GLOBAL
Insight

Wealth Management

Monthly focus

January 2025

Trend & Cycle 2025 Technical Outlook

Studying trends and cycles can provide a more informed view of market dynamics. We look at potential pause points, market breadth, and key interest rate levels to gauge prospects for equity upside in 2025 and how to approach sector positioning.

Robert Sluymer, CFA

For important and required non-U.S. analyst disclosures, see page 9.

All values in U.S. dollars and priced as of market close, Dec. 31, 2024 unless otherwise stated.
Produced: Jan. 7, 2025 14:25 ET; Disseminated: Jan. 8, 2025 12:00 ET

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

MONTHLY
Focus

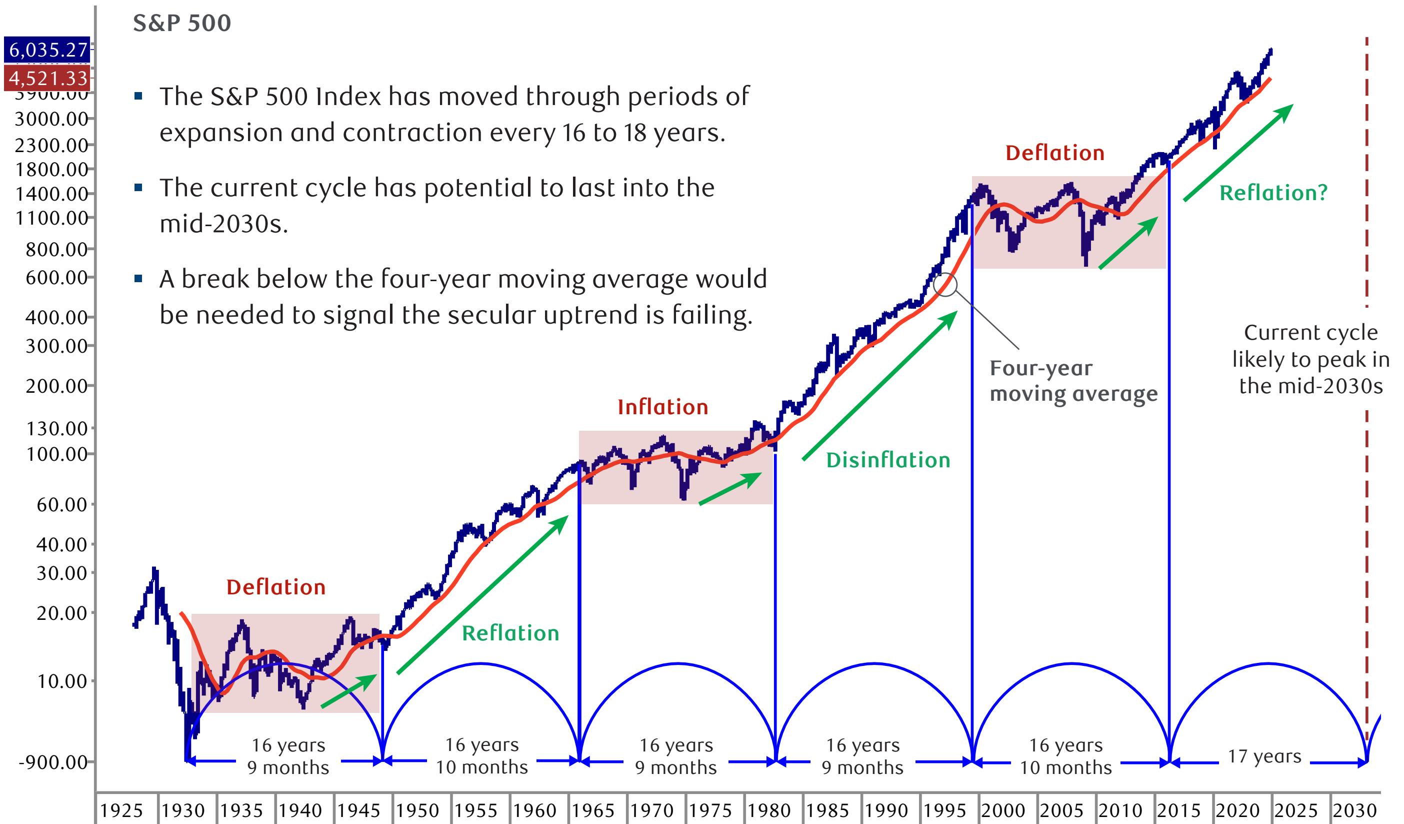
Robert Sluymer, CFA
New York, United States
robert.sluymer@rbc.com

Trend & Cycle 2025 Technical Outlook

The following is a summary of our Technical Outlook published in December. We believe our approach provides an important perspective by studying the market's trends and cycles using technical analysis. The combination of both a macro-fundamental and technical approach can identify where the two agree and/or disagree, providing a more informed view of market dynamics for investors.

