

Research @ Citi Podcast Markets Edition: Hurdles to “Priced to Perfection”

Recorded: Feb. 2, 2026

Published: Feb. 3, 2026

Host: Beata Manthey, Head of European Equity Strategy, Citi

Guest: David Groman, Senior Global Equity Strategist, Citi

Transcript:

Voice intro (0:00)

Research @ Citi Markets Edition.

Beata Manthey (0:04)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes. I'm your host, Beata Manthey, Citi's Head of European Equity Strategy. Joining me today, as usual, is our Senior Equity Strategist David Groman. Welcome to the show, David.

David Groman (0:20)

Thanks, Beata. Great to be here, as always.

Beata Manthey (0:22)

What a start of the year it's been. Markets came out of the gate swinging, and not always in the direction investors expected. We've seen a sharp unwind across commodity space; gold and silver giving back year-to-date gains; and, at the same time, sentiment around the big AI capex build-out is shifting. And if it wasn't enough, layered on the top of that, geopolitical risks are unmistakably rising. From escalating regional tensions to growing uncertainty around elections, trade routes, policy direction, it's becoming harder for investors to ignore the global backdrop.

So today we are going to break down all of this into three big topics. Number one, AI — what's really happening beneath the hype. Number two, geopolitics and why it's becoming harder for markets to look through the noise. And number three, very importantly, what is actually priced in by the markets and where markets may be misaligned with reality.

So let's get into it. David, what's going on with AI?

David Groman (1:35)

Thanks, Beata. Yeah, a lot is going on with AI. As you said, we've seen some wobbles in the AI story over the past few days, and we've seen some properly violent one-day moves in places where AI-related positioning had been most extended beforehand. So

that's places like Korea. Something that I would say is that we had written in our outlook pieces coming into this year that one potential source of market volatility was going to be any sign that AI-related revenues might not be scaling as fast as AI-related capex requirements. And I think some of the choppiness that we've seen over the past few days can certainly be attributed to that.

But something else that we've seen is increasing differentiation even within the AI thematic. Tech hardware names have generally been holding up just fine, while software names have been underperforming to a significant degree just over the past few months.

So on top of questions about returns on AI investment, broadly speaking the market has also been differentiating between some of those names that are more involved in the buildout of AI and those where AI might eventually pose greater risks to business models as they stand. But obviously, I think even against all of this, some context is required. So even with vol coming back into the market, the NASDAQ is just about flat year-to-date. And some key tech-linked markets outside of the U.S., like Korea or Taiwan, have still seen really solid returns somewhere in the 10% to 20% range.

So there are some cracks in this story, but I would say that they are only cracks for now. And really what this has meant is broader market performance globally with a wider set of sectors and also a wider set of regions outside the U.S. driving returns at the global level. So it's been a mixed picture.

Beata Manthey (3:16)

Very interesting, but has anything really changed on the fundamental side?

David Groman (3:23)

Yes, certainly down at the stock level things are changing around, but if we take a big step back, the global tech sector this year is expected to see EPS growth of around 40% — four-zero — that's actually up from expectations for 30% growth at the start of this year. And at the same time, if we look at valuations, the global tech sector is now trading at something like a 70th percentile multiple vs. a 25-year history. That's actually the lowest of any major sector globally. So it's a little bit hard to square, but the tech sector might actually look more attractive in relative terms now than it did even just a few months ago.

And if you look at some of these big tech-linked indices outside of the U.S., a place like Korea, for example, which is still up something like 17% year to date, it's actually seen its P/E multiples come down. It's derated because of such big EPS revisions throughout the course of the year. So that's all to say that we haven't necessarily seen the cracks on the fundamental side year to date. If anything, the valuation setup is looking a little bit

more attractive, even relative to the start of this year, certainly relative to peers. But that's the AI story. And it's a big market driver, but obviously it's not the only one.

So Beata, let me turn it back to you and go on to geopolitics. A lot has happened. We've made some allocation changes on the back of it. Maybe run us through some of your thoughts on the geopolitical side of things?

Beata Manthey (4:44)

A lot has happened indeed. And really, you could speak about those changes from two perspectives: long-term implications and short-term implications. Let me start with short-term implications. And as you've mentioned, indeed, we've made some changes to the global regional allocation.

We've downgraded Europe to neutral in our global allocation for the first time in over a year. And the reason for that is EPS inflection, especially the internationally facing sectors, is now having a higher hurdle. Our bull case for Europe for this year was based on both domestic and internationally exposed stocks to return strong EPS. And the course of events year to date risks the near-term deterioration of the European earnings outlook.

