Invesco

Strategic Sector Selector

Approaching late cycle?

The mild pull-back in global equities during Q1 2026 was driven by the US-Iran conflict, while AI-related disruption simmered in the background. Market leadership stayed narrow with resource-related sectors and "defensive value" outperforming driven by concerns about higher inflation and lower economic growth. We think the probability of global recession remains low, though no longer a tail risk. A reacceleration in growth could be delayed by higher inflation than previously assumed and commodity supply disruptions. We think there may continue to be volatility in the short term, but we see upside in the next 12 months as the global economy moves towards trend growth. However, with markets displaying a more late-cycle tilt, we shift our model allocation in that direction by switching our preference from chemicals to basic resources and upgrading construction & materials and utilities. We also further reduce our exposure to consumer discretionary by downgrading retailers and travel & leisure to Underweight.

Changes in our Model Sector Allocations:

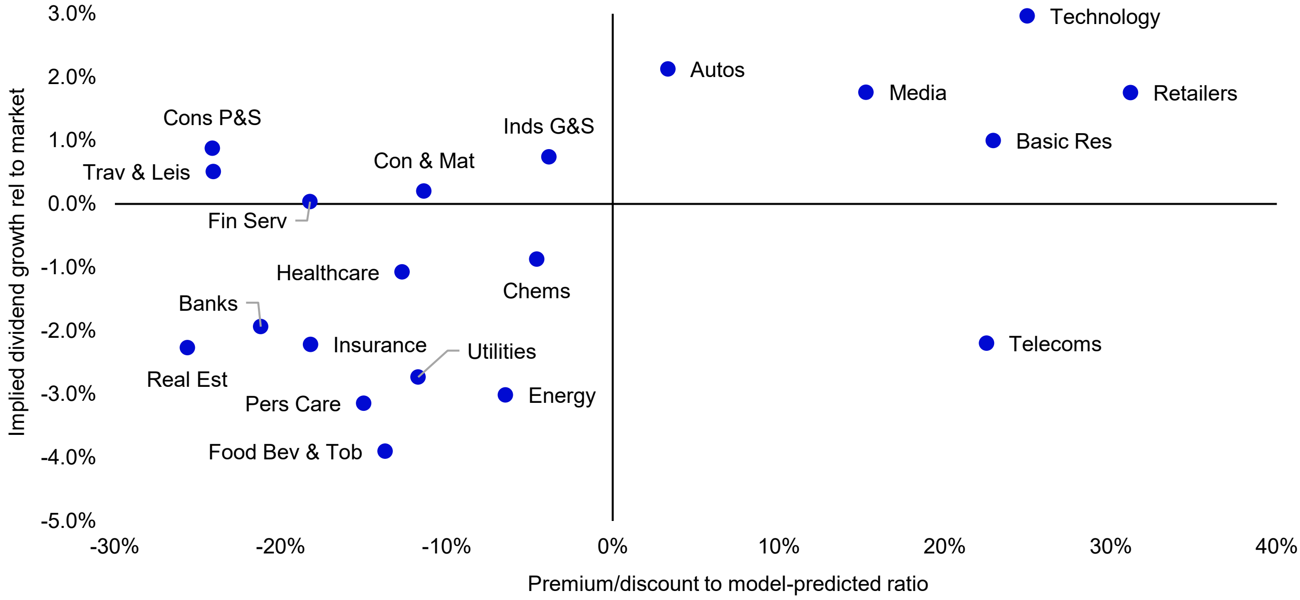
- Upgrades: basic resources (UW to OW), construction & materials, utilities (N to OW), consumer products & services, technology (UW to N)
- Downgrades: chemicals, travel & leisure (OW to UW), retailers (N to UW), banks (OW to N)

Most favoured	Least favoured
European energy	US media
US utilities	European travel & leisure

Sectors where we expect the best returns:

- 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
- Utilities: attractive valuations, resilient to higher energy prices, exposure to "defensive value"

Figure 1 – Global sectors valuation matrix



Notes: Data as of 31 March 2026. 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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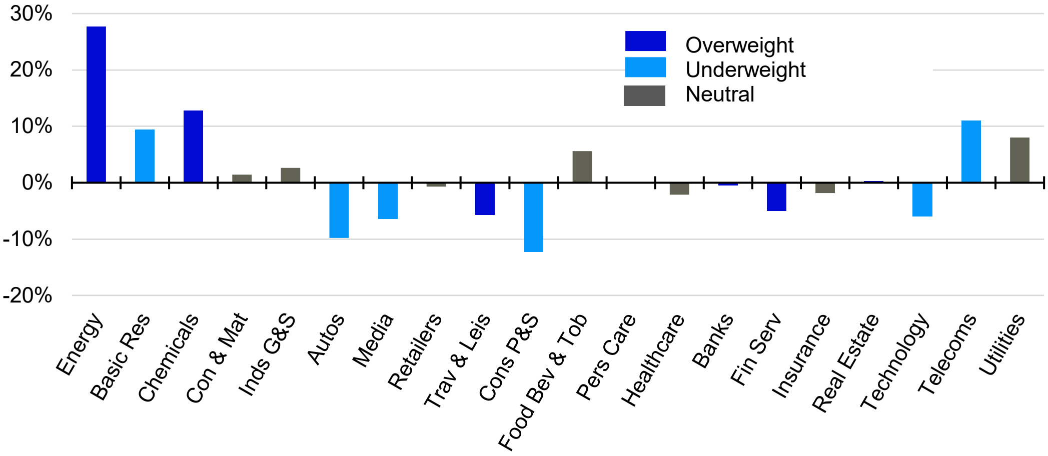
Summary and conclusions

Since the last time

Global equities dropped by 2.5% in local currency terms in Q1 2026 based on the MSCI All-Country World index mostly driven by uncertainty around the US-Iran conflict. The surge in energy prices fuelled concerns about both growth and inflation. We view the probability of a 1970s-style stagflationary environment low, but we think the impact on the global economy will be visible, especially if the Strait of Hormuz remains closed for an extended period. Rising energy prices also drove a major repricing of rate expectations with the Fed no longer expected to ease monetary policy, while other major developed market central banks expected to raise their target rates based on futures (as of 22 April 2026). At the same time, other underlying themes added to volatility in equities, such as AI-related disruption in several industries including software.

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



Notes: Data as of 31 March 2026. See appendices for methodology and disclaimers. Returns shown between 31 December 2025 and 31 March 2026. 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 the conflict deepened, market leadership shifted into stocks that would likely be the most resilient in an environment of energy supply disruptions and slowing economic growth. Thus, the outperformance of resource-related sectors and certain defensives is no surprise to us. Our model sector allocation was not originally positioned for this eventuality even if we highlighted geopolitical risks as one of the reasons to keep our Overweight in energy. Nevertheless, we were Overweight the two best-performing sectors (energy and chemicals) and Underweight the four worst-performing ones, despite not being as defensive as we should have been with the benefit of hindsight.

Changes to model sector allocations

Our hunch that geopolitical risk has not completely gone away seems to have been proven right. Regardless, we were still surprised when it finally arrived, especially as it seems to have no resolution in sight. There were no obvious signs of a conflict of this magnitude breaking out at the start of 2026, and we did not expect the United States government to venture into the Middle East, yet again. At the same time, the “AI-narrative” is still simmering in the background, periodically bringing forward new surprises. Nevertheless, we have not changed our view that we are somewhere in the second half of the mid-cycle phase, which despite some occasional underlying volatility, keeps markets grinding higher. In this mid-cycle phase financials have tended to outperform in the past alongside industrials and healthcare. Naturally, things do not align perfectly in every quarter in every market cycle, and a surge in energy prices tends to throw returns off course. This gave markets more of a late-cycle flavour in Q1 2026 with a mix of resource-related and industrial sectors outperforming alongside “defensive value”. Some of these sectors may continue outperforming as the current market cycle matures further and economic growth reaccelerates after a pause, depending on when the Strait of Hormuz reopens.

Interestingly, the jump in energy prices has pushed AI-related concerns into the background, while we have seen some broadening in equities before the US-Iran war started at the end of February 2026. Nevertheless, we were hoping for a better balance between outperformers and underperformers, especially as it seems to us that there is a rotating selection of a handful of sectors pushing the market higher each quarter. This pattern seems to be following us into the second quarter so far with technology mega-caps leading the market higher. Even after a significant reset, their valuations have remained high, which has not solved the issue of serious market concentration risks with the technology sector accounting for about a quarter of market capitalisation globally. Thus, apart from another war in the Middle East, we are still grappling with the question of how long markets could be driven by continued (albeit diminishing) enthusiasm about AI-related capital expenditure, while 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 geopolitical uncertainty as their relatively stoical response to the Iran situation shows. This may still change if it drags on for longer and its impact starts showing up in hard economic data and earnings. Left alone, we think the global economy could still reaccelerate in the next 12 months despite potentially sticky inflation, while we expected less monetary policy support than rate futures signalled, especially in the US. Despite a favourable decision by the US Supreme Court, trade barriers 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.

Even if markets have not been troubled too much so far, we think supply disruptions and higher energy prices may reduce how far growth could reaccelerate in 2026 compared to what we expected a few months ago. In our view, uncertainty may remain high, and that could have a slow detrimental effect on corporate investment decisions. At the time of writing, it is too early to say if we passed “peak conflict”, therefore it may not be prudent to treat the risk of slowdown in growth as a tail risk, partially due to the reduced probability of significant monetary easing in the short term. At the same time, consumer spending remains resilient in the US, for example, and Q1 2026 GDP growth in the UK seems stronger than previous consensus expectations, while energy rationing has only impacted a limited number of countries for now. Thus, we think the global economy was in decent shape pre-conflict and even a mild slowdown could still be consistent with strong earnings growth as shown in **Figure 5**.

