



# Economic and Equity Outlook: Central Banks to the Rescue

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# Favor EM and China Over DM and the US; Within DM, Focus on a US Large- and Mid-Cap Blend



## Currently Favored Equity Segments (Blue)

### Emerging Markets

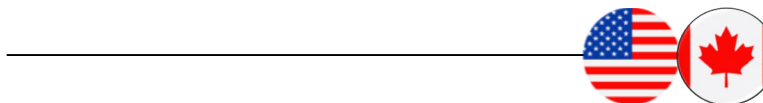
China



Developed Markets

Japan

Europe



Canada

United States

### Cyclicals

Small Caps

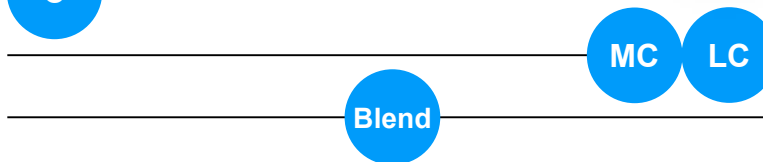
Value



Defensives

Larger Caps

Growth

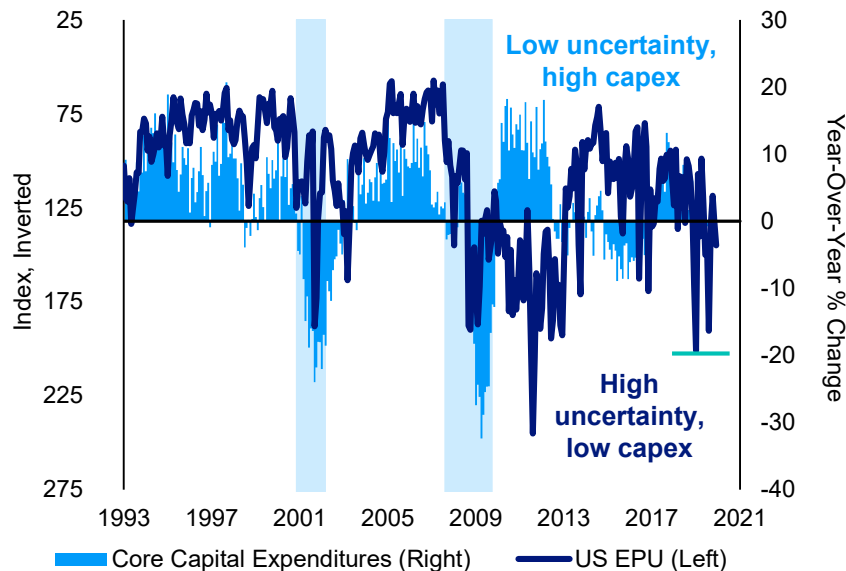


Blend

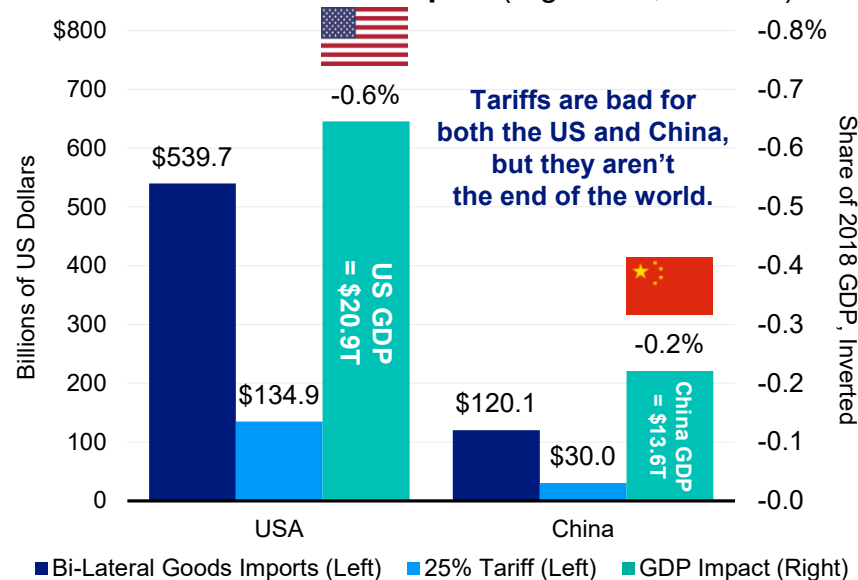
Source: Invesco, 12/31/19. Notes: EM = Emerging markets. DM = Developed markets.

# Uncertainty Is Fading Alongside Trade Progress; Will Capex Soon Recover?

US Economic Policy Uncertainty (Left-Axis, Inverted) and Business Spending Growth (Right-Axis) Since 1993



US-China Trade, Maximum Tariffs Threatened (Left-Axis) and Estimated Economic Impact (Right-Axis, Inverted)



Sources: FRED, Haver, Invesco, Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), US Census Bureau, 12/31/19. Notes: EPU = Economic Policy Uncertainty. Core capital expenditures (capex) = Manufacturers' new orders for nondefense capital goods excluding aircraft. NBER = National Bureau of Economic Research. Shaded areas denote NBER-defined US recessions. The estimated economic impact of the US-China trade war is based on full-year 2018 data. GDP = Gross domestic product. See page 21 for index definitions.

# Last Year, 64 Central Banks Eased and Only 11 Tightened

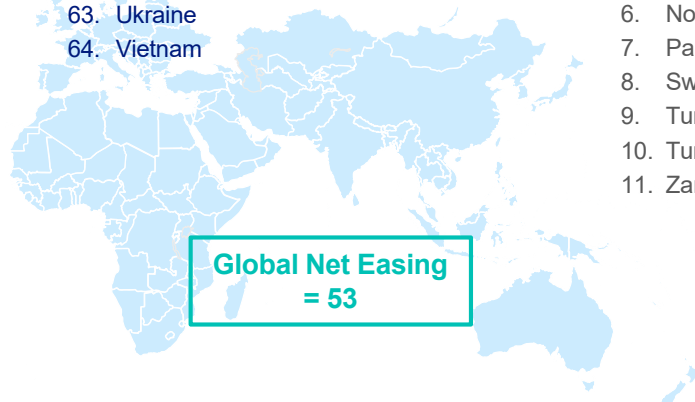
## Countries Easing

- |                        |                     |                  |
|------------------------|---------------------|------------------|
| 1. Angola              | 20. Honduras        | 39. Namibia      |
| 2. Argentina           | 21. Hong Kong       | 40. Norway       |
| 3. Armenia             | 22. Iceland         | 41. New Zealand  |
| 4. Australia           | 23. India           | 42. Nigeria      |
| 5. Azerbaijan          | 24. Indonesia       | 43. Paraguay     |
| 6. Bahrain             | 25. Jamaica         | 44. Peru         |
| 7. Botswana            | 26. Jordan          | 45. Philippines  |
| 8. Brazil              | 27. Kenya           | 46. Qatar        |
| 9. Belarus             | 28. Kuwait          | 47. Russia       |
| 10. Chile              | 29. Kyrgyz Republic | 48. Rwanda       |
| 11. China              | 30. Lesotho         | 49. Saudi Arabia |
| 12. Congo              | 31. Macao           | 50. Serbia       |
| 13. Costa Rica         | 32. Macedonia       | 51. Seychelles   |
| 14. Denmark            | 33. Malaysia        | 52. Singapore    |
| 15. Dominican Republic | 34. Malawi          | 53. Sri Lanka    |
| 16. Egypt              | 35. Mauritius       | 54. South Africa |
| 17. Euro Area          | 36. Mexico          | 55. South Korea  |
| 18. Gambia             | 37. Moldova         | 56. Swaziland    |
| 19. Ghana              | 38. Morocco         | 57. Tajikistan   |

- |                              |
|------------------------------|
| 58. Tanzania                 |
| 59. Thailand                 |
| 60. Uganda                   |
| 61. United Arab Emirates     |
| 62. United States of America |
| 63. Ukraine                  |
| 64. Vietnam                  |

## Countries Tightening

- |                   |
|-------------------|
| 1. Czech Republic |
| 2. Georgia        |
| 3. Hungary        |
| 4. Kazakhstan     |
| 5. Mozambique*    |
| 6. Norway         |
| 7. Pakistan       |
| 8. Sweden         |
| 9. Tunisia        |
| 10. Turkey**      |
| 11. Zambia        |

