



Trend & Cycle: The Long View – March 2024

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

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- **Secular outlook** – In our view, the very long-term structural trend and cycle for US equity markets remains positive with further upside into the mid 2030s likely and potential for the S&P 500 to trend toward 14,000. What would change our view? We view the 4-year moving average as an important proxy for the underlying longer-term trend of the market with a break below that moving average, near 4000, needed to signal a deteriorating backdrop. Until we see evidence that such a breakdown is developing, we encourage investors to remain invested in anticipation of further upside.
- **4-year cycle – Where are we now?** We view the lows in Q2 2022 to have defined yet another 4-year cycle low with the recent breakout above 2-year trading ranges by the S&P 500, Dow Industrial Average, semiconductor and industrial sector indices, additional technical confirmation that a new market cycle continues to emerge. While technology and mega-cap growth stocks have dominated market leadership, we continue to see evidence that participation is broadening as smaller and mid-cap indices, along with other more cyclical sectors and groups, are early in new upcycles after they established secondary cycle lows in Q4 2023. While the broader recovery is likely to experience a pause or pullback moving into Q2, we view the overall technical behavior of global equity markets to be consistent with a broader cycle recovery.
- **Tactical/multi-month headwinds** – Our view remains unchanged, expecting markets to pause after a strong rebound with a variety of sectors and groups already churning sideways through Q1. Rather than view pending pullbacks as a major concern, we view pullbacks into Q2 as normal, healthy pauses within an emerging bull cycle and encourage investors to remain invested and patient through any late Q1/early Q2 volatility.
- **Interest rates** – We 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. While February's employment report and CPI inflation reports in March will be important events for rates, our expectation is that 4.4-4.5% defines the upper end of the current rally with the peak possibly already in place at 4.3%. On the downside, the first key technical level is at 3.7-3.8%.

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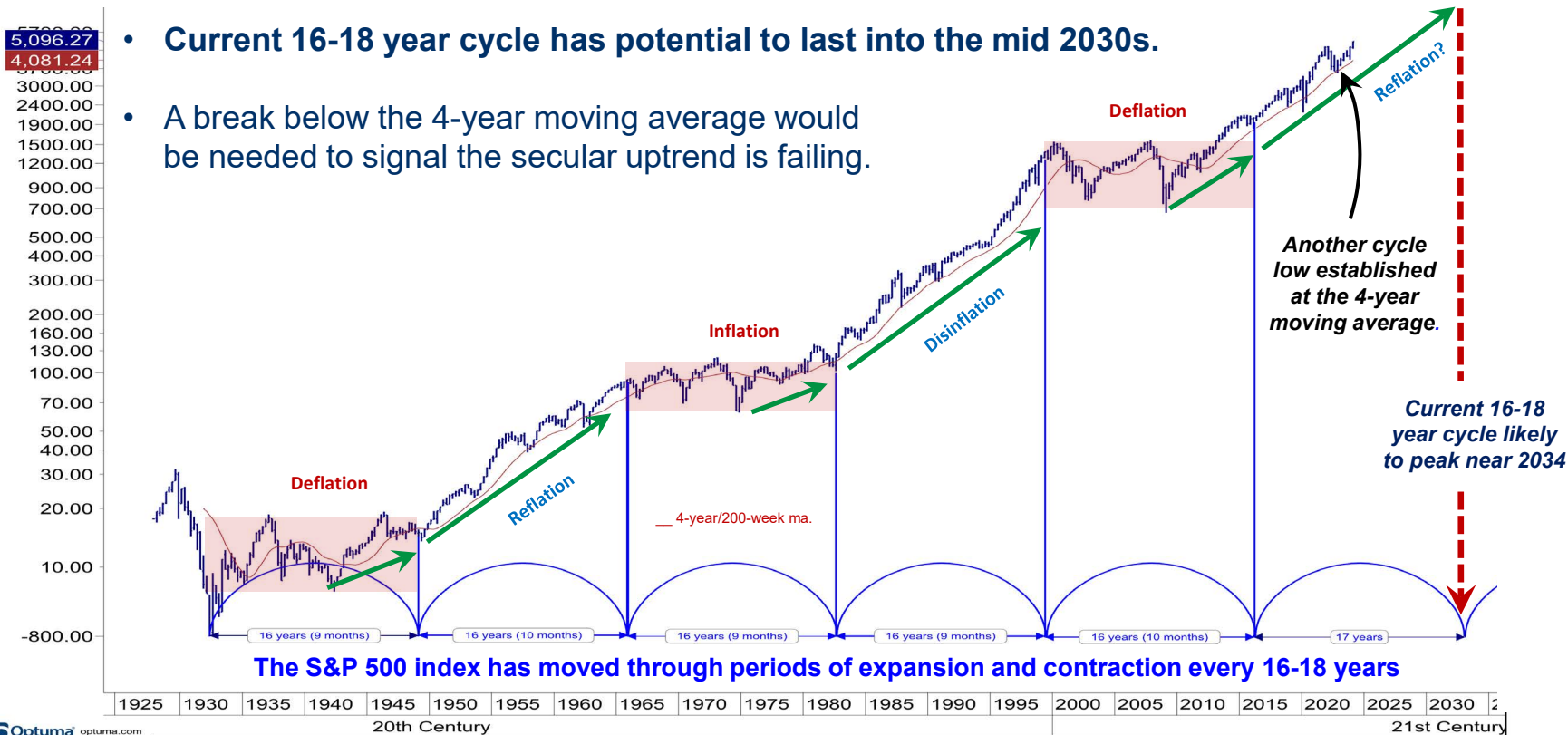


