Uncommon truths

Focus on the economy, not the politics

The US mid-terms produced a bigger than expected swing to the Democrats and a sharp drop in US equities. However, we think Congress will have limited ability to make big changes and prefer to focus on economic data which remains reassuring.

Wow, that was quite a week in the US, with politics, economics and markets hitting the headlines. The outcome of the US mid-terms was at the same time unsurprising and shocking. It is usual for the party of the president to lose congressional seats in mid-term elections (see Figure 1a) and opinion polls had been pointing in that direction, especially concerning the House of Representatives (and this author suggested in early January that the Democrats could win both houses – see The Aristotle List).

However, the degree of the swing was bigger than most of us expected (though not excessive compared to the historical precedents shown in Figure 1a). As of 7 November (with some seats still undecided), the Democrats look as though they will hold a majority in the House of Representatives of 80-90 seats (they have a 254 vs 162 advantage, as of 7 November), while their Senate majority could exceed 10 (54 versus 44). That is impressive when compared to the pre-election Republican majorities of 3 and 6, respectively.

That may look as though it gives the Democrats the opportunity to enact their legislative programme. However, even if they can agree what they want to do (and assuming they don't go down the rabbit hole of impeachments), their ability to get things done may be limited. Though the US constitution does not mention the word "veto", it effectively gives the president the power to stop legislation originating in Congress, unless two-thirds of both houses approve the bill:

> *Every Bill which shall have passed the House of Representatives and the Senate, shall, before it become a Law, be presented to the President of the United States: If he approve he shall sign it, but if not he shall return it, with his Objections to that House in which it shall have originated, who shall enter the Objections at large on their Journal, and proceed to reconsider it. If after such Reconsideration two thirds of that House shall agree to pass the Bill, it shall be sent, together with the Objections, to the other House, by which it shall likewise be reconsidered, and if approved by two thirds of that House, it shall become a Law.* (U.S. Constitution, Article I, Section 7, clause 2, as outlined in The Presidential Veto and Congressional Veto Override Process from the Center for Legislative Archives, National Archives and Records Administration).

Impressive as the results were for the Democrats, they will struggle to get two thirds of votes (67 in the Senate and 290 in the House) without a good deal of Republican support. So long as Republican members of Congress don't break ranks with the president, he will have an effective veto.

Figure 1a – Mid-term seat losses by the party of the president

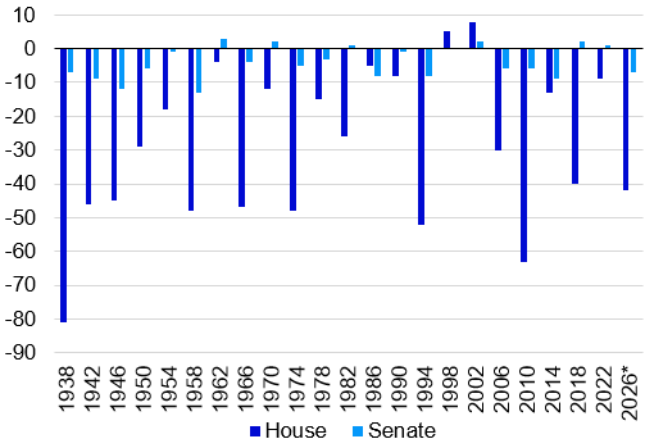
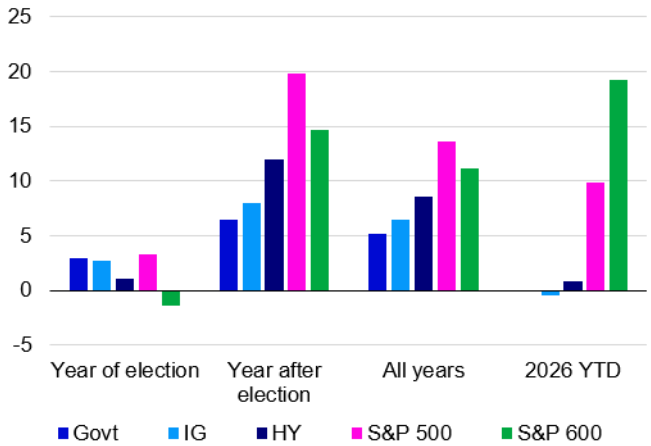


Figure 1b – US asset returns and mid-term elections since 1990 (%)



