



Global equity markets

Is the sweet spot behind us?

June 2018

Nick Mustoe
Chief Investment Officer

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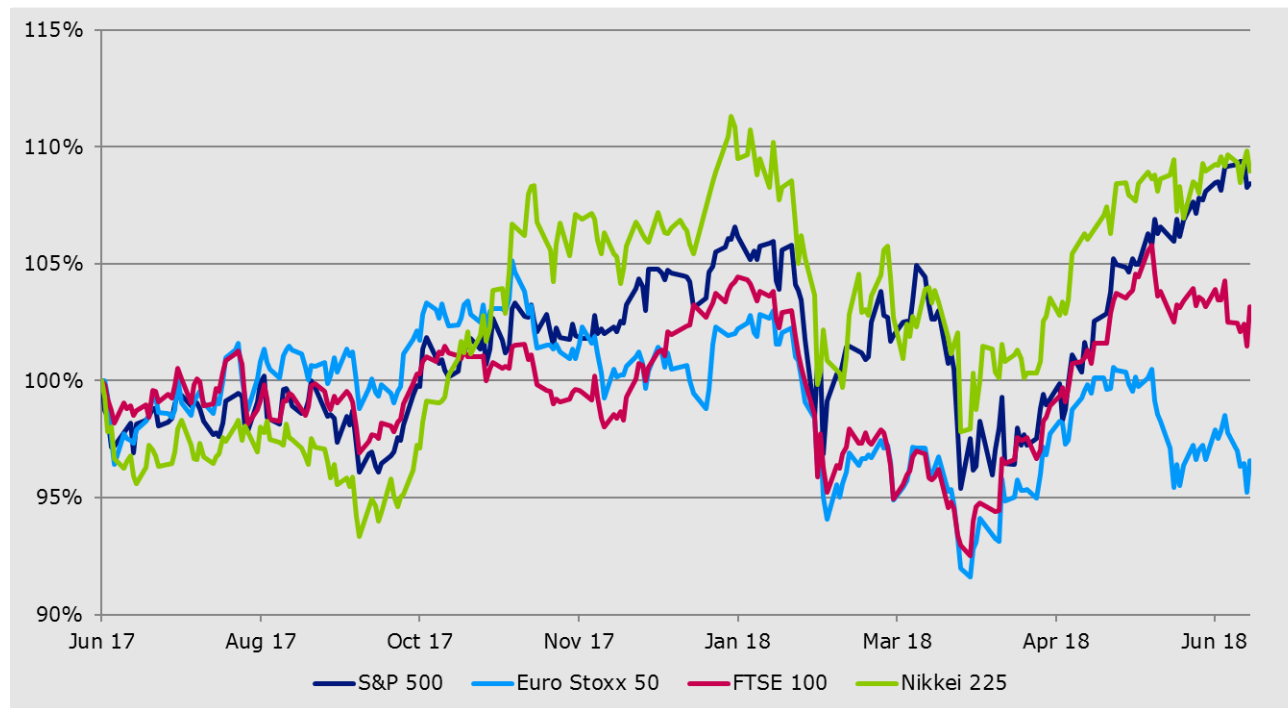
Themes



- World growth drives earnings
- Trade war concerns cloud outlook
- Technology and growth companies continue to dominate market returns
- European politics unsettles markets

Developed world

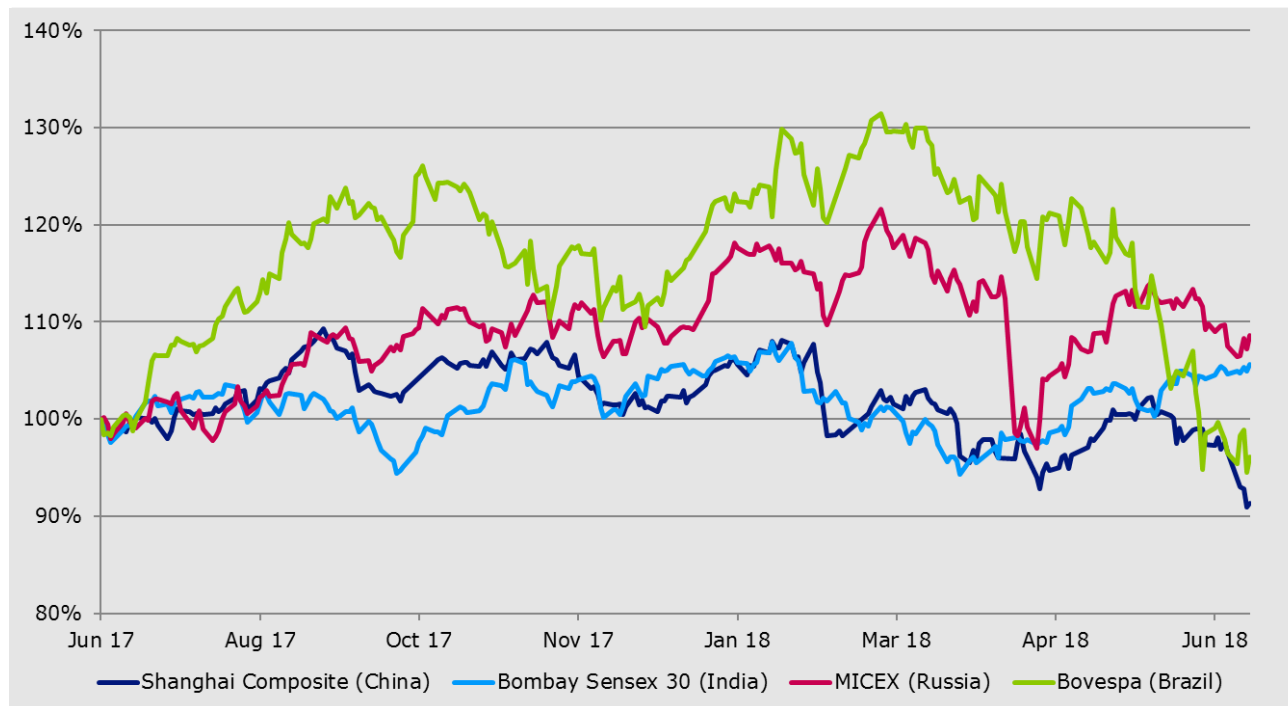
Stock market performance over the past 12 months



Source: Bloomberg as at 26 June 2018. Indices rebased in GBP terms. 26 June 2017 = 100.

