*Anima***Insight**

Equity Strategy
EMBRACE VOLATILITY

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

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

We remain tactically NEUTRAL on global equities. *The MSCI AC World index has fallen 7% from its February peak, weighed down by growing concerns over a more severe US slowdown than initially expected. Moving forward, we anticipate these downward pressures to ease, with the major indices likely to rebound, supported by solid fundamentals and light investor positioning. However, volatility is expected to remain elevated as investors assess downside risks linked to the sustainability of corporate margins, against the potential upside from a possible de-escalation of Trump's Trade War rhetoric, new financial deregulation measures, and fiscal easing.*

Regionally, we maintain a LONG position on Europe, *despite its strong performance since early December and the fact that positioning is no longer light. We expect the rally to continue, driven by improving earnings revisions, a better-than-expected macro environment (with the CESI steadily improving), and supportive fiscal measures following the German election. Additionally, Europe remains relatively cheap compared to other regions.* ***We upgrade the UK to NEUTRAL*** *(from SHORT) due to its shift towards defensive sectors.* ***We remain NEUTRAL on US****, as its main benchmark is now in oversold territory following the steepest derating since COVID.* ***Our view on EM remains NEUTRAL, while we hold a SHORT position on Japan.***

At the sector level, we have adjusted our previous Cyclical stance, now recommending a barbell strategy that includes both styles and market beta *(as opposed to the previous Cyclical tilt and Neutral positioning between Growth and Value).*

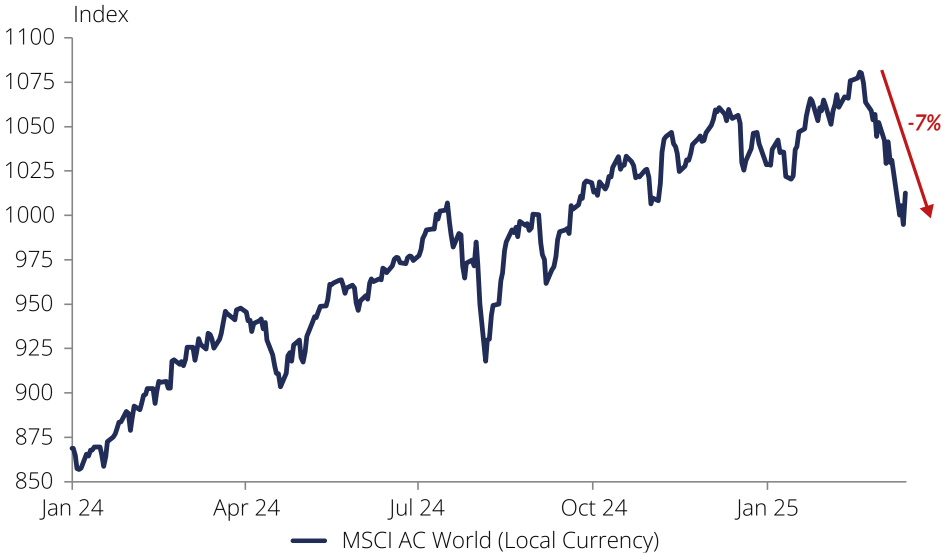
Within Cyclicals, we continue to be engaged in Growth sectors like Semiconductors, Software and Media, expecting them to rebound from the recent sell-off, while remaining LONG on Value names like Banks and Financial Services. ***We are now more selective with the Magnificent 7.*** *In Defensive sectors, we continue to favour Pharma, Biotech and Life Sciences, and we have shifted to a LONG position on Telecoms (from SHORT).*

Strategically, we remain OVERWEIGHT, *holding the view that the US economy will avoid a recession this year. While the downside risks to growth are rising, a more dovish Fed should offer support to the more rate-sensitive parts of the asset class.* ***We now adopt a more agnostic stance, with no strong regional or sectoral bias*** *(shifting away from the previous US tilt and Quality/Growth preference). We await more clarity on the next round of tariffs, set to be announced in April, and on the fiscal policies from both sides of the Atlantic. Should the infrastructure and military spending plans proposed by the new German Government and the European Union (including the UK) come to fruition, we would favour Europe over the US, expecting it to narrow its historical valuation gap and continue to outperform.*

MARKET OVERVIEW

The global benchmark is currently 7% below its record high from 18th February 2025 (**Figure 1**). Every region saw losses, with no investment strategy proving immune from the sell-off. In relative terms, Value outperformed Growth, Defensives outpaced Cyclicals, and Large Caps suffered the same losses as Smid Caps.

