

## Applied philosophy

### Where do we find value in Emerging Market equities in 2025?

**Emerging Market equities kept pace with their global benchmark for most of the last 12 months except for the rally led by mostly the US after the US Presidential election. I expect economic growth to reaccelerate towards trend despite the higher levels of US policy uncertainty. This should be a hospitable environment for EM equities, in my view, especially if developed market central banks continue easing. In such a diverse asset class, I think it is worth digging deeper into which countries I would favour for the long term based on their valuations.**

January usually feels like the longest month as we trudge through the dark and the cold without the excitement of holidays to distract us. However, this year it has flown by with the news cycle being extra eventful. Equity markets have had a lot to contend with, from the inauguration and the first flurry of executive orders by President Trump, through benign inflation reports to a mini-wobble in technology stocks. Developed Markets (DM) have had a strong start to 2025, especially Europe, with Emerging Market (EM) equities broadly in line with the MSCI All-Country World index (Figure 5). Will EM be able to keep up with global equities in the next 12 months?

The first signs are not encouraging. The US dollar has been strengthening since the end of Q3 2024 (as of 7 February 2025 based on the DXY index) mainly driven by an increase in US rate expectations, which tends to coincide with EM underperformance (although that

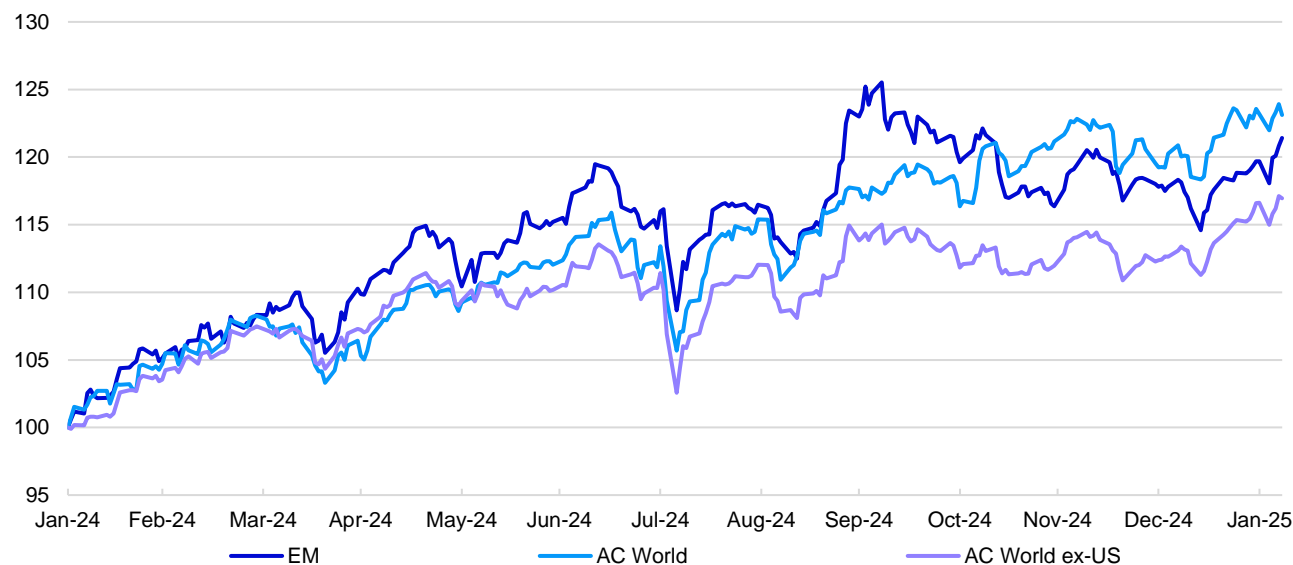
trend has partially reversed since mid-January 2025). Recent US announcements on tariffs may add to USD strength unless other countries retaliate. Also, if “trade wars” escalate this raises the prospect of higher global inflation and could suppress growth and investment, all of which may disproportionately impact EM economies.

