Trend & Cycle: The Long View – April 2024

Robert Sluymer, CFA | Technical Strategist, Portfolio Advisory Group

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All values in U.S. dollars and priced as of market close on March 29, 2024 unless otherwise noted

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- **Secular outlook** – We continue to view the long-term structural backdrop for US equity markets to be bullish supported by the 16-18 year generational cycle that could support further upside into the mid-2030s and potential for the S&P 500 to trend toward 14,000. What would change our view? The 4-year moving average is an important proxy for the underlying longer-term trend of the market so a break below that moving average, near 4,000, could signal a deteriorating backdrop. Until we see evidence of such a breakdown, we encourage investors to remain invested in equities in anticipation of further upside.

- **4-year cycle – Where are we now?** We view the current 3-4 year cycle to have bottomed in Q4 2022 for the S&P 500, Dow Industrial Average and Nasdaq with other more cyclical indices, such as the Russell 2000, EAFE, TSX and emerging markets, to have established secondary cycle lows in Q4 2023. Confirming evidence of a new upcycle continues to develop, led by breakouts above 2-year trading ranges in key areas such as the semiconductor and industrial sectors in late Q4, and the S&P, Dow Industrial Average, financial, healthcare and material sectors breaking out in Q1 with energy close behind. The key takeaway is that participation is broadening within equity markets, and while pullbacks are likely in Q2, we expect them to be relatively short lived.

- **Tactical/multi-month outlook** – While we expected markets to pause by late Q1, the underlying trend that began in Q4 2023 remains intact for the S&P, Nasdaq and Dow. Below the index level, however, many stocks corrected strongly in Q1 notably among bellwether software and security stocks, while areas such as regional banks traded sideways in narrow trading ranges through most of Q1. Overall, we see evidence of leading areas, notably in technology and growth stocks, taking a well-deserved pause, while other more cyclical areas emerge and take up leadership heading into Q2.

- **Interest rates** – We continue view the Q4 2023 highs at 5% for the US 10-year yield to be the highs for the current cycle with a broad trading range likely to continue under those highs through 2024. The bond markets have successfully weathered Q1 concerns that inflation would reaccelerate, remaining well below 5% in a range between 3.8%-4.3%. We expect the 10-year yield to remain in a broad trading range above 3.8% and would need to see a push above 4.4-4.5% to be concerned rates are becoming a headwind for equities again.

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- **Currencies** – The US dollar established its cycle high in Q4 2022 and has remained in a choppy downtrend above support at 100 and below resistance at 107. Similar to our view on interest rates, beyond short-term bounces, we do not expect significant upside in the US dollar which overall should be a net positive for equity markets globally.

- **Commodities** – **WTI Oil** continues to strengthen from the lows established in Q4 2023 in the low 70s. The current trend remains positive with resistance in the mid 80s followed by 94 with support in the mid-upper 70s likely to hold on pullbacks. **Gold's** long-term profile remains bullish with bullion breaking above an important resistance band between the 2011 highs at 1921 and the 2022-2024 highs around 2100. We view the breakout to have confirmed a new uptrend for Gold with next resistance at 2358.

Equity leadership

- **Growth/technology** price uptrends remain intact but relative performance began to lag by mid-February with a number of high-profile momentum leaders in software and cyber security pulling back strongly in Q1. In addition, a few well-known, mega-cap growth stocks notably underperformed through Q4 and Q1. Rather than viewing the recent hiccups as a sign of pending market trouble, we see the recent 4-6+ week underperformance as a healthy pause by many of the 2023 leaders, with lagging sectors such as financials, materials and energy, improving.