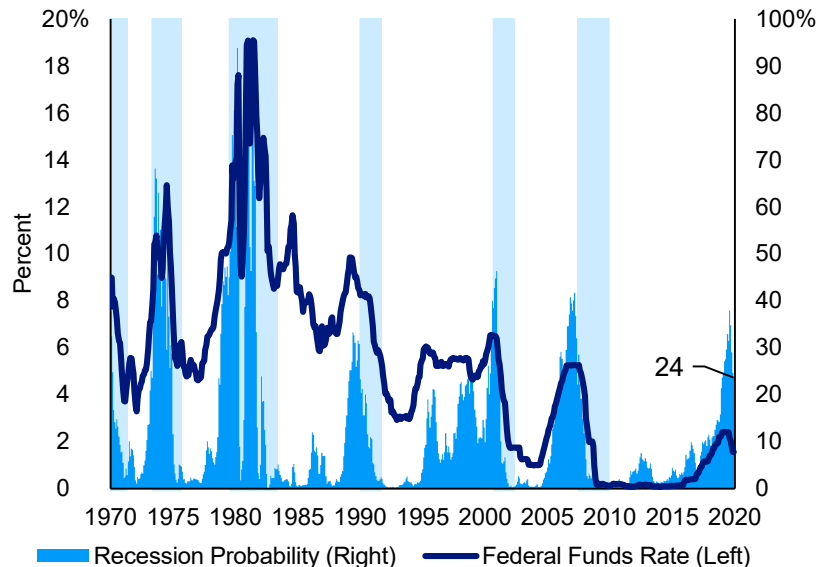


Sources: Central Bank News, Invesco, 12/31/19. Notes: In 2018, only 32 central banks eased and 43 tightened for global net tightening of 11. Easing monetary policy stance = Cutting a main interest rates, lowering reserve requirements, launching new low-cost loan programs or purchasing assets. \*Mozambique has cut rates, but raised reserve requirements more. \*\*Turkey has cut rates, but raised reserve requirements more, cut the amount of foreign currency that can be used as reserves and suspended one-week repo auctions for a period in May.

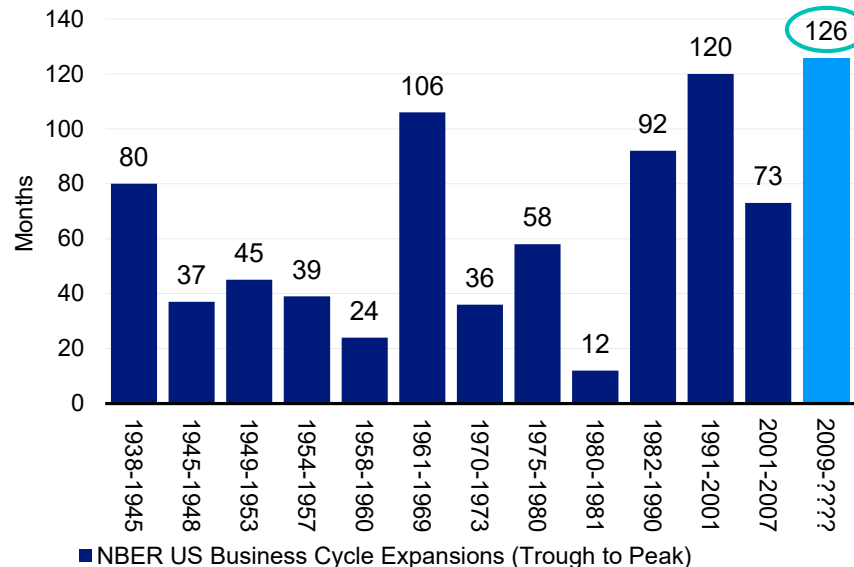
# The Fed's Dovish Pivot, Interest Rate Cuts and Renewed Asset Purchases Have Extended the Cycle



**Federal Funds Rate\* (Left-Axis) and 1-Year Ahead Recession Probability\*\* (Right-Axis) Since 1970**

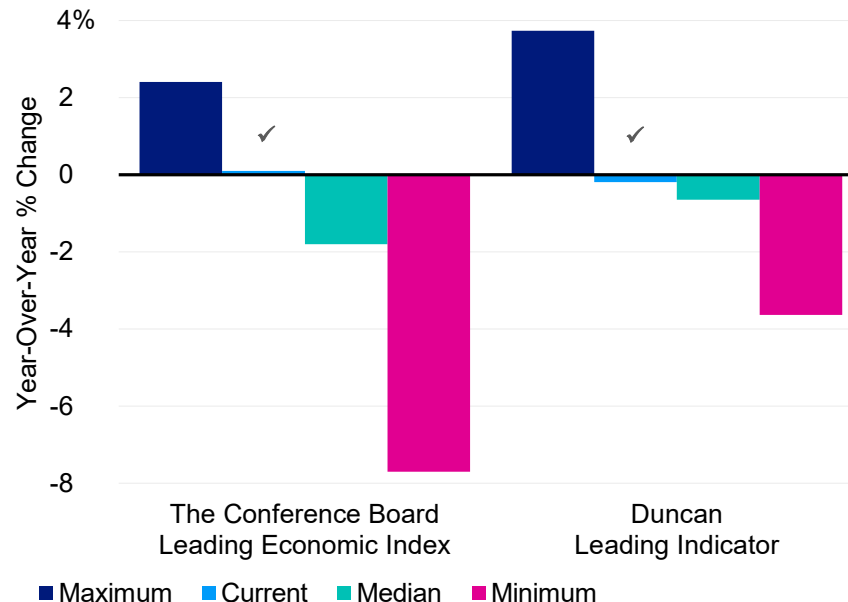
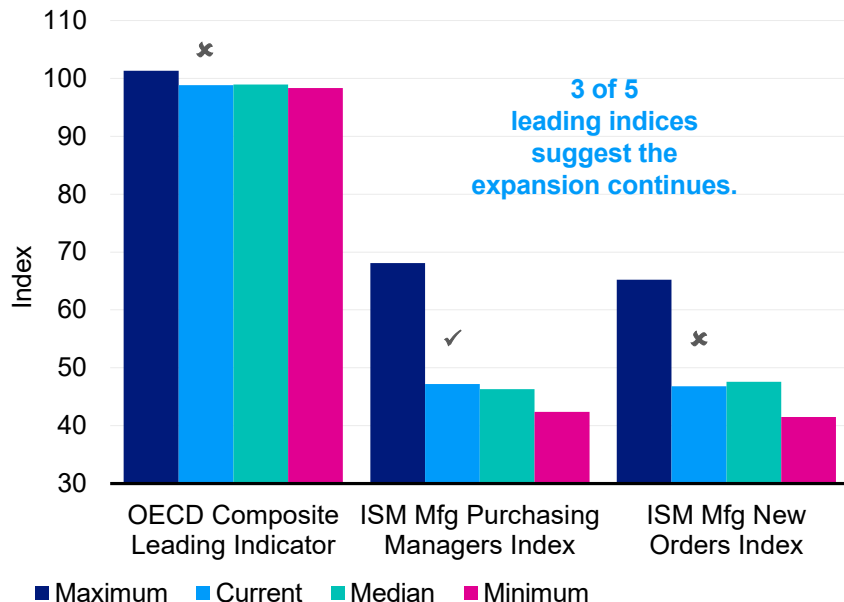


**Length of Economic Expansions (From Trough to Peak) Since World War II**



Sources: Federal Reserve Bank of New York, FRED, Haver, Invesco, 12/31/19. \*Effective. \*\*As predicted by the Treasury spread. Notes: Shaded areas denote NBER-defined US recessions. The NBER doesn't define recessions by two consecutive quarters of declining real GDP. Rather, recessions are significant declines in activity across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production and wholesale-retail sales. An investment cannot be made in an index. See page 21 for index definitions.

