



# Schroders Equity Lens

## Strategic Research Unit

March 2023

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Marketing material for professional  
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# Summary

- Profit margins are falling as companies struggle to pass on higher costs (slide 5)
- Consensus expectations are for negligible/negative earnings growth this year (slide 6)
- US equities are still the most expensive but that gap is narrowing (slide 7)







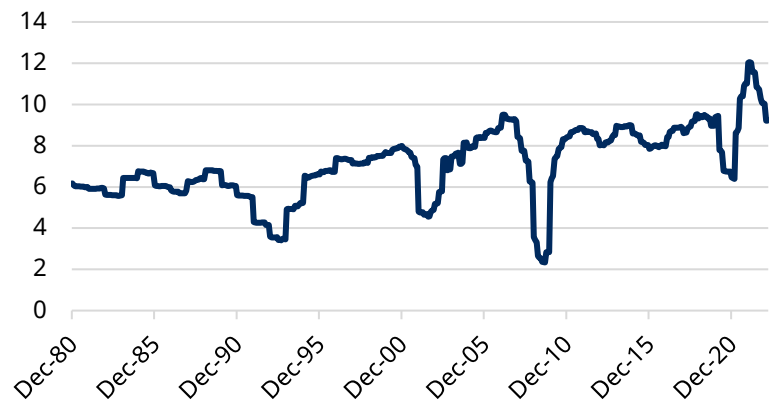
## Global equities

Charts of the month

# Higher costs are putting profitability under pressure

## Net profit margins

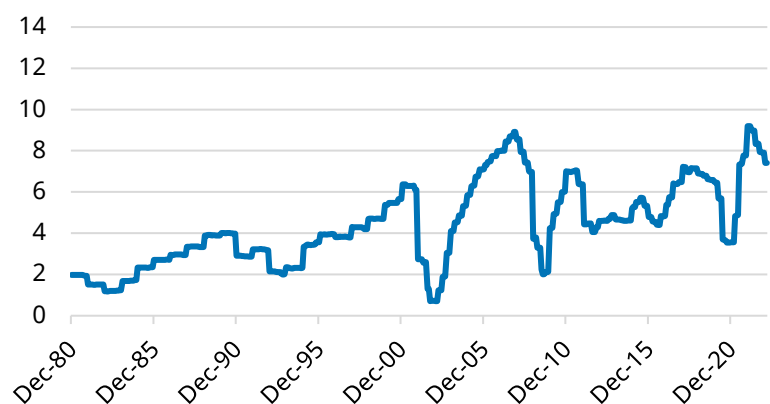
US



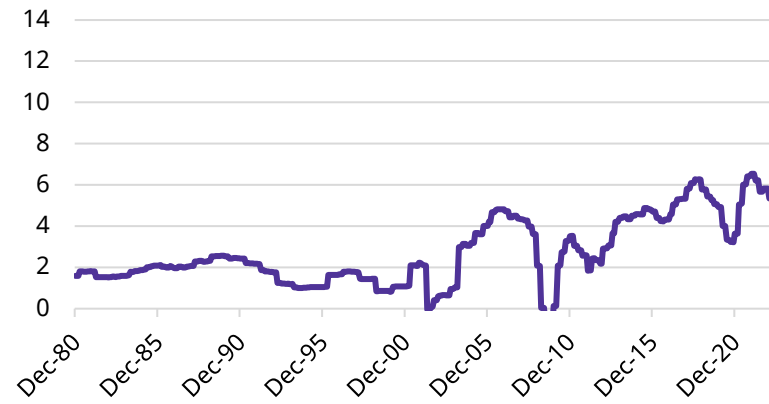
UK



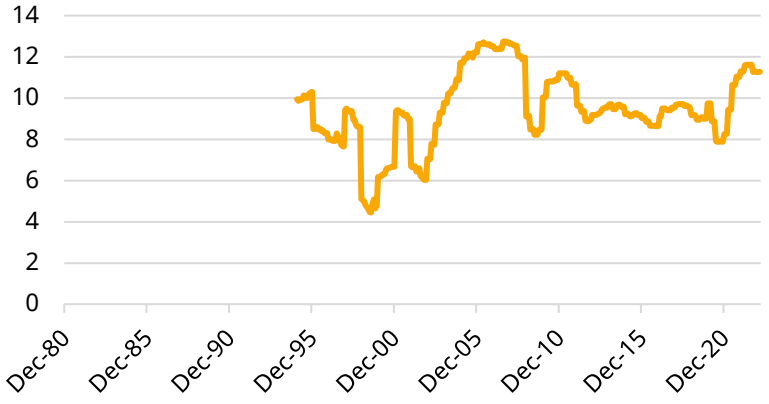
Europe ex UK



Japan



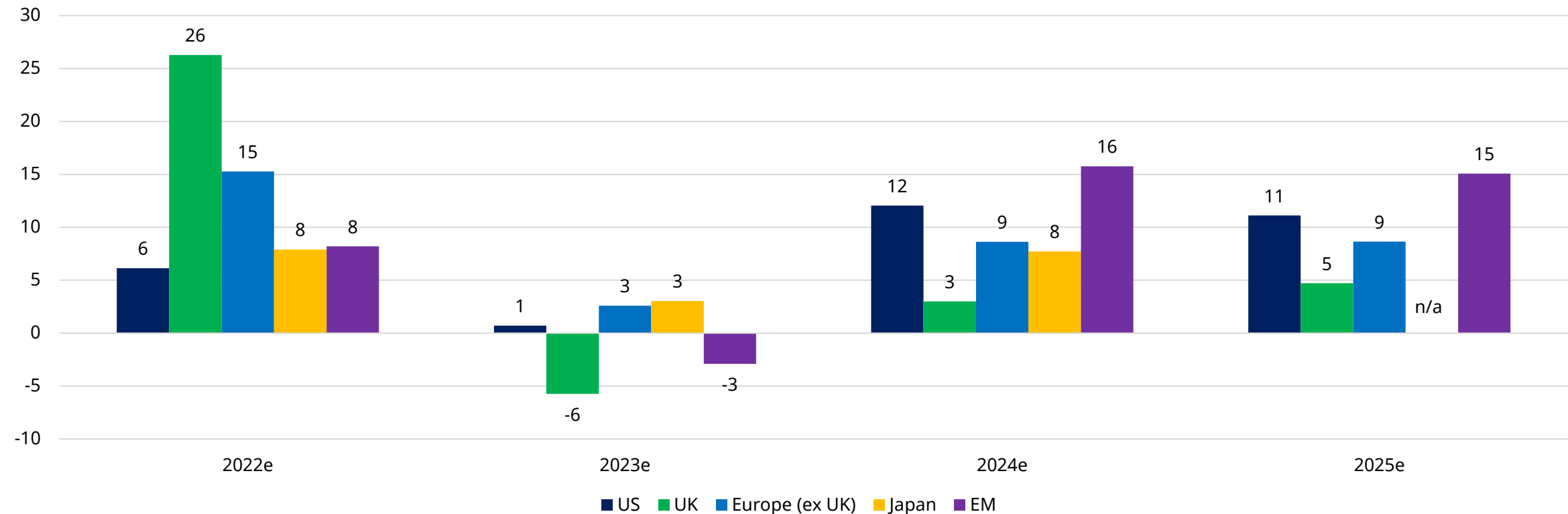
EM



Based on Datastream total market equity indices for each region. Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023.

# 2023 looks set to be a challenging year for corporate earnings

YoY EPS growth, %

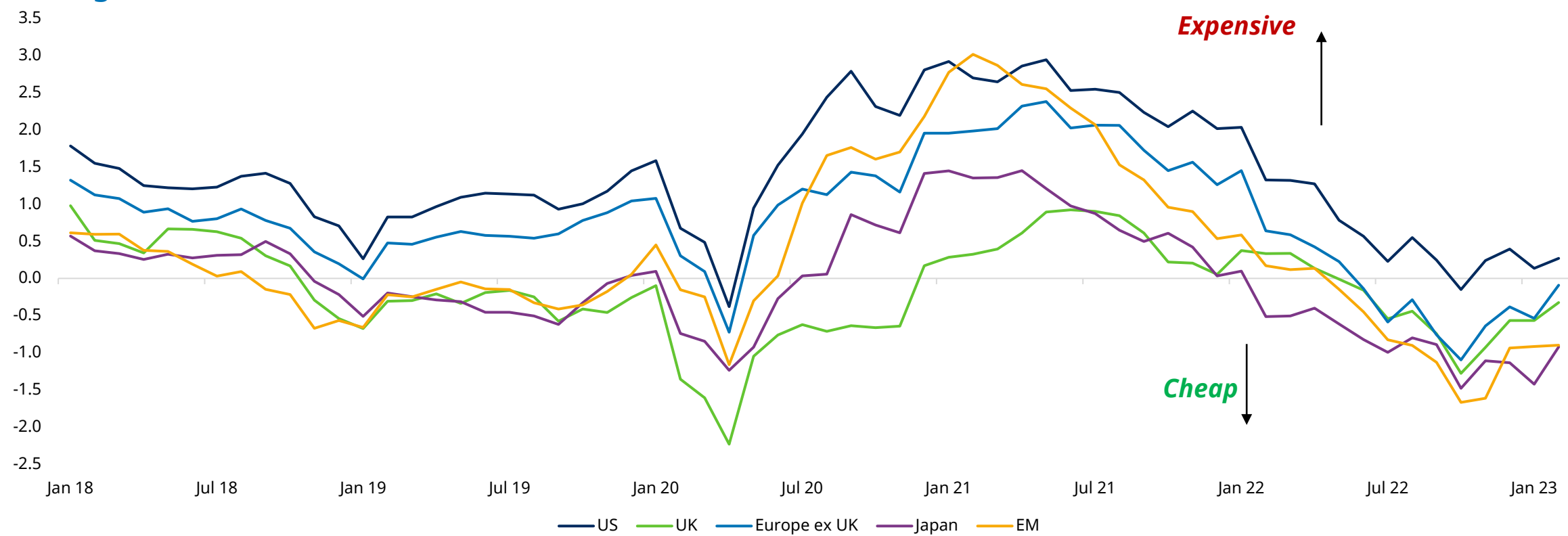


**Forecasts included are not guaranteed and should not be relied upon.**  
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023.  
Notes: Japan EPS for 2022 is 4 quarter sum until 31 March of next calendar year, e.g. 2022 = 31/03/2022 – 31/03/2023. 2022 figures are still estimates at this stage.

