

October 2022

The municipal bond market has been volatile in 2022, now what?

During times of volatility and rising rates, it can be easy to lose sight of why municipal bonds are a beneficial component of a diversified portfolio. Historically, municipal bonds have experienced very low default rates (**see Chart 1**) and, we believe, their credit fundamentals are the strongest that our 25-person credit research team has experienced in years. Multiple rounds of Federal stimulus have given municipal issuers direct access to over \$1.6 trillion dollars. We believe that combining this strong fundamental backdrop with the federally, and in some cases state and local, tax-exempt income municipals provide make the asset class an attractive long-term investment. Additionally, municipals have historically exhibited a low correlation to other asset classes (**see Chart 2**), which can help add diversity to portfolios, potentially resulting in lower long-term volatility.

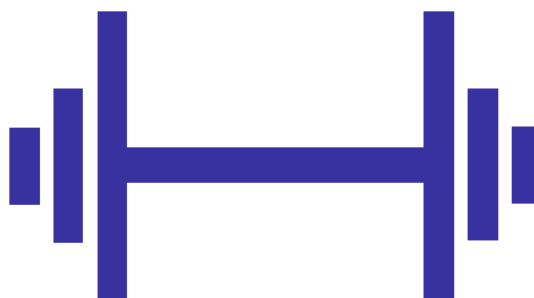
Is now the time to play offense?

Credit fundamentals are generally solid, and rates have risen dramatically in the first half of 2022, providing investors with the potential for more after-tax income than available at the end of 2021 (**see Chart 3**). However, interest rate movements are extremely hard to predict, and the heightened speed and magnitude of rate moves could leave investors feeling nervous. Those investors would likely say it is still time to play defense and be conservative. Which answer is correct, defense or offense? We say—why not play both? After all, most of the greatest sports teams have both a strong defense and a strong offense.

Defense

ORSYX

- Short duration (typically, under 1 year)
- Money market eligible floating-rate exposure
- Quicker access to higher interest securities



Offense

ISHYX

- Less duration risk than Morningstar High Yield Muni Category*
- Non-rated exposure could create less price sensitivity
- Access to high yield credits

* Source: Morningstar, September 30, 2022. The Morningstar US High Yield Muni category has an average effective duration of 8.64 years. ISHYX has an average effective duration of 4.88 years. Average Effective Duration is a measure, as estimated by the fund's portfolio managers, of a bond fund's price sensitivity to changes in interest rates. It takes into account mortgage prepayments, puts, adjustable coupons and potential call dates.

Defense: Invesco Short Term Municipal Fund (ORSYX)

Interest rate moves, inflation concerns and general policy uncertainty regarding the Federal Reserve have resulted in heightened malaise for investors across the fixed income markets, municipal bonds included. We believe that it is during times like these that it could be a prudent measure to consider a more defensive minded fund like ORSYX.

- Capital preservation: the core component of ORSYX's strategy.
- Price stability: in a volatile world, a little boring can be nice. The NAV of the fund has been flat for nearly 92% of trading days since inception (12/6/2010).
- Short maturity: strong defense in a challenging rate environment by putting a cap on the portfolio's maturity. By prospectus, ORSYX seeks to maintain a dollar-weighted average effective portfolio maturity of two years or less.
- Floating rate exposure: the fund maintains a large percentage of liquid floating rate paper that quickly resets to higher yields as rates rise and is also money market eligible. This can allow the fund to earn more in rising rate environments.
- Short duration: the fund may benefit from a rising rate environment because as short-term bonds mature, cash can be reinvested in potentially higher yielding bonds.

ORSYX: The Fund's investment objective is to seek tax-free income. For the prospectus, [click here](#).

**NOT A DEPOSIT | NOT FDIC INSURED | NOT GUARANTEED BY THE BANK | MAY LOSE VALUE |
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**

Offense: Invesco Short Duration High Yield Municipal Fund (ISHYX)

ISHYX may provide an offensive opportunity to a client's municipal allocation. Play offense by considering high yield exposure with a shorter duration than the Morningstar high yield municipal fund category.

