Equity Strategy Focus
STILL LONG DESPITE RISING VOL

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We remain slightly LONG tactically. *We believe that the recent increase in volatility is mostly due to rising geopolitical tensions in the Middle East and FFR repricing rather than weakening earning expectations. Therefore, we continue to expect the MSCI AC World to reach a new peak by the end of the current reporting season for three reasons:*

1. *We expect a positive earnings surprise, and*
2. *We believe that most of the FFR repricing has already occurred*
3. *Plateau phase are historically favorable to equity investors.*

Against this backdrop, we continue to see near-term risk and reward, with the potential upside greater than the potential losses. *Accordingly, we remain buyers in times of market weakness, including the current one. We acknowledge that we are approaching late spring, a historically anemic time of the year for the asset class. However, we believe is still too early to adopt a prudent stance, which might* **be more appropriate going into June**.

From a regional standpoint, we have neutralized any regional preference *(previously DM > EM; Continental Europe ex SWI > US). We expect a broad-based bounce back.*

At the sector level, we maintain a barbell approach, preferring sectors with strong EPS momentum. *That said, we remain agnostic on growth vs value and will continue to chase cyclicals over defensives. We remain of the opinion that fundamentals and idiosyncrasies are in the leading seat.*

We remain strategically OVERWEIGHT, barring any further escalation in the Middle East and Eastern Europe. We expect the main stock markets to soar 10/15% this year *mainly boosted by earnings growth. Such constructive view is supported by macro data that keep surprising to the upside in every region for the second month in a row, and a steady improvement in real wage growth both in the US and in the Euro Area. Against this backdrop,* **we regard market weaknesses as buying opportunities as**, *in our view, the ultimate price correction is still some way off. This would require either a recession, and/or the Fed to get back on the war path (not our baseline).*

From a regional standpoint, we strategically prefer US over the Rest of the Word *(RoW) owing to a relatively better macro backdrop and the dominance in the AI sector.*

From a sector standpoint, we continue to strategically favor Growth names *owing to better earnings growth perspectives and declining sensitivity to rates. Among traditional Cyclicals we like Capital Goods, especially those names linked to the* ***on/near-shoring process****; ongoing geopolitical tensions further support this approach.* **Health Care and Utilities are our favorite Defensives.** *Meanwhile,* **style-wise, we continue to like Small Caps, especially in Europe, without giving up on Mega Caps**.

1. The break after the last sprint

Global benchmark still around all-times peak. The MSCI AC World rebounded c. 25% from last October lows reaching a new all-time peak at the end of March, before weakening back to early March levels (**Figure 1**).

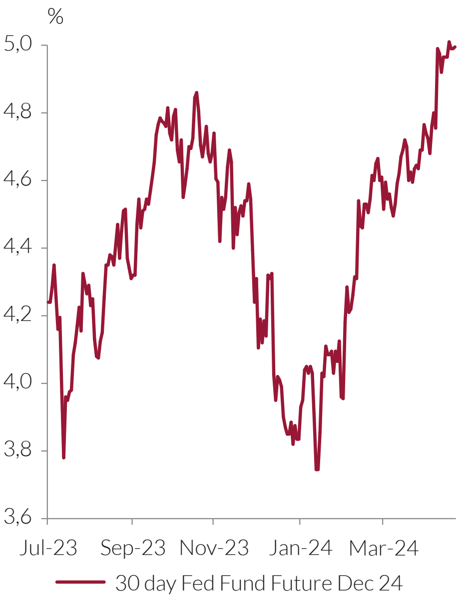
FIGURE 1.
MSCI AC World in local currency (MSELACWF Index on Bloomberg)

Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

In our view, the current volatility in equities is mostly due to rising geopolitical tensions in the Middle East and Fed Fund Rate (FFR) repricing. Both factors temporarily halted the rally, causing the MSCI AC World to lose c4% from the all-time highs recorded at the end of March. Since mid-January to end of March, the rates market revised by 95bp up its expectations of FFR for December 2024; nevertheless, equity performed strongly globally and across styles. In April, the FFR future kept grinding higher by further 28bp, but equities came down (**Figure 3**).

