Applied philosophy
Look around and all you see is trade war

The automobiles and parts sector has been the worst affected by concerns about escalating trade tensions. It will be severely impacted by higher tariffs and the disruption of its global supply chain. However, we think that equity markets have become too pessimistic about the sector. We think there is potential for a rebound in developed markets and expect European autos to outperform.

President Donald Trump ratcheted up his trade war rhetoric on 18th September by announcing tariffs on $200 billion worth of imports from China. He also threatened to add another $267bn worth of imports to that list if China retaliated. That seems likely after China announced tariffs on US imports.

Markets took the news in their stride and both US and Chinese equites rose after the announcements. Perhaps it is just a case of "sell the rumour, buy the news", and markets may have priced in any immediate damage from higher tariffs. The longer-term fallout is more difficult to predict and can be damaging to the global economy if supply chains are disrupted and trade relationships suffer.

It may be difficult to disentangle the effects of the trade dispute from worries of a marked slowdown in the Chinese economy and the impact of a stronger US dollar on other emerging markets (EM). Nevertheless, if we take equity market sectors as indicators, some of them have significantly underperformed the market since tariffs were first introduced by the Trump administration on 23rd January this year.

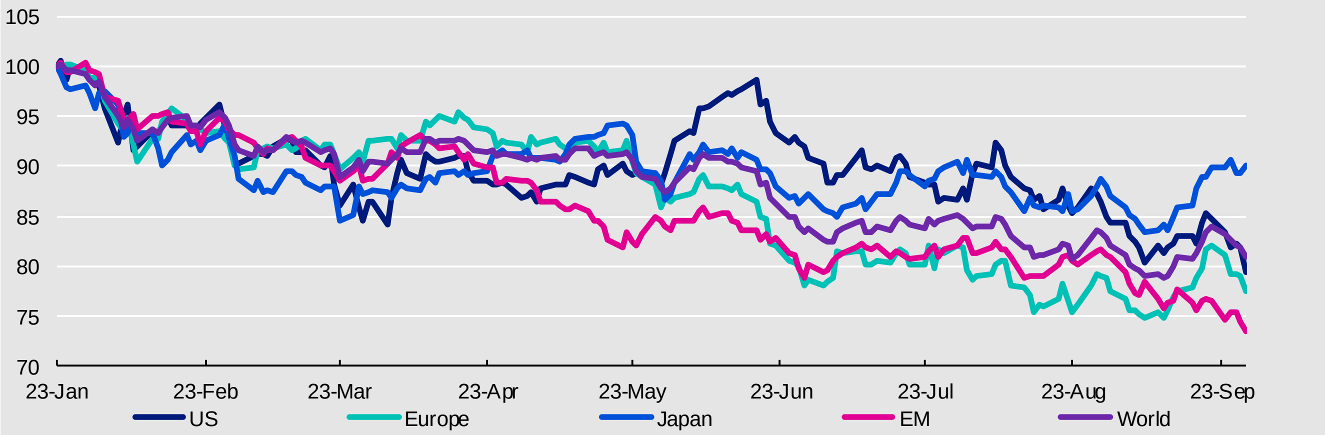
The worst performer globally has been the automobiles and parts sector since that day (using Datastream indices). It underperformed in every major region (US, Europe, Japan and EM). In fact, it was the worst performer in the US and Europe and in the bottom five in Japan and EM.

Certainly, the sector has taken centre stage in the newsflow, and apart from the direct tariffs on cars themselves, raw materials, such as steel have had tariffs slapped on them. This just added to woes from the emission scandals and the existential threat from the switch to electric vehicles that can completely rearrange how the sector operates. All of the above suggests that there is a reason why they underperformed, but has this been overdone?

In uncertain times markets try to discount the most likely outcome of any event. In this case, especially in the US market, car manufacturers must deal with import duties on steel and aluminium and there is a potential 25% levy on the value of imported cars. Since a significant proportion of the US auto industry relies on outsourced production (mostly to Canada and Mexico) and imported parts, the tariffs will hit them hard. The American Automotive Policy Council (AAPC) estimates that a 25% levy would increase US-produced car costs by $2000 per car on average. When they combined that with the steel and aluminium tariffs, that added up to an increase of $2400 per car (see here for the full report). Assuming that retail sales of cars remain near current levels (13.5 million in the last 12 months), we estimate that it would result in a total increase in costs of $32.4bn (adding to a total cost base of $314bn).

