

Equity Strategy

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AUTHORS

Cosimo Recchia

Senior Equity Strategist
cosimo.recchia@animasgr.it

Francesco Ponzano

Junior Equity Strategist
francesco.ponzano@animasgr.it

***We remain tactically NEUTRAL, expecting volatility to remain elevated over the coming weeks.** Geopolitical tensions, potential supply chain disruptions linked to the conflict, and concerns around rising inflation and slower global growth could weigh on both market sentiment and corporate fundamentals.*

***At the same time, risks are not unidirectional.** A better-than-expected earnings season, combined with supportive policy signals from the White House, could trigger a meaningful rebound in equity markets.*

***Against this backdrop, we recommend maintaining existing exposure but refraining from adding risk on market pullbacks** until the macro and fundamental implications of recent geopolitical developments become clearer.*

***From a regional perspective, we move to a NEUTRAL stance across regions,** closing our previous active positioning while awaiting further developments in the Middle East. Should geopolitical tensions persist, however, US equities are likely to outpace the Rest of the World. The US benefits from relative energy independence and historically tends to outperform during periods of heightened risk aversion and a strengthening US dollar. By contrast, Europe and Japan appear more vulnerable, given their greater reliance on imported energy and an already weaker macroeconomic backdrop. Emerging markets may also face headwinds from a stronger greenback and tighter global financial conditions, which have historically weighed on local economies and capital flows.*

***From a sector perspective, we maintain a modest cyclical tilt.** We remain LONG Energy, which continues to act as a hedge against geopolitical risk and inflation. We also maintain a LONG stance on Materials, despite recent weakness, as well as Semiconductors, supported by strong structural demand. We upgrade Software to LONG (from NEUTRAL). We stay NEUTRAL on Banks, downgraded from LONG following the strike on Iran, while we cut Diversified Financials to SHORT (from NEUTRAL). Within defensive sectors, Telecoms and Utilities remain our preferred picks.*

***Strategically, we maintain our 12-month OVERWEIGHT view on equities but keep it under review, pending further developments on the geopolitical front.** The duration and intensity of the conflict will be key. The longer tensions persist - particularly if the Strait of Hormuz remains closed - the greater the potential impact on the global economy, through higher energy prices, tighter financial conditions, and weaker growth.*

***While consensus expects global EPS to grow by around 18% in 2026, we maintain a more cautious view and forecast growth of 12%,** reflecting the potential drag from a more challenging macro backdrop.*

