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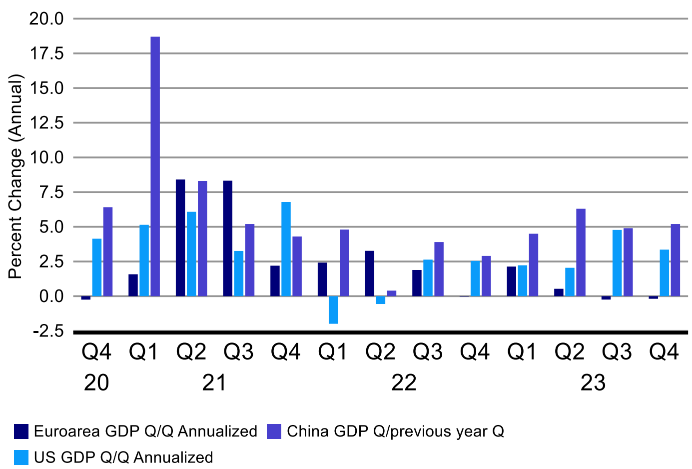
Invesco Fixed Income

Bond Market Insights

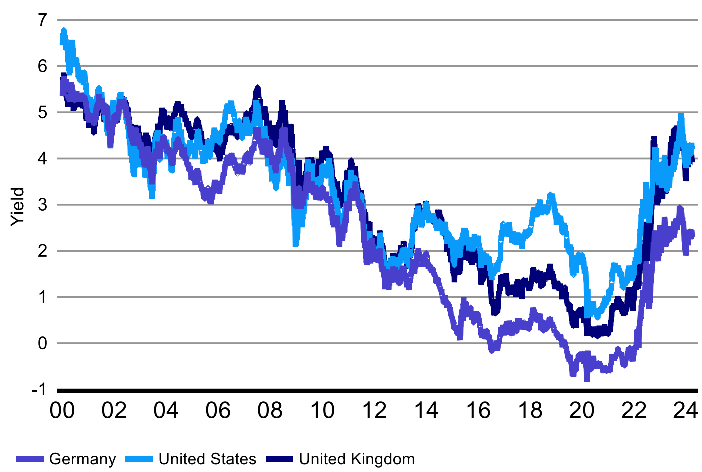
April 2024

- **We expect the global economy to generate slow, but steady growth in the coming quarters.** The US economy in particular has shown good momentum.
- **We believe global inflation pressure is contained and expect inflation to stay well behaved through the balance of the year.** Progress toward lower inflation will likely be slower and bumpier going forward than during the second half of last year, but we believe the direction of inflation is down.
- **We may not get inflation down to central bank targets this year, but that should not stop many global central banks from starting to cut interest rates.** Current high rates become more restrictive as inflation declines, effectively increasing real interest rates. Current levels of interest rates are viewed as restrictive, and central banks will probably not want conditions to become even more restrictive from here. We expect major central banks to cut rates this year.
- **Growth, low inflation and easing financial conditions are very supportive of financial markets.** Tight valuations, on the other hand, argue for a more cautious approach to investment. Inverted yield curves also make duration look less compelling since extending maturity means giving up yield.

