Applied philosophy
Strategist from East of the Elbe

Eastern members of the European Union have suffered a broad economic slowdown in 2023 after a post-pandemic bounce in 2021 and 2022. We believe the deceleration was mostly driven by shrinking real disposable incomes but, as inflation ebbs, we expect a reacceleration, especially if the global economy avoids a deep recession. We think this will allow for a less restrictive policy mix, which, alongside attractive valuations, should support regional government bonds and equities.

The Elbe has been a dividing line in Europe for millennia, separating the "East" from the "West". Due to its size and financial heft, we tend to pay more attention to the West. However, we believe it is worth looking outside our comfort zone and widening our perspective. With that in mind, we are starting what could become a regular series focusing on Eastern members of the European Union: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The main question we will attempt to answer is how to allocate among countries in the region across equities and government bonds.

First, it is tough out there. The post-pandemic bounce in economic growth has given way to a broad-based slowdown as commodity prices rose and financial conditions tightened, especially throughout 2022. Although we expect the impact of these to fade, they are still being felt, especially as wages have not completely caught up with prices, thus constraining consumer spending. On the other hand, we expect the impact of tighter monetary policy to fade as we approach 2024, and domestic pressures to ease.

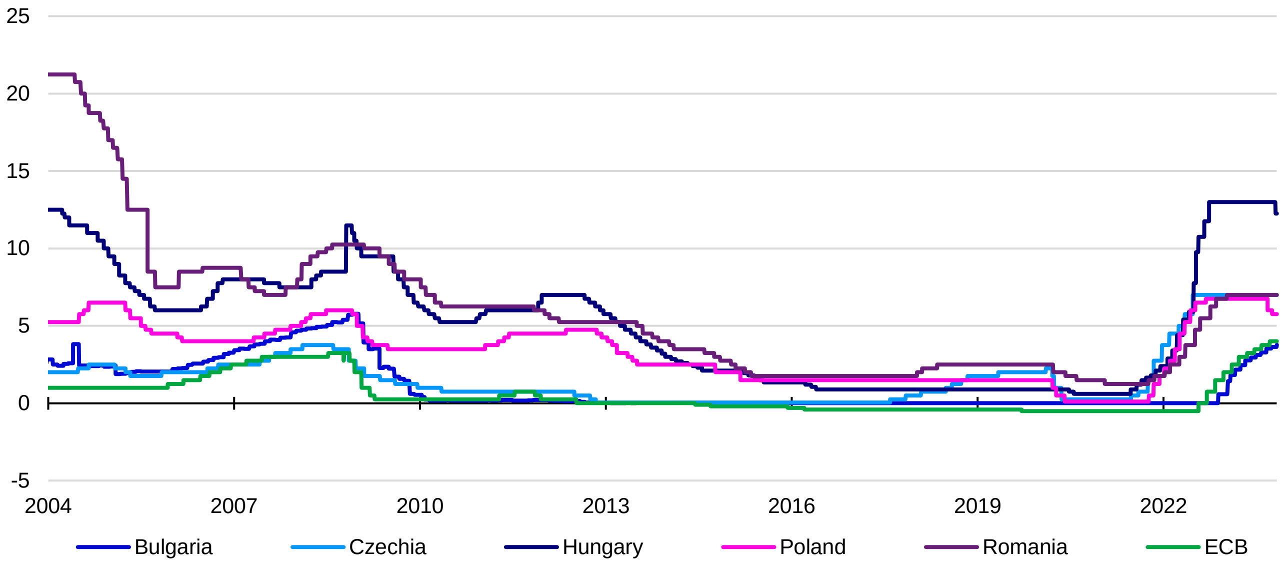
However, we think that a slowdown in developed market growth could push the global economy close to a recession before a recovery starts in 2024, which implies sluggish export growth at best for Eastern European countries.

The monetary tightening cycles of the four countries outside the Eurozone or the European Exchange Rate Mechanism (Czechia, Hungary, Poland and Romania) started ahead of developed markets, thus we think most of the impact of higher interest rates may have passed. As far as the rest of the region is concerned, it may take time for the interest rate increases by the European Central Bank (ECB) to work their way through the real economy (including their main trading partners within the Eurozone).

We think the ECB is probably at the end of its tightening cycle and expect rates to fall from current levels in the next 12 months. In our view, falling inflation will also allow non-euro member central banks to reduce rates in the next year. The Polish central bank was the first in the region to cut rates on 7 September by 75 basis points (see **Figure 1**), which surprised markets, especially as annual inflation remained in double-digits in August. Nevertheless, even if this move proves premature, we think it may be the start of a turn in the monetary policy cycle (Poland cut by another 25bps on 4 October followed by a 75bps cut in Hungary on 24 October).

