Market Maps

June 2020

Bob Dickey, Technical Strategist, Portfolio Advisory Group

RBC Capital Markets, LLC / Portfolio Advisory Group
All values in U.S. dollars and priced as of May 29, 2020, unless otherwise noted

For Disclosures, see slide 14

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.

Produced: June 1, 2020 9:49ET; Disseminated: June 1, 2020 10:25ET
Short-term market: S&P 500 – 12 years

The S&P is back up into the upper half of its rising channel of the past eleven years, which makes the first support below the index now around the 2800 level. We expect the S&P to find a range in the months ahead and consider the drop in March to be a correction in the long-term bull market rather than a bear market with longer-term implications.

Chart courtesy of StockCharts.com and RBC Wealth Management; past performance does not guarantee future results.
The recent market pullback fits within the long-term secular bull trend with a pattern more similar to the drop in 1987 than other bear market periods that had much longer declines. The long-term secular bull periods can have corrections along the way that add doubt to the overall trend, but when viewed on a longer-term basis these pullback periods are put into perspective as normal occurrences. The pullbacks, and uncertainty that comes with them, creates opportunity within the overall secular bull market periods.
The 4X13 month moving averages flipped to bearish in April, but the speed of the pullback caused the indicator to offer no early warning of the decline. The unfolding recovery is also happening with higher volatility than the indicator can react to, which is an indication to us that the drop in the market was a correction and not a bear market in the typical sense. The market and indicator may flatten out in a pattern similar to the 2015–2016 period before a clearer trend emerges.

Chart courtesy of StockCharts.com and RBC Wealth Management; past performance does not guarantee future results.
The level of bullish investor sentiment continues to be low, which is not unusual given the backdrop of the current news, but it also suggests that there is much room for improvement within the longer-term market trend that continues to be bullish.

The American Association of Individual Investors is an organization that polls its members weekly on whether they believe the market will be up, down, or unchanged, six months in the future. This is a graph showing the percentage of the members who gave a bullish response, measured with a 50-week moving average in red plotted against the S&P 500 in black. These surveys began in 1988.
The TSX has dropped and bounced back above some important levels around 14,000, which is now support. The resistance around 16,000 is also heavy and a range of 14,000–16,000 is more likely to develop for the next several months before the longer-term rising trend develops again.
The U.S. dollar is back into its range of the past two years and is currently pulling back to test the low level of the range around 97 that is likely to hold.

The Canadian dollar is rallying up from the low and has the potential to move up to the resistance area around 0.76 over the next few months. A longer range is likely to develop after the rally in a typical long-term pattern for the currency.
S&P sectors & market indexes cycle positions
Relative positioning of major sectors within their individual cycles

Some positive trends are starting to emerge from the bear market with varying degrees of recovery in an overall trend that remains mixed and selective. This diversity between the various sector trends could persist over the next several months as the market continues to draw out a bottoming pattern.
Select groups cycle positions

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

- Late Bear Trends: “Wait”
- Early Bull Trends: “Buy”
- Late Bull Trends: “Hold”
- Early Bear Trends: “Sell”

Source: RBC Wealth Management
Gold continues to trade in a rising trend that has some resistance around 1800 and support at 1550, although a higher support level could also develop in the weeks ahead. A breakout through 1800 is very possible and would project a move to the 2000–2100 area as the next resistance zone. The trend is possibly becoming late in the cycle, however, as the bullish sentiment on gold has also increased along with the price.
The trend on oil has bounced back from the low and could fill the gap in the price up to the $41–$42 level before it starts a longer-term bottoming range. Further volatility is likely over the next several months, but we would expect this to occur within an overall range at low levels that may include further testing of the support around the $20 level.
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. The recent sharp drop in the CRB Index could lead to a short-term bounce, but the large overall drop over the past ten years also suggests that a bottoming trend will take many years to form a bottoming pattern.
Interest rates have been in a falling trend for over 35 years and are now near zero. We would expect to see a typical low range develop, as has occurred in previous cycles over the long term. Parabolic peaks in chart patterns often retrace the entire previous move to the upside, and the long-term nature of such a trend on rates suggests that a bottoming period will also be a long-term process that could lead to many years of a low rate environment.

Decades-long “bottoming periods” are possible.