Equity Strategy

High and volatile

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We reiterate our tactically LONG position. We expect global equities to keep grinding higher over the next few weeks driven by another better-than-expected reporting season and a healthy macro environment across the board.

However, we expect increased market volatility driven by headline noise rather than any real deterioration in hard data. As the US mid-term election approach, President Trump is adopting a more outspoken approach resembling his behaviour earlier in his mandate. So far, he has targeted credit-card issuers and real-estate investment funds, aiming to make life more affordable for US consumers. However, what benefits consumers does not necessarily benefit stock prices, at least from a trading perspective. That said, we will continue to buy on dips, anticipating that the rally will persist, albeit with more volatility.

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 view any rise in geopolitical tensions as a potential buying opportunity, provided that China is not directly involved. Escalations in Latin America or the Middle East are seen as marginally supportive.

From a regional perspective, we reiterate our NEUTRAL stance on the main regions. We see all regions participating in sync with the expected extension of the rally.

From a sector standpoint, we maintain a cyclical tilt, raising the exposure to traditional cyclical Value sectors (previously agnostic). That said, we upgrade Capital Goods to LONG (previously SHORT) re-engaging with Aerospace and Defence. Within Growth, we downgrade both Software and Tech to NEUTRAL (previously LONG), as we anticipate their sluggish performance will persist even though their fundamentals are strong. We believe the market will reward these sectors positively, along with Media (NEUTRAL), once there are clear signs of AI monetisation. Pharma continues to be our top pick among defensive stocks.

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 earnings growth. Our new GDP forecasts for US suggest Global EPS will rise by around 12% in 2026 (previously high single digits). Already rich valuations will limit gains from multiple expansion, which impact is progressively decreasing since 2023.

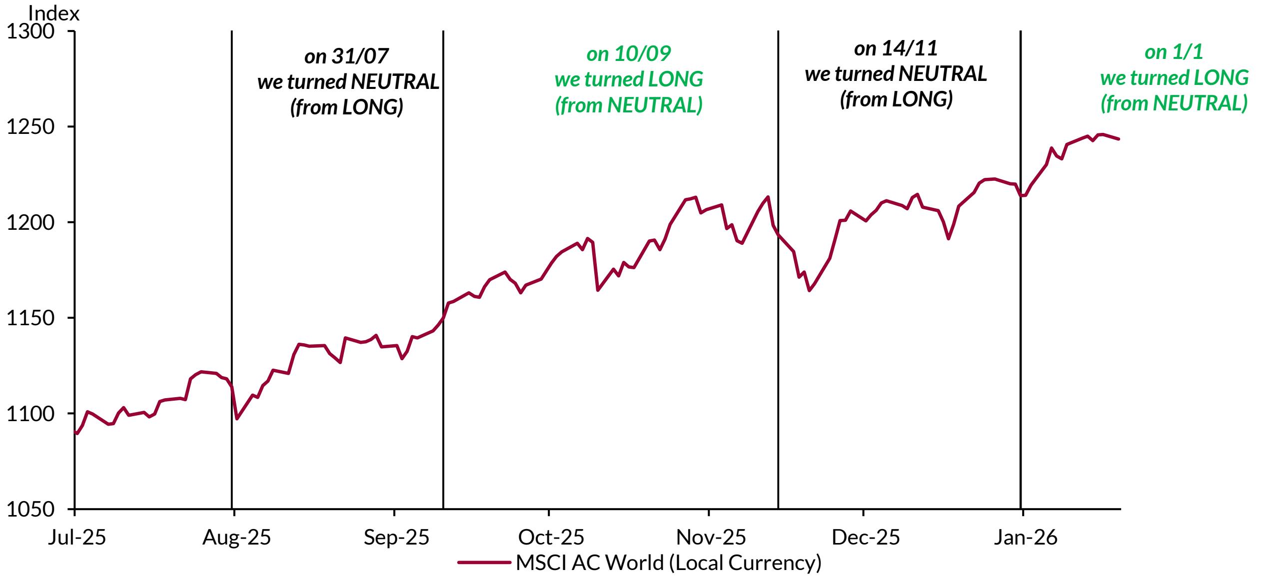
Regionally, we still favour the US and EM for their leading roles in AI and unique catalysts, although performance may become more aligned across regions over the next 12 months. Sector-wise, we favour Cyclicals over Defensives, neutralising our previous Growth tilt.

