Applied philosophy

Strategist from East of the Elbe – Q2 2024

Central and Eastern members of the European Union (CEE11) have had a wide dispersion of returns since the end of October 2023. We think one of the main drivers has been diverging monetary policy and a return to a narrowing rally within markets (especially equities). Our assumption of reaccelerating global growth, declining inflation and lower developed market central bank rates could boost returns in risk assets. In our view, this outlook should support both CEE11 government bonds and equities.

Our universe of Central and Eastern European members of the European Union (CEE11) had mixed fortunes since our last publication in November 2023. More positive sentiment towards risk assets has not been uniform even outside the region, with the US and Japan towering over other regions within equities. At the same time, within government bonds, Emerging Markets were the best performing region, but that strength did not seem to have boosted the returns of the CEE11.

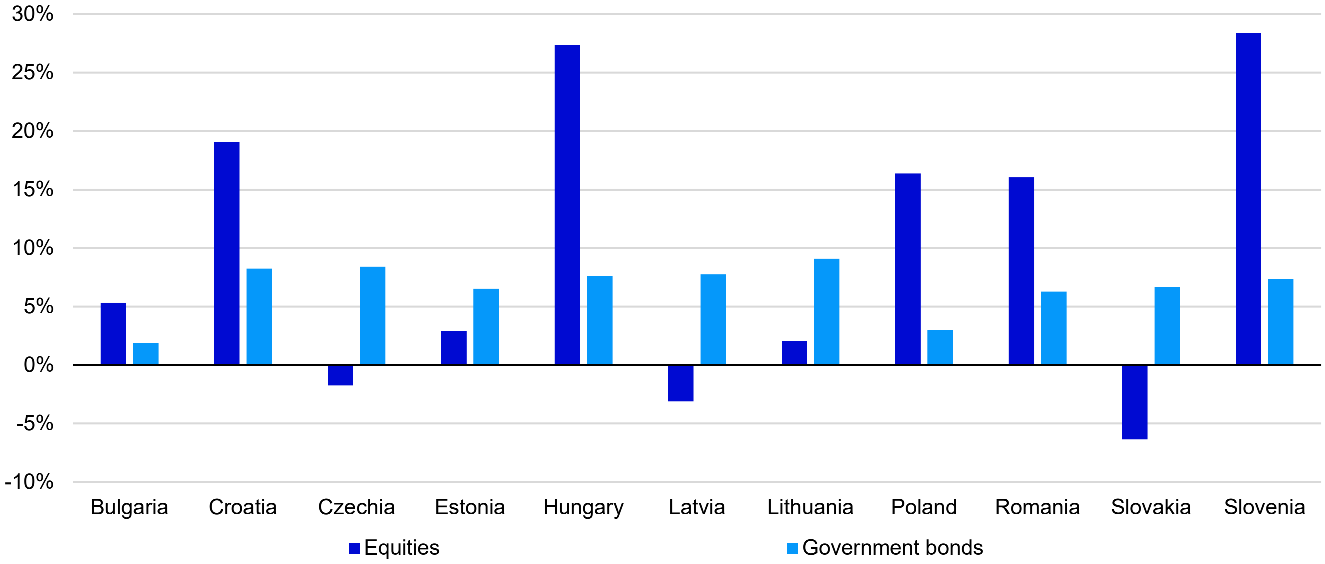
We highlighted Hungary and Slovenia as our most preferred equity markets within the region, while we thought Romania and Lithuania were likely to underperform. As shown in **Figure 1**, Hungary and Slovenia were indeed the best performers between 31 October 2023 and 26 March 2024. In fact, they outperformed not only broader EM, but also global equities (in both local currency and USD terms). On the other hand, Romania had solid double-digit returns in the same period. Lithuanian equities were among the weaker performers, but the worst returns were posted by Latvia and Slovakia.

However, government bond returns did not shape up in the way we envisaged. We had Czechia and Slovakia on our most preferred list, and while Czechia was the second best performer in the four months to the end of February, Slovakia underperformed. Our least preferred list included the fourth and fifth best performing markets: Hungary and Latvia respectively. Strong returns in Hungarian government bonds were mostly driven by aggressive monetary easing and partially by the release of a €10bn tranche of previously frozen cohesion funds, in our view (although plans by the European Parliament to sue the Commission over this may dampen sentiment in the near term).

