

Strategic Sector Selector

Shifting to cyclicals

The strong returns on global equities during Q3 2025 seemingly ignored rising concerns around US growth. However, market leadership stayed narrow with technology and automobiles & parts leading equities higher partly driven by a repricing of US rates. I think the probability of global recession remains a tail risk, although a reacceleration could imply stickier inflation than previously assumed (especially if the impact of tariffs on the US economy spills over into 2026). I think there may be some consolidation after such a strong run, but I see upside in the next 12 months as the global economy moves towards trend growth. With that in mind, I think it is time to reduce the allocation to defensive sectors slightly by downgrading utilities to Neutral. At the same time, I maintain the exposure to cyclicals, but downgrade sectors where valuations may have priced in higher growth and Fed easing, such as technology and basic resources, and upgrade travel & leisure and financial services that have more potential to benefit from improving fundamentals.

Changes in our Model Sector Allocations:

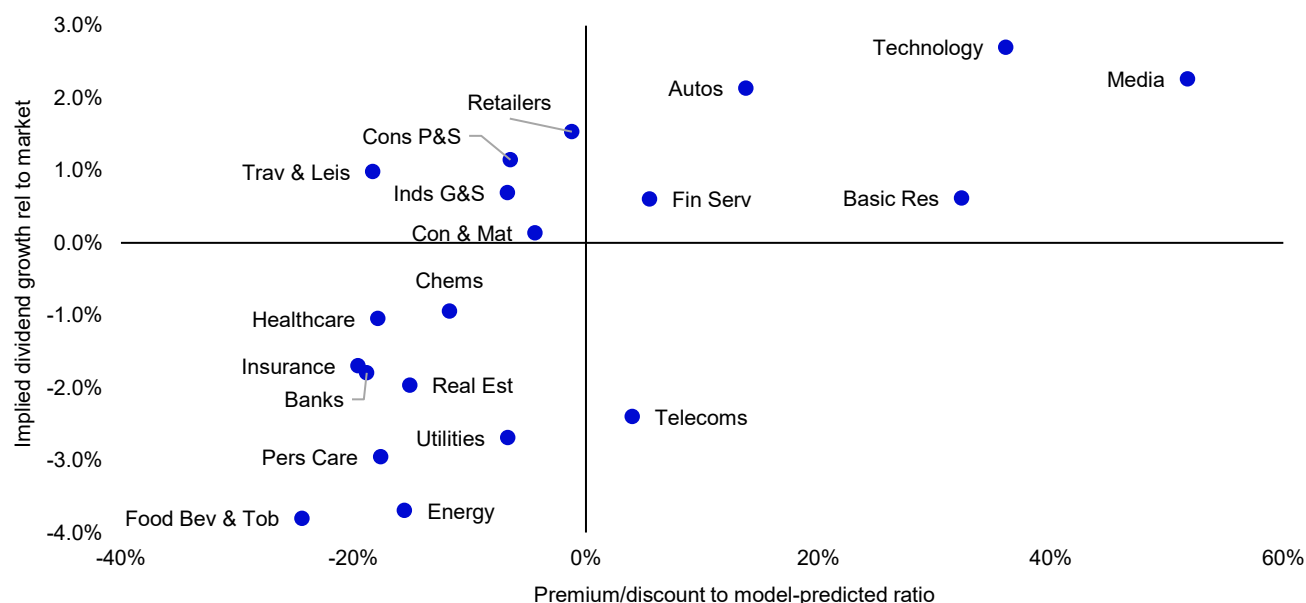
- Upgrades: travel & leisure (UW to OW), financial services (UW to N)
- Downgrades: basic resources, technology (N to UW), utilities (OW to N)

Most favoured	Least favoured
US banks	US media
US energy	European telecommunications

Sectors where we expect the best returns:

- Banks: steepening yield curve, attractive valuations, exposure to potential financial deregulation
- Energy: attractive valuations, exposure to reaccelerating economic growth, improving earnings momentum
- Healthcare: attractive valuations, exposure to growth factor, tariffs impact may be priced in

Figure 1 – Global sectors valuation matrix



Notes: Data as of 30 September 2025. 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 Strategy & Insights

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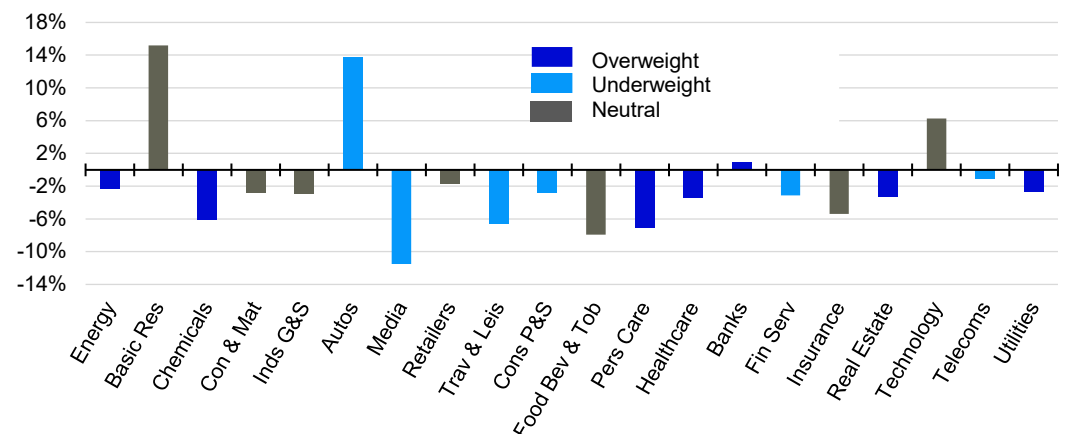
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Summary and conclusions

Since the last time

The slowdown in the US labour market had little noticeable impact on equity returns in Q3 2025. In the end, the MSCI All-Country World index returned 8.1% in local currency terms for the quarter. Tariffs have not yet been disruptive to the US economy, while the repricing of the Fed's policy rate may have boosted the valuations of growth stocks (futures are now more doveish than the Fed's "dot plot"). At the same time, even though tariffs would still be higher than before 2025, stimulus measures in Europe and "green shoots" in China may be enough to keep the global economy in a robust enough shape to weather the impacts.

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



Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. Returns shown between 30 June 2025 and 30 September 2025. Colours indicate allocations in period considered (this is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy). **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

As seems evident in **Figure 2**, the rally remained extremely narrow in Q3 2025 with only three sectors outperforming significantly (by more than 2%): basic resources, automobiles & parts and technology. This suggests to me that AI-related narratives and Fed rate cut expectations dominate the market, which could continue if economic growth slows. I was Neutral two of the outperformers and Underweight autos, while banks was the only Overweight sector in the model sector allocation that outperformed. I can perhaps draw some comfort from the fact that I was Underweight the worst performing sector (media) and most of the Overweights underperformed only mildly.

Changes to model sector allocations

There was no repeat this year of the turmoil in Q3 2024, when weak US labour market data triggered a sharp sell-off in global equities. It seems to me that we are in a good news is good news and bad news is also good news kind of environment. Macroeconomic indicators have remained mixed with weak job growth in the US offset by lower labour supply due to a decrease in immigration, although the economy remains resilient. Tariffs faded out of the headlines somewhat and there has been only tentative evidence of their impact on US inflation.

The main question I am grappling with is how long such a narrow rally can be sustained. In Q3 2025, the technology sector accounted for half of the gains in market value in global equities mainly driven by continued enthusiasm about AI-related capital expenditure. Markets may also have been somewhat de-sensitised to regulatory uncertainty focusing instead on potential policy support. Left alone, I think the global economy could reaccelerate in 2026 despite potentially sticky inflation, although that may result in less monetary policy support than currently expected, especially in the US. Trade barriers may have risen between the US and its trading partners, but supportive

fiscal policy (for example, the “Big Beautiful Bill”) could offset some of that impact for the US, in my view.

Meanwhile, uncertainty around trade policy has not completely diminished, and that could have a slow detrimental effect on corporate investment decisions, chipping away at the trend growth rate of the US economy over the long term. Having said that, I think, we have passed “peak tariff”, thus the risk of recession has receded and the current weak patch evident in some economies may not last long. Nevertheless, the reacceleration in global economic growth that I expect may not be as strong as recent equity returns suggest, even though earnings growth remained strong in Q2 2025 as shown in **Figure 7**.

I continue to expect the next 3-6 months to be tricky for policymakers to navigate as US inflation may pick up reducing real wage growth while the labour market could remain weak. The Fed is likely to continue to ease gradually, and it seems to be prepared to look through a temporary increase in inflation, especially given some weakness in the labour market. However, I think there is a risk that US inflation may stay above target, especially if the impact of higher growth, tariffs and a fiscal boost via tax cuts push prices higher. **Figure 8** shows how global interest rates have followed falling inflation with some lag (mostly due to the Fed) and that is unlikely to change, in my view. At the moment, rate futures are pricing in at least 125bps worth of rate cuts for the Fed, while the Bank of England (BOE) is far behind with 50bps until end-2026 (as of 17 October 2025). On the other hand, the European Central Bank (ECB) and the Bank of Canada (BOC), for example seem to be close to the end of their respective monetary easing cycles, while the Bank of Japan (BoJ) may raise its target rate by 50bps to the end of next year based on market expectations. In any case, this divergence in policy will probably keep the US dollar weak, in my view, which may give Emerging Market central banks more room to become less restrictive as strengthening currencies reduce the inflationary threat somewhat.

What does this mean for my sector allocations? I expect this environment to be broadly supportive of risk assets, even though uncertainty has not completely diminished, while valuations remain rich in some parts of the market. In my view, markets could remain in the mid-cycle stage implying a broadening rally and outperformance by cyclical sectors. Nevertheless, I think that retaining some exposure to defensives could be necessary, even if I expect them to underperform outside pull-backs, unless growth surprises on the downside.

Basic resources has been the best performing sector year-to-date driven by resilience in the global economy and supply disruptions, especially for copper (the closure of the world’s second largest mine, for example). If my expectation of a modest reacceleration of growth plays out, this would imply that the recovery is at least partly priced in. Higher growth may also dampen the rally in gold – and gold miners –, which accounted for about half of the market value gains in the sector in 2025 so far. Valuations also look rich on both of my models implying that there may not be much upside for multiples from current levels. Thus, I downgrade to **Underweight** from Neutral.

A reacceleration in economic growth would be good news for **travel & leisure**, and therefore I upgrade the sector to **Overweight** from Underweight. If real wage growth strengthens, it could potentially raise demand for the experiences the sector provides. At the same time, costs could potentially be contained, as long as there is no sudden increase in oil prices, for example. After a period of looking overvalued based on our multiple regression model, sector valuations look attractive implying that there may be scope for multiple expansion. Forward earnings momentum also looks positive both in the last 3 months and 12 months.

Continued upside in equities and resilient bond markets would be a boon for **financial services**, a sector that tended to outperform in the mid-cycle phase in equity markets. There may be signs of a turnaround in business sentiment after tariff-related uncertainty

dampened the mood, while “green shoots” in the global mergers and acquisitions cycle may finally start strengthening. Deregulation in the US could also boost sector returns. Nevertheless, risks remain, and the sector could underperform if growth turns out weaker than expected or if regulatory uncertainty increases. Valuations no longer seem rich based on our multiple regression model, but they are still above what I would deem “fair value”. Therefore, I only increase the sector to **Neutral** from Underweight in the model sector allocation.