FIGURE 1.
MSCI AC World Index



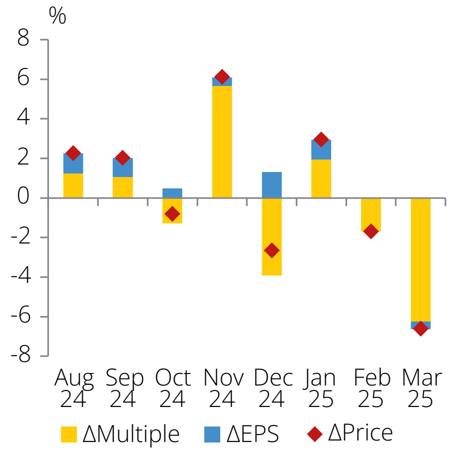
Source: MSCI, ANIMA Research. Note: prices as of 14th March 2025.

TACTICAL VIEW

Looking ahead, we anticipate the pressures on equities to ease, with major indices likely to recover, supported by solid fundamentals and light positioning. However, volatility is expected to remain elevated as investors assess downside risks related to the sustainability of corporate margins, against the potential upside from a possible easing of Trump's Trade War rhetoric, new financial deregulation measures, and any fiscal stimulus. Focusing on the US, the market correction seen so far is mostly due to multiple derating rather than EPS downgrades (**Figure 2**). To clarify, **the current weakness is more driven by market fears than by fundamental factors**, which explains why the current derating has been the sharpest since the COVID downturn. (**Figure 3**).

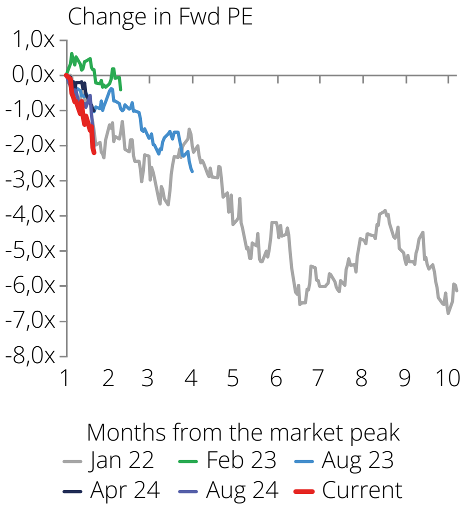
Earnings resilience is observed across all major regions. The global earning revision index (ERI) shows a deceleration in the number of downgrades (**Figure 4**). Compared to last month, improvements are widespread, with Europe standing out, where the indicator remains in positive territory, meaning that upgrades are outpacing downgrades (**Figure 5**).

FIGURE 2.
US Equities performance breakdown



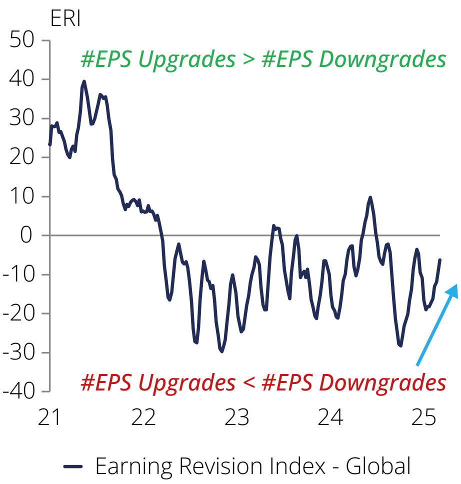
Source: MSCI, ANIMA Research.

FIGURE 3.
Historical derating of US Equities during market correction



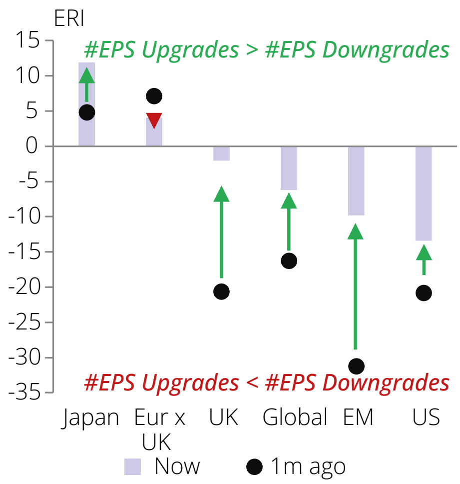
Source: MSCI, ANIMA Research.

