GEOPOLITIQUE, INCERTITUDES et MARCHES :

LE BON, LA BRUTE et LE TRUAND…

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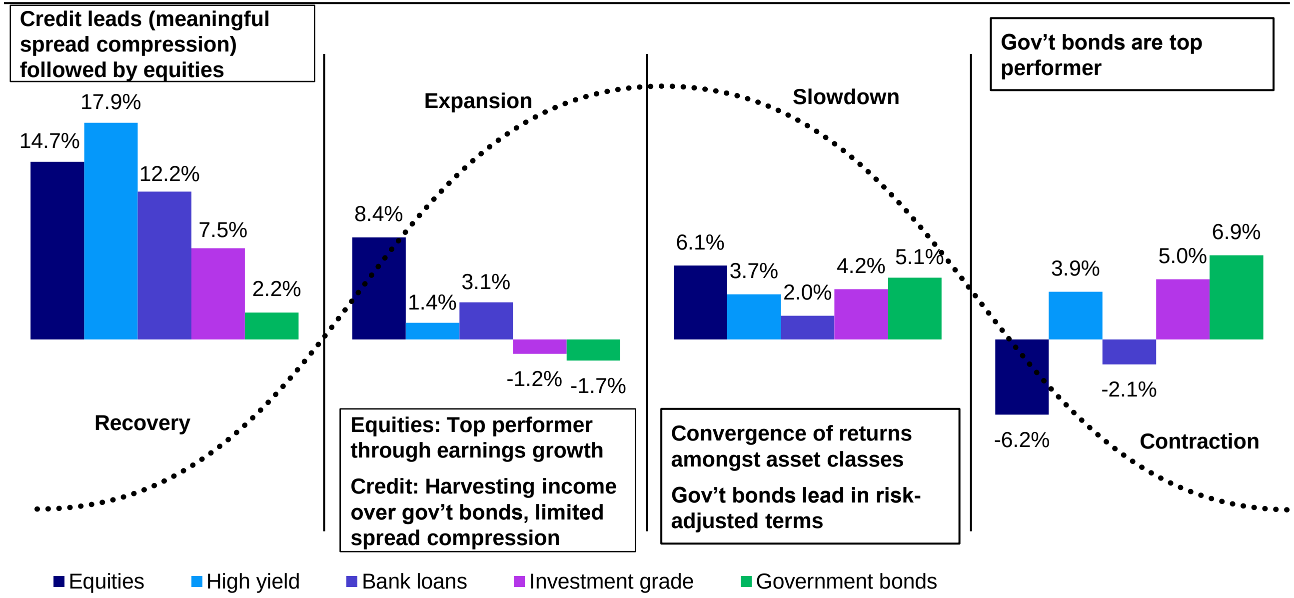
Global Head of Asset Allocation Research
Global Thought Leadership

We believe the economic and policy cycle dominates portfolio returns

Historical excess returns on US assets during the economic cycle

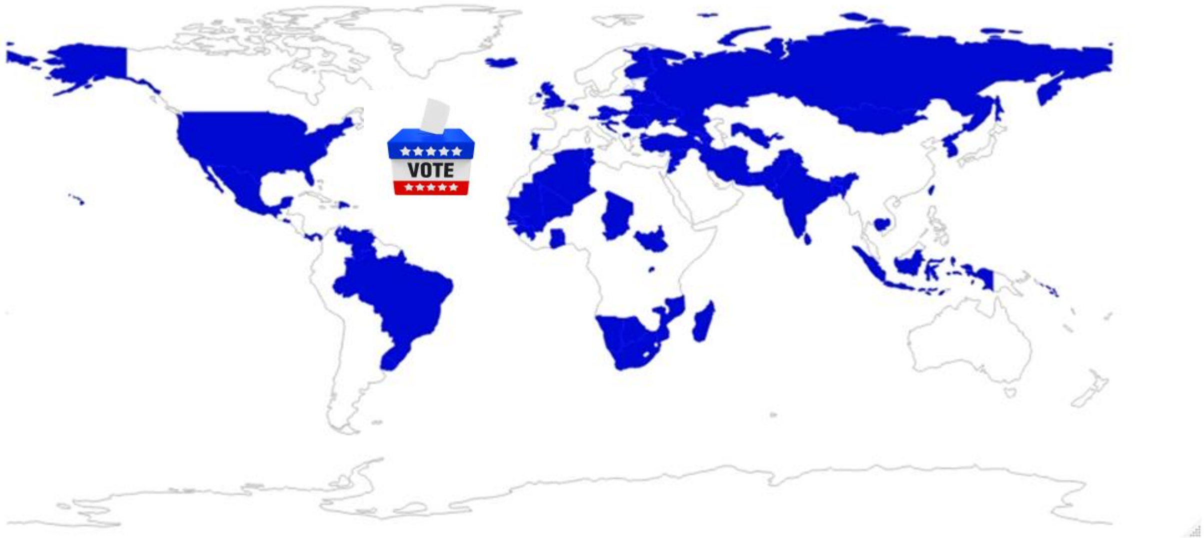


- We believe the global economy is in the contraction phase but will transition to recovery later in 2024
- Markets appear to have already moved onto the recovery phase, with cyclical assets outperforming over recent months
- We also believe that politics and geopolitics can have a temporary effect on market outcomes

Notes: Index return information includes back-tested data**. Returns, whether actual or back tested, are no guarantee of future performance**. Annualised monthly returns from January 1970 – December 2021, or since asset class inception if a later date. Includes latest available data as of most recent analysis. Asset class excess returns defined as follows: Equities = MSCI ACWI - US T-bills 3-Month, High Yield = Bloomberg Barclays HY - US T-bills 3-Month, Bank loans = Credit Suisse Leveraged Loan Index – US T-bills 3-Month, Investment Grade = Bloomberg Barclays US Corporate - US T-bills 3-Month, Government bonds = FTSE GBI US Treasury 7-10y - US T-bills 3-Month. For illustrative purposes only.
Source: Invesco Solutions' proprietary global business cycle framework and Bloomberg L.P.