We 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, as the impact of disrupted oil and gas flows may take time to register. The Fed is likely to wait for these impacts to at least partially play out, although it may be prepared to look through a temporary increase in inflation, especially given some weakness in the labour market and its transition into new leadership. However, we think there is a risk that inflation may stay above target beyond H2 2026 (and outside Developed Market central banks’ “comfort zone” of 1-3%), especially if the conflict is not resolved soon. **Figure 6** shows how global interest rates have followed inflation with some lag (mostly due to the Fed) and that is unlikely to change, in our view. At the moment, cuts seem to be off the table even for the Fed until end-2026 based on rate futures. Other central banks are priced for hikes including two for the Bank of England (BOE), the Bank of Japan (BOJ) and the European Central Bank (ECB) – as of 22 April 2026. Futures prices may swing in the other direction if there are signs of energy markets returning to normal. This would still imply some US dollar weakness, even if this may be less sharp than we thought before the US-Iran war. It may also give Emerging Market central banks 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 may remain high in the short term, while valuations remain rich in some parts of the market. In our view, equities could remain in the mid-cycle stage implying a broadening rally and outperformance by cyclical sectors. Nevertheless, we think that a slight increase in the exposure to defensives could be necessary to dampen volatility, even if we expect them to underperform outside pull-backs, unless high energy prices suppress growth.

A combination of rising inflation (partly driven by high commodity prices), accelerating growth and rich valuations makes us think that we may be approaching the late-cycle phase in the equity market cycle. **Basic resources** may have been the best performing sector in 2025 and one of the few outperformers year-to-date mostly driven by high gold prices, 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 reacceleration of growth plays out, this would imply that the recovery is at least partly priced in. However, most of the total returns have been driven by higher dividend growth and we see the sector as well-placed to maintain that especially if growth surprises on the upside. Even if higher growth dampens the rally in gold – and gold miners –, which accounted for about half of the market value gains in the sector in 2025, we think industrial commodities could stay near current levels assuming the US dollar does not strengthen from current levels (they may also help mitigate against inflation). Valuations may look rich on both of our models implying limited upside for multiples from current levels, but they may be justified if earnings momentum remains positive. It may seem a risky proposition, but we upgrade to **Overweight**.

Strong year-to-date returns in **chemicals** surprised us and we think that most of the upside we expected may have been brought forward, even if it was driven mostly by supply disruptions due to the closure of the Strait of Hormuz. A strengthening of the global economy could support the sector, but input costs have also increased with oil and natural gas prices remaining high for the moment. Even if supplies of energy commodities return to normal, this could take time, while margins may be hit in the near term. We think expectations of lower margins may have driven the negative forward earnings momentum in the sector. Valuations seem favourable, but they have gradually moved closer to fair value on our models. This does not reflect the risks the sector could face, in our view, thus we downgrade to **Underweight**.

After spending most of the last three years with valuations at a premium on our multiple regression model, **construction & materials** has moved to a discount to "fair value". At the same time, its implied dividend growth rate is close to that of the market. Although input costs may have risen in the near term, we view the sector as a beneficiary of European plans to spend on infrastructure and defence and AI-related capital expenditure especially in the US. This no longer seems to be fully reflected in forward earnings growth, which has the potential for upside surprises, especially if order growth increases driven by a potential reacceleration of growth. We upgrade to **Overweight**.

The valuation of **retailers** has reached levels that makes us cautious, and we view the near-term prospects of a sector fully exposed to increasing inflation to be uncertain enough to downgrade to **Underweight**. The sector has the highest valuations on our multiple regression model, and its implied dividend growth is significantly above that of the market. At the same time, we are concerned that the sector will have little choice but to raise prices, 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 if the economy reaccelerates, but that may take some time.

A reacceleration in economic growth would have been good news for **travel & leisure**, but surging fuel prices and supply disruptions make us concerned enough to downgrade the sector to **Underweight**. Real wage growth may not strengthen as much as we previously expected, given higher inflation. At the same time, costs are rising with oil prices potentially remaining high even if the US-Iran conflict is resolved soon. Jet fuel may also have to be rationed leading to capacity constraints during the Northern Hemisphere summer. Sector valuations may look attractive on our multiple regression model implying that there may be scope for multiple expansion, but we cannot look through deteriorating earnings momentum.

Within consumer discretionary, **consumer products & services** looks similarly undervalued on our multiple regression model implying that a significant amount of bad news may be priced in after being the worst performer year-to-date. In our view, luxury groups are well-placed to weather higher inflation, while the sector is diversified enough to be resilient even if the recovery in growth takes time. We think the time has come to be less cautious about the sector even if demand may remain weak in the short term and upgrade it to **Neutral**.

At the same time, we think the probability of major issues in the banking sector has risen slightly, especially if monetary policy easing is at an end. Meanwhile, an economic slowdown partly driven by rising inflation may no longer be a tail risk, in our view. We also expect the yield curve to steepen less implying a lower probability of outperformance especially in the US and UK (although deregulation may still 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. Meanwhile, we cannot sound the all-clear that the risk stemming from higher interest rates has passed with pockets of concern in private credit, for example. We think Valuations suggest that at least some of that is priced in, but we think more caution is warranted, thus we downgrade **banks** to **Neutral**.

The biggest decision we face every quarter concerns the largest sector (based on market cap): **technology**. After underperforming in Q1 2026, sector valuations moderated somewhat, though remain elevated. The sector has the second largest premium based on our multiple regression model, 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. Investors still demand proof that those investments in AI are bearing fruit, but we value the sector’s high margins and solid cash generation, especially in times of uncertainty, thus we upgrade to **Neutral**.

There are times when we have to admit that our model allocations reflected expectations of a different market environment, which is why we thought it made sense to keep our exposure to defensive sectors low. However, any reacceleration in economic growth may come with a delay and potentially be paired with higher inflation partly driven by higher energy prices. Thus, we think exposure to “defensive value” through **utilities** could provide our model sector allocation with more diversification, thus we upgrade it to **Overweight**. Valuations are well-below what we consider “fair value” on our multiple regression model and 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 between the US/Israel and Iran, the situation remains fluid and the Strait of Hormuz is effectively shut. Thus, we retain our **Overweight** allocation to the **energy** sector. Unfortunately, we were right in our concerns over geopolitics that were still simmering in the background (outside the Middle East, Russian refining capacity has been seriously damaged, for example). Even though we think that when the current period of uncertainty subsides, oil prices could fall, we expect that to be gradual. With a potential economic reacceleration on the horizon, we would like to maintain exposure to the sector, especially as valuations remain attractive on both of our models.

We remain positive on the prospects of **industrial goods & services** as we look to have passed “peak tariff” even if high energy prices can delay the reacceleration of economic growth we expect. 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. Having said that, 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 the reacceleration of the global economy.

Even as it has continued to underperform year-to-date, **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 may benefit from a reacceleration in economic growth, its long and geographically dispersed supply chains give it full exposure to higher 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 since mid-2025, valuations of the **media** sector have remained rich: the sector has the fifth highest premium on our multiple regression model, and it has the third highest implied dividend growth. We think further underperformance is likely as interest rates may not decrease significantly. Although relative forward earnings momentum is positive, margin expansion may be limited from current levels. Thus, we remain **Underweight**.

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 falling demand as tariffs remain high and energy price increases filter through. 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 keep **healthcare** at **Neutral** even though its valuation is now below what we consider “fair value” (based on our multiple regression model) after its recent underperformance. While the threat of tariffs and pressure from regulators to reduce prices has faded for now, we think healthcare may remain a significant agenda item as we approach US 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. On the other hand, if inflation overshoots, the Fed may not cut rates in 2026, 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 geopolitical and regulatory uncertainty increases. Valuations look compelling based on our multiple regression model and staying below what we would deem “fair value”. Therefore, we keep the sector **Overweight** in the model sector allocation.

We think the prospect of lower yields limited the returns of **insurance** in 2025. That headwind may not return if the Fed keeps its target rate near current levels 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**.

