

October 2026**Synopsis**

- Growth remains resilient, with above-trend readings across most sectors of the economy. US central bank policy remains in focus, as tighter financial conditions continue to pressure asset prices.
- Modest overweight to 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.

Above-trend economic growth and moderating levels of risk appetite continue to warrant a diversified approach to asset allocation. Our framework suggests that the economic cycle is approaching an important juncture, with the next phase likely shaped by one of two paths: Continued resilience in corporate and economic fundamentals, supporting further upside, or softer growth as global financial conditions tighten.

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: Resilience at an important juncture

Economic growth remains resilient. Led by the US, our measure of global economic growth, based on leading economic indicators (LEI), continues to register above trend. Underlying US economic strength was validated by the Fed during the September Federal Open Market (FOMC) meeting as well, as a hike in short-term interest rates came, “at a time when the American economy appears to be strengthening.” This strength appears to be pervasive, with all measured sectors of the economy within our LEI, except measures of consumer sentiment and growth within the housing market, registering above-trend. Additionally, real-time estimates of US economic growth remain at strong levels, with the Atlanta Fed GDPNow model estimating third-quarter real gross domestic product (GDP) growth at an annualized rate of nearly 4%, which is strong relative to the history of the measurement. Above-trend readings of economic activity also extend beyond the US, as developed non-US economies follow suit, with similarities to the US including stronger readings of manufacturing activity and business surveys.

Our measures of risk appetite remain positive, however, the rate of change continues to moderate. While strong corporate earnings growth, supported by the monetization of the AI buildout, continues to provide a tailwind for equity markets, rising bond yields and tighter financial conditions have put pressure on longer-duration assets. Additionally, the risk-reward tradeoff that global multi-asset investors face has become increasingly complex. Higher bond yields continue to challenge the value proposition offered by equity markets that stand at less than 2% from all-time high levels. These dynamics, together with ongoing geopolitical risks and political uncertainty heading into the US midterm elections, in our view, justify prudent risk-taking as financial markets search for direction. As a result, our framework remains in a slowdown regime, reflecting above-trend global economic growth alongside a continued moderation in global risk appetite (**Figures 1a, 1b, 1c, 2**).

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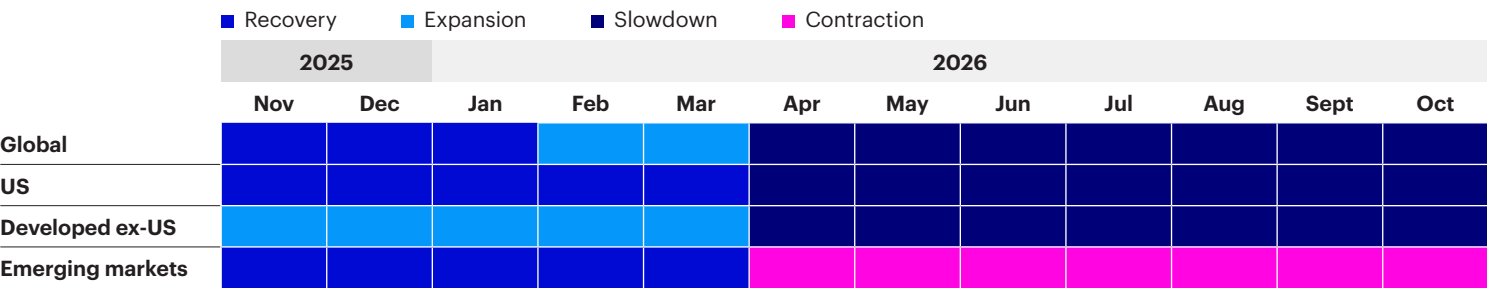
Our framework remains in a **slowdown** regime, reflecting above-trend global economic growth alongside a continued deceleration in global risk appetite.

