Trend & Cycle: The Long View – March 2025

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All values in U.S. dollars and priced as of market close on February 28, 2025, unless otherwise noted.

For Important Disclosures, see page 23.

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Wealth Management

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Structural/secular trend and cycle

- Our long-term outlook remains that the structural trend for the S&P 500 is positive with an underlying 16- to 18-year generational cycle supportive of further upside into the mid-2030s. If the structural bull markets of the 1950s-1960s are a prologue for the future, the S&P could reach 14,000 over the coming ten years. Could productivity gains from AI be a potential catalyst?
- We appreciate S&P 14,000 has appeared overly optimistic, particularly given the macro-fundamental and geopolitical concerns of many investors, but from current levels the annual compound growth rate is in line with average historical returns in the 7-9% range.

4-year cycle – Where are we now?

- **A look back at prior 4-year cycles:** As regular readers of the Long View are aware, we view the 3-4 year cycles that defined the uptrends of the 1950s-1960s, 1980-1990s and 2010-2020s structural bull markets to be an important pattern to consider in an investment process. What drives these cycles? Liquidity from global central banks and the response to that liquidity by the economy are the two main drivers for most of these smaller cycles. As such, the trend of interest rates almost always plays an important role in duration and magnitude of these smaller 3-4 year cycles.
- **Yellow flag – Monthly momentum has turned negative:** One of the technical tools we use to track 3-4 year cycles for the S&P 500 is a monthly momentum indicator (which was helpful in signalling a bottom in Q4 2022), which after rising for 2 years is now beginning to turn negative from overbought levels. As noted here over the past few months, a downturn in this indicator is a yellow flag following an almost 80% rebound over the past two years, but we also caution investors from turning bearish prematurely given these indicators can turn negative 1-2 quarters in advance of the market index peak. While a momentum indicator turning down can be an early warning that a market's uptrend is maturing, we need to see a break of the S&P 500's 2+ year uptrend below support near its rising 200-day ma, a reversal of the uptrend between the relative performance of stocks vs bonds, and a reversal of the S&P's advance-decline line that tracks participation. At this point, those trends are positive and will remain a focus for us moving through Q2. We discuss interest rates below, and while it is not our base case scenario, we would view a move by the US 10-year yield above 5% to be a risk that could prematurely abort the current bull cycle that began in Q4 2022.

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Tactical backdrop moving through Q1 into Q2

- Equity markets have remained in a volatile trading range through Q1, which interestingly is consistent with the average path of US stock markets during a new administration as markets attempt to digest the implications of new policies. Below the index level, rapid sector rotation has developed, with growth stocks churning sideways in very volatile ranges while many of the sectors that were weak through Q4 rebounding strongly from oversold levels in Q1. For now, we view the large-cap US equity indices to be in a normal consolidation following a strong surge in Q3-Q4 and expect their trading ranges to resolve to the upside moving into Q2, consistent with the average path of the equity market during the first year of a new administration with the potential for a cycle peak developing at between 2H 2025 and 1H 2026.
- **Interest rates:** The trend in interest rates will continue to play a dominant role in the direction of equities with the 4.7-5% band for the US 10-year yield a critical upside level that, if exceeded, would likely signal accelerating inflation while a break below 3.2-3.6% yield support would likely signal the risk of an economic slowdown and possible recession. Our expectation is that the US 10-year yield will remain in that broad trading range with weekly momentum indicators a useful tool for tracking the 3-6 month swings that regularly develop. Those indicators peaked and turned down in January as the US 10-year yield tested the 4.7-5% range with further sideways to down trading likely moving into Q2.
- **Currencies:** The US dollar DXY index remains in a broad trading range between 100-110 with a pullback from the upper end of that range underway similar to the US 10-year yield. Our expectation is for the US dollar to continue to decline into Q2 but remain in a broad range.
- **Commodities** – **WTI Oil** is range bound above key support in the low-mid 60s with a broad band of resistance between 80-90. While we view WTI to have bottomed in the low-mid 60s, a break below that band would signal the potential for weakness into the low 50s. **Gold's** long-term trend remains posiive with next resistance near 3300. After the recent rebound in Q1, gold is overbought tactically with a pullback taking hold that we expect will hold support above a 2700-2800 band.

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Sectors

- **Growth/Media/Technology** lagged the broader equity market over the past 1-2 quarters as the established uptrends of 2023-2024 began to fray. Semiconductors stalled in July 2024 and the DeepSeek announcement in early Q1 was the catalyst for further weakness over the past two months. The technical question, similar to what we discussed on page 2 for the S&P 500, is whether the upcycle for growth stocks is peaking. At this point we view the volatile trading ranges in place to be normal, healthy consolidations within uptrends. However, as a rule of thumb, we would view a break below the rising 40-week/200-day moving averages as a signal that the 2022-2025 cycle is peaking.

