
# Trend & Cycle: The Long View – February 2024

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February 5, 2024 / RBC Capital Markets, LLC / Portfolio Advisory Group

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

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Produced: February 4, 2024 20:10ET; Disseminated February 5, 2024 08:17ET

Wealth Management

# Trend & Cycle: The Long View – February 2024

- **Secular outlook-** The very long-term secular trend and cycle for US equity markets remains supportive of further upside into the mid 2030s with potential for the S&P 500 to trend toward 14,000. Until we see evidence that the uptrend, defined by the 4-year moving average, is at risk of being broken, we encourage investors to remain optimistic.

- **4-year cycle – Where are we now?** The current secular bull market is made up of a series of smaller 3-4 year cycles with the most recent cycle positive after bottoming in Q4 2022 with further upside likely through 2024. The S&P's recent breakout above the 2-year trading range to an all-time high reinforces our positive technical outlook. Smaller and mid-cap indices, along with other more cyclical sectors and groups, are also showing evidence of bottoming and improving longer-term.

- **Tactical/multi-month concern** - As we noted here last month, a pullback moving through mid-late Q1 appears likely given most intermediate-term (weekly) indicators, tracking 2-4 month swings, are beginning to move toward overbought territory and likely to turn down in the coming weeks.

- **Bottom line**: We view weakness in Q2 as an opportunity to increase exposure to an improving market cycle.

- **Interest Rates** - We view the highs at 5% for the US 10-year yield to have established the highs for the current cycle, which in turn should be a tailwind for equities through 2024.

- From a tactical perspective, similar to our expectation for equities, intermediate-term/weekly momentum indicators became moderately oversold at the beginning of January suggesting a bounce in rates, which did develop through the month. Our view is that a tactical low is now in place between 3.7-3.8% with the US 10-year likely to trade above that level but below resistance near 4.0-4.3% well into Q2.

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- **Currencies** – Similar to rates, the US dollar has likely established a cycle high but is bouncing from intermediate-term oversold levels near support at 100 for the DXY dollar index. Here again, expect a broad choppy trading range well into Q2 2024.

- **Commodities**. WTI Oil has bottomed above important support in the mid-high 60s with resistance near 80. We expect WTI to remain range bound for the earlier part of 2024 with additional upside likely later in the year. Gold, in contrast, continues to consolidate below resistance between 2000-2075 with an upside breakout likely in 1H.

**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 appears likely moving into mid-late Q1 with fewer technology stocks timely at current levels.

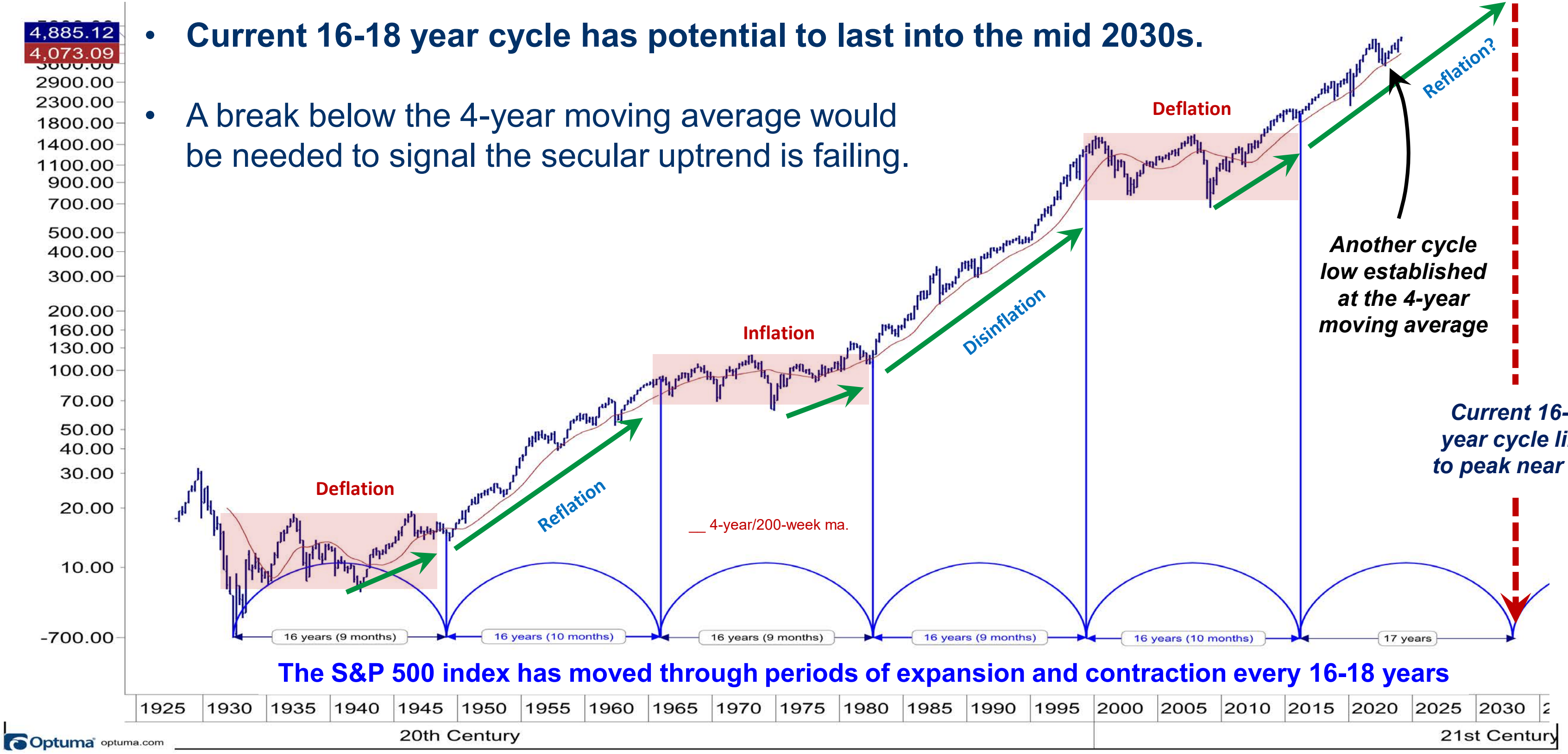
- **Cyclicals** - While technology leads, we continue to see evidence that more **cyclical indices**, such as small and mid-caps along with sectors such as industrials, financials and select consumer discretionary, are improving after establishing cycle lows in Q4 2022 with secondary lows in Q4 2023.