# US equities are still the most expensive but gap is narrowing

Composite valuation across five valuation metrics

Average Z-score across five valuation metrics



Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023. Z-score measures the number of standard deviations above or below the average. Our assessment of expensive/cheap is relative to a 10-year rolling average of each market across five valuation metrics: cyclically-adjusted price-to-earnings, forward price-to-earnings, trailing price-to-earnings, price-to-book and dividend yield. Unlike slide 21 (which uses a 15-year median), this chart uses a 10-year average to increase the number of data points and give a better indication of the variability of valuations over time. US valuations appear less expensive when assessed on this basis, mainly because valuations were higher over the past 10 years than over the past 15.



## Global equities

Regional performance



# Global equities: performance leadership table in USD terms

Emerging markets' 6.5% decline in February sent their returns towards 0% YTD

**Total \$ return, %**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
Best	US 32.6%	US 13.4%	Japan 9.9%	US 11.6%	EM 37.8%	US -4.5%	US 30.6%	US 21.4%	US 19.8%	UK -4.8%	Europe 8.4%
	Europe 28.7%	EM -1.8%	US 1.3%	EM 11.6%	Europe 27.8%	Japan -12.6%	Europe 25.9%	EM 18.7%	UK 19.6%	Japan -16.3%	UK 6.8%
	Japan 27.3%	Japan -3.7%	Europe 0.1%	Japan 2.7%	Japan 24.4%	UK -14.1%	UK 21.1%	Japan 14.9%	Europe 9.4%	Europe -17.3%	US 4.0%
	UK 20.7%	UK -5.4%	UK -7.5%	Europe 0.3%	UK 22.4%	EM -14.2%	Japan 20.1%	Europe 11.6%	Japan -3.1%	US -19.5%	Japan 2.1%
Worst	EM -2.3%	Europe -5.8%	EM -14.6%	UK 0.0%	US 21.9%	Europe -14.4%	EM 18.9%	UK -10.4%	EM -4.1%	EM -19.7%	EM 0.9%

**Past performance is not a guide to future performance and may not be repeated.**

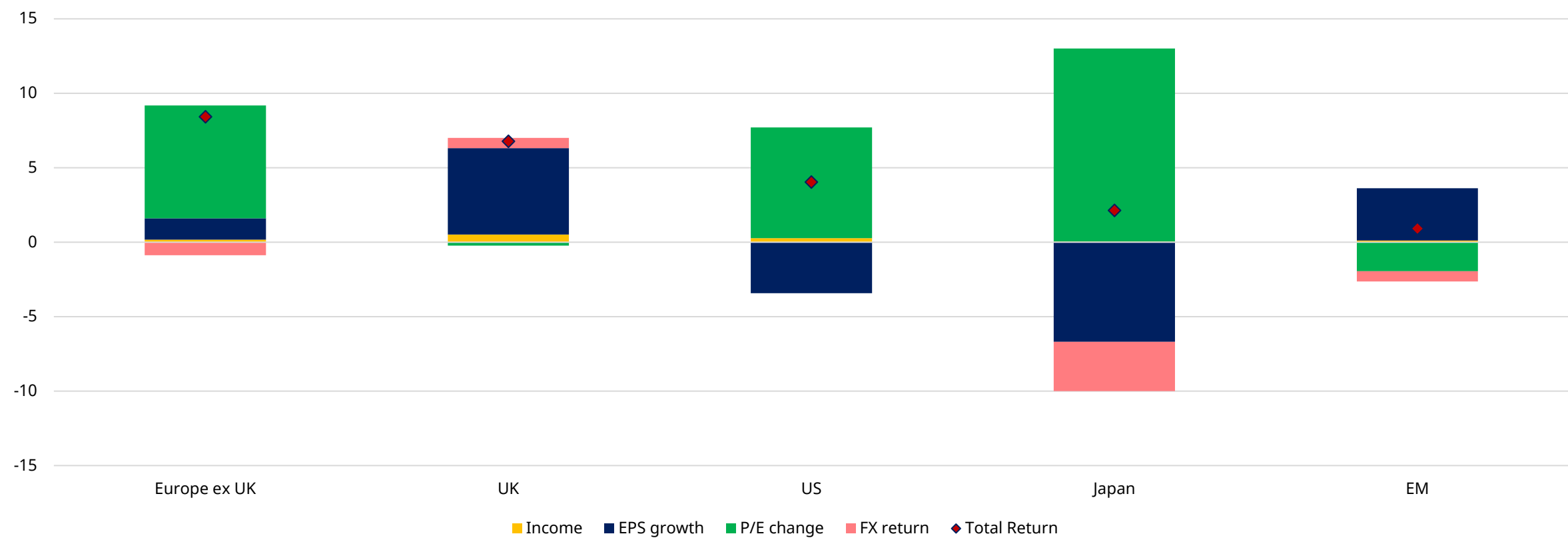
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023 in US dollars.

Europe = Europe ex UK.

# Drivers of global equity returns

Market drivers in the UK/EM have been very different to elsewhere

YTD \$ return by source, %

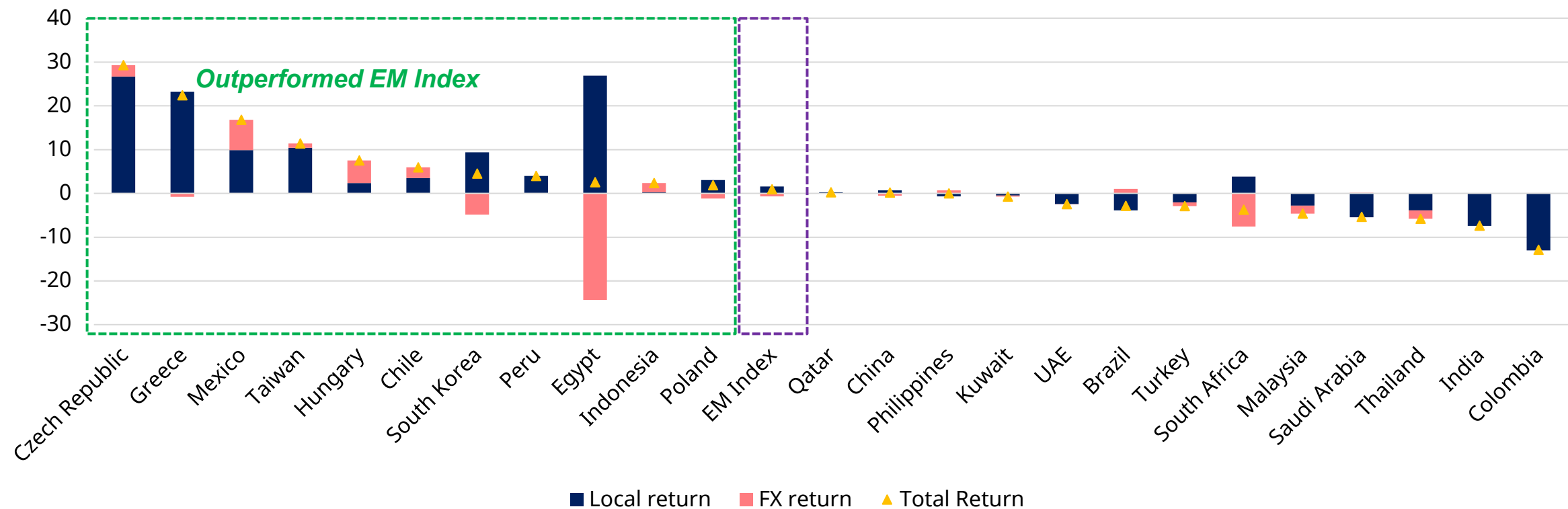


**Past performance is not a guide to future performance and may not be repeated.**  
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023 in US dollars.

