



Invesco Perpetual Multi Asset Team

Economic Update

London Borough of Hackney
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Economic outlook



The Invesco Perpetual Multi Asset Team's Central Economic Thesis



Challenging global growth may fragment

- Structural pressures (e.g. China) will keep economic growth rates subdued
- Possible fiscal boost in the US but there are headwinds for growth
- Future growth momentum in Europe not helped by political uncertainty

Policy effectiveness impacted by financial linkages, e.g. US dollar

- Official monetary and/or fiscal policy choices are becoming more difficult
- Strains in funding markets already imply monetary tightening (e.g. EM)
- Lower trend growth and policy rates likely to cap the upside for bond yields

Low inflation view being challenged

- Risk that wage, commodity and/or protectionism inflationary pressures persist
- Imbalances (e.g. inflation versus growth) impacting China's policy choices
- Disinflationary forces still in place e.g. debt overhang and Asian devaluation

Select opportunities in risk assets

- Further equity and credit market returns dominated by income
- Seeking alternative return sources to reduce reliance on broad markets
- Diversified alpha as an additional source of value

Uncertain macro environment to be reflected in higher volatility

- Conflict between cyclical and structural drivers will cause increased volatility
- Volatility in rates and FX reflects uncertainty; equity volatility unsustainably low
- Long-term impacts from the misallocation of capital (e.g. through leverage)

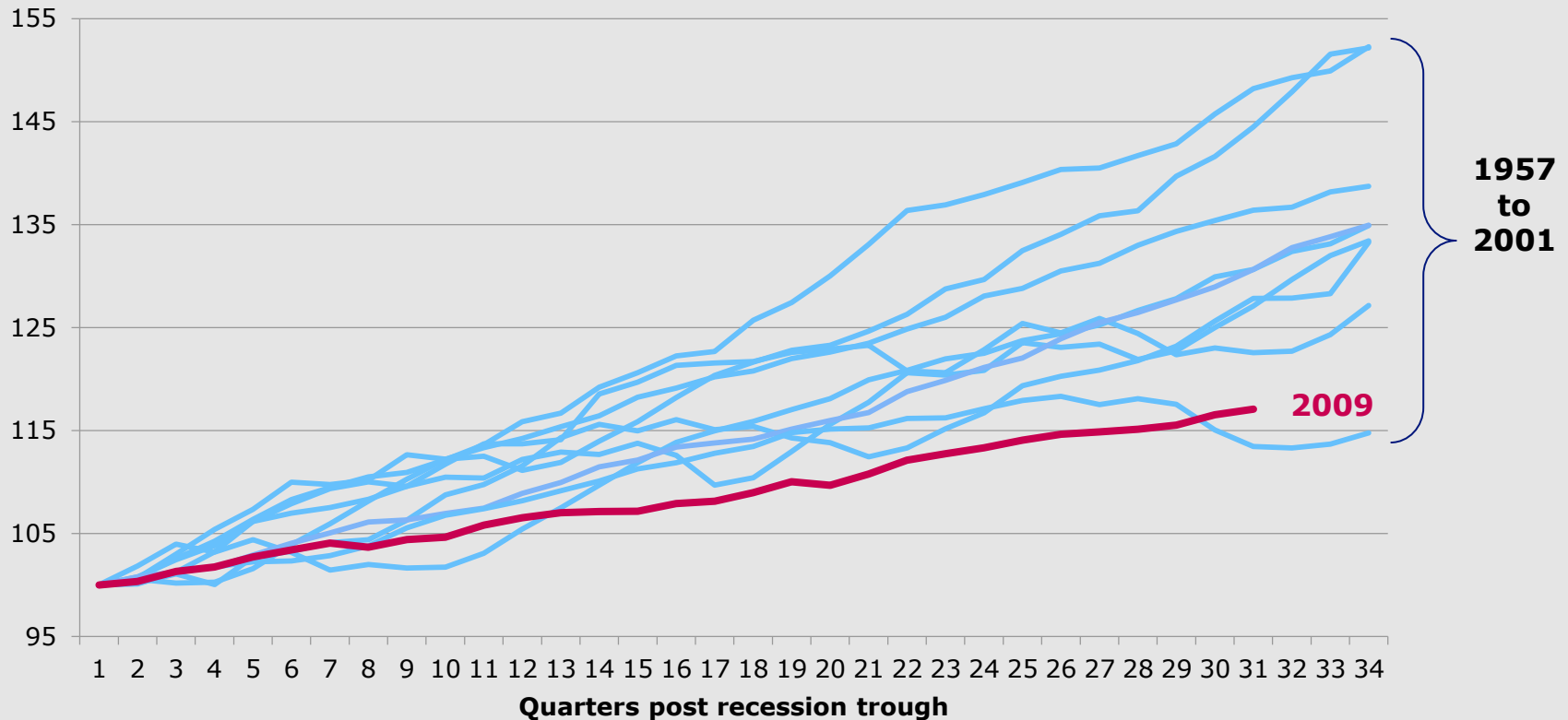
Source: Invesco Perpetual as of 31 January 2017. For illustrative purposes only.

Economic growth likely to remain subdued

This has been the weakest recovery for decades



Real GDP growth – US recession recovery profiles



Source: Datastream as at 16 February 2017. Rebased to 100 = Start of recovery.

Economic Uncertainty: Trump

The backdrop was a lot more favourable for Reagan

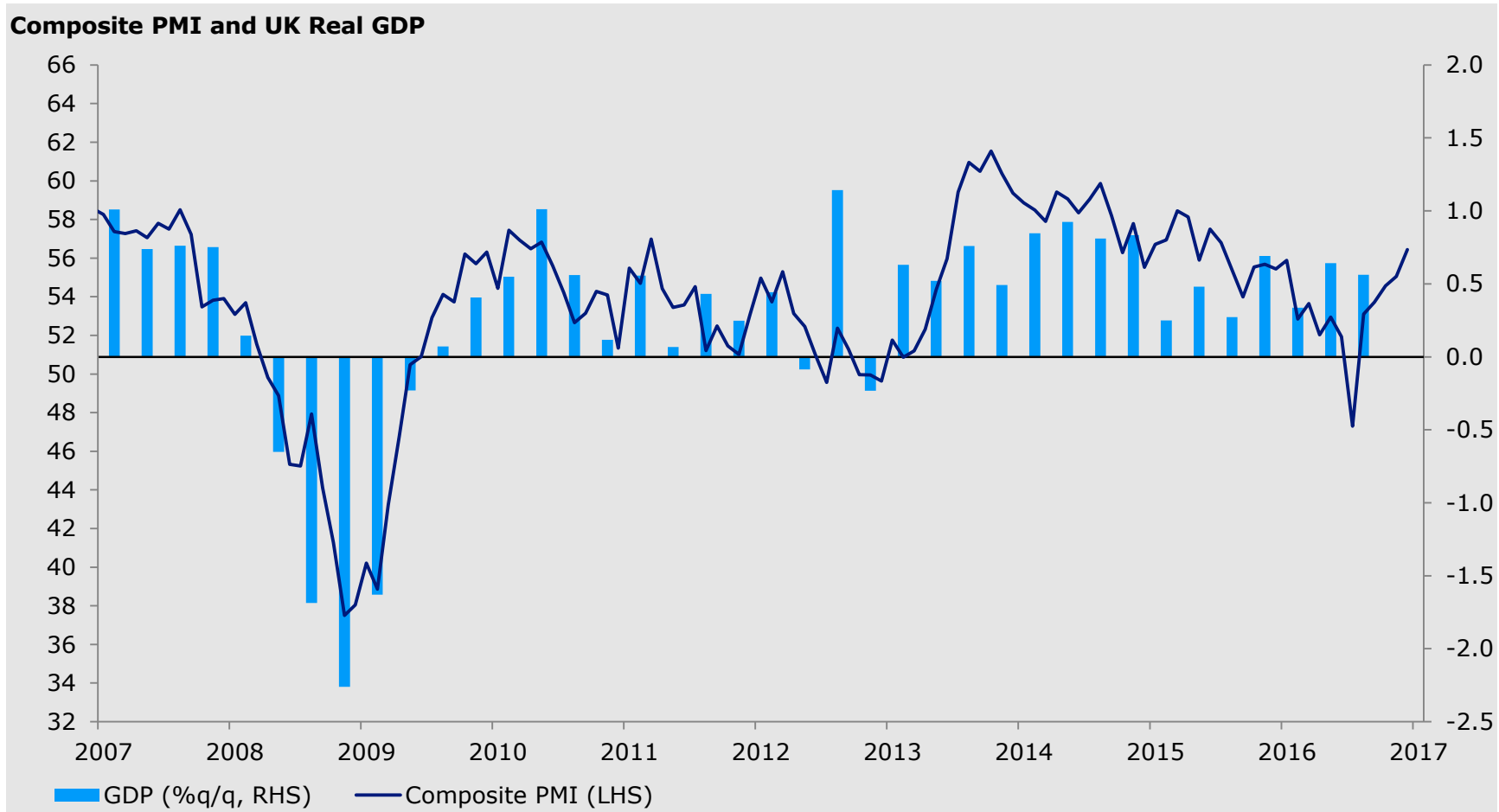


	1982	today
Fed Funds Rate	18%	0.50%
10 Year Treasury Yield	15%	2.30%
Mortgage Rate	16.25%	3.87%
Household debt to income	62%	130%
US Government Debt to GDP ratio	30%	105%
Annual inflation rate (CPI)	8%	1.6%
S&P 500 – CAPE (x)	7	26
S&P 500 – Median price to sales ratio	0.50x	2.20x
Median age baby boomers	26	60
Global trade barriers	Falling	Rising

Source: www.realinvestmentadvice.com. Trump image by Max Goldberg [CC BY 2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Wikimedia Commons. Reagan image public domain.