Why? The geopolitical risks, the volatility of the euro-dollar, means that Europe could be again a story of two tales. It was enough last year, and indeed that was the case, but this year the setup is much more demanding as valuations are higher. Importantly, our targets still point to 5% upside for Stoxx 600 by the end of the year, but we just see more attractive risk-rewards elsewhere.

So Japan moves to overweight from neutral, aided by longer-term tailwinds from reflation, among other factors joining EM, which remain our overweight.

David Groman (6:16)

Makes sense. And what are those longer-term implications you mentioned?

Beata Manthey (6:19)

So from the long-term perspective, the uncertainty really strengthens the strategic case for global diversification. From Europe perspective, if Europe responds with increased fiscal expenditure and reforms to bolster domestic growth, it could even enhance its long-term role within diversified global portfolios and could ultimately benefit longer-term if geopolitical fragmentation drives investors towards multi-regional diversification rather than just U.S. concentration, as has been the case for a very long time.

So it's all very complicated, but that's our take on the geopolitics for now. And I am sure that we'll be coming back to this topic as we move along the year.

But David, let's jump to the last point: What is the market actually pricing in, as we are now in a full swing of the reporting season?

David Groman (7:17)

It's important. I honestly think that what's priced in might be the key explanatory variable here driving some of the moves that we've seen in markets over the past few days. So let me set the scene for context. We have models where we try to back out what the market is pricing in for EPS growth 12 months forward. And that's useful because you can compare that to where bottom-up consensus forecasts are for earnings growth.

If the market is pricing in expectations well above where those forecasts are, maybe that means that upgrades are baked into current prices. And currently, that's exactly where we sit. Basically, anywhere that you look across the world, it seems like the market is baking in earnings upgrades from where a bottom-up consensus is. And I think this setup really helps explain what we've been seeing around the reporting season thus far.

So in the U.S., around 80% of companies are beating where earnings estimates are. And in Europe, that number is just above 50% as well. But even with more beats than misses, the price action hasn't been particularly balanced. So when companies are beating on expectations, they're barely being rewarded, if rewarded at all relative to the market. And when companies miss on expectations, they're seeing meaningful underperformance afterwards.

So I think this really is a case where a decent earnings season is coming up against very elevated expectations. And any time we see that gap between where reality is and where expectations are, I think this could be a source of volatility going forward. Eventually, I think our view is that the strength of underlying fundamentals will carry equity markets higher over the course of the year, but this battle against what's priced will also help shape the outlook.

So on that note, Beata, what is our overall view on equity markets for the rest of this year when it comes to trajectory, allocation, etc.?

Beata Manthey (9:03)

There are certainly many risks coming through this year, but we remain constructive on global equities, targeting around 9% upside from the current levels for MSCI All Countries World Index, and very encouragingly analysts see global EPS growth accelerating to 14% this year vs. 11% last year.

We continue to see resilient global economic conditions and think that these should be supportive for cyclical markets. Even though we've added some defensiveness very recently, over medium term, it's still a market backdrop that is conducive of cyclical outperformance. Therefore, diversification trade should continue this year, but it should

be a year when all major equity indices provide decent returns, as our forecast suggests. Even if with higher volatility, given the risks and given the valuations still look stretched and the markets are priced almost for perfection, as you've mentioned.

So plenty to look out for, but let's wrap up there. David, thanks for being here today.

David Groman (10:15)

My pleasure.

Beata Manthey (10:17)

Thank you for joining us today. This episode was recorded on Feb. 2, 2026. And I'm your host, Beata Manthey. Our next Research @ Citi Markets Edition will be hosted by Dirk Willer, Citi's Global Head of Macro. Thanks for tuning in. Goodbye for now.

Disclaimer (10:38)

This podcast contains thematic content and is not intended to be investment research. Nor does it constitute financial, economic, legal, tax or accounting advice. This podcast is provided for information purposes only and does not constitute an offer or solicitation to purchase or sell any financial instruments. The contents of this podcast are not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product, security, or transaction. The information in this podcast is based on generally available information and, although obtained from sources believed by Citi to be reliable, its accuracy and completeness are not guaranteed. Past performance is not a guarantee or indication of future results. This podcast may not be copied or distributed, in whole or in part, without the express written consent of Citi. © 2026 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.