Trend & Cycle: The Long View – November 2024

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All values in U.S. dollars and priced as of market close on November 1, 2024, unless otherwise noted

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RBC Wealth Management

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Structural/secular trend and cycle

- The long-term structural 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 14,000. We fully appreciate that many investors will view this outlook as overly optimistic, but the annual compound growth rate is effectively in line with historical returns in the 7-8% range not including dividends.

4-year cycle – Where are we now?

- Structural uptrends consist of smaller 3-4+ year cycles that regularly pull back to trend which is defined by a rising 4-year/200-week moving average. The current equity bull cycle, that bottomed in Q4 2022 for the S&P and Nasdaq, remains intact with breadth broadening to other markets, such as mid- and small-caps, along with the TSX, EAFE, Europe and emerging markets, that began to participate in Q4 2023 as interest rates peaked. Lastly, China and Hong Kong's stock markets are likely establishing their final cycle lows moving into Q4 as an indication that the last of the major global economies is beginning to bottom.
- While the trend for equity markets remains positive, we are monitoring monthly momentum indicators tracking these 3-4 year cycles given they are well advanced and at risk of peaking in the coming quarters. While a downturn in these indicators would be a yellow flag, we caution investors from turning prematurely bearish. Why? Momentum indicators tend to be better indicators of market bottoms, as they were in Q4 2022, but they can often begin to flat line and flip flop during strong trending markets. Put differently, while momentum indicators are showing signs of peaking, we have yet to see a meaningful deterioration in the three important measures of a market's trend, notably underlying price trend, relative performance of stocks vs bonds and breadth/participation as measured by the cumulative advance-decline line.

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

- In addition to the volatility associated with the US election, we believe interest rates, inflation, geopolitics, corporate earnings and the US government's funding needs will remain areas of concern into Q1. From a technical perspective, equity markets are pulling back but a break below the summer lows will be needed to suggest the current volatility is damaging the underlying equity market trend. This is particularly important for technology and growth stocks which have been primary drivers of the current market cycle that began in Q4 2022.

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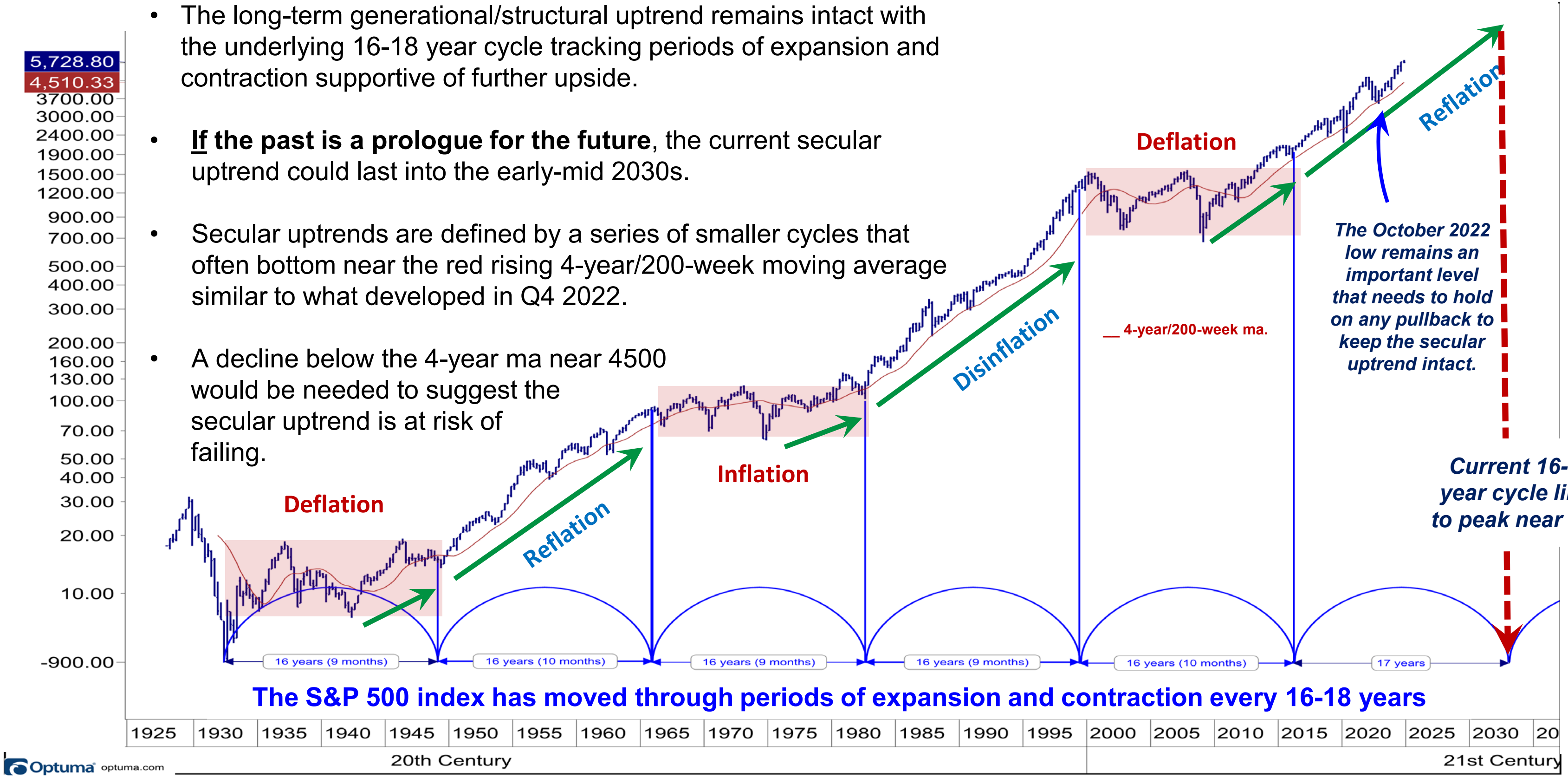
- **Interest rates** – We view the US 10-year yield to have established a cycle peak at 5% in Q4 2023 with a downtrend in place defined by a lower high at 4.7% in April 2024 and a lower low in September 2024 at 3.6%. Tactically, the US 10-year yield rebounded from intermediate-term oversold levels in September with the recent rebound testing important technical levels between 4.3-4.5% which coincides with the downtrend that began in Q4 2023. 4.7-5% remains an important technical level given a move above that level would likely signal inflation is again becoming a concern for bond investors, which we expect would become a major headwind for equities and significant risk to the equity cycle that began in Q4 2022.
- **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 the bounce underway for the US 10-year yield. While our expectation is for the dollar rebound to be relatively short lived, a move above 107 would likely become a significant headwind for equities. In contrast, the Canadian dollar remains in a broad trading range that is challenging a critical support level at 0.715, with a break below that level likely to see further weakness toward 0.70 and possibly 0.68.
- **Commodities** – **WTI Oil** also remains in a sideways trading range above key support in the low-mid 60s with resistance starting in the low 80s up to the low 90s. While our expectation is for oil to hold above that support band, a break below would signal weakness potentially into the low 50s. **Gold's** long-term trend remains bullish following its Q1 2024 breakout above 1900-2100 resistance. While the underlying uptrend remains intact, a pullback appears likely as gold tests its next resistance level near 2800.
- **Growth/media/technology** stocks remain in broad volatile trading range within uptrends that began in 2022. While performance has frayed as investor enthusiasm has waned, a break below the August and April lows would be needed to signal the 2022-2024 uptrends are reversing. Our expectation is for further volatile consolidation in Q4 with followed by upside into year-end/Q1.
- **Cyclicals** – After correcting through most of Q2 and Q3, financials, industrials, materials and select discretionary stocks bottomed and rallied moving in Q4. While pullbacks are developing following strong Q4 bounces we view the underlying uptrends to be intact, consistent with seasonal strength in Q4 into Q1.
- **Safety** – After rallying through Q2 into late Q3, longer-term price trends are positive but relative performance remains weak as growth and cyclical stocks rebounded and interest rates began to bounce higher. While these stocks are often an important part of a portfolio for income, yield and diversification needs, we do not expect safety sectors to outperform the broader market into Q1.

