

Equity Strategy

KEEP RIDING

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We remain tactically LONG. We expect the market to continue grinding higher as the Q3 reporting season unfolds, with positive earnings surprises likely to drive major equity indices towards new all-time highs. Additional tailwinds include favourable seasonality, dollar weakness, investor sentiment that remains measured, rather than euphoric, despite the rally so far. While compressed volatility and rich valuations may trigger temporary market weakness, we would remain buyers on dips in such scenarios.

From a regional perspective, we now neutralise previous preferences, anticipating that the rally will broaden across markets. We downgrade the US and Japan to NEUTRAL (previously LONG) and upgrade the UK to NEUTRAL (previously SHORT).

From a sector standpoint, we continue to favour cyclical AI-related sectors. Among traditional cyclical Value, we maintain our long-standing LONG stance on Banks, expecting them to benefit from a resilient macro backdrop and the anticipated ongoing curve steepening. Pharma remains our preferred defensive sector. On style, we note that Value has now become the Quality segment of the market, whereas this tilt was previously associated with Growth.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to reach new highs in Q4 and to accelerate further in 2026, driven primarily by high single-digit EPS growth. While already rich valuations may limit gains from multiple expansion, which was the main driver of last year's rebound.

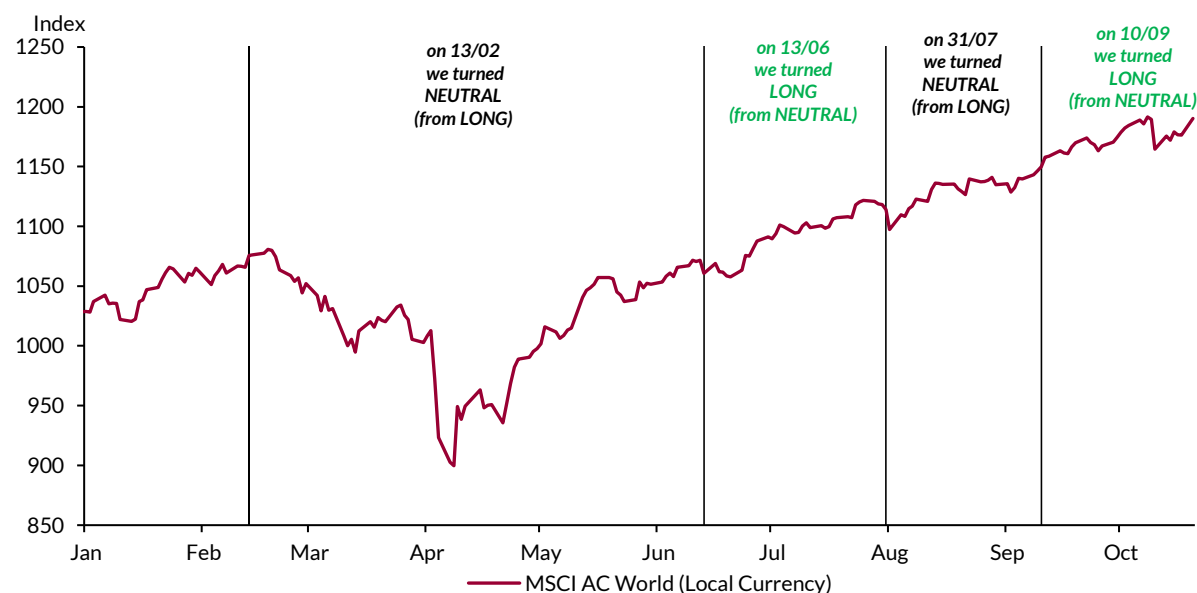
Regionally, we favour the US and EM, given their leadership in AI and idiosyncratic catalysts such as monetary and fiscal easing in the US, an expected weaker USD, and light investor positioning in EM. Sector-wise, we favour Cyclical over Defensive, with a bias towards growth-oriented names.

Tactically LONG

We remain tactically LONG (Figure 1), expecting the market to record new peaks in the coming weeks, supported by improving corporate fundamentals, a resilient macro backdrop, and benign seasonality. One of the key catalysts underpinning our constructive view is the upcoming earnings season, with the peak reporting period scheduled between 27th and 31st October (Figure 2).