The events of 2016 prompted an economic response

UK PMI has rebounded post referendum dip

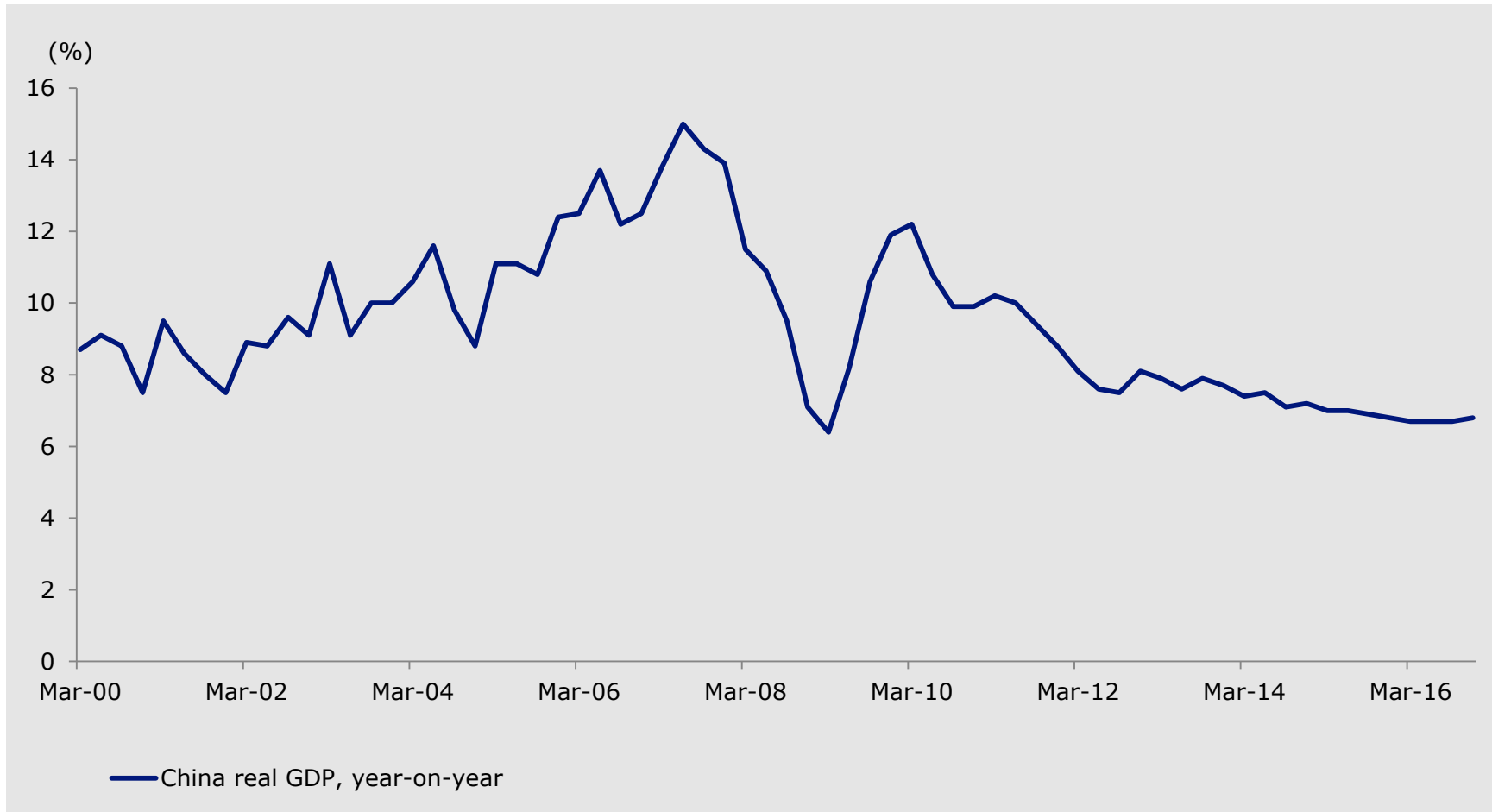


Source: Capital Economics, as at 9 January 2017.

Composite Purchasing Managers Index: a weighted average of the individual services, manufacturing and construction indices

China remains a risk

What level of growth can China deliver longer term?



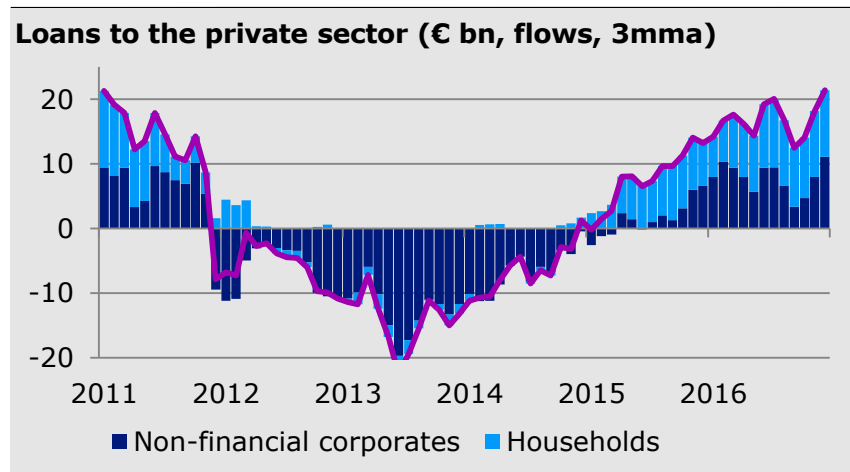
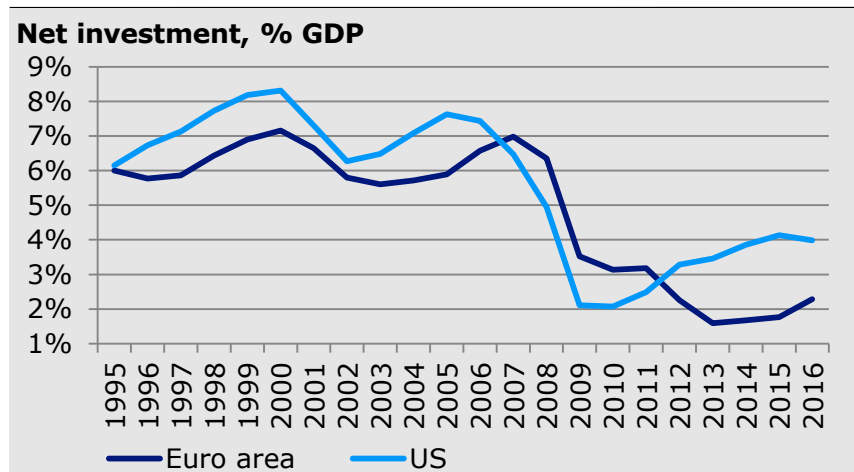
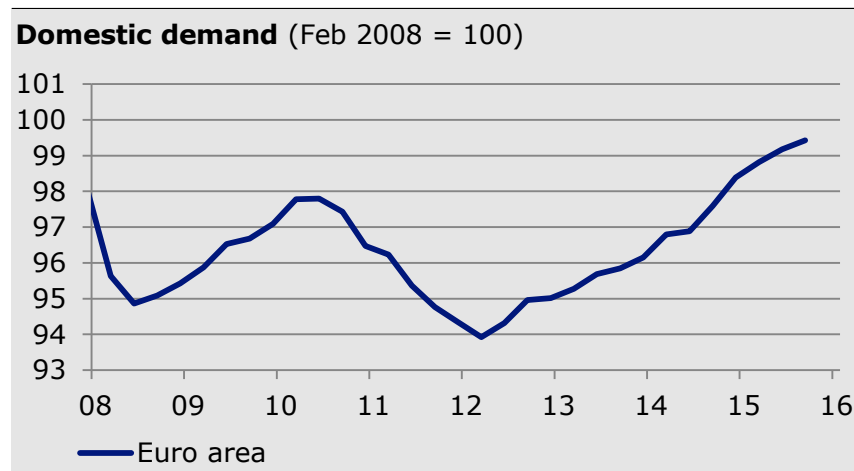
Source: Bloomberg as at 31 December 2016.

