Applied philosophy

Where do we find value in Emerging Market equities in 2024?

The recovery from the global equity bear market of 2022 has been on pause for Emerging Market stock markets since the middle of last year. On paper, the region could find the economic and policy environment of 2024 hospitable, especially if the global economy gets through its current soft patch and developed market central banks start cutting rates. In such a diverse region, we think it is worth digging deeper into which countries we would favour for the long term based on their valuations.

During this unseasonably warm February, I find myself thinking increasingly about what the world was like when I was a child. In those days, we still had four easily distinguishable seasons in Continental Europe. February was firmly a winter month, and I could expect to be able to build a lump of snow in the garden that I euphemistically called a snowman. February in London this year feels more like how I remember the end of March. Has spring begun early or will winter return?

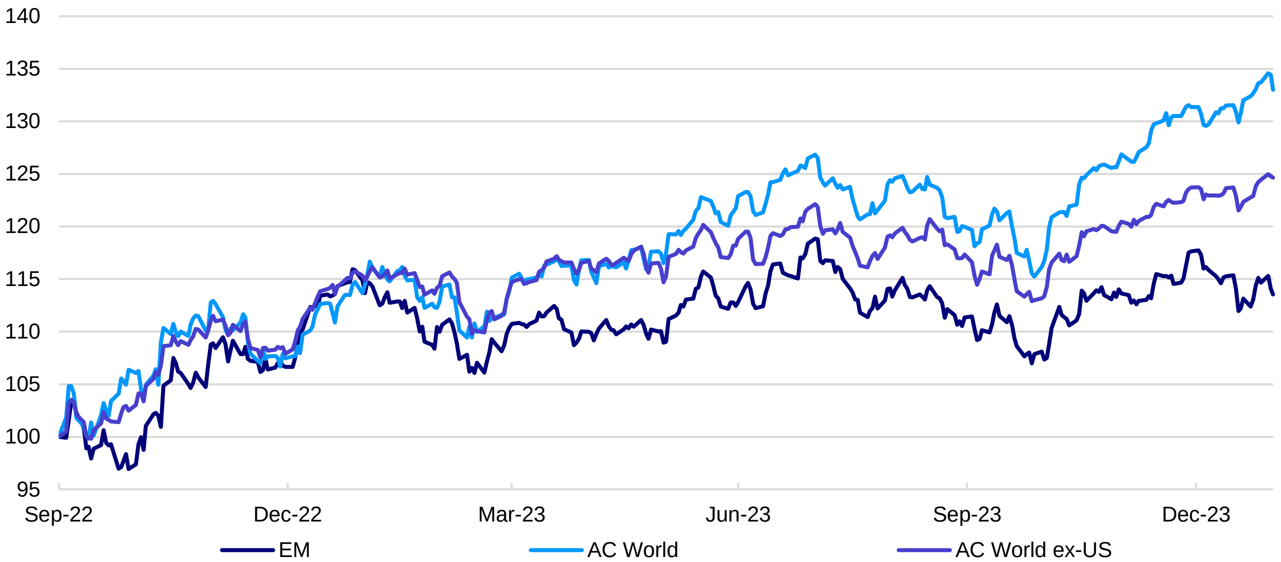
Equity markets have reflected the optimism of spring year-to-date. However, this positivity has not been uniform. Emerging Markets (EM) have been unable to keep pace with their developed market counterparts, especially the United States, where large technology firms reaped the rewards of higher valuations and earnings driven by excitement around artificial intelligence. On the surface, this should not be surprising: receding hopes of developed market interest rate cuts, a relatively strong US dollar and a decelerating global economy may not have favoured risk assets in EM.

The last time we did a deep dive into EM equity valuations in September 2022 (see here), we marvelled at their resilience during a bear market. However, their recovery from that bear market has been less spectacular than for developed market stocks, registering about 12% total returns in local currency since the end of September 2022 vs 33% on the MSCI All-Country World Index and 25% on the MSCI All-Country excluding the US (**Figure 1**).