As Figure 1 shows, until the end of Q3 2024, EM equities were on course to outperform the MSCI All-Country World index on a local currency basis since the last time I published my deep dive into EM equity valuations (see [here](#) for more detail). A range-bound US dollar and the anticipation of Fed easing played a part alongside resilient global growth. That reversed in Q4 2024 as investors increasingly priced in the impacts of a Trump presidency including potentially higher inflation, interest rates and a stronger USD.

The relatively strong total returns in EM in the last 12 months were mostly driven by China, while DM equities were boosted by strong US returns. Interestingly, the two largest economies in the world had similar nominal GDP growth rates at around 5% in 2024. Although there was a roughly even split between real growth and inflation in the US, inflation was close to 0% in China. The main drivers of growth were different, too, with consumer spending driving most of US GDP growth and investment and exports in China.

Nevertheless, there has been a growing concern that the world may be split into the US and the rest, especially if President Trump increases tariffs, or uses

**Figure 1 – Equity market total returns since January 2024 (rebased)**



Notes: **Past performance is no guarantee of future results.** Data as of 7 February 2025. We show daily data from 31 January 2024 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

them as leverage in negotiations. In my view, financial markets have at least partially priced in higher levels of uncertainty about the likely path of inflation and growth. I think this could lead to a more “risk-off” environment than implied by economic fundamentals, which remain robust for now.

A good way to start, in my 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 outperformance was mainly driven by multiple expansion between 31 January 2024 and 7 February 2025. Both dividend growth and dividend yield were higher for EM, but multiples contracted in the same period.

I 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) the expectation that the policies of a Trump-led United States will keep interest rates higher than previously expected and the US dollar strong.

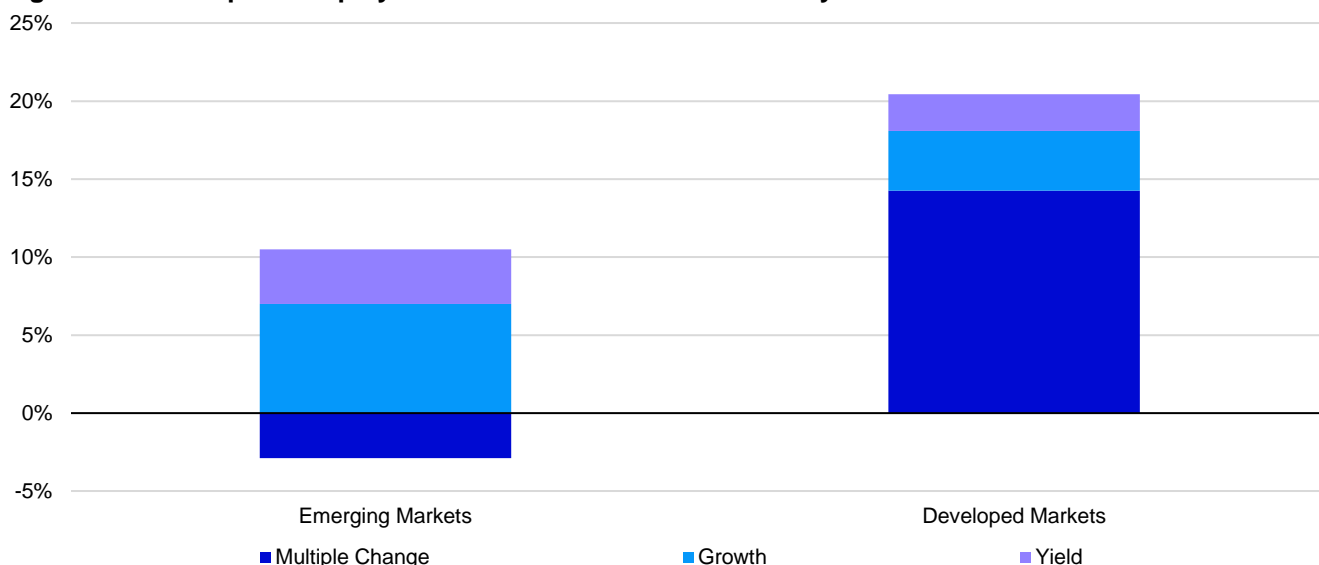
Policy uncertainty may eventually favour relatively “safer” assets, such as DM equities and government bonds, especially in Europe where monetary policy looks the most favourable. Nevertheless, a widening valuation differential makes a strong case for EM

equities for a contrarian like me. Whether the main drivers of that are structural or cyclical could be up for debate, although I suspect cyclical factors will have a bigger impact in the next 12 months (structural change takes a longer time to unfold, in my view).