FIGURE 4.
Global Earning Revision Index



Source: Citi, ANIMA Research.

FIGURE 5.
Earning Revision Index in the main regions



Source: MSCI, ANIMA Research.

a. Regional Allocation

Regionally, we maintain our LONG stance on Europe, despite significant outperformance since early December and positioning that is no longer as light (**Figure 6**). We expect the European rally to persist, driven by four key factors:

1. **Ongoing positive revisions in earnings,** indicating a robust earnings outlook for European companies.

2. A **stronger-than-expected macroeconomic environment,** evidenced by the continuous improvement in the Citi Economic Surprise Index (CESI), reflecting steady economic momentum (**Figure 7**).

3. **Potentially supportive fiscal policies** emerging from Germany after the recent elections, which should bolster investor confidence.

4. **European equities are still** relatively **cheap** (**Figure 8**).

5. Continued progress in peace talks.

We upgrade the UK to NEUTRAL (previously SHORT), due to the market's recent shift towards defensive sectors, which now present better risk-adjusted returns.

We maintain our NEUTRAL stance on the US, as its main benchmark is currently in oversold territory after the sharpest multiple de-rating since the COVID crisis, which could limit further downside from these levels (**Figure 9**). However, ongoing tariff concerns and heightened political uncertainty introduce complexity, necessitating a cautious approach (**Figure 10**).

Similarly, we remain NEUTRAL on EM. Within the region, **we now upgrade China to LONG** (from NEUTRAL) due to the positive new policy direction, though headwinds remain. However, we believe it is too early to take an OVERWEIGHT position strategically. We promote South Africa to LONG (from NEUTRAL) owing to strong Earnings Momentum and a high free cash flow yield. Conversely, we downgrade India to SHORT (from LONG), expecting continued underperformance driven by weakening fundamentals and still elevated valuations.

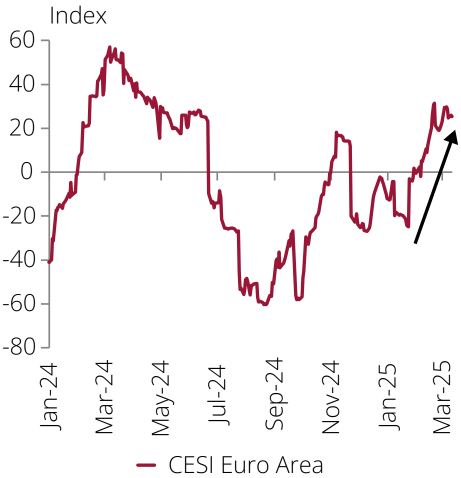
We stay SHORT on Japan.

FIGURE 6.
Tactical Regional Recommendations – March 2025

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

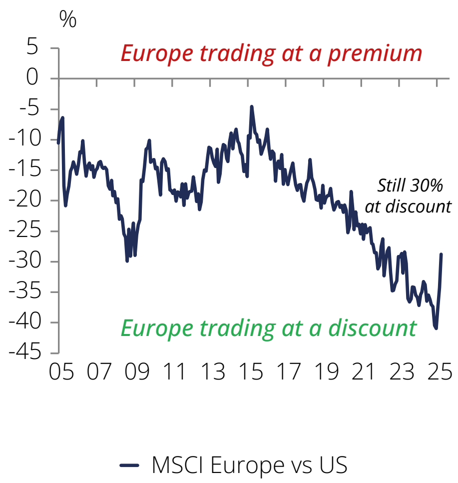
Source: ANIMA Research. Note: Markets shown in green have been upgraded, while those in red have been downgraded from the February Strategy Focus.