Of course, this assumes inflation continues to fall as it has done since peaking in autumn 2022. The main outlier is Hungary, where inflation peaked later and

Figure 1 – Central bank target rates since 2004



Notes: **Past performance is no guarantee of future results.** Data as of 31 October 2023. Using daily data from 1 January 2004.
Source: LSEG Datastream and Invesco Global Market Strategy Office

remains significantly higher than the rest of the region. Unfortunately, the situation may get worse before it gets better. First, base effects will fade as we progress through the autumn. Second, increasing energy prices may also temporarily raise headline inflation (as in other countries).

What makes the current macroeconomic environment even more complex is the potentially antithetical policy mix in Eastern EU members. Although we expect monetary policy to be less restrictive, significant easing is unlikely, in our view, especially if inflation remains higher than policy targets. At the same time, escalating debt servicing costs may require tighter fiscal policy, which implies less support for local economies especially in countries more reliant on government spending, such as Croatia, Hungary and Poland. That will be partly mitigated by generous EU funding that amounts to 3-5% of GDP annually in most of the countries in our universe.

The good news is that the political landscape will probably remain stable in 2024 (European Parliament elections are usually a minor event). After two elections produced contrasting results in October in Slovakia and Poland there is limited potential for an upset. Although a lot can change before the voting commences in general elections in Croatia and Lithuania (in the spring) and in Romania (autumn), we think that economic policy is likely to be largely unchanged, especially in Croatia and Lithuania both of which are members of the Euro Area.

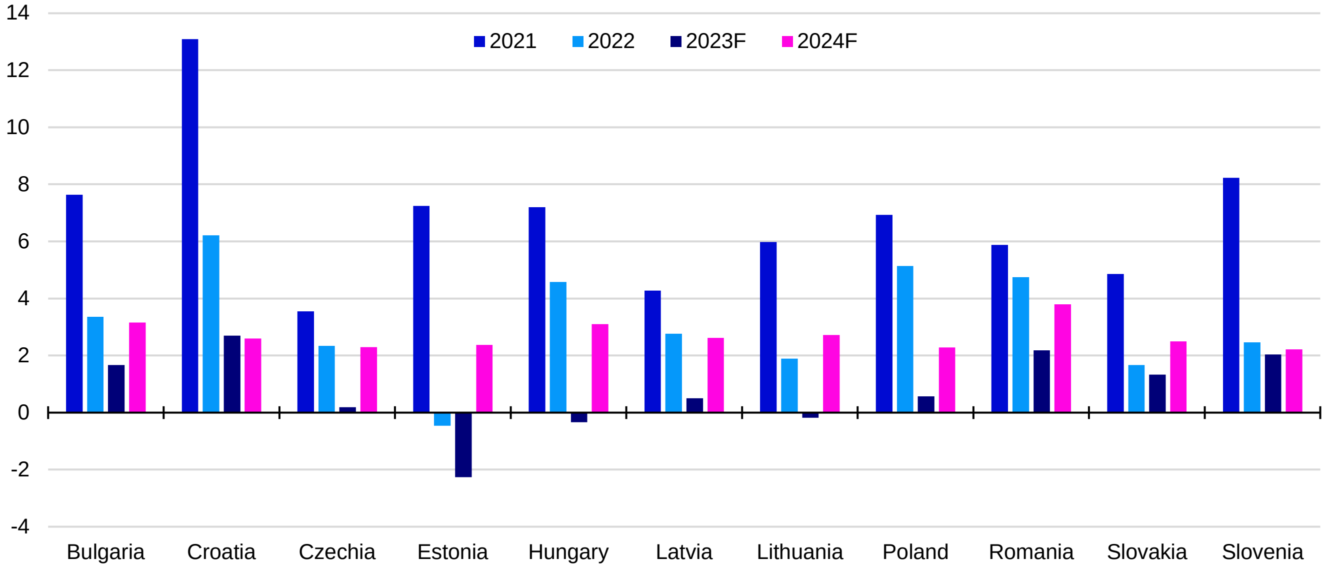
Even in Romania, where right-wing populist parties seem to be in the ascendant, they will most probably need to form a coalition government, reducing the likelihood of abrupt policy changes. The same applies to Slovakia, where the populist SMER-SSD received the mandate to lead a coalition, but whose room for manoeuvre will be constrained by EU fiscal rules and euro membership requirements. Finally, the sigh of relief markets breathed after the success of the opposition alliance in Poland reflects the potential for market and EU-friendly policies and a return to the European mainstream leaving Hungary increasingly isolated.

Thus, the macro backdrop appears similar to our broader global outlook of moderating growth and inflation with a turn in the monetary policy cycle (our view is broadly consistent with forecasts by the International Monetary Fund shown in **Figure 2**). Within a generally cautious stance, we have been Overweight Emerging Markets equities and sovereign debt in our model asset allocation as a hedge in case the global economy performs better than we expect (**Figure 6**).

What does this imply for markets? The main question in our view is whether a potential slowdown in global economic growth or the relief from falling inflation will matter more? We envisage a “year of two halves”: a potentially volatile period in the next one or two quarters, followed by a return of “animal spirits” in the spring and summer.

