Weekly Deep Dive: The 2026 Kickoff

Navigating the New Year’s Rotations & Thematic Cross-Currents

For the Week of Dec 29, 2025 – Jan 02, 2026

A Bifurcated Start: Rotation, Not a Rout, Defines the Week

Market Poise: The S&P 500's four-day year-end dip appears to be a technical rebalancing, not a fundamental reversal. While the 'Santa Rally' failed in the US, we see no immediate threat to the broader index. Key SPX levels: Support at **6840 / 6720**.

SPX Technical Rebalancing

Dominant Rotations: The real story is *within* the market. A clear rotation from 2025's mega-cap leaders (Mag7) towards the broader market (S&P 493) and **specific cyclical sectors** is underway.

Mag7 to S&P 493 Rotation

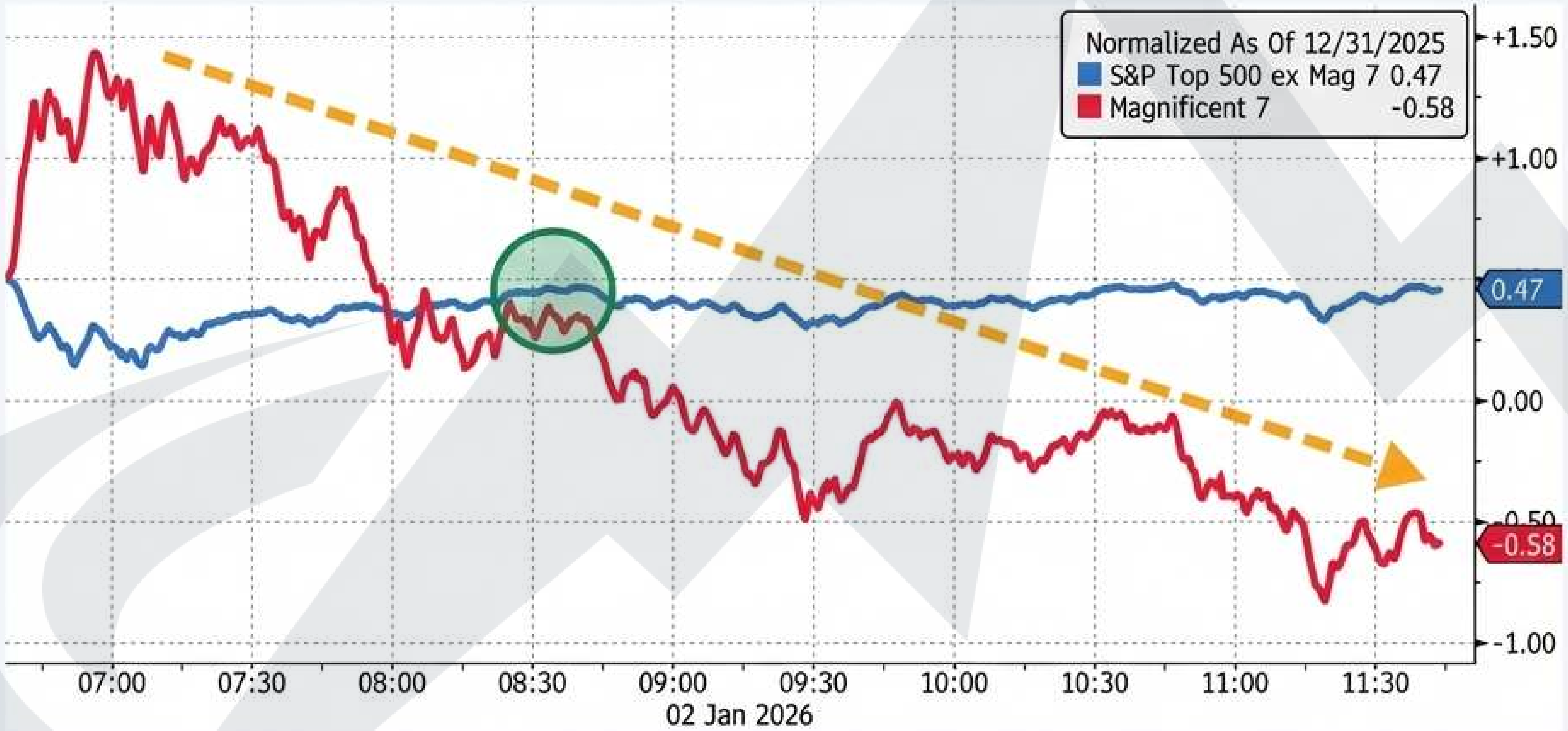
Three Core Themes for Q1:

1. **AI Phase II:** The narrative is maturing from infrastructure hype to a focus on tangible productivity and profitability.
2. **The K-Shaped Consumer:** Growing pressure on low-income households creates distinct short opportunities.
3. **Structural Inflation Risk:** Insatiable AI-driven electricity demand is a burgeoning inflationary force that markets are underappreciating.

