Equity Strategy

Decelerating not stopping

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We are turning tactically NEUTRAL (from previously LONG). We expect the forceful equity rally that started in April to pause through August. At this stage, the balance of risks appears fairly balanced: the tailwinds (including still solid company fundamentals, ongoing dollar weakness, and a supportive macro backdrop) are potentially offset by headwinds – such as a less responsive market reaction to further geopolitical easing, rich valuations and adverse seasonality.

Against this backdrop, we recommend a less aggressive stance, expecting investor participation to slow down after the initial stage of the reporting season. However, we 1) suggest building positions opportunistically given the still volatile environment, and 2) warn that that sideways trend may not last long if either fear of missing out or fear of not making it up prevails during the summer.

From a regional perspective, the US remains our preferred market due to better earnings revisions and continued improvement in capital flows. We remain NEUTRAL on Continental Europe and EM, and SHORT on Japan and the UK.

From a sector standpoint, we remain constructive on Cyclicals, although we have reduced the tilt. We continue to prefer Growth sectors. Among Value sectors, Banks and Diversified Financials remain our top picks, particularly in the US.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to record new highs in the second half of the year, driven by an acceleration of US GDP in 2026 and fading inflation concerns.

Against this backdrop, we continue to favour Cyclicals over Defensives, with a bias towards Growth-oriented names. Regionally, we prefer the US, expecting its leadership in global equities to persist, driven by its Large Cap companies.

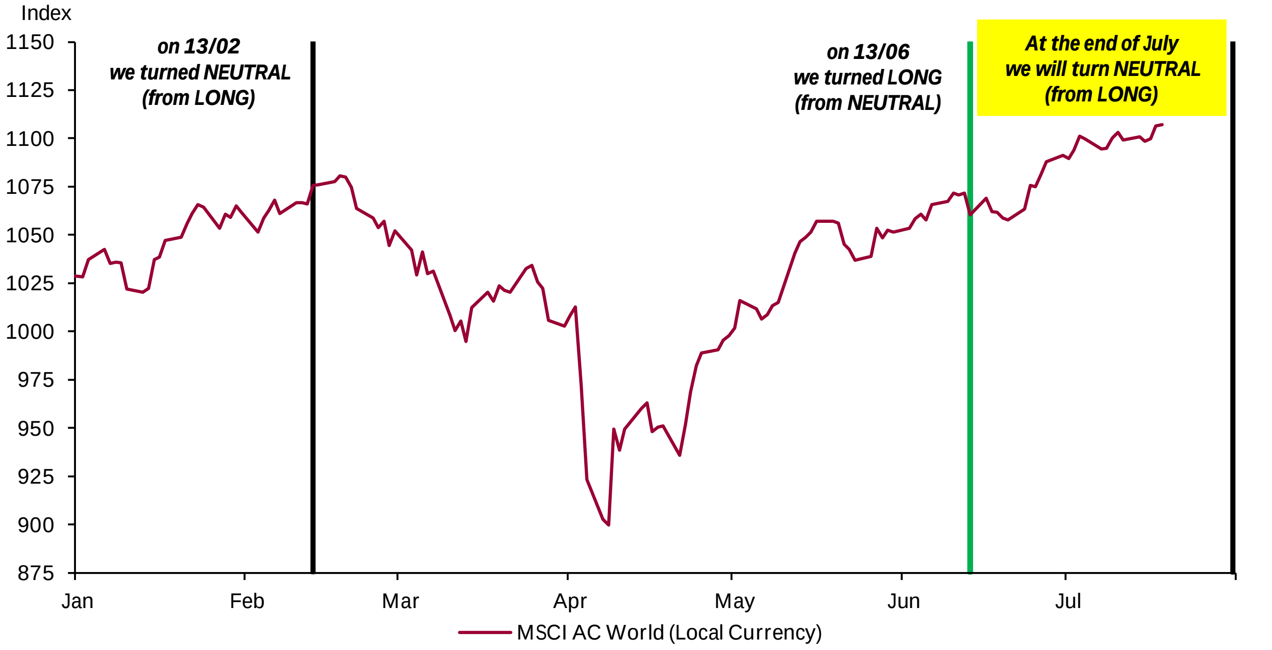
Completed: 21 July 2025

Market Overview

The MSCI AC World Index has rallied by 23pp from its April trough and is now trading near new all-time highs (**Figure 1**). All regions posted double-digit gains, with the US leading the way, Growth outperforming Value, and Cyclicals outpacing Defensives.

