*Anima***Insight**

Equity Strategy Focus SLIGHTLY LONG TACTICALLY

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We turn slightly LONG tactically (from NEUTRAL previously). The reason is four-fold: 1) our analysis, focused on US equities, shows as the ongoing market rally is broadening again; 2) earning revision indices turned positive suggesting that Q1 results may surprise to the upside once again; 3) despite the 20% rebound since the October lows the market looks fairly priced in under several metrics; 4) favorable seasonality.

Why "slightly" and not "outright" LONG? Risk management considerations suggest it's better riding the current positive market momentum. Against our projected macro backdrop, and barring exogenous, unforeseeable shocks, the balance of risks is tilted towards an active, albeit not overly aggressive, stance. While a market setback remains possible down the road, we 1) struggle to provide a timeline for this and 2) remain of the view that it would be contained (see below for more on this). Hence, the longer it takes to come through, the lower the "cost" of staying mildly constructive would be.

Regionally, we continue to prefer DM over EM. Despite the Chinese macro-outlook show signs of stabilization, the likely better than-expected reporting season in US and Europe should keep the relative balance tilt towards DM.

Within DMs, **we now tactically prefer Continental Europe (ex-SWI) to the US (now NEUTRAL from LONG previously).** As the market broadens, we expect the former will outpace the latter led by ongoing improvements in the macro backdrop. CESI in the EA is currently accelerating faster than in the US. **We stay NEUTRAL Japan.** This despite we expect the BoJ to move in March. Our analysis shows domestic equities tend, if anything, to outperform the rest of DM as the Yen usually depreciated after the first hike. **In the EM space, we stay SHORT China.**

At sector level, ahead of the upcoming reporting season, we return to a barbell approach. Although the full impact on valuations stemming from the ongoing Federal Fund Rate (FFR) repricing if yet to be seen, we remain of the view that fundamentals and idiosyncrasies remain in the leading seat. We prefer sectors with low leverage and strong EPS momentum.

We remain strategically OVERWEIGHT. We now expect the main stock markets to soar 10/15% this year (previous target: <10%) mainly boosted by earnings growth. Such constructive view is supported by sentiment indicators. CEO Confidence and Consumer Expectation continue to recover, while still solid corporates' balance sheet should help offset increased debt servicing costs. 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).

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 unstoppable bull

Global benchmark at new record high. The MSCI AC World rebounded c. 20% from last October's lows reaching a new all-time peak (**Figure 1**). The rally was mainly led by a combination of declining nominal/real yields and better than expected macro developments.

FIGURE 1.

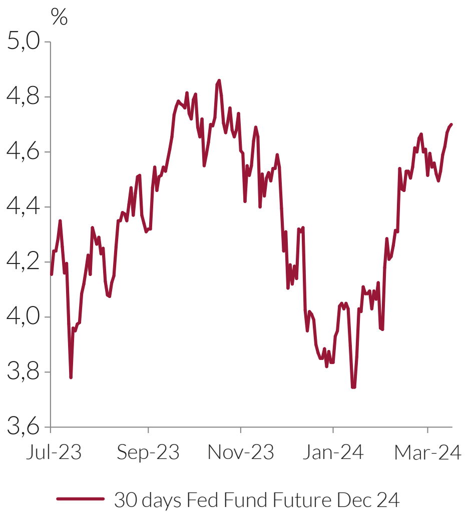
MSCI AC World in local currency (MSELACWF Index on Bloomberg)

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

The rally continued despite the sharp market repricing of the Federal Fund Rate (FFR). At the end of December 2023, the rates market expected the FFR at 3.8% by December 2024; now it is forecasted at 4.6%. Such upward revisions did not hit the equity market. Focusing on the US, the star and stripes equity benchmark gained c.7% YTD, of which 5pp came for multiple expansion, and 2pp from EPS. Across the main style and the 24 sectors, only Growth names are grinding higher boosted supported by earnings rather than multiples (**Figure 2 and Figure 3**).

FIGURE 2.

