

Strategic Sector Selector

Spring fatigue

Global equities rallied further in Q1 2024 despite an aggressive repricing of interest rate expectations. Although economic data remained more robust than expected, especially in the US, market breadth decreased, and mega-caps outperformed. We expect global growth to moderate from current levels in the near term (although we think recession is a tail risk), and we assume that a recovery will start in late 2024. We think equity markets may consolidate after strong returns in the last two quarters, but they will remain in the mid-cycle phase of the equity market cycle, in our view. Therefore, we keep the balance of defensives and cyclicals within our model sector allocation. While we maintain our exposure to defensive growth through consumer staples and healthcare, we reshuffle our allocations within cyclicals by upgrading basic resources to Neutral, and financial services and retailers to Overweight. At the same time, we downgrade media and real estate to Neutral, and insurance to Underweight.

Changes in allocations:

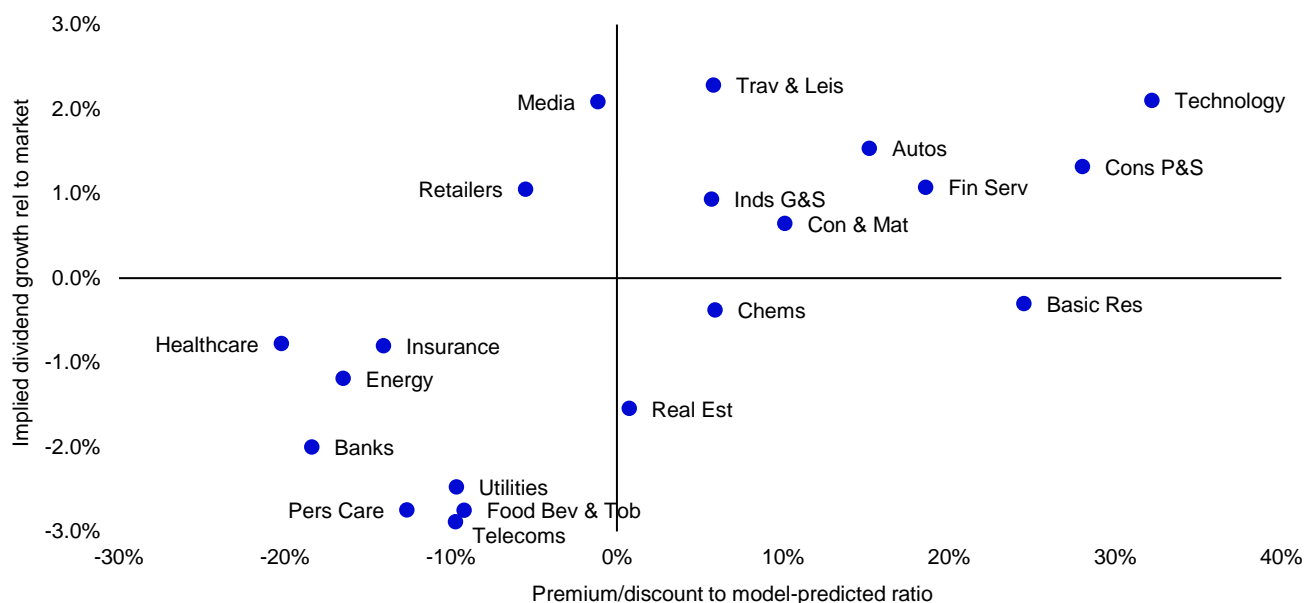
- Upgrades: basic resources (UW to N), retailers (N to OW), financial services (UW to OW)
- Downgrades: media and real estate (OW to N), insurance (N to UW)

Most favoured	Least favoured
US retailers	US automobiles & parts
European healthcare	European travel & leisure

Sectors where we expect the best returns:

- Retailers: well-diversified sector, exposure to growth factor and potential rebound in consumer spending
- Food, beverage and tobacco: hedge against market volatility, exposure to growth factor
- Healthcare: attractive valuations, decent dividend yield, potential beneficiary of lower interest rates

Figure 1 – Global sectors valuation matrix



Notes: Data as of 31 March 2024. 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

Table of contents

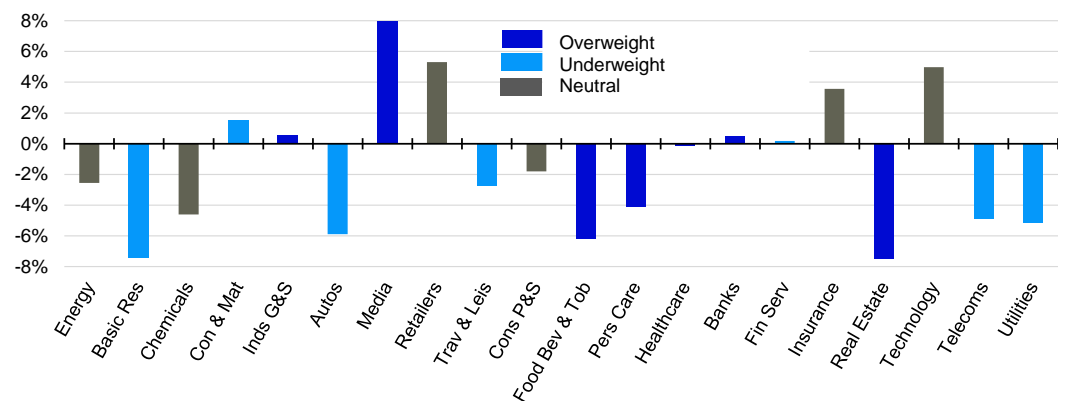
Summary and conclusions	3
Since the last time	3
Asset allocation backdrop.....	3
Changes to model sector allocations	5
The best and worst of the rest	6
Sector in focus: Retailers	9
Systematic strategy – Global	13
Valuations – Global	14
Decomposed returns – Global	15
Appendices	16
Appendix 1: Coefficients for variables used in multiple regression model	16
Appendix 2: Sector returns by region	18
Appendix 3: Valuations tables.....	20
Appendix 4: Sector valuations by region	22
Appendix 4: Performance tables	24
Appendix 5: Methodology	25
Appendix 6: Abbreviations	27
Appendix 7: Definitions of data and benchmarks.....	28
Important information	29

Summary and conclusions

Since the last time

The bumps on the disinflationary road were no match for the stock market's belief that a "soft landing" (or even a "no landing") is nigh, in our opinion, and the MSCI All-Country World index returned 9.6% in Q1 2024 in local currency terms after a similarly strong quarter at the end of 2023. However, the repricing of interest rate expectations produced a narrower rally led by large caps and dominated by price momentum. We do not find this entirely out of place in the mid-cycle phase of an equity market expansion, although the weak showing of value sectors seem unusual.

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



Notes: See appendices for methodology and disclaimers. Returns shown between 31 December 2023 and 31 March 2024. Colours indicate allocations in period considered. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Rising equity markets meant that defensive sectors underperformed (although healthcare came close to holding its ground – see **Figure 2**), which penalised our allocation to consumer staples, but helped our Underweights in telecommunications and utilities. Equities returned to the narrow rally we saw in the first half of 2023, and somewhat counterintuitively, growth sectors dominated by mega-caps proved resilient in the face of rising interest rate expectations, while insurance was boosted by rising government bond yields (we were Neutral three of the best performers). Although we were Overweight the best performing sector (media), we were also Overweight the worst performer (real estate). The rest of our Overweights performed in line with the market, while most of our Underweights underperformed.

Asset allocation backdrop

We expect a bursting of the exuberance about a soft landing of the US economy, which, added to the near recession in Japan and parts of Europe, could temper enthusiasm about the global economic cycle. If we are right about this pause in global growth, we would expect to see some consolidation in most risk assets. The strong performance of many assets over the last two quarters, and our concerns about the state of the global economy leaves us facing a choice: use more optimistic assumptions to suggest further strong gains or change the Model Asset Allocation away from outperforming assets and towards those that have either lagged or that come with less risk.

Perhaps the single most important forecast is that the Fed and other Western central banks will start cutting rates in the coming months, with 100-150 basis points of cuts possible in the next 12 months (see **Figure 3**). We believe that yield curve steepening will largely be the result of falling short rates and we are less attracted to long duration assets than we were at the end of October 2023. We expect the dollar to weaken as the Fed has more easing to do than other central banks (in our opinion). Our projected returns are tempered by the belief that a lot of good news is priced into some assets.

Within our Model Asset Allocation (published on 17 March 2024), we chose to reduce equities, HY and IG. **Equities** have performed extremely well, especially in Japan and

the US. We doubt they are priced for slowdown in the US and reduce the global allocation from 37% to 35% (Underweight versus the Neutral 45%).

After a strong run, we are concerned that **HY** is pricing in a lot of good news about the economic cycle and few of the risks (for example widening spreads and rising default rates). Hence, we reduced the allocation from an Overweight 8% to an Underweight 3%. We note that **IG** yields have fallen and that spreads have narrowed. Again, the projected returns are depressed by the belief that spreads will widen slightly. Those projections no longer suggest an advantage over cash when allowing for risk. Hence, we reduced the allocation to IG (from 20%), though remain at a still Overweight 16%. The lower returns anticipated on many other assets, make **cash** look more attractive (for its low volatility and low correlation to other assets). Hence, we took cash to an Overweight 6% (from zero). We also boosted the allocation to **bank loans**, an asset class that comes with similar volatility to IG but that we think offers better return potential (high current yield and relatively generous spreads as measured by discount margins).

We balanced those defensive additions to cash and bank loans by boosting **commodities** from zero to 4%. Though industrial commodities are being depressed by weak global demand (in our view), we think they could benefit as economies reaccelerate in late 2024 and we note they have lagged other cyclical assets.

Otherwise, we made no changes to the Underweight allocation to **government bonds**, with an ongoing preference for US and EM (not China) markets. We also stuck to the Overweight 6% allocation to **real estate**, where we think a lot of bad news is in the price. We also remained Zero allocated to **gold**. Regionally, we are Overweight European and EM assets.

Figure 3 – Market forecasts

	Current (31/03/24)	Forecast 12-month
Central Bank Rates		
US	5.50	4.25
Eurozone	4.00	3.00
China	3.45	3.40
Japan	0.00	0.10
UK	5.25	4.00
10y Bond Yields		
US	4.21	4.10
Eurozone	2.27	2.45
China	2.30	2.50
Japan	0.72	1.00
UK	3.94	4.00
Exchange Rates/US\$		
EUR/USD	1.08	1.15
USD/CNY	7.22	7.00
USD/JPY	151.33	130.00
GBP/USD	1.26	1.30
USD/CHF	0.91	0.84
Equity Indices		
S&P 500	5254	5000
Euro Stoxx 50	5083	5300
FTSE A50	12137	13500
Nikkei 225	40369	38500
FTSE 100	7953	7650
Commodities (US\$)		
Brent/barrel	86	90
Gold/ounce	2214	2100
Copper/tonne	8767	9000

Notes: There is no guarantee that these views will come to pass. See Appendices for definitions, methodology and disclaimers. See [The Big Picture](#) for a full explanation.

