



# 2022 Outlook

The Next Stage of the Cycle

**Brian Levitt**

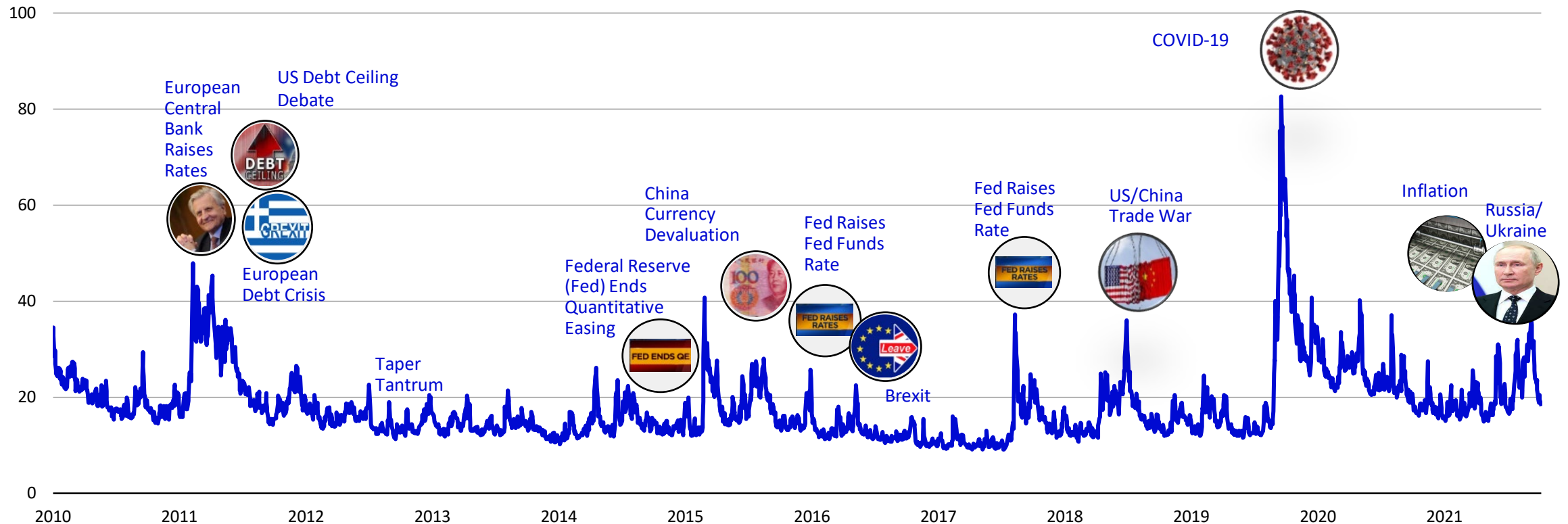
Global Market Strategist

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# Volatility is almost always the result of policy uncertainty

## Chicago Board Options Exchange Volatility Index (VIX)

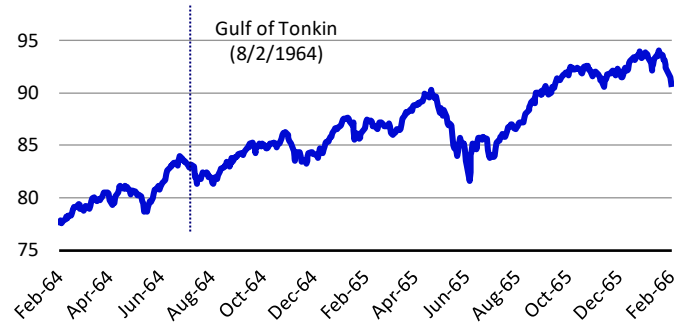


Source: Bloomberg, 4/4/22. The Chicago Board Options Exchange Volatility Index (VIX) is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500 Index option bid/ask quotes. An investment cannot be made into an index. **Past performance is not a guarantee of future results.**

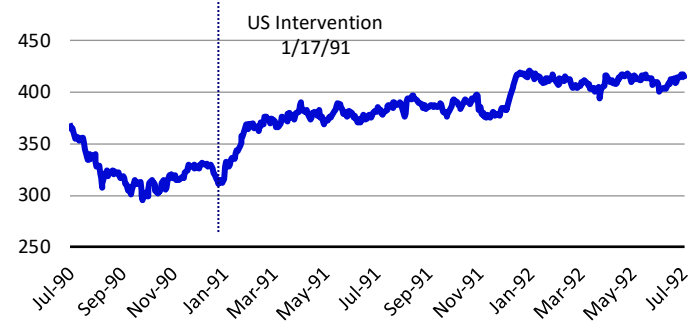
# Historically, markets have tended to advance post the beginning of military conflicts

