Research @ Citi Markets Edition Podcast: When Markets Wobble...

Recorded: Nov. 7, 2025

Published: Nov. 12, 2025

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

Guest: David Groman, Senior Global Equity Strategy, Citi

Transcript:

Opening Voice (0:00)

Research @ Citi Markets Edition.

Beata Manthey (0:03)

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

David Groman (0:19)

Thanks, Beata. It's great to be here.

Beata Manthey (0:21)

So equity markets around the world have had a bit of a wobble in the past few days, with S&P down 3%, Nasdaq down actually 4% and European equities down only 2%. Given they've been all up double digits this year, it might not be as alarming, but we thought it would be still useful to dissect the reasons for this burst of volatility.

So David, let's kick off. Many things to be worried about, but what are the main ones?

David Groman (0:49)

There's definitely plenty for investors to worry about in this environment. I think the number one concern we hear from clients is valuations. And in general, we would agree that equity markets look expensive even after the latest drawdown. So, as of about a week ago, U.S. equities were trading at a 12-month forward PE of around 23 times. And for context, that's in the 98th percentile vs. the past few decades of history. And those premium valuations are very much evident when it comes to the AI thematic.

So the U.S. tech sector is trading at a PE of around 30 times, which is well above the overall market. And while these expensive valuations around AI have really been the center of attention over the past few days, the truth is most sectors and most regions outside of the U.S. look pretty expensive as well.

So it's not just a story of expensive AI stocks vs. cheap everything else. And as we've talked about here before, this is really a setup where cracks in sentiment could set up for a more volatile ride going forward.

Beata Manthey (1:43)

Indeed, we have. But valuations are not necessarily a reason to sell. Expensive valuations aren't typically a great predictor of performance over shorter time horizons. What you really need is a trigger that causes investors to question some of their more bullish assumptions. So what's changed, David?

David Groman (2:03)

Yeah, that's exactly right. I think this is where we can probably debate if anything over the past week has really changed the underlying story for global equities. But I think there are still a few things worth highlighting, right?

So, first we had data from Challenger this week showing that U.S. layoff announcements spiked in October, with the monthly reading showing about 150,000 layoffs in the U.S. This is double the level that has generally been prevailing in the post-pandemic world and ultimately signals that there might be some cracks in the U.S. labor market that are potentially accelerating at this point in time.

And then, second, there's been signs that some of the big capex spend around AI won't just be funded from cash but instead using debt. And this use of leverage has once again raised some of these questions that we've heard about the return of investment that will ultimately come from the huge buildout we're seeing around data centers and AI infrastructure.

And then, finally, on top of both the labor market and AI we have the size of earnings beats in this reporting season, generally coming in smaller than what we've seen over the past few quarters. And it's important to emphasize that U.S. companies are still delivering above and beyond what analysts had forecast — the scale of that surprise is fading a bit. And it really matters in a world where, at least based on our models, markets look to be pricing in upgrades from already pretty optimistic forecasts for double-digit earnings growth next year.

So, yeah, all sounds a little bit negative for me. But as always, it's about the balance of risks when it comes to equity. So, Beata, is there anything to be cheerful about in this environment?

Beata Manthey (3:31)

You're right, David: Markets are always about the balance of risks. And just as there are many reasons to be worried about, there are quite a few to be cheerful about. And the most important one is earnings.

You've mentioned the scale of surprises in the U.S. fading. In Europe, it's still pretty decent. But we have been highlighting that a relatively more volatile reporting season has been expected in the U.S. vs. Europe. However, most important, analysts are upgrading their earnings numbers almost everywhere. Into the next year, they expect broadening of earnings, with EPS growing pretty much across all regions and sectors, which is a huge change to this year's outlook.

David Groman (4:16)

So that's really interesting. I mean, it seems like it could be particularly important for regions that have seen big earnings downgrades this year. Like Europe, right?

Beata Manthey (4:24)

Exactly my point. We've been arguing that this reporting season is particularly important as European earnings forecasts could be bottoming out after months of downgrades. There are some tentative signs that Q3 earnings are picking up. Now, it's worth mentioning EPS pressures this year have been particularly acute in internationally exposed sectors, of course driven by tariffs and the euro strength. At the same time, more domestically tilted peers have seen steady upgrades.

Now, going forward, we expect stabilization in the FX with some euro weakness into the next year, which should support a more positive outlook for the internationally oriented European stocks.

David Groman (5:09)

All right. So that's generally good news. Makes me feel a little bit better on the fundamental side of things, especially in Europe. But I guess my question is, Aren't we worried about the macro backdrop more broadly and how that could eventually feed back through to things like corporate earnings growth?

Beata Manthey (5:24)

Absolutely, we are. But we are also encouraged by the resilience of the global economy, which reflects increased flexibility and capacity to respond to shocks. The global PMIs, for example, continue to highlight the relative strengths of the services sector. And importantly, these measures have not shown any meaningful deterioration this year. Importantly, euro-zone manufacturing PMIs have moved above 50 for the first time since 2022. And the bottom line, all this is going to get underpinned by the Fed easing cycle.

Historically, Fed easing has been a tailwind for a wide set of equity regions, especially the more cyclical ones like Europe, Japan, or the emerging markets, and a catalyst for broadening of market performance. And this is especially true when the U.S. recession is avoided, which is our base case.

David Groman (6:23)

Yeah, so that makes sense. And we've already covered a lot of issues, but to turn back to something you were just mentioning, let me throw another one at you. We've been getting a lot of questions these days not so much on broadening, but narrowness inside of equity markets. That means gains being led by just a small number of stocks. And I know this is something that we've done a lot of work on in the past. How do you generally think about narrowness in equity markets? Is this something that we should really be worried about?

Beata Manthey (6:49)

Indeed. If you look at the markets from the perspective of few stocks contributing to a large share of market returns, then both the U.S. and the European markets are very narrow. Over the last three months, we had 75% of returns coming from five stocks only in the U.S. and 50% of the returns coming from five stocks in Europe. That's against historical averages of 45 for the U.S. and 25 for Europe.

So Europe is an index that tends to broaden and performs better when markets broaden overall, while the opposite can be said for the U.S. market. That means the current narrowing actually is more unusual for Europe than it is for the U.S.

However, important to bear in mind: Historically, narrowness of the market has not been necessarily a reason to sell. Stocks actually tend to rise 12 months after narrowing episodes, but they do so with much higher volatility. And, final comment here, elevated levels of narrowness have often been followed by down markets, implying some potential risk to equity markets after a solid run.

David Groman (8:06)

OK, that's very clear. So, Beata, if we take everything that we've talked about, how would you quickly summarize your view on equities from here?

Beata Manthey (8:15)

We continue to be constructive over medium term, with about 5% upside to mid next year. But yes, valuations are looking stretched, and yes, the U.S. economy is slowing down. Are these enough reasons for the market to consolidate further? Potentially. But at the end of the day, we think that solid profits, a relatively resilient global economy, and prospects of further Fed cuts should underpin the market sentiment and allow the markets to grind higher. Plenty to look out for, David, but let's wrap up here. Thank you for being here today.

David Groman (8:48)

My pleasure.

Beata Manthey (8:49)

Thank you for joining us today. This episode was recorded on the 7th of November, 2025. 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 (9:07)