Trend & Cycle: The Long View – August 2024

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All values in U.S. dollars and priced as of market close on August 2, 2024, unless otherwise noted

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Wealth Management

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- **Structural/secular trend and cycle –** The long-term trend for the S&P 500 remained intact through 1H 2024 with the underlying 16 to18 year generational cycle supportive of further upside into the mid-2030s and potentially toward S&P 14,000.

- **4-year cycle – Where are we now?** We view the current bull market to have started in Q4 2022 when the S&P bottomed at its rising 4-year/200-week ma. The breakout above the 2022-2023 trading range in Q1 2024 has been consistent with an ongoing bull cycle with equity participation beginning to expand.

- **Tactical/multi-month outlook –** In our July Long View publication we noted that the S&P was quickly moving toward its next potential pause point coinciding with a 162% extension of the 2022-2023 trading range near 5638. We also stated that investors should be prepared for equity market volatility through late summer/early fall consistent with weak Q3 seasonality and relatively elevated bullish sentiment. As of early August, the S&P 500 and Nasdaq 100 remain in corrections from overbought levels with further volatility likely through Q3 before weekly/intermediate-term momentum indicators, tracking 2-4+ month swings, move back to suitably oversold levels to support a durable rally. In the very near-term an oversold multi-week trading bounce is likely given daily trading indicators, such as momentum and the VIX index, are approaching short-term extremes. While a bounce appears likely this week, investors should remain prepared for further volatile trading through Q3.

- **Risk/concerns –** Although a seasonal Q3 correction is not unusual, particularly following the magnitude of the rebound by growth stocks since Q4 2023, we are monitoring our monthly momentum indicators for evidence that the bigger cycle which began in Q4 2022 is peaking given these indicators are at overbought levels. While there are signs that cycle momentum is decelerating, it's important to note that these indicators can remain at overbought levels for many quarters in advance of a market peak. To be clear, we are not dismissing the risk to the overall market cycle that began in Q4 2022, but we view multi-month corrections following strong rebounds to be part of the normal ebb and flow of a market cycle. Major support for the S&P 500 remains near its Q1 break at 4818.

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- **Interest rates –** The US 10-year bond yield continues to carve out a broader topping pattern with the Q4 2023 highs at 5% defining the cycle highs with a series of lower highs confirming the downtrend since late April. Weak economic reports in late July and early August pushed the US 10-year yield below a key level at 4.0% with a break below the important technical level at 3.7-3.8%, coinciding with the December 2023 lows, currently underway. With lower highs and now lower lows in place since the Q3 2023 highs, the US 10-year yield is in a confirmed downtrend with 3.2-3.5% next yield support. However, investors should be prepared for a tactical rebound in the coming weeks given both weekly and daily technical indicators are quickly moving into oversold territory.
- **Currencies –** The US dollar DXY index remains in a trading range below 107 resistance that we do not expect will be exceed, with a major band of support near 100 that is likely to be tested in the coming weeks. The Canadian dollar bears watching given it is challenging a key technical level at 0.715 coinciding with the low end of its trading range since Q4 2022. Next support below 0.715 is at 0.68.
- **Commodities – WTI Oil** also remains in a sideways trading range below resistance starting in the low 80s up to the low 90s with support in the high 60s/low 70s that is likely to continue into Q4 . **Gold's** long-term profile remains positive following its breakout above major resistance between 1900-2100 in Q1 2024. We expect the recent consolidation between 2300-2500 round numbers to resolve to the upside in the coming months with 2800 the next key upside level. **Copper** has pulled back from important resistance near 500 toward support in a broad band between 350-400 where we expect it to bottom.

