*Anima*Insight

Equity Strategy
UPSIDE RISKS ARE MOUNTING
Still Neutral ahead of US Election

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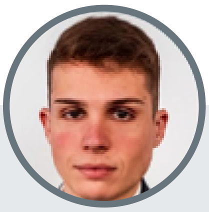

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Though reasons to turn tactically LONG continue to mount, we prefer to remain NEUTRAL for a few more weeks. *With the US election approaching, the risks of market volatility are significant, which could negatively affect year-end performance at this stage.*

Against this backdrop and consistent with our strategic OVERWEIGHT stance, we 1) keep buying the dips and 2) wait for the day after the US Election to reconsider our tactical stance following the guidance outlined in our previously published research (refer to the notes on Trump and Harris).

Positive catalysts *include encouraging news from China, Central Banks shifting towards easing policies, the bottoming out of negative economic surprises across key regions, existing EPS downward revisions, and supportive market technical factors.*

Negative catalysts *include volatility surrounding the US election, escalating geopolitical tensions, and increasing oil prices.*

From a regional standpoint, we upgrade EM to LONG *(previously NEUTRAL) owing to the expected positive news flow from China, an improving macroeconomic backdrop, and upward revisions in earnings.* ***We cut Japan to SHORT*** *(previously NEUTRAL), anticipating that the appreciation of the Yen will continue to exert downward pressure on local equities.* ***We reiterate our LONG stance on the US*** *despite anticipating some weakness around the Presidential Election.* ***We keep Europe at NEUTRAL****, recognising potential gains from Chinese stimulus while considering the regional economic slowdown.*

Sector-wise, we tactically propose a barbell approach, reducing our previous focus on Quality/Growth while increasing exposure to traditional Cyclicals.

Strategically, we maintain an OVERWEIGHT position*, as we foresee significant market gains of 15-20% over the next 12 months supported mostly by earning growth and multiple expansion. Therefore, we view any market dips 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 upgraded US GDP growth baseline supports our new view that the US EPS will grow at least by 10% in 2025*** *(previously high single-digit) unless there is a rise in the corporate tax rate.*

We maintain a NEUTRAL stance on EM, while keeping our outlook under review for a potential upgrade to OVERWEIGHT.

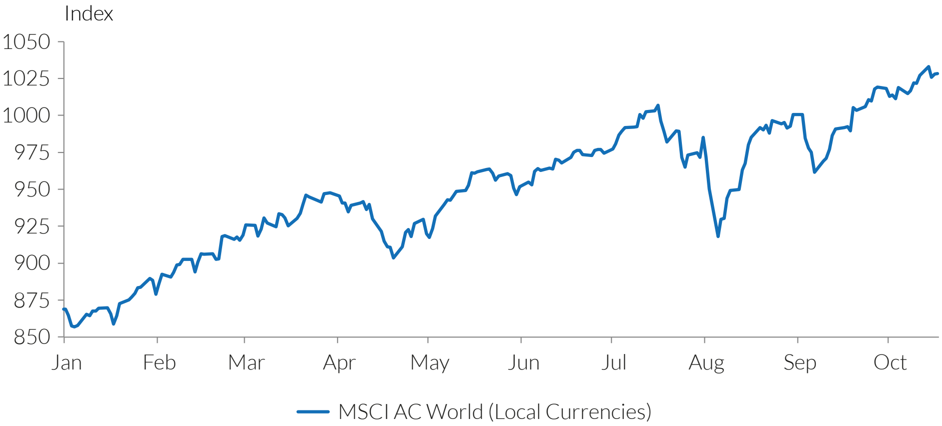
From a sector perspective, we maintain our strategic tilt towards Growth/Quality*, despite a slightly better-than-expected macro backdrop in the US and an increased likelihood of a Chinese reacceleration.*

Market Overview

The global benchmark hit a new all-time high. The MSCI AC World rebounded c. 11% from August's lows outpacing the previous peak recorded in mid-July (**Figure 1**).

FIGURE 1.

