



# Invesco Fixed Income Global Fixed Income Strategy

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## Global macro strategy

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### What will drive markets after Trump's victory?

#### **The US election results bring short-term uncertainty, but policy will be key in the medium-term**

In a surprising outcome, US voters elected Donald Trump as the next president of the United States. This result was viewed as unlikely by the market. In the short term, the market reaction may be driven by increased uncertainty. However, over the medium term, Invesco Fixed Income expects the economic impact of Trump's policies to drive markets.

Although much of the attention of the campaign was on personalities and temperament, a basic policy framework was laid out by the Trump campaign. There is much uncertainty about what will actually be implemented by President-elect Trump, but we believe there are a few key policy elements that will likely be implemented early in the Trump administration:

- **Fiscal easing.** Proposed tax cuts and possible infrastructure spending would potentially boost growth across the board in the US. In particular, the reduction in corporate tax rates is likely to lead to large amounts of repatriation of overseas earnings by US corporations, in our view. We believe these repatriated earnings will also likely boost corporate spending.

## Global macro strategy (continued)

- **Deregulation.** Trump has promised deregulation of the US economy. In particular, he has indicated a desire to repeal the Affordable Care Act (also known as Obamacare), reduce regulation on the energy industry and amend the Dodd-Frank Act. These changes are also likely to boost US growth in the near term, in our view.
- **Trade.** Trump won using an anti-trade message. In our view, he will have to take some action in the near term on the trade issue, and, as president, he has quite a bit of power to implement tariffs and change trade deals. We would expect some impediments to free trade to be implemented in the near term. Such measures may have a medium-term impact on global growth.

Despite the lingering uncertainty with this election outcome, the market appears to have adopted an optimistic outlook; equity markets are establishing new historical highs in the aftermath. In the medium term, the economic responses and exact policy prescriptions will determine the ultimate path for risky assets.

Near-term market impacts include, in our view:

- **Higher US interest rates.** Stronger growth in the US should pressure US interest rates up across the board. While volatility could concern the US Federal Reserve (Fed), we believe the Fed will still raise rates in December and will likely raise rates in 2017. Inflation break-evens should go higher.
- **Stronger US dollar.** Stronger growth, fiscal stimulus and higher interest rates all point to the likelihood of a stronger dollar across the board.
- **Headwinds for emerging markets.** A stronger dollar and potential action on trade are all negative for emerging markets, in our view. We look for weaker emerging markets currencies and continued headwinds for emerging markets growth.
- **Increased volatility in equity and credit.** However, the ultimate impact on equities and credit will likely depend upon the exact policy mix implemented.

*Rob Waldner, Chief Strategist*

## Interest rate outlook

**US:** US yields rose sharply after the surprise victory of President-elect Donald Trump due to an increased likelihood of fiscal stimulus. Fiscal stimulus would likely mean higher interest rates, steeper yield curves and higher inflation risk premia. We believe that these trends will continue in the market until the legislative picture becomes clearer. We believe the Fed is likely to hike interest rates in December. If fiscal stimulus expands, the Fed may hike interest rates multiple times in 2017.

**Europe:** The European bond market came under pressure following the results of the US election. Market concerns over reflationary and populist policies emerged, with the periphery being hit especially hard. The next European Central Bank (ECB) meeting is not until December, leaving room for continued uncertainty. The Dec. 4th Italian referendum is a particular risk. Given that the ECB is the only institution that can limit financial contagion, we expect it to remain dovish and pre-announce the extension of quantitative easing, and possibly additional measures.

**China:** The onshore government bond yield curve has continued to steepen in the last several weeks, with the longer maturity yields rising more than the short maturity yields on the back of abating deflationary pressures. The producer price index (PPI) rose by 1.2% in October 2016 versus a year ago - the second positive PPI figure since January 2012.<sup>1</sup> The consumer price index (CPI) rose to 2.1% in October from 1.9% in September.<sup>1</sup> Stronger-than-market-consensus manufacturing data and new loan figures also helped pushed the yield curve upwards.

**Japan:** Yield curve control measures introduced by the Bank of Japan (BoJ) in September appear to be having the desired effect. Inflation continues to fall short of the BoJ's 2% inflation target, however, the central bank is likely to take a wait-and-see approach, as a combination of higher oil prices and a weaker yen may push inflation back in the right direction.