Emerging countries

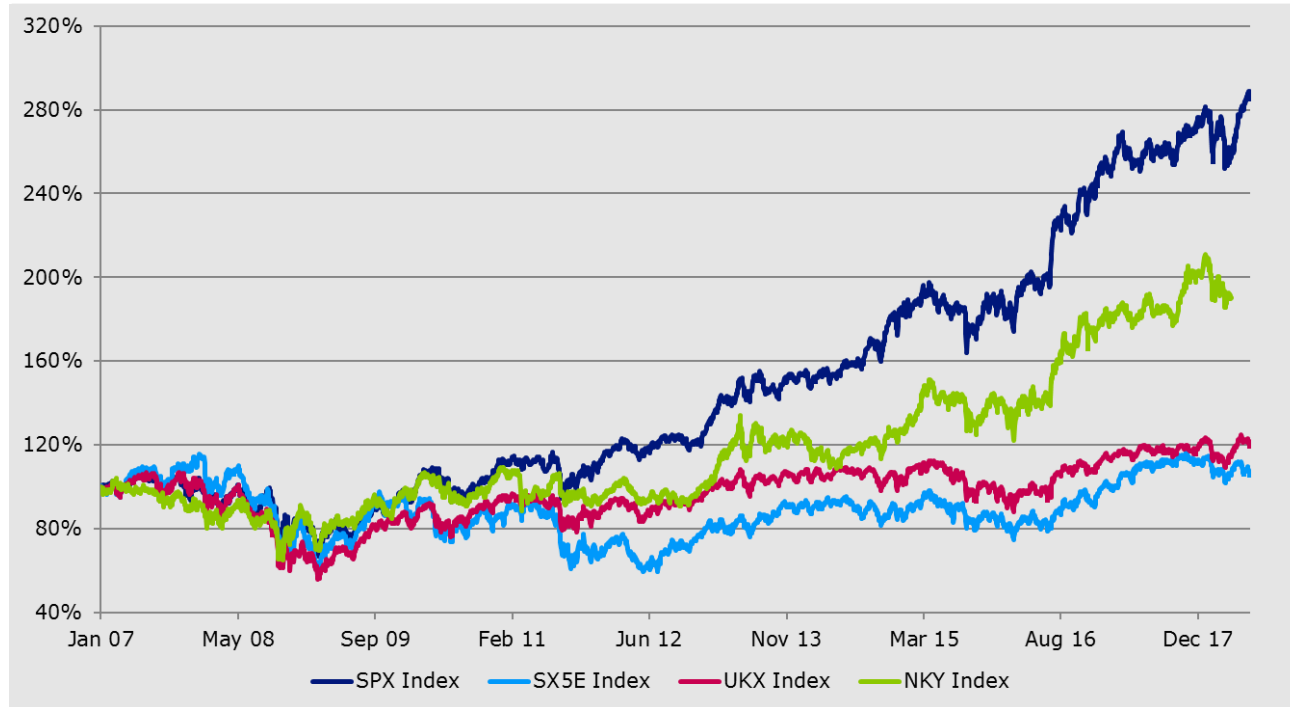
Stock market performance over the past 12 months



Source: Bloomberg as at 26 June 2018. Indices rebased in GBP terms. 26 June 2017 = 100.

Developed world

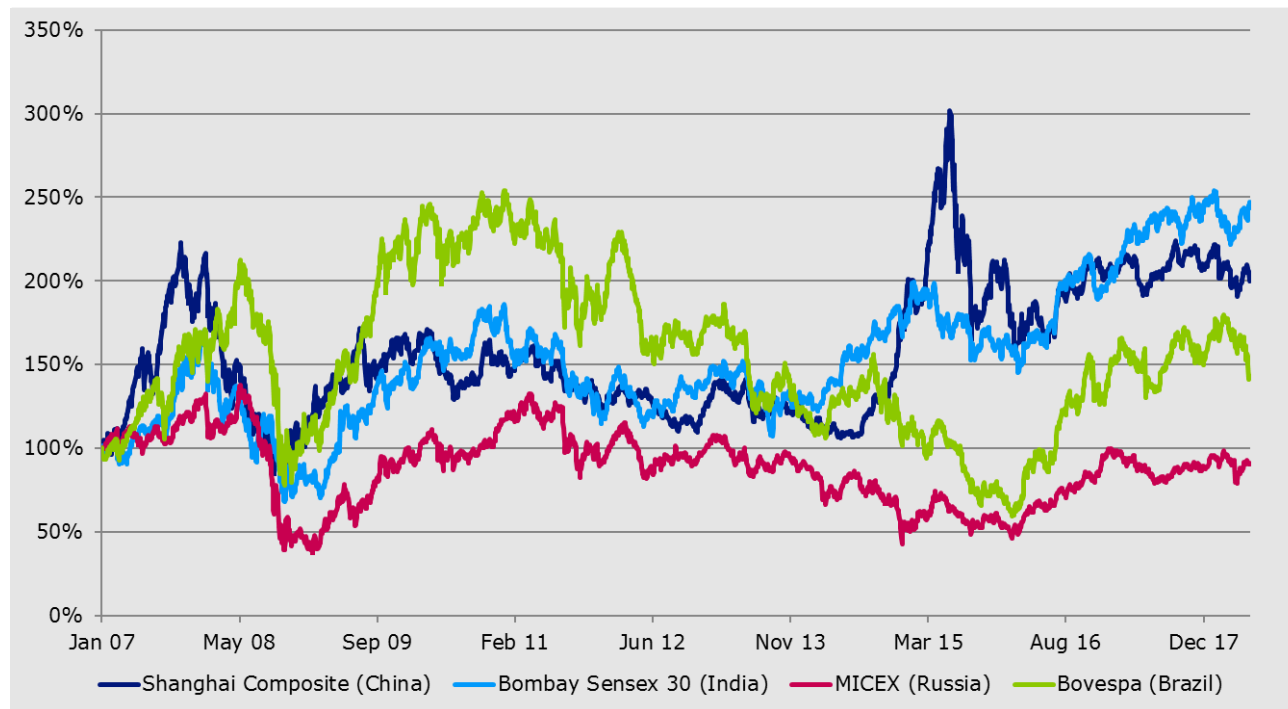
Stock market performance since 2007



Source: Bloomberg as at 26 June 2018. Indices rebased in GBP terms. 2 January 2007 = 100.