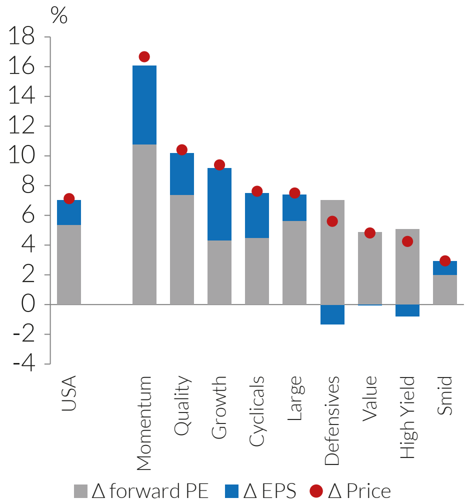
30 days Fed Fund future December 2024



Source: Bloomberg. Note: prices as of 15th March.

FIGURE 3.

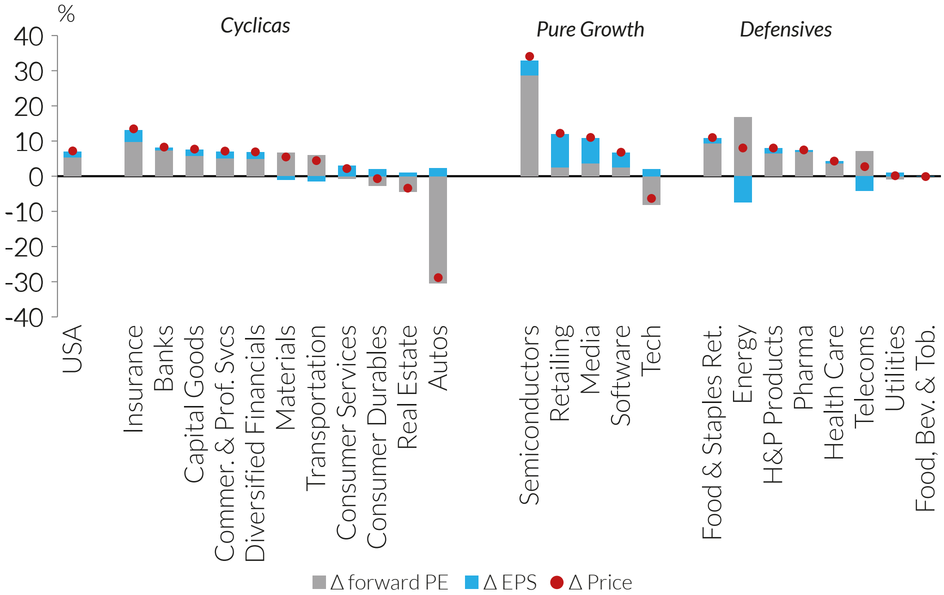
USA: YTD performance breakdown - Style



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

FIGURE 4.

USA: YTD performance breakdown - Sectors



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

2. Tactical View – More constructive

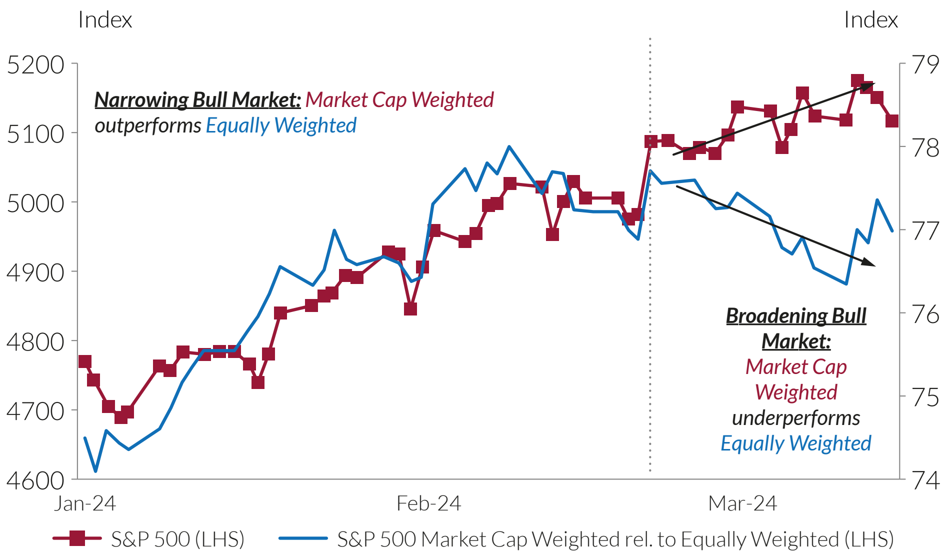
We turn slightly LONG tactically (NEUTRAL previously). The reason is four-fold: 1) our analysis, focused on US equities, shows as the ongoing market rally is broadening again; 2) earning revision indices turned positive suggesting that Q1 results may surprise to the upside once again; 3) despite the 20% rebound since the October lows the market looks fairly priced in under several metrics; 4) favorable seasonality.