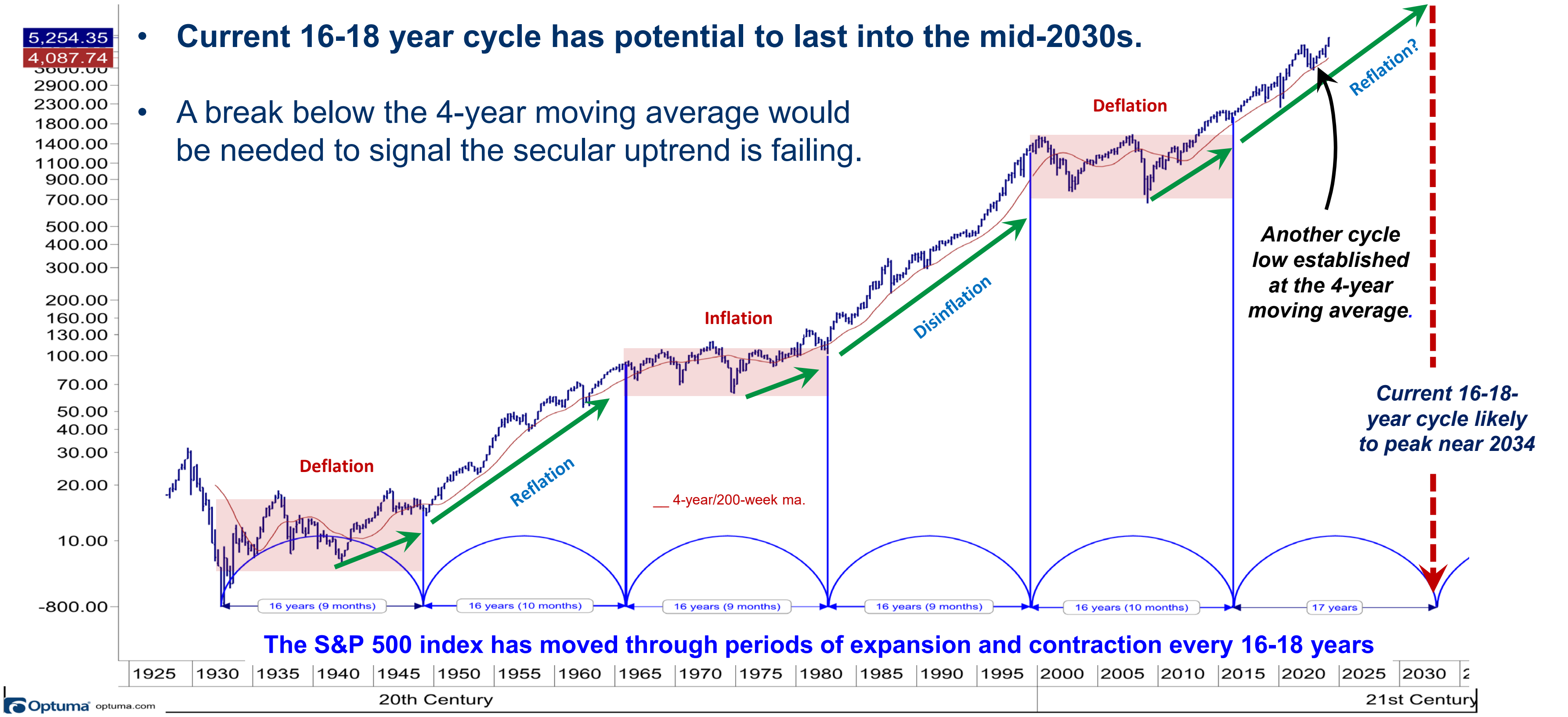
- **Cyclicals** – As noted above, technology's leadership began to fray mid-Q1 2024 with a rotation to more cyclical sectors such as industrials, financials, energy and materials. Overall, we view the longer-term chart profiles for these economy sensitive sectors to be positive as they are emerging from broad 2-year trading ranges as confirmation of a new equity market upcycle.

- **Safety sectors** – Given our positive outlook for the current 4-year market cycle that should carry equity markets higher through 2024, we continue to expect safety/defensive sectors to underperform for the year but with a temporary oversold bounce in Q2 and seasonally weak Q3 period. We believe select healthcare groups, such as medical technology and biotech, remain the more attractive technical groups.

- **Bottom line:** We recommend investors continue to use pullbacks in Q2 and Q3 to add exposure to growth and cyclical groups and sectors.

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

- **Current 16-18 year cycle has potential to last into the mid-2030s.**
- A break below the 4-year moving average would be needed to signal the secular uptrend is failing.

