Equity Strategy

# Staying LONG, keeping it REAL


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***We maintain our tactical LONG position on global equities.*** *Recent US company results continue to confirm resilient profitability and sustained AI investment, while macroeconomic data in both the US and Europe have generally surprised positively. Supportive earnings revisions and broader market participation keep the fundamental backdrop constructive, although stronger economic news can weigh on prices when it pushes bond yields higher.*

***The LONG stance nevertheless remains moderate****. Geopolitical risks, high oil prices and a more hawkish monetary-policy outlook constrain the upside, alongside softer consumer momentum and elevated long-term yields. Stronger expected earnings growth helps support valuations, particularly in Technology and Semiconductors, where our stress tests also indicate room for some earnings disappointment.*

***A further rise in nominal yields driven by higher real yields could trigger a valuation correction****. We would regard this as a manageable risk within our constructive medium-term view, provided credit spreads remain broadly stable and earnings expectations hold. Our sensitivity analysis illustrates a potential S&P 500 decline of around 8% if the US 10-year yield reached 6% entirely through higher real yields, with breakeven inflation, HY spreads and forward EPS unchanged. This is a conditional stress scenario rather than our baseline. Conversely, stabilising or declining real yields would provide valuation support.*

***Our regional preferences are unchanged from last month****. We remain LONG the US, which offers the strongest earnings visibility and the greatest exposure to AI-related investment. Continental Europe and the UK remain NEUTRAL, as resilient activity is offset by higher energy costs and tighter monetary policy. We maintain a NEUTRAL stance on Emerging Markets, with a positive bias and a preference for Korea and Taiwan, while Japan remains SHORT given faster BoJ normalisation, higher domestic yields and potential yen appreciation.*

***Our sector positioning is also unchanged****. We retain a mild cyclical tilt while remaining agnostic on style.*

***Strategically, we maintain our rolling 12-month OVERWEIGHT stance on equities, although the hurdle rate has increased****. With the 10-year Treasury yield close to 5%, equities face greater competition from bonds, and future returns must increasingly depend on earnings growth rather than multiple expansion. With US real GDP expected to grow by around 2.1% in 2027, we continue to forecast S&P 500 EPS growth of approximately 13%, slightly below consensus.*

*We expect a volatile, but still positive, return profile. Our constructive view allows for meaningful valuation corrections. A simultaneous widening in credit spreads and deterioration in earnings expectations, or material reductions in AI-capex plans, would require reassessment. In their absence, we would continue to add gradually on weakness.*


Completed: 24 September 2026

# Staying LONG

**We maintain our tactical LONG position on global equities**. The fundamental backdrop remains supportive despite the recent increase in market volatility. The latest US company reports have continued to exceed expectations, confirming resilient demand, solid profitability and sustained investment in AI infrastructure. Macroeconomic data have also generally surprised positively on both sides of the Atlantic: the US labour market remains stronger than anticipated, while European GDP, manufacturing activity and confidence indicators have proved more resilient than feared. Together with positive earnings revisions and improved market participation, this supports our constructive near-term view (**Figure 1**).

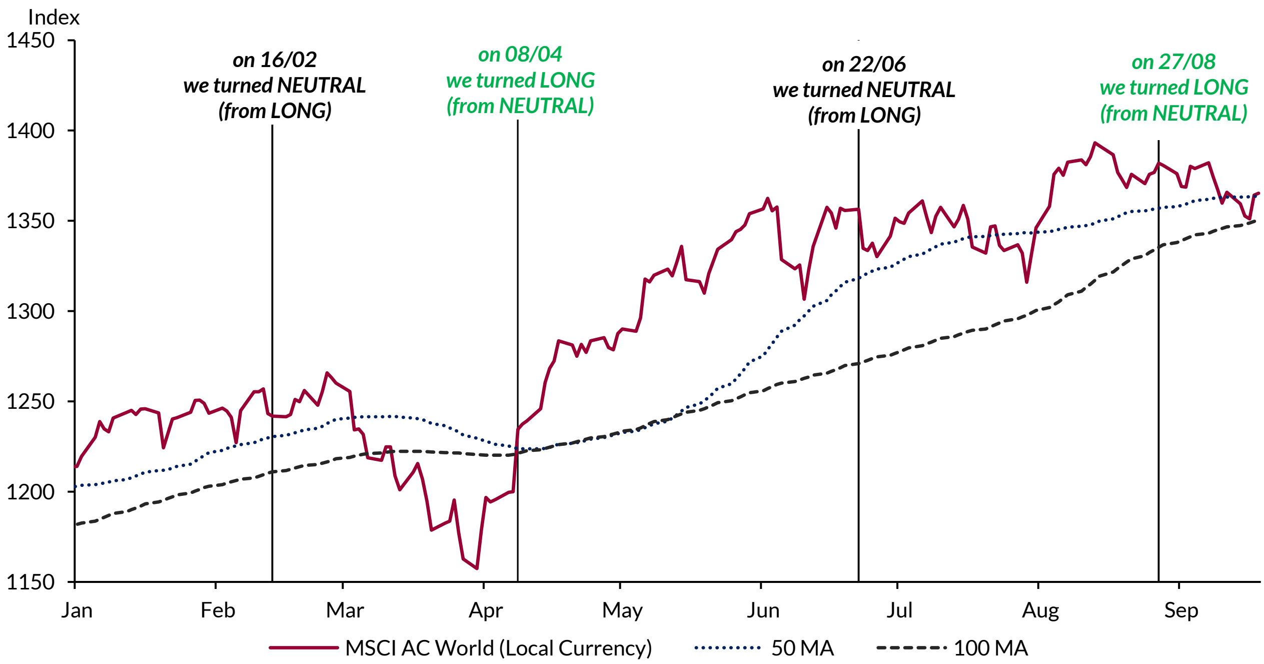
**The LONG stance is nevertheless held with moderate conviction**. Geopolitical risks remain elevated, while high oil prices are increasing inflationary pressure and pushing the major central banks towards a more hawkish stance. Elevated valuations, softer consumer momentum and high long-term yields also constrain the upside.

At the same time, **yields are approaching our accumulation band, improving the asymmetry from current levels**. Although high rates remain an immediate valuation headwind, any stabilisation or decline in long-term yields would provide an additional tailwind for equities, particularly if accompanied by continued earnings growth. **Our tactical position is therefore not dependent on monetary easing, but a reduction in rates could reinforce the support already provided by fundamentals**.

**We consequently retain the LONG stance and continue to implement it gradually, adding on weakness rather than chasing market strength**. We would reassess the position if earnings revisions, market breadth or credit conditions deteriorated materially; in their absence, pullbacks should continue to offer opportunities to increase exposure.