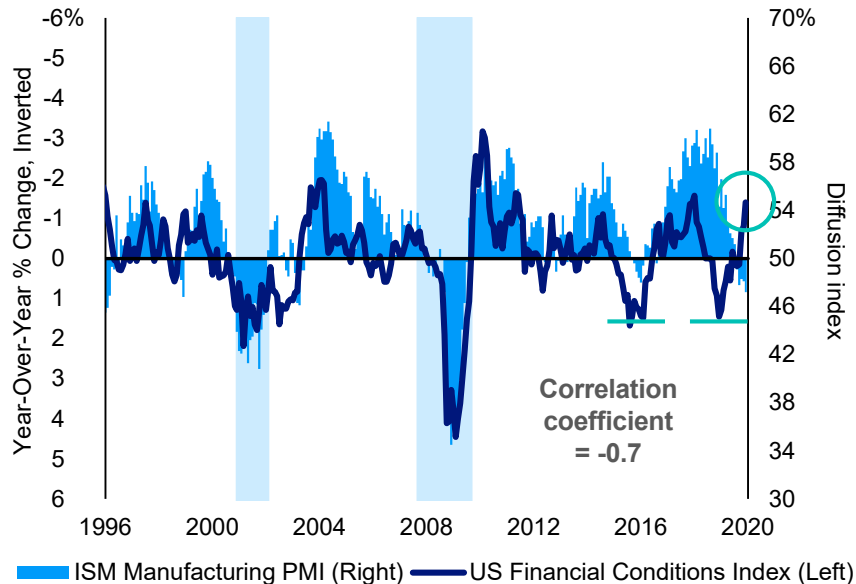
## US Leading Economic Indicators Now (Light Blue) and at the Beginning of Recessions (Teal) Since 1948



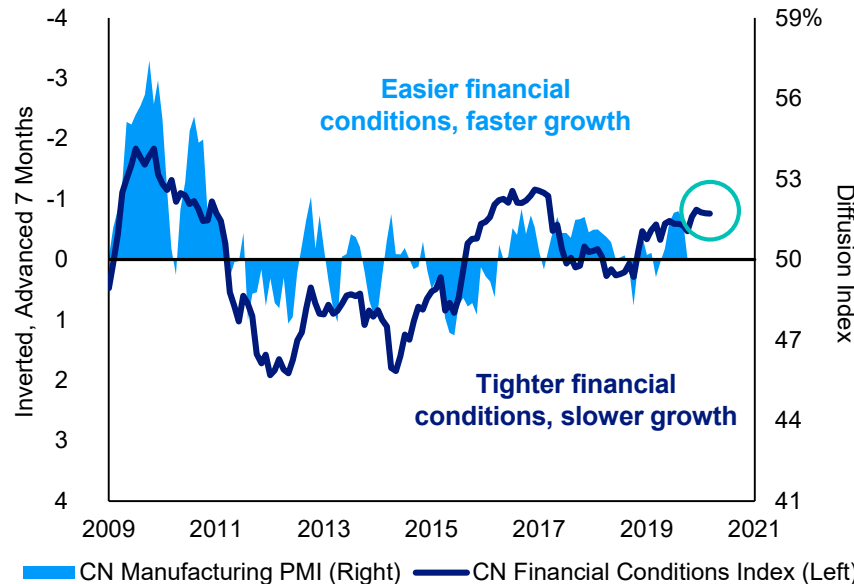
Sources: Bloomberg L.P., Haver, Invesco, 12/31/19. Notes: OECD = Organisation for Economic Co-operation and Development. The OECD Composite Leading Indicator is amplitude adjusted. ISM = Institute for Supply Management. The Duncan Leading Indicator (DLI) compares real consumer durable goods expenditures and fixed investment to final demand. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

## 2016 Replay: Easing Financial Conditions Are Providing Tailwinds for the Economy

**US Financial Conditions (Inverted, Left-Axis) and Manufacturing Activity (Right-Axis) Since 1996**

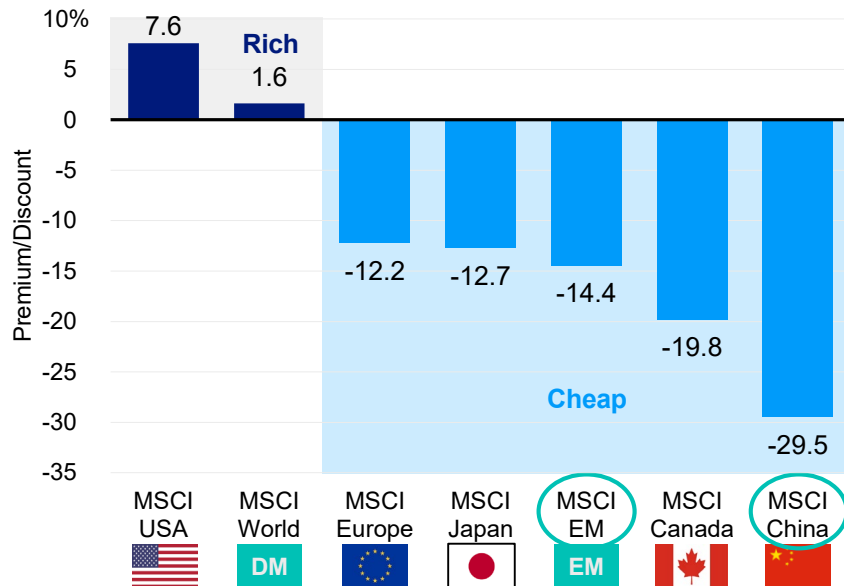


**China Financial Conditions (Inverted, Left-Axis) and Manufacturing Activity (Right-Axis) Since 2009**

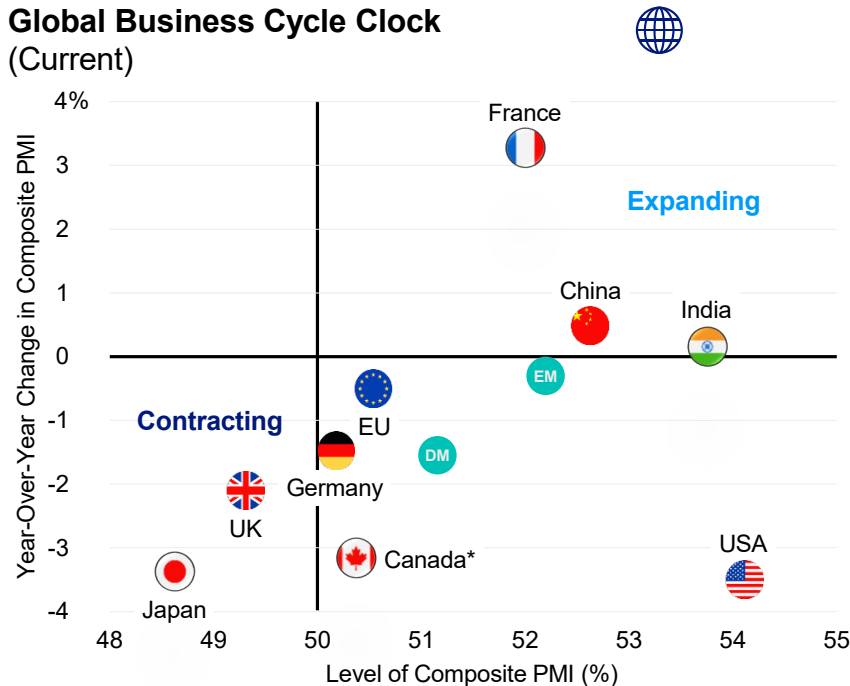


Sources: Bloomberg L.P., Caixin, Goldman Sachs, Haver, Invesco, Yicai Research Institute, 12/31/19. Notes: The US Financial Conditions Index includes the federal funds rate, 10-year Treasury bond yield, BBB corporate bond spread, S&P 500 and US dollar. PMI = Purchasing Managers Index. Shaded areas denote NBER-defined US recessions. CN = China. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

**MSCI Country Indices' P/S Ratios Relative to MSCI ACWI P/S Ratio (Premium/Discount to Average Since 1995)**



**Global Business Cycle Clock (Current)**

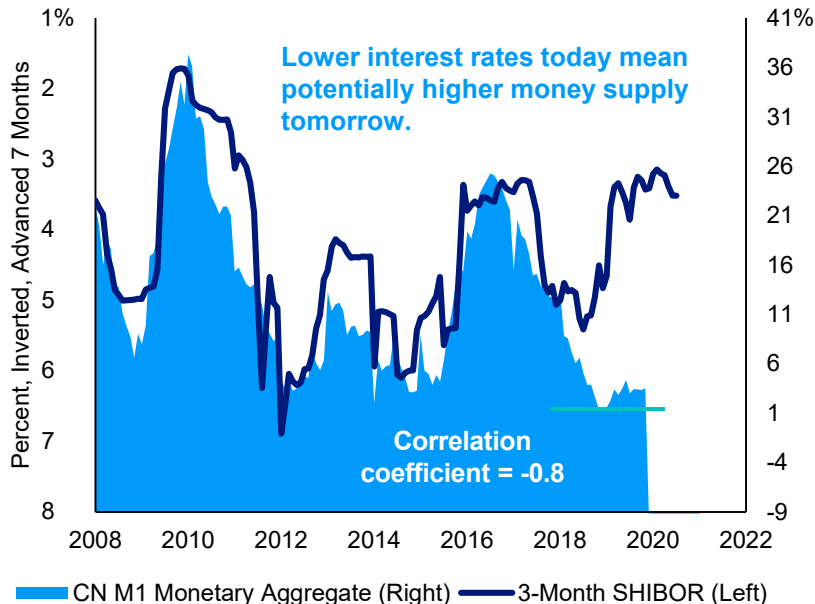


Sources: Bloomberg L.P., Haver, Markit, Invesco, 12/31/19. Notes: P/S = price-to-sales ratio. Ranked from left to right—from highest premium to lowest discount. ACWI = All Country World Index. EU = European Union. Composite = Manufacturing + services. EU Composite PMI = France, Germany, Ireland, Italy, Spain and the UK. \*Canada's manufacturing PMI is displayed, as Markit doesn't provide a services PMI for that cyclical economy. An investment cannot be made in an index. See page 21 for index definitions.



