Equity Strategy
CHRISTMAS SPRINT

We reiterate our tactical LONG stance. *We foresee the global benchmark grinding higher towards new highs backed by the still resilient macro backdrop and supportive Central Banks.*

Regionally, the US remains our favourite market, whilst the UK is our least favourite. We neutralize, though, the exposure towards other main regions. *Specifically:*

1) We cut EM to NEUTRAL *(previously LONG) as President Trump's rhetoric and the strong USD impact regional valuations.*

2) We downgrade Japan to NEUTRAL (previously LONG) as Yen depreciation is losing steam in anticipation of the next BoJ hike.

3) We upgrade Europe to NEUTRAL *(previously SHORT) owing to light positioning, depressed valuations, supportive monetary policy, and strong USD. Challenges remain, though, mainly stemming from political uncertainty in France, Trump's rhetoric on tariffs, and an ongoing stalemate in Russia-Ukraine ceasefire talks.*

At sector level, we stick to our barbelled cyclical tilt. *Globally, we remain LONG on Semiconductors, Software, and Media in the Growth sectors, while Banks and Diversified Financials are our top picks in the Value space.*

Strategically, we remain OVERWEIGHT. We continue to expect a 15% market gain in 2025 *driven by around 10% earnings growth and multiple expansion. Thus, we see any market dips as buying opportunities.*

Regionally, we strategically favour the US over the Rest of the World *due to a stronger macroeconomic backdrop. Our US GDP growth baseline suggests US EPS will grow at least by 10% in 2025, with a potential additional boost of approximately 4% resulting from the tax reforms proposed by President-Elect Trump. Furthermore, historically, the US shows resilience so long as the macro backdrop holds up, making it the*

Cosimo Recchia
Senior Equity Strategist
cosimo.recchia@animasgr.it

Francesco Ponzano
Junior Equity Strategist
francesco.ponzano@animasgr.it

Marketing Communication. For professional clients or qualified investors only.

preferred market even in the event of an economic downturn.

We maintain a NEUTRAL stance on Europe, *not expecting a likely ceasefire between Russia and Ukraine to be enough to trigger a self-sustained rally of Continental equities. We view this more as a short-lived tactical trade opportunity, rather than a structural shift from US exceptionalism.*

We also maintain a NEUTRAL stance on EM, although our outlook remains under review for a potential upgrade to OVERWEIGHT.

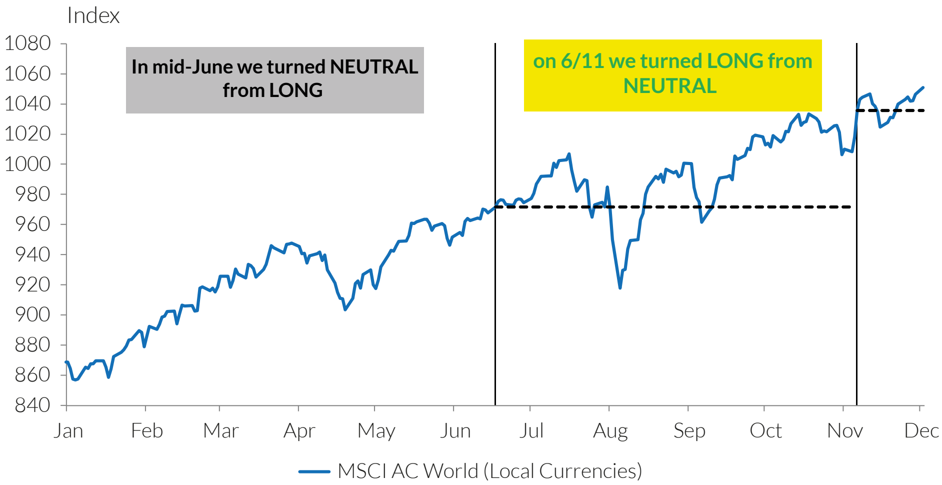
On the sector front, we maintain our strategic tilt towards Growth and Quality*, even with a slightly better-than-expected US macro backdrop and an increased likelihood of economic reacceleration in China.*

MARKET OVERVIEW: STAY LONG

The global benchmark hit a new all-time high. The MSCI AC World Index rebounding approximately 15% from August's lows (**Figure 1**). **We reiterate our LONG stance on equities adopted post-US election.** With the political uncertainties now behind us, we suggest taking advantage of the current rally, which we anticipate will persist through the Christmas season.

