

Equity Strategy

TAKE A BREATH

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*We turn tactical **NEUTRAL** (previously **LONG**). We expect the current market volatility to continue as investors take some profits while assessing the balance of risks, especially around a potential US economy re-acceleration and rising inflation. **That said, we remain buyers on dips, expecting the rally to continue after a healthy pause.** Such a constructive view is supported by an improving macro-outlook, with CESI indices in positive territory across the main regions, strong corporate guidance, and CEO confidence picking up, but still not at frothy levels.*

*From a regional perspective, we reiterate our **NEUTRAL** stance on the main regions. Despite the high absolute valuations, US equities still look fairly priced given their level of profitability, both relative to other markets and to their own history.*

*From a sector standpoint, we maintain a cyclical Growth tilt, but we suggest reducing exposure to long-duration sectors like Media, which we have downgraded to **NEUTRAL** (previously **LONG**). Among traditional cyclical Value, we keep our long-dated **LONG** stance on Banks, expecting them to benefit from the resilient macro backdrop and the expected ongoing curve steepening. 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.*

Through 2026, we anticipate continued growth in AI integration in business operations. However, we doubt that widespread AI adoption will sharply affect the labour market or company profitability in the short term. We expect any structural change to unfold over several years rather than as a sudden disruption. For example, even during the 1990s internet revolution, US Net Margin took five years to rise by 1 pp and reach its peak before the recession.

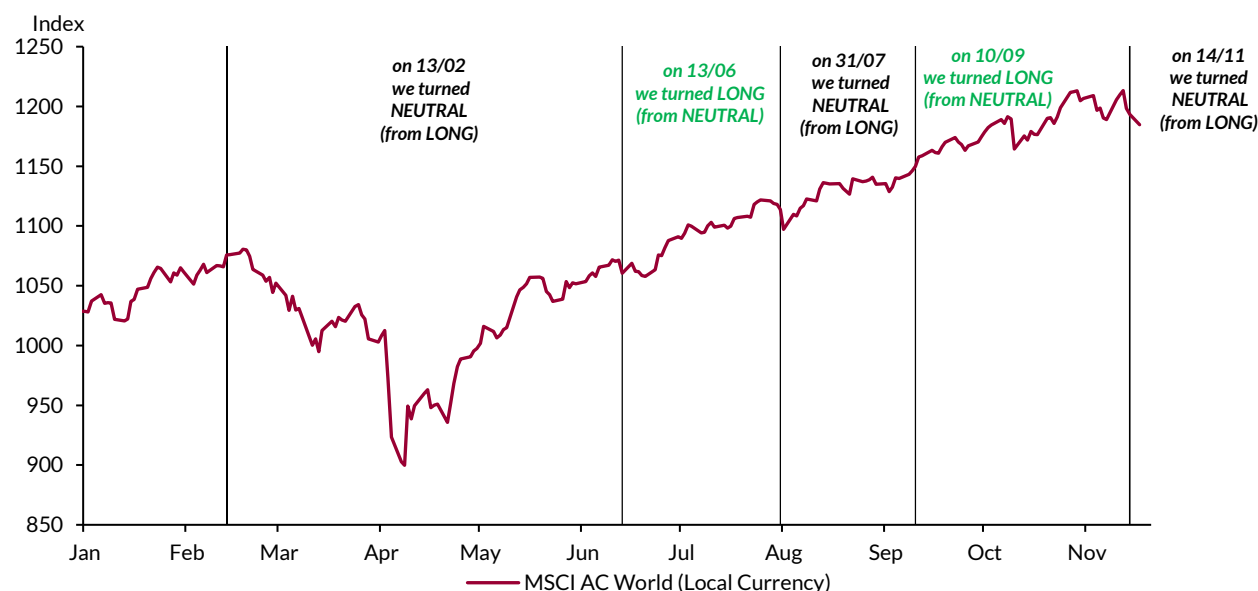
Regionally, we prefer the US and EM due to their predominance in the AI space and unique catalysts. Sector-wise, we favour Cyclical over Defensives, leaning towards Growth-oriented stocks given our outlook for US GDP growth and inflation outlook. However, if the US economy grows more rapidly and inflation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

Tactically NEUTRAL

We turn tactical **NEUTRAL** (previously LONG) expecting current market volatility to continue as investors take profits while assessing the balance of risks, particularly around a potential US economy re-acceleration and rising inflation (see **Figure 1**).