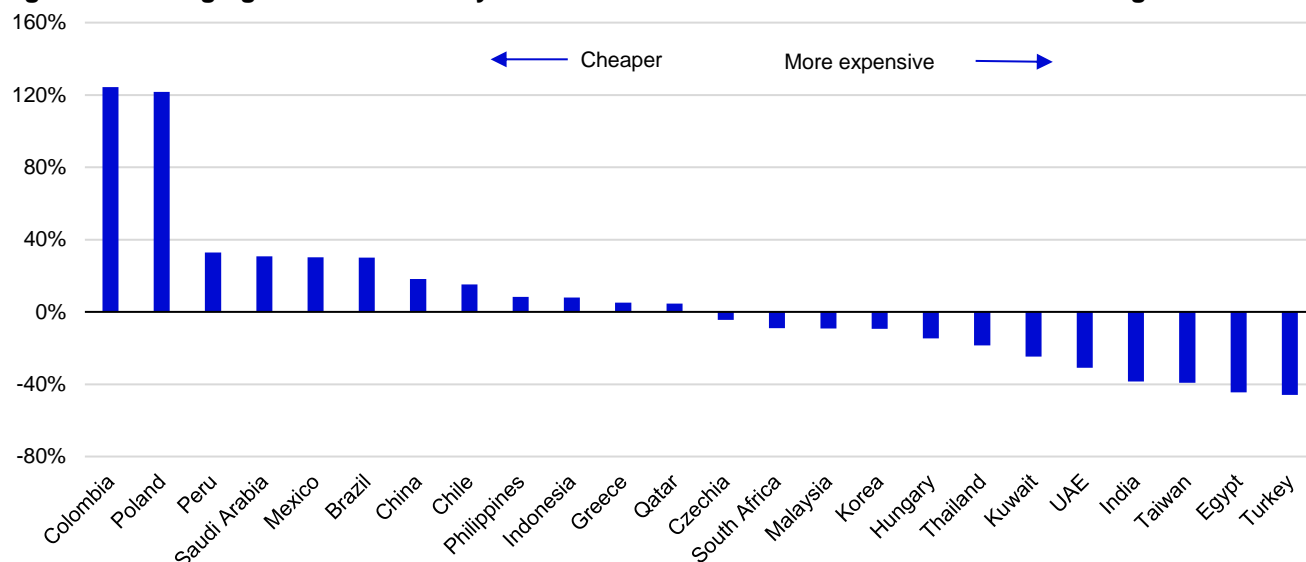
Indeed, our base case for 2025 implies a positive environment for EM (see [here](#) for the full detail). In my view, the global economy could reaccelerate after uneven growth in 2024, while monetary policy easing is likely to continue. This includes the Fed, which implies a weakening US dollar that would boost commodity prices (many EM economies are commodity exporters). On top of that, valuations may have priced in a lot of bad news. The dividend yield of 3.3% is higher than that of all other regions apart from the UK’s that is on the same level. At the same time, its cyclically-adjusted price/earnings ratio (CAPE) of 16.7x is the lowest (all valuation ratios are as of 7 February 2025). EM equity valuations also look favourable compared to historical averages: they trade at a 22% discount based on dividend yield and a 7% discount on CAPE.

The current disinflationary process may have stalled and partially reversed recently, but in my view inflation rates will stay within the “comfort zone” of within one percentage point of central bank targets in most countries. I think this will allow monetary policy easing to continue, which could remove some of the headwinds to growth, even if it may be more gradual than previously expected. The main risk for EM economies is a further weakening of their currencies

**Figure 2 – Decomposed equity market total returns since January 2024**



Notes: Data as of 7 February 2025. **Past performance is no guarantee of future results.** Returns are calculated between 31 January 2024 and 7 February 2025. “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 7 February 2025. 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: LSEG Datastream and Invesco

especially against the US dollar, which could add to inflationary pressures prompting local central banks to raise rates as in Brazil, for example. However, some of those pressures may have been priced in opening up the opportunity for strong returns.

