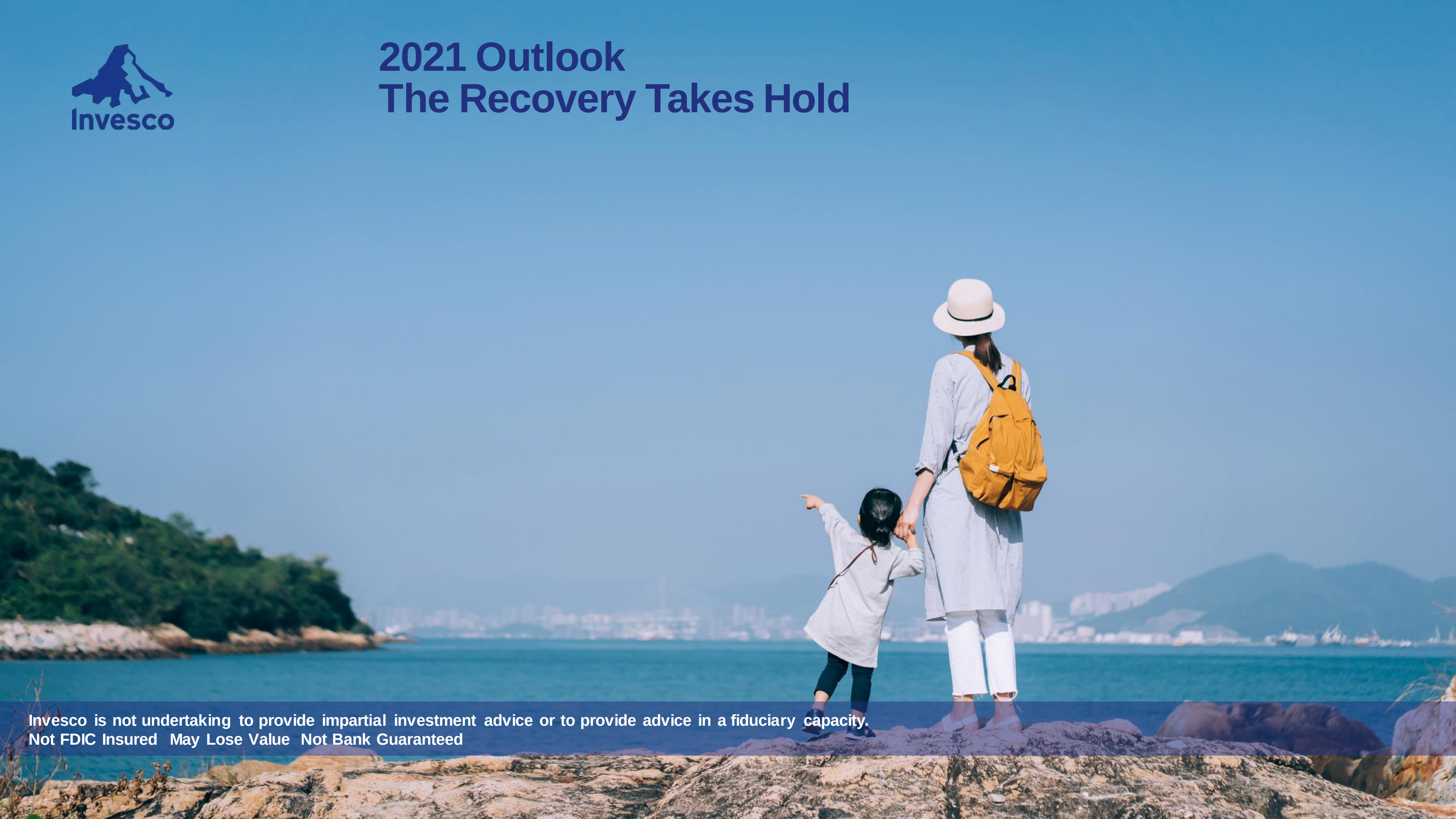
2021 Outlook
The Recovery Takes Hold



Summary

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As we say good riddance to 2020, we enter 2021 with a confidence that new market and business cycles have arisen. The economy, out of the depths of the COVID-induced recession, has entered what will be a protracted recovery, complete with the inevitable fits and starts, as experienced at the end of 2020. It may be years before the US returns to its full productive capabilities and full employment has been restored. Nonetheless, the markets will be focused on the improvements in economic activity in the coming years. A similar story is already playing out across much of Asia. We look for a recovery trade to emerge with the usual trappings including a moderately steeper yield curve, a stable to weaker dollar, and the more cyclical parts of the equity market outperforming.

In the following outlook we articulate our views for the next 12 months by answering persistent questions that all investors need to assess and by providing the frameworks and charts that inform our answers.

1. In which direction is the economy trending?
   A recovery, notwithstanding the inevitable fits and starts, is likely to play out in the coming year. Betting against a recovery is akin to betting against medicine and science.
2. What will be the policy response?
   Monetary policy will remain designed to support economy activity and is likely to reflate asset prices. Additional fiscal support is likely to be forthcoming.
3. What will be the impact on market leadership?
   A much-anticipated recovery trade appears to be in the offing.

This crisis is not economic in origin, and experiences of it vary.

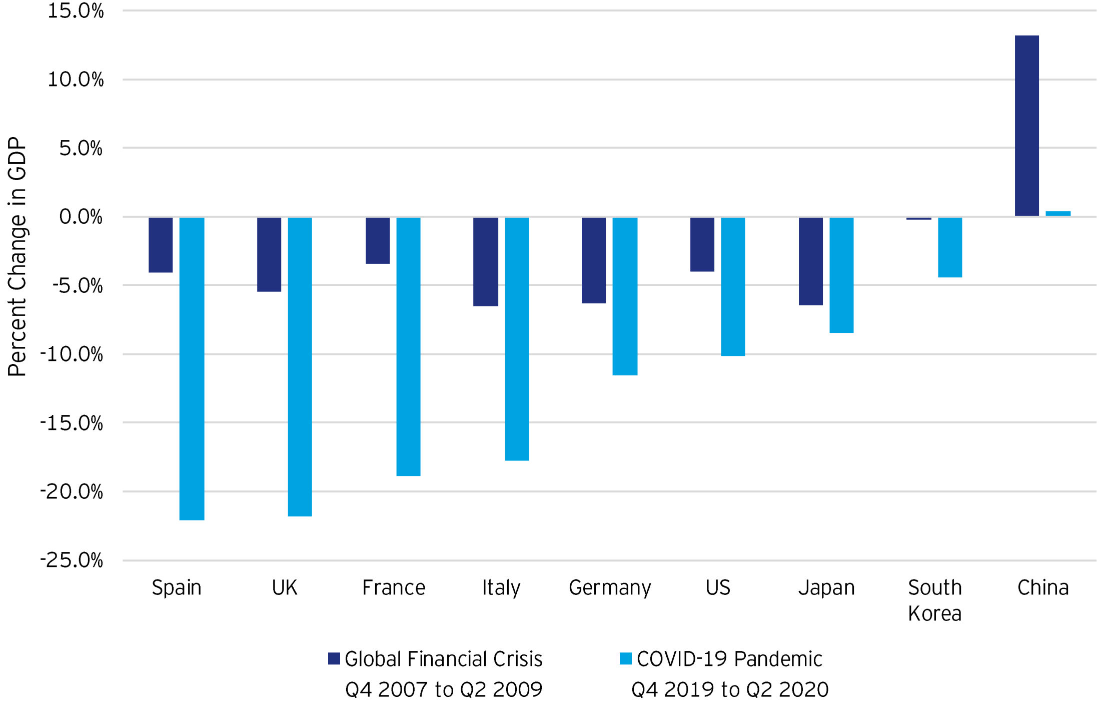
The destruction of economic activity experienced in the early days of the COVID outbreak was significantly larger than that experienced during the Global Financial Crisis.