Stay tactically LONG

We remain LONG, although we anticipate volatility to stay persistently higher going forward (see **Figure 1**). We expect global equites to appreciate, recording new highs supported by a better-than-expected Q4 earnings - the peak reporting season scheduled between 26th January and 13th February (**Figure 2**) - and a still healthy macro backdrop. **Our economists have recently upgraded the estimates for US's 2026 GDP Growth to 2.7%** from 2.0%. **This brings our 2026 EPS growth estimate to 12%**, up from the previous high single-digit forecast.

Figure 1

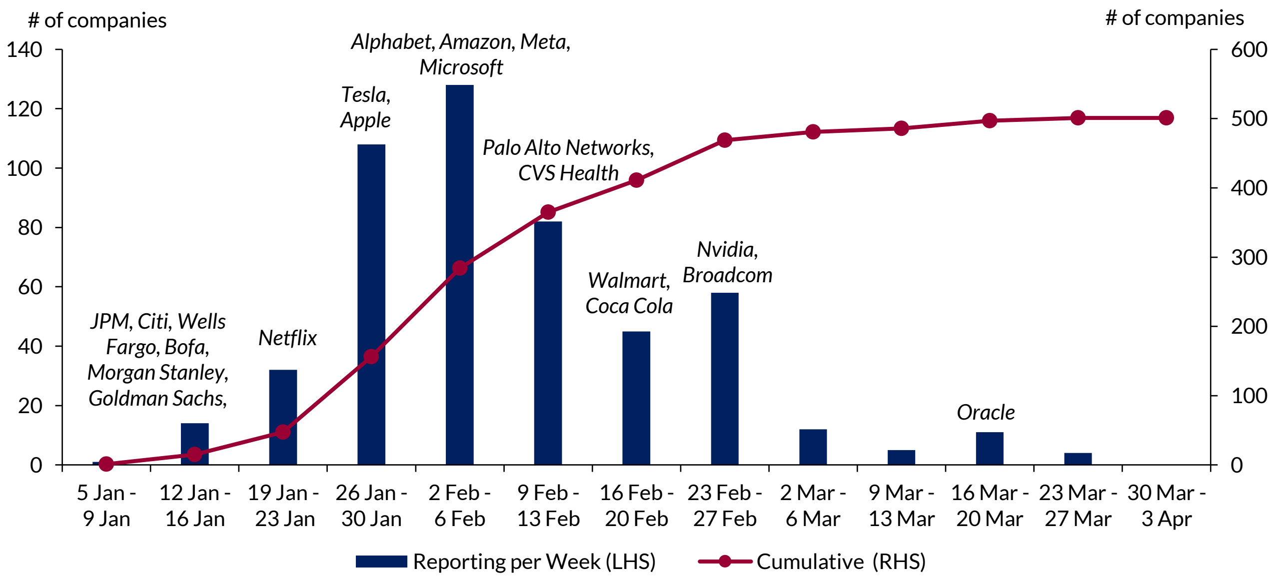
MSCI AC World and Equity Strategy Positioning



Source: MSCI, ANIMA Research. Prices as of 19th January 2026.

Figure 2

Timeline of US companies' reporting season

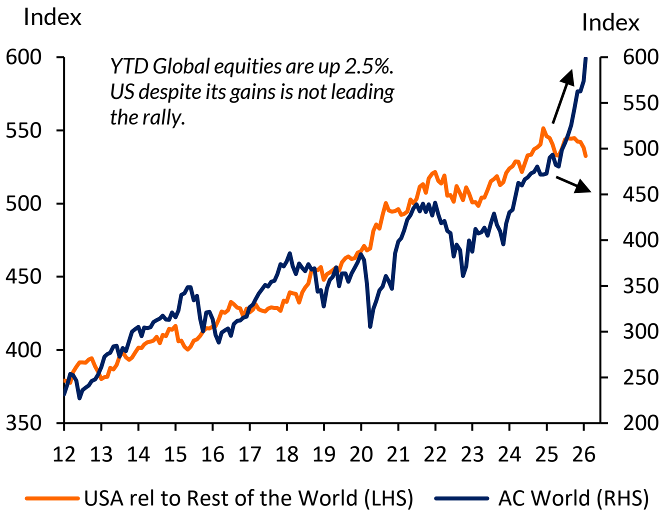


Source: Bloomberg, ANIMA Research.

