

Tactical Market Update

Fed meeting as the final movement driver in 2024

Overview of Potential Market Drivers for the Upcoming Week

The final full trading week of 2024 promises to be volatile due to the upcoming Federal Reserve meeting, with results to be announced on Wednesday. A 25 basis point rate cut is almost fully priced in. The main intrigue lies in the Fed's updated economic projections, last revised on September 18. Since then, incoming macroeconomic data could push officials to raise the inflation forecast for 2025 by 0.1–0.2 percentage points. This, in turn, could lead to a revision of the expected rate trajectory — the economy remains resilient, and the Fed may proceed more cautiously, considering uncertainties related to Donald Trump's future policies as president. Potential new trade tariffs could increase inflation risks, though the exact impact is hard to assess. Under current conditions, the updated regulator forecast will likely signal only two rate cuts in 2025, reducing the range to 3.75–4% instead of the four cuts projected in September.

Another critical factor influencing the market's reaction to the upcoming Federal Reserve meeting is the updated forecast for the long-term interest rate, potentially accompanied by comments from Jerome Powell. Since the beginning of 2024, this estimate has steadily risen from 2.5% to 2.9%, and this trend is likely to continue. A potentially higher economic growth rate amid sustained productivity gains suggests the need for tighter financing conditions in the future.

Corporate news is expected to be sparse. Few corporate updates are expected. Quarterly reports this week include Nike (NKE), FedEx (FDX), and Micron Technology (MU).

The S&P 500 could fluctuate between 5950 and 6150 points.

Monday, December 16:

- **S&P Global PMI Indices (preliminary).** This release will be the first significant report in December that provides insights into the state of the U.S. economy.

Tuesday, December 17:

- **Retail Sales Report:** We expect the core index to increase by 0.3% m/m in November, indicating a likely rise in real consumer spending by 3.0% year over year amid low goods inflation. Total sales may also grow by a healthy 0.3% m/m.

Wednesday, December 18:

- **Federal Reserve Meeting and Jerome Powell's Press Conference:**
- Quarterly reports include Micron Technology (MU), General Mills (GIS), and Lennar Corporation (LEN).

Thursday, December 19:

- **Philadelphia Fed Manufacturing Index:**
- Quarterly reports include Nike (NKE), Paychex (PAYX), FedEx (FDX), Darden Restaurants (DRI), and Accenture (ACN).

Friday, December 20:

- **PCE Price Indices.** Economists anticipate a core PCE growth of approximately 0.2% m/m, reflecting a long-awaited slowdown after two consecutive months of 0.3% m/m increases.
- **Personal Income and Spending:** Trends suggest stable household finances. The monthly savings rate increased from 4.1% to 4.4% in October but may decline in November as spending growth (0.5%) is expected to outpace income growth (0.4%).

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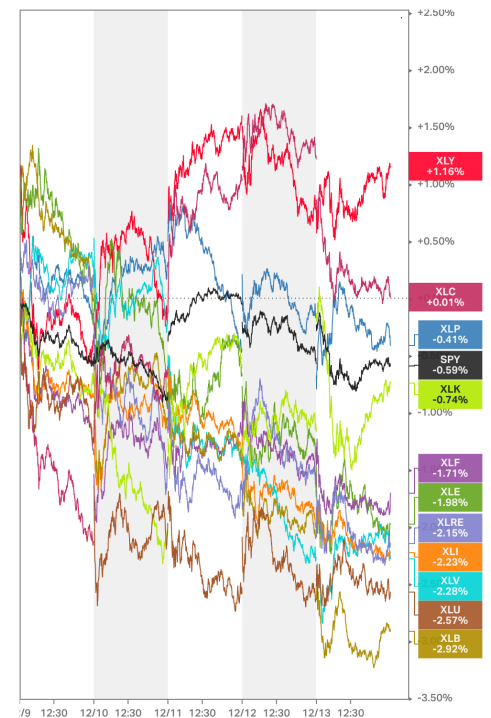
Event Overview

