



Five things to know about Chinese and emerging market stocks

For Professional Clients, Qualified Investors and Qualified Clients/Sophisticated Investors only.

Equity Strategy Special Edition
8 November 2020

Talley Léger
Senior Investment strategist



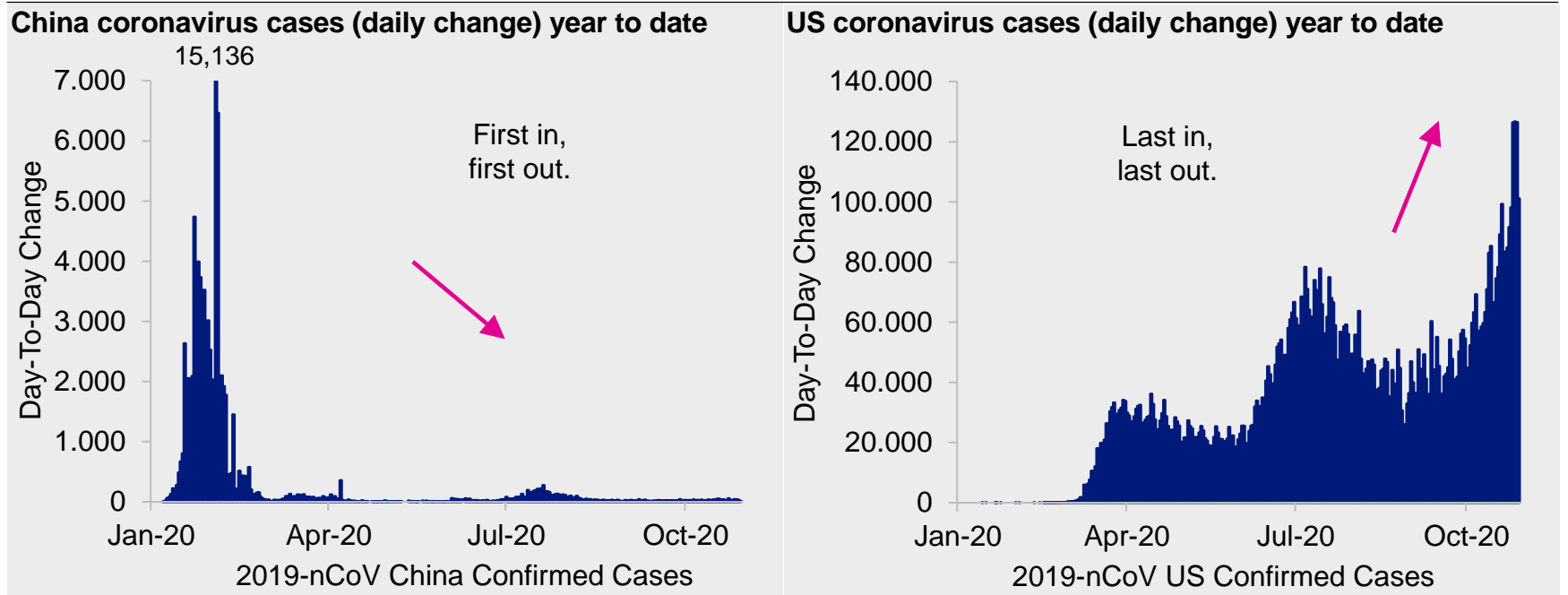
5 things to know about Chinese and emerging market stocks



- 1 **Coronavirus cases** – flat
- 2 **Business activity** – leading the recovery
- 3 **Valuations** – cheap
- 4 **US dollar** – weakening
- 5 **Chinese stocks** – outperforming

1. Coronavirus cases

China has seemingly “flattened the curve.” The same cannot be said of the US.



Source: Bloomberg L.P., Invesco, 08/11/20. Notes: Left chart scale capped at 7,000. Confirmed coronavirus (2019-nCoV) case counts compiled by Bloomberg Newsroom. Counts are subject to change as governments survey and confirm cases. Data are based on reported values as of midnight EST.