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

- The long-term generational/structural uptrend remains intact with the underlying 16-18 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 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 4500 would be needed to suggest the secular uptrend is at risk of failing.

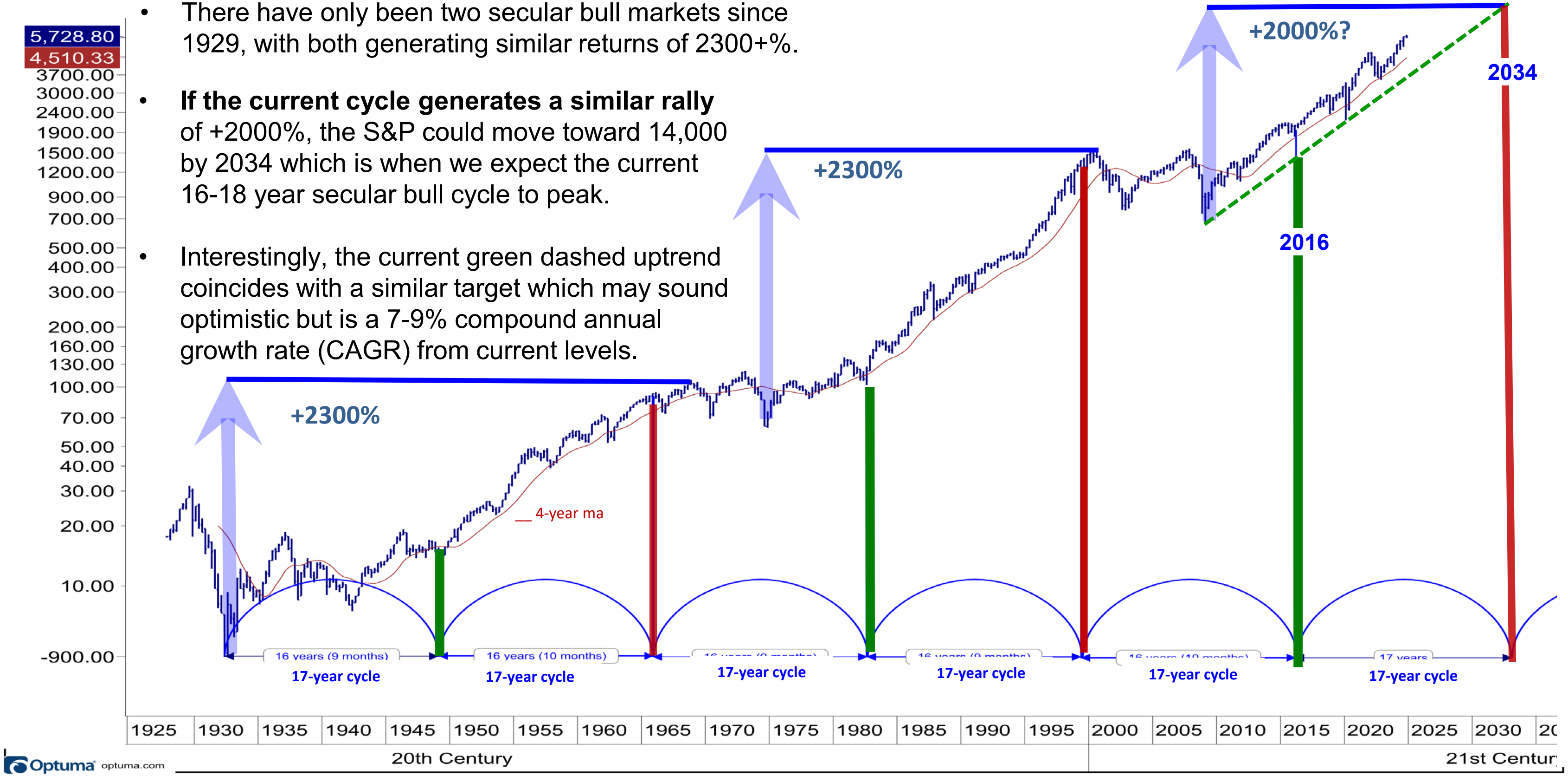


Source: RBC Wealth Management, Bloomberg, Optuma

Could the S&P rally to 14,000?

S&P ~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.