- Stocks showed mixed performance: small- and mid-cap segments remained under pressure, with the Russell 2000 continuing its correction (-2.5%), while large-cap growth stocks outperformed. The Nasdaq-100 reached a new high (+0.7%), whereas the S&P 500 lost 0.6%.
- The divergence in index dynamics was driven by corporate news.** Alphabet (GOOGL) shares hit an all-time high following the presentation of a new quantum computing chip, alongside other positive developments. A strong quarterly report from Broadcom (AVGO) supported the semiconductor industry, with the SMH ETF rebounding from its 200-day moving average. The consumer discretionary sector performed best, driven by a rally in Tesla (TSLA) shares. Conversely, traditional sectors, such as industrials (XLI), utilities (XLU), materials (XLB), and healthcare (XLV), experienced significant position adjustments as capital was reallocated towards year-end.
- Inflation data exceeded expectations slightly but did not disrupt the prevailing narrative.** The Consumer Price Index (CPI) rose by 0.31% m/m, surpassing the consensus forecast of 0.28%, marking the largest monthly increase since April. The core CPI also rose by 0.31% m/m, slightly above analyst expectations. The primary contributors to the rise were food prices, up 0.4% m/m. Annual consumer inflation accelerated to 2.7% y/y from 2.6% y/y in the previous month. Producer Price Index (PPI) data showed a 0.4% m/m increase, exceeding the expected 0.3% m/m, while core PPI grew in line with forecasts at 0.2%. Progress toward the Fed's 2% inflation target has stalled over the past three months. However, the risk of prolonged inflationary pressures remains minimal due to the lack of triggering factors.
- The NFIB Small Business Optimism Index for November rose to 101.7, its highest level since June 2021, signaling a positive economic outlook.

Corporate Highlights

- Broadcom (AVGO):** Shares soared to an all-time high, driven by impressive results from its AI segment. Revenue in this area surged by 220%, from \$3.8 billion to \$12.2 billion. The company forecasts that AI revenue could reach \$60–90 billion by the 2027 fiscal year. Additionally, Broadcom announced an 11% increase in quarterly dividends.
- Uber (UBER):** Shares hit their lowest level since August after **General Motors (GM)** discontinued its robotaxi program, effectively terminating a long-term contract with Cruise for autonomous vehicles on the Uber platform. The news was positively received by competitors like **Alphabet (GOOGL)** and **Tesla (TSLA)**.
- Adobe (ADBE):** The company's 2025 guidance disappointed investors. Revenue is projected at \$23.3–23.5 billion (consensus: \$23.8 billion), and EPS is between \$20.2–20.5 (market expectation: \$20.52). Shares dropped to their lowest level since June.
- UnitedHealth (UNH)** and **CVS Health (CVS):** Shares fell on reports of a proposed reform requiring pharmacy benefit managers (PBMs) to divest their pharmacy operations. This could significantly impact PBMs' business models.
- Oracle (ORCL):** Quarterly results fell short of high market expectations, with revenue growing 9% to \$14.06 billion (expected: \$14.1 billion). Analysts remain optimistic about the company's growth potential, particularly in cloud and AI services.
- Alphabet (GOOGL):** The company unveiled its new quantum chip, Willow, designed to tackle mathematical problems beyond the reach of current processors. While commercial applications for quantum computing remain years away, investors welcomed Alphabet's leadership in this cutting-edge technology space.

Sector ETF dynamics



Source: Koynin

Technical Analysis

- The S&P 500 consolidated, confirming the 6100 level as a key resistance area. The percentage of index stocks trading above their 20-day moving average fell to 30%. The market looks vulnerable as long as this figure remains well below 50%. The equal-weighted S&P 500 (RSP ETF) has declined by 3% from its late-November high but remains in a medium-term uptrend. A continuation of this trend requires broader market participation, indicated by an increase in the number of stocks with positive momentum.



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