

## Why invest in US Mortgage-Backed Securities (MBS)?

### Attractive returns profile

The US MBS Index has produced positive total returns in 9 of the last 10 years, averaging 3.87% over that timeframe. Risk adjusted returns compare well to US investment grade corporates and U.S. Treasuries.<sup>1</sup>

### A liquid high quality asset

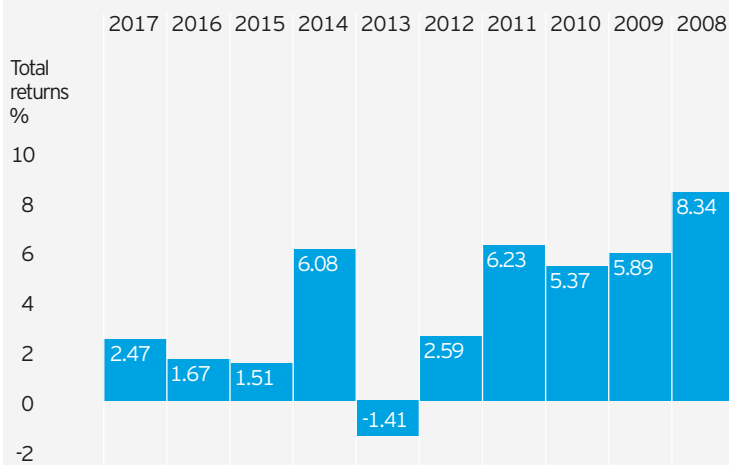
US MBS offers the deep liquidity of a high quality government sponsored security. Average daily trade volume of over \$200B and very low transaction costs.<sup>2</sup>

### Low duration

Over the past 10 years, the US MBS Index on average had a duration profile of 3.8 years, as compared to 6.9 years for the US Investment Grade Corporate Index, and 5.6 years for the US Treasury Index.<sup>1</sup>

The US MBS market is one of the largest bond markets in the world.

### Bloomberg Barclays U.S. MBS Index total returns



Source: Bloomberg Barclays, 31 Dec. 2017. Past performance cannot guarantee future results.

### Global Investment Grade Bonds excess<sup>3</sup> returns in stressed market conditions<sup>4</sup>

US MBS has outperformed in these periods of crisis

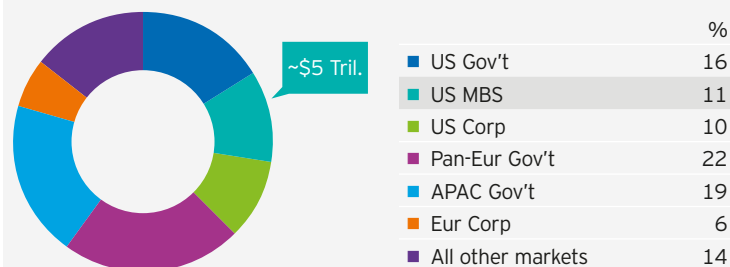


Source: Bloomberg Barclays, 31 Dec. 2017. Past performance cannot guarantee future results.

## Bloomberg Barclays U.S. MBS Index has produced strong risk-adjusted return versus other key markets

### Global Agg Bond Market Indices over \$50 trillion market value<sup>5</sup>

US MBS reflects meaningful representation of global fixed income market as of 31 Dec. 2017



### Index risk adjusted total return<sup>6</sup>

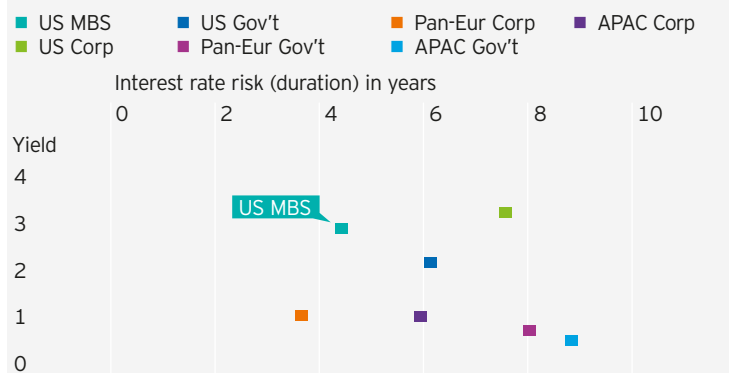
Trailing 10 years as of 31 Dec. 2017

	Return volatility	Annualized return	Risk adjusted return
US Gov't	3.23	4.19	0.77
US Corp	5.65	5.51	1.03
US MBS	3.84	3.08	1.25

Source: Bloomberg Barclays, 31 Dec. 2017. Past performance cannot guarantee future results.

### Global Agg Bond Market Indices yield vs. rate risk profile<sup>5</sup>

US MBS offers compelling yield/duration profile as of 31 Dec. 2017



Source: Bloomberg Barclays, 31 Dec. 2017. Past performance cannot guarantee future results.

