Equity Strategy

LONG AGAIN

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We upgrade our tactical stance to LONG *(from NEUTRAL). Global equities have broken above their previous range, while resilient Q2 results have improved the near-term risk-reward. Our LONG stance remains moderate, given elevated valuations and a demanding earnings backdrop.*

September seasonality remains a risk, but not a sufficiently strong reason to stay NEUTRAL. *The month has historically delivered weaker returns and higher volatility, but seasonal patterns have become less reliable. We see this as a reason to avoid chasing the market rather than as a standalone negative signal.*

Regionally, we upgrade the US to LONG *(from NEUTRAL)* ***and move Europe to NEUTRAL*** *(from LONG). The US offers the strongest earnings visibility, while lower Fed-hike expectations and greater energy independence provide additional support. European earnings remain solid, but Energy accounts for around 28% of expected 2026 EPS growth, while higher oil prices represent a headwind for the broader economy. We remain NEUTRAL on EM. We maintain our SHORT stance on Japan, given the risks from BoJ tightening, higher yields, and potential yen appreciation.*

From a sector perspective, we move from NEUTRAL to a mild cyclical tilt while remaining style-agnostic*. We upgrade Capital Goods to LONG (from NEUTRAL), supported by improving manufacturing activity and sustained investment in power generation, defence, and industrial capacity. We also upgrade Energy to LONG (from NEUTRAL) as a hedge against renewed geopolitical and oil-price risks. We cut Consumer Durables & Apparel to SHORT (from LONG) as US and Chinese consumer data soften. We upgrade Utilities to LONG (from SHORT) following recent underperformance and supported by structural electricity demand from data centres.*

Within Growth, we upgrade Semiconductors and Technology Hardware & Equipment ex-Apple to LONG*, both previously NEUTRAL. AI investment remains strong and is broadening beyond GPUs, benefiting memory, optical networking, servers, and cooling infrastructure. Software remains NEUTRAL with a negative bias, and we downgrade Media & Entertainment to NEUTRAL (from LONG).*

The near-term outlook remains far from one-sided*. Further consumer weakness, higher oil prices, or a renewed increase in Fed-hike expectations could generate volatility. We would reassess the tactical LONG stance if earnings revisions or market breadth deteriorated materially.*

Strategically, we maintain our rolling 12-month OVERWEIGHT stance on equities*. Resilient growth, strong corporate profitability, and continued AI investment support the medium-term outlook****. With US real GDP expected to grow by around 2.1% in 2027, we forecast S&P 500 EPS growth of approximately 13% next year****, slightly below current consensus. This reflects solid revenue growth, modest margin expansion, share buybacks, and an AI-driven earnings contribution beyond that implied by traditional macroeconomic relationships.*

We expect returns to become increasingly earnings-driven*, while broader participation should create opportunities beyond mega-cap Technology. We would continue to view meaningful market weakness as a buying opportunity.*

Tactically LONG

We turn tactically LONG (from NEUTRAL). **The change reflects a combination of stronger price action and resilient earnings**. After trading within a narrow range since mid-May, global equities broke to fresh highs (**Figure 1**), while Q2 results confirmed that the advance remains supported by fundamentals (**Figure 2, 3, 4, and 5**).

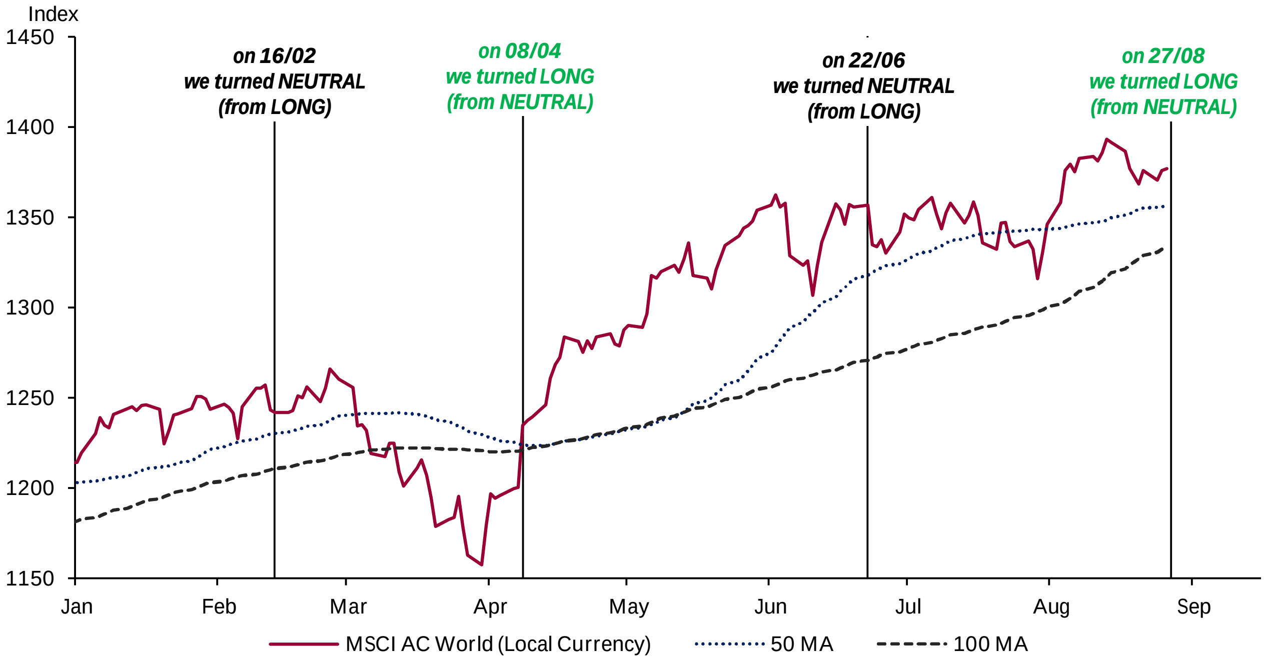
The upgrade is not a full risk-on call. Valuations remain elevated despite the recent de-rating, expectations are demanding, and earnings reactions continue to show considerable stock-level dispersion. Softer consumer data, higher oil prices, and elevated long-term yields also constrain the near-term upside.