FIGURE 1.

MSCI AC World Index in local currency (MSELACWF Index on Bloomberg) in 2024



Source: MSCI, ANIMA Research. Note: prices as of 2 December 2024.

TACTICAL VIEW

a. Regional Allocation

Tactically, the US remains our favourite market whilst the UK is our least favourite. We neutralize, though, the exposure towards other main regions (**Figure 2**).

FIGURE 2.

Tactical Regional Recommendations – December 2024

Regional Allocation		
Long	**Neutral**	**Short**
US	EM	UK
	Japan	
	Europe ex UK	
EM Country Allocation		
China	Korea	Brazil
India	Taiwan	Mexico
	South Africa	Indonesia
		Saudi Arabia

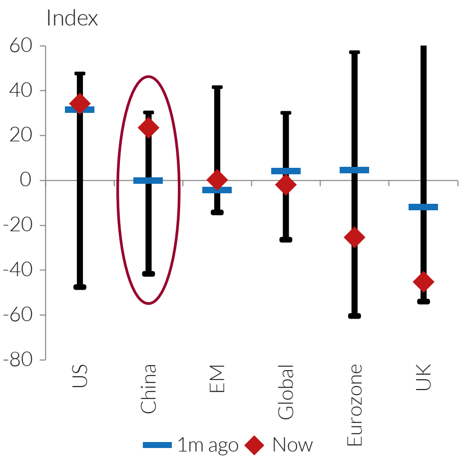
Source: ANIMA Research. Note: Markets shown in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

Going into detail:

1) We cut EM to NEUTRAL (previously LONG) as President Trump's rhetoric and strong USD impact regional valuations. Despite economic data, particularly in China, exceeding economists' forecasts and showing overall significant improvements in the Citigroup Economic Surprise Index (CESI) (**Figure 3**), this progress is not reflected in its relative performance compared to developed markets, excluding the US (**Figure 4**).

FIGURE 3.

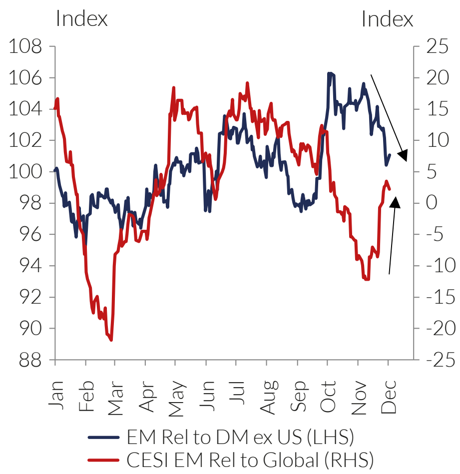
CESI – Main Regions in 2024



Source: Bloomberg, Citi, ANIMA Research.
Note: prices as of 2 December 2024.

FIGURE 4.

Relative equity performance and CESI



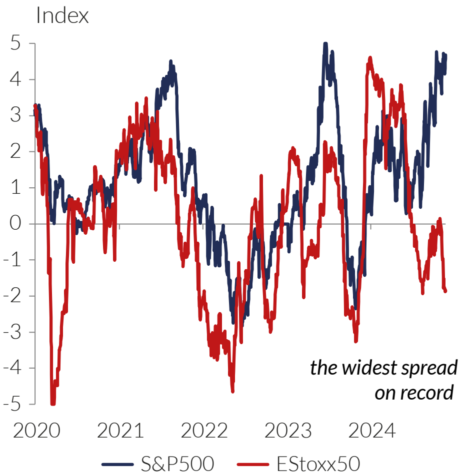
Source: Bloomberg, Citi, ANIMA Research.
Note: prices as of 2 December 2024.

