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30 Second Read

- Credit spreads (both Investment Grade and High Yield) showed their first signs of jitters during March, having been resilient in the face of increasing global uncertainties up until this.
- With tariff concerns rising ahead of “tariff liberation day”, inflation expectations rose whilst growth sentiment turned negative i.e. a stagflationary backdrop.
- Given fading US exceptionalism, increased global uncertainty, and a US administration willing to inflict pain on the economy in pursuit of balancing trade accounts, expectations that the next move by the Fed would be a hike have all but extinguished.
- Despite the Portfolio being more defensively positioned, it is still carrying positively versus the benchmark, largely driven by an overweight to short dated subordinated bonds and the allocation to high quality Middle Eastern issuers.

Market

Credit spreads (both Investment Grade and High Yield) showed their first signs of jitters during March, having been resilient in the face of increasing global uncertainties up until this. The catalyst for the turn in sentiment toward risk assets in our minds was twofold, led by a rise in geopolitical risks caused by both the escalation of trade wars and a change in US position on the Russia-Ukraine war. In addition, a fading US exceptionalism story along with the US Administration's comments that a "transition period for the economy is likely", also weighed. With tariff concerns rising ahead of “tariff liberation day”, inflation expectations rose whilst growth sentiment turned negative i.e. a stagflationary backdrop.

US spreads made the first move wider as the buoyant mood created by Germany's proposed large fiscal spend supported Europe, however Euro IG spreads subsequently widened in sympathy. Added to this was the confirmation that the US Administration has their tariff sights firmly set on European exporters. UK spreads were also wider after a period of strong performance.

Performance

Total returns were negative for the Portfolio over the month, as the dual impact from rising interest rates, led by Germany, and widening spreads combined. Income to the Portfolio was only able to partially offset these negative impacts.

On a relative basis, the Portfolio was flat versus the benchmark. In terms of the impact from credit positioning, a slight drag on performance due to an overweight to UK IG weighed on relative returns as UK credit spreads underperformed regionally. However, a preference for Euro IG over US IG benefitted. Given the risk off tone, the Portfolio's overweight to subordinated bonds weighed, although the positive carry generated by the Portfolio helped to offset the moves wider in spread. All considered, the impact on relative returns from credit positioning was muted.

Despite leaning overweight duration in an environment of rising interest rates, our preference for the front end of yield curves worked well as curves steepened. As such, the impact on relative returns from duration positioning was minimal.

Portfolio Positioning

The Portfolio is currently defensively positioned. Indeed, we were running (and continue to do so) lower levels of credit risk going into this period of weakness with spreads at the tighter end of historical ranges. That means increased liquidity in the Portfolio (cash and government bonds) and underweight credit risk in terms of spread duration, largely driven by a rotation of subordinated bonds into senior, moving up in credit quality and a preference for more defensive sectors. In addition, we have a preference to lean overweight core interest rate markets with a preference for the UK due to growth concerns and limited headroom for government spending.

During the month, we neutralised an overweight to Euro interest rates given Germany's fiscal loosening through increased government spending as Europe rearms and invests in defence/infrastructure. We believe this marks a significant departure tight adherence to Maastricht rules however we remain active in Euro rates and have a preference to lean long, hence we re-initiated a slight overweight given the rise in yield toward the end of the month.

Lastly, given the strong performance of Euro IG credit versus the US recently, we are using primary markets to reduce the Portfolio's EUR IG overweight in favour of US IG. It's worth noting that with risk in the Portfolio at lower levels, we have headroom to add risk should opportunities present themselves, which is prudent as the market seeks direction.

The yield on the Portfolio increased to 5.5% (YTW, USD, Gross) at the end of March 2025, versus 5.2% the month end prior.

Outlook

Central Banks remain data dependent, US growth is doing ok, whilst in Europe the prospect of a fiscal impulse from defence spending is leading to optimism. Interest rates have remained relatively range bound year to date as inflation data, although sticky, has been mixed. Geopolitics should increase volatility from here, hence our preference to have headroom to add risk when opportunities present themselves.

The US political situation is extremely fluid, particularly with regards to tariffs, whilst the impact of immigration policy and government spending cuts on growth, labour and inflation remains opaque. Although stagflation (slowing growth combined with higher inflation) fears are rising, growth looks set to remain positive in the US in the short term, with risks to the downside largely caused by the severity of upcoming tariffs. Looking further ahead, global recession risks are rising. Growth is now expected to be below potential in the US, whilst the price shocks from tariffs will give the Fed a headache in terms of meeting their dual inflation and growth mandate.

Given fading US exceptionalism, increased global uncertainty, and a US administration willing to inflict pain on the economy in pursuit of balancing trade accounts, expectations that the next move by the Fed would be a hike have all but extinguished. Therefore, we believe owning US duration for income purposes is attractive at these levels, especially at the front end of yield curves, whilst we believe this will also benefit the Portfolio if risk aversion further rises on tariff headlines. Relative to benchmark, we are slightly overweight UK and European duration, as we believe growth is likely to be challenged in 2025 and beyond, despite the potential fiscal impulse emanating from defence spending. Across US, Euro and UK interest rate markets, we favour the front end of yield curves.

