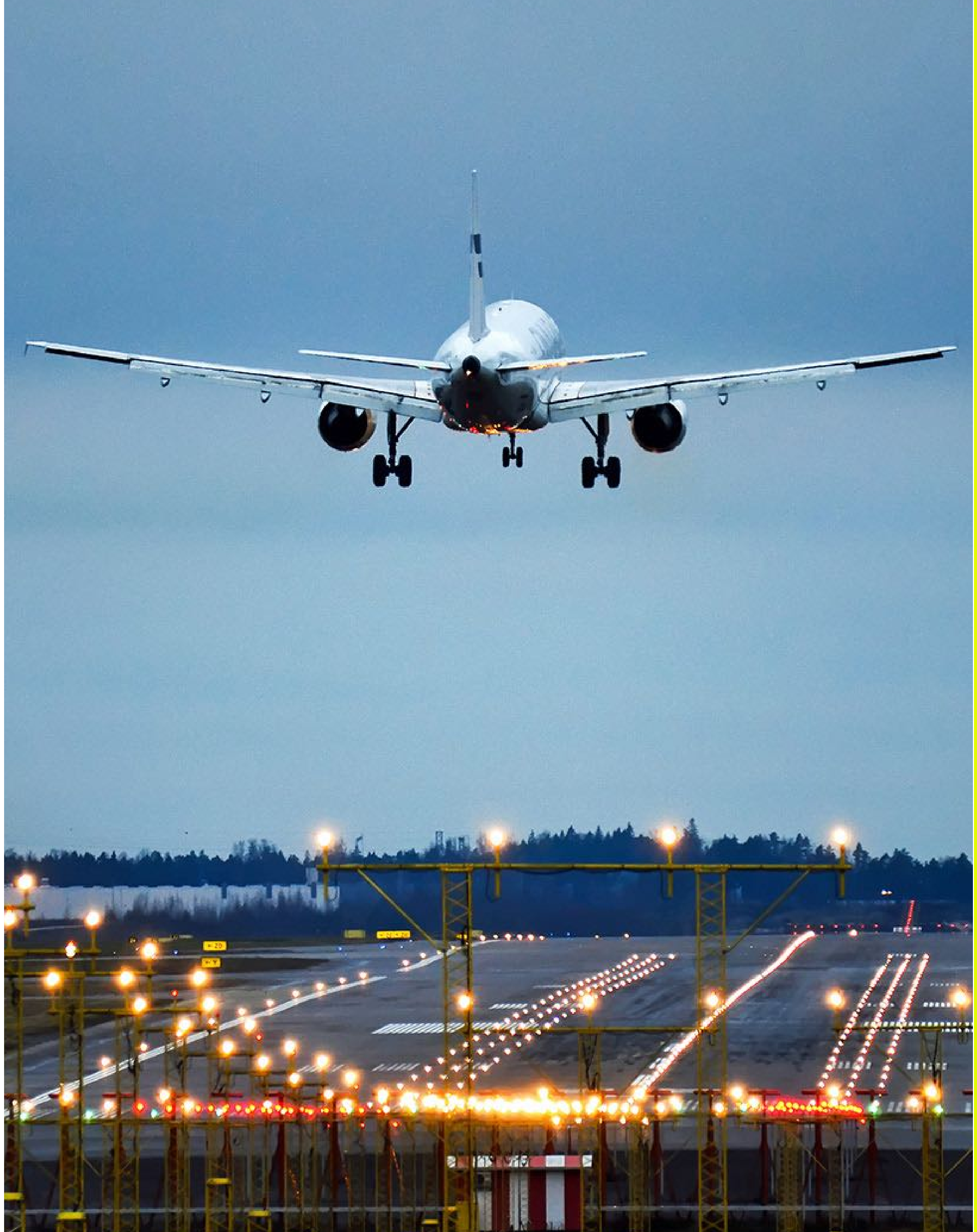
2025 INVESTMENT OUTLOOK

After the landing



Kristina Hooper
Chief Global Market Strategist

We expect growth to continue to slow in the near term, followed by a reacceleration through 2025, which should foster a favourable environment for risk assets globally.

Executive summary

Many of the world's central banks, having largely succeeded in curbing inflation, are now easing monetary policies with the aim of stimulating growth. In 2025, we anticipate signs of economic deceleration to be counteracted by the supportive impact of the global rate-cutting cycle — in other words, we think we are seeing a soft landing. We expect growth to continue to slow in the near term, followed by a reacceleration through 2025, which should foster a favourable environment for risk assets globally.

In the US, we see the economy decelerating towards potential growth rates before reaccelerating later in the year, supported by a resilient labour market and easing financial conditions. The eurozone and the UK experienced very slow growth or recession in the last year, but we expect growth there to gradually pick up momentum through 2025, aided by central bank rate cuts and moderate real wage growth. Meanwhile, Japan's recent wage growth and policy adjustments position it as a potential bright spot, though the yen is likely to strengthen and impact Japan's export-heavy market. In China, we expect the recent policy pivot to support domestic growth and provide a floor to market sentiment. However, we think the reflationary impact on the rest of the region could be limited.

Emerging markets (EM) should benefit from the rate-cutting cycle in developed markets (DM), a somewhat softer US dollar, and a global growth uptick. Specific stories, such as India's growth boom, suggest areas of outperformance, while China's policy stimulus could enhance growth prospects.

Overall, we expect a conducive environment for risk assets, particularly in non-US developed markets, small capitalization stocks, and value sectors in the US, with European assets likely to outperform the US due to favourable valuations and cyclical sector weightings.

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Macro views

1

A smooth landing: Growth steady, inflation near target

- Inflation has cooled substantially and is now close to target in most developing markets (DM).
- Market attention has shifted to growth and potential downside risks.
- Our base case is that there is no significant growth downturn in any major economy in 2025.

2

Central banks are easing

- Rates are generally restrictive across major economies but easing.
- Federal Reserve (Fed) likely to achieve neutral policy by the end of 2025, but improvement in growth outlook may delay cuts.
- European central banks are easing with growth on relatively weaker footing versus the US.

3

After the landing: Growth decelerating now but at trend in 2025

- US slows to potential, then reaccelerates through 2025.
- European growth to improve to slightly outperform consensus forecasts.

Market views

Fixed income

Duration to perform well as rate cuts feed a bull steepening. Current yields look attractive, but spreads are unlikely to tighten much further, given current valuations.

Equities

We see a risk-on environment globally, with small caps and value likely to outperform along with non-US developed markets. Previous easing cycles without recessions suggest risk assets should perform well.

US dollar / currencies

USD has been expensive for some time, though the growth differential between the US and other major economies still favours USD, likely limiting the downside of the dollar. Interest rate differentials are likely to influence further movements.

Alternatives

We favour private debt and hedged strategies versus private equity as we currently prefer assets that do not rely on leverage to generate returns.

Emerging markets

EM assets should perform well in 2025, driven by the rate-cutting cycle in most developed markets and a pick up in global growth. In China, upside risk centres on confidence in recent policy stimulus.

Note: There can be no assurance that market views will come to pass.

Risks

The path ahead could shift under different assumptions. We consider some of these below:

Upside scenario

Growth goldilocks across regions

- Greater growth participation and reacceleration would likely boost risk appetite.

Downside scenario

Policy mistake: Growth undershoots

- Growth could tack down on delayed effects of tight policy environment.

Other potential swing factors...

1. Trade and geopolitics may shift following Trump victory
2. China policy stimulus could help reinvigorate growth
3. A return of inflation could shift the central bank outlook
4. Fiscal pressures may alter government spending trends

1 A smooth landing: Growth is steady, and inflation near target

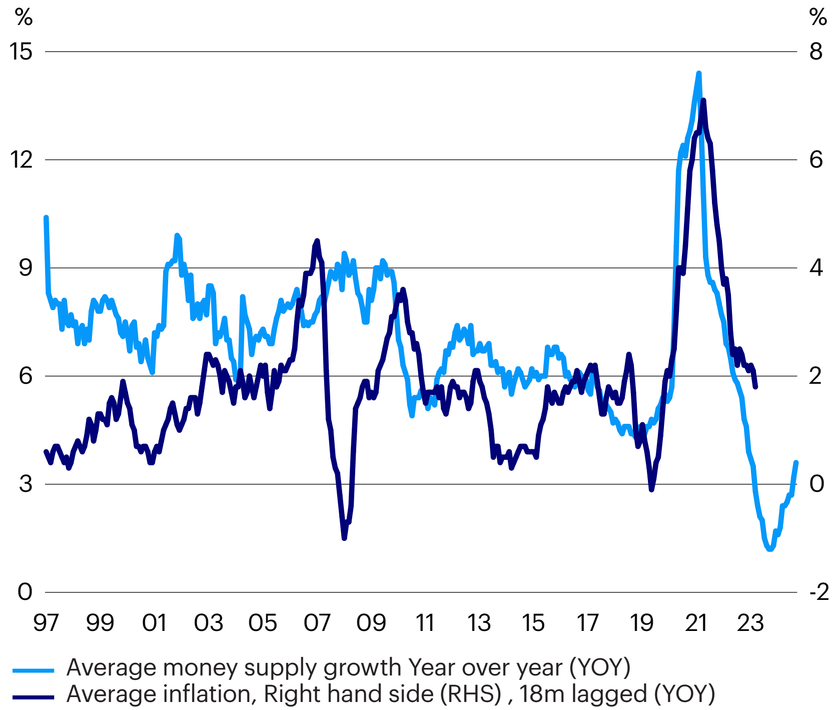
Growth has been resilient despite a tight policy environment

After a steep climb to restrictive rates to curtail rapidly rising prices, central banks have all but declared victory over inflation. Yet many of the world's major economies are showing signs of slowing. We expect global growth to decelerate to potential rates at the end of 2024 and into early 2025.

- Bank lending surveys are pointing to less tight conditions and better demand. We note that conditions tend to look quite different at the start of recessions. Bank loan growth is also starting to return in both the US and Europe. Meanwhile, credit spreads remain tame.
- Global Purchasing Managers' Indexes (PMI) are signaling a steady growth environment powered by services activity. In the US, the services sector is seeing a pick-up in activity. In Europe, PMIs indicate flat growth.
- Household balance sheets in Europe and the US are strong, providing a solid foundation for continued consumption growth as central banks ease policy.

Normalizing money growth suggests more benign inflation environment ahead

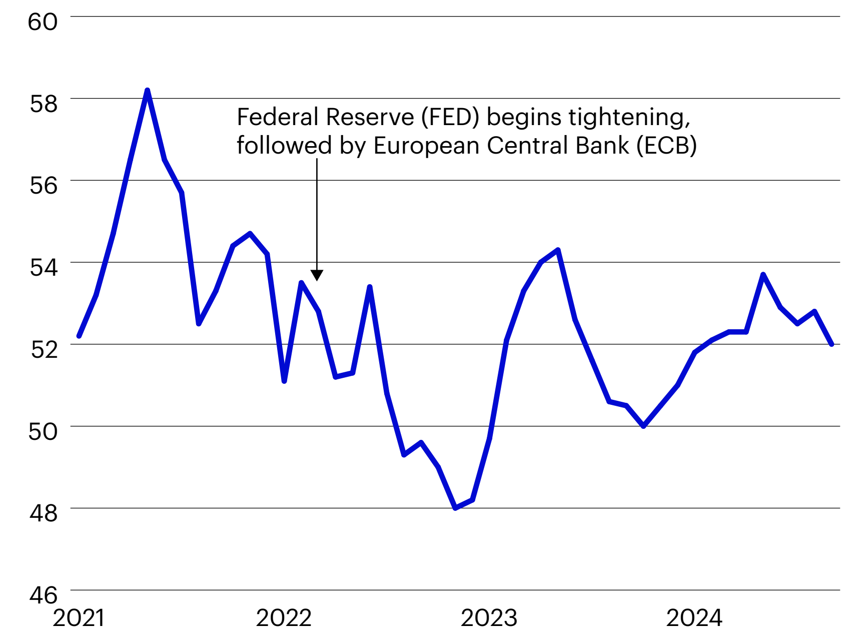
Global money supply versus inflation



Sources: Datastream and Invesco, as of October 31, 2024, using monthly data. Global average money supply growth and average inflation includes figures from the US, China, eurozone, Japan, and United Kingdom. Both money supply and Consumer Price Index (CPI) measures show the average year-on-year growth across the countries covered since January 1997 (18-month lagged).