This calls for a balanced approach, in our view, with a focus on valuations as long as sentiment remains fragile. We view government bonds as defensive

Figure 2 – GDP growth rates in Central and Eastern Europe from 2021 to 2024 (%, year-on-year)



Notes: Data as of 31 October 2023. We use historical data for 2021 and 2022 and forecasts by the International Monetary Fund for 2023 and 2024.
Source: LSEG Datastream, International Monetary Fund, Invesco Global Market Strategy Office

assets for developed market issuers, but not so for these countries in a global asset allocation context. However, in our view, the prospect of gradual easing of monetary policy implies lower yields in the next 12 months.

As we expect this easing to come before those in developed markets, exchange rate movements could limit positive returns from CEE assets for those countries outside the euro area and the ERM. Within that exclusive group, Hungary appears the most vulnerable as the outlier both in terms of the likely path of its inflation (remaining higher than the rest of region) and the spread between its central bank target rate versus those of major developed markets (especially assuming larger rate cuts by the Hungarian central bank, the MNB, than the ECB, for example). Czechia, Poland and Romania are likely to face a smaller headwind in this respect.

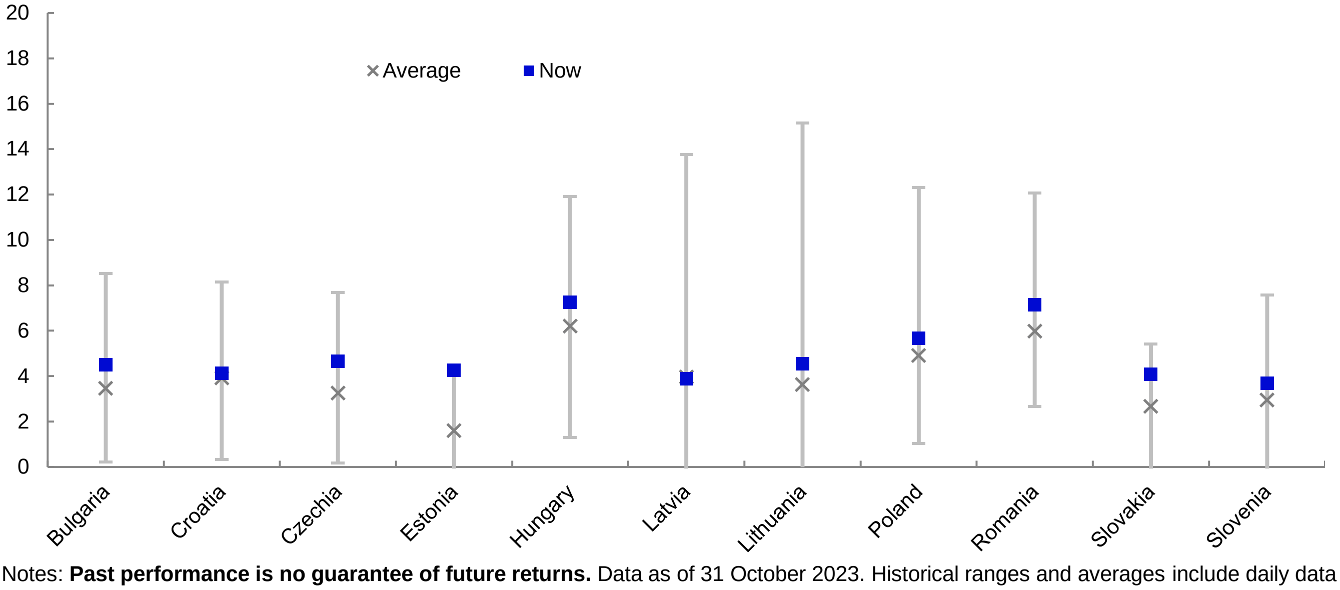
This also applies to equities, although we view the relationship as more complicated. Being open economies, currency weakness contributes to higher profits (up to a point). The major risks for both asset classes are an escalation of geopolitical conflicts and a deep economic slowdown (perhaps triggered by adverse events). These would likely cause a "flight to safety", which would potentially result in negative returns.

For the moment, we view these as tail risks and we are positive on CEE government bonds. As **Figure 3** shows, in absolute terms, the yields of Hungary and Romania are the highest (as of 31 October 2023). Although they are significantly below the 9.2% yield on the broader Emerging Markets universe (based on the Bloomberg Aggregate Sovereign Bond Index as of 31 October 2023) perhaps due to their structurally lower inflation and interest rate expectations.

However, in Hungary's case the threat of losing EU funds and lack of fiscal discipline may require higher yields to compensate for the risks, especially if stubbornly high inflation require higher rates than elsewhere in the region. Also, when compared to their respective historical averages, the yields of both countries are only 70-100 basis points higher.

