Market Maps

October 2018

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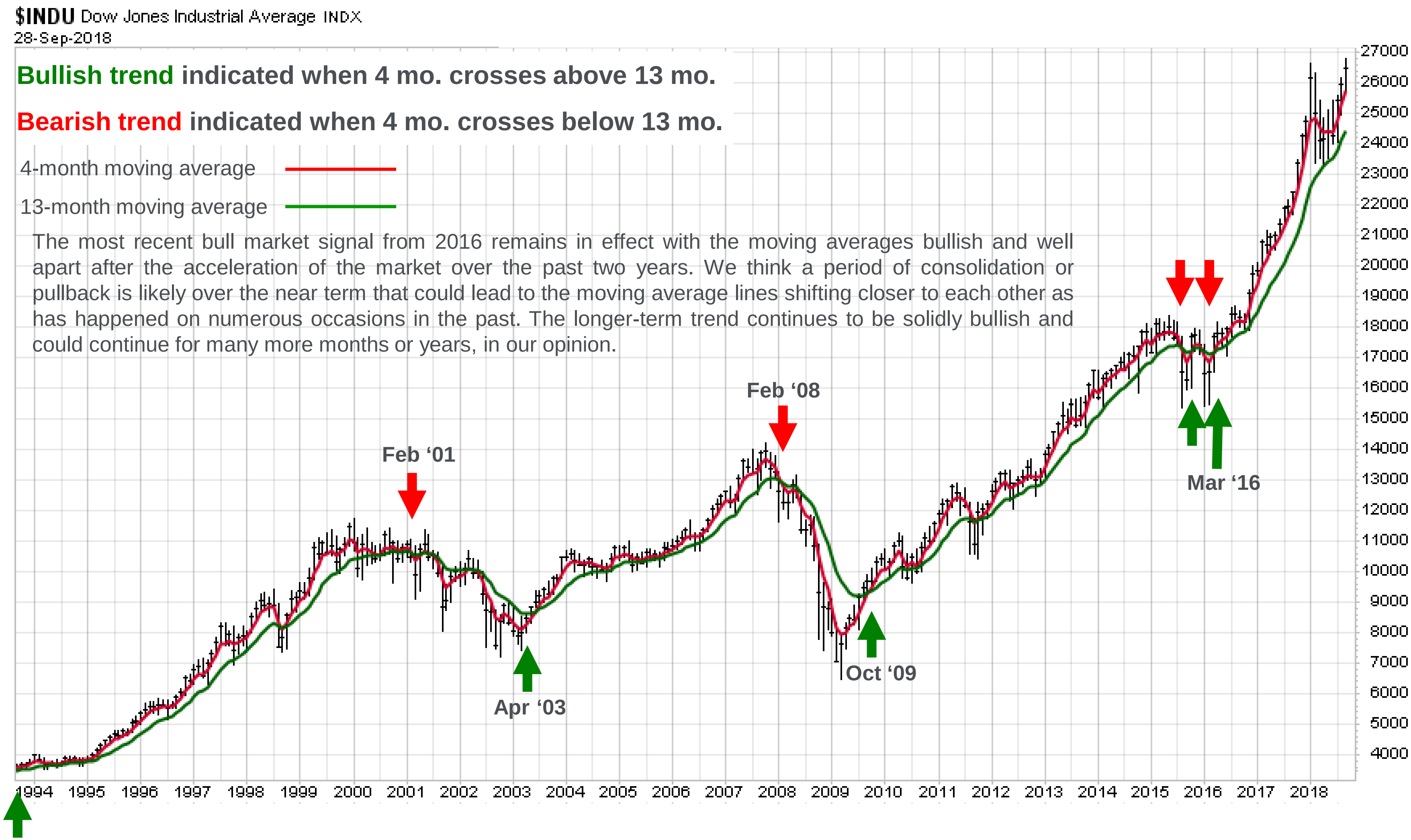
RBC Capital Markets, LLC / Portfolio Advisory Group

All values in U.S. dollars and priced as of September 28, 2018, unless otherwise noted

For Disclosures, see slide 14

DJIA with 4-month and 13-month moving averages



The most recent bull market signal from 2016 remains in effect with the moving averages bullish and well apart after the acceleration of the market over the past two years. We think a period of consolidation or pullback is likely over the near term that could lead to the moving average lines shifting closer to each other as has happened on numerous occasions in the past. The longer-term trend continues to be solidly bullish and could continue for many more months or years, in our opinion.

