

2024 MIDYEAR INVESTMENT OUTLOOK

# Opportunities Amidst Divergence



This marketing communication is for Professional Clients, Financial Advisers, Qualified Clients/Sophisticated Investors (as defined in the important information at the end); for Sophisticated or Professional Investors in Australia; Institutional Investors in the United States; for Advisors and Institutional Investors in Canada; for Qualified Institutional Investors in Japan; for Professional Investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, 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 certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for certain specific institutional investors in Indonesia and for qualified buyers in the Philippines for informational purposes only. It is not intended for and should not be distributed to or relied upon by the public or retail investors.



**Kristina Hooper**  
Chief Global Market Strategist



We expect inflation to continue to fall towards central bank targets and a gradual return to trend growth rates.

## Executive summary

**Inflation: Mixed but falling.** Despite widespread expectations of a global economic slowdown in 2024, growth and inflation have continued to perform better than the consensus expected across most major economies. Our outlook for the rest of the year centers on the path — or paths — of inflation and how central bankers weigh the balance of risks in beginning to ease monetary policy. While the disinflation narrative has varied across major Western economies, particularly in the US, we still expect inflation to fall further by the end of 2024 across most economies as supply and demand factors come into better alignment. We think disinflation will be faster in non-US developed market economies and that central banks will focus more on the direction of travel rather than the outright level of inflation, meaning they will start to cut rates before their target level is reached, but subsequent cuts will be gradual.

**Growth: Resilience, not recession.** In our view, the global economy remains in a soft patch, driven by a restrictive monetary policy backdrop that translates into below-trend but still resilient growth. Divergence has re-emerged as a theme, with individual economies likely to see various growth and inflation experiences going forward. For example, we continue to expect US exceptionalism in growth and relative softness in eurozone performance, but relative equity market performance is likely helped by positive surprises. In Japan, the weak yen and structural reforms have helped rekindle inflation and enabled the Bank of Japan to begin a very gentle tightening process. In China, the continued overhang of weakness in the property market mixed with slowly improving consumer sentiment indicates an environment of below-trend but improving growth.

**Markets: Risk assets have more upside.** Markets appear to have priced much of this already, but we maintain a risk-on stance. Credit spreads are reflecting a healthy readout on macro fundamentals, and equities indicate continued earnings growth. Throughout the rest of 2024, markets are likely to be reactive to shifts in the rates outlook, including any supporting or conflicting data points along the way. In our view, the precise number of rate cuts is less important than the view that the next move is a cut rather than a hike, especially as the market narrative continues to be highly volatile. We highlight a significant risk that markets are overly positive and have not fully priced in potential problems. Given the positive macro backdrop, we favor an overweight to risky assets but keep risks tightly controlled, as very tight valuations limit the upside for risky assets.

## Contributors

**Jeffrey Bennett, CFA®**  
Senior Portfolio Manager  
Head of Manager Selection

**David Chao**  
Global Market Strategist

**Arnab Das**  
Global Macro Strategist

**David Gluch, CFA®**  
Client Portfolio Manager, GAA

**Mo Haghbin, CFA®, CAIA®**  
Head of Solutions

**Kristina Hooper**  
Chief Global Market Strategist

**Paul Jackson**  
Global Head of Asset Allocation  
Research

**Benjamin Jones, CFA®**  
Director, Macro Research

**Tomo Kinoshita**  
Global Market Strategist

**Turgut Kisinbay**  
Chief US Economist, IFI Research

**Brian Levitt**  
Global Market Strategist

**Alessio de Longis, CFA®**  
Head of Investments, Solutions

**Ashley Oerth, CFA®**  
Associate Global Market Strategist

**Michael Sobolik, CFA®**  
Real Estate Investment Strategist

**Drew Thornton, CFA®**  
Head of Thought Leadership, Solutions

**Andrés Vig**  
Senior Multi-Asset Strategist

**Rob Waldner, CFA®**  
Chief Strategist, Head of Macro  
Research, Fixed Income

# Macro Views

## 1 Growth is improving—but not evenly

- Despite restrictive monetary policy in many economies, economic growth has remained remarkably resilient.
- Growth looks to be gravitating towards trend rates, including a pick-up in the eurozone and stabilization in the US.



## 2 Inflation progress diverges, but trend is positive

- We expect disinflation to continue, but more slowly in the US and relatively faster in the eurozone.
- Japan is likely to see inflation stabilizing around its 2% target.



## 3 Rate cuts are likely in many major economies

- As disinflationary trends reassert themselves, central banks will be in a better position to start to ease policy rates.
- The timing and depth of cuts will vary by country, with easing from Europe first and then the US; the BoJ is in gently tightening.



## 4 Industrial policy suggests more divergence ahead

- Major economies are stepping up state subsidies and incentives, on top of trade barriers, to drive private capex.
- These measures are likely to drive greater differentiation in short-term growth, though the long-term impact is unclear.
- Some countries are likely to be more successful than others.



## 5 Key risks and themes

- Geopolitics, elections, and financial fragilities are being watched closely, and may cause us to change our views.



# Market Views

### Fixed income

Valuations in fixed income are tight, with inverted yield curves and tight credit spreads. Near term, we favor exploiting the range trade in rates. Technicals are quite positive, and in medium term, we believe current bond yields offer a buying opportunity.

### US dollar / currencies

The start of the Federal Reserve (Fed) rate cut cycle should allow the dollar to begin to cyclically weaken in the near future. Still-large interest rate differentials in favor of the US dollar will limit the weakness however.

### Emerging markets (EM)

The Fed pivot back to “high for longer” has discouraged EM flows, but specific stories stand out: India’s fast growth; Turkey, Argentina turnarounds; high yields in LatAm and Central Europe. As Fed rate cuts materialize, we expect the dollar to soften, supporting the EM asset class.

### Equities

Valuations have already climbed significantly. However, rate cuts tend to provide a further boost, and the improving growth backdrop in many economies should support fundamentals.

### Alternatives

High yields and near-zero duration make loans and private credit attractive in a “high for longer” environment. Real estate funds' valuations are near trough levels. Private equity GPs are highly incentivized to ramp up deployment as dry powder ages.

# 1

## Global growth is improving, but experiences vary by country

US shows some cooling, while Europe, Japan, and China are improving

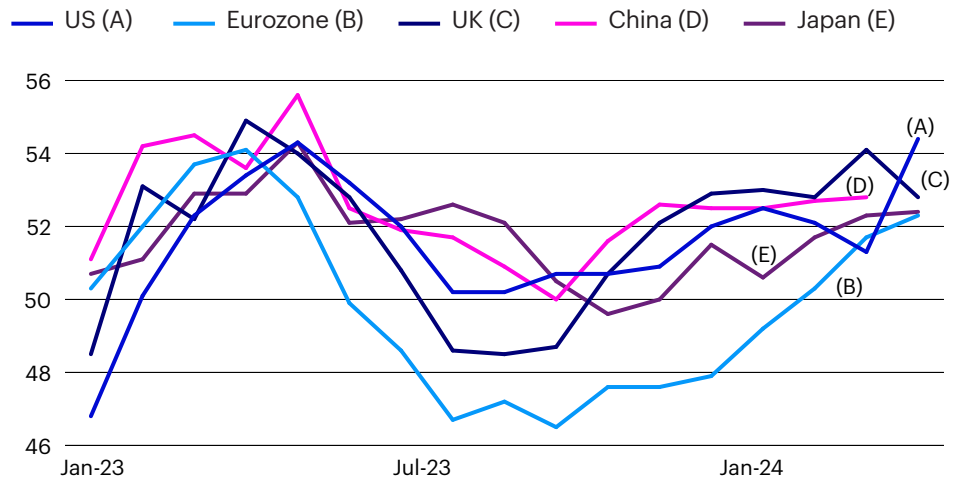
In our view, the global economy remains in a soft patch, driven by a restrictive monetary policy backdrop that translates into below-trend but still resilient growth. US growth has softened a little, but European growth is improving from a lower base and should be supported by rate cuts expected to take place sooner than in the US.

Divergence has re-emerged as a theme, with individual economies likely to see various growth and inflation experiences going forward.

- US growth has been relatively resilient despite elevated policy rates, though growth now seems to be slowing. We expect growth to gravitate towards trend rates over the remainder of this year.
- In the eurozone, we anticipate relative softness in growth performance compared to the US, but at rates that should pick up towards potential growth rates.
- In Japan, growth should also improve, supported by wage increases, a rebound in manufacturing output and fiscal stimulus.
- In China, improving consumer sentiment mixed with fiscal stimulus indicates an environment of below-trend but improving growth ahead.

### Growth seems to be reaccelerating in most regions but slowing in the US

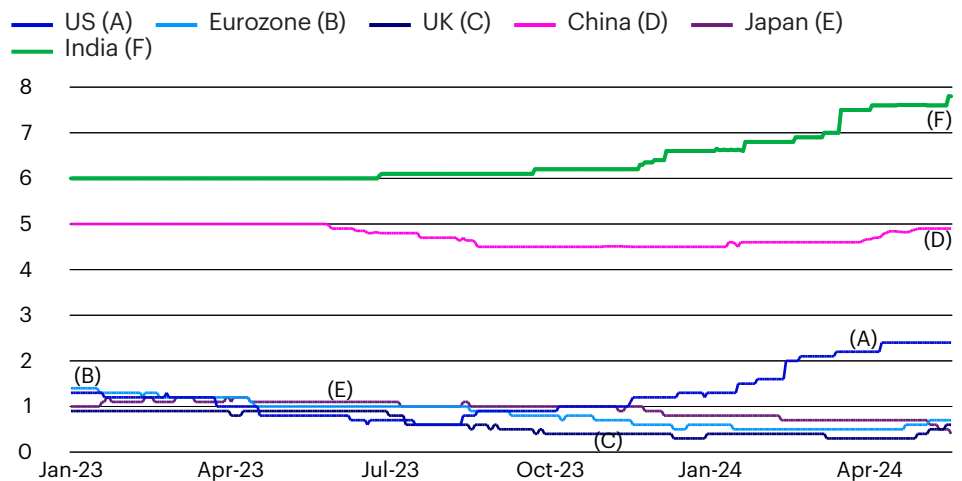
Composite PMI indices since January 2023



Notes: Data as of May 31, 2024. We show monthly data using S&P Global composite purchasing manager indices. Sources: LSEG Datastream and Invesco.

### Divergence is evident in consensus growth forecasts

Consensus 2024 GDP forecasts (%)



Sources: Invesco, Bloomberg L.P., as of May 31, 2024.