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

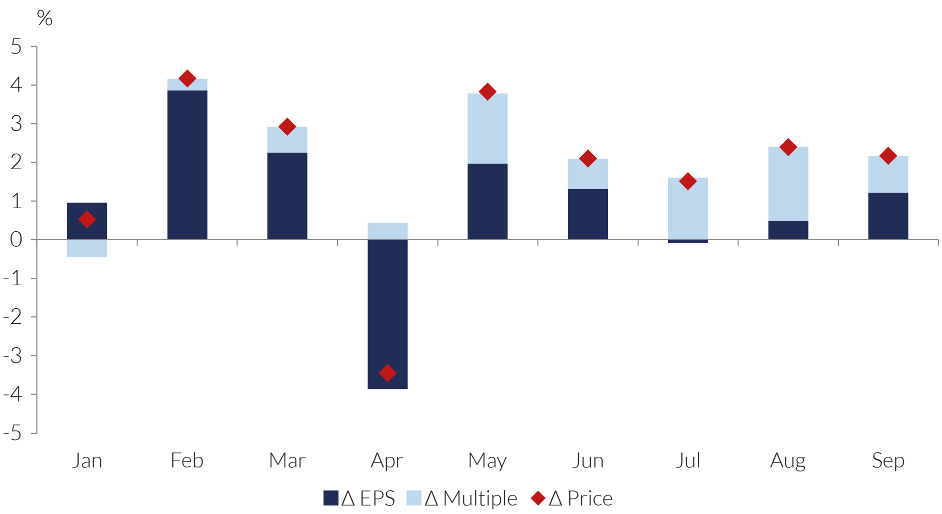


Source: MSCI, ANIMA Research. Note: prices as of 17th October 2024.

The most recent recovery in equities was initially driven by multiple expansions and subsequently EPS growth (**Figure 2**).

FIGURE 2.

MSCI AC World performance breakdown



Source: MSCI, ANIMA Research. Note: prices as of 30th September 2024.

Tactical View – Still Neutral

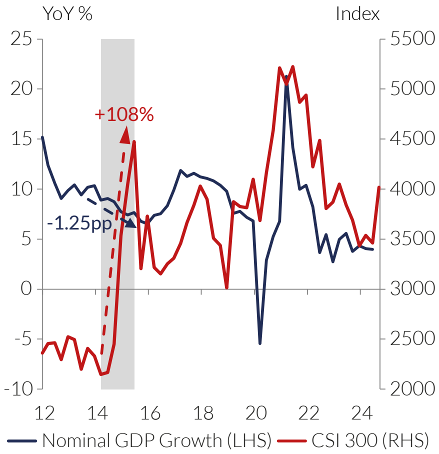
Despite upside risks increasing as the year comes to a close, we find a tactical NEUTRAL stance to be fitting, considering that the balance of risks related to the global equity market is currently finely tuned:

- **China's response to a weakening economy is reassuring (+).** On Saturday, 12th October, the Chinese Ministry of Finance unveiled a range of fiscal stimulus measures designed to support the economy and mitigate potential risks. These new fiscal policies follow the monetary measures introduced at the end of September. **We expect further stimulus initiatives in light of the announced multi-year fiscal expansion**, a larger-scale local government debt resolution, and an increase in central government debt financing.

  Against this backdrop, we believe that Chinese equities have the potential to rise further, regardless of the actual economic conditions. This implies that, provided expectations are sustained, stock prices have the potential to rise further, even in the face of sluggish growth momentum. From 2014 to 2015, the CSI 300 index doubled driven by liquidity and leverage, despite a decline in China's GDP (**Figure 3**). Additionally, it seems that negative economic surprises in China may have bottomed out. The Citi Economic Surprise Index, which had lingered around -40 points for six weeks, is now showing signs of improvement, supporting the sustainability of the Chinese equity rally (**Figure 4**).

FIGURE 3.