Against this backdrop, we see the rally continuing to broaden across regions and sectors, but without an actual structural rotation within the market. We expect a catch-up from those markets that lagged in 2025, triggering a synchronised and broadly participated run, at least in absolute terms. Year-to-date, US equities are up around 1.5% while the Rest of the World is up 4.3%; overall, the global benchmark is up 2.5% (**Figure 3**). The last time we saw rising global equities with the US underperforming was back in Q1 2015, in the aftermath of the European QE announcement. The same dynamic is visible at stock level: within S&P 500, a proxy for the global benchmark, the Magnificent 7 are no longer leading, lagging the remaining 493 constituents. **This suggests that investors are still chasing the winning themes of the previous year while also exploring new opportunities elsewhere** (**Figure 4**).

Figure 3

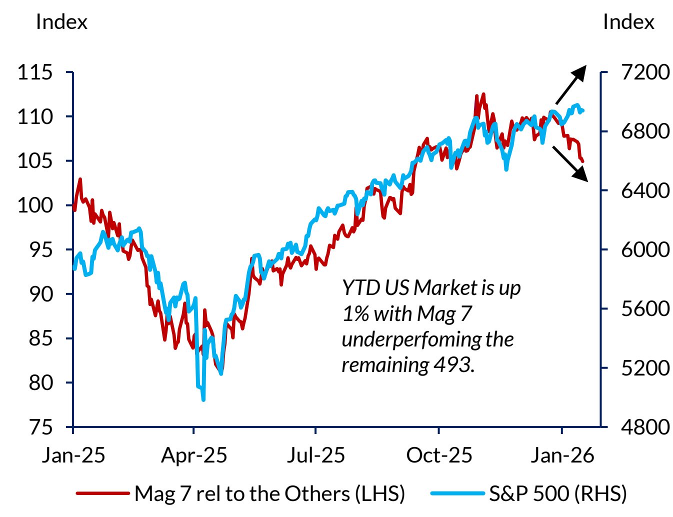
Regional Broadening



Source: MSCI, ANIMA Research. Prices as of 19th January 2026.

Figure 4

Sector/Stocks Broadening

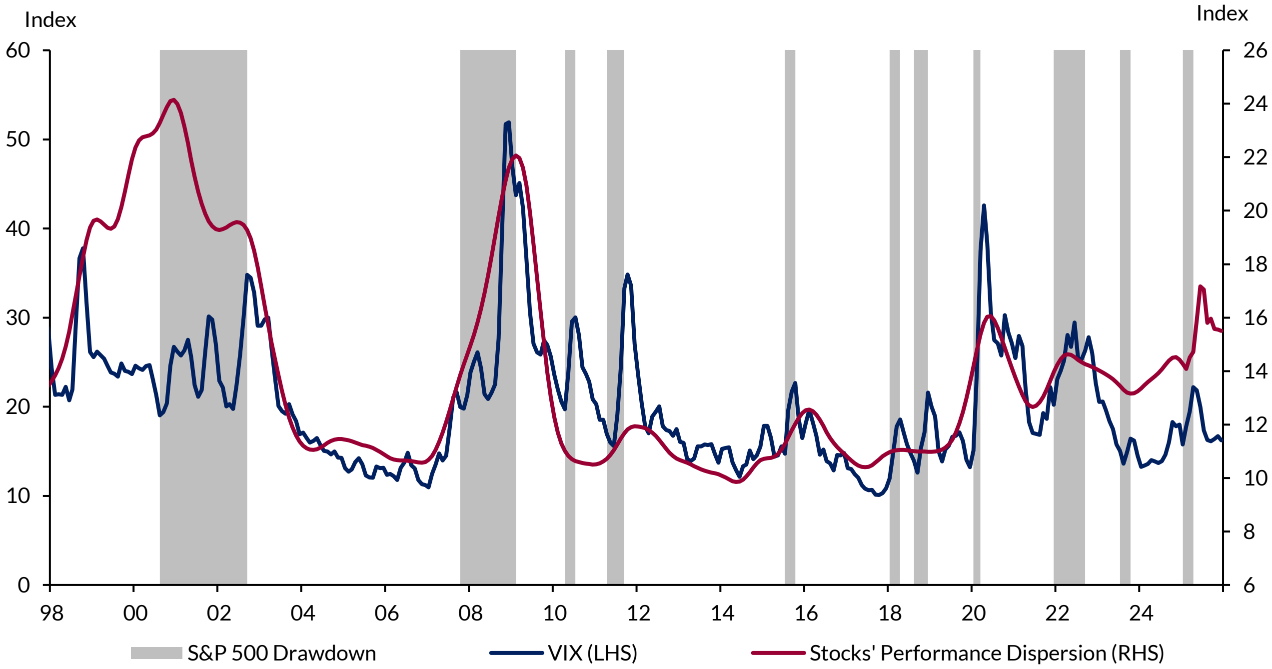


Source: Bloomberg, ANIMA Research. Prices as of 19th January 2026.

