

Equity Strategy

Still NEUTRAL

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We reiterate our tactical NEUTRAL stance on global equities. Against a still solid fundamental backdrop, we expect the 25%+ rally that has unfolded since April to pause until seasonality turns favourable again and global trade policy uncertainty, especially around semiconductors, fades. Accordingly, we expect the equity market to move sideways over the next few weeks, while volatility eventually spikes from current, extremely compressed levels.

Q4 rally not to be ruled out. The ongoing resilience of the US economy and the Fed's likely shift to easing mode (for deflationary reasons) should pave the way for the traditional year-end rally. Accordingly, any market drawdowns would present a buying opportunity. The ultimate price correction will come, but it is not imminent; for that, signs of a looming economic recession must intensify. From a regional perspective, we cut the US to NEUTRAL (from LONG), while upgrading Japan to LONG (from SHORT). We remain NEUTRAL on Europe and EM, and SHORT on the UK.

From a sector standpoint, we now suggest a barbell approach in terms of market beta (previously cyclical Growth tilt). We continue to favour AI-related sectors such as Semiconductors and Software, and cyclical Value sectors like Banks, but we offset this high-beta exposure by going LONG on Pharma (from NEUTRAL) and maintaining exposure to Telecoms.

Strategically, we reiterate our OVERWEIGHT stance on equities, viewing any market weakness as a buying opportunity. We expect the global benchmark to reach new highs in the second half of the year, driven by an acceleration of US GDP in 2026 and fading inflation concerns.

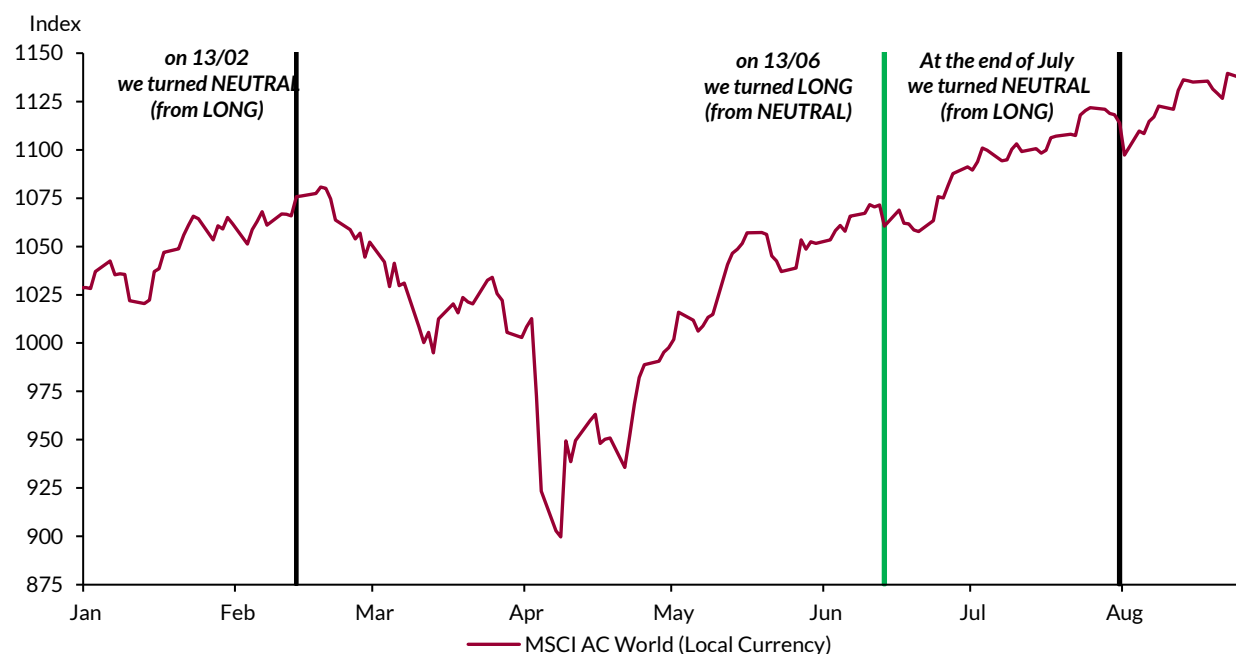
Against this backdrop, we continue to favour Cyclical over Defensives, with a bias towards Growth-oriented names. Regionally, we prefer the US, expecting its leadership in global equities to persist, driven by its Large Cap companies.