At the beginning of each year, investors often step back to assess the risks and opportunities that may develop in the year ahead based on their expectations for corporate profitability underpinned by the prospects for economic growth, inflation, interest rates, government policy, geopolitics, etc. Combining this "macro" view with our technical approach can provide a helpful context for making investment decisions.

The chart below illustrates that the U.S. equity market moves through expansion and contraction/consolidation cycles lasting roughly 16–18 years. Looked at this way, we see potential for the current cycle to last into the mid-2030s before another extended period of sideways consolidation develops. While multi-quarter pullbacks often develop along the way, the takeaway is to stay invested in the current longer-term uptrend.



Source - RBC Wealth Management, Bloomberg, Optuma

TREND & CYCLE
2025 TECHNICAL OUTLOOK

Bull market cycles

The structural bull markets of the 1950s–1960s, 1980s–1990s, and 2010s–2020s are made up of smaller stair-step cycles that bottom roughly every four years, often near a rising four-year moving average. These four-year cycles are by no means symmetrical, with some cycles extending beyond the usual two- to three-year rallies followed by a 9- to 12-month correction, of which 1987 and 2007 are two examples.

What drives these cycles? Liquidity provided by central banks and the response to that liquidity by the economy and corporate earnings are the primary catalysts, in our view. Although returns vary significantly for each four-year cycle, during structural bull markets the average four-year cycle upside has been near 110%, while the average decline has been 23%. Interestingly, the 2020–2021 bull market (+120%) and 2022 bear market (-27%) line up with the historical averages.

We think the implication for the current cycle that bottomed in Q4 2022 is that equities should see further upside in 2025 with a corrective window likely in 2026. The current four-year upcycle bottomed in Q4 2022 at the rising red four-year moving average, and after breaking out to new highs in early 2024, it remains in an uptrend (see chart below).