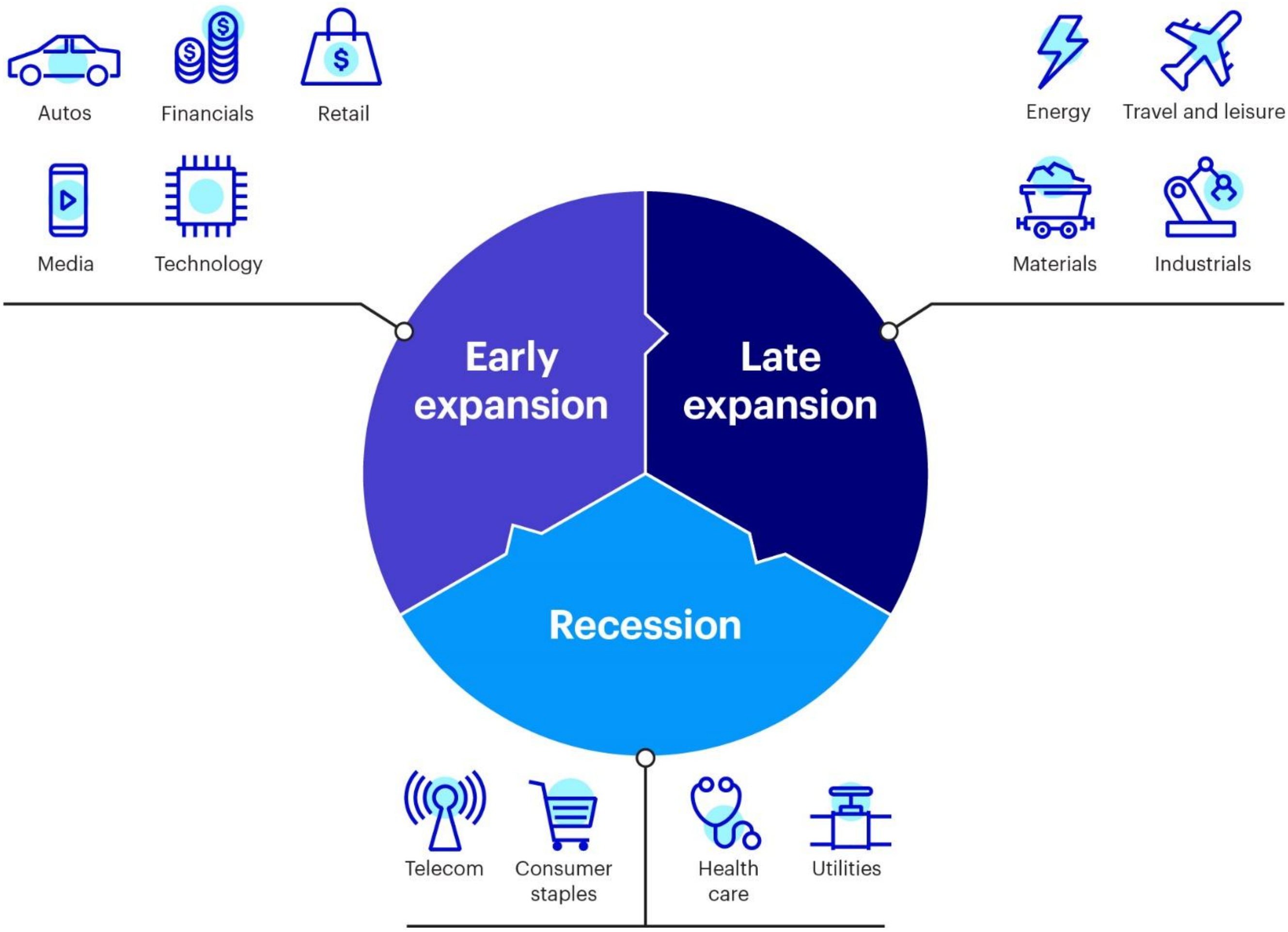
On the other hand, the **telecommunications** sector has remained at a premium on our multiple regression model after outperforming in 2025. This puts it at a disadvantage compared to utilities, even if we consider it a “defensive value” sector, well-suited to an environment where the Fed does not ease monetary policy. At the same time, we would like to limit our exposure to defensive sectors in general, especially if an economic reacceleration eventually boosts the returns of cyclical sectors. We stay **Underweight**.

Figure 3 – Model allocations for global sectors*

	Neutral	Invesco		Preferred Region
Energy	**6.7%**	**Overweight**		**Europe**
Basic Materials	**4.3%**	**Neutral**		**Europe**
Basic Resources	3.0%	Overweight	↑	Europe
Chemicals	1.3%	Underweight	↓	US
Industrials	**12.8%**	**Neutral**		**US**
Construction & Materials	1.8%	Overweight	↑	Europe
Industrial Goods & Services	11.0%	Neutral		US
Consumer Discretionary	**12.9%**	**Underweight**		**Europe**
Automobiles & Parts	2.6%	Underweight		Europe
Media	0.9%	Underweight		Europe
Retailers	5.2%	Underweight	↓	US
Travel & Leisure	1.7%	Underweight	↓	EM
Consumer Products & Services	2.5%	Neutral	↑	Europe
Consumer Staples	**4.5%**	**Neutral**		**US**
Food, Beverage & Tobacco	2.9%	Neutral		US
Personal Care, Drug & Grocery Stores	1.6%	Overweight		Europe
Healthcare	**7.9%**	**Neutral**		**US**
Financials	**16.2%**	**Neutral**	↓	**US**
Banks	8.3%	Neutral	↓	Japan
Financial Services	5.0%	Overweight		Japan
Insurance	2.9%	Neutral		US
Real Estate	**2.5%**	**Overweight**		**Japan**
Technology	**24.9%**	**Neutral**	↑	**US**
Telecommunications	**3.8%**	**Underweight**		**US**
Utilities	**3.4%**	**Overweight**	↑	**US**

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

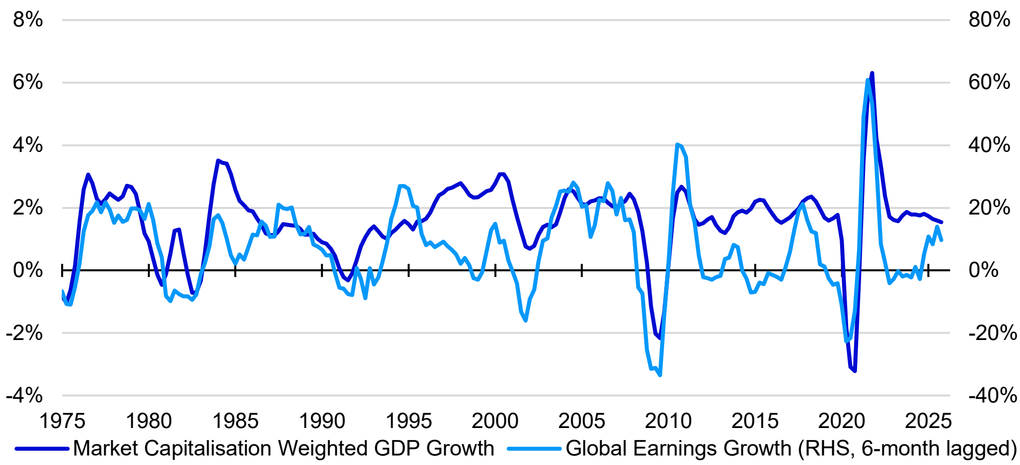
Figure 4 – Economic cycle and main sector allocation decisions



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

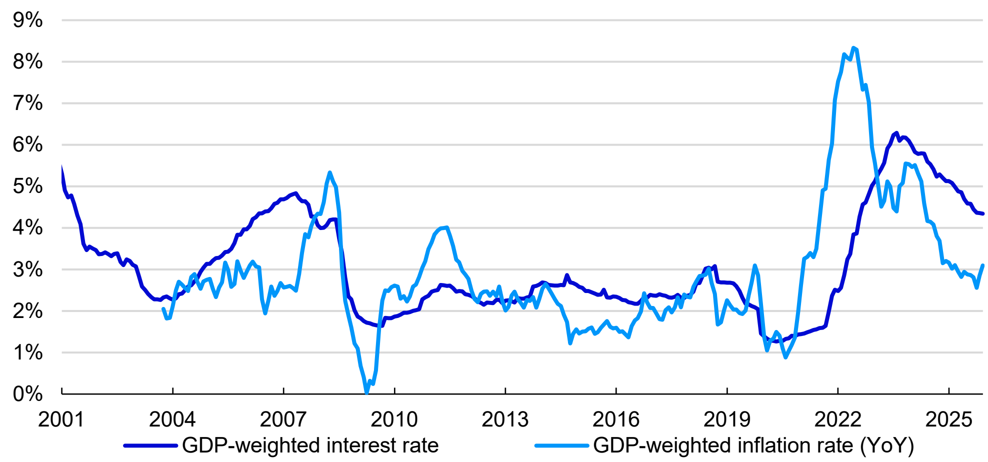
Macroeconomic indicators – Global

Figure 5 – Global GDP growth vs earnings growth since 1975



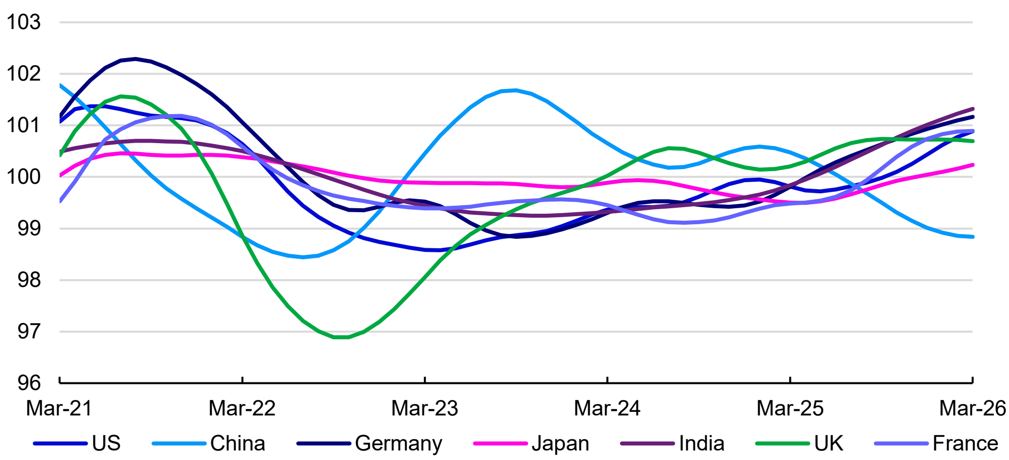
- Global GDP growth has been gradually slowing but remains at a level that could be consistent with strong earnings growth.
- However, the reacceleration we expected earlier may be delayed without a swift resolution to the US-Iran conflict.

Figure 6 – GDP-weighted global inflation and central bank policy rate



- Global inflation has been falling sharply, though we now expect a reversal in the short term.
- The monetary policy cycle may be turning earlier than we expected, if energy prices drive inflation sustainably higher.

Figure 7 – OECD leading indicators (amplitude adjusted)

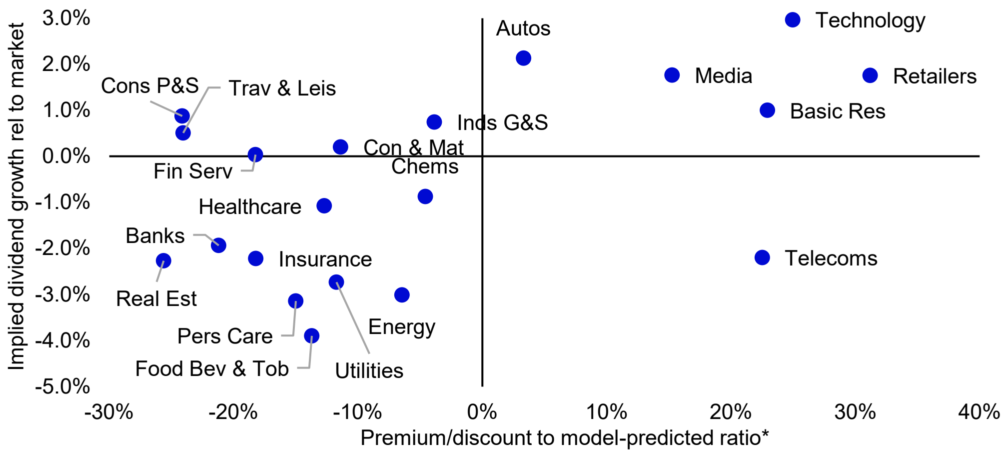


- Leading indicators imply that growth may be picking up.
- India and Germany have the strongest momentum currently, while China is the only large economy with a leading indicator below trend.