Nearly 50% of the world's population has a chance to vote in 2024…
…but some votes count more than others

Countries with nationwide elections in 2024



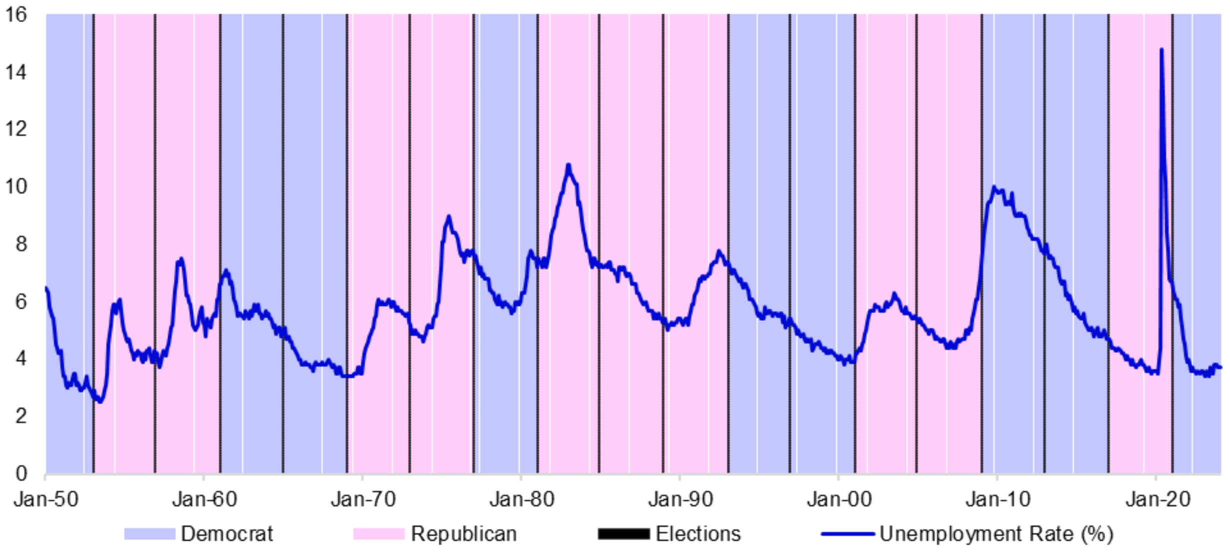
- Elections are due to take place in more than 60 countries, accounting for nearly 50% of the world's population and 40% of GDP
- Many geopolitical hotspots will have been touched by elections during 2024 (Taiwan, Russia, India, South Africa, the Middle East and…the US)
- The most watched is likely to be the presidential election in the US (5 November)

Note: Shaded areas are those countries with declared or scheduled elections for 2024, as of 8 January 2024.
Source: TIME "World Elections 2024", The World Bank and Invesco

Does it matter who wins the US election?

#1 Democrats have tended to be better for the economy

US, elections, presidents and unemployment since 1950



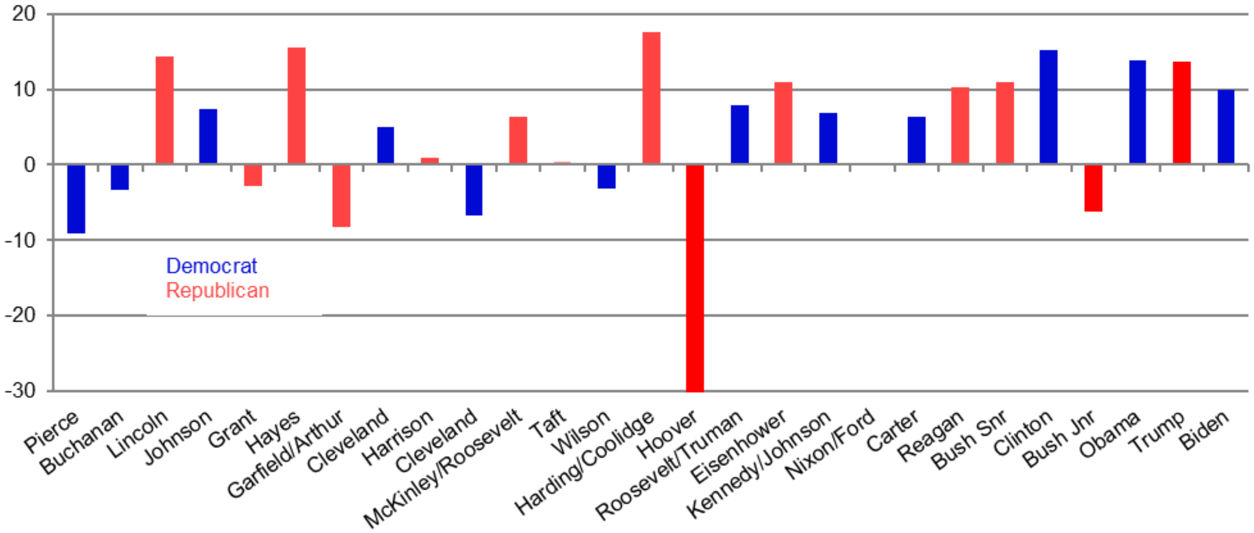
Note: based on monthly data from January 1950 to January 2024. "Elections" shows the dates of presidential elections. Shaded areas show whether the sitting president was Republican or Democrat.
Source: 270towin, LSEG Datastream, Wikipedia and Invesco Global Market Strategy Office

- Unemployment has started to rise, which is not usually good for the incumbent's electoral chances
- Democrat presidents have usually been associated with falling unemployment (Carter was the exception)
- Republicans have usually left the White House with unemployment higher than when they entered (except Reagan)

Does it matter who wins the US election?