2) We downgrade Japan to NEUTRAL (previously LONG) as Yen depreciation is losing steam in anticipation of the next BoJ hike.

3) We upgrade Europe to NEUTRAL (previously SHORT) owing to light positioning, depressed valuations, supportive monetary policy, and a strong USD boosting earnings. On positioning, European equities are posting the deepest net short positioning since the end of October 2023, recording the widest spread with the US (**Figure 5**). Checking the main regions, US features the most extended net long positioning, almost reaching the upper boundary of the normalization range (i.e. -5/+5), while Continental Europe is the least owned market (**Figure 6**).

FIGURE 5.

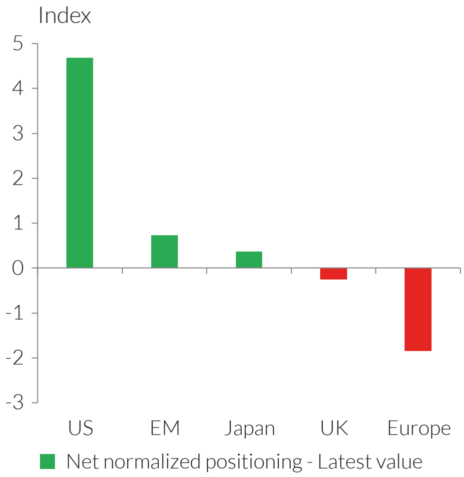
Normalized Equity Market Positioning over 5 years



Source: Citi, ANIMA Research.
Note: prices as of 30 November 2024.

FIGURE 6.

Normalized Equity Market Positioning – Last data point



Source: Citi, ANIMA Research.
Note: prices as of 30 November 2024.

On valuation, European equities are now trading at 14x forward EPS, about 5% discount to its 10 years history (**Figure 7**), and c30% against the Developed Markets. It has never been so relatively cheap in the last 20 years (**Figure 8**).

FIGURE 7.
Continental Europe - Absolute Valuations

Source: MSCI, ANIMA Research.
Note: prices as of 30 November 2024.

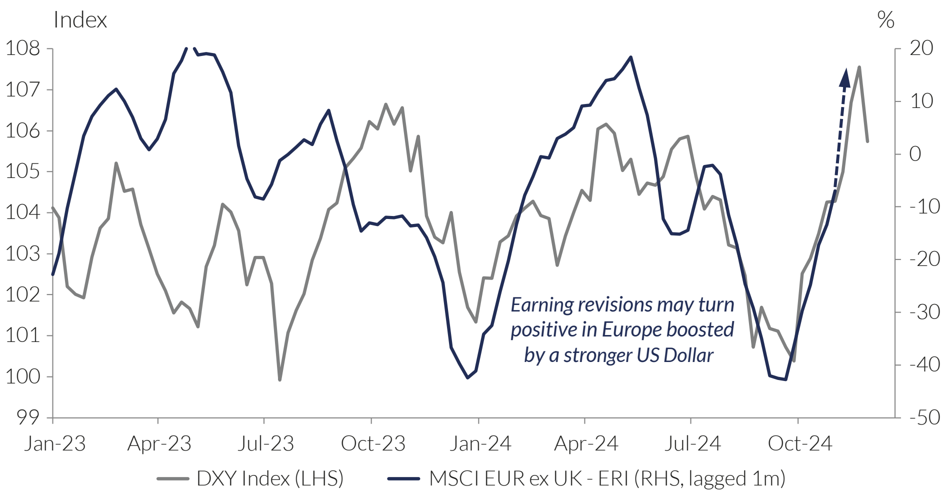
FIGURE 8.
Continental Europe - Relative Valuations

Source: MSCI, ANIMA Research.
Note: prices as of 30 November 2024.

Monetary policy is anticipated to remain supportive for the asset class. Our expectation is that the ECB will implement a 25bp cut at each meeting until June, totalling 5 cuts and 125bp. This should favour the expansion of valuation multiples.