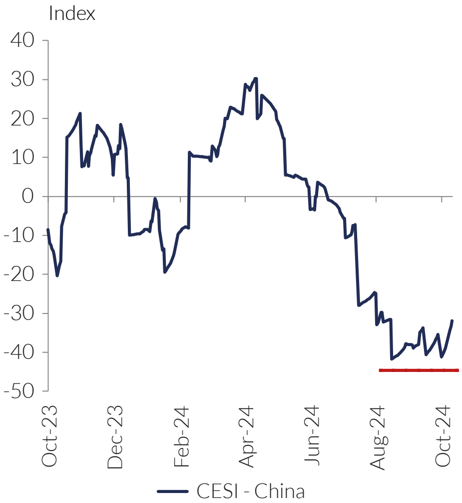
CSI 300 and Chinese Nominal GDP



Source: NBS, Bloomberg, ANIMA Research

FIGURE 4.

Citi Economic Surprise Index - China



Source: Bloomberg, ANIMA Research

- **The easing cycle has just begun (+).** The Fed is in easing mode for disinflationary reasons. The Fed is adopting an easing stance for disinflationary purposes. Historically, equities tend to perform well during an easing cycle when the risk of recession is low.

- **Incoming economic data is exceeding expectations (+).** Over the last six weeks, hard data has consistently come in less negative than expected, as evidenced by the CESI Global Index, which has been gradually rebounding from its late August lows. This indicator appears to exhibit a degree of inertia, maintaining its trend once it shifts direction. The CESI has already moved into positive territory in the US (**Figure 5**).

FIGURE 5.

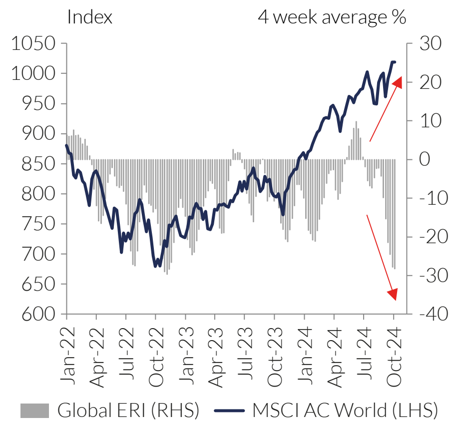
Citi Economic Surprise Index - Global

Source: Bloomberg, ANIMA Research

- **EPS downward revisions have been occurring since August (+).** Analysts are rapidly reducing their FY2 EPS estimates, yet equity prices have largely remained resilient in the face of this series of downgrades (**Figure 6**). Over the last month, Continental Europe and the UK experienced the most significant FY2 EPS cuts, with five downgrades for every two upgrades (**Figure 7**), despite this, the indices have demonstrated considerable resilience. **Our macro baseline suggests that the most significant downgrades might be behind us**, particularly as the economic surprise index in the US appears to have bottomed out in August. Historically, a reduction in downward revisions acts as a tailwind for stock prices.

FIGURE 6.

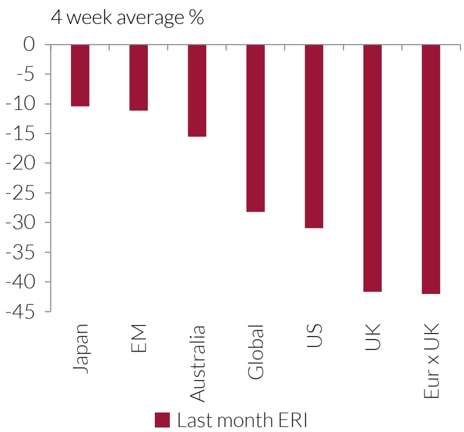
MSCI AC World and Earning Revisions



Source: MSCI, Citi, ANIMA Research

FIGURE 7.

Regional Earning Revisions Index

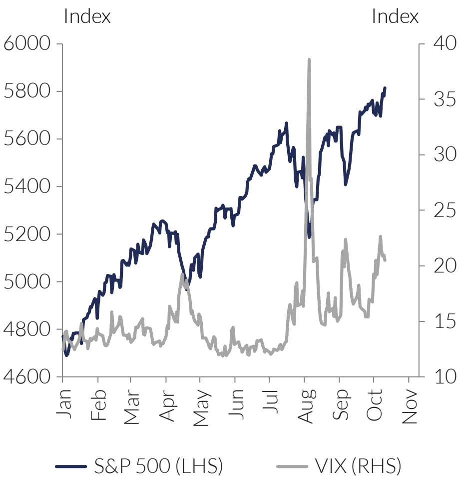


Source: Citi, ANIMA Research

- **Volatility has the potential to decrease further (+). With the exception of risks related to the US election**, volatility is decreasing, yet it is still above the levels seen before the market peak in July, indicating that more compression is still likely (**Figure 8 and 9**). Typically, **a decrease in volatility benefits the asset class.**

FIGURE 8.