The biggest decision I face every quarter concerns the largest sector (based on market cap): **technology**. After tepid relative returns in H1 2025, the sector outperformed in Q3 pushing valuations to ever higher levels. The sector continues to have the second largest premium based on our multiple regression model, which makes it vulnerable to a turn in sentiment, in my view. I remain positive about the sector’s long-term growth potential, which I think will continue to benefit from increasing investment and be boosted by the focus on generative artificial intelligence. Nevertheless, investors may start demanding proof that those investments in AI are bearing fruit. At the same time, I value the sector’s high margins and solid cash generation, but valuations have become impossible to ignore, thus I downgrade to **Underweight** from Neutral.

I think it is time to cautiously reduce my allocation to defensive sectors, especially if a reacceleration in economic growth boosts the returns of cyclical sectors, thus I downgrade **utilities** to **Neutral** from Overweight. Valuations look close to what I consider “fair value” on my multiple regression model, although remain attractive based on implied dividend growth. Sector earnings are likely to be boosted by investments into power generation by cloud hyper-scalers, but capital expenditure would need to be high to build extra capacity.

The best and worst of the rest

Although we may have reached a pause in the war in the Middle East and a production boost by OPEC+ member states has put downward pressure on oil prices, I retain my **Overweight** allocation to the **energy** sector. Despite all the attention focusing on tariffs and trade, geopolitical conflicts are still simmering in the background (Russian refining capacity has been seriously damaged, for example). I also think that when the current period of uncertainty subsides, oil prices could recover, and I would like to maintain exposure to that. Sector valuations also remain attractive on both of our models, and therefore I think a lot of bad news may have been priced in.

In a nod to the hope of an improving economic environment, I maintain my **Overweight** allocation to **chemicals**. Although I expect weakness in the global economy in the short term, sector valuations suggest at least some of that may have been priced in. It looks attractive on both of my models, which is the main reason I stay positive on the sector. At the same time, with the decline in the prices of energy commodities (both crude oil and natural gas), input costs may decrease, potentially improving margins.

After spending most of the last three years with valuations at a premium on my multiple regression model, **construction & materials** has moved close to what I would deem “fair value”. At the same time, its implied dividend growth rate is close to that of the market and therefore giving me the same signal. Although, I am concerned that higher costs of labour will continue to put pressure on profit margins, I view the sector as a beneficiary of European plans to spend on infrastructure and defence. This seems to be increasingly reflected in forward earnings growth, which may limit upside surprises in the near term, thus I remain **Neutral**.

I am becoming more positive on the prospects of **industrial goods & services** as we may have passed “peak tariff”. Although the planned boost to defence spending may not be enough to counteract short term headwinds, especially in manufacturing industries, I no longer view valuations as a hindrance. The sector may have moved to a slight discount on our multiple regression model, but it is still at a slight premium on implied dividend growth relative to the market. I expect some regional differences in returns, as

Chinese industrial production growth remains strong and fiscal stimulus seems to be limited to Europe, while higher tariffs may weigh on the US including a potential slowdown in consumer spending growth impacting payment providers. Therefore, I stay **Neutral** until there are clearer signs of a reacceleration of global growth.

While it has underperformed year-to-date, **automobiles & parts** still looks above “fair value” versus the relative dividend yield implied by our multiple regression model after being the best performing sector in Q3 2025. Although I consider the sector an early-cyclical and therefore think it can benefit from a reacceleration in economic growth, its long and geographically dispersed supply chains give it full exposure to rising tariffs. Also, I think the sector may only start outperforming when more sustainable drivers are behind its returns, thus I stay **Underweight** for now.

Despite underperforming in Q3 2025, valuations of the **media** sector have remained rich: the sector has the highest premium on our multiple regression model, and it has the second highest implied dividend growth. I think further underperformance is likely as any reduction in interest rates may have been priced in. Although, relative forward earnings momentum has turned positive, margin expansion may be limited from current levels. Thus, I remain **Underweight**.

The valuation of **retailers** may not warrant caution, but I view the near-term prospects of a sector dominated by US names to be uncertain enough to stay **Neutral**, despite my expectation of a reacceleration in growth in 2026. The sector looks close to “fair value” on my multiple regression model, though its implied dividend growth is significantly above that of the market. However, my main concern is that the sector will have little choice but to raise prices in the US, which could have a dampening effect on demand, or absorb some of the impact, thus compressing margins. Forward earnings momentum looks positive for now, but I am concerned that may deteriorate in the next two quarters. Nevertheless, revenue and profit growth may recover as the economy reaccelerates, thus I expect the next 12 months to be a “year of two halves”.

I also keep my allocation to **consumer products & services** at **Underweight**. I think luxury groups will continue to struggle especially with clouds over consumer spending growth, especially in the US. The sector remained at just under “fair value” on my multiple regression model after underperforming in Q3 2025. It tends to be a relatively resilient and well-diversified sector (which I value). However, I would prefer to wait for a more attractive entry point where valuations reflect the risk of higher inflation, or for signs of economic reacceleration to appear.

Within consumer staples, I keep **food, beverage & tobacco** at **Neutral** and **personal care, drug & grocery stores** at **Overweight**. I am concerned that food, beverage and tobacco is vulnerable to trade disruption and could face rising prices and falling demand as tariffs rise. It is also the most cyclical defensive sector in my view and therefore could be sensitive if economic growth underwhelms. At the same time, I would like to maintain exposure to consumer staples, and I think that personal care, drug & grocery stores may be more resilient in the face of higher volatility.

I keep **healthcare** at **Overweight** as it remains my preferred defensive sector. The main reason why I was cautious on the sector was the threat of tariffs and pressure from regulators to reduce prices. Sector valuations seem to have adjusted to this new reality and healthcare appears at a discount on both my multiple regression and implied dividend growth models. The scaling back of university research facilities in the US remains a concern putting its potential for future innovation into doubt, but I do not expect that to have a significant impact in the next 12 months. At the same time, even a gradual reduction of the Fed’s target rate may turn out to be a tailwind.

At the same time, I think the probability of major issues in the banking sector will be lower if monetary policy becomes less restrictive, especially if the global economy reaccelerates (recession is a tail risk, in my view). I also expect a steepening yield curve, which coincided with outperformance in the past, especially in the US and UK

(deregulation may also boost returns in these countries). Valuations look attractive both compared to the relative dividend yield implied by my multiple regression model and versus historical norms. Of course, I cannot sound the all-clear that the risk stemming from higher interest rates has passed as loan delinquencies are rising in the US, for example, and there are pockets of concern in private credit, but valuations suggest that at least some of that is priced in, in my view. I stay **Overweight banks**.

I think the prospect of lower yields drove the underperformance of **insurance** year-to-date. That headwind may remain if the Fed eases monetary policy as reflected in rate futures. I also think the rising cost of natural disasters will become an increasingly important driver of returns. At the same time, the sector seems less cyclical to me than other financials, and therefore an economic recovery may provide less of a boost. With that said, valuations look favourable on both of my models compared to most other sectors, which may offset some of the pressure on earnings. Therefore, I keep the allocation at **Neutral**.

Assuming the global economy reaccelerates as I expect, I think that **real estate** could outperform even in a world of potentially higher inflation. Landlords tend to be able to increase rent helping protect margins in times of inflation, although in the event of an economic downturn, occupancy rates could suffer. However, sector valuations look attractive both on my multiple regression model and implied dividend growth, which implies potential for multiple expansion. At the same time, rate cuts may improve their financing conditions especially in the US, albeit only gradually. I stay **Overweight**.

On the other hand, the **telecommunications** sector has moved to a premium on our multiple regression model after outperforming year-to-date. I also consider it a “defensive value” sector, and therefore it may underperform in an environment when the Fed eases monetary policy. This puts it at a disadvantage despite its low, but historically stable revenue growth rates, especially if an economic reacceleration boosts the returns of cyclical sectors. I stay **Underweight**.

Sector in focus: Technology

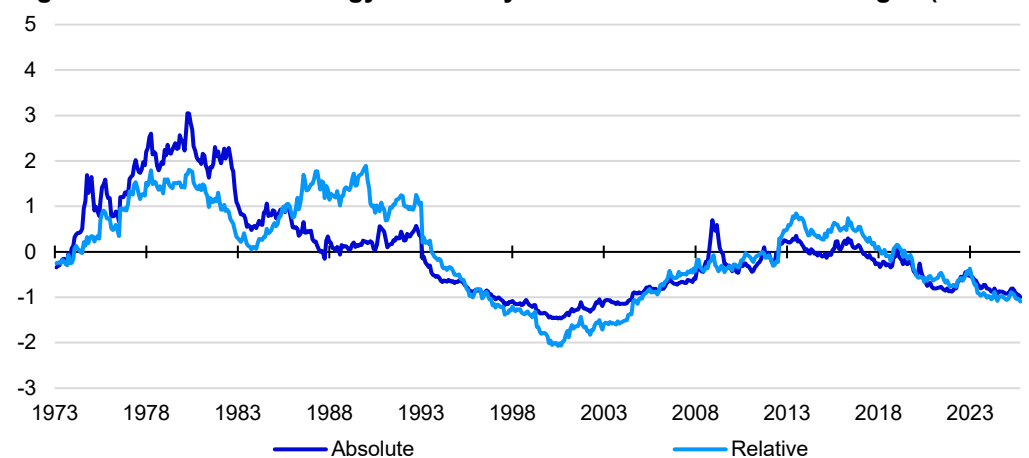
The technology sector has been leading global equities higher, a trend that has become even more pronounced in the last two years with the enthusiasm around generative artificial intelligence. It is the largest sector globally, accounting for 26% of market capitalisation (based on the Datastream World Total Market Index, as of 30 September 2025), therefore it has an outsized impact on overall equity returns. Recent earnings growth has largely relied on building the capacity to train and run AI models, while its business model based on providing software, cloud infrastructure and subscription-based services has made its earnings less cyclical than in the 1980s and 1990s.

Nevertheless, I think the sector has not completely decoupled from the economic cycle. I expect global economic growth to reaccelerate in the next 12 months, and sector returns could depend on what kind of growth regime we are entering. The technology sector thrived in the low growth, low inflation environment of the 2010s, when interest rates remained low and there was little growth elsewhere. However, if we return to a regime more akin to the 2000s, with broad-based growth and higher inflation, sector valuations may adjust downward, while its earnings growth may prove less of an outlier. At the same time, monetary policy could be supportive with rate futures pricing in close to 125bps worth of cuts until the end of 2026 for the Fed, with the BOJ the only major developed market central bank expected to raise rates (as of 16 October 2025).

Having said that, technology is a concentrated sector with the US accounting for 80% of market capitalisation, followed by Emerging Markets at 7%, developed Europe at 5% and Japan at 2%. Unsurprisingly, semiconductors is the largest subsector after its recent outperformance accounting for 29% of market capitalisation, with software at 26%, followed by consumer digital services (including search engines and social media) at 20% and computer hardware at 14%. The four remaining subsectors, mostly providing support services and products for systems and manufacturing processes make up the remaining 11%. Regional concentration is also reflected at the stock level with five mega caps accounting for 52% of sector market capitalisation (as of 30 September 2025) although there is a long tail of small constituents.