We expect the ongoing rally of the US Dollar to boost European earnings. Since the end of September, the greenback appreciated by 7 percentage points. During the same period, the earnings revision index has shown an upward trend (**Figure 9**).

FIGURE 9.
European Earning Revisions and Dollar Index



Source: Citi, Datastream, ANIMA Research.

Challenges remain, though, mainly stemming from political uncertainty in France, Trump's rhetoric on tariffs, and the ongoing stalemate in Russia-Ukraine ceasefire talks.

b. Sector Allocation

At the sector level, we stick to our barbelled cyclical tilt. Globally, we remain LONG on Semiconductors, Software, and Media in the Growth sectors, while Banks and Diversified Financials are our top picks in the Value space. (**Figure 10**). We remain agnostic on Large versus Smid Caps.

FIGURE 10.

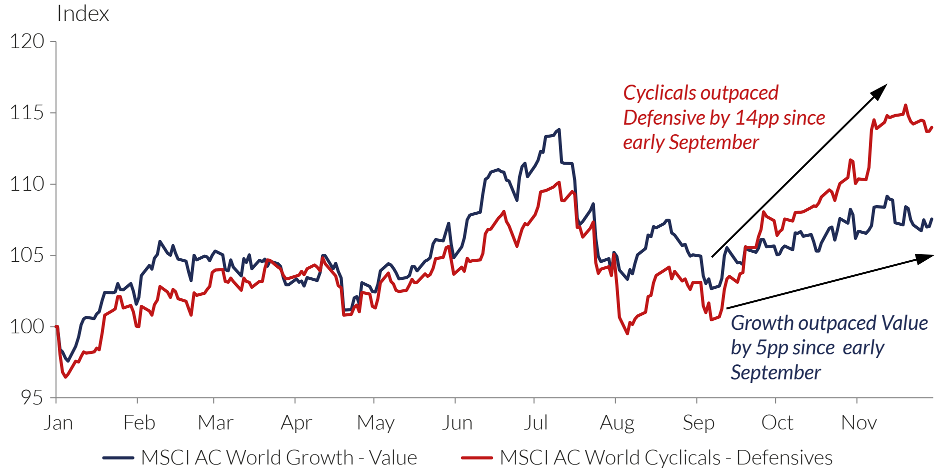
Tactical Sector Recommendations – December 2024

Industry Group Allocation		
Long	**Neutral**	**Short**
Media & Entertainment	Tech Hardware & Equip.	Pharma, Biotech & Life Sciences
Semis & Semi Equip.	Commercial & Professional Svcs	Health Care Equip. & Svcs
Software & Services	Telecoms	Food, Beverage & Tobacco
Consumer Services	Automobiles & Components	Household & Personal Products
Capital Goods	Retailing	Food & Staples Retailing
Materials		Real Estate
Diversified Financials		Utilities
Banks		Insurance
		Energy
		Transportation
		Consumer Durables & Apparel

Source: ANIMA Research. Note: Sectors shown in green have been upgraded, while those in red have been down-graded from the November Strategy Focus.

FIGURE 11

Global pair-trades in 2024



Source: MSCI, ANIMA Research.

