

Equity Strategy

Tireless Bull: toward new highs in 2026

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***We turn tactical LONG** (previously NEUTRAL). The market has digested the weaker-than-expected US labour data, as well as notable style rotations. Growth stocks lagged behind Value stocks, and Mega Caps underperformed SMID Caps. However, the headline index remained stable. This resilience, combined with valuation normalisation, especially in the IT sector, and favourable seasonality, suggests a more constructive stance for the asset class heading into Q4.*

***From a regional perspective, we upgrade the US to LONG** (previously NEUTRAL). We remain LONG on Japan, stay NEUTRAL on Europe and EM, and maintain a SHORT position in the UK.*

***From a sector standpoint, we recommend increasing exposure to cyclical AI-related sectors** (previously, we took a barbell approach to market beta). 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 reach new highs in Q4 and accelerate in 2026, driven mostly by high single-digit EPS growth. Already rich valuations limit 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 cuts by the end of 2025 and a further three cuts in 2026. Historically, when the Fed holds rates for at least six months and then cuts, 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 investments and corporate profitability.
- 3) **Earnings:** we project global EPS to increase by 8% in 2026, compared to the consensus forecast of 12% growth. We anticipate further analyst downgrades ahead, which could lead to volatility in equities; however, this is unlikely to derail the stock market's upward trajectory.
- 4) **Valuation:** the global stock market is flirting with bubble territory. Our composite valuation indicator shows equities are nearly two standard deviations more expensive than their 10-year average. That said, high valuations do not necessarily imply negative returns over the following 12 months.

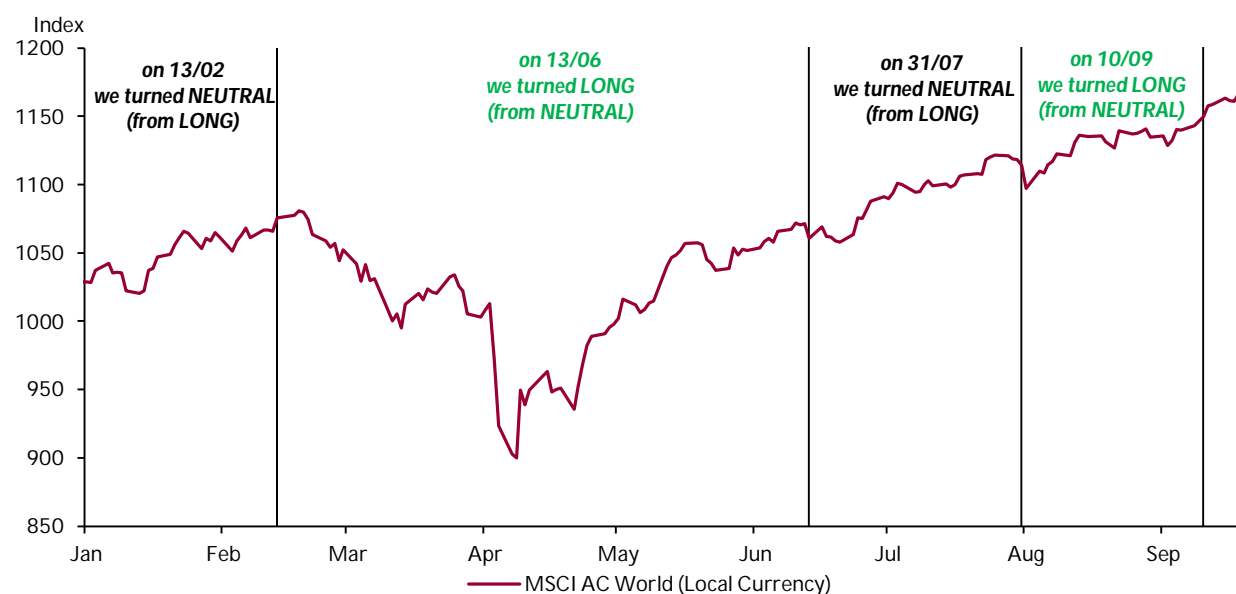
***Regionally, we prefer the US and EM due to their predominance in the AI space and idiosyncratic catalysts** such as monetary and fiscal easing in the US, an expected weaker USD, and light positioning within EM. Sector-wise, we favour Cyclical over Defensives, with a bias towards growth-oriented names.*

Tactically LONG

We turn tactical LONG (previously NEUTRAL, see **Figure 1**). The market has digested the weaker-than-expected US labour data, as well as notable style rotations. Growth stocks lagged behind Value stocks, and Mega Caps underperformed SMID Caps. However, the headline index remained stable. This resilience, combined with valuation normalisation, especially in the IT sector, and favourable seasonality, suggests a more constructive stance for the asset class heading into Q4.