a. Broadening **market**

The substance does not change. Until mid-February, the S&P 500 moved higher led by Large Caps. Accordingly, the market cap weighted index outperformed the equally weighted peer. Since then, the opposite happened. The former underperformed the latter with the headline index(**Figure 5**).

FIGURE 5.

S&P 500: Market Cap Weighted and Equally Weighted

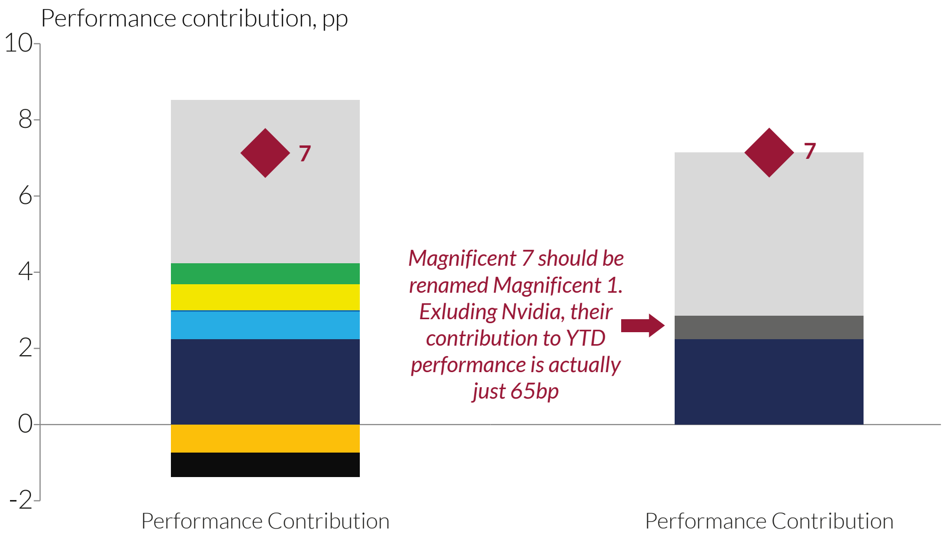


Source: S&P, ANIMA Research. Note: prices as of 15th March.

The Magnificent 7 became the Magnificent 1. Another evidence that the narrowing of the rally may be over is provided by the YTD performance contribution. Out of the 7.1pp gains, 2.2pp come from Nvidia, while the remaining Magnificent 6 added just 65bp. Meanwhile, 4.3pp come from the rest of the market, (**Figure 6**). So, in 2024, the market leadership actually narrowed to just one name. This is quite clear also when we analyze the YTD performance at stocks level. Excluding Nvidia and Meta, the remaining stocks moved according to a Normal Distribution with a fair balance around the headline index gains (**Figure 7**). Historically, at a market peak, the performance distribution is more platykurtic with fatter tails. Interestingly, this time around, despite the Normal Distribution of performance, their dispersion within the same sectors is quite high. Within IT, for instance, Nvidia surged +84% YTD while Apple plunged -11%; within Communication Services, Meta jumped +40% and Alphabet was flat; across Defensives Eli Lily rose +30% while UnitedHealth Group declined -7%.

FIGURE 6.