Key Risk Monitor: The USD/JPY carry trade remains a critical global risk barometer; its music is still playing, but we are listening for a change in tempo.

USD/JPY Carry Trade Watch

Beneath the Index: Breadth Weakens, but Panic Is Absent



Internal Indicators

Breadth (Adv/Dec)

Negative (McMillan's oscillators are on 'Sell' signals).

Put/Call Ratios

Rising (Equity-only ratios are giving 'Sell' signals).

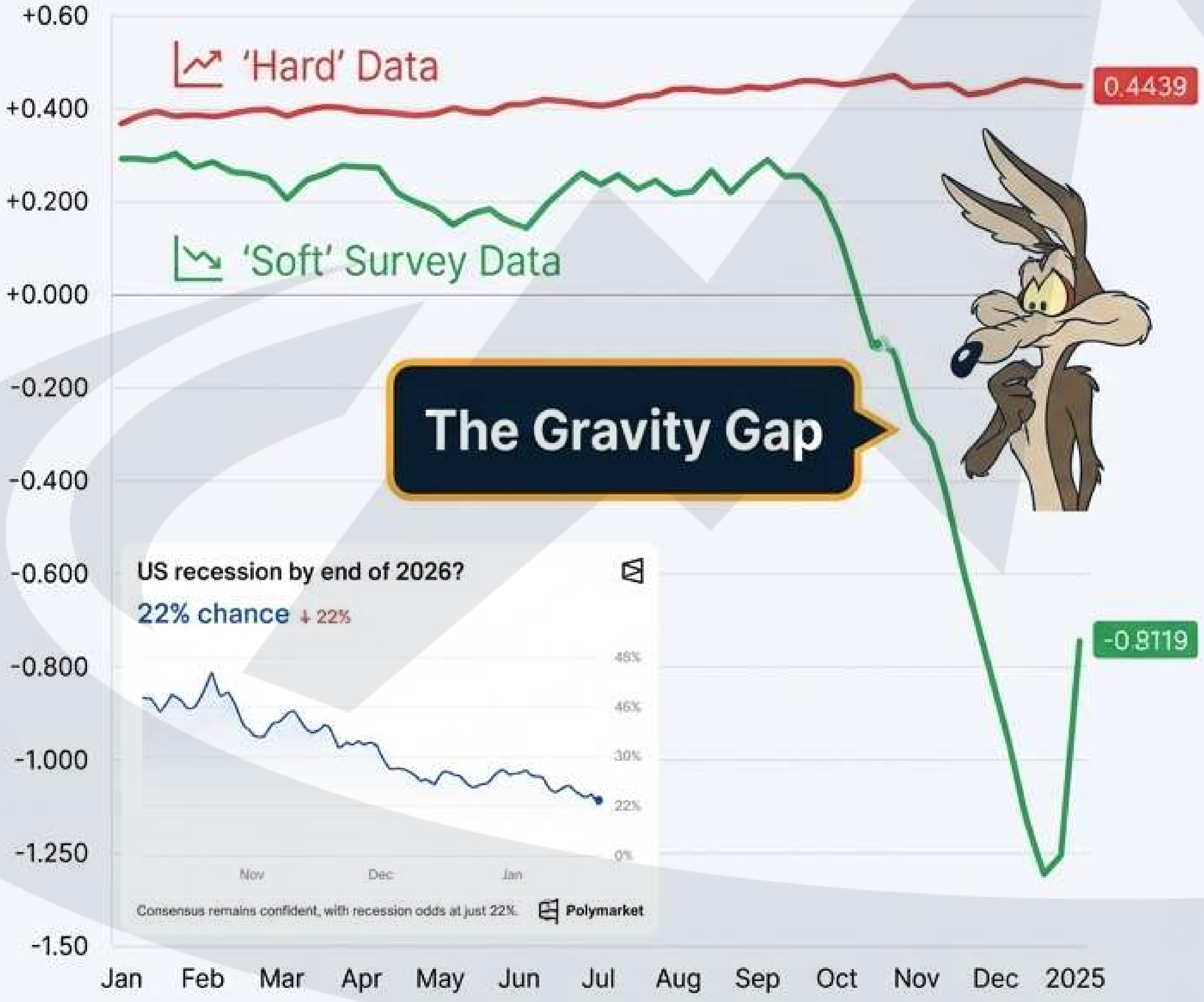
VIX

Low & Stable ('No cause for alarm until it starts rising').

Key Insight: While short-term technicals have deteriorated, the lack of a VIX spike suggests this is orderly profit-taking and rebalancing, likely for tax purposes, not systemic fear. The weakness is highly concentrated in last year's biggest winners.

