Equity Strategy

Chasing the Rally

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We are turning tactically LONG (from previously NEUTRAL). We believe there is still room for stock prices to rise, supported by the following positive catalysts:

1) *Recent trade war dynamics suggest that both the US and China want to avoid further escalation (our baseline scenario). Therefore, we expect that the tariffs announced on Liberation Day and subsequently paused will not be implemented by the US administration on 9th July. At worst, we believe they will be postponed.*
2) *The impact of existing tariffs remains manageable. The US administration has focused on sectors where the negative consequences are minimal. The downside of the 10% global tariff is being softened, as it is partially absorbed by foreign exporters, domestic suppliers and inventory, so corporate margins are scarcely affected.*
3) *Macro prospects have deteriorated, though not collapsed. Given already very low expectations, economic activity remains relatively supportive of corporate fundamentals. In this context, we anticipate the upcoming earnings season will deliver positive surprises.*
4) *Sentiment remains partly cautious, particularly in the US.*
5) *Seasonal trends are favourable: July has historically been a strong month for equities before the typical weakness in August and September.*

That said, we acknowledge the following challenges:

1) *The equity rebound has been strong, with the MSCI AC World Index up by 18pp from its April trough and now trading less than 2pp from its all-time high.*
2) *The geopolitical environment and news developments remain highly fluid.*

Against this backdrop, we are now more constructive on the asset class, though we suggest building positions opportunistically given the still volatile environment.

From a regional perspective, the US remains our preferred market due to better earnings revisions and continued improvement in capital flows. We remain NEUTRAL on Europe and EM, and SHORT UK and Japan.

From a sector standpoint, we remain constructive on Cyclicals, with a mild preference for Growth sectors. We continue to selectively favour the Magnificent 7, as well as Banks and Diversified Financials on both sides of the Atlantic.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity.

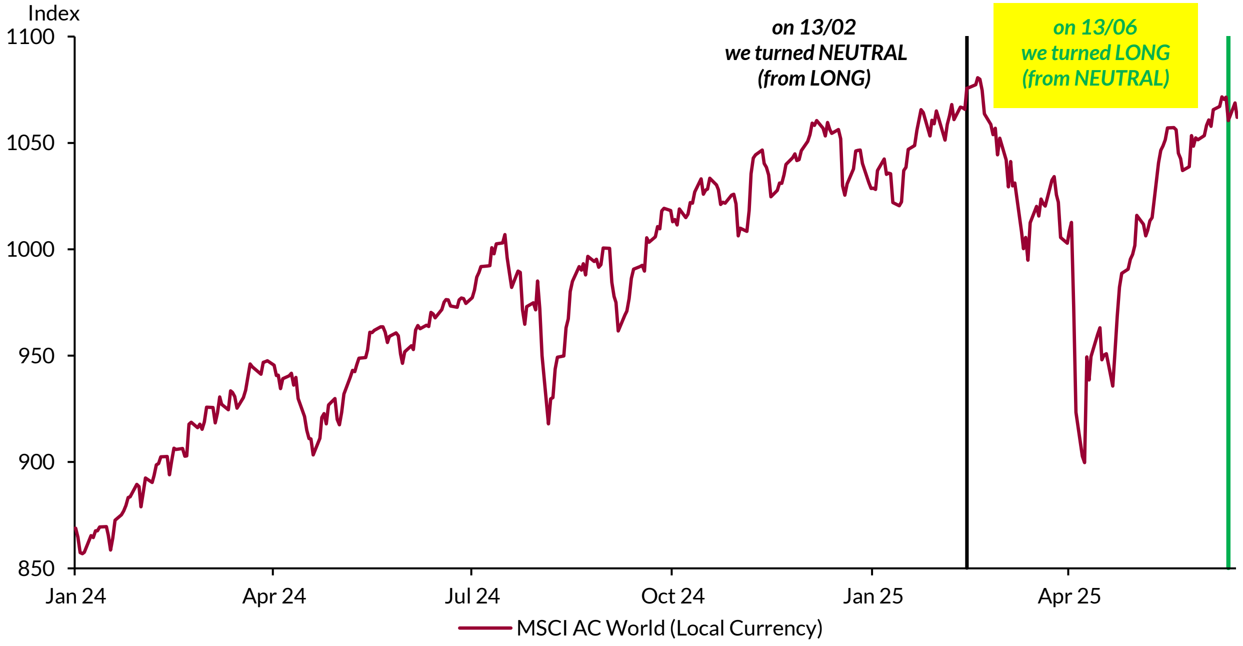
At this stage, downside risks (such as a recession) and upside risks (including supportive fiscal policy and a potential peak in tariffs) appear balanced. Within this framework, we continue to favour Cyclicals over Defensives, with a bias towards Growth-oriented names. Regionally, we prefer the US, expecting its leadership in global equities to persist, driven by its Large Cap names.