- **Currencies** – The US dollar established its cycle high in Q4 2023, a year in advance of the US 10-year yield, with the recent bounce from 100 support likely to be short lived and 105-107 key resistance levels we do not expect will be exceeded in 2024.
- **Commodities**. WTI Oil has bottomed above important support in the mid-high 60s with resistance near 80. Our expectation is that WTI will remain range bound above that support band and below the lows 80s well through Q2 with additional upside likely in 2H 2024. Gold's long-term profile remains bullish with bullion consolidating at the upper end of its 3-year trading range just below 2000-2075 with an upside breakout likely in Q2-Q3 2024.

Equity leadership

- **Growth/technology** remains market leadership with long-term price and relative performance trends intact. However, in line with our overall equity market view, a tactical pullback is incrementally developing for a growing list of stocks moving through mid-late Q1 with fewer technology stocks timely at current levels. Our expectation is that pullbacks will be relatively short lived and result in broad sideways consolidations rather than major corrections.
- **Cyclicals** – While technology leads, we continue to see evidence that more **cyclical indices**, such as small and mid-caps along with sectors such as industrials, financials and select consumer discretionary, are improving after establishing cycle lows in Q4 2022 with secondary lows in Q4 2023. While many names have rallied strongly in Q4-Q1 and are pausing, our expectation is that their pullbacks will result in relatively shallow sideways consolidations that will resolve to the upside through 2024.
- **Safety sectors** – Given our positive outlook for the current 4-year market cycle that should carry equity markets higher through 2024, we expect safety/defensive sectors to underperform for the year but with a temporary oversold bounce in Q2 and potentially during the seasonally weak Q3 period. We believe select healthcare groups, such as medical technology and biotech, remain attractive technically.
- **Bottom line:** As we noted here last month, we remain focused on the longer-term trend and view pending Q1-Q2 volatility as an opportunity to build equity exposure to growth and cyclical groups and stocks.

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





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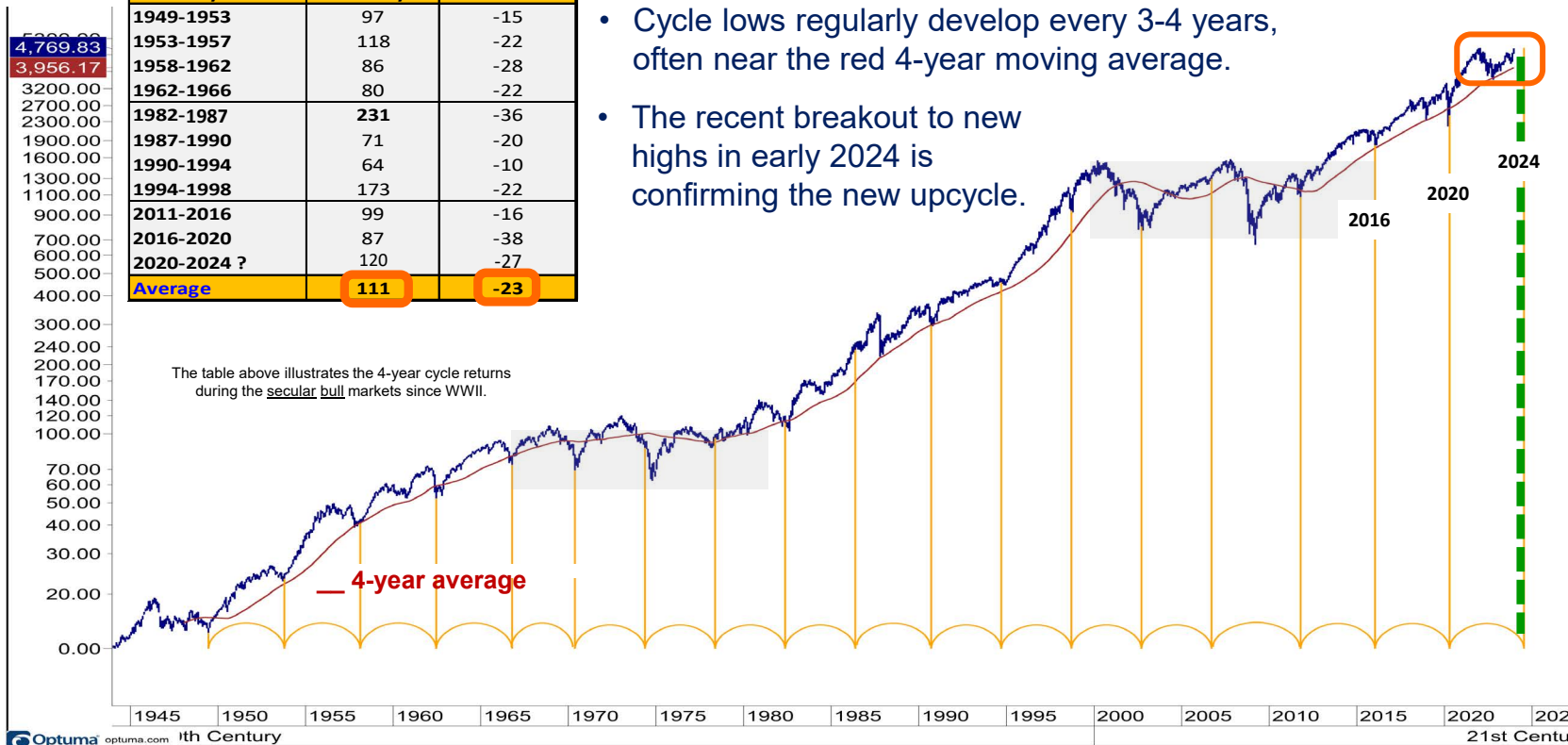
S&P 500 – A repetitive 3-4 year cycle driven by central bank liquidity and economic growth



