarters, justifying this softening in risk appetite.

Figure 2: Global risk appetite is decelerating, signaling declining growth expectations

GRACI and the global LEI



Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Investment Solutions research and calculations, from Jan. 1, 1992 to Dec. 31, 2021. 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.

However, these COVID-prevention measures are likely to postpone the resolution of supply-chain bottlenecks, as production and transportation channels are affected by this fourth wave. As anticipated in our last update, our gauge of inflation momentum suggests abating inflationary pressures over the past few weeks, but risks of additional supply-chain disruptions due to the Omicron variant are likely to increase uncertainty about the direction and magnitude of production, labor, and transportation costs over the next few months (**Figure 3**). At this stage we still expect inflation to peak by mid-2022, but we reiterate the importance of evaluating incoming information, with risks skewed toward an inflation peak later in the year. As argued in the past, we believe high precautionary savings and anemic credit demand should keep a lid on long-term inflation expectations and interest rates.

> At this stage we still expect inflation to peak by mid-2022, but we reiterate the importance of evaluating incoming information, with risks skewed toward an inflation peak later in the year.

Figure 3a: US Inflation Momentum Indicator (IMI)

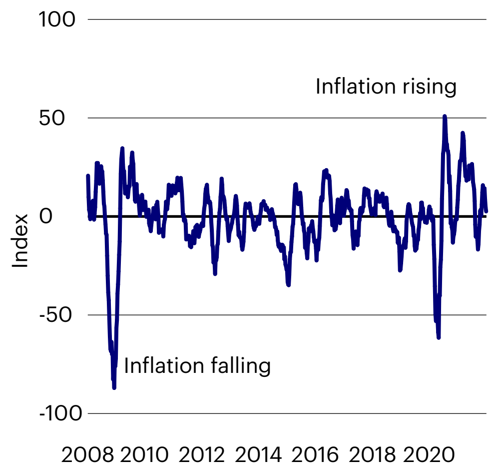
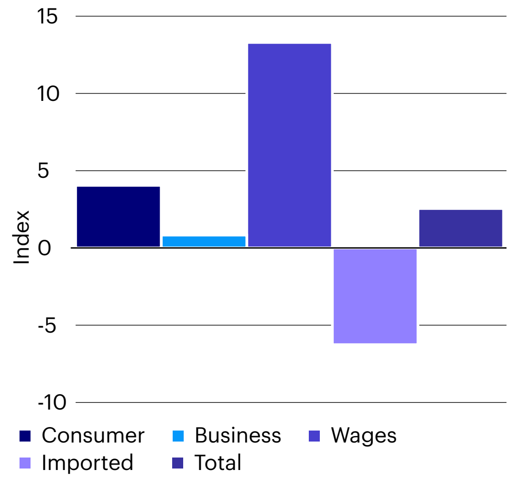


Figure 3b: IIS Inflation Momentum Indicator: Categories



Sources: Bloomberg L.P. data as of Dec. 31, 2021, Invesco Investment 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

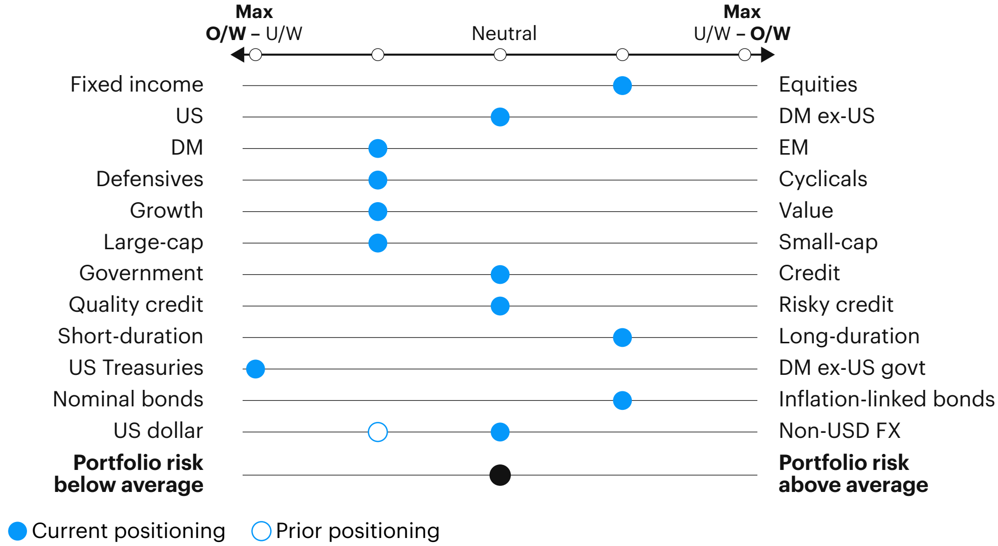
A slowing economy with growth above trend has historically been accompanied by modest but positive returns across asset classes, with a convergence in performance between growth-sensitive and defensive assets. When earnings growth expectations decelerate, compensation for growth risk diminishes (i.e., credit and equity excess returns), while compensation for duration risk tends to increase, often explaining the bulk of total returns across asset classes.