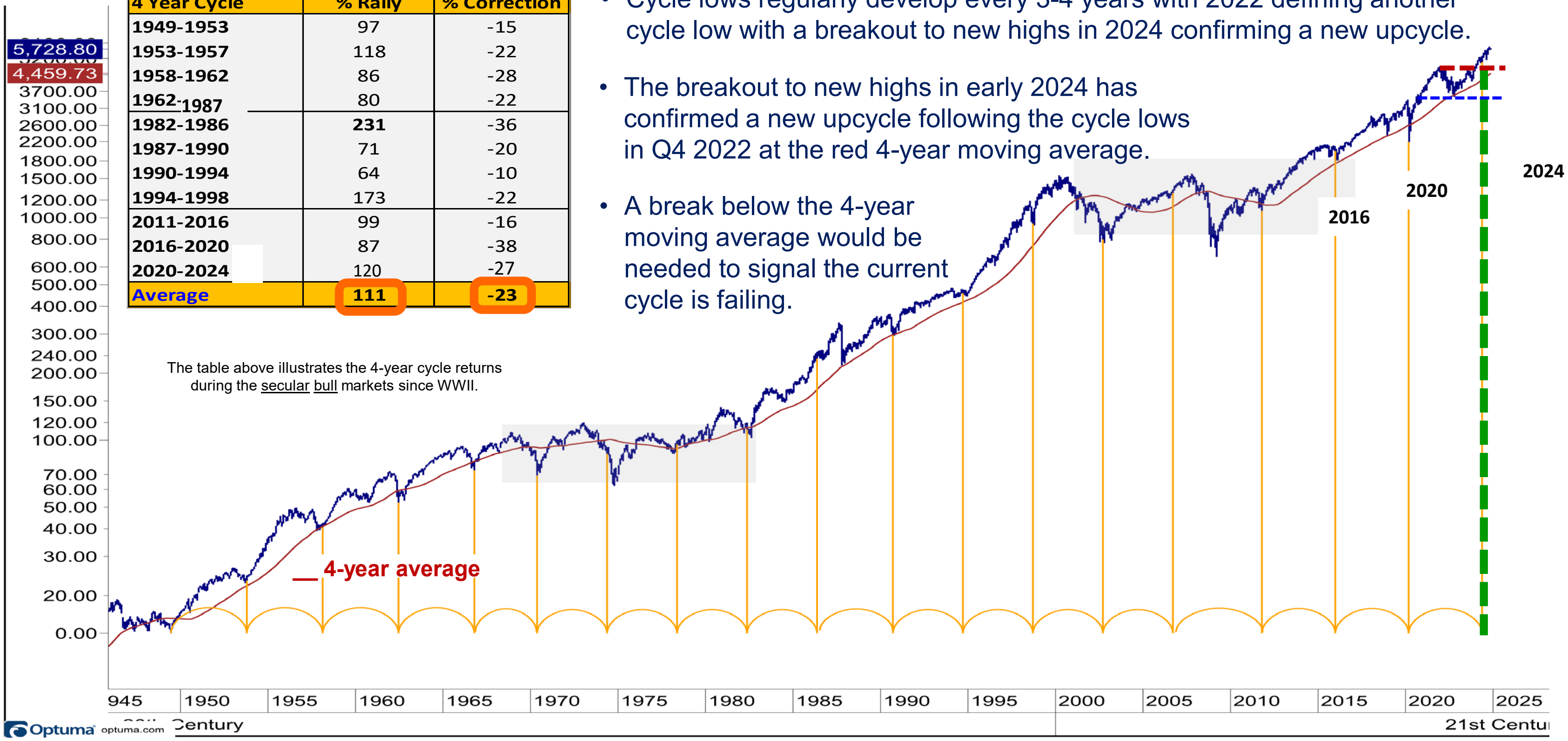
Source: RBC Wealth Management, Bloomberg, Optuma

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**

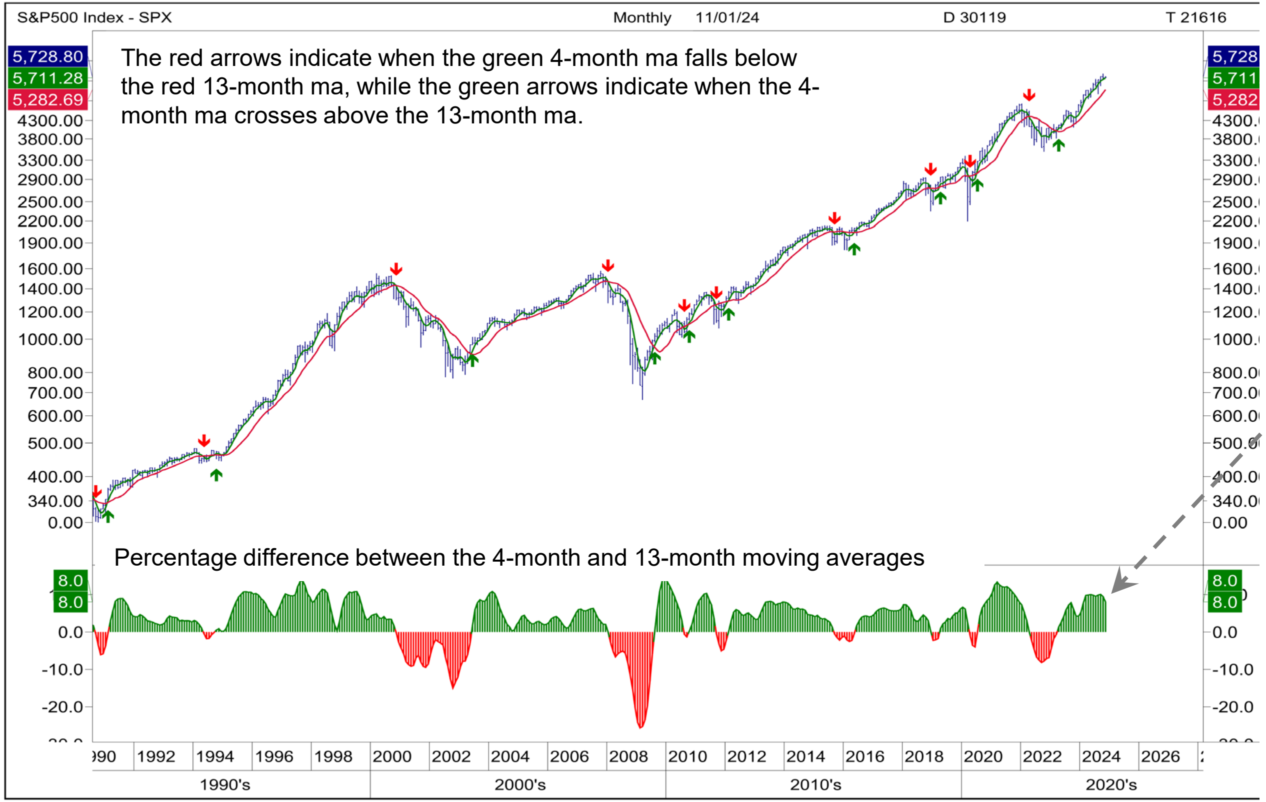
The table above illustrates the 4-year cycle returns during the secular bull markets since WWII.

- Cycle lows regularly develop every 3-4 years with 2022 defining another cycle low with a breakout to new highs in 2024 confirming a new upcycle.
- 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.