Market Overview

MSCI AC World Index has rallied by 18pp from its April trough and is now just 1% below its peak recorded on 18th February 2025 (**Figure 1**). All regions posted double-digit gains, with Growth outperforming Value, and Defensives outpacing Cyclicals.

Figure 1

MSCI AC World Index



Source: MSCI, ANIMA Research. Note: Prices as of 17th June 2025.

Tactical view

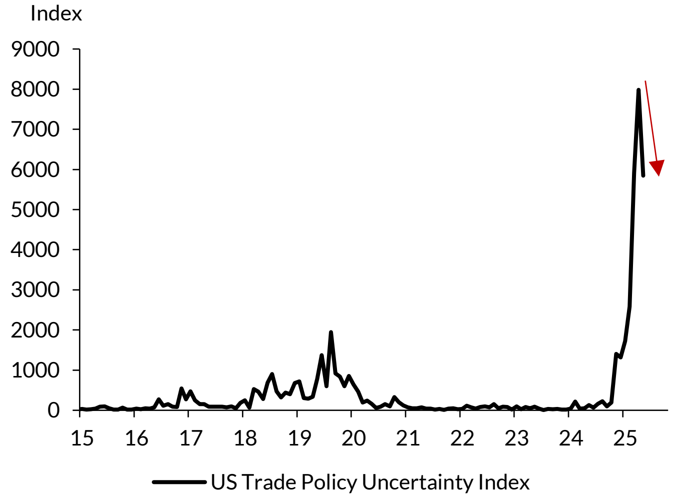
Looking ahead, we turn LONG on equities (from previously NEUTRAL) expecting the strong momentum in stocks to continue. In our view, the balance of risks is tilted to the upside, as outlined below.

Positive catalysts:

1) **Recent trade war dynamics suggest that both the US and China want to avoid further escalation** (our baseline scenario). Therefore, we expect that the tariffs announced on Liberation Day and subsequently paused will not be implemented by the US administration on 9th July. At worst, we believe they will be postponed. The ongoing easing by US administration is likely to reduce trade policy uncertainty, still relatively high, (**Figure 2**) and, in turn, support a further expansion of equity multiples (**Figure 3**).

Figure 2

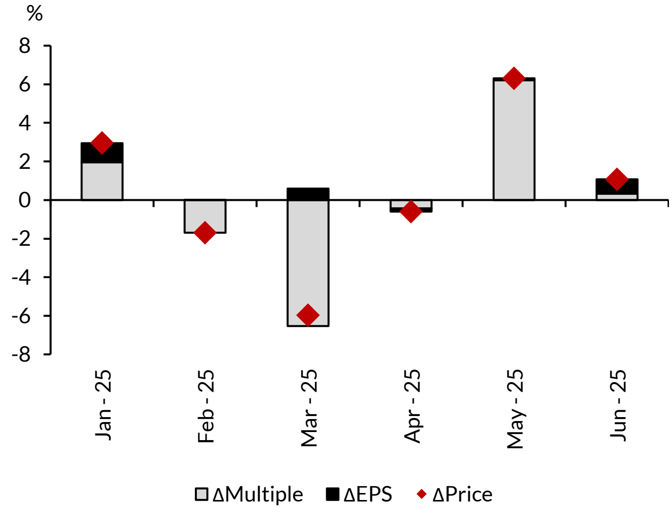
US Trade Policy Uncertainty Index



Source: Bloomberg, ANIMA Research.
Note: Prices as of end of May 2025.

