Divergent hiking cycles create EM opportunities

The last 18 months have seen a flurry of central bank activity. Even before the pandemic, many emerging market (EM) central banks had begun to lower their policy rates, as the US policy rate peaked and EM inflation remained subdued. Once the pandemic hit and developed market (DM) central banks pivoted to extraordinary easy monetary policy, the flood gates were opened for EMs to follow suit. Most EMs brought real rates close to zero. A few, like the Philippines and Mexico, remained cautious, implementing limited or gradual cuts. Others pushed their monetary policies to the limit, such as Brazil, Chile, Peru, Poland, the Czech Republic and Thailand.

In early 2021, a reversal of extraordinary stimulus was in the cards with economic activity headed for recovery. The vaccine rollout gave the US a head start in the global growth recovery, while most other DMs lagged behind. EMs remained, as expected, well behind. But as the growth story played out, market attention shifted to inflation.

Inflation – transitory or persistent? Central banks respond

Base effects drove up inflation around the world, but price pressures were forecast to be transitory and peak in the second and third quarters of 2021. Stubborn supply chain challenges and commodities inflation, however, changed market and central bank perceptions and began to influence inflation expectations. Starting with Russia and Brazil in Q1 2021, EM central banks were forced to change tack, hiking more quickly than expected. Soon, the Central and East European (CEE) central banks followed suit. They moved before most Latin American countries that had either faced no initial inflation challenges, such as Chile, Colombia and Peru, or that had remained cautious on monetary stimulus, such as Mexico.

During this time, market focus quickly shifted from one country to another, pressuring central banks to hike by forcing rates higher and often weakening currencies. In some cases, this impacted economic fundamentals, forcing an earlier reversal than was initially warranted.

While some DM central banks have recently joined these moves with the withdrawal of some stimulus, we believe the urgency to tighten is not only related to inflation concerns but also to financial stability. We believe the Fed’s gradual, well-telegraphed unwinding of its extraordinary stimulus will ensure that EM central banks can adjust to positive real interest rates (and a significant spread over US real rates) by the second quarter of next year, as inflation in most EMs is expected to converge toward their targets as supply chain challenges fade.

Global policy rates have bottomed

The average policy rate of 20 EM central banks has risen from a low of 2.7% a year ago to 3.6% today (Figure 1), while DM central bank rate hikes have been limited to only small hikes by Norway and New Zealand. Most other DMs have announced plans to taper or are talking about future rate hikes. While we expect the average EM policy rate to increase over the next few quarters, we believe it will be gradual and primarily based in Latin America, as the early hikers are nearing the end of their cycles and most of the Asian central banks will likely remain on hold. Countries that can maintain capital account surpluses and have more credible central banks will likely be in a stronger position to withstand market pressures to hike. Overall, we expect the pace of rate hikes to slow significantly by early 2022.
Global central banks choose various paths
While idiosyncratic stories will likely shape the EM landscape, as always, DM central banks will likely be less susceptible to current commodity and goods inflation, since these factors represent a smaller share of their respective consumer price indices. Service sector prices are generally expected to be under less pressure.

The picture of a very gradual reversal of stimulus painted by the Fed and European Central Bank (ECB) gives other DM central banks some leeway in answering the “transitory versus persistent” question when it comes to the nature of inflation. The Norges Bank, the Bank of England and the Reserve Bank of New Zealand are on the hawkish side, the Bank of Japan and the Swedish Riksbank are on the dovish side and the Bank of Canada and Reserve Bank of Australia are more aligned to the middle.

In Latin America, the hiking cycle was initiated early this year by Brazil, followed by Mexico in June (surprisingly) and Chile, Peru and Colombia later in the summer. Being mostly inflation-targeting central banks, we expect them to continue to normalize policy over the next few months.

In Europe, Russia was the first country to hike policy rates in March while Poland, Hungary, the Czech Republic and Romania hiked in the summer. Russia is near the end of its cycle and will likely only implement one or two more hikes. In contrast, South Africa has not initiated a hiking cycle, as inflation has only become an issue in the last month. It remains to be seen when South Africa will be pushed to hike, most likely early next year due to its preference for growth. Turkey is an exception and has followed an unorthodox policy, having begun a cutting cycle in the face of persistently high inflation.

