



Trend & Cycle: The Long View – May 2024

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All values in U.S. dollars and priced as of market close on May 3, 2024 unless otherwise noted

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Trend & Cycle: The Long View – May 2024



- **Structural/secular outlook** – The longer-term uptrend for equity markets remains intact with a positive 16-18 year cycle that is likely to carry the S&P higher into the mid-2030s potentially toward S&P 14,000. Slides 4-5.
- **4-year cycle – Where are we now?** We view the longer-term uptrend for the S&P 500 to follow a cycle that sees lows develop every 3-4-years. While the magnitude of each cycle varies significantly, the average cycle upside is 110% followed by 20-25% bear markets that often bottom near the rising 4-year moving average. The Q4 2022 lows at the S&P 500's rising 4-year has defined the lows for the current cycle with the recent breakout above a broad 2-year trading range confirmation of the cycle continuing to improve, with secular growth and cyclical leading to the upside. Slides 6-8.
- **Tactical/multi-month outlook** – Intermediate-term/weekly momentum indicators are helpful technical tools to navigate the 1-2 quarter market swings that develop most years. Our expectation has been for a pullback to develop in mid-late Q1 given most markets rebounded into overbought territory by mid Q1 setting the stage for the pullback that is currently underway. After a 6% correction for the S&P, an oversold short-term bounce is developing that we expect will result in a zig-zag pattern through Q2 that should see weekly indicators move into oversold levels later in Q2 and set the stage for a summer rally. Slide 9.
- **Risks/concerns** – While the current 4-year cycle remains intact with participation broadening in Q1 we are monitoring the following three key technical developments. First, monthly momentum has moved from oversold levels in Q4 to overbought levels in 2024. To be clear, in strong uptrends momentum indicators, tracking the rate of change of a market, will become overbought quickly, remain overbought and begin to flat line as the underlying trend becomes more linear. However, monthly momentum peaks often precede major cycle highs so we will be focusing on this indicator often in the coming months to ensure the underlying uptrend is not deteriorating. The next two concerns relate to interest rates and the US dollar. Tactically both are showing early signs of peaking and moving lower moving into Q2 which we view to an encouraging development for equities. However, a move above 5% by the US 10-year yield and above 107 for the US dollar DXY index would be major headwinds for equities that could prematurely abort the current cycle. Slide 14-15

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- **Interest rates** – We continue view the Q4 2023 highs at 5% for the US 10-year yield to be the highs for the current cycle with the recent rebound in Q1 back to 4.7% showing early signs of peaking. Our expectation is for the 10-year yield to remain in a volatile trading range below 4.7% but above 3.8-4% through Q2. While the recent pullback in 10-year yields is encouraging, with further downside likely we would view a move above 5% to be a major risk for stocks that could prematurely abort the current 4-year cycle.
- **Currencies** – The US dollar established its cycle high in Q4 2022 and has remained in a choppy downtrend above support at 100 and below resistance at 107. Similar to our view on interest rates, beyond short-term bounces, we do not expect significant upside in the US dollar which should be a net positive for equity markets globally. However, a move above 107 would be a net negative for equities.
- **Commodities** – **WTI Oil** is likely to remain in a broad trading range through Q2 into Q3 with resistance in the mid-high 80s and support in the mid-low 70s that we expect will hold in the current pullback. **Gold's** long-term profile remains positive following its breakout above major resistance between the 2011 high at 1921 and the 2022-2024 highs around 2100. With gold now at its next extension resistance level near 2360 we expect a short-term pullback. **Copper's** longer-term profile remains positive with the recent reversal of its 2022-2024 downtrend supportive of our positive outlook. Similar to gold, after a strong surge in Q1 into Q2 to a broad resistance band near 500, a short-lived pullback is likely. Slides 17-19.

