



Schroders Equity Lens

Strategic Research Unit

August 2023

Marketing material for professional
investors or advisers only.

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Summary

- The Super-7 US stocks now make up more of MSCI ACWI than Japan, UK, China and France combined (slide 5). The rest of the world has been left in their wake this year (slide 6)
- Global stocks are having an exceptional year. In dollar terms, the US is up 21%, Europe 19%, Japan 17%, UK and emerging markets (EM) 12% (slide 13)
- Not all US equities are expensive: small caps are cheap vs large caps and are reasonably valued on a stand-alone basis (slides 8-9)
- In the long-run, stock market investing wins out over cash but it's a bumpy ride. 10% falls happen in more years than not (slides 10-11)
- Far fewer companies are listed on major stock markets than in the past (slide 7). The UK total is down 60% since 1996 and the US, 40%. Europe's downturn started later, but Germany has also shed more than 40% of its public companies since 2007.

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

Super-7 portfolio is portfolio of seven largest companies in MSCI USA by free float market capitalisation. These are Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Tesla, Meta (Facebook). Please see relevant disclaimers on slide 40



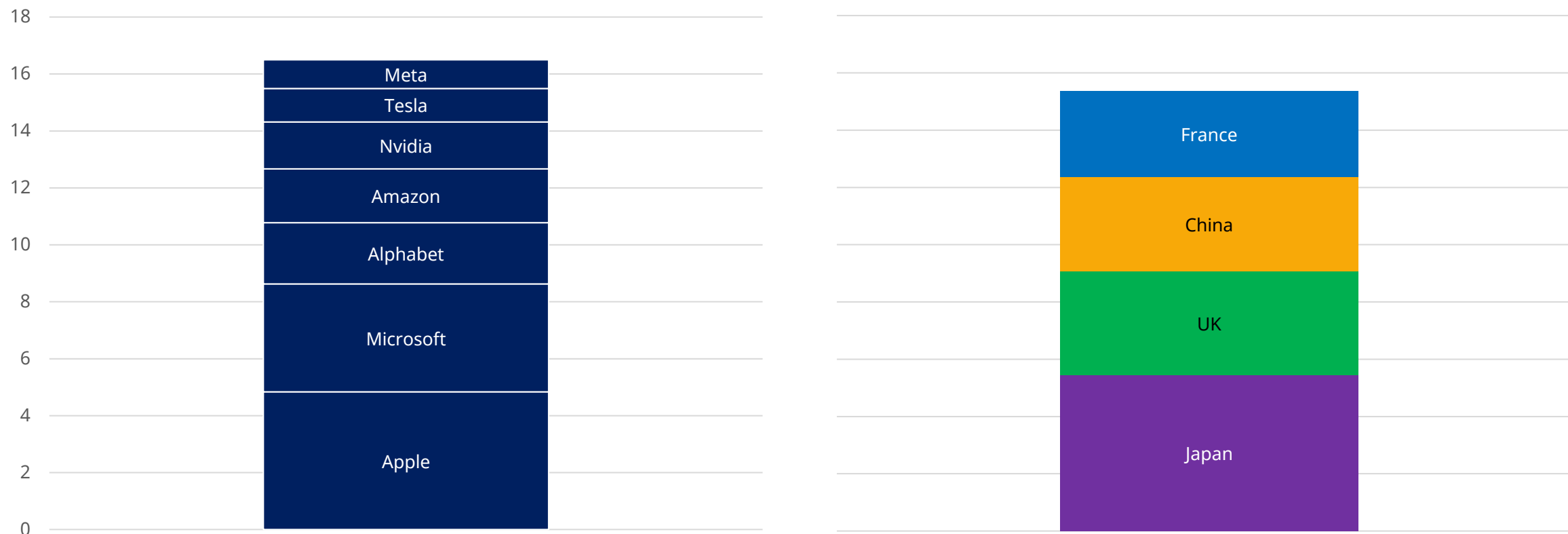


Global equities

Charts of the month

The Super-7 US stocks now make up more of MSCI ACWI than Japan, UK, China and France combined

Weight in MSCI ACWI

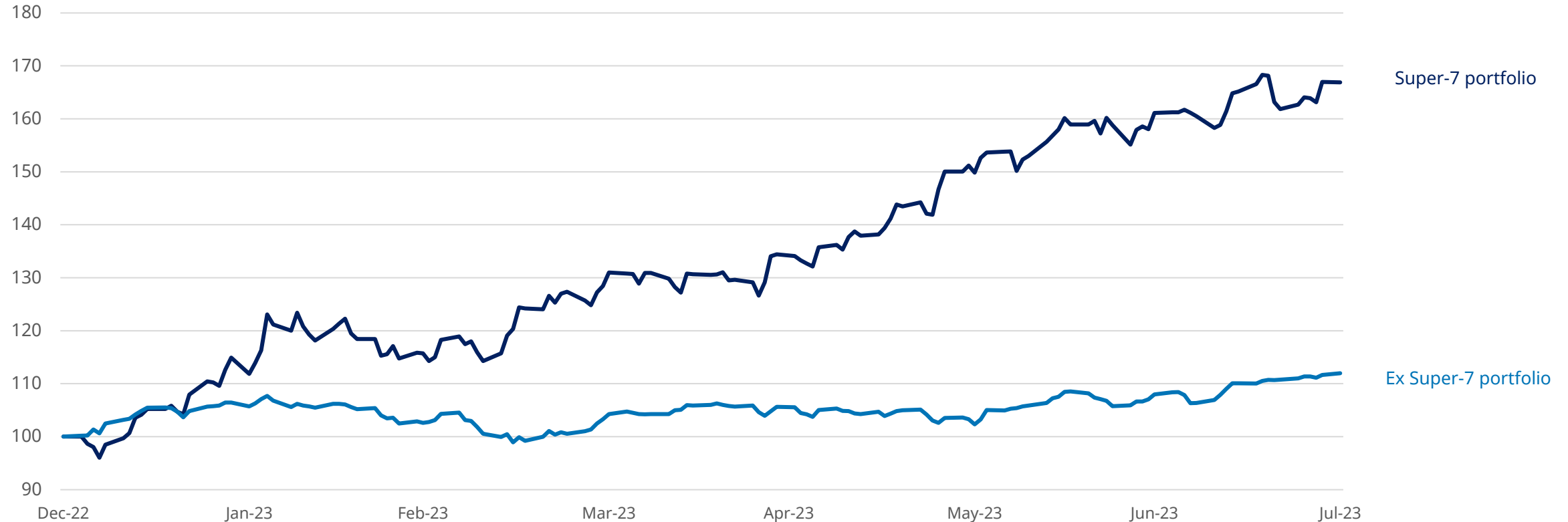


Past performance is not a guide to future performance and may not be repeated.

Data as at 31 July 2023. Source: Refinitiv, Schroders. Please see relevant disclaimers on slide 40

The rest of the world has been left in their wake

Performance of Super-7 vs MSCI ACWI ex-Super-7, rebased to 100

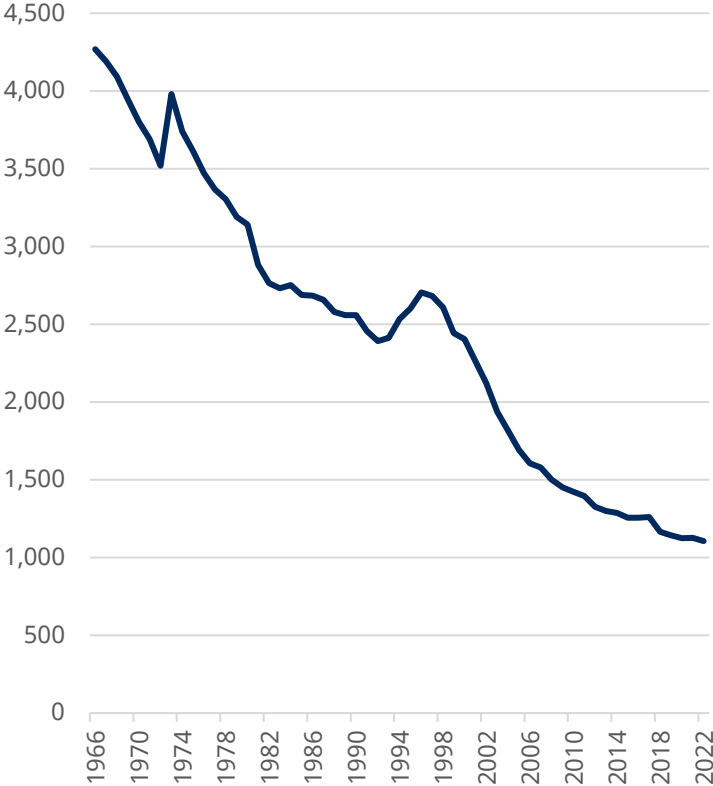


Past performance is not a guide to future performance and may not be repeated.

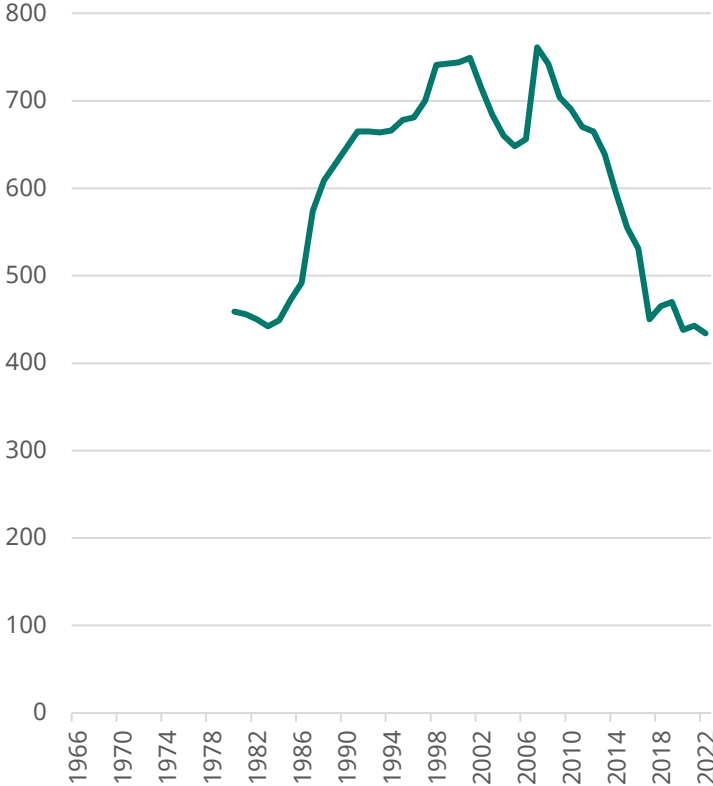
Super-7 portfolio is portfolio of seven largest companies in MSCI USA by free float market capitalisation. These are Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Tesla, Meta (Facebook). Ex Super-7 is a portfolio of the remaining constituents of MSCI ACWI. Data to 31 July 2023. Source: Refinitiv, Schroders. Please see relevant disclaimers on slide 40