This divergence of returns highlights the difference in how the two largest economies in the World recovered after pandemic-era restrictions and their respective policy settings. Stricter controls in China during parts of 2020-2022 were coupled with less fiscal and monetary easing, while developed markets had fewer restrictions and more support (especially the US). Nevertheless, the Chinese economy fared relatively well, and we viewed the underwhelming recovery in China during 2023 partly as a function of a shallower dip in activity compared to the US and Europe, for example.

One of the reasons why the US economy outperformed expectations in 2023 was the large amount of “excess savings” built up during that period of extraordinary support. At the same time, the return of the economy to its pre-pandemic state of being driven by services consumption boosted domestic providers to the detriment of many export-oriented EM economies. Therefore, economic fundamentals may at least partly explain the underperformance of EM equities. As this dislocation fades out of view, how will this diverse group fare in 2024?

Figure 1 – Equity market total returns since September 2022 (rebased)



Notes: **Past performance is no guarantee of future results.** Data as of 31 January 2024. We show daily data from 30 September 2022 rebased to 100 on that date. We use the local currency versions of total return indices for the MSCI Emerging Markets Index, the MSCI All-Country World Index and the MSCI All-Country World ex-US Index.
Source: LSEG Datastream, MSCI, Invesco Global Market Strategy Office

A good way to start, in our opinion, is to examine what drove this performance differential. If we decompose returns into the change in valuations (using dividend yields), dividend growth and income, it becomes evident that developed market (DM) dividends not only grew faster between 30 September 2022 and 31 January 2024, but valuations also expanded (see **Figure 2**). EM equities may have had higher yields both at the beginning and the end of the period, but that was overshadowed by higher capital returns in DM in aggregate.

We can think of at least three reasons why that might have happened: 1) a fading belief in the power of EM economies to catch-up with DM (especially the US), 2) the widening gap between the two groups of countries in terms of technological progress (most of the multiple expansion was driven by the technology sector), 3) expectations of a monetary policy pivot favouring long duration DM assets (DM equities have a higher weighting in such sectors).

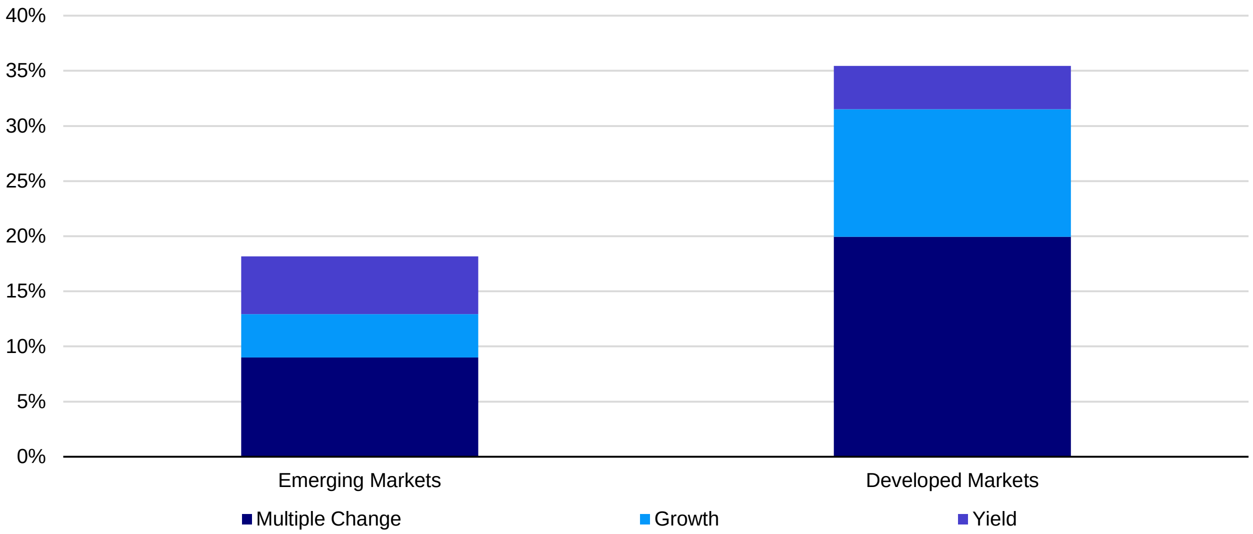
Thus, the valuation discount that opened up during the COVID-19 pandemic widened further making an even stronger case for EM equities for contrarians, like us. Whether the main drivers of that are structural or cyclical could be up for debate, although we suspect cyclical factors will have a bigger impact in the next 12 months (structural change takes a longer time to unfold, in our view).