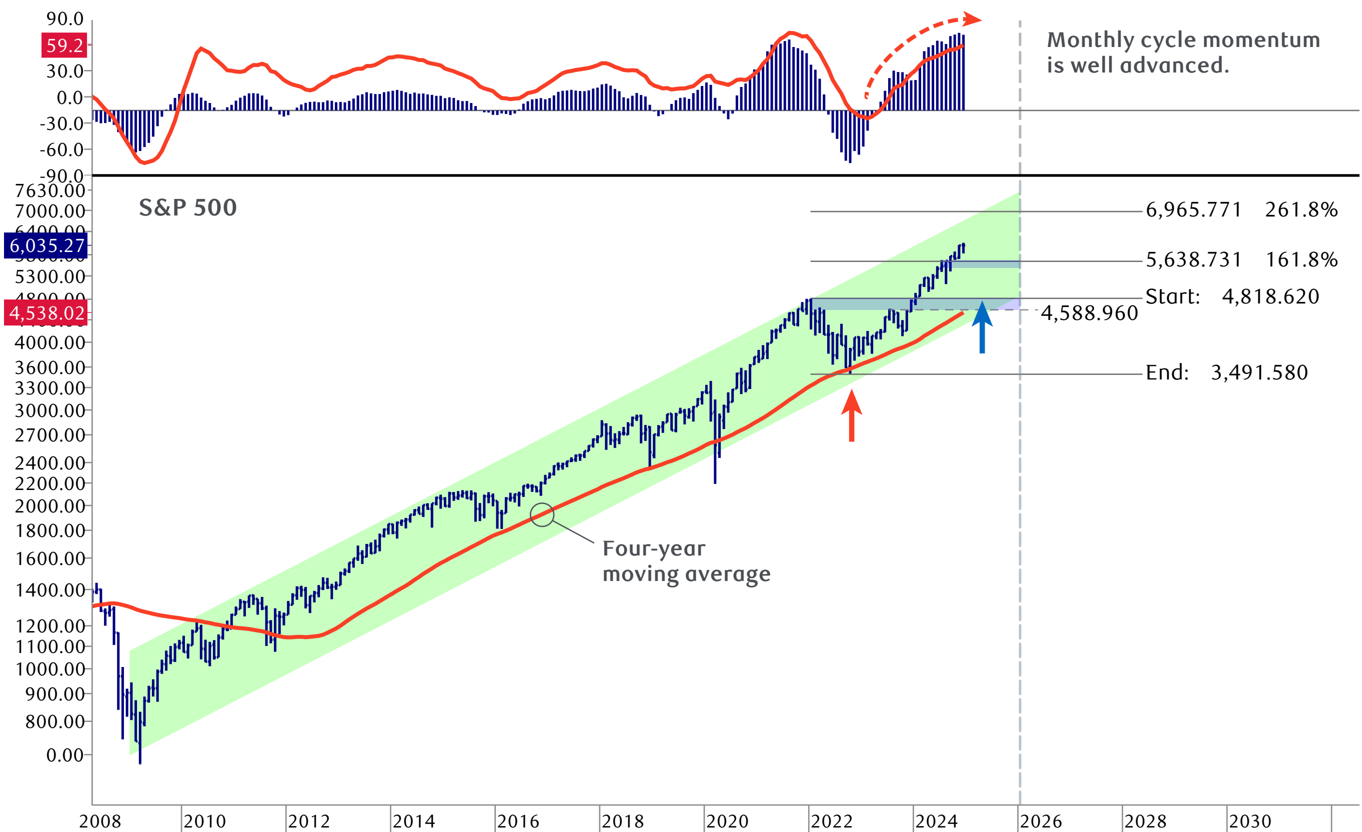
Source - RBC Wealth Management, Bloomberg, Optuma

TREND & CYCLE
2025 TECHNICAL OUTLOOK

Pause points

Once a market or security moves to new highs, one technical method to identify potential upside pause points is to take the prior trading range, in this case the 2022–2024 range, and multiply it by 1.618 and 2.618 (both derived from the Golden Mean). We appreciate this may seem like an odd way to forecast potential upside levels, but we are impressed by how often markets inflect near these arithmetic markers. Interestingly, the first 161.8% extension was where the S&P 500 and Nasdaq 100 Indexes stalled in July. While we expect a volatile H1 2025, the next upside level for the S&P 500 is near 7000 at the 261.8% extension level.

While this suggests to us further upside in 2025, after a two-year rally, the cycle may be at risk of maturing. The momentum indicator in the top panel of the chart has proven useful to track prior three- to four-year market cycles. After bottoming in Q4 2022, that indicator transitioned into overbought territory and could be at risk of turning negative in 2025. What could cause the current equity cycle to peak? Higher bond yields are often the culprit. While our expectation is for the U.S. 10-year yield to trade in a band between 3.25% and 5%, a move above 5% would likely be a catalyst for the current equity cycle to peak.