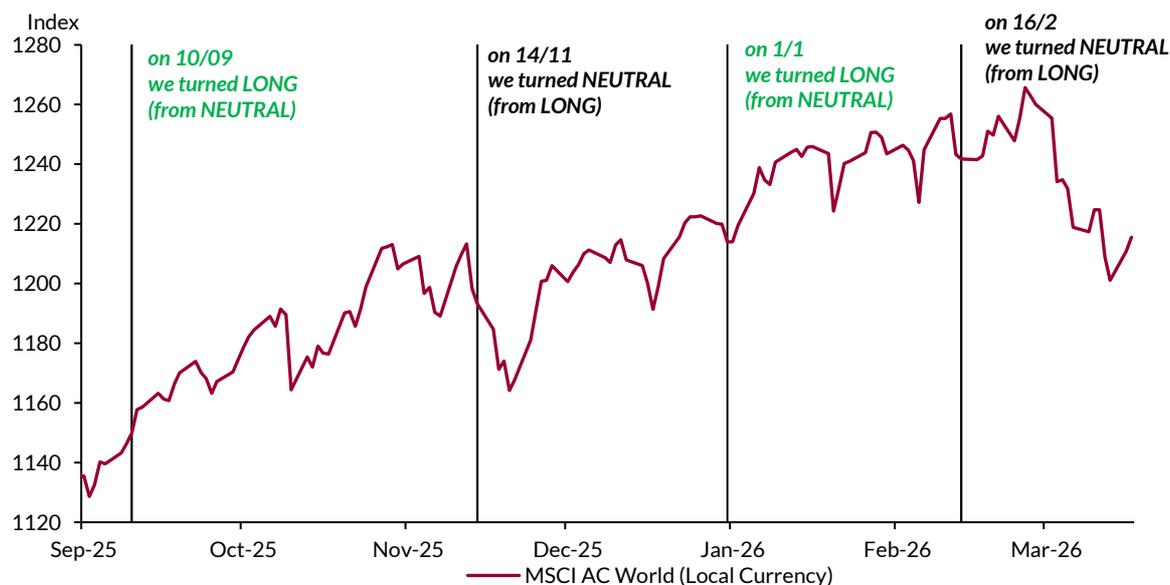
Tactically NEUTRAL

We maintain a tactical **NEUTRAL** stance, as market volatility is likely to remain elevated in the weeks ahead (**Figure 1**). Geopolitical tensions, potential supply chain disruptions stemming from the conflict, and concerns about rising inflation and slower global growth could continue to pressure both market sentiment and corporate fundamentals. However, the balance of risks is not entirely negative. A stronger-than-expected earnings season (**Figure 2**), combined with supportive policy signals from the White House, could act as a catalyst for a meaningful equity market rebound.

Markets in geopolitical regimes tend to be event-driven and volatile, rather than trend-driven. That said, the base case would likely be a sideways market characterised by high volatility, rather than a clean bear market or a strong rally. **For now, we recommend maintaining existing exposure but refraining from adding risk during market pullbacks** until the macro and fundamental implications of recent geopolitical developments become clearer.

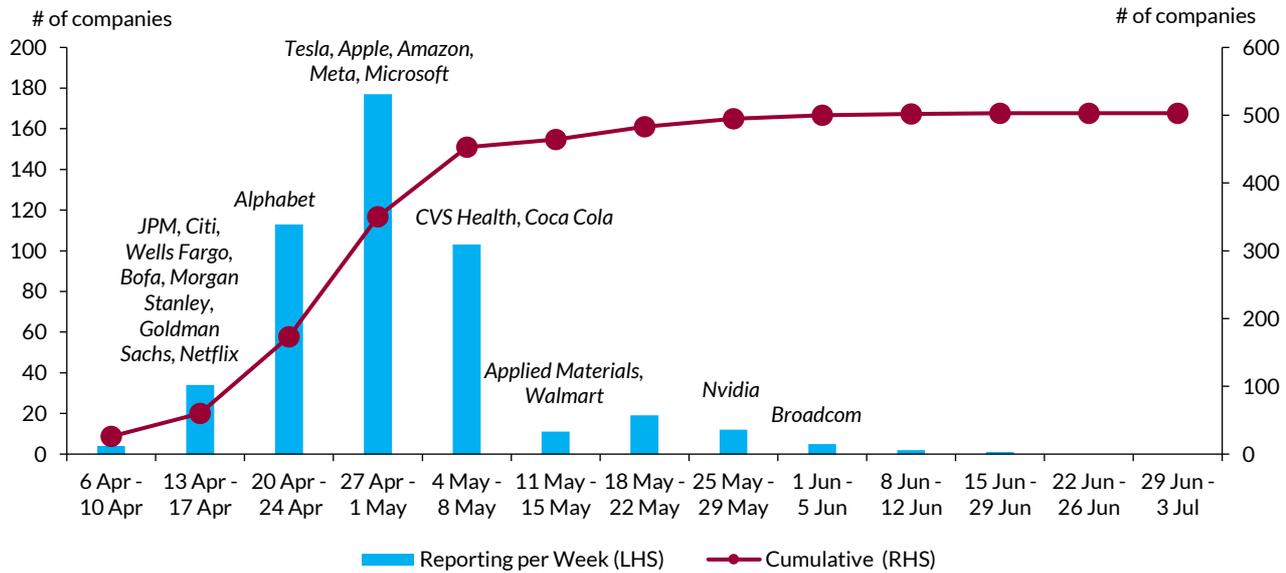
Figure 1

MSCI AC World and Equity Strategy Positioning



Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

Figure 2
US Q1 reporting season - Timeline



Source: Bloomberg, ANIMA Research.