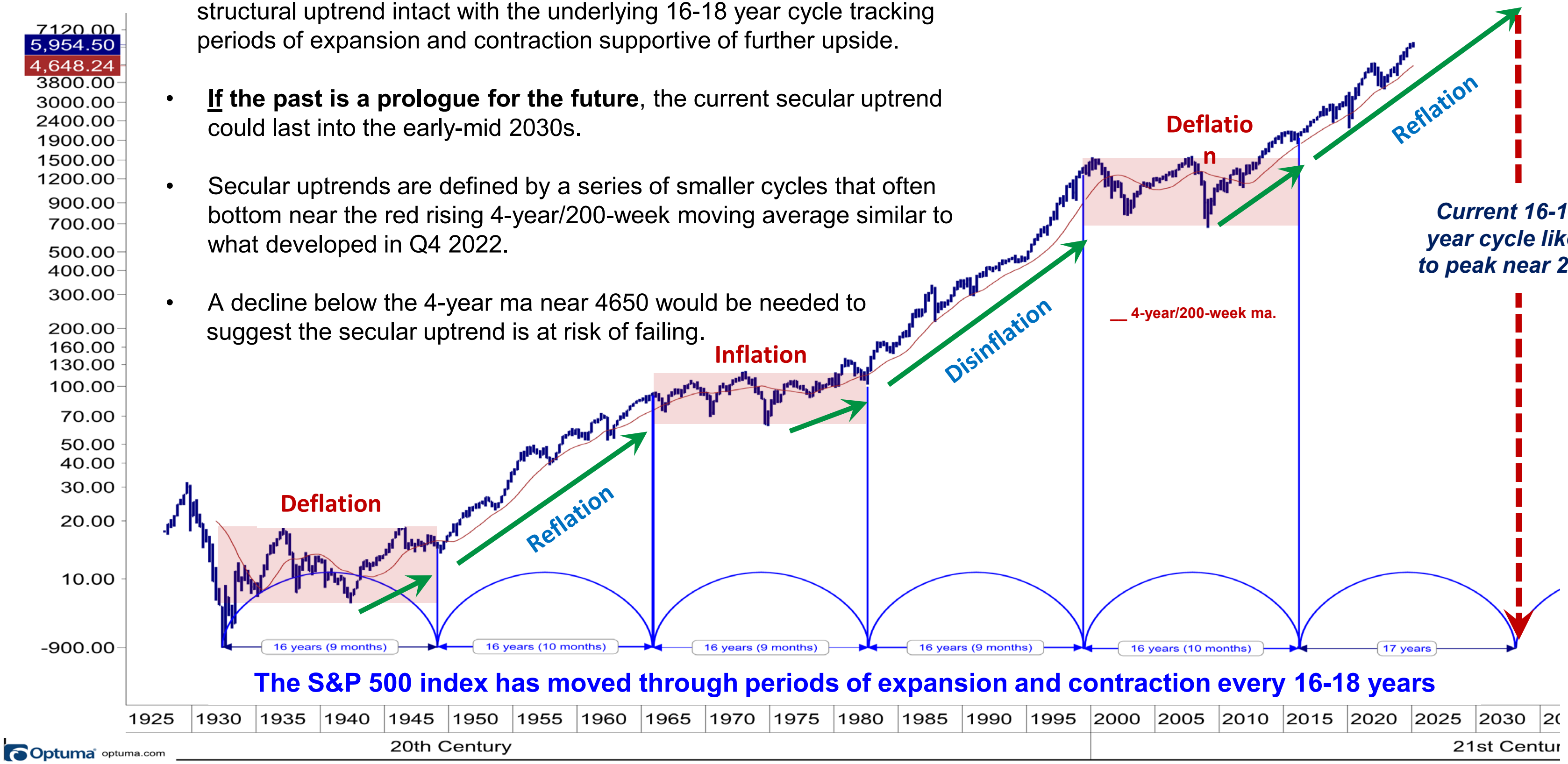
- **Cyclicals**, notably Financials and Industrials, remain in positive longer-term trends with pauses and pullbacks taking hold following a strong Q4-early Q1 rebound. Uncertainty around tariffs are likely to lead to further volatility moving through Q1 into Q2 but overall we view the uptrends for cyclicals to be intact and would need to see breaks below their 2022-2024 uptrends, often represented by rising 200-day moving averages, to signal their bull cycles are deteriorating.

- **Safety** sectors (Utilities, Staples, Healthcare and REITs) were weak through Q3 into Q1 but became oversold tactically and bottomed in January and February as interest rates and the US dollar retreated from important resistance bands. While we do not expect safety sectors to remain leadership, we view their long-term chart profiles to have established cycle lows. As such, pullbacks following their recent rebounds are likely to be relatively shallow.

- **Bottom line:** In contrast to 2023 and 2024 where the technical backdrop supported higher exposure to growth and cyclicals, we view a more balanced and diversified portfolio to be appropriate given the potential that the 4-year cycle which began in Q4 2022 could peak moving into 2H 2025-1H 2026.