**Figure 1**

**MSCI AC World and Equity Strategy Positioning in 2026**




*Source: MSCI, ANIMA Research. Prices are as of 18 September 2026.*

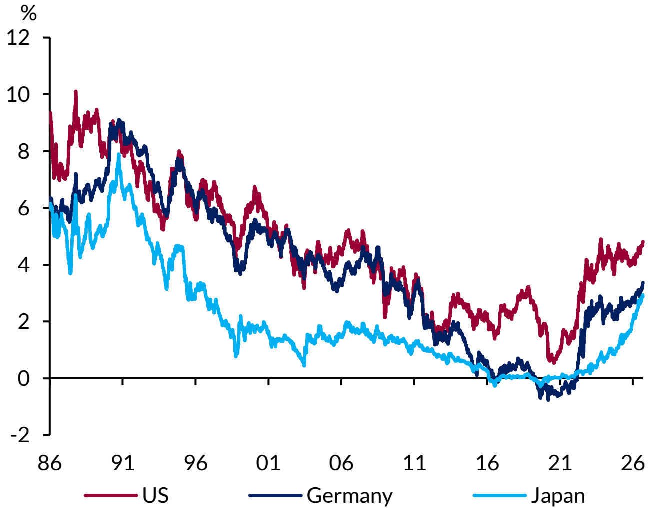
# A real test for the LONG view

## Higher yields remain a manageable risk if earnings and credit hold

**Bond yields have become a central focus for equity investors**. The US 10-year Treasury is flirting with 5%, Japanese government bond yields have returned to levels last seen around three decades ago, and real yields have also risen (**Figures 2 and 3**). Higher yields increase refinancing costs, lift corporate interest expenses as debt reprices and tighten financial conditions. They also reduce the present value of future profits and increase the relative attractiveness of bonds, putting pressure on equity valuation multiples (**Figures 4 and 5**).

**Figure 2**

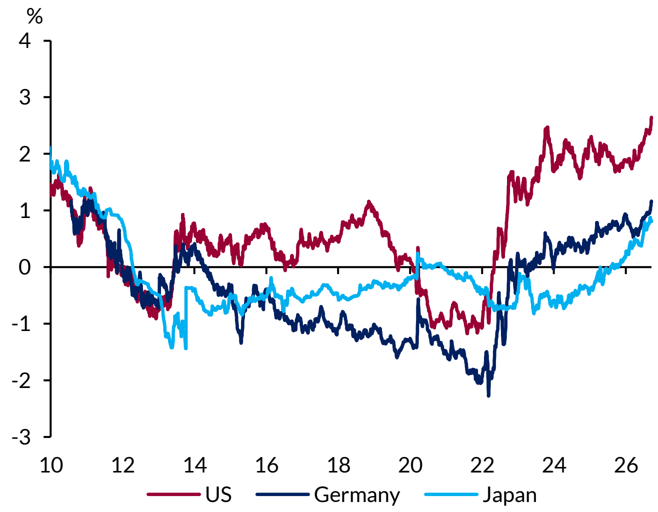
**10-year nominal government bond yields**




*Source: ANIMA Research. Prices are as of 18 September 2026.*

**Figure 3**

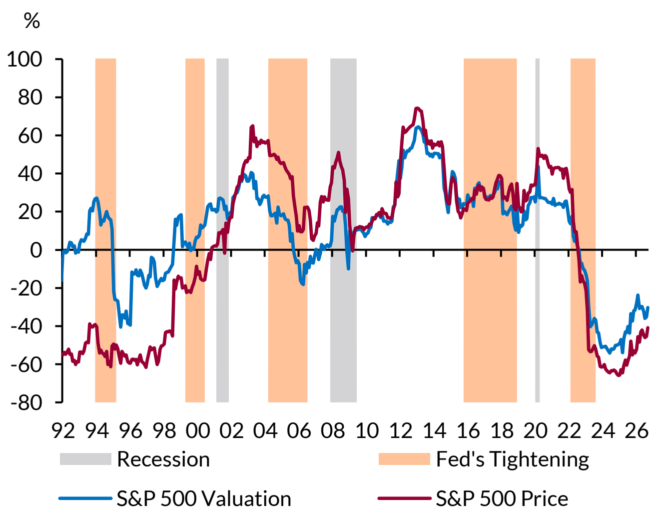
**10-year real government bond yields**




*Source: ANIMA Research. Prices are as of 18 September 2026.*

**Figure 4**

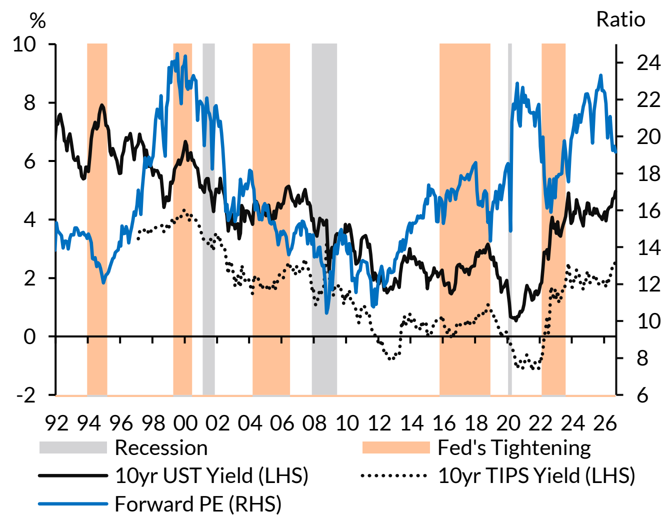
**Correlation: 10-year nominal yield and S&P 500**




*Source: S&P, IBES, ANIMA Research. Prices are as of 18 September 2026.*

**Figure 5**

**10-year yields and S&P 500 forward PE**




*Source: S&P, IBES, ANIMA Research. Prices are as of 18 September 2026.*

**At these yield levels, stronger economic data can produce an adverse equity-market reaction**. Investors increasingly assess positive surprises through their implications for monetary policy and further increases in yields. Conversely, moderately weaker-than-expected data can support equities if they ease pressure on the bond market without materially damaging the earnings outlook. Our CESI analysis is consistent with this "good news is bad news" pattern, particularly when improving surprises coincide with rising yields. The detailed evidence is presented in the Appendix.

**Good news can nevertheless be bad news for prices over a week while still supporting the earnings base over a year**. Stronger activity can sustain revenues and profits even when its immediate effect is to push discount rates higher. The weekly market reaction therefore does not settle the medium-term investment case. The key issue is whether higher yields primarily affect the valuation investors assign to earnings or also undermine the earnings themselves.

**We consider analysts' earnings estimates for the next twelve months achievable.** This supports the earnings base underlying current valuations, with the global equity market trading broadly in line with its median forward P/E over the past ten years. It does not eliminate the possibility of derating: historical multiples are a reference rather than a floor, and persistently higher real yields could justify lower valuations. **Our constructive view therefore allows for valuation pressure while assuming that the earnings outlook remains broadly intact**.

**Our sensitivity analysis estimates the potential adjustment under different rate and credit scenarios**. For the S&P 500, we examine the relationship between monthly changes in the forward P/E, real Treasury yields, breakeven inflation and HY credit spreads over September 2016–August 2026. We apply these sensitivities to market levels observed on 11 September 2026, when the US 10-year yield was approximately 5%, HY spreads were 265bp and the forward P/E was 19.1x.