## S&P 500 During Select Military Conflicts

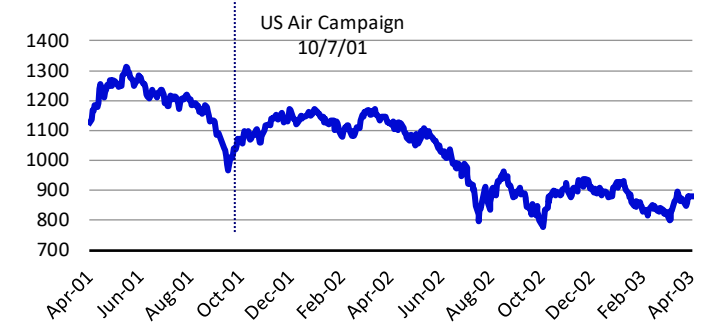
### Vietnam War



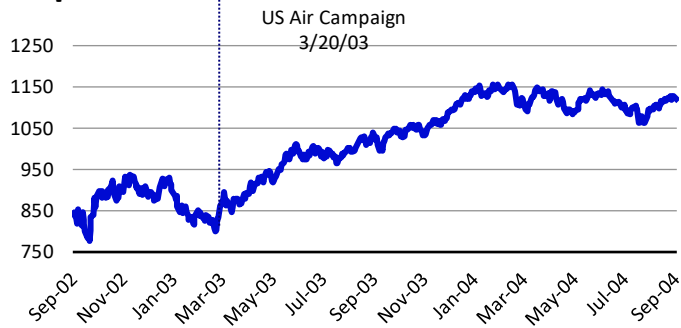
### Persian Gulf War



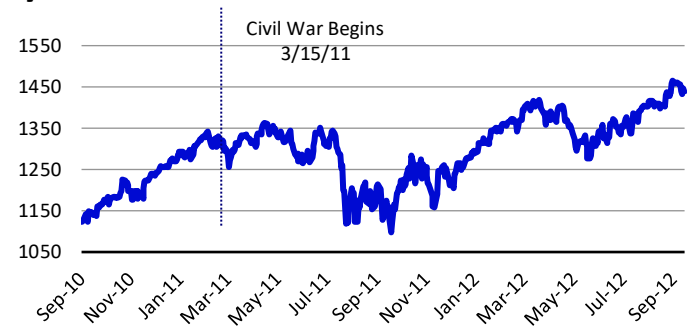
### Afghanistan War



### Iraq War



### Syria Civil War



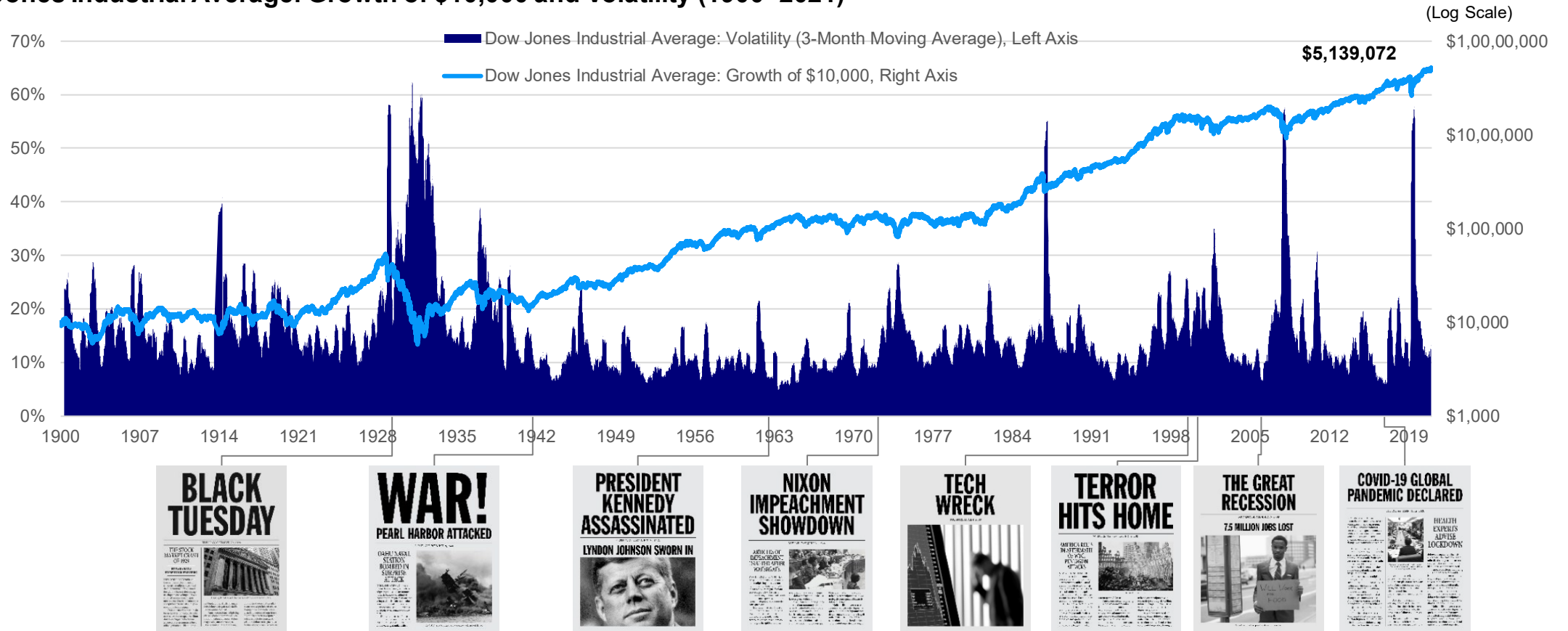
### Crimean Crisis



Source: Bloomberg, 3/22. For illustrative purposes only. The S&P 500 Index is a market-capitalization weighted index of the 500 largest US domestic stocks. Indices cannot be purchased directly by investors. Past performance does not guarantee future results.

# Every generation faces its share of challenges

## Dow Jones Industrial Average: Growth of \$10,000 and Volatility (1900–2021)

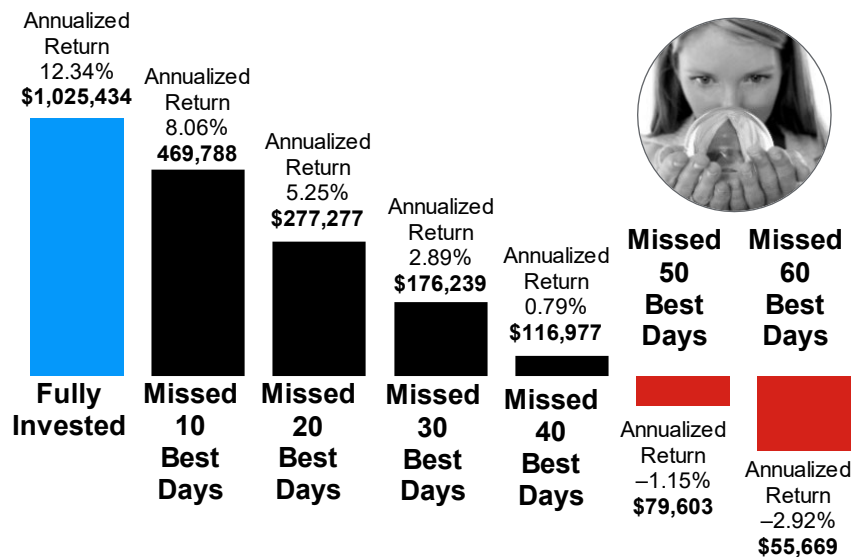


Source: Bloomberg L.P., 12/31/21. Volatility is measured by the standard deviation of price moves on returns of the index. The line is showing the price return for the Dow Jones Industrial Average Index. Standard deviation is a statistic that measures the dispersion of a dataset relative to its mean. The chart is a hypothetical example shown for illustrative purposes only and does not predict or depict the performance of any investment. An investment cannot be made directly into an index. See appendix for index definitions. Past performance does not guarantee future results.

# The challenge of trying to time the market is you may end up missing the best days

## Missing Even the 10 Best Days in the Market in the Last 25 Years Reduced Returns Meaningfully

S&P 500 Index: Annualized total returns and growth of \$100,000 investment (1997–2021)



## Many of the Best Days Occur During Periods of Volatility

S&P 500 Index: 30 Best Days Since 1996

| Period                                              | Rank     | Date     | Return |
|-----------------------------------------------------|----------|----------|--------|
| 2/28/00 – 10/30/02<br><b>Tech Wreck (20%)</b>       | 12.      | 07/24/02 | 5.7%   |
|                                                     | 14.      | 07/29/02 | 5.4%   |
|                                                     | 18.      | 01/03/01 | 5.0%   |
|                                                     | 21.      | 03/16/00 | 4.8%   |
|                                                     | 24.      | 10/15/02 | 4.7%   |
| 10/30/07 – 3/31/09<br><b>Financial Crisis (40%)</b> | 1.       | 10/13/08 | 11.6%  |
|                                                     | 2.       | 10/28/08 | 10.8%  |
|                                                     | 5.       | 03/23/09 | 7.1%   |
|                                                     | 6.       | 11/13/08 | 6.9%   |
|                                                     | 7.       | 11/24/08 | 6.5%   |
|                                                     | 8.       | 03/10/09 | 6.4%   |
|                                                     | 9.       | 11/21/08 | 6.3%   |
|                                                     | 13.      | 09/30/08 | 5.4%   |
|                                                     | 15.      | 12/16/08 | 5.1%   |
|                                                     | 22.      | 10/20/08 | 4.8%   |
| 1/31/20 – 3/31/20<br><b>COVID (20%)</b>             | 3.       | 03/24/20 | 9.4%   |
|                                                     | 4.       | 03/13/20 | 9.3%   |
|                                                     | 10.      | 03/26/20 | 6.2%   |
|                                                     | 11.      | 03/17/20 | 6.0%   |
|                                                     | 20.      | 03/10/20 | 4.9%   |
|                                                     | 26.      | 03/02/20 | 4.6%   |
| Other (20%)                                         | 16.      | 10/28/97 | 5.1%   |
|                                                     | 17.      | 09/08/98 | 5.1%   |
|                                                     | 19.      | 12/26/18 | 5.0%   |
|                                                     | 23.      | 08/09/11 | 4.7%   |
| 25.                                                 | 08/11/11 | 4.6%     |        |
| 27.                                                 | 05/10/10 | 4.4%     |        |
| 28.                                                 | 01/21/09 | 4.4%     |        |
| 30.                                                 | 09/18/08 | 4.4%     |        |

Source: Bloomberg L.P., 1/1/97-12/31/21. For illustrative purposes only and is not intended as investment advice. The charts are hypothetical examples which are shown for illustrative purposes only and do not predict or depict the performance of any investment. An investment cannot be made directly into an index. See appendix for index definitions. Past performance does not guarantee future results.

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Where are we in the cycle?