- Strong fundamentals: record amounts of federal dollars are going directly to municipal issuers via the various stimulus packages.
- Flat yield curve in high yield municipals: provides attractive opportunities for income without adding duration
- Non-rated exposure: Non-rated bonds tend to be less interest rate sensitive than their high-grade counterparts and are a core feature of Invesco's strategy. Each of our credits receive Invesco internal ratings generated by our 25-person credit team.
- A lid on duration: a duration under 5 years may provide ISHYX with less interest rate sensitivity than the Morningstar high yield muni category.
- Risk-adjusted income: despite having roughly half of the duration of the Morningstar Muni High Yield category average, ISHYX has a distribution yield, 3.90%, that beats the Lipper High Yield Municipal Debt fund average, 3.84%.

ISHYX: The Fund's investment objective is to seek federal tax-exempt current income and taxable capital appreciation. For the prospectus, [click here](#).

Player Formation: Portfolio Construction

Unlike a typical sports team, which plays offense and defense roughly 50% of the time, you can determine how offensive or defensive you'd like to be. Changing allocation amounts to each fund can create different duration and yield outcomes which might be more attractive based on individual investment needs and risk tolerances.

In times of volatility, we believe that investors may benefit by playing both sides of the ball: offense and defense.

	Distribution Yield	SEC Yield	Duration
Invesco Short Term Municipal Fund (ORSYX)	1.62%	2.01%	0.91 years
Invesco Short Duration High Yield Municipal Fund (ISHYX)	3.90	3.93	4.88
75% ORSYX / 25% ISHYX Portfolio*	2.19	-	1.91
50% ORSYX / 50% ISHYX Portfolio*	2.76	-	2.90
25% ORSYX / 75% ISHYX Portfolio*	3.33	-	3.89

*The performance results shown are hypothetical (not real) and were achieved by means of the retroactive application of the statistical model. It may not be possible to replicate the hypothetical results.

Standard performance (%) as of September 30, 2022	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Invesco Short Term Municipal Fund (ORSTX), inception 12/6/10, with max sales charge 0.00%	-1.32%	-1.52	0.57	1.10	1.43	1.80
Invesco Short Term Municipal Fund (ORSYX), inception 12/6/10	-1.39	-1.26	0.82	1.35	1.71	2.05
Invesco Short Duration High Yield Municipal Fund (ISHAX), inception 9/30/15, with max sales charge 4.25%	-12.98	-12.01	-2.70	0.30	--	1.75
Invesco Short Duration High Yield Municipal Fund (ISHYX), inception 9/30/15	-10.59	-9.53	-1.61	1.06	-	2.39

Source: Invesco, as of September 30, 2022.

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit [invesco.com/performance](https://www.invesco.com/performance) for the most recent month-end performance. Performance figures reflect reinvested distributions and changes in net asset value (NAV). Investment return and principal value will vary so that you may have a gain or loss when you sell shares. Performance shown at NAV does not include applicable front-end sales charges, which would have reduced the performance. Fund performance reflects any applicable fee waivers and/or expense reimbursements. Had the adviser not waived fees and/or reimbursed expenses currently or in the past, returns would have been lower. Class Y shares have no sales charge; therefore, performance is at NAV. Class Y shares are available only to certain investors. See the prospectus for more information.