Far fewer companies are listed on major stock markets than in the past ([read more](#))

Number of listed companies: UK



Germany



US



Investors need to embrace private markets to capture the full opportunity set

UK data is for the main market of the London Stock Exchange only. Data to December 2022. Source: London Stock Exchange, Refinitiv Datastream, Schroders, World Bank World Development Indicators, and World Federation of Exchanges. Please see relevant disclaimers on slide 40

Not all US equities are expensive

Small caps are cheaply valued vs large caps

US small cap valuation premium (positive) or discount (negative) to large caps



Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023 in US dollars. Please see relevant disclaimers on slide 40

US small caps are also reasonable on a stand-alone basis

Valuation vs 15-year median (% above or below)

Equity market	Forward P/E	Trailing P/E	P/B	Dividend yield
US large caps	20 (23%)	24 (20%)	4.5 (58%)	1.5 (36%)
US small caps	19 (-5%)	24 (-18%)	2.2 (2%)	1.6 (-5%)

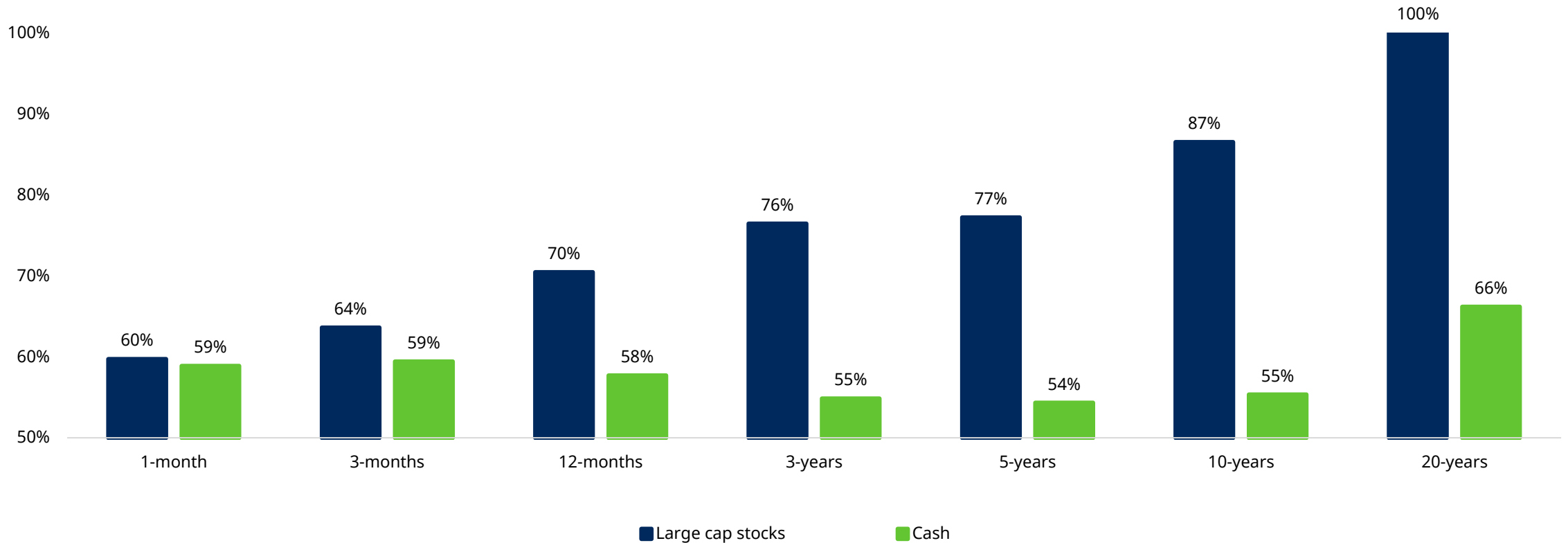
Key:	<-25%	-25% to -15%	-15% to -5%	-5% to 0%	0% to 5%	5% to 15%	15% to 25%	>25%
	Cheap			Neutral		Expensive		

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median. Cyclically-adjusted price/earnings multiple (CAPE) not shown due to insufficient history for small caps.

In the long-run, stock market investing wins out ([read more](#))

Percentage of time periods where US stocks and cash have beaten inflation, 1926-2022

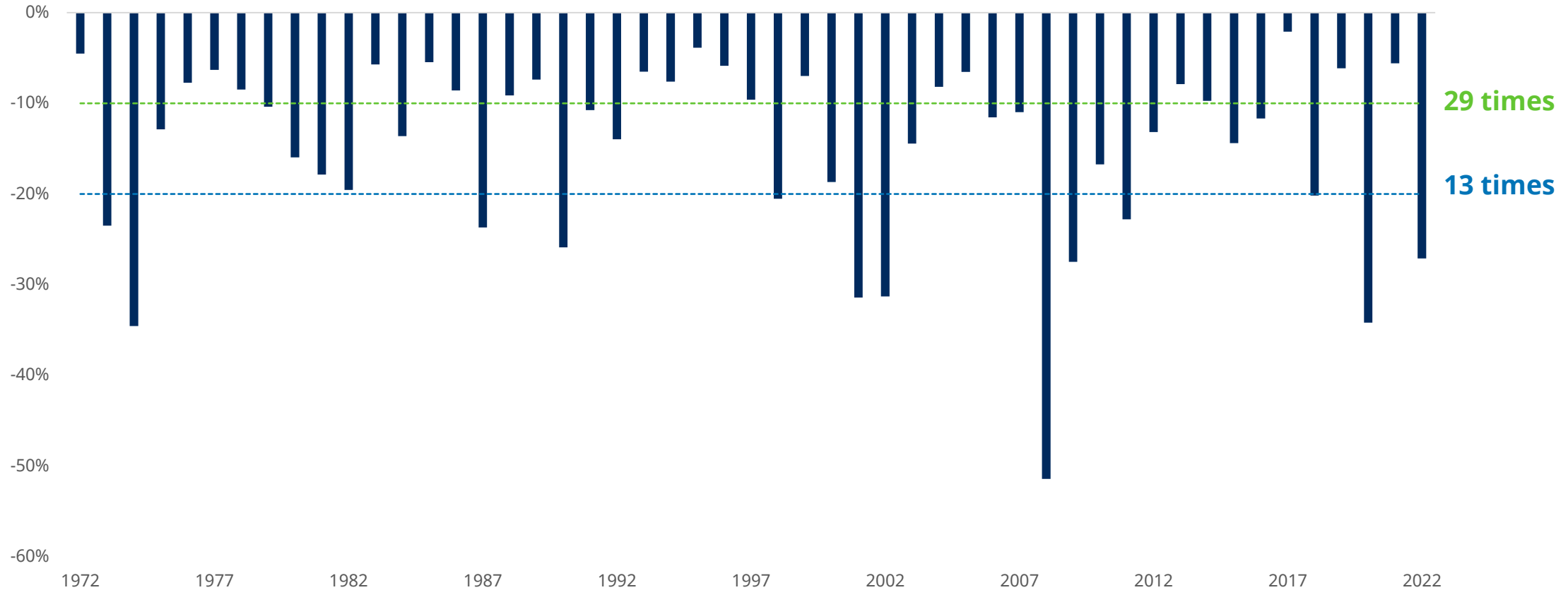


Past performance is not a guide to the future and may not be repeated

Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, cash by Ibbotson® SBBI® US (30-Day) Treasury Bills. Data January 1926-December 2022 Source: Morningstar Direct, accessed via CFA institute and Schroders. Please see relevant disclaimers on slide 40

But it's a bumpy ride: 10%+ falls happen in more years than not

Biggest stock market falls in each of the past 50 calendar years, MSCI World (USD)



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

Source: Refinitiv and Schroders. Data to 31 December 2022 for MSCI World index in USD terms. . Please see relevant disclaimers on slide 40



Global equities

Regional performance

Global equities: performance leadership table in USD terms

An outstanding start to the year for many markets

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 27.0%	UK -4.8%	US 21.2%
	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 18.5%	Japan -16.3%	Europe 19.4%
	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 16.5%	Europe -17.3%	Japan 16.7%
	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 2.0%	US -19.5%	UK 12.2%
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 -2.2%	EM -19.7%	EM 11.7%

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

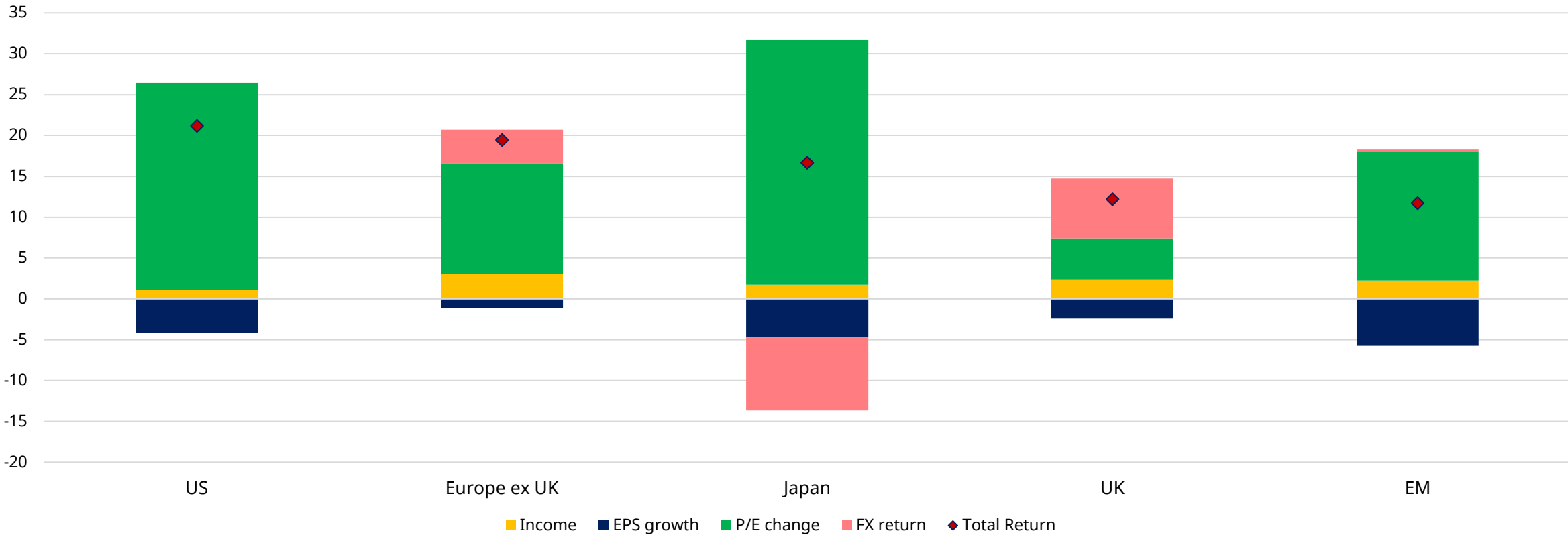
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023 in US dollars. Please see relevant disclaimers on slide 40

Europe = Europe ex UK.

Drivers of global equity returns

Equity markets are looking through weak earnings

YTD \$ return by source, %

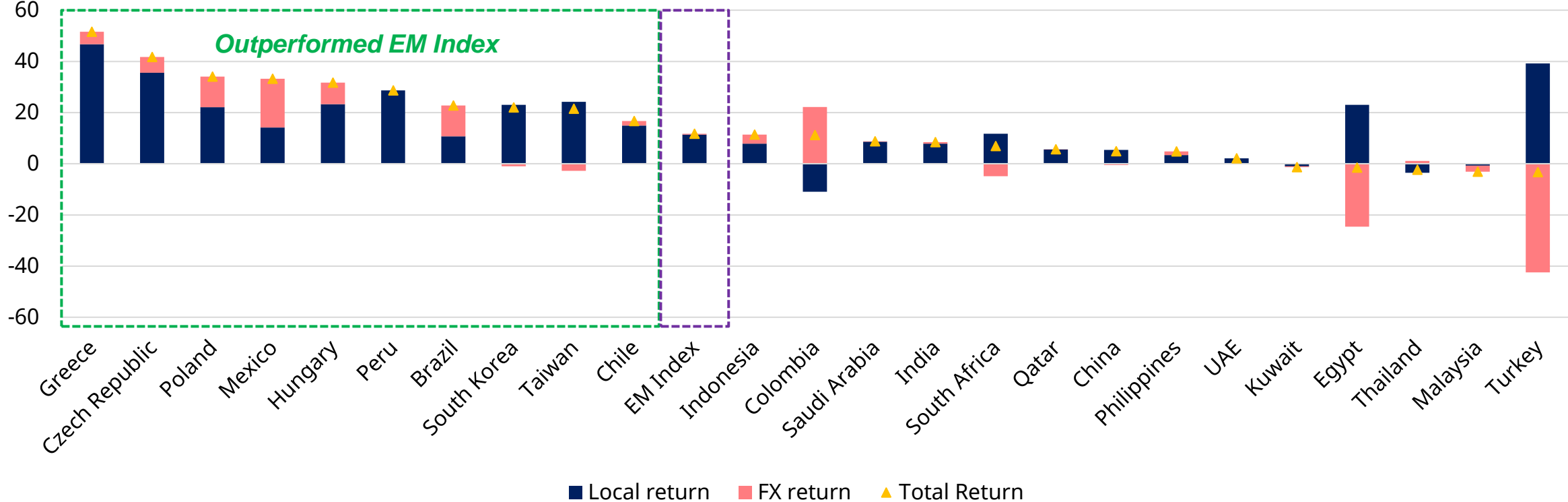


Past performance is not a guide to future performance and may not be repeated.
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023 in US dollars. Please see relevant disclaimers on slide 40

Headline performance can be misleading

High intra-region dispersion (see more on [the Greece vs Turkey divide](#))

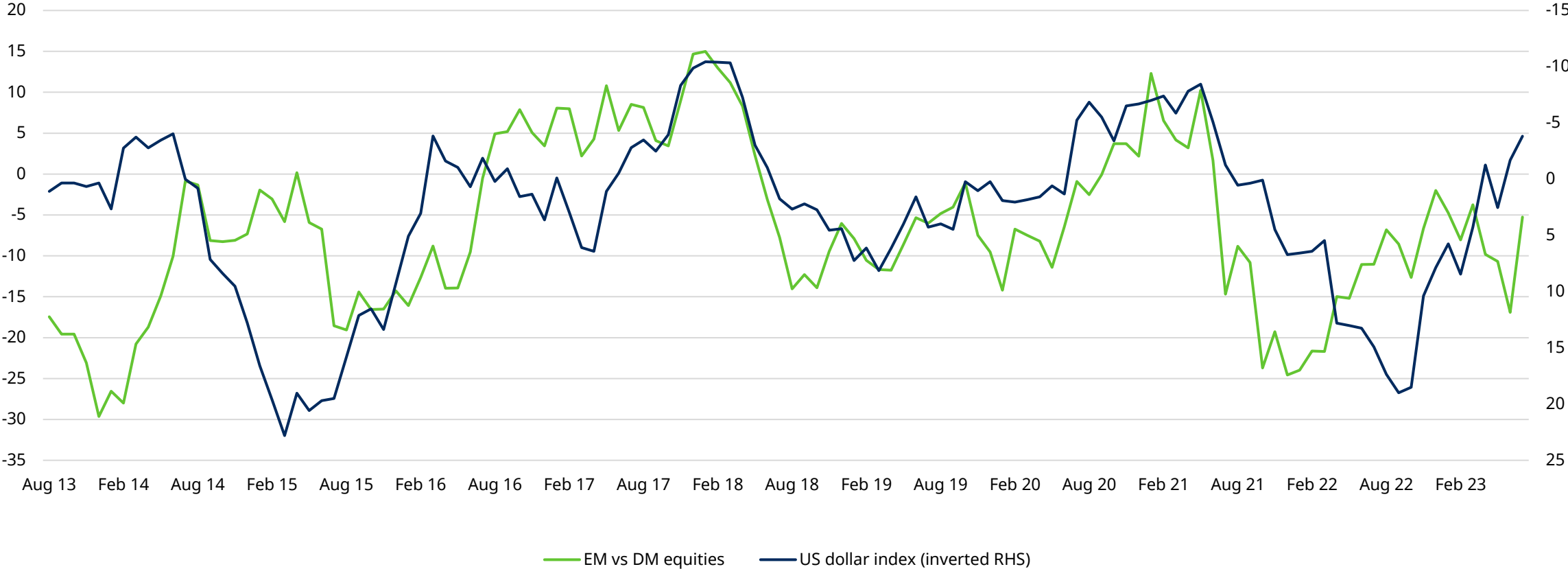
YTD total return, %



Past performance is not a guide to future performance and may not be repeated.
 Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Dollar weakness is usually supportive of EM performance vs developed markets

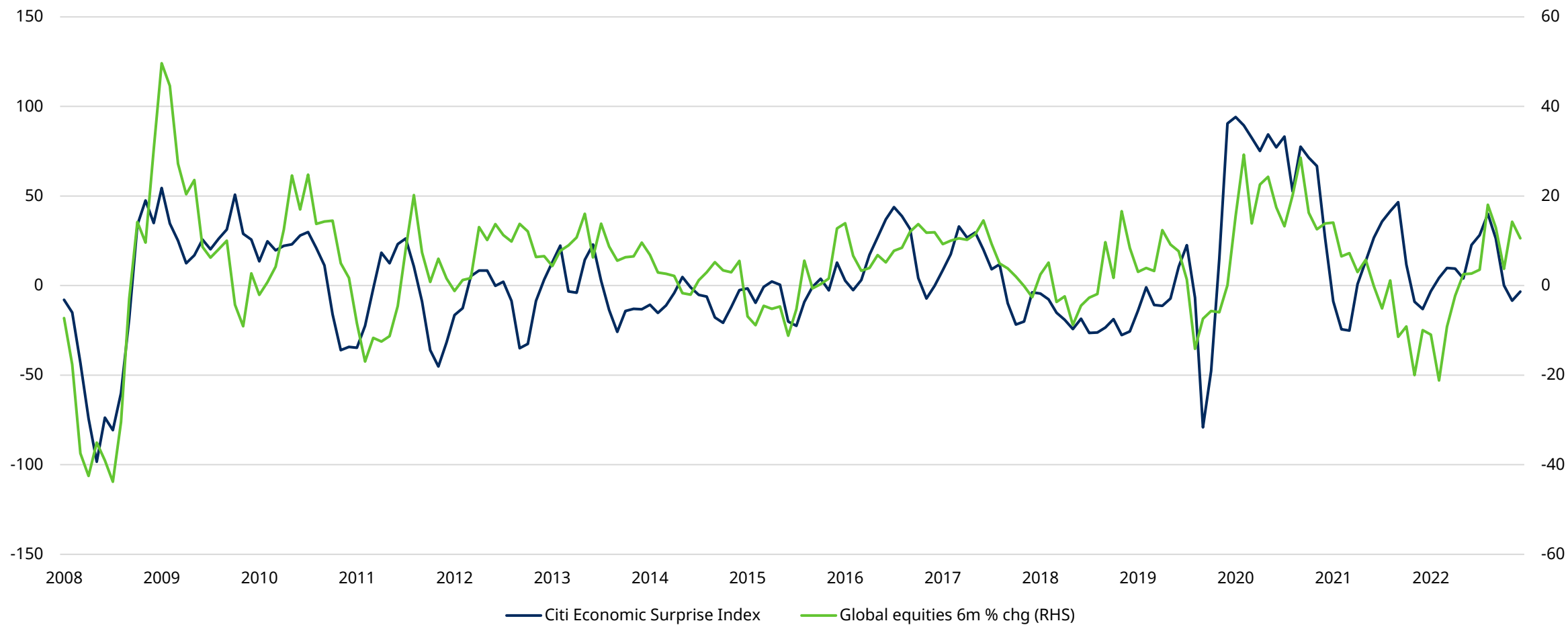
12m rolling return, %



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 31 July 2023 in US dollars. Notes: EM = MSCI EM index \$ and DM = MSCI World Index \$. Please see relevant disclaimers on slide 40

Equities have risen strongly despite economic surprises turning negative



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

Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

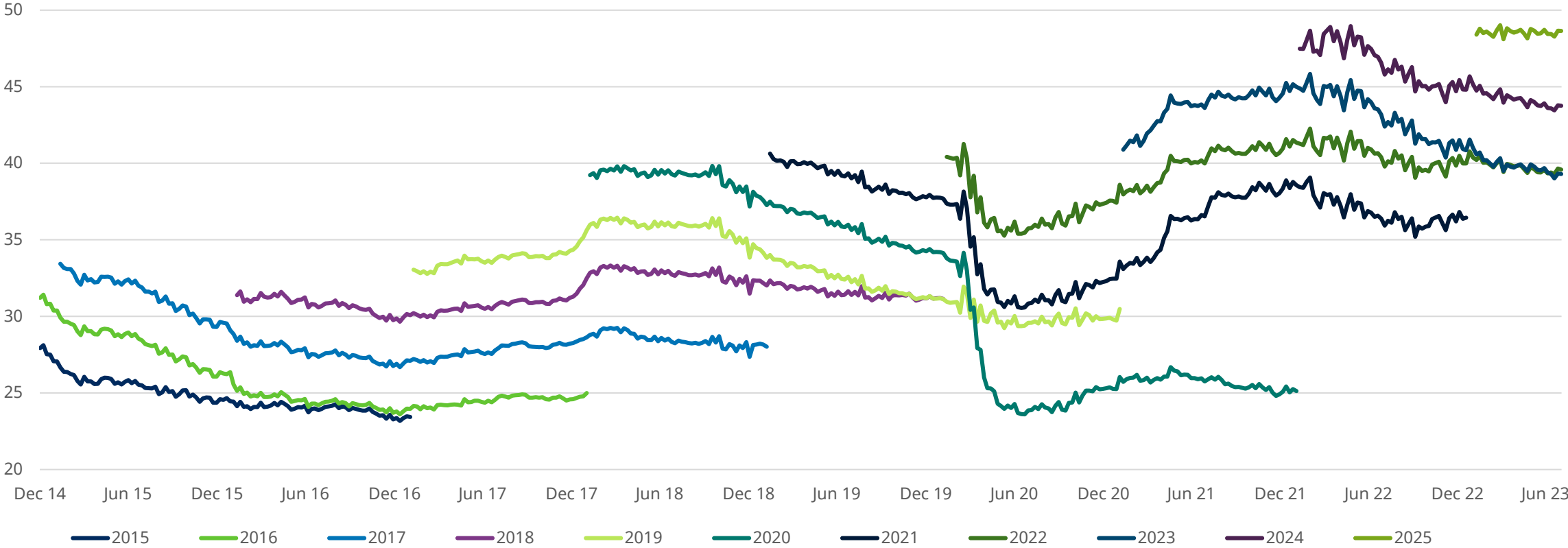


Global equities

Fundamentals and valuations

Consensus expectations are for 0% earnings growth in 2023 but then a strong rebound

Global equities EPS forecast, \$

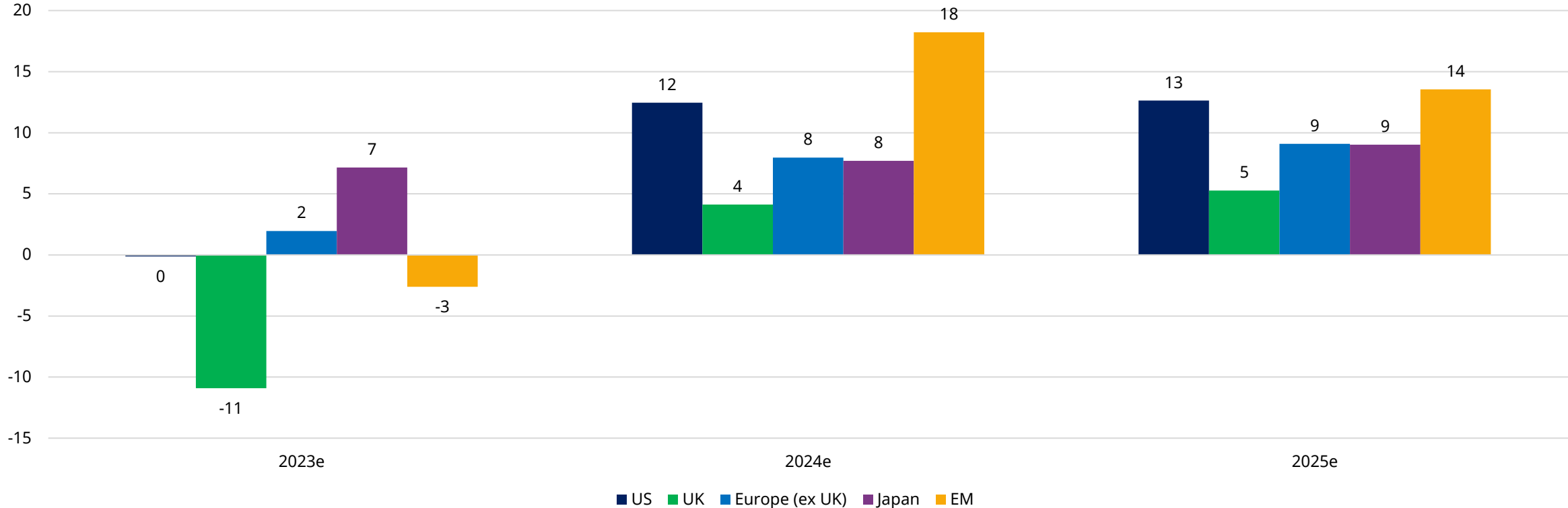


Forecasts included are not guaranteed and should not be relied upon.
 Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 5 July 2023. Please see relevant disclaimers on slide 40
 Notes: Figures in USD

Corporate earnings: consensus forecasts

Earnings forecast to rebound after this year, especially in US and EM

YoY EPS growth, %



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

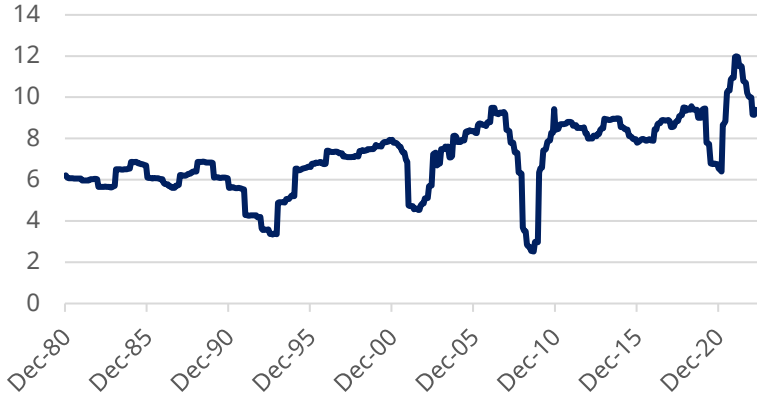
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Notes: Japan EPS for 2022 is 4 quarter sum until 31 March of next calendar year, e.g. 2023 = 31/03/2023 – 31/03/2024.

Profit margins under pressure, but from a high starting point

Net profit margins

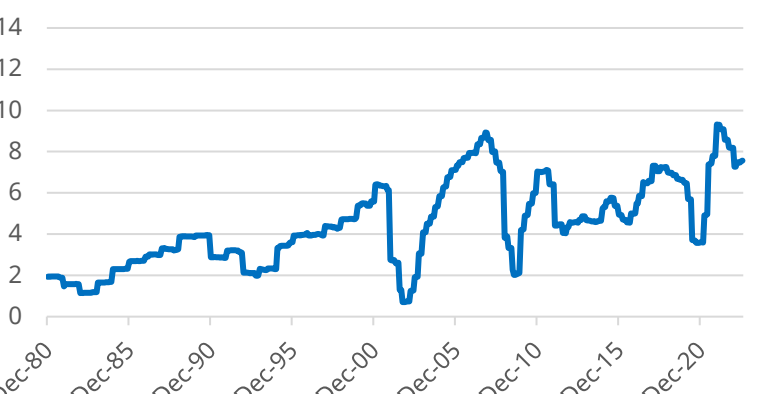
US



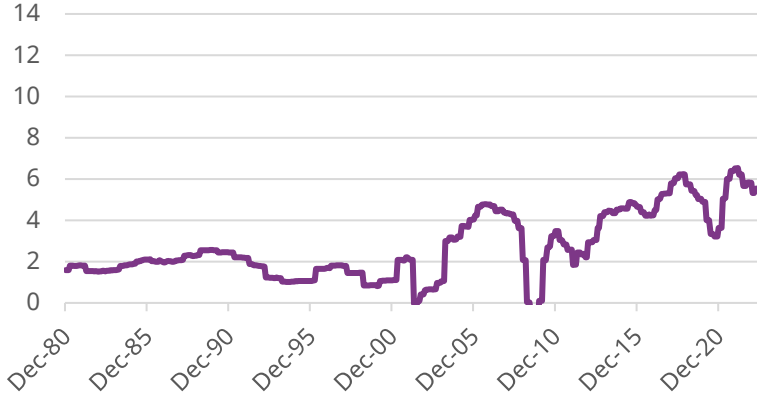
UK



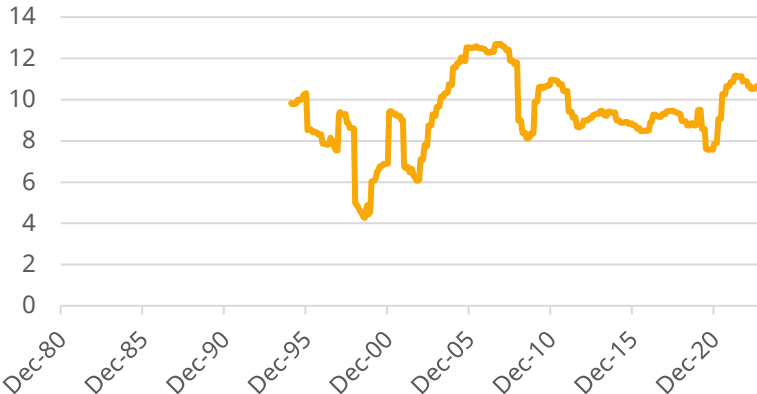
Europe ex UK



Japan



EM

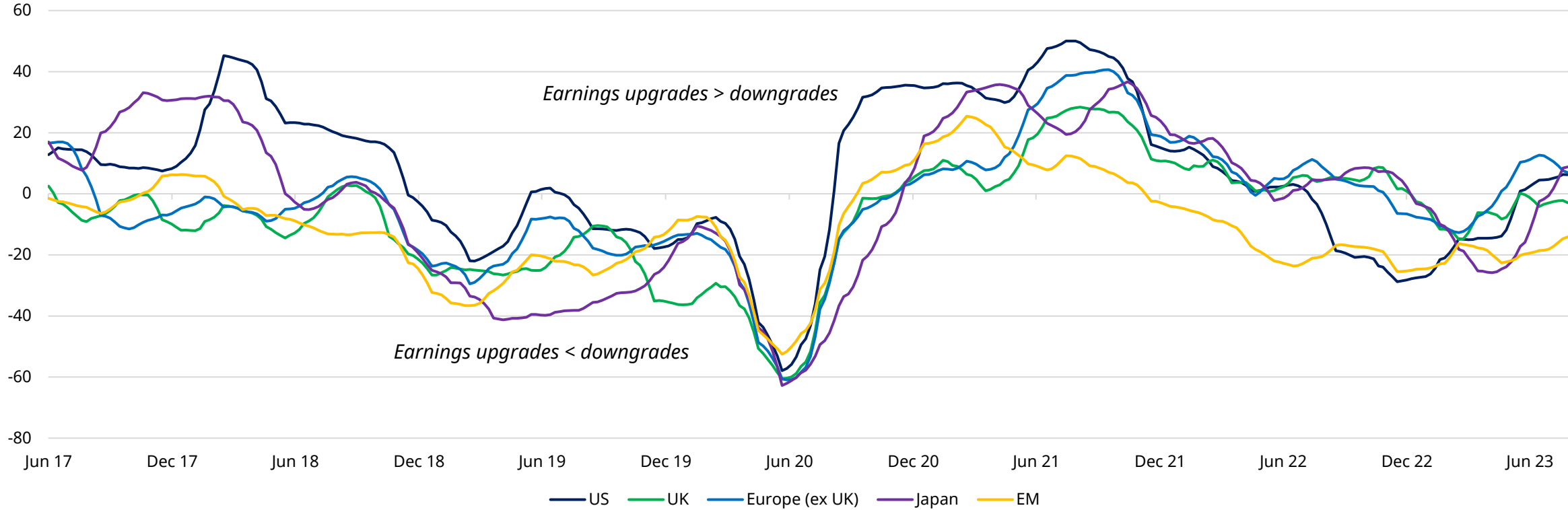


Based on Datastream total market equity indices for each region. Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Earnings sentiment

Japanese, European and US earnings revisions have all turned positive

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 31 July 2023. Please see relevant disclaimers on slide 40

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

Strong performance has eroded cheapness

Many valuation metrics have moved closer to or above their median

Valuation vs 15-year median (% above or below)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	30 (27%)	20 (23%)	24 (20%)	4.5 (58%)	1.5 (36%)
UK	14 (7%)	11 (-14%)	12 (-17%)	1.7 (-4%)	3.8 (0%)
Europe ex. UK	20 (20%)	13 (-2%)	16 (-5%)	2.0 (16%)	3.0 (7%)
Japan	19 (-8%)	15 (7%)	18 (13%)	1.5 (15%)	2.2 (-8%)
EM	12 (-14%)	13 (9%)	14 (5%)	1.7 (3%)	3.1 (-13%)

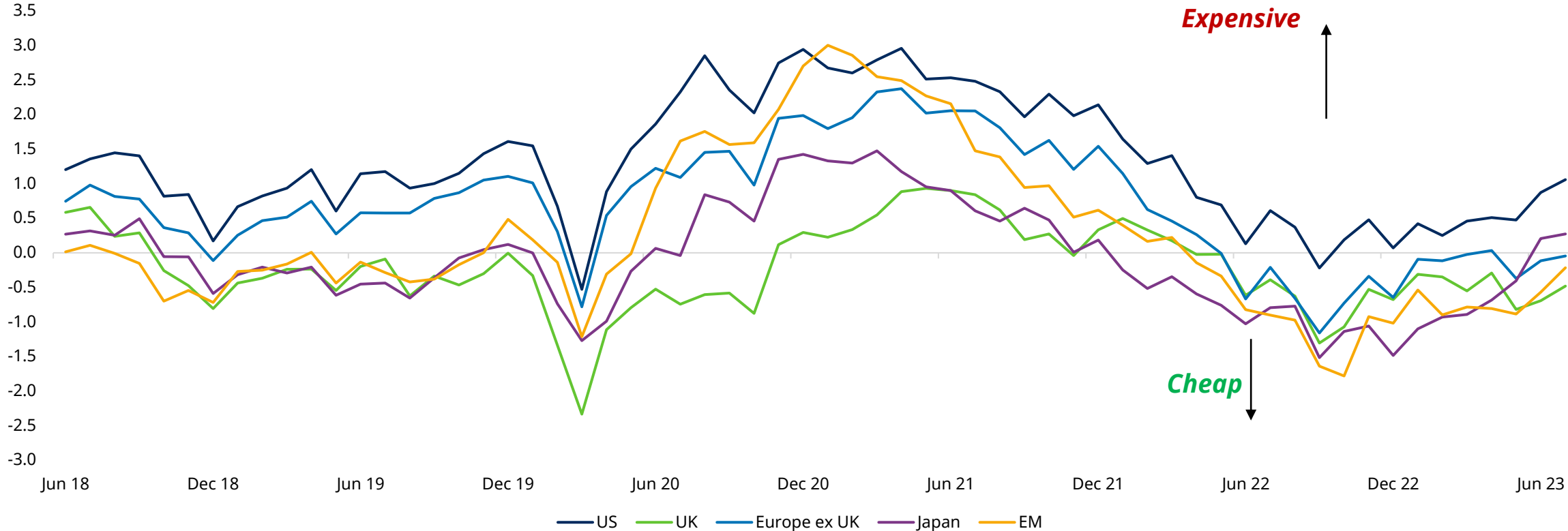
Key:	<-25%	-25% to -15%	-15% to -5%	-5% to 0%	0% to 5%	5% to 15%	15% to 25%	>25%
	Cheap			Neutral		Expensive		

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40
 Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median.

Composite valuation across five valuation metrics

Strong performance has eroded cheapness

Average Z-score across five valuation metrics

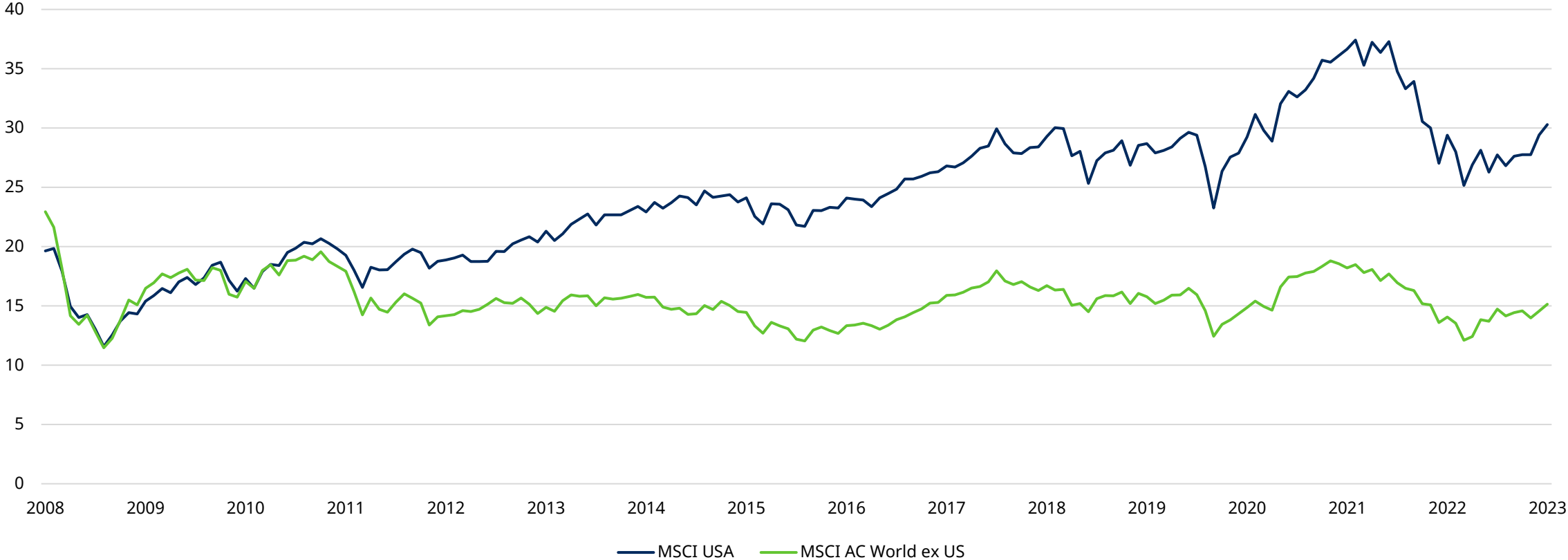


Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40. Z-score measures the number of standard deviations above or below the average. Our assessment of expensive/cheap is relative to a 10-year rolling average of each 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

Cyclically adjusted price-to-earnings ratio



Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Global sector valuations (MSCI ACWI)

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

Sector	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
Energy	34%	-15%	-44%	16%	-21%
Materials	5%	8%	-25%	7%	-19%
Cons stap	-7%	4%	6%	12%	3%
Financials	0%	-3%	5%	17%	0%
Utilities	8%	0%	21%	11%	0%
Health care	2%	11%	2%	16%	12%
Industrials	18%	16%	0%	28%	9%
Cons disc	4%	24%	44%	33%	45%
IT	42%	61%	62%	109%	47%
Comm Svcs	19%	26%	70%	40%	237%

Key: <-25% -25% to -15% -15% to -5% -5% to 0% 0% to 5% 5% to 15% 15% to 25% >25%

Cheap

Neutral

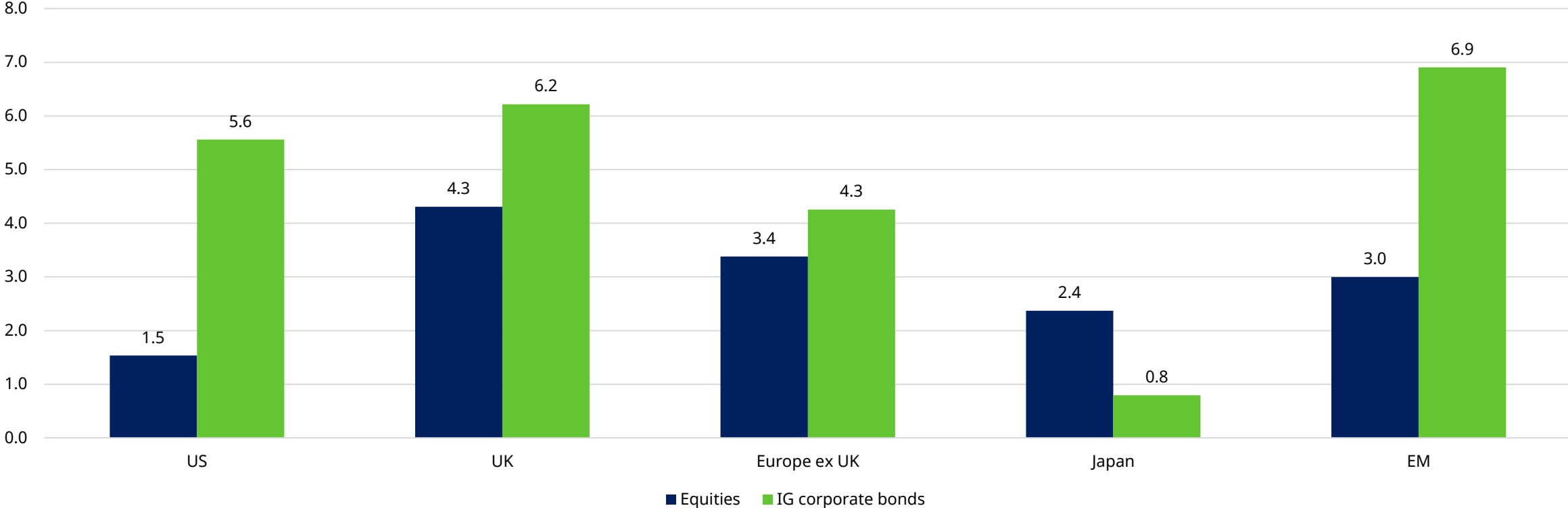
Expensive

Real estate has been excluded due to data only being available since 2016. Note that the dividend yield on the communication services sector is very low vs history. This is down to compositional changes over time e.g. Alphabet is now the biggest constituent by a long way, with Meta the next biggest. These are very different to the higher yielding companies in the sector in the past. Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40

Dividend vs. bond yields by region

Bond yields are comfortably above dividend yields in most markets

Forward 12-month equity dividend vs bond yield, %

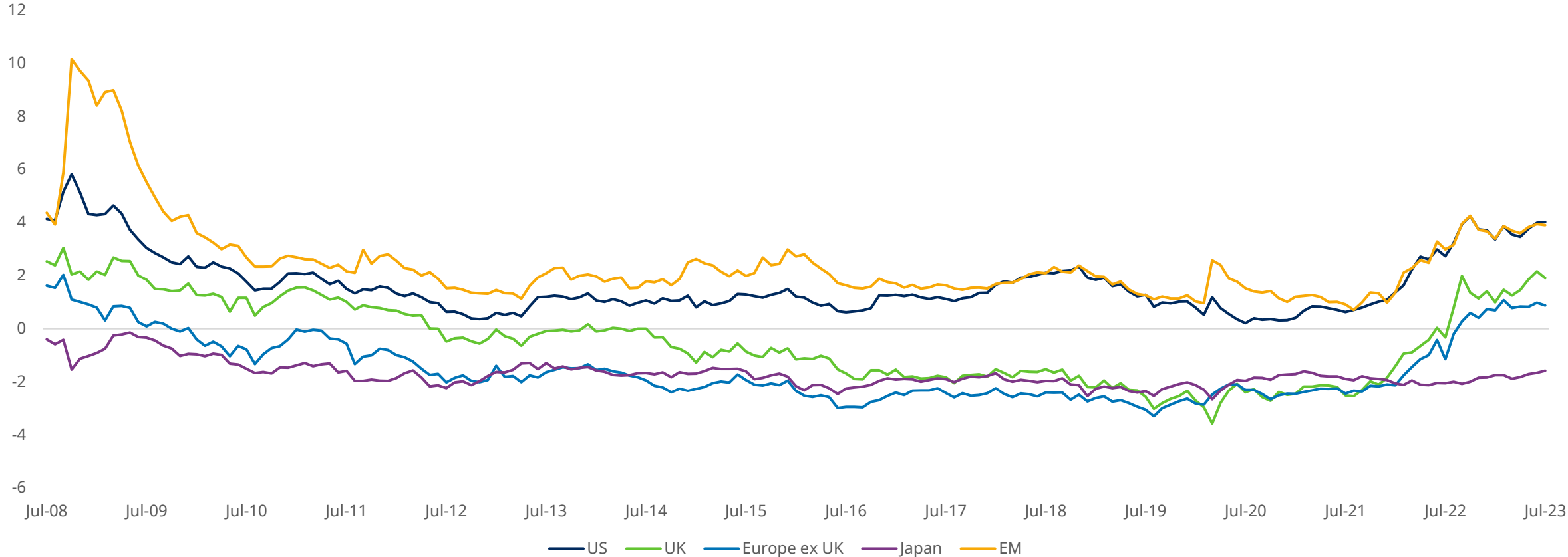


Forecasts included are not guaranteed and should not be relied upon.

Source: IBES, Datastream Refinitiv, MSCI, ICE and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40. 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 ex-Japan

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 31 July 2023. Please see relevant disclaimers on slide 40. Corporate bond yield = unhedged local currency yield, except for EM which is in USD.



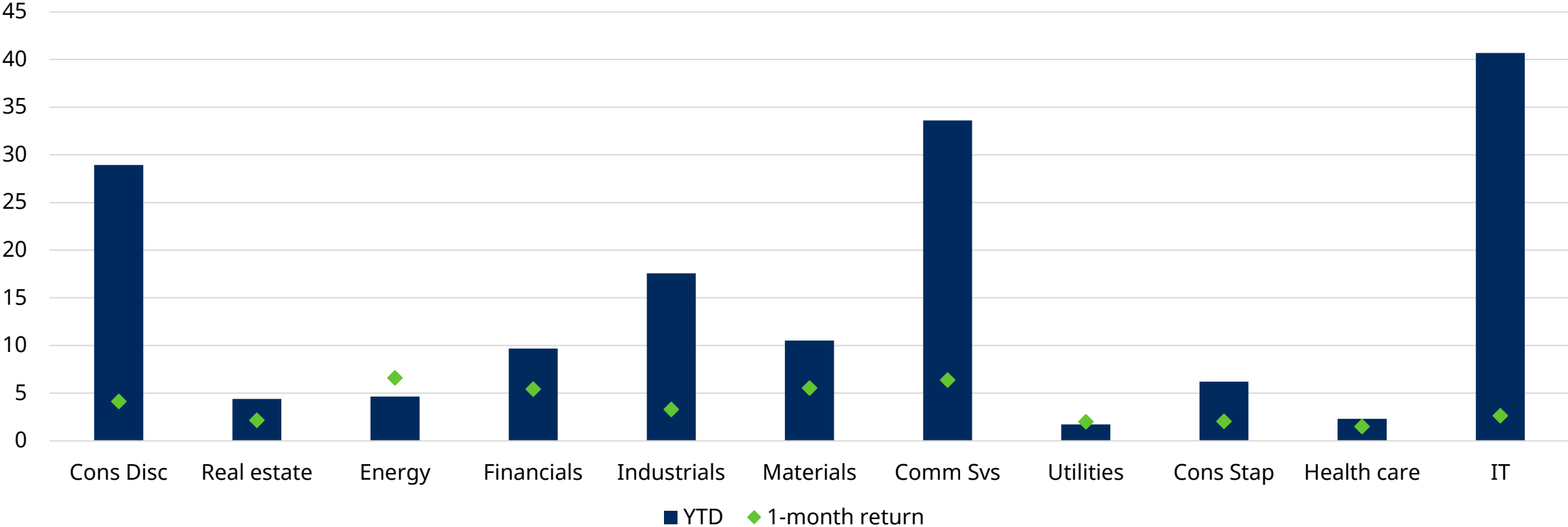
Global equities

Sectors & Styles

Global sector performance

IT, communication services and consumer discretionary are soaring YTD

Global \$ sector return, %

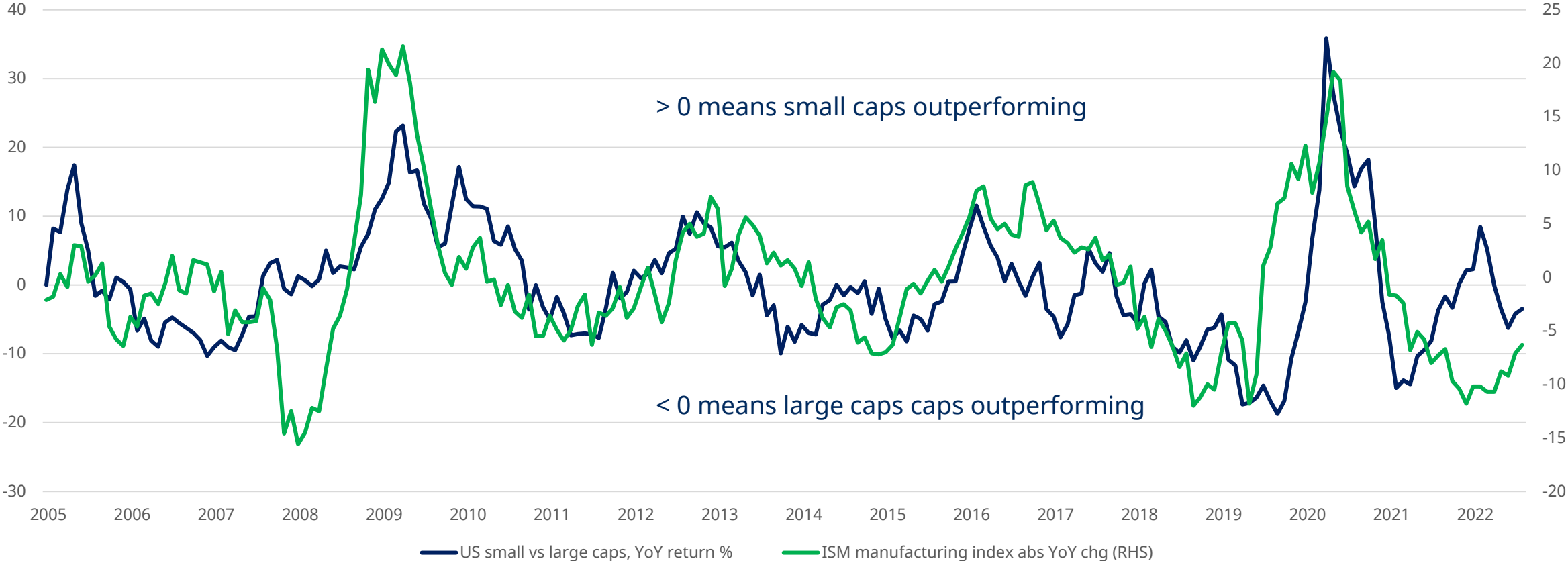


Past performance is not a guide to future performance and may not be repeated.

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023 in US dollars. Please see relevant disclaimers on slide 40

US small vs large caps

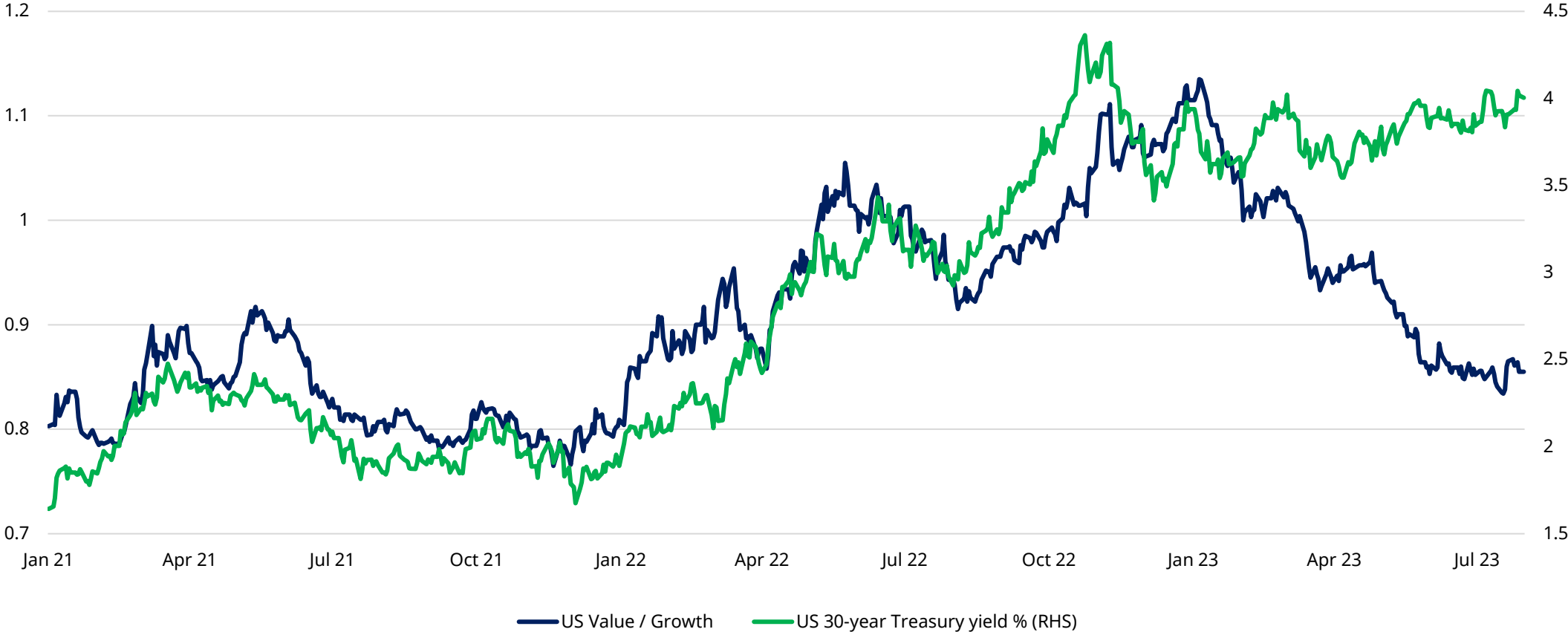
Large caps are back in the ascendency



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 31 July 2023. Please see relevant disclaimers on slide 40

US Value vs Growth

Growth has been in the ascendency in 2023, decoupling from bond yields



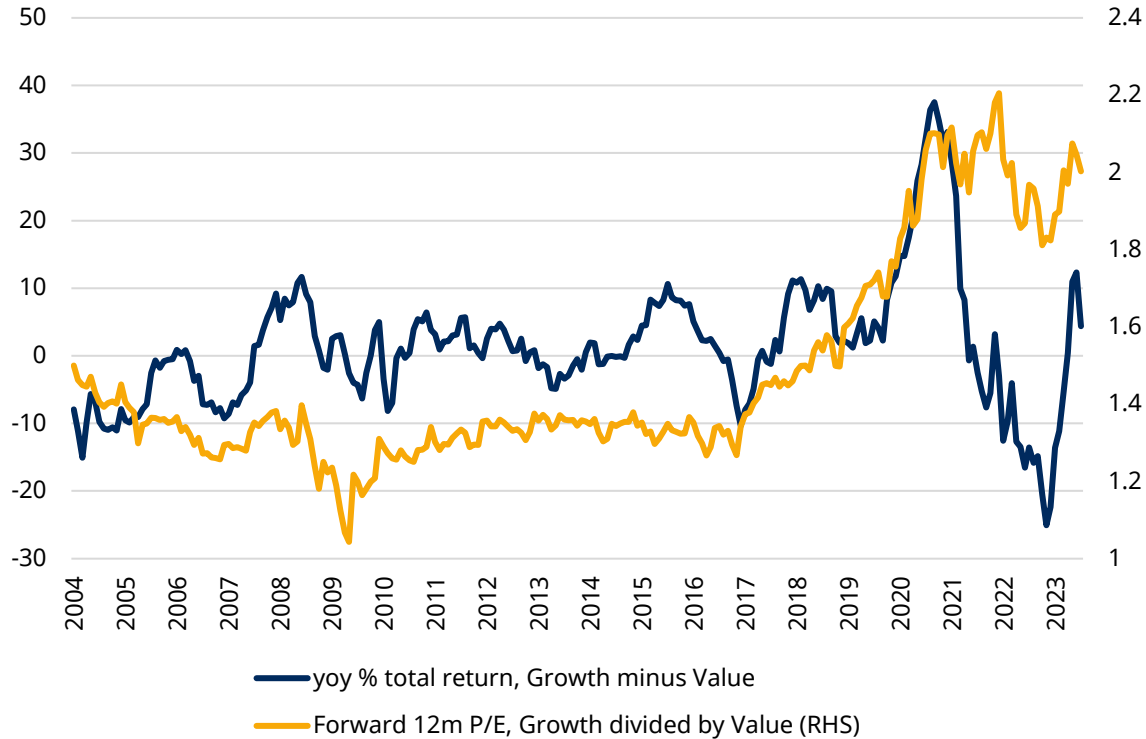
Past performance is not a guide to future performance and may not be repeated.
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on slide 40

Global Value vs Growth

Opportunity for mean-reversion significant given wide valuation dispersion

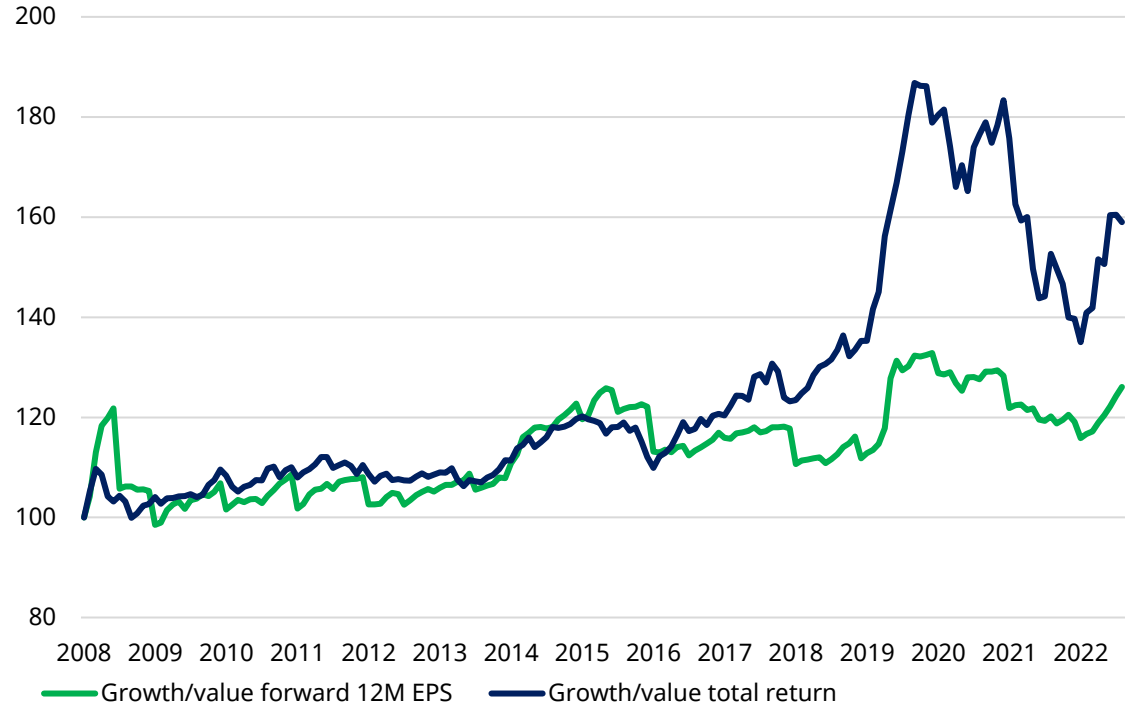
Relative valuations still remain high by historical standards

Growth vs Value (global)



Growth has been in the ascendancy recently

Growth / Value, rebased to 100

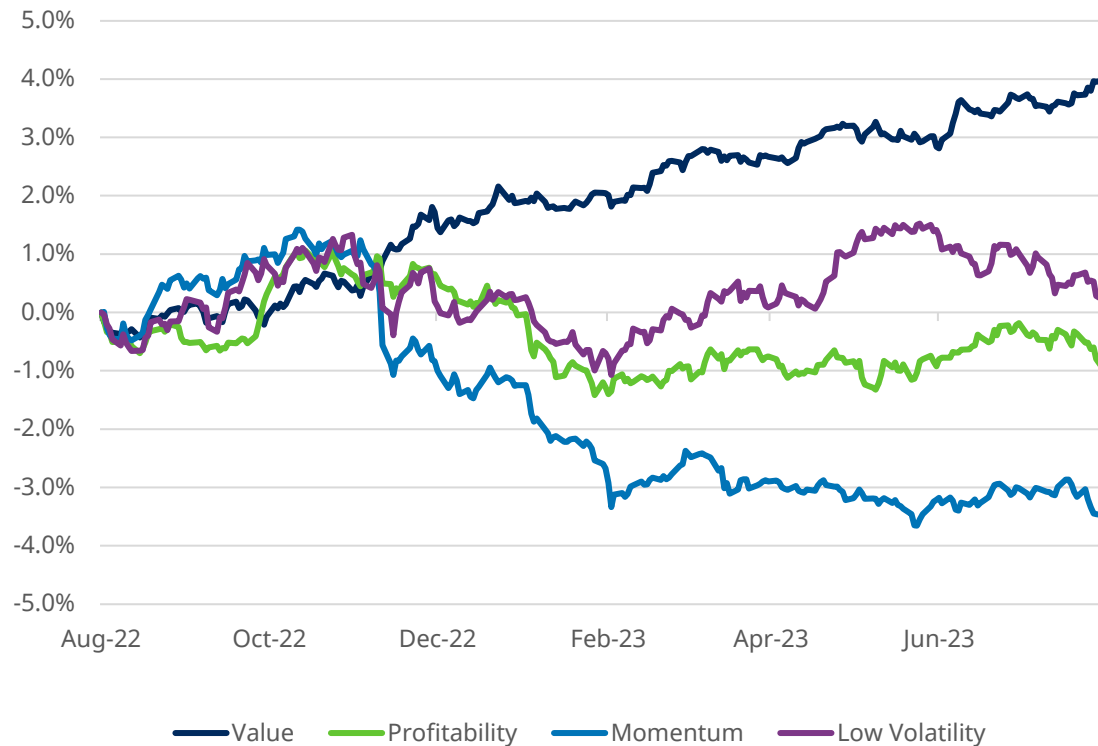


Forecasts included are not guaranteed and should not be relied upon. Past performance is not a guide to future performance and may not be repeated.
 Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 July 2023 in US dollars. Based on MSCI ACWI World. Please see relevant disclaimers on slide 40

Schroders Factor Returns

Factor performance has diverged since the autumn

1-year cumulative long short return



	Value	Profitability	Momentum	Low Volatility
YTD	2.1%	-1.0%	-2.3%	0.0%
1 year	3.8%	-1.1%	-3.4%	0.2%
5 yr p.a.	1.0%	0.6%	0.1%	-0.1%
10 yr p.a.	1.2%	1.6%	0.6%	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 31 July 2023. Notes: based on portfolios formed using the MSCI ACWI Universe. Please see relevant disclaimers on slide 40



Global equities

Index composition

Regional market composition

UK is more defensive than ACWI, 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	1.16	Cyclical	28%	1%	12%	14%	21%	22%	6%	-21%	-10%	-8%	-1%
Cons disc	1.15	Cyclical	11%	6%	18%	19%	14%	11%	-1%	-6%	6%	8%	3%
Financials	1.08	Cyclical	12%	19%	17%	12%	22%	16%	-3%	4%	2%	-4%	6%
Industrials	1.12	Cyclical	9%	11%	16%	24%	6%	11%	-2%	0%	6%	13%	-4%
Energy	1.22	Cyclical	4%	13%	4%	1%	5%	5%	0%	9%	0%	-4%	0%
Materials	1.13	Cyclical	3%	9%	6%	5%	8%	5%	-2%	4%	2%	0%	4%
Real estate	0.92	Defensive	2%	1%	0%	1%	0%	2%	1%	-1%	-1%	-1%	-2%
Comm Servs	0.93	Defensive	9%	3%	4%	7%	10%	8%	1%	-5%	-3%	0%	2%
Cons stap	0.60	Defensive	6%	19%	8%	6%	6%	7%	-1%	12%	1%	-1%	-1%
Utilities	0.62	Defensive	2%	4%	6%	1%	3%	3%	0%	1%	3%	-2%	0%
Health care	0.69	Defensive	13%	13%	8%	9%	4%	12%	1%	2%	-4%	-3%	-8%
% cyclical			67%	60%	74%	75%	77%	69%	-2%	-10%	4%	6%	8%

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on slide 40. 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

Min vol has the biggest defensive bias vs ACWI

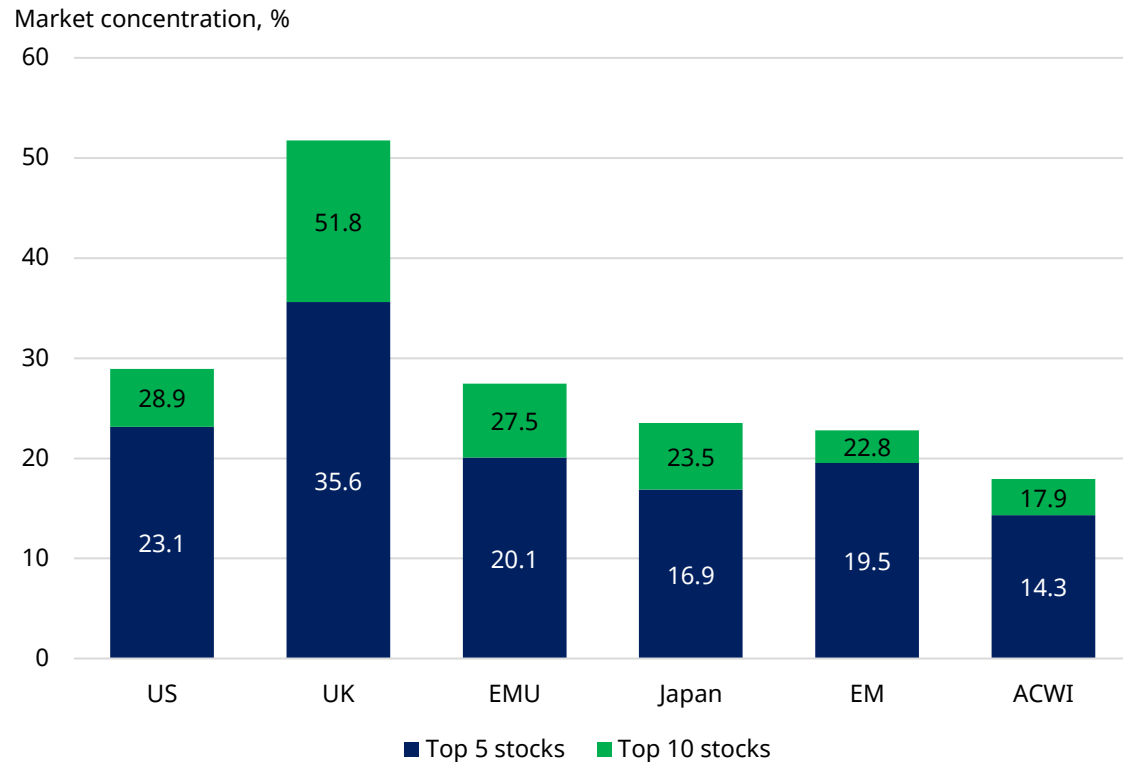
Sector	Beta vs ACWI	Cyclical/defensive	Sector Group Index Weight						Sector Group Index Weight vs Benchmark*					
			Value	Growth	Quality	Momentum	Min Vol*	US small caps*	Value	Growth	Quality	Momentum	Min Vol*	US small caps*
IT	1.2	Cyclical	10%	33%	36%	18%	18%	15%	-12%	11%	14%	-4%	-4%	-13%
Cons disc	1.2	Cyclical	8%	15%	5%	18%	6%	12%	-4%	3%	-6%	7%	-5%	1%
Financials	1.1	Cyclical	23%	9%	7%	10%	13%	14%	8%	-7%	-9%	-6%	-2%	2%
Industrials	1.1	Cyclical	11%	10%	11%	14%	9%	17%	1%	-1%	0%	4%	-2%	8%
Energy	1.2	Cyclical	8%	2%	2%	4%	2%	5%	3%	-3%	-3%	-1%	-3%	0%
Materials	1.1	Cyclical	6%	3%	4%	3%	3%	6%	2%	-2%	-1%	-2%	-1%	3%
Real estate	0.9	Defensive	4%	1%	0%	1%	0%	7%	2%	-1%	-1%	-1%	-2%	5%
Comm Servs	0.9	Defensive	4%	11%	9%	12%	12%	4%	-4%	3%	2%	4%	5%	-5%
Cons stap	0.6	Defensive	8%	6%	7%	7%	12%	4%	1%	-1%	0%	-1%	5%	-3%
Utilities	0.6	Defensive	5%	0%	0%	1%	7%	5%	3%	-2%	-3%	-2%	5%	2%
Health care	0.7	Defensive	13%	10%	18%	13%	17%	12%	1%	-1%	7%	1%	5%	-1%
% cyclical			66%	71%	65%	67%	51%	69%	-3%	2%	-4%	-2%	-17%	2%

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 31 July 2023. Please see relevant disclaimers on slide 40. 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.

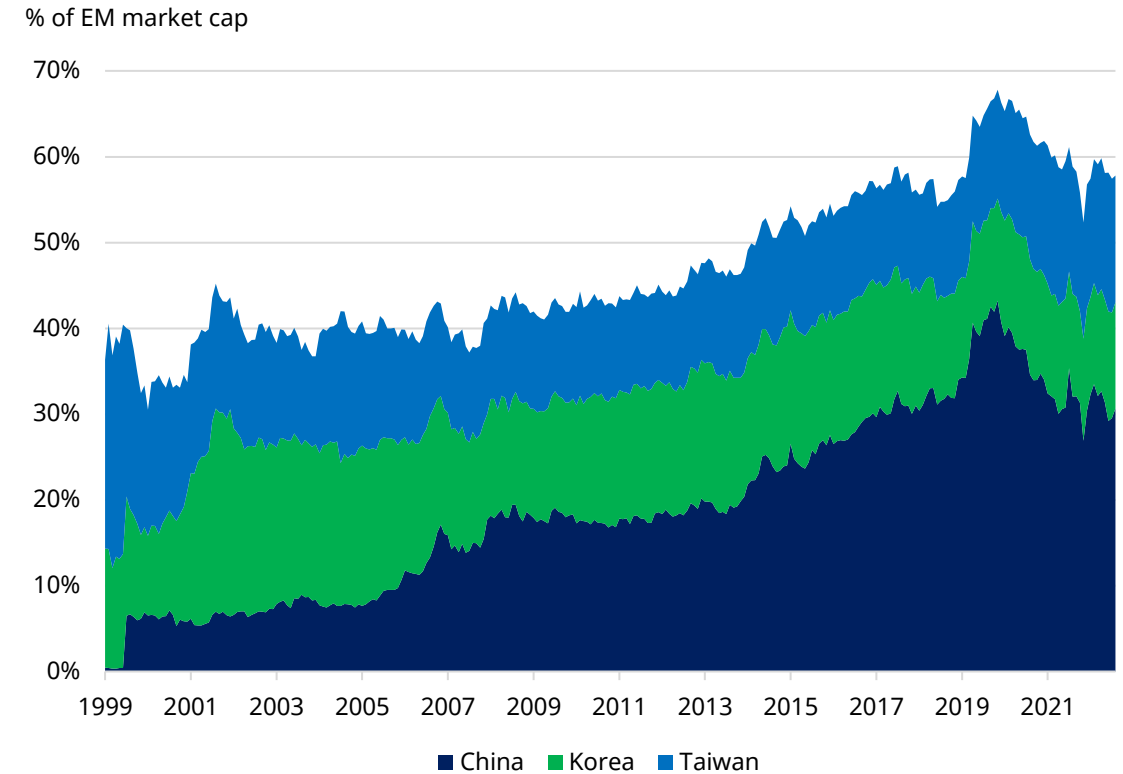
Top constituents by market share

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 31 July 2023. Please see relevant disclaimers on slide 40



Appendix

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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 7 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

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