Emerging countries

Stock market performance since 2007

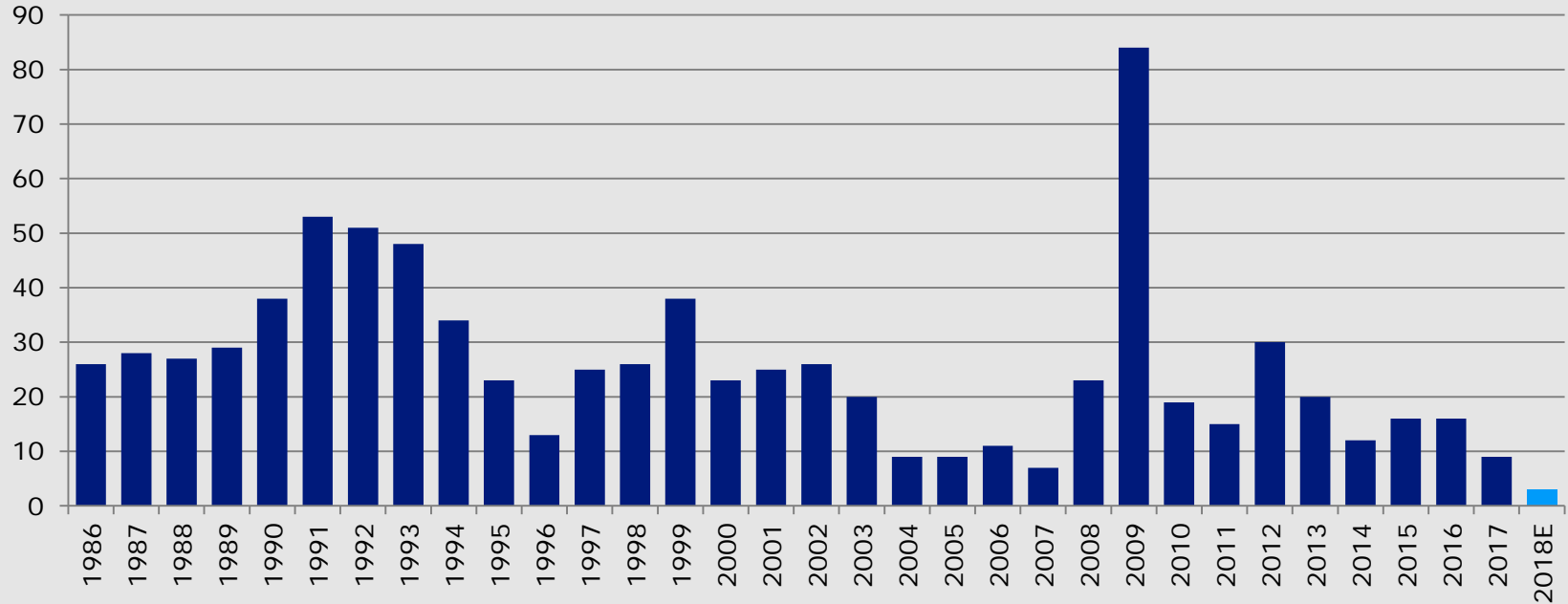


Source: Bloomberg as at 26 June 2018. Indices rebased in GBP terms. 2 January 2007 = 100.

