THE BALANCING ACT

2024 Investment Outlook

APAC Version

Macro Views

1

Slowdown in first half, recovery thereafter

- We expect a bumpy landing composed of a global growth slowdown in the first half of 2024.
- Individual economies vary: US most resilient, eurozone in flat growth, and Chinese growth stabilizing.

2

Uneven but continued disinflation to end-2024

- In our view, inflation trajectory is bumpy but disinflationary over the coming quarters.
- Inflation shocks are dissipating and stabilizing, especially from fiscal and monetary policy.

3

Peak policy now, marginal easing late in H1

- US easing to begin late H1 with disinflation and slowdown.
- UK may lead rate cuts in light of weakening economy.
- Uneven China recovery, PBOC to remain accommodative.
- Bank of Japan (BoJ) to undertake "dovish tightening."

4

After slowdown, risk appetite likely to improve

- "Good news is bad news" (and vice versa) likely as policy uncertainty and financial conditions remain volatile.
- Opportunities for duration amid fiscal focus.
- Market rotation likely as growth reaccelerates, policy pivots.

5

Key risks and themes

- Geopolitical risks remain elevated.
- Financial accidents likely in wake of tightening.

Note: There can be no assurance that Market Views will come to pass.

Market Views

Fixed Income

Slower growth and continued disinflation should help stem the global rise in rates. Any decline in interest rate volatility should unlock flows into fixed income.

Equities

As the slowdown materializes, a recovery trade should take shape, likely favoring equities that are more cyclical, value-oriented, and smaller cap.

US Dollar / Currencies

US dollar (USD) to weaken when US Federal Reserve (Fed) eases. Japanese Yen (JPY) extremely weak and could benefit if BOJ starts to normalize. Emerging market (EM) currencies and assets likely to benefit as Fed eases.

Alternatives

Direct lending and distressed credit poised to outperform. Higher rates continue to pressure real assets, but fundamentals are improving in certain areas.

Emerging markets

EM valuations are attractive; currencies and assets should benefit as US dollar weakens and as China recovers.

Kristina Hooper
Chief Global Market Strategist

Executive summary

After nearly two years of policymakers fighting inflation, our 2024 outlook centers on the balance between growth durability versus the stickiness of inflation. Despite several quarters of restrictive monetary policy, the global economy — particularly in the US — has remained remarkably resilient. We think the global economy is entering a brief period of below-trend growth driven by recent monetary policy tightening, which we believe markets have already partially priced in. Questions remain over the path of inflation, however. In our view, the disinflation process will continue over our outlook horizon, and growth will slow further in H1 before starting to improve in H2, starting in the US. As inflation softens and policymakers begin to introduce rate cuts, we look for risk assets to see renewed strength.

We see inflation falling over the outlook horizon and nearing central bank targets by the end of 2024. With inflation having peaked and gradually falling and many major economies showing some signs of pressure from policy tightening, we believe monetary policymakers have now reached the end of their tightening cycles. As inflation falls, we expect real policy rates to rise and, in response, central bankers to cut rates to ease any additional pressure on growth, employment and wages. We expect this easing to begin late in the first half of 2024. We anticipate that rate cuts — combined with falling inflation — will set the stage for a recovery, putting the global economy on a path to trend growth accompanied by real wage growth in the second half of 2024.

We believe that early in 2024, markets will begin to discount an economic recovery; policy support should solidify and increase global risk appetite as the year progresses. However, we do not anticipate a significant rebound due to the shallowness of the slowdown.

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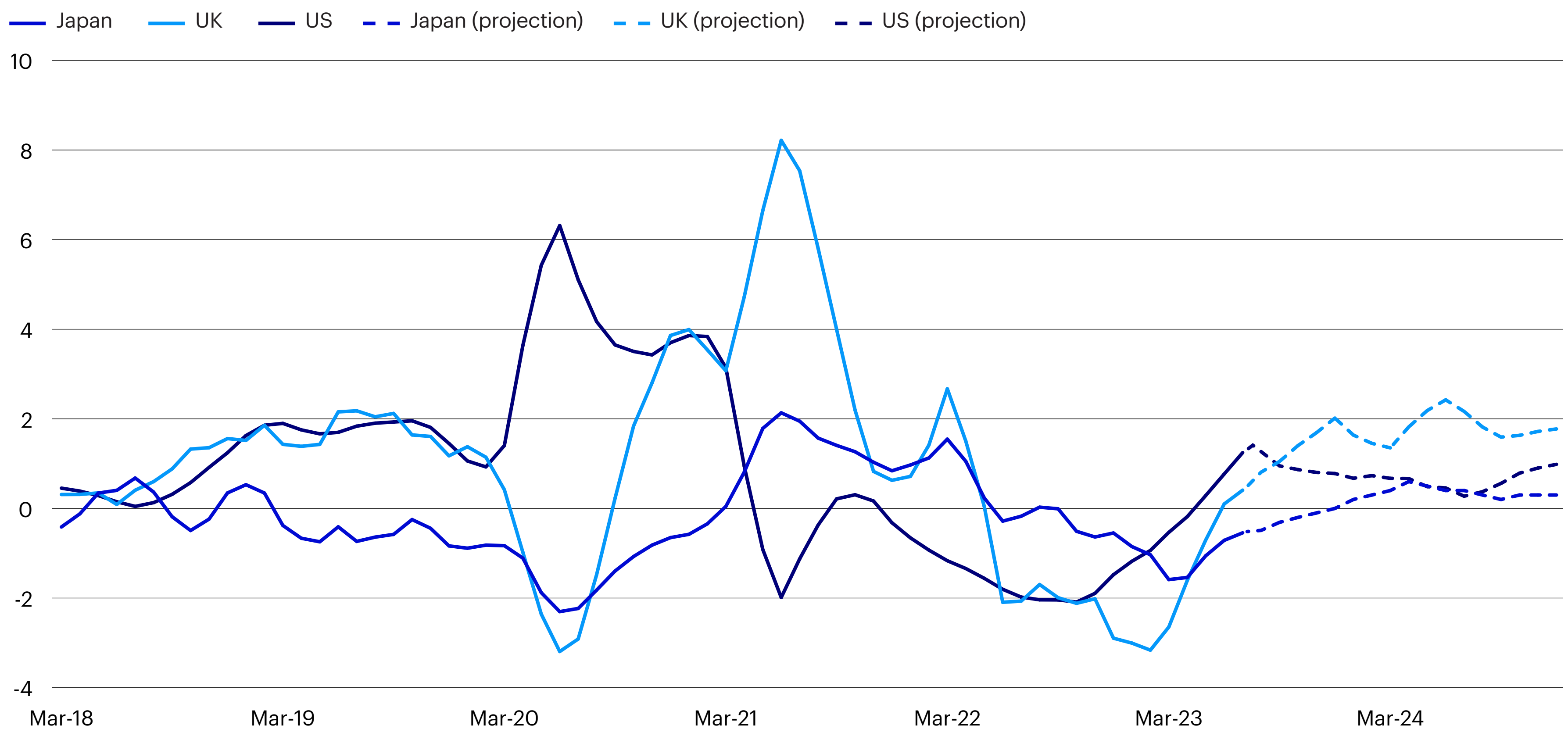
1 Slowdown in first half, recovery thereafter

We anticipate slowing activity into 2024 but improving in the second half

Restrictive policy is likely to cause a slowdown in the first half, but normalizing inflation should help real wage growth resume in the second half.

- Tight monetary policy, increasingly stretched consumers, and idiosyncratic growth shocks suggest that global growth is likely to continue to slow.
- As we move into 2024, we expect the global economy to slow marginally, resulting in a bumpy landing in major developed economies materializing in the first half of the year.
- However, we expect the slowdown to be shortened by a turn to easing monetary policy as inflation gradually subsides.
- Moving forward, we expect real wage growth in major developed economies to resume as inflation normalizes, helping to support a return to trend growth.

Real wage growth expected to improve in 2024



Note: There can be no assurance that any stated projections will be realized. Chart shows monthly real wage growth data for US, UK, and Japan from March 2018 to December 2024. Projections are from Invesco and are shown in dotted lines. Sources: Bloomberg L.P., OECD, and Invesco.
All data is latest available as of October 31, 2023.

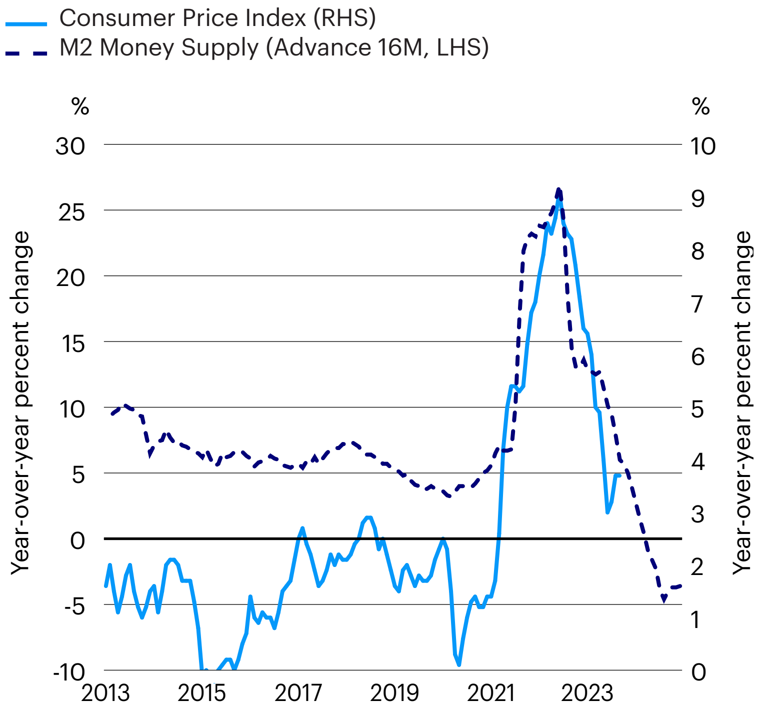
2 Uneven but continued disinflation to end-2024

Forward indicators suggest continued progress on US inflation

Money supply

Money supply appears to be leading inflation by 16 months

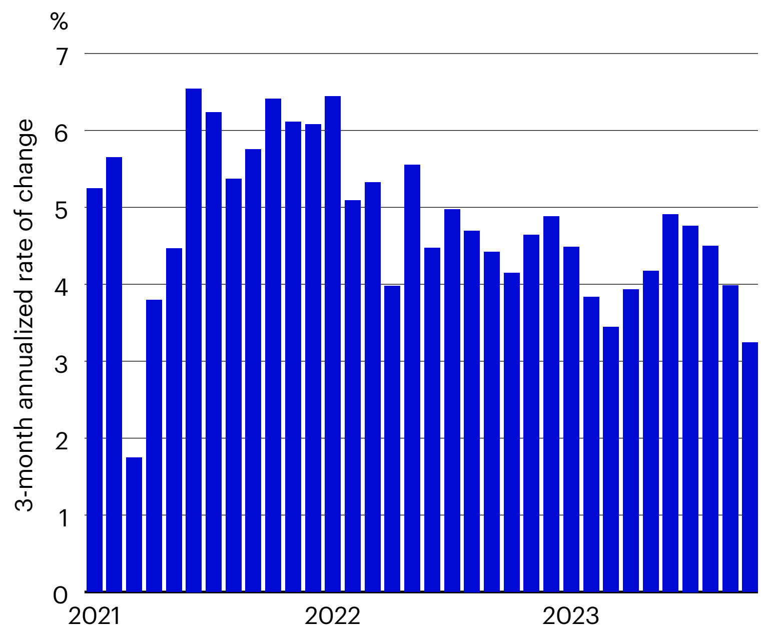
US M2 money supply and Consumer Price Index



Wages

Wage growth is moderating, moving closer to pre-pandemic levels

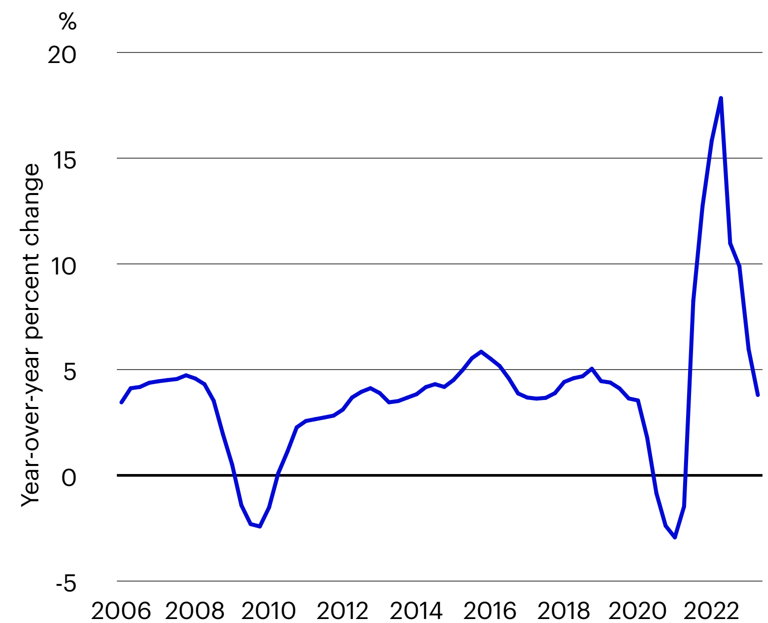
US average hourly earnings
Seasonally adjusted 3-month annualized rate



Rents

Rent inflation is moderating

US apartment real estate effective rates
(US metro, USD per square foot)



Sources: Left: Bloomberg L.P., US Federal Reserve, and US Census Bureau as of September 30, 2023. M2 is coins and notes in circulation plus short-term deposits in banks and certain money market funds. Middle: US Bureau of Labor Statistics and Macrobond, as of October 31, 2023. Right: Bloomberg L.P., Reis Inc., June 30, 2023. Latest data available.