We think our base case for 2024 implies a positive environment for EM (see here for the full detail). A weakening US dollar, falling developed market interest rates and a potential rebound in economic growth in the second half of the year could boost returns on EM equities. On top of that, valuations have priced in a lot of bad news. The dividend yield of 3.2% is higher than for all other regions apart from the UK's 3.7%, and its cyclically-adjusted price/earnings ratio (CAPE) of 16.2x is the lowest (all valuation ratios are as of 31 January 2024). EM equity valuations also look favourable compared to historical averages: they trade at a 20% discount based on dividend yield and a 21% discount on CAPE.

As the monetary policy cycle turns, we expect cyclical pressures to fade after the global economy gets through some near-term weakness. Equity markets may start to anticipate that, which may favour the more cyclical regions and sectors. The current disinflationary process also remains well-established, in our view. Indeed, EM central banks have already started reducing interest rates boosting local markets in Hungary and Poland, for example.

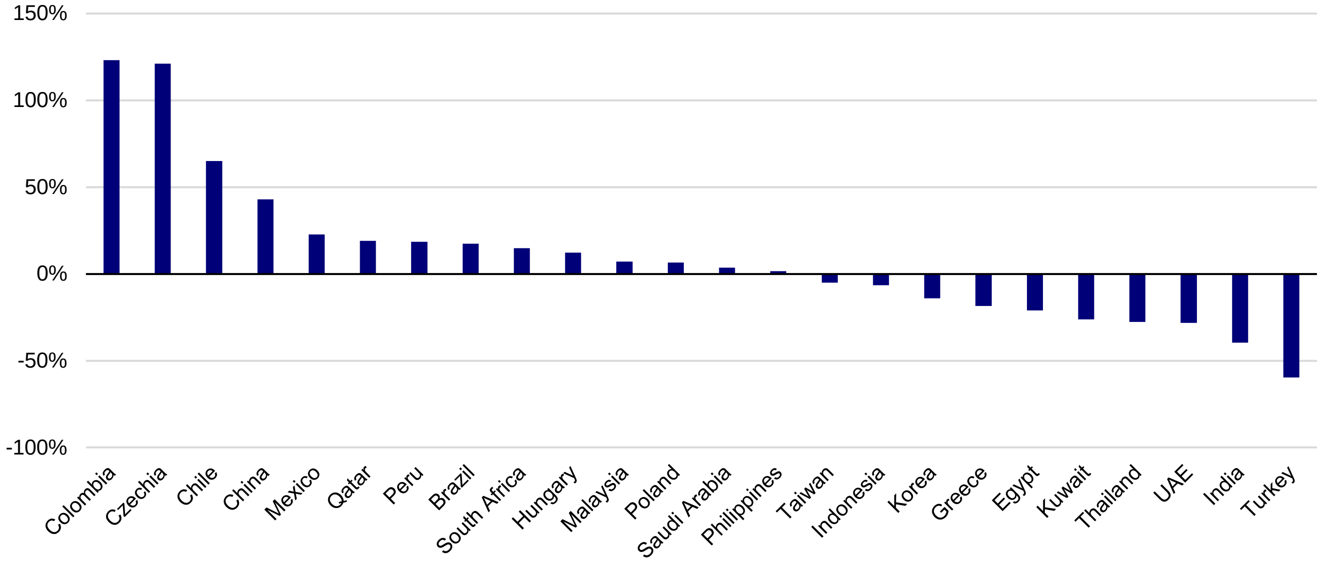
We are also positive about the long-term prospects of EM despite short term challenges and perhaps we may even experience a new "super-cycle" of outperformance. We think valuations should support EM equities even in the event of a global recession. Eventually (we think) the current period of uncertainty will pass and improving risk appetite could boost EM returns. Moderating commodity prices can also ease the "cost of living crisis" in countries with significant