# Headline performance can be misleading

Some countries have done much better, and some much worse, than the index

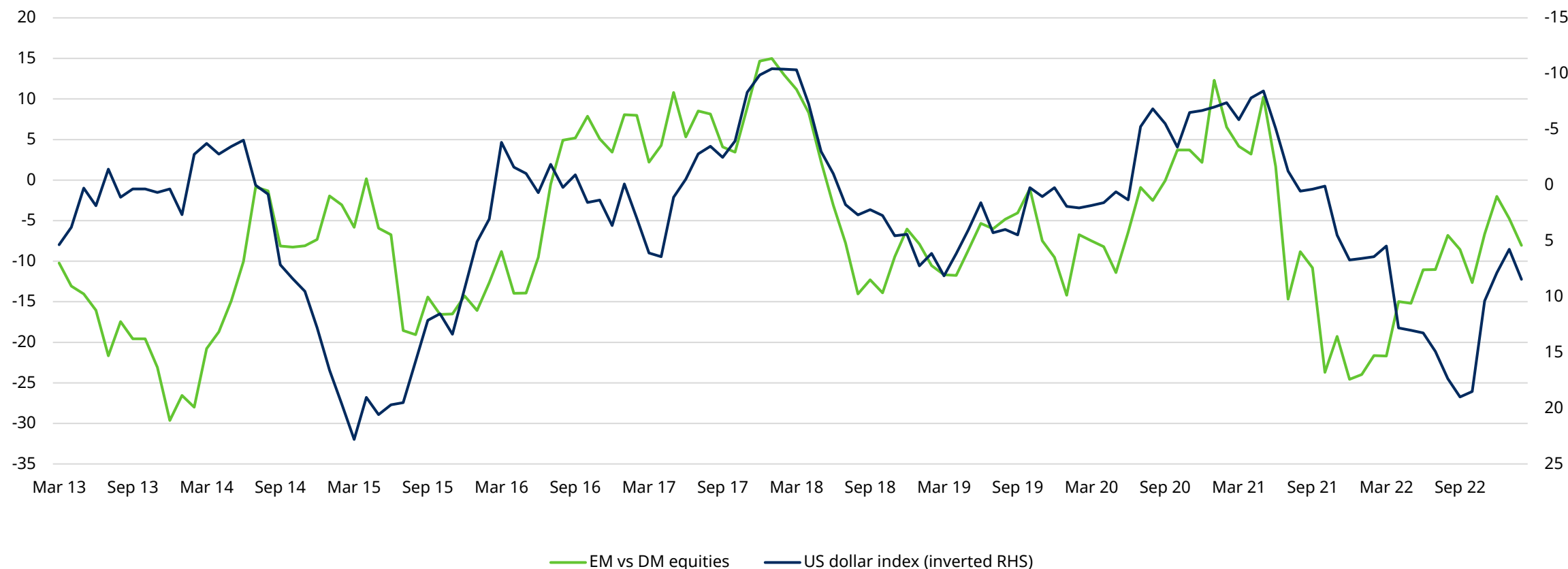
YTD total return, %



Forecasts included are not guaranteed and should not be relied upon.  
Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023.

# A weakening dollar has been helping EM equities vs DM until recently

## 12m rolling return, %

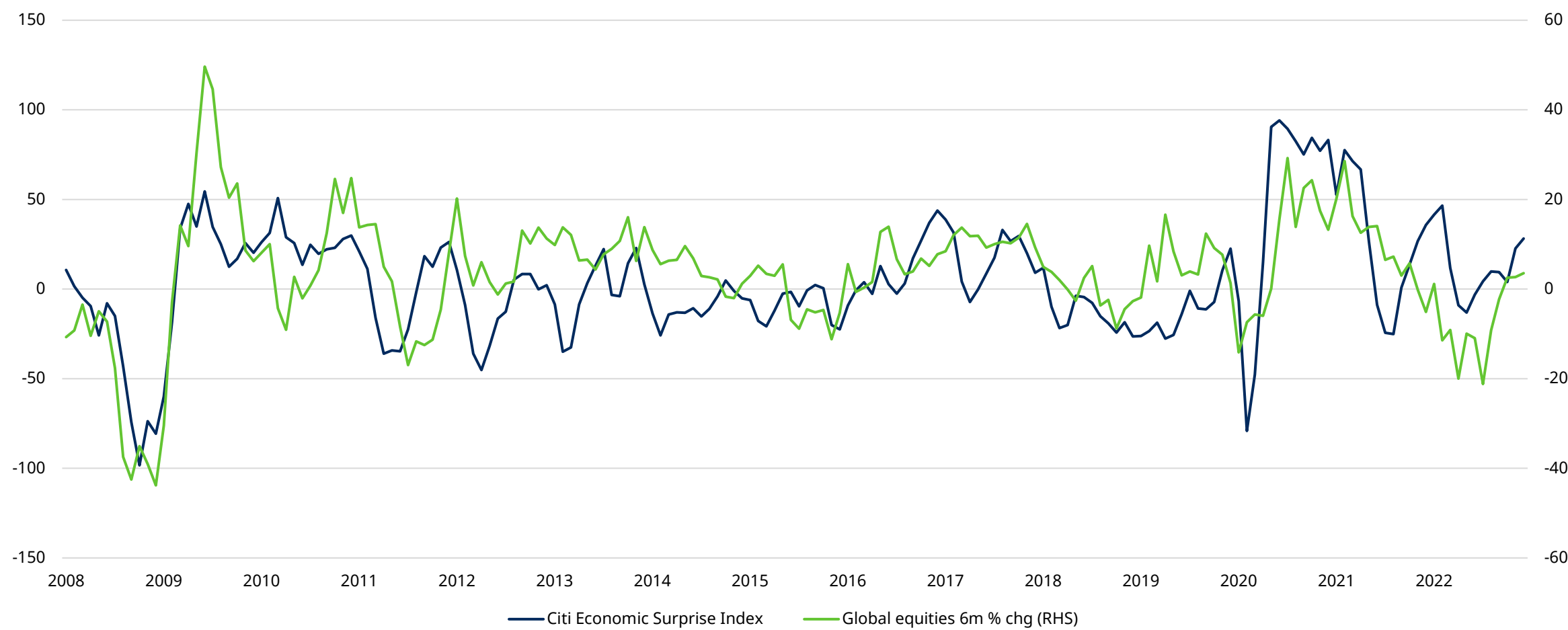


**Past performance is not a guide to future performance and may not be repeated.**

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023 in US dollars. Notes: EM = MSCI EM index \$ and DM = MSCI World Index \$.



# Economic surprises have turned more positive again



Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023.

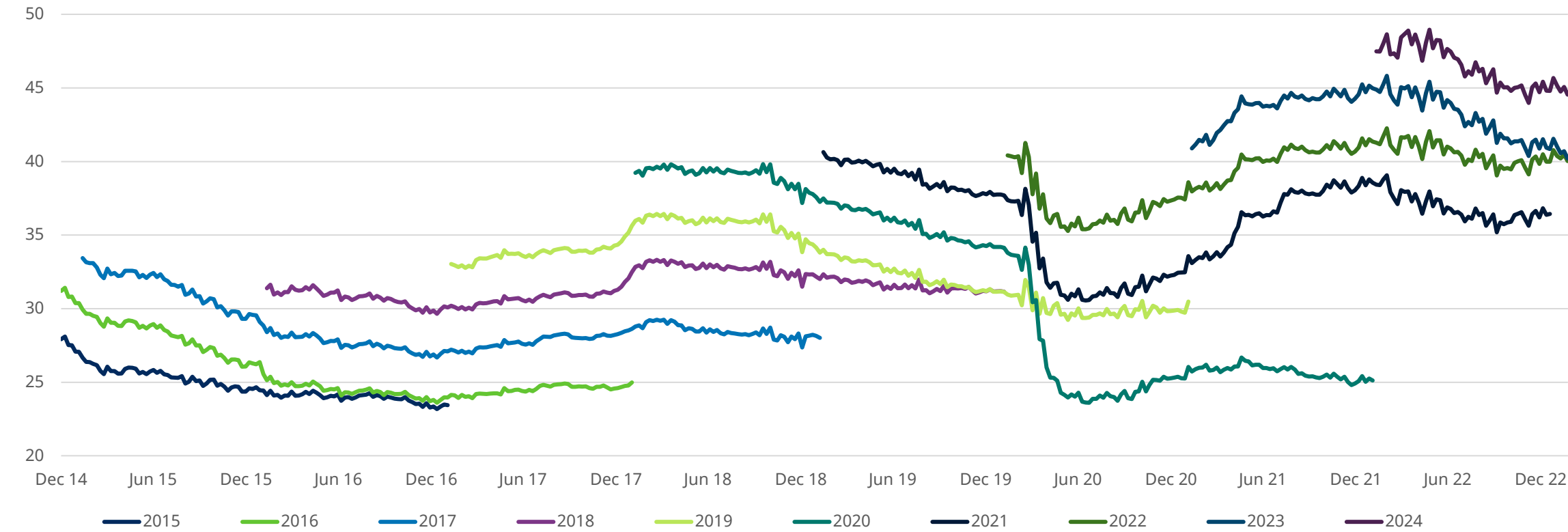


# Global equities

## Fundamentals

# Consensus expectations are for 0% earnings growth in 2023

## Global equities EPS forecast

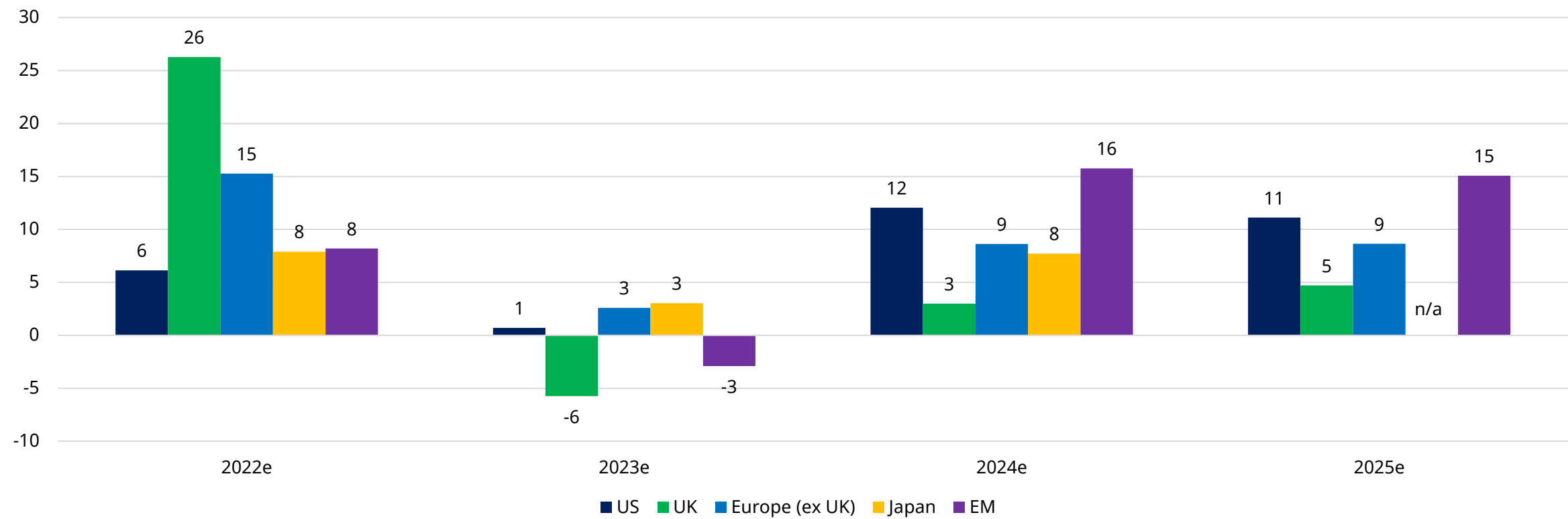


Forecasts included are not guaranteed and should not be relied upon.  
Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 1 February 2023.  
Notes: Figures in USD