Notes: **Past performance is no guarantee of future results**. Left-hand chart is based on mid-term elections from 1938 to 2026 (* 2026 data is based on partial results, as of 7 November 2026, with two Senate seats and 19 House seats still to be declared). Right-hand chart is based on calendar year data from 1988 to 2026 (2026 YTD shows annualised returns up to 6 November 2026) and shows average returns in Congressional mid-term election years since 1990, compared to the returns in the year after the election. "All years" shows the average return in calendar years from 1988 to 2025. Govt = government bonds (based on ICE BofA US Treasury Index), IG = investment grade (based on the ICE BofA US Corporate Index), HY = high yield (based on the ICE BofA US High Yield Index).
Source: The American Presidency Project, ICE BofA, S&P Dow Jones Indices, LSEG Datastream and Invesco Strategy & Insights

I imagine that some Republican members of Congress may break ranks with the president on topics such as the war with Iran, since its consequences have been so damaging to their standing. If so, I think that could be good news for financial markets, bringing with it the possibility of lower energy costs, inflation and bond yields (assuming the president bows to their wishes).

However, I suspect it may be harder to garner Republican support for greater regulation of AI and datacentres. Hence, it is possible that the big post-election sell-off in global technology stocks may have been overdone.

That said, it is worth remembering that the problems for these stocks started well before the mid-terms. For example, as of 30 October, US hyperscalers were largely flat year-to-date, as were US neocloud stocks, which have halved since the middle of the year (judging by market-capitalisation weighted indices constructed by my colleague Ashley Oerth). Though the real regulatory risks may have to wait for the next presidential election (if a Democrat is elected), the markets were already worried that they had overpriced the very real potential that AI brings.

When it comes to the history of asset returns around mid-term elections, Figure 1b shows that since 1990 US asset returns have tended to be better in the year after mid-term elections, than in the year of the election. This is not true for every election (2006, 2010 and 2014 were exceptions, for example) but it gives some comfort, especially for fixed income investors who have had a tough 2026.

Of greater importance, I believe, will be the US economic cycle and Fed policy actions. From this perspective recent economic data flows were reassuring, with Q3 GDP particularly strong (+3.4% annualised), despite a 3.3% drag from net exports. In the most recent week, the ISM Manufacturing Index was reported to have strengthened to 55.5 in October (from 54.5), and, although the ISM Services index fell to 54.5 (from 54.9), both surveys suggest that businesses remain in good shape (though separate auto sales and construction spending data were weak).

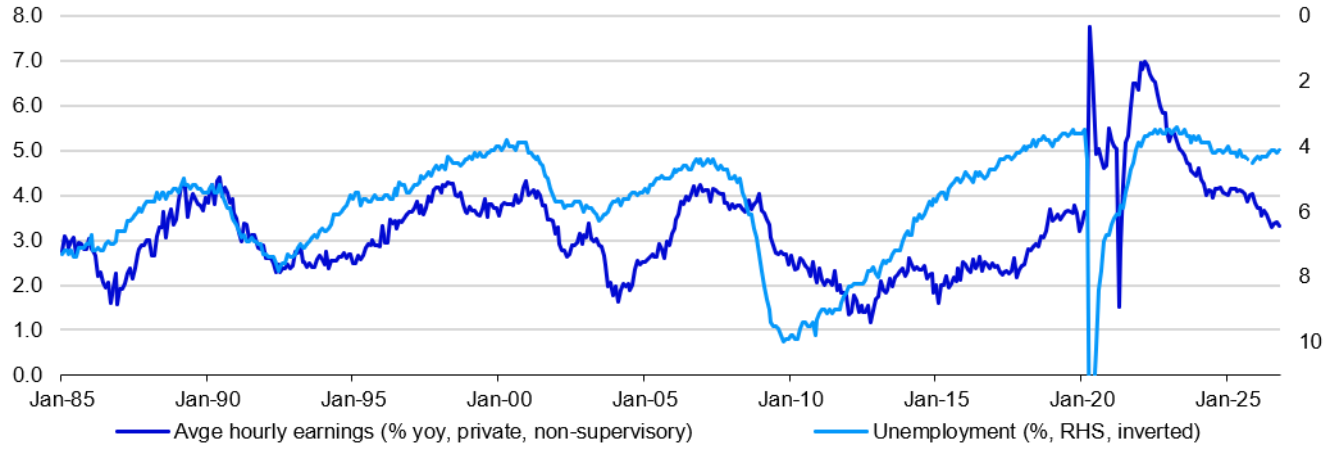
When it comes to the labour market, JOLTS job openings rebounded in September to 7.5 million (from 7.1 million), while layoffs declined. Challenger job cuts data also remained low in October, while the latest weekly initial jobless claims data was close to the lows of the last five years. Finally, the employment report for October showed a solid payroll gain of 165k, with a total upward revision of 84k across the two previous months, and unemployment fell to 4.1% (from 4.2%).