Figure 1a: Regional regime signals and components

Region	LEIs Current level of growth	GRACI Expected change in global growth	Expected macro regime
Global	Above trend ▲	Decelerating ↓	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 ■

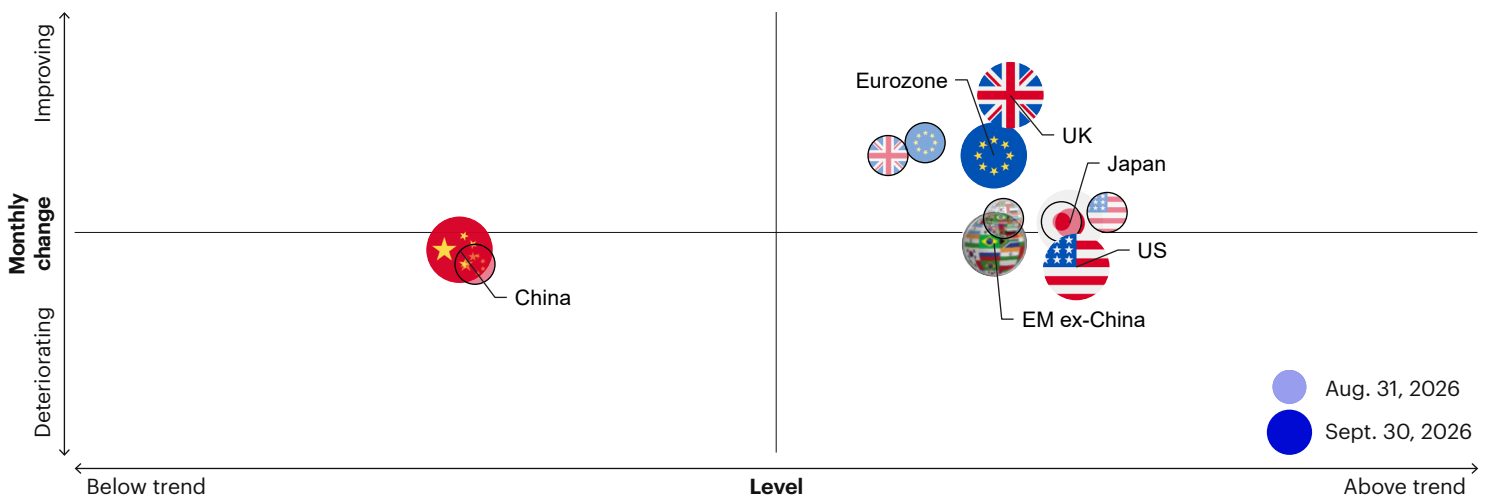
Sources: Bloomberg L.P., Macrobond, Invesco Solutions and Custom Strategies research and calculations as of Sept. 30, 2026. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level 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



Source: Invesco Solutions and Custom Strategies as of Sept. 30, 2026

Figure 1c: Regional Leading Economic Indicator (LEI) level vs. monthly change

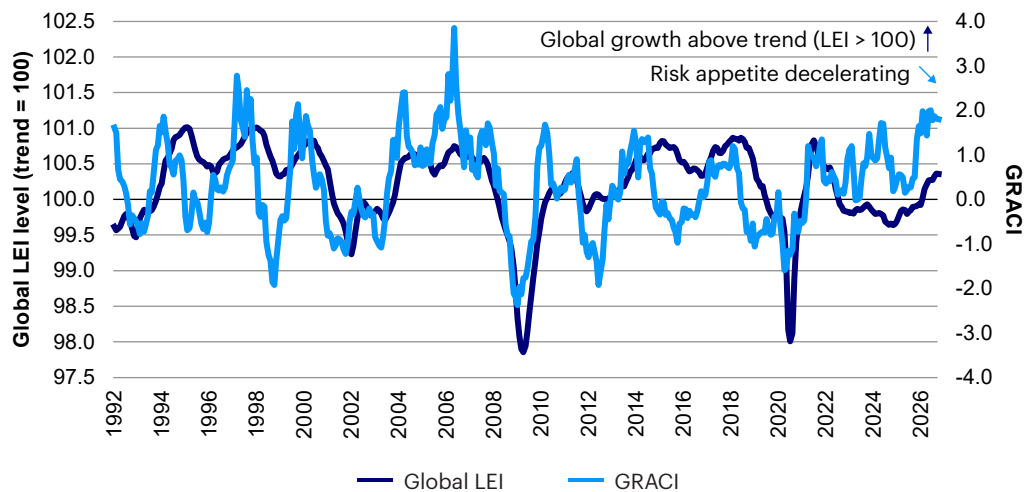


Sources: Bloomberg L.P., Macrobond, Invesco Solutions and Custom Strategies research and calculations as of Sept. 30, 2026. Proprietary Leading Economic Indicators of Invesco Solutions and Custom Strategies. The Leading Economic Indicators (LEIs) are proprietary, forward-looking measures of the level of economic growth.