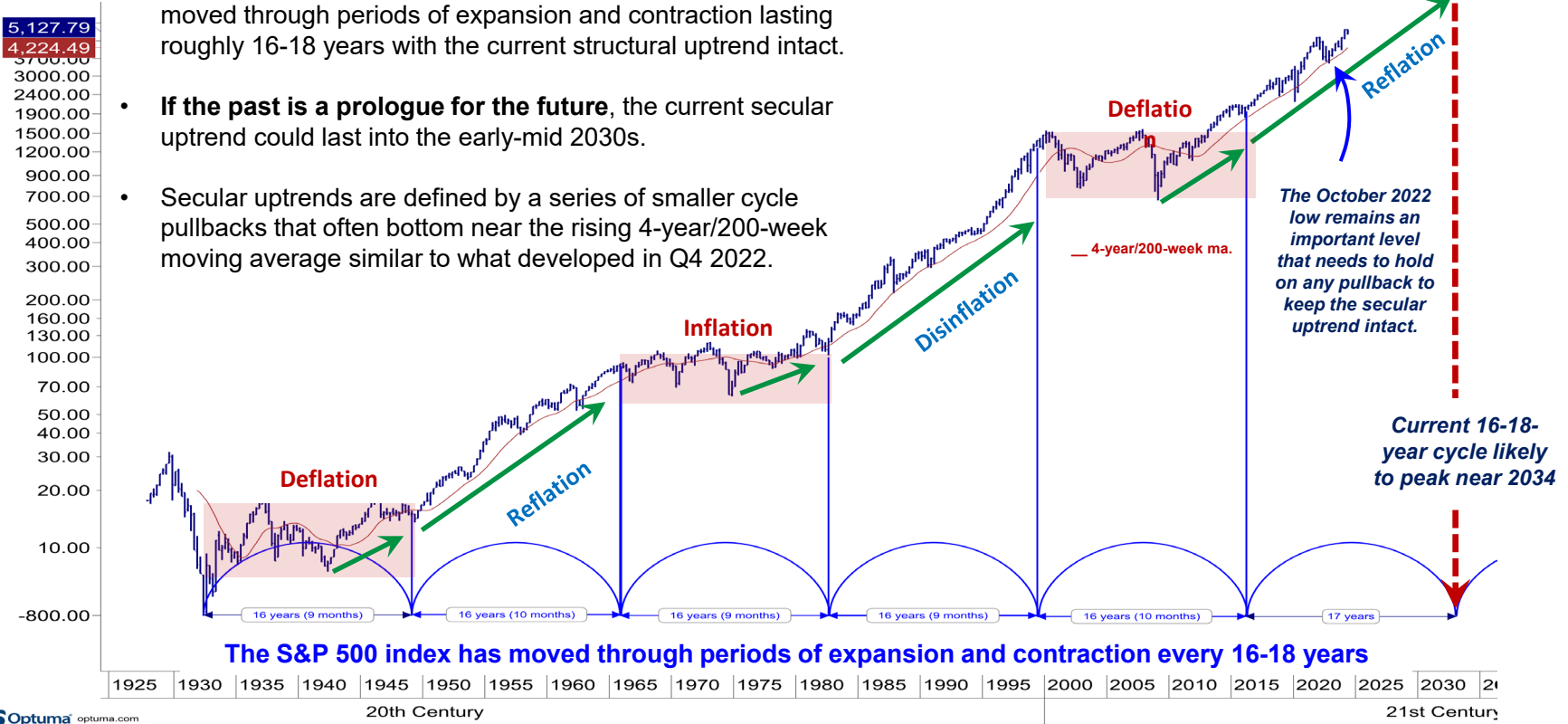
Equity leadership

- **Growth/technology** remain in long-term uptrends with intermediate-term/weekly corrections taking hold following surges in Q4-Q1. Similar to our market view, we expect further choppy trading into mid-late Q2 by which time weekly indicators should be bottoming for another upside attempt with semiconductors and media likely to lead.
- **Cyclicals** – Longer-term profiles, notably industrials, remain positive with tactical pullbacks underway similar to growth stocks following strong rebounds in Q4-Q1, with Q2-Q3 pullbacks in industrial, energy, materials and financials viewed as opportunities.
- **Safety sectors** such as utilities, staples and healthcare are recovering from oversold levels moving into late Q1/early Q3. While dividend income needs support having some exposure in these sectors, we do not expect them to outperform the market through year-end.

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



- The long-term secular trends for the US stock market have moved through periods of expansion and contraction lasting roughly 16-18 years with the current structural uptrend intact.
- If 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 rising 4-year/200-week moving average similar to what developed in Q4 2022.