I am also positive about the long-term prospects of EM despite short term challenges. I think valuations should support EM equities especially if we avoid a global recession, which remains a tail risk for now. Eventually (I think) the current period of uncertainty will pass and improving risk appetite could boost EM returns.

Even if I am positive on EM equities overall, I think it is important to differentiate between such a diverse group of markets. Therefore, I 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**). Despite their recent underperformance (see **Figure 4**), Egypt, India and Korea continue to look overvalued alongside stronger performers, such as Hungary, Taiwan, Thailand, Turkey and the United Arab Emirates.

Most of the rest of the Asia-Pacific region (Indonesia, the Philippines and Malaysia) look close to historical averages joined by South Africa, Czechia, Qatar and Greece. I would consider these countries to be close to “fair value” at this point.

Latin American markets seem to be the most attractive with relative dividend yields higher than historical norms. I 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). Saudi Arabia is the most similar to these countries where extractive industries account for most of dividends paid. On the other hand, Poland is a more diversified market, albeit one dominated by banks.

Finally, China appears to be one of the most attractive large stock market within EM. Its relative dividend yield is well above its historical average suggesting attractive returns over the long term. After recent strong returns, valuations point to a less extreme undervaluation, but they still imply a good potential for outperformance.

**Figure 4 – Emerging market equities total returns**

Data as of 07/02/2025	Total Return (USD, %)				Total Return (Local Currency, %)			
	3m	6m	YTD	12m	3m	6m	YTD	12m
Brazil	-5.4%	-4.3%	12.9%	-16.6%	-4.2%	-2.0%	6.3%	-3.4%
Chile	8.3%	16.0%	12.3%	20.0%	10.2%	18.3%	8.7%	21.4%
China	-0.9%	24.3%	5.8%	35.2%	-0.3%	24.6%	5.9%	35.1%
Colombia	20.3%	27.1%	21.9%	30.6%	13.8%	25.7%	13.4%	35.0%
Czechia	11.2%	15.1%	10.1%	27.7%	15.7%	20.9%	10.0%	33.6%
Egypt	-6.0%	-1.4%	-0.2%	-36.1%	-4.0%	0.7%	-1.2%	4.0%
Greece	7.5%	6.5%	7.1%	8.7%	12.4%	12.5%	7.2%	13.0%
Hungary	10.3%	16.3%	11.7%	26.0%	15.8%	25.3%	10.3%	36.8%
India	-7.2%	-8.6%	-4.0%	3.5%	-3.8%	-4.8%	-2.0%	9.1%
Indonesia	-12.2%	-11.7%	-5.2%	-17.1%	-9.2%	-10.4%	-4.2%	-13.7%
Korea	-5.6%	-10.6%	6.9%	-13.5%	-2.1%	-6.0%	5.1%	-5.7%
Kuwait	10.1%	10.7%	7.4%	10.8%	10.9%	11.7%	7.5%	11.1%
Malaysia	-1.8%	4.6%	-2.2%	19.1%	-1.0%	3.3%	-2.9%	11.1%
Mexico	-2.9%	-4.9%	7.2%	-22.6%	0.9%	2.1%	6.1%	-6.5%
Peru	-3.5%	9.6%	5.4%	22.5%	-3.5%	9.6%	5.4%	22.5%
Philippines	-9.8%	-3.9%	-4.1%	-8.4%	-10.9%	-3.1%	-3.9%	-5.1%
Poland	6.3%	11.4%	16.1%	11.0%	8.1%	14.4%	14.0%	11.6%
Qatar	-0.7%	6.4%	-0.8%	11.9%	-0.7%	6.4%	-0.8%	11.9%
Saudi Arabia	2.0%	6.7%	2.8%	1.3%	1.8%	6.6%	2.6%	1.3%
South Africa	-4.2%	10.9%	9.2%	26.2%	1.9%	11.3%	6.6%	22.8%
Taiwan	0.4%	14.9%	2.7%	38.6%	1.9%	15.1%	2.6%	44.8%
Thailand	-10.6%	5.6%	-5.2%	2.0%	-12.3%	-0.3%	-6.4%	-3.5%
Turkey	7.1%	-6.5%	0.5%	5.8%	12.5%	0.5%	2.2%	24.4%
UAE	16.1%	22.9%	5.8%	30.1%	16.0%	22.9%	5.8%	30.1%
Emerging Markets	-2.4%	6.5%	3.2%	13.8%	-0.6%	8.2%	3.1%	18.1%
Global Equities	1.1%	13.7%	3.4%	19.0%	2.1%	14.9%	3.2%	20.4%

