Trend & Cycle: The Long View – February 2025

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February 3, 2025 / RBC Capital Markets, LLC / Portfolio Advisory Group

All values in U.S. dollars and priced as of market close on January 31, 2025, unless otherwise noted.

For Important Disclosures, see page 24

Produced: February 3, 2025 13:21ET; Disseminated: February 3, 2025 13:32ET

Wealth Management

Trend & Cycle: The Long View – February 2025

Structural/secular trend and cycle

- We view the long-term structural uptrend for the S&P 500 to be intact with an underlying 16- to 18-year generational cycle supportive of further upside into the mid-2030s, with potential to reach S&P 14,000. We recognize that this outlook may seem overly optimistic given the macro-fundamental and geopolitical concerns many investors have, but the annual compound growth rate is in line with average historical returns for the S&P 500 in the 7-8% range. While it is difficult for anyone to know what might be the major drivers for further equity upside, we believe investors should remain open to the possibility that AI could be a major productivity catalyst over the coming decade.

4-year cycle – Where are we now?

- **A look back at prior 4-year cycles:** We regularly discuss the prior structural uptrends of the 1950s-1960s, 1980-1990s and 2010-2020s to highlight that those uptrends consisted of a series of smaller 3-4+ year cycles that often pulled back to a longer-term uptrend defined by a rising 4-year/200-week moving average. While these smaller cycles are not perfectly symmetrical, they repeat regularly enough that we encourage investors to consider them in their investment process. We view liquidity from global central banks and the response by the economy to be the two main drivers supporting equity bull markets. As such, interest rate policy remains one of the key drivers of these smaller multi-year cycles. As the 10-year yield peaked in Q4 2023, equity participation expanded broadly with most other markets, such as the mid- and small-cap indices, TSX, EAFE, Europe and Emerging Markets, rallying strongly from their lows. The bottom line is provided the US 10-year yield does not push above 5% on the upside, the current equity cycle has potential to trend higher, in our view.
- **Yellow Flag – Monthly momentum has peaked:** One of the technical tools we use to track these smaller 3-4 year cycles is a monthly momentum indicator which bottomed in Q4 2022 but has begun to turn down over the past two months. While a downturn in this indicator is a yellow flag, we would caution turning bearish prematurely given these indicators can turn negative quarters in advance of the market index peaking. What would support a more cautious view of the current cycle would be downside trend reversals of our three primary measures of a market's trend, specifically the S&P 500's price trend, relative performance of stocks vs bonds and breadth/participation as measured by the cumulative advance-decline line.

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Tactical backdrop moving through Q1

- After a strong rebound into December from the August lows, most equity markets pulled back into Q1 and have remained volatile since. Trade tariffs are the current headwind for equities moving into February so further choppy trading appears likely over the coming weeks. However, many of the intermediate-term indicators, tracking 2-4+ months swings, are suitably oversold for many of the sectors that experienced steep declines into early January. Our view is for equity markets to continue to trade in choppy trading ranges in Q1 but expect the uncertainty to resolve to the upside consistent with the pattern often seen during the first year of a new US administration.
- **Interest rates** continue to play a crucial role in the direction of equities. After establishing a cycle high at 5% in Q4 2023, the US 10-year yield has traded sideways in a broad choppy trading range, with the rebound from the Q3 2024 lows at 3.6% showing early signs of peaking under a critical resistance band between 4.7-5%. Given weekly momentum indicators are peaking, we continue to expect the US 10-year yield to pull back further from the 4.7-5% band. However, we would view a move above 5% to be a signal that inflation is again becoming a major concern for investors which in turn would be a catalyst for the equity cycle that began in Q4 2022 to peak and trend lower.
- **Currencies:** The US dollar DXY index is challenging its next important resistance band between 107-109 coinciding with the 50% and 62% retracement of the 2022-2024 trading range. Our expectation is for the US dollar to begin stalling near current levels but further US dollar strength on the back of increased tariff concerns would be a net negative for equity markets.
- **Commodities** – **WTI Oil** remains in a sideways trading range above key support in the low-mid 60s with resistance starting in the low 80s up to the low 90s. While we view WTI to have bottomed in the low-mid 60, a break below that band would signal the potential for weakness into the low 50s. **Gold's** long-term trend remains bullish following its Q1 2024 breakout above 1900-2100 resistance. While a pause is underway under 2800 resistance, we expect Gold will resolve its recent trading range to the upside with 3300 the next resistance level.

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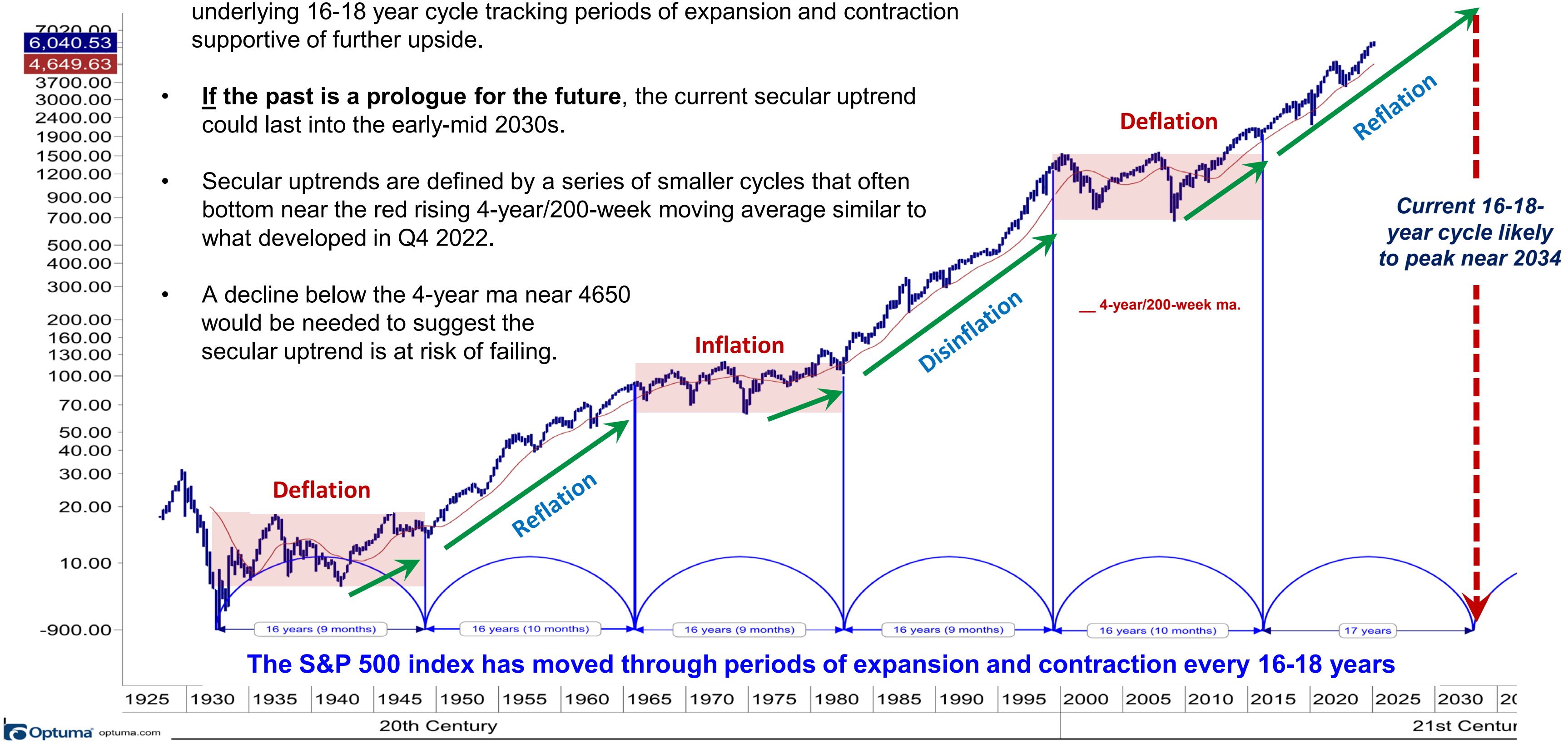
Sectors