FIGURE 2.

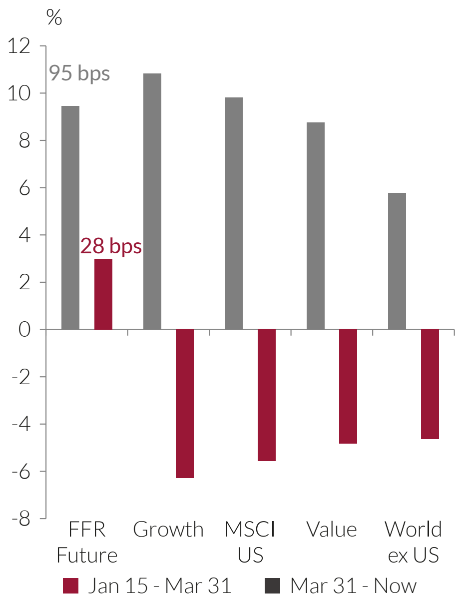
30 days Fed Fund future December 2024



Source: Bloomberg. Note: prices as of 19th April 2024.

FIGURE 3.

FFR Repricing and Equity



Source: MSCI, ANIMA Research.Note: prices as of 19th April 2024.

2. Tactical View – Still constructive

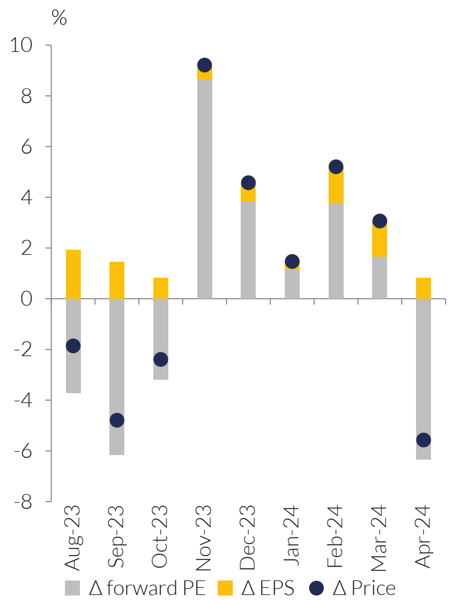
We remain slightly LONG tactically in this phase of market weakness, foreseeing the MSCI AC World to regain a new peak by the end of the current reporting season. The reason underlying such constructive view is threefold:

- **Earnings support here to stay**

The rising volatility of the last days is only due multiple compression, while fundamentals stay supportive. We still expect earnings to surprise to the upside again, providing further boost to the final leg of the equity rally before the likely early summer correction (less than 10pp). The analysis of monthly performance, breaking them down into the two components – multiple expansion/compression and EPS growth – points out as the latter always offered a support to stock prices over the last nine months of FFR plateau, and along the rally its relevance steadily increased (**Figure 4**). Back in November 2023, EPS growth contributed less than a tenth to the overall monthly performance; in March 2024, when global equities recorded the new all-time highs, it explained almost half of the gains (**Figure 5**).

FIGURE 4.

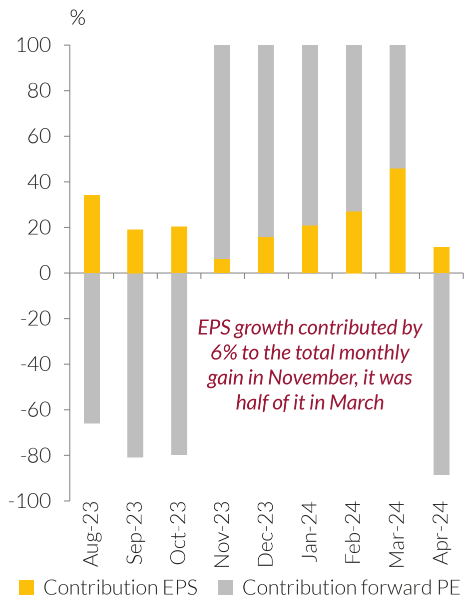
Monthly Performance Breakdown - US



Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

FIGURE 5.

