Equity Strategy
STILL NEUTRAL GOING INTO THE SUMMER

Cosimo Recchia
Senior Equity Strategist
Investment Research

Our tactical position remains NEUTRAL. *Despite increasing challenges such as positioning, seasonality, and earnings, we anticipate the global benchmark to remain near current levels. A favourable interest rate backdrop will underpin the lower limit, with Q2 earnings season projected to be less strong than in prior periods, alongside unfavourable seasonal trends in August and September, capping the upper limit.*

From a regional perspective, we have upgraded Japan to LONG *(previously NEUTRAL). At the same time, we maintain a LONG position on the US given its sustained stability, and a SHORT position on Europe due to political uncertainties caused by the French elections. However, we emphasise that our regional strategy is highly tactical. If the likelihood of a centrist government in France increases, we would shift to a LONG position on Europe and adopt a NEUTRAL position on the US and Japan.*

At the sector level, we maintain a robust Growth/Quality bias. *Tech has been upgraded to LONG (from NEUTRAL) due to strong EMO, low credit risk, and solid balance sheets. Conversely,* **we are scaling back on cyclical sectors**, *downgrading Capital Goods and Energy to SHORT (previously NEUTRAL).*

We are strategically maintaining an OVERWEIGHT position, as we expect significant market gains of 15-20% this year. *We also view any market dips as buying opportunities. Historically, in the US, a robust first half (15%+) often precedes a positive second half, with the exception of the well-known event in 1987 known as Black Monday.*

We expect the ongoing Bull market to increasingly favour Growth/Quality sectors. *Considering our macroeconomic environment, a scenario where traditional Value Cyclical stocks regain momentum, appears unlikely in the foreseeable future.*

Two notes of caution.

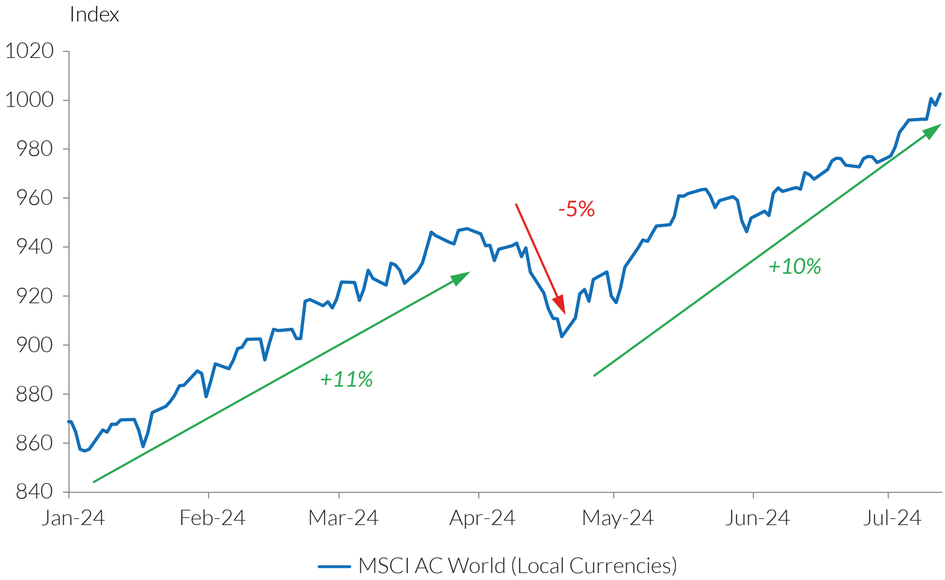
1. *Despite the cautious approach adopted for our projected growth forecast for the US economy not yet influencing our strategic outlook, mounting evidence suggests increasing risks, thereby balancing our strategic positioning.* **We maintain our expectation for growth to experience a gradual deceleration, with core inflation momentum remaining moderate throughout the year.** *Provided the market adjusts to our macroeconomic expectations—despite earlier considerations of potential re-acceleration in these metrics, we anticipate stocks will remain well-supported.* **Once this phase ends, we believe it will be necessary to review our strategic positioning.** *If evidence suggests that the US economy has reached the end of its post-pandemic recovery phase, the market may begin to perceive recessionary risks. At this point, any Fed policy adjustments would no longer support equity markets and could instead hinder them, signalling a shift from disinflationary easing to recessionary conditions.*
2. *Leading up to the US elections, a short-term shift in market leadership is possible. Our current outlook suggests that Value Cyclicals might outperform Growth sectors, driven by the upward trend in yields.*