# 2

## Disinflation continues, but progress is mixed across economies

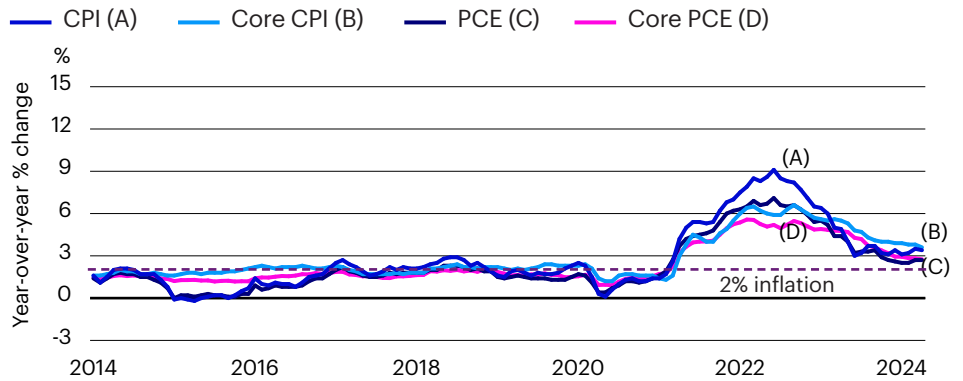
US disinflation appears prolonged; eurozone seeing more progress

Across major Western economies, disinflation appears to have taken a breather after a relatively rapid descent from 2022-23 highs, particularly in the US. Services inflation has especially remained well above targets. This has delayed market expectations for when central banks may begin to ease their hawkish policy stances.

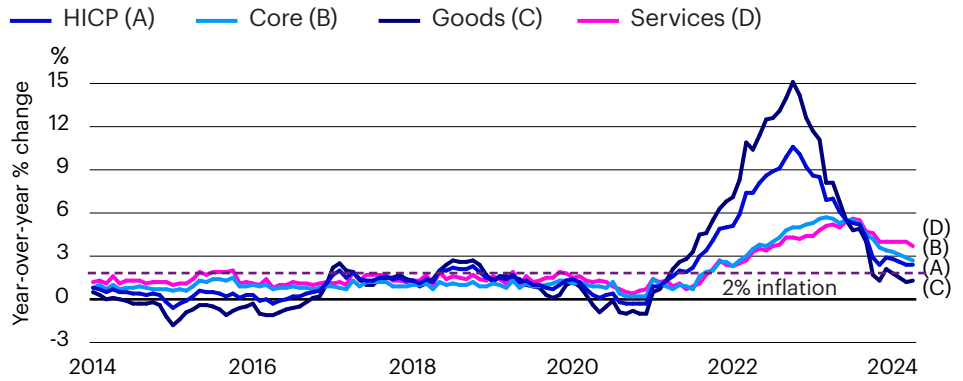
However, we continue to anticipate falling inflation over the forecast horizon across most economies, with disinflation realized more quickly in non-US developed market economies.

- Strong US growth, still-tight labor markets, and a series of upside inflation surprises year-to-date have pushed back policymaker and market expectations for the disinflation path. However, we continue to see disinflation continuing in the US, but at a pace that only brings a couple of rate cuts in 2024.
- While growth has underperformed versus the US, the eurozone inflation outlook is considerably more in line with ECB targets.

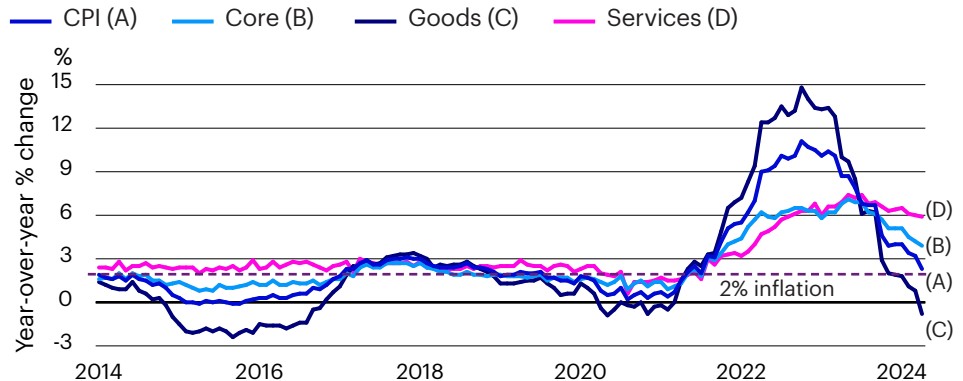
### US PCE disinflation slowed in Q1



### EZ headline disinflation slows



### UK services inflation is high



Note: HICP = Harmonized Index of Consumer Prices. PCE = Personal Consumption Expenditures. Central banks have little, if any, influence over commodity prices and much less over traded goods inflation than domestic services inflation. Hence, a stickier services inflation picture is a reason to expect central banks not to change actual policy or their stance, or to go slow in easing. Sources: Macrobond, Invesco. Upper charts, monthly data through March 2024 for US headline and Core CPI, and EZ HICP, Core and Services inflation; February for US PCE, Core PCE, EZ services, and all UK inflation metrics. All data as of May 31, 2024.

# 3

## Markets are geared for rate cuts from the Fed and ECB

Inflation progress to date could open the door for policy easing ahead

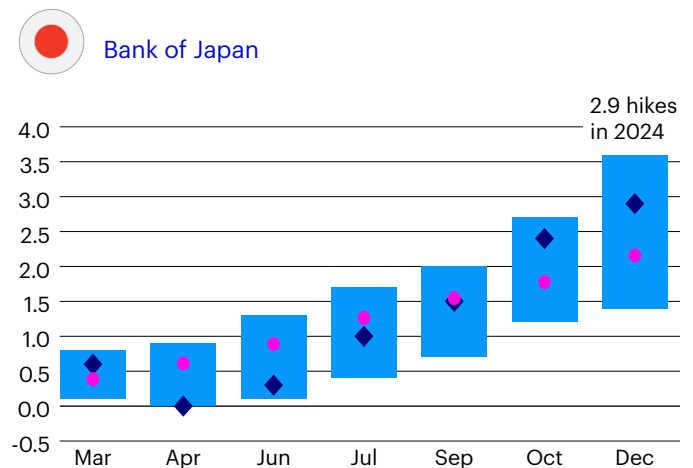
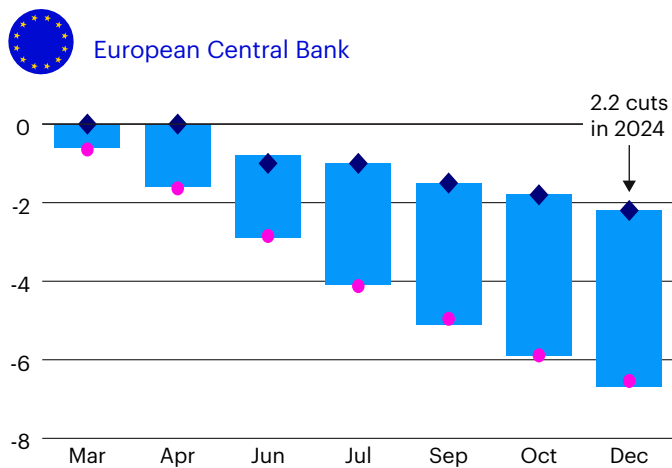
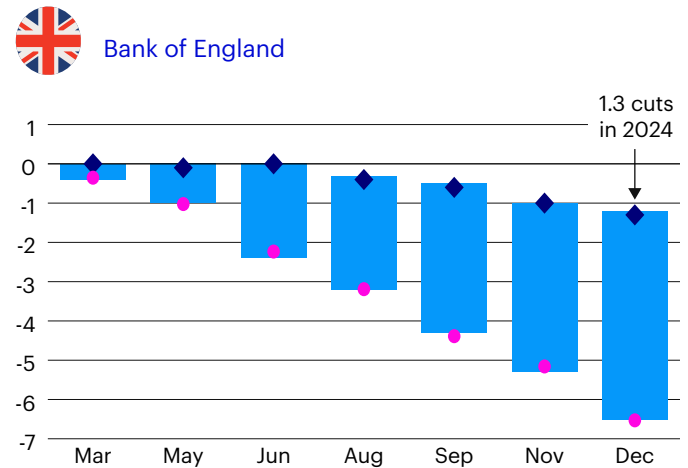
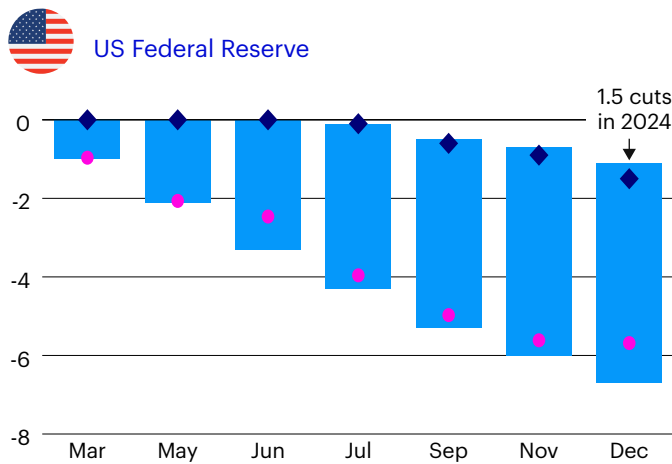
Markets entered the year expecting a slew of rate cuts from Western developed economy central banks. Today, market pricing indicates just a handful of cuts following hotter-than-expected first-quarter inflation data. The market narrative around disinflation and policy has been remarkably volatile this year, as captured in the charts on the right. As of this writing, markets appear to be near the bottom of the range of expected rate cuts in the US, eurozone, and UK.

We anticipate continued progress on inflation that should reassert downward pressure on the policy path. As inflation falls, real policy rates will move higher and help spur rate cuts from the Fed, ECB, and BoE. Relatively weaker growth in Europe should help Europe move sooner.

Progress on inflation has been slower in the US, which suggests relatively fewer rate cuts from the Fed. This should help keep the dollar expensive until rate cuts materialize. Japan, in contrast, is seeing higher inflation, with additional rate hikes penciled in for the remainder of this year. Until we see narrow real rate spreads between the US and Japan, we should not expect to see meaningful strength in the JPY.

### Market pricing of rate cuts/hikes in 2024 indicates a volatile market view on policy timing

■ 2024 range (year-to-date as of May 31) ◆ May 31 ● Jan. 1



Sources: Invesco and Bloomberg L.P., as of May 31, 2024. Based on market-implied path of the respective policy rate over the remainder of 2024. US federal funds rate is based on federal funds futures. All others are based on overnight index swaps pricing. Each cut or hike is assumed to be 25 basis points, except for Japan, where each cut or hike is assumed to be 10 basis points.