## Beijing's Easy Monetary Policy Stance Should Continue to Give Chinese Stocks a Boost

**Institutional Interest Rate (Inverted, Left-Axis) and Money Supply Growth (Right-Axis) Since 2008**

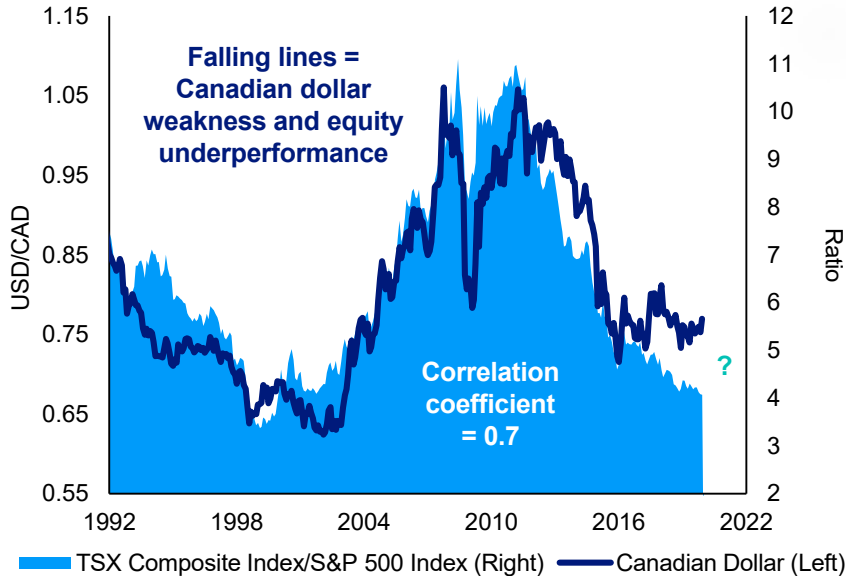


**Money Supply Growth (Left-Axis) and Large-Cap Equity Returns (Right-Axis) Since 2000**

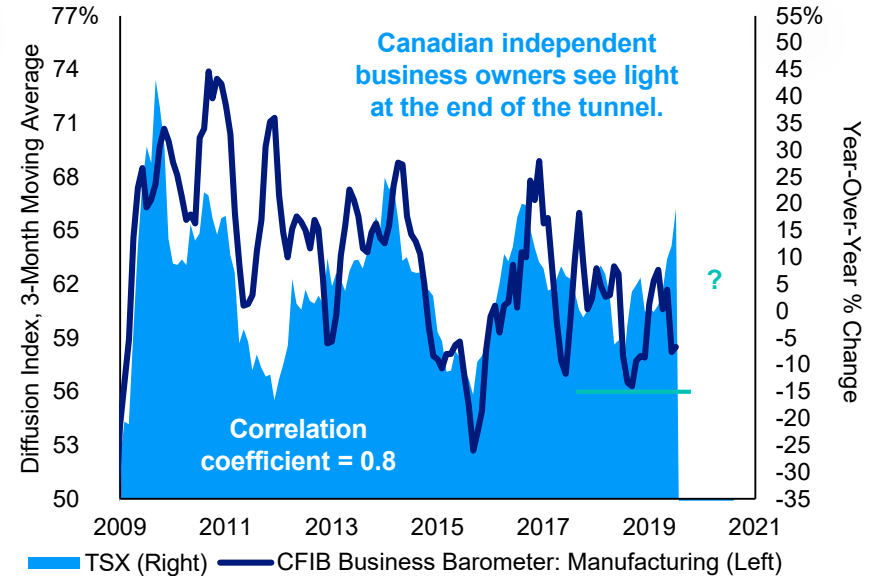


Sources: Bloomberg L.P., Haver, Invesco, People's Bank of China, 12/31/19. Notes: SHIBOR = Shanghai Interbank Offered Rate. CN = China. SSE = Shanghai Stock Exchange. M1 and SSE Composite Index in yuan. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

**Canadian Dollar (Reciprocal, Left-Axis) and Canadian Relative to US Equities (Right-Axis) Since 1992**

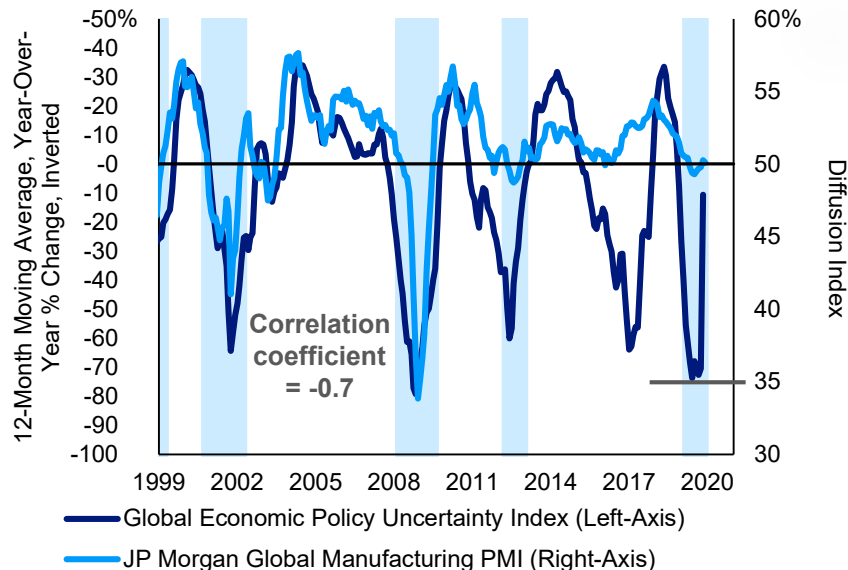


**Canadian Manufacturing Outlook (Left-Axis) and Canadian Equities (Right-Axis) Since 2009**

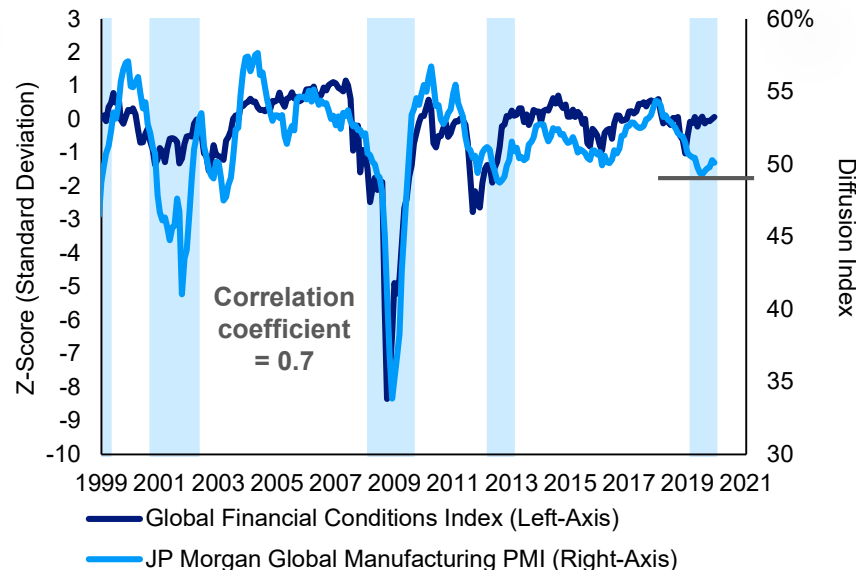


Sources: Bloomberg L.P., Canadian Federation of Independent Business, Haver, Invesco, 12/31/19. Notes: USD = US dollar. CAD = Canadian dollar. USD/CAD = The price of 1 CAD in USD. TSX Composite Index and S&P 500 Index in CAD. Business Barometer > 50 = Owners expect their businesses' performance to be stronger in the next year. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