Figure 1

MSCI AC World Index in 2025



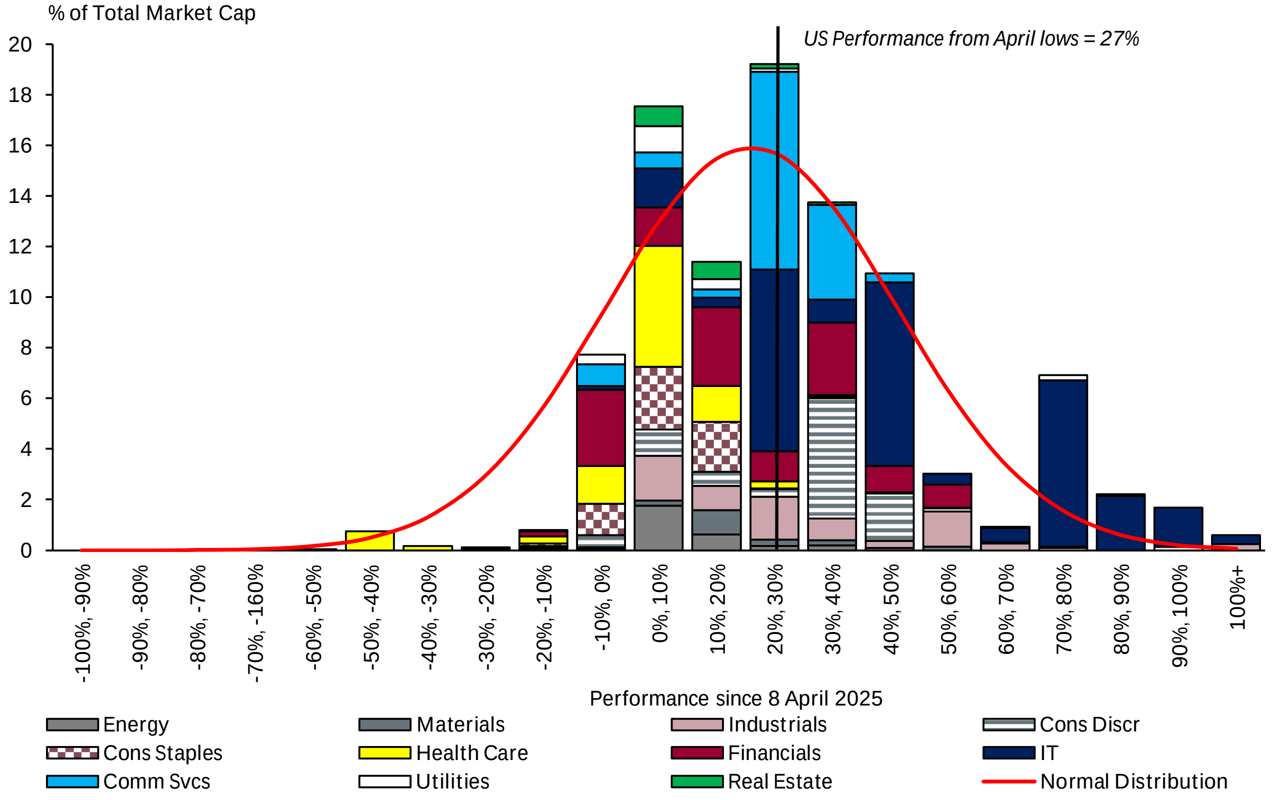
Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

Focusing on the US, the ongoing rally features a big participation from companies; in fact, more than 85% of stocks within the S&P 500 have posted gains since April. **Interestingly, the dispersion of performance is very high,** not only within the index but also within the same sector. Looking at IT, around 10% (by market cap) of stocks rallied more than 70%, while a similar fraction rebounded less than 30%. Financials appear even more fragmented (**Figure 2**).

This phenomenon of elevated participation (high positive pairwise correlation) combined with high dispersion of performance is quite unique and, more importantly, has never been recorded during an equity rally. Historically, these two conditions have coincided with the lowest points of the most severe bear markets in the past twenty years (**Figure 3**). Generally, markets peak with lower level of pairwise correlation (a narrowing bull market), while dispersion rises alongside market volatility and widening credit spread. This time, however, dispersion is rising amidst decreasing volatility. Such decoupling was observed only in 1999, one year before the Tech Bubble burst (**Figure 4** and **Figure 5**).

Figure 2

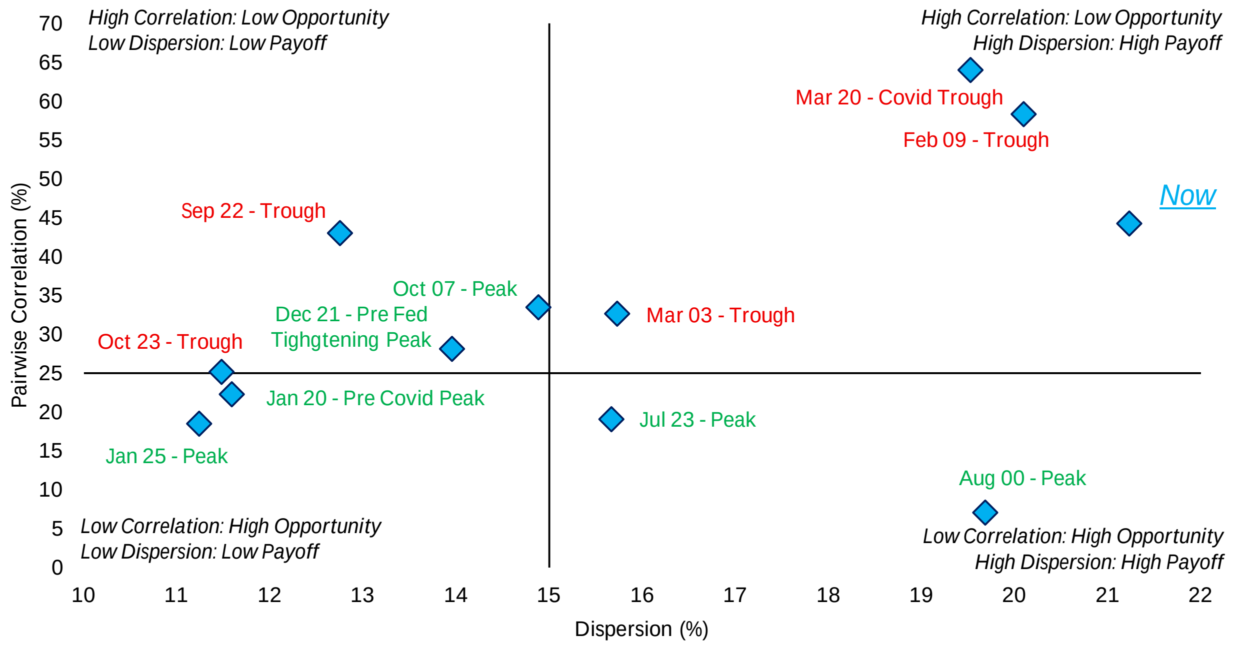
US Equities: performance since April lows – breakdown by sector



Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

Figure 3

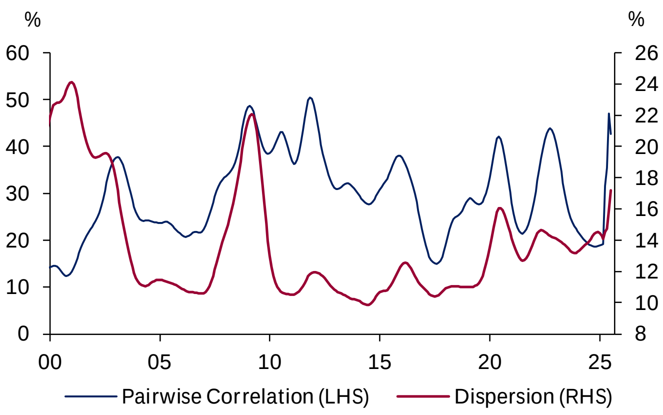
US Stocks Pairwise Correlation and Dispersion



Source: Citi, ANIMA Research.

