Equity Strategy

High January

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We turn tactical LONG from 1 January (NEUTRAL until then). Market volatility is likely to persist through year-end as investors take profits and await new US economic data following the shutdown. That said, we remain buyers on dips, expecting the rally to resume in January. Our constructive view is supported by a better-than-expected macro backdrop, easing geopolitical tensions, both solid household and corporates balance sheets, and seasonality. The main risks to our constructive outlook stem from any dramatic shift in expectations about the Fed's next moves or a significant reduction in liquidity.

We expect global equities to continue trending upward, even if stronger economic growth or slightly higher inflation in the US were to lead to an increase in Treasury yields. Historically, rising yields signal a healthy economy that supports stock prices. The last two major market downturns, 2000 and 2007, occurred alongside falling yields and deteriorating corporate fundamentals. Therefore, rising yields alone are not enough to stop a rally; market weakness emerges when several negative factors coincide, though the resilient macro backdrop should limit the downside.

From a regional perspective, we reiterate our NEUTRAL stance on the main regions. We see all regions to join in sync with the anticipated start of the year rally.

From a sector standpoint, we maintain a cyclical tilt, with a more agnostic approach to style (previously Growth bias). We are increasing exposure to traditional cyclical Value by going LONG Diversified Financials (previously NEUTRAL). Among Growth sectors, we are reducing concentration risk by going LONG Tech Hardware & Equipment (previously NEUTRAL). Pharma remains our favourite defensive sector.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to accelerate in 2026, driven mostly by high single-digit EPS growth. Already rich valuations will limit gains from multiple expansion, which was the main driver of last year's rebound.

Regionally, we prefer the US and EM due to their predominance in the AI space and unique catalysts. Sector-wise, we favour Cyclicals over Defensives, leaning towards Growth-oriented stocks given our outlook for US GDP growth and inflation outlook. However, if the US economy grows more rapidly and inflation picks up, we would switch our focus to traditional Value stocks and take a more selective approach to long-duration sectors.

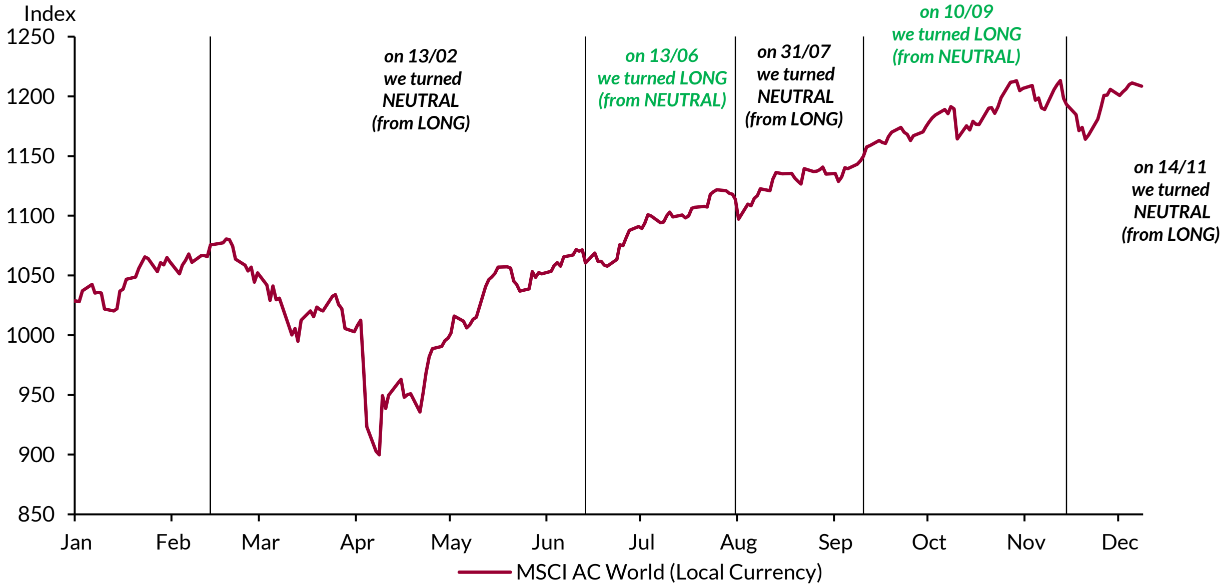
Completed: 12 December 2025

Ready to turn LONG

We turn tactical LONG from 1 January (NEUTRAL until then). Market volatility is likely to persist through year-end as investors take profits and await new US economic data following the shutdown (see **Figure 1**).

