Stock Rally tanked by upcoming Tariffs!!!

The recently formed stock rally encountered significant turbulence last week following claims from Chinese AI startup DeepSeek. The company announced the development of an advanced AI model, asserting that it was trained at a cost of approximately $5.6 million—a fraction of the hundreds of millions typically spent by U.S. firms like OpenAI. This revelation triggered a sharp selloff in AI-related major tech stocks, with Nvidia's shares plunging nearly 17%, erasing $589 billion in market value on Monday, the largest single-day loss in market history. DeepSeek calls into question the mind-boggling capital expenditure that Big Tech are planning to pour into AI (Amazon, Google, Microsoft and Meta Platforms have combined $343 billion in capex planned for building out AI data centers).

The impact extended beyond the technology sector, prompting investors to reevaluate positions in energy and utilities. Anticipation of reduced power demand due to more efficient AI models led to significant declines in shares of natural gas producers, pipeline operators, and power-plant owners. Texas Pacific Land's stock fell 7.7%, while natural gas producers EQT and Antero Resources each dropped more than 9%.

Despite the market upheaval, analysts urged caution, with skepticism lingering over DeepSeek's claims, particularly regarding its access to advanced GPUs amid U.S. export restrictions. Some experts argue that while DeepSeek's advancements are notable, they may not fundamentally disrupt the competitive landscape of AI development. However, as tech stocks became more affordable, eager investors seized the opportunity to buy the dip, temporarily stabilizing the market—until another shock hit on Friday, capping the rally with the announcement of new tariffs.

Major indices were approaching record highs by Friday, with both the Dow Jones and S&P 500 nearing all-time peaks. However, the market sharply retreated after the White House confirmed that a 25% tariff would take effect on imports from Mexico and Canada, along with a 10% tariff on Chinese goods starting February 1. This announcement led to a steep pullback, with both the Nasdaq and the small-cap Russell 2000 index reversing gains and closing in negative territory.

Meanwhile, the Federal Reserve took no action after three consecutive rate cuts, opting to wait for more clarity on the administration's trade policies and their potential impact on inflation. The Fed's preferred inflation gauge, the PCE Price Index, came in lower than expected at 0.16% for December. Additionally, the Employment Cost Index stood at 3.8%, slightly below the 3.9% forecast—further evidence that inflation remains under control, at least for now.

Uncertainty surrounding the new tariffs continues to weigh on markets, as precise details regarding exemptions, timelines, and potential modifications remain unclear. For instance, reports suggest that oil may be subject to a reduced tariff of around 10%. Given that Mexico and Canada are the United States' largest trading partners, the 25% tariffs on their exports are expected to significantly impact industries such as automobiles, auto parts, crude oil, and agricultural products. Legal experts also suggest that broad tariffs affecting all imports could require congressional approval, adding another layer of complexity.

Bearish signs on horizons:

We are bullish on the long-term basis about S&P 500 and Nasdaq and firmly believe that we are in a secular bull market, and it will continue to go in that direction for several years, but we can't deny the fact that even during the bull markets, cyclical periods of bearish markets develop.

One of the contrarian indicators is the CBOE Put-Call ratio. As Tom Bowley (Earningsbeats.com) notes that when this indicator turns very low it shows excessive bullishness in the options world and many more investors are turning bullish so that eventually the market will rebalance itself and profit taking will kick in. According to his research, history tells us that before major peaks (start of the cyclical bear markets), when this ratio is at its lowest (i.e., less than 0.55) then short-term pullbacks are imminent and could start. Currently this ratio was below 0.55 and just moved up to 0.55, indicating that chances of a cyclical bear market have increased.

Couple this with the uncertainties due to Trump Tariffs, DeepSeek factor and its impact on AI stocks, and Fed's halt of key interest rate cuts and one could see that several factors are lining up which could cause major disruptions to the stock market rally and hence eventually result in a cyclical bear market cycle.

We therefore suggest that investors cut down on their open positions and reduce exposure to only 10-30% of their investments only, thereby raising cash and limiting their investments till further clarity on a possible trade war is obtained that could take weeks or even months to fully unfold.