# 4

## Industrial and trade policy suggest divergence is likely to remain a theme

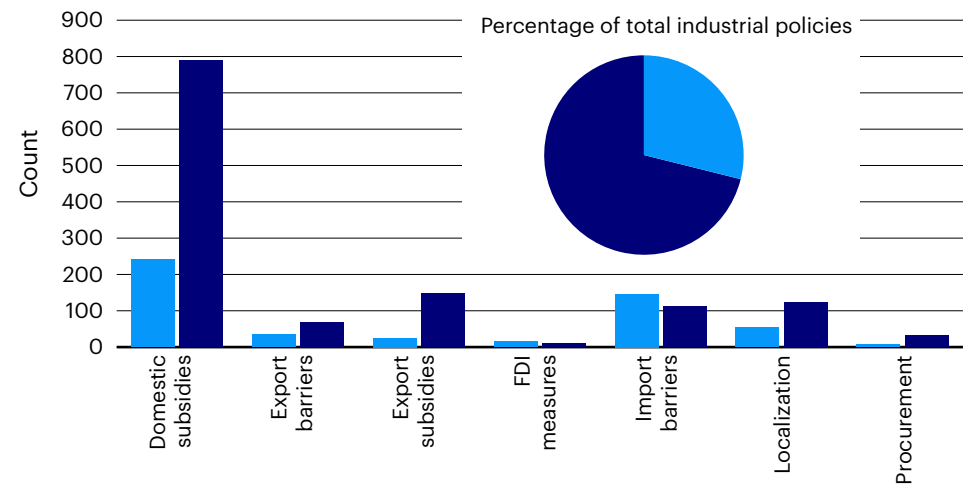
Major economies now use industrial policy far more than emerging economies

Industrial policy is now a major factor in regional differentiation. Developed economies are now far more likely to use industrial policy than emerging markets. In 2023, developed economies accounted for 71% of industrial policies, and EMs accounted for just 29%. EMs still tend to rely on trade barriers, while some developed economies are using a combination.

- New industrial policies are usually in the form of domestic subsidies, such as capital injections and equity stakes, financial grants, in-kind grants, tax or social insurance relief, production subsidies, interest subsidies, loan guarantees, import incentives, and price stabilizations.
- Just a few economies account for the lion's share of industrial policies – China, the EU, and the US are responsible for 48% of industrial policies in 2023. Major emerging markets are using industrial policies too, notably India and Indonesia.
- Significant recent US industrial policy initiatives include the Bipartisan Infrastructure Act, the CHIPS and Science Act, and the Inflation Reduction Act. US industrial policies seem to have a very substantial effect on manufacturing investment. The impact on growth, productivity and profits remains to be seen.

### New industrial policy by economy type in 2023

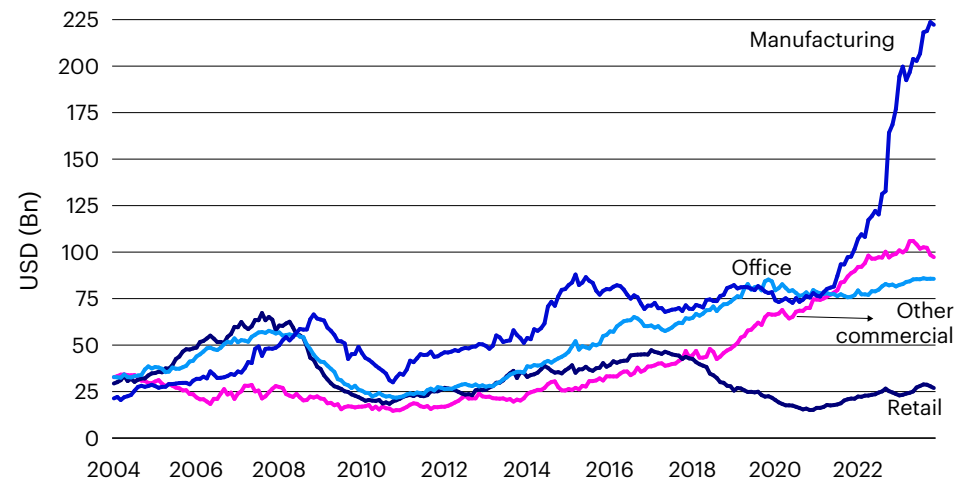
■ Emerging economies ■ Advanced economies



Sources: New Industrial Policy Institute, International Monetary Fund, as of Jan. 4, 2024.

Note: FDI = Foreign Direct Investment.

### US construction spending in non-residential structures (SAAR)



Source: Datastream, monthly data as of Feb. 29, 2024. Retail is the sum of: Multi-retail; shopping centers and shopping malls. Other commercial is commercial less retail. Note: SAAR = Seasonally adjusted annualized rate.

# 5

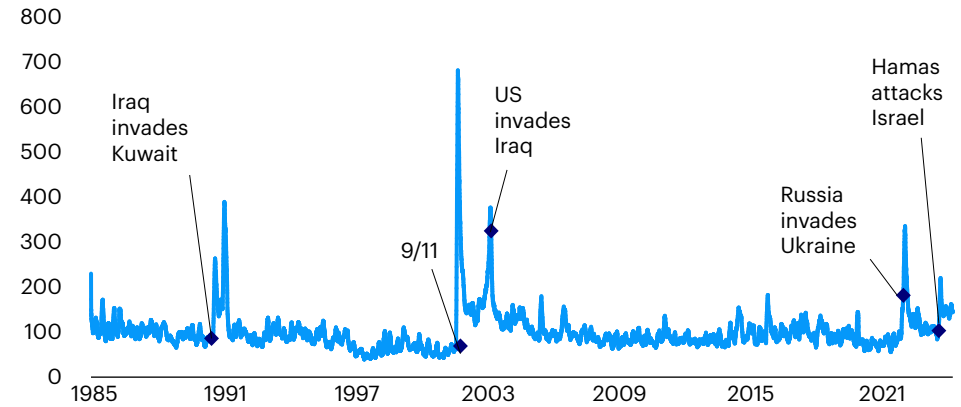
## Key risks

### Geopolitical risks are elevated

Recent events in the Middle East have re-emphasized that the geopolitical environment remains rife with risks. Other political risks range from the ongoing Russia-Ukraine war, US-China tensions, and the potential consequences of the upcoming US election. These may have localized to global implications for trade flows, supply shocks, and more.

### Geopolitics

Geopolitical risk index (30-day moving average)



Sources: Invesco, Macrobond, as of May 31, 2024

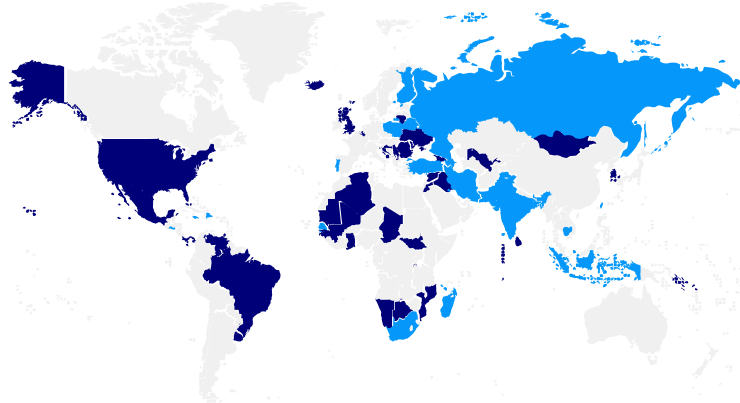
Geopolitical Risk Index, Measuring Geopolitical Risk, Caldara, Dario and Matteo Lacoviello 2018.

### Elections bring elevated uncertainty

Seventy-six countries are scheduled to hold elections in 2024. Many have already taken place with limited market impact. Key elections are scheduled in the US and UK. Policy and political uncertainty are likely to remain elevated and will need to be monitored closely, given their potential to shift the economic and investment landscape, especially in the US election.

### Countries where elections are taking place in 2024

■ Elections that have already taken place in 2024 ■ Elections scheduled in 2024



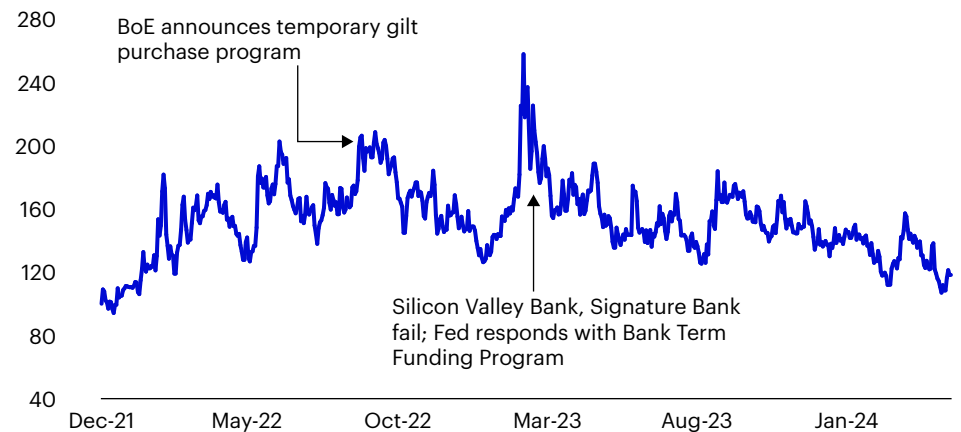
Sources: Invesco and National Democratic Institute, as of May 31, 2024.

### Financial accidents and stresses

After the rapid rate hikes of 2022-23, financial stress is elevated, and a crisis could precipitate a sudden shift in the stance of policy. But we are encouraged that recent financial accidents have been met with rapid and targeted support – and we see limited risk of systemic financial crisis, due to widespread deleveraging before the pandemic.

### Policymakers have been responsive to crises

— ICE BofA MOVE Index (1 Jan 2022 = 100)



Sources: Invesco and National Democratic Institute, as of May 31, 2024.



## UK to see improving growth but mixed inflation progress

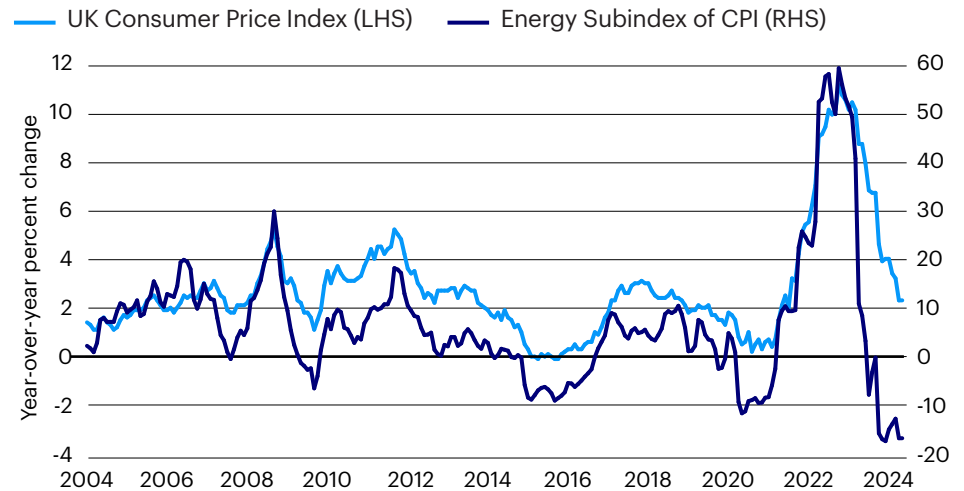
Inflation hurdle likely means the Bank of England will tread carefully in easing

We expect the UK economy to perform in a similar manner to the eurozone but on a delayed timeline and with less near-term monetary policy easing. Activity measures have started to show nascent improvement, and the consumer is in a stronger position than many had expected.

