Strategic Sector Selector

Unmoved by uncertainty

The decent returns on global equities during Q4 2025 masked significant volatility as concerns around valuations in the technology sector and the US economy remained in the headlines. Market leadership stayed narrow with basic resources, healthcare and banks leading global equities higher partly driven by surging gold prices and signs of resilience in the global economy. We think the probability of global recession remains low, although a reacceleration could imply stickier inflation than previously assumed (especially if the impact of tariffs on the US economy spills over into 2026). We think there may be some volatility in the short term, but we see upside in the next 12 months as the global economy moves towards trend growth. With that in mind, we think no significant changes are necessary, although we reduce the allocation to defensive sectors slightly by downgrading healthcare to Neutral. At the same time, we maintain the exposure to cyclicals and upgrade financial services to Overweight from Neutral as we expect outperformance from the sector in this mature phase in the market cycle.

Changes in our Model Sector Allocations:

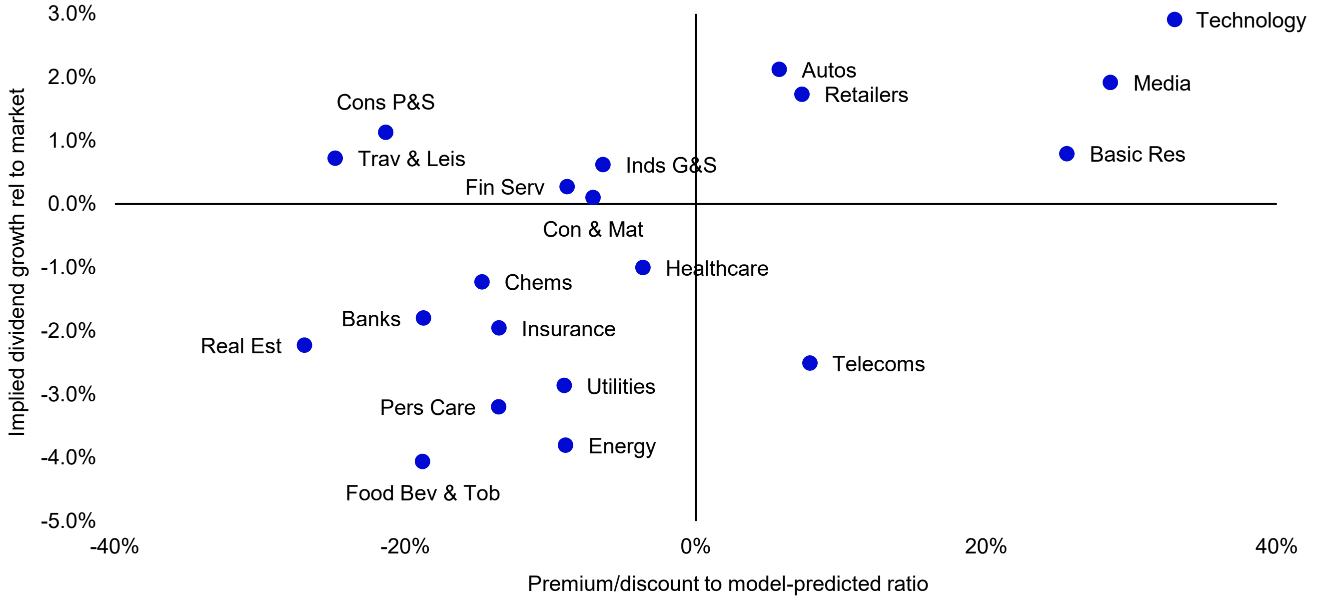
- Upgrades: financial services (N to OW)
- Downgrades: healthcare (OW to N)

Most favoured	Least favoured
US banks	US media
US energy	North America basic resources

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
- Real estate: attractive valuations, exposure to value factor, rental growth could cushion inflation risk

Figure 1 – Global sectors valuation matrix



Notes: Data as of 31 December 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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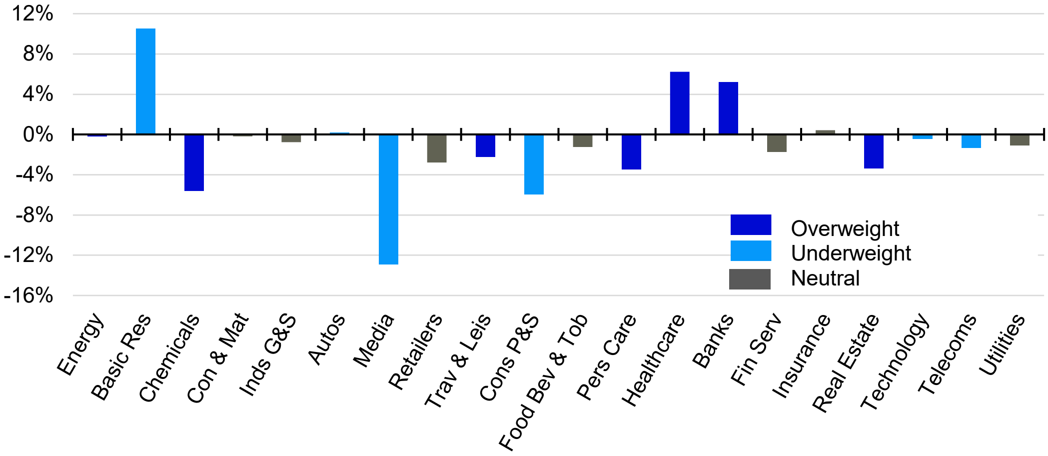
Summary and conclusions

Since the last time

Global equities may have returned 3.7% in local currency terms in Q4 2025 based on the MSCI All-Country World index, but the road was bumpy and uneven. The government shutdown ended in the United States, although data releases were patchy and incomplete. At the same time, the US Federal Reserve (Fed) cut its target rate by 50bps but signalled a pause in its easing cycle after its December meeting, although its dot plot showed the same number of cuts as indicated by rate futures as of 31 December 2025 implying that financial markets may have that priced in. That may have offset some of the concerns around valuations and future earnings growth in the technology sector, that came despite strong results.

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



Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. Returns shown between 30 September 2025 and 31 December 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

The rally in Q4 2025 remained extremely narrow as **Figure 2** shows, with only three sectors outperforming significantly (by more than 2%): basic resources, healthcare and banks (we were Underweight the best performer and Overweight the other two). At the same time, the technology sector performing in line with the market may have revealed some of the underlying market patterns that are usually obscured by its dominance. For example, early-cyclicals, such as consumer discretionary sectors were among the worst performers, including media and consumer products and services (we were Underweight both). At the same time, late cyclicals were better able to keep pace with the market (for example industrials and energy).

Changes to model sector allocations

Drawing conclusions and finding patterns in the market has been clouded by the “AI-narrative” in the last three years. Thus, it may have been helpful that in Q4 2025 the returns of the technology sector did not stand out. The best we can conclude is that it revealed a market that despite some occasional underlying volatility keeps grinding higher as we would expect in a mature bull market. In this mid-cycle phase financials have tended to outperform in the past alongside industrials and healthcare, which is largely what happened in Q4 2025. Naturally, things do not align perfectly in every quarter in every market cycle, and the most obvious stand-out is real estate that tended to be among the best performers in the mid-cycle phase in the past but has recently underperformed. Overall, the general picture is a market that has been broadening in absolute terms as the prospect of economic reacceleration is getting closer.

Nevertheless, we would be more convinced if there were a better balance between outperformers and underperformers. It seems to us that there are only a handful of sectors pushing the market higher each quarter. Even the strong performance by basic resources, which we would normally consider a strong signal of optimism about the global economic cycle has been underpinned by the rally in gold prices implying some caution. Thus, the question we are still grappling with is how long such a narrow rally can be sustained. At the same time, the threat of a significant market pull-back still hangs over us as valuations remain rich in the technology sector accounting for over a quarter of market capitalisation globally. It is mainly driven by continued (albeit diminishing) enthusiasm about AI-related capital expenditure and sentiment turning negative could have a large impact on equities that returns in other sectors may not be able to fully counterbalance. Markets may also have been somewhat de-sensitised to regulatory uncertainty, focusing instead on potential policy support, although it can still occasionally surprise us as the volatility around the Greenland announcement shows. Left alone, we 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 our view.

Meanwhile, uncertainty around trade policy has not completely gone away as that seems to be the main tool of the Trump administration, 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, we think, we have passed “peak tariff” with a prospect that the US Supreme Court decision may reduce ones introduced in 2025, thus the risk of recession has receded and “green shoots” pointing to higher growth may appear in some economies. Nevertheless, the reacceleration in global economic growth that we expect may not be as strong as recent equity returns suggest, even though earnings growth remained strong in Q3 2025 as shown in **Figure 5**.

We 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 other macroeconomic indicators could remain mixed. 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, we 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 6** shows how global interest rates have followed inflation lower with some lag (mostly due to the Fed) and that is unlikely to change, in our view. At the moment, rate futures are pricing in about 50bps worth of rate cuts for the Fed until end-2026, slightly less for the Bank of England (BOE – as of 23 January 2026). On the other hand, the European Central Bank (ECB) and the Bank of Canada (BOC), for example seem to have reached 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 2026, according to market expectations. In any case, this divergence in policy will probably keep the US dollar weak, in our view, especially if policy uncertainty remains, 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 our model sector allocation? We 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 our view, markets could remain in the mid-cycle stage implying a broadening rally and outperformance by cyclical sectors. Nevertheless, we think that retaining some exposure to defensives could be necessary, even if we expect them to underperform outside pull-backs, unless growth surprises on the downside.