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

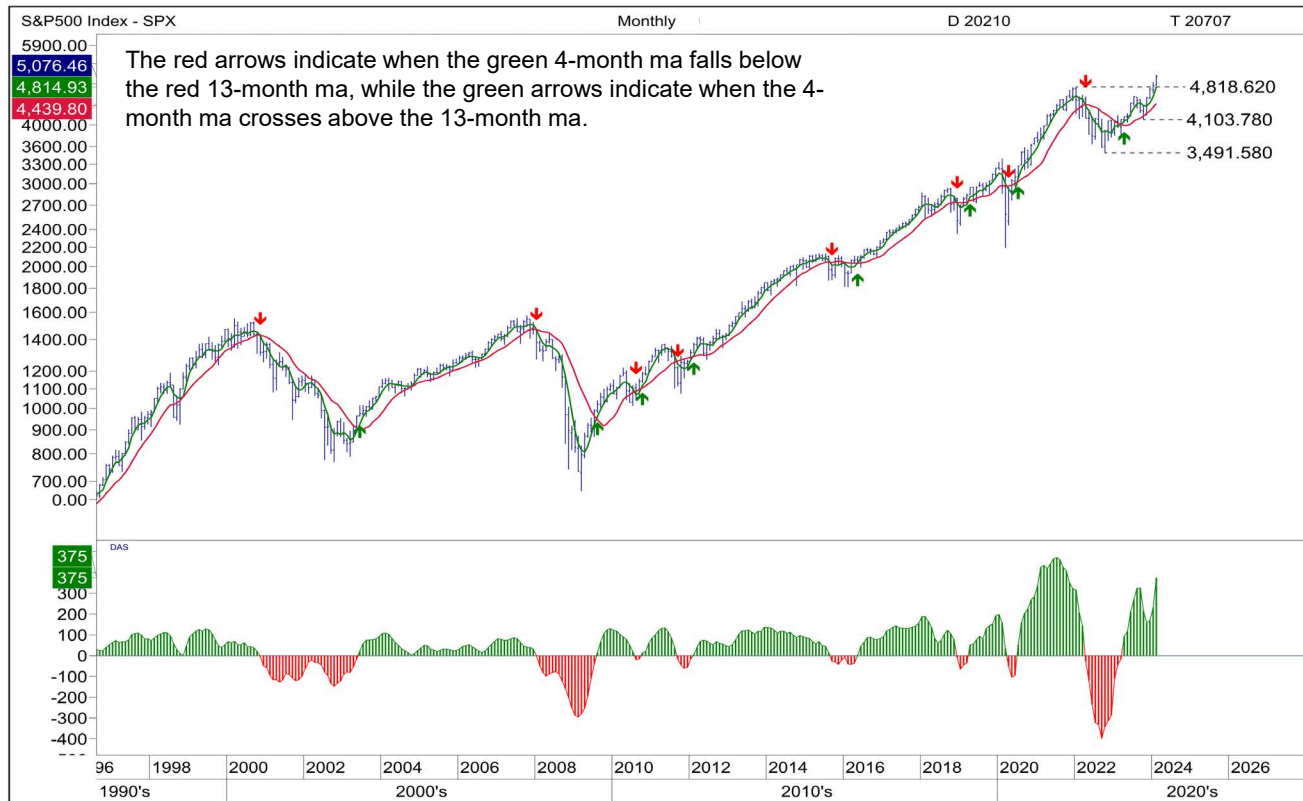
The table above illustrates the 4-year cycle returns during the secular bull markets since WWII.