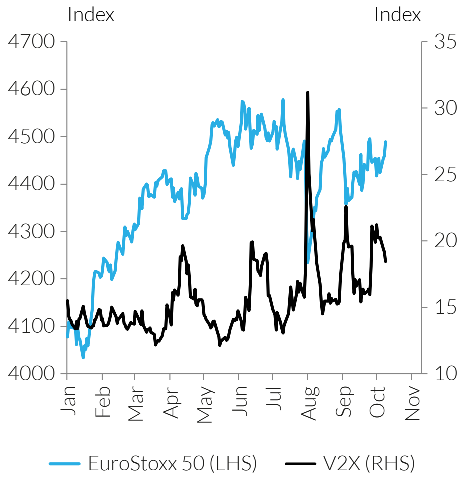
US equities and volatility



Source: Bloomberg, ANIMA Research

FIGURE 9.

European equities and volatility

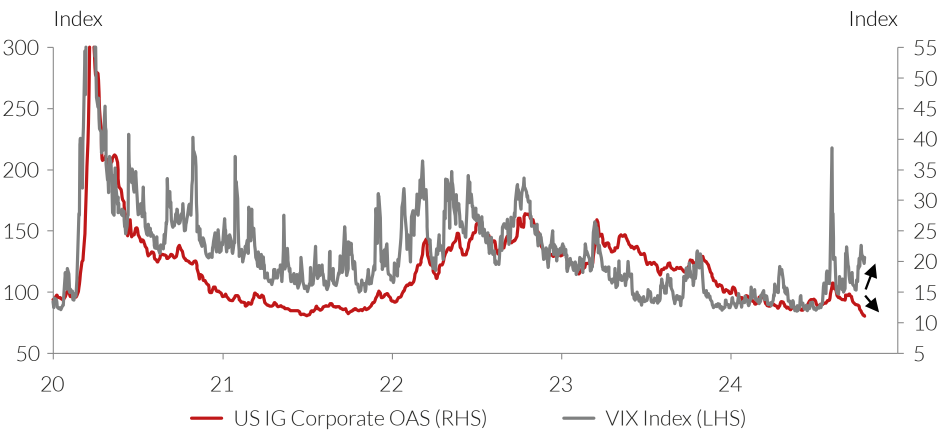


Source: Bloomberg, ANIMA Research

Stocks reached new highs due to the narrowing spread, rather than from reduced volatility. (**Figure 10**).

FIGURE 10.

US Volatility and US Investment Grade Spread



Source: Bloomberg, ANIMA Research

- **Seasonality (+). Q4 is historically the best period for the stock market across regions** (**Figure 11**). Over the last 10 years, global equities gained more than 3% on average, with gains in 9 out of 10 instances.