**UK:** Theresa May's desire to trigger article 50 before the end of March could come undone if the UK Supreme Court decides that she requires the consent of both Houses of parliament before taking this step. Contrary to expectations, however, a delay, may end up being advantageous, in that it lessens the chance that any of the two-year negotiating time frame is wasted. A number of key European countries will be holding elections during 2017 and it would make more practical sense to initiate negotiations once all the participants have decided who will lead their countries for the next few years and are able to devote their full attention to this very important issue.

**Canada:** The surge in global yields continued in November, pushing Canadian government 10-year yields to 1.54%, the highest level of the year.<sup>2</sup> The rise in yields has been solely attributable to global forces as Canadian growth has continued to be disappointing. In October full time employment fell, retail sales disappointed and inflation has continued to be below target. As a result, the Bank of Canada has signaled that it will consider reducing interest rates in the future if growth does not improve.

**Australia:** As expected, the Reserve Bank of Australia (RBA) held its policy interest rate at 1.50% at its November meeting.<sup>3</sup> The statement was only slightly changed from the September and October versions. It noted the RBA expects the economy to grow close to its potential rate and that inflation, while below its target, is expected to pick up gradually. Left out of the statement was any acknowledgement of the growth in commodity prices which hit 15-month highs.<sup>4</sup> The unemployment rate held steady at 5.6%.<sup>5</sup> Overall, growth remains strong and employment stable. There does not appear to be a need for further rate cuts by the RBA for the remainder of the year.

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1 Source: Bloomberg L.P., Nov. 21, 2016.

2 Source: Bloomberg L.P., as of Nov. 17, 2016.

3 Source: Reserve Bank of Australia, Nov. 15, 2016.

4 Source: Bloomberg L.P., Nov. 1, 2016.

5 Source: Australian Bureau of Statistics, Nov. 17, 2016.

## Global macro strategy (continued)

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### Currency outlook

**USD:** We believe the potential resumption of the Fed hiking cycle is bullish for the US dollar due to stronger potential asset flows and increased market uncertainty. Our positive growth outlook points to a likely Fed rate hike in December. The pace of US dollar appreciation may increase if US real interest rates rise.

**EUR:** The surprising US election outcome should result in the euro getting “Trumped” by the US dollar, and opens the door to establishing a move below parity this year. We expect further significant declines in the euro and are positioned accordingly.

**JPY:** The yen has weakened significantly since the US election. Weakening is likely to continue into year-end as investors seek to interpret to what degree President-elect Donald Trump will press ahead with his pre-election pledges on infrastructure spending, tax cuts, anti-trade/globalization and weigh how these will influence Fed rate hike expectations. Events, such as the Italian referendum, that could encourage a flight to quality, could limit the yen's downside.

**GBP:** Sterling received a boost recently, despite the US election outcome. The relief rally took off following the UK High Court's ruling that Prime Minister Theresa May would need to seek the support of Parliament before triggering article 50. The market had gone some way toward pricing in a hard Brexit up to that point, so this announcement appeared to be a welcome relief to those seeking a softer Brexit/remain outcome. We believe sterling is likely to remain volatile over the coming months, but we remain constructive over a two-year horizon.

**CAD:** The Canadian dollar has trended weaker since it peaked in May.<sup>1</sup> Most of the weakness is due to 1) US dollar strength on indications that the Fed will likely hike rates soon (as the Bank of Canada considers a rate cut) and 2) expectations that a Republican sweep of the US presidential election will likely generate stronger US economic growth and potentially more restrictive trading policies. We remain short the Canadian dollar on the belief that recent trends will continue.

**AUD:** The RBA held its policy rate at 1.50% at its November meeting, as expected.<sup>2</sup> There were only slight changes to the statement from the September and October statements. The RBA once again acknowledged that “an appreciating exchange rate” could provide a headwind to growth, but the rate remains near its long-term average of AUD/USD1.36. With the policy rate remaining at all-time lows, and the economy appearing to be in good shape, we believe there is no pressure for the RBA to lower rates further. With the RBA on hold, we expect the Australian dollar to be supported at current levels.

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<sup>1</sup> Source: Bloomberg L.P., data from Jan. 1, 2016 to Nov. 17, 2016.

<sup>2</sup> Source: Reserve Bank of Australia, Nov. 15, 2016.

This section highlights the key themes driving Invesco Fixed Income's global macro and credit research process and views. Themes are updated based on evolving trends and expectations.