#2 Democrats have been associated with stronger stock markets

Stock market price returns during US presidencies since 1853 (% annualised)

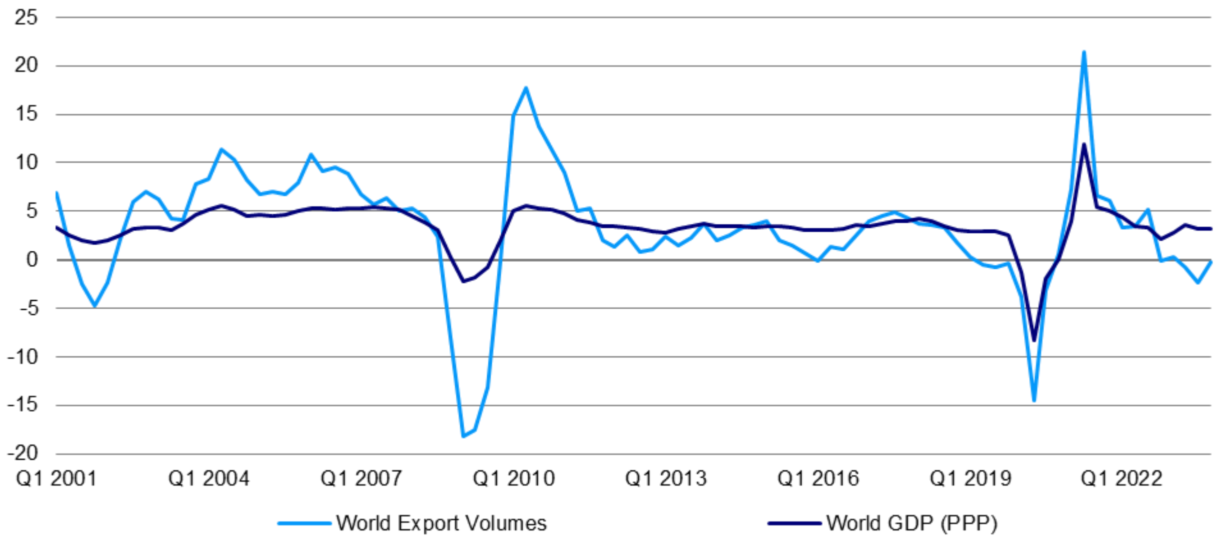


Note: **Past performance is no guarantee of future results**. Based on daily data from 4 March 1853 to 29 February 2024. See the appendices for details about the stock indices used to make these calculations.
Source: 270towin, Global Financial Data, Robert Shiller, Wikipedia, LSEG Datastream and Invesco Global Market Strategy Office

- Starting in 1853 (since when presidents have been either Democrat or Republican), stock market price gains have been better under Democrats (5.4% annualised) than Republicans (3.6%)
- Stocks gained 13.7% annualised during Donald Trump's first term, bettered only by Clinton (15.2%) and Obama (13.9%) since WW2
- The Biden White House has so far seen annualised gains of 9.9% but this leaves US stocks at elevated levels

Trade wars and deglobalisation could bring lower growth and higher inflation
Is the global economy becoming less export intensive?

Global export and GDP growth (%, year-on-year)

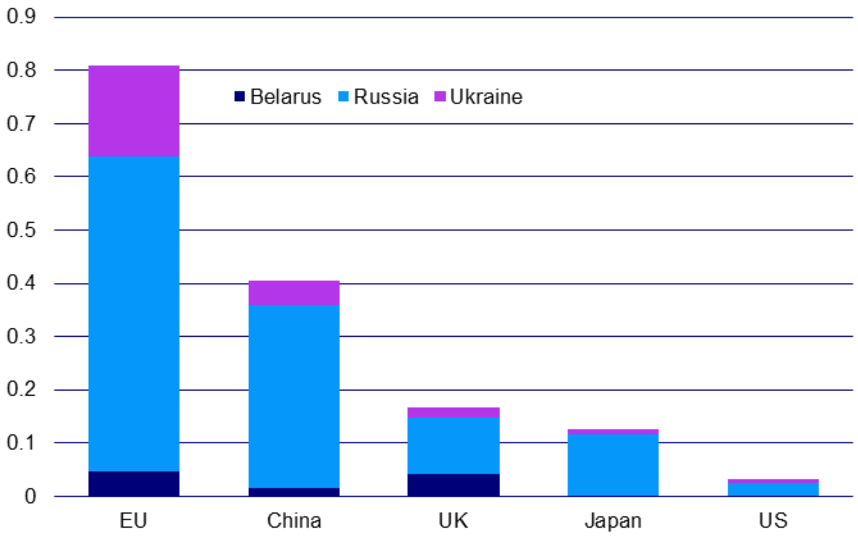


Note: Quarterly data from 2001 Q1 to 2023 Q4. "World GDP (PPP)" is a measure of real GDP in US dollars (using purchasing power parity exchange rates), as provided by Oxford Economics. "World Export Volumes" is an index of export volumes (measured in US dollars), compiled by the Netherlands Bureau for Economic Policy analysis.
Source: LSEG Datastream, Netherlands Bureau for Economic Analysis, Oxford Economics and Invesco Global Market Strategy Office

- Though not as dramatic as military conflict, trade wars and deglobalisation can reduce economic welfare via lower growth and higher inflation
- Since the presidency of Donald Trump, the US has increasingly used trade restrictions to get its way, especially against China, Iran, Russia and Europe (but also against its NAFTA partners)
- Low world export growth may be a sign that trade is shrinking but it is too early to know for sure