Despite such broadening, performance dispersion across stocks remains elevated, especially given the low level of market volatility. Historically, we saw a similar decoupling in the two years preceding the 2000 Tech Bubble peak (**Figure 4**). Moreover, the current Nasdaq trend closely mirrors that period, suggesting that the rally could persist, particularly as today's fundamentals are considerably stronger (**Figure 5**).

Figure 5

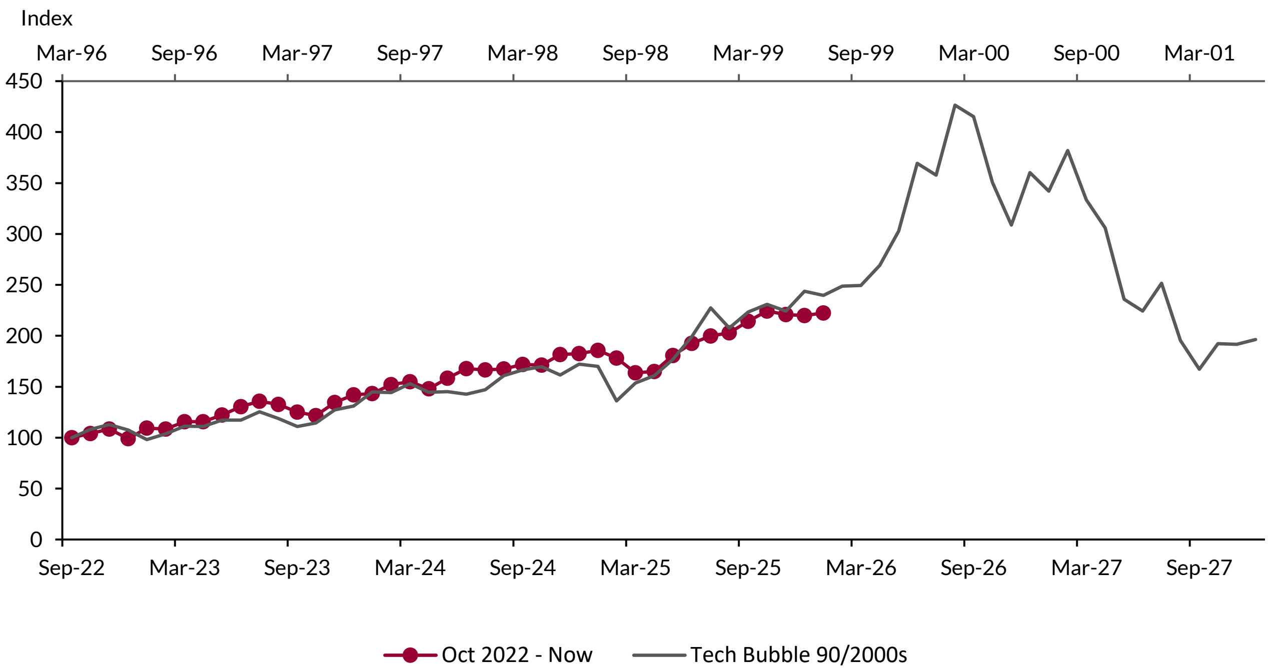
Stock performance dispersion and Index Volatility



Source: MSCI, ANIMA Research. Prices as of 31st December 2025.

Figure 6

Nasdaq rally now and back in late 90s



Source: MSCI, ANIMA Research. Prices as of 19th January 2026.

Main Risks to our Tactically LONG stance

The main risks to our constructive outlook are:

- any dramatic shift in expectations regarding the Fed's next moves;
- a significant reduction in liquidity;
- rising geopolitical tensions involving China, while we see escalations in Latin America or the Middle East as marginally supportive.