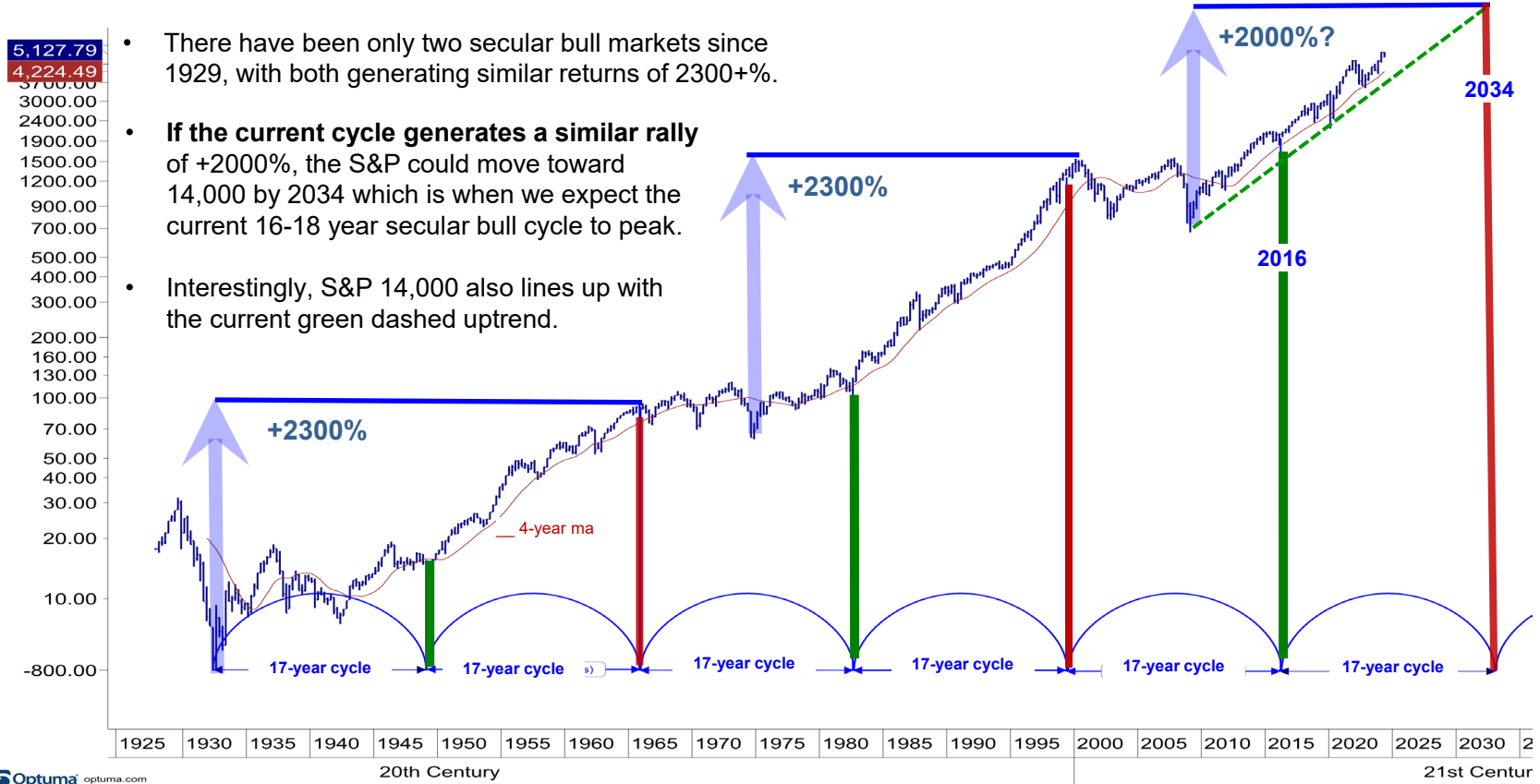


Could the S&P rally to 14,000?



5,127.79
4,224.49

- 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.
- Interestingly, S&P 14,000 also lines up with the current green dashed uptrend.



Optuma optuma.com

Source: RBC Wealth Management, Bloomberg, Optuma

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



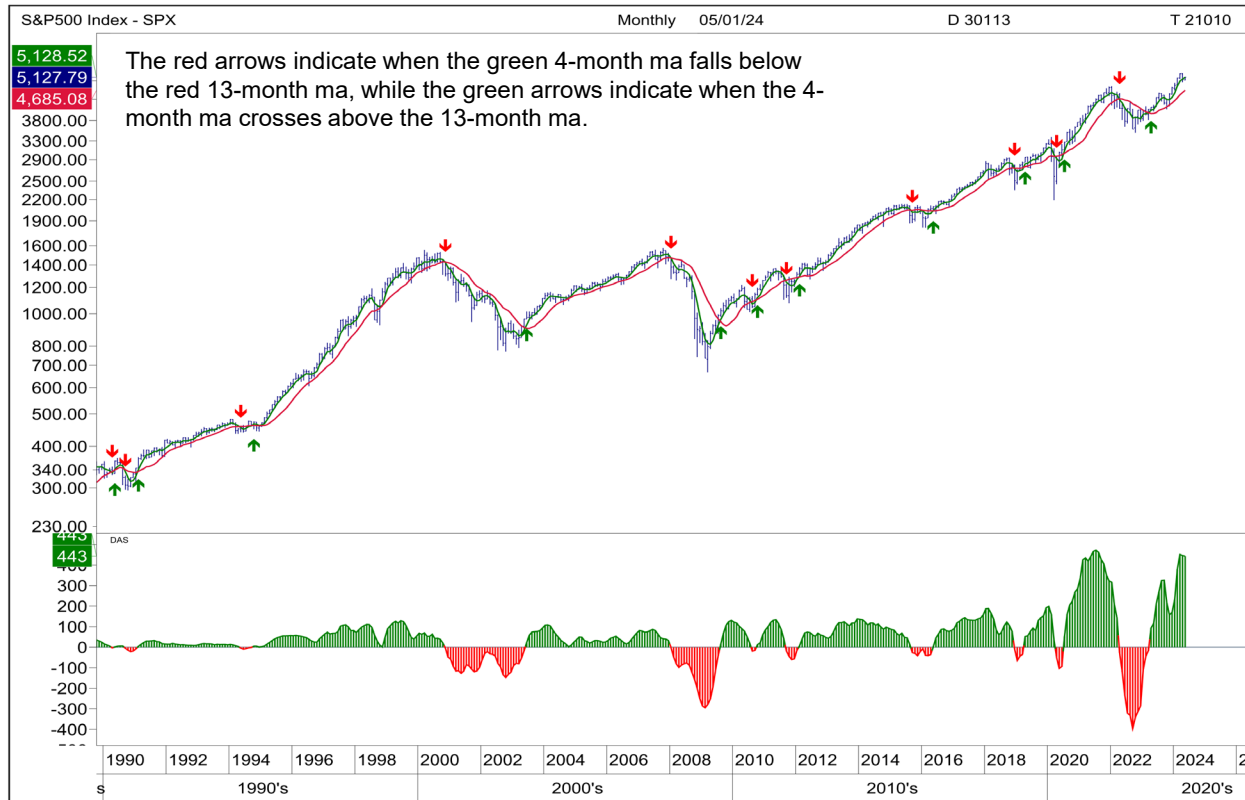
4 Year Cycle	% Rally	% Correction
1949-1953	97	-15
1953-1957	118	-22
1958-1962	86	-28
1962-1966	80	-22
1982-1987	231	-36
1987-1990	71	-20
1990-1994	64	-10
1994-1998	173	-22
2011-2016	99	-16
2016-2020	87	-38
2020-2024 ?	120	-27
Average	111	-23