Figure 2 – Decomposed equity market total returns since September 2022



Notes: Data as of 31 January 2024. **Past performance is no guarantee of future results.** Returns are calculated between 30 September 2022 and 31 January 2024. "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, plus the change in dividend yield times dividend growth. We use the Datastream Total Market Emerging Market and Developed Market indices.
Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 3 – Emerging market dividend yields relative to benchmark versus historical averages



Notes: Data as of 31 January 2024. We use dividend yields from Datastream Total Market indices. The regional benchmark is the Datastream Total Market Emerging Markets (EM) index. The chart shows the ratio of the dividend yield on each market to that of the EM index, compared to the historical average for that ratio. We consider markets with positive values to be cheap, and those with negative values expensive.
Source: Refinitiv Datastream and Invesco

imports (though may be penalise commodity producers). In the long term, demographic momentum may help India and Indonesia (along with Africa) take over as the engines of growth.

Even if we are positive on EM equities overall, we think it is important to differentiate between such a diverse group of markets. Therefore, we examine the valuations of each constituent of the MSCI EM index using dividend yields relative to the EM benchmark versus their respective historical averages (**Figure 3)**. In light of their strong returns since our last edition, we are not surprised that India and Turkey continue to appear overvalued. Despite their weaker returns, they are joined by Thailand and two of the four Middle Eastern fossil fuel exporters in the MSCI EM index: United Arab Emirates and Kuwait. Egypt, Greece and Korea complete the list of countries with relative valuations looking rich after strong returns since the end of Q3 2022 (in local currency terms).

Most of the rest of the Asia-Pacific region (Indonesia, Taiwan, the Philippines and Malaysia) look close to historical averages joined by Saudi Arabia and Poland. We would consider these countries to be close to "fair value" at this point.

South Africa may appear attractive on the surface, but its economy seems to be sliding into recession, while inflation remains high, and the uncertainty of forthcoming elections may have deterred investors driving dividend yields higher.

Latin American markets seem to be the most attractive with relative dividend yields higher than historical norms. We think that a lot of bad news is priced in making these countries the most attractive despite lingering uncertainty about how much of these high yields can be attributed to high payouts in the past (these markets tend to be dominated by resource-related stocks). We think similar uncertainty applies to the relative valuations of Hungary, Qatar and Czechia, where extractive industries and utilities account for most of dividends paid, although high concentration of dividend payers is also an issue in these markets.

Finally, China appears to be the most attractive large economy within EM. Its relative dividend yield is well above its historical average suggesting attractive returns over the long term. Having said that, its equity market may need a catalyst before any sustainable turnaround. This could come either internally in the form of monetary or fiscal stimulus, or externally with a reacceleration in the global economy.

Figure 4 – Asset class total returns (%, annualised)