Although the move wider in credit spreads has created better value, we think the correction is unsurprising given we had reached post Covid tightness at a time when uncertainty is rising. The resilience of the investment grade credit market has been notably strong, and we believe the market will be range bound in a "soft-landing" scenario (our base case), creating a good environment to harvest the additional income (over cash and government bonds) that the asset class offers. Corporate balance sheets remain robust, whilst monetary policy should continue to move toward a neutral policy, providing a solid foundation for investment grade credit. We maintain a preference for European issuers based on fundamental strength, specifically within more defensive sectors and those less impacted by trade wars. In addition, we continue to have a bias to financials with a focus on well capitalised Southern European Banks (Italy and Spain) which demonstrate strong profitability. Other industries we like include Communications, where top line growth is limited, but the Capex cycle is concluding and there is flexibility for cost cutting and relative immunity from trade tariffs. We also like Technology, particularly in Asia, which has potential tailwinds from AI. We also favour certain utility companies given their defensive nature and whose business revenue is non-cyclical in nature. Finally, we have been favourable towards Middle Eastern issuers, particularly in government-related and energy - here we can buy very highly rated paper at spreads well above similarly-rated US corporates.

Despite the Portfolio being more defensively positioned, it is still carrying positively versus the benchmark, largely driven by an overweight to short dated subordinated bonds and the allocation to high quality Middle Eastern issuers.

Performance Appendix

Composite Performance %	1M	3M	6M	YTD	1Y	3Y*	5Y*	
Invesco Global Investment Grade Corporate Bond Composite (EOD Gross)	-	0.45	1.90	0.39	1.90	6.25	2.44	2.71
Invesco Global Investment Grade Corporate Bond Composite (EOD Net)	-	0.49	1.76	0.11	1.76	5.66	1.87	2.15
Bloomberg Global Agg Corp Index Hdg USD	-	0.42	1.76	0.19	1.76	5.41	1.98	2.05

Rolling yearly returns (%)

	01/04/2024	01/04/2023	01/04/2022	01/04/2021	01/04/2020	
	31/03/2025	31/03/2024	31/03/2023	31/03/2022	31/03/2021	
Invesco Global Investment Grade Corporate Bond Composite Gross		6.48	8.83	-7.02	-4.46	11.40
Invesco Global Investment Grade Corporate Bond Composite Net		5.89	8.23	-7.52	-4.98	10.79
Bloomberg Global Aggregate Corporate (US\$ hedged) Index		5.41	5.89	-4.98	-4.42	9.21

Past performance does not predict future returns.

Source: Invesco as at end March 2025. Please note that performance figures reflect the echo effect caused by differences in timing between the pricing of the strategy and pricing of its benchmark. Returns less than one year are cumulative; all others are annualised. Gross 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. Returns may increase or decrease as a result of currency fluctuations. Net performance figures are shown in US\$, inclusive of reinvested income, net of ongoing charges and net of portfolio transaction costs. Returns may increase or decrease as a result of currency fluctuations. *Performance numbers >1yr are annualized.

GIPS Composite Presentation

	Net rate of return (%)	Gross rate of return (%)	Benchmark return (%)	Composite 3-Yr Ann St Dev (%)	Benchmark 3-Yr Ann St Dev (%)	No of port-folios	Composite assets (USD mn)	Percentage of Firm assets (%)	Total firm assets ¹ (USD bn)	Composite dispersion (%)
2023	10.16	10.57	9.10	8.54	7.75	1.00	1,105.63	N/A	N/A	N/A
2022	-16.03	-15.71	-14.11	9.32	8.26	1.00	1,025.20	N/A	N/A	N/A
2021	-0.21	0.17	-0.79	6.84	6.12	1.00	2,067.89	0.21	975.05	N/A
2020	8.09	8.50	8.26	6.78	6.02	1.00	2,808.90	0.32	875.96	N/A
2019	15.24	15.68	12.51	3.16	2.86	1.00	2,102.91	0.25	825.87	N/A
2018	-2.71	-2.34	-1.00	3.61	2.96	1.00	1,247.13	0.22	578.95	N/A
2017	7.35	7.76	5.70	4.16	3.33	1.00	1,446.27	0.22	660.32	N/A
2016	6.83	7.24	6.22	4.37	3.47	1.00	287.39	0.05	599.00	N/A
2015	2.01	2.39	-0.24	4.49	3.52	1.00	149.11	0.03	575.06	N/A
2014	11.27	11.70	7.60	4.06	3.38	1.00	98.83	0.02	584.91	N/A
2013	2.10	2.49	0.07	4.63	3.95	1.00	45.20	0.01	572.83	N/A
2012	13.52	13.96	10.92	3.96	3.56	1.00	52.68	0.01	497.08	N/A

Annualised compound rates of return ending 31 December 2023.