Equity leadership

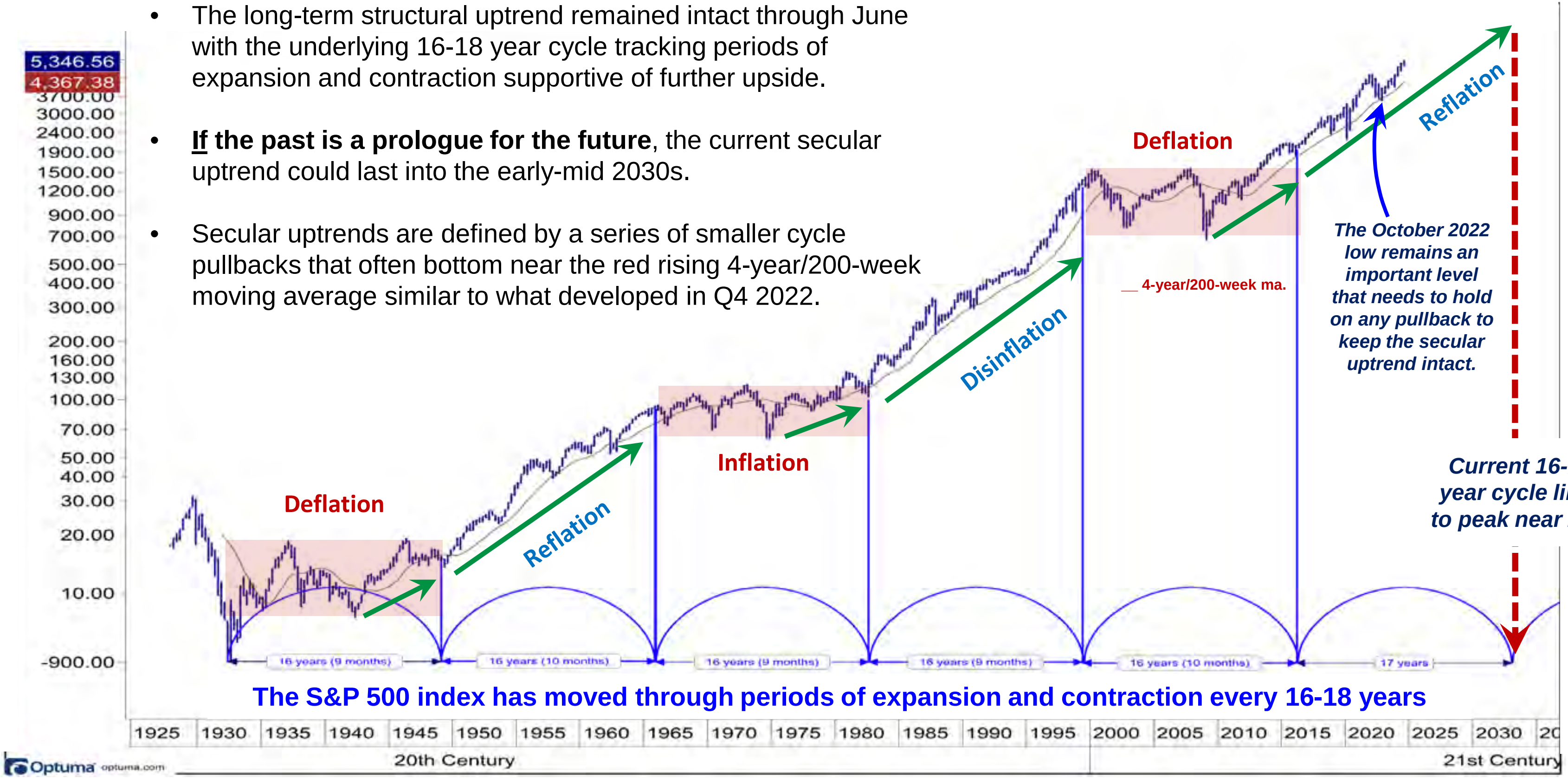
- **Growth/media/technology** stocks are in corrections from overbought levels following strong rebounds from their Q4 2023 lows. While a short-term bounce is likely soon, weekly momentum indicators remain early in downturns suggesting further choppy trading into September.
- **Cyclicals –** The recent rotation out of growth stocks to Financials, industrials, and some resource stocks has pushed many names to short-term overbought levels with pullbacks underway. Our expectation is for their pullbacks to be short lived in Q3.
- **Safety sectors** such as utilities, staples and healthcare have been recovering from oversold levels since mid-late Q2. These sectors should continue to provide defensive leadership through of Q3, and while they are unlikely to be long-term leadership, many names remain timely for investors seeking income/yield.

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

- The long-term structural uptrend remained intact through June 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.

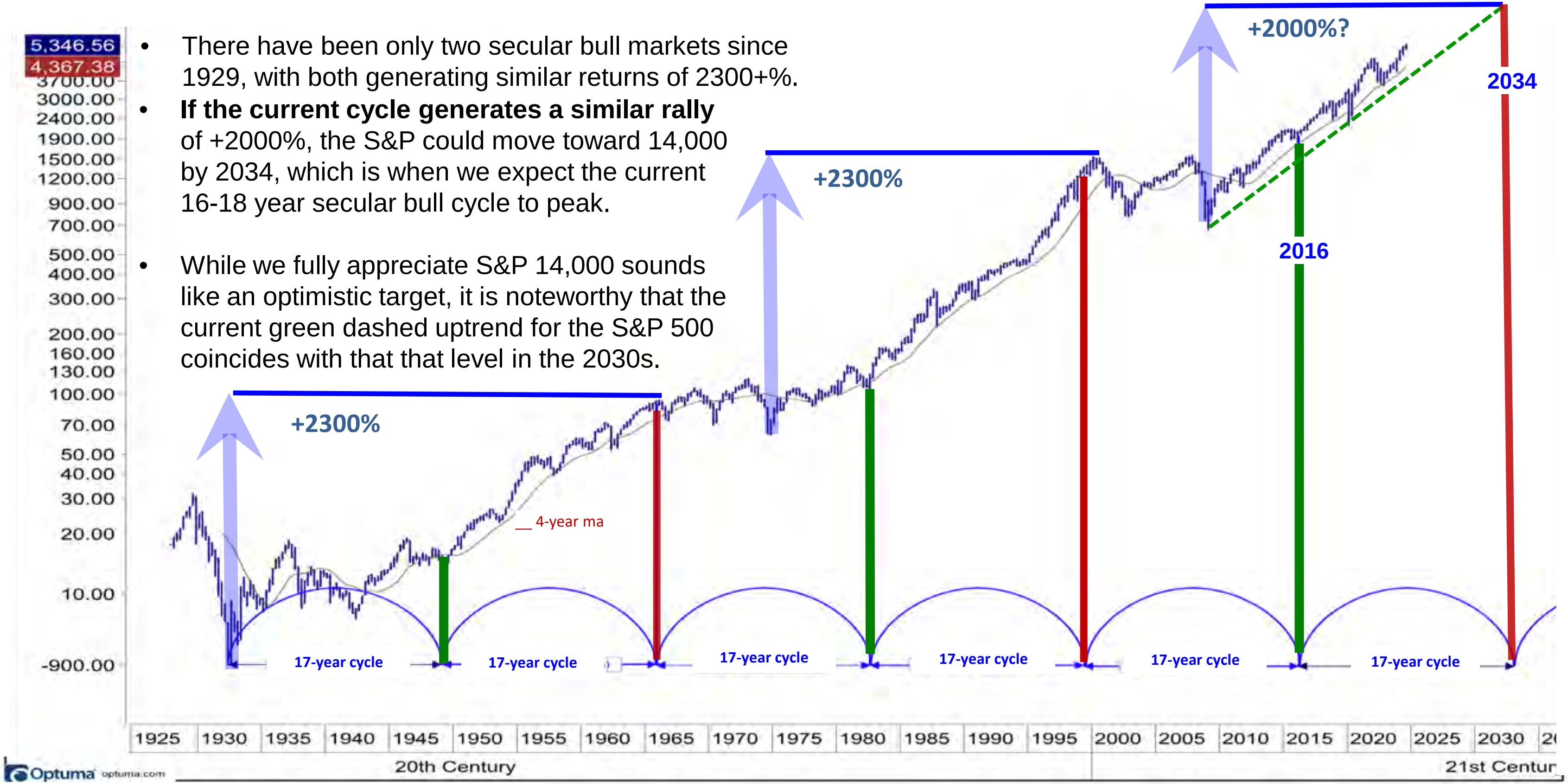
- Secular uptrends are defined by a series of smaller cycle pullbacks that often bottom near the red rising 4-year/200-week moving average similar to what developed in Q4 2022.



