Equity Strategy
TRUMP EUPHORIA

We reiterate our LONG stance. *We continue to believe potential positive catalysts will outweigh the risks associated with high valuations.*

Tailwinds: *The uncertainty around the US presidential election is fading, positive developments from China are likely to persist, Central Banks remain in easing mode, global economic surprises have shifted positive and seasonality supports the market.*

Headwinds: *high valuations.*

Tactically, LONG on US equities remains our strongest conviction call. We have upgraded Japan to LONG *(from SHORT) expecting local equities to benefit from a stronger US Dollar and increased interest from foreign investors. Meanwhile,* ***we have downgraded Europe excluding UK and UK to SHORT*** *(from NEUTRAL). This move is not a full rejection; rather, we simply identify more attractive prospects in other regions.*

At the sector level, we continue to advise a pronounced tilt towards cyclical assets, with a balanced barbell approach to style. *We remain LONG on Semiconductors and Media in the Growth sectors, while Banks and Diversified Financials are our top picks in the Value space.*

Strategically, we maintain an OVERWEIGHT stance, anticipating a 15% market gains in 2025 *(vs. earlier non-committal stance) driven by around 10% earnings growth and multiple expansion. Thus, we see any market dips as buying opportunities.*

Regionally, we strategically favour the US over the Rest of the World *due to a stronger macroeconomic backdrop. Our US GDP growth baseline aligns with our forecast that the US EPS will grow at least by 10% in 2025, with a possible further boost (around 4%) from tax reforms promised by President-Elect Trump during his campaign.*

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From a strategic perspective, we maintain a NEUTRAL stance on EM, although our outlook remains under review for a potential upgrade to OVERWEIGHT.

On the sector front, we maintain our strategic tilt toward Growth and Quality, *even with a slightly better-than-expected US macro backdrop and an increased likelihood of economic reacceleration in China.*

Market Overview

The global benchmark hit a new all-time high. The MSCI AC World Index rebounding approximately 12% from August's lows outpacing the previous peak recorded in mid-July (**Figure 1**).

FIGURE 1.

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

Source: MSCI, ANIMA Research. Note: prices as of 15th November 2024.

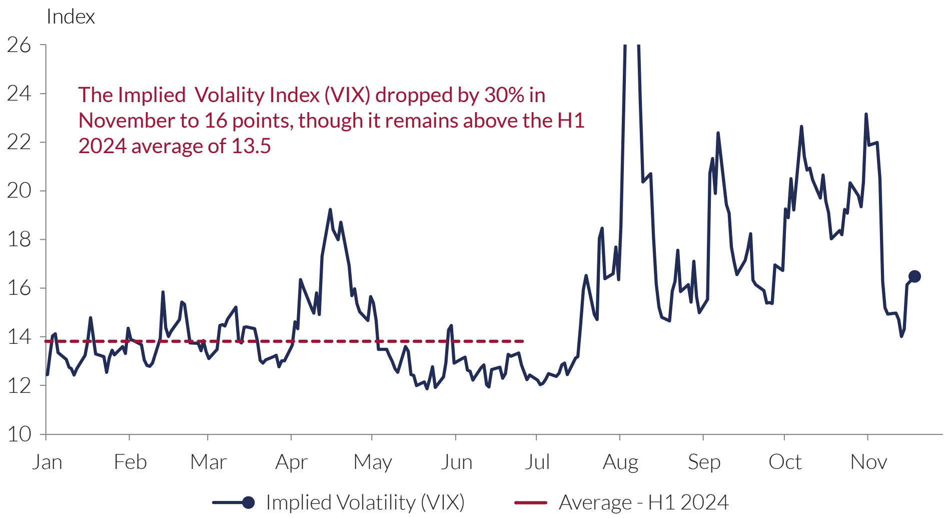
Tactical View –Ride the Momentum

We reiterate our LONG stance on equities adopted post-US election. With the political uncertainties now behind us, we suggest taking advantage of the current rally, which we anticipate will persist through the Christmas season. Indeed, the balance of risks in the global equity market is distinctively tilted towards the upside:

- **US presidential election uncertainty has subsided (+).** US implied volatility has declined by 30% to 16 points in November, according to the options market. For context, the average volatility in the first half of the year was 13.5 points, suggesting that there is room for further volatility compression (**Figure 2**). Historically, when implied volatility decreases while realised volatility rises, stock prices typically trend upward.