Notes: Data as of 31 March 2026. **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 Q4 2025. Figure 6 is based on monthly data from April 2001 to March 2026 using the IMF World Economic Outlook October 2025. Figure 7 is based on monthly data from March 2021 to March 2026.
Source: International Monetary Fund, OECD, LSEG Datastream, Invesco Strategy & Insights

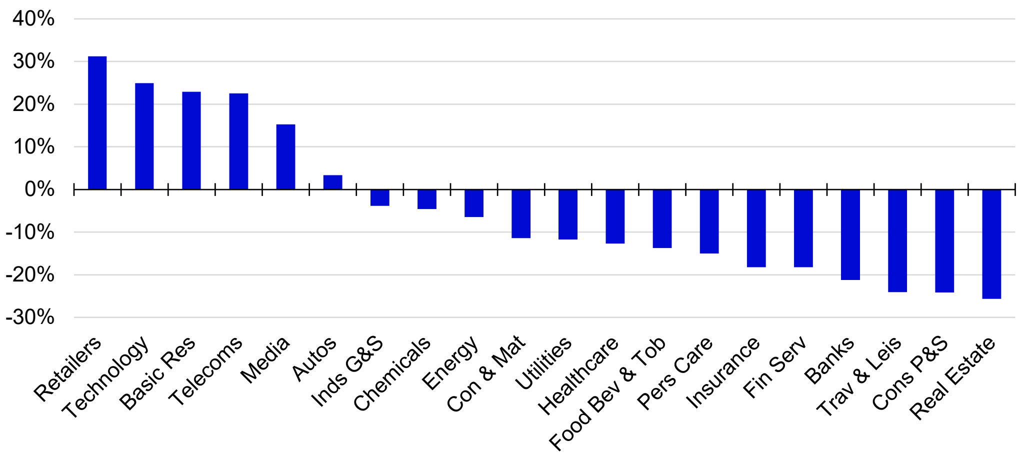
Valuations – Global

Figure 8 – Global sectors valuation matrix



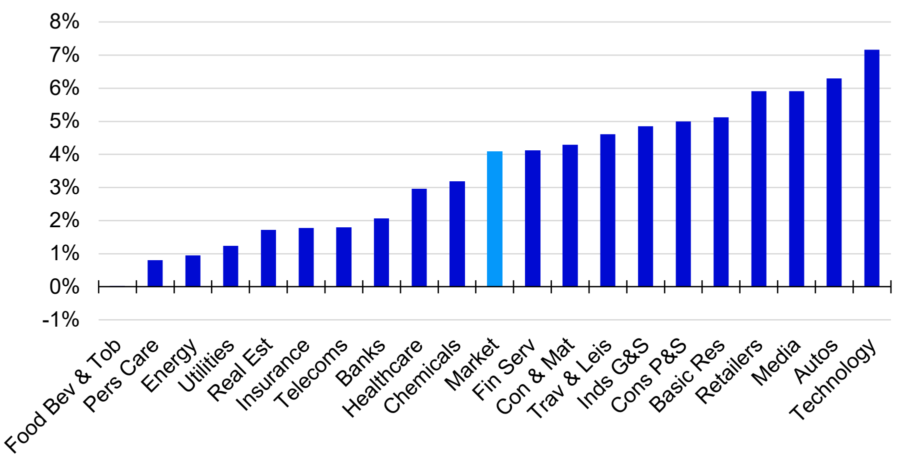
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, retailers, tech and basic resources.
- Food & bev., real estate, and personal care look better value

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



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

Figure 10 – Global implied perpetual real dividend growth

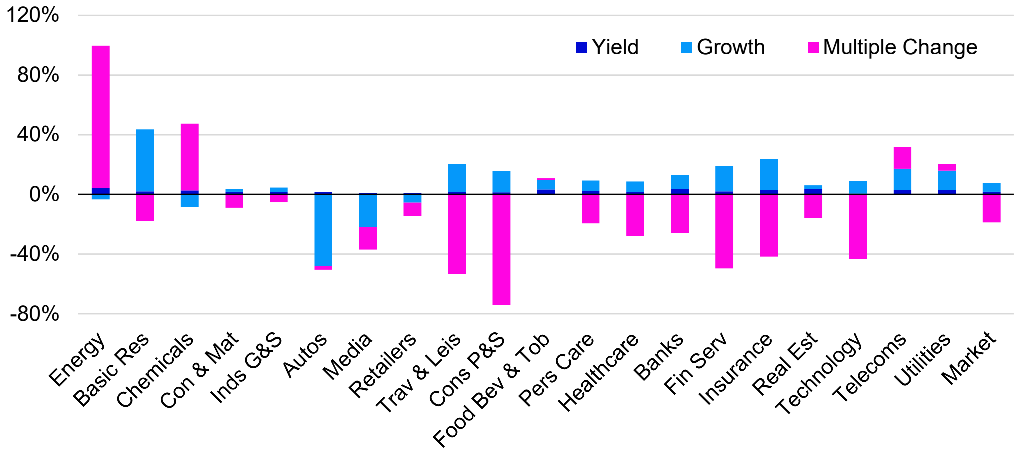


- Shows the future real growth required to justify current prices
- Technology and autos appear priced for over 6% real growth in dividends (expensive)
- Consumer staples and energy seem priced for sub-1% growth (cheap).

Notes: *% above/below using relative dividend yield. Data as of 31 March 2026. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

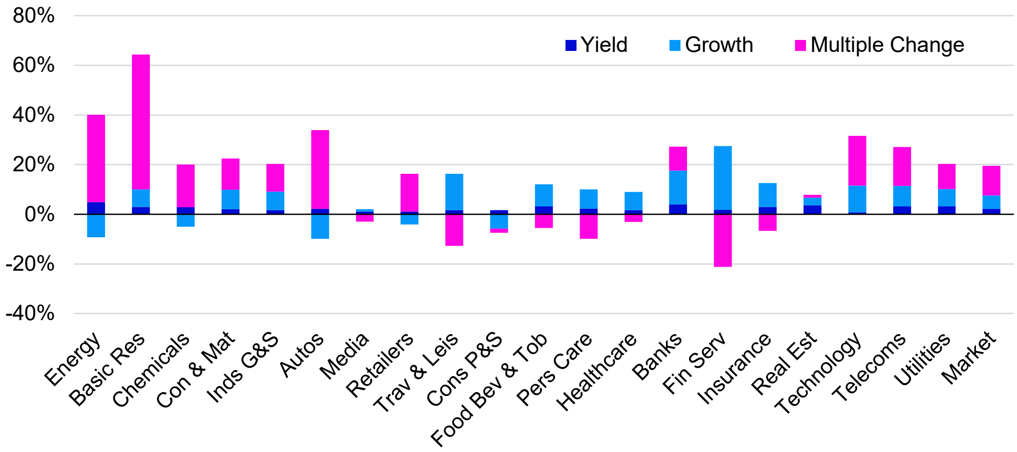
Decomposed returns – Global

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



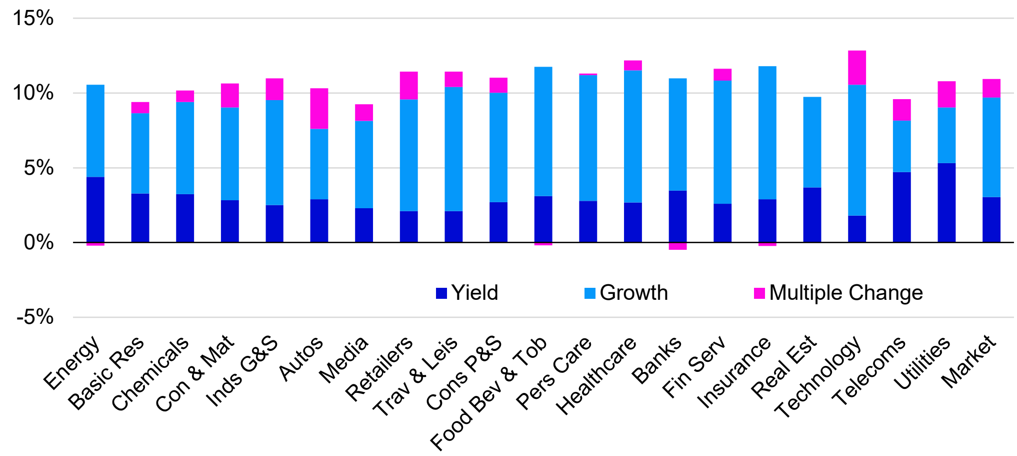
- Only five sectors had negative growth: energy, chemicals, autos, media and retailers.
- Only basic resources had growth above 10% with most other sectors in the low single digits.

Figure 12 – Global rolling 12-month total returns decomposed



- Three sectors had total returns above 30%: energy, basic resources and technology.
- Only energy had a yield above 4%, but six other sectors had yields above 3%: banks, basic resources, food, beverage & tobacco, real estate, telecoms and utilities.