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.
- While we fully appreciate S&P 14,000 sounds like an optimistic target, it is noteworthy that the current green dashed uptrend for the S&P 500 coincides with that that level in the 2030s.

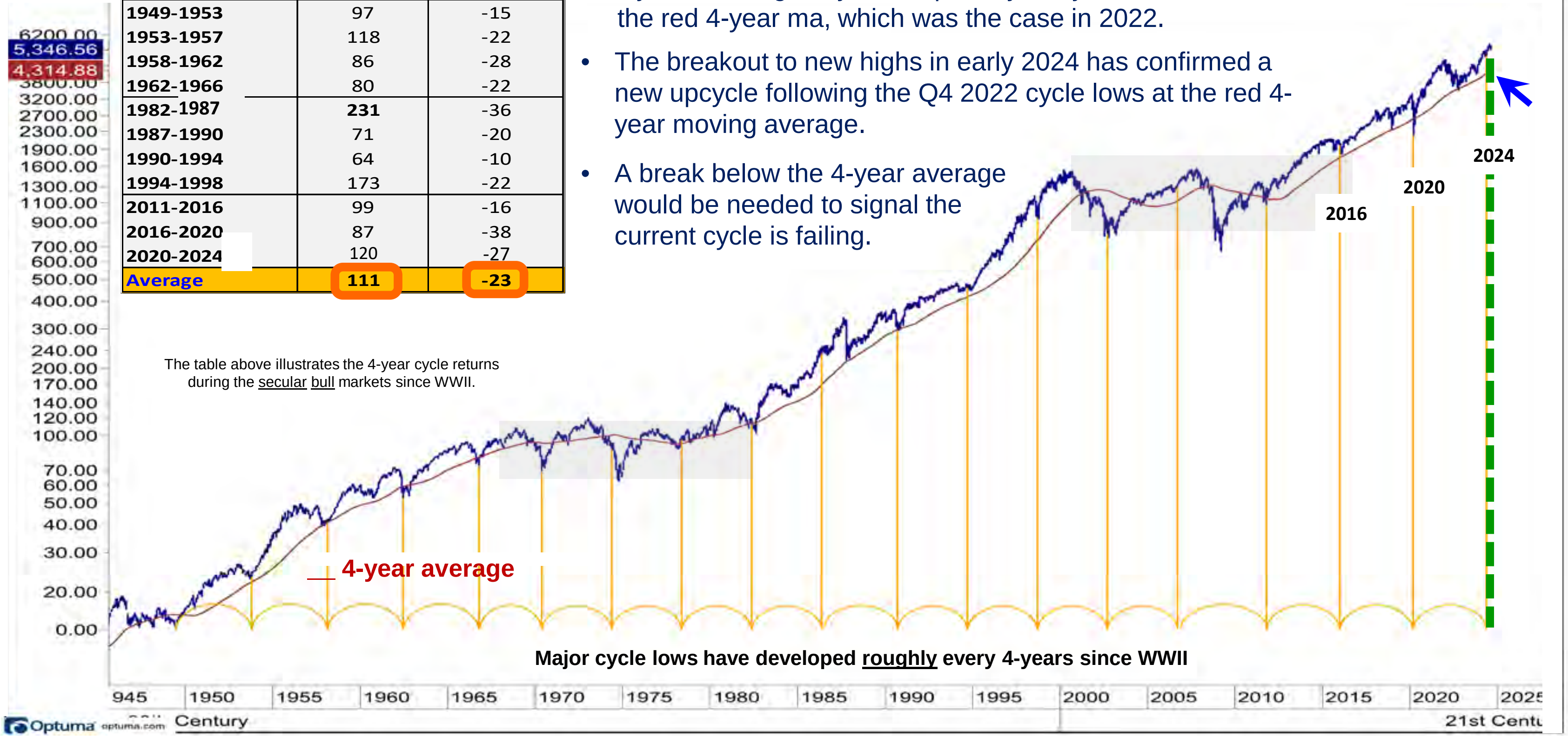
Source: RBC Wealth Management, Bloomberg, Optuma