FIGURE 2.

Implied Volatility in the US in 2024



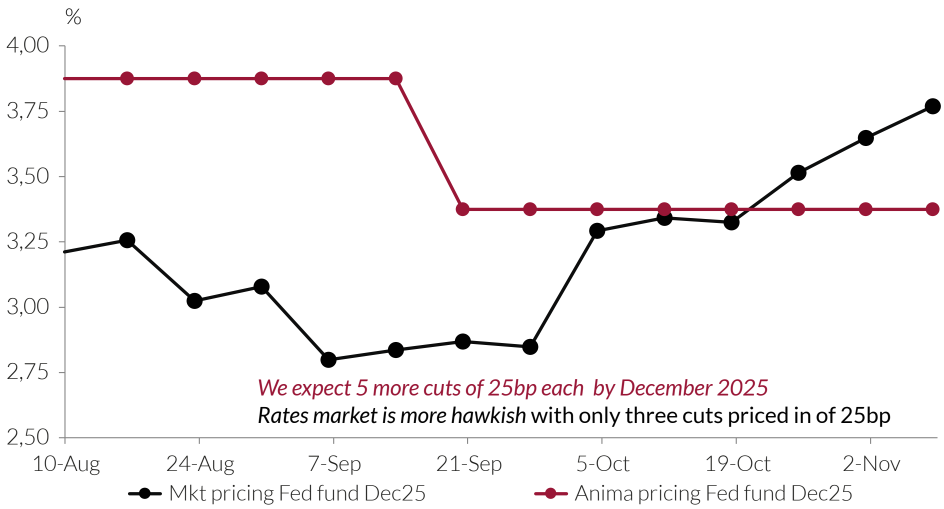
Source: Bloomberg, ANIMA Research. Note: prices as of 15th November 2024.

- **Positive news flow coming from China expected to continue (+).** We expect further stimulus from China, driven by a multi-year fiscal expansion plan, a larger-scale local government debt resolution, and increased central government debt financing. Following the 12 October policy pivot, authorities proposed a CNY 10 trillion debt swap and additional SLGB issuance for 2024–2028 to address local debt resolution at the NCP Standing Committee on 8 November, exceeding market expectations. However, details on pressing issues like housing inventory repurchase, bank recapitalisation, and consumer fiscal stimulus were limited, suggesting a preference for a phased implementation of the entire package.

- **The Fed deploys easing monetary policy for disinflationary reasons (+).** The Fed is in easing mode. Historically, equity tend to perform well during an easing cycle provided recession risks remain low. We expect five more rate cuts by December 2025, whereas the market is more hawkish, with only three cuts priced in (**Figure 3**).

FIGURE 3.

Fed Fund Rate Pricing: ANIMA vs the market



Source: Bloomberg, ANIMA Research

- **Incoming economic data better than expected (+).** Over the last three months, hard economic data are coming in stronger than anticipated, as shown by the CESI Global index, which has been rebounding steadily from its late-August lows (**Figure 4**). This index tends to exhibit inertia, maintaining its trend once it shifts direction. CESI has turned positive in both the US and Europe, while it has deteriorated in the UK (**Figure 5**).