Source - RBC Wealth Management, Bloomberg, Optuma

TREND & CYCLE
2025 TECHNICAL OUTLOOK

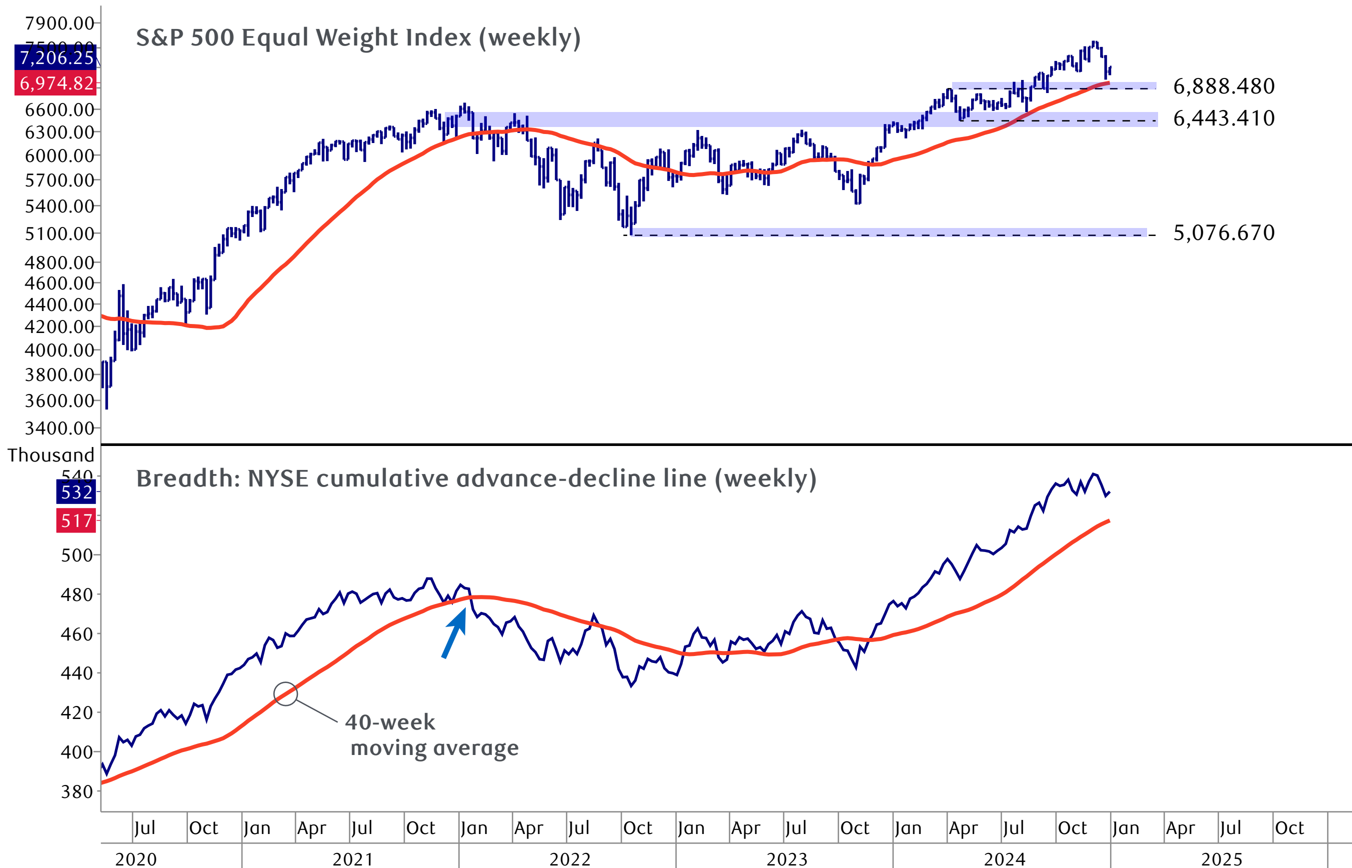
Tracking market breadth

Looking beyond the S&P 500, a major concern for investors has been the narrow leadership in a handful of large growth stocks.

The S&P 500 Equal Weight Index and NYSE cumulative advance-decline line (see charts below) remove much of the distortion caused by the surging mega-cap growth stocks and provide a gauge of how the average smaller stock is behaving.

Until late December 2024, participation (as measured by the S&P 500 Equal Weight Index and the number of stocks advancing versus declining) had been improving since Q4 2023. The key takeaway from these charts is that while a near-term pullback is underway, their trends remain positive with support beginning near their rising 40-week moving averages.

A break below the rising 40-week moving average would be of greater concern, in our view. This break was the negative technical signal that developed for the NYSE cumulative advance-decline line in Q1 2022 at the beginning of the bear market (indicated by the blue arrow). Here again, we view a move above 5% by the U.S. 10-year yield to be the main risk to the maintenance of the uptrend.



Source - RBC Wealth Management, Bloomberg, Optuma

TREND & CYCLE
2025 TECHNICAL OUTLOOK

Key levels for interest rates

With interest rates playing a dominant role in how investors value asset classes, the trend for the U.S. 10-year bond will remain a major technical focus for us through 2025.

As noted earlier, the major catalyst for equity market participation to broaden in Q4 2023 was the U.S. 10-year yield peaking at 5%, before trending lower within a range through 2024.

Our base case is that the 10-year yield will remain in that 3.25%–5.00% range through most of 2025 with one- to two-quarter swings likely to define the trading range. To track these swings, we use a simple momentum indicator (bottom panel in the chart below) which has proven useful for identifying turning points through 2024. Our expectation is that this indicator will develop another tactical peak in early Q1.