**A decline in real yields would provide valuation support even without an increase in earnings estimates**. If the nominal Treasury yield fell to 4.5% entirely through lower real yields, with breakeven inflation and HY spreads unchanged, the model would imply a forward P/E of approximately 19.8x and a price gain of 3.6% at unchanged forward EPS. A further decline in the nominal yield to 4% would take the real yield to approximately 1.63%, implying a forward P/E of 20.6x and a price gain of 7.7% relative to the starting point.

Conversely, a rise in the Treasury yield to 6% entirely through higher real yields, with breakeven inflation and HY spreads unchanged, would imply a forward P/E of approximately 17.7x and a price decline of around 7.6%. Although this is not our baseline, we would regard such an adjustment as manageable within our constructive medium-term view.

**The downside becomes more substantial when higher yields are accompanied by widening credit spreads**. At the same 6% Treasury yield, a 100bp widening in HY spreads would lower the estimated P/E to approximately 16.7x, implying a price decline of 12.5% at unchanged forward EPS. A 200bp widening would take the multiple to around 15.8x and the implied decline to 17.2% (**Figure 6**).

**Figure 6**

**S&P 500: valuation sensitivity to real yields and credit spreads**

| 10yr UST yield | Δ in HY spread | Estimated forward PE | Δ S&P 500 price at unchanged forward EPS |
|---|---|---|---|
| 4.0% | Unchanged | 20.6x | +7.7% |
| 4.5% | Unchanged | 19.8x | +3.6% |
| **5.0%** | **Unchanged** | **19.1x** | **-0.2%** |
| 5.5% | Unchanged | 18.4x | -4.0% |
| 6.0% | Unchanged | 17.7x | -7.6% |
| 6.0% | +100bp | 16.7x | -12.5% |
| 6.0% | +200bp | 15.8x | -17.2% |

*Source: ANIMA Research. All changes are measured against 11 September 2026. Changes in nominal yields are assumed to come entirely from real yields, with breakeven inflation unchanged. Forward EPS are held at their current estimate and dividends are excluded.*

**We therefore regard higher yields as a manageable risk, provided earnings expectations hold and credit spreads remain broadly stable**. Continued earnings delivery would support the fundamental investment case even if investors temporarily assigned those earnings a lower multiple. A moderation in real yields would offer an additional source of support. Strong cash generation, fixed-rate borrowing and staggered debt maturities can also cushion the transmission of higher yields, although these protections must be assessed company by company.

**The greater threat would be a simultaneous deterioration in credit conditions and earnings expectations**. Widening spreads would imply a larger valuation adjustment, while EPS downgrades would add further pressure on prices. Our constructive stance consequently allows for volatility and a potential valuation correction but would require reassessment if financial tightening began to erode corporate fundamentals. This distinction leads directly to the next section: when does a correction become a more persistent bear market?

## A valuation correction is plausible - but not necessarily a bear market

**A further increase in yields could trigger an equity correction, although this is <u>not</u> our baseline**. The sensitivity analysis illustrates how prices could adjust even if earnings expectations remain intact. Such a decline would not, by itself, invalidate the medium-term investment case. The more consequential development would be a deterioration in credit conditions accompanied by sustained downward revisions to earnings.

**The 1994 episode illustrates how a substantial rate shock can coexist with resilient earnings**. Between the equity peak and trough in our sample, the US 10-year Treasury yield increased by approximately 151bp, while the S&P 500 declined by 8.9%. Forward EPS nevertheless increased by 2.3%. The episode provides a useful example of valuation compression without a simultaneous contraction in the expected earnings base.

**The 2000–02 and 2007–09 episodes involved a more damaging combination**. Across the respective equity drawdown windows, the S&P 500 fell by approximately 49% and 57%, while forward EPS declined by around 9% and 36%. Credit spreads also widened substantially. Treasury yields ultimately fell over both windows, illustrating why the direction of government bond yields alone is insufficient to assess equity risk:

lower risk-free rates can be overwhelmed by deteriorating earnings expectations and rising risk premia.

**However, resilient earnings do not rule out a bear market defined by the size of the price decline**. In 2022, the S&P 500 fell by approximately 25% even though forward EPS remained above their level at the start of the sell-off. The valuation adjustment was sufficiently large to produce a bear market without an accompanying decline in the forward-EPS denominator over that window. Similarly, the nearly 20% correction in late 2018 occurred with broadly unchanged forward EPS. These episodes caution against treating earnings resilience as protection from substantial interim losses.

**The current episode has so far combined higher yields with a stronger expected earnings base and contained credit stress**. From 27 February to 11 September 2026, the US 10-year Treasury yield rose by approximately 101bp, while the S&P 500 gained 11.3% and its twelve-month forward EPS increased by 25.4%. HY spreads ended the period 45bp tighter, at 265bp, despite temporary widening along the way. The advance was not uninterrupted: the index experienced an interim drawdown of approximately 7.8% (**Figure 7**).

**The combination of a higher earnings denominator and tighter credit spreads helps explain why the market has accommodated higher yields so far**. It also distinguishes the current period from episodes in which earnings and credit deteriorated together.

**Improving corporate balance sheets provide an additional buffer against higher financing costs**. In the corporate universe covered by our analysis, financial leverage has declined since 2024 and is now at its lowest level in ten years, while interest coverage has returned to its historical peak. Lower leverage and stronger coverage leave companies better placed to service debt and absorb higher interest expenses as borrowing is refinanced (**Figures 8 and 9**).

**This supports our expectation that any widening in credit spreads will remain contained, provided earnings hold**. Stronger debt-servicing capacity reduces the likelihood that higher government bond yields develop into a broad deterioration in credit quality. Aggregate strength does not eliminate vulnerabilities among more leveraged borrowers, and spreads can widen as investors demand greater compensation for risk. Nevertheless, the improvement in balance sheets provides a fundamental basis for our assumption of broadly stable credit conditions.

**Our assessment therefore depends on the interaction between valuation, earnings and credit**. If earnings expectations hold and spreads remain broadly stable, we would interpret a setback primarily as a valuation adjustment and reassess the opportunity against the revised multiple. If spreads widen persistently and earnings estimates weaken, the risk would extend beyond valuation compression and require a more cautious stance.

**Resilient earnings and stronger balance sheets support treating higher yields as a manageable risk, while allowing for meaningful corrections**. They do not guarantee a shallow drawdown or a rapid recovery.