2. Business activity

Chinese business activity was the first to stage a v-shaped recovery, rebounding sharply from record lows. US output seems to be pausing, albeit at a higher level.



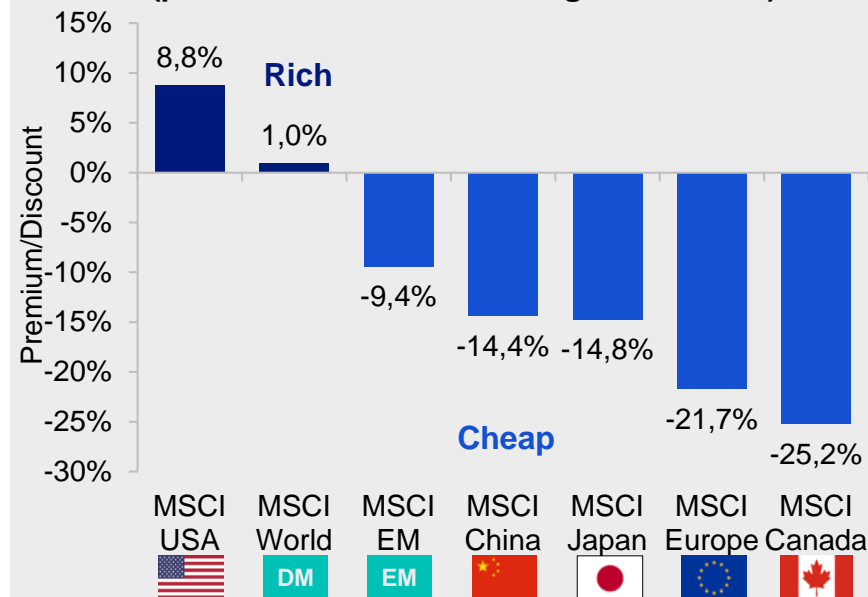
Source: Caixin/IHS Markit, Haver, Invesco, 08/11/20. Notes: Composite = Manufacturing + services. ISM = Institute for Supply Management. PMI = Purchasing managers index. Diffusion indices have the properties of leading indicators, and are convenient summary measures showing the prevailing direction and scope of change. Shaded areas denote National Bureau of Economic Research (NBER) defined US economic recessions.

3. Valuations and catalysts

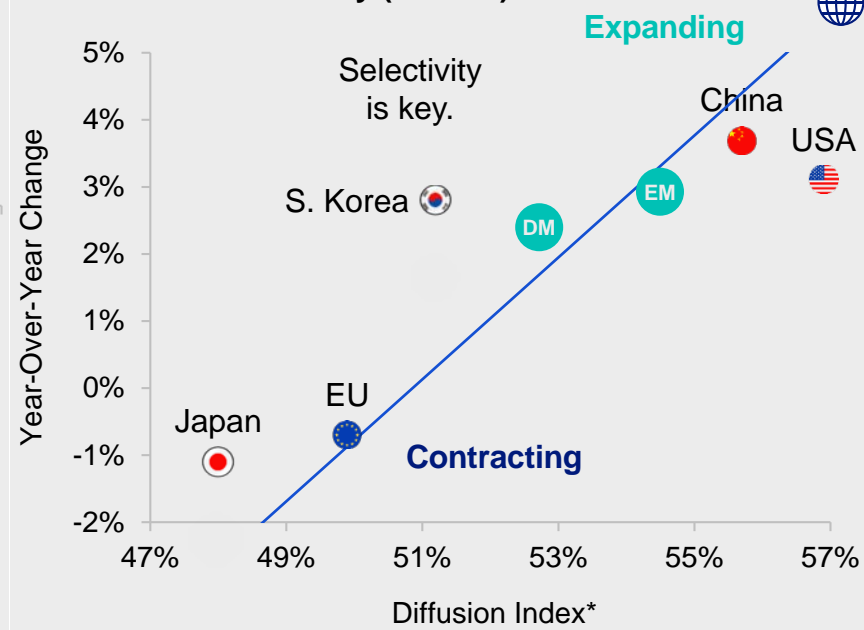
Not all regions and countries are made equal. For selectivity, consider targeting low valuations and faster growth over high valuations and slower growth both *across* and *within* regions