The table below summarises our base case and alternative scenarios:

Scenario	Base Case	Bullish Scenario	Bearish Scenario
Market	Range-bound/Volatile	Tactical Rally	Escalation / Energy Shock
Probability	50/60%	25/30%	15/20%
Drivers	Sideways market: - uncertainty around potential escalation - oil price volatility - positioning adjustments - mixed macro signals	A rally could occur if: - geopolitical tensions stabilise - energy markets do not spiral higher - positive earnings surprises - supportive policy messaging	A bearish leg would require: - escalation of the conflict - disruption to energy flows - a sustained spike in oil prices-tightening financial conditions
Pattern	±5% swings in global equities	+5-7% rally in global equities	10% correction, potentially leading to a bear market
Comment	Choppy markets rather than a clear directional move	Cyclicals and AI-related sectors leading the rally	Defensives (excluding rate sensitive sectors) and Energy outperform

A. Regional Allocation

We move to a **NEUTRAL** stance across regions, closing our previous active positioning while awaiting further clarity on geopolitical developments in the Middle East. **At this stage, the balance of risks remains highly uncertain**, and we believe that maintaining a neutral regional allocation is appropriate until the potential macroeconomic and market implications become clearer (Figure 3).

Figure 3

Tactical Regional Recommendations - April 2026

Overweight	Neutral	Underweight
	EM	
	Continental Europe	
	UK	
	Japan	
	US	

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

Should geopolitical tensions persist, US equities are likely to outperform the Rest of the World. The US benefits from a relatively insulated economic structure, including greater energy independence, a more domestically driven growth profile, and deep capital markets. Historically, US equities have also tended to outperform during periods of heightened global uncertainty, particularly when accompanied by a stronger US Dollar and increased demand for safe-haven assets.

By contrast, Europe and Japan appear more vulnerable. Both regions remain structurally reliant on imported energy, leaving them more exposed to sustained increases in commodity prices or disruptions to global supply routes such as the Strait of Hormuz (Figure 4 and 5). At the same time, their equity markets have significant exposure to cyclical sectors - including capital goods, autos, and chemicals - which are closely linked to global trade and manufacturing activity. In a weaker global demand environment, earnings in these sectors could therefore face greater pressure.

The macroeconomic backdrop also remains relatively subdued in both regions compared with the United States. Growth momentum in Europe is modest, while Japan continues to navigate a gradual normalisation of monetary policy after decades of ultra-loose conditions. As a result, a prolonged period of elevated energy prices or geopolitical uncertainty could amplify downside risks to growth and corporate profitability.

In Japan, currency dynamics add an additional layer of complexity. While a weaker yen supports exporters and boosts foreign earnings, it also increases imported inflation, particularly through higher energy and commodity costs. Should global volatility rise, and the US Dollar strengthen further, the yen could remain under pressure, potentially complicating the policy stance of the Bank of Japan and creating a more mixed outlook for Japanese equities. The typical pattern of Japanese equities outperforming when the US Dollar is strong does may not hold at current FX levels (Figure 6).

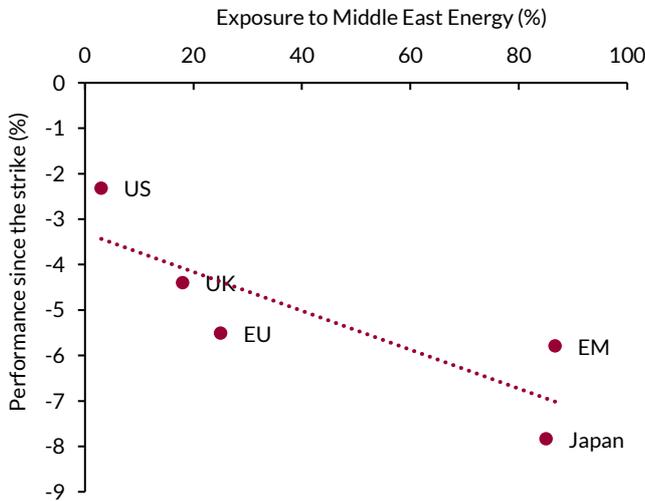
Emerging markets may also face additional headwinds. A stronger US Dollar and tighter global financial conditions typically raise external financing costs, pressure local currencies, and reduce capital inflows. Moreover, several large Asian economies - including China, India, and South Korea - remain heavily dependent on Middle Eastern crude flows, increasing their sensitivity to disruptions affecting energy supply routes.