Figure 1

MSCI AC World and Equity Strategy's Positioning

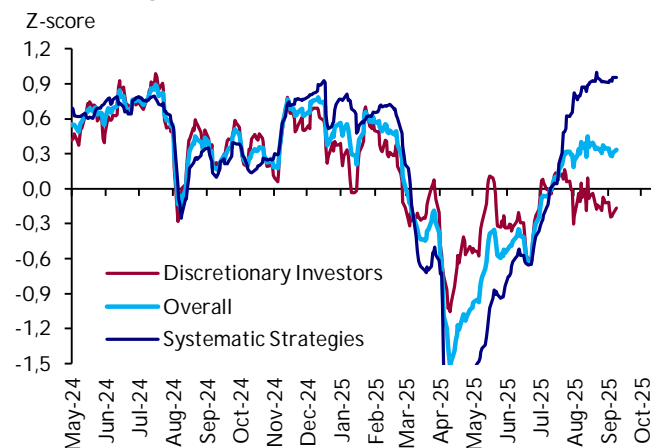


Source: MSCI, ANIMA Research. Note: Prices as of 19th September.

Although the market rallied more than 25% from April's low, positioning is still not stretched, especially among the Discretionary Investors (**Figure 2**). Their participation is expected to rise along with EPS growth (**Figure 3**).

Figure 2

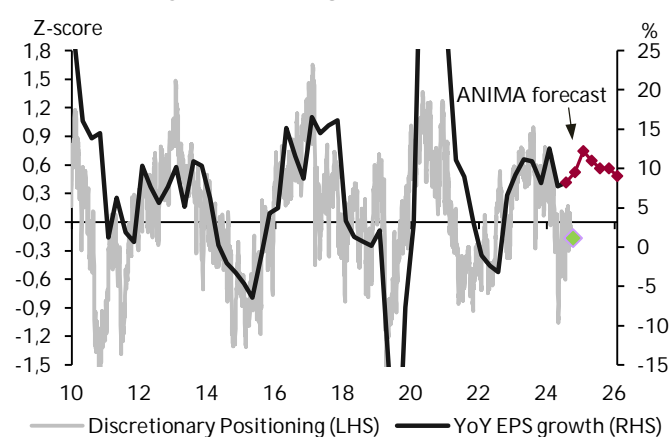
Positioning in the US



Source: MSCI, ANIMA Research. Note: Prices as of 7th September 2025.

Figure 3

Discretionary Positioning and EPS Growth



Source: DB, ANIMA Research. Note: Excluding the impact of corporate tax cuts on earnings growth in 2018.

From a regional perspective, we upgrade the US to **LONG** (previously NEUTRAL). We remain LONG on Japan, stay NEUTRAL on Europe and EM, and maintain a SHORT position in the UK (**Figure 4**).

Figure 4

Tactical Regional Recommendations - October 2025

Regional Allocation		
Overweight	Neutral	Underweight
Japan	Continental Europe	UK
US	EM	

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

From a sector standpoint, we recommend increasing exposure to cyclical **AI-related sectors** (whereas previously we employed a barbell approach to market beta). Pharma remains our favourite defensive sector (**Figure 5**).

Figure 5

Tactical Sector Recommendations - October 2025

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

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

Strategically OVERWEIGHT

We expect global equities to rise in 2026, with the global benchmark reaching 1200 by year-end and climbing to 1300 in 2026 (Figure 6), driven mostly by high single-digit EPS growth. Already rich valuations limit gains from multiple expansion, which was the main driver of last year's rebound (Figure 7).

Figure 6

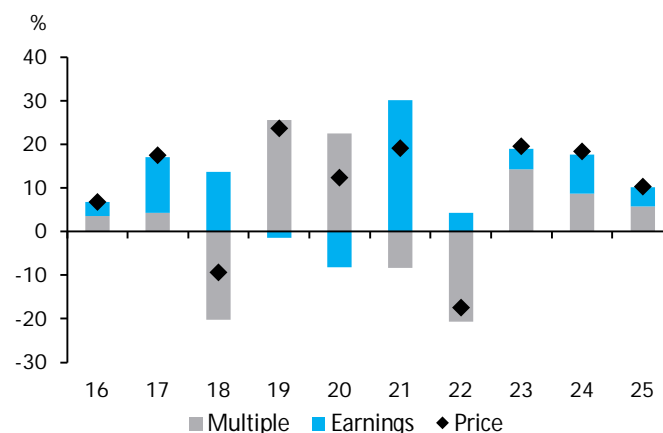
MSCI AC World – Price in local currency



Source: MSCI, ANIMA Research. Note: Prices as of 19th September 2025.