With this in mind, we reduce **healthcare** to **Neutral** from Overweight as its valuation is now closer to “fair value” (based on our multiple regression model) after its recent outperformance. At the same time, while the threat of tariffs and pressure from regulators to reduce prices has faded for now, but we think healthcare may remain a significant agenda item as we approach midterm elections in the autumn. At the same time, both

Congress and the Senate seem to be more supportive of maintaining funding for medical research, which may prevent significant increases to research & development costs for listed corporations. Also, if inflation overshoots, the Fed may rethink the two 25bps rate cuts we currently expected, removing one of the tailwinds for the sector.

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 in 2025, while "green shoots" in the global mergers and acquisitions cycle continue to strengthen. 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, although this remains a tail risk for now. Valuations look compelling based on our multiple regression model, and they are now below what we would deem "fair value". Therefore, we increase the sector to **Overweight** from Neutral in the model sector allocation.

The best and worst of the rest

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

Basic resources was the best performing sector in 2025 mostly driven by the surging gold price, resilience in the global economy and supply disruptions, especially for copper (the closure of the world's second largest mine, for example). If our 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. Valuations also look rich on both of our models implying that there may not be much upside for multiples from current levels. Thus, we remain **Underweight**.

In a nod to the hope of an improving economic environment, we maintain our **Overweight** allocation to **chemicals**. We expect strengthening in the global economy in 2026, which should support sector returns. Recent weakness in earnings growth has kept valuations attractive on both of our models, which is the main reason we 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 our multiple regression model, **construction & materials** has moved to a slight discount to "fair value". At the same time, its implied dividend growth rate is close to that of the market and therefore giving us a similar signal. Although we are concerned that higher costs of labour will continue to put pressure on profit margins, we 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, especially if order growth increases only gradually, thus we remain **Neutral**.

We are becoming more positive on the prospects of **industrial goods & services** as we may have passed "peak tariff". Although investors may become more sceptical about how quickly the boost to defence spending may show up in earnings, especially in manufacturing industries, we 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. We expect some regional differences in returns, as Chinese industrial production growth remains strong and fiscal stimulus seems to have the largest potential impact in Europe. At the same time, higher tariffs may weigh on the US, while regulatory changes and a potential slowdown in consumer spending growth could impact payment providers. Therefore, we stay **Neutral** until there are clearer signs of a reacceleration of global growth.

While it underperformed in 2025, **automobiles & parts** still looks above “fair value” versus the relative dividend yield implied by our multiple regression model. Although we 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 and geopolitical uncertainty. Also, we think the sector may only start outperforming when more sustainable drivers are behind its returns, thus we stay **Underweight** for now.

Despite underperforming in H2 2025, valuations of the **media** sector have remained rich: the sector has the second highest premium on our multiple regression model, and it has the third highest implied dividend growth. We think further underperformance is likely as any reduction in interest rates may have been priced in. Although relative forward earnings momentum is positive, margin expansion may be limited from current levels. Thus, we remain **Underweight**.

The valuation of **retailers** may not warrant too much caution, but we view the near-term prospects of a sector dominated by US names to be uncertain enough to stay **Neutral**, despite our expectation of a reacceleration in growth in 2026. The sector looks above “fair value” on our multiple regression model, and its implied dividend growth is significantly above that of the market. However, our 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. As we expected, forward earnings momentum has deteriorated, although revenue and profit growth may recover as the economy reaccelerates boosting the sector in H2 2026, thus we expect the next 12 months to be a “year of two halves”.

A reacceleration in economic growth would be good news for **travel & leisure**, and therefore we keep the sector **Overweight**. 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.

We also keep our allocation to **consumer products & services** at **Underweight**. We think luxury groups will continue to struggle especially with clouds over consumer spending growth, especially in the US. At the same time, the sector is now well-below “fair value” on our multiple regression model after underperforming in H2 2025. It tends to be a relatively resilient and well-diversified sector (which we value). However, we would prefer to wait for a more attractive entry point with clearer signs of economic reacceleration.

Within consumer staples, we keep **food, beverage & tobacco** at **Neutral** and **personal care, drug & grocery stores** at **Overweight**. We are concerned that food, beverage & 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 our view and therefore could be sensitive if economic growth underwhelms. At the same time, we would like to maintain exposure to consumer staples, and we think that personal care, drug & grocery stores may be more resilient in the face of higher volatility.

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 reaccelerates (recession is a tail risk, in our view). We 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 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 as loan delinquencies are rising in the US, for example, and there are pockets of concern in private credit, while credit card rates may also be capped at 10%, but valuations suggest that at least some of that is priced in, in our view. We stay **Overweight banks**.

We think the prospect of lower yields limited the returns of **insurance** in 2025. That headwind may remain if the Fed eases monetary policy as reflected in rate futures. We 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 us than other financials, and therefore an economic recovery may provide less of a boost. With that said, valuations look favourable on both of our models compared to most other sectors, which may offset some of the pressure on earnings. Therefore, we keep the allocation at **Neutral**.

Assuming the global economy reaccelerates as we expect, we 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 our multiple regression model and implied dividend growth, which suggests potential for multiple expansion. At the same time, rate cuts may improve their financing conditions especially in the US, albeit only gradually. We stay **Overweight**.

The biggest decision we 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 now has the largest premium based on our multiple regression model despite mild underperformance in Q4 2025, which makes it vulnerable to a turn 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 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, we value the sector’s high margins and solid cash generation, but valuations have become impossible to ignore, thus we stay **Underweight**.

On the other hand, the **telecommunications** sector has moved to a premium on our multiple regression model after outperforming in 2025. We 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. We stay **Underweight**.

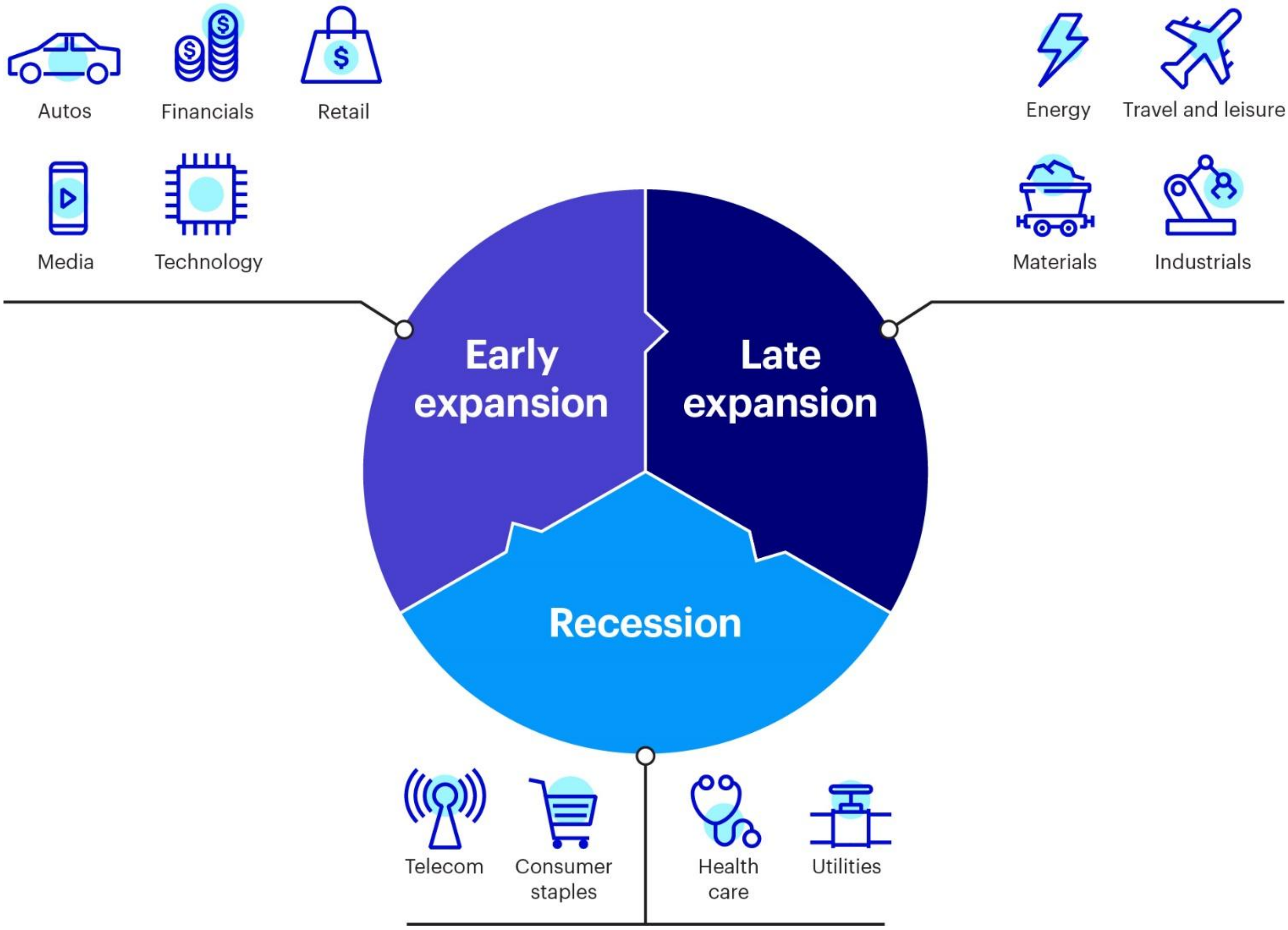
At this time we think it makes sense to keep our allocation to defensive sectors low, especially if a reacceleration in economic growth boosts the returns of cyclical sectors, thus we keep **utilities Neutral**. Valuations are only just below what we consider “fair value” on our multiple regression model, 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.