Data as at 23/02/2024	Index	Current Level/RY	Total Return (USD, %)					Total Return (Local Currency, %)				
			1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Equities												
World	MSCI	761	1.5	4.8	4.9	4.9	22.5	1.4	4.9	6.0	6.0	22.8
Emerging Markets	MSCI	1028	1.2	6.1	0.6	0.6	7.3	1.4	6.3	2.2	2.2	8.8
China	MSCI	54	2.7	9.2	-1.9	-1.9	-16.1	2.8	9.3	-1.5	-1.5	-15.8
US	MSCI	4850	1.6	4.7	6.8	6.8	29.1	1.6	4.7	6.8	6.8	29.1
Europe	MSCI	2056	1.7	5.5	2.0	2.0	13.5	1.2	5.6	4.2	4.2	9.9
Europe ex-UK	MSCI	2580	1.9	6.0	2.7	2.7	15.6	1.5	6.2	5.4	5.4	12.6
UK	MSCI	1168	0.9	3.6	-0.3	-0.3	6.9	0.2	3.5	0.3	0.3	1.3
Japan	MSCI	3939	1.2	3.7	6.5	6.5	25.8	1.4	5.1	13.7	13.7	40.4
Government Bonds												
World	BofA-ML	3.31	0.4	-0.5	-3.5	-3.5	0.3	0.3	-0.2	-1.5	-1.5	1.9
Emerging Markets	BBloom	7.89	1.1	2.1	-1.2	-1.2	12.7	1.1	2.1	-1.2	-1.2	12.7
China	BofA-ML	2.29	0.3	0.7	0.2	0.2	2.2	0.4	1.1	1.7	1.7	6.7
US (10y)	Datastream	4.27	0.4	-0.7	-2.5	-2.5	0.5	0.4	-0.7	-2.5	-2.5	0.5
Europe	Bofa-ML	3.02	0.7	0.1	-3.5	-3.5	6.5	0.3	0.3	-1.5	-1.5	4.3
Europe ex-UK (EMU, 10y)	Datastream	2.34	0.8	-0.1	-4.2	-4.2	5.8	0.4	0.0	-2.2	-2.2	3.6
UK (10y)	Datastream	4.10	1.4	0.2	-3.9	-3.9	6.9	0.7	0.1	-3.4	-3.4	1.4
Japan (10y)	Datastream	0.71	0.0	-1.9	-6.8	-6.8	-10.8	0.2	-0.6	-0.5	-0.5	-0.5
IG Corporate Bonds												
Global	BofA-ML	5.01	0.6	0.1	-1.6	-1.6	6.6	0.4	0.1	-0.9	-0.9	5.9
Emerging Markets	BBloom	6.86	0.6	2.0	1.6	1.6	10.9	0.6	2.0	1.6	1.6	10.9
China	BofA-ML	3.08	0.2	0.4	-0.3	-0.3	0.9	0.3	0.8	1.2	1.2	5.4
US	BofA-ML	5.46	0.4	-0.1	-1.1	-1.1	5.9	0.4	-0.1	-1.1	-1.1	5.9
Europe	BofA-ML	3.88	0.8	0.3	-2.6	-2.6	8.2	0.3	0.4	-0.6	-0.6	6.0
UK	BofA-ML	5.55	1.4	1.1	-1.9	-1.9	11.4	0.6	1.0	-1.4	-1.4	5.7
Japan	BofA-ML	0.91	-0.1	-1.6	-6.4	-6.4	-9.4	0.1	-0.2	-0.1	-0.1	1.1
HY Corporate Bonds												
Global	BofA-ML	7.84	0.6	1.0	0.4	0.4	11.3	0.5	1.0	0.9	0.9	10.7
US	BofA-ML	7.96	0.5	0.7	0.3	0.3	11.2	0.5	0.7	0.3	0.3	11.2
Europe	BofA-ML	6.46	0.8	0.8	-0.7	-0.7	12.2	0.4	0.9	1.4	1.4	9.8
Cash (Overnight LIBOR)												
US		5.30	0.1	0.4	0.8	0.8	5.1	0.1	0.4	0.8	0.8	5.1
Euro Area		3.91	0.5	0.0	-1.4	-1.4	5.7	0.1	0.3	0.6	0.6	3.5
UK		5.19	0.7	0.4	0.4	0.4	10.8	0.1	0.5	0.8	0.8	5.0
Japan		-0.01	-0.2	-1.4	-6.3	-6.3	-10.5	0.0	0.0	0.0	0.0	0.0
Real Estate (REITs)												
Global	FTSE	1561	0.2	-0.1	-4.2	-4.2	0.2	-0.2	0.0	-2.2	-2.2	-1.9
Emerging Markets	FTSE	1239	2.2	6.0	-2.5	-2.5	-5.4	1.8	6.1	-0.5	-0.5	-7.4
US	FTSE	2975	0.2	-0.3	-2.8	-2.8	2.7	0.2	-0.3	-2.8	-2.8	2.7
Europe ex-UK	FTSE	2287	-0.1	-1.6	-10.9	-10.9	2.9	-0.6	-1.5	-9.0	-9.0	0.8
UK	FTSE	791	-0.4	-0.5	-8.3	-8.3	0.8	-1.2	-0.6	-7.8	-7.8	-4.4
Japan	FTSE	2058	0.0	-4.4	-5.0	-5.0	2.4	0.2	-3.1	1.5	1.5	14.3
Commodities												
All	GSCI	3479	-1.3	1.4	4.0	4.0	4.7	-	-	-	-	-
Energy	GSCI	622	-2.3	2.5	7.4	7.4	10.9	-	-	-	-	-
Industrial Metals	GSCI	1550	0.5	0.1	-3.2	-3.2	-8.2	-	-	-	-	-
Precious Metals	GSCI	2283	1.1	0.8	-1.5	-1.5	11.2	-	-	-	-	-
Agricultural Goods	GSCI	486	-1.2	-4.4	-5.2	-5.2	-13.0	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.08	0.4	-0.3	-2.0	-2.0	2.1	-	-	-	-	-
JPY		150.51	-0.2	-1.4	-6.3	-6.3	-10.5	-	-	-	-	-
GBP		1.27	0.7	0.1	-0.5	-0.5	5.4	-	-	-	-	-
CHF		1.13	-0.1	-1.3	-4.5	-4.5	6.0	-	-	-	-	-
CNY		7.20	0.0	-0.3	-1.3	-1.3	-4.0	-	-	-	-	-