Source: LSEG Datastream and Invesco Global Market Strategy Office

Changes to model sector allocations

Are we climbing the wall of worry, we ask ourselves, as we enter another period of uncertainty? The short-lived market broadening during Q4 2023 seems a fading memory as we watch the usual suspects carrying their momentum into 2024. Does this narrowing of market leadership signal fatigue, or are we on the cusp on another broadening? These are the questions we are grappling with during this year's Sakura (or Cherry Blossom).

Despite a significant repricing of interest rate expectations (from six to just under two 25 basis point cuts in the case of the US Federal Reserve) mega-cap growth continued to dominate global equity markets. We think that monetary policy will remain a major driving force for financial markets in the next 12 months, although perhaps less so than in 2023. The main difference to 2023 is that this time the inflationary threat does not stem from supply chain and commodity shocks, but a reacceleration of growth, especially in the US. The jury is still out on whether the largest economy in the world can achieve an ideal "no landing" scenario. Recent data releases have been mixed, although that can be taken as a positive (it could be worse). The UK economy has also shown some promise and easing inflation could boost the Eurozone.

Nevertheless, even if the most optimistic hopes turn to reality, we think that equities may have already priced in an awful lot of good news. In our view, this makes it likely that a consolidation lies ahead in the short term, although we do not expect that to stop the market expansion in its entirety. Even if the global economy takes a turn for the worse, for example driven by geopolitical concerns or stubbornly high energy prices and depleting "excess savings", we do not expect a deep recession. We think that any slowdown would also alleviate lingering concerns about inflation, which would fall below central bank targets in that scenario allowing for easier monetary policy. This should put a floor below equity market returns, in our opinion.

What does this mean for our sector allocations? After two strong quarters, the market may consolidate, which could boost defensive sectors. We deem our allocation to consumer staples and healthcare (defensive growth) to be appropriate especially if interest rate expectations turn out to have swung too high. We view any forthcoming pull-back in equities as a pause in the rally (and the mid-cycle phase within a market expansion), rather than the start of a bear market. In our view, markets may wait either for economic fundamentals to catch up to expectations, or the start of monetary policy easing. Consequently, we do not think a comprehensive reshuffle is required and therefore make only minor changes.

Basic resources may have underperformed during the first quarter of 2024, but that was not enough to pull valuations to levels we would consider attractive. We think the sector may be boosted by a reaccelerating global economy, which we expect to start towards the end of 2024. Hence, we close our tactical Underweight and upgrade the sector to **Neutral** until we either see a more comprehensive de-rating versus our multiple regression model, or evidence emerges that the global economy turned a corner (and China can maintain its current pace of growth, as it remains a major driver of demand for industrial metals).

We also close our tactical Overweight in **media** and move our allocation to **Neutral**. After strong relative returns recently, we think there may be less scope for further outperformance, especially after significant multiple expansion. As it stands, valuations are broadly in line with what we consider "fair value" based on our multiple regression model. Both EBITDA and net margins have risen, which has been one of the main driving forces behind the sector's outperformance, in our view, and we think further improvement will be difficult to achieve.

At the same time, despite similar outperformance by **retailers**, their valuations look more attractive to us, especially compared to media, while they both provide exposure to the growth factor (useful if the Fed starts cutting rates). The sector's relative dividend yield is at a discount to that implied by our multiple regression model. Retailers is also a more

diversified sector, which we think will provide more resilience during any market weakness. Recent positive surprises in retail sales growth may turn out to be a “head fake”, but they could provide support if inflation falls further, and real wage growth remains strong. We raise our allocation to **Overweight**.

Based on our assumption that we remain in the mid-cycle phase of the equity market cycle, we expect financials to outperform. Rising rate expectations should also be less of a headwind for them compared to growth sectors, for example. We are also encouraged by early signs of a turnaround in capital raising and mergers & acquisitions activity. Therefore, we think the time has come to raise our allocation to **financial services** to **Overweight** from Underweight. As long as the market expansion continues and the interest rate cycle turns, we think their relatively rich valuation will not be a cause for concern.

By contrast, our thesis for any potential outperformance by **insurance** seems to be fading if government bond yields are nearing their cyclical peak, while rising premiums may be reaching levels that could restrict demand and profit growth. Valuations look supportive on our models, but we think that will not be enough to counteract fading support from macroeconomic factors, not least after significant outperformance in Q1 2024. Thus, we downgrade insurance to **Underweight** from Neutral.

Finally, we reduce our allocation to **real estate** from Overweight to **Neutral**. Perhaps a forthcoming turn in the monetary policy cycle could boost sentiment towards the sector, but with fewer rate cuts on the horizon (based on market pricing) we think the prospects for outperformance could fade. Gradual easing in financing costs imply only gradual improvement in sector returns, in our view. At the same time, valuations are close to what we would consider “fair value” based on our multiple regression model.

The best and worst of the rest

One consequence of a higher risk of conflict near major energy exporting regions (both Ukraine and the Middle East) is that the price of oil and gas could remain near current levels supporting the revenues and margins of the **energy** sector. Based on our macroeconomic outlook, weaker demand, plentiful supply and discounts offered by major producers could balance the upward pressure on pricing driven by geopolitical risk, thus we maintain our **Neutral** allocation.

Chemicals could be boosted by higher product prices, but we think it may struggle to outperform in the current economic environment, because its input costs have remained high. Although we expect a turnaround in industrial production in the next 12 months, we think it may be too early to upgrade the sector as it trades at a slight premium to the relative dividend yield implied by our multiple regression model. We maintain our **Neutral** allocation.

Although house prices seem to be stabilising and real wage growth is positive, relatively high mortgage rates may hinder the **construction & materials** sector. We are also concerned that higher costs of labour and materials will put pressure on their profit margins. The sector also looks overvalued on our multiple regression model and its implied dividend growth rate is above that of the market. The sector may have defied expectations so far mostly driven by demand for newbuilds in the US and the boost to investment from the IRA and CHIPS acts, but we believe its valuations reflect a lot of good news even if economic growth potentially reaccelerates in the second half of 2024 and therefore stay **Underweight**.

We also stay **Overweight industrial goods & services**. Although the sector looks slightly overvalued on our multiple regression model, global manufacturing momentum may be stabilising, in our view, and we also expect defence spending to stay high. The sector is one of the most diversified through its exposures to aerospace & defence, payment systems, vehicle manufacturers and logistics providers. We also expect the pressure on margins to ease as inflation and wage growth fall.

Despite underperforming in the last two quarters, **automobiles & parts** remains one of the most overvalued sectors versus the relative dividend yield implied by our multiple regression model. We also consider the sector an early-cyclical, thus we are struggling to foresee any significant upside potential if we are in the mid-cycle phase for equity markets. In our view, the main driving forces behind its previous surge – namely the fall in inflation rates and a rebound after the drawdown in 2022 – will provide less support in the next 12 months. We stay **Underweight**.

After the post-COVID-19 “great reopening” drove a surge in bookings, relative returns in **travel & leisure** finally succumbed to the twin threats of high oil prices and falling disposable incomes, and 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, fuel costs could remain high, and demand may soften as economies slow and higher costs eat further into disposable incomes as excess savings are depleted. Nevertheless, there may be regional differences in returns if Asian tourists continue travelling in greater numbers, offset by weakness in the US and Europe.

We keep our allocation to **consumer products & services** at **Neutral**. While relative returns improved in Q4 2023 after a dismal Q3, they were negative again in Q1 2024. We think luxury groups will continue to struggle if consumer spending growth slows. The sector also has the second highest 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 the global economy slows more than we currently expect, while it tends to underperform in the mid-cycle stage of the equity market cycle.

At this stage of the cycle, assuming our interest rate expectations are proven correct, we believe that defensive growth offers an attractive way to hedge against equity market volatility and an inflation and economic growth undershoot. Therefore, we stay **Overweight** both **food, beverage & tobacco** and **personal care, drug & grocery stores**. Following their underperformance in 2023, their valuations look attractive, well below the relative dividend yield implied by our multiple regression model. At the same time, both sectors have an implied perpetual dividend growth rate under 1%, which we think is appealing (out of four sectors altogether, all of which are defensives).

We find **healthcare** attractive for similar reasons and believe it makes sense to keep our **Overweight** allocation. As a defensive sector, it suffered in 2023 as markets favoured consumer discretionary and technology. The sector’s valuations look attractive on implied dividend growth, while it has the largest discount to the relative dividend yield implied by our multiple regression model. We also think that falling interest rates could boost its relative returns in the next 12 months.

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. 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), but valuations suggest that at least some of that is priced in, in our view. We stay **Overweight banks**.

The biggest decision we face every quarter concerns the largest sector (based on market cap): **technology**. Its outperformance in 2023 and year-to-date was mostly driven by sentiment (multiple expansion – see **Figure 14**), which we find increasingly difficult to justify. 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 in a time of increasing cost pressures. Valuations have risen and the sector has the largest premium to the relative dividend yield implied by our multiple regression

model, which makes it vulnerable to any turnaround in sentiment, in our view. We keep our allocation at **Neutral** for now.

Our base case of a continuing rise in equities (after a period of consolidation in the near term) implies limited allocation to defensives, thus we keep our **Underweight** allocation to **telecommunications**. We assume that an economic recovery will start towards the end of 2024, which equity markets may keep anticipating in H1. We would expect defensive sectors, such as telecommunications, to underperform in that environment. Although the sector trades at a discount compared to the relative dividend yield implied by our multiple regression model, it has no obvious advantage in valuations compared to consumer staples, while it may not be boosted as much by either a rebound in consumer spending or a reduction in interest rates.

Finally, we keep **utilities Underweight**, because we think the sector will struggle to outperform even if equity market volatility increases. We are especially worried about utilities if margins are squeezed further by falling energy prices, while political pressures grow to reduce prices charged to consumers. Its high level of gearing is another cause for concern, unless there is a more rapid change in the monetary policy cycle than we currently expect.