Figure 3 – Model allocations for global sectors*

	Neutral	Invesco	Preferred Region
Energy	**5.3%**	**Overweight**	**US**
Basic Materials	**3.8%**	**Neutral**	**Europe**
Basic Resources	2.7%	Underweight	Europe
Chemicals	1.2%	Overweight	US
Industrials	**12.9%**	**Neutral**	**US**
Construction & Materials	1.7%	Neutral	Europe
Industrial Goods & Services	11.1%	Neutral	US
Consumer Discretionary	**13.6%**	**Underweight**	**Europe**
Automobiles & Parts	2.7%	Underweight	Europe
Media	1.1%	Underweight	Europe
Retailers	5.2%	Neutral	US
Travel & Leisure	1.8%	Overweight	EM
Consumer Products & Services	2.8%	Underweight	Europe
Consumer Staples	**4.4%**	**Neutral**	**US**
Food, Beverage & Tobacco	2.8%	Neutral	US
Personal Care, Drug & Grocery Stores	1.6%	Overweight	Europe
Healthcare	**8.0%**	**Neutral** ↓	**US**
Financials	**16.7%**	**Overweight** ↑	**US**
Banks	8.4%	Overweight	US
Financial Services	5.3%	Overweight ↑	Japan
Insurance	3.0%	Neutral	US
Real Estate	**2.5%**	**Overweight**	**Japan**
Technology	**26.3%**	**Underweight**	**US**
Telecommunications	**3.4%**	**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

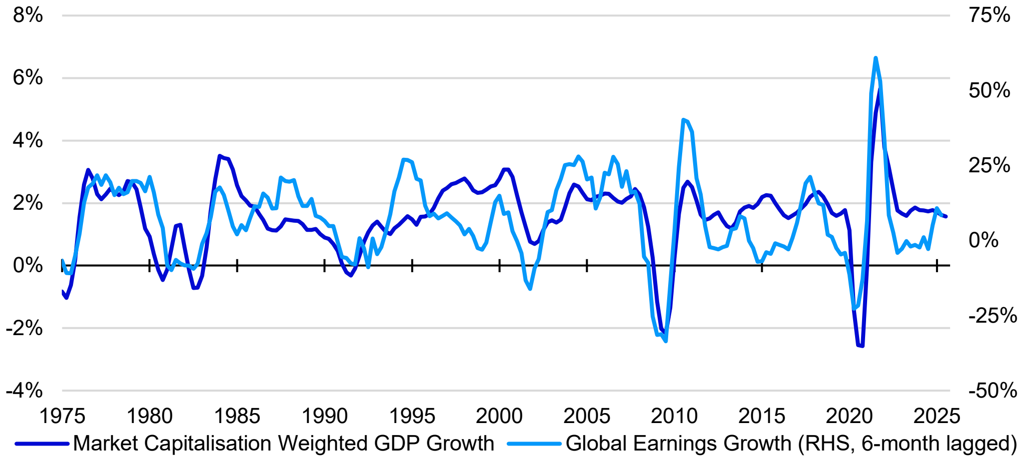
Figure 4 – Economic cycle and main sector allocation decisions



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

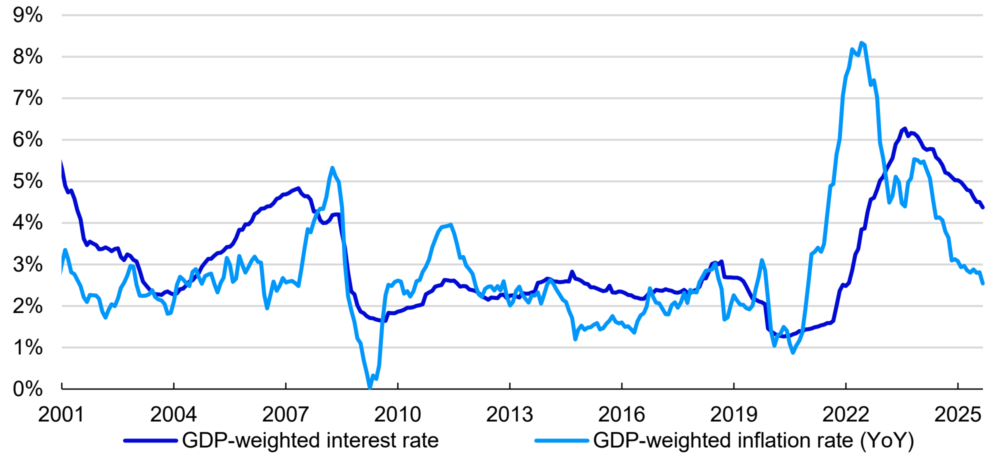
Macroeconomic indicators – Global

Figure 5 – Global GDP growth vs earnings growth since 1975



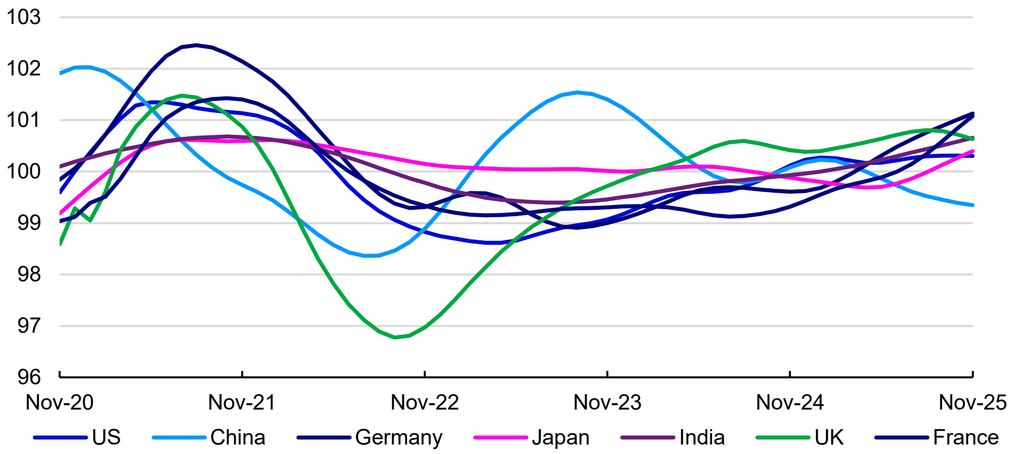
- Global GDP growth has been gradually slowing but remains at a level that could be consistent with strong earnings growth.
- However, we expect growth to reaccelerate in 2026, which would support earnings.

Figure 6 – 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 gradual changes in central bank target rates.

Figure 7 – OECD leading indicators (amplitude adjusted)

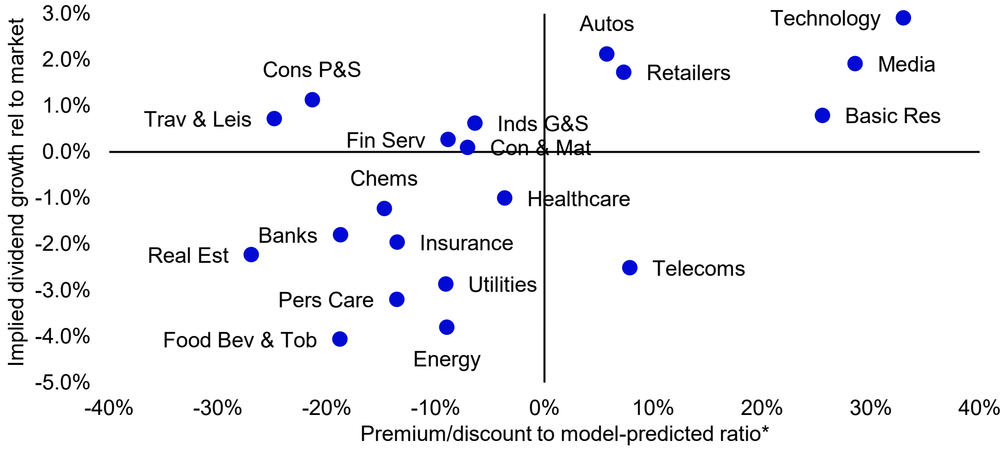


- Leading indicators imply that growth may be picking up.
- Germany and France have the strongest momentum currently, while China is the only large economy with a leading indicator below trend.