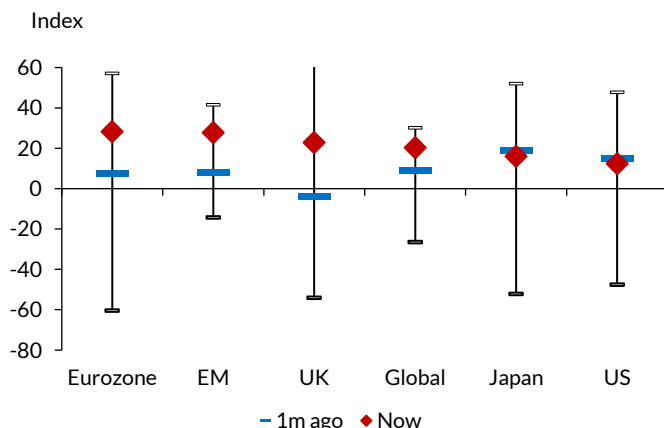
Figure 1

MSCI AC World and Equity Strategy's Positioning

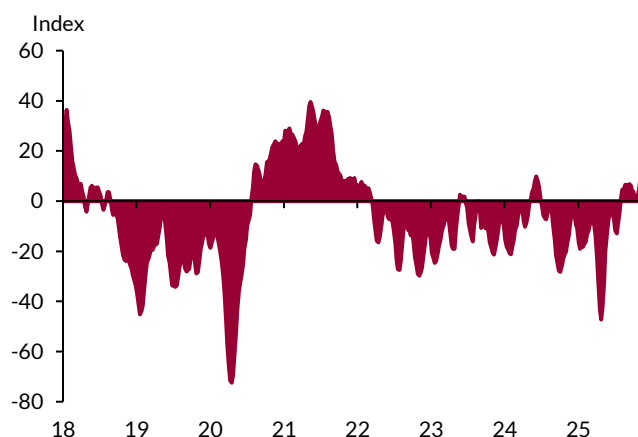


Source: MSCI, ANIMA Research. Note: Prices as of 17th November 2025.

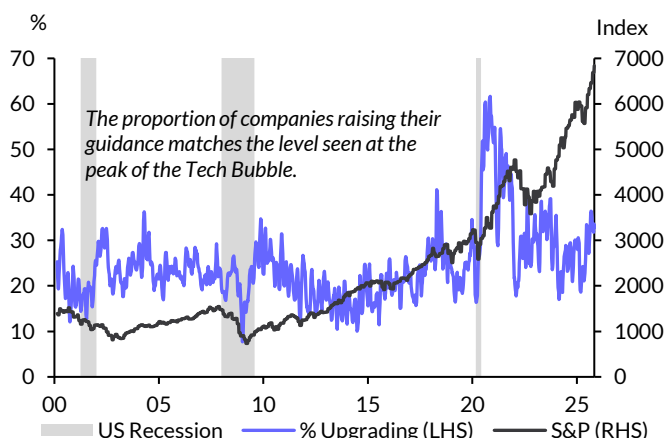
We continue to buy dips. The macro environment remains strong, with data exceeding expectations. Citi Economic Surprise Indices are positive and have improved over the past month (**Figure 2**). This strength supports positive corporate earnings revisions, which have remained consistently positive since August - the longest such streak since the post-Covid rebound (**Figure 3**). Further tailwinds for EPS estimates come from strong corporate guidance as the reporting season unfolds. So far, approximately 35% of companies have raised their financial outlook, broadly in line with what happened around the Tech Bubble peak (**Figure 4**). However, unlike then, the net proportion of companies raising guidance is positive, whereas in the early 2000s the majority provided weaker guidance (**Figure 5**).

Figure 2**Citi Economic Surprise Indices**

Source: Citi, ANIMA Research.