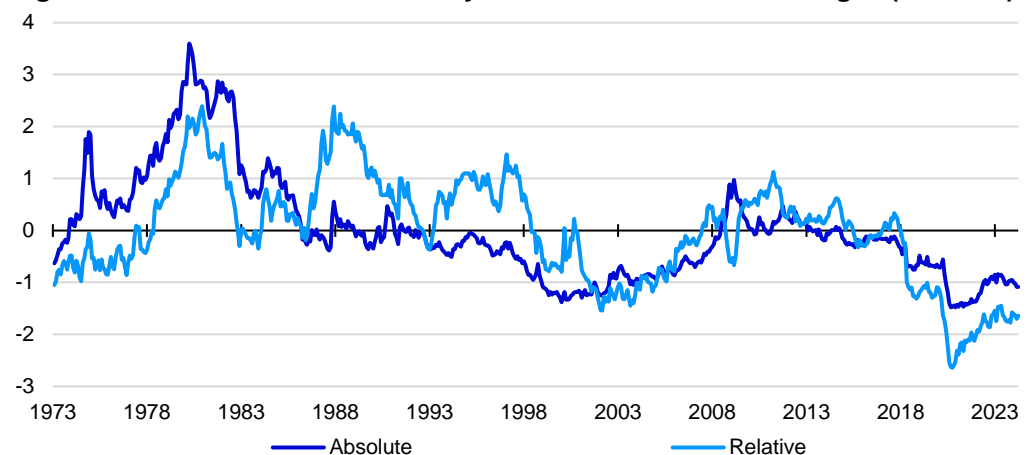
Sector in focus: Retailers

Recreating something akin to a balanced portfolio in our model sector allocation is a challenging task at the best of times. It is especially difficult after a strong rally in global equities, which leaves us as value-conscious strategists in a bind. This is especially true for heavily concentrated sectors, such as retailers. Based on the Datastream World Retailers index, the US accounts for 78% of its market capitalisation. The top two stocks, Amazon and Walmart, make up 48% of the sector's global index. Interestingly, this concentration has not significantly shifted its behaviour through the market cycle. Retailers is the odd one out within consumer discretionary in having the highest median returns during bear markets (based on our analysis – see [here](#) for more detail).

We think this is most probably driven by its diversification: companies within the sector sell both staples and discretionary items. Its largest constituent has also branched out into logistics and cloud computing, which may partly explain the rise in its relative valuations. If markets enter a period of consolidation, we think diversification and the sector's relative resilience to the economic cycle will help it outperform. Also, while market pricing has swung from one extreme to another, in our view, we are finally approaching the start of the monetary policy easing cycle in developed markets. Among sectors that we would expect to outperform during a period of falling interest rates (mostly consumer discretionary and technology), retailers has the most attractive valuations.

As ever, there are multiple moving parts when trying to determine how retailers will fare in the next 12 months. As long as global economic growth remains positive, their revenue growth should remain strong. The big risk around this argument is that the current resilience of US retail sales (even if driven by higher prices), for example, may just be a case of monetary policy transmission having a longer lag than expected. Although we think a global recession remains a tail risk, sector outperformance in past bear markets (which a global recession could trigger) suggest retailers may provide us with the balance between defensiveness and cyclicity that we are looking for when uncertainty increases.

Figure 4 – Global retailers dividend yields versus historical averages (z-scores)



Notes: Data as of 31 March 2024. **Past performance is no guarantee of future results.** We use monthly data based on the 12-month trailing dividend yield on the Datastream World Retailers Index and the Datastream World Total Market Index. Relative dividend yields are calculated by dividing the yield on the retailers index by the yield on the total market index. Z-scores are calculated by dividing the difference to the long-term average by the standard deviation of respective dividend yields.

Source: LSEG Datastream and Invesco Global Market Strategy Office

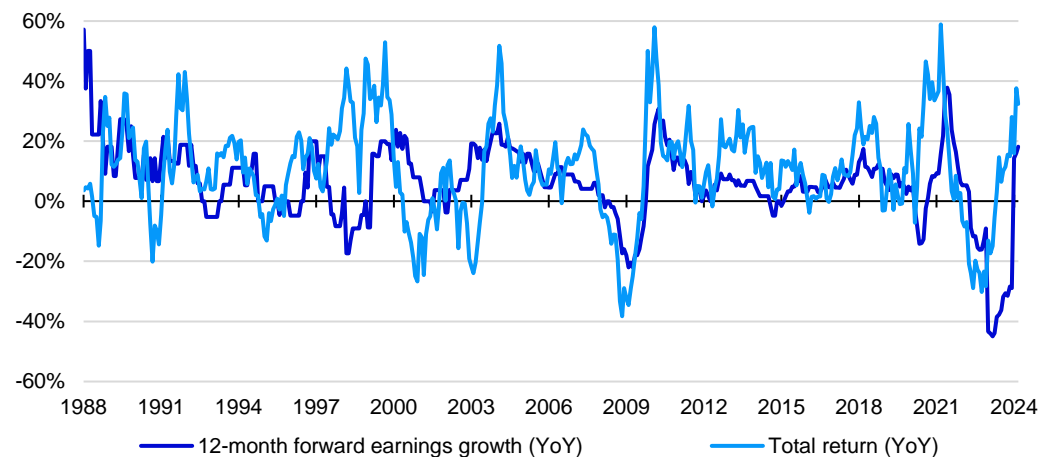
Nevertheless, sector fundamentals look mixed. When it comes to sector allocations, we start by comparing the relative dividend yield implied by our multiple regression model to what the sector trades at. This suggests that the sector is undervalued versus what our model implies (**Figure 12**). We then cross-check that using our perpetual dividend growth model, which shows that dividends would have to grow by 4.5% for the sector to

generate the hurdle rate of return, well-above that of the market at 3.4% and suggesting it is relatively expensive (**Figure 13**).

Comparing other valuation metrics to their own respective historical averages paints a similar picture. All main metrics (price/earnings, dividend yield, price/book, price/cash flow as shown in **Figure 25**) suggest retailers are overvalued in absolute terms, and both its P/E ratio and dividend yield are trading at a premium of over one standard deviation versus historical norms. Relative valuations show an even bigger dislocation with, for example relative dividend yields at 1.7 standard deviations below its historical average (relative P/E ratios are trading at a 1.2 standard deviation premium). In fact, relative dividend yields only reached these levels during the COVID-19 pandemic (see **Figure 4**).

Sector dividend yields are likely to remain lower than benchmark levels (the top stock pays no dividend), which has been the case for most of the past decade. We expect the sector to remain similar to the technology sector in relying mostly on capital returns and buybacks instead of dividends to return cash to shareholders. The aggregate payout ratio of retailers has also shifted lower in the 2020s to just under 30% after spending the 2010s around 40%. A permanent shift to a higher interest rate environment may convince even its largest constituent to start issuing dividends, but we think that is unlikely in the short term.

Figure 5 – Global retailers forward earnings growth vs total returns since 1988



Notes: Data as of 31 March 2024. **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 retailers is the Datastream Retailers 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

In our view, the sector can continue outperforming if it can maintain its high growth rate. First of all, dividend growth is above average and there is a reasonable chance that it will remain elevated, rather than collapse (assuming an economic reacceleration in 2024). Also, as **Figure 5** shows, 12-month forward earnings forecasts have been rising recently with analysts expecting around 32% growth (as of 31 March 2024), well-above the 20% for the market (based on Datastream Total Market indices).

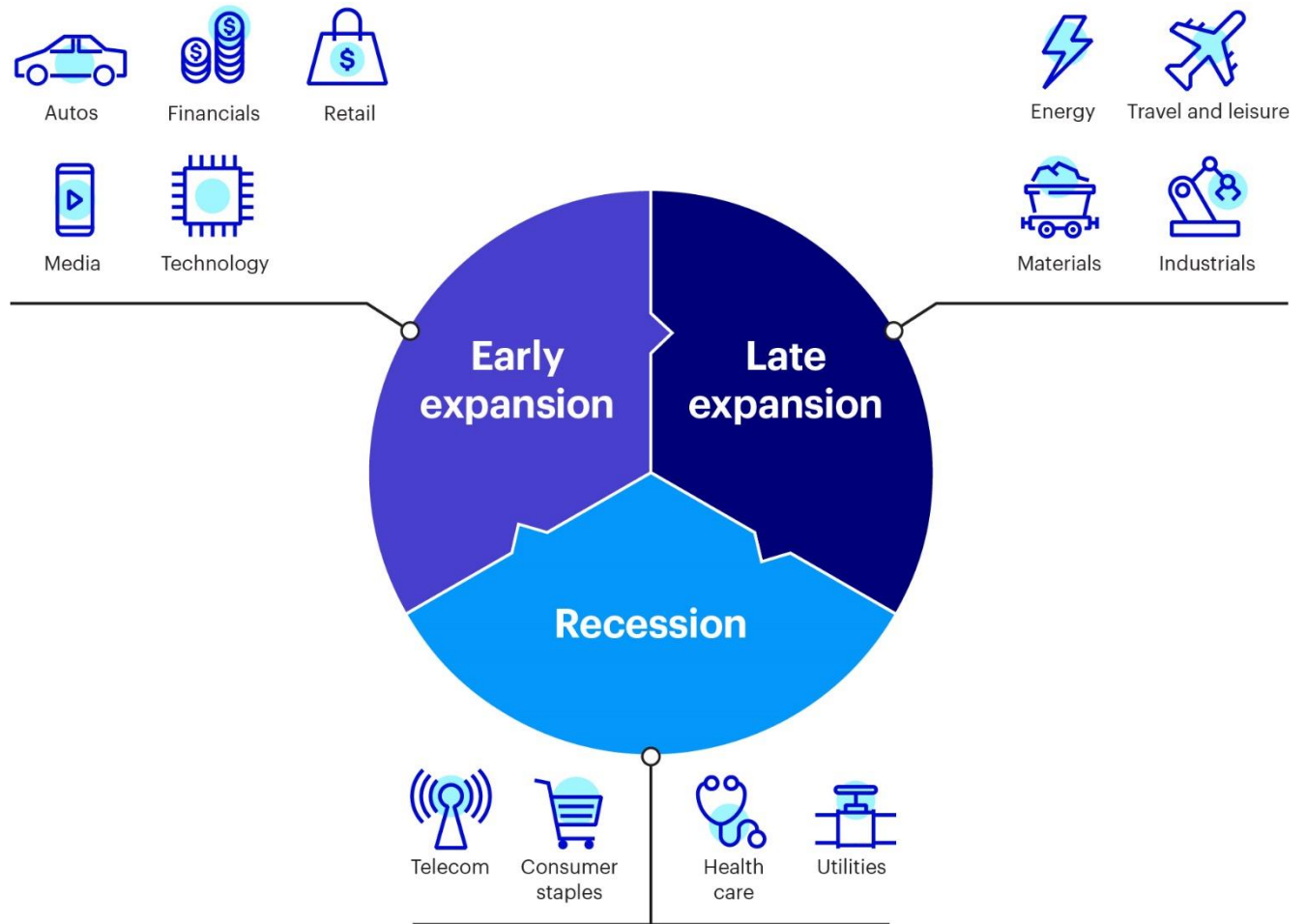
Where does all that leave us? There are clearly risks to being Overweight retailers. Valuations are elevated when compared to historical norms, although our multiple regression model implies that the sector may be slightly undervalued. However, we think that its high exposure to the US economy, which we expect to grow faster than the rest of the developed world could turn out to be a comparative advantage. Retailers also provide us with exposure to the growth factor (a potential beneficiary of the start of monetary easing) with less risk of the “AI hype” deflating. Finally, we think retailers have the right balance of cyclical and resilience that could be useful in a more uncertain phase for global equities, and this is enough to convince us to upgrade the sector to Overweight.

