Invesco

Strategic Sector Selector

Proceeding with caution

After a brief wobble at the beginning of the quarter, global equities recovered and registered decent returns in Q3 2024. There were signs of softening economic growth having an impact and mega-cap technology stocks underperformed despite the first rate cut by the Fed in this cycle. We expect global growth to stay lower than average in the near term (although we think recession is a tail risk), and we assume that a recovery will start in 2025. We think equity markets may struggle for direction after strong returns year-to-date, although we do not expect the market expansion to end. With that in mind, we reshuffle our allocation to cyclical sectors slightly by downgrading basic resources to Underweight and upgrading insurance to Overweight. Therefore, we keep the balance of defensives and cyclicals within our model sector allocation. At the same time, we maintain our allocation to select rate-sensitive sectors that we expect to be boosted by continued monetary easing.

Changes in allocations:

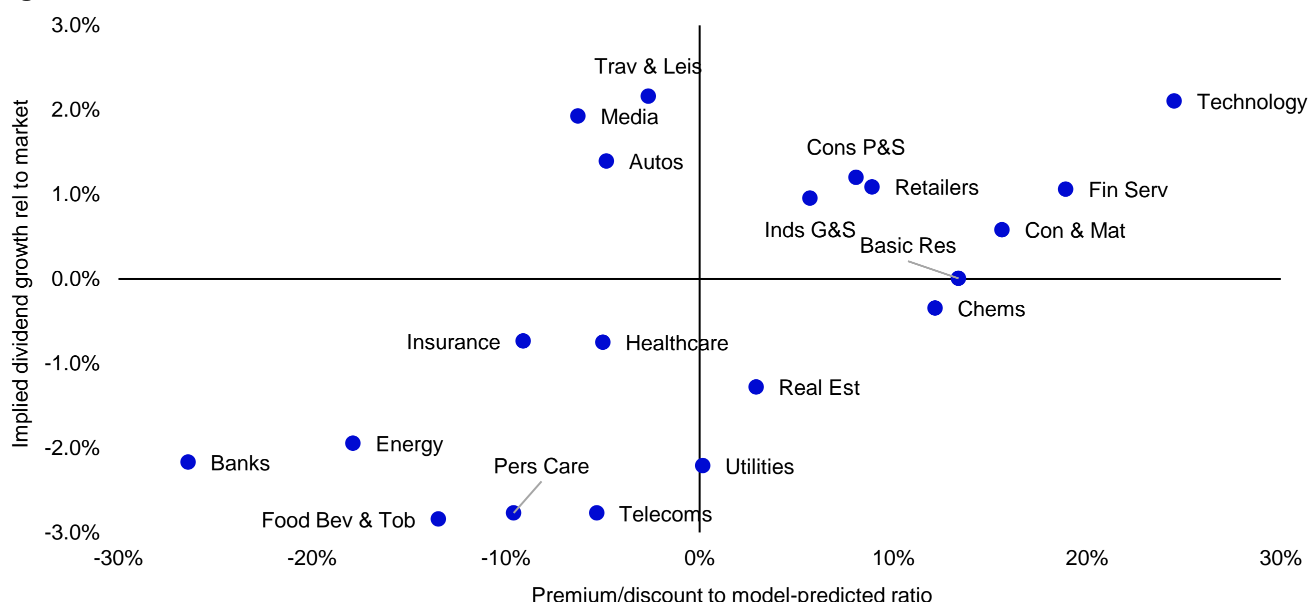
- Upgrades: insurance (UW to OW)
- Downgrades: basic resources (N to UW)

Most favoured	Least favoured
US retailers	US automobiles & parts
US food, beverage & tobacco	European travel & leisure

Sectors where we expect the best returns:

- Retailers: well-diversified sector, exposure to growth factor and potential rebound in consumer spending
- Food, beverage and tobacco: hedge against market volatility, exposure to growth factor
- Insurance: attractive valuations, high dividend yield, potential beneficiary of higher bond yields

Figure 1 – Global sectors valuation matrix



Notes: Data as of 30 September 2024. On the horizontal axis, we show how far a sector's valuation is above/below that implied by our multiple regression model (dividend yield relative to market). The vertical axis shows the perpetual real growth in dividends required to justify current prices relative to that implied for the market. We consider the sectors in the top right quadrant expensive on both measures, and those in the bottom left are considered cheap. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

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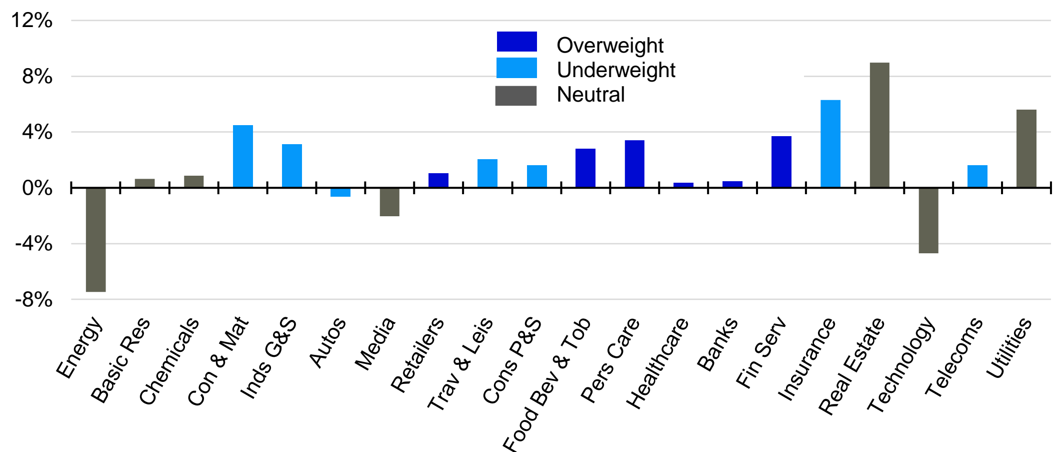
Summary and conclusions

Since the last time

A tough start to Q3 2024 did not prevent global equities adding to their strong gains year-to-date: the MSCI All-Country World index returned 5% in Q3 2024 in local currency terms. Concerns around slowing US growth and waning enthusiasm for investments into generative artificial intelligence drove a 9% pull-back (based on MSCI All-Country World Index local currency total returns) and led to a significant repricing of interest rates expectations. However, falling inflation and the start of the easing cycle by the US Federal Reserve (Fed) contributed to strong returns in the second half of Q3, in our view.

Figure 2 – 3m Global sector returns relative to market in USD



Notes: See appendices for methodology and disclaimers. Returns shown between 30 June 2024 and 30 September 2024. Colours indicate allocations in period considered. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

As **Figure 2** demonstrates, returns were broad-based in Q3 2024 (and more so than in the first half of the year) aided by the underperformance of the technology sector. The strongest performers were rate-sensitive sectors, such as real estate and construction, which were Neutral and Underweight respectively in our model sector allocation, although we were Overweight financial services. Most defensive sectors also outperformed, especially utilities, which was at the “sweet spot” of being also rate-sensitive (we were Neutral) and consumer staples (we were Overweight both food, beverage & tobacco and personal care, drug & grocery stores).

Asset allocation backdrop

We think the global economy is still decelerating, bringing short-term risk for the more cyclical assets, especially after recent strong performance. However, we have a 12-month forecast horizon, within which we expect most central banks to ease, which we think could help economies and assets (though we worry that is already in the price).

Perhaps the single most important forecast is that major central bank policy rates will be markedly lower in 12 months (see **Figure 3**). Exceptions are the PBOC and the BOJ. We expect yield curves to steepen, though largely because short rates fall (we expect 10-year yields to fall initially but to be slightly higher in 12 months). We predict the US dollar will weaken, which we think could cushion commodities and EM assets, especially as the global economy improves later in 2025.

Within our Model Asset Allocation (published on 15 September 2024), we raised **government bonds** from an already Overweight 27% to 30%. Though we expect long rates to be marginally higher in 12 months (after falling in the short term), we think that risk-adjusted government bond returns will be relatively attractive compared to more cyclical assets. Another addition to defensive assets came in the form of **investment grade**, which was taken from an already Overweight 12% to 15%. Though spreads are

expected to widen slightly in some regions, the starting yield is high enough to offer attractive carry.

After strong performance over the last three months, we reduced **real estate** to Neutral (we think there could be some consolidation after a large fall in yields in some regions). Despite the poor performance over the last three months, we also reduced **commodities** to Neutral. We had focused on raw materials as the one cyclical asset class that had been lagging but a deteriorating global economic environment makes us more cautious about the short-term outlook.

There were no changes to **cash** or **bank loans**, both of which remained Overweight. In our opinion they offer among the best risk-reward trade-offs across assets.

Equities have again performed relatively well over the last three months, and we remained at an Underweight 35% (versus a Neutral 45%). In the dominant US market, we remain concerned about concentration and valuations. Within the asset class we rebalanced in Europe, away from Europe ex-UK towards the UK (leaving them both Overweight).

We made no changes to **high yield**, which remained Zero allocated. Spreads are much narrower than we would expect at this stage of the economic cycle. We expect spreads to widen and defaults to rise (towards but not reaching cyclical norms).

Regionally, we are Overweight UK and EM assets and particularly Underweight US assets. We maintained the partial hedge out of US dollar into Japanese yen, believing the latter will continue to rally as the Fed eases and the BOJ normalises.

Figure 3 – Market forecasts

	Current (30/09/24)	Forecast 12-month
Central Bank Rates		
US	5.00	3.50
Eurozone	3.50	2.50
China	3.35	3.20
Japan	0.25	0.75
UK	5.00	3.50
10y Bond Yields		
US	3.78	4.10
Eurozone	2.06	2.50
China	2.16	2.20
Japan	0.87	1.20
UK	4.01	4.00
Exchange Rates/US$		
EUR/USD	1.11	1.15
USD/CNY	7.02	7.00
USD/JPY	143.63	125.00
GBP/USD	1.34	1.35
USD/CHF	0.84	0.83
Equity Indices		
S&P 500	5762	5150
Euro Stoxx 50	5000	5100
FTSE A50	14017	12790
Nikkei 225	37920	35250
FTSE 100	8237	8625
Commodities (US$)		
Brent/barrel	72	70
Gold/ounce	2634	2300
Copper/tonne	9692	9000

Notes: There is no guarantee that these views will come to pass. See Appendices for definitions, methodology and disclaimers. See The Big Picture for a full explanation.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Changes to model sector allocations

Global equity market leadership broadened in Q3 2024 partly driven by the underperformance of the technology sector. Most companies in the sector reported strong revenue and profit growth, but they were judged to have failed to exceed expectations making their valuations somewhat difficult to justify. However, after some turbulence global equities stabilised as defensive and rate-sensitive cyclical sectors took the baton. Is there more volatility on the horizon? When will the global economy turn a corner? How will that impact sector leadership?

We think it is natural that equity markets have shifted their focus to economic growth as central bank inflation targets have moved within sight. In our view, they are now in the "comfort zone" of within one percentage point of 2% even if further progress may be slow. The US Federal Reserve (Fed) has finally begun easing monetary policy with a 50 basis point cut and indicated further, albeit more gradual rate cuts to come in the next 12 months. Most developed market central banks also indicated that they would continue to ease monetary policy (the Bank of Japan remains the most prominent exception). Although central banks in most emerging markets have struck a more cautious tone as their currencies weakened before Fed easing started in earnest, we expect global interest rates to decline in the next year, especially if China continues to ease.