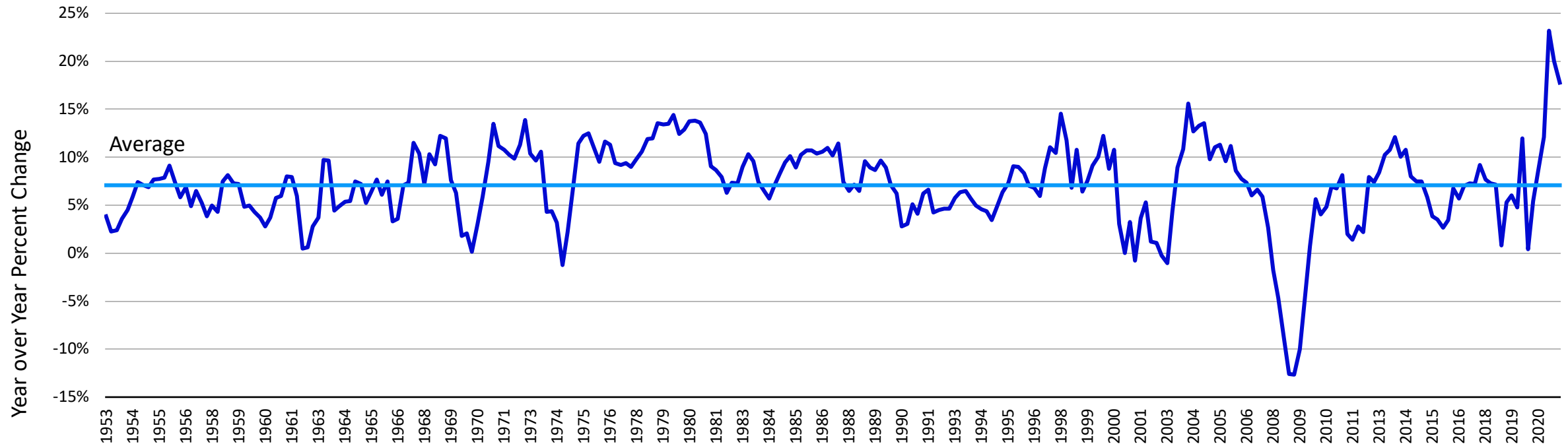
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Cycles tend to end with excess,  
inflation, and policy tightening

# American household worth has grown significantly

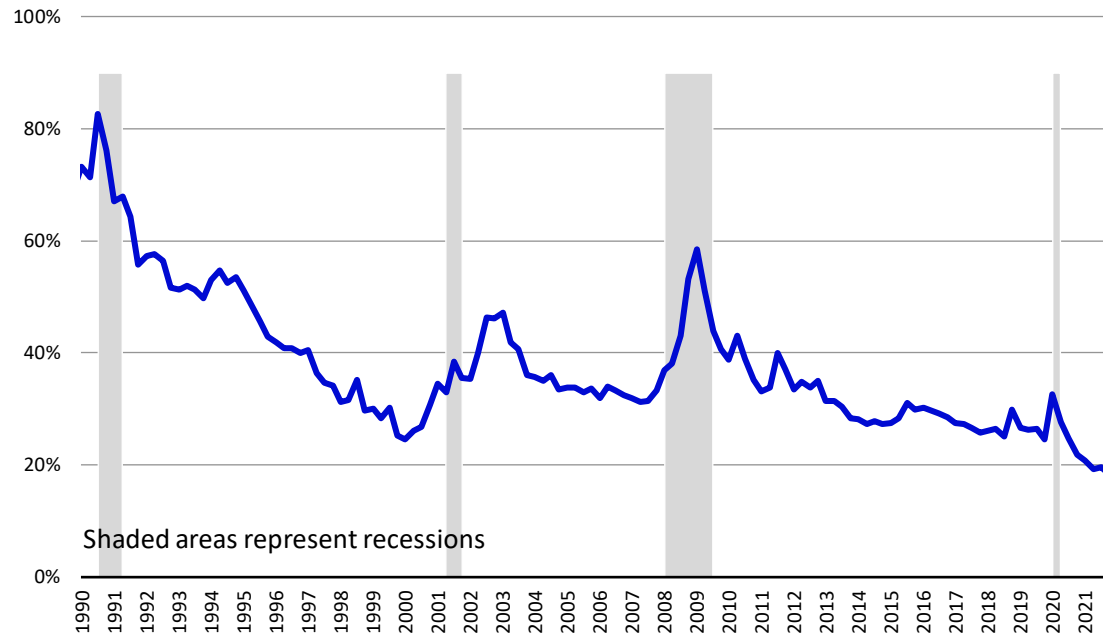
## US Household Net Worth



Source: US Federal Reserve, 9/30/21. Latest data available.

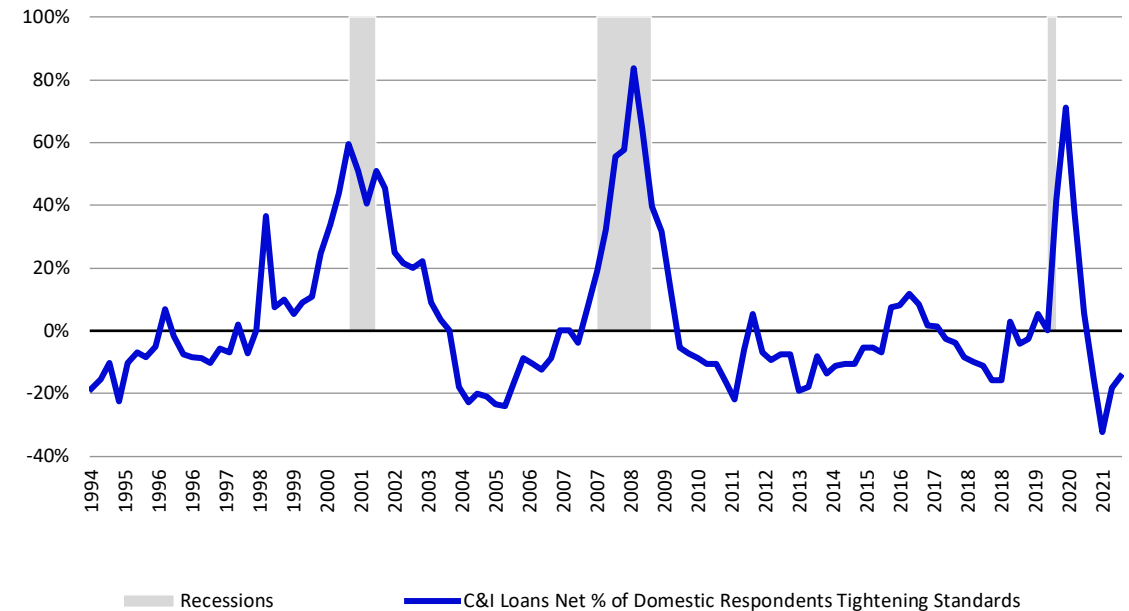
# Leverage, on a relative basis, is low and lending standards are easy

## US Nonfinancial Corporate Debt as a Percentage of the Market Value of Corporate Equities



## Senior Loan Officer Opinion Survey: Commercial & Industrial (C&I) Loans for Large/Medium Businesses

Net % of Domestic Respondents Tightening Standards

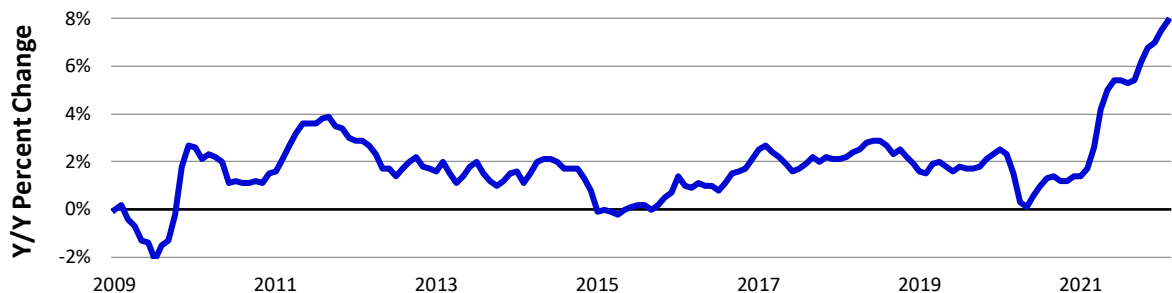


Sources: Board of Governors of the Federal Reserve System, 10/21 and Bloomberg, 1/22. Latest data available.