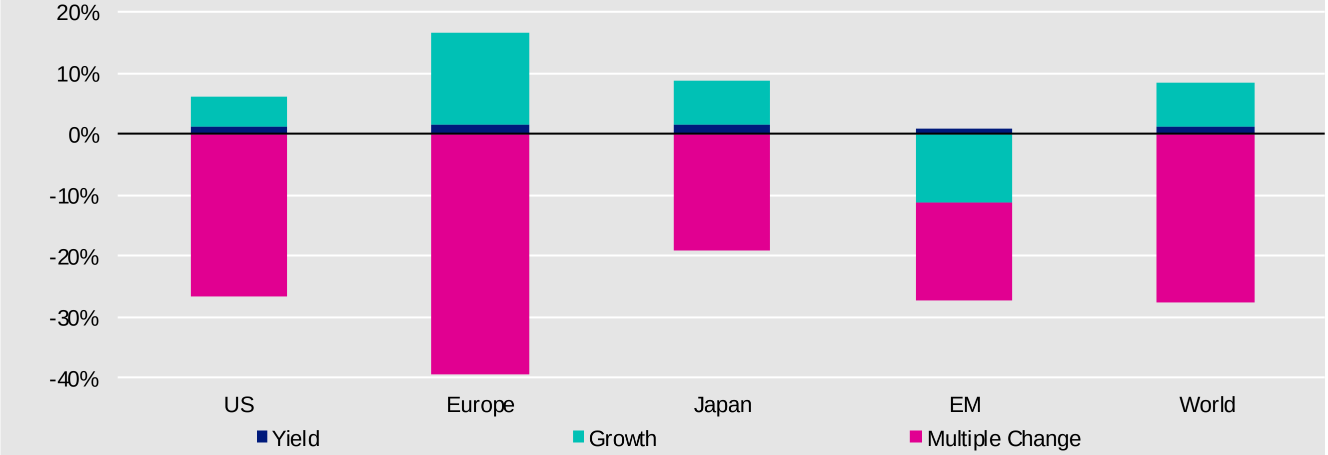
In 2017, the US imported $62bn in vehicles and car parts from the EU, $56.7bn from Japan and $36.6bn for emerging markets excluding Mexico (US imports were $113bn from Mexico). We think it makes sense to exclude the latter to avoid clouding the picture for two reasons: 1) we are hopeful that Mexico will agree some kind of a deal, be it bilateral or trilateral preserving preferential access to the US market; 2) Mexico accounts for 32% of total vehicle and parts imports into the US, most of which we assume is outsourced assembly and production.

Figure 1 – Automobiles and parts sector total returns since 23 January 2018



Notes: We use Datastream sector indices in USD all rebased to 100 on 23rd January 2018. Past performance is no guarantee of future results. Source: Datastream and Invesco

Figure 2 – Automobiles and parts sector decomposed total returns since 23rd January 2018



Notes: We break down total returns into 3 components to examine what has driven sector performance between 23rd January and 30th September 2018. "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. Past performance is no guarantee of future results. Source: Datastream and Invesco

Figure 1 shows how much the sector has suffered since the first round of tariffs were introduced, with Japan the least impacted (10% lower) and EM the worst off (26% lower). Although some of that may be down to a stronger US dollar (it is up by 5.5% in trade-weighted terms since 23 January) and other industry specific issues, the sector is very sensitive to disruption in trade due to its global just-in-time supply chain.

A quick – though imperfect – way to assess how much of the damage has been priced in is comparing the impact of tariffs to changes in market capitalisation. To 30th September, the US autos sector lost $79bn in market cap ($64bn excluding Tesla that appears weighed down by different concerns), which compares favourably to the $32.4bn impact we estimated. The European autos sector lost $169bn and the Japanese sector lost $97bn in market capitalisation since 23rd January, which prices in losing the entire US market and more. The market capitalisation of the autos sector in EM is down by $51bn in the same period, which more than priced in losing the whole US market and more, even if we exclude Mexico (worth about $2.4bn). However, profits may disappear if costs rise alongside falling demand, which can explain why investors discounted more than the direct impact of tariffs.