September seasonality remains a risk, but not a sufficient reason to stay NEUTRAL. The month has historically produced below-average returns and higher volatility across major equity markets (**Figure 6**), often attributed to post-summer rebalancing, profit-taking, and a fuller macroeconomic and policy calendar. However, the pattern is far from deterministic: global equities advanced in both September 2024 and September 2025 (**Figure 7**), highlighting the limited value of seasonality as a standalone signal.

We therefore place greater weight on earnings revisions, market breadth, and the recent breakout. **We express the LONG stance with moderate conviction, implementing it gradually and adding on weakness provided fundamentals and breadth remain intact.** A material deterioration in either would lead us to reassess the position.

Figure 1

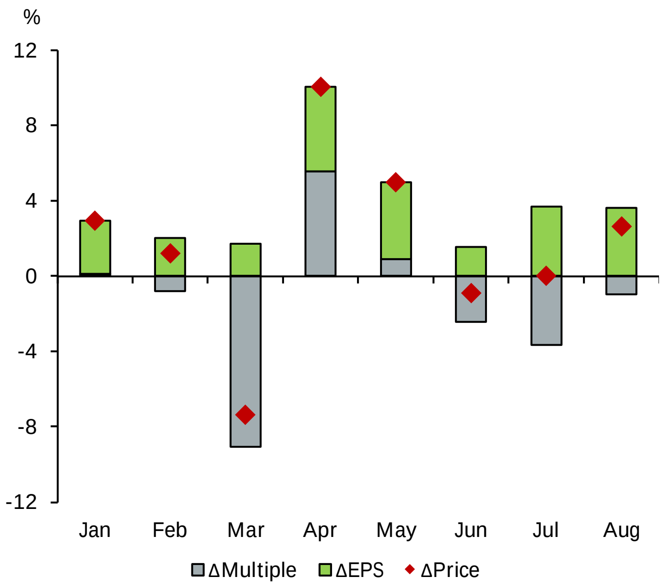
MSCI AC World and Equity Strategy Positioning in 2026



Source: MSCI, ANIMA Research. Prices are as of 26 August 2026.

Figure 2

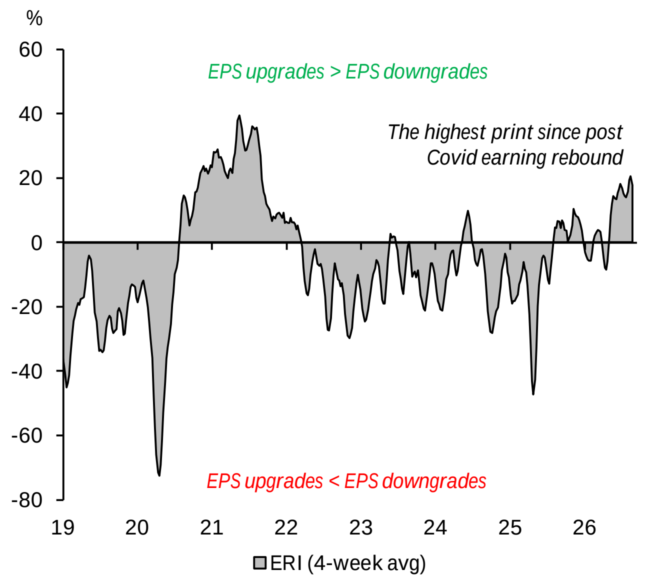
MSCI AC World – Performance Breakdown



Source: MSCI, ANIMA Research. Prices are as of 26 August 2026.