Global growth has held up despite tight monetary policy environment

JPMorgan Global Composite Purchasing Managers' Indexes (PMI)



Sources: Invesco and Macrobond, as of September 30, 2024.

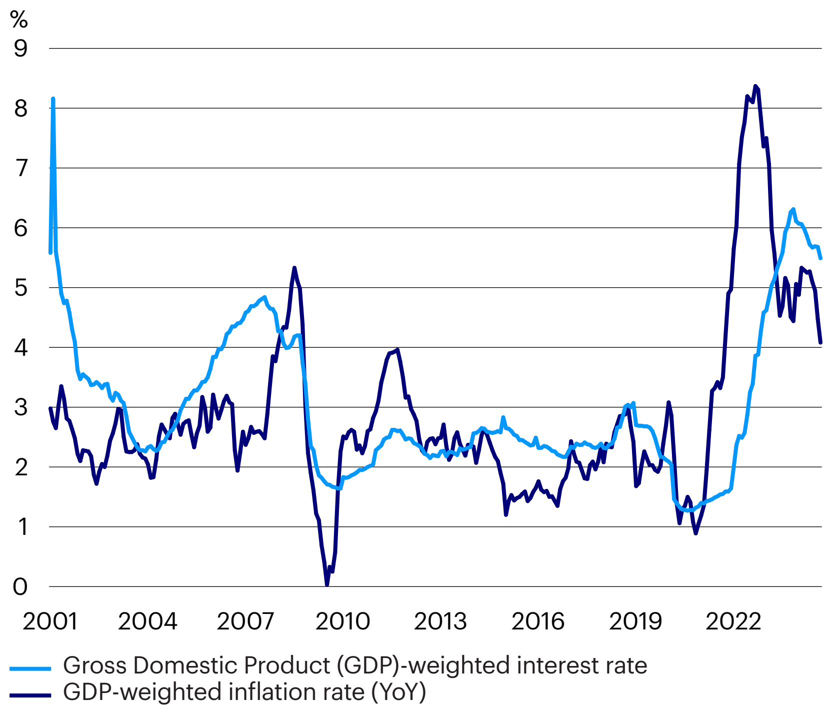
2 Central banks are easing

Rates are generally restrictive — easing should help boost activity

2025 is likely to be framed by the push-and-pull between pockets of slowing economic activity due to accumulated rate hikes and the supportive effect of the rate-cutting cycle. With central bankers turning their attention to growth risks — and inflation under control — we think there is substantial room for easing.

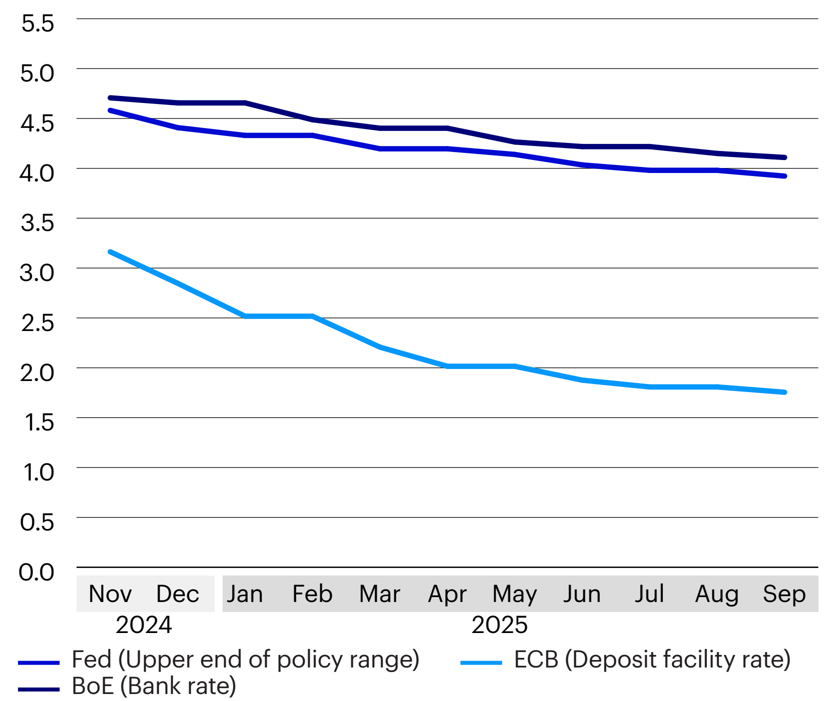
- With inflation comfortably near target, we expect the Federal Reserve to continue its rate-cutting cycle through 2025, achieving a neutral policy rate of around 3.5% before year-end.
- The ECB is easing by relatively more as it faces a lower growth environment. The Bank of England (BOE), on the other hand, has seen higher growth and inflation and thus is likely to see comparatively less easing.
- In contrast with other major developed market central banks, Japan is in a very modest tightening cycle as it contends with a rise in inflation.
- Emerging markets excluding China should benefit from the global easing environment, creating additional room for policy support.

Global policy rates are restrictive, with ample room for easing to support growth
Weighted average global central bank policy rate (%)



Based on monthly data from February 2001 to September 2024 (as of September 30, 2024). Based on the 20 largest economies during each calendar year, according to nominal GDP in US dollars (based on data from the IMF World Economic Outlook April 2024). The inflation rates are based on seasonally adjusted consumer price indices. Sources: IMF, LSEG Datastream and Invesco Global Market Strategy Office .

Markets are looking for significant easing in 2025
Market-implied path of central bank rates (%)



From November 2024 to September 2025. Based on Fed Funds Futures (for the Fed) and Overnight Index Swaps (for the BOE and ECB) as calculated by Bloomberg. Rates calculated for central bank policy meeting dates. For months where there is no meeting, we show the same rate as the month before. As of November 11, 2024. Sources: Bloomberg L.P. and Invesco Global Market Strategy Office .

3 After the landing: Growth slowing now but reaccelerating in 2025

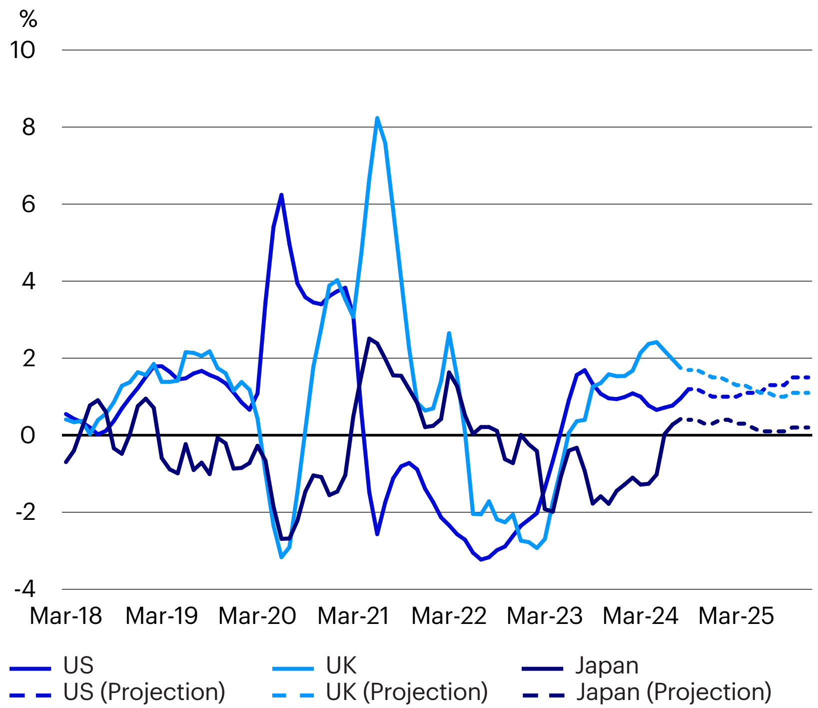
2025 to see real wage growth, easing financial conditions, and policy easing

In our view, inflation at or near target should help sustain real wage growth, while central bank rate cuts and easing lending conditions should help restore growth momentum.

- In the US, we believe the resilient labour market and strong overall household balance sheets should help spending and the broader economy to continue to grow. Continued easing in financial conditions and real wage growth should help the US economy reaccelerate next year.
- In Europe, rate cuts should help push economic growth up towards potential rates, supported by moderate real wage growth.
- Lower rates should also help UK mortgage holders, while political stability and potentially improved trading relations with the European Union (EU) may mean foreign investors look more favourably at the UK.
- A return of real wage growth in Japan, helped by a recent shift in wage-setting patterns, should help boost consumption there.

Real wage growth through 2025 should help maintain economic momentum

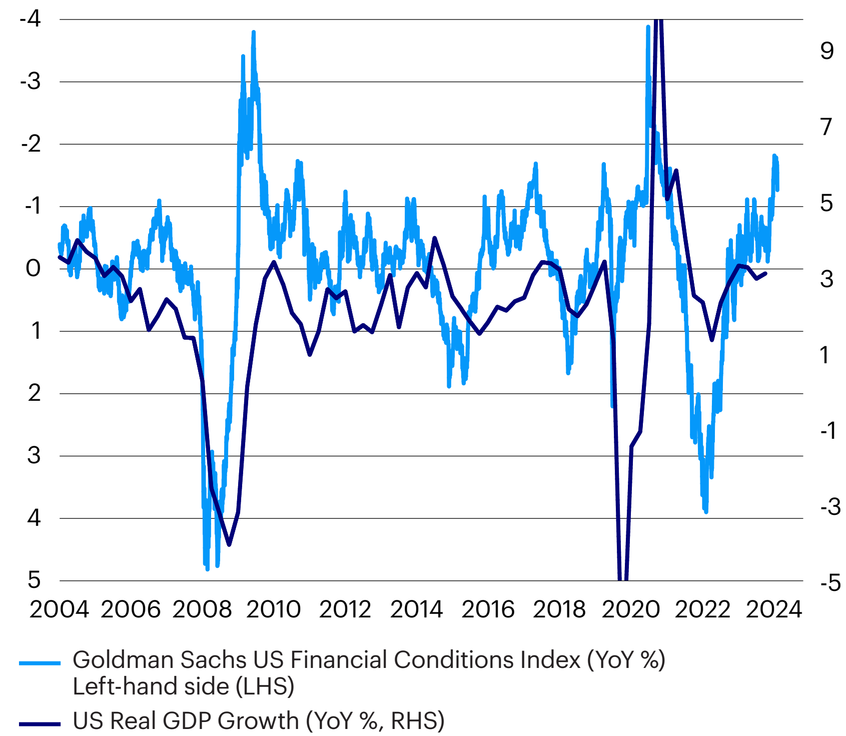
Annual real wage growth



Note: Chart shows monthly real wage growth data for US, UK, and Japan from March 2018 to December 2025. Forecasts start in September for the UK and Japan and October for the US. Projections are from Invesco and are shown in dotted lines. Sources: LSEG Datastream, OECD, and Invesco. All data is latest available as of October31, 2024. **There is no guarantee that forecasts will come to pass.**

Easing financial conditions typically point to improving growth ahead

US financial conditions and GDP growth



Note: Chart shows daily financial conditions for the US from October 2004 to October 2024. Sources: LSEG Datastream, OECD, and Invesco. All data is latest available as of October31, 2024.