Higher bond yields continue to challenge the value proposition offered by equity markets that stand at less than 2% from all-time high levels.

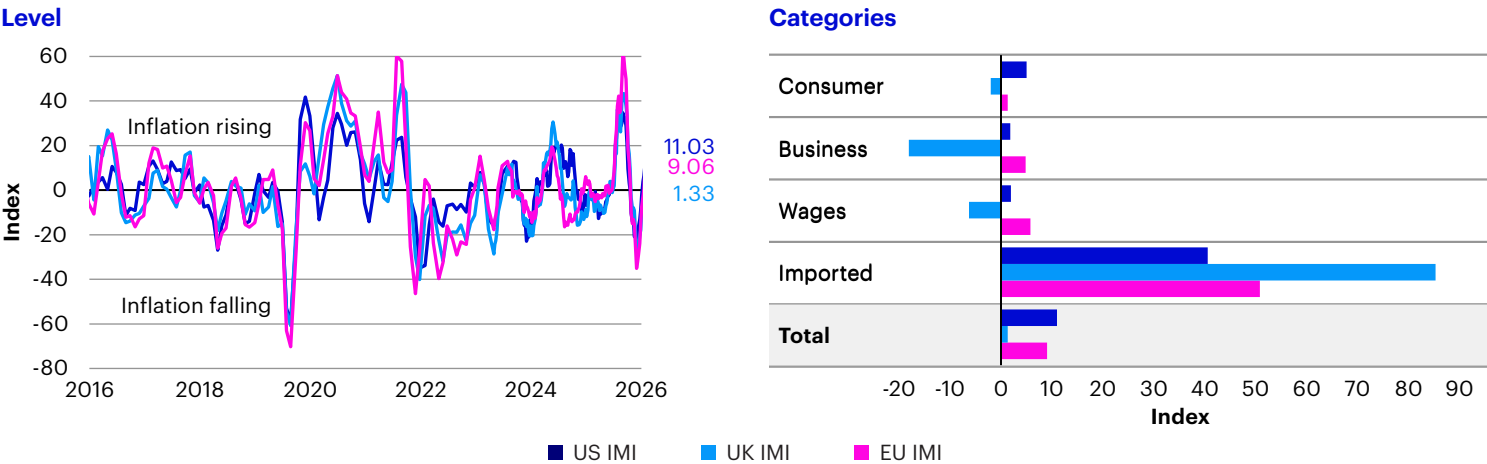
Figure 2: Global LEI and GRACI



Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Solutions and Custom Strategies research and calculations, from Jan. 1, 1992, to Sept. 30, 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.**

Geopolitical risks remain elevated and cannot be discounted as the US-Iran conflict continues to be unresolved. This lack of progress continues to have negative ramifications for energy prices, as the global benchmark for crude oil has appreciated significantly, approaching levels last seen in March. Importantly, crude oil has remained elevated for a substantial period, continuing to put cost pressures on global consumers paying for refined products including gasoline, diesel, and heating oil. As a result, inflation momentum has reaccelerated by our measures, most notably through global energy prices (Figure 3).

Figure 3: Regional Inflation Momentum Indicator (IMI)



Sources: Bloomberg L.P., Invesco Solutions and Custom Strategies calculations as of Sept. 30, 2026. The 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.



A continuation of current growth levels can potentially overcome tighter financial conditions, or tighter financial conditions may reach levels where growth becomes inhibited.