- **Growth/media/technology** stocks generally remain in leadership uptrends and while many traded in choppy trading ranges from Q4 into Q1, we view their technical behavior to be consolidations within uptrends rather than major cycle tops. Semiconductors, however, have notably diverged since their July peak and remain a key group to monitor given they often lead the broader equity market cycle. While the trading patterns of individual semiconductors vary widely, we expect the Q3-Q4 lows to hold and serve as a key downside risk control level.
- **Cyclicals** remain in positive longer-term trends with the late Q4-early Q1 pullbacks bouncing back from key support near rising 40-week ma's which we view as key risk control levels. Tariffs are likely to add further volatility to cyclicals but we believe it is premature to turn bearish, with Financials and Industrials the two key leadership sectors within cyclicals.
- **Safety** sectors have been weak through Q4 into Q1 but REITs, Healthcare, Staples and select Utility stocks are oversold from an intermediate-term perspective and offer opportunities for investors seeking yield and diversification from the more volatile high growth stocks, in our view.

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

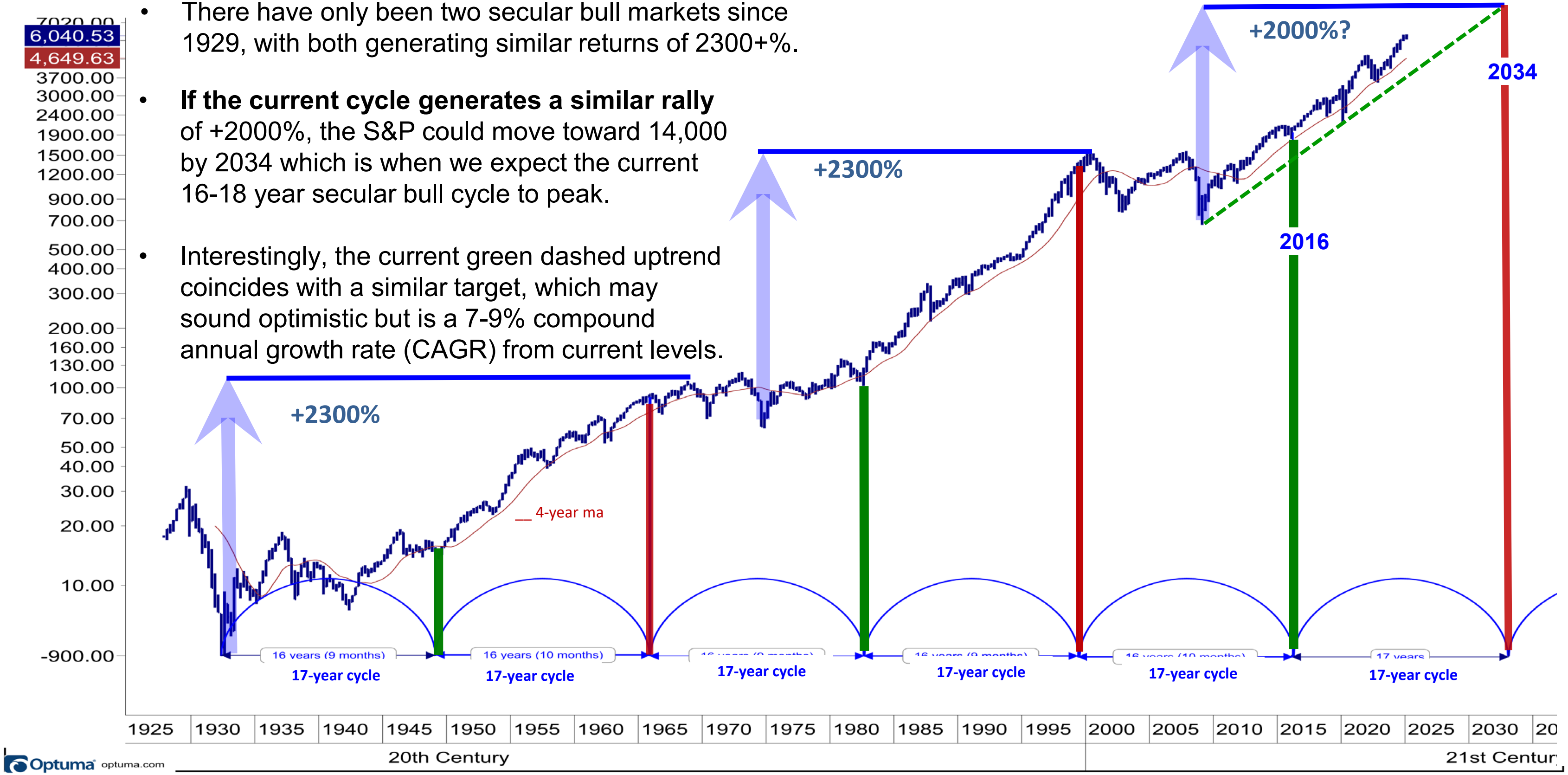
- The long-term generational/structural uptrend remains intact with the underlying 16-18 year cycle tracking periods of expansion and contraction supportive of further upside.
- **<u>If</u> the past is a prologue for the future**, the current secular uptrend could last into the early-mid 2030s.
- Secular uptrends are defined by a series of smaller cycles that often bottom near the red rising 4-year/200-week moving average similar to what developed in Q4 2022.
- A decline below the 4-year ma near 4650 would be needed to suggest the secular uptrend is at risk of failing.