Figure 1

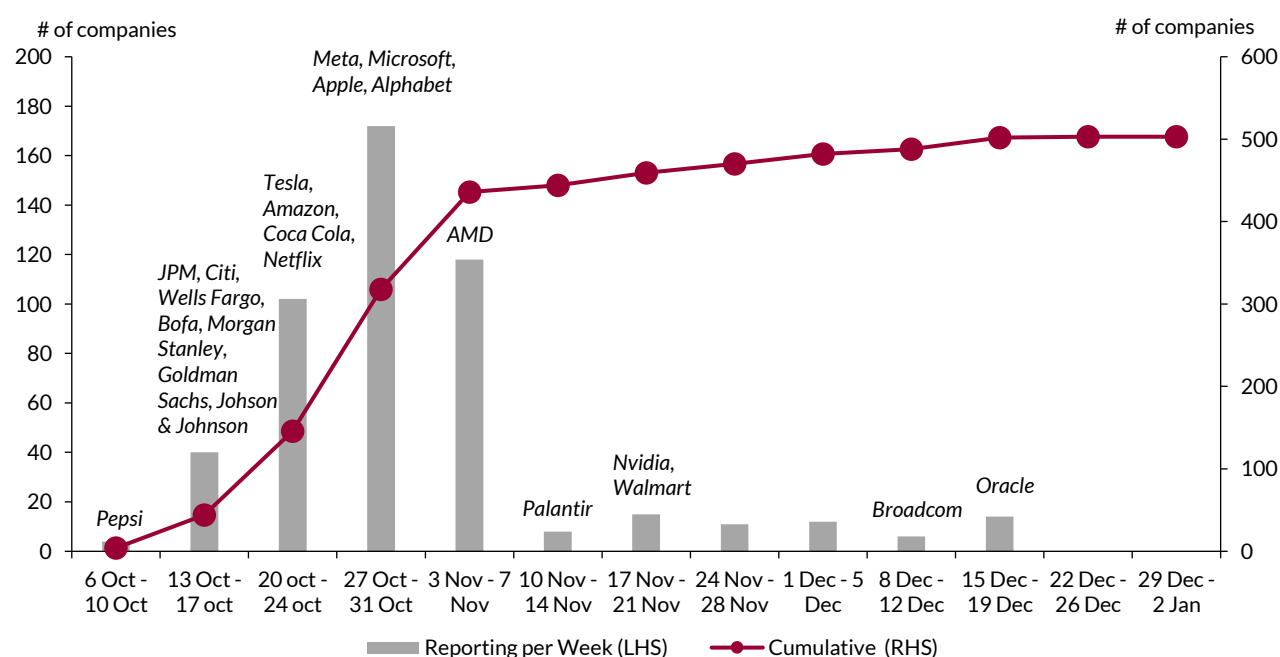
MSCI AC World and Equity Strategy's Positioning



Source: MSCI, ANIMA Research. Note: Prices as of 20th October 2025.

