Where are we in the cycle?

Returning to normal: We see the cycle resuming more normal growth patterns

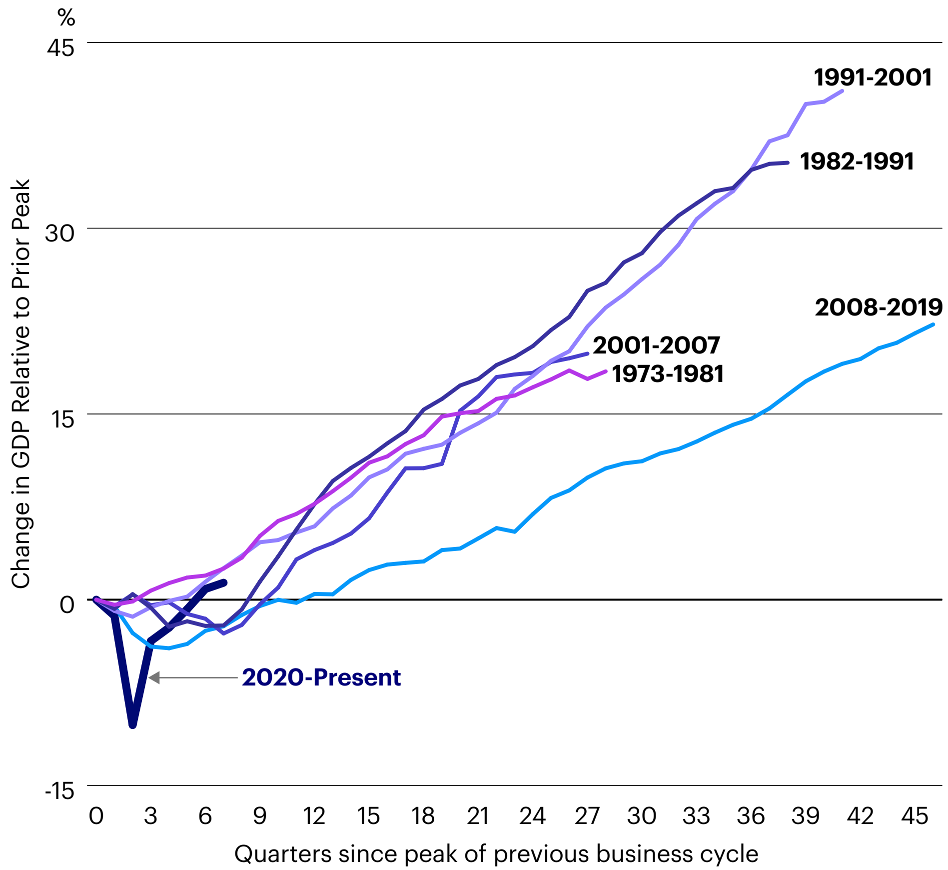
Normalization Under Way

While our base case for the global economy may resemble a mid-cycle slowdown, we believe that pandemic-driven disruptions have significantly altered traditional business cycle analysis.

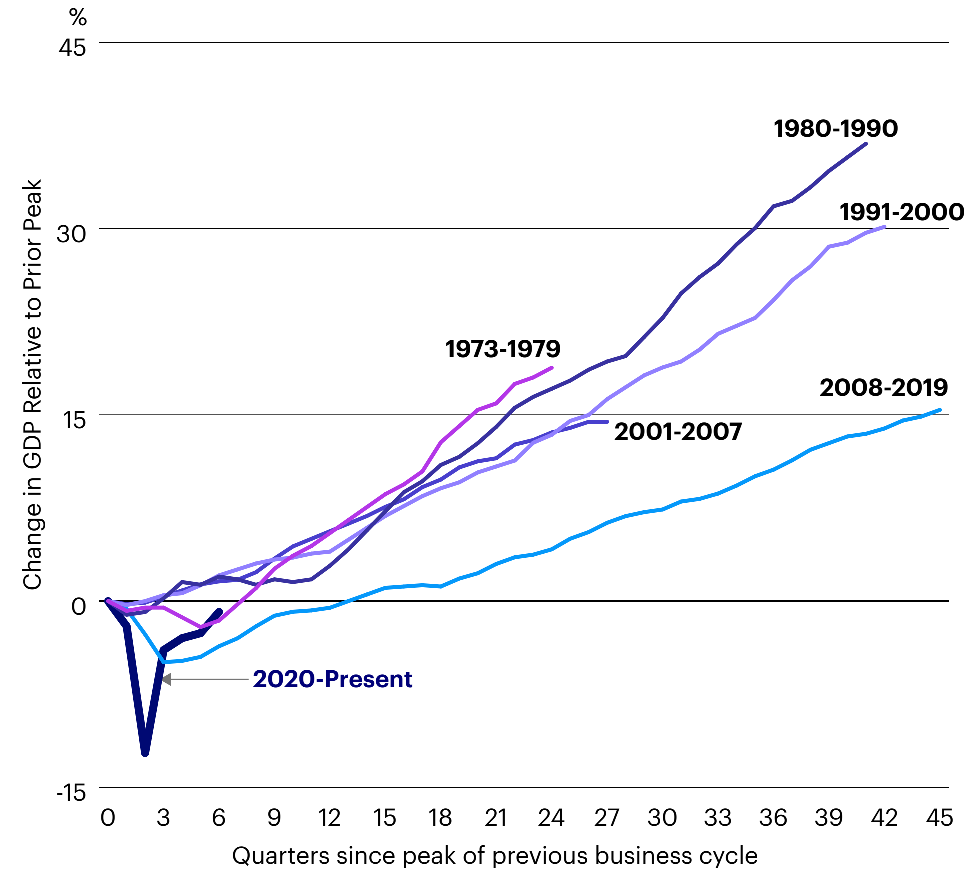
Instead, we view the path ahead as one of transition, marked by a period of continued growth but with a falling rate of change as economies digest the pandemic's extraordinary policy actions.

