Press Release
For immediate release

Invesco releases 2025 Midyear Investment Outlook "The Global Reset"

- ***Continued uncertainty:*** *Precise estimates of where tariff rates will settle, timing of interest rate changes, and detailed inflation and growth forecasts remain uncertain in the near term.*
- ***Federal Reserve:*** *US rates will likely remain on hold for a while longer with potential for aggressive cutting in the event of significant slowdown of economic activity.*
- ***Non-US assets:*** *Our base case suggests that non-US assets are increasingly attractive.*

11 June 2025 – Invesco released its 2025 Mid-Year Investment Outlook with insights on the near-term expectation for global markets through the remainder of the year.

The first half of 2025 brought unprecedented challenges, led by a broad reordering of trade relations and political alliances around the globe. Uncertainty across global markets remains a constant, and plenty of unknowns remain. We remain wary about precise estimates of where tariff rates will settle, the exact timing of interest rate changes, and detailed inflation and growth forecasts. The Outlook focuses on the path beyond tariff volatility and how central banks are viewing monetary policy as we enter the second half of 2025.

Brian Levitt, Global Market Strategist, Invesco, said "We are gaining increased clarity around the trajectory of several key global trends and macroeconomic forces. While we anticipate a sustained shift toward higher tariffs and more restrictive immigration policies in the US, we also foresee elevated fiscal investment in defence and infrastructure across Europe. These dynamics suggest a more inflationary environment and moderated growth outlook for the US in 2025, relative to earlier expectations. Globally, growth may also decelerate, though likely to a lesser extent. A constructive resolution of trade tensions and the potential benefits of regulatory easing could continue to support market resilience."

Base case: Non-US assets are increasingly attractive

In the Outlook's **Base Case**, US domestic policy volatility and uncertainty are likely to persist for the remainder of 2025. While US tariffs remain at multi-decade highs, they are well below the levels announced on "Liberation Day," and US-China trading relations are expected to gradually improve. These combined effects are likely to cause a mild slowdown, yet the extension of tax cuts and deregulation provide potential tailwinds for the trajectory of the US economy.

"We are confident that non-US assets are increasingly attractive and poised for continued outperformance. The current market environment is an opportunity for investors to diversify their portfolios across regions and asset classes, as well as to reduce concentrations. This may help in weathering volatility while also allowing investors to benefit from potential upside surprises," Levitt added.

The inconsistencies between the hard data, which points to keeping rates on hold, and the soft data, signalling an impending slowdown justifying rate cuts, puts the Fed in a challenging position over the coming months. The Outlook suggests that US rates will stay on hold for a while longer but then be cut aggressively in the event of significant slowdown in activity.

Meanwhile, monetary policy paths are diverging globally, with central banks outside the US finding greater flexibility to ease as US tariffs and a weaker dollar contribute to disinflationary pressures abroad. This has already prompted more aggressive rate cuts than initially expected, with the European Central Bank's actions supporting consumer confidence and spending. In a parallel shift, German Chancellor Friedrich Merz's pledge to do 'whatever it takes' to defend Europe—alongside the suspension of Germany's debt brake—has unlocked significant fiscal space, driving increased infrastructure and defence investment. Together, these developments provide a meaningful tailwind for European growth over the coming decade.

The Bank of Japan remains an outlier among major central banks, maintaining a tightening bias. While further rate hikes may be delayed until late 2025 or early 2026, we continue to expect additional tightening over time. This divergence in policy is likely to provide ongoing support for the Japanese yen.

Investment implications

While markets have recovered following the "Liberation Day" announcement of reciprocal tariffs and subsequent pauses, the Outlook favours broad diversification across geographies and asset classes given continued uncertainty and the potential for further surprises.

Within **equities**, we favour low volatility, quality, and high dividend factors within the US while limiting exposure to mega-cap names. We anticipate non-US equities to outperform through the remainder of the year, led by European and Asian equities.

In **fixed income**, we prefer global ex-US bonds and local currency emerging market bonds. We favour a slight underweight across most credit sectors and a cautious approach to portfolio risk-taking.

Elevated downside growth risks, high equity valuations, and benign capital markets activity have led us to remain neutral on risk for **alternative assets.** We generally lean defensive in this area, favouring private credit and hedged strategies over private equity.

Among major **currencies**, a widespread reallocation away from US assets could cause a weakening of the US dollar, leading us to favour major developed currencies such as the euro and the pound.

Alternative scenarios

Given the uncertainty surrounding the Base Case, the Outlook incorporates a range of alternative outcomes.

In a **downside scenario**, there is risk that US policy triggers reciprocal tariffs from other nations and limited deals are negotiated. This could result in geopolitical tensions escalating further with imports to the US falling significantly. In this case it is likely that the US enters a recession, and global growth experiences a significant slowdown, while tariffs elsewhere push up prices outside of the US. Favoured assets in this scenario include non-US low volatility and defensive equities, non-US sovereign debt, hedged strategies, gold, and 'safe haven' currencies such as the Japanese yen and Swiss franc are preferred.

Alternatively, an **upside scenario** could occur where the US administration engages in a policy pivot, tempering tariff and immigration policy while focusing more on pro-growth policies. This could result in partial normalization of trade policy and an improved growth outlook outside the US, offsetting a mild US slowdown and improving relations between the US and China. In this scenario, a more 'risk-on' positioning is preferred, favoring small- and mid-cap value equities, US investment-grade and high-yield bonds, private and real estate equity, CLO equity, industrial commodities, the US dollar, and 'commodity currencies' like the Canadian and Australian dollars.

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