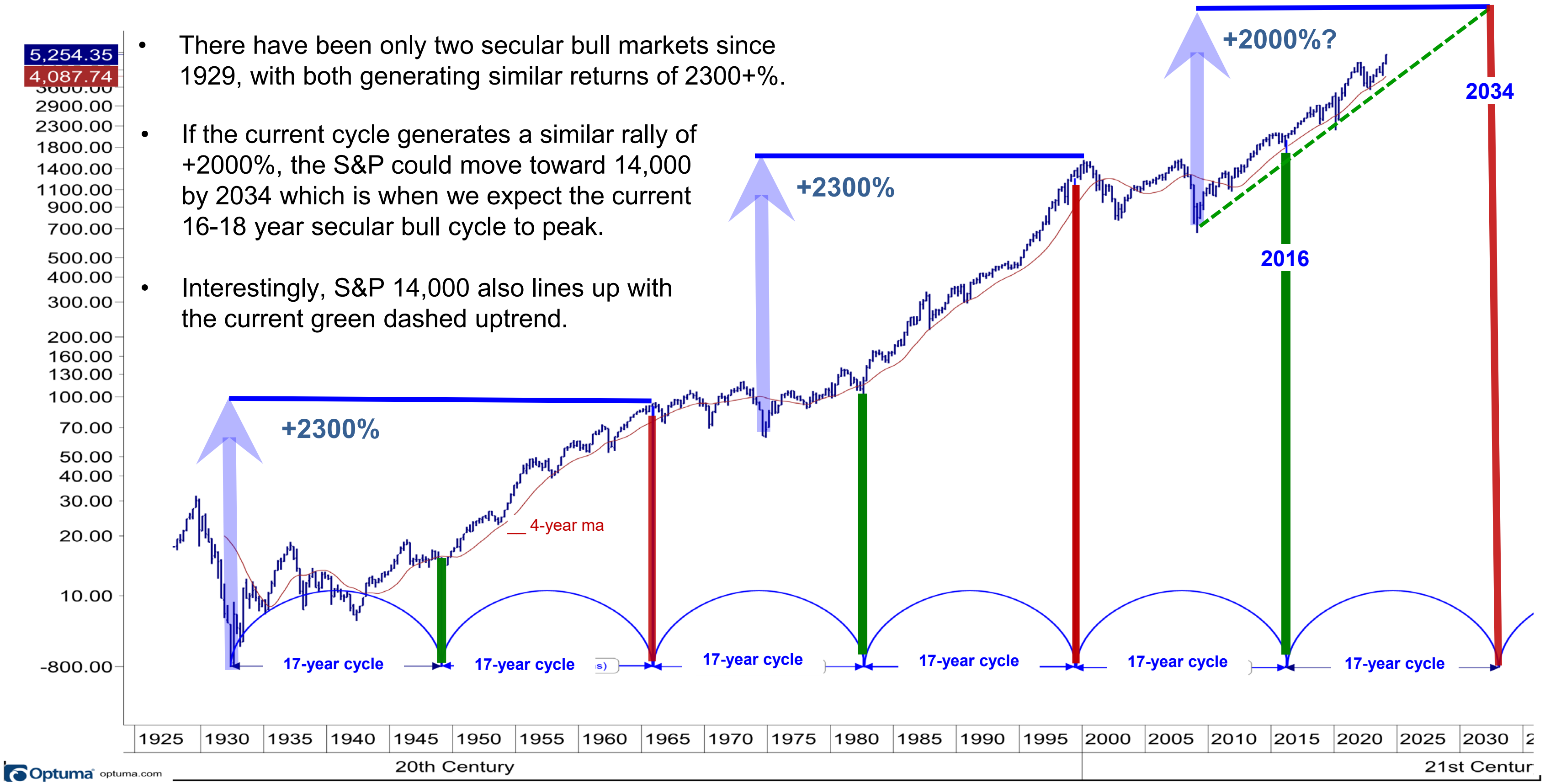


Source: RBC Wealth Management, Bloomberg, Optuma

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, S&P 14,000 also lines up with the current green dashed uptrend.



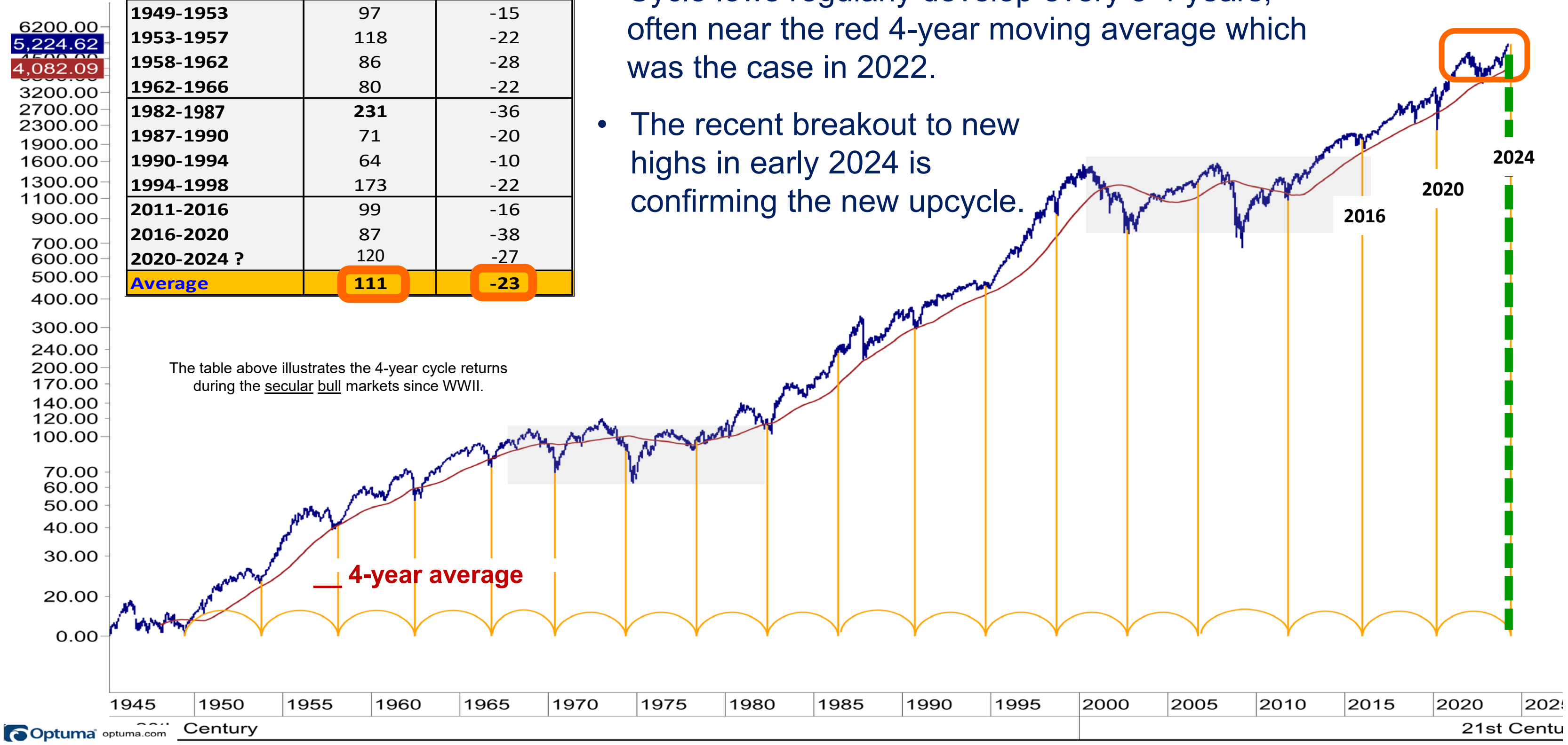
Source: RBC Wealth Management, Bloomberg, Optuma

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 recent breakout to new highs in early 2024 is confirming the new upcycle.