The diverging path of monetary policy within the region may have driven these mixed returns, which may also reflect trends within global financial markets during the last four months: a broader rally at the end of 2023 gave way to a narrower and more reluctant rise in risk assets as inflation proved stickier than expected, especially in the US, driving interest rate expectations higher, while European economies slowed.

Perhaps in keeping with slower growth, inflation continued to decline in the region and most countries within our universe have central bank targets within

Figure 1 – Central and Eastern European country total returns since 31 October 2023 (local currency)



Notes: **Past performance is no guarantee of future results.** Data as of 26 March 2024. We use Datastream Total Market indices for equity returns. Government bond returns for Czechia, Hungary and Poland are based on Datastream 10-year benchmark government bond indices. We create a monthly index of government bond returns for all other countries by calculating the net present value of coupon payments and capital repayment based on redemption yields.
Source: LSEG Datastream and Invesco Global Market Strategy Office

sight. Indeed, three countries reported inflation rates at or below 2% in February (Czechia, Latvia and Lithuania), while only three countries had inflation above 4% (Croatia, Estonia and Romania).

Nevertheless, central bank target rates stayed at the same level as at the end of October 2023 in Bulgaria (following the European Central Bank closely as a member of the Exchange Rate Mechanism), Poland, Romania, and most importantly for the European Central Bank (ECB). On the other hand, the Czech National Bank carried out its first rate cut of 25 basis points (bps) in this easing cycle in December 2023, followed by another 50bps each in February and March 2024. The Hungarian National Bank went the furthest reducing its target rate by a cumulative 475bps between October 2023 and March 2024 (even though inflation in Hungary remains above its target).

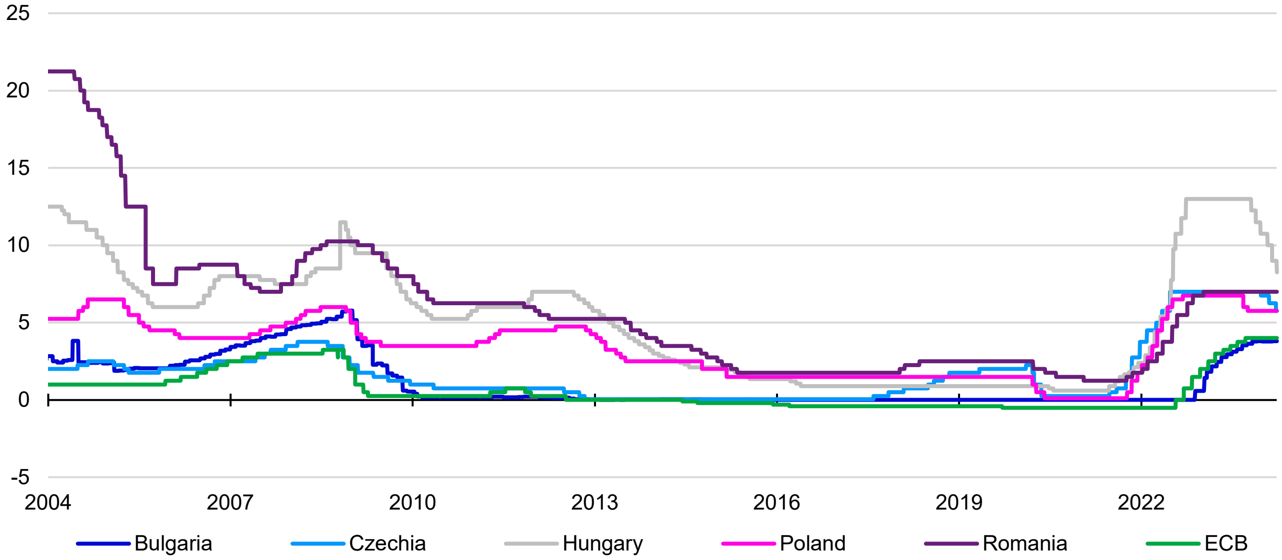
As we wrote in November, we think the political landscape will probably remain relatively stable in 2024. Although there will be parliamentary and presidential elections this year in both Croatia and Lithuania, we see limited potential for an upset, especially in terms of economic policy (both are members of the euro area). Although, a lot can change between now and the autumn when voting commences in the Lithuanian and Romanian general elections, we expect no significant influence on financial market returns in the next 12 months. We also maintain our view that the least impactful elections will be those for the European Parliament in May.