Figure 4

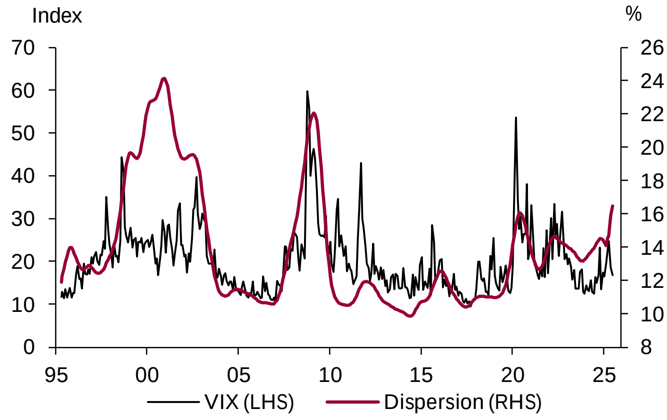
US Stocks Pairwise Correlation and Dispersion



Source: Citi, ANIMA Research. Note: data presented as a smoothed series.

Figure 5

US Stocks Dispersion and VIX



Source: Citi, ANIMA Research. Note: data presented as a smoothed series.

Tactical view

Looking ahead, we turn NEUTRAL on equities (from previously LONG) expecting strong momentum in stocks to slow down and volatility to rise going into the summer. In our view, the balance of risks is now fairly balanced, as outlined below.

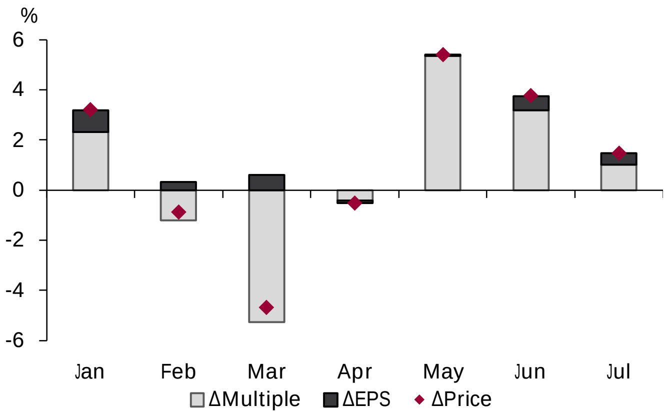
Positive catalysts:

1) **Resilient fundamentals and supportive macro backdrop will continue to support stock prices,** helping to offset any negative impact from potential multiple compression (**Figure 6**). Given already very low expectations, economic activity remains relatively supportive of corporate fundamentals. In this context, **we anticipate the upcoming earnings season will deliver positive surprises**. The global economic surprise index was positive along the entire quarter (**Figure 7**), while in the US, despite a weak CESI, hard data did not significantly deteriorate in Q2. The Dallas Fed Economic Activity Index has accelerated since May (**Figure 8**). Additionally, PMIs for Output and Prices were mostly in expansionary territory during the quarter (**Figure 9**).

2) **Additional support for US earnings, which represent approximately half of global profits, comes from the continued weakness of the US dollar.** Over the past three decades, data indicate a US dollar beta to US EPS growth ranging from -0.3x to -0.4x. A 10% depreciation of the US dollar is associated with an increase of 3 to 4 percentage points in US EPS growth.

Figure 6

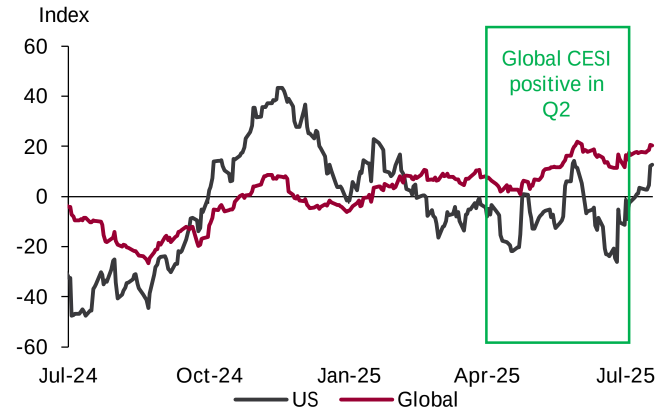
Monthly performance breakdown – Global



Source: Bloomberg, ANIMA Research. Note: Prices as of 18th July 2025.

Figure 7

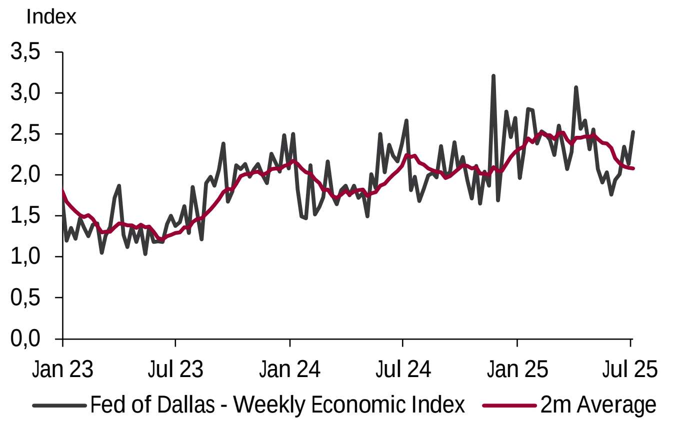
Citi Economic Surprise Index – Global and US



Source: MSCI, ANIMA Research.