Figure 1

MSCI AC World and Equity Strategy Positioning

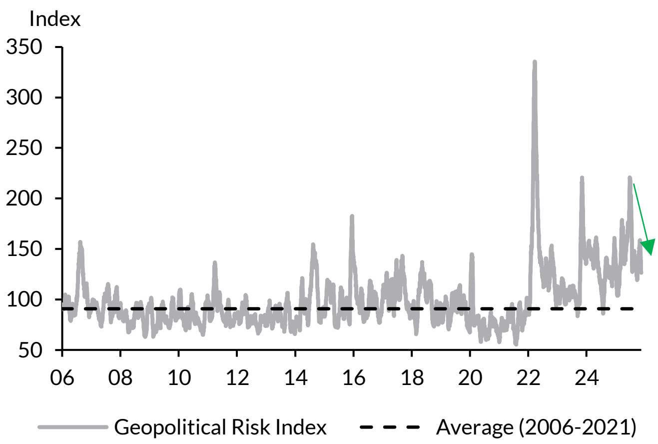


Source: MSCI, ANIMA Research. Note: Prices as of 8th December 2025.

We continue to buy dips. We expect the rally to carry on with a steadier uptrend through January. With the Q3 reporting season close to an end, investors' focus has shifted back to the macro. Economic data has consistently exceeded expectations in major regions, accompanied by an ongoing reduction in geopolitical tensions (**Figure 2**), which extends beyond just trade policies (**Figure 3**). This favourable backdrop boosted business confidence, as demonstrated by the US CEO Confidence Index, which increased for the second consecutive month. However, it remains below the 2024 level, indicating there is still room for improvement (**Figure 4**). Corporate optimism has not yet spread throughout the investment community yet. Most investors expect the market to decline over the next six months (**Figure 5**). Equity positions have returned to their historical norm, as systematic investors have scaled back their previously high exposure, while discretionary investors are once again underweight (**Figure 6** and **Figure 7**). **Against this backdrop we expect stock markets to reaccelerate at the start of the new year, supported by a Q4 reporting season likely to be stronger than currently expected and by favourable seasonality**. Equities generally perform well in January, with the main exception of 2022. Back then, a spike in real yields and early tensions at the Russia-Ukraine border led to market instability that evolved into a bear market as the Federal Reserve began tightening to curb high post-Covid inflation (**Figure 8**).

Figure 2

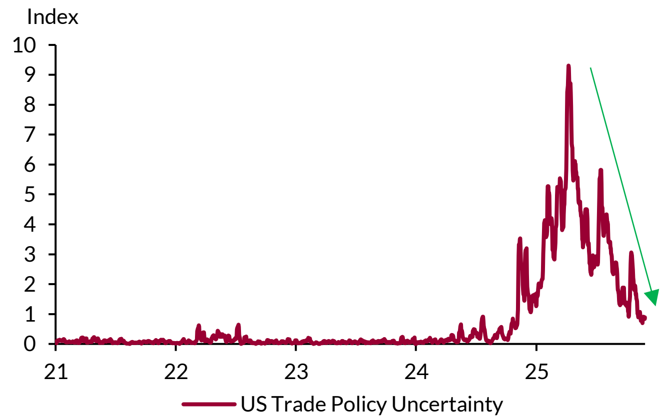
Caldara & Iacoviello Geopolitical Risk Index



Source: Bloomberg, ANIMA Research.

Figure 3

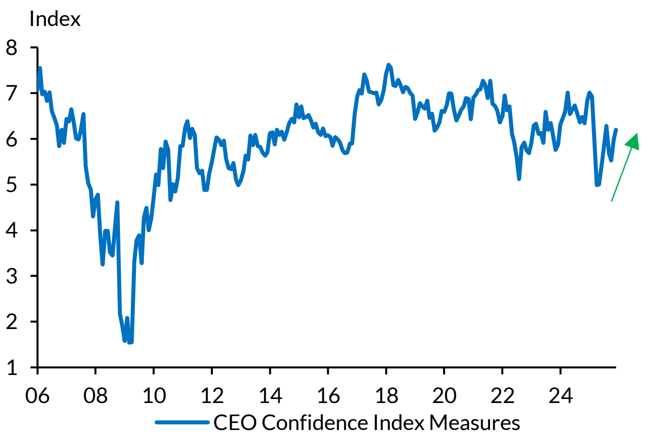
Bloomberg US Trade Policy Uncertainty



Source: Bloomberg, ANIMA Research.