We think the global macroeconomic backdrop will be supportive of regional assets in general. In our latest The Big Picture, we reiterated the view that inflation is likely to continue falling in most regions and countries, while prospects for growth may gradually improve as the year progresses. Even though we shifted to a more defensive stance (given recent strong returns), we maintained our preference for Emerging Markets as a whole. In CEE11 countries, we think growth will rebound after weakness in 2023 as real wage growth remains strong, while interest rates continue to decline. In our view, fiscal policy is likely to be neutral, although spending may be constrained somewhat by higher debt servicing costs.

What does this imply for markets? The main question, in our view, is how far and how quickly growth reaccelerates after getting through its current soft patch, assuming the global economy avoids a significantly deeper recession. We still think that we may see some consolidation or weakness in the near term, especially in markets where returns may have run ahead of fundamentals (for example, Hungary, Slovenia, Croatia and Poland), followed potentially by stronger performance in the second half of 2024.

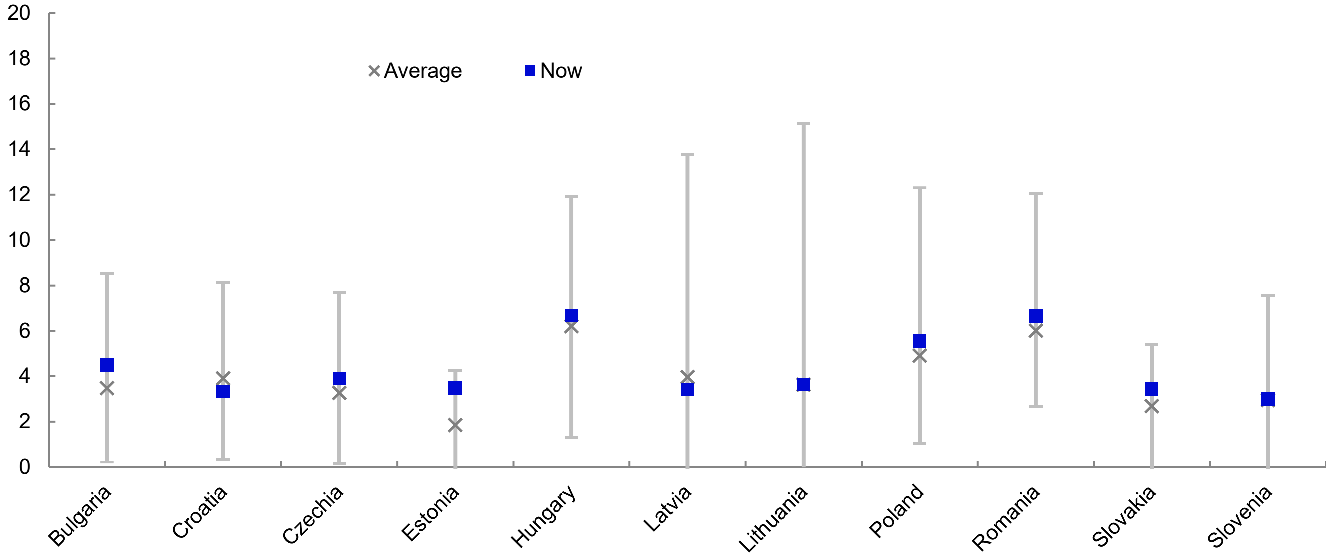
In general, we view both equities and government bonds in these markets as risk assets within a global asset allocation context. This means that until we get more clarity on the outlook for growth (especially for the Euro Area), both asset classes within the CEE11 may underperform EM and Global benchmarks. Nevertheless, we think there is scope for catch-up if the monetary easing cycle starts in earnest for developed markets reducing their relative attractiveness.

Figure 2 – Central bank target rates since 2004



Notes: **Past performance is no guarantee of future results.** Data as of 26 March 2024. Using daily data from 1 January 2004.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 3 – Central and Eastern European government bond yields within historical ranges (%)



Notes: **Past performance is no guarantee of future returns.** Data as of 26 March 2024. Historical ranges and averages include daily data from 14 April 2006 for Bulgaria, 30 January 2008 for Croatia, 1 May 2000 for Czechia, 1 February 1999 for Hungary, 15 April 2003 for Lithuania, 1 January 2001 for Poland, 16 August 2007 for Romania, 7 January 2004 for Slovakia and 3 April 2007 for Slovenia. Historical ranges and averages include monthly data from 30 June 2020 to 30 September 2023 for Estonia and from 31 January 2001 to 30 September 2023 for Latvia. We use Refinitiv Government Benchmark 10-year bond indices for Bulgaria, Croatia, Lithuania, Romania, Slovakia and Slovenia. We use Datastream benchmark 10-year government bond indices for Czechia, Hungary and Poland. We use OECD 10-year government bond yields for Estonia and Latvia.
Source: LSEG Datastream and Invesco Global Market Strategy Office

For those markets outside the Euro Area, currencies may also play a major part in determining returns, especially within equities where weakness may contribute to higher profits (up to a point). After a period of weakening, for example for the Hungarian Forint, ECB rate cuts may trigger a reallocation out of the euro.

