Strategic Sector Selector
A strategist's nightmare

Global equities have finally succumbed to increasing levels of uncertainty, delivering negative 2025 Q1 returns as the Trump presidency has revved up. Market leadership changed again with the underperformance of technology and autos leading to broad-based outperformance by rate-sensitive and defensive sectors. We think the probability of US recession has increased, while we assume that inflation will remain sticky and could rise. We think equity markets will likely remain volatile until policy uncertainty decreases. With that in mind, among other changes, we slightly increase our allocation to defensive sectors by upgrading utilities and telecommunications, while we keep our exposure to consumer staples by reducing food, beverage & tobacco, while adding to personal care, drug & grocery stores. We also raise our exposure to sectors we expect to do well if inflation stays elevated by upgrading real estate to Overweight.

Changes in allocations:

- Upgrades: chemicals, personal care, drug & grocery stores, real estate (N to OW), telecommunications (UW to N), utilities (UW to OW)

- Downgrades: food, beverage & tobacco (OW to N), industrial goods & services (N to UW), financial services (OW to UW)

Most favoured	Least favoured
US retailers	US autos
US banks	European financial services

Sectors where we expect the best returns:

- Retailers: well-diversified sector, exposure to growth factor, historically resilient in periods of volatility

- Banks: steepening yield curve, attractive valuations, exposure to potential financial deregulation

- Utilities: high yield, defensive sector, low exposure to rising tariffs

Figure 1 – Global sectors valuation matrix
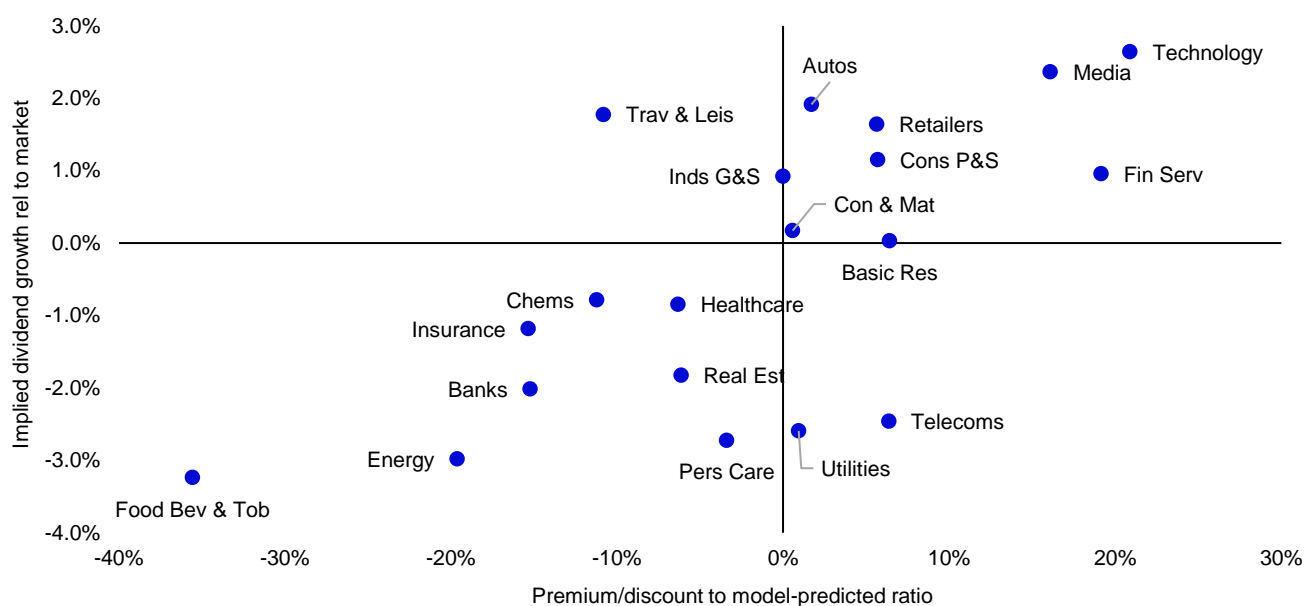
Notes: Data as of 31 March 2025. On the horizontal axis, we show how far a sector's valuation is above/below that implied by our multiple regression model (dividend yield relative to market). The vertical axis shows the perpetual real growth in dividends required to justify current prices relative to 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 Global Market Strategy Office

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Summary and conclusions

Since the last time
Momentum from Q4 2024 pushed global equities higher in the first half of Q1 2025, but they succumbed to increasing uncertainty about economic growth: the MSCI All-Country World index returned -2% in Q1 2025 in local currency terms. The pull-back in equities seemed to reflect growing unease with a world of higher tariffs and severe cuts to US government employment. Although lower growth in the US may imply more rate cuts by the Fed than previously expected, the inflationary impact of tariffs could complicate the picture.

Figure 2 – 3m Global sector returns relative to market in USD
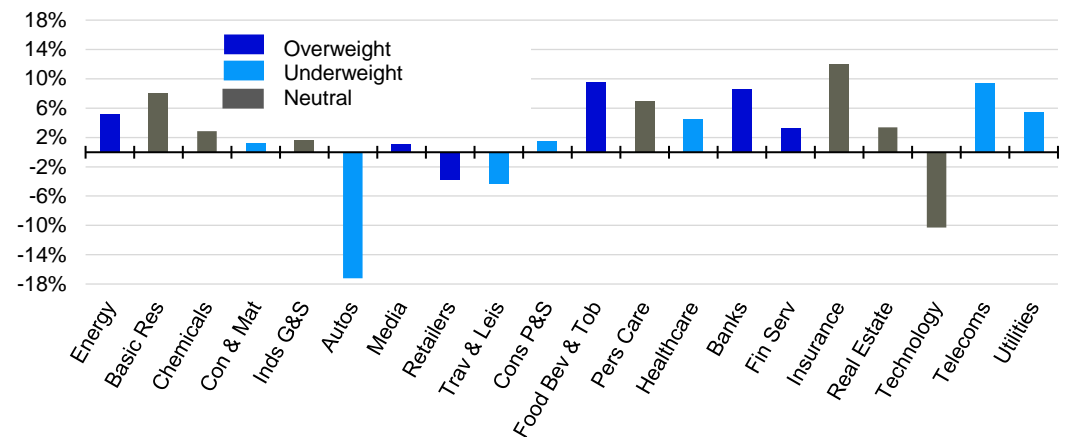
Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. Returns shown between 31 December 2024 and 31 March 2025. Colours indicate allocations in period considered. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

At first sight **Figure 2** presents an encouraging image of broad-based outperformance, but a closer look reveals that the underperformance of technology, automobiles & parts and retailers is partly responsible for a lower hurdle for outperformance. With the benefit of hindsight, we may have been hasty downgrading defensive sectors in our model sector allocation, as all of them outperformed. Having said that, retailers was the only Overweight sector that underperformed, while we were Underweight the worst performing sector. In our view, the outperformance of defensives, resource-related sectors and rate-sensitive financials reflected a duality of concerns about slowing economic growth and the risk of rising inflation.

Asset allocation backdrop
We previously thought the global economy would accelerate over the next 12 months as central banks ease and real wages grow, but "Liberation Day" tariffs have seriously dented our confidence in that outcome. We think there is now a reasonable possibility of recession in the US, which will dampen global growth. Unfortunately, this came at a time when US stocks were expensive (in our opinion) and when high yield spreads were narrow. The growth backdrop is much weaker than expected a month ago.

Though we expect policy rates to continue falling (except in Japan), our 10-year yield forecasts are mixed, with an expectation of upside in the US but downside in the UK, for example. Further downside is expected in the US dollar, especially versus the Japanese yen as the BOJ tightens. After recent volatility, we continue to favour non-US stock markets, as we believe that US concentration and valuations remain too high. Industrial commodities have suffered from downgrades to growth forecasts, but this is an asset class that could benefit if tariffs prove short lived and growth surprises to the upside. On the other hand, gold is already very expensive (in our view).

We expect to be rewarded (a bit) for taking risk over the next 12 months and we favour REITS, commodities and non-US equities within our Model Asset Allocation. Among

defensive assets, we favour bank loans, which we think still offer an attractive risk-reward trade off. Apart from the Neutral allocation to investment grade (IG), we are Underweight all other assets.

We brought the **equity** allocation up to Neutral. We added to US equities after the recent weakness but remained Underweight (we think it remains expensive and that there is an outside chance of recession in the US). We added to all other equity regions, all of which are Overweight (Europe could receive a defence related fiscal boost and we think Chinese stocks remain good value). We also added to **REITS**, going to the maximum allowed by adding to the US and emerging markets (EM). We maintained the maximum allocation to **commodities** in the belief that recent weakness could reverse if tariffs are reduced and the global economy does better than currently feared. We now focus on energy (after the recent price decline), rather than industrial metals and we remained Overweight agriculture.

We enabled the above additions by reducing **government bonds** to Underweight (by taking the US to Underweight) and by reducing **IG** to Neutral (reducing the US and eurozone). Elsewhere, we remained zero allocated to **cash** and **gold** (we think it is too expensive). We also remained Underweight **high yield** (HY), on the basis of spreads being too tight, which we think could be a problem if there is recession in the US.

Across assets we are Underweight the US and Overweight all other regions (especially Europe and EM). Among currencies, we prefer JPY and continue to partially hedge from USD to JPY.

Changes to model sector allocations

It did not take long for the Trump administration to spring into action and issue tariffs whose severity took stock markets by surprise. After a few retaliatory measures by some of the major trading partners of the United States, we now have our narrative for 2025 upended. The broad-based outperformance of most global equity sectors should not deceive us. What started as a pull-back of mostly large-cap technology stocks has turned into a bear market with few places to hide.

Left alone, we thought the global economy would reaccelerate despite potentially sticky inflation and little support from monetary and fiscal policy. However, as things stand, the uncertainty around how long trade restrictions will remain in place and how far they will go makes a global recession increasingly likely. An increase in tariffs with potentially higher inflation and lower economic growth presents the trickiest environment for investors to navigate, in our view. It is also unclear who may be the potential "winners" when the dust settles (if indeed there will be "winners"). Interestingly, rate futures are now pricing in a further 100bps worth of rate cuts by the Fed, 75bps by the European Central Bank (ECB) and 75bps by the Bank of England (BOE). However, central bankers do not seem to be in a hurry to start steep rate cuts until the inflationary impact of tariffs becomes clearer. At the same time, recent weakness in the US dollar may give Emerging Market central banks more room to respond to economic weakness as strengthening currencies reduce the inflationary threat somewhat.