Notes: **Past performance is no guarantee of future results.** The list of countries include the constituents of the MSCI Emerging Market Index. We use MSCI country indices for country total returns. The Emerging Markets benchmark is the MSCI Emerging Markets Index. Global equities returns are based on the MSCI All-Country World index.

Source: LSEG Datastream, MSCI, Invesco Global Market Strategy Office

**Figure 5 – Asset class total returns (%)**

Data as at 07/02/2025			Total Return (USD, %)					Total Return (Local Currency, %)				
	Index	Current Level/Ry	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
<b>Equities</b>												
World	MSCI	869	0.1	2.7	3.4	3.4	19.0	-0.1	2.5	3.2	3.2	20.4
Emerging Markets	MSCI	1108	1.4	2.7	3.2	3.2	13.8	1.4	2.8	3.1	3.1	18.1
China	MSCI	68	4.8	9.9	5.8	5.8	35.2	4.8	10.0	5.9	5.9	35.1
US	MSCI	5770	-0.2	2.2	2.8	2.8	22.8	-0.2	2.2	2.8	2.8	22.8
Europe	MSCI	2144	0.2	5.4	7.1	7.1	10.9	0.4	5.7	7.4	7.4	14.8
Europe ex-UK	MSCI	2648	0.2	5.6	7.6	7.6	9.5	0.5	5.7	7.7	7.7	13.9
UK	MSCI	1283	0.3	4.7	5.5	5.5	15.8	0.3	5.4	6.4	6.4	17.8
Japan	MSCI	4004	0.3	2.1	1.9	1.9	7.3	-2.0	-2.2	-1.9	-1.9	9.8
<b>Government Bonds</b>												
World	BofA-ML	3.38	0.7	1.7	1.2	1.2	-0.1	0.3	1.0	0.5	0.5	1.7
Emerging Markets	BBloom	6.84	0.6	2.4	2.4	2.4	14.6	0.6	2.4	2.4	2.4	14.6
China	BofA-ML	1.49	0.0	0.7	1.0	1.0	7.2	0.3	0.2	0.8	0.8	8.6
US (10y)	Datastream	4.49	0.5	2.0	1.2	1.2	1.2	0.5	2.0	1.2	1.2	1.2
Europe	Bofa-ML	2.70	0.1	1.0	0.4	0.4	-0.1	0.6	1.2	0.5	0.5	3.9
Europe ex-UK (EMU, 10y)	Datastream	2.35	0.2	1.1	0.2	0.2	-1.9	0.7	1.3	0.3	0.3	2.0
UK (10y)	Datastream	4.48	0.5	1.4	0.4	0.4	-0.5	0.5	2.0	1.2	1.2	1.2
Japan (10y)	Datastream	1.30	1.8	3.0	2.2	2.2	-5.6	-0.5	-1.3	-1.6	-1.6	-3.4
<b>IG Corporate Bonds</b>												
Global	BofA-ML	4.71	0.3	1.4	0.9	0.9	3.7	0.3	1.5	0.9	0.9	5.1