Risk: We continue to view the band between approximately 4.7% and 5.0% as an important upside threshold, and while our base case is for rates to peak under that level, we think a move above that range would signal an important breakout with the next upside level just below 6.0%, corresponding to a 161.8% extension of the 2024 trading range. As noted earlier, a move above 5% is likely to exert meaningful downside pressure on equity markets.

Source - RBC Wealth Management, Bloomberg, Optuma

TREND & CYCLE
2025 TECHNICAL OUTLOOK

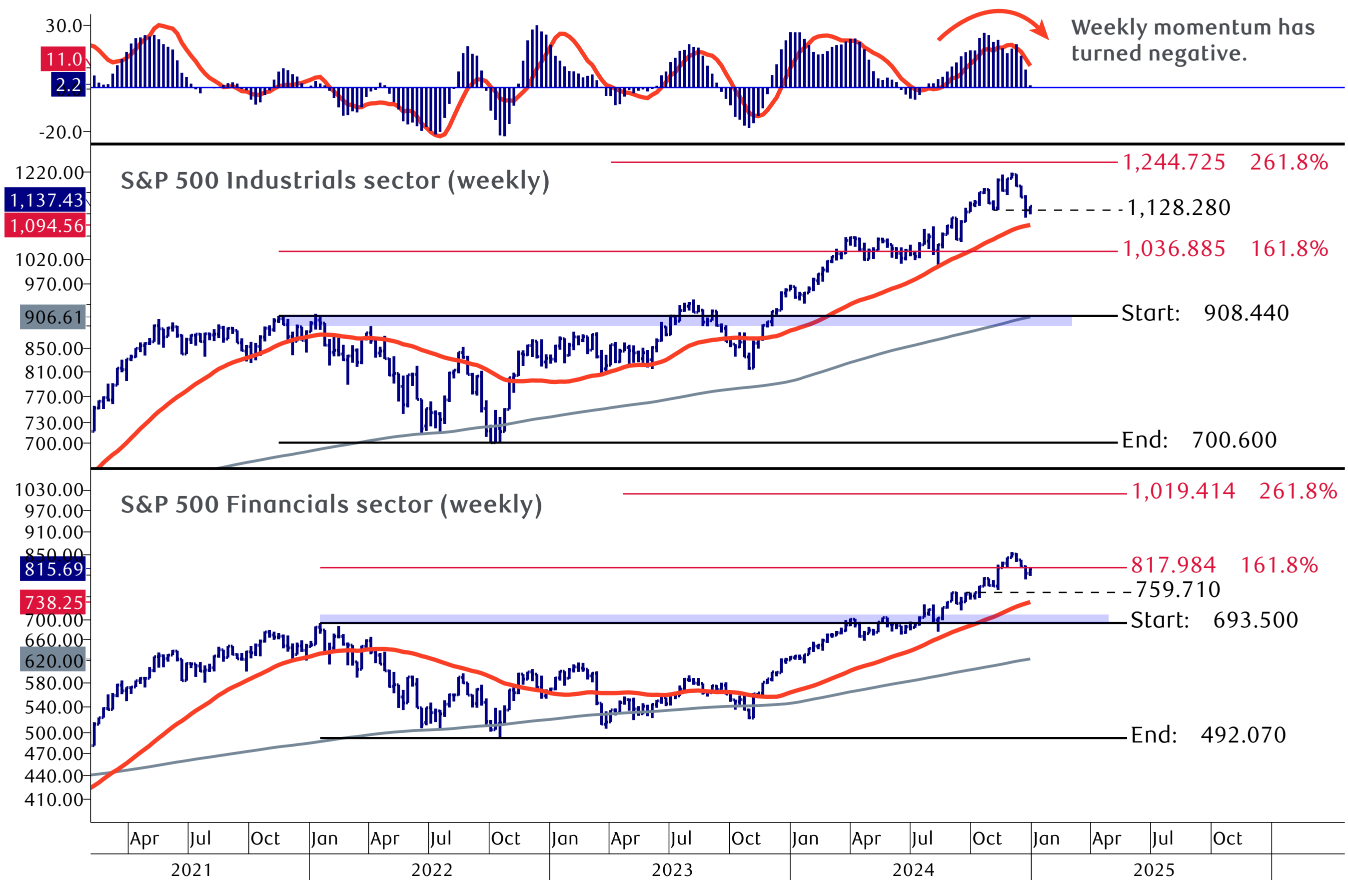
Sector rotation

We think of equity sectors as falling within three main categories: structural growth, cyclical growth, and defensive.