Figure 4

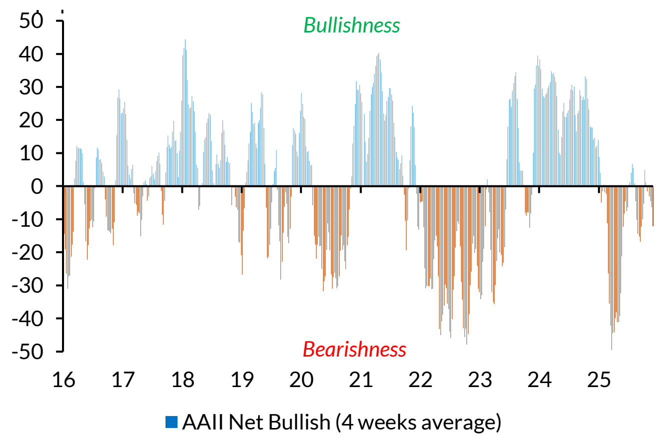
CEO Confidence in the Economy 1Y from now



Source: Bloomberg, ANIMA Research.

Figure 5

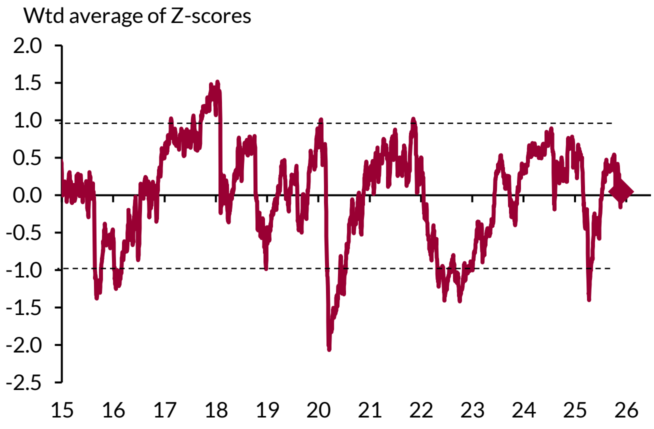
Net Bullish Readings



Source: American Association of Individual Investors, ANIMA Research.

Figure 6

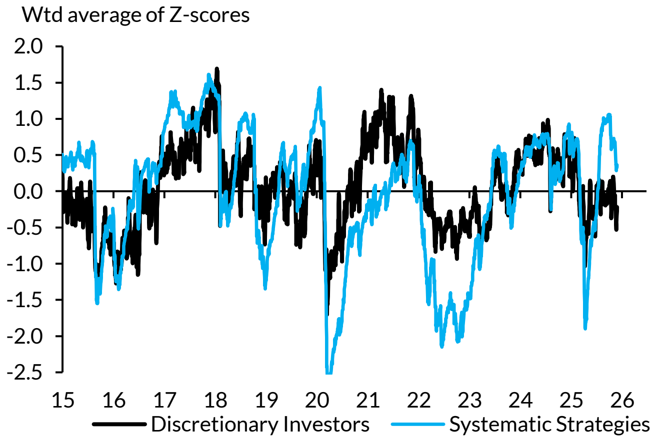
Consolidated Equity Positioning



Source: Deutsche Bank, ANIMA Research.

