

Tactical Market Update

Beware: AI narrative will be tested for strength

A look at potential catalysts for movement in the coming week

Nvidia's (NVDA) earnings report on February 26 will be an important event for the entire market, which is supported by the AI narrative. The beginning of the year was dramatic for the shares of the world's leading chipmaker - from the peak on January 7, the shares initially fell by 26% due to the DeepSeek startup, whose AI models were created without using advanced versions of Nvidia chips. However, the resulting "gap" was quickly closed thanks to investors' confidence that massive sovereign and corporate capital investment programs will still ensure confident growth in demand for the company's products. On average, over the past four quarters, NVDA shares have moved 8.2% on the report. The current situation is notable for the presence of a strong bias in option volatility towards puts, which may indicate a "bearish" sentiment. Every comment from Jensen Huang will be carefully analyzed, and in the current environment, only one uncertain statement can cause a negative reaction. We believe that in the short term, a correction is more likely for the papers, although the fundamental long-term picture remains "bullish".

Other corporate reports this week include Salesforce (CRM), Dell Technologies (DELL) and Workday (WDAY), while PayPal (PYPL) will hold an investor day. Also of interest is the annual Bernstein TMT Forum, where Intel (INTC) management is scheduled to speak. Traders interested in highly volatile stocks should keep an eye on IonQ (IONQ), Tempus AI (TEM), SoundHound AI (SOUN), Archer Aviation (ACHR), Teladoc Health (TDOC) and Hims & Hers Health (HIM).

The S&P 500 may move in the range of 5900–6150 points. The medium-term trend remains upward, but a short-term correction is quite possible. Both the technical picture and seasonality point in favor of this scenario. The 30-year composite dynamics of the S&P 500 point to possible local weakness in the period from mid-February to mid-March. In addition, elevated forward multiples across the market may cause investors to react sharply to any negative event.

Monday - February 24

- Quarterly results: O, ZM, HIMS, TEM, RIOT, DPZ, TCOM.

Tuesday - February 25

- **CB Consumer Confidence Index.** The report will be in focus as other data highlights rising inflation expectations.
- Quarterly results: INTU, WDAY, HD, CPNG, FSLR, LCID, CAVA, AXON.

Wednesday - February 26

- Quarterly results: NVDA, LOW, TJX, CRM, SNOW, STLA, EBAY, IONQ, AI.

Thursday - February 27

- **GDP data for the fourth quarter (second estimate).** Growth of 2.3% is expected. Quarterly results: DELL, HPQ, NTAP, VST, WBD, NCLH, RCLB, ESTC, ACHR.

Friday - February 28

- **PCE deflator.** Both the headline and core price indexes are expected to increase by 0.3% m/m, according to the consensus forecast. We share these expectations. Due to the high base effect, the annual dynamics are expected to slow to 2.6%.
- **Income and expenses of individuals.** According to the consensus forecast, nominal growth for January is expected to be 0.4% m/m and 0.2% m/m, respectively. In real terms, expenses in this case will record a decrease of 0.1% m/m.
- Quarterly results: AES, WULF, FUBO.