However, the short term may still be a difficult period to navigate until we get more clarity on where the global economy is heading in 2025. We do not expect a significant drawdown as long as a deep recession is avoided. In our base case, falling interest rates should provide enough support to achieve this, which implies that the current equity market cycle may continue. Slower growth may also be enough to alleviate lingering concerns about inflation. Geopolitical concerns could keep energy prices higher than fundamentals would imply, but slower growth may keep them capped. If our base case turns out to be correct, and the global economy reaccelerates after a short period of weakness, equities may start to anticipate the upturn even as early as this quarter.

What does this mean for our sector allocations? In our view, the current slowdown may have further to run despite recent data suggesting that the US labour market remains healthy and the initial enthusiasm about a stimulus package in China. The underperformance of the technology sector may have overestimated the broadening of market returns, but we do not find it surprising that both defensives and rate-sensitive sectors responded to concerns about faltering economic momentum and the expected monetary policy response. We expect this environment to persist in the short term, and therefore we view our model sector allocation as appropriate with its slight tilt towards defensives and we do not think a comprehensive reshuffle is required.

Basic resources has been viewed as one of the main beneficiaries of Chinese stimulus efforts, which drove recent outperformance. However, we think it is still uncertain if the current stimulus package will be enough to lift economic activity in China and how resource-intensive growth may be. Therefore, we find it difficult to justify the premium the sector trades at versus that implied by our multiple regression model (unless commodity prices rise significantly). We think the sector may be boosted by a reaccelerating global economy, which we expect to start in 2025. Nevertheless, we downgrade the sector to **Underweight** from Neutral until we either see a comprehensive de-rating versus our multiple regression model, or evidence emerges that the global economy has turned a corner.

By contrast, we think that **insurance** may have a better probability of outperformance, while offering similar levels of dividend yield. The potential headwind of falling bond yields seems to be dissipating (see **Figure 3** for our forecasts). Premiums may not rise as sharply as in the last two years as inflationary concerns recede into the background. At the same time, valuations look supportive on our models with the sector trading at a discount on both our multiple regression and implied dividend growth models. Weather-related event risk remains a concern, but we are confident that the sector is adapting to underwriting challenges posed by climate change. Therefore, we upgrade to **Overweight** from Underweight.

The best and worst of the rest
One consequence of a higher risk of conflict near major energy exporting regions (both Ukraine and the Middle East) is that the price of oil and gas could remain near current levels supporting the revenues and margins of the **energy** sector. Based on our macroeconomic outlook, weaker demand, plentiful supply and discounts offered by major producers could balance the upward pressure on pricing driven by geopolitical risk, thus we maintain our **Neutral** allocation.

Chemicals could be boosted by higher product prices, but we think it may struggle to outperform in the current economic environment, because its input costs have remained high. Although we expect a turnaround in industrial production in the next 12 months, we think it may be too early to upgrade the sector as it trades at a premium to the relative dividend yield implied by our multiple regression model. We maintain our **Neutral** allocation.

Although house prices seem to be stabilising and real wage growth is positive, relatively high mortgage rates may hinder the **construction & materials** sector. We are also concerned that higher costs of labour and materials will put pressure on profit margins. The sector also looks overvalued on our multiple regression model and its implied dividend growth rate is above that of the market. After its recent outperformance we believe its valuations reflect a lot of good news, and therefore we stay **Underweight**.

We also keep **industrial goods & services Underweight**. In our view, the sector may find it difficult to outperform as the global economy cools, while it looks slightly overvalued on our multiple regression model, indicating that any potential upturn in growth may be priced in including increased defence spending. The sector is one of the most diversified through its exposures to aerospace & defence, payment systems, vehicle manufacturers and logistics providers, but most of those look to be highly exposed to a downturn in the global economy.

After underperforming in the last 12 months, **automobiles & parts** now looks undervalued versus the relative dividend yield implied by our multiple regression model. We consider the sector an early-cyclical, thus we are struggling to foresee any significant upside potential as long as economic growth remains subdued. The sector may start outperforming when global growth reaccelerates, but we stay **Underweight** for now.

We also keep our **Neutral** allocation to **media**. After recent underperformance, the sector trades at a discount compared to the relative dividend yield implied by our multiple regression model. However, we remain cautious on the sector until economic “green shoots” appear, while we expect bond yields to remain high potentially putting pressure on valuations. Finally, both EBITDA and net margins have risen, which has been one of the main driving forces behind the sector’s outperformance, in our view, and we think further improvement will be difficult to achieve.

At the same time, we maintain exposure to the growth factor through **retailers**, which could be useful if the Fed continues to cut rates. The sector’s relative dividend yield may be slightly below of that implied by our multiple regression model, but it is a diversified sector, which we think will provide resilience during any market weakness. Sector earnings may also be supported if inflation falls further, and real wage growth remains positive. We maintain our **Overweight** allocation.

We expect **travel & leisure** to remain under pressure as long as oil prices stay high and disposable income grows at a slower pace, thus we think it is appropriate to keep our **Underweight** allocation. We believe the many headwinds the sector faces are proving too much: labour costs have risen, fuel costs could remain high, and demand may soften as economies slow and higher costs eat further into disposable incomes as excess savings are depleted. Nevertheless, there may be regional differences in returns if Asian tourists continue travelling in greater numbers, offset by weakness in the US and Europe.

We also keep our allocation to **consumer products & services Underweight**. We think luxury groups will continue to struggle if consumer spending growth slows. The sector also trades at a slight premium compared to the relative dividend yield implied by our multiple regression model, some of which may be justified by its relative resilience and diversification benefits (which we value). However, we are concerned that its high valuations may present a risk if the global economy slows more than we currently expect, while it tends to underperform in the mid-cycle stage of the equity market cycle.

At this stage of the cycle, assuming our interest rate expectations are proven correct, we believe that defensive growth offers an attractive way to mitigate equity market volatility and an inflation and economic growth undershoot. Therefore, we stay **Overweight** both **food, beverage & tobacco** and **personal care, drug & grocery stores**. Even following their outperformance in Q3 2024, their valuations look attractive, well above the relative dividend yield implied by our multiple regression model. At the same time, both sectors have an implied perpetual dividend growth rate under 1%, which we think is appealing (out of three sectors altogether, all of which are defensives).

We find **healthcare** attractive for similar reasons and believe it makes sense to keep our **Overweight** allocation. As a defensive sector, it underperformed slightly so far in 2024 as markets favoured the technology sector. The sector's valuations look attractive on implied dividend growth, and it has a slight discount to the relative dividend yield implied by our multiple regression model. We also think that falling interest rates could boost its relative returns in the next 12 months.

At the same time, we think the probability of major issues in the banking sector will be lower if monetary policy becomes less restrictive, especially if the global economy avoids a recession. We also expect a steepening yield curve, which coincided with outperformance in the past, especially in the US and UK. Valuations look attractive both compared to the relative dividend yield implied by our multiple regression model and versus historical norms. Of course, we cannot sound the all-clear that the risk stemming from higher interest rates has passed (for example via lending risk to the real estate sector), but valuations suggest that at least some of that is priced in, in our view. We stay **Overweight banks**.

Based on our assumption that we remain in the mid-cycle phase of the equity market cycle, we expect financials to outperform. We are also encouraged by early signs of a turnaround in capital raising and mergers & acquisitions activity, which bodes well for **financial services**. As long as the market expansion continues and the interest rate cycle turns, we think their relatively rich valuation will not be a cause for concern. We stay **Overweight**.

At the same time, we keep our **Neutral** allocation to **real estate**. The start of Fed easing has boosted sentiment towards the sector, but after recent outperformance we think that some of that may have been priced in. Gradual easing in financing costs imply only gradual improvement in sector returns, in our view. At the same time, valuations are close to what we would consider "fair value" based on our multiple regression model.

The biggest decision we face every quarter concerns the largest sector (based on market cap): **technology**. Despite underperforming in Q3 2024, valuations remain high and the sector has the largest premium based on our multiple regression model, which makes it vulnerable to any turnaround in sentiment, in our view. We remain positive about the sector's long-term growth potential, which we think will continue to benefit from increasing investment and boosted by the focus on generative artificial intelligence. We also value its high margins and solid cash generation, but valuations keep us cautious, thus we stay **Neutral** for now.

Although we expect turbulence in equities in the near term we stay **Underweight telecommunications**. We assume that an economic recovery will start in 2025. which equity markets may start anticipating perhaps in the next six months. We would expect defensive sectors, such as telecommunications, to underperform in the medium term.

Although the sector trades at a discount based on our multiple regression model, it has no obvious advantage in valuations compared to consumer staples, while it may not be boosted as much by either a rebound in consumer spending or a reduction in interest rates.

Utilities have struggled to outperform in the cyclical upturn since Q4 2022. However, rising volatility and falling rate expectations put the sector in the sweet spot in Q3 2024. After strong relative returns, the sector's valuations look close to "fair value" on our multiple regression model, while it looks undervalued based on implied dividend growth. At the same time, since we do not expect a deep downturn, we would like to keep our exposure to defensives limited, especially if equity markets start anticipating a reacceleration in growth in the near term. Therefore, we keep the sector **Neutral**.

Sector in focus: Insurance

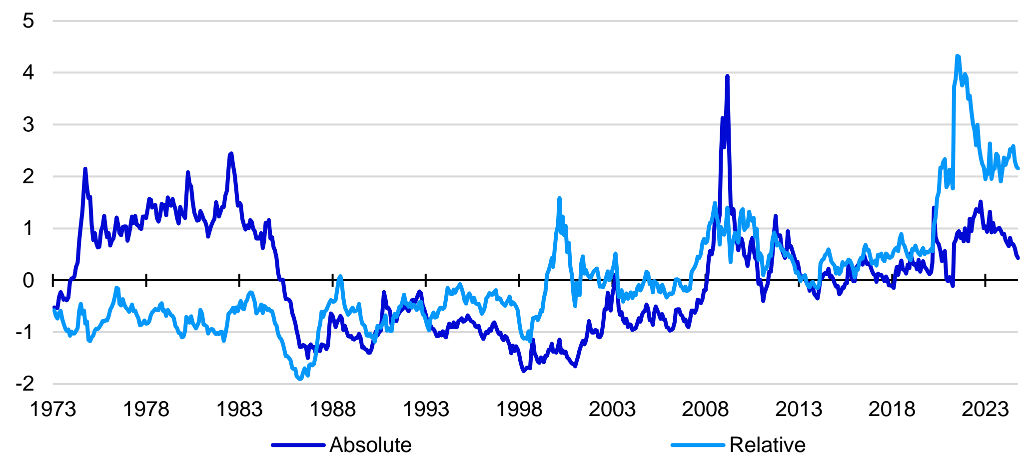
During the last decade, the insurance sector has not been one where we would have expected strong underperformance or outperformance. One of the reasons may have been that it was not well-suited to the post-Great Financial Crisis (GFC) and pre-pandemic era of low interest rates. Its main holdings in most regions tend to consist of government bonds, whose volatility and returns were subdued in the period after the Great Financial Crisis (GFC) of 2008 and before the COVID-19 pandemic. At the same time, few other sectors felt the consequences of climate change as directly with rising claims for natural disasters.

However, after the pandemic-related reopening and following rise in inflation, the volatility of relative sector returns increased significantly. That coincided with a period of higher volatility in government bond yields driven by the extraordinary levels of monetary easing and sharp tightening between 2020 and 2022. Though relative returns may have been negative during 2023 as bond yields stabilised, partly due to the strong outperformance by the technology sector, they have been positive year-to-date despite falling yields. Although we think yields may drop further in the short term if economic growth remains low, they will move higher in the next 12 months potentially boosting insurance sector returns (see **Figure 3**).

