Portfolio positioning for a recovery scenario

Equity Strategy Special Edition

A historical perspective on US stock market, sector, size, style and regional allocations
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Talley Léger
Senior Investment Strategist

Typical recovery performance trends

1. **US asset allocation** – stocks outperform bonds (yes)
2. **US sectors** – cyclicals outperform defensives (yes)
3. **US size** – small caps outperform large caps (yes)
4. **US style** – value outperforms growth (no)
5. **Regions** – emerging markets outperform developed markets (no)

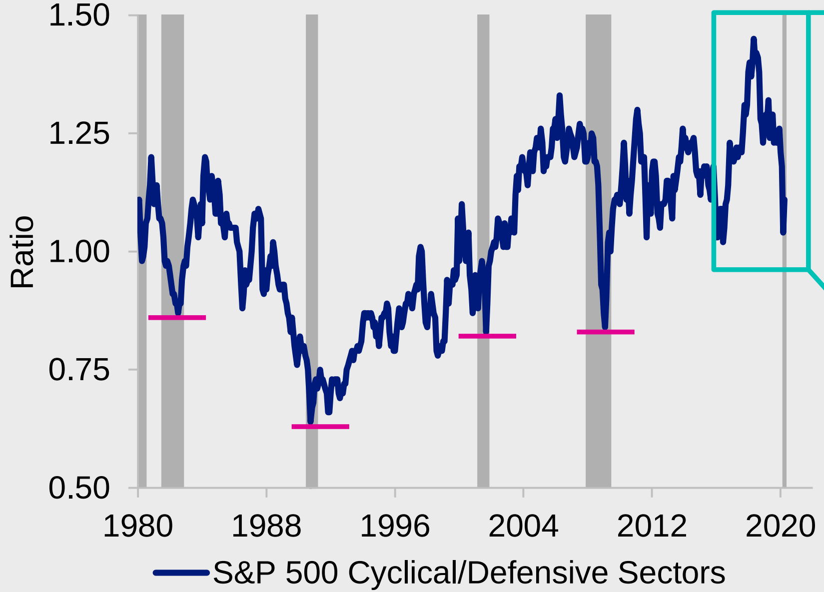
Stocks began persistently outperforming bonds near the last four economic recessions.

Source: Bloomberg L.P., FRED, Invesco, 05/21/20. Notes: In the left chart, the stock-to-bond price proxy* = The S&P 500 Index divided by the reciprocal of the 10-year Treasury bond yield, which we use for looking back at many cycles with long history. Shaded areas denote NBER-defined US recessions. In the right chart, the stock-to-bond ratio = The S&P 500 Total Return Index divided by the Bloomberg Barclays U.S. Treasury 7-10 Year Total Return Index, which is a more accurate measure of relative performance. An investment cannot be made in an index. **Past performance does not guarantee future results.**

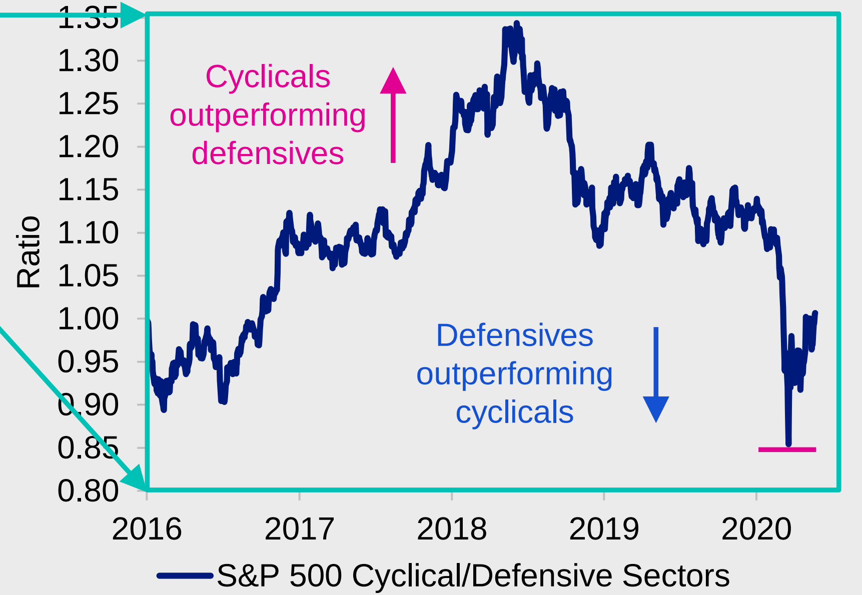
Stocks vs bonds | **Cyclicals vs defensives** | Small vs large caps | Value vs growth | Emerging vs developed markets

