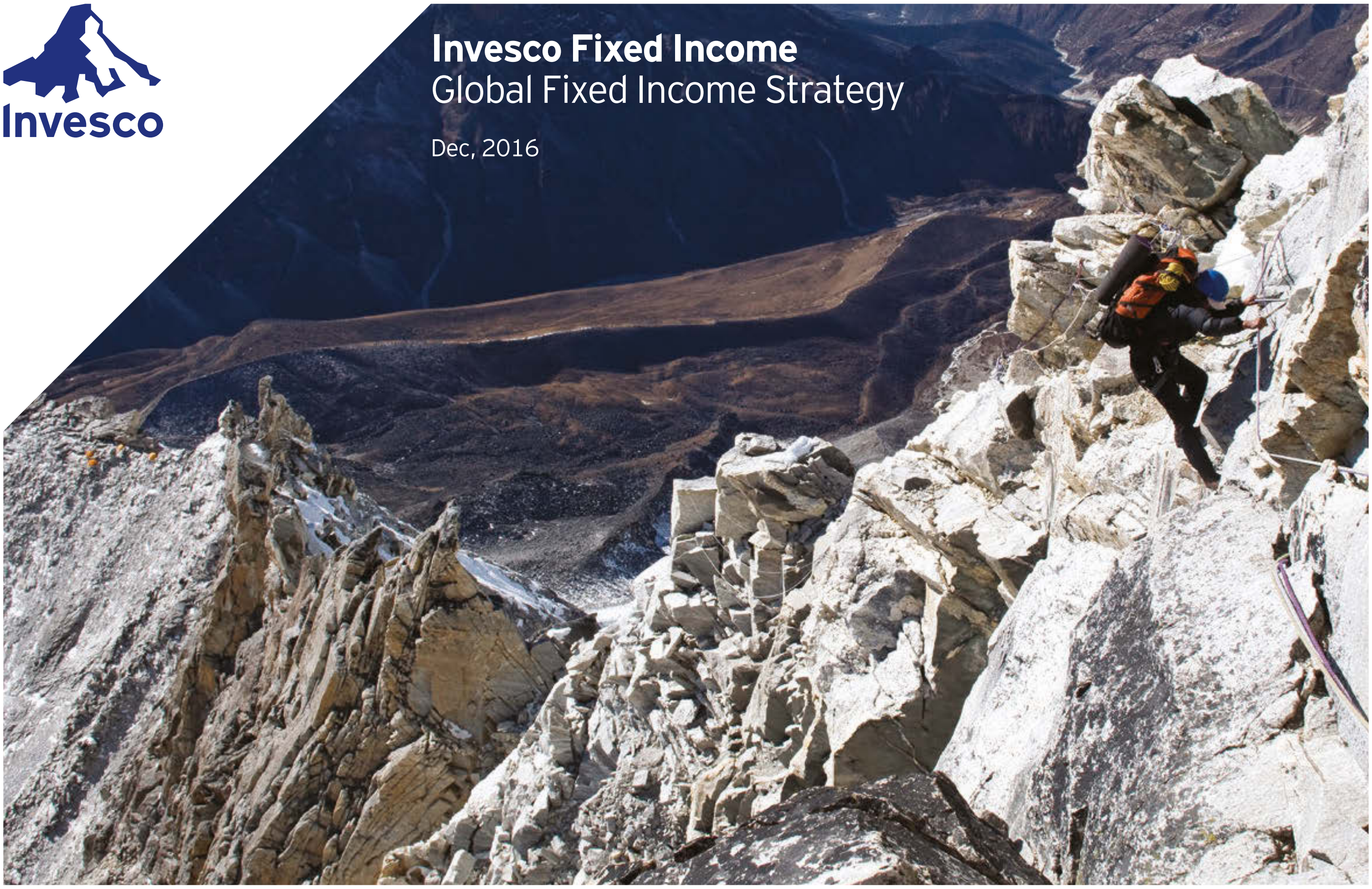
Invesco Fixed Income

Global Fixed Income Strategy

Dec, 2016



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Global macro strategy

Macro factor framework helps assess new market conditions

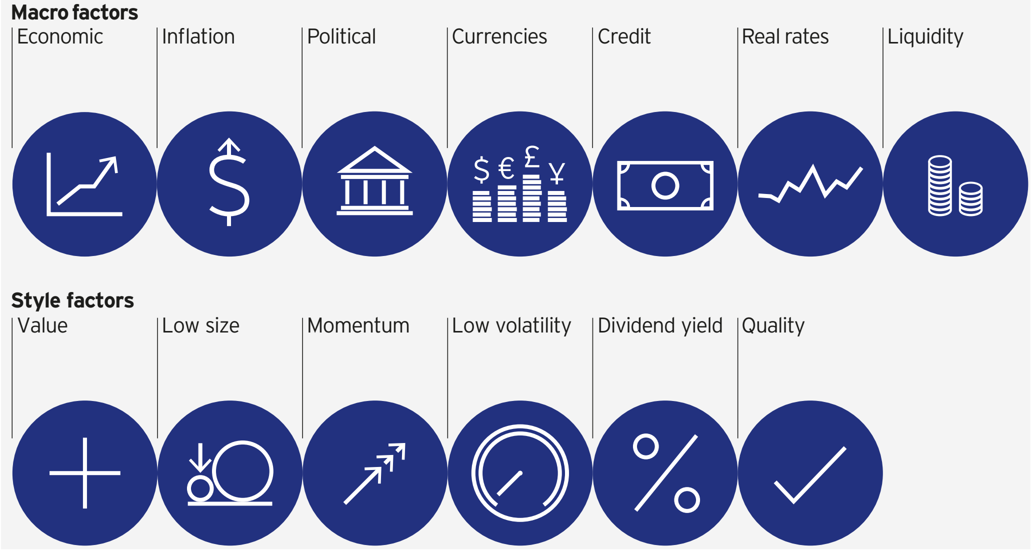
Invesco Fixed Income believes that changes in growth, inflation and financial conditions drive much of market beta performance, and that understanding these "macro factors" can help us understand market conditions and price action. We believe this macro factor framework is particularly useful today, as we believe these three factors are undergoing changes, and hence market behavior may be different than it has been in the recent past.

Furthermore, changes in these three factors will likely have different impacts on markets. We believe understanding the changes and impact of each factor and how they relate to each other will promote understanding of market moves.

A brief introduction to factors and factor investing

At the most fundamental level, "factors" can be described as quantifiable characteristics of assets. So-called "style" factors include such characteristics as: value, size, momentum, volatility and quality. In addition, there are "macro factors," such as growth and inflation. Essentially, factor investing means allocating a portfolio to style and macro factors in an effort to achieve particular investment objectives. Unlike more traditional approaches that focus on security selection, a factor approach utilizes tradable securities to achieve broad and diversified exposure to specific investment themes.

Figure 1: What is a factor? Macro and style factors



Source: Invesco. For illustrative purposes only.

Our research suggests that the factors shown in Figure 1 are long-term drivers of returns across asset classes. The factor-based approach allows investors to harvest returns from specific investment factors in single or multi-factor constructions. The idea is that holding a diversified, well-balanced portfolio of factors can reduce risk and deliver a smoother positive return stream.

Applying the factor framework to current markets

