



# Investment Perspective

Invesco Global Cash Management

Monthly Commentary

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## Overview and Outlook as of November 2011

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### Money market overview

The spotlight continued to glare on Europe in November. In last month's commentary we expressed reserved optimism about the "new" comprehensive agreement to bail out Greece and recapitalize European banks. That optimism quickly unravelled as the crisis in Europe deepened as the month progressed:

- **Change of leadership.** Earlier in the month there were positive developments coming out of Europe as the embattled Prime Ministers of Greece and Italy resigned and new largely technocratic leadership were appointed. Campaigning against the economic track record of the incumbent Socialist party, the conservative Popular Party won a landslide victory in the Spanish general election on Nov. 20.
- **Credit Downgrades.** On Nov. 22, Moody's Investor Service and subsequently Standard & Poor's (S&P) downgraded Eksportfinans ASA - Norway's export supporting agency - to non-investment grade status after the Norwegian government declined to exempt the entity from European Union regulatory capital requirements. The short-term ratings of the entity were cut to Non-Prime from Prime-1 by Moody's. Impact on the U.S. money market fund industry is expected to be minimal, since according to Crane Data only five U.S. money market mutual funds from three managers have exposure to the entity totalling \$252 million as of Oct. 31, 2011.<sup>1</sup> Invesco Global Cash Management has no exposure to Eksportfinans ASA notes or commercial paper. In addition, Belgium was downgraded one notch by S&P to AA from AA+, outlook Negative on "renewed funding and market risk pressure, which is increasing the perception of difficulties in the Belgian financial sector".<sup>2</sup> Hungary and Portugal were also downgraded.
- **Record Yields on European Sovereign bonds.** Signaling the depth of the crisis, yields on Italian and Spanish bonds hit Euro-era highs in November. Italy broke through the 7% yield threshold on its 10-year bond on Nov. 9, reaching nearly 7.3%. In Spain, short-term bonds reached a 14-year high on Nov. 22, with the three-month bond doubling to 5.11% from 2.3% a month earlier.

Throughout the month European leaders labored to find a solution that would stem the crisis and restore confidence in the faltering currency union. Towards the end of the month, Euro-zone leaders began negotiating a proposal that would enforce stronger fiscal coordinating between Eurozone countries by making budget discipline legally binding. At the same time, after sitting on the sidelines for most of this period, the European Central Bank (ECB) finally stepped in and together with the Bank of Canada, the Bank of England, the Bank of Japan, the Federal Reserve, and the Swiss National Bank announced coordinated actions to provide US dollar liquidity support to European financial institutions. This will be done by lowering the cost of their joint cross currency swap program from 100 to 50 basis points (bps) over the overnight index swap rate beginning on Dec. 5, 2011 and will conclude on Feb. 1, 2013. We will continue to closely monitor developments as they unfold.

Meanwhile, in the U.S., after this past summer's adventures in brinkmanship in the run up to the debt ceiling deadline, market participants broadly expected that the so-called "super committee" would fail to deliver on its mandate to produce \$1.2 - \$1.5 trillion in deficit reduction measures, but were nevertheless disappointed when it did. Given the built-in automatic spending cuts of \$1.2 trillion in case the super committee failed to reach an agreement, we believe it is unlikely there will be any action by the rating agencies in the short-term. However, because the super committee effectively represented the last chance until the upcoming Presidential elections to make meaningful progress on fiscal consolidation, this could impact the actions of the rating agencies in the next few quarters. Shortly after the failure of the super committee Fitch Ratings affirmed the U.S. long-term credit rating at AAA, but revised its outlook to Negative, reflecting "declining confidence that timely fiscal measures necessary to place U.S. public finances on a sustainable path...will be forthcoming".<sup>3</sup> In terms of market impact, the failure of the super committee could exacerbate existing market uncertainty regarding fiscal policies (e.g., extending the payroll tax cut, unemployment benefit) and economic policy leadership more broadly.

On Nov. 29 S&P released its review of the 37 largest rated global banks based on its revised criteria. As a result of the

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revisions, several of the banks' holding companies were downgraded. Invesco Global Cash Management has no exposure to the downgraded holding company entities as these firms have shifted funding activities to their bank or broker/dealer subsidiaries which maintained Tier One short-term ratings.

Euro concerns are driving a steeper LIBOR<sup>4</sup> curve, even as rates increased across the board in November, particularly in the three- to six-month range, with investors looking to be compensated for extending their maturities in Europe. While the overnight LIBOR rate was basically flat in November, the one-month LIBOR increased 2.6 bps setting at 0.271%, the three-month LIBOR increased 9.6 bps setting at 0.529%, and the six-month LIBOR increased 12.4 bps setting at 0.748%.

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### Strategies for Invesco's money market funds

We are in the process of preparing portfolios for year-end market liquidity. We have participated in more term repos into early January, in order to reduce our reliance on the overnight repo market, as we expect dealers to reduce their balance sheets heading into year end, thereby shrinking the amount of repo supply. We will continue to monitor liquidity conditions in the coming month and will position portfolios in an effort to secure diversified overnight funding options.

Invesco continues to actively manage portfolios to reflect our market views, consistent with our commitment to preserving the safety and liquidity of the portfolios. As we have done over the past several months, we continue to monitor events in Europe and are adjusting our holdings as needed.

This continues to be an evolving environment for money market funds. We believe Invesco Global Cash Management is positioned to help our clients navigate these dynamic events with our judicious investment philosophy and rigorous investment process. Our credit team has developed and strictly adheres to a comprehensive set of criteria for evaluating credit risk and identifying high-quality securities while our portfolio management team constructs and manages the money market portfolios, keeping in mind our commitment to the preservation of principal, liquidity and our ability to respond quickly to ongoing economic developments.

**An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a Fund.**

1 Crane Data LLC.

2 Standard & Poor's, "Rating On Belgium Lowered to 'AA' On Financial Sector Risks to Public Finances; Outlook Negative." Nov. 25, 2011

3 FitchRatings, "Fitch Affirms United States at 'AAA'; Outlook Revised to Negative." Nov. 28, 2011.

4 LIBOR is the world's most widely followed benchmark for short-term interest rates. Fixed daily, the LIBOR is the interest rate at which banks in the London interbank market can borrow overnight funds from one another. It serves as a base when determining interest rates for corporations and other large borrowers.

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Unless otherwise noted statistics are from Bloomberg, L.P. All other data provided by Invesco.

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One basis point equals one-hundredth of a percentage point.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated, and should not be interpreted as indicating low quality. For more information on rating methodologies, please visit the following NRSRO websites: [www.standardandpoors.com](http://www.standardandpoors.com) and select 'Understanding Ratings' under Rating Resources on the homepage; [www.moodys.com](http://www.moodys.com) and select 'Rating Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](http://www.fitchratings.com) and select 'Ratings Definitions' on the homepage.

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