Trend & Cycle: The Long View – October 2024

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All values in U.S. dollars and priced as of market close on October 3, 2024, unless otherwise noted

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RBC Wealth Management

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Structural/secular trend and cycle

- Our outlook is unchanged: The long-term uptrend for the S&P 500 remains intact with the underlying 16- to 18-year generational cycle supportive of further upside into the mid-2030s and potentially toward S&P 13,000-14,000. Although those levels have been criticized as excessively optimistic, they equate to an annual growth rate close to historical returns in the 7-8% range including dividends.

4-year cycle – Where are we now?

- We view the current bull cycle to have bottomed in Q4 2022 when the S&P and Nasdaq bottomed at their rising 4-year/200-week moving averages while other cyclical indices such as mid- and small-caps, along with the TSX, Europe and emerging markets, completed secondary cycle lows in Q4 2023. Lastly, China and Hong Kong's stock markets are establishing their final cycle lows moving into Q4 as an indication that the last of the major global economies is beginning to bottom.

- Momentum indicators tracking these 3-4 year cycles have moved toward overbought levels but we caution investors from becoming prematurely bearish given the price trend for the S&P 500 and its relative performance versus bonds remains positive with participation expanding across more industry groups. Until there is evidence that these three primary trends of the market are deteriorating, we recommend remaining invested in equities and ignoring misleading headlines.

What we view to be technically noteworthy moving through Q4 into Q1

- Investors are now focusing on the quality of quarterly earnings reports that begin in the coming weeks along with the uncertainty of the pending US election. Both events are likely to create volatility into mid-Q4 but we do not expect either to materially erode the underlying positive trends in equity markets. To turn more cautious we would need to see equity markets begin to break below their late July/early August lows to suggest the current 2022-2024 uptrends are deteriorating. **The more important shift we expect within equities is a rotation back toward economy sensitive cyclical sectors as defensive and interest rate sensitive sectors pause and pull back, which we discuss in the equity leadership section below.**

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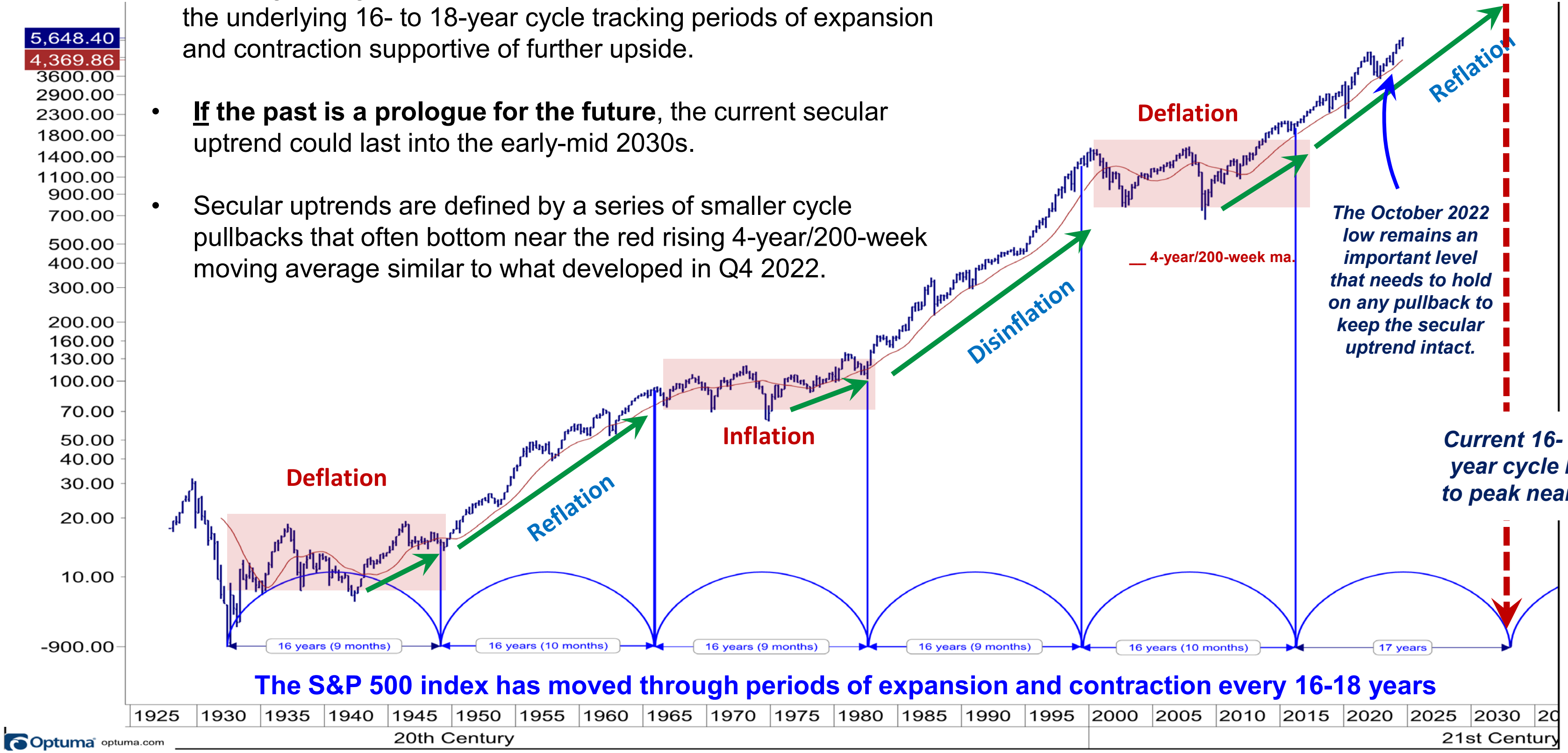
- **Interest rates** – The US 10-year yield established a cycle peak at an important technical level of 5% in Q4 2023 and remains in a downtrend with a lower high in April 2024 at 4.7% and lower low this past September at 3.6%. While we have viewed the broader trend to be lower for rates, an oversold tactical rebound is likely developing given weekly indicators, tracking 2-4+ month swings, are oversold and bottoming which is leading to further sector rotation within equity markets as discussed below.
- **Currencies** – The US dollar DXY index remains in a broad trading range between 100-107 with an oversold rebound developing from the lower end of the range in line with what is developing for the US 10-year yield. Our expectation is for bounces to be relatively short-lived and not the beginning of a major trend to the upside. Conversely, the Canadian dollar remains in a broad bottoming pattern above major support at 0.715 coinciding with early evidence that it is reversing its 2021-2024 downtrend.
- **Commodities** – **WTI Oil** also remains in a sideways trading range above support in the low-mid 60s with resistance starting in the low 80s up to the low 90s. Similar to rates and the US dollar, an oversold rebound is underway with potential to strengthen well into Q4. **Gold's** long-term trend remains bullish following its Q1 2024 breakout above 1900-2100 resistance. While a pullback would not be surprising given a potential bounce in the US dollar, we expect pullbacks to be shallow with further upside toward next resistance near 2800 moving through Q4. **Copper** has rebounded from important support near 400 with a similar upside turn in place for China-related markets. Although a pullback is likely following the recent surge, we expect it will be short-lived with further upside into Q1.