A rare environment

Growth for almost everyone

Number of countries with negative real GDP growth by year

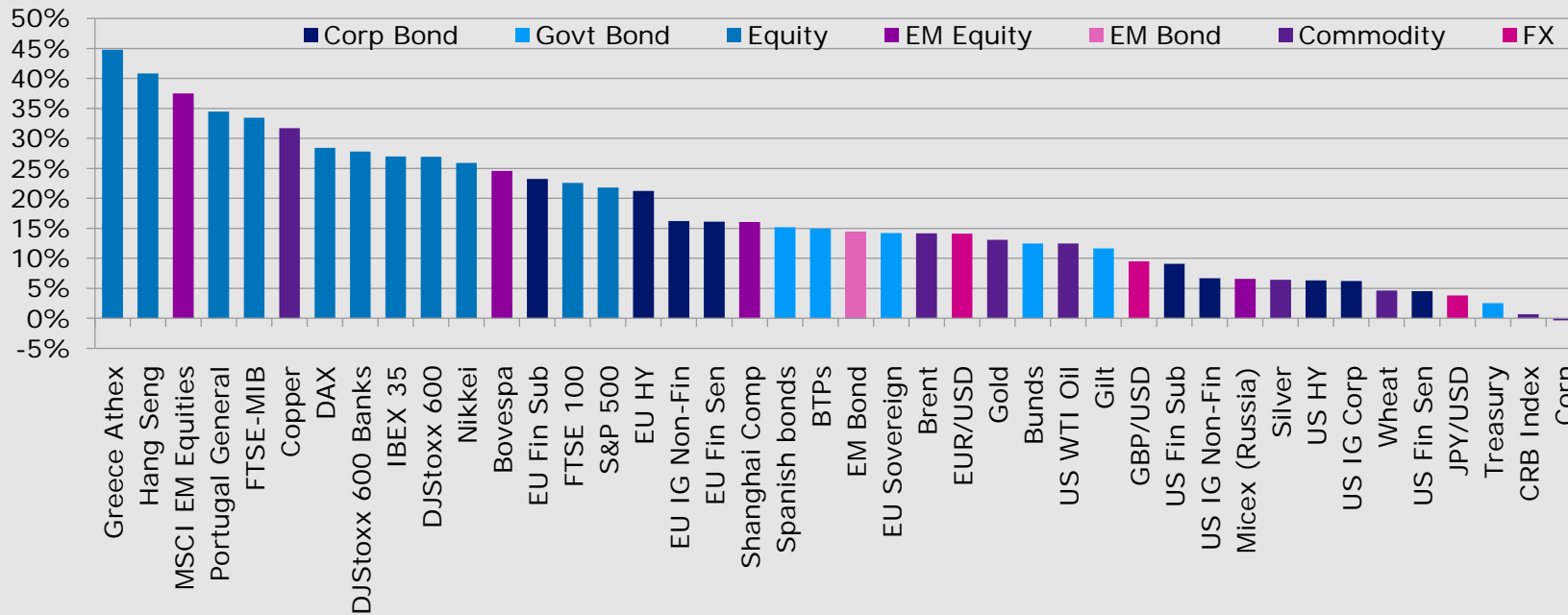


Source: Goldman Sachs Global Investment Research as at 5 June 2018.

2017: A near perfect year

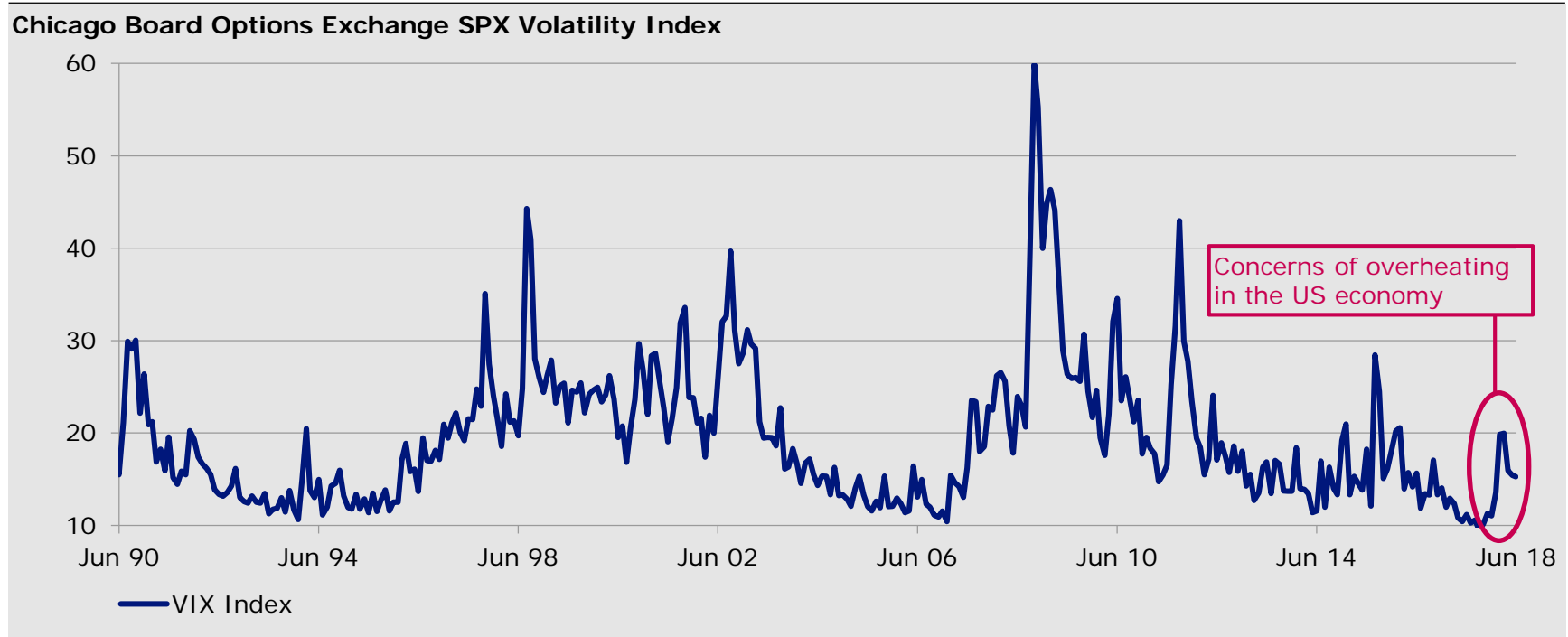


Most assets ended 2017 in positive territory



Source: Deutsche Bank as at 31 December 2017

The VIX spiked in February, from all-time lows



Source: Bloomberg as at 25 June 2018.

Global equity market valuations



MSCI World Composite Valuation Indicator (Z Score)*



Components of composite valuation indicator

	Current	Average	Z score
Price to Earnings	19.29	18.15	0.19
Dividend Yield	2.41	2.88	0.45
Price to Book Value	2.37	2.10	0.42