Monthly Performance Contribution - US

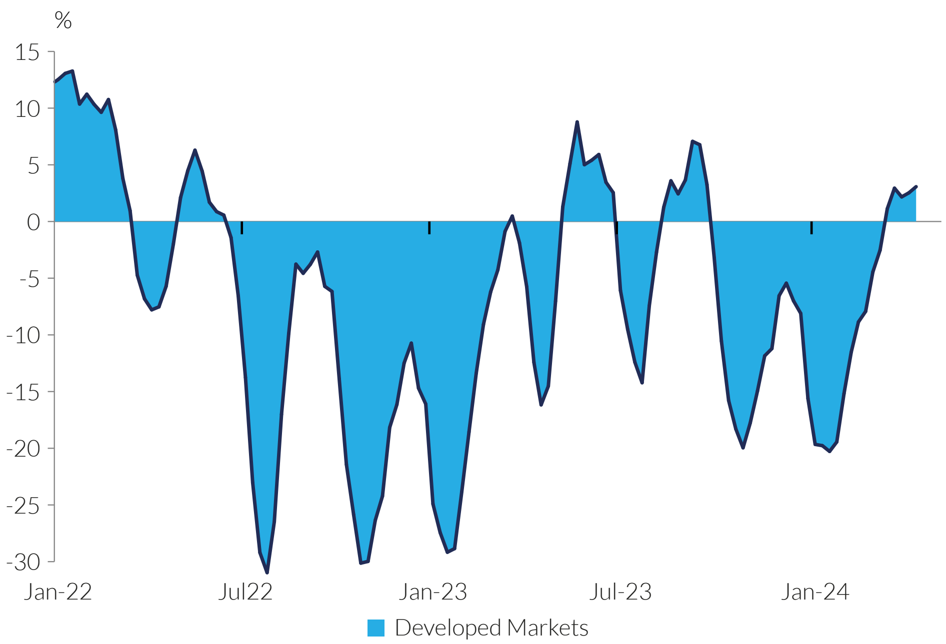


Source: MSCI, ANIMA Research.Note: prices as of 19th April 2024.

Consensus analysts continued to revise up their EPS estimates for the fifth week in a row, after six months where the number of downgrades exceeded the upgrades one (**Figure 6**).

FIGURE 6.

Earnings Revision Index – 1m average



Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

- **FFR repricing has already occurred**

We remain of the view, that that the macro-outlook remains consistent the need to ease monetary policy. Therefore, we now expect the Fed to cut rates by 50bp this year (vs. 100bp), in H2 (vs. June). Such path seems appropriate to us for two reasons:

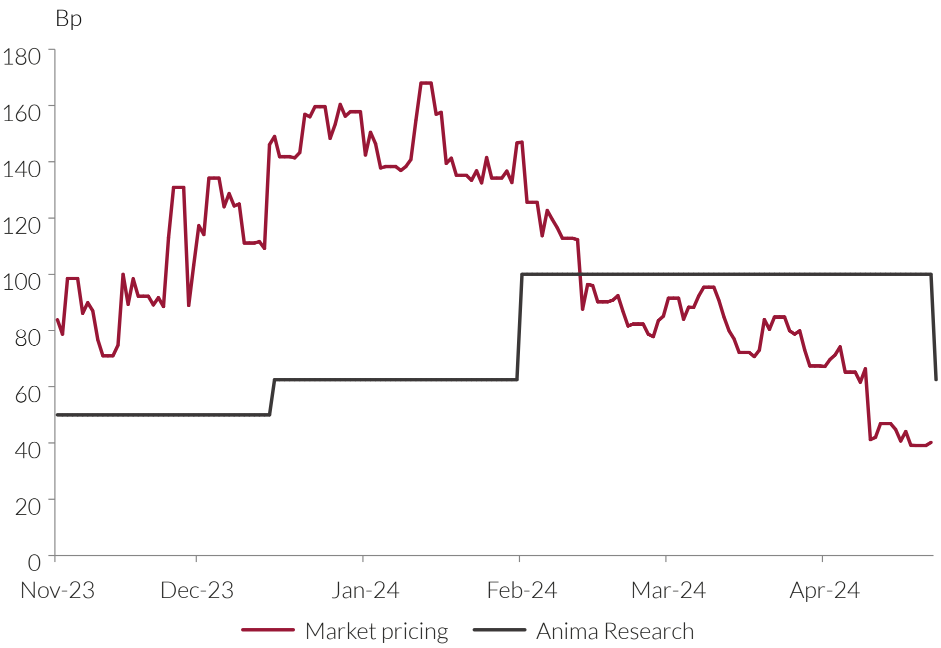
- firstly, it would be consistent with the aim of Fed that it wants to cut rates for disinflationary reasons, not for recessionary ones.