We maintain an overall neutral risk stance relative to our benchmark in the Global Tactical Asset Allocation model[1]. **We are moderately overweight equities relative to fixed income, and within equities we favor defensive sectors and factors. We maintain a neutral stance on portfolio credit risk[2], with a higher allocation to short and intermediate credit maturities, higher quality credit assets, and overweight duration relative to benchmark. (Figure 4, 5, 6).** In particular:

- Within **equities** we overweight defensive factors like quality and low volatility, which tend to outperform via a combination of declining growth expectations and higher duration properties. Similarly, we favor defensive sectors with quality characteristics and positive exposure to lower bond yields such as information technology, communication services, health care, consumer staples, etc. (**Figure 6**). From a regional perspective, we maintain an underweight exposure in emerging markets relative to developed markets as slowing global growth and a deceleration in global risk appetite provide headwinds for riskier markets.
- In **fixed income** we are overweight duration, expecting long-term bond yields to decline as growth decelerates and inflation is likely to peak over the next few quarters. We maintain a neutral credit risk stance relative to benchmark with a higher allocation to short and intermediate maturities in high yield, with more income per unit of risk, given historically tight credit spreads. We remain overweight bank loans and EM hard currency debt at the expense of investment grade on a duration-matched basis. We favor US Treasuries over other developed government bond markets given the yield advantage on a currency-hedged basis.
- In **currency markets** we move back to a neutral US dollar exposure, as negative growth surprises outside the US have abated. In developed markets we underweight the British pound, Swiss franc, Canadian dollar, and Australian dollar, while we overweight the euro, Japanese yen, Singapore dollar, Norwegian kroner, and Swedish krona. In EM we favor high yielders with attractive valuations such as the Russian ruble, Indian rupee, Indonesian rupiah, and Brazilian real. We underweight the Taiwan dollar and Korean won.

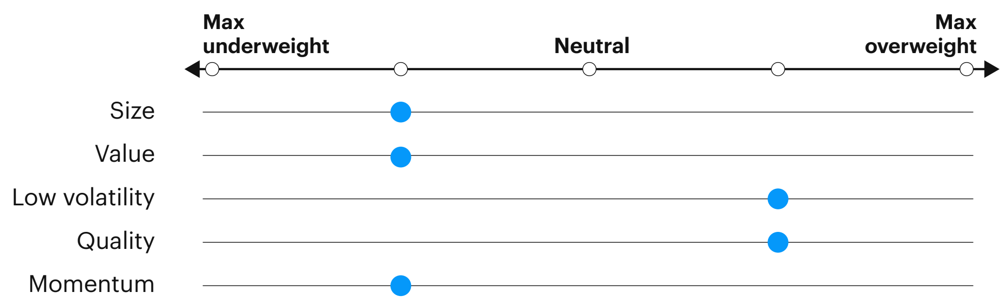
2. Credit risk defined as DTS (duration times spread).

Figure 4: Relative tactical asset allocation positioning
USD exposure back to neutral, as negative global growth surprises abate.