## Global investment themes

### Global macro themes

#### Central banks less market-sensitive

##### Rationale

The Fed will be watching market conditions carefully after the US election, but since a financial conditions shock did not materialize, it is still likely to hike in December.

##### IFI strategy

US policy divergence from the rest of the world promotes US dollar strength. Markets at tight valuations are vulnerable to risks. We favor moderate risk budgets.

#### Asian deflation

##### Rationale

While capital outflows from China appear to have stabilized, Chinese policy makers continue to smooth currency volatility and curb leverage in the financial system.

##### IFI strategy

We favor positioning for Chinese currency weakness.

### Global credit themes

#### Geographical themes

##### Investment grade (IG): Global central bank forces, credit cycle differences remain

**Rationale:** Strong investor demand for US, Europe and Asia IG due to easy global monetary policies has been tempered by recent shift higher in the US Treasury yield curve. US fundamentals remain challenging with leverage at cycle highs, though recent corporate actions have been credit supportive, especially in energy. European credit markets generally earlier in cycle, less levered, but more growth challenged.

**IFI strategy:** Favor US over Europe, Asia due to the changing fiscal policy outlook in the US driving stronger growth, and potential reduction in bond supply that may come from a foreign cash repatriation tax holiday. Favor gaining exposure to selected higher quality issuers in energy, pipelines and metals where shorter-term maturities are well covered by liquid assets. Favor select financials, consumer cyclical, and technology, media and telecommunications (TMT). Cautious on industrials exposed to changes in foreign trade agreements.

##### Emerging markets (EM): Macro fundamental momentum continues to weaken

**Rationale:** Broad EM divergence remains overriding theme, with risk markets buoyed by favorable market technical support and major central bank actions/low interest rates. We see market underpricing risk of Fed rate hike. EM valuations are stretched.

**IFI strategy:** Prefer neutral positioning in US dollars, keeping China beta low. High-yield and commodity-related exposure likely supported in near term.

##### US commercial mortgage backed securities (US CMBS): Notable decline in primary market issuance

**Rationale:** Transaction volume and property price appreciation are slowing. Early signs of tighter financial conditions have become apparent. Rent growth remains modest.

**IFI strategy:** Prefer seasoned US CMBS as cycle progresses. Credit-differentiation is accelerating, placing a premium on selection.

##### US residential mortgage backed securities (US RMBS): Favorable fundamentals, valuations fair, liquidity inconsistent

**Rationale:** Legacy non-agency US RMBS offer opportunity where fundamentals are favorable. Credit risk transfer (CRT) deals show solid fundamentals, however, valuations are nearing stretched in below-investment grade segment. Liquidity remains inconsistent, but CRT market depth improving.

**IFI strategy:** Prefer higher quality legacy prime, alt-A, seasoned CRT. Avoiding sub-prime, option adjustable rate mortgages. Neutral BBB-rated CRT and below-investment grade.

## Global investment themes (continued)

### **US asset backed securities (US ABS): Value in off-the-run securities, fundamentals normalizing**

**Rationale:** US ABS has been less volatile versus US IG. Fundamentals are strong but modestly weaker as collateral performance has moved off historical low delinquency and loss levels. Technicals are supportive. Deep subprime auto market concerns.

**IFI strategy:** Prefer adding exposure to off-the-run tranches where collateral performance remains stable. Believe wider swap spreads provide opportunities. Believe senior auto US ABS and esoteric issuers can provide opportunities. Avoiding deep subprime auto US ABS.

### **Sector themes**

#### **Commodities: Global rebound in energy, metals but volatility remains**

**Rationale:** Expect global IG credit risk premia to improve as some energy and metals credits transition to high yield. Fundamental credit quality concerns due to modest economic growth and risk of volatility due to OPEC and Fed uncertainty.

**IFI Strategy:** Favor gaining exposure to selected higher quality energy, pipeline and metals issuers where shorter-term maturities are well covered by liquid assets and positive corporate actions support financial profiles.

#### **Consumer story more nuanced globally**

**Rationale:** Solid US labor market and lower gas prices are supportive, but consumers more value-conscious and international retail demand remains uneven, due partly to volatile capital markets. Watching European consumer for post-Brexit behavior shift.

**IFI Strategy:** Favor select US consumer sectors including autos, leisure and housing-related sectors. Negative on "big box" retailers that lack differentiated products. Favor EM consumer sectors on a selective basis.