Chart courtesy of StockCharts.com and RBC Wealth Management

Long-term market cycles 1925–2018

The long-term cycle chart of the S&P reveals a pattern of bullish and bearish cycles that each last for 16–18 years. The bullish trends tend to build with a growing economy, corporate earnings, and investor sentiment until a more optimistic and euphoric condition develops. From there, bubbles in the market and economy are created that take many years to unwind before the next secular bull trend develops. We see the current trend as being somewhere in the middle part of a secular bull move that could take the market substantially higher in the years ahead. No two bullish or bearish trends are the same however, with many counter-trend short-term moves likely along the way.

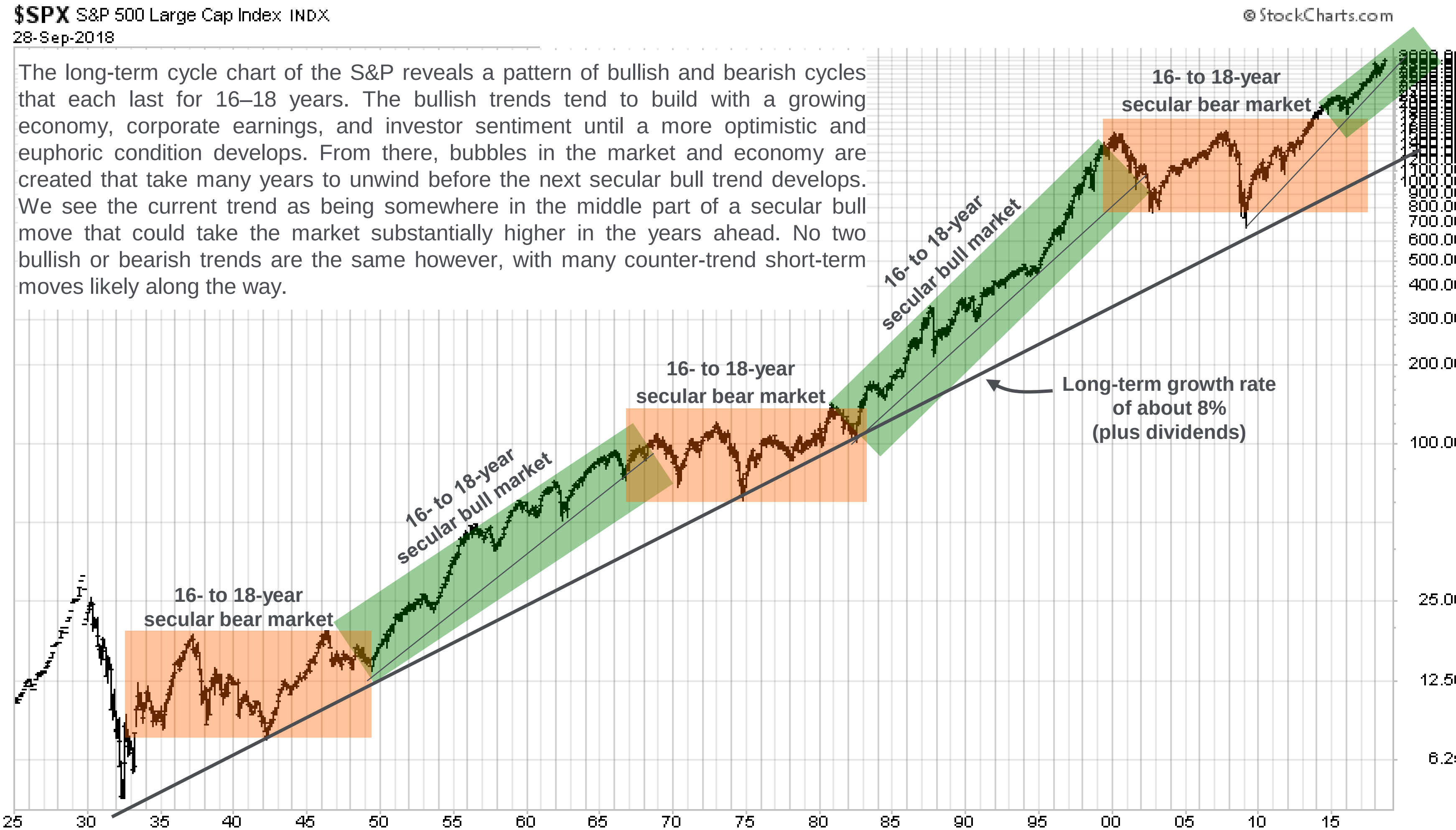


Chart courtesy of StockCharts.com and RBC Wealth Management; past performance does not guarantee future results

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Short-term market: S&P 500 – 10 years

The bull market that started from the 2009 low has a pattern of rallies and consolidation periods that have each lasted from one to two years. It appears that the S&P is entering another consolidation period, but it is still somewhat difficult to tell, as each of these more sideways periods is different in its shape. The pattern roughly follows the same cycle of corporate earnings, which have been growing throughout this period, but also in a wavy trend.

Chart courtesy of StockCharts.com and RBC Wealth Management

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Investor sentiment – 30 years

Chart courtesy of StockCharts.com and RBC Wealth Management

TSX Composite – 20 years

The TSX has been in a consolidating range of mostly 15,000–16,000 for more than a year and could continue in this same range for several more months despite the recent move to all-time highs. The longer-term trend remains potentially constructive for an eventual breakout as long as the 15,000 support level holds on any further pullbacks.