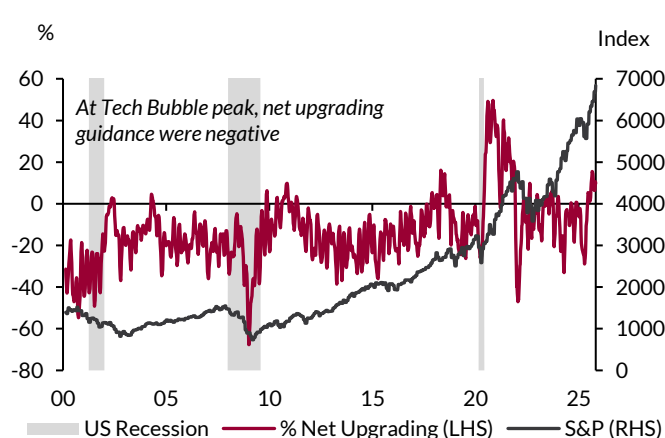
Figure 3**Earning Revision Index - Global**

Source: Citi, ANIMA Research.

Figure 4**Guidance Ratio - % Companies upgrading**

Source: Bloomberg, ANIMA Research.

Note: % Upgrading = (#Companies Upgrading) / #Companies Issuing Financial Outlooks

Figure 5**Guidance Ratio - % Companies upgrading (Net)**

Source: Bloomberg, ANIMA Research.

Note: Net = (#Companies Upgrading - #Companies Downgrading) / #Companies Issuing Financial Outlooks

A. Regional Allocation

We continue to stay **NEUTRAL** across all regions (Figure 6). We expect the main markets to keep moving in sync, as shown by the sharp rise in pairwise correlation (Figure 7), even though EPS Momentum has decoupled. While EM, US, and UK maintain positive EPS momentum, earnings in Europe and Japan are slowing (Figure 8).

Figure 6

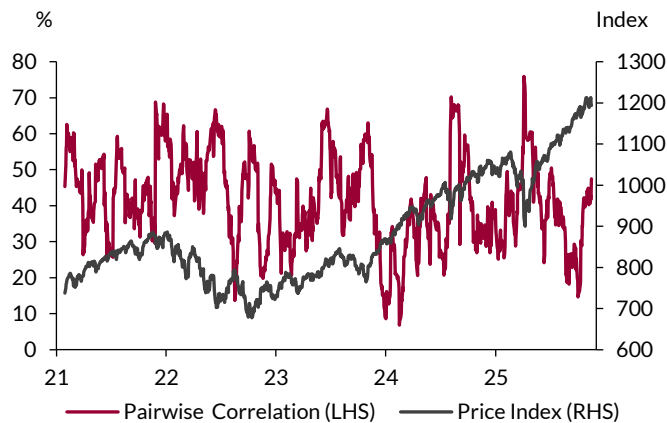
Tactical Regional Recommendations - December 2025

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 October Strategy Focus.

Figure 7

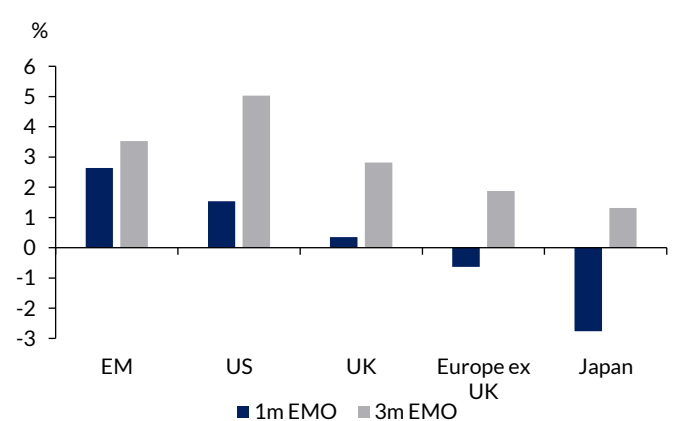
Main Regions – Pairwise Correlation and Price



Source: MSCI, ANIMA Research. Note: prices as of 14th November 2025.

