

Tactical Market Update

Inflation Expectations and AI Puzzles in the Picture

Overview of Potential Market Drivers for the Upcoming Week

The focus this week will be on inflation data. The Consumer Price Index (CPI) release will serve as the last significant macroeconomic report before the Federal Reserve's December 17–18 meeting. At this meeting, not only is a rate decision expected, but also an updated summary of forecasts for the next several years. Just before the traditional "quiet period," Jerome Powell hinted that the Fed might adopt a more cautious approach as it reduces rates amid rapid economic growth and persistent inflation. We foresee a potential positive surprise in the core CPI for November. If our expectations are met, the likelihood of a rate cut next week will increase, potentially boosting demand for risk assets, including small-cap stocks that have lagged behind the broader market this year. Interestingly, options markets suggest the weakest reaction of the S&P 500 to a CPI release since 2021 (according to BofA data), indicating confidence in medium-term disinflationary trends.

Among this week's anticipated quarterly reports are Broadcom (AVGO), Oracle (ORCL), and Adobe (ADBE). These companies are key beneficiaries of artificial intelligence advancements, so market participants will closely scrutinize their results. Strong reports could trigger a new rally in the tech sector, which is expected to drive market growth in 2024. Conversely, given high expectations and premium valuation multiples, weak results or disappointing forecasts could lead to stock corrections.

The S&P 500 is projected to trade within a range of 6000–6150 points. We see a predominantly neutral risk balance: technical factors raise concerns (see below), but the fundamental picture supports bulls.

Monday, December 9:

- Quarterly reports from ORCL, MDB, and AI.

Tuesday, December 10:

- Quarterly reports from AZO, GME.

Wednesday, December 11:

- **CPI.** Markets expect core CPI growth to remain at 3.3% year-on-year for the fourth consecutive month, with a monthly increase of 0.3%. However, we are more optimistic and anticipate that recent price pressures were temporary. A significant compensatory effect in transportation services is expected to offset previous price increases, resulting in core CPI growth of approximately 0.21% month-on-month.
- Quarterly report: ADBE.

Thursday, December 12:

- **PPI Release** Producer Price Index (PPI) for November is expected to rise by 0.3% month-on-month (previously 0.2%), while core PPI may grow by 0.2% month-on-month (previously 0.3%). Key dynamics include portfolio management fee increases supporting inflationary pressure into 2024 and potential airfare price declines following last month's spike.
- Quarterly reports: AVGO, COST, RH.

Friday, December 13:

- No significant events scheduled.

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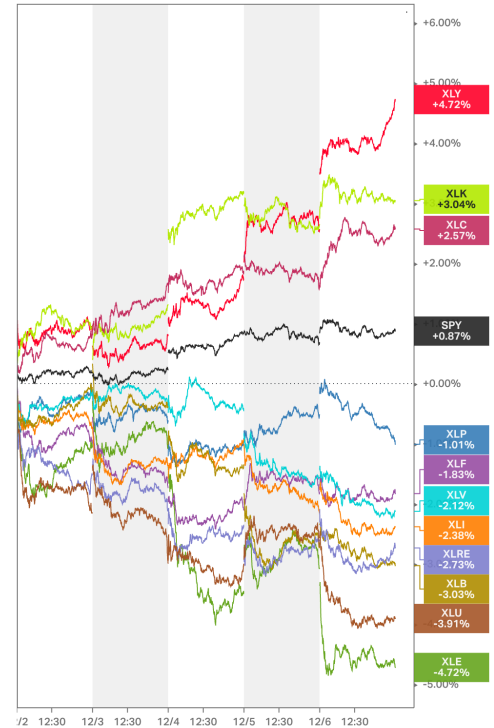
Event Overview

