Equity Strategy
RIDE THE (NEWS) FLOW

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

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

We remain tactically NEUTRAL, although we see increasing upside risks. We expect trade tensions to continue easing, US fiscal policy to potentially surprise on the side of further easing, and the US economy to remain resilient, likely avoiding a recession even into 2025.

While these tailwinds have already been partially priced in during the recent rally, we believe there is still room for stock prices to rise, given the currently light positioning.

Against this backdrop, **we maintain a NEUTRAL stance due to the highly fluid geopolitical and macroeconomic environment, especially as we approach a seasonally unfavourable period. Nevertheless, we continue to recommend a buy-the-dip approach.**

From a regional perspective, we are upgrading the US to LONG (previously NEUTRAL) due to still-light positioning, likely improvements in earnings revisions, which have declined sharply in recent weeks amid tariff concerns, and improved corporate guidance following a year of overly cautious messaging. **We remain NEUTRAL on Europe and EM; while downgrading the UK and Japan to SHORT** (from NEUTRAL).

From a sector perspective, we are becoming more constructive on Cyclicals (previously barbelled), **with a mild preference for Growth sectors** (previously agnostic on style). We continue to selectively favour the Magnificent 7, along with Banks and Diversified Financials on both sides of the Atlantic. **We downgrade tariff-insulated sectors such as Utilities and Telecom to NEUTRAL** (from LONG), as we expect trade tensions to continue easing.

Strategically, we reiterate our OVERWEIGHT stance on equities. At this stage, downside risks (such as a recession) and upside risks (including supportive fiscal policy and a potential peak in tariffs) appear balanced. In this context, **we prefer Cyclicals over Defensives, with a tilt towards Growth names** (previously agnostic). Regionally, we favour the US, which has been among the hardest hit so far, expecting its IT and financial mega-caps to lead the performance, at least during the early stages of the rally.

Equity

Tactical View

We remain tactically NEUTRAL. However, there is a noticeable shift in the news flow, which appears more positive across several fronts: de-escalation of the trade war, potential direct talks between Russia and Ukraine, better than expected macroeconomic and corporate fundamentals, and the possibility of fiscal easing. **Figure 1** illustrate that positive news (in green) now outweighs negative news (in red). Although these tailwinds have been partially priced in during the recent rally, we believe stock prices still have room to rise, given the current positioning.

Against this backdrop, we maintain a NEUTRAL stance due to the highly fluid geopolitical and macroeconomic environment, particularly as we enter a seasonally unfavourable period. Historically, June tends to be a weak month for equity markets, especially outside the US. However, in recent years, we have observed positive equity performance even at the beginning of the summer (**Figure 2** and **Figure 3**). **That said, we continue to recommend a buy-the-dip approach.**