Notes: Data as of 31 December 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 Q3 2025. Figure 6 is based on monthly data from April 2001 to December 2025 using the IMF World Economic Outlook October 2025. Figure 7 is based on monthly data from November 2020 to November 2025.
Source: International Monetary Fund, OECD, LSEG Datastream, Invesco Strategy & Insights

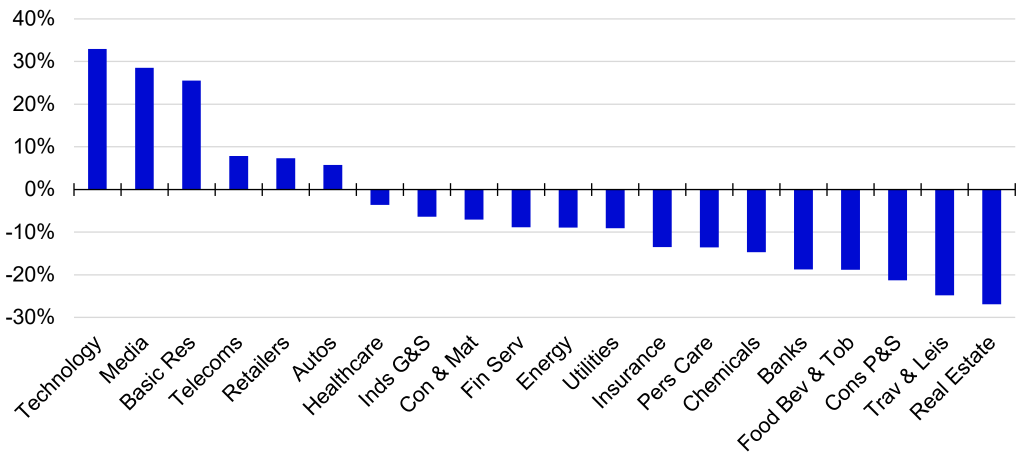
Valuations – Global

Figure 8 – Global sectors valuation matrix



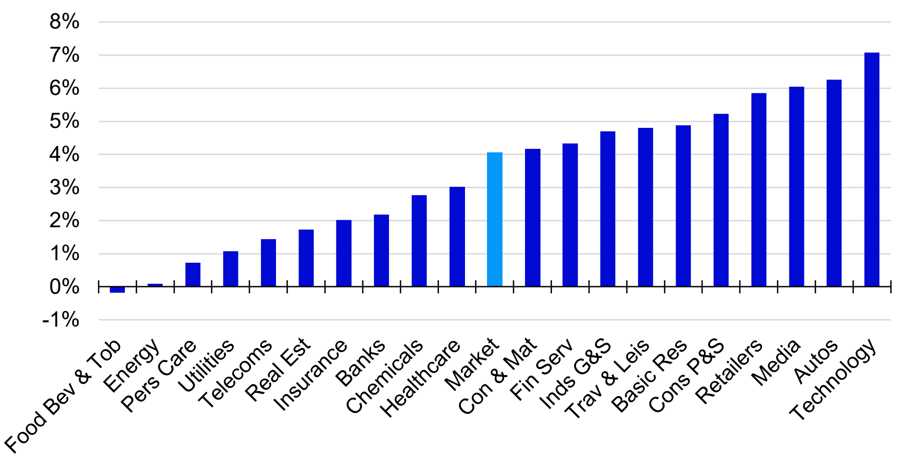
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, media, tech and basic resources.
- Food & bev., real estate, and personal care look better value

Figure 9 – Premium/discount to model-predicted ratio*



- Technology, media and basic resources look the most overvalued versus our model
- Real estate, travel & leisure, and consumer products & services seem the most undervalued versus our model-predicted ratios

Figure 10 – Global implied perpetual real dividend growth

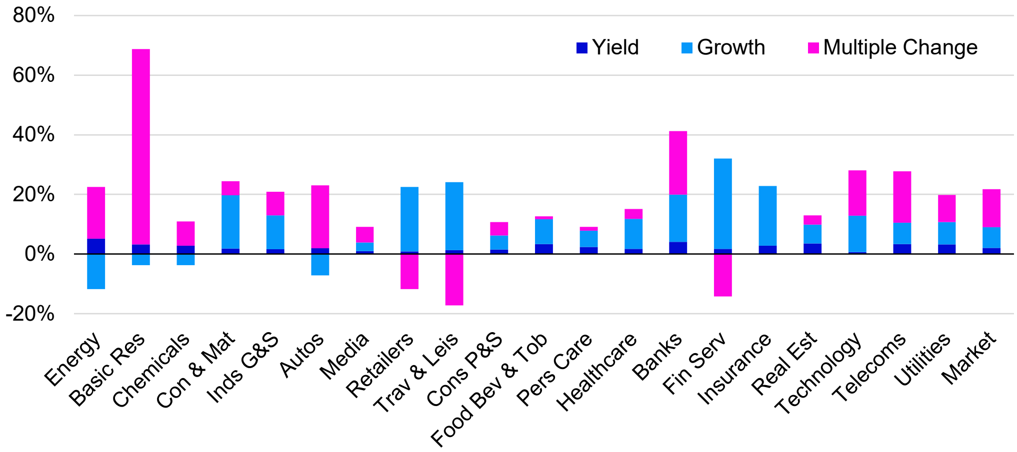


- Shows the future real growth required to justify current prices
- Technology, autos and media appear priced for over 6% real growth in dividends (expensive)
- Consumer staples and energy seem priced for sub-1% growth (cheap).

Notes: *% above/below using relative dividend yield. Data as of 31 December 2025. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

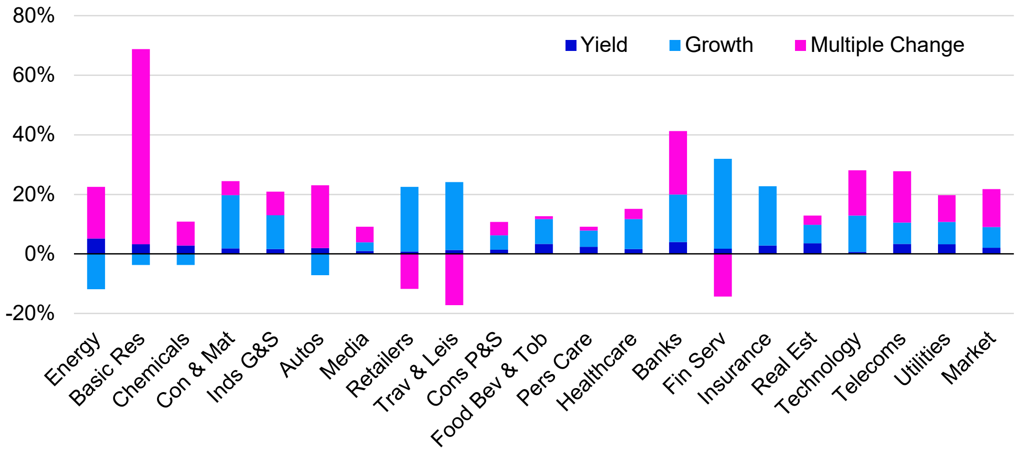
Decomposed returns – Global

Figure 11 – Global year-to-date total returns decomposed (annualised)



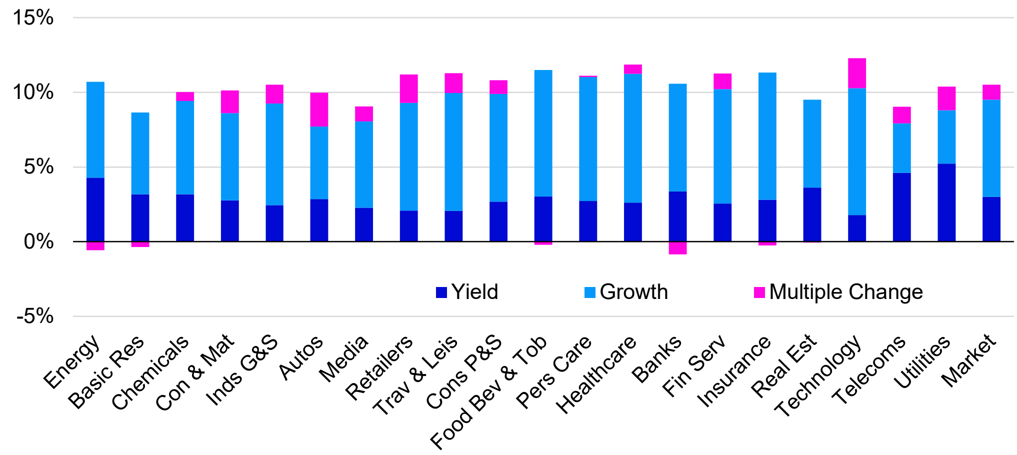
- Only four sectors had negative growth: energy, basic resources, chemicals and autos.
- Six sectors had growth above 15%: construction, retailers, travel & leisure, banks, financial services and insurance.

Figure 12 – Global rolling 12-month total returns decomposed



- Only four sectors had total returns below 10%: chemicals, media, travel & leisure and personal care.
- Only energy and banks had a yield above 4%, but five other sectors had yields above 3%: basic resources, food, beverage & tobacco, real estate, telecoms and utilities.

Figure 13 – Global overall total returns decomposed (annualised, since 1973)

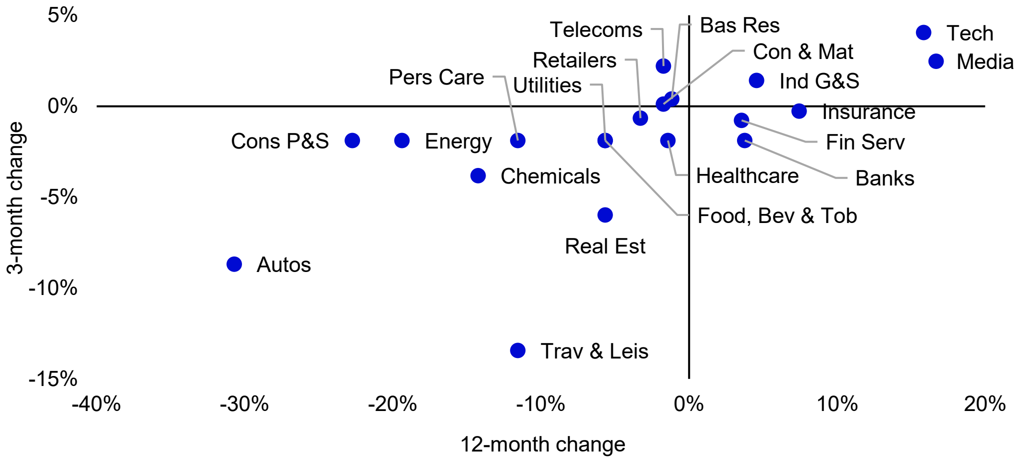


- Growth and yield drive long-term returns
- Growth is the most important, except for telcos and utilities
- Six sectors suffered from a multiple-related performance drag: energy, basic resources, food & bev, banks, insurance and real estate

Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. **Past performance is not a guarantee of future results.**
Source: LSEG Datastream and Invesco Strategy & Insights

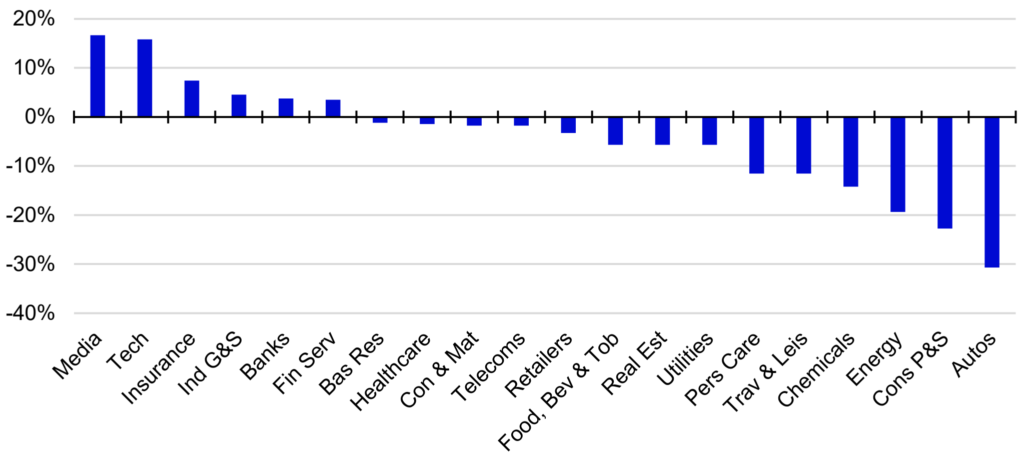
Forward earnings growth – Global

Figure 14 – Change in global 12-month forward earnings estimates relative to market



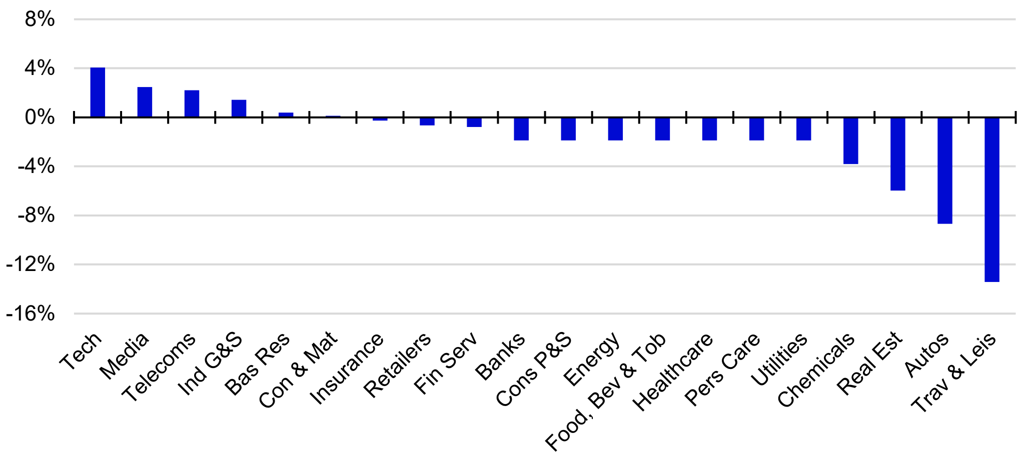
- Only three sectors have seen positive change in consensus earnings estimates over both the last 3- and 12-months.
- The change in earnings estimates seems to be turning around for telecoms, basic resources and construction.

Figure 15 – Change in global 12-month forward earnings estimates relative to market vs 12 months ago



- Media, tech insurance and industrial goods & services have seen the largest improvement in earnings
- Autos, consumer products & services and energy have the weakest forward earnings improvement.

Figure 16 – Change in global 12-month forward earnings estimates relative to market vs 3 months ago



- Tech, media, telecoms and industrial goods & services have had the best short-term momentum.
- Travel & leisure, autos and real estate have the worst short-term forward relative earnings momentum.

Notes: Data as of 31 December 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 17 – Regression coefficients of Global defensive sectors

	Food, Bev & Tobacco	Personal Care	Health Care	Telecoms	Utilities	Market
Real Oil		-0.43			0.37	
Real Copper	0.01	0.01		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	1.86	0.55	1.31	-0.68	2.53	-5.21
10y Yield	4.15		2.78	-5.26	10.18	-11.51
CPI	3.31		-2.94	-2.19	-7.14	
Net Debt/EBITDA	0.17	0.10		0.12		
ROE	-2.56	-0.78	0.90	0.96	-4.84	

Notes: Data as of 31 December 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 18 – Regression coefficients of Global resource-related and industrial sectors

	Energy	Basic Resources	Chemicals	Construction & Materials	Industrial G&S	Market
Real Oil	-2.44	-0.62				
Real Copper	0.02	-0.01		-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	-2.03		-0.74	1.33	0.23	-5.21
10y Yield		-9.45		1.40	0.36	-11.51
CPI	13.54	28.22	7.25	7.77	0.95	
Net Debt/EBITDA	-0.25	-0.10		0.26		
ROE	-4.54	-1.78	-1.84	-0.78		

Notes: Data as of 31 December 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 19 – Regression coefficients of Global consumer discretionary and technology sectors

	Autos & Parts	Media	Retail	Travel & Leisure	Cons P&S	Tech	Market
Real Oil	0.94	0.37	0.34	0.32	1.00	0.50	
Real Copper	-0.01		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	0.02	0.01
IP	-3.06		0.92		1.03	-1.71	-5.21
10y Yield	3.81	6.17	2.02	-1.00	5.18	-2.13	-11.51
CPI	-2.07	-6.70	-5.00	-3.07	-4.63	-2.89	
Net Debt/EBITDA	-0.07	0.04	0.21		-0.15	0.08	
ROE		1.56	-0.66	0.65	-2.10	0.49	

Notes: Data as of 31 December 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

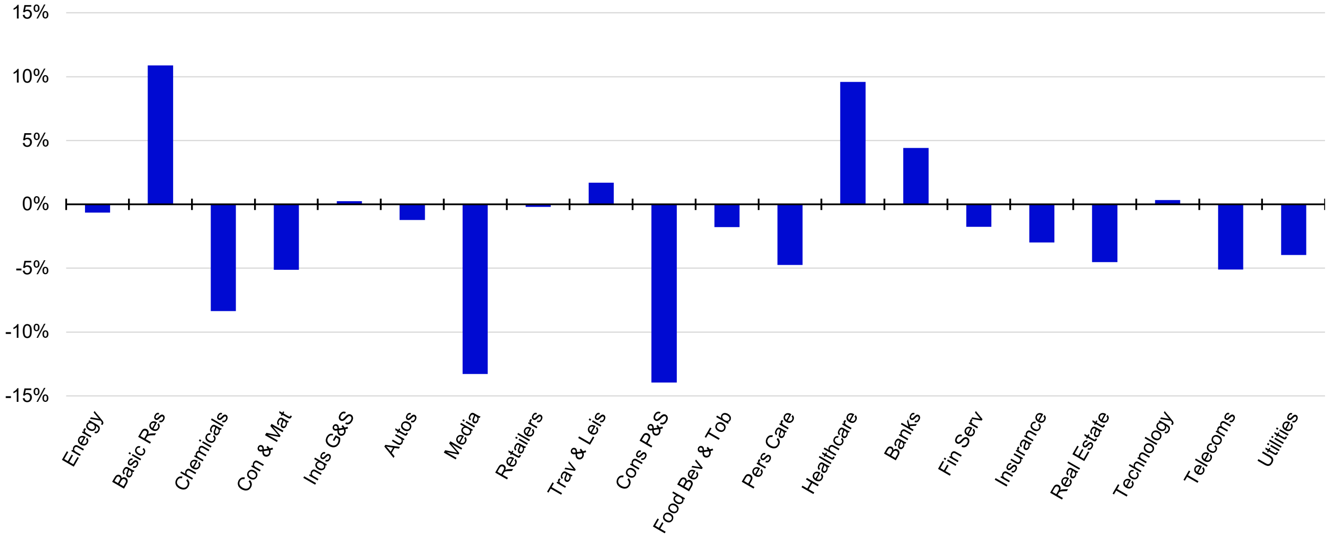
Figure 20 – Regression coefficients of Global financial sectors

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil			-0.84		
Real Copper		-0.01	0.02	-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	-2.36	1.89		3.83	-5.21
10y Yield	-6.27		-4.89	2.45	-11.51
CPI	6.09		10.04		
ROE	3.74	0.57	-1.02	-3.41	

Notes: Data as of 31 December 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