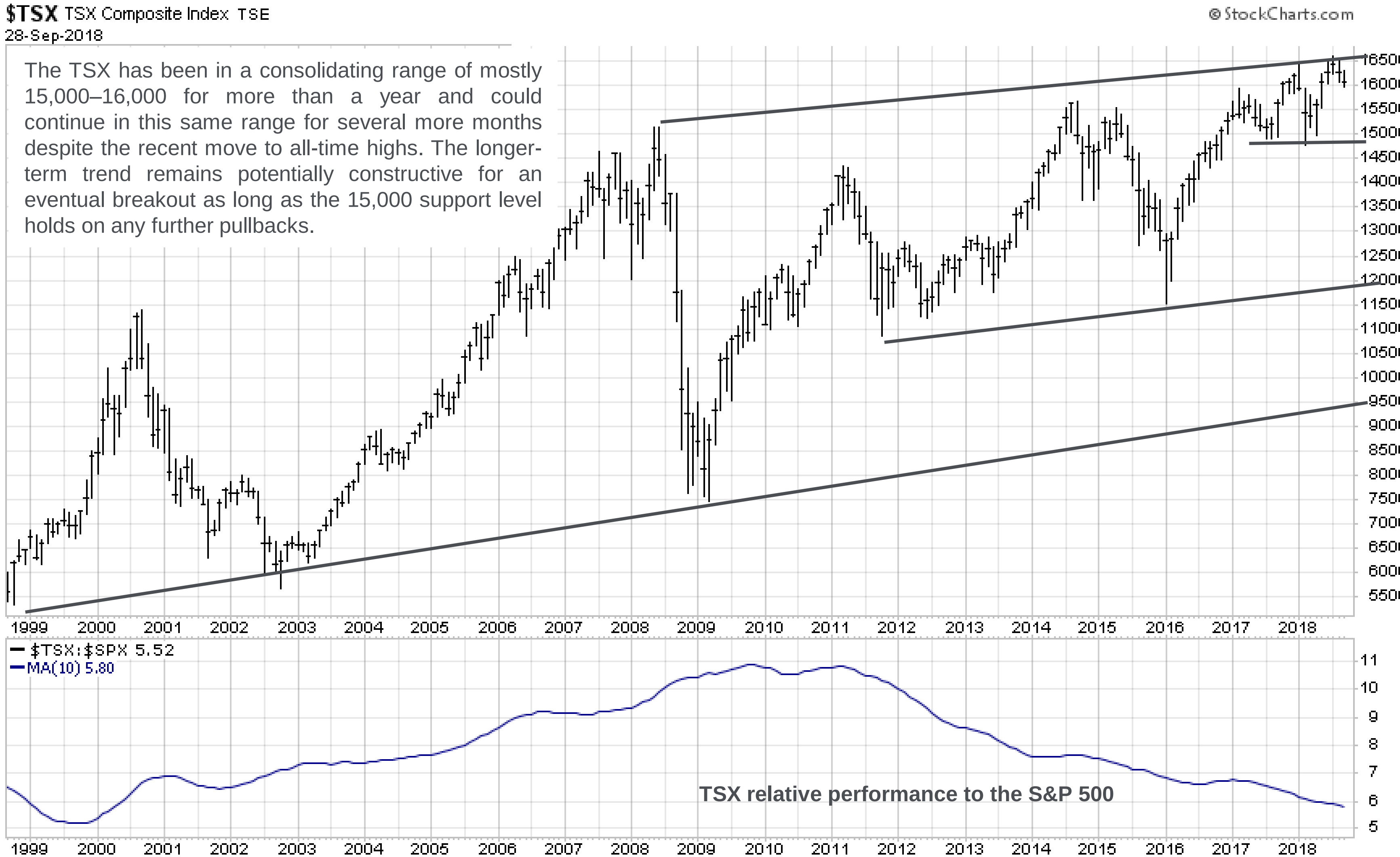

Chart courtesy of StockCharts.com and RBC Wealth Management

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