#### **Post-merger and acquisitions (M&A) deleveraging plays**

**Rationale:** M&A activity remains elevated, driven by large cash balances, low all-in financing cost, lack of organic growth, and need to reposition business portfolios.

**IFI Strategy:** Preference to play post-transaction bond issuance typically characterized by size, liquidity, concessions and plans to deleverage. Due to rise in M&A-related issuance, believe more discriminating approach to this strategy is warranted.

#### **Global technology - big data**

**Rationale:** Expect global use of data to grow and transition to cloud-based platforms.

**IFI Strategy:** Prefer to gain exposure to software and services, cell towers and select wireless issuers. Have avoided hardware original equipment manufacturers.

### **Yield curve themes**

#### **Credit curve positioning, value in long end**

**Rationale:** Global zero interest rate policy has forced cash investors and sovereign wealth funds into 3-5 year part of the credit yield curve, creating steep 5-7 year part of the curve. Lately, sovereign wealth funds have targeted the 10-year part of the curve. We expect demand for 5-10 year paper to be resilient.

**IFI Strategy:** Prefer 7-10 and select 30-year points on US IG credit yield curve. New issuance at longer maturities has tended to come at healthy concessions.

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# Global credit strategy

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## Asset class views - 2017 outlook

### Bank loans

We expect the bank loans asset class to perform in line with the coupon in 2017, as prices hovered around par during the fourth quarter of 2016. Loan fundamentals should continue to be supported by a slow but positive gross domestic product (GDP) growth environment in the US, in our view, as company balance sheets are generally healthy and issuers are operating with a free cash flow cushion, aside from a few pockets of weakness. We expect technical factors to remain firm as demand from long-term investors remains solid. Key risks to our view are generally not loan-specific. Rather, broader macroeconomic weakness could lead to a “risk-off” tone, and a recessionary environment could induce an uptick in defaults. Even under this scenario, however, senior secured loans remain defensively positioned at the top of the capital structure.

### Emerging markets

Going into 2017, we believe Emerging Markets (EM) are likely to continue to provide attractive carry. Given that EM assets are largely dependent on the global environment, we believe that sustained central bank accommodation, relatively stable, if subdued, growth and still-moderate inflation provide a favorable backdrop for EM assets. Additionally, investors' ongoing reach for yield, preference for income, and emerging markets' continued attractiveness versus developed markets suggest that flows into EM assets will likely continue. Discernment in outlook is a key theme for EM countries. Now, as always, we focus on EM countries and corporates that have catalysts to support a favorable credit outlook. The main risks to our relatively sanguine view are a significant sell-off in US Treasury yields, unanticipated central bank policy shifts, significantly slower global growth or a sharp acceleration in US dollar strength.

### European fixed income

European fixed income in 2017 will continue to be challenged by macroeconomic headwinds coupled with a number of elections that are scheduled across the region. The rise of anti-establishment parties, primarily linked to the poor sustained economic performance over past years, will mean we are likely to face another year scattered with bouts of heightened volatility. The ECB has enjoyed some success from monetary policy actions, with reduced fragmentation, but bank lending remains lacklustre and we expect Brexit to be a drag on European growth. However, Europe remains in the early stages of the economic cycle, and we expect the ECB's quantitative easing (QE) program to be extended beyond March 2017 as inflation continues to disappoint and growth stays low. Hence, we are constructive on core government duration and expect future opportunities will likely arise from domestic political events and/or central bank action. Moreover, we are neutral in the periphery and remain cautious on the outlook of Italy and Portugal, although we see value in Irish and Spanish bonds. In the currency space, we see limited opportunities, although we expect the euro to benefit from risk-off moves given its funding currency status. However, the challenging political calendar will likely prevent any material euro strength. Risks to our view would be an abrupt ending to QE or indeed any tapering of QE announced by the ECB in the near term.

### Global high yield

We anticipate limited spread tightening for US high yield in 2017 given the current fair value level of spreads, although yields continue to be attractive. Outside the US, high yield performance will be dependent on developments at the local level. Most corporate revenue in the US high yield market is tied to the health of the US consumer, who remains well supported. The outlook for corporate revenue and profitability outside the US is more idiosyncratic and dependent on the country/region. Actions by the Fed could have an important impact on global high yield sentiment and the US dollar, which could lead to volatility in commodity prices and commodity-related high yield assets. Soft Chinese demand could also weigh on global high yield, as could disappointing growth outcomes in Europe. However, we are constructive on a number of developments in the US high yield market: Many US high yield companies have navigated the commodity price downturn successfully by cutting costs and improving balance sheets, debt-financed mergers and acquisition activity has been fairly muted, and default levels have ticked up only slightly. These developments are all likely to be supportive for US high yield bonds in 2017.