Prior to the US election, we believe financial markets were driven mainly by financial conditions. Post-the US election, we believe that Trump administration policies will boost growth and inflation and that these "factors" will drive markets going forward. This is in contrast to what has driven markets since the financial crisis, which has been mainly central bank policy.

Prior to the US election, we had believed that global growth would remain slow due to deleveraging, demographics and increasing regulation (which can lead to a lack of productivity). We had also believed that inflation would remain low for similar reasons. Therefore, with growth and inflation in the background, it has been mostly financial conditions and changes in financial conditions that have been driving markets since the global financial crisis of 2008. This has meant that central banks, quantitative easing (QE), and changes in the US dollar have been the drivers of markets.

Starting this summer, and accelerating since the Trump election victory, a change toward more active fiscal policy and deregulation appears to be in the cards, in our view. This will likely be primarily in the US, although policymakers globally have been calling for more active fiscal policy. We believe the US economy will be boosted by tax cuts to individuals and corporations, deregulation of the financial system and energy sector, and a pickup in infrastructure spending. While the exact magnitude of these changes is not yet clear, the direction is – we expect growth to move up. This is enough to allow us to explore what this could mean for financial markets.

The US economy is also mid-to-late cycle with a low unemployment rate and underlying inflation that is in an uptrend. Boosting growth in such an economy will likely boost inflation, in our view, and we would expect to see additional upward pressure on inflation in the US economy.

This upward boost to growth and inflation expectations is what is driving much of the market action in the current environment, in our view. We would reiterate the significance of the fact that we believe we have moved to a new regime. A new regime will likely entail new correlations and significant changes in market pricing.