Rate-cutting cycles tend to be good for risk assets

Previous soft landings have been a boon to commodities, equities, and credit

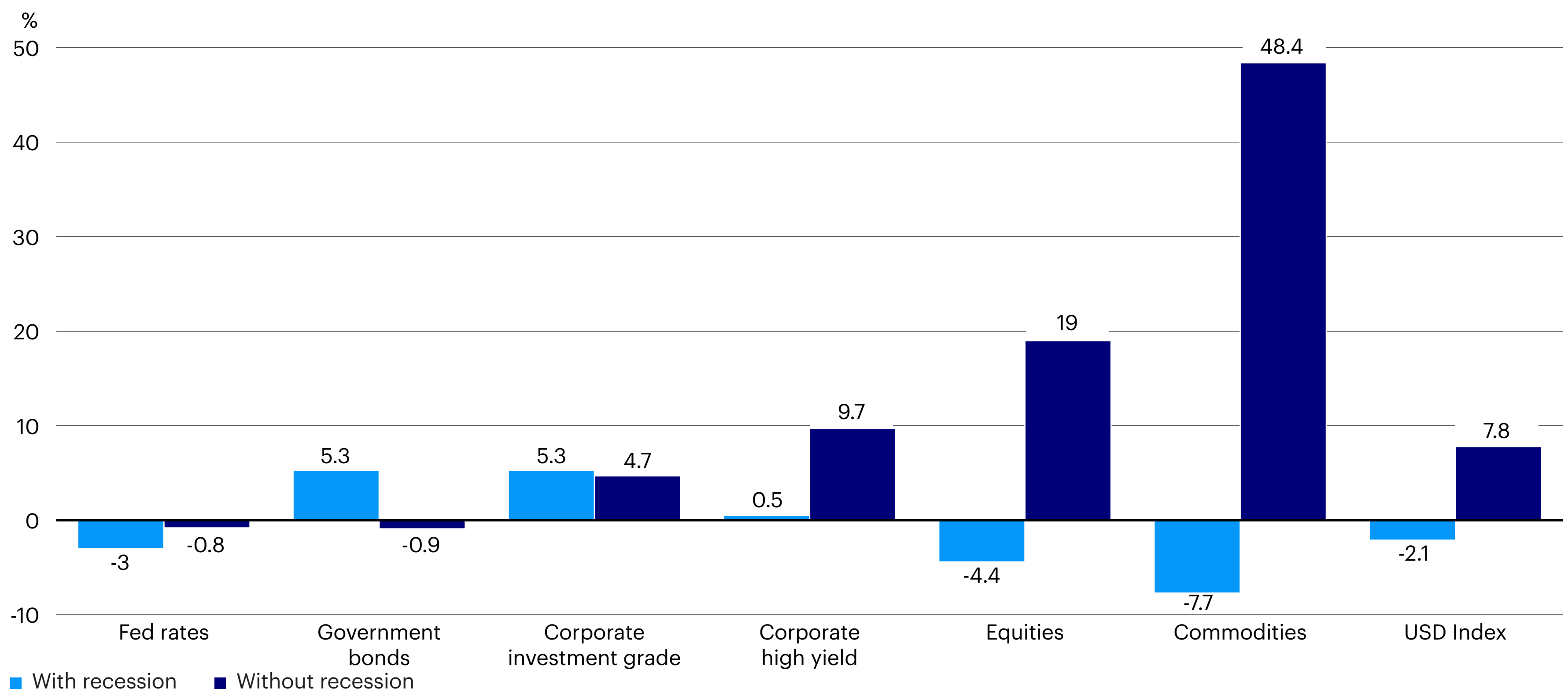
Asset performance during easing cycles is dependent on the state of the economy. In the past, when the Fed eased and the economy avoided a recession, risk assets tended to perform well.

- The US stock market has historically posted strong returns after the start of an easing cycle as long as the economy did not fall into a recession within the subsequent 12 months.
- Markets outside the US also have seen solid performance in rate-cutting cycles. Global equities, commodities, and credit have all seen positive performance in periods when the US avoided a hard landing.
- With a soft landing as our base case, we think risk assets are likely to trade well in 2025.

Global assets in Fed easing cycles analysis. We use the following benchmarks for each asset class (with date of first easing cycle for which data is available): equities = MSCI World Total Return Index (June 1989), government bonds = ICE BofA Global Government Bond Total Return Index (June 1989), corporate investment grade = ICE BofA Global Corporate Bond Total Return Index (January 2001 and replaced by the ICE BofA US Corporate Index for the June 1989 and July 1995 easing cycles), corporate high yield = ICE BofA Global High Yield Bond Total Return Index (January 2001 and replaced by the ICE BofA US High Yield Index for the June 1989 and July 1995 easing cycles), USD index = DXY US Dollar Index (June 1989), commodities = S&P GSCI Commodity Total Return Index (June 1989).

Risk assets tend to perform well when the Fed cuts rates and the US economy avoids recession

Average global asset total returns since 1989 over 12 months after the Fed first cut rates

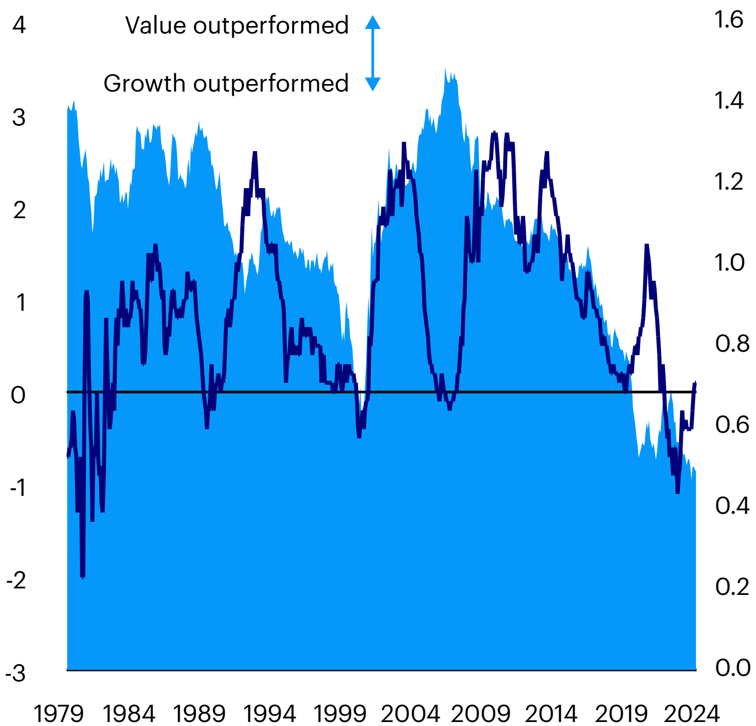


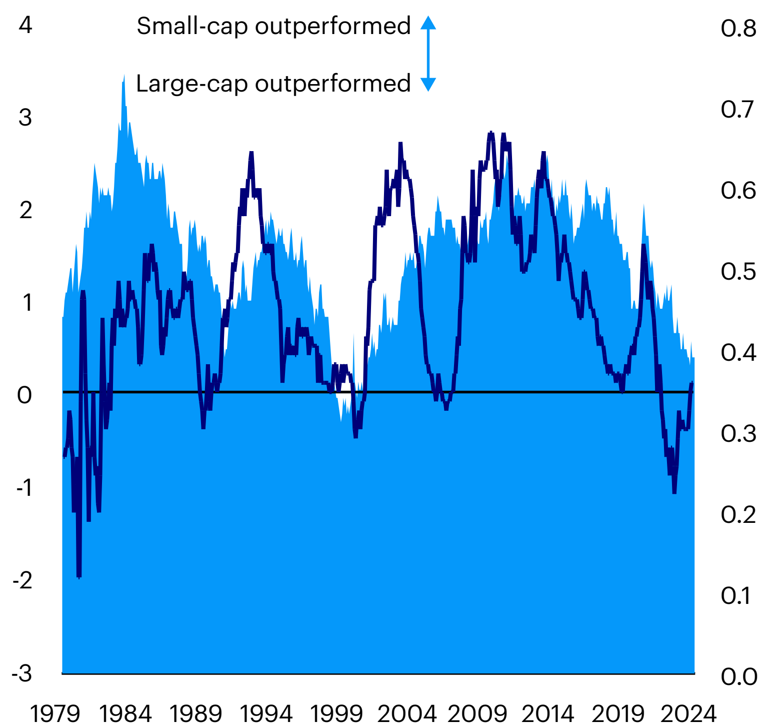
Notes: **Past performance is no guarantee of future results.** Data as of October31, 2024. The chart shows the total return on global assets in the 12 months after the first Fed rate cut in easing cycles since 1989. Data does not exist for all assets for every easing cycle, with the global high yield and investment grade returns for the 1989 and 2005 easing cycles represented by US returns. We use the following benchmarks for each asset class (with date of first easing cycle for which data is available): equities = MSCI World Total Return Index (June 1989), government bonds = ICE BofA Global Government Bond Total Return Index (June 1989), corporate investment grade = ICE BofA Global Corporate Bond Total Return Index (January 2001 and replaced by the ICE BofA US Corporate Index for the June 1989 and July 1995 easing cycles), corporate high yield = ICE BofA Global High Yield Bond Total Return Index (January 2001 and replaced by the ICE BofA US High Yield Index for the June 1989 and July 1995 easing cycles), USD index = DXY US Dollar Index (June 1989), commodities = S&P GSCI Commodity Total Return Index (June 1989). See appendices for definitions, methodology and disclaimers on page 21.
Sources: ICE, ICE BofA, MSCI, S&P GSCI, LSEG Datastream and Invesco Global Market Strategy Office.

Equities

Lower rates should encourage a rotation within US stock market leadership

Rate cuts should steepen the yield curve boosting value and small-cap stocks
US Treasury yield curve (10-year minus 2-year) versus value/growth & small/large cap





Note: The Russell 1000 Value Index measures the performance of value-oriented stocks. The Russell 1000 Growth Index measures the performance of growth-oriented stocks. The Russell 2000 Index measures the performance of small-capitalization stocks. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. Monthly data from January 1979 to September 2024. Sources: Bloomberg L.P. and Invesco, as of October 31, 2024. An investment cannot be made directly into an index. **Past performance does not guarantee future returns.**

Steeper yield curve supportive of greater market breadth

- The same economic backdrop that results in a steepening of the yield curve (rate cuts, resilient growth, and stable inflation) may also provide a tailwind for value-oriented and smaller-cap stocks.
- Lower rates should reduce the interest burden faced by companies heavily financed with floating rate debt or that have nearer-term refinancing needs.
- As growth strengthens in the US, this should result in potentially higher revenue growth, particularly for smaller-cap companies, where sales have been flat in recent years.
- Improving revenues coupled with lower interest rates and expenses should result in greater earnings growth for value and small-cap companies in 2025.

Fixed income

Duration and credit

Global duration

- In the US, our baseline expectation remains a soft landing with resilient growth and ongoing disinflation. In Europe, recent data suggest a downward trend in growth in the second half, while inflation metrics have disappointed.
- We, therefore, believe it is prudent for the ECB to accelerate its policy adjustments. We now anticipate a 25 basis-point cut at each meeting until the ECB reaches a "neutral" stance.
- The Fed aims to reduce interest rates in line with the soft landing. Incoming labour market and inflation data will likely serve to calibrate the amount of Fed cuts. If the US growth outlook improves post-election, the Fed may temper rate cut expectations.
- In emerging markets (EM), we expect this global rate-cutting cycle to broaden, particularly in EM Asia, as external factors ease and inflation recedes further.