# Corporate earnings

2023 looks set to be a challenging year

YoY EPS growth, %



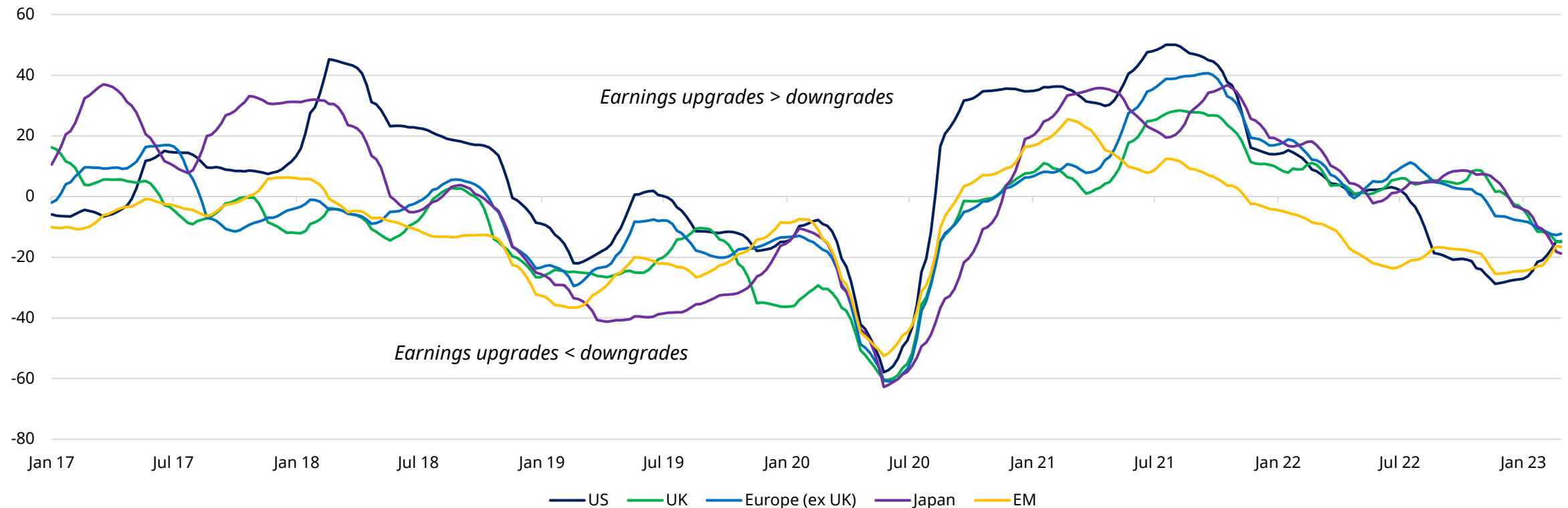
Forecasts included are not guaranteed and should not be relied upon.  
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023.  
Notes: Japan EPS for 2022 is 4 quarter sum until 31 March of next calendar year, e.g. 2022 = 31/03/2022 – 31/03/2023.



# Earnings sentiment

Momentum in US and EM earnings revisions have improved vs rest of world

13-week earnings revisions ratio %, (upgrades – downgrades) / total revisions



Forecasts included are not guaranteed and should not be relied upon.

Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023.

Notes; 13w earnings revisions = sum of 13 week positive minus negative 12m forward EPS revisions / total revisions.

# Valuations continue to favour ex-US markets

## EOM valuation vs 15-year median (% above or below)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	27 (14%)	18 (11%)	21 (4%)	3.9 (38%)	1.7 (19%)
UK	15 (14%)	10 (-17%)	11 (-21%)	1.7 (-2%)	3.7 (4%)
Europe ex. UK	20 (22%)	13 (-4%)	15 (-10%)	2.0 (12%)	2.9 (11%)
Japan	17 (-18%)	13 (-7%)	16 (-2%)	1.3 (0%)	2.5 (-19%)
EM	11 (-22%)	12 (3%)	12 (-12%)	1.6 (-3%)	3.3 (-20%)

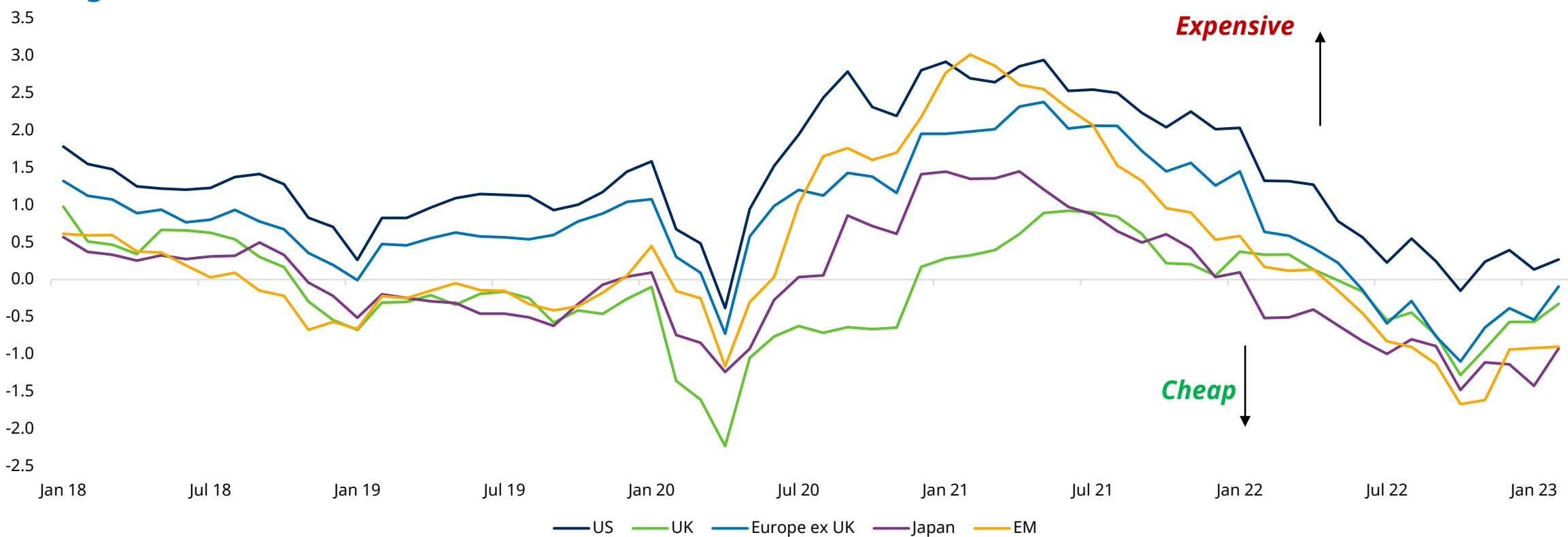
Key:	<-25%	-25% to -15%	-15% to -5%	-5% to 0%	0% to 5%	5% to 15%	15% to 25%	>25%
	Cheap			Neutral		Expensive		

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023. Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median.

# Composite valuation across five valuation metrics

US equities are still the most expensive but that gap is narrowing

Average Z-score across five valuation metrics

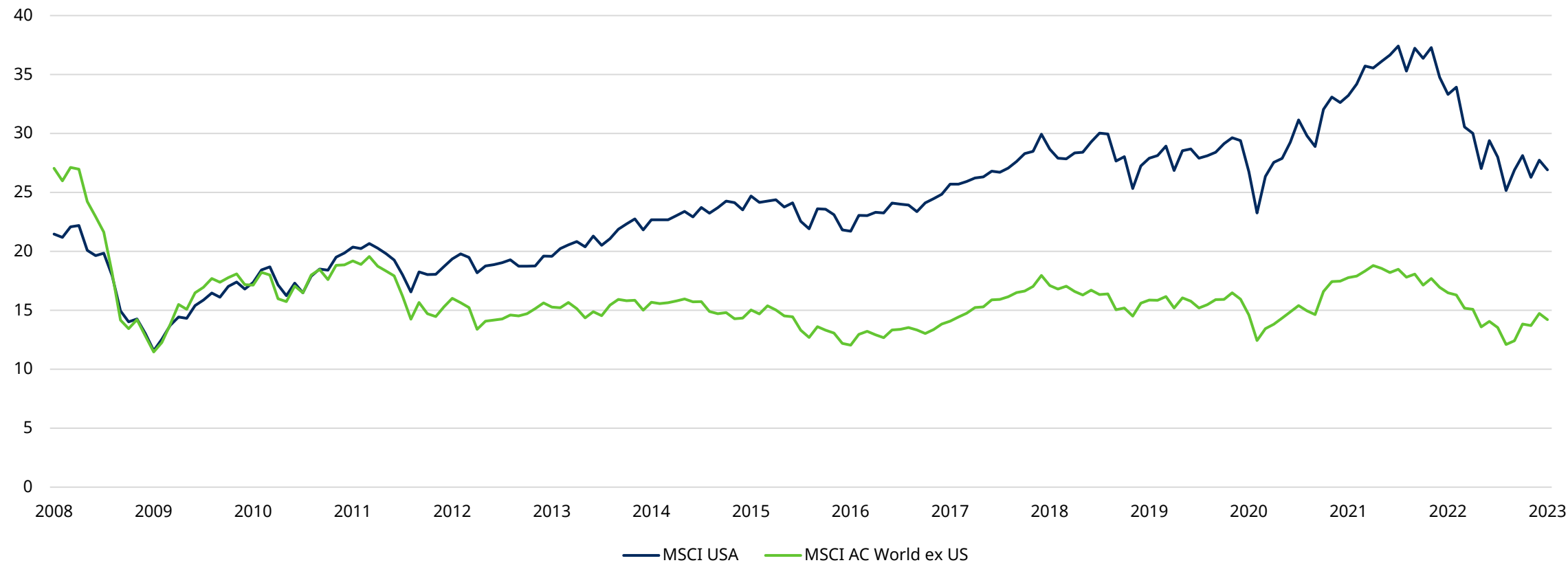


Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023. Z-score measures the number of standard deviations above or below the average. Our assessment of expensive/cheap is relative to a 10-year rolling average of each market across five valuation metrics: cyclically-adjusted price-to-earnings, forward price-to-earnings, trailing price-to-earnings, price-to-book and dividend yield. Unlike slide 21 (which uses a 15-year median), this chart uses a 10-year average to increase the number of data points and give a better indication of the variability of valuations over time. US valuations appear less expensive when assessed on this basis, mainly because valuations were higher over the past 10 years than over the past 15.