Figure 7

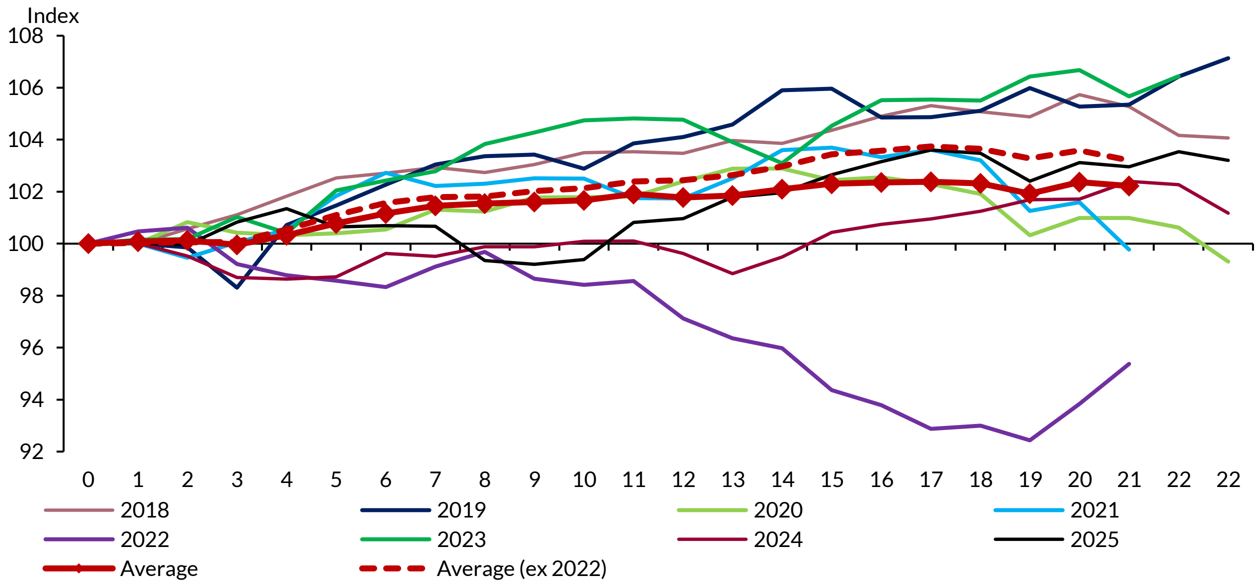
Discretionary and Systematic Equity Positioning



Source: Deutsche Bank, ANIMA Research.

Figure 8

MSCI AC World (local currency) performance in January



Source: MSCI, ANIMA Research.

Main Risks to our Tactical LONG

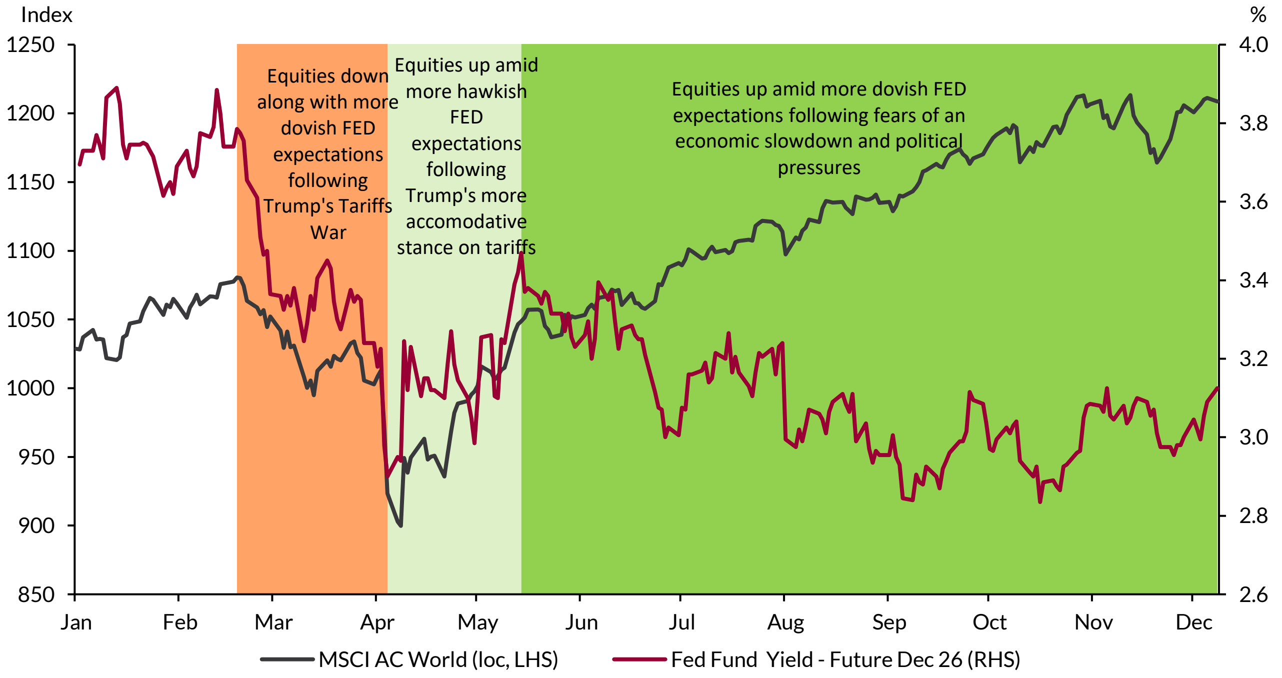
The main risks to our constructive outlook stem from any dramatic shift in expectations about the Fed's next moves or a significant reduction in liquidity.