Source: RBC Wealth Management, Bloomberg, Optuma

Could the S&P rally to 14,000?

- There have only been 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, the current green dashed uptrend coincides with a similar target, which may sound optimistic but is a 7-9% compound annual growth rate (CAGR) from current levels.

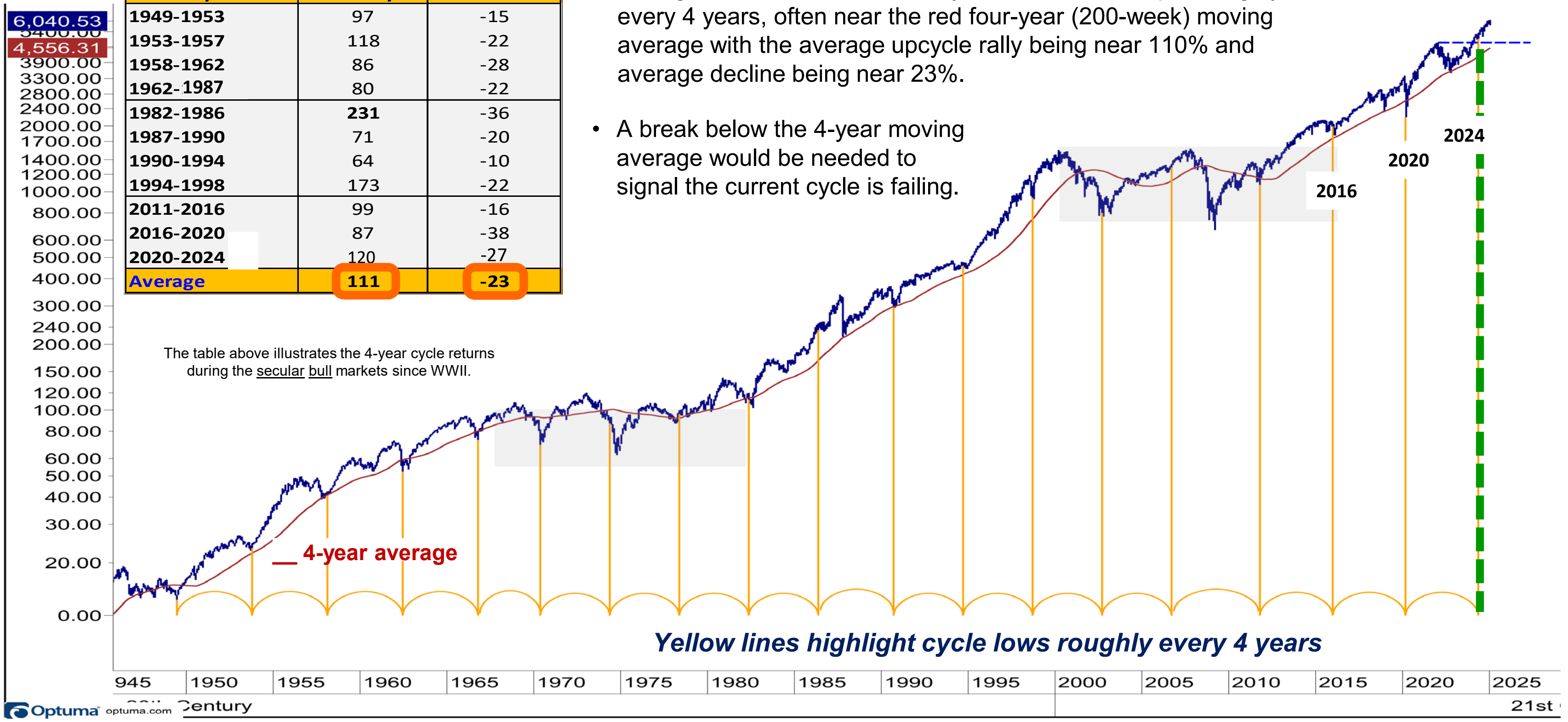


Source: RBC Wealth Management, Bloomberg, Optuma

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

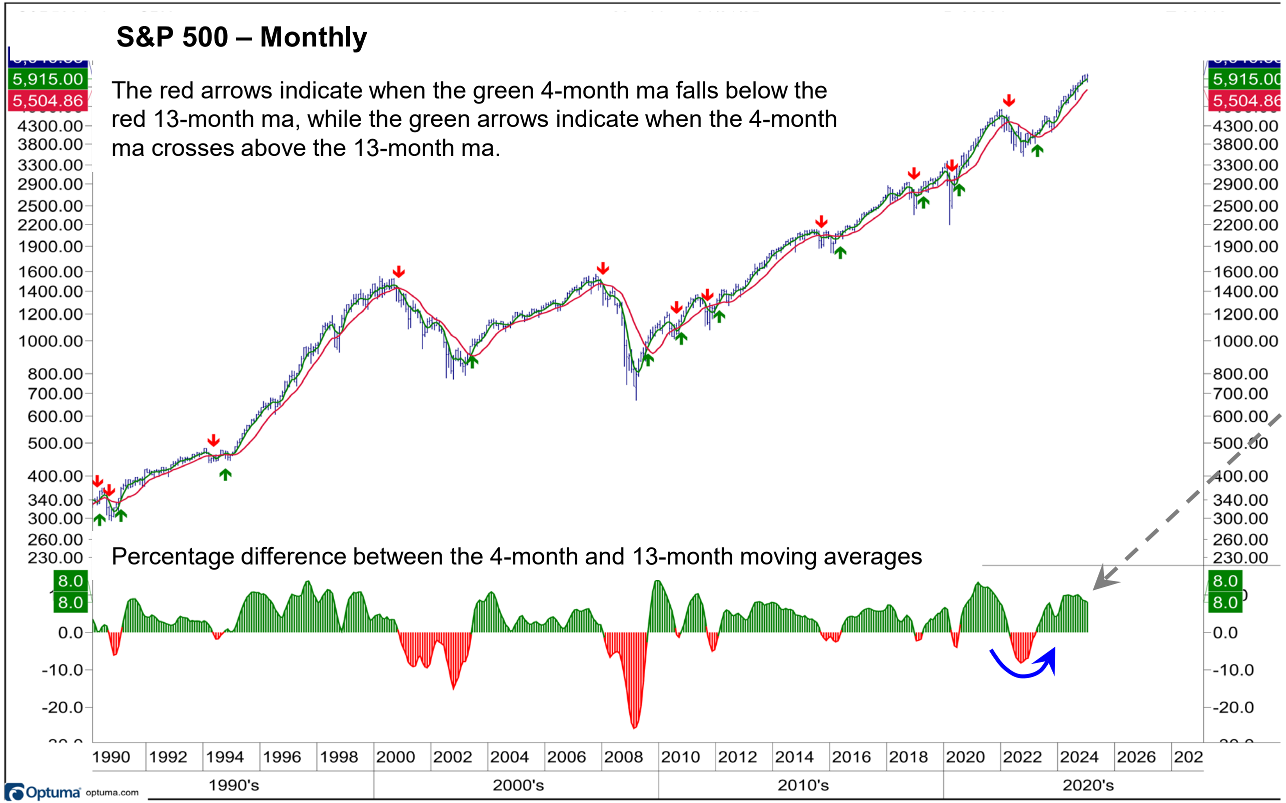
4 Year Cycle	% Rally	% Correction
1949-1953	97	-15
1953-1957	118	-22
1958-1962	86	-28
1962-1987	80	-22
1982-1986	231	-36
1987-1990	71	-20
1990-1994	64	-10
1994-1998	173	-22
2011-2016	99	-16
2016-2020	87	-38
2020-2024	120	-27
Average	111	-23

- During secular bull markets, a cycle low has developed roughly every 4 years, often near the red four-year (200-week) moving average with the average upcycle rally being near 110% and average decline being near 23%.
- A break below the 4-year moving average would be needed to signal the current cycle is failing.



Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 Index – Uptrend intact but momentum has peaked



Source: RBC Wealth Management, Bloomberg, Optuma

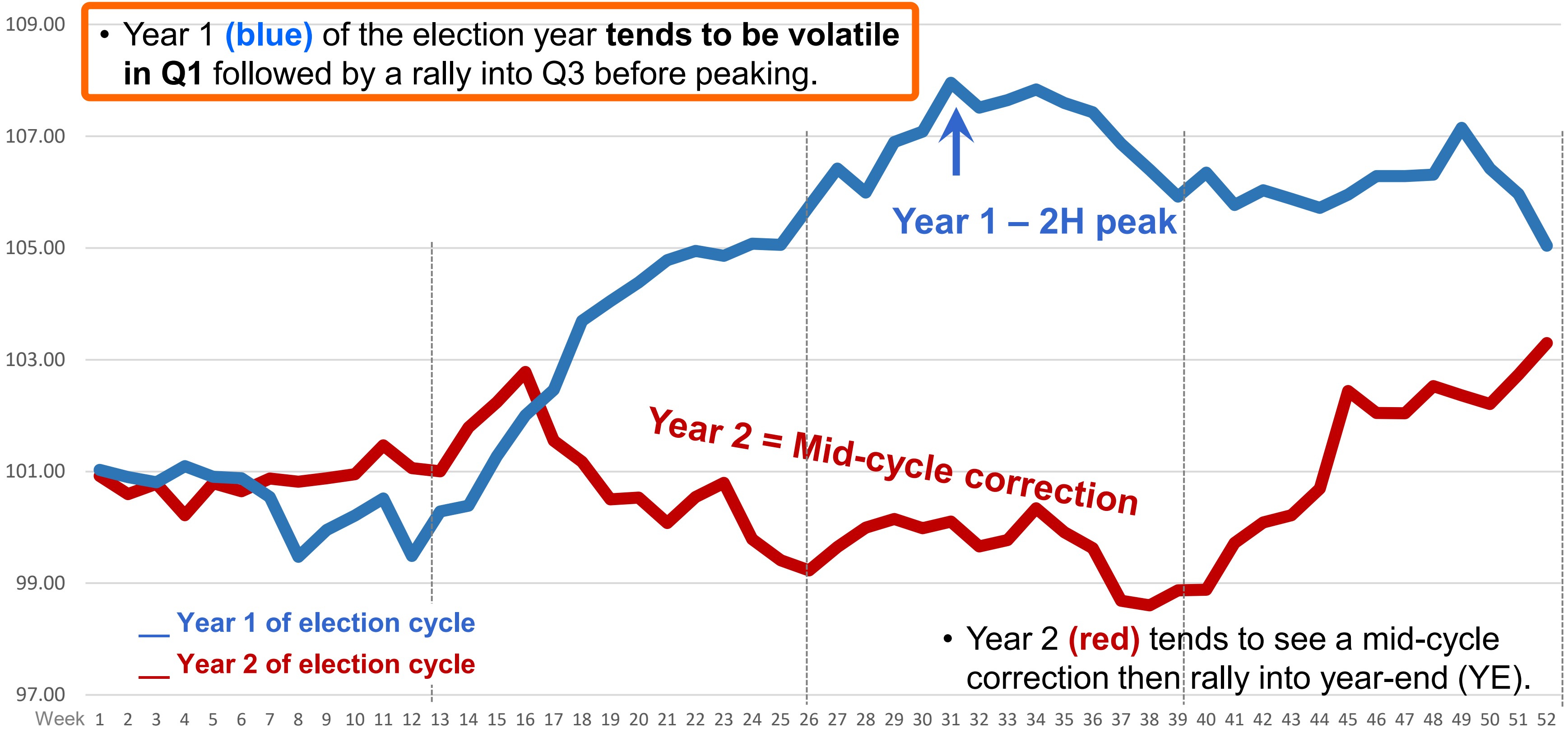
- One technical tool to monitor the trend of a market is to compare its shorter-term trend, measured by the green 4-month ma, to its longer-term trend, measured by the red 13-month ma.
- The current trend remains positive since the shorter-term green moving average crossed above the longer-term red moving average in March 2023.
- Another way to track the relationship between these moving averages is to measure the percentage 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 remained above its zero axis since March 2023 confirming the current uptrend for the S&P 500.
- ***However, the indicator in the bottom panel is showing early signs of peaking and turning negative, which we view as a yellow flag that the current cycle is at risk of turning negative moving into 2H 2025-1H 2026.***