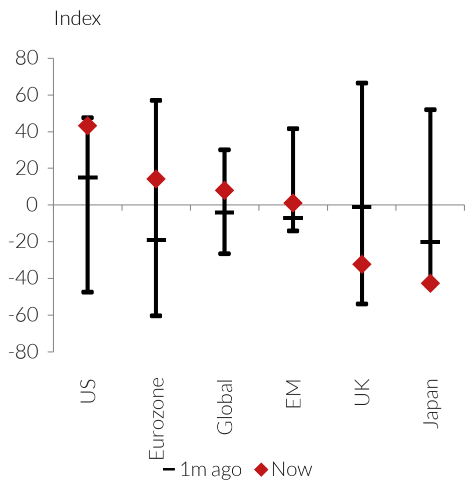
FIGURE 4.

Citi Economic Surprise Index – Global

Source: Bloomberg, Citi, ANIMA Research.
Note: prices as of 15th November 2024.

FIGURE 5.

CESI – Main Regions in 2024

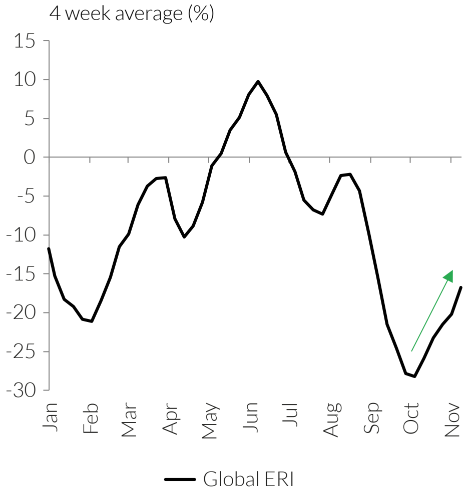


Source: Bloomberg, Citi, ANIMA Research-
Note: prices as of 15th November 2024

The better CESI readings are now reflected in a slowdown of EPS downgrades (**Figure 6**). The Earnings Revisions Index has been steadily climbing since hitting a low in October, turning positive in Japan last week, and showing improvement across all regions, with the exception of emerging markets (**Figure 7**).

FIGURE 6.

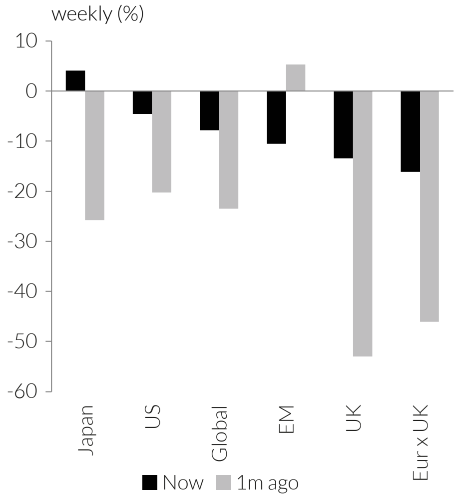
Earnings Revision Index - Global in 2024



Source: Bloomberg, ANIMA Research

FIGURE 7.

Earnings Revision Index – Main Regions



Source: Bloomberg, ANIMA Research

- **Seasonality (+).** Q4 is historically the best-performing period for the stock market globally (**Figure 8**). Over the last five years, global equities have performed well in December on four occasions, with an average gain of 1.8%.

FIGURE 8.

Average monthly performance since 1987

	Average Monthly Performance (%, since 1987)						% of Time Up
	Global	US	Europe	UK	Japan	Em	Global
January	0,6	0,7	0,8	-0,1	0,3	1,4	57
February	0,4	0,1	1,0	0,4	0,3	1,2	51
March	0,7	1,0	0,8	0,0	0,5	0,8	65
April	1,7	1,6	1,9	2,0	1,7	2,5	78
May	0,5	1,0	0,0	0,0	0,0	-0,2	62
June	-0,3	0,1	-0,5	-1,0	0,0	-0,4	51
July	1,4	1,6	1,2	1,3	0,3	1,3	67
August	-0,9	-0,7	-1,3	-0,6	-1,2	-1,7	56
September	-1,2	-0,8	-1,6	-0,9	-0,8	-0,8	50
October	1,2	1,4	1,4	0,8	-0,1	0,7	67
November	1,6	2,1	1,7	1,0	1,0	0,9	72
December	1,6	1,4	1,7	2,1	1,3	3,3	78
Average	0,6	0,8	0,6	0,4	0,3	0,8	63