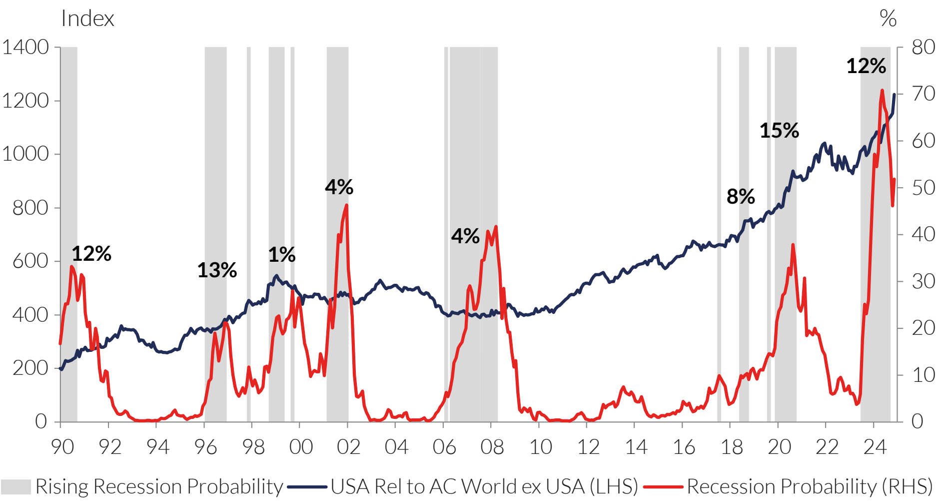
Strategic view: we stay OVERWEIGHT

Strategically, we remain OVERWEIGHT. We continue to expect a 15% market gain in 2025 driven by around 10% earnings growth and multiple expansion. Thus, we see any market dips as buying opportunities.

From a regional perspective, we strategically favour the US over the Rest of the World due to a stronger macroeconomic backdrop. Our US GDP growth baseline suggests US EPS will grow at least by 10% in 2025, with a potential additional boost of approximately 4% resulting from the tax reforms proposed by President-Elect Trump. Furthermore, historically, the US shows resilience so long as the macro backdrop holds up, making it the preferred market even in the event of an economic downturn. (**Figure 12**, **Figure 13**).

FIGURE 12.

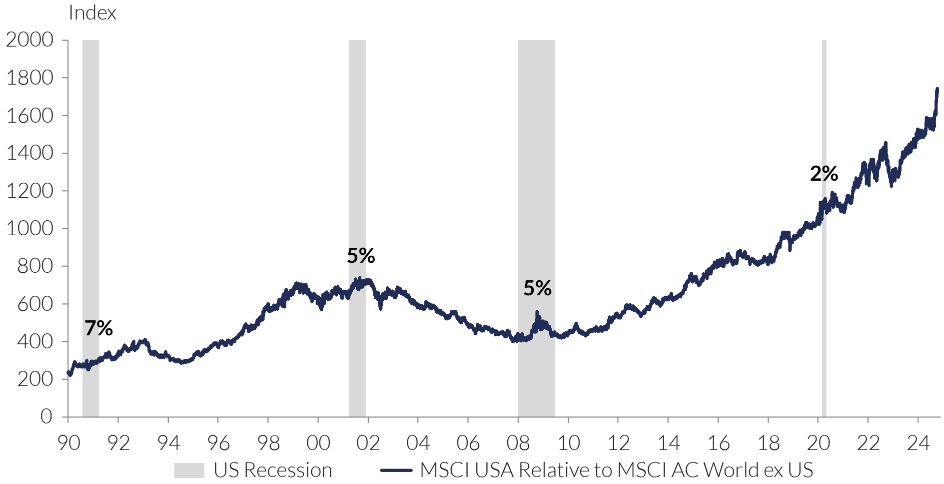
US equities relative performance during previous rising US recession probability



Source: MSCI, NBER, ANIMA Research. Note: percentage numbers are the outperformance of US over the Rest of the World during periods of rising recession probability.

FIGURE 13.

US equities relative performance during previous US recession

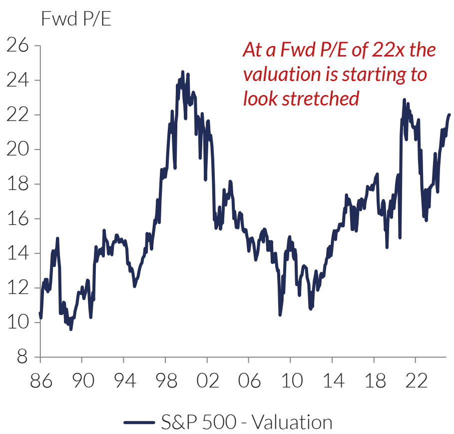


Source: MSCI, NBER, ANIMA Research.Note: percentage numbers are the outperformance of US over the Rest of the World during periods US recessions.