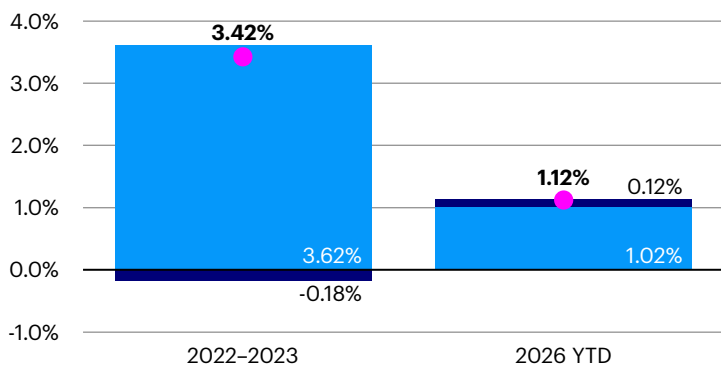
Our framework suggests the economic cycle is approaching an important juncture as risks to economic growth begin to reemerge. The 25 basis-point hike by the Fed is unlikely to impede economic growth or alter the path of the current corporate earnings cycle. But signals about the future rate path and the resulting tightening of financial conditions pose risks to both economic and corporate fundamentals. Fed Chairman Kevin Warsh stated in prepared remarks, “I would be hard pressed to describe broad financial conditions as restrictive. This view was widely shared by the Committee. So we removed a dose of accommodation.” This implies that accommodation still exists and that more rate hikes could follow. Risk assets repriced as the US Treasury curve flattened and signals of early stress within sectors of the high yield corporate bond market emerged.

The rising correlation between equities and fixed income has become a renewed topic of concern, forcing many investors to draw parallels to recent history. Additionally, real interest rates have become a key focus, with the real 10-year Treasury yield nearing 3%. The last time real rates moved this significantly was in 2022–2023, when post-pandemic inflation, rising stock-bond correlations, and negative returns across equities and fixed income led many multi-asset investors to question the role of traditional bonds. The nominal 10-year yield rose nearly 350 basis points, from January 2022 through October 2023, driven entirely by higher real yields as inflation expectations declined modestly. This repricing accompanied 12 Fed rate hikes totaling 525 basis points and coincided with negative returns for both equities and fixed income. Today’s 112 basis-point increase in the nominal 10-year yield has followed a similar pattern, reflecting roughly 100 basis points of higher real yields and a 12 basis-point rise in inflation expectations. However, the underlying backdrop differs in three important ways:

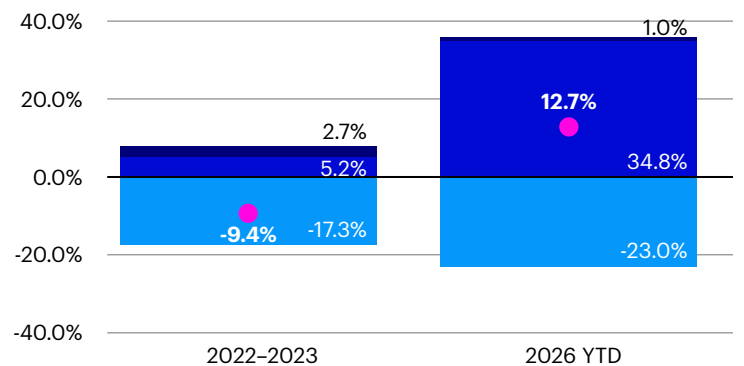
- First, core personal consumption expenditures (PCE) inflation began this year at 2.9% and now stands at 3.0%, compared with 5.1% at the start of 2022 and 3.6% by October 2023, when real rates peaked.
- Second, the starting point of real interest rates matters. In 2022, real rates started at -1.1%, and rose to 2.5%, versus a rise from 1.9% to 2.9% year to date. This reflects a more constructive economic backdrop prior to the first Fed rate hike this year compared to 2022.
- Third, earnings expectations rose only 5.2% in 2022–2023, only partially offsetting a 17% contraction in multiples, compared to a 35% growth year to date, which has more than offset a 23% contraction in multiples (**Figure 4**).

Figure 4: Similar real-rate pressure, stronger fundamental support

Decomposition of changes in 10-year Treasury yields



Decomposition of S&P 500 total returns



Sources: Bloomberg L.P., Invesco Solutions and Custom Strategies calculations as of Sept. 30, 2026. 2022–2023 time encompasses data from Dec. 31, 2021, to Oct. 31, 2023. Inflation expectations defined as the yield of 10-year Treasury breakevens. Real rates defined as the nominal 10-year Treasury rate less breakeven rates.