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



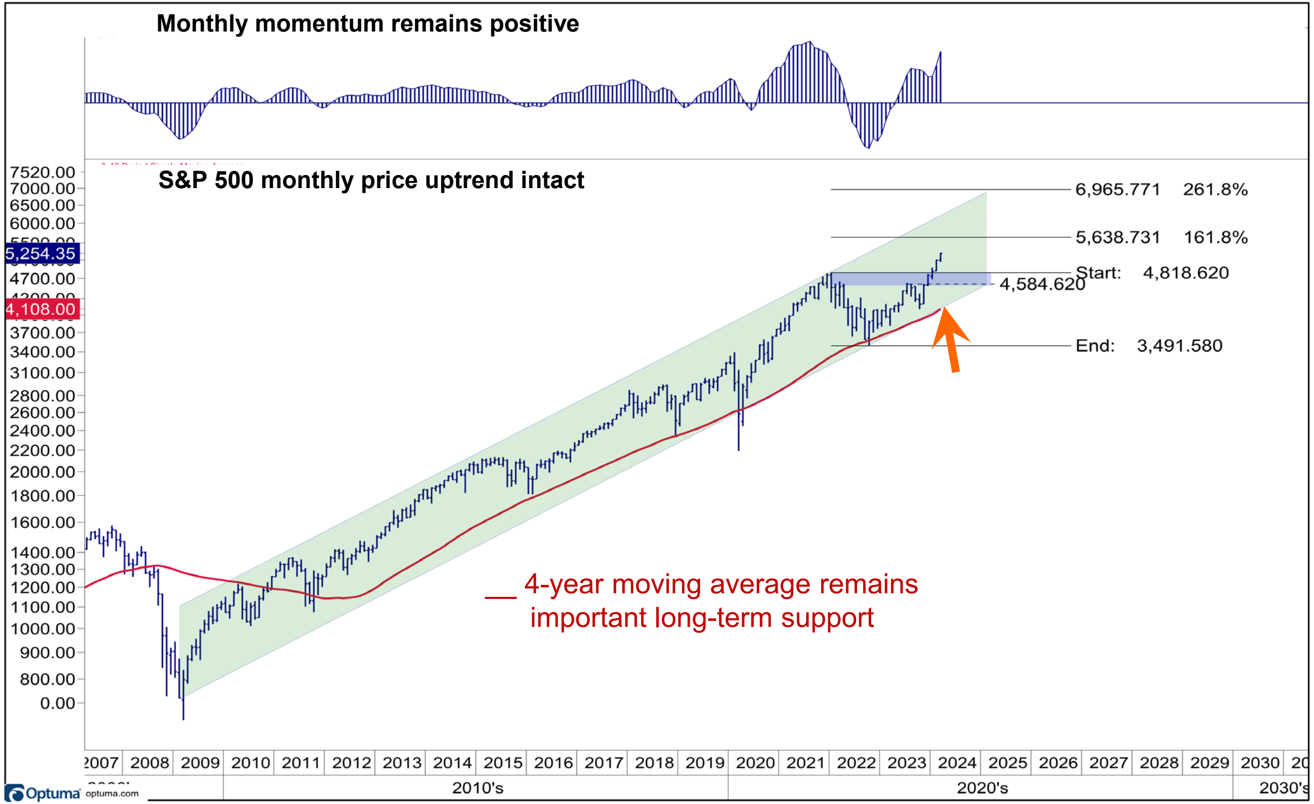
Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 Index – Monthly long-term trend analysis remains positive

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 above the longer-term red ma as of March 2023.
- Another way to track the relationship between these two mas is to measure the vertical difference between the two and plot the difference as a histogram, as illustrated in the bottom panel.
- This indicator bottomed in Q4 2022 and built positively into the summer of 2023 and remains positive and above the zero axis moving into Q2 2024.
- Overall, these indicators continue to confirm the new market cycle that bottomed in Q4 2022.

S&P 500 – Monthly – Uptrend intact – Key levels we are watching



Source: RBC Wealth Management, Bloomberg, Optuma

Cycle momentum

- Remains positive above the zero axis with a decline below the zero axis needed to signal the overall uptrend is reversing. We see no evidence of a reversal at this time.