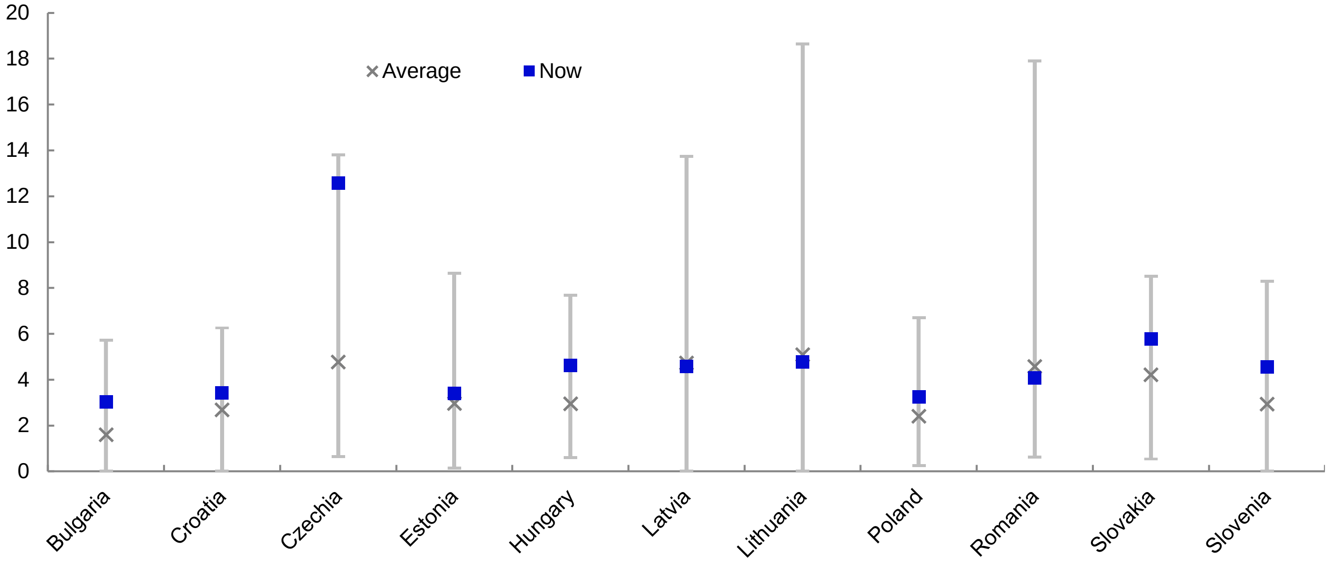
We think there are better opportunities, especially with regards to Poland, where the reintroduction to the European mainstream may reduce the risk premium versus core Eurozone yields. At the same time, the yields of Czechia and Slovakia look the most attractive compared to historical averages (roughly 120 basis points higher). These markets also look attractive relative to Bunds with their spreads 90 and 45 basis points above historical averages. They are also both below Italy's implying perhaps a lower risk premium due to their lower debt levels.

Figure 3 – Central and Eastern European government bond yields within historical ranges (%)



Notes: **Past performance is no guarantee of future returns.** Data as of 31 October 2023. Historical ranges and averages include daily data from 14 April 2006 for Bulgaria, 30 January 2008 for Croatia, 1 May 2000 for Czechia, 1 February 1999 for Hungary, 15 April 2003 for Lithuania, 1 January 2001 for Poland, 16 August 2007 for Romania, 7 January 2004 for Slovakia and 3 April 2007 for Slovenia. Historical ranges and averages include monthly data from 30 June 2020 to 30 September 2023 for Estonia and from 31 January 2001 to 30 September 2023 for Latvia. We use Refinitiv Government Benchmark 10-year bond indices for Bulgaria, Croatia, Lithuania, Romania, Slovakia and Slovenia. We use Datastream benchmark 10-year government bond indices for Czechia, Hungary and Poland. We use OECD 10-year government bond yields for Estonia and Latvia.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 4 – Central and Eastern European dividend yields within historical ranges (%)



Notes: **Past performance is no guarantee of future returns.** Data as of 31 October 2023. Based on daily data using Datastream Total Market indices. Historical ranges and averages include daily data from 2 October 2000 for Bulgaria, 3 October 2005 for Croatia, 27 January 1994 for Czechia, 5 June 1997 for Estonia, 21 June 1991 for Hungary, 3 November 1997 for Latvia, 1 April 1998 for Lithuania, 1 March 1994 for Poland, 29 December 1997 for Romania, 1 March 2006 for Slovakia and 31 December 1998 for Slovenia.
Source: LSEG Datastream and Invesco Global Market Strategy Office

We expect healthy equity returns in the region based on our assumption of a global economic recovery in the second half of 2024. Exposure to CEE markets also offers higher yields in absolute terms than the 3.4% of the broader EM universe (using Datastream Total Market indices as of 31 October 2023). Only Bulgaria and Poland have lower yields than that, while in our view, Hungary and Slovenia appear to be in the sweet spot of having dividend yields well-above historical norms and relative to their peers in the region (**Figure 4**). On the other hand, despite appearing to offer the highest dividend yield, we would be cautious with regards to Czechia where only one stock is responsible for most of that yield. Nevertheless, we think that equity returns will be more muted until there is more clarity on where the global economy is heading, which we expect to happen in H1 2024.