Figure 8

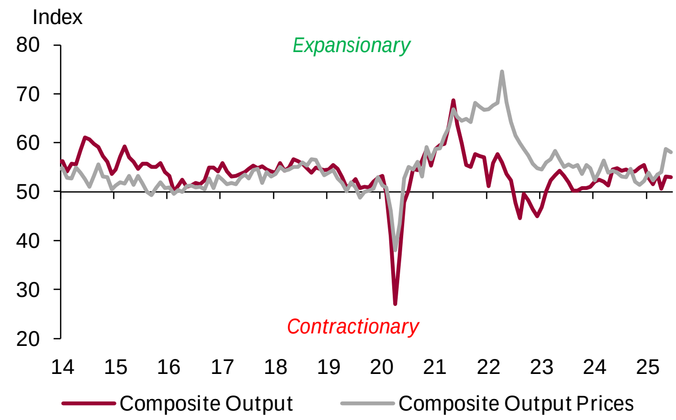
US Fed of Dallas - Weekly Economic Index



Source: Fed Dallas, Bloomberg, ANIMA Research.

Figure 9

US PMI Output and Prices



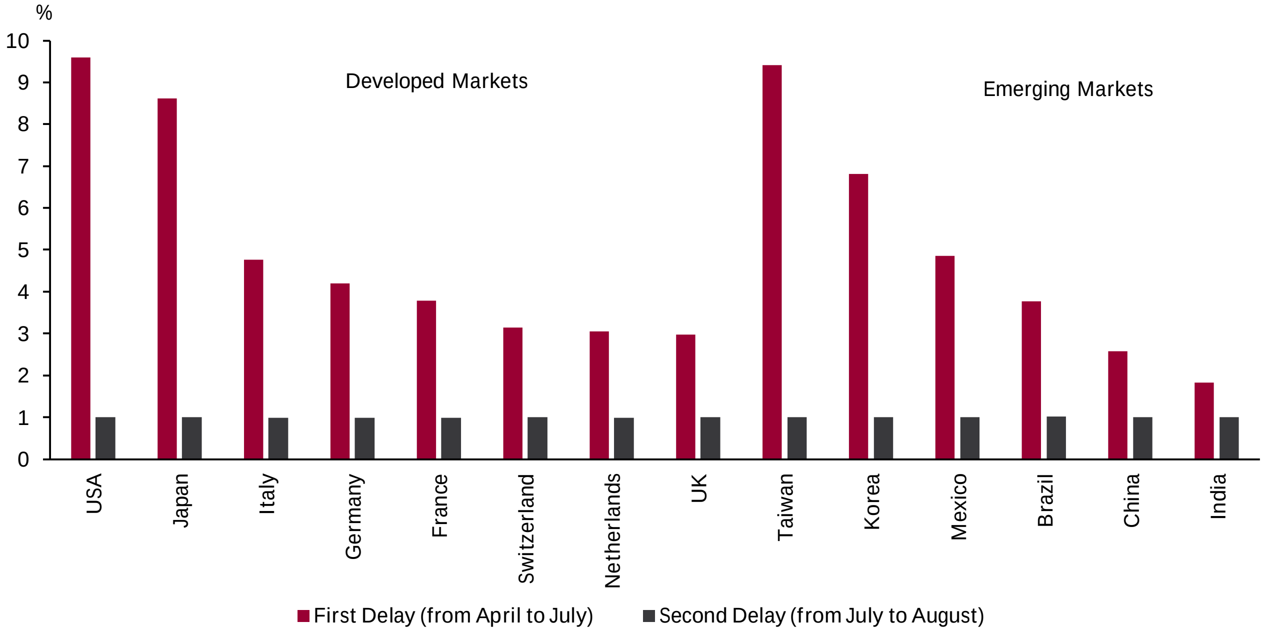
Source: Haver, ANIMA Research.

Challenges:

1) **The geopolitical environment and news developments remain highly fluid**. That said, we expect the potential payoff from the news flow to be asymmetrical, with losses stemming from negative news likely to be greater than potential gains from further geopolitical easing (**Figure 10**).

Figure 10

Market response to positive news on the first day



Source: MSCI, ANIMA Research.

2) **Seasonal trends are unfavorable:** historically, August has been a weaker month for equities, although results over the past 10 years have been mixed (**Figure 11** and **Figure 12**).

Figure 11

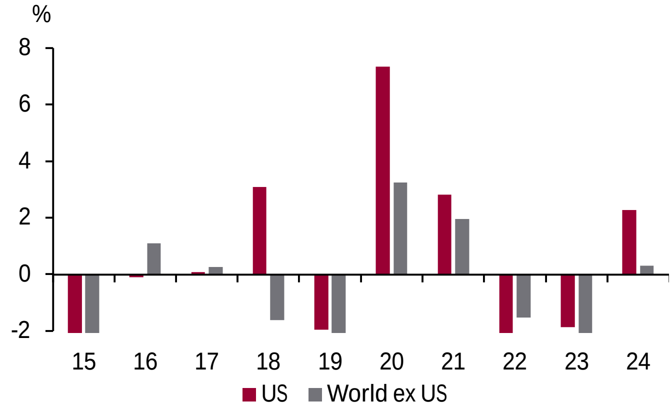
Average Monthly Performance

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

Source: MSCI, ANIMA Research.