Figure 7

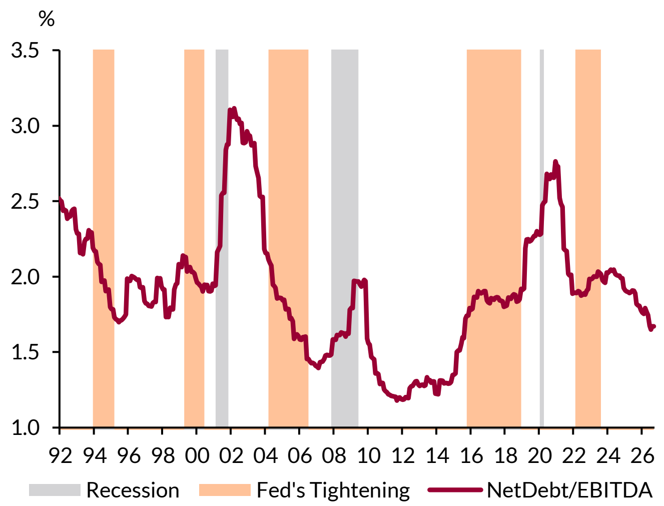
**Historical episode summary**

| Episode | Classification | Δ10yr UST yield to equity trough (bp) | Max 10yr UST yield increase (bp) | S&P drawdown (%) | EPS decline (%) | ΔEPS over period (%) | HY spread widening (bp) |
|---|---|---|---|---|---|---|---|
| **1994** | Rate shock | 151 | 238 | -9 | no decline | 2 | n.a. |
| **2000–02** | Earning led bear market | -262 | 38 | -49 | -14 | -9 | 570 |
| **2007–09** | Credit led bear market | -176 | 3 | -57 | -37 | -36 | 1753 |
| **2018** | Correction | -33 | 17 | -20 | 0 | 0 | 210 |
| **2022** | Valuation led bear market | 227 | 233 | -25 | no decline | 6 | 294 |
| **2026** | Higher volatility | 38 | 101 | -8 | no decline | 25 | 36 |

*Source: S&P, Bloomberg, ANIMA Research.*

Figure 8

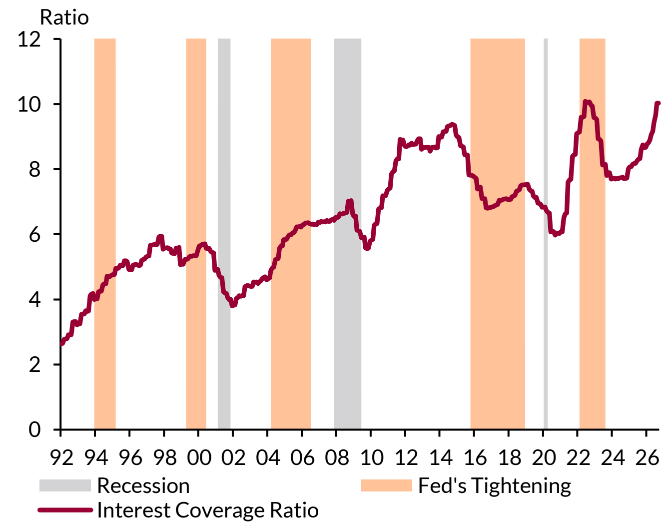
**S&P 500 - Net Debt/EBITDA**




*Source: BofA, ANIMA Research. Data are as of 31 August 2026.*

Figure 9

**S&P 500 – Interest Coverage Ratio**




*Source: BofA, ANIMA Research. Data are as of 31 August 2026.*

The next step is to assess where valuations leave room for disappointment and where prices depend most heavily on demanding earnings assumptions. This leads to our comparison of regional and sector valuations and the subsequent stress test of consensus EPS.

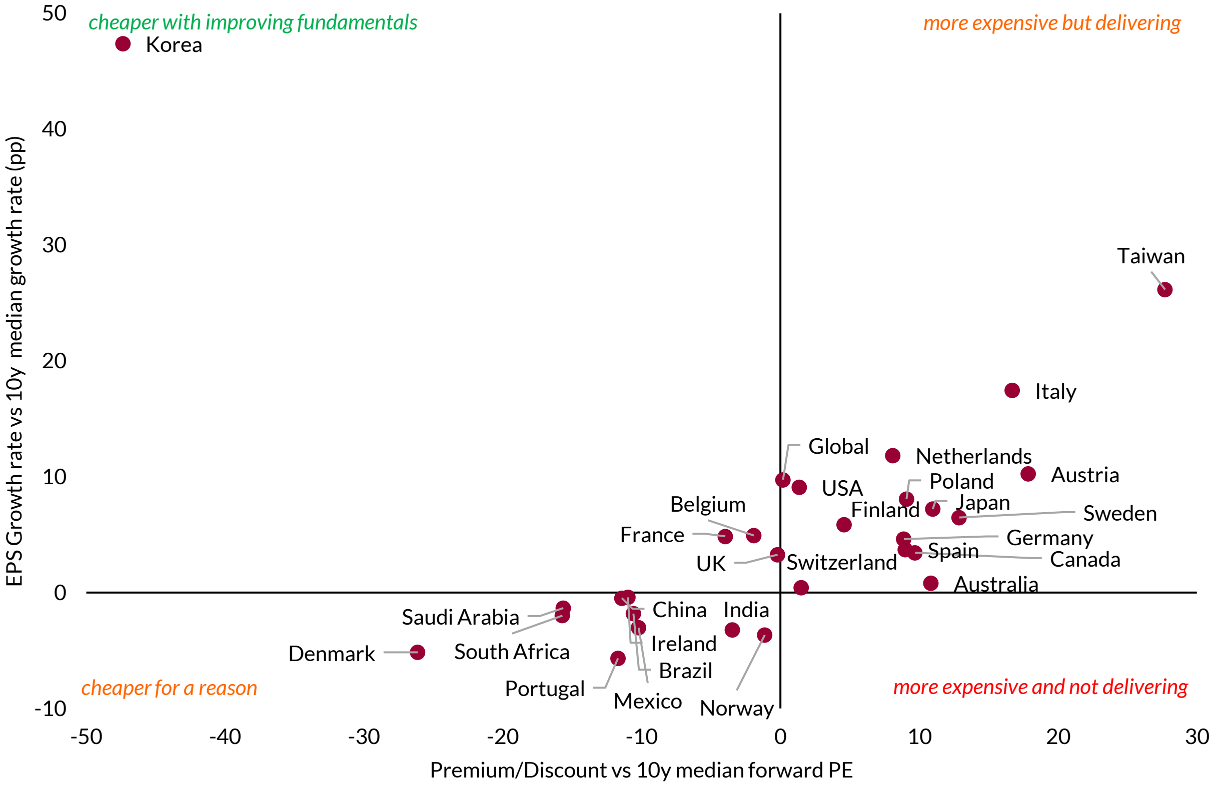
## Stronger earnings growth supports valuations and provides room for disappointment

**Above-normal earnings growth helps explain valuation differences across regions and sectors.** Higher multiples are more defensible where companies can sustain faster profit growth, strong cash generation and attractive returns on investment. Our regional and sector comparisons suggest that valuation premiums are broadly aligned with stronger earnings expectations. Technology and Semiconductors stand out: their expected growth exceeds historical norms, while their forward multiples remain below historical averages.

**At the regional level, the US valuation premium should be assessed alongside its stronger earnings profile and sector composition.** Greater exposure to Technology and AI infrastructure supports faster expected profit growth, helping explain why US equities command higher multiples than markets with a more modest earnings outlook. Taiwan also combines strong earnings expectations with a valuation premium. Korea offers a different combination: exceptionally strong expected growth alongside a substantial discount to its historical valuation. These differences support assessing each market's multiple against the growth and profitability of its underlying companies **(Figure 10)**.