- **Safety sectors** - Given our positive outlook for the current cycle we expect safety/defensive sectors to underperform for the year but likely to outperform in Q2 as growth and cyclicals pause/pullback. Select healthcare groups, such as medical technology, remain attractive technically.

- Bottom line: Remain focused on the longer-term trend and patient through pending Q1-Q2 volatility that should create more attractive technical opportunities in the coming months.

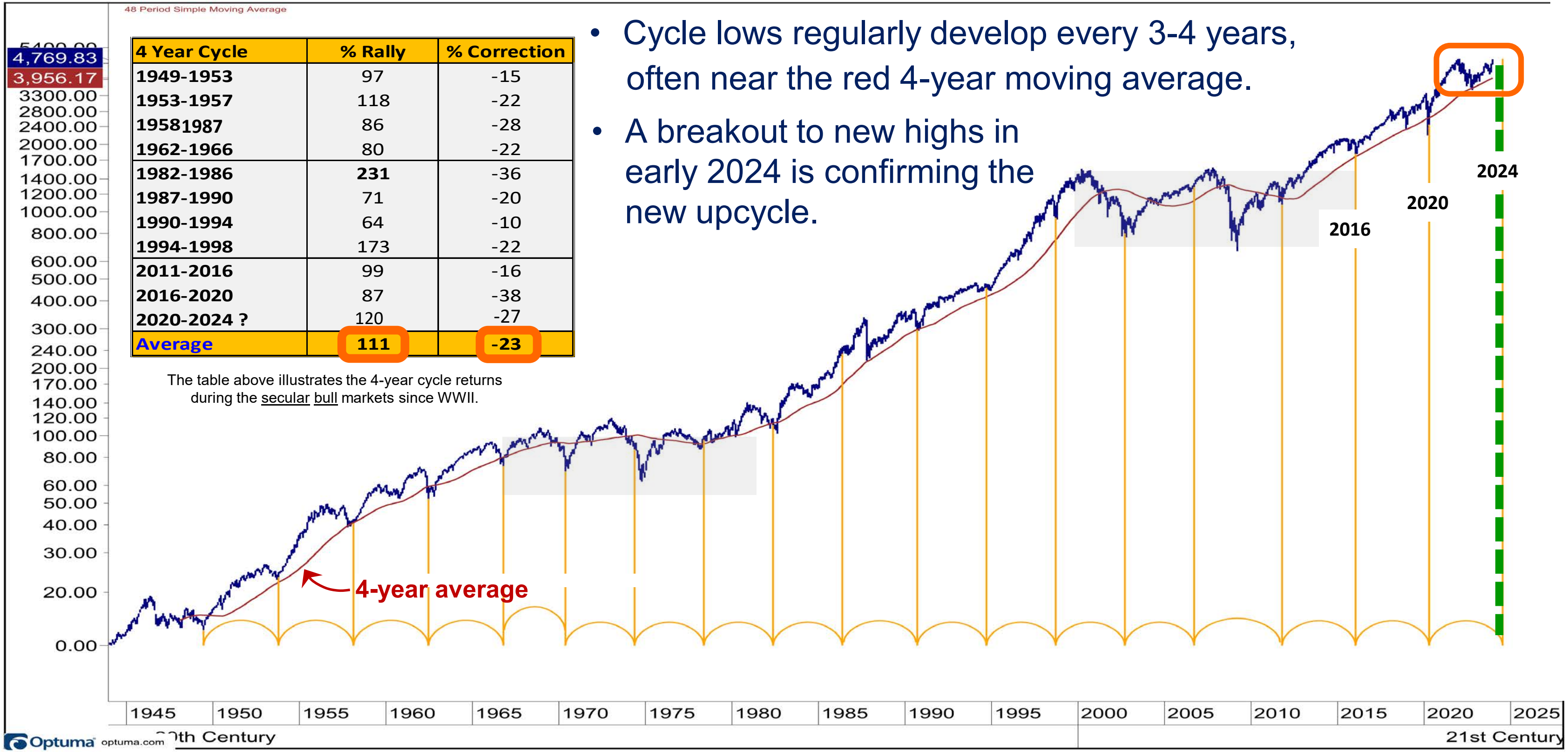
# S&P 500 - Generational cycles lasting roughly 16-18 years