Figure 5 – Our most favoured and least favoured markets in Central Eastern Europe

	Government bonds	**Equities**
Most favoured	Czechia, Slovakia	Hungary, Slovenia
Least favoured	Hungary, Latvia	Romania, Lithuania

Source: Invesco Global Market Strategy Office

Figure 6 – Asset class total returns (%, annualised)

Data as at 10/11/2023		Current	Total Return (USD, %)					Total Return (Local Currency, %)				
	Index	Level/RY	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Equities												
World	MSCI	666	0.6	0.5	1.6	12.2	12.1	0.9	0.6	1.6	13.5	11.9
Emerging Markets	MSCI	948	0.0	0.5	-0.4	1.8	9.9	0.2	-0.1	-0.7	3.7	9.5
China	MSCI	56	-1.3	-2.4	-3.1	-10.0	11.1	-1.4	-2.4	-3.2	-9.1	11.1
US	MSCI	4199	1.3	1.3	3.0	16.9	13.6	1.3	1.3	3.0	16.9	13.6
Europe	MSCI	1810	-0.8	-1.4	-0.7	7.8	11.5	0.0	-1.6	-1.2	7.5	6.7
Europe ex-UK	MSCI	2241	-0.4	-0.6	0.0	9.1	12.4	0.1	-1.1	-0.7	9.2	7.6
UK	MSCI	1073	-1.9	-3.7	-3.0	3.6	8.2	-0.5	-3.2	-2.9	2.2	3.6
Japan	MSCI	3403	-0.6	-0.4	-0.6	11.0	15.7	0.8	1.4	0.9	27.4	23.8
Government Bonds												
World	BofA-ML	3.61	-0.6	0.3	0.3	-3.9	-2.0	0.0	0.6	0.4	-0.8	-1.8
Emerging Markets	BBloom	8.85	-0.7	2.8	0.9	1.8	8.7	-0.7	2.8	0.9	1.8	8.7
China	BofA-ML	2.57	0.5	0.4	0.6	-1.0	2.6	0.2	0.4	0.4	3.8	3.3
US (10y)	Datastream	4.64	-0.4	0.5	0.0	-2.9	-2.7	-0.4	0.5	0.0	-2.9	-2.7
Europe	Bofa-ML	3.41	-0.8	1.8	2.1	0.8	2.2	-0.2	1.1	1.3	0.8	-2.5
Europe ex-UK (EMU, 10y)	Datastream	2.68	-1.2	1.5	2.2	1.6	1.7	-0.6	0.8	1.4	1.6	-2.9
UK (10y)	Datastream	4.42	-1.7	0.7	1.4	0.3	-1.2	-0.3	1.3	1.4	-1.1	-5.4
Japan (10y)	Datastream	0.86	-0.9	-2.5	-2.2	-13.3	-8.4	0.6	-0.8	-0.8	-0.5	-2.0
IG Corporate Bonds												
Global	BofA-ML	5.63	-0.3	1.0	0.8	1.5	4.6	-0.1	0.9	0.7	1.7	3.5
Emerging Markets	BBloom	8.00	0.3	1.0	-0.2	1.3	13.5	0.3	1.0	-0.2	1.3	13.5
China	BofA-ML	3.33	0.5	0.2	0.4	-1.2	1.8	0.1	0.2	0.3	3.6	2.4
US	BofA-ML	6.14	0.0	0.9	0.5	0.9	3.4	0.0	0.9	0.5	0.9	3.4
Europe	BofA-ML	4.41	-0.7	1.7	1.8	3.4	8.1	-0.2	1.0	1.0	3.4	3.2
UK	BofA-ML	6.11	-1.2	1.3	1.4	4.2	7.0	0.2	1.8	1.5	2.7	2.4
Japan	BofA-ML	1.01	-1.2	-2.0	-1.8	-12.5	-7.0	0.2	-0.3	-0.3	0.5	-0.5
HY Corporate Bonds												
Global	BofA-ML	9.00	-0.3	1.4	0.8	6.3	9.7	-0.2	1.2	0.7	6.2	8.6
US	BofA-ML	9.00	-0.3	1.3	0.8	6.9	7.7	-0.3	1.3	0.8	6.9	7.7
Europe	BofA-ML	7.62	-0.4	2.0	1.5	6.9	13.6	0.2	1.3	0.7	6.9	8.4
Cash (Overnight LIBOR)												
US		5.32	0.1	0.4	0.6	4.3	4.9	0.1	0.4	0.6	4.3	4.9
Euro Area		3.90	-0.4	1.1	1.5	2.5	7.7	0.1	0.3	0.4	2.7	2.9
UK		5.19	-1.1	-0.1	0.8	5.0	8.9	0.1	0.5	0.6	4.0	4.4
Japan		-0.01	-1.4	-1.9	-1.4	-13.5	-7.0	0.0	0.0	0.0	0.0	0.0
Real Estate (REITs)												
Global	FTSE	1418	-2.3	-1.0	-1.2	-5.5	-5.7	-1.7	-1.6	-2.0	-5.5	-10.0
Emerging Markets	FTSE	1189	0.1	0.4	-1.4	-8.9	5.3	0.7	-0.3	-2.2	-8.8	0.5
US	FTSE	2636	-2.4	-1.3	-1.3	-3.6	-7.4	-2.4	-1.3	-1.3	-3.6	-7.4
Europe ex-UK	FTSE	2078	-3.1	4.0	3.6	0.0	-1.3	-2.5	3.3	2.8	0.0	-5.9
UK	FTSE	721	-3.5	2.6	3.9	-1.9	-5.1	-2.1	3.1	3.9	-3.2	-9.1
Japan	FTSE	2010	-1.6	-2.6	-2.2	-4.2	-2.2	-0.2	-0.9	-0.7	10.0	4.6
Commodities												
All	GSCI	3467	-3.7	-4.3	-7.5	-0.8	-4.4	-	-	-	-	-
Energy	GSCI	616	-4.8	-6.9	-11.5	0.8	-6.7	-	-	-	-	-
Industrial Metals	GSCI	1521	-1.7	0.1	-4.2	-9.2	-5.6	-	-	-	-	-
Precious Metals	GSCI	2172	-3.1	3.6	4.1	4.5	9.3	-	-	-	-	-
Agricultural Goods	GSCI	529	-1.0	0.9	2.3	-5.5	-3.5	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.07	-0.4	0.7	1.0	-0.2	4.6	-	-	-	-	-
JPY		151.52	-1.4	-1.9	-1.4	-13.5	-7.0	-	-	-	-	-
GBP		1.22	-1.4	-0.5	-0.1	1.4	4.4	-	-	-	-	-
CHF		1.11	-0.4	0.2	1.4	2.4	6.7	-	-	-	-	-
CNY		7.29	0.2	0.1	0.2	-5.4	-1.4	-	-	-	-	-