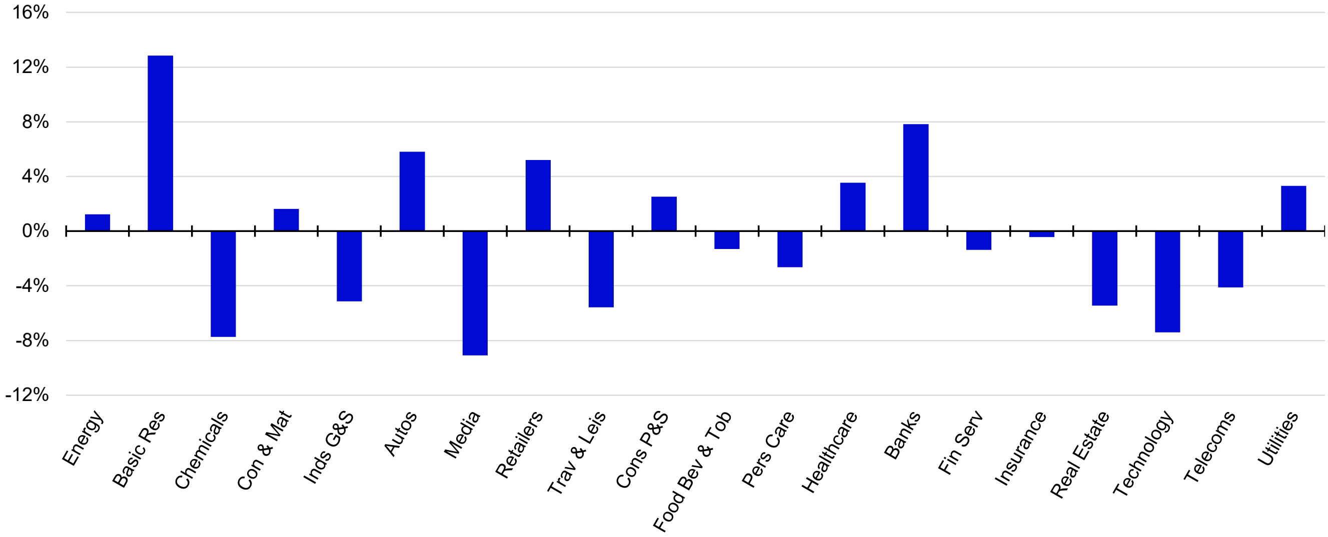
Appendix 2: Sector returns by region

Figure 21 – 3m US sector returns relative to market



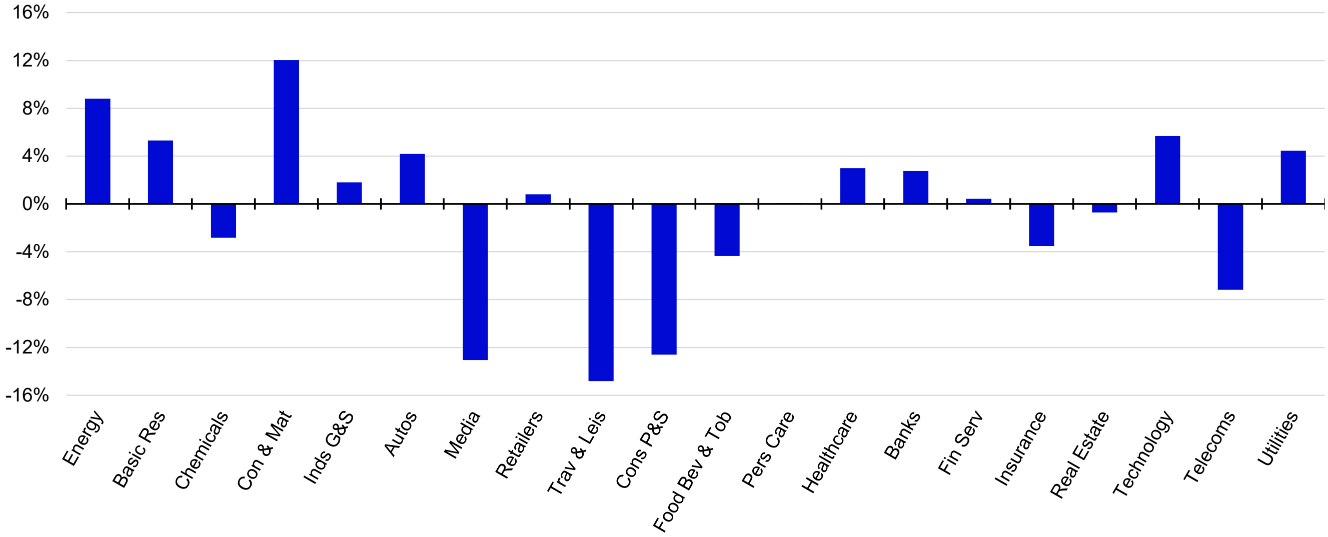
Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. Returns shown between 30 September 2025 and 31 December 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 22 – 3m European sector returns relative to market



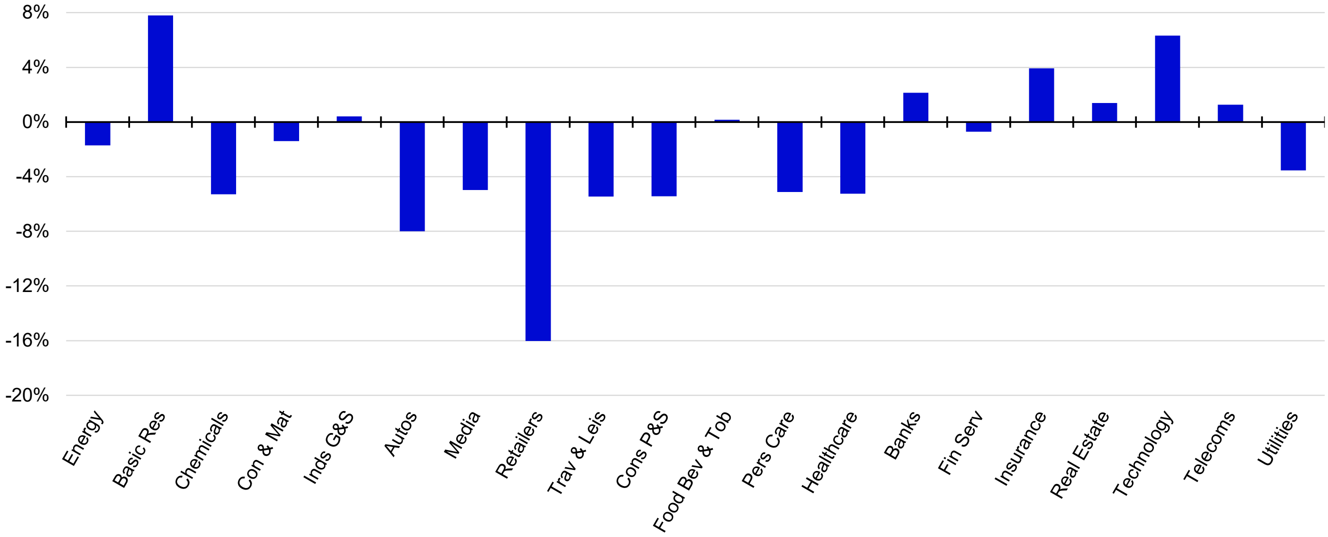
Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. Returns shown between 30 September 2025 and 31 December 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 23 – 3m Japanese sector returns relative to market



Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. Returns shown between 30 September 2025 and 31 December 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

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



Notes: Data as of 31 December 2025. See appendices for methodology and disclaimers. Returns shown between 30 September 2025 and 31 December 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

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	**15.3**	**14.4**	**0.1**	**4.3**	**3.9**	**0.4**	**1.4**	**1.8**	**-0.7**	**7.5**	**6.4**	**0.6**
Basic Materials	**23.5**	**16.8**	**1.4**	**2.1**	**2.8**	**-0.8**	**2.3**	**1.8**	**1.1**	**11.4**	**7.5**	**2.2**
Basic Resources	23.8	16.8	1.2	1.9	2.9	-1.0	2.4	1.6	1.7	11.6	7.2	1.9
Chemicals	22.8	17.4	1.0	2.6	2.9	-0.3	2.0	2.0	0.0	11.1	8.2	1.6
Industrials	**24.2**	**18.3**	**1.3**	**1.6**	**2.2**	**-0.9**	**3.4**	**2.2**	**2.6**	**14.5**	**9.4**	**2.6**
Construction & Mat.	19.0	16.8	0.5	1.8	2.5	-1.1	2.8	1.8	2.3	13.0	9.1	1.5
Industrial G&S	25.3	18.8	1.3	1.6	2.2	-0.9	3.5	2.3	2.5	14.8	9.4	2.7
Consumer Disc.	**24.9**	**19.0**	**1.1**	**1.3**	**2.2**	**-1.1**	**3.8**	**2.2**	**3.0**	**13.1**	**8.6**	**2.4**
Automobiles & Parts	23.6	15.0	1.1	1.6	2.6	-0.9	1.9	1.5	1.2	9.4	5.6	3.2
Media	23.4	22.0	0.2	1.0	2.0	-1.3	2.7	2.4	0.4	11.8	9.0	0.8
Retailers	28.5	21.8	1.0	0.9	1.8	-1.1	6.6	3.4	2.7	17.0	13.3	1.1
Travel & Leisure	21.1	23.2	-0.2	1.6	1.8	-0.3	6.4	2.8	3.1	10.5	9.4	0.3
Consumer Prod & Serv	23.9	19.6	0.9	1.4	2.4	-1.4	3.9	2.2	2.2	15.2	11.3	1.4
Consumer Staples	**22.3**	**17.1**	**1.0**	**3.0**	**2.5**	**0.5**	**2.7**	**2.7**	**0.0**	**11.9**	**10.8**	**0.4**
Food, Bev & Tobacco	21.2	18.5	0.6	3.4	2.7	0.8	2.4	2.6	-0.4	12.0	11.0	0.3
Personal Care	24.5	20.6	0.7	2.4	2.4	0.0	3.7	2.9	1.1	11.8	10.4	0.6
Healthcare	**28.2**	**20.6**	**1.3**	**1.6**	**2.3**	**-0.8**	**4.4**	**3.4**	**0.9**	**17.7**	**13.0**	**1.3**
Financials	**14.3**	**15.4**	**-0.2**	**2.8**	**2.7**	**0.1**	**1.1**	**1.4**	**-0.5**	**8.5**	**5.8**	**1.9**
Banks	12.1	14.1	-0.4	3.4	3.0	0.4	1.5	1.3	0.3	7.7	6.2	0.8
Financial Services	20.7	18.3	0.5	1.9	2.2	-0.5	0.7	1.3	-1.1	14.7	9.2	2.4
Insurance	13.6	15.8	-0.5	2.8	2.5	0.4	2.0	1.7	0.7	5.8	3.8	2.0
Real Estate	20.9	19.3	0.3	3.5	3.3	0.2	1.4	1.4	-0.1	15.9	13.8	0.8
Technology	**34.9**	**24.7**	**1.0**	**0.6**	**1.5**	**-1.0**	**9.7**	**3.5**	**4.1**	**27.1**	**12.4**	**3.1**
Telecommunications	**15.8**	**17.3**	**-0.2**	**2.9**	**4.2**	**-0.6**	**2.3**	**2.5**	**-0.2**	**6.8**	**6.1**	**0.3**
Utilities	**18.7**	**14.7**	**1.0**	**3.0**	**4.7**	**-1.0**	**2.1**	**1.6**	**1.3**	**8.2**	**5.7**	**1.7**
Market	**22.3**	**17.3**	**1.1**	**1.9**	**2.7**	**-0.9**	**2.6**	**2.0**	**1.3**	**12.9**	**8.0**	**2.8**