**Figure 10**

**Countries: are premium valuations supported by above-normal earnings growth?**

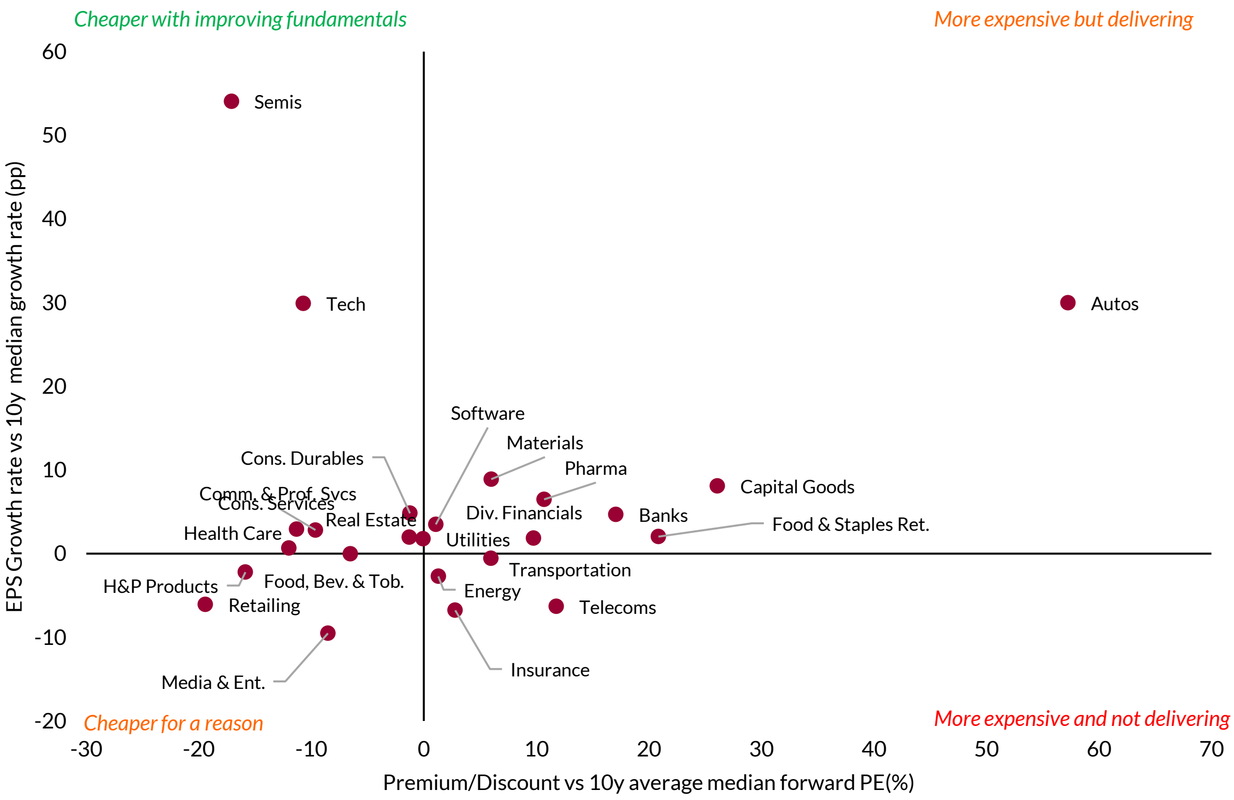



*Source: MSCI, IBES, ANIMA Research.*

**The relationship is particularly relevant within Technology and Semiconductors.** Strong expected earnings growth has lowered their forward multiples despite share-price gains. This supports our preference for AI infrastructure, provided the investment cycle translates into the profits analysts anticipate. By comparison, the valuation premiums of traditional cyclical sectors such as Capital Goods and Banks leave less room for disappointment on this measure. Their investment cases depend more heavily on continued earnings delivery and identifiable business catalysts (**Figure 11**).

**Figure 11**

**Sectors: are premium valuations supported by above-normal earnings growth?**




*Source: MSCI, IBES, ANIMA Research.*

**The key test is how much valuation support survives weaker earnings.** We hold prices constant and recalculate forward P/E ratios under progressively more conservative assumptions. Mild disappointment reduces the consensus growth rate by 20%; material disappointment halves it. The no-growth scenario holds EPS at the base underlying the growth forecast, while the contraction scenario places earnings 10% below that base. We compare the resulting multiples with the ten-year reference labelled "first quartile" in the tables.

**The regional results show a modest cushion for the US and global equities, with considerable differences elsewhere.** The US forward P/E rises from 19.8x to 21.7x when expected growth is halved, remaining just below its 21.8x reference. The global multiple rises from 16.7x to 18.3x, marginally exceeding its 18.2x threshold. Both markets become more demanding in the absence of earnings growth, at 23.9x and 20.2x respectively.

Korea retains the largest cushion: even in the earnings-contraction scenario, its multiple reaches 9.5x, below the 11.0x reference. China remains below its threshold in the no-growth scenario, while the UK does so when growth is halved. Europe excluding the UK crosses its threshold under mild disappointment; Japan and Taiwan already trade above theirs. Strong growth can help justify those premiums but provides less protection against disappointment at unchanged prices (**Figure 12**).

**Figure 12**

### Valuation stress test – Regions and countries

| | | Global | USA | EURexUK | UK | Japan | China | Taiwan | Korea |
|---|---|---|---|---|---|---|---|---|---|
| Forward PE | Current value | 16,7 | 19,8 | 15,2 | 12,4 | 16,1 | 10,4 | 19,6 | 5,3 |
| | First quartile (10yr) | 18,2 | 21,8 | 15,5 | 13,5 | 15,5 | 12,7 | 16,8 | 11,0 |
| | Mild disappointment | 17,3 | 20,5 | 15,6 | 12,7 | 16,3 | 10,6 | 20,3 | 5,6 |
| | Material disappointment | 18,3 | 21,7 | 16,3 | 13,1 | 17,0 | 11,1 | 22,1 | 6,4 |
| | No growth scenario | 20,2 | 23,9 | 17,4 | 13,7 | 18,3 | 11,8 | 26,2 | 8,6 |
| | EPS haircut scenario | 22,4 | 26,5 | 19,3 | 15,3 | 20,3 | 13,1 | 29,1 | 9,5 |

*Source: MSCI, IBES, ANIMA Research.* ***Mild disappointment****: consensus EPS growth reduced by 20%; for example, 20% growth becomes 16%;* ***Material disappointment****: consensus EPS growth halved; for example, 20% growth becomes 10%;* ***No growth scenario****: EPS unchanged year on year;* ***EPS haircut scenario****: 12-month EPS 10% below the current level.*

**Technology and Semiconductors can accommodate substantial disappointment while remaining below their historical quartile references**. With expected growth halved, Technology trades at 20.9x, below its 21.8x threshold, while Semiconductors trade at 19.4x, below 22.9x. The valuation case therefore does not require the full consensus growth forecast to materialise. However, eliminating growth altogether raises their multiples to 25.3x and 26.0x, above both references (**Figure 13**).