Europe remains fragmented

But tentative growth recovery driven by domestic demand



Eurozone: Consumption and investment recovery potential while bank lending picks up



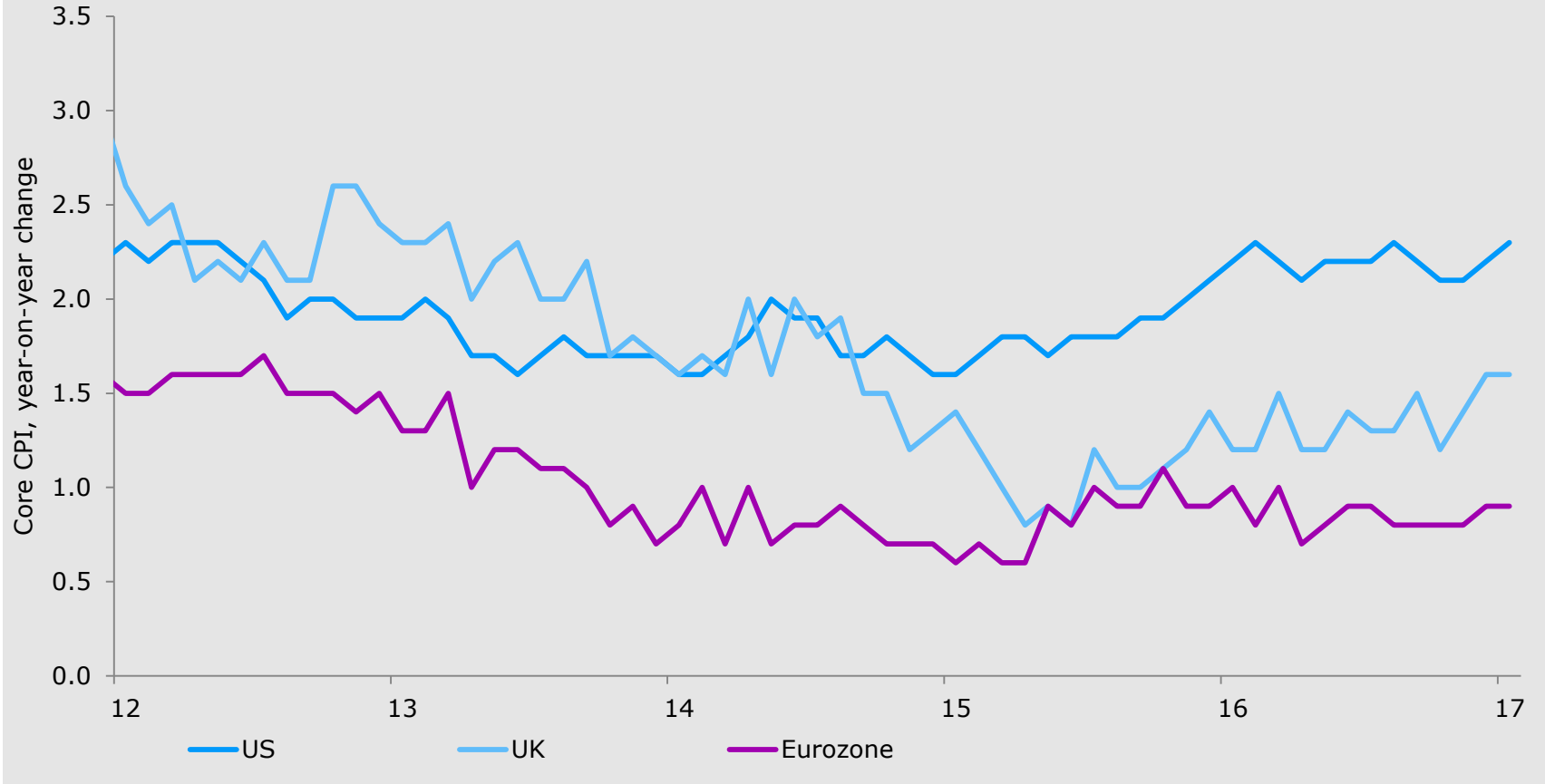
Source: Credit Suisse as at 3 January 2017, using all latest available data.

Inflation and Monetary Policy



Inflation likely to remain low

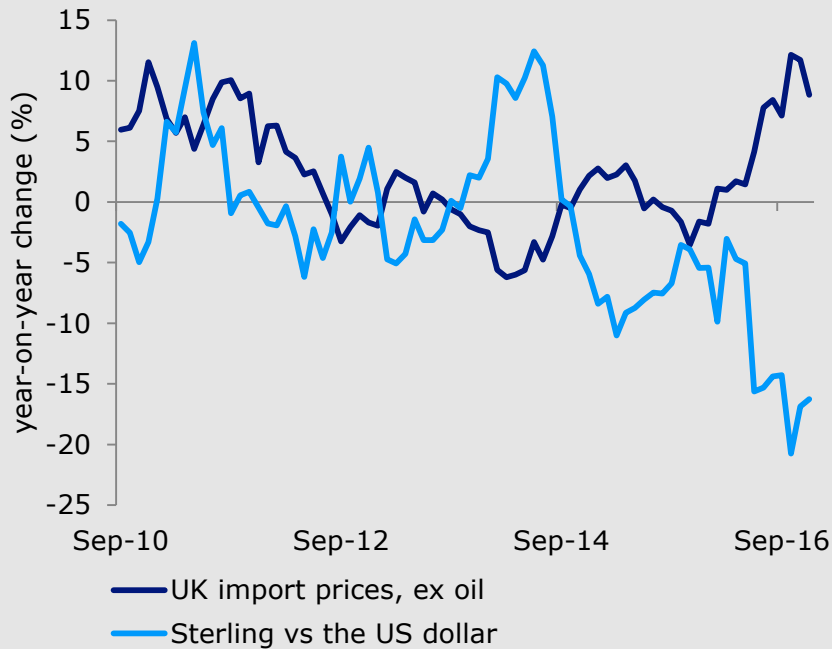
Core inflation edging higher in the US and UK



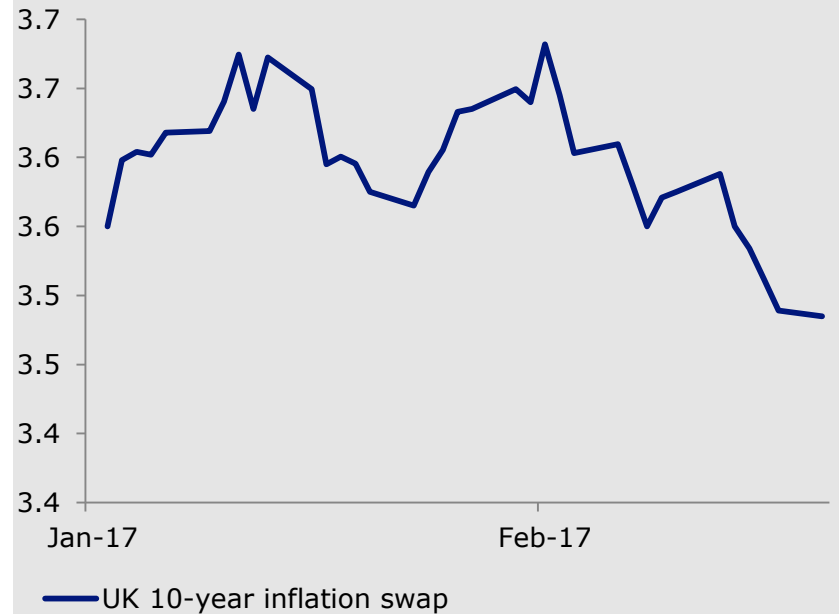
Source: Bloomberg as at 31 January 2017.

UK inflation pressures have come primarily from the fall in the pound

Import prices have risen but other components of GDP suggest inflation may start to fall again



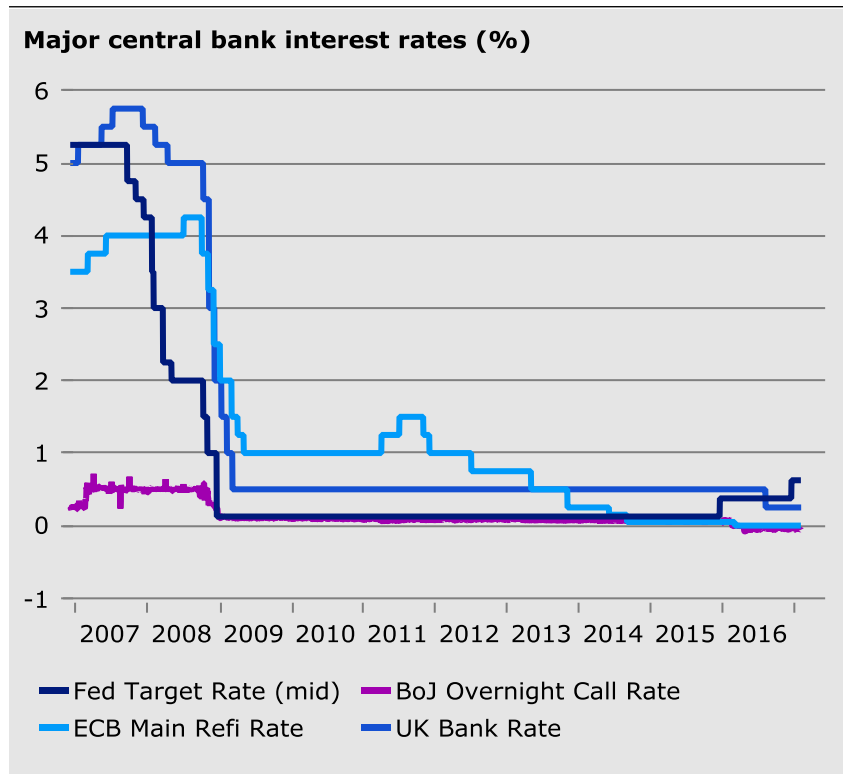
UK 10-year inflation swap



Source: Bloomberg as at 31 January 2017.