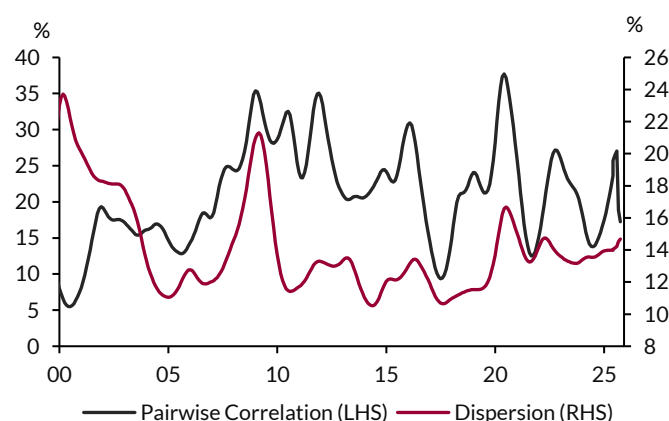
Figure 2

Timeline of US companies' reporting season

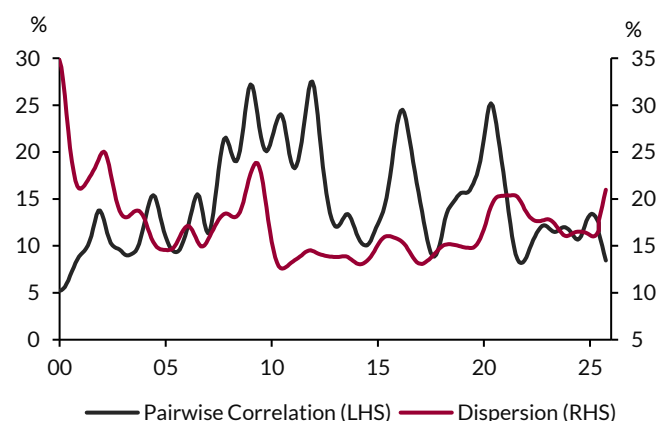


Source: Bloomberg, ANIMA Research.

The ongoing bull market is narrowing, characterised by declining pairwise correlations among stocks and increasing performance dispersion. These trends are evident across both Developed and Emerging Markets (**Figure 3** and **Figure 4**). The dispersion in performance is notably high, not only within indices but also within individual sectors. For example, within Information Technology, approximately 11% of stocks (by market cap) have rallied more than 90%, while a similar proportion has rebounded by less than 50%. Financials and Industrials appear even more fragmented (**Figure 5**). **During the 2000 Tech Bubble, market leadership was more concentrated**. Roughly half of listed companies, representing one-third of the market cap, posted losses. The average stock return was 14%, but the median return was -2%. (**Figure 6**). In contrast, today, only 100 companies are loss-making, representing less than one-tenth of S&P 500 market cap, with an average return of 26% and a median of 18%.

Figure 3**Performance Correlation and Dispersion - DM**

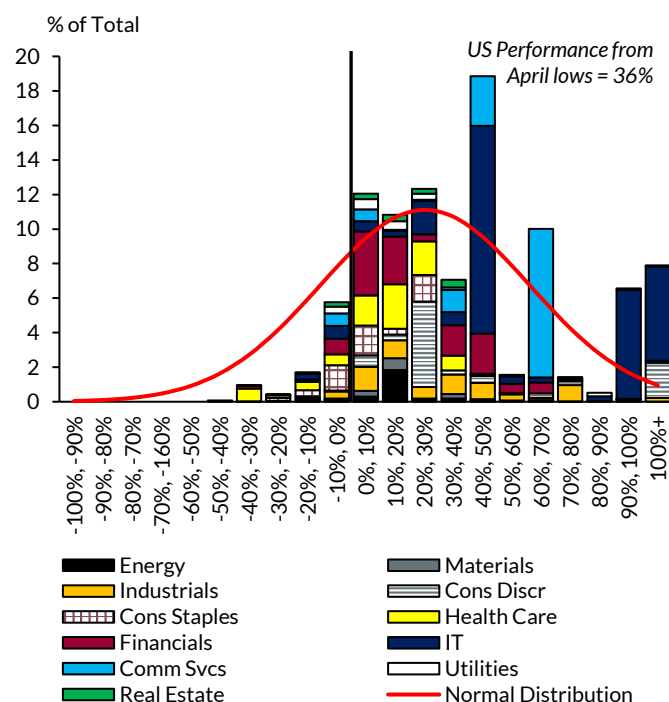
Source: Citi, ANIMA Research.

Figure 4**Performance Correlation and Dispersion - EM**

Source: Citi, ANIMA Research.

Figure 5

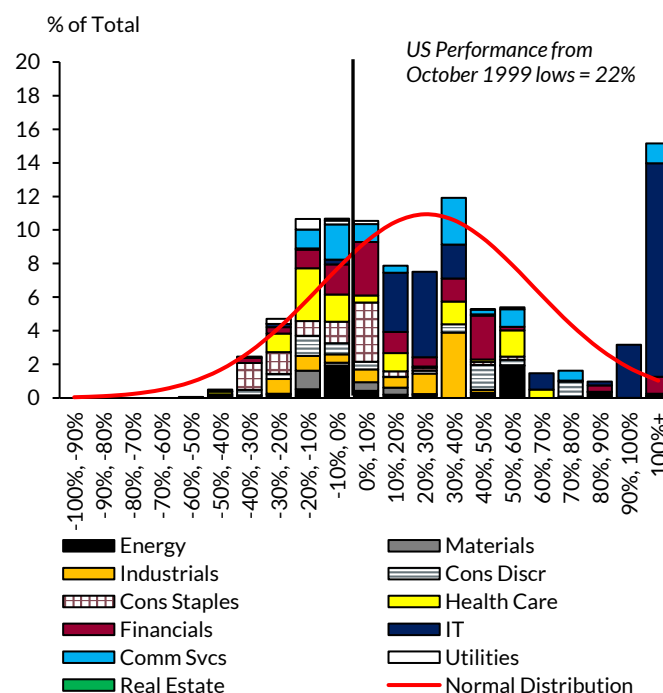
US Sectors' Performance Distribution – Oct 2025