Global macro strategy (continued)

Trade
We have also downgraded our concerns on trade issues. Aggressive anti-trade moves would be a negative for growth, in our view, but recent statements from the newly nominated US Treasury and Commerce secretaries have eased our concern on this front. It appears to us that a Trump administration may likely have a much more constructive approach to trade than the Trump campaign indicated. In particular, it appears that tariffs may likely be a last resort, and that the emphasis could be on negotiating bilateral trade deals that are more favorable to the US. Given this view, the new administration's policies should not be as negative for global trade as we originally feared.

Financial conditions
In our view, growth and inflation could be the key drivers of markets in the near term. That said, financial conditions could return as a driver at any time if they tighten significantly, which would have a significant impact on markets.

We believe financial conditions will remain easy for the following reasons:
- QE continues in Europe and Japan at a significant pace.
- Negative interest rates in Europe and Japan have enhanced the impact of QE and forced liquidity into global markets.
- Deregulation of the financial system may create easier financial conditions and support market liquidity.

At the same time, we must watch for a tightening of financial conditions. A tightening of financial conditions is possible through one or more of the following channels:
- An aggressive US Federal Reserve (Fed)
- A sharp rise in the US dollar (5% or more from current levels)
- A sharp rise in term premium and real yields in the bond market (so far, the rate rise has been orderly and accompanied by an increase in inflation expectations)
- A sudden increase in Chinese capital outflows
- A sharp increase in euro break-up risk (due to political events)

All of the above factors are conceivable in the intermediate term, but are not present currently. We will watch these carefully but do not think they will drive market pricing in the near term.

Main conclusions
We reiterate our view expressed immediately after the US election that growth and inflation are likely to be the drivers of markets (What will drive markets after Trump's victory?). We believe that financial conditions will remain easy for now, and we are less negative on trade impacts from the new administration.

Views on markets
- **Duration.** We favor short duration, best expressed in the US, and via inflation-linked bonds. This is a direct result of the growth and inflation driver.
- **US dollar.** We believe growth is good for the dollar. We expect the dollar to rally generally, but we have less conviction compared to our views on duration because US inflation is not a positive for the US dollar.
- **Commodities.** We believe current conditions are reasonably good for commodities due to the growth and inflation drivers. With the growth driver being the most important factor, we believe the US dollar can rally, while commodities could also do reasonably well.
- **Credit and risky assets.** We are positive on credit and risky assets. Growth and inflation are reasonably supportive for risky assets as long as financial conditions are easy. Our belief that financial conditions will likely remain easy for now and that trade is not going to be a negative is a low-conviction positive for credit. We expect to earn interest, but not receive too much in the way of capital gain.
- **Emerging markets.** We are less negative on emerging markets (EM). Growth and inflation are good for EM, in our view. We had been concerned about a negative trade shock to EM from the US election, but recent commentary from the incoming administration points to less risk of immediate trade shocks. Stable financial conditions currently also support EM. There are opportunities in EM given its recent underperformance versus other asset classes — we believe Mexican local duration is an obvious one.

Rob Waldner, Chief Strategist, Invesco Fixed Income, Jay Raol, Senior Macro Analyst, Invesco Fixed Income

Italian referendum 'no' vote suggests eurozone will muddle through

Italians voted on Dec. 4 to reject changes to their constitution, leading to the resignation of Prime Minister Matteo Renzi and marking a victory for the country's populist movement. Polls had suggested that Italian voters would reject the referendum on constitutional amendments to reform the Senate by a margin of about 10%. The turnout at 70% and margin of victory at 18% were both higher than expected.

Italian bonds, bank stocks fall, but rebound quickly

Despite the resounding rejection of Prime Minister Renzi's market-oriented political reform efforts and his own immediate resignation, markets took the outcome in stride: The euro, Italian government bonds and Italian bank stocks suffered, but not as much as was feared, given the scale of the defeat, and have quickly retraced parts of their losses. In our view, the calm owes to a few key factors:

1. The Senate reform was at best ambiguous, even though it would have made economic reform more likely in the short term by concentrating legislative power in the Chamber. The reform could have ended up undermining Italy's membership in the European Union (EU) and the eurozone, and therefore global financial stability, by handing majority power to minority parties such as the euroskeptic Five Star Movement in future elections.
2. The European Central Bank's (ECB) quantitative easing (QE) program was widely expected to be extended beyond its March 2017 expiry date, which it was.
3. So far, unexpected political outcomes have not translated into radical macro or market dislocations — for example, markets traded down sharply post-Brexit and the US November election but rebounded quickly.
4. Limits may be emerging to anti-establishment politics in Europe. In Austria's re-run of its presidential election, also on Dec. 4, the far-right/anti-EU nationalist candidate was conclusively defeated by the Green Party candidate, running as an independent.