Market Overview

The MSCI AC World Index has rallied by 26pp from its April trough and is now trading around new all-time highs (Figure 1). Since then, all regions have posted double-digit gains, with the US leading the way, Growth outperforming Value, and Cyclical outpacing Defensives.

Figure 1

MSCI AC World Index in 2025

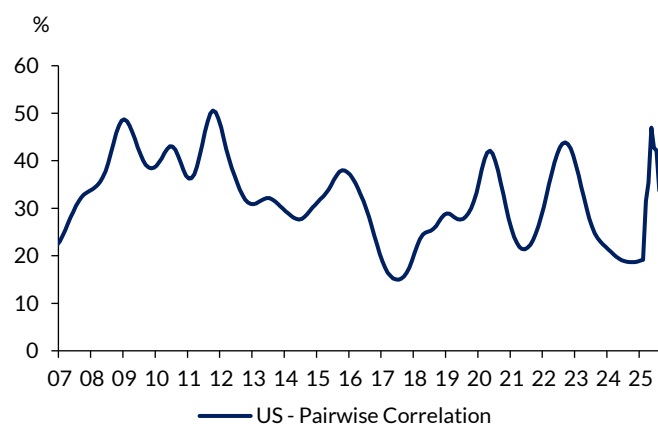


Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Focusing on the US, the ongoing rally has featured decreasing stock participation, while performance dispersion amongst stocks remains quite elevated (Figure 2 and Figure 3).

Figure 2

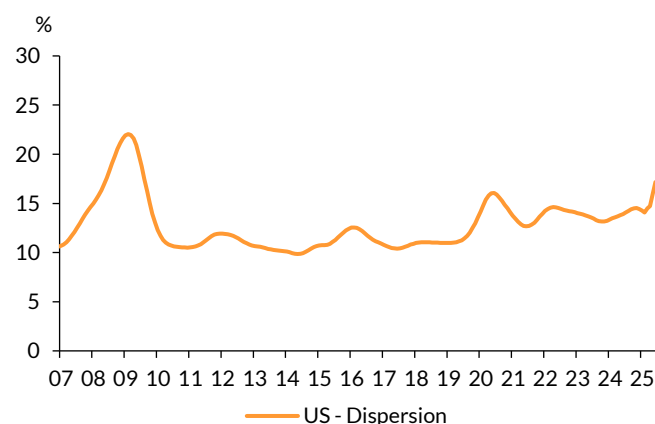
US – Pairwise Correlation



Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 3

US – Dispersion



Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Tactical view

Looking ahead, we reiterate our **NEUTRAL** stance on equities, expecting strong price momentum in stocks to slow down and volatility to rise heading into September. In our view, the balance of risks remains fairly even, as outlined below.

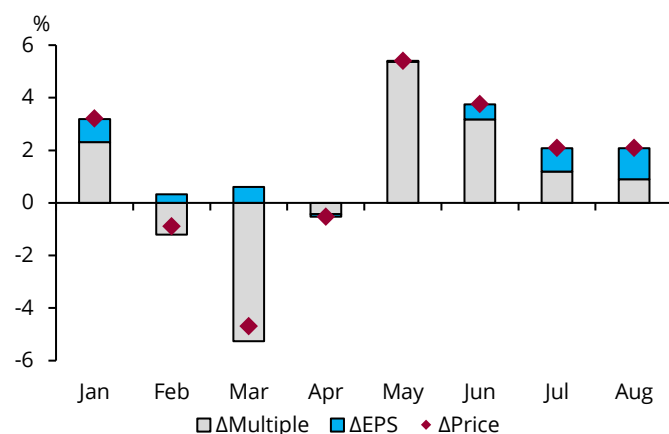
Positive catalysts:

1) Companies continue to post solid fundamentals, especially in the US.

That offers a strong floor for stock prices and an ongoing contribution to monthly performance (**Figure 4**). Q2 reporting shows US companies remain strong, consistently exceeding analyst expectations for both EPS and sales. Since 1 July, Q2 EPS forecasts have risen by 6pp and US EPS is set to grow 11% YoY, marking a third consecutive quarter of double-digit growth. 73% of companies beat EPS estimates (vs. 59% historical average), while 78% beat sales forecasts - the highest since Q2 2021. The weak dollar supported this acceleration. Within the US, **mega-cap tech companies delivered strong earnings**. While Nvidia has yet to report, the Magnificent 7's EPS rose 26% YoY in Q2, beating consensus by 12pp. 2026 EPS estimates for these firms have been revised up by 1pp YTD, while estimates for the rest of the S&P 500 have declined by 4pp YTD. **In Europe, the reporting season was less buoyant**: Q2 EPS declined by 1% YoY, though it remained 3 pp above initial estimates. 61% of companies exceeded EPS expectations, while only 37% surpassed sales forecasts, which is below the historical average (**Figure 5**).