MSCI country indices P/S ratios relative to MSCI ACWI P/S ratio (premium/discount to average since 1995)



Global business activity (current)



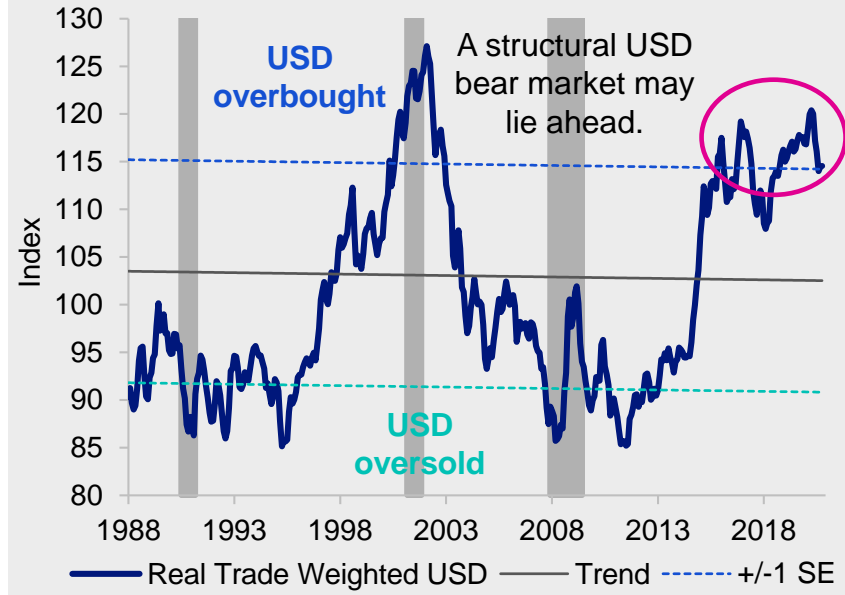
Source: Bloomberg L.P., Haver, Invesco, 11/08/20. Notes: P/S = Price-to-sales ratio. Ranked from left to right—from highest premium to lowest discount. ACWI = All Country World Index. EU = European Union. EU Excluding UK Composite PMI = France, Germany, Ireland, Italy and Spain. Diffusion indices have the properties of leading indicators, and are convenient summary measures showing the prevailing direction and scope of change*. An investment cannot be made in an index. **Past performance does not guarantee future results.**

4. US dollar



A flat to weaker US currency would likely boost EM stocks relative to their US competitors. Also, EM stocks bottomed in the depths of the last 3 US economic recessions—important chapters of the “recovery playbook.”

The US dollar relative to advanced foreign economies* since 1988 (trend and overbought/sold thresholds)



Emerging market relative to developed market stocks since 1988 (trend and overbought/sold thresholds)



Source: Bloomberg L.P., FRED, Invesco, 08/11/20. Notes: USD = US dollar. The Federal Reserve’s (Fed’s) Real Trade Weighted US Dollar Index: Advanced Foreign Economies, Goods and Services*. Real = Inflation adjusted. Price indices in US dollars. SE = Standard error. Shaded areas denote NBER-defined US economic recessions. An investment cannot be made in an index. **Past performance does not guarantee future results.**

5. Relative performance

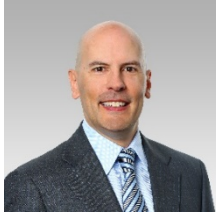
Chinese stocks are leading the charge, a trend we expect to continue.