Though wage growth was higher than expected (3.1% versus a Bloomberg consensus of 2.9%), it was down from the prior month. Figure 2 shows that the decline in unemployment since last November has not so far provoked a rise in wage growth (though it may no longer be falling). That is good news for the Fed, especially considering that strong productivity growth (due to strong GDP growth) pushed unit labour cost growth into negative territory in Q3. The Fed may feel the need to tighten again to prevent second round effects higher food and energy prices, but the November University of Michigan survey suggests that consumer inflation expectations are easing.

I believe that if the economy remains this resilient, profits will continue to grow, while the Fed may not have to tighten as much as feared. I think that would overpower any mid-term effect during 2027, enabling another good year for small caps, for example.

Unless stated otherwise, all data as of 6 November 2026.

Figure 2 – US unemployment and wage growth



Note: Based on monthly data from January 1985 to October 2026, as of 6 November 2026.
Source: LSEG Datastream and Invesco Strategy & Insights

Figure 3 – Asset class total returns (%)

Data as at 6 Nov 2026	Index	Current Level/RY	Total Return (USD, %) 1w	1m	QTD	YTD	12m	Total Return (Local Currency, %) 1w	1m	QTD	YTD	12m
Equities												
World	MSCI	1085	-2.7	-5.9	-4.3	8.5	11.3	-2.5	-5.8	-4.0	9.3	11.7
Emerging Markets	MSCI	1502	-4.1	-13.7	-11.8	9.1	10.4	-3.8	-12.7	-11.0	9.9	11.2
China	MSCI	70	5.4	-1.6	-2.0	-13.5	-18.0	5.4	-1.7	-2.2	-13.6	-18.2
US	MSCI	7018	-2.8	-5.8	-3.7	8.4	10.5	-2.8	-5.8	-3.7	8.4	10.5
Europe	MSCI	2754	0.1	1.0	0.5	7.2	13.7	0.3	1.2	1.1	11.4	15.8
Europe ex-UK	MSCI	3376	0.4	0.7	0.2	6.4	13.2	0.5	1.1	1.2	11.6	16.5
UK	MSCI	1694	-0.8	2.1	1.5	9.9	15.5	-0.6	1.5	1.0	10.6	13.2
Japan	MSCI	5135	-7.5	-12.8	-11.3	9.1	9.1	-7.0	-12.7	-10.7	10.1	12.8
Government Bonds												
World	BofA-ML	4.16	0.4	2.1	1.9	-2.3	-2.4	0.6	2.3	2.5	-0.7	-1.2
Emerging Markets	JP Morgan	6.42	1.0	-0.3	0.3	0.9	3.7	0.9	0.9	1.3	3.5	4.7
China	BofA-ML	1.40	0.0	1.1	1.2	8.5	10.1	0.2	0.6	0.6	3.6	3.1
US (10y)	Datastream	4.86	0.6	3.8	4.0	-1.4	-1.2	0.6	3.8	4.0	-1.4	-1.2
Europe	Bofa-ML	3.73	0.7	0.4	0.0	-6.4	-5.3	0.9	1.3	1.9	-1.4	-1.9