Figure 7

MSCI AC World – Performance Breakdown



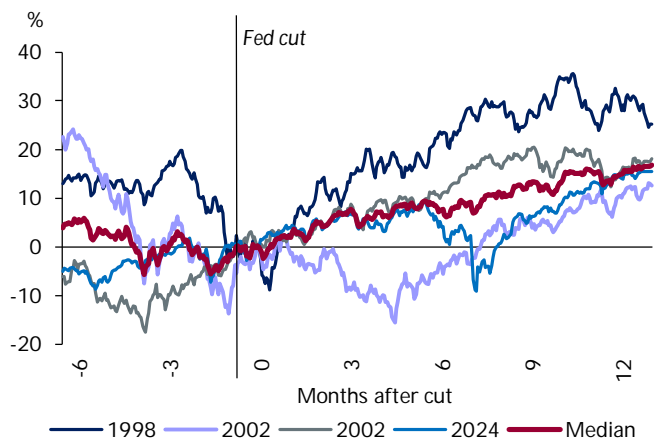
Source: MSCI, ANIMA Research. Note: Prices as of 31st August 2025.

Key themes in 2026:

- 1) **Monetary Policy:** we expect two Fed cuts by the end of 2025 and a further three cuts in 2026. Historically, when the Fed holds rates for at least six months and then cuts, equities tend to perform well in the following year (with a median gain of around 16%) provided there is no recession (Figure 8 and Figure 9).

Figure 8

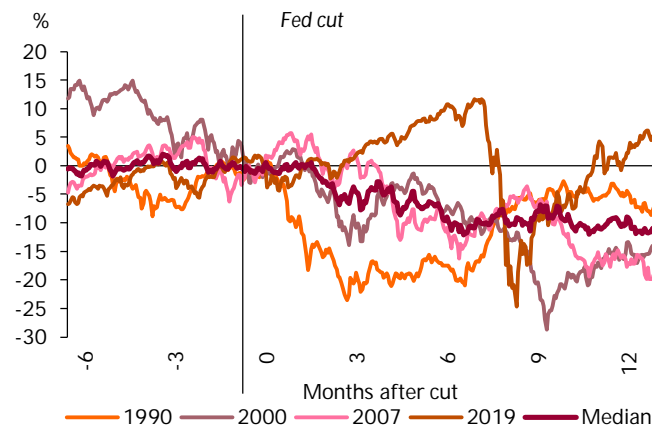
Equities after the first Fed's cut - No Recession



Source: MSCI, ANIMA Research.