Interestingly, insurance is a well-balanced sector with the US accounting for 40% of market capitalisation, followed by developed Europe at 26% and EM at 15%. There are no dominant subsectors, and it is not overshadowed by a dominant stock (the top ten account for about 30% of market capitalisation as of 30 September 2024) and has a long tail of relatively small constituents. Therefore, we view the sector as relatively well-connected to macroeconomic and cyclical forces. We also found that it tends to outperform during the early- and mid-cycle phase of the equity market cycle.

As ever, there are multiple moving parts when trying to determine how insurance will fare in the next 12 months. As long as global economic growth remains positive, and government bond yields stay high relative to post-GFC levels, we would expect revenue growth and profitability to be healthy. The biggest risk to this view is a potential global recession and a resulting decline in interest rates and bond yields, but we view that as having a lower probability than our base case of a mild downturn followed by an economic recovery.

Figure 4 – Global insurance dividend yields versus historical averages (z-scores)



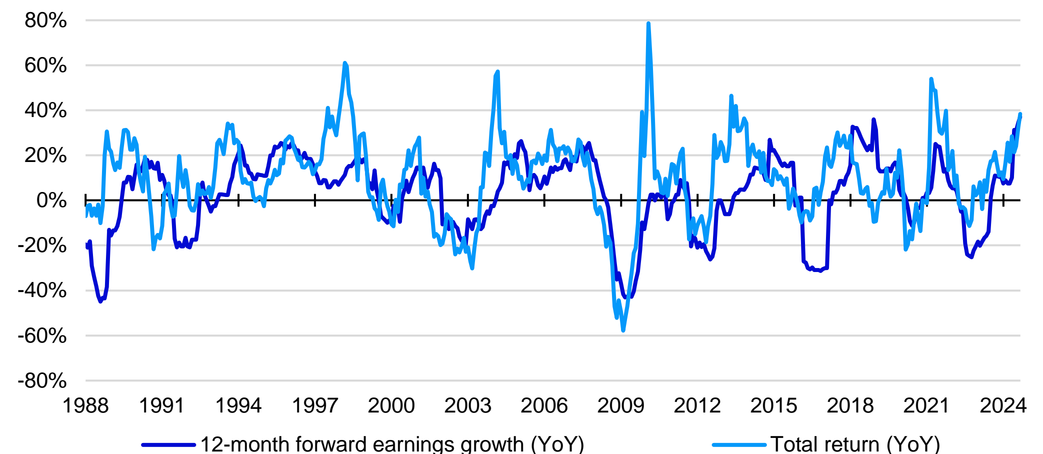
Notes: Data as of 30 September 2024. **Past performance is no guarantee of future results.** We use monthly data based on the 12-month trailing dividend yield on the Datastream World Insurance Index and the Datastream World Total Market Index. Relative dividend yields are calculated by dividing the yield on the insurance index by the yield on the total market index. Z-scores are calculated by dividing the difference to the long-term average since 2 January 1973 by the standard deviation of respective dividend yields.
Source: LSEG Datastream and Invesco Global Market Strategy Office

However, despite outperforming year-to-date, sector valuations look attractive, in our view. When it comes to sector allocations, we start by comparing the relative dividend yield implied by our multiple regression model to what the sector trades at. This suggests that the sector is undervalued versus what our model implies (**Figure 12**). We then cross-check that using our perpetual dividend growth model, which shows that dividends would have to grow by a real 2.6% per year into perpetuity for the sector to generate the hurdle rate of return, well-below that of the market at 3.4% and suggesting it is relatively cheap (**Figure 13**).

Comparing other valuation metrics to their own respective historical averages paints a more mixed picture. Although price/earnings and dividend yield suggest insurance is undervalued in absolute terms, price/book and price/cash flow show that it may be overvalued (see **Figure 25**). However, relative valuations look more convincing: a significant dislocation with, for example, relative dividend yields at 2.2 standard deviations above the historical average (see **Figure 4**), while relative P/E ratios are 1.2 standard deviations below historical norms (this may be partly explained by the increase in valuations for the overall market).

We think the future direction of sector dividend yields will depend largely on how closely the global economy follows historical patterns. As long as growth remains positive and inflation remains close to central bank targets, premiums could rise gradually, while investment returns could remain higher than in the post-GFC period with higher government bond yields. Climate change remains a risk, especially during the US “hurricane season”, but we think that the industry may be able to increasingly adapt to that. As long as this scenario plays out, we do not expect dividends to fall, even though payout ratios may look slightly higher than the historical average of 35% at just below 40%.

Figure 5 – Global insurance forward earnings growth vs total returns since 1988



Notes: Data as of 30 September 2024. **Past performance is not a guarantee of future results.** The data shown in the chart is monthly starting in February 1988. The index used to represent global insurance is the Datastream Insurance World index in US dollars. We use IBES consensus 12-month forward EPS and calculate year-on-year change to represent earnings growth.
Source: LSEG Datastream and Invesco Global Market Strategy Office

In our view, it is likely that the sector will continue outperforming. First, dividend growth is above average, but not at extreme levels. Also, as **Figure 5** shows, 12-month forward earnings forecasts have been climbing recently with analysts expecting around 37% growth (as of 30 September 2024), even if that may not be sustainable over the long term.

Where does all that leave us? Although insurance is a sector that we may characterise as an early-cyclical, it also tends to outperform during the mid-cycle phase. If we are correct and equity markets remain in that mid-cycle stage, decent sector valuations and historical patterns support an upgrade to Overweight.

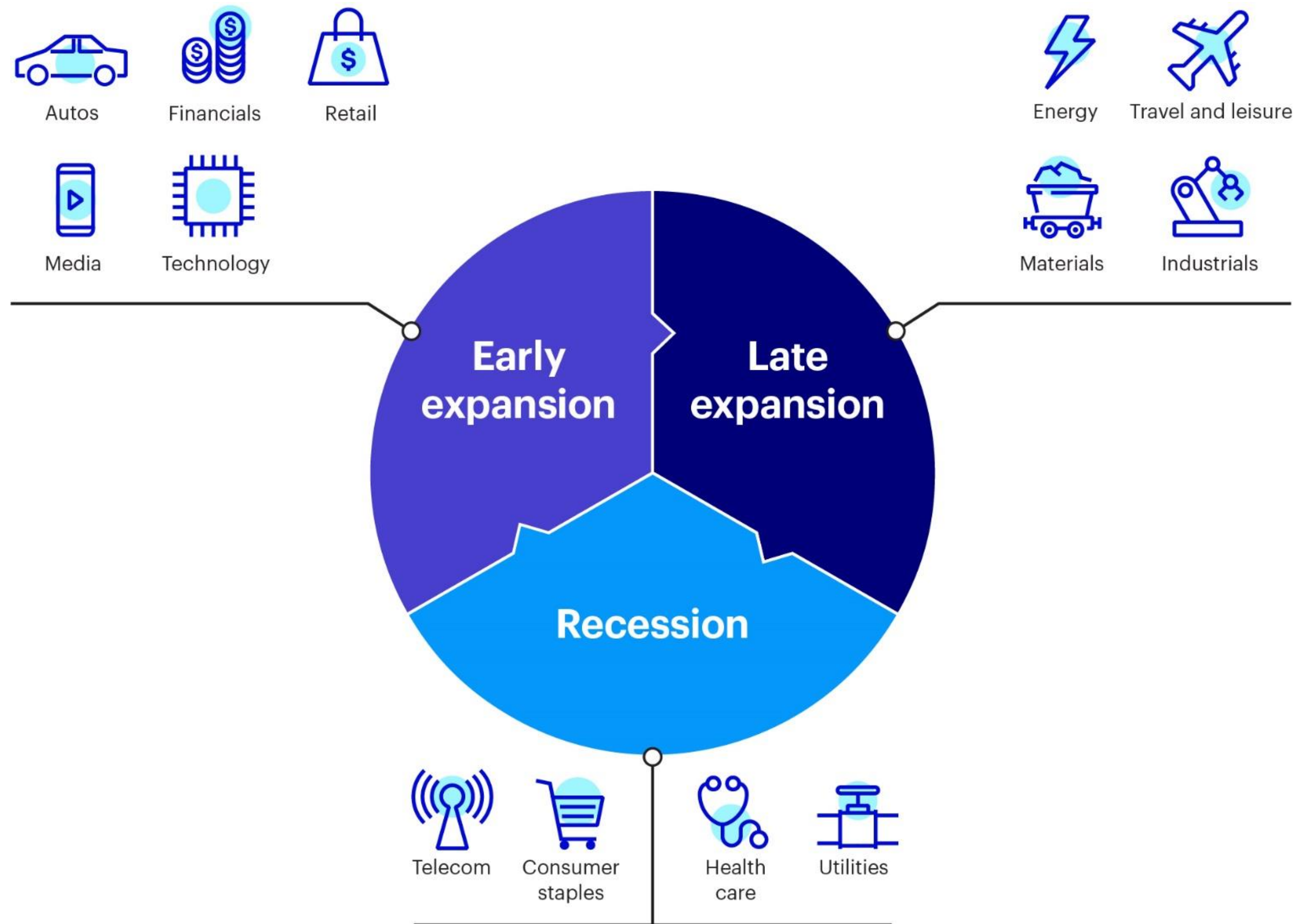
Figure 6 – Model allocations for Global sectors

	Neutral	Invesco	Preferred Region
Energy	**6.1%**	**Neutral**	**EM**
Basic Materials	**3.8%**	**Underweight ↓**	**Japan**
Basic Resources	2.3%	Underweight ↓	Japan
Chemicals	1.5%	Neutral	US
Industrials	**13.2%**	**Underweight**	**US**
Construction & Materials	1.7%	Underweight	US
Industrial Goods & Services	11.4%	Underweight	US
Consumer Discretionary	**14.0%**	**Underweight**	**US**
Automobiles & Parts	2.4%	Underweight	Europe
Media	1.1%	Neutral	Japan
Retailers	5.3%	Overweight	US
Travel & Leisure	1.9%	Underweight	EM
Consumer Products & Services	3.4%	Underweight	Japan
Consumer Staples	**5.4%**	**Overweight**	**US**
Food, Beverage & Tobacco	3.4%	Overweight	US
Personal Care, Drug & Grocery Stores	2.0%	Overweight	Europe
Healthcare	**9.3%**	**Overweight**	**US**
Financials	**15.7%**	**Overweight**	**US**
Banks	7.4%	Overweight	Europe
Financial Services	5.3%	Overweight	US
Insurance	3.1%	Overweight ↑	US
Real Estate	**2.8%**	**Neutral**	**Japan**
Technology	**23.0%**	**Neutral**	**EM**
Telecommunications	**3.4%**	**Underweight**	**US**
Utilities	**3.4%**	**Neutral**	**US**

Notes: Arrows indicate latest changes in allocations versus the previous edition. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy.