Figure 2 confirms to us that most of the sector returns have been driven by sentiment and may have moved out of sync with fundamentals. Apart from emerging markets, dividends have grown at a healthy rate since 23rd January this year. However, markets seem to have taken a view that dividends will decline as the trade war rhetoric has intensified. We would arrive at the same conclusions using earnings growth and changes in price/earnings ratios: positive growth in all regions except EM and heavy declines in P/E ratios.

When we compare sector valuations to their historical averages, the global sector looks undervalued now on dividend yield, price/earnings and price/book value (**Figure 3**). Interestingly, the EM autos sector shows up as overvalued on all three valuation measures, which may explain why it has been the worst performer and suggests further underperformance until earnings and dividend declines moderate or turn into growth.

Japanese autos look the most undervalued compared to their historical averages. The biggest risk to us lies in our expectation of a strengthening yen from current levels, which would hurt a strongly export-oriented sector (see The Big Picture). However, we expect Japanese equities to do well in the next year (not so much in the long term), so they may be one to watch.

The US sector looks quite mixed: it is closest to its historical averages on price/earnings and price/book and overvalued based on dividend yield (even if we exclude Tesla, which is one of the largest stocks in the sector and it does not pay dividend).

Europe looks to us the best of the bunch: it has been one of the worst performers since President Donald Trump introduced his first round of tariffs and it has had the strongest dividend growth (for now at least). We also expect Eurozone equity markets to outperform all other regions in the next 12 months and 5 years, which is where the majority of the European sector is based: German, French and Italian stocks comprise 96% of its market value. The US sector may have been boosted by tax cuts this year, but that will be more than cancelled out by cost increases if the full tariffs are introduced, in our view. We think their outperformance over the European sector will be reversed, so we remain Underweight US, Overweight European autos.

Figure 3 – Automobiles and parts sector valuations ratios by region

Price/earnings					
	US	**Europe**	**Japan**	**EM**	**World**
23 January 2018	19.3	11.0	12.5	24.2	13.4
Current	14.2	7.4	9.0	18.8	9.5
Historical average	15.9	12.4	26.8	13.5	15.0
Current vs average	**-10.5%**	**-40.4%**	**-66.4%**	**38.8%**	**-36.7%**
Dividend yield					
	US	**Europe**	**Japan**	**EM**	**World**
23 January 2018	2.0%	2.2%	2.4%	1.6%	2.1%
Current	2.7%	3.3%	2.9%	2.0%	2.8%
Historical average	3.7%	2.9%	1.4%	2.1%	2.6%
Current vs average	**27.9%**	**-14.1%**	**-107.7%**	**4.8%**	**-7.4%**
Price/book value					
	US	**Europe**	**Japan**	**EM**	**World**
23 January 2018	2.8	1.4	1.2	3.9	1.5
Current	2.2	1.1	1.1	3.0	1.3
Historical average	2.3	1.2	1.6	2.3	1.5
Current vs average	**-5.0%**	**-6.3%**	**-31.5%**	**29.7%**	**-15.6%**

Notes: Data as at 30th September 2018. “Current” = valuation ratios at 30/09/2018 close. We use Datastream indices. Price/earnings and dividend yield averages include data from 02/01/1973 to 30/09/2018 and price/book value data from 02/01/1980 to 30/09/2018.
Source: Datastream and Invesco