The economy-sensitive sectors of the stock market led the charge exiting the early-1980s, 1990s, 2000s and late-2000s business cycle downturns, whereas the defensive market segments lagged in the same timeframe.

US cyclical relative to defensive sectors since 1980



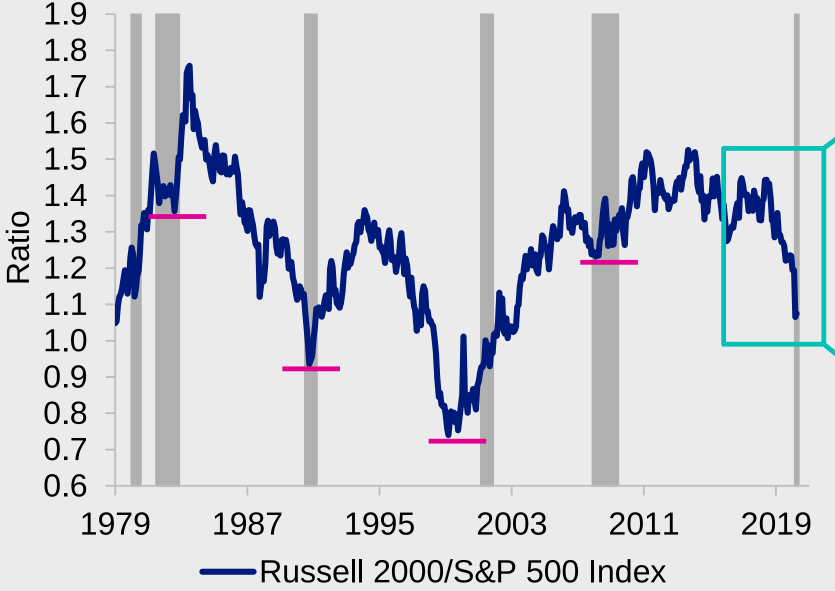
US cyclical relative to defensive sectors since 2008



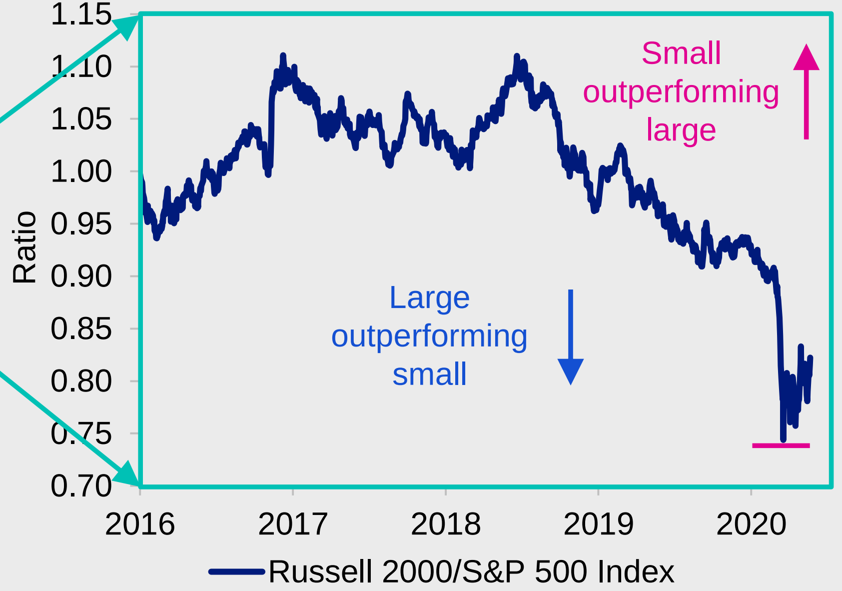
Source: Bloomberg L.P., Invesco, 05/21/20. Notes: Price indices. Cyclicals = Consumer Discretionary, Energy, Financials, Industrials, Information Technology and Materials. Defensives = Consumer Staples, Health Care, Telecommunication Services and Utilities. Shaded areas denote NBER-defined US recessions. An investment cannot be made in an index. **Past performance does not guarantee future results.**