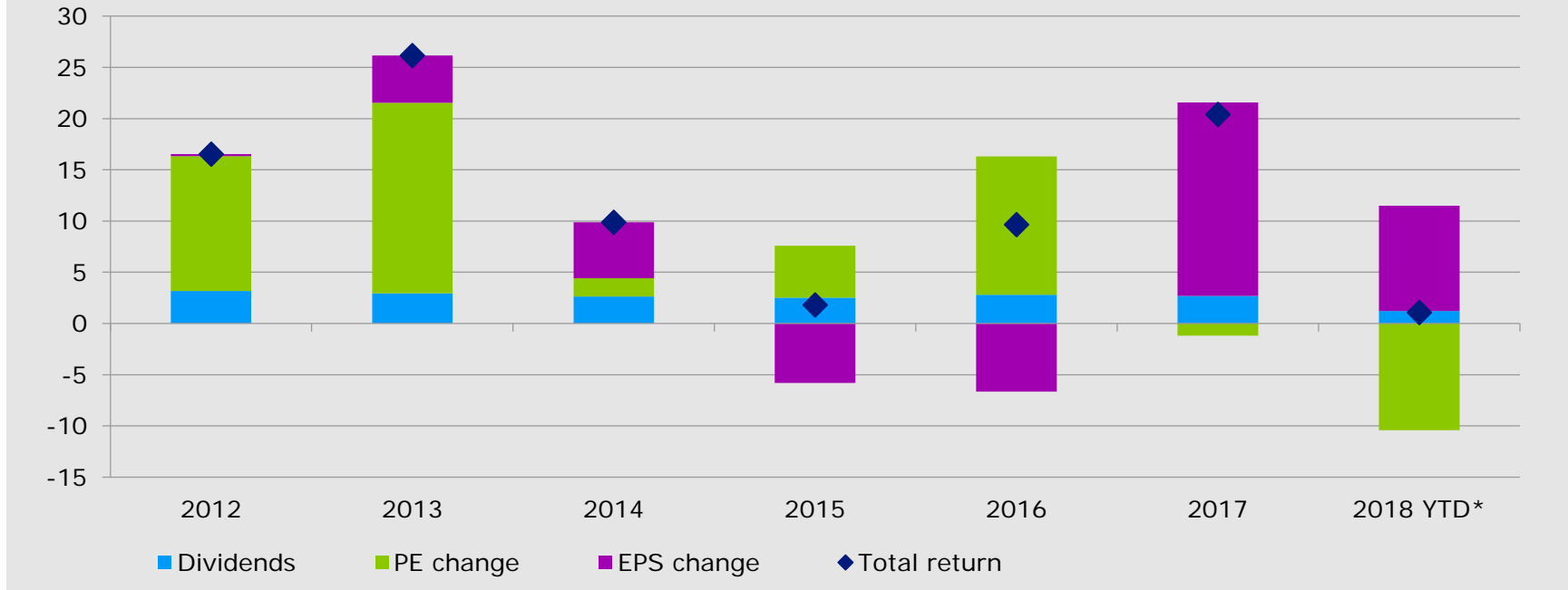
Source: Datastream as at 31 May 2018. Past performance is not a guide to future returns. *Equally weighted Z Score of trailing PE, DY and PBV. R Squared based on 10 year subsequent returns. Data is monthly.

Global equity market performance contribution

Earnings improvement offset by valuation de-rating in 2018

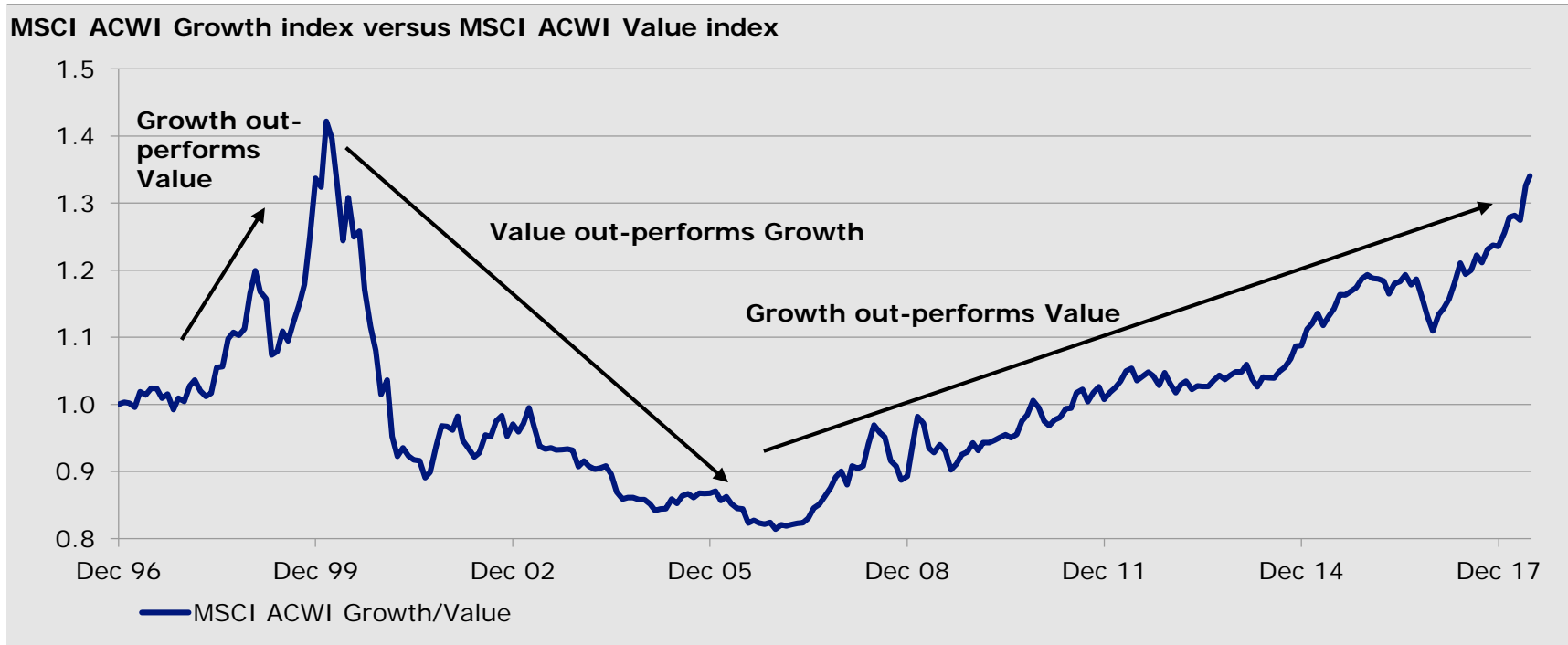


MSCI ACWI annual breakdown of total returns in local currency (%)



Source: Datastream as at 1 June 2018. Past performance is not a guide to future returns. *YTD = to 31 May 2018.