# Global credit strategy (continued)

## Global investment grade

Global investment grade credit should continue to be well-supported due to the favorable macroeconomic backdrop and continued market demand for yield. The expectation of a global recession remains low as liquidity, particularly outside the US, remains high. In the US, although rhetoric from the Fed is expected to target higher interest rates, we expect tightening to be limited. Additionally, the European Central Bank and Bank of England are expected to continue their quantitative easing efforts. The inclusion of corporate debt in their purchase programs further restricts the supply of yield-based assets available to investors and potentially supports global investment grade bonds.

The risks to our views include an unexpected deceleration in global growth, which could pressure credit fundamentals and risky assets. Alternatively, an acceleration in global growth and inflation could lead to higher interest rates, which could be particularly challenging for sovereign bonds given the limited protection provided by their very low yields. As we enter 2017, the investing landscape for corporate credit is marked by low credit spreads and absolute yields. Performance of the asset class may depend largely on avoiding problem sectors and issuers and capitalizing on opportunities as they arise.

## Global liquidity

The year ahead should allow US money market fund managers to resume focus on adding value in a post-money market reform world. Short-term credit spreads could remain elevated if supply/demand imbalances persist as a result of reform, potentially presenting a continued attractive yield opportunity for prime and ultra-short strategies. Sufficient supply of US government securities should keep a floor under short-term interest rates; however, we will be watching potential developments around the US debt ceiling in early 2017, which could affect the supply of US Treasury securities in the short run. A slow-growing US economy will likely keep the focus on the Fed in 2017, but similar to recent years, forward guidance and a gradual approach to rate hikes with the least amount of disruption is likely the Fed's preferred path. Money market reform in Europe should start to take shape in 2017, but with a long path to implementation (similar to the US), the impact on markets might not be evident until 2018.

## Structured securities

We expect the macroeconomic and capital market environment in 2017 to be generally supportive for structured securities as a slow macroeconomic growth trajectory and generally range-bound interest rates are traditionally conducive to lower prepayment risk and tighter credit spreads. We believe underlying US residential and commercial real estate fundamentals will be positive factors for the asset class as housing supply is expected to remain tight and consumer conditions will likely be healthy. US commercial real estate values have risen considerably in recent years, but we believe the risk of an asset bubble is much more of an equity concern than an investment grade debt risk as collateral quality, credit enhancement and underwriting have improved considerably since the credit crisis. Foreign investor flows into US agency mortgage-backed securities (MBS) have been a material positive technical benefit driven by the historically high level of negative sovereign rates outside of the US, but we expect the pace of foreign flows to diminish given the increasing currency hedging costs we expect to continue through 2017. Principal risks to our view include, (1) a material change in US Federal Reserve (Fed) policy regarding the reinvestment of MBS coupons, prepayments and maturities, (2) the possibility of a more aggressive Fed interest rate stance, (3) an exceptionally large decline in US commercial real estate prices, and (4) disruption from new-issue commercial mortgage-backed security supply challenges associated with new Dodd-Frank "risk retention" rules going into effect in the US on Dec. 24, 2016.

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## The bottom line

We speak with Leah Boccia, Senior Business Support Manager, and Shaylyn Ruthven, Business Support Analyst, about Invesco Fixed Income's Global Investors' Summit. IFI's investment professionals gather twice a year to identify and debate key macro and credit themes likely to drive markets over the next 12-18 months. Our most recent Summit was held in November. Leah and Shaylyn play critical roles in organizing and carrying out these important events.

**Q: What types of professionals come together and which countries are represented in a typical Summit gathering?**

**Shaylyn:** The IFI Summit invitation list spans across more than nine IFI investment teams, eight different functions and 11 countries. The core audience is made up of senior IFI investment professionals, including IFI senior leadership, portfolio managers, analysts and traders. There are also several support groups who attend, such as IFI's Investment Solutions Team, product managers, marketing and communications and other integral teams.