FIGURE 11

Average monthly performance since 1987

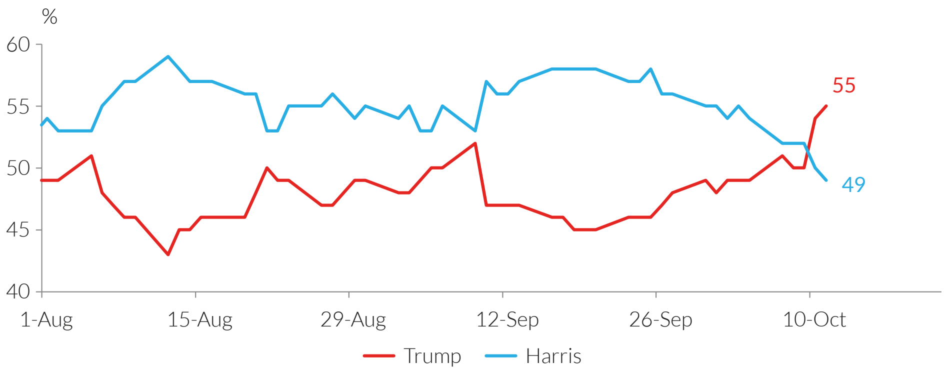
	Average Monthly Performance (%, since 1987)						% of Time Up
	Global	US	Europe	UK	Japan	Em	Global
January	0,6	0,7	0,8	-0,1	0,3	1,4	57
February	0,4	0,1	1,0	0,4	0,3	1,2	51
March	0,7	1,0	0,8	0,0	0,5	0,8	65
April	1,7	1,6	1,9	2,0	1,7	2,5	78
May	0,5	1,0	0,0	0,0	0,0	-0,2	62
June	-0,3	0,1	-0,5	-1,0	0,0	-0,4	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: MSCI, Datastream, ANIMA Research

- **Uncertainty around the US election (-).** The probability of victory for both candidates keeps changing, with Trump currently in the lead according to betting odds (**Figure 12**). As the election nears, volatility is anticipated to increase because the implications of a victory for either candidate could significantly impact US companies. **Marginally, Harris's win is expected to have a more negative tactical effect on US equities compared to Trump's.** We expect corporate fundamentals to decline considering the proposed increase in the tax burden.

FIGURE 12.

US Election – Candidate' victory odds



Source: PredictIt, Bloomberg, ANIMA Research

- **Geopolitical tension and oil prices (-)**. Starting from the end of September, rising geopolitical tensions and the announcement of Chinese stimulus measures caused Oil prices to surge by 14% (**Figure 13**). **Higher oil prices adversely affect sector earnings**, with the sole significant exceptions being the Energy and Materials sectors (**Figure 14**). However, the share of commodity-related sectors in global earnings has steadily declined, falling from approximately 25% prior to 2010 to its present figure of 11%.

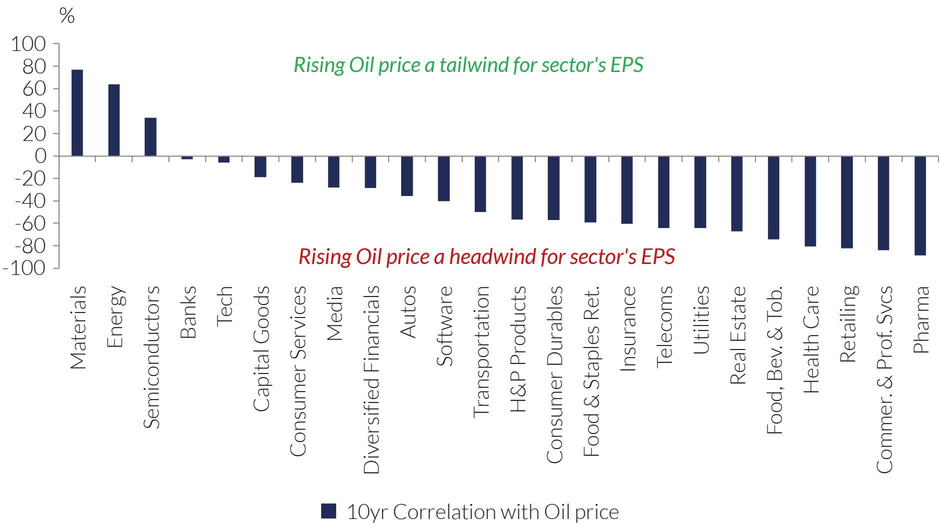
FIGURE 13.

Oil prices in 2024

Source: MSCI, Datastream, ANIMA Research. Note: prices as of 11th October 2024.

FIGURE 14.