Figure 6 – Model allocations for Global sectors

	Neutral	Invesco	Preferred Region
Energy	7.0%	Neutral	EM
Basic Materials	3.9%	Neutral	Japan
Basic Resources	2.3%	Neutral ↑	Japan
Chemicals	1.6%	Neutral	US
Industrials	13.2%	Overweight	US
Construction & Materials	1.8%	Underweight	US
Industrial Goods & Services	11.5%	Overweight	US
Consumer Discretionary	14.5%	Neutral	US
Automobiles & Parts	2.5%	Underweight	Europe
Media	1.1%	Neutral ↓	Japan
Retailers	5.2%	Overweight ↑	US
Travel & Leisure	2.0%	Underweight	EM
Consumer Products & Services	3.7%	Neutral	Japan
Consumer Staples	5.4%	Overweight	US
Food, Beverage & Tobacco	3.5%	Overweight	US
Personal Care, Drug & Grocery Stores	1.9%	Overweight	Europe
Healthcare	9.3%	Overweight	US
Financials	15.6%	Overweight ↑	US
Banks	7.4%	Overweight	Europe
Financial Services	5.2%	Overweight ↑	US
Insurance	3.0%	Underweight ↓	US
Real Estate	2.7%	Neutral ↓	Japan
Technology	21.9%	Neutral	EM
Telecommunications	3.4%	Underweight	US
Utilities	3.2%	Underweight	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 7 – Economic cycle and main sector allocation decisions

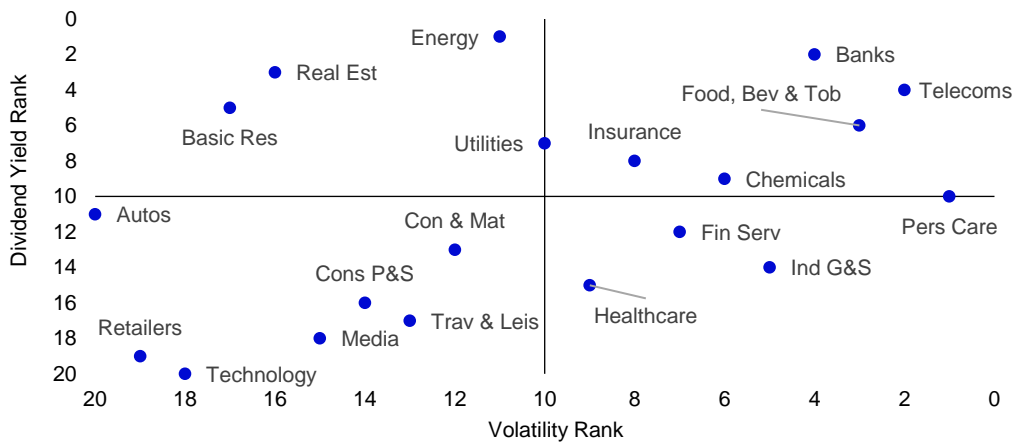


Note: The chart shows our opinion about which sectors tend to perform best at which stage of the economic cycle, based on our analysis of previous cycles.

Source: Invesco Global Market Strategy Office

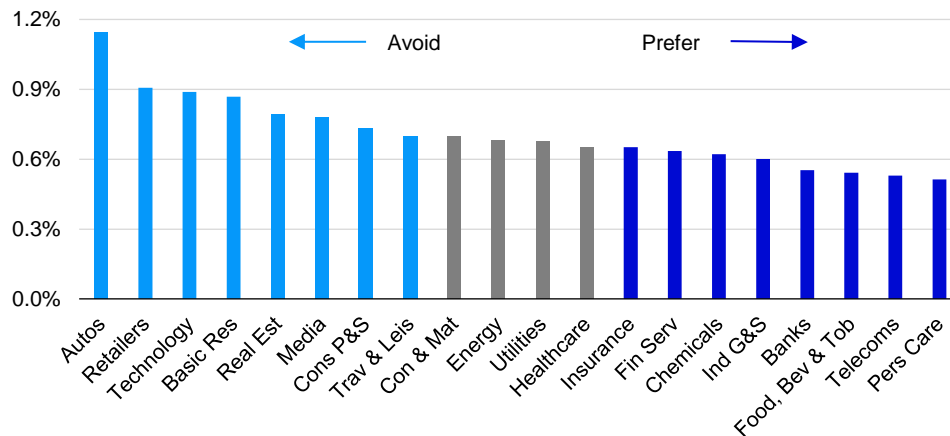
Systematic strategy – Global

Figure 8 – Global sectors ranked by volatility and dividend yield



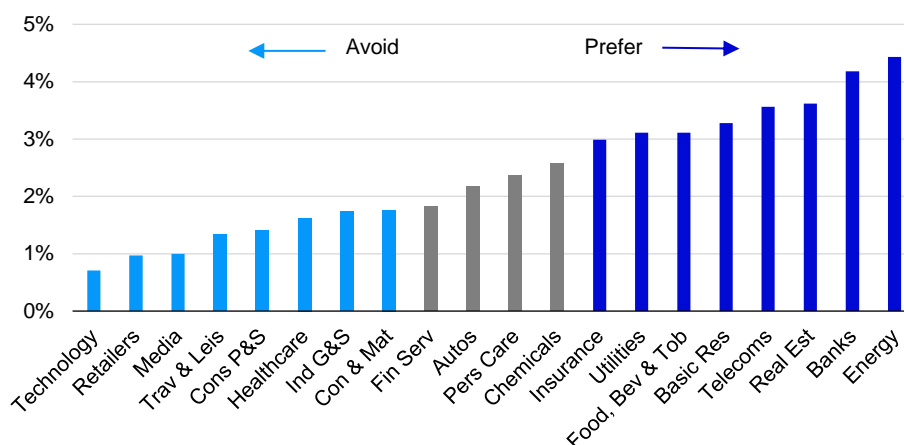
- A purely systematic approach would favour sectors in the top right corner: telecoms, food, beverage & tobacco and banks.
- The approach would avoid sectors in the bottom left, such as technology, retailers or autos.

Figure 9 – Global sector volatility of daily returns (using standard deviation in the past 3 months)



- The daily returns of autos, retailers and technology were the most volatile in the past 3 months.
- Personal care drug & grocery stores, telecoms and food, beverage & tobacco were the least volatile.

Figure 10 – Global sector dividend yield (12-month trailing)

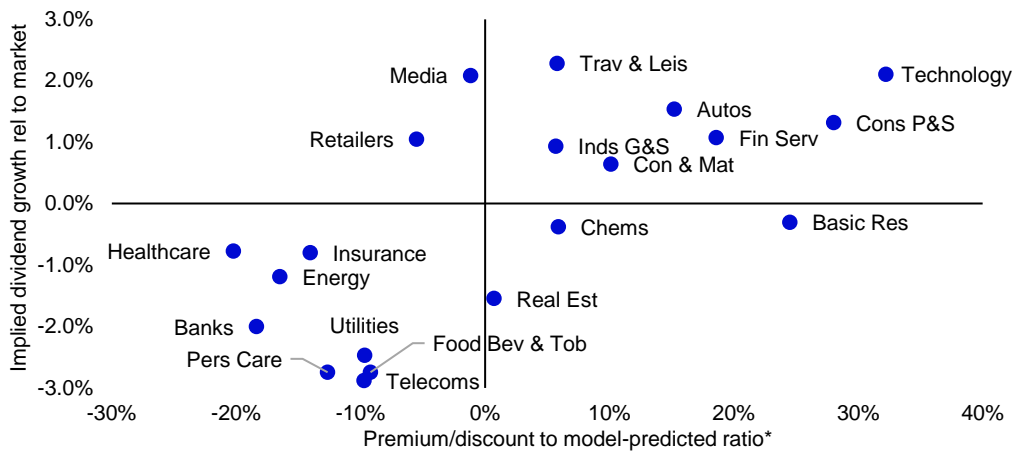


- Energy, banks and real estate look the cheapest based on their dividend yield.
- The lowest yielding sectors include technology, retailers and media.

Notes: 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

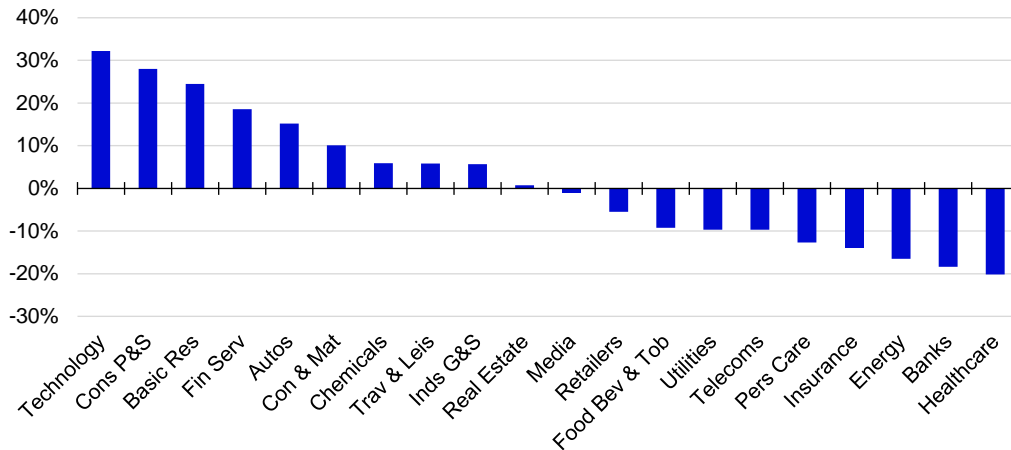
Valuations – Global

Figure 11 – Global sectors valuation matrix



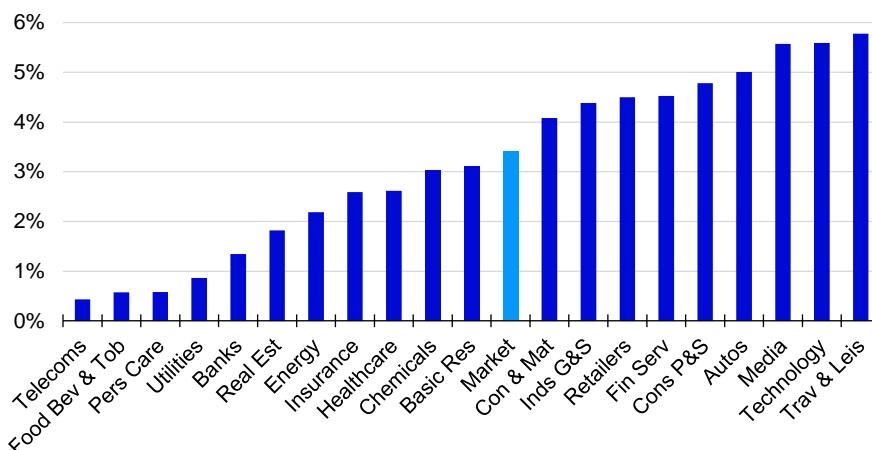
- Sectors in the top right corner look overvalued on both measures, while those in the bottom left appear undervalued
- This approach would avoid, for example, tech, consumer P&S and financial services.
- Banks, healthcare and energy look better value