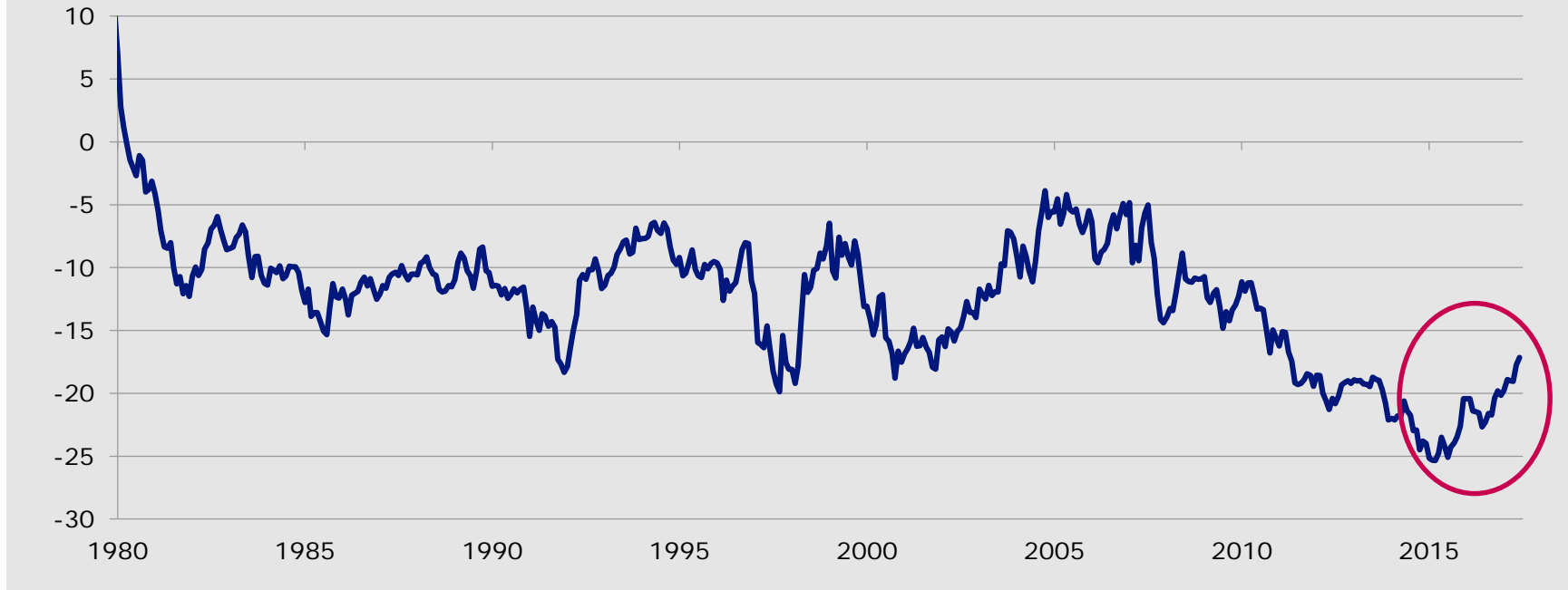
Growth has out-performed since the financial crisis



Source: Bloomberg as at 22 June 2018.

Has the cyclical/defensive sector rotation begun?

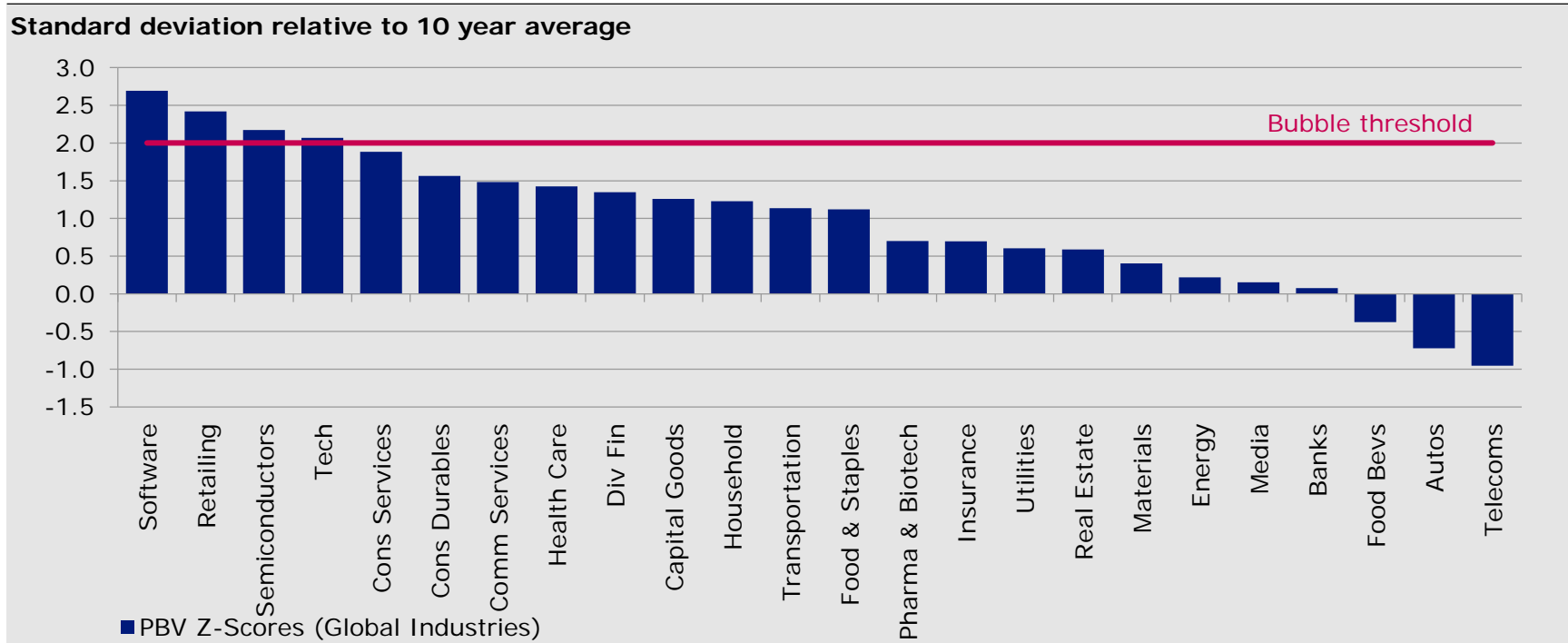
Book value ratio of economically cyclical sectors versus defensives



Source: Invesco and Datastream as at 31 May 2018. Data is monthly and shows price/book value ratio between 4 cyclical sectors (oil, industrials, basic materials, consumer discretionary) against four defensive sectors (utilities, consumer staples, pharmaceuticals, telecoms).

