
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.*

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ATLANTA, June 11, 2025 – Invesco released its 2025 Midyear 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. The Global Market Strategy team remains 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.

“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 defense and infrastructure across Europe,” said Brian Levitt, global market strategist, Invesco. “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 defense 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, the Outlook expects 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 favors broad diversification across geographies and asset classes given continued uncertainty and the potential for further surprises.

Within **equities**, the Outlook favors low volatility, quality, and high dividend factors within the US while limiting exposure to mega-cap names. Non-US equities are anticipated to outperform through the remainder of the year, led by European and Asian markets.

In **fixed income**, global ex-US bonds and local currency emerging market bonds are preferred. The Outlook favors 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**. A defensive posture is generally preferred in this area, with a focus on 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 favor 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. Favored 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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All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Diversification does not guarantee a profit or eliminate the risk of loss.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

Stocks of small- and mid-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

Alternative products typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.

Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments. Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

High yield bonds, or junk bonds, involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

Investments in real estate-related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

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Tightening monetary policy includes actions by a central bank to curb inflation.

Inflation is the rate at which the general price level for goods and services is increasing.

Interest rate volatility measures the extent to which interest rates change over time.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

A policy rate is the rate used by central banks to implement or signal their monetary policy stance.

A risk asset is generally described as any financial security or instrument that carries risk and is likely to fluctuate in price.

Risk-on refers to price behavior driven by changes in investor risk tolerance; investors tend toward higher risk investments when they perceive risk as low.

Safe havens are investments that are expected to hold or increase their value in volatile markets.

The yield curve plots interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates to project future interest rate changes and economic activity.

The opinions referenced above are those of the author as of May. 30, 2025. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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