1 Year	10.16	10.57	9.10
2 Year	-3.82	-3.46	-3.20
3 Year	-2.64	-2.27	-2.40
4 Year	-0.06	0.32	0.16
5 Year	2.83	3.22	2.52
Since inception 30/09/2009	4.59	4.99	3.84

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2. The Global Investment Grade Corporate Bond Composite contains all discretionary, separately managed global investment grade corporate bond portfolios managed against a recognized index. The strategy intends to achieve, in the medium to long term, a competitive overall investment return with relative security of capital in comparison to equities. The strategy will invest at least 70% of its assets in investment grade corporate bonds. At purchase all corporate bonds bought will be investment grade corporate bonds. Accounts in the composite are managed by the Invesco Fixed Income team, utilizing the investment process the team adopts. Currency risk is hedged into base currency (US\$).
3. The Global Investment Grade Corporate Bond Composite consist of fixed income, total return mandates that are primarily invested in investment grade bonds issued by corporates globally. Portfolios in the composite are managed by the Invesco Global Investment Grade team, applying a consistent philosophy whilst leveraging Invesco Fixed Income's global platform. Each portfolio within the strategy primarily targets credit spreads as a source of alpha, whilst duration and currency are typically used for hedging purposes rather than as source of alpha. The mandates seek to outperform their respective benchmarks. The composite primary benchmark is the Bloomberg Global Aggregate Corporate USD-Hedged Index.
4. The benchmark, Bloomberg Global Aggregate Corporate USD Hedged Index-TR, is used for comparative purposes only and generally reflects the risk or investment style of the product. Investments made by the Firm for the portfolios it manages according to respective strategies may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the benchmark. Accordingly, investment results and volatility will differ from those of the benchmark.

5. The minimum portfolio size for the Composite is \$5,000,000.
6. Interest rate futures, options, swaps, and forwards may be used to replicate cash investments, manage yield curve or other risk positions and to pursue investment strategies generally allowed by the Composite. Derivatives must be included in the duration calculations of portfolios in the Composite and must abide by the duration, credit quality, and all other constraints of Composite accounts. The level of leverage under normal market circumstances is expected to amount to 230% of the net asset value and may be subject to change in the future. This ratio merely reflects the usage of all financial derivative instruments and is calculated using the sum of notionals of all financial derivative instruments, taking basic netting effects into account. Some of the instruments may actually reduce the risk within the portfolio and therefore this ratio does not necessarily indicate any increased level of risk.
7. Gross-of-fee performance results are presented before management and custodial fees but after all trading commissions and withholding taxes on dividends, interest and capital gains, when applicable. Net-of-fee performance results are calculated by subtracting the highest fee of an active portfolio within the composite from the monthly gross-of-fee returns. The highest management fee of a portfolio included in the composite is 38bps. The institutional management fee schedule is 25bps (flat fee) for a minimum account of \$100 million.
8. Composite dispersion is measured by the standard deviation across asset-weighted portfolio returns represented within the composite for the full year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented where there is less than 36 months or fewer than three portfolios in the composite. All risk measures are calculated using gross of fee returns. The Firm consistently values all portfolios each month on a trade date basis. Accrual accounting is used for all interest and dividend income. Past performance is not an indication of future results. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request.
9. Valuations and portfolio total returns are computed and stated in U.S. Dollars. The Firm consistently values all portfolios each day on a trade date basis. Portfolio level returns are calculated as time-weighted total returns on daily basis. Accrual accounting is used for all interest and dividend income. Past performance is not an indication of future results.
10. The composite creation date is September 2009.
11. A complete list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Lists of composite descriptions, limited distribution pooled portfolio descriptions and broad distribution pooled portfolios are also available.
12. Net-of-fee performance was calculated using a flat fee of 75bps and was changed effective 31 December 2020 to a flat fee of 38bps. Net-of-fee performance was restated retroactively in September 2021.
13. Although the composite strategy did not change, the description was reworded in September 2021 to reflect marketing trends.

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.

The strategy will invest in derivatives (complex instruments) which will result in leverage and may result in large fluctuations in value.

Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Investments in debt instruments which are of lower credit quality may result in large fluctuations in value. Changes in interest rates will result in fluctuations in value.

The strategy may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events.

As this strategy is invested in a particular sector, you should be prepared to accept greater fluctuations of the value than for a strategy with a broader investment mandate.

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The yield shown is expressed as a % per annum of the current NAV of the portfolio. It is an estimate for the next 12 months, assuming that the portfolio remains unchanged and there are no defaults or deferrals of coupon payments or capital repayments. The yield is not guaranteed. Nor does it reflect any charges. Investors may be subject to tax on distributions.

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