We can no longer confidently state that a recession is just a tail risk. With both consumer and business sentiment falling in major developed and developing economies (including the US), the prospects for the global economy have turned more negative. At the same time, higher inflation may reduce real wage growth and delay monetary policy easing. The only bright spot is that falling commodity prices could limit the increase in inflation rates in the short term.

What does this mean for our sector allocations? If there has been a tricky time to be a strategist, this is it. We think volatility is likely to remain high in the short term and equities may even enter a bear market (a 20%+ drawdown from the most recent peak). In our view, it will require decisive policy support to halt this downward spiral either from central banks, or the US government. I think the current policy direction marks a decisive shift and therefore it warrants a tilt towards a slightly more defensive stance and an

increase in exposure to sectors that are more likely to outperform in a period of rising inflation, in our opinion.

In a nod to the hope of an improving economic environment, we upgrade **chemicals** to **Overweight** from Neutral. Although we expect weakness in the global economy in the short term, sector valuations suggest at least some of that may have been priced in. They look attractive on both of our models, which is the main reason we are now more positive about 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.

Our positive view on **industrial goods & services** was contingent on a manageable level of tariff threat and that no longer seems to apply. A boost to defence spending may also not be able to counteract cyclical headwinds, especially in manufacturing industries, while payment providers could underperform in an economic slowdown. With valuations close to "fair value" on our multiple regression model and at a slight premium on implied dividend growth relative to the market, we would wait for either a more attractive entry point, or signs of a turnaround in the prospects of the global economy. Reduce to **Underweight** from Neutral in our model sector allocation.

Within consumer staples, we swap **food, beverage & tobacco** and **personal care, drug & grocery stores** by downgrading the former to **Neutral** from Overweight and upgrading the latter to **Overweight** from Neutral. We are concerned that food, beverage and tobacco is vulnerable to trade disruption and could face sharply rising prices and falling demand as tariffs rise. It is also the most cyclical defensive sector in our view and therefore could be sensitive to a sharp economic slowdown. At the same time, we would like to maintain our exposure to consumer staples, and we think that personal care, drug & grocery stores may be more resilient in the face of a downturn.

As the clouds darken over financial markets, we think that the rich valuations of the **financial services** sector have become difficult to justify. After a fall in business sentiment, any upturn in the global mergers and acquisitions cycle looks to be at some distance away. Asset managers may also underperform as long as markets remain volatile, at least in the short term. Sector valuations are the second highest on our multiple regression model, while they are well-above that of the market on implied dividend growth. In our view, even a sharp drop in interest rates may not be enough to boost relative sector returns and therefore we downgrade it to **Underweight** from Overweight in our model sector allocation.

Assuming the global economy avoids a deep recession, we think that **real estate** could outperform in a world of potentially higher inflation. Landlords tend to be able to increase rent, thus following inflation protecting margins, 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 implies that bad news may at least partially be priced in. At the same time, rate cuts may improve their financing conditions, albeit only gradually. We upgrade to **Overweight** from Neutral.

In keeping with our preparation for a more uncertain market environment, we upgrade **telecommunications** to **Neutral** from Underweight. We think the sector's low, but stable growth rates and reliable cash generation may become a relative advantage if economic growth slows. However, after its recent outperformance, valuations have become rich based on our multiple regression model, which makes us slightly cautious. Nevertheless, we value its relatively high dividend yield and exposure to the value factor.

Within defensive value, we favour **utilities**, whose valuations look closer to "fair value" on our multiple regression model, although attractive based on implied dividend growth. Sector earnings are likely to be boosted by investments into power generation by cloud hyper-scalers. Its high dividend yield and pricing power can also be an advantage if inflation rates remain high. Finally, as long as developed market central banks remain

committed to easing monetary policy, its high gearing should not be a major hindrance. We upgrade to **Overweight**.

The best and worst of the rest
Although higher levels of uncertainty and a production boost by OPEC+ member states have driven oil prices down, we retain our **Overweight** allocation to the **energy** sector. Despite all the attention focusing on tariffs and trade, geopolitical conflicts are still simmering in the background. We also think that when the current period of volatility subsides, oil prices will recover, and we would like to maintain exposure to that. The sector is also the second cheapest on both of our models, and therefore we think a lot of bad news may have been priced in.

We retain our **Neutral** stance in **basic resources** in our model sector allocation for similar reasons. We think commodities provide exposure to any recovery in growth once we are through the current period of uncertainty. However, we think that some of that upturn may have already been reflected in its valuations, which stand at a premium on our multiple regression model and close to that of the market on implied dividend growth.

Although house prices seem to be stable and real wage growth is positive, but that can change quickly with consumer and business confidence at a low ebb. Relatively high mortgage rates may also hinder the **construction & materials** sector. We are also concerned that higher costs of labour will continue to put pressure on profit margins, while regulatory uncertainty in the US may not dissipate quickly. Although, the sector looks close to "fair value" on our multiple regression model and its implied dividend growth rate is close to that of the market, we think a darkening economic outlook warrants caution. We stay **Underweight**.

Despite being the worst performing sector in Q1 2025 mainly driven by the threat of "trade war", **automobiles & parts** still looks just 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, we think that may not be imminent, while its long and geographically dispersed supply chains give it full exposure to rising tariffs. The sector may only start outperforming when more sustainable drivers are behind its returns, thus we stay **Underweight** for now.

Media was one of only two consumer discretionary sectors that outperformed in Q1 2025 perhaps due to its relative lack of exposure to tariffs. Although as a growth sector, its valuations may be under pressure if rates stay higher for longer, we think it makes sense to maintain our allocation to cyclical sectors in general if growth reaccelerates earlier than we expect. The sector's relatively low gearing and good margins could stand it in good stead even if inflation were to stay above central bank targets. Thus, we stay **Overweight**.

At the same time, we maintain exposure to the growth factor through **retailers**, which could be useful even if the global economy slides into recession. The sector's relative dividend yield may be slightly below that implied by our multiple regression model, but it is a diversified sector, which we think will provide resilience during any potential market weakness should the economy perform weaker than we expect. Although tariffs could be a headwind, the largest constituents in the sector have sufficient pricing power to counteract those impacts. We maintain our **Overweight** allocation.

We expect **travel & leisure** to remain under pressure as long as fears about economic growth persist, thus we think it is appropriate to keep our **Underweight** allocation. We believe the many headwinds the sector faces are proving too much: labour costs have risen and demand may not fully recover until economic growth picks up, while higher costs could eat further into disposable incomes as excess savings are depleted.

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. The sector also trades at a premium compared to the relative dividend yield implied by our multiple regression model, some of which may be justified by its relative resilience and diversification benefits (which we value). However, we are concerned that its high valuations may present a risk if interest rates remain high, while it tends to underperform during periods of high volatility.

We view **healthcare** as another defensive sector that may struggle in the next 12 months, especially if rates stay higher than we expect for a prolonged period. Regulatory pressure from the incoming Trump administration may also impact providers servicing the US market. The sector's valuations look more attractive even after outperformance in Q1 2025. However, the scaling back of university research facilities in the US puts its potential for future innovation into doubt. Therefore, we stay **Underweight** in our model sector allocation.

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

Rising bond yields provided a boost to **insurance** in the period after COVID-related restrictions were lifted. We think the prospect of that drove the sector's outperformance in Q1 2025. However, that tailwind may disappear if the global economy enters recession. 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 (when it eventually comes). 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 our allocation at **Neutral**.

The biggest decision we face every quarter concerns the largest sector (based on market cap): **technology**. Even after underperforming in Q1 2025, valuations remain high and the sector has the largest premium based on our multiple regression model, which makes it vulnerable to continued negative sentiment, in our view. We remain positive about the sector's long-term growth potential, which we think will continue to benefit from increasing investment and boosted by the focus on generative artificial intelligence. We also value its high margins and solid cash generation, but valuations keep us cautious, thus we stay **Neutral**.

Sector in focus: Chemicals

Chemicals is a sector that does not tend to hog the limelight, which as the second smallest global sector may not be surprising (based on market capitalisations in US dollars, as of 31 March 2025). The sector has had its challenges in the post-COVID period with rising energy prices making certain European operations less viable, while an oversupply of petrochemicals and a recent capacity build-out may exacerbate the impact of weakening global demand. This may have contributed to the sector being the worst performer in the last 12 months.

We still hope for economic reacceleration but can no longer dismiss the possibility of recession as a tail risk, especially if investment plans are put on hold or withdrawn waiting for the uncertainty to recede. Monetary policy expectations are changing rapidly, but we think there could be scope for around three-to-four 25bp cuts at the Fed, the ECB and the BOE with the BOJ the most important outlier with perhaps one or two rate hikes over the next 12 months. We think that could help at the margin but may have to be reversed if inflation rises as higher tariffs are passed on to consumers.

Even though it is a small sector, chemicals is well-balanced geographically with the US accounting for 33% of market capitalisation (although almost half of that is Linde, which could be counted as more European), followed by developed Europe at 26% and EM at 23%. Unsurprisingly, the two dominant subsectors (out of four in total) are made up of diversified chemicals and specialty chemicals accounting for 89% of market capitalisation, followed by fertilizers at 9% and chemicals and synthetic fibres at 2%. At the same time there is no dominant stock (the top ten account for about 51% of market capitalisation as of 31 March 2025) and the sector has a long tail of small constituents.

As ever, there are multiple moving parts when trying to determine how chemicals will fare in the next 12 months. For such a highly cyclical sector, the path of global economic growth will be perhaps the most important factor to consider. Both earnings and dividend growth have been recovering since the summer of 2024, but further improvement may require economic growth momentum to improve, although falling oil and natural gas prices could boost margins.