Emerging Markets	BBloom	6.52	0.5	2.0	1.9	1.9	11.8	0.5	2.0	1.9	1.9	11.8
China	BofA-ML	2.26	-0.2	0.5	0.5	0.5	4.3	0.1	0.0	0.4	0.4	5.7
US	BofA-ML	5.35	0.3	1.6	1.0	1.0	4.4	0.3	1.6	1.0	1.0	4.4
Europe	BofA-ML	3.18	-0.2	0.9	0.7	0.7	2.1	0.3	1.2	0.8	0.8	6.1
UK	BofA-ML	5.40	0.4	1.3	0.7	0.7	3.4	0.4	2.0	1.6	1.6	5.2
Japan	BofA-ML	1.44	2.1	3.8	3.2	3.2	-3.3	-0.2	-0.5	-0.6	-0.6	-1.0
<b>HY Corporate Bonds</b>												
Global	BofA-ML	7.22	0.1	1.0	1.3	1.3	9.0	0.1	1.0	1.3	1.3	9.9
US	BofA-ML	7.43	0.0	1.0	1.4	1.4	9.6	0.0	1.0	1.4	1.4	9.6
Europe	BofA-ML	5.78	-0.1	0.7	0.9	0.9	4.8	0.4	0.9	1.0	1.0	9.0
<b>Cash (Overnight LIBOR)</b>												
US		4.36	0.1	0.4	0.5	0.5	5.2	0.1	0.4	0.5	0.5	5.2
Euro Area		2.67	-0.3	0.1	0.1	0.1	-0.7	0.1	0.3	0.3	0.3	3.6
UK		4.45	0.2	-0.1	-0.3	-0.3	3.3	0.1	0.4	0.5	0.5	5.2
Japan		0.48	2.5	4.4	3.8	3.8	-2.0	0.0	0.0	0.0	0.0	0.2
<b>Real Estate (REITs)</b>												
Global	FTSE	1630	0.9	3.4	2.4	2.4	9.6	1.4	3.7	2.5	2.5	13.9
Emerging Markets	FTSE	1164	1.8	-0.7	-1.1	-1.1	0.9	2.3	-0.4	-1.0	-1.0	5.0
US	FTSE	3249	1.2	3.9	2.2	2.2	15.3	1.2	3.9	2.2	2.2	15.3
Europe ex-UK	FTSE	2400	0.0	5.2	3.9	3.9	8.0	0.5	5.5	4.0	4.0	12.3
UK	FTSE	802	-1.2	1.9	0.2	0.2	-6.7	-1.1	2.6	1.1	1.1	-5.1
Japan	FTSE	2055	0.2	7.1	6.6	6.6	0.3	-2.0	2.7	2.6	2.6	2.6
<b>Commodities</b>												
All	GSCI	3788	0.3	2.1	3.6	3.6	9.7	-	-	-	-	-
Energy	GSCI	650	-0.5	-0.3	2.1	2.1	6.2	-	-	-	-	-
Industrial Metals	GSCI	1717	2.8	3.9	4.3	4.3	12.5	-	-	-	-	-
Precious Metals	GSCI	3183	1.8	7.5	9.0	9.0	39.9	-	-	-	-	-
Agricultural Goods	GSCI	543	1.5	6.2	5.5	5.5	7.2	-	-	-	-	-
<b>Currencies (vs USD)*</b>												
EUR		1.03	-0.3	-0.1	-0.3	-0.3	-4.1	-	-	-	-	-
JPY		151.42	2.5	4.4	3.8	3.8	-2.1	-	-	-	-	-
GBP		1.24	-0.1	-0.6	-0.8	-0.8	-1.7	-	-	-	-	-
CHF		1.10	0.1	0.0	-0.3	-0.3	-3.9	-	-	-	-	-
CNY		7.29	-0.5	0.5	0.1	0.1	-1.3	-	-	-	-	-