Equity leadership

- **Growth/media/technology** – Despite the late summer volatility, uptrends remain intact for most growth stocks with a break below the August and April lows needed to signal the 2022-2024 uptrends are reversing. Our expectation is for further upside into year-end/Q1.
- **Cyclicals** – After correcting through most of Q2 and Q3, financials, industrials, materials, select discretionary stocks, and more recently energy, are either resolving 2024 trading ranges to the upside or starting to bottom, with further upside expected into Q1.
- **Safety** sectors rallied strongly through Q2 into late Q3 as interest rates began to peak. These sectors' longer-term price trends remain positive but most have moved into intermediate-term overbought levels and are stalling. We don't view the overall price trends for REITs, utilities, staples or healthcare to be bearish but we do expect these Q2-Q3 leaders to pause and pull back through Q4 as more cyclical groups emerge.

S&P 500 – Generational trends and cycles lasting roughly 16-18 years

- The long-term generational/structural uptrend remains intact with the underlying 16- to 18-year cycle tracking periods of expansion and contraction supportive of further upside.
- **<u>If</u> the past is a prologue for the future**, the current secular uptrend could last into the early-mid 2030s.
- Secular uptrends are defined by a series of smaller cycle pullbacks that often bottom near the red rising 4-year/200-week moving average similar to what developed in Q4 2022.