This material must be preceded or accompanied by a current prospectus: [ORSYX](#) and [ISHYX](#)

Chart 1: Historically low long-term default rates

Moody's and Standard & Poor's (S&P) Cumulative Historical Default Rates

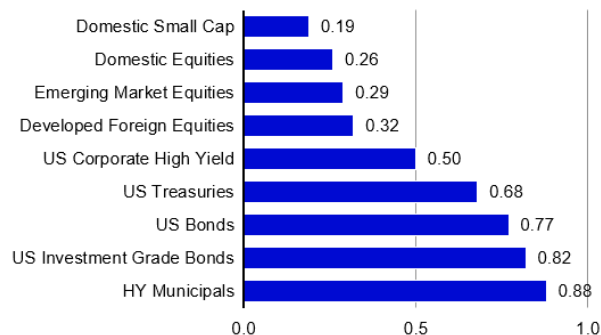
Rated Issues Only

Rating Categories (Moody's/S&P)	Moody's* (1970-2021)		S&P* (1986-2021)	
	Munis (%)	Corps (%)	Munis (%)	Corps (%)
Aaa/AAA	0.00	0.35	0.00	0.83
Aa/AA	0.02	0.76	0.03	1.00
A/A	0.10	1.96	0.08	1.74
Baa/BBB	1.06	3.45	0.73	4.14
Ba/BB	3.40	14.78	3.93	14.13
B/B	16.70	33.42	10.78	26.65
Caa-C/CCC-C	23.71	49.04	36.52	58.20
Investment Grade	0.09	2.17	0.16	2.50
Non-Invest Grade	6.94	28.92	7.70	23.77
All	0.15	10.36	0.26	11.37

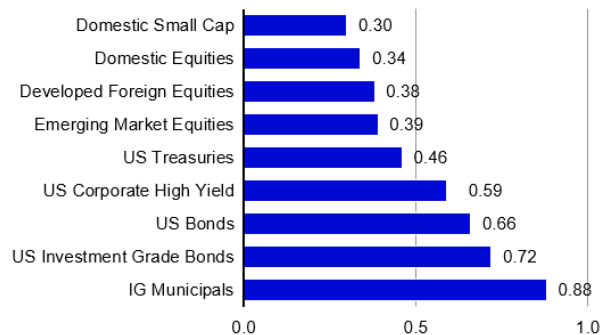
Sources: Moody's Investor Services ("Moody's") data through December 31, 2021, released April 21, 2022, latest data available. Standard and Poor's ("S&P") data through December 31, 2021, released July 26, 2022. Past default rates are no assurance of future default rates. The data presented is the most recent data available from the various bond rating agencies. *2022 data may increase cumulative default rates from both municipal and corporate bonds. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Ratings' under Rating Resources on the homepage; www.moody.com and select 'Rating Methodologies' under Research and Ratings on the homepage.

Chart 2: Long term correlations

Investment Grade Municipal Bonds 10 Year Correlations



High Yield Municipal Bonds 10 Year Correlations



Source: Bloomberg, as of September 30, 2022, based on monthly returns. Asset Classes are represented by the following Index returns: Bloomberg Municipal Bond Index represents IG Municipals, Bloomberg High Yield Municipal Bond Index represents High Yield Municipals, Bloomberg US Corporate Investment Grade Index represents US Investment Grade Bonds, Bloomberg US Aggregate Bond Index represents US Bonds, Bloomberg US Corporate High Yield Index represents US Corporate High Yield, Bloomberg US Government Index represents US Treasuries, MSCI EAFE Index represents Developed Foreign Equities, MSCI Emerging Markets Index represents Emerging Market Equities, S&P 500 Index represents Domestic Equities, Russell 2000 Index represents Domestic Small Cap. Past performance cannot guarantee future results. An investment cannot be made directly in an index..

Chart 3: Tax-equivalent Yield

Tax Equivalent Yield	12/31/21	9/30/22
Bloomberg Municipal Bond Index Yield	1.11%	4.04%
Tax Equivalent Yield	1.88	6.82

For illustrative purposes only. Data based on the Bloomberg Municipal Bond Index. Taxable Equivalent yield is based on the 2022 top federal tax rate of 40.8%, including the 3.8% tax on unearned income under the Patient Protection and Affordable Care Act, as applicable. Not intended to show any fund's performance or investor's results. Results would vary if a different tax rate were used.