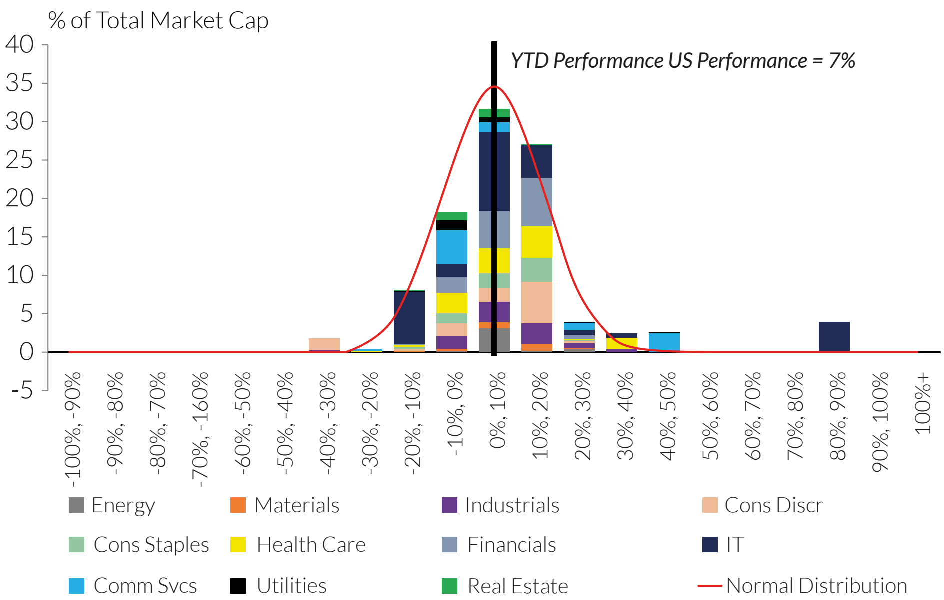
US equities: YTD performance breakdown - stocks



Source: S&P 500, Datastream, ANIMA Research. Note: prices as of 15th March.

FIGURE 7.

US equities: YTD performance breakdown - sectors



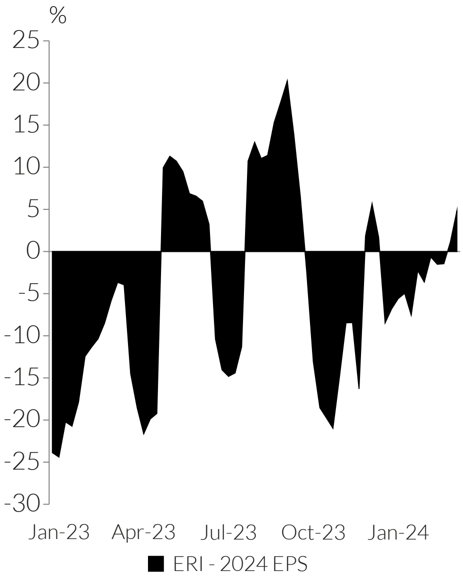
Source: S&P 500, ANIMA Research. Note: prices as of 15th March.

b. Improving earnings revisions

We expect earnings to give further support to stock prices. The revision index for 2024 EPS estimates turned positive in the US (and globally). It means that the number of EPS upgrades outpaced the number of downgrades, and this is usually a tailwind for equities (**Figure 8**). Largest upward revisions were spread among Growth (G), Value (V), Banks (V), Diversified Financials (V), Semiconductors (G) and Software (G); whilst Auto (G), and commodities (V) saw net downgrades (**Figure 9**).

FIGURE 8.

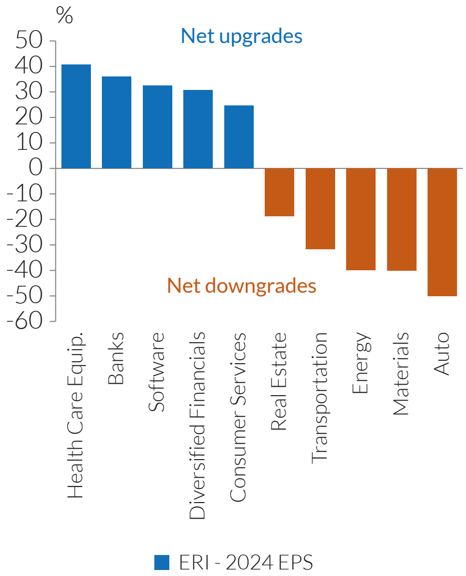
Earning Revision Index – MSCI USA



Source: MSCI, IBES, ANIMA Research.

FIGURE 9.