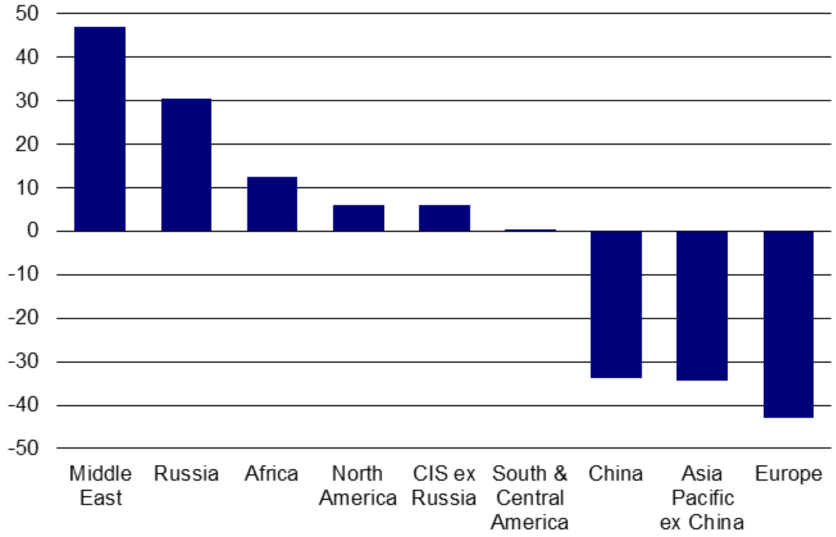
Who was most vulnerable to the effects of the Russia's invasion of Ukraine?
The answer is Europe

Exports to Russia, Belarus, Ukraine in 2020 (% of GDP)



Source: IMF Direction of Trade Statistics, World Bank and Invesco

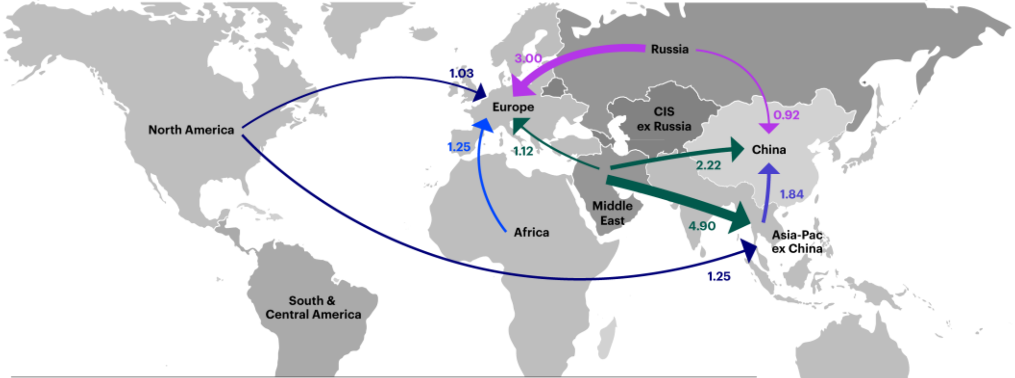
Excess primary energy production in 2020 (exajoules)



The chart shows production of energy minus consumption, using conversion factors provided by BP to put all fuel on an equal footing (and applying an efficiency factor of 40.5% to nuclear and hydro production to put them on an input equivalent basis with fossil fuels and thereby making it consistent with consumption data).
Source: BP Statistical Review of World Energy July 2021 and Invesco

Europe and Russia are codependent…
as are Asia and the Middle East

Major energy flows in 2020 (rebased so that world production of energy = 100)



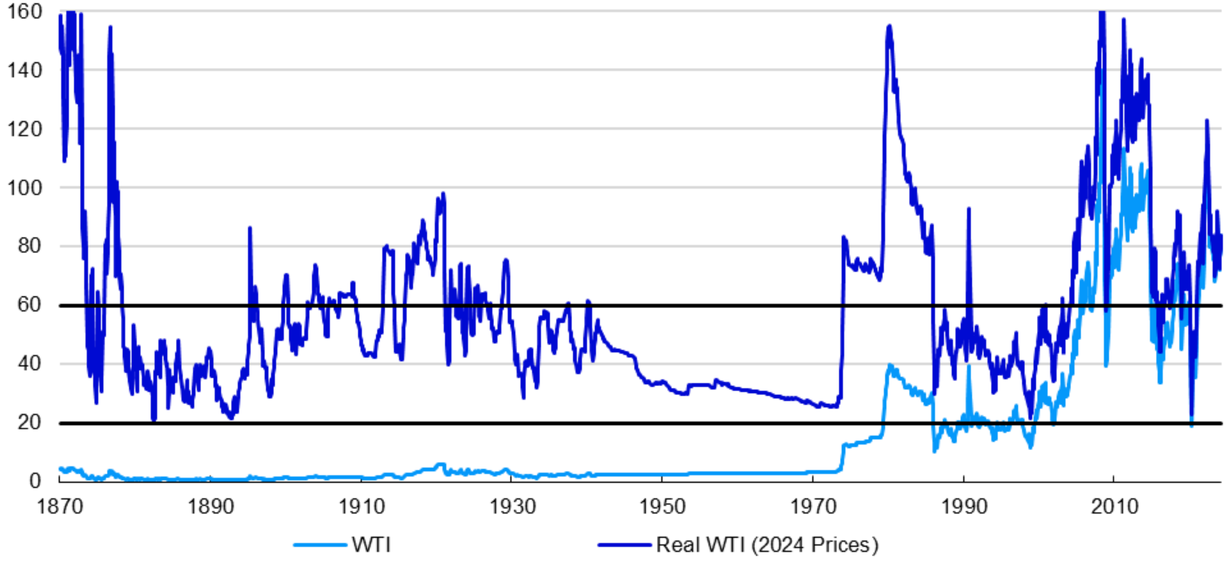
	Oil	Gas, pipeline	Gas, LNG	Coal	Total
Russia to Europe	1.53	1.05	0.11	0.34	3.00
Russia to China	0.67	0.02	0.04	0.17	0.92
North America to Europe	0.75	-	0.16	0.12	1.03
North America to Asia Pacific ex-China	0.91	-	0.14	0.21	1.25
Africa to Europe	0.88	0.16	0.20	0.02	1.25
Middle East to Europe	0.90	0.03	0.19	-	1.12
Middle east to China	2.14	-	0.08	-	2.22
Middle East to Asia Pacific ex-China	4.41	-	0.49	-	4.90
Asia Pacific ex-China to China	0.49	0.02	0.39	0.94	1.84

