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Global reflation and this year's best performing bond market

A global recovery is well underway, with growth estimates for 2021 being raised across the board. Our own growth estimates for the US, eurozone, and some emerging market countries have been well above a slow-moving consensus. This indicates our growing confidence that this year's global growth could be the best in over a decade. While the initial upswing is being led by the US and emerging markets, especially Asia and China, an expected upswing in Europe will probably extend the recovery to a true, global reflationary period.

Easy monetary and fiscal policy to continue for the foreseeable future

The global monetary and fiscal policy response to the pandemic has been overwhelming and will likely continue to be so. We expect the US Federal Reserve (Fed), the European Central Bank (ECB), and other developed market central banks to maintain very easy monetary policy to both support the ongoing recovery and put a floor under inflation expectations that have drifted down over recent decades. The best way to achieve this is an overly easy monetary policy that reacts to actual inflation increases with a lag. We believe central banks will – and should – look through recent inflation increases as transient.

In emerging markets, we have seen some changes, including the Central Bank of Brazil's first interest rate increase in six years, suggesting that current extraordinarily easy monetary conditions may no longer be needed. In addition to Brazil, there may be a few countries that reduce policy accommodation over the next 12 months, but these actions should not change market expectations that monetary policy will remain generally accommodative globally. When central banks finally do move to raise interest rates, we believe it is unlikely that any bank will surprise markets with policy tightening significantly beyond market expectations. The future path of rate increases will likely be critical in extracting excess returns from markets. We believe excess premia that are priced in (in response to a rapid monetary policy reaction) would likely be easily extracted from the market, though with higher volatility than optimally desired.

Within this framework of global growth recovery supported by accommodative monetary and fiscal policy, the market pricing of risk and the path of interest rate increases will likely be critical in generating excess returns going forward. Our investment theme for the current environment is reflation and growth. In the absence of tightening financial conditions, we believe that all growth will remain "good" growth for reflationary assets. Reflationary assets include emerging market equities, currencies, rates, and to a lesser extent, credit. We believe commodity-based assets and assets that benefit from steeper yield curves, such as banks, will be the largest beneficiaries of reflationary conditions.

Emerging markets may offer opportunities in rates and currencies

In emerging markets, mainly due to "recency bias," there tends to be a perpetual fear that global growth will lead to policy responses that will result in negative asset performance. We believe this pervasive fear has kept emerging market premia too high and can be extracted within our investment horizon. Emerging markets of today are not the emerging markets of 2013. Their external accounts are in significantly better shape, currencies are at attractive valuations, in our view, and capital flows were quite negative in 2020, creating less potential for capital flight.

In 2013, the narrative centered on high current account deficits among the so-called "fragile five" (Brazil, India, Indonesia, South Africa, and Turkey), a group of countries considered highly dependent on foreign investment for growth. Today, in contrast, India, for example, is receiving

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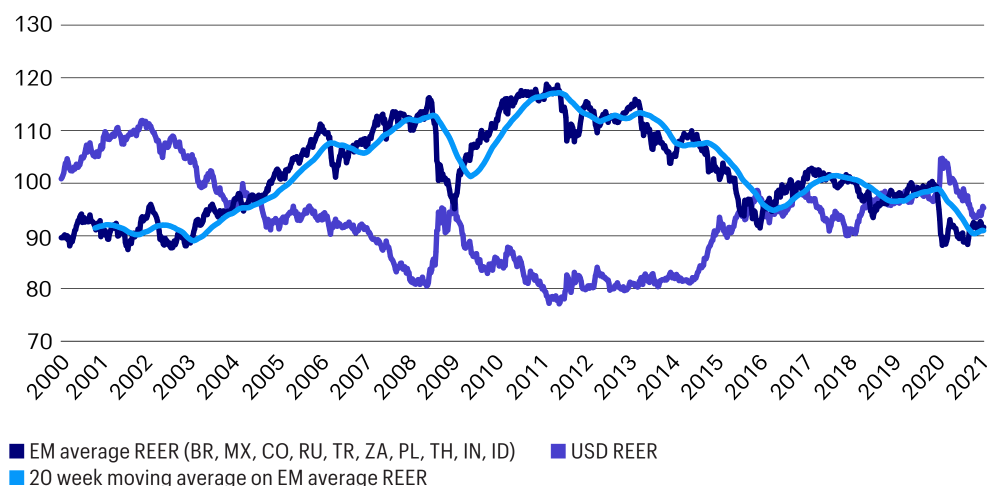
record foreign direct investment, and the Reserve Bank of India has managed to increase its foreign exchange reserves by USD100 billion in just the last year.[1]