2 Uneven but continued disinflation to end-2024

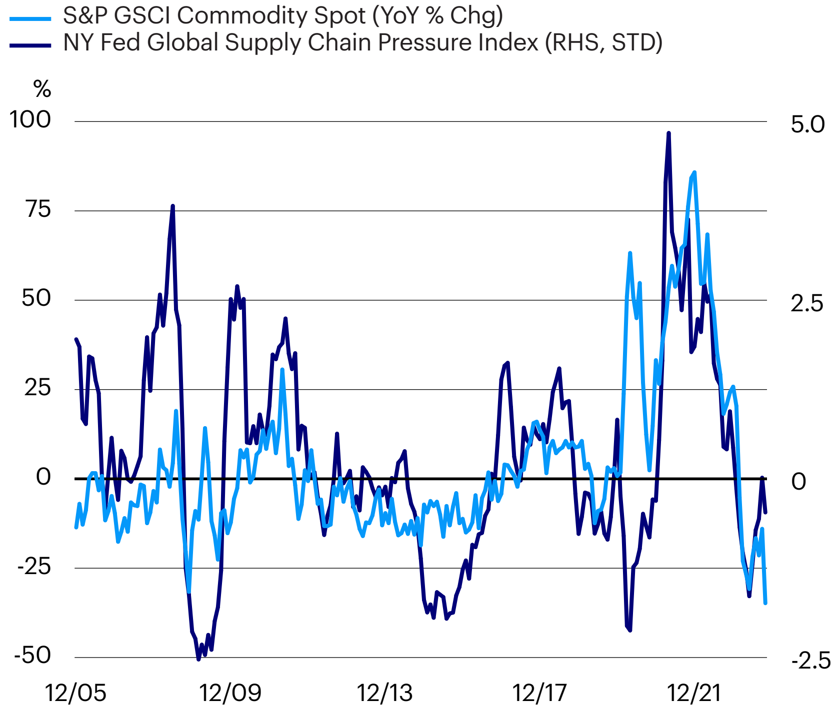
Global inflation factors are gradually dissipating, in our view

In contrast with fears about potentially entrenched inflationary forces, we believe we are in the middle of a bumpy disinflationary trend that will continue to play out in the coming quarters.

- In our view, recent spikes in inflation have largely been a byproduct of pandemic-induced imbalances rather than core economic forces.
- Many of these disruptive elements have meaningfully stabilized, including large-scale direct fiscal stimulus (facilitated by central banks), supply chain dislocations, pandemic-driven changes in consumption, and geopolitically induced shocks to key commodity supply chains.
- We believe we are on the path to normalization, allowing inflation rates to decline without a corresponding significant reduction in output.

Goods inflation — in commodities and supply chains — is back to normal

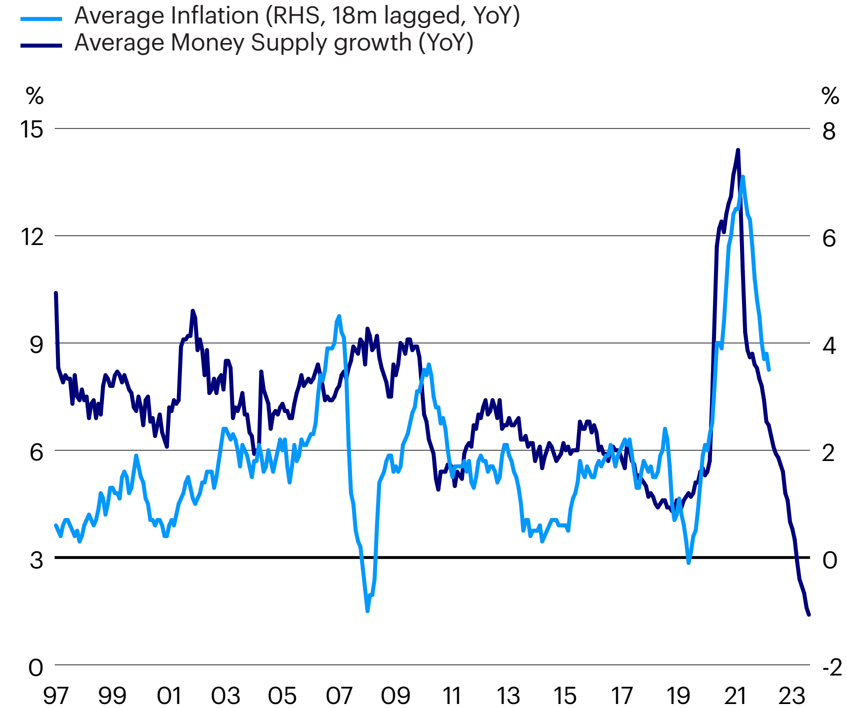
Global commodity prices and supply chain pressure



Sources: Monthly data from December 2005 to October 2023 (as of October 31, 2023). NY Fed Global Supply Chain Pressure Index tracks the state of global supply chains, shown as standard deviations from the historical mean. Sources: Federal Reserve Bank of New York, S&P GSCI, LSEG Datastream, and Invesco.

Normalizing money growth suggests more benign inflation environment ahead

Global money supply vs. inflation



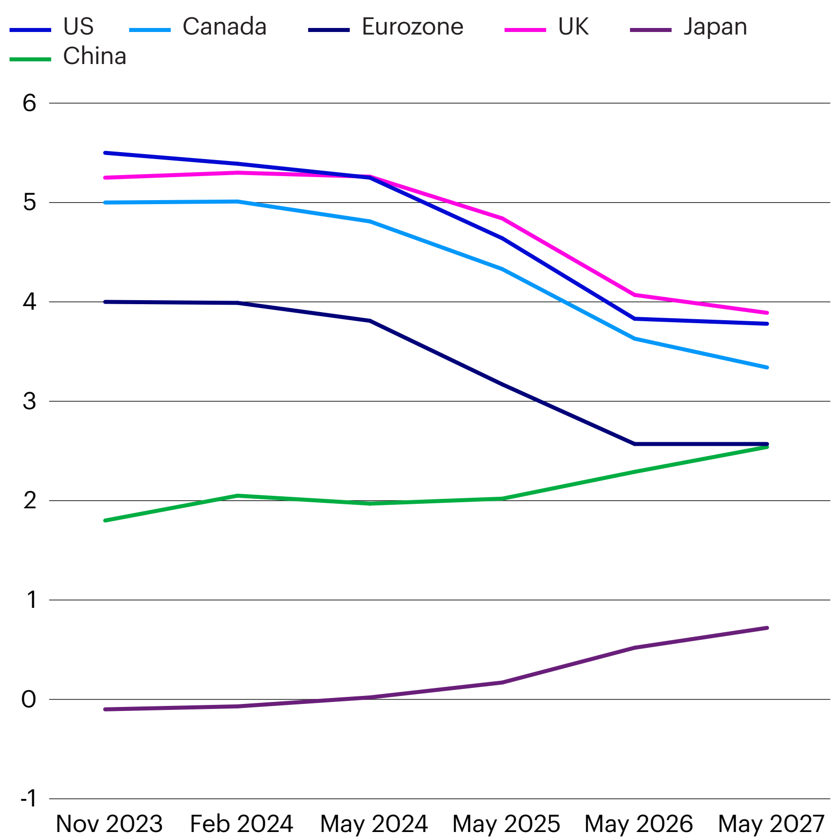
Sources: Datastream and Invesco, as of October 31, 2023 using monthly data. Global average money supply growth and average inflation includes figures from the US, China, eurozone, Japan, and United Kingdom. Both money supply and Consumer Price Index (CPI) measures show the average year-on-year growth across the countries covered since January 1997 (18-month lagged).

3 Peak policy now, marginal easing late in first half of 2024

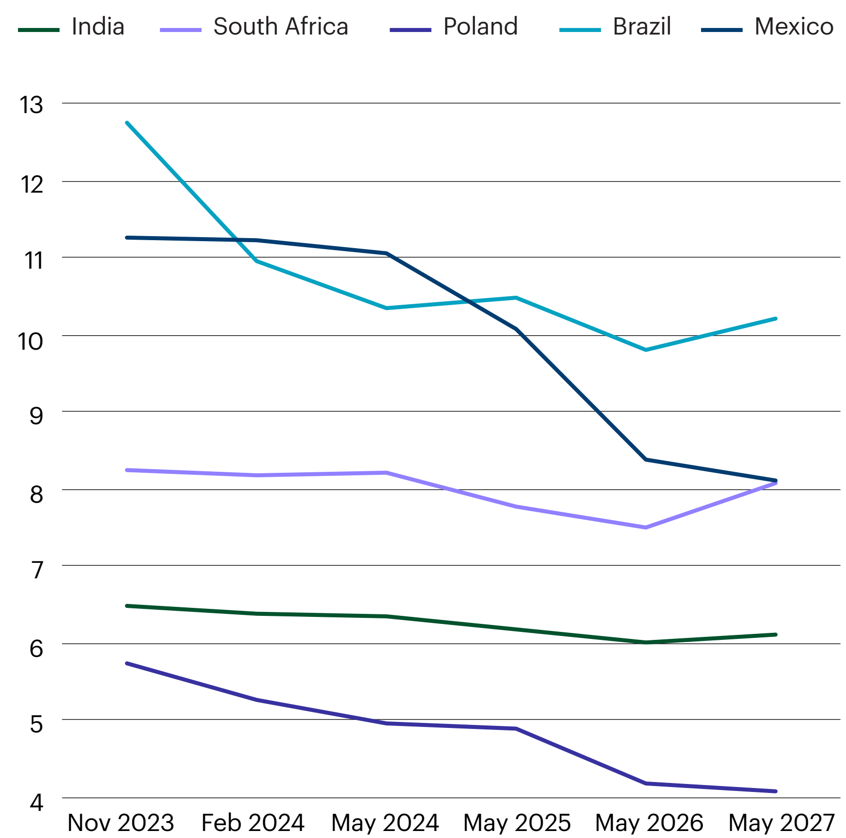
We believe monetary policymakers have now reached the ends of their tightening cycles, with the next step likely to be easing, which we expect to begin to unfold late in the first half of 2024.

- We expect easing to emerge late in the first half of 2024 as inflation continues to move towards acceptable rates and growth slows.
- Easing should help a recovery to take shape, returning the global economy toward trend growth in the second half of 2024 as real wage growth resumes as inflation normalizes.

Major Western economies priced for easing starting in 2024
Market-implied forward policy rates (%)



Emerging markets also expected to be easing gradually
Market-implied forward policy rates (%)



Note: There can be no assurance that forward-looking expectations will materialize. Chart shows market-implied policy rate paths for the central banks of the respective countries shown. Market-implied policy rate is based on overnight index swaps pricing available for the term structure shown. Source: Bloomberg L.P., as of November 3, 2023.

4 After slowdown, risk appetite likely to improve

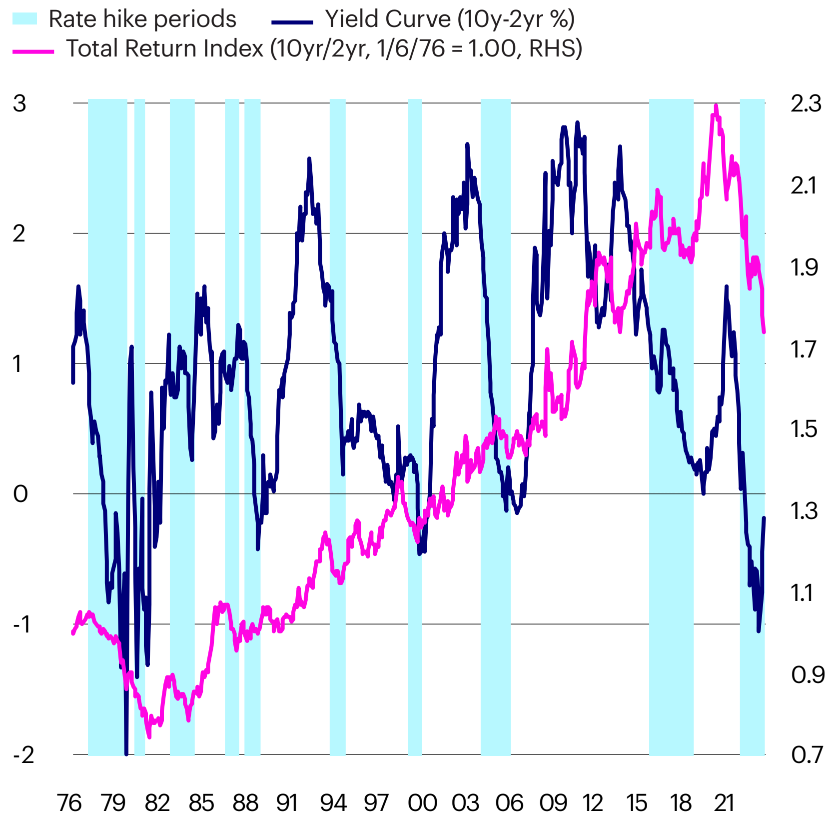
We expect peaking yields now, followed by bull steepening

In the near term, we expect yields to peak as the tightening cycle draws to a close, as we have seen in past tightening episodes.