Figure 3

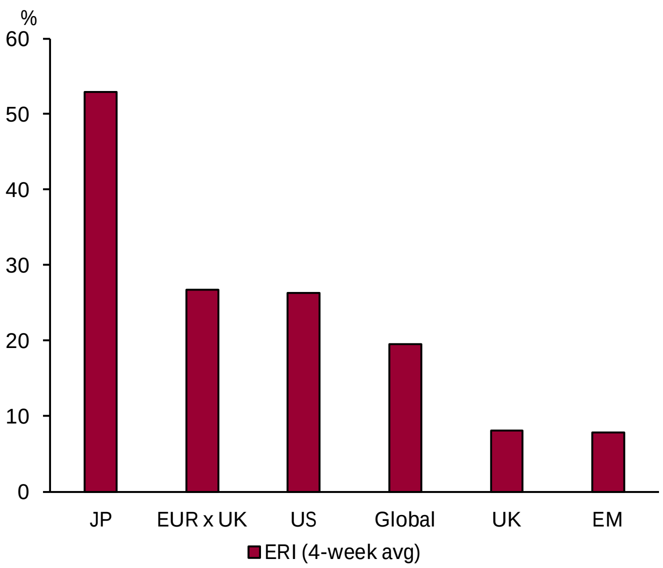
Global Earning Revision Index (ERI)



Source: Citi, Research. Data are as of 26 August 2026.

Figure 4

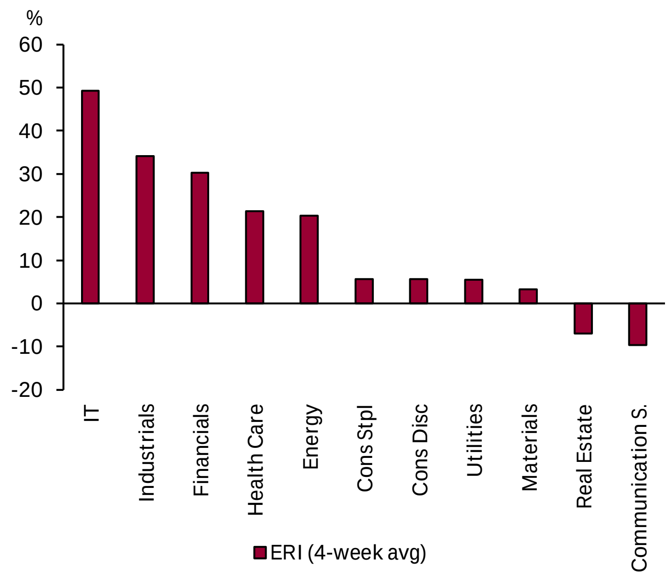
ERI across regions



Source: Citi, ANIMA Research. Data are as of 26 August 2026.

Figure 5

ERI across sectors



Source: Citi, ANIMA Research. Data are as of 26 August 2026.

Figure 6

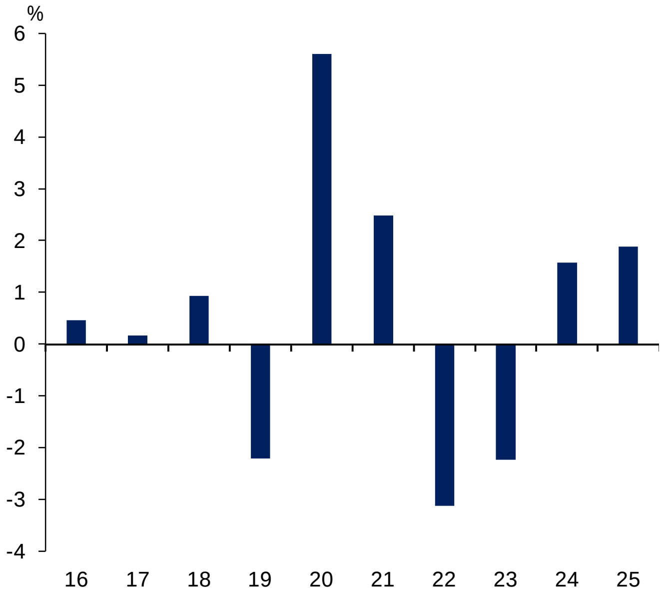
Seasonality

	Average Monthly Performance (%, since 1987)					Hit Ratio
	Global	US	Europe	Japan	EM	Global
January	0,7	0,8	0,7	0,2	1,4	57
February	0,3	0,1	0,8	0,2	1,2	51
March	0,5	0,8	0,4	0,4	0,8	65
April	1,7	1,6	1,8	1,7	2,5	78
May	0,6	1,2	0,1	0,2	-0,1	62
June	-0,2	0,2	-0,7	0,0	-0,3	51
July	1,4	1,6	1,2	0,2	1,3	68
August	-0,8	-0,6	-0,9	-1,3	-1,6	57
September	-1,0	-0,7	-1,4	-0,9	-0,6	51
October	1,2	1,4	1,1	0,0	0,5	65
November	1,7	2,2	1,5	1,0	0,8	73
December	1,6	1,3	1,8	1,4	3,2	76
Average	0,6	0,8	0,6	0,3	0,8	63

Source: Citi, ANIMA Research.

Figure 7

September equity performance over the last 10Y



Source: MSCI, ANIMA Research.