Note: only total energy flows greater than five exajoules are shown (but data is rebased so that total world energy production = 100). Oil includes crude and products. Using conversion factors provided by BP to put all fuel on an equal footing. Source: BP Statistical Review of World Energy July 2021 and Invesco

- Europe and Russia were codependent (Europe was Russia's largest energy customer and Russia was Europe's largest external supplier)
- Russia supplied 22.5% of Europe's energy in 2020
- The Middle East is likewise an important source of energy for Asia (16.1% in 2020)
- Any disruption to energy flows from the Middle East (due to broader Middle East conflict, say), could have an important effect on the global economy

Oil price spikes can be painful

US oil price in real terms since 1870 (US dollars per barrel, CPI adjusted)



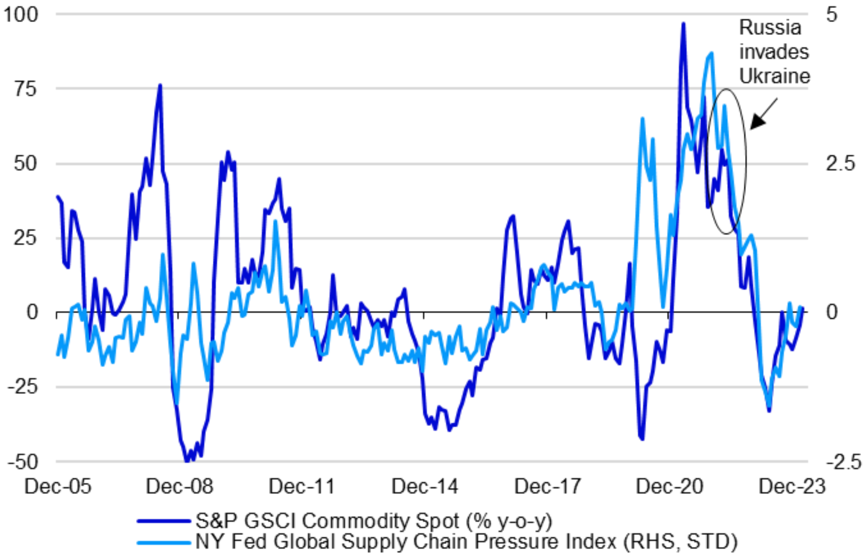
- Within a historical context, and expressed in today's prices, an oil price of $100 is rare (WTI has been above $100 in only 10% of months since January 1870).
- Demand and supply dynamics usually bring it back into the $20-$60 range (in today's prices).
- A $10 per barrel increase in the price of oil raises the world's oil bill by around $325bn or 0.4% of GDP (a 10% rise in the price of gas has the same effect).

Note: **Past performance is no guarantee of future results**. Monthly data from January 1870 to March 2024 (as of 29 March 2024). WTI is West Texas Intermediate. Real WTI is calculated by dividing the price of WTI by an index of US consumer prices. Source: Global Financial Data, LSEG Datastream and Invesco

There are few places to hide if inflation spikes…

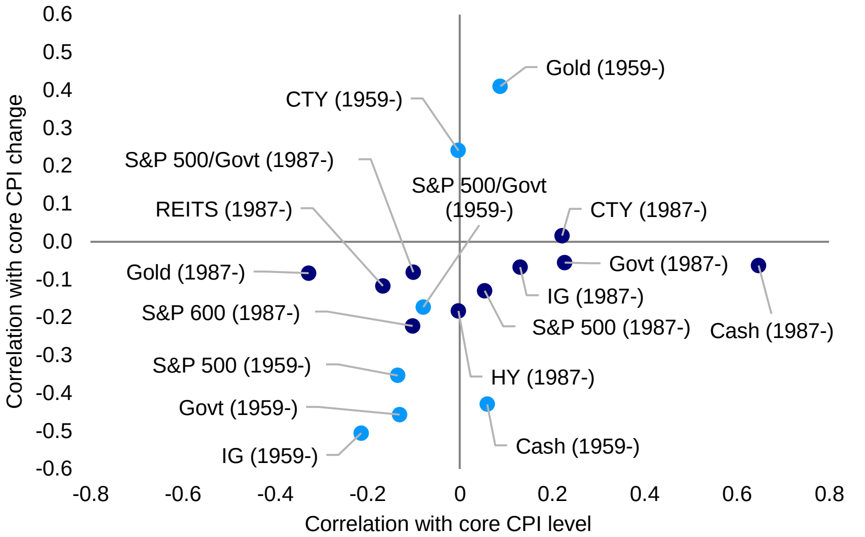
Luckily, geopolitical inspired inflation pressures appear restrained

Global commodity prices and supply chain disruptions



Past performance is no guarantee of future results. Monthly data from December 2005 to March 2024 (as of 29 March 2024). NY Fed Global Supply Chain Pressure Index tracks the state of global supply chains using data from the transportation and manufacturing sectors, as constructed by the Federal Reserve Bank of New York. It is shown as standard deviations from the historical mean. Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, S&P GSCI, LSEG Datastream and Invesco Global Market Strategy Office