1. The raging bull

The global benchmark keeps recording new all-times highs. The MSCI AC World rebounded c. 10% from mid April's lows outpacing the previous peak recorded at the end of March 2024 (**Figure 1**).

FIGURE 1.

MSCI AC World in local currency (MSELACWF Index on Bloomberg)



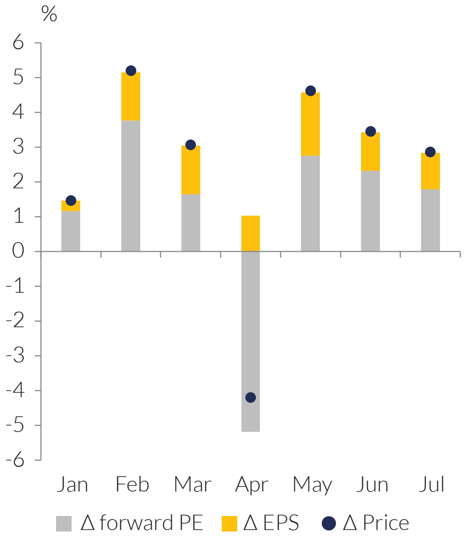
Source: MSCI, ANIMA Research. Prices as of 12th July 2024.

In our view, the last rebound in equities was mainly led by more dovish expectations on next Fed moves and still resilient EPS estimates. Since May the market has steadily priced around two FFR cuts by 2024 and added four additional cuts in 2025 (**Figure 2**) boosting the equities' multiple expansion (**Figure 3**).

FIGURE 2.
FFR according to the futures market YTD

Source: Bloomberg, ANIMA Research. Prices as of 12th July 2024.

FIGURE 3.
S&P 500 performance decomposition YTD



Source: MSCI, IBES, ANIMA Research. Prices as of 12th July 2024.

2. Tactical View - Still NEUTRAL

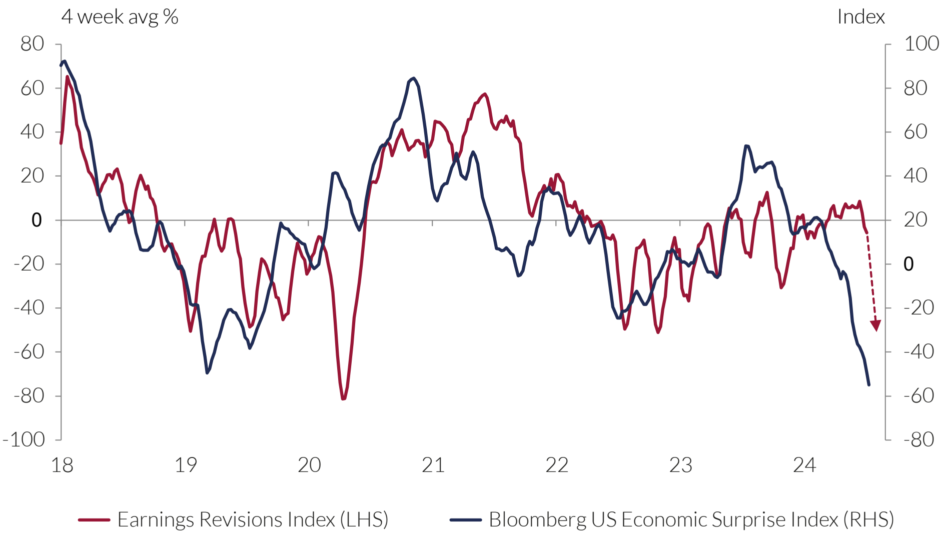
We remain NEUTRAL tactically. Despite increasing challenges such as positioning, seasonality, and earnings, we anticipate the global benchmark to remain near current levels.