Figure 4

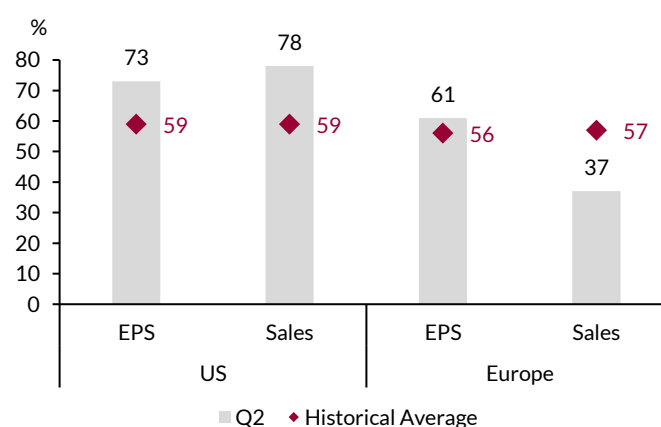
Monthly performance breakdown – Global



Source: Bloomberg, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 5

Q2 EPS and Sales Beat – US and Europe



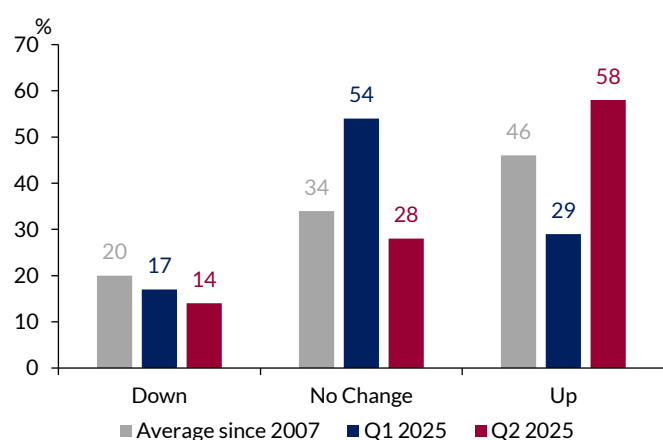
Source: BofA, JPM, ANIMA Research.

2) Corporate sentiment and guidance continue to improve considerably.

The US reporting season also suggested a constructive outlook for the future. 58% of companies raised their full-year 2025 guidance, twice as many as in Q1 (**Figure 6**). Health Care and IT provided the strongest guidance, while consumer-related sectors were the weakest across the board (**Figure 7**). The improvement in sentiment is also confirmed by the steady pickup in CEO Confidence and Business Climate indicators. Both are rising from their April/May lows, but remain below the pre-Liberation Days levels (**Figure 8**).

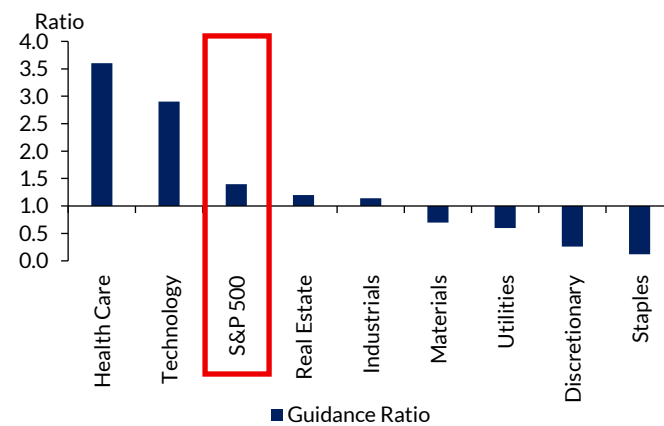
and **Figure 9**). The fading trade policy uncertainty (**Figure 10**) and the approval of One Beautiful Bill Act (OBBBA) have fuelled this boost in business sentiment. Companies, especially in Energy and Industrials, have highlighted the **potential improvement in Free Cash Flow resulting from lower taxes in the near term (Figure 11)**. Albeit CAPEX remains strong, the OBBBA could further accelerate capital expenditure, particularly beyond AI-related investments. S&P 500 companies' CAPEX estimates for 2025 and 2026 have been raised by 5% and 7% respectively, with consensus projecting around \$1.1 trillion in investment for both years. The Magnificent 7 saw the largest increase in 2026 estimates, up 29% to \$461 billion.