S&P 500 – Monthly – Uptrend intact but cycle momentum is turning down

Source: RBC Wealth Management, Bloomberg, Optuma

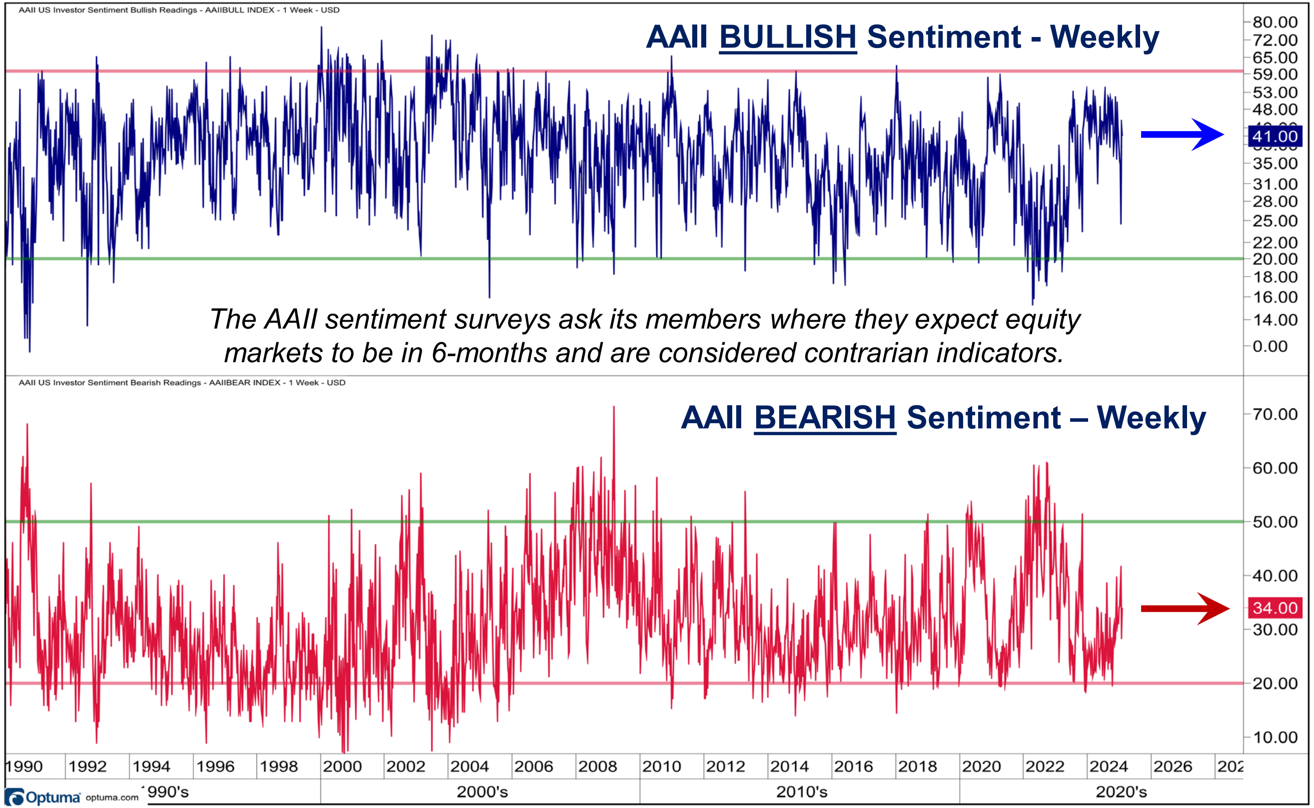
- While the S&P's price trend remains positive since bottoming in Q4 2022, the momentum indicators (top panel) have begun to peak and turn negative.
- Although momentum downturns can often precede market peaks by 1-2 quarters, it is a yellow flag that the 2+ year equity cycle is potentially peaking.
- The silver lining in early Q1 is that most tactical 2-4+ month indicators are now oversold which should support further upside in the quarter.
- **Resistance** is near the recent highs at 6128 with no meaningful resistance above that level until 6966.
- **Support** begins at 5638 followed by a major band of support between 4589-4818 that we expect will hold should volatility accelerate in the coming weeks/ months.

Average path of the S&P during years 1 and 2 of the election cycle since 1928 – Weekly



Source: RBC Wealth Management, Bloomberg

AAII US Bullish and Bearish Sentiment Survey – Contrary indicators



- (+) Bullish sentiment declined to a low near 25% before bouncing back to 41% at the end of January…

while…

- (+) bearish sentiment rose to 40%.
- While sentiment has bounced back, the lower bullish and higher bearish sentiment readings in January are encouraging contrarian indications to support an equity rally in Q1.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 with weekly Quadrant Balance momentum

Source: RBC Wealth Management, Bloomberg, Optuma

- The S&P has been churning sideways in a range above its rising yellow 20-week/100-day ma through December into January with another short-term pullback likely taking hold as February begins.
- While the S&P index has traded sideways, many stocks have pulled back through Q4 into Q1 which is reflected by our weekly Quadrant Balance data, tracking the percentage of stocks with rising weekly momentum, which declined into oversold levels by early Q1.
- With this indicator now bottoming we would expect pullbacks to be shallow and further upside likely moving into late Q1.
- We continue to view the peak in interest rates and the US dollar to be catalysts for further equity upside.

MSCI EUROPE – Monthly

- MSCI Europe's long-term price profile remains positive with new highs recorded in January 2025.
- Similar to the S&P 500, monthly momentum has turned down after bottoming in Q4 2022 as a yellow flag the cycle is at risk of peaking.
- While a pullback/pause is not surprising following the Q4 2023-Q2 2024 rally, a break below the support band between 158-164 and the rising 4-year moving average at 155 would be needed to signal a failing cycle.
- 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.