Figure 12

Performance in August over the last 10 Years

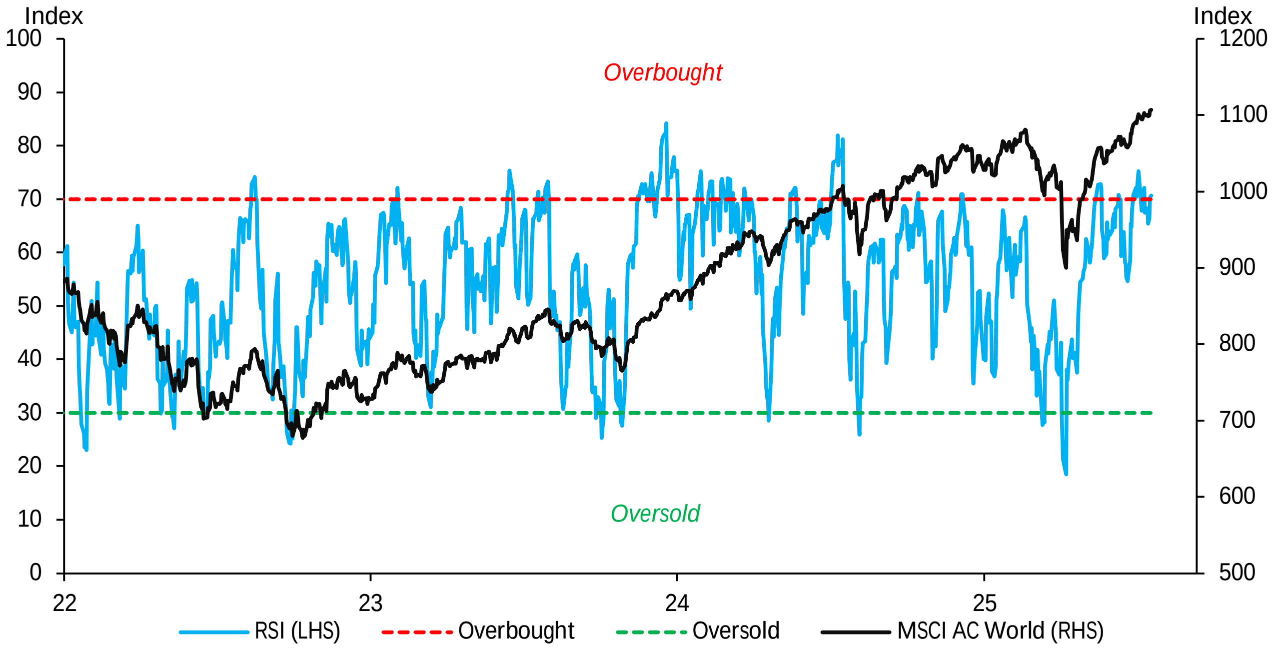


Source: MSCI, ANIMA Research.

3) **The equity rebound has been strong,** with the MSCI AC World Index up by 23pp from April's trough and now trading near its all-time high. The Relative Strength Index suggests that the global benchmark is at stretched levels, though not yet in overbought territory (**Figure 13**).

Figure 13

MSCI AC World and Relative Strength Indicator

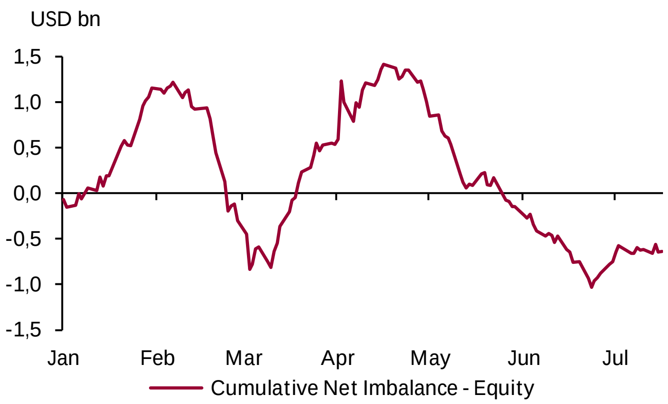


Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

4) **Investor participation may pause following the initial phase of the reporting season.** Since the end of June, both retailers and CTAs have chased the equity rally, buying into assets ahead of the US reporting season (**Figure 14** and **Figure 15**). With nearly 70% of companies, including major banks and tech firms, reporting by late July (**Figure 16**), we expect some profit-taking and weaker demand from new buyers, as investor positioning has returned to its historical average for both systematic and discretionary investors (**Figures 17** and **18**).

Figure 14

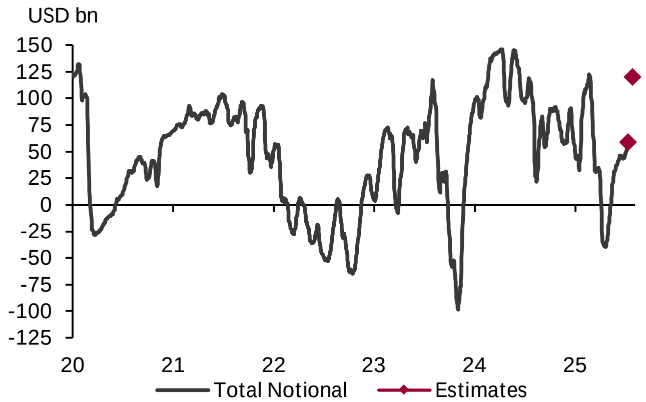
Retail Market Marking Clients' Exposure in 2025



Source: UBS, ANIMA Research.