Figure 3 – Global chemicals dividend yields versus historical averages (z-scores)
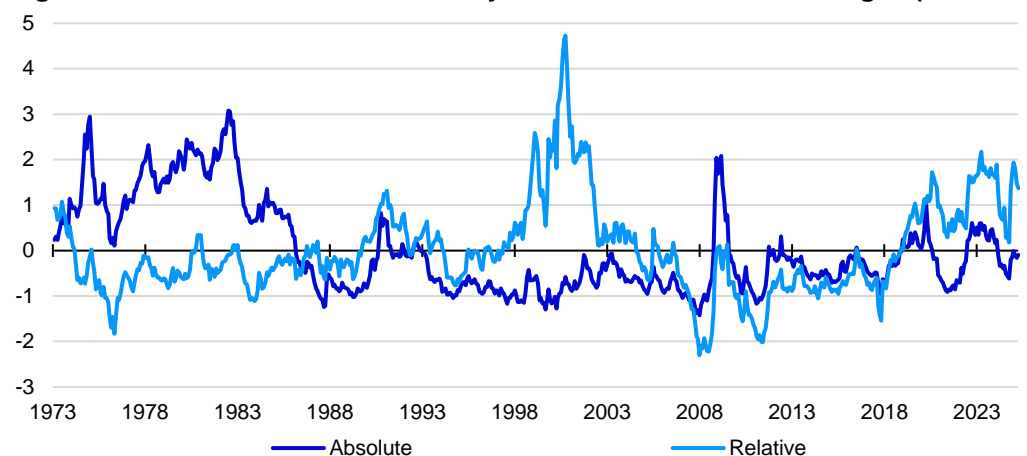
Notes: Data as of 31 March 2025. **Past performance is no guarantee of future results.** We use monthly data based on the 12-month trailing dividend yield on the Datastream World Chemicals Index and the Datastream World Total Market Index. Relative dividend yields are calculated by dividing the yield on the chemicals index by the yield on the total market index. Z-scores are calculated by dividing the difference from the long-term average since 2 January 1973 by the standard deviation of respective dividend yields.
Source: LSEG Datastream and Invesco Global Market Strategy Office

At the same time, despite being the worst performing sector in the last 12 months, sector valuations continue to look mixed, in our view. If a global recession struck, this underperformance would most likely continue, although we think bad news may have partially been reflected in valuations (dividend yields, for example).

When it comes to sector allocations, we start by comparing the relative dividend yield implied by our multiple regression model to what the sector trades at. This suggests that the sector is undervalued versus what our model implies (**Figure 11**). We then cross-check that using our perpetual dividend growth model, which shows that dividends would have to grow by a real 2.7% per year into perpetuity for the sector to generate the hurdle rate of return, just below that of the market at 3.5% and suggesting it is relatively cheap (**Figure 12**).

Comparing other valuation metrics to their own respective historical averages paints a more mixed picture. The sector looks overvalued in absolute terms on price/earnings and price/cash flow, while dividend yield and price/book value look close to historical averages (see **Figure 24**). Relative valuations paint a similar picture with, for example, relative dividend yield looking attractive at 1.4 standard deviations above the historical average (**Figure 3**), while relative price/earnings ratios show the sector as overvalued at 1.7 standard deviations above historical norms.

The dividend yield of chemicals has been fluctuating in a relatively tight range between 1.5% and 3.5% since the mid-1980s with an average of 2.9% (we think a return to pre-1980s levels is unlikely). The current yield at 2.8% (as of 31 March 2025) is close to that average, but well-below 10-year Treasury yields, for example. We think that for the sector to become more attractive yields would have to rise. For that to happen, either share prices would have to fall, or dividends would have to rise. In our view, the former is more likely at the moment mostly driven by the uncertainty about the global economy, while dividends are unlikely to rise unless sector profitability increases (EBITDA margins are just above historical averages as of 31 March 2025).

Figure 4 – Global chemicals forward earnings growth vs total returns since 1988
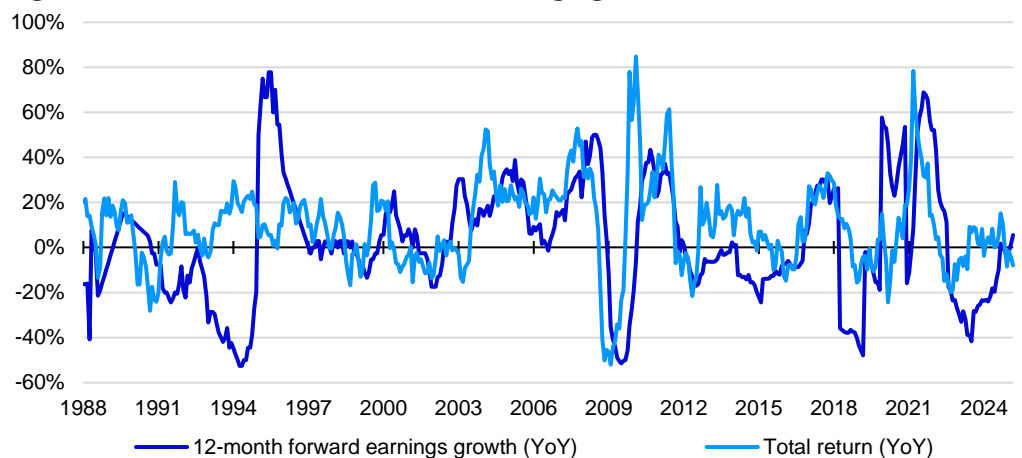
Notes: Data as of 31 March 2025. **Past performance is not a guarantee of future results.** The data shown in the chart is monthly starting in February 1988. The index used to represent global chemicals is the Datastream Chemicals World index in US dollars. We use IBES consensus 12-month forward EPS and calculate year-on-year change to represent earnings growth.
Source: LSEG Datastream and Invesco Global Market Strategy Office

We think that even though the global economic outlook is not rosy, two headwinds have been removed that prevented sector outperformance. First, the prices of oil and energy in general have fallen, which could improve margins. Second, valuations were above or around "fair value", especially on our multiple regression model, but have fallen and now look better value. Also, as **Figure 4** shows, 12-month forward earnings forecasts have been improving recently despite concerns about overcapacity and demand with analysts expecting around 6% growth (as of 31 March 2025). which we think supports our case for future outperformance. In our view, despite darkening clouds over the global economy, the sector could be well-positioned to take advantage if growth rises more than we currently expect, and therefore we upgrade to Overweight.

Figure 5 – Model allocations for Global sectors

	Neutral	Invesco		Preferred Region
Energy	**6.3%**	**Overweight**		**EM**
Basic Materials	**3.4%**	**Neutral**		**Japan**
Basic Resources	2.0%	Neutral		Japan
Chemicals	1.3%	Overweight	↑	US
Industrials	**13.1%**	**Underweight**		**US**
Construction & Materials	1.7%	Underweight		US
Industrial Goods & Services	11.4%	Underweight	↓	US
Consumer Discretionary	**14.2%**	**Underweight**		**US**
Automobiles & Parts	2.3%	Underweight		Europe
Media	1.2%	Overweight		US
Retailers	5.5%	Overweight		US
Travel & Leisure	1.9%	Underweight		EM
Consumer Products & Services	3.2%	Underweight		Japan
Consumer Staples	**5.3%**	**Neutral**		**US**
Food, Beverage & Tobacco	3.4%	Neutral	↓	US
Personal Care, Drug & Grocery Stores	2.0%	Overweight	↑	Europe
Healthcare	**8.8%**	**Underweight**		**US**
Financials	**17.2%**	**Overweight**		**US**
Banks	8.2%	Overweight		US
Financial Services	5.6%	Underweight	↓	US
Insurance	3.3%	Neutral		US
Real Estate	**2.7%**	**Overweight**	↑	**Japan**
Technology	**22.0%**	**Neutral**		**EM**
Telecommunications	**3.6%**	**Neutral**	↑	**US**
Utilities	**3.4%**	**Overweight**	↑	**US**

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

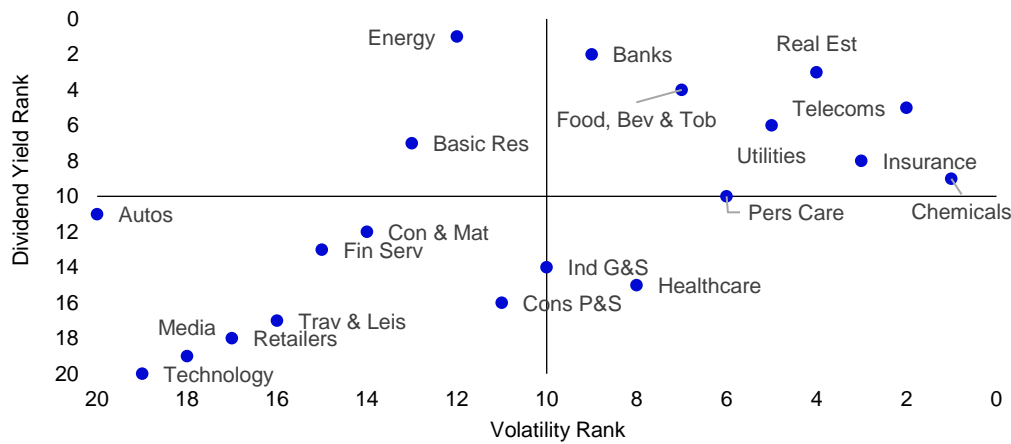**Figure 6 – Economic cycle and main sector allocation decisions**
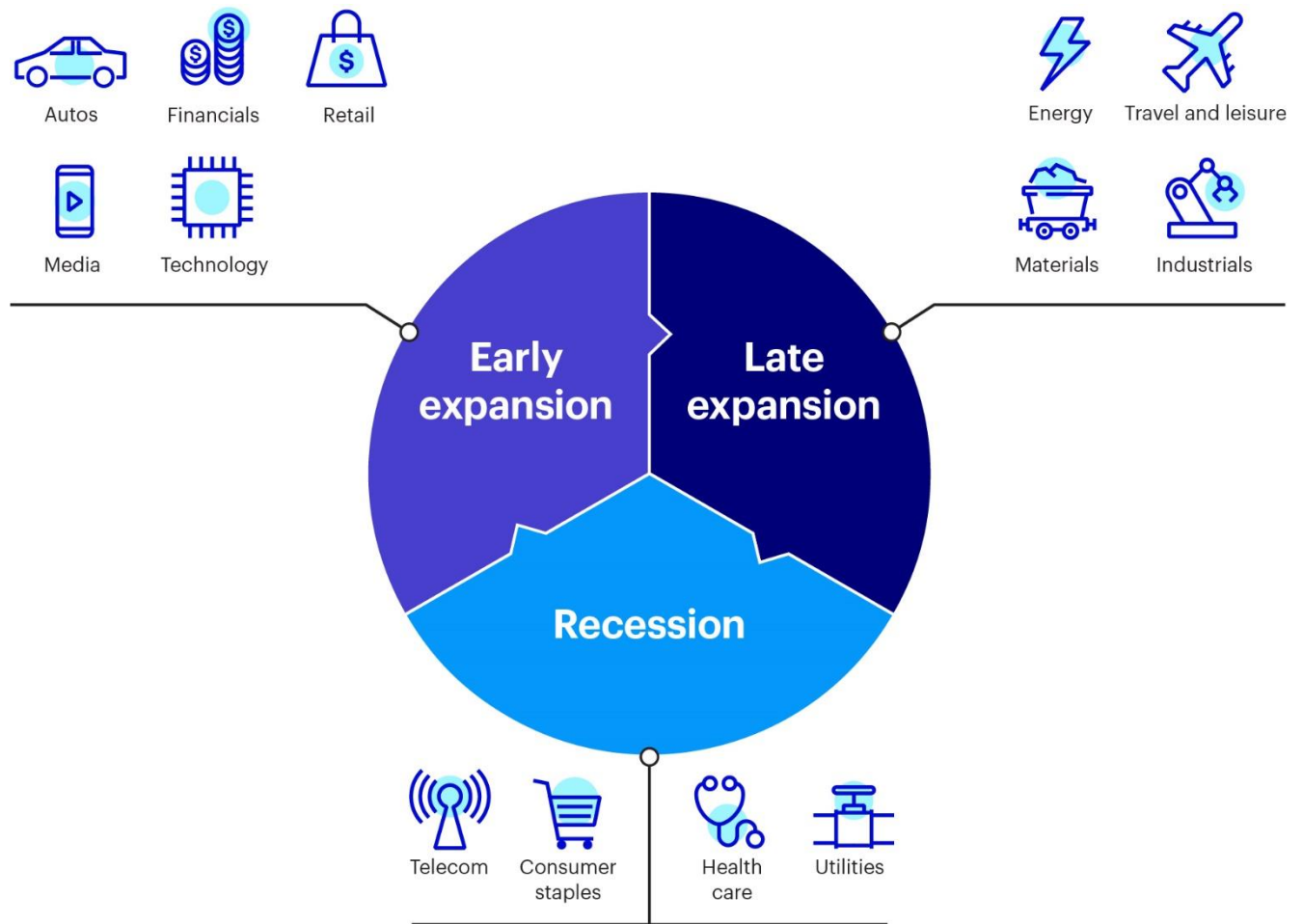
Note: The chart shows our opinion about which sectors tend to perform best at which stage of the economic cycle, based on our analysis of previous cycles.
Source: Invesco Global Market Strategy Office