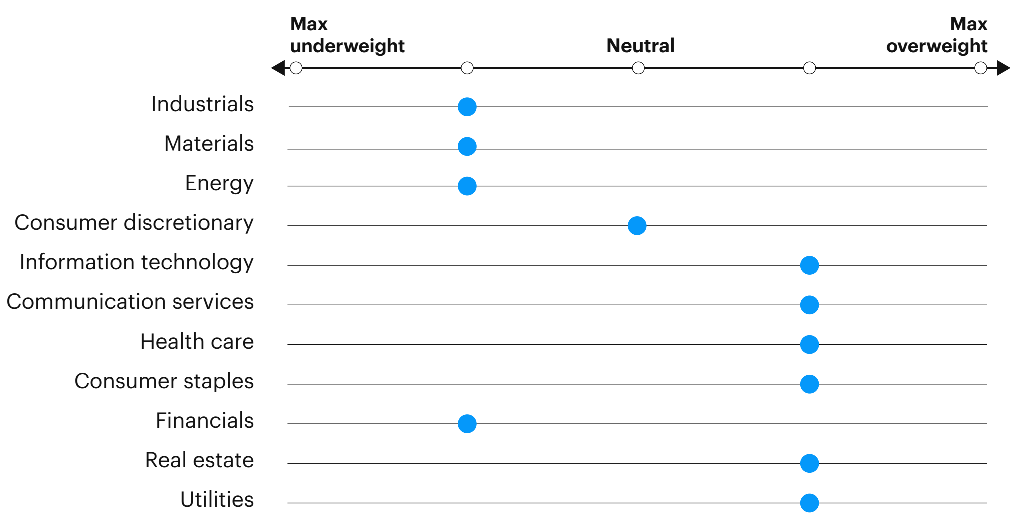
Source: Invesco Investment Solutions, Dec. 31, 2021. DM = developed markets. EM = emerging markets. FX = foreign exchange. For illustrative purposes only.

Figure 5: Tactical factor positioning
Factor tilts within the slowdown regime are toward quality and low volatility



Source: Invesco Investment Solutions, Dec. 31, 2021. For illustrative purposes only. Neutral refers to an equally weighted factor portfolio.

Figure 6: Tactical sector positioning
In a slowdown regime, we overweight defensive sectors relative to cyclicals



Source: Invesco Investment Solutions, Dec. 31, 2021. For illustrative purposes only. Sector allocations derived from factor and style allocations.

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

This article is for Professional Clients and Financial Advisers in Continental Europe (as defined below), for Professional Clients in Switzerland, for Qualified Clients/Sophisticated Investors in Israel; for Professional Clients in Dubai, Ireland, the Isle of Man, Jersey, Guernsey and the UK; for Sophisticated or Professional Investors in Australia; Institutional Investors in the United States; for accredited investors as defined under National Instrument 14-106 in Canada; for Qualified Institutional Investors in Japan; for Professional Investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for certain specific institutional investors in Indonesia and for qualified buyers in Philippines for informational purposes only. It is not intended to for and should not be distributed to, or relied upon, by the public or retail investors. For the purposes of this document, Continental Europe is defined as Austria, Belgium, Finland, France, Italy, Germany, Luxembourg, Netherlands, Norway, Spain, and Sweden.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

These materials may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. This should not be considered a recommendation to purchase any investment product. Investors should consult a financial professional before making any investment decisions if they are uncertain whether an investment is suitable for them. Please obtain and review all financial material carefully before investing. The opinions expressed are those of the authors, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. Nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

All information as of Dec. 31, 2021, in USD, unless stated otherwise.