Notes: *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). **Past performance is no guarantee of future results.** Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 7 – Global equity sector total returns relative to market (%)

Data as at 10/11/2023	Global				
	1w	1m	QTD	YTD	12m
Energy	**-2.0**	**-2.8**	**-5.0**	**-2.8**	**-5.4**
Basic Materials	**-2.0**	**-1.4**	**-2.6**	**-10.2**	**-8.0**
Basic Resources	-3.0	-2.4	-3.7	-11.3	-6.3
Chemicals	-0.7	0.1	-1.2	-8.6	-10.1
Industrials	**0.2**	**-1.1**	**-1.4**	**-4.3**	**-4.2**
Construction & Materials	0.4	0.0	-0.7	5.0	5.5
Industrial Goods & Services	0.1	-1.3	-1.5	-5.5	-5.5
Consumer Discretionary	**-0.2**	**0.0**	**-0.2**	**4.9**	**2.8**
Automobiles & Parts	-1.8	-8.6	-8.4	14.8	-0.5
Media	-0.5	3.2	4.6	3.3	4.6
Retailers	0.8	3.6	3.1	7.5	5.4
Travel & Leisure	-0.4	0.4	-1.3	-0.5	0.5
Consumer Products & Services	-0.1	0.9	1.2	-0.8	3.3
Consumer Staples	**-1.1**	**0.5**	**-1.0**	**-12.7**	**-9.7**
Food, Beverage & Tobacco	-1.4	0.7	-1.3	-12.8	-10.2
Personal Care, Drug & Grocery Stores	-0.6	0.3	-0.3	-12.7	-8.9
Healthcare	**-1.1**	**-3.8**	**-3.3**	**-12.9**	**-11.4**
Financials	**-0.9**	**-0.1**	**-0.7**	**-5.2**	**-3.9**
Banks	-1.4	-0.7	-1.8	-7.1	-5.7
Financial Services	-0.2	0.2	-0.3	-3.0	-4.6
Insurance	-0.8	1.1	1.4	-3.7	2.2
Real Estate	**-2.2**	**-0.5**	**-1.3**	**-14.4**	**-13.4**
Technology	**3.5**	**3.4**	**6.2**	**28.9**	**26.5**
Telecommunications	**-0.9**	**1.3**	**0.4**	**-3.8**	**-3.9**
Utilities	**-1.9**	**1.7**	**0.2**	**-13.0**	**-11.7**

Notes: Returns shown are for Datastream sector indices versus the total market index. **Past performance is no guarantee of future results.** Source: Refinitiv Datastream and Invesco

Figure 8a – US factor index total returns (%)

Data as at 10/11/2023	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.6	-1.4	0.0	14.7	11.6	-0.8	-2.8	-3.0	-1.6	-1.6
Low volatility	0.2	1.6	2.1	-2.5	-1.1	-1.1	0.2	-1.0	-16.4	-12.8
Price momentum	2.0	1.0	2.6	2.4	0.8	0.6	-0.4	-0.5	-12.1	-11.2
Quality	-0.9	-3.0	-2.4	7.7	6.9	-2.3	-4.3	-5.4	-7.6	-5.8
Size	-2.1	-3.4	-4.2	-3.8	-5.8	-3.4	-4.7	-7.2	-17.5	-17.0
Value	-2.6	-1.0	-1.3	-3.6	-6.0	-3.9	-2.4	-4.2	-17.3	-17.1
Market	1.4	1.4	3.1	16.6	13.5					
Market - Equal-Weighted	-0.5	-0.9	-0.6	1.2	-0.8					