Figure 3

US – Performance Breakdown

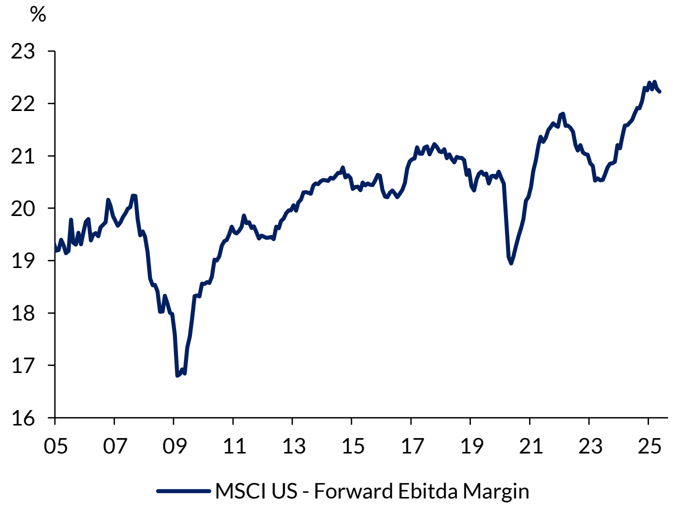


Source: MSCI, ANIMA Research.
Note: Prices as of 13th June 2025.

2) **The impact of existing tariffs remains manageable.** The US administration has focused on sectors where the negative consequences are minimal. The downside of the 10% global tariff is being softened, as it is partially absorbed by foreign exporters, domestic suppliers and inventory, so corporate margins are scarcely affected. US corporate margins are still hovering around all-time highs, driven by a genuine rise in productivity as shown by the EBITDA margin (**Figure 4**), and not merely due to lower debt interests or tax burdens. These high margin levels (**Figure 5**) provide a buffer for US corporates to absorb rising import costs attributable to tariffs or the persistent USD weakness without compromising shareholder payouts.

Figure 4

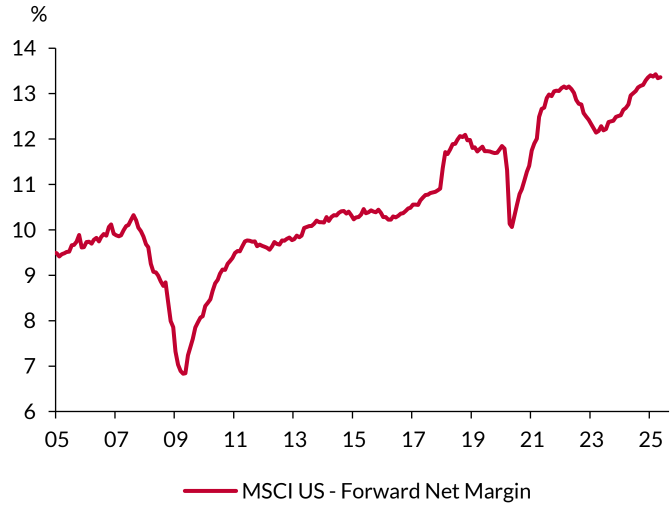
US Index – Forward EBITDA Margin



Source: MSCI, ANIMA Research.