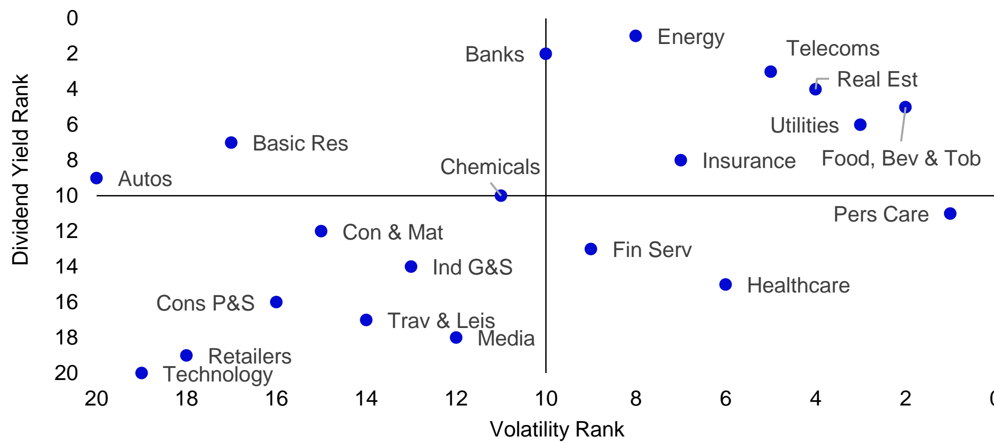
Figure 7 – Economic cycle and main sector allocation decisions



Note: The chart shows our opinion about which sectors tend to perform best at which stage of the economic cycle, based on our analysis of previous cycles.
Source: Invesco Global Market Strategy Office

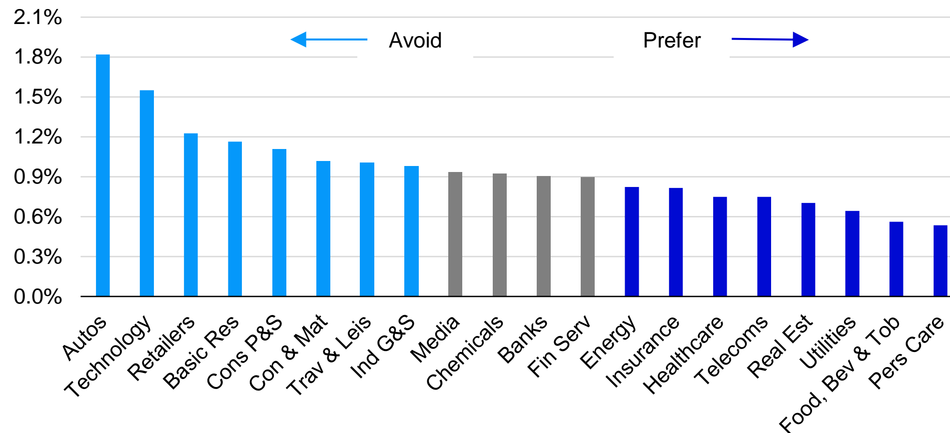
Systematic strategy – Global

Figure 8 – Global sectors ranked by volatility and dividend yield



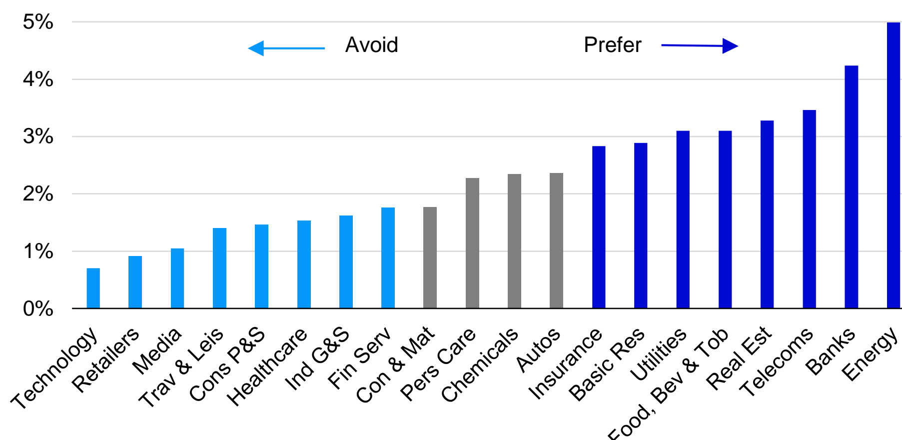
- A purely systematic approach would favour sectors in the top right corner: real estate, food, beverage & tobacco and utilities.
- The approach would avoid sectors in the bottom left, such as technology and retailers.

Figure 9 – Global sector volatility of daily returns (using standard deviation in the past 3 months)



- The daily returns of autos, technology and retailers were the most volatile in the past 3 months.
- Personal care, food, beverage & tobacco and utilities were the least volatile.

Figure 10 – Global sector dividend yield (12-month trailing)

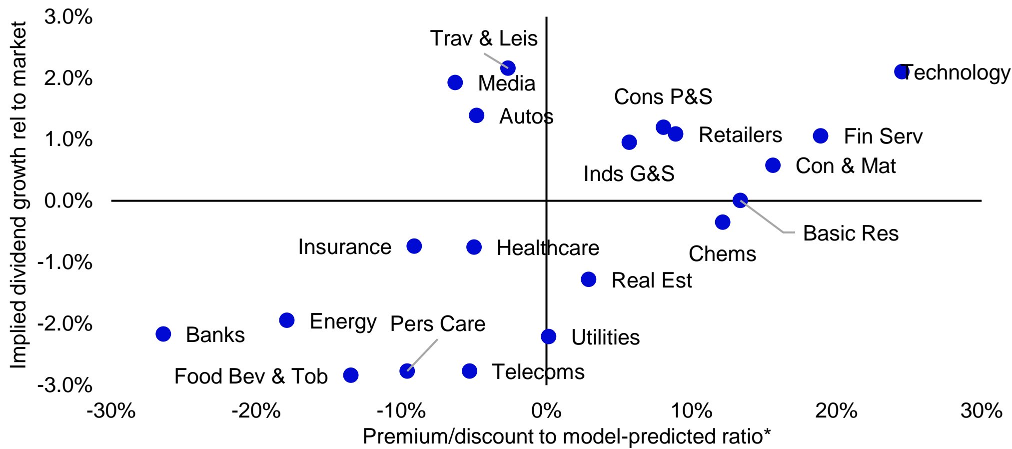


- Energy, banks and telecoms look the cheapest based on their dividend yield.
- The lowest yielding sectors include technology, retailers and media.

Notes: In Figure 6, we rank sectors on the vertical axis by their current 12-month trailing dividend yields. On the horizontal axis, the sectors are ranked by the 3-month standard deviation of their daily returns. See appendices for methodology and disclaimers. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time.
Source: LSEG Datastream and Invesco Global Market Strategy Office

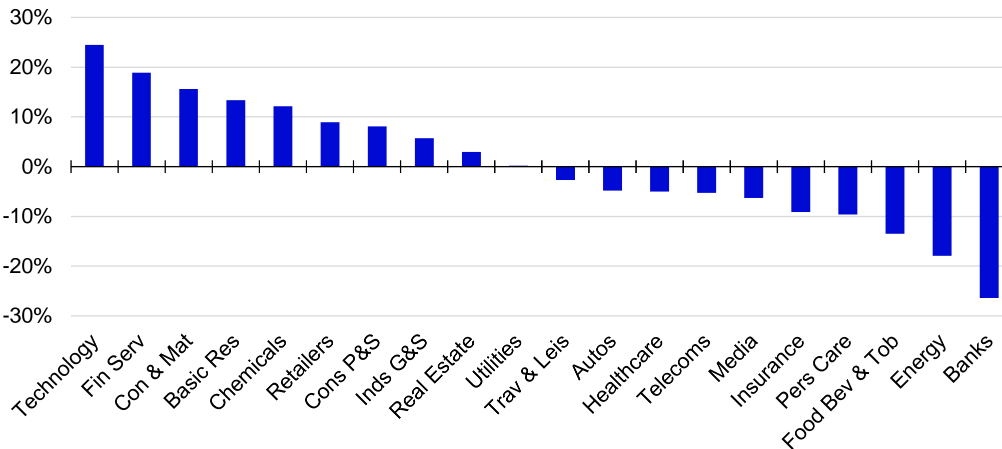
Valuations – Global

Figure 11 – Global sectors valuation matrix



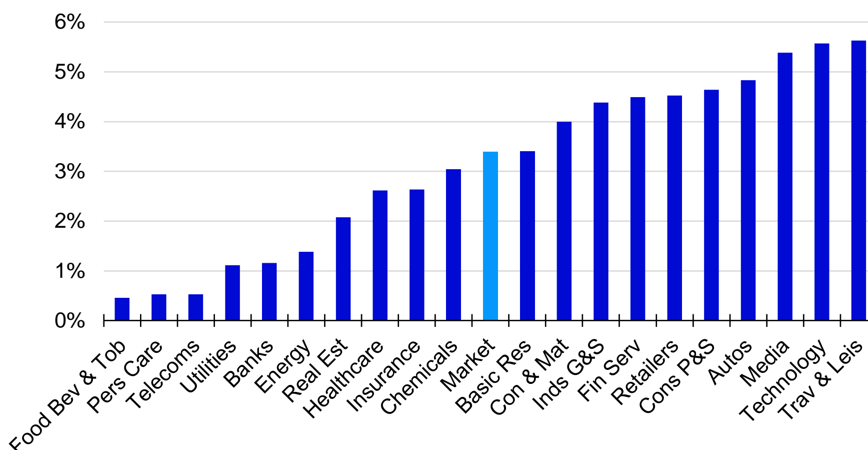
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, tech, financial services and construction.
- Banks, personal care and energy look better value

Figure 12 – Premium/discount to model-predicted ratio*



- Technology, financial services and construction look the most overvalued versus our model
- Banks, energy and food, beverage & tobacco seem the most undervalued versus our model-predicted ratios

Figure 13 – Global implied perpetual real dividend growth

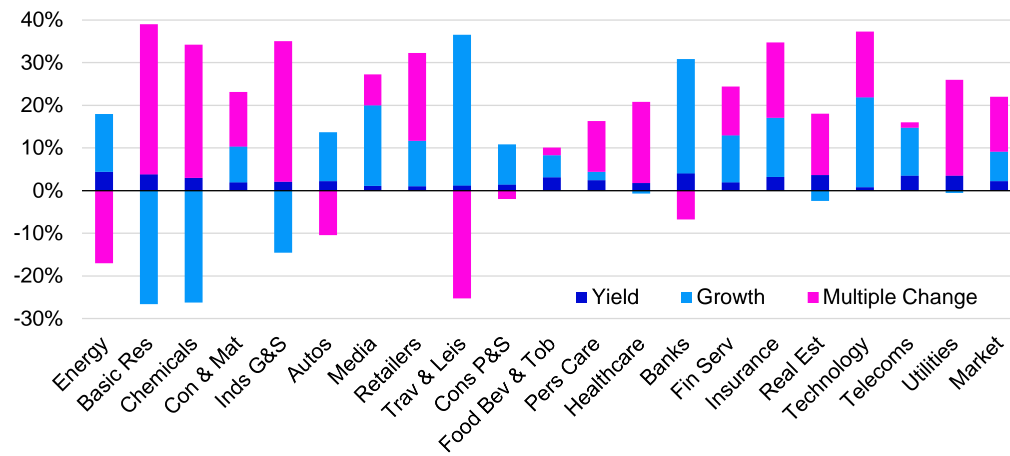


- Shows the future real growth required to justify current prices
- Travel & leisure, technology, and media appear priced for over 5% real growth in dividends (expensive)
- Only three defensive sectors seem priced for sub-1% growth (cheap)

Notes: *% above/below using dividend yield. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