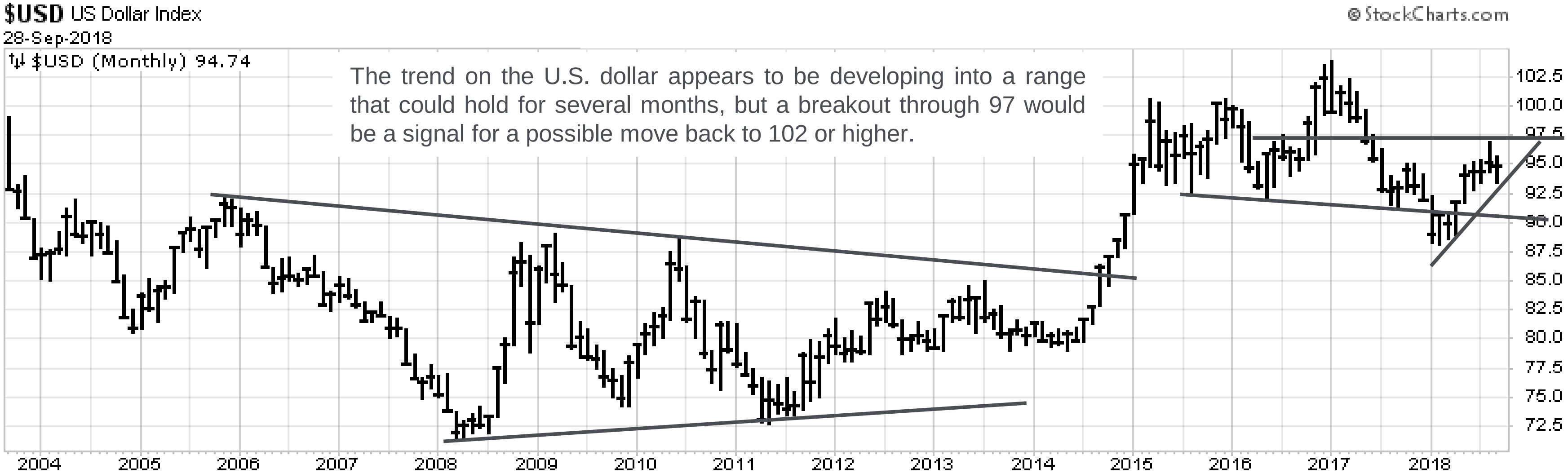
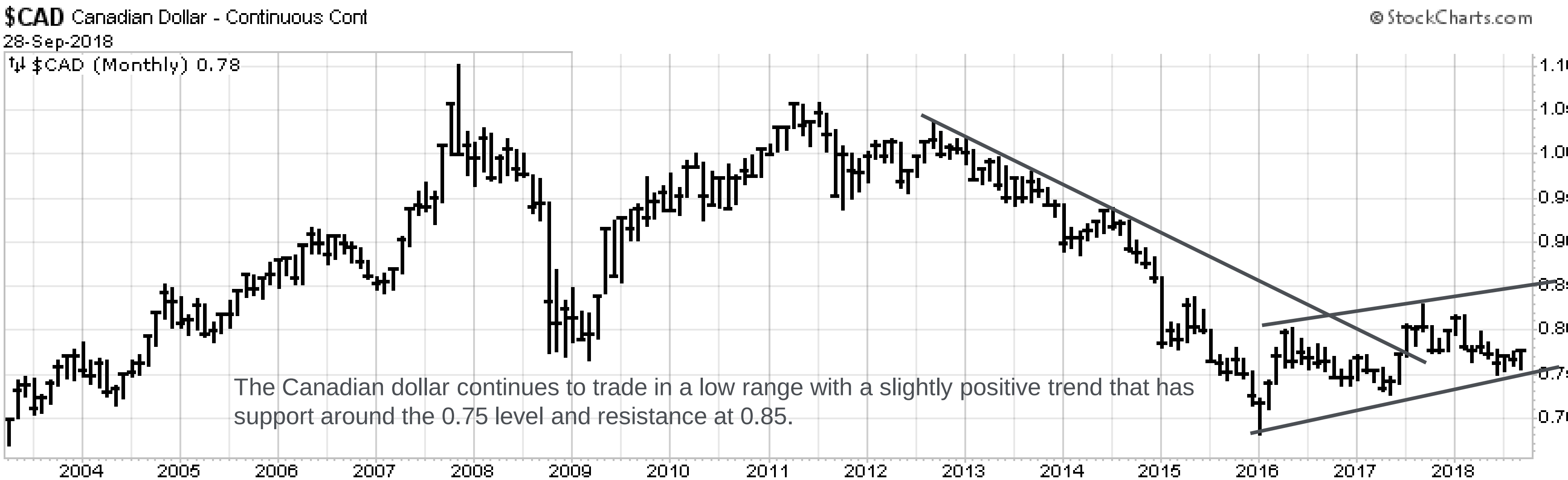
Currencies – 15-year trends