Credit views

- As the Fed and other global central banks cut rates, financial conditions should ease and support the global economy and markets. Easier financial conditions and strong fundamentals have turned us more positive on risk-taking across asset classes.
- With the Fed now moving more aggressively, we are more positive on investment grade credit and believe tail risks have declined with the Fed in play. Technicals have been strong, and investors appear to be adding duration to lock in yields.
- We are modestly positive on high yield. Fundamentals are good, though spreads are tight. Market liquidity is also good, and demand for bonds appears strong. We would favour adding risk on sell-offs.
- We are neutral on the EM credit asset class. Valuations are fair, in our view, and much of the yield is in the distressed segment, which is idiosyncratic. We would favour buying into potential corrections.

Source: Invesco, as of October 2024.

Views from Invesco Fixed Income

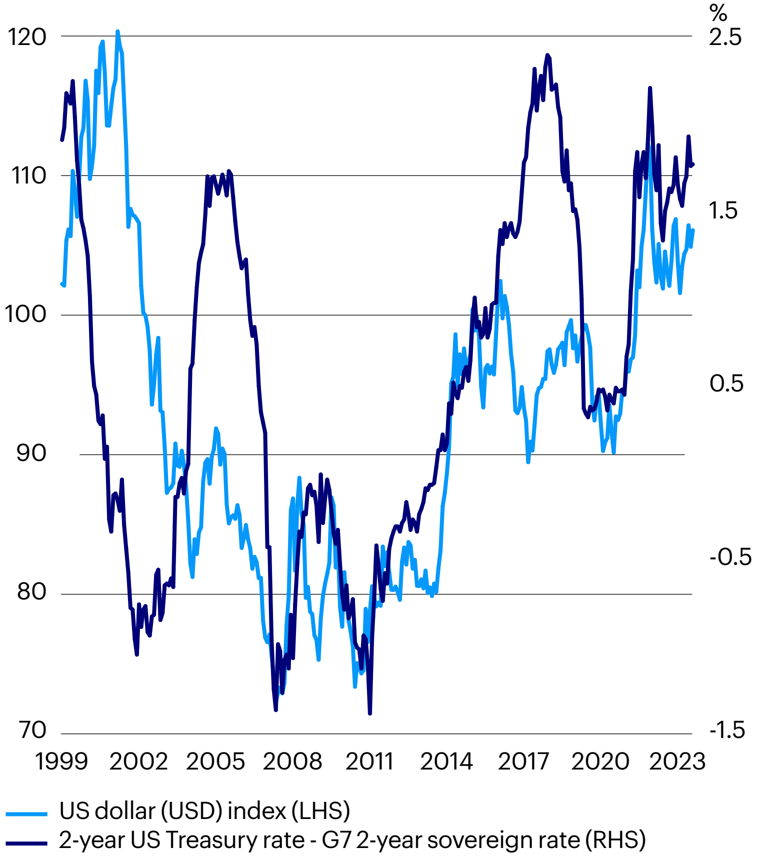
Rob Waldner, CFA®
Chief Strategist
Head of Macro Research
Fixed Income

Central bank moves to end their restrictive policy stances support a positive market outlook. The difficulty for investors is tight valuations. Most credit spreads are tight in historical terms, limiting the upside for returns, in our view. The current positive macro backdrop should reward investment in these sectors even if the upside is limited by valuations, but we are cautious about stretching too far for yield. We favour being somewhat overweight risk while leaving room to add exposure upon any market corrections.

Dollar

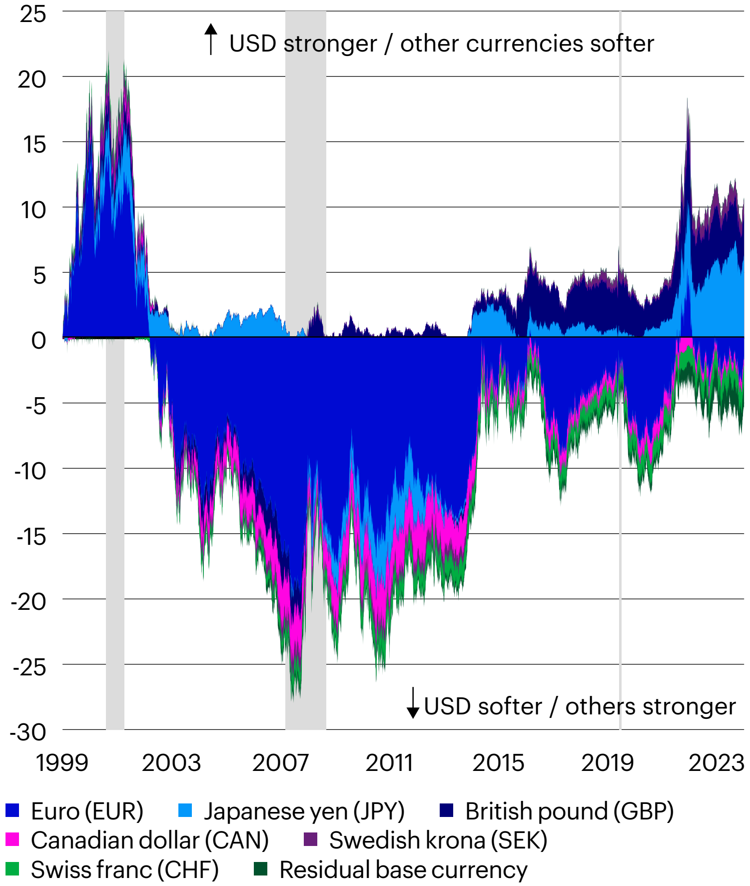
The pace and magnitude of rate changes point to multi-dimensional performance of the dollar

Interest spreads dominate recent dollar moves
US dollar versus G7 interest rate differential



Note: The Dollar Index measures the average exchange rate between USD and major world currencies. The Group of Seven, or G7, is an informal grouping of advanced democracies that meets annually to coordinate global economic policy and address other transnational issues. Sources: Bloomberg L.P. and Invesco, as of October 25, 2024. An investment cannot be made directly into an index. **Past performance is no guarantee of future returns.**

USD: From broad directionality to diversity
Index change since 1999; contribution of each currency



Note: Grey shading indicates National Bureau of Economic Research US recession dates. Chart shows the last 25 years of contributions by each constituent currency to changes in DXY, a nominal US dollar index, adjusted by index weights, rebased to September 27, 1999=100. Higher (lower) is a stronger (softer) dollar, and the opposite for DXY constituent currencies. Global Financial Crisis (GFC). Sources: Macrobond and Invesco, daily data as of September 27, 2024.

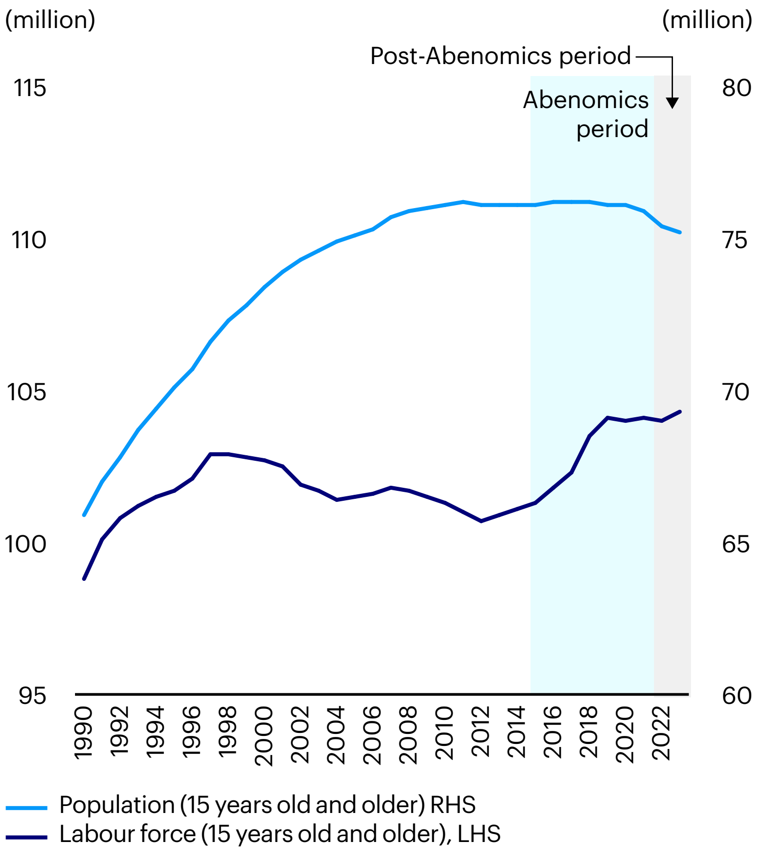
Strong dollar cycles have tended to conclude with Fed easing

- Over the past decade, the US dollar has been relatively strong compared to a trade-weighted basket of currencies.
- Strong dollar cycles have tended to conclude when the interest rate differential between the US and other countries narrowed.
- Currently, rates in the US are more attractive than those available in other G7 countries. As the Fed lowers interest rates, the rate differential may narrow. Yet the path for each currency is likely to depend on other central bank policy paths.
- The GBP and JPY, in particular, may actually see more favourable spreads versus other currencies against the dollar. These differentials indicate an idiosyncratic dollar environment where individual currency outlooks may experience different trajectories based on their respective economy's growth and inflation differentials.

Japan

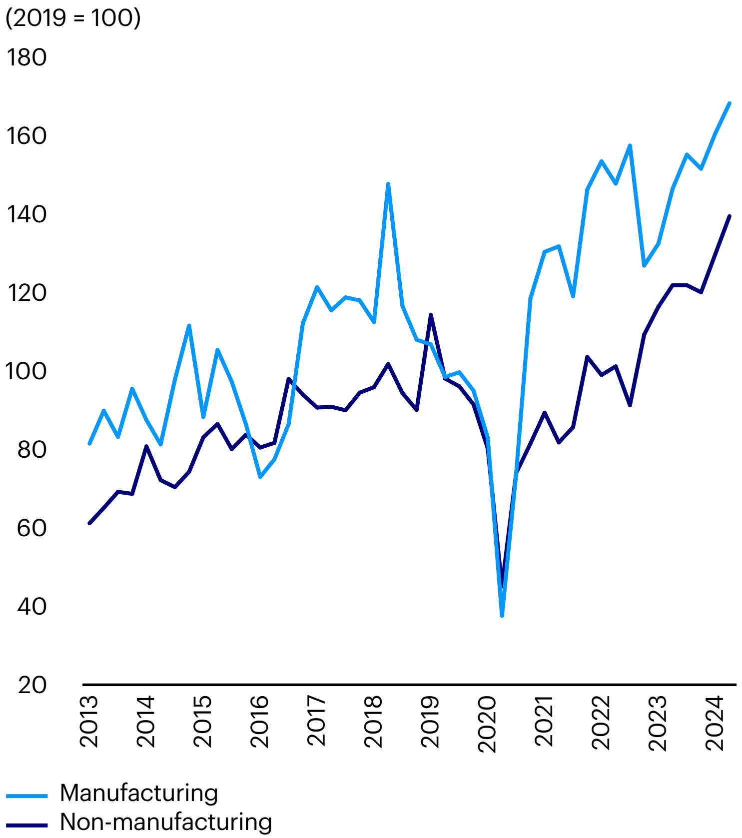
Tighter labour market brings in higher wages and sustained rise in domestic demand, leading to a continued rise in corporate profits

Labour force in post-Abenomics Japan stopped rising, leading to structurally tighter labour market
Japan's population and labour force



Source: Japan Ministry of Health, Labour and Welfare. Data as of October 25, 2024. Figures for 2024 represent the average figures for January-August 2024.