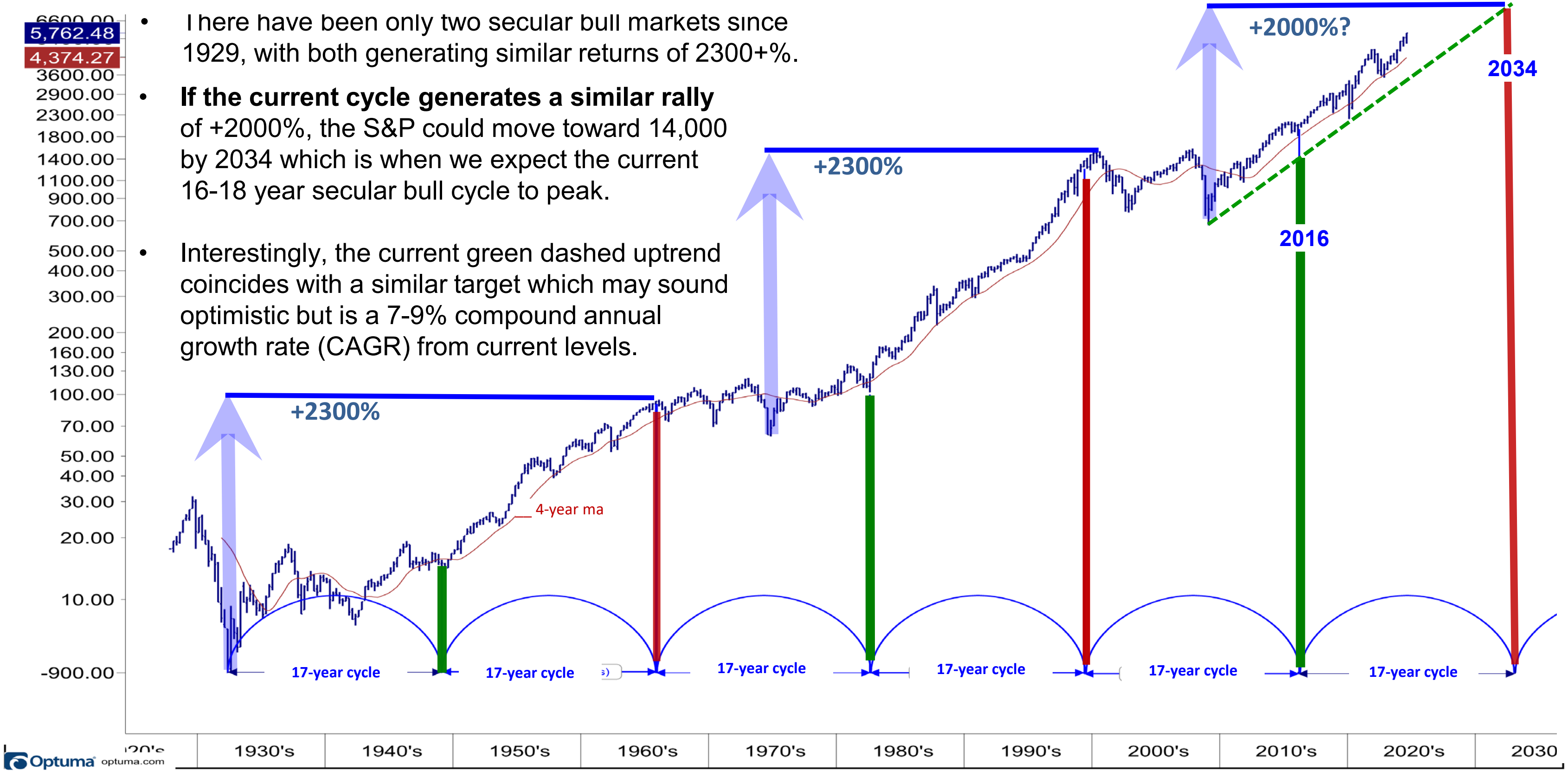


Source: RBC Wealth Management, Bloomberg, Optuma

Could the S&P rally to 14,000?

S&P ~14,000?

- There have been only two secular bull markets since 1929, with both generating similar returns of 2300+%.
- **If the current cycle generates a similar rally** of +2000%, the S&P could move toward 14,000 by 2034 which is when we expect the current 16-18 year secular bull cycle to peak.
- Interestingly, the current green dashed uptrend coincides with a similar target which may sound optimistic but is a 7-9% compound annual growth rate (CAGR) from current levels.

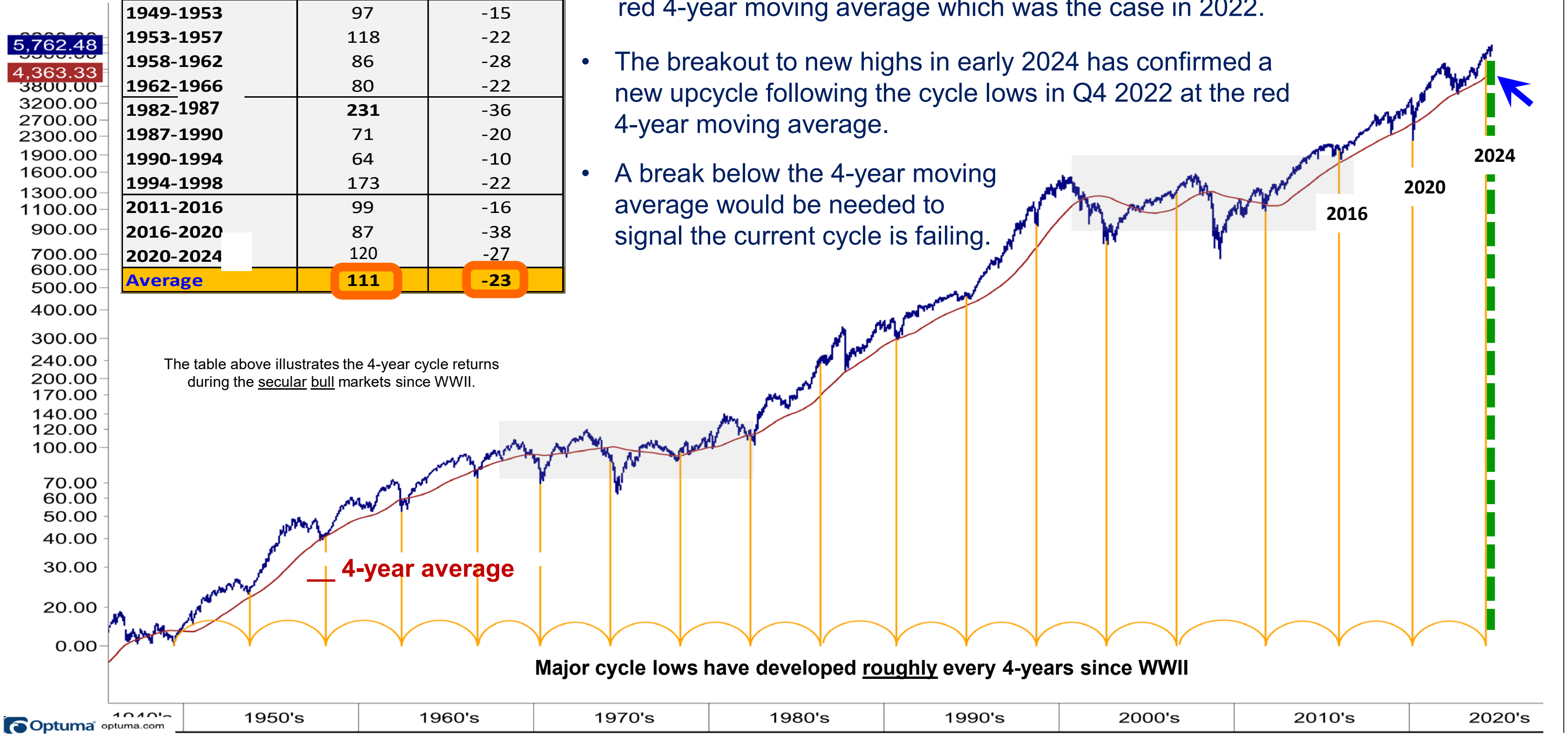


Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 – A repetitive 3-4 year cycle driven by central bank **liquidity** and economic **growth**