As ever, there are multiple moving parts when trying to determine how technology will fare in the next 12 months. For such a long duration sector, the path of monetary policy will be one of the most important macroeconomic factors to consider alongside the sustainability of capital expenditure and investments, especially into the model builders. Although earnings growth remains strong, dividend growth has been slowing in the last 12 months.

Figure 3 – Global technology dividend yields versus historical averages (z-scores)



Notes: Data as of 30 September 2025. **Past performance is no guarantee of future results.** We use monthly data based on the 12-month trailing dividend yield on the Datastream World Technology Index and the Datastream World Total Market Index. Relative dividend yields are calculated by dividing the yield on the technology index by the yield on the total market index. Z-scores are calculated by dividing the difference from the long-term average since 2 January 1973 by the standard deviation of respective dividend yields. Source: LSEG Datastream and Invesco Strategy & Insights

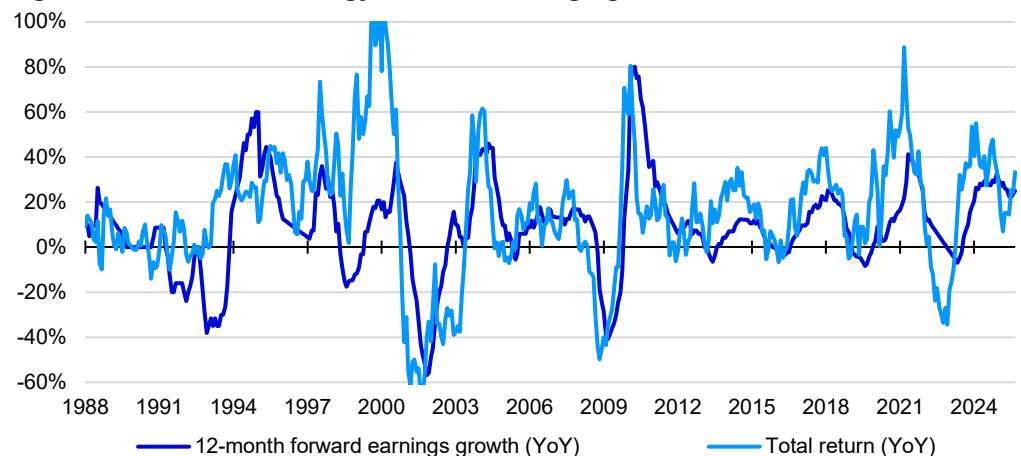
At the same time, after being one of the best performing sectors in the last 12 months, sector valuations continue to look rich, in my view. If earnings growth disappointed or capital expenditure were scaled back, it would present a significant challenge to relative returns as I think a lot of good news has been priced in.

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 overvalued versus what our model implies (**Figure 11**). We then cross-check that using our perpetual dividend growth model, which shows that dividends would have to grow by a real 6.7% per year into perpetuity for the sector to generate the hurdle rate of return, the highest among sectors and well-above that of the market at 3.9%, suggesting it is expensive (**Figure 12**).

Comparing other valuation metrics to their own respective historical averages tells the same story. The sector looks overvalued in absolute terms on all four valuation metrics shown in **Figure 27** (price/earnings, dividend yield, price/cash flow and price/book value). Relative valuations paint a similar picture with, for example, relative dividend yield looking rich at one standard deviation below the historical average (**Figure 3**), while relative price/earnings ratios show the sector as overvalued at 0.7 standard deviations above historical norms.

The dividend yield of technology has been structurally trending down since 2013, but seems to have stabilised at a historically low level between 0.6-0.8% in the last 12-18 months, though still well-above the low of 0.2% reached during the “dotcom bubble”. This has been partly driven by the outperformance of stocks that pay little dividends and are focused more on stock buybacks. At 36x, price/earnings ratios are also towards the high end of their historical range of 10-40x outside the period around the “dotcom bubble”. With profitability at all-time highs (based on EBITDA margins as of 30 September 2025), support for these valuations will need to be underpinned by strong earnings growth, which may be difficult to maintain.

Figure 4 – Global technology forward earnings growth vs total returns since 1988



Notes: Data as of 30 September 2025. **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 technology is the Datastream Technology 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 Strategy & Insights

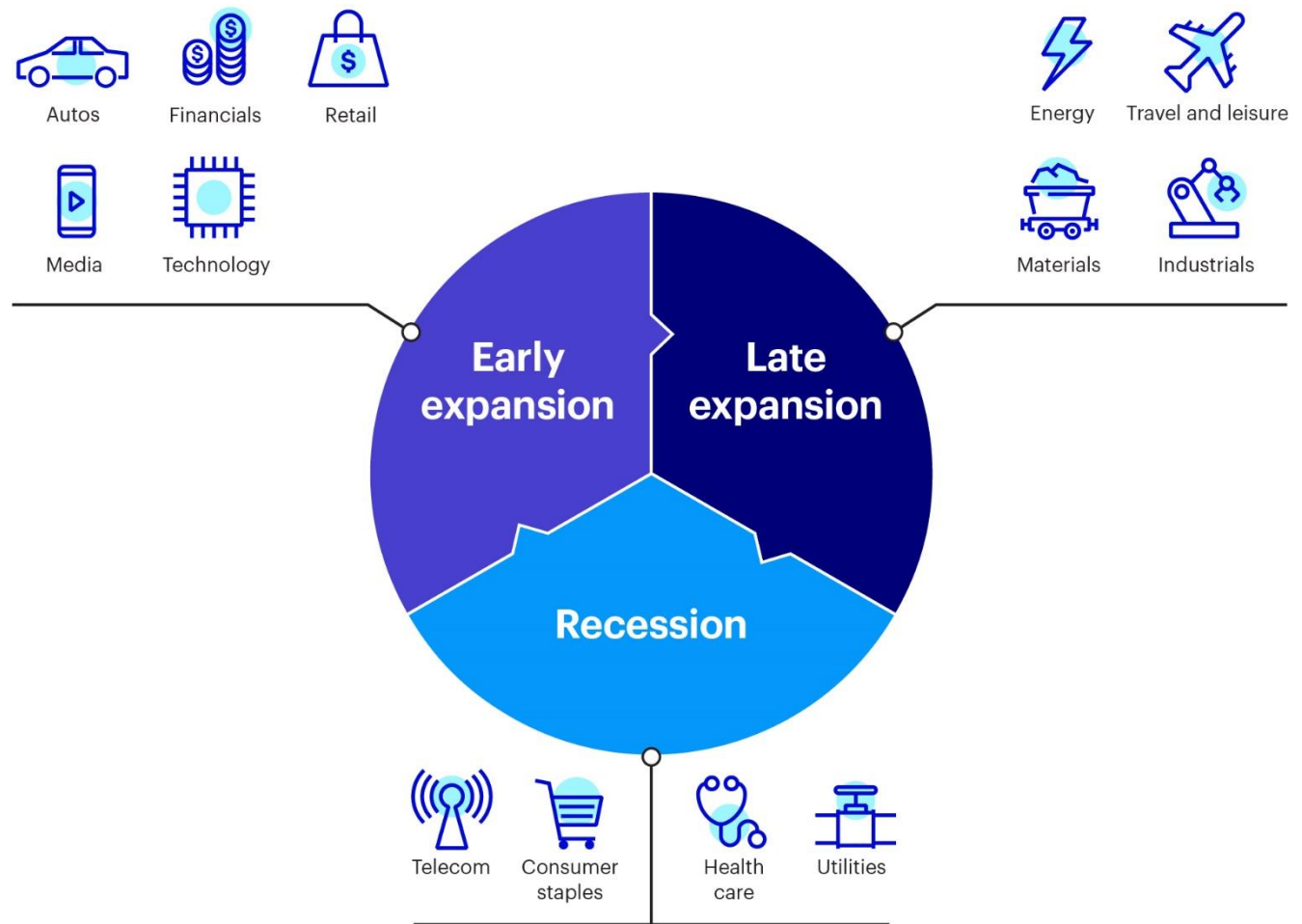
I think that with a potentially more broad-based growth outlook, the sector could struggle to outperform despite the potential tailwind from Fed easing. Although valuations are not at extreme levels, they are elevated making the sector potentially vulnerable to any setbacks. As **Figure 4** shows, returns have run somewhat ahead of forward earnings momentum. Most of the earnings growth relies on AI-related capital expenditure and therefore can be at risk of a scaling back of those investments. I have no doubts about the long-term prospects of the sector, but I am concerned a period of underperformance may beckon, thus I downgrade it to Underweight.

Figure 5 – Model allocations for global sectors*

	Neutral	Invesco	Preferred Region
Energy	5.3%	Overweight	US
Basic Materials	3.6%	Neutral	Europe
Basic Resources	2.4%	Underweight ↓	Europe
Chemicals	1.2%	Overweight	US
Industrials	13.0%	Neutral	US
Construction & Materials	1.7%	Neutral	Europe
Industrial Goods & Services	11.3%	Neutral	US
Consumer Discretionary	14.1%	Underweight	Europe
Automobiles & Parts	2.7%	Underweight	Europe
Media	1.2%	Underweight	Europe
Retailers	5.4%	Neutral	US
Travel & Leisure	1.8%	Overweight ↑	EM
Consumer Products & Services	3.0%	Underweight	Europe
Consumer Staples	4.5%	Neutral	US
Food, Beverage & Tobacco	2.8%	Neutral	US
Personal Care, Drug & Grocery Stores	1.7%	Overweight	Europe
Healthcare	7.5%	Overweight	US
Financials	16.4%	Neutral	US
Banks	8.0%	Overweight	US
Financial Services	5.4%	Neutral ↑	Japan
Insurance	3.0%	Neutral	US
Real Estate	2.6%	Overweight	Japan
Technology	26.3%	Underweight ↓	US
Telecommunications	3.5%	Underweight	US
Utilities	3.2%	Neutral ↓	Europe

Notes: *This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. Arrows indicate latest changes in allocations versus the previous edition. See appendices for methodology and disclaimers. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 6 – Economic cycle and main sector allocation decisions

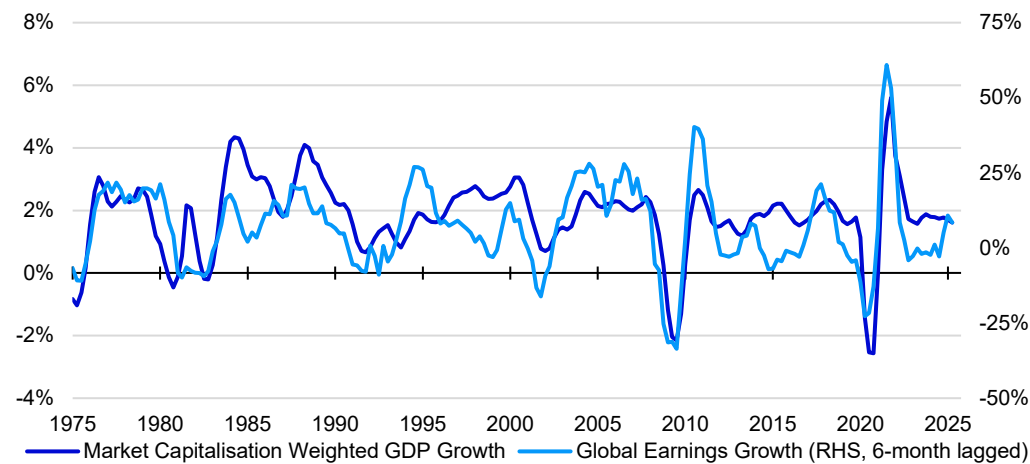


Note: The chart shows our opinion about which sectors tend to perform best at which stage of the economic cycle, based on our analysis of previous cycles.