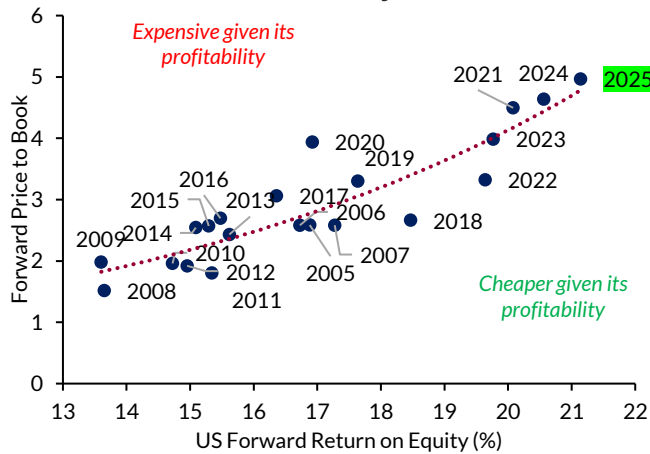
Figure 8

Main Regions – 1m and 3m Earnings Momentum

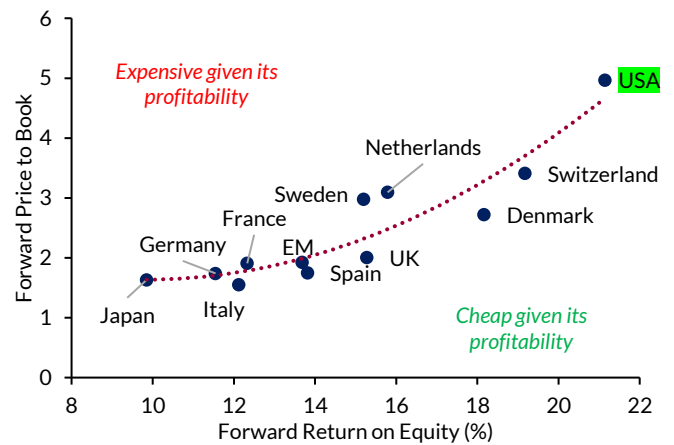


Source: MSCI, ANIMA Research.

We note that US equities have not been this expensive in the past 20 years, yet this is justified by record profitability (Figure 9). They trade at higher multiples than other local markets but still appear fairly valued given their elevated return on equity (Figure 10). The relative valuation premium since the GFC is due to progressively stronger profitability versus global peers (Figure 11). Japan looks well priced relative to other markets (Figure 10) and compared to its own history (Figure 12). For further rerating from here, Japanese RoE would need to break through the ceiling of its 20-year range (Figure 13).

Figure 9**US Valuation and Profitability over the last 20Y**

Source: MSCI, IBES, ANIMA Research. Note: R2 = 80%

Figure 10**Valuation and Profitability across regions**

Source: MSCI, IBES, ANIMA Research. Note: R2 = 80%

Figure 11**US Relative Valuation and Profitability over the last 20 years**

Source: MSCI, IBES, ANIMA Research.

Figure 12

JP Valuation and Profitability over the last 20Y

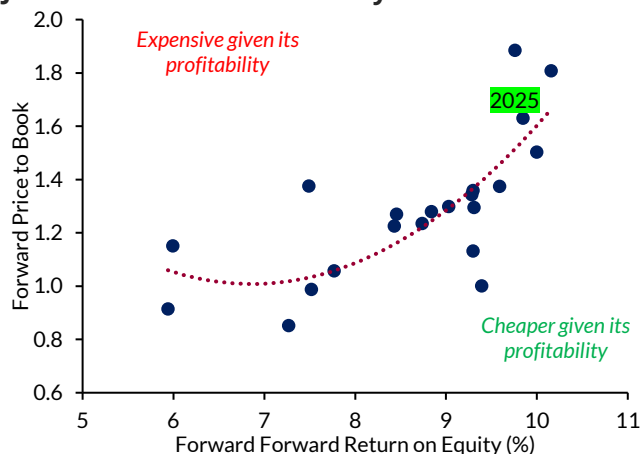
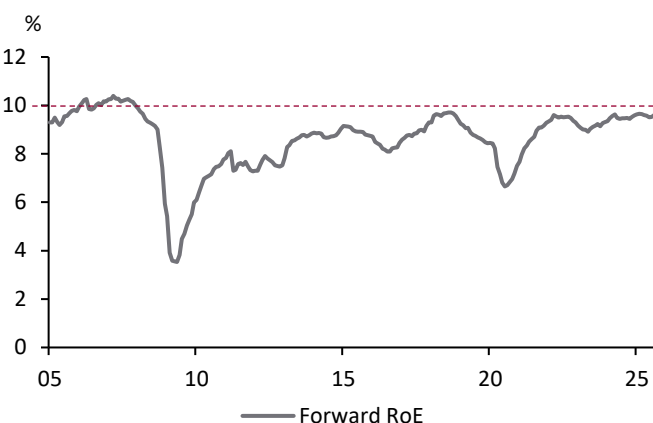
Source: MSCI, ANIMA Research. Note: $R^2 = 58\%$

Figure 13

Japan – Return on Equity



Source: MSCI, ANIMA Research.