Recommendations

A. Regional Allocation

Regionally, we upgrade the US to LONG (from NEUTRAL, **Figure 8**). The US continues to offer the strongest earnings visibility (**Figure 9)**, supported by resilient margins and sustained AI-related investment. Q2 results also confirmed that earnings momentum is broadening beyond mega-cap Technology, strengthening the case for greater participation across Financials, Industrials, and selected defensives. The decline in near-term Fed-hike expectations provides additional support, while greater energy independence makes the US relatively less vulnerable than other developed markets to higher oil prices. Elevated valuations and weaker consumer data remain constraints, but **the relative risk-reward has improved sufficiently to justify a moderate overweight**.

We move both Continental Europe and UK to NEUTRAL (from LONG). This is not a negative call on European fundamentals: results remain solid and valuations are still less demanding than in the US. However, the composition of earnings growth has become less favourable. Energy accounts for around 28% of expected 2026 EPS growth (**Figure 10**), meaning that the aggregate figure overstates the breadth of the earnings recovery. Higher oil prices support Energy producers but represent a headwind for household purchasing power, industrial margins, and the wider economy. Europe's lower exposure to the AI-investment cycle may also limit its relative upside while US earnings momentum remains stronger. We continue to see opportunities in Banks, Capital Goods, and Energy, but prefer to express them at the sector rather than index level.

We remain NEUTRAL on Emerging Markets, with a positive bias. Lower Fed-hike expectations and a potentially less restrictive dollar backdrop are supportive, while Korea and Taiwan provide attractive exposure to memory, foundries, optical components, and the broader AI-infrastructure cycle. However, **softer domestic demand and continued weakness in Greater China prevent us from adopting a broader LONG position**. We therefore favour a selective country approach, with a clear preference for Korea and Taiwan over the wider EM benchmark (**Figure 11**).

We maintain our SHORT stance on Japan. Improving corporate governance and solid nominal earnings remain supportive structural factors, but the near-term policy and currency backdrop is less favourable. Further BoJ tightening and higher domestic yields could place upward pressure on the yen, creating a headwind for exporters and foreign-currency earnings. Financials should benefit from higher rates, but we do not expect this to offset the broader sensitivity of the market to yen appreciation (**Figure 12**). Japan therefore continues to offer the least attractive relative risk-reward among the major regions.

Figure 8

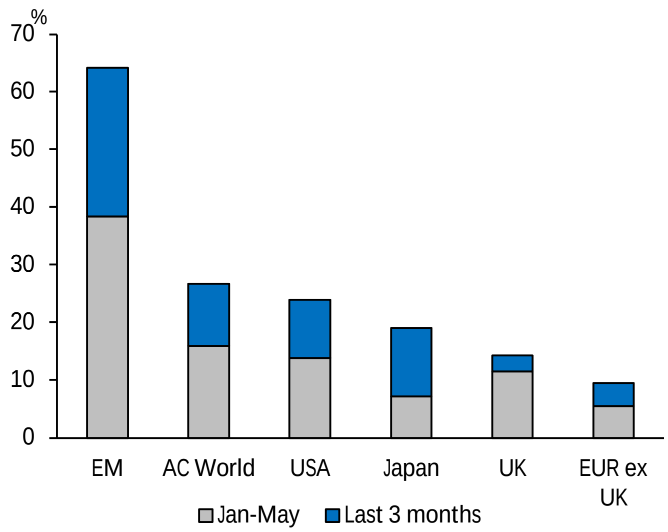
Tactical Regional Recommendations - September 2026

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.

Figure 9

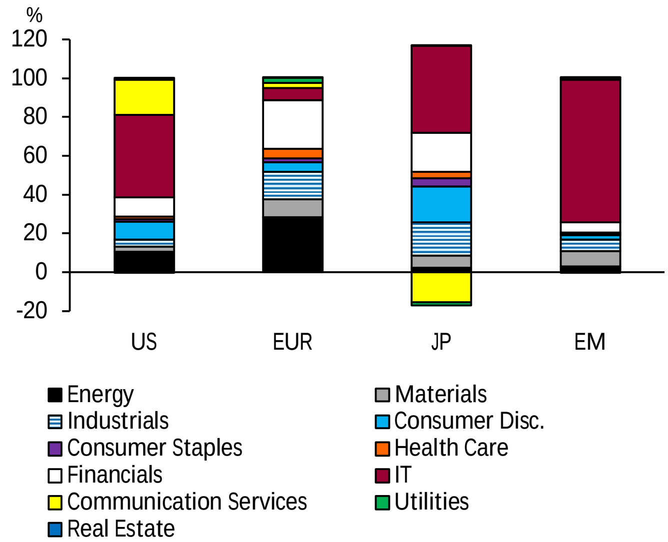
Forward EPS momentum in 2026



Source: MSCI, ANIMA Research. Data are as of 26 August 2026.