# End of cycle dashboard

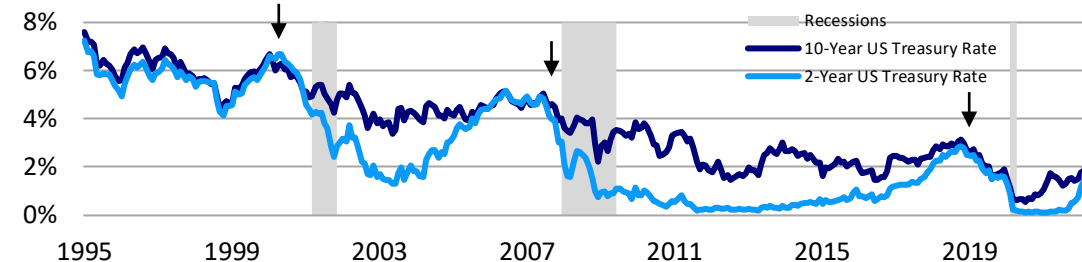
Risks to the cycle are elevated

## US Consumer Price Index

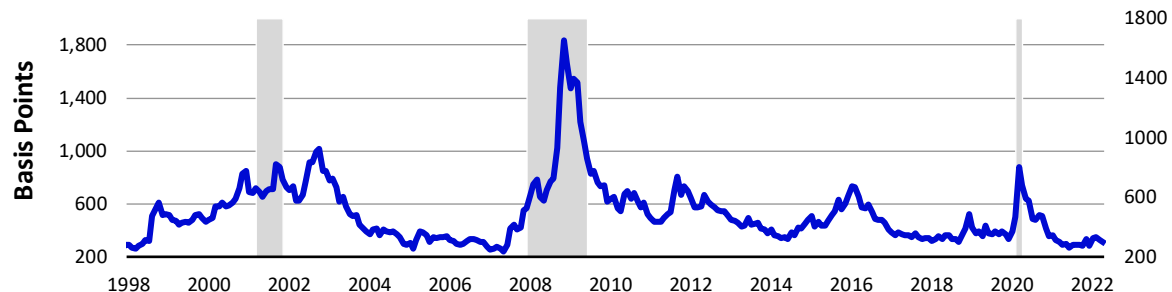


## US Treasury Yield Curve

### (10-Year US Treasury Rate minus 2-Year US Treasury Rate)

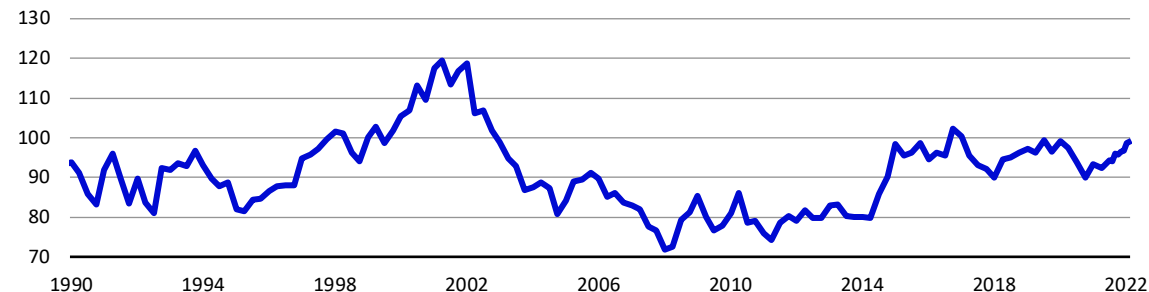


## US Corporate High Yield Bond Spreads



Shaded Areas Represent Recessions

## US Dollar Index (DXY)



**Source:** US Bureau of Labor Statistics, 2/28/22 and Bloomberg, 3/22/21. High Yield bond spreads are represented by the option-adjusted spread of the Bloomberg US Corporate Bond Index. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to account for an embedded option, such as calling back or redeeming the issue early. See appendix for index definitions. The yield curve plots interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates to project future interest rate changes and economic activity.

# An inverted yield curve is a signal of future economic woes, not necessarily an equity timing tool

**Yield Curve Inversion Dates: Months to Recession/Peak Market and S&P 500 Index Returns**

| Inversion Date     | S&P 500 Index Peak Date | S&P 500 Index % Change | # of Months from Inversion to S&P 500 Index Peak | Recession Start Date | # of Months from Inversion to Recession |
|--------------------|-------------------------|------------------------|--------------------------------------------------|----------------------|-----------------------------------------|
| December 17, 1965  | November 29, 1968       | 17.69%                 | 35                                               | December 1969        | 48                                      |
| March 30, 1973     | January 11, 1973        | NA                     | -2                                               | November 1973        | 8                                       |
| August 17, 1978    | January 30, 1980        | 9.63%                  | 17                                               | January 1980         | 17                                      |
| September 11, 1980 | November 11, 1980       | 11.83%                 | 2                                                | July 1981            | 10                                      |
| December 14, 1988  | July 16, 1990           | 34.02%                 | 19                                               | July 1990            | 19                                      |
| May 26, 1998       | March 24, 2000          | 39.62%                 | 22                                               | March 2001           | 34                                      |
| December 27, 2005  | October 9, 2007         | 24.56%                 | 22                                               | December 2007        | 24                                      |
| August 26, 2019    | February 19, 2020       | 19.13%                 | 6                                                | March 2020           | 7                                       |

Median

19.13%

18 Months

18 Months

Sources: National Bureau of Economic Research, Bloomberg. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. Indices cannot be purchased directly by investors. **Past performance does not guarantee future results.**



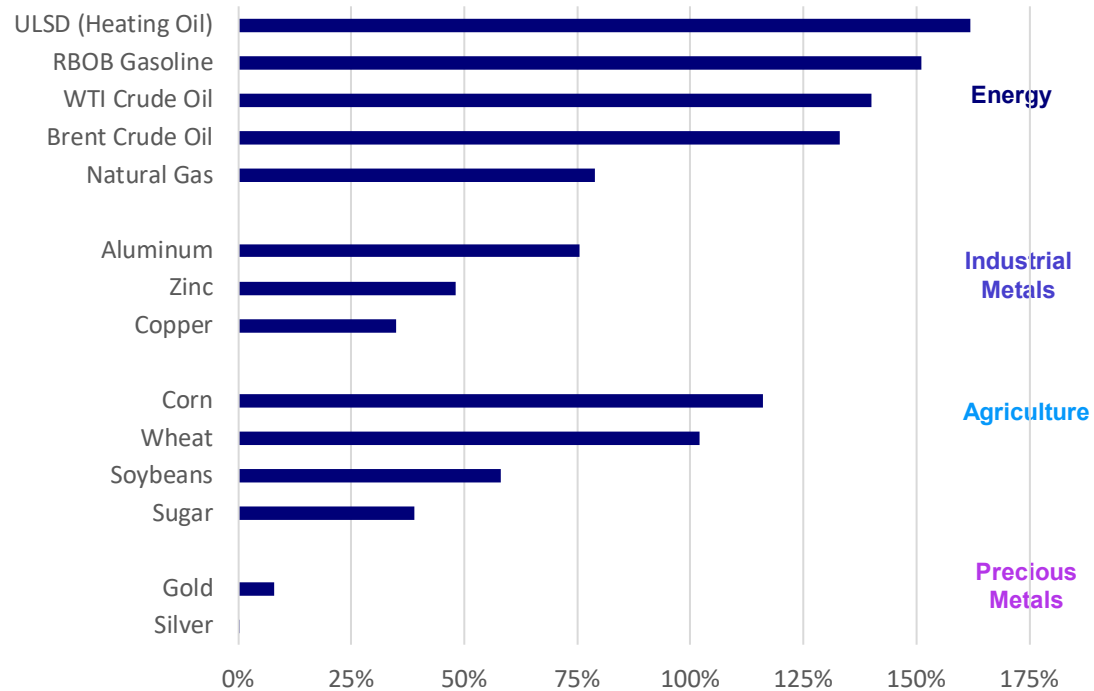
# What's the direction of the economy?