## Why invest with Invesco?

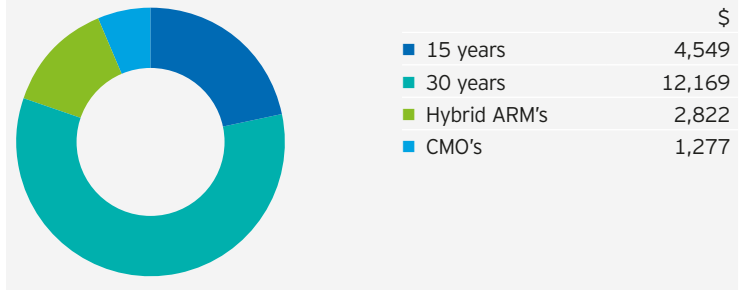
### Invesco

Invesco is one of the world's leading investment management firms, dedicated to helping investors worldwide achieve their financial objectives.

### Invesco Fixed Income

Invesco Fixed Income (IFI) manages \$312.1 billion in AUM with over 170 investment professionals. IFI manages over \$20.8 billion in US MBS.<sup>7</sup>

### Invesco US MBS AUM (in millions)



Source: Invesco, 31 Dec. 2017.

## Commentary & outlook

We view US MBS as an attractive high quality fixed income holding that offers incremental yield compared to the historically low rates available on government securities. US MBS could serve as a complementary fit within a traditional core fixed income portfolio.

■ **Balanced Technicals.** We anticipate the technical environment to be balanced over the intermediate term, as commercial banks remain significant buyers of agency MBS. Additionally, the recent rise in primary mortgage rate is likely to reduce net supply somewhat going forward, as some homebuyers may be priced out of the market due to continued increases in home prices, coupled with more expensive mortgage financing. While we don't expect an outsized impact at this point, it is a modest positive to the technical situation. Additionally, we expect that stability in the U.S. Dollar could result in an uptick in demand from Overseas buyers. The Federal Reserve has begun to slowly taper re-investment of principal pay-downs of their portfolio, which is a headwind to MBS performance, but we do not expect the sector to widen sharply as the program is gradual and phased in over many months.

■ **Valuation Mixed.** Currently, nominal spreads relative to the Treasury curve remain at levels that we view as rich, however, option adjusted spread measures appear closer to fair as implied volatility levels remain low. Valuations appear attractive relative to other high quality fixed income sectors, as agency MBS spreads have lagged the tightening that we have witnessed in other spread sectors, including investment grade corporates, CMBS and non-agency MBS. If volatility increases or risk assets begin to cheapen, investors may seek the relatively more conservative agency MBS.

■ **Interesting Investment Opportunity.** Historically, agency MBS have outperformed other fixed income sectors during Federal Reserve tightening cycles. While this tightening cycle is unique in the fact that it includes the gradual reduction of the Federal Reserve's MBS and Treasury portfolios, we still believe that agency MBS are an attractive alternative over the intermediate term. We do expect some widening of MBS spreads as the program evolves, but we think that the sector will perform well for long term holders.

1 Source: Bloomberg Barclays as of 31 Dec. 2017; BBG BARC U.S. Corporate Index, BBG BARC U.S. Treasury Index. Performance stated for period ending 31 Dec. 2017.

2 Source: SIFMA as of 31 Dec. 2017.

3 Excess returns are the return relative to equal duration treasuries.

4 Source: Bloomberg Barclays as of 31 Dec. 2017; BBG BARC Global Aggregate Bond Index (Global Agg), BBG BARC U.S. Aggregate Bond Index (US Agg), BBG BARC U.S. Corporate Index (US Corporate), BBG BARC Euro-Aggregate Corporate Index (Eur Corporate), BBG BARC U.S. MBS Index (US MBS).

5 Source: Bloomberg Barclays as of 31 Dec. 2017; BBG BARC US Aggregate MBS Index, the BBG BARC US Aggregate Corporate Index, the BBG BARC US Aggregate Treasuries Index, the BBG BARC Pan-European Aggregate Corporate Index, the BBG BARC Asian Pacific Aggregate Corporate Index, the BBG BARC Asian Pacific Aggregate Treasury Index and the BBG BARC Pan-European Aggregate Treasury Index. All other markets represents all markets below 5%.

6 Source: Bloomberg Barclays as of 31 Dec. 2017; BBG BARC U.S. Government Index, BBG BARC U.S. Corporate Index, BBG BARC U.S. MBS Index

7 Invesco as of 31 Dec. 2017.

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## 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.

MBS can be subject to a higher level of borrower prepayments on loans should mortgage rates fall. This, in turn, subjects the investor to reinvestment risk. Similarly, if interest rates rise and prepayments generally slow, MBS will extend as principal payments slow.

**Convexity.** A measure that captures the tendency of an MBS duration to extend when interest rates rise and shorten when interest rates decline.

**Duration, a measure of bonds' interest rate sensitivity.** A bond portfolio with relatively high duration is typically exposed to higher interest rate risk. As yields rise, a bond with positive duration will likely decline in price.

**Option-adjusted spread (OAS).** The yield spread relative to US Treasuries of a US MBS bond is adjusted for the underlying borrower prepayment option. OAS spread changes can impact the bond price positively if tighter, but negatively if wider.

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