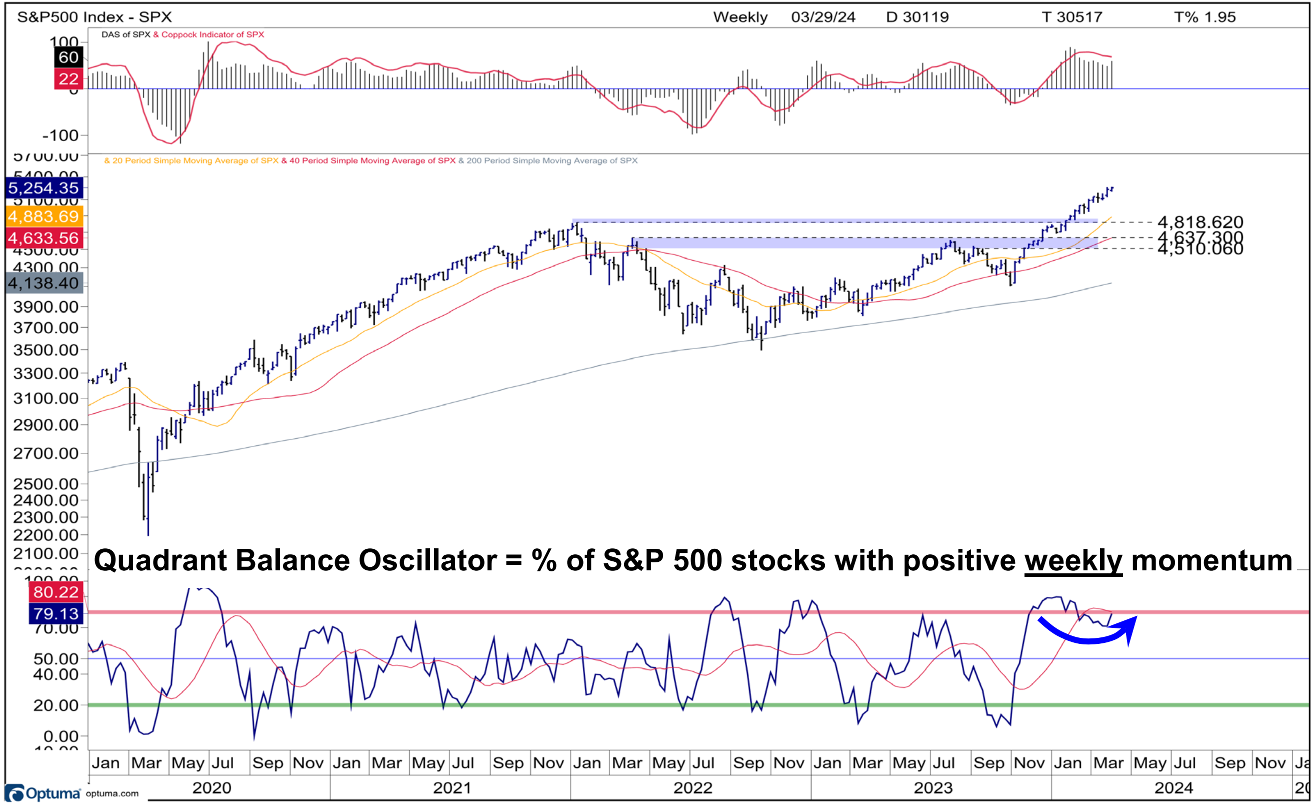
Uptrend intact

- Next major Fibonacci resistance is at 5638 followed by 6965.
- Support: 4818, then 4584.

What would change our positive view?

- A break below support near 4-year moving average, currently at 4108, would be needed to confirm the **cycle** is failing.

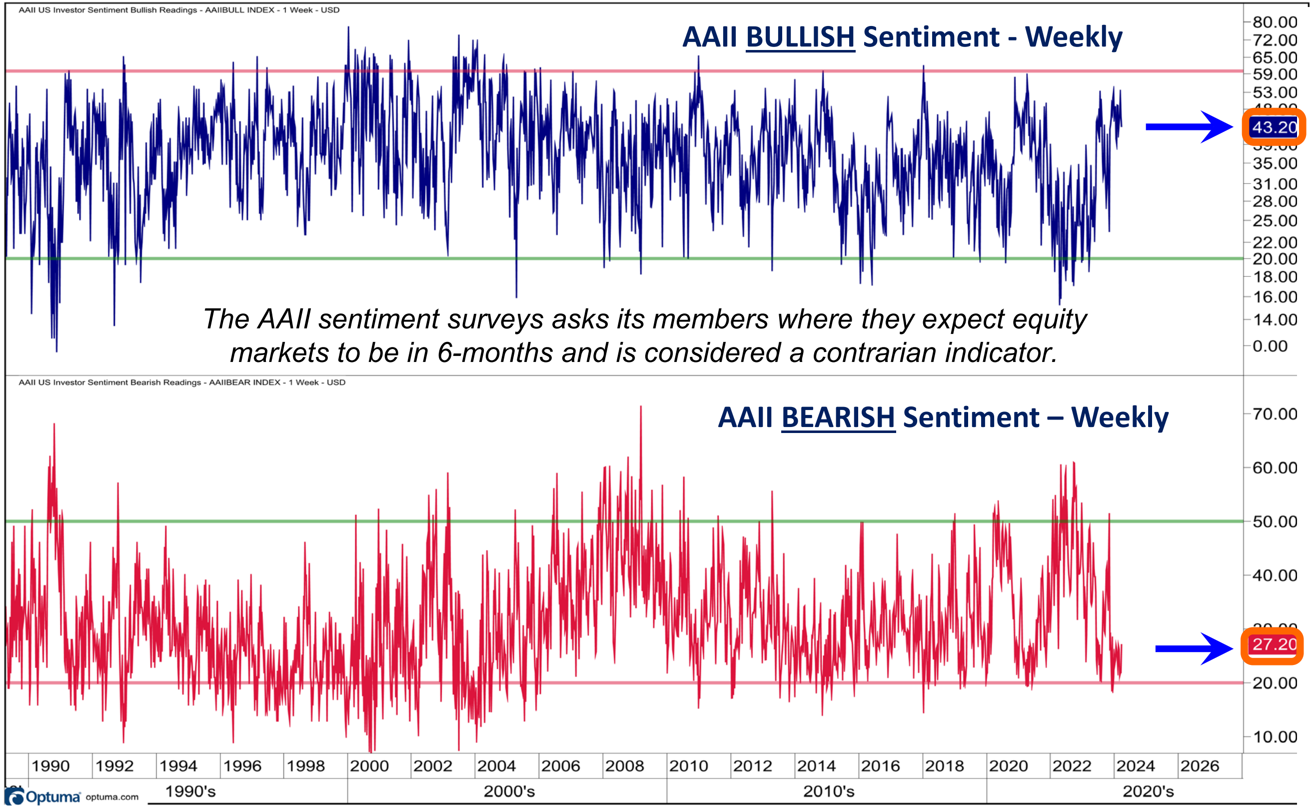
S&P 500 with weekly Quadrant Balance momentum