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

Source: LSEG Datastream and Invesco Global Market Strategy Office

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

Data as at 07/02/2025	Global				
	1w	1m	QTD	YTD	12m
<b>Energy</b>	<b>0.2</b>	<b>-2.5</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-11.4</b>
<b>Basic Materials</b>	<b>1.0</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>-11.5</b>
Basic Resources	2.5	3.1	3.6	3.6	-8.9
Chemicals	-1.2	0.2	-0.6	-0.6	-15.1
<b>Industrials</b>	<b>-0.8</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>-2.2</b>
Construction & Materials	0.0	-0.6	-0.7	-0.7	-3.7
Industrial Goods & Services	-0.9	0.3	0.1	0.1	-2.0
<b>Consumer Discretionary</b>	<b>-1.0</b>	<b>1.3</b>	<b>0.6</b>	<b>0.6</b>	<b>3.1</b>
Automobiles & Parts	-5.2	-6.4	-8.0	-8.0	1.3
Media	2.3	6.9	6.1	6.1	17.0
Retailers	-0.8	2.6	2.5	2.5	13.2
Travel & Leisure	1.3	2.5	0.6	0.6	-1.1
Consumer Products & Services	-0.6	2.9	2.8	2.8	-11.6
<b>Consumer Staples</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-14.0</b>
Food, Beverage & Tobacco	-0.1	-1.0	-2.8	-2.8	-15.8
Personal Care, Drug & Grocery Stores	-0.1	0.2	-1.2	-1.2	-10.8
<b>Healthcare</b>	<b>-0.1</b>	<b>1.7</b>	<b>2.4</b>	<b>2.4</b>	<b>-10.4</b>
<b>Financials</b>	<b>0.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>9.2</b>
Banks	1.0	3.3	3.8	3.8	12.1
Financial Services	-0.5	2.6	2.1	2.1	7.6
Insurance	1.1	0.8	0.3	0.3	4.7
<b>Real Estate</b>	<b>0.9</b>	<b>0.7</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-6.1</b>
<b>Technology</b>	<b>0.2</b>	<b>-2.8</b>	<b>-2.2</b>	<b>-2.2</b>	<b>7.7</b>
<b>Telecommunications</b>	<b>2.2</b>	<b>2.4</b>	<b>1.8</b>	<b>1.8</b>	<b>-0.1</b>
<b>Utilities</b>	<b>-0.5</b>	<b>-2.2</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-2.1</b>

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

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

Data as at 07/02/2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
<b>Growth</b>	0.5	3.4	3.6	3.6	12.5	0.7	1.3	1.0	1.0	-8.0
<b>Low volatility</b>	0.2	3.9	2.6	2.6	15.9	0.4	1.8	0.0	0.0	-5.3
<b>Price momentum</b>	0.9	6.5	7.6	7.6	26.2	1.1	4.4	4.9	4.9	3.2
<b>Quality</b>	-1.0	1.9	2.8	2.8	10.4	-0.8	-0.1	0.2	0.2	-9.7
<b>Size</b>	-2.0	0.8	0.6	0.6	10.0	-1.8	-1.3	-1.9	-1.9	-10.1
<b>Value</b>	-1.9	1.2	1.7	1.7	19.7	-1.7	-0.8	-0.9	-0.9	-2.1
<b>Market</b>	-0.2	2.1	2.6	2.6	22.3					
<b>Market - Equal-Weighted</b>	-0.6	2.6	2.9	2.9	15.8					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Global Market Strategy Office

**Figure 7b – European factor index total returns (%)**

Data as at 07/02/2025	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
<b>Growth</b>	0.2	4.0	4.8	4.8	12.3	-0.4	-1.4	-2.0	-2.0	-2.7
<b>Low volatility</b>	0.6	4.1	4.8	4.8	17.2	0.0	-1.3	-2.1	-2.1	1.5
<b>Price momentum</b>	1.0	6.3	7.1	7.1	24.0	0.4	0.8	0.1	0.1	7.4
<b>Quality</b>	0.4	3.9	6.1	6.1	18.0	-0.2	-1.6	-0.8	-0.8	2.2
<b>Size</b>	-0.2	3.9	4.7	4.7	12.4	-0.8	-1.5	-2.2	-2.2	-2.6
<b>Value</b>	0.9	6.0	6.1	6.1	19.7	0.3	0.4	-0.8	-0.8	3.7
<b>Market</b>	0.6	5.5	7.0	7.0	15.5					
<b>Market - Equal-Weighted</b>	0.2	4.5	5.5	5.5	15.1					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Global Market Strategy Office