Figure 10

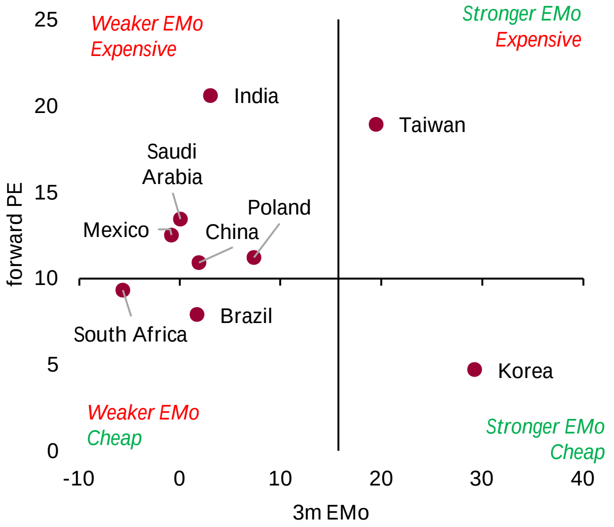
Sectors' share of 2026 total earnings growth



Source: MSCI, ANIMA Research. Data are as of 26 August 2026.

Figure 11

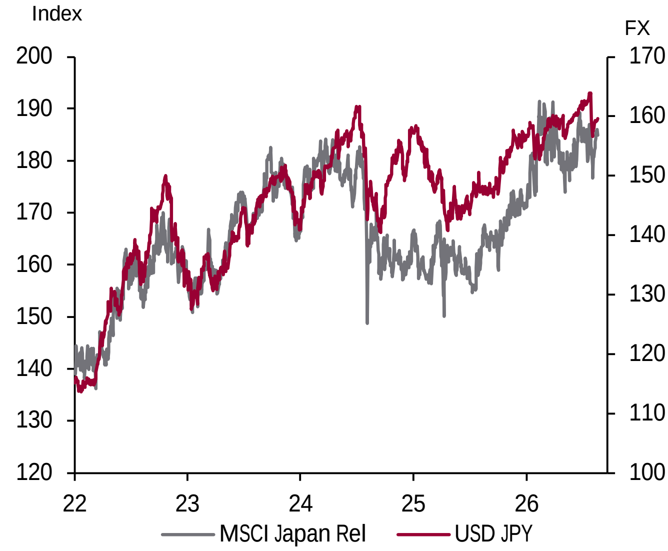
EM countries: Valuation and EPS Momentum



Source: MSCI, ANIMA Research. Prices are as of 26 August 2026.

Figure 12

Japan Performance and Yen



Source: MSCI, ANIMA Research. Prices are as of 26 August 2026.

B. Sector Allocation

From a sector perspective, we move from NEUTRAL to a mild cyclical tilt while remaining style-agnostic. The improvement in market participation, firmer manufacturing activity, and continued strength in investment spending support selective exposure to economically sensitive sectors. However, this is not a broad pro-cyclical call: consumer momentum is softening, financing conditions remain restrictive, and valuations already discount a meaningful improvement in several areas. **We therefore favour sectors benefiting from identifiable investment cycles and earnings catalysts rather than indiscriminate cyclical beta (Figures 13 and 14)**.

We remain LONG Banks and Insurance. Banks should benefit from broader equity-market participation, resilient credit demand, and a more supportive yield-curve backdrop, while credit quality remains manageable. Insurance continues to offer defensive earnings characteristics alongside support from higher reinvestment yields and disciplined pricing. The principal risks are a sharper deterioration in economic activity and a faster-than-expected increase in credit costs, but current earnings visibility remains sufficiently strong to retain both positions.

We upgrade Capital Goods to LONG (from NEUTRAL). The sector is exposed to several durable investment themes, including electricity generation and grid expansion, defence, automation, data-centre construction, and the reshoring of industrial capacity. An improvement in manufacturing activity would provide an additional cyclical tailwind, particularly for more economically sensitive machinery companies. However, valuations have already rerated in parts of the sector, especially among electrical-equipment and data-centre beneficiaries. We therefore favour companies with strong order books, pricing power, and visible earnings conversion over those whose valuations depend on a rapid industrial recovery.

We also upgrade Energy to LONG (from NEUTRAL), **primarily as a hedge against renewed geopolitical disruption and higher oil prices** rather than as a broad commodity-cycle call. Supply risks remain elevated, while disciplined industry investment and capital returns should help support sector cash flows. Energy also provides useful portfolio diversification: the sector would likely outperform in an oil-price shock that would otherwise weigh on consumer spending, industrial margins, and the broader equity market.

We cut Consumer Durables & Apparel to SHORT (from LONG). The group is particularly exposed to weakening discretionary demand in both the US and China, while higher input costs, promotional activity, and inventory risk could place additional pressure on margins. The downgrade therefore reflects both deteriorating earnings visibility and an unfavourable balance between operating leverage and consumer resilience.

Food, Beverage & Tobacco and Pharmaceuticals remain our preferred defensive exposures. Both offer relatively stable demand, strong cash generation, and less sensitivity to a slowdown in consumer spending. **We also upgrade Utilities to LONG** (from SHORT) following recent underperformance. Structural electricity demand from data centres, grid investment, and electrification should support medium-term earnings growth. Higher bond yields and substantial financing requirements remain risks, so we favour companies with visible regulated returns, credible capital-expenditure plans, and limited balance-sheet pressure.