2022 looks set to be a year of transition as economies return to structural growth rates.

US GDP growth during business cycles



G7 GDP growth during business cycles



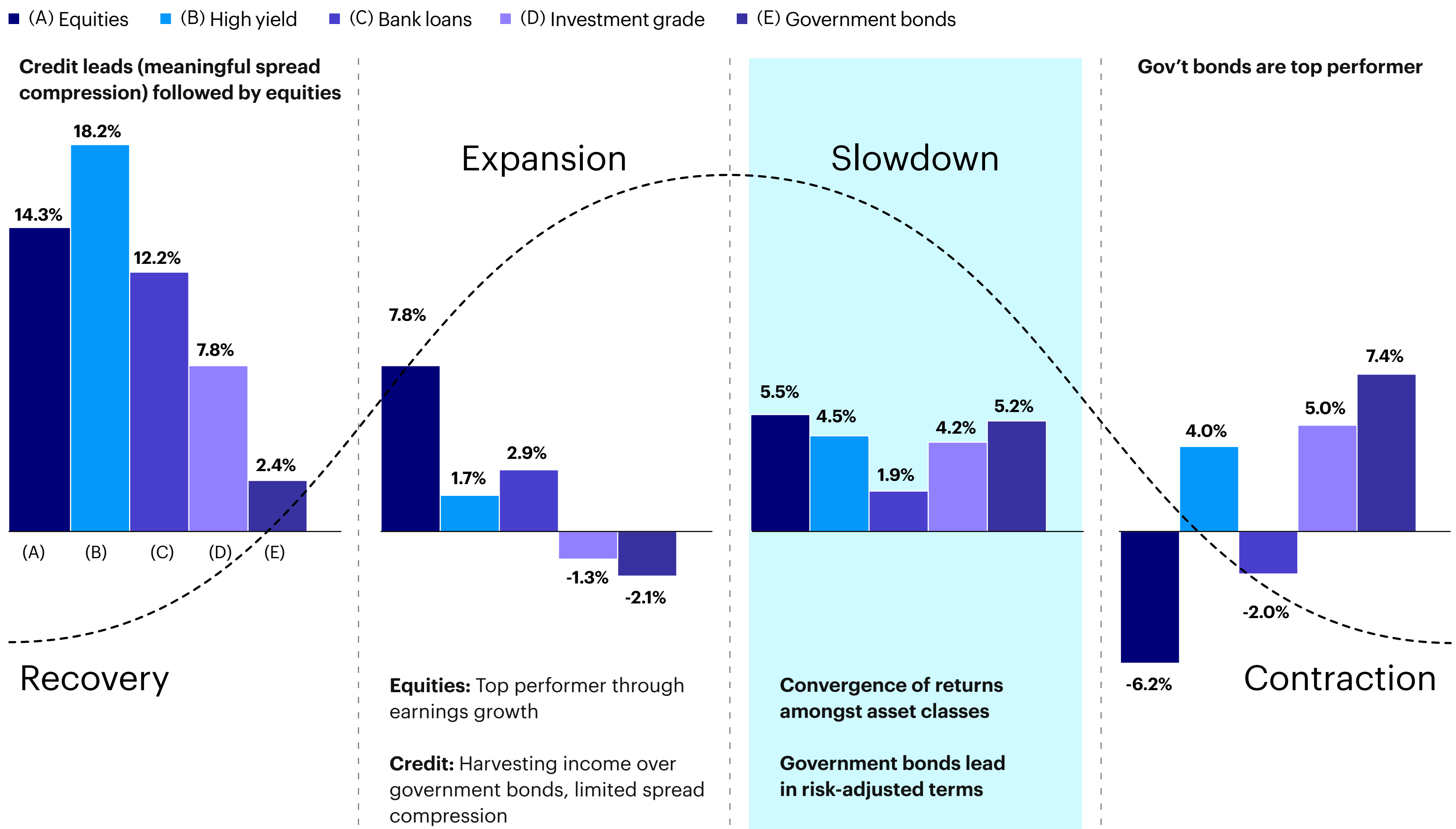
Sources: Macrobond, OECD, and US Bureau of Economic Analysis. As of October 31, 2021.

Returns among asset classes tend to converge during slowdown regimes

Declining compensation for growth risk, with gradual rotation towards defensives

- Risky credit tends to lead in **recoveries**, while equities lead in **expansions** as growth moves above trend and earnings improve.
- Returns across asset classes converge in **slowdown** regimes, when growth is above trend but decelerating.
- Government bonds and safe assets outperform in **contractions**.

Global cycle: Historical excess returns across asset classes



Sources: Invesco Investment Solutions' proprietary global business cycle framework and Bloomberg L.P. Notes: Index return information includes back-tested data. Returns, whether actual or back-tested, are no guarantee of future performance. Annualized monthly returns of the defined risk premia from January 1973 – December 2020, or since asset class inception if at later date. Includes latest available data as of most recent analysis. Asset classes 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 = US Treasuries 7-10y - US T-bills 3-Month. For illustrative purposes only.