This marketing communication is for Professional Clients, Financial Advisers, Qualified Clients/Sophisticated Investors (as defined in the important information at the end), for Sophisticated or Professional Investors in Australia; Institutional Investors in the United States; in Canada, this document is restricted to Institutional Investors and Advisors; for Qualified Institutional Investors in Japan; for certain specific institutional investors in Malaysia upon request, in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act), for Professional 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 Indonesia and for qualified buyers in the Philippines for informational purposes only. It is not intended for and should not be distributed to or relied upon by the public or retail investors.
Macros Views

Slowdown in first half, recovery thereafter
- We expect a bumpy landing composed of a global growth slowdown in the first half of 2024.

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.

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.”

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.

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

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.

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

Contributors

Mo Haghbin, CFA®, CAIA®
Head of Solutions

Kristina Hooper
Chief Global Market Strategist

Alessio de Longis, CFA®
Head of Investments, Solutions

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

Jeffrey Bennett, CFA®
Senior Portfolio Manager
Head of Manager Selection

Adam Burton
Senior Macro Strategy Analyst

David Chao
Global Market Strategist

Arnab Das
Global Macro Strategist

David Gluch, CFA®
Client Portfolio Manager, GAA

Paul Jackson
Global Head of Asset Allocation Research

Benjamin Jones, CFA®
Director, Macro Research

Tomo Kinoshita
Global Market Strategist

Turgut Kisinbay
Chief US Economist, IFI Research

Brian Levitt
Global Market Strategist

Ashley Oerth, CFA®
Senior Investment Strategy Analyst

Drew Thornton, CFA®
Head of Thought Leadership, Solutions

András Vig
Senior Multi-Asset Strategist

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.
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.

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.
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

<table>
<thead>
<tr>
<th>US M2 money supply and Consumer Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Price Index (RHS)</td>
</tr>
<tr>
<td>M2 Money Supply (Advance 16M, LHS)</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Year-over-year percent change</td>
</tr>
</tbody>
</table>

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

| US average hourly earnings                  |
| Seasonally adjusted 3-month annualized rate |
| %                                          |
| 3-month annualized rate of change           |

Rents
Rent inflation is moderating

| US apartment real estate effective rates    |
| (US metro, USD per square foot)             |
| %                                          |
| Year-over-year percent change               |

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.

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.

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).
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.

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.
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

<table>
<thead>
<tr>
<th>Rate hike periods</th>
<th>Yield Curve (10y-2yr %)</th>
<th>Total Return Index (10yr/2yr, 1/6/76 = 1.00, RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>1981</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>1986</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>1990</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>1994</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>1995</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>1997</td>
<td>2.3</td>
<td>2.1</td>
</tr>
</tbody>
</table>

### When yield curves steepen, bonds tend to outperform equities

<table>
<thead>
<tr>
<th>GDP weighted yield curve (%)</th>
<th>Global bonds/equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>2.5</td>
</tr>
<tr>
<td>1981</td>
<td>2.2</td>
</tr>
<tr>
<td>1986</td>
<td>1.9</td>
</tr>
<tr>
<td>1990</td>
<td>1.6</td>
</tr>
<tr>
<td>1994</td>
<td>1.4</td>
</tr>
<tr>
<td>1995</td>
<td>1.2</td>
</tr>
<tr>
<td>1997</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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.
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**

- 12m before
- 12m after

### Global assets

<table>
<thead>
<tr>
<th>Asset</th>
<th>12m before</th>
<th>12m after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>-10%</td>
<td>15%</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>-1%</td>
<td>8%</td>
</tr>
<tr>
<td>Corporate IG</td>
<td>-12%</td>
<td>10%</td>
</tr>
<tr>
<td>Corporate HY</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>REITS</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>USD Index</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Commodities</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

### US assets

<table>
<thead>
<tr>
<th>Asset</th>
<th>12m before</th>
<th>12m after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>-1%</td>
<td>7%</td>
</tr>
<tr>
<td>Corporate IG</td>
<td>-2%</td>
<td>8%</td>
</tr>
<tr>
<td>Corporate HY</td>
<td>-1%</td>
<td>4%</td>
</tr>
<tr>
<td>REITS</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>USD Index</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Commodities</td>
<td>15%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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

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.

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.