**Global Economic Policy Uncertainty (Inverted, Left) and Global Manufacturing Activity (Right) Since 1999**

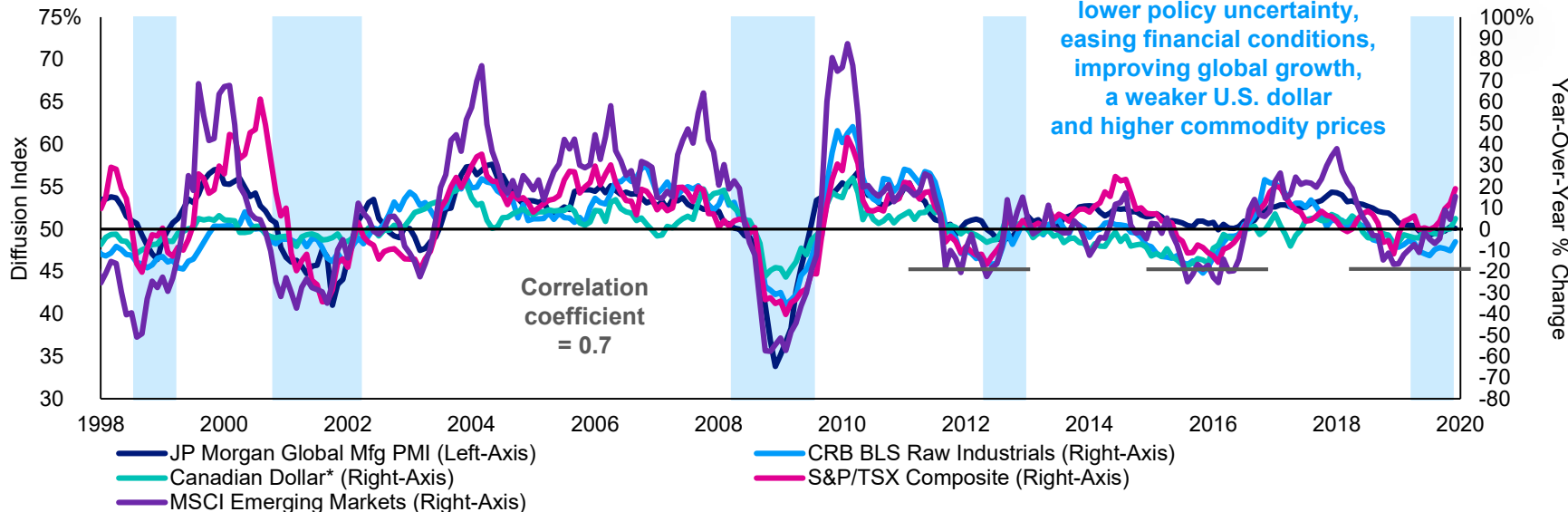


**Global Financial Conditions (Left-Axis) and Global Manufacturing Activity (Right-Axis) Since 1999**



Sources: Bloomberg L.P., Haver, Invesco, Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), 12/31/19. Notes: The Bloomberg Global Financial Conditions Index tracks the overall level of financial stress in US, Europe, UK and Asia ex-Japan money, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms. Shaded areas denote global manufacturing contractions. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

## Global Manufacturing Activity (Left-Axis), Early-Stage Commodities, Canadian Dollar, Canadian Stocks and Emerging Market Stocks (Right-Axis) Since 1998



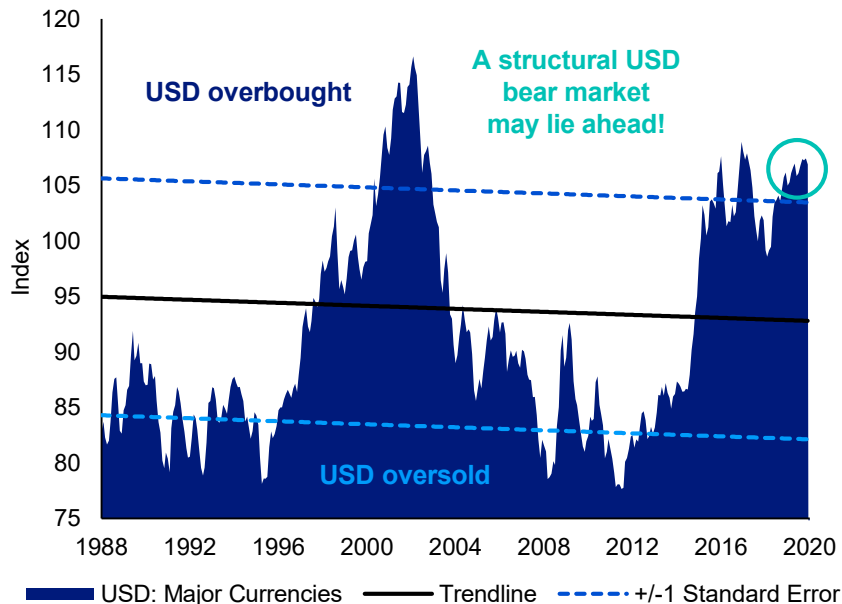
Sources: Bloomberg L.P., Haver, Invesco, 12/31/19. \*Canadian dollar spot exchange rate = the price of 1 CAD in USD (USD/CAD). Notes: CRB price returns in USD. TSX price returns in CAD. EM price returns in USD. Shaded areas denote global manufacturing recessions. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

# A Flat to Weaker USD Should Boost Emerging Markets Relative to US Stocks



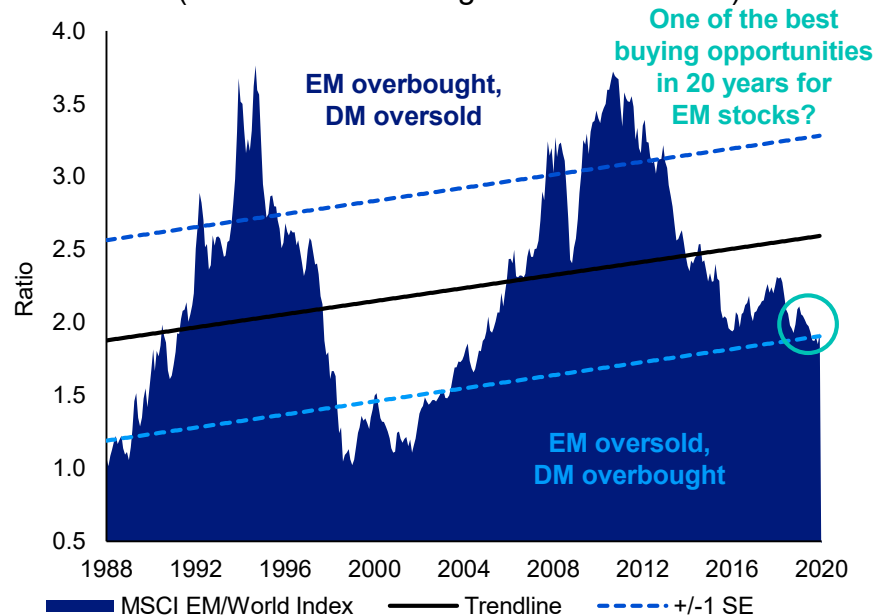
The US Dollar Relative to Major Currencies\* Since 1988 (Trend and Overbought/sold Thresholds)

EM



Emerging Market Relative to Developed Market Stocks Since 1988 (Trend and Overbought/sold Thresholds)

