Invesco

strategy insights

Global investment grade corporate bonds

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We remain constructive in our view on global credit based on a supportive environment:

- **Synchronised global growth:** Europe and US growth continues to come in strong, whilst Chinese headwinds are less of a concern as the economy has absorbed restricted monetary policy rather well
- **Stable global inflation:** Inflation remains benign, supportive of central bank monetary policy normalisation
- **Global monetary policy:** Central banks are committed to policy normalisation but the process continues to be slow and well communicated

Asset class	Overall	Fundamental	Valuations	Technical	Current spread (bps)*	Projected 3 month change (bps)	3m excess return projection (%)
US Investment Grade[1]	B	B	C	B	97	-3	+0.46
EUR Investment Grade[2]	B	B	D	B	91	-2	+0.33
US High Yield[3]	C	B	E	B	363	+0	+0.60
EUR High Yield[4]	C	B	E	B	292	+0	+0.56
Emerging Markets – Corporate[5]	C	B	D	B	235	-5	+0.89
Emerging Markets – Sovereign[6]	B	B	D	B	322	-20	+2.15
Asia Investment Grade[7]	C	B	D	D	126	+9	-0.14

For illustrative purposes only. Forecasts are not a reliable indicator of future performance.
Source: Invesco as at November 2017. A = Max bullish, B = Moderately Bullish, C = Neutral, D= Moderately Bearish , E = Max Bearish.*credit spread=the difference in yield between two different bonds that are the same in all aspects except for the credit rating. 1 Bloomberg US Credit 2 Bloomberg Euro-Aggregate Corporate 3 Bloomberg U.S. High Yield 4 Bloomberg Pan-European High Yield 5 Bloomberg EM USD Aggregate 6 Bloomberg EM USD Aggregate 7 Bloomberg Asia-Pacific Aggregate

Fundamentals

Positive Fundamentals in all regions

US:

- Revenues growing mid-single digits, Earnings up 5% - 10%. Tax policy changes likely to improve fundamentals and reduce supply marginally.

European:

- European growth which continues to benefit from synchronised global growth momentum and reduced political risks, although Brexit and some Eurozone political uncertainties remain.

Sterling:

Given Brexit and political tail risk we feel that companies that generate most of their revenue outside the UK will be less exposed to political risk and therefore less volatile

- Non-UK exposed £ issuers
- Underweight Government exposed entities (e.g. Utilities)
- Non-UK exposed credits from a fundamental perspective

Valuations

US:

- Credit Curves Tightening In Rally
- Seniors Bonds Outperforming
- Energy Rebounding With Crude oil Support, Subordinated Bank debt to Sub Rally
- In our view, leverage Risks In Tech; Packaging, Chemicals, Energy remain Attractive

Europe:

- Libor Spreads trading back to pre-financial crisis but spreads to government bonds remain attractive
- Dispersion between sectors and regions offers relative value opportunities

UK:

- Sterling Option Adjusted Spread (OAS) rallied in to the year-end driven by record redemptions; OAS compressed from 124 at the start of Dec-17 to 112 currently.

Technicals

US:

- Technicals remain very strong for US dollar credit markets both domestically, and more significantly, from overseas as a result of foreign investors, especially from Japan, seeking higher yields not available locally.
- Global yield differentials remain favourable
- Financials – Seniors have outperformed subordinated debt/T1 securities
- Issuance expectations remain substantial but lower YoY

European:

- Further ECB tapering will result in a fall of € 6.5bn/mth to € 5bn /mth (25% reduction). Relative to overall Asset Purchasing Programme (APP) to be unchanged ~15% eg: APP reduction is 50% € 60bn to € 30bn.
- We expect skew to corporate bonds vs government bonds in 2nd round of tapering.

Sterling:

- According to Barclays, 2018 is forecast to see another material year of gross supply in to £ IG credit; net supply of ~£23Bn is projected after redemptions

Relative Value

US:

- Media/chemical/Energy sectors all showing signs of value on a spread/lavage basis.
- Valuations in the Utilities sector are unattractive in our view and an increasing interest rate environment can be challenging for capital intensive regulated utilities.

European:

- European issuers: We continue to hold a preference for European companies as Europe is in the early stages of the credit cycle. Characteristics of this include low capex and balance sheet deleveraging.

Sterling

- Prefer exposure to non-UK exposed credits from a fundamental perspective

Overall, we continue to feel this environment is supportive for credit investing. However, localised factors remain key role in driving markets. In our view, the main risk would be an unanticipated shift in central bank policy that results in aggressive monetary tightening, i.e. a policy mistake. We believe global investment grade credit should see strong global investor demand at the beginning of 2018, driven by continued strength in cross-border flows.

Please read the investment risks that relate to the fund on the next page.

Cumulative net returns (%)	**YTD**	**1 Year**	**3 years**	**5 years**	**Since inception**
Invesco Global Investment Grade Corporate Bond Fund (A-AD shares)	6.62	6.62	14.27	27.13	57.85
Invesco Global Investment Grade Corporate Bond Fund ((C EUR Hgd)-Acc Shares)	4.83	4.83	10.81	23.93	56.48
Bloomberg Barclays Global Aggregate Corporate Index (Hedged USD)	5.70	5.70	12.01	20.61	45.11
Peer group quartile(A-AD shares)	1	1	1	1	1

Cumulative net returns (%)	**2013**	**2014**	**2015**	**2016**	**2017**
Invesco Global Investment Grade Corporate Bond Fund (A-AD shares)	1.03	10.12	1.04	6.07	6.62
Invesco Global Investment Grade Corporate Bond Fund ((C EUR Hgd)-Acc Shares)	1.22	10.50	0.87	4.79	4.83
Bloomberg Barclays Global Aggregate Corporate Index (Hedged USD)	0.07	7.60	-0.24	6.22	5.70

The performance data shown relates to a past period. **Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.** The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. Indexed performance: Performance of an investment of 100 in share class currency. Gross income re-invested to 31 December 2017 unless otherwise stated. All performance data on this factsheet is in the currency of the share class. **Reference Index Source: Factet.** Source fund/sector: Morningstar as of 31 December 17, GIF OS Sector = Global Corporate Bond - USD Hedged. Fund returns are inclusive of gross income re-invested and net of the ongoing charge and portfolio transaction costs, cumulative, in fund currency. The figures do not reflect the entry charge payable by individual investors. Sector average performance is calculated on an equivalent basis. Investors must be aware that their investment may be subject to the risk of adverse foreign exchange rate movements. Depending on individual circumstances, this may affect investment returns. Inception date: 1 September 2009.

Risk Warnings

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. Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Changes in interest rates will result in fluctuations in the value of the fund. The fund will invest in derivatives (complex instruments) which will result in the fund being leveraged and may result in large fluctuations in the value of the fund. The fund may hold a large amount of debt instruments which are of lower credit quality and may result in large fluctuations in the value of the fund. The fund may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events.

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