Countries that were better able to compress cases, such as China, Korea, and Japan, fared better economically than compared to Europe and the US.

The global economic recovery is transpiring from a very depressed level. While it may take time for the economies to fully recover, markets will likely benefit from improvements in economic conditions in 2021, driven in part by expected medical and scientific progress.

Sources: Macrobond, Invesco, as of 11/3/20.

Percent change in GDP during the financial crisis vs. during the COVID outbreak by select countries



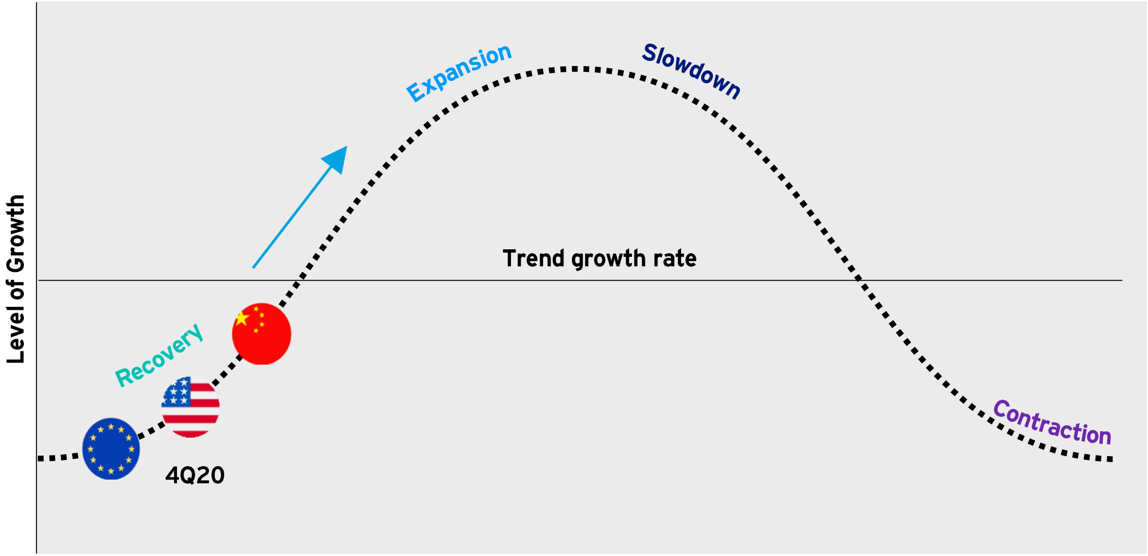
In which direction is the economy trending?
Global economy

As of Q4 2020, the world economy and all its major regions are in a recovery regime. China has led the recovery in 2020.

However, a strong second wave of COVID-19 infections increases the likelihood that Europe, and potentially the US, may experience a double-dip contraction given selective lockdowns in part of the economy.

Nonetheless, in our base-case scenario we expect the world economy and all its major regions to experience a recovery in 2021.

Macro framework



Source: Invesco. For illustrative purposes only.

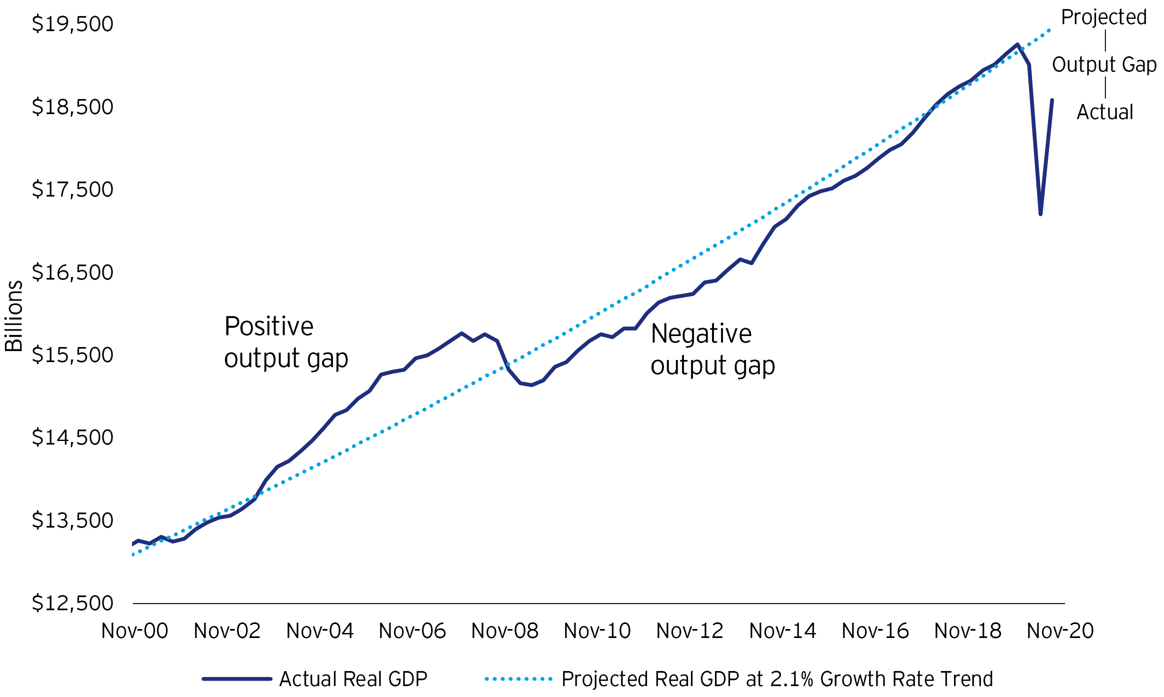
In which direction is the economy trending?
US economy

The US economy, after experiencing significant demand destruction in early 2020, is recovering – albeit from depressed levels.