Japanese companies' profit continues to rise robustly with higher pricing power
Japanese companies' pre-tax profits



Source: CEIC. Data represents macro-level company profits as complied by Japan's Ministry of Finance. Quarterly data as of October 25, 2024.

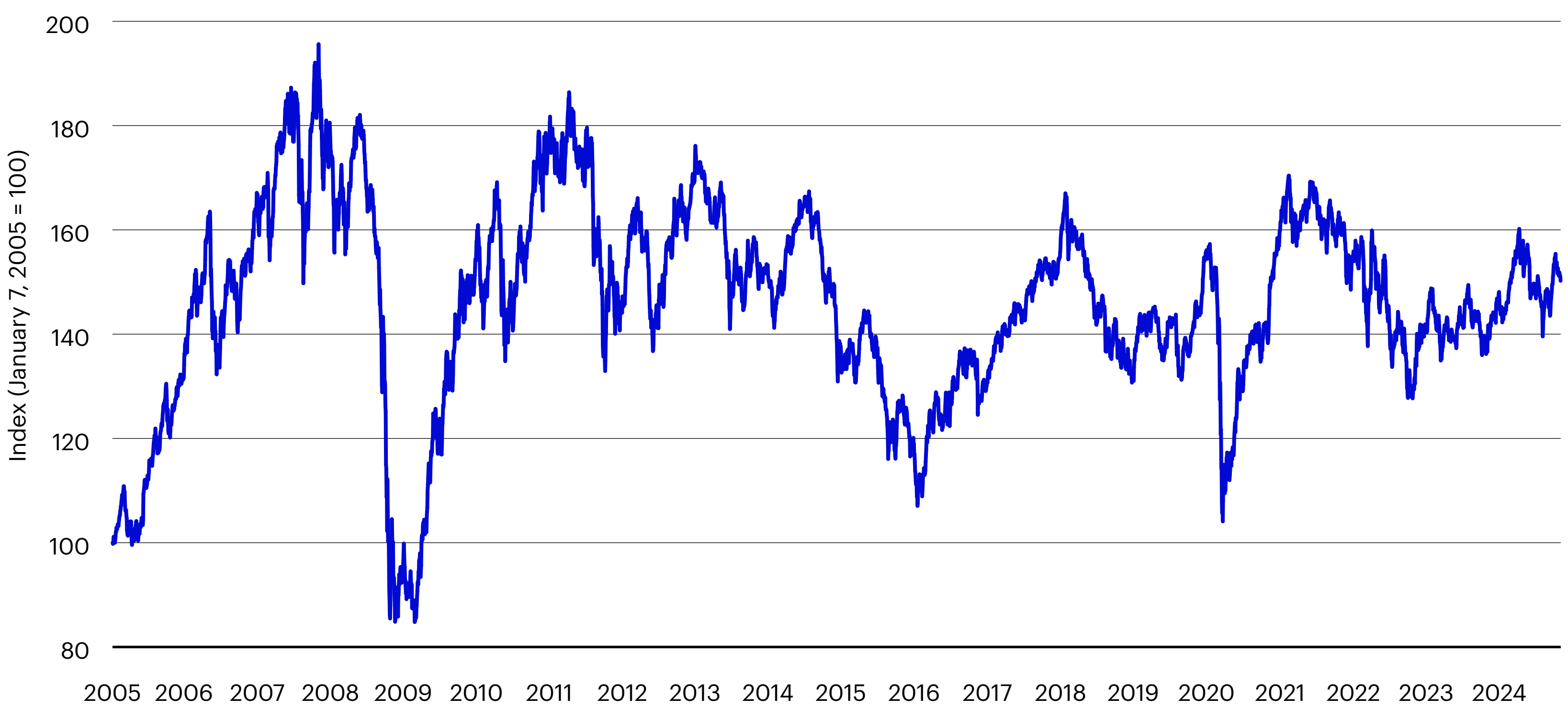
Japan's structural transformation underway

- During the Abenomics period of 2012-2020, Japan's labour force rose unexpectedly by 3.4 million people due to higher labour force participation rates for female and the over 65-year-old population.
- This prevented Japan from achieving decent wage increases. However, the labour force has become stagnant in the post-Abenomics period, which has so far resulted in a much tighter labour market and higher wage increases. This has allowed companies to acquire more pricing power and achieve higher profitability.
- An expected, sustained rise in wages should encourage Japan's economic transformation through which domestic demand rises in a more sustained way. This is likely to lead the Bank of Japan to continue its normalization of monetary policy.

Emerging markets

A global easing cycle is typically good for emerging market assets

Policy easing cycle may further improve sentiment in emerging markets
Bloomberg Emerging Market Capital Flow Proxy Index



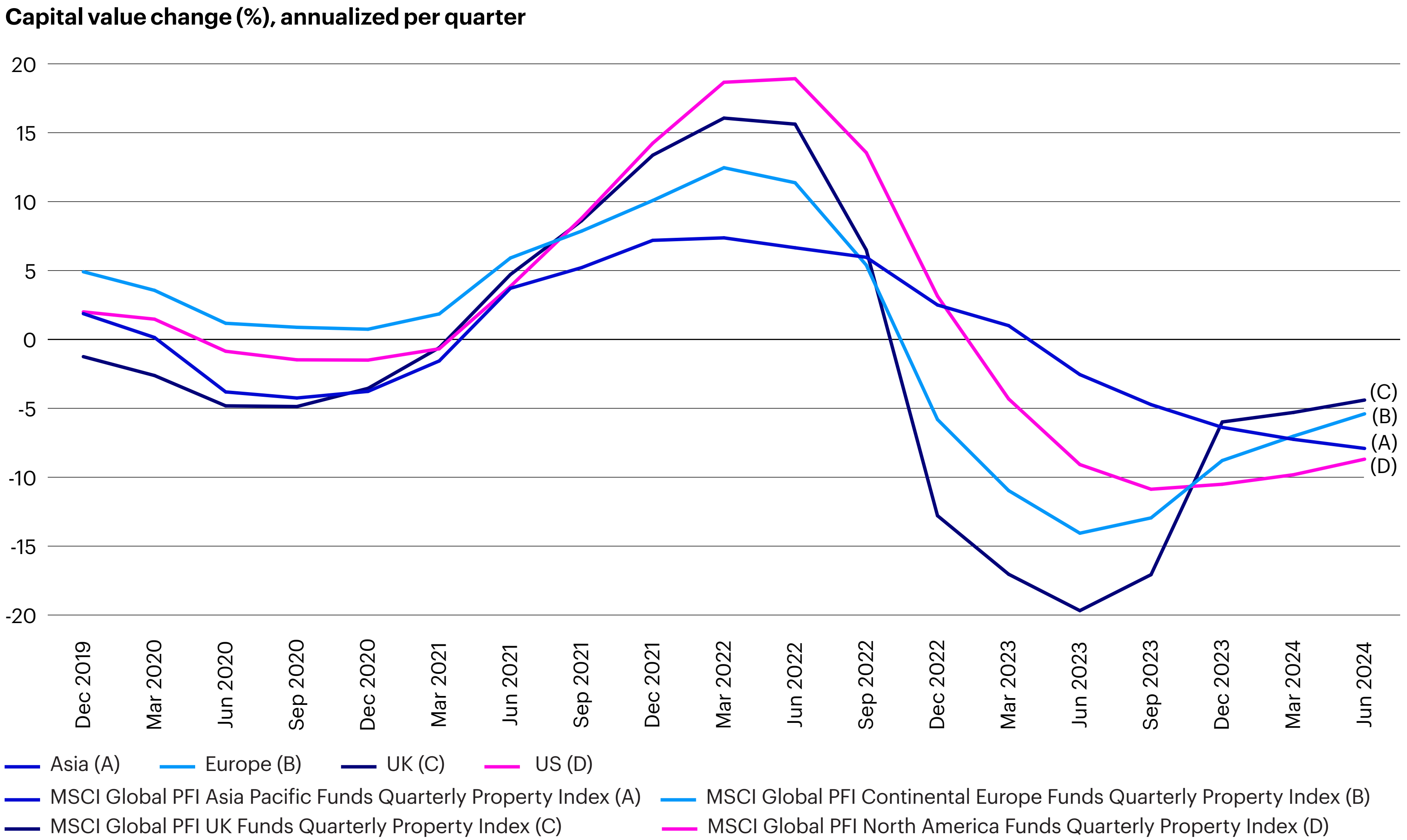
Note: **Past performance is no guarantee of future returns.** Based on daily data from January 7, 2005, to October 25, 2024 (as of October 29, 2024).The Bloomberg Emerging Markets Capital Flow Proxy Index is a composite index of four asset classes designed to mimic the flows into and out of emerging markets assets (MSCI EM Equity Index, Bloomberg EMBI bond spreads, Bloomberg EM FX Carry Trade Index and the Goldman Sachs Commodity Index). Sources: Bloomberg L.P. and Invesco Global Market Strategy Office.

Emerging markets should see support from easing cycle

- In recent years, EM assets suffered two shocks. First, the feared economic downturn during the pandemic (and the knock-on effect on commodity prices) had a big negative impact. Then, the aggressive tightening undertaken by the Fed in 2022 provoked another bout of weakness.
- This created an opportunity to invest in emerging markets at attractive valuations, though we think it needed a belief that Fed easing was approaching to release that potential. 2024 has been a good year for both EM bonds and EM equities, but the recovery in sentiment was already apparent in 2023, according to Bloomberg's EM Capital Flow Proxy Index.
- We believe the strong performance is likely to continue. First, the Fed has only just started easing, and we think that process will continue throughout 2025. Second, China's recent policy initiatives show a determination to bolster growth that could benefit the whole of Asia. Finally, the Bloomberg Proxy measure has been improving but is not at an extreme, so we have no reason to believe the outperformance by EM assets has gone too far.

Real estate

Central bank pivots mark inflection points for real estate



MSCI Global Quarterly Property Fund Index (PFI).
Source: MSCI data, last data point June 30, 2024.

Timings vary by region, but we are seeing the turning point in values

- The Fed's September policy rate cut of 50 basis points marked a positive inflection point for private real estate investor sentiment. While a cut was anticipated, the impact on real estate is substantial.
- From a capital markets perspective, declining policy rates provide scope for lower real estate debt costs and restoration of a positive spread between cap rates and debt costs. This restoration should expand the availability of positive leverage, which in turn should reinvigorate transaction activity and push property prices higher.
- From a fundamentals perspective, the reduction of policy rates provides scope for reduced capital costs for commercial and residential real estate tenants. Once lower interest rates have time to be metabolized into the broader economy, we expect tenant demand to increase.

Alternatives:

Favouring private debt and hedged strategies over private equity

Jeff Bennett, CFA®
Head of Manager Selection
Invesco Solutions

Portfolio risk

We remain neutral on how we're allocating risk within our alternatives portfolio due to elevated downside growth risks, high equity valuations, and benign capital markets activity. In general, we're more defensive, favouring private debt and hedged strategies versus private equity.

Private credit

While we may see some compression in direct lending spreads and original issue discounts (OID), we still believe that all-in yields will remain attractive relative to liquid credit strategies.

Real asset and alternative credit yields continue to remain elevated relative to their long-term averages.

Private equity

Dry powder continues to sit idle as public market valuations remain high, and "take-private" transactions are at record low levels. Lower interest rates and tighter spreads will likely improve the leveraged buyout (LBO) outlook as the thawing of the exit market will be a welcome shift for private equity (PE) managers and investors.