- Secondly, it would minimize risks that the easing move could backfire.

Now, we are more dovish than the market (**Figure 7**).

FIGURE 7.

FFR: Market pricing vs ANIMA baseline



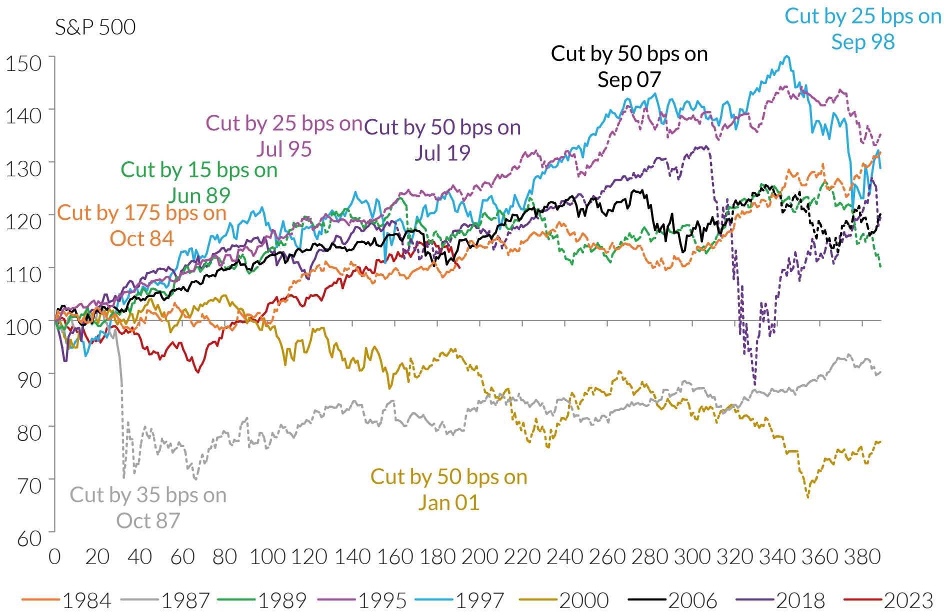
Source: Bloomberg, ANIMA Research

- **Only a recession beats equity**

We are now in the third longest FFR plateau period over the last 40 years. In 6 out of 8 episodes, the S&P 500 performed strongly into the entire plateau period, and even following the first cut. The only exceptions were the Black Monday of autumn 1987 and the Tech Bubble Burst in 2000 (**Figure 8**). In all the other occurrences, the stock market kept gaining, although posting an average drawdown of 6pp, until eventually the macro backdrop worsened.

FIGURE 8.

S&P 500 during the FFR Plateau



Source: S&P 500, ANIMA Research. Note: Dotted lines show the performance after the Fed's first cut. Prices as of 19th April 2024.

- **Caveat: unfriendly seasonality not too far**

We may rethink our current LONG stance becoming more cautious going into June. Historically, global equities, especially outside the US, performed poorly going into the summer (**Figure 9**).