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

Data as at 23/02/2024	Global				
	1w	1m	QTD	YTD	12m
Energy	**-0.7**	**-0.2**	**-3.3**	**-3.3**	**-7.4**
Basic Materials	**-1.0**	**-2.6**	**-8.6**	**-8.6**	**-14.9**
Basic Resources	-1.9	-4.0	-10.8	-10.8	-15.2
Chemicals	0.4	-0.6	-5.4	-5.4	-14.5
Industrials	**0.4**	**0.5**	**-0.3**	**-0.3**	**-0.8**
Construction & Materials	0.7	0.4	-1.4	-1.4	4.4
Industrial Goods & Services	0.3	0.5	-0.1	-0.1	-1.5
Consumer Discretionary	**0.2**	**3.0**	**1.1**	**1.1**	**0.5**
Automobiles & Parts	-1.0	1.4	-4.7	-4.7	-5.5
Media	-2.0	4.3	6.5	6.5	1.9
Retailers	1.3	3.5	4.1	4.1	10.1
Travel & Leisure	-0.2	-0.3	-0.7	-0.7	-4.4
Consumer Products & Services	0.3	4.8	0.9	0.9	-4.3
Consumer Staples	**-0.1**	**-2.2**	**-3.7**	**-3.7**	**-14.8**
Food, Beverage & Tobacco	-0.2	-2.8	-4.7	-4.7	-16.5
Personal Care, Drug & Grocery Stores	0.1	-1.2	-1.9	-1.9	-11.6
Healthcare	**0.1**	**0.4**	**2.2**	**2.2**	**-4.9**
Financials	**0.0**	**0.5**	**0.0**	**0.0**	**-2.9**
Banks	0.0	0.3	-1.1	-1.1	-5.5
Financial Services	-0.2	0.4	-0.1	-0.1	0.3
Insurance	0.3	1.4	3.1	3.1	-1.5
Real Estate	**-0.6**	**-3.2**	**-7.1**	**-7.1**	**-15.4**
Technology	**0.2**	**0.1**	**4.9**	**4.9**	**25.3**
Telecommunications	**-0.2**	**-5.6**	**-4.2**	**-4.2**	**-10.4**
Utilities	**-0.5**	**-3.3**	**-5.7**	**-5.7**	**-11.1**

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 6a – US factor index total returns (% annualised)

Data as at 23/02/2024	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	1.7	4.8	6.0	6.0	26.8	0.0	0.0	-0.9	-0.9	-1.6
Low volatility	2.0	4.3	5.9	5.9	11.0	0.3	-0.5	-1.0	-1.0	-13.8
Price momentum	1.9	5.4	6.7	6.7	19.9	0.2	0.6	-0.2	-0.2	-6.9
Quality	1.6	4.1	3.6	3.6	16.9	-0.1	-0.6	-3.1	-3.1	-9.3
Size	0.4	2.0	-0.2	-0.2	5.0	-1.3	-2.6	-6.6	-6.6	-18.5
Value	0.5	1.8	0.2	0.2	4.6	-1.1	-2.9	-6.3	-6.3	-18.8
Market	1.7	4.8	6.9	6.9	28.9					
Market - Equal-Weighted	1.2	3.4	2.7	2.7	11.5					

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 6b – European factor index total returns relative to market (% annualised)