**Figure 8 – Model asset allocation**

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
<b>Cash Equivalents</b>	<b>5%</b>	<b>0-10%</b>	<b>0%</b>	↓		
Cash	2.5%		0%	↓		
Gold	2.5%		0%			
<b>Bonds</b>	<b>40%</b>	<b>10-70%</b>	<b>47%</b>	↑		
Government	25%	10-40%	25%	↓		
US	8%		12%	↓		25% JPY
Europe ex-UK (Eurozone)	7%		7%	↑		
UK	1%		2%			
Japan	7%		0%	↓		
Emerging Markets	2%		4%			
China**	0.2%		0%			
Corporate IG	10%	0-20%	18%	↑		
US Dollar	5%		10%	↑		50% JPY
Euro	2%		4%	↑		
Sterling	1%		2%			
Japanese Yen	1%		0%	↓		
Emerging Markets	1%		2%			
China**	0.1%		0%			
Corporate HY	5%	0-10%	4%	↑		
US Dollar	4%		3%	↑		
Euro	1%		1%	↑		
<b>Bank Loans</b>	<b>4%</b>	<b>0-8%</b>	<b>8%</b>			
US	3%		6%			
Europe	1%		2%			
<b>Equities</b>	<b>45%</b>	<b>25-65%</b>	<b>35%</b>			
US	25%		10%			
Europe ex-UK	7%		10%	↑		
UK	4%		6%	↑		
Japan	4%		3%			
Emerging Markets	5%		6%	↓		
China**	2%		4%			
<b>Real Estate</b>	<b>4%</b>	<b>0-8%</b>	<b>6%</b>	↑		
US	1%		0%			
Europe ex-UK	1%		2%	↑		
UK	1%		2%			
Japan	1%		2%	↑		
Emerging Markets	1%		0%			
<b>Commodities</b>	<b>2%</b>	<b>0-4%</b>	<b>4%</b>	↑		
Energy	1%		1%	↑		
Industrial Metals	0.3%		2%	↑		
Precious Metals	0.3%		0%			
Agriculture	0.3%		1%			
<b>Total</b>	<b>100%</b>		<b>100%</b>			
<b>Currency Exposure (including effect of hedging)</b>						
USD	52%		37%	↑		
EUR	19%		26%	↑		
GBP	7%		12%	↓		
JPY	13%		13%	↓		
EM	9%		12%	↓		
<b>Total</b>	<b>100%</b>		<b>100%</b>			

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

Source: Invesco



**Figure 9 – Model allocations for Global sectors**

	<b>Neutral</b>	<b>Invesco</b>	<b>Preferred Region</b>
<b>Energy</b>	<b>6.1%</b>	<b>Overweight</b>	<b>EM</b>
<b>Basic Materials</b>	<b>3.3%</b>	<b>Neutral</b>	<b>Japan</b>
Basic Resources	2.0%	Neutral	Japan
Chemicals	1.3%	Neutral	US
<b>Industrials</b>	<b>12.9%</b>	<b>Underweight</b>	<b>US</b>
Construction & Materials	1.7%	Underweight	US
Industrial Goods & Services	11.2%	Neutral	US
<b>Consumer Discretionary</b>	<b>14.8%</b>	<b>Underweight</b>	<b>US</b>
Automobiles & Parts	2.8%	Underweight	Europe
Media	1.2%	Overweight	US
Retailers	5.6%	Overweight	US
Travel & Leisure	2.0%	Underweight	EM
Consumer Products & Services	3.1%	Underweight	Japan
<b>Consumer Staples</b>	<b>4.9%</b>	<b>Neutral</b>	<b>US</b>
Food, Beverage & Tobacco	3.1%	Overweight	US
Personal Care, Drug & Grocery Stores	1.8%	Neutral	Europe
<b>Healthcare</b>	<b>8.4%</b>	<b>Underweight</b>	<b>US</b>
<b>Financials</b>	<b>16.1%</b>	<b>Overweight</b>	<b>US</b>
Banks	7.6%	Overweight	US
Financial Services	5.5%	Overweight	US
Insurance	3.0%	Neutral	US
<b>Real Estate</b>	<b>2.6%</b>	<b>Neutral</b>	<b>Japan</b>
<b>Technology</b>	<b>24.4%</b>	<b>Neutral</b>	<b>EM</b>
<b>Telecommunications</b>	<b>3.3%</b>	<b>Underweight</b>	<b>US</b>
<b>Utilities</b>	<b>3.2%</b>	<b>Underweight</b>	<b>US</b>

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

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## Appendix

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### Definitions of data and benchmarks for Figure 5

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

**Cash:** returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1<sup>st</sup> 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 1<sup>st</sup> 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

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**Investment risks**

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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**Important information**

*Data as of 7 February 2025 unless stated otherwise.*

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