Figure 9

Equities after the first Fed's cut – Recession

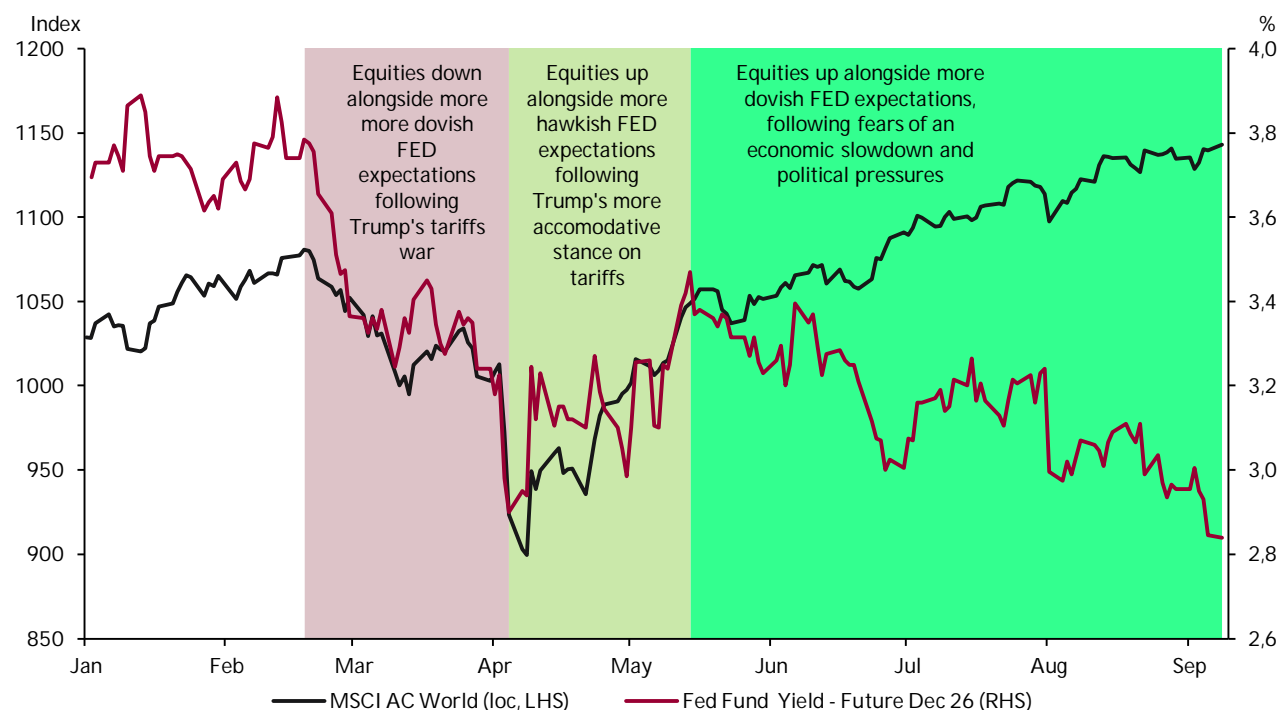


Source: MSCI, ANIMA Research.

Risk: The rates market is pricing in six cuts by 2026, which is more dovish than our view. If inflation remains sticky or the economy flirts with recession, a repricing could lead to a sharper and deeper-than-usual stock correction, as happened ahead of Liberation Day (**Figure 10**).

Figure 10

MSCI AC World and Fed Fund Future Dec 26



Source: Bloomberg, ANIMA Research. Prices as of 7th September 2025.

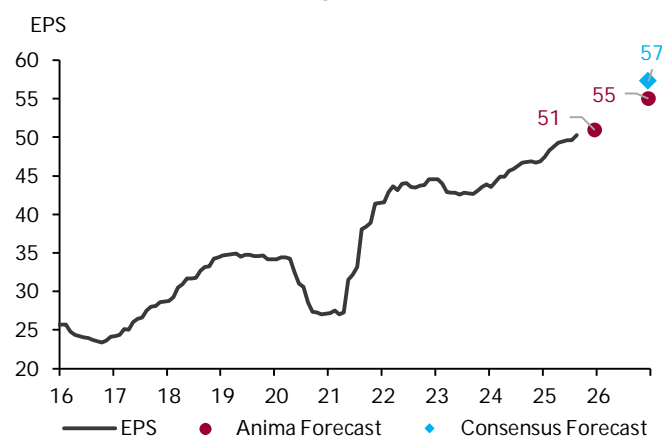
- 2) **Fiscal Policy:** it is expected to be expansionary on both sides of the Atlantic, supporting CAPEX investments and corporate profitability. Especially in the US, the One Big Beautiful Bill Act (OBBBA) introduces four landmark provisions aimed at reducing the cost of capital, accelerating investment, and enhancing the competitiveness of US-based multinationals. **Together, these measures are expected to lift after-tax corporate cash flows and support reinvestment in innovation and infrastructure.** According to estimates, the OBBBA could deliver an aggregate free cash flow (FCF) uplift of nearly \$160 bn and \$190 bn across the S&P 500 in 2025 and 2026, equivalent to a boost of more than 9% in annual FCF (**Figure 11**; please refer to our report **Equity Strategy - Decoding the Big Beautiful Big Act Impact** for further details).

Figure 11**One Big Beautiful Bill Act: Corporate Measures – Impact and Timing**

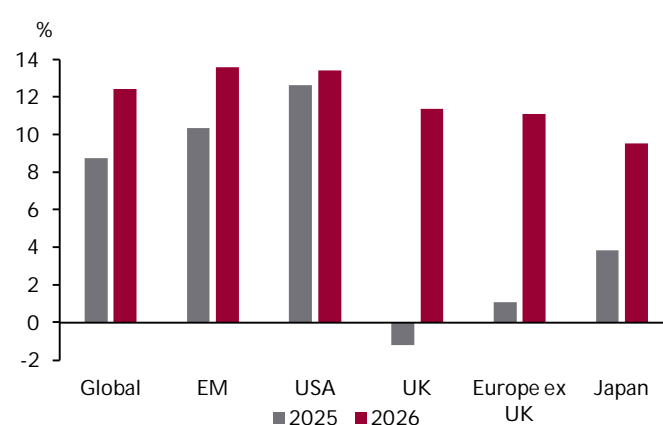
Measure	Impact	Timing
Immediate R&D Expensing	Large FCF uplift in 2025–26 due to retroactive expensing. Structural benefit for R&D-intensive firms going forward.	Starts 2025, with catch-up for 2022–2024
100% Bonus Depreciation	Multi-year boost to tax deductions through 2029. Improves cash flow and CapEx	Starts 2025 (no retroactivity), fades post-2029
Expanded FDDEI (replaces FDII)	Expands eligibility for the reduced 14% tax rate on export income by removing prior R&D and asset hurdles. Slight rate increase offset by broader base. Boosts both FCF and GAAP earnings.	Effective 2026, permanent
EBITDA-based Interest Deductibility	Modest benefit for large cap companies. It helps smaller/highly-leveraged firms reduce taxable income.	Starts 2025, permanent