In the past, equity portfolios with a small market capitalization tilt usually outperformed those with a large-cap bias for several years into the recovery stage of the business cycle. Said differently, company size was a play on improving economic prospects.

US small relative to large market capitalization stocks since 1979



US small relative to large market capitalization stocks since 2008



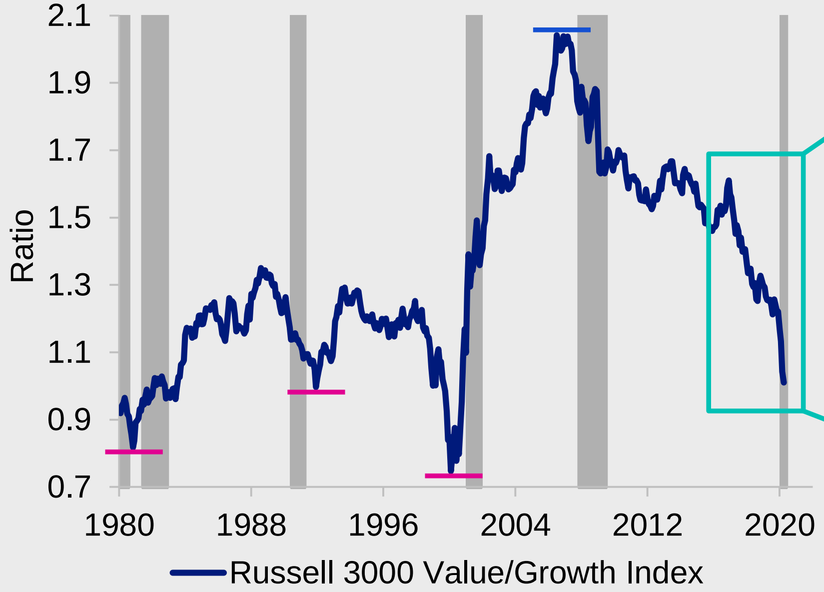
Source: Bloomberg L.P., Invesco, 05/21/20. Notes: Price indices. Shaded areas denote NBER-defined US recessions. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Stocks vs bonds | Cyclicals vs defensives | Small vs large caps | **Value vs growth** | Emerging vs developed markets