To gather different perspectives, we also extend an invitation to other Invesco investment teams such as Invesco's Global Asset Allocation team in Atlanta and Invesco's Multi-Asset Team in London. John Greenwood, Invesco's Chief Economist, kicks off each Summit by giving his global economic overview.

**Q: What are some of the biggest challenges in coordinating an event like the IFI Summit?**

**Leah:** The goal of the summit is to foster discussion, debate and dialogue that will ultimately help develop our macroeconomic and credit views for the next 12-18 months. The biggest challenges of the Summit, therefore, are making sure that we design an agenda and content that will create an environment that fosters debate, find guest speakers that may have provocative or opposing views from us, and provide a format that allows opposing minds to exchange ideas.

**Q: What is the process that goes into planning the Summit and its agenda?**

**Shaylyn:** We put a lot of time and resources toward these biannual events and they are always top of mind. As soon as one Summit concludes, we hold a post-mortem meeting with senior IFI leaders to discuss what worked well, what didn't work well, and review feedback we've collected from attendees. From there we start to develop an outline for the next Summit, which includes brainstorming topics, discussing possible presenters and gathering a list of potential guest speakers. We meet on a bi-weekly basis to make sure we are moving everything forward.

**Q: Who has been your favorite guest speaker and why?**

**Leah:** In 2014, as part of our Summit, we hosted an event with Dennis Lockhart, President of the Federal Reserve Bank of Atlanta. The event took place in our Atlanta office and we extended the invitation to other members of the Atlanta financial community. In November, we had the pleasure of hosting Robert Dannenburg, an independent consultant on geopolitics and security. Rob's 24 years at the US Central Intelligence Agency (CIA) where he served in several senior leadership positions provided an extremely interesting perspective on many of the geopolitical risks currently facing global investors.

**Q: Do you have any plans to evolve the format of the Summit going forward?**

**Shaylyn:** We constantly try to reshape the Summit to meet our needs and to achieve our goal of fostering debate and dialogue. With every new Summit, we try to identify critical topics and bring together analysts from across geographies, asset classes and industries to examine market driving themes from all angles.

Our Summits have traditionally taken place at Invesco and IFI's global headquarters in Atlanta. However, we have discussed holding the event in a different location such as London, where we have a significant footprint and presence in the marketplace. While this might not be in the immediate future, it is something we are considering.

## The bottom line (continued)

**Q: You and Shaylyn put a lot of work and effort into making the Summit a great success twice a year. What are your thoughts on how the team benefits from these major events?**

**Leah:** Two of IFI's value propositions are the breadth of our global platform and our global connectivity. There are many things our team does on a daily basis to achieve this connectivity, but the Summit is one of the most important elements in this aspect of our investment process. It is a time for our investment professionals to be in the same room and share thoughts in a way that helps develop and crystallize our investment ideas.

We believe that bringing our global knowledge and local expertise together in one place twice a year strengthens our investment process by helping us uncover investment opportunities, place risks on our collective radar, and develop and ratify key themes that help drive our investment decisions over the medium-term.