Asia differs from the other regions and most central banks are not expected to begin hiking cycles this year due to better underlying economic fundamentals, including current account surpluses and acceptable levels of inflation. Most Asian central banks also appear comfortable with some currency depreciation and consequent pass-through inflation. The Bank of Korea is the only central bank starting its hiking cycle and is focused on financial imbalances, such as an overheating housing market, versus inflation concerns.

Policy and EM local bond performance
The recent global shift in central bank policy stance has led to negative performance in EM local market bonds year-to-date, driven more by higher interest rates than weaker currencies.1 There are also regional differences. Asia outperformed the Central and East European, Middle East and African (CEEMEA) countries, and CEEMEA outperformed Latin America. Chile and Peru were the worst performers, driven mainly by idiosyncratic political stories versus the external macro environment.

While it is hard for an investor to be excited about nominal rates globally,
given concerns about the persistence of “transitory” inflation, various market segments are attractive from a technical, valuation or idiosyncratic perspective, in our view. In EM local debt, we prefer to avoid countries with low short-term yields, such as in CEE. We favor curve flatteners for steeper yield curves where central banks have not, or have just, begun, to tighten, such as in Colombia and South Africa. We favor long-dated paper in countries close to the end of their hiking cycles, such as Russia and potentially Brazil. In DM, we favor avoiding longer-term maturities in core markets, such as the US and core Europe, and maintain a tactical stance toward the European periphery and DM countries in which a front-loaded hiking cycle appears to be priced in.

Conclusion
The opposing forces of fading policy stimulus and accelerating re-opening, supply chain disruptions, labor market dislocations in certain sectors and the regulatory shift in China will likely contribute to a few more quarters of uncertainty and challenges. As Bank of England Governor, Andrew Bailey, summed it up in a recent speech - like in competitive sports, we may now be in for “the hard yards”. While his comment may be extrapolated to other DM central banks, EM central banks are already well into those hard yards.

Amid the diverse central bank approaches across EM and DM, what is clear is that 2022 is being set up as a compelling opportunity in EM, as we expect inflation to fade by the second quarter of next year and interest rate differentials to rise versus DM.

Figure 2: One year forward one-year interest rates (EM vs. US)

### Interest rate outlook

**US: Underweight.** Economic growth has been consistent with the start of Fed tapering in Q4. We reiterate the Fed’s view that tapering does not signal significant tightening. Although the standards to taper may be met in 2021, we believe the Fed will be slow to hike rates as it waits for unemployment data to improve and inflation data to stabilize, giving it more confidence in the sustainability of prices. As a result, we expect to see upward pressure on US Treasury yields over the longer term. In the near term, however, we are watching risks closely – such as supply chain constraints, fiscal policy developments and a possible miscommunication around tapering that could cause market participants to believe the Fed is tightening significantly. Such concerns could generate a safe-haven bid for US Treasuries.

**Europe: Neutral.** Market expectations of ECB policy have changed dramatically in the last month. After pricing cuts as recently as this summer, the interbank market is now pricing a 10-basis point hike in the deposit rate by the end of 2022 and a cumulative 30 basis points of hikes by the end of 2023. Although rising energy prices and supply chain constraints will likely cause sustained inflation, we do not expect eurozone inflation to remain above the ECB’s 2% target (which would justify the start of a hiking cycle in 2022 or 2023). A higher inflation profile will, however, likely influence the ECB’s discussions about the future of quantitative easing (QE) when its bond purchasing program (PEPP) ends in March. Market consensus puts the ECB’s pace of bond purchases at approximately EUR40 billion per month starting in March versus EUR70 billion currently. However, higher inflation increases the downside skew to this estimate. Recent reports suggest the ECB might be leaning toward a flexible QE program, which doesn’t have a fixed pace and is not constrained by the capital key. While the ability to deviate from the capital key beyond the end of the PEPP may be positive for peripheral bonds, a lower overall pace of QE should lead to higher long-term rates. Overall, this implies a steeper yield curve, as the ECB anchors short-term rates and a slower pace of QE raises the pressure on long-term rates.

**China: Overweight.** We see room for Chinese rates bonds to outperform in Q4 2021. In addition to weaker economic activity in Q3, we now see Q4 as equally, if not more, challenging in terms of economic momentum. The central bank is expected to be more flexible in its liquidity management, especially considering the central and local government bond pipeline for Q4. There is a rising likelihood that the central bank will ease in the quarter ahead.