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

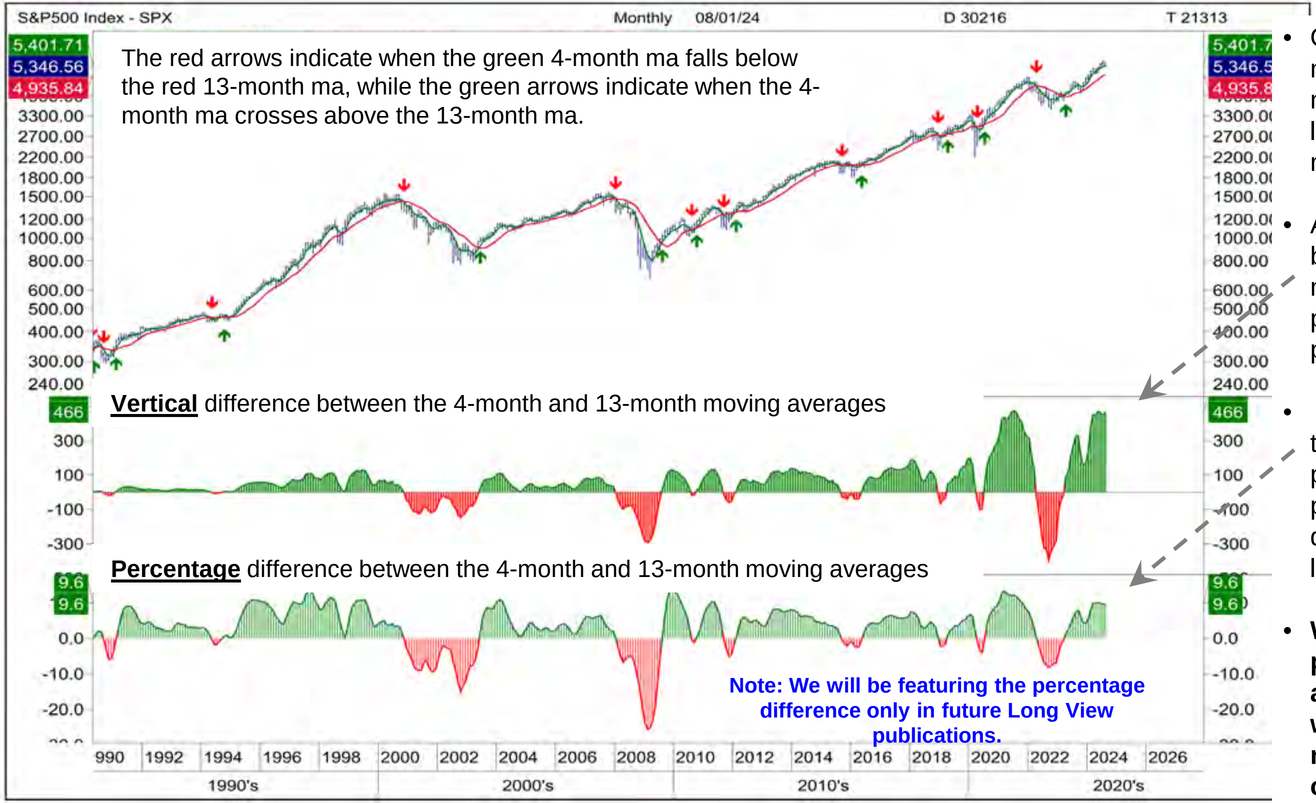
- Cycle lows regularly develop every 3-4 years, often near the red 4-year ma, which was the case in 2022.
- The breakout to new highs in early 2024 has confirmed a new upcycle following the Q4 2022 cycle lows at the red 4-year moving average.
- A break below the 4-year average would be needed to signal the current cycle is failing.

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



Source: RBC Wealth Management, Bloomberg, Optuma

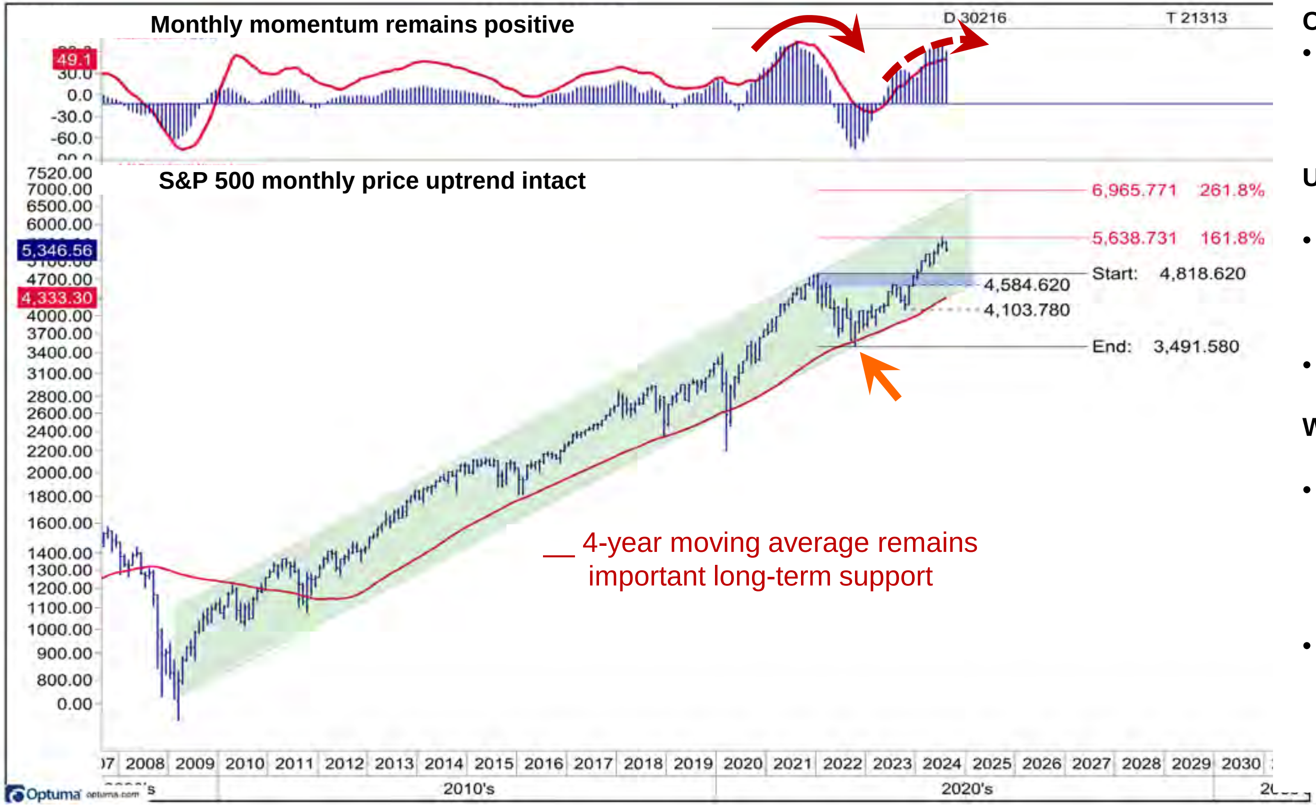
S&P 500 and the 4- and 13-month moving averages as measures of trend.