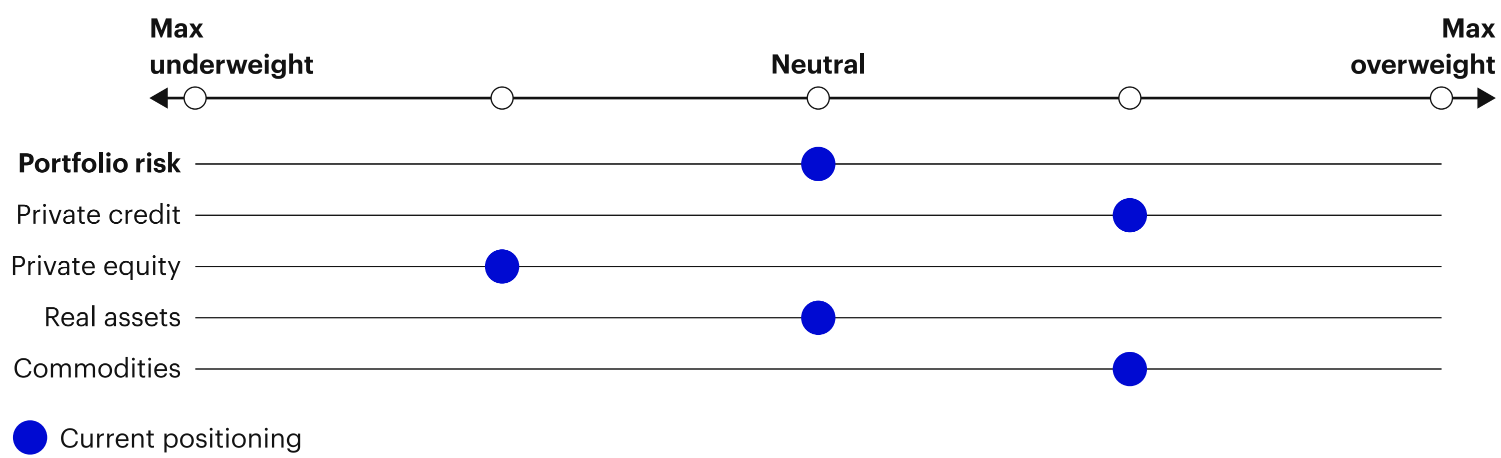
Real assets

Within commercial real estate, a trough in valuations and stabilization of cap rates at tight levels have driven confidence that the start of a new transaction cycle is close at hand. Despite elevated valuations and record levels of dry powder in infrastructure, an easing of policy may provide a runway for investors to deploy capital.

Hedge funds

Spreads within event-driven strategies remain high despite limited capital market activity from mergers and acquisitions as private equity remains sidelined.

Trend-following strategies have historically benefited from a tailwind during periods of high and declining rates.



Source: Invesco Solutions, views as of October 31, 2024.

Global Market Strategy Office: Favoured assets in the period ahead

Downside
Policy mistake: Growth undershoots

Weak patches in recent data presage a sustained growth deceleration in key economies, including the US. As activity falters, central banks enact more rate cuts to counteract growth slowdown, resulting in below-trend performance in the first half of the year, followed by a pick-up towards trend in the latter half of the year.

Favoured assets...

- Equities: US
- Fixed income: Duration overweight
- Commodities: Gold
- Currencies: USD, JPY

Baseline

Trend growth then reacceleration, Fed to go to neutral, other central banks continue cutting cycle

Global growth near potential rates through 2025, supported by policy easing and real wage growth in many major developed economies. Fed to go to neutral by year-end 2025. US growth decelerates to trend but then reaccelerates and outperforms most developed markets, while Europe and the UK improve from their current relative weakness. Chinese growth remains below trend, but recent stimulus has raised the probability of an upside surprise.

Favoured assets...

- Equities:
  - DM non-US, especially UK and Japan domestics
  - Small and mid caps, cyclical sectors, value, including US
- Fixed income:
  - Modest duration overweight
  - High yield, bank loans
- Commodities: Base metals
- Currencies: JPY, GBP

Upside
Growth Goldilocks

Falling inflation and rate cuts help to accomplish a goldilocks environment across most economies, seeing greater regional participation versus our base case and leading to a period of growth potential across most major economies while inflation remains near target rates. China also surprises up, helping to lift emerging markets as a whole.

Favoured assets...

- Equities: Emerging markets and China
- Fixed income: High yield, EM local currency government bonds and private credit including bank loans
- Commodities: Industrial commodities, energy
- Currencies: Commodity currencies

Source: Invesco, as of October 31, 2024.

Swing factor 1: President-Elect Trump may disrupt global trade

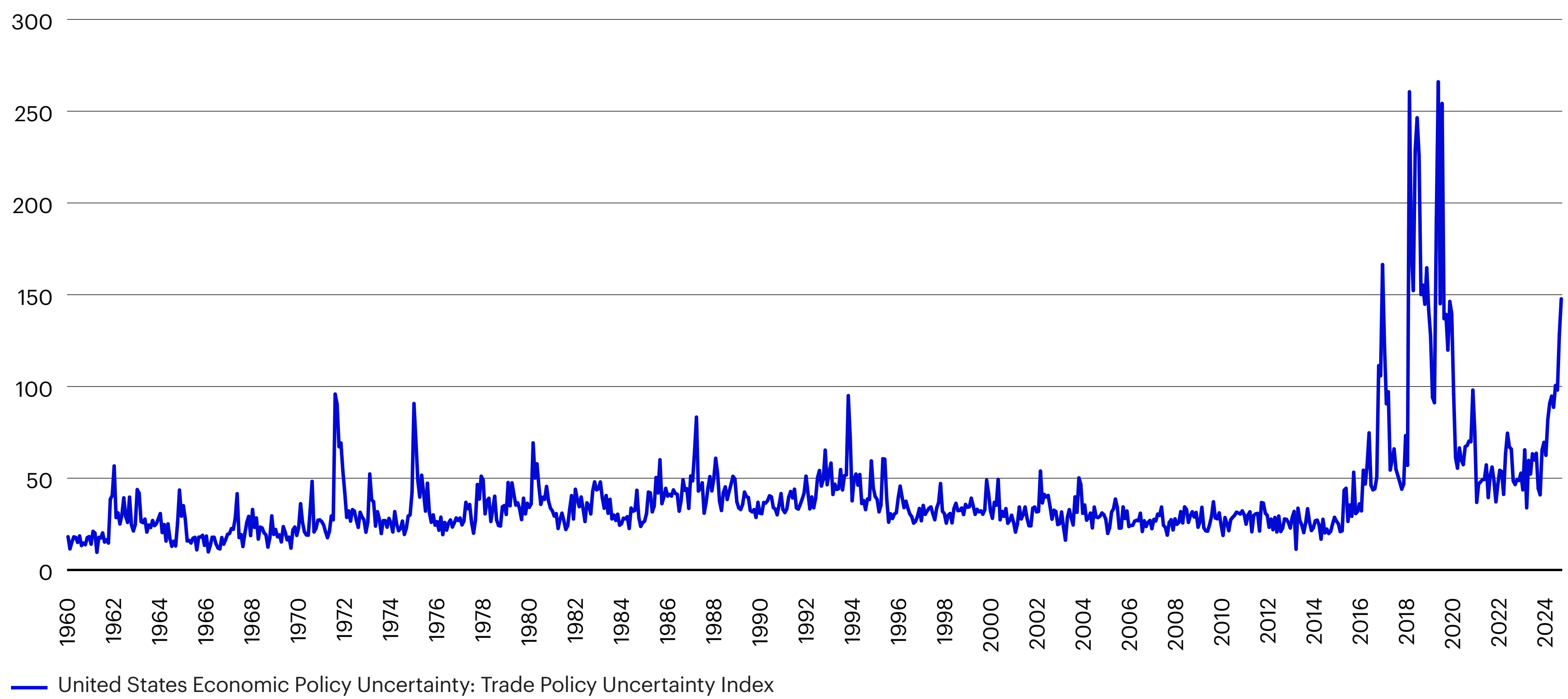
Trump administration is likely to reshape US trade through tariffs

With President-Elect Trump set to enter office early in 2025, policy uncertainty on trade and immigration has pushed higher. Even before taking office, Trump may rattle markets and politics through expectation-setting. This is because US presidents have more authority over foreign policy than domestic policies, which need Congressional approval.

- Trump pledges to go big and fast on tariffs, strict immigration limits and heavy deportation – policies that may be stagflationary on their own and would likely have knock-on effects on global growth.
- Trump also pledges to deregulate and cut taxes, which are more likely with a clean sweep and could further boost US investment, jobs, wages and productivity. The net effect may be reflationary or even inflationary.
- These policy shifts may constrain the Fed, elevate the dollar, and further imply "America First" global market performance.

Policy Divergence: The US may reshape trade barriers

Economic Policy Uncertainty Index: Trade Fear, index levels



Sources: Macrobond and Invesco. Data as of October 31, 2024.

Swing factor 2: China stimulus could reinvigorate growth

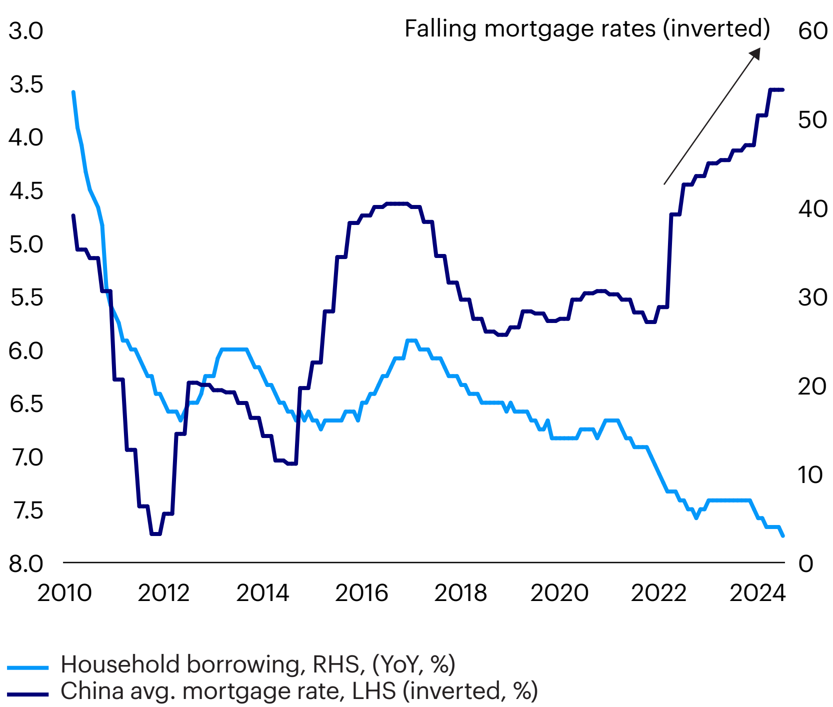
A pick up in Chinese policy stimulus raises upside potential

Domestic growth in China has been challenged in 2024 as households and corporations appear reluctant to spend and invest in China. Beginning in September, a raft of stimulus measures helped reinvigorate Chinese financial markets and stoked expectations for a pick-up in growth, which would have positive spillovers to the global economy and equities.

- Currently, we see a build up of housing inventories as a result of a still limited housing investment volume coupled with slower than expected housing sales. Recent cuts to mortgage rates seek to encourage households to borrow and spend more, yet borrowing remains slow for now.
- As policymakers deliver fiscal stimulus measures, we suspect negative investor sentiment may fade. We note that, historically, there has been little correlation between economic performance and stock market performance in China. Policy tends to matter more. We remain watchful for further shifts in investor sentiment sparked by recent policy momentum.