Figure 5

US Index – Forward Net Margin

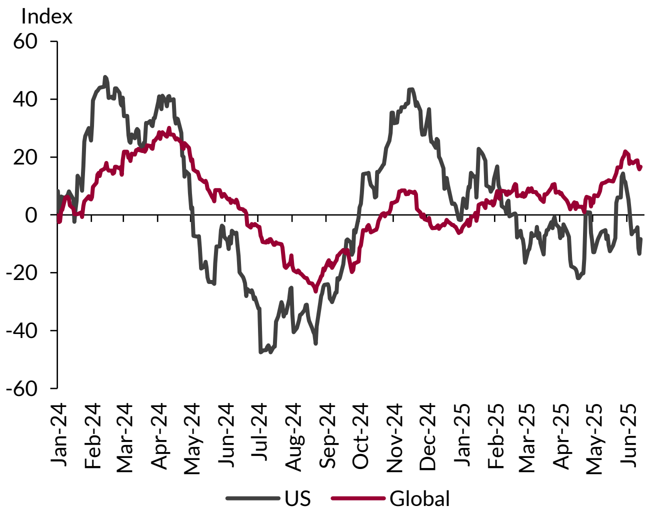


Source: MSCI, ANIMA Research.

3) **Macro prospects have deteriorated, though not collapsed.** Given already very low expectations, economic activity remains relatively supportive of corporate fundamentals. In this context, **we anticipate the upcoming earnings season will deliver positive surprises**. The economic surprise indices are reaccelerating globally, including in the US, although they remain slightly negative there (**Figure 6**). Historically, a better-than-expected macro backdrop tends to favour improvements in earnings estimates. Currently, the Earning Revision Index is close to zero, indicating that analysts have stopped cutting their EPS estimates in aggregate (**Figure 7**).

Figure 6

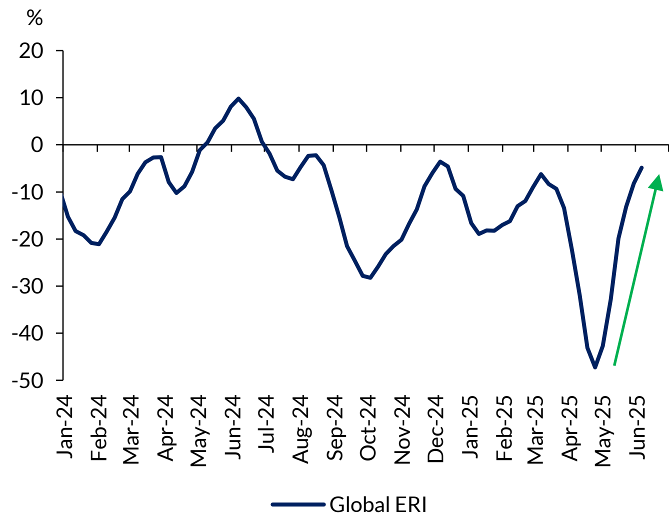
Citi Economic Surprise Indices – Global and US



Source: Citi, ANIMA Research.

Figure 7

Earnings Revision Index – Global

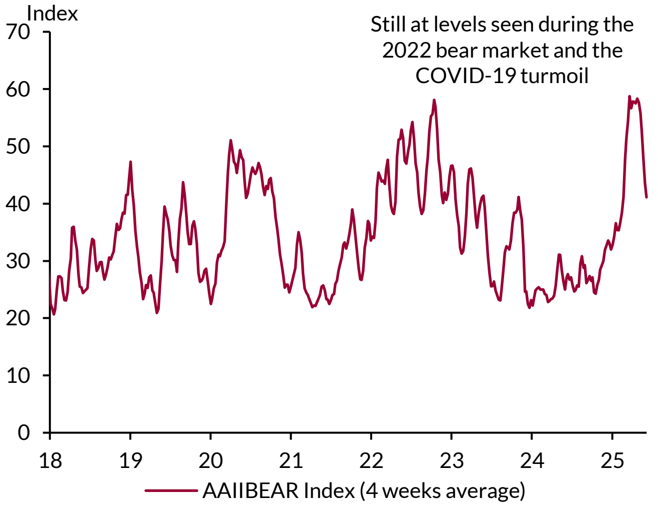


Source: Citi, ANIMA Research.