Also, in 2013, there were large misallocations of resources in emerging markets due to large capital inflows, which led their currencies to become expensive on a real effective exchange rate basis. That is not the case today. Emerging market currencies remain close to multi-decade lows on a real effective basis. As Figure 1 shows, not only were emerging market currencies expensive in 2013, but the US dollar was very cheap on a real basis. Today, while the US dollar is not at its highs, it is expensive on a real effective exchange rate basis, in our view. Absent an early policy tightening in the US (essentially a policy error by the Fed), we believe valuations in emerging market currencies offer potentially compelling opportunities and returns.

Figure 1: Average real effective exchange rates in emerging markets and the US



Source: Bloomberg L.P. Data from March 31, 2000, to March 12, 2021.

Aggregate pricing in emerging market rates is also compelling, in our view. After the recent wobbles led by increases in US interest rates and matched by most emerging markets, yield curves have steepened to decade-highs and offer attractive carry and roll down, (i.e., "static return"), in our view. While we believe steepening yield curves in developed markets are required and welcome, emerging market yield curves were already very steep, and this latest steepening has created attractive potential value, in our view.

Figure 2: Emerging market yield curve (10-year bond yields vs. overnight rates) in selected high yielding countries

Source: Bloomberg L.P. Data from April 29, 2015, to April 5, 2021. Average of 10-year bond yields less overnight rates in Mexico, Colombia, Russia, South Africa, Indonesia, and India.

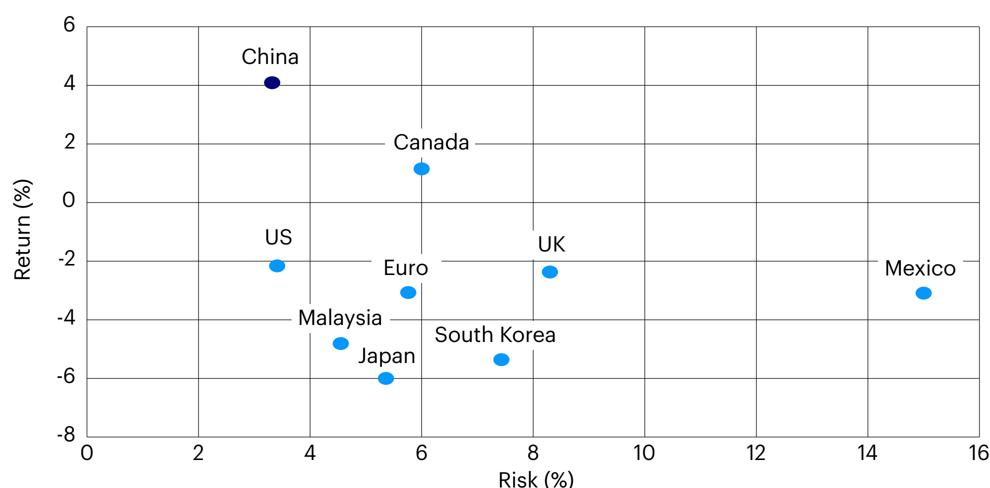
In addition to emerging market assets, we believe other assets linked to the reflationary theme, such as commodities, will benefit. Given the low level of real and nominal interest rates in developed markets, we believe return premia can best be extracted through the equity and currency markets, and to some extent, credit, which will likely be negatively impacted by persistent interest rate volatility. Commodity-sensitive countries such as Australia, Korea, Chile, and Canada will likely especially benefit from the global reflation currently underway.