Lower mortgage rates have yet to stimulate household borrowing

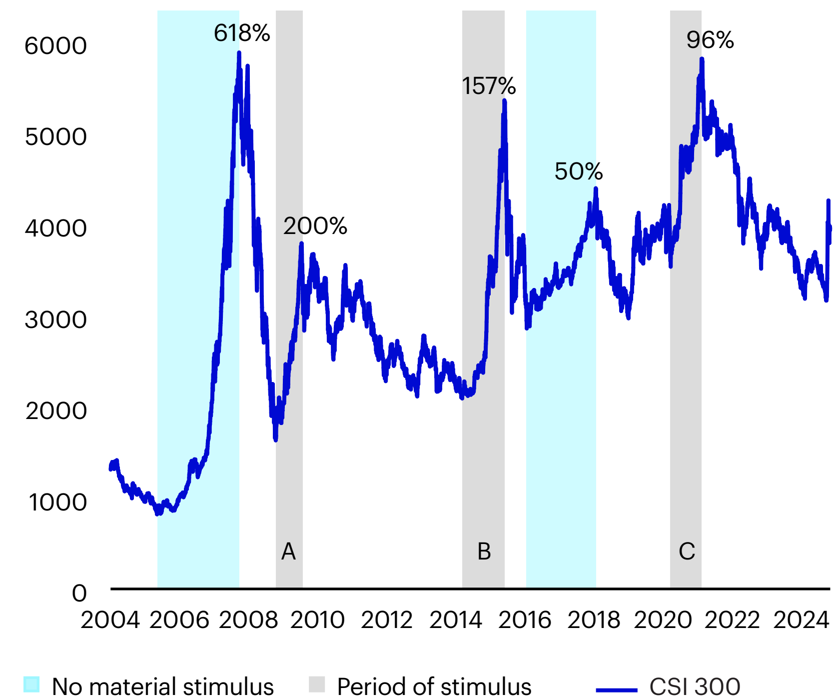
China mortgage rates and household borrowing



Note: Household borrowing includes all credit extended to households. Monthly data from March 2010 to September 2024. Sources: Bloomberg L.P. and Invesco, as of October 31, 2024.

Past periods of stimulus have lifted Chinese stocks

CSI 300 Index and periods of stimulus



A: RMB 4trn fiscal and 220bp cut
B: 165bps cut, RMB 2-3trn reconstruction plans
C: RMB 4.6trn fiscal & 50 bp cut

Note: Periods of material stimulus are defined in this chart as those where the CSI 300 Index price rose more than 50% from trough to peak. Daily data from February 2004 to September 2024. Sources: Bloomberg L.P. and Invesco, as of October 31, 2024.

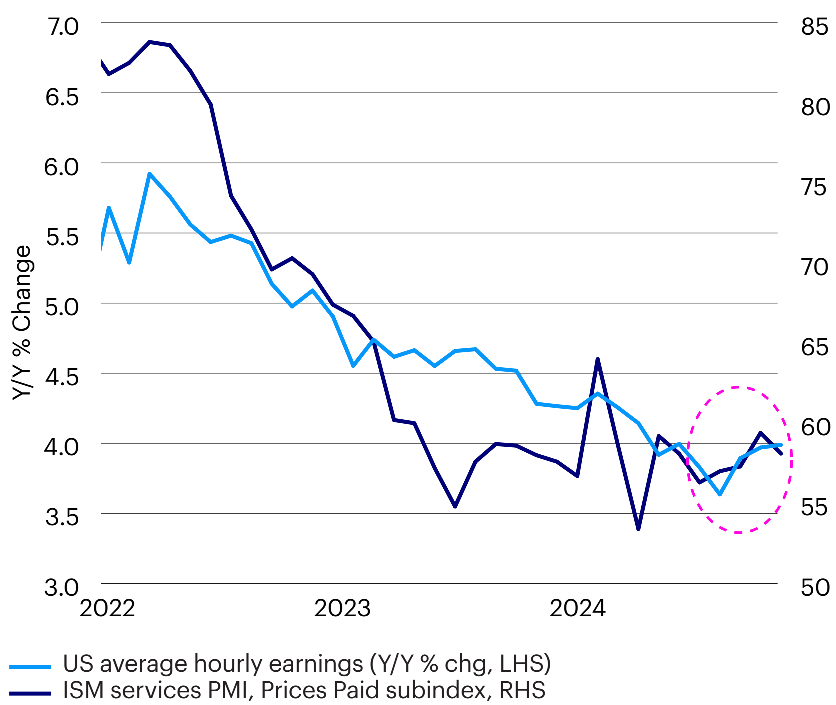
Swing factor 3: Inflation could return

Inflation is falling, but a comeback is not out of the question

Markets and policymakers in many regions have turned their attention to growth and its downside risks. While not our base case, we believe a return of inflation could spark a sea-change in the current outlook and recalibrate expectations around policy easing and the resulting boost to the economy.

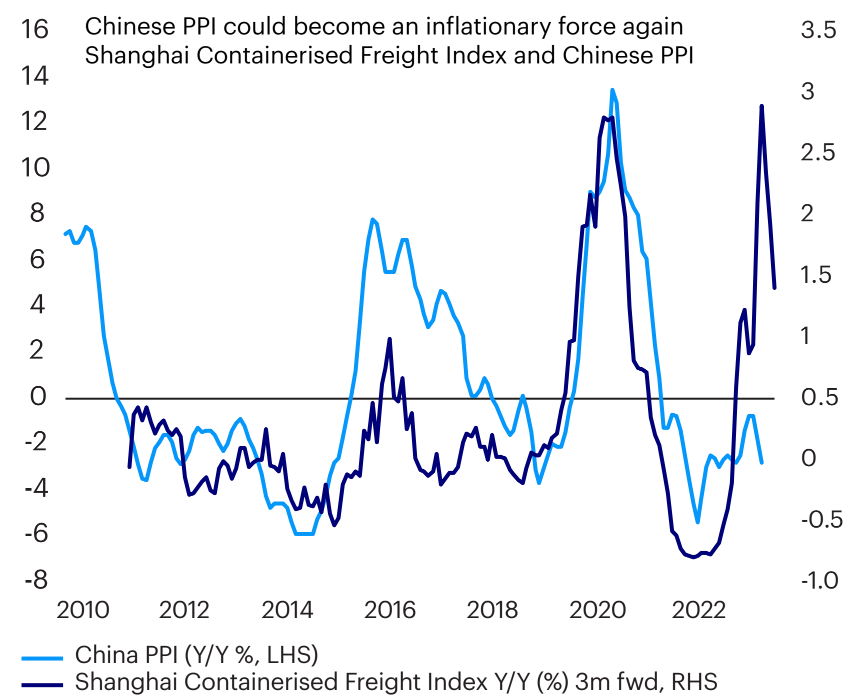
- One recent area of concern has been an uptick in US wages and ISM services prices paid. While not concerning so far, it highlights the risk that inflation could return as a market factor.
- Supply chain factors, such as shipping rates, could import inflation into economies. For instance, freight prices have risen in recent months and may pass through goods inflation.
- Oil (not shown) could move higher from its current levels as global economic growth accelerates. An oil supply shock would derail our base case, which would hit inflation and growth.
- Factors related to the incoming Trump administration in the US (not shown) also could present inflationary forces through policy uncertainty and reorientation of trade policy.

Inflation could make a comeback, like Q1 2024 experience
US wages and ISM Services prices paid subindex



Note: Monthly data from January 2022 to September 2024 (as of October 31, 2024). Sources: Institute for Supply Management, US Bureau of Labour Statistics, and Invesco.

Shipping costs have risen materially in recent months
Shanghai Containerized Freight Index and China PPI



Note: The Shanghai Containerized Freight Index shows the current freight prices for container transport from the Chinese main ports, including Shanghai. It is based on the most used trade routes from Shanghai: Europe, Mediterranean, United States, Persian Gulf, New Zealand, West and South Africa, Japan, Southeast Asia and South Korea. Chart shows monthly data from November 2010 to September 2024. Sources: Bloomberg L.P. and Invesco, as of October 31, 2024.

Swing factor 4: Fiscal pressures may shift government spending trends

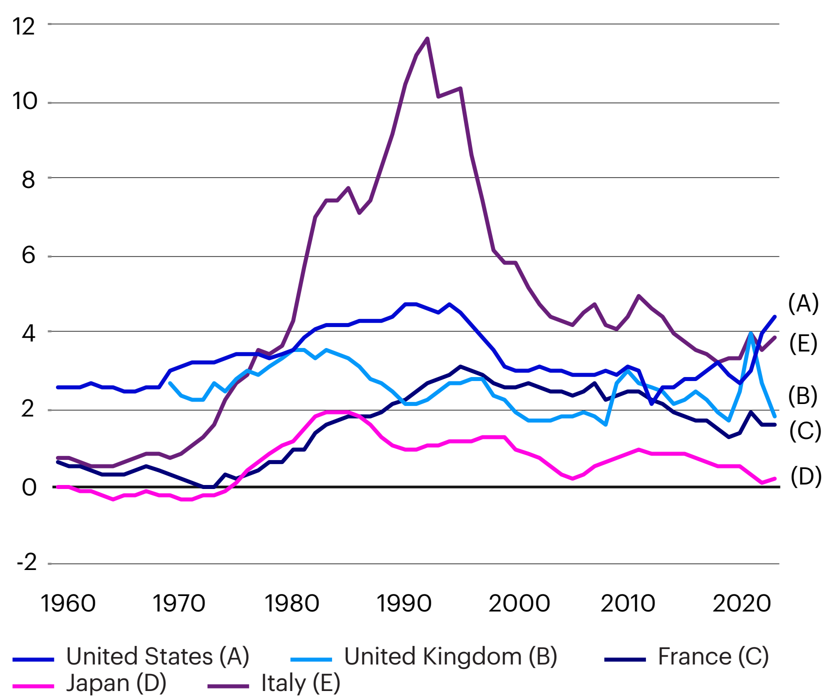
Post-COVID-19 spending and industrial policy have left a complicated fiscal backdrop

Despite elevated inflation and tight labour markets, governments have been spending substantially since the COVID-19 pandemic. Now, investors are increasingly concerned with the state of government balance sheets. If spending retrenches, growth may be impacted.

- Recent above-potential growth in key economies was driven in part by large-scale fiscal spending. Now, despite a more normal macro environment (compared to the pandemic-era economy), the fiscal taps remain largely open.
- If governments curtail spending to rein in deeply expansionary fiscal policy, we may see growth headwinds build that limit the degree of reacceleration we expect in 2025.
- Fiscal consolidation in France, Germany, and Italy, as well as smaller eurozone economies, may also exert downward pressure on growth, investment, and consumption.