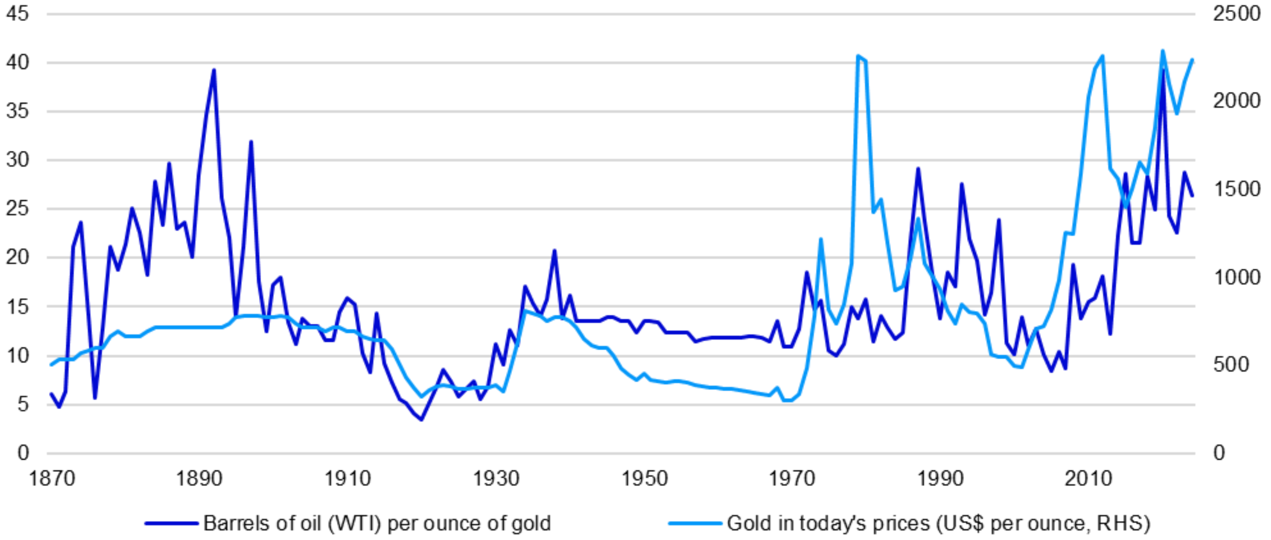
CPI-adjusted asset total returns and core CPI inflation



Note: **Past performance is no guarantee of future results**. Based on calendar year data, showing two periods: 1959-2019 and 1987-2019. “Core CPI Level” shows the correlation of CPI-adjusted US asset returns in a calendar year with the level of US core inflation during that year (calculated as the average between inflation at the end of the year and that at the end of the previous year, based on the US CPI index excluding food & energy). “Core CPI Change” shows the correlation of CPI-adjusted asset returns in each calendar year with the change in core inflation during that year (calculated as the difference between core inflation at the end of the year and that at the end of the previous year). All asset returns are CPI-adjusted (using headline CPI) and are in total return format, unless stated otherwise (see appendix for definitions).
Source: BAML, CRB, Global Financial Data, LSEG Datastream, Robert Shiller, Standard & Poor’s, S&P GSCI, GPR, and Invesco Global Market Strategy Office

How much bad news is in the price of gold?

Gold is expensive whether measured against consumer prices or the price of oil

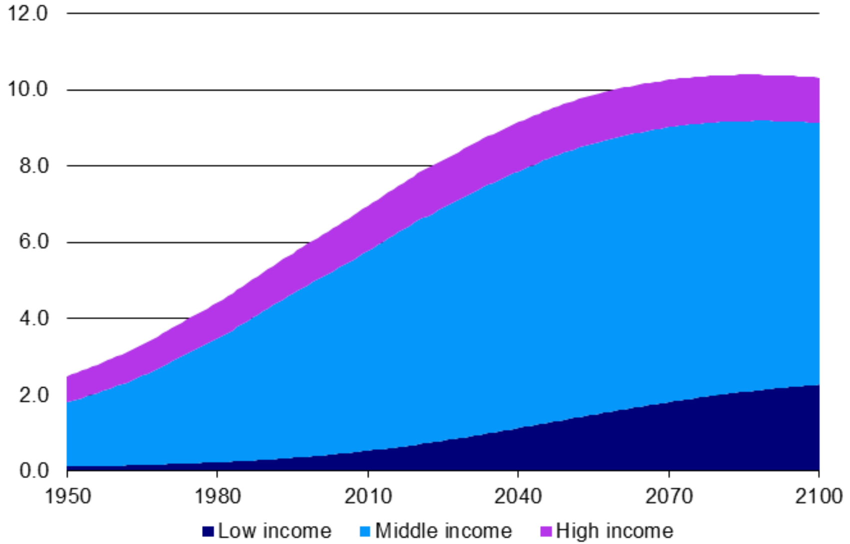


Note: **Past performance is no guarantee of future results**. Annual data from 1870 to 2024 (as of 1 April 2024). Gold is expressed in today's prices using an index of US consumer prices. Both oil and gold are based on spot prices.
Source: LSEG Datastream and Invesco Global Market Strategy Office

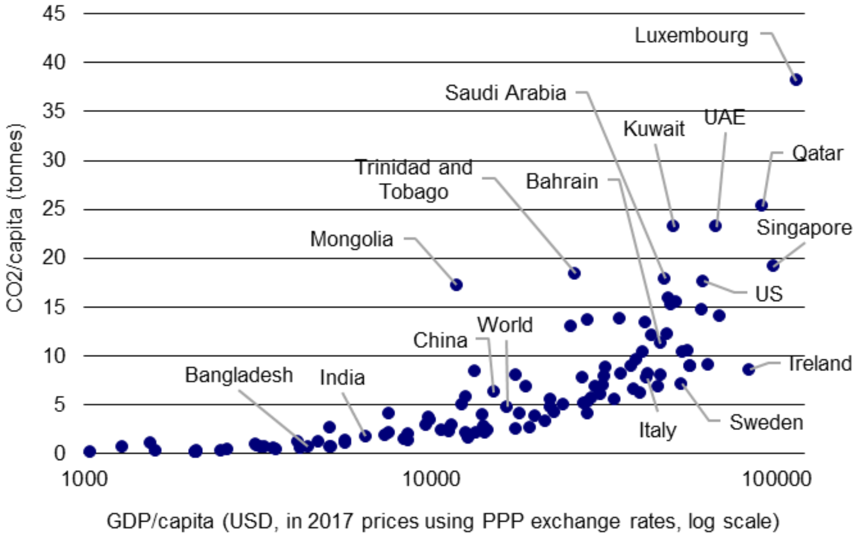
- We often think that gold performs well during times of crisis (such as periods of geopolitical tension)
- Our models also suggested that it received a boost when Donald Trump was first elected as president of the US (worth around $230)
- The current price of gold suggests to us that a lot of bad news is already in the price (perhaps including the reelection of Donald Trump)