Within Growth, we upgrade the AI-infrastructure complex to LONG through Semiconductors and Technology Hardware & Equipment ex-Apple, both previously NEUTRAL. Recent company guidance confirms that AI investment remains strong and is extending beyond GPUs into memory, optical networking, servers, storage, power management, and cooling. This broadening improves the durability of the theme and creates opportunities across several stages of the supply chain. Nevertheless, expectations remain elevated, making backlog visibility, capacity discipline, and earnings conversion increasingly important. We therefore favour companies with direct exposure to infrastructure spending and avoid treating the upgrade as a call on indiscriminate AI beta. Excluding Apple also reduces exposure to the consumer-device cycle and to a company where near-term AI monetisation remains less visible.

We remain NEUTRAL on Software, with a negative bias. AI-related investment is increasing, but monetisation remains uneven and the competitive impact is more ambiguous than for infrastructure providers. Higher development costs, potential pressure on seat-based pricing, and the emergence of AI-native competitors could limit operating leverage. Strong recurring revenues and cash generation argue against an outright SHORT, but we prefer infrastructure software and companies with demonstrated AI revenues over the broader sector.

We downgrade Media & Entertainment to NEUTRAL (from LONG). The sector retains selective support from digital advertising and improving streaming economics, but the risk-reward has become less compelling after the recent rerating. Greater sensitivity to advertising and consumer spending, combined with less direct exposure to the AI-capex cycle, argues for a more balanced stance.

Overall, **the allocation combines 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 style trade while concentrating risk in areas with the clearest earnings support**.

Figure 13

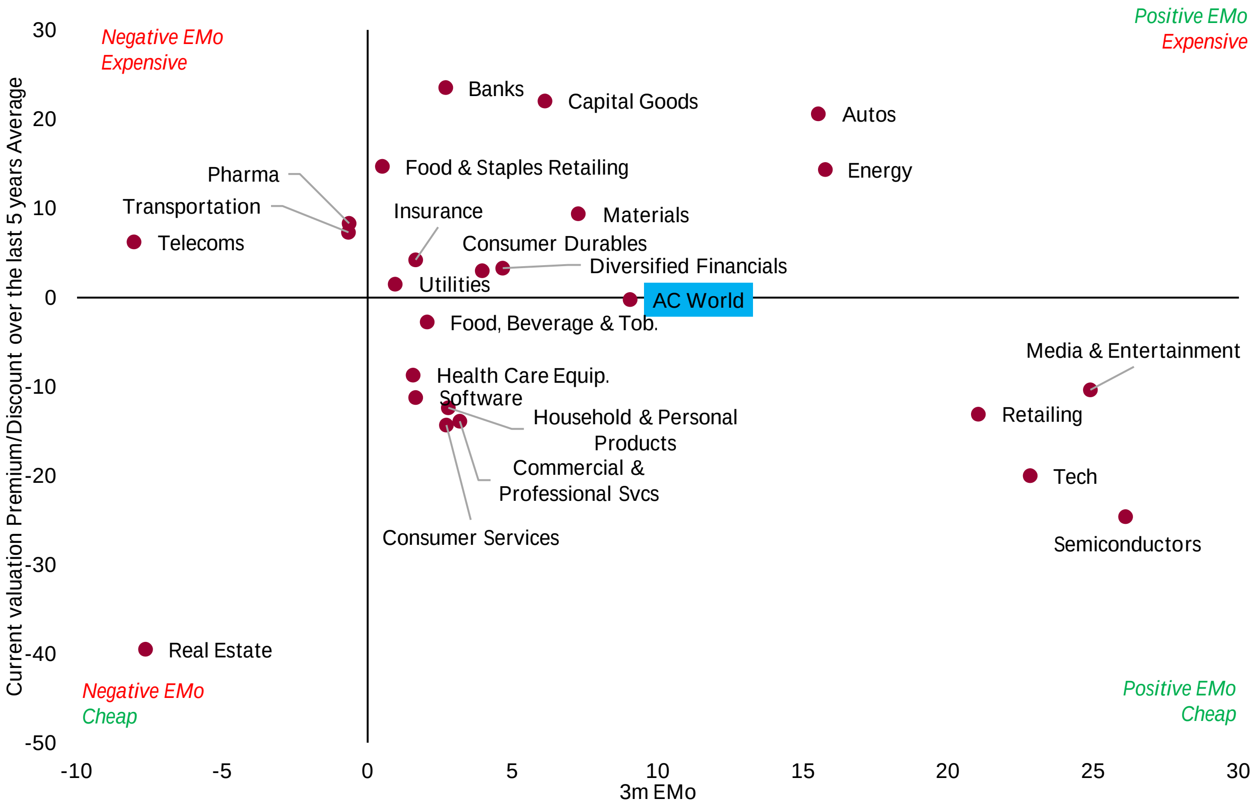
Tactical Sector Recommendations - September 2026

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

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

Figure 14

Sector Valuation and Earning Momentum



Source: MSCI, IBES, ANIMA Research. Data are as of 26 August 2026.

Strategically OVERWEIGHT

Strategically, we maintain our rolling 12-month OVERWEIGHT stance on equities. The medium-term case rests on continued economic expansion, resilient corporate profitability, and a sustained investment cycle rather than on a renewed acceleration in global growth. **Consumer momentum is moderating and financing conditions remain restrictive, but our base case does not anticipate a recession or a material deterioration in corporate balance sheets**. This should allow earnings to continue expanding even as nominal economic growth normalises.

