Invesco Global Investment Grade Corporate Bond Fund
Fund insights

January 2020

This marketing document is exclusively for use by Professional Clients and Financial Advisers in Continental Europe (as defined below), Qualified Investors in Switzerland, Qualified Clients/Sophisticated Investors in Israel and Professional Clients in Dubai, Jersey, Guernsey, Ireland, Isle of Man and the UK.

Lyndon Man
Co-Head Global Investment Grade,
Invesco Fixed Income

Luke Greenwood
Co-Head Global Investment Grade,
Invesco Fixed Income

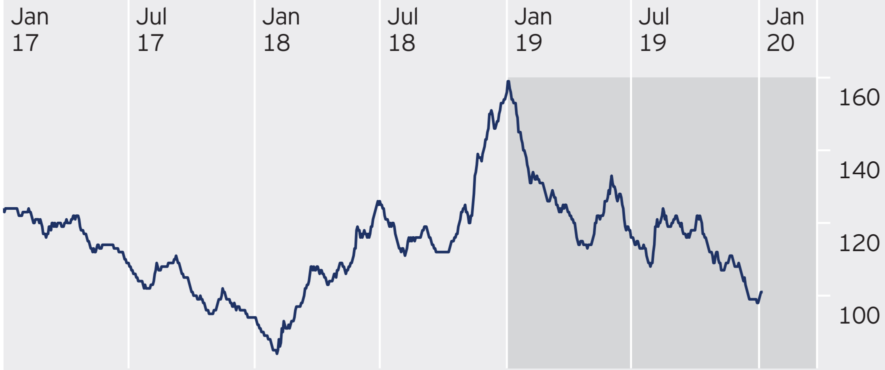
The final quarter of 2019 saw a notable improvement in market sentiment, but what strategies and themes to follow in 2020?

The final quarter of 2019 saw improved sentiment as forward-looking economic indicators stabilised, suggesting that the downward trend in global output was bottoming out. This drove core government bond yields higher during November. The move higher in rates was relatively orderly and viewed by many as a positive correction from historically low levels. Finally, the UK election delivered a conclusive result in December to help improve certainty around BREXIT. Given this relatively subdued environment and the positive returns experienced during 2019 across most asset classes, market activity was muted into year end.

2019 summary

The pivot by central banks at the beginning of 2019 to a more accommodative stance and the reinstatement of the ECB's Corporate Sector Purchase Programme later in the year resulted in strong returns for corporate bond markets during 2019. Indeed, global corporate bond spreads achieved our bullish spread estimate of 100bps, reaching tights of 98bps on the final day of the year (see Figure 1). Total returns surpassed our expectations with the fund delivering 15.7% versus 12.5% of the benchmark (returns are gross, USD, benchmark is the Bloomberg Barclays Global Aggregate Corporate Index USD Hedged), the net equivalent and longer-term relative performance is covered further down in the article. The themes which worked well and contributed strongly to the fund's outperformance were the Japanification of Europe, Chinese transitioning & financial deleveraging. Please see Figure 2 for a full list of the key themes within the fund.

Figure 1
Global corporate bond spread



Source: Bloomberg, as at 7 January 2020.

Strategy

We believe that during 2020:

- Ongoing dispersion within the global corporate bond universe will create relative value opportunities to deliver excess returns
- Market beta will be much less effective during 2020 in generating outperformance given lower yields and tighter spread levels, therefore carry will be the predominant driver of excess returns
- Positive market supply and demand technicals created by a hunt for yield and the ECB's Corporate Sector Purchase Programme should continue to support high quality corporate bonds globally

Given the fund's philosophy of focusing on delivering alpha by implementing relative value themes, we believe it is well placed for the year ahead. As a reminder, these themes are constructed using security selection in order to best represent our view and to try and capture the highest risk adjusted returns within the guidelines of the strategy.

Figure 2
Key long-term investment themes

Key themes	Examples
Japanification of Europe: Prolonged period of low growth and low inflation	Curve Flatteners, High quality spread convergence
Policy Normalisation Potential/Financial Repression effectiveness	CSPP Ineligible over CSPP eligible debt; focus on short dated hybrids
Global Growth Convergence under stable USD backdrop	Strong EM corporates in an improving sovereign
Credit Cycle Differentiation: Europe Early-Mid vs. US Late Cycle	European over US Credit
Chinese transition from investment to consumption driven economy	Chinese offshore bonds: TMT Giants & Key SOEs
Geopolitical disruptions: Populism and Protectionism	Buy the rumor and sell the fact e.g. Brexit Trade Tension: Focus on non-cyclicals
Financial deleveraging trends with improvement in asset quality and capital	Dutch, Swiss, Scandi and UK banks Cocos, T2 vs SNP/T3
Restructuring & balance sheet preservation trends favouring commodity names	Vertically Integrated, High quality pipeline issuers
Idiosyncratic and Recovery Type Plays	Rising Stars/Fallen Angel
Cross Currency Basis Opportunities	Foreign issuers issuing in Eur. Take advantage of basis differential

For illustrative purposes only.