4) **Sentiment remains partly cautious**, particularly in the US. As highlighted by the AAII survey, the proportion of investors pessimistic about the stock market over the next six months is as high as it was during the 2022 bear market and the COVID-19 turmoil (**Figure 8**). The Levkovich Index indicates that market sentiment remains Neutral and far from Euphoria. The last time it registered Euphoria was in mid-February (**Figure 9**).

Figure 8

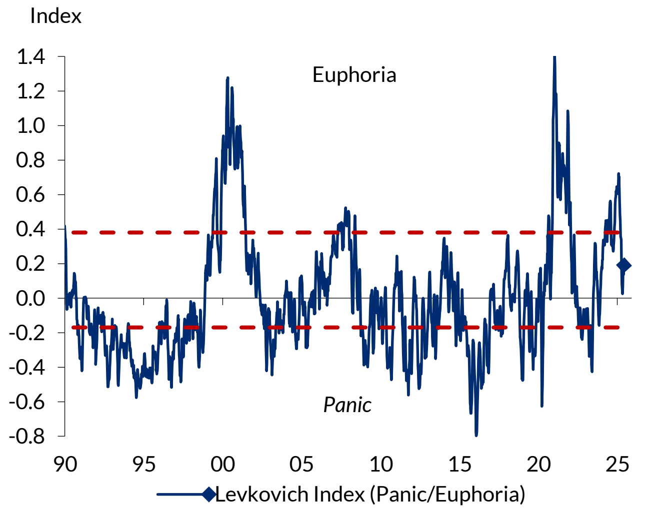
AAII US Investor Sentiment Bearish Readings



Source: American Association of Individual Investors, ANIMA Research.

Figure 9

Panic/Euphoria Indicator



Source: Citi, ANIMA Research.

5) **Seasonal trends are favourable:** July has historically been a strong month for equities before the typical weakness in August and September. Over the past 10 years, the U.S. stock market has consistently recorded gains in July, even during the 2022 bear market (**Figure 10** and **Figure 11**).

Figure 10

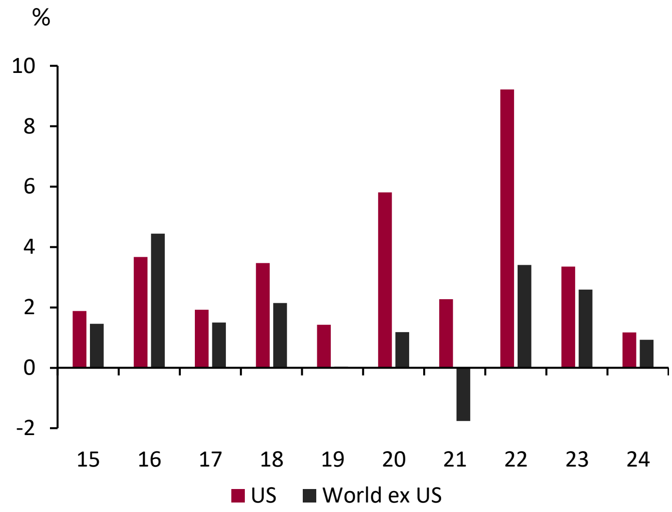
Average Monthly Performance

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

Source: MSCI, ANIMA Research.