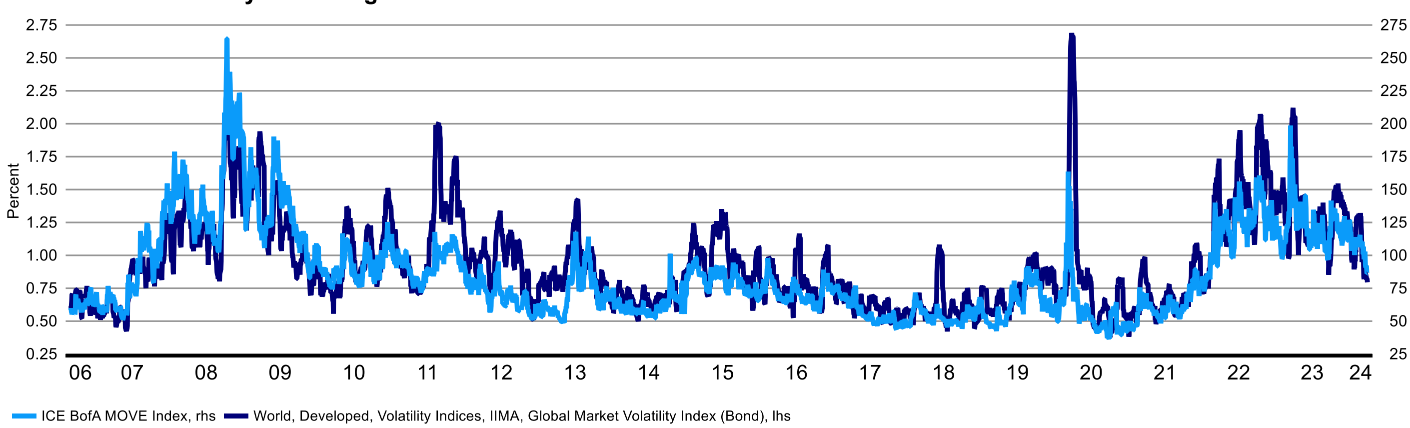
Global growth is positive



10 Year nominal yields

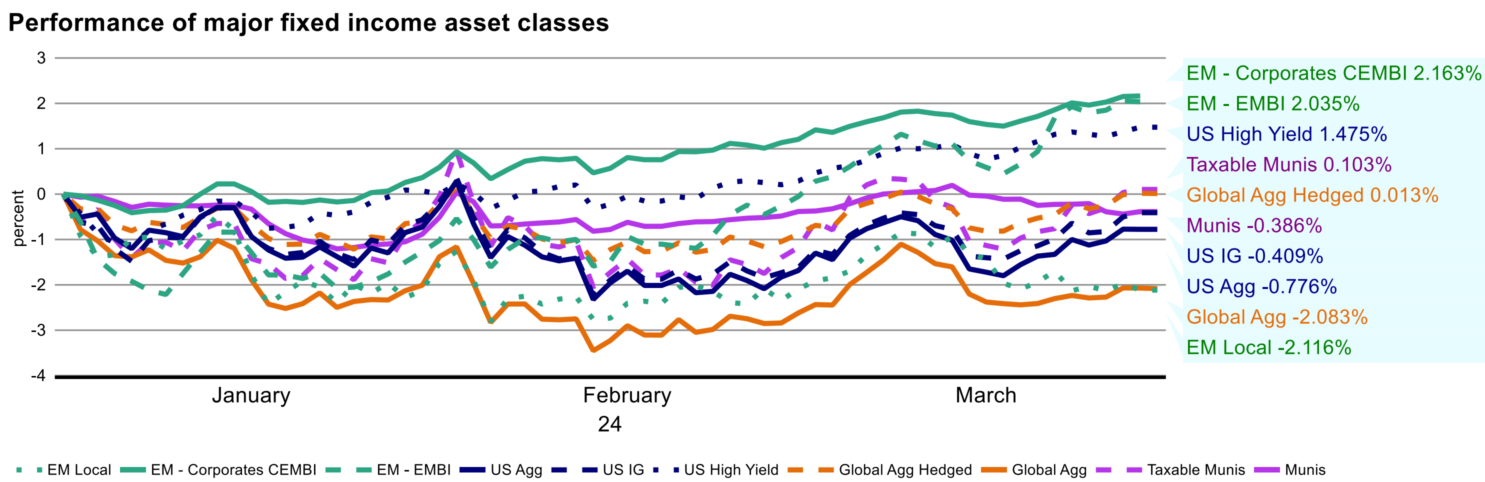


Interest Rate Volatility is coming off elevated levels

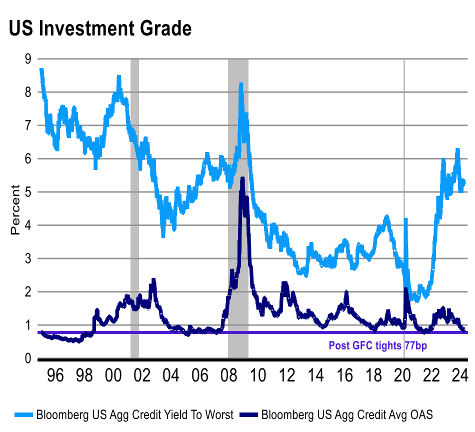


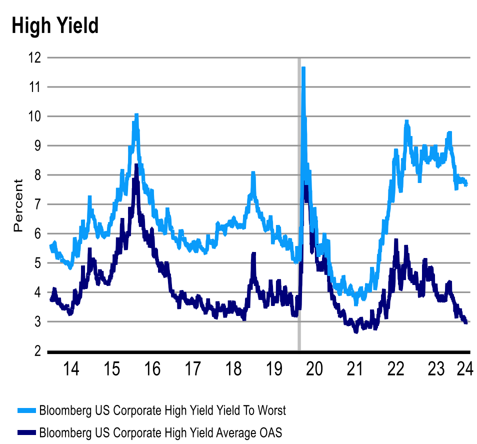
Credit Market Insights

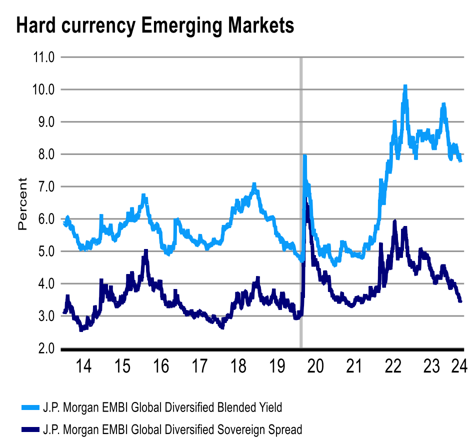
- **We favor being overweight risk, given the very positive macro backdrop.** However, we favor keeping risks tightly controlled, as very tight valuations limit the potential upside for risky assets, in our view.
- **Market volatility has been low in the past month.** Credit markets were mixed over the month, with the investment grade index slightly wider and most other markets slightly tighter.
- **We see several areas of opportunity, in particular, in local and hard currency emerging markets (EM) and Agency MBS.**
- **Recession risks are not priced into the market.** While recession is not our base case, and the near-term impetus for a recession is not clear, the risk of recession is elevated relative to a normal environment. Recession would likely be positive for rates but negative for credit spreads.