- **Current 16-18 year cycle has potential to last into the mid 2030s.**
- A break below the 4-year moving average would be needed to signal the secular uptrend is failing.




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 |
| 19581987 | 86 | -28 |
| 1962-1966 | 80 | -22 |
| 1982-1986 | **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** |

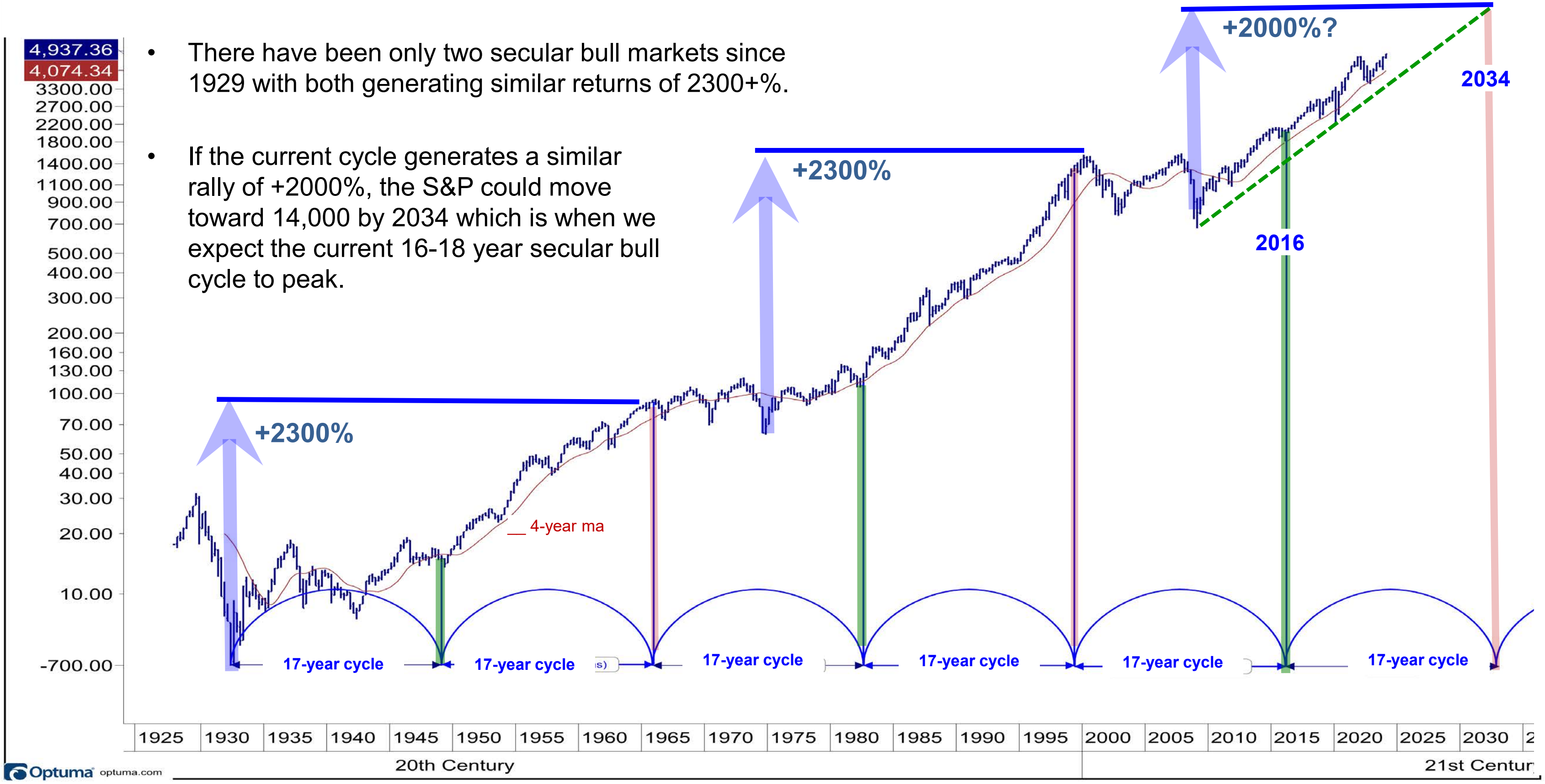
The table above illustrates the 4-year cycle returns during the secular bull markets since WWII.