4 Year Cycle	% Rally	% Correction
1949-1953	97	-15
1953-1957	118	-22
1958-1962	86	-28
1962-1966	80	-22
1982-1987	231	-36
1987-1990	71	-20
1990-1994	64	-10
1994-1998	173	-22
2011-2016	99	-16
2016-2020	87	-38
2020-2024	120	-27
Average	**111**	**-23**

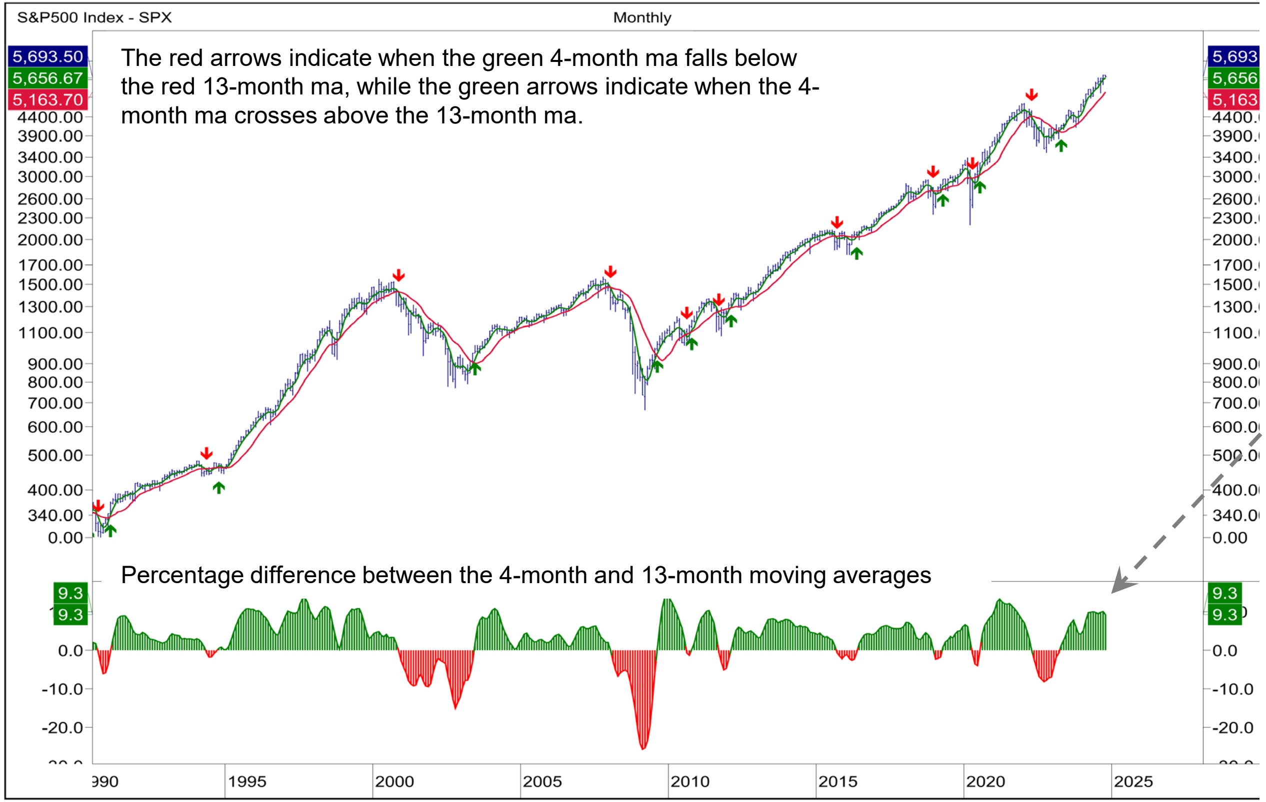
- Cycle lows regularly develop every 3-4 years, often near the red 4-year moving average which was the case in 2022.
- The breakout to new highs in early 2024 has confirmed a new upcycle following the cycle lows in Q4 2022 at the red 4-year moving average.
- A break below the 4-year moving average would be needed to signal the current cycle is failing.



The table above illustrates the 4-year cycle returns during the secular bull markets since WWII.