Notes: *in standard deviations from historical average. Data as of 31 December 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

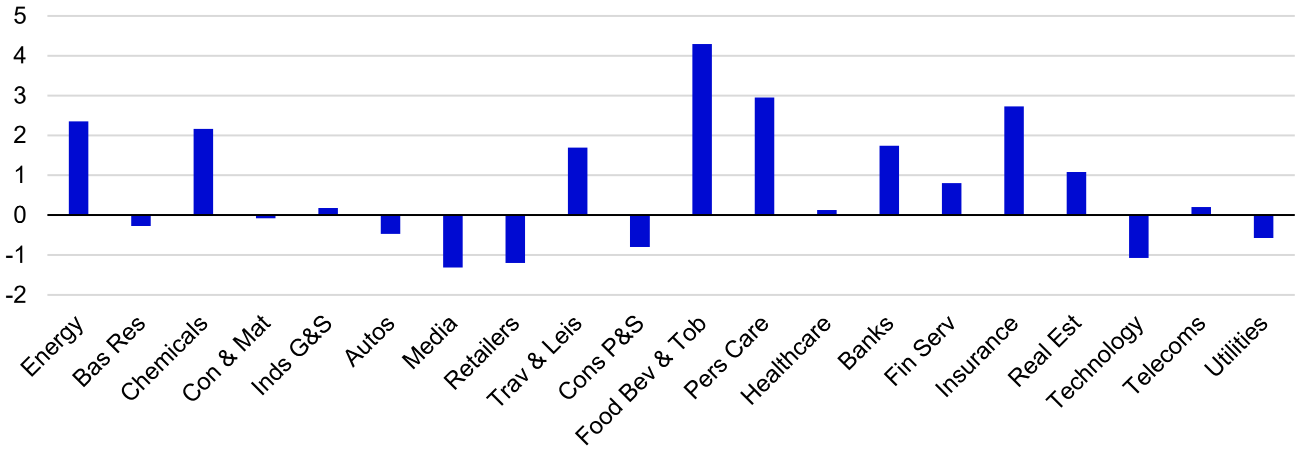
Figure 26 – Global cyclically-adjusted valuations

	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	**16.4**	**18.5**	**-0.3**	**3.9**	**2.9**	**0.9**	**1.6**	**2.6**	**-0.8**	**7.4**	**8.6**	**-0.4**
Basic Materials	**22.4**	**22.9**	**-0.1**	**2.2**	**2.0**	**0.5**	**2.2**	**2.3**	**-0.2**	**10.7**	**9.9**	**0.3**
Basic Resources	24.5	21.2	0.4	2.0	2.2	-0.3	2.2	2.1	0.1	11.1	9.2	0.6
Chemicals	18.7	24.1	-1.0	2.7	1.9	1.6	1.9	2.7	-1.4	9.8	11.0	-0.7
Industrials	**31.0**	**26.6**	**0.8**	**1.2**	**1.5**	**-0.8**	**3.9**	**3.1**	**1.4**	**17.4**	**13.1**	**1.8**
Construction & Mat.	28.8	24.0	0.5	1.3	1.8	-0.9	3.0	2.2	1.0	15.8	11.8	1.1
Industrial G&S	31.4	27.3	0.7	1.2	1.4	-0.7	4.1	3.2	1.8	17.7	12.9	2.1
Consumer Disc.	**31.4**	**27.1**	**0.9**	**1.0**	**1.4**	**-1.2**	**4.0**	**3.0**	**2.2**	**15.5**	**11.8**	**1.8**
Automobiles & Parts	20.4	18.8	0.4	1.4	1.7	-0.7	1.9	2.0	-0.1	9.5	6.8	1.9
Media	32.8	30.0	0.3	0.9	1.4	-1.5	3.0	3.3	-0.3	14.7	12.1	0.7
Retailers	46.5	32.8	2.1	0.7	1.1	-1.5	8.0	4.9	2.8	23.7	20.1	0.9
Travel & Leisure	28.0	33.6	-0.6	1.1	1.2	0.0	5.2	3.6	1.5	14.0	13.1	0.3
Consumer Prod & Serv	28.6	28.6	0.0	1.3	1.6	-0.8	4.2	3.1	1.7	17.0	15.8	0.5
Consumer Staples	**21.6**	**22.5**	**-0.2**	**2.4**	**1.7**	**1.8**	**3.2**	**3.6**	**-0.8**	**13.7**	**14.4**	**-0.4**
Food, Bev & Tobacco	23.5	27.9	-1.0	2.6	1.7	2.1	3.0	3.9	-2.0	14.2	16.1	-1.2
Personal Care	25.9	31.2	-0.8	2.1	1.5	1.4	4.0	4.3	-0.4	13.0	15.8	-1.1
Healthcare	**35.9**	**31.7**	**0.7**	**1.3**	**1.4**	**-0.4**	**5.2**	**5.2**	**0.0**	**20.6**	**19.6**	**0.3**
Financials	**20.8**	**23.0**	**-0.2**	**1.9**	**2.0**	**-0.2**	**1.4**	**1.8**	**-0.7**	**10.0**	**7.4**	**1.7**
Banks	17.8	20.3	-0.3	2.2	2.4	-0.1	1.6	1.7	-0.1	9.5	7.9	0.7
Financial Services	27.4	29.0	-0.1	1.2	1.5	-0.5	0.9	1.8	-1.3	18.0	11.5	2.4
Insurance	22.4	23.6	-0.1	1.8	1.7	0.3	2.3	2.4	-0.1	6.1	4.9	1.2
Real Estate	16.4	25.6	-0.7	3.5	2.6	0.9	1.4	1.7	-0.9	15.0	16.9	-0.5
Technology	**65.6**	**39.9**	**1.2**	**0.4**	**0.9**	**-1.0**	**13.0**	**5.4**	**2.7**	**41.0**	**20.3**	**2.1**
Telecommunications	**20.7**	**22.5**	**-0.2**	**2.8**	**3.1**	**-0.2**	**2.5**	**3.2**	**-0.6**	**7.0**	**7.5**	**-0.2**
Utilities	**23.4**	**18.7**	**1.0**	**2.6**	**3.5**	**-1.0**	**2.2**	**2.0**	**0.5**	**9.2**	**7.0**	**1.7**
Market	**29.3**	**24.8**	**0.8**	**1.5**	**1.8**	**-0.8**	**3.0**	**2.7**	**0.4**	**14.9**	**10.9**	**2.1**

Notes: *in standard deviations from historical average. Data as of 31 December 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