Monetary policy is diverging

Led by the Federal Reserve



▪ **Federal Reserve**

- Target range raised to 50-75bps
- FOMC median expectation now for three hikes in 2017

▪ **ECB**

- QE programme extended and universe broadened, but tapering also announced
- Main Refinancing rate 0.0% and deposit rate -0.4%

▪ **BoE**

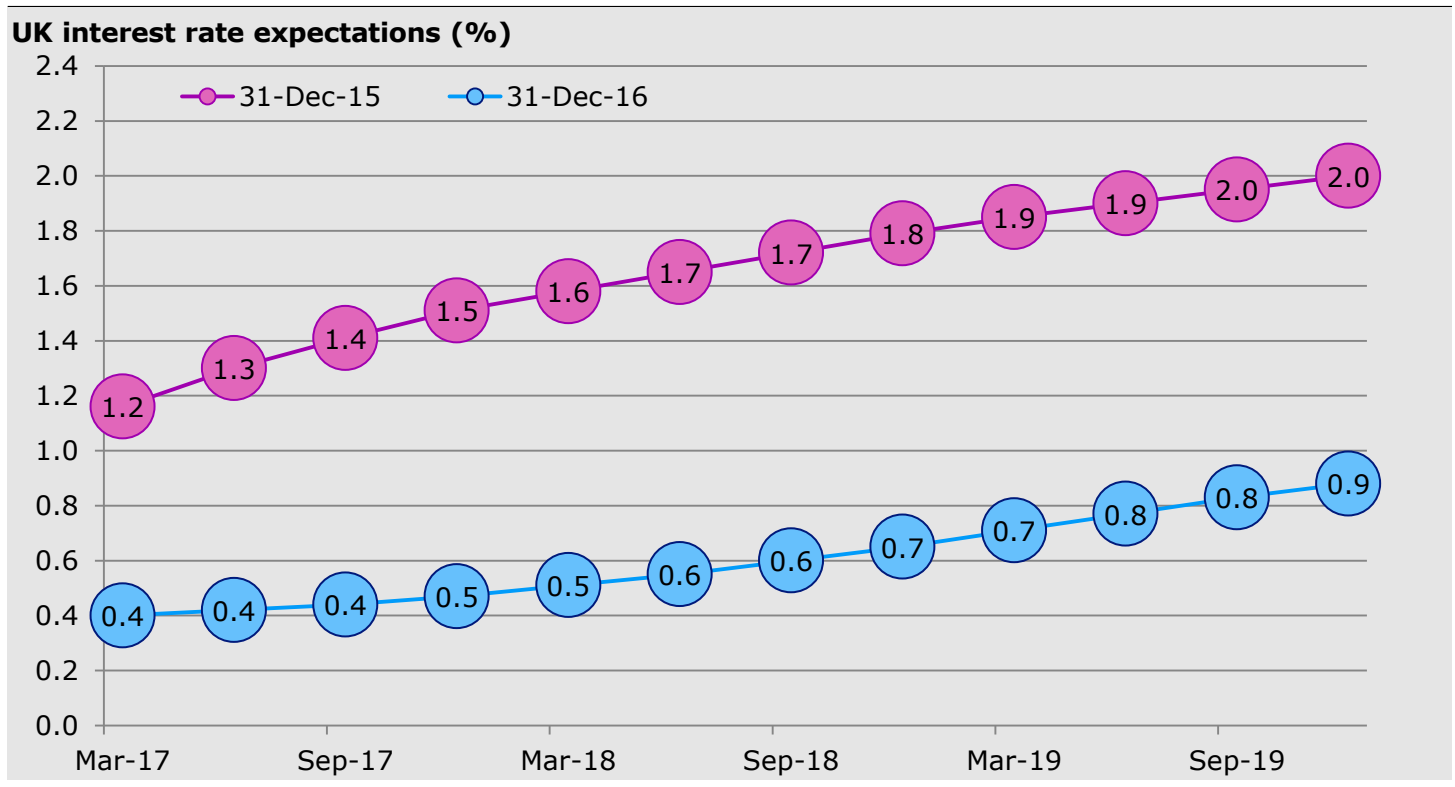
- Bank Rate cut to 0.25%
- £60bn addition to asset purchases plus £10bn of corporate bond purchases
- New £100bn term funding scheme

▪ **BoJ**

- 'Policy-Rate Balance' interest rate -0.1%
- JPY80tr QE programme
- Yield curve control

Source: Macrobond, Bloomberg, Invesco Perpetual, as at 31 January 2017.

UK rates are expected to rise only gradually

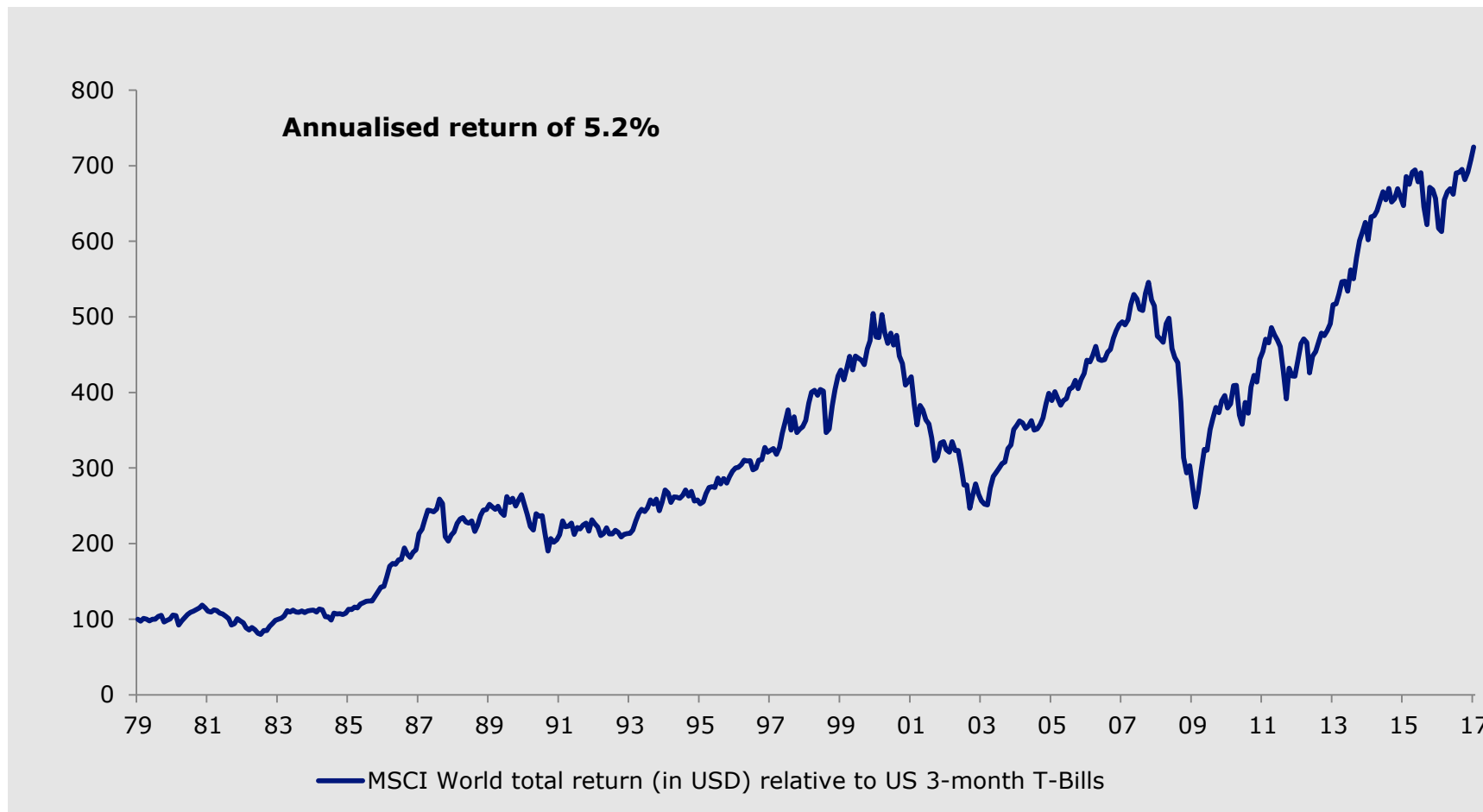


Source: Lazarus Partnership as at 31 December 2016.