B. Sector Allocation

From a sector standpoint, we maintain a cyclical Growth tilt but suggest reducing exposure to long-duration sectors such as Media, which we downgraded to **NEUTRAL** (previously LONG). Among traditional cyclical Value, we retain our long-dated LONG stance on Banks, expecting them to benefit from the resilient macro backdrop and the anticipated ongoing curve steepening, while Pharma remains our preferred defensive sector (**Figure 14**).

Figure 14

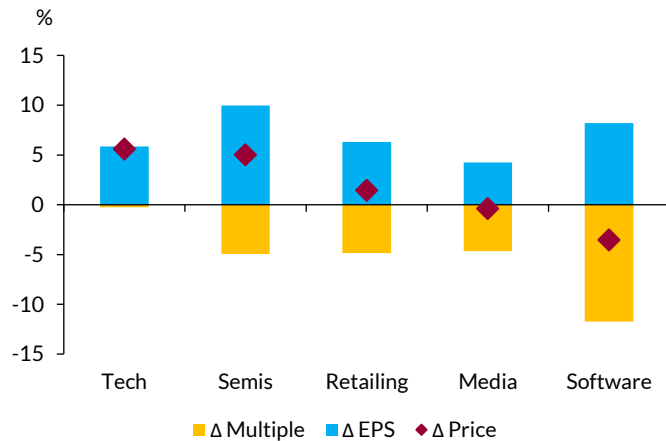
Tactical Sector Recommendations - December 2025

Industry Group Allocation

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

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

Recent performance analysis highlights the ongoing divergence within Growth sectors. Specifically, Software has underperformed in the AI rally, despite maintaining resilient earnings trajectories (**Figure 15**). We remain LONG on the sector, as we believe that most of the main constituents have been overly penalised relative to their solid growth outlook and strategic importance in the AI value chain (**Figure 16**).

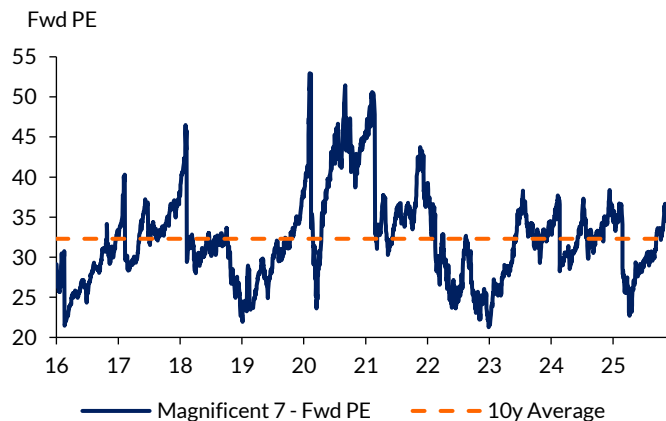
Figure 15**Perf- Breakdown since 30/09 – Tech Sectors**

Source: MSCI, ANIMA Research. Note: prices as of 14th November 2025.

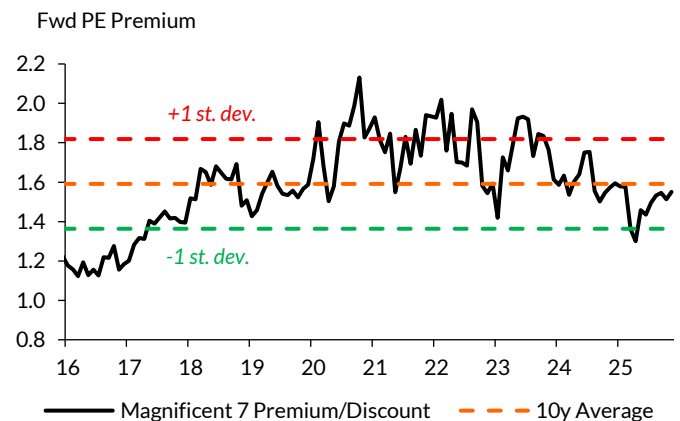
Figure 16**Perf- Breakdown since 30/09 – Software Stocks**

Source: MSCI, ANIMA Research. Note: prices as of 14th November 2025.