**Japan: Underweight.** 10-year Japanese government bond (JGB) yields have risen by four basis points in the last month, largely following the US and European markets. However, domestic conditions are also becoming more supportive of higher yields, with economic data improving as COVID-19 restrictions are eased and there is some speculation of further fiscal stimulus after the accession of new Prime Minister Kishida.

**UK: Neutral.** Valuations have adjusted significantly over the last month, with the market now pricing 90 basis points of rate hikes over the next 14 months. As a result the risk-reward calculus of being short bonds is no longer very attractive, in our view. However, current dynamics don’t support a large move down in yields either, as inflation pressures continue to build, and this is becoming the Bank of England’s (BoE) key concern. Beyond short-end pricing, the term premium is also still very compressed, limiting the scope for lower long-term yields, even in a lower growth and inflation environment.

**Canada: Overweight.** The domestic economy is gathering momentum as pandemic-related restrictions ease across the country. The outperformance of the Canadian dollar is providing some respite from global inflationary pressures, but capacity constraints have surfaced as labor shortages have become more acute and demand remains strong. Relative valuations have become most attractive in the front end of the yield curve, in our view, where the market has priced a faster pace of rate hikes by the Bank of Canada relative to the Fed.

**Australia: Neutral.** Australian 10-year government bond yields have risen by over 50 basis points since the end of August. A relatively hawkish Reserve Bank of Australia (RBA), the rapid rollout of vaccines (raising hopes of an imminent reopening of the economy) and a global shift toward higher bond yields driven by inflation concerns, have contributed to the move. Looking ahead, reopening dynamics and global factors are likely to support higher yields. However, valuations now appear relatively attractive on an outright and cross market basis, in our view. The market is currently pricing 37 basis points of RBA hikes in 2022, despite statements by Governor Lowe that these aren’t likely before 2024. In addition, spreads to US Treasuries are now back to the wides seen in Q1, despite Australia’s more benign inflation outlook.
USD: Neutral. The US dollar has found strength recently, though it has remained in a tight range since July. We believe this will be the story in the near term as the market focuses on dollar-supportive factors (a tapering Fed, Delta-variant concerns) rather than the longer-term view that the Fed will remain on the sidelines post-tapering. We believe the Fed will remain one of the more accommodative global central banks over the longer term, largely underpinned by its commitment to an average inflation target and its patience regarding inflationary data. This will likely force investors to look elsewhere for better yielding opportunities, ultimately putting downward pressure on the currency.

EUR: Neutral. The negative terms of trade shock caused by higher energy prices and the dovishness of the ECB relative to other central banks continues to weigh on the euro, particularly versus commodity exporting currencies and the US dollar. However, the euro should still be relatively well supported versus other currencies, such as the British pound, which are suffering similar headwinds.

RMB: Overweight. We are positive on the potential performance of the renminbi versus the US dollar in Q4 2021. This is on the back of favorable fundamentals and policies that could support renminbi appreciation. In addition to strong export data in recent months, the softening of US-China trade tensions in the past few years could provide a catalyst for the renminbi’s performance. We expect a relatively limited impact on net capital flows from China’s upcoming measures to open more channels to outflows.

JPY: Neutral. The yen has depreciated by almost four percent on a trade weighted basis in the last month. This move has been driven by higher international interest rates, which have led to an increase in Japanese investor outflows, and higher oil prices, which are negative for Japan’s trade balance. More hawkish central banks internationally could lead to an even wider interest rate differential, but valuations are already very cheap, in our view, relative to the level of rate differentials.

GBP: Underweight. The UK is facing a stagflationary environment, with decelerating growth and accelerating inflation pressures. This should not be positive for the British pound, as it reflects worsening terms of trade due to higher natural gas prices and Brexit-related supply disruptions and could lead to lower real yields, despite market pricing of faster BoE hikes. Risk assets also typically don’t react well to stagflation, which reduces the scope for mergers and acquisition inflows, which have been a key support for the pound year-to-date.

CAD: Overweight. Commodity prices, led by energy, provide a strong tailwind for the ongoing outperformance of the Canadian dollar, in our view. The recent rise in short-term yields, provides foreign investors with improved valuations with which to capture some of the highest short-term yields in developed fixed income markets.