Systematic strategy – Global

**Figure 7 – Global sectors ranked by volatility and dividend yield**

- A purely systematic approach would favour sectors in the top right corner: telecoms, chemicals and insurance.
- The approach would avoid sectors in the bottom left, such as technology, media and retailers.

Figure 8 – Global sector volatility of daily returns (using standard deviation in the past 3 months)
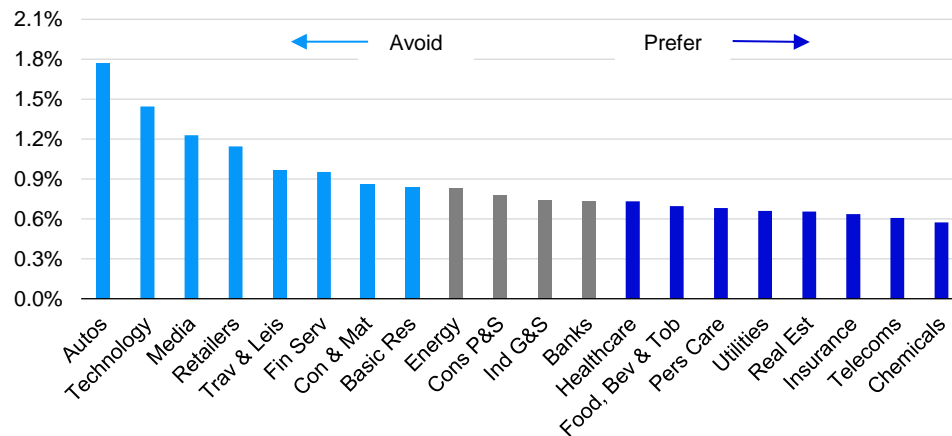
- The daily returns of autos, technology and media were the most volatile in the past 3 months.
- Chemicals, telecoms and insurance were the least volatile.

**Figure 9 – Global sector dividend yield (12-month trailing)**
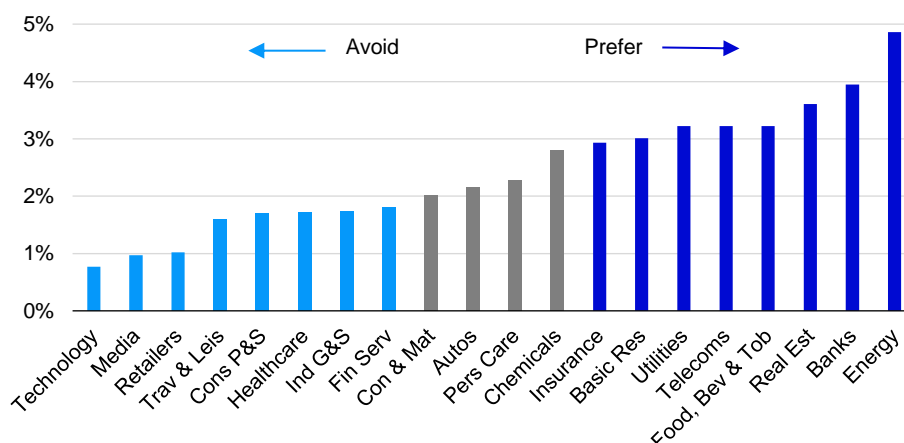
- Energy, banks and real estate look the cheapest based on their dividend yield.
- The lowest yielding sectors include technology, media and retailers.

Notes: Data as of 31 March 2025. **Past performance is no guarantee of future results.** In Figure 6, we rank sectors on the vertical axis by their current 12-month trailing dividend yields. On the horizontal axis, the sectors are ranked by the 3-month standard deviation of their daily returns. See appendices for methodology and disclaimers. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Valuations – Global

Figure 10 – Global sectors valuation matrix
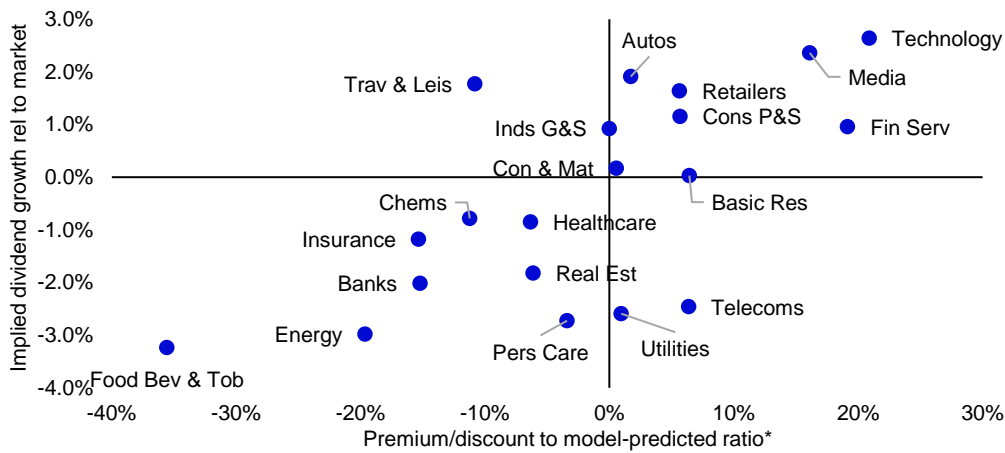
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, tech, financial services and media.
- Food, beverage & tobacco, energy, and banks look better value

Figure 11 – Premium/discount to model-predicted ratio*
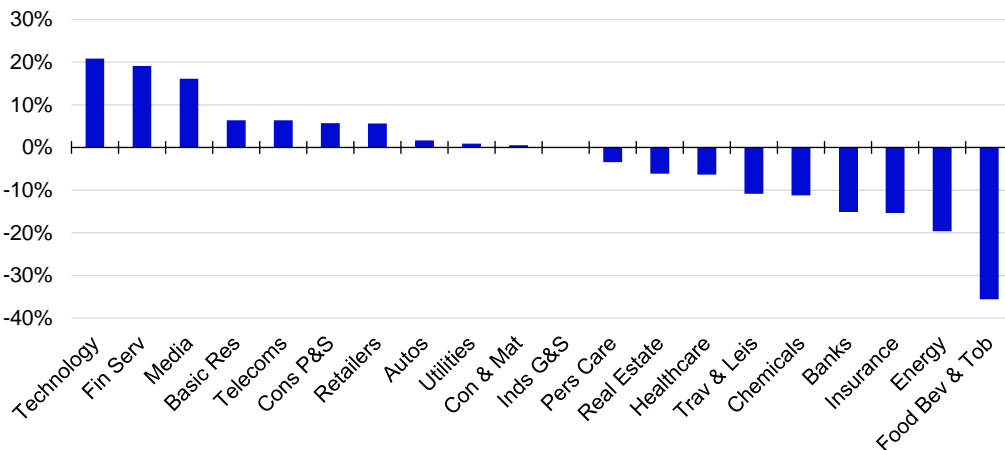
- Technology, financial services and media look the most overvalued versus our model
- Food, beverage & tobacco, energy and insurance seem the most undervalued versus our model-predicted ratios

Figure 12 – Global implied perpetual real dividend growth
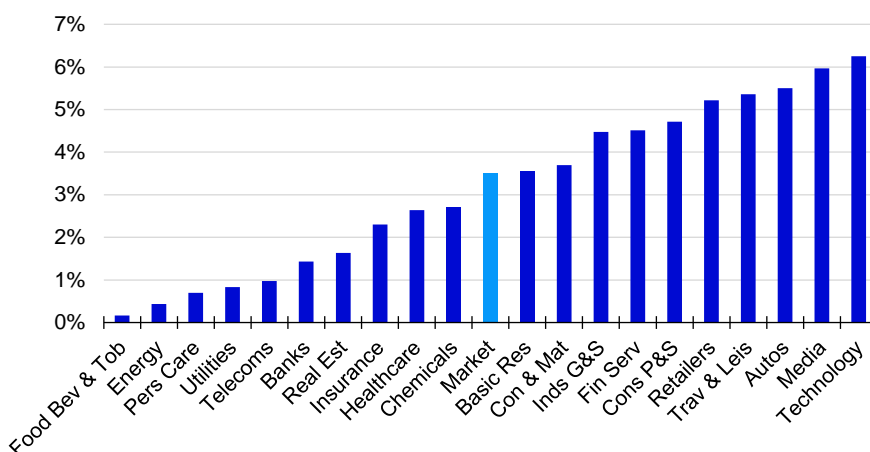
- Shows the future real growth required to justify current prices
- Technology and media appear priced for around 6% real growth in dividends (expensive)
- Four defensive sectors and energy seem priced for sub-1% growth (cheap)