- Cycle lows regularly develop every 3-4 years, often near the red 4-year moving average which was the case in 2022.
- The recent breakout to new highs in early 2024 is confirming the new upcycle.



Source: RBC Wealth Management, Bloomberg, Optima

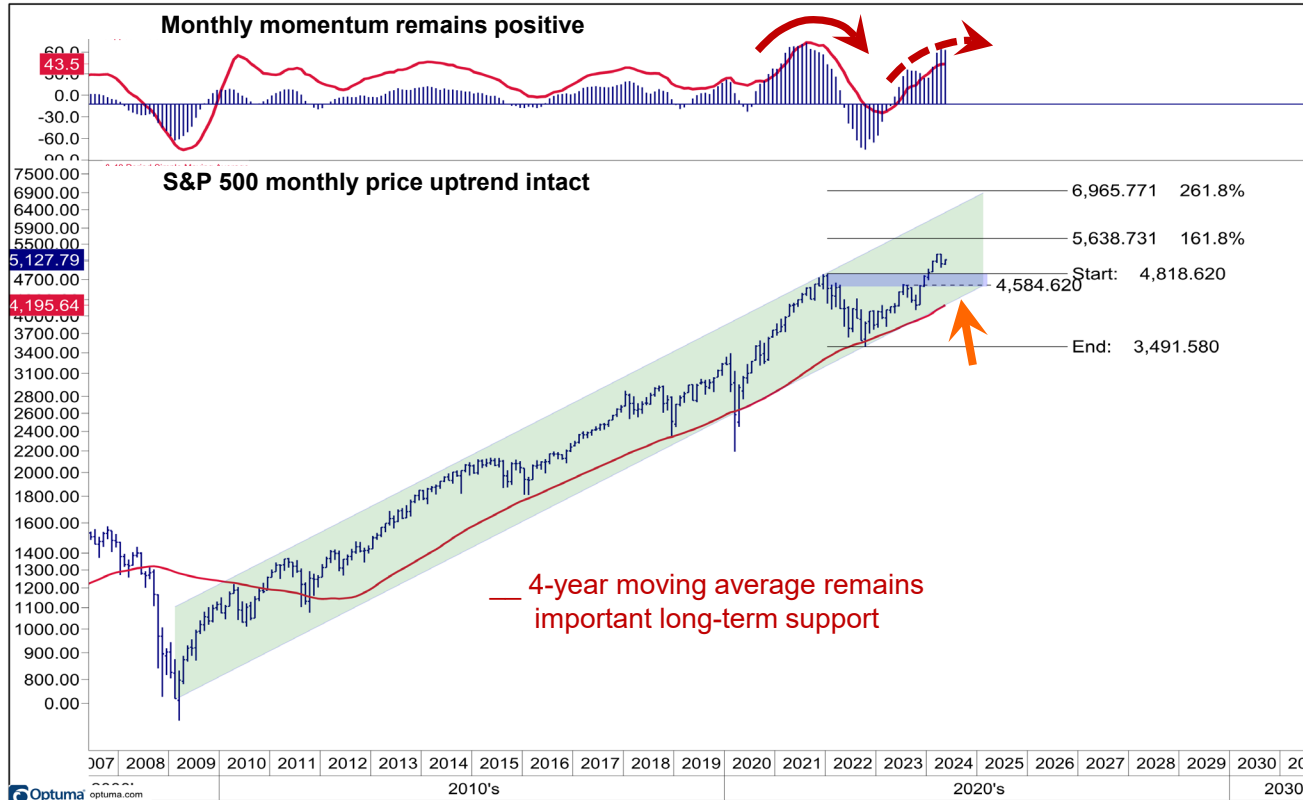
S&P 500 Index – Uptrend intact with momentum becoming advanced.



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 moving average above the longer-term red moving average as 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, built positively into the summer of 2023 and remains positive and above the zero axis moving into Q2 2024.
- **With the data in the bottom panel now advanced we will be monitoring it closely in the coming months for signs that momentum is decelerating and potentially turning negative as an early warning sign the cycle is maturing.**

S&P 500 – Monthly momentum positive but at risk of decelerating.