Figure 4 – Asset class total returns

Data as at 30/09/2018	Index	Current Level/RY	Total Return (USD, %) 1w	1m	3m	12m	Total Return (Local Currency, %) 1w	1m	3m	12m
Equities										
World	MSCI	524	-0.6	0.1	5.1	10.9	-0.3	0.3	5.3	12.2
Emerging Markets	MSCI	1048	-0.2	-1.8	1.2	0.4	-0.5	-1.9	1.9	3.7
US	MSCI	2776	-0.5	0.6	7.6	18.3	-0.5	0.6	7.6	18.3
Europe	MSCI	1709	-1.4	-1.2	2.5	1.1	-0.4	-1.2	2.1	3.3
Europe ex-UK	MSCI	2014	-1.9	-1.7	3.7	0.2	-0.6	-1.2	2.9	2.0
UK	MSCI	1181	-0.1	0.2	-0.6	3.4	0.3	-1.0	-0.2	6.6
Japan	MSCI	3430	0.6	3.5	3.7	10.6	1.5	5.8	6.7	11.4
Government Bonds										
World	BofA-ML	1.50	-0.8	-1.3	-1.6	-1.6	-0.1	-0.5	-0.8	-0.5
Emerging Markets	JPM	6.99	1.2	1.3	-0.9	-8.4	0.5	0.7	0.6	1.8
US (10y)*	Datastream	3.06	0.0	-1.6	-1.7	-4.8	0.0	-1.6	-1.7	-4.8
Europe	BofA-ML	1.02	-1.5	-0.8	-0.7	-1.8	-0.3	0.0	-1.0	-0.1
Europe ex-UK (EMU, 10y)*	Datastream	0.47	-1.4	-1.7	-0.5	0.1	-0.1	-0.9	-0.8	1.6
UK (10y)*	Datastream	1.48	-0.6	0.3	-1.5	-2.2	-0.1	-0.9	-1.1	0.9
Japan (10y)*	Datastream	0.13	-0.9	-2.4	-3.6	-0.9	0.0	-0.3	-0.8	-0.2
IG Corporate Bonds										
Global	BofA-ML	3.27	-0.2	-0.5	0.7	-1.3	0.1	-0.3	0.6	-0.6
US	BofA-ML	4.11	0.2	-0.3	1.0	-1.1	0.2	-0.3	1.0	-1.1
Europe	BofA-ML	1.15	-1.4	-1.1	0.4	-1.7	-0.2	-0.2	0.0	0.1
UK	BofA-ML	2.90	-0.6	0.3	-0.9	-2.7	-0.2	-0.9	-0.5	0.1
Japan	BofA-ML	0.37	-0.9	-2.2	-3.1	-0.7	0.0	-0.1	-0.2	0.2
HY Corporate Bonds										
Global	BofA-ML	6.29	-0.1	0.5	2.2	1.2	0.2	0.6	2.2	1.6
US	BofA-ML	6.49	0.1	0.5	2.5	2.9	0.1	0.5	2.5	2.9
Europe	BofA-ML	3.82	-1.6	-0.8	2.1	-1.1	-0.3	0.0	1.7	0.7
Cash (Overnight LIBOR)										
US		2.17	0.0	0.2	0.5	1.6	0.0	0.2	0.5	1.6
Euro Area		-0.45	-1.2	-0.8	0.2	-1.9	0.0	0.0	-0.1	-0.4
UK		0.70	-0.3	1.3	-0.2	-2.6	0.0	0.1	0.2	0.5
Japan		-0.09	-1.0	-2.2	-2.8	-1.2	0.0	0.0	0.0	0.0
Real Estate (REITs)										
Global	FTSE	1817	-1.5	-3.0	0.0	3.4	-0.3	-2.2	-0.4	4.9
Emerging Markets	FTSE	2026	-5.3	-6.5	-1.8	-8.6	-4.1	-5.7	-2.1	-7.3
US	FTSE	2914	-1.1	-3.3	0.7	4.0	-1.1	-3.3	0.7	4.0
Europe ex-UK	FTSE	3527	-1.8	-4.6	1.6	8.4	-0.6	-3.8	1.3	10.0
UK	FTSE	1394	-1.7	-1.6	-5.2	1.7	-1.3	-2.8	-4.9	4.9
Japan	FTSE	2536	0.0	1.2	-2.1	9.0	0.9	3.4	0.8	9.9
Commodities										
All	GSCI	2859	2.7	5.1	2.6	22.6	-	-	-	-
Energy	GSCI	577	4.4	7.7	5.8	42.9	-	-	-	-
Industrial Metals	GSCI	1278	-0.9	-0.7	-6.8	-4.2	-	-	-	-
Precious Metals	GSCI	1420	-0.1	-1.3	-5.1	-8.5	-	-	-	-
Agricultural Goods	GSCI	347	-1.5	-1.5	-4.1	-10.3	-	-	-	-
Currencies (vs USD)*										
EUR		1.16	-1.2	-0.7	0.3	-1.5	-	-	-	-
JPY		113.70	-1.0	-2.2	-2.8	-1.2	-	-	-	-
GBP		1.30	-0.4	1.2	-0.4	-3.0	-	-	-	-
CHF		1.02	-2.4	-0.6	1.6	-1.2	-	-	-	-
CNY		6.87	-0.2	-1.0	-3.5	-3.0	-	-	-	-

