



CIO Insights | A Pause for Breath...

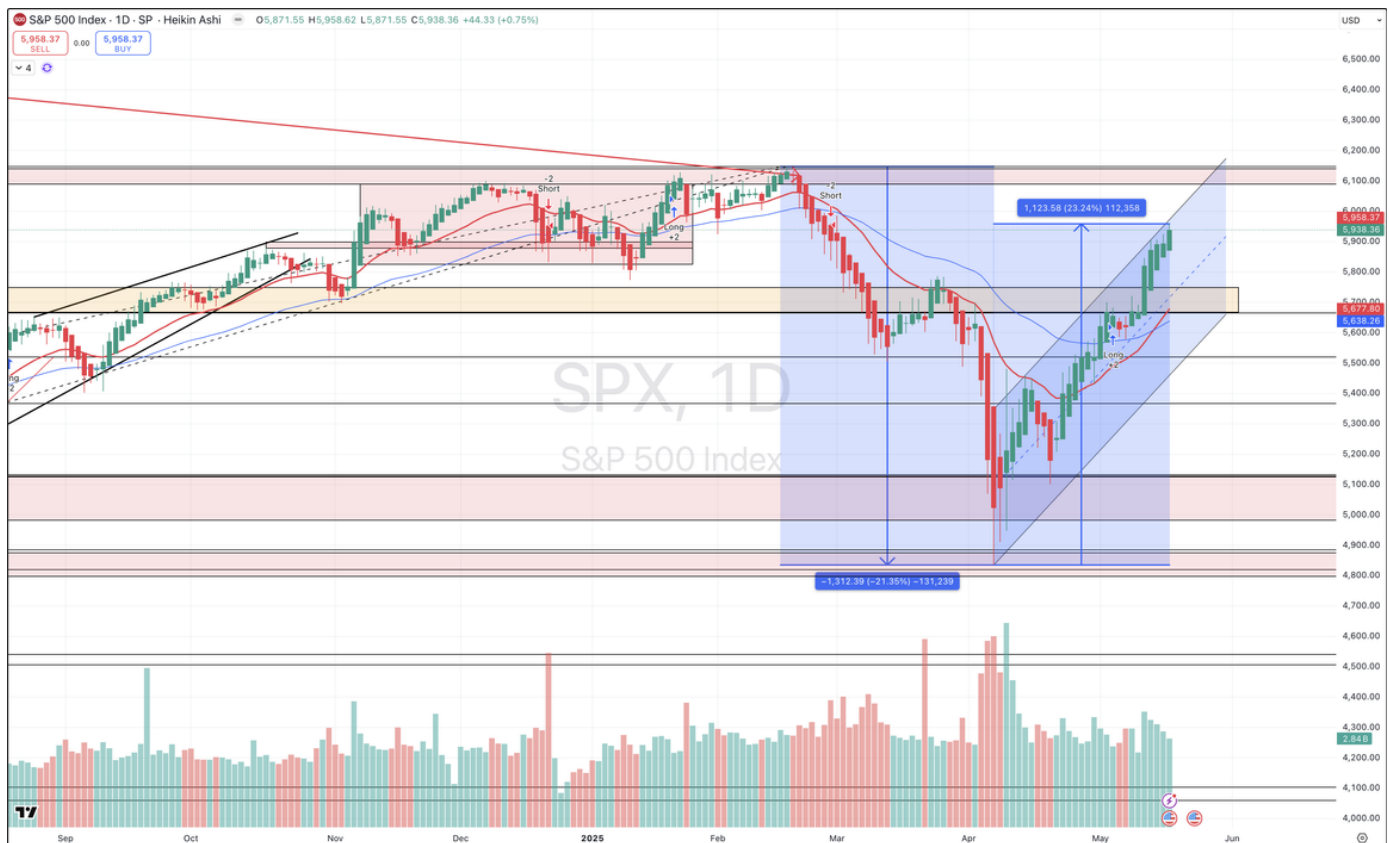
Defying all doomsday calls, and post a 24% rally for SPX (c30% for NDX), we see markets taking a breather before setting direction. A swift climbdown from extreme tariff posturing, a better than expected earnings season topped by recently announced trade deals (& lifting of some of the restrictions on chip exports) have collectively turned the dire mood in the markets, in the process boosting tech at the cost of defensives.

With the earnings season mostly done (other than the big one – NVDA), and a relatively lightweight macro calendar in the coming week, there are few fundamental catalysts for a move either way. However, a stretched positioning on momentum, breadth and sentiment indicators suggests a likely pause. Tariff related news-flow will of course remain a dominant market driver in the short-term.