Source: The White House Official Website, ANIMA Research.

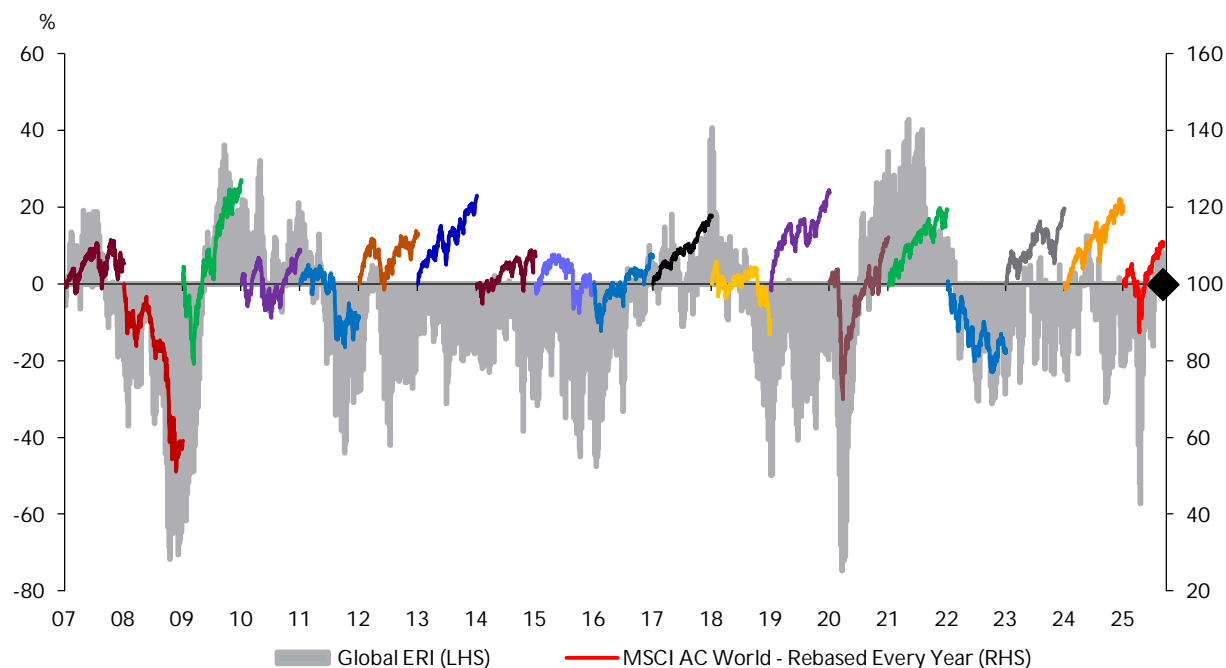
- 3) **Earnings:** we project global EPS to increase by 8% in 2026, compared to the consensus forecast of 12% growth (Figure 12 and Figure 13). We anticipate further analyst downgrades ahead, which could lead to volatility in equities; however, this is unlikely to derail the stock market's upward trajectory. Historically, stock prices have risen even when earnings estimates have been revised downward (Figure 14).

Figure 12**MSCI AC World – Trailing EPS and Forecasts**

Source: MSCI, Factset Consensus, ANIMA Research.

Figure 13**Consensus EPS Growth Rate Forecasts**

Source: Factset Consensus, ANIMA Research.

Figure 14**Global Earning Revision Index and MSCI AC World**

Source: Citi, Factset Consensus, ANIMA Research.

Risk: Our EPS projections could be overly optimistic if the US economy slows down rather than accelerates in 2026, potentially resulting in an earnings contraction should a recession occur; however, this is not our base case. Additionally, stricter tariffs and rising geopolitical tensions may place further downward pressure on earnings growth.