Invesco Fixed Income's view

At Invesco Fixed Income, we expect Italy and, more broadly, Europe to muddle through economically and politically in the coming months, implying limited near-term risk of eurozone fragmentation or an Italy-specific financial or political crisis. Within Italy, the immediate focus turns to the banks (with some in urgent need of recapitalization), politics and reform. Italy's political risks will now hinge on the formation of a new government and its links to bank recapitalization. We expect Italian President Sergio Mattarella to try to establish a new caretaker government, quite possibly under the leadership of Renzi's Finance Minister, Pier Carlo Padoan, to continue the bank recapitalization effort, undertake the 2017 budget process and, crucially, spearhead a new electoral reform — possibly moving in the direction of proportional representation rather than concentration of power in the leading parties. The good news in such a scenario would be that checks and balances would be maintained; the bad news is that the muddle-through scenario could extend for another year or more, delaying urgent economic reform and potentially hindering the eurozone's return to price stability and more robust growth.

While the upcoming eurozone political calendar is crucial to monitor, the European focus in the short term is likely to shift from political issues back to macro developments — with hopes for US reflation under the new Trump administration driving up global growth and inflation expectations and pushing up bond yields.

Even so, the Italian referendum outcome is still another rejection of the status quo and of efforts to make the existing system work better, and signifies the direction of sentiment in Europe. As in the UK with Brexit, it represents political change over the status quo. Thus, we believe the risks of further anti-EU, anti-establishment, even anti-eurozone politics continue to lurk in Italy and the wider eurozone.

Arnab Das, Head of EMEA and EM Macro Research

Interest rate outlook

US: The Fed raised interest rates in December by 0.25%, only the second rate hike since the 2008 global financial crisis, to a range of 0.5% to 0.75%.[1] The Fed's summary of US economic projections showed modest improvement in its expectations for gross domestic product (GDP) growth and the unemployment rate. Probably the most surprising change was the increase in the expected number of future rate hikes, which was changed from two to three in 2017. Overall, we believe Fed chair Yellen's statements were perceived as hawkish by the markets largely due to increases in the policy rate forecasts. The market is also likely to believe that the incoming Republican government will ease fiscal conditions. Fiscal stimulus would likely mean higher interest rates. We believe that these trends will continue to push yields higher.

Europe: The European bond market came under pressure in December, in line with other global duration. European yield curves steepened as the European Central Bank (ECB) tilted its purchases toward the short end of the yield curve. But what the market appeared to miss was that the ECB eased and promised more if conditions demanded it. With this in mind, we feel slightly more positive about the outlook for European fixed income.

China: Onshore government bond yields rose by more than 50 basis points in November/December across the yield curve.[2] The move was in line with our expectations, as China's policy makers have been guiding short-term interest rates higher in recent months, tightening financial regulations and reducing leverage in the financial market.

Since the third quarter, the central bank (PBOC) has raised the cost of funding thereby indicating a tighter monetary stance. Despite capital outflows on the back of a stronger US dollar, the PBOC has refrained from injecting excessive liquidity. To further reduce leverage in the financial market, the central bank has included banks' off-balance sheet wealth management products (WMP) in the broader definition of credit under its macro-prudential assessment. WMP has historically been a major source of liquidity and a buyer in the onshore bond market and the new guidance has led to slower flows into bond funds and the bond market. Thus, higher funding costs, reduced fund inflows and the forced deleveraging of bond funds and other non-bank financial institutions have triggered the recent tightened liquidity conditions and bond market sell-off.

Rising inflation pressure and higher US Treasury yields have also intensified selling pressure in the onshore bond market. After the Fed rate hike on Dec. 14, the 10-year US Treasury yield rose by 14 basis points and the Chinese onshore 10-year government bond yield correspondingly went up by 17 basis points the following day.[3] China's economic data has also shown stabilization and producer price inflation (PPI) has surprised to the upside (3.3% in November versus a consensus estimate of 2.3%).[4]

We expect tight liquidity conditions and rising bond yields to continue through the first quarter of 2017. This incorporates seasonal factors such as tight liquidity before year-end and the Chinese New Year, tax payments early next year and even higher PPI readings on the back of commodity price and low base effect.