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Events overview

- Last week, the S & P 500 managed to renew its all-time high, but then bounced off it. As a result, stock indices demonstrated negative dynamics: the S & P 500 fell by 1.66%, the Nasdaq lost 2.51%, and the Russell 2000 fell by 3.71%. Investors faced increased macroeconomic risks, including weak services PMI data and rising inflation expectations, as well as ongoing uncertainty around trade policy and mixed corporate reports.
- **Macroeconomic statistics on Friday turned out to be worse than expected and caused a negative reaction in the market.** A negative surprise was provided by the preliminary PMI for the services sector from S & P Global for February, which for the first time in two years was below 50 points (fell to 49.7 points), indicating a contraction in activity. Pressure was exerted by uncertainty regarding fiscal policy. However, the negative was somewhat offset by the fact that the PMI for the manufacturing sector rose to 51.6 points, ahead of the consensus forecast of 50.5 points. Regional activity indices from the Federal Reserve Bank of New York and Philadelphia also exceeded expectations earlier, emphasizing the improved prospects in the manufacturing sector.
- **Consumer sentiment has worsened, and inflation expectations have risen.** The final University of Michigan consumer sentiment index for February was 64.7, below the consensus of 67.5. One-year inflation expectations remained high at 4.3%, indicating continued market concerns. The real surprise was that long-term inflation expectations jumped to 3.5% (3.3% expected), the highest since the mid-1990s.
- **The new data set has revived concerns about a stagflationary scenario, where the economy slows while inflation remains high.** In our view, the likelihood of this scenario developing remains very low, but we will be watching the data as it comes in. Macro indicators often have distortions at the beginning of the year, which are subsequently corrected.
- **Similar thoughts can be seen in recent statements from Fed officials.** Their speech was assessed by investors in the context of higher inflation data released earlier in January. Most speakers emphasized the need to pause monetary action to continue monitoring economic indicators.
- **ETF performance speaks volumes about investors' risk-off sentiment on Thursday and Friday.** Low-volatility (USMV) and high-dividend (VYM) stocks outperformed the broader market by nearly 2 percentage points over the four trading days. In addition, the momentum factor, which had been the leader previously, became the biggest underperformer (MTUM). Small-cap (IJR) and growth (IMF) stocks also underperformed the S & P 500.
- **The significant shift in sentiment was accompanied by a rotation of capital into defensive sectors.** Utilities rose 1.5% (XLU), while Healthcare gained 1.1% (XLV). Tech (XLK : -2.1%) and Consumer Discretionary (XLY : -3.8%) came under pressure amid concerns about valuation overheating and weakening consumer activity. XLY Quotes ETFs have gone into negative territory in terms of dynamics since the beginning of the year (-2.7%).

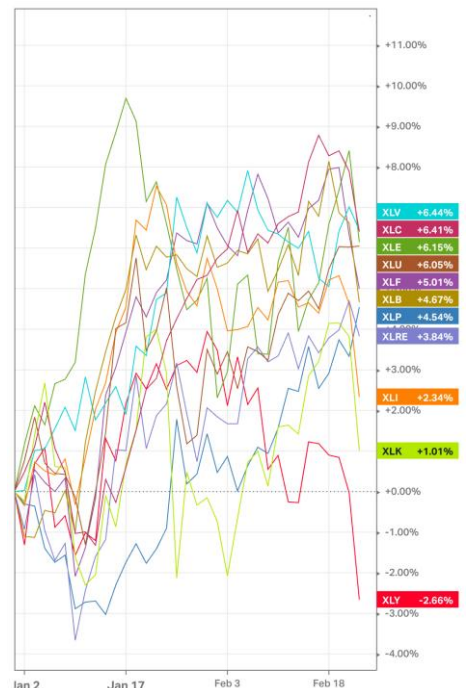
Key Corporate Stories

- **Alibaba (BABA)** shares jumped after the report, testing their best levels since November 2021. Investors welcomed strong results in the cloud segment (focused on AI-related products).
- **Walmart (WMT)** shares fell on disappointing guidance, though consumption is still seen as strong.
- In an attempt to revive its sales in China, **Apple (AAPL)** is offering the iPhone 16 e, a cheaper version of its device.
- **Palantir (PLTR)** shares fell amid reports that the U.S. Defense Department's budget will be cut by 8% over the next five years.
- **Microsoft (MSFT)** has developed the Majorana 1 chip. The device could become the basis for creating powerful quantum computers.
- **UnitedHealth (UNH)** is under investigation by the U.S. Department of Justice for allegedly overcharging Medicare patients. Advantage.

Sector Dynamics Last Week



Dynamics of factors since the beginning of the year



Technical analysis

The S & P 500 corrected after a new all-time high, forming a bearish divergence on the RSI indicator. We advise caution, as the signal is an indication of insufficient strength of the bulls. Trading on Friday stalled at the 50-day moving average, which could lead to an attempt at a rebound, but more significant support for the broad market index is at 5920. Given the divergence on the RSI, a test of this level in the coming sessions looks more likely than a return to 6150 points.



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.

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 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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