Figure 4
Exposure to Middle East Energy and the Strait of Hormuz

Region	Oil			LNG			Overall Energy Risk
	Imports (mb/d)	From Middle East	Via Hormuz	Imports (mtpa)	From Middle East	Via Hormuz	
Japan	~2.6	~90-95%	~70-75%	~65-70	~10-11%	~10%	Very High
South Korea	~2.9	~70-75%	~60-65%	~45-50	~20-30%	~20-25%	Very High
China	~11.0	~45-50%	~35-40%	~70-75	~30%	~25-30%	High
India	~5.0	~50-60%	~40-45%	~25-30	~50-55%	~50-55%	High
EU	~9.5	~15-20%	~5-10%	~120	~10-15%	~10-15%	Moderate
UK	~1.0	~10-15%	~5-8%	~20-22	~5-10%	~5-10%	Low-Moderate
US	~6.5	~10%	~2-3%	(net exporter)	negligible	negligible	Low

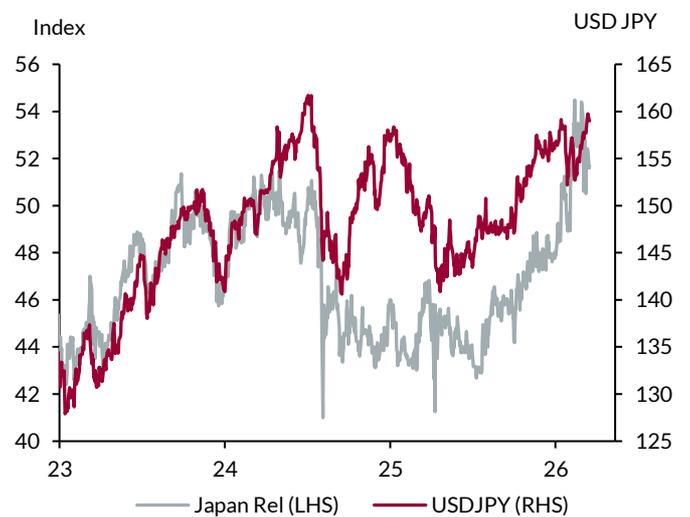
Source: ANIMA Research. Note: mb/d = million barrels per day; mtpa = million tonnes per annum of LNG.

Figure 5
Energy Reliance and Equity Performance



Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

Figure 6
MSCI Japan Relative and USD JPY



Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

B. Sector Allocation

From a sector perspective, we maintain a modest cyclical tilt (Figure 7), reflecting our view that selected cyclical segments continue to offer attractive risk-reward despite the current geopolitical uncertainty and the potential for episodic market volatility. Despite rising volatility, defensive stocks are not outperforming cyclicals, while growth is recovering relative to value (Figures 8 and 9), alongside a sharp rotation within equities (Figure 10).

We remain LONG Energy, which continues to act as an effective hedge against geopolitical risk and inflation. The sector is likely to benefit from any sustained increase in oil prices or potential disruptions to global energy supply, particularly if tensions in the Middle East persist. In addition, energy companies continue to display strong balance sheets, robust free cash flow generation, and disciplined capital allocation, which should support shareholder returns through dividends and buybacks even in a more volatile macro environment.

We also maintain a LONG stance on Materials, despite the recent weakness in the sector. Valuations have become more attractive following the recent pullback, and the sector could benefit from resilient demand for key industrial and strategic commodities. In addition, supply constraints across several commodity markets could provide support for prices should global growth prove more resilient than currently expected.

We remain constructive on Semiconductors, supported by powerful structural demand drivers including artificial intelligence, cloud computing, and continued investment in advanced computing infrastructure. While the sector may experience periodic volatility due to its cyclical nature, the medium-term earnings outlook remains supported by sustained capital expenditure in digital infrastructure and AI-related technologies. Within the growth segment, **we upgrade Software to LONG** (from NEUTRAL).

