

Tactical Market Update

DeepSeek's success will trigger a market correction

A look at potential catalysts for movement in the coming week

Investors should brace for increased volatility and a jump in the VIX. US stocks will start the week with a sell-off. We believe that the success of China's DeepSeek will negatively impact a number of big tech stocks, with NVIDIA (NVDA), Broadcom (AVGO) and other chip makers taking the biggest hit. The magnitude of a possible revaluation remains an open question. Most importantly, we believe that global AI investment programs will not be revised, the arms race will continue, and big tech companies will be able to use Chinese developments to their advantage.

The negative sentiment around tech stocks makes this earnings season even more interesting. The market value of companies reporting this week will exceed \$18 trillion – that's one-third of the entire capitalization of the S & P 500. Tesla (TSLA), Microsoft (MSFT) and Meta Platforms (META) reports after the market closes on Wednesday, while Apple (AAPL) is set to report on Thursday, with shares under pressure on concerns about weak holiday iPhone sales. Payments from Visa (V) and Mastercard (MA) are also worth keeping an eye on.

In addition, the Fed meeting may increase market volatility. No interest rate change is expected this time, nor will there be a revision of economic forecasts, but the market's attention will be focused on Jerome Powell's rhetoric at the press conference. Market participants are already prepared for a scenario of one Fed rate cut this year, which is quite conservative. We believe that the balance of risks ahead of the Fed meeting is moderately positive.

Also in focus will be the first Q4 GDP data due on Thursday and the PCE deflator on Friday. We believe a positive surprise in the inflation data is quite possible, which could provide support to the stock market and increase demand for longer-term Treasuries.

The Hong Kong Stock Exchange will be closed from January 29 to January 31, and the Shanghai Stock Exchange will be closed from January 28 to February 4 due to the Chinese New Year.

The S&P500 could move in the 5850-6100 range.

Monday - January 27

- Quarterly results: T, SOFI, NUE.

Tuesday - January 28

- **CB Consumer Confidence Index.** Consensus forecast: growth from 104.7 to 105.7. The focus will be on the labor market differential component, which has been steadily rising in Q4 after reaching a multi-year low in September 2024.
- Quarterly results: RTX, BA, LMT, GM, RCL, SAP, SBUX.

Wednesday - January 29

- **Fed meeting and Jerome Powell press conference.**
- Quarterly results: MSFT, META, TSLA, ASML, TMUS, NOW, IBM.

Thursday - January 30

- **GDP for Q4 (first estimate).** The consensus forecast is for growth of 2.7%. Our economic model confirms this estimate.
- Quarterly results: AAPL, V, MA, CAT, CMCSA, INTC, KLAC.

Friday - January 31st

- **PCE deflator.** The consensus forecast is for the core indicator to grow by 0.15–0.2% m/m. We believe that growth rounded to 0.1% is quite possible.
- Quarterly results: XOM, CVX, AABV, ETN.

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Events overview

- Stocks performed well last week. The S & P 500 hit a new all-time high, up 1.7%. Ten sectors finished the week in positive territory, while the equal-weighted benchmark (RSP ETF) rose 1.2%. The Nasdaq index jumped 1.6%.
- **The bulls were supported at the start of the week by optimism surrounding Donald Trump's first moves as president.** Investors were watching developments around his tariff policy: his initial steps toward China were softer than expected, although the potential introduction of 25% tariffs on goods from Canada and Mexico raised concerns. At the World Economic Forum, Trump avoided "sharp edges" on tariffs, focusing on calling for "immediate" interest rate cuts.
- **The tech sector has been a big driver of the broader market, but the rally has proven unsustainable.** Shares of NVIDIA (NVDA) and other tech companies on Wednesday were positive after the launch of Project Stargate, a \$500 billion investment in AI infrastructure through 2029. The program, led by SoftBank, OpenAI, Oracle (ORCL) and MGX, aims to build U.S. data centers to support AI. Hardware and technology providers NVIDIA (NVDA) and Arm (ARM) are expected to benefit from long-term demand for chips. However, semiconductor and chip makers were lower on Thursday after weak guidance from South Korea's SK Hynix, and on Friday the focus shifted to the rapidly growing popularity of DeepSeek AI products.
- **DeepSeek, a Chinese company, has made a breakthrough in the AI space by creating a powerful competitor to ChatGPT and Gemini in two months, spending only \$6 million.** The success has challenged the prevailing narrative about the tech dominance of American companies. DeepSeek's new open-source model, the R 1, has already caused a stir among industry leaders, and the DeepSeek mobile app climbed to the top spot in the US App Store over the weekend.
- **US business activity started the year on a weak note, with the composite PMI falling to 52.4 in January, a nine-month low and below expectations of 55.2.** The manufacturing PMI rose to 50.1, beating expectations of 49.5 and entering growth territory for the first time in six months. However, the services PMI fell to 52.8, the worst since April 2024, and was well below the consensus of 56.7. Both business costs and selling prices rose at their fastest rates in four months in January, the report showed. The labour market remains resilient, with US employment rising at its fastest pace in two and a half years in January.
- **Consumer sentiment data from the University of Michigan (UMich) also came in weaker than expected.** The final sentiment index for January unexpectedly fell for the first time in six months, to 71.1 points. The surge in inflation expectations, which were almost unchanged from the preliminary values (3.3% for the year, 3.2% over a five-year horizon), is worrisome.

Key Corporate Stories

- **Netflix (NFLX)** was the big winner of the week, adding 19 million paid subscribers, well above analysts' expectations of 9 million. The gains pushed the stock to record highs.
- GE Aerospace (GE) reported better-than-expected profit, revenue and operating margin. Commercial unit results Engines improved on stronger demand for services. Shares rose.
- **Stock Electronic Arts (EA)** shares plunge to lowest since March 2023 after company adjusts EA game pre-order forecast Sports and Dragon Age. The investment community is concerned about the weakening demand for the company's products.
- **Twilio (TWLO)** shares rose strongly after the company released positive preliminary fourth-quarter results at its investor day, as well as an optimistic guidance through 2027 and the announcement of a buyback program.

Technical analysis

The S & P 500 has confirmed the strength of the uptrend, having updated the historical maximum last week. However, the strong downward movement in futures brings to the fore the support in the 6000 area. Its break may lead to a decline to 5900 points. It is worth noting that the medium-term trend remains upward as long as the S & P 500 is within the equidistant channel starting in August 2024, and only a drop below 5780 points 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.

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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