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

**Real effective exchange rates***

<table>
<thead>
<tr>
<th>Currency</th>
<th>Jan 78</th>
<th>Jan 88</th>
<th>Jan 98</th>
<th>Jan 08</th>
<th>Jan 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>70</td>
<td>120</td>
<td>120</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>CNY</td>
<td>80</td>
<td>110</td>
<td>110</td>
<td>120</td>
<td>130</td>
</tr>
<tr>
<td>CHF</td>
<td>90</td>
<td>100</td>
<td>100</td>
<td>110</td>
<td>120</td>
</tr>
<tr>
<td>EUR</td>
<td>100</td>
<td>110</td>
<td>110</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>GBP</td>
<td>110</td>
<td>120</td>
<td>120</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>JPY</td>
<td>120</td>
<td>130</td>
<td>130</td>
<td>140</td>
<td>140</td>
</tr>
</tbody>
</table>

*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**

**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.

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.
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

<table>
<thead>
<tr>
<th>Index</th>
<th>Compound annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>REITs</td>
<td>13.5</td>
</tr>
<tr>
<td>US value</td>
<td>17.8</td>
</tr>
<tr>
<td>US large</td>
<td>17.8</td>
</tr>
<tr>
<td>US growth</td>
<td>19.5</td>
</tr>
<tr>
<td>Europe</td>
<td>21.9</td>
</tr>
<tr>
<td>International</td>
<td>25.2</td>
</tr>
<tr>
<td>US small</td>
<td>29.3</td>
</tr>
<tr>
<td>EM</td>
<td>38.4</td>
</tr>
</tbody>
</table>


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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>EM</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>China</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>India</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>US</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Europe</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Europe ex-UK</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>UK</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Japan</td>
<td>70</td>
<td>90</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
</tbody>
</table>


Sources: LSEG Datastream and Invesco.

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 Catalyst
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

“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
- Bloomberg US Aggregate Credit Average OAS
- Bloomberg US Aggregate Credit Yield to Worst
- NBER US Recessions

Credit, core, and municipal bonds outperformed short-term bonds following the end of rate hike cycles
- Short government bonds
- Municipal bonds
- Core bonds
- Corporate bonds

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

The Catalyst
- 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.

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.

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

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.

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

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Overall</th>
<th>Valuations</th>
<th>Fundamentals</th>
<th>Secular trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Unattractive</td>
</tr>
<tr>
<td>Energy</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Unattractive</td>
</tr>
<tr>
<td>Industrial metals</td>
<td>Unattractive</td>
<td>Unattractive</td>
<td>Attractive</td>
<td>Unattractive</td>
</tr>
<tr>
<td>Precious metals</td>
<td>Unattractive</td>
<td>Attractive</td>
<td>Unattractive</td>
<td>Unattractive</td>
</tr>
</tbody>
</table>

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
Sticker 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.
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:


Notes for page 10 charts:

• Wars often have less market impact than feared 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 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 cycles Short 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.

Important information

This marketing communication is for Professional Clients only in Dubai, Jersey, Guernsey, Isle of Man, Ireland, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States, for Sophisticated or Professional Investors in Australia, in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; 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 Qualified Professional Investors in Korea; for certain specific institutional investors in Brunei; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Indonesia; for qualified investors in the Philippines for informational purposes only; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; in Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document. For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

This marketing communication is not intended as a recommendation to invest in any particular asset class, security, strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. This report 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 or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. The opinions expressed herein are those of the individuals expressing them personally and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions, and are subject to change without notice. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This material may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1998 (“the Investment Advice Law”). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

Restrictions on distribution

Australia

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor’s investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

• may contain references to dollar amounts which are not Australian dollars;
• may contain financial information which is not prepared in accordance with Australian law or practices;
• may not address risks associated with investment in foreign currency denominated investments; and does not address Australian tax issues.

• issued in Australia by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

Canada

In Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

• issued in Canada by Invesco Canada Ltd., 120 Bloor Street East, Suite 700, Toronto, Ontario, M4W 1B7.

Continental Europe

Dublin, Ireland, the Isle of Man, Jersey and Guernsey and the UK

The document is intended only for Professional Clients in Continental Europe, Dublin, Ireland, the Isle of Man, Jersey, Guernsey, and the UK and is not for consumer use. Marketing materials may only be distributed without public solicitation and in compliance with any private placement rules or equivalent set forth in the laws, rules and regulations of the jurisdiction concerned. This document is not intended to provide specific investment advice including, without limitation, investment, financial, legal, accounting or tax advice, or to make any recommendations about the suitability of any product for the circumstances of any particular investor. You should take appropriate advice as to any securities, taxation or other legislation affecting you personally prior to investment. No part of this material may be copied, photocopied or duplicated in any form or any means or redistributed without Invesco’s prior written consent.

Further information is available using the contact details shown:

• issued in Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Netherlands, Spain, Sweden, Luxembourg, Norway and Portugal by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.

• issued in Dubai by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Musabiqal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.

• issued in Austria and Germany by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.

• issued in Switzerland by Invesco Asset Management (Schweiz) AG, Tackerstrasse 34, 8001 Zurich, Switzerland.

• issued in the Israel, Isle of Man, Jersey, Guernsey and the United Kingdom by Invesco Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. Invesco Asset Management Ltd, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH, UK.

All data as of October 31, 2023, unless otherwise stated. All data is USD, unless otherwise stated.