Figure 6
FY1 Guidance



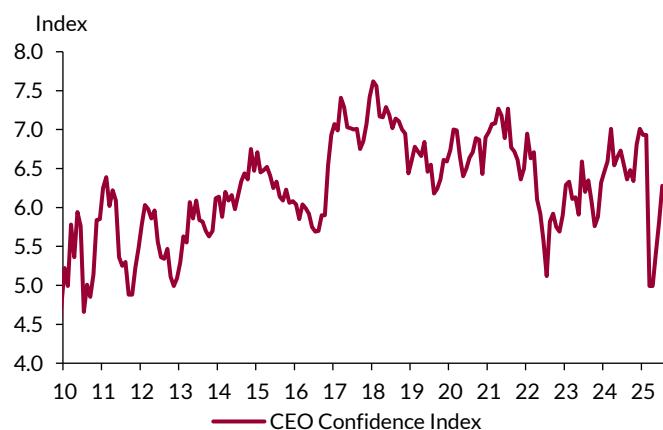
Source: GS, ANIMA Research.

Figure 7
Guidance Ratio – US Sectors



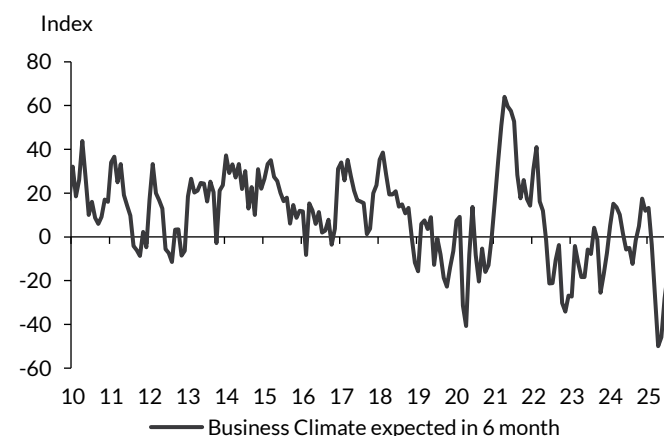
Source: BofA, ANIMA Research.

Figure 8
CEO Confidence Index

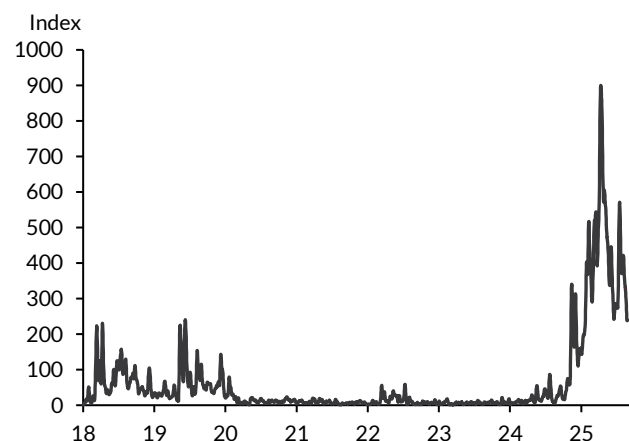


Source: Bloomberg, ANIMA Research.

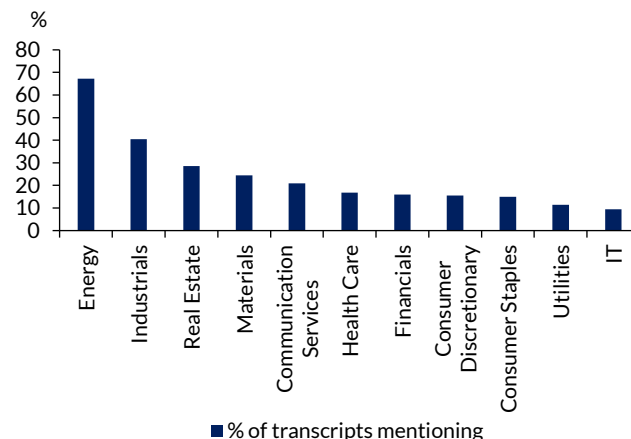
Figure 9
US Business Leaders Survey



Source: Bloomberg, ANIMA Research.