Here is how the major indices performed last week:

Index	Friday (1/31)	Weekly	Monthly	YTD	1 Year
S&P 500	-0.50%	+1.00%	+2.70%	+2.70%	+24.66%
Dow Jones Industrial	-0.75%	+0.27%	+4.70%	+4.70%	+16.76%
Nasdaq 100	-0.14%	-1.36%	+2.22%	+2.22%	+25.33%
Nasdaq Composite	-0.28%	-1.64%	+1.64%	+1.64%	+29.43%
Russell 2000	-0.90%	-0.97%	+2.50%	+2.50%	+18.80%

Sector Highlights:

Sector	Weekly Performance	Last One month
Communications – XLC	+1.96%	+5.75%
Healthcare – XLV	+1.77%	+6.76%
Industrial – XLI	-1.93%	+5.00%
Technology – XLK	-3.55%	-0.74%
Financials – XLF	+0.94%	+6.50%
Real Estate – XLRE	-0.31%	+1.84%
Staples – XLP	+1.39%	+0.47%
Utilities – XLU	-2.03%	+2.89%
Materials – XLB	-0.24%	+5.53%

Sector	Weekly Performance	Last One month
Discretionary – XLY	+0.94%	+3.49%
Energy – XLE	-4.02%	+2.31%

We mentioned in our last few commentaries that Health care sectors (XLV) and Communications (XLC) are likely to perform strongly during the month of January which they exactly did as shown in the above table. Financials is another notable performer along with the Discretionary sector which was buoyed mainly by Tesla and Amazon. Utilities and Tech came under pressure due to trouble in AI landscape (caused by DeepSeek) while energy remains depressed as Crude Oil and Natural gas prices fell. Energy, however, was positive overall in the month because of its strong performance during the first two weeks of January.

Important Events next week:

A big week for economic data on tap:

Monday (02/03): Global PMI, ISM Manufacturing PMI (Jan)
Tuesday (02/04): JOLTS Job openings (Dec)
Wednesday (02/05): ADP Nonfarm employment, S&P Global Services PMI (Jan), ISM Non-Manufacturing PMI (Jan) and New Orders (PMI)
Thursday (02/06): Initial Jobless Claims
Friday (02/07): Avg Hourly Earnings (YoY) and (Jan), Nonfarm Payrolls (Jan)

Important Earnings this week:

Coming week is also full of important earning reports and announcements just like the prior one:

Monday (02/03): Palantir (PLTR), Advanced Micro Devices (AMD)
Tuesday (02/04): Google (GOOGL), Pfizer (PFE), Merck (MRK)
Wednesday (02/05): Arm Holdings (ARM), Disney (DIS), MicroStrategy (MSTR)
Thursday (02/06): Amazon (AMZN), AstraZeneca (AZN), Fortinet (FTNT), Eli Lilly (LLY), Cloudflare (NET), Ralph Lauren (RL)
Friday (02/07): Tradeweb (TW)

Long-Term Stoc Picks:

Our long-term stocks are those in which we have the conviction that they have strong business fundamentals and enjoy moats in their respective industries; hence the chances of long-term profits are high.

MSFT:	Microsoft reported earnings last week. Although the revenue and earnings increased by 12% and 17% respectively on YoY basis, its cloud computing division experienced a slowdown. Subsequently, the stock price declined by 3.3% reflecting investors' concerns over the deceleration in cloud growth and future investments in AI infrastructure. With the bearish

	market environment being developed it is suggested to close existing positions in Microsoft and wait for a better entry at a later stage.
NVDA:	Nvidia took a deep dive on Monday on DeepSeek news since no one has benefited from the AI more than Nvidia. Although it regained some of the losses. Nvidia still seems vulnerable while it is getting support at its 200-days EMA (119.9). With uncertainty caused by tariffs and a possible trade war, shares could further get depressed. Therefore, it is time to give the share some time before making any decision to hop in. Better to close the open positions in profit and wait for better times to get back in.
AAPL:	Apple topped its earnings targets when EPS rose 10% while revenue increased by 4% to $124.3 billion in the last quarter. The decline in iPhone sales in China was offset by growth in high-margin services area and Mac/iPad sales. This caused a reversal in Apple shares as it climbed higher before retreating on Tarriff news on Friday. Nevertheless, Apple remains a long-term leader. If Apple resists the tariff aftermaths, comes back, and sustains the 240 level then it will be another chance **to add some shares or get onboard** with a possible move to 260. It is also noteworthy to note that Apple has the most to win from a low-cost AI world that's why Apple had a positive impact on Monday while most of the AI players like Nvidia sank. However, Friday's reversal action depicts that in the short-term Apple could consolidate or even come down along with the broader market.
COST:	Costco gained another 4.28% last week. It remains a long-term leader but with the bearish signals in the overall market, it is suggested to take some profits off the table and hold off the rest for the long run.