Implications of a lower growth world

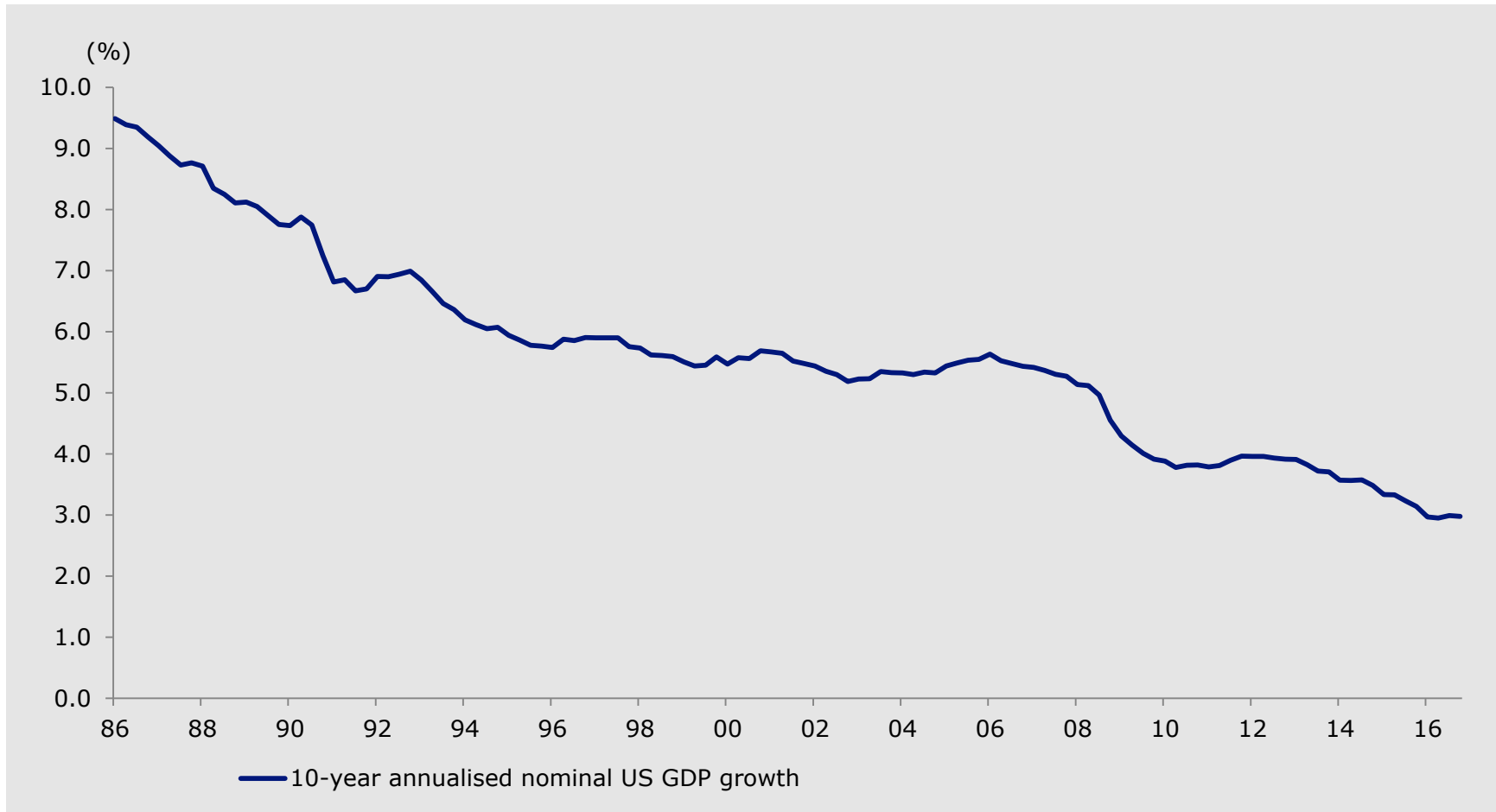


Global equities have delivered 5.2% above 3-month interest rates over the long run



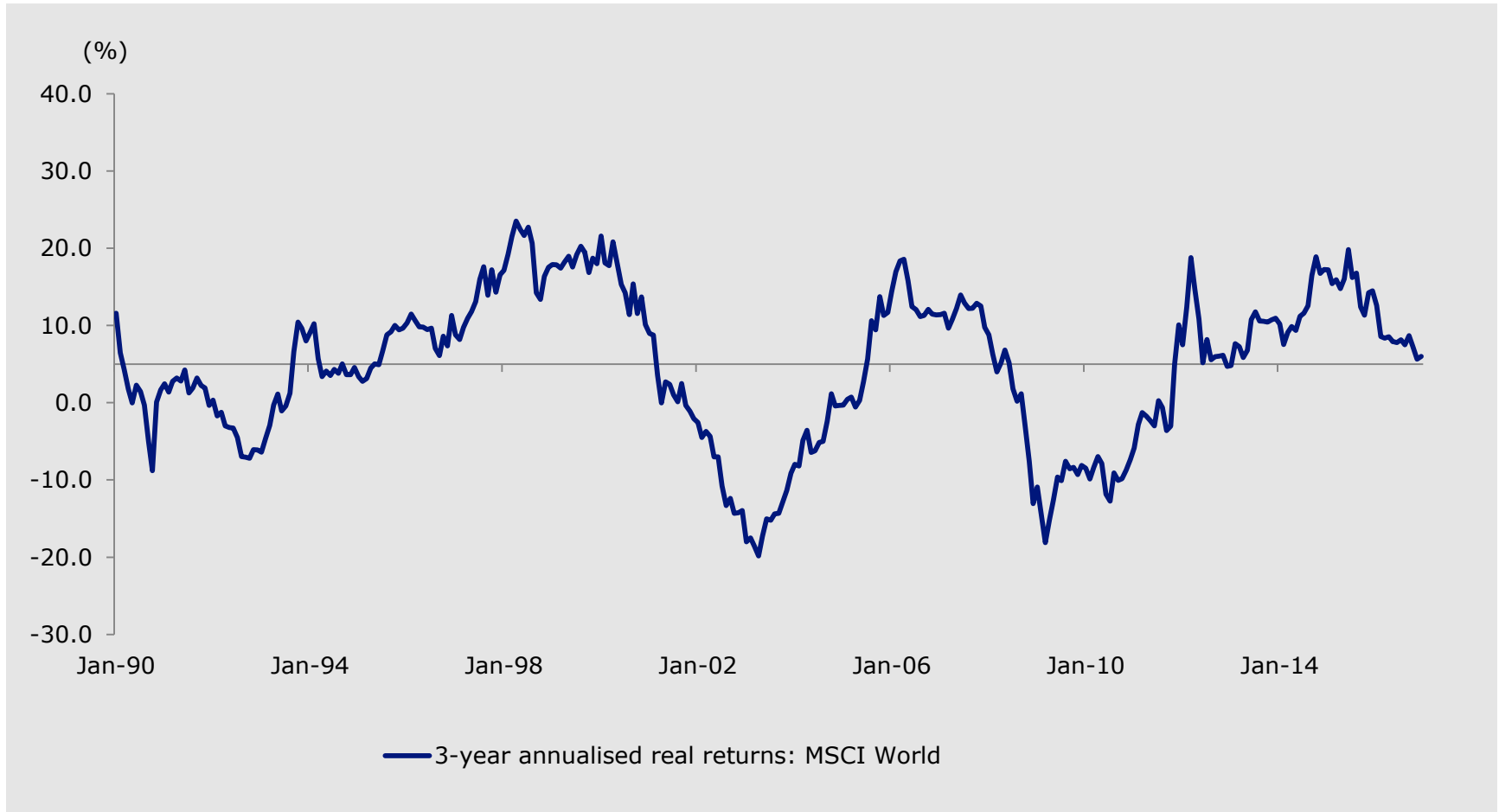
Source: Thomson Reuters Datastream, 31 January 2017. Chart rebased to 100 at 31 January 1979.