Charts courtesy of StockCharts.com and RBC Wealth Management

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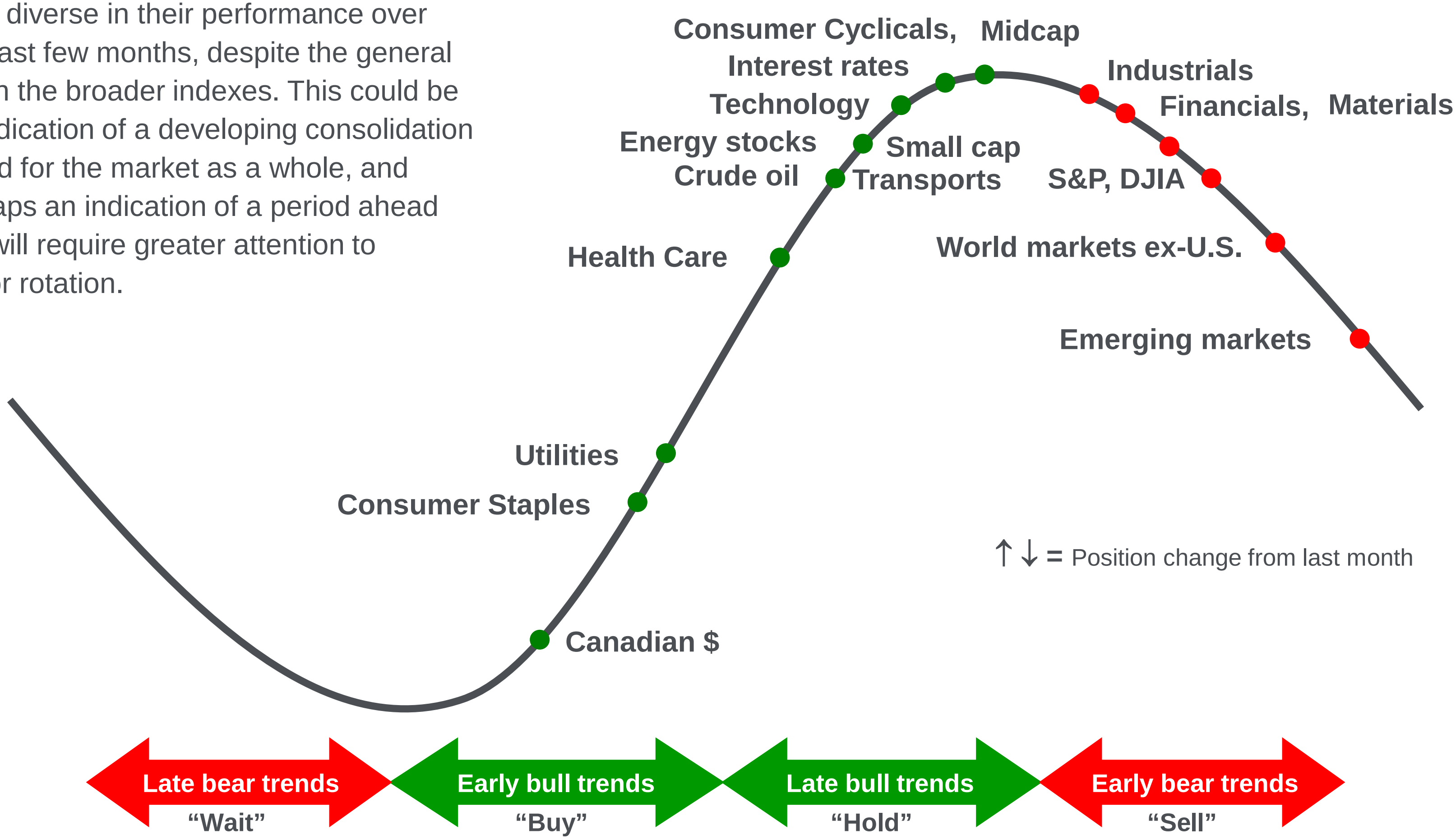
S&P sectors & market indices cycle positions