Figure 11

Equity Performance in July over the last 10 Years



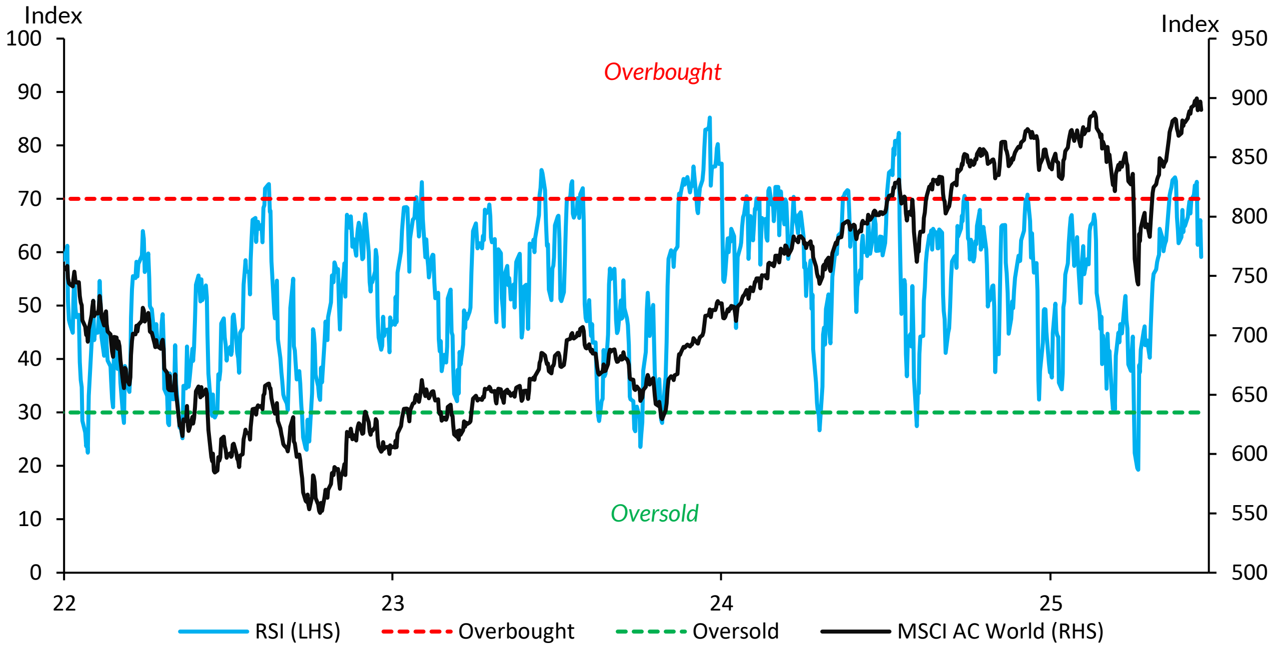
Source: MSCI, ANIMA Research.

Challenges:

1) **The equity rebound has been quite strong** with the MSCI AC World Index up by 18pp from April's trough and now trading less than 2pp below its all-time high. The Relative Strength Index indicates that the global benchmark is currently trading at stretched levels, albeit not in Overbought territory (**Figure 12)**.
2) **The geopolitical environment and news developments remain highly fluid**.

Figure 12

MSCI AC World Index and Relative Strength Indicator



Source: MSCI, ANIMA Research. Note: Prices as of 17th June 2025.

A. Regional Allocation

Regionally, the US remains our preferred market, while we maintain a NEUTRAL stance on Europe and EM, and a SHORT position on UK and Japan (**Figure 13**). Our continued preference for the US is driven by stronger earnings revisions (**Figure 14**) and an ongoing improvement in investment flows. The latter are now positive and accelerating, although still below the high levels observed last year. Meanwhile, flows into Europe are decelerating (**Figure 15**).