FIGURE 7.
Citi Economic Surprise Index - Euro Area



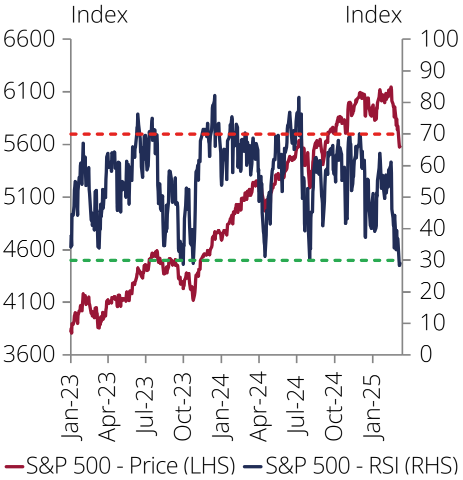
Source: Citi, ANIMA Research.

FIGURE 8.
Relative Forward P/E –
MSCI Europe vs US



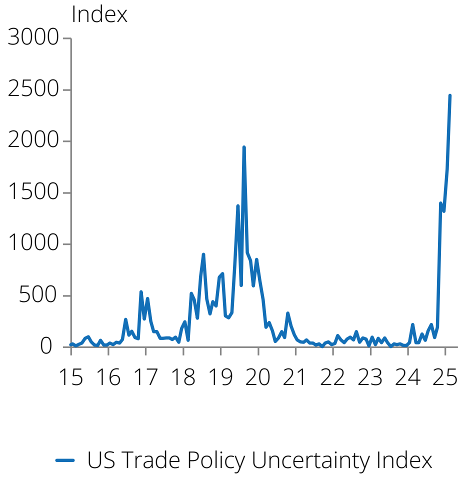
Source: MSCI, ANIMA Research.

FIGURE 9.
S&P 500 – Price Index and RSI



Source: MSCI, ANIMA Research.

FIGURE 10.
US Trade Policy Uncertainty Index



Source: MSCI, ANIMA Research.

b. Sector Allocation

At the sector level, we have adjusted our previous Cyclical stance, now recommending a barbell strategy that includes both styles and market beta (as opposed to the previous Cyclical tilt and Neutral positioning between Growth and Value). Within Cyclicals, we continue to be engaged in Growth sectors like Semiconductors, Software and Media, expecting them to rebound from the recent sell-off, while remaining LONG on Value names as Banks and Financial Services. In Defensive sectors, we continue to favour Pharma, Biotech and Life Sciences, and we have shifted to a LONG position on Telecoms (from SHORT) owing to its decent fundamentals and attractive free cash flow yield (**Figure 11**).

FIGURE 11.
Tactical Sector Recommendations – March 2025

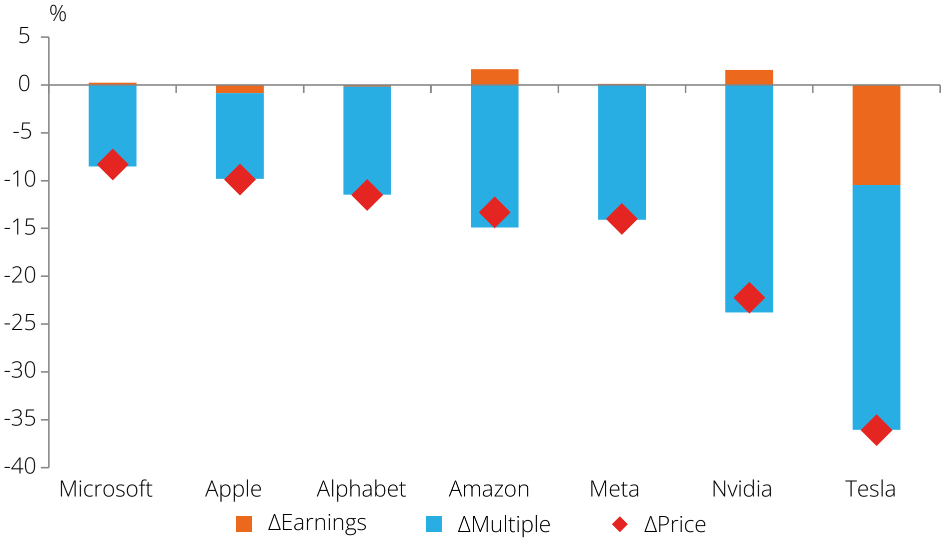
Industry Group Allocation		
Long	**Neutral**	**Short**
Diversified Financials	Tech Hardware & Equip.	Consumer Durables & Apparel
Banks	Health Care Equip. & Svcs	Materials
Media & Entertainment	Commercial & Professional Svcs	Energy
Software & Services	Retailing	Food & Staples Retailing
Semis & Semi Equip.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

Source: ANIMA Research. Note: Sectors highlighted in green have been upgraded, while those marked in red have been downgraded from the February 2025 Strategy Focus.