Notes: All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. **Past performance is no guarantee of future results.**
Source: Refinitiv Datastream and Invesco

Figure 8b – European factor index total returns relative to market (%)

Data as at 10/11/2023	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.2	-2.1	-1.8	0.9	-2.9	0.4	-0.1	-0.4	-6.3	-8.4
Low volatility	-0.3	-1.6	-1.3	5.5	4.2	-0.1	0.4	0.1	-1.9	-1.7
Price momentum	0.4	-0.1	-0.6	2.9	3.4	0.6	1.9	0.9	-4.3	-2.5
Quality	-0.9	-2.9	-2.8	4.5	1.9	-0.7	-1.0	-1.4	-2.9	-3.9
Size	-1.3	-1.9	-2.7	-1.6	-5.3	-1.2	0.1	-1.3	-8.6	-10.7
Value	-1.5	-1.5	-2.6	4.9	4.3	-1.3	0.4	-1.3	-2.5	-1.6
Market	-0.2	-1.9	-1.4	7.6	6.1					
Market - Equal-Weighted	-0.5	-1.5	-1.7	4.1	1.7					

Notes: All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. **Past performance is no guarantee of future results.**
Source: Refinitiv Datastream and Invesco

Figure 9 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**		**10%**			
Cash	2.5%			10%			
Gold	2.5%			0%			
Bonds	**40%**	**10-70%**	↓	**45%**			
Government	25%	10-40%	↑	22%			
US	8%		↑	13%			
Europe ex-UK (Eurozone)	7%			2%			
UK	1%			1%			
Japan	7%			2%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
Corporate IG	10%	0-20%		18%			
US Dollar	5%			10%		40%	JPY
Euro	2%			3%			
Sterling	1%			2%			
Japanese Yen	1%			0%			
Emerging Markets	1%			3%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↓	5%			
US Dollar	4%		↓	4%			
Euro	1%		↓	1%			
Bank Loans	**4%**	**0-10%**	↑	**6%**			
US	3%		↑	4%			
Europe	1%		↑	2%			
Equities	**45%**	**25-65%**		**34%**			
US	25%			12%			
Europe ex-UK	7%		↑	8%			
UK	4%			4%			
Japan	4%		↓	2%			
Emerging Markets	5%			8%			
China**	2%			4%			
Real Estate	**4%**	**0-16%**		**5%**			
US	1%		↓	1%			
Europe ex-UK	1%		↑	1%			
UK	1%			1%			
Japan	1%		↑	2%			
Emerging Markets	1%		↓	0%			
Commodities	**2%**	**0-4%**		**0%**			
Energy	1%			0%			
Industrial Metals	0.3%			0%			
Precious Metals	0.3%			0%			
Agriculture	0.3%			0%			
Total	**100%**			**100%**			
Currency Exposure (including effect of hedging)							
USD	52%		↑	43%			
EUR	19%		↑	20%			
GBP	7%		↓	11%			
JPY	13%		↓	13%			
EM	9%		↓	15%			
Total	**100%**			**100%**			

Notes: **China is included in Emerging Markets allocations. This is a theoretical portfolio and is for illustrative purposes only. See the latest The Big Picture document for more details. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. Arrows indicate the direction of the most recent changes.
Source: Invesco

Figure 10 – Model allocations for Global sectors

	Neutral	Invesco	Preferred Region
Energy	**8.1%**	**Neutral**	**EM**
Basic Materials	**4.2%**	**Neutral**	**Europe**
Basic Resources	2.4%	Neutral	Europe
Chemicals	1.8%	Neutral	US
Industrials	**12.8%**	**Overweight**	**US**
Construction & Materials	1.6%	Underweight	US
Industrial Goods & Services	11.2%	Overweight	US
Consumer Discretionary	**14.5%**	**Underweight**	**Europe**
Automobiles & Parts	2.9%	Underweight	Japan
Media	1.0%	Underweight	Japan
Retailers	4.8%	Neutral	US
Travel & Leisure	2.1%	Underweight	EM
Consumer Products & Services	3.7%	Neutral	Europe
Consumer Staples	**6.0%**	**Overweight**	**Europe**
Food, Beverage & Tobacco	3.9%	Overweight	Europe
Personal Care, Drug & Grocery Stores	2.1%	Overweight	US
Healthcare	**9.7%**	**Overweight**	**US**
Financials	**15.3%**	**Neutral**	**Europe**
Banks	7.3%	Neutral	Europe
Financial Services	4.9%	Underweight	US
Insurance	3.0%	Neutral	Europe
Real Estate	**2.8%**	**Overweight**	**US**
Technology	**19.7%**	**Neutral**	**US**
Telecommunications	**3.6%**	**Overweight**	**Europe**
Utilities	**3.3%**	**Underweight**	**Europe**

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest Strategic Sector Selector for more details.
Source: Refinitiv Datastream and Invesco

Appendix

Definitions of data and benchmarks for Figure 6

Sources: we source data from Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the Refinitiv overnight deposit rate for the euro, the British pound and the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1st January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the Bank of America Merrill Lynch government bond total return index for the World and Europe. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate government bond index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate corporate bond index.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Authors

András Vig
Multi-Asset Strategist
T. +44 (0)20 3370 1152
E. andras.vig@invesco.com

Telephone calls may be recorded

Data as of 31 October 2023 unless stated otherwise.