- During this period, risk appetite should start to improve, but given that some policy uncertainty will remain around the timing of when rate cuts begin, there could be some volatility early in the year (a pattern of "bad macro news is good news for markets" and vice versa). We expect this environment will present opportunities for pursuing long-duration exposure.
- As growth and inflation cool, we expect bull steepening to prevail as the slowdown is realized.

When Fed eases and yield curve steepens, long-maturity bonds outperform

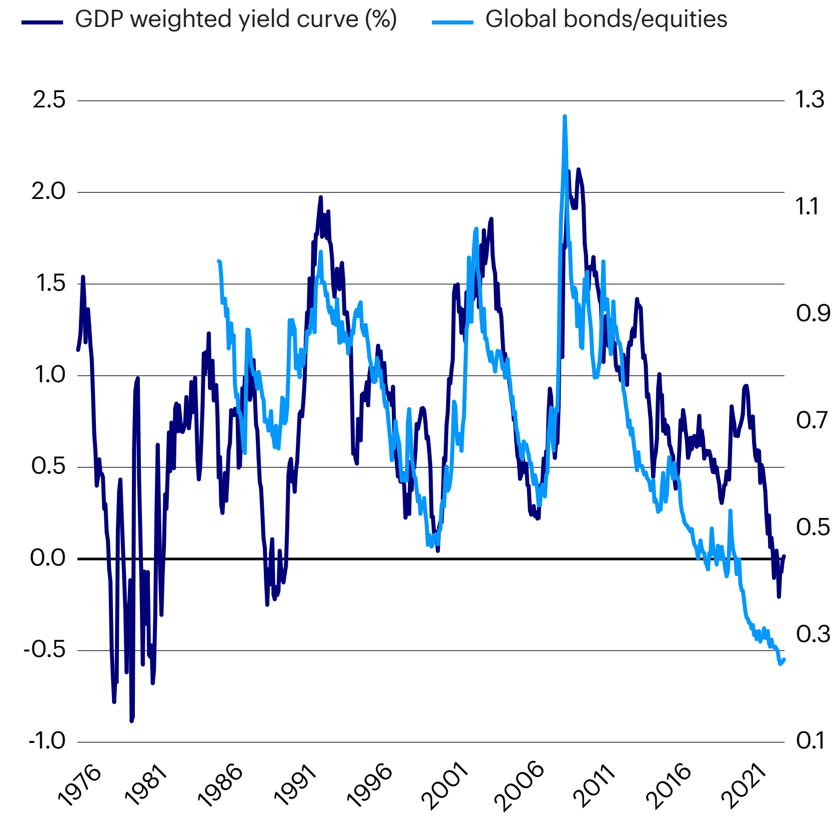
The Fed, yield curve, and bond returns



Notes: **Past performance is no guarantee of future results.** Series definitions may be found in Appendix I. Based on monthly data from June 1976 to October 2023. Sources: Refinitiv Datastream and Invesco Global Market Strategy office.

When yield curves steepen, bonds tend to outperform equities

G10 10y-2y yield curve and equities vs. bonds



Notes: **Past performance is no guarantee of future results.** Series definitions may be found in Appendix I. Based on monthly data from January 1976 to October 2023. Sources: ICE BofA, MSCI, Refinitiv Datastream, and Invesco.

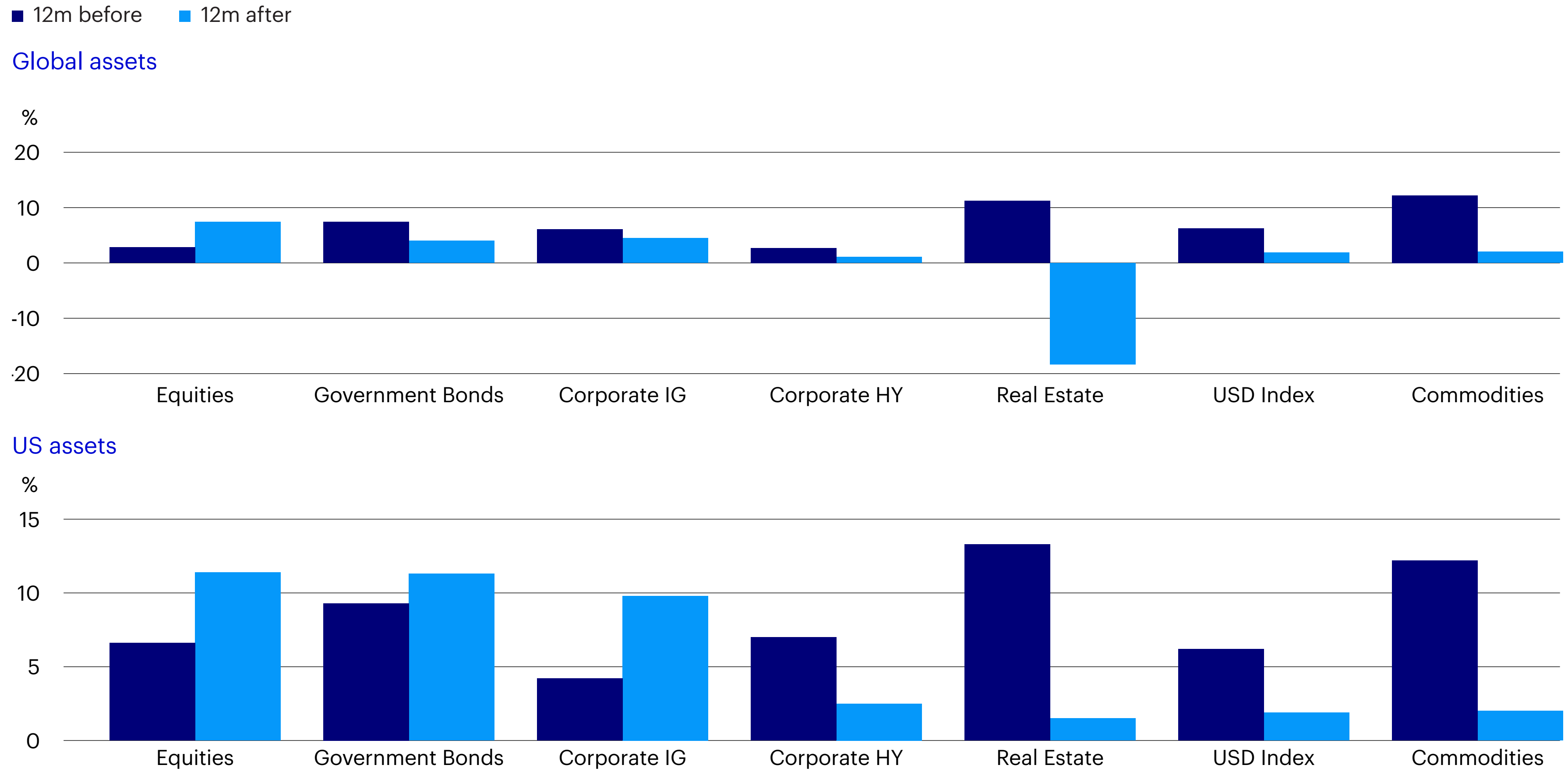
4 After slowdown, risk appetite likely to improve

Rate cuts should help boost risky assets

We expect risk assets to benefit when policy support emerges, which we anticipate occurring late in the first half of 2024.

- We note that risk assets have historically performed better in the run-up to the first rate cut compared to the period immediately after (except for equities). We think this is because central banks are usually easing when economies are weakening.
- However, this cycle is different because central banks were behind the curve when it came to tightening, and this may also be true when it comes to easing (they will be cutting rates late in the cycle).
- Though we anticipate volatility in risk assets as 2024 begins due to the ongoing global economic slowdown, we suspect the easing cycle will, this time, coincide with increased risk appetite. We think markets will already be looking ahead to economic recovery by mid-2024.

Asset average total returns (USD) around first cut in a Fed loosening cycle



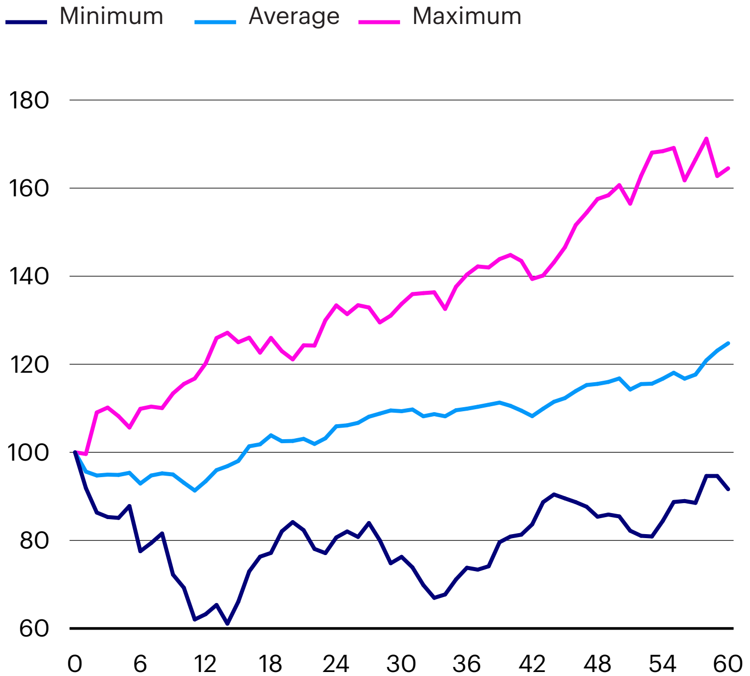
Notes: **Past performance is no guarantee of future results.** . "Gov Bonds" = government bonds; "Corp IG" = investment grade; "Corp HY" = high yield. Based on Federal Reserve interest rate cycles since 1974. Please see Appendix I for methodology and index definitions. Data as of August 31, 2023, covering the period from July 31, 1973, through July 31, 2020. Sources: ICE, ICE BofA, FTSE Russell, MSCI, S&P GSCI, Refinitiv, LSEG Datastream, and Invesco.

5 Key risks and themes

1) Geopolitical risks remain

Recent events in the Middle East have raised risks of regional escalation that may impact oil and natural gas markets. Other political risks range from the ongoing Russia-Ukraine war, US-China tensions over Taiwan, and the upcoming US election. Many of these events are likely to dominate 2024 headlines, but history suggests that stock market effects are transitory.

Wars often have less market impact than feared
Performance of S&P 500 across selected conflicts

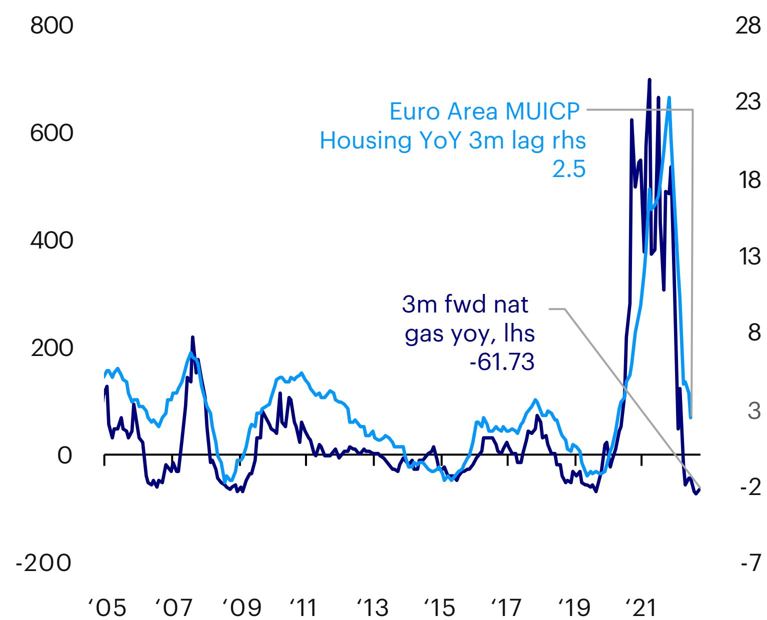


Notes: **Past performance is no guarantee of future results**. Based on the monthly performance of the S&P 500 (or US equity market equivalent prior to its existence as constructed by Robert Shiller) in the five years from the onset of selected tensions. For calculation details, see Appendix I. Sources: Robert Shiller, Bloomberg L.P., and Invesco.