Recovery, Expansion, Slowdown, or  
Contraction

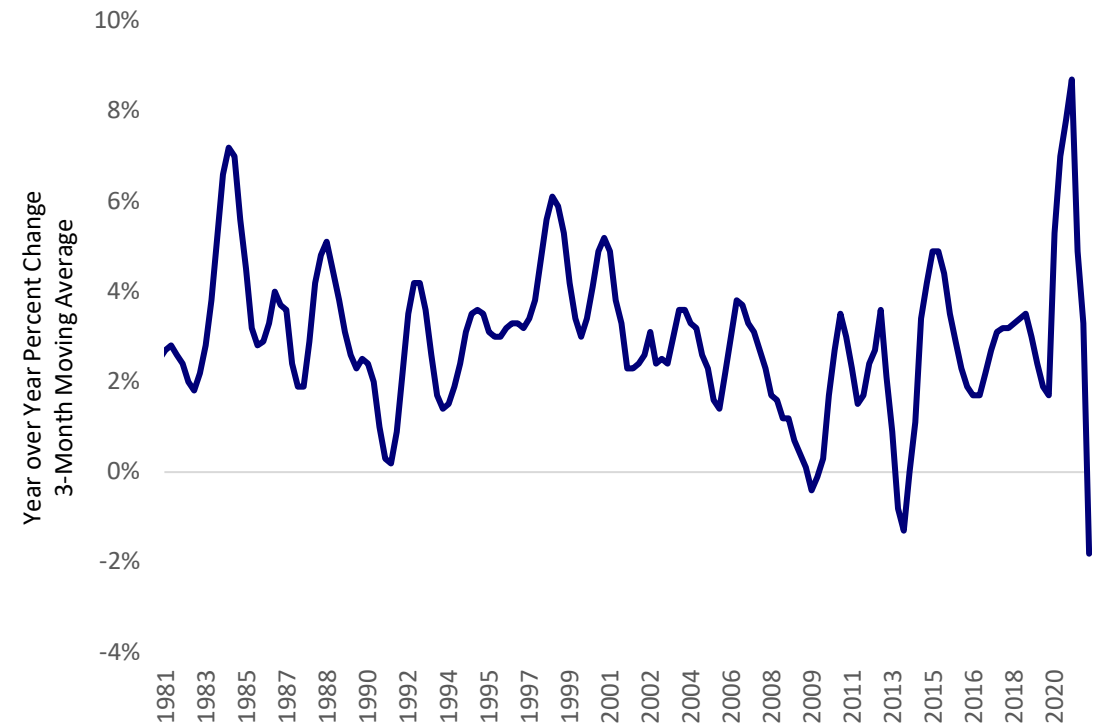
# 2

# Higher commodity prices should be viewed as a tax on consumers

**Components of the DBIQ Optimum Yield Diversified Commodity Index**  
**Percentage change since first trading day of 2021**



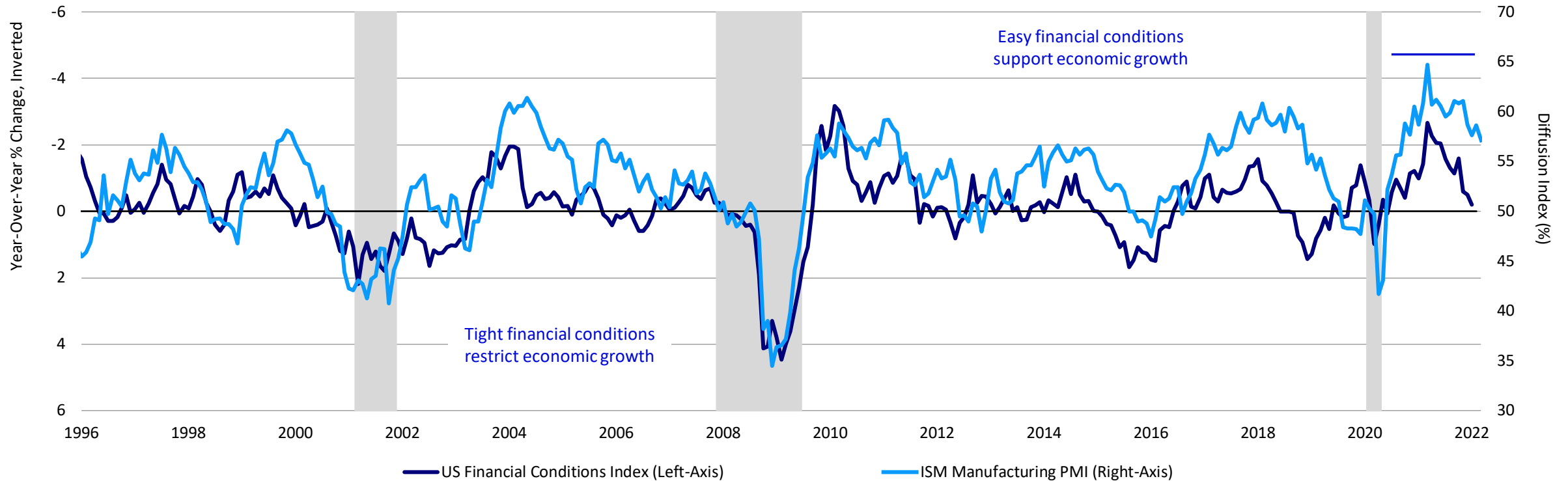
**US Real Disposable Income**



Source of left chart: Source: Deutsche Bank, Invesco ETFs, FactSet, 12/31/21. Source of right chart: Bureau of Economic Analysis, 12/31/21. DBIQ Optimum Yield Diversified Commodity Index is based on 14 commodities drawn from the energy, precious metals, industrial metals and agriculture sectors. The 14 sub index components of the index are Aluminum, Brent Crude, Copper, Corn, Gold, Heating Oil, Light Crude, Natural Gas, RBOB Gasoline, Silver, Soybean, Sugar, Wheat and Zinc.