The long term equity risk premium may be at risk as nominal economic growth rates fall



Source: Thomson Reuters Datastream, 31 January 2017

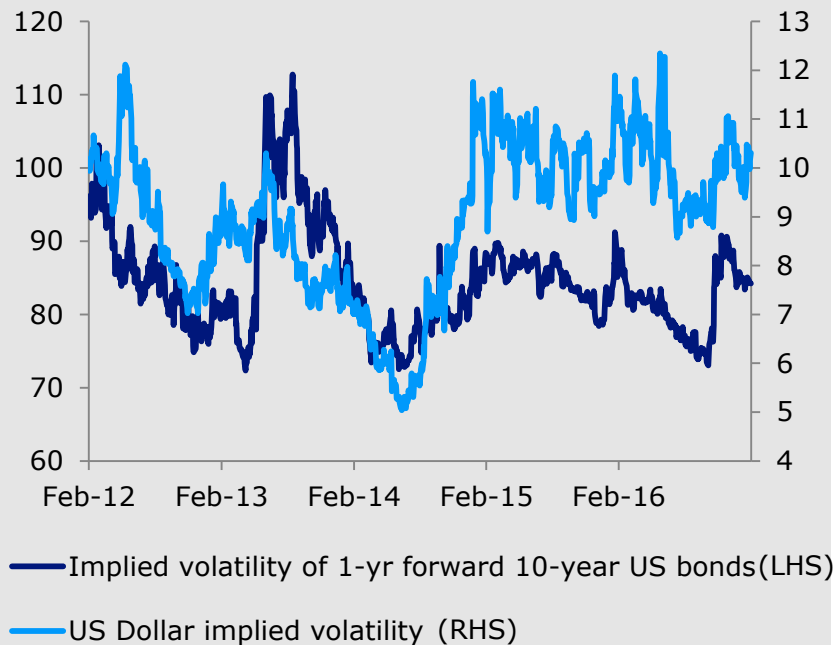
This re-pricing of potential growth may limit the returns of core asset classes



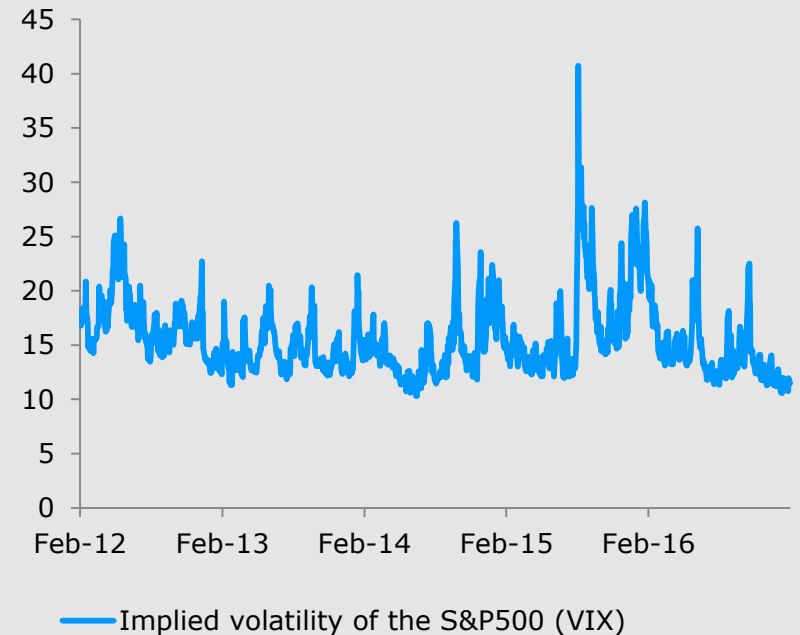
Source: Thomson Reuters Datastream, 31 January 2017

These risks have not yet been reflected in equity market implied volatility

Volatility has come through in currencies and interest rates...

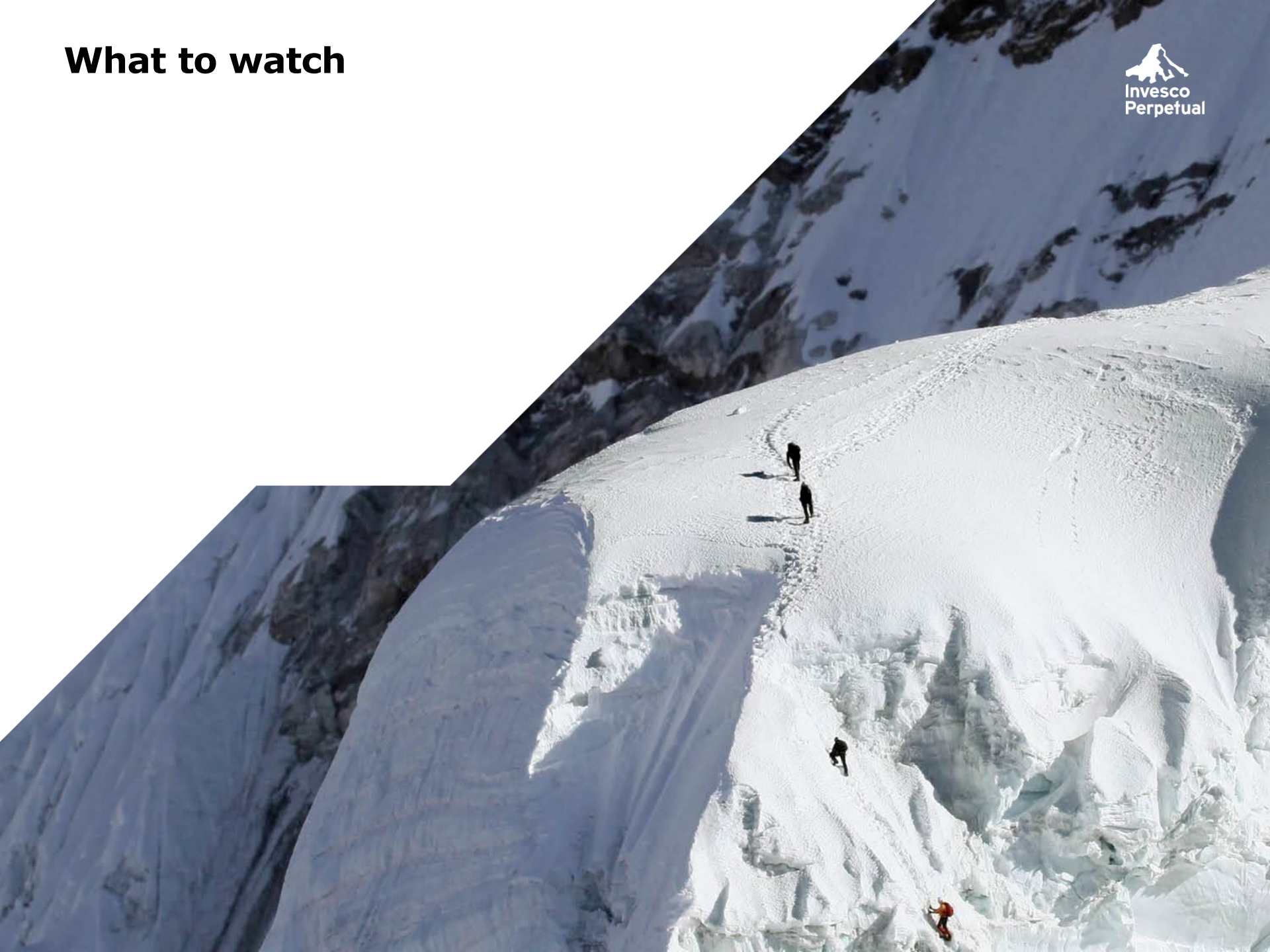


... but equity volatility has generally stayed low



Source: Bloomberg as at 31 January 2017.