AUD: Neutral. The Australian dollar is caught between the downside risk posed by global growth fears, particularly focused on China, and the relative resilience of Australia’s domestic economy. Australia has benefited from a successful vaccine rollout and a sharp rally in natural gas and coal prices, which have boosted the country’s terms of trade, despite a fall in iron ore prices since Q1.

High yield spreads are at historical tights and new issuance has rolled out at a record pace this year (Figure 1). Surely, these must be signs of froth in high yield? In our view, low yields and tight spreads are a function of extraordinary monetary stimulus and are justified by a low default environment.

In previous cycles, aggressive issuance and tight spreads were accompanied by flat or inverted yield curves, which signaled later-stage economic conditions. History has shown that these types of conditions are less attractive times to invest in high yield, due to lower compensation for risk ahead of what could be a negative turn in the economic cycle. Historically, late-cycle “frothy” conditions also followed a prolonged period of aggressive issuance, which led to a structurally weaker cohort of high yield issuers and made the asset class more vulnerable to recession.

This section highlights the views of Invesco Fixed Income’s credit analysts across a broad range of fixed income assets managed by Invesco.

High yield new issuance reflects market strength

High yield new issuance reflects market strength

History has shown that these types of conditions are less attractive times to invest in high yield, due to lower compensation for risk ahead of what could be a negative turn in the economic cycle. Historically, late-cycle “frothy” conditions also followed a prolonged period of aggressive issuance, which led to a structurally weaker cohort of high yield issuers and made the asset class more vulnerable to recession.

Today, we view the economy as closer to mid-cycle. Moreover, we feel the primary market (i.e., new issuance) reflects healthy conditions, rather than an environment in which borrowers and sponsors have exploited demand to add inordinate risk to the market.

We also argue that issuance totals alone provide little insight into the type of risk being added to the market. Below, we delve into three aspects of this year’s issuance: the use of proceeds, the credit quality of issuance and the structural nature of the bonds that have been issued. We compare year-to-date data with the historical average (January 1997-September 2021) and the average during the pre-global financial crisis (GFC) period (2004-2006), a time when high yield was impacted by aggressive borrowing.
Credit quality
Looking at issuance by credit rating (Figure 3), this year’s issuance has been of modestly higher credit quality than the historical average and pre-GFC period. In the pre-GFC period, only 24% of issuance was rated double-B, with triple-C’s accounting for about 20% of issuance. Our observation is that 2021 issuance has not significantly lowered the average credit quality of the high yield market.

Figure 3: High yield new issuance by rating

Use of proceeds
Compared to the historical average and the pre-GFC period, re-financings make up a larger share of 2021 issuance (Figure 2). More importantly, “Other” deals, which consist of more aggressive acquisition and leveraged buyout financings, equity monetization and financing of capital expenditures, are a smaller percentage of total deals in 2021. Market liquidity has allowed borrowers to refinance existing debt at ever-cheaper rates, which has had the dual benefit of lowering interest expenses and extending maturity profiles. These factors tend to lower near-term default risk in the market.

Figure 2: High yield new issuance by use of proceeds

Structural
Examining new issuance by rating can mask the potential for loss and other structural risks. Notable in 2021 is the large percentage of deals structured as secured notes. In addition, less subordinate issuance should result in higher average recovery rates in the event of future defaults. This year, only 1% of bonds have been issued as subordinate notes compared to 22% of deals in the pre-GFC years and 14% on average (Figure 4). In terms of seniority, 2021 issuance largely mirrors 2020. In summary, two years of elevated issuance with a large amount of secured issuance and essentially no subordinate deals help improve the overall credit quality of the high yield market.

Today’s high yield market
In our view, the high yield index is fundamentally stronger today than it has been historically. Issuers that have struggled with global lockdowns and slow economic re-openings have been largely successful in raising secured debt to replenish near-term liquidity levels, while extending maturities to provide time for recovery to play out.

But issuance in 2021 is only part of the story when it comes to the current composition of the high yield market. High yield issuance has been of higher credit quality for some years. This trend and the large number of fallen angels that entered the high yield market during the pandemic-driven lockdowns have resulted in a higher quality high yield index compared to almost any time in history (Figure 5). The proportion of double-B’s (at 55%) is roughly the highest it has ever been, while triple-C’s and distressed issuers make up a far lower percentage of the market than they have historically.
Improving fundamentals
The strong rebound in economic activity in the first half this year has also led to a rapid improvement in credit metrics (Figures 6 and 7). Leverage ratios are projected to reach pre-COVID levels in the next two quarters and interest coverage ratios have improved significantly, thanks to the receptive new issue market that has allowed companies to issue debt at lower interest rates than they could previously.