- 4) **Valuation: the global stock market is flirting with bubble territory.** Our composite valuation indicator shows equities are nearly two standard deviations more expensive than their 10-year average (Figure 15). That said, high valuations do not necessarily imply negative returns over the following 12 months; in 11 of the last 15 cases where our indicator exceeded 1.8, the MSCI AC World rose over the next 12 months (Figure 16). Valuations are especially elevated in the US and Japan, while Europe and emerging markets (EM) are only slightly above their 10-year averages (Figure 17). Most major valuation metrics - Price to Book, Equity Risk Premium, and Cyclically Adjusted P/E - are in bubble territory across most regions. The US stands out as the only region that is very expensive on FCF yield, while Europe appears fairly valued and Japan and EM remain historically cheap (Figure 18).

Figure 15

MSCI AC World – Composite Valuation

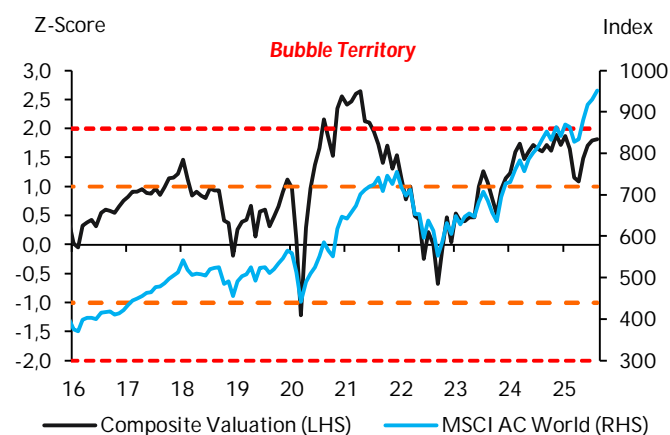


Figure 16

MSCI AC World – Valuation and fwd Performance

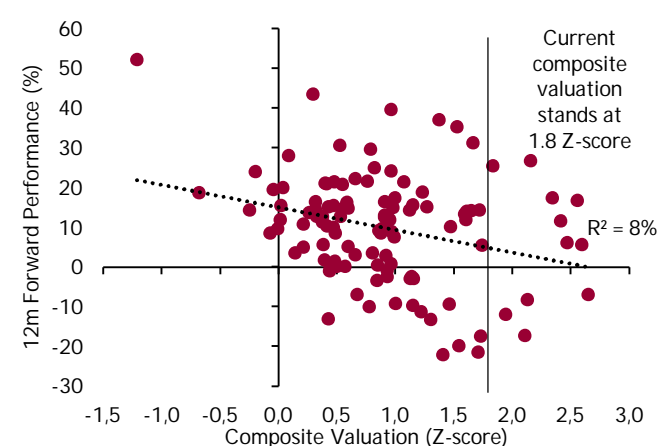


Figure 17

Composite Valuation across the main regions

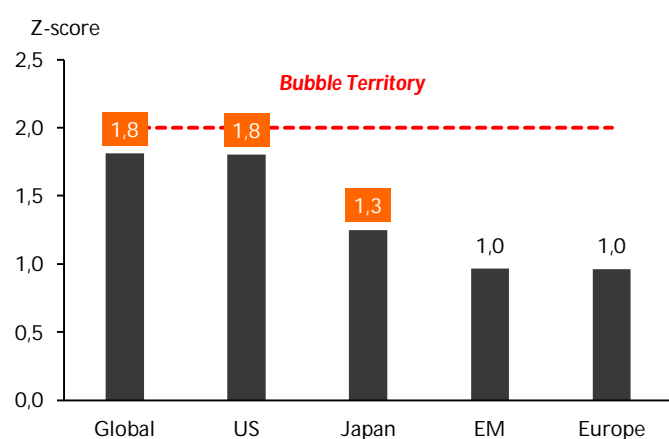
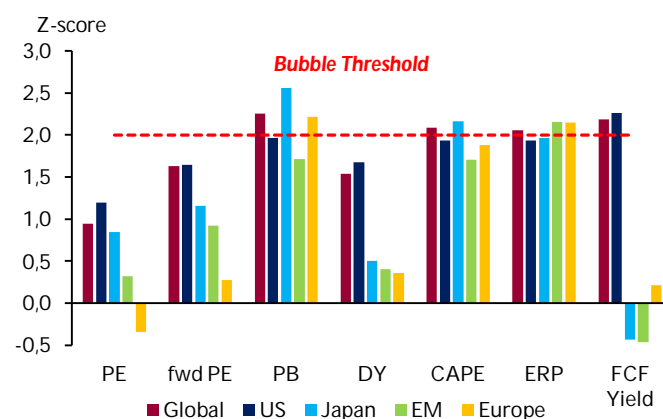


Figure 18

Valuations across the main regions



A. Regional Allocation in 2026

We prefer the US and EM over the Rest of the World while we stay **NEUTRAL** on Continental Europe. We **UNDERWEIGHT** Japan and the UK (Figure 19).