Within Financials, we maintain a NEUTRAL stance on Banks (downgraded from LONG in the aftermath of the strike on Iran), as rising geopolitical uncertainty could tighten financial conditions and weigh on the macroeconomic outlook. While bank balance sheets remain broadly resilient, the sector's performance is likely to become increasingly sensitive to shifts in growth expectations and credit conditions in the near term.

We now downgrade Diversified Financials to SHORT (from NEUTRAL), **with a particular focus on private equity and alternative asset managers,** reflecting our growing concerns around emerging tensions in the private credit market. Over the past decade, private credit has expanded rapidly as tighter bank regulation and strong investor demand pushed financing activity toward non-bank lenders. However, the sharp increase in interest rates and the approaching maturity wall in leveraged finance are beginning to expose vulnerabilities in highly leveraged capital structures.

In addition, exit activity across private equity markets has begun to improve, but IPOs and sponsor-to-sponsor transactions continue to run below historical norms. This environment limits the ability of private equity firms to realise gains and return capital to investors, potentially delaying fundraising cycles and placing pressure on fee-related earnings. At the same time, a weaker deal environment and rising financing costs could weigh on transaction volumes and valuation multiples across the sector.

More broadly, the rapid expansion of the private credit ecosystem in recent years has increased the financial system's exposure to less transparent and more illiquid segments of the credit markets. Should financial conditions tighten further, or credit spreads

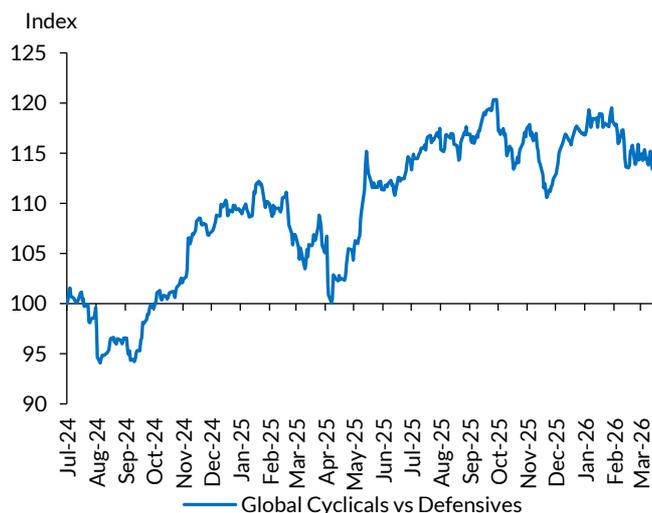
widen, stress among lower-quality borrowers could emerge, potentially amplifying volatility across private credit portfolios. In this context, we see asymmetric downside risks for listed private equity platforms and diversified financial companies with significant exposure to alternative credit strategies. **Within defensive sectors, Telecoms and Utilities remain our preferred allocations.** Both sectors offer relatively stable earnings visibility and attractive dividend yields, characteristics that tend to be valued during periods of heightened market volatility and macroeconomic uncertainty. Utilities may also benefit from continued investment in power generation and grid infrastructure, particularly as electricity demand linked to data centres and AI-related applications continues to grow.

Figure 7
Tactical Sector Recommendations - April 2026

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

Source: ANIMA Research. Markets in green have been upgraded, while those in red have been downgraded since the last Alert, published 2nd March 2026.