- Cycle lows regularly develop every 3-4 years, often near the red 4-year moving average.
- The recent breakout to new highs in early 2024 is confirming the new upcycle.



Optima optima.com 19th Century
Source: RBC Wealth Management, Bloomberg, Optima

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



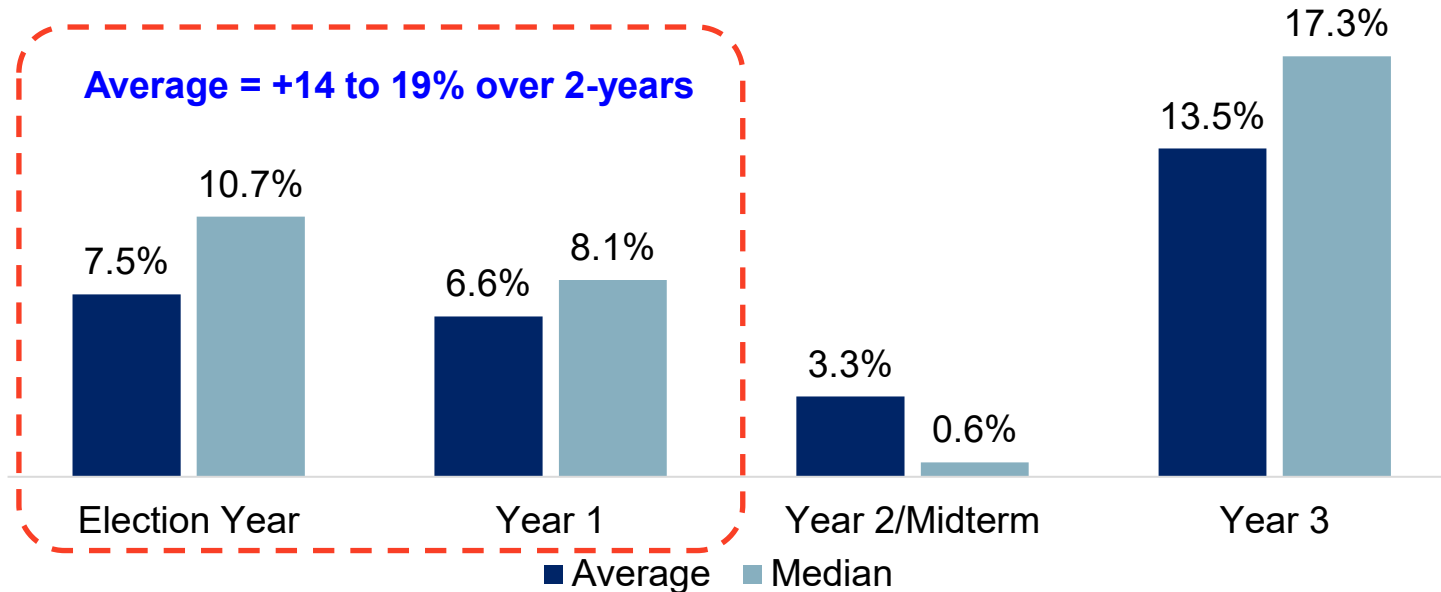
Source: RBC Wealth Management, Bloomberg, Optuma

- 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 of March 2023.
- Another way to track the relationship between these two moving averages 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 has built positively into the summer of 2023 and remains positive and above the zero axis moving through Q1 2024.