Cycle momentum

- Remains positive above the zero axis **but likely to begin peaking in the coming months** with a decline below the zero axis needed to signal the uptrend is reversing.

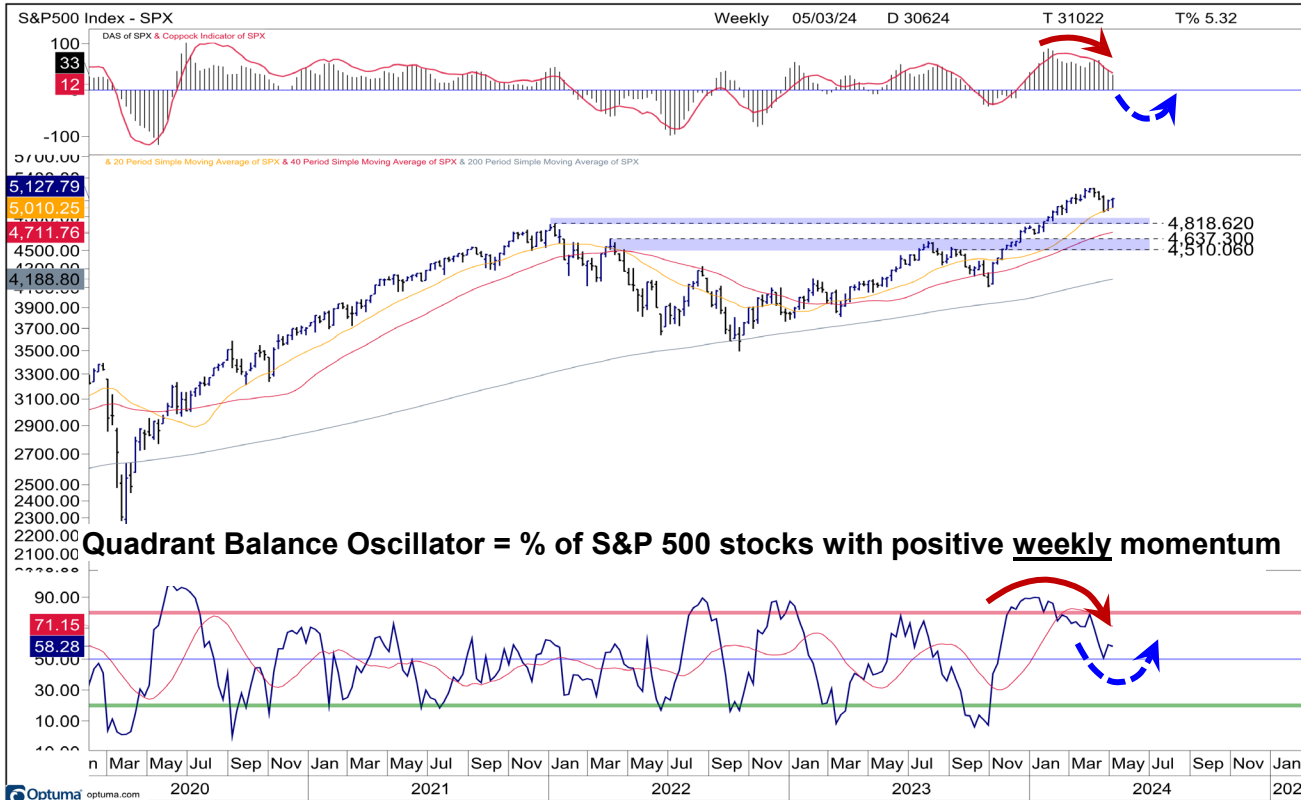
Uptrend intact

- Next major Fibonacci resistance is at 5638 followed by 6965.
- Support: 4818 then 4584.

What would change our positive view?

- A break below support near the 4-year moving average, currently at 4107, would be needed to confirm the **cycle** is failing.