Nonetheless, the US economy remains well below its projected productive capabilities, suggesting a prolonged path back towards "normal" levels.

A protracted recovery, supported by accommodative monetary policy, is likely to be a sound backdrop for risk assets, as was the case between 2009 and 2014.

Output gap: US real gross domestic product (actual vs. 2.1% trend growth rate)



Source: US Bureau of Economic Analysis and Organization for Economic Development, 9/30/20.

In which direction is the economy trending?
US economy

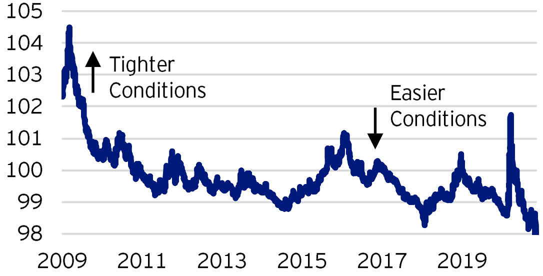
1. Financial conditions have eased meaningfully (weaker dollar, lower corporate borrowing costs) amid massive support from the US Federal Reserve.
2. The manufacturing and service economies are staging recoveries.
3. The at-home economy has benefited as evidenced by a surge in e-commerce sales.
4. The re-opening economy (travel, restaurants) will be dependent on further medical/scientific breakthroughs and may continue to be challenged in early 2021.

Sources: Goldman Sachs, Institute for Supply Management, National Association of Homebuilders, US Census Bureau, Transportation Security Authority. *Financial conditions is a weighted average of riskless interest rates, yield curve, the exchange rate, credit spreads and equity valuations.

US economic recovery progression

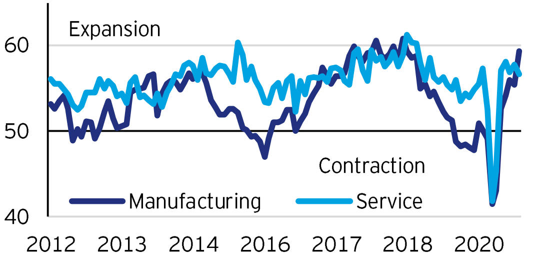
1. Financial Conditions

US Financial Conditions*



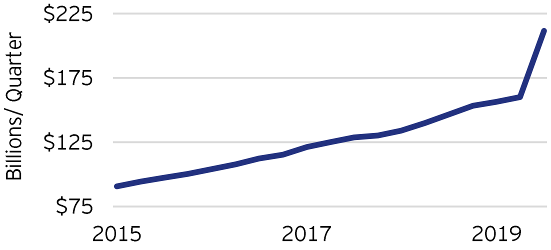
2. Business Activity

ISM Manufacturing and Non-Manufacturing PMI Indices



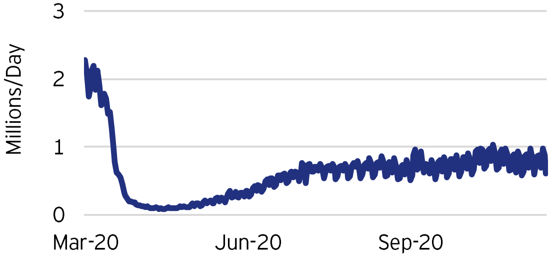
3. At-home Economy

US E-Commerce Sales



4. Re-opening Economy

TSA Checkpoints Total Travelers



What will be the policy response?
Monetary policy

The US Federal Reserve appears to be committed to maintaining significant policy support in 2021 and beyond.

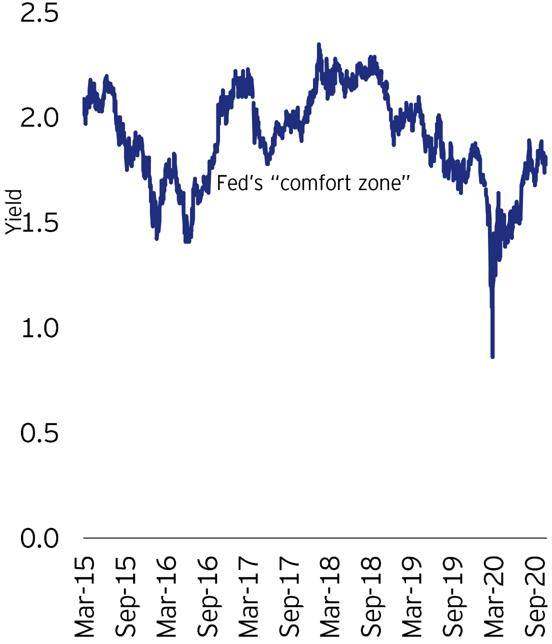
+ Inflation expectations remain near the bottom of the Fed's perceived "comfort zone."
+ The economy may not be back to full employment for years. Continuing jobless claims are recovering but remain above the peak reached in 2008.

Thirteen of 17 Fed officials have stated that they expect interest rates to remain near zero through 2023.

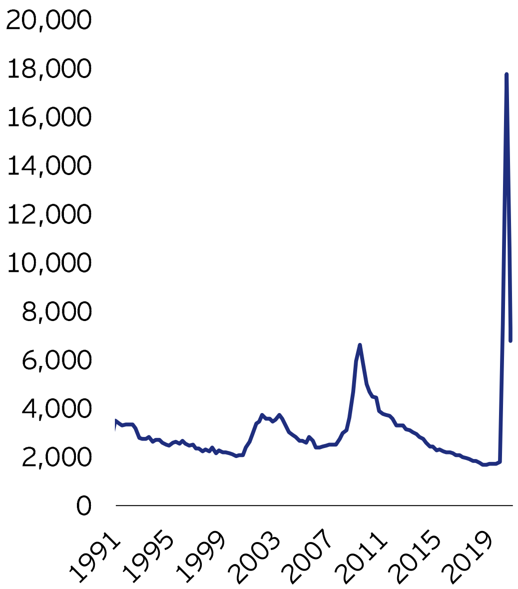
Sources: Bloomberg as of 11/17/20, US Department of Labor as of 10/31/20.