Relative positioning of major sectors within their individual cycles

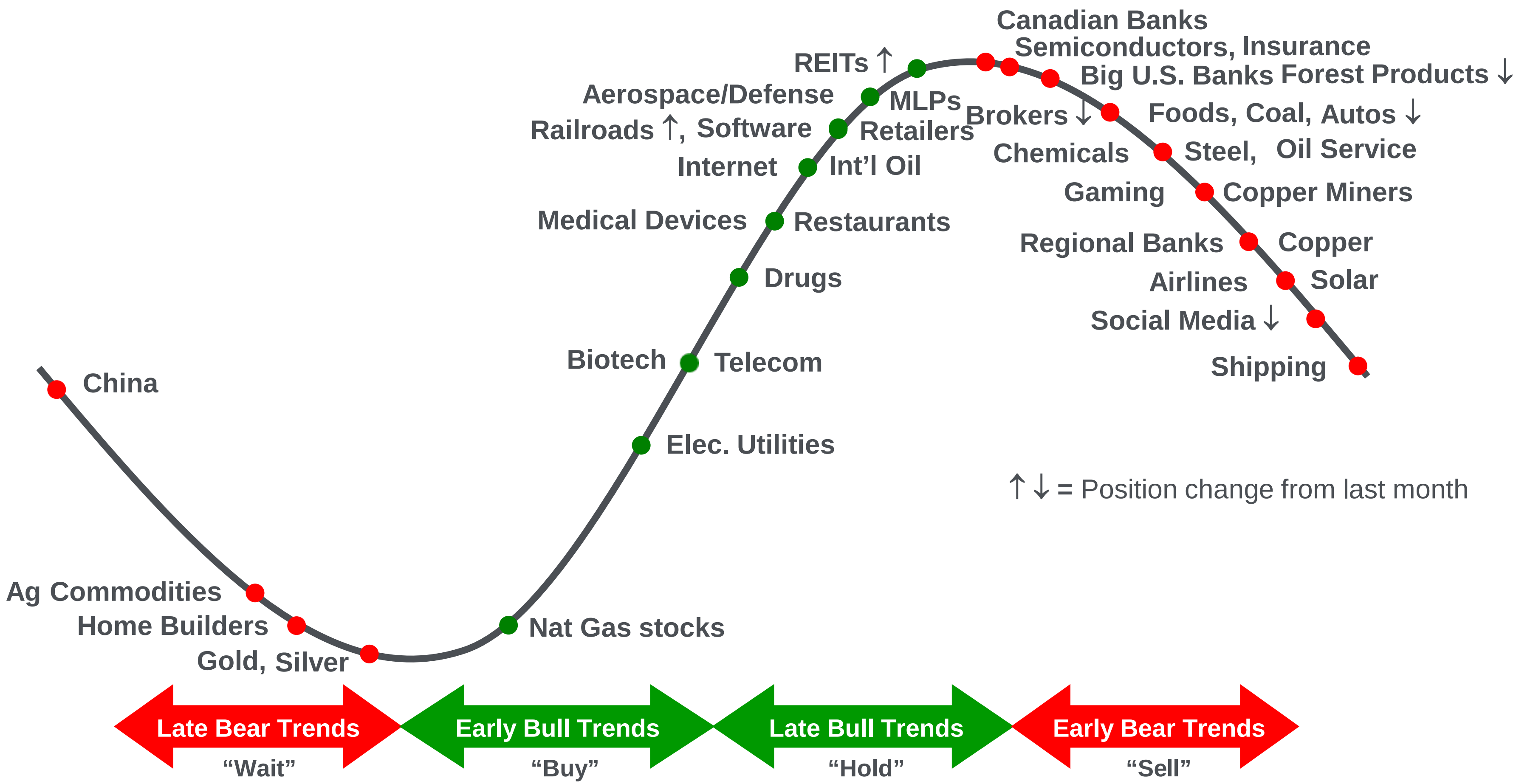
The stock sectors have become much more diverse in their performance over the past few months, despite the general rise in the broader indexes. This could be an indication of a developing consolidation period for the market as a whole, and perhaps an indication of a period ahead that will require greater attention to sector rotation.



Source - RBC Wealth Management

Select groups cycle positions

Our relative positioning of groups of interest within their individual bull and bear cycles