FIGURE 1

S&P 500 and Tariffs/Political Announcements

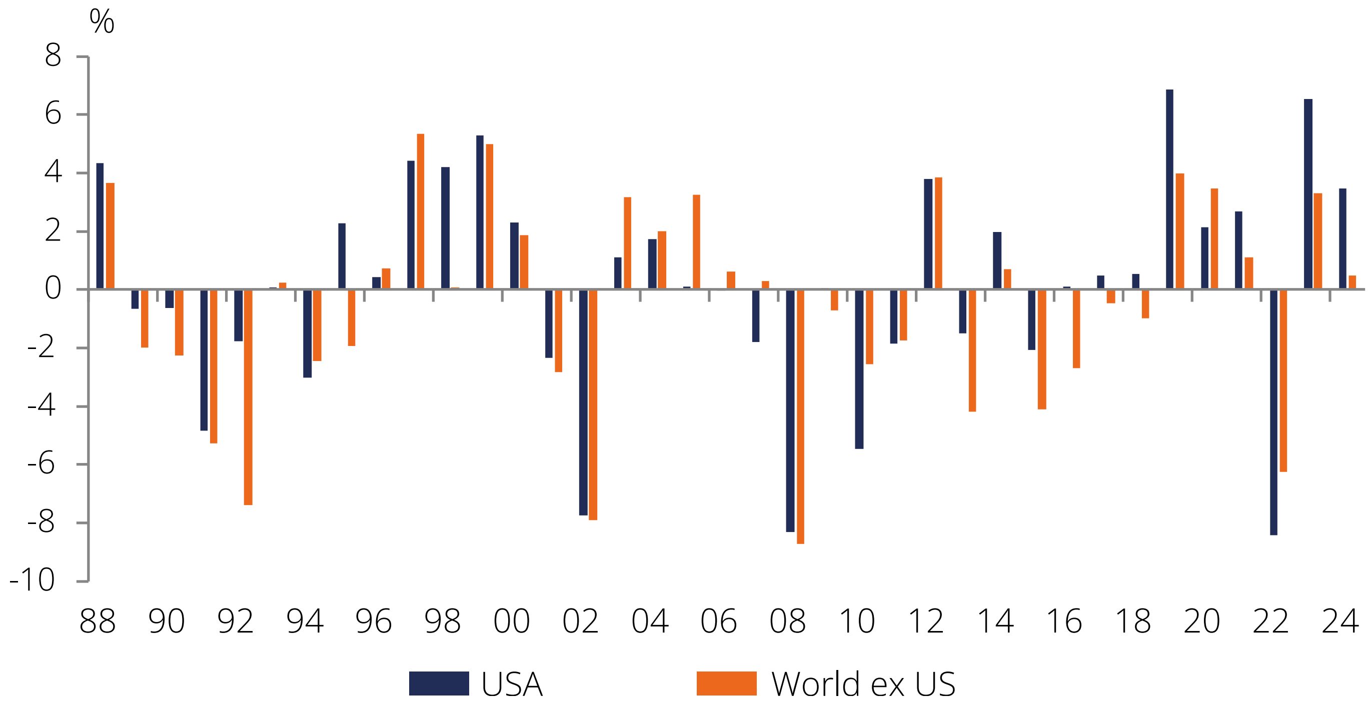
*Source: MSCI, ANIMA Research. Note: prices as of 16th **May** 2025*

FIGURE 2
Seasonality across the main regions

	Average Monthly Performance (% since 1987)						Hit Ratio
	Global	**US**	**Europe**	**UK**	**Japan**	**EM**	**Global**
January	0.6	0.8	0.7	-0.1	0.2	1.4	57
February	0.4	0.1	0.8	0.4	0.2	1.2	51
March	0.7	0.8	0.4	0.0	0.4	0.8	65
April	1.7	1.6	1.8	2.0	1.7	2.5	78
May	0.5	1.0	0.0	0.0	0.0	-0.2	62
June	-0.3	0.1	-0.7	-1.0	0.0	-0.4	51
July	1.4	1.6	1.2	1.3	0.2	1.3	68
August	-0.9	-0.6	-1.0	-0.5	-1.3	-1.6	57
September	-1.1	-0.7	-1.4	-0.9	-0.9	-0.6	51
October	1.2	1.4	1.1	0.8	0.0	0.5	65
November	1.7	2.2	1.5	1.1	1.0	0.8	73
December	1.6	1.3	1.8	2.0	1.4	3.2	76
Average	0.6	0.8	0.5	0.4	0.2	0.7	63

Source: Bloomberg, ANIMA Research.

FIGURE 3
Seasonality in June only



Source: Bloomberg, ANIMA Research

a. Regional Allocation

Against this backdrop, we now upgrade the US to LONG (previously NEUTRAL); **we remain NEUTRAL on Europe and EM; whilst downgrading the UK and Japan to SHORT** (from NEUTRAL) (**Figure 4**).