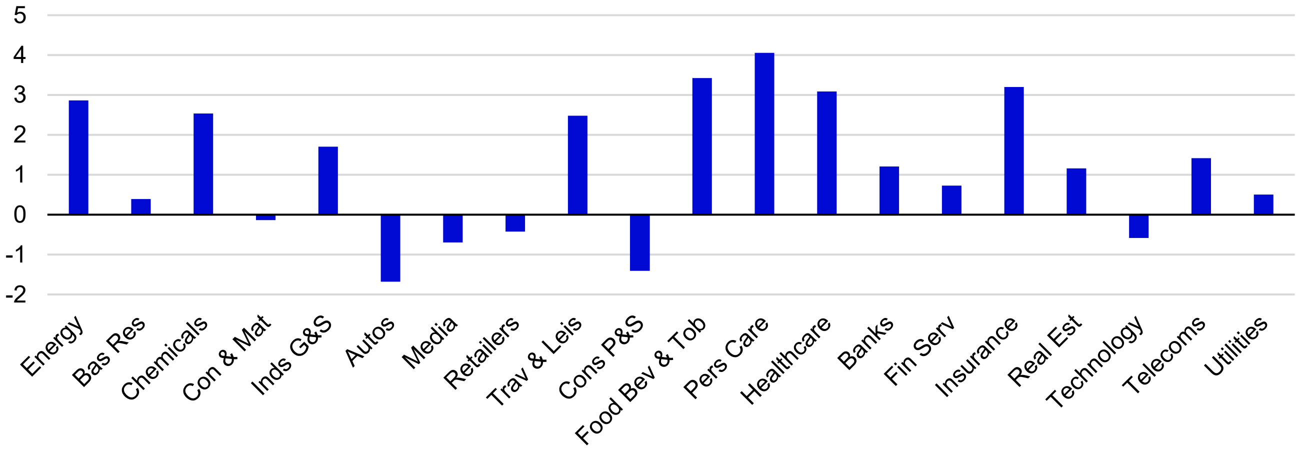
Appendix 4: Sector valuations by region

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



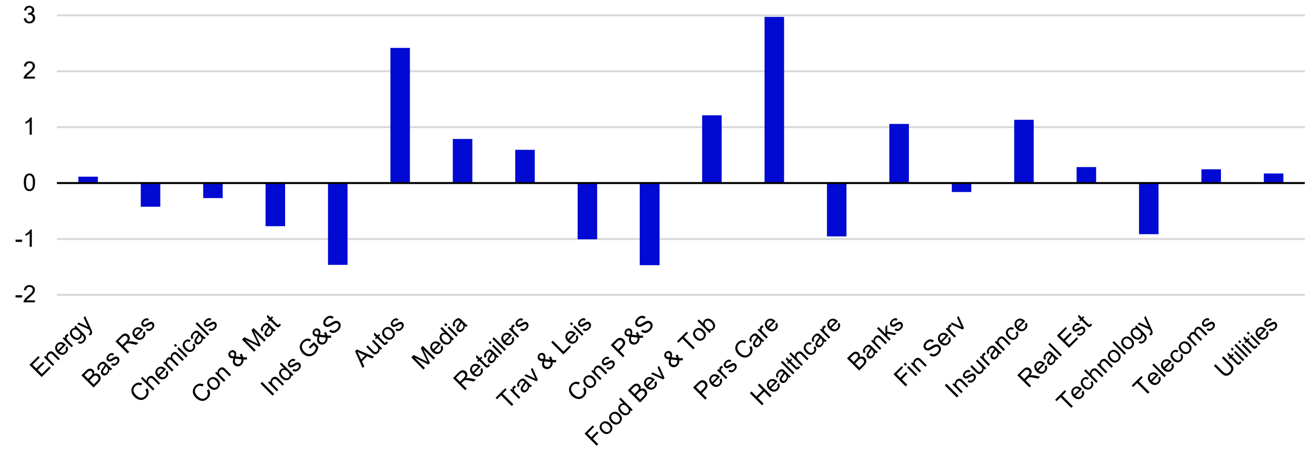
Notes: Data as of 31 December 2025. Based on data between 1 January 1973 and 31 December 2025. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

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



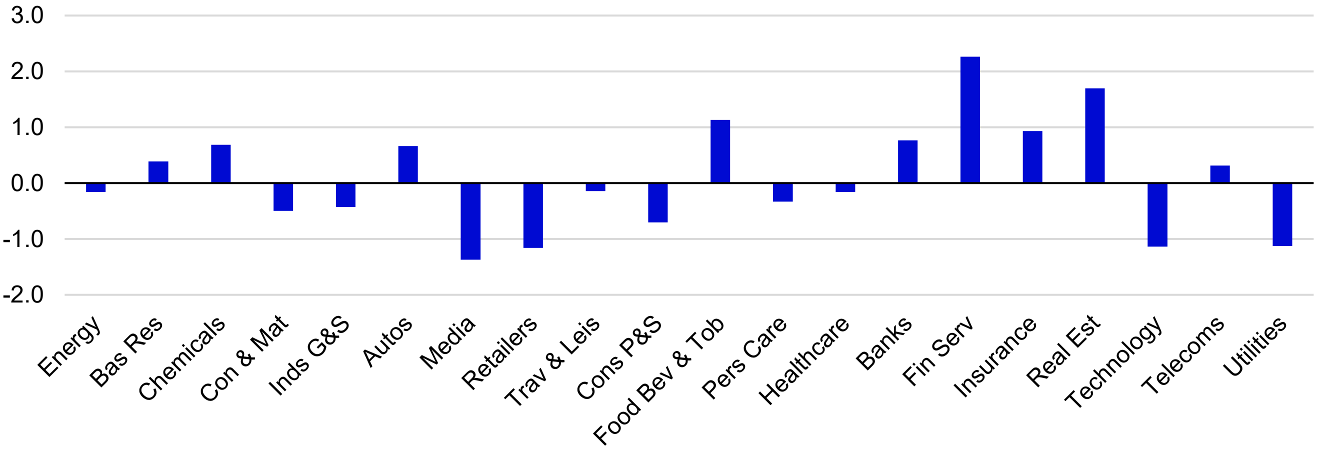
Notes: Data as of 31 December 2025. Based on data between 1 January 1973 and 31 December 2025.See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

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



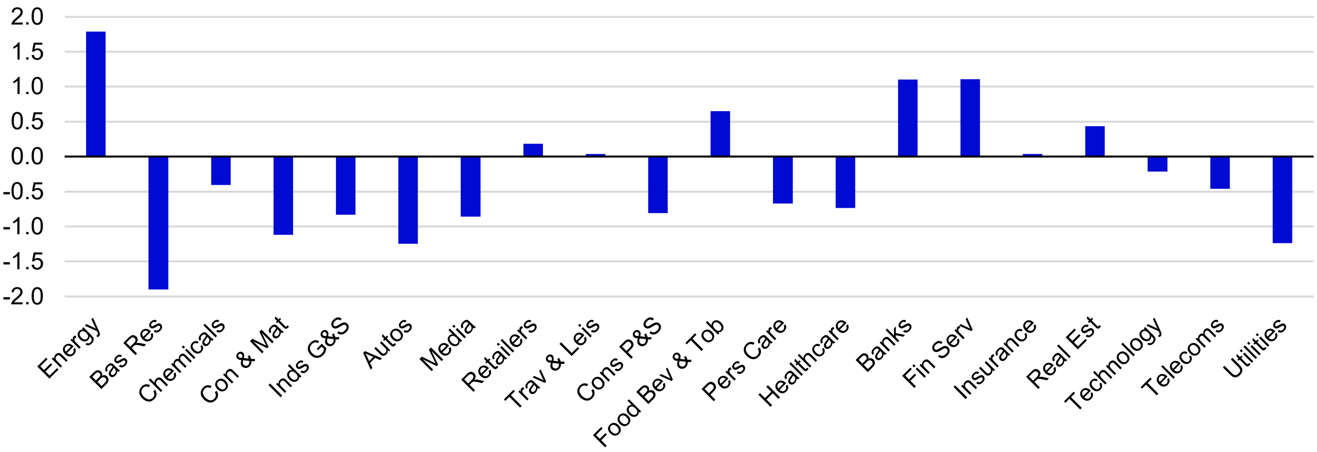
Notes: Data as of 31 December 2025. Based on data between 1 January 1973 and 31 December 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

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



Notes: Data as of 31 December 2025. Based on data between 1 January 1973 and 31 December 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 31 – Emerging markets dividend yields relative to local benchmark (z-score)



Notes: Data as of 31 December 2025. Based on data between 1 January 1973 and 31 December 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 32 – Global equity sector total returns relative to market

Data as of 31 Dec 2025	Global				
	3m	YTD	12m	5y*	10y*
Energy	**-0.2**	**-9.4**	**-9.4**	**1.4**	**-3.8**
Basic Materials	**5.1**	**16.5**	**16.5**	**-1.0**	**0.5**
Basic Resources	10.5	36.0	36.0	4.1	5.2
Chemicals	-5.6	-12.2	-12.2	-8.8	-5.0
Industrials	**-0.7**	**-0.4**	**-0.4**	**-0.7**	**0.0**
Construction & Materials	-0.2	2.2	2.2	1.5	-0.5
Industrial Goods & Services	-0.8	-0.8	-0.8	-1.0	0.1
Consumer Discretionary	**-3.7**	**-8.9**	**-8.9**	**-4.9**	**-2.0**
Automobiles & Parts	0.2	-4.9	-4.9	-2.8	-1.3
Media	-12.9	-10.7	-10.7	-6.2	-3.3
Retailers	-2.8	-9.2	-9.2	-3.5	-0.1
Travel & Leisure	-2.2	-12.3	-12.3	-5.0	-4.7
Consumer Products & Services	-6.0	-9.2	-9.2	-7.6	-2.8
Consumer Staples	**-2.1**	**-8.7**	**-8.7**	**-6.8**	**-5.5**
Food, Beverage & Tobacco	-1.2	-7.5	-7.5	-6.3	-5.7
Personal Care, Drug & Grocery Stores	-3.5	-10.6	-10.6	-7.7	-5.5
Healthcare	**6.2**	**-5.5**	**-5.5**	**-5.0**	**-2.7**
Financials	**2.0**	**6.8**	**6.8**	**4.9**	**0.4**
Banks	5.2	16.7	16.7	7.1	0.2
Financial Services	-1.7	-3.3	-3.3	2.3	1.6
Insurance	0.4	1.1	1.1	4.0	0.3
Real Estate	**-3.4**	**-7.2**	**-7.2**	**-7.3**	**-5.9**
Technology	**-0.4**	**5.0**	**5.0**	**5.9**	**9.3**
Telecommunications	**-1.3**	**5.1**	**5.1**	**-2.3**	**-3.8**
Utilities	**-1.1**	**-1.5**	**-1.5**	**-1.9**	**-1.5**

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 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

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 31 December 2025 unless stated otherwise. This publication is updated quarterly.

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