a. Cyclical EPS estimates to be revised down

We agree with the market about the 50bp FFR cuts by the Fed in 2024, instead we are slightly more cautious on fundamentals. As mentioned already last month, we continue to believe that EPS estimates are still too optimistic without reflecting the current macro backdrop. The released economic data has been weaker than expected since the start of the year, but analysts have been still reluctant to trim their EPS estimates accordingly (**Figure 4**). In line with our new US GDP growth forecast for Q2 lowered by 30bp (1.8% from 2.1%), we expect such divergence to close, with a reacceleration of EPS downgrades during the ongoing Q2 reporting season. This will put downward pressures on prices.

FIGURE 4.

US Earnings Revision Index and US Economic Surprise Index



Source: Citi, Bloomberg, ANIMA Research.
Note:Earning Revision Index = (#upgrades - #downgrades) / (#upgrades + #downgrades)

In June, the forward EPS kept rising everywhere and with the largest increase in EM and Japan. Focusing on US sectors, only three out of 24 sectors saw downgrades, the most severe ones were in Auto (**Figure 5**). We think these estimates have to come down, especially across traditional Cyclicals.

FIGURE 5.

Forward EPS change since end of May

		US	EMU	UK	Japan	EM
	Headline	1,1	0,8	0,8	1,3	1,8
Cyclicals	**Energy**	1,0	0,7	-1,4	4,0	-2,6
	Materials	2,7	0,1	5,9	-3,5	2,5
	Capital Goods	0,2	1,1	1,5	1,6	-0,1
	Commercial & Professional Svcs	0,5	0,0	1,0	2,6	1,2
	Transportation	1,1	-0,8	-	3,0	7,5
	Automobiles & Components	-8,3	-0,1	-	-1,0	-1,1
	Consumer Durables & Apparel	0,1	0,7	0,4	-1,8	2,3
	Consumer Services	0,7	-1,2	1,8	0,3	6,7
	Retailing	1,3	1,8	0,4	-3,9	6,1
	Banks	1,5	1,1	1,1	6,4	0,2
	Diversified Financials	0,7	-2,5	-0,1	2,8	-0,9
	Insurance	-0,5	0,9	-0,6	13,7	2,4
	Real Estate	-0,2	0,4	-0,1	-2,8	-6,2
Growth	**Software & Service**	0,2	2,1	2,0	-0,6	0,8
	Tech Hardware & Equip.	1,1	-0,7	1,4	0,2	5,3
	Semis & Semi Equip.	8,1	3,2	-	1,2	6,6
	Media & Entertainment	0,5	-0,9	1,3	-3,2	3,0
Defensives	**Food & Staples Retailing**	1,3	0,3	20,7	0,7	3,7
	Food, Beverage & Tobacco	0,2	1,3	-0,5	1,3	0,8
	Household & Personal Products	0,7	1,3	0,4	5,8	0,9
	Health Care Equip. & Svcs	0,7	0,5	-4,2	2,3	0,3
	Pharma, Biotech & Life Sciences	1,0	0,4	1,6	-6,6	4,3
	Telecoms	2,6	0,3	-3,8	-5,1	-0,8
	Utilities	0,8	0,8	-2,1	4,7	-4,7

Source: MSCI, ANIMA Research.

b. Adverse seasonality

Another potential headwind for the asset class comes from seasonality. Historically August, and even more September, are negative months for stock prices, with the global benchmark losing on average 1% and 2%, respectively, and volatility rising. Analyzing the main regional pair trades, we see that in August the US tends to outperform the rest of DM, while Europe is generally the worst performer. Such trend usually reverts in September, with US being the underperformer while Japan and Europe outpace the benchmark (**Figure 6**).

FIGURE 6.