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

Figure 5 – Equity sector total returns relative to local market (%)

Data as at 28/09/2018	US					Europe				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Oil & Gas	**1.3**	**1.4**	**-6.6**	**-2.8**	**-3.8**	**3.7**	**4.5**	**4.0**	**17.1**	**20.3**
Materials	**-3.9**	**-3.4**	**-6.8**	**-12.0**	**-12.1**	**-1.1**	**1.7**	**-1.6**	**0.4**	**5.1**
Basic Resources	-2.8	-3.9	-18.9	-23.5	-17.5	0.3	4.1	-3.6	-0.3	10.4
Chemicals	-3.9	-3.5	-4.2	-8.9	-9.7	-2.2	-0.2	0.3	1.1	1.1
Industrials	**-1.2**	**0.8**	**2.1**	**-5.2**	**-5.8**	**-0.3**	**-0.3**	**1.2**	**2.5**	**1.9**
Construction & Materials	-3.9	-5.8	-7.3	-16.5	-18.8	-1.1	-0.2	-1.4	-3.4	-5.4
Industrial Goods & Services	-1.2	1.0	1.6	-5.0	-5.8	-0.1	-0.3	1.8	4.1	3.8
Consumer Discretionary	**1.1**	**1.3**	**0.4**	**9.1**	**12.4**	**0.0**	**-1.1**	**-1.9**	**-1.6**	**0.2**
Automobiles & Parts	-4.8	-8.0	-17.0	-23.6	-26.0	-4.2	-1.4	-3.5	-11.5	-8.5
Media	2.2	3.2	0.7	-3.8	-5.9	3.4	-1.2	0.7	5.7	8.0
Retail	1.8	1.5	3.3	20.8	28.0	1.2	-3.4	-5.8	2.4	2.7
Travel & Leisure	-0.5	2.3	3.1	-8.6	-6.1	0.4	0.6	-2.0	-4.6	1.5
Consumer Staples	**-1.5**	**0.1**	**-1.9**	**-12.6**	**-13.1**	**0.3**	**-1.6**	**-0.3**	**-1.9**	**-1.3**
Food & Beverages	-1.7	-0.4	-4.9	-12.7	-12.5	0.5	-0.8	0.2	-2.1	0.0
Personal & Household Goods	-1.7	0.2	-3.0	-13.8	-15.3	0.2	-2.2	-0.7	-1.8	-2.2
Healthcare	**1.4**	**2.7**	**6.3**	**5.5**	**0.6**	**1.7**	**0.0**	**4.1**	**5.7**	**1.5**
Financials	**-3.5**	**-3.8**	**-3.1**	**-9.5**	**-7.8**	**-1.7**	**0.9**	**-0.8**	**-6.3**	**-7.2**
Banks	-4.1	-6.1	-4.3	-10.7	-7.7	-2.8	0.5	-3.4	-12.7	-15.3
Financial Services	-3.5	-3.1	-5.1	-12.2	-8.6	-1.4	0.2	0.2	2.1	2.7
Insurance	-2.4	-0.1	-0.7	-10.1	-13.0	-0.2	3.3	4.8	3.4	4.7
Real Estate	-1.0	-3.6	-6.4	-8.0	-11.2	-0.3	-3.0	-3.0	-1.6	4.5
Technology	**1.3**	**-0.2**	**1.0**	**9.1**	**11.9**	**0.4**	**-3.2**	**-2.1**	**5.9**	**6.1**
Telecommunications	**1.6**	**2.0**	**2.1**	**-8.9**	**-11.6**	**-1.1**	**-2.1**	**-4.6**	**-12.6**	**-14.0**
Utilities	**-0.2**	**-1.0**	**-4.9**	**-7.1**	**-13.1**	**-0.7**	**-0.8**	**-2.8**	**-0.3**	**-2.9**