UK: UK Prime Minister, Theresa May, still hopes to trigger article 50 before the end of March, 2017. However, it is likely that she will require the approval of both houses of parliament before being allowed to do so. Gaining this approval will not be a formality, given that May has to convince parliamentarians of her plans for separation. This will not be easy, in our view. Brexit discussions will likely continue to drive market sentiment through 2017.

Global macro strategy (continued)

Japan: Inflation continues to come in below expectations, however, a weaker yen, higher fuel prices, a steeper yield curve and improving corporate sentiment, should lessen the need for the Bank of Japan to ease monetary policy further over the coming months.

Canada: Canadian 10-year government yields rose to 1.78% in December, another new high for the year, as global rates continued to press higher.[2] Canadian growth bounced back nicely in the third quarter, rebounding from the wildfire-induced drop in the second quarter. Employment growth has been positive for four months in a row, although full-time job gains have proved disappointing. The Bank of Canada kept monetary policy on hold at December's meeting, awaiting more information before considering additional action.

Australia: At its December meeting, the Reserve Bank of Australia (RBA) held its policy interest rate at 1.50%, as expected.[5] The statement remained neutral but showed hints of a hawkish tone. It noted a more balanced outlook for global inflation and that Australia's inflation will likely return to more normal levels. Overall growth remains strong and employment stable. While the RBA remains on hold and the US tightens monetary policy, we like owning Australian rates versus US rates.

Rob Waldner, Chief Strategist, James Ong, Senior Macro Strategist, Sean Connery, Portfolio Manager, Brian Schneider, Head of North American Rates, Scott Case, Portfolio Manager, Josef Portelli, Portfolio Manager, Ken Hu, CIO Asia Pacific, Yi Hu, Senior Credit Analyst, Alex Schwiersch, Portfolio Manager

1 Source: US Federal Reserve, Dec. 14, 2016.
2 Source: Bloomberg L.P. Nov. 15, 2016-Dec. 15, 2016.
3 Source: Bloomberg L.P., Dec. 15, 2016.
4 Source: Bloomberg L.P., Dec. 9, 2016.
5 Source: Reserve Bank of Australia, Dec. 16, 2016.

Global macro strategy (continued)

Currency outlook

USD: The Fed raised interest rates in December by 25 basis points. It indicated that the economy is fairly close to full employment and that it could potentially act to offset increasing levels of fiscal stimulus. This would likely be a bullish development for the US dollar since higher interest rates would likely be very supportive of the US dollar.

EUR: The Fed's pivot away from an optimal control type of policy framework (in which the economy is allowed to run above the desired level of inflation temporarily) to a more traditionally balanced one will only add to the post-US election bullish US dollar pressures by exacerbating central bank divergence. This will likely accelerate the move below parity for the euro. We expect further significant declines in the euro and are positioned accordingly.

JPY: The yen has weakened against the US dollar post-the US election, but we expect the pace of declines to diminish, if not reverse, as we move into 2017. Much of the recent price action, can be attributed to heightened expectations of fiscal easing by president-elect Trump. However, as we move into 2017, the pressure to deliver likely rises. If Trump does not meet expectations, the US dollar could give up some of its recent gains.

GBP: Sterling has continued to recoup some of its losses from earlier in the year, as expectations of a hard Brexit have declined. While we remain constructive on sterling over a two-year horizon, the path higher is likely to be volatile one, as the UK and its 27 EU counterparts enter separation proceedings.

CAD: The Canadian dollar weakened immediately following the US presidential election on the prospect of higher US interest rates and inflation expectations. It recovered heading into the December Fed meeting, but after the Fed tightened monetary policy and indicated there is a chance it may hike more quickly in the future, the Canadian dollar sold off to pre-election levels. We remain short the Canadian dollar as US monetary policy continues to tighten relative to Canadian monetary policy.

AUD: The RBA held its policy rate at 1.50% at its December meeting, as expected.[1] There were only slight changes to the statement compared to recent statements. The recent spike in commodities prices has put upward pressure on the Australian dollar but the Trump victory in the US election and subsequent strength in the US dollar have applied downward pressure, keeping the Australian dollar in a range. With the Australian 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 relatively stable at current levels.

Ray Uy, Head of Macro Research and Currency Portfolio Management,
James Ong, Senior Macro Strategist, Brian Schneider, Head of North American Rates,
Sean Connery, Portfolio Manager, Scott Case, Portfolio Manager,
Alex Schwiersch, Portfolio Manager

1 Source: Reserve Bank of Australia, Dec. 16, 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

A more active Fed

Rationale

The Fed has begun hiking interest rates again and signaled its belief that the economy is close to full employment. It has indicated that easy fiscal policy may influence its path of hikes.