Earning Revision Index – US Sectors

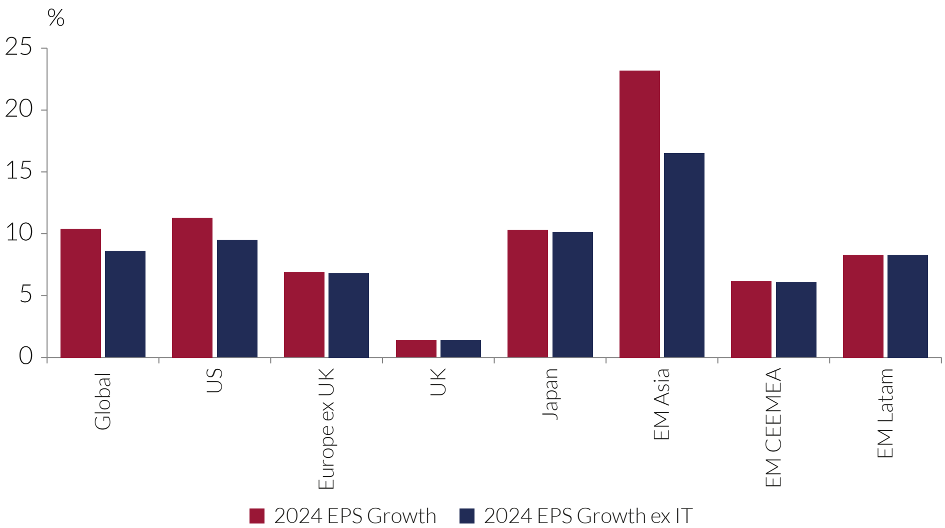


Source: MSCI, IBES, ANIMA Research.

The lack of a clear style/theme bias in the earnings revisions is also reflected in the expected EPS growth rates. For 2024, consensus analysts expect US earnings to grow by c10% also excluding the IT related sectors. This feature is common across the main markets. The only exception is EM Asia, where EPS is forecasted to rebound by 23% in 2024, but just 15% if we exclude Semiconductors, Tech, and Software.

FIGURE 10.

Consensus 2024 EPS Growth



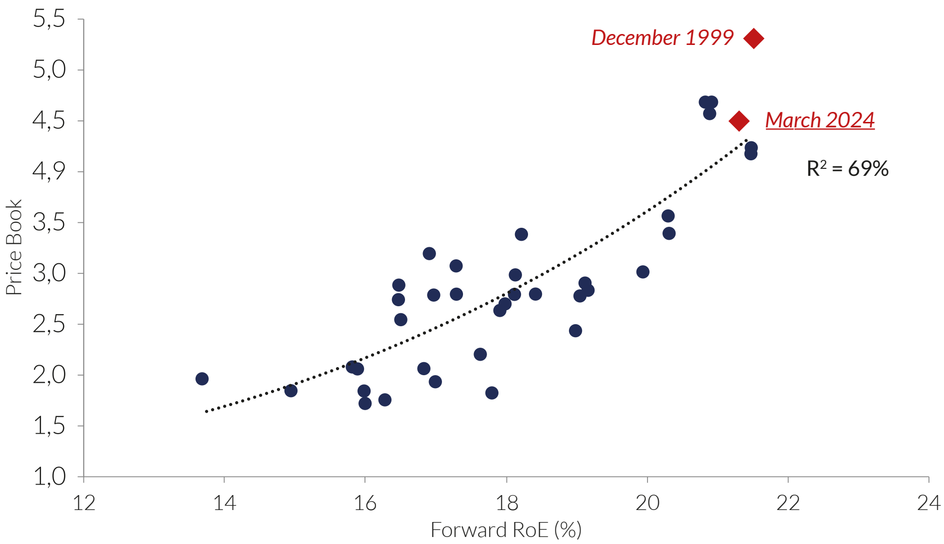
Source: MSCI, Factset, ANIMA Research.

c. Valuations

The US equities are still trading at high multiples, but for a reason. Corporates' profitability is around the 40 years peak, so when compared to RoE, current Price to Book at 4.5x suggests that the stock market is fairly priced, and far from the bubbly valuations reached in late 90s/early 2000s. Back then, S&P 500 was trading at 5.3x Price to Book with 21.5% RoE vs 4.5x and 21.5% currently (**Figure 11**).