Themes typically target alpha across Sectors, Regions, Capital Structure, Curve Term Structure & Cross Currency Basis. A summary of the fund's positioning across each of these risk factors can be found below:

Figure 3
Fund positioning

Thematic Risk Factor	Overweight	Underweight
Sector	Financials	Non-financials
Region	Europe & Asia	US & Canada
Capital Structure	Subordinated	Senior
Curve Term Structure	Short dated (2-5 years)	Long dated (10-30 years)
Cross Currency Basis	-	-

Source Invesco, as at 31 December 2019, relative to Bloomberg Barclays Global Aggregate Corporate Index USD-Hedged.

Sector
We have long held a preference for financials over non-financials, and whilst the expression of this theme has evolved through time as the securities we prefer has changed, it remains a key position. Due to weak profitability in the sector security selection is key and we continue to focus on names with strong balance sheets; We prefer Swiss, Benelux, Scandi and UK banks.

Financials as a whole still trade at a premium to non-financials, a dynamic that has persisted since the 2008-2009 financial crisis and whilst the ECB do not buy financial bonds as part of their Corporate Bond Purchase Programme, we believe that the sector will again benefit from a spill over effect witnessed during QE1. We maintain our view that financials will trade through their counterparts as they continue to become more utility like and see the post GFC systematic risk premium reduce. Furthermore, we believe that ECB's Corporate Bond Purchase Programme has caused valuations of non-financials to become less attractive. In particular we are underweight more cyclical sectors like Real Estate, Autos and Capital Goods which we believe will be more sensitive to weak economic data. Where we do have exposure to non-financials, we have a preference for more defensive sectors such as Telecom's and Energy (the latter due to heightened middle eastern tensions creating upward pressure on oil prices).

Region
The resemblance of the European Union to that of Japan 15 years ago is quite striking, particularly with regard to aging demographics, low growth, low inflation and easy financial conditions. Considering this, and what we have witnessed in Japan, we believe this environment is set to persist in Europe, and will continue to benefit the investment grade corporate bond markets as investors search for high quality yield. This, when combined with solid corporate fundamentals, lead us to be positive on the region and we continue to be comfortable to invest in the euro Japanification theme.

In Asia, we are targeting Chinese corporates that are set to benefit the most from China's transition over the longer term from an investment led economy to consumption driven. We believe these are the tech & media giants along with key state-owned entities, primarily focused on infrastructure. It should be noted that we only purchase the hard currency bonds from these issuers. In addition to improving credit fundamentals as the transition progresses, we believe market conditions will also improve through increased liquidity and transparency. We continue to be comfortable with the China rebalancing theme and the tools that the Peoples Bank of China and the government have to manage the rebalancing of their economy

Elsewhere, we remain cautious on US corporates in given their late cycle characteristics and maintain our underweight to the region given richening valuations and our view that US growth has peaked in this cycle. We are particular concerned about the increase in shareholder friendly activities such as M&A and share buybacks, especially as we head towards a US election year where US asset prices (especially equities) have become expensive. As a result, the credit cycle differentiation theme on a regional basis continues to be a key active position.

Capital Structure
In this environment of low growth, low inflation and easy financial conditions, the probability of default should remain at low levels for companies with robust balance sheets. Consequently, we are comfortable to invest down the capital structure in bonds issued by companies that our credit research team have identified as having particularly strong fundamentals.

Here we prefer:
- Shorter dated AT1 securities issued by financials that have high coupon step up language which helps to minimise extension risk (the risk of not being called at first opportunity)
- Corporate hybrids issued by highly rated companies with attractive valuations. Further, we believe the market will be well supported by the trend of tender and re-financing as corporates seek to bring down average borrowing costs in the low yield environment

Curve Term Structure
Flat credit spread curves in the US and Europe mean that the additional spread you gain for holding longer dated bonds is low. As a result, we prefer shorter dated bonds at this juncture which also complements our preference for short dated subordinated bonds as outlined in the capital structure theme.

Cross Currency
Cross currency opportunities tend to be more dynamic in nature. For reference, all of our investment decisions are made on a hedged yield basis. Therefore, as hedging costs and issuing trends fluctuate, we seek to purchase the most attractive bonds of a company by currency of issuance on a currency hedged basis. Currently, we see good value in European companies issuing in US dollars and US companies issuing in euro.

Outlook

Our base case remains that the global macro backdrop (low growth, low inflation, easy monetary policy) will continue to be conducive for high credit quality corporate bonds and that this combined with a hunt for yield will result in the asset class remaining well supported during 2020. Key risks to our views would be a strong reflation impulse and the subsequent tightening of monetary policy by central banks, something we assign a very low probability to given current data. Separate to this, a spike in global recession risk followed by a deterioration in credit fundamentals would also weigh on the asset class.

