# AnimaInsight

## Equity Strategy

# NEUTRAL IN THE MIST

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**We remain tactically NEUTRAL, as the geopolitical and macro environment remains highly fluid.** While market sentiment may stay subdued as reporting season unfolds and investors keep assessing recession odds, potential supportive fiscal policies and an easing rhetoric by the US administration pose significant upside risks for stock markets.

**Against this backdrop, we are neutralising any previous regional preferences** (previously Long Europe, NEUTRAL over US, EM, and UK, SHORT Japan) as pairwise correlation amongst equities tend to rise in a market dominated by headlines rather than fundamentals.

**From a sector standpoint, we recommend a barbell approach** (previously Defensive tilt). We still like defensive sectors like Utilities and Telecoms, relatively protected from trade war noise and stand to benefit from declining bond yields. Within Cyclicals we like Insurance and Diversified Financials, particularly Exchanges. We remain agnostic on Style.

**Strategically, we reiterate our OVERWEIGHT stance on equities.** At this stage, downside risks (recession) and upside risks (fiscal policy, tariff peak) appear balanced. However, valuations have compressed significantly, and market positioning is much clearer.

**A word of warning:** We would place our strategic view under review (Negative Outlook) if the longer uncertainty persists regarding fiscal plans and/or the tariff stance of the US administration, as the higher the likelihood that weakening consumer and business sentiment will translate into actual data. At that point, poor valuations would no longer be a reasonable justification for continuing to bet on the stock market. Accordingly, we would downgrade our strategic view to UNDERWEIGHT. In this scenario, we would expect stock prices to continue falling due to worsening EPS and further multiple compression.