Notes: *% above/below using dividend yield. Data as of 31 March 2025. See appendices for methodology and disclaimers.
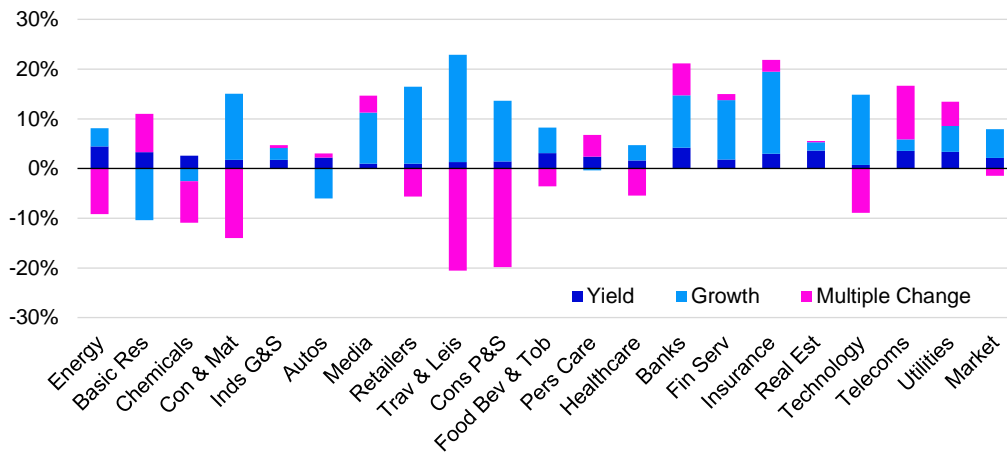Source: LSEG Datastream and Invesco Global Market Strategy Office

Decomposed returns – Global

Figure 13 – Global year-to-date total returns decomposed (annualised)
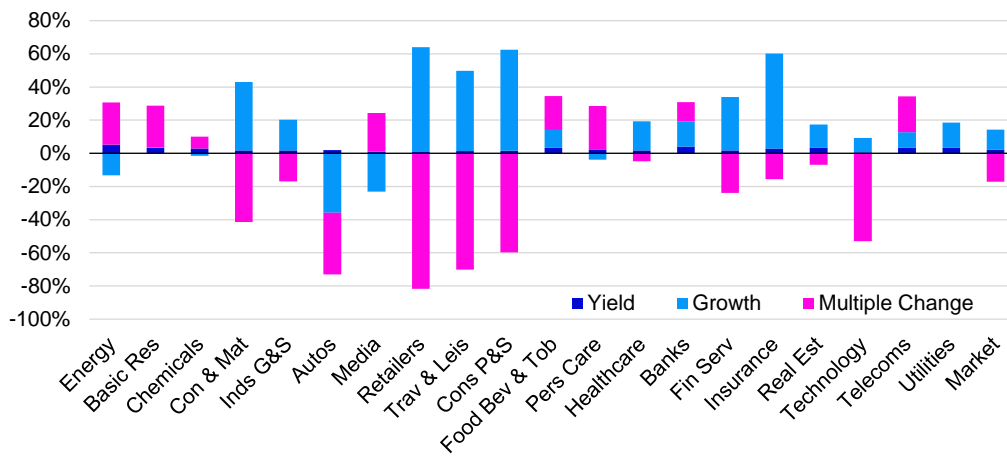
- Only five sectors had both multiple expansion and positive growth: basic resources, food & bev, banks, telecoms and utilities.
- Five sectors had over 10% growth: construction, retailers, travel & leisure, consumer products & services and insurance.

Figure 14 – Global rolling 12-month total returns decomposed

- Five sectors had negative total returns: energy, chemicals, autos, consumer products & services and healthcare.
- Two sectors had a yield above 4%: energy and banks.

Figure 15 – Global overall total returns decomposed (annualised, since 1973)
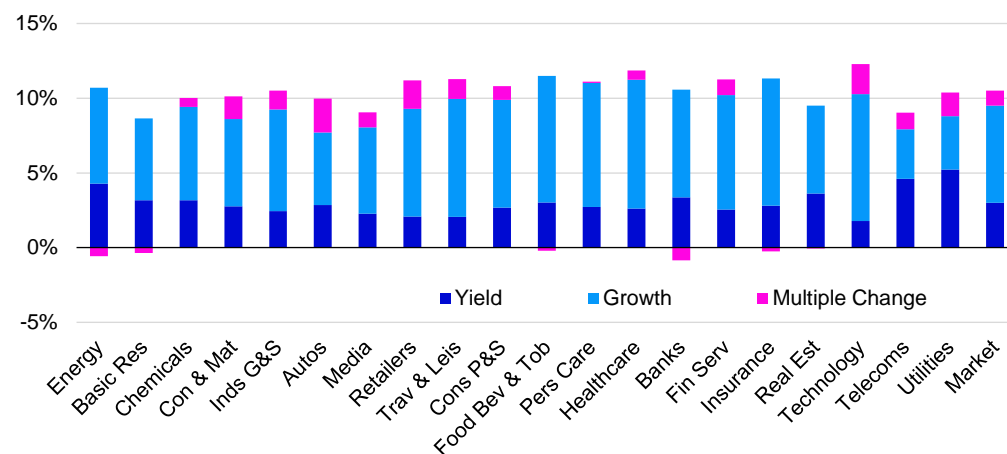
- Growth and yield drive long-term returns
- Growth is the most important, except for telcos and utilities
- Six sectors suffered from a multiple-related performance drag: energy, basic resources, food & bev, banks, insurance and real estate

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

Appendices

Appendix 1: Coefficients for variables used in multiple regression model

Figure 16 – Regression coefficients of Global defensive sectors

	Food, Bev & Tobacco	Personal Care	Health Care	Telecoms	Utilities	Market
Real Oil		-0.21			0.39	
Real Copper		0.01	0.00	0.02	-0.01	
Consumer Confidence	0.00		0.00	0.00	0.00	-0.01
Manufacturing Confidence	-0.01	0.00	0.01	0.01		
IP		0.59	1.19	-0.63	2.49	-5.12
10y Yield			2.26	-5.29	10.18	-11.38
CPI	3.54		-2.99	-2.03	-7.27	3.70
Net Debt/EBITDA		0.08		0.12		
ROE	-2.74	-1.31	0.84	0.98	-4.98	

Notes: Data as of 31 March 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 Global Market Strategy Office

Figure 17 – Regression coefficients of Global resource-related and industrial sectors

	Energy	Basic Resources	Chemicals	Construction & Materials	Industrial G&S	Market
Real Oil	-2.13	-0.89				
Real Copper	0.02	-0.01	0.00	-0.01	0.00	
Consumer Confidence	0.01	0.01	0.01	0.00		-0.01
Manufacturing Confidence	-0.01	-0.02	-0.01	-0.01	-0.01	
IP	-2.28		-0.83	1.39	0.24	-5.12
10y Yield		-8.91		2.15	0.36	-11.38
CPI	13.10	29.13	7.26	6.54	0.92	3.70
Net Debt/EBITDA	-0.22	-0.11		0.26		
ROE	-4.05	-2.06	-1.67	-0.94		

Notes: Data as of 31 March 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 Global Market Strategy Office

Figure 18 – Regression coefficients of Global consumer discretionary and technology sectors

	Autos & Parts	Media	Retail	Travel & Leisure	Cons P&S	Tech	Market
Real Oil	1.02	0.22	0.31	0.47	1.05	0.42	
Real Copper	-0.01		0.00	0.00	-0.01		
Consumer Confidence	0.01	0.00	0.00	0.00	0.00	0.00	-0.01
Manufacturing Confidence			0.00	0.00		0.02	
IP	-3.22		1.02	-0.45	0.87	-1.70	-5.12
10y Yield	3.68	6.19	2.26	-1.04	5.14	-2.03	-11.38
CPI	-1.73	-5.90	-5.00	-3.20	-4.37	-2.69	3.70
Net Debt/EBITDA	-0.07	0.05	0.23		-0.20	0.08	
ROE		1.55	-0.64	0.61	-2.42	0.48	

Notes: Data as of 31 March 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 Global Market Strategy Office

**Figure 19 – Regression coefficients of Global financial sectors**

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil			-0.57	0.57	
Real Copper		-0.01	0.01	-0.02	
Consumer Confidence	0.01	0.00	0.00	0.01	-0.01
Manufacturing Confidence	-0.01	-0.01	0.00	-0.03	
IP	-2.73	1.87		3.70	-5.12
10y Yield	-7.19		-5.17	2.50	-11.38
CPI	6.09		9.83		3.70
ROE	3.86	0.60	-1.09	-3.38	

Notes: Data as of 31 March 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 Global Market Strategy Office
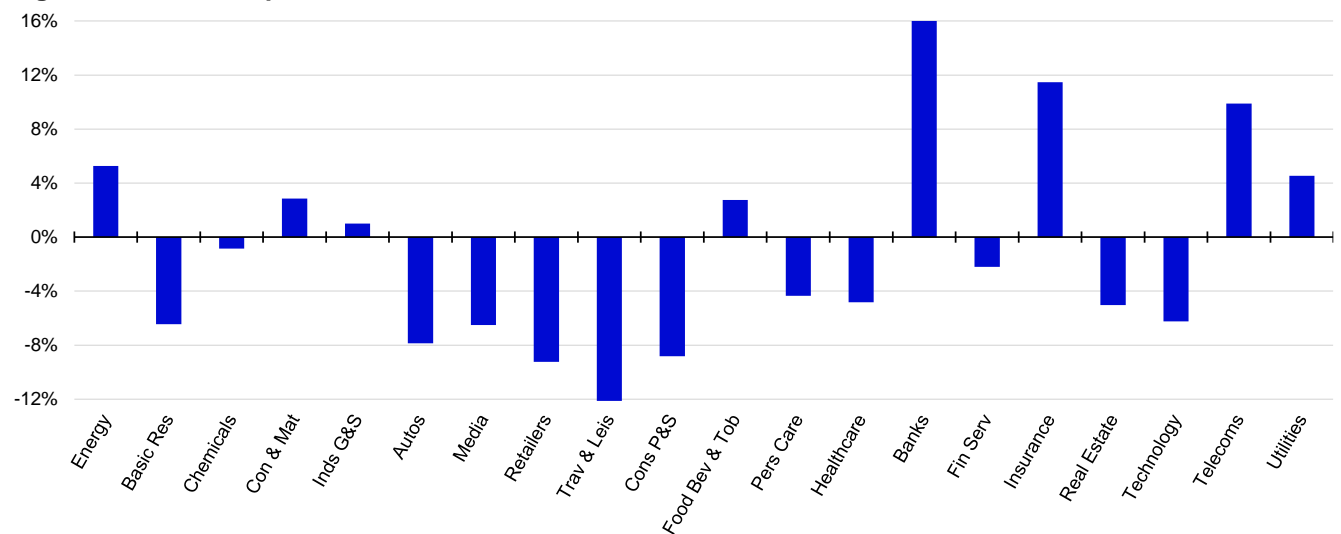
Appendix 2: Sector returns by region