2) Oil price shock risk elevated

As geopolitical risks climb, fears are elevated around an oil or other key commodity price shock that could force growth lower. For example, the Russia-Ukraine war sent European energy costs sharply higher, which has exerted downward pressure on European growth. A similar price crunch could shock growth.

Natural gas prices hit energy bills, inflation

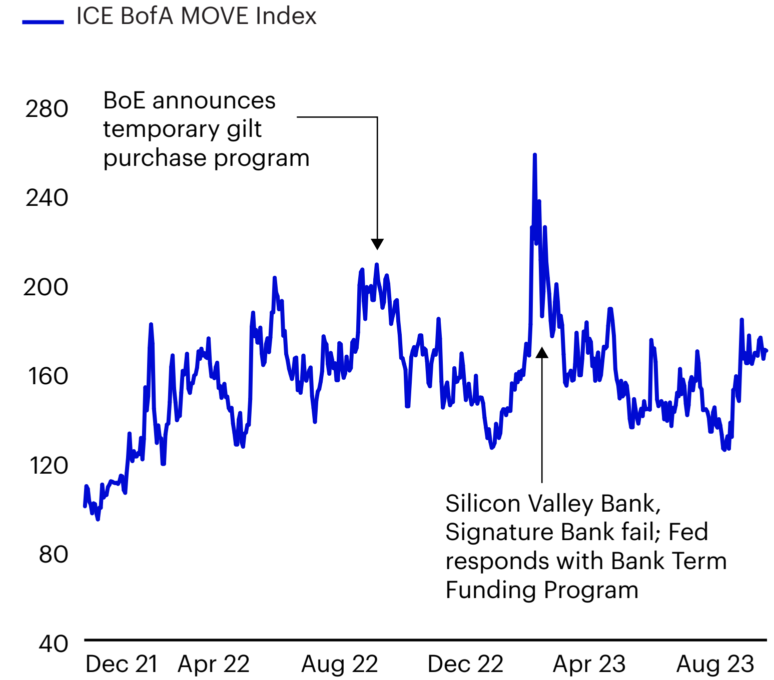


Sources: Invesco, Bloomberg L.P., and Macrobond, as of October 3, 2023. Note: Chart shows eurozone housing-related inflation, which includes energy and natural gas futures. MUICP = Monetary Union Index of Consumer Prices.

3) Financial accidents and stresses

With monetary policy tight, the risk of financial accidents and stresses is elevated, which may bring about a sudden shift in the stance of policy. However, in the recent past, such financial risks have been met with rapid, targeted support.

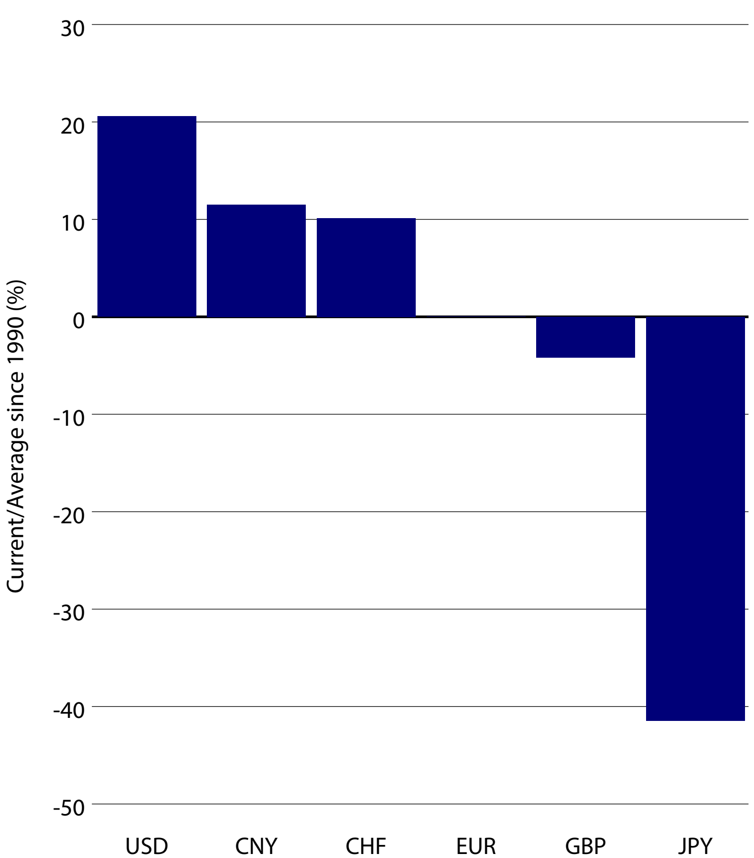
Policymakers have been responsive to crises



Sources: Macrobond and Invesco, as of October 31, 2023. Note: The ICE BofA MOVE Index is a measure of US bond market volatility based on the implied yield volatility of one-month at-the-money 2-, 5-, 10-, and 30-year constant maturity interest rate swaps.

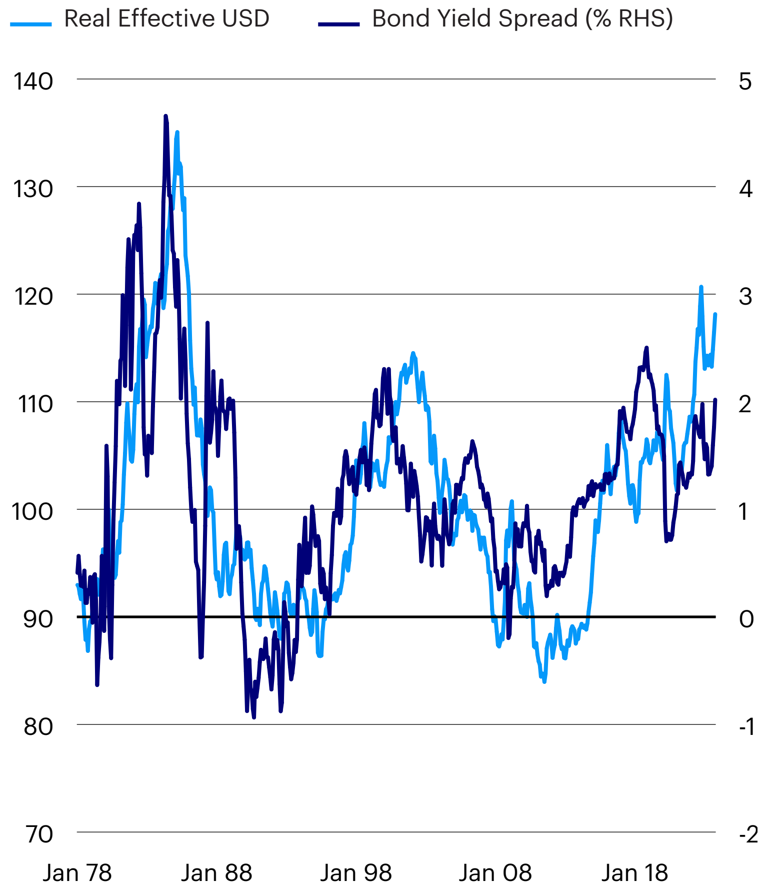
US Dollar/Currencies: USD looks expensive, and yield gaps are likely to move against it

Real effective exchange rates*



*Currency indices measured against a trade-weighted basket of currencies and adjusted for inflation differentials. Latest available data is for September, as of November 8, 2023. Sources: OECD, LSEG Datastream, and Invesco.

Real effective USD and yield spreads



Monthly data from January 1978 to October 2023. Real effective US dollar is an index calculated by the OECD as the trade-weighted value of the US dollar versus a basket of currencies and adjusted for CPI inflation differentials. Bond yield spread is the US 10-year Treasury yield minus the average of the 10-year government yields of: Germany, Japan, and the UK. As of November 8, 2023. Sources: OECD, LSEG Datastream, and Invesco.

Spotlight

The Opportunity

- The US dollar continues to be well above historical norms when measured in real trade-weighted terms. Such valuations can persist but not over the long term, in our opinion. Therefore, we expect the US dollar to weaken.

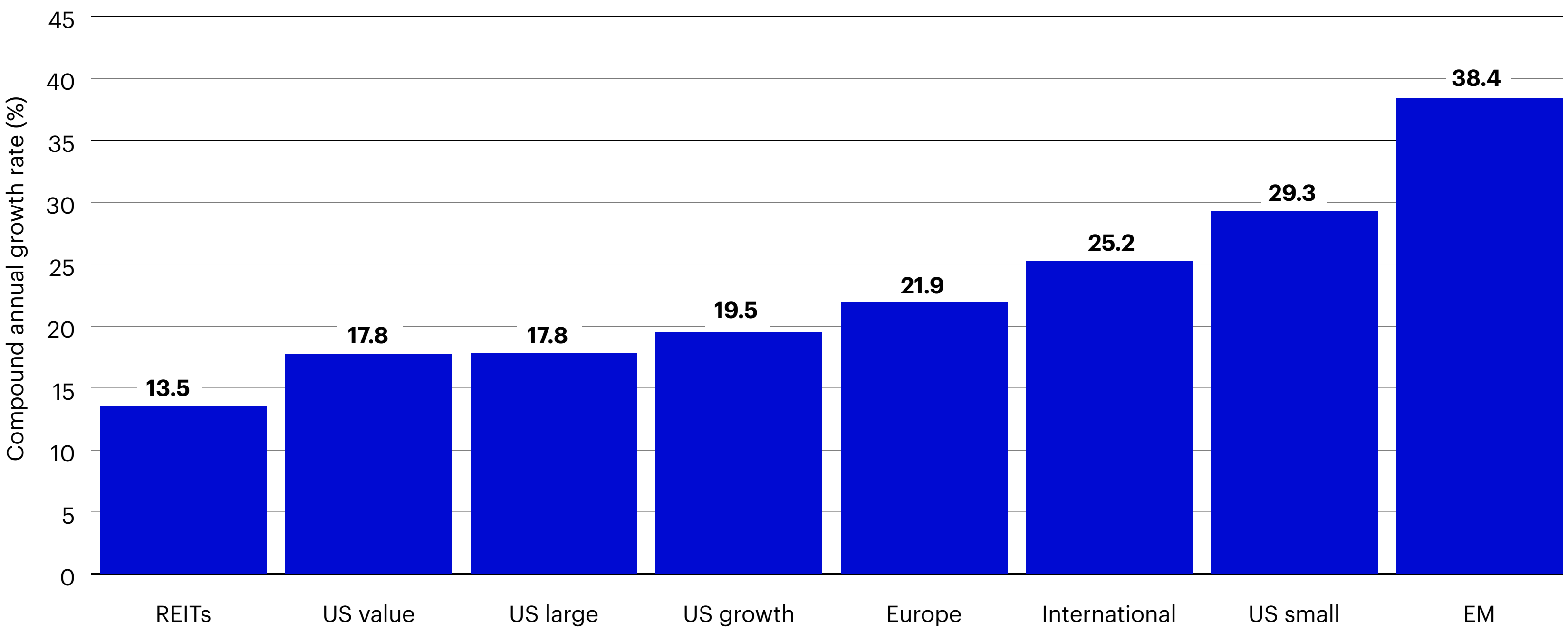
The Catalysts

- Yield differentials often drive short-term currency movements. USD was supported during 2022/23 by aggressive Fed tightening that increased the yield spread on US government bonds versus those elsewhere. However, as markets look ahead to Fed easing, we expect that yield spread to move against the dollar.
- Currencies are often thought to overshoot what is considered to be long-term fair value and to remain away from fair value for some time. Those overshootings are often explained by the fact that financial flows adapt to new circumstances more rapidly than flows of goods and services.

Equities

Recovery trade tends to favor non-US dollar assets and equities that are more cyclical, value-oriented, and smaller capitalization

Global equity performance since 1988 in periods when JP Morgan Global Manufacturing Purchasing Managers' Index was rising



Sources: Bloomberg L.P. and Invesco, December 31, 2022. Notes: REITs = FTSE NAREIT All Equity REITs Index. US value = Russell 1000 Value. US large = S&P 500. US growth = Russell 1000 Growth. Europe = MSCI Europe Index. International = MSCI ACWI ex USA. US small = Russell 2000. EM = MSCI Emerging Markets Index. Price returns in US dollars. See appendix for index definitions. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

Spotlight

The Opportunity

- **Valuations are more attractive** – In recent years, the underperformance of global value stocks, including emerging markets, Europe, and small caps – has produced compelling opportunities.