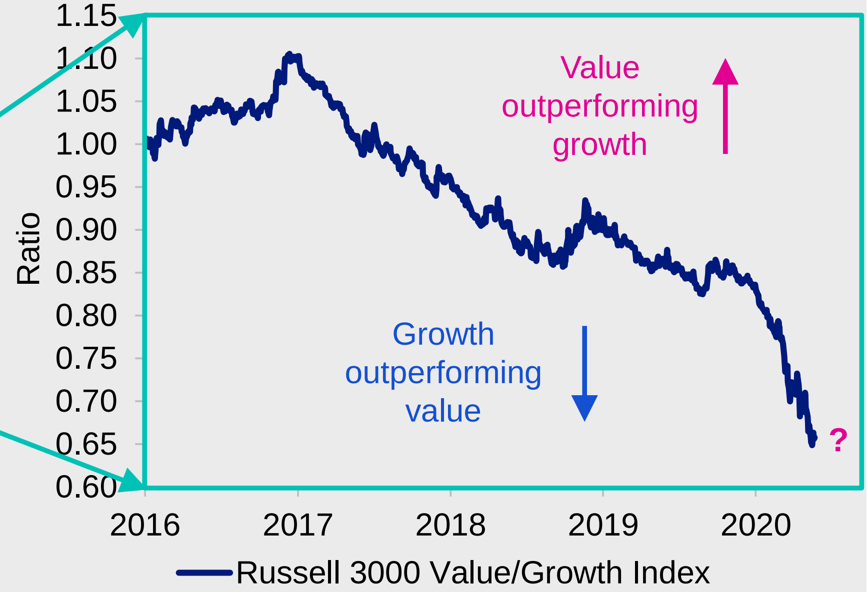
Invesco

The value style of investing was another leader coming out of the early-1980s, 1990s and 2000s recessions, but that wasn't the case following the 2008-2009 recession. This cycle has generally been frustrating for value investors, owing largely to a constrained financial sector.

US value relative to growth stocks since 1980



US value relative to growth stocks since 2008



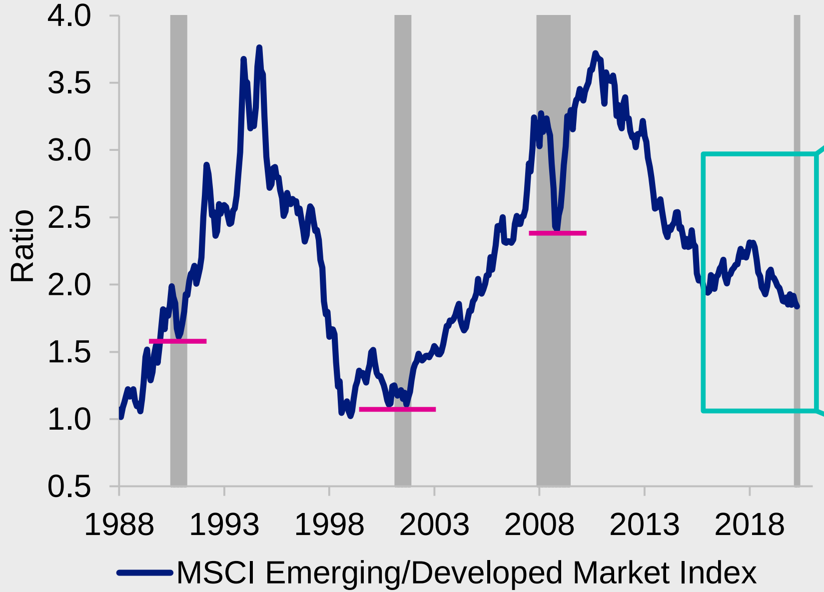
Source: Bloomberg L.P., Invesco, 05/21/20. Notes: Total return indices. Shaded areas denote NBER-defined US recessions. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Stocks vs bonds | Cyclicals vs defensives | Small vs large caps | Value vs growth | Emerging vs developed markets