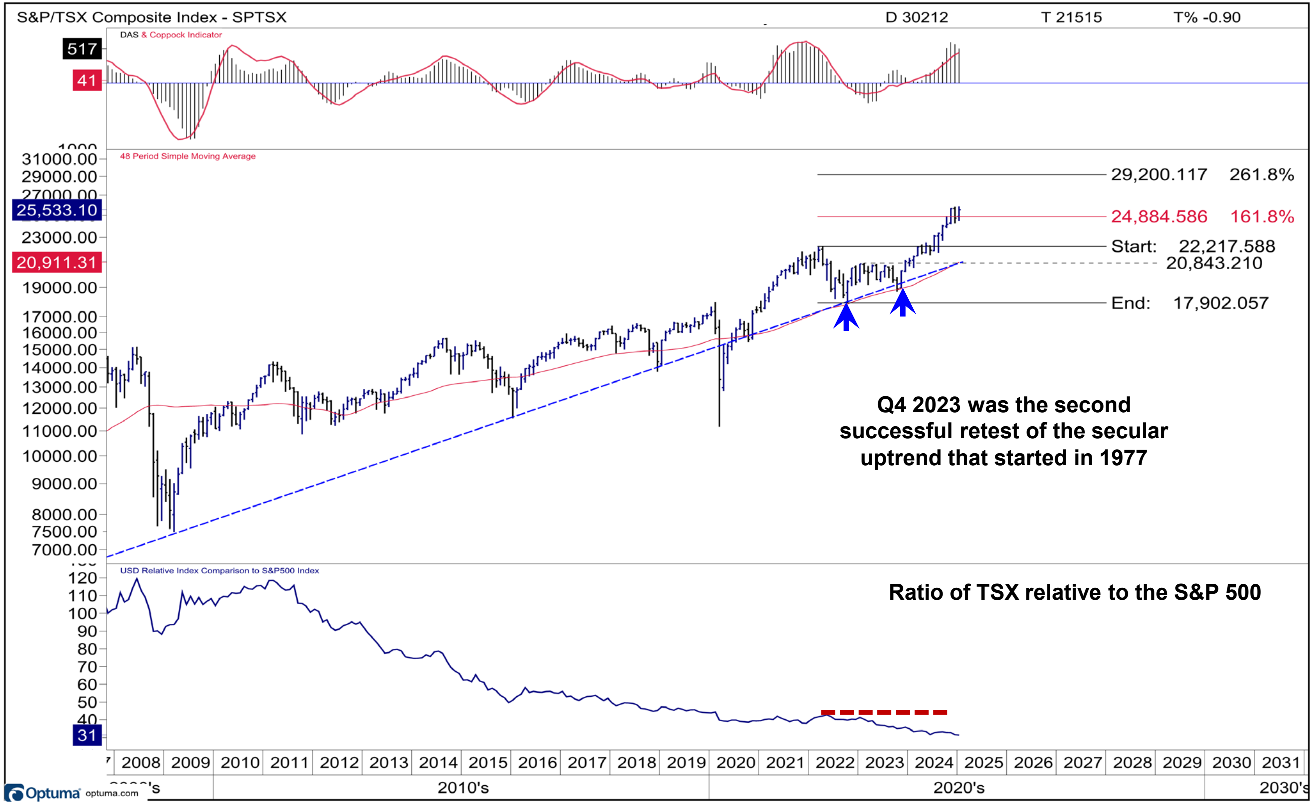
Source: RBC Wealth Management, Bloomberg, Optuma

China – Hong Kong Hang Seng HSI Index

- The HSI completed a cycle low in early 2024 but is consolidating below important resistance between its 50-62% retracement at 24K-26.2K.
- We view the pullback from the October highs to be a normal consolidation which we expect will hold above a key support band between 18.3-19.7K.
- Next resistance is near 24K followed by 26.2 K near the 50-62% retracement levels.
- Relative performance vs the S&P 500 has yet to reverse its 2020-2024 downtrend.
- ***While portfolio exposure to China may not be appropriate for many investors, we view the HSI index improvement as a positive indication that the world's second largest economy is likely bottoming.***