US Federal Reserve dual mandate: Price stability and full employment

Expected inflation (on average) over the five-year period that begins five years from today



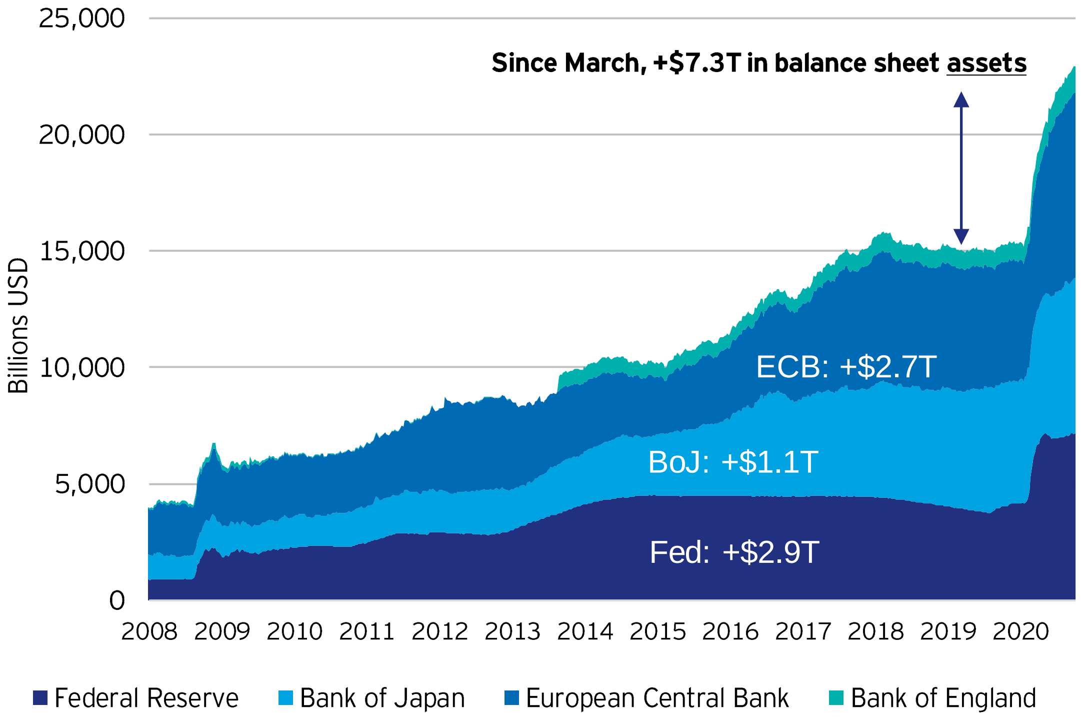
US continuing jobless claims (SA)



What will be the policy response?
Monetary policy

+ The US Federal Reserve is not alone. Most major central banks are undertaking a range of policies to support economies.
+ As part of this, central banks have resumed their balance sheet expansions via large-scale asset purchases.
+ Broad money growth historically has supported spending and is likely to lead to a reflation of asset prices.

Broad money growth has surged across the developed world

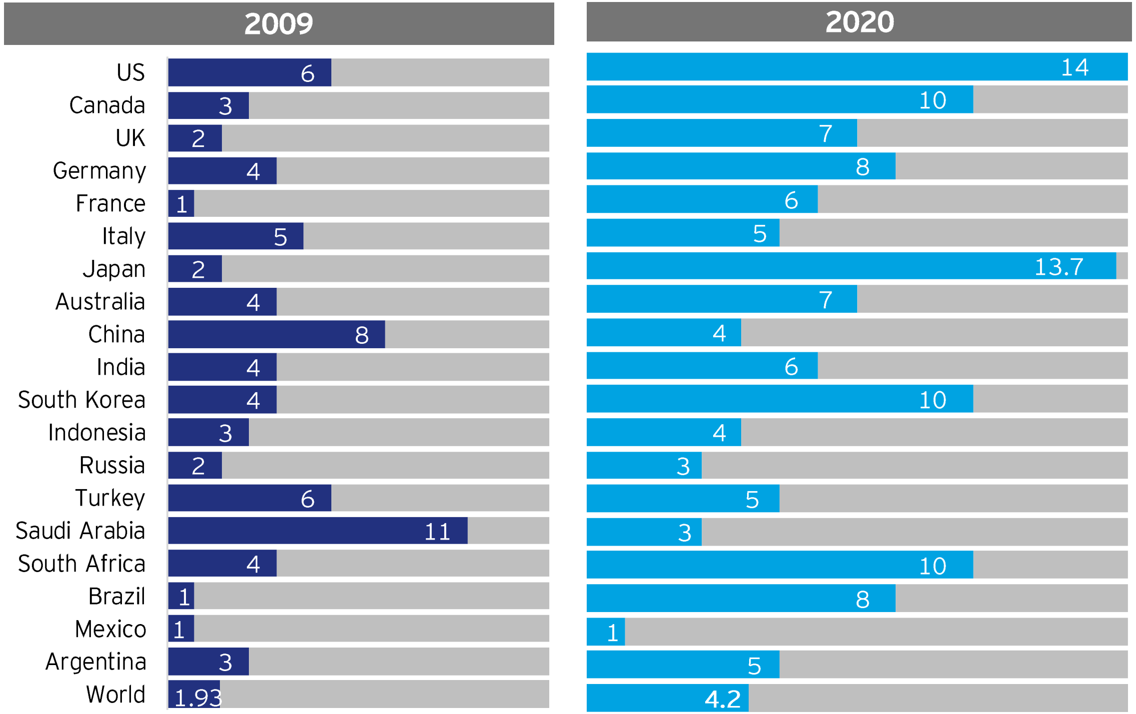


Sources: Federal Reserve, European Central Bank, Bank of England, Bank of Japan, as of 11/15/20.

What will be the policy response?
Fiscal policy

Countries across the globe have enacted outsized fiscal spending programs to support economies through the COVID-19 outbreak, far surpassing the actions undertaken in the Global Financial Crisis.

Fiscal support by G20 members as % of national GDP



Sources: IMF Policy Tracker, IMF GDP Data, Atlantic Council, DE Data Wrapper, Invesco. Calculations based on data at various national release and announcement dates, and Atlantic Council as of 7/26/20. 2009 based on IMF, Eurostat and G20 data. NB: Calculations exclude deferrals and guarantees; include discretionary fiscal support programs (aside from "automatic stabilizers"); announced and implemented programs -- all scaled against 2008 and 2019 GDP, respectively. The "World" aggregate represents G20 nations - G20 comprises 19 major economies plus the EU.

What will be the impact on the market?

+ Markets enter 2021 with leadership largely centered in the middle column.

+ As the recovery unfolds and economic activity accelerates, we would expect market structure and leadership to align with that of the left column.

+ We provide greater detail in the following pages to articulate those views.

Source: Invesco, for illustrative purposes only; not intended as investment advice.