Source: RBC Wealth Management, Bloomberg, Optuma

- Weekly momentum indicators, tracking 2-4+ month swings, peaked in early-mid Q1 highlighting a growing number of stocks pausing, such as regional banks and small-caps while other stocks, such as technology and growth stocks, pulled back.
- Despite some sector rotation from leaders to laggards, such as energy, the overall uptrend for the S&P remains intact with support at 4818.

AAII US Bullish and Bearish Sentiment



Source: RBC Wealth Management, Bloomberg, Optuma

Sentiment surveys are contrarian indicators.

- Bullish sentiment is elevated…
- …while bearish sentiment is low.
- We view this data to be supportive of a pause/ pullback in Q2.

S&P/TSX Composite – Monthly

- The TSX successfully tested and rallied from support coinciding with the 4-year ma and the uptrend line that began in 1977.
- Our view is that the TSX has completed a secondary cycle low with potential to break out above key resistance at 22,217 in 1H 2024 with 24,884 the next key resistance level.
- Relative performance remains flat to weak versus the S&P and would need to push above the 2020-2022 highs to support overweighting the TSX vs the S&P 500.

Source: RBC Wealth Management, Bloomberg, Optuma

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

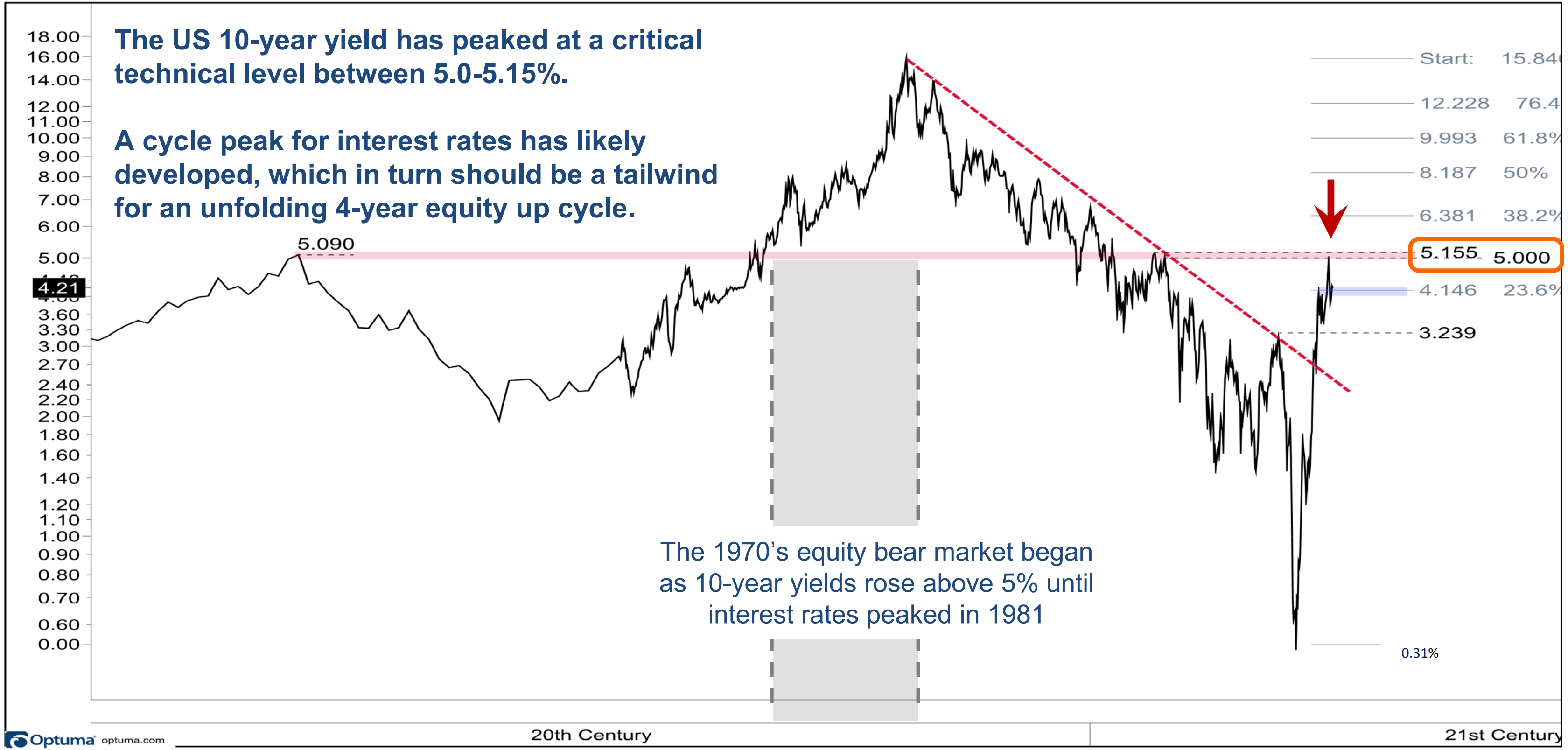
Source: RBC Wealth Management, Bloomberg, Optuma