Source: Citi, ANIMA Research. Note: performance since 8th April 2025.

Figure 6

US Sectors' Performance Distribution – Mar 2000



Source: Citi, ANIMA Research. Note: performance since 15th October 1999.

A. Regional Allocation

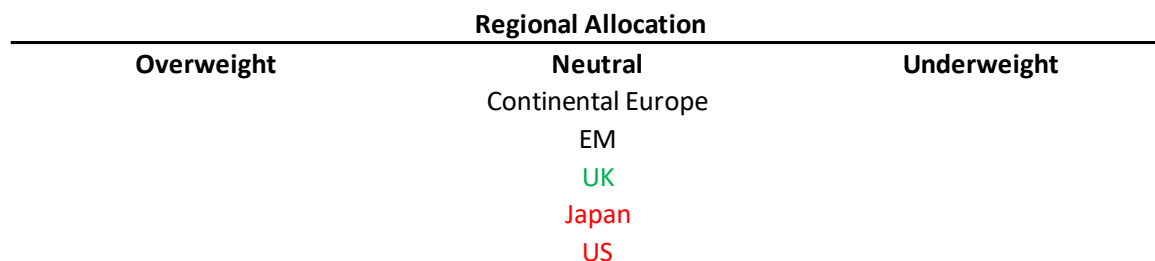
From sector narrowing to regional broadening. We are now NEUTRAL across all regions, as each exhibits positive factors that could support short-term gains (Figure 7). Looking ahead, we expect higher pairwise correlations among regions, signalling broader participation in the global equity rally (Figure 8). This view is supported by recent improvements in earnings momentum across all regions (Figure 9). We highlight several constructive regional factors:

- **US - downgraded to NEUTRAL (previously LONG)** - The US continues to demonstrate robust earnings momentum, supported by its leading position in artificial intelligence. The anticipated wider adoption of AI has enabled US corporations to enhance profitability, even amid subdued hiring activity (Figure 10). This labour backdrop, combined with limited layoffs, should help contain wage pressures, providing an additional tailwind to earnings.
- **Continental Europe** has experienced an increase in forward earnings estimates since late April, with the exception of the most export-oriented sectors (Figure 11). We expect estimates to improve further, supported by the implementation of the fiscal stimulus plan.
- **There is potential for the EM equities rally to extend through year-end**, supported by macro factors such as anticipated Fed rate cuts, a weaker US Dollar, and relatively low investor positioning (Figure 12). Additionally, ongoing AI-related developments continue to provide a structural tailwind.
- **Japan's outlook remains fundamentally robust, but we choose to take profit following the strong rally in recent months.** The election of Takaichi as LDP leader could provide a near-term boost to equities, given her preference for expansive fiscal policy and a weaker yen. However, as the LDP

does not hold a majority, fiscal ambitions may face constraints, resulting in more measured stimulus than markets currently anticipate. Additionally, while new initiatives may resemble the reform agenda pursued under Abe, the scope for further improvement appears limited compared to the past. Notably, ROE has already risen from around 4.5% to nearly 10%, following previous programmes, such as the Corporate Value Enhancement Program (Figure 13).