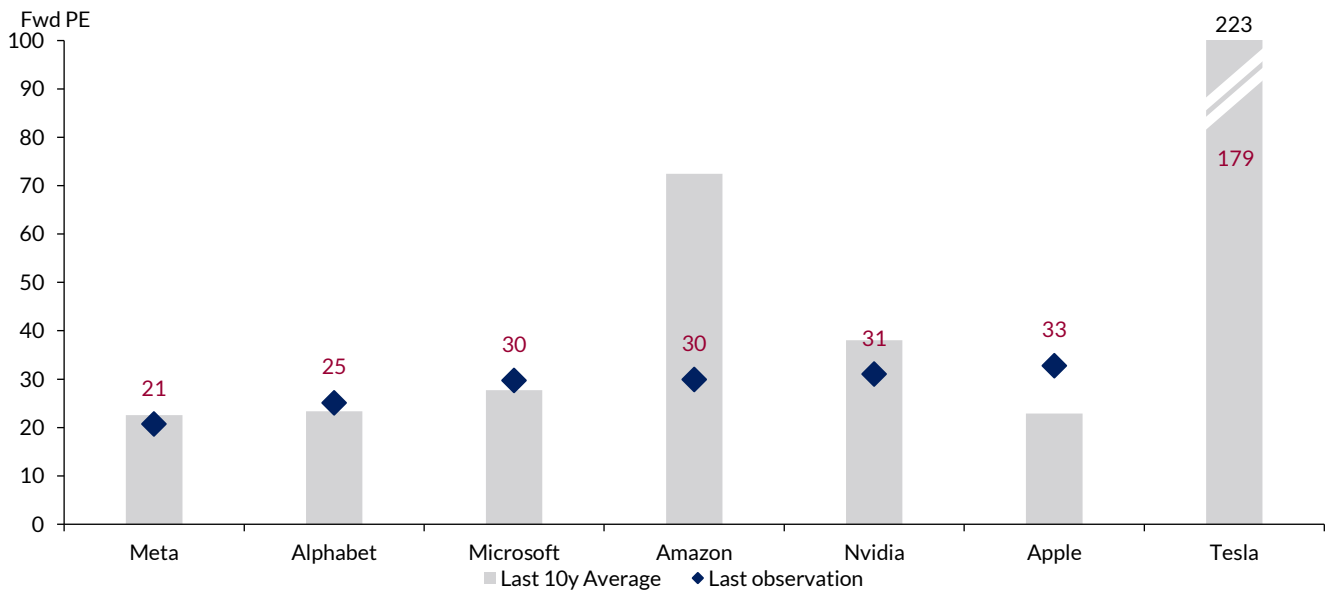
We continue to hold a selectively constructive view of the Magnificent 7. The group's aggregate valuation remains above its 10-year average but is not at excessively stretched levels, suggesting that multiple expansion still has room (Figure 17). At the same time, the valuation premium versus the broader market has normalised and currently sits below its historical 10-year average, pointing to a more balanced risk-reward profile compared with the rest of the index (Figure 18). At the individual stock level, several names within the group are now trading at compelling valuations when compared with their historical multiples (Figure 19).

Figure 17**Magnificent 7 – Forward P/E**

Source: Bloomberg, ANIMA Research. Note: prices as of 14th November 2025

Figure 18**Magnificent 7 – Premium vs Rest of the Market**

Source: MSCI, ANIMA Research. Note: prices as of 14th November 2025

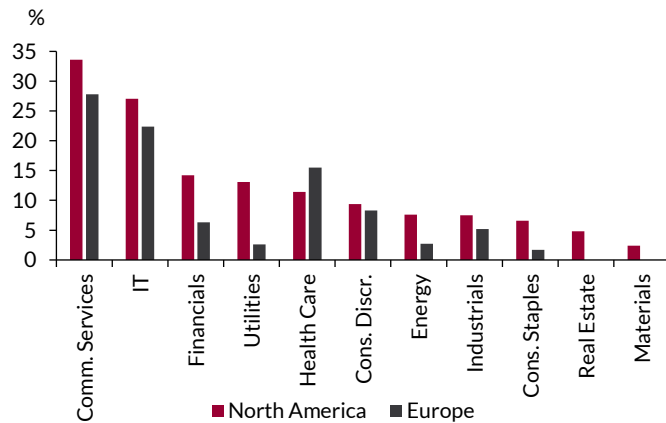
Figure 19**Magnificent 7 – Forward P/E Now vs History**

Source: MSCI, ANIMA Research.