Global sectors relative EPS and oil price

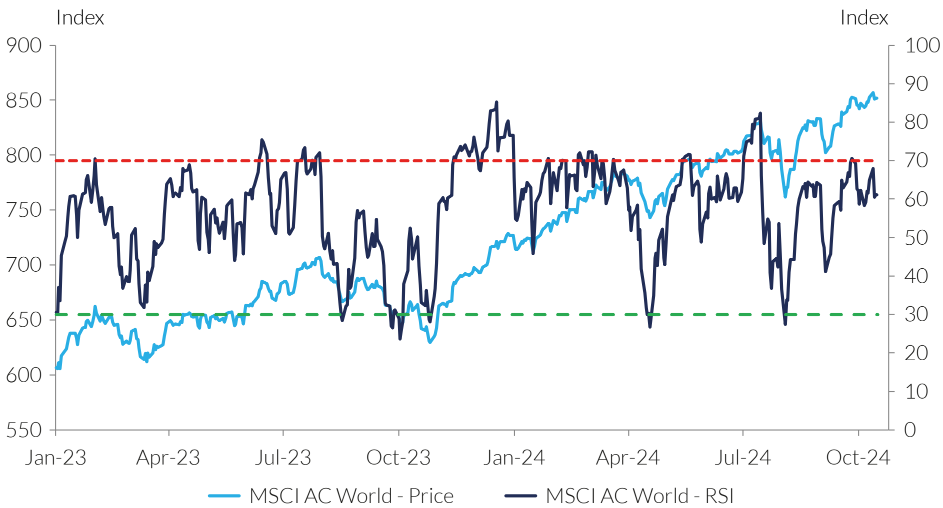


Source: MSCI, Datastream, ANIMA Research

- **Positioning (-).** Another temporary headwind for stocks might come from positioning, with the RSI nearing the overbought threshold. While this situation isn't an immediate trigger for selling, if the indicator surpasses 70, it might act as a headwind for equities (**Figure 15**).

FIGURE 15.

Global Equities and Relative Strength Index



Source: MSCI, Datastream, ANIMA Research. Note: prices as of 17th October 2024.

Tactical allocation: regional and sector recommendations

a. Regional Allocation

We have upgraded EM to LONG (previously NEUTRAL), driven by anticipated positive developments from China, a strengthening macroeconomic environment, and upward revisions in earnings. (**Figure 16, Figure 17**). **We cut Japan to SHORT** (previously NEUTRAL), anticipating that the appreciation of the Yen will continue to exert downward pressure on local equities. **Our stance remains LONG on the US**, although we anticipate some weakness during the Presidential Election period. **In contrast, we are maintaining a NEUTRAL stance on Europe**, recognising the potential upside from Chinese stimulus while being mindful of the regional economic slowdown.

FIGURE 16.

Tactical Regional Recommendations – October 2024

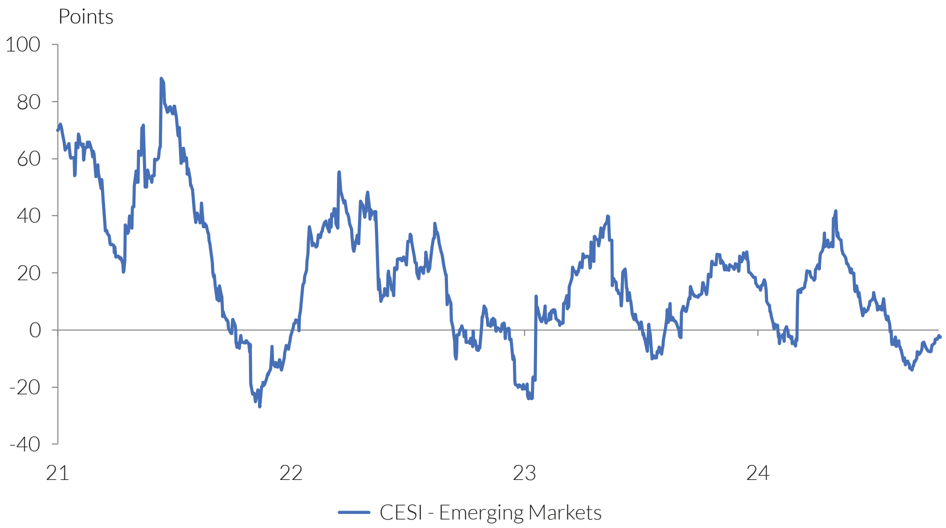
Regional Allocation		
Long	**Neutral**	**Short**
US	Europe ex UK	Japan
EM	UK	

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 September Strategy Focus.