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

Source: RBC Wealth Management, Bloomberg, Optuma

# S&P 500 – Could the S&P rally to 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.




Source: RBC Wealth Management, Bloomberg, Optuma

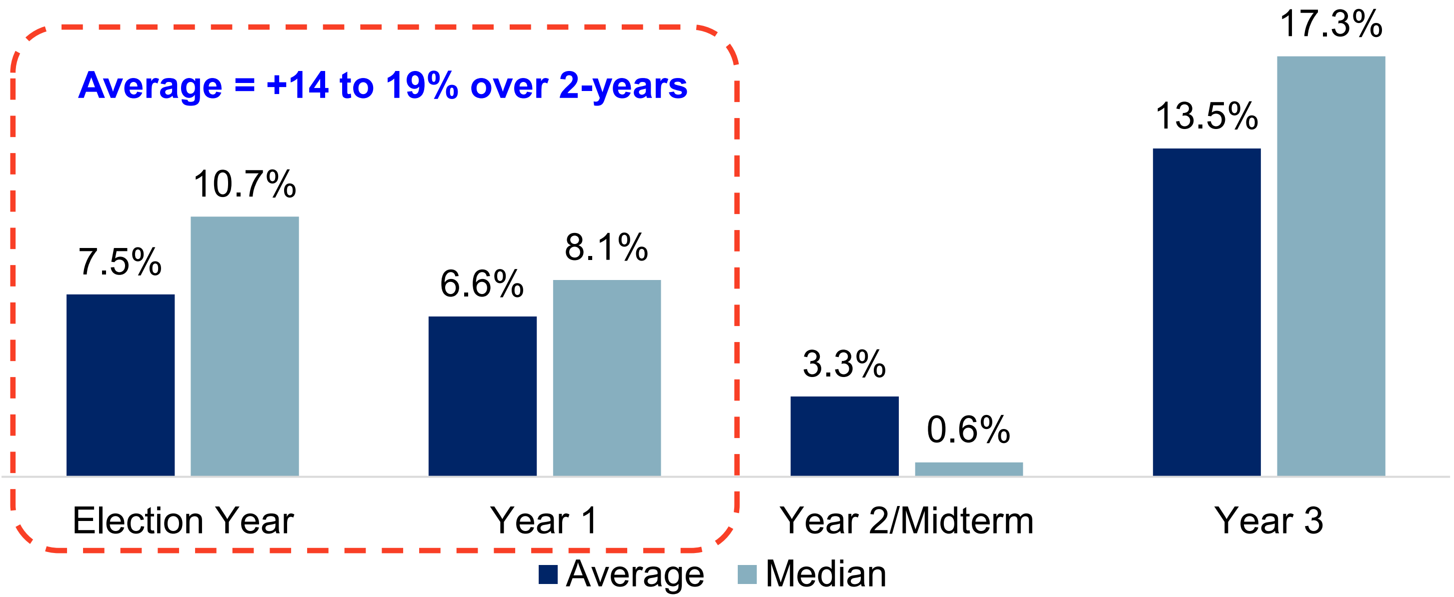
# S&P 500 Index – Monthly long-term trend analysis remains positive.


- 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.
- 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.