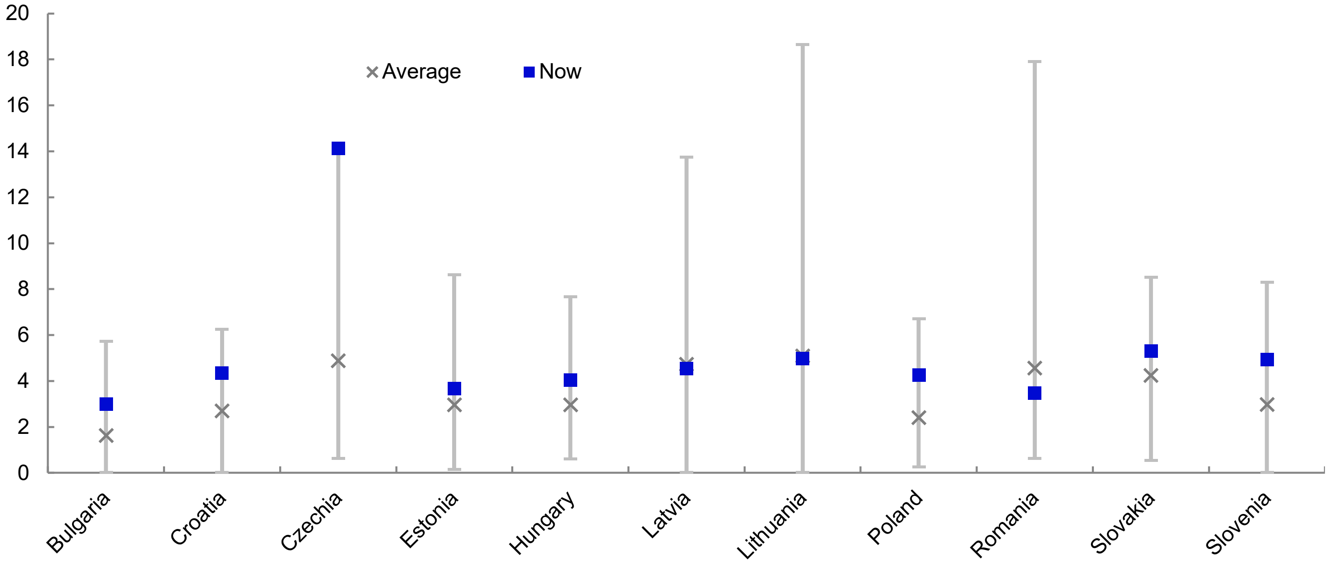
However, any potential strengthening of regional currencies could be dependent on how far they cut rates compared to the ECB and the Fed. At the time of writing, the HUF and the CZK are the most likely to weaken further based on rate futures and consensus expectations with the bulk of rate cuts happening in the first half of 2024. At the same time, the PLN may strengthen if the Polish National Bank keeps rates at their current level, while the National Bank of Romania is expected to ease at a similar pace to the ECB and the Fed, based on Reuters consensus forecasts.

The biggest risks to regional returns are an escalation of geopolitical conflicts pushing up commodity prices (they may boost regional inflation more than in developed markets) and a deep economic slowdown (perhaps triggered by adverse events). For the moment, we see these as tail risks and we are positive on CEE11 government bonds, given the expectation of further monetary easing. We would expect that to boost returns, especially in markets that have underperformed recently. In absolute terms, the yields of Hungary and Romania are the highest (as of 26 March 2024). Although they are significantly below the 7.6% yield on the broader EM universe (based on the Bloomberg Aggregate Sovereign Bond Index in USD as of 26 March 2024) perhaps due to their structurally lower inflation and interest rate expectations.

In Hungary’s case, we think recent strong returns have partially priced in future rate cuts (which may be too optimistic themselves if inflation remains high supported by strong wage growth and currency weakness), while the uncertainty of access to EU funds hangs over the country’s budget like the sword of Damocles. In Romania, elections this year may imply more cautious investor sentiment, especially as its valuations provide mixed signals, in our view.