- Inflation has been slower to fall, but base effects and falling energy prices are now a tailwind of the disinflationary narrative. The challenge for the Bank of England is that services inflation is still elevated. We think the Bank of England will cut rates in 2024, but the cutting cycle will be gradual.
- With national elections slated for 4 July, the UK is likely to see a new Labour government in 2024. Though their policies are unlikely to deviate too far from the Conservatives, we expect a closer relationship with Europe at the margin under Labour, and that could reduce some of the Brexit discount associated with UK assets.

### Lower energy costs will likely pull inflation lower in the second half of 2024

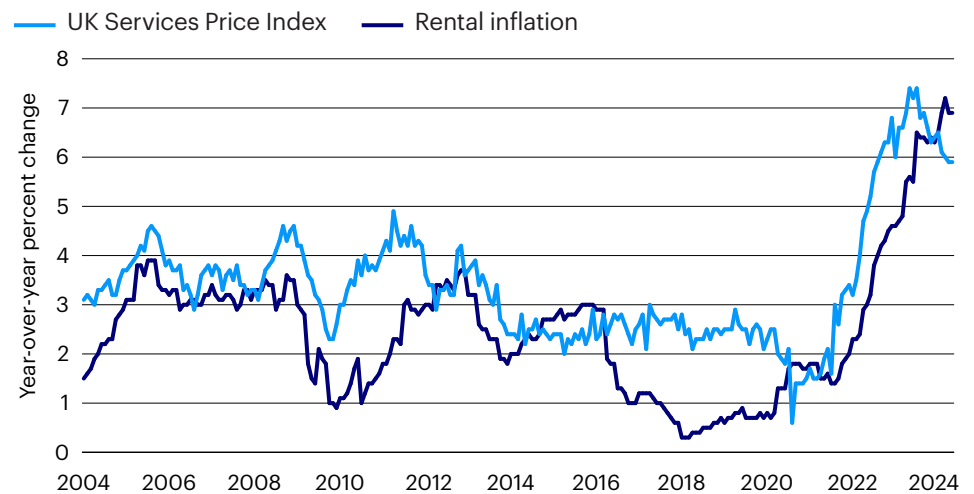
UK CPI and energy prices



Sources: Invesco, Bloomberg L.P., as of May 31, 2024.

### Elevated services inflation is still a challenge for the BoE

Services and rental inflation in the UK



Sources: Invesco, Bloomberg L.P., as of May 31, 2024.

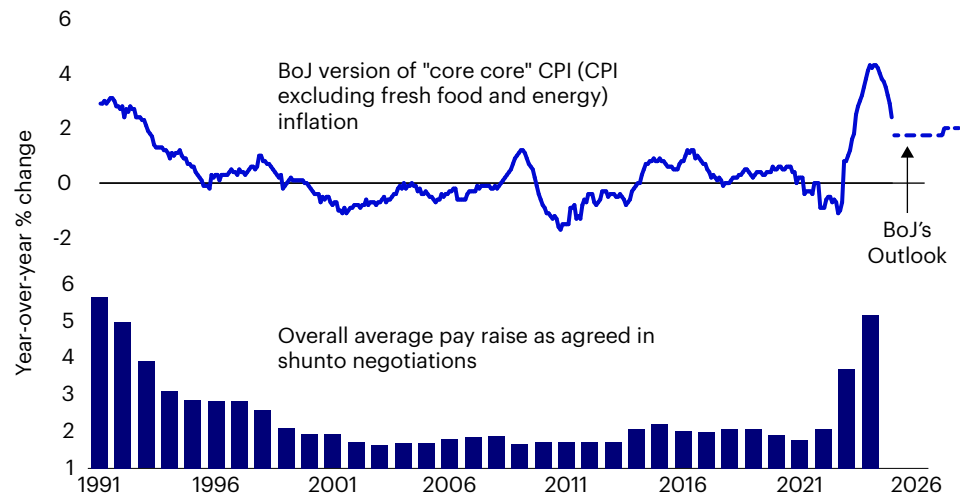
## Japan on a firmer footing toward sustained 2% inflation

A switch to an inflationary regime has improved corporate profitability

This year's shunto collective bargaining between labor unions and companies resulted in a 5.2% pay raise for workers in larger companies. Higher wage increases, a rebound in manufacturing output, and fiscal stimulus should support both consumption and investment growth in Japan.

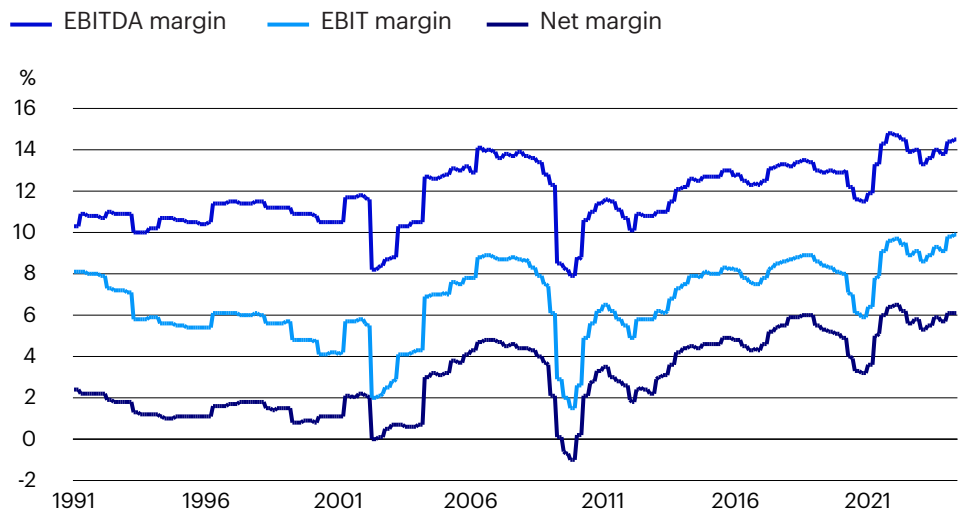
- With inflation moderately stronger, we anticipate that the Bank of Japan (BoJ) will implement at least one additional rate hike by end-2024 and possibly initiate quantitative tightening as it is likely to see a higher probability of sustained 2% inflation.
- Japanese firms' behavioral change towards more aggressive price-setting has led to historically high corporate margins. Global investors are likely to raise their asset allocation to Japanese equities, suggesting further outperformance of Japanese stocks against stocks in other advanced economies in H2 2024.
- With Japanese assets becoming more attractive with improving fundamentals, further outperformance may be driven in part by global investors raising their asset allocation to Japanese equities against stocks in other advanced economies in H2 2024. The weakness in the yen may continue in the short run, although a policy rate reduction by the Fed and a rate hike by the BoJ should mitigate the weakness in the yen toward the end of this year.

### Japanese inflation and shunto pay raise



Note: Inflation figures exclude impacts of consumption tax hikes. Sources: Rengo and CEIC. Monthly data for inflation as of April 30, 2024. Annual data for pay raise through 2024, which includes the latest shunto results.

### Margins of Japanese-listed companies



Asset allocation does not guarantee a profit or eliminate the risk of loss.

Sources: Invesco, from Datastream. Monthly data, as of May 31, 2024.

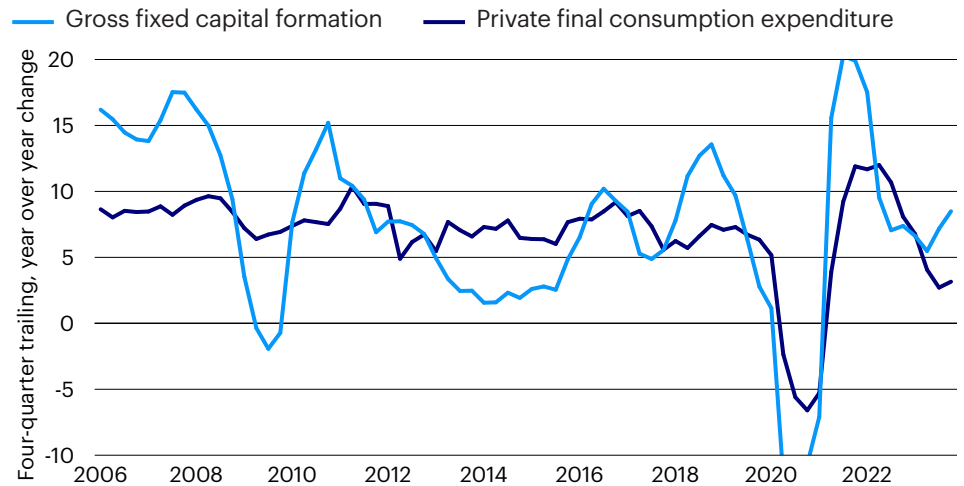
## India is exhibiting strong growth driven by cyclical and structural tailwinds

Will “K-shaped” top-end growth widen out across mass consumption and industry?

Despite geopolitical risks, India is now a significant driver of global growth, warranting investor focus, in our view.

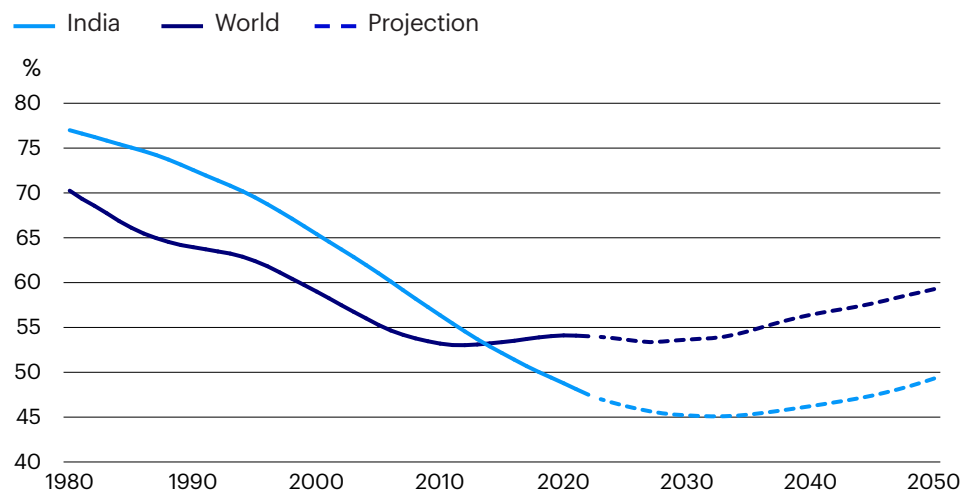
- Public investment, private consumption by high earners, and service exports are key growth drivers. We look ahead for the investment baton to be handed from public-private infrastructure to private capex and to wider mass consumption, which is still held back by COVID-19 scarring. If manufacturing investment and hiring rise as intended, job growth and rising labor income would intensify India’s cyclical and structural tailwinds.
- Following a disappointing showing in elections, the Bharatiya Janata Party (BJP) party lost its outright parliamentary majority. As power sharing agreements take shape, reform prospects should be clarified, which could lead to an increase in investments; foreign capital inflows are likely to continue and may even accelerate.
- We believe Indian bonds may offer attractive risk-adjusted returns as index inclusion keeps driving foreign interest. Equities seem likely to benefit further from domestic demand and earnings upgrades, but rich valuations relative to history or other markets may hold back foreign inflows.