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 ma, to its longer-term trend, measured by the red 13-month ma.
- Another way to track the difference between these two moving averages is to measure the vertical distance (center panel) and the percentage difference as plotted as a histogram.
- While the pattern of these two indicators is the same, we will only be featuring the percentage difference histogram in future publications as it better reflects the difference between the two averages over long periods of time.
- **While the current trend remains positive, the two momentum indicators are showing evidence of decelerating with the risk of prematurely turning negative as an indication the market cycle is potentially peaking.**

S&P 500 – Monthly



Cycle momentum decelerating

- After bottoming in Q4 2022, monthly momentum is positive but at risk of peaking in the coming months.

Uptrend stalling at resistance

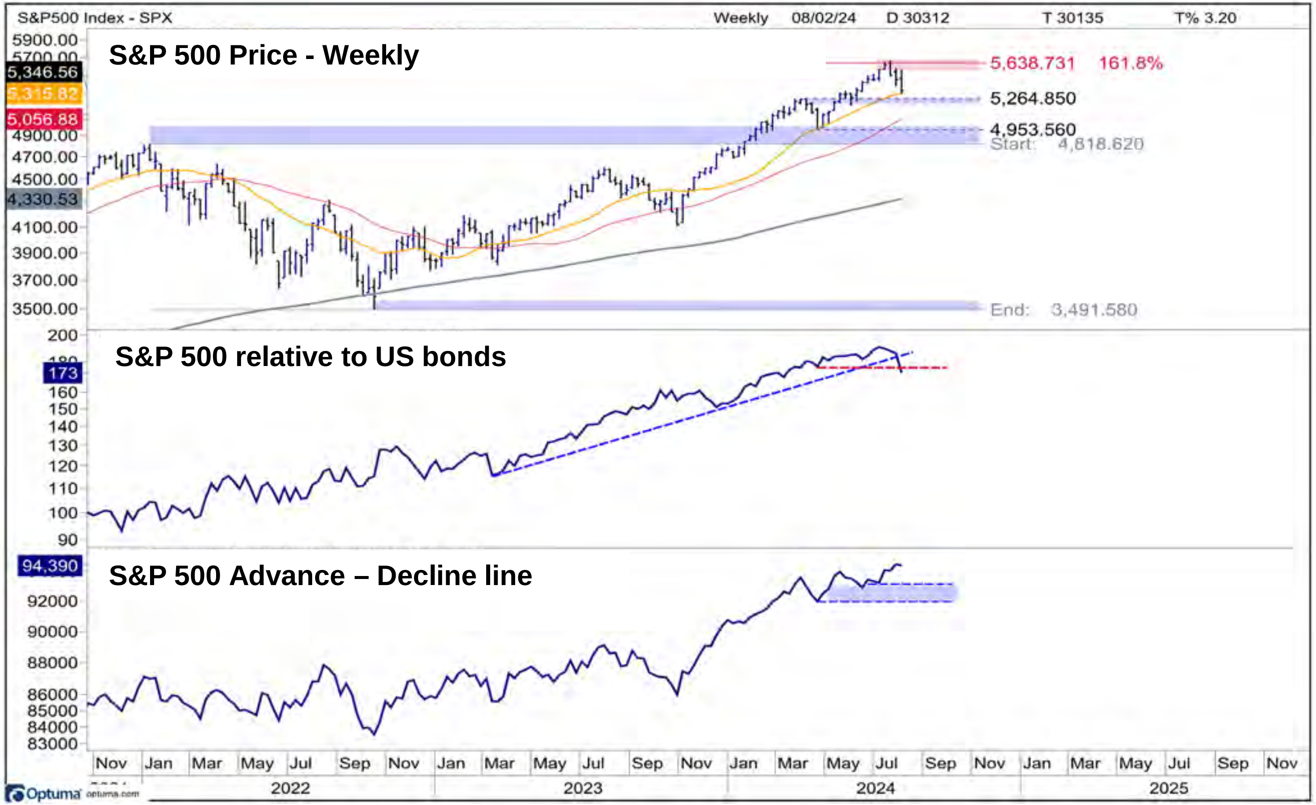
- **Resistance**: The S&P is pulling back from its 162% Fibonacci extension of the 2022-2023 trading range at 5638.
- **Support**: 4818-4584 then 4103.

What would change our positive view?

- A decline below the blue support band between 4818 and the Q3 2023 highs near 4584 would signal the S&P's uptrend is deteriorating.
- A a break below support at the rising red 4-year moving average, currently near 4333, would be needed to signal the current **cycle** is failing.