Source: RBC Wealth Management, Bloomberg, Optuma

# 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 likely to peak by mid-late Q1.

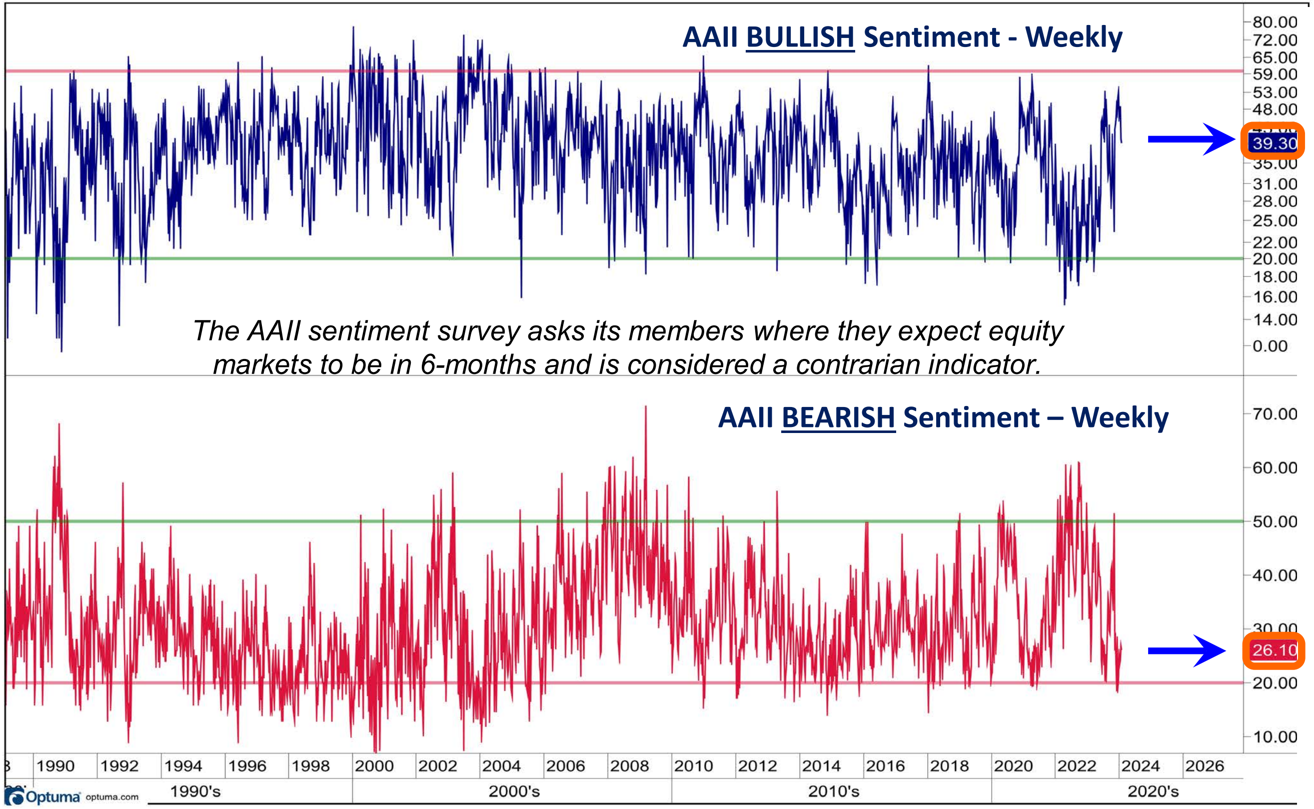

Source: RBC Wealth Management, Bloomberg, Optuma

- Uptrend remains positive.
- S&P 4510-4637 support.

**Tactical concerns:**

- Weekly momentum indicators are overbought and likely to peak by mid-late Q1.
- **We expect a more choppy market moving into Q2.**

# AAII US Bullish and Bearish Sentiment – Investors are optimistic again




Source: RBC Wealth Management, Bloomberg, Optuma

**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/48 month moving average 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.

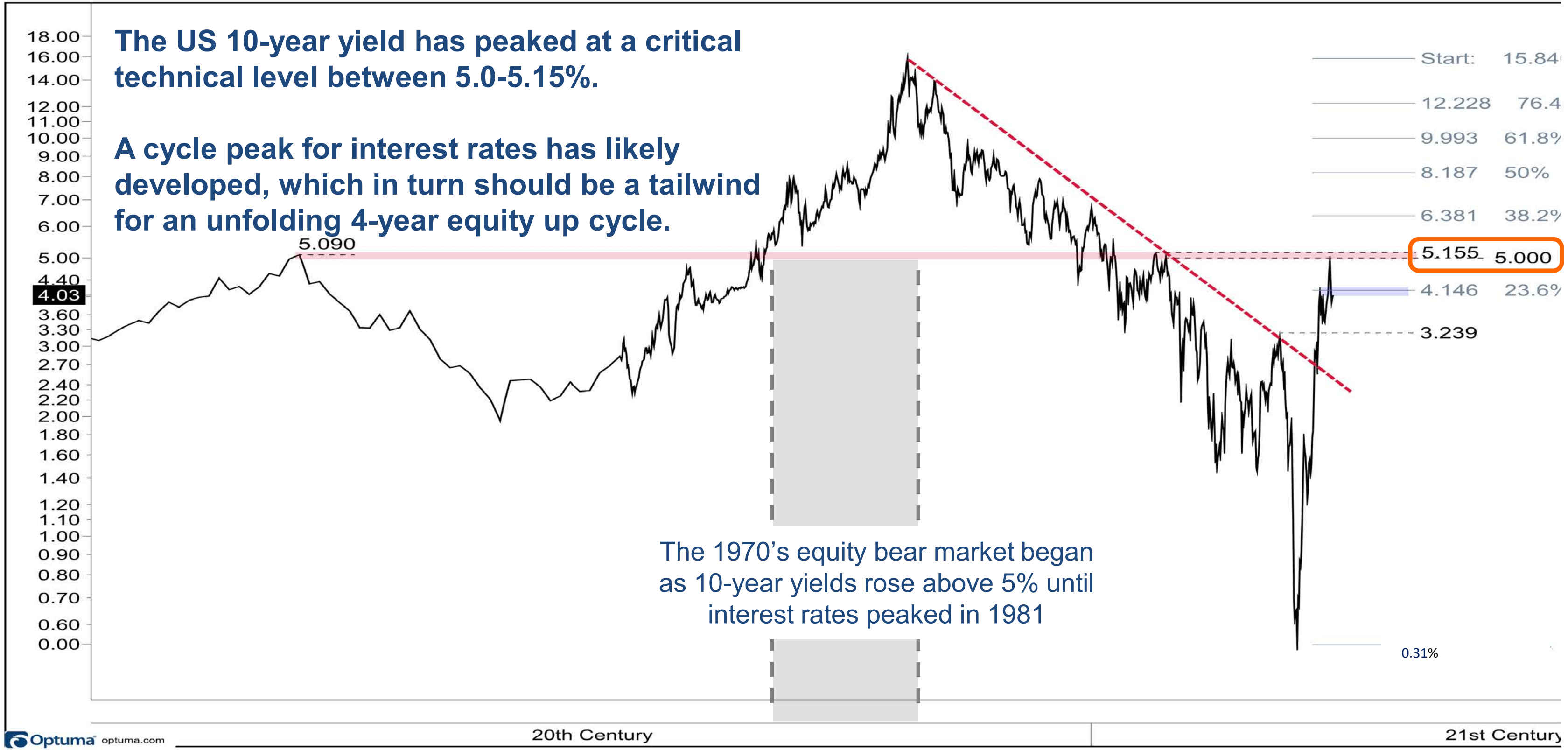
# MSCI EAFE – Monthly with relative performance vs the S&P 500