Figure 10**US Trade Policy Uncertainty Index**

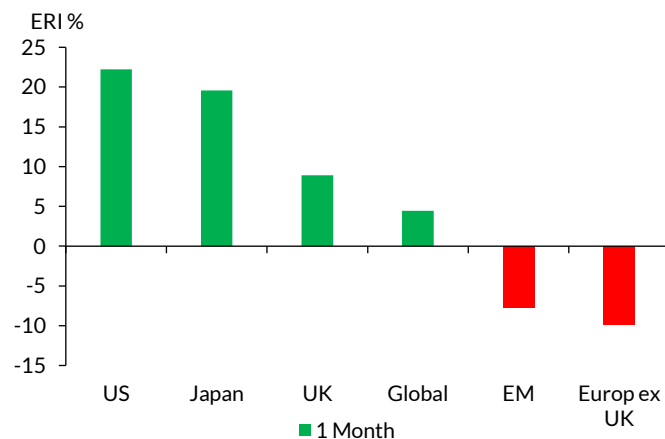
Source: Bloomberg, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 11**Mentions of tax provision in the earnings calls**

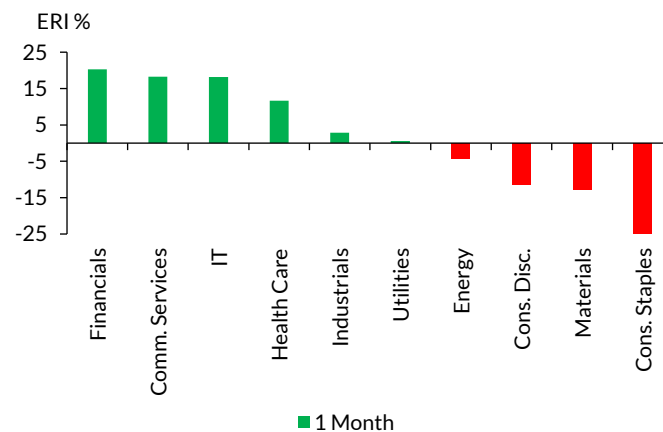
Source: BofA, ANIMA Research.

3) **The positive business sentiment is also reflected in the EPS estimates.**

Analysts are revising their forecasts upwards for FY2, mostly in the US and Japan. The upgrades are concentrated in Financials, Communication Services, IT, and Health Care, while downgrades dominate in consumer and commodity-related sectors (Figure 12 and Figure 13).

Figure 12**Earning Revision Index - Main Regions**

Source: Fed Dallas, Bloomberg, ANIMA Research.

Figure 13**Earning Revision Index – Global Sectors**

Source: Haver, ANIMA Research.

Challenges:

- 1) **Seasonal trends are unfavorable:** historically, September has been the weakest month for equities, especially since COVID. Last year's gains were an exception, following four consecutive years of losses (Figure 14 and Figure 15).

Figure 14

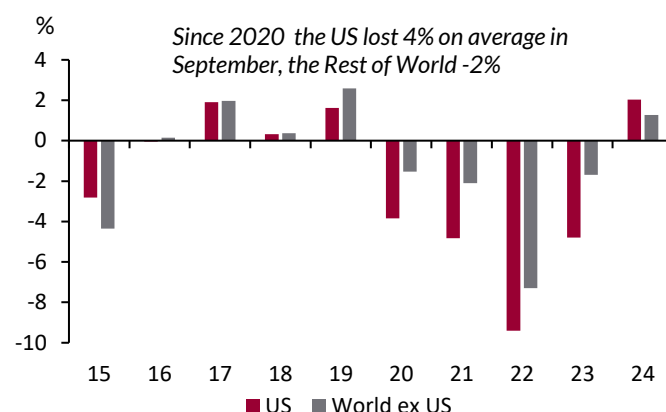
Average Monthly Performance

	Average Monthly Performance (% since 1987)					Hit Ratio
	Global	US	Europe	Japan	EM	
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	-0,9	-0,6	-1,0	-1,3	-1,6	57
September	-1,1	-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	0,5	0,3	0,8	63

Source: MSCI, ANIMA Research.

