Investment Outlook

NOT ENOUGH

AUTHORS

Fabio Fois
Head of Investment Research & Advisory
fabio.fois@animasgr.it

Valerio Ceoloni
Senior FX/EM Strategist
valerio.ceoloni@animasgr.it

Chiara Cremonesi
Senior Rates Strategist
chiara.cremonesi@animasgr.it

Cosimo Recchia
Senior Equity Strategist
cosimo.recchia@animasgr.it

Francesco Ponzano
Junior Equity Strategist
francesco.ponzano@animasgr.it

RATES

USTs

We remain tactically NEUTRAL:

1) On the one hand, following the recent rally in USTs, we believe that monetary policy expectations for the Fed have become too dovish. The markets are pricing in two additional rate cuts this year and the Fed funds rate declining below neutral in H2 2026, compared to ANIMA's forecast of two rate cuts this year (October and December) and three additional cuts in 2026, which would bring the Fed funds rate slightly below neutral by September 2026. Market expectations are not consistent with our macro baseline, which anticipates a recovery in economic momentum starting in Q4.

2) On the other hand, investors have recently become more sensitive to negative economic news, putting a downward bias on yields in the short-term.

We continue to recommend **increasing exposure at 4.50-4.60% and turning SHORT at 3.80%.**

Strategically, we are shifting to a NEUTRAL position (previously CONSTRUCTIVE with a negative outlook). While current yield levels remain historically appealing, barring a sudden slowdown in economic momentum (which is not our baseline), we believe there is very little room (if any) for yields to decline from current levels.

In fact, we see risks skewed more towards higher rates from here for the following reasons:

1) We expect growth to re-accelerate in 2026, though it will remain moderately below potential.

2) Full, tariff-related, upside risks to inflation have yet to be priced in.

3) We expect a dovish-leaning Fed to cut rates to slightly below neutral by Q3 2026, with risks of an even quicker adjustment. This represents a more aggressive pace of easing than warranted by our macro-outlook.

4) We anticipate an increase in the political risk premium embedded in USTs.

5) Supply pressures are expected to accelerate in 2026.

The main risk to our strategic NEUTRAL positioning on USTs is a further deterioration in the macroeconomic outlook, with the US economy possibly flirting with recession, a scenario that would justify an accelerated rate-cutting cycle. In such a case, the macro-outlook would become the main driver of government bond performance, leading to a decline in 10Y UST yields well below 4.0%.

Bund

We remain tactically LONG. We continue to believe that the market's pricing of the ECB (no rate cut by year-end) is too hawkish, given our projection of anaemic euro area growth this year and ongoing disinflation for the remainder of 2024.

That said, **we maintain our accumulation bar at 3.0-3.10% while recommending a switch to NEUTRAL in the 2.50-2.60% range,** as we gradually transition to a Bund market increasingly driven by expectations of higher growth and elevated fiscal spending.

Strategically, we remain NEUTRAL. With EA growth expected to accelerate in 2026 and Bund supply rising sharply, the medium-term bias for Bund remains upward, although strong demand for EA government bonds is likely to partially offset this pressure.

BTP

We remain tactically NEUTRAL. We continue to believe that the potential for a further decline in the spread in the near term is limited, as we think that positive news on the fiscal side (Italy will probably bring the deficit-to-GDP ratio below 3% as early as 2026) has already been mostly priced in. At the same time, BTPs remain highly correlated with Bunds.

We maintain the accumulation bar at 3.90-4.0%, while we would turn tactically SHORT at 3.20%.

Strategically, we remain NEUTRAL. The high and positive correlation with Bunds suggests an upward bias for BTP yields in the medium term. That said, we expect solid demand for BTPs (due to appealing yields and a steeper curve compared to Bunds) and an improvement in the fiscal outlook to offset at least some of the upward pressure.

EQUITY

We turn tactical LONG (from NEUTRAL previously). The market has digested the weaker-than-expected US labour data, as well as notable style rotations. Growth stocks lagged 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 (from NEUTRAL previously). We remain LONG on Japan, stay NEUTRAL on Europe and EM, and maintain a SHORT position on the UK.

From a sector standpoint, we recommend increasing exposure to cyclical AI-related sectors (previously, we took a barbell approach in terms of 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 on last years' 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 the following year.

2) **Fiscal Policy:** it expected to be expansionary on both sides of the Atlantic, supporting both 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. Historically, stock prices have risen even when earnings estimates have been revised downward.

4) **Valuation:** the global stock market is flirting with bubble territory. Our composite valuation indicator shows equities are nearly two standard deviations more expansive 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 in EM. Sector-wise, **we favour Cyclicals over Defensives**, with a bias towards growth-oriented names.

FX

EUR/USD – Tactically, we turn LONG EUR/USD and SHORT DXY (from NEUTRAL). In line with the rhetoric at Jackson Hole and following unexpected weakness in recent labour market data and substantial downward revisions to non-farm payrolls (NFP) for 2024-2025, we expect the FOMC to adopt a more dovish tone at its September meeting, with Powell's priorities likely to shift from inflation concerns towards the labour market.

Strategically, we remain LONG EUR/USD and SHORT DXY. By 2026, we anticipate several factors will continue to weigh on the dollar: macroeconomic and policy divergences between the US and the Euro Area; a rebalancing of the US current account following the impact of tariffs; a sustained trend of FX reshuffling among market participants into other major currencies; and, finally, persistent uncertainty around Federal Reserve independence, particularly in light of Powell's planned departure in May.

JPY – Tactically, we turn LONG (from NEUTRAL). As we expect the FOMC to adopt a more dovish tone at its September meeting - owing to Powell's shifting priorities between inflation and labour market - we anticipate short-term yen appreciation. **Strategically, we remain LONG**, expecting the Bank of Japan to continue raising rates this year due to persistently elevated core inflation. However, we anticipate the BoJ will moderate the pace of tightening to minimise market volatility. We expect the next hike in September, followed by another by Q12026.

GBP – Tactically, we remain NEUTRAL. A lack of domestic drivers is likely to leave the pound relatively muted. **Strategically, we shift to NEUTRAL (from SHORT).** The Bank of England may lag the Fed in cutting rates due to more uneven disinflation momentum in the UK compared to the US. Furthermore, we anticipate that the UK-US trade deal will help sustain growth, as the 10% tariffs are likely to have only modest impact on output. We expect an additional 50 basis points of rate cuts through the first half of 2026. Our preference remains for long EUR/GBP positions.

ANIMA INVESTMENT RESEARCH

FABIO FOIS
Head of Investment Research & Advisory
fabio.fois@animasgr.it

CHIARA CREMONESI
Senior Rates Strategist
chiara.cremonesi@animasgr.it

FRANCESCO PONZANO
Junior Equity Strategist
francesco.ponzano@animasgr.it

VALERIO CEOLONI
Senior EM/FX Strategist
valerio.ceoloni@animasgr.it

MATTEO GALLONE
Junior Macroeconomist
matteo.gallone@animasgr.it

COSIMO RECCHIA
Senior Equity Strategist
cosimo.recchia@animasgr.it