Figure 7

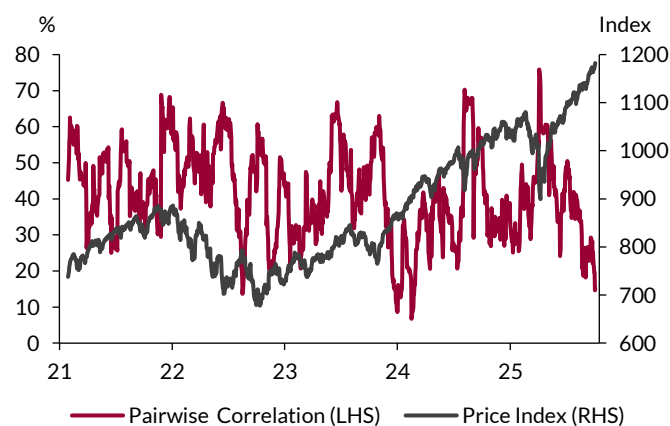
Tactical Regional Recommendations - November 2025



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

Figure 8

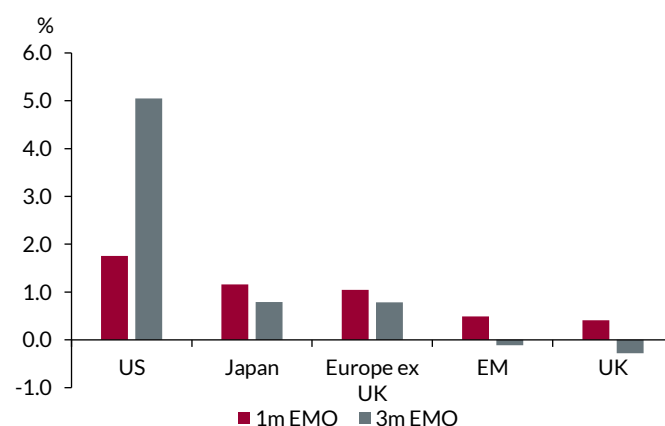
Main Regions - Pairwise Correlation and Price



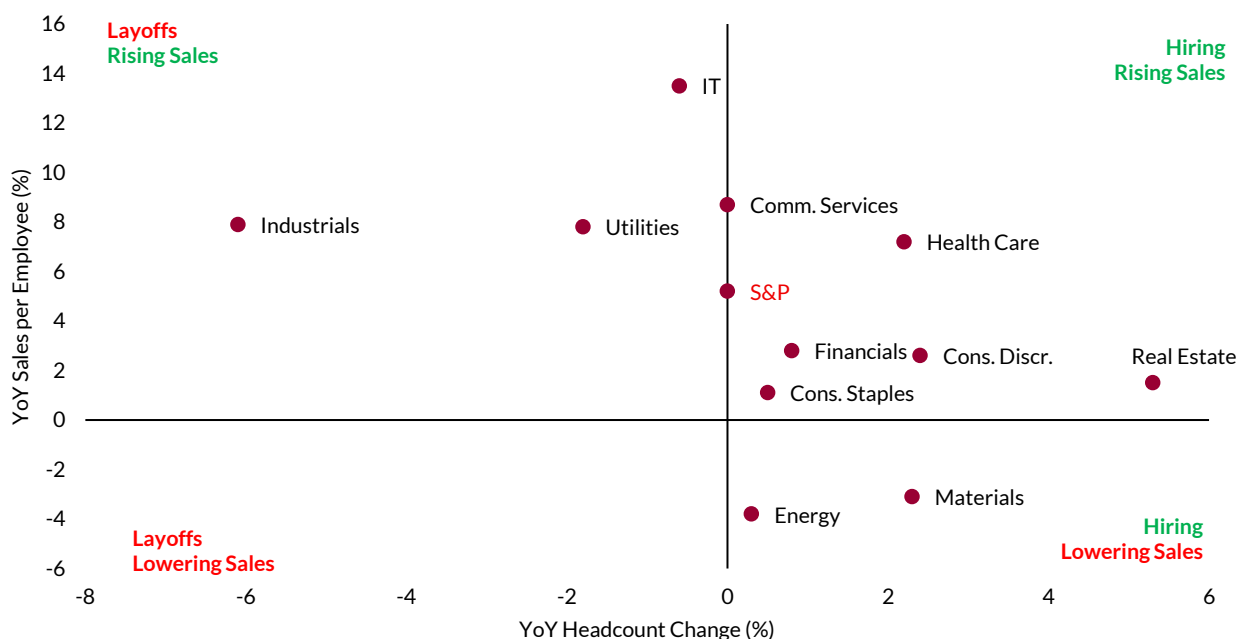
Source: MSCI, ANIMA Research.