# Relative valuations: US vs Rest of World

US CAPE still stretched versus rest of world but gap has narrowed a lot

Cyclically adjusted price-to-earnings ratio



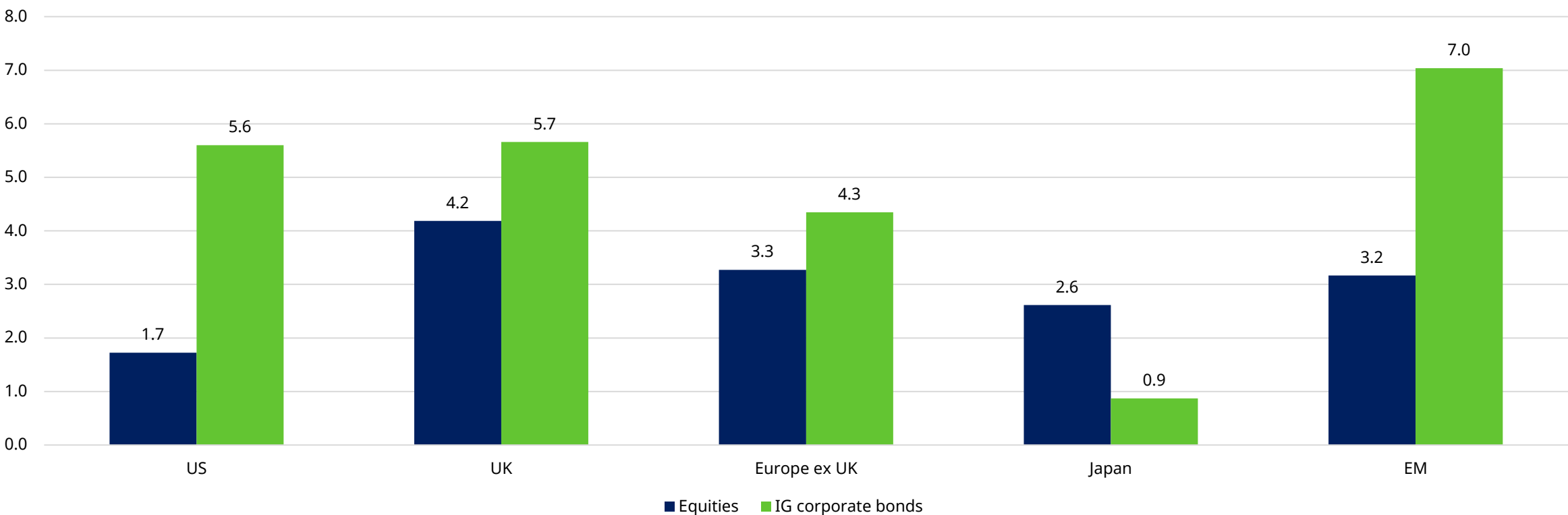
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023.



# Dividend vs. bond yields by region

Rise in bond yields has taken them well above dividend yields in most markets

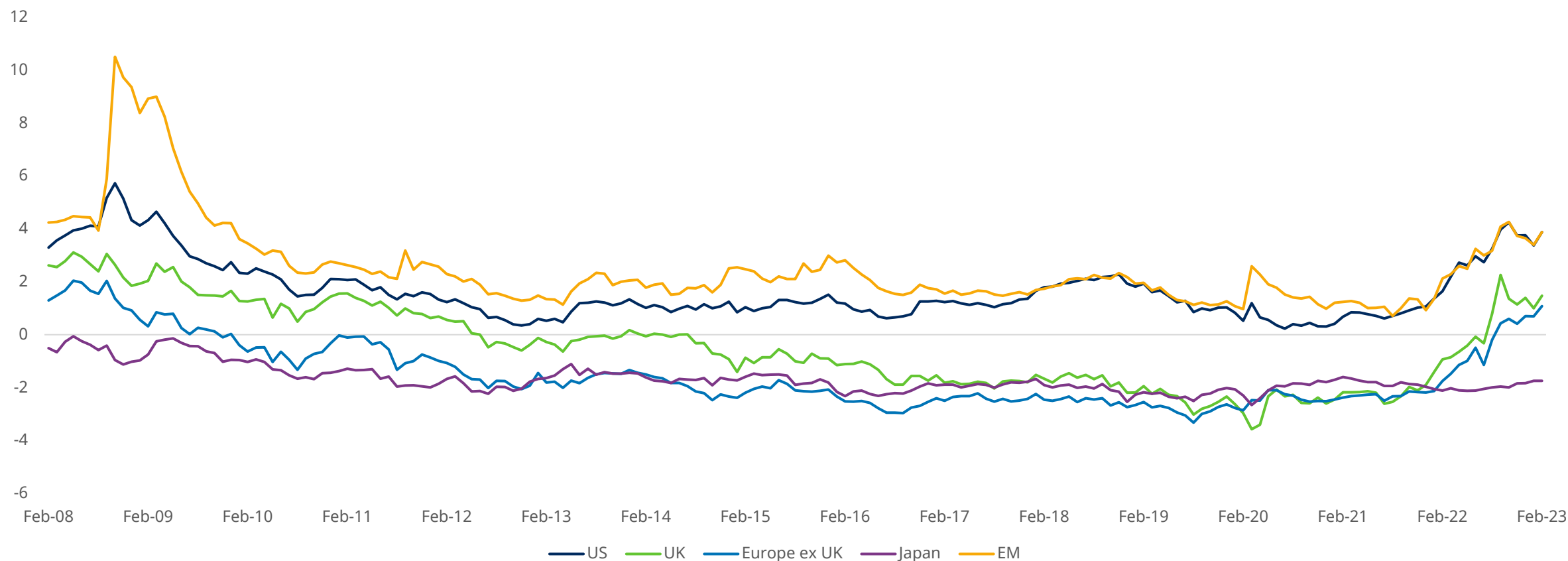
Forward 12-month equity dividend vs bond yield, %



Forecasts included are not guaranteed and should not be relied upon.  
Source: IBES, Datastream Refinitiv, MSCI, ICE and Schroders Strategic Research Unit. Data to 28 February 2023. Corporate bond yield = unhedged local currency yield e.g. US = USD corporate bond yield, except for EM which is in USD.

# Bond yields have risen a lot relative to dividend yields

## IG corporate bond yield – forward dividend yield, %



**Forecasts included are not guaranteed and should not be relied upon.**

Source: IBES, Datastream Refinitiv, MSCI, ICE and Schroders Strategic Research Unit. Data to 28 February 2023. Corporate bond yield = unhedged local currency yield, except for EM which is in USD.