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

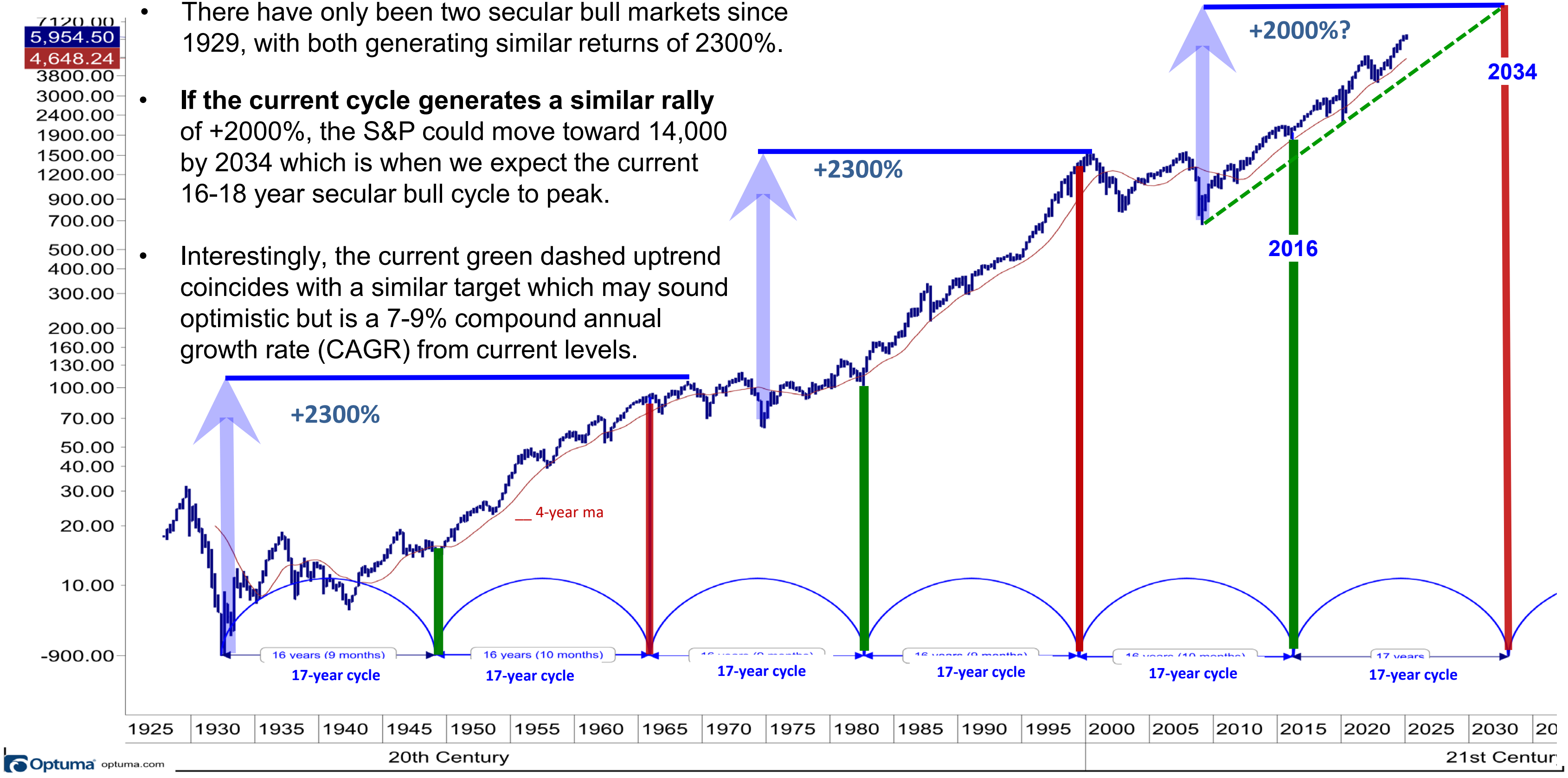
- Our long-term outlook remains unchanged viewing the generational/ structural uptrend intact with the underlying 16-18 year cycle tracking periods of expansion and contraction supportive of further upside.
- **If the past is a prologue for the future**, the current secular uptrend could last into the early-mid 2030s.
- Secular uptrends are defined by a series of smaller cycles that often bottom near the red rising 4-year/200-week moving average similar to what developed in Q4 2022.
- A decline below the 4-year ma near 4650 would be needed to suggest the secular uptrend is at risk of failing.



Source: RBC Wealth Management, Bloomberg, Optuma

Could the S&P rally to 14,000?

- There have only been 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.



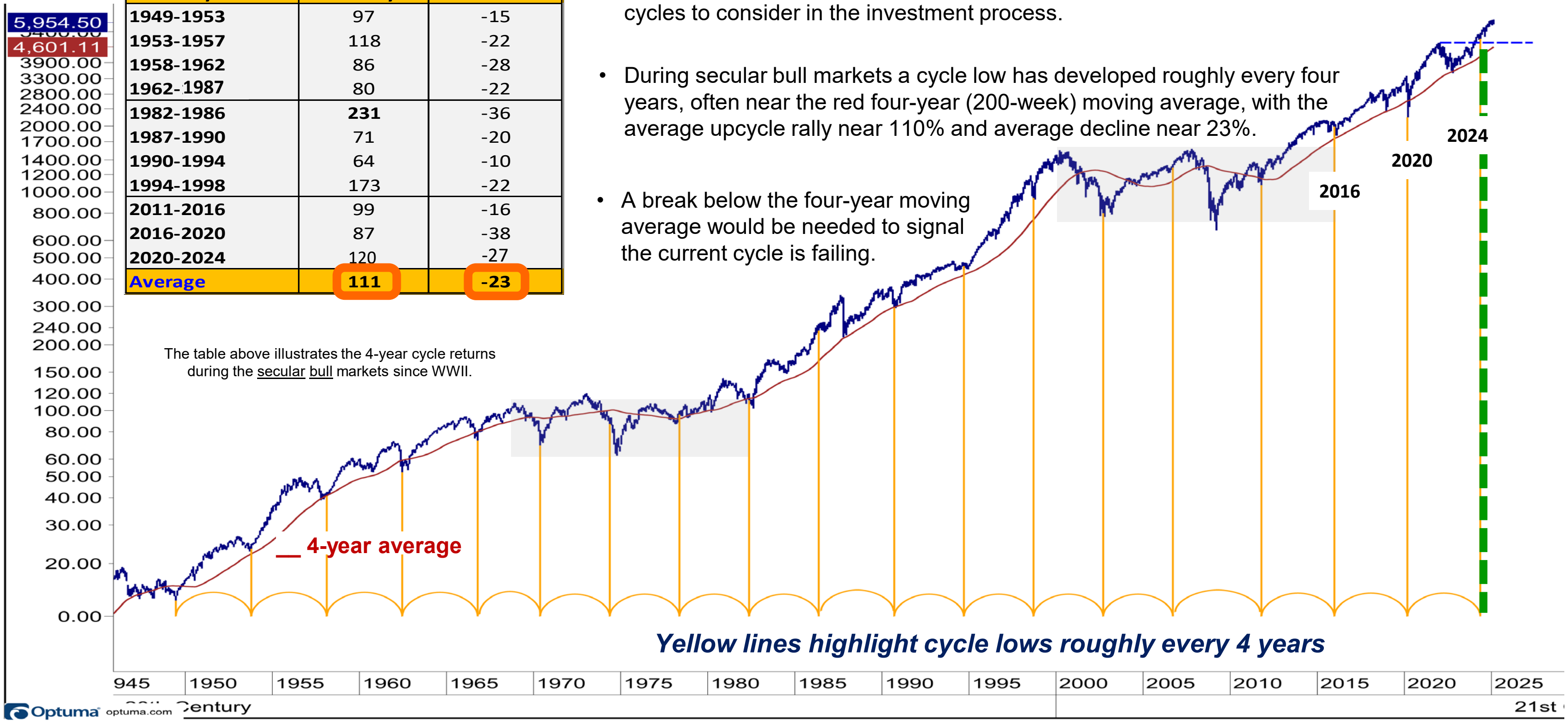
Source: RBC Wealth Management, Bloomberg, Optuma