The high valuation of the US index is a reason to be cautious (**Figure 14**). Historically, forward P/E ratios above 20x have often led to negative performance in the following year (**Figure 15**). Since 1986, Forward P/E exceeded the threshold six times. When high valuations coincided with low EPS growth estimates and a weak economy, the following year's performance was consistently negative. By contrast, achieving positive returns in such high-valuation scenarios required a combination of robust EPS growth (at least double-digit) and a supportive economic backdrop (**Figure 16**).

FIGURE 14.

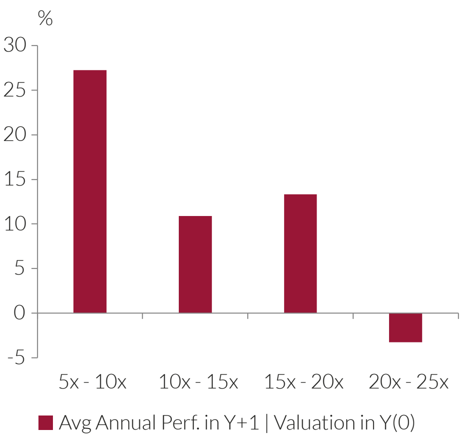
S&P 500 – Forward P/E



Source: S&P, Datastream, ANIMA Research.
Note: prices as of 30 November 2024.

FIGURE 15.

S&P 500 – Following year perf. per different valuation cohorts



Source: S&P, Datastream, ANIMA Research.
Note: considered performance since 1986.

Marketing Communication. For professional clients or qualified investors only.

FIGURE 16.

High valuation episodes

Year	Starting P/E	Est. EPS Growth for next year (%)	Performance 1y later (%)	Monetary Policy	Macro Framework	Recession
1999	22.0	11.9	19.5	*Tightening*	*Rising PMI and* ***above 50***	*No*
2000	21.9	4.8	-10.1	*Easing*	*Declining PMIs* ***under 50***	*No*
2001	21.9	-14.5	-13.0	*Easing*	*Volatile PMIs but* ***under 50***	*Yes*
2002	21.7	3.5	-23.4	*Easing*	*Declining PMIs* ***under 50***	*No*
2021	22.7	33.9	26.9	*No change*	*PMIs strongly* ***above 55***	*No*
2022	21.7	2.9	-19.4	*Tightening*	*Declining PMIs* ***under 50***	*No*

Source: S&P, ANIMA Research. Note: considered performance since 1986.

Despite the upgrade in our tactical allocation, we continue to see Europe more as a tactical opportunity than an investment. Even a ceasefire between Russia and Ukraine, that seemed the baseline for 2025 in the aftermath of Trump's victory, won't be enough to trigger a sustained rally of continental equities able to halt US exceptionalism.

From a strategic perspective, we maintain a NEUTRAL stance on EM, though we are keeping our outlook under review for a possible upgrade to OVERWEIGHT.

From a sector perspective, we maintain our strategic Growth/Quality tilt, despite a marginally improved macro backdrop in the US and the increasing likelihood of a Chinese economic reacceleration.

APPENDIX: REGIONAL RECOMMENDATIONS

FIGURE 1A.

US Recommendations – December 2024

Industry Group Allocation		
Long	**Neutral**	**Short**
Consumer Services	Commercial & Professional Svcs	Pharma, Biotech & Life Sciences
Capital Goods	Tech Hardware & Equip.	Health Care Equip. & Svcs
Materials	Retailing	Household & Personal Products
Banks		Food, Beverage & Tobacco
Diversified Financials		Food & Staples Retailing
Media & Entertainment		Insurance
Semis & Semi Equip.		Real Estate
Software & Services		Consumer Durables & Apparel
Automobiles & Components		Utilities
		Energy
		Transportation
		Telecoms

Source: ANIMA Research. Note: Sectors shown in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

FIGURE 2A.