FIGURE 4
Tactical Regional Recommendations

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

Source: MSCI, ANIMA Research

The US is now our top pick, owing to:

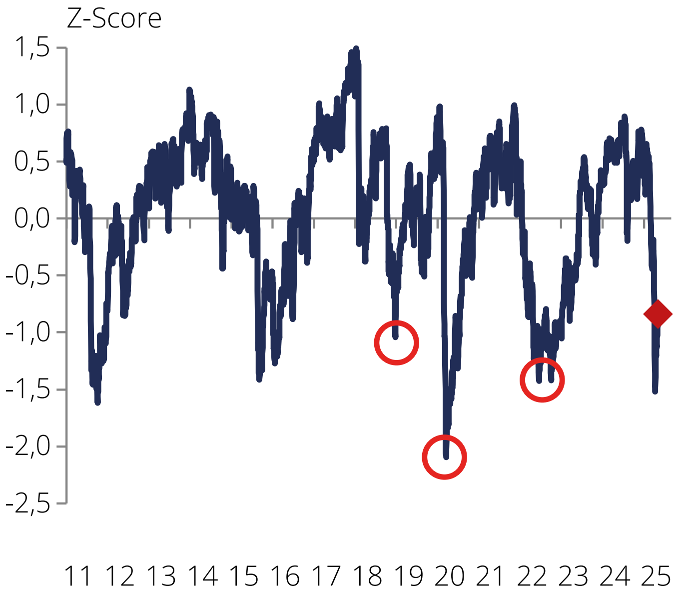
- **Light positioning:** investor positioning in the US market is currently one standard deviation below the historical average, similar to levels seen at market bottoms of late 2018, during COVID, and in the 2022 bear market (**Figure 5**). The lightest positioning is among systematic investors (**Figure 6**). From a flow perspective, we note that despite the S&P 500's 14% rally from the April lows, ETF flows into US equities remain negative, while flows into European equities are accelerating (**Figure 7**). **That said, any positive catalyst could trigger a sharp rebound.**

- **Subdued EPS estimates and corporate guidance:** Earnings-per-share (EPS) downgrades accelerated rapidly following Liberation Day, with weak forward guidance across the entirety of 2025 (**Figure 8**), largely due to uncertainty surrounding the trade war. **As the rhetoric eases, we expect both EPS revisions and corporate guidance to improve in the coming weeks.**

The downgrades of Japan and the UK are not absolute; we simply see more attractive opportunities elsewhere. From a fundamental perspective, Japan remains best in class, recording the strongest Earnings Momentum and second-strongest Margin Momentum globally.

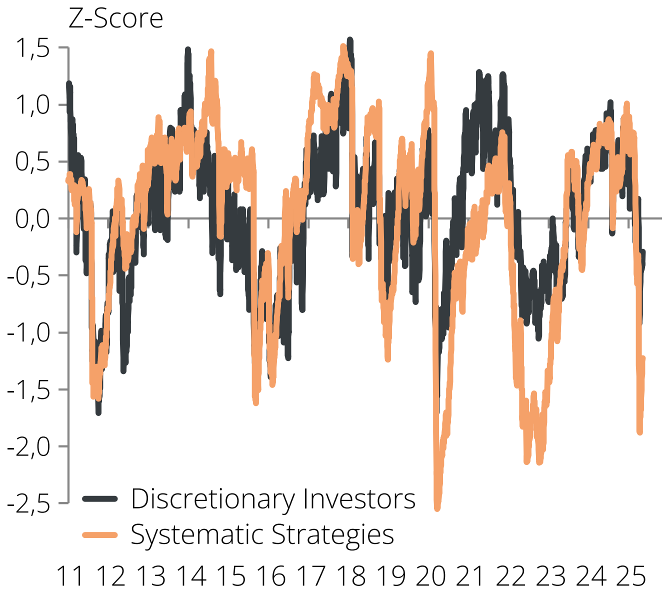
Within EM, we upgrade Mexico to LONG (previously SHORT), expecting it to continue outperforming as the tariff-related concerns ease. We downgrade Brazil to SHORT (from NEUTRAL), anticipating continued weakness in commodity prices and citing poor Earnings and Dividend Momentum.