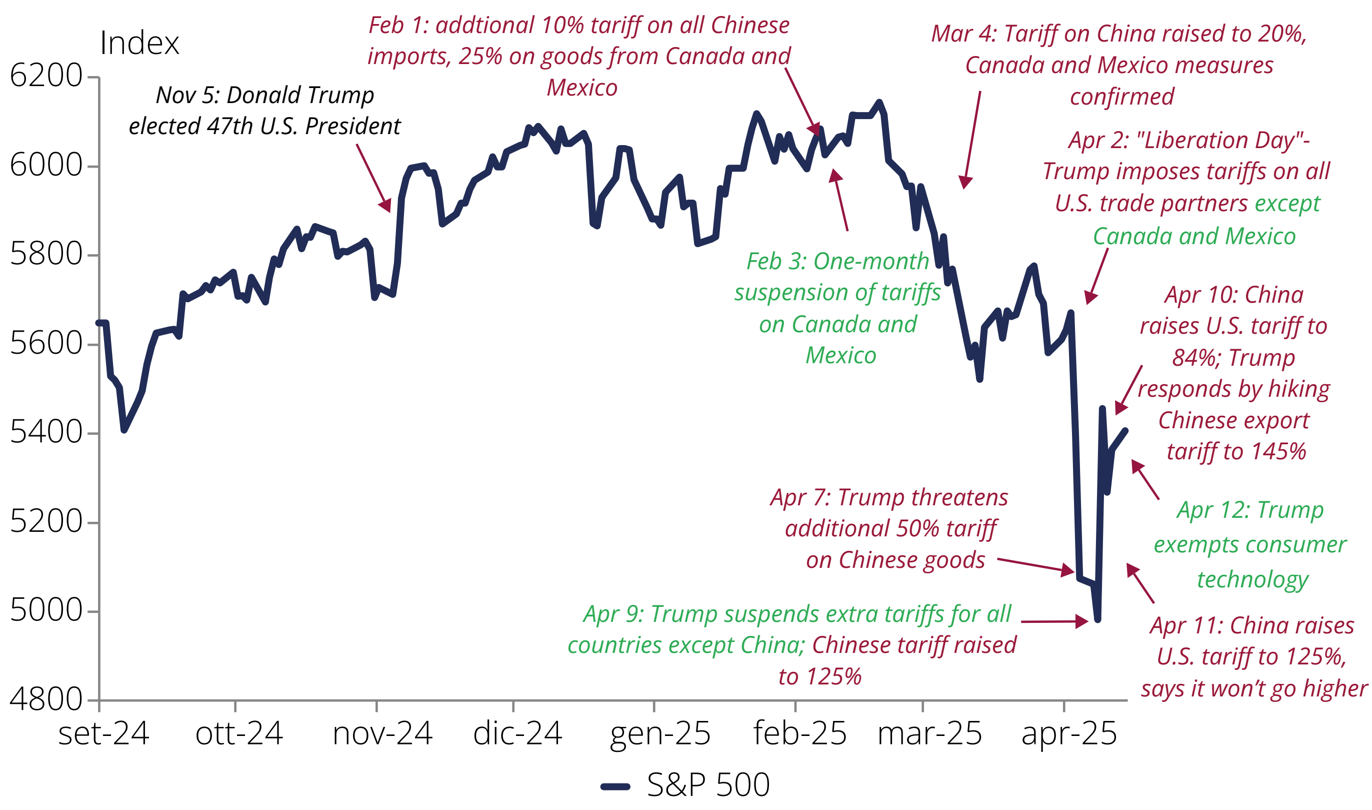
## Equity

### Tactical View

**We remain tactically NEUTRAL, as the geopolitical and macro environment remains highly fluid.** Trump's step back on additional reciprocal tariffs few days after their announcements in the "Liberation Day" boosted market sentiment triggering a sharp rebound. The sustainability of such equities' appreciation will depend by the upcoming reporting season and US President's ongoing stance on tariffs. We expect trailing earnings to come stronger than expected given the resilient macro backdrop in Q1, but we acknowledge that the focus will be on the forward guidance. That said, while market sentiment may stay subdued as reporting season unfolds and investors keep assessing recession odds, potential supportive fiscal policies and an easing rhetoric by the US administration pose significant upside risks for stock markets.

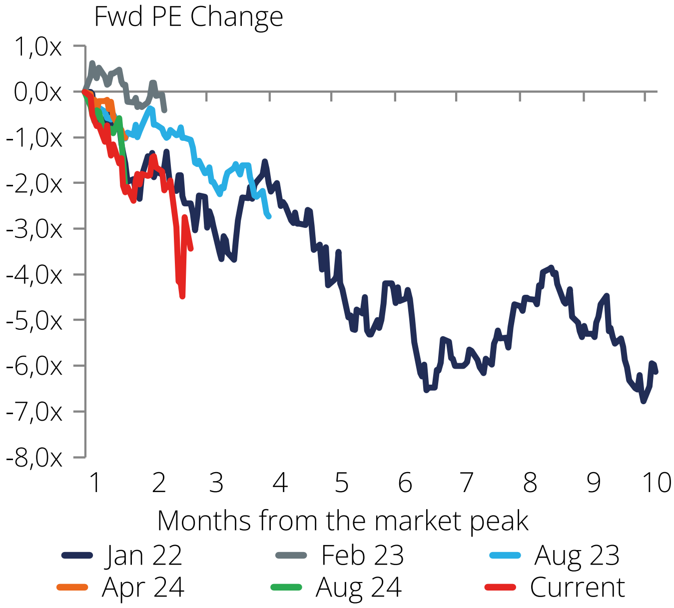
**Following the introduction of reciprocal tariffs, global equities was on the roller coaster.** It fell initially by 12% and then rebounded by 6% in the aftermath on the global tariff 90 days delay and then lost 2%. The movements were even more exacerbated in the US (**Figure 1**). This sudden movements have eventually compressed US forward PE by c4 points, down to 19x, the sharpest derating post Covid (**Figure 2**). Our proprietary composite valuation index for US equities is back below 1 standard deviation (**Figure 3**), that was a good entry point back in 2023.