**Figure 13**

### Valuation stress test - Sectors

| | | Capital Goods | Retailing | Software | Tech | Semis | Media & Ent. | Banks | Div. Financials | Insurance |
|---|---|---|---|---|---|---|---|---|---|---|
| Forward PE | Current value | 21,4 | 20,0 | 26,3 | 17,3 | 16,1 | 18,6 | 11,7 | 16,6 | 11,6 |
| | First quartile (10yr) | 19,3 | 27,6 | 31,5 | 21,8 | 22,9 | 22,6 | 11,0 | 16,4 | 11,8 |
| | Mild disappointment | 22,0 | 20,2 | 26,2 | 18,9 | 16,9 | 19,0 | 12,1 | 16,9 | 11,7 |
| | Material disappointment | 23,2 | 20,7 | 27,4 | 20,9 | 19,4 | 19,2 | 12,5 | 17,5 | 11,9 |
| | No growth scenario | 25,6 | 21,7 | 29,7 | 25,3 | 26,0 | 19,8 | 13,2 | 18,6 | 12,2 |
| | EPS haircut scenario | 28,4 | 24,2 | 33,0 | 28,1 | 28,9 | 22,0 | 14,7 | 20,7 | 13,5 |

*Source: MSCI, IBES, ANIMA Research.* ***Mild disappointment****: consensus EPS growth reduced by 20%; for example, 20% growth becomes 16%;* ***Material disappointment****: consensus EPS growth halved; for example, 20% growth becomes 10%;* ***No growth scenario****: EPS unchanged year on year;* ***EPS haircut scenario****: 12-month EPS 10% below the current level.*

**Stronger growth therefore supports our valuation assessment while the stress tests identify where that support is more resilient**. We consider analysts' earnings expectations achievable, but our preferred exposures also retain some valuation room if delivery falls short. That cushion is not a guaranteed limit on price declines: higher real yields or wider credit spreads could reduce the multiples investors are willing to pay. Our constructive stance rests on achievable earnings, selective valuation support and broadly stable credit conditions.

**These findings reinforce our existing regional and sector preferences**. We favour exposures combining achievable earnings growth with valuation support, while retaining selected positions where identifiable investment catalysts justify higher multiples.

# Recommendations

## A. Regional Allocation

**Our regional recommendations are unchanged from last month**, although the balance of the underlying drivers has evolved (**Figure 14**).

**We maintain our LONG stance on the US**. The case is now less dependent on monetary-policy support and increasingly rests on earnings resilience. Q2 results were particularly strong, with 86% of S&P 500 companies beating expectations, while continued AI investment has supported further earnings upgrades. Conversely, stronger employment data and a higher-than-expected August core CPI have materially increased the probability of a September Fed hike. This is therefore no longer a lower-rates call: it reflects our view that superior earnings growth, sustained AI investment and greater energy independence should allow the US to outperform despite a less supportive discount-rate environment. Elevated valuations and softer consumer momentum nevertheless justify keeping the **OVERWEIGHT** moderate.

**We remain NEUTRAL on both Continental Europe and the UK**. The latest newsflow has reinforced rather than altered this position. The ECB has raised rates for the second time this year, while the energy shock has left the door open to further tightening as early as October. This combination of modest underlying growth, higher energy costs and a less accommodative policy outlook limits the relative appeal of European equities. UK activity has recently surprised positively, but higher inflation, elevated gilt yields and rising energy costs offset the improvement in growth.

**We maintain a NEUTRAL stance on Emerging Markets, with a positive bias**. Recent trade data confirm the divergence within the region. Chinese exports rose strongly in August, supported by high-tech and AI demand, but growth remains disproportionately dependent on external demand while domestic consumption, investment and the property market remain weak. By contrast, the AI cycle continues to provide exceptionally strong support to Korea and Taiwan: Korean exports rose for a fifteenth consecutive month, led by semiconductors, while Taiwanese shipments reached a record level. Persistent Chinese domestic weakness prevents us from adopting a broad LONG position.

**We remain SHORT Japan**. The likelihood of a faster BoJ tightening cycle has increased materially, with the market now expecting rates to rise to 1.25% in September and potentially reach 1.75% during 2027. Persistent producer-price pressures and the recent recovery in the yen strengthen the risk of a less favourable environment for exporters and foreign-currency earnings.

**Figure 14**

**Tactical Regional Recommendations - October 2026**

| LONG | NEUTRAL | SHORT |
|---|---|---|
| US | EM | Japan |
| | Continental Europe | |
| | UK | |

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

## B. Sector Allocation

**Our sector recommendations are unchanged from last month. We retain a mild cyclical tilt while remaining style-agnostic**. Resilient economic activity and continued investment spending support selective exposure to cyclical sectors, but renewed inflation pressures and the increased probability of further Fed tightening argue against a broad pro-cyclical position. We therefore favour sectors benefiting from identifiable investment cycles, pricing power and visible earnings catalysts rather than indiscriminate cyclical beta (**Figure 15).**

**We remain LONG Banks and Insurance**. The return of higher-rate expectations and elevated bond yields should support asset yields and reinvestment income, while continued economic resilience and active capital markets remain favourable for fee generation. Insurance combines defensive earnings characteristics with higher reinvestment yields and generally disciplined pricing.

**We remain LONG Capital Goods**. Recent durable-goods data and corporate guidance indicate that business investment is holding up better than household demand, while spending on electricity generation, grid capacity, defence, automation, data centres and reshoring remains strong. At the same time, strong demand for AI servers, networking and power infrastructure continues to support order books across the sector. The traditional manufacturing recovery remains less convincing, however, while higher financing and energy costs create risks for more cyclical machinery companies. **We therefore favour businesses with structural investment exposure, pricing power and strong order-to-earnings conversion**.

**We maintain our LONG stance on Energy**, primarily as protection against geopolitical disruption. Renewed attacks on Middle Eastern energy infrastructure recently pushed Brent towards $100 per barrel and highlighted the continued vulnerability of regional supply. Weak underlying demand in China and more cautious global oil-demand forecasts nevertheless argue against indiscriminate exposure across the sector.

**Food, Beverage & Tobacco and Pharmaceuticals remain our preferred defensive exposures**. Their relatively stable demand, strong cash generation and lower sensitivity to discretionary spending should become more valuable if higher energy prices and financing costs weigh on household consumption. Within Food, Beverage & Tobacco, we favour companies capable of protecting margins without relying on aggressive price increases. **In Pharmaceuticals, defensive cash flows remain attractive**, although pipeline execution, patent expiries and political pressure on drug pricing require stock-level selectivity.