Given the S&P 500 is dominated by large-cap growth stocks, notably in Technology and Communication Services, our technical outlook for structural growth stocks aligns with our outlook for the S&P 500 discussed above. In short, these growth stocks remain in positive trends but are, in our opinion, less timely for establishing new positions at current levels following very large two-year advances.

Cyclicals, those sectors that are the most responsive to the underlying economy, tend to be volatile, with one- to two-quarter rebounds followed by choppy, multi-month trading ranges. The S&P 500 Industrials and Financials sector chart below illustrates these multi-month swings from within a longer-term bullish uptrend that accelerated in Q4 2023 after interest rates peaked at 5%. After pausing through H1 2024, cyclicals rallied strongly through Q3 into Q4 of this past year, with the post-election rally leading both sectors to peak near technical extension levels. While both sectors remain in longer-term uptrends, the technical backdrop suggests to us that investors should remain patient for better entry points in Q1.

Lastly, defensive sectors, such as Utilities, Consumer Staples, Health Care, and Real Estate, have dramatically underperformed the S&P 500 since the bull market began in Q4 2022. While we see no evidence of a relative performance reversal developing for these areas, a growing list of what we view as defensive stocks is becoming oversold, and with the S&P 500's cycle momentum becoming advanced, we expect to see more timely opportunities developing in these sectors moving through the first half of 2025.



Source - RBC Wealth Management, Bloomberg, Optuma

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities.

The Global Portfolio Advisory Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee (RISC), providing additional tactical and thematic support utilizing research from the RISC, RBC Capital Markets, and third-party resources.

The RISC consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Global Portfolio Advisory Committee members

Jim Allworth – Co-chair
Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair
Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair
Managing Director & Head of Investment Strategy, RBC Europe Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Luis Castillo – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – Head of Fixed Income, British Isles, RBC Europe Limited

Janet Engels – Vice President & Head, Global Investments, RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Patrick McAllister, CFA – Manager, Equity Advisory & Portfolio Management, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Josh Nye – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Alan Robinson – Senior Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

David Storm, CFA, CAIA – Chief Investment Officer, British Isles & Asia, RBC Europe Limited

Yuh Harn Tan – Head of Discretionary Portfolio Management & UHNW Solutions, Royal Bank of Canada, Singapore Branch

Joseph Wu, CFA – Portfolio Manager, Multi-Asset Strategy, RBC Dominion Securities Inc.

Additional Global Insight contributors

Robert Sluymer, CFA – Technical Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Required disclosures

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets. This report has been prepared by RBC Capital Markets which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Wealth Management and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 250 Nicollet Mall, Suite 1800, Minneapolis, MN 55401-1931.

RBC Capital Markets Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because RBC Capital Markets' ratings are determined on a relative basis.

Distribution of ratings – RBC Capital Markets Equity Research
As of December 31, 2024

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Outperform]	883	58.17	303	34.31
Hold [Sector Perform]	588	38.74	153	26.02
Sell [Underperform]	47	3.10	4	8.51

Explanation of RBC Capital Markets Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ("SFC"); Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

Third-party Disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets,

LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. * Member Canadian Investor Protection Fund. ® Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and Royal Bank of Canada (Channel Islands) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: 100 Bishopsgate, London, EC2N 4AA, UK. Royal Bank of Canada (Channel Islands) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands.

To persons receiving this from Royal Bank of Canada, Hong Kong Branch: This document is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the SFC. This document is not for distribution in Hong Kong, to investors who are not "professional investors", as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This document has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Past performance is not indicative of future performance. WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the investment. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

To persons receiving this from Royal Bank of Canada, Singapore Branch: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This publication is not for distribution in Singapore, to investors who are not "accredited investors" and "institutional investors", as defined in the Securities and Futures Act 2001 of Singapore. This publication has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

© 2025 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC
© 2025 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund
© 2025 RBC Europe Limited
© 2025 Royal Bank of Canada
All rights reserved
RBC1524

Wealth Management