Market leadership:
Interest rates, shape of the yield curve

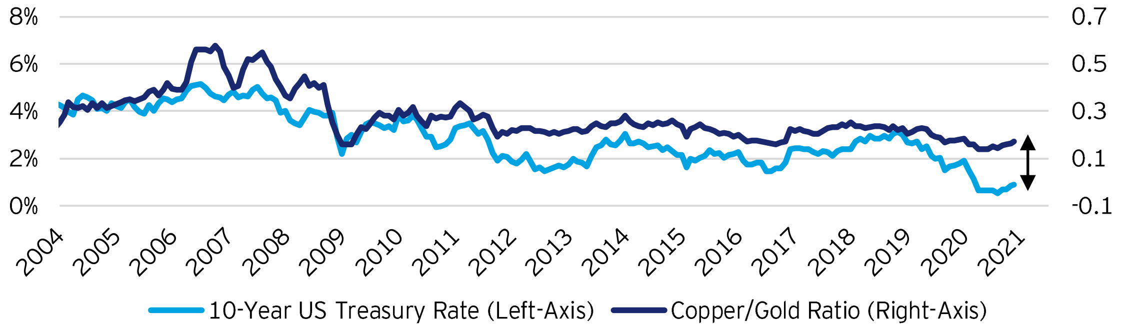
In economic recoveries, long-term interest rates usually drift higher and the yield curve steepens.

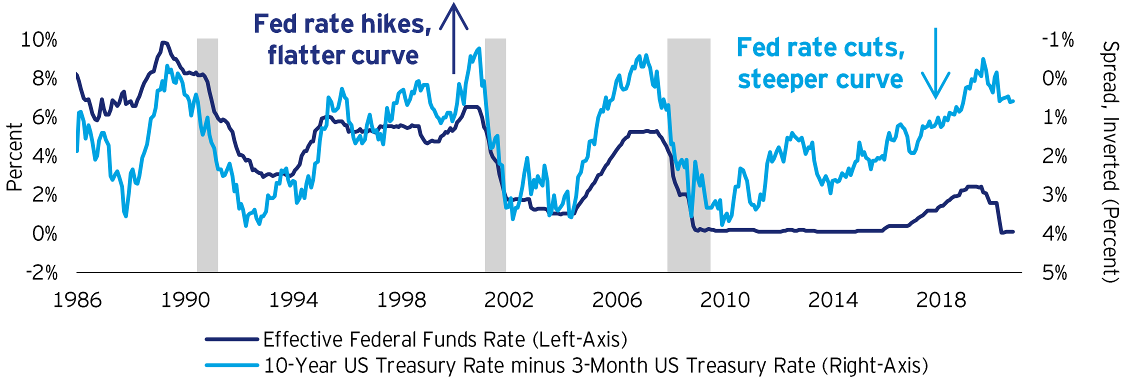
US government bond yields do not yet appear to fully reflect the improvement in economic activity. The copper/gold ratio, an indicator of the health of the global economy, is turning up while US Treasury rates remained relatively compressed.

With the federal funds rate anchored at zero, the yield curve is likely to steepen.

Sources: Bloomberg, US Federal Reserve Board, 10/31/20.

10-year US Treasury rate and copper/gold ratio





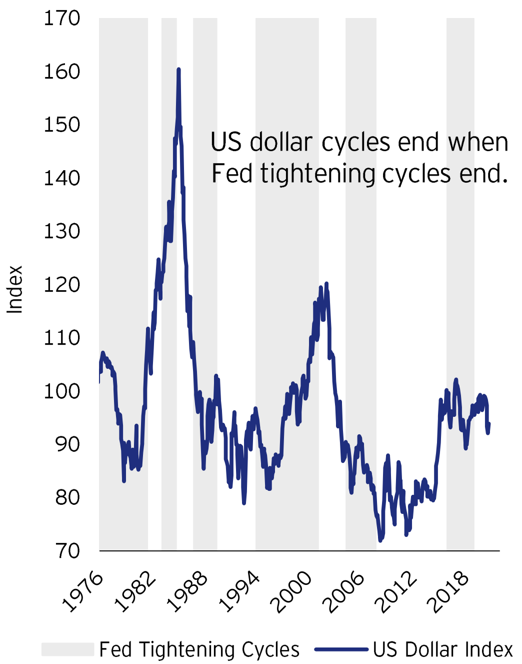
Market leadership:
Safe-haven currencies – US dollar

The post-financial crisis period of prolonged US dollar strength appears to have concluded.

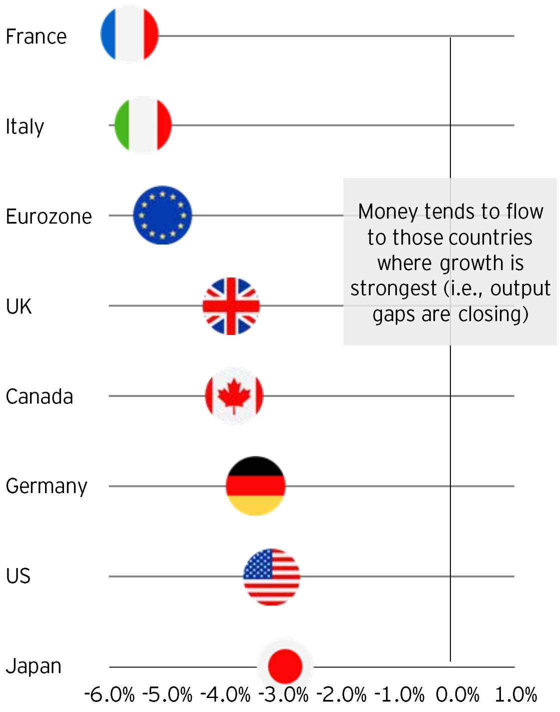
Indeed, strong dollar cycles tend to end when Fed tightening cycles end.

However, we would not expect a collapse in the US dollar versus other developed world currencies as many of the US' major trading partners are growing well below trend.

US dollar and Federal Reserve tightening cycles since 1976



Output gap % of GDP: G7 countries and eurozone



Source: Bloomberg L.P., Invesco, 9/30/20. Notes: In the left chart, shaded areas denote Federal Reserve (Fed) tightening cycles. Bond yields = 10-year government. USD = US dollar. So called safe-haven assets do not imply risk-free investments. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