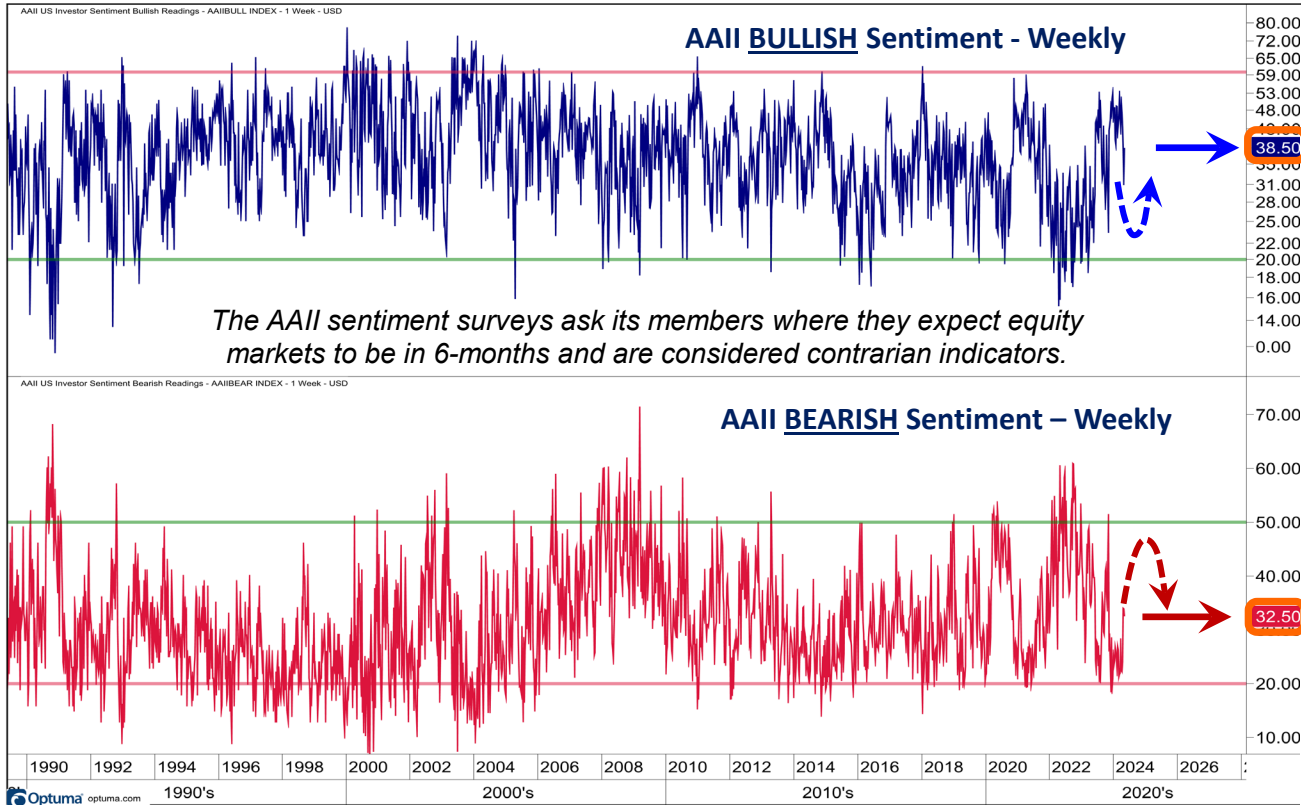
S&P 500 with weekly Quadrant Balance momentum



Source: RBC Wealth Management, Bloomberg, Optuma

- Weekly momentum indicators, tracking 2-4+ month swings, are unwinding from overbought levels reached in early-mid Q1 and likely to bottom and turn up by late Q2/early Q3.
- As such, we expect further choppy trading in Q2 with the S&P already bouncing from short-term oversold levels near its 20-week/100-day ma near 5000 with next support near 4818.
- Quadrant balance data continues to unwind with mid-late Q2, possibly early Q3, as a potential bottoming zone.

AAII US Bullish and Bearish Sentiment



Sentiment surveys are contrarian indicators.

- Bullish Sentiment is pulling back from elevated levels...
- ...while bearish sentiment is building from low levels.
- We view this data to be supportive of a pause/pullback taking hold in equity markets with further declines in bullish sentiment and a rise in bearish sentiment readings an encouraging development to support equity markets later in Q2/Q3.

S&P/TSX Composite – Monthly



- The TSX successfully tested and rallied from support coinciding with the 4-year ma in Q4 2023 keeping the long-term uptrend intact.
- While a tactical multi-month pause is underway from resistance near 22,217, our view is that the TSX completed a secondary cycle low in Q4 with potential to break out above 22,217 in Q3 2024 with 24,884 the next key resistance level.
- Relative performance versus the S&P remains flat to weak and would need to push above the 2020-2022 highs to support overweighting the TSX vs the S&P 500.

Optima optima.com Source: RBC Wealth Management, Bloomberg, Optima

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



EAFE (Europe, Asia and Far East)

- The EAFE index has rallied back to test next key resistance near the highs in 2008 and 2021 at 2416.
- While a near-term pause is underway, we expect further upside in 2024 consistent with our positive outlook for the 4-year cycle.
- Overall, we view the long-term price profile to emerge from its 2008-2024 trading range in 2024 but **relative performance versus the S&P 500 remains in a downtrend with no meaningful change in trend developing to support overweighting EAFE.**

Source: RBC Wealth Management, Bloomberg, Optima

MSCI Emerging Market Index and relative performance vs S&P 500



Optuma optuma.com

Source: RBC Wealth Management, Bloomberg, Optuma

- A cycle low is likely developing for EM as it bases above support near 900 with a move above first resistance at 1057 needed to complete the bottoming pattern.
- Interestingly, two of the weaker markets, notably Hong Kong and China are showing early signs of bottoming.
- Heavy resistance remains in a band between 1204-1337, with a move above that level needed to signal a new longer-term uptrend taking hold.
- While a tactical price bottom is in the early stages of developing, relative performance versus the S&P 500 remains in a downtrend and would need to reverse to the upside to technically support adding exposure.