### Capex leading; consumption expected to follow



Latest available data is for Q4 2023, as of May 31, 2024. Data is in constant prices INR. Sources: Indian Ministry of Statistics & Programme Implementation (MoS&PI) and Invesco.

### India’s age dependency ratio lower than global average



Annual data from 1980 to 2050, as of May 31, 2024. Data for years 2022-2050 are projections. The total dependency ratio is defined as the number of children (0–14 years old) and older persons (65 years and over) per 100 persons of working age (15–64 years old). Sources: United Nations Trade & Development and Invesco. There can be no assurance that projections shown will come to be.

## Rate cuts should help boost risky assets

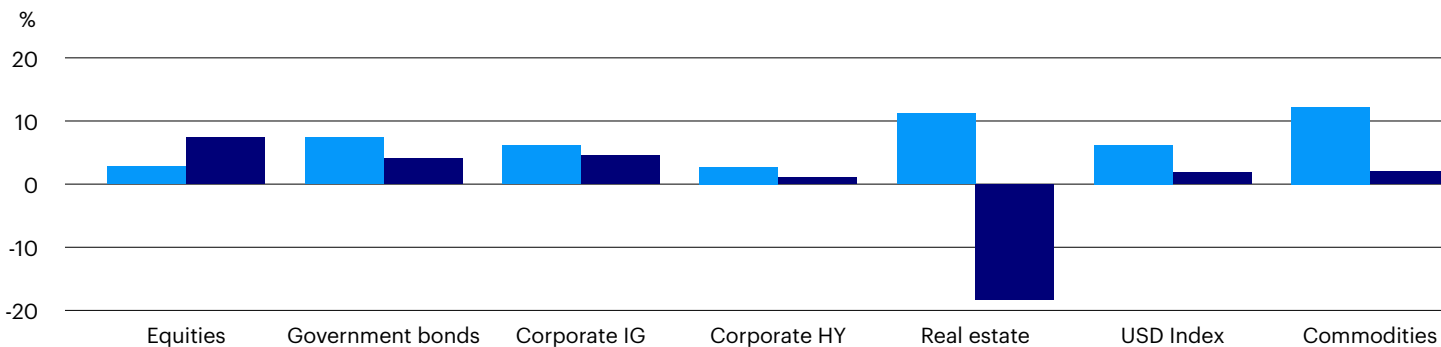
We expect risk assets to benefit when policy support emerges, which we anticipate from most major developed markets in the second half of 2024.

- We note that risk assets, other than equities, have historically performed better in the run-up to the first rate cut compared to the period immediately after. We think this is because central banks are usually easing when economies are weakening.
- However, this cycle is different because central banks were behind the curve when it came to tightening, and this may also be true when it comes to easing (they will be cutting rates late in the cycle).
- Though volatility in risk assets is possible due to the ongoing global economic slowdown, we suspect the easing cycle will coincide with increased risk appetite. We think markets are already looking ahead to economic recovery.

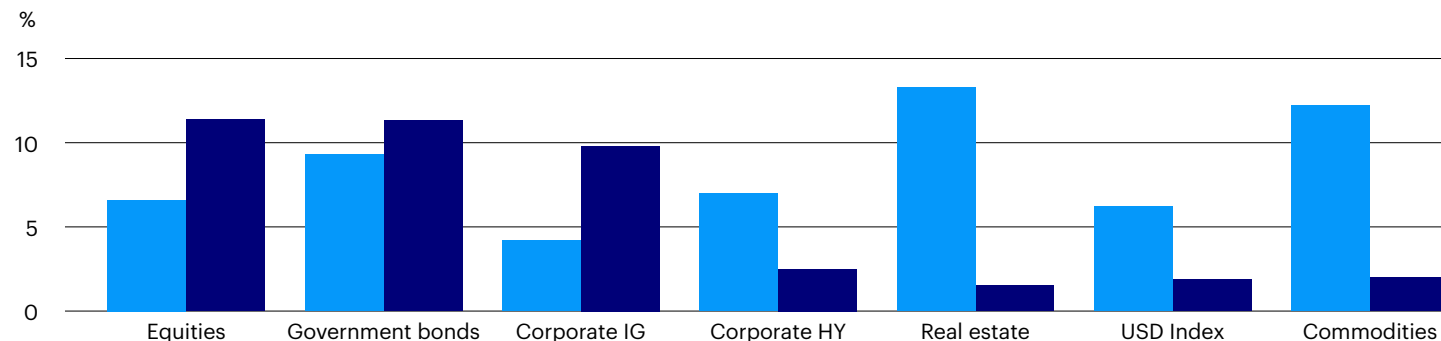
### Asset average total returns (USD) around first cut in a Fed loosening cycle

■ 12 months before the first cut ■ 12 months after

#### Global assets



#### US assets



Notes: **Past performance is no guarantee of future results.** An investment cannot be made directly in an index. "Corporate IG" = investment grade; "Corporate HY" = high yield. Based on Federal Reserve interest rate cycles since 1974. Please see Appendix for methodology and index definitions. As of May 31, 2024. Sources: ICE, ICE BofA, FTSE Russell, MSCI, S&P GSCI, Refinitiv, LSEG Datastream, and Invesco.

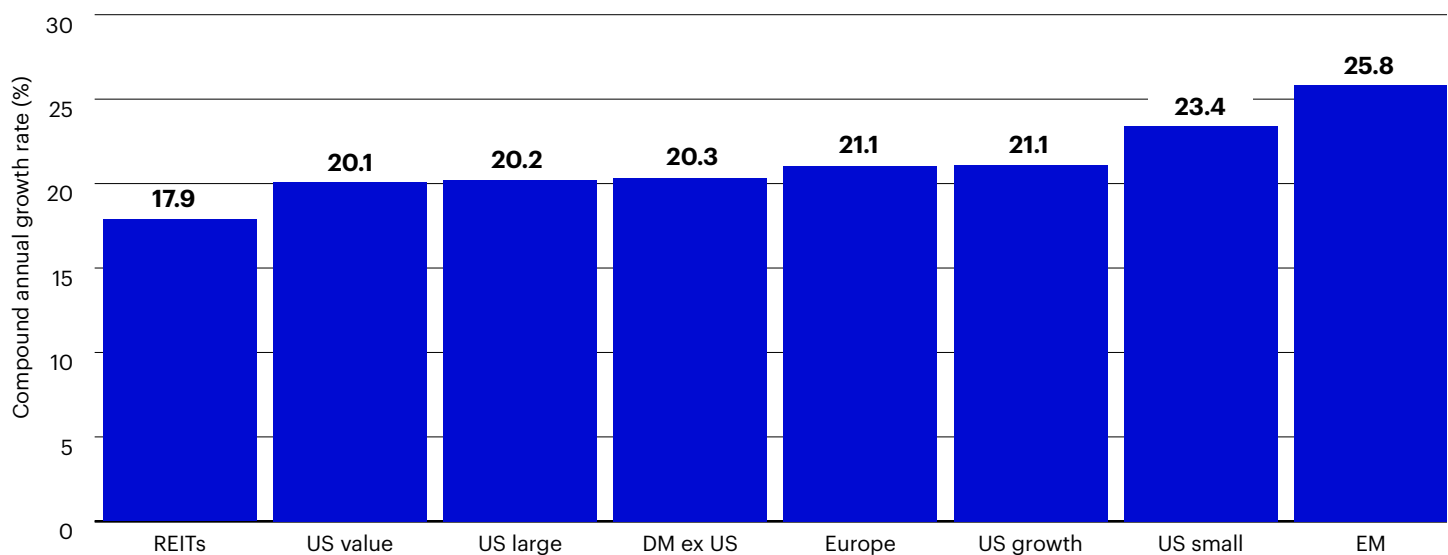
## Equities

Recovery trade tends to favor non-US dollar assets and equities that are more cyclical, value oriented, and smaller capitalization

### Non-USD assets appear attractive

- In recent years, the underperformance of global value stocks, including emerging markets, Europe and small caps – has produced some compelling opportunities.
- With policy easing on the horizon in many economies, we anticipate global growth to improve in the second half of 2024, reflected in rising global manufacturing PMIs.
- Rising worldwide output is typically a boon to more cyclically oriented risk assets. We expect the global value trade to regain investor interest amidst an improving operating climate.
- Non-USD assets should see support from the start of the Fed rate cut cycle, which should allow the dollar to begin to cyclically weaken in the near future. However, still-large interest rate differentials in favor of the US dollar may limit the weakness.