Figure 15

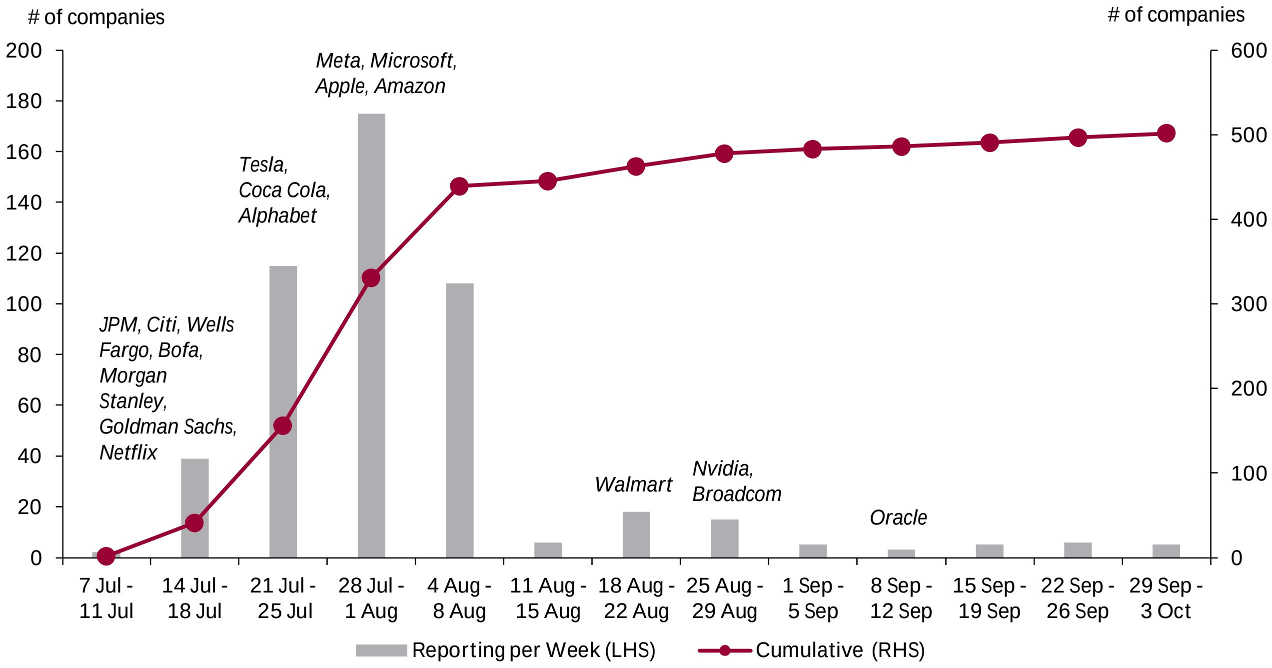
CTAs' exposure to equity



Source: UBS, ANIMA Research.

Figure 16

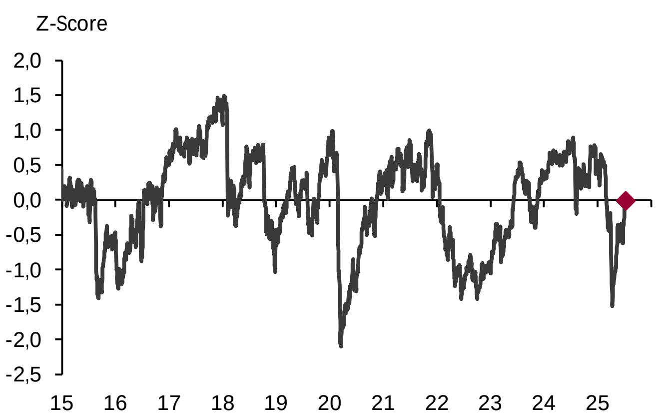
Timeline of US Companies' Reporting Season



Source: Bloomberg, ANIMA Research.

Figure 17

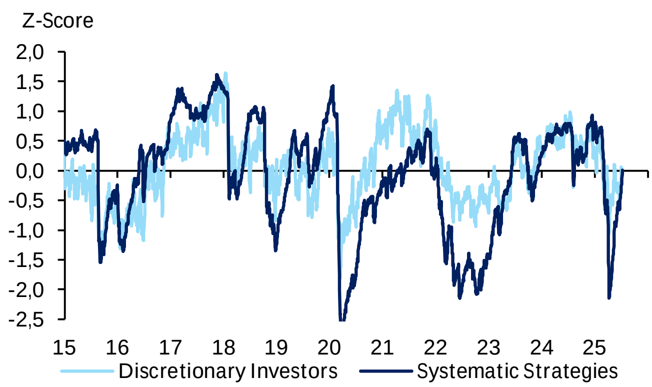
Consolidated Equity Positioning



Source: DB, ANIMA Research.

Figure 18

Positioning: Discretionary vs Systematic

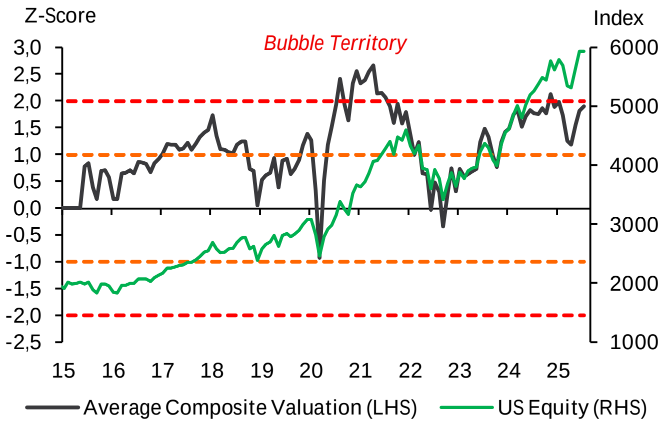


Source: MSCI, ANIMA Research.

5) **Rich valuations**. The recent rally has significantly increased equity valuations, which now appear quite stretched. Our proprietary Composite Valuation Indicator for US equities is approaching bubble territory, standing close to two standard deviations above its 10-year average (**Figure 19**). All the metrics we track are currently trading more than one standard deviation above their historical average, signalling broad-based rich valuations. Notably, indicators such as FCF Yield, ERP, and CAPE have entered "bubble territory" (**Figure 20**), reinforcing the case for a more cautious stance on the asset class.

Figure 19

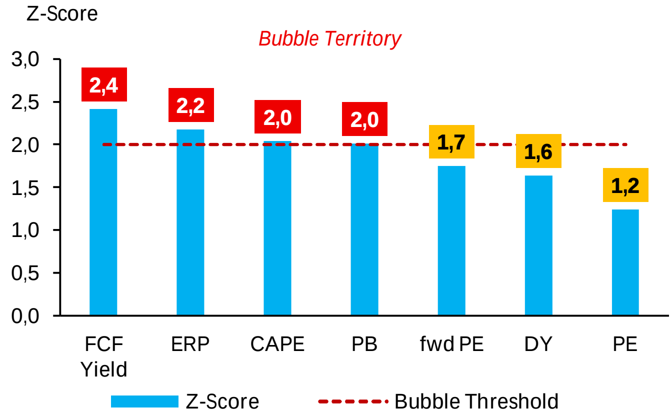
Valuations - Composite Indicator



Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

Figure 20

Valuations – Main Ratios



Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

A. Regional Allocation

Among regions, we continue to favour the US, whilst maintaining a NEUTRAL stance on Europe and EM, and a SHORT position on the UK and Japan (**Figure 21**). We reiterate this allocation as the underlying macro and fundamental conditions have remained broadly unchanged.