The parallel to 2022–2023 is instructive but incomplete. Stronger economic momentum and historic earnings growth have enabled markets and the economy to absorb tighter financial conditions more effectively so far. Going forward, the question is how much financial tightening can occur before impeding on economic and corporate earnings growth. A continuation of current growth levels can potentially overcome tighter financial conditions, or tighter financial conditions may reach levels where growth becomes inhibited.



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.

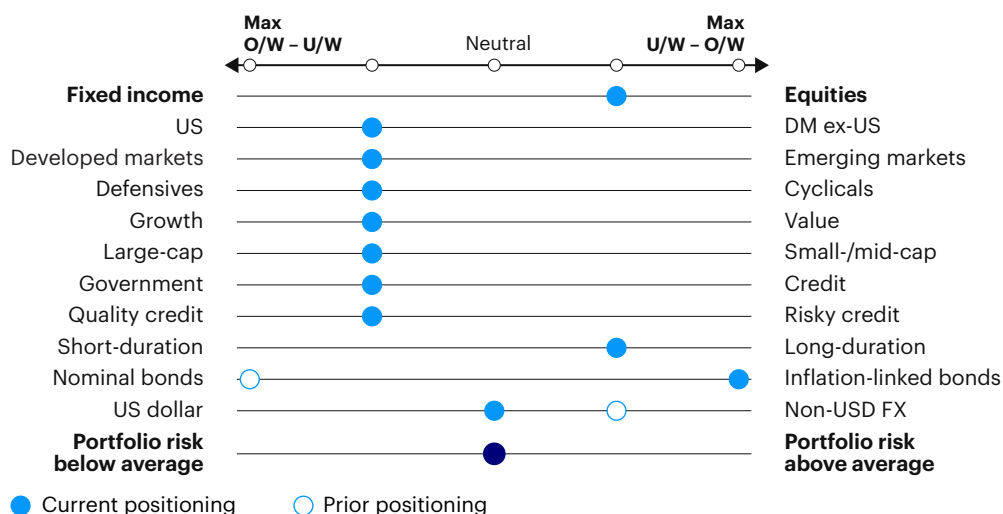
Therefore, the current mix of positive and negative risks warrants portfolio diversification, with an emphasis on maintaining exposure to assets that can outperform in potential upside scenarios, while hedging growth risks. Historically, periods of above-trend but slowing growth have been associated with modestly positive returns across asset classes, and performance convergence between growth-sensitive and defensive assets. This convergence continues to shape our tactical view and is reflected in the balanced and targeted investment positioning (**Figures 5 to 8**).

Investment positioning

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. It allows 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.

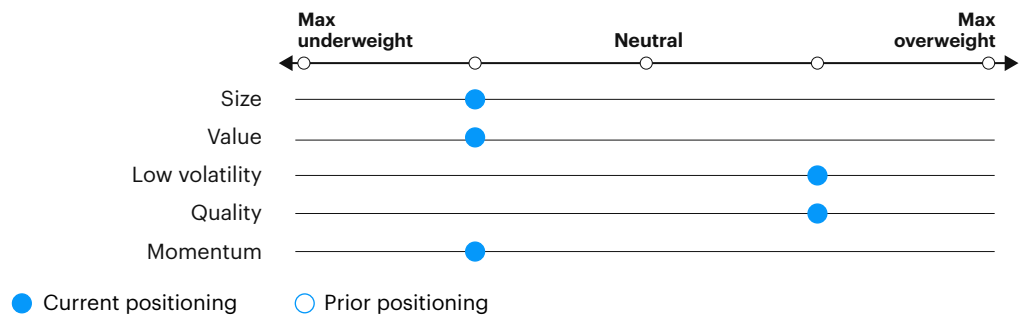
- In **equities**, we maintain an overweight to defensive factors such as quality and low volatility. Defensive factors have historically performed well during slowdown regimes due to more stable cash flow profiles and lower sensitivity to changes in growth dynamics. At the sector level, we favor exposures with defensive characteristics and durable fundamentals, including select areas within information technology, health care, and consumer staples, at the expense of more cyclical areas. From a regional perspective, we 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 inflation-linked bonds as inflation momentum has resurfaced.
- In **currency markets**, we move to a neutral stance on 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 5: Relative tactical asset allocation positioning