# Financial conditions are tightening, and leading indicators of the economy appear to be rolling

## Financial Conditions and Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index

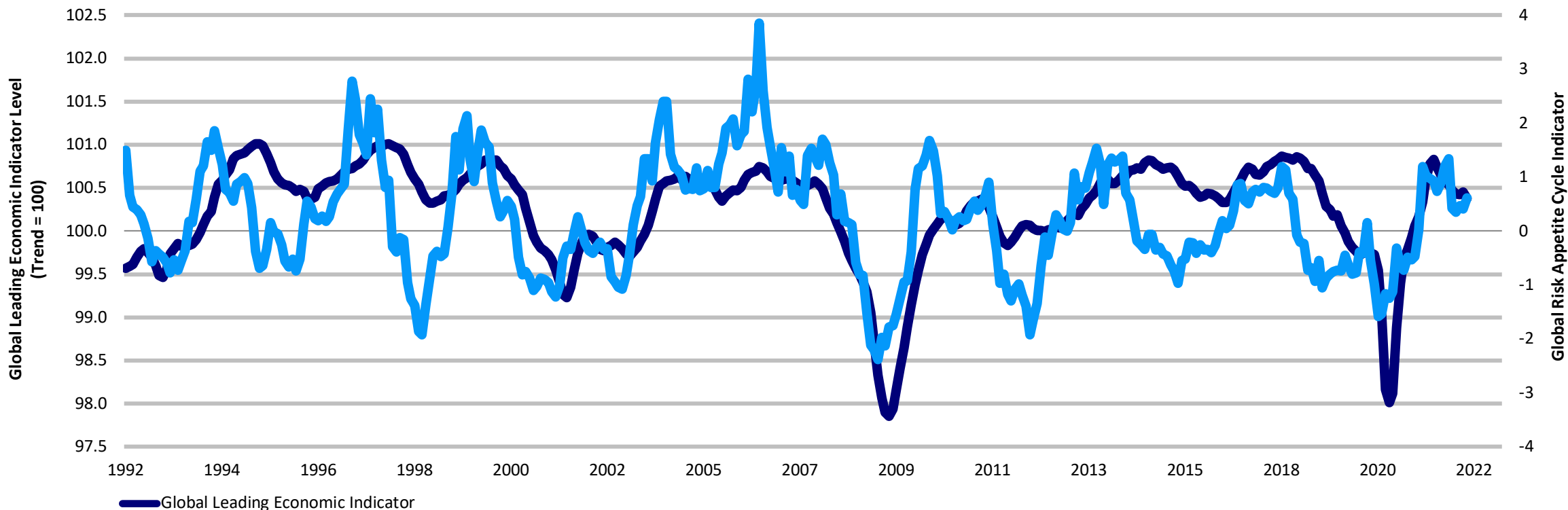


**Sources:** Bloomberg L.P., Goldman Sachs, Macrobond, 3/31/22. **Notes:** The US Financial Conditions Index includes the federal funds rate, 10-year Treasury bond yield, BBB corporate bond spread, S&P 500 and US dollar. PMI = Purchasing Managers Index. Shaded areas denote National Bureau of Economic Research-defined US recessions. An investment cannot be made in an index. See appendix for index definitions. **Past performance does not guarantee future results.**

# Next phase: Expansion?

## Assessing the wisdom of the markets

### Global Leading Economic Indicator and Global Risk Appetite Cycle Indicator



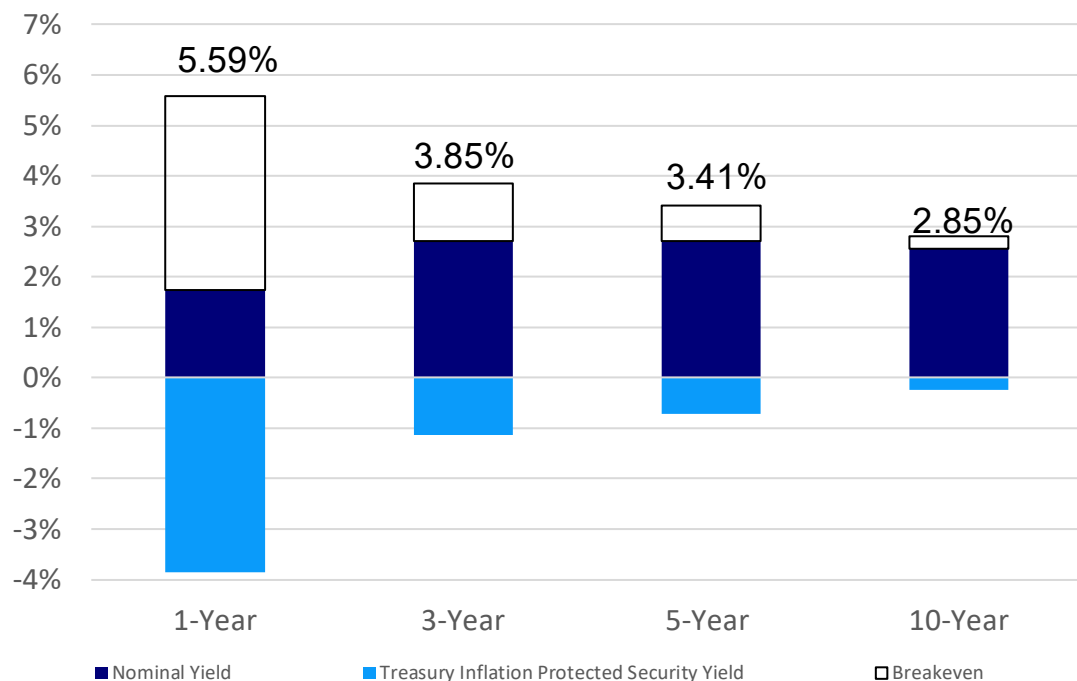
Sources: Bloomberg L.P., MSCI, FTSE, Barclays, JPMorgan, Invesco Investment Solutions research and calculations, from Jan. 1, 1992 to Mar. 31, 2022. The Global Leading Economic Indicator (LEI) is a proprietary, forward-looking measure of the growth level in the economy. A reading above (below) 100 on the Global LEI signals growth above (below) a long-term average. The Global Risk Appetite Cycle Indicator (GRACI) is a proprietary measure of the markets' risk sentiment. A reading above (below) zero signals a positive (negative) compensation for risk taking in global capital markets in the recent past. Past performance does not guarantee future results.

What are the policy implications?

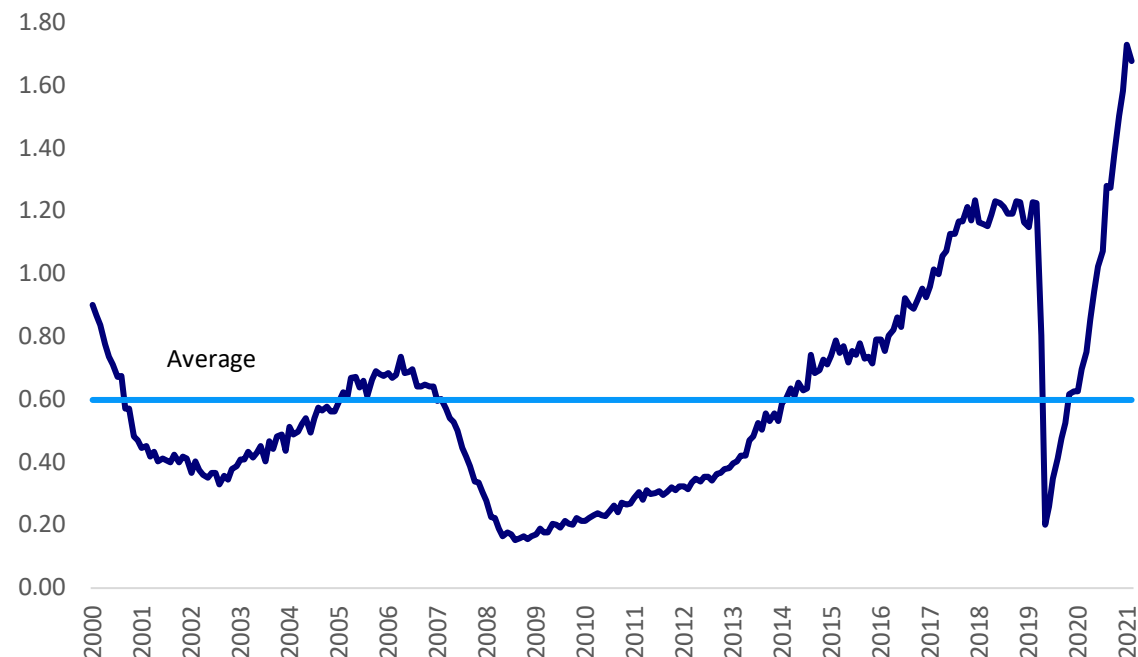
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# Tighter policy is here, as per the Fed's mandate of price stability and full employment

