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Tactical Market Update

Stock Market Correction as a Buying Opportunity

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A look at potential catalysts for movement in the coming week

The S&P 500 started the year with an unsuccessful attempt to overcome the 6000–6100 zone. Several important events at once can determine the vector of further market movement. First, the fourth quarter earnings season will begin. On Thursday, TSMC (TSM) will report, one of Nvidia's key partners in the production of the latest AI chips, from which investors expect new financial forecasts. It is also worth keeping an eye on the results of large banks - JPMorgan (JPM), Bank of America (BAC) and Wells Fargo (WFC). Our tactical view on the financial sector is neutral. We emphasize that the "expectations bar" before the earnings season this time looks quite high - the S&P 500 is expected to grow EPS by 11.7% y/y, which will be the highest rate since Q4 2021 (according to FactSet). In addition, analysts' EPS revision during the quarter was "gentle": the decline was only 2.7%, while the average correction over five years was 3.3%.

Secondly, the consumer price index for December will be published on Wednesday. This is the first inflation release after the Fed's December decision to revise the expected rate trajectory. Let us recall that the regulator is now planning two rate cuts in 2025, and investors are already ready for only one cut. We will watch the reaction of the far end of the Treasury curve to the CPI release. If 10-year yields continue to rise, then stocks will come under pressure.

The third important event will be the release of retail sales statistics on Thursday, which may reflect a completely "healthy" state of consumers, strengthening the scenario of GDP growth at a rate above 2%, which requires the Fed's attention.

The S&P 500 may move in the range of 5700-6000 points. We believe that the tactical balance of risks looks negative, and we would not be surprised to see a further correction. However, this drawdown will be an opportunity to increase long positions, as our long-term view remains positive.

Monday – January 13
No significant events scheduled.

Tuesday – January 14
PPI. According to the consensus forecast, producer prices will rise by 0.4% m/m, maintaining the November pace. Core PPI is expected to grow by 0.3% m/m.

Wednesday – January 15
CPI. According to our estimate, core CPI will show growth of 0.2% m/m, slightly slowing compared to the previous gain of 0.3%. The consensus forecast also points to the possibility of a slowdown in price growth. The key disinflationary driver will be the cost of housing (imputed rent).

The Fed's Beige Book. This report is an important source of information about the economy, as Jerome Powell has previously emphasized.
Quarterly Results: JPM, WFC, GS, BLK, C.

Thursday – January 16
Retail Sales. The consensus is for non-auto sales to rise 0.5% m/m, compared to a 0.2% increase previously. Our forecast is slightly more conservative: 0.3% m/m.

Quarterly Results: TSMC, UNH, BAC, MS.

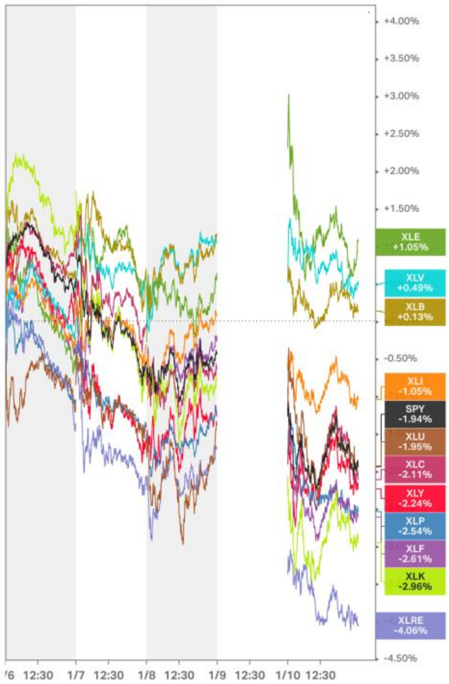
Friday – January 17
Industrial Production. The consensus is for 0.3% m/m.

Quarterly Results: SLB, TFC.