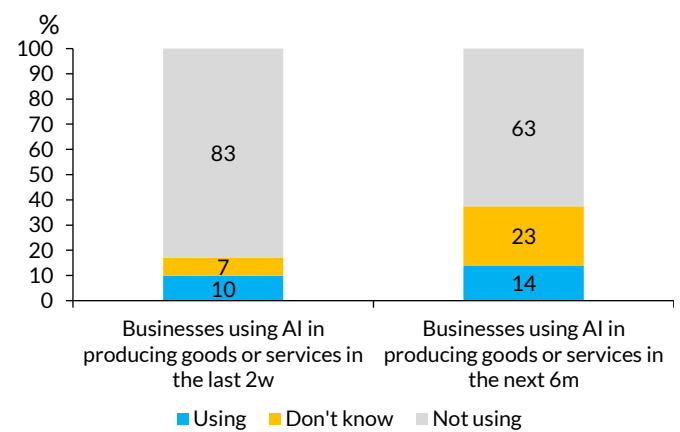
Strategically OVERWEIGHT

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 constrain the scope for multiple expansion, which was the principal driver of last year's rebound. Looking ahead to 2026, we expect the AI theme to evolve as more companies integrate it into their operations. That said, **we remain sceptical that widespread AI adoption will radically and abruptly transform the labour market or corporate profitability.** We view such structural change as a multi-year process rather than a sudden disruptive shock. Our cautious stance reflects the fact that only a limited number of companies - primarily in the US, and mostly within Communications Services and IT - are actively discussing AI adoption (**Figure 20**). In the US, around 10% of companies currently use AI in the production of goods and services, a figure forecast to rise to 14% over the next six months (**Figure 21**). The highest adoption is expected in service sectors like Financials, Professional and Scientific Services, Education, and Energy (**Figure 22**).

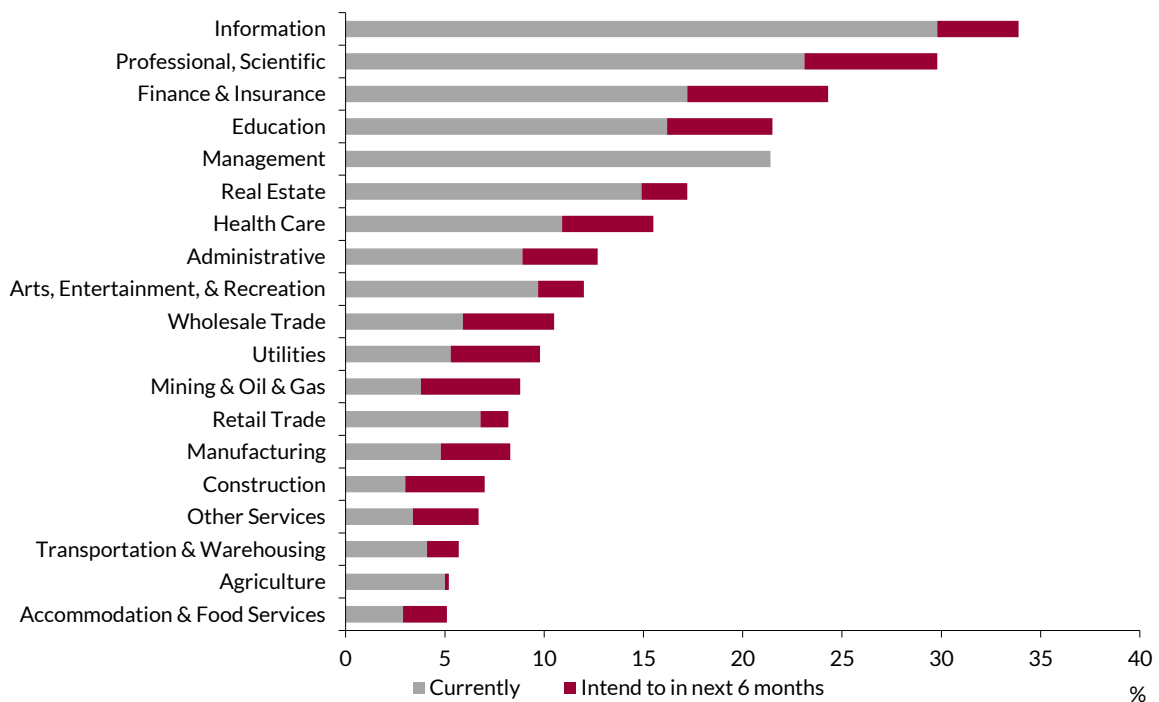
It will take time for AI adoption to become broad-based across multiple industries, and it remains too early to gauge the actual impact on corporate profitability or the timeframe for this transformation. During the internet revolution of the 1990s, US net margins took five years to rise by just 1 percentage point and peaked before the subsequent recession (**Figure 23**).