What to watch

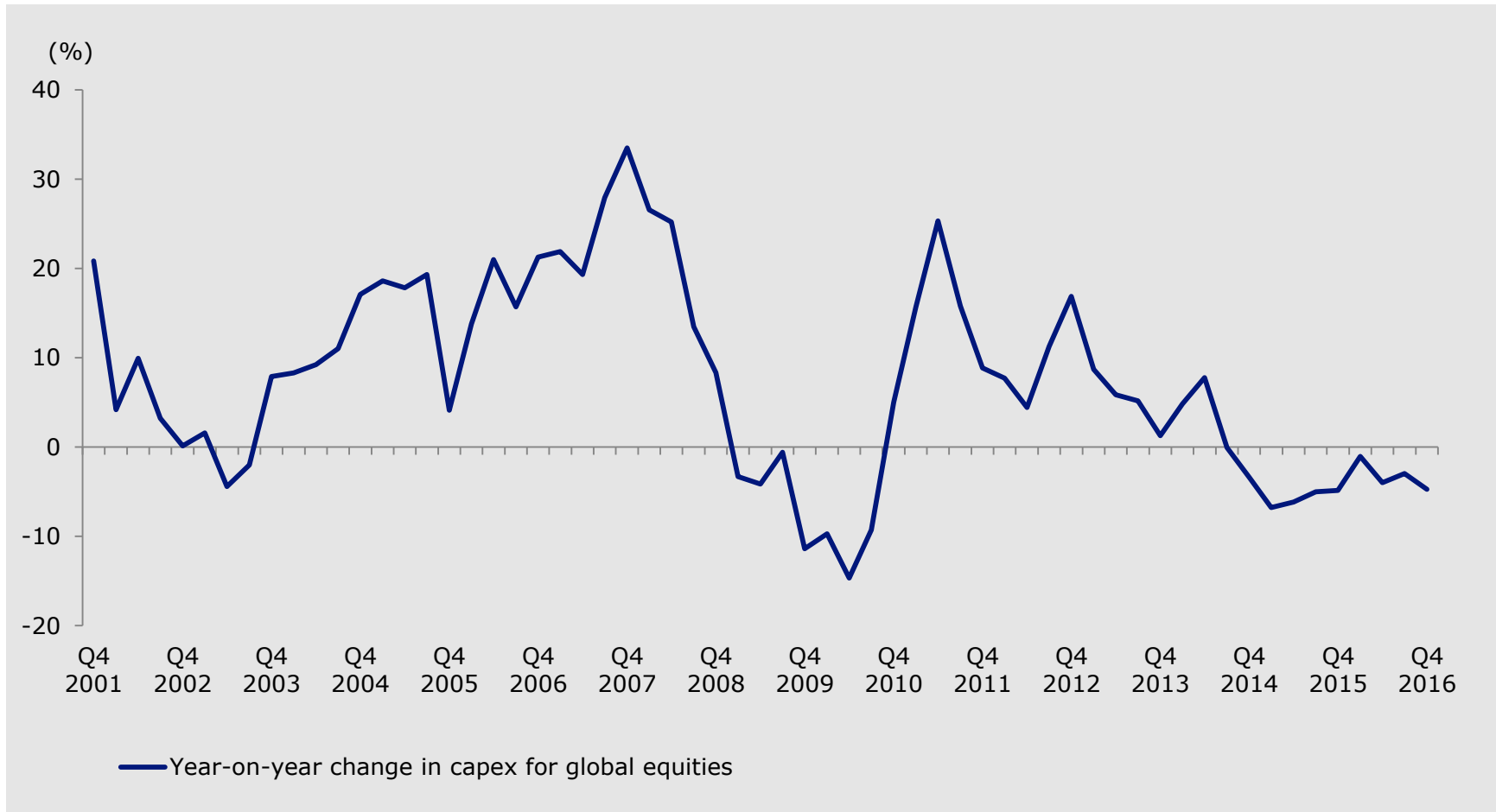


Corporate earnings have been relatively weak



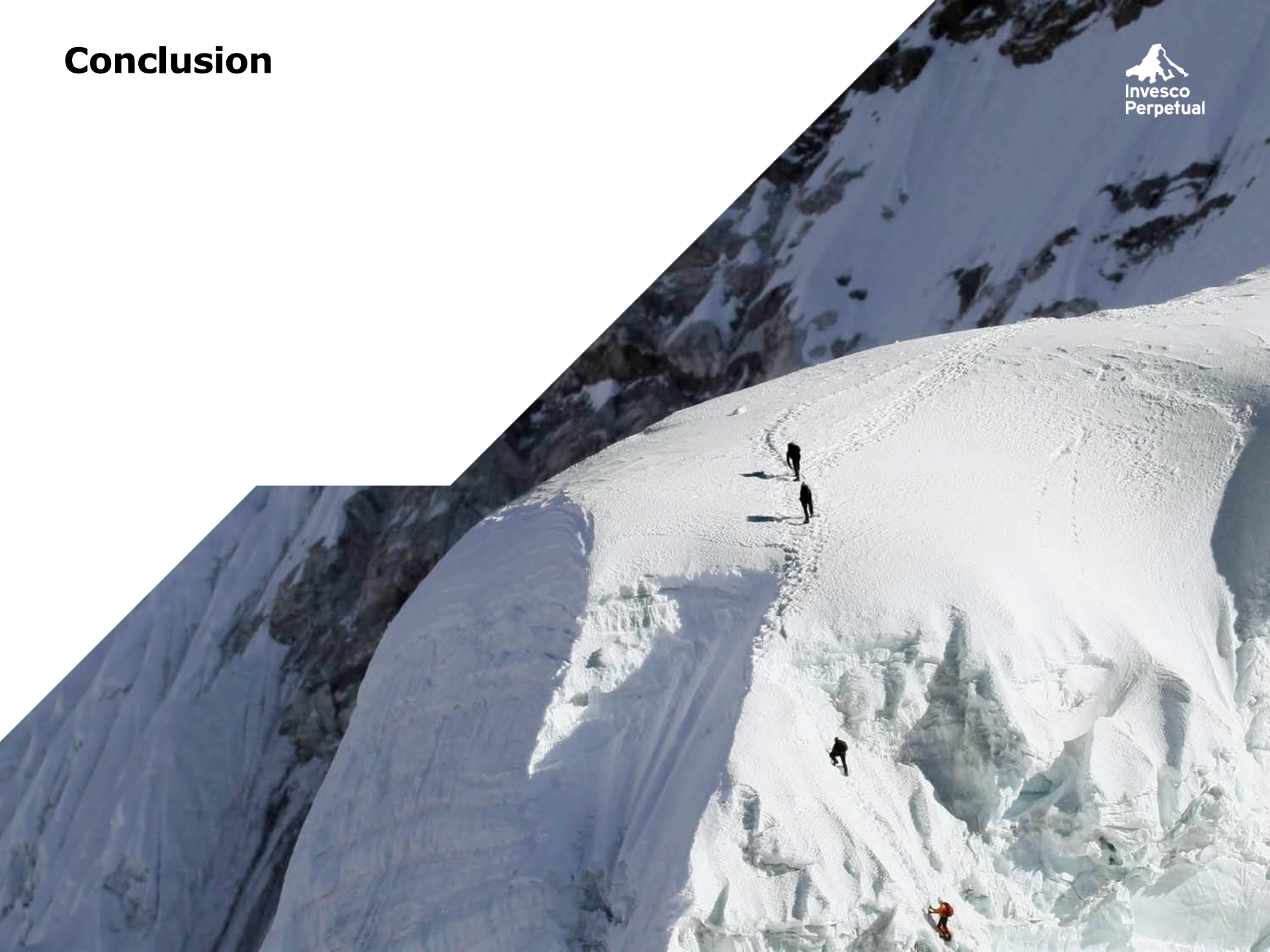
Source: Thomson Reuters Datastream, 31 December 2016. Chart rebased to 100 at 31 December 1979.

This has impacted investment and therefore employment



Source: Thomson Reuters Datastream, 31 December 2016.

Conclusion



Conclusion



- Global economies are expanding, but growth rates are likely to remain subdued
- Central Banks are starting to respond differently as global economies start to diverge
- Inflation has started to rise but there is no economic pressure for inflation to increase significantly across the developed world
- Lower nominal economic growth holds implications for the potential returns of global equities and is likely to cap how high bond yields can rise from here
- Corporate sector profitability is important for growth, alongside actions of policy makers

Source: Invesco Perpetual as at 31 January 2017.

Team biographies



David Millar: FIA, Head of Multi Asset and Fund Manager

Based in Henley-on-Thames, David joined Invesco Perpetual in January 2013 and heads the Multi Asset team. After commencing his investment career with Scottish Widows in 1989, where he qualified as an actuary, David joined the Fixed Interest team at Scottish Widows Investment Partnership in 1996, becoming Head of Bond Strategy and chair of their Bond Policy Group. In 2008, he joined Standard Life Investments as Investment Director in their Multi-Asset Investing team. He was one of the portfolio managers within their Global Absolute Return Strategies capability and was chair of their Bond Investment Group. David holds a BSc (Hons) in Mathematical Statistics from the University of Cape Town and is a Fellow of the Institute and Faculty of Actuaries.



Richard Batty: PhD, Fund Manager

Based in Henley-on-Thames, Richard joined Invesco Perpetual in March 2013, and serves as a fund manager for the Multi Asset team. Previously, he had worked at Standard Life Investments since 2003 where he was the Global Investment Strategist in their Strategy team which is now part of Standard Life's Multi-Asset Investing team, gaining additional responsibilities for Global Tactical Asset Allocation in 2012. Prior to joining Standard Life Investments, he began his investment career at James Capel/HSBC as an equity strategist in 1995. During this part of his career, Richard became a highly-rated, senior member of its industry renowned Economics and Strategy group. In 1994, he was awarded a PhD in Financial Economics from Brunel University, where he was a part-time research assistant and taught both graduate and undergraduate students.



Dave Jubb: FIA, Fund Manager

Based in Henley-on-Thames, Dave joined the company in March 2013, and serves as a Fund Manager for the Multi Asset team. Prior to this, he worked at Standard Life Investments where he was an Investment Director, Multi-Asset Investing, and was one of the fund managers of the firm's Global Absolute Return Strategies capability. Dave joined Standard Life Group in 1982 as a computer programmer and after a period in the Actuarial Department of Standard Life Canada, he joined Standard Life Investments where he held positions as a fixed income fund manager and strategist before joining their Multi-Asset Investment team in 2006. Dave graduated from St Andrews University in 1982 with a BSc (Hons) in Mathematics and is a Fellow of the Institute and Faculty of Actuaries.