Source: RBC Wealth Management, Bloomberg, Optuma

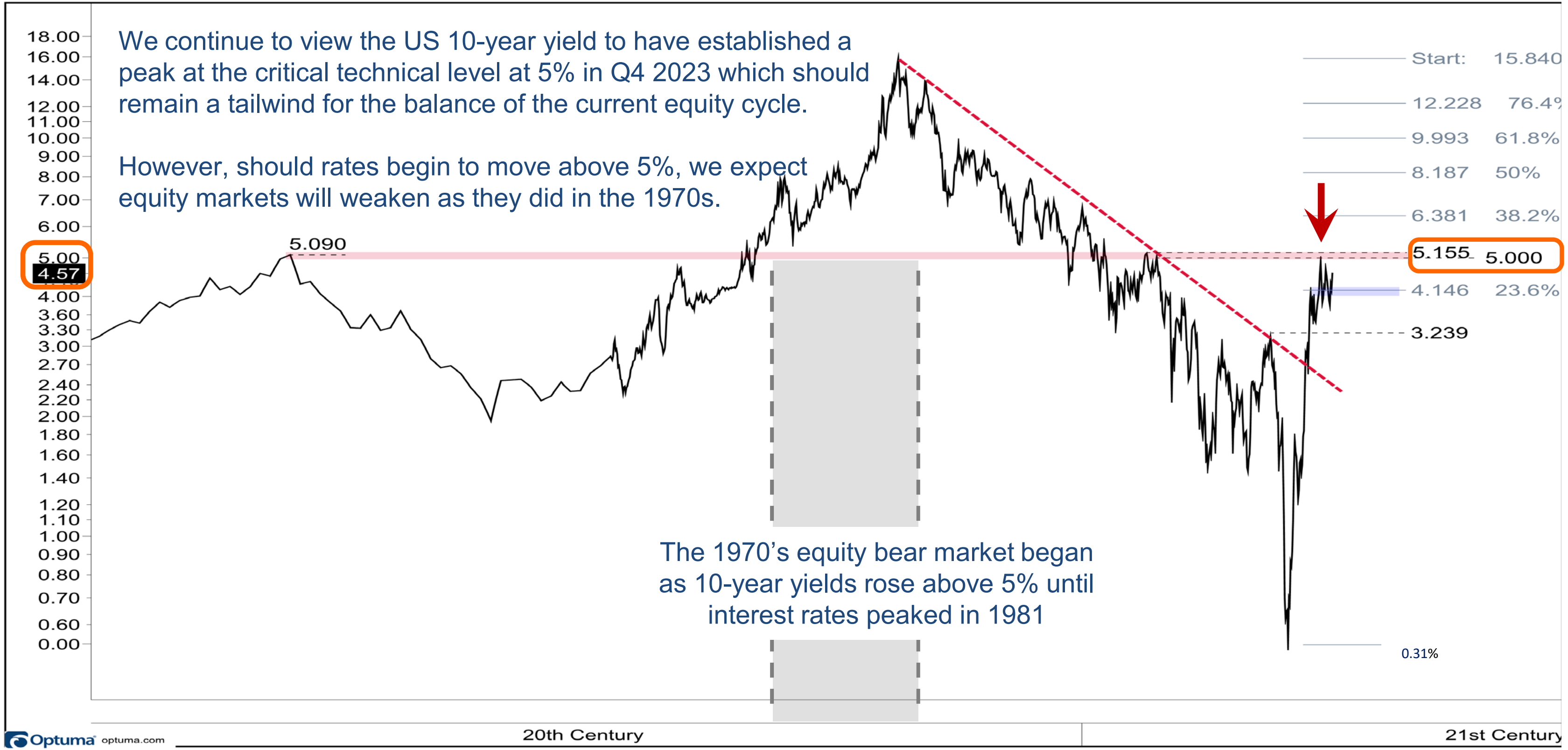
S&P/TSX Composite – Monthly



Source: RBC Wealth Management, Bloomberg, Optuma

- The long-term trend for the TSX, represented by the blue dashed uptrend line, remains positive.
- The recent rebound is consolidating around a key level at 24,884 coinciding with a 162% Fibonacci extension of the 2022-2024 trading range.
- While a pullback would not be a surprise, our expectation is that pullbacks will be short lived with next resistance at 29,200.
- Support remains near the 2024 breakout at 22,217.
- 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.

US 10-Year Yield: Cycle peak likely in place but 5% remains a critical technical level



Source: RBC Wealth Management, Bloomberg, Optuma

US 10-Year Yield – Weekly momentum is turning down

Source: RBC Wealth Management, Bloomberg, Optuma

- The US 10-year yield rebounded from oversold levels in September back to an important resistance band between 4.7-5% with early signs of peaking.
- Weekly momentum is beginning to peak near overbought levels suggesting further pullback in yields.
- While our expectation continues to be for the US 10-year yield to begin pulling back from current levels, a move above the 4.7-5% band would establish a new cycle high and likely be a catalyst for the equity cycle that began in Q4 2022 to peak.

US Dollar DXY Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- After bottoming between 2008-2010, the US dollar DXY index has trended higher in a stair step pattern punctuated by broad sideways trading ranges.
- After testing 100 multiple times through 2023-2024, the DXY index made new recovery highs heading into the 2024 year-end challenging an important resistance band of 107-109 coinciding with the 50-62% retracement band of the 2022-2023 decline.
- While our expectation is that the US dollar index is in the process of peaking near 109 resistance, we would view a move above 109 as a net negative for equities.

Canadian Dollar / US Dollar - Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The CADUSD has broken below a critical support band between 0.715-0.709 in Q4 and is now testing an important support range just above the 2016-2020 lows at 0.68.
- Our expectation is that a tactical, multi-month oversold bounce is likely pending but a break below 0.68 would be confirmation the CADUSD's downtrend remains intact.

WTI Oil Future – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- WTI Oil remains in a sideways trading range above key support between 62-68 with heavy resistance in a band between 88-95.
- Bottom line: We expect WTI to remain in a broad trading range above the mid 60s-low 70s with heavy resistance in the upper 80s-low 90s well into Q4.
- A downside break below 61.7, however, would likely lead to a further downside with 45-50 the next support band.
- 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

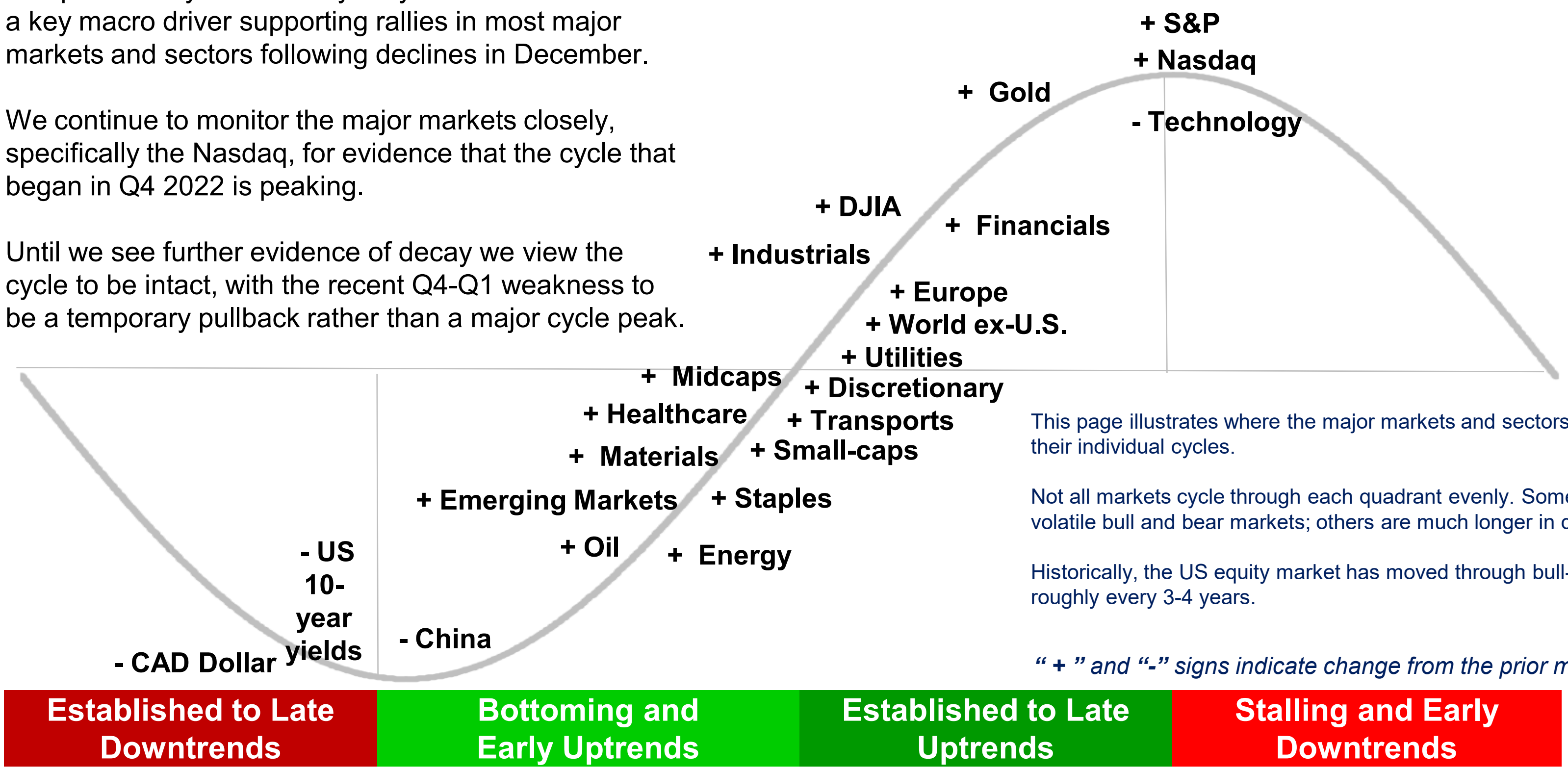
- Gold completed a major technical breakout above its 2011-2024 trading range in Q1 2024 and remains in a bullish uptrend.
- We have illustrated two Fibonacci extension measurements with the green extensions measuring the bigger 2011-2024 trading range highlighting 3336 as the next major pause point.
- Tactically, a pullback is underway from the 262% Fibonacci extension level at 2804 illustrated in black.
- Our expectation is that pullbacks will remain shallow with support near 2450 and further upside toward 3336 likely in Q1 2025.