Figure 13

Tactical Regional Recommendations – July 2025

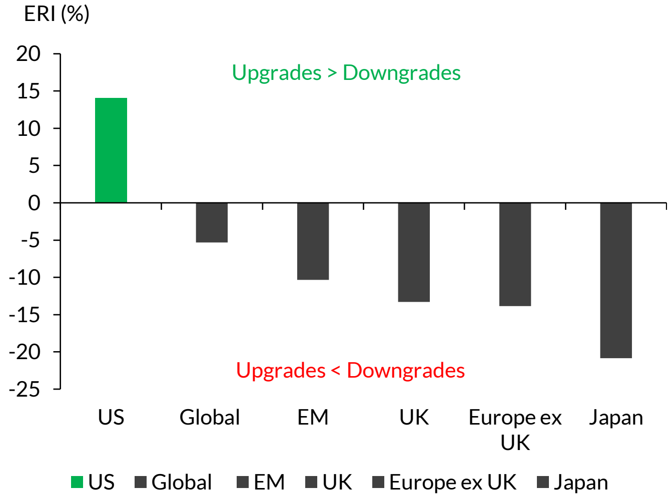
Regional Allocation

Long	Neutral	Short
US	EM	Japan
	Continental Europe	UK

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

Figure 14

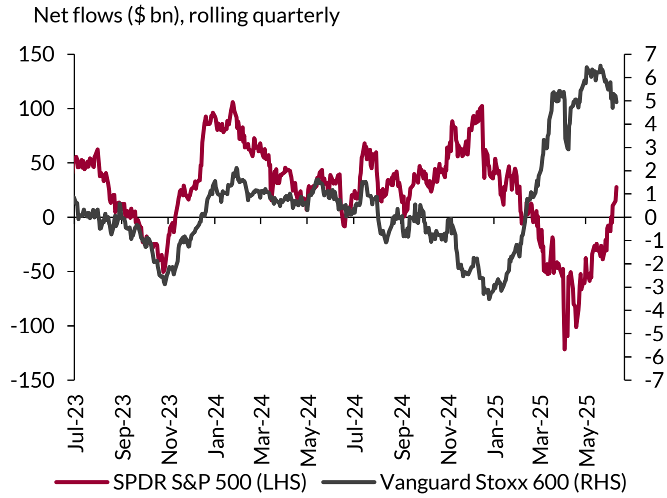
Earnings Revision Index Across the Main Regions



Source: Citi, ANIMA Research.

Figure 15

ETF Flow



Source: Bloomberg, ANIMA Research.

B. Sector Allocation

From a sector standpoint, we remain constructive on Cyclicals, with a mild preference for Growth sectors (**Figure 16**). Long-duration sectors have proven resilient to the high interest rates environment and have outperformed the broader market. The near-zero correlation suggests that yields no longer drive the Growth versus Value trade (**Figure 17**). **We continue to selectively favour the Magnificent 7**. While pairwise correlations among these stocks have declined sharply, the group as a whole has rebounded from April lows (**Figure 18**). Within Defensives, we upgrade Pharma, Biotechnology & Life Sciences to NEUTRAL (from SHORT) as we believe most of the bad news is already priced in, reflected in the depressed relative forward P/E (**Figure 19**), strong EPS Momentum (**Figure 20**), and signs of a bottoming U.S. dollar.