Four-year presidential cycle track record



S&P 500 performance during U.S. presidential election cycles since 1928



Source – RBC Wealth Management, Bloomberg; annual data through 2022

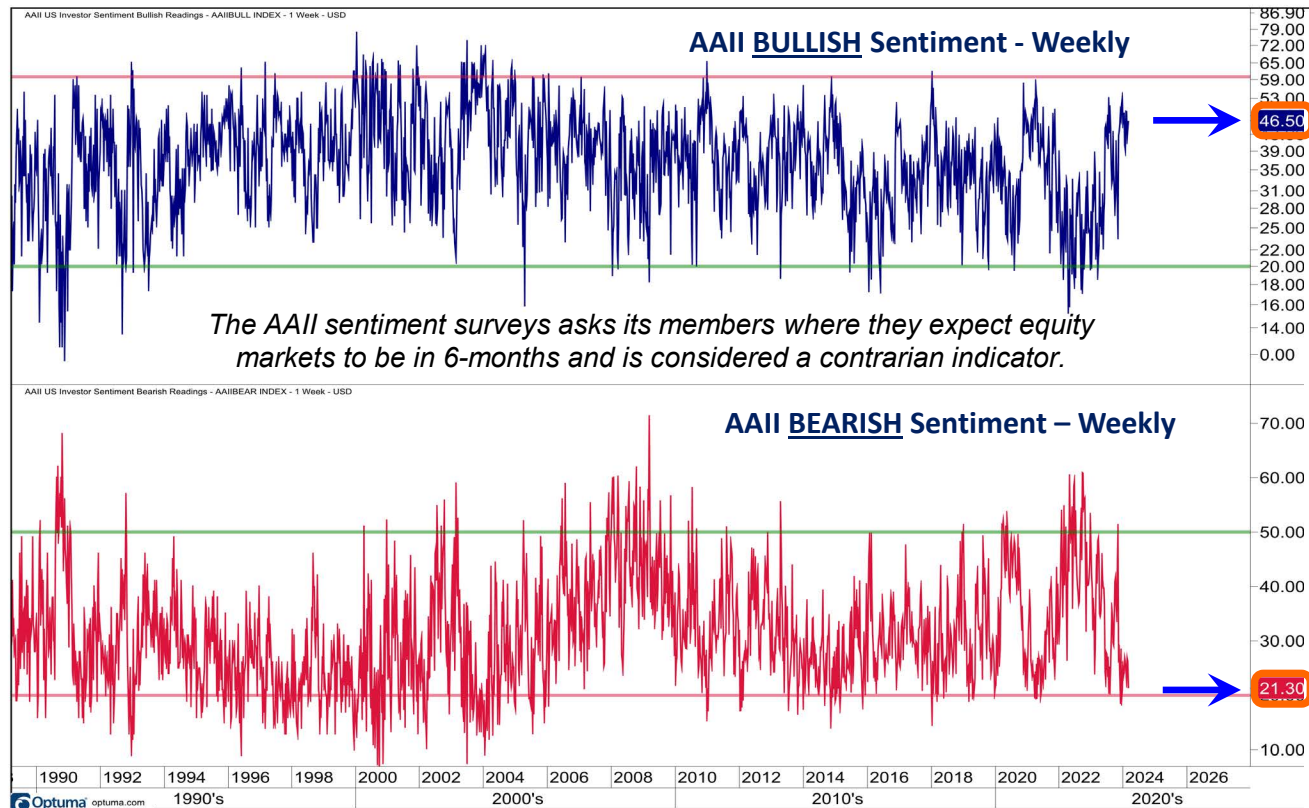
S&P 500 with weekly Quadrant Balance momentum peaking



Tactical concerns:

- Weekly momentum indicators, tracking 2-4+ month swings, are peaking which suggests a pause/pullback into Q2.
- Support begins at 4818 then 4510-4637.

AAII US Bullish and Bearish Sentiment – Supportive of a Q1 equity pullback



Source: RBC Wealth Management, Bloomberg, Optima

Sentiment surveys are contrarian indicators.

- Bullish Sentiment is elevated...

- ...while bearish sentiment is low.

S&P/TSX Composite – Monthly



Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly cycle momentum continues to build to the upside as the TSX successfully retests 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.