Figure 9

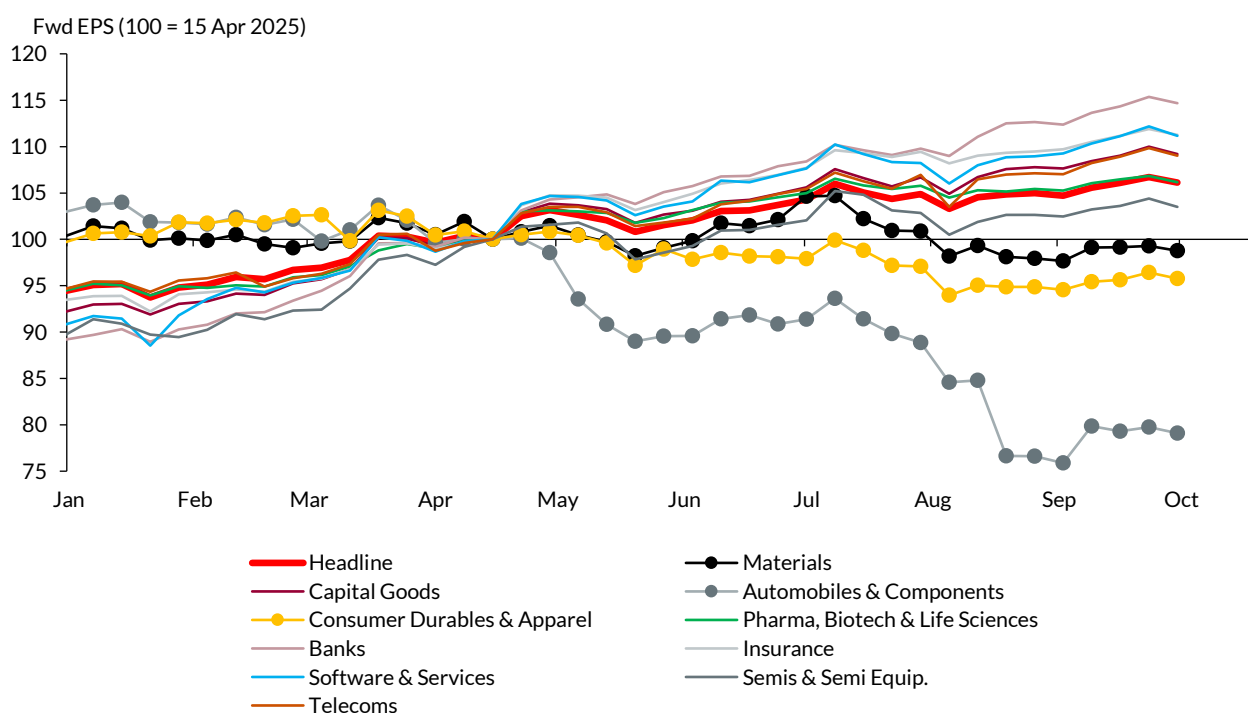
Main Regions - 1m and 3m Earnings Momentum



Source: MSCI, ANIMA Research.

Figure 10**US – Headcounts and Companies' Sales**

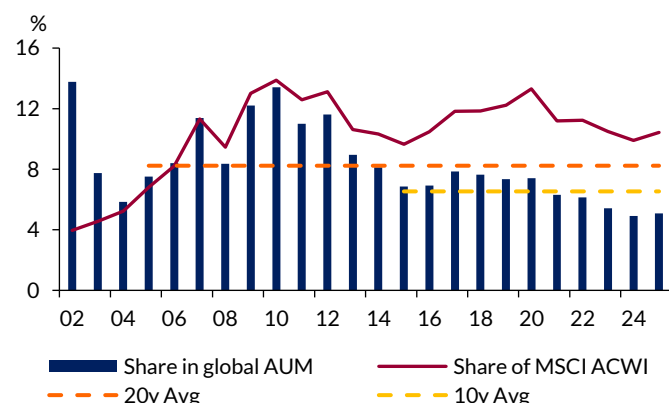
Source: MSCI, ANIMA Research.

Figure 11**Europe – Sectors' Earnings Estimates**

Source: MSCI, ANIMA Research.

