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Tactical Market Update

In Focus: Fed's Beige Book and Corporate Reports

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Overview of Potential Market Drivers for the Upcoming Week

The key macro event of the upcoming week will be the Federal Reserve's Beige Book release on Wednesday. This economic overview will shed light on the regulator's potential reasoning. Currently, the market is confident in a 25 basis point rate cut by the Fed at the November 7 meeting, but positive economic data from September has created uncertainty regarding the long-term neutral rate.

Other important macro events for the week include business activity indices from S&P Global and initial jobless claims on Thursday, as well as consumer sentiment data from the University of Michigan for the first half of October, set to be published on Friday. These data points will provide initial guidance on GDP dynamics for the fourth quarter, where we expect a "soft landing."

During the week, 111 issuers from the S&P 500 index, representing approximately 22% of the benchmark, will report their Q3 2024 results. Noteworthy corporate reports include those from automakers General Motors Company (GM) and Tesla, Inc. (TSLA). We believe GM's EPS could reach $2.6, compared to the market's expected $2.38, while TSLA's EPS may settle at $0.48, below the consensus of $0.60. Ahead of these reports, both stocks appear attractive for a pair trade, where an investor could take a long position in GM and a short position in TSLA. Our 12-month target for GM shares is $77, and for TSLA shares, it's $182.

Monday – October 21

- ***Conference Board's Leading Economic Index (LEI).***

Tuesday – October 22

- Quarterly reports: GE, KMB, GM, VZ, PM, FCX, ENPH, MMM.

Wednesday – October 23

- **Federal Reserve's Beige Book.**
- Quarterly reports: KO, T, NEE, BKR, TMUS, TSLA, BA, NOW, IBM.

Thursday – October 24

- ***Business Activity Indices (PMI) from S&P Global.*** The expected value for Manufacturing PMI is 47.5, and for Services PMI, it's 55.
- **Initial jobless claims.** The consensus forecast is 240,000, roughly in line with the previous week.
- Quarterly reports: DOW, NDAQ, TXT, SPGI, UPS, KKR, VRSN.

Friday – October 25

- **Durable goods orders.** A decrease of 1.0% is expected, and excluding the transportation sector, a decline of 0.1% is anticipated.
- **University of Michigan's Consumer Sentiment Index.** Growth to 69.5 points is expected, compared to the previous value of 68.9.
- Quarterly reports: AON, CL, UHS.

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Event Overview

- **Stock indices once again demonstrated a continuation of the upward trend.** The S&P 500 gained 85 basis points, closing in the green for the sixth consecutive week and hitting a new all-time high. The rally expanded across large and small equity segments— the equal-weighted S&P 500 and Russell 2000 outperformed their market-cap-weighted counterparts by 25 bps and 61 bps, respectively. Among S&P 500 sectors, those sensitive to interest rate changes were the week's beneficiaries—utilities (XLU: +3.41%) and real estate (XLRE: +3.02%, XHB: +3.50%). The rally's broadening and the moderate risk-on sentiment are supported by the narrative of a soft landing for the U.S. economy, while a reshuffling of expectations regarding future interest rate movements drives the rise in interest rate-sensitive sectors.
- **Retail sales data for September came in much stronger than expected.** There was a 0.4% increase against expectations of 0.3% and the previous figure of 0.2%. The core measure (excluding autos) grew by 0.5% month-over-month versus expectations of 0.1% and the previous value of 0.2%. These data continue to support the ongoing stock market rally. After the release of this data, market expectations for a Fed rate cut shifted. As before, the market still sees two cuts as most likely in November and December (with probabilities of 90% and 75%, respectively), but the chance of another cut in January has decreased from 65% to 48%.
- **Initial jobless claims for the week ending October 11 came in as expected at 241,000.** These data are neutral—they contribute to the rise in the 4-week average, but there is no systematic increase in layoffs yet. Most states are showing calm conditions, which confirms the absence of a broader trend toward rising layoffs across the economy. From this perspective, there are currently no systemic threats to the economy.
- **The industrial production index for September showed a decline of –0.28%, against expectations of a 0.1% increase and a medium-term trend of around 0%.** Industrial production data is fairly weak; throughout 2024, the trend has remained roughly flat. However, no significant impact on the markets is expected from industrial production data, as the main driver of economic growth currently comes from the services sector.

Key Corporate Stories

- **A significant factor driving the S&P 500 to new record highs was the positive sentiment created by the earnings season.** By the end of last week, about 14% of companies in the S&P 500 had reported their Q3 2024 results. The average EPS growth for reporting companies was 6.4% year-over-year—indicating some slowdown in EPS growth and a slight downward revision of consensus expectations for year-end, but overall, corporate America continues to demonstrate resilience. Among the reporting companies, 75% exceeded the upper range of Wall Street expectations.
- **Reports from Goldman Sachs Group, Inc. (GS) and Morgan Stanley (MS) highlighted the recovery of investment banking operations.** Both financial institutions reported better-than-consensus results. Strong performance in key segments pleased the investment community, particularly in investment banking, including M&A, DCM, and ECM, as well as solid capital inflows into the asset management division. According to FactSet, the EPS surprise was 19.7% for GS and 18.9% for MS. Based on the published results, we maintain a "hold" recommendation for both issuers, with a target of $550 for GS and $108 for MS.
- **Streaming giant Netflix, Inc. (NFLX) shares its success with recent innovations.** Ahead of the report, investors focused on three key triggers in NFLX's earnings—subscriber growth dynamics, the ad-supported subscription tier, and price increases. The result was pleasantly surprising. The higher-than-expected growth in paid subscribers offset concerns about implementing the paid account-sharing program. Optimism was further fueled by strong momentum in the ad-supported subscription segment, as well as the launch of a more affordable ad-based plan, alongside the release of new seasons of popular shows and live sports broadcasts. Based on the published results, we confirm a "hold" recommendation with a target price of $720.

Technical Analysis

- The initiative remains in the hands of the bulls. No reversal patterns are currently visible. There are still technical opportunities for continued growth, as the overbought zone has not yet been reached. The target for the broad market index is the 6000-point level. Support is located around 5765 points.
- The S&P 500 may move within the range of 5765–6000 points.

Technical Signals

Signal	*Ticker*
Long MA Breakout	WBA, DXCM, HRL, COR, FRT
Short MA Breakout	SW, ACGL, A, ERIE, MTD
Three White Soldiers	MCO
Three Black Crows	LRCX, AMAT, KLAC
Top-10 High RSI	UAL, MS, AMP, FIS, CSCO, TMUS, CPAY, SNA, FI, BXP
Top-10 Low RSI	ELV, CNC, MRNA, ENPH, BG, MOH, REGN, IDXX, ERIE, GIS

All tickers in the rows are arranged in descending order of average trading volume, except for the rows Top-10 High RSI and Top-10 Low RSI, where the ranking is based on the RSI indicator, in descending and ascending order, respectively.

Source: FactSet, Freedom Broker calculations.

The signals and indicators provided in the material should not be considered as a call to action or an investment idea. Additionally, it is not recommended to use them in trading without considering other factors present in the economy, the market, and the stock's dynamics.

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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 well-known 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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