This year, equities have reacted sharply to shifts in economic and Fed Fund Rate (FFR) expectations, especially around Liberation Day. Since July, FFR expectations have stayed within a 25bp range, while equity markets reached new highs with investors focusing on companies' strong fundamentals (**Figure 9**). **Only a sharp change in FFR expectations could reverse the trends in equities**.

Another potential headwind would be a prolonged liquidity reduction that could halt the equity rally and cause market volatility to rise. In October, there was a steep decline in liquidity indicators, the sharpest since 2022, caused by funding market pressures that led to a 5% drop in the S&P 500. However, with quantitative tightening ending, the government reopening after the shutdown, and the Treasury General Account (TGA) reaching its highest level since the COVID pandemic, we anticipate that the indicator will normalise soon, offering some relief to stocks (**Figure 10**).

Figure 9

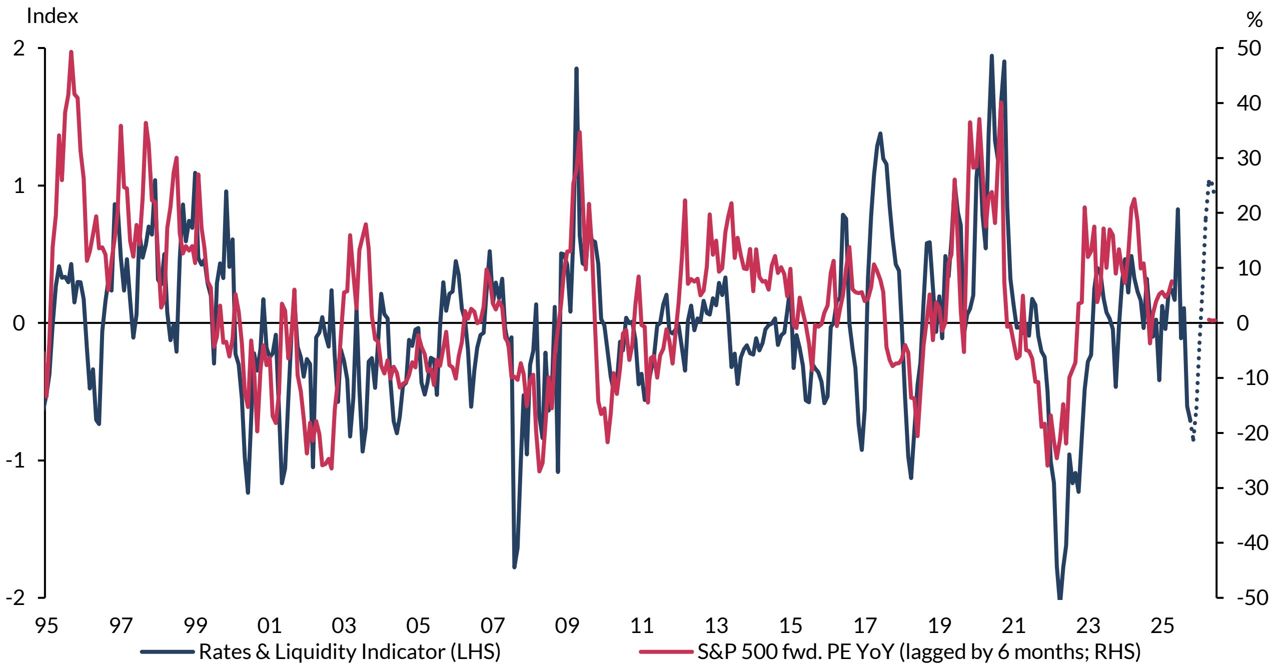
MSCI AC World and Fed Fund Futures (Dec 26)



Source: Bloomberg, ANIMA Research. Note: Prices as of 8th December 2025.