Development and climate change will be long-term sources of tension

Population by income country groups (1950-2100)



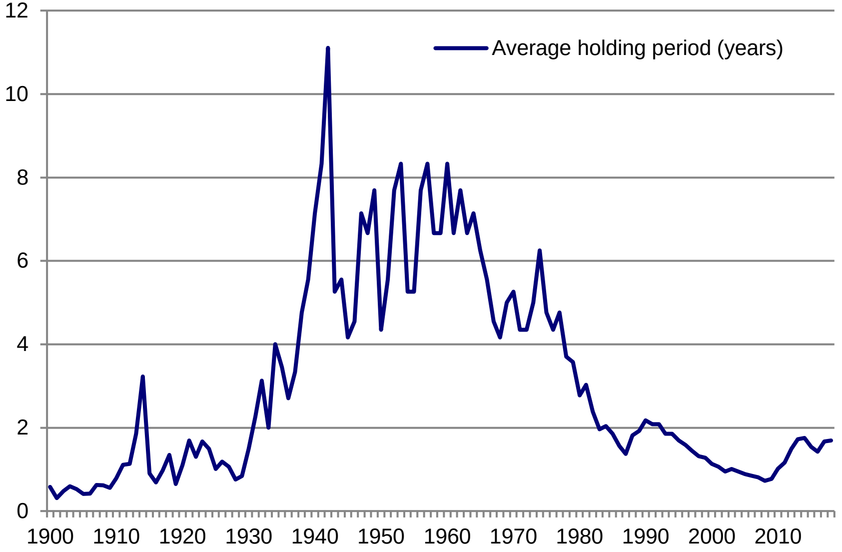
CO2 per capita increases with income (2018 data)



Notes: left hand chart shows global population with countries organised by World Bank income groups, on an annual basis from 1950 to 2100 (based on United Nations estimates up to 2022 and UN Medium Variant forecasts thereafter, as per UN World Population Prospects 2022). Right hand chart shows consumption-based CO2 emissions per capita in 2018 (provided by Global Carbon Project and Our World in Data) versus GDP per capita in 2018 (expressed in USD in 2017 prices, using purchasing power parity (PPP) exchange rates). Source: Global Carbon Project, Our World in Data, United Nations, World Bank, Refinitiv Datastream and Invesco Global Market Strategy Office

Don’t worry, be happy

NYSE average stock holding periods (1900-2018)

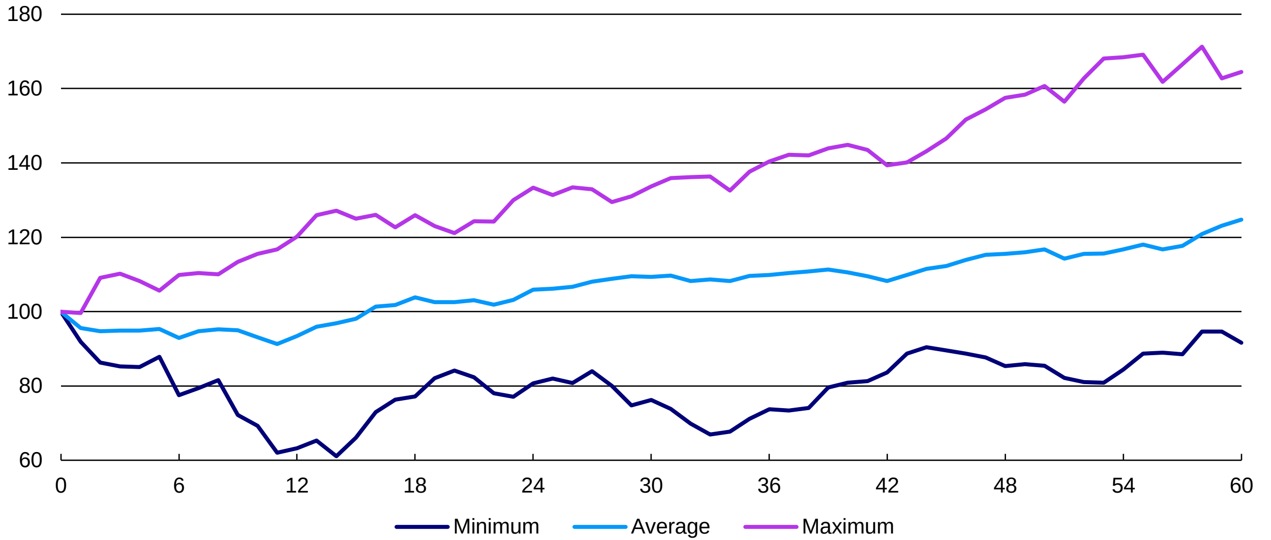


- We are hard wired to make short-term gains, seek out too much information and be overconfident.
- Happiness makes us more:
  - Considered in our approach
  - Disciplined
  - Focused on the long term
  - Risk averse
- What brings happiness?
  - Sunshine
  - Income
  - Health (don’t smoke)
  - Marriage (but not children!)
  - Living in a larger household
  - Being nice (don’t be selfish, untrusting or vindictive)

Note: annual data (2018 is up to 29 June). Average holding period is the inverse of the turnover ratio.
Source: NYSE and Invesco.