Market leadership: Commodities

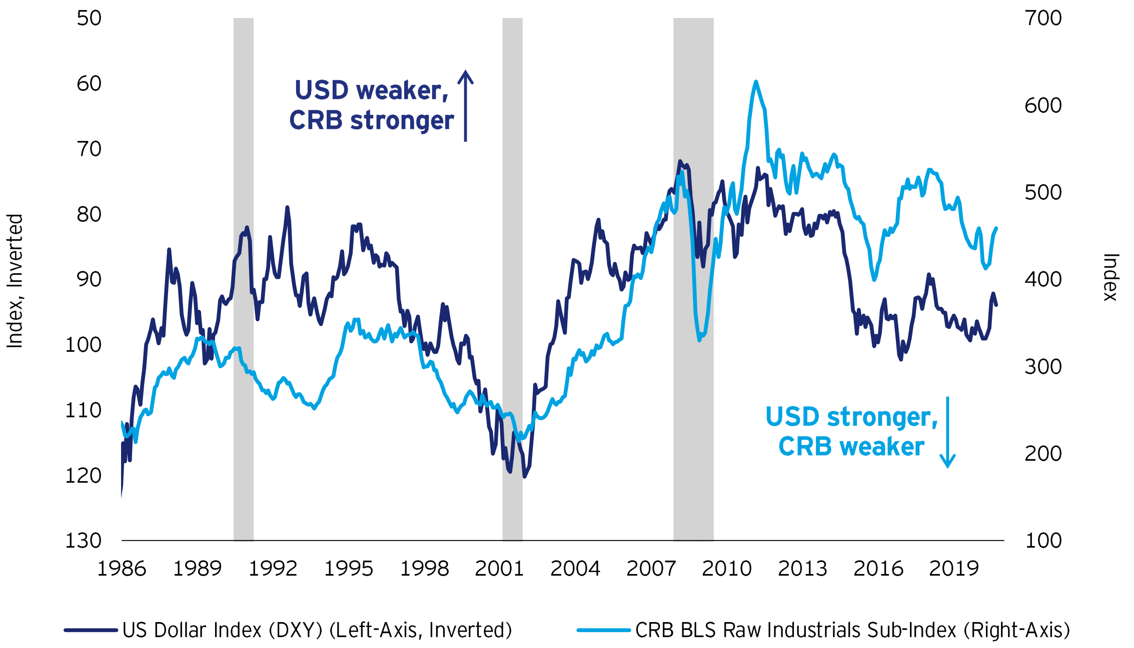
The direction of the US dollar typically determines whether commodities may be stronger, stable or weaker.

History suggests that a softer currency is generally associated with firmer commodity prices, and we expect this time to be no exception.

We expect ongoing Fed dovishness and continued efforts to maintain easy financial conditions to weaken the US dollar and provide support to commodities.

Source: Bloomberg L.P., FRED, Invesco, 09/30/20. Notes: USD = US dollar. CRB = Commodity Research Bureau. BLS = Bureau of Labor Statistics. Shaded areas denote NBER-defined US recessions. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

US dollar (left-axis, inverted) and commodities (right-axis) since 1986



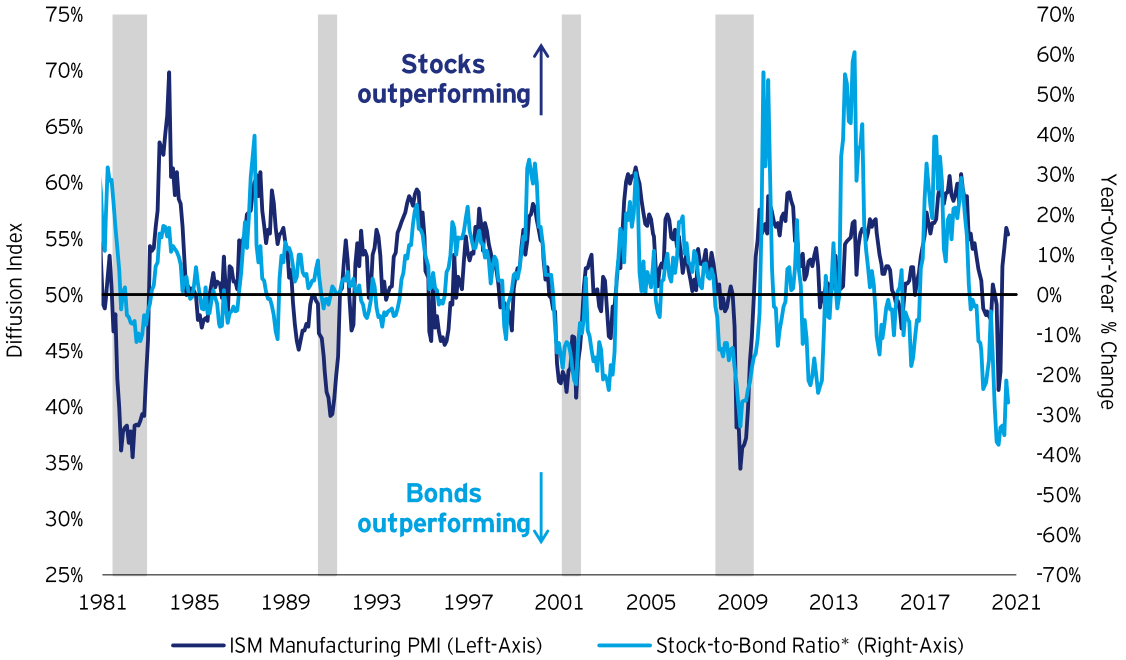
Market leadership:
Stocks or bonds

Stocks tend to outperform bonds when the economy is improving, and policy is supportive.

There's a tight relationship between the ISM Manufacturing Purchasing Managers Index (PMI), typically viewed as a leading indicator of economic activity, and the Stock-to-Bond Ratio.

When the economy is recovering, as it is now, stocks tend to outperform bonds.

US manufacturing activity (left-axis) and stock relative to government bond returns (right-axis) since 1981



Source: Bloomberg L.P., Haver, Invesco, 9/30/20. Notes: Stock-to-bond ratio = The S&P 500 divided by the reciprocal of the 10-year Treasury bond yield. The year-over-year % change on the stock-to-bond ratio has been divided by 2 for scaling purposes. Shaded areas denote NBER-defined US recessions. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

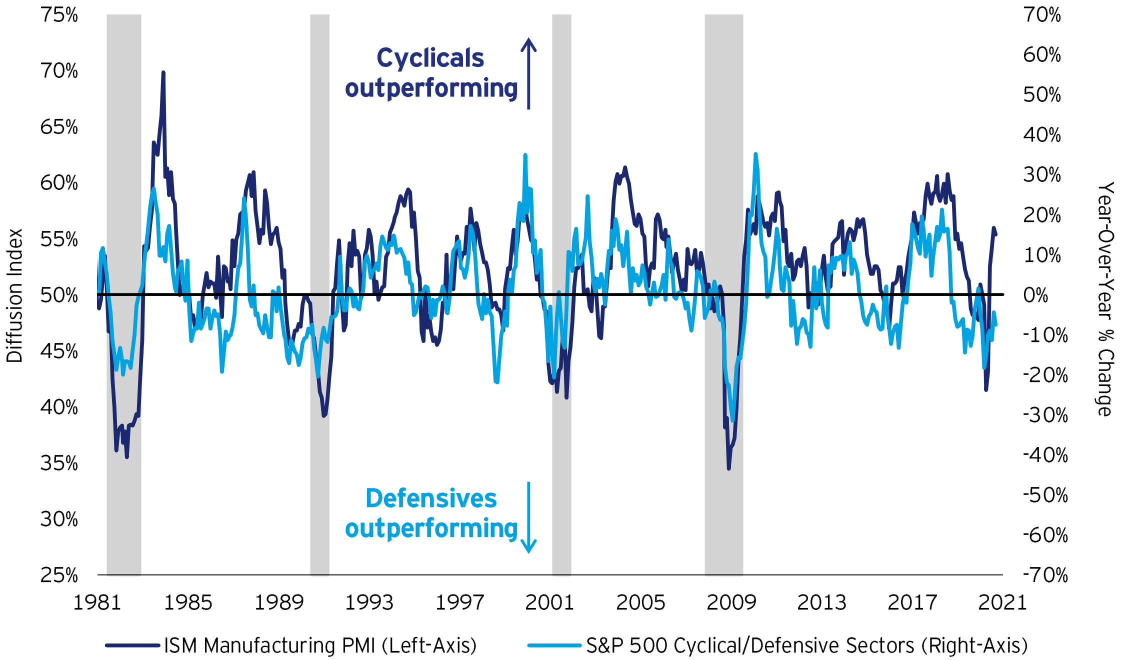
Market leadership:
Cyclicals or defensives