Figure 20**% of companies discussing AI implementation**

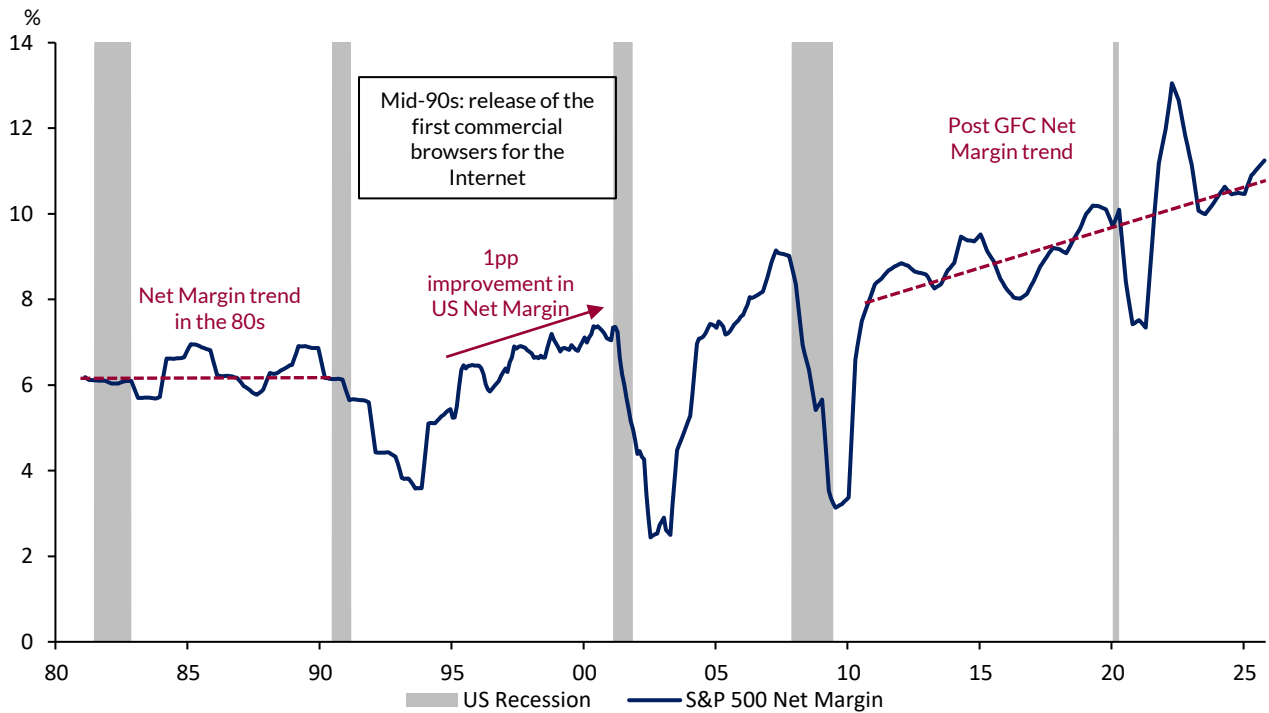
Source: HSBC, ANIMA Research.

Figure 21**AI adoption across US business**

Source: US Consensus Bureau, ANIMA Research.

Figure 22**% of US businesses using Artificial Intelligence in producing goods or services, by sector**

Source: HSBC, ANIMA Research.

Figure 23**S&P 500 Net Income Margin**

Source: Bloomberg, ANIMA Research.

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 Cyclical 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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