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

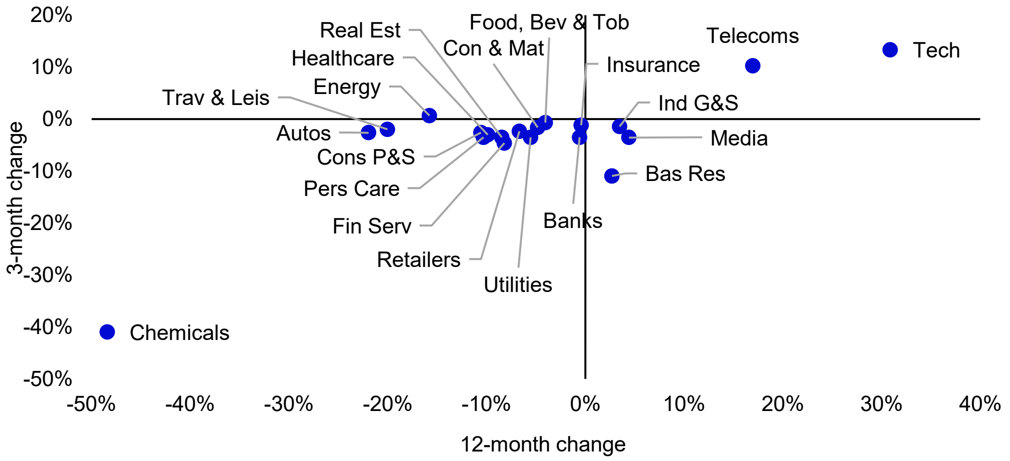


- Growth and yield drive long-term returns
- Growth is the most important, except for telcos and utilities
- Five sectors suffered from a multiple-related performance drag: energy, food & bev, banks, insurance and real estate

Notes: Data as of 31 March 2026. See appendices for methodology and disclaimers. **Past performance is not a guarantee of future results.**
Source: LSEG Datastream and Invesco Strategy & Insights

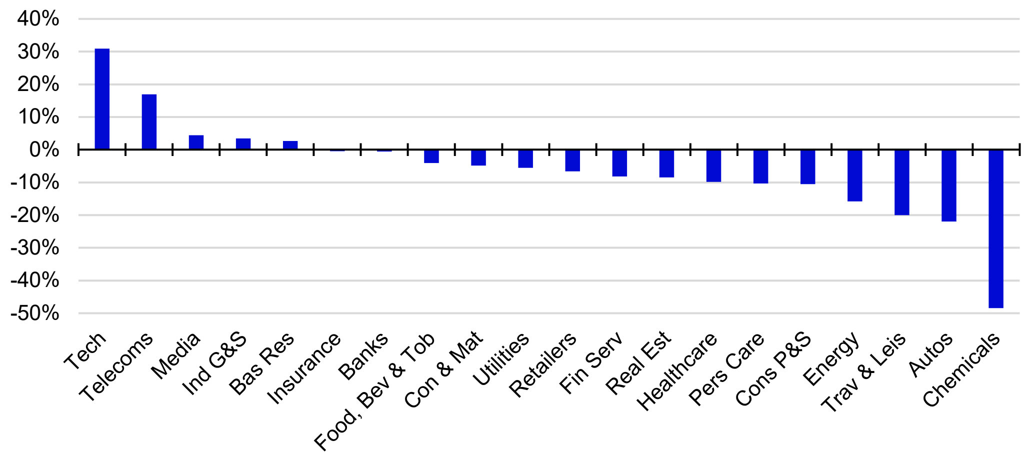
Forward earnings growth – Global

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



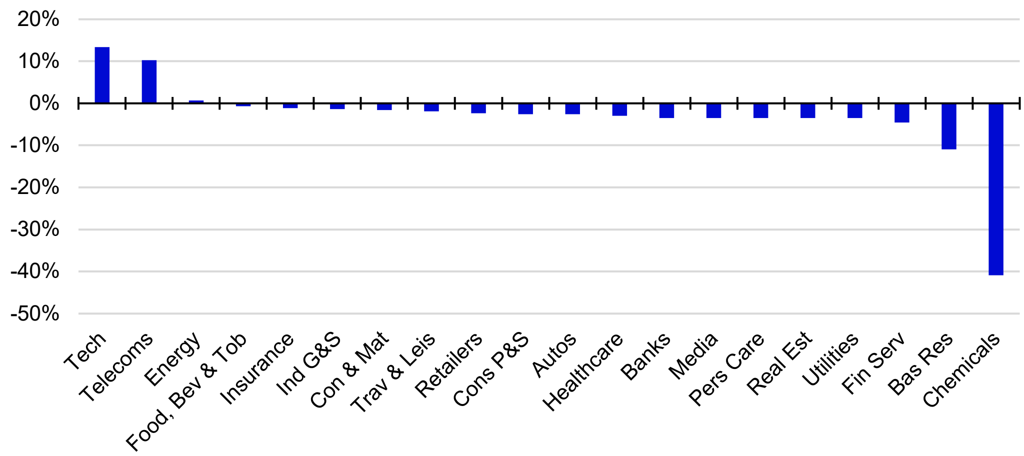
- Only two sectors have seen positive change in consensus estimates over both the last 3- and 12-months: tech and telecoms.
- Energy is the only sector that seems to be turning around its falling 12-month earnings momentum.

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



- Tech, telecoms, media and industrial goods & services have seen the largest improvement in earnings estimates.
- Chemicals, autos, travel & leisure and energy have seen the largest falls in forward earnings.

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



- Tech, telecoms and energy have had the best short-term momentum.
- Chemicals, basic resources and financial services have the worst short-term forward relative earnings momentum.

Notes: Data as of 31 March 2026. 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		-0.35				
Real Copper	0.01	0.01		0.02	-0.02	0.02
Consumer Confidence	0.00		0.00	0.00	0.00	-0.01
Manufacturing Confidence		0.01	0.01	0.01	0.01	-0.02
IP				-0.12		-0.27
10y Yield	0.19	0.08	0.14		0.20	-0.20
CPI			-0.11	-0.09	-0.17	0.26
Net Debt/EBITDA		0.09	-0.11	0.12	-0.22	
ROE	-3.51		0.72	0.88	-6.39	-5.59

Notes: Data as of 31 March 2026. 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	-2.34					
Real Copper	0.02	-0.01	0.00	-0.01	0.00	0.02
Consumer Confidence	0.01	0.01	0.00	0.00	0.00	-0.01
Manufacturing Confidence		-0.01	-0.01		0.00	-0.02
IP	-0.32			0.19		-0.27
10y Yield	0.21	-0.59	-0.11	-0.13	-0.04	-0.20
CPI		0.76	0.19	0.10	0.07	0.26
Net Debt/EBITDA	-0.16	-0.08	0.06	0.17		
ROE	-2.61		-1.26		0.43	

Notes: Data as of 31 March 2026. 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	0.63		0.31		0.86		
Real Copper	-0.01	-0.01	0.00	0.00	-0.01	0.00	0.02
Consumer Confidence	0.01	-0.01	0.00	0.00	0.00	0.00	-0.01
Manufacturing Confidence	-0.01	0.00	0.00	0.00		0.01	-0.02
IP			0.06	0.10	0.15		-0.27
10y Yield	0.14	0.11	0.07	0.08			-0.20
CPI	-0.15	-0.18	-0.12	-0.15	-0.09		0.26
Net Debt/EBITDA	-0.09		0.26		-0.17	0.04	
ROE	-1.34	1.39		0.61	-3.41		-5.59

Notes: Data as of 31 March 2026. 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

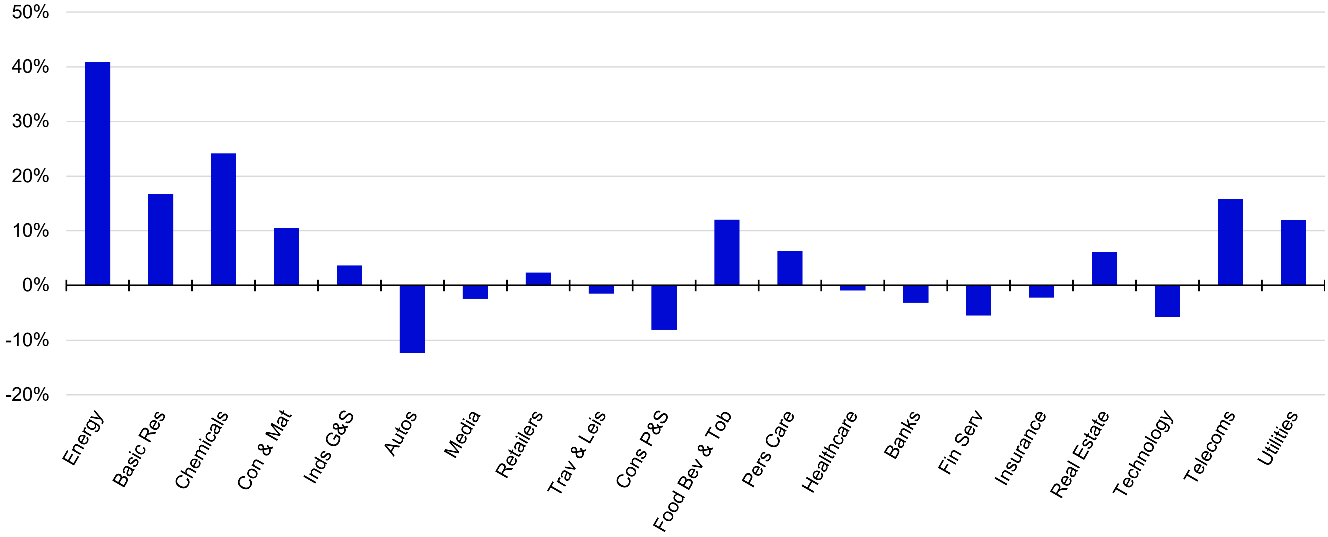
Figure 20 – Regression coefficients of Global financial sectors