# Market monitors

## Fixed income market monitor

|  | Coupon (%) | Yield to worst (%) | 1 month change in YTW | Option-adjusted spread |                          |               |       | Returns   |           |         |            |
|--|------------|--------------------|-----------------------|------------------------|--------------------------|---------------|-------|-----------|-----------|---------|------------|
|  |            |                    |                       | current                | 1 month change in spread | 10 year range |       | 1 mth (%) | 3 mth (%) | YTD (%) | 12 mth (%) |
|  |            |                    |                       |                        |                          | min           | max   |           |           |         |            |
| Global Aggregate (USD hedged)            | 2.74       | 1.29               | 0.16                  | 42                     | -1                       | 23            | 156   | -0.97     | -1.03     | 5.41    | 5.17       |
| U.S. Aggregate                           | 3.08       | 2.12               | 0.16                  | 45                     | -2                       | 32            | 258   | -0.76     | -0.94     | 4.99    | 4.37       |
| U.S. Mortgage-backed                     | 3.58       | 2.27               | 0.21                  | 13                     | -1                       | -16           | 181   | -0.26     | 0.13      | 3.45    | 3.27       |
| Global Inv Grade Corporate (USD hedged)  | 3.69       | 2.38               | 0.13                  | 128                    | -5                       | 55            | 515   | -0.79     | -0.56     | 7.66    | 7.06       |
| U.S. Investment Grade Corporate          | 4.08       | 2.95               | 0.11                  | 132                    | -6                       | 76            | 618   | -0.81     | -0.87     | 8.31    | 7.23       |
| Emerging Market USD Sovereign            | n/a        | 5.23               | 0.25                  | 340                    | 3                        | 157           | 906   | -1.24     | 0.93      | 13.34   | 11.70      |
| Emerging Market Corporate                | n/a        | 4.62               | 0.06                  | 304                    | -12                      | 120           | 1,032 | -0.01     | 1.43      | 12.01   | 9.70       |
| Global High Yield Corporate (USD hedged) | 6.28       | 5.78               | 0.04                  | 463                    | -11                      | 231           | 1,845 | 0.55      | 2.98      | 14.06   | 9.66       |
| U.S. High Yield Corporate                | 6.52       | 6.29               | 0.12                  | 477                    | -3                       | 233           | 1,971 | 0.39      | 3.17      | 15.56   | 10.14      |
| Bank Loans                               | 4.90       | 5.09               | -0.01                 | n/a                    | n/a                      | n/a           | n/a   | 0.80      | 2.45      | 9.07    | 6.30       |
| Municipal Bond                           | 4.76       | 2.01               | 0.20                  | n/a                    | n/a                      | n/a           | n/a   | -1.05     | -1.41     | 2.92    | 4.06       |
| High Yield Municipal Bond                | 5.21       | 5.50               | 0.30                  | n/a                    | n/a                      | n/a           | n/a   | -1.24     | -0.62     | 8.01    | 8.62       |

## Treasury market monitor

|                               | Coupon (%) | Yield to worst (%) | 1 month change in YTW | Returns in local currency |           |         |            |
|-------------------------------|------------|--------------------|-----------------------|---------------------------|-----------|---------|------------|
|                               |            |                    |                       | 1 mth (%)                 | 3 mth (%) | YTD (%) | 12 mth (%) |
|                               |            |                    |                       | United States             | 2.04      | 1.41    | 0.15       |
| Canada                        | 2.37       | 0.98               | 0.08                  | -1.01                     | -0.84     | 2.71    | 3.96       |
| United Kingdom                | 3.70       | 1.20               | 0.34                  | -4.07                     | -3.81     | 10.06   | 9.86       |
| Germany                       | 2.17       | -0.15              | 0.20                  | -2.05                     | -2.38     | 4.40    | 3.48       |
| Italy                         | 3.61       | 1.09               | 0.32                  | -2.73                     | -2.68     | 1.32    | 1.32       |
| Japan                         | 1.11       | -0.02              | 0.04                  | -0.36                     | -1.44     | 4.60    | 5.28       |
| China                         | 3.50       | 2.60               | -0.10                 | 0.85                      | 2.10      | 5.03    | 6.69       |
| EM Local Currency Governments | n/a        | n/a                | n/a                   | -0.30                     | 1.15      | 10.57   | 9.99       |

## FX market monitor<sup>1</sup>

|                     | Current | 10 year range |        | Returns   |           |         |            |
|---------------------|---------|---------------|--------|-----------|-----------|---------|------------|
|                     |         | min           | max    | 1 mth (%) | 3 mth (%) | YTD (%) | 12 mth (%) |
| EURUSD              | 1.10    | 1.06          | 1.60   | -2.26     | -1.63     | 1.10    | -0.32      |
| USDJPY              | 104.82  | 75.82         | 124.77 | -3.32     | -2.31     | 14.72   | 15.20      |
| GBPUSD              | 1.22    | 1.22          | 2.11   | -5.63     | -7.11     | -16.92  | -20.59     |
| USDCNY              | 6.78    | 6.04          | 8.28   | -1.51     | -1.84     | -4.03   | -6.37      |
| USDCHF              | 0.99    | 0.75          | 1.39   | -1.79     | -2.09     | 1.34    | -0.21      |
| AUDUSD              | 0.76    | 0.60          | 1.10   | -0.72     | 0.97      | 4.43    | 6.46       |
| CADUSD              | 0.75    | 0.72          | 1.09   | -2.10     | -2.13     | 3.20    | -2.34      |
| EURJPY <sup>2</sup> | 115.10  | 94.31         | 169.49 | -1.03     | -0.70     | 13.50   | 15.57      |
| EURGBP <sup>2</sup> | 0.90    | 0.70          | 0.85   | -3.43     | -5.55     | -17.82  | -20.33     |