Thus, we think there may be better opportunities elsewhere, especially within the euro area, assuming monetary easing by the ECB from Q2 2024. Estonia and Bulgaria have the highest yields compared to historical averages (as of 26 March 2024), while spreads vs German bunds are 119 and 217 basis points respectively. These spreads are also higher than their historical averages by 28-29bps, thus we think they may have scope to narrow, especially if their economic growth accelerates. At the same time, Croatian and Latvian bonds seem to have the least attractive valuations as the only two markets whose yields and spreads versus Bunds are both below historical averages.

Figure 4 – Central and Eastern European dividend yields within historical ranges (%)



Notes: **Past performance is no guarantee of future returns.** Data as of 26 March 2024. Based on daily data using Datastream Total Market indices. Historical ranges and averages include daily data from 2 October 2000 for Bulgaria, 3 October 2005 for Croatia, 27 January 1994 for Czechia, 5 June 1997 for Estonia, 21 June 1991 for Hungary, 3 November 1997 for Latvia, 1 April 1998 for Lithuania, 1 March 1994 for Poland, 29 December 1997 for Romania, 1 March 2006 for Slovakia and 31 December 1998 for Slovenia.
Source: LSEG Datastream and Invesco Global Market Strategy Office

We also expect healthy equity returns in the region based on our assumption of a global economic recovery in the second half of 2024. Although there may be a few bumps on the road in the near term and around the US Presidential Election in the autumn, valuations look favourable in most markets within the CEE11. Apart from Bulgaria, they also offer higher yields in absolute terms than the 3.3% of the broader EM universe (using Datastream Total Market indices as of 26 March 2024). In our view, Slovenia continues to be in the sweet spot of having a dividend yield well-above historical norms and relative to its peers in the region despite 20%+ returns in the last four months. We view Slovakia to be in a similar position albeit following a period of negative returns since end-October 2023. We continue to be cautious about Czechia, where the largest utility company is responsible for most of the high dividend yield on offer (although it may be a defensive hedge against potential market volatility), while Romania and Lithuania present the least compelling case based on their valuations relative to historical averages, especially until elections in the autumn.

Figure 5 – Our most favoured and least favoured markets in Central and Eastern Europe

	Government bonds	**Equities**
Most favoured	Bulgaria, Estonia	Slovenia, Slovakia
Least favoured	Croatia, Latvia	Romania, Lithuania

Source: Invesco Global Market Strategy Office

Figure 5 – Asset class total returns (%, annualised)