Figure 10

Rates & Liquidity Indicator and US Market Valuations



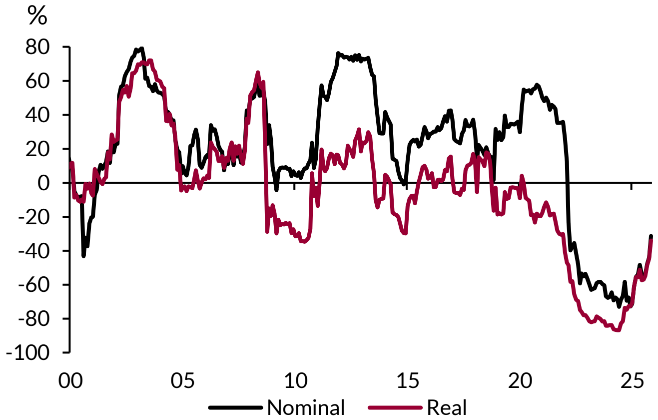
Source: Wells Fargo, ANIMA Research. Note: The dotted line represents Wells Fargo's projection.

With these caveats in mind, we expect global equities to keep trending upward, even if stronger economic growth or slightly higher inflation in the US were to lead to an increase in Treasury yields. Historically, rising yields signal a healthy economy that supports stock prices. The last two major market downturns, 2000 and 2007, occurred alongside falling yields and deteriorating corporate fundamentals. Therefore, **rising yields alone are not enough to stop a rally; market weakness emerges when several negative factors coincide, though the resilient macro backdrop should limit the downside**.

Since mid-2024, the negative relationship between US yields and US equities has been fading. During the 2022-2023 Fed tightening cycle, the S&P 500 initially declined as yields rose, but later, higher yields supported the index, signalling strong US economic growth (**Figure 11**). Moreover, a 40-year data analysis indicates that long-term rates may need to reach around 7% before S&P 500 valuations experience significant contraction (**Figure 12**). We believe that the resilience of stock prices to moves in yields is due to robust and improving corporate balance sheets. Aggregate leverage has declined, reaching levels near decade lows, while interest coverage has increased by one point compared with last year's lows (**Figure 13** and **Figure 14**).

Figure 11

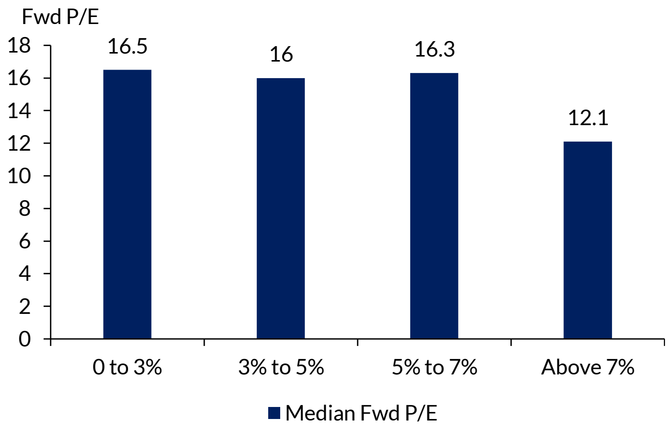
S&P 500 2Y Rolling Correlation with Yields



Source: Bloomberg, ANIMA Research.

Figure 12

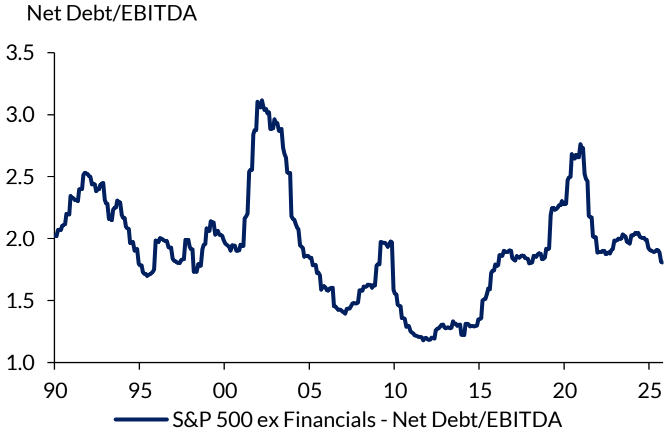
US Valuation at different levels of 10Y UST yield



Source: BofA, ANIMA Research.