The Chinese bond market

China also offers a unique investment opportunity for global fixed income investors against this backdrop. The Chinese local bond market is the second-largest single-country domestic bond market in the world after the US,[2] with a total size of close to USD 17 trillion.[3] Approximately 34% of the market consists of central government and policy bank bonds that make up the risk-free portion of the Chinese market and that are easily accessed by offshore investors.[4] The credit sectors and local government sectors make up most of the balance of the market but require specialized credit skills and are more difficult for offshore investors to access. We see value for US investors in central government and policy bank bonds, which offer high credit quality and very good liquidity. Indeed, this is also the part of the Chinese bond market that is now included in some government bond indices, including the Bloomberg Barclays Global Aggregate Index. The Chinese government and policy bank bonds now yield over 3% and offer positive real yields.[5]

The Chinese economy is a large and domestically focused economy. While tied to the global economic cycle, it can show significant divergence from the global cycle, and this can be a benefit to investors through diversification.[6] The path of the global economy through the COVID-19 shock is a perfect example of the benefits of this diversification. The Chinese economy was the first to slow but also bounced back more quickly than any western economy. The US and Europe are both still in the early stages of recovery from the COVID-19 shutdown, while China is well ahead, to the extent that policymakers are already removing stimulus. China is on a different cycle than the rest of the developed world – that is good news for investors in China right now. Demonstrating the value of this diversity of economic cycle is the fact that China has been the best performing major currency bond market year-to-date (Figure 3).[7] With our expectation for global reflation and easy developed market central banks, that trend may continue.

Figure 3: Chinese fixed income vs. global fixed income markets



Sources: Bloomberg L.P., Bloomberg Barclays Global Aggregate Index currency components, 2021, year to June 4, 2021. Past performance is not a guarantee of future results. An investment cannot be made in an index.

1. Source: Reserve Bank of India. Data as of June 18, 2021.
2. Source: Sifma, April 14, 2021, https://www.sifma.org/resources/research/research-quarterly-fixed-income-issuance-and-trading-first-quarter-2021/.
3. Source: Wind. Data as of Feb. 28, 2021. Based on CNY 115.3 trillion, exchange rate USD/CNY=6.5.
4. Source: Wind. Data as of Feb. 28, 2021.
5. Sources: ChinaBond, Bloomberg L.P. Data as of June. 8, 2021.
6. Diversification is not a guarantee of profit nor eliminates the risk of loss.
7. See our publication, Is the best performing fixed income market year-to-date in your portfolio? Rob Waldner, June 6, 2021.

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Interest rate outlook

US: Underweight. At its June meeting, the Federal Open Market Committee (FOMC) acknowledged the improving economic picture and recent increases in inflation. Overall, they reiterated that inflation is expected to be transitory, and the economic recovery is underway. Recent inflation data support the FOMC's view that price increases are transitory since they are directly related to labor shortages and supply chain disruptions due to COVID-19. We believe the Fed remains committed to its average inflation target (AIT) and will keep policy rates accommodative. We expect rate volatility to continue as the market questions the Fed's commitment to AIT, but we believe rates will continue to be pressured higher and the yield curve steeper as the economy recovers.

Europe: Neutral. Despite continued improvement in the economic outlook for the region, the ECB has decided to continue the accelerated pace of its bond purchase program of EUR100 billion per month through at least the December meeting. It stated the continued uncertain path for growth and the temporary nature of expected higher near-term inflation as key considerations when making the call. While the cautious approach is understandable, it means that net issuance of sovereign bonds in the euro area after bond purchases will remain negative for the remainder of the year. As such, we expect yields in the region and peripheral spreads to trade within a tight range, despite the easing of lockdown measures and a strong growth dynamic in the second half of the year.