Data as at 26/03/2024	Index	Current Level/RY	Total Return (USD, %) 1w	1m	QTD	YTD	12m	Total Return (Local Currency, %) 1w	1m	QTD	YTD	12m
Equities												
World	MSCI	779	0.7	2.8	7.5	7.5	27.3	0.9	3.0	8.8	8.8	28.4
Emerging Markets	MSCI	1040	1.3	1.9	2.1	2.1	10.3	1.4	2.2	4.0	4.0	12.3
China	MSCI	54	-0.2	0.6	-2.0	-2.0	-14.8	-0.1	0.7	-1.6	-1.6	-14.3
US	MSCI	4962	0.6	2.8	9.4	9.4	33.7	0.6	2.8	9.4	9.4	33.7
Europe	MSCI	2113	1.0	3.3	5.3	5.3	20.6	1.6	4.1	8.2	8.2	19.1
Europe ex-UK	MSCI	2653	0.8	3.3	6.0	6.0	22.2	1.4	4.2	9.4	9.4	21.4
UK	MSCI	1197	1.9	3.4	2.8	2.8	15.2	2.6	3.8	3.8	3.8	11.5
Japan	MSCI	4087	0.6	3.4	10.6	10.6	27.8	1.1	3.9	18.9	18.9	48.3
Government Bonds												
World	BofA-ML	3.28	0.1	0.3	-3.2	-3.2	-3.3	0.4	0.5	-1.0	-1.0	-0.4
Emerging Markets	BBloom	7.61	1.8	3.1	2.0	2.0	15.4	1.8	3.1	2.0	2.0	15.4
China	BofA-ML	2.23	-0.2	0.1	0.5	0.5	1.5	0.1	0.4	2.3	2.3	6.7
US (10y)	Datastream	4.23	0.6	0.7	-2.0	-2.0	-3.4	0.6	0.7	-2.0	-2.0	-3.4
Europe	Bofa-ML	2.98	0.1	0.7	-2.9	-2.9	3.0	0.4	0.9	-0.9	-0.9	2.4
Europe ex-UK (EMU, 10y)	Datastream	2.33	0.6	0.6	-3.9	-3.9	1.3	0.9	0.9	-1.9	-1.9	0.6
UK (10y)	Datastream	3.97	0.1	1.3	-3.0	-3.0	2.4	0.7	1.8	-2.1	-2.1	-0.8
Japan (10y)	Datastream	0.74	-0.6	-1.0	-7.6	-7.6	-16.1	-0.1	-0.4	-0.6	-0.6	-2.6
IG Corporate Bonds												
Global	BofA-ML	4.95	0.3	0.8	-1.0	-1.0	5.1	0.4	0.9	-0.2	-0.2	4.9
Emerging Markets	BBloom	6.76	0.8	1.6	3.2	3.2	11.7	0.8	1.6	3.2	3.2	11.7
China	BofA-ML	2.87	-0.3	0.0	-0.2	-0.2	0.2	0.0	0.3	1.6	1.6	5.4
US	BofA-ML	5.40	0.5	0.9	-0.4	-0.4	4.6	0.5	0.9	-0.4	-0.4	4.6
Europe	BofA-ML	3.81	0.1	0.6	-1.9	-1.9	6.6	0.3	0.8	0.1	0.1	6.0
UK	BofA-ML	5.40	-0.3	0.9	-1.0	-1.0	9.3	0.4	1.3	-0.1	-0.1	5.8
Japan	BofA-ML	0.93	-0.6	-0.6	-7.0	-7.0	-13.6	0.0	-0.1	0.0	0.0	0.2
HY Corporate Bonds												
Global	BofA-ML	7.77	0.2	0.8	1.4	1.4	12.8	0.2	0.9	1.8	1.8	12.6
US	BofA-ML	7.88	0.2	1.0	1.3	1.3	12.9	0.2	1.0	1.3	1.3	12.9
Europe	BofA-ML	6.60	-0.6	-0.1	-0.4	-0.4	12.3	-0.3	0.2	1.6	1.6	11.6
Cash (Overnight LIBOR)												
US		5.31	0.1	0.4	1.3	1.3	5.4	0.1	0.4	1.3	1.3	5.4
Euro Area		3.91	-0.2	0.2	-0.9	-0.9	4.4	0.1	0.3	0.9	0.9	3.7
UK		5.19	-0.6	0.0	0.4	0.4	8.5	0.1	0.4	1.2	1.2	5.1
Japan		0.08	-0.5	-0.6	-6.9	-6.9	-13.8	0.0	0.0	0.0	0.0	0.0
Real Estate (REITs)												
Global	FTSE	1561	0.1	1.3	-3.8	-3.8	9.5	0.4	1.5	-1.8	-1.8	8.8
Emerging Markets	FTSE	1211	1.6	-1.6	-4.3	-4.3	-3.8	1.9	-1.4	-2.4	-2.4	-4.4
US	FTSE	2919	-1.2	-0.3	-4.2	-4.2	12.1	-1.2	-0.3	-4.2	-4.2	12.1
Europe ex-UK	FTSE	2389	4.2	6.1	-6.4	-6.4	27.9	4.5	6.3	-4.5	-4.5	27.1
UK	FTSE	825	3.6	4.8	-4.2	-4.2	18.1	4.3	5.3	-3.3	-3.3	14.4
Japan	FTSE	2248	0.4	9.0	4.2	4.2	12.3	1.0	9.6	12.1	12.1	30.3
Commodities												
All	GSCI	3648	-1.2	3.9	9.0	9.0	14.8	-	-	-	-	-
Energy	GSCI	661	-1.8	4.7	14.1	14.1	25.9	-	-	-	-	-
Industrial Metals	GSCI	1593	-0.8	3.5	-0.5	-0.5	-4.0	-	-	-	-	-
Precious Metals	GSCI	2437	0.7	7.4	5.2	5.2	8.9	-	-	-	-	-
Agricultural Goods	GSCI	512	1.3	3.8	-0.2	-0.2	-5.0	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.08	-0.3	-0.2	-1.9	-1.9	0.7	-	-	-	-	-
JPY		151.57	-0.5	-0.6	-6.9	-6.9	-13.8	-	-	-	-	-
GBP		1.26	-0.7	-0.4	-0.9	-0.9	3.3	-	-	-	-	-
CHF		1.11	-1.8	-2.7	-6.9	-6.9	1.8	-	-	-	-	-
CNY		7.22	-0.3	-0.3	-1.6	-1.6	-4.9	-	-	-	-	-