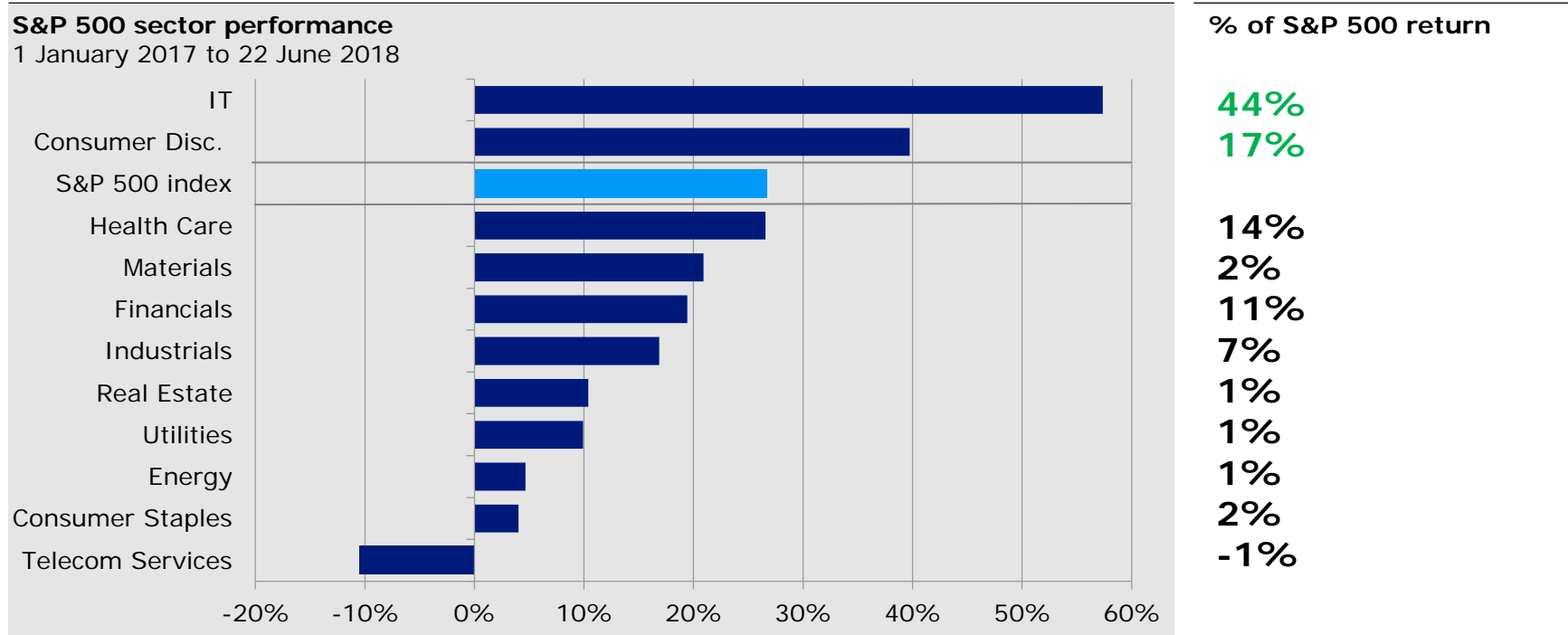
There is still significant valuation disparity

Technology sectors are highly valued



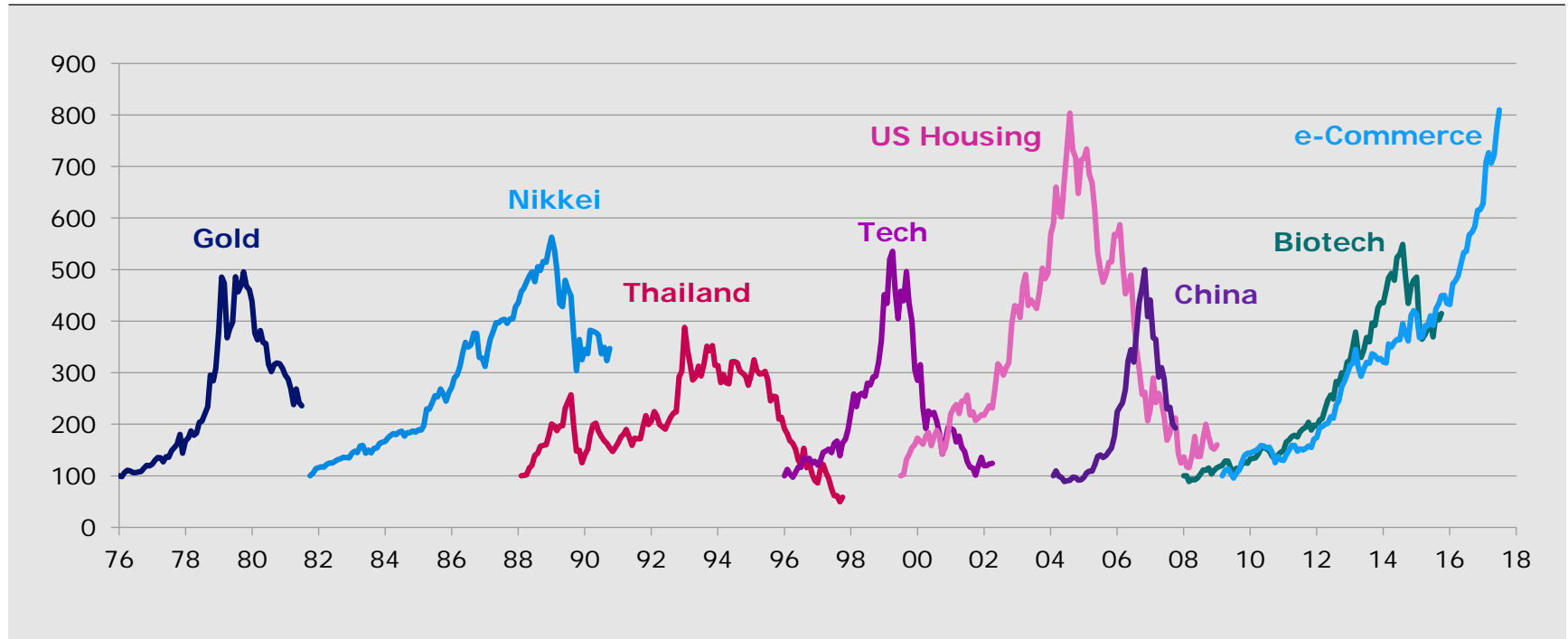
Source: Citi as at 22 June 2018. Global sectors are as defined by the GICS industry group.