We are now more selective with the Magnificent 7. The index representing these stocks has fallen by 14% since the February peak, with the majority of the price drop attributed to de-rating rather than a deterioration in fundamentals. Among the group, only Tesla experienced significant EPS reductions, primarily due to tariff-related concerns, while the EPS of the other companies remained stable. (**Figure 12**).

FIGURE 12.

Mag 7 – Performance Breakdown since 19 Feb Peak

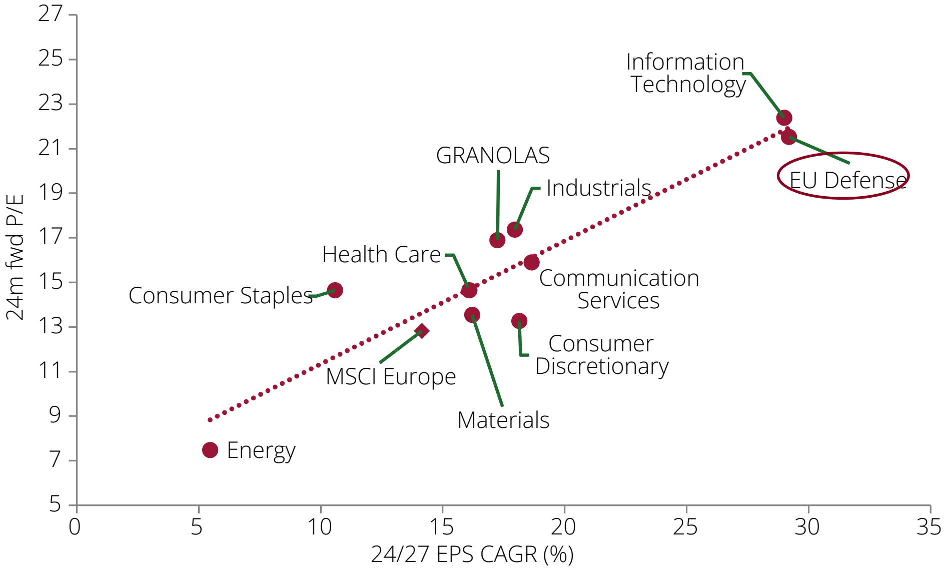


Source: ANIMA Research.

We remain LONG on Aerospace & Defence in Europe, supported by Germany's recent fiscal package and the EU's plans to boost defence spending, which are expected to provide long-term structural support for the sector. With projected earnings growth (CAGR) through 2027, Aerospace & Defence remains attractively valued compared to other European sectors (**Figure 13**).

FIGURE 13.

European Sectors – 24m Forward PE and 2024/2027 Annualised Growth



Source: Goldman Sachs, ANIMA Research.

STRATEGIC VIEW: WE REMAIN OVERWEIGHT

Strategically, we remain OVERWEIGHT, holding the view that the US economy will avoid a recession this year. While the downside risks to growth are rising, a more dovish Fed should offer support to the more rate-sensitive parts of the asset class.

We now adopt a more agnostic stance, with no strong regional or sectoral bias (shifting away from the previous US tilt and Quality/Growth preference). We await more clarity on the next round of tariffs, set to be announced in April, and on the fiscal policies from both sides of the Atlantic. Should the infrastructure and military spending plans proposed by the new German Government and the European Union (including the UK) come to fruition, we would favour Europe over the US, expecting it to narrow its historical valuation gap and continue to outperform.

APPENDIX

FIGURE 1A.
US Tactical Sector Recommendations – March 2025

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

Source: ANIMA Research. Note: Sectors highlighted in green have been upgraded, while those marked in red have been downgraded from the February 2025 Strategy Focus.

FIGURE 2A.
European Tactical Sector Recommendations – March 2025

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

Source: ANIMA Research. Note: Sectors highlighted in green have been upgraded, while those marked in red have been downgraded from the February 2025 Strategy Focus.

FIGURE 3A:
Industry Group tactical recommendations for the main regions – March 2025

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