Source - RBC Wealth Management

Gold – 10 years

Chart courtesy of StockCharts.com and RBC Wealth Management

Oil – Eight years

Chart courtesy of StockCharts.com and RBC Wealth Management

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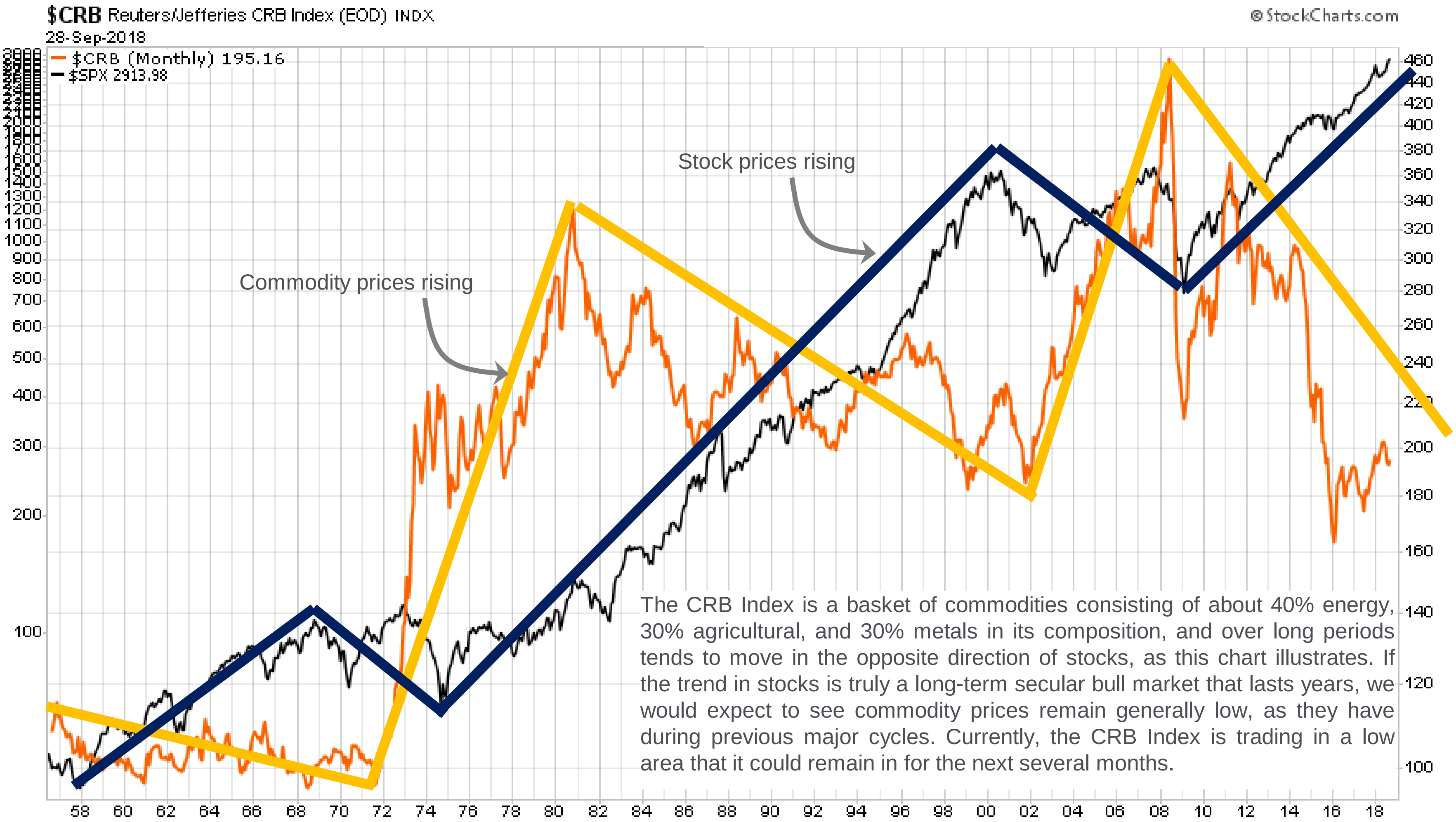
Stocks vs. commodities – 60 years



The CRB Index is a basket of commodities consisting of about 40% energy, 30% agricultural, and 30% metals in its composition, and over long periods tends to move in the opposite direction of stocks, as this chart illustrates. If the trend in stocks is truly a long-term secular bull market that lasts years, we would expect to see commodity prices remain generally low, as they have during previous major cycles. Currently, the CRB Index is trading in a low area that it could remain in for the next several months.

Chart courtesy of StockCharts.com and RBC Wealth Management

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10-year Treasury bond yield for 140 years

The yield on the 10-year Treasury bond has moved up to the resistance zone around 3.0%–3.3% at the high end of the 30-year downtrending channel. This kind of uptrend has happened several times over the years, and rather than a breakout and move to the upside, we suspect that a longer period of bottoming in a range is more likely to develop in the months ahead. Yield support below is at the 2.8% and 2.5% levels.

Chart courtesy of MultPL.com and RBC Wealth Management

Disclosures

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