Figure 14

Performance in September - Last 10 Years

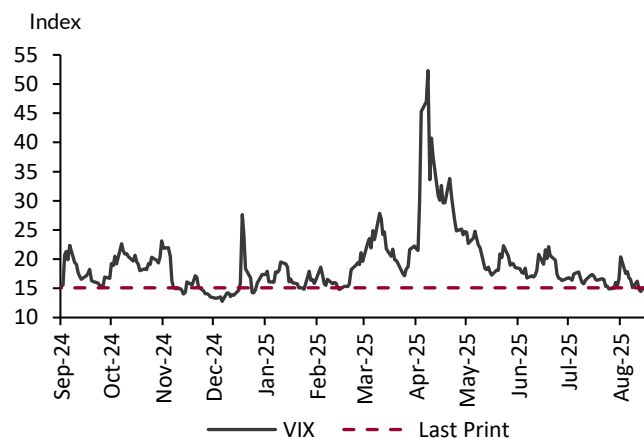


Source: MSCI, ANIMA Research.

- 2) **VIX around 15, signals future market weakness.** The VIX is currently near its lowest level in a year. Over the past 12 months, readings around 15 have typically preceded negative returns in the following month (**Figure 16** and **Figure 17**).

Figure 16

VIX Over the Last Year



Source: Bloomberg, ANIMA Research.

Figure 17

VIX and S&P 500's 1-Month Forward Performance

VIX Range	1m Forward Performance	Hit Ratio
Below 15	-1,4	33
15-16	-2,6	46
17-18	2,5	84
18-19	1,9	73
19-20	1,8	70
20-21	2,0	93
21-22	0,3	50
22-25	1,0	70
25-30	3,3	71
30-35	11,6	100
35-40	11,3	100
Over 40	8,1	100
Random Day	1,3	69

Source: Bloomberg, S&P, ANIMA Research.

- 3) **Rich valuations.** The recent rally has significantly increased equity valuations, which now appear quite stretched. Our proprietary Composite Valuation Indicator for US equities is still flirting with bubble territory, standing close to two standard deviations above its 10-year average (**Figure 18**). All the metrics we track are currently trading more than one standard deviation above their historical averages, signalling broad-based rich valuations. Notably, indicators such as FCF Yield, Price-to-Book, and ERP have entered "bubble territory" (**Figure 19**), reinforcing the case for a more cautious stance on the asset class.

Figure 18

Valuations - Composite Indicator

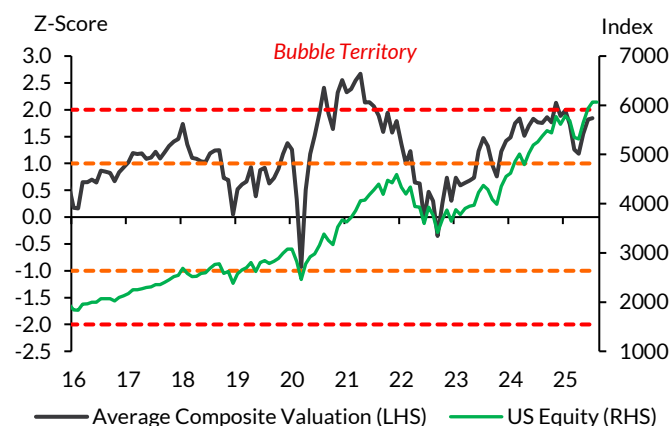
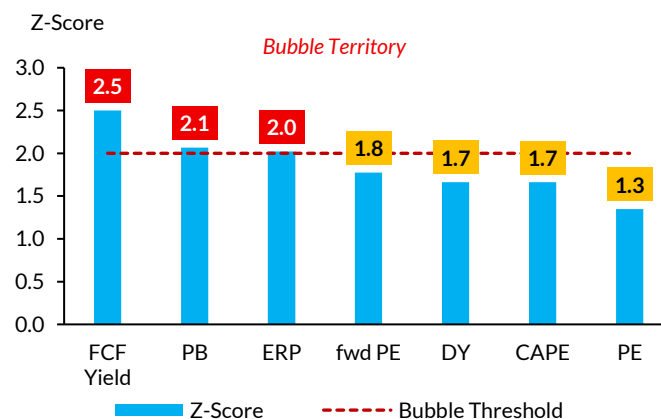
Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 19

Valuations - Main Ratios

Source: MSCI, ANIMA Research. Note: Prices as of 15th August 2025.