Source: RBC Wealth Management, Bloomberg, Optuma

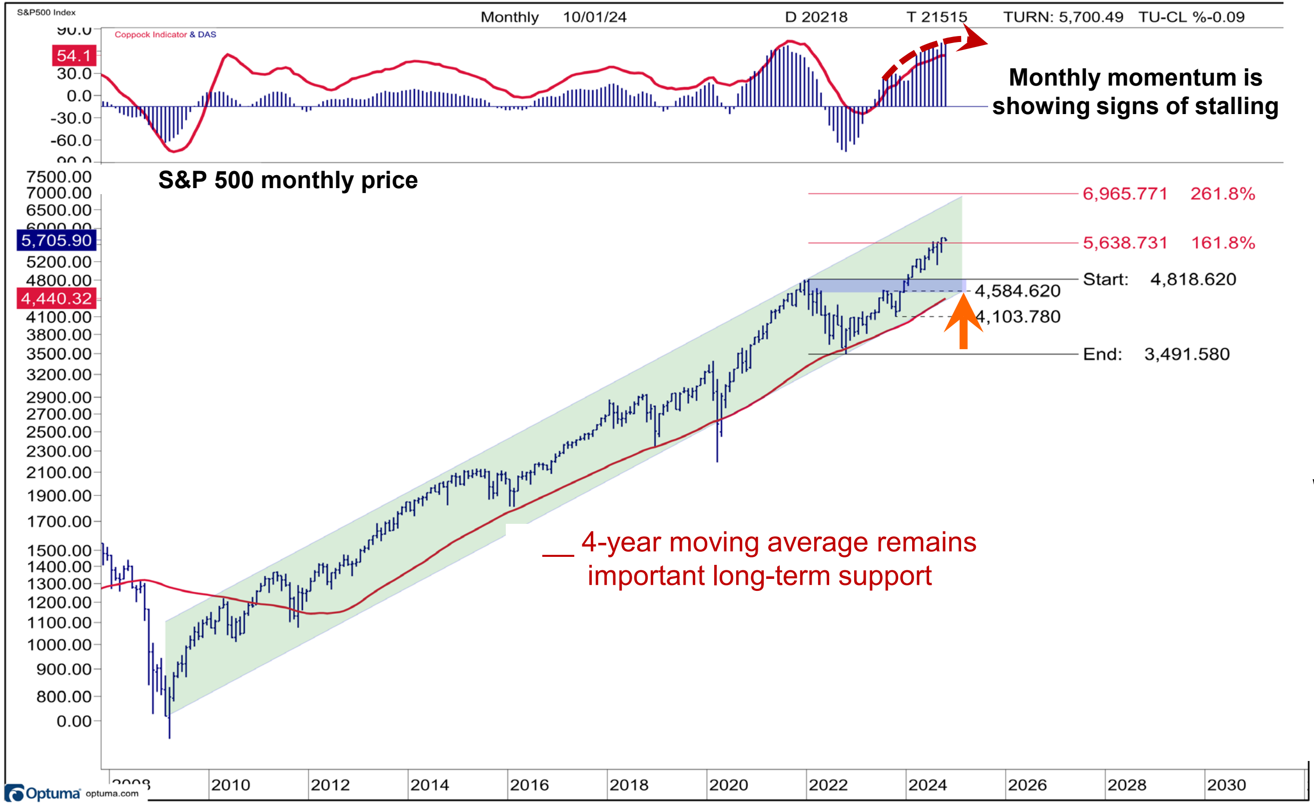
S&P 500 Index



Source: RBC Wealth Management, Bloomberg, Optuma

- One technical tool to monitor the trend of a market is to compare its shorter-term trend, measured by the green 4-month moving average (ma), to its longer-term trend, measured by the red 13-month ma.
- The current trend remains positive with the shorter-term green ma crossing above the longer-term red ma in March 2023.
- Another way to track the relationship between these two moving averages is to measure the percentage difference between the two and plot the difference as a histogram, as illustrated in the bottom panel.
- This indicator bottomed in Q4 2022 and has remained above its zero axis since March 2023 confirming the current uptrend for the S&P 500.
- ***However, with the data in the bottom panel now advanced, we are increasingly monitoring it for signs that this momentum indicator is decelerating and turning negative as an early warning sign the market cycle is beginning to peak.***

S&P 500 – Monthly momentum is advanced but has yet to turn negative!



Source: RBC Wealth Management, Bloomberg, Optuma

- Cycle momentum remains positive after bottoming in Q4 2022. Despite being advanced, monthly momentum has yet to turn down.
- **Resistance:** The S&P has paused at a key technical level at its 162% Fibonacci extension of the 2022-2023 trading range at 5638 with the next key upside level at 6965.
- **Support:** 4818-4584 then 4103.

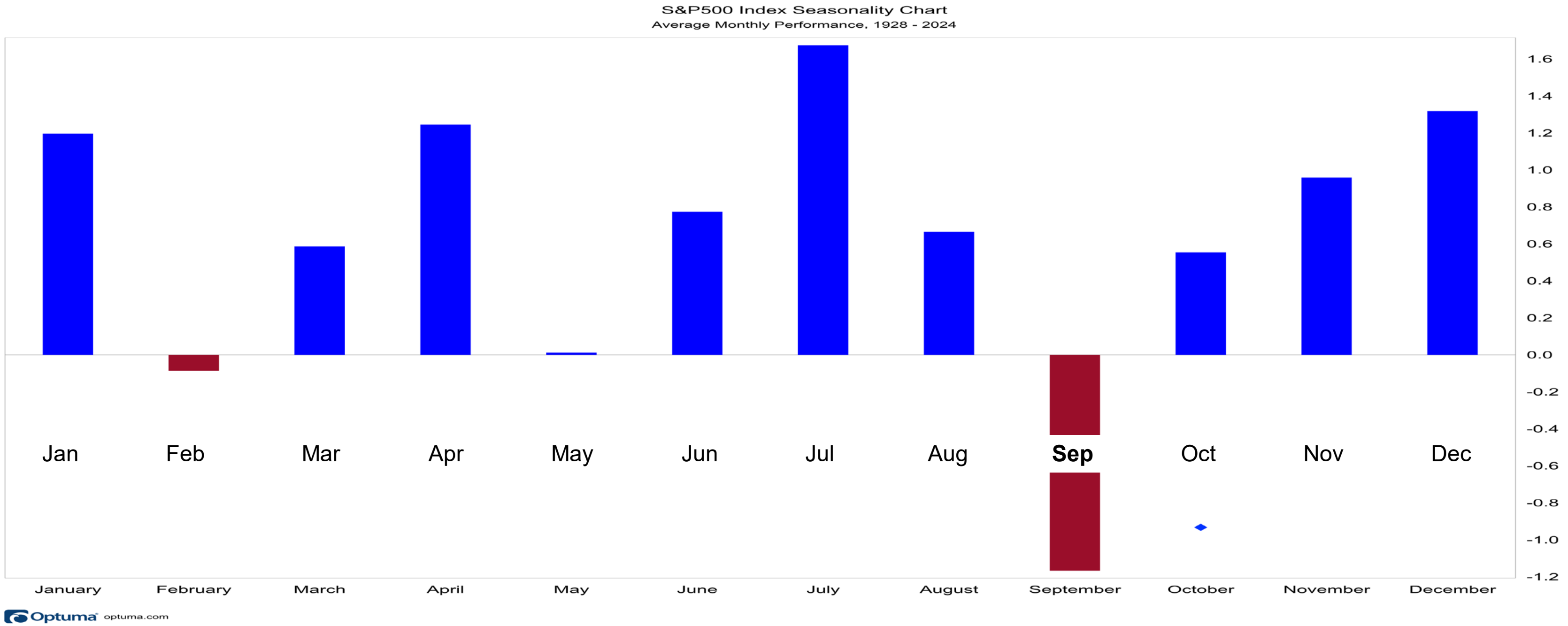
What would change our positive view?