EAFE (Europe, Asia and Far East)

- EAFE is improving from its Q4 2023 lows rallying above 2227 to challenge its next key resistance level that has been in place since 2008.
- While a near-term pause is likely we expect further upside in 2024 consistent with our positive outlook for the 4-year cycle.

- Overall, we expect the long-term price profile for EAFE to break out of its 2008-2024 trading range in 2024 but ***relative performance versus the S&P 500 remains in a downtrend with no meaningful change in trend developing to support overweighting EAFE.***

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



Source: RBC Wealth Management, Bloomberg, Optuma

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly momentum is showing evidence of bottoming.
- Similar to the US 10-year yield, we view the dollar to have established a cycle peak in 2022 and likely to remain sideways to negative over the coming year albeit with plenty of volatility
- Support remains near the recent lows between 98.7-100.8 with next major support between 93.7-88.7 coinciding with the 50-62% retracement bands.

Canadian Dollar/US Dollar – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly cycle momentum continues to build positively from oversold levels in 2022-2023 reinforcing our view that the Canadian dollar is in a bottoming pattern.
- Overall the price behavior of the Canadian dollar continues to track that of a cycle low completing above 0.715 support with next key resistance between 0.76-0.77 followed by 0.83-0.84.

WTI Oil Future – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly cycle momentum remains positive as WTI shows evidence of bottoming in the low 70s.
- WTI Oil has rallied back from support in the low 70s with resistance near 93-94.
- Bottom line: We expect WTI to remain in a broad trading range above the mid-high 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

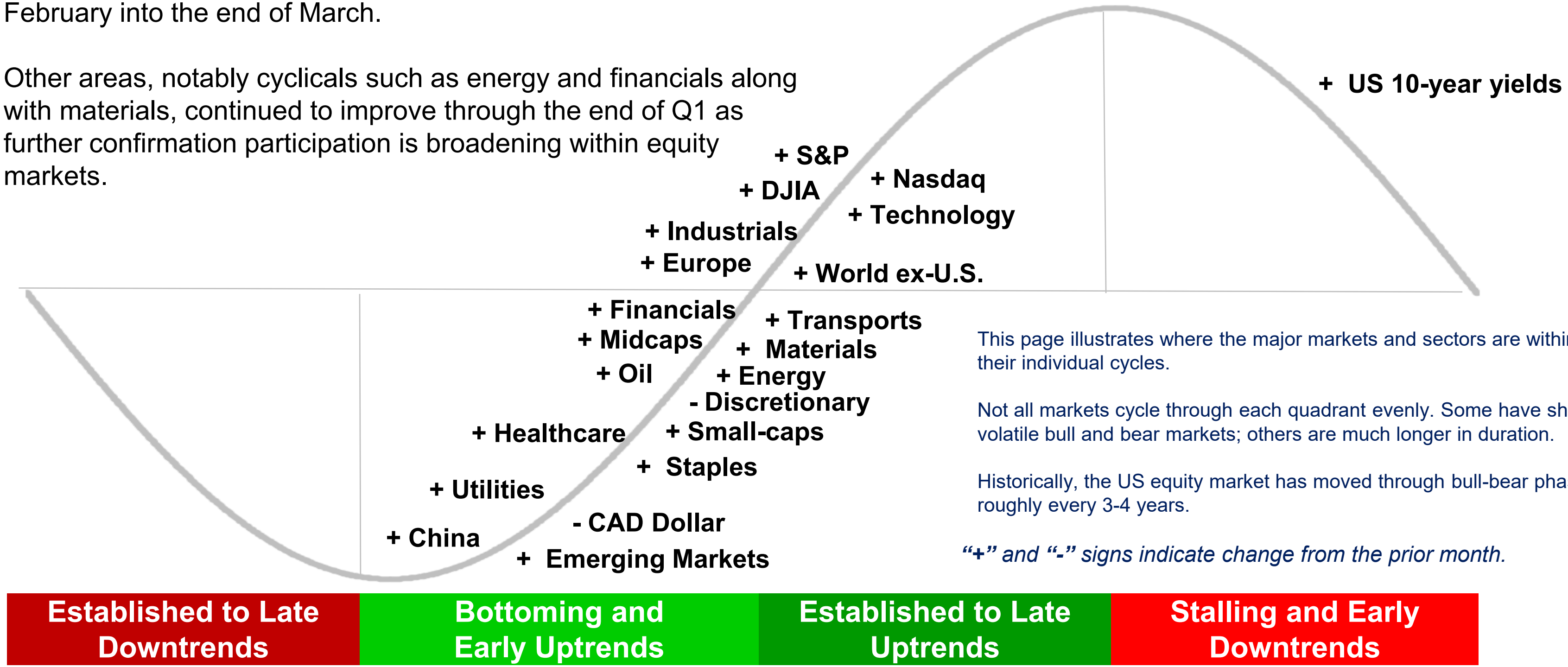
Source: RBC Wealth Management, Bloomberg, Optuma