Important information

Your capital is at risk. You may not get back the amount you invested.
By accepting this document, you consent to communicating with us in English, unless you inform us otherwise.

This document is for informational purposes only and is intended only for Professional Clients and Financial Advisers in Continental Europe (as defined in important information); Professional Clients only in Dubai, Ireland, the Isle of Man, Jersey, Guernsey, Malta, Switzerland and the UK; for Qualified Clients in Israel, for Professional/Qualified/Sophisticated Investors in Bahrain, Jordan, Kuwait, Lebanon, Mauritius, Oman, Qatar, Saudi Arabia, South Africa, Tunisia, Turkey, and the United Arab Emirates; for Professional Investors in Hong Kong, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for Professional Investors in Australia, for Institutional Investors in the United States, Peru and Singapore; for AFPs and Qualified Investors in Chile and Colombia; for Accredited/Institutional Investors in Mexico; for Wholesale Investors in New Zealand; for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei and Indonesia, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for qualified buyers in Philippines for informational purposes only, for certain specific institutional investors in Malaysia, upon request, for informational purposes only. This document is only intended for use with Qualified Institutional Investors in Japan; in Canada, this document is restricted to Accredited Investors as defined under National Instrument 45-106. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. It is not intended for solicitation of any security. Please do not redistribute this document.

For the distribution of this document, Continental Europe is defined as Andorra, Austria, Belgium, Bulgaria, Czech Republic, Croatia, Denmark, Finland, France, Germany, Gibraltar, Greece, Hungary, Italy, Kosovo, Latvia, Liechtenstein, Luxembourg, Monaco, Netherlands, North Macedonia, Norway, Portugal, Romania, Spain, and Sweden.

This document is not an offering of a financial product and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any unauthorized person is prohibited. This document is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This document is solely for duly registered banks or a duly authorized Monegasque intermediary acting as a professional institutional investor which has such knowledge and experience in financial and business matters as to be capable of evaluating the contents of this document. Consequently, this document may only be communicated to banks duly licensed by the "Autorité de Contrôle Prudentiel et de Résolution" and fully licensed portfolio management companies by virtue of Law n° 1.144 of July 26, 1991 and Law 1.338, of September 7, 2007, duly licensed by the "Commission de Contrôle des Activités Financières. Such regulated intermediaries may in turn communicate this document to potential investors.
This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an

Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.
The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:
- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

Issued in Australia and New Zealand by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco. It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted. The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform them about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

This overview contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investments have risks and you may lose your principal investment. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

The opinions expressed are those of the authors and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions and are subject to change without notice. Past performance is no guarantee of future results.

This material may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented. All information is sourced from Invesco, unless otherwise stated.

Effective 8/18/17, Invesco Ltd completed the acquisition of Source. Links to documents published prior to this date are from Source as a predecessor firm and are provided for historical and informational purposes only.

Authors

András Vig
Multi-Asset Strategist
Telephone +44(0)20 3370 1152
andras.vig@invesco.com
London, EMEA

Global Market Strategy Office

Kristina Hooper
Chief Global Market Strategist
kristina.hooper@invesco.com
New York, Americas

Brian Levitt
Global Market Strategist, Americas
brian.levitt@invesco.com
New York, Americas

Tomo Kinoshita
Global Market Strategist, Japan
tomo.kinoshita@invesco.com
Tokyo, Asia Pacific

Arnab Das
Global Market Strategist
arnab.das@invesco.com
London, EMEA

Adam Burton
Senior Economist
adam.burton@invesco.com
London, EMEA

Paul Jackson
Global Head of Asset Allocation Research
paul.jackson@invesco.com
London, EMEA

András Vig
Multi-Asset Strategist
andras.vig@invesco.com
London, EMEA

David Chao
Global Market Strategist, Asia Pacific
david.chao@invesco.com
Hong Kong, Asia Pacific

Thomas Wu
Market Strategies Analyst, Asia Pacific
thomas.wu@invesco.com
Hong Kong, Asia Pacific

Ashley Oerth
Senior Investment Strategy Analyst
ashley.oerth@invesco.com
London, EMEA

Cyril Birks
Global Thought Leadership Intern
cyril.birks@invesco.com
London, EMEA

*Affiliated member

Telephone calls may be recorded.