IFI strategy

A more active Fed should drive both US interest rates and the US dollar higher. We are positioned for higher interest rates and are long US dollars.

Asian deflation

Rationale

China has a large manufacturing and debt overhang. This has caused deflationary pressure in the regional economy which, we believe, must be offset by policy easing.

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 in US, Europe and Asia IG due to easy global monetary policies has been tempered by the recent shift higher in the UST yield curve. US fundamentals are 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): Growth impulses peaking following duration rally

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 well-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 commercial mortgage backed securities (US CMBS): Tighter financial conditions

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.

Global investment themes (continued)

US residential mortgage backed securities (US RMBS): Favorable fundamentals, valuations mixed, 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.

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 sub-prime 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 premiums 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 (SAS), cell towers and select wireless issuers. Have avoided hardware original equipment manufacturers (OEM).

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. Longer duration spreads remain wide and offer favorable carry, in our view. 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.

Rob Waldner, Chief Strategist, Ray Uy, Head of Macro Research and Currency Portfolio Management, Tony Wong, Head of Global Research and Liquidity, Joe Portera, CIO High Yield and Multi-Sector Credit, Michael Hyman, CIO Global Investment Grade and Emerging Markets Debt

Global credit strategy

US election outcome favors US credit markets
The next few months should provide greater clarity on President-elect Donald Trump's policies. But over the medium-term, we believe the likely tone of the Trump administration will be, at the margin, positive for US credit fundamentals and market dynamics, given the largely growth-oriented biases of anticipated policy. Our initial view is that a Trump policy framework is likely to entail:

1. Pro-cyclical growth policies to support job creation and economic formation.
2. A less activist approach to regulation by agencies such as the Environmental Protection Agency, the Department of Energy and financial regulators.
3. Attempt for comprehensive tax reform, including the potential for a tax holiday or reduced tax rates for foreign-held cash of US companies, potentially leading to greater share buybacks, dividends and capital expenditures. Cash repatriation could also potentially reduce corporate debt issuance needs and, therefore, be supportive of credit spreads.

The following US credit sectors could be particularly affected by Trump administration policies:

Health care
We believe market pricing pressures on drug producers will remain, but we see a more constructive path for pharmaceutical companies than we would have expected under a potentially more stringent reform scenario under Hillary Clinton – especially for specialty pharmaceutical companies, which develop innovative therapies. We also see this as an opportunity for insurers in terms of their ability to adjust pricing and make certain components of the Affordable Care Act (ACA, also known as Obamacare) more structurally sustainable. However, changes in health care policy could be potentially negative for acute-care hospitals, which had benefitted under the expansion of Medicaid and the ACA's insurance of previously uninsured patients.

Financials
Potentially less regulation coupled with potentially pro-growth macroeconomic policies (possibly leading to higher interest rates and a steeper yield curve) would likely be supportive of the business models of banks and insurance companies. Although a substantial repeal of the Dodd-Frank Act could hamper the strong fundamental credit profile of the US banking sector over time, relaxing certain regulatory burdens coupled with a more optimistic growth outlook could encourage greater lending to support growth.

Telecommunications, media and technology
We believe a less-activist approach to regulation in this sector would likely pave the way for more mergers in the media space between distribution providers and content providers. We would also expect greater consolidation in the telecommunications sector. While individual company outcomes would likely differ, we believe consolidation would support industry fundamentals broadly over the medium term and would be a positive response to rapid and uncertain shifts in industry dynamics triggered by changes in technology and consumer preferences.

Metals and mining
We would expect the metals and mining sector to perform well in a Trump policy environment given a potentially more protectionist tone toward tariffs and other trade arrangements. This would potentially benefit US-focused metals and mining firms.

Energy
We believe a more relaxed regulatory environment, especially as it relates to fracking and coal production, would likely benefit the energy sector. In particular, we see support for oil exploration activity, which would benefit oil field service providers. However, higher oil production may lead to lower sustained oil prices, especially in the face of a stronger US dollar (which is traditionally negative for commodity prices) driven by potentially higher interest rates, as mentioned above. We favor pipeline operators based on potentially less environmental oversight and a higher rate of pipeline approvals.