- Gold broke above an important resistance band between 1921-2075 in Q1 2024.
- Overall, the longer-term pattern for gold remains positive with the recent move above 2075 setting the stage for a challenge of the next key resistance level near 2359 coinciding with the 162% Fibonacci extension of the 2021-2023 trading range.
- Gold would need to break below 1800 (which we do not expect) to suggest the bigger positive pattern is failing.

Major markets and S&P sector cycles

- Technology and growth stock uptrends remain intact but their relative leadership incrementally lagged the S&P 500 through mid-February into the end of March.

- Other areas, notably cyclicals such as energy and financials along with materials, continued to improve through the end of Q1 as further confirmation participation is broadening within equity markets.



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.

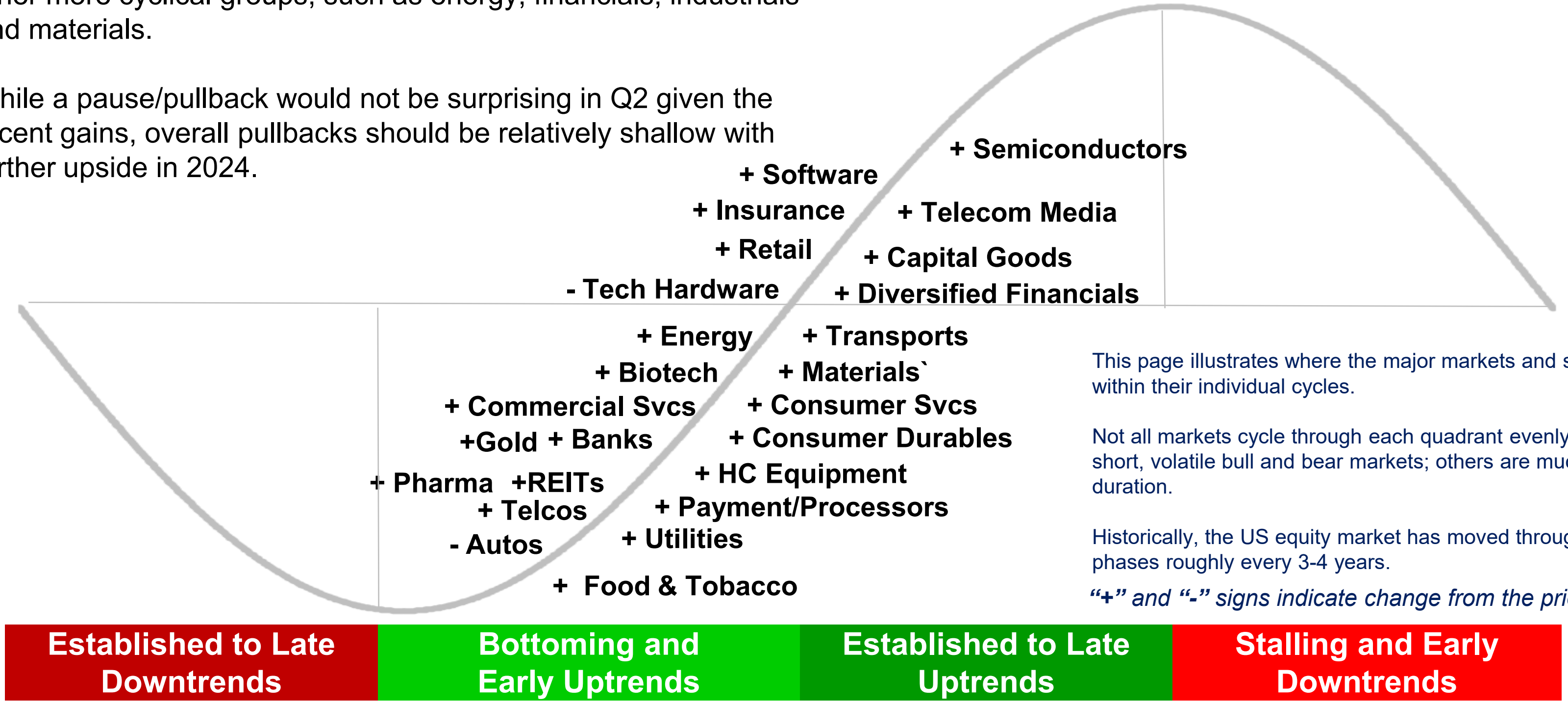
"+" and "-" signs indicate change from the prior month.

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- As noted on the prior page, leadership in technology began to lag in mid-Q1 through quarter-end as participation continued to broaden to other more cyclical groups, such as energy, financials, industrials and materials.

- While a pause/pullback would not be surprising in Q2 given the recent gains, overall pullbacks should be relatively shallow with further upside in 2024.



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