Wars have tended to have less of an effect on stocks than you might fear

The performance of US stocks around the outbreak of hostilities (six episodes)

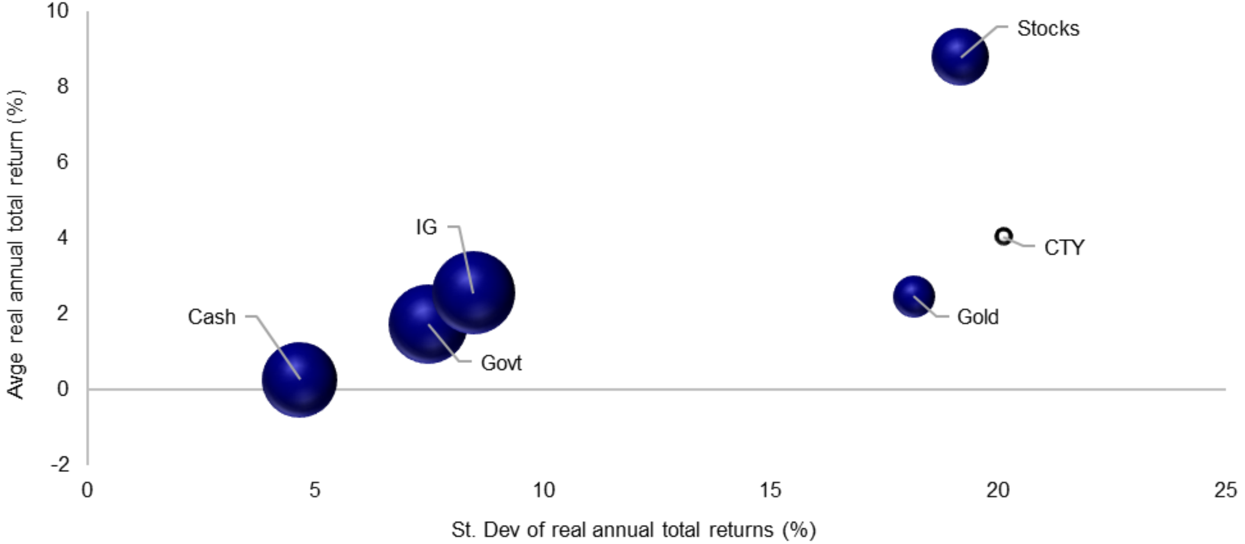


- Looking at six historical conflicts (including WW1 and WW2), US stocks have on average lost 9% but bottomed within 12 months and recovered the losses within 18 months.
- Only the invasion of Iraq (2003) was accompanied by rising stock prices (the tech sell-off was ending).

Notes: **Past performance is no guarantee of future results. B**ased on the monthly performance of the S&P 500 (or US equity market equivalent prior to its existence as constructed by Robert Shiller – see appendices for more detail) in the five years from the onset of tension during WW1, WW2, the Cuban Missile Crisis (1962), the Yom Kippur War (1973), the Kuwait War (1990-91) and the Iraq War (2003-11). For each episode, the index is rebased to 100 at the outset (month zero) and is then calculated over the following 60 months. "Average" is the average path of the equity index across the six episodes. "Minimum" is the lowest index reading at that point across all six episodes. Likewise, for "Maximum".
Source: Robert Shiller and Invesco Global Market Strategy Office

In the long run equities have tended to offer a risk premium

Risk and reward on US assets 1915-2023 (CPI adjusted, %)



- Don't worry be happy!
- Stocks have offered a generous risk premium over more than 100 years.
- A period that included two world wars, two global pandemics, the global financial crisis, the great depression, a bout of stagflation and numerous upheavals in the world's geopolitical and financial orders

Note: **Past performance is no guarantee of future results**. Based on calendar year data from 1915 to 2023. Calculated using: spot price of gold, Global Financial Data (GFD) US Treasury Bill total return index until December 2018 and then ICE BofA 0-3M treasury total return index for cash, our own calculation of government bond total returns (Govt) using 10-year treasury yield until January 1978 and the ICE BofA US treasury total return index thereafter, GFD US AAA Corporate Bond total return index until February 1976 and the ICE BofA US Corporate total return index thereafter (IG), Reuters CRB total return index until November 1969 and then the S&P GSCI total return index for commodities (CTY) and Robert Shiller's US equity index and dividend data for stocks (see appendices for more detail). Area of bubbles is in proportion to average correlation with other assets. Indices are deflated by US consumer prices. Source: LSEG Datastream, Global Financial Data, ICE BofA, Reuters CRB, S&P GSCI, Robert Shiller, Invesco Global Market Strategy Office

Appendix:
Definitions and data sources for asset classes

Long-term US equity index
We have calculated a total return index for broad US stocks based on index and dividend data from US academic Robert Shiller and Datastream. The index prior to 1926 is Robert Shiller's recalculation of data from Common Stock Indexes by Cowles & Associates (see here). From 1926 to 1957, the Shiller data is based on the S&P Composite Index and thereafter is based on the S&P 500 as we know it today.

Description of asset classes used in "CPI-adjusted asset total returns and core CPI inflation" chart
All asset returns are CPI-adjusted (using headline CPI) and are in total return format, unless stated otherwise: "Cash" is the 3mth US T-bill total return calculated by Global Financial Data (GFD) until Dec 2018 and then the Bank of America Merrill Lynch (BAML) 0-3mth treasury total return index; "Gold" is the London bullion market spot price in USD/troy ounce (from GFD and Refinitiv Datastream); "CTY" is the Reuters CRB Total Return Index until November 1969 and then the Standard & Poor's Goldman Sachs Commodity Index (S&P GSCI) from Dec 1969; "Govt" is an Invesco calculated total return based on 10 year treasury yield (provided by Robert Shiller and Refinitiv Datastream) until Jan 1978 and is based on BAML US treasury index thereafter; "IG" is based on GFD's AAA Total Return index until Feb 1976 and then BAML US Corporate Index; "HY" is based on BAML US High Yield index; "REITS" is based on the GPR General US total return index; "S&P500/Govt" is based on the ratio between the S&P 500 and Govt total return indices, as defined above.

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Data as at 29 March 2024, unless stated otherwise.

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