Figure 16

Tactical Sector Recommendations – July 2025

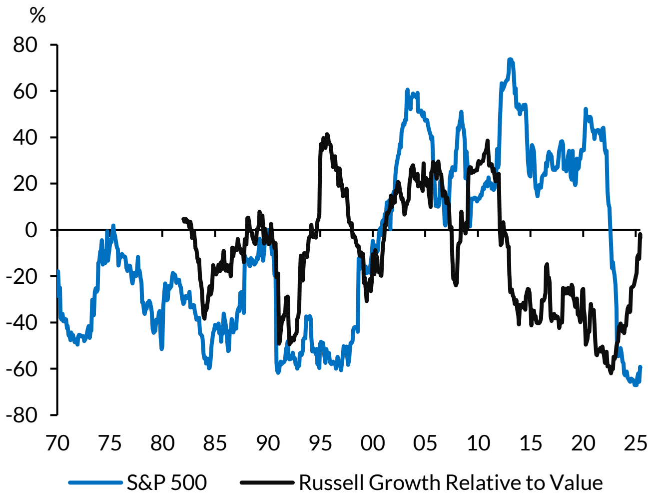
Industry Group Allocation

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

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

Figure 17

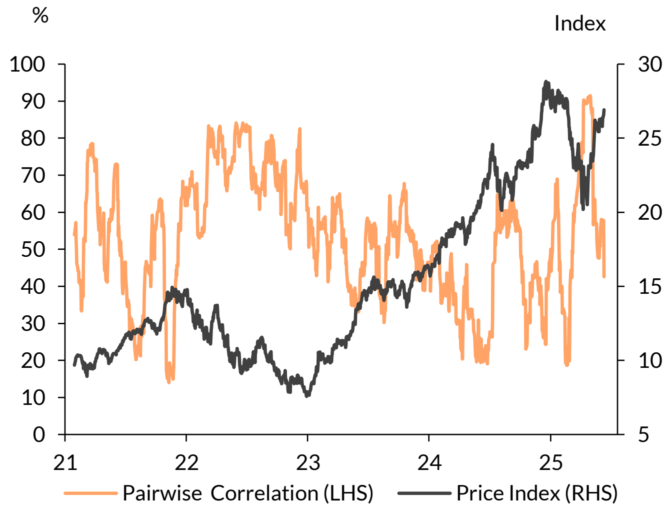
Correlations:10y UST yield and US Equities



Source: MSCI, ANIMA Research.
Note: 3-year rolling correlation.

Figure 18

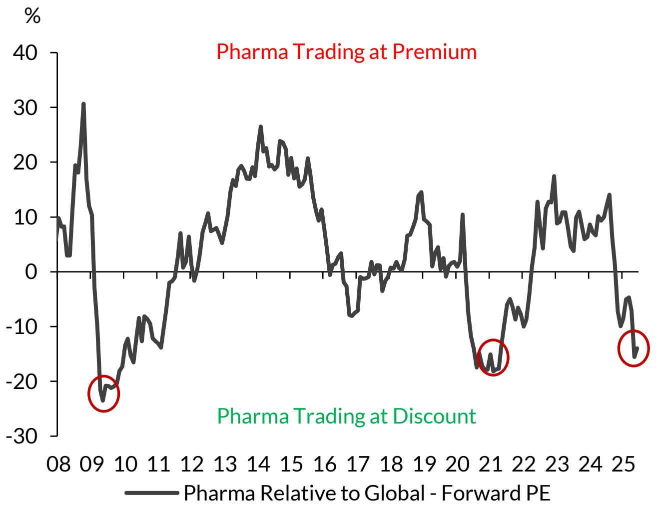
Magnificent 7



Source: MSCI, ANIMA Research.

Figure 19

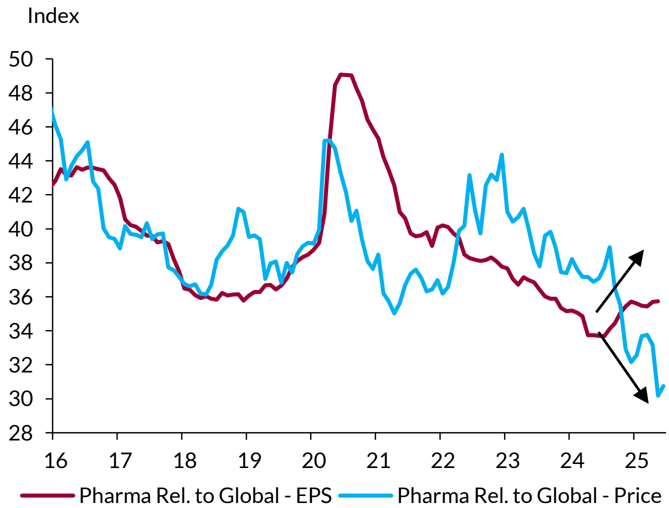
Global Pharma - Relative Valuation



Source: MSCI, ANIMA Research.

Figure 20

Global Pharma - Relative Price and EPS Mo.



Source: MSCI, ANIMA Research.

Strategic view

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. At this stage, downside risks (such as a potential recession) and upside risks (including supportive fiscal policy and a possible peak in tariffs) appear broadly balanced. In this context, **we continue to favour Cyclicals over Defensives, with a preference for Growth-oriented names**. Regionally, **we maintain a preference for the US,** expecting its leadership within global equities to persist, driven by the strength of its Large-cap companies.

APPENDIX

Figure 1A

US Tactical Sector Recommendations – July 2025

Industry Group Allocation

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

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

Figure 2A

Pan European Tactical Sector Recommendations – July 2025

Industry Group Allocation

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

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

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