Figure 6: Net leverage ratio of high yield market

Figure 7: Coverage ratio of high yield market
This improvement has led to a large drop in the high yield default rate. 2021’s volume of defaults is on pace to be the lightest since 2007 (Figure 8). The lack of distressed issuers in the market, elevated oil prices, which support the more volatile energy segment of the market, extended maturity profiles and accessible capital markets all point to a continued low default outlook for 2022.

**Figure 8: Historical high yield default rates**

![Historical default rates graph](source: ICE BofA Global Research. Data from January 31, 1998 to September 30, 2021.)

**Conclusion**

As credit managers, we cannot ignore the most pressing risks: inflation and interest rates. We are mindful of the Fed’s decisions to begin tapering bond purchases and eventually raise interest rates - and the impact these decisions may have on asset prices. A higher rate environment is not necessarily bad for high yield issuers, though higher inflation will likely squeeze profit margins. Spreads offered by the lowest-rated segment of high yield (triple-C issuers) are especially low and would not offer much compensation, in our view, if profit margins became pressured for a prolonged period. Consequently, we favor moving up in credit quality and focusing on prudent security selection.
Invesco Fixed Income (IFI) has managed ESG-aware portfolios for more than two decades. As more investors embark on their responsible investing journeys, we are increasingly integrating ESG considerations into key fixed income asset classes. Our approach to ESG is rooted in a belief that evaluating ESG criteria leads to better long-term risk-adjusted returns. In building our ESG capabilities, we have partnered with Invesco’s ESG Team, drawing on its resources and capabilities to bolster our ESG investment processes, systems and client offerings. This month we speak with Glen Yelton, Head of ESG Client Strategy for North America, and welcome Mayde Sykora, Senior ESG Analyst for Fixed Income. Glen and Mayde share how their team’s ESG research and capabilities will enhance IFI’s investment process going forward.

Q: What is the role of the Invesco ESG Team and how does it partner with IFI?

Glen: IFI as a group is one of the leaders in ESG at Invesco. Across the IFI teams, the integration of ESG into investment models is maturing and a number of teams have built out their own approaches to rating securities on ESG factors. The ESG team partners with the teams directly on these projects. For example, we have worked with the Municipal Team to build out its new approach to evaluating ESG risk in municipal debt. The ESG team has also partnered with IFI on product and strategy development, including in Canada, Europe and Asia. Finally, as part of the efforts related to the Sustainable Finance Disclosure Regulation (SFDR) in Europe, which mandates ESG disclosure for asset managers and other financial market participants, the ESG team has worked with IFI to ensure that its existing systems are leveraged as fundamental elements of the process.

Q: How will your ESG research enhance IFI’s investment process?

Mayde: ESG research provides critical analysis of ESG issues and their impact on credit risk and value creation. My research covers all fixed income instruments and focuses on fixed income-specific considerations when it comes to the financial materiality of ESG. This means helping to mitigate downside risks and highlighting the potential ESG strengths and vulnerabilities of issuers. For instance, such tailored research highlights risks that could affect the long-term sustainability of a company’s cash flows. My research also explains the interplay of E, S and G factors across various fixed income sectors, such as sovereigns and municipal bonds in terms of overall credit risk, materiality of ESG factors and time horizon. I also seek to provide data harmonization among ESG metrics, ratings, market data and the consideration of ESG opportunities in fixed income sectors.

Q: What are clients currently focused on when they think about ESG investing in fixed income?

Mayde: Clients have shown a particular interest in the “S” of ESG; it has been front of mind for investors, during and post the pandemic. In a post-pandemic world “social” risks have been magnified and have revealed how integral the consideration of these risks can be in investment decisions and long-term returns; this can be applied to all facets of fixed income, from sovereigns to corporate credit.

Social strategies can be applied to fixed income instruments, as we have seen with social bonds and sustainability bonds. Their issuance has surged since the COVID-19 crisis, with a focus on social impact, including health and safety, affordable housing, access to finance, ameliorating disruption to the supply-chain labor force and supporting small businesses.

There is also a large appetite among investors for a higher level of disclosure, especially on outcomes, reliable data, and corporate governance frameworks that emphasize human capital management and the economic impact of the social aspects of business.