China: Neutral. We remain neutral on Chinese onshore government bonds. China's economic growth momentum, as we have anticipated since late last year, has been weaker than market expectations. Interbank liquidity has been relatively stable and the central bank has managed market expectations well through open market operations. However, the market repricing of Fed tapering and rate hikes in the next two years may have an impact on global yields and thus potentially limit Chinese rates bond performance in the near term.

Japan: Neutral. Japanese government bond (JGB) yields declined over the month, and the yield curve steepened between 10-year and 30-year maturities. 10-year JGB yields have now almost completely reversed the sell-off seen since the start of the year, with yields up only basis points year-to-date at 0.06%, against a high of 0.16% in late February.[1] The price action largely mirrors the move lower in global yields, which appears driven by ongoing flows into fixed income. Flows appear to have squeezed heavy short positioning among systematic and discretionary investors. Japan has also had a more moderate economic recovery than elsewhere due to a spike in COVID-19 cases and a slow vaccine rollout. Looking forward, it appears likely that yields will move up over time as the global recovery continues and global central banks remove accommodation.

UK: Underweight. Growth and inflation are currently tracking above the Bank of England's (BoE) May forecasts, suggesting that policy is likely to move in a more hawkish direction going forward, provided that the recent increase in COVID-19 cases doesn't delay the reopening beyond July. UK forward rates are closer to euro forward levels, which appear too low, in our view, given the higher inflation trajectory.

Canada: Overweight. The domestic economy is slowly opening in time for summer. Service sectors should see strength from pent-up demand for leisure activities. Commodity price inflation has slowed somewhat, but trade should continue to contribute positively to growth this year. The Bank of Canada is expected to continue tapering for technical reasons in the near term, but foreign and domestic demand remains strong for local markets. Recent steepening of the yield curve presents an opportunity for outperformance, in our view.

Australia: Underweight. The market for Australian government bonds (ACGB) has been the top-performing developed government bond market over the last month, reflecting short positioning and the fact the Reserve Bank of Australia's (RBA) quantitative easing (QE) program exceeds issuance. However, it is hard to see yields move substantially lower, given that strong domestic data are making it increasingly likely the RBA will not extend yield curve control beyond April 2024 and will shift to a smaller and more flexible QE program. Although ACGB yields are likely to move higher over time, it is possible they will continue to outperform US Treasuries, given their far more limited supply, even if the RBA tapers QE.

1. Source: Bloomberg L.P. Data as of Jan. 1, 2021, to June 18, 2021.

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Currency outlook

USD: Underweight. We expect the US dollar to depreciate over the long term. Although the US dollar strengthened following the June FOMC meeting, we believe this price action reflected the market's questioning of the Fed's ability to stay committed to its average inflation target. Not only do we believe the Fed will remain committed, but inflationary pressures are directly linked to COVID-19-related disruptions – giving the Fed no confidence that these pressures are here to stay. An uncertain inflation picture will likely keep the Fed on the sidelines for some time, keeping it one of the easiest central banks globally. Ultimately, we expect this to pressure the dollar lower as investors turn to other countries for more attractive investment opportunities.

EUR: Neutral. The extension of the bond purchase program in Europe, coupled with a slightly more hawkish Fed, has placed pressure on the euro, despite the recent improvement in the growth outlook. It's very unlikely that we will see interest rate rises in Europe for some time, in our view, possibly years, so any sign of a lift-off in the US will likely place the euro under further downward pressure. That said, we expect a narrow range for the euro/dollar exchange rate over the summer, as market participants wait for the Fed's Jackson Hole Economic Symposium in August and the ECB meeting in September.