A. Regional Allocation

From a regional perspective, we have downgraded the US to **NEUTRAL** (from LONG), while upgrading Japan to **LONG** (from SHORT). We remain NEUTRAL on Europe and EM, and SHORT on the UK (Figure 20). The Far Eastern country tends to perform well during the summer season (Figure 21), so we expect the current outperformance to continue through September, while we anticipate the US to continue moving sideways within the narrow relative trading range established since mid-July (Figure 22). So far, the Japanese rebound has primarily been attributed to multiple expansion, while the forward EPS fell by 7pp; however, since August, rising EPS has begun to support equity performance (Figure 23). In recent months, the Japanese stock market has shown decreasing correlation with the exchange rate (Figure 24). While Japan typically outperforms when the USD is strong, it has recently outpaced global markets even as the USD weakens (Figure 25).

Figure 20

Tactical Regional Recommendations – September 2025

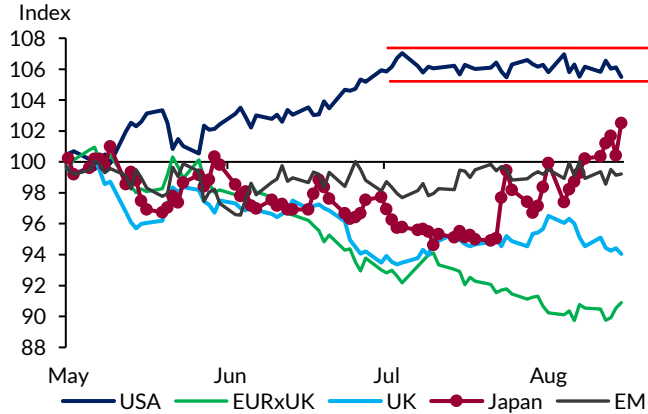
Regional Allocation		
Long	Neutral	Short
Japan	EM	UK
	Europe ex UK	
	US	

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

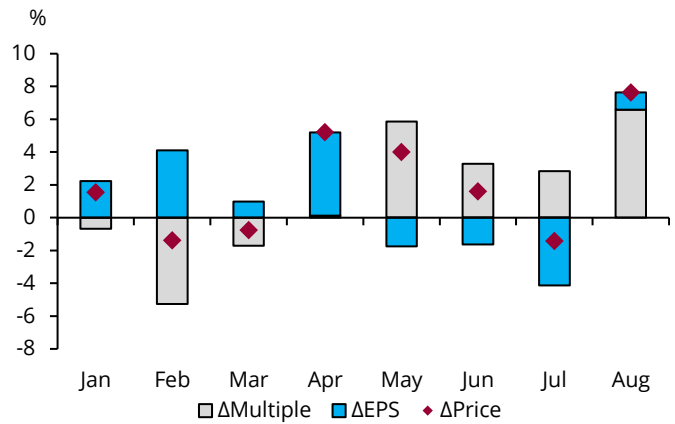
Figure 21**Seasonality – Regional Performance in September (%)**

	MSCI AC World	DM rel to EM	USA rel to World ex USA	Japan rel to World ex JP	Europe rel to World ex Europe	VIX
2014	-1,5	3,4	-1,3	5,9	1,1	36,1
2015	-3,6	-1,8	2,3	-5,4	-0,4	-13,8
2016	0,0	-0,2	-0,2	-1,4	0,4	-1,0
2017	1,9	1,9	-0,6	1,5	0,6	-10,2
2018	0,3	2,0	-0,6	4,6	-0,4	-5,8
2019	2,0	0,9	-1,4	3,1	1,1	-14,4
2020	-2,9	-1,2	-2,5	3,1	2,6	-0,2
2021	-3,7	-0,8	-3,2	8,4	0,9	40,4
2022	-8,6	1,2	-3,3	1,4	3,1	22,2
2023	-3,6	-1,9	-3,3	3,8	3,1	29,1
2024	1,8	-3,8	2,4	-4,6	-2,5	11,5
10y Average	-1,5	0,1	-0,9	1,7	0,7	9,4

Source: MSCI, ANIMA Research. Note: we exclude 2020 from the average calculation due to the idiosyncratic nature of the year.