Events in Review

Stocks came under pressure during the shortened working week. In four trading sessions, the S&P 500 lost 2%, the Nasdaq corrected by 3.4%, and the Russell 2000 fell by 3.5%. Macro data pointed to the strength of the economy and raised concerns that the Fed could tighten its rhetoric.
The technology sector (XLK ETF) looked weaker than the broader market. Shares of Nvidia (NVDA), one of its main issuers, fell by 6% on Tuesday. We believe that such dynamics were due to the effect of inflated expectations: before the start of the CES 2025 exhibition dedicated to tech innovations, the company's quotes were actively moving up, and after the speech at this forum by the company's CEO Jensen Huang, which did not cause the sensations expected by the investment community, a pronounced fixation of positions began.
The release of a block of labor market data on Friday triggered a sell-off in stocks. December's unemployment data surprised: the rate fell to 4.08% against expectations of 4.23% and 4.24% in November. The number of people employed jumped by 478 thousand (the most since April 2024), while the labor force grew by only 243 thousand. Previous forecasts assumed a stagnant labor market, but the new data indicate an increase in hiring. In 2024, employment grew by an average of 40 thousand people per month: a modest 3 thousand in the first half of the year was followed by an acceleration to 77 thousand in the second. This indicates a decrease in the risks of rising unemployment and a shift in focus to inflationary threats, which caused a negative reaction in the markets. It is obvious that unemployment has stabilized on a "plateau" in the range of 4.0-4.3%, where it will remain in 2025. We have updated our forecasts: baseline scenario - 4.2-4.3%, optimistic - 4.0-4.2%, pessimistic - 4.3-4.5%.
The November JOLTS labor market report showed an increase in the number of open vacancies for the second month in a row. The actual value was 8.089 million against expectations of 7.730 million. The indicator stopped its downward trend, reflecting stabilization in the labor market.
December data on the ISM business activity index in the services sector confirmed the resilience of the US economy. The indicator rose to 54.1 points against expectations of 53.5 points and the November value of 52.1 points. Over the past four months, the average business activity level has been maintained at 54.3 points. It's worth noting that the December figure compensated for the unexpected dip in November, confirming that growth in the services sector continues.
Our estimates for the GDP growth rate for Q4 2024 remained in the range of 2.3-2.4%. The forecast from the Atlanta Fed's GDPNow model is at 2.7%. The key question now is: why would the Fed cut rates given such strong economic growth and stable unemployment? Market participants had previously widely expected a long pause in the regulator's actions, but now some economists are admitting a scenario of the Fed's rate cut cycle being completely completed. In particular, the Bank of America team made such a statement on Friday. Futures point to one rate cut in 2025, expected in September, but repricing could continue if the data flow signals a decrease in the risk of a cooling labor market and an increase in the risk of more "sticky" inflation.

Sector dynamics last week



Source: Koyfin

Key Corporate Stories

At CES 2025, Nvidia (NVDA) CEO Jensen Huang outlined plans for the year ahead in the area of AI solutions for consumers and enterprises, and also unveiled a number of new software technologies designed to train humanoid robots and support various AI-based applications.

Delta (DAL) posted a strong quarterly report, and its shares responded by rising 9% on Friday. The company's Q1 guidance was better than expected for the midpoint of EPS and revenue growth, with growth in international and corporate travel among the positive factors.

Constellation Energy (CEG) confirmed the acquisition of Calpine in a deal valued at $26.6 billion. The company also said full-year EPS would beat the high end of its previously announced range of $8.40, above the FactSet consensus of $8.27.

Technical Analysis

The S&P 500 looks set to continue its slide after failing to gain a foothold above 6,000 and its 20-day moving average last week. Breadth readings continue to show weakness in the buying position. The share of index components above their 50-day moving averages fell to a new yearly low of 16%. We believe the benchmark will remain susceptible to correction as long as it remains below 6,050. Strong support is found in the 5,670–5,700 range.

Technical signals

Signal	Ticker
Long MA Breakout	DVN, TGT, EOG, GEHC, FANG, HES, IQV, CDW
Short MA Breakout	AAPL, WBD, APO, KR, DIS, V, CRM, CNP, HON, SYF, NFLX, AXP, CME, TTWO, EXPE, AXON, NOW, GDDY
Three White Soldiers	-
Three Black Crows	PEP, ON, MCD
Top-10 High RSI	CTRA, JBL, CEG, EQT, WBA, UAL, DAL, JNPR, BSX, EOG
Top-10 Low RSI	EIX, STZ, CCI, LEN, CPB, MKTX, TSN, NDSN, BF.B, BALL

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.

The signals and indicators provided in the material should not be regarded as a call to action or an investment idea, and it is also not recommended to use them in trading in isolation from other factors that have developed in the economy, on the market and in the dynamics of the stock.

Description of technical signals

MA breakout (long/short). A buy signal is generated when the stock price crosses the 50-day moving average (50MA) from the bottom up, while the shorter moving average (20MA) is below the 50MA. The opposite situation is considered for opening a short position. Stocks that fall into this category are suitable for short-term trading, provided that the overall technical picture and investment background are favorable. In our opinion, generally accepted strategies with moving averages such as Golden Cross are more suitable for medium-term and long-term trading, while this signal is designed to search for local wave, correction or reversal movements. If the price and the moving average crossed at the beginning of the week and this is the first signal over the past 20 trading days, the security will be included in the general list only if the price is above the 50MA before the publication of the material.

Three White Soldiers/Three Black Crows. This technical signal is based on a well-known pattern. Three White Soldiers (3WS) is formed when three trading days in a row there are green full-bodied candles (opening/closing delta not lower than 70% of the delta of the highest and lowest prices) with positive closing dynamics. The opposite situation works for the Three Black Crows (3BC) signal. This pattern is used to find reversal points in a trend, and in trading strategies it is recommended to combine it with other indicators, such as RSI and/or volume profile for confirmation.

Top-10 High RSI\Low RSI. These indicators are based on the relative strength index (RSI) - an oscillator based on momentum, which is used to measure the speed and change in the direction of price movement. This tool has a value in the range from 0 to 100. These groups include only 10 tickers from the S&P 500, which have the highest values of the RSI indicator with a period of 14 (Top-10 High RSI), as well as the lowest RSI values (Top-10 Low RSI).