- A decline below the blue support band between 4818 and the Q3 2023 highs near 4584 would signal the S&P's uptrend is deteriorating, with a break below the rising red 4-year ma, currently near 4339, needed to signal the longer-term trend is reversing.

S&P 500 – Monthly seasonality

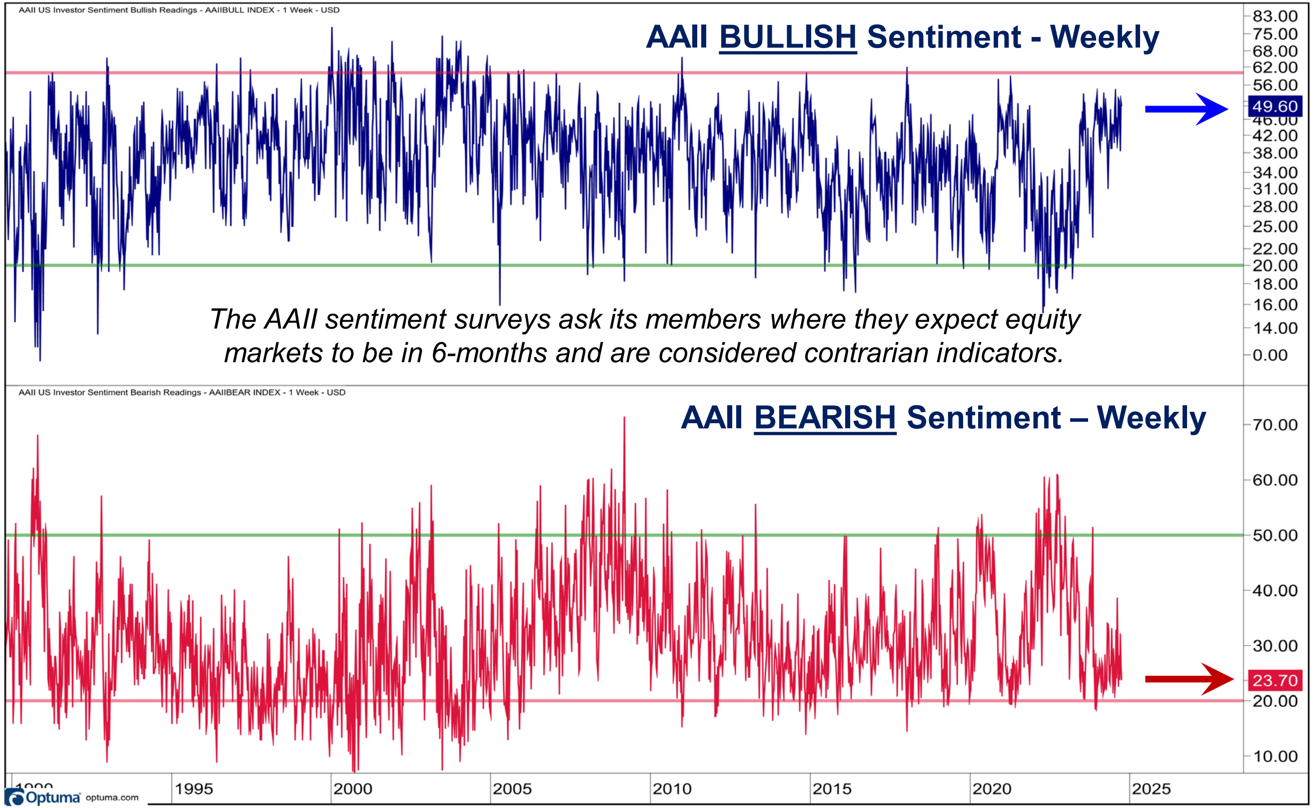
- Monthly seasonality data varies widely depending on the start date but the Q4 is historically positive for equity markets.

Monthly seasonality since 1928



Source: RBC Wealth Management, Bloomberg, Optuma

AAII US Bullish and Bearish Sentiment Survey – Contrary indicators



- Bullish sentiment (top panel) is moderately elevated while…
- …bearish sentiment has fallen again.
- While these contrary indicators are not signaling excessive optimism, they are also not at levels that normally signal a new multi-month rally.