EM

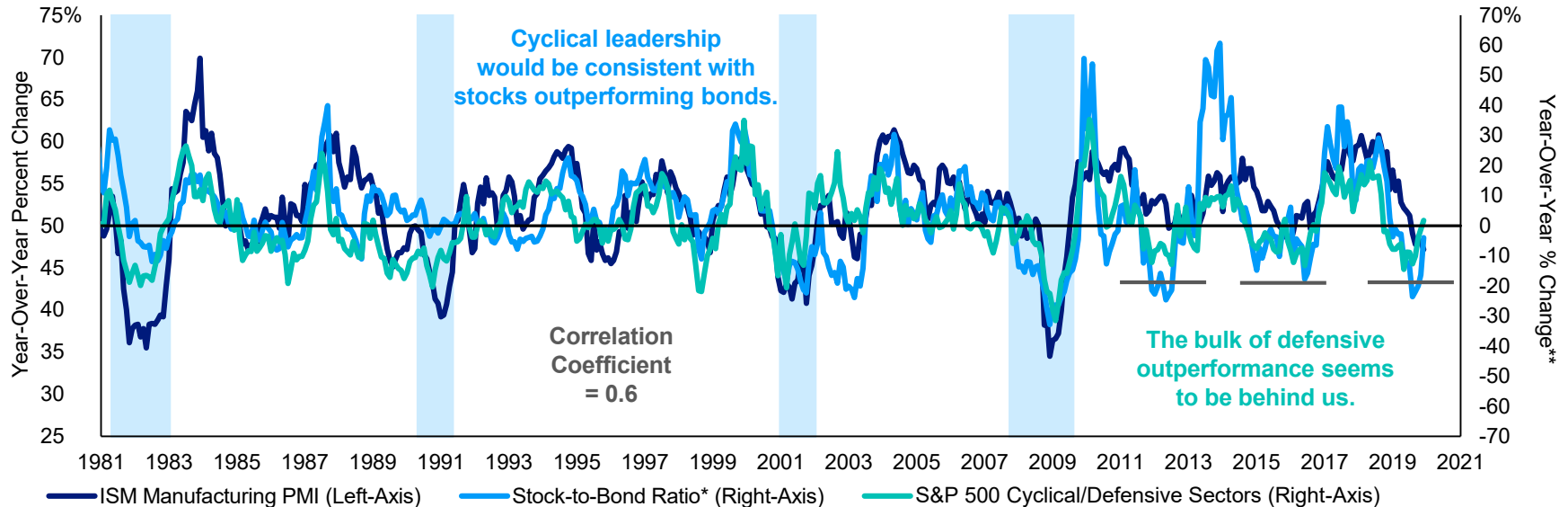


Sources: Bloomberg L.P., FRED, Invesco, 12/31/19. \*The Federal Reserve's Real Trade Weighted US Dollar Index. Notes: Real = Inflation adjusted. Price indices in US dollars. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

## If the Cycle Continues, Risk Assets May Reach Higher Ground



Manufacturing Activity (Left-Axis), Large-Cap Equity Relative to Government Bond\* Returns and Cyclical Relative to Defensive Sector Returns (Right-Axis) Since 1981

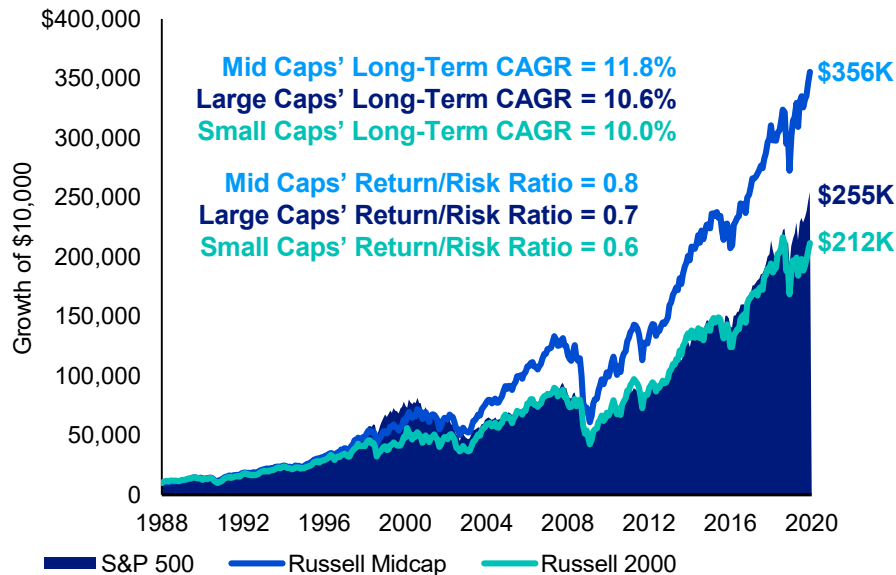


Sources: Bloomberg L.P., Haver, Invesco, 12/31/19. \*Stock-to-Bond Ratio = The S&P 500 divided by the reciprocal of the 10-year Treasury bond yield. \*\*The year-over-year % change on the Stock-to-Bond Ratio has been divided by 2 for scaling purposes. Notes: S&P 500 cyclicals = Consumer Discretionary, 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. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

## In the Long and Short Term, Large- and Mid-Cap Stocks Have Been Big Winners



### Growth of \$10,000 Invested in Mid, Large and Small Caps Since 1988



### Size and Style Returns – Russell Indices 2019

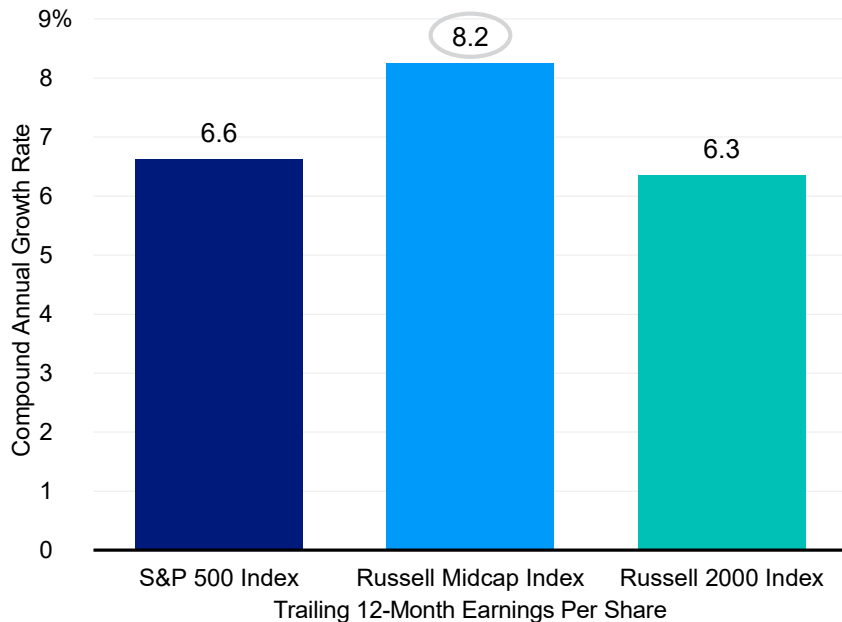
	Value	Core	Growth
Mid	27.0%	30.4%	35.3%
Large	26.4%	31.3%	36.2%
Small	22.3%	25.4%	28.4%

Sources: Bloomberg L.P., Invesco, 12/31/19. Notes: CAGR = Compound annual growth rate. S&P 500, Russell Midcap and Russell 2000 indices total returns. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.** S&P 500, Russell Midcap and Russell 2000 indices total returns in US dollars

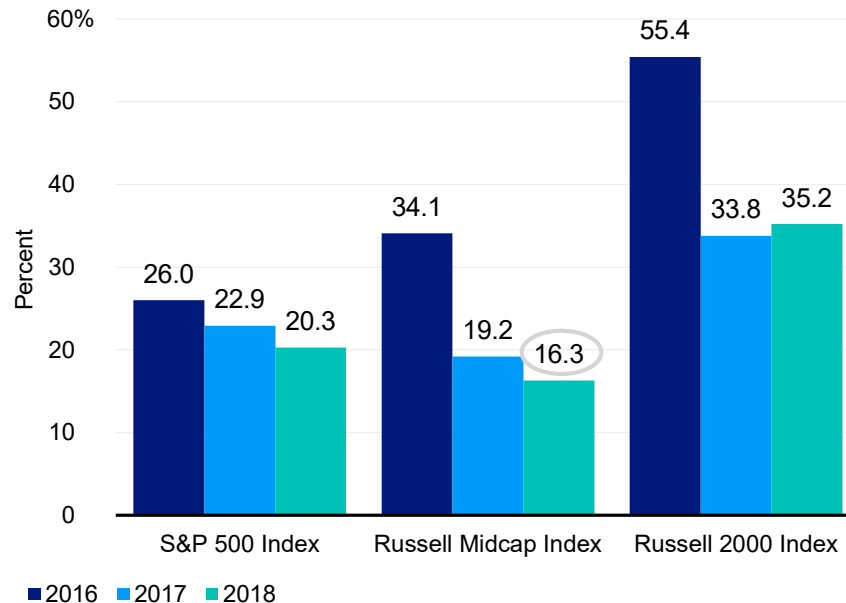
# Mid Caps Have Had the Best Earnings Growth, Recently Helped by Lower Taxes



Large-, Mid- and Small-Cap Long-Term Earnings Growth Since 1995 to 2019



Average Effective Federal Corporate Tax Rates: Large, Mid and Small Caps (2016, 2017 and 2018)