Seasonality – Regional Performance (%)

	MSCI AC World	DM rel to EM	USA rel to World ex ESA	Japan rel to World ex JP	Europe rel to World ex Europe	VIX
AUGUST						
2013	-2,1	-2,0	-1,6	-0,2	0,8	26
2014	2,4	0,6	3,0	-3,9	-1,2	-29
2015	-6,8	-0,2	1,5	-1,2	-1,0	135
2016	0,5	-2,3	-0,8	1,2	0,9	13
2017	0,2	-1,9	0,4	-0,5	-0,2	3
2018	0,9	1,9	5,1	-2,0	-4,8	0
2019	-2,2	0,6	0,5	-1,2	0,2	18
2020	5,6	4,0	3,5	1,8	-4,2	8
2021	2,5	0,5	0,9	0,6	-0,7	-10
2022	-3,1	-4,4	-1,6	5,2	-0,6	21
2023	-2,2	3,1	0,2	2,0	-0,7	0
10y Average	**-1,0**	**-0,4**	**0,7**	**0,0**	**-0,7**	**18**

	MSCI AC World	DM rel to EM	USA rel to World ex ESA	Japan rel to World ex JP	Europe rel to World ex Europe	VIX
SEPTEMBER						
2013	3,6	-0,4	-0,8	4,4	0,0	-2,4
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
10y Average	**-1,9**	**0,5**	**-1,3**	**2,4**	**1,1**	**9,2**

Source: MSCI, ANIMA Research. Note: we exclude 2020 in the average calculation given the idiosyncrasy of the year.

On style, August seems to be favorable for Momentum, Min Vol, and Quality/Growth tilted strategies. Going toward the autumn, Min Vol keeps outperforming marginally the rest of the market, whilst Growth underperforms its counterparty, i.e. Value (**Figure 7**).

FIGURE 7.

Seasonality – Styles Performance (%)

	AUGUST						
	Momentum rel	Min Vol rel	Quality rel	Growth Rel to Value	Dividend Tilt rel	Cyclicals rel to Defensives	Large rel to Small
2013	-0,8	-0,6	0,1	1,1	0,0	0,7	-0,4
2014	0,8	0,6	0,9	1,1	-0,2	-0,4	-1,0
2015	-0,4	2,5	0,3	-0,2	0,5	-0,7	-1,7
2016	-3,0	-3,0	-0,8	-1,6	-0,5	4,1	-0,1
2017	1,3	0,7	1,1	2,0	0,0	0,4	0,1
2018	3,2	0,0	1,8	3,7	-0,7	1,7	-1,0
2019	2,3	3,7	0,5	2,4	0,4	-2,3	1,4
2020	1,1	-4,0	0,5	3,9	-1,8	6,9	1,4
2021	0,7	-0,7	0,7	1,8	-1,0	0,8	0,0
2022	2,0	1,3	-1,9	-2,2	0,0	-1,3	-1,4
2023	1,4	1,0	1,3	0,8	0,0	-1,2	1,3
10y Average	**0,8**	**0,6**	**0,4**	**0,9**	**-0,1**	**0,2**	**-0,3**

	SEPTEMBER						
	Momentum rel	Min Vol rel	Quality rel	Growth Rel to Value	Dividend Tilt rel	Cyclicals rel to Defensives	Large rel to Small
2013	1,5	-1,4	-0,7	0,9	-1,0	2,4	-2,1
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	0,2
2023	0,6	1,7	-0,8	-2,8	0,8	-2,3	1,0
10y Average	**0,2**	**0,4**	**-0,2**	**-1,1**	**0,4**	**-0,7**	**0,5**

Source: MSCI, ANIMA Research. Note: we exclude 2020 in the average calculation given the idiosyncrasy of the year. Note: performance relative to MSCI World when not specified.

3. Tactical allocation: regional and sector recommendations

a. Regional allocation

We upgrade Japan to LONG (previously NEUTRAL). Meanwhile, we stay LONG US as safe moderation continues and SHORT EUROPE owing to political jitters from France. We warn, though, that our regional allocation is very tactical. Should odds of a centrist government in France rise, we would turn long Europe and neutral US and Japan (**Figure 8**).