Figure 12

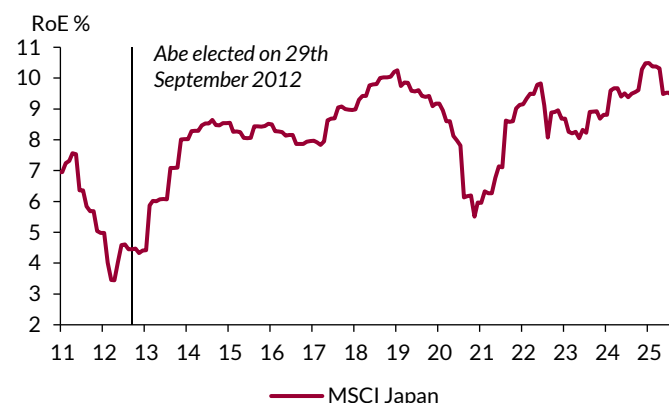
EM – Positioning



Source: JPM, MSCI, ANIMA Research.

Figure 13

Japan – Return on Equity



Source: MSCI, ANIMA Research.

B. Sector Allocation

From a sector standpoint, we continue to favour cyclical AI-related sectors. Among traditional cyclical Value, we maintain our long-standing LONG stance on Banks, expecting them to benefit from a resilient macro backdrop and the anticipated ongoing steepening of the yield curve. Pharma remains our preferred defensive sector (**Figure 14**). On style, we note that Value has now become the Quality segment of the market, whereas this tilt was previously associated with Growth (**Figure 15**). **We also continue to selectively favour the Magnificent 7**, although the extremely low level of pairwise correlation suggests a potential convergence in performance – in either direction – across these stocks (**Figure 16**).

Figure 14

Tactical Sector Recommendations - November 2025

Industry Group Allocation

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

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

Figure 15

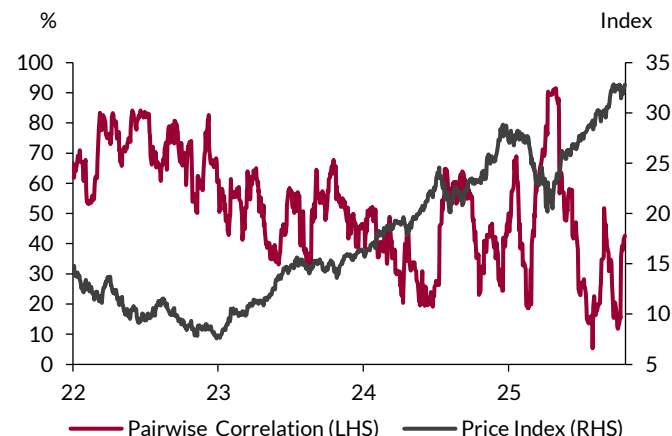
Global Value is the new Quality



Source: MSCI, ANIMA Research. Note: Prices as of 20th October 2025.

Figure 16

Magnificent 7



Source: MSCI, ANIMA Research. Note: Prices as of 20th October 2025.

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 reach new highs in Q4 and to accelerate in 2026, driven primarily by high single-digit EPS growth. However, already rich valuations are likely to limit further gains from multiple expansion, which was the main driver of last year's rebound.

Key themes for 2026 are:

- 1) Monetary Policy:** we expect two Fed rate cuts by the end of 2025, followed by three additional cuts in 2026. Historically, when the Fed holds rates steady for at least six months before beginning to cut, equities tend to perform well in the following year.
- 2) Fiscal Policy:** it is expected to be expansionary on both sides of the Atlantic, supporting CAPEX investment and corporate profitability.
- 3) Earnings:** we project global EPS growth of 8% in 2026, compared to the consensus forecast of 12%. We anticipate further analyst downgrades, which could introduce volatility in equity markets. However, this is unlikely to derail the stock market's upward trajectory.
- 4) Valuation:** the global stock market is approaching bubble territory. Our composite valuation indicator shows that equities are currently trading at nearly two standard deviations above their 10-year average. That said, high valuations do not necessarily imply negative returns over the following 12 months.

Regionally, we continue to favour 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 investor positioning in EM. **Sector-wise, we favour Cyclical over Defensives, with a bias towards growth-oriented names.**

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