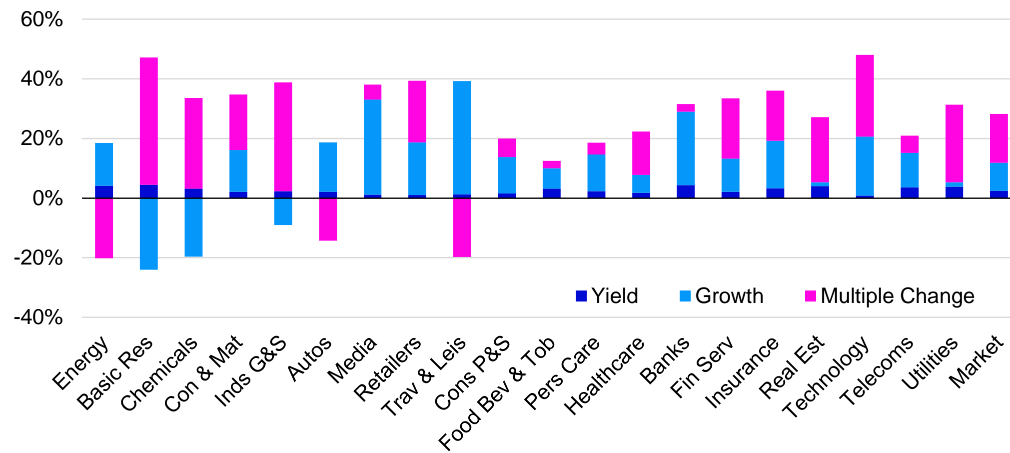
Decomposed returns – Global

Figure 14 – Global year-to-date total returns decomposed (annualised)



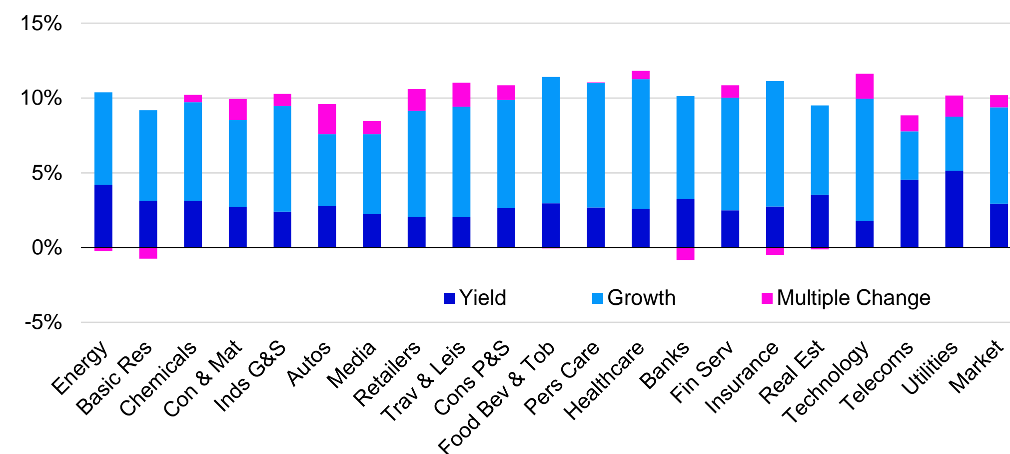
- Only five sectors had multiple contraction: energy, autos, travel & leisure, consumer products & services and banks.
- Four sectors had over 10% dividend growth: media, travel & leisure, banks and technology.

Figure 15 – Global rolling 12-month total returns decomposed



- Every sector had positive total returns, except for energy.
- Three sectors had a yield above 4%: energy, basic resources and banks.

Figure 16 – Global overall total returns decomposed (annualised, since 1973)



- Growth and yield drive long-term returns
- Growth is the most important, except for telcos and utilities
- Six sectors suffered from a multiple-related performance drag: energy, basic resources, food & bev, banks, insurance and real estate

Notes: See appendices for methodology and disclaimers. Past performance is not a guarantee of future results.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendices

Appendix 1: Coefficients for variables used in multiple regression model

Figure 17 – Regression coefficients of Global defensive sectors

	Food, Bev & Tobacco	Personal Care	Health Care	Telecoms	Utilities	Market
Real Oil		-0.20			0.42	
Real Copper		0.01	0.00	0.02	-0.01	
Consumer Confidence	0.00		0.00	0.00	0.00	-0.01
Manufacturing Confidence		0.00	0.01	0.01		
IP		0.55	1.13	-0.58	2.52	-5.12
10y Yield			1.84	-5.61	10.69	-11.46
CPI	3.82		-2.88	-1.86	-7.64	3.78
Net Debt/EBITDA		0.07		0.11		
ROE	-2.55	-1.15	0.94	0.95	-4.84	

Notes: IP = industrial production. CPI = consumer price index. EBITDA = earnings before interest, taxes, depreciation and amortization. ROE = return on equity. Bev = beverage. Only showing coefficients that have a statistically significant relationship with valuations at the 0.05 level. We use the dividend yield relative to market as our dependent variable. See the Methodology in Appendix 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 18 – Regression coefficients of Global resource-related and industrial sectors

	Energy	Basic Resources	Chemicals	Construction & Materials	Industrial G&S	Market
Real Oil	-2.03	-0.91				
Real Copper	0.02	-0.01	0.00	-0.01	0.00	
Consumer Confidence	0.01	0.01	0.01	0.00		-0.01
Manufacturing Confidence		-0.02	-0.01	-0.01	-0.01	
IP	-2.22		-0.85	1.36	0.24	-5.12
10y Yield		-8.23		2.31	0.47	-11.46
CPI	12.42	29.54	7.42	6.50	0.91	3.78
Net Debt/EBITDA	-0.18	-0.12	0.06	0.24		
ROE	-3.40	-2.40	-1.39	-0.96		

Notes: IP = industrial production. CPI = consumer price index. EBITDA = earnings before interest, taxes, depreciation and amortization. ROE = return on equity. G&S = goods & services. Only showing coefficients that have a statistically significant relationship with valuations at the 0.05 level. We use the dividend yield relative to market as our dependent variable. See the Methodology in Appendix 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 19 – Regression coefficients of Global consumer discretionary and technology sectors

	Autos & Parts	Media	Retail	Travel & Leisure	Cons P&S	Tech	Market
Real Oil	1.03		0.27	0.49	0.99	0.41	
Real Copper	-0.01		0.00	0.00	-0.01		
Consumer Confidence	0.01	0.00	0.00	0.00	0.00	0.00	-0.01
Manufacturing Confidence			0.00	0.00		0.01	
IP	-3.26		0.99	-0.44	0.73	-1.71	-5.12
10y Yield	3.73	6.30	2.03	-1.08	5.08	-1.94	-11.46
CPI	-1.68	-5.78	-4.57	-3.21	-4.04	-2.71	3.78
Net Debt/EBITDA	-0.06	0.04	0.23		-0.23	0.09	
ROE		1.43		0.61	-2.46	0.52	

Notes: IP = industrial production. CPI = consumer price index. EBITDA = earnings before interest, taxes, depreciation and amortization. ROE = return on equity. Cons = consumer. P&S = products & services. Only showing coefficients that have a statistically significant relationship with valuations at the 0.05 level. We use the dividend yield relative to market as our dependent variable. See the Methodology in Appendix 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

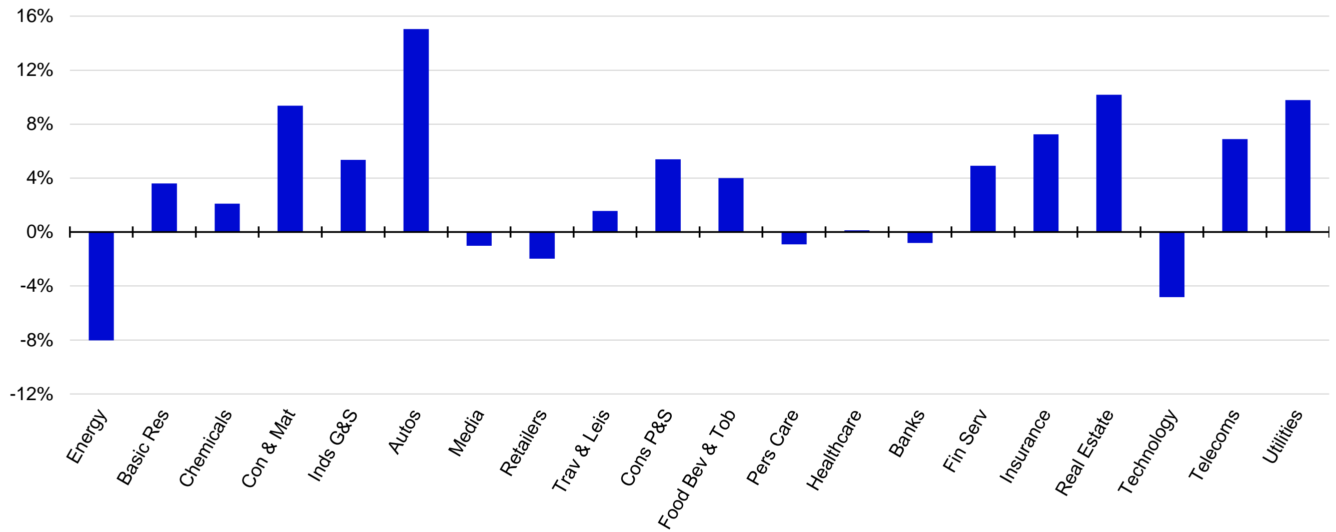
Figure 20 – Regression coefficients of Global financial sectors

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil			-0.51	0.55	
Real Copper	-0.01	-0.01	0.01	-0.02	
Consumer Confidence	0.01	0.00	0.00	0.01	-0.01
Manufacturing Confidence	-0.01	-0.02		-0.03	
IP	-2.72	1.80		3.72	-5.12
10y Yield	-8.10		-5.50	2.51	-11.46
CPI	6.20		9.89		3.78
ROE	4.08	0.66	-1.11	-3.38	

Notes: IP = industrial production. CPI = consumer price index. EBITDA = earnings before interest, taxes, depreciation and amortization. ROE = return on equity. Only showing coefficients that have a statistically significant relationship with valuations at the 0.05 level. We use the dividend yield relative to market as our dependent variable. See the Methodology in Appendix 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