RMB: Overweight. We expect the renminbi to consolidate in the near term on the back of US dollar strength against major currencies. However, we remain positive on the renminbi versus the US dollar in the medium term, based on favorable fundamental, technical and policy factors, which support renminbi appreciation. In addition to strong export data in recent months, a potential softening of US-China trade tensions could provide a catalyst for the renminbi's performance. We foresee a relatively limited impact on net capital flows from China's upcoming measures to open more channels for capital outflows.

JPY: Neutral. The yen has weakened against the US dollar over the last month but is almost unchanged versus the euro. The Bank of Japan is likely to lag the global normalization in monetary policy, which will likely widen interest rate differentials and put downward pressure on the yen. In addition, higher commodity prices and increasing outbound merger and acquisition flows are likely to weaken Japan's balance of payments going forward. However, yen valuations have already corrected significantly, potentially limiting the scope for downside, even if dynamics continue to point in that direction.

GBP: Underweight. Sterling has outperformed so far this year due to improving growth expectations, vaccine outperformance, and the hawkish shift by the BoE. Although, in absolute terms, these trends are not reversing, the UK no longer looks like an outlier relative to the US and eurozone. The eurozone is now rolling out vaccines at the same pace as the UK and reopening at a similar pace. Indeed, the recent COVID-19 resurgence in the UK will potentially delay the reopening relative to the US and eurozone. The BoE is moving in a more hawkish direction, but this is also being mirrored by the Fed. Sterling might face an additional headwind if Brexit-related issues constrain growth and cause tensions with the European Union (EU). Unlike at the start of the year, sterling is now trading at the high end of its trade-weighted range, and positioning is no longer likely to be a tailwind going forward.

CAD: Overweight. Canada's balance of payments continues to be supportive of currency outperformance, in our view. Rising oil prices are important to watch for signs of further gains. The Bank of Canada is the first major central bank to begin bond tapering, leading to the highest short-term yields across developed economies. This, along with the attractiveness of other local assets, remains a supportive tailwind. Until the border reopens, we believe domestic demand will add to the positive backdrop.

AUD: Neutral. The Fed's increasingly hawkish reaction function may be a headwind to upward moves in the AUD/USD exchange rate. However, the Fed's shift arguably increases the likelihood of a hawkish stance by the RBA, as the RBA's dovishness to date has been partly due to its unwillingness to tighten ahead of the Fed, as this could lead to a deflationary appreciation of the Australian dollar. Future RBA and Fed tightening cycles will likely be far more coordinated compared to the 2015-18 cycle, when the RBA remained unchanged while the Fed tightened by 250 basis points, reflecting Australia's growth and inflation underperformance in the wake of the commodity price collapse. In contrast to the last cycle, Australia is currently experiencing a trade boost, which should underpin Australian dollar valuations, especially against the euro and yen, even if the Fed hikes rates in the future.

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This section highlights the views of Invesco Fixed Income's credit analysts across a broad range of fixed income assets managed by Invesco.

Targeting net zero: Practical implications for global investment grade credit portfolios

As we approach the United Nations (UN) Climate Change Conference of the Parties (COP26) in November, we expect increased scrutiny of how investment portfolios are aligning to meet the climate goals of the Paris Agreement and how exposed portfolios are to risks under different climate scenarios. These are topics of growing importance to investors. At Invesco Fixed Income (IFI), we have been examining the practical implications of applying net zero methodologies to global investment grade credit portfolios to ensure that we can support our clients who are looking to align their investing approaches to their own net zero commitments.