A. Regional Allocation

We reiterate our NEUTRAL stance across all regions, as we expect the main markets to continue moving in sync, with each continuing to display positive tailwinds that could support equity performance in the near term (**Figure 7**). This view is underpinned by solid fundamentals, with earnings momentum continuing to grind higher across regions since Liberation Day (**Figure 8**). We highlight several constructive regional dynamics:

- **US equities should continue to benefit from solid fundamentals and a resilient macro backdrop**, supported by strong consumer spending, sustained fixed investment, and the country's leadership position in Artificial Intelligence.
- **We expect European equities to benefit from the ongoing rotation toward cyclical sectors, supported by expectations around Germany's fiscal plans**, which should help keep growth momentum firm and underpin earnings expectations.
- **In EM, strong earnings momentum and ongoing AI-related developments continue to provide a structural tailwind for the region** (**Figure 9**). In China, recent data continue to point to resilient export activity, which remains a key driver for growth. At the same time, targeted policy measures aimed at supporting household consumption and domestic demand should help stabilise the country's growth dynamics.
- **We remain Neutral on Japan**, while acknowledging a potential near-term positive catalyst linked to domestic politics. Prime Minister Sanae Takaichi called an early snap election on 8th February 2026, aiming to capitalise on strong approval ratings and reinforce her government's slim majority in the Lower House. A renewed mandate would likely strengthen the administration's fiscal-expansionary stance, pushing long-term JGB yields higher and benefiting banks and insurance companies through improved net interest margins and reinvestment yields. At the same time, a more stimulative fiscal policy would likely weigh on the Yen, reviving the "Takaichi trade," with support for Defence, Energy, and Aerospace names, as well as export-oriented sectors such as Autos.

Figure 7

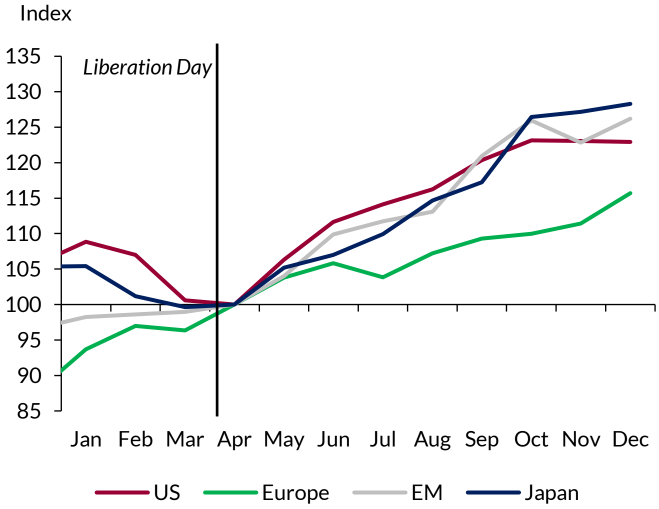
Tactical Regional Recommendations - February 2026

	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 last Strategy Focus.

Figure 8

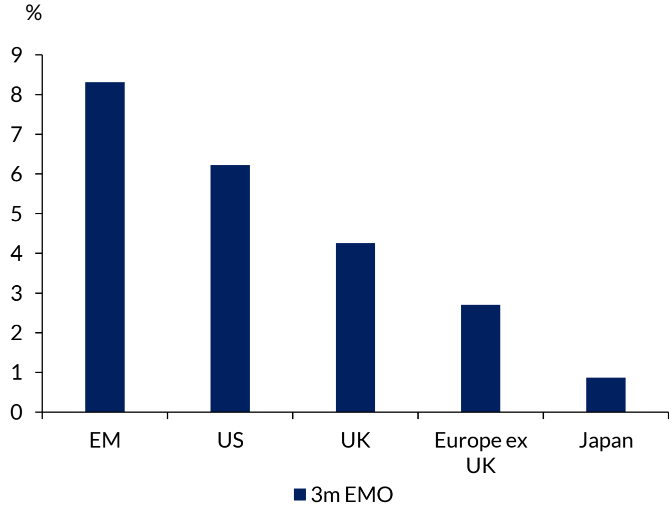
Main Regions – Forward EPS in 2025



Source: Bloomberg, ANIMA Research. Prices as of 31st December 2025.

Figure 9

Main Regions – 3 months Earnings Momentum



Source: Bloomberg, ANIMA Research. Prices as of 31st December 2025.