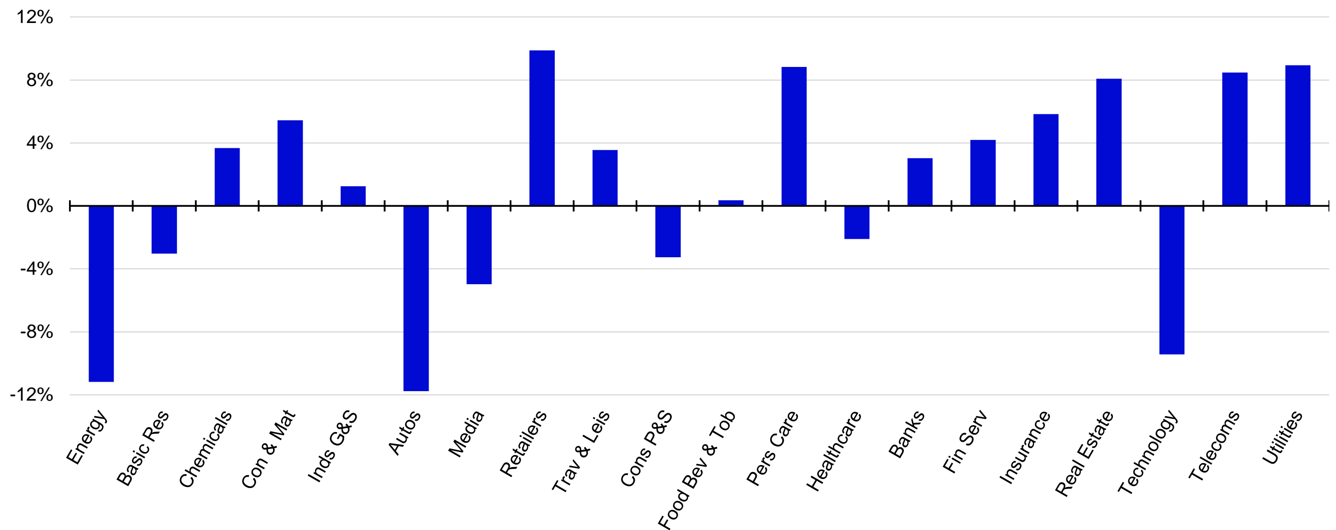
Appendix 2: Sector returns by region

Figure 21 – 3m US sector returns relative to market



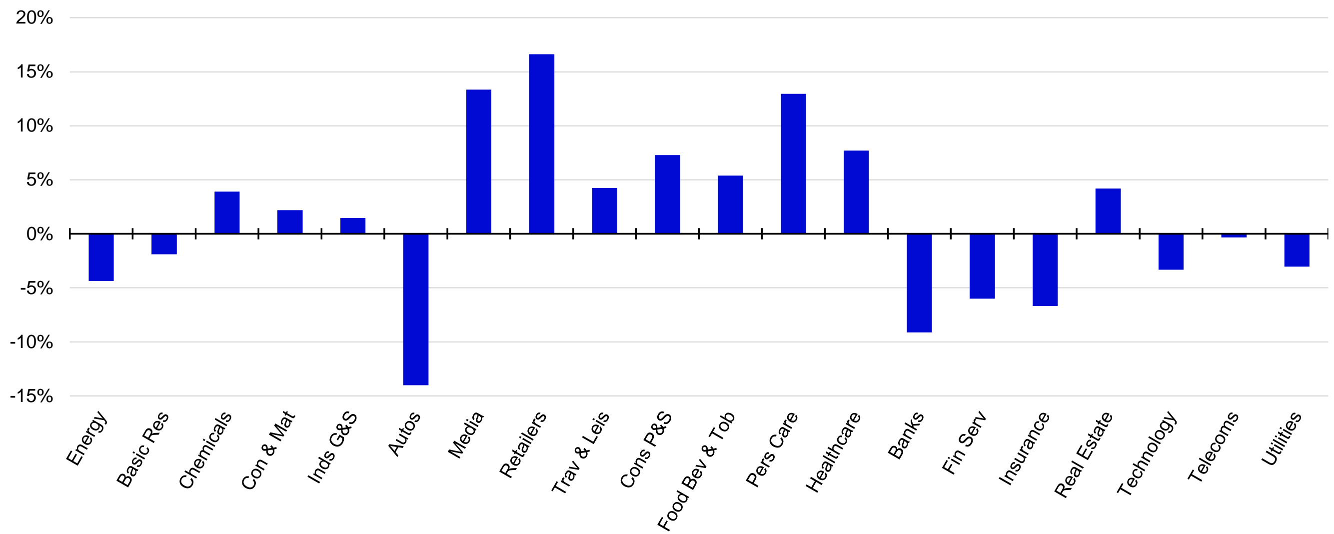
Notes: See appendices for methodology and disclaimers. Returns shown between 30 June 2024 and 30 September 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 22 – 3m European sector returns relative to market



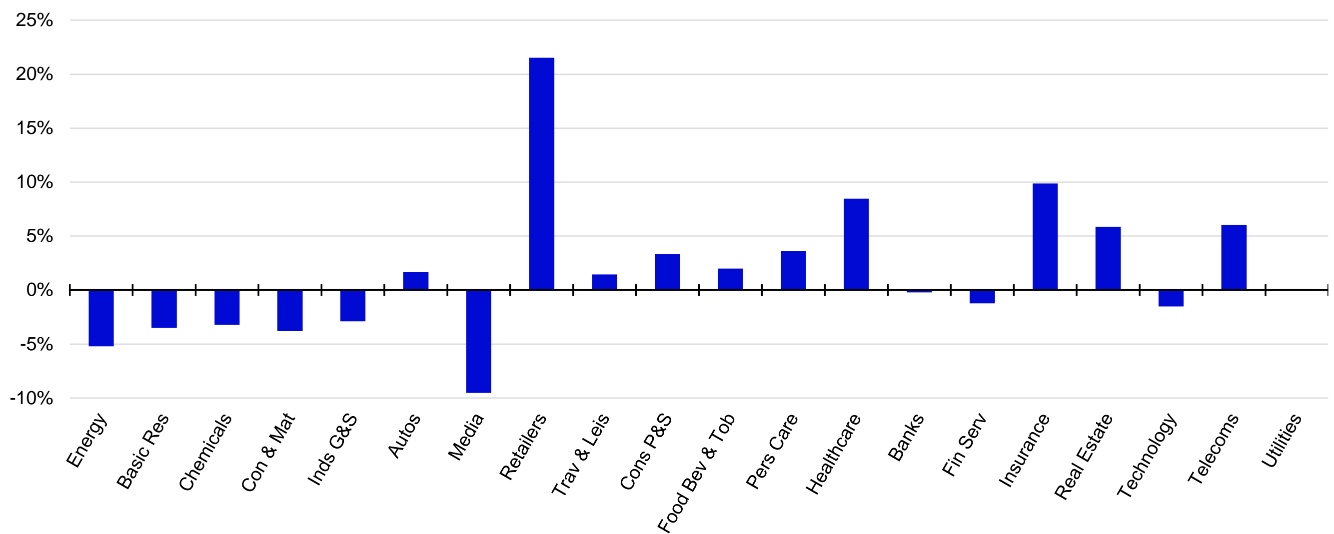
Notes: See appendices for methodology and disclaimers. Returns shown between 30 June 2024 and 30 September 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 23 – 3m Japanese sector returns relative to market



Notes: See appendices for methodology and disclaimers. Returns shown between 30 June 2024 and 30 September 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 24 – 3m Emerging Market sector returns relative to market



Notes: See appendices for methodology and disclaimers. Returns shown between 30 June 2024 and 30 September 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 3: Valuations tables

Figure 25 – Global absolute valuations

	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	**12.4**	**14.5**	**-0.3**	**5.0**	**3.9**	**1.0**	**1.4**	**1.8**	**-0.7**	**6.5**	**6.3**	**0.1**
Basic Materials	**22.0**	**16.7**	**1.1**	**2.7**	**2.8**	**-0.1**	**1.9**	**1.8**	**0.4**	**9.8**	**7.4**	**1.4**
Basic Resources	19.4	16.8	0.4	2.9	2.9	0.0	1.8	1.7	0.3	8.5	7.2	0.6
Chemicals	27.7	17.2	2.0	2.3	2.9	-0.6	2.2	2.0	0.6	12.5	7.9	2.7
Industrials	**22.4**	**18.2**	**0.9**	**1.6**	**2.3**	**-0.9**	**3.1**	**2.2**	**2.1**	**13.8**	**9.2**	**2.5**
Construction & Mat.	20.9	16.7	1.0	1.8	2.5	-1.2	2.6	1.7	2.1	12.4	9.1	1.3
Industrial G&S	22.6	18.7	0.8	1.6	2.2	-0.8	3.2	2.3	2.0	14.0	9.3	2.5
Consumer Disc.	**21.7**	**18.8**	**0.5**	**1.4**	**2.2**	**-1.0**	**3.5**	**2.2**	**2.5**	**11.6**	**8.6**	**1.7**
Automobiles & Parts	11.3	15.0	-0.5	2.4	2.6	-0.2	1.4	1.5	-0.3	6.0	5.5	0.5
Media	29.3	21.8	1.0	1.1	2.0	-1.2	2.8	2.5	0.4	12.0	9.6	0.6
Retailers	31.2	21.6	1.5	0.9	1.8	-1.2	7.8	3.5	1.8	16.7	13.2	1.0
Travel & Leisure	20.2	23.3	-0.3	1.4	1.8	-0.5	6.0	2.7	3.3	10.6	9.4	0.3
Consumer Prod & Serv	24.6	19.4	1.1	1.5	2.4	-1.3	3.8	2.2	2.3	15.2	10.9	1.6
Consumer Staples	**22.5**	**16.9**	**1.1**	**2.8**	**2.5**	**0.3**	**3.2**	**2.8**	**0.6**	**12.4**	**10.9**	**0.6**
Food, Bev & Tobacco	21.6	18.4	0.7	3.1	2.7	0.5	3.0	2.7	0.4	12.6	11.1	0.6
Personal Care	24.3	20.5	0.7	2.3	2.4	-0.2	3.8	3.0	0.9	12.2	10.5	0.7
Healthcare	**34.2**	**20.4**	**2.3**	**1.5**	**2.3**	**-1.0**	**4.5**	**3.4**	**1.0**	**19.7**	**12.9**	**1.8**
Financials	**12.8**	**15.5**	**-0.6**	**3.1**	**2.7**	**0.5**	**1.0**	**1.4**	**-0.9**	**7.8**	**5.8**	**1.4**
Banks	9.9	14.2	-0.9	4.2	3.0	1.4	1.1	1.3	-0.5	6.1	6.2	-0.1
Financial Services	19.9	18.2	0.3	1.8	2.3	-0.8	0.7	1.4	-1.3	16.3	9.3	3.2
Insurance	14.0	15.9	-0.4	2.8	2.5	0.4	2.0	1.7	0.5	6.3	3.8	2.5
Real Estate	26.8	19.2	1.3	3.3	3.3	0.0	1.4	1.4	-0.1	16.0	13.8	0.8
Technology	**36.1**	**24.5**	**1.1**	**0.7**	**1.6**	**-0.9**	**8.4**	**3.3**	**3.8**	**25.9**	**12.1**	**3.0**
Telecommunications	**19.0**	**17.3**	**0.2**	**3.5**	**4.2**	**-0.4**	**2.0**	**2.6**	**-0.5**	**5.9**	**6.1**	**-0.1**
Utilities	**18.8**	**14.6**	**1.1**	**3.0**	**4.8**	**-1.0**	**2.0**	**1.6**	**1.3**	**8.3**	**5.7**	**1.8**
Market	**21.1**	**17.2**	**0.8**	**2.1**	**2.7**	**-0.7**	**2.4**	**2.0**	**0.8**	**11.8**	**7.9**	**2.3**

Notes: *in standard deviations from historical average. Mat. = materials. G&S = goods & services. Disc. = discretionary. Prod & Serv = products & services. Bev = beverage. Data starts on 1st January 1973 for price/earnings and dividend yield and 1st January 1980 for price/book and price/cash flow. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

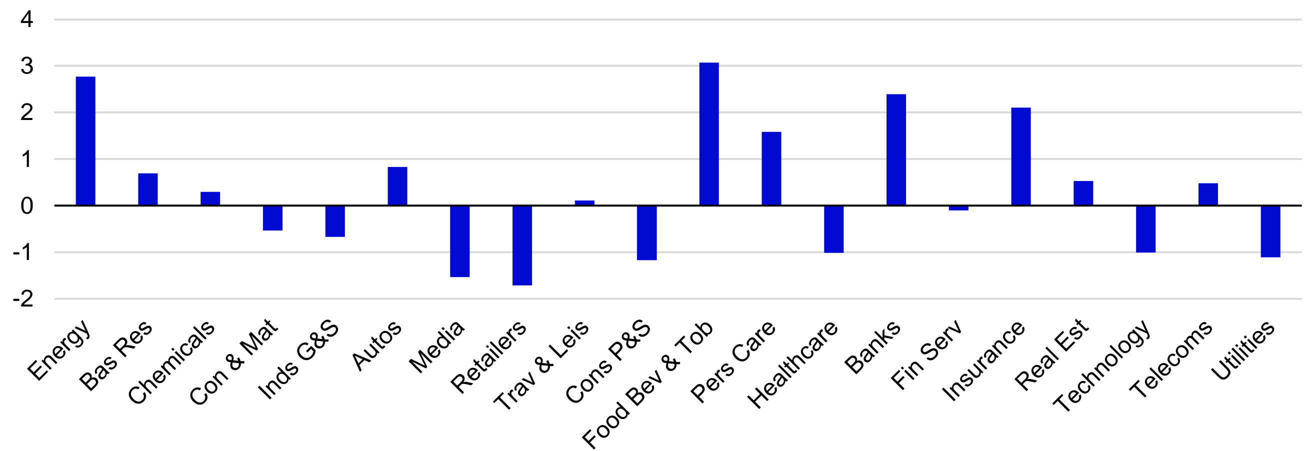
Figure 26 – Global cyclically-adjusted valuations