Figure 19

Strategic Regional Recommendations for 2026

Regional Allocation		
Overweight	Neutral	Underweight
US	Continental Europe	UK
EM		Japan

Source: ANIMA Research.

We OVERWEIGHT the US for its dominance in the AI space (**Figure 20**) and the support provided by fiscal and monetary policies. While current valuations could limit further multiple expansion, single-digit earnings growth may continue to support stock prices.

We OVERWEIGHT Emerging Markets, particularly EM Asia, due to their significant exposure to AI sectors (**Figure 20**), improving profitability (**Figure 21**), strong deleveraging, ongoing support from a weakening USD, and relatively light investor positioning. In fact, domestic investors remain cautious about increasing allocations to domestic equities, while the rotation from bonds to stocks is still underway, and margin financing levels currently stand at approximately half of those seen in 2015/16. Potential headwinds arise from the poor track record in corporate governance, market efficiency, and valuations. Although EM is the cheapest region across the board, it is expensive compared to its own historical levels

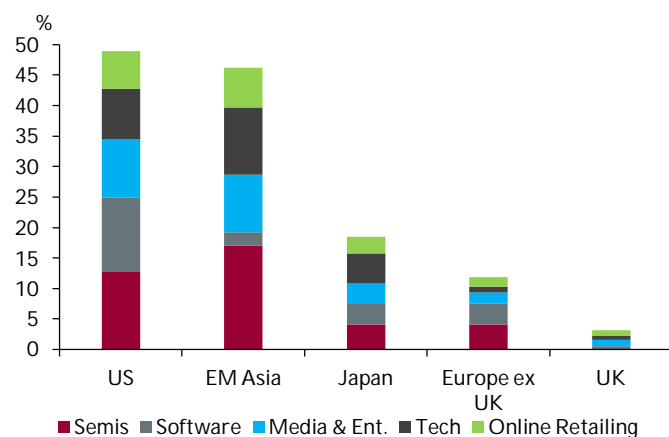
We stay NEUTRAL on Europe, viewing it as a tactical trade instead of a strategic opportunity. From a market-cap perspective, the exposure to the AI sector is very limited. Additionally, political developments in France have regained the attention of investors.

We UNDERWEIGHT Japan. This is not an outright rejection; we simply see stronger opportunities elsewhere. We expect that the ongoing weakness is the USD may eventually weigh on local equities.

We UNDERWEIGHT the UK on the back of its defensive tilt and strong correlation with the greenback.

Figure 20

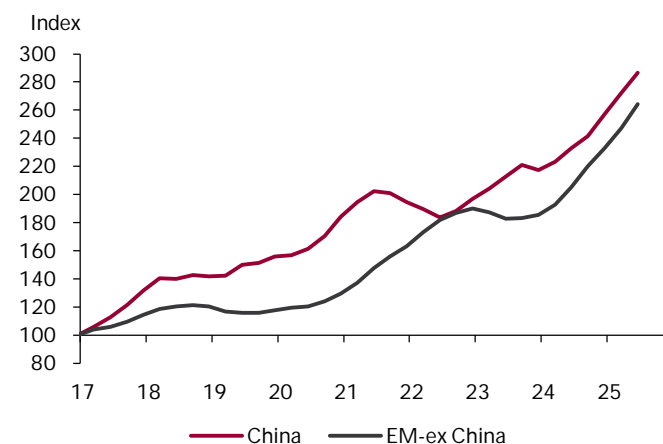
Listed AI players' market cap weights



Source: MSCI, ANIMA Research.

Figure 21

Operating Profit China vs EM ex China



Source: MSCI, ANIMA Research.