Figure 12 – Premium/discount to model-predicted ratio*



- Technology, consumer products & services and basic resources look the most overvalued versus our model
- Healthcare, banks and energy seem the most undervalued versus our model-predicted ratios

Figure 13 – Global implied perpetual real dividend growth

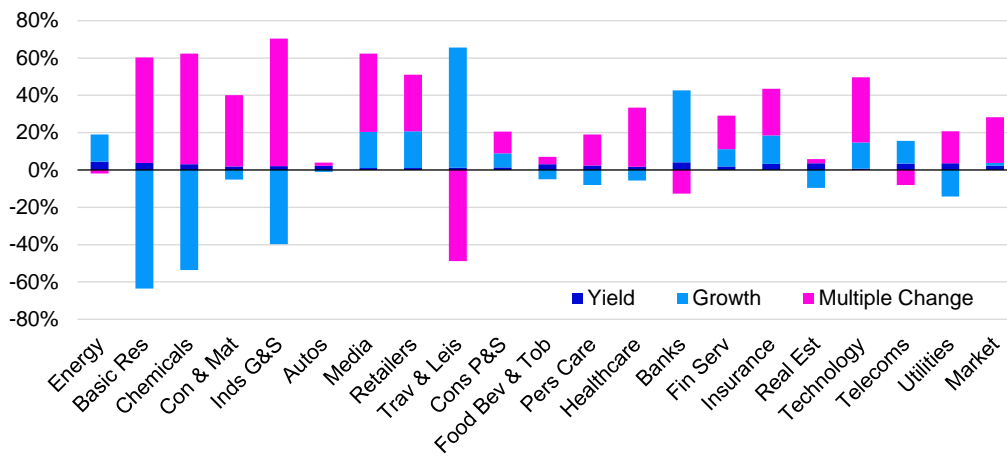


- Shows the future real growth required to justify current prices
- Travel & leisure, technology, and media appear priced for over 5% real growth in dividends (expensive)
- Defensive sectors, except healthcare, seem priced for sub-1% growth (cheap)

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

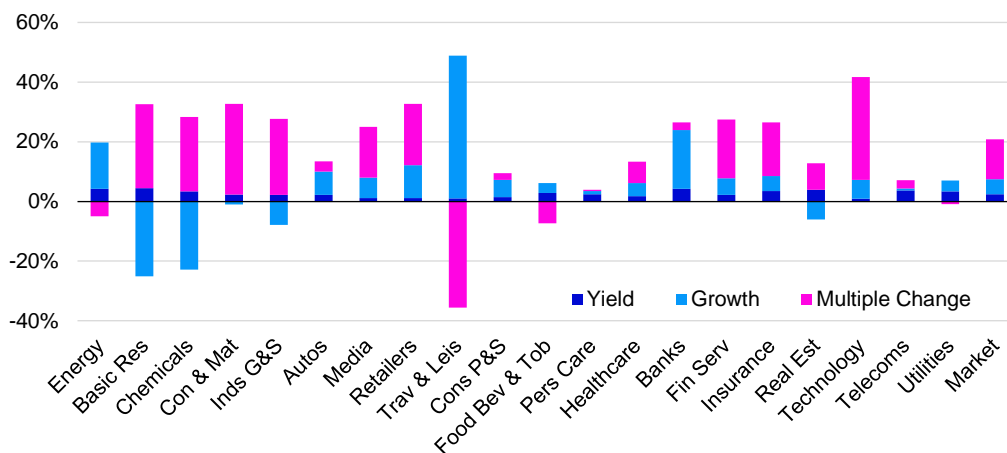
Decomposed returns – Global

Figure 14 – Global year-to-date total returns decomposed (annualised)



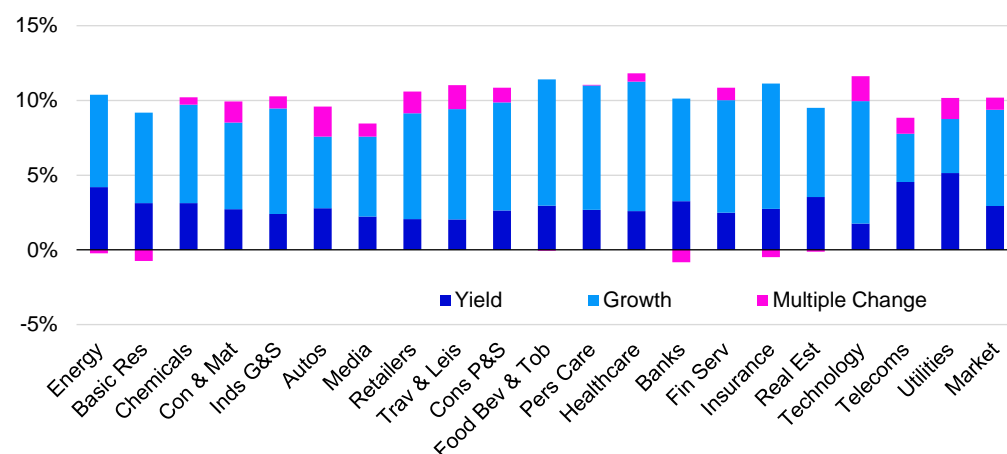
- Six sectors had both positive growth and multiple expansion: media, retailers, consumer products & services, financial services, insurance and technology.
- Two sectors had over 20% dividend growth: travel & leisure and banks.

Figure 15 – Global rolling 12-month total returns decomposed



- All sectors had positive total returns, except food, beverage & tobacco.
- Three sectors had a yield above 4%: energy, basic resources and banks.

Figure 16 – 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: 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 17 – Regression coefficients of Global defensive sectors

	Food, Bev & Tobacco	Personal Care	Health Care	Telecoms	Utilities	Market
Real Oil		-0.18			0.41	
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	0.01	0.01		
IP		0.53	1.03		2.49	-5.11
10y Yield		-1.31		-5.96	10.92	-11.20
CPI	4.20	1.30	-2.69	-1.70	-7.72	3.71
Net Debt/EBITDA		0.06	-0.05	0.10		
ROE	-1.95	-1.06	1.01	0.92	-4.79	

Notes: 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 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 18 – Regression coefficients of Global resource-related and industrial sectors

	Energy	Basic Resources	Chemicals	Construction & Materials	Industrial G&S	Market
Real Oil	-1.87	-0.97				
Real Copper	0.01			-0.01	0.00	
Consumer Confidence	0.01	0.01	0.01	0.00		-0.01
Manufacturing Confidence		-0.02	-0.01	-0.01	-0.01	
IP	-2.00		-0.85	1.22	0.23	-5.11
10y Yield		-7.21			0.63	-11.20
CPI	12.01	30.43	7.80	6.61	0.92	3.71
Net Debt/EBITDA	-0.11	-0.14		0.24		
ROE	-2.75	-2.88	-1.73	-0.87		

Notes: 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 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 19 – Regression coefficients of Global consumer discretionary and technology sectors

	Autos & Parts	Media	Retail	Travel & Leisure	Cons P&S	Tech	Market
Real Oil	1.04		0.25	0.51	0.97	0.40	
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		0.01	
IP	-3.21		0.95	-0.45	0.77	-1.72	-5.11
10y Yield	3.51	6.61	2.42	-1.07	4.87	-1.71	-11.20
CPI		-5.82	-4.58	-3.36	-4.04	-2.85	3.71
Net Debt/EBITDA	-0.05	0.04	0.22		-0.25	0.09	
ROE		1.34		0.60	-2.25	0.54	

Notes: 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 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

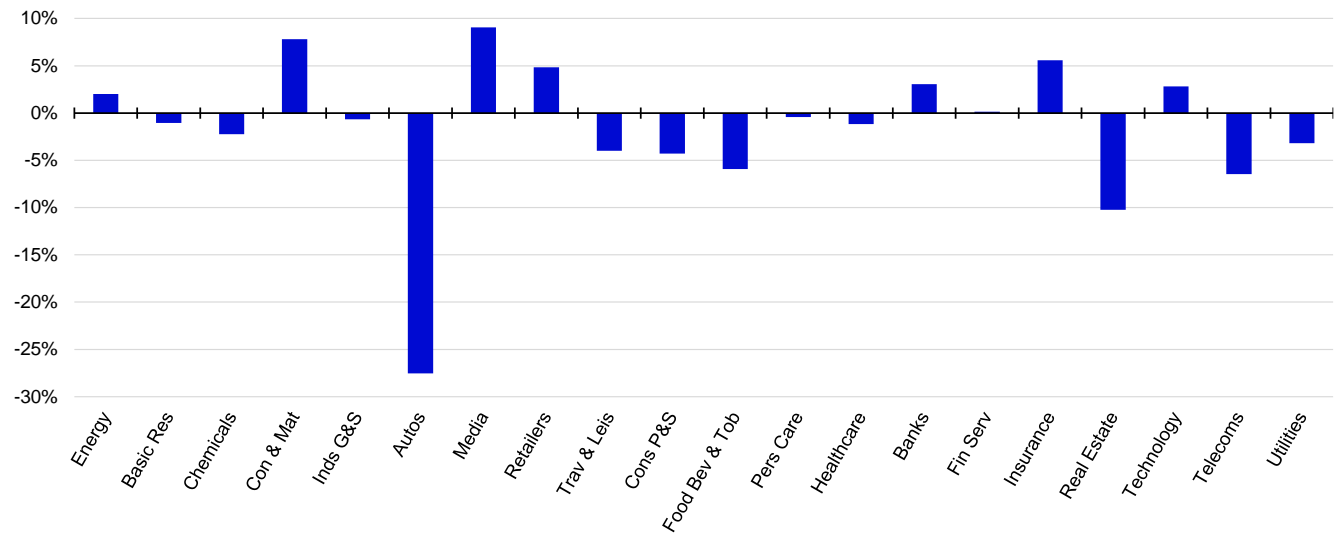
Figure 20 – Regression coefficients of Global financial sectors

	Banks	Financial Services	Insurance	Real Estate	Market
Real Oil	0.37		-0.45	0.55	
Real Copper	-0.01	-0.01	0.01	-0.02	
Consumer Confidence	0.01	0.00	0.00	0.01	-0.01
Manufacturing Confidence	-0.01	-0.02		-0.03	
IP	-2.61	1.72		3.69	-5.11
10y Yield	-9.31		-6.07	2.49	-11.20
CPI	6.31		9.92		3.71
ROE	4.33	0.68	-1.12	-3.56	

Notes: 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 6 for more details. Source: LSEG Datastream and Invesco Global Market Strategy Office