**FIGURE 1**
S&P 500 and Tariffs Announcements



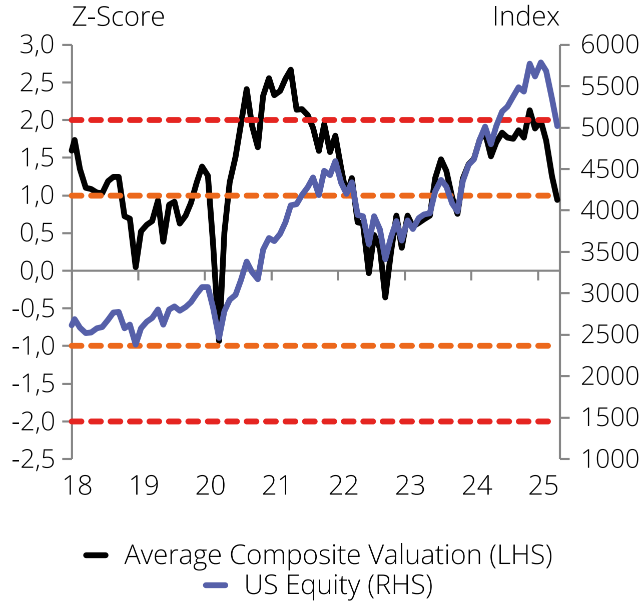

*Source: MSCI, ANIMA Research. Note: prices as of 14th April 2025*

**FIGURE 2**
MSCI USA Index - Multiple Compression




*Source: MSCI, ANIMA Research*

**FIGURE 3**
MSCI USA – Composite Valuation Index




*Source: MSCI, ANIMA Research. Valuation Multiples: ERP, DY; CAPE, PB, FCF Yield, Forward PE, Trailing PE.*

**Against this backdrop, we are neutralising any previous regional preferences** (previously Long Europe, NEUTRAL over US, EM, and UK, SHORT Japan) as pairwise correlation amongst equities tend to rise in a market dominated by headlines rather than fundamentals. In recent days, regional pairwise correlations have increased significantly, indicating that all regional markets have moved simultaneously. We expect this trend to persist, whether uncertainty remains elevated, or a positive catalyst emerges.

**From a sector standpoint, we recommend a barbell approach** (previously Defensive tilt). **We still like defensive** sectors like Utilities and Telecoms, relatively protected from trade war noise and stand to benefit from declining bond yields. Within Cyclicals we like Insurance and Diversified Financials, particularly Exchanges. We remain agnostic on Style.

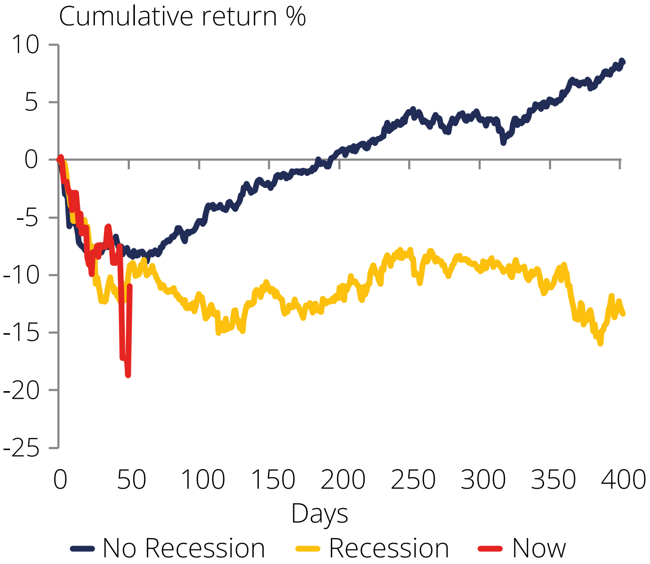
## Strategic View

**We reiterate our OVERWEIGHT stance on equities.** At this stage, downside risks (recession) and upside risks (fiscal policy, tariff peak) appear balanced. However, valuations have compressed significantly, and market positioning is much clearer. Historically, the S&P 500, which represents 70% of global equities, has rallied strongly after deep drawdown when recession risks fade (**Figure 4**).

**Against this backdrop, we prefer Cyclicals over Defensives with no specific style tilt.** Regionally, we favour the US, which has been hardest hit so far, expecting its IT and financial mega-caps to outperform, at least in the early stage of the rally (**Figure 5**). Meanwhile, energy remains our least favoured cyclical sector, as we expect Trump to maintain his "drill baby drill" stance to keep oil prices low.

