Technical Strategy

Trend & Cycle Roadmap

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******Please note our next Weekly Chartbook will be published on Wednesday, July 3.***

Interest rate trend remains lower, supportive of further upside for equity markets.

The bond market's reaction to Wednesday's CPI inflation report and Federal Reserve FOMC meeting was a net positive for equity markets as interest rates continued to trend lower.

The larger weekly chart below illustrates the broad topping pattern in place for the US 10-year yield peaking at 5% in Q4 2023, followed by a lower high at 4.7% at the end of April. The smaller chart illustrates the ongoing trend lower this week. While we continue to expect interest rates to move lower into the late summer, the path is likely to remain volatile, similar to what developed in May-June as investors continue to debate the risk of inflation against the prospect of slowing economic growth.

Levels: The next key yield support band for the US 10-year yield is between 4.0-4.18% where we expect another bounce with 4.6-4.7% the key upside resistance levels for rates. Our expectation is for rates to remain range bound into early-mid Q3. What would concern us is a decline below 3.7-3.8% which would likely signal the broader economic backdrop is decaying.

The bottom line is that we view interest rate trends to be supportive of further equity market gains into the summer, illustrated on pages 2-3, followed by another period of seasonal weakness into mid-Q3.

Source: RBC Wealth Management, Bloomberg, Optuma

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All values in U.S. dollars and priced as of June 12, 2024 at 1:00 pm ET unless otherwise noted.

For Important Disclosures, see page 4.

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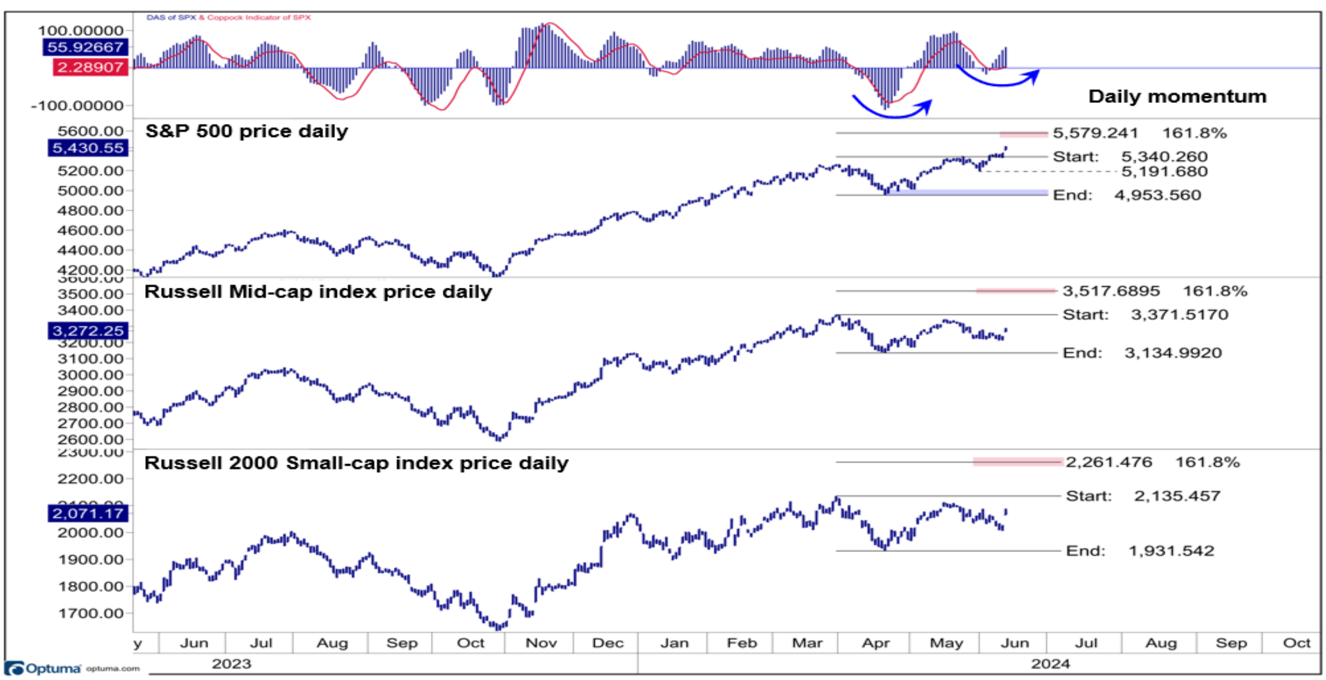
S&P intermediate term – We continue to feature the chart below to illustrate the 2-4+month swings through which markets regularly move. Weekly momentum for the S&P 500 index in the top panel is turning postive after peakig in early Q1, while the indicator in the lower panel is completing a zig-zag bottoming pattern reflecting the choppy corrections most individual stocks have experienced moving through Q1 into Q2. Overall, we view these indicators to be turning up and supportive of further upside for equity markets well into the summer.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500, Russell Mid-cap and Russell Small-cap indices compared. Large-cap growth stocks have lifted the S&P 500 to new cycle highs with 5579 next resistance. In contrast, the Russell mid-cap and small-cap indices continue to track a zig-zag pattern moving into Q2 with another short-term upturn taking hold as interest rates step lower. Our expection is for these mid- and small-cap indices to break out to new cycle highs moving through Q2 into Q3 with 3517 and 2261 next key upside levels.



Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 Sectors

We featured the chart below recently to contrast and compare the larger S&P 500 sectors from a technical perspective.

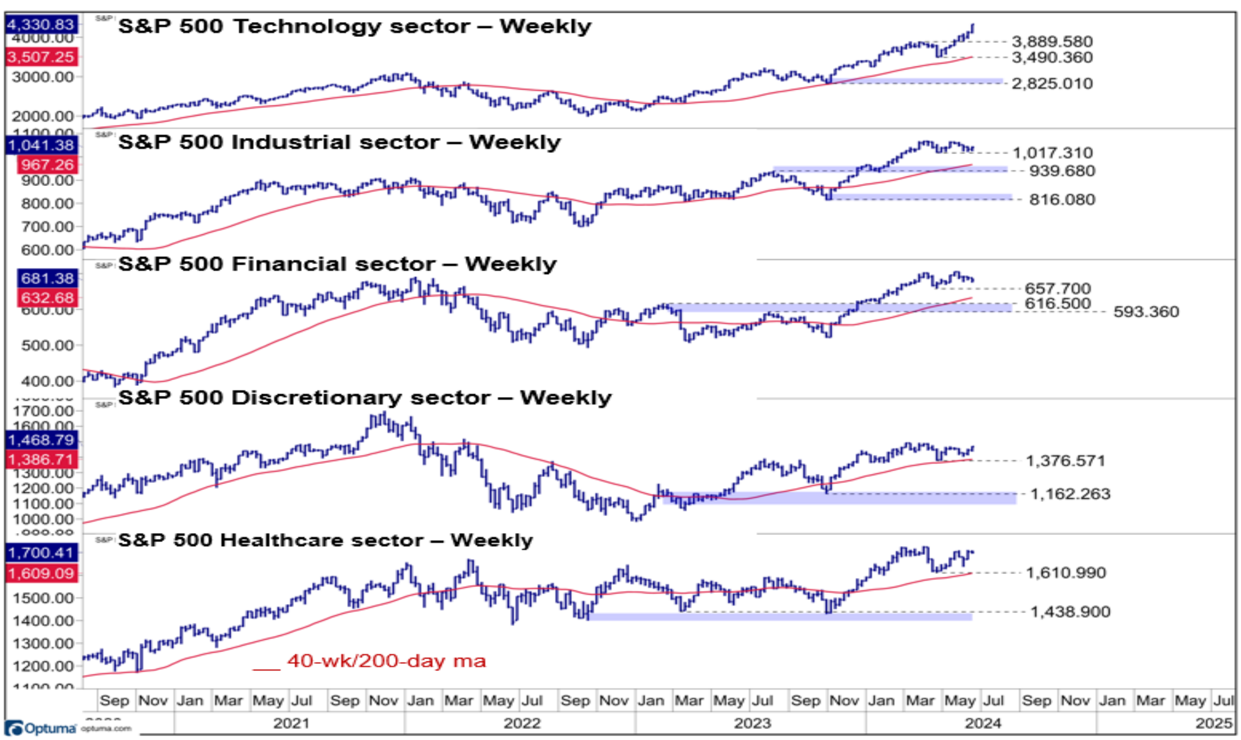
Panel 1 – Technology - As most equity investors are aware, the technology sector continues to lead stock markets with a series of higher highs. While a few high profile, mega-cap growth stocks continue to drive the bulk of the gains in the market and sector, there are many names participating with a growing list now bottoming following Q1-Q2 pullbacks.

Panels 2-3 – After a strong surge in Q4-Q1, the industrial and financials sectors remain in a zig-zag consolidation above their uptrends defined by the red 40-wk moving averages. While a break below the April lows would signal a deteriorating trend, our expectation remains that both sectors will continue to trend above those levels with an upside break out likely moving into Q3. We view today's CPI report and FOMC decision supportive of our view.

Panel 4 – Consumer Discretionary – The broad Q1-Q2 consolidatoin is bottoming at support defined by the rising 40-week/200-day moving average with potential to break out and move higher heading into Q3 as a number of the larger-cap bellwethers in the sector begin to bottom following Q1-Q2 pullbacks.

Panel 5 – Healthcare – While we don't expect more defensive sectors such as Healthcare to lead the market through the balance of 2024, the overall price trend for the sector remains positive as it consolidates above support near its 40-week ma with potential for new cycle highs moving into Q3.

The bottom line for investors is that while large-cap growth stocks retain leadership, notably in the technology sector, there are opportunities developing in other sectors following Q1-Q2 pullbacks that have returned many groups and stocks to more timely entry points to consider adding equity exposure.



Source: RBC Wealth Management, Bloomberg, Optuma

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