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil			-0.37	0.63	
Real Copper	0.01	-0.01	0.02	-0.02	0.02
Consumer Confidence	0.01	0.00	0.00	0.01	-0.01
Manufacturing Confidence	-0.03	-0.01		-0.02	-0.02
IP		0.22		0.33	-0.27
10y Yield	0.13	-0.11			-0.20
CPI			0.18		0.26
ROE	1.51	0.99	-1.04	-2.77	-5.59

Notes: Data as of 31 March 2026. 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

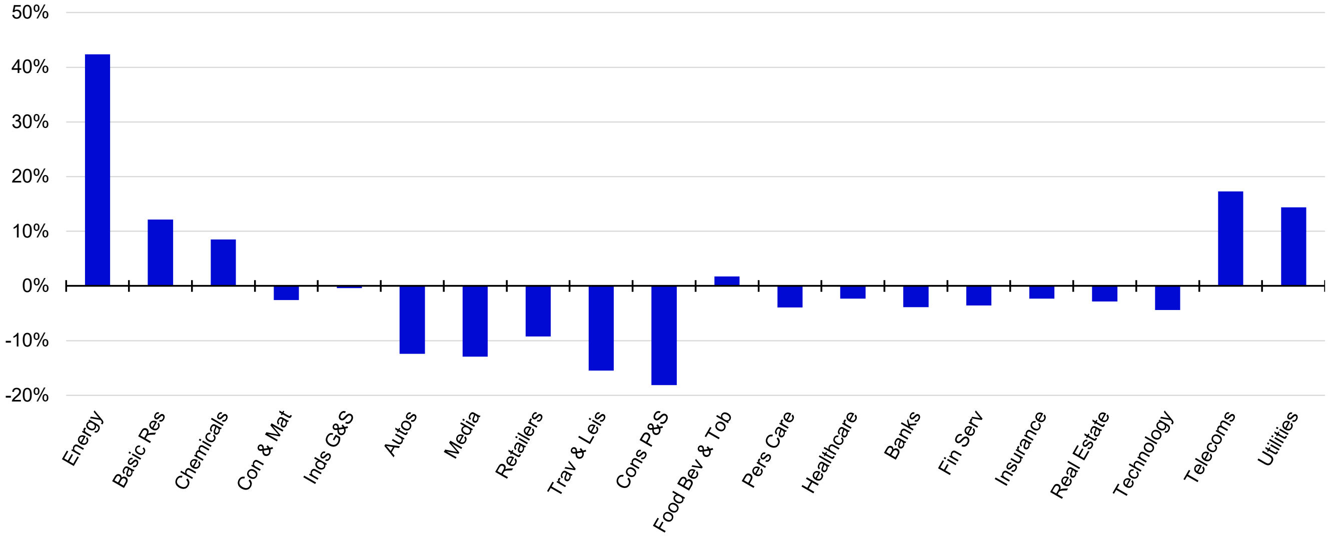
Appendix 2: Sector returns by region

Figure 21 – 3m US sector returns relative to market



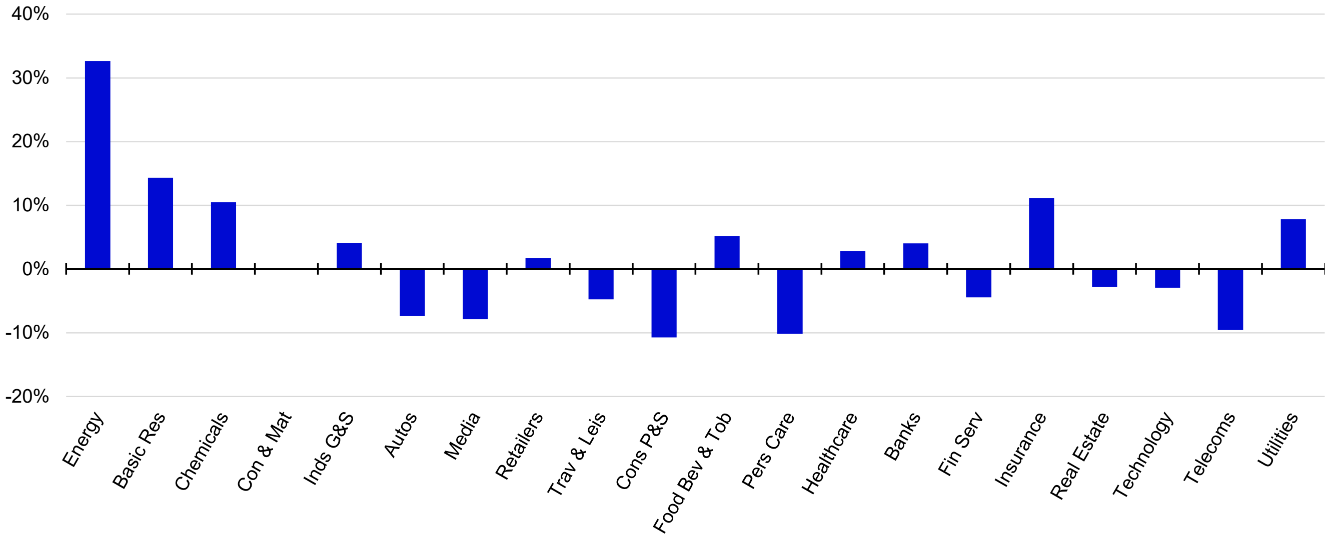
Notes: Data as of 31 March 2026. See appendices for methodology and disclaimers. Returns shown between 31 December 2025 and 31 March 2026. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 22 – 3m European sector returns relative to market



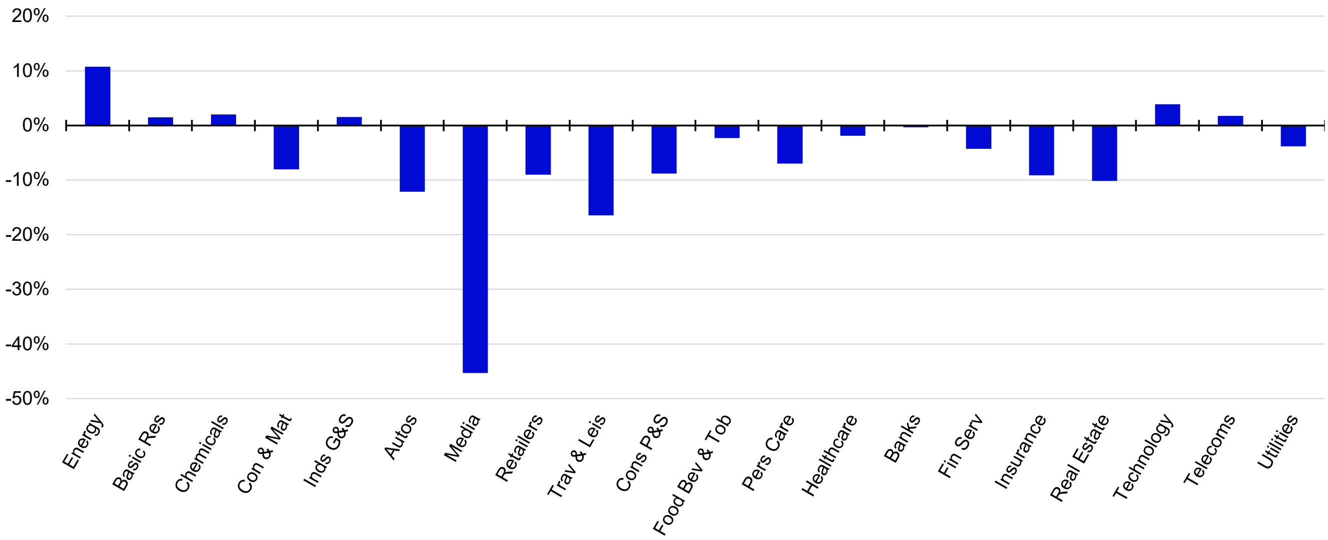
Notes: Data as of 31 March 2026. See appendices for methodology and disclaimers. Returns shown between 31 December 2025 and 31 March 2026. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Strategy & Insights