**Within Growth, we remain LONG the AI-infrastructure complex through Semiconductors and Technology Hardware & Equipment ex-Apple**. The latest company newsflow continues to validate the strength and broadening of AI investment. Oracle added more than $30 billion of AI cloud contracts during the quarter, taking its backlog to $664 billion, while HPE raised its forecasts on strong demand for AI servers and networking equipment. Investment is extending beyond GPUs into memory, custom silicon, optical networking, servers, storage, power management and cooling. However, rising financing requirements, supply constraints, customer concentration and demanding valuations raise the burden of proof. We therefore favour companies with direct infrastructure exposure, visible backlogs and credible cash-flow conversion rather than indiscriminate AI beta. Excluding Apple also limits exposure to the weaker consumer-device cycle and to less visible near-term AI monetisation.

**We remain NEUTRAL on Software, with a negative bias**. Recent results suggest that AI can generate meaningful demand for selected cloud and data-platform providers, but the evidence remains highly company-specific. Monetisation across the broader sector is still uneven, while development costs, pressure on seat-based pricing and competition from AI-native products could constrain operating leverage. The renewed increase in discount rates also represents a headwind for long-duration valuations. Strong recurring revenues and cash generation argue against an outright SHORT.

**We remain NEUTRAL on Media & Entertainment**. Digital advertising and improving streaming economics remain supportive, but growth is increasingly concentrated among the largest platforms. Greater sensitivity to advertising budgets and consumer spending, together with higher yields and potential AI disruption to content creation, distribution and search traffic, limits the case for a broad LONG position. We therefore prefer selected digital platforms with strong first-party data and improving profitability over traditional media businesses.

Overall, the allocation continues to combine selective cyclical exposure through Financials, Capital Goods and Energy with structural Growth exposure through AI infrastructure and targeted defensive positions in Utilities, Pharmaceuticals and Food, Beverage & Tobacco. This leaves us agnostic on the broader Growth–Value trade while concentrating risk in sectors where earnings visibility can offset the less supportive rate environment.

**Figure 15**

**Tactical Sector Recommendations - October 2026**

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

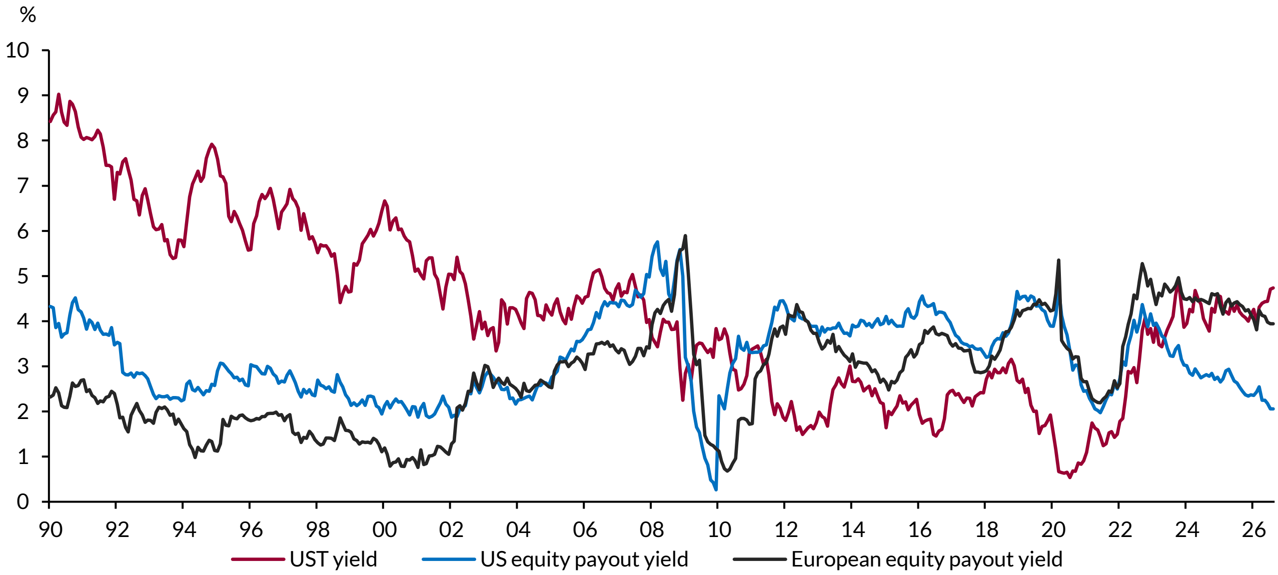
*Source: ANIMA Research. Markets in green have been upgraded, while those in red have been downgraded since the last Strategy Focus.*

# Strategically OVERWEIGHT

**Strategically, we maintain our rolling 12-month OVERWEIGHT stance on equities, although the hurdle rate for the asset class has risen materially**. With the 10-year Treasury yield close to 5%, government bonds now offer a higher yield than the combined dividend and net buyback yields of either the S&P 500 or the STOXX Europe 600. Although the comparison is not entirely like-for-like—the Treasury yield is contractual, while equity returns also benefit from retained earnings and future growth—it highlights the increased opportunity cost of holding equities (**Figure 16**).

**Figure 16**

**Government and equity yields**




*Source: Morgan Stanley, ANIMA Research. Payout yield = dividend yield + net buyback yield.*

**Equities must therefore deliver through earnings growth and effective capital returns rather than relying on yield scarcity or continued multiple expansion**. This higher burden of proof does not invalidate the equity case, but places greater importance on profitability, cash-flow conversion and capital allocation.

**The medium-term outlook remains supported by economic expansion, resilient corporate profitability and a sustained investment cycle**. Consumer momentum is moderating and financing conditions remain restrictive, but our base case does not anticipate a recession or material deterioration in corporate balance sheets.

As the rolling horizon increasingly captures 2027, we continue to forecast S&P 500 EPS growth of approximately 13% next year, slightly below the current consensus of around 14%. With US real GDP expected to grow by approximately 2.1%, our forecast assumes resilient nominal revenue growth, modest margin expansion, continued buybacks and an AI-related contribution **that is** not fully captured by traditional GDP-based models.

**Our OVERWEIGHT therefore depends increasingly on earnings delivery rather than valuation expansion**. If profits grow broadly in line with our forecast, equities should still generate positive returns, supplemented by dividends and buybacks. However, elevated yields are likely to constrain rerating, producing a more moderate and volatile return profile than during periods in which both earnings and multiples were rising.

**The principal strategic risks are a sharper slowdown in consumption, persistently higher bond yields, renewed geopolitical pressure on energy prices and evidence that AI investment is running ahead of monetisation**. A broad deterioration in earnings revisions, widening credit spreads or material reductions in AI-capex plans would weaken both our US preference and the wider equity case. By contrast, market weakness driven primarily by valuation compression or positioning—without a corresponding deterioration in earnings and credit conditions—would improve prospective returns.

**We therefore retain our OVERWEIGHT while recognising that the path is unlikely to be linear**. Meaningful pullbacks should continue to be viewed as opportunities to add exposure, provided that earnings revisions, credit conditions and the investment cycle remain intact.