Figure 21

Tactical Regional Recommendations – July 2025

Regional Allocation

Long	Neutral	Short
US	EM	Japan
	Continental Europe	UK

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

B. Sector Allocation

Within sectors, we maintain a constructive stance on Cyclicals, with a mild preference for Growth-oriented segments (**Figure 22**). **We remain selective on the Magnificent 7**, as individual stock contributions to market performance since 8th April have varied significantly (**Figure 23**). Whilst the group still accounts for roughly half of total market gains, the dispersion within it and the meaningful contribution from the broader market suggest that leadership is not overly concentrated.

We turn more cautious on the European Defence sector as investors become more selective in pursuing the theme. Although the sector is outperforming, the pairwise correlation declined sharply (**Figure 24**), indicating fading momentum and rising dispersion in investor positioning.

We remain constructive on US Banks, supported by improving fundamentals and a strong historical relationship with M&A activity (**Figure 25**). We expect a new wave of deregulation under the Trump administration to boost deal-making activity, further benefiting the sector. **In contrast, we have revised our outlook on European Banks to NEUTRAL**, anticipating their performance will align with broader market trends, as observed since mid-May. Moreover, a clear decoupling between M&A activity and European banks' performance has emerged, and we expect the sector to begin pricing in this divergence (**Figure 26**). Amongst Defensives, we upgrade Telecoms (from NEUTRAL).

Figure 22

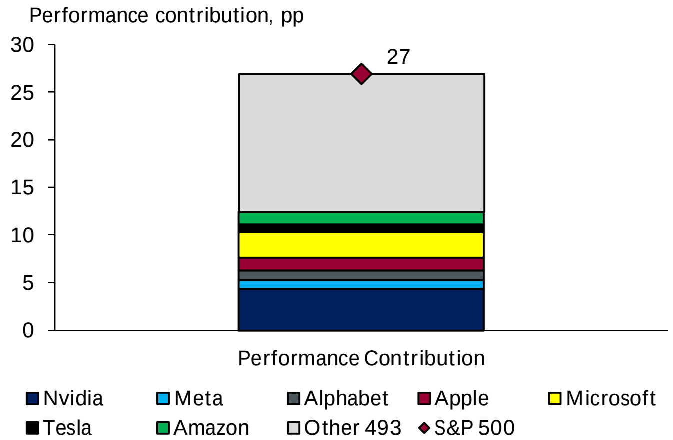
Tactical Sector Recommendations – July 2025

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

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

Figure 23

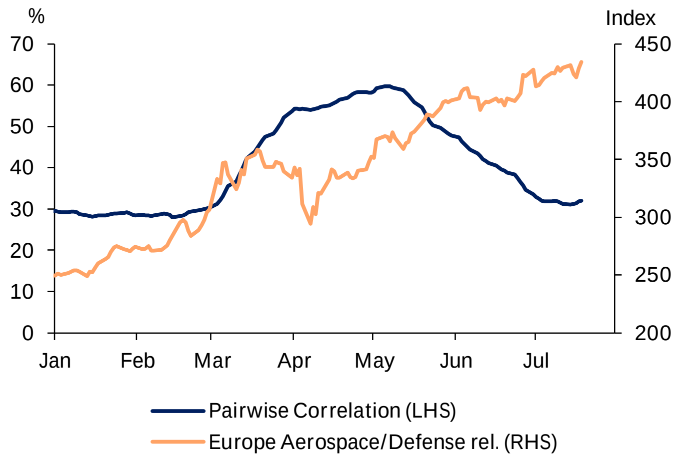
US Equities – Perf. breakdown since 8th April



Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

Figure 24

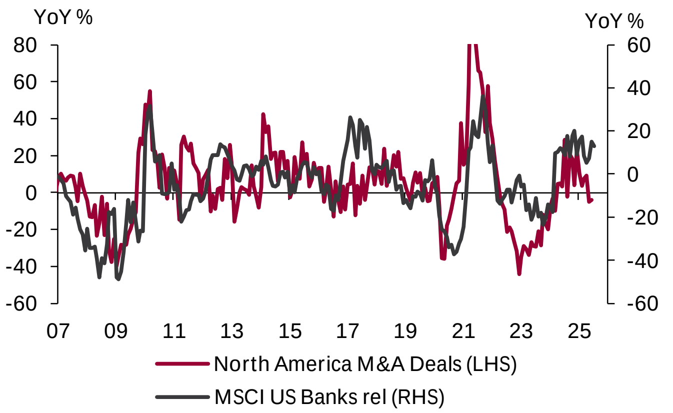
European Defence in 2025



Source: MSCI, ANIMA Research. Note: Prices as of 18th July 2025.

Figure 25

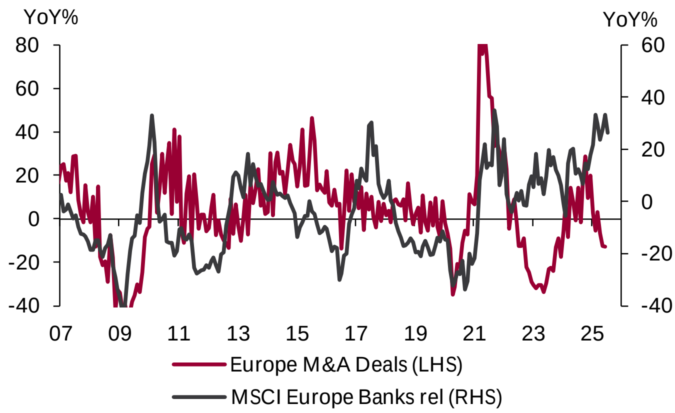
North America M&A Deals and US Banks Perf.



Source: MSCI, Bloomberg, ANIMA Research.

Figure 26

Europe M&A Deals and European Banks Perf.