Figure 23 – 3m Japanese sector returns relative to market



Notes: Data as of 31 March 2026. See appendices for methodology and disclaimers. Returns shown between 31 December 2025 and 31 March 2026. **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 March 2026. See appendices for methodology and disclaimers. Returns shown between 31 December 2025 and 31 March 2026. **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	**18.9**	**14.5**	**0.7**	**3.5**	**3.9**	**-0.3**	**1.8**	**1.8**	**0.0**	**8.7**	**6.4**	**1.3**
Basic Materials	**23.9**	**16.8**	**1.5**	**2.1**	**2.8**	**-0.8**	**2.4**	**1.8**	**1.4**	**11.6**	**7.5**	**2.3**
Basic Resources	22.4	16.9	0.9	2.0	2.9	-0.9	2.5	1.7	1.9	11.2	7.2	1.7
Chemicals	28.1	17.4	2.0	2.4	2.9	-0.6	2.2	2.0	0.5	12.4	8.2	2.3
Industrials	**25.0**	**18.3**	**1.4**	**1.6**	**2.2**	**-0.9**	**3.4**	**2.2**	**2.6**	**14.3**	**9.5**	**2.4**
Construction & Mat.	21.8	16.8	1.2	1.8	2.5	-1.1	2.7	1.7	2.1	12.4	9.2	1.2
Industrial G&S	25.6	18.8	1.4	1.6	2.2	-0.9	3.5	2.3	2.5	14.6	9.6	2.5
Consumer Disc.	**24.3**	**19.0**	**1.0**	**1.3**	**2.2**	**-1.0**	**2.7**	**1.9**	**1.6**	**12.0**	**8.6**	**1.8**
Automobiles & Parts	25.1	15.1	1.3	1.6	2.6	-0.8	1.8	1.5	0.9	9.9	5.6	3.3
Media	21.8	22.0	0.0	1.0	2.0	-1.2	2.5	2.4	0.1	10.1	9.0	0.3
Retailers	27.7	21.9	0.9	0.9	1.8	-1.2	5.5	3.4	1.9	14.9	13.1	0.5
Travel & Leisure	18.9	23.2	-0.4	1.8	1.8	0.0	5.0	2.7	2.2	9.1	9.3	-0.1
Consumer Prod & Serv	23.0	19.6	0.7	1.7	2.3	-0.9	1.5	1.5	0.0	13.2	11.3	0.7
Consumer Staples	**22.3**	**17.1**	**1.0**	**3.1**	**2.5**	**0.5**	**2.7**	**2.8**	**-0.2**	**11.5**	**10.8**	**0.3**
Food, Bev & Tobacco	21.8	18.5	0.7	3.3	2.7	0.7	2.4	2.7	-0.6	11.9	11.0	0.3
Personal Care	23.4	20.6	0.5	2.5	2.4	0.1	3.6	3.0	0.8	10.9	10.5	0.2
Healthcare	**26.8**	**20.7**	**1.0**	**1.8**	**2.3**	**-0.7**	**4.2**	**3.4**	**0.6**	**15.4**	**12.9**	**0.7**
Financials	**13.2**	**15.4**	**-0.5**	**3.1**	**2.7**	**0.5**	**1.0**	**1.4**	**-0.7**	**7.3**	**5.8**	**1.1**
Banks	11.5	14.1	-0.5	3.7	3.0	0.7	1.4	1.3	0.1	6.6	6.2	0.2
Financial Services	18.3	18.3	0.0	2.2	2.2	-0.1	0.6	1.3	-1.2	12.5	9.2	1.5
Insurance	12.3	15.8	-0.7	3.1	2.5	0.8	1.8	1.7	0.3	5.2	3.8	1.4
Real Estate	18.5	19.3	-0.1	3.6	3.3	0.4	1.4	1.4	-0.3	14.6	13.8	0.3
Technology	**29.6**	**24.7**	**0.5**	**0.7**	**1.5**	**-0.9**	**8.1**	**3.5**	**3.1**	**21.7**	**12.4**	**2.0**
Telecommunications	**16.9**	**17.3**	**-0.1**	**2.8**	**4.2**	**-0.7**	**2.4**	**2.5**	**-0.2**	**7.0**	**6.1**	**0.4**
Utilities	**19.5**	**14.7**	**1.2**	**2.9**	**4.7**	**-1.0**	**2.1**	**1.6**	**1.4**	**8.3**	**5.7**	**1.8**
Market	**21.3**	**17.3**	**0.9**	**1.9**	**2.7**	**-0.8**	**2.4**	**2.0**	**1.0**	**11.8**	**8.0**	**2.2**

Notes: *in standard deviations from historical average. Data as of 31 March 2026. 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

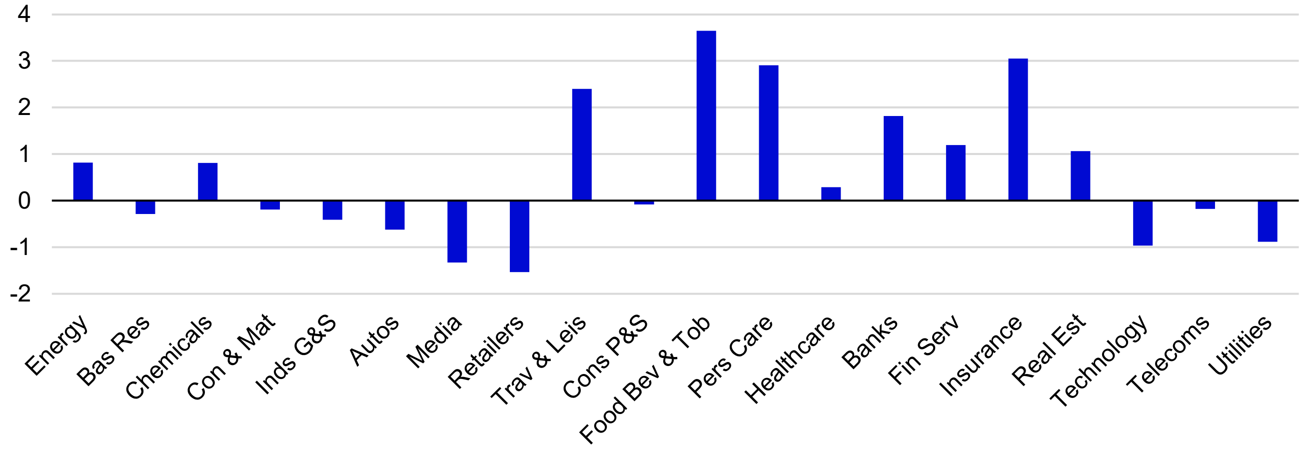
Figure 26 – Global cyclically-adjusted valuations

	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	**20.0**	**18.5**	**0.2**	**3.2**	**2.9**	**0.2**	**2.0**	**2.6**	**-0.5**	**8.9**	**8.6**	**0.1**
Basic Materials	**23.7**	**22.9**	**0.1**	**2.1**	**2.0**	**0.2**	**2.5**	**2.4**	**0.2**	**11.3**	**9.9**	**0.6**
Basic Resources	25.5	21.2	0.5	1.9	2.2	-0.4	2.7	2.2	0.6	11.6	9.2	0.7
Chemicals	20.4	24.0	-0.7	2.5	1.9	1.2	2.1	2.7	-1.1	10.7	11.0	-0.2
Industrials	**30.8**	**26.7**	**0.7**	**1.2**	**1.5**	**-0.7**	**3.9**	**3.1**	**1.4**	**17.3**	**13.3**	**1.6**
Construction & Mat.	28.0	24.0	0.4	1.4	1.8	-0.8	3.0	2.2	1.0	15.5	11.9	1.0
Industrial G&S	31.4	27.4	0.7	1.2	1.4	-0.7	4.1	3.2	1.7	17.7	13.2	1.9
Consumer Disc.	**28.3**	**27.1**	**0.2**	**1.2**	**1.4**	**-0.9**	**3.0**	**2.7**	**0.7**	**13.9**	**11.8**	**1.1**
Automobiles & Parts	17.9	18.8	-0.2	1.6	1.7	-0.3	1.7	2.0	-0.8	8.4	6.8	1.1
Media	29.4	30.0	-0.1	1.0	1.4	-1.2	2.7	3.3	-0.5	13.0	12.1	0.3
Retailers	43.9	32.8	1.6	0.7	1.1	-1.4	7.4	4.9	2.3	22.0	19.9	0.5
Travel & Leisure	25.3	33.5	-0.8	1.3	1.2	0.3	4.3	3.5	0.8	12.4	13.0	-0.2
Consumer Prod & Serv	24.1	28.6	-1.0	1.6	1.6	0.1	1.9	2.0	-0.2	14.4	15.8	-0.6
Consumer Staples	**21.6**	**22.5**	**-0.2**	**2.5**	**1.7**	**1.8**	**3.3**	**3.8**	**-1.0**	**13.5**	**14.4**	**-0.5**
Food, Bev & Tobacco	23.7	27.9	-0.9	2.6	1.7	2.0	3.1	4.1	-1.9	14.2	16.1	-1.1
Personal Care	25.0	31.2	-0.9	2.2	1.5	1.6	3.7	4.4	-0.9	12.4	15.8	-1.3
Healthcare	**33.7**	**31.8**	**0.3**	**1.4**	**1.4**	**-0.1**	**4.9**	**5.2**	**-0.3**	**19.1**	**19.6**	**-0.2**
Financials	**19.3**	**23.0**	**-0.4**	**2.0**	**2.0**	**0.0**	**1.3**	**1.8**	**-0.8**	**9.1**	**7.4**	**1.1**
Banks	16.8	20.3	-0.4	2.4	2.4	0.0	1.5	1.7	-0.3	8.8	7.8	0.4
Financial Services	24.7	29.0	-0.3	1.4	1.5	-0.3	0.8	1.8	-1.4	16.4	11.7	1.7
Insurance	20.7	23.5	-0.3	2.0	1.7	0.5	2.1	2.4	-0.3	5.7	5.0	0.8
Real Estate	16.0	25.6	-0.7	3.6	2.6	1.1	1.3	1.7	-0.9	14.4	16.9	-0.7
Technology	**57.8**	**40.0**	**0.8**	**0.4**	**0.9**	**-0.9**	**11.5**	**5.5**	**2.1**	**35.7**	**20.4**	**1.5**
Telecommunications	**21.9**	**22.5**	**-0.1**	**2.6**	**3.1**	**-0.4**	**2.6**	**3.2**	**-0.4**	**7.5**	**7.5**	**0.0**
Utilities	**24.2**	**18.8**	**1.2**	**2.5**	**3.5**	**-1.1**	**2.3**	**2.0**	**0.6**	**9.5**	**7.1**	**1.9**
Market	**27.9**	**24.8**	**0.5**	**1.5**	**1.8**	**-0.6**	**2.8**	**2.7**	**0.2**	**14.1**	**10.9**	**1.7**

Notes: *in standard deviations from historical average. Data as of 31 March 2026. 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