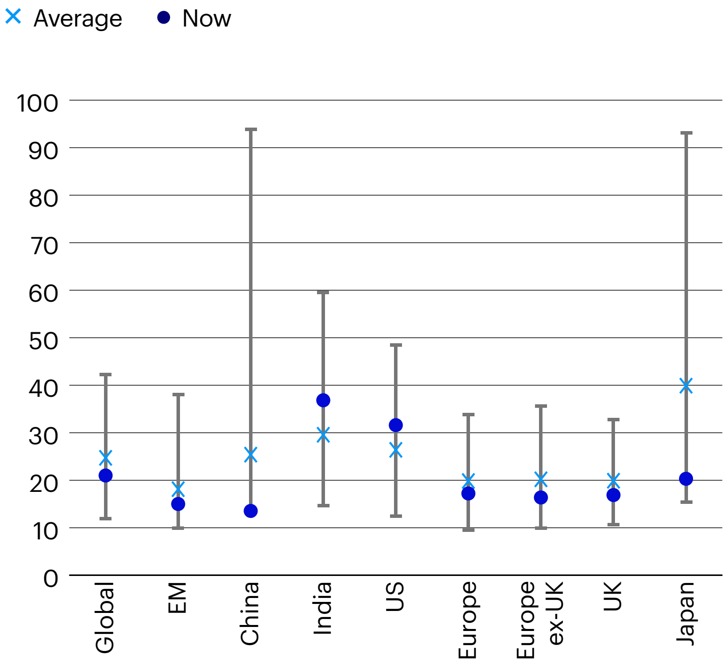
The Catalysts

- End of Fed tightening – Policymakers appear to be nearing the end of policy tightening.
- Second-half growth recovery – Rising worldwide output is typically a boon to more cyclically oriented risk assets. We expect the global value trade to regain investor interest amidst an improving operating climate.
- Weaker US dollar – The US Dollar Index (DXY) should begin to back off its current high levels, which should help boost non-US dollar assets.

Emerging Markets

Relatively good value

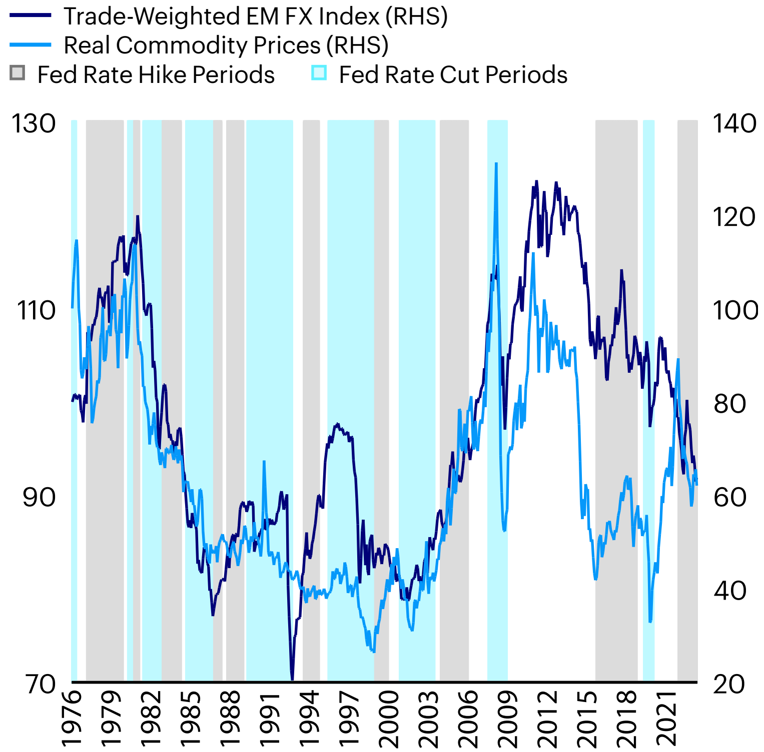
Cyclically adjusted price/earnings ratios within historical ranges



Note: Cyclically adjusted price/earnings uses a 10-year moving average of earnings. Based on daily data from January 3, 1983 (except for China from April 1, 2004, India from December 31, 1999, and EM from 3 January 2005), using Datastream indices. As of October 31, 2023.

Sources: LSEG Datastream and Invesco.

EM currencies, commodities, and the Fed



Note: **Past performance is no guarantee of future returns.** Monthly data from January 1976 to October 2023. Real trade-weighted EM FX index is a trade-weighted average of 18 national emerging market currencies versus US dollar. Real adjustments use national CPI indices versus those of the US. Real commodity price index is based on the S&P GSCI Commodity Spot Price Index, adjusted by the US CPI index. All indices rebased to 100 as of January 1976. As of October 31, 2023. Sources: IMF, OECD, Oxford Economics, S&P GSCI, Bloomberg L.P., Refinitiv Datastream, Invesco.

Spotlight

The Opportunity

- Emerging market assets are attractively valued compared to developed world counterparts, in our opinion. Whether looking at bonds or equities, we believe the valuation of EM assets offers the possibility of high returns over the medium term.

The Catalysts

- Fed easing has in the past been associated with poor EM asset performance (because it coincides with a weak global economy and falling commodity prices, in our opinion).
- We suspect that this cycle will continue to be atypical and expect Fed easing to weaken the US dollar, which could help EM currencies.
- EM currencies have weakened since the peaking of the commodity bubble around 2011. Commodity prices may weaken further in the short term, in our opinion, but we expect eventual global recovery to benefit commodities, EM currencies, and assets.

Fixed Income

Slowing growth and a central bank pause will likely be positive for rates

Global duration

- Global interest rates have risen sharply in recent months amid better-than-expected growth.
- Growth rates should slow, however, as policy tightening takes effect, potentially reducing pressure on interest rates.
- We expect Europe and China to outperform, as growth has already slowed and policy easing has already started or will likely start soon.
- Conversely, markets like Japan, with high monetary policy risk, and the US, with exceptionally strong growth, are more likely to underperform.

Credit views

- In investment grade credit, uncertainty over Fed policy has pressured spreads, but valuations now look interesting. Any rate stabilization could lead to greater allocation to investment grade.
- High quality high yield valuations also look attractive, but "higher rates for longer" could challenge the lower quality segment of high yield credit.
- Emerging market credit overall does not look compelling relative to investment grade and other credit sectors. We favor opportunities outside of the core universe, including high yield emerging markets.
- Valuations in municipals and agency mortgage-backed securities look attractive. Optimism about stabilizing interest rates and rate volatility should support these sectors.

Views from Invesco Fixed Income

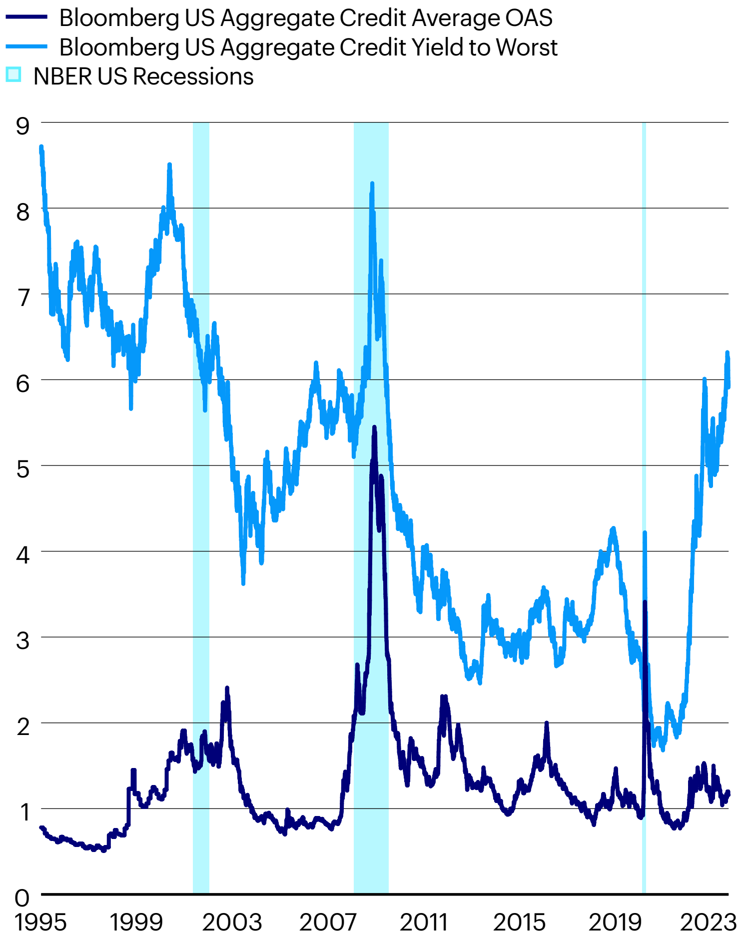
Rob Waldner, CFA®
Chief Strategist
Head of Macro Research
Fixed Income

"The Federal Reserve has paused interest rate hikes, and we believe it is likely done with this rate hiking cycle. Other central banks have indicated that they are at, or close to, the end of their rate hiking cycles as well, including the European Central Bank, the Bank of England, and the Reserve Bank of Australia. An end to the relentless rise in short-term rates among developed markets should lend some stability to the bond market and help reduce rate volatility. Our perceived proximity to this inflection point, combined with improved valuations, makes us more positive on risk-taking."

Fixed Income

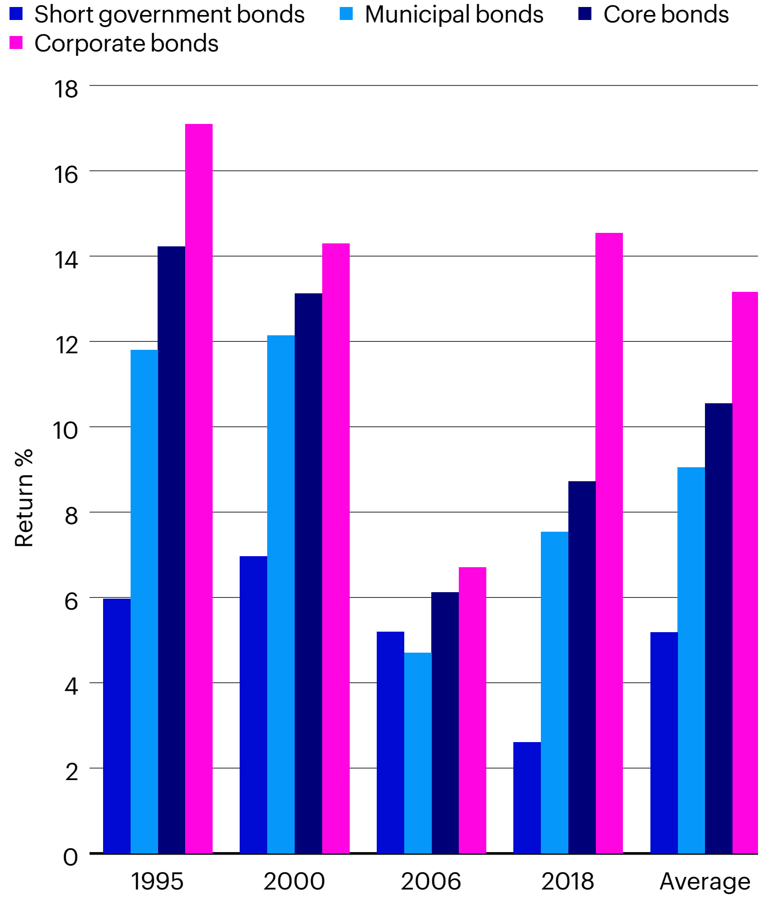
Bonds currently offer a compelling investment opportunity

Credit spreads are not cheap, but yields look attractive



Sources: Macrobond, Bloomberg L.P., and Invesco, as of October 31, 2023.

Credit, core, and municipal bonds outperformed short-term bonds following the end of rate hike cycles



Note: **Past performance is no guarantee of future returns.**

Source: Bloomberg L.P., July 31, 2023. See Appendix I for index definitions. Indexes cannot be purchased directly by investors.

Spotlight

The Opportunity

- We believe high quality credit offers a compelling investment opportunity.

The Catalysts

- **Inflation on the decline** – We believe inflation has peaked, and the US is in a disinflationary trend. We expect continued progress toward central bank targets in 2024.
- **End of monetary tightening** – We believe we are at, or close to, the end of central bank rate hiking cycles. Higher yields created by rate hikes and rate volatility are a buying opportunity, in our view.
- **Bumpy landing** – We would expect investment grade companies to perform well in an environment of slower growth and declining inflation and do not expect a recession. Corporate fundamentals are generally solid, and most companies are still benefiting from the low overall funding costs available before the recent move higher in rates.