Europe ex-UK (EMU, 10y)	Datastream	3.23	0.4	1.1	1.0	-5.3	-4.8	0.6	2.1	2.9	-0.2	-1.4
UK (10y)	Datastream	5.16	0.9	2.8	3.2	-0.5	2.5	1.1	2.2	2.7	0.2	0.5
Japan (10y)	Datastream	2.68	0.6	3.7	2.7	-3.2	-8.2	1.1	3.8	3.5	-2.3	-5.1
IG Corporate Bonds												
Global	BofA-ML	5.29	0.4	1.6	1.6	-1.6	-0.8	0.5	1.8	2.0	-0.2	0.0
Emerging Markets	JP Morgan	6.69	0.3	0.8	0.8	1.1	1.9	0.3	0.8	0.8	1.1	1.9
China	BofA-ML	1.93	0.0	1.1	1.1	8.1	10.1	0.2	0.6	0.6	3.2	3.2
US	BofA-ML	5.77	0.4	2.3	2.5	-0.4	0.0	0.4	2.3	2.5	-0.4	0.0
Europe	BofA-ML	4.19	0.3	-0.2	-0.7	-5.2	-3.7	0.4	0.8	1.2	-0.1	-0.3
UK	BofA-ML	6.10	0.6	1.9	2.0	-0.4	3.0	0.9	1.2	1.5	0.3	1.0
Japan	BofA-ML	2.59	0.1	1.3	0.7	-0.9	-4.1	0.6	1.4	1.4	0.0	-0.8
HY Corporate Bonds												
Global	BofA-ML	8.17	0.4	-0.1	0.0	-0.3	1.3	0.4	0.1	0.3	0.8	1.9
US	BofA-ML	8.40	0.4	0.4	0.7	0.8	2.2	0.4	0.4	0.7	0.8	2.2
Europe	BofA-ML	6.87	0.4	-1.3	-2.3	-5.4	-3.2	0.6	-0.3	-0.4	-0.3	0.2
Cash (Overnight rates)												
US		3.89	0.1	0.3	0.2	2.9	3.8	0.1	0.3	0.2	2.9	3.8
Euro Area		2.44	0.4	-1.8	-0.7	-2.7	-1.9	0.0	0.2	0.1	1.7	2.1
UK		3.73	0.8	-0.1	0.6	1.9	3.0	0.1	0.3	0.2	3.0	3.8
Japan		1.23	0.2	-1.0	-0.3	-0.2	-4.1	0.0	0.1	0.1	0.7	0.8
Real Estate (REITs)												
Global	FTSE	1774	2.3	4.8	4.2	7.7	8.8	2.5	5.8	6.2	13.5	12.6
Emerging Markets	FTSE	1237	4.3	-0.6	0.1	-1.7	-1.5	4.4	0.4	2.0	3.5	2.0
US	FTSE	3555	2.1	5.3	5.4	16.5	16.5	2.1	5.3	5.4	16.5	16.5
Europe ex-UK	FTSE	2341	3.8	5.1	4.2	-10.3	-8.2	4.0	6.1	6.2	-5.4	-5.0
UK	FTSE	819	1.2	7.0	5.0	10.0	13.2	1.4	6.3	4.4	10.8	11.0
Japan	FTSE	2267	0.5	4.9	1.1	-10.3	-6.4	1.0	5.0	1.9	-9.5	-3.3
Commodities												
All	GSCI	5912	-7.2	-2.9	-2.8	51.0	51.6	-	-	-	-	-
Energy	GSCI	1321	-11.2	0.2	-0.5	118.8	107.0	-	-	-	-	-
Industrial Metals	GSCI	2365	-1.3	-2.0	-2.6	11.0	22.9	-	-	-	-	-
Precious Metals	GSCI	4491	4.7	-3.7	-3.5	-8.9	1.9	-	-	-	-	-
Agricultural Goods	GSCI	485	-2.4	-11.6	-8.5	2.8	-0.3	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.11	-0.1	-1.0	-1.6	-5.1	-3.5	-	-	-	-	-
JPY		158.48	-0.6	-0.2	-0.7	-1.1	-3.4	-	-	-	-	-
GBP		1.34	-0.3	0.6	0.6	-0.7	2.0	-	-	-	-	-
CHF		1.22	0.5	1.4	1.9	-3.4	-1.7	-	-	-	-	-
CNY		6.68	-0.3	0.4	0.4	4.8	6.6	-	-	-	-	-

Notes: **Past performance is no guarantee of future results.** *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

Figure 4 – Global equity sector total returns relative to market (%)