This document is issued in:

- **Australia** This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs. You should note that this information: may contain references to dollar amounts which are not Australian dollars; may contain financial information which is not prepared in accordance with Australian law or practices; may not address risks associated with investment in foreign currency denominated investments; and does not address Australian tax issues.
- Issued in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.
- **Austria** and **Germany** by Invesco Asset Management Deutschland GmbH An der Welle 5, 60322 Frankfurt am Main, Germany.
- **Belgium, Finland, France, Italy, Luxembourg, Netherlands, Norway, Spain** and **Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- **Canada** by Invesco Canada Ltd., 120 Bloor Street East, Suite 700 Toronto, ON M4W 1B7
- **Dubai** by Invesco Asset Management Limited PO Box 506599, DIFC Precinct Building No 4, Level 3, Office 305, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- **Hong Kong** by Invesco Hong Kong Limited 景順投資 管理有限公司, 41/F, Champion Tower, Three Garden Road, Central, Hong Kong.
- **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- **UK, Ireland, Dubai, Israel, Jersey, Guernsey** and the **Isle of Man** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.
- in the **US** by Invesco Advisers, Inc., Two Peachtree Pointe, 1555 Peachtree Street, N.E., Suite 1800, Atlanta, GA 30309.

当資料ご利用上のご注意

当資料は情報提供を目的として、インベスコ・アセット・マネジメント株式会社(以下、「当社」といいます。)が当社グループの各運用拠点に在籍する運用プロフェッショナル（以下、「作成者」）が作成した英文資料を当社グループから入手してご提供するものであり、法令に基づく開示書類でも金融商品取引契約の締結の勧誘資料でもありません。当資料は信頼できる情報に基づいて作成されたものですが、その情報の確実性あるいは完結性を表明するものではありません。また過去の運用実績は、将来の運用成果を保証するものではありません。当資料に記載された一般的な経済、市場に関する情報およびそれらの見解や予測は、いかなる金融商品への投資の助言や推奨の提供を意図するものでもなく、また将来の動向を保証あるいは示唆するものではありません。また、当資料に示す見解は、インベスコの他の運用チームの見解と異なる場合があります。本文で詳述した当資料の分析は、一定の仮定に基づくものであり、その結果の確実性を表明するものではありません。分析の際の仮定は変更されることもあり、それに伴い当初の分析の結果と重要な差異が生じる可能性もあります。当資料について事前の許可なく複製、引用、転載、転送を行うことを禁じます。

受託資産の運用に係るリスクについて

受託資産の運用にはリスクが伴い、場合によっては元本に損失が生じる可能性があります。各受託資産へご投資された場合、各受託資産は価格変動を伴う有価証券に投資するため、投資リスク（株価の変動リスク、株価指数先物の価格変動リスク、公社債にかかるリスク、債券先物の価格変動リスク、コモディティにかかるリスク、信用リスク、デフォルト・リスク、流動性リスク、カントリー・リスク、為替変動リスク、中小型株式への投資リスク、デリバティブ《金融派生商品》に関するリスク等）による損失が生じるおそれがあります。ご投資の際には、各受託資産の契約締結前書面、信託約款、商品説明書、目論見書等を必ずご確認下さい。

受託資産の運用に係る費用等について

投資一任契約に関しては、次の事項にご留意ください。【投資一任契約に係る報酬】直接投資の場合の投資一任契約に係る報酬は契約資産額に対して年率0.88%（税込）を上限とする料率を乗じた金額、投資先ファンドを組み入れる場合の投資一任契約に係る報酬は契約資産額に対して年率0.605%（税込）を上限とする料率を乗じた金額が契約期間に応じてそれぞれかかります。また、投資先外国籍ファンドの運用報酬については契約資産額に対して年率1.30%を上限とする料率を乗じた金額が契約期間に応じてかかります。一部の受託資産では投資一任契約に加えて成功報酬がかかる場合があります。成功報酬については、運用戦略および運用状況などによって変動するものであり、事前に料率、上限額などを表示することができません。【特定(金銭)信託の管理報酬】当該信託口座の受託銀行である信託銀行に管理報酬をお支払いいただく必要があります。具体的料率については信託銀行にご確認下さい。【組入有価証券の売買時に発生する売買委託手数料等】当該費用については、運用状況や取引量等により変動するものであり、事前に具体的な料率、金額、上限または計算方法等を示すことができません。【費用合計額】上記の費用の合計額については、運用状況などによって変動するものであり、事前に料率、上限額などを表示することができません。

インベスコ・アセット・マネジメント株式会社
金融商品取引業者　関東財務局長（金商）第306号
加入協会　一般社団法人投資信託協会
一般社団法人日本投資顧問業協会