MoatPeak Take: We interpret this as a healthy rotation. The key is to follow the money into new leadership, not to fear a collapse of the entire market structure. Monday, Jan 5th will be a key session for confirmation.

The Wile E. Coyote Economy: Soft Data Is Losing Altitude

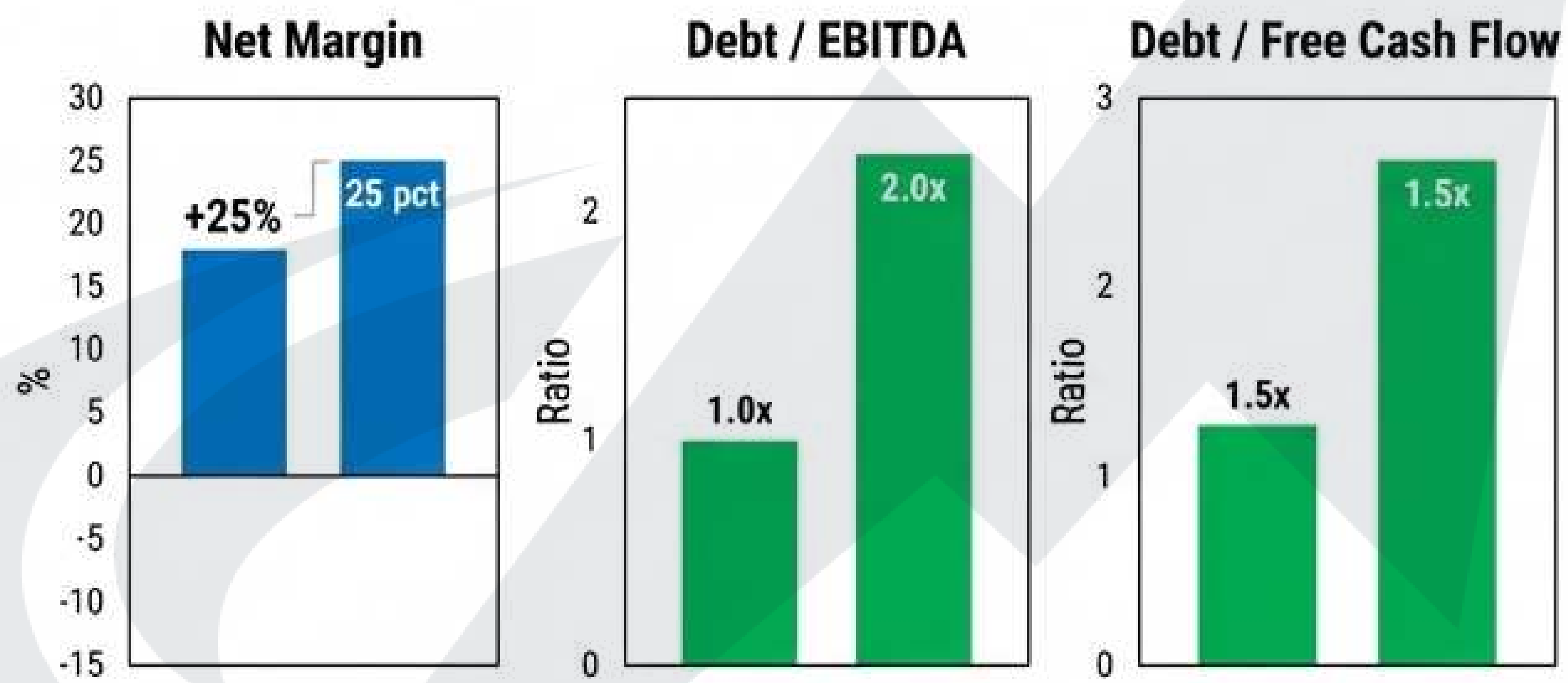


- **The Consensus View:** The 'Goldilocks' scenario (strong growth, Fed easing) persists. Goldman Sachs forecasts robust 2.8% global growth in 2026.
- **The Data Divergence:** Survey-based 'soft data' (like PMI) is deteriorating rapidly, pointing to a potential slowdown. However, 'hard data' remains resilient for now.
- **The 'Coyote' Risk:** This gap creates the potential for a sharp market repricing if hard data suddenly 'looks down' and catches up to the negative sentiment expressed in surveys.
- **The Inflation Wildcard**: Rising residential electricity prices, driven by data center demand, represent a new structural inflationary pressure point that the Fed and markets may be underappreciating.