FIGURE9.
Average monthly performance since 1987

	Average Montly Performance (since 1987)						% of Times 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	0,6%	1,0%	0,8%	-0,1%	0,5%	0,8%	62%
April	1,9%	1,8%	2.0%	2,0%	1,8%	2,6%	81%
May	0,4%	0,9%	-0,1%	0,0%	0,0%	-0,2	61%
June	-0,3%	0,0%	-0,4%	-1,0%	-0,1%	-0,5%	50%
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	-1,1	-0,8%	-1,6%	-0,9%	-0,8%	-0,7%	51%
October	1,3%	1,4%	1,4%	0,8%	-0,1%	0,7%	69%
November	1,4%	2,1%	1,7%	1,0%	1,0%	0,9%	71%
December	1,5%	1,4%	1,7%	2,1%	1,3%	3,3%	77%
Average	0,6%	0,8%	0,6%	0,4%	0,3%	0,7%	63%

Source: MSCI, ANIMA Research.

3. Tactical allocation: regional and sector recommendations

a. Regional allocation

We are now Neutral on all the main regions. As we expect the equity rebound to broaden, we see a fairvparticipation of all the regions to the rally without a clear leadership (**Figure 10**).

FIGURE 10.

Tactical Regional Recommendations – April 2024

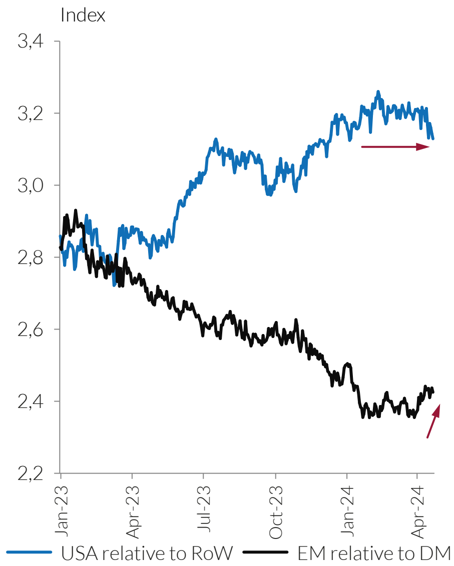
Regional Allocation		
Long	**Neutral**	**Short**
	Japan	
	US	
	Continental Europe	
	EM	
	UK	
EM Country Allocation		
Korea	Saudi Arabia	Brazil
Mexico	India	Indonesia
Taiwan	China	
	South Africa	

Against this backdrop:

- **we cut Continental Europe to Neutral** (previously LONG),
- **we upgrade UK to Neutral** (previously SHORT). The FTSE 100, whose c75% of its earnings are gained abroad, is already benefitting by the ongoing weakness in the Sterling, and its high exposure to commodities. We expect the cable (GBP/USD) to keep depreciating in the near term owing to a more-cautious-than-expected Fed/a potential dovish pivot from the BoE.
- **We keep US and Japan to Neutral**, with the former trading already in line with the rest of DM (**Figure 11**) despite its total payout yield, ie Dividend Yield + Buyback Yield, is c200bp lower than the European one (**Figure 12**).
- **We upgrade EM and China to Neutral** (previously SHORT) on the back of Chinese macro-outlook showing signs of stabilization, direct Chinese government sponsorship in the A-share market via the National Team, and very depressed relative valuations (**Figure 13**). **On Chinese economy, we continue to think households' consumption, the property sector and persistent deflationary concerns remain major areas of weakness/risks**, which authorities have not properly tackled yet. Thus, it is still too early to turn outright constructive on the country and we prefer to assume a neutral stance as the depth of the structural slowdown triggered by Xi's political turn in 2020 is not over yet. **A less pessimistic view on China, let us also upgrade a China proxy like South Africa** (previously SHORT) **and downgrade its antagonist, that is India** (previously LONG). The expensive Indian equities may be sold by investors in favor of cheaper Chinese one, and moreover the former is trading relative to overall EM at the upper bound of the trading channel set since the start of the year. That said, a retracement is likely from here

FIGURE 11.