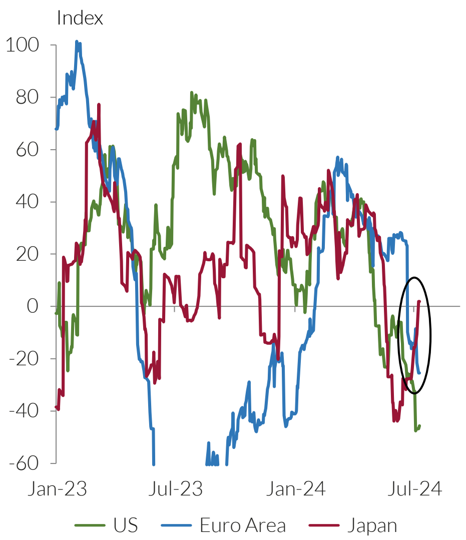
FIGURE 8.
Tactical Regional Recommendations – July 2024

Regional Allocation		
Long	**Neutral**	**Short**
US	EM	EMU
Japan		UK
European Country Allocation		
UK	Germany	France
Switzerland		Italy
Denmark		Spain
Netherlands		
EM Country Allocation		
Korea	Saudi Arabia	Indonesia
Taiwan	India	Brazil
	China	Mexico
	South Africa	

The upgrade of Japan is mostly due to improving local macro backdrop, improving earnings revisions, and still fair valuations despite the ongoing rally. From a macro standpoint, the Citi Economic Surprise Index for the region has been in uptrend since May, and eventually turned marginally positive for in July. In contrast, indices for both the US and Euro Area kept worsening (**Figure 9**). The better-than-expected economic environment drove Japan's earnings revisions to consolidate in positive territory, diverging from US and European ones (**Figure 10**).

FIGURE 9.

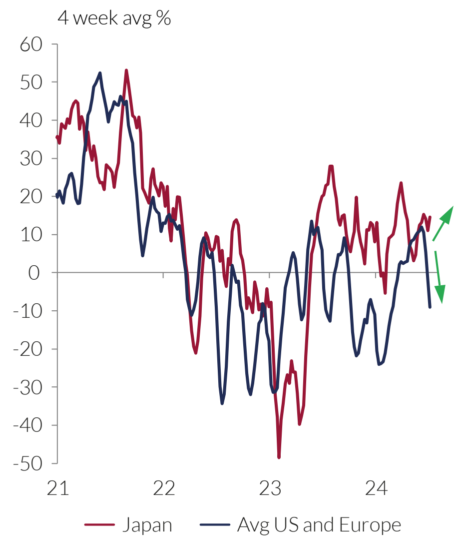
CESI – US, Euro Area, Japan



Source: Datastream, ANIMA Research.

FIGURE 10.

Earnings Revisions

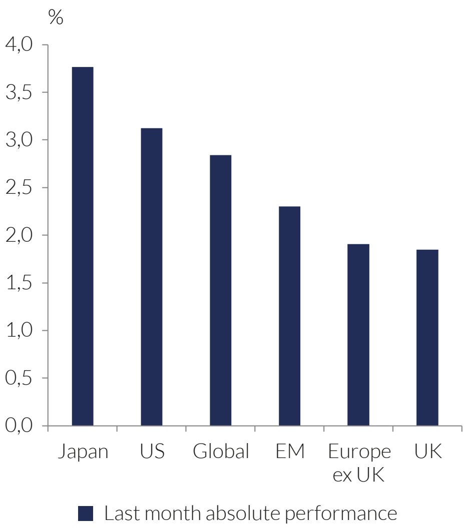


Source: Citi, ANIMA Research.