FIGURE 11.

USA: valuation - Price to Book and Return on Equities



Source: Datastream, ANIMA Research. Note: prices as of 15th March.

Even, on Surplus FCF Yield, i.e. FCF Yield - Dividend Yield, the market does not look so stretched. It is trading on 2% Surplus FCF Yield, that is twice as much it was back in the Tech Bubble rally in late '90s (**Figure 12**).

FIGURE 12.

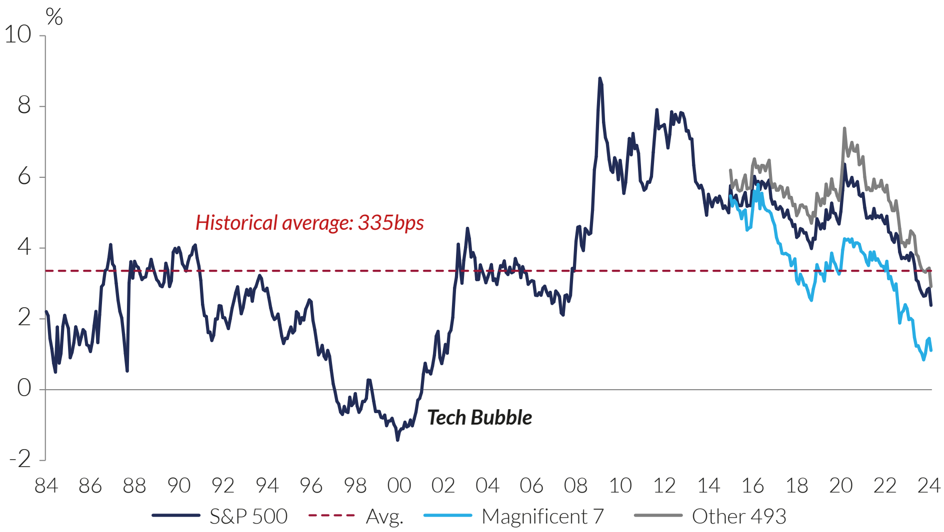
USA: valuation – Surplus FCF Yield

Source: Bloomberg, S&P, ANIMA Research. Note: prices as of 29th February.

The last valuation metric supporting our constructive view is the Equity Risk Premium. Back in late 90s, it was negative, now is around 3% not too far from the 40 years average (**Figure 13**).

FIGURE 13.

USA: valuation - Equity Risk Premium over the last 40 years



Source: S&P 500, Datastream, ANIMA Research. Note: prices as of 29th February

d. Seasonality

Seasonality helps. Equities have room to rebound as it often did during the Q1 reporting season kicking off in April (Figure 14). Historically the main stock markets gained 2pp in the fourth month recording the best hit ratio along the entire year.

FIGURE 14.

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%	1,5%	57%
February	0,4%	0,1%	1,0%	0,4%	0,3%	1,1%	51%
March	0,6%	1,0%	0,7%	-0,1%	0,4%	0,8%	64%
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%	-0,6%	50%
July	1,4%	1,6%	1,2%	1,3%	0,3%	1,1%	67%
August	-0,9	-0,7%	-1,3%	-0,6	-1,2%	-1,5%	56%
September	-1,1	-0,7%	-1,6%	-0,9%	-0,8%	-0,7%	51%
October	1,3%	1,4%	1,4%	0,8%	-0,1%	0,8%	69%
November	1,4%	2,1%	1,7%	1,0%	1,0%	0,7%	71%
December	1,5%	1,4%	1,7%	2,1%	1,3%	3,2%	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

Regionally, we continue to prefer DM over EM. Despite the Chinese macro-outlook show signs of stabilization, the likely better than-expected reporting season in US and Europe should keep the relative balance tilt towards DM.

Within Developed Markets, **we now tactically prefer Continental Europe (ex-SWI) to the US (now NEUTRAL from LONG previously).** As the market broadens, we expect the former will outpace the latter led by ongoing improvement in the macro backdrop (**Figure 15**). CESI in Euro Area is currently accelerating faster than in the US.

FIGURE 15.