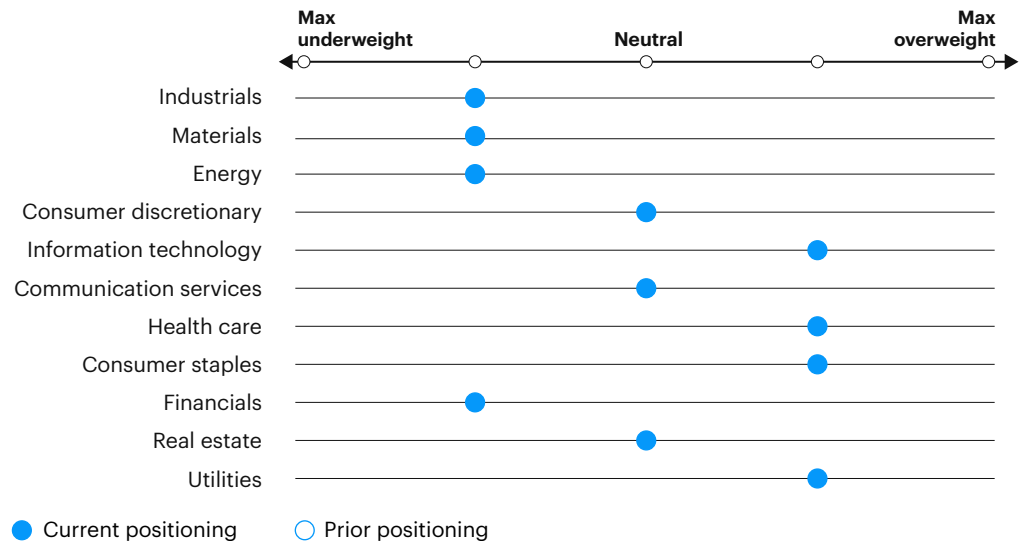
Source: Invesco Solutions and Custom Strategies as of Oct. 1, 2026. Non-USD FX refers to foreign exchange exposure as represented by the currency composition of the MSCI ACWI Index. For illustrative purposes only.

Figure 6: Tactical factor positioning



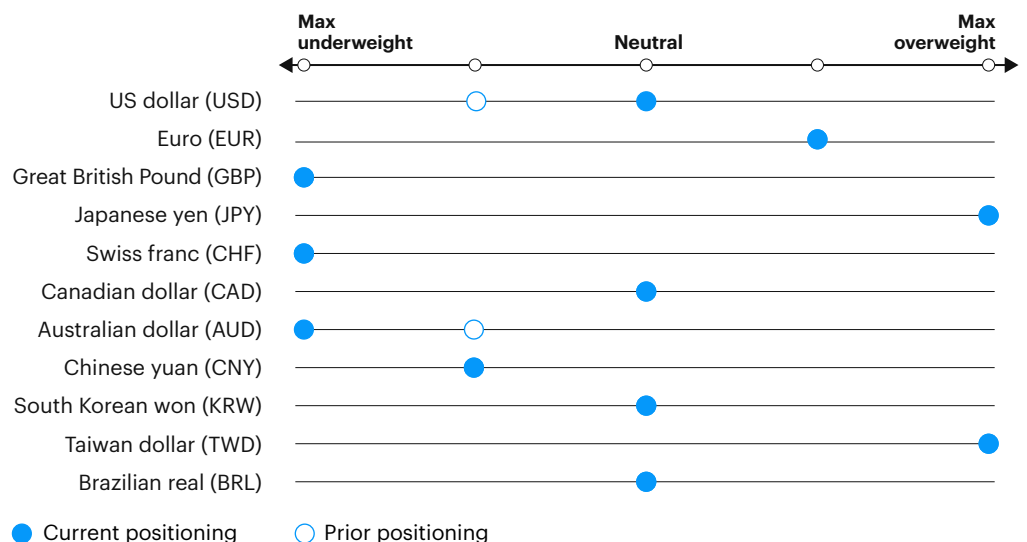
Source: Invesco Solutions and Custom Strategies as of Oct. 1, 2026. Neutral refers to an equally weighted factor portfolio. For illustrative purposes only.

Figure 7: Tactical sector positioning



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

Figure 8: Tactical currency positioning



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

Regime signal history

■ Recovery ■ Expansion ■ Slowdown ■ Contraction

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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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