Figure 20 – 3m US sector returns relative to market
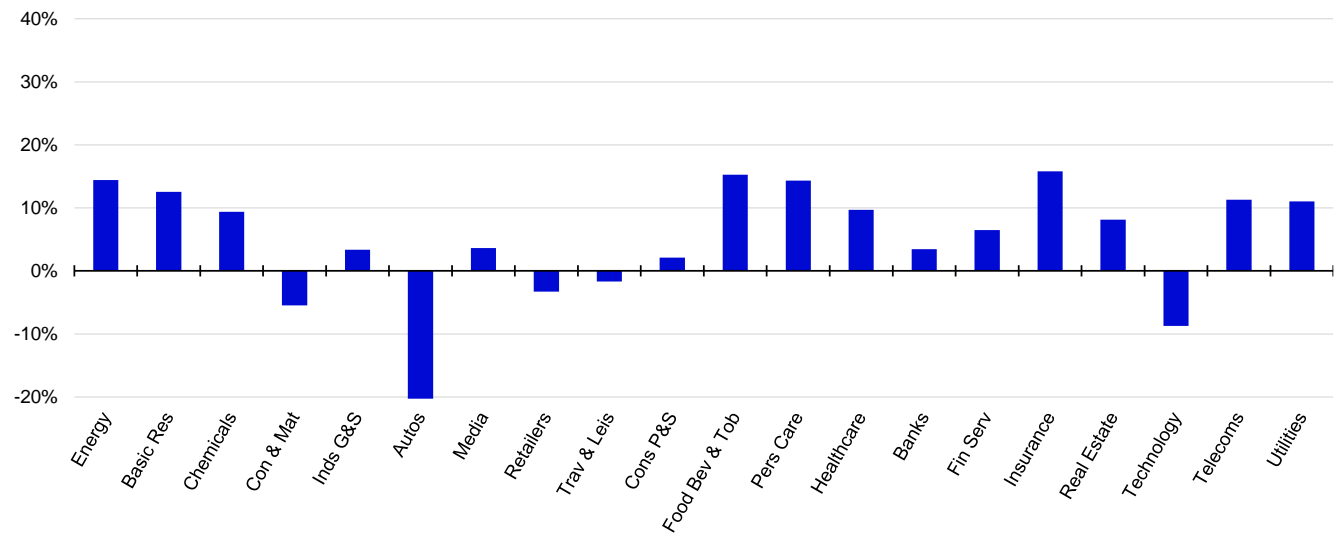
Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. Returns shown between 31 December 2024 and 31 March 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 21 – 3m European sector returns relative to market

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. Returns shown between 31 December 2024 and 31 March 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

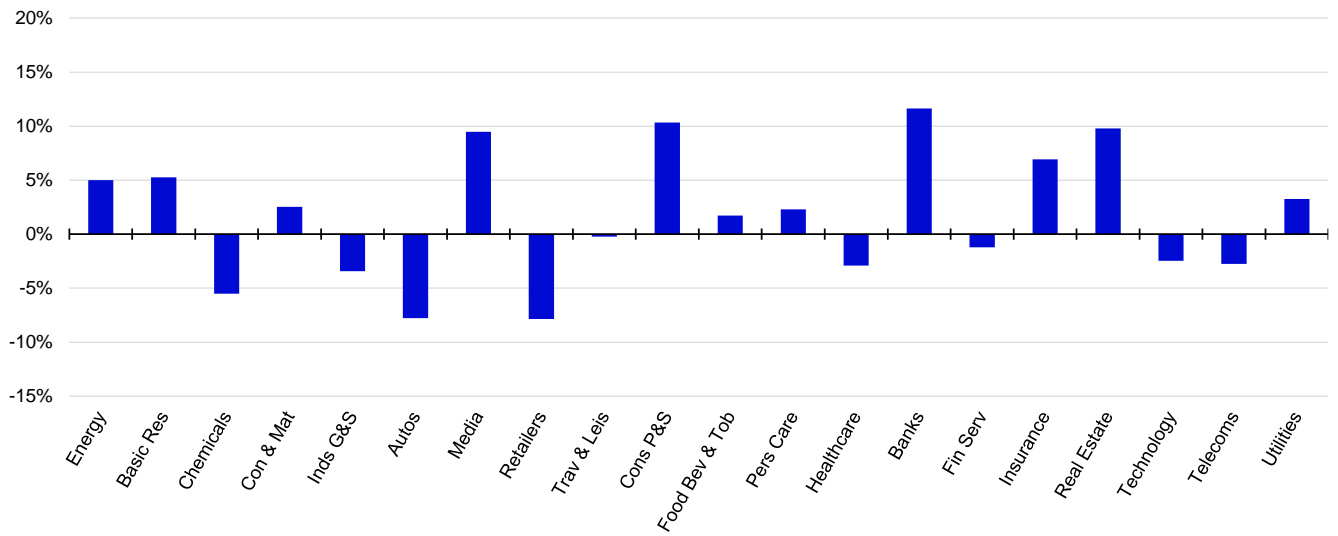**Figure 22 – 3m Japanese sector returns relative to market**

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. Returns shown between 31 December 2024 and 31 March 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

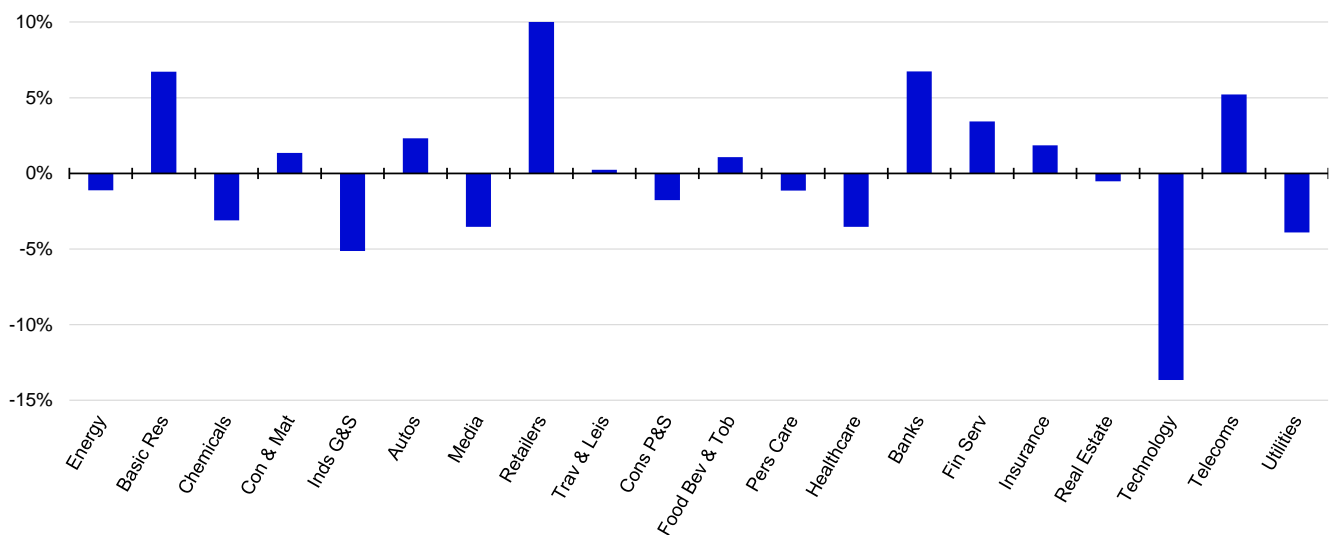**Figure 23 – 3m Emerging Market sector returns relative to market**

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. Returns shown between 31 December 2024 and 31 March 2025. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 3: Valuations tables