The sources of market return have been narrow over the last 18 months



Source: Bloomberg as at 22 June 2018. Performance shown if for the period from 1 January 2017 to 22 June 2018.

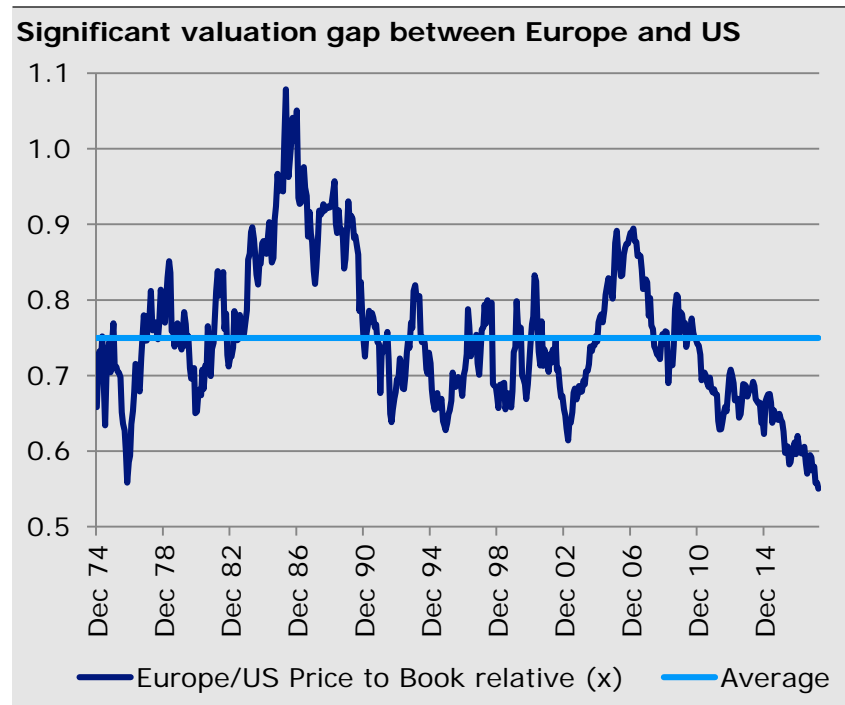
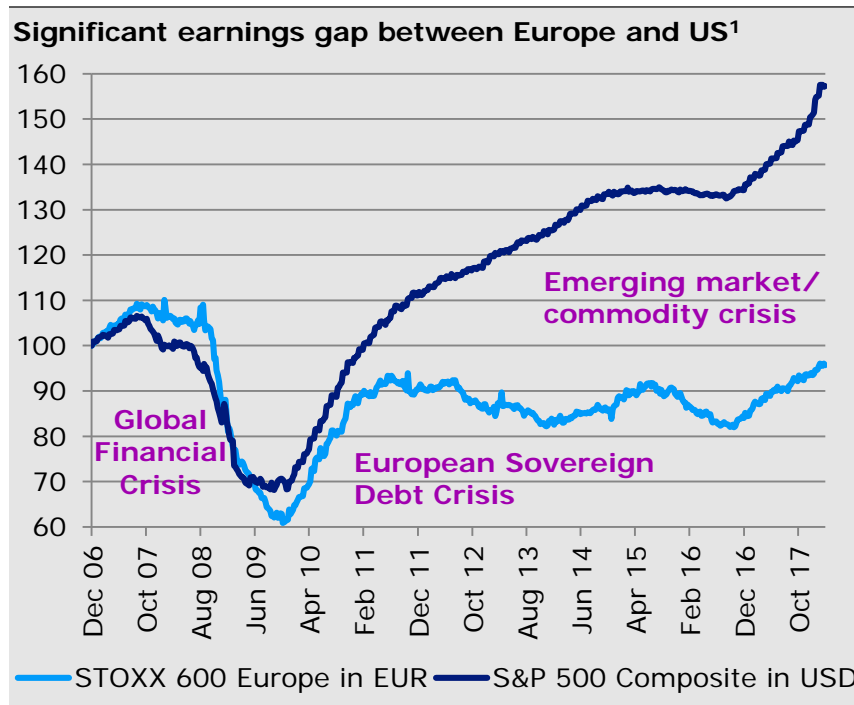
Is e-Commerce the next market bubble?



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg; Note: Gold (XAU Currency), Japanese Equities (NKY Index), The Equities (SET Index), Tech (NDX Index), US Housing (5SHOME Index), Commodities (SHCOMP Index), Biotech (NBI Index), e-Commerce (DJECOM Index), as at 25 June 2018.

European equities

Europe still offers value despite earnings at depressed levels



Source: LHC – Datastream, UBS European Equity Strategy and Invesco as at 31 March 2018. 1Rebased to 31 December 2006. 12 month trailing earnings based on Stoxx Europe 600 index. RHC – Datastream, Invesco as at 31 March 2018.

Conclusion



- Equity markets in 2018 are likely to be sensitive to changes in bond yields
- Technology and growth stocks vulnerable given high valuations
- European equities offer good combination of improving growth and valuation, despite European politics
- Sector rotation likely to continue

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