Cyclicals usually outperform defensives when the economy is on the mend.

Within the stock market, investors may benefit from favoring economy-sensitive sectors when activity is picking up, as is currently the case.

Regardless of near-term turbulence, we continue to position portfolios for optimistic, long-term outcomes by embracing cyclicality.

US manufacturing activity (left-axis) and cyclical relative to defensive sector returns (right-axis) since 1981



Source: Bloomberg L.P., Haver, Invesco, 9/30/20. Notes: S&P 500 cyclicals = consumer discretionary, energy, financials, industrials, technology and materials. S&P 500 defensives = consumer staples, health care, telecommunication services and utilities. Shaded areas denote NBER-defined US recessions. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

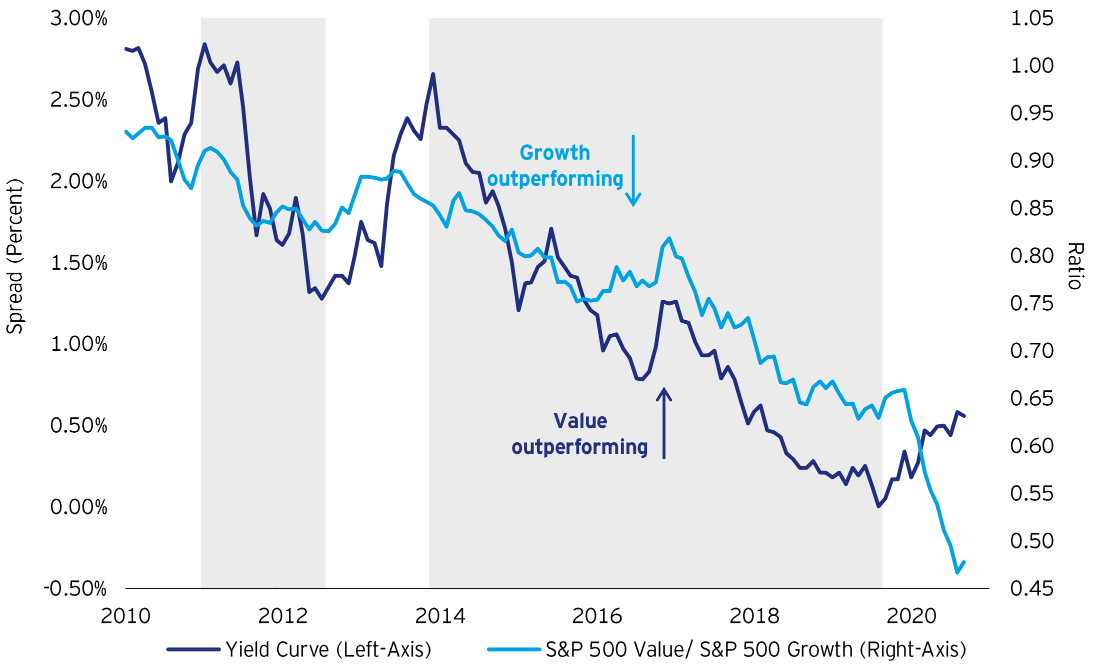
Market leadership:
Value or growth

Value tends to outperform growth when the economy is accelerating, policy is supportive, and the yield curve is steepening.

While we're unconvinced the economy's about to rapidly shift into sustainably higher gears, the yield curve - a market proxy for bank net interest margins - has steepened recently.

As such, value stocks could benefit from a tactical bounce before returning to the "old normal" of structurally-impaired economic growth.

10-year US government bond minus 2-year US government bond yield (left-axis) and value relative to growth (right-axis) since 2010



Source: Bloomberg L.P., FRED, Invesco, 9/30/20. Notes: Shaded areas denote flattening US Treasury yield curve regimes. Index definitions can be found on page 19. An investment cannot be made directly in an index.
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Market leadership:
Small caps or large caps

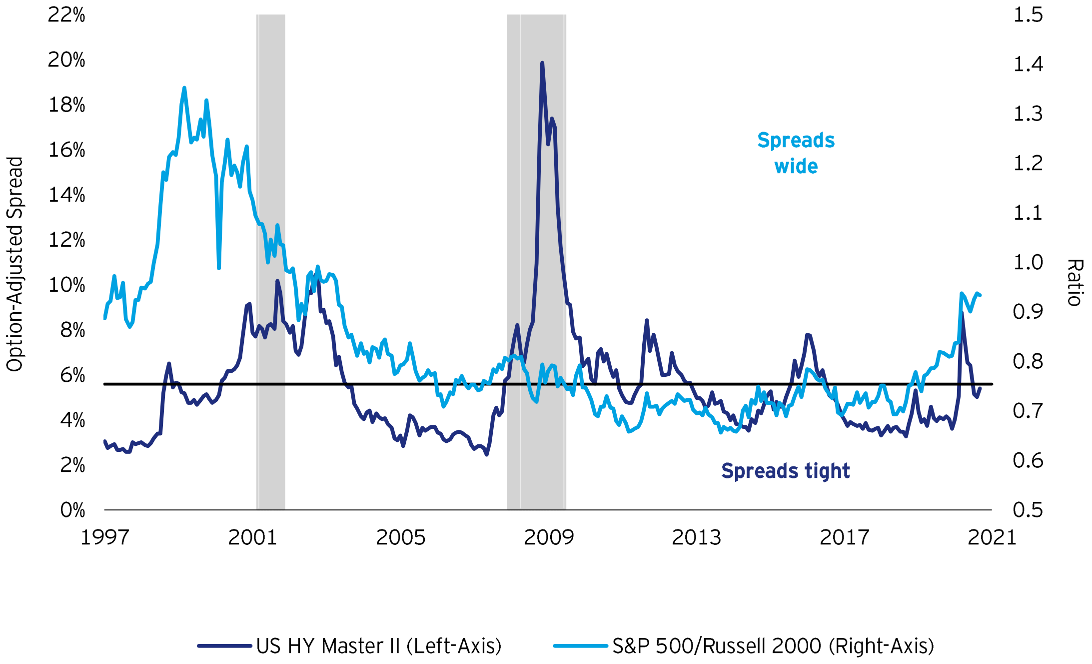
Small caps generally outperform large caps when the economy is recovering and a new credit cycle is emerging.