## Inflation Breakeven



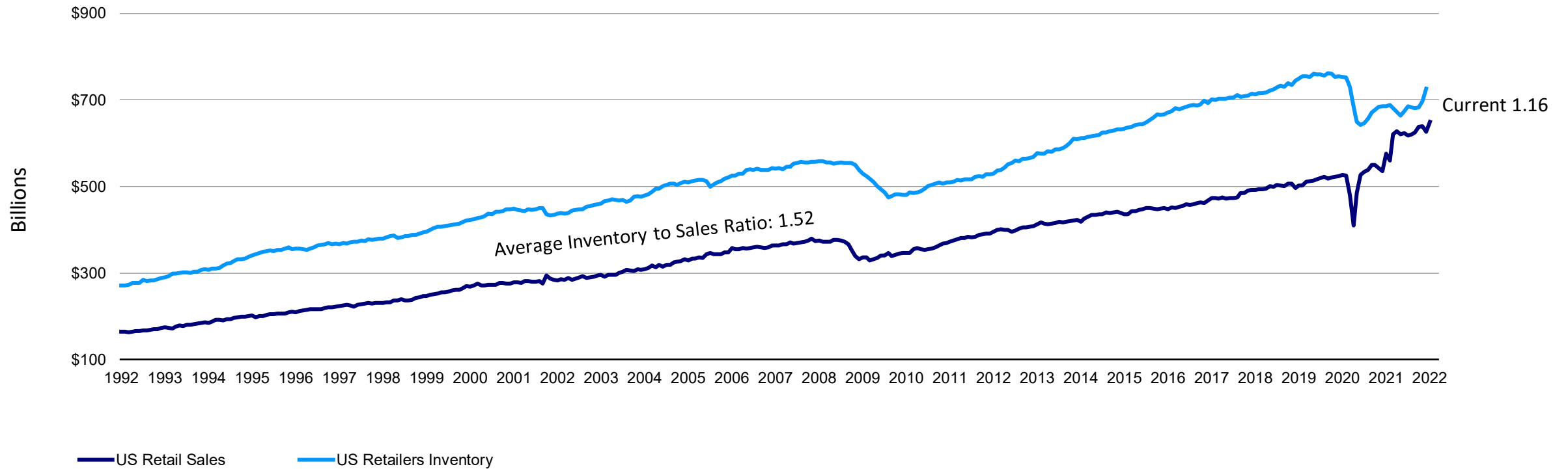
## Total Job Openings Divided by the Total Number of Unemployed



**Sources:** Bloomberg 4/5/22, Bureau of Labor Statistics, 2/28/22. The breakeven inflation rate is calculated by subtracting the yield of an inflation-protected bond from the yield of a nominal bond during the same time period.

# Risk: Inflation

## Inventory to Sales Ratio: Retail



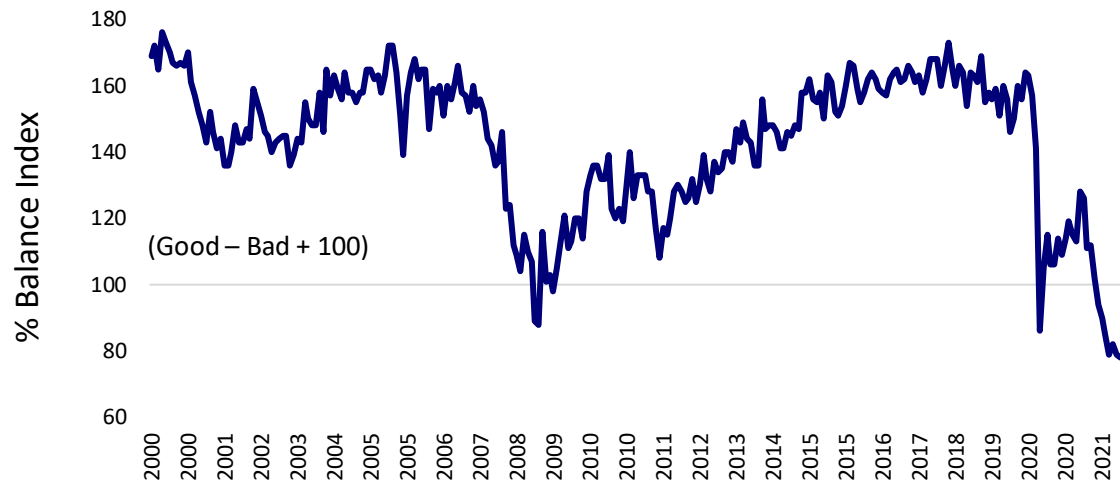
Source: US Census Bureau, 1/31/22. Latest data available. The inventory to sales ratio represents the relationship between the inventory value at US retailers and the total sales of US retailers.

Traditionally, consumers in inflationary environments, buy now expecting prices to rise in the future. Currently, consumers appear poised to wait.

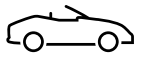
## University of Michigan Buying Conditions for Large Household Durables



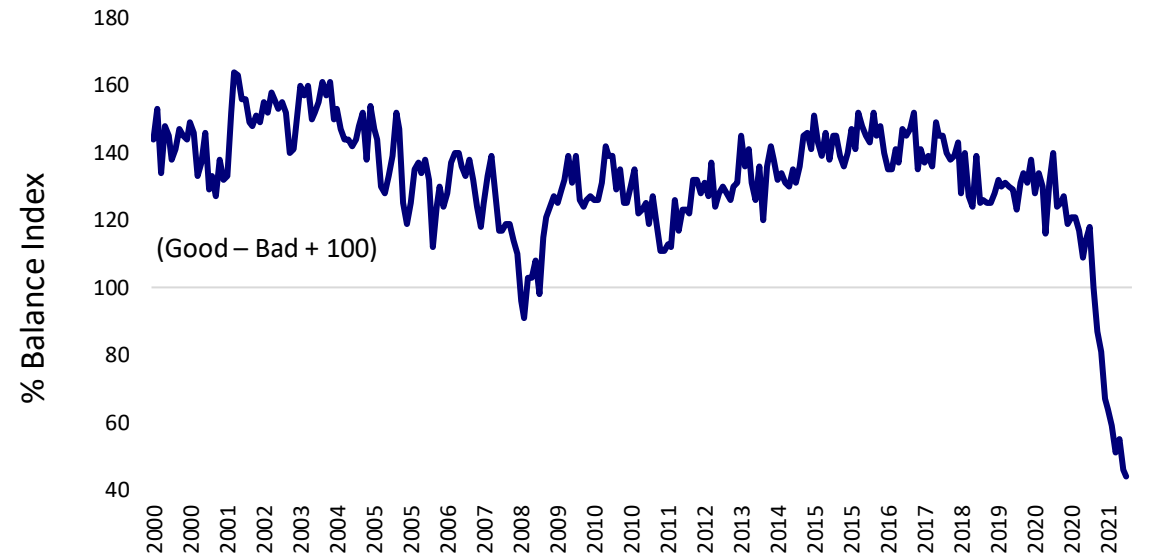
Do you think now is a good or bad time for people to buy major household items such as furniture, refrigerators, stoves, televisions, and other household items like that?