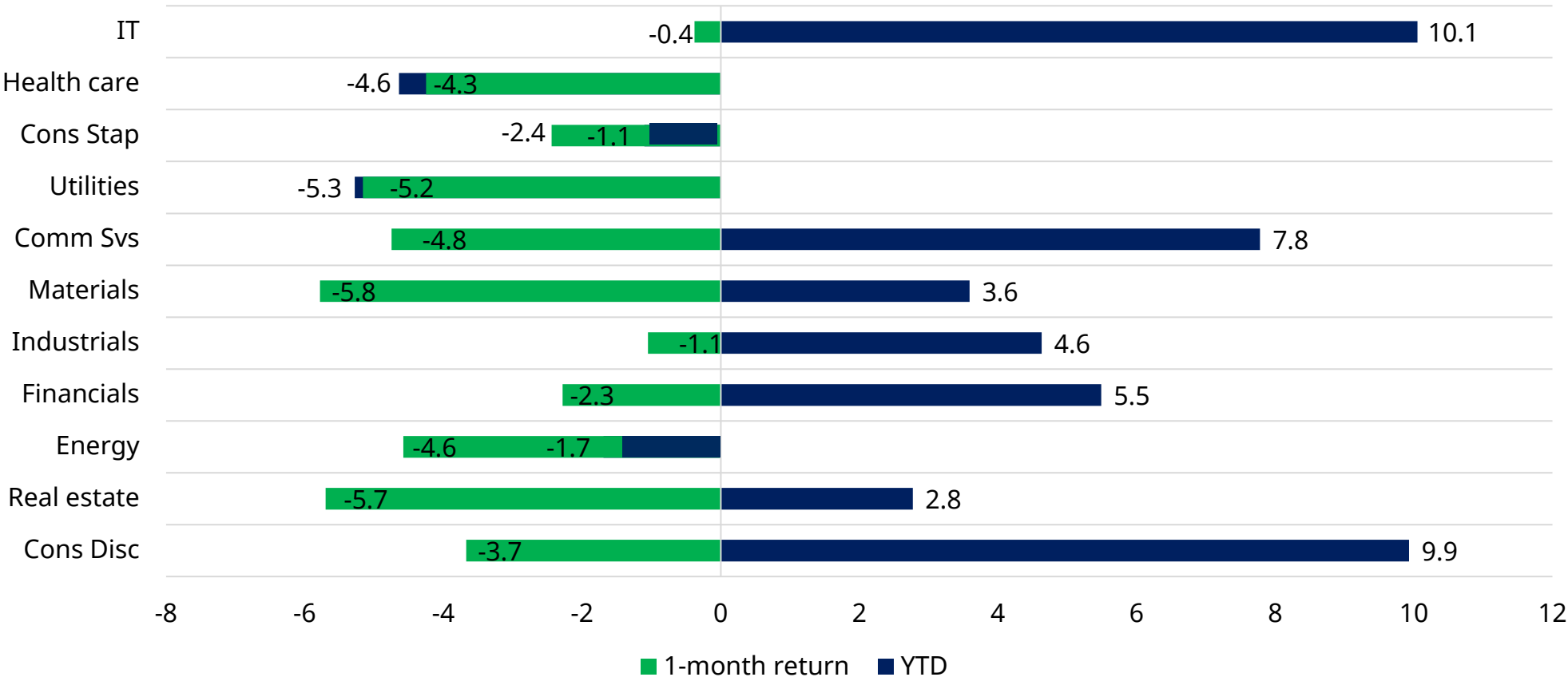
# Global equities

Sectors & Styles

# Global sector performance

Performance was negative everywhere in February

Global \$ sector return, %

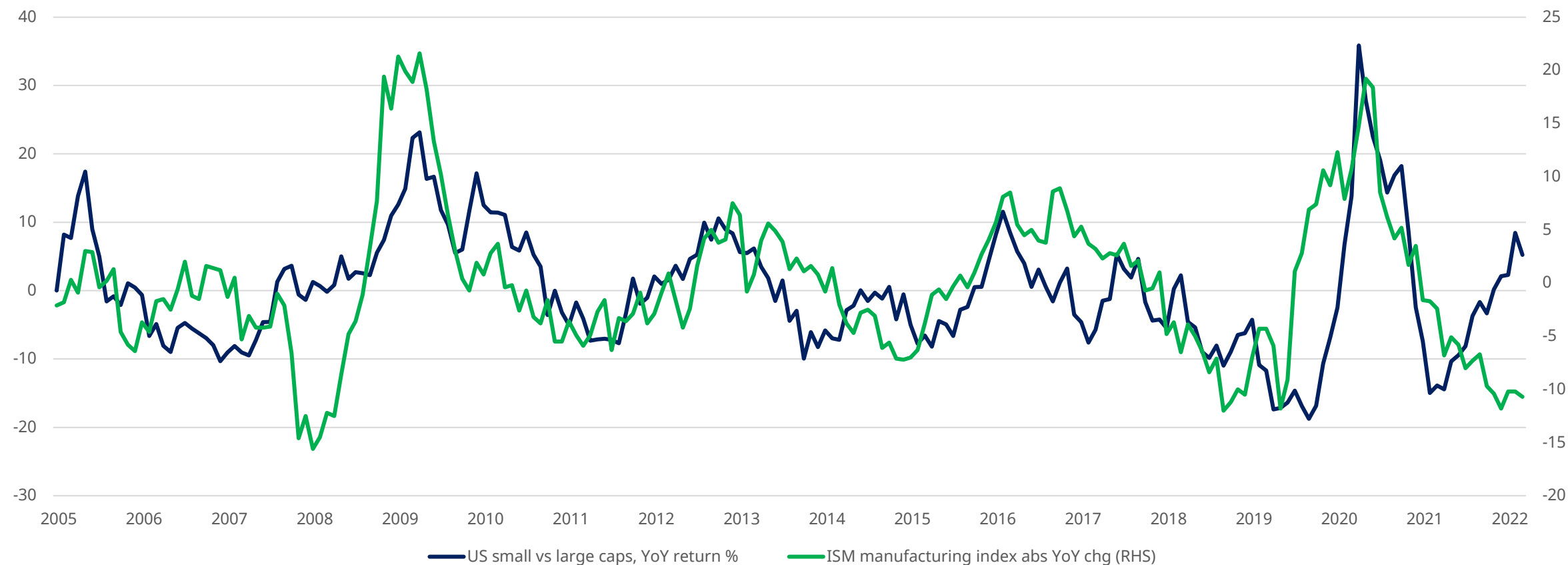


Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023 in US dollars.



# US small vs large caps

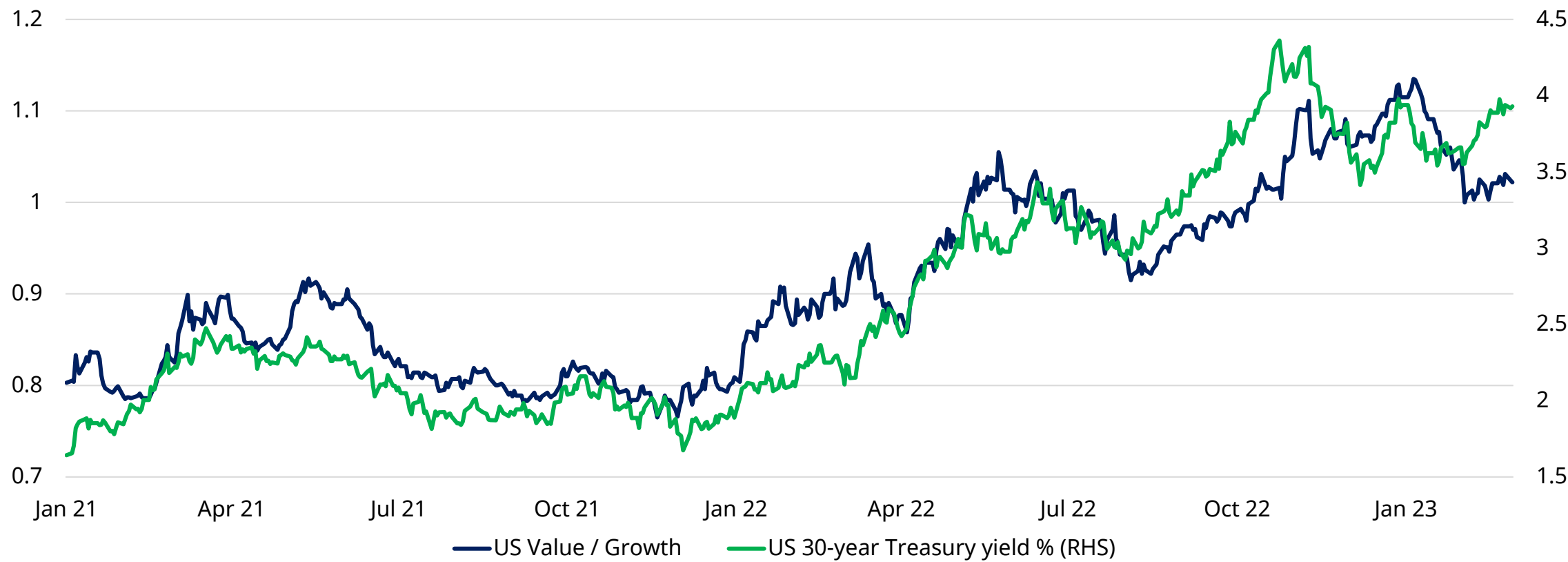
Small caps accelerated vs large caps despite slowing economic activity



Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 28 February 2023.

# US Value vs Growth

February's rise in yields has not been mirrored with a big rise in Value vs Growth



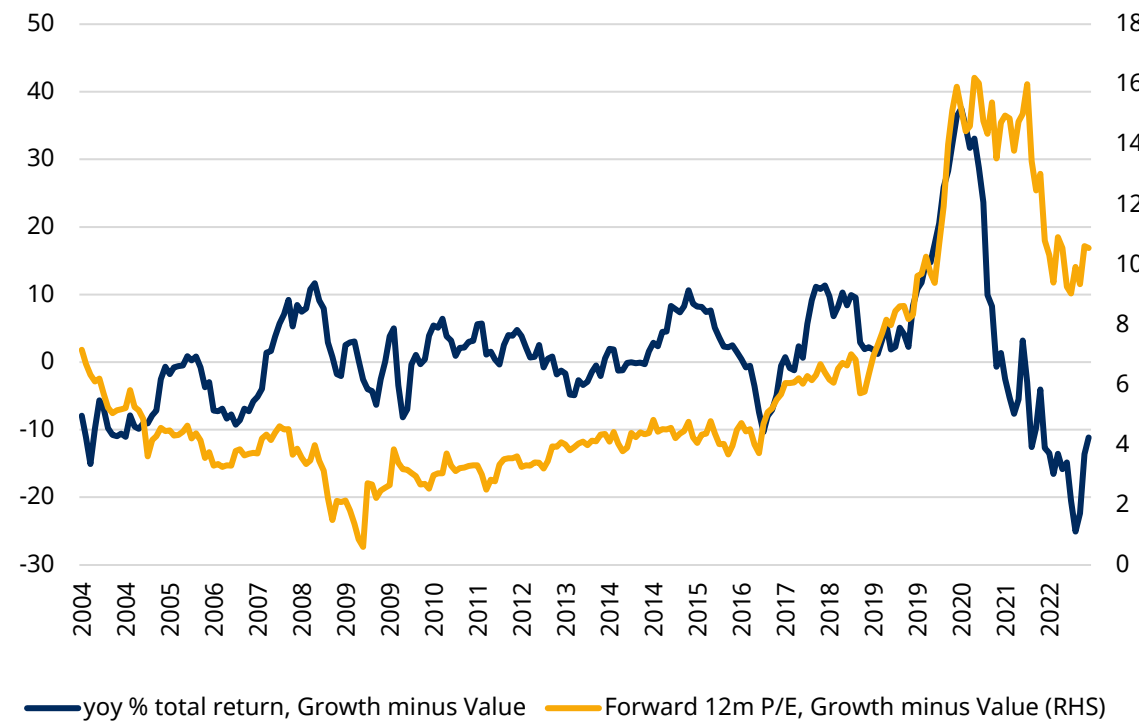
Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data as at 28 February 2023.