Figure 22**Relative Equity Performance since 1st May 2025**

Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 23**Japan's Performance Breakdown**

Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 24

Japan's Relative Performance and FX Correlation

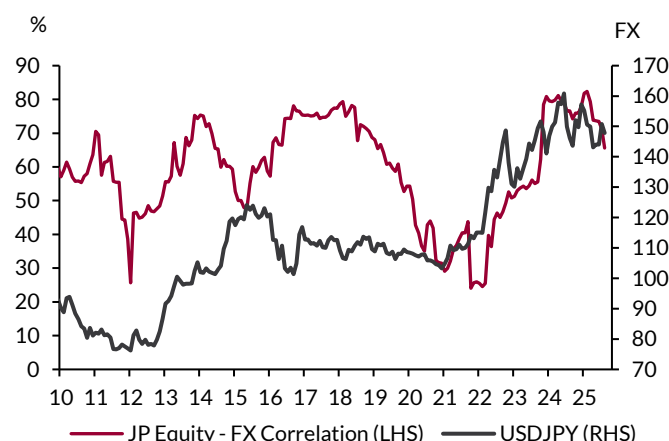
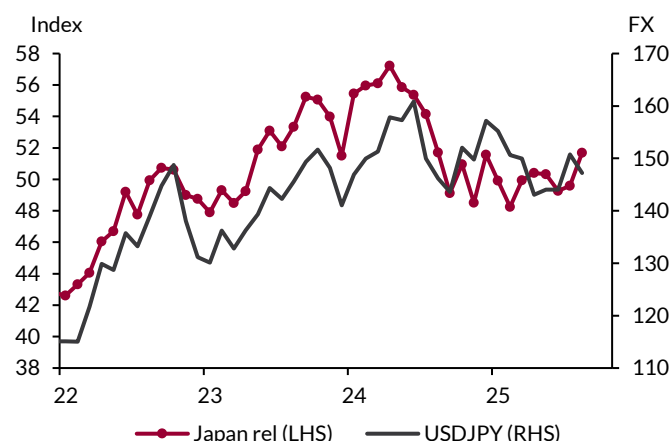
Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

Figure 25

Japan's Relative Performance and FX Correlation

Source: MSCI, ANIMA Research. Note: Prices as of 25th August 2025.

B. Sector Allocation

From a sector standpoint, we now suggest a barbell approach in terms of market **beta** (previously a cyclical Growth tilt). We still like AI-related sectors such as Semiconductors and Software, and cyclical Value sectors like Banks, but we offset this high-beta exposure by going LONG on Pharma (from NEUTRAL) and maintaining exposure to Telecoms. We trim our previously cyclical tilt, reducing Diversified Financials and Media to NEUTRAL (from LONG). We also raise traditional defensive sectors such as Health Care Equipment and Food & Staples Retailing to NEUTRAL (from SHORT) (Figure 26). Over the past few years, with the exception of 2024, cyclical Growth names have tended to underperform in September (Figure 27).

Figure 26

Tactical Sector Recommendations – September 2025

Industry Group Allocation

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

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

Figure 27

Seasonality – Style Performance in September (%)

	SEPTEMBER						
	Momentum rel	Min Vol rel	Quality rel	Growth Rel to Value	Dividend Tilt rel	Cyclicals rel to Defensives	Large rel to Small
2014	0,2	0,2	0,0	0,5	0,1	0,0	3,5
2015	-0,2	2,4	2,6	0,3	1,3	0,5	0,8
2016	0,6	-0,4	0,3	0,6	0,0	-0,1	-1,0
2017	0,3	-1,9	-0,6	-1,3	0,1	1,2	-1,7
2018	0,5	0,8	-0,4	-0,6	0,1	-1,5	2,2
2019	-2,8	-1,1	-0,6	-3,1	1,0	1,2	0,0
2020	0,2	1,7	0,9	-0,4	0,6	-1,6	-1,8
2021	0,4	-0,4	-2,3	-2,1	-0,6	-1,1	-1,2
2022	2,5	2,6	-0,1	-1,6	0,9	-3,9	0,7
2023	0,6	1,7	-0,8	-2,8	0,8	-2,3	1,0
2024	-0,2	-1,7	-1,3	0,4	-0,3	4,2	0,1
10y Average	0,2	0,2	-0,3	-1,0	0,3	-0,2	0,5

Source: MSCI, ANIMA Research. Note: we exclude 2020 from the average calculation due to the idiosyncratic nature of the year.

Strategic view

Strategically, we reiterate our OVERWEIGHT stance on equities, viewing any market weakness as a buying opportunity. We expect supportive fiscal policy to provide a tailwind for the asset class, particularly in the context of an anticipated increase in disposable income.

Against this backdrop, we continue to favour Cyclicals over Defensives, with a bias towards Growth-oriented names. Regionally, we prefer the US, expecting its dominance in global equities to continue, driven by its Large Cap names.

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