Alternatives: Private market outlook

Jeff Bennett, CFA®
Head of Manager Selection
Invesco Solutions

Private credit

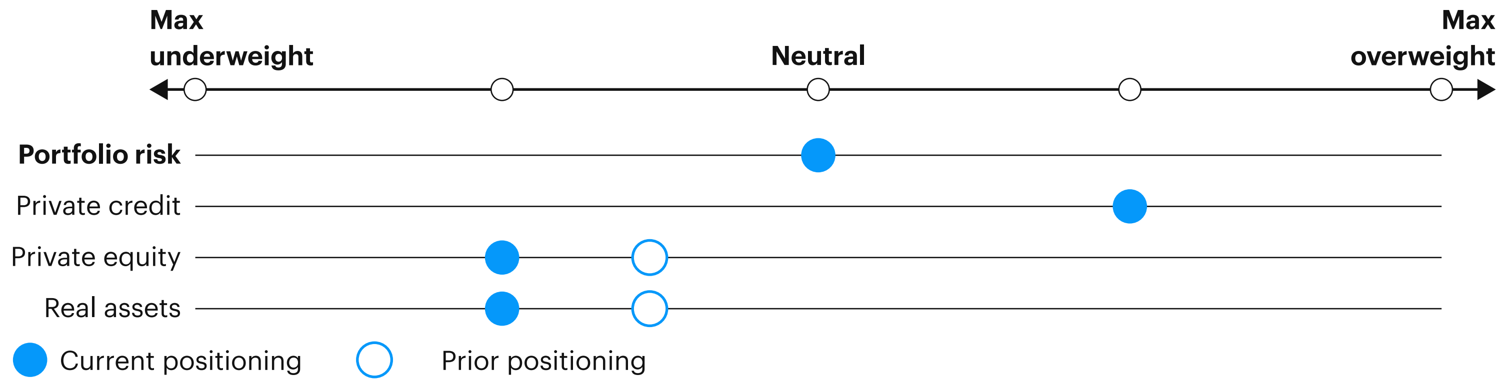
The current environment is extremely conducive to executing conservatively structured transactions. Leverage levels on new transactions across the market have declined, while loan-to-value (LTV) metrics have meaningfully improved. Given the improved structures, current transactions are being completed with significant equity in a first-loss position. We are anticipating an improved opportunity set with distressed and special situations debt as the $6 trillion market across leveraged credit is quite sizable on an absolute basis. Commercial real estate debt is anticipated to remain highly attractive, especially for those with favorable sources of financing.

Private equity

We have seen a heightened focus on growth equity strategies, illustrated growth equity representing roughly one out of every five deals during the quarter. The growth equity deal count is on pace to potentially exceed total LBO volume if you exclude add-on transactions. This highlights the continued theme reflecting a more favorable opportunity set for companies that can rely on organic growth to drive return relative to those that require the use of leverage, which comes at a high cost in the current environment.

Real assets

Capital markets are disrupted as yields and cap rates are increasing in reaction to elevated interest rates. While asset values continue to reprice, banks are focused on existing loan books and so offer limited new liquidity, thereby impacting the volume of real estate transactions in all key markets. For real estate occupational markets, while the combination of weak growth and cautious sentiment is likely to dampen some tenant demand, fundamentals should remain healthy for markets without excess supply. Within infrastructure, while historically, the level of dry powder remains elevated, and valuations, similar to those in real estate, have not backed up with base rates, near-term fundamentals are strong and secular tailwinds are supportive.



Source: Invesco Solutions, views as of September 30, 2023.

Alternatives: Commodities outlook

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Head of Manager Selection
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Client Portfolio Manager
Invesco Global Asset Allocation

Current attractive bias due to agriculture and energy despite weakness in metals

	Overall	Valuations	Fundamentals	Secular trend
Asset class	Attractive	Attractive	Attractive	Unattractive
Agriculture	Attractive	Attractive	Attractive	Attractive
Energy	Attractive	Attractive	Attractive	Unattractive
Industrial metals	Unattractive	Unattractive	Attractive	Unattractive
Precious metals	Unattractive	Attractive	Unattractive	Unattractive

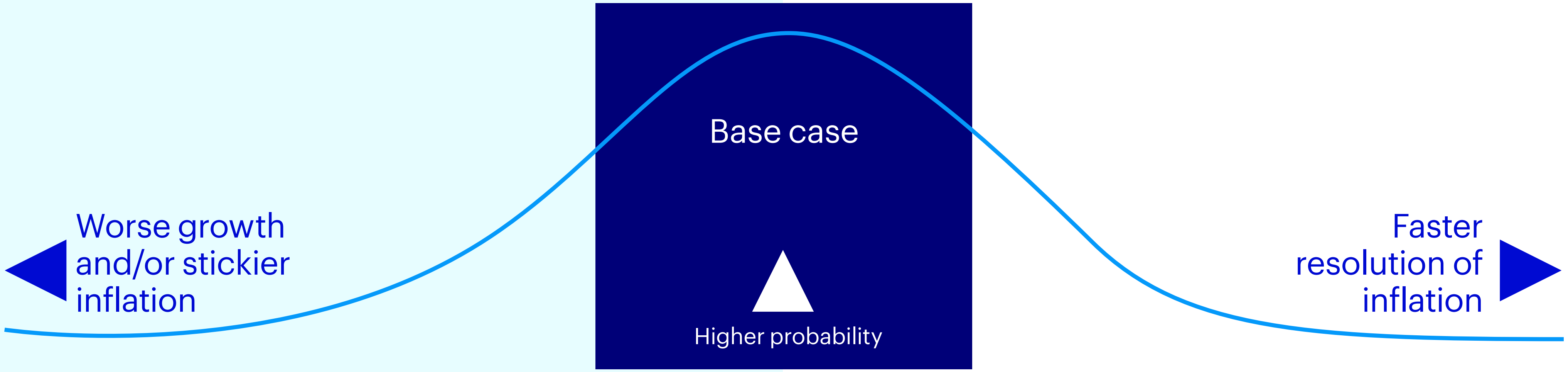
Commodity prices remain volatile and rangebound across most sub-complexes, and while our secular trend assessment is currently net attractive, we caution it is subject to sudden change. After being the worst-performing sub-complex for 2023 through May, energy staged a fierce rally from June through September that saw Brent crude test its key $100 per barrel psychological level. OPEC production cuts, coupled with lower Russian exports, and rising margins on refined products, drove prices higher, pulling the sub-complex out of its wide, rangebound trading pattern that formed in late 2022. The summertime rise in long-term interest rates against a broad central bank pause further hindered industrial metals that remain under pressure from a tepid Chinese economy and weaker demand for green energy manufacturing. Gold is the benchmark's top holding and has been impressively resilient, given rising real yields and the strong US dollar. The outbreak of conflict in the Middle East boosted the yellow metal due to safe-haven demand. El Nino's impact on tropical soft commodities, including sugar, has supported agriculture's overall attractive trend.

For valuation, a comparison of spot prices to exponentially weighted five-year average prices is utilized, and while scores are currently net attractive, they are only so by a small degree. Gold's price resiliency not only hurts precious metals but also the broader index, as gold is the top holding in the Bloomberg Commodity Index. Energy valuation remains attractive but to a lesser degree after a summer rally, while plummeting wheat prices allow agriculture to reach net attractiveness. Industrial metals have seen the most improvement due to broad price declines.

Fundamentals, as measured by annual carry, are net unattractive mainly due to the Bloomberg Index's large weight to natural gas and its top holding, gold, whose carry is unattractive given a persistently inverted yield curve. Carry remains highest in refined products and oil, as well as soybean meal, soybean oil, sugar, and coffee.

Source: Invesco Solutions, views as of Oct. 31, 2023. Views reflect the Bloomberg Commodity Index and do not translate directly to any Invesco commodity strategy.

Alternative scenarios



"Hard Landing"

- We believe a "hard landing" might have one of two potential drivers. In either case, the end result for investment implications will be similar, but the near-term experience will likely differ.

1. An already-committed policy mistake takes effect through the long and variable lags of policy tightening and proves to be too much for the US economy to handle. In this event, we expect considerably weaker growth and sooner policy easing.
2. Persistent inflation requires policymakers to keep rates higher for longer, resulting in a greater economic effect than we currently anticipate.

"Soft landing"

- We also consider an upside scenario for the US in which supply-side shocks dissipate or are already gone, and mild cooling on the demand side lowers inflation, which boosts the economy.
- In this "soft landing" scenario, the US economy would be presently in (or even exiting) a mid-cycle slowdown, from which the economy reaccelerates in the first half of 2024.
- We would expect core inflation to fall with more certainty and at a smoother trajectory versus the base case, enabling the Fed to ease sooner.
- Outside the US, we would expect surplus economies like the eurozone, as well as twin-deficit emerging markets to benefit in this environment.

Note: For illustrative purposes only.

Global Market Strategy Office

Favored assets in the period ahead

Hard Landing

Stickier inflation, lower growth

A hard landing may materialize either through long lags of policy tightening or persistent inflation that spurs additional tightening. In either case, the investment implications would be similar, but the near-term experience would likely differ – long-duration bonds and equities would likely outperform sooner in the early hard landing scenario but underperform in the persistent inflation version.

Our favorite picks...

- Cash
- Fixed income: Long-duration sovereigns
- Equities: Defensive equities, such as consumer staples and health care
- Currencies: Non-USD, non-commodity defensive currencies, such as CHF, JPY

Bumpy Landing

Disinflation through 2024, first half growth slowdown followed by second half reacceleration

Growth to slow to below-trend rates in the first half of 2024 but reaccelerates in the second half as inflation falls, policy easing begins, and real wage growth takes root. As early as Q4 '23, we are likely to see markets beginning to discount a slowdown and subsequent recovery beginning. Europe and the UK are in a relatively worse growth position. Chinese growth is likely to be challenged in the first half of 2024 but will improve later in the year.

Our favorite picks...

- Equities:
  - Cyclical equities, including value and small caps
  - EM Asian equities, including Chinese equities
- Fixed Income:
  - Long-duration positioning
  - US IG and EM Asia local bonds
- Currencies: Non-USD FX

Smooth Landing

Rapid disinflation, better growth

US supply-side shocks dissipate and mild cooling on the demand side lowers inflation, which boosts growth. In this case, the US is presently in (or in the process of exiting) a mid-cycle slowdown, from which we reaccelerate in the first half of 2024. US core inflation to fall with more certainty and at a smoother trajectory, enabling the Fed to ease sooner, with positive spillovers.

Our favorite picks...

- Fixed Income: High yield credit
- Equities
  - Europe and emerging markets
  - Value and small caps
  - Basic resources, industrials
- Currencies: AUD, CAD
- Commodities: Industrial commodities, especially metals

Source: Invesco, as of October 31, 2023.

Tactical asset allocation:

Macro framework

	Recovery	Expansion	Slowdown	Contraction
Economic regime	Growth ▼ **below** trend & ▲ **accelerating**	Growth ▲ **above** trend & ▲ **accelerating**	Growth ▲ **above** trend & ▼ **decelerating**	Growth ▼ **below** trend & ▼ **decelerating**
Monetary policy direction	**Still easy** **~ 15% of the business cycle**	**Tightening** **~ 35% of the business cycle**	**Tight** **~ 35% of the business cycle**	**Easing** **~ 15% of the business cycle**
Market leadership, ranked by expected outperformance ↓	**Risk credit** • High yield, bank loans • EM hard currency	**Equity** • Value, size, momentum • Emerging markets	**Equity** • Quality, low volatility • Defensives, developed markets	**Government bonds** • Long duration • Nominal bonds
	Equity • Size, value, cyclicals • Emerging markets	**Risk credit** • High yield, bank loans • EM hard currency	**Government bonds** • Long duration • Nominal bonds	**High-quality credit** • IG corporate • IG securitized
	High-quality credit • IG corporate • IG securitized	**High-quality credit** • IG corporate • IG securitized	**High-quality credit** • IG corporate • IG securitized	**Risk credit** • High yield, bank loans • EM hard currency
	Government bonds • Intermediate duration • Nominal bonds	**Government bonds** • Short duration • Inflation-linked bonds	**Risk credit** • High yield, bank loans • EM hard currency	**Equity** • Quality, low volatility, momentum • Defensives, developed markets

Note: Economies can move backward and forward in this framework.

For illustrative purposes only. We define policy easing as the US Federal Reserve lowering interest rates and/or expanding its balance sheet. Still easing suggests that the US Federal Reserve is maintaining the lower interest rate policy and/or continuing its bond-buying program. Tightening suggests that the US Federal Reserve is tapering asset purchases and/or beginning to raise interest rates. Tight policy suggests that the US Federal Reserve is raising rates in an effort to ease inflation concerns. There is no guarantee that these trends will continue in the future.