# Global Value vs Growth

Opportunity for mean-reversion still significant given wide valuation dispersion

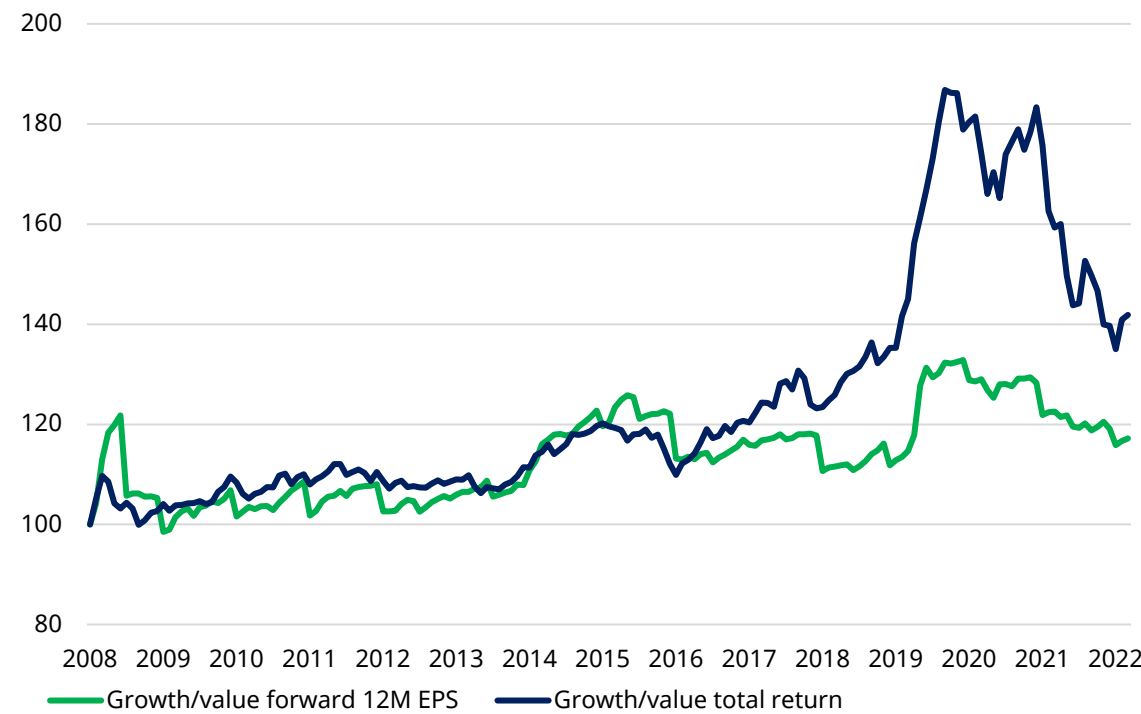
## Relative valuations still remain high by historical standards

Growth vs Value (global)



## Returns converging towards near-term fundamentals

Growth / Value, rebased to 100

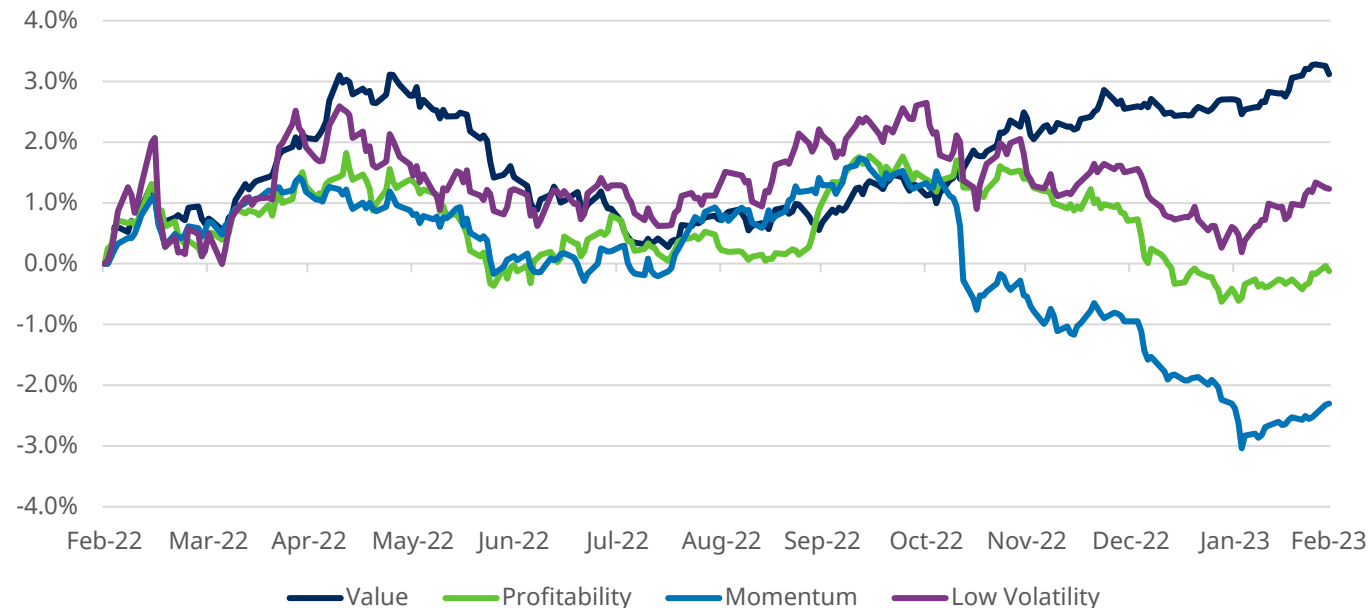


Forecasts included are not guaranteed and should not be relied upon. Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 28 February 2023 in US dollars. Based on MSCI ACWI World.

# Schroders Factor Returns

Factor performance has diverged since the autumn

## 1-year cumulative long short return



Period	Value	Profitability	Momentum	Low Volatility
YTD	0.5%	-0.8%	-1.4%	-0.3%
1 year	3.1%	-0.1%	-2.3%	1.2%
5 yr pa	0.7%	1.0%	0.2%	0.4%
10 yr pa	1.1%	1.4%	1.0%	0.6%

*Returns are based on factor-mimicking, long-short, industry-neutral, global equity portfolios that are scaled to target a volatility of 2.5% per year. Factors attempt to capture the returns attributable to a specific fundamental characteristic.*

**For illustrative purposes only. Past performance is not a guide to future performance and may not be repeated.**

Source: Schroders Systematic Investments. Data as at 28 February 2023. Notes: based on portfolios formed using the MSCI ACWI Universe.



# Global equities

Index composition

# Regional market composition

UK is more defensive while Europe, Japan and EM are more cyclical

Sector	Beta*	Cyclical/defensive	Sector Group Index Weight						Sector Group Index Weight vs ACWI				
			US	UK	EMU	Japan	EM	ACWI	US	UK	EMU	Japan	EM
IT	1.17	Cyclical	28%	1%	13%	14%	20%	21%	6%	-20%	-8%	-8%	-1%
Cons disc	1.14	Cyclical	11%	6%	16%	18%	14%	11%	0%	-5%	5%	7%	3%
Financials	1.10	Cyclical	12%	19%	17%	12%	22%	15%	-4%	4%	2%	-3%	6%
Industrials	1.12	Cyclical	9%	10%	16%	22%	6%	10%	-2%	0%	6%	12%	-4%
Energy	1.21	Cyclical	5%	15%	5%	1%	5%	5%	0%	10%	0%	-4%	-1%
Materials	1.12	Cyclical	3%	9%	6%	5%	9%	5%	-2%	4%	1%	0%	4%
Real estate	0.88	Defensive	3%	1%	1%	3%	2%	3%	0%	-2%	-2%	1%	-1%
Comm Servs	0.93	Defensive	8%	3%	4%	8%	10%	7%	1%	-4%	-3%	1%	3%
Cons stap	0.59	Defensive	7%	19%	8%	7%	6%	7%	-1%	12%	0%	-1%	-1%
Utilities	0.60	Defensive	3%	4%	6%	1%	3%	3%	0%	1%	3%	-2%	0%
Health care	0.70	Defensive	14%	13%	8%	9%	4%	12%	2%	0%	-4%	-3%	-8%
<b>% cyclical</b>			<b>66%</b>	<b>60%</b>	<b>73%</b>	<b>72%</b>	<b>75%</b>	<b>68%</b>	<b>-2%</b>	<b>-8%</b>	<b>5%</b>	<b>4%</b>	<b>7%</b>

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 28 February 2023. Notes: market beta is a measure of how sensitive sector returns are to changes in the overall market index. Cyclical sectors are defined as having a market beta greater than 1, (i.e. they outperform when the index rises), whereas defensive sectors have a beta less than 1 (i.e. they underperform when the index rises). Our calculation is based on the last five years of monthly returns vs the MSCI ACWI Index.