US 10 Year Yield: Cycle peak likely in place at a critical level of 5%



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Source: RBC Wealth Management, Bloomberg, Optuma

US Dollar DXY Index – Monthly



- After a decline from 114 by the DXY US dollar index to 100 through 2023, monthly momentum is showing evidence of bottoming as the DXY bounces from support between 98.7-100.8.
- Key resistance is at 105-107 where we have expected the DXY to stall, with recent weakness in early May supportive of our view.
- **RISK: Should the DXY index move above 107 it would signal further upside toward next resistance at 114-115 with equities very likely to weaken.**

Source: RBC Wealth Management, Bloomberg, Optuma

Canadian Dollar / US Dollar - Monthly



- Monthly cycle momentum has been building positively since Q4 2022 but is showing early signs of stalling.
- We continue to view the CADUSD to be in a bottoming pattern above 0.715 with a move above 0.76-0.77 needed to confirm a new uptrend is taking hold.
- Conversely, a break below key support at 0.715 would be a signal that the trading range in place since Q4 2022 is failing with next support at 0.68.

Source: RBC Wealth Management, Bloomberg, Optuma

WTI Oil Future - Monthly



- Monthly cycle momentum remains positive as WTI shows evidence of bottoming in the low 70s.
- After stalling near 93, WTI Oil remains in a broad, choppy trading range above support in the high 60s-low 70s with trading support near current levels between 75-77.
- Bottom line: We expect WTI to remain in a broad trading range above the mid-high 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.

Source: RBC Wealth Management, Bloomberg, Optuma

Gold – Monthly – Longer-term profile remains positive.



- Gold completed a major long-term breakout above 1921-2075 resistance in Q1 2024.
- Overall, the longer-term pattern for gold remains positive with gold now at its next pause point near 2360 coinciding with the 162% Fibonacci extension of 2021-2023 trading range.
- While a near-term pause is likely, we do not expect gold to break below its 2000-2100 support band.

Source: RBC Wealth Management, Bloomberg, Optuma

Copper - Monthly

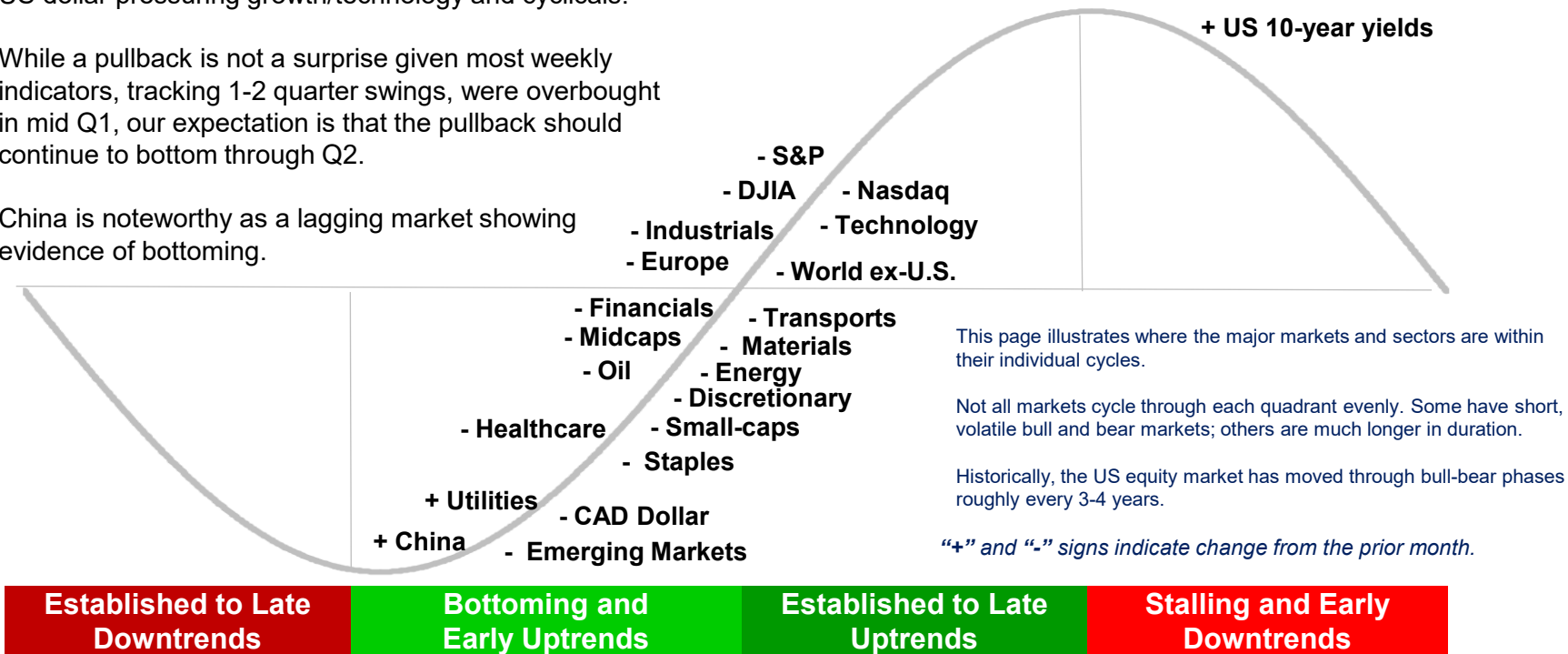


- Monthly momentum bottomed in Q4 2022, similar to equity markets, as copper established its cycle lows near major support between 320-330 and with a secondary cycle developing in Q4 2023 near 350-360.
- The overall technical profile for copper remains positive following its upside reversal of the 2022-2024 downtrend.
- Tactically, however, with copper back to 457-501 resistance, a pullback is likely with support in a broad band between 388-431.