Expect a short-term rotation from growth to defensives and value, in the process benefiting S&P over NDX and a rebound in volatility. While the pain trade is still on the upside, a pause for breath is increasingly likely - nimbleness will be a defining factor.

- **Will The Market Challenge All Time Highs?** With the S&P c3% away from all time highs (NDX 3.7%), the big question is whether the recent rally has enough strength to challenge/ take out the 19th Feb highs.

S&P is 3% from All Time Highs - Can It Take It Out?



- Momentum, Sentiment and Breadth Are All Stretched – Across the board, contrarian indicators have swung to the other extreme – momentum indicators are now solidly overbought (rising from deep oversold territory in early April). Similarly, breadth readings are now back to Euphoric highs of late 2024 – over 75% of S&P constituents are now above their 50 day moving averages. The “fear and greed index”, measure for sentiment, is now back in the “greed” category. While contrarian indicators suggest caution, they aren’t a catalyst themselves – at this stage, we see the case for a pause/ consolidation before determining direction. Breadth back to Highs and Momentum Indicators Are Stretched

Breadth back to Highs and Momentum Indicators Are Stretched



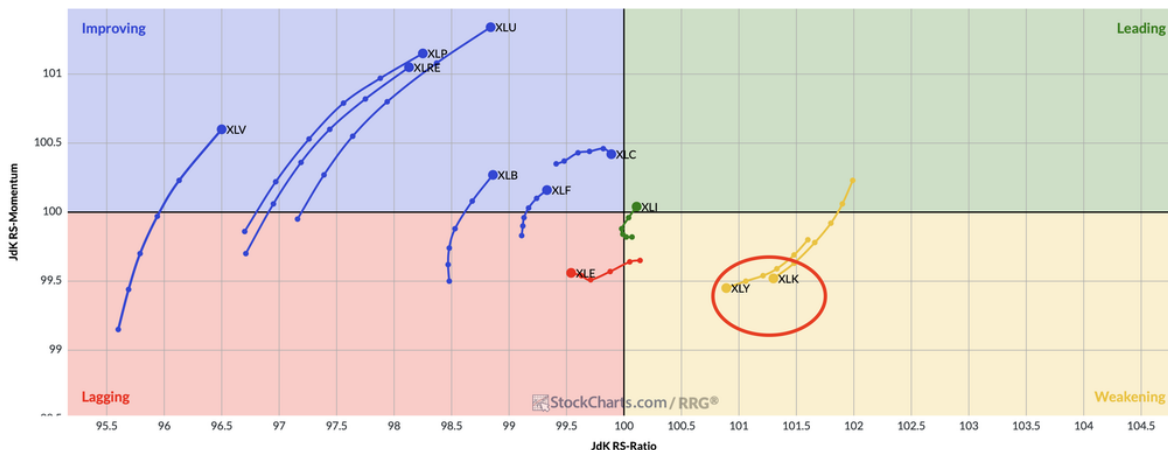
source: Trading View

Sentiment is Back to "Greed" Territory



source: CNN

Short-Term Rotational Trends Favor Defensives and Value



source: Stockcharts

Few Fundamental Catalysts – The coming week is light on macro data as also on earnings. With over 90% of S&P companies having reported, 1Q'25 is headed for a near 14% EPS growth, substantially better than expected at the start of the earnings season. Curiously, consensus expectations for the rest of the year appear lackluster with full year growth in the 9% ballpark – marking a major contrast to previously elevated forecasts. Given relatively news-flow from fundamental factors, expect these to be a less impactful driver in the coming week.

Lightweight Macro and Earnings Calendar

Macro Data			
Date	Event	Consensus	Previous
19-May-25	China Industrial Prodn	6.20%	7.70%
	China Retail Sales	5.60%	5.90%
	China FAI	4.60%	4.20%
22-May-25	Initial Jobless Claims (US)	232K	229K
	Existing Home Sales	49.9	50.2
	Flash Composite PMI	4.1mn	4.02mn
23-May-25	New Home Sales	0.70mn	0.72mn
Earnings			
20-May-25	Home Depot	3.61	3.63
	Palo Alto	0.77	1.32
21-May-25	Lowe's Companies	2.92	3.06
	Target	1.79	2.03
22-May-25	Intuit	10.91	9.88
	Workday	2.01	1.74
	Autodesk	2.15	1.87

source: Tradingeconomics

- Tariff Drama Remains Centre stage – With the administration telling the likes of Walmart to “eat the tariffs” tariff news-flow will remain a dominant market driver, at least for now. Whether US companies “eat the tariffs” or they squeeze the supply chain, the reality is that producer margins in aggregate face a threat – potentially causing suppliers to pull back from uneconomic business – either way, elevated tariffs are a growth drag rather than inflationary, in our view.

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