Building net zero-oriented investment strategies

The Net Zero Investment Framework (NZIF) created by the Paris Aligned Investment Initiative (PAII) provides a methodology for building investment strategies that are consistent with the goal of achieving global net zero greenhouse gas emissions by 2050. The NZIF also aims to increase investment in the range of "climate solutions" to facilitate achieving net zero. The NZIF recognizes that achieving net zero involves a multi-year transitional effort across the global economy and its approach combines portfolio construction, engagement, and policy advocacy. The framework is more holistic than simple carbon emissions optimizations and looks at where companies sit along a net zero alignment spectrum with a particular emphasis on the material emitting sectors of the economy where transition is vital.[1]

Assessing portfolio alignment to net zero

For fixed income portfolios to become aligned with net zero pathways, we need issuers (from both material and low emitting sectors) to align themselves with the objective of achieving net zero emissions. We see a growing number of global investment grade issuers publicly commit to net zero, and the NZIF sets out specific alignment criteria that issuers must meet to be judged as achieving net zero or making progress towards it. Assessing the actual progress that companies are making against their commitments is critical to this effort.

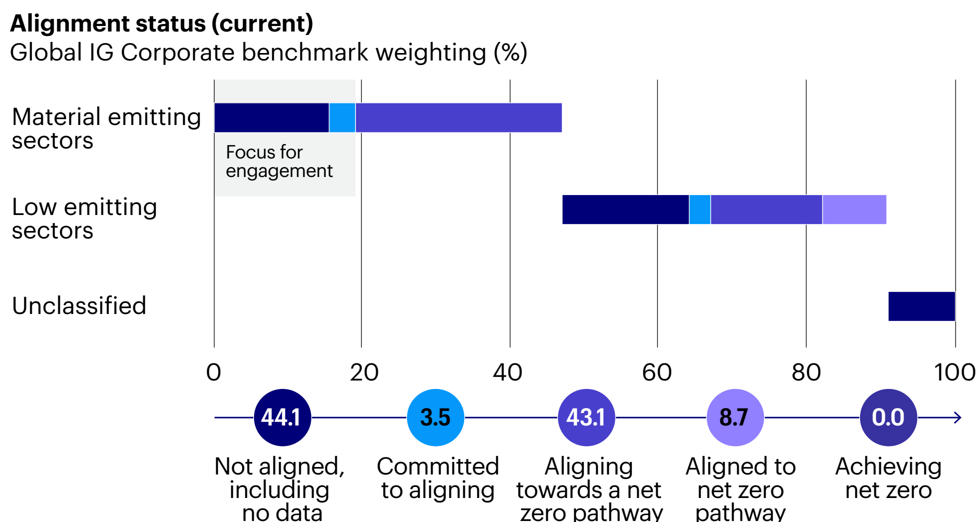
Data availability, particularly timely emissions information, is an issue that currently hinders the full assessment of transition progress industry-wide, though we do expect improvements in this area as the focus on net zero continues to ramp up among issuers, asset owners, and asset managers. Beyond emissions, data availability is not yet universal across the six core NZIF alignment criteria, which complicates assessing portfolios fully today. The NZIF references three global initiatives – Climate Action 100+ Net Zero Benchmark, the Transition Pathway Initiative, and the Science Based Targets initiative – whose methodologies provide a baseline for evaluating the key global emitters and also can inform the development of in-house, asset manager net zero processes to increase the proportion of portfolios that can be assessed.

It is important to emphasize that issuers with high emissions intensity may still be held in net zero-focused portfolios. However, these material emitting issuers will likely be the focus of close engagement to encourage them to set out and execute on a clear strategy to low carbon, with divestment a final option when progress is not being made against alignment goals.

Being able to clearly categorize portfolios in the context of the NZIF is key. From this baseline, targets can be set, and decisions are taken accordingly. IFI is starting to map portfolios and benchmarks along the net zero alignment spectrum (see Figure 1) with the intention of then deciding what an appropriate evolution should look like over time.

1. Material emitting sectors are defined as those which in aggregate contribute to 80% global carbon emissions.

Figure 1: Mapping to the net zero alignment criteria enables an evaluation of portfolio positioning and areas to focus on



Source: Invesco, June 3, 2021. For illustrative purposes only.