Source: RBC Wealth Management, Bloomberg, Optuma

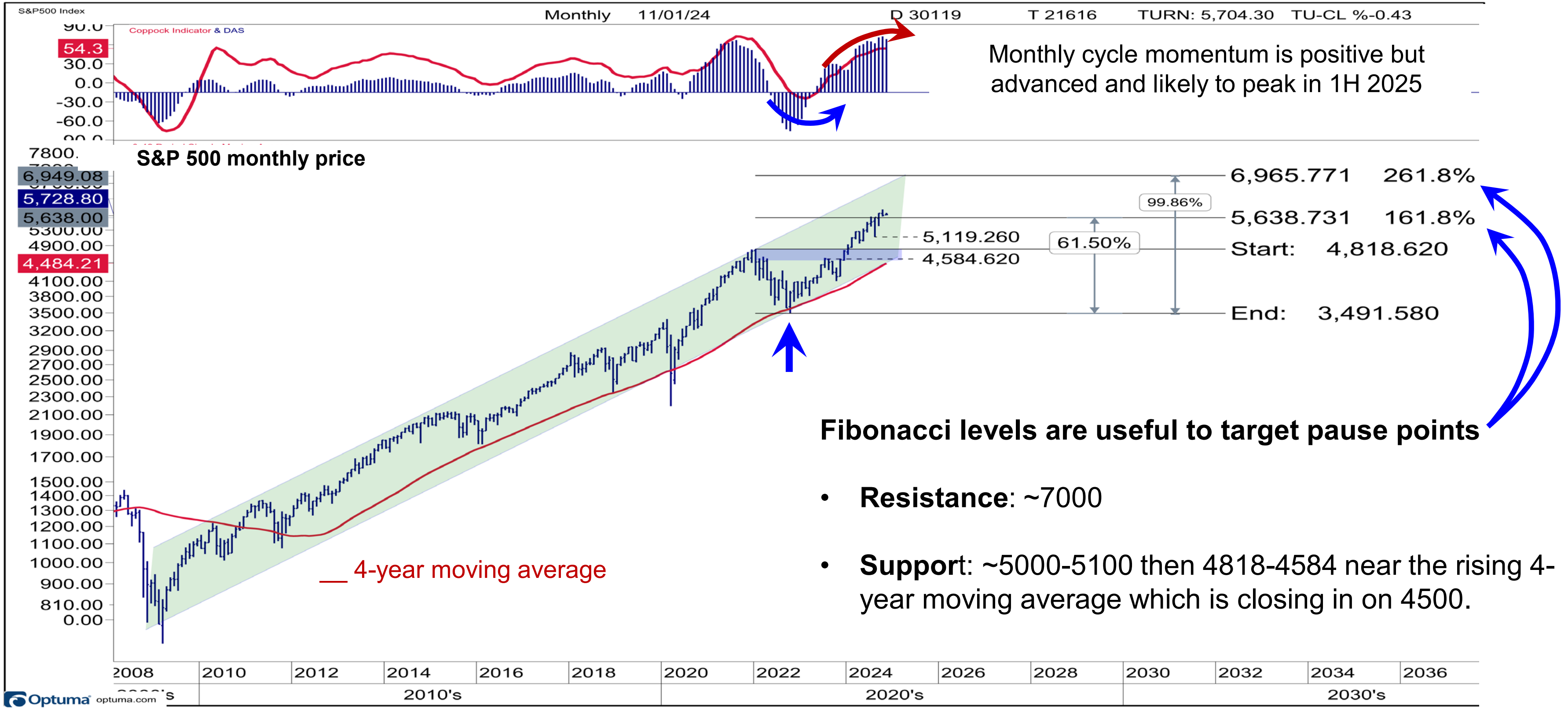
S&P 500 Index – Uptrend intact but momentum is slowing



- 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 moving average crossing above the longer-term red moving average 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 remained above its zeros in March 2023 confirming the current uptrend for the S&P 500.
- ***However, with the data in the bottom panel now advanced and showing signs of stalling/peaking, we are closely monitoring other markets for technical evidence that the current cycle is beginning to peak.***

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 – Uptrend intact with cycle momentum positive but advanced and at risk of peaking



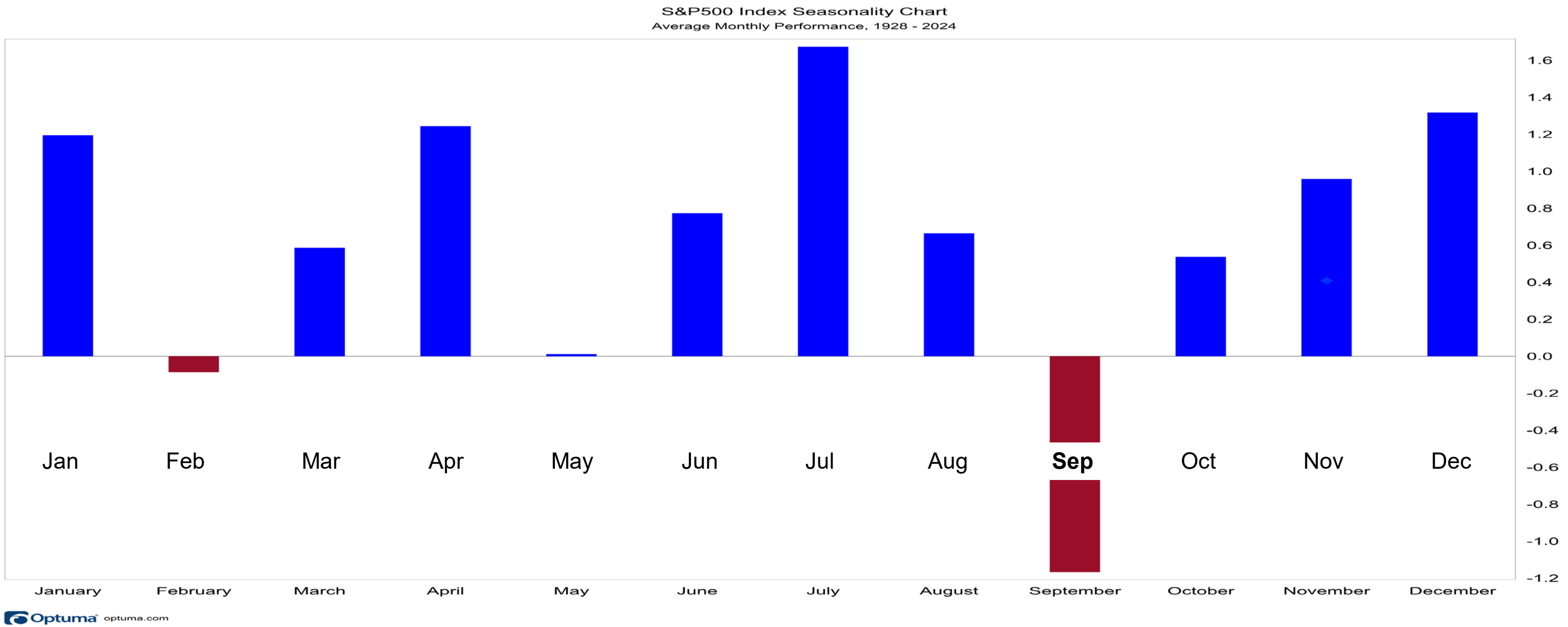
- **Resistance**: ~7000
- **Support**: ~5000-5100 then 4818-4584 near the rising 4-year moving average which is closing in on 4500.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 – Monthly Seasonality