Source: Invesco Strategy & Insights

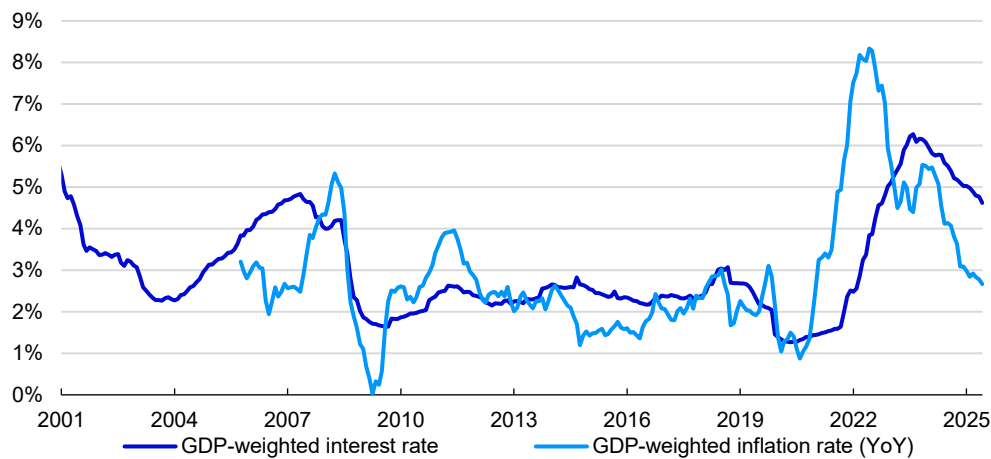
Macroeconomic indicators – Global

Figure 7 – Global GDP growth vs earnings growth since 1975



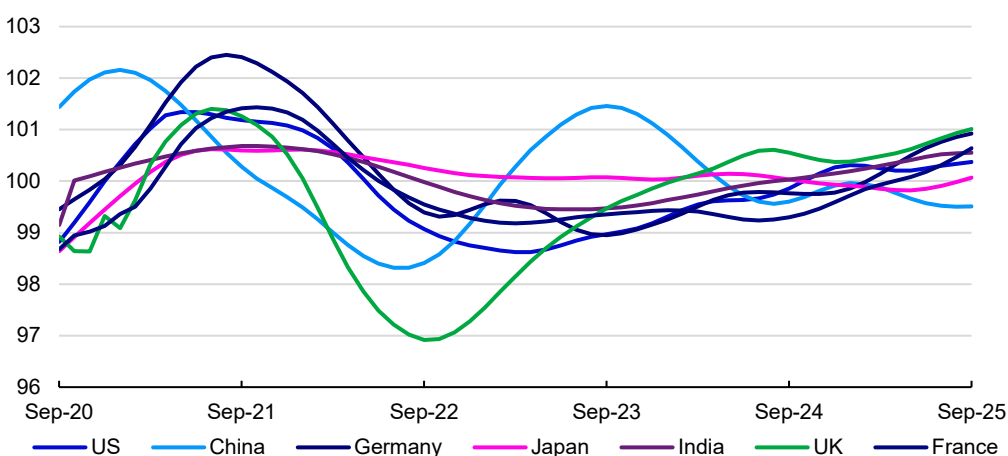
- Global GDP growth has been gradually slowing but remains at a level that could be consistent with strong earnings growth.
- However, GDP growth could slow in H2 2025 depending on the impact of tariffs on the US economy.

Figure 8 – GDP-weighted global inflation and central bank policy rate



- Global inflation has been falling sharply, though momentum may be stalling or reversing in a number of countries.
- Monetary policy has followed it with a lag, especially in the US. I expect only the Fed to ease significantly.

Figure 9 – OECD leading indicators (amplitude adjusted)



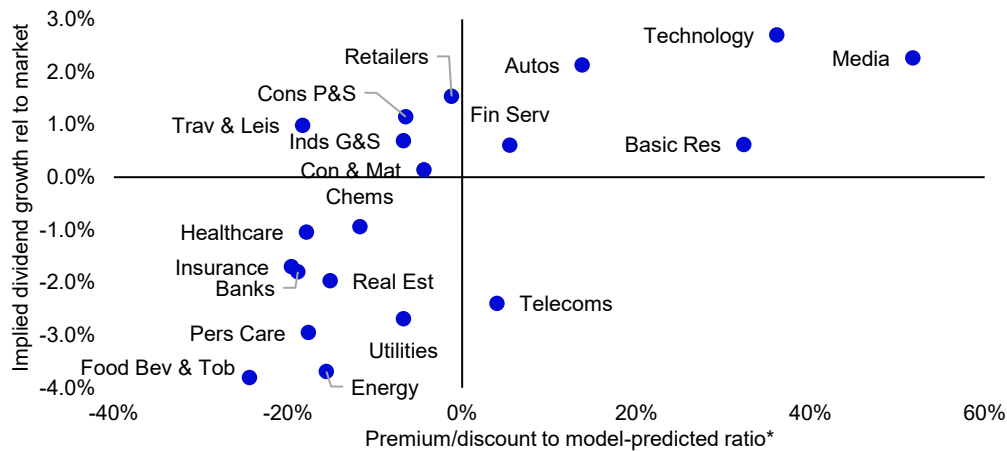
- Leading indicators imply that growth may be picking up.
- Germany and the UK have the strongest momentum currently, while China is the only large economy with a leading indicator below trend.

Notes: Data as of 30 September 2025. **Past performance is no guarantee of future results.** See appendices for methodology and disclaimers. Figure 5 is based on quarterly data from Q1 1975 to Q2 2025. Figure 6 is based on monthly data from April 2001 to September 2025 using the IMF World Economic Outlook April 2025. Figure 7 is based on monthly data from September 2020 to September 2025.

Source: International Monetary Fund, OECD, LSEG Datastream, Invesco Strategy & Insights

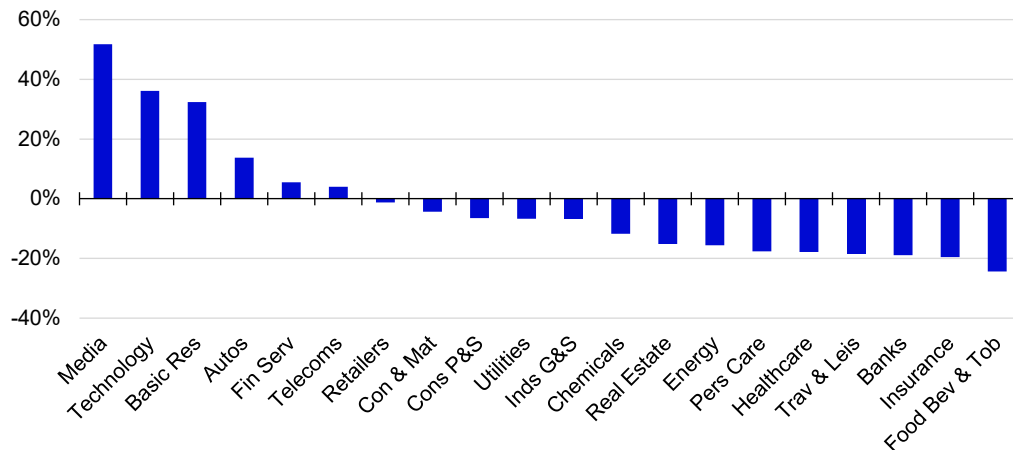
Valuations – Global

Figure 10 – Global sectors valuation matrix



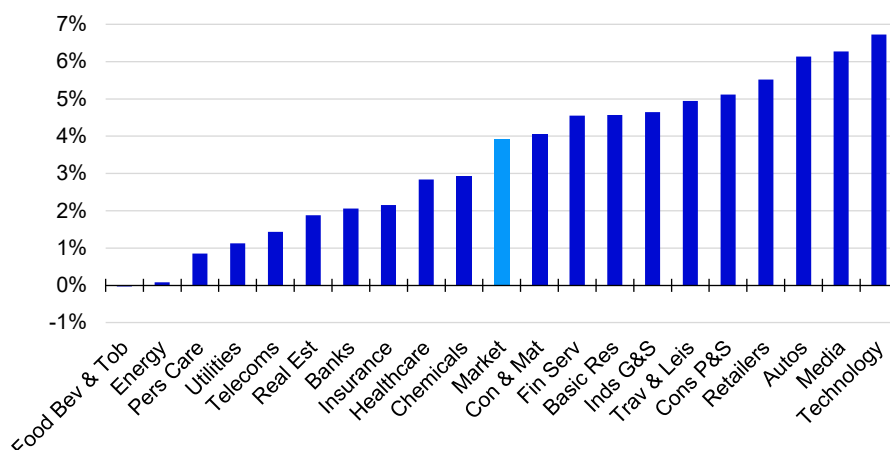
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, media, tech and basic resources.
- Food, beverage & tobacco, energy, and personal care look better value

Figure 11 – Premium/discount to model-predicted ratio*



- Media, technology and basic resources look the most overvalued versus our model
- Food, beverage & tobacco, insurance and banks seem the most undervalued versus our model-predicted ratios

Figure 12 – Global implied perpetual real dividend growth

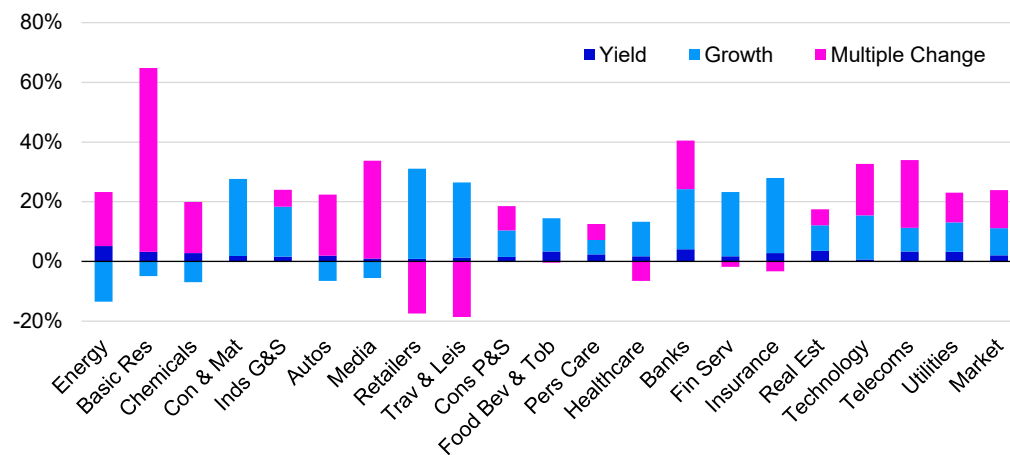


- Shows the future real growth required to justify current prices
- Technology, media and autos appear priced for over 6% real growth in dividends (expensive)
- Consumer staples and energy seem priced for sub-1% growth (cheap).