Source: RBC Wealth Management, Bloomberg, Optima

Major markets and S&P sector cycles

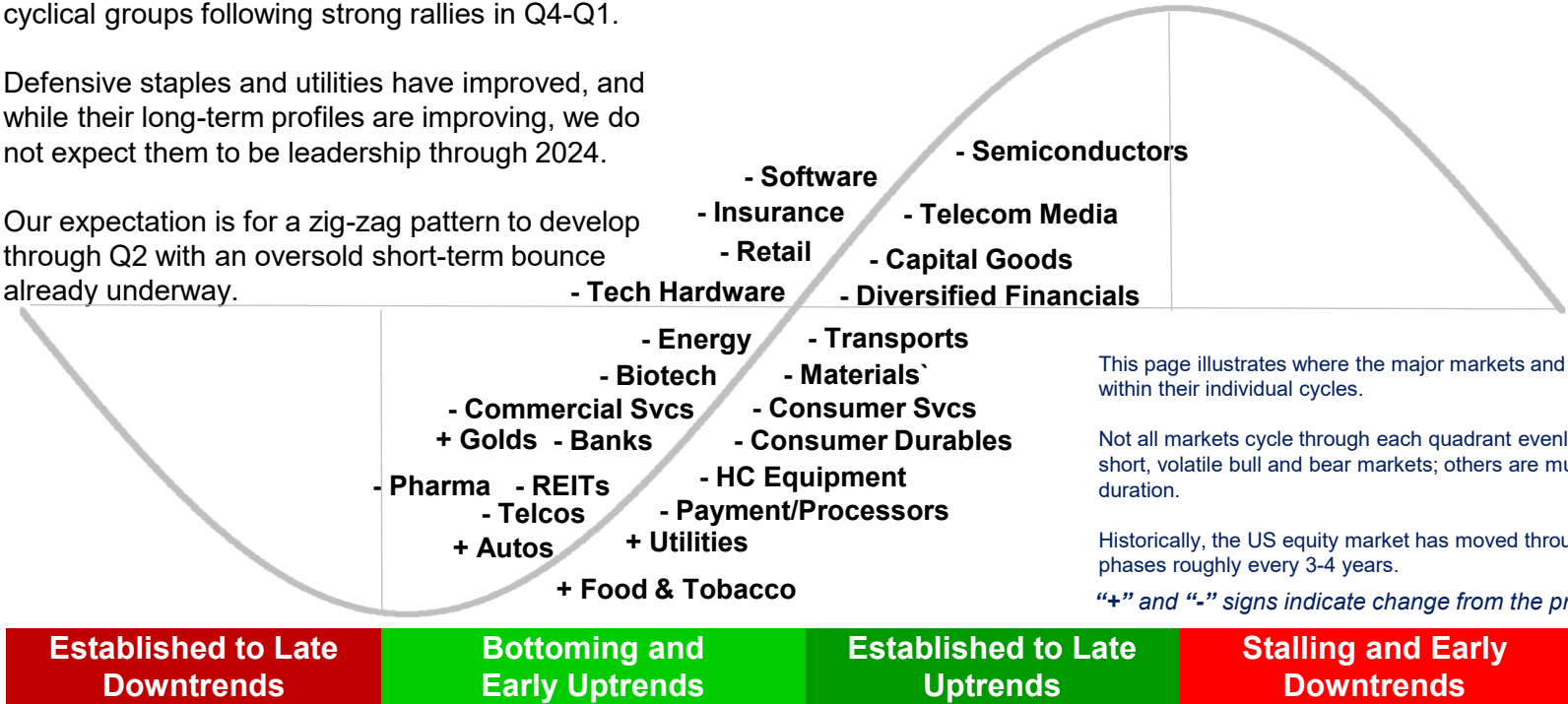
- Most markets and sectors pulled back in April following strong Q4-Q1 surges, with rising interest rates and the US dollar pressuring growth/technology and cyclicals.
- While a pullback is not a surprise given most weekly indicators, tracking 1-2 quarter swings, were overbought in mid Q1, our expectation is that the pullback should continue to bottom through Q2.
- China is noteworthy as a lagging market showing evidence of bottoming.



Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- Overall, we view April weakness to be an extension of the pullbacks that began in mid-late Q1 for many of the more advanced growth and cyclical groups following strong rallies in Q4-Q1.
- Defensive staples and utilities have improved, and while their long-term profiles are improving, we do not expect them to be leadership through 2024.
- Our expectation is for a zig-zag pattern to develop through Q2 with an oversold short-term bounce already underway.



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

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			Count	Percent
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