Figure 24 – 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	**14.7**	**14.4**	**0.0**	**4.9**	**3.9**	**0.8**	**1.4**	**1.8**	**-0.7**	**7.0**	**6.3**	**0.4**
Basic Materials	**19.3**	**16.7**	**0.6**	**2.9**	**2.8**	**0.2**	**1.8**	**1.8**	**0.0**	**9.0**	**7.5**	**0.9**
Basic Resources	16.8	16.8	0.0	3.0	2.9	0.1	1.7	1.7	0.0	8.0	7.3	0.3
Chemicals	25.2	17.3	1.5	2.8	2.9	-0.1	2.0	2.0	0.1	11.3	8.1	1.8
Industrials	**20.8**	**18.2**	**0.5**	**1.8**	**2.3**	**-0.7**	**3.0**	**2.2**	**1.7**	**12.9**	**9.3**	**1.9**
Construction & Mat.	18.3	16.8	0.4	2.0	2.5	-0.7	2.4	1.8	1.5	11.4	9.2	0.9
Industrial G&S	21.2	18.7	0.5	1.7	2.2	-0.7	3.1	2.3	1.7	13.1	9.3	1.9
Consumer Disc.	**21.6**	**18.9**	**0.5**	**1.4**	**2.2**	**-0.9**	**3.3**	**2.2**	**2.1**	**11.4**	**8.6**	**1.5**
Automobiles & Parts	13.1	15.0	-0.2	2.2	2.6	-0.4	1.4	1.5	-0.4	6.5	5.5	0.8
Media	28.0	21.9	0.8	1.0	2.0	-1.3	3.1	2.5	0.8	12.4	9.6	0.7
Retailers	27.6	21.7	0.9	1.0	1.8	-1.0	6.0	3.6	2.0	15.1	13.4	0.5
Travel & Leisure	20.0	23.3	-0.3	1.6	1.8	-0.3	5.8	2.7	2.9	9.7	9.4	0.1
Consumer Prod & Serv	23.0	19.5	0.7	1.7	2.4	-1.0	3.5	2.2	1.8	14.1	11.0	1.2
Consumer Staples	**22.1**	**17.0**	**1.0**	**2.9**	**2.5**	**0.4**	**2.8**	**2.8**	**-0.1**	**12.2**	**10.9**	**0.5**
Food, Bev & Tobacco	20.6	18.4	0.4	3.2	2.7	0.6	2.4	2.7	-0.5	12.2	11.1	0.4
Personal Care	25.0	20.5	0.8	2.3	2.4	-0.2	3.7	3.0	0.8	12.1	10.5	0.6
Healthcare	**31.3**	**20.5**	**1.8**	**1.7**	**2.3**	**-0.8**	**4.1**	**3.4**	**0.6**	**16.9**	**12.9**	**1.1**
Financials	**12.8**	**15.5**	**-0.6**	**3.1**	**2.7**	**0.4**	**1.0**	**1.4**	**-0.8**	**7.5**	**5.7**	**1.3**
Banks	10.3	14.1	-0.8	4.0	3.0	1.0	1.2	1.3	-0.4	6.3	6.2	0.0
Financial Services	18.7	18.3	0.1	1.8	2.2	-0.7	0.7	1.3	-1.1	13.8	9.2	2.2
Insurance	13.8	15.9	-0.4	2.9	2.5	0.6	2.0	1.7	0.5	5.9	3.8	2.0
Real Estate	**22.9**	**19.3**	**0.6**	**3.6**	**3.3**	**0.4**	**1.3**	**1.4**	**-0.4**	**14.8**	**13.8**	**0.4**
Technology	**29.6**	**24.6**	**0.5**	**0.8**	**1.6**	**-0.8**	**7.3**	**3.4**	**2.8**	**19.8**	**12.1**	**1.7**
Telecommunications	**17.5**	**17.3**	**0.0**	**3.2**	**4.2**	**-0.5**	**2.1**	**2.6**	**-0.4**	**6.0**	**6.1**	**0.0**
Utilities	**17.1**	**14.6**	**0.6**	**3.2**	**4.8**	**-0.8**	**1.9**	**1.6**	**0.9**	**7.4**	**5.7**	**1.2**
Market	**19.9**	**17.2**	**0.6**	**2.2**	**2.7**	**-0.6**	**2.2**	**2.0**	**0.5**	**11.0**	**7.9**	**1.8**

Notes: *in standard deviations from historical average. Data as of 31 March 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 Global Market Strategy Office

Figure 25 – Global cyclically-adjusted valuations

	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	**16.2**	**18.6**	**-0.3**	**3.9**	**2.9**	**1.0**	**1.6**	**2.6**	**-0.9**	**7.1**	**8.6**	**-0.5**
Basic Materials	**17.2**	**22.9**	**-0.8**	**2.8**	**1.9**	**1.7**	**1.8**	**2.4**	**-0.8**	**8.3**	**9.9**	**-0.7**
Basic Resources	16.7	21.2	-0.6	3.0	2.2	1.1	1.7	2.2	-0.5	7.6	9.3	-0.5
Chemicals	18.0	24.2	-1.2	2.7	1.9	1.7	1.9	2.7	-1.4	9.5	10.9	-0.8
Industrials	**27.2**	**26.6**	**0.1**	**1.4**	**1.5**	**-0.2**	**3.4**	**3.1**	**0.6**	**15.2**	**13.0**	**0.9**
Construction & Mat.	25.0	23.9	0.1	1.6	1.8	-0.5	2.5	2.2	0.4	13.3	11.8	0.4
Industrial G&S	27.6	27.3	0.1	1.4	1.4	-0.2	3.6	3.1	0.9	15.5	12.8	1.3
Consumer Disc.	**27.8**	**27.1**	**0.2**	**1.2**	**1.4**	**-0.8**	**3.6**	**3.0**	**1.2**	**13.9**	**11.9**	**1.0**
Automobiles & Parts	14.8	18.8	-0.9	1.9	1.7	0.3	1.4	2.0	-1.4	6.9	6.8	0.1
Media	31.1	29.9	0.2	1.0	1.4	-1.3	3.8	3.4	0.3	15.4	13.0	0.6
Retailers	43.1	32.5	1.6	0.8	1.1	-1.3	7.4	5.2	1.9	21.9	20.3	0.4
Travel & Leisure	25.9	33.7	-0.8	1.3	1.2	0.3	4.5	3.6	0.9	13.0	13.1	-0.1
Consumer Prod & Serv	27.1	28.6	-0.3	1.4	1.6	-0.5	3.9	3.1	1.3	16.0	15.6	0.2
Consumer Staples	**21.5**	**22.5**	**-0.3**	**2.4**	**1.7**	**1.7**	**3.4**	**3.8**	**-0.8**	**13.8**	**14.6**	**-0.4**
Food, Bev & Tobacco	23.7	28.0	-0.9	2.5	1.7	2.0	3.1	4.0	-1.9	14.2	16.3	-1.2
Personal Care	26.3	31.3	-0.7	2.0	1.5	1.3	3.9	4.6	-0.8	13.2	16.0	-1.1
Healthcare	**33.7**	**31.7**	**0.3**	**1.4**	**1.4**	**-0.1**	**4.9**	**5.2**	**-0.3**	**19.4**	**19.6**	**-0.1**
Financials	**18.3**	**23.0**	**-0.5**	**2.1**	**2.0**	**0.1**	**1.3**	**1.8**	**-0.9**	**8.5**	**7.3**	**0.8**
Banks	14.5	20.4	-0.6	2.7	2.4	0.3	1.3	1.7	-0.6	7.6	7.8	-0.1
Financial Services	25.3	29.1	-0.2	1.3	1.5	-0.4	0.9	1.8	-1.2	16.3	11.7	1.9
Insurance	21.8	23.6	-0.2	1.8	1.7	0.3	2.2	2.4	-0.2	6.0	4.9	1.1
Real Estate	**15.0**	**25.8**	**-0.8**	**3.7**	**2.6**	**1.2**	**1.3**	**1.7**	**-1.1**	**14.0**	**17.0**	**-0.8**
Technology	**50.3**	**39.5**	**0.5**	**0.5**	**0.9**	**-0.7**	**9.7**	**5.2**	**1.7**	**30.6**	**19.7**	**1.1**
Telecommunications	**18.3**	**22.6**	**-0.4**	**3.3**	**3.1**	**0.2**	**2.1**	**3.3**	**-0.8**	**6.0**	**7.6**	**-0.5**
Utilities	**21.3**	**18.7**	**0.6**	**2.9**	**3.5**	**-0.7**	**2.0**	**2.0**	**0.0**	**8.3**	**7.0**	**1.0**
Market	**25.1**	**24.7**	**0.1**	**1.7**	**1.8**	**-0.2**	**2.6**	**2.8**	**-0.3**	**12.7**	**10.8**	**1.0**

Notes: *in standard deviations from historical average. Data as of 31 March 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.
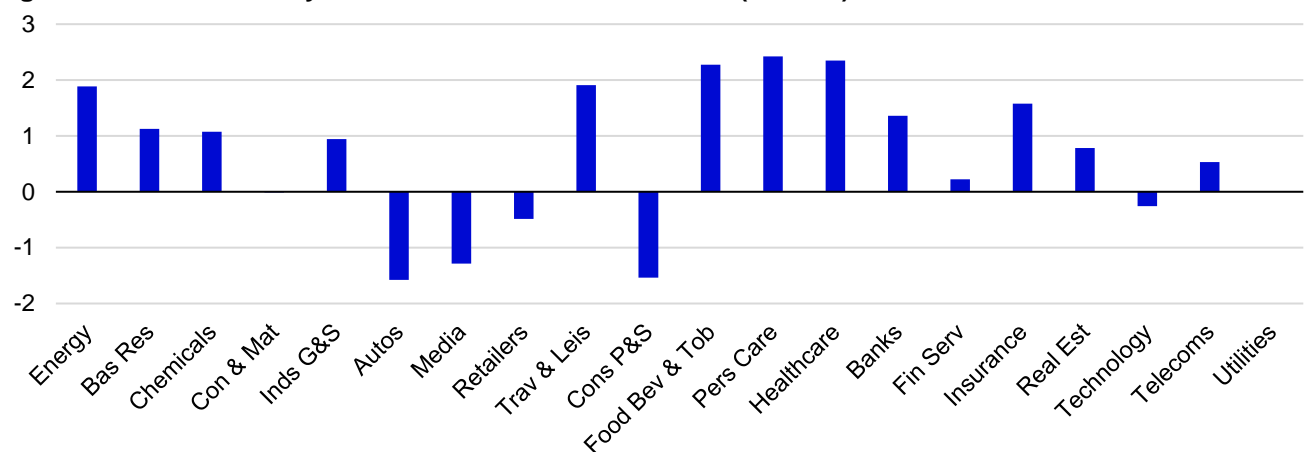Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 4: Sector valuations by region