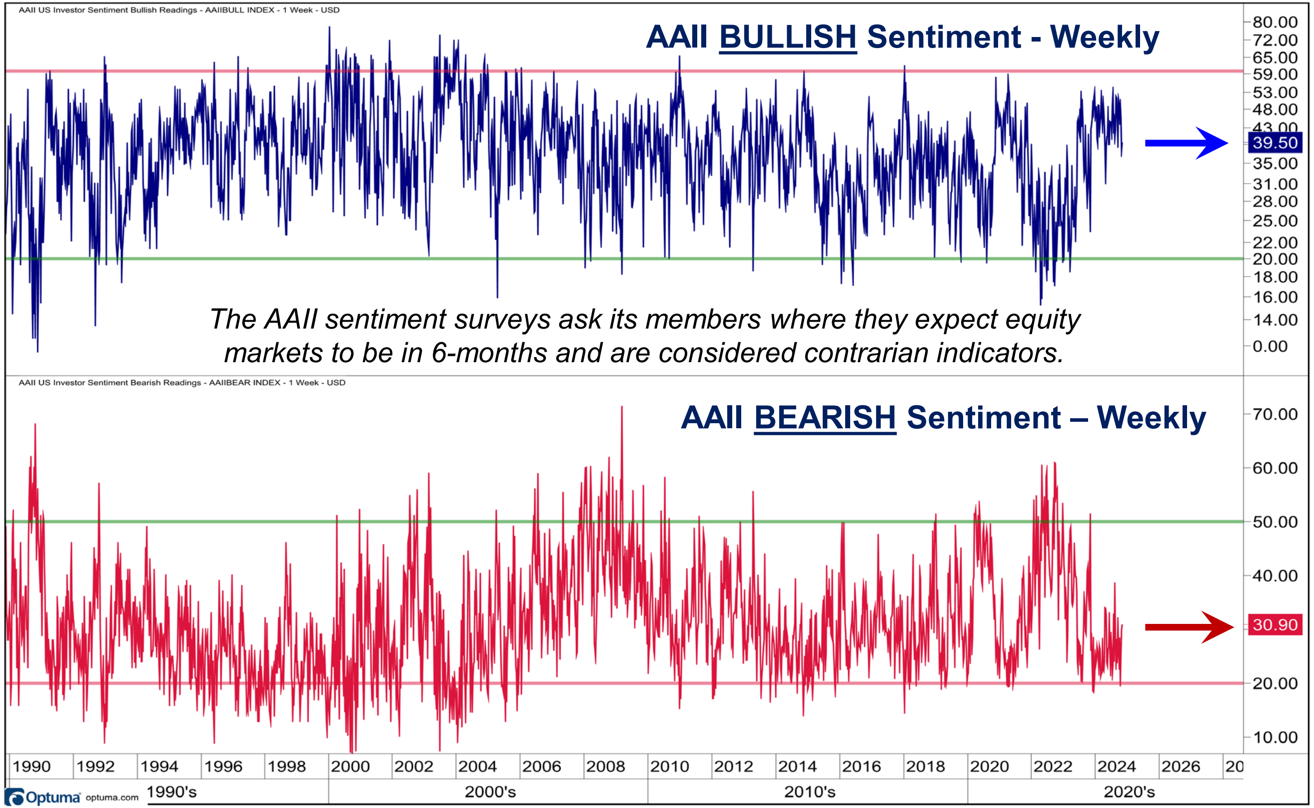
- Monthly seasonality data varies widely depending on the start date but history suggests Q4 should remain positive.

Monthly seasonality since 1928



Source: RBC Wealth Management, Bloomberg, Optuma

AAII US Bullish and Bearish Sentiment Survey – Contrary indicators – Optimism is elevated



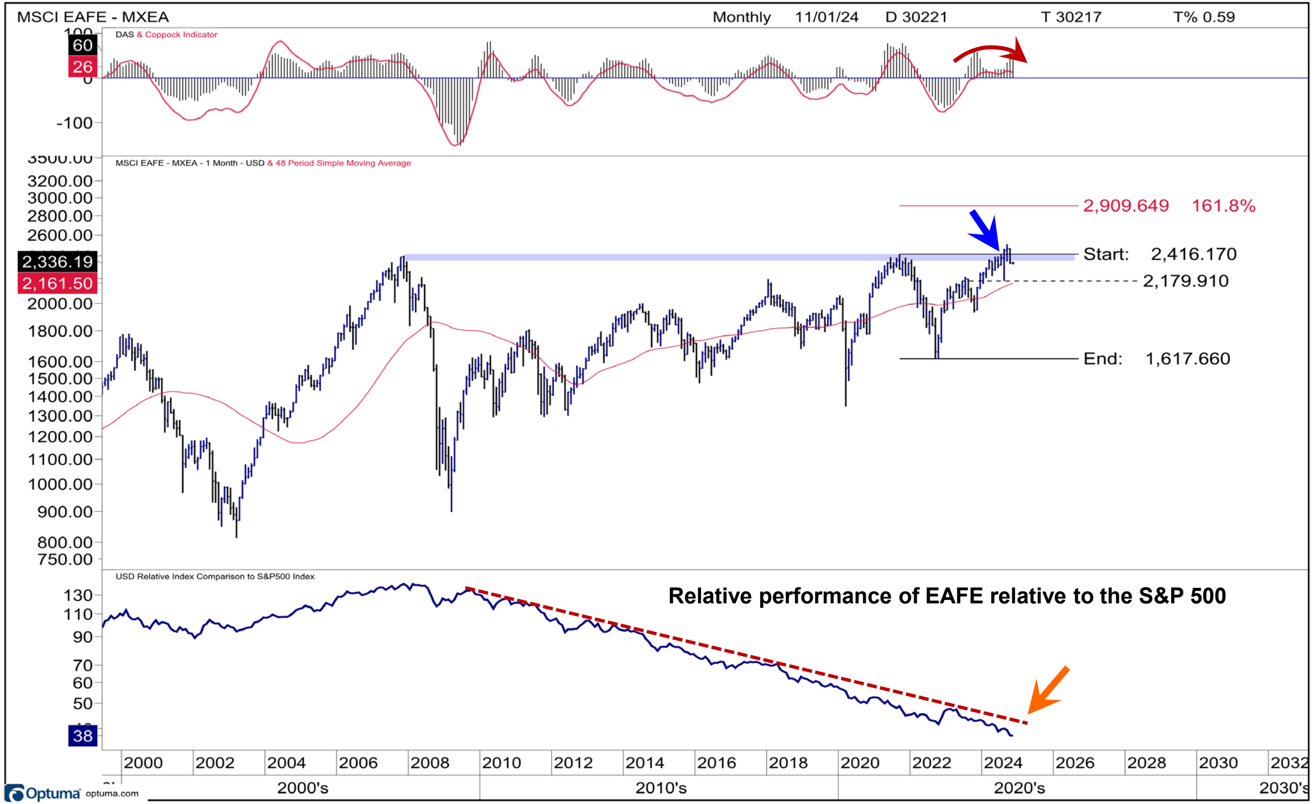
- Bullish sentiment declining moderately…

