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Tactical Market Update

Trade war risk comes to the fore

A look at potential catalysts for movement in the coming week

Tariff policy has taken center stage. On Saturday, Donald Trump signed an executive order imposing new import duties on goods from Canada, Mexico, and China starting February 4. Most goods from Mexico and Canada will be subject to a 25% tariff, with the exception of Canadian energy, which is subject to a 10% tariff. All Chinese imports, including electronics, will be subject to a 10% tariff.

We expect a moderately negative short-term market reaction as we believe the risk of tariffs and trade wars has not been fully priced in due to the uncertainty inherent in Trump's policies. All else being equal, we would expect US GDP growth to slow and inflation to accelerate in 2025, but the actual impact depends largely on the response of Canada, Mexico and China, as well as the actual duration of the announced tariffs. According to the order, tariffs on Mexico and Canada could be lifted if these countries actively cooperate on illegal immigration and drug trafficking(there are no clear targets or criteria here).

Alphabet(GOOGL) will report on February 4, Amazon(AMZN) will report on February 6. We also expect reports from Disney(DIS), AMD(AMD) and Palantir(PLTR).

In addition, investors will be interested in macro releases, including business activity indices and the unemployment rate for January(see below).

The S & P 500 could move in a wide range of 5800–6100 points.

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Monday - February 3rd

- **ISM Manufacturing Business Activity Index.** The consensus forecast is for growth from 49.2 to 49.9. There has been some recovery in manufacturing over the past two months.

- **Q1 Borrowing Assessment.**

- Quarterly results: PLTR, NXPI, FN.

Tuesday - February 4

- **OLTS job openings :** We expect a value of about 8 million (8.1 million previously).

- Quarterly results: **GOOGL,** AMD, SPOT, EA, PYPL, MRK, PFE, AMGN.

Wednesday - February 5th

- **ISM Services Business Activity Index.** We expect strong dynamics to continue in the range of 53.0–55.6(prev.: 54.1 p.). The dynamics of the price component will help shape inflation expectations for January.

- Quarterly results: DIS, ARM, QCOM, UBER, MSTR, BSX, SYM.

Thursday – February 6

- Quarterly results: **AMZN,** LLY, TTWO, FTNT, NET, COP, RBLX, PINS, EXPE.

Friday - February 7

- **Annual revision of data on the growth of employment outside of agriculture(Nonfarm Payrolls).**

- **Labor market data block.** Experts agree that the unemployment rate is likely to remain around 4.1%, without significant deviations from the forecast. According to our estimation model, the indicator has stabilized in the range of 4.1–4.2%, and our forecast is around 4.16%, which with rounding gives 4.2%. Such a scenario would be a positive signal for the market, confirming the absence of pressure on inflation and the prospect of further rate cuts. The rate of employment growth(non-agricultural), according to the consensus, could be 170 thousand after an increase of 256 thousand in December.

Events overview

- Volatility was elevated last week, with most stocks down. The S & P 500 lost 1%, but its equal-weighted peer (RSP ETF) performed about 0.5 percentage points better. The tech-heavy Nasdaq lagged the S & P 500, ending the week down 1.7%. The tech sector (XLK) was one of the worst performers, losing 3.5%.

- **Stocks plunged on Monday (January 27), helped by the unexpected success of Chinese startup DeepSeek.** The company made a splash in the AI world by introducing an open-source language model called DeepSeek - R 1 that can match the market leaders in terms of analysis quality , while remaining tens of times cheaper. The breakthrough calls into question the need for multi-billion dollar investments in AI. There was a sell-off in the semiconductor segment - a popular sector ETF called VanEck Semiconductor (SMH) is down nearly 7% for the week, while Nvidia (NVDA) shares have plunged 15.8%, breaking through their 200-day moving average for the first time in two years.

- **Like most market participants, we believe that the sell-off caused by the Chinese startup is not a "bubble burst," but an overreaction to the growing uncertainty caused by a technological breakthrough.** The key argument of the "bulls" is the " Jevons paradox ": increasing the efficiency of resource use does not lead to its savings, but, on the contrary, to an increase in overall consumption. This explains the expansion of the rally in favor of small and medium companies, as well as the growing interest in the Software segment. Experts note that optimizing expenses on AI models can allow businesses to reallocate budgets in favor of larger-scale marketing campaigns, strengthening cybersecurity and developing innovative applications with diverse AI use cases.

- **US GDP data showed the economy growing at a robust 2.3% in Q4.** The consumer remains the main driver. For all of 2024, the US economy is expected to grow by 2.8%.

- **Inflation did not present any significant surprises. The core** PCE deflator rose by 0.16% m/m in December after rising by 0.11% in November. Growth for 2024 is 2.8%.

- **The Fed meeting was held as expected, with a modest market reaction.** The rate remained unchanged. Jerome Powell noted that there is no need to rush to lower it, as the economy is stable. The Fed rate futures curve Funds) has changed little over the week.