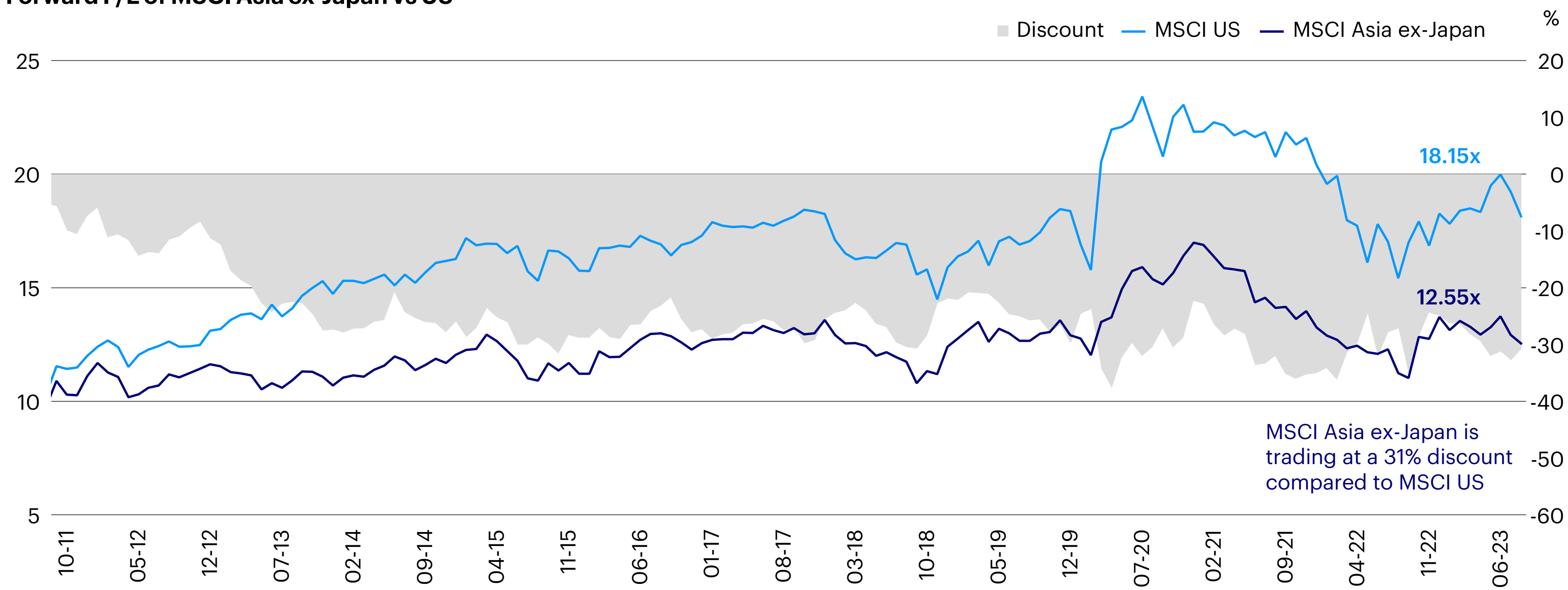
Asia equities: Asia ex-Japan equities still trading at a discount to developed markets

Mike Shiao
Chief Investment Officer
Asia ex. Japan

We anticipate that Asia's economy will enjoy relative stability in the coming year and return to a normalized growth path. This is expected to foster a favorable business environment and encourage consumption in the region.

- We believe investors need to redirect their attention to the underlying strengths and growth drivers specific to each country in Asia. This strategic shift will enable market participants to seize the abundant opportunities that lie ahead.
- We believe that we are in the early phase of India's structural growth. India is witnessing strong demand in consumer discretionary and related sectors, with private consumption predicted to more than double in the coming decade.[1]
- The Asia region is experiencing benign inflation, creating a more stable environment for businesses and consumption. This provides a favorable backdrop for sustained underlying growth and investment opportunities in Asia.

Forward P/E of MSCI Asia ex-Japan vs US



Source: Factset, Invesco, September 2023.
Past performance does not guarantee future results. An investment cannot be made in an index.
[1] Reuters, data as of August 2023.

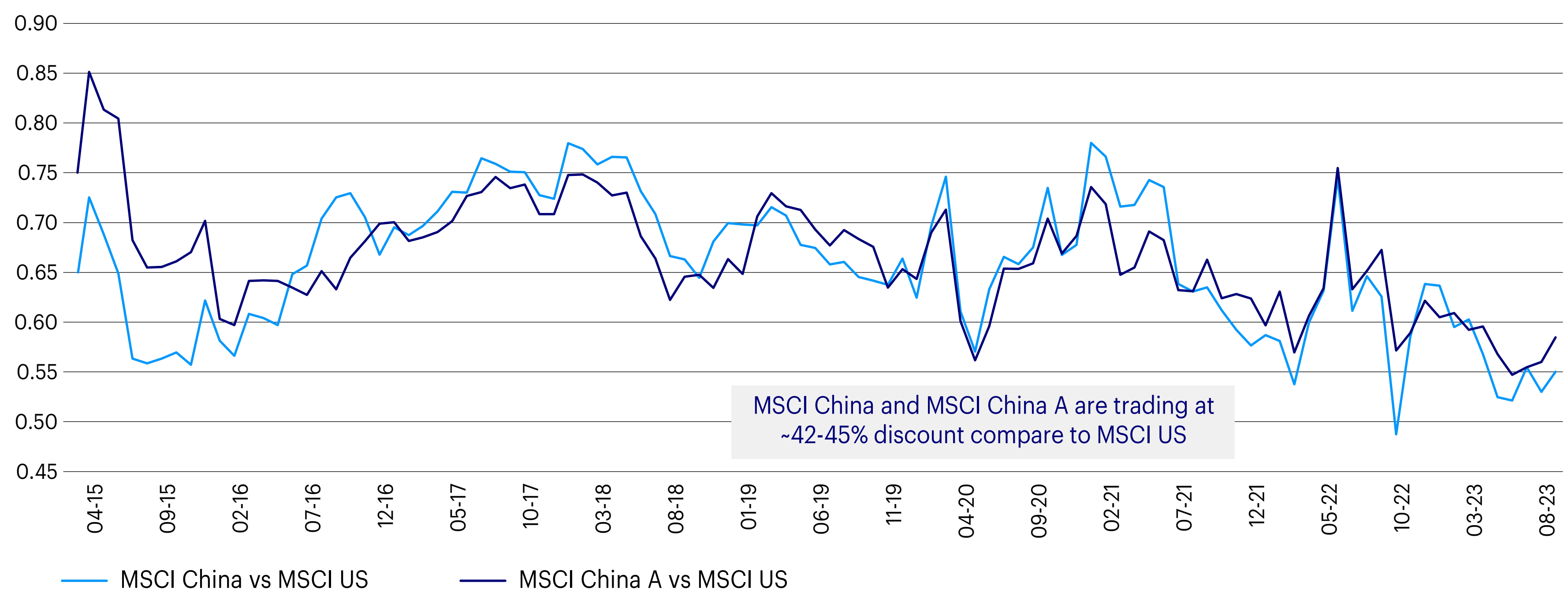
China equities: Both onshore and offshore Chinese equities valuations are at an attractive level

Raymond Ma
Chief Investment Officer
Hong Kong and China

China is undergoing economic transformation in various aspects, and we have identified two key trends that are gaining ground, namely re-globalization and greenization.

- We prefer companies that have technological prowess and a strong leadership position with good global exposure. These companies have reached a significant scale and stage of development, positioning them for the next stage of growth globally.
- China possesses a complete green energy supply chain covering raw materials, new energy, smart grid transmission, batteries, and electric vehicles. We believe the vertical supply chain of low carbon consumption and manufacturing can provide China's suppliers and companies with comparative advantages, solidifying their leadership position.
- The current juncture presents a favorable risk-reward scenario for investing in China equities, particularly considering that valuations are at their lowest levels in a decade, as indicated by both price-to-earnings and price-to-book ratios.

Forward P/E of MSCI China and MSCI China A vs US



Source: Factset, Invesco, September 2023.
Past performance does not guarantee future results. An investment cannot be made in an index.

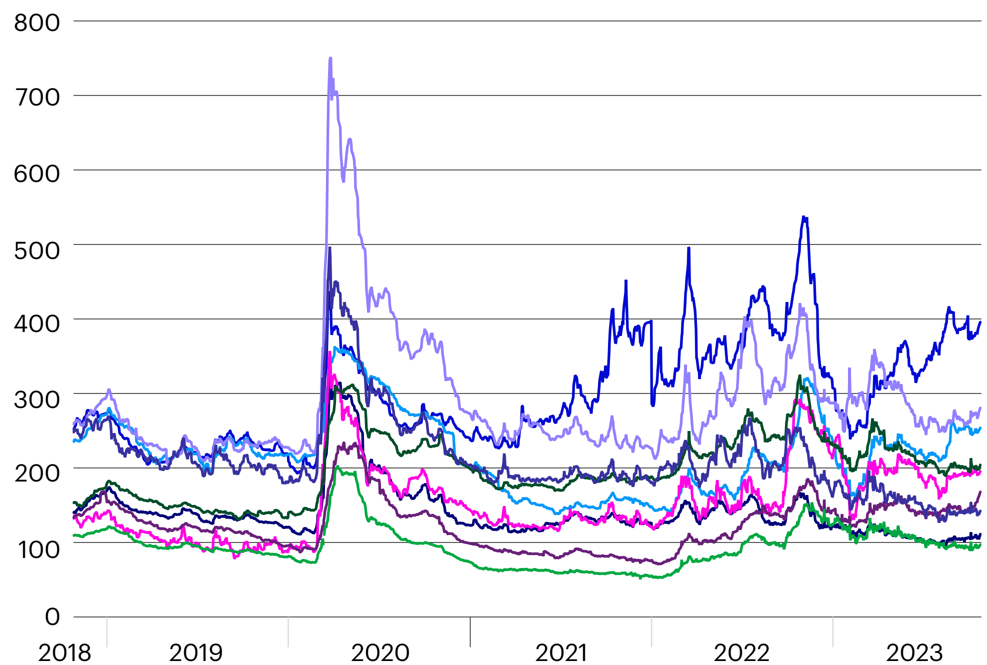
Asia fixed income (IG): Asia credit market remains challenging against the backdrop of US rates in the "higher for longer" narrative

Chris Lau
Senior Portfolio Manager
Invesco Fixed Income

The Asia credit market remains challenging against the backdrop of US rates in the "higher for longer" narrative. With the elevated rates volatility and lingering geopolitical risks, investors are likely to remain relatively conservative in their positioning until they see clarity.

- We expect rates volatility to reduce toward end of the year and well into 1H 2024. In our view, lower rates volatility plus attractive carry should provide good technical support for Asia credit in the medium term.
- While we do not see scope for material spread compression in Asia investment grade (IG), we believe the relatively high all-in yields should be supportive for the space in 2024.
- Negative net supply in Asia's credit market remains the main supportive technical factor. We have seen cash rich Asian corporates start buying back their own bonds to lower finance costs. A new trend that is further shrinking the investment universe.

Asia credit spreads by country over the past five years



	Mid Price
J.P. Morgan JACI China Strip Spread to Worst (%)	395.93
J.P. Morgan JACI Hong Kong Strip Spread to Worst (%)	253.95
J.P. Morgan JACI Malaysia Strip Spread to Worst (%)	111.49
J.P. Morgan JACI Philippines Strip Spread to Worst (%)	195.05
J.P. Morgan JACI Singapore Strip Spread to Worst (%)	168.05
J.P. Morgan JACI Korea Strip Spread to Worst (%)	97.33
J.P. Morgan JACI Thailand Strip Spread to Worst (%)	204.06
J.P. Morgan JACI India Strip Spread to Worst (%)	280.61
J.P. Morgan JACI Indonesia Strip Spread to Worst (%)	142.24

Source: Bloomberg, data as of October 24, 2023.

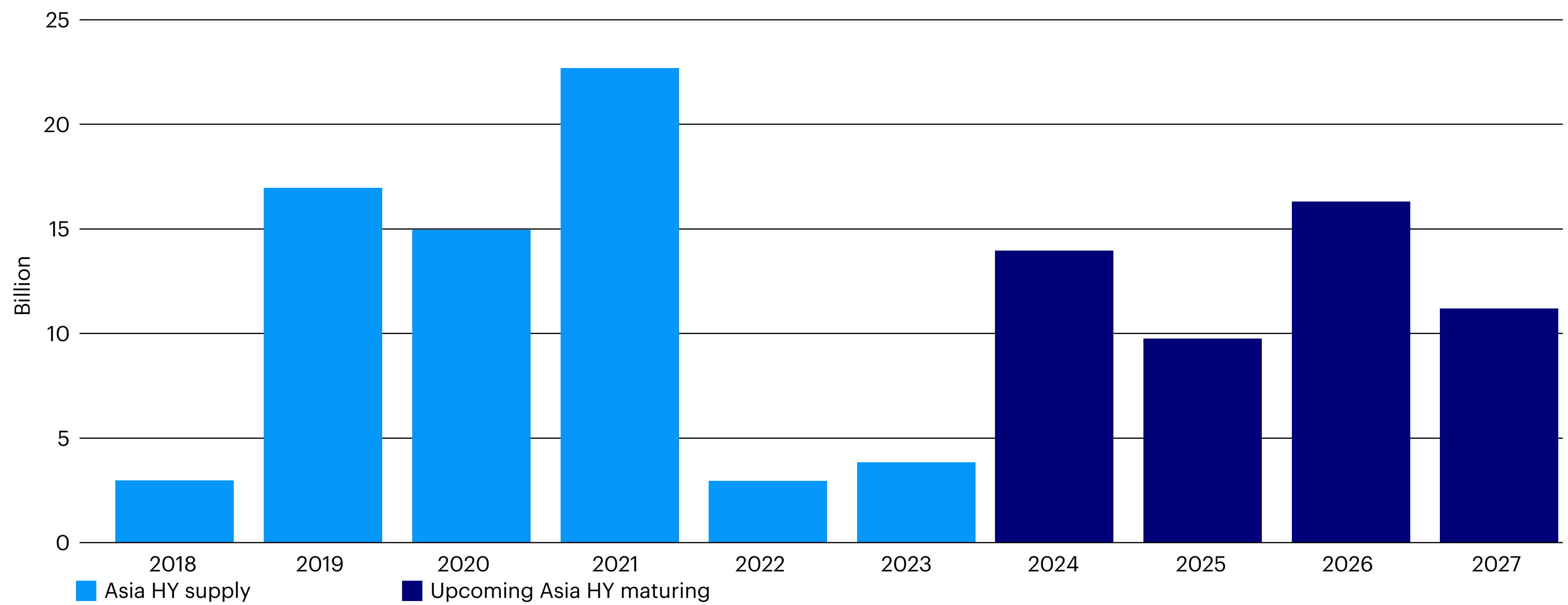
Asia fixed income (HY): Income is key in Asia high yield and security selection and selector allocation are vital to generating alpha

Norbert Ling
ESG Credit Portfolio Manager
Invesco Fixed Income

Income remains a key attribute of the Asia high yield (HY) asset class and security selection and selector allocation are paramount for generating alpha.