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
1962-1987	80	-22
1982-1986	**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

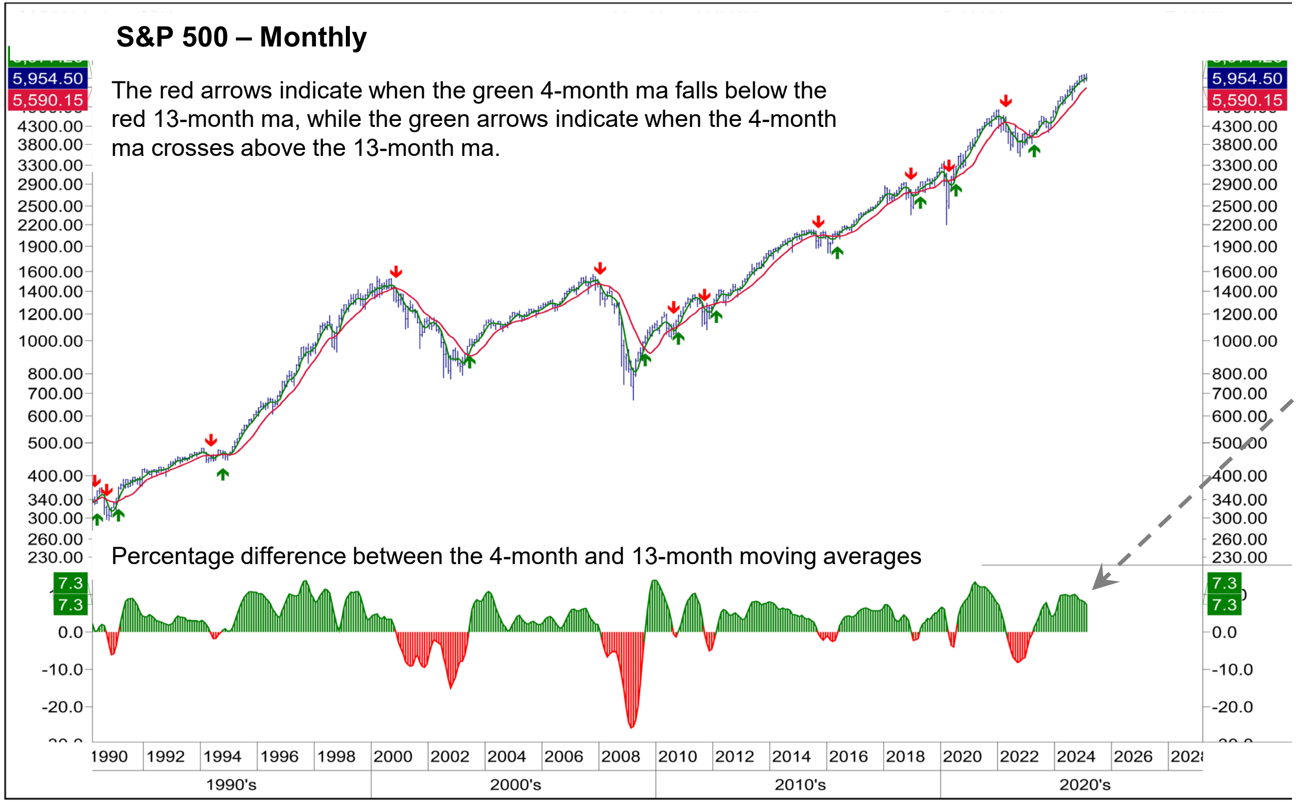
The table above illustrates the 4-year cycle returns during the secular bull markets since WWII.

- We continue to feature the 4-year cycle as one of the more important cycles to consider in the investment process.
- During secular bull markets a cycle low has developed roughly every four years, often near the red four-year (200-week) moving average, with the average upcycle rally near 110% and average decline near 23%.
- A break below the four-year moving average would be needed to signal the current cycle is failing.



Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 Index – Uptrend intact but momentum has peaked and is decelerating



- 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 since the shorter-term green moving average crossed above the longer-term red moving average in March 2023.
- Another way to track the relationship between these 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, the indicator in the bottom panel has peaked and turned negative which we view as a yellow flag that the current cycle is at risk of turning negative moving into 2H 2025-1H 2026.**

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 – Revisiting the broader cycle backdrop – Trend remains positive, but momentum has peaked

Source: RBC Wealth Management, Bloomberg, Optuma

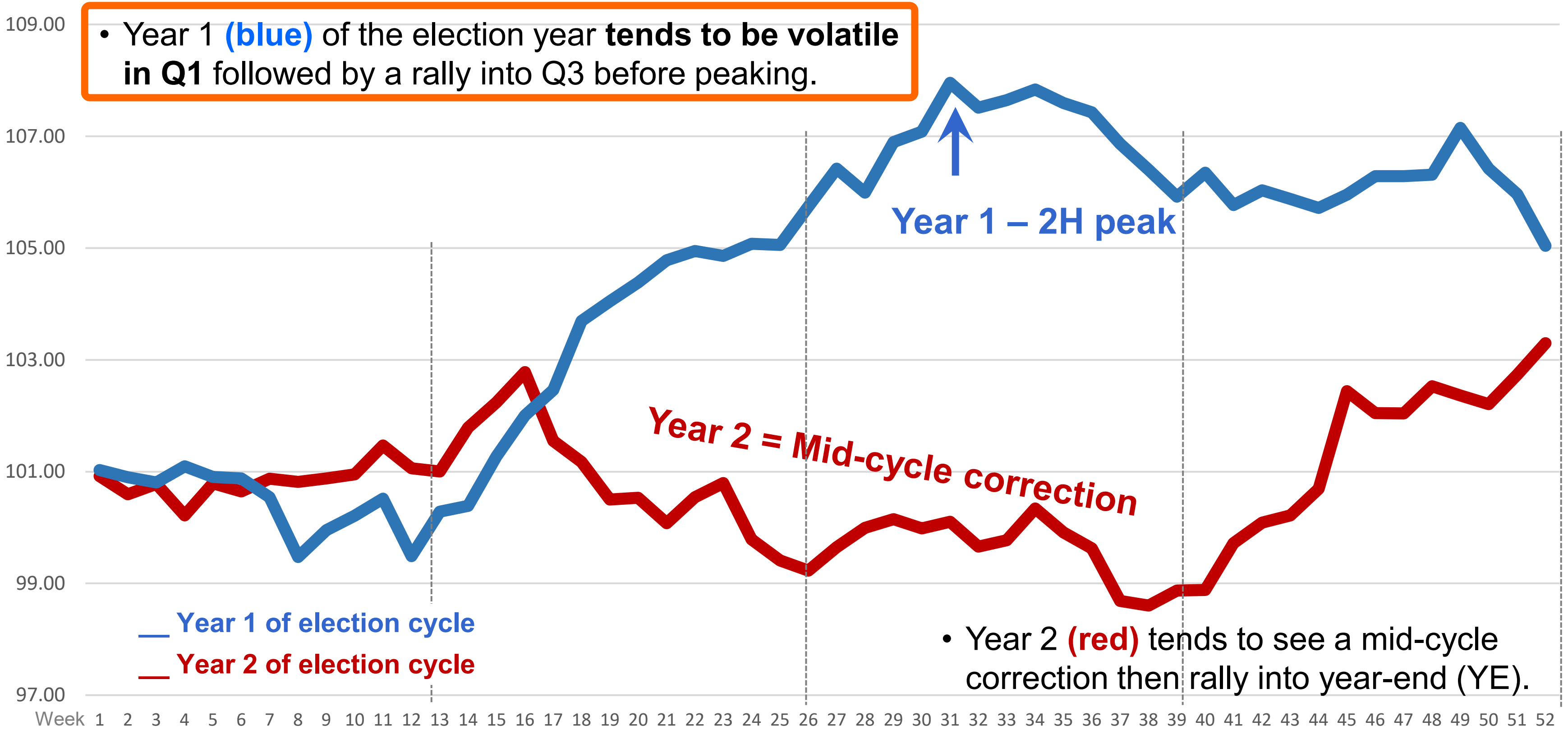
- Although the S&P's price trend remains in an uptrend since bottoming in Q4 2022, the momentum indicators (top panel) tracking the cycle have begun to peak and turn negative.
- While momentum downturns can often precede market peaks by 1-2 quarters, it is a yellow flag that the 2+ year equity cycle is at risk of peaking and turning negative.
- **Resistance** is near the recent highs between 6128-6147 with no meaningful resistance above that band until 6966.
- **Support** begins at 5638 at the 162% extension level followed by a major band of support between 4589-4818 coinciding with the rising red 4-year moving average. We view that band of support to be a proxy for the underlying structural trend for the S&P 500 that is expected to hold when another bear market develops.