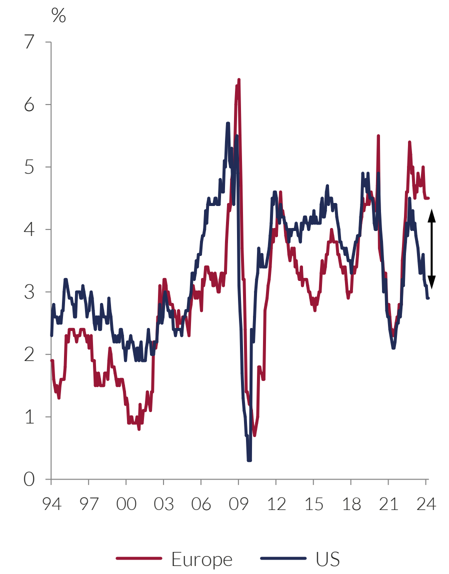
Regional Relative Performance



Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

FIGURE 12.

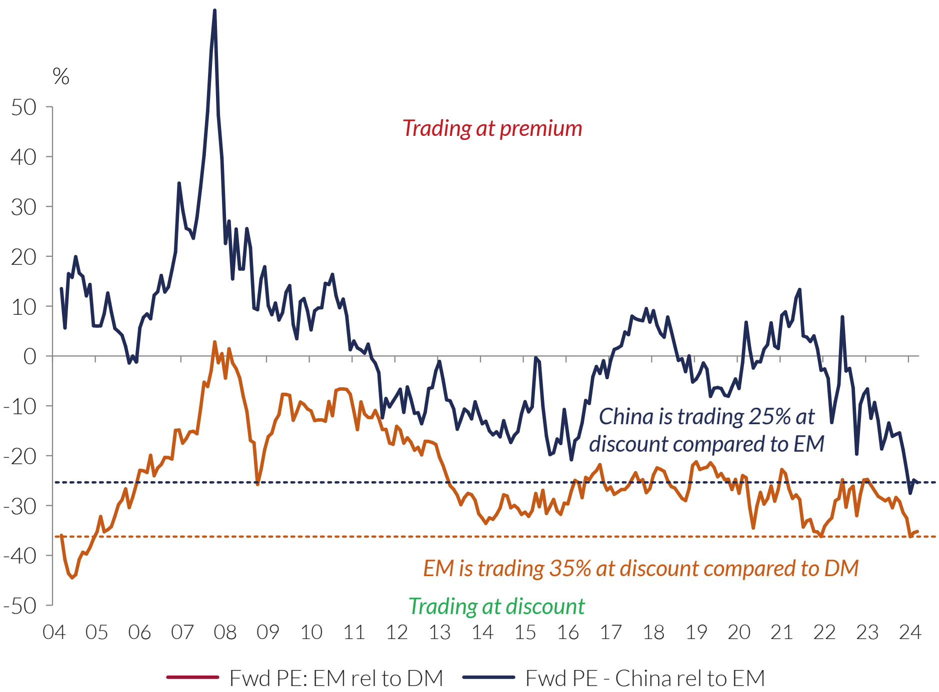
Total Shareholder Yield



Source: MS, ANIMA Research. Note: DY + Buyback Yield

FIGURE 13.

Relative Valuations



Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

b. Sector allocation

At sector level, we maintain a barbell approach, preferring sectors with strong EPS momentum. That said, we remain agnostic on Growth vs Value, while we keep chasing Cyclicals over Defensives (**Figure 14**). **We expect underlying style rotations to continue** (**Figure 15**), **remaining of the view that fundamentals and idiosyncrasies remain in the leading seat**. Against this backdrop, we like Semiconductors, Retailing, and Media & Entertainment (upgraded to LONG from previously NEUTRAL) in the cyclical Growth space, whilst Banks remain our favorite cyclical Value sector. We stay SHORT on most of the Defensives but having a NEUTRAL stance on Pharma.