Sources: Bloomberg Barclays, J.P. Morgan, as of Oct. 31, 2016. Credit Suisse Leveraged Loan data as of Oct. 31, 2016. Within the Treasury monitor, United States is represented by Bloomberg Barclays US Treasury Index; Canada is represented by Bloomberg Barclays Global Treasury Canada Index; United Kingdom is represented by Bloomberg Barclays Sterling Gilts Index; Germany is represented by Bloomberg Barclays Global Treasury Germany Index; Italy is represented by Bloomberg Barclays Global Treasury Italy Index; Japan is represented by Bloomberg Barclays Global Treasury Japan Index; China is represented by Bloomberg Barclays China Aggregate Treasuries Index; EM Local Currency Governments is represented by J.P. Morgan GBI\_EM Broad Diversified Index. In the Fixed Income Monitor, Global Aggregate is represented by Bloomberg Barclays Global Aggregate (US\$ Hedged) Index; US Aggregate is represented by Bloomberg Barclays US Aggregate Index; US Mortgage-backed is represented by Bloomberg Barclays US Mortgaged-backed Index; Global Investment Grade Corporate is represented by Bloomberg Barclays Global Aggregate Corporate (US\$ hedged) Index; U.S. Investment Grade Corporate is represented by Bloomberg Barclays Aggregate Corporate Index; Emerging Market USD Sovereign is represented by the J.P. Morgan EMBI Global Diversified Index; Emerging Market Corporate is represented by J.P. Morgan CEMBI Broad Diversified Index; Global High Yield Corporate is represented by the Bloomberg Barclays Global High Yield Corporate (US\$ hedged) Index; U.S. High yield Corporate is represented by Bloomberg Barclays U.S. Corporate High Yield Index; Bank Loans is represented by the Credit Suisse Leveraged Loan Index; Municipal Bond is represented by Bloomberg Barclays Municipal Bond Index; High Yield Municipal Bond is represented by Bloomberg Barclays Municipal Bond High Yield Index.

Yield to Worst (YTW) is the lowest expected yield calculation given maturity and call features. Option Adjusted Spread (OAS) is the yield difference relative to similar maturity Treasuries that incorporates call, put, sinking fund or paydown features of a bond. Past performance cannot guarantee future results. An investment cannot be made directly in an index. Returns less than one year are cumulative.

1 Postive number represents the currency appreciated against USD, negative number represents currency depreciated against USD.

2 Postive number represents the currency appreciated against EUR, negative number represents currency depreciated against EUR.

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### Recent IFI publications

1. **As the US housing market recovers, what's next for US residential mortgage-backed securities?**, Nov. 2016, David Lyle, Head of RMBS Credit, Aaron Kemp, Senior Analyst
2. **US election outcome favors US credit markets**, Nov. 2016, Tony Wong, Head of Global Credit Research
3. **What will drive markets after Trump's victory?**, Nov. 2016, Rob Waldner, Chief Strategist
4. **Utility bonds and the impact of renewable energy adoption in the US**, Oct. 2016, Bixby Stewart, Analyst, Jay Sammons, Analyst
5. **Structured convertibles: A custom portfolio solution**, Sept. 2016, Robert Young, Head of International Convertible Securities
6. **What are commercial mortgage-backed securities (US CMBS)?**, Sept. 2016, Kevin Collins, Head of CMBS Credit, Daniel Saylor, Senior Analyst
7. **Investor double take: US Agency MBS, Allocating to US Agency MBS during a Fed tightening cycle**, Sept. 2016, Rich King, Head of Structured Investments
8. **The Opening of China's bond markets: Opportunities for global investors**, July 2016, Ken Hu, Chief Investment Officer, Chris Lau, Senior Portfolio Manager, Yi Hu, Senior Credit Analyst, and Yifel Ding, Analyst
9. **IFI Global Investors' Summit**, June 2016, Greg McGreevey, Chief Executive Officer, Rob Waldner, Chief Strategist, Head of Multi-Sector Credit
10. **Brexit, Brexident or Bremain?**, June 2016, Arnab Das, Head of EMEA and EM Macro Research
11. **Emerging markets' alpha beta soup**, June 2016, Arnab Das, Head of EMEA and EM Macro Research, Rashique Rahman, Head of Emerging Markets, Jay Raol, Senior Macro Analyst

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