Source: RBC Wealth Management, Bloomberg, Optuma

**EAFE (Europe, Asia and Far East)**

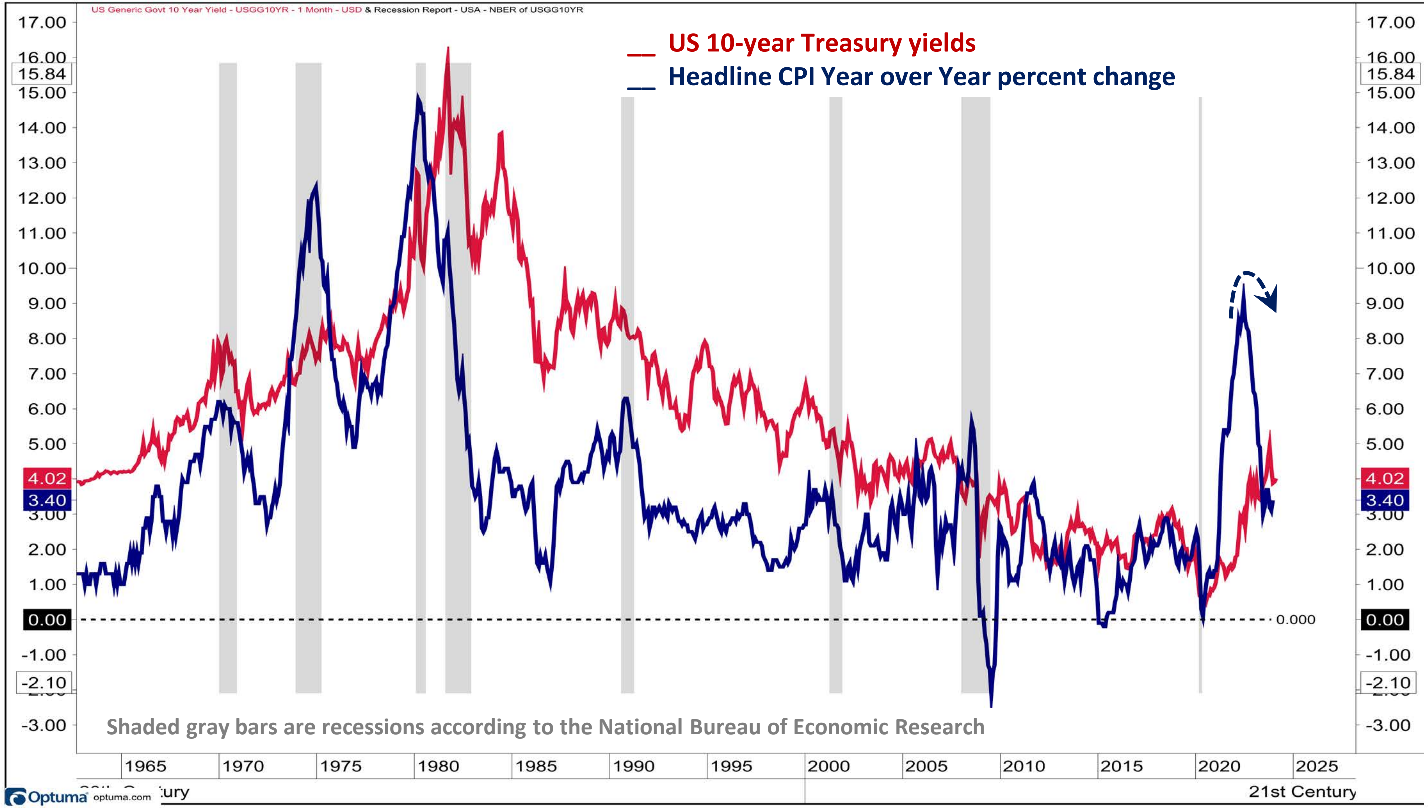
- EAFE remains range bound longer-term testing next tactical resistance at 2227.
- Further upside is likely in Q1 but with 2416 heavy resistance that will need to be exceeded to suggest any change in EAFE's secular trading range.
- Relative performance versus the S&P 500 remains in an established downtrend with no meaningful change in trend 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 evidence of retreating from the key 5% level 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. It is likely to remain weak over the coming year albeit with plenty of volatility.
- Support remains near 98.7-100.8 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.