- Stock indices showed mixed performance last week: The S&P 500 reached an all-time high (+0.9%), while the small-cap Russell 2000 index fell by 1.1%. This divergence was driven by dominance from major tech stocks ("AI factor"), with Nasdaq rising by 3.3%, despite overall weakness across most other sectors and market segments. Only 29% of S&P 500 stocks ended the week in positive territory, while the equal-weighted index (RSP ETF) declined by 1.3%.
- Unemployment in November rose to 4.25%, exceeding market expectations of 4.2% and October's figure of 4.14%.** Workforce growth of approximately 100,000 people per month through 2024 creates additional challenges for improving employment metrics. The unemployment rate could reach 4.3% by the end of the year and continue to rise in the first half of 2025. Nonfarm Payrolls data showed job growth of +227k (forecast: +220k), significantly better than October's revised +36k (up from an initial +12k). This jump confirms that October's modest results were due to temporary weather factors like hurricanes. Nevertheless, a statistical discrepancy remains between Payrolls data and household survey results.
- Service sector activity indices for November from S&P Global and ISM were mostly weaker than expected:** The S&P Global index rose to 56.1 from October's 55.0 but fell short of its preliminary estimate of 57 points. ISM's index disappointed at 52.1 points—a three-month low—reflecting declines across all key components: business activity, new orders, and employment. These data point to less robust growth in the services sector, which could lead to a revision of GDP growth forecasts for Q4. However, it is still premature to talk about the development of negative economic trends. Notably, the November ISM manufacturing index beat expectations, with new orders returning to growth territory for the first time in eight months.
- A key takeaway from the latest Beige Book was the rise in business optimism.** Most regions and industries recorded improved economic growth expectations, with business representatives expressing confidence in increased consumer demand in the coming months. The report also highlighted the labor market's resilience, noting stable employment rates, low turnover and rare layoffs.

Key Corporate Stories

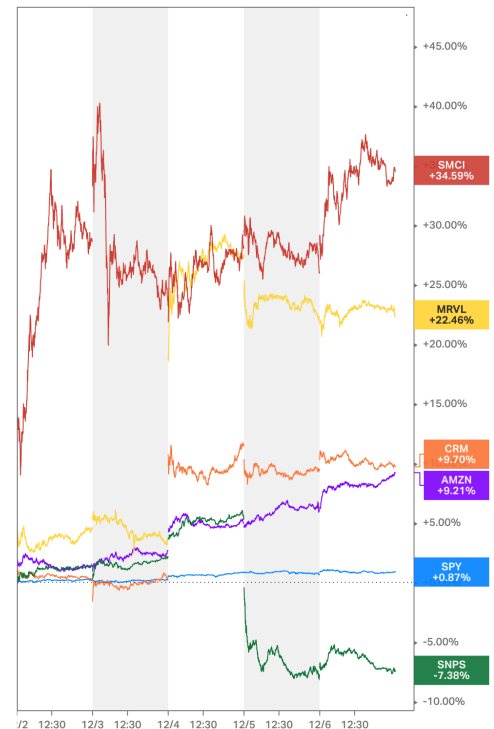
- Amazon (AMZN):** AWS re:Invent conference showcased new AI models under the Nova brand, proprietary AI chips, and a supercomputer partnership with Anthropic; shares hit record highs.
- Salesforce (CRM):** Strong quarterly results driven by the successful launch of Agentforce, a new AI product for automating customer support. Strong demand from corporate customers prompted the company to revise its full-year forecast upward. The stock is up nearly 10% for the week, hitting an all-time high.
- Marvell Technology (MRVL):** Beat revenue/EPS estimates; Management noted the strong demand for its AI-related products and, with this in mind, expressed confidence in the business's growth prospects.
- Synopsys (SNPS)** reported a weak outlook for the next quarter and provided full-year revenue guidance for 2025 that was below market expectations. The company attributed this to the impact of seasonal revenue fluctuations, slower growth in segments outside of AI infrastructure and continued macroeconomic uncertainty.
- Super Micro Computer (SMCI):** Completed independent review with no fraud findings. On Friday, the company received an extension from Nasdaq to February 25, 2025, for filing its annual report, lowering the degree of investor excitement.

Sector ETF dynamics



Source: Koyfin

Dynamics of newsmaker stocks for the week



Source: Koyfin

Technical Analysis

- The S&P 500 tested the 6100 points level, while the RSI indicator touched the overbought zone. The past week was marked by a significant deterioration in market breadth, with the proportion of index stocks trading above their 20-day moving average falling from 82.5% to 46.5%. This decline may indicate a weakening of the internal structure of the rally. For a sustained uptrend to continue, there needs to be an increase in market participation, expressed as an increase in the number of stocks with positive momentum. Otherwise, given the overheated technical indicators, there is an increased likelihood of a market correction.



Technical Signals

| Signal | Ticker |
|----------------------|--|
| Long MA Breakout | - |
| Short MA Breakout | - |
| Three White Soldiers | - |
| Three Black Crows | - |
| Top-10 High RSI | WMT, LULU, RCL, AXON, PLTR, NFLX, GDDY, DIS, CCL.U, BKNG |
| Top-10 Low RSI | LYB, CE, MKTX, DOW, HCA, DVN, MDLZ, ELV, AMGN, GD |

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.

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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