Figure 26 – Global dividend yields relative to market (z-score)
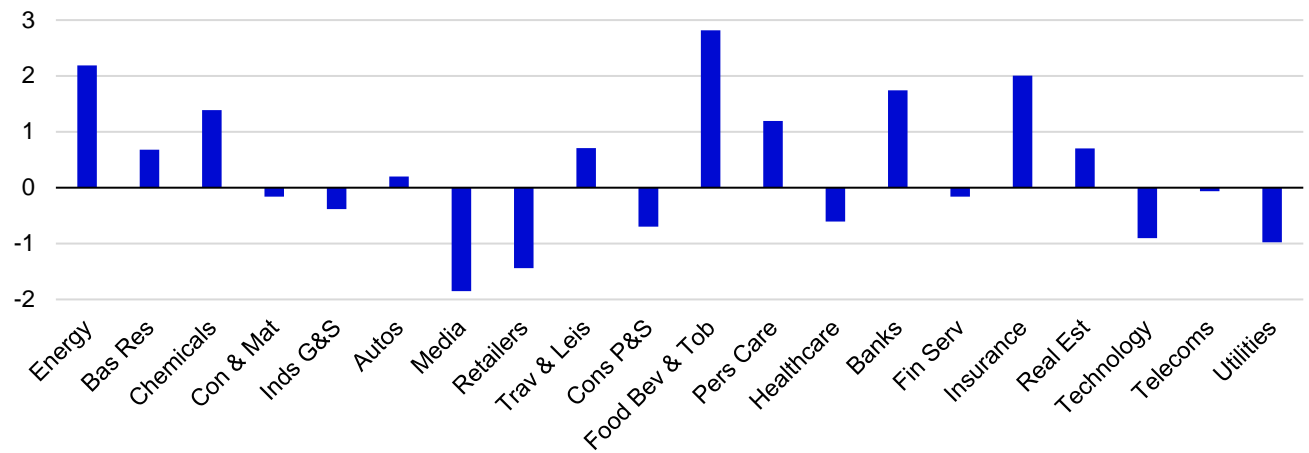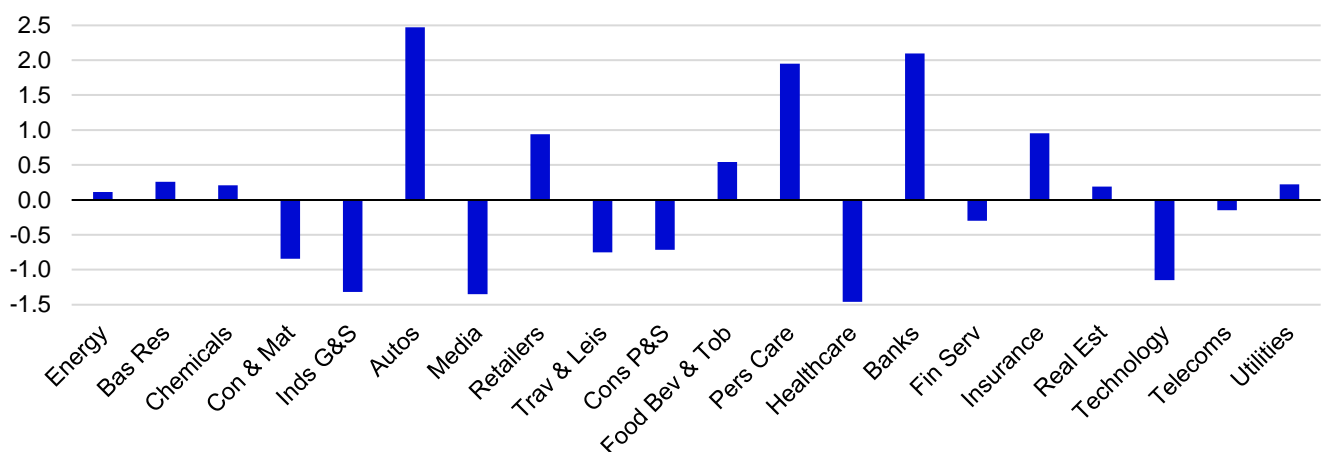

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

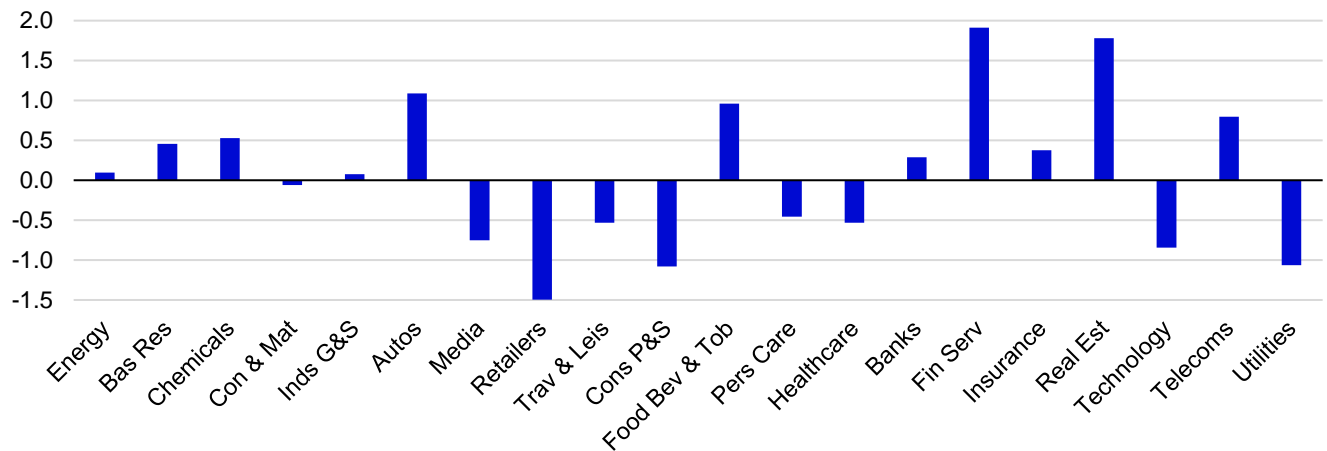**Figure 27 – US dividend yields relative to local benchmark (z-score)**

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

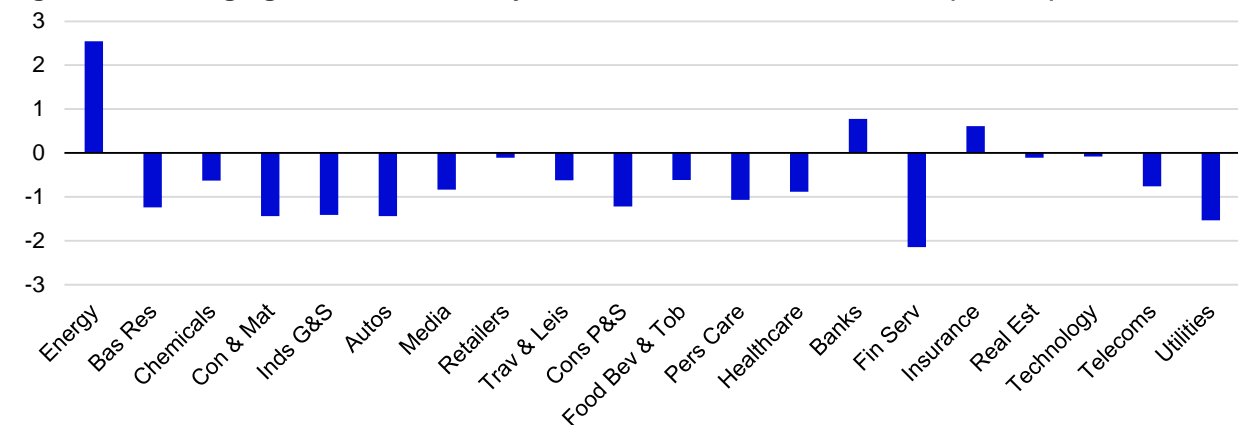**Figure 28 – Europe dividend yields relative to local benchmark (z-score)**

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

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

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Japan Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

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

Notes: Data as of 31 March 2025. See appendices for methodology and disclaimers. The local benchmark is the Datastream Emerging Markets Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 4: Performance tables

Figure 31 – Global equity sector total returns relative to market

Data as of 31 Mar 2025	Global				
	3m	YTD	12m	5y*	10y*
Energy	**5.1**	**5.1**	**-6.8**	**2.5**	**-4.0**
Basic Materials	**5.9**	**5.9**	**-9.3**	**0.0**	**-1.5**
Basic Resources	8.0	8.0	-5.8	3.5	0.4
Chemicals	2.9	2.9	-14.2	-4.4	-3.8
Industrials	**1.5**	**1.5**	**-2.2**	**0.5**	**0.1**
Construction & Materials	1.1	1.1	-5.1	1.9	-0.6
Industrial Goods & Services	1.6	1.6	-1.7	0.3	0.3
Consumer Discretionary	**-4.8**	**-4.8**	**-3.0**	**-1.9**	**-1.2**
Automobiles & Parts	-17.2	-17.2	-8.9	2.4	-3.0
Media	1.1	1.1	7.8	-2.3	-2.1
Retailers	-3.7	-3.7	4.1	-1.8	1.0
Travel & Leisure	-4.4	-4.4	-3.8	-2.3	-3.4
Consumer Products & Services	1.5	1.5	-12.0	-3.2	-1.0
Consumer Staples	**8.6**	**8.6**	**-1.0**	**-6.4**	**-3.4**
Food, Beverage & Tobacco	9.5	9.5	-1.6	-5.9	-3.5
Personal Care, Drug & Grocery Stores	7.0	7.0	0.0	-7.5	-3.5
Healthcare	**4.4**	**4.4**	**-6.8**	**-5.1**	**-1.3**
Financials	**7.4**	**7.4**	**12.3**	**3.9**	**0.4**
Banks	8.6	8.6	14.4	3.8	-0.9
Financial Services	3.3	3.3	8.1	4.2	2.3
Insurance	12.1	12.1	14.9	4.3	1.5
Real Estate	**3.4**	**3.4**	**-0.9**	**-8.1**	**-4.9**
Technology	**-10.3**	**-10.3**	**-0.5**	**5.5**	**8.1**
Telecommunications	**9.4**	**9.4**	**9.9**	**-4.2**	**-3.5**
Utilities	**5.5**	**5.5**	**6.7**	**-3.2**	**-0.9**

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

Appendix 5: Methodology

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

Monthly series since 31/01/1991:
- **1-year change in:** industrial production, consumer price index
- **The level of:** real oil price (US CPI adjusted), real copper price (US CPI adjusted), consumer confidence index, manufacturing confidence index, 10-year benchmark government bond yield, net debt/EBITDA (only for non-financial sectors), return on equity

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

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

Sector classification
We use the Industry Classification Benchmark (ICB).

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

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

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

We use a simple perpetual growth model to calculate implied growth. If Price = Dividend/(Discount Factor - Growth), then Growth = Discount Factor – Dividend Yield. The Discount Factor is equal to Risk Free Rate + (Beta x Market Risk Premium). Everything is expressed in real terms to eliminate the distorting influence of inflation, the output being growth in real terms. The important ingredients are derived as follows:
- The risk-free rate is an equity market capitalisation weighted average of US, UK, Eurozone, Japanese and Chinese 10-year real yields.
- Sector betas are calculated using five years of weekly price movements relative to the global market index.
- The risk premium is derived from US equity and treasury market returns since 1871.
- The dividend yield for each sector is the 12-month trailing yield calculated by Datastream.

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

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

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

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

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

Appendix 6: Abbreviations

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

Sector name abbreviations:

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

Appendix 7: Definitions of data and benchmarks

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

Government bonds: 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.

Data as of 31 March 2025 unless stated otherwise. This publication is updated quarterly.

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