S&P 500 with weekly Quadrant Balance momentum

Source: RBC Wealth Management, Bloomberg, Optuma

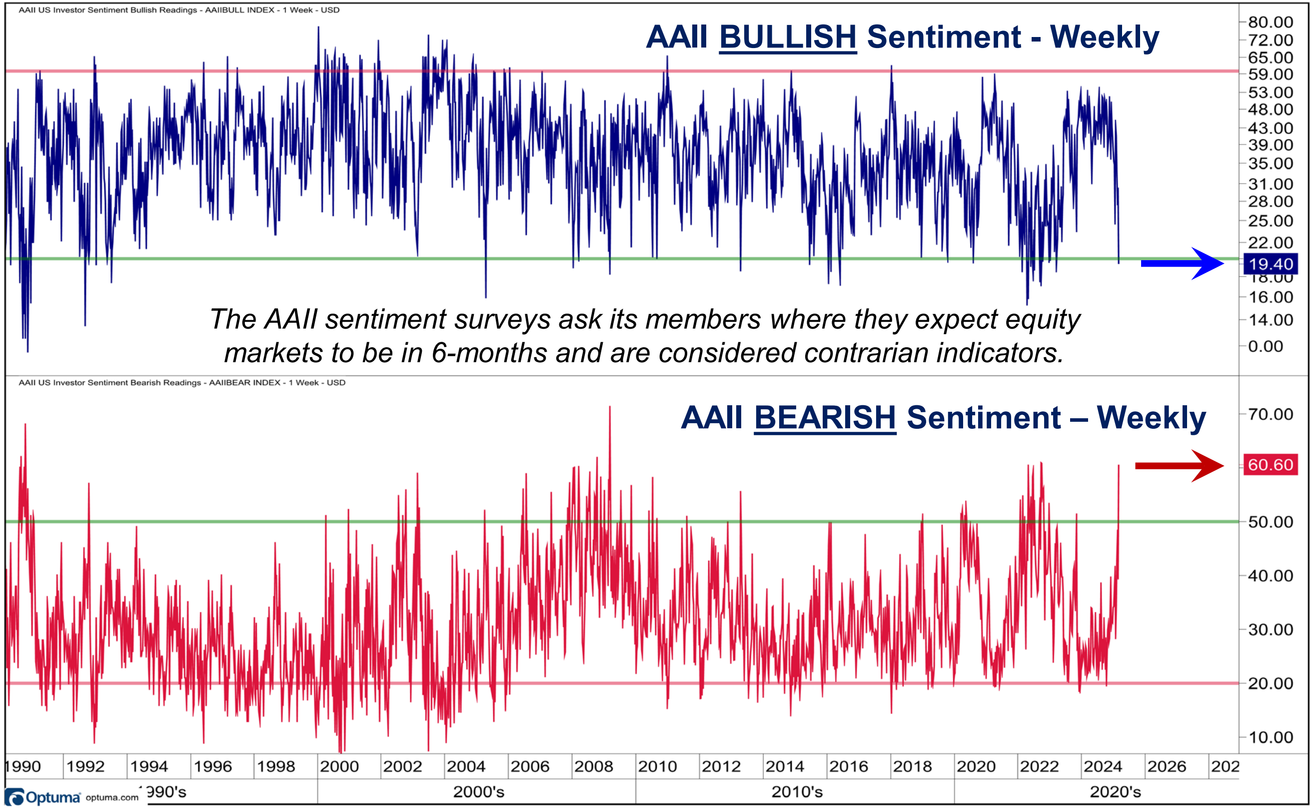
- The S&P remains in a sideways trading range below a 6128-6147 band and above support between 5638-5782 with the red 40-week/ 200-day ma at 5682.
- While the S&P index has traded sideways, many stocks pulled back through Q4 into Q1, reflected by our weekly quadrant balance data (bottom panel), tracking the percentage of stocks with rising weekly momentum, turning up from oversold levels.
- With this indicator now building to the upside from oversold levels, we expect pullbacks will be shallow with further upside likely moving into late Q1/early Q2.
- We continue to view the peak in interest rates and the US dollar to be key catalysts for further equity upside.

Average path of the S&P during years 1 and 2 of the US election cycle since 1928



Source: RBC Wealth Management, Bloomberg

AAII US Bullish and Bearish Sentiment Survey – Contrary indicators – Optimism declining = (+)



Source: RBC Wealth Management, Bloomberg, Optuma

- (+) Bullish sentiment is becoming oversold

…while…

- (+) bearish sentiment (bottom panel) has spiked to some of the highest levels since Q4 2022 when the S&P established its cycle low.

- We view lower bullish, and higher bearish, sentiment readings to be an encouraging contrarian indication to support a rebound in equities.

MSCI EUROPE – Monthly – Momentum is peaking with 158-164 key support

- MSCI Europe's long-term price profile remains positive with new highs recorded in Q1 2025.
- Similar to the S&P 500, monthly momentum has turned down after bottoming in Q4 2022 as a yellow flag the cycle is at risk of peaking.
- A pullback/pause would not be surprising given the recent rally has moved the index back to its next extension level at 187.
- Support is in a band between 158-164 just above the rising red 4-year moving average at 156 that we expect will hold should a deeper pullback develop in 2025.
- Relative performance vs the S&P 500, however, remains in an established downtrend with an oversold rebound underway that would need to reverse the red dashed downtrend to support overweighting Europe versus the S&P 500.