Source: RBC Wealth Management, Bloomberg, Optuma

MSCI EAFE – Monthly with relative performance vs the S&P 500

Source: RBC Wealth Management, Bloomberg, Optuma

EAFE (Europe, Asia and Far East)

- The EAFE index is emerging from a trading range that has been in place since 2008 with next major resistance near 2909 at the 162% Fibonacci extension.
- While volatility is likely in Q4, our expectation is that pullbacks are relatively shallow with key support at 2179-2416.
- Overall, we view EAFE likely to move higher into 1H 2025 but would need to see it reverse its 2008-2024 relative performance downtrend (bottom panel) to support overweighting EAFE vs the S&P 500.

MSCI EUROPE – Monthly with relative performance vs S&P 500

- MSCI Europe's long-term price trend remains positive with the summer pullback holding key support near 158-164 with potential for further upside into 2025.

- Relative performance vs the S&P 500, however, remains weak with no meaningful evidence it is reversing its downtrend to support overweighting Europe.

Source: RBC Wealth Management, Bloomberg, Optuma

Hong Kong – Hang Seng Index – Monthly

- The HSI established a secondary low early in 2024 followed by a high low in August and higher high over the past two weeks completing a major cycle low.
- Tactically, a near-term pause is likely given the HSI is now back to resistance near 21-22K coinciding with its declining 4-year moving average and 38% retracement.
- Next resistance is near 24K followed by 26.2K near the 50 and 62% retracement levels.
- Relative performance vs the S&P 500 has improved but has yet to reverse its 2020-2024 downtrend.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P/TSX Composite – Monthly

- The long-term blue dashed uptrend remains positive for the TSX as it probes new highs.
- Next resistance is at 24,884 with support between 20,843-22,217.
- Relative performance versus the S&P 500 remains weak and would need to push above the 2020-2022 highs to signal a longer-term positive change in the relative trend.

Source: RBC Wealth Management, Bloomberg, Optuma

US 10-year yield: Cycle peak likely in place under at a critical level of 5%

Source: RBC Wealth Management, Bloomberg, Optuma

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The US dollar DXY index established a major cycle peak in Q3 2022 and is currently retesting the lower end of its 100-107 range with a break below 100 needed to confirm a new downtrend is in place.
- RISK: A move above 107 would be needed to signal the risk of an upside acceleration that would likely pressure equity markets. Next resistance at 114-115.

Canadian dollar/US dollar – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The CADUSD remains in a broad trading range above key support at 0.715 challenging a key resistance level near 0.74 coinciding with its 2021-2024 downtrend.
- While a short-term pause near current levels appears likely given the recent rebound, a move back above 0.74 would suggest further upside to next resistance near 0.76-0.77 coinciding with the 2023 trading range highs.

WTI Oil Future – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- WTI Oil remains trapped in a sideways range under a 93-95 resistance band and above a support band in the low-mid 60s.
- Bottom line: We expect WTI to remain in a broad trading range well into Q4 above the mid 60s-low 70s with heavy resistance in the upper 80s-low 90s.
- Note: For reference, we are using 10 to be the low end of WTI's long-term trading range for the Fibonacci retracements rather than the temporary spike into negative territory at -40.

Gold – Monthly – Longer-term profile remains positive

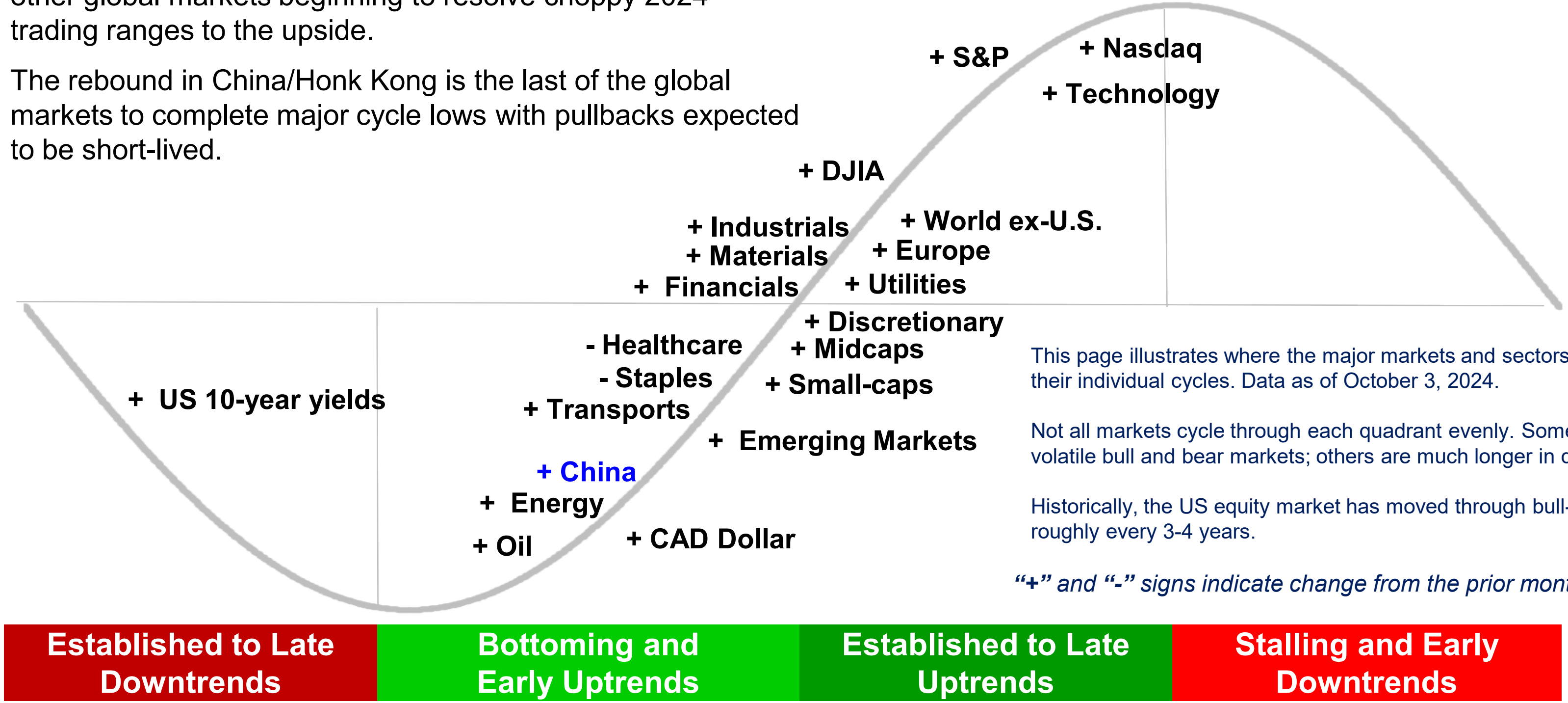
Source: RBC Wealth Management, Bloomberg, Optuma