**FIGURE 4**

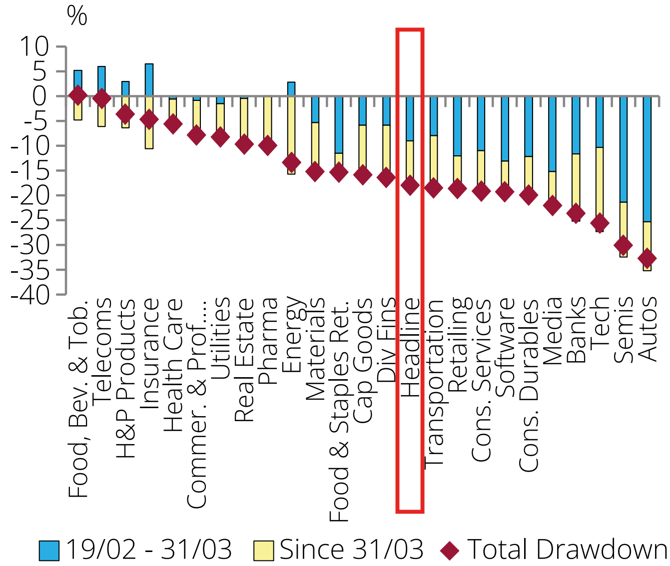
S&P 500 performance after a 10% correction




*Source: S&P 500, ANIMA Research. Note: prices as of 14th April.*

**FIGURE 5**

US Sectors performance during current correction




*Source: MSCI, ANIMA Research*

**A word of warning:** We would place our strategic view under review (Negative Outlook) if the longer uncertainty persists regarding fiscal plans and/or the tariff stance of the US administration, as the higher the likelihood that weakening consumer and business sentiment will translate into actual data. At that point, poor valuations would no longer be a reasonable justification for continuing to bet on the stock market. Accordingly, we would downgrade our strategic view to UNDERWEIGHT. In this scenario, we would expect stock prices to continue falling due to worsening EPS and further multiple compression.

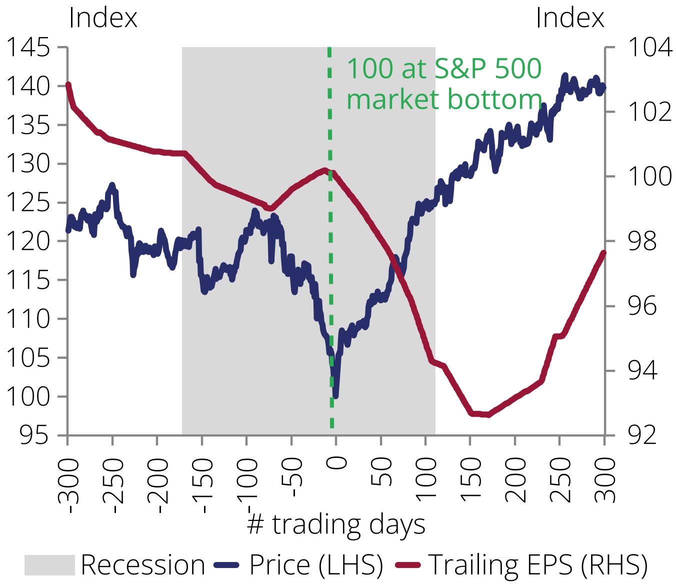
**If the odds of a recession increase, we will recommend trimming equity exposure across the board, particularly in Cyclicals and in World ex US.** Historically, despite being counterintuitive, the US has outperformed the rest of the market during US recessions. While it exports its recession, it is also the first to recover, which is why it has historically been preferred by investors during periods of economic slowdown (**Figure 6**).

**Things often get worse before they get better.** Historically, the stock market reaches its trough during a recession, never before. Similarly, the stock market tends to reverse its downtrend and starts rallying before the recession ends and ahead of the EPS recovery (**Figure 7**). History suggests that stock prices typically bottom five to six months earlier than EPS. Analysing the two most recent episodes, we see that equity prices bottomed in March 2020, whilst EPS bottomed in in September; during the GFC, stock indices reached their troughs in March 2009, whilst EPS bottomed in December.

**FIGURE 6**
Relative US equities performance during previous US recession


Source: DB, ANIMA Research

**FIGURE 7**
Equity prices and EPS during the recession




*Source: MSCI, ANIMA Research*

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