B. Sector Allocation

From a sector standpoint, we maintain a cyclical tilt, raising the exposure to traditional cyclical Value sectors (previously agnostic). That said we upgrade Capital Goods to LONG (previously SHORT), re-engaging with the Aerospace and Defence theme. Within Growth, we continue to like Semiconductors, while we reduce both Software and Tech to NEUTRAL (previously LONG), as we anticipate their sluggish performance will persist even though their fundamentals are strong. We believe the market will reward these sectors positively, along with Media (NEUTRAL), once there are clear signs of AI monetisation. Pharma continues to be our top pick among defensive stocks (**Figure 10**).

Figure 10

Tactical Sector Recommendations - February 2026

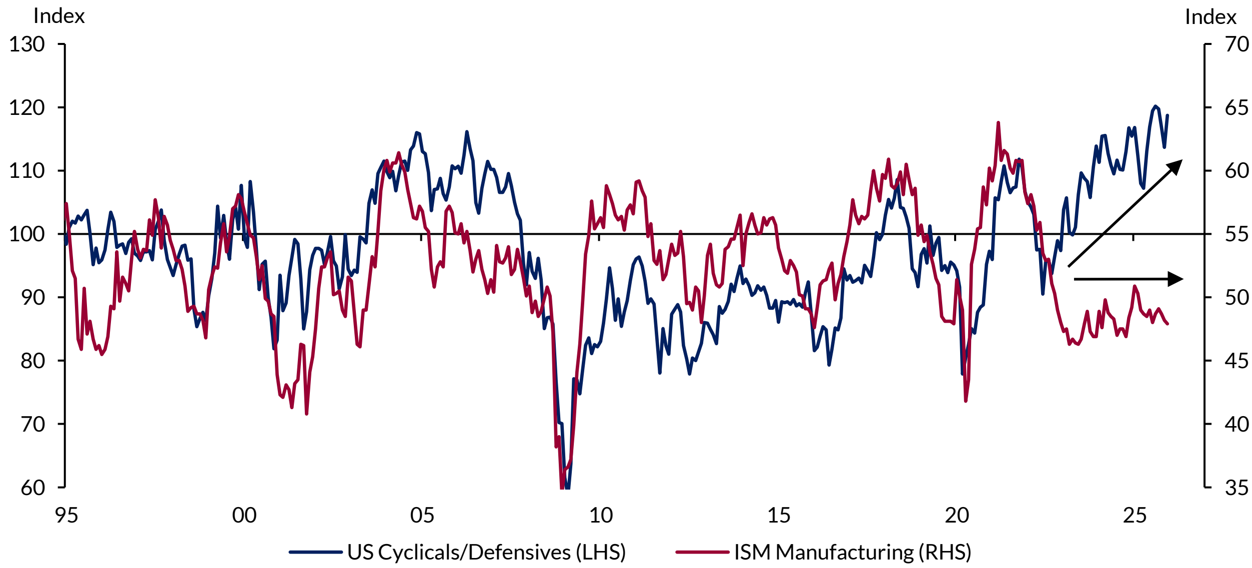
Industry Group Allocation		
Long	**Neutral**	**Short**
Semis & Semi Equip.	Utilities	Insurance
Banks	Telecoms	Commercial & Professional Svcs
Diversified Financials	Health Care Equip. & Svcs	Transportation
Pharma, Biotech & Life Sciences	Energy	Food, Beverage & Tobacco
Materials	Retailing	Household &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

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

We still favour Cyclicals over Defensives, even though recent soft data, including ISM, does not clearly support a bullish structural outlook for higher beta sectors. The relationship between traditional Cyclicals sectors relative performance and ISM Manufacturing broke down in mid-2022 and has continued to widen since then, with the former outpacing their counterparts by around 30pp while the latter has hovered around 48 (**Figure 11**). We expect this decoupling to persist, with Cyclicals tracking other, more idiosyncratic and sector-specific variables detailed below.

Figure 11

Cyclicals decoupled from ISM



Source: S&P, ANIMA Research. Prices as of 31st December 2025.