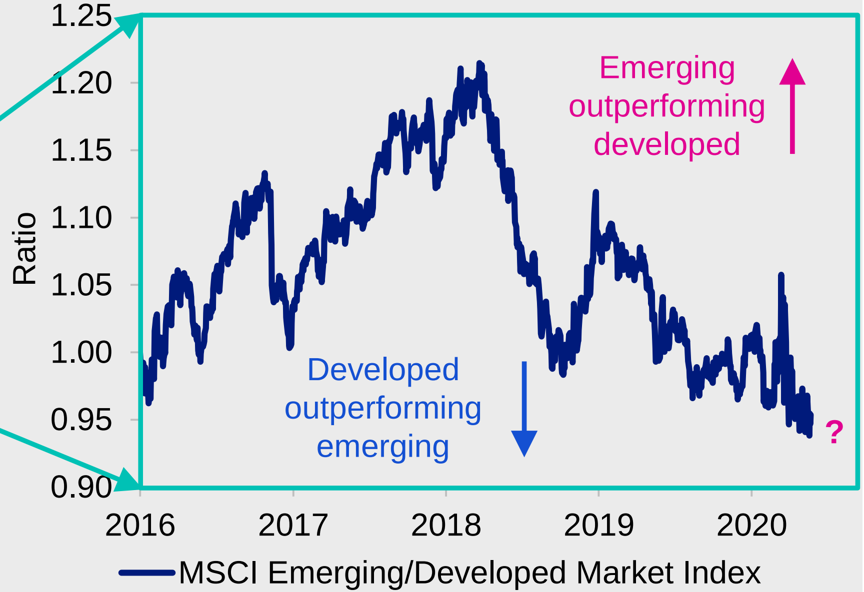
Invesco

Emerging market stocks bottomed in the depths of the last 3 US economic recessions—the final chapter of our "recovery playbook." In our view, the outlook for Chinese and EM stocks may be better than many investors believe.

Emerging relative to developed market stocks since 1988



Emerging relative to developed market stocks since 2008



Source: Bloomberg L.P., Invesco, 05/21/20. Notes: Total return indices in US dollars. Shaded areas denote NBER-defined US recessions. An investment cannot be made in an index.
Past performance does not guarantee future results.

Author

Talley Léger
Senior Investment Strategist

Talley Léger is a Senior Investment Strategist for the Global Thought Leadership team. In this role, he is responsible for formulating and communicating macro and investment insights, with a focus on equities. Mr. Léger is involved with macro research, cross-market strategy and equity strategy.

Mr. Léger joined Invesco when the firm combined with OppenheimerFunds in 2019. At OppenheimerFunds, he was the equity strategist. Prior to OppenheimerFunds, he was the founder of Macro Vision Research and held strategist roles at Barclays Capital, ISI, Merrill Lynch, RBC Capital Markets and Brown Brothers Harriman. Mr. Léger has been in the industry since 2000.

He is the co-author of the revised second edition of the book, *From Bear to Bull with ETFs*.* Mr. Léger has been a guest columnist for *The Big Picture* and *Data Watch* on *Bloomberg Brief Economics*, as well as a contributing author on Seeking Alpha (seekingalpha.com). He has been quoted in *Associated Press*, *Barron's*, *Bloomberg*, *Business Week*, *Dow Jones Newswires*, *The Financial Times*, *MarketWatch*, *Morningstar magazine*, *The New York Times* and *The Wall Street Journal*. Mr. Léger has appeared on Bloomberg TV, Canada's BNN Bloomberg, CNBC, Reuters TV, The Street and Yahoo! Finance, and has spoken on Bloomberg Radio.

Mr. Léger earned an MS degree in financial economics and a Bachelor of Music from Boston University. He is a member of the Global Interdependence Center (GIC) and holds the Series 7 registration.

**From Bear to Bull with* ETFs (2nd ed.), by David R. Kotok and Talley Léger, published by Cumberland Advisors Publishing (2014).

Index definitions

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The S&P 500® Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies across all industries of the US economy.

The Bloomberg Barclays U.S. Treasury 7-10 Year Total Return Index measures the performance of the US government bond market and includes public obligations of the US Treasury with a maturity of between seven and up to, but not including, ten years.

The Russell 2000® Index measures the performance of the small market capitalization segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 3000® Growth Index measures the performance of the largest 3,000 US companies. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000® Value Index measures the performance of the broad value segment of the US equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI Emerging Markets Index is designed to measure large and mid market capitalization stocks in the emerging markets.

The MSCI Developed Markets Index is designed to measure large and mid market capitalization stocks in the developed markets.

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