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

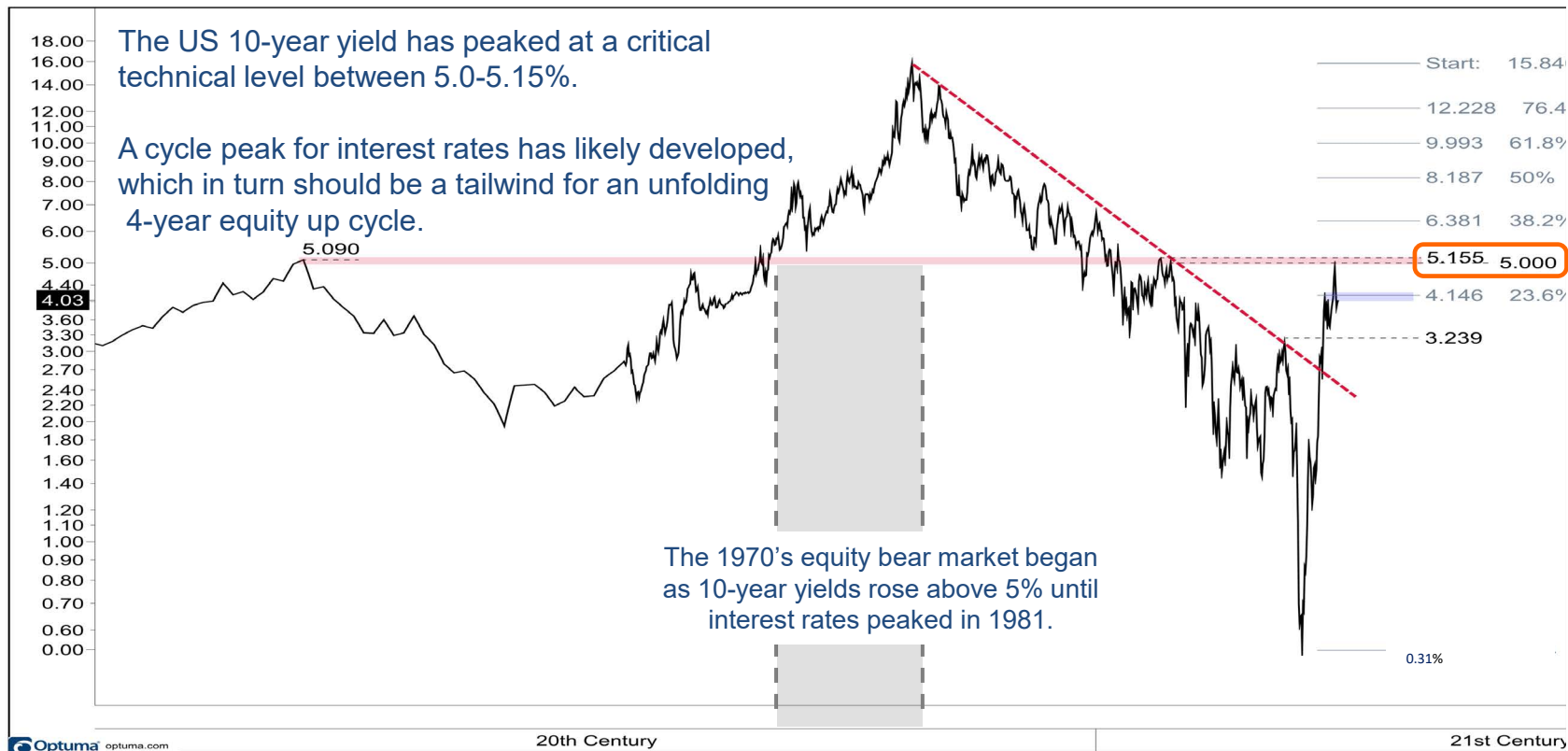


Source: RBC Wealth Management, Bloomberg, Optima

EAFE (Europe, Asia and Far East)

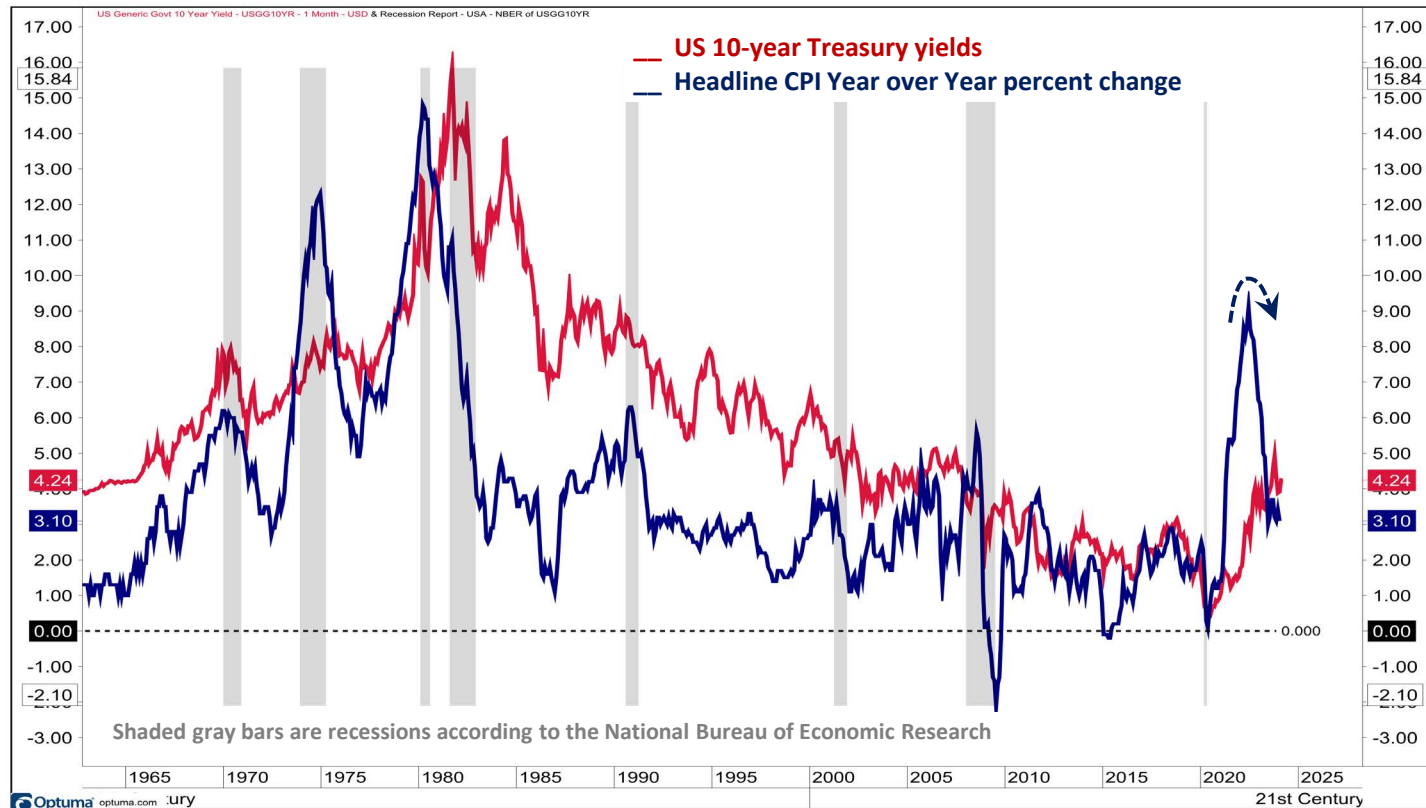
- EAFE is improving from its Q4 2023 lows pushing above 2227 resistance within a broader trading range that has been in place since 2008.
- Further upside is likely in Q1 but with 2416 heavy resistance that will need to be exceeded to suggest a major structural change in EAFE's long-term technical profile.
- 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 at a critical level of 5%



