

Research @ Citi Markets Edition: Global Equities — Resilience or Complacency?

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Beata Manthey (0:05)

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 is our Senior Equity Strategist David Groman. Welcome back to the show, David.

David Groman (0:20)

Thanks Beata, great to be here.

Beata Manthey (0:22)

David, global equities have climbed more than 10% year-to-date and are sitting just below all-time highs, despite a growing list of headwinds — geopolitics, higher rates, fragile AI sentiment. That's really the theme of our latest Global Quarterly Outlook: Is this calm a sign of resilience, or of complacency? Where do you come down?

David Groman (0:45)

We're still in the resilience camp, though we take the debate really seriously. So the MSCI AC World is actually on pace for its fourth straight year of double-digit gains, but that headline number masks a lot of volatility underneath the surface. Tech alone has lagged, surged, corrected, and recovered all in the span of this year. So the path hasn't been smooth, but when you dig into the fundamentals, they've ultimately held up pretty well. And I know we'll come back to this later on, but it looks like 2027 will be another strong year for earnings growth as well.

Beata Manthey (1:13)

Yes, so resilience thus far. But let's turn to potential risks to this resilience story, because there's no shortage of them. Rates first — the Fed has actually gone back to hiking, and it's a global story, with more central banks hiking than cutting for the first time in years. And at the same time, long-end bond yields are rising too, with 10-year Treasurys well above the 5% level many investors were watching. Is this what finally derails the bull market?

David Groman (1:40)

We don't think so, at least not on its own. So, in our last few reports, we've looked at the connection between rates and equities in a few different ways. On the Fed, we've looked at equity performance around the first hike going all the way back to the 1970s. And in general we find that equities do indeed tend to wobble in the first three months after the Fed starts lifting

rates. But performance looks fine after six or 12 months. So it's a source of volatility initially, but it's very rare that the first hike would derail an equity bull market.

And on long-end yields, it's also a mixed bag. But we've looked at past instances where we've had a fast and sharp rise in 10-year yields, much like today. In those 30 instances or so, equities were actually up three months later. But there's a big caveat here that performance was better when growth indicators were improving, and also when inflation was cooling. So that all means the broader context is really key here, and the bigger swing factor will be the reason behind those rising bond yields.

Beata Manthey (2:33)

OK, geopolitics next. This doesn't seem to be going away, so how are we thinking about the risks?

David Groman (2:39)

Yeah, so it's also a key question, and relates right back to what we were talking about on rates, as the longer the geopolitical risks remain in place, the higher risk that we'll see stagflationary pressures reasserting themselves as well. There's obviously a lot of uncertainty here, but what I will say is that our commodity strategists' base case — which they put around a 60% probability on — still sees energy flows normalizing by year end and ultimately that should take Brent down to around \$70 a barrel in 2027. But of course, that means they still see around a 30% chance of a bear case where disruption drags into next year. And near-term, if tensions do escalate, history says you'd want to tilt toward Commodities sectors and Defensives, as well as the U.S. and UK over markets like Japan and EM. But we're ultimately choosing to look through these near-term geopolitical risks in our global equity allocation with more of a medium-term view.

And Beata, another big risk is really your territory — which is France and rising bond spreads there. So what's happening in France, and what are the read-through for equities?

Beata Manthey (3:39)

Yes, lots going on in France. But at a very high level, the spreads of French bond yields over German bond yields have widened out to around 140 basis points — this is the highest level that we've seen since the euro-zone crisis. But while French spreads are back to the debt-crisis level, other European stress indicators are not. Now, all of this has happened at a time when global bond yields are rising, but of course there are also France-specific worries around a growing debt burden and widening deficits. We've also been in a period of political gridlock as we head into a presidential election in April of next year.

So how do we think about all these?

The first place many investors are looking for signs of distress are European banks. But our analysts think some of these fears may be displaced; so European banks have significantly reduced domestic sovereign holdings.

Of course, it doesn't mean there are no risks, especially for French assets. Our work shows that French banks are probably still trading a little too rich vs. the European peers and vs. where the OAT spreads are trading right now. And within France, we find that OAT-Bund spreads weigh disproportionately on Financials and other domestically exposed sectors compared to peers. And historically, French equities tend to be more volatile than peers around key elections. So there's plenty to watch.

But it's not all negative when it comes to European policy and politics — European policymakers are pushing measures aimed at "protecting Europe," and German fiscal spending has held up despite the noise. But the worry is that political noise could outweigh this for now.

David Groman (5:25)

Right, so many risks out there — but this all brings us back to the real question and where we started, which is whether growth and earnings are still resilient enough underneath all of this. So let's go there, Beata. The case for resilience really rests on these two things we've talked about in the past: the macro backdrop and the earnings backdrop. So starting with macro: What are you actually seeing there in terms of the data?

Beata Manthey (5:45)

Citi economists see the "global resilience" narrative as firmly intact. The world economy absorbed a real energy shock since late February and kept performing — the production side of the global economy is simply more flexible and adaptable than it was a decade or two ago. Citi Economic Surprise indices and Data Change indices still paint a very constructive picture, activity is holding up, and surprises are continuing to filter through, even if some of these series have started to roll over recent weeks, which is of course worth watching on its own.

David Groman (6:19)

How about the earnings side?

Beata Manthey (6:22)

And this is where the resilience case gets its strongest support. Consensus now sees +35% EPS growth for the MSCI AC World Index this year — it has been revised up about 20 percentage points year to date, largely on Tech and Energy, but decelerating to still-solid double digit +16% growth next year. And our Earnings Revision Index has been in net-upgrade territory for 23 straight weeks; that's the longest run since the post-COVID recovery.

David Groman (6:57)

Pulling it all together: macro holding up, earnings still delivering, and three big headwinds out there that the market may be able to digest even though there are questions around that. So where does that leave us in terms of positioning in our global equity allocation?

Beata Manthey (7:11)

To sum up for our listeners, we're still in the resilience camp. Rates, geopolitics, and European political risks are all real headwinds, but it's the macro and earnings backdrop underneath them that matters most, and that backdrop continues to hold up. With that in mind, we think there is further upside left for global equities from here, built on continued earnings growth rather than multiple expansion. We maintain a barbell of Growth and Cyclical, staying overweight the U.S. and Japan.

So a lot to think about, but we have to wrap it up. Thanks for joining, David.

David Groman (7:47)

My pleasure, Beata.

Beata Manthey (7:48)

Thank you for tuning in. This episode was recorded on the 12th of October, 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 listening — goodbye for now.

Disclaimer (8:05)

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