Source: RBC Wealth Management, Bloomberg, Optuma

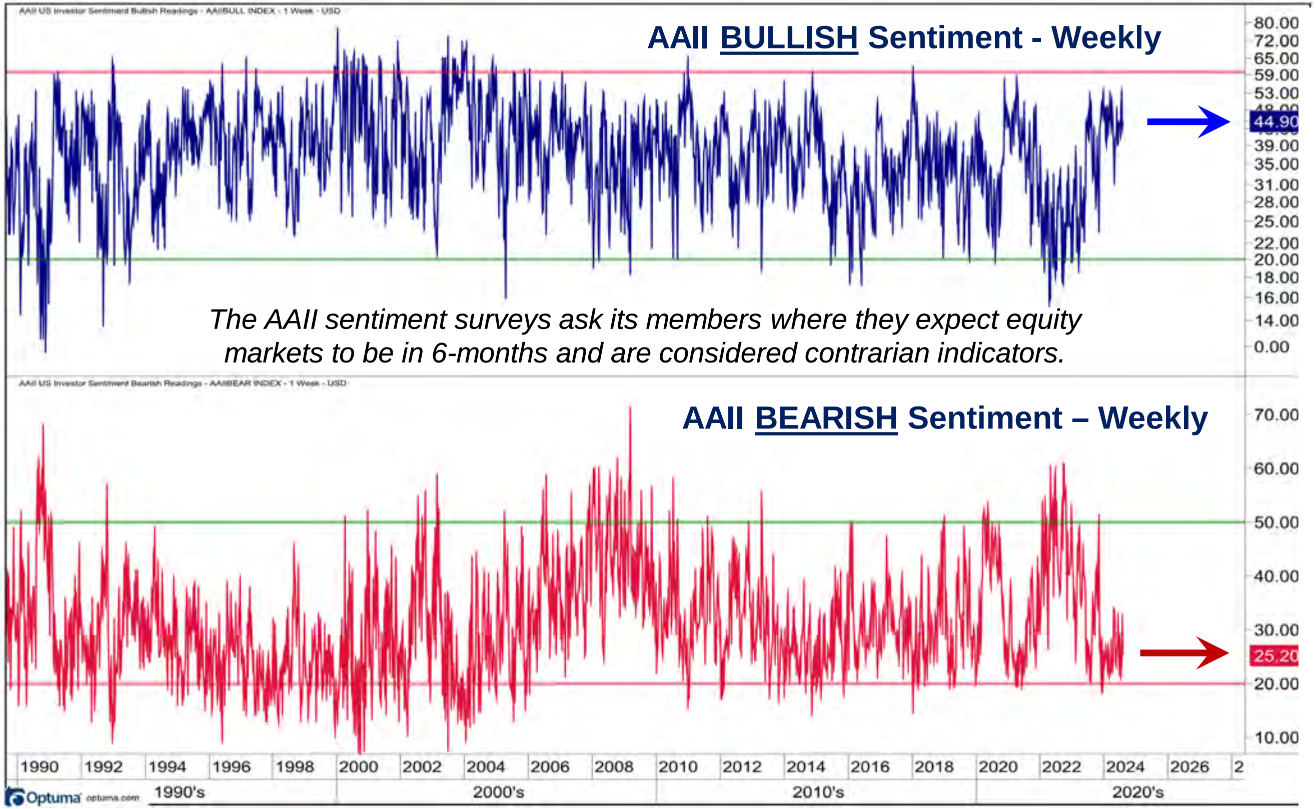
Three measures of an uptrend: Divergences developing.



Source: RBC Wealth Management, Bloomberg, Optuma

- **Price trend** – The S&P has stalled at its 162% Fibonacci extension of the 2022-2023 trading range and is now testing its first important support level band between its rising 20-week/100-day ma at 5316 and the March highs at 5265.
- **Relative performance of the S&P vs Bonds** (TLT) has broken its 2022-2023 uptrend and has fallen below the April lows signaling a trend reversal.
- Interestingly, despite the S&P pulling back, the **S&P A-D line** remains in an uptrend testing new highs with a decline below the April low needed to signal a trend reversal.

AAII US Bullish and Bearish Sentiment Survey – Contrary indicators



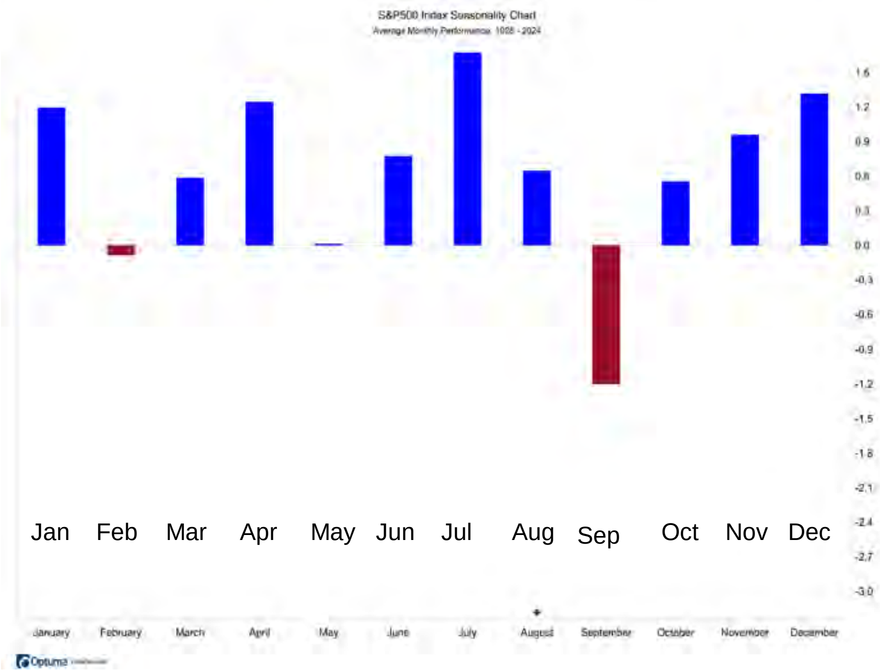
Source: RBC Wealth Management, Bloomberg, Optuma

- Bullish Sentiment (top panel) remains at elevated levels while bearish sentiment (bottom panel) has risen moderately recently.
- Although sentiment is not at extreme bullish or bearish levels, it is also not at levels that usually support multi-month rallies.
- Given Q3 is often a weaker seasonal period for equities, we would expect bullish sentiment to decline and bearish sentiment to rise moving into late Q3/Q4 which we would view as an encouraging contrarian signal for equities.