…while…

- ….bearish sentiment is rising moderately.
- Overall, a pullback would be helpful to reduce optimism/ increase pessimism that often sets the stage for additional upside.

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)

- In September the EAFE index was attempting to break out above the upper end of a trading range that has been in place since 2008 BUT has since fallen back to next major resistance near 2909 at the 162% Fibonacci extension.
- While our expectation is for the pullback to hold support at the prior lows at 2180 near the 4-year-moving average, a decline below that level would signal a failing cycle.
- Note monthly momentum is turning negative and relative performance versus the S&P 500 remains weak probing new lows.

MSCI EUROPE – Monthly – Momentum is stalling while relative performance remains weak

Source: RBC Wealth Management, Bloomberg, Optuma

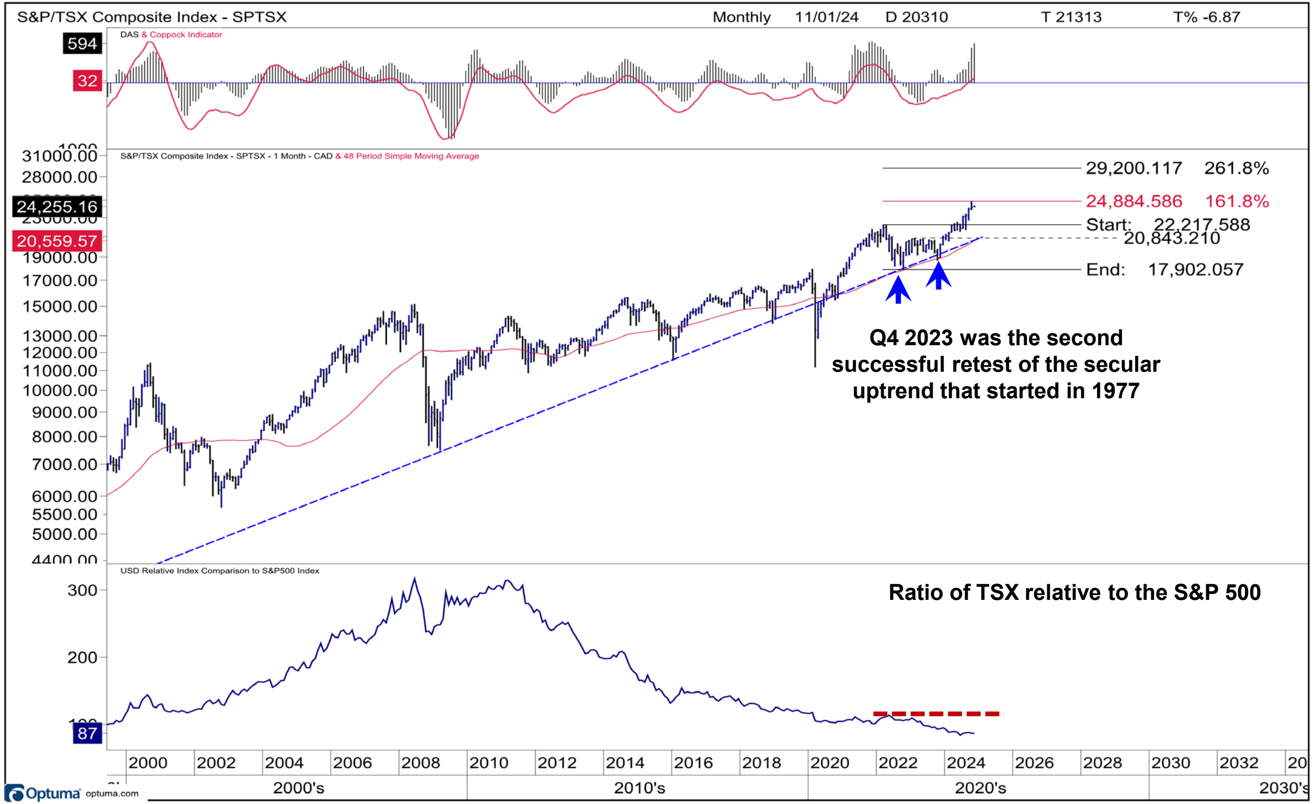
- MSCI Europe's long-term price profile remains positive, but monthly momentum has peaked after bottoming in Q4 2022 and price has stalled.
- While a pullback/pause is not surprising following the Q4 2023-Q2 2024 rally, a break below the support band between 158-164 and the rising 4-year moving average at 154 would signal a failing cycle.
- Relative performance vs the S&P 500, however, remains weak with no meaningful evidence to signal it is reversing its downtrend to support overweighting Europe.

China – Hong Kong Hang Seng HSI Index – Positive bearish to bullish reversal in place

Source: RBC Wealth Management, Bloomberg, Optuma

- The HSI has completed a cycle low surging toward next important resistance between its 50-62% retracement at 24K-26.2K.
- Tactically, a pullback/pause is underway following the initial surge in Q4 which we expect will hold at a key support band between 18.3-19.7K.
- Next resistance is near 24K followed by 26.2 K near the 50 and 62% retracement levels.
- Relative performance vs the S&P 500 has yet to reverse its 2020-2024 downtrend.
- ***While portfolio exposure to China may not be appropriate for many investors, we view the improvement as a positive indication that the world's second largest economy is likely bottoming.***

S&P/TSX Composite – Monthly – Testing next resistance with a tactical pullback taking hold