Figure 8
Global Traditional Cyclical relative to Defensives



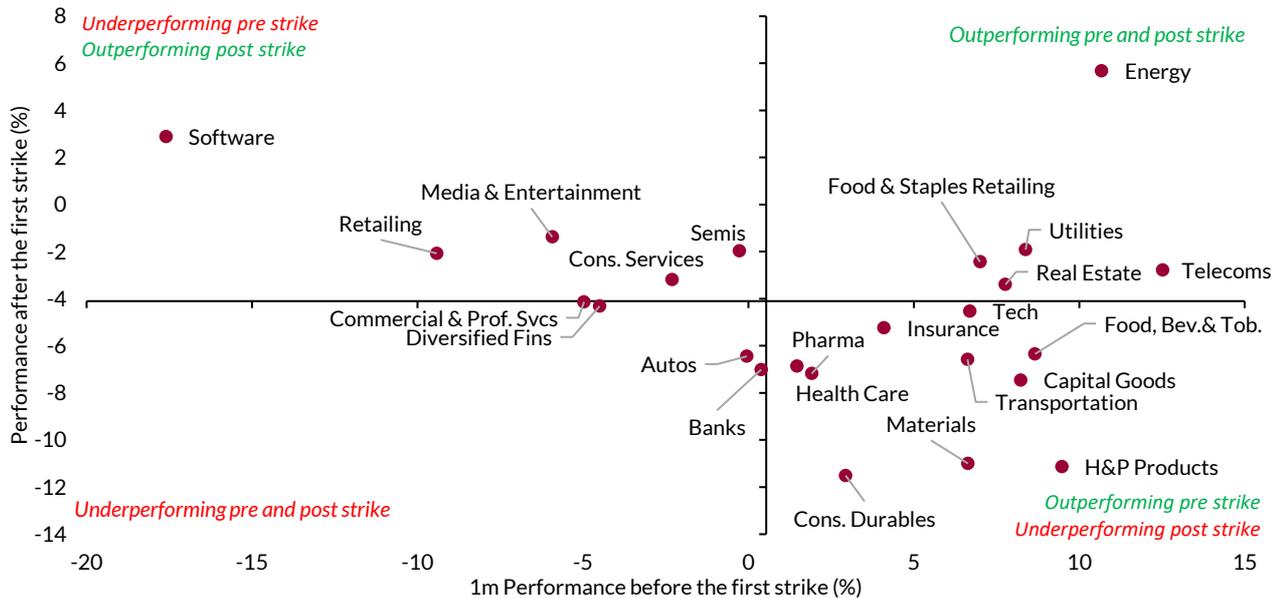
Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

Figure 9
Global Value relative to Growth



Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

Figure 10

Global sectors' performance around the first strike (28th February)

Source: MSCI, ANIMA Research. Prices as of 17th March 2026.

Strategically OVERWEIGHT

Strategically, we maintain our 12-month OVERWEIGHT view on equities, although this stance remains under review pending further developments on the geopolitical front. The duration and intensity of the conflict will be key determinants of the macro and market outlook. The longer tensions persist, particularly in a scenario where shipping routes such as the Strait of Hormuz face sustained disruption, the greater the potential impact on the global economy through higher energy prices, tighter financial conditions, and weaker growth momentum.

In such an environment, rising input costs and increased uncertainty could weigh on corporate margins and delay investment decisions, while tighter liquidity conditions may also dampen risk appetite across financial markets. Nevertheless, equities should continue to benefit from still resilient earnings growth and the absence, at this stage, of clear recessionary dynamics in the major developed economies.

While market consensus expects global EPS to grow by around 18% in 2026, we maintain a more cautious forecast of roughly 12%, reflecting the potential drag from a more challenging macro backdrop. Higher energy costs, tighter financial conditions, and slower global trade could all moderate earnings momentum relative to current expectations, particularly in more cyclical sectors and regions with greater external vulnerabilities.

Regionally, we expect equity performance to become more aligned across regions over the next 12 months. We believe this is the most effective approach for navigating a year marked by synchronized global economic growth and latent geopolitical risks, including the U.S. midterm elections. **From a sector perspective, we favour cyclicals over defensives, while remaining neutral on style.**

ANIMA INVESTMENT RESEARCH**FABIO FOIS**

Head of Investment Research & Advisory
fabio.fois@animasgr.it

CHIARA CREMONESI

Senior Rates Strategist
chiara.cremonesi@animasgr.it

COSIMO RECCHIA

Senior Equity Strategist
cosimo.recchia@animasgr.it

MATTEO GALLONE

Junior Macroeconomist
matteo.gallone@animasgr.it

FRANCESCO PONZANO

Junior Equity Strategist
francesco.ponzano@animasgr.it

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