Notes: *% above/below using relative dividend yield. Data as of 30 September 2025. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

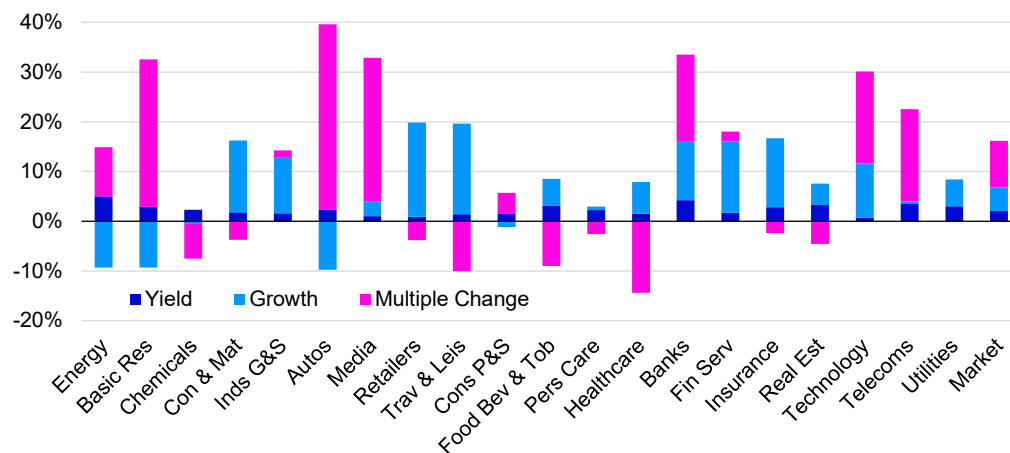
Decomposed returns – Global

Figure 13 – Global year-to-date total returns decomposed (annualised)



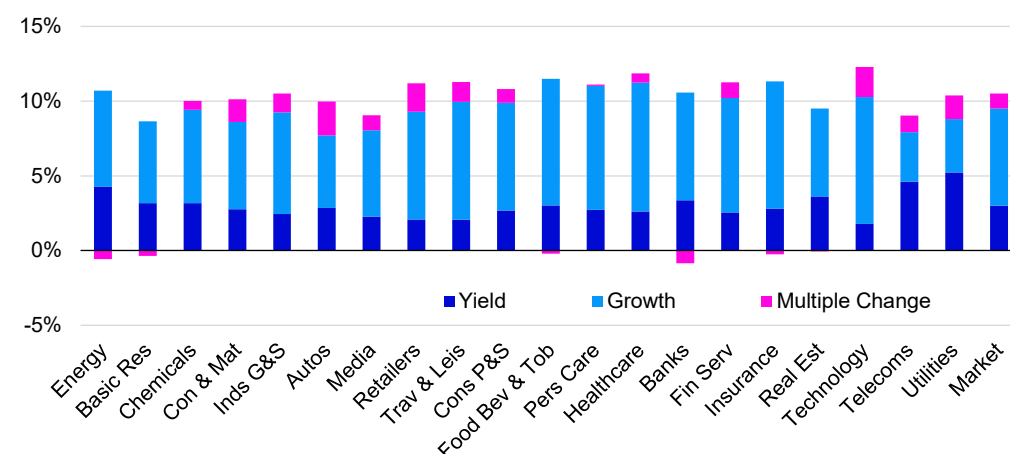
- Only five sectors had negative growth: energy, basic resources, chemicals, autos and media.
- Six sectors had growth above 15%: construction, retailers, travel & leisure, banks, financial services and insurance.

Figure 14 – Global rolling 12-month total returns decomposed



- Only three sectors had negative total returns: chemicals, food, beverage & tobacco and healthcare.
- Only energy and banks had a yield above 4%, but four other sectors had yields above 3%: food, beverage & tobacco, real estate, telecoms and utilities.

Figure 15 – Global overall total returns decomposed (annualised, since 1973)



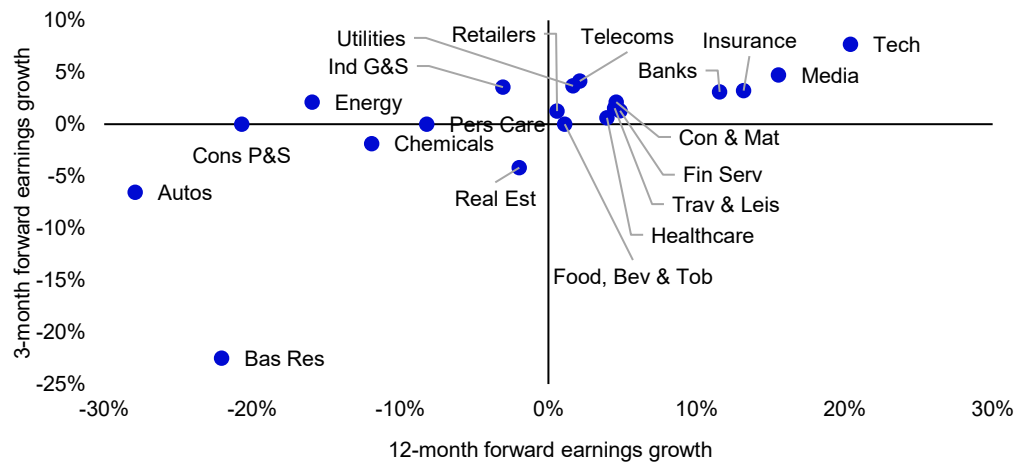
- Growth and yield drive long-term returns
- Growth is the most important, except for telcos and utilities
- Six sectors suffered from a multiple-related performance drag: energy, basic resources, food & bev, banks, insurance and real estate

Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. **Past performance is not a guarantee of future results.**

Source: LSEG Datastream and Invesco Strategy & Insights

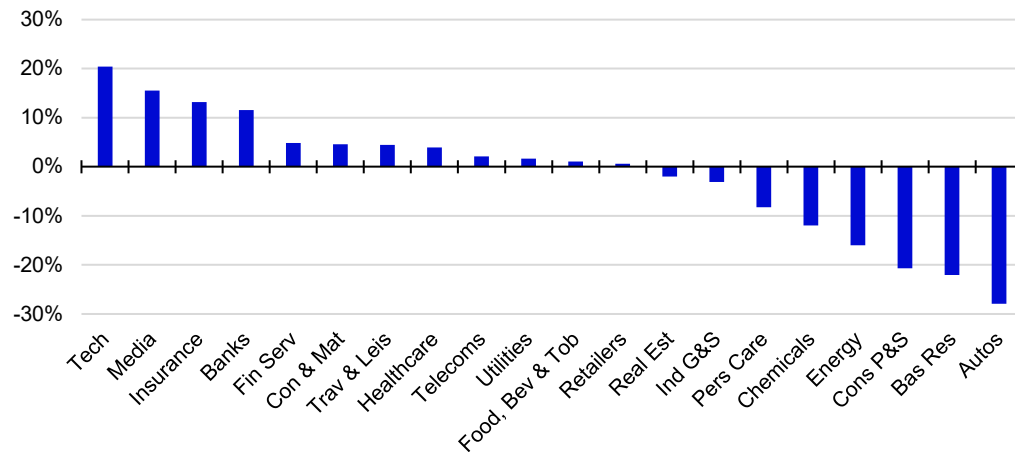
Forward earnings growth – Global

Figure 16 – Global 12-month forward earnings estimate changes relative to market



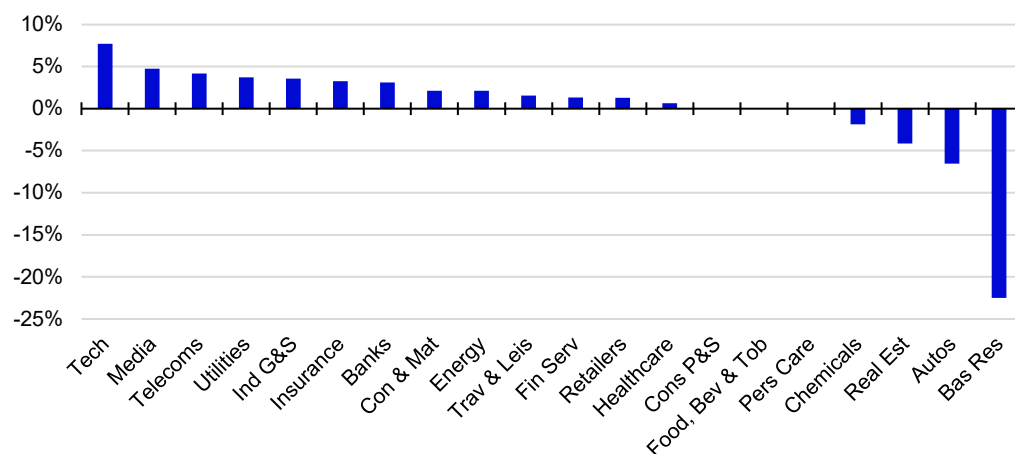
- Most sectors have seen positive change in consensus earnings estimates over both the last 3- and 12-months.
- The change in earnings estimates seems to be turning around for energy and industrial goods & services.

Figure 17 – Global 12-month forward earnings estimate changes relative to market



- Tech, media, insurance and banks have seen the largest improvement in earnings
- Autos, basic resources and consumer products & services have the weakest forward earnings improvement.

Figure 18 – Global 3-month forward earnings estimate changes relative to market



- Tech, media, telecoms and utilities have had the best short-term momentum.
- Basic resources, autos and real estate have the worst short-term forward relative earnings momentum.

Notes: Data as of 30 June 2025. Based on IBES consensus earnings per share aggregates for each sector. We calculate the 12-month and 3-month change in EPS estimates relative to the market using Datastream World Level 3 indices for sectors and the Total Market index for the market.