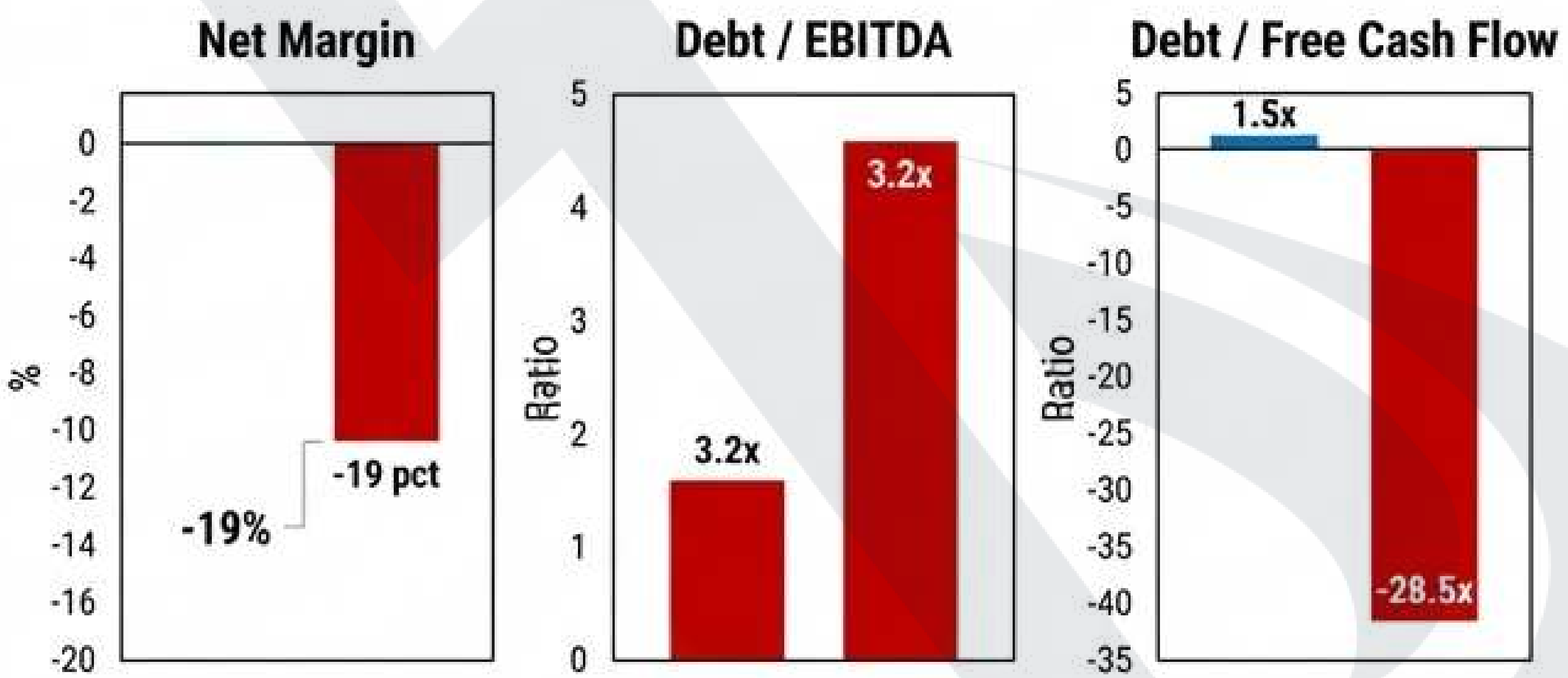
AI Phase II: Long Productivity & Profitability, Short Vulnerability

The market is no longer buying the AI story indiscriminately. It is now demanding tangible results, separating high-quality, profitable companies from high-debt, high-burn "story stocks."

High Profit AI (GSCBAIHP)



Vulnerable AI (GSCBAIVU)