Source: RBC Wealth Management, Bloomberg, Optuma

China – Hong Kong Hang Seng HSI Index

Source: RBC Wealth Management, Bloomberg, Optuma

- The HSI completed a cycle low in early 2024 and has accelerated from important support between 18.3-19.7K to establish a higher low and higher high.
- Resistance is near the 24-26.2K band coinciding with the 50-62% retracement levels of the 2018-2024 decline where a short-term pause is likely to develop.
- Relative performance vs the S&P 500 is in the early stages of reversing its 2020-2024 downtrend.
- **While portfolio exposure to China may not be appropriate for many investors, we view the HSI index improvement as a positive indication that the world's second largest economy is beginning to improve.**

S&P/TSX Composite – Monthly

- The long-term trend for the TSX remains positive, represented by the blue dashed uptrend line but its monthly momentum (top panel) is overbought and likely to peak in the coming 1-2 quarters.
- The recent rebound is consolidating around a key level at 24,884 coinciding with a 162% Fibonacci extension of the 2022-2024 trading range.
- While a pullback would not be a surprise, our expectation is that pullbacks will be short lived with next **resistance** at 29,200. **Support** remain near the 2024 breakout at 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 but 5% remains a critical technical level

Source: RBC Wealth Management, Bloomberg, Optuma

US 10-year yield – Weekly

Source: RBC Wealth Management, Bloomberg, Optuma

- The US 10-year yield continues to pull back from a key resistance band between 4.7-5% with weekly RSI momentum (bottom panel) negative, suggesting further sideways to down levels for yields moving through Q1 into mid Q2.
- While our expectation continues to be for the US 10-year yield to remain below 4.7-5%, a move above that level would establish a new cycle high and likely signal inflation is accelerating which in turn could lead to a more protracted correction for equity markets.

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- After bottoming between 2008-2010, the US dollar DXY index has trended higher in a stair step pattern punctuated by broad sideways trading ranges.
- The recent rebound from support near 100 has peaked just above resistance coinciding with the 62% retracement level of the 2022-2023 decline near 109.
- We view the recent highs for the US dollar to have defined the highs for 1H 2025 but do expect a short-lived trading bounce to develop in March given the decline from 110-105 over the past 3-4 weeks.

Canadian dollar / US dollar – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The CADUSD has declined to an important support range at the 2016-2020 lows at 0.68.
- Our expectation is that a multi-month oversold bounce is underway with a near-term pause at first resistance at 0.70 taking hold that is likely to lead to a broad choppy trading range above 0.68 and below 0.72.

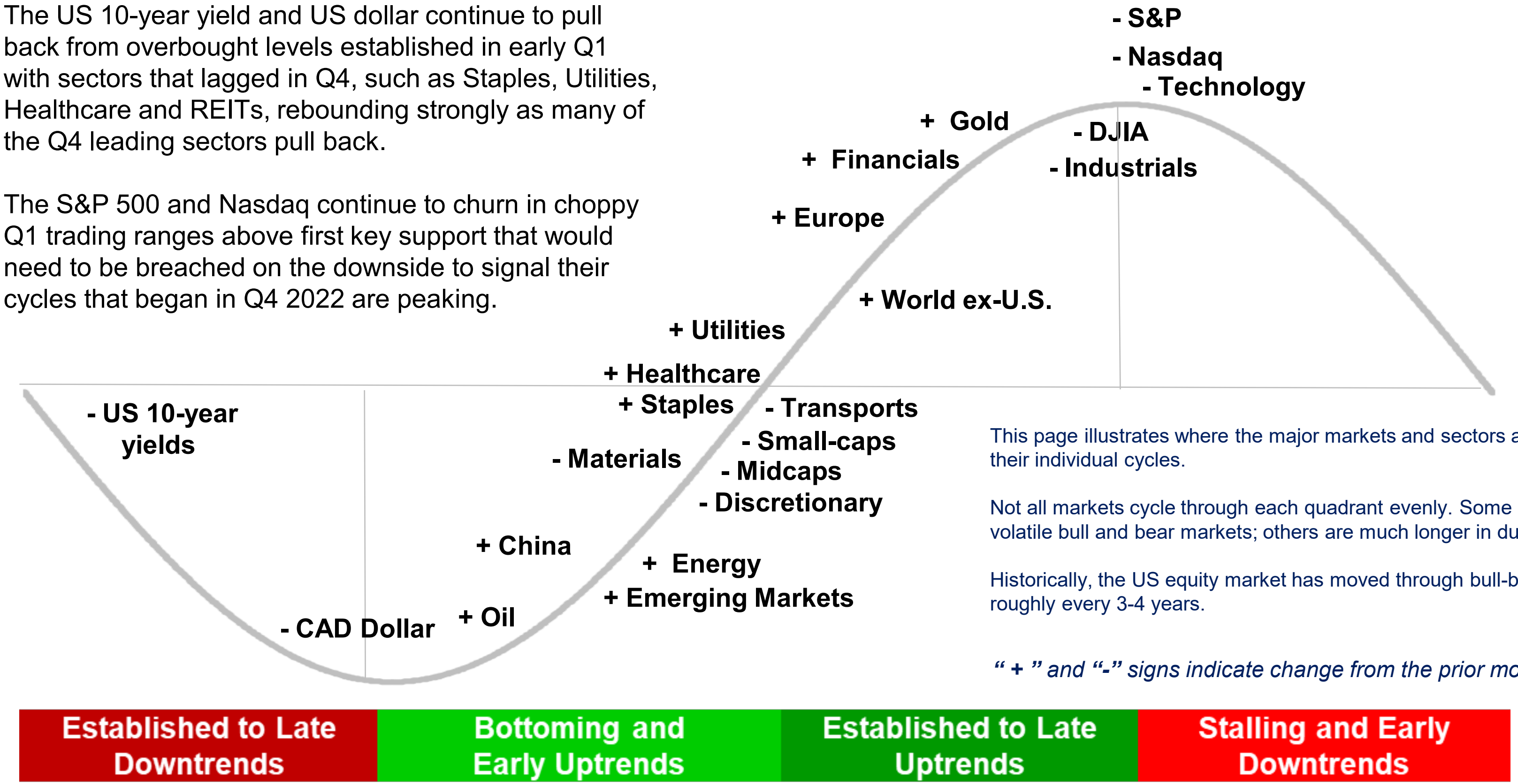
Gold – Monthly – Longer-term profile remains positive

Source: RBC Wealth Management, Bloomberg, Optuma

- Gold completed a major breakout above its 2011-2024 trading range in Q1 2024 and remains in a bullish uptrend.
- We have illustrated two Fibonacci extension measurements with the green extensions measuring the bigger 2011-2024 trading range highlighting 3336 as the next major pause point.
- After the recent surge, gold is overbought short-term with a pullback taking hold that should be short lived with 2790-2800 support.