Sebastian Mackay: Fund Manager, Multi Asset

Based in Henley-on-Thames, Sebastian joined Invesco Perpetual in August 2016 and serves as a fund manager for the Multi Asset team. He began his career at Scottish Widows Investment Partnership in 2000, where he was a senior economist for the Fixed Interest team prior to joining the Aggregate Bonds team as an investment director. In 2011, Sebastian moved to Standard Life Investments, where he was an investment director for the Fixed Income team, before joining the Multi-Asset Investing team in 2014. Sebastian holds an MA (Hons) in Economics from the University of Edinburgh and an MSc in Financial Economics from the University of London, School of Oriental and African Studies.

Source: Invesco as at 31 December 2016. Team composition is subject to change without notice.

Team biographies (continued)



Gwilym Satchell: PRM™ Fund Manager/Risk Manager

Based in Henley-on-Thames, Gwilym joined the company in March 2013. Prior to this, he commenced his career in 2008 at Standard Life Investments, where he was involved in Multi-Asset Investing risk management, in particular the development of scenario analysis techniques. In addition, he was responsible for managing a range of liability-driven investment (LDI) funds. Gwilym holds the PRM™ designation which is an independent validation of skills and commitment to the highest standard of professionalism, integrity, and best practices within the risk management profession. He graduated from Warwick University in 2005 with a degree in Computer Science, and gained a Masters degree at the University of Edinburgh Business School in 2008.



Clive Emery: Product Director

Based in Henley-on-Thames, Clive joined the company in July 2015 and serves as a Product Director for the Multi Asset team. Clive commenced his career with Merrill Lynch in 1997, where he advised asset managers on European Equities. In 2004, he joined Dresdner Kleinwort Benson as a Director in their Equities Division becoming the Head of their Equity Hedge Fund team in 2005. He went on to join Société Générale in 2007 as the Head of their Equity Hedge Fund Advisory team. Clive graduated from the University of Exeter in 1995 with a BSc (Hons) in Economics & Politics and in 1997 he gained a Masters from the London School of Economics in the Politics & Economics of Transition for Eastern Europe.



Danielle Singer: CFA®, Portfolio Director

Based in New York, Danielle serves as a Portfolio Director for Invesco Perpetual's Multi Asset team. Before joining Invesco in 2014, Danielle was a strategist of the Global Investment Solutions (GIS) team at UBS. Her responsibilities included participating in the review and setting of multi-asset and currency strategies and assisting clients as part of the GIS initiative. Prior to that, Danielle was an account manager for UBS's Institutional Investment Management group and an internal investment consultant during her more than 10 years with the firm. Danielle started her investment career in 2002 in financial services. She earned a BA degree at Middlebury College and an MBA at the University of Chicago with concentrations in analytic finance and econometrics. She holds the Series 3, 7 and 66 registrations. Danielle is a CFA® charterholder and a member of the New York Society of Security Analysts.



Georgina Taylor: Research Director

Based in Henley-on-Thames, Georgina joined our company in June 2013 and is the Research Director for the Multi Asset team. Georgina commenced her career with HSBC in 2001 as an Equity Strategist. She went on to join the Equity Strategy team at Goldman Sachs in 2004 where she wrote global equity and asset allocation research. Georgina gained asset management experience at Legal & General Investment Management, contributing to the overall asset allocation outlook for the firm and multi asset funds. Before joining Invesco Perpetual Georgina was head of Equity Strategy, EMEA, at State Street Global Markets, producing and presenting on asset allocation and equity research. Georgina holds a BSc (Hons) in Economics from the University of Bath.

Source: Invesco as at 31 December 2016. Team composition is subject to change without notice.

Team biographies (continued)



Saul Shaul: Fund Analyst

Based in Henley-on-Thames, Saul joined the company in May 2012 as an IT contractor working in front office IT and was later assigned to the implementation project working on the technical build of Invesco Perpetual's Multi Asset investment platform. In January 2014 Saul joined the Multi Asset team as a fund analyst. Saul commenced his career in front office IT in 2006 and has worked as an IT contractor on several projects involving Fund Management and Trading systems. He graduated from The University of Portsmouth in 1998 with a degree in International Finance and Trade.



Steven Hawes: CFA®, Research Analyst

Based in Henley-on-Thames, Steve joined the company in July 2010, and since January 2014 has served as a Research Analyst within the Multi Asset team. Steve joined Invesco Perpetual as a Client Services Executive, specialising in investment performance. He graduated from the Sheffield Hallam University in 2010 with a BA (Hons) in Business and Financial Services. He passed the Investment Management Certificate (IMC) in January 2013 and is a Chartered Financial Analyst (CFA®) charterholder.



Dilek Ulu: PhD, Fund Analyst*

Based in Henley-on-Thames, Dilek joined the company in November 2013, and since January 2017 has served as a Fund Analyst within the Multi Asset team. Dilek joined Invesco Perpetual as a Senior Risk Analyst in the Independent Risk Function where she worked as a lead investment risk analyst. She was responsible for risk oversight and monitoring activities for all funds managed within Europe, including the multi asset portfolios. Dilek holds a first degree in Economics and a Masters degree in Finance and Accounting from Hacettepe University. In 2013, Dilek was awarded a PhD in Finance from the University of Essex, where she worked on various projects covering risk management and derivatives while also teaching both postgraduate and undergraduate students.



Mike Marshall: CFA®, Risk Analyst

Based in Henley-on-Thames, Michael joined the company in June 2013, and since March 2015 has served as a Risk Analyst within the Multi Asset team. Michael joined Invesco Perpetual as a Senior Valuations Analyst and subsequently managed the OTC Derivatives and Alternatives team, reporting to the Head of EMEA Portfolio Services. Prior to joining Invesco Perpetual, he held various Derivative Analyst positions at Tier 1 investment banks and other asset management firms working in a broad range of derivatives-related fields. Michael graduated from the University of Cape Town in 2006 with a Bachelor of Business Science (Hons) in Finance and Accounting and is a Chartered Financial Analyst (CFA®) charterholder.

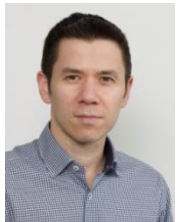
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Other biographies



Dominic Baker: Fund Manager, Portfolio Implementation

Based in Henley-on-Thames, Dominic joined Invesco Perpetual in February 2015 and has over 20 years' experience as an equity fund manager. He started his career at Framlington in 1992 and moved to Threadneedle Investments in 2000 where he spent the following 11 years. He covered a variety of mandates on the European equities team before being appointed Head of UK Institutional Equities, which made him personally responsible for over £3bn of assets. More recently he has covered global equities at Tesco Pension Investment and UK equities at London based hedge fund, Zadig Asset Management. He is an associate member of the UK Society of Investment Professionals and has a BSc Hons in Business Studies with a speciality in Finance from the City University Business School



Zander Sen: Fund Manager, Portfolio Implementation

Based in Henley-on-Thames, Zander joined Invesco Perpetual in June 2015. He began his career at Swiss Life Asset Management (UK) in 1999, and subsequently moved on to King & Shaxson Asset Management and Dalton Strategic Partnership as a fund manager. At Schroders, he covered quantitative equity products, before joining HSBC Global Asset Management where he was responsible for managing a range of exchange-traded funds. Zander holds a BSc degree in Applied Physics and an MSc degree in Finance from the University of Strathclyde. He is a Chartered Financial Analyst (CFA®) charterholder.



Alexandra Ivanova: Deputy Fund Manager, Portfolio Implementation

Based in Henley-on-Thames, Alexandra joined the Invesco Perpetual Fixed interest team in June 2015 as a Deputy Fund Manager, Fixed Income Portfolio Implementation. Alexandra began her career with Municrest Investment Management Co., based in the US, in 2001 working as a fixed-income quantitative research analyst. In 2006 she joined Invesco Fixed Income in Louisville, KY, as an investment associate and in 2008 transferred to Invesco Fixed Income in London as a fixed-income quantitative research analyst. Alexandra holds MS in International Economics from the Yakutsk State University, Russia and BS in Finance and MBA degrees from the University of Louisville, KY. She is a Chartered Financial Analyst (CFA®) charterholder.



Simon Ferguson: CFA®, Senior Dealer, Alternatives and Foreign Exchange

Based in Henley-on-Thames, Simon Ferguson joined Invesco in 2013 as a senior trader on the Alternatives and FX Trading desk, covering global derivative markets. Simon was previously a co-portfolio manager at Cayuga Capital, starting in July 2010 and implementing investment views through derivative instruments across the equity, fixed income, credit, FX and commodity markets. From 2002, he worked for Hermes Investment Management, running the Tactical Asset Allocation Overlay for the British Telecom pension scheme. Prior to that, Simon worked for a number of sell-side firms from 1993, including Goldman Sachs, Schroders and Julius Baer (Paris). Simon graduated from the University of Wales, Bangor, with a first-class degree in Economics. Simon also holds the Chartered Financial Analyst designation and has recently passed the Chartered Institute for Securities & Investment Level 4 Derivatives (IAD) exam.

Source: Invesco as at 31 December 2016. Team composition is subject to change without notice.

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