Furthermore, Japan still looks fairly priced in compared to the last 20 years, despite being the best performer stock market across the major regions over the last month (**Figure 11**). Given Japanese equities' sensitivity to the local currency, we used the differential between 10y US Treasury (UST) and 10y Japanese Government Bond (JGB) as a proxy of the USD/JPY exchange rate to evaluate a fair price for the region under different scenarios. With the current differential rate of approximately 3.2pp, Japan's current forward PE aligns with the average multiple implied by the model (**Figure 12**).

FIGURE 11.

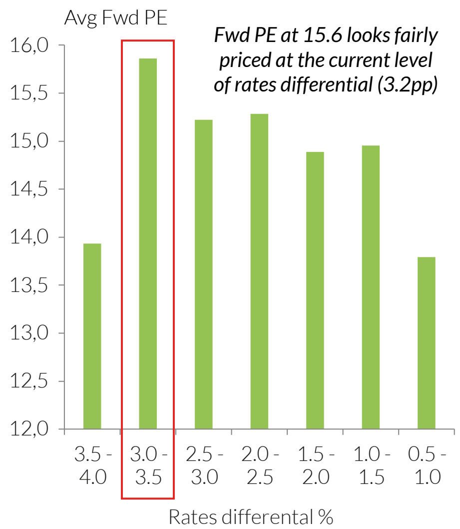
Major regions' absolute performance



Source: Datastream, ANIMA Research.

FIGURE 12.

Avg Fwd PE under different scenarios



Source: Datastream, ANIMA Research.

b. Sector allocation

At sector level, we continue to have a strong Growth/Quality tilt. We now upgrade Tech to LONG (previously NEUTRAL) owing to strong EMO, low credit risk and solid balance sheet. **We continue to decrease the cyclical tilt,** downgrading the following sectors:

- Commercial & Professional Services: cut to NEUTRAL (previously LONG) owing to weakening Earnings Momentum and poor consensus rating.
- Capital Goods: downgraded to SHORT (previously NEUTRAL) on the back of worsening Forward Net Margin and slowing Dividends Momentum.
- Energy: downgraded to SHORT (previously NEUTRAL) owing to expected lowering oil price and weak fundamentals.

Amongst the other cyclicals, **we keep Banks to Neutral despite early results of the reporting seasons are showing mounting pressures on Net Interest Income** regardless of the persistently high interest rates environment. But loan demand remains unspring and pressures from customers asking higher payout on deposits continue. For this reason, we prefer those institutions with higher percentage of revenues coming from Investment Banking/Markets rather than from traditional banking.

Within the Defensives, we tactically close the SHORT Pharma upgrading the sector to NEUTRAL (**Figure 13**).

FIGURE 13.

Tactical global sector recommendations – July 2024

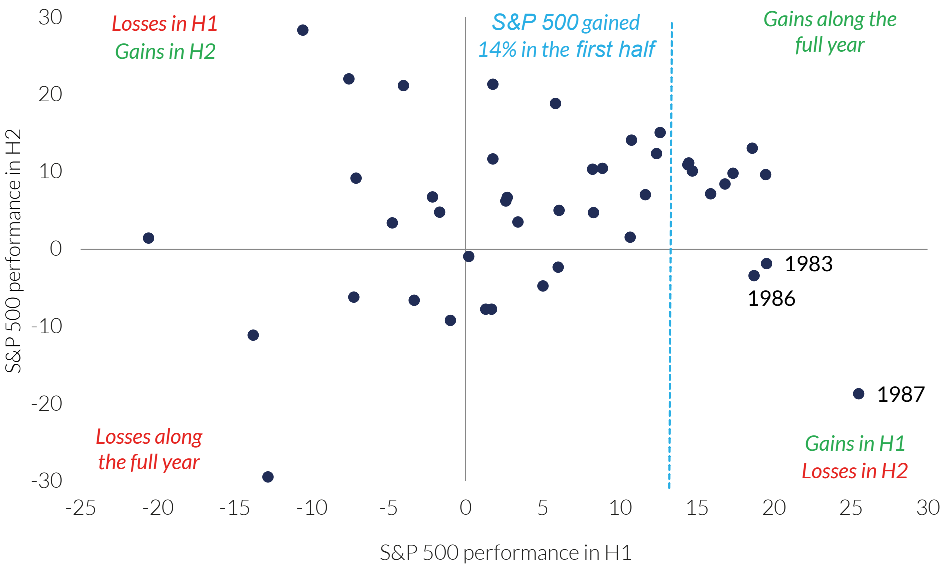
Industry Group Allocation		
Long	**Neutral**	**Short**
Media & Entertainment	Software & Services	Transportation
Semis & Semi Equip.	Retailing	Consumer Services
Telecoms	Household & Personal Products	Consumer Durables & Apparel
Food & Staples Retailing	Diversified Financials	Health Care Equip. & Svcs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