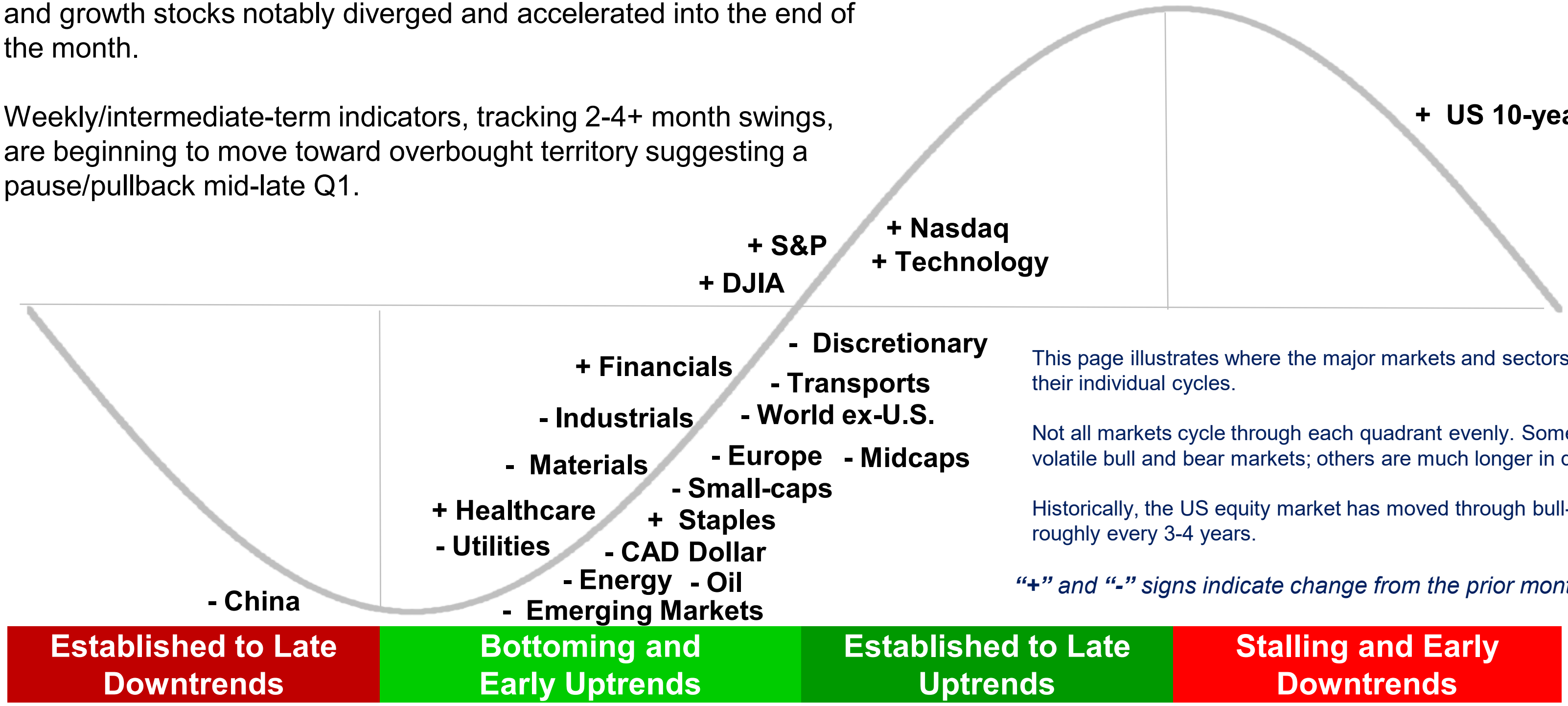

Source: RBC Wealth Management, Bloomberg, Optuma

- After bottoming in Q3 near key support at 1800 near its rising red 200-week moving average, gold has rallied back to resistance between 2000-2075.
- 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 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

- After a strong year-end surge in December most markets and sectors paused and pulled back in January although technology and growth stocks notably diverged and accelerated into the end of the month.