European Recommendations – December 2024

Industry Group Allocation		
Long	**Neutral**	**Short**
Consumer Services	Telecoms	Tech Hardware & Equip.
Capital Goods	Insurance	Real Estate
Materials	Pharma, Biotech & Life Sciences	Household & Personal Products
Diversified Financials	Health Care Equip. & Svcs	Food, Beverage & Tobacco
Banks	Commercial & Professional Svcs	Automobiles & Components
Software & Services	Retailing	Transportation
Media & Entertainment	Semis & Semi Equip.	Utilities
Food & Staples Retailing		Energy
		Consumer Durables & Apparel

Source: ANIMA Research. Note: Sectors shown in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

FIGURE 3A.

Industry Group tactical recommendations for the main regions – December 2024

	Global		Regions			
	Sectors	**Industry Groups**	**US**	**Europe**	**Japan**	**EM**
Overweight	**Communication Services**	Telecoms	-1	0	1	1
		Media & Entertainment	1	1	0	0
	Financials	Banks	1	1	1	1
		Diversified Financials	1	1	1	0
		Insurance	-1	0	0	1
	Materials	Materials	1	1	0	0
	IT	Software & Services	1	1	0	0
		Tech Hardware & Equip.	0	-1	-1	0
		Semis & Semi Equip.	1	0	0	1
	Industrials	Capital Goods	1	1	0	1
		Commercial & Professional Svcs	0	0	1	-1
		Transportation	-1	-1	1	0
Netural	**Consumer Discretionary**	Automobiles & Components	1	-1	-1	-1
		Consumer Durables & Apparel	-1	-1	0	0
		Consumer Services	1	1	0	0
		Retailing	0	0	1	-1
Underweight	**Health Care**	Health Care Equip. & Svcs	-1	0	0	0
		Pharma, Biotech & Life Sciences	-1	0	1	0
	Utilities	Utilities	-1	-1	1	0
	Energy	Energy	-1	-1	-1	-1
	Real Estate	Real Estate	-1	-1	-1	1
	Consumer Staples	Food & Staples Retailing	-1	1	-1	-1
		Food, Beverage & Tobacco	-1	-1	0	1
		Household & Personal Products	-1	-1	-1	-1

Source: GICS, MSCI, ANIMA Research Note: 1 = Overweight, 0 = Neutral, -1 = Underweight

ANIMA INVESTMENT RESEARCH

FABIO FOIS
Head of Investment Research & Advisory
fabio.fois@animasgr.it

CHIARA CREMONESI
Senior Rates Strategist
chiara.cremonesi@animasgr.it

FRANCESCO PONZANO
Junior Equity Strategist
francesco.ponzano@animasgr.it

VALERIO CEOLONI
Senior EM/FX Strategist
valerio.ceoloni@animasgr.it

MATTEO GALLONE
Junior Macroeconomist
matteo.gallone@animasgr.it

COSIMO RECCHIA
Senior Equity Strategist
cosimo.recchia@animasgr.it

Marketing material for professional clients or qualified investors only.
This material does not constitute an advice, an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell, or hold any investment or security or to engage in any investment strategy or transaction.

ANIMA can in no way be held responsible for any decision or investment made based on information contained in this document. The data and information contained in this document are deemed reliable, but ANIMA assumes no liability for their accuracy and completeness.
ANIMA accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material in violation of this disclaimer and the relevant provisions of the Supervisory Authorities.

This is a marketing communication.
Please refer to the Prospectus, the KID, the Application Form and the Governing Rules ("Regolamento di Gestione") before making any final investment decisions. These documents, which also describe the investor rights, can be obtained at any time free of charge on ANIMA website (www.animasgr.it). Hard copies of these documents can also be obtained from ANIMA upon request. The KIDs are available in the local official language of the country of distribution. The Prospectus is available in Italian/English. Past performances are not an indicator of future returns. The distribution of the product is subject to the assessment of suitability or adequacy required by current regulations. ANIMA reserves the right to amend the provided information at any time. **The value of the investment and the resulting return may increase or decrease and, upon redemption, the investor may receive an amount lower than the one originally invested.**

In case of collective investment undertakings distributed cross-border, ANIMA is entitled to terminate the provisions set for their marketing pursuant to Article 93 Bis of Directive 2009/65/EC.