Q: In your view, what are the most immediate issues currently facing investors in ESG investing?

Mayde: The ESG investing space is rapidly evolving and investors have many issues to consider. One issue of immediate importance, in my view, is climate action, and specifically, the Net Zero Asset Managers initiative. The initiative encourages financial market participants to evaluate their existing portfolio offerings and align them with net zero, while implementing a forward-looking climate transition plan. Building carbon transition fixed income portfolios...
is imperative, in my view, to navigate the impact of climate technology, changing public policy and the regulation of portfolio performance. I believe climate scenario analysis and how a portfolio would perform against different scenarios, including net zero by 2050, will be necessary to assess the potential for stranded assets and other risks. Net zero science-based goals and the Net Zero Investment Framework (which provides a common set of actions, metrics and methodologies that allow investors to maximize their contribution to achieving net zero global emissions by 2050 or sooner) continue to gain traction and are expected to experience an organic evolution in sustainable investing.

Q: Organizationally, what do you expect to see unfold around ESG at Invesco in 2022?

Glen: The evolution of ESG at Invesco has been amazing over the last two years. The systems, processes, and policies in place today are evidence of this evolution. We have made great strides but still have work to do. Some of that work is focused on the future and some on the past. The latter may be surprising to some but given the current state of ESG oversight, we continue to enhance our existing processes.

Looking ahead, there are ongoing programs to develop technology that should give everyone easier access to ESG data and ESG tools. Product development continues apace and some of the thematics mentioned above are likely going to be key in 2022 – net zero being at the top of the list. Finally, I expect ESG competency at Invesco to continue to be enhanced across different functions, either through training and development or through the addition of new personnel with more focused ESG responsibilities. The coming year will likely see us continue on this increasingly focused path and IFI will likely continue to be a leader at Invesco.
# Team contributors

Senior Editor - Ann Ginsburg

## Atlanta

**Rob Waldner**  
Chief Strategist and Head of Macro Research  
+1 404 439 4844  
robert.waldner@invesco.com

**James Ong**  
Director-Derivative Portfolio Management  
+1 404 439 4762  
james.ong@invesco.com

**Noelle Corum**  
Associate Portfolio Manager  
+1 404 439 4836  
oelle.corum@invesco.com

**Avi Hooper**  
Portfolio Manager  
+1 404 439 4877  
avi.hooper@invesco.com

**Niklas Nordenfelt**  
Head of High Yield  
+1404 439 4877  
niklas.nordenfelt@invesco.com

**Mayde Sykora**  
Senior ESG Analyst  
mayde.sykora@invesco.com

**Glen Yelton**  
Head of ESG Client Strategy NA  
glen.yelton@invesco.com

**Ann Ginsburg**  
Head of Thought Leadership, Fixed Income  
+1 404 439 4860  
ann.ginsburg@invesco.com

## New York

**Wim Vandenhoeck**  
Senior Portfolio Manager  
+1212 323 4636  
wim.vandenhoeck@invesco.com

**Jason Martin**  
Portfolio Strategist  
+1212 323 4490  
jason.martin@invesco.com

## London

**Gareth Isaac**  
Head of Multi-Sector Portfolio Management  
+44 20 7959 1699  
gareth.isaac@invesco.com

**Michael Siviter**  
Senior Fixed Income Portfolio Manager  
+44 20 7034 3893  
michael.siviter@invesco.com

## Hong Kong

**Yi Hu**  
Head of Asia Credit Research  
+852 3128 6815  
yi.hu@invesco.com
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. Past performance is not a guide to future returns.

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.

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.

The performance of an investment concentrated in issuers of a certain region or country is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.
Important Information

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

All information is sourced from Invesco, unless otherwise stated.

All data as of October 20, 2021 unless otherwise stated. All data is USD, unless otherwise stated.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns.

This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments.

As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell financial instruments.

This document is intended only for 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 India and for qualified buyers in Philippines for informational purposes only. This document is not an offering of a financial product and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any unauthorized person is prohibited.

This document may contain statements that are not purely historical in nature but are “forward-looking statements,” which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

This document is issued in the following countries:

- in 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.

- This document has not been reviewed by the Securities and Futures Commission.

- in Singapore by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

- in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). Invesco Taiwan Limited is operated and managed independently.