## University of Michigan Buying Conditions for Vehicles



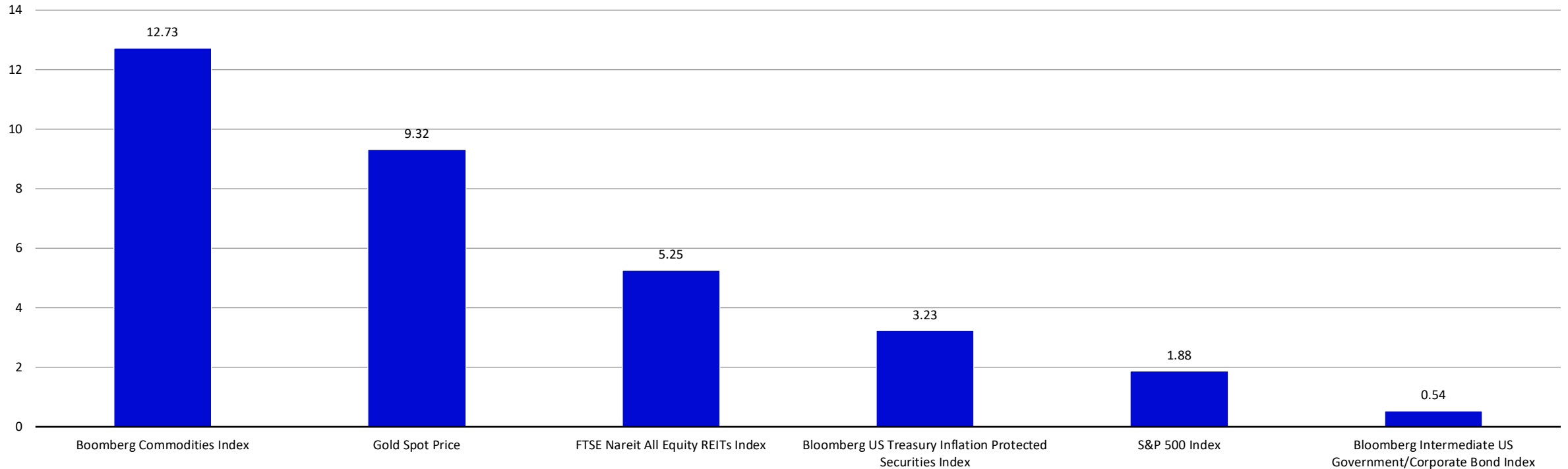
Do you think the next 12 months or so will be a good time or a bad time to buy a vehicle?



Source: University of Michigan, 2/28/22.

# Hedging against the inflation risk

**Inflation Beta: Sensitivity of asset classes to changes in inflation (1998-2020)**



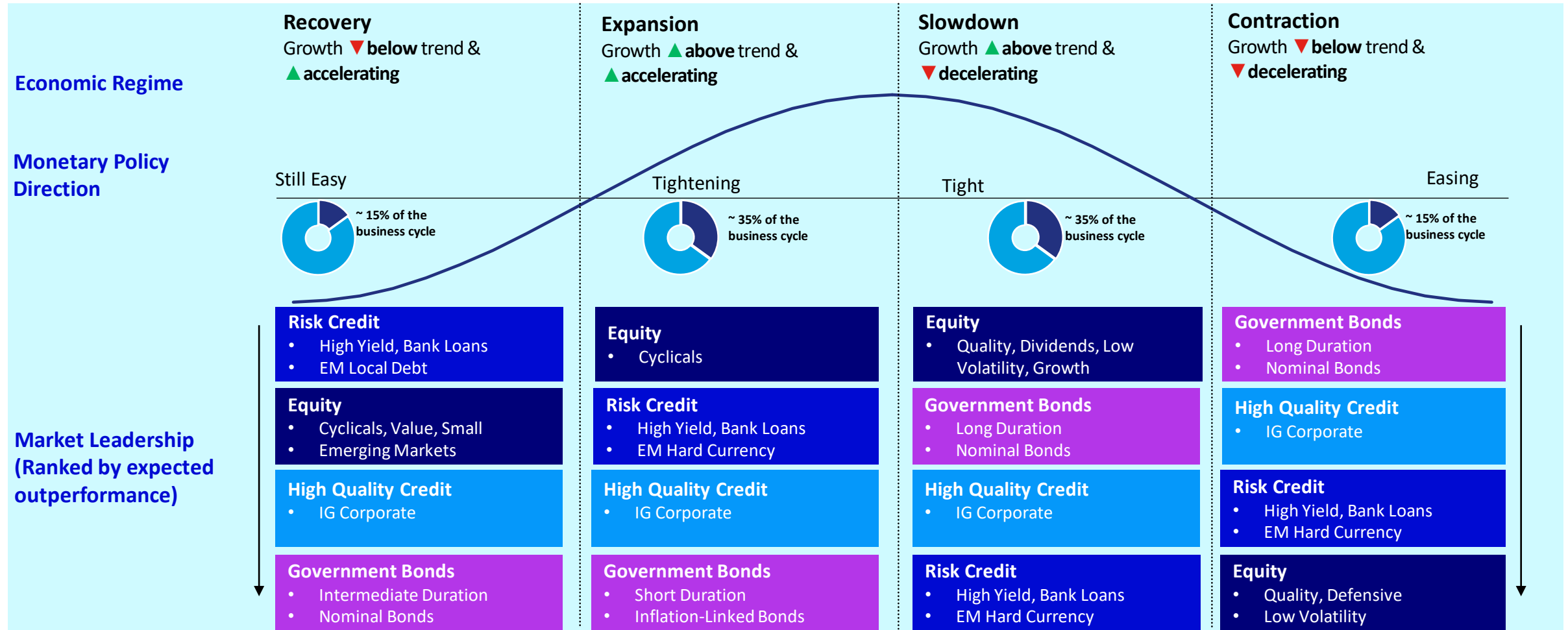
Source: Bloomberg, US Bureau of Labor Statistics, 12/31/20. Chart updated on an annual basis. Inflation beta is a metric used to evaluate an asset class' ability to hedge inflation. It measures the change in inflation against the return of the asset class over a specific time period. Inflation beta is the slope of the regression line between the asset's yearly return and the year over year percent change in the consumer price index. Indices cannot be purchased directly by investors. **Past performance does not guarantee future results.** See appendix for index definitions.

What are the asset class implications?

4

# Tactical Asset Allocation: Macro Framework

Note: Economies can move backwards and forwards in this framework.



For illustrative purposes only. We define policy easing as the US Federal Reserve lowering interest rates and/or expanding their balance sheet. Still easy suggests that the US Federal Reserve is maintaining the lower interest rate policy and/or continuing their bond-buying program. Tightening suggests that the US Federal Reserve is tapering asset purchases and/or beginning to raise interest rates. Tight policy suggests that the US Federal Reserve is raising rates in an effort to ease inflation concerns.

# Important information

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. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantee of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. 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.

There is a risk that the value of the collateral required on investments in senior secured floating rate loans and debt securities may not be sufficient to cover the amount owed, may be found invalid, may be used to pay other outstanding obligations of the borrower or may be difficult to liquidate.

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.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Commodities may subject an investor to greater volatility than traditional securities than stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments. Fluctuations in the price of gold may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

# Index Definitions

Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The Goldman Sachs US Financial Conditions Index is a weighted average of riskless interest rates, the exchange rate, equity valuations, and credit spreads, with weights that correspond to the direct impact of each variable on GDP.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic US stocks.

Institute for Supply Management (ISM) Manufacturing Index is an index measures manufacturing activity based on a monthly survey, conducted by ISM, of purchasing managers at more than 300 manufacturing firms.

The U.S. Dollar Index (USDIX) indicates the general international value of the US dollar. The U.S. Dollar Index does this by averaging the exchange rates between the US dollar and major world currencies.

The FTSE NAREIT All Equity REITs Index is a free-float adjusted market capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg Commodity Index tracks the performance of a diversified basket of global commodities.

Gold spot price tracks the price of gold in US dollars.

Bloomberg US Treasury Inflation-Linked Bond Index tracks the performance of Treasury bonds indexed to inflation to protect investors against a decline in purchasing power.

Bloomberg Intermediate US Government/Credit Bond index is a broad-based benchmark that measures the non-securitized component of the US Aggregate Bond Index with less than 10 years to maturity. The index is comprised of the Intermediate and US Agency indices.

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# Thank you