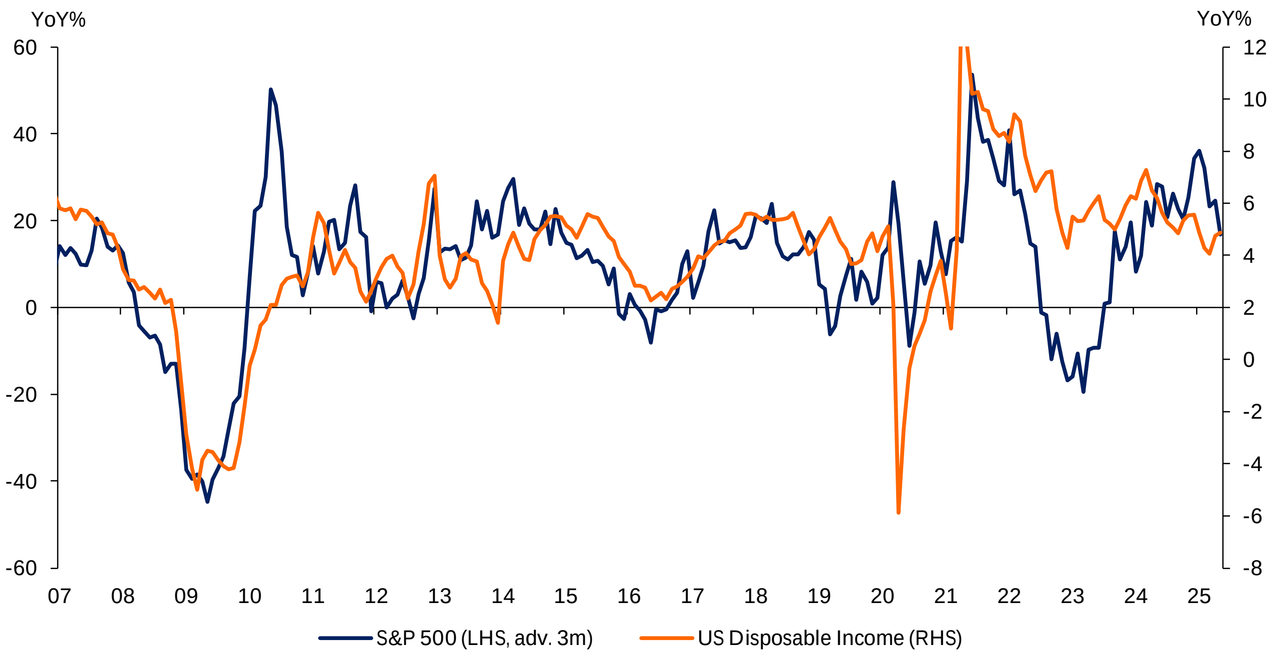
Source: MSCI, Bloomberg, ANIMA Research.

Strategic view

Strategically, we reiterate our OVERWEIGHT on equities and view any market weakness as a buying opportunity. We expect supportive fiscal policy to provide a tailwind for the asset class, particularly in the context of an anticipated increase in disposable income. Historically, equities tend to anticipate improvements in household income by a few months (**Figure 27**). Assuming the new measures take effect at the start of 2026, it is likely that the market will begin to price in their impact as early as late summer.

Figure 27

US Disposable Income and S&P 500

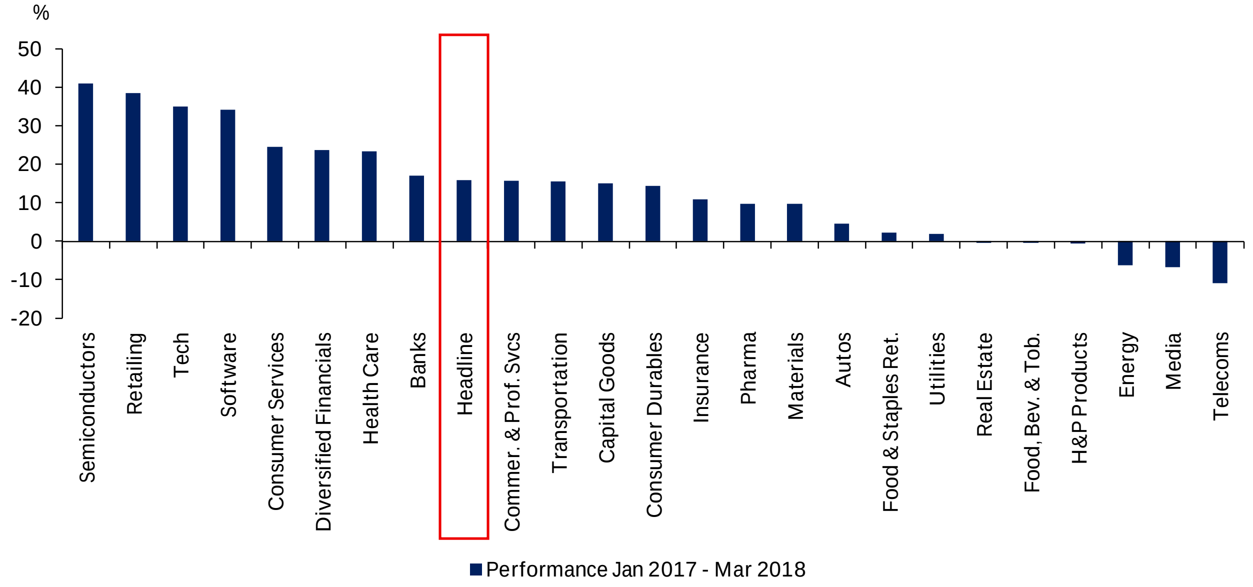


Source: S&P, Haver, ANIMA Research.

Against this backdrop, we continue to favour Cyclicals over Defensives, with a bias towards Growth-oriented names. High-beta sectors outperformed during the January 2017 to March 2018 period, when markets reacted to the announcement, approval, and initial implementation of the Tax Cuts and Jobs Act. At that time, Cyclical sectors such as Financials, Retailing, Consumer Services, and Big Tech led the market, providing valuable insights into potential market leadership under supportive fiscal policy (**Figure 28**). **Regionally, we prefer the US,** expecting its dominance in global equities to continue, driven by its Large Cap names.

Figure 28

US Equities – Sector Performance between January 2017 and March 2018



Source: MSCI, ANIMA Research.

APPENDIX

Figure 1A

US Tactical Sector Recommendations – July 2025

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

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

Figure 2A

Pan European Tactical Sector Recommendations – July 2025

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

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

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