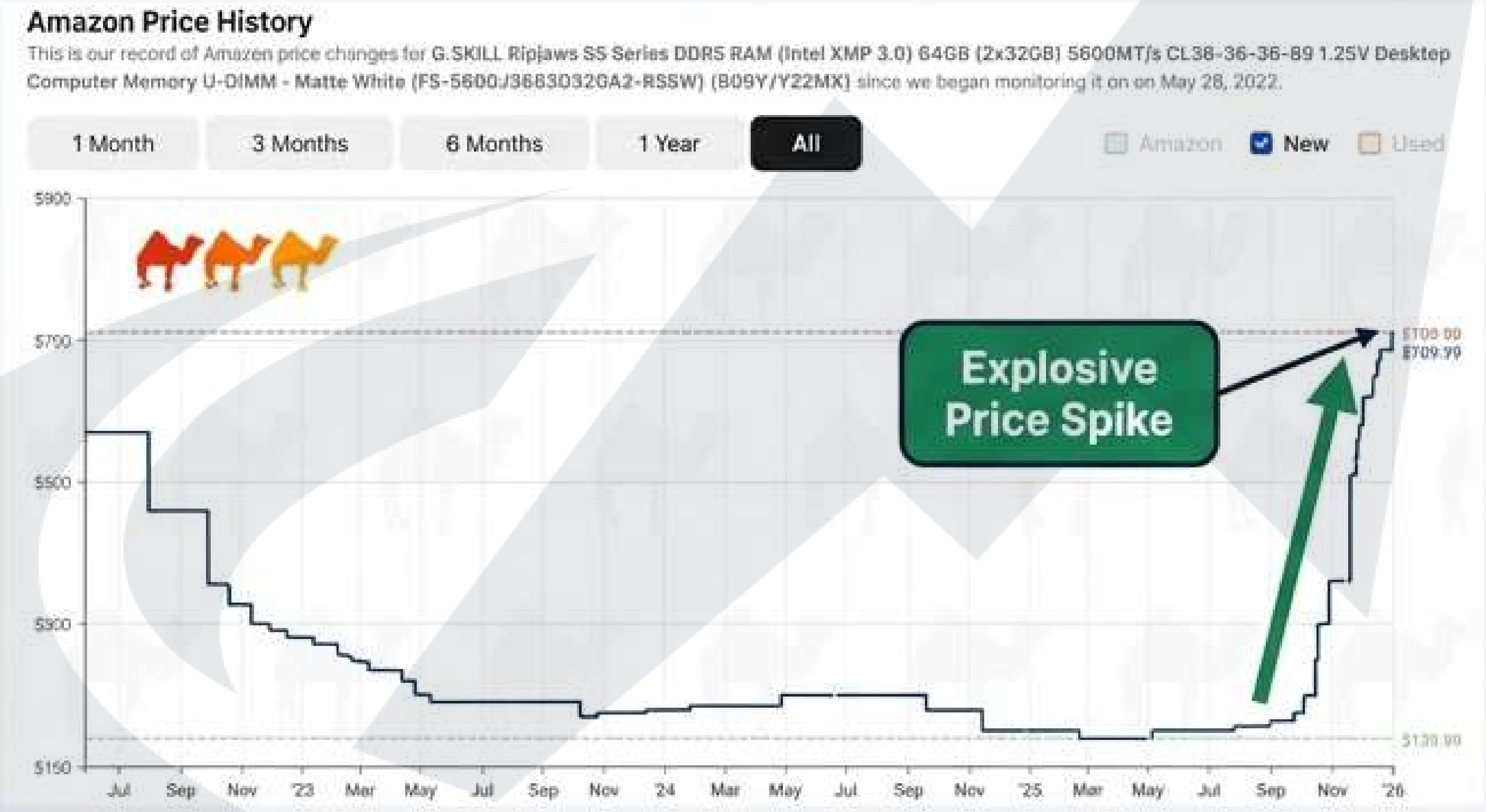
Two Key AI Trades for 2026 (per Goldman Sachs):

1. **Long AI Productivity Adopters (GSXUPROD):** Focus on non-tech sectors (banks, retail, logistics) successfully implementing AI to cut costs and boost margins.
2. **Long Quality AI / Short Vulnerable AI (Pair Trade):** The data clearly supports favoring profitable, cash-generative AI names (GSCBAIHP) over their vulnerable counterparts (GSCBAIVU).

The New Scarcity: Long Memory and Power

Insatiable AI demand is creating structural shortages and significant pricing power in two critical physical inputs: high-bandwidth memory (HBM) and electricity.

The Memory Supercycle



Signal: UBS forecasts a dramatic rise in memory prices, with **DDR contract prices** expected to jump +35% q/q in Q4'25. A **supply deficit** is expected to last until 2026-2027.

Actionable Ideas: **Long memory makers** (MU, Samsung). **Pair trade**: long memory winners vs. short/underweight consumer electronics companies with thin margins facing input cost pressure (e.g., Nintendo).

The Power Crunch

Signal: **Data centers** are the new energy hogs. **Gas turbine makers** like GE Vernova are sold out until mid-2029.

Actionable Ideas: **Long gas turbine manufacturers** (GEV), utilities with nuclear exposure (e.g., Constellation Energy), and grid installation specialists (PWR, EME).

A Tale of Two Consumers: Short the Low-End, Watch for Warnings

A widening gap between high-income and low-income households is creating distinct long and short opportunities.

High-End Consumer (Resilient)

Low-End Consumer (Pressured)

- Unemployment at 4.6%
- Reduced SNAP/Medicaid benefits
- Ongoing affordability crisis

Two Key Consumer Trades for 2026 (per Goldman Sachs):

→ **Trade 1: Short Low-End Discretionary (GSXULOWD):** Target companies reliant on the strained consumer. This basket has already underperformed and we expect this to continue.

→ **Trade 2: Tactical Shorts on January Profit Warnings:** January is historically a peak month for profit warnings, with over 60% coming from healthcare or consumer durables. This is a tactical, seasonal opportunity.