Data as of 06 Nov 2026	Global				
	1w	1m	QTD	YTD	12m
Energy	**-4.8**	**3.5**	**4.2**	**14.9**	**12.2**
Basic Materials	**3.1**	**-1.2**	**-1.3**	**-0.9**	**7.3**
Basic Resources	4.7	-3.1	-3.6	-3.6	8.1
Chemicals	-0.1	3.2	4.0	5.7	5.9
Industrials	**-0.3**	**0.8**	**0.8**	**-3.1**	**-3.0**
Construction & Materials	1.4	1.9	1.5	-11.2	-10.3
Industrial Goods & Services	-0.5	0.7	0.7	-1.8	-1.9
Consumer Discretionary	**5.2**	**10.6**	**10.5**	**-9.0**	**-10.5**
Automobiles & Parts	-1.5	3.2	5.2	-19.9	-19.8
Media	5.0	11.0	8.7	-17.3	-22.3
Retailers	7.4	12.5	13.1	0.5	-2.7
Travel & Leisure	7.4	15.5	14.2	-5.6	-1.9
Consumer Products & Services	5.8	10.8	8.2	-15.0	-16.4
Consumer Staples	**3.4**	**14.2**	**12.0**	**2.6**	**2.0**
Food, Beverage & Tobacco	3.0	14.0	11.1	4.5	4.6
Personal Care, Drug & Grocery Stores	4.3	14.6	13.5	-0.7	-2.5
Healthcare	**2.2**	**15.8**	**12.7**	**6.8**	**10.6**
Financials	**3.0**	**5.9**	**4.2**	**0.7**	**4.0**
Banks	2.7	2.7	0.7	3.0	7.5
Financial Services	4.0	8.5	7.4	-4.8	-3.5
Insurance	2.2	11.4	9.8	3.9	7.9
Real Estate	**4.6**	**10.8**	**8.6**	**-3.3**	**-4.2**
Technology	**-4.6**	**-13.0**	**-11.8**	**1.2**	**-1.1**
Telecommunications	**-2.1**	**-10.3**	**-7.6**	**3.6**	**3.1**
Utilities	**3.0**	**8.8**	**9.4**	**-2.7**	**-5.1**

Notes: **Past performance is no guarantee of future results.** Returns shown are for Datastream sector indices versus the total market index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 5a – US factor index total returns (%)

Data as of 6 Nov 2026	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.1	-0.8	2.0	10.5	13.5	2.8	5.1	5.7	1.6	2.2
Low volatility	0.4	7.1	8.7	8.4	9.2	3.2	13.5	12.7	-0.4	-1.7
Price momentum	-7.5	-13.8	-10.9	14.4	16.3	-5.0	-8.6	-7.7	5.2	4.7
Quality	0.4	7.0	8.5	16.8	21.5	3.2	13.3	12.4	7.3	9.4
Size	1.7	8.5	10.1	16.1	22.2	4.5	14.9	14.1	6.8	10.0
Value	0.7	6.6	7.5	21.9	29.8	3.5	13.0	11.4	12.0	16.9
Market	-2.7	-5.6	-3.5	8.8	11.1					
Market - Equal-Weighted	-1.0	1.8	3.9	14.3	18.3					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 5b – European factor index total returns relative to market (%)

Data as of 6 Nov 2026	Europe Absolute					Europe Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.9	3.1	3.6	18.1	23.3	0.6	1.2	1.3	4.9	4.8
Low volatility	1.6	5.4	5.4	11.2	14.8	1.3	3.4	3.1	-1.3	-2.5
Price momentum	-2.5	-6.4	-5.9	9.7	18.7	-2.7	-8.2	-8.0	-2.6	0.9
Quality	1.6	2.9	2.6	15.6	21.8	1.3	1.0	0.4	2.7	3.5
Size	0.2	3.8	3.7	12.0	19.9	-0.1	1.8	1.4	-0.5	1.9
Value	1.9	3.8	3.1	13.8	21.6	1.6	1.8	0.9	1.0	3.4
Market	0.3	2.0	2.3	12.6	17.7					
Market - Equal-Weighted	0.7	3.7	3.9	14.4	19.7					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 6 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**		**4%**			
Cash	3%			0%			
AAA CLOs	2%			4%			
Bank Loans	**4%**	**0-8%**		**5%**			
US	3%			4%			
Europe	1%			1%			
Bonds	**40%**	**10-70%**	↑	**34%**			
Government	25%	10-40%	↑	20%			
US	8%			5%			
Europe ex-UK (Eurozone)	7%			5%			
UK	1%			2%			
Japan	7%		↑	4%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
India**	0.1%			1%			
Corporate IG	10%	0-20%	↑	9%			
US Dollar	5%			3%			
Euro	2%			1%			
Sterling	1%			2%			
Japanese Yen	1%		↑	1%			
Emerging Markets	1%			2%			
China**	0.1%			0%			
Corporate HY	5%	0-10%		5%			
US Dollar	4%			4%			
Euro	1%			1%			
Equities	**45%**	**25-65%**	↓	**50%**			
US	25%			25%			
Europe ex-UK	7%		↓	8%			
UK	4%			5%			
Japan	4%		↓	5%			
Emerging Markets	5%			7%			
China**	2%			3%			
India**	1%			1%			
Real Estate	**4%**	**0-8%**		**5%**			
US	1%			0%			
Europe ex-UK	1%			2%			
UK	1%			2%			
Japan	1%			1%			
Emerging Markets	1%			0%			
Commodities	**2.0%**	**0-4%**		**2.3%**			
Energy	1.0%			0.0%			
Industrial Metals	0.3%			1.0%			
Precious Metals	0.3%			0.3%			
Agriculture	0.3%			1.0%			
Total	**100%**			**100%**			