# Style market composition

The momentum style has swung from a cyclical bias vs ACWI a year ago to defensive today

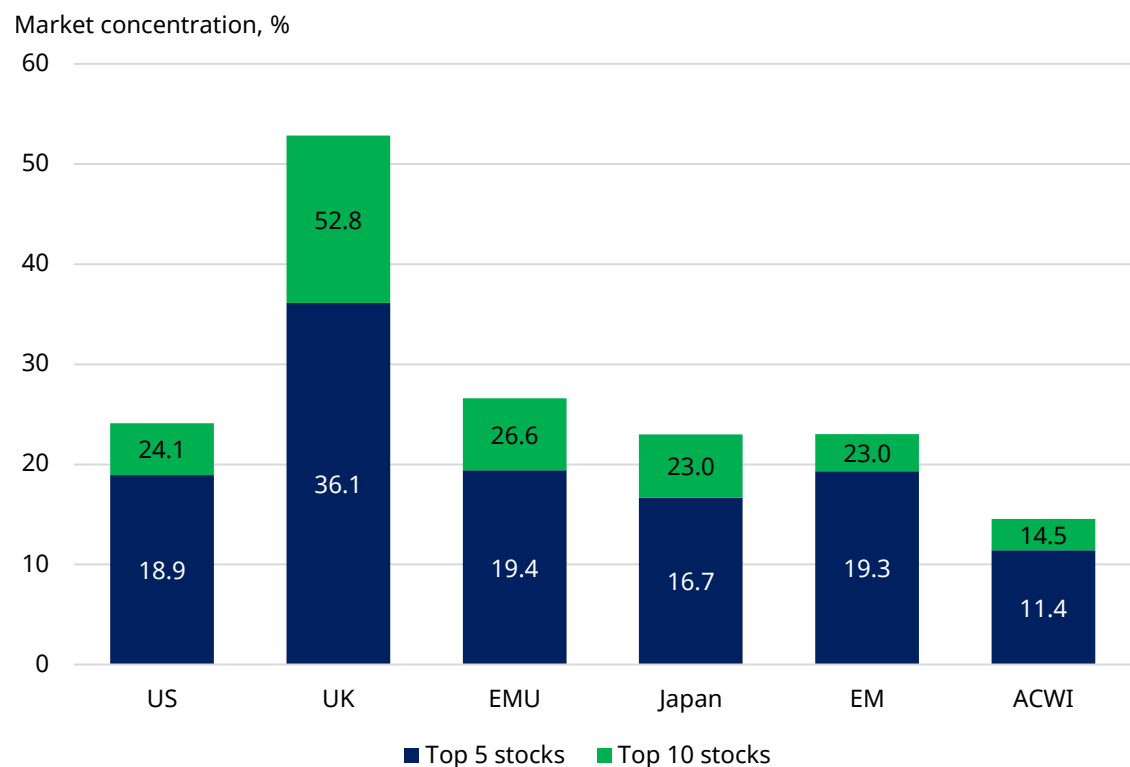
Sector	Beta vs ACWI	Cyclical/defensive	Sector Group Index Weight						Sector Group Index Weight vs Benchmark*					
			Value	Growth	Quality	Momentum	Min Vol*	US small caps*	Value	Growth	Quality	Momentum	Min Vol*	US small caps*
IT	1.2	Cyclical	9%	33%	38%	3%	16%	15%	-12%	12%	17%	-18%	-5%	-13%
Cons disc	1.1	Cyclical	7%	15%	8%	5%	5%	12%	-4%	4%	-3%	-6%	-5%	1%
Financials	1.1	Cyclical	24%	7%	3%	12%	14%	15%	9%	-9%	-12%	-3%	-1%	3%
Industrials	1.1	Cyclical	10%	10%	9%	10%	8%	17%	0%	0%	-1%	0%	-2%	8%
Energy	1.2	Cyclical	9%	1%	1%	28%	2%	5%	4%	-4%	-4%	22%	-3%	0%
Materials	1.1	Cyclical	7%	3%	5%	4%	4%	6%	2%	-2%	0%	-1%	0%	3%
Real estate	0.9	Defensive	4%	1%	0%	0%	1%	7%	1%	-2%	-2%	-2%	-2%	5%
Comm Servs	0.9	Defensive	4%	10%	8%	4%	12%	4%	-3%	3%	1%	-3%	6%	-4%
Cons stap	0.6	Defensive	8%	7%	8%	6%	12%	4%	1%	-1%	1%	-1%	5%	-3%
Utilities	0.6	Defensive	5%	0%	0%	2%	8%	4%	2%	-2%	-3%	-1%	5%	2%
Health care	0.7	Defensive	13%	12%	19%	26%	17%	12%	0%	0%	6%	14%	4%	-2%
<b>% cyclical</b>			<b>66%</b>	<b>70%</b>	<b>64%</b>	<b>62%</b>	<b>50%</b>	<b>69%</b>	-2%	2%	-4%	-6%	-17%	3%

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 28 February 2023. Notes: market beta is a measure of how sensitive sector returns are to changes in the overall market index. Cyclical sectors are defined as having a market beta greater than 1, (i.e. they outperform when the index rises), whereas defensive sectors have a beta less than 1 (i.e. they underperform when the index rises). Our calculation is based on the last five years of monthly returns vs the MSCI ACWI Index. Min Vol index is based on and relative to MSCI World, US small caps are relative to MSCI USA. All other indices are based on MSCI ACWI universe.

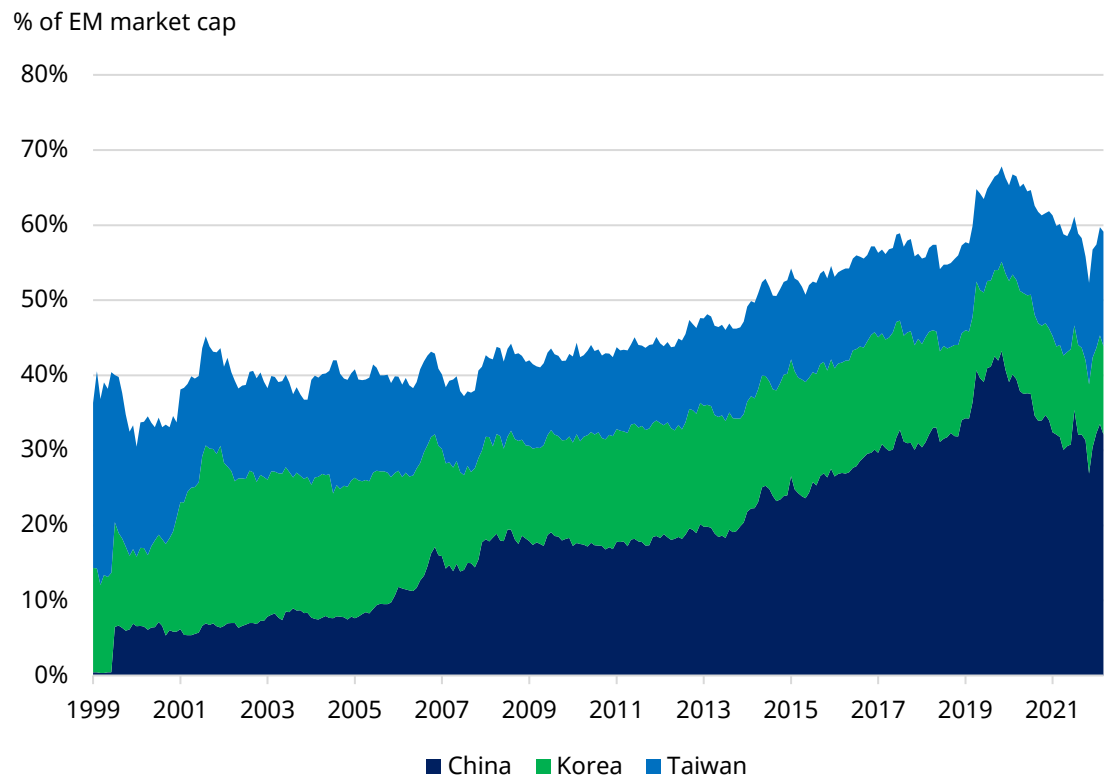
# Top constituents by market share

Market concentration is global phenomenon

## UK equities heavily weighted towards top 10 stocks



## EM equities are dominated by Asia



Source: Refinitiv Datastream, MSCI and Schroders Strategic Research Unit. Data as at 28 February 2023.



## Appendix

# List of indices (1 of 2)

## **Large cap equities**

US – MSCI USA Index , or S&P 500 Index where specified

UK – MSCI UK Index

Europe ex UK – MSCI Europe ex UK Index

Japan – MSCI Japan Index

Developed markets – MSCI World Index

Emerging markets – MSCI EM Index

China – MSCI China Index

Global – MSCI All Country World Index

Rest of world – MSCI All Country World ex US Index

Slide 5 shows profit margins for Datastream total market equity indices, due to longer data history

## **Small cap equities**

US – MSCI USA Small Cap Index

UK – MSCI UK Small Cap Index

Europe ex UK – MSCI Europe ex UK Small Cap Index

Japan – MSCI Japan Small Cap Index

Emerging Markets – MSCI EM Small Cap Index

## **Factor and sector indices**

US Value – MSCI USA Value Index

US Growth – MSCI USA Growth Index

US Cyclical – MSCI USA materials, industrials, consumer discretionary, energy, financials, IT

US Defensive – MSCI USA utilities, consumer staples, health care, communication services

Global Value – MSCI All Country World Value Index

Global Growth – MSCI All Country World Growth Index

# List of indices (2 of 2)

## **Bond indices**

US Treasuries – ICE BofA US Treasury Index

Euro government bonds – ICE BofA Euro Government Index

US IG Corps – ICE BofA US Corporate Index

UK IG Corps – ICE BofA Sterling Corporate Index

Europe IG Corps - ICE BofA Euro Corporate Index

Japan IG Corps - ICE BofA Japan Corporate Index

EM IG Corps - ICE BofA Emerging Markets Corporate Plus Index

## **Currency indices**

US Dollar – DXY US Dollar Currency Index

# Important information (1 of 4)

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