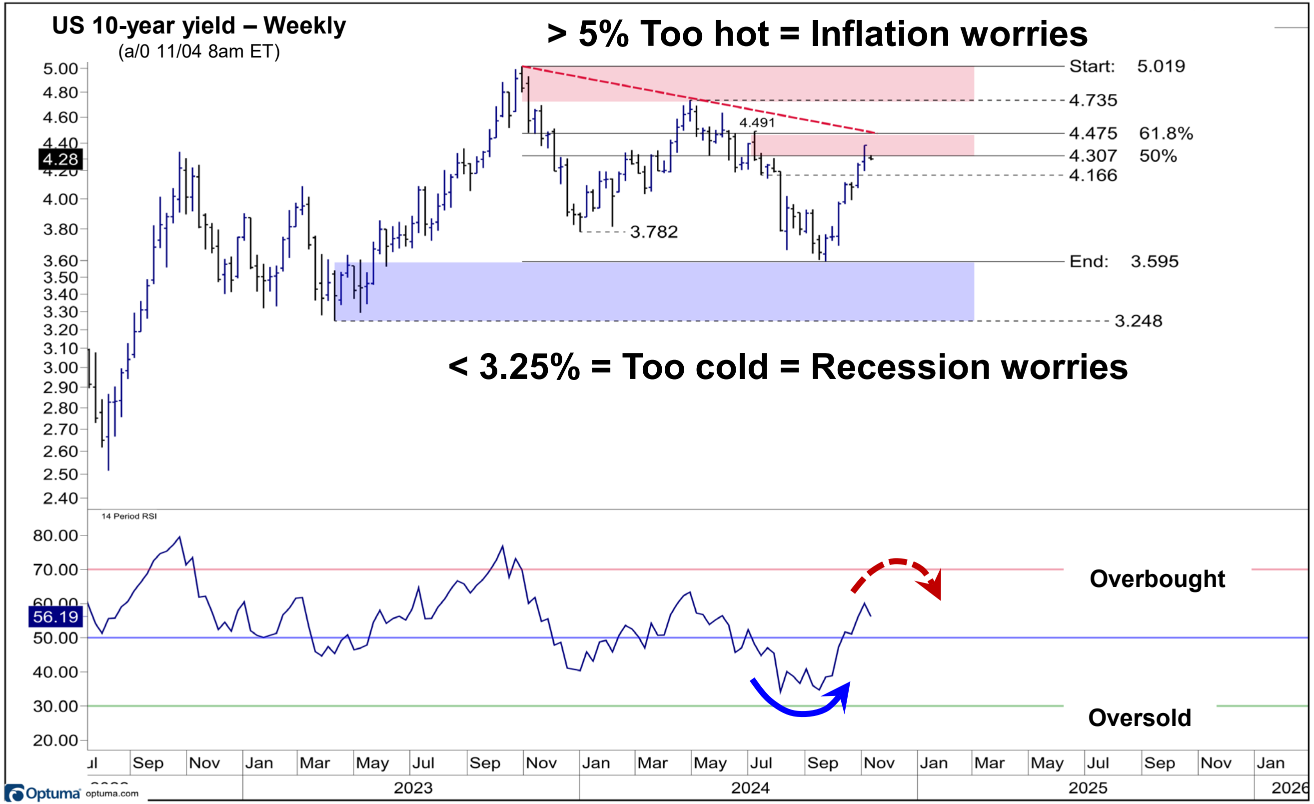
Source: RBC Wealth Management, Bloomberg, Optuma

- The long-term blue dashed uptrend for the TSX remains positive with the index testing next resistance at 24,884 coinciding with a 162% Fibonacci extension of the 2022-2024 trading range.
- While a pullback from resistance is likely taking hold, our expectation is that it will hold at or above support at the March 2022 highs near 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.

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 – Range bound for now. 3.25 with 4.7-5.00% are important technical levels.



Source: RBC Wealth Management, Bloomberg, Optuma

- The US 10-year yield remains in a downtrend defined by lower highs at 5% followed by 4.7% and lower lows at 3.8% and 3.6%.
- **However, weekly momentum (bottom panel) continues to build to the upside after bottoming at oversold levels following the September Federal Reserve interest rate cut.**
- The US 10-year yield has now pushed above our initial target of 4.16-4.3% with 4.5% followed by 4.7% next important upside levels with 5.0% a critical level.
- While we expect a peak to develop near current levels, a move above 5% would likely be a major headwind for the current equity cycle that began in Q4 2022.

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The US dollar DXY index established a major cycle peak in Q3 2022 but has held key support near 100 with a bounce from level underway.
- ***RISK: A move above 107 resistance 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 testing a critical support level at 0.715.
- Although the CADUSD is oversold short-term and likely to bounce, a break below 0.715 would likely see further downside toward 0.70 with no meaningful support below that level until the 2016-2020 lows at 0.68.

WTI Oil Future – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- WTI Oil remains in a sideways trading range under a 93-95 resistance band and above an important support band between 62-68.
- 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.
- However, a break below 61.7 would likely lead to further downside with 45-50 the next support band.
- 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.

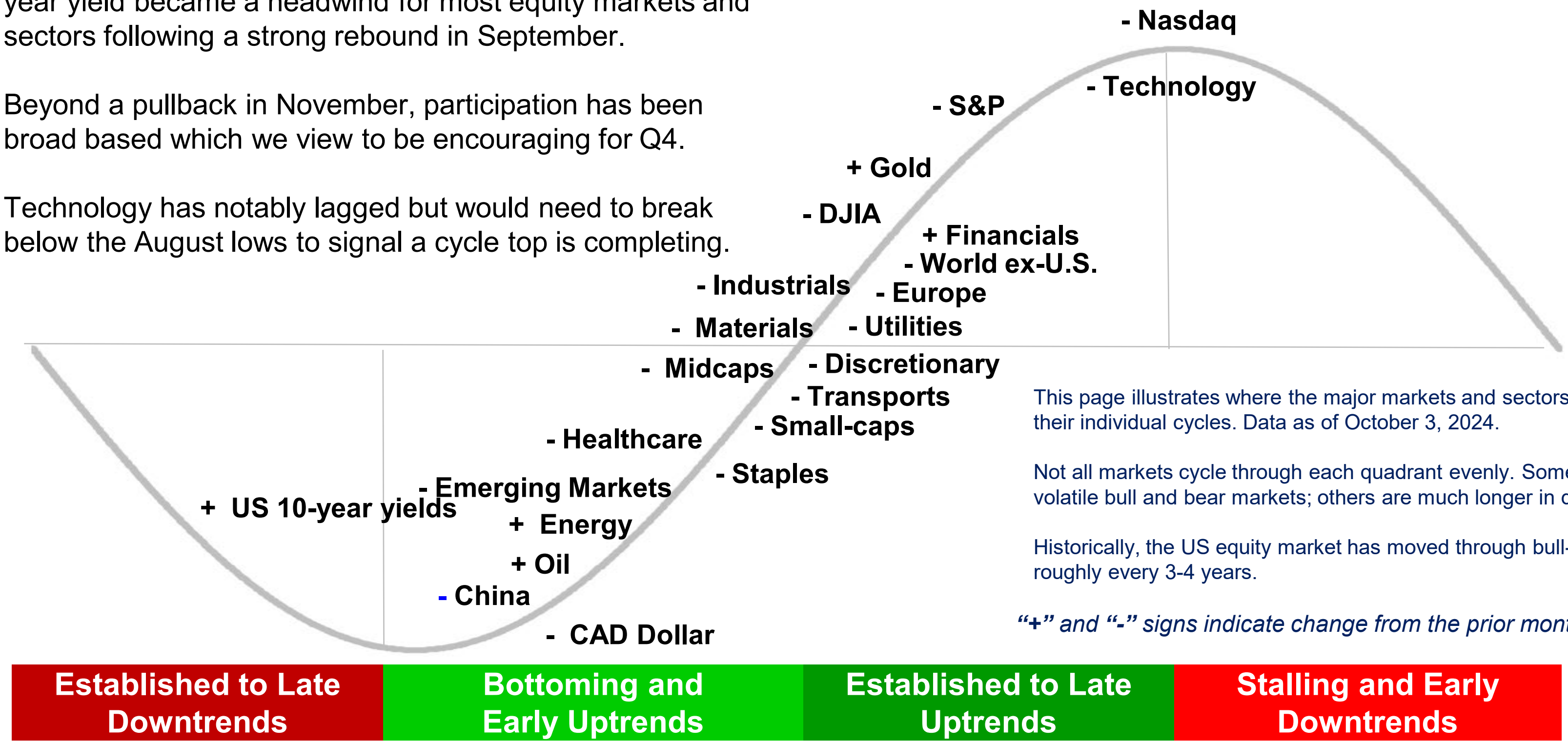
Gold – Monthly – Longer-term profile remains positive