Global credit strategy (continued)

Industrials
The industrials sector may be more vulnerable to policy shifts that negatively impact global trade, especially for those firms that derive a significant portion of their revenues outside the US. We, therefore, prefer select industrials that are focused on domestic infrastructure, although positive sentiment has been partly priced in given the rhetoric of both candidates leading up to the election. Also, we remain cautious on the ability to push through the level of suggested infrastructure spending. Another sector that could be supported under new administration policies may be defense, which may see greater government spending activity.

Consumer
Consumption comprises around 70% of the US economy. A greater level of uncertainty could cause a consumer pull-back in the near term. A divided electorate means that, post-election, a portion of US voters may feel less confident going forward under the new administration. That said, continued progress on jobs and wages along with a lower tax regime under Trump could ultimately benefit consumers over the medium term through higher disposable incomes. We favor domestically focused sectors that are less reliant on foreign sources of revenue.

These are admittedly early days in the transition to a new policy environment, and we expect market volatility to be a near-term issue. We at Invesco Fixed Income believe that active management centered on rigorous research and careful security selection is paramount as details of the new administration's policy regime unfold.

Tony Wong, Head of Global Credit Research and Liquidity

Ann Ginsburg
Senior Market Analyst, IFI

The bottom line

We speak with Ann Ginsburg, Senior Market Analyst and editor of the Global Fixed Income Strategy Report about this publication and the broader Invesco Fixed Income (IFI) thought leadership effort.

Q: What have you been able to achieve with the IFI monthly strategy report?
Ann: We feature articles that we believe represent the most important issues facing fixed income investors each month. We always try to be forward-looking and offer a global view of bond markets spanning US, Asian and European markets. Consequently we hope the monthly report provides a useful tool for clients to stay abreast of rapidly changing global fixed income markets.

Q: The IFI monthly strategy report is part of IFI's overall thought leadership effort. In general, how would you characterize that effort?
Ann: We take the macro and credit views and analysis that shape IFI's own investment decisions and synthesize them for clients. We are able to share the unique ways that we think and our diversity of thought, providing a window onto our investment process. Through our thought leadership content, we hope to provide insight into what we think is driving global bond markets and how we seek to construct a successful investment strategy.

In addition to the monthly strategy report, we compile white papers on in-depth topics, market insight pieces on trends and opportunities in markets and blogs about fast-moving events such as central bank policy decisions. We draw on the expertise of all of IFI's investment teams from around the world to present their analyses and convictions.

Q: You mention your global viewpoint. How do achieve that?
Ann: IFI has teams of analysts and portfolio managers in Europe, Asia, the US and Canada, covering multiple asset classes, countries, industries and companies. This gives us local perspectives that we then share across our global platform. Our team is structured to compare and contrast ideas, so, for example, for an update on the global consumer, we were able to gather information on Chinese consumption trends from our Hong Kong-based analysts and compare them to US consumption patterns provided by our US-based team.

Q: What have been a few of your favorite thought pieces?
Ann: One of my favorite pieces is "Utility bonds and the impact of renewable energy adoption in the US," by IFI credit analysts Bixby Stewart and Jay Sammons. Bixby and Jay describe how home-generated solar power is disrupting the traditional utility industry and its potential impact on utility bonds. Another of my favorites is "Emerging markets' alpha beta soup," by IFI Head of Emerging Markets, Rashique Rahman, and his team. This piece examines how much emerging markets bond performance is driven by "beta" and how much by "alpha." The team concluded that, on average, systematic factors, or "beta," have historically played a dominant role in emerging markets returns.

These pieces are two of my favorites because they showcase new ways of thinking about important topics and offer surprising results. They highlight the diversity of IFI's platform, the rigor of IFI's research and the unconventional thinking that goes into IFI's analysis and investment process.

Q: What is the ultimate goal of IFI thought leadership?
Ann: With our global external communications, we aim to demonstrate the depth and breadth of IFI's team. Along the way, we also hope to educate our clients around the world about IFI's investment processes, allowing them to better understand IFI's capabilities and appreciate how carefully and thoughtfully their investments are managed. Ultimately, we seek to improve the usefulness of our thought leadership content. We are especially open to new ideas about what types of content clients want to hear about and what information they most value.