Source: Bloomberg, ANIMA Research

- **Valuation (-).** Global equity valuations are becoming increasingly stretched, nearing bubble territory (**Figure 9**). Comparing current multiples with their 10-year historical averages, reveals concerning signals: the Equity Risk Premium stands at 1%, Price to Book at 3.3x, and FCF Yield at 3.6%, all of which suggest a need for a more cautious stance on this asset class. (**Figure 10**).

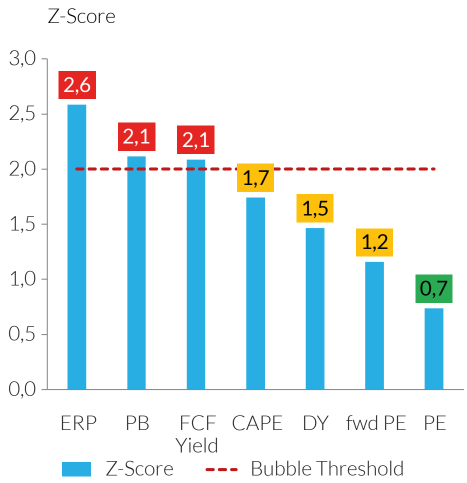
FIGURE 9.

MSCI AC World: Average Valuation Multiples' Z-Score

Source: Bloomberg, ANIMA Research. Based on 10 years of data.

FIGURE 10.

MSCI AC World: Z-Score for the main Valuation Multiples



Source: Bloomberg, ANIMA Research. Based on 10 years of data.

a. Regional Allocation

Tactically, LONG on US equities remains our strongest high-conviction call. Despite Trump's victory, we still favour EM, expecting the ongoing continuous positive new flows stream from China to continue. **We have upgraded Japan to LONG** (from previously SHORT) expecting the local equities to benefit from a stronger US Dollar and increased interest in further support from foreign investors. Meanwhile, **we have downgraded Europe excluding UK and UK to SHORT** (from previously NEUTRAL). This move is not a full rejection; rather, we simply identify more attractive prospects in other regions. (**Figure 11**).

FIGURE 11.

Tactical Regional Recommendations – November 2024

Regional Allocation		
Long	**Neutral**	**Short**
US		Europe ex UK
EM		UK
Japan		
EM Country Allocation		
China	Korea	Brazil
India	Taiwan	Mexico
	South Africa	Indonesia
		Saudi Arabia

Source: ANIMA Research. Note: Markets marked in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

b. Sector Allocation

At the sector level, we continue to recommend a clear cyclical tilt, maintaining a barbell approach to style (**Figure 12**)). As we anticipated in October, we now expect the ongoing outperformance of Small Caps to persist, leading us to **tactically neutralise our previous preference for Large Caps.**

In the Growth sectors, we remain LONG on Semiconductors owing to strong AI-driven demand for high-performance chips, China's semiconductor self-sufficiency initiatives and the anticipated boost in consumer electronics demand from AI product developments by major tech companies.

We also stay LONG on Media, supported by robust earnings and margin momentum, alongside its attractive valuation based on FCF Yield. Additionally, **we increase our exposure to Software** (from NEUTRAL) as the sector benefits from rising AI momentum, less exposure to trade war risks than Semiconductors, and the scalability challenges faced by semiconductor-driven AI.