Major markets and S&P sector cycles

- The US 10-year yield and US dollar continue to pull back from overbought levels established in early Q1 with sectors that lagged in Q4, such as Staples, Utilities, Healthcare and REITs, rebounding strongly as many of the Q4 leading sectors pull back.
- The S&P 500 and Nasdaq continue to churn in choppy Q1 trading ranges above first key support that would need to be breached on the downside to signal their cycles that began in Q4 2022 are peaking.



This page illustrates where the major markets and sectors are within their individual cycles.

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

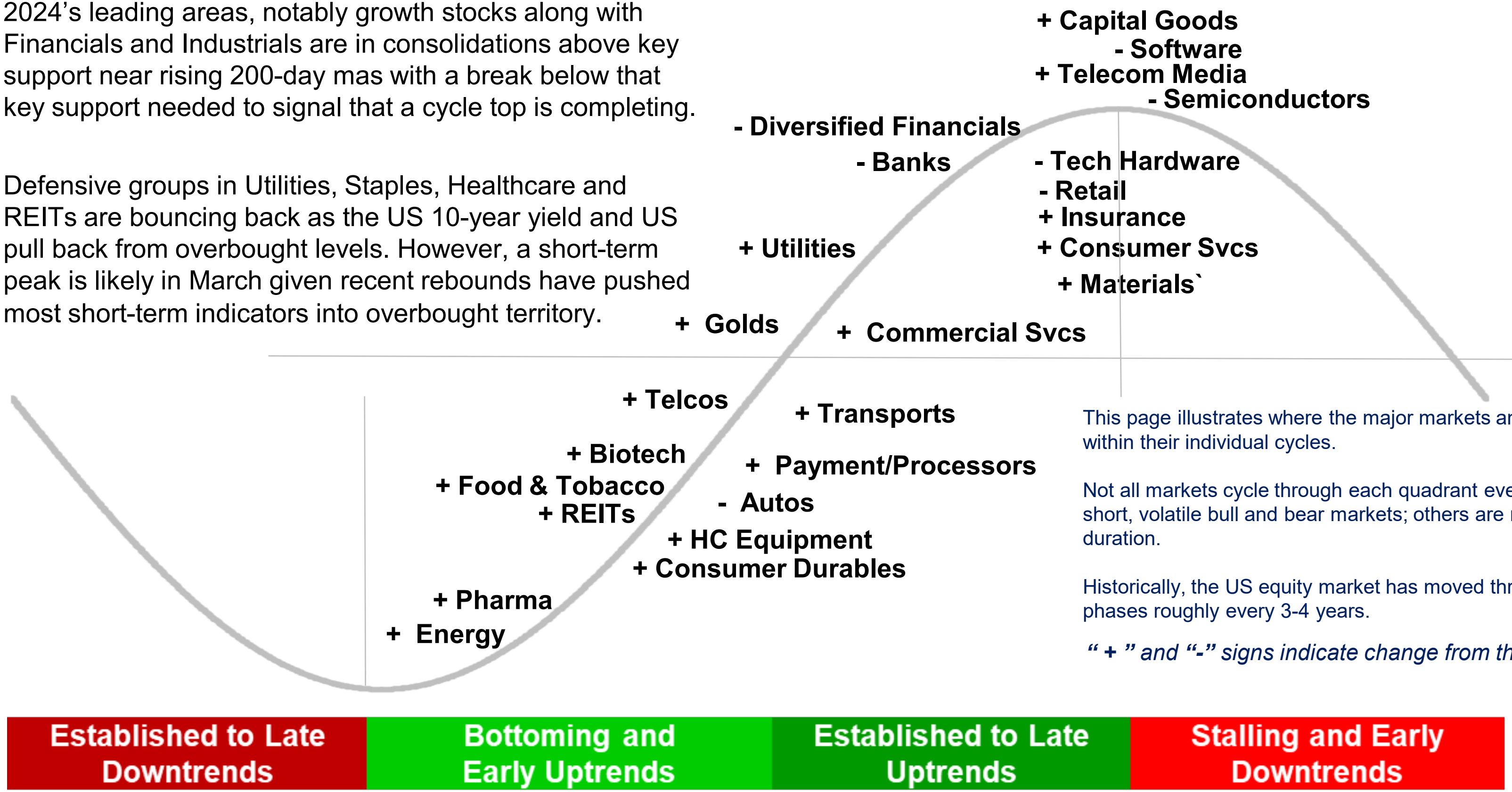
Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years.

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

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- 2024's leading areas, notably growth stocks along with Financials and Industrials are in consolidations above key support near rising 200-day mas with a break below that key support needed to signal that a cycle top is completing.
- Defensive groups in Utilities, Staples, Healthcare and REITs are bouncing back as the US 10-year yield and US pull back from overbought levels. However, a short-term peak is likely in March given recent rebounds have pushed most short-term indicators into overbought territory.



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