Case Study: Lululemon ($LULU)

- **Signal:** UBS notes weak US customer engagement and falling brand perception. Activist investor Elliott Management's involvement signals pressure for a reset.
- **Actionable Idea:** Consider a tactical put spread for January. The source suggests buying the Jan $205 Put and selling the Jan $190 Put (cost ~$3.55) to define risk and capture potential downside.

The Unstable World: Geopolitical Ripples in Energy & FX

Energy Market Headwinds

- **Venezuela:** US “gunboat diplomacy” is actively reducing Venezuelan oil output. Production in the Orinoco belt has fallen by 25% in the last two weeks, tightening the heavy crude market.
- **Yemen:** Flaring conflict in the oil-rich Hadhramaut region between Saudi-backed and UAE-backed forces adds a new layer of instability beyond the Houthi threat.

The Global Risk Switch: USD/JPY

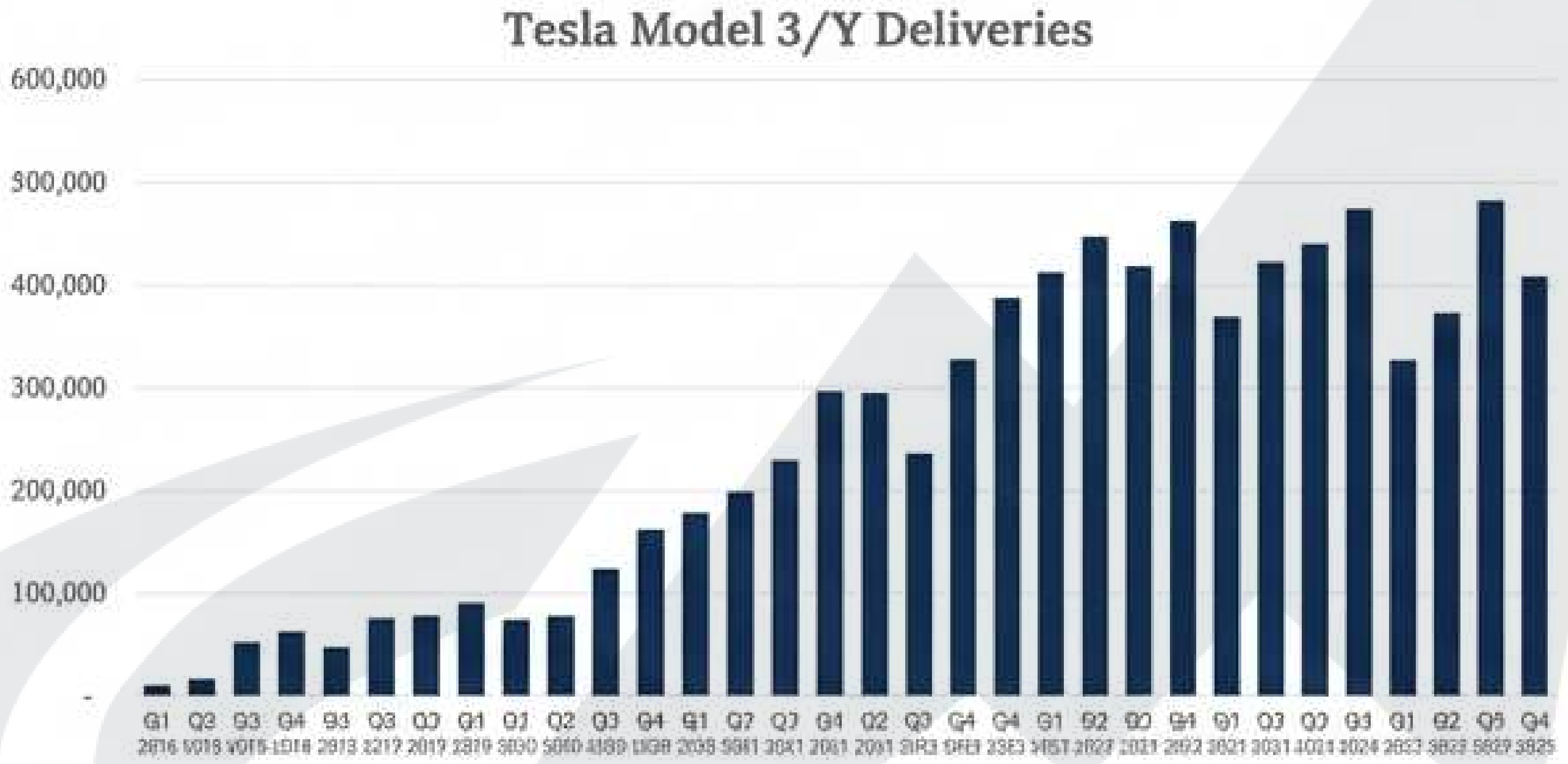
- **Signal:** The Yen carry trade is “still playing,” but its potential unwind is a major source of systemic risk. The JPY’s weakness has been a key lubricant for global liquidity.
- **Monitor:** We are closely watching the USD/JPY chart. A sharp reversal would signal a global “risk-off” event.

