



# Invesco Stable Value Trust Portfolio Commentary

October 31, 2020

## October 2020 market commentary

- Investors spent much of October looking ahead to the US election on November 3 and the possible impacts from different outcomes. US Treasury yields rose, perhaps on the possibility that former Vice President Joe Biden would win the Presidential election and Democrats could gain control of the Senate, which may portend large-scale government spending and accompanying borrowing.
- Investment grade credit outperformed duration-matched Treasuries in October by 90bps as technicals remained highly favorable for the asset class. Demand remained robust, especially with international investors seeking higher yields as hedging cost stayed favorable. New issue supply also slowed notably month over month. Issuance in October was nearly half of September's, ending at \$108bln versus \$205bln previously. Year-to-date, credit still has not recovered from underperformance relative to Treasuries in the first quarter and is at -290bps.
- Structured credit outperformed Treasuries on a relative basis, but the sectors were less attractive than credit. Agency mortgage securities' (MBS) relative valuations continued to be challenged by high levels of refinancing and housing turnover, yet the Fed's purchases remained as a positive offset, creating 12bps in excess returns. ABS returns were modestly positive, outperforming Treasuries by 9bps, and the CMBS sector remained somewhat challenged given growing concerns with the underlying commercial real estate collateral amid the pandemic and beyond, but managed to produce 13bps in excess returns. ABS is the only outperforming securitized sector year-to-date, at 79bps, while MBS is at -39bps and CMBS at -95bps.
- The high yield sector, while not used in the Trust, is a useful barometer of the market's risk sentiment. High yield was also an outperformer for the month versus comparable Treasuries by 86bps. Much like investment grade, demand remains strong and issuance slowed for the month which served as a key tailwind. New deals totaled \$34bln in October versus last month's \$45bln. Year-to-date, high yield is -360bps.

## Portfolio update

- For the month of October, the portfolio experienced positive absolute and relative book value returns relative to the benchmark. The short- to intermediate-duration fixed income assets continue to offer a significant yield premium over money markets following the Fed's cuts in 1Q.
- The market-to-book ratio decreased during the month, ending October at 103.42%, with the yield-to-maturity increasing slightly to 0.88%. (Price and yield have an inverse relationship, so lower yields would generally result in higher market values, but notable inflows as we've seen in the Trust will bring down market-to-book ratios when they are over 100% since new money funds at 100%.)
- The portfolio's crediting rate decreased to 1.98%. (October crediting rate resets are based on August 31 market values.) The crediting rate will, by design, track the yield of the underlying portfolio with a lag, but lower rates are presently being largely offset by a higher market-to-book ratio.

### Performance for the Invesco Stable Value Trust (book value, gross)

Periods Ending 10/31/20	1 Month (%)	3 Months (%)	1 Year (%)
Invesco Stable Value Trust	0.17	0.52	2.38
Bloomberg Barclays U.S. Treasury Bellwether 3-Month	0.01	0.03	0.92
Portfolio Characteristics	October 2020	September 2020	August 2020
Crediting Rate (%) <sup>1</sup>	1.98	2.14	2.19
Market-to-Book Ratio (%)	103.42	103.84	104.05

Sources: Invesco and Bloomberg Barclays

<sup>1</sup> The crediting rate is presented gross of Invesco's investment management fee and any revenue sharing applicable to the various share classes, but net wrap expenses, subadvisor expenses and trust administrative expenses. Total return assumes reinvestment of dividends and capital gains for the periods indicated. The performance results are gross of fees and have been calculated before the deduction of investment management fees, but after the deduction of operating expenses applicable to the fund. The monthly adjusted returns are compounded and then annualized to compute the long-term results. Individual Plan performance may vary depending upon the timing of contributions and withdrawals. Investment return and principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than when originally purchased. Past performance is not a guarantee of future results.

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1 The Invesco Investment Grade Stable Value Client Market Value Index used beginning April 1, 2017, is a blend of the following Bloomberg Barclays indices: 11.25% U.S. Treasury 1-3 Year, 3.00% U.S. Treasury 1-5 Year, 13.00% U.S. Treasury Intermediate, 4.50% MBS 15 Year, 17.00% U.S. MBS, 6.75% CMBS AAA 1-3.5 Year, 2.50% CMBS ERISA Eligible AAA, 11.25% Asset-Backed Securities AAA, 2.25% U.S. ABS Floating Rate AAA, 13.50% U.S. Corporate 1-5 Year, 3.00% Corporate Intermediate, 7.00% U.S. Corporate Investment Grade, and 5.00% U.S. Treasury Bellwethers 3-Month

2 Guarantees of principal protection and a 0% floor crediting rate to participants are provided by the wrap contract providers and are subject to the creditworthiness of those issuers.

#### **For Existing Invesco Stable Value Trust Clients Only.**

**Investment Products offered are: NOT FDIC Insured, May Lose Value, Not Bank Guaranteed.**

Sector data sourced from Bloomberg Barclays unless otherwise noted. All commentary and other data provided by Invesco unless otherwise noted.

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This does not constitute a recommendation of the suitability of any investment strategy for a particular investor.

## **Portfolio update (continued)**

- There were no changes to the contract providers or underlying fixed income managers during September. The portfolio experienced cash inflows (excluding interest) from participants and new plans of approximately \$338 million during the month. While cash inflows have elevated due to the market volatility, all of the portfolio's contract providers are continuing to take additional deposits and we invested into existing contracts and funds to keep the STIF in the normal range, at 4.8% (market value) in October, though we'll continue to monitor participant flows to see if they move out of stable value in fourth quarter.
- The portfolio's duration ended the month at 2.90 years, which was static from the prior month with the STIF slightly higher at 4.8% (market value).
- The market value of the Trust (and, therefore, the market-to-book ratio) decreased over the prior month given the stagnant rates, ending the month close to 103.4%. Market-to-book ratios are generally expected to range between 97% and 103%, but the fixed income market has experienced extraordinary credit spread tightening following March's wiles so it has taken some time to amortize such a large gain.
- Although we are experiencing a time of increased market volatility, stable value portfolios are composed of high quality assets and are exceptionally liquid, with a notable allocation invested in AAA-rated, US Treasury and cash securities (~75% as of month end). Participants can continue to expect to see positive credited rates of interest and daily liquidity from the portfolio at book value (principal plus accrued interest).<sup>2</sup>

## **Portfolio availability**

- The Invesco Stable Value Trust is open and currently allowing new plans to invest in the Portfolio.
- The Trustee generally does not enforce the "put provision" (advance notice requirement) when the market-to-book is above par (100%) as it is ending October. When the queue is being enforced, the Trustee has up to 12 months to pay departing plans (but may pay out at any time during the 12-month period). Participant-directed activity is never subject to the put and participants may transact daily.