Chinese relative to US stocks since 2016



Source: Bloomberg L.P., Invesco, 08/11/20. Notes: Total return indices in US dollars. Magenta horizontal lines highlight technical support and key turning points for Chinese relative to US stocks. An investment cannot be made in an index. **Past performance does not guarantee future results.**



Talley Léger

Senior Investment Strategist

Talley Léger is the Senior Investment Strategist for the Global Thought Leadership team. In this role, he is responsible for formulating and communicating macro and investment insights, with a focus on equities. Mr. Léger is involved with macro research, cross-market strategy and equity strategy.

Mr. Léger joined Invesco when the firm combined with OppenheimerFunds in 2019. At OppenheimerFunds, he was the equity strategist. Prior to OppenheimerFunds, he was the founder of Macro Vision Research and held strategist roles at Barclays Capital, ISI, Merrill Lynch, RBC Capital Markets and Brown Brothers Harriman. Mr. Léger has been in the industry since 2000.

He is the co-author of the revised second edition of the book, *From Bear to Bull with ETFs*.^{*} Mr. Léger has been a guest columnist for *The Big Picture* and *Data Watch* on *Bloomberg Brief Economics*, as well as a contributing author on Seeking Alpha (seekingalpha.com). He has been quoted in *Associated Press*, *Barron's*, *Bloomberg*, *Business Week*, *Dow Jones Newswires*, *The Financial Times*, *MarketWatch*, *Morningstar magazine*, *The New York Times* and *The Wall Street Journal*. Mr. Léger has appeared on Bloomberg TV, Canada's BNN Bloomberg, CNBC, Reuters TV, The Street and Yahoo! Finance, and has spoken on Bloomberg Radio.

Mr. Léger earned an MS degree in financial economics and a Bachelor of Music from Boston University. He is a member of the Global Interdependence Center (GIC) and holds the Series 7 registration.

^{*}*From Bear to Bull with ETFs* (2nd ed.), by David R. Kotok and Talley Léger, published by Cumberland Advisors Publishing (2014).

Index definitions



The MSCI USA Index is designed to measure large and mid market capitalization stocks in the United States.

The MSCI World Index is designed to measure large and mid market capitalization stocks in the developed markets.

The MSCI China Index is designed to measure large and mid market capitalization stocks in China.

The MSCI Emerging Markets Index is designed to measure large and mid market capitalization stocks in the emerging markets.

Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results.

Investment Risks



The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

As with all investments there are associated risks. Please obtain and review all relevant materials carefully before investing.

As a large portion of the strategy is invested in less developed countries, you should be prepared to accept significantly large fluctuations in value.

As this strategy invests in a particular geographical region, you should be prepared to accept greater fluctuations in value compared to a strategy with a broader investment mandate.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

Important Information



This marketing document is exclusively for use by Professional Clients and Financial Advisers in Continental Europe as defined below, Qualified Investors in Switzerland, Qualified Clients/Sophisticated Investors in Israel and Professional Clients in Dubai, Ireland, Isle of Man, Jersey, Guernsey and the UK. It is not intended for and should not be distributed to, or relied upon, by the public. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. Data as 08.11.2020, unless otherwise stated. This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals, they are subject to change without notice and are not to be construed as investment advice.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Liechtenstein, Luxembourg, The Netherlands, Norway, Slovakia, Spain and Sweden.

Issued by Invesco Asset Management S.A. 18, rue de Londres, 75009 Paris. Authorised and regulated by the Autorité des marchés financiers in France.

Dubai: Issued by Invesco Asset Management Limited, PO Box 506599, DIFC Precinct Building No 4, Level 3, Office 305, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority. **Switzerland and Liechtenstein:** Issued by Invesco Asset Management, (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland. **Austria and Germany:** Issued by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany. **Ireland, Isle of Man, Jersey, Guernsey and the UK:** Issued by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. **Israel:** Issued by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. Nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

EMEA9119/2020