- **Corporate earnings surprises are being reported, but to a lesser extent than in recent years.** So far, 36% of S & P 500 companies have reported fourth-quarter earnings. Of these, 77% have beaten EPS estimates , in line with the past five-year average and slightly above the 10-year average(75%). However, the overall size of the surprises appears more modest: earnings beat estimates by only 5.0%, well below the past five-year(8.5%) and 10-year(6.7%) averages.

Source: Koyfin

Key Corporate Stories

- **Apple (AAPL)** beat EPS estimates, highlighting impressive growth in its services segment, though uncertainty over China and Apple's outlook Intelligence continues to weigh on investor sentiment. Shares opened Friday up more than 4%, but ended the session down 0.7%.

- Stock **Microsoft (MSFT)** has faced pressure from less-than-impressive cloud business, but the downside has been offset by rising revenue from AI-related workloads.

- **Meta (META)** beat expectations on most metrics, with investors praising its AI initiatives and capital spending commentary as evidence of a thoughtful long-term strategy.

- **Tesla (TSLA)** sees revenue growth rebound in 2025, analysts see positive outlook thanks to Full system upgrades Self - Driving and the launch of new electric car models. Weak margins remain a risk to the company's profit forecasts.

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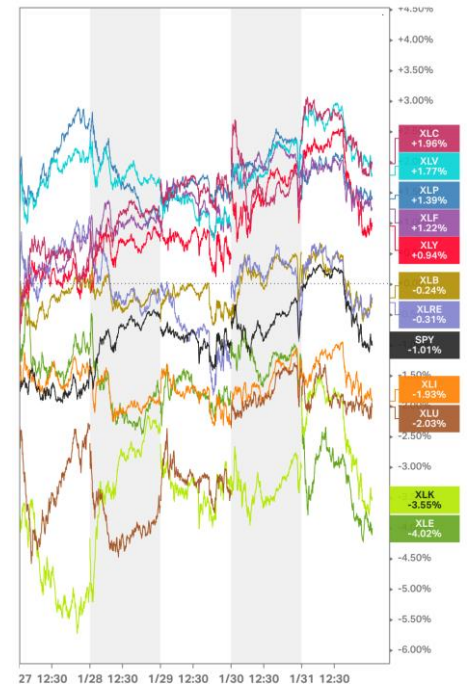
Technical analysis

- An attempt to return to previous highs above 6,100 on Friday failed. S & P 500 futures are under pressure on Monday, falling below key 20- and 50-day moving averages. The S & P 500 could experience a pronounced corrective move, but we emphasize that the medium-term trend remains up as long as the broad market index is within the equidistant channel starting in August 2024, and only a drop below 5,780 will put this trend at risk.

Technical Signals

Signal	Ticker
Long MA Breakout	ORCL, PARA, SCHW, GM, SBUX, DIS, WDC, TSCO, PM, BAX, ICE, IVZ, AMGN, BX, EMR, CTSH, WELL, VTR, NDAQ, ETN, LOW, LIN, MMC, PPG, TEL, BLDR, SWK, FMC, COO, MAR, ADSK, AME, TT, XYL, NSC, PFG, AON, CHRW, NOC, DOV, MSI, VMC, URI, ROK, NWS, PH, EPAM, STE, HUBB, ORLY
Short MA Breakout	OXY
Three White Soldiers	ICE
Three Black Crows	-
Top-10 High RSI	JBL, MMM, STX, BSX, TPR, EQT, GLW, TDY, C, CEG
Top-10 Low RSI	EA, EIX, STZ, MNST, LVS, VTRS, HSY, FICO, AAPL, PCG

All tickers in the rows are sorted by average trading volume in descending order, except for the Top-10 High RSI and Top-10 Low RSI rows, where the ranking is in descending and ascending order of the RSI indicator value(respectively).

Source: FactSet, Freedom Broker calculations.

Description of Technical Signals

- **MA Breakout(long/short):** A buy signal is generated when a stock's price crosses above its 50-day moving average(50MA) from below, while a shorter moving average(20MA) remains below the 50MA. For short positions, the opposite scenario is considered. Stocks in this category are suitable for short-term trading, provided that the broader technical picture and investment context are favorable. Common moving average strategies like the Golden Cross are more suited for medium- to long-term trading, whereas this signal is designed to identify local wave, corrective, or reversal movements. If the price crossed the moving average earlier in the week, and this is the first signal in the past 20 trading days, the stock will only be included in the list if it remains above the 50MA at the time of publication.

- **Three White Soldiers/Three Black Crows.** This technical signal is based on a wellknown pattern. Three White Soldiers(3WS) is formed when three consecutive trading days show green, full-bodied candles(the delta between open and close is at least 70% of the delta between high and low) with positive closing dynamics. The opposite situation defines the Three Black Crows(3BC) signal. This pattern is used to identify potential reversal points in a trend, and it's recommended to combine it with other indicators like the RSI or volume profile for confirmation.

- **Top-10 High RSI\Low RSI.** These indicators are built on the Relative Strength Index(RSI)—a momentum oscillator used to measure the speed and direction of price movements. The RSI ranges from 0 to 100. The Top-10 High RSI group includes 10 tickers from the S&P 500 with the highest RSI values(14-period), while the Top-10 Low RSI group includes those with the lowest RSI values.

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