4. Strategic view: we stay OVERWEIGHT

We remain strategically OVERWEIGHT expecting the main markets to post a 15-20% performance this year. That said, we see any market weakness as a buying opportunity. Historically, in the US, a strong H1 (15%+) was often followed by a positive H2, with the only relevant exception of 1987, i.e. Black Monday (**Figure 14**).

FIGURE 14.

Annual S&P 500 performance since 1980



Source: S&P, ANIMA Research.

We see the current bull market to keep narrowing into Growth/Quality. Given our macro backdrop, a broadening, implying a reacceleration of traditional value cyclicals, looks quite unlikely going forward.

A note of caution. Despite the cautious approach adopted for our projected growth forecast for the US economy not yet influencing our strategic outlook, mounting evidence suggests increasing risks, thereby balancing our strategic positioning.

We maintain our expectation for growth to experience a gradual deceleration, with core inflation momentum remaining moderate throughout the year. Provided the market adjusts to our macroeconomic expectations—despite earlier considerations of potential re-acceleration in these metrics, we anticipate stocks will remain well-supported.

Once this phase ends, we believe it will be necessary to review our strategic positioning. If evidence suggests that the US economy has reached the end of its post-pandemic recovery phase, the market may begin to perceive recessionary risks. At this point, any Fed policy adjustments would no longer support equity markets and could instead hinder them, signalling a shift from disinflationary easing to recessionary conditions.

APPENDIX: GLOBAL AND REGIONAL RECOMMENDATIONS

Regional sector allocation in detail: United States

FIGURE 1A.

US Recommendations – July 2024

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

Regional sector allocation in detail: Europe

FIGURE 2A.

European Sector Allocation – July 2024

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

FIGURE 3A:

Industry Group tactical recommendations for the main regions – July 2024

	Global		Regions			
	Sectors	Industry Groups	US	Europe	Japan	EM
Overweight	Communication Services	Telecoms	1	1	0	1
		Media & Entertainment	1	1	0	0
	IT	Software & Services	0	1	0	1
		Tech Hardware & Equip.	1	0	0	0
		Semis & Semi Equip.	1	1	0	1
Netural	Financials	Banks	0	0	1	0
		Diversified Financials	0	0	1	0
		Insurance	-1	0	0	1
	Utilities	Utilities	0	0	-1	0
	Real Estate	Real Estate	0	0	-1	-1
Underweight	Health Care	Health Care Equip. & Svcs	-1	-1	1	0
		Pharma, Biotech & Life Sciences	-1	0	0	0
	Industrials	Capital Goods	-1	1	0	-1
		Commercial & Professional Svcs	0	-1	1	-1
		Transportation	-1	-1	-1	0
	Consumer Staples	Food & Staples Retailing	1	1	0	-1
		Food, Beverage & Tobacco	-1	-1	1	1
		Household & Personal Products	0	1	0	0
	Consumer Discretionary	Automobiles & Components	-1	-1	-1	1
		Consumer Durables & Apparel	-1	-1	1	0
		Consumer Services	-1	-1	0	-1
		Retailing	0	-1	1	0
	Energy	Energy	-1	-1	-1	-1
	Materials	Materials	-1	-1	0	-1

Source: GICS, MSCI, ANIMA Research Note: 1 = Overweight, 0 = Neutral, -1 = Underweight

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