Currency Exposure (including effect of hedging)				
USD	51%		45%	
EUR	20%	↓	20%	
GBP	7%		11%	
JPY	14%	↑	11%	
EM	9%		13%	
Total	**100%**		**100%**	

Notes: *This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. **China and India are included in Emerging Markets allocations. Cash is an equally weighted mix of USD, EUR, GBP and JPY. Currency exposure calculations exclude cash. Arrows show direction of change in allocations. India has been added in this edition. See the latest The Big Picture document for more details. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

Appendix

Methodology for Model Asset Allocation

Which asset classes?

We look for investibility, size and liquidity. We have chosen to include equities, bonds (government, corporate investment grade and corporate high yield), bank loans, REITs to represent real estate, commodities and cash (all across a range of geographies). We use cross-asset correlations to determine which decisions are the most important.

Neutral allocations and policy ranges

We use market capitalisation in USD for major benchmark indices to calculate neutral allocations. For commodities, we use industry estimates for total ETP market cap + assets under management in hedge funds + direct investments. We use an arbitrary 5% for the combination of cash and AAA CLOs. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

Currency hedging

We adopt a cautious approach when it comes to currency hedging as currency movements are notoriously difficult to accurately predict and sometimes hedging can be costly. Also, some of our asset allocation choices are based on currency forecasts. We use an amalgam of central bank rate forecasts, policy expectations and real exchange rates relative to their historical averages to predict the direction and amplitude of currency moves.

Definitions of data and benchmarks for Figure 3

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1 January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the ICE BofA government bond total return index for the World and Europe. The emerging markets yields and returns are based on the JP Morgan Global Emerging Markets Government Bond Index.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond total return indices, except for in emerging markets where we use the JP Morgan Corporate Emerging Market Broad Bond Index.

Corporate high yield (HY) bonds: ICE BofA high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

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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Author

Paul Jackson
Global Market Strategist, EMEA
paul.jackson@invesco.com
London, EMEA

Strategy & Insights Team

Brian Levitt
Head of Strategy & Insights
brian.levitt@invesco.com
New York, Americas

David Chao
Global Market Strategist, Asia Pacific
david.chao@invesco.com
Hong Kong, Asia Pacific

Paul Jackson
Global Market Strategist, EMEA
paul.jackson@invesco.com
London, EMEA

Tomo Kinoshita
Global Market Strategist, Japan
tomo.kinoshita@invesco.com
Tokyo, Asia Pacific

Ben Jones, CFA®
Global Head of Research
benjamin.jones@invesco.com
London, EMEA

Ashley Oerth, CFA®
Senior Investment Strategist
ashley.oerth@invesco.com
London, EMEA

Thomas Wu
Investment Strategist
thomas.wu@invesco.com
Hong Kong, Asia Pacific

András Vig
Investment Strategist
andras.vig@invesco.com
London, EMEA

Kenneth Blay
Head of Strategic Research
kenneth.blay@invesco.com
Boston, Americas

Ann Ginsburg
Head of Fixed Income Research
ann.ginsburg@invesco.com
Atlanta, Americas

Drew Thornton, CFA®
Head of Solutions & Alts Research
drew.thornton@invesco.com
USA, Americas

Emma McHugh, CFA®
Analyst, Solutions & Alts
emma.mchugh@invesco.com
Henley, EMEA

John Sazima
Research Analyst
john.sazima@invesco.com
USA, Americas

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