Figure 13

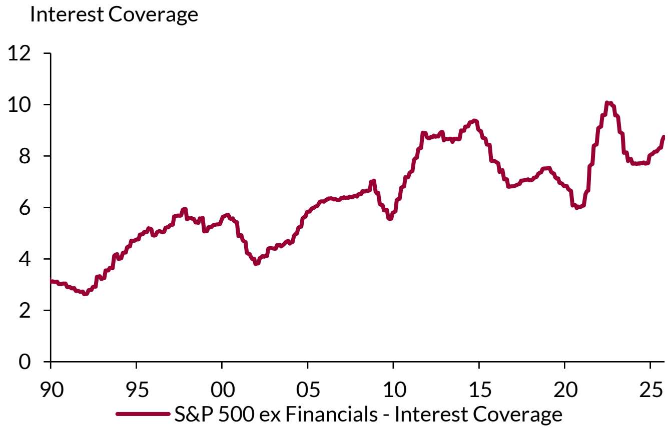
S&P 500 ex Financials – Net Debt to EBITDA



Source: Bloomberg, ANIMA Research.

Figure 14

S&P 500 ex Financials – Interest Coverage



Source: Bloomberg, ANIMA Research.

A. Regional Allocation

We continue to stay NEUTRAL across all regions (**Figure 15**). We expect all regions to join in sync with the anticipated start-of-year rally.

Figure 15

Tactical Regional Recommendations - January 2026

	Regional Allocation	
Overweight	**Neutral**	**Underweight**
	Continental Europe	
	EM	
	UK	
	Japan	
	US	

Source: ANIMA Research. Note: Markets highlighted in green have been upgraded, while those in red have been downgraded since the November Strategy Focus.

B. Sector Allocation

From a sector standpoint, we maintain a cyclical tilt, with a more agnostic approach to style (previously Growth bias). We are increasing the exposure to traditional cyclical Value going LONG Diversified Financials (previously NEUTRAL). Among Growth sectors, we are reducing concentration risk by going LONG Tech Hardware & Equipment (previously NEUTRAL). We are trimming added cyclicality by moving Capital Goods from NEUTRAL to SHORT. Pharma remains our favourite defensive sector (**Figure 16**). Investors maintain a cautious stance toward traditional cyclical sectors, which continue to be underweight. Conversely, allocations remain focused on Media and IT, though current positioning appears less stretched than it was one month ago (**Figure 17**).

Figure 16

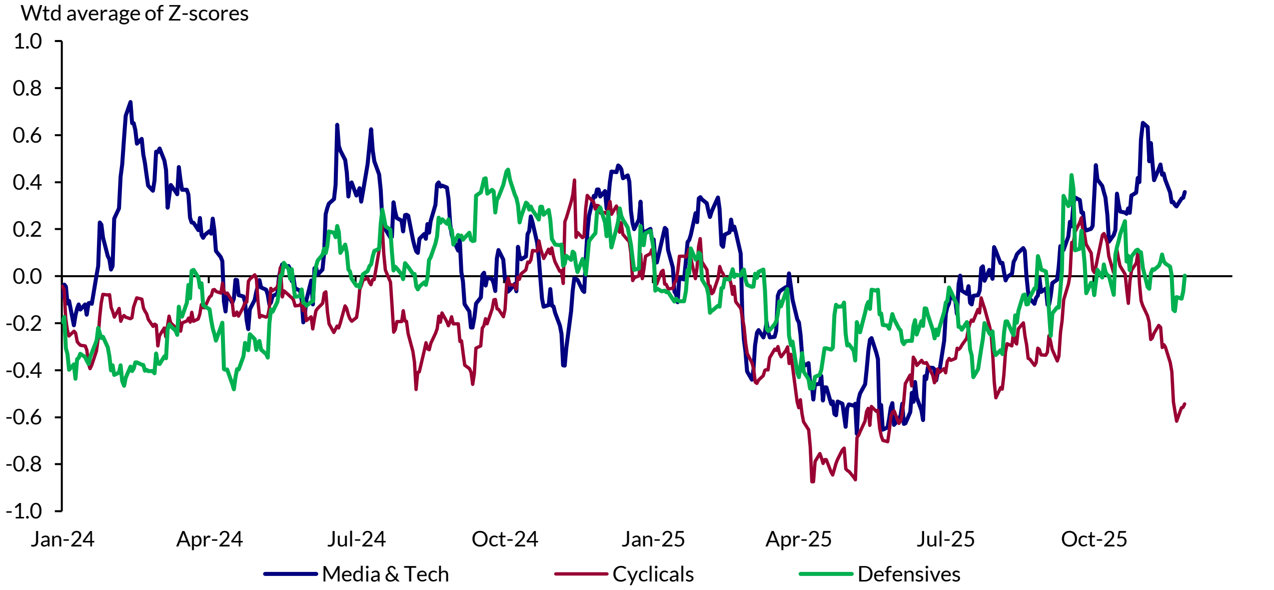
Tactical Sector Recommendations - January 2026