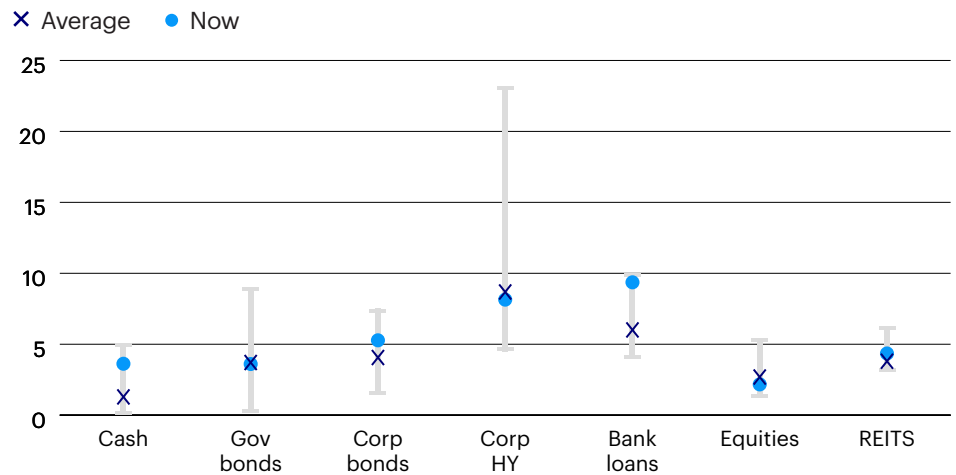
**Global equity performance since 1988 in periods when JP Morgan Global Manufacturing Purchasing Managers' Index was rising**



Sources: Bloomberg L.P. and Invesco, May 31, 2024. Notes: REITs = FTSE NAREIT All Equity REITs Index. US value = Russell 1000 Value. US large = S&P 500. US growth = Russell 1000 Growth. Europe = MSCI Europe Index. International = MSCI ACWI ex USA. US small = Russell 2000. EM = MSCI Emerging Markets Index. Price returns in US dollars. See appendix for index definitions. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

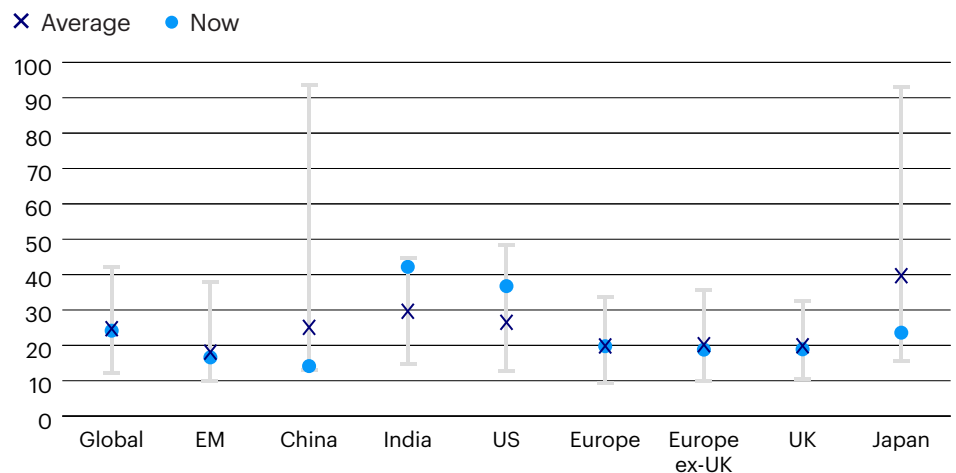
## Yields indicate that bonds are back, while equity valuations are divergent

### Global asset class yields within historical ranges (%)



Start dates for historical ranges are cash Jan. 1, 2001; government bonds ("Gov bonds") Dec. 31, 1985; corporate bonds ("Corp bonds") Dec. 31, 1996; corporate high yield bonds ("Corp HY") Dec. 31, 1997; bank loans Jan. 31, 1998; equities Jan. 1, 1973; REITs Feb. 18, 2005. As of April 30, 2024. Sources: Credit Suisse/UBS, LSEG Datastream, and Invesco Global Market Strategy Office.

### Historical ranges for CAPEs



Note: CAPE = Cyclically Adjusted Price/Earnings and uses a 10-year moving average of earnings. Based on daily data from Jan. 3, 1983 (except for China from April 1, 2004, India from Dec. 31, 1999, and EM from Jan. 3, 2005), using Datastream indices. As of April 30, 2024.

Sources: LSEG Datastream and Invesco Global Market Strategy Office.

## Spotlight on valuations

### The opportunities

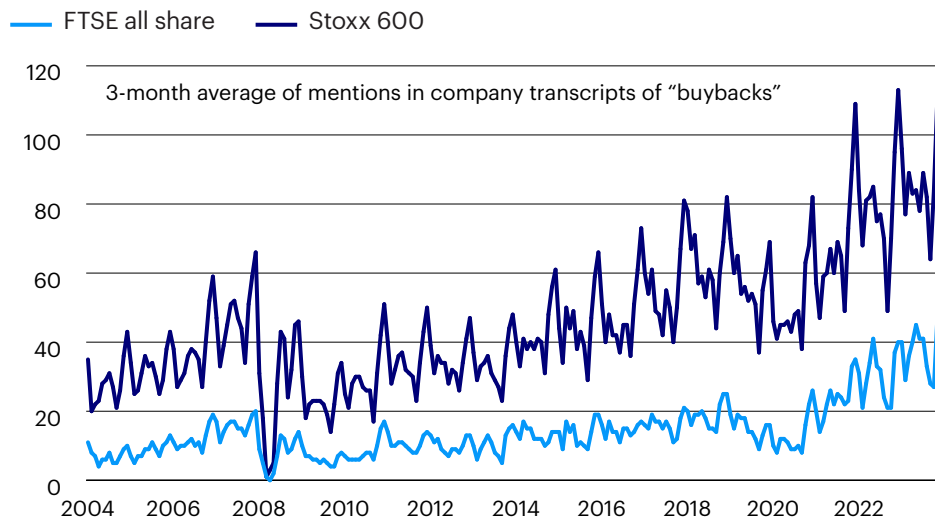
- For much of the period since the Global Financial Crisis (GFC), we thought bond yields were so low that they were uninteresting. That is no longer the case. Notably, cash rates and bank loan yields are at the upper end of historical ranges.
- Within equities, cyclically adjusted price earnings ratios suggest a large discrepancy between China (cheap), Europe (normal), and the US and India (expensive). We think Chinese equities have significant upside potential that could be driven by positive surprise.

### The catalysts

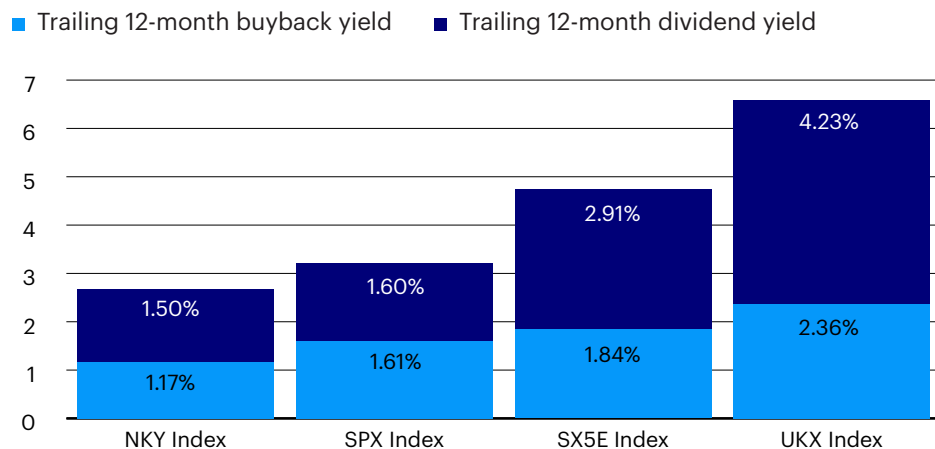
- It is always hard to know what will cause low (high) valuations to be converted into high (low) returns.
- However, we think central bank easing could boost fixed income returns, while cash and bank loans should continue to offer attractive returns if central banks are slow to ease.
- Extreme low valuations could be enough to aid Chinese stocks (just as they did US stocks in March 2009), and better-than-expected economic performance has helped. Economic recovery in Europe could boost local stocks.

## Corporate demand for stocks is increasing

### More companies are discussing buybacks



### UK delivers a high total shareholder yield compared to other parts of the world



Sources: Invesco and Bloomberg L.P., as of May 31, 2024. NKY Index = Nikkei 225. SPX Index = S&P 500 Index. SX5E Index = Euro Stoxx 50 Index. UKX Index = FTSE 100 Index. Buyback yield is defined as the value of shared repurchases divided by the market capitalization at the start of the period.

## Buybacks are back

- Demand for equities is likely to come in part from corporations themselves over the coming months. In Q1, more companies than ever mentioned buybacks on their earnings calls. The chart to the left illustrates this for the UK FTSE All Share Index and the Stoxx 600, but the picture is similar across the world.
- For example, Apple announced a record \$110bn buyback in early May, which followed other large tech companies' major buyback program announcements.
- Buyback activity should be factored into total shareholder yield calculations along with dividends.
- Compared to the post-GFC period, the discount rate that should be applied to stocks is higher today. That means that investors should expect to generate a greater proportion of their total return from the income component, or nearer-term cashflows, rather than speculative future gains.
- That should favor UK and European stocks alongside financials and commodity sectors.

## Fixed income

Diverging growth and inflation could impact global rates

## Views from Invesco Fixed Income



**Rob Waldner, CFA®**  
Chief Strategist  
Head of Macro  
Research  
Fixed Income



The US has expanded steadily, while Europe has recovered only tepidly in the aftermath of the COVID-19 crisis. In contrast, inflation has fallen faster in Europe; European inflation was initially more stubborn but is now nearly back to target. Even the UK, which had been considered a “stagflation” outlier, will likely see headline inflation below US inflation this year. This macro divergence has implications for monetary policy, interest rates and currencies.



### Growth and rates views

- Stickier-than-expected inflation has put the Fed on hold. The Fed will likely find it very difficult to cut rates until the recent stubborn inflation trend reverses.
- Faster disinflation and tepid growth in Europe and the UK will likely cause the ECB and Bank of England to move ahead of the Fed, with possible rate cuts this summer.
- EM central banks will likely take their lead from US data and expectations about the Fed when setting their policy direction.
- Global growth reflects the divergence theme: Growth has been solid in the US and resilient in EM, while Europe has exhibited a weak recovery following the pandemic.



### Credit views

- Strong fundamentals, solid technicals, and the fact that all-in yields look attractive from a historical perspective, have supported credit markets this year.
- We favor buying the dip in US investment grade. Given the fundamental strengths in the US economy, we are more likely to turn positive than negative from here. We see relative value in European investment grade.
- We are cautious about high yield but favor maintaining some exposure. Spreads are tight, in our view, but we anticipate few catalysts to drive spreads wider and expect defaults to decline going forward.
- We lean positive on municipals. Spreads are tight, but we expect strong technicals going forward - the summer should bring limited supply and a need for reinvestment.