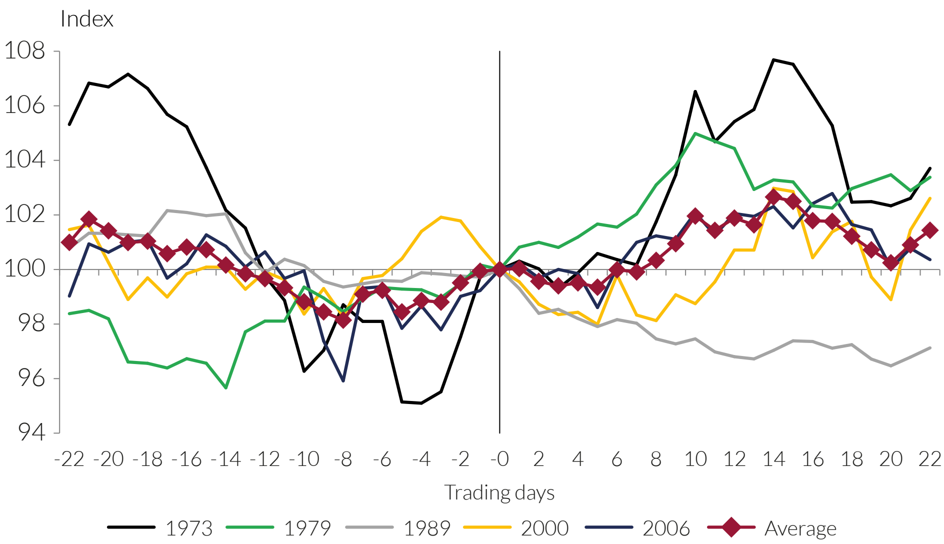
Citi Economic Surprise Index

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

We keep Japan NEUTRAL. This despite we expect the BoJ to move in March. Our analysis shows local equities tend, if anything, to outperform the rest of DM as the Yen usually depreciated after the hike (**Figure 17**). Historically 1% move in Yen affect the relative performance of equities by 50bp (**Figure 18**). **In EM space, we stay SHORT China.**

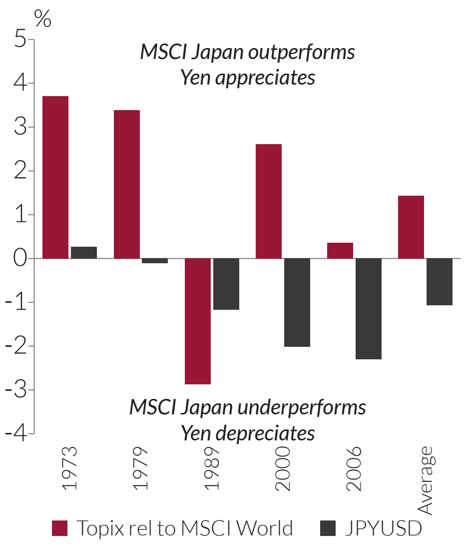
FIGURE 16.

Relative performance of MSCI Japan to MSCI World around the first hike



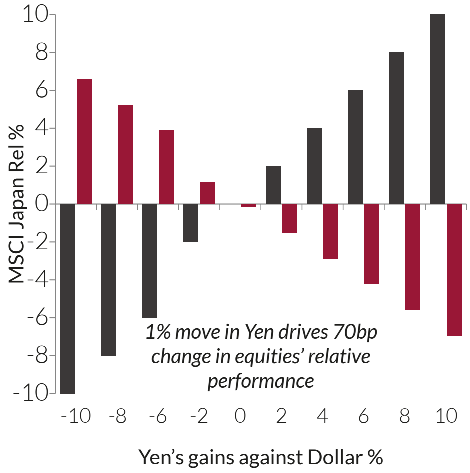
Source: MSCI, ANIMA Research.

FIGURE 17.
MSCI Japan and Currency



Source: MSCI, ANIMA Research.

FIGURE 18.
Yen impulse to equities



Source: MSCI, ANIMA Research.

b. Sector allocation

At sector level, ahead of the upcoming reporting season, we return to a barbell approach. Although the full impact on valuations stemming from the ongoing Federal Fund Rate (FFR) repricing if yet to be seen, we remain of the view that fundamentals and idiosyncrasies remain in the leading seat. We prefer sectors with low leverage and strong EPS momentum. (**Figure 19**).