	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	**16.0**	**18.6**	**-0.3**	**3.9**	**2.9**	**1.0**	**1.6**	**2.6**	**-0.9**	**7.1**	**8.5**	**-0.5**
Basic Materials	**19.6**	**23.0**	**-0.5**	**2.5**	**1.9**	**1.0**	**2.0**	**2.3**	**-0.4**	**9.4**	**9.8**	**-0.2**
Basic Resources	18.9	21.3	-0.3	2.6	2.2	0.6	1.9	2.2	-0.2	8.7	9.2	-0.2
Chemicals	20.7	24.2	-0.7	2.3	1.9	0.9	2.2	2.7	-0.9	10.7	10.8	0.0
Industrials	**28.9**	**26.5**	**0.4**	**1.3**	**1.5**	**-0.5**	**3.6**	**3.1**	**1.0**	**16.1**	**12.9**	**1.4**
Construction & Mat.	27.6	23.9	0.4	1.4	1.9	-0.8	2.8	2.2	0.8	14.7	11.7	0.8
Industrial G&S	29.1	27.3	0.3	1.3	1.4	-0.4	3.8	3.1	1.2	16.4	12.7	1.7
Consumer Disc.	**29.2**	**27.0**	**0.4**	**1.1**	**1.4**	**-0.9**	**3.8**	**3.0**	**1.7**	**14.5**	**11.8**	**1.4**
Automobiles & Parts	16.0	18.8	-0.7	1.7	1.7	0.0	1.6	2.0	-1.1	7.3	6.7	0.4
Media	28.5	29.8	-0.2	1.1	1.4	-1.0	3.6	3.4	0.2	14.5	13.1	0.4
Retailers	44.5	32.4	1.9	0.8	1.1	-1.3	7.9	4.9	2.9	23.1	19.9	0.7
Travel & Leisure	27.1	33.7	-0.7	1.2	1.2	0.1	4.5	3.5	1.0	13.7	13.1	0.2
Consumer Prod & Serv	30.2	28.6	0.3	1.3	1.6	-0.9	4.3	3.1	2.0	17.8	15.5	1.0
Consumer Staples	**22.3**	**22.5**	**-0.1**	**2.2**	**1.7**	**1.4**	**3.6**	**3.8**	**-0.4**	**14.6**	**14.6**	**0.0**
Food, Bev & Tobacco	25.0	28.1	-0.7	2.3	1.6	1.7	3.4	4.1	-1.4	15.0	16.3	-0.7
Personal Care	27.6	31.3	-0.6	1.9	1.5	1.1	4.1	4.6	-0.6	14.0	16.1	-0.8
Healthcare	**37.4**	**31.7**	**1.0**	**1.2**	**1.4**	**-0.6**	**5.5**	**5.2**	**0.3**	**21.8**	**19.6**	**0.7**
Financials	**17.8**	**23.1**	**-0.5**	**2.2**	**2.0**	**0.2**	**1.3**	**1.9**	**-0.9**	**8.6**	**7.4**	**0.8**
Banks	13.8	20.5	-0.7	2.9	2.3	0.5	1.2	1.7	-0.8	7.2	7.8	-0.3
Financial Services	25.2	29.1	-0.2	1.3	1.5	-0.4	1.0	1.9	-1.3	17.3	11.7	2.3
Insurance	21.4	23.6	-0.2	1.9	1.7	0.4	2.1	2.4	-0.3	5.7	4.9	0.8
Real Estate	16.0	25.9	-0.7	3.4	2.6	0.9	1.4	1.8	-0.8	15.3	17.0	-0.4
Technology	**57.2**	**39.3**	**0.8**	**0.5**	**0.9**	**-0.9**	**11.0**	**5.2**	**2.2**	**35.8**	**19.5**	**1.7**
Telecommunications	**17.5**	**22.6**	**-0.5**	**3.5**	**3.1**	**0.3**	**2.1**	**3.3**	**-0.9**	**5.8**	**7.6**	**-0.6**
Utilities	**22.6**	**18.6**	**0.9**	**2.7**	**3.5**	**-0.9**	**2.1**	**2.0**	**0.3**	**8.9**	**7.0**	**1.5**
Market	**26.5**	**24.7**	**0.3**	**1.6**	**1.8**	**-0.4**	**2.8**	**2.8**	**0.0**	**13.5**	**10.8**	**1.5**

Notes: *in standard deviations from historical average. Mat. = materials. G&S = goods & services. Disc. = discretionary. Prod & Serv = products & services. Bev = beverage. Data starts on 1st January 1983 for price/earnings and dividend yield and 1st January 1990 for price/book and price/cash flow. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

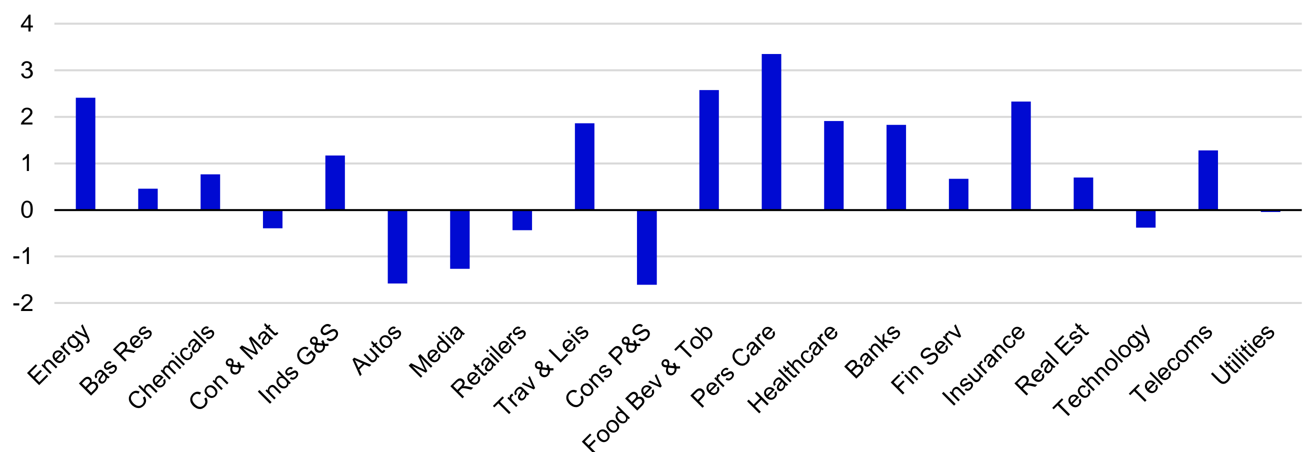
Appendix 4: Sector valuations by region

Figure 27 – Global dividend yields relative to market (z-score)



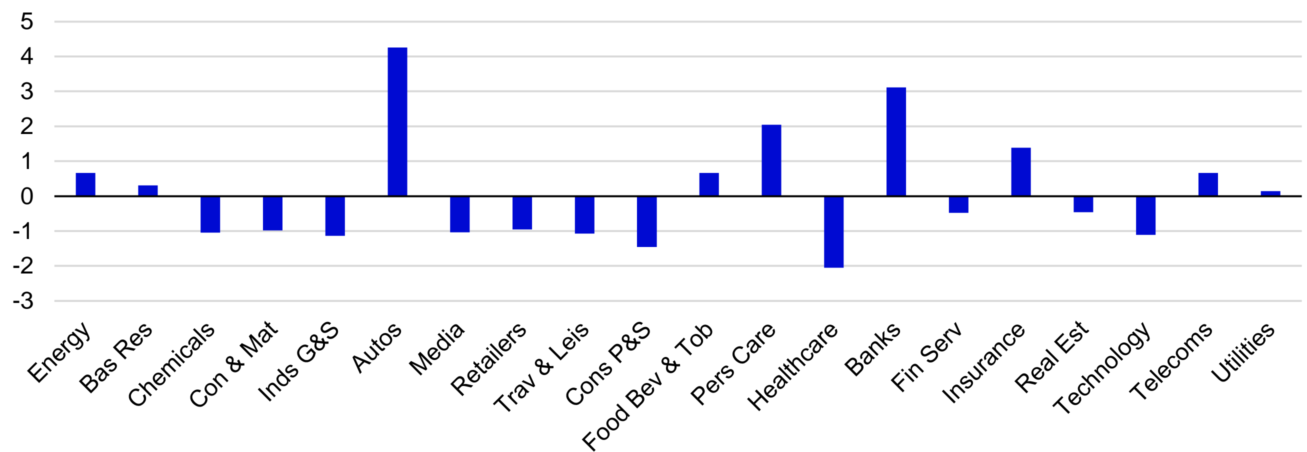
Notes: Data as of 30 September 2024. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 28 – US dividend yields relative to local benchmark (z-score)



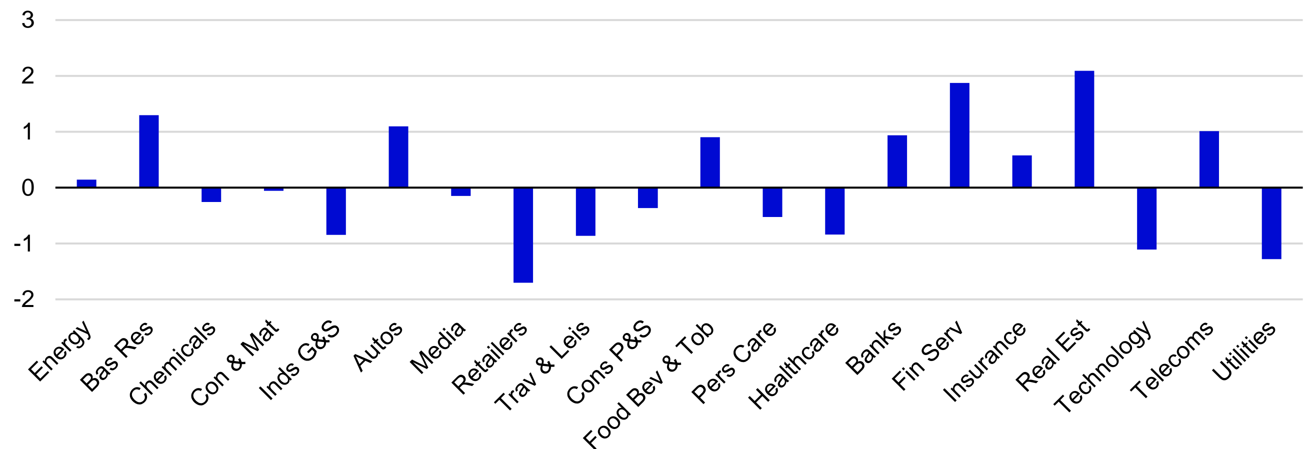
Notes: Data as of 30 September 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 29 – Europe dividend yields relative to local benchmark (z-score)