Investment in climate solutions

While the NZIF encourages increased investment in "climate solutions" (e.g., emerging technologies that are helping the achievement of net zero goals), investment grade portfolios generally have relatively modest exposure currently. This is not surprising, in our view, given the public fixed income market's inherent bias toward more established issuers ("old economy") versus cutting-edge green startups ("new economy"), due in no small part to the minimum business size needed to support publicly traded debt. However, we are optimistic that this area can grow significantly, given the rapid uptake of electric vehicles, energy efficiency solutions, and renewable energy, where investment grade issuers have meaningful exposure. We also see some logic to incorporating green bonds into the "climate solutions" segment, especially bonds strongly aligned with UN Sustainable Development Goals. The EU taxonomy should also help to create much needed standardized reporting.

Analyzing the impact of climate change on portfolios

Climate scenario analysis is complementary to the NZIF and allows investors to see how their portfolios would perform in different climate outcomes, including net zero, by 2050, but also in adverse scenarios to demonstrate the risks of inaction. Our analysis incorporates the use of Planetrics climate risk modeling, which estimates a value impairment at the portfolio level of a relatively modest -1%, even in adverse scenarios (a hot-house world or delayed transition).[2] There are several reasons for this, but the significant equity cushion, favorable geographical exposures (developing markets more exposed to physical climate risk than developed) and relatively low duration of the asset class are all important factors. This conclusion should not detract from the valuable insights and mitigation that can be achieved from closer analysis of issuer, sectoral, or geographical exposures, but we think it helps put the risk in this relatively nascent area into perspective.

Growing investor focus on net zero

With COP26 approaching, we are expecting investor interest in net zero alignment to increase significantly in response to its goal of mobilizing finance to secure global net zero by mid-century. The effort to meet net zero will likely require financing alignment to occur across the whole asset class spectrum, which is why the net zero investment framework also covers equities, sovereign debt, and real estate in addition to corporate bonds. Corporate bond portfolios will have an important role to play in this transition. Even though the impacts on bond values from different climate scenarios may be less marked than on other asset classes such as equities, we still expect investors to be increasingly keen to understand how their portfolios align with the pathway to net zero as well as how they fare in different climate scenarios.

2. Source: Planetrics, June 2021. Planetrics is a part of the Vivid Economics group of companies.

Given the numerous factors incorporated into a decision to invest in a fixed income portfolio (fundamental credit quality, environmental, social, and governance (ESG) credentials, net zero alignment, climate change exposure), we believe investors cannot adopt a "one size fits all approach." IFI is closely monitoring ESG risks across its portfolios and especially in the rapidly evolving net zero alignment space. We believe having a well-resourced and experienced credit team is important for assessing the issues raised here and to inform our investment decisions. IFI seeks to ensure that credit spreads adequately reflect downside risks, including ESG factors, or, where this is not the case, that "at-risk" names are avoided.

The bottom line: Constructing a CMBS portfolio in a post-COVID-19 world

Panelist for Q&A

Kevin Collins
Head of Commercial Mortgage Credit

Ian Blaiklock
Senior Analyst

Some commercial property sectors were severly disrupted by the pandemic – think retail and hotels. But post-pandemic shifts in the economy may now present opportunities in certain resilient sectors – think industrial warehousing to support e-commerce and single-family rental properties in a tight housing market. Kevin Collins, Head of Commercial Mortgage Credit, and Ian Blaiklock, Senior Analyst, highlight potential opportunities in commercial mortgage-backed securities (CMBS) and discuss how the Invesco Fixed Income CMBS team thinks about constructing CMBS portfolios in a post-pandemic world. (Read more about this topic in *Constructing a CMBS Portfolio in a Post-COVID-19 World*, Kevin Collins and Ian Blaiklock, June 2021).

Q: COVID-19 disrupted US commercial real estate fundamentals, but some post-COVID-19 economic and societal shifts have created opportunities. How are you thinking about investing in the post-pandemic environment?