__Medium- and Short-Term Picks:__

GOOGL:	Google's earnings are also due on Tuesday. It is about its core business, which is advertisement from YouTube and AI initiatives. It gained 0.33% during last week and climbed in nine of the past 10 weeks. Although it is at all-time high, market forces could curtail its upward movement even after a good report. Suggest a wait and see approach at this time and taking some profits off the table (if not done yet).
META:	Meta gained another 6.44% last week making it six weeks of gains in a row. It is at an all-time high and is expected to continue the trend eventually even though it plans to invest heavily in AI infrastructure in future showing investors' confidence in Mark Zukerberg's plans. If some profits are not made so far then position size should be reduced as Meta is likely to consolidate (or even come down due to market pressures).
AMZN:	Amazon is also reporting in the coming week. The focus will be on its AWS cloud growth and Retail marketplace business. Amazon was flat during the last week and its future guidance could swing the stock in both directions. After showing strong growth in 2024, it is still in a consolidating but **actionable** range before attempting another breakout. On the other hand, the current market environment could be a drag. Suggest waiting till earnings how it plays out.

PLTR:	Palantir earnings are due on Monday. It is trying to sneak back are retained the 80 level. It could set up a big move after earning but since during these times the stock becomes volatile, hence it is suggested to reevaluate its behavior post earnings.

Interesting Stocks for Actions and Watchlist:

New Picks:

Due to recent development on several fronts, markets could remain choppy and irrational for extended period of times. A pullback or even a correction is possible because of the looming uncertainties. Investors should therefore remain very nimble in their risk management and take small losses instead of allowing them to grow bigger while assessing the opportunities more carefully.

HIMS: This multi-specialty healthcare provider broke out from a deep cup base on Friday. Slightly extended, it is expected to come down to 35 at which point it will become actionable for another 15-20% move. The company is likely to maintain its rapid growth and free cash flow in future, making it a good choice for growth-minded investors.

Recently Picked Stocks:

KVYO	We picked KVYO last week and it confirmed our bias with a net 5.36% gain although it lost 2.58% on Friday. It is still in an **actionable range** but since it is a new IPO, it could make a sweeping move if the broader market comes under pressure due to Tarriff developments.
NOW	The software giant beat its Q4 earnings estimates and reported 21% revenue gain in line with expectations, however, it took a dive on future outlook as it decreased its subscription growth outlook to 19.5-20% range instead of previously expected 20.8%. Shares plunged from a record high level of 11.44% on Thursday, triggering a sell signal as per our rules. For the time being it could either drift further lower or consolidate in the lower range, but it could also find support before creating a base. Let's continue to observe its behavior to find a possible buy point soon.
VIK	Picked two weeks ago, Viking gained another 3.31% last week besides losing 2% on Friday. As mentioned last week, it might take a pause before climbing further. **A better entry** would be its rising 20-day EMA at 47.55.
ATEC	The ATEC reached another all-time high and gained 7.08% last week. If it rises and maintains the 12.22 level, then it will be very bullish and could lead to 13.5. Otherwise, it could consolidate above 200-day EMA line (10.84).

WMT	Walmart gained another 3.59% last week, making it two in a row. It is already at all time high levels and eyeing 100. It is likely to continue its up trend in the long run but could pause around this key level for a brief consolidation.
AMD	AMD's chart is not looking good as every bounce attempt is faced with another drop. For the time being we are moving it to a watchlist for any future possible move.
GEV	GEV lost 11.3% last week and as mentioned last week we were expecting a pause. Its last week's move is a sell signal, and as suggested, partial profits were recommended. Suggest closing the remaining position and putting it in a watchlist for a possible future buy point.
TSLA	Tesla announced its results on 29th January but did not make a directional move even though it missed its revenue and earnings estimates. It is building a base and could not clear 439.74 buy point at which aggressive investors could again take a chance. If Tesla drops below 377.29 on high volumes, then it will be sell signal.
TSM	TSM dropped significantly on Monday but back above key averages. However, its price action shows weakness in the short term. An **alternate entry** b/w 200-202 is available if the stock drifts again.
ANET	ANET dropped by 22.38% on Monday, triggering a sell signal. It has recovered almost 50% of the ground but let's put this on a watchlist as it could consolidate at current levels before making a move.
GE:	GE gained another 3.47% last week, making it 3 weeks in a row and now it is time to make some profits and reduce the position size (if any). ted a 16% rise in revenue and a 46% increase in orders, beating estimates. Now the stock seems a bit extended and could consolidate amid the expected bearish market conditions.
AVGO:	Like Nvidia, Broadcom also dived on Monday with a 17% dive but recovered almost 50% of this dip. It is consolidating and should be put on a watchlist for a proper buy point.
ETR/ NI	ETR and NI are two potential utilities which were highlighted a month ago. Last week, ETR lost 1.75% and NI lost 1.22%. These stocks are consolidating in the current range and are extended at current levels. Suggest letting them catch up with their moving averages for an entry.
CCL	CCL was a winner last week with an 8.85% gain. It is also time to make some profits (as it is 15-20% from our last entry point) and let the rest run.

Website:

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