FIGURE 5
Consolidated Equity Positioning (Weighted Average Z-score)



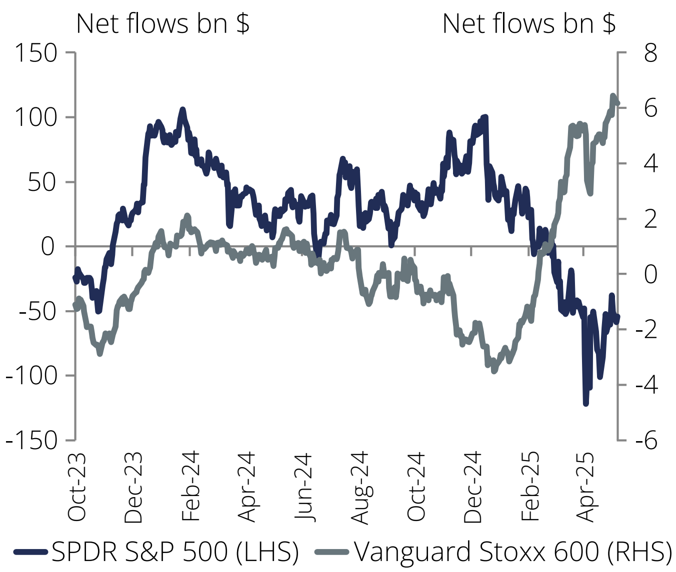
Source: DB, ANIMA Research

FIGURE 6
Consolidated Equity Positioning (Weighted Average Z-score)



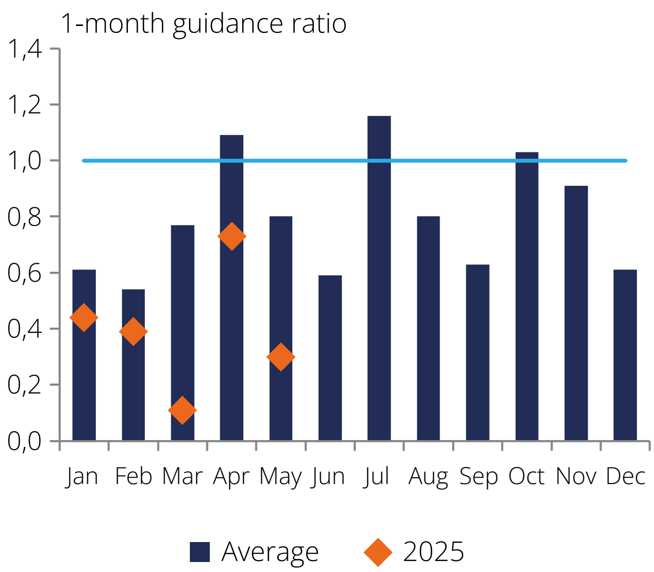
Source: MSCI, ANIMA Research

FIGURE 7
ETF Flows in USD billion (Quarterly Rolling)



Source: Bloomberg, ANIMA Research.

FIGURE 8
Average 1 month Guidance Ratio by Month



Source: BofA, ANIMA Research

b. Sector Allocation

From a sector standpoint, we are turning more constructive on Cyclicals (previously barbelled), **with a mild preference for Growth sectors** (previously agnostic on style) (**Figure 9**).