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

Source: ANIMA Research. Note: Markets highlighted in green have been upgraded, while those in red have been downgraded since the November Strategy Focus.

Figure 17

Consolidated Equity Positioning for US Sectors

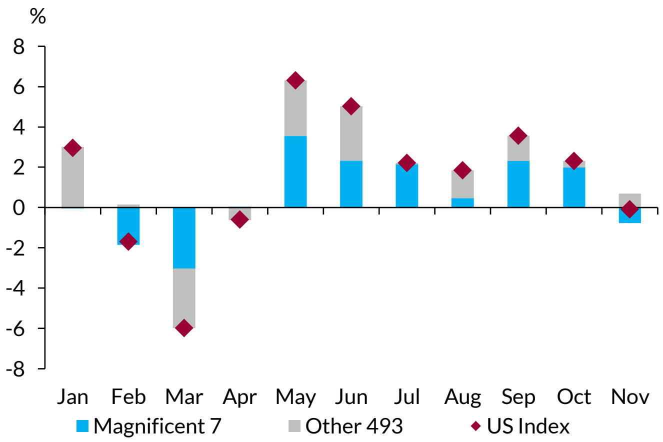


Source: Deutsche Bank, ANIMA Research.

Looking at individual stocks, **November marked the first month since March when the Magnificent 7 weighed on overall US equity performance** (**Figure 18**). We consider this an isolated episode rather than the start of a new trend. These names still feature stronger EPS growth prospects and remain at the forefront of the AI revolution. Instead, we expect a narrowing of performance differentials compared with the overall market, and particularly relative to their sector peers (**Figure 19**).

Figure 18

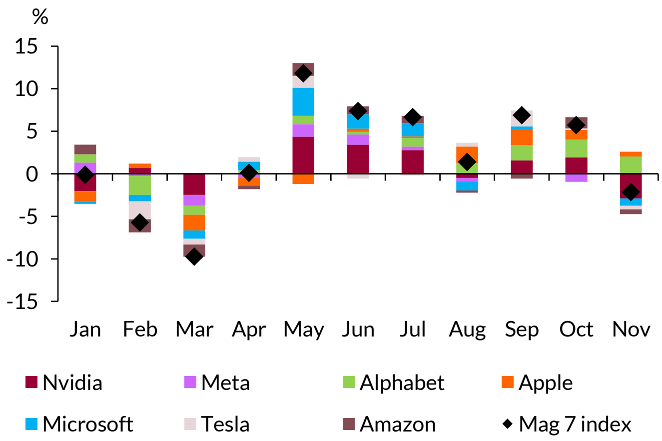
S&P 500 Monthly Perf.: Mag7 vs Other 493



Source: Bloomberg, ANIMA Research.

Figure 19

Mag7 Monthly Performance



Source: Bloomberg, ANIMA Research.

Strategically OVERWEIGHT

Strategically, we reaffirm our OVERWEIGHT stance on equities and regard any market weakness as a buying opportunity. We anticipate the global benchmark reaching new highs in Q4 and accelerating further in 2026, driven primarily by high single-digit EPS growth. Already rich valuations will constrain the scope for multiple expansion, which was the principal driver of last year's rebound.

Regionally, we prefer the US and EM due to their predominance in the AI space and idiosyncratic catalysts such as monetary and fiscal easing in the US, an expected weaker USD, and light positioning within EM. **Sector-wise, we favour Cyclicals over Defensives, leaning towards Growth-oriented stocks given our outlook for US GDP growth and inflation.** However, if the US economy grows more rapidly and inflation picks up, we would switch our focus to traditional Value stocks and take a more selective approach to long-duration sectors.

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