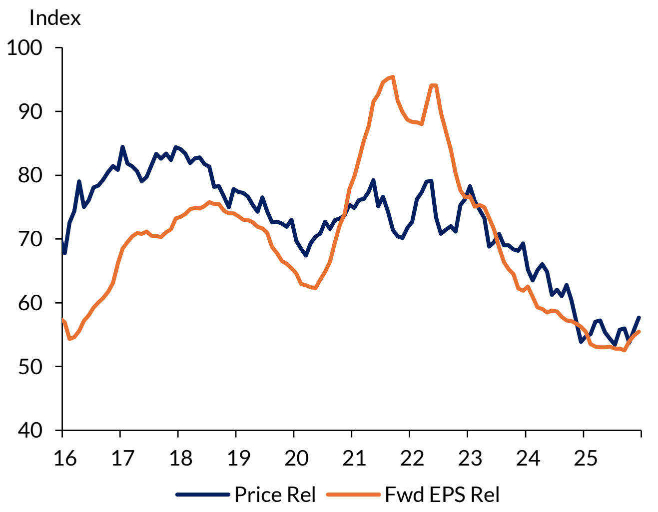
We stay LONG Materials owing to their improving fundamentals and the sector's growing strategic relevance (Figure 12 and 13). Despite strong recent performance, valuations remain attractive, with the sector still fairly valued compared to the broader index, while earnings momentum points to the early stages of an upcycle. The recovery is increasingly driven by structurally important materials linked to energy security and technological infrastructure.

Uranium is benefiting from the global revival of nuclear power, with US policy support accelerating domestic enrichment investment amid Russian import bans and fuel shortages for next-generation reactors. Lithium demand is also expanding beyond EVs, driven by the rapid growth of AI data centres, which require lithium-based backup batteries, Uninterruptible Power Supply (UPS) systems, and grid storage to ensure power stability.

We keep our LONG stance on Banks. Although the relationship with Treasury yields has weakened, banks continue to respond to the steepening of the yield curve. We anticipate that this trend will persist, providing continued support for the sector going forward (**Figure 14** and **15**).

Figure 12

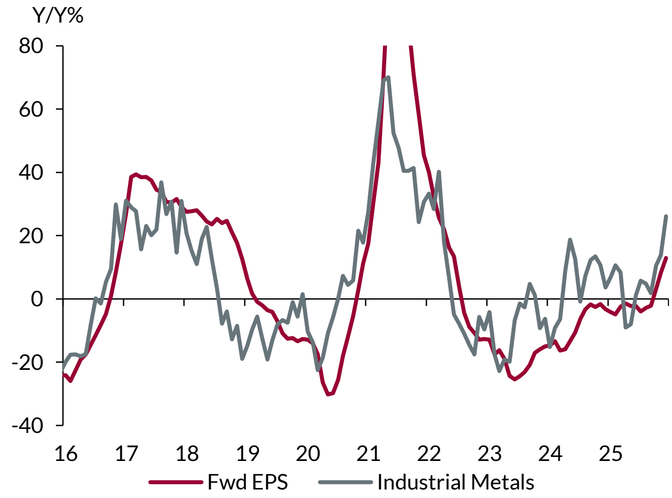
Global Materials Price and EPS



Source: MSCI, ANIMA Research. Prices as of 31st December 2025.

Figure 13

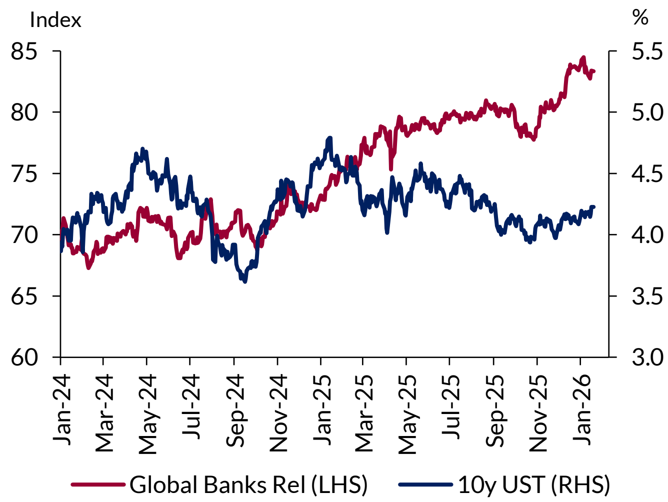
Global Materials EPS and Metals Price (Y/Y%)



Source: MSCI, S&P, ANIMA Research. Prices as of 31st December 2025.