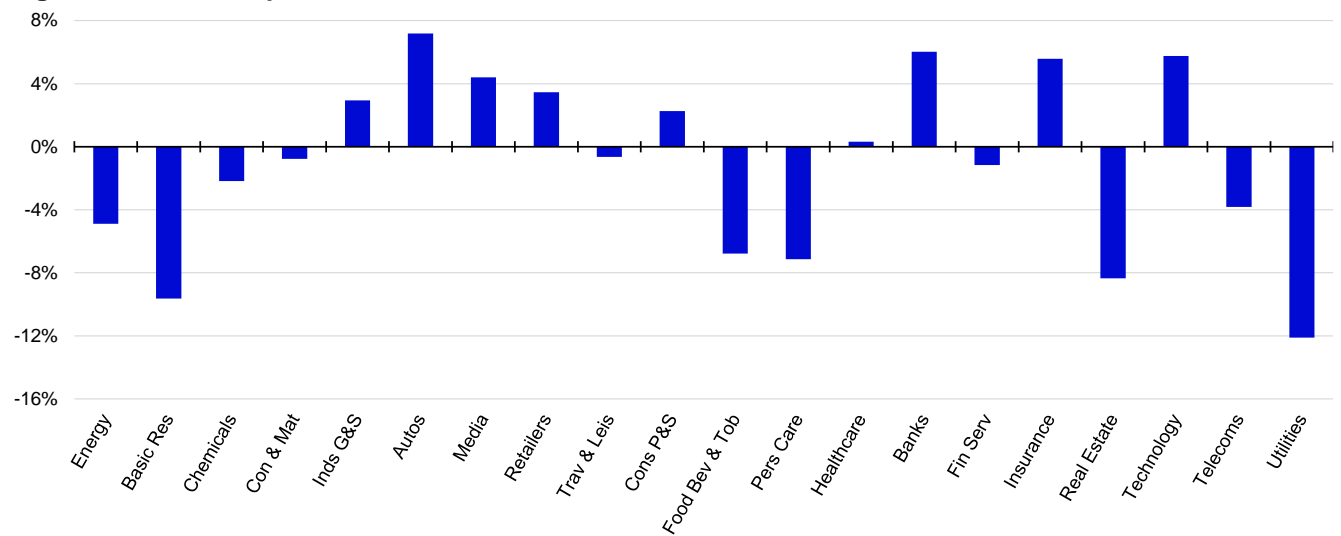
Appendix 2: Sector returns by region

Figure 21 – 3m US sector returns relative to market



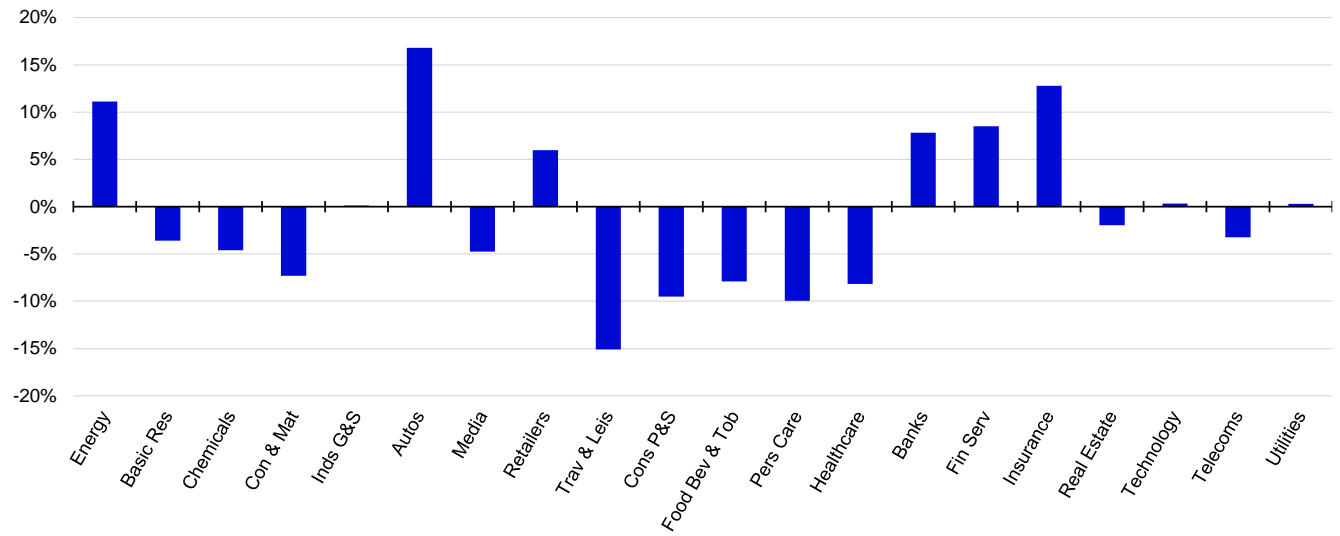
Notes: See appendices for methodology and disclaimers. Returns shown between 31 December 2023 and 31 March 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 22 – 3m European sector returns relative to market



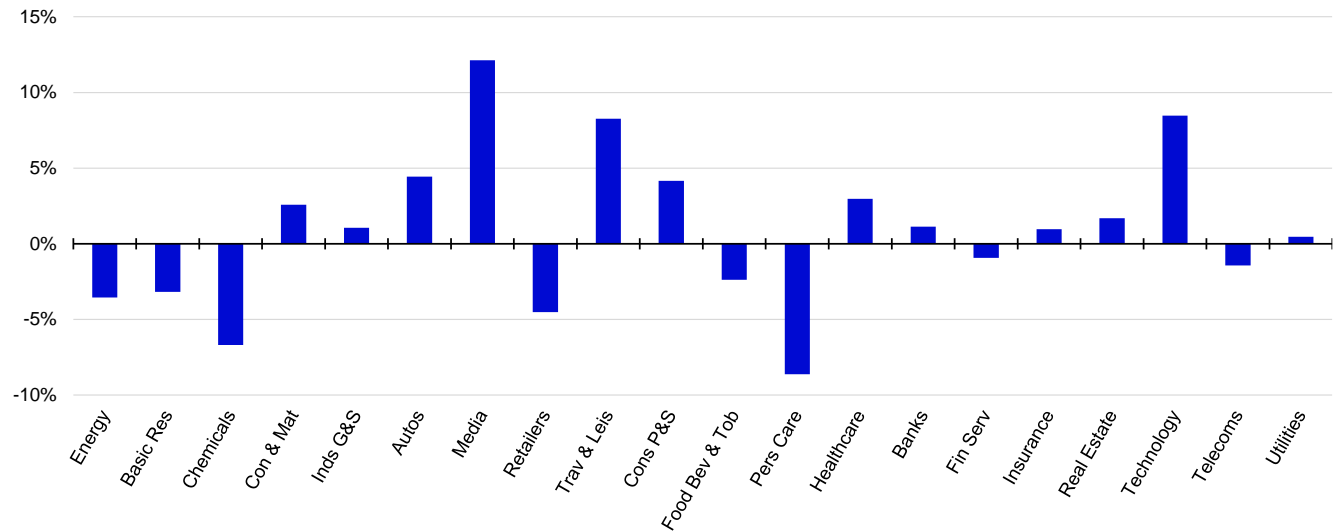
Notes: See appendices for methodology and disclaimers. Returns shown between 31 December 2023 and 31 March 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 23 – 3m Japanese sector returns relative to market



Notes: See appendices for methodology and disclaimers. Returns shown between 31 December 2023 and 31 March 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Figure 24 – 3m Emerging Market sector returns relative to market



Notes: See appendices for methodology and disclaimers. Returns shown between 31 December 2023 and 31 March 2024. **Past performance is not a guarantee of future results.** Source: LSEG Datastream and Invesco Global Market Strategy Office

Appendix 3: Valuations tables

Figure 25 – Global absolute valuations

	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	12.1	14.5	-0.4	4.4	3.9	0.5	1.6	1.8	-0.4	6.5	6.3	0.1
Basic Materials	18.6	16.6	0.4	3.0	2.8	0.3	1.9	1.8	0.1	9.0	7.4	1.0
Basic Resources	15.6	16.8	-0.2	3.3	2.9	0.4	1.7	1.7	0.0	7.6	7.2	0.2
Chemicals	25.6	17.1	1.7	2.6	2.9	-0.3	2.2	2.0	0.6	12.2	7.8	2.7
Industrials	22.6	18.2	0.9	1.7	2.3	-0.7	3.1	2.2	2.2	13.0	9.2	2.1
Construction & Mat.	22.1	16.7	1.3	1.8	2.5	-1.2	2.5	1.7	1.9	12.1	9.1	1.2
Industrial G&S	22.7	18.7	0.8	1.7	2.2	-0.7	3.2	2.2	2.1	13.1	9.2	2.1
Consumer Disc.	21.6	18.8	0.5	1.3	2.2	-1.0	3.5	2.2	2.5	11.8	8.5	1.8
Automobiles & Parts	11.4	15.0	-0.5	2.2	2.6	-0.4	1.5	1.5	0.1	6.9	5.5	1.2
Media	33.8	21.7	1.5	1.0	2.1	-1.3	2.8	2.4	0.5	11.8	9.6	0.6
Retailers	31.0	21.6	1.5	1.0	1.9	-1.1	6.2	3.4	2.5	15.5	13.2	0.7
Travel & Leisure	20.5	23.3	-0.3	1.3	1.8	-0.6	6.0	2.6	3.5	10.9	9.4	0.5
Consumer Prod & Serv	24.3	19.4	1.0	1.4	2.4	-1.4	3.9	2.2	2.4	14.7	10.7	1.6
Consumer Staples	21.1	16.9	0.8	2.8	2.5	0.3	3.1	2.8	0.4	11.9	10.9	0.4
Food, Bev & Tobacco	20.5	18.4	0.4	3.1	2.7	0.5	2.9	2.7	0.3	12.2	11.1	0.4
Personal Care	22.2	20.5	0.3	2.4	2.4	0.0	3.6	3.0	0.7	11.5	10.5	0.4
Healthcare	32.1	20.3	2.0	1.6	2.3	-0.9	5.0	3.4	1.4	18.7	12.8	1.6
Financials	11.9	15.5	-0.8	3.2	2.7	0.6	1.0	1.4	-0.9	6.2	5.8	0.3
Banks	9.2	14.2	-1.0	4.2	3.0	1.3	1.1	1.3	-0.6	5.8	6.2	-0.2
Financial Services	17.2	18.3	-0.2	1.8	2.3	-0.7	0.7	1.4	-1.3	15.0	9.2	2.7
Insurance	15.1	15.9	-0.2	3.0	2.5	0.7	1.8	1.7	0.1	3.3	3.8	-0.4
Real Estate	24.4	19.2	0.9	3.6	3.3	0.5	1.3	1.4	-0.6	14.4	13.7	0.3
Technology	35.9	24.4	1.1	0.7	1.6	-0.9	7.8	3.3	3.4	23.9	12.0	2.7
Telecommunications	16.5	17.3	-0.1	3.6	4.3	-0.3	1.9	2.6	-0.6	5.6	6.1	-0.2
Utilities	16.1	14.6	0.4	3.4	4.8	-0.8	1.8	1.6	0.7	7.6	5.7	1.3
Market	19.9	17.2	0.6	2.1	2.7	-0.6	2.3	2.0	0.7	10.7	7.9	1.7