In the Value sector, we have upgraded Banks and Diversified Financials to LONG (from NEUTRAL), expecting them to outperform under the new US administration. Moreover, Diversified Financials are currently displaying the second-best earnings momentum across all 24 GICS sectors. Meanwhile, we have downgraded Energy to SHORT, anticipating easing geopolitical tensions and sustained high oil supply. In the broader Energy sector, we believe that shorting Clean Energy (Growth) in favour of traditional Energy (Value) presents risks, as Clean Energy outperformed under Trump but lagged under Biden, despite their differing political agendas. Ultimately, macro factors like oil prices and real yields, have a greater influence than politics (**Figure 13**, **Figure 14**).

FIGURE 12.

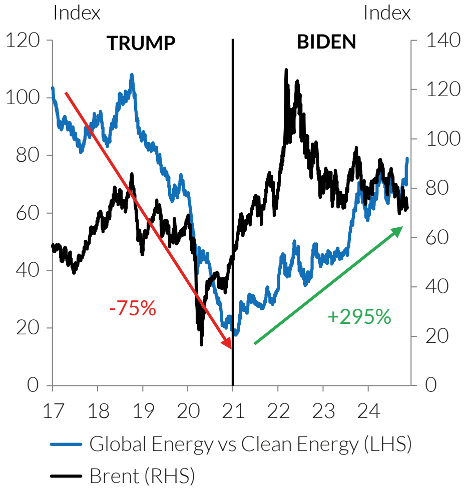
Tactical Sector Recommendations – November 2024

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

Source: ANIMA Research. Note: Sectors marked in green have been upgraded, while those in red have been downgraded from the October Strategy Focus..

FIGURE 13.

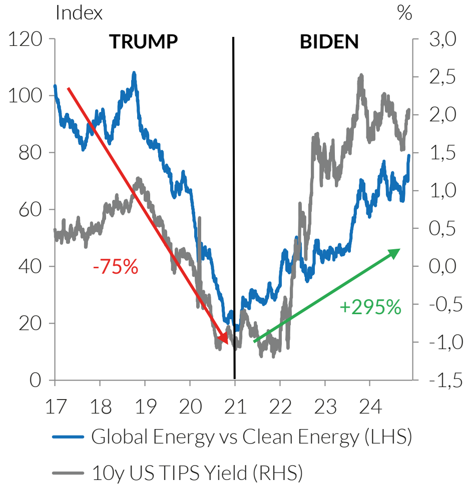
Energy relative to Clean Energy vs Brent



Source: Bloomberg, ANIMA Research. Based on 10 years of data

FIGURE 14.

Energy relative to Clean Energy vs Real Yield



Source: Bloomberg, ANIMA Research. Based on 10 years of data.

Strategic view: we stay OVERWEIGHT

Strategically, we maintain an OVERWEIGHT position, anticipating a 15% market gains in 2025 (previously not committed), primarily driven by approximately 10% earnings growth and multiple expansions. As such, we view any market pullbacks as buying opportunities. **From a regional perspective, we strategically prefer the US over the Rest of the World** owing to a relatively better macroeconomic backdrop. **Our baseline US GDP growth forecast supports our expectation of at least 10% EPS growth in the US in 2025**, with an additional potential 4% boost from the tax reform proposed by President-Elect Trump during his campaign.

From a strategic perspective, we maintain a NEUTRAL stance on EM, though we are keeping our outlook under review for a possible upgrade to OVERWEIGHT.

From a sector perspective, we maintain our strategic Growth/Quality tilt, despite a marginally improved macro backdrop in the US and the increasing likelihood of a Chinese economic reacceleration.

APPENDIX: REGIONAL RECOMMENDATIONS

FIGURE 1A.

US Recommendations – November 2024

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

Source: ANIMA Research. Note: Sectors marked in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

FIGURE 2A.

European Recommendations – November 2024

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

Source: ANIMA Research. Note: Sectors marked in green have been upgraded, while those in red have been downgraded from the October Strategy Focus.

FIGURE 3A.

Industry Group tactical recommendations for the main regions – November 2024

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

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

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