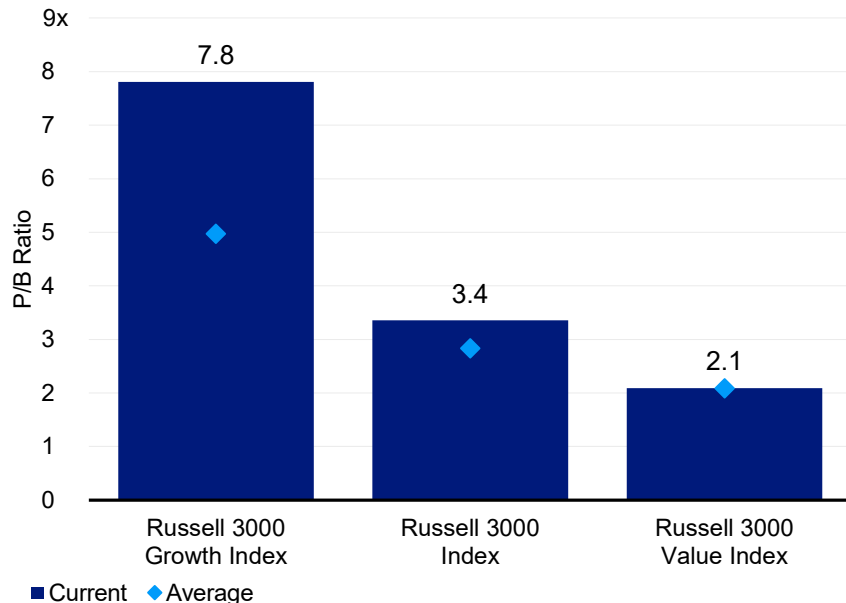
Sources: Bloomberg L.P., Strategas Research Partners, Invesco, 12/31/19. Notes: The effective corporate tax rate = The actual percentage of profits a business pays in taxes after deductions, etc. EPS = earnings per share. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**



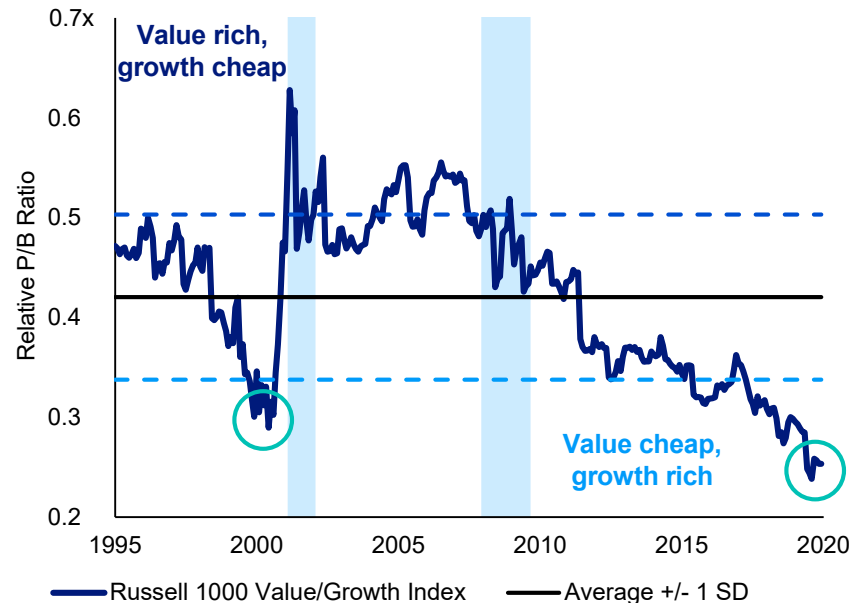
# Growth Comes at a Price, Even Higher Than the Late 1990s



**Multi-Cap Growth, Blend and Value P/B Ratios**  
(Current and Average Since 1995)



**Large-Cap Value/Growth P/B Ratio Since 1995**

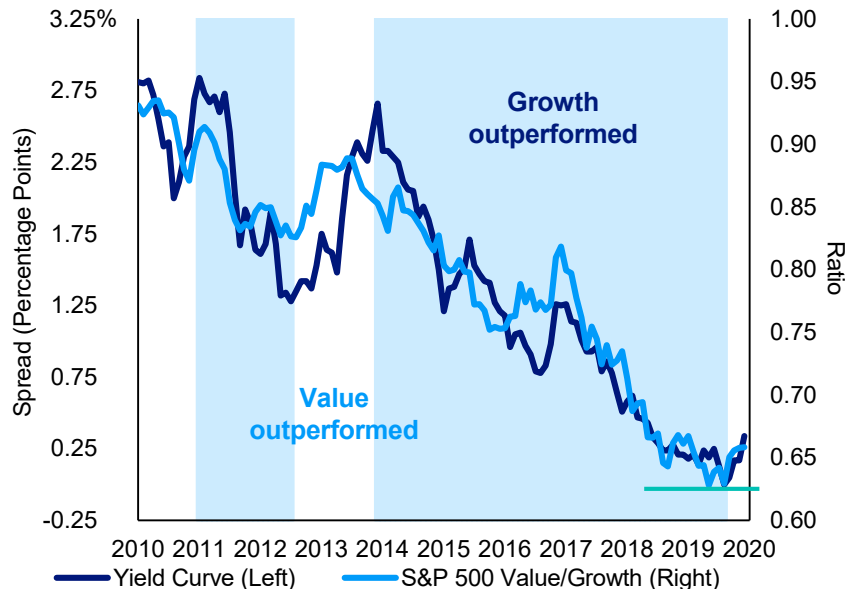


Sources: Bloomberg L.P., Russell, Invesco, 12/31/19. Note: P/B = Price-to-book value. Shaded areas denote NBER-defined US recessions. SD = Standard deviation. Russell 1000 Value and Growth indices price returns. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**

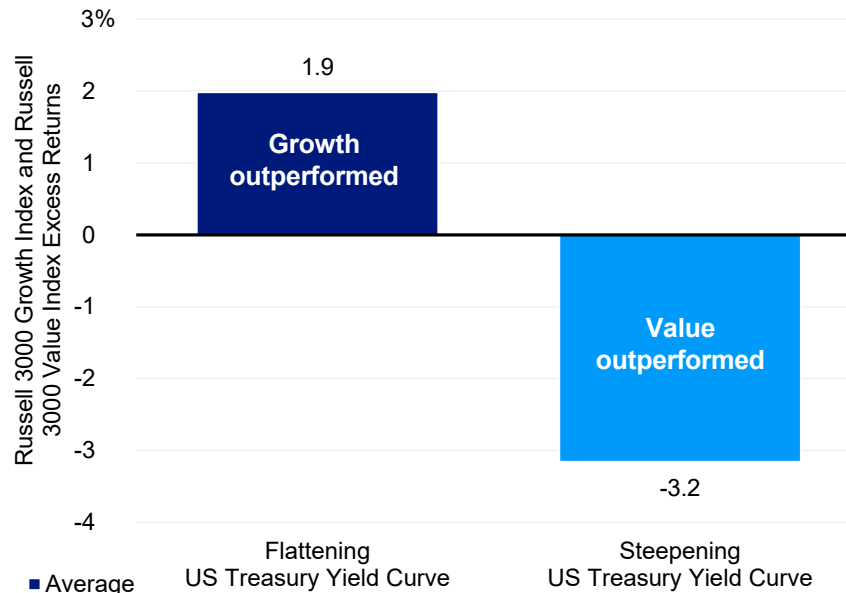
# Value Stocks May Temporarily Benefit From Easy US Monetary Policy and a Steepening Yield Curve



Treasury Yield Curve (Left-Axis) and US Value/Growth (Right-Axis) Since 2010



Growth and Value Performance in Flattening and Steepening Treasury Yield Curve Regimes Since 1980

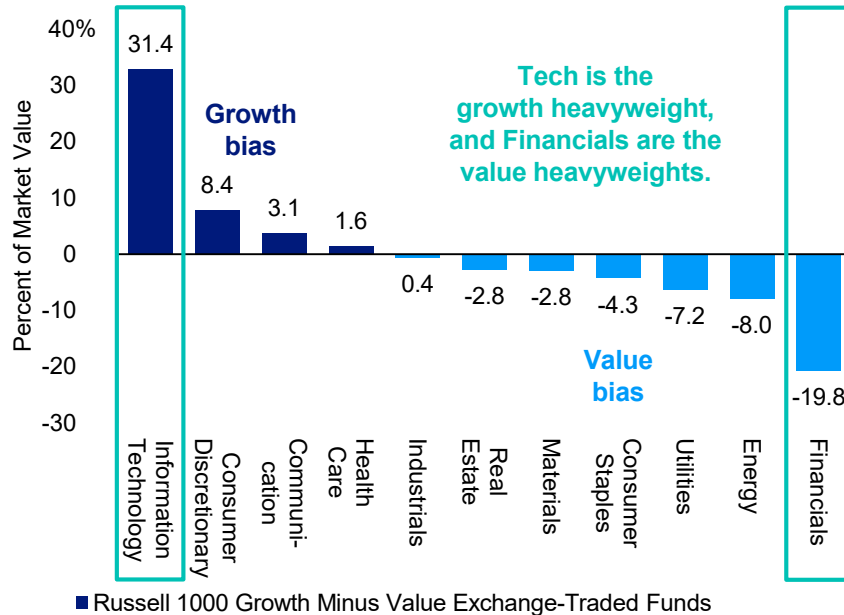


Sources: Bloomberg L.P., FRED, Invesco, 12/31/19. Note: Treasury yield curve = 10-year minus 2-year government bond yield. Russell 3000 Growth and Value indices total returns. Shaded areas denote flattening Treasury yield curve regimes. An investment cannot be made in an index. See page 21 for index definitions. Past performance does not guarantee future results.