Notes: *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). **Past performance is no guarantee of future results.** Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 6 – Global equity sector total returns relative to market (%)

Data as at 26/03/2024	Global				
	1w	1m	QTD	YTD	12m
Energy	**-0.8**	**0.4**	**-2.9**	**-2.9**	**-4.2**
Basic Materials	**0.4**	**2.5**	**-6.8**	**-6.8**	**-11.9**
Basic Resources	0.7	3.2	-8.7	-8.7	-11.3
Chemicals	0.0	1.5	-4.1	-4.1	-12.6
Industrials	**0.2**	**0.7**	**0.7**	**0.7**	**0.6**
Construction & Materials	1.0	2.8	1.7	1.7	9.1
Industrial Goods & Services	0.1	0.4	0.5	0.5	-0.6
Consumer Discretionary	**-0.2**	**-1.0**	**0.4**	**0.4**	**0.0**
Automobiles & Parts	1.4	-1.7	-5.1	-5.1	-3.1
Media	1.2	1.5	8.4	8.4	5.2
Retailers	-0.1	0.2	4.8	4.8	11.1
Travel & Leisure	0.6	-1.4	-2.4	-2.4	-4.9
Consumer Products & Services	-2.3	-2.8	-2.1	-2.1	-9.3
Consumer Staples	**-0.6**	**-1.7**	**-5.5**	**-5.5**	**-17.8**
Food, Beverage & Tobacco	-0.4	-1.3	-6.1	-6.1	-19.1
Personal Care, Drug & Grocery Stores	-0.9	-2.6	-4.4	-4.4	-15.3
Healthcare	**-0.7**	**-2.6**	**-0.5**	**-0.5**	**-7.6**
Financials	**0.5**	**0.8**	**0.8**	**0.8**	**4.9**
Banks	0.8	1.7	0.5	0.5	4.9
Financial Services	0.7	-0.1	-0.3	-0.3	5.2
Insurance	-0.6	0.4	3.5	3.5	4.6
Real Estate	**-0.4**	**-1.2**	**-8.5**	**-8.5**	**-12.8**
Technology	**0.3**	**0.8**	**5.7**	**5.7**	**17.2**
Telecommunications	**0.8**	**-0.5**	**-4.9**	**-4.9**	**-12.6**
Utilities	**-0.6**	**0.9**	**-5.5**	**-5.5**	**-12.1**

Notes: Returns shown are for Datastream sector indices versus the total market index. **Past performance is no guarantee of future results.** Source: Refinitiv Datastream and Invesco

Figure 7a – US factor index total returns (% annualised)

Data as at 26/03/2024	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.6	4.3	11.5	11.5	36.3	0.1	1.5	1.9	1.9	2.4
Low volatility	0.0	2.3	7.7	7.7	16.1	-0.5	-0.5	-1.6	-1.6	-12.8
Price momentum	1.7	4.4	11.6	11.6	31.1	1.2	1.6	2.0	2.0	-1.5
Quality	0.8	4.9	8.5	8.5	27.1	0.3	2.1	-0.9	-0.9	-4.5
Size	0.4	3.4	2.3	2.3	20.2	-0.1	0.6	-6.5	-6.5	-9.7
Value	1.2	5.0	4.2	4.2	25.0	0.7	2.2	-4.8	-4.8	-6.1
Market	0.5	2.8	9.5	9.5	33.1					
Market - Equal-Weighted	0.6	3.4	5.7	5.7	22.2					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth 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 includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality 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 includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 7b – European factor index total returns relative to market (% annualised)