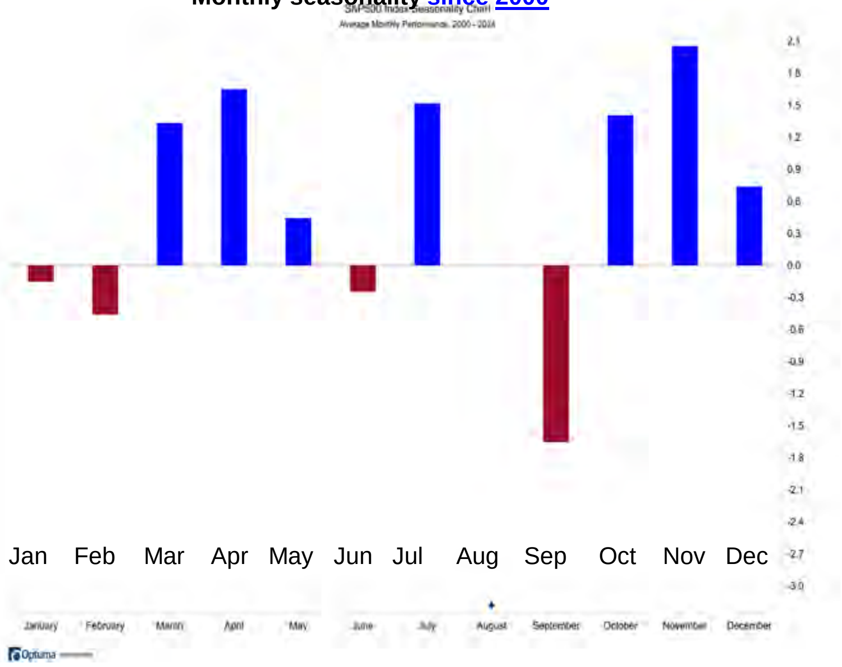
S&P 500 – Seasonality

- Monthly seasonality data varies widely depending on the start date, but history suggests the latter part of Q3 is weak.

Monthly seasonality since 1928



Monthly seasonality since 2000



Source: RBC Wealth Management, Bloomberg, Optuma

Tokyo Stock Exchange TOPIX - Monthly

- Monthly momentum for the TOPIX has peaked and turned negative as the index pulls back sharply from its 1989 highs.
- The decline into early August (as of 08/05) is now approaching the upper end of a broad support band between 1819-2085 near its rising gray 40-year moving average.
- Our expectations is for TOPIX to begin bottoming in that broad support band.
- After outperforming through 2022-2023, the relative performance vs the S&P in USD remains in a downtrend.

Source: RBC Wealth Management, Bloomberg, Optuma

MSCI EUROPE – Monthly with relative performance vs S&P 500

- MSCI Europe's long-term price trend remains positive with a pullback underway that is likely to test the 158-164 support band with further weakness through Q3.
- Below 158 next support is at the rising red 40-week ma at 150.
- 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.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P/TSX Composite – Monthly

- The long-term blue dashed uptrend remains positive for the TSX with a retest of key support at the upper end of its 2022-2024 trading range at 22,218 underway.
- Next key support is 20,843.
- Above 22,217, the next upside technical level is at 24,884.
- 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 in place at a critical level of 5%.

Source: RBC Wealth Management, Bloomberg, Optuma

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The US dollar DXY index remains range bound above 100 support and below 107 resistance with a test of the lower end of the range likely moving through Q3.
- ***RISK: Should the DXY index move above 107 it would signal further upside toward next resistance at 114-115 and likely be a major headwinds for equity markets.***

Canadian Dollar / US Dollar - Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- After bottoming and turning up in Q2 2022, monthly cycle momentum has turned negative suggesting the 2-year bottoming profile for the CADUSD is at risk of breaking key support at 0.715.
- Below 0.715 next support is at 0.68.

WTI Oil Future - Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- WTI Oil remains trapped in a sideways range under a 93-95 resistance band and above a support band in the low 70s-high 60s.
- Bottom line: We expect WTI to remain in a broad trading range above the low 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 completed a long-term breakout above resistance near 2000 in Q1 2024 and remains in a bullish uptrend.
- However, a tactical multi-month pause is underway around a key technical level at 2358 defined by a 162% Fibonacci extension of the 2020-2023 trading range.
- Our expectation is for pullbacks to be short lived with the recent 2277-2483 trading range likely to resolve to the upside moving into Q4 with 2817 the next pause point.

Copper Futures

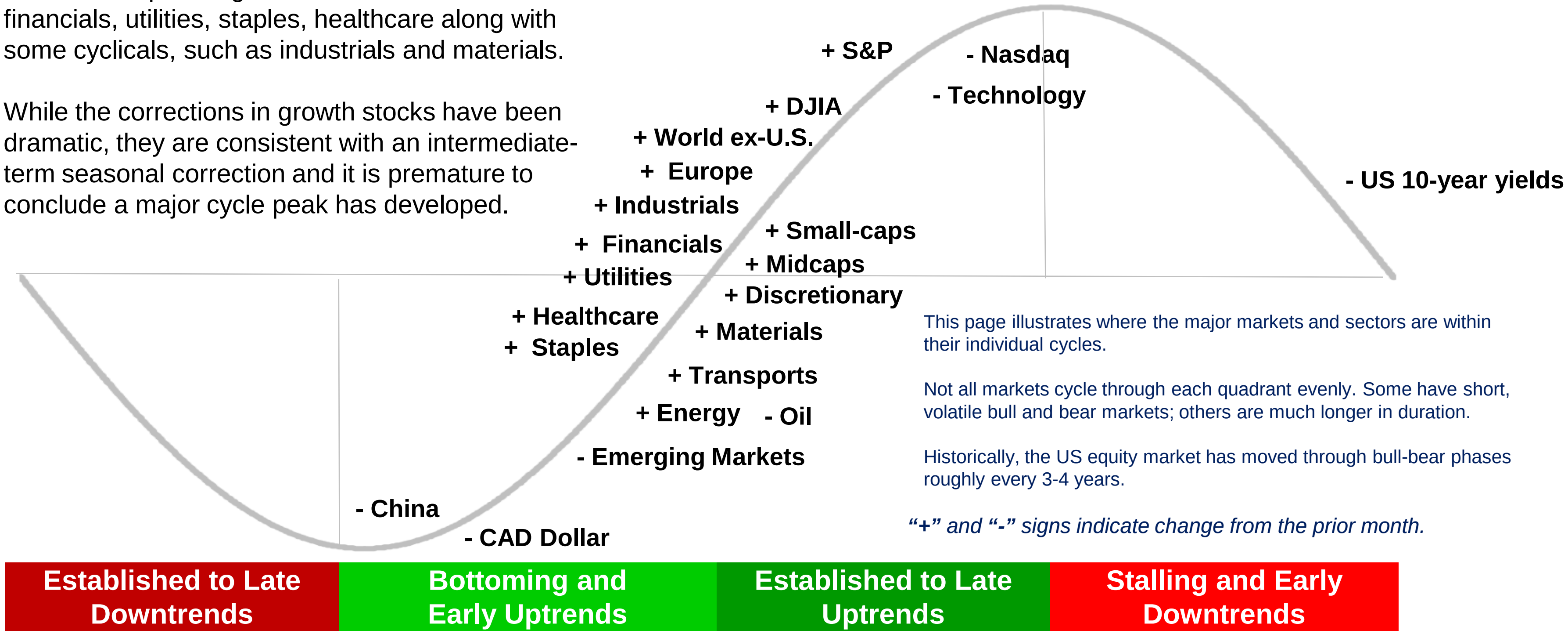
- Copper is pulling back from key resistance near 500 to test its next important support in a wide band between roughly 350-400 where we expect a bottom to develop moving through Q3 into Q4.