Notes: *in standard deviations from historical average. 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 26 – Global cyclically-adjusted valuations

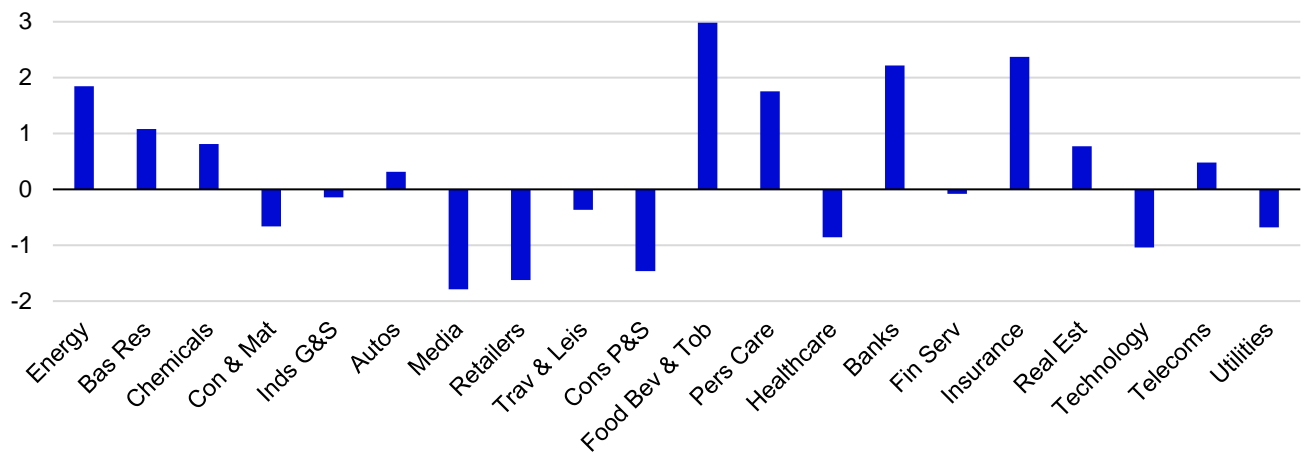
	Price/Earnings			Dividend Yield			Price/Book Value			Price/Cash Flow		
	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*	Now	Avg	Now vs Avg*
Energy	16.7	18.6	-0.3	3.6	2.9	0.7	1.7	2.6	-0.8	7.3	8.6	-0.4
Basic Materials	18.7	23.0	-0.6	2.6	1.9	1.2	2.0	2.4	-0.6	8.9	9.8	-0.4
Basic Resources	17.7	21.3	-0.4	2.7	2.2	0.8	1.8	2.2	-0.4	8.1	9.3	-0.4
Chemicals	20.1	24.3	-0.8	2.3	1.9	1.0	2.2	2.7	-0.9	10.4	10.8	-0.2
Industrials	27.7	26.5	0.2	1.4	1.5	-0.3	3.5	3.0	0.9	15.3	12.8	1.1
Construction & Mat.	26.4	23.9	0.3	1.5	1.9	-0.6	2.6	2.2	0.5	14.1	11.7	0.7
Industrial G&S	28.0	27.3	0.1	1.4	1.4	-0.2	3.7	3.1	1.2	15.6	12.6	1.4
Consumer Disc.	28.5	27.0	0.3	1.2	1.4	-0.8	3.6	3.0	1.4	14.2	11.8	1.3
Automobiles & Parts	16.3	18.9	-0.6	1.7	1.7	-0.1	1.6	2.0	-1.1	7.5	6.7	0.5
Media	27.6	29.9	-0.3	1.1	1.4	-0.9	3.3	3.3	0.0	14.2	13.1	0.3
Retailers	41.5	32.3	1.5	0.8	1.1	-1.1	7.1	5.0	2.1	21.8	19.8	0.5
Travel & Leisure	26.7	33.8	-0.7	1.2	1.2	0.2	4.3	3.5	0.8	13.5	13.0	0.2
Consumer Prod & Serv	30.5	28.6	0.4	1.3	1.6	-0.9	4.3	3.1	2.1	17.6	15.2	1.0
Consumer Staples	21.0	22.6	-0.4	2.3	1.7	1.7	3.4	3.8	-0.7	13.9	14.6	-0.4
Food, Bev & Tobacco	23.9	28.1	-0.9	2.4	1.6	1.9	3.3	4.1	-1.7	14.5	16.3	-1.1
Personal Care	25.7	31.4	-0.8	2.0	1.5	1.4	3.8	4.6	-1.0	13.0	16.2	-1.2
Healthcare	35.7	31.6	0.7	1.3	1.4	-0.4	5.2	5.1	0.1	20.8	19.6	0.4
Financials	16.7	23.2	-0.6	2.3	2.0	0.4	1.2	1.9	-1.1	7.7	7.4	0.2
Banks	13.1	20.6	-0.8	3.0	2.3	0.6	1.1	1.7	-0.9	6.8	7.8	-0.5
Financial Services	23.8	29.2	-0.3	1.4	1.5	-0.2	1.0	1.9	-1.4	15.7	11.5	1.7
Insurance	19.6	23.7	-0.5	2.0	1.7	0.6	1.9	2.4	-0.6	4.6	4.9	-0.3
Real Estate	14.1	26.0	-0.9	3.7	2.6	1.3	1.2	1.7	-1.1	13.7	16.9	-0.8
Technology	53.0	39.1	0.7	0.5	0.9	-0.8	10.4	5.1	2.1	32.9	19.3	1.4
Telecommunications	15.9	22.7	-0.7	3.8	3.1	0.6	2.0	3.3	-1.0	5.3	7.6	-0.8
Utilities	19.7	18.6	0.2	3.1	3.5	-0.4	1.8	2.0	-0.3	7.7	7.0	0.6
Market	25.0	24.7	0.0	1.7	1.8	-0.2	2.6	2.8	-0.2	12.5	10.7	1.0

Notes: *in standard deviations from historical average. 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

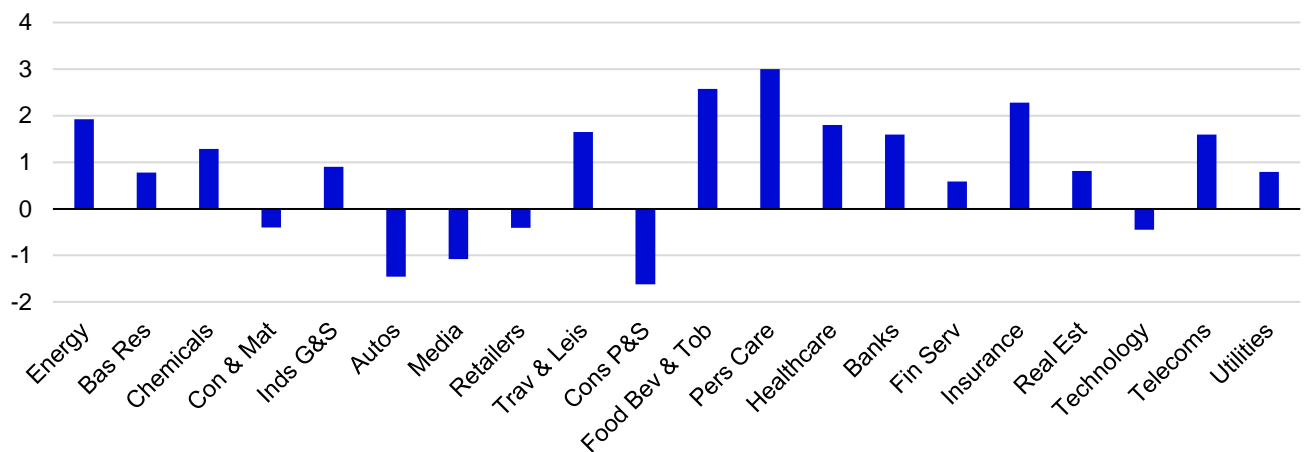
Appendix 4: Sector valuations by region

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



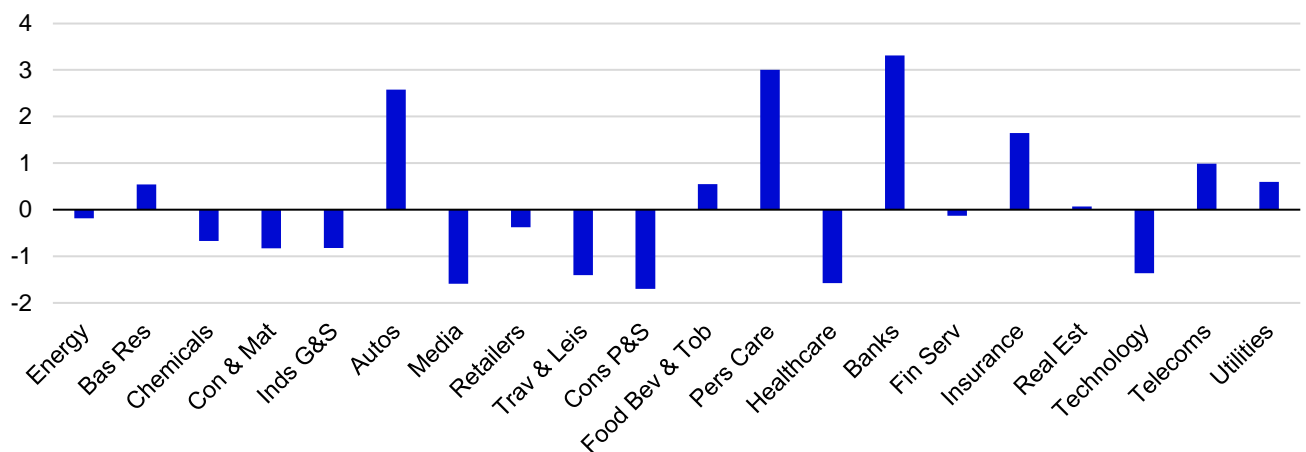
Notes: Data as of 31 March 2024. See appendices for methodology and disclaimers.
Source: LSEG Datastream and Invesco Global Market Strategy Office