Figure 14

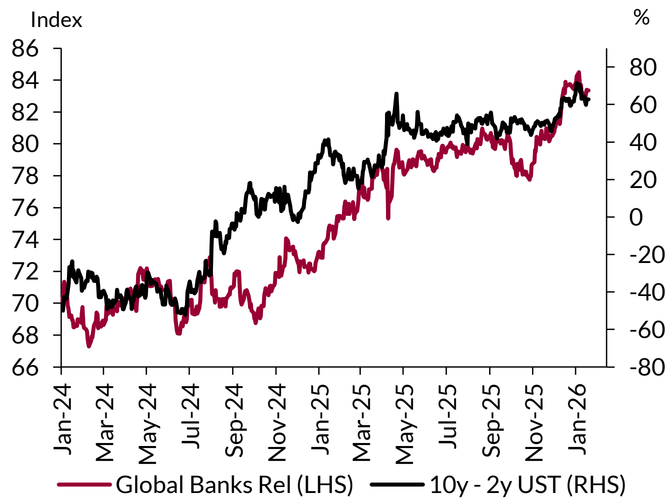
Global Banks Price and 10y UST



Source: MSCI, ANIMA Research. Prices as of 19th January 2026.

Figure 15

Global Banks Price and 10y-2y Curve



Source: MSCI, ANIMA Research. Prices as of 19th January 2026.

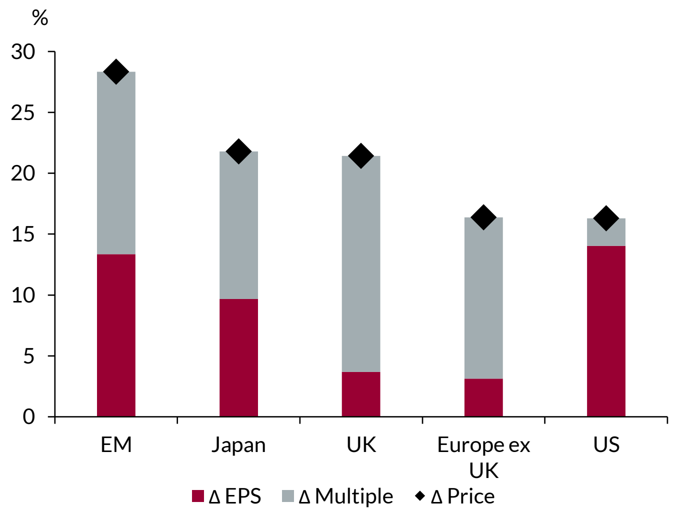
Strategically OVERWEIGHT

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 earnings growth. Our new GDP forecasts for US suggest Global EPS will rise by around 12% in 2026 (previously high single digits). Already rich valuations will limit gains from multiple expansion, whose impact has been progressively decreasing since 2023.

Regionally, we still favour the US and EM for their leading roles in AI and unique catalysts, although performance may become more aligned across regions over the next 12 months. **That said, despite its underperformance in 2025, we believe "stars and stripes" exceptionalism is here to stay**. Last year, the S&P 500 rose 16%, the same as Continental Europe. However, unlike other regions where multiple expansion was the main driver, the US rally was almost entirely due to EPS growth. Moreover, if we consider what happened in equities after the tariff lift on 9th April, the US lead the way alongside with Japan and EM, gaining around 40%, while Europe rose only 20% (**Figure 16** and **17**).

Figure 16

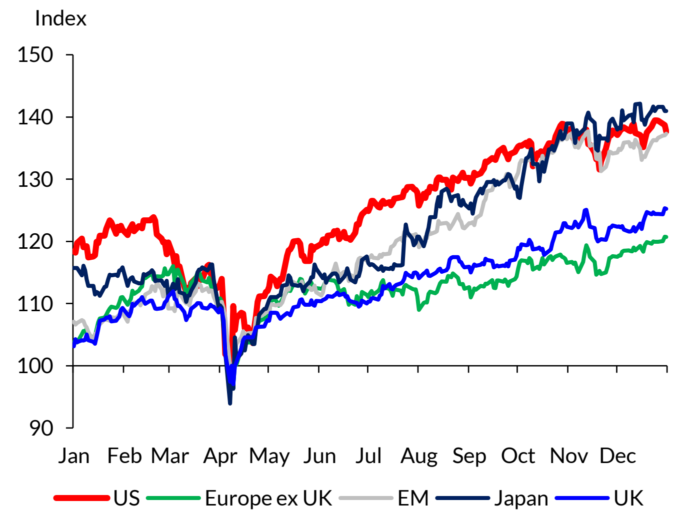
2025 Performance Breakdown



Source: MSCI, ANIMA Research.

Figure 17

Performance in 2025 (rebased on 9th April)



Source: MSCI, ANIMA Research.

Sector-wise, we favour Cyclicals over Defensives, neutralising our previous Growth tilt.

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