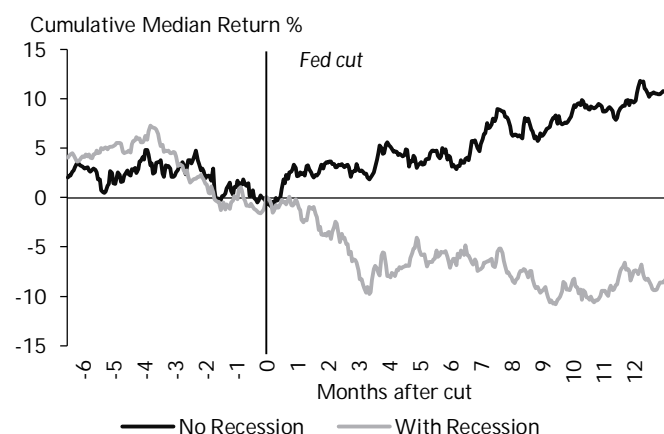
B. Sector Allocation in 2026

We prefer Cyclical over Defensives (**Figure 22**). They are expected to benefit the most from the Fed's easing stance (**Figure 23**) and from the expected steepening of the yield curve. **Among Cyclical, we favour Growth sectors** (**Figure 24**), especially those more closely linked to the AI theme. **Within Value, Financials remain attractive** due to their sensitivity to curve steepening (**Figure 25** and **Figure 26**), while we UNDERWEIGHT Energy as oil and gas prices are expected to decline.

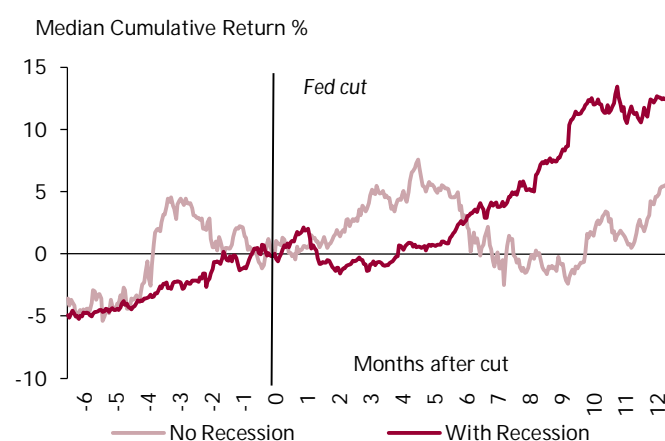
Figure 22**Strategic Sector Recommendations for 2026**

Sector Allocation		
Overweight	Neutral	Underweight
Financials	Consumer Discretionary	Consumer Staples
IT	Materials	Utilities
Media & Entertainment	Telecoms	Energy
Health Care	Industrials	Real Estate

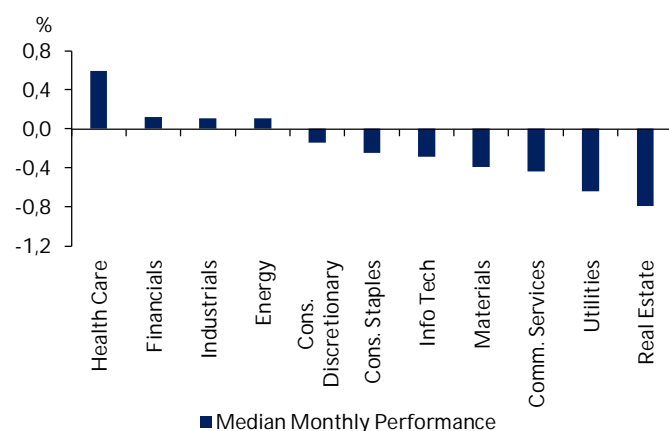
Source: ANIMA Research.

Figure 23**Cyclicals relative to Defensive after the first Fed cut**

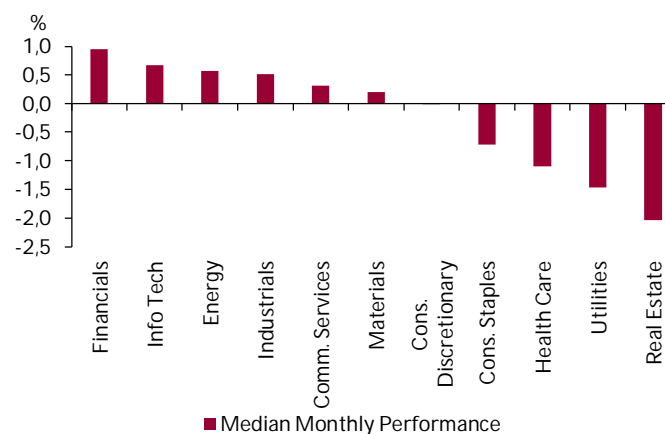
Source: MSCI, ANIMA Research. Note: since 1990.

Figure 24**Growth relative to Value after the first Fed cut**

Source: MSCI, ANIMA Research. Note: since 1990.

Figure 25**US Sectors rel. to S&P 500 with Bull Steepening**

Source: GS, ANIMA Research. Note: since 1990.

Figure 26**US Sectors rel. to S&P 500 with Bear Steepening**

Source: GS, ANIMA Research. Note: since 1990.

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