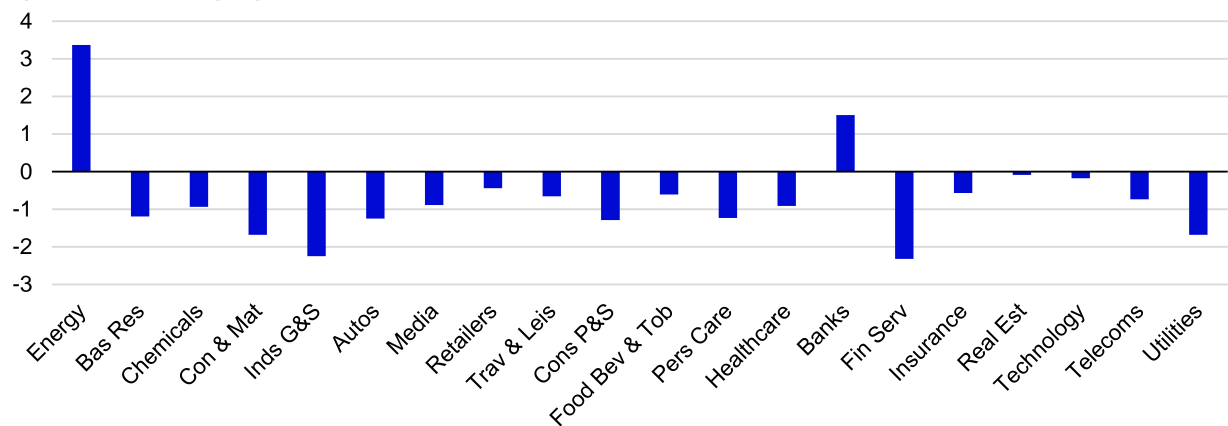
Notes: Data as of 30 September 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 30 – Japan dividend yields relative to local benchmark (z-score)



Notes: Data as of 30 September 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream Japan Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 31 – Emerging markets dividend yields relative to local benchmark (z-score)



Notes: Data as of 30 September 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream Emerging Markets Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 4: Performance tables

Figure 32 – Global equity sector total returns relative to market

Data as at 30/09/2024	Global				
	3m	**YTD**	**12m**	**5y***	**10y***
Energy	**-7.5**	**-13.6**	**-23.3**	**-5.2**	**-6.8**
Basic Materials	**0.7**	**-7.7**	**-7.4**	**0.5**	**-1.2**
Basic Resources	0.6	-6.6	-4.5	3.9	-0.3
Chemicals	0.9	-9.3	-11.5	-3.7	-2.8
Industrials	**3.3**	**-0.9**	**1.5**	**-0.5**	**0.2**
Construction & Materials	4.5	0.7	5.2	1.6	-0.6
Industrial Goods & Services	3.1	-1.1	1.0	-0.7	0.4
Consumer Discretionary	**0.8**	**-2.9**	**-3.0**	**-2.4**	**-0.6**
Automobiles & Parts	-0.6	-12.1	-18.6	1.1	-2.0
Media	-2.0	3.3	7.6	-5.0	-2.7
Retailers	1.1	6.6	8.6	-0.4	1.6
Travel & Leisure	2.0	-6.9	-6.8	-6.9	-3.0
Consumer Products & Services	1.6	-8.5	-6.6	-2.3	0.1
Consumer Staples	**3.0**	**-6.2**	**-10.6**	**-5.8**	**-3.0**
Food, Beverage & Tobacco	2.8	-7.6	-12.3	-6.3	-3.6
Personal Care, Drug & Grocery Stores	3.4	-3.6	-7.4	-6.1	-2.7
Healthcare	**0.4**	**-1.3**	**-4.7**	**-0.5**	**0.0**
Financials	**2.6**	**2.9**	**4.1**	**-0.4**	**-0.7**
Banks	0.5	1.7	3.2	-1.8	-2.7
Financial Services	3.7	1.6	4.1	1.4	1.9
Insurance	6.3	8.4	6.4	0.8	0.9
Real Estate	**9.0**	**-4.0**	**-0.6**	**-8.4**	**-3.9**
Technology	**-4.7**	**9.8**	**15.3**	**10.2**	**8.9**
Telecommunications	**1.6**	**-3.7**	**-5.5**	**-5.0**	**-4.6**
Utilities	**5.6**	**2.3**	**2.6**	**-2.7**	**-1.4**

Notes: *showing annualised returns. Returns shown are for Datastream sector indices versus the total market index. **Past performance is no guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 5: Methodology

Multiple regression analysis

We have run a multiple regression analysis to examine how macroeconomic factors influence sector valuations. We have used the dividend yield relative to market as the dependent variable and have run the regressions with the following independent variables:

Monthly series since 31/01/1991:

- **1-year change in:** industrial production, consumer price index
- **The level of:** real oil price (US CPI adjusted), real copper price (US CPI adjusted), consumer confidence index, manufacturing confidence index, 10-year benchmark government bond yield, net debt/EBITDA (only for non-financial sectors), return on equity

We calculate a global measure of industrial production growth, consumer price index growth, consumer confidence, manufacturing confidence and government bond yields using data from four regions or countries representing 65% of global Gross Domestic Product: United States, Europe, Japan and China. The global measures are weighted averages using Datastream global index market capitalisations as weights.

This analysis shows us which independent variables have a statistically significant relationship with sector valuation ratios. In addition, the regression coefficients tell us how much each independent variable influences those ratios. Finally, we use those coefficients to calculate what the valuation ratios should be, based on the model, and compare them to currently observed valuations. In theory, this allows us to determine whether a sector is undervalued or overvalued based on the macroeconomic factors we have used.

Sector classification

We use the Industry Classification Benchmark (ICB).

Leverage and profitability ratios

We calculate Net Debt/EBITDA from sector and market level aggregates supplied by LSEG Datastream. They define Net Debt as Total Debt minus Cash, where Cash represents Cash & Due from Banks for Banks, Cash for Insurance companies and Cash & Short Term Investments for all other industries. We tend to exclude Financials from Net Debt/EBITDA comparisons for it is difficult to distinguish debt they sell as a product and debt they incur during the operation of the business. In addition, LSEG Datastream define EBITDA – Earnings before Interest, Taxes and Depreciation – as the earnings of a company before interest expense, income taxes and depreciation. It is calculated by taking the pre-tax income and adding back interest expense on debt and depreciation, depletion and amortisation and subtracting interest capitalised.

Decomposed returns

We break down total returns into 3 components to examine what has driven sector performance year-to-date, in the last 12 months and for the whole history of the index. “Yield” shows the income investors received from dividends paid during the period concerned. “Growth” shows the rate of dividend growth, calculated using the percentage change in dividend per share (DPS) values for the sector indices. DPS is calculated as dividend yield times the price index. “Multiple Change” refers to the change in dividend yield between the two periods indicated, plus the change in dividend yield times dividend growth. We use it to measure investor expectations and sentiment regarding the sectors.

Implied perpetual growth models
A valuation cross-check is sought by calculating the perpetual real growth in dividends required to justify current prices. This then allows an evaluation of whether those implied growth rates are realistic.

We use a simple perpetual growth model to calculate implied growth. If Price = Dividend/(Discount Factor - Growth), then Growth = Discount Factor – Dividend Yield. The Discount Factor is equal to Risk Free Rate + (Beta x Market Risk Premium). Everything is expressed in real terms to eliminate the distorting influence of inflation, the output being growth in real terms. The important ingredients are derived as follows:

- The risk-free rate is an equity market capitalisation weighted average of US, UK, Eurozone, Japanese and Chinese 10-year real yields.
- Sector betas are calculated using five years of weekly price movements relative to the global market index.
- The risk premium is derived from US equity and treasury market returns since 1871.
- The dividend yield for each sector is the 12-month trailing yield calculated by Datastream.

Sector allocations
We start by considering where the equity markets are in their respective economic cycles, which determines whether cyclical or defensive sectors are more likely to outperform. Our preferred measure of cyclical sensitivity is beta. Sector betas are calculated using five years of weekly price movements relative to the local market index.

Next, we refine our decisions by looking at how sector yields relative to the market relate to the ratio calculated by our multiple regression model and how much dividend growth is implied in current trailing 12-month dividend yields relative to market.

Finally, we rank sectors by their recent volatility, using the standard deviation of daily returns for the three months before our cut-off date. After that we rank sectors by their 12-month trailing dividend yield. Based on our thematic report about sector strategies, Sector strategies: Control your volatility, combining these approaches provided the best cost-adjusted and risk-adjusted returns in the US, and was among the best in cost-adjusted returns in Europe.

An investment decision is the result of balancing a range of factors and the weightings applied to those factors can vary across time and sectors. “Overweight” suggests that we prefer to hold more of the given sector than suggested by the market capitalisation-weighted “neutral” position. “Underweight” suggests we prefer to hold less of the given sector than suggested by the market capitalisation-weighted “neutral” position. “Neutral” suggests a holding in line with the market capitalisation-weighted benchmark.

Preferred regions
We measure sector valuations relative to their respective local benchmarks in the United States, Europe, Japan and Emerging Markets. We calculate a z-score comparing the latest relative dividend yield to its historical average, which gives us a standardised way to measure how far valuations are from those averages in each region. Our normal preference would be for the cheapest region based on this measure, but we also take into account thematic and other fundamental considerations.

Appendix 6: Abbreviations

Changes in allocations on the front page: OW = Overweight, N = Neutral, UW = Underweight

Sector name abbreviations:

Autos = Automobiles & parts
Basic Res = Basic Resources
Chem = Chemicals
Con & Mat = Construction & Materials
Cons P&S = Consumer Products & Services
Fin Serv = Financial Services
Food, Bev & Tob = Food, Beverage & Tobacco
Ind G&S = Industrial Goods & Services
Pers Care = Personal Care, Drug & Grocery Stores
Pers & Hh Gds = Personal & Household Goods
Real Est = Real Estate
Tech = Technology
Telecoms = Telecommunications
Trav & Leis = Travel & Leisure

Appendix 7: Definitions of data and benchmarks

Sources: we source data from LSEG Datastream unless otherwise indicated.

Government bonds (Figure 3): Current values use LSEG Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK and the Thomson Reuters China benchmark 10-year yield for China.

Value sectors: stocks or sectors that have low price/book value or price/earnings multiples or high dividend yields. Some of these stocks or sectors may generally trade at a discount compared to the market if investors expect their earnings or dividends to grow at a slower pace than the market. Examples of such sectors are utilities, telecommunications, banks and oil & gas.

Growth sectors: stocks or sectors that have high price/book or price/earnings multiples or low dividend yields, because investors expect them to have high earnings or dividend growth. Examples of these sectors are technology, healthcare and food & beverage.

Defensive sectors: stocks or sectors that have business models that investors consider to be relatively stable throughout the business cycle. We refer to the following sectors as defensive: food & beverage, personal & household goods, healthcare, telecommunications and utilities.

Cyclical sectors: stocks or sectors that have business models that investors consider to be sensitive to the economic cycle. We refer to the following sectors as cyclical: oil & gas, basic resources, chemicals, construction & materials, industrial goods & services, automobiles & parts, media, retail, travel & leisure, banks, financial services, insurance, real estate and technology.

Growth factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio).

Low volatility factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months.

Price momentum factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the top quintile based on their performance in the previous 12 months.

Quality factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value).

Size factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the bottom quintile based on their market value in US dollars for the US and euros for Europe.

Value factor: a subset of the S&P 500 in the US and the Stoxx 600 index in Europe and includes stocks in the bottom quintile based on their price to book value ratios.

Your capital is at risk. You may not get back the amount you invested.

Data as of 30 September 2024 unless stated otherwise. This publication is updated quarterly.

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