# APPENDIX

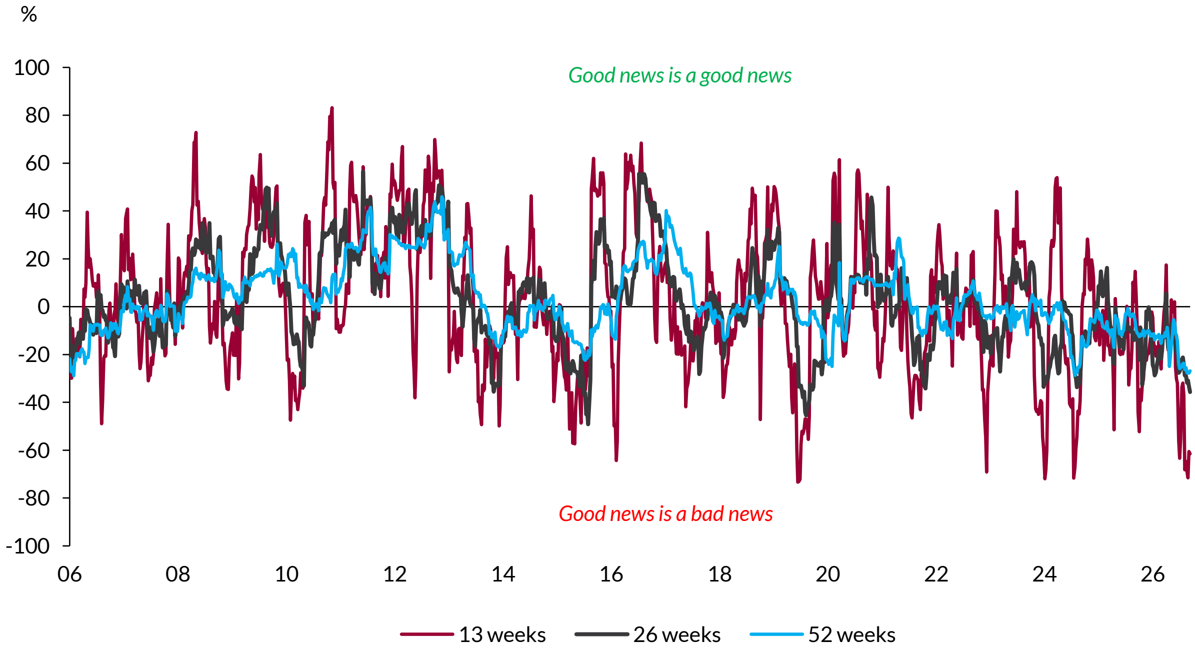
**Our CESI analysis is consistent with the shift to *good news, bad news* market behaviour**. Using weekly changes in the US Economic Surprise Index and S&P 500 returns, the latest rolling correlations are −0.62 over 13 weeks, −0.36 over 26 weeks and −0.27 over 52 weeks. The 52-week correlation has remained negative since 26 April 2024, indicating that improvements in economic surprises have tended to coincide with weaker equity returns (**Figure 1A**).

**The bond-market response helps explain the change**. We use a common recent sample of 12 September 2023–11 September 2026 for all conditional-return and sensitivity estimates, comparing it with the preceding historical sample. Over these three years, **the S&P 500 returned an average of −0.37% in weeks when CESI increased and Treasury yields rose, compared with +1.01% when CESI increased and yields fell**. In the earlier sample, the corresponding averages were +0.80% and −0.55%, respectively, with unchanged-yield weeks included in the latter category. Weeks with declining CESI also delivered positive average returns in the recent sample: +0.37% alongside rising yields and +0.56% alongside falling yields (**Figures 2A and 3A**).

**The evidence is particularly relevant when yields are already high**. Within the same three-year sample, when the starting 10-year Treasury yield was at or above 4%, weeks with rising CESI delivered an average S&P 500 return of −0.55% when yields rose and +0.88% when yields fell. The estimated sensitivity to a ten-point CESI increase was approximately −0.45% in this yield regime. Below 4%, the estimated sensitivity was positive, but only 17 weekly observations fall into that category. The comparison therefore provides limited evidence for a precise threshold; the stronger finding concerns the direction of yields (**Figure 4A**).

**Figure 1A**

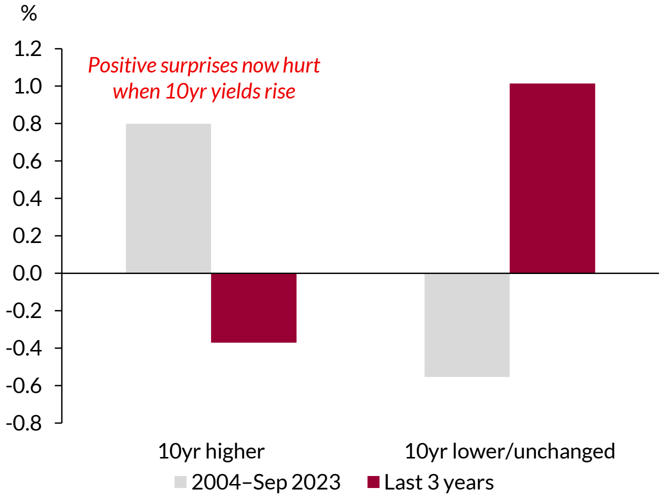
**Correlation: US CESI and S&P 500**




*Source: Bloomberg, ANIMA Research. Data are as of 18 September 2026.*

**Figure 2A**

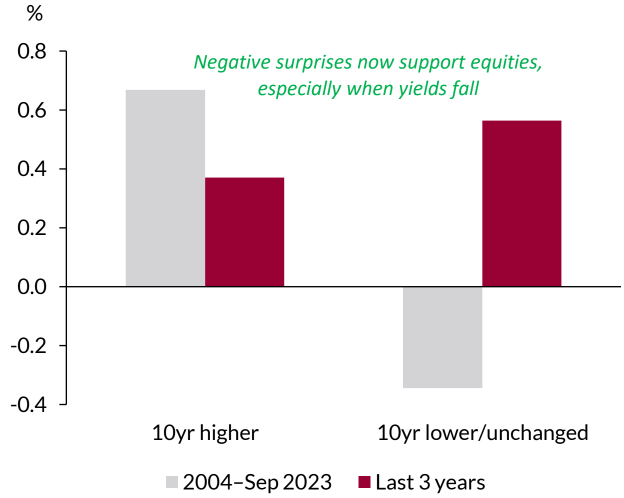
## Average performance with rising US CESI




*Source: Bloomberg, ANIMA Research. Prices are as of 18 September 2026.*

**Figure 3A**

## Average performance with slowing US CESI




*Source: Bloomberg, ANIMA Research. Prices are as of 18 September 2026.*

**Figure 4A**

## Market response to economic surprises by starting 10-year yield regime

| Starting 10Y | S&P sensitivity to a +10-point CESI change | CESI rises / 10yr rises | CESI rises / 10yr falls | CESI falls / 10yr rises | CESI falls / 10yr falls |
|---|---|---|---|---|---|
| Below 4% | 0,61% | 0,61% | 2,20% | -0,82% | 0,32% |
| At or above 4% | -0,45% | -0,55% | 0,88% | 0,49% | 0,59% |

*Source: Bloomberg, ANIMA Research. Data sample includes the last 3 years of weekly data.*

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