- Weekly/intermediate-term indicators, tracking 2-4+ month swings, are beginning to move toward overbought territory suggesting a pause/pullback mid-late Q1.




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.

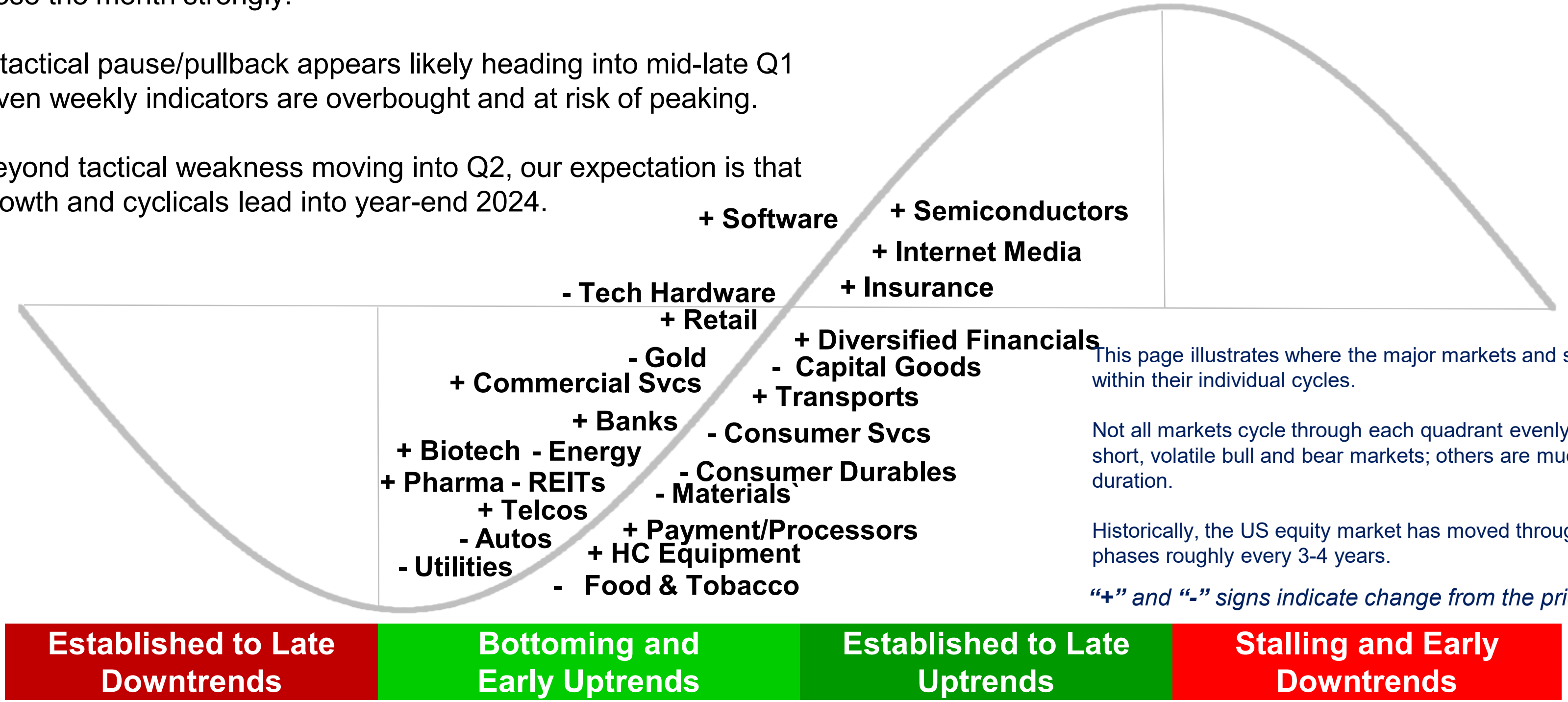
Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years.

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

Source: RBC Wealth Management, Bloomberg, Optuma

# Industry group cycles

- Most groups pulled back through January with technology/growth groups reversing early weakness at the beginning of the month to close the month strongly.
- A tactical pause/pullback appears likely heading into mid-late Q1 given weekly indicators are overbought and at risk of peaking.
- Beyond tactical weakness moving into Q2, our expectation is that growth and cyclicals lead into year-end 2024.

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| Hold [Sector Perform] | 575 | 39.66 | 154 | 26.78 |
| Sell [Underperform] | 46 | 3.17 | 6 | 13.04 |

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