Kevin Collins: We have broken down our post-pandemic investment strategy into three major themes: 1. We are focused on property sectors that we expect to outperform in the economic recovery. 2. We favor sectors that are most likely to weather, or even benefit from, long-lasting post-pandemic changes in behaviors. 3. We favor expressing targeted investment views through single-asset, single-borrower (SASB) CMBS issuance and are focused on more recent multi-borrower issuance as a way of limiting brick-and-mortar, multi-borrower CMBS retail exposure.

Q: How has the commercial property market performed as the US economy has recovered?

Ian Blaiklock: With the broad vaccine rollout and progress controlling the pandemic, we have seen increased activity in commercial real estate. Loan delinquencies are still elevated in some sectors, but they have been on the decline overall. There have also been some positive impulses. Certain commercial property sectors have benefited from the important economic shifts generated by COVID-19. Many industrial warehouse properties, for example, have benefited from growing online shopping, as online retailers have demanded more space to support their fulfillment processes. And, despite increased vacancy rates among some multifamily properties located in central business districts, most have performed reasonably well, as renters have been aided by government support and generous forbearance practices.

Q: Which sectors do you think could lead in the post-pandemic economic resurgence?

Ian Blaiklock: At a high level, we believe five sectors should outperform in the economic recovery and with the post-COVID-19 changes in the economy: First, we believe industrial warehouse properties are well-positioned to benefit from increased online retail activity. Second, we favor offices located in central office districts where people seek to collaborate and in markets with high concentrations of creative companies, which we expect to outperform versus markets with other industry concentrations. We also like medical

offices and life science properties, which should be less susceptible to work-from-home arrangements. Third, we favor high-end hotels, which we expect to benefit from increased leisure travel. Fourth, we favor certain non-traditional property sectors such as data centers and manufactured housing. And fifth, we believe multifamily properties are well-positioned to lead the CMBS market in a post-pandemic recovery as employers open their offices and employees return to cities.

Q: What are your strategies for taking advantage of these potential opportunities?

Kevin Collins: One way we seek to take advantage of these opportunities is through targeted exposure. Targeted exposures have become more accessible with the recent increase in so-called "single-asset single-borrower" (SASB) issuance as a proportion of total CMBS issuance. Unlike "multi-borrower" issuance, which are bonds backed by numerous loans extended to different borrowers, SASB bonds typically represent a single borrower and are collateralized by a single loan secured by a large property or portfolio of properties. SASB bonds allow investors to zero in on the sectors they believe are most likely to outperform, which is less possible with diverse, multi-borrower CMBS. When it comes to multi-borrower CMBS, we focus on recent issuance, which has generally contained lower concentrations of retail property loans than in the past.

In the multifamily sector, we favor gaining multifamily exposure by targeting bonds issued by a US government agency or federally charted corporation, such as Fannie Mae or Freddie Mac. We prefer to focus on junior bonds in this sector versus senior bonds, which typically benefit from a principal and interest guarantee from the issuing agency or federally chartered corporation. Junior bonds offer higher yields than senior bonds while still benefiting from the agencies' sound underwriting guidelines and today's relatively favorable multifamily fundamentals.

Q: What are the benefits of your overall strategy?

Kevin Collins: The dynamics of the post-pandemic environment will likely continue to challenge certain US commercial property sectors but some sectors, in our view, are likely to thrive in the recovery generated by the economic reopening. Several non-traditional sectors may even benefit from potentially durable post-COVID-19 changes in consumption patterns and commerce. We believe by targeting these opportunities through careful asset allocation and security selection with a focus on SASB issuance, investors can create a strategy that complements their existing fixed income portfolios. In our view, the strategy offers the potential for higher yield but with shorter duration than intermediate investment grade corporate bonds while maintaining comparable credit quality (See *Constructing a CMBS Portfolio in a Post-COVID-19 World*, Kevin Collins and Ian Blaiklock, June 2021).

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Important 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. Past performance is not a guide to future returns.

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