- In 2023, Asia HY bond supply remained low at less than US $5 billion in issues outstanding and less than 10 primary transactions. Going into 2024, the value of bonds maturing is expected to increase, and we anticipate more than double the amount of issuance in Asia HY relative to 2023.
- We expect to see HY issuers think harder about refinancing options in 2024, via exchanges of short-dated maturities or opportunistically accessing the primary market or utilizing the private credit market as a source of capital.
- When we look at relative value between Asia HY and Asia IG (ex-real estate issuers), we note that the yield pick-up in high yield has reduced significantly from 7% in mid-2022 to just around 4% today.[1] Having the ability to have a flexible allocation between investment grade and high yield will be a key source of alpha looking ahead.

Asia HY supply of non-defaulted issuers



Source: Bloomberg, data as of 4 November.
Note: Chart shows issuers rated below investment grade with minimum amount outstanding of >$200mn who have not defaulted.
[1] JP Morgan, Aladdin, Invesco, data as of October 2023.

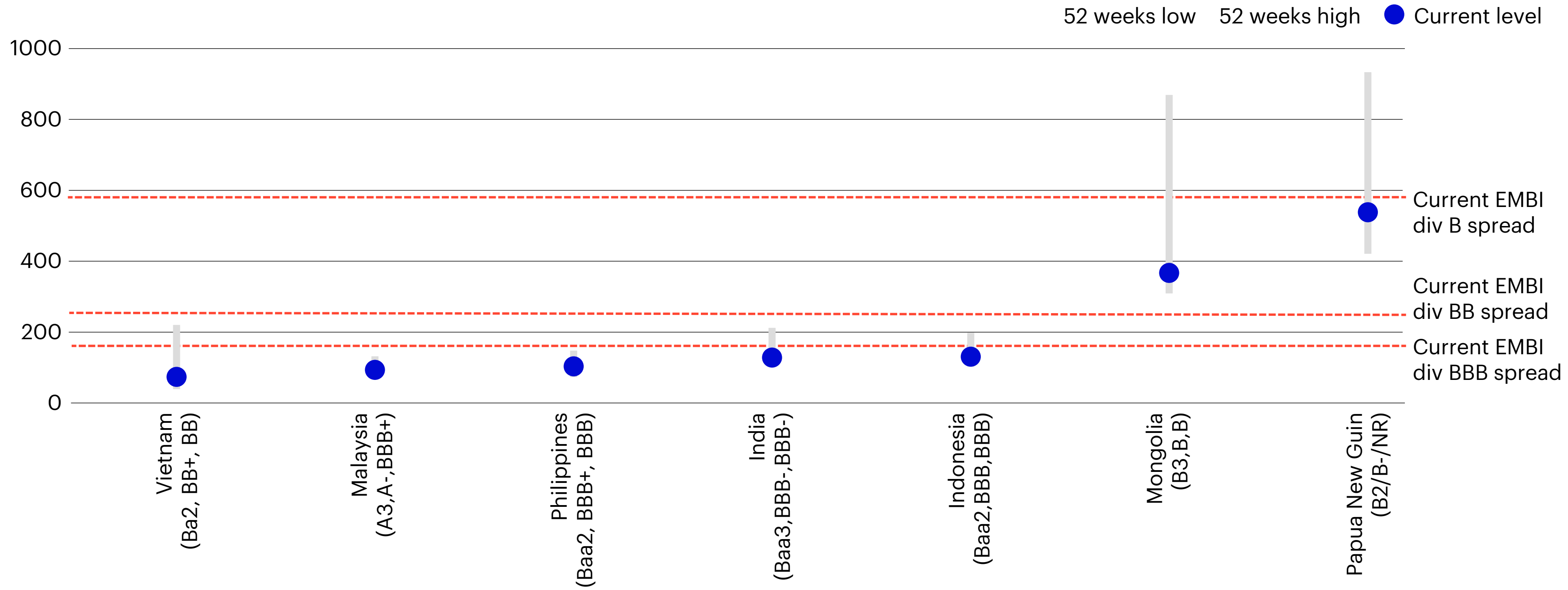
Asia fixed income (EM): Important to exercise caution when investing in emerging market sovereign bonds

Yifei Ding
Senior Portfolio Manager
Invesco Fixed Income

Most Asian emerging market (EM) countries' sovereign credits performed very well in 2023 YTD (as of November 1) in credit spread terms. This strong performance has made Asian EM sovereign bonds quite expensive and spread levels are tight right now compared to the past year.

- Supply of USD sovereign and quasi-sovereign bonds in Asia will pick up as funding cost goes lower. Demand of USD bonds issued by local issuers will slow down as Asian countries see growth headwinds.
- It is important to exercise caution when investing in EM Asian sovereign bonds although we do not foresee large downgrade risks in Asian sovereigns.
- If EM Asian sovereign spreads widen out to be on par or even wider than the similarly rated EM peers, we still believe Asian EM sovereign bonds are better investments than the EM bonds of other regions.

Spread range in the past year: Performing EM Asia vs EM Indexes



Source: Bloomberg, Invesco. Data as of 1 November 2023.
Note: The Moody's, S&P and Fitch ratings for each sovereign issuer are included in the parentheses.

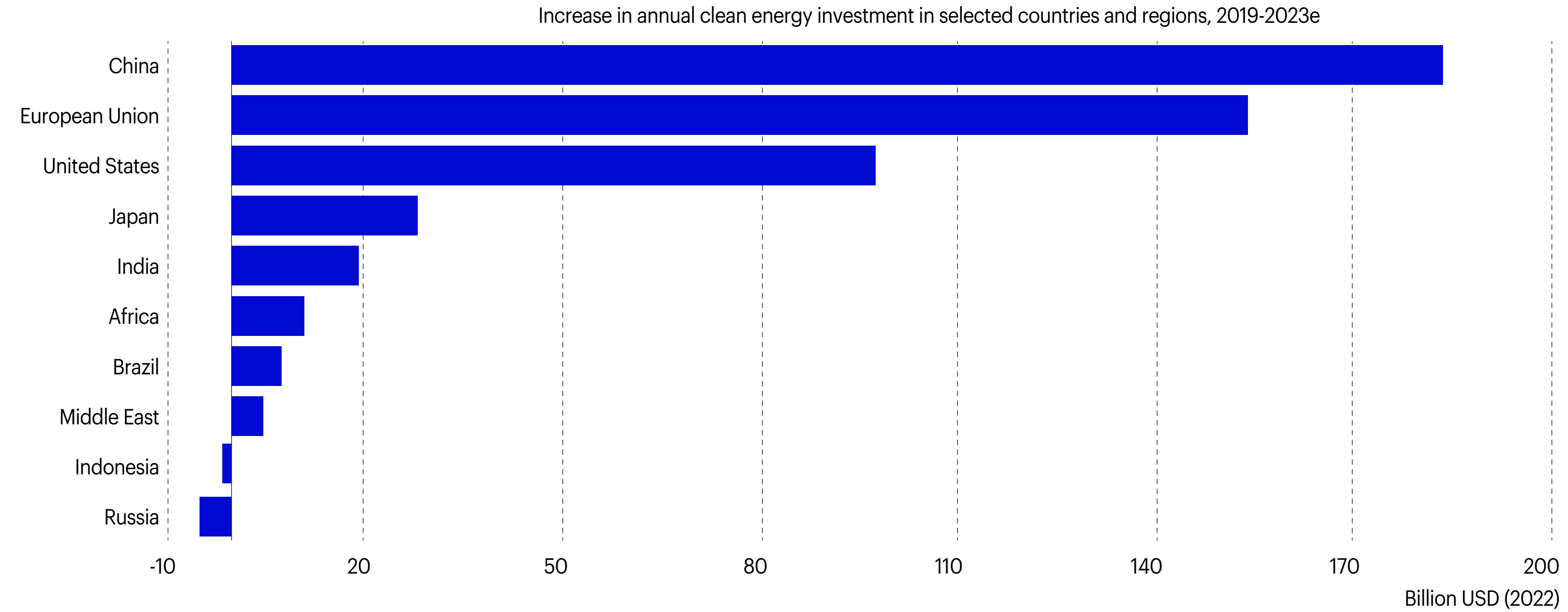
Asia fixed income (ESG): ESG investing in Asia fixed income is here to stay

Norbert Ling
ESG Credit Portfolio Manager
Invesco Fixed Income

ESG investing in Asia fixed income is here to stay and Asia has a unique role in driving climate transition to help the world hit the 1.5-degree scenario.

- China is leading the way in spending and transforming its economy to be a truly net zero economy in the long run, investing over US $170 billion annually in past four years.
- This has also contributed to the rapid growth of China's green bond market. These ongoing investments are a structural driver in the growth of Asia's green bond market.
- We believe that an ESG-led investing approach can lead to better risk adjusted returns in the long term. The use of proprietary ESG analysis is key to adding an active view and lens to investments.
- This positive tilt and alignment to mega trends such as China's climate transition and increased climate adaptation spending are thematic investment opportunities that we believe Asian fixed income investors should have as a core part of their portfolios.

The increase in clean energy spending in recent years is impressive but heavily concentrated in a handful of countries



Source: World Energy Investment 2023, International Energy Agency.
Note: 2023e indicates estimated values for 2023.

Appendix I

Notes for page 8 charts:

- When Fed eases, and yield curve steepens, long-maturity bonds outperform"Rate hike periods" show periods when the US Federal Reserve was raising its policy rate. "Yield Curve (10y-2y, %) shows the difference between the US Treasury 10-year yield and the US Treasury 2-year yield. "Tot Ret (10yr/2yr, 1/6/76 = 1.00)" shows the ratio between the total return index for 10-year US Treasuries and that of 2-year US Treasuries, rebased to 1.0 on June 1, 1976. Total returns are calculated using movements in the respective yields on a daily basis to derive price movements, which are added to income flows assuming daily sales and repurchases to maintain constant maturities). Sources: Refinitiv Datastream and Invesco Global Market Strategy.
- When yield curves steepen, bonds tend to outperform equities"GDP weighted yield curve" is the average 10-year yield minus 2-year yield comparison across 10 economies (Australia, Brazil, Canada, China, eurozone, India, Japan, Russia, UK, and US), weighted by GDP. "Bonds/equities" is based on total return indices in US dollars and is the MSCI World Index divided by the ICE BofA Global Government Index. Sources: ICE BofA, MSCI, Refinitiv Datastream, and Invesco.

Notes for page 9 charts:

Data as of August 31, 2023. The top chart shows the total return on global assets in the 12 months before and after the first Fed rate cut in easing cycles since 1974, and the bottom chart shows the same but for US assets. Data doesn't exist for all assets for every easing cycle. Sources: ICE, ICE BofA, FTSE Russell, MSCI, S&P GSCI, Refinitiv Datastream and Invesco Global Market Strategy Office. Government bonds: Historical and projected yields and returns are based on ICE BofA government bond indices with historical ranges starting on December 31,1985 for the Global and January 30, 1978 for the US indices. Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond indices with historical ranges starting on December 31, 1996 for the Global and January 31, 1973 for the US dollar index. Corporate high-yield (HY) bonds: Bank of America Merrill Lynch High-Yield indices with historical ranges starting on August 29, 1986 for the US dollar and December 31,1997 for the Global index. Equities: We use MSCI benchmark indices to calculate projected returns and calculate long-term total returns with historical ranges starting on December 31, 1969 for the Global and US indices. Real estate: We use FTSE EPRA/NAREIT indices with historical ranges starting on December 29, 1989 for the US and February 18, 2005 for the Global Index. Commodities: Standard and Poor's Goldman Sachs Commodity Total Return Indices with historical ranges starting on December 31, 1969.

Notes for page 10 charts:

- Wars often have less market impact than fearedBased on the monthly performance of the S&P 500 (or US equity market equivalent prior to its existence as constructed by Robert Shiller) in the five years from the onset of tensions during WW1, WW2, the Cuban Missile Crisis, the Yom Kippur War, the Kuwait War, and the Iraq War. For each episode, the index is rebased to 100 at the outset (month zero) and is then calculated over the following 60 months. Sources: Robert Shiller, Bloomberg L.P., and Invesco.

Notes for page 15 charts:

- Credit, core and municipal bonds outperformed short-term bonds following the end of rate hike cyclesShort government bonds are represented by the S&P 0-1 Year US Treasury Index. Municipal bonds are represented by the Bloomberg US Municipal Bond Index. Core bonds are represented by the Bloomberg US Aggregate Bond Index. Corporate bonds are represented by the Bloomberg US Corporate Bond Index.

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.

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