Source: RBC Wealth Management, Bloomberg, Optuma

US 10-year yields (red) and CPI Inflation YoY (blue)



- CPI inflation (blue) has peaked, pulling back to 3.2% while the 10-year yield is showing ongoing evidence of retreating from a key technical level at 5% which we view to be the peak for the current cycle.

Source: RBC Wealth Management, Bloomberg, Optuma, Bureau of Labor Statistics, National Bureau of Economic Research

US Dollar DXY Index – Monthly



Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly momentum, which tracks the direction of multi-year cycles, remains negative but is working toward oversold levels.
- Similar to the US 10-year yield, we view the dollar to have established a cycle peak and likely to remain weak over the coming year albeit with plenty of volatility.
- Support remains near 98.7-100.8 which the dollar has bounced form with next major support between 93.7-88.7 coinciding with the 50-62% retracement bands.

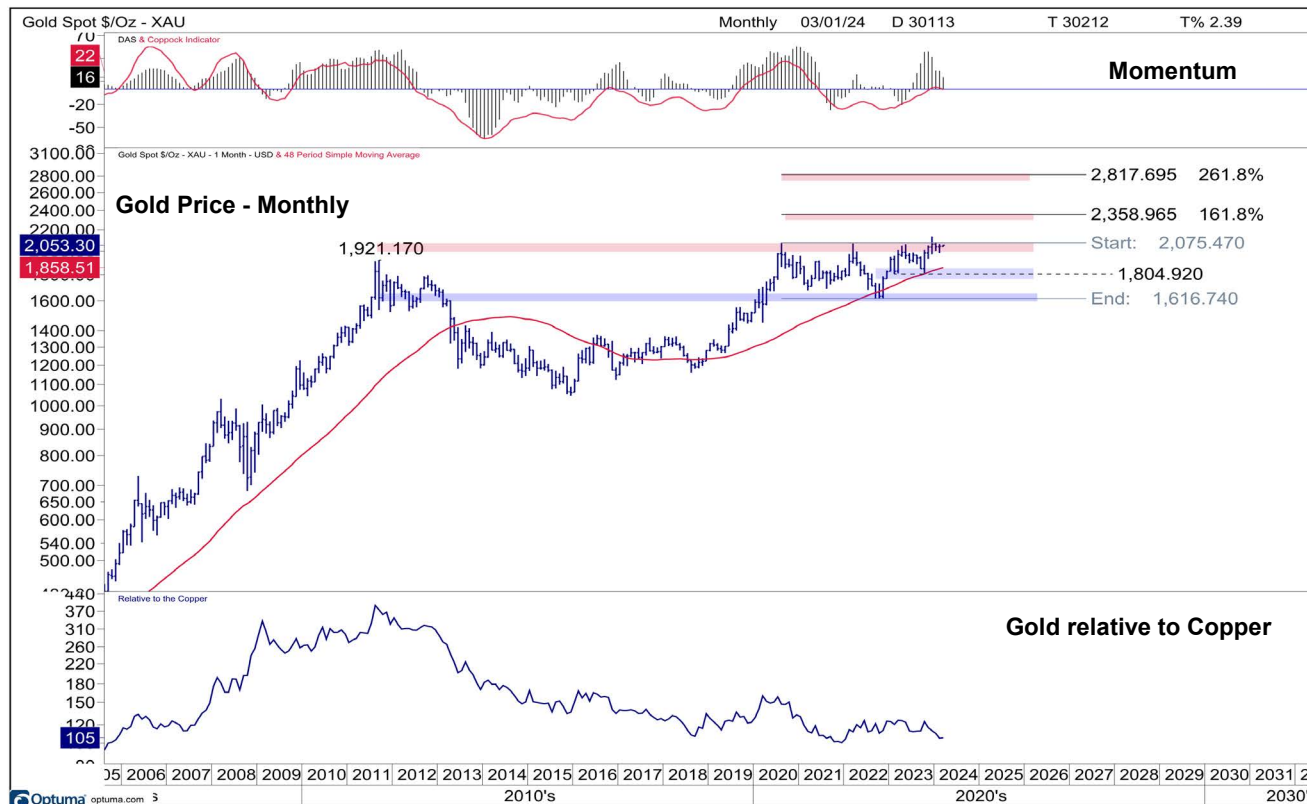
Canadian Dollar / US Dollar – Monthly



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.