Source: IBES, LSEG Datastream, Invesco Strategy & Insights

Appendices

Appendix 1: Coefficients for variables used in multiple regression model

Figure 19 – Regression coefficients of Global defensive sectors

	Food, Bev & Tobacco	Personal Care	Health Care	Telecoms	Utilities	Market
Real Oil		-0.37			0.39	
Real Copper	0.00	0.01	0.00	0.02	-0.01	
Consumer Confidence	0.00		0.00	0.00	0.00	-0.01
Manufacturing Confidence	-0.01	0.00	0.01	0.01		0.01
IP	1.60	0.47	1.31	-0.64	2.52	-5.15
10y Yield	3.80		2.73	-5.38	10.09	-11.56
CPI	3.00		-3.11	-2.00	-7.36	3.60
Net Debt/EBITDA	0.15	0.09		0.12		
ROE	-2.58	-0.83	0.91	0.98	-4.80	

Notes: Data as of 30 September 2025. 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 5 for more details. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 20 – Regression coefficients of Global resource-related and industrial sectors

	Energy	Basic Resources	Chemicals	Construction & Materials	Industrial G&S	Market
Real Oil	-2.38	-0.77				
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	-0.01	-0.02	-0.01	-0.01	-0.01	0.01
IP	-2.13		-0.80	1.20	0.24	-5.15
10y Yield		-9.16				-11.56
CPI	13.70	28.74	7.35	6.39	0.94	3.60
Net Debt/EBITDA	-0.25	-0.10		0.26		
ROE	-4.49	-1.93	-1.70	-0.68		

Notes: Data as of 30 September 2025. 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 5 for more details. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 21 – Regression coefficients of Global consumer discretionary and technology sectors

	Autos & Parts	Media	Retail	Travel & Leisure	Cons P&S	Tech	Market
Real Oil	0.98	0.34	0.31	0.41	1.09	0.47	
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	0.00	0.00	0.02	0.01
IP	-3.18		1.03	-0.43	1.19	-1.70	-5.15
10y Yield	3.70	6.14	2.29	-1.01	4.75	-2.17	-11.56
CPI	-1.76	-6.54	-5.07	-3.08	-4.77	-2.66	3.60
Net Debt/EBITDA	-0.07	0.04	0.23		-0.14	0.08	
ROE		1.55	-0.60	0.63	-2.03	0.48	

Notes: Data as of 30 September 2025. 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 5 for more details. Source: LSEG Datastream and Invesco Strategy & Insights

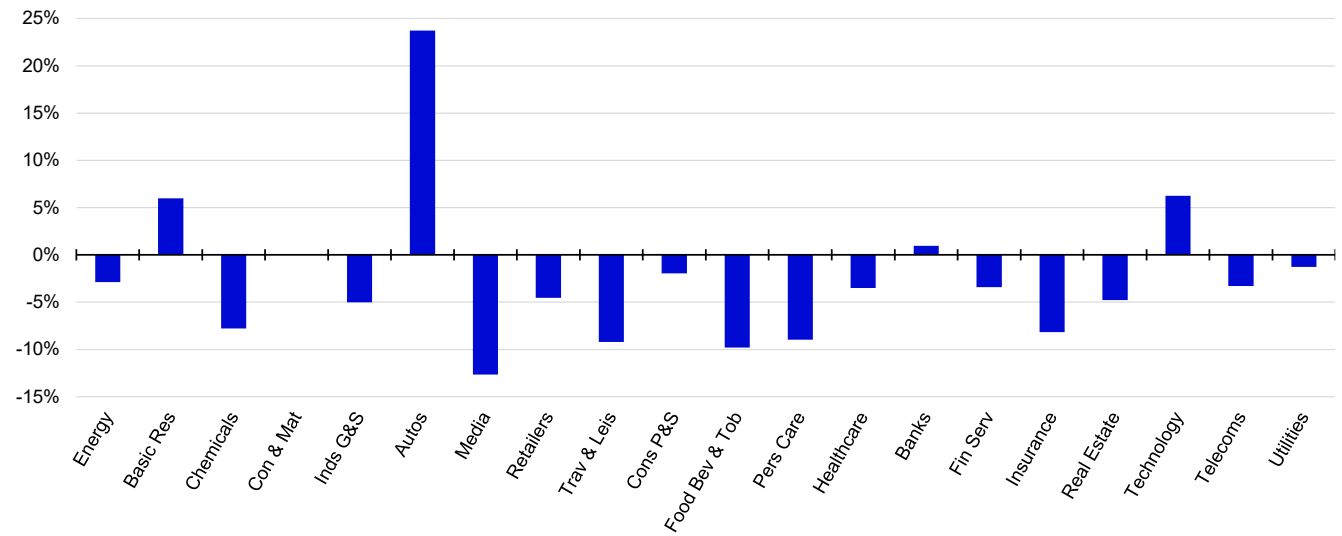
Figure 22 – Regression coefficients of Global financial sectors

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil			-0.71	0.52	
Real Copper		-0.01	0.01	-0.02	
Consumer Confidence	0.01	0.00	0.00	0.01	-0.01
Manufacturing Confidence	-0.02	-0.01	0.00	-0.03	0.01
IP	-2.56	1.84		3.75	-5.15
10y Yield	-6.56		-4.99	2.48	-11.56
CPI	6.17		9.93		3.60
ROE	3.78	0.59	-1.02	-3.39	

Notes: Data as of 30 September 2025. 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 5 for more details. Source: LSEG Datastream and Invesco Strategy & Insights

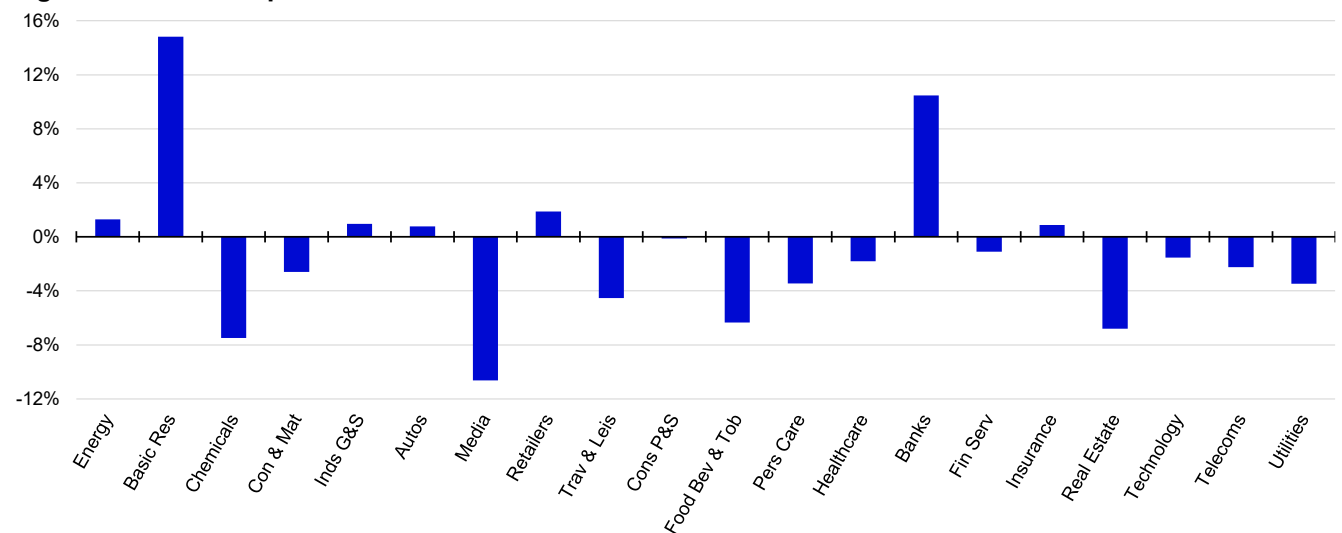
Appendix 2: Sector returns by region

Figure 23 – 3m US sector returns relative to market



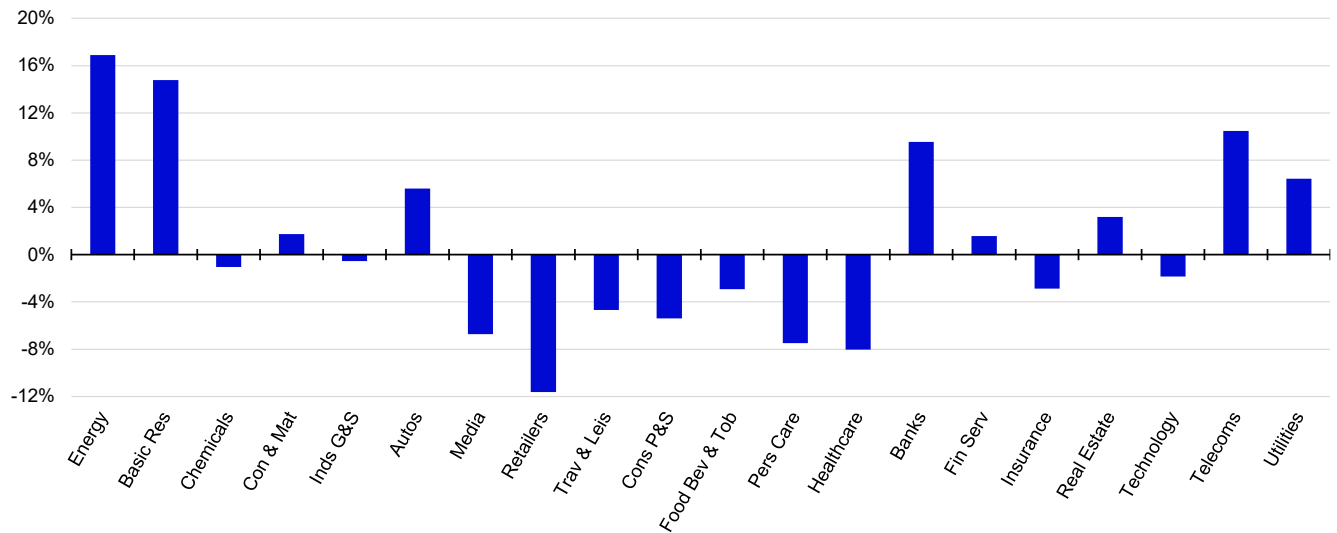
Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. Returns shown between 30 June 2025 and 30 September 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 24 – 3m European sector returns relative to market



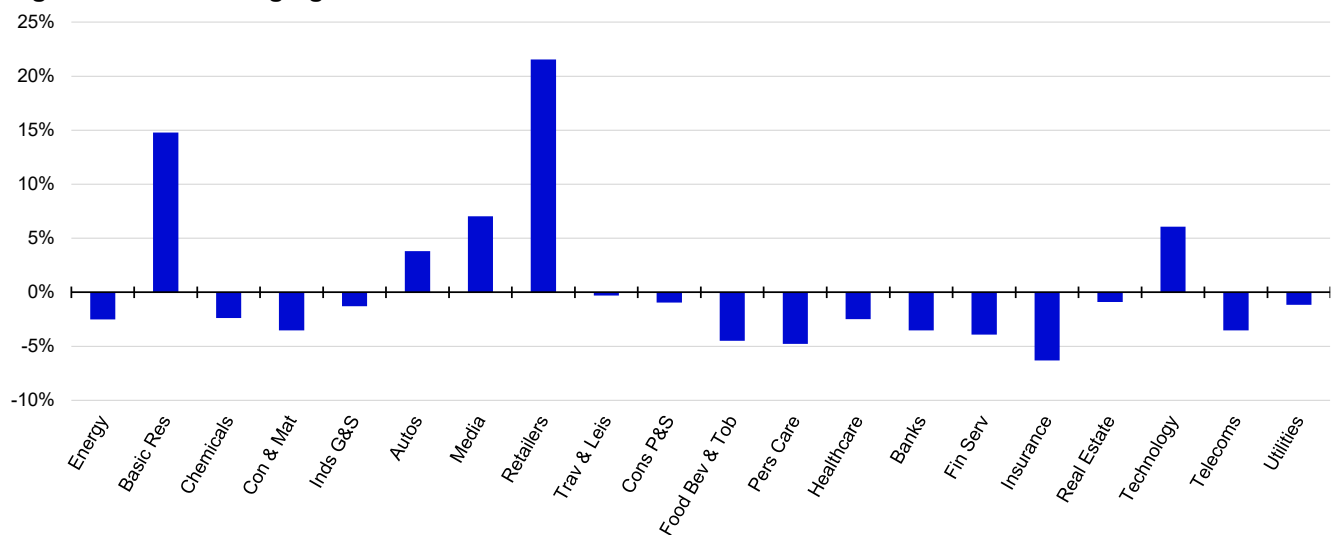
Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. Returns shown between 30 June 2025 and 30 September 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 25 – 3m Japanese sector returns relative to market



Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. Returns shown between 30 June 2025 and 30 September 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 26 – 3m Emerging Market sector returns relative to market



Notes: Data as of 30 September 2025. See appendices for methodology and disclaimers. Returns shown between 30 June 2025 and 30 September 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Appendix 3: Valuations tables

Figure 27 – 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	15.4	14.4	0.1	4.5	3.9	0.5	1.4	1.8	-0.7	7.4	6.3	0.6
Basic Materials	23.4	16.7	1.4	2.3	2.8	-0.6	2.1	1.8	0.6	9.0	7.5	0.9
Basic Resources	21.8	16.8	0.8	2.2	2.9	-0.8	2.1	1.7	0.9	9.8	7.2	1.1
Chemicals	27.2	17.3	1.9	2.5	2.9	-0.4	2.1	2.0	0.1	7.9	8.1	-0.1
Industrials	23.5	18.3	1.1	1.6	2.3	-0.9	3.2	2.2	2.3	14.1	9.3	2.5
Construction & Mat.	17.8	16.8	0.2	1.8	2.5	-1.0	2.6	1.8	0.5	12.5	9.2	1.2
Industrial G&S	24.6	18.8	1.2	1.6	2.2	-0.8	3.4	2.3	2.3	14.4	9.4	2.5
Consumer Disc.	25.2	18.9	1.2	1.2	2.2	-1.1	3.7	2.2	2.8	13.0	8.6	2.4
Automobiles & Parts	21.8	15.0	0.9	1.7	2.6	-0.8	1.8	1.5	0.9	8.9	5.5	2.9
Media	27.2	22.0	0.7	0.8	2.0	-1.5	3.0	2.4	0.7	13.9	9.4	1.2
Retailers	28.9	21.8	1.1	0.9	1.8	-1.1	6.6	3.6	2.5	17.1	13.4	1.1
Travel & Leisure	20.7	23.3	-0.2	1.5	1.8	-0.4	6.1	2.7	3.0	10.2	9.4	0.2
Consumer Prod & Serv	25.5	19.5	1.2	1.4	2.4	-1.4	3.8	2.3	2.2	14.6	10.9	1.4
Consumer Staples	21.1	17.0	0.8	3.0	2.5	0.5	2.7	2.8	-0.1	11.9	10.9	0.4
Food, Bev & Tobacco	19.7	18.5	0.3	3.4	2.7	0.8	2.3	2.7	-0.6	11.8	11.1	0.3
Personal Care	23.9	20.6	0.6	2.3	2.4	-0.1	3.7	3.0	1.0	12.0	10.5	0.6
Healthcare	26.0	20.6	0.9	1.8	2.3	-0.7	4.0	3.4	0.5	16.2	12.9	0.9
Financials	14.1	15.5	-0.3	2.9	2.7	0.2	1.1	1.4	-0.6	8.1	5.8	1.6
Banks	11.5	14.1	-0.5	3.7	3.0	0.7	1.3	1.3	0.0	7.2	6.2	0.6
Financial Services	21.6	18.3	0.6	1.7	2.2	-0.8	0.7	1.4	-1.1	14.2	9.2	2.4
Insurance	14.0	15.8	-0.4	2.9	2.5	0.5	2.0	1.7	0.6	5.6	3.8	1.7
Real Estate	22.6	19.3	0.6	3.4	3.3	0.2	1.4	1.4	-0.1	16.1	13.9	0.8
Technology	35.8	24.7	1.1	0.6	1.5	-1.0	9.5	3.4	4.2	25.8	12.2	3.0
Telecommunications	17.6	17.3	0.0	2.9	4.2	-0.6	2.3	2.6	-0.2	6.6	6.1	0.2
Utilities	18.3	14.7	0.9	3.0	4.7	-0.9	2.0	1.6	1.2	8.0	5.7	1.6
Market	22.2	17.3	1.1	1.9	2.7	-0.9	2.5	2.0	1.1	12.3	8.0	2.5

Notes: *in standard deviations from historical average. Data as of 30 September 2025. 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 Strategy & Insights

Figure 28 – Global cyclically-adjusted valuations

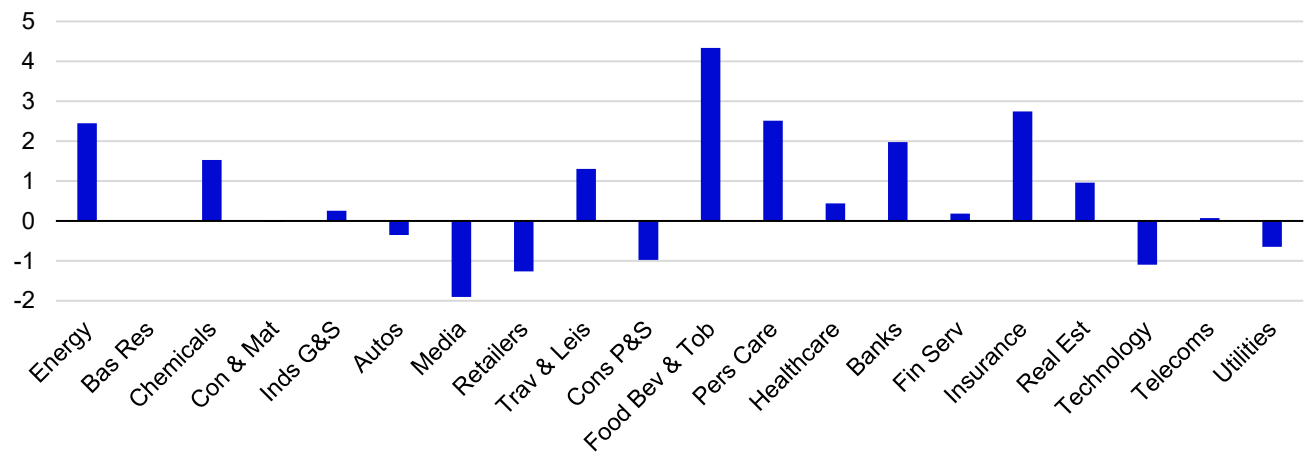
	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	16.2	18.5	-0.3	3.9	2.9	1.0	1.6	2.5	-0.9	7.2	8.6	-0.5
Basic Materials	20.9	22.9	-0.3	2.4	1.9	0.8	2.2	2.4	-0.3	10.0	9.8	0.0
Basic Resources	21.8	21.2	0.1	2.3	2.2	0.1	2.3	2.2	0.1	9.9	9.2	0.2
Chemicals	19.2	24.1	-0.9	2.6	1.9	1.4	2.0	2.7	-1.3	10.0	10.9	-0.5
Industrials	30.8	26.6	0.7	1.2	1.5	-0.7	3.9	3.1	1.4	17.2	13.0	1.7
Construction & Mat.	28.7	24.0	0.5	1.4	1.8	-0.9	2.9	2.3	0.8	15.3	11.8	0.9
Industrial G&S	31.2	27.3	0.7	1.2	1.4	-0.7	4.1	3.2	1.7	17.6	12.9	2.1
Consumer Disc.	31.9	27.1	1.0	1.0	1.4	-1.3	4.1	3.0	2.4	15.8	11.8	2.0
Automobiles & Parts	19.8	18.8	0.2	1.4	1.7	-0.6	1.9	2.0	-0.2	9.2	6.7	1.7
Media	36.9	29.9	0.8	0.8	1.4	-1.8	4.0	3.4	0.5	17.3	12.8	1.3
Retailers	47.5	32.7	2.3	0.7	1.1	-1.6	8.3	5.3	2.6	24.1	20.3	0.9
Travel & Leisure	28.1	33.6	-0.6	1.1	1.2	0.0	5.1	3.6	1.5	14.0	13.1	0.3
Consumer Prod & Serv	29.9	28.6	0.3	1.3	1.6	-1.0	4.3	3.1	1.9	17.2	15.4	0.8
Consumer Staples	21.6	22.5	-0.2	2.4	1.7	1.8	3.3	3.7	-0.9	13.8	14.5	-0.3
Food, Bev & Tobacco	23.4	28.0	-1.0	2.6	1.7	2.1	3.0	4.0	-2.1	14.2	16.2	-1.2
Personal Care	26.4	31.2	-0.7	2.0	1.5	1.3	4.0	4.5	-0.6	13.3	15.9	-1.0
Healthcare	33.2	31.7	0.3	1.4	1.4	0.0	4.8	5.2	-0.4	19.0	19.6	-0.2
Financials	20.2	23.0	-0.3	1.9	2.0	-0.1	1.4	1.8	-0.7	9.6	7.4	1.4
Banks	16.7	20.3	-0.4	2.4	2.4	0.0	1.5	1.7	-0.3	8.9	7.9	0.5
Financial Services	27.6	29.0	-0.1	1.2	1.5	-0.6	1.0	1.8	-1.3	17.8	11.7	2.4
Insurance	22.2	23.6	-0.2	1.8	1.7	0.3	2.3	2.3	-0.1	6.0	4.9	1.1
Real Estate	16.5	25.7	-0.7	3.4	2.6	0.9	1.4	1.7	-0.8	15.2	17.0	-0.5
Technology	66.0	39.7	1.2	0.4	0.9	-1.0	13.0	5.4	2.8	40.4	20.0	2.1
Telecommunications	20.6	22.5	-0.2	2.9	3.1	-0.2	2.4	3.3	-0.6	6.9	7.6	-0.2
Utilities	23.2	18.7	1.0	2.6	3.5	-0.9	2.2	2.0	0.4	9.1	7.0	1.6
Market	28.8	24.7	0.7	1.5	1.8	-0.7	3.0	2.8	0.4	14.6	10.8	2.0

Notes: *in standard deviations from historical average. Data as of 30 September 2025. 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 Strategy & Insights

Appendix 4: Sector valuations by region

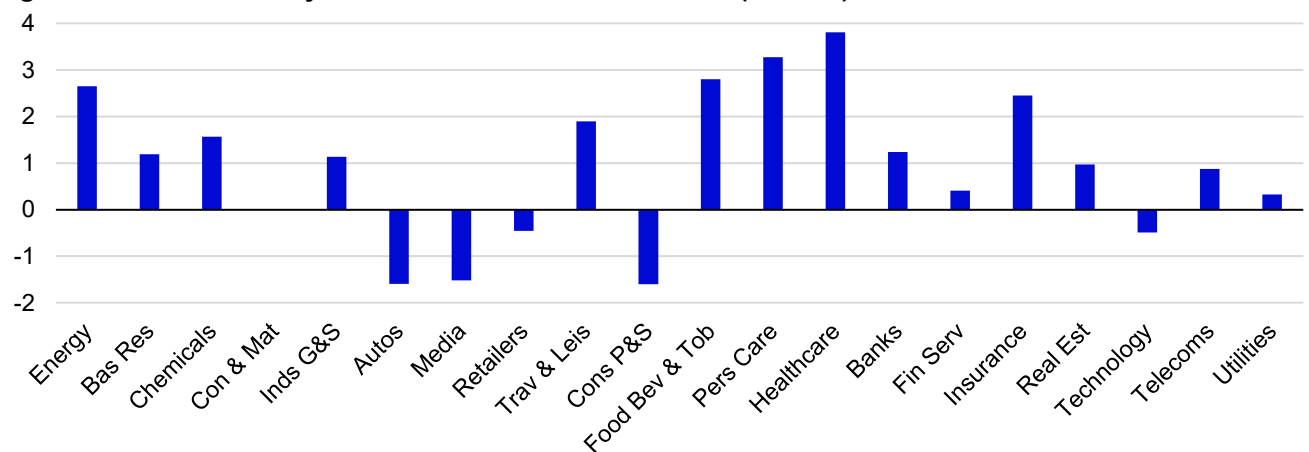
Figure 29 – Global dividend yields relative to market (z-score)



Notes: Data as of 30 September 2025. Based on data between 1 January 1973 and 30 September 2025. See appendices for methodology and disclaimers.