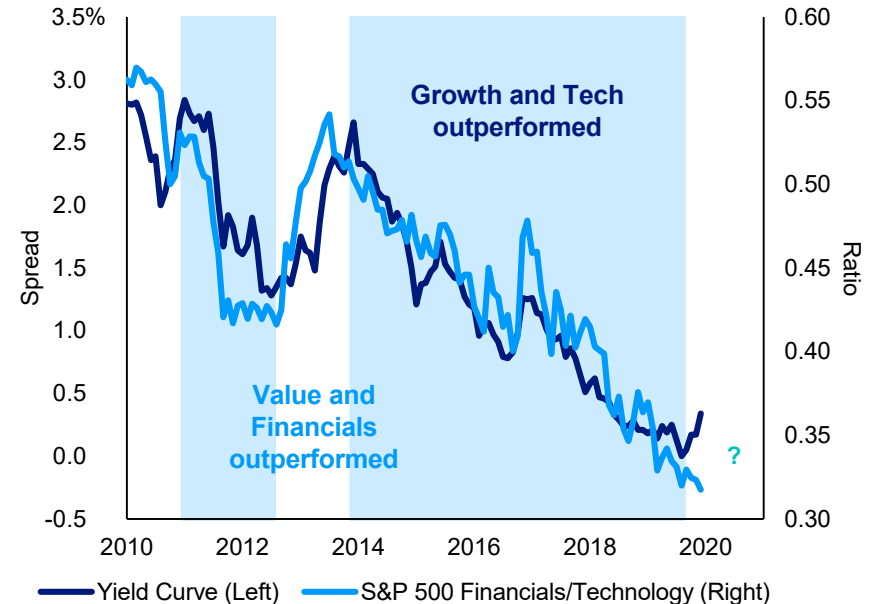
## Watch Financials Versus Tech for Further Signs of a Shift to Value from Growth



### Large-Cap Growth and Value Indices' Sector Weight Differentials



### Treasury Yield Curve (Left-Axis) and Large-Cap Financials Relative to Technology (Right-Axis) Since 2010



Sources: Bloomberg L.P., FRED, Invesco, 12/31/19. Note: Treasury yield curve = 10-year minus 2-year government bond yield. Russell 3000 Growth and Value indices total returns. Shaded areas denote flattening Treasury yield curve regimes. An investment cannot be made in an index. See page 21 for index definitions. **Past performance does not guarantee future results.**



**Talley Léger**  
Senior Equity Strategist

Talley Léger is a Senior Investment Strategist for the Global Thought Leadership team. In this role, he is responsible for formulating and communicating macro and investment insights, with a focus on equities. Mr. Léger is involved with macro research, cross-market strategy and equity strategy.

Mr. Léger joined Invesco when the firm combined with OppenheimerFunds in 2019. At OppenheimerFunds, he was the equity strategist. Prior to OppenheimerFunds, he was the founder of Macro Vision Research and held strategist roles at Barclays Capital, ISI, Merrill Lynch, RBC Capital Markets and Brown Brothers Harriman. Mr. Léger has been in the industry since 2000.

He is the co-author of the revised second edition of the book, *From Bear to Bull with ETFs*.<sup>\*</sup> Mr. Léger has been a guest columnist for *The Big Picture* and *Data Watch* on *Bloomberg Brief Economics*, as well as a contributing author on Seeking Alpha (seekingalpha.com). He has been quoted in *Associated Press*, *Barron's*, *Bloomberg*, *Business Week*, *Dow Jones Newswires*, *The Financial Times*, *MarketWatch*, *Morningstar* magazine, *The New York Times* and *The Wall Street Journal*. Mr. Léger has appeared on Bloomberg TV, Canada's BNN Bloomberg, CNBC, Reuters TV, The Street and Yahoo! Finance, and has spoken on Bloomberg Radio.

Mr. Léger earned an MS degree in financial economics and a Bachelor of Music from Boston University. He is a member of the Global Interdependence Center (GIC) and holds the Series 7 registration.

<sup>\*</sup>*From Bear to Bull with ETFs* (2nd ed.), by David R. Kotok and Talley Léger, published by Cumberland Advisors Publishing (2014).

# Index definitions



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

The Commodity Research Bureau (CRB) Raw Commodity Index is designed to measure the price performance of raw input commodities and includes the prices of various metals, textiles and fibers.

The MSCI Europe Index represents the performance of large- and mid-cap equities across 15 developed countries in Europe, including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Euro Index is designed to measure the equity market performance of the 10 developed markets in the European Monetary Union.

The MSCI AC Americas Index captures large- and mid-cap representation across two developed market and five emerging market countries.

MSCI EM Currency Index is a measure of a basket of emerging market currencies against the United States dollar.

The US Dollar Index indicates the general value of the USD by averaging the exchange rates between the USD and the major world currencies.

The Senior Loan Officer Opinion Survey is a quarterly survey of up to 80 large domestic banks and 24 US branches and agencies of foreign banks to gauge a variety of opinions surrounding credit conditions.

The Chicago Board Options Exchange VIX Index is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The MSCI World Index is designed to measure the equity market performance of developed markets and includes the US, Eurozone area, Japan and Canada.

The MSCI Emerging Market Index is designed to measure the equity market performance of the emerging markets.

The MSCI All-Country World Index is designed to measure the equity market performance of developed and emerging markets.

The MSCI Indonesia Index, MSCI South Africa Index, MSCI Korea Index, MSCI India Index, MSCI China Index, MSCI Brazil Index, MSCI Taiwan Index, MSCI Russia Index, MSCI Belgium Index, MSCI Norway Index, MSCI Denmark Index, MSCI Sweden Index, MSCI Germany Index, MSCI France Index, MSCI Netherlands Index, MSCI Austria Index, MSCI Finland Index, MSCI Switzerland Index, MSCI Spain Index, MSCI Ireland Index, MSCI United Kingdom Index, MSCI Italy Index, MSCI Portugal Index and MSCI USA Index are designed to measure the equity market performance of each respective country.

The S&P 500® Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the US economy. Index includes reinvestment of dividends but does not include fees, expenses, or taxes.

The Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the Russell 3000 Index.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

# Index definitions (cont.)



The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000® Value Index measures the performance of small-cap value segment of the US equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000® Index measures the performance of the largest 3,000 US companies, representing approximately 98% of the investable US equity market.

The Russell 3000® Growth Index measures the performance of the largest 3,000 US companies. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000® Value Index measures the performance of the broad value segment of the US equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The High Yield Master II Option-Adjusted Spread (OAS) is the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

The European Union Purchasing Managers Index (PMI) is a diffusion index designed to measure the manufacturing sector and services sector output of the European Union countries.

The Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) is a diffusion index designed to measure US manufacturing output.

Markit Emerging Markets Manufacturing Purchasing Managers Index is designed to measure the relative optimism of purchasing managers in the manufacturing sector across all emerging markets and indicates the economic conditions of an economy.

The Li Keqiang Index is designed as an alternative measure of Chinese output by measuring a weighted combination of railway cargo volume, electricity consumption and bank loans.

Composite Purchasing Managers Index (PMIs) are diffusion indices designed to measure the manufacturing sector and services sector output of their respective economy focus.

Manufacturing Purchasing Managers Index (PMIs) are diffusion indices designed to measure the manufacturing output of their respective economy focus.

Indices 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.**



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