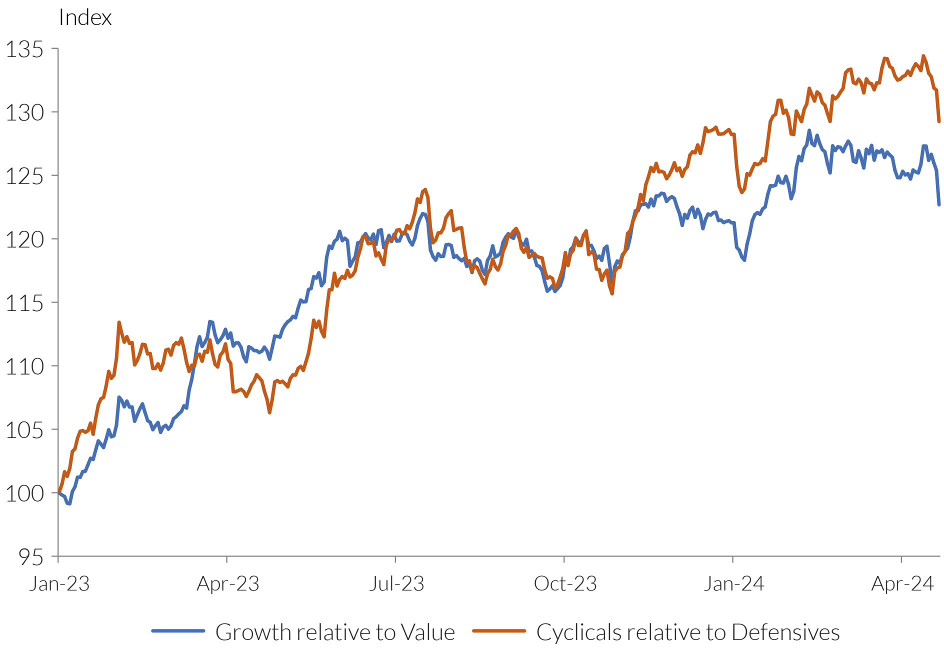
FIGURE 14.

Tactical global sector recommendations – April 2024

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

FIGURE 15.

Global style performance



Source: MSCI, ANIMA Research. Note: prices as of 19th April 2024.