Source: RBC Wealth Management, Bloomberg, Optuma

- Gold completed a major technical breakout above its 2011-2024 trading range in Q1 2024 and remains in bullish uptrend.
- We have illustrated two Fibonacci extension measurements with the green extensions measuring the bigger 2011-2024 trading range with 3336 the next major pause point.
- Tactically, a pullback is likely from near current levels given Gold has rallied to its next Fibonacci extension level at 2804 based on the 2020-2024 trading range.
- Our expectation is that pullbacks will be shallow with support near 2450.

Major markets and S&P sector cycles

- A rebound from oversold levels by the US dollar and US 10-year yield became a headwind for most equity markets and sectors following a strong rebound in September.
- Beyond a pullback in November, participation has been broad based which we view to be encouraging for Q4.
- Technology has notably lagged but would need to break below the August lows to signal a cycle top is completing.



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.

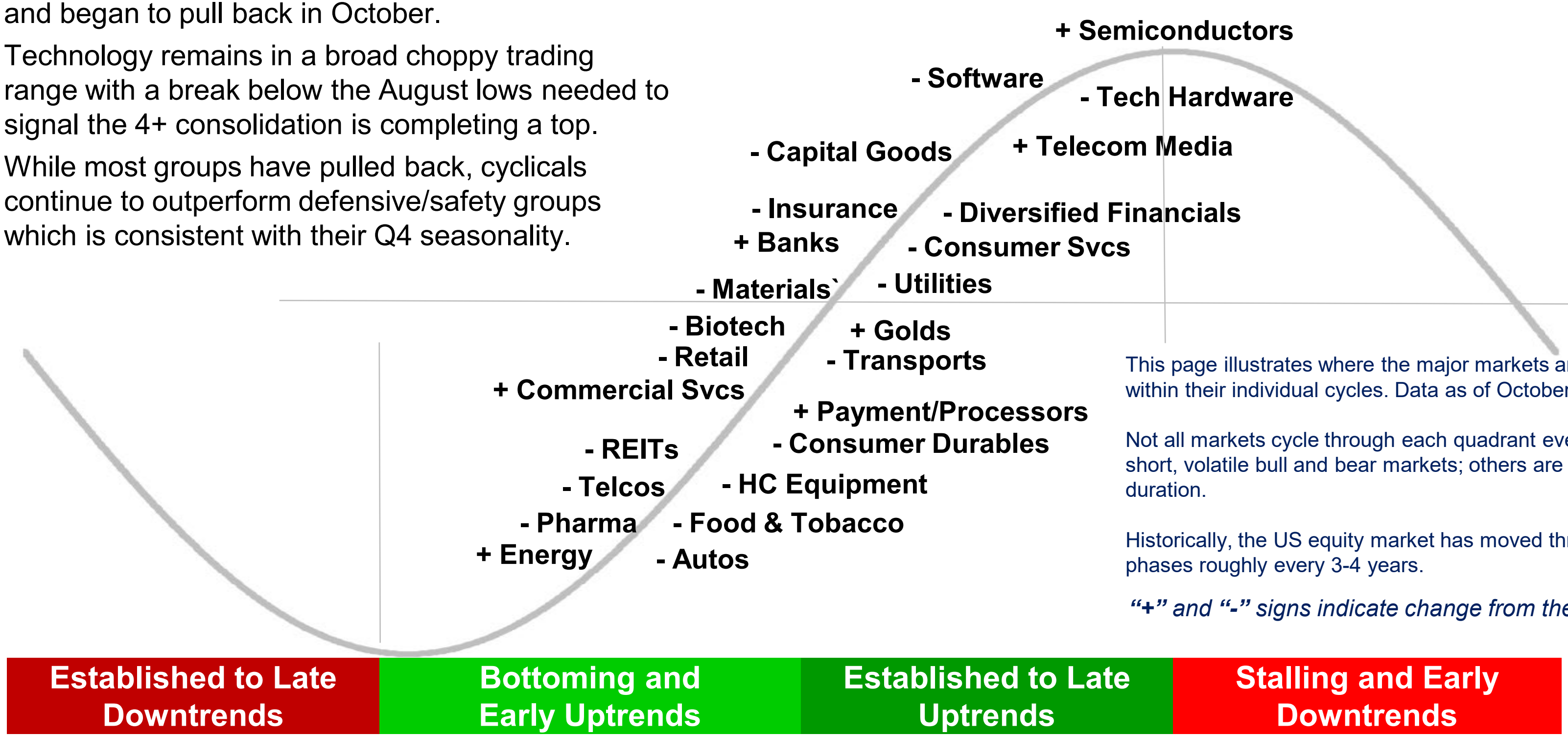
Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years.

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

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- After a strong rebound in September, notably for growth and cyclicals industries, most groups stalled and began to pull back in October.
- Technology remains in a broad choppy trading range with a break below the August lows needed to signal the 4+ consolidation is completing a top.
- While most groups have pulled back, cyclicals continue to outperform defensive/safety groups which is consistent with their Q4 seasonality.



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