FIGURE 19.
Tactical global sector recommendations – March 2024

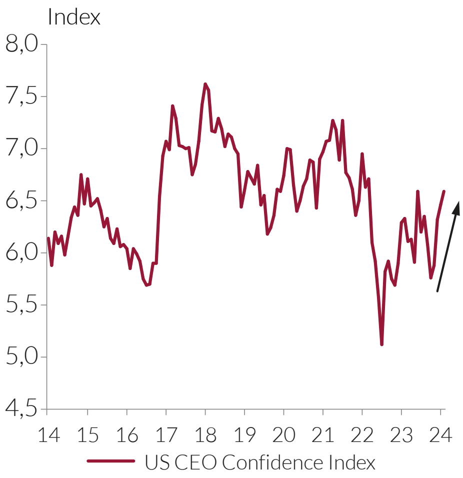
Industry Group Allocation		
Long	**Neutral**	**Short**
Software & Services	Pharma, Biotech & Life Sciences	Tech Hardware & Equip.
Semis & Semi Equip.	Insurance	Automobiles & Components
Retailing	Materials	Food & Staples Retailing
Consumer Services	Media & Entertainment	Household & Personal Products
Commercial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

4. Strategic view: we stay OVERWEIGHT

We remain strategically OVERWEIGHT. We now expect the main stock markets to soar 10/15% this year (previous target: <10%) mainly boosted by earnings growth. Such constructive view is supported by sentiment indicators. CEO Confidence and Consumer Expectation continue to recover (**Figure 20** and **Figure 21**), while still solid corporates' balance sheet should help offset increased debt servicing costs (**Figure 22** and **Figure 23**). 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 20.

US CEO Confidence Index



Source: Bloomberg, ANIMA Research.

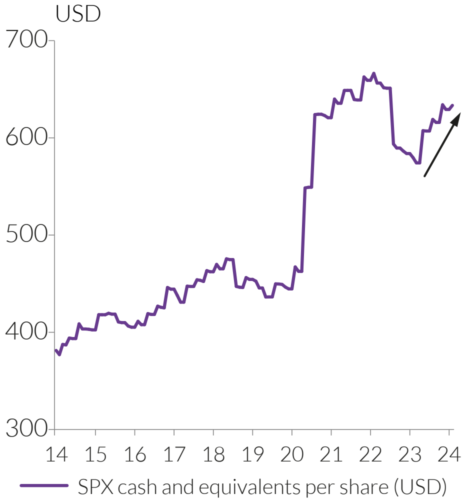
FIGURE 21.

Consumer expectations

*Source: Datastream, ANIMA Research. *Non-Financials.*

FIGURE 22.

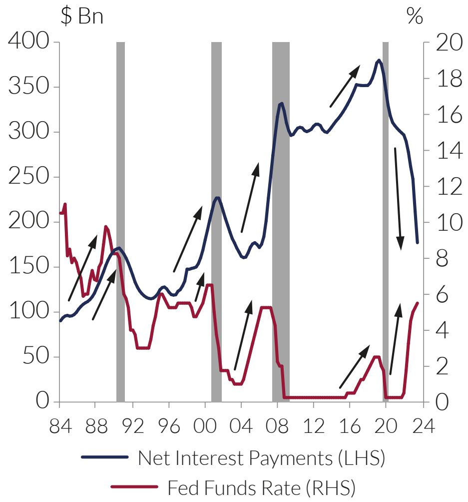
Cash and equivalents per share



Source: S&P, ANIMA Research.

FIGURE 23.

Net Interest Payment* and FFR



*Source: Datastream, ANIMA Research. *Non-Financials.*

APPENDIX: GLOBAL AND REGIONAL RECOMMENDATIONS
REGIONAL SECTOR ALLOCATION IN DETAIL: UNITED STATES

FIGURE 1A.
US Recommendations – March 2024

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

REGIONAL SECTOR ALLOCATION IN DETAIL: EUROPE

FIGURE 2A.

European Sector Allocation – March 2024

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

FIGURE 3A:

Industry Group tactical recommendations for the main regions – March 2024

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

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