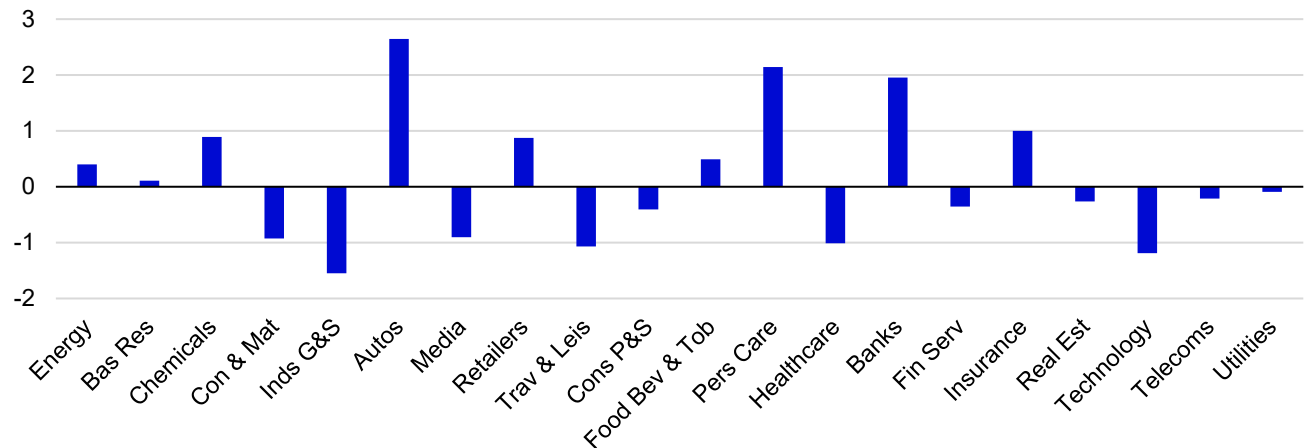
Source: LSEG Datastream and Invesco Strategy & Insights

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



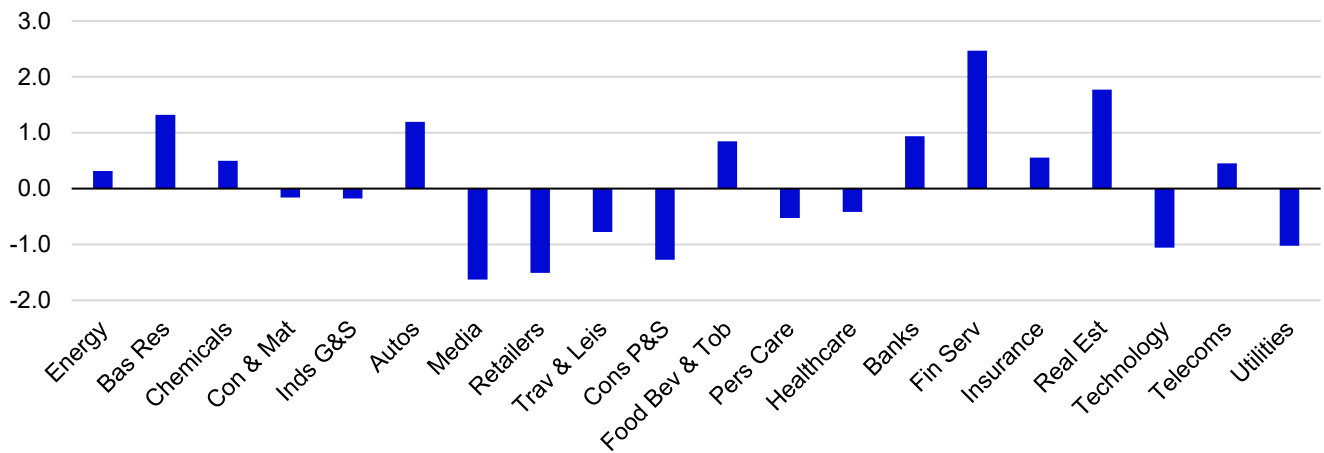
Notes: Data as of 30 September 2025. Based on data between 1 January 1973 and 30 September 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

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



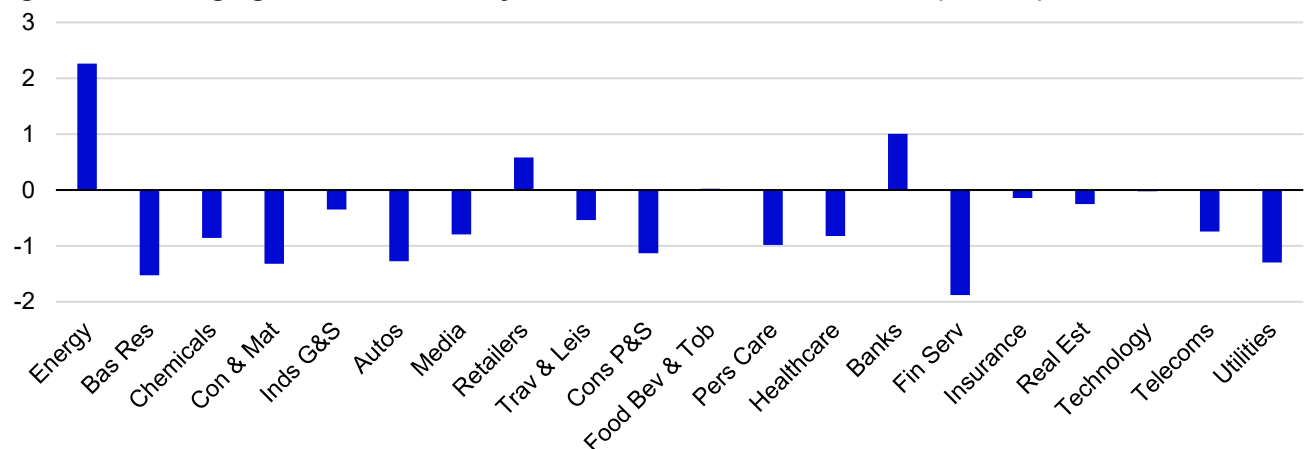
Notes: Data as of 30 September 2025. Based on data between 1 January 1973 and 30 September 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 32 – Japan dividend yields relative to local benchmark (z-score)



Notes: Data as of 30 September 2025. Based on data between 1 January 1973 and 30 September 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Japan Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 33 – Emerging markets dividend yields relative to local benchmark (z-score)



Notes: Data as of 30 September 2025. Based on data between 1 January 1973 and 30 September 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Emerging Markets Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

Appendix 4: Performance tables

Figure 34 – Global equity sector total returns relative to market

Data as of 30 Sep 2025	Global				
	3m	YTD	12m	5y*	10y*
Energy	-2.3	-9.2	-9.3	1.0	-4.3
Basic Materials	6.9	10.9	-3.6	-0.9	-0.1
Basic Resources	15.2	23.1	6.4	3.9	3.6
Chemicals	-6.1	-7.0	-18.4	-7.4	-4.2
Industrials	-2.9	0.3	-1.9	-0.3	0.2
Construction & Materials	-2.8	2.4	-3.1	1.9	-0.6
Industrial Goods & Services	-2.9	0.0	-1.7	-0.6	0.3
Consumer Discretionary	-1.0	-5.4	-0.2	-4.1	-1.5
Automobiles & Parts	13.7	-5.1	11.8	0.6	-0.8
Media	-11.5	2.5	14.2	-2.0	-2.2
Retailers	-1.7	-6.6	-0.2	-5.2	0.1
Travel & Leisure	-6.6	-10.3	-5.7	-3.7	-4.2
Consumer Products & Services	-2.8	-3.4	-10.1	-5.6	-2.2
Consumer Staples	-7.6	-6.7	-14.2	-7.5	-5.1
Food, Beverage & Tobacco	-7.9	-6.4	-14.5	-6.8	-5.5
Personal Care, Drug & Grocery Stores	-7.0	-7.4	-13.8	-8.8	-5.2
Healthcare	-3.3	-11.1	-19.7	-7.3	-3.1
Financials	-1.6	4.7	7.4	5.9	0.1
Banks	0.9	10.9	15.5	8.2	-0.6
Financial Services	-3.1	-1.6	1.6	3.7	1.7
Insurance	-5.4	0.7	-1.5	4.4	0.3
Real Estate	-3.3	-4.0	-11.3	-7.5	-5.6
Technology	6.3	5.5	11.9	6.1	9.7
Telecommunications	-1.0	6.5	5.6	-2.5	-3.9
Utilities	-2.7	-0.4	-6.6	-2.0	-1.7

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 Strategy & Insights

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 $\text{Price} = \text{Dividend} / (\text{Discount Factor} - \text{Growth})$, then $\text{Growth} = \text{Discount Factor} - \text{Dividend Yield}$. The Discount Factor is equal to $\text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$. 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

Abbreviations for central banks:

BOE	Bank of England
BOJ	Bank of Japan
ECB	European Central Bank
FED	US Federal Reserve

Appendix 7: Definitions of data and benchmarks

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

Government bonds: 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.

Global GDP growth rates and earnings growth in Figure 5: we show a proxy measure for global GDP growth using trailing 12-month real GDP figures in local currency for the United States, Japan, the United Kingdom, the Eurozone, Canada, China, Australia, Switzerland and South Korea. We calculate a weighted average annual GDP growth using their market capitalisations based on Datastream Total Market indices in US dollar. Showing quarterly data since 1st January 1975. GDP data included in the GDP growth series from 1975 for US, UK, Canada, Australia, South Korea, from 1981 for

Japan and Switzerland, from 1993 for China and 1996 for the Euro Area. Global earnings growth is derived from the price index and P/E ratio of the Datastream World Total Market index in US dollars.

Global inflation and interest rates in Figure 6: Based on monthly data from April 2001. “GDP-weighted interest rate” is a weighted average of central bank policy rates and “GDP-weighted inflation rate” is a weighted average of consumer price inflation. Based on the 20 largest economies during each calendar year, according to nominal GDP in US dollars (based on data from the International Monetary Fund World Economic Outlook).

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

Data as of 30 September 2025 unless stated otherwise. This publication is updated quarterly.

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