Some major economies are spending more on debt service than in recent years

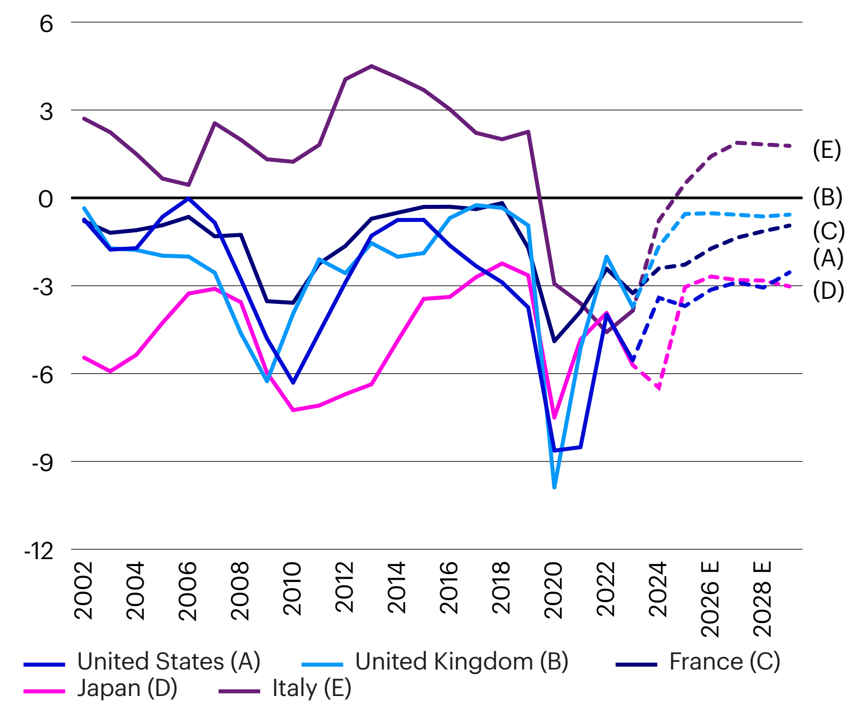
Debt service, % of GDP



Note: Annual data from 1960 to 2024. Debt service is calculated as a percentage of full-year GDP based on national government figures. 2024 data is estimated based on latest available data. Sources: OECD, Datastream, and Invesco, as of October 31, 2024.

Government spending elevated despite strong employment, but it may retrench

Cyclically adjusted fiscal balances, % of GDP



Note: Cyclically adjusted fiscal balances are the prevailing rate of government spending assuming the economy is at its potential level of aggregate production. In other words, it excludes the effects of automatic stabilizers such as unemployment insurance. Sources: International Monetary Fund, Macrobond, and Invesco, as of October 31, 2024. Annual data from 2004 to 2023, with IMF forecast data from 2024 to 2029. There is no guarantee that estimates will come to pass.

Appendix

Risks:

- **Alternative products** typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.
- **China:** Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.
- **Fixed-income** investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.
- **Foreign/EM:** The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.
- Fluctuations in the price of **gold** and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.
- Stocks of **small** and **medium-sized** companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.
- **Smaller Cap:** Stocks of small-capitalization companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale than large companies.
- **Value:** A value style of investing is subject to the risk that the valuations never improve or that the returns will trail other styles of investing or the overall stock markets.

Definitions:

- **Abenomics** is the nickname for the economic policies set out for Japan in 2012 when Prime Minister Shinzo Abe came into power for a second time. Abenomics involved increasing the nation's money supply, boosting government spending, and enacting reforms to make the Japanese economy more competitive.
- **Average inflation** is defined as the average growth rate of the consumer price index (CPI) measures across the US, China, Eurozone, Japan, and the United Kingdom since January 1997. The Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.
- **Average money supply** is defined as the average growth rate of M3 money supply in the US, China, Eurozone, Japan, and the United Kingdom since January 1997. M3 money supply includes coins and notes in circulation, plus short-term deposits in banks and certain money market funds, plus time deposits, institutional money market funds, and short-term repurchase agreements. Exact definitions may vary by the reporting authority.
- A **basis point** is one-hundredth of a percentage point.
- A **bond credit spread**, also known as a yield spread, is the difference in yield between two bonds with similar maturities but different credit qualities.
- **Bull steepening** is when short-term interest rates fall faster than long-term interest rates.
- **China producer price index** (PPI) measures the monthly changes in prices of industrial products for the domestic market by comparing prices in the current month with prices in the same month of the previous year.
- A **developed market** is a country that is most developed in terms of its economy and capital markets. The country must be high income.
- The **Dollar Index (DXY)** measures the strength of the US$ versus this 6-currency basket. How are these currencies weighted? Each of these 6 currencies is weighted in the proportion of the breadth and depth of their trading relationship of these countries with the US.
- **Dry powder** refers to marketable securities that are highly liquid and considered cash-like. Dry powder can also refer to cash reserves kept on hand by a company, venture capital firm or individual to cover future obligations, purchase assets or make acquisitions.
- An **emerging market** economy is the economy of a developing nation that's becoming more engaged with global markets as it grows. Countries classified as emerging market economies are those with some but not all of the characteristics of a developed market.
- **Fed funds futures** are financial contracts that represent the market's opinion of where the federal funds rate will be at a specified point in the future. The federal funds rate is the rate at which banks lend balances to each other overnight.
- The **Global Financial Crisis (GFC)** also known as the Great Recession was the sharp decline in economic activity that started in 2007 and lasted several years, spilling into global economies. It is considered the most significant downturn since the Great Depression in the 1930s.
- **Goldman Sachs (GS)** produces its FCI using a dynamic macroeconomic model to determine the relative weights of five underlying indicators: a policy rate, a long-term riskless bond yield, a corporate credit spread, a measure of equity valuations, and a trade-weighted exchange rate.
- **Gross Domestic Product (GDP)** is a measure of all of the goods and services produced within an economy during a year.
- The **GDP-weighted interest rate** is based on the central bank policy rates of the 20 largest economies during each calendar year, according to nominal GDP in US dollars (based on data from the IMF World Economic Outlook April 2024). The GDP-weighted inflation rates are based on seasonally adjusted consumer price indices for the same set of countries.
- An **overnight index swap (OIS)** is an interest rate swap involving the overnight rate being exchanged for a fixed interest rate. An overnight index swap uses an overnight rate index, such as the overnight federal funds rate, as the underlying rate for its floating leg, while the fixed leg would be set at an assumed rate.
- **Residual base currency** account balances occur when the exchange rate at the time of payment (or zeroing the account) differs from the exchange rate of the initial transaction. Non-equity balance sheet accounts with base currency balances are subject to currency revaluation at the end of the period.
- A **sovereign credit rating** is a measure of a country's ability to repay its debts, and is used by investors to assess the risk of investing in a particular country. Sovereign credit ratings are issued by agencies such as S&P, Moody's, and Fitch.
- **Stagflationary** persistent high inflation combined with high unemployment and stagnant demand in a country's economy.
- **Tightening** monetary policy includes actions by a central bank to curb inflation.
- The **yield curve** plots interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates to project future interest rate changes and economic activity.

Index definitions :

- The **Bloomberg Emerging Markets Capital Flow Proxy Index** is a composite index of four asset classes designed to mimic the flows into and out of emerging markets assets (MSCI EM Equity Index, Bloomberg EMBI bond spreads, Bloomberg EM FX Carry Trade Index and the Goldman Sachs Commodity Index).
- The **CSI 300** is the Shanghai Shenzhen CSI 300 Index, which is a market capitalization-weighted index of 300 A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. It is considered a barometer of blue chip stock performance for Mainland China stock exchanges.
- **Economic Policy Uncertainty Index** measures economic policy uncertainty for countries around the world.
- The **Goldman Sachs US Financial Conditions Index** is a weighted index of the Federal Funds Rate, The trade-weighted dollar, the S&P 500 Index and investment-grade credit spreads along with the 10-year US Treasury yield.
- **ICE BofA Global Government Bond Total Return Index** measures the performance of the global government bond market.
- **ICE BofA Global Corporate Bond Total Return Index** measures the performance of the global investment grade corporate bond market.
- **ICE BofA Global High Yield Bond Total Return Index** measures the performance of the global high yield bond market.
- **ICE BofA US Corporate Index** measures the performance of publicly issued investment-grade, dollar-denominated corporate debt with at least one year to maturity.
- **ICE BofA US High Yield Index** measures the performance of US dollar-denominated below investment grade corporate debt securities publicly issued in the US domestic market with at least one year to maturity.
- The **ISM Services PMI Prices Paid Subindex** is a component of the US Institute for Supply Management (ISM) Services Purchasing Mangers' Index (PMI). It measures the share of respondents who reported paying higher prices for the goods and services that go into delivering their product.
- The **JP Morgan Global Manufacturing Purchasing Managers' Index** is a weighted average of the following five global indices: new orders (30%), output (25%), employment (20%), suppliers' delivery times (15%) and stocks of purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices. Global manufacturing PMI indices are compiled by S&P Global from responses to monthly questionnaires sent to purchasing managers in survey panels in over 40 countries, totaling around 13,500 companies. Values above 50 indicate economic expansion, while values below 50 indicate contraction.
- The **MSCI Emerging Markets (EM) Index** is designed to measure global emerging market equity performance.
- The **MSCI Global PFI Asia Pacific Funds Quarterly Property Index** (MSCI/APREA Pan Asia Quarterly Property Fund Index) tracks the latest quarterly performance of open-ended commingled funds based on a sample of 7 funds.
- The **MSCI Global PFI Continental Europe Funds Quarterly Property Index** (MSCI Europe Quarterly Property Fund Index) measures unlevered total returns of directly held property investments from one valuation to the next. The index tracks the performance of 12,679 property investments as of March 2024.
- The **MSCI Global PFI North America Funds Quarterly Property Index** represents the performance of global unlisted open-ended pooled real estate funds, with a core or core-plus investment mandate, that are quarterly valued and weighted by value.
- The **MSCI Global PFI UK Funds Quarterly Property Index** (MSCI UK Quarterly Property Fund Index) measures unlevered total returns of directly held property investments from one valuation to the next. The index tracks performance of 1,317 property investments as of May 2024
- **MSCI World Total Return Index** is an unmanaged index considered representative of stocks of developed countries.
- The **Purchasing Managers' Index (PMI)** is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.
- **Russell 1000 Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- **Russell 1000 Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- **Russell 2000 Index** measures the performance of small-capitalization stocks.
- **Russell 1000® Index and Russell 2000® Index** is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.
- **S&P 500® Index** is a market-capitalization-weighted index of the 500 largest domestic US stocks.
- The **Standard & Poors Goldman Sachs Commodity Total Return Index** (S&P GSCI Commodity Total Return Index) reflects the performance of a total return investment in commodities, composed of the Contract Daily Return plus the daily interest on the funds hypothetically committed to the investment. The Standard & Poors Goldman Sachs Commodity Index is a benchmark commodities index that tracks the performance of the global commodities market. It is made up of 24 exchange-traded futures contracts that cover physical commodities spanning five sectors.
- **US Dollar Index (DXY)** is represented by the DXY Dollar Index, which measures the value of the US dollar relative to a basket of foreign currencies.

Investment risk

Currencies and futures generally are volatile and are not suitable for all investors.

The health care industry is subject to risks relating to government regulation, obsolescence caused by scientific advances and technological innovations.

High yield securities involve greater risk and are less liquid than higher grade issues. Changes in general economic conditions, financial conditions of the issuers and in interest rates may adversely impact the ability of issuers to make timely payments of interest and principal.

Economic problems in certain US states increase the risk of investing in municipal obligations, such as California, New York or Texas, including the risk of potential issuer default, heightens the risk that the prices of municipal obligations, and the fund's net asset value, will experience greater volatility. See the prospectus for more information.

Alternative investment products, including hedge funds and private equity, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. There is often no secondary market for hedge funds and private equity, and none is expected to develop. There may be restrictions on transferring interests in such investments. Rental inflation is the increase in the cost to rent a home.

Stocks of small-capitalization companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale than large companies.

A value style of investing is subject to the risk that the valuations never improve or that the returns will trail other styles of investing or the overall stock markets.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer’s credit rating.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Alternative products typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China’s dependency on the economies of other Asian countries, many of which are developing countries.

Important information

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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

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For US audiences:

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Most references are US-centric and may not apply to Canada. All data is USD, unless otherwise stated. Publication date: November 14, 2024.