Source: RBC Wealth Management, Bloomberg, Optuma

Major markets and S&P sector cycles

- July was noteworthy for a dramatic rotation from the well-advanced growth/technology stocks into small/mid-caps along with value sectors such as financials, utilities, staples, healthcare along with some cyclicals, such as industrials and materials.

- While the corrections in growth stocks have been dramatic, they are consistent with an intermediate-term seasonal correction and it is premature to conclude a major cycle peak has developed.



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.

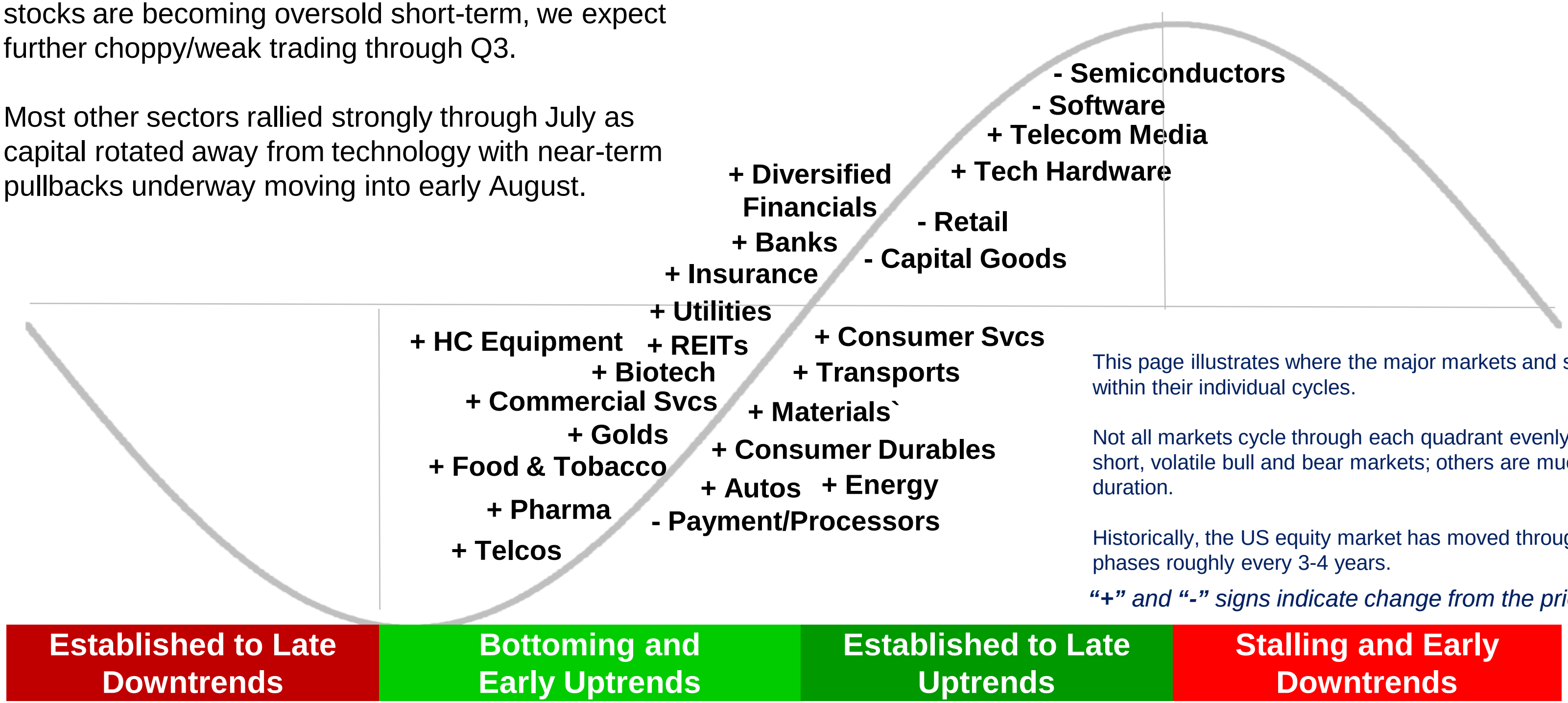
"+" and "-" signs indicate change from the prior month.

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- Technology, notably semiconductors, software and hardware began corrections in July that have continued into early August. While most growth stocks are becoming oversold short-term, we expect further choppy/weak trading through Q3.

- Most other sectors rallied strongly through July as capital rotated away from technology with near-term pullbacks underway moving into early August.



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