As the rolling horizon increasingly captures 2027 earnings, **we forecast S&P 500 EPS growth of approximately 13%**. With US real GDP expected to grow by around 2.1%, traditional macroeconomic relationships would normally imply a more moderate increase in profits. However, the current cycle is being reinforced by resilient nominal revenue growth, modest margin expansion, continued share buybacks, and a structural AI-related contribution that is not fully captured by conventional GDP-based models.

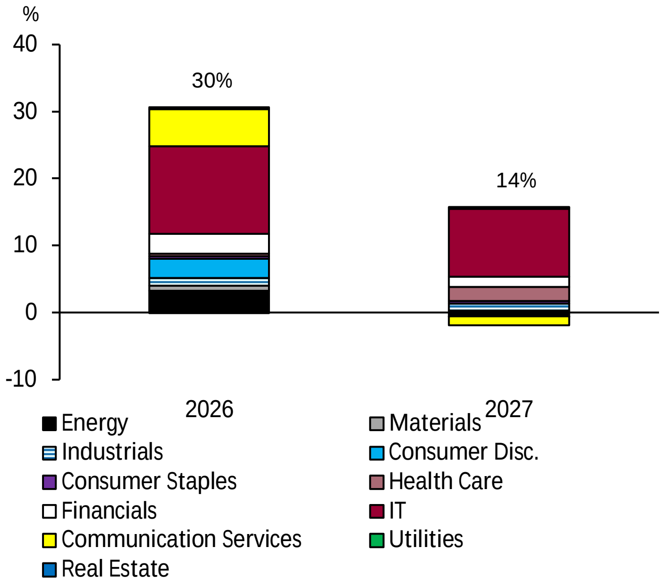
Our estimate is slightly below the current consensus of approximately 14%, reflecting a more cautious view on the strength and breadth of the profit cycle. Consensus growth falls to around 5% when Information Technology is excluded, highlighting the continued importance of Technology and AI to the aggregate outlook.

Sector-wise, we remain OVERWEIGHT AI-driven sectors, which are expected to account for approximately 70% of the increase in S&P 500 earnings in 2027 (**Figures 15 and 16**). We expect the investment cycle to broaden from GPUs and accelerators into memory, optical networking, servers, power generation, cooling, and industrial infrastructure. Financials and selected cyclical sectors should also contribute if economic growth remains positive and manufacturing activity continues to recover.

However, **broader participation is unlikely to displace Technology as the principal source of aggregate profit growth**. Earnings concentration therefore remains elevated, leaving the market particularly sensitive to weaker company guidance, reductions in AI-capex plans, or evidence that investment is running ahead of monetisation. This argues for maintaining exposure to the theme while remaining selective, favouring companies with visible demand, strong competitive positions, and credible cash-flow conversion.

Figure 15

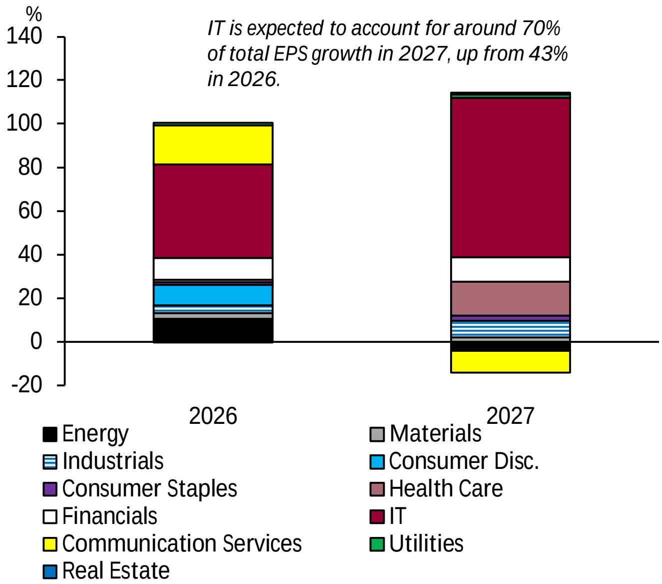
2027 US EPS growth contribution by sector in pp



Source: MSCI, ANIMA Research. Data are as of 26 August 2026.

Figure 16

US sectors - share of 2027 total earnings growth

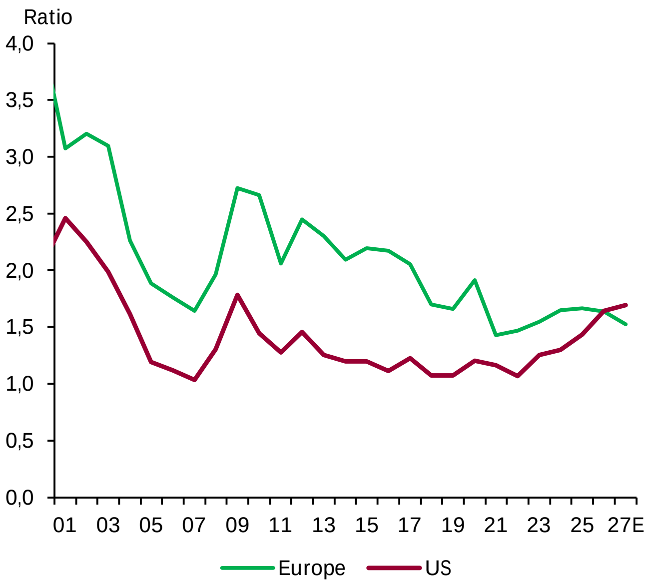


Source: MSCI, ANIMA Research. Data are as of 26 August 2026.