Bloomberg Municipal Bond Index is an unmanaged index considered representative of the tax-exempt bond market. An investment cannot be made into an index.

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Invesco Municipal Bond team

The Invesco Fixed Income Municipal Bond team's investment philosophy is based on the belief that creating long-term value through comprehensive, forward-looking research is the key to providing clients with diversified portfolios that aim to maximize risk-adjusted returns. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations. Proprietary credit research and risk management are the foundations of our investment process, supported by a deep and experienced team of investment professionals with expertise that spans the entire municipal investment universe. We maintain an integrated, team-based investment process that combines the strength of our fundamental credit research analysts with the market knowledge and investment experience of our portfolio managers. Our position among the top 5 municipal investment managers by assets in the US* enables us to access preferred market opportunities and gain valuable market insight. Our team has established relationships with more than 120 national and regional municipal debt dealers in the US. We believe these established relationships, as well as our size, allow us to achieve fluid execution in daily transactions. Our ability to aggregate trades across multiple portfolios also enables us to obtain lower institutional pricing, which can contribute to portfolio performance.

*Source: Simfund as of September 30, 2022

ORSTX

All or a portion of the Fund's otherwise tax-exempt income may be subject to the federal alternative minimum tax. The Fund may use leverage to seek to enhance income, which creates the likelihood of greater volatility of the Fund's shares and may also impair the ability to maintain its qualification for federal income tax purposes as a regulated investment company. Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating. Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty and management risks. An investment in a derivative could lose more than the cash amount invested. Certain of the municipalities in which the fund invests, including Puerto Rico, currently experience significant financial difficulties. Puerto Rico's economic problems increase the risk of investing in Puerto Rican municipal obligations, including the risk of potential issuer default, heightens the risk that the prices of Puerto Rican municipal obligations, and the Fund's net asset value, will experience greater volatility. See the prospectus for more information. The Fund invests in financial instruments that use the London Interbank Offered Rate ("LIBOR") as a reference or benchmark rate for variable interest rate calculations. LIBOR will be phased out by the end of 2021, and it's anticipated that LIBOR will cease to be published after that time. The uncertainty on the effects of the LIBOR transition process, therefore any impact of the LIBOR transition on the Fund or its investments cannot yet be determined. There is no assurance an alternative rate will be similar to, produce the same value or economic equivalence or instruments using the rate will have the same volume or liquidity as LIBOR. Any effects of LIBOR transition and the adoption of alternative rates could result in losses to the Fund. Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the Fund.

ISHYX

All or a portion of the fund's otherwise tax-exempt income may be subject to the federal alternative minimum tax. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating. Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty and management risks. An investment in a derivative could lose more than the cash amount invested. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. Securities which are in the medium- and lower-grade categories generally offer higher yields than are offered by higher-grade securities of similar maturity, but they also generally involve more volatility and greater risks, such as greater credit, market, liquidity, management, and regulatory risks. Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest. Investing in municipal securities issued by entities having similar characteristics may make the fund more susceptible to fluctuation. Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods. The Fund may use leverage to seek to enhance income, which creates the likelihood of greater volatility of the Fund's shares and may also impair the ability to maintain its qualification for federal income tax purposes as a regulated investment company. Certain municipalities in which the fund invests, including Puerto Rico, currently experience significant financial difficulties. Puerto Rico's economic problems increase the risk of investing in Puerto Rican municipal obligations, including the risk of potential issuer default, heightens the risk that the prices of Puerto Rican municipal obligations, and the Fund's net asset value, will experience greater volatility. See the prospectus for more information. The Fund may hold illiquid securities that it may be unable to sell at the preferred time or price and could lose its entire investment in such securities. The Fund is subject to certain other risks. Please see the prospectus for more information regarding the risks associated with an investment in the Fund.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

Invesco does not offer tax advice. Please consult your tax adviser for information regarding your own personal tax situation.

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their financial professional for a prospectus/summary prospectus or visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus).