



# Schroders Equity Lens

## Strategic Research Unit

June 2023

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Marketing material for professional  
investors or advisers only.

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# Summary

- Japan, Europe ex UK and US equities are all having a stellar year, up around 10% or more in local currency terms (slide 8). Japan's 15% gain is the standout although yen weakness erodes that for international investors. UK and emerging markets are laggards.
- The super-7 US mega cap tech stocks are up 50% YTD, the rest of the US market is flat. Returns have been highly concentrated (slide 5).
- Japan has been cheaply valued vs international peers for some time but there is renewed pressure from the Tokyo Stock Exchange (TSE) for companies to do something about that (slides 6-10).
- Over half the companies on the Japanese stock market are valued at less than their book value. The TSE has written to them urging them to set out plans for how they will resolve this. More shareholder friendly activities, such as share buybacks, may follow. These have already been on a rising trend.
- The US, which makes up 61% of the global stock market (MSCI ACWI), continues to be the most expensive major market (slides 22 and 23).

**Past performance is not a guide to future performance and may not be repeated.**  
Please see relevant disclaimers on slide 39



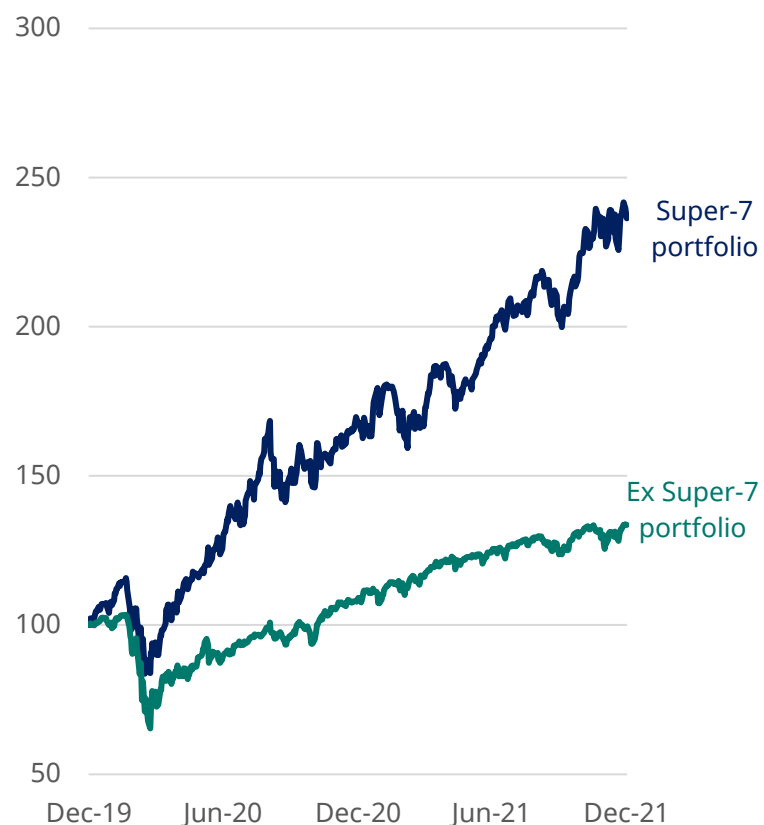


## Global equities

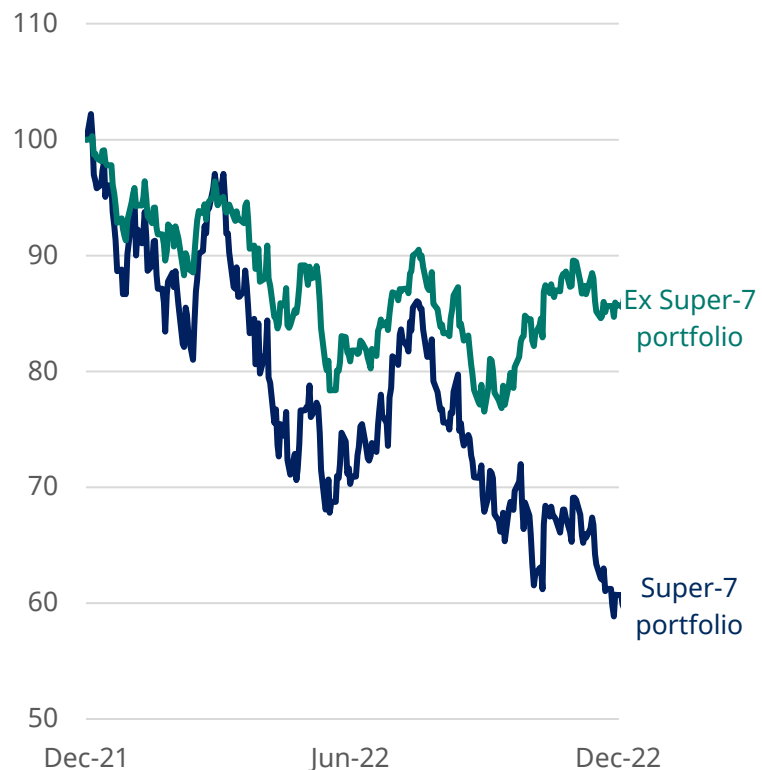
Charts of the month

# The US super-7 are up 50% YTD, the rest of the US market is flat: returns highly concentrated

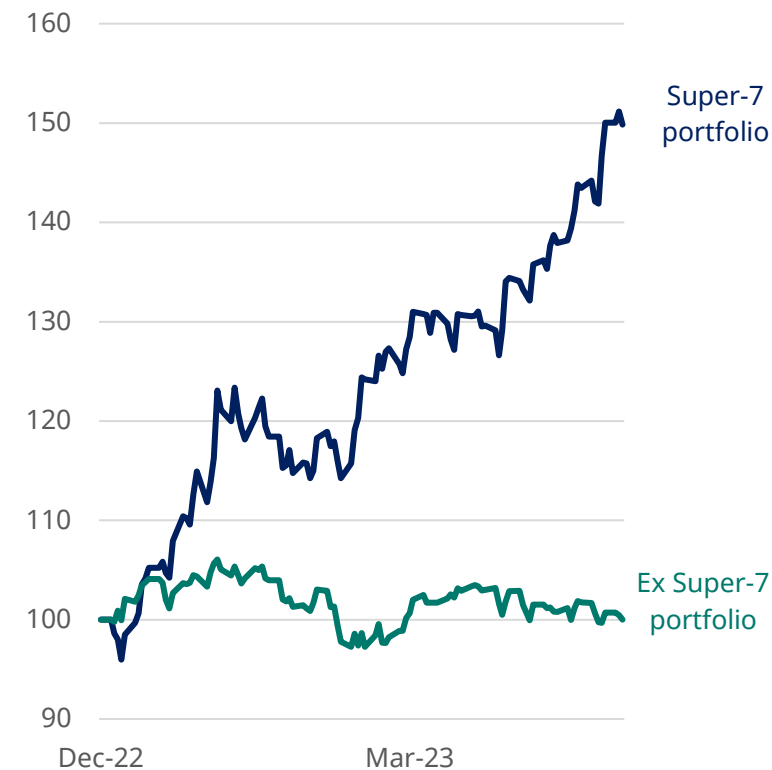
## 2020-2021: big winners



## 2022: big losers



## 2023 YTD: big winners again



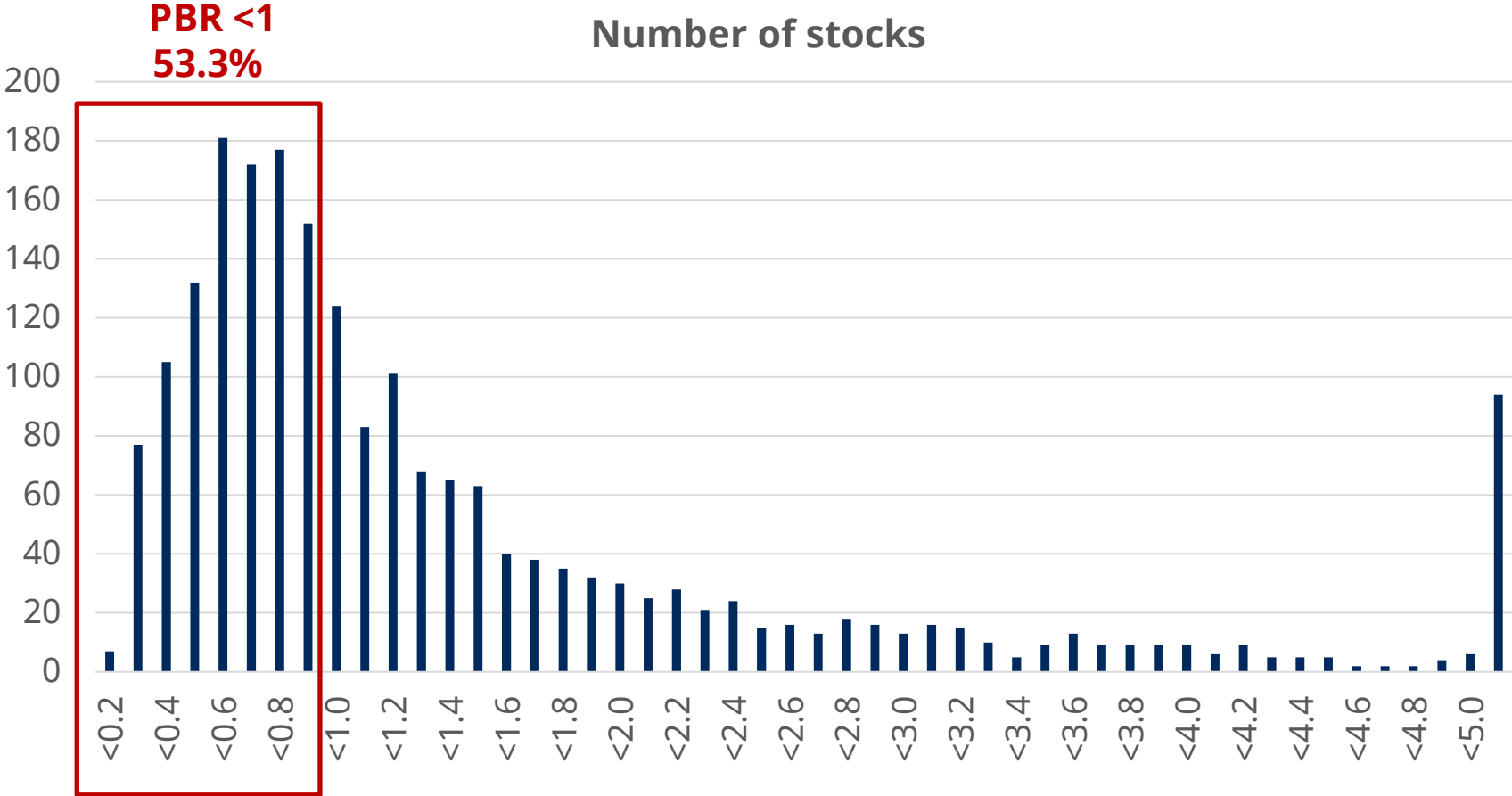
**Past performance is not a guide to future performance and may not be repeated.**

Large-7 portfolio is portfolio of seven largest companies in MSCI USA by free float market capitalisation as at 31 December 2021. These are Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta (Facebook), Nvidia. Ex Large-7 is a portfolio of the remaining constituents of MSCI USA. Data to 31 May 2023. Source: Refinitiv, Schroders. Please see relevant disclaimers on slide 39

# 53% of Japanese companies are valued below book value

Revaluation potential following Tokyo Stock Exchange instruction

## Price to Book ratio distribution - TOPIX



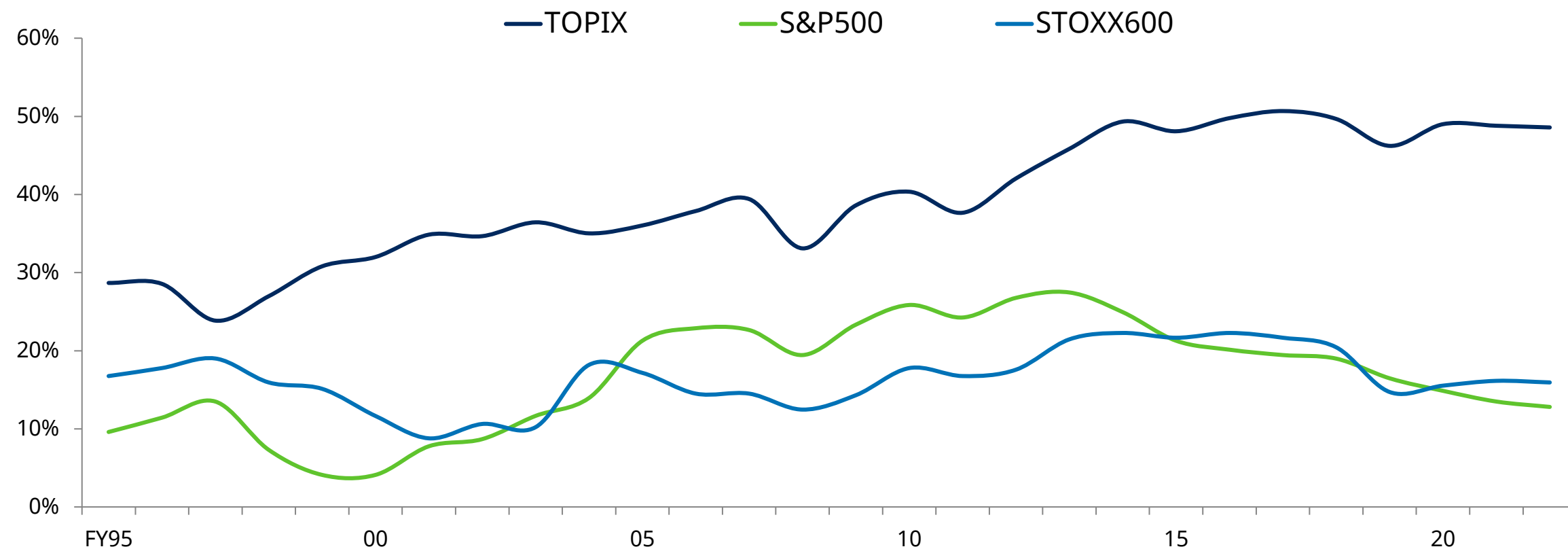
Notices sent to all with P/B < 1

Urged to set out plans to be revalued, by focusing on cost of capital and stock price

Source: Bloomberg, Tokyo Stock Exchange, Schroders, as at 31 March 2023

# 50% of Japanese companies are net cash\* with potential to invest or return to shareholders

Percentage of net cash companies (excluding financials)

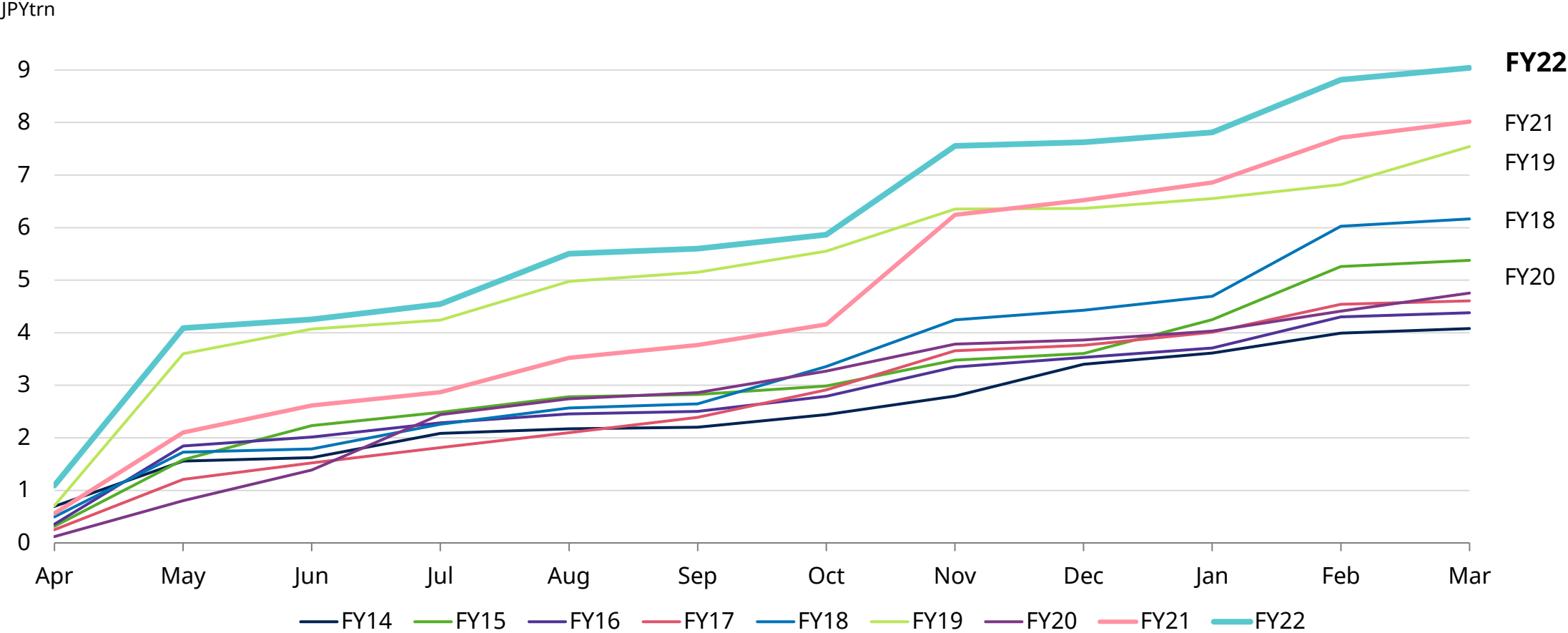


\* Companies are "net cash" if the amount of cash on their balance sheet exceeds the value of their liabilities. Source: Goldman Sachs, Factset, Schroders, as at 31 December 2022

# Share buybacks have become more popular in Japan

Sign of increasingly shareholder friendly attitudes

## Share buyback plan announcements by financial year

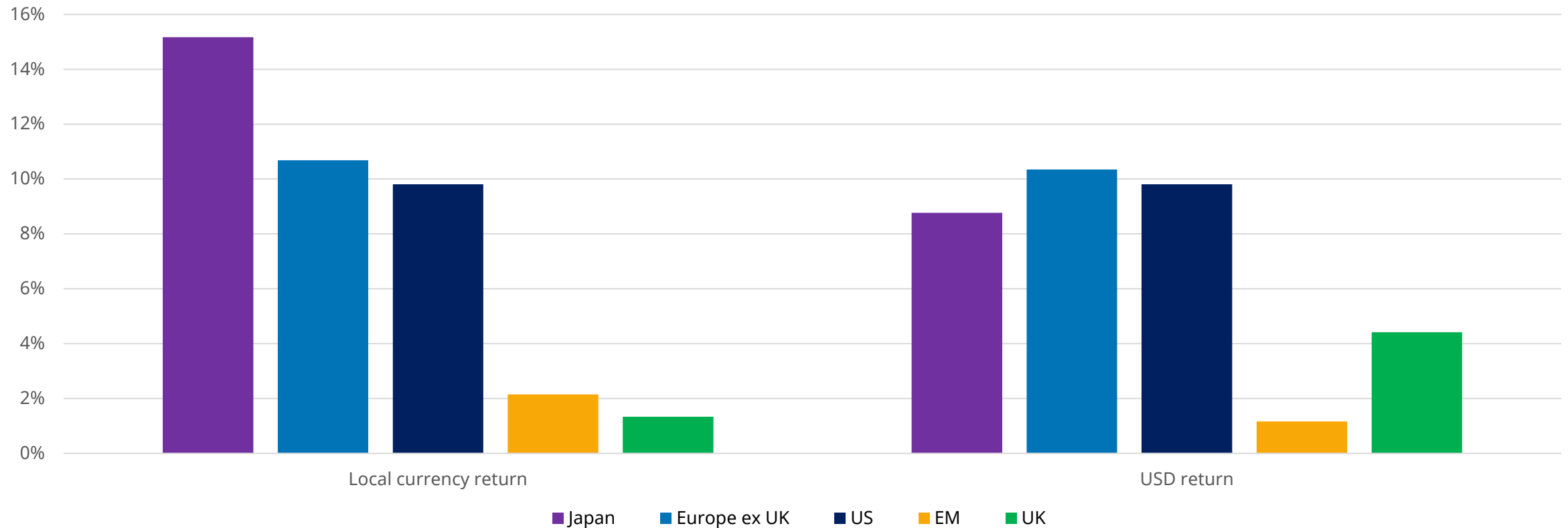


FY22 = financial year running 1 April 2022-31 March 2023. Sources: QUICK, SMBC NIKKO, as at 31 March 2023. Note: Universe is TOPIX constituents.



# Japanese stocks are surging but yen weakness has been a drag

## YTD 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 May 2023 in US dollars. Please see relevant disclaimers on slide 39

# But Japan remains one of the cheaper stock markets

Just not quite as cheap as it was pre-rally

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

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	28 (17%)	19 (14%)	22 (9%)	4.1 (44%)	1.6 (25%)
UK	14 (4%)	10 (-19%)	12 (-18%)	1.6 (-8%)	4.0 (-4%)
Europe ex. UK	19 (17%)	13 (-6%)	15 (-9%)	1.9 (9%)	3.1 (4%)
Japan	18 (-15%)	14 (1%)	17 (5%)	1.3 (4%)	2.4 (-14%)
EM	11 (-21%)	12 (1%)	13 (-4%)	1.6 (-4%)	3.4 (-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 31 May 2023. Please see relevant disclaimers on slide 39  
 Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median.



## Global equities

Regional performance

# Global equities: performance leadership table in USD terms

Europe remains ahead in 2023 but only just, EM is the laggard

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%	Europe 10.3%
	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%	US 9.8%
	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 16.5%	Europe -17.3%	Japan 8.8%
	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 4.4%
↓ 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 1.2%

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

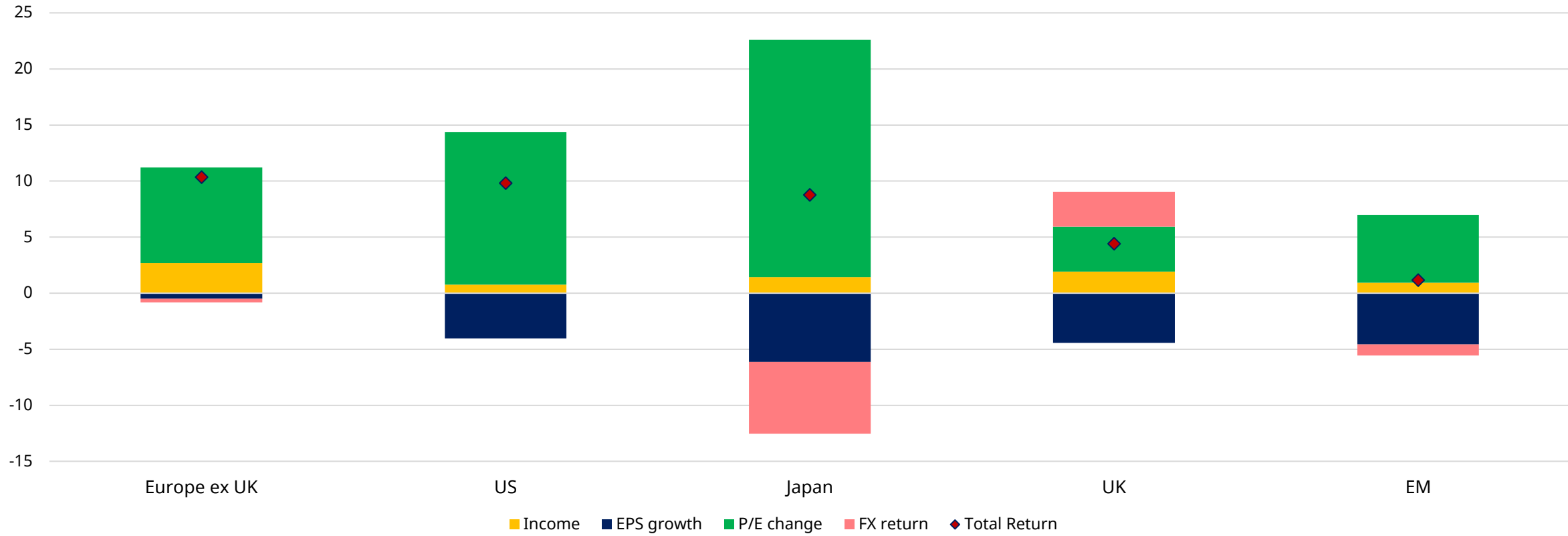
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 May 2023 in US dollars. Please see relevant disclaimers on slide 39

Europe = Europe ex UK.

# Drivers of global equity returns

Japan is surging but yen weakness has been a drag

YTD \$ return by source, %

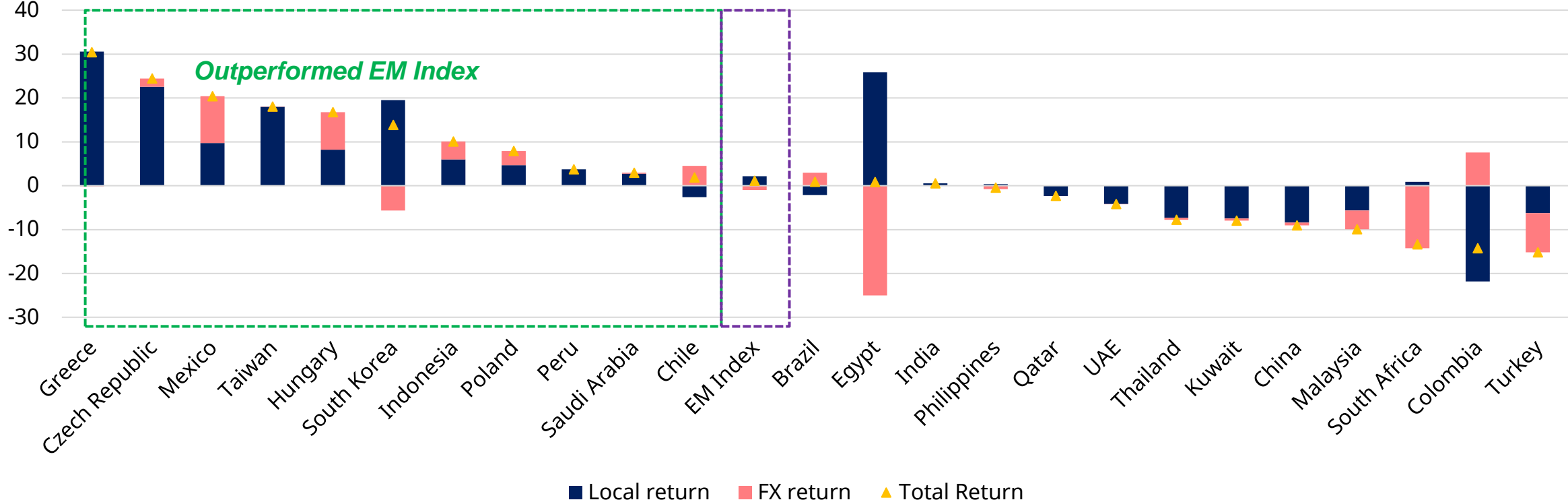


Past performance is not a guide to future performance and may not be repeated. Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 May 2023 in US dollars. Please see relevant disclaimers on slide 39

# Headline performance can be misleading

All regions represented in YTD top performers, reflecting high intra-region dispersion

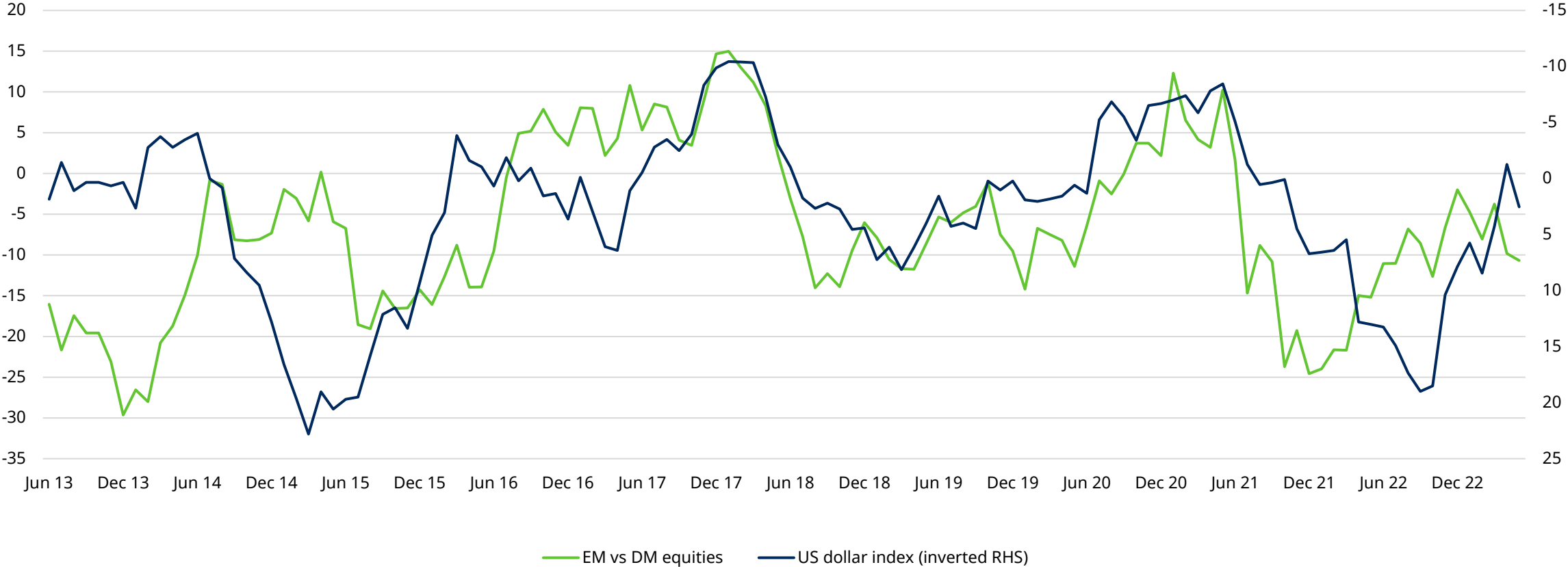
YTD total return, %



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 May 2023. Please see relevant disclaimers on slide 39

# Dollar weakness since Q4 2022 has failed to boost EM returns

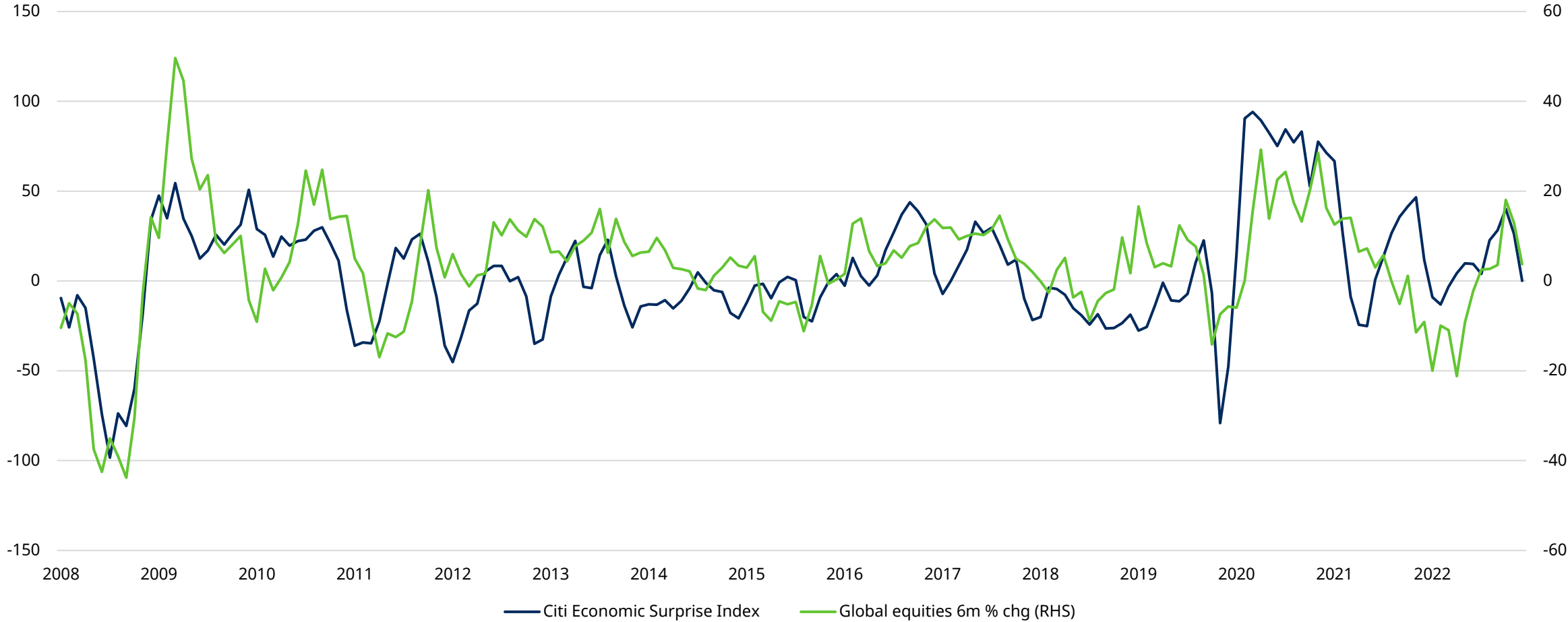
12m rolling return, %



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 May 2023 in US dollars. Notes: EM = MSCI EM index \$ and DM = MSCI World Index \$. Please see relevant disclaimers on slide 39

# Positive economic surprises have faded



**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 May 2023. Please see relevant disclaimers on slide 39



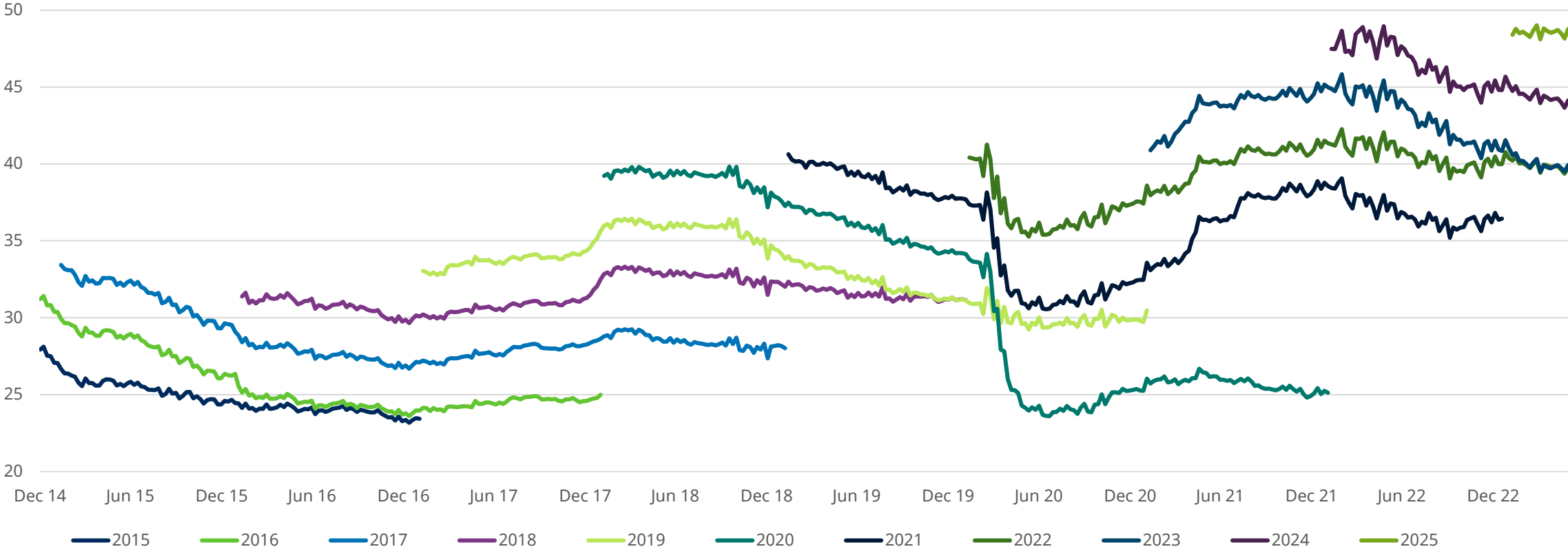


# Global equities

Fundamentals

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

Global equities EPS forecast, \$

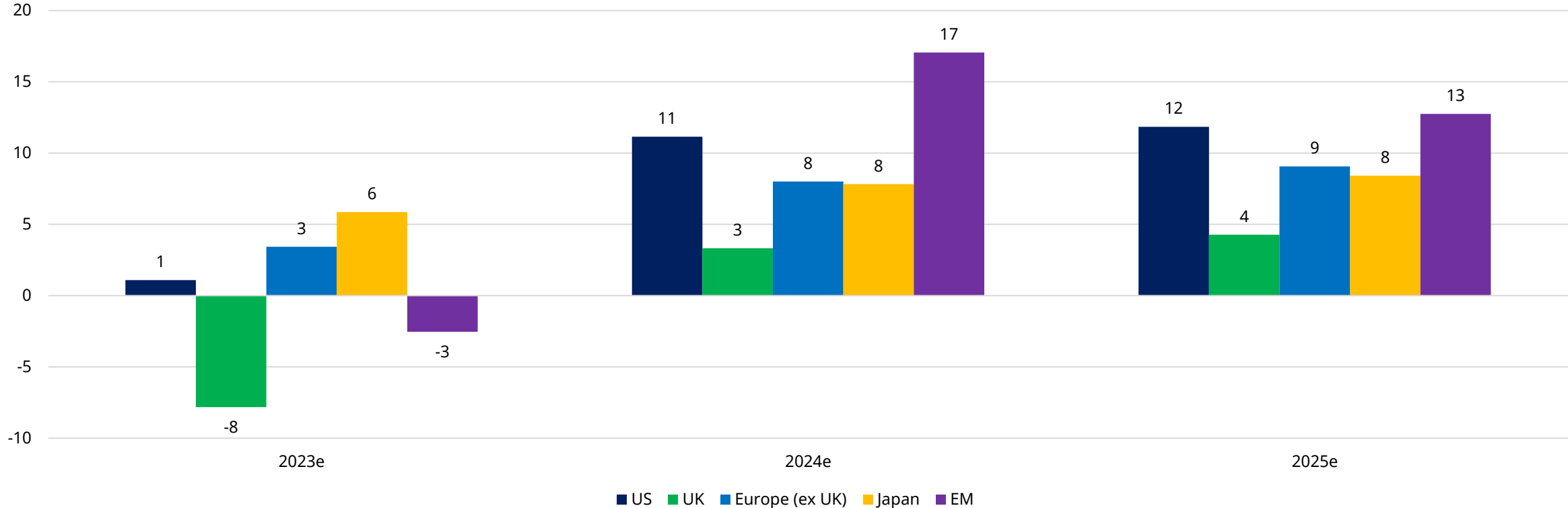


Forecasts included are not guaranteed and should not be relied upon.  
 Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 3 May 2023. Please see relevant disclaimers on slide 39  
 Notes: Figures in USD

# Corporate earnings: consensus forecasts

## Sharp recoveries in US and EM earnings forecast for 2024 and 2025

YoY EPS growth, %



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

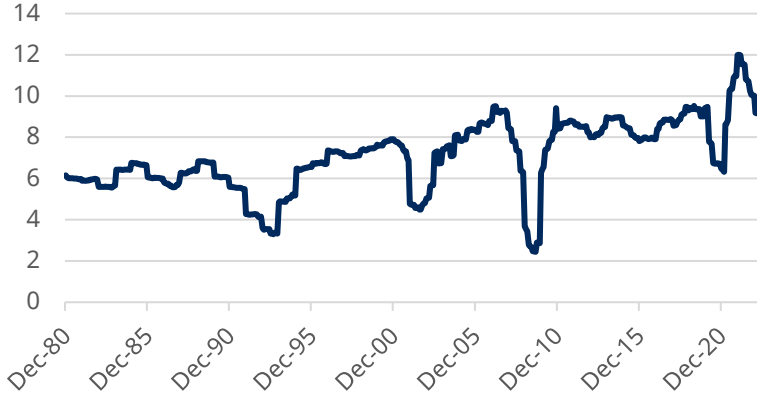
Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 May 2023. Please see relevant disclaimers on slide 39

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

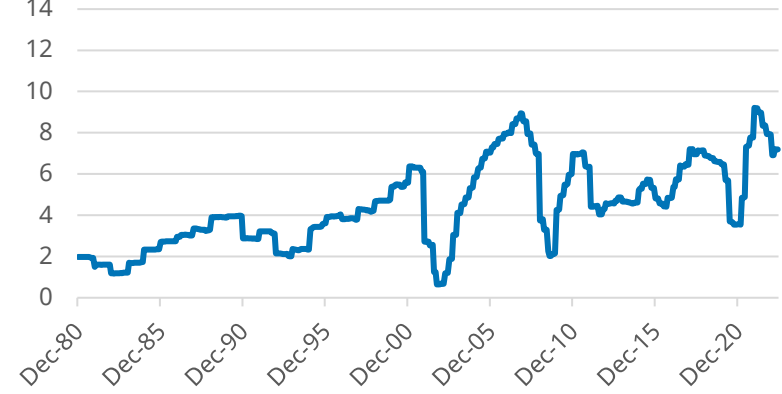
US



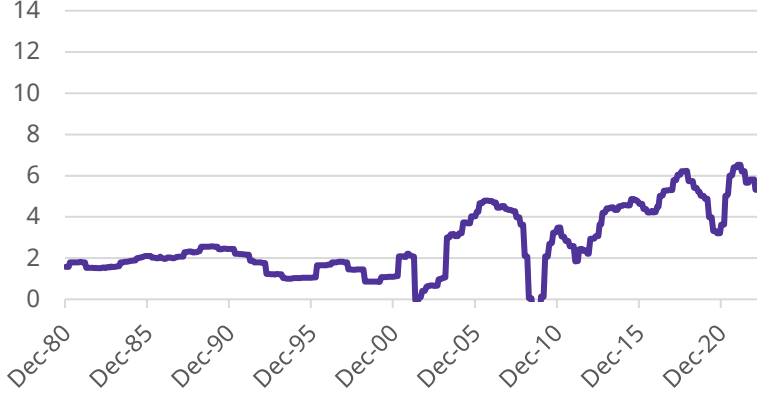
UK



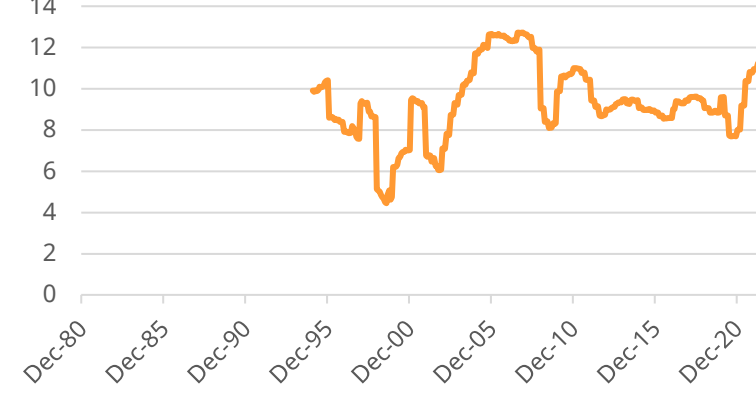
Europe ex UK



Japan



EM

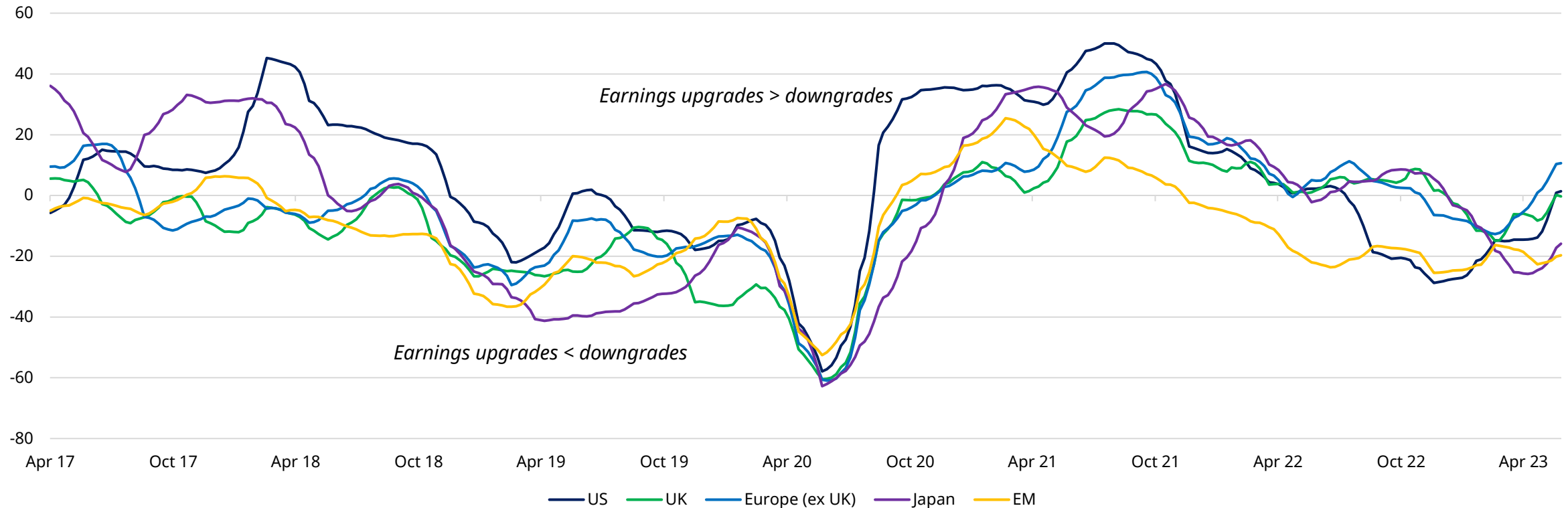


Based on Datastream total market equity indices for each region. Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 May 2023. Please see relevant disclaimers on slide 39

# Earnings sentiment

European earnings revisions have turned positive, US and UK have also picked up

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 May 2023. Please see relevant disclaimers on slide 39

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

# Valuations continue to favour ex-US markets

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

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	28 (17%)	19 (14%)	22 (9%)	4.1 (44%)	1.6 (25%)
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Key: <-25%   -25% to -15%   -15% to -5%   -5% to 0%   0% to 5%   5% to 15%   15% to 25%   >25%

Cheap

Neutral

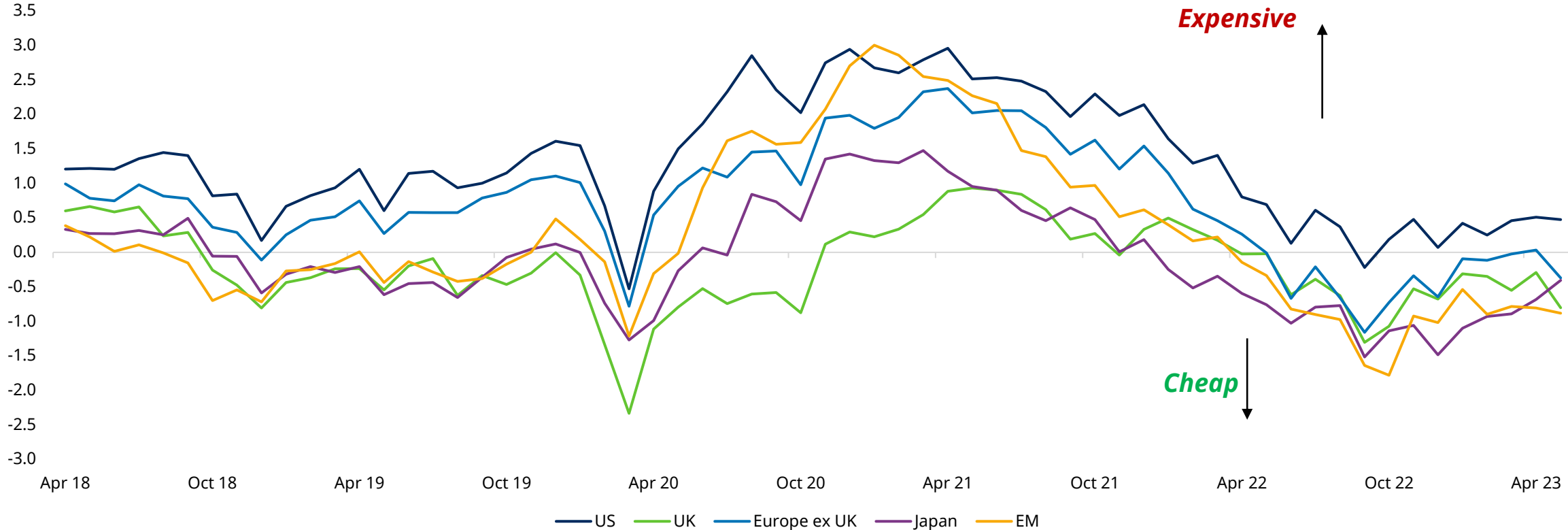
Expensive

Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 May 2023. Please see relevant disclaimers on slide 39  
Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median.

# Composite valuation across five valuation metrics

Japan's strong performance this year has eroded its cheapness

Average Z-score across five valuation metrics

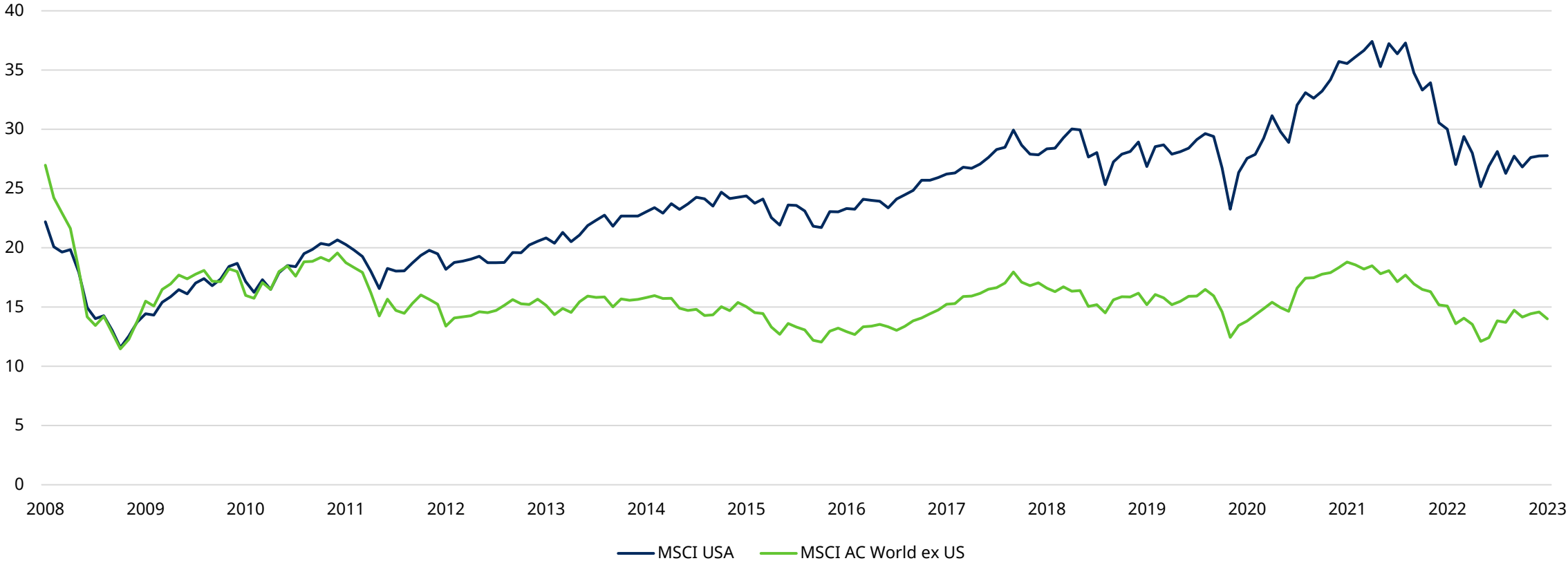


Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 May 2023. Please see relevant disclaimers on slide 39. Z-score measures the number of standard deviations above or below the average. Our assessment of expensive/cheap is relative to a 10-year rolling average of each 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 31 May 2023. Please see relevant disclaimers on slide 39



# 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	19%	-29%	-50%	4%	-28%
Materials	-6%	-9%	-32%	-3%	-30%
Financials	-10%	-17%	-11%	-3%	-15%
Cons stap	-12%	1%	2%	8%	-1%
Industrials	6%	6%	-8%	13%	-1%
Health care	-1%	7%	-1%	12%	10%
Utilities	4%	0%	21%	8%	0%
Cons disc	-8%	12%	24%	19%	27%
IT	33%	54%	51%	93%	37%
Comm Svcs	9%	17%	62%	28%	210%

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

**Cheap**

**Neutral**

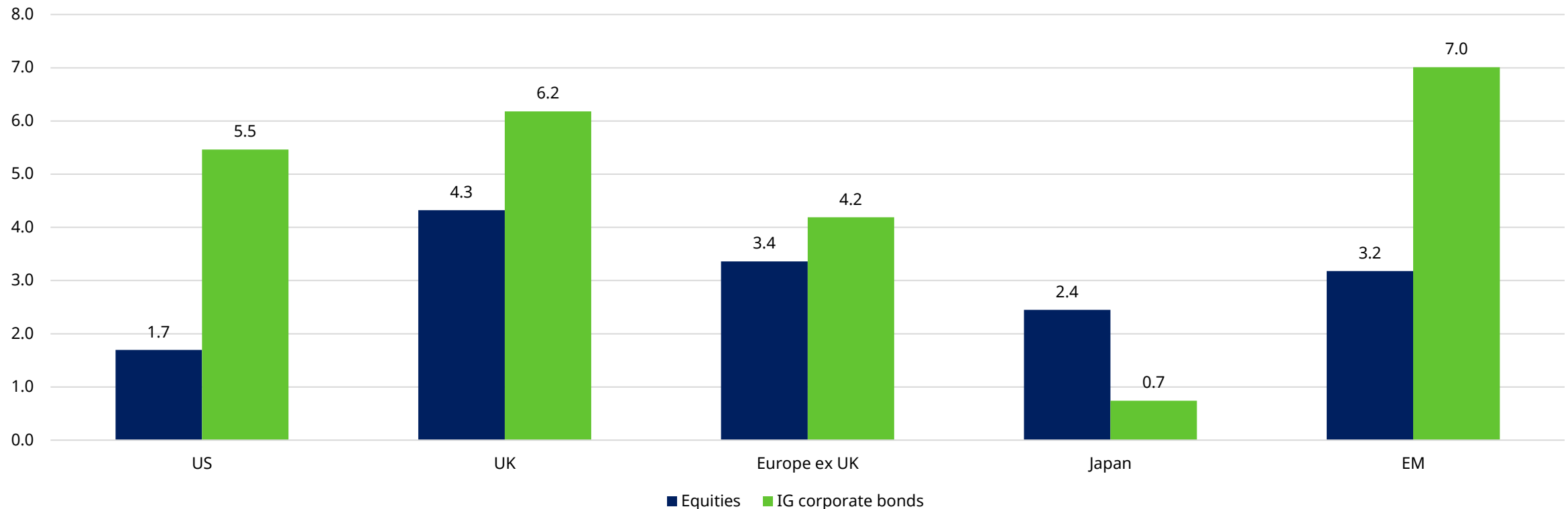
**Expensive**

Real estate has been excluded due to data only being available since 2016. Note that the dividend yield on the communication services sector is currently 1.3% vs median of 4.1%. This dramatically lower figure vs history 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 May 2023. Please see relevant disclaimers on slide 39

# 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, %

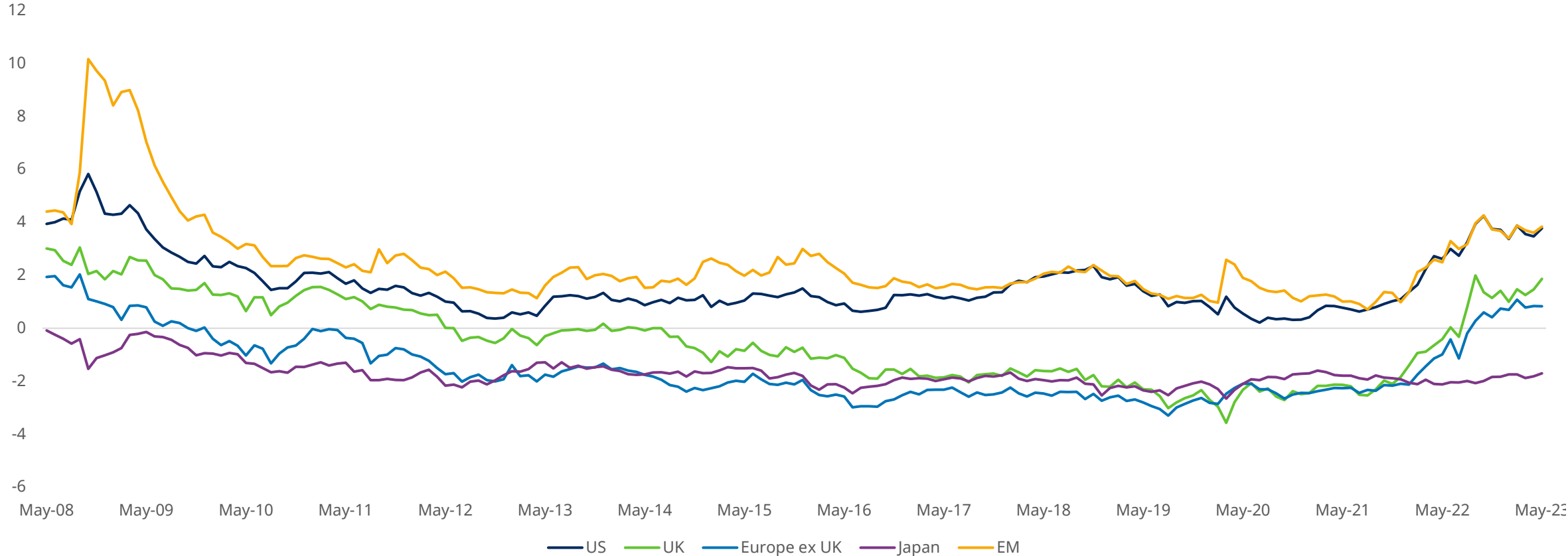


**Forecasts included are not guaranteed and should not be relied upon.**

Source: IBES, Datastream Refinitiv, MSCI, ICE and Schroders Strategic Research Unit. Data to 31 May 2023. Please see relevant disclaimers on slide 39. 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 May 2023. Please see relevant disclaimers on slide 39. Corporate bond yield = unhedged local currency yield, except for EM which is in USD.



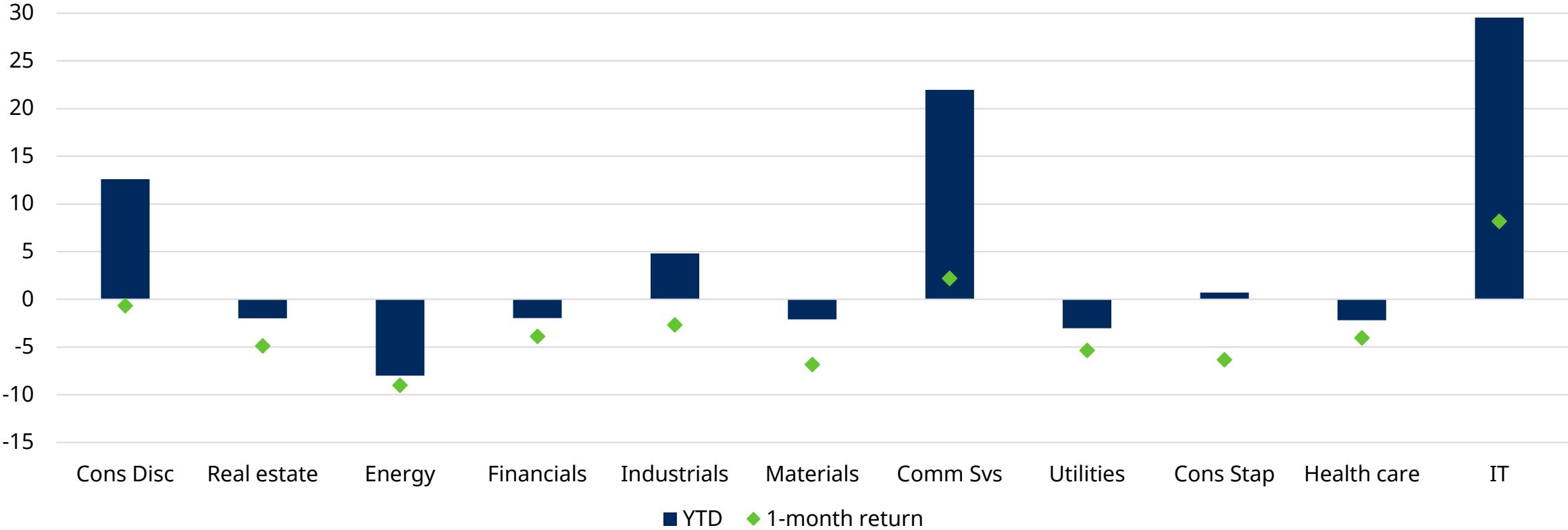
# Global equities

Sectors & Styles

# Global sector performance

Performance has varied a lot

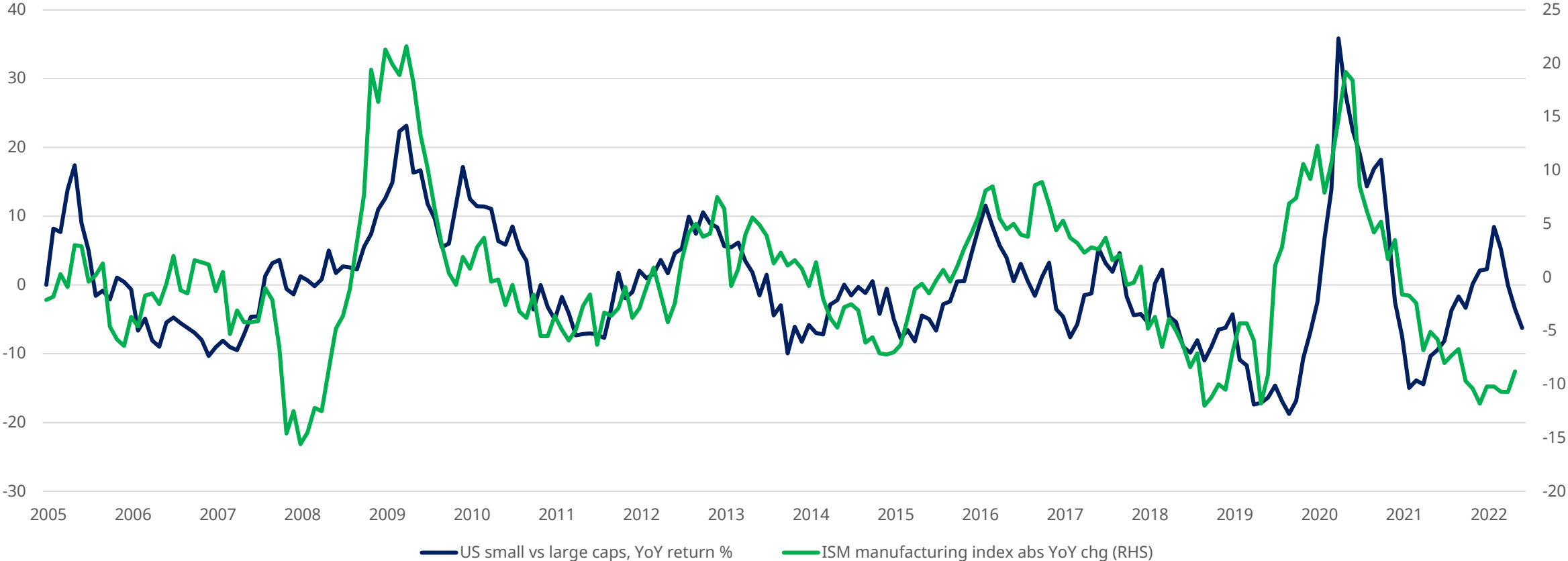
Global \$ sector return, %



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 May 2023 in US dollars. Please see relevant disclaimers on slide 39

# US small vs large caps

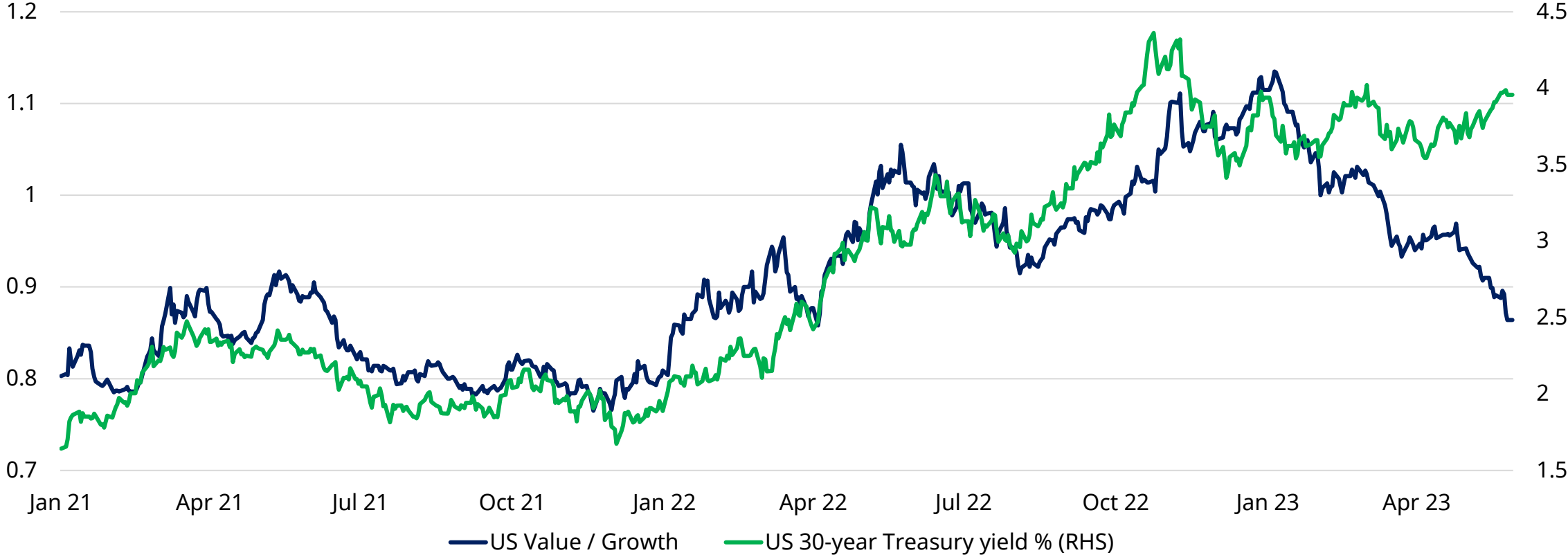
Large caps are back in the ascendency



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 May 2023. Please see relevant disclaimers on slide 39

# US Value vs Growth

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



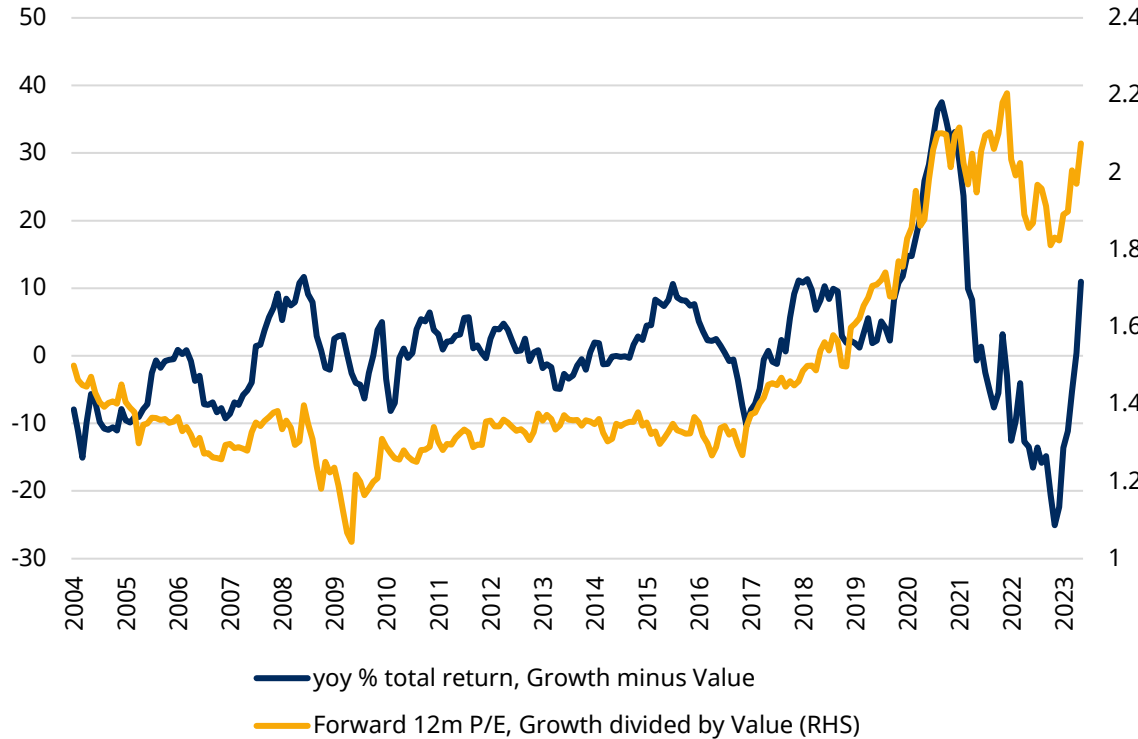
Past performance is not a guide to future performance and may not be repeated.  
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data as at 31 May 2023. Please see relevant disclaimers on slide 39

# Global Value vs Growth

Opportunity for mean-reversion significant given wide valuation dispersion

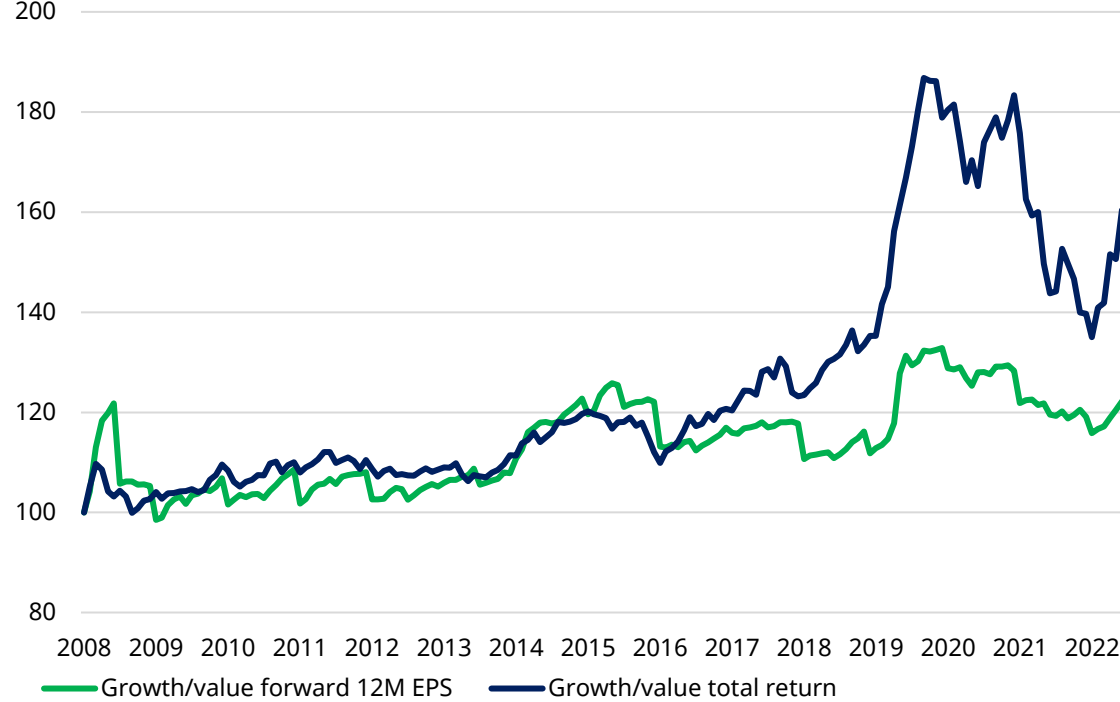
## Relative valuations still remain high by historical standards

Growth vs Value (global)



## Growth has been in the ascendancy recently

Growth / Value, rebased to 100



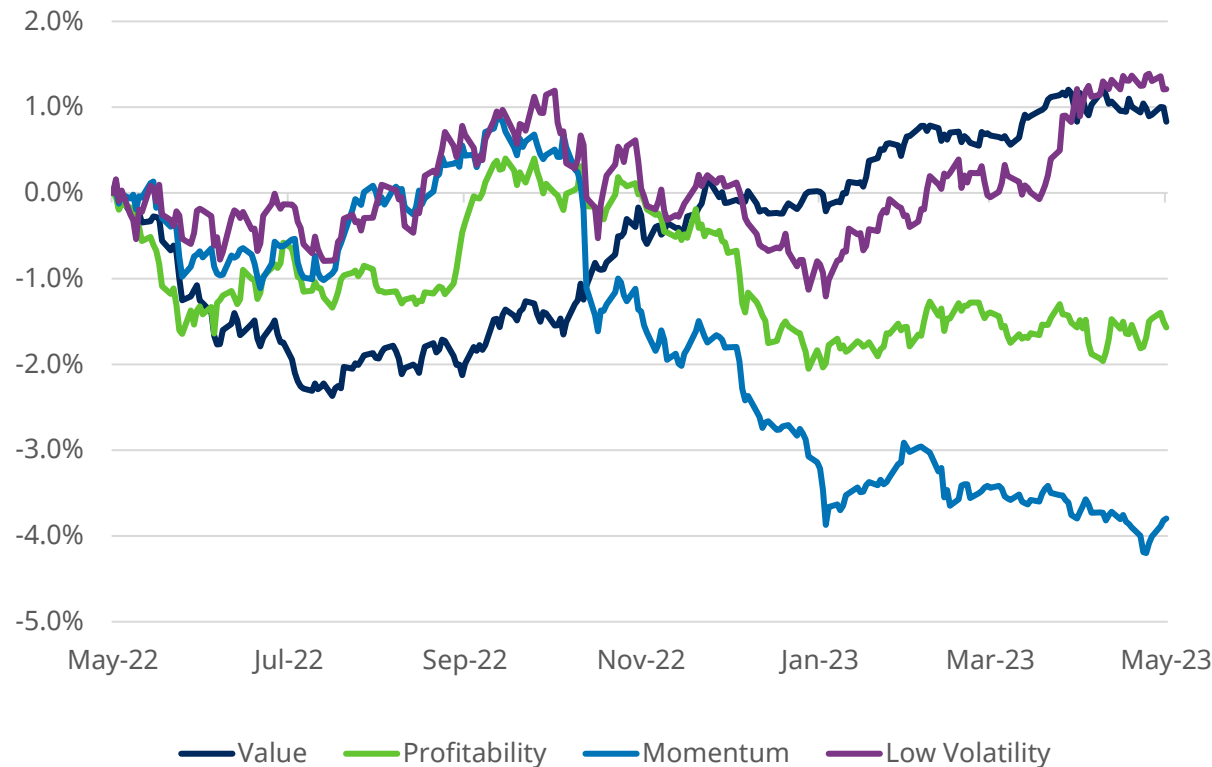
Forecasts included are not guaranteed and should not be relied upon. Past performance is not a guide to future performance and may not be repeated. Source: Datastream Refinitiv and Schroders Strategic Research Unit. Data to 31 May 2023 in US dollars. Based on MSCI ACWI World. Please see relevant disclaimers on slide 39



# Schroders Factor Returns

Factor performance has diverged since the autumn

## 1-year cumulative long short return



	Value	Profitability	Momentum	Low Volatility
YTD	0.9%	-0.9%	-2.0%	1.1%
1 year	0.8%	-1.6%	-3.8%	1.2%
5 yr pa	1.0%	0.9%	-0.1%	0.6%
10 yr pa	1.1%	1.5%	0.8%	0.7%

*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 May 2023. Notes: based on portfolios formed using the MSCI ACWI Universe. Please see relevant disclaimers on slide 39



# 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	1.17	Cyclical	31%	1%	14%	15%	22%	24%	7%	-23%	-10%	-9%	-2%
Cons disc	1.13	Cyclical	11%	6%	16%	19%	13%	11%	0%	-5%	5%	8%	2%
Financials	1.08	Cyclical	10%	19%	15%	11%	22%	14%	-4%	5%	2%	-2%	9%
Industrials	1.12	Cyclical	8%	11%	16%	23%	6%	10%	-2%	1%	6%	13%	-4%
Energy	1.22	Cyclical	4%	13%	5%	1%	5%	5%	-1%	9%	0%	-4%	0%
Materials	1.12	Cyclical	2%	8%	6%	5%	9%	5%	-2%	4%	2%	0%	4%
Real estate	0.93	Defensive	2%	1%	0%	1%	0%	2%	1%	-1%	-1%	-1%	-2%
Comm Servs	0.94	Defensive	9%	3%	4%	8%	10%	8%	1%	-5%	-3%	0%	2%
Cons stap	0.60	Defensive	6%	19%	8%	7%	6%	7%	-1%	12%	1%	-1%	-1%
Utilities	0.62	Defensive	3%	4%	6%	1%	3%	3%	0%	1%	3%	-2%	0%
Health care	0.70	Defensive	14%	14%	8%	10%	4%	12%	1%	2%	-4%	-3%	-8%
<b>% cyclical</b>			<b>66%</b>	<b>58%</b>	<b>73%</b>	<b>74%</b>	<b>77%</b>	<b>68%</b>	<b>-2%</b>	<b>-10%</b>	<b>5%</b>	<b>6%</b>	<b>9%</b>

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 31 May 2023. Please see relevant disclaimers on slide 39. 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 and Momentum have the biggest defensive bias vs ACWI

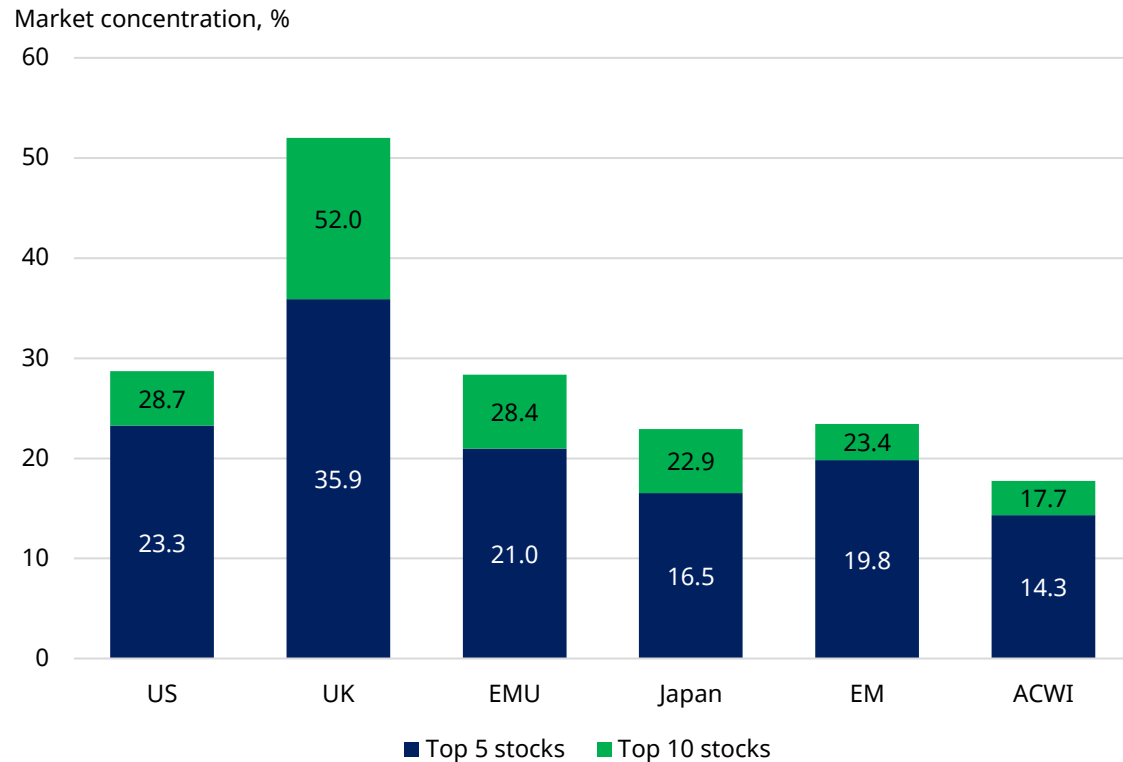
Sector	Beta vs ACWI	Cyclical/defensive	Sector Group Index Weight						Sector Group Index Weight vs Benchmark*					
			Value	Growth	Quality	Momentum	Min Vol*	US small caps*	Value	Growth	Quality	Momentum	Min Vol*	US small caps*
IT	1.2	Cyclical	10%	33%	36%	3%	14%	15%	-14%	9%	12%	-21%	-11%	-16%
Cons disc	1.1	Cyclical	6%	14%	7%	5%	5%	12%	-4%	4%	-4%	-6%	-6%	1%
Financials	1.1	Cyclical	23%	9%	7%	12%	15%	14%	9%	-5%	-6%	-2%	2%	4%
Industrials	1.1	Cyclical	11%	10%	9%	11%	10%	17%	1%	0%	-1%	1%	0%	9%
Energy	1.2	Cyclical	8%	1%	1%	26%	2%	4%	4%	-4%	-4%	21%	-3%	0%
Materials	1.1	Cyclical	6%	3%	4%	3%	4%	6%	2%	-2%	-1%	-2%	0%	3%
Real estate	0.9	Defensive	4%	1%	0%	0%	1%	7%	2%	-1%	-1%	-2%	-1%	5%
Comm Servs	0.9	Defensive	4%	11%	10%	4%	12%	4%	-4%	3%	3%	-4%	5%	-5%
Cons stap	0.6	Defensive	9%	6%	8%	6%	13%	4%	1%	-1%	1%	-1%	6%	-2%
Utilities	0.6	Defensive	6%	0%	0%	2%	7%	5%	3%	-2%	-3%	-1%	4%	2%
Health care	0.7	Defensive	13%	11%	18%	28%	17%	12%	1%	-1%	6%	16%	4%	-1%
<b>% cyclical</b>			<b>65%</b>	<b>70%</b>	<b>63%</b>	<b>60%</b>	<b>49%</b>	<b>68%</b>	-3%	2%	-5%	-9%	-18%	1%

Source: Refinitiv Datastream and Schroders Strategic Research Unit. Data as at 31 May 2023. Please see relevant disclaimers on slide 39. 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.

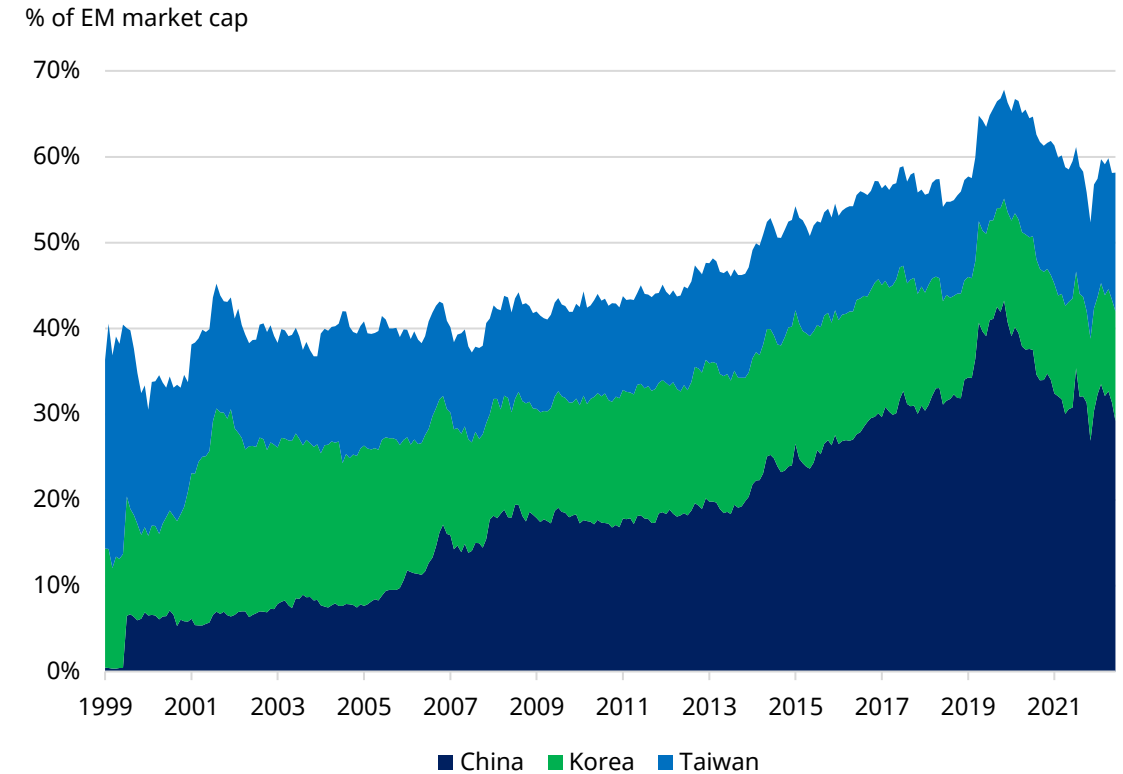
# Top constituents by market share

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 May 2023. Please see relevant disclaimers on slide 39



## 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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