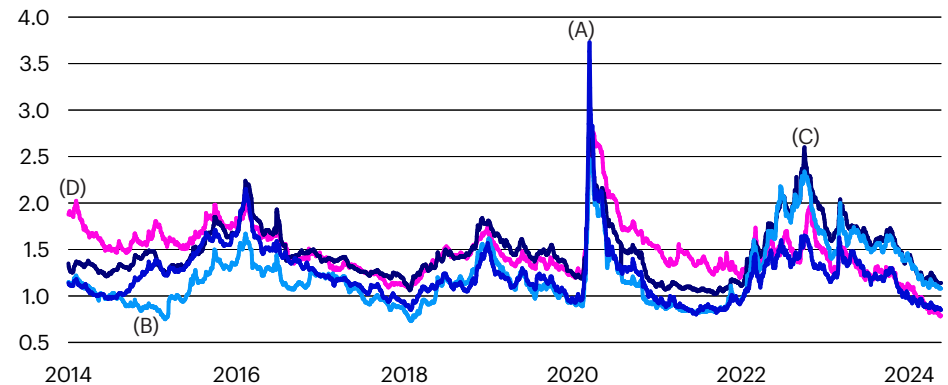


## Fixed income

There is some tightness in credit spreads, but we see pockets of opportunity

### Credit spreads are not cheap, but yields look attractive

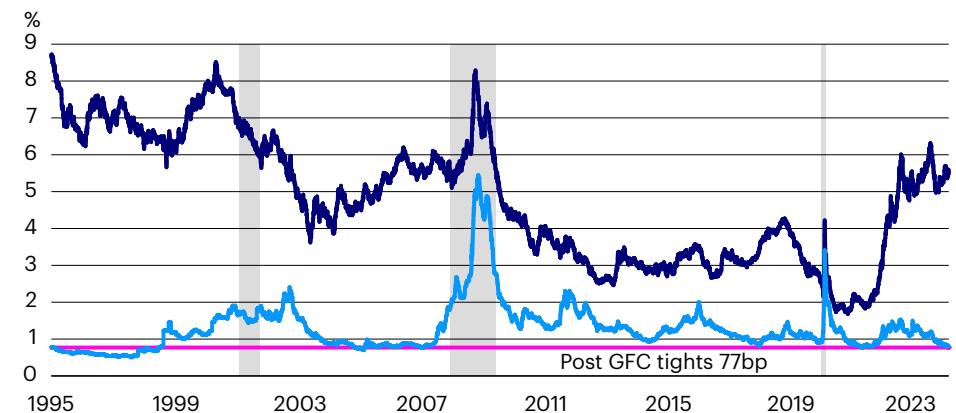
- Bloomberg US Aggregate Corporate Average OAS (A)
- Bloomberg Euro Aggregate Corporate Average OAS (B)
- Bloomberg Sterling Aggregate Corporate Average OAS (C)
- Bloomberg EM Asia USD Credit High Grade Average OAS (D)



Source: Macrobond. Data as of May 31, 2024. OAS = Option-Adjusted Spread.

### Investment grade credit spreads are not cheap, but yields look attractive

- Bloomberg US Aggregate Credit Average OAS
- Bloomberg US Aggregate Credit Yield to Worst



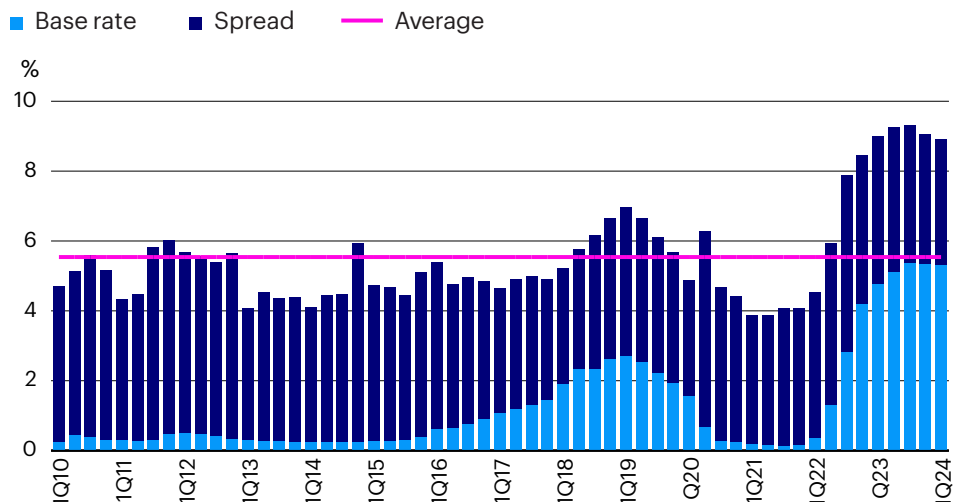
Source: Macrobond. Data as of May 31, 2024.

## Buybacks are back

- **Credit markets have held up well relative to many other asset classes.** Strong fundamentals, solid technicals, and the fact that all-in yields look attractive from a historical perspective have supported credit markets.
- **US growth has also held up better than expected.** The US labor market has been robust and is consistent with an economy that is growing at a very healthy pace.
- **A low probability of global recession argues for being somewhat positive on credit overall.** However, tight valuations cause us to favor keeping credit exposure low.

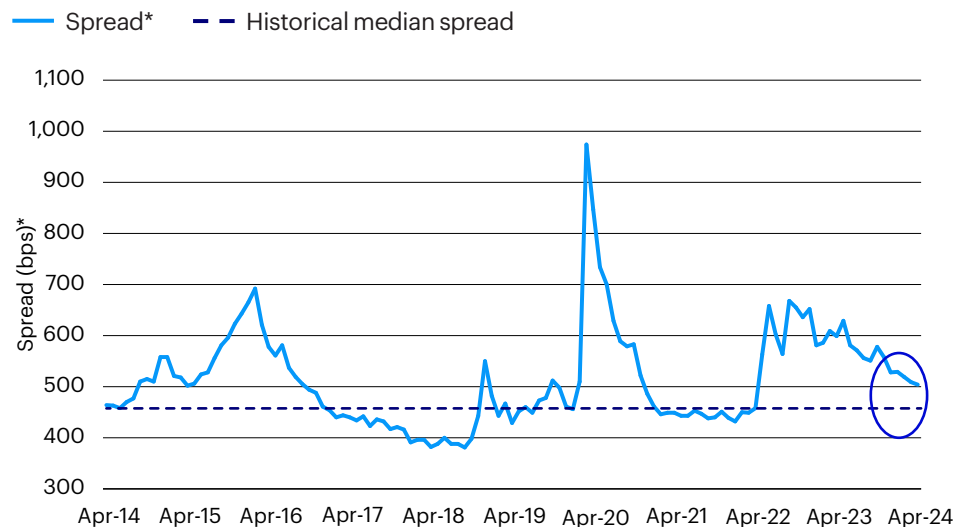
## Loans: High yields and no duration make loans attractive in environment of “high for longer”

### Coupons at highest levels in decades



Source: PitchBook Data, Inc. as of March 31, 2024. Base rate reflects the average during the quarter. Uses three-month LIBOR (prior to 2023) or SOFR (2023 or later) plus the weighted average institutional spread.

### Spreads remain above historical norms



Source: Credit Suisse Leveraged Loan Index, as of April 30, 2024. **Past performance is not a guarantee of future results.** Long-term medians based on date from Jan. 31, 1992 – April 30, 2024. \*3-year discount margin spread.

## Spotlight on loans

### The opportunities

- Loan yields and coupons are sitting at their highest levels in decades and offer some of the highest yields across fixed income.
- Current coupon income is around 9% after base rates have reset higher, and spreads remain wide.
- Loans can offer attractive valuations as spreads still hover above historical levels compared to other asset classes.

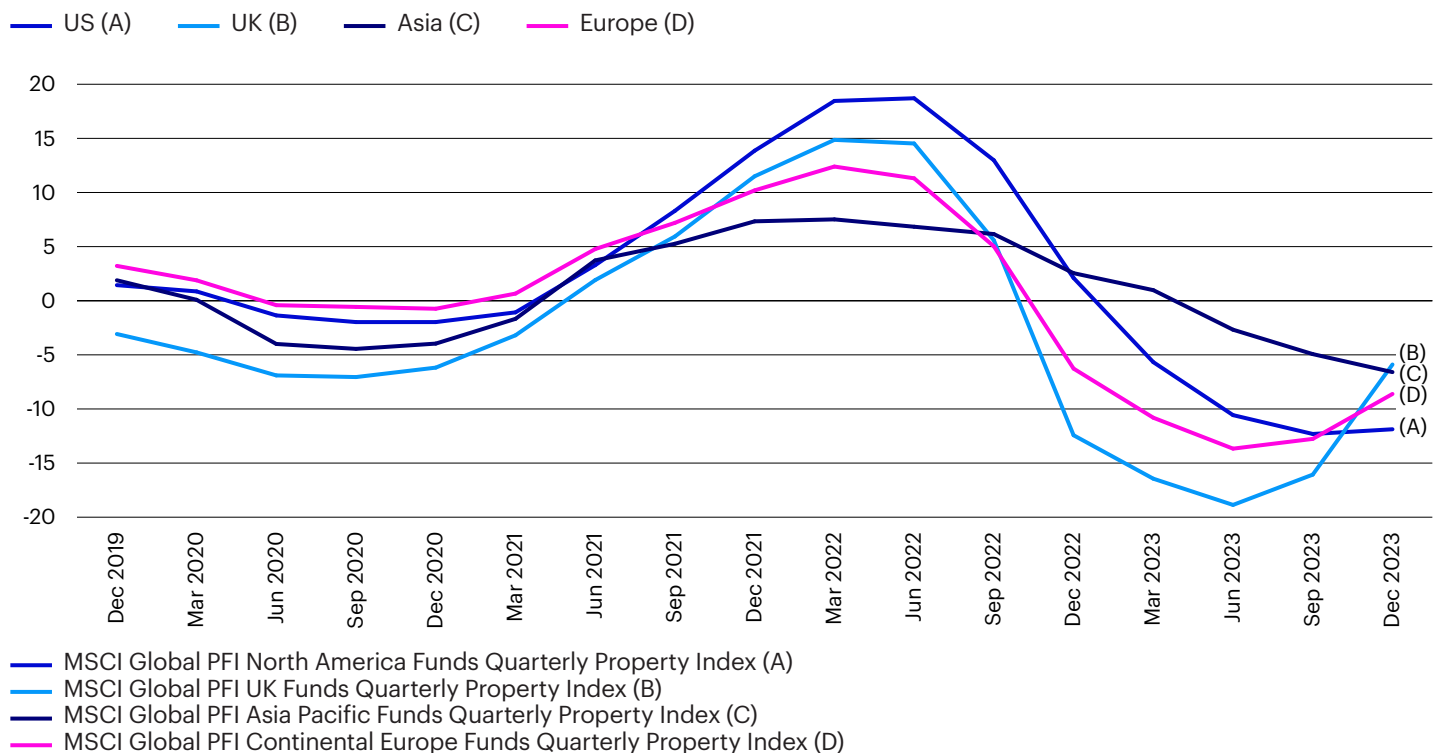
### The catalysts

- With rates expected to stay high for longer, loans are likely to benefit through higher coupons.
- Despite uncertainty around interest rates, loans have no duration and have been relatively immune to interest rate volatility compared to other fixed income asset classes.

## Real estate: Timings vary, but we are seeing the turning point in values

Rebased values  
provide a good  
entry point

### Capital value change (%)



Source: MSCI data, last data point Dec. 31, 2023. Past performance does not predict future results.

## Spotlight on real estate

### The opportunity

- We expect late 2024 and 2025 will be attractive vintage periods for private real estate equity because valuations on existing real estate funds appear to have troughed already or are approaching trough levels, depending on the region.