High-yield corporate bond spread tightening is helped by abundant central bank liquidity, a gradual economic recovery, rebounding corporate profits, improving credit conditions and ebbing volatility.

That should sound familiar because those are the tailwinds currently behind small-cap stocks.

Source: Bank of America Merrill Lynch, Bloomberg L.P., FRED, Invesco, 9/30/20. Notes: C&I = Commercial and industrial. HY = High yield. S&P 500 and Russell 2000 price indices. The thicker, darker horizontal line = the long-term average high-yield corporate bond spread. Shaded areas denote NBER-defined US recessions. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

US high-yield corporate bond spread (left-axis) and large relative to small caps (right-axis) since 1997



Market leadership:
Emerging markets or developed markets

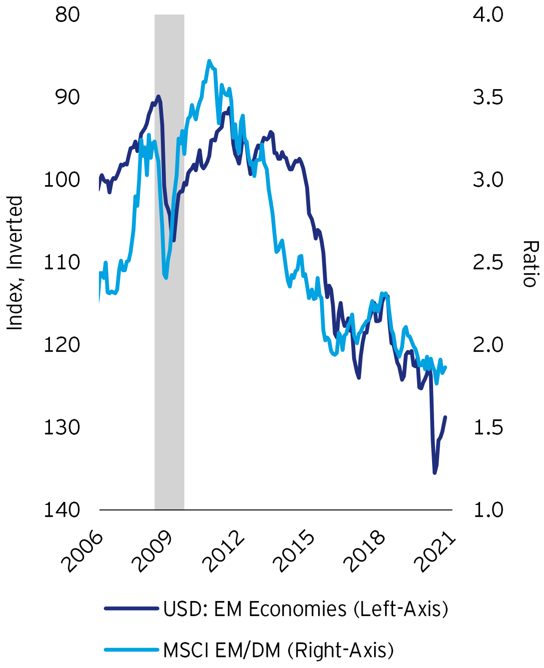
Emerging markets generally outperform developed markets when the US dollar weakens, and commodities strengthen.

Improving fundamentals have made the developing economies less vulnerable to capital flight, and Fed dovishness is helping the situation.

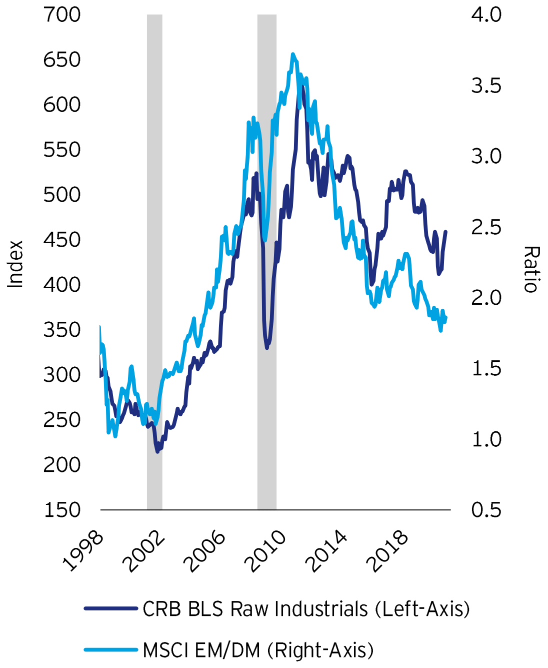
Firming raw materials prices are another important link in a chain of positive events for the emerging markets.

Source: Bloomberg L.P., FRED, Invesco, 9/30/20. Notes: USD = Trade Weighted USD Index: Emerging Markets Economies, Goods and Services. EM = Emerging markets. DM = Developed markets = MSCI World Index. MSCI EM and World price indices in US dollars. CRB = Commodity Research Bureau. BLS = Bureau of Labor Statistics. Shaded areas denote global all-industry contractions. Index definitions can be found on page 19. An investment cannot be made directly in an index. **Past performance does not guarantee future results.**

US dollar (inverted, left-axis) and emerging relative to developed market stocks (right-axis) since 2006



Early-stage commodities (left-axis) and emerging relative to developed market stocks (right-axis) since 1998



Index definitions

Gross Domestic Product (GDP) is a measure of all of the goods and services produced within an economy during a year.

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.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic US stocks.

S&P 500 Value Index is an unmanaged index considered representative of large-cap value stocks.

S&P 500 Growth Index is an unmanaged index considered representative of large-cap growth stocks.

The Russell 2000 Index is an unmanaged index considered representative of small-cap stocks. The Russell 2000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.

Institute for Supply Management (ISM) Manufacturing Index is an index measures manufacturing activity based on a monthly survey, conducted by ISM, of purchasing managers at more than 300 manufacturing firms.

Institute for Supply Management (ISM) Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives, within 60 sectors across the nation, by the ISM.

The BofA Merrill Lynch U.S. High Yield Master II Index tracks the performance of below-investment-grade, US-dollar-denominated corporate bonds publicly issued in the US domestic market.

MSCI World Index is an unmanaged index considered representative of stocks of developed countries. The index is computed using the net return, which withholds applicable taxes for nonresident investors.

MSCI Emerging Markets Index is an unmanaged index considered representative of stocks of developing countries. The index is computed using the net return, which withholds applicable taxes for nonresident investors.

Commodity Research Bureau (Bureau of Labor Statistics) Raw Industrials Sub-Index is an index that measures the aggregated price direction of the raw industrial commodity sector.

JP Morgan Global Manufacturing Purchasing Managers Index (PMI) is a weighted average of new orders, output, employment, suppliers' delivery times, and stocks of purchases.

The U.S. Dollar Index measures the strength of the dollar against a basket of major currencies.

Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance does not guarantee future results.**

Disclosures

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Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. International markets may be less liquid and can be more volatile than U.S. markets. Smaller companies offer the potential to grow quickly, but can be more volatile than larger company stocks, particularly over the short term. Although bonds generally present less short-term risk and volatility than stocks, the bond market is volatile and investing in bonds involves interest rate risk; as interest rates rise, bond prices usually fall, and vice versa. Bonds also entail issuer and counterparty credit risk, and the risk of default. Additionally, bonds generally involve greater inflation risk than stocks. 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 dollar value of foreign investments will be affected by changes in the exchange rates between the dollar and the currencies in which those investments are traded.

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Most references are US centric and may not apply to Canada.

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