Structural Trend

- USD weakness (worst year since 2017) and central bank diversification away from the dollar are providing a structural tailwind for precious metals.

Tesla: A Sum of Two Diverging Stories

The EV Business (Under Pressure)



EV Business Analysis:

- **Data:** Q4 deliveries of 418k missed estimates (~426k). This represents a -16% YoY decline and the second consecutive year of falling deliveries. The company is losing market share to competitors like BYD.
- **Takeaway:** The hyper-growth EV narrative is broken. The market will increasingly value TSLA on execution and margins, not just vision.

The Energy & AI Business (The Bull Case)

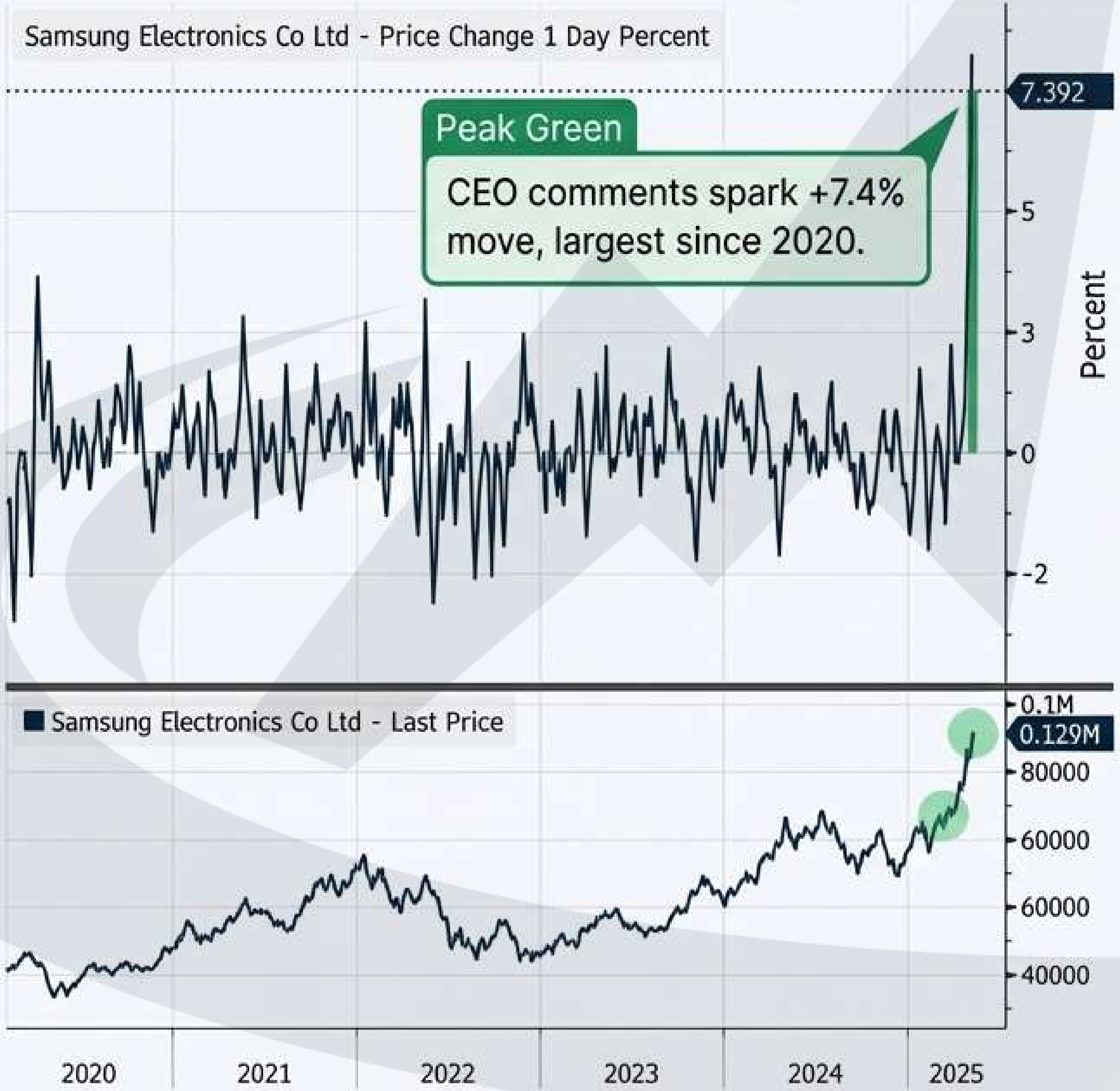
Energy & AI Business Analysis:

- **Data:** Energy storage deployment hit a record high of 14.2 GWh in Q4. The narrative is shifting towards longer-term AI plays like Robotaxi and Optimus.
- **Takeaway:** These segments provide a valuation floor and future optionality but are harder to quantify and are not impacting near-term financials.