### The catalysts

- Since late last year, central bankers have articulated a path toward policy easing, thus shifting expectations toward eventual policy rate cuts.
- Cuts in policy rates provide scope for reductions in real estate debt costs and capitalization rates, which would lead to renewed transaction activity and progress toward price recovery.
- Private transaction cap rates and implied public market cap rates have converged, implying that pricing on new opportunities has adjusted fluidly to market conditions.
- Further declines in the values of legacy real estate funds are expected this year before value recovery commences.

**Alternatives:**  
Supportive transaction environment favors private credit



**Jeff Bennett, CFA®**  
Head of Manager Selection  
Invesco Solutions

**Private credit**

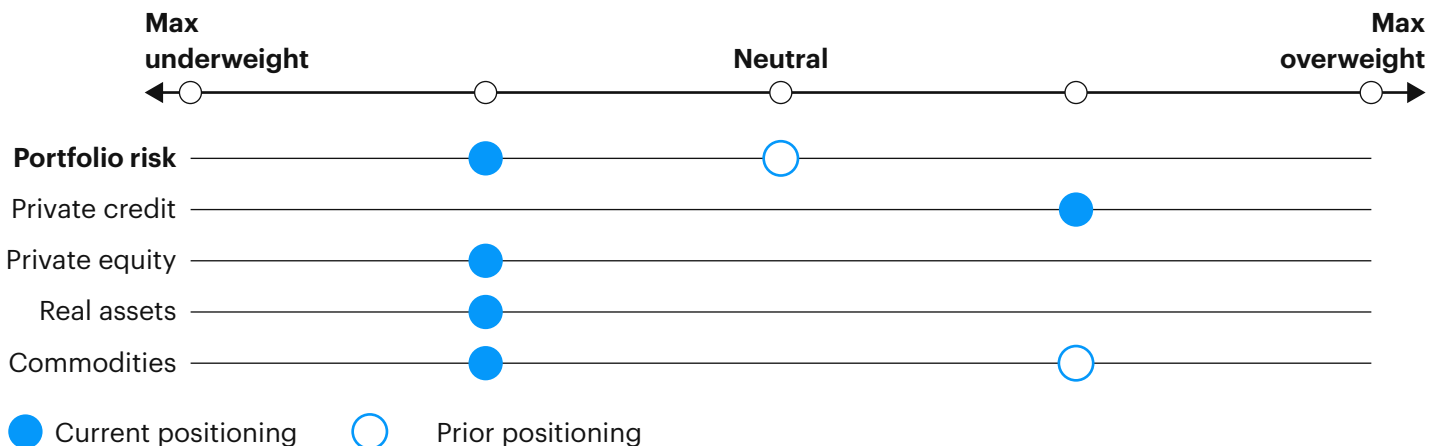
As we look to 2024, our view for direct lending is that the backdrop supporting a more favorable transaction environment is firmly in place relative to 2023, including better visibility into the macro environment, softening inflationary pressures, potential rate reductions, and heightened pressure from LPs for private equity firms to generate realizations and invest in new platform companies. Within distressed debt and special situations, we are seeing a significant amount of liquidity-constrained small caps that are “good companies” with “bad balance sheets,” providing an expanded opportunity set for the asset class.

**Private equity**

With record levels of dry powder now four years or older, depressed debt coverage ratios, and a looming refinancing wall, opportunities should present themselves for managers with turnaround experience in an environment where general partners are highly incentivized to ramp up purchase activity. While still at valuations that exceed pre-2021 levels, the correction in late-stage venture valuations should provide a continued opportunity for private equity firms with a flexible mandate.

**Real assets**

Despite a subdued transaction environment, many real estate markets continue to see robust income fundamentals. We note that leasing has slowed broadly across property types in the US, where we expect the recovery in fundamentals to lag the capital markets recovery. Within infrastructure, while dry powder remains elevated, and valuations, like those in real estate, have not backed up with base rates, near-term fundamentals are strong, and secular tailwinds are supportive. Commodity prices remain volatile and rangebound across most sub-complexes.



## Global Market Strategy Office: Favored assets in the period ahead

### Upside

Rapid disinflation, better growth

A more rapid return of inflation towards central bank targets, especially in the US, would allow more easing and better growth through the second half of 2024. This would include core inflation falling with more certainty and at a smoother trajectory, enabling the Fed to ease more quickly and more substantially, with positive spillovers. This should be a boon to more cyclical assets.

### Our favorite picks...

- Equities
  - Europe, China, and emerging markets
  - Value and small caps
  - Basic resources, industrials, financials
- Fixed income: High yield credit
- Currencies: AUD, CAD
- Commodities: Industrial commodities, especially metals

### Baseline

Disinflation through 2024, second half growth reacceleration towards trend

Global growth stabilizes and picks up towards (but remains below) trend rates in the second half of 2024, with disinflation generally continuing and policy easing beginning to unfold in many major developed economies. Real wage growth should also pick up. The rest of the world to see a better growth pick-up than that US. Europe and the UK to have better inflation experience and sooner rate cuts than the US. Chinese growth has also stabilized and may improve in the second half of 2024, given further fiscal stimulus.

### Our favorite picks...

- Equities:
  - Cyclical equities, including value and small caps
  - Developed ex-US and emerging markets equities
- Fixed income:
  - Neutral duration
  - Higher quality non-IG credit, including bank loans and high yield credit
  - EM local and hard currency bonds
- Currencies: Non-USD FX, such as EUR, GBP, and BRL

### Downside

Stickier inflation, lower growth

A hard landing may materialize either through long lags of policy tightening or persistent inflation that spurs additional tightening. In either case, the investment implications would be similar, but the near-term experience would likely differ; long-duration bonds and equities would likely outperform sooner in the early hard landing, but underperform in the persistent inflation version.

### Our favorite picks...

- Cash
- Equities: Defensive equities, such as consumer staples, health care, utilities
- Fixed income: Long-duration sovereigns
- Currencies: Non-USD, non-commodity defensive currencies, such as CHF, JPY

## Appendix

### Notes for page 12 charts:

- The top chart shows the total return on global assets in the 12 months before and after the first Fed rate cut in easing cycles since 1974, and the bottom chart shows the same but for US assets. Data doesn't exist for all assets for every easing cycle. Sources: ICE, ICE BofA, FTSE Russell, MSCI, S&P GSCI, Refinitiv Datastream and Invesco Global Market Strategy Office.  
**Government bonds:** Historical and projected yields and returns are based on ICE BofA government bond indices with historical ranges starting on Dec. 31, 1985 for the global and Jan. 30, 1978 for the US indices.  
**Corporate investment grade (IG) bonds:** ICE BofA investment grade corporate bond indices with historical ranges starting on Dec. 31, 1996 for the Global and Jan. 31 1973 for the US dollar index.  
**Corporate high-yield (HY) bonds:** Bank of America Merrill Lynch High-Yield indices with historical ranges starting on Aug. 29, 1986 for the US dollar, and Dec. 31, 1997 for the Global index.  
**Equities:** We use MSCI benchmark indices to calculate projected returns and calculate long-term total returns with historical ranges starting on Dec. 31, 1969 for the Global and US indices.  
**Real estate:** We use FTSE EPRA/NAREIT indices with historical ranges starting on Dec. 29, 1989 for the US and Feb. 18, 2005 for the global index.  
**Commodities:** Standard and Poor's Goldman Sachs Commodity Total Return Indices with historical ranges starting on Dec. 31, 1969.

## 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.

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

## Important information

This marketing communication is for Professional Clients only in Dubai, Jersey, Guernsey, Isle of Man, Ireland, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States, for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for Qualified Clients/Sophisticated Investors in Israel; 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 Qualified Professional Investors in Korea; for certain specific institutional investors in Brunei; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Indonesia; and for qualified buyers in the Philippines for informational purposes only. In Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

This marketing communication is not intended as a recommendation to invest in any particular asset class, security, strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. This report 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 or product for a particular investor. Investors should consult a financial professional before making any investment decisions. 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. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon.

The opinions expressed are those of the individuals expressing them personally 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. As with all investments, there are associated inherent risks. 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. 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. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

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.

All data as May 31, 2024, unless otherwise stated. All data is USD, unless otherwise stated.

## Restrictions on distribution

### Australia

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 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.

### Canada

In Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

- Issued in **Canada** by Invesco Canada Ltd., 120 Bloor Street East, Suite 700, Toronto, Ontario, M4W 1B7.

## Continental Europe, Dubai, Guernsey, Ireland, the Isle of Man, Jersey and the UK

The document is intended only for Professional Clients in Continental Europe, Dubai, Ireland, the Isle of Man, Jersey, Guernsey, and the UK and is not for consumer use. Marketing materials may only be distributed without public solicitation and in compliance with any private placement rules or equivalent set forth in the laws, rules and regulations of the jurisdiction concerned. This document is not intended to provide specific investment advice including, without limitation, investment, financial, legal, accounting or tax advice, or to make any recommendations about the suitability of any product for the circumstances of any particular investor. You should take appropriate advice as to any securities, taxation or other legislation affecting you personally prior to investment. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without Invesco's prior written consent.

Further information is available using the contact details shown:

- Issued in **Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Netherlands, Norway, Portugal Spain, Sweden, Liechtenstein, and Luxembourg** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- Issued in **Dubai** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- Issued in **Austria and Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.
- Issued in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- Issued in the **Guernsey, Israel, Isle of Man, Jersey** and the **United Kingdom** by Invesco Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. Invesco Asset Management Ltd, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH, UK.

#### Hong Kong

This document is provided to professional investors (as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules) only in Hong Kong.

It is not intended for and should not be distributed to or relied upon by the members of the public or the retail investors.

- Issued in Hong Kong by Invesco Hong Kong Limited Limited 景順投資管理有限公司 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

#### Israel

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 ("Investment Advice Law"). 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.

#### Japan

This document is only intended for use with Qualified Institutional Investors in Japan. It is not intended for and should not be distributed to, or relied upon, by members of the public or retail investors.

- Issued in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (*Kin-sho*) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association, and/or 2) Invesco Global Real Estate Asia Pacific, Inc., Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (*Kin-sho*) 583; Member of the Investment Trusts Association, Japan and Type II Financial Instruments Firms Association.

#### New Zealand

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) 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. Any requests for information from persons who are members of the public in New Zealand will not be accepted.

- Issued in **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.

#### Singapore

This document may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the Securities and Futures Act (the "SFA"), (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This document is for the sole use of the recipient on an institutional offer basis and/or accredited investors and cannot be distributed within Singapore by way of a public offer, public advertisement or in any other means of public marketing.

- Issued in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

#### Taiwan

This material is distributed to you in your capacity as Qualified Institutions/Sophisticated Investors. It is not intended for and should not be distributed to, or relied upon, by members of the public or retail investors.

- Issued in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**

#### United States

- Issued in the **US** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309.