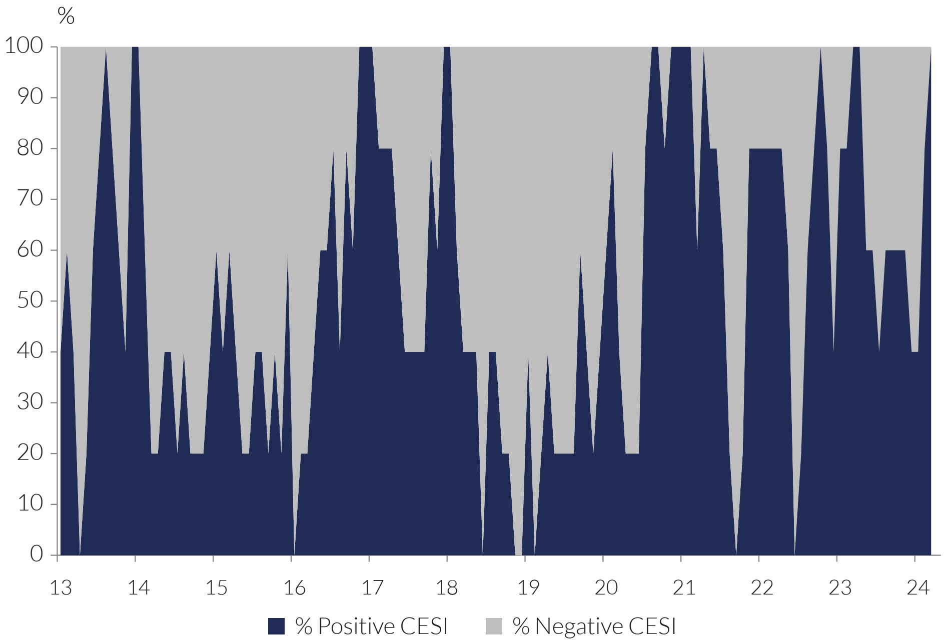
4. Strategic view: we stay OVERWEIGHT

We remain strategically OVERWEIGHT, barring any further escalation in the Middle East and Eastern Europe. We expect the main stock markets to soar 10/15% this year mainly boosted by earnings growth. Such constructive view is supported by macro data that keep surprising to the upside in every region for the second month in a row. The Citi Economic Surprise Index is positive in US, Euro Area, UK, Japan, and China. Last time that we saw something similar was back in early 2023 and autumn 2020 (**Figure 16**). Another factor supporting our bullish view is the steady improvement in real wage growth both in the US and in the Euro Area. In the former they grow for the fourth consecutive quarter, whilst in the latter for the second quarter in a row (**Figure 17**, **Figure 18**). This feature should keep supporting retail sales, and consequently companies' revenues.

Against this backdrop, **we regard market weaknesses as buy opportunities** as, in our view, the ultimate price correction is still some way off. This would require either a recession, and/or the Fed to get back on the war path (not our baseline).

FIGURE 16.

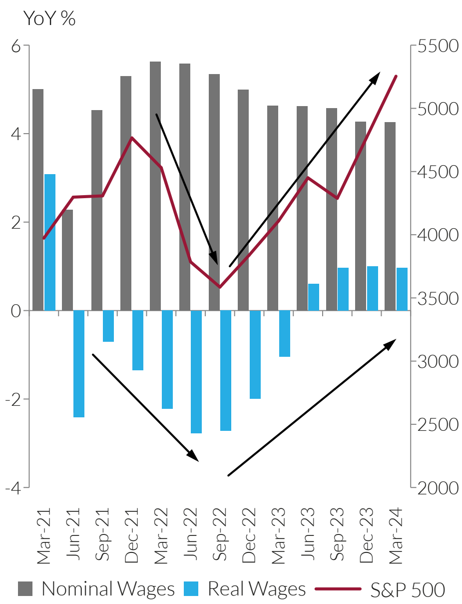
Citi Economic Surprise Index in the main regions: US, Euro Area, UK, Japan, China



Source: Citi, ANIMA Research. Last data point 19th April 2024

FIGURE 17.

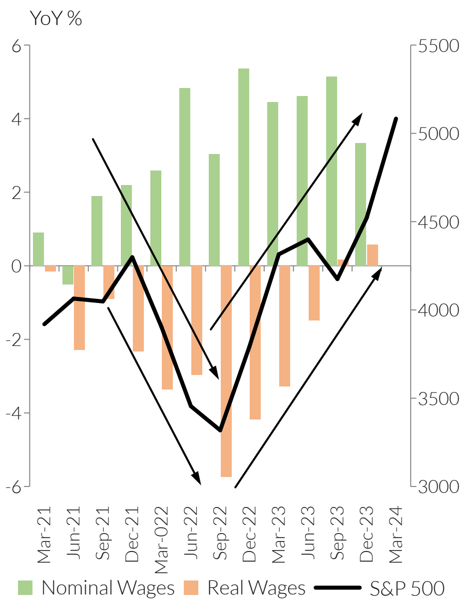
Wage Growth - US



Source: Haver, S&P 500, ANIMA Research.

FIGURE 18.

Wage Growth – Euro Area



Source: Haver, Stoxx, ANIMA Research.

APPENDIX: GLOBAL AND REGIONAL RECOMMENDATIONS

Regional sector allocation in detail: United States

FIGURE 1A.

US Recommendations – April 2024

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

Regional sector allocation in detail: Europe

FIGURE 2A

European Sector Allocation – April 2024

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

FIGURE 3A:

Industry Group tactical recommendations for the main regions – April 2024

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

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