Notes: We use a sector classification created by merging the two main systems used by Standard & Poor's (S&P) for the US and STOXX for Europe. We have decided to classify our 10 top level industries using categories that most closely resemble the Global Industry Classification Standard (GICS) and at the level below that (super sectors) we are using the Industry Classification Benchmark (ICB). The former is used for the S&P 500 index and the latter for the STOXX 600, our benchmark indices. The two systems overlap in most cases and the only material difference seems to be in the consumer sectors. Therefore, we define consumer staples as the aggregate of personal & household goods and food & beverage, while consumer discretionary includes automobiles & parts, media, retail and travel & leisure. For the rest, we assume 100% overlap for the corresponding top-level sectors. Past performance is no guarantee of future results.
Source: Datastream and Invesco

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

Data as at 28/09/2018	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.7	0.5	7.6	15.5	24.8	-0.2	-0.3	-0.1	4.4	5.4
Low volatility	-1.3	0.3	6.2	9.2	13.5	-0.8	-0.5	-1.4	-1.2	-4.1
Price momentum	0.8	0.5	7.2	13.4	21.0	1.3	-0.2	-0.5	2.6	2.2
Quality	-1.3	-0.3	7.0	8.7	18.6	-0.8	-1.0	-0.7	-1.7	0.2
Size	-1.5	-0.3	4.1	9.2	15.7	-1.0	-1.1	-3.4	-1.3	-2.2
Value	-2.9	-2.4	1.5	1.4	7.2	-2.4	-3.1	-5.8	-8.3	-9.4
Market	-0.5	0.7	7.7	10.6	18.3					
Market - Equal-Weighted	-1.2	0.0	5.4	7.3	14.4					

Notes: 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. Past performance is no guarantee of future results.
Source: Datastream and Invesco

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

Data as at 28/09/2018	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.4	-1.1	0.7	5.5	8.6	-0.2	-0.7	-0.6	4.0	5.9
Low volatility	-0.1	-0.1	2.6	5.9	9.8	0.2	0.4	1.3	4.3	7.1
Price momentum	0.3	-2.0	1.3	4.1	6.1	0.5	-1.5	0.0	2.6	3.5
Quality	-0.8	-0.7	-0.9	-2.4	-0.1	-0.6	-0.2	-2.1	-3.8	-2.6
Size	-1.7	-1.6	-0.5	0.5	4.6	-1.4	-1.1	-1.8	-1.0	2.0
Value	-2.0	0.2	1.3	-0.6	1.7	-1.7	0.7	0.0	-2.0	-0.9
Market	-0.3	-0.5	1.3	1.5	2.6					
Market - Equal-Weighted	-0.8	-1.1	0.5	2.2	4.2					

Notes: 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. Past performance is no guarantee of future results.
Source: Datastream and Invesco