Data as at 23/02/2024	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	0.4	5.8	-0.7	-0.7	4.2	-0.8	0.2	-4.5	-4.5	-6.3
Low volatility	1.4	2.4	2.4	2.4	7.6	0.2	-3.0	-1.6	-1.6	-3.2
Price momentum	1.8	7.6	5.7	5.7	12.7	0.6	1.9	1.6	1.6	1.4
Quality	-0.2	3.0	-0.6	-0.6	3.6	-1.4	-2.4	-4.4	-4.4	-6.7
Size	-0.1	2.3	-1.5	-1.5	1.0	-1.3	-3.1	-5.3	-5.3	-9.1
Value	0.1	0.8	-2.8	-2.8	0.4	-1.0	-4.5	-6.6	-6.6	-9.7
Market	1.2	5.6	4.0	4.0	11.1					
Market - Equal-Weighted	0.8	3.9	1.1	1.1	6.4					

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 7 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**	↓	**0%**			
Cash	2.5%		↓	0%			
Gold	2.5%			0%			
Bonds	**40%**	**10-70%**	↑	**50%**			
Government	25%	10-40%		22%			
US	8%			13%			
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%	↑	20%			
US Dollar	5%			10%		40%	JPY
Euro	2%		↑	4%			
Sterling	1%			2%			
Japanese Yen	1%		↑	1%			
Emerging Markets	1%			3%			
China**	0.1%			0%			
Corporate HY	5%	0-10%	↑	8%			
US Dollar	4%		↑	6%			
Euro	1%		↑	2%			
Bank Loans	**4%**	**0-10%**	↑	**7%**			
US	3%		↑	5%			
Europe	1%			2%			
Equities	**45%**	**25-65%**	↑	**37%**			
US	25%			12%			
Europe ex-UK	7%		↑	10%			
UK	4%		↑	5%			
Japan	4%			2%			
Emerging Markets	5%			8%			
China**	2%			4%			
Real Estate	**4%**	**0-16%**	↑	**6%**			
US	1%		↑	2%			
Europe ex-UK	1%			1%			
UK	1%		↑	2%			
Japan	1%		↓	1%			
Emerging Markets	1%			0%			
Commodities	**2%**	**0-4%**		**0%**			
Energy	1%			0%			
Industrial Metals	0.3%			0%			
Precious Metals	0.3%			0%			
Agriculture	0.3%			0%			
Total	**100%**			**100%**			
Currency Exposure (including effect of hedging)							
USD	52%		↑	44%			
EUR	19%		↑	21%			
GBP	7%		↓	10%			
JPY	13%		↓	10%			
EM	9%			15%			
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 8 – 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 4

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

Authors

András Vig
Multi-Asset Strategist
T. +44 (0)20 3370 1152
E. andras.vig@invesco.com

Telephone calls may be recorded

Data as of 31 January 2024 unless stated otherwise.

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Authors

András Vig
Multi-Asset Strategist
Telephone +44(0)20 3370 1152
andras.vig@invesco.com
London, EMEA

Global Market Strategy Office

Kristina Hooper
Chief Global Market Strategist
kristina.hooper@invesco.com
New York, Americas

Tomo Kinoshita
Global Market Strategist, Japan
tomo.kinoshita@invesco.com
Tokyo, Asia Pacific

David Chao
Global Market Strategist, Asia Pacific
david.chao@invesco.com
Hong Kong, Asia Pacific

Thomas Wu
Market Strategy Analyst, Asia Pacific
thomas.wu@invesco.com
Hong Kong, Asia Pacific

Brian Levitt
Global Market Strategist, Americas
brian.levitt@invesco.com
New York, Americas

James Anania
Investment Strategy Analyst, Americas
james.anania@invesco.com
New York, Americas

Arnab Das
Global Market Strategist
arnab.das@invesco.com
London, EMEA

Adam Burton
Senior Macro Strategy Analyst
adam.burton@invesco.com
London, EMEA

Paul Jackson
Global Head of Asset Allocation Research
paul.jackson@invesco.com
London, EMEA

András Vig
Multi-Asset Strategist
andras.vig@invesco.com
London, EMEA

Ashley Oerth
Senior Investment Strategy Analyst
ashley.oerth@invesco.com
London, EMEA

Cyril Birks
Global Thought Leadership Intern
cyril.birks@invesco.com
London, EMEA

*Affiliated member

Telephone calls may be recorded.