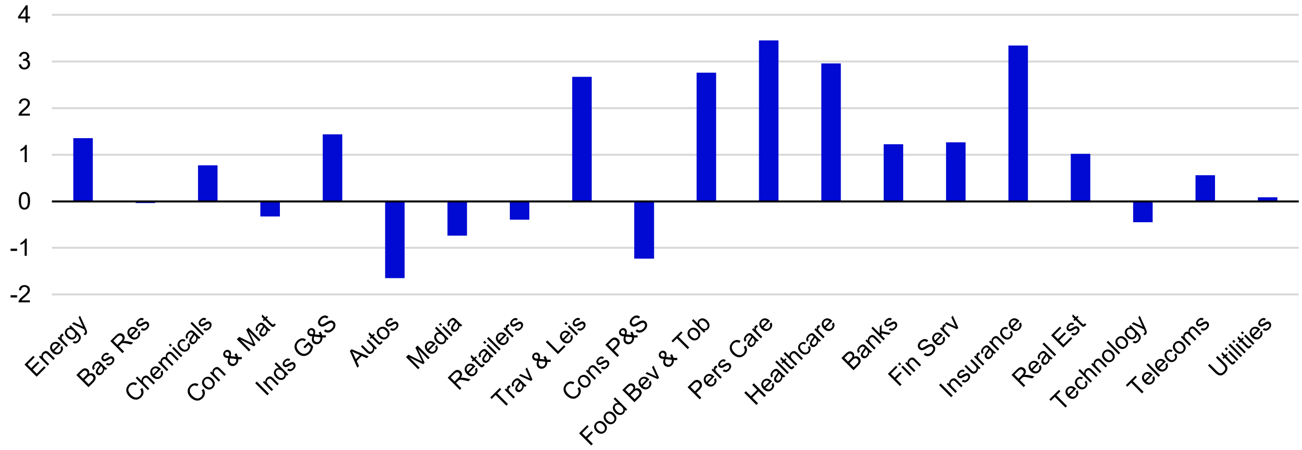
Appendix 4: Sector valuations by region

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



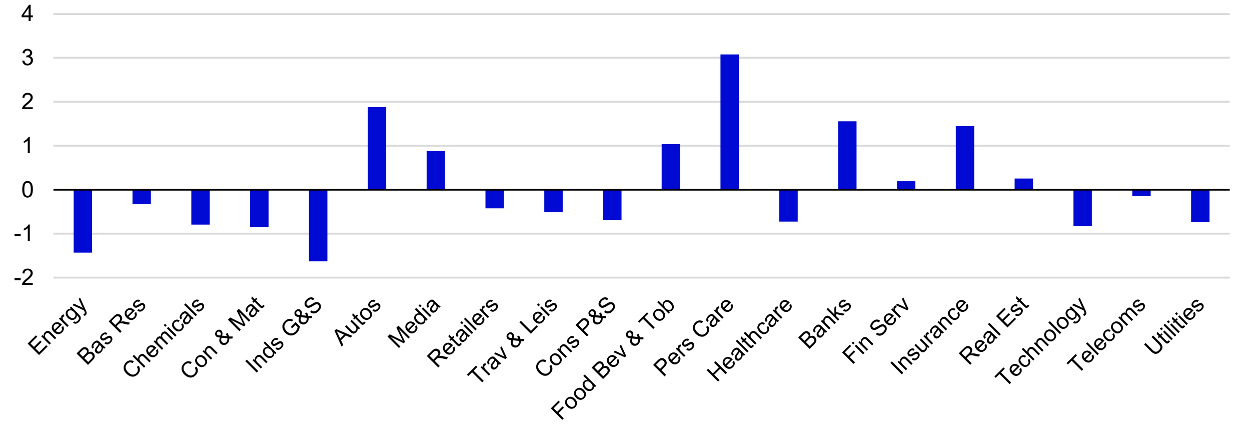
Notes: Data as of 31 March 2026. Based on data between 1 January 1973 and 31 March 2026. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

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



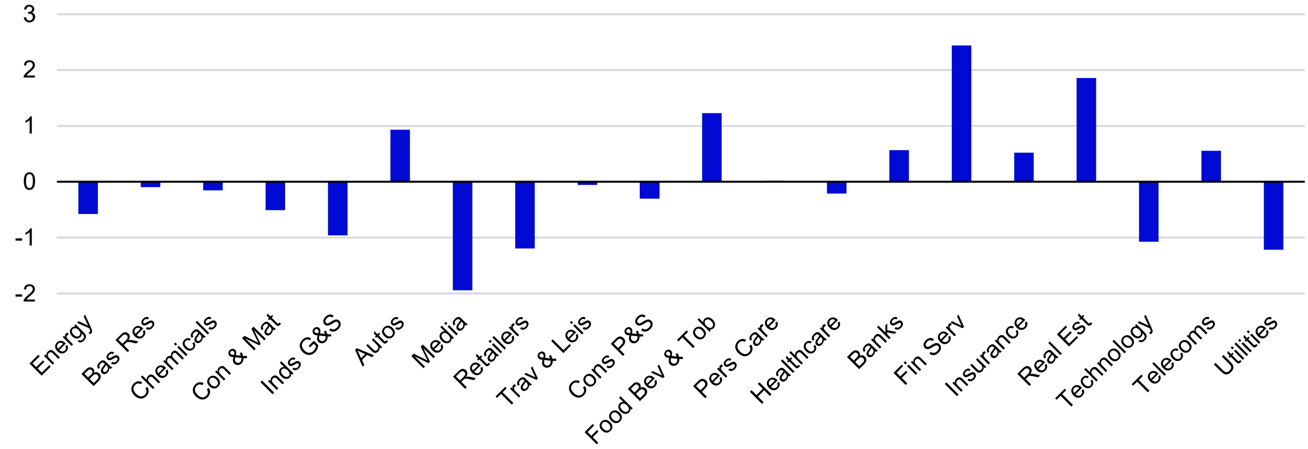
Notes: Data as of 31 March 2026. Based on data between 1 January 1973 and 31 March 2026. See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

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



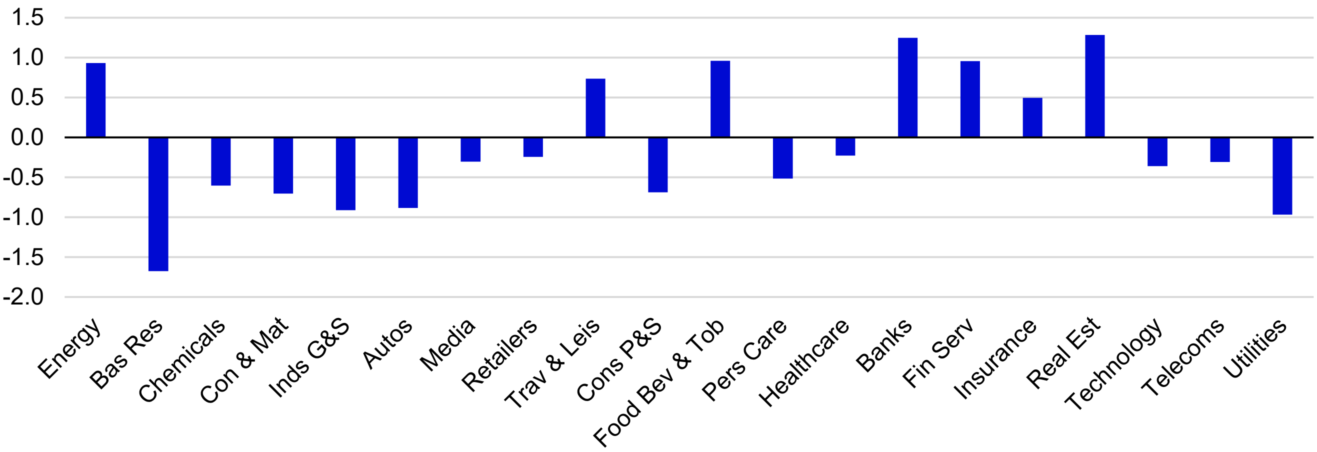
Notes: Data as of 31 March 2026. Based on data between 1 January 1973 and 31 March 2026. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Strategy & Insights

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



Notes: Data as of 31 March 2026. Based on data between 1 January 1973 and 31 March 2026. 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 March 2026. Based on data between 1 January 1973 and 31 March 2026. 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 Mar 2026	Global				
	3m	YTD	12m	5y*	10y*
Energy	**27.7**	**27.7**	**10.1**	**5.5**	**-1.9**
Basic Materials	**10.4**	**10.4**	**21.6**	**0.5**	**1.0**
Basic Resources	9.4	9.4	38.0	5.4	4.6
Chemicals	12.8	12.8	-3.7	-6.9	-3.8
Industrials	**2.5**	**2.5**	**0.9**	**-0.2**	**0.3**
Construction & Materials	1.4	1.4	2.5	1.3	-0.7
Industrial Goods & Services	2.6	2.6	0.6	-0.4	0.4
Consumer Discretionary	**-6.0**	**-6.0**	**-10.0**	**-5.8**	**-2.6**
Automobiles & Parts	-9.8	-9.8	3.6	-5.1	-1.6
Media	-6.4	-6.4	-17.3	-7.0	-4.0
Retailers	-0.7	-0.7	-6.3	-2.9	-0.2
Travel & Leisure	-5.7	-5.7	-13.5	-6.9	-5.4
Consumer Products & Services	-12.3	-12.3	-21.5	-9.6	-4.4
Consumer Staples	**3.6**	**3.6**	**-12.8**	**-5.3**	**-5.2**
Food, Beverage & Tobacco	5.6	5.6	-10.8	-4.5	-5.5
Personal Care, Drug & Grocery Stores	0.2	0.2	-16.3	-6.8	-5.8
Healthcare	**-2.1**	**-2.1**	**-11.4**	**-4.5**	**-2.2**
Financials	**-2.2**	**-2.2**	**-2.7**	**3.3**	**0.7**
Banks	-0.5	-0.5	6.9	5.3	1.0
Financial Services	-5.0	-5.0	-11.1	0.6	1.5
Insurance	-1.8	-1.8	-11.4	2.9	0.3
Real Estate	**0.3**	**0.3**	**-9.8**	**-7.2**	**-6.1**
Technology	**-6.0**	**-6.0**	**10.0**	**4.8**	**8.5**
Telecommunications	**11.0**	**11.0**	**6.6**	**0.0**	**-3.3**
Utilities	**8.0**	**8.0**	**0.9**	**0.5**	**-1.4**

Notes: *showing annualised returns. Returns shown are for Datastream sector indices versus the total market index. **Past performance is no guarantee of future results.** Source: LSEG Datastream and Invesco 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 March 2026 unless stated otherwise. This publication is updated quarterly.

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