FIGURE 17.

Citi Economic Surprise Index - EM



Source: Bloomberg, ANIMA Research

b. Sector Allocation

At a sector level, we suggest a barbell approach with a clear Cyclical tilt (**Figure 18**). We continue to favour Media and Semis, while also increasing our exposure in consumer-related sectors.

FIGURE 18.

Tactical Sector Recommendations – October 2024

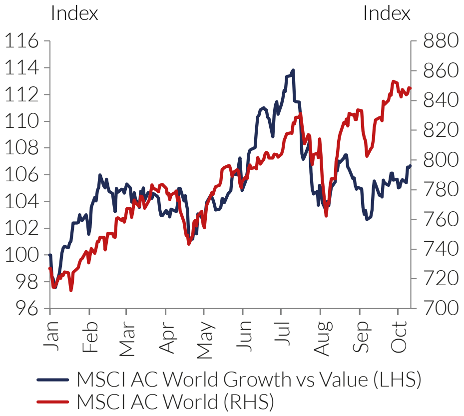
Industry Group Allocation		
Long	**Neutral**	**Short**
Media & Entertainment	Commercial & Professional Svcs	Health Care Equip. & Svcs
Semis & Semi Equip.	Software & Services	Food, Beverage & Tobacco
Retailing	Banks	Automobiles & Components
Consumer Services	Diversified Financials	Pharma, Biotech & Life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

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

We turn NEUTRAL on Growth versus Value (previously Quality/Growth tilt), anticipating that the ongoing sideways movement in this trade will persist, as seen since early September (**Figure 19**). **We maintain our preference for Large Cap stocks**, even though they have been trading in line with Small Cap trends since the summer (**Figure 20**). In the event of a Trump victory, we expect a pronounced yet temporary movement towards Value and Small Cap stocks.

FIGURE 19.

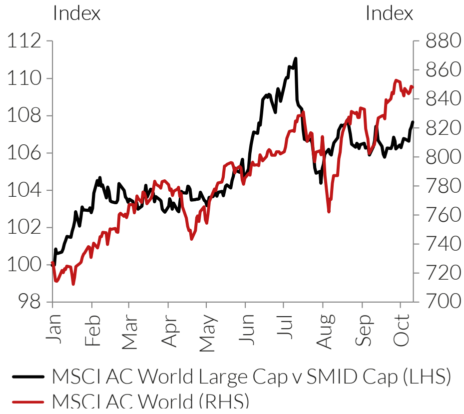
Global Growth relative to Value



Source: MSCI, ANIMA Research

FIGURE 20.

Global Large relative to SMID



Source: MSCI, ANIMA Research

Strategic view: we stay OVERWEIGHT

Strategically, we maintain an OVERWEIGHT position, as we foresee significant market gains of 15-20% over the next 12 months supported mostly by earning growth and multiple expansion. Therefore, we view any market dips as buying opportunities.

From a regional perspective, we strategically prefer the US over the Rest of the World owing to relatively better macroeconomic backdrop. **Our upgraded US GDP growth baseline supports our view that the US EPS will grow at least by 10% in 2025** (previously high single-digit) unless there is a rise in the corporate tax rate.

We maintain a NEUTRAL stance on EM, while keeping our outlook under review for a potential upgrade to OVERWEIGHT.

From a sector perspective, we maintain our strategic tilt towards Growth/Quality, despite a slightly better-than-expected macro backdrop in the US and an increased likelihood of a Chinese reacceleration.

APPENDIX: REGIONAL RECOMMENDATIONS

FIGURE 1A.

US Recommendations – October 2024

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

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

FIGURE 2A.

European Recommendations – October 2024

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

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

FIGURE 3A.

Industry Group tactical recommendations for the main regions – October 2024

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

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

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