Source: Macrobond and Bloomberg L.P. Data as of April 1, 2024. Bloomberg Municipal Bond Index Total Return Index Value Unhedged USD, Bloomberg Municipal Index Taxable Bonds Total Return Index Value, Bloomberg Global-Aggregate Total Return Index Value Unhedged USD, Bloomberg Global-Aggregate Total Return Index Value Hedged USD, Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD, Bloomberg US Credit Total Return Value Unhedged USD, Bloomberg US Agg Total Return Value Unhedged USD, J.P. Morgan EMBI Global Diversified Composite, J.P. Morgan CEMBI Broad Composite Index Level, J.P. Morgan Government Bond Index Emerging Markets Global Core. Past performance is not a guarantee of future results. An investment cannot be made directly into an index.

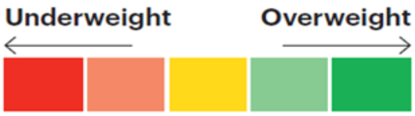






Source for all: Macrobond. Data as of April 1, 2024.

IFI Scorecard (3-month outlook)



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Asset class comparison

Asset class	Overall	Fundamentals	Valuations	Technicals	Current Spread	Outlook 3mo. spread change	Outlook 3mo. excess return
US Investment Grade	C	C	C	A ↑	85	(3)	+0.42%
EUR Investment Grade	C	C	C	B	112	(5)	+0.51%
UK Investment Grade	C	C	D	B	111	(5)	+0.60%
US High Yield	C	B	D	B	301	24	-0.30%
EUR High Yield	C	C	C	B	337	13	+0.25%
Emerging Markets – Corporate	C	C	D	C	241	25	-0.71%
Emerging Market - Sovereign	B	B ↑	C ↓	B	354	-30	+2.75%
Asia Investment Grade	C	C	D	C+	92	13	-0.38%
Asia High Yield	C-	C	D	C-	913	62	-0.30%
Bank Loans - US	B ↑	C	B ↑	B	391	24	+0.04%
Bank Loans - EUR	B ↑	C	B ↑	B	N/A	N/A	+0.44%
Agency MBS	B	B	B	C	63	-3	+0.33%
RMBS: Non-QM Senior (AAA)	C	C	C	C	135	-10	+0.54%
RMBS: CRT M1 (BBB)	C	C	C	B	107	-2	+0.29%
RMBS: CRT M2 (BB/B)	C	C	C ↑	B	179	-4	+0.53%
ABS	B	C	B	B	53	0	+0.13%
ABS – Misc.	B	C	B	B	226	0	+0.57%
CMBS	C	D	C	C	156	+4	+0.24%
CMBS - Agency	C	B	C	C	59	0	+0.15%
Municipals – Investment Grade	B	B	C	B	60	-3	+0.31%
Municipals – High Yield	B	C	B	B	190	-4	+0.87%
Municipals – Taxable	B	B	C	B	88	-2	+0.43%

Source: Invesco. Data as of March 28, 2024.

Our best ideas

- **We see opportunities in investment grade, partly driven by the large new issuance calendar.** Spreads are very tight, but they may tighten further as technicals are very positive. Measured rate cuts by global central banks are likely to create a good environment for credit performance and should bolster demand for investment grade.
- **European investment grade is still well supported and liquidity and technicals are supportive.**
- **We see opportunities in high yield.** Credit risks are receding, rate cuts are on the horizon, the market is open for issuance and lending standards are easy. These conditions are favorable for high yield fundamentals. All-in carry is also attractive, in our view.
- **There have been several positive developments in EM sovereigns.** Zambia's debt restructuring proposal, fiscal support for Egypt and growing acceptance of Argentine President Milei's approach are all providing some tailwind for sovereigns. This has supported many high yield EM names and driven strong performance in EM recently. The relative value of EM versus developed markets still looks good, in our view, and we would expect EM to broadly outperform developed market credits. That being said, we would likely become more cautious if valuations continued to grind tighter.
- **We believe there is value in EM rates.** EM countries are showing disinflation, and the front end of EM yield curves should start to rally. Central bank inflation targets across most EM countries are higher than in the US, so central banks should be able to follow a more dovish path. EM currency should do relatively well going forward in the context of a declining US dollar and easing US rates.
- **We are slightly positive on municipals.** We are still waiting for the retail investor to return in force. The new issue calendar has been absorbed well. This summer should see limited supply, a need for reinvestment and likely US Federal Reserve rate cuts, which should be supportive of the muni market.

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