As we begin the year the overall active risk of the fund versus the benchmark is at the lower bound of historical averages at around 60bps of tracking error on an ex-ante basis. This is a combination of lower market volatility and more conservative positioning. Of this active risk, over three-quarters is deployed in the credit themes whilst the remainder is being utilised in macro overlay positioning via rates exposure. For example, within European duration, we have a curve flattener position expressed through the 5 and 30-year parts of government curves which we believe should perform well during periods of risk off whilst offering positive carry.

Overall, we still see the potential for credit spreads at an index level to richen further from here based on the technical and economic backdrop but believe this will be secondary to carry. Hence, we continue to seek to drive alpha through the implementation of the relative value themes.

Annualised Performance – Gross vs. Benchmark
31 December 2019

Annualised returns (%)	YTD	1 month	3 months	1 year	3 years	5 years
Invesco Global Investment Grade Corporate Bond Fund	15.68	0.40	1.27	15.68	6.78	5.98
Bloomberg Barclays Global Aggregate Corporate (US$ hedged) Index	12.51	0.26	0.82	12.51	5.60	4.53
Excess Return	3.17	0.14	0.45	3.17	1.18	1.45

Performance measures	YTD	1 month	3 months	1 year	3 years	5 years
I/R	–	–	–	–	1.04	0.87
Tracking Error	–	–	–	–	1.08	1.60

Calendar year (%)	2019	2018	2017	2016	2015	2014	2013
Invesco Global Investment Grade Corporate Bond Fund	15.68	-2.34	7.76	7.24	2.39	11.70	2.49
Bloomberg Barclays Global Aggregate Corporate (US$ hedged) Index	12.51	-1.00	5.70	6.22	-0.24	7.60	0.07
Excess Return	3.17	-1.34	2.06	1.02	2.63	4.10	2.41

Past performance is not a guide to future returns.
Source: Invesco as at end December 2019. Please note that performance figures reflect the echo effect caused by differences in timing between the pricing of the fund and pricing of its benchmark. Returns less than one year are cumulative; all others are annualised. Performance figures are shown in US$, inclusive of reinvested income, gross of ongoing charges and net of portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Please see Net vs. Peer Group performance slide for the impact of ongoing charges.

Annualised Performance – Net vs. Peer Group (USD Hedged)
31 December 2019

Annualised returns (%)

	YTD	1 month	3 months	1 year	3 years	5 years
Invesco Global Investment Grade Corporate Bond Fund (A-AD Shares)	14.52	0.31	1.02	14.52	5.68	4.81
Invesco Global Investment Grade Corporate Bond Fund (C-AD Shares)	14.80	0.33	1.08	14.80	5.93	5.05
Morningstar GIFS Global Corporate Bond (US$ hedged)	11.14	0.40	0.99	11.14	4.81	3.83

Peer group quartile: Based on A-Shares

	YTD	1 month	3 months	1 year	3 years	5 years
Morningstar GIFS Global Corporate Bond (US$ hedged)	1	3	2	1	1	1

Calendar year (%)

	2019	2018	2017	2016	2015	2014	2013
Invesco Global Investment Grade Corporate Bond Fund (C-AD Shares)	14.80	-3.09	6.85	6.23	1.32	10.60	1.47
Morningstar GIFS Global Corporate Bond (US$ hedged)	11.14	-1.97	5.63	5.73	-0.83	6.47	0.25

Past performance is not a guide to future returns.
Data as at end December 2019. Fund performance figures is shown in EUR inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis. Returns less than one year are cumulative; all others are annualised. Source: © Morningstar 2019. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

Rolling yearly Performance – Net vs. Peer Group
31 December 2019

Rolling yearly returns (%)

	01.01.19 31.12.19	01.01.18 31.12.18	01.01.17 31.12.17	01.01.16 31.12.16	01.01.15 31.12.15
Invesco Global Investment Grade Corporate Bond Fund (A-AD Shares)	14.52	-3.34	6.62	6.07	1.04
Invesco Global Investment Grade Corporate Bond Fund (C-AD Shares)	14.80	-3.09	6.85	6.23	1.32
Morningstar GIFS Global Corporate Bond (US$ hedged)	11.14	-1.97	5.63	5.73	-0.83

Peer group quartile

	01.01.19 31.12.19	01.01.18 31.12.18	01.01.17 31.12.17	01.01.16 31.12.16	01.01.15 31.12.15
Morningstar GIFS Global Corporate Bond (US$ hedged)	1	4	1	2	1

The performance data shown relates to a past period.
Past performance is not a guide to future returns. Data as at end December 2019. Fund performance figures is shown in US$, inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis. Returns less than one year are cumulative; all others are annualised. Source: © Morningstar 2019. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results. The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units.

Risk Warnings

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.

Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. As this fund is invested in a particular sector, you should be prepared to accept greater fluctuations in the value of the fund than for a fund with a broader investment mandate. The fund may hold a large amount of Asset Backed Securities (ABS) (complex instruments) as well as other lower quality debt securities which may impact the liquidity of the fund under certain circumstances. The fund may invest in distressed securities which carry a significant risk of capital loss.

Important information

EMEA367/64956/PDF/230120