Data as at 26/03/2024	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	1.1	1.2	1.1	1.1	11.4	-0.2	-2.3	-5.9	-5.9	-7.2
Low volatility	1.4	3.3	5.3	5.3	12.4	0.1	-0.3	-2.0	-2.0	-6.4
Price momentum	1.6	4.1	10.4	10.4	25.5	0.3	0.5	2.8	2.8	4.5
Quality	1.7	4.1	5.0	5.0	16.5	0.3	0.5	-2.3	-2.3	-3.0
Size	2.4	4.7	2.7	2.7	13.5	1.0	1.1	-4.4	-4.4	-5.5
Value	2.9	6.1	2.3	2.3	20.1	1.5	2.4	-4.7	-4.7	0.0
Market	1.3	3.6	7.4	7.4	20.1					
Market - Equal-Weighted	1.8	3.6	4.3	4.3	17.0					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth 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 includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality 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 includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 8 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**	↑	**6%**			
Cash	2.5%		↑	6%			
Gold	2.5%			0%			
Bonds	**40%**	**10-70%**	↓	**41%**			
Government	25%	10-40%		22%			
US	8%			13%		25%	JPY
Europe ex-UK (Eurozone)	7%			2%			
UK	1%			1%			
Japan	7%			2%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
Corporate IG	10%	0-20%	↓	16%			
US Dollar	5%		↓	8%		50%	JPY
Euro	2%		↓	3%			
Sterling	1%			2%			
Japanese Yen	1%		↓	0%			
Emerging Markets	1%			3%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↓	3%			
US Dollar	4%		↓	2%			
Euro	1%		↓	1%			
Bank Loans	**4%**	**0-10%**	↑	**8%**			
US	3%		↑	6%			
Europe	1%			2%			
Equities	**45%**	**25-65%**	↓	**35%**			
US	25%		↓	10%			
Europe ex-UK	7%		↑	12%			
UK	4%		↓	4%			
Japan	4%		↓	1%			
Emerging Markets	5%			8%			
China**	2%			4%			
Real Estate	**4%**	**0-16%**		**6%**			
US	1%			2%			
Europe ex-UK	1%			1%			
UK	1%		↓	1%			
Japan	1%			1%			
Emerging Markets	1%		↑	1%			
Commodities	**2%**	**0-4%**		**4%**			
Energy	1%		↑	1%			
Industrial Metals	0.3%		↑	2%			
Precious Metals	0.3%			0%			
Agriculture	0.3%		↑	1%			
Total	**100%**			**100%**			

Currency Exposure (including effect of hedging)				
USD	52%	↓	39%	
EUR	19%	↑	23%	
GBP	7%		10%	
JPY	13%	↑	13%	
EM	9%	↑	16%	
Total	**100%**		**100%**	

Notes: **China is included in Emerging Markets allocations. This is a theoretical portfolio and is for illustrative purposes only. See the latest The Big Picture document for more details. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. Arrows indicate the direction of the most recent changes.
Source: Invesco

Figure 9 – Model allocations for Global sectors

	Neutral	Invesco	Preferred Region
Energy	**7.2%**	**Neutral**	**US**
Basic Materials	**4.2%**	**Neutral**	**Europe**
Basic Resources	2.5%	Underweight	Europe
Chemicals	1.7%	Neutral	US
Industrials	**13.1%**	**Overweight**	**Europe**
Construction & Materials	1.7%	Underweight	US
Industrial Goods & Services	11.4%	Overweight	Europe
Consumer Discretionary	**14.5%**	**Neutral**	**US**
Automobiles & Parts	2.7%	Underweight	Europe
Media	1.1%	Overweight	US
Retailers	4.9%	Neutral	US
Travel & Leisure	2.1%	Underweight	EM
Consumer Products & Services	3.7%	Neutral	Europe
Consumer Staples	**5.7%**	**Overweight**	**US**
Food, Beverage & Tobacco	3.7%	Overweight	US
Personal Care, Drug & Grocery Stores	2.0%	Overweight	US
Healthcare	**9.3%**	**Overweight**	**US**
Financials	**15.4%**	**Neutral**	**Europe**
Banks	7.4%	Overweight	Europe
Financial Services	5.1%	Underweight	Japan
Insurance	2.9%	Neutral	US
Real Estate	**2.9%**	**Overweight**	**Japan**
Technology	**20.8%**	**Neutral**	**US**
Telecommunications	**3.5%**	**Underweight**	**Japan**
Utilities	**3.3%**	**Underweight**	**Europe**

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest Strategic Sector Selector for more details.
Source: Refinitiv Datastream and Invesco

Appendix

Definitions of data and benchmarks for Figure 5

Sources: we source data from Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the Refinitiv overnight deposit rate for the euro, the British pound and the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1st January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the Bank of America Merrill Lynch government bond total return index for the World and Europe. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate government bond index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices. The emerging markets yields and returns are based on the Bloomberg Barclays emerging markets aggregate corporate bond index.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Data as of 26 March 2024 unless stated otherwise.

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