Regionally, we continue to prefer the US over the rest of the world, provided that the AI investment and earnings cycle remain intact. The US offers the strongest earnings visibility and the greatest direct and indirect exposure to AI-related investment. Although capital expenditure is absorbing a growing share of corporate cash flow, US companies continue to return substantial capital through dividends and buybacks (**Figures 17 and 18**). These factors support superior per-share earnings growth and help justify part of the US valuation premium.

Figure 17

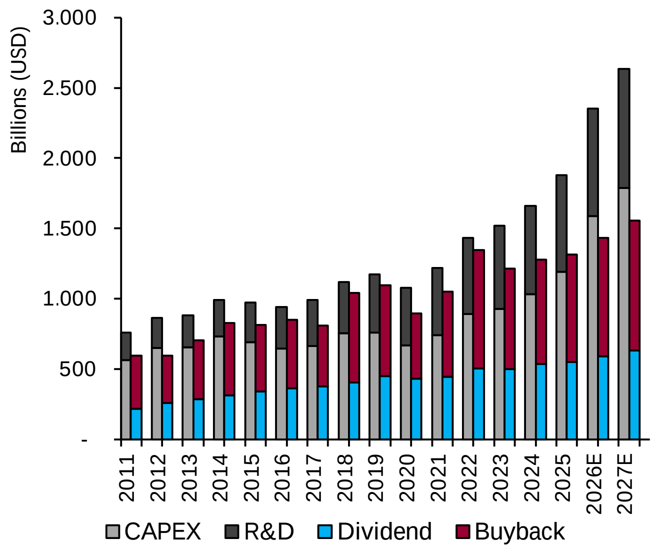
Investments to Payout



Source: Citi, ANIMA Research. Data are as of 26 August 2026.

Figure 18

Capital Allocation in the US



Source: Citi, ANIMA Research. Data are as of 26 August 2026.

We remain reluctant to chase Emerging Markets outside Taiwan and Korea, where semiconductor and hardware exposure provides the most direct participation in the AI cycle. Elsewhere, earnings visibility remains less compelling, and the macroeconomic outlook is more dependent on China. **Before moving OVERWEIGHT on the region as a whole, we would need to see a stronger and more sustained response from the Chinese authorities**, together with evidence that policy support is translating into firmer domestic demand, stabilisation in the property market, stronger credit creation, and improving corporate earnings revisions.

In Europe, we continue to favour selective opportunities rather than a broad regional OVERWEIGHT. Financials, Capital Goods, and Utilities offer attractive company- and sector-level exposures, but the region lacks the combination of aggregate earnings momentum and direct AI exposure available in the US.

The 2027 European electoral calendar should generate episodic rather than structural volatility. The key events are France's presidential election on 18 April, with a run-off on 2 May; Spain's general election, due by 22 August; and Italy's, due by 22 December, although the latter two could be held earlier. France represents the main regional risk given its fiscal position and sovereign-market size, but we expect volatility to remain largely local and concentrated around election dates rather than spread persistently across the continent.

Japan remains our least-preferred developed market on a strategic basis. Corporate-governance reform and stronger shareholder distributions are supportive, but BoJ normalisation, higher domestic yields, and potential yen appreciation pose risks to exporters and valuation multiples. We would need clearer evidence that domestic demand and earnings can absorb a firmer currency before increasing exposure.

In conclusion, this regional and sector composition supports equities but argues against relying on further multiple expansion. Valuations are already elevated, particularly in the US and across the AI complex, while long-term yields remain high enough to constrain the scope for a sustained rerating. We therefore expect returns to become increasingly earnings-driven. Dividends should provide an additional contribution to total returns, while buybacks should continue to support per-share earnings growth.

Broader market participation would improve the durability of the advance and create opportunities beyond mega-cap Technology. However, **broader price participation should not be confused with a reversal in earnings leadership**. We therefore favour companies with visible revenue growth, pricing power, strong cash-flow conversion, and credible investment returns rather than assuming that all lagging markets and sectors will catch up.

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 cuts to AI-capex plans would weaken both our US preference and the broader medium-term equity case. By contrast, market weakness driven primarily by valuation compression, positioning, or temporary macroeconomic uncertainty—without a corresponding deterioration in earnings—would improve prospective returns.

We therefore retain the rolling 12-month OVERWEIGHT while recognising that the path is unlikely to be linear. Meaningful pullbacks should be viewed as opportunities to add exposure, provided that earnings revisions, credit conditions, and the investment cycle remain intact.

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