FIGURE 9
Tactical Sector Recommendations

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

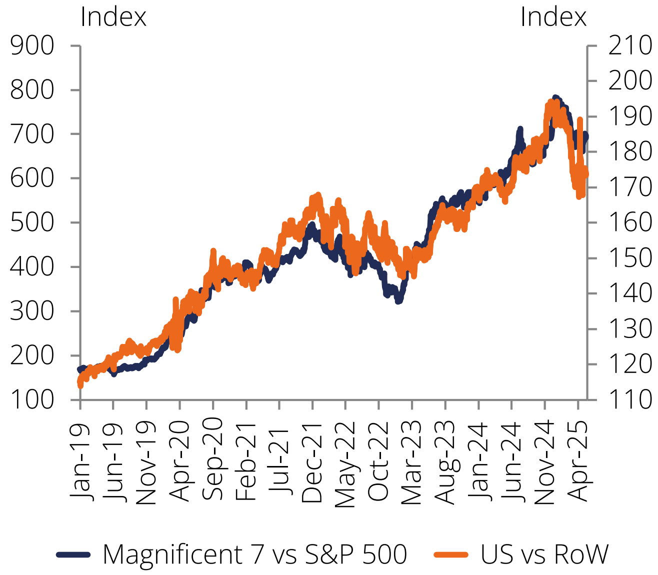
Source: MSCI, ANIMA Research

Within the Growth universe, we continue to favour the Magnificent 7, as they are pivotal to any potential market rebound. Over the past decade, US equities have consistently outperformed global markets, coinciding with the sustained dominance of these stocks within major US indices (**Figure 10**). The recent correction, driven by tariff uncertainty, affected this group, which had previously been trading at higher valuation levels. As a result, most of these names now trade at or below their 10-year average forward P/E, presenting a potentially more attractive entry point and limiting further downside risk (**Figure 11**).

Tech fundamentals remain broadly supportive. In the latest earnings season, major tech firms projected strong long-term growth, with a clear focus on AI, cloud infrastructure, and platform expansion. Most increased capital expenditures and emphasised operational efficiency to support these investments. However, several also acknowledged persisting macroeconomic headwinds, including FX volatility and regulatory developments, which they appear well-positioned to navigate.

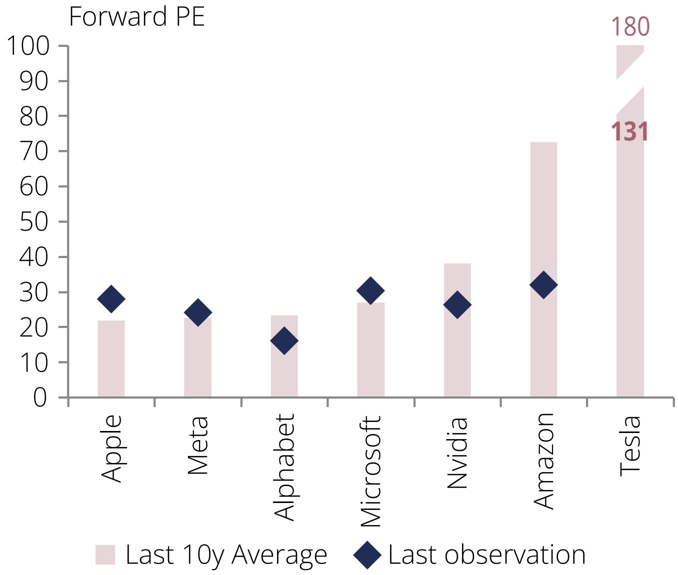
That said, trade-related risks remain a key caveat. Apple is the most directly exposed to rising US tariffs on Asian imports, citing material risks to both its cost structure and supply chain. Meta and Microsoft also highlighted potential disruptions tied to global trade tensions, especially concerning hardware and tech sourcing. Amazon and Alphabet noted broader geopolitical risks, while Tesla appears relatively insulated due to its localised manufacturing strategy. Although NVIDIA has yet to release its quarterly results, similar commentary from AMD suggests it is also facing headwinds from new US export licensing requirements introduced in April for advanced chip sales to China. These measures remain in force, despite the recent removal of the broader Biden-era AI Diffusion framework, which had been scheduled to take effect on 15th May.

FIGURE 10
Magnificent 7 to drive next rebound



Source: MSCI, Bloomberg, ANIMA Research

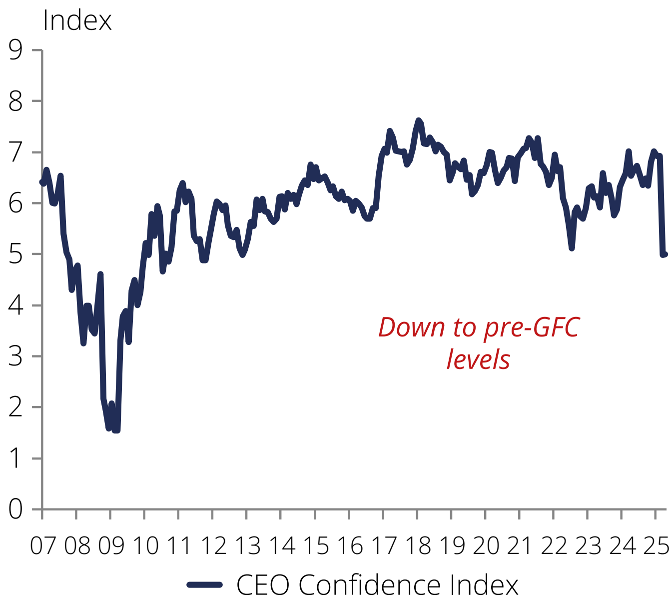
FIGURE 11
Magnificent 7 Forward P/E: Last Value vs 10y Average