Gold – Monthly – Longer-term profile remains positive



Source: RBC Wealth Management, Bloomberg, Optuma

- After bottoming in Q3 near key support at 1800 near the rising red 200-week moving average, gold has rallied back to resistance between 2000-2075 and has paused.
- Overall, the longer-term pattern for gold remains positive with a move above 2075 likely in Q1 with 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 develop) to suggest the bigger positive pattern is failing.

Major markets and S&P sector cycles

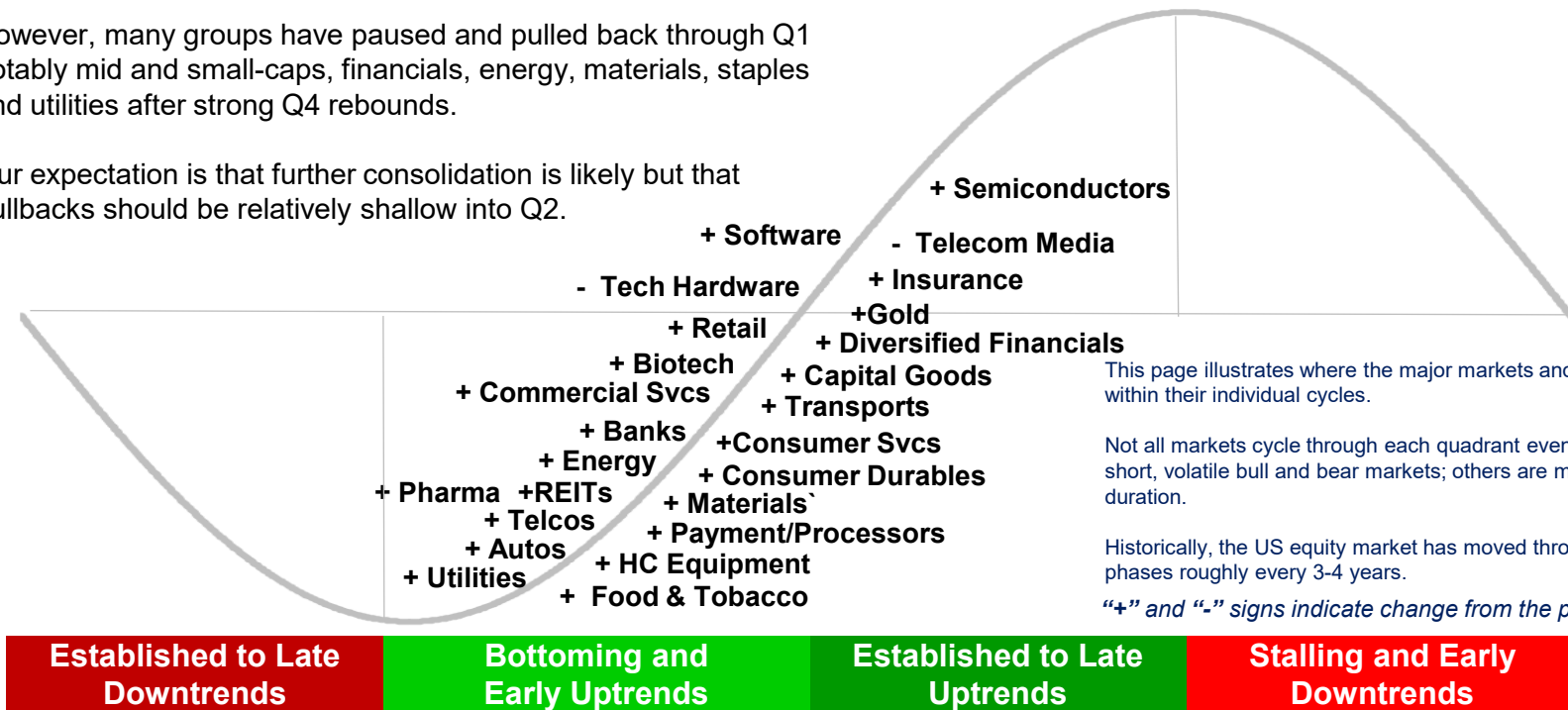
- Technology and growth stocks continued to lead into February in aggregate but internally leadership has frayed.
- As technology continued to dominate leadership, other markets and sectors that participated in the Q4 rebound have paused and pulled back, which we view to be a healthy, normal break within a longer-term bull market that should ultimately pull most groups higher.



Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- As noted on the prior page, technology, notably semiconductors, continue to lead the broader market.
- However, many groups have paused and pulled back through Q1 notably mid and small-caps, financials, energy, materials, staples and utilities after strong Q4 rebounds.
- Our expectation is that further consolidation is likely but that pullbacks should be relatively shallow into Q2.



Source: RBC Wealth Management, Bloomberg, Optuma

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