Market monitors

Fixed income market monitor

	Coupon (%)	Yield to worst (%)	1 month change in YTW	Option-adjusted spread: current	Option-adjusted spread: 1 month change in spread	Option-adjusted spread: 10 year range min	Option-adjusted spread: 10 year range max	Returns: 1 mth (%)	Returns: 3 mth (%)	Returns: YTD (%)	Returns: 12 mth (%)
Global Aggregate (USD hedged)	2.75	1.59	0.30	45	3	23	156	-1.65	-2.62	3.66	3.38
U.S. Aggregate	3.08	2.57	0.45	45	0	32	258	-2.37	-3.17	2.50	2.17
U.S. Mortgage-backed	3.57	2.80	0.53	16	3	-16	181	-1.71	-1.70	1.67	1.64
Global Inv Grade Corporate (USD hedged)	3.69	2.73	0.35	130	2	55	515	-2.05	-3.01	5.45	4.73
U.S. Investment Grade Corporate	4.08	3.37	0.42	129	-4	76	618	-2.68	-3.71	5.41	4.58
Emerging Market USD Sovereign	n/a	5.91	0.68	361	21	157	906	-4.09	-4.90	8.70	7.19
Emerging Market Corporate	n/a	5.14	0.52	309	5	120	1,032	-2.07	-1.94	8.80	7.46
Global High Yield Corporate (USD hedged)	6.29	6.10	0.32	453	-10	231	1,845	-0.53	0.44	13.45	10.72
U.S. High Yield Corporate	6.53	6.57	0.28	455	-22	233	1,971	-0.47	0.58	15.01	12.11
Bank Loans	4.89	5.09	-0.01	n/a	n/a	n/a	n/a	0.32	1.98	8.63	7.60
Municipal Bond	4.77	2.76	0.75	n/a	n/a	n/a	n/a	-3.73	-5.21	-0.92	-0.22
High Yield Municipal Bond	5.25	6.49	0.99	n/a	n/a	n/a	n/a	-5.95	-6.87	1.59	1.74

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	1.83	0.42	-2.67	-3.87	1.14	0.98
Canada	2.38	1.26	0.28	-2.18	-3.06	0.47	1.63
United Kingdom	3.68	1.27	0.07	-1.36	-7.69	8.56	7.34
Germany	2.14	-0.14	0.01	-0.69	-2.49	3.68	2.61
Italy	3.59	1.35	0.26	-1.86	-4.79	-0.57	-1.29
Japan	1.10	0.07	0.08	-0.70	-0.99	3.88	4.57
China	3.51	2.78	0.19	-1.08	0.24	3.89	5.60
EM Local Currency Governments	n/a	n/a	n/a	-1.32	-0.41	8.62	8.23

FX market monitor[1]

	Current	10 year range: min	10 year range: max	Returns: 1 mth (%)	Returns: 3 mth (%)	Returns: YTD (%)	Returns: 12 mth (%)
EURUSD	1.06	1.06	1.60	-3.57	-5.10	-2.51	0.23
USDJPY	114.46	75.82	124.77	-8.43	-9.65	5.05	7.55
GBPUSD	1.25	1.22	2.11	2.16	-4.81	-15.13	-16.94
USDCNY	6.89	6.04	8.28	-1.90	-3.19	-5.86	-7.25
USDCHF	1.02	0.75	1.39	-2.79	-3.30	-1.48	1.13
AUDUSD	0.74	0.60	1.10	-2.94	-1.76	1.36	2.19
CADUSD	0.74	0.72	1.09	-0.21	-2.46	2.97	-0.56
EURJPY[2]	121.19	94.31	169.49	-5.03	-4.78	7.80	7.31
EURGBP[2]	0.85	0.70	0.85	5.92	0.30	-12.96	-17.12

Sources: Bloomberg Barclays, J.P. Morgan, as of Nov. 30, 2016. Credit Suisse Leveraged Loan data as of Nov. 30, 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 Positive number represents the currency appreciated against USD, negative number represents currency depreciated against USD.
2 Positive number represents the currency appreciated against EUR, negative number represents currency depreciated against EUR.

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Recent IFI publications

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Invesco Fixed Income: Global perspective and deep local market knowledge

Global presence
- Regional hubs in Atlanta, London and Hong Kong
- IFI is in ten locations with additional Invesco colleagues in two
- USD 269.8 billion in assets under management

Experienced team
- 167 investment professionals
- Averaging 18 years of industry experience
- Deep macro and credit research
- Focused and accountable portfolio management

Global locations

Source: Invesco. For illustrative purposes only.

Invesco Fixed Income teams

	Team members	Average years with Invesco	Average years in industry
Portfolio management and trading	78	11	20
Global research	89	8	16
Total investment professionals	167	10	18
Business professionals	62	13	18
Total fixed income employees	229	11	18

Source: Invesco.

As of Sept. 30, 2016. Subject to change without notice.
Investment specific experience for investment professionals.

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