Major markets and S&P sector cycles

- The pullback by the US 10-year yield and US dollar was a key macro driver supporting rallies in most major markets and sectors following declines in December.

- We continue to monitor the major markets closely, specifically the Nasdaq, for evidence that the cycle that began in Q4 2022 is peaking.

- Until we see further evidence of decay we view the cycle to be intact, with the recent Q4-Q1 weakness to be a temporary pullback rather than a major cycle peak.



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.

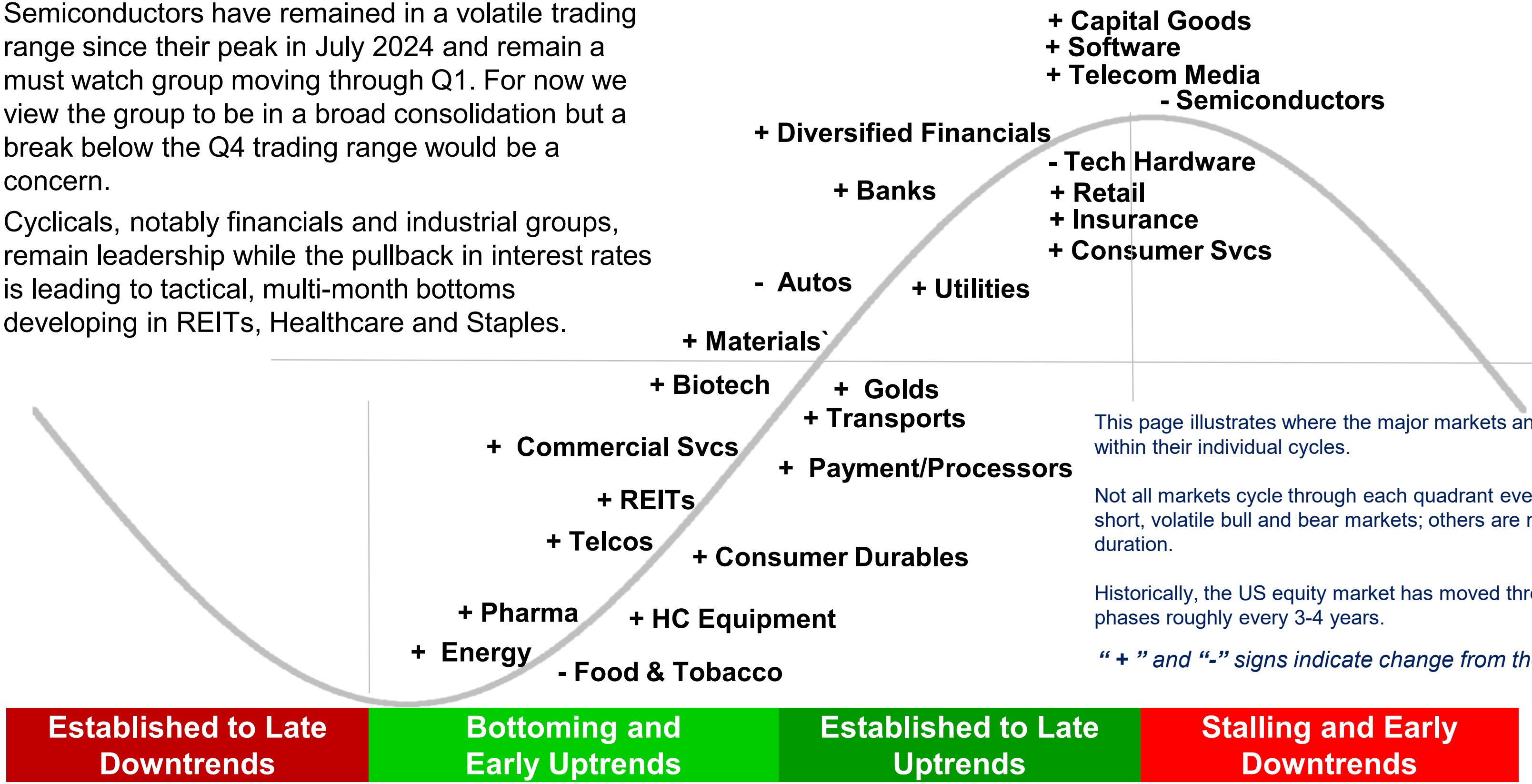
Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years.

“ + ” and “-” signs indicate change from the prior month.

Source: RBC Wealth Management, Bloomberg, Optuma

Industry group cycles

- Semiconductors have remained in a volatile trading range since their peak in July 2024 and remain a must watch group moving through Q1. For now we view the group to be in a broad consolidation but a break below the Q4 trading range would be a concern.
- Cyclicals, notably financials and industrial groups, remain leadership while the pullback in interest rates is leading to tactical, multi-month bottoms developing in REITs, Healthcare and Staples.



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