MoatPeak View:

The stock is caught between a deteriorating near-term auto business and a promising but lon-dated AI story. Avoid naked directional bets; use options around the Jan 28th earnings report to play volatility with defined risk.

‘Samsung is Back’: Riding the HBM Memory Supercycle



The Thesis:

Samsung is reclaiming its leadership in high-bandwidth memory (HBM), the critical component for AI accelerators, positioning it as a prime beneficiary of the memory supercycle.

Catalysts:

HBM4 Leadership: Co-CEO cites customer praise for next-gen HBM4, noting, ‘Customers even say: ‘Samsung is back’.’ Samples are expected to go to Nvidia by Feb ‘26.

Surging Memory Prices: UBS forecasts +35% q/q DDR contract prices in Q4’25, signaling a clear cyclical upswing.

Earnings Momentum: UBS has raised its 2026/27 Operating Profit forecasts significantly above consensus (e.g., 2026 OP forecast of 135.3T KRW vs. 86.9T KRW consensus).

MoatPeak View: We are bullish. The combination of a cyclical upswing in the broader memory market and a specific technological lead in the highest-margin segment (HBM) creates a powerful tailwind for earnings and a stock re-rating.

Mapping the Path Ahead: Scenarios for Q1 2026

Base Case:
The Great Rotation

60% Probability

The S&P 500 grinds higher with increased volatility as leadership broadens.

Cyclicals, Value, and International (e.g., Korea, Japan)

outperform Mega-Cap Tech.

The Fed cuts rates once as inflation moderates but remains sticky due to factors like energy costs.

Bull Case:
Productivity Boom

25% Probability

Tangible AI-driven productivity gains appear in economic data sooner than expected, boosting growth without stoking inflation. This

This 'Goldilocks 2.0' scenario allows the Fed to ease more aggressively, fueling a broad market rally.

Bear Case:
The Coyote Falls

15% Probability

Hard economic data rolls over sharply, confirming the warning from soft survey data.

A profit recession begins.

A geopolitical shock (e.g., escalation between Israel/Iran) creates a stagflationary spike in oil prices.
The S&P 500 breaks decisively below 6720 support.

What Could Derail Our Thesis?

Risk	Invalidation Trigger
🚩 **1. AI Capex Bubble Deflates.**	Hyperscalers (AMZN, GOOGL, MSFT) guide down 2026 capex plans in their upcoming earnings reports, or private funding for AI startups dries up.
🚩 **2. Sticky Inflation Kills the Fed Pivot.**	Two consecutive monthly CPI reports show re-acceleration, driven by structural forces like electricity costs, forcing the Fed to adopt a hawkish tone at the Jan/March FOMC meetings.
🚩 **3. The Yen Carry Trade Unwinds Violently.**	The Bank of Japan makes a surprise hawkish pivot, sending USD/JPY decisively below its recent support levels and triggering broad "risk-off" selling across global assets.

Your Weekly Checklist: Positioning for the Rotations

Question	Our View	Recommended Action
1. Is this a time to de-risk from equities?	No, it's a time to rotate.	**Trim** over-extended Mag7 winners. **Add** to international (SCHY, Korea, Brazil), quality cyclicals, and AI infrastructure plays (Memory, Power).
2. How to best play the maturing AI theme?	Shift from broad exposure to quality & bottlenecks.	**Implement** the 'Quality AI (GSCBAIHP) vs. Vulnerable AI (GSCBAIVU)' pair trade. **Increase** allocation to MU, Samsung, and GEV.
3. Where are the clearest short opportunities?	In the low-end US consumer segment.	**Initiate** tactical shorts/underweights in low-end discretionary (GSXULOWD). **Consider** tactical put spreads on LULU ahead of potential profit warnings.
4. Is it time to buy bonds?	Selectively. The risk/reward is better elsewhere for now.	Per Barron's, Energy Pipelines (AMLP) and Foreign Dividend stocks (SCHY) offer a better income proposition than sovereign bonds, given tight credit spreads and inflation risk.

On the Radar for Next Week

- **Market Confirmation:** Monday, Jan 5th trading session – key for confirming/refuting the 'rebalancing' thesis.
- **US Economic Data:** December ISM Manufacturing/Services, November JOLTS, and December Non-Farm Payrolls.
- **Corporate Earnings:** Watch for the start of the January profit warning season, especially in consumer durables and healthcare.
- **Fed Speak:** Monitor comments from FOMC members for any shifts in tone ahead of the quiet period for the January meeting.

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research@moatpeak.com www.moatpeak.com

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