Figure 7 – Model asset allocation

	Neutral	Policy Range	Allocation	Position vs Neutral	Hedged	Currency
Cash	**5%**	**0-10%**	**10%**			
Cash	2.5%		10%			
Gold	2.5%		0%			
Bonds	**45%**	**10-80%**	**44%**			
Government	30%	10-50%	↓ 20%			
US	10%		14%			
Europe ex-UK (Eurozone)	8%		↓ 0%			
UK	2%		2%			
Japan	8%		0%			
Emerging Markets	2%		↑ 4%			
Corporate IG	10%	0-20%	16%			
US Dollar	5%		10%			
Euro	3%		↓ 2%			
Sterling	1%		2%			
Japanese Yen	1%		2%			
Corporate HY	5%	0-10%	↑ 8%			
US Dollar	4%		↑ 8%			
Euro	1%		0%			
Equities	**45%**	**20-70%**	**40%**			
US	25%		8%			
Europe ex-UK	7%		13%			
UK	4%		3%			
Japan	4%		7%			
Emerging Markets	5%		9%			
Real Estate	**3%**	**0-6%**	**6%**			
US	1%		2%			
Europe ex-UK	1%		↓ 1%			
UK	0.5%		0%			
Japan	0.5%		1%			
Emerging Markets	0%		↑ 2%			
Commodities	**2%**	**0-4%**	**0%**			
Energy	1%		0%			
Industrial Metals	0.3%		0%			
Precious Metals	0.3%		0%			
Agriculture	0.3%		0%			
Total	**100%**		**100%**			

Currency Exposure (including effect of hedging)			
USD	49%	↑ 47%	
EUR	21%	↓ 18%	
GBP	8%	8%	
JPY	14%	11%	
EM	7%	↑ 17%	
Total	**100%**	**100%**	

Notes: 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.
Source: Invesco

Figure 8 – Model sector allocations

	US		Europe		Preferred
	Neutral	Invesco	Neutral	Invesco	Region
Oil & Gas	**6.2%**	**Overweight**	**6.8%**	**Neutral** ↓	**US**
Materials	**2.1%**	**Underweight**	**7.0%**	**Underweight**	**Europe**
Basic Resources	0.4%	Neutral	3.5%	Neutral	Europe
Chemicals	1.7%	Underweight	3.5%	Underweight	Europe
Industrials	**11.8%**	**Underweight**	**13.9%**	**Overweight**	**Europe**
Construction & Materials	0.5%	Underweight	2.8%	Underweight ↓	Europe
Industrial Goods & Services	11.3%	Underweight	11.0%	Overweight	Europe
Consumer Discretionary	**15.3%**	**Underweight** ↓	**10.8%**	**Overweight**	**Europe**
Automobiles & Parts	0.7%	Underweight ↓	3.3%	Overweight ↑	Europe
Media	2.4%	Overweight	2.3%	Underweight	US
Retail	9.6%	Underweight ↓	3.5%	Neutral ↓	Europe
Travel & Leisure	2.7%	Overweight	1.8%	Overweight	US
Consumer Staples	**7.5%**	**Overweight** ↑	**16.6%**	**Neutral**	**US**
Food & Beverage	3.2%	Overweight	6.9%	Neutral ↓	US
Personal & Household Goods	4.3%	Overweight ↑	9.7%	Neutral ↑	US
Healthcare	**12.8%**	**Overweight**	**11.7%**	**Neutral**	**US**
Financials	**18.3%**	**Underweight**	**20.5%**	**Overweight** ↑	**Europe**
Banks	6.1%	Underweight	11.3%	Overweight ↑	Europe
Financial Services	6.0%	Underweight	2.2%	Overweight	Europe
Insurance	3.4%	Neutral ↑	5.2%	Neutral	Europe
Real Estate	2.8%	Overweight	1.8%	Neutral	US
Technology	**21.2%**	**Neutral**	**4.8%**	**Underweight**	**US**
Telecommunications	**1.9%**	**Overweight**	**3.5%**	**Overweight** ↑	**US**
Utilities	**2.8%**	**Underweight**	**4.6%**	**Underweight**	**US**

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: Datastream and Invesco

Appendix

Definitions of data and benchmarks (for Figure 4)

Sources: we source data from Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1st January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the Bank of America Merrill Lynch government bond total return index for the World and Europe. The emerging markets yields and returns are based on the JP Morgan emerging markets global composite government bond index.

Corporate investment grade (IG) bonds: Bank of America Merrill Lynch investment grade corporate bond total return indices.

Corporate high yield (HY) bonds: Bank of America Merrill Lynch high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Authors

Paul Jackson
Head of EMEA ETFs' Research
T. +44 (0)20 3370 1172
E. paul.jackson@invesco.com

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

Unless stated otherwise, all data as of 30 September 2018.

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