- Gold completed a major technical breakout above its 2011-2024 trading range in Q1 2024 and remains in a bullish uptrend.
- After a brief pause around its 162% Fibonacci extension, gold is resolving its recent consolidation to the upside with 2817 the next likely pause point coinciding with the 262% extension.

Major markets and S&P sector cycles

Noteworthy:

- Uptrends remain intact for the S&P and Nasdaq with most other global markets beginning to resolve choppy 2024 trading ranges to the upside.
- The rebound in China/Honk Kong is the last of the global markets to complete major cycle lows with pullbacks expected to be short-lived.



This page illustrates where the major markets and sectors are within their individual cycles. Data as of October 3, 2024.

Not all markets cycle through each quadrant evenly. Some have short, volatile bull and bear markets; others are much longer in duration.

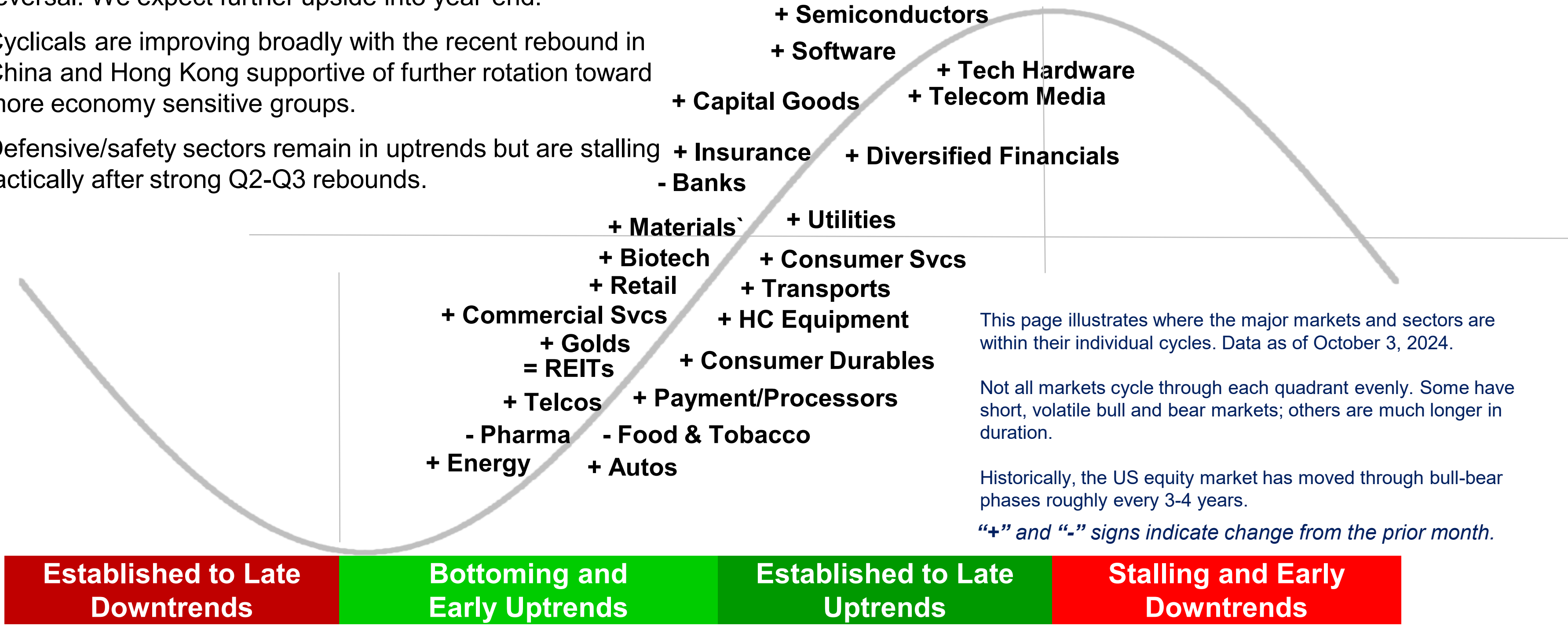
Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years.

"+" and "-" signs indicate change from the prior month.

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- Longer-term uptrend remains intact for growth/technology, with a break below the August lows needed to signal a reversal. We expect further upside into year-end.
- Cyclicals are improving broadly with the recent rebound in China and Hong Kong supportive of further rotation toward more economy sensitive groups.
- Defensive/safety sectors remain in uptrends but are stalling tactically after strong Q2-Q3 rebounds.



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