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



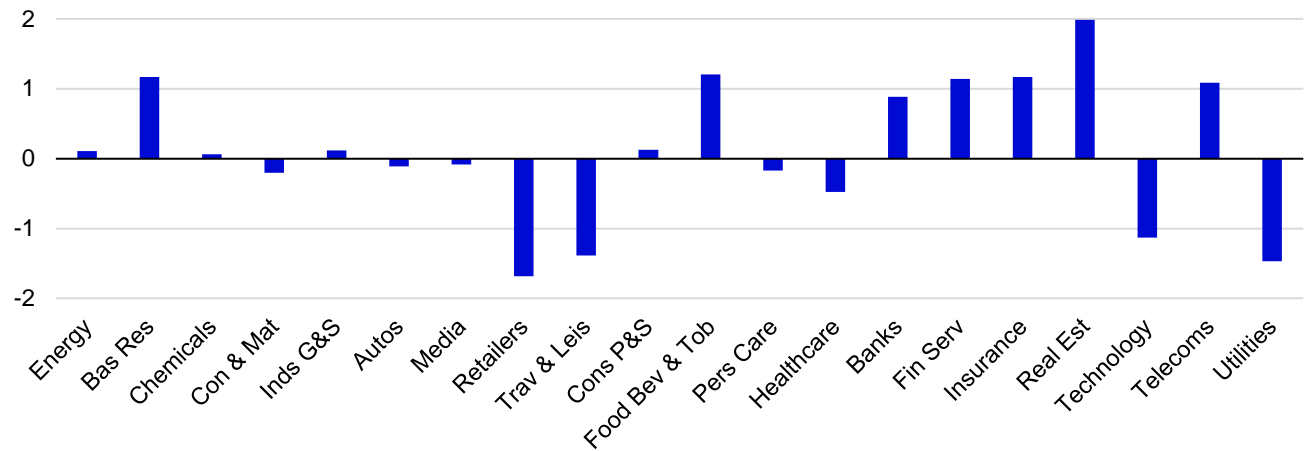
Notes: Data as of 31 March 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream US Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

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



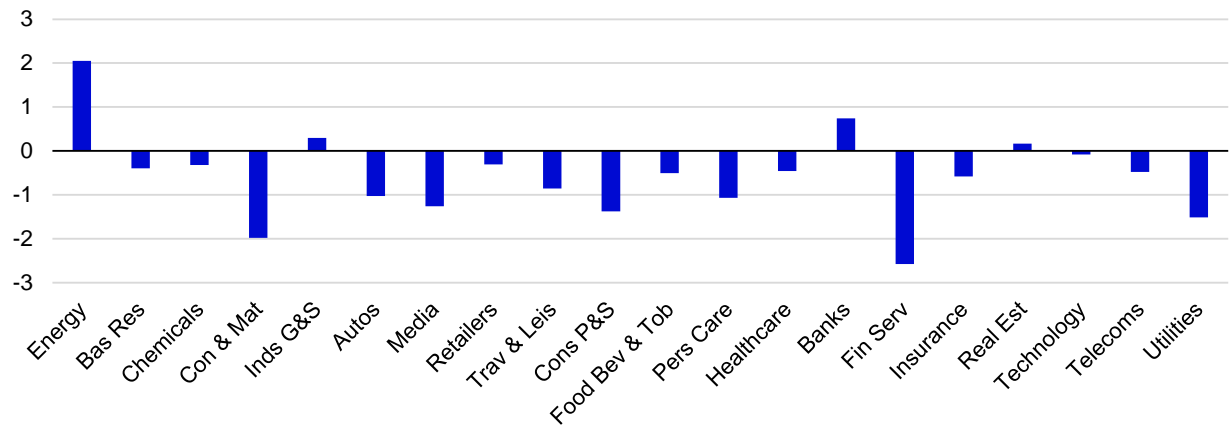
Notes: Data as of 31 March 2024. See appendices for methodology and disclaimers. The local benchmark is the Datastream Europe Ex-Emerging Total Market Index. Source: LSEG Datastream and Invesco Global Market Strategy Office

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



Notes: Data as of 31 March 2024. 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 31 – Emerging markets dividend yields relative to local benchmark (z-score)



Notes: Data as of 31 March 2024. 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 32 – Global equity sector total returns relative to market

Data as at 31/03/2024	Global				
	3m	YTD	12m	5y*	10y*
Energy	-2.6	-2.6	-4.7	-4.4	-5.6
Basic Materials	-6.3	-6.3	-12.0	-0.2	-1.2
Basic Resources	-7.4	-7.4	-11.3	2.1	-0.6
Chemicals	-4.6	-4.6	-13.1	-3.2	-2.4
Industrials	0.7	0.7	0.3	0.1	0.0
Construction & Materials	1.5	1.5	8.9	1.8	-1.2
Industrial Goods & Services	0.5	0.5	-0.8	-0.2	0.3
Consumer Discretionary	0.4	0.4	-1.4	-1.7	-0.5
Automobiles & Parts	-5.9	-5.9	-6.2	2.1	-2.0
Media	7.9	7.9	3.3	-3.4	-2.3
Retailers	5.3	5.3	9.7	-0.6	1.2
Travel & Leisure	-2.7	-2.7	-6.3	-5.9	-3.0
Consumer Products & Services	-1.8	-1.8	-9.5	-1.0	0.7
Consumer Staples	-5.4	-5.4	-16.9	-5.4	-3.1
Food, Beverage & Tobacco	-6.2	-6.2	-18.4	-5.3	-3.4
Personal Care, Drug & Grocery Stores	-4.1	-4.1	-14.2	-5.4	-2.9
Healthcare	-0.2	-0.2	-6.4	-0.8	0.8
Financials	1.0	1.0	5.2	-0.7	-0.9
Banks	0.5	0.5	5.3	-2.4	-3.0
Financial Services	0.2	0.2	5.5	1.8	1.8
Insurance	3.6	3.6	4.8	0.3	0.5
Real Estate	-7.5	-7.5	-11.8	-9.2	-4.1
Technology	5.0	5.0	17.1	9.9	9.1
Telecommunications	-4.9	-4.9	-11.5	-4.9	-4.4
Utilities	-5.1	-5.1	-12.2	-3.4	-2.2

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 $\text{Price} = \text{Dividend}/(\text{Discount Factor} - \text{Growth})$, then $\text{Growth} = \text{Discount Factor} - \text{Dividend Yield}$. The Discount Factor is equal to $\text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$. 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 (Figure 3): 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 2024 unless stated otherwise. This publication is updated quarterly.

Important information

Your capital is at risk. You may not get back the amount you invested.

By accepting this document, you consent to communicating with us in English, unless you inform us otherwise.

This document is for informational purposes only and is intended only for Professional Clients and Financial Advisers in Continental Europe (as defined in important information); Professional Clients only in Dubai, Ireland, the Isle of Man, Jersey, Guernsey, Malta, Switzerland and the UK; for Qualified Clients in Israel, for Professional/Qualified/Sophisticated Investors in Bahrain, Jordan, Kuwait, Lebanon, Mauritius, Oman, Qatar, Saudi Arabia, South Africa, Tunisia, Turkey, and the United Arab Emirates; for Professional Investors in Hong Kong, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for Professional Investors in Australia, for Institutional Investors in the United States, Peru and Singapore; for AFPs and Qualified Investors in Chile and Colombia; for Accredited/Institutional Investors in Mexico; for Wholesale Investors in New Zealand; for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei and Indonesia, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for qualified buyers in Philippines for informational purposes only, for certain specific institutional investors in Malaysia, upon request, for informational purposes only. This document is only intended for use with Qualified Institutional Investors in Japan; in Canada, this document is restricted to Accredited Investors as defined under National Instrument 45-106. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. It is not intended for solicitation of any security. Please do not redistribute this document.

For the distribution of this document, Continental Europe is defined as Andorra, Austria, Belgium, Bulgaria, Czech Republic, Croatia, Denmark, Finland, France, Germany, Gibraltar, Greece, Hungary, Italy, Kosovo, Latvia, Liechtenstein, Luxembourg, Monaco, Netherlands, North Macedonia, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.

This document is not an offering of a financial product and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any unauthorized person is prohibited. This document is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This document is solely for duly registered banks or a duly authorized Monegasque intermediary acting as a professional institutional investor which has such knowledge and experience in financial and business matters as to be capable of evaluating the contents of this document. Consequently, this document may only be communicated to banks duly licensed by the "Autorité de Contrôle Prudentiel et de Résolution" and fully licensed portfolio management companies by virtue of Law n° 1.144 of July 26, 1991 and Law 1.338, of September 7, 2007, duly licensed by the "Commission de Contrôle des Activités Financières". Such regulated intermediaries may in turn communicate this document to potential investors.

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

Issued in Australia and New Zealand by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco. It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted. The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform them about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

This overview contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investments have risks and you may lose your principal investment. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

The opinions expressed are those of the authors and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions and are subject to change without notice. Past performance is no guarantee of future results.

This material may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All

forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented. All information is sourced from Invesco, unless otherwise stated.

Effective 8/18/17, Invesco Ltd completed the acquisition of Source. Links to documents published prior to this date are from Source as a predecessor firm and are provided for historical and informational purposes only.

Investment strategies involve numerous risks. The calculations and charts set out herein are indicative only, make certain assumptions and no guarantee is given that future performance or results will reflect the information herein. Past performance is not a guarantee of future performance.

The Directors of Invesco do not guarantee the accuracy and/or the completeness of any data included herein and we shall have no liability for any errors, omissions, or interruptions herein. We make no warranty, express or implied, as to the information described herein. All data and performance shown is historical unless otherwise indicated. Investors should consult their own business, tax, legal and accounting advisors with respect to this proposed transaction and they should refrain from entering into a transaction unless they have fully understood the associated risks and have independently determined that the transaction is appropriate for them. In no way should we be deemed to be holding ourselves out as financial advisers or fiduciaries of the recipient hereof and this document is not intended to be "investment research" as defined in the Handbook of the UK Financial Conduct Authority.

Invesco, and our shareholders, or employees or our shareholders may from time to time have long or short positions in securities, warrants, futures, options, derivatives or financial instruments referred to in this material. As a result, investors should be aware that we may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This document is provided by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg, Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322- Frankfurt/M., Germany, Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland, and Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on Thames, Oxfordshire RG9 1HH, UK Authorised and regulated by the Financial Conduct Authority.

In the US by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309 and Invesco Capital Management LLC, 3500 Lacey Road, Suite 700, Downers Grove, IL 60515.

In Canada by Invesco Canada Ltd., 120 Bloor Street East, Suite 700, Toronto, Ontario M4W 1B7. Terms and Conditions for Canadian investors can be seen [here](#).

This document is issued in the following countries:

- in Hong Kong by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong. This document has not been reviewed by the Securities and Futures Commission.
- in Singapore by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). Invesco Taiwan Limited is operated and managed independently.
- In Japan by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower

14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114: Registration Number: The
Director – General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the
Investment Trusts Association, Japan and the Japan Investment Advisers Association

Telephone calls may be recorded.

© 2024 Invesco. All rights reserved. II-GMSOSSS-WP-22-E GL3526938.

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

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
Associate Global Market Strategist
ashley.oerth@invesco.com
London, EMEA

Cyril Birks
Market Strategy Analyst
cyril.birks@invesco.com
London, EMEA

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

Telephone calls may be recorded.