Source: ANIMA Research

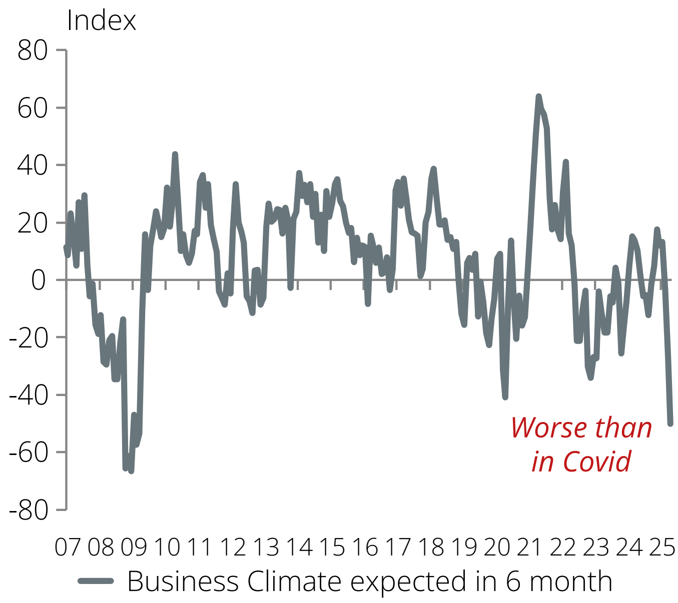
Within Value, we maintain our LONG stance on Banks and Diversified Financials. These sectors benefited from heightened market volatility in the first quarter; going forward, we expect them to capitalise on a resurgence in M&A activity and a new wave of deregulation. Investment banking activity has been relatively subdued so far this year, primarily due to trade war uncertainty weighting on CEO confidence (**Figure 12**) and business sentiment (**Figure 13**), resulting in many stalled or cancelled deals.

FIGURE 12
CEO Confidence Index



Source: Bloomberg, ANIMA Research

FIGURE 13
US Business Leaders Survey Business Climate expected in 6m



Source: ANIMA Research

Within Defensives, we have tactically downgraded Utilities and Telecoms to NEUTRAL (from LONG). These sectors outperformed during the height of the trade war, largely due to their local business models being insulated from tariffs. However, we now expect their momentum to fade. **We also downgrade Pharma to SHORT** (previously LONG) amid rising policy risk and potential margin pressure, following the recent executive order signed by President Trump on drug pricing. The order introduces a Most-Favored-Nation (MFN) model for Medicare and Medicaid, capping US reimbursement at the lowest price offered in other developed countries. While private markets remain unaffected for now, US pharmaceutical companies face downside risk as higher domestic prices come under direct challenge, reducing profitability from public-sector sales. European companies are also exposed, as their lower international prices now serve as the benchmark. With the added risks of implementation, pricing pressure, and heightened regulatory uncertainty, we view the sector's risk-reward profile as less attractive.

Strategic View

We reiterate our OVERWEIGHT stance on equities. At this stage, downside risks (e.g., recession) and upside risks (e.g., fiscal stimulus, peaking tariffs) appear balanced. However, valuations have compressed significantly, and market positioning is now much clearer. Historically, the S&P 500, which represents 70% of global equity market capitalisation, has shown strong recovery following deep drawdowns when recession risks abate.

Against this backdrop, we continue to favour Cyclicals over Defensives, with a clear preference for Growth names (previously agnostic). **Regionally, we favour the US**, which has been among the hardest hit thus far, expecting its IT and financial mega-caps to lead the early stages of the rebound.

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