Trend & Cycle: The Long View – September 2023

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All values in U.S. dollars and priced as of market close on September 1, 2023 unless otherwise noted

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Secular backdrop

- The long-term secular trend for US equity markets remains positive, with an underlying 16-18 year cycle that we view to be supportive of further upside into the mid 2030s, potentially to S&P 14,000.

The current 4-year cycle

- We view the low in Q4 2022 to have marked another 4-year cycle low, similar to many of the prior 4-year cycle lows that developed during secular bull markets near the rising 4-year (200-week) moving average.
- Monthly momentum indicators, tracking 2-4 year moves, continue to build to the upside suggesting further strength in 2024.
- After a strong 1H 2023 rebound, a tactical pullback/pause began in August which we expect will lead to further choppy consolidation through Q3 2023 consistent with seasonal weakness that often develops in September.

International equity markets

- The longer-term price profiles for international equity markets have improved following cycle lows that developed in Q4 2022 consistent with what is developing for US equity markets.
- However, we have yet to see meaningful evidence of a longer-term positive relative performance trend reversal to support overweighting international markets versus the S&P 500 given MSCI EAFE and MSCI EM remain in longer-term downtrends vs the S&P 500.
Interest rates and the US dollar
• The path of the US 10-year yield over the coming weeks will have a material impact on the direction of most other risk assets given it is challenging the upper end of the 3.25% to 4.33% trading range that it has been in since October 2022. While our expectation has been that the rates established a cycle high in Q4 last year, a breakout above 4.33% would technically signal further upside for rates, which will likely be a meaningful headwind for equities, notably growth stocks.
• We view the US dollar index (DXY) high at 114 to have marked the highs for cycle. After correcting from that level back to support near 100, an oversold rebound is underway which we expect will stall at the next major resistance band between 105-106.

Commodities
• Oil – After correcting from 130 back to the mid 60s, WTI Oil has rebounded above a key resistance level in the low-mid 80s to complete a bottoming pattern. While a short-term pullback is likely in the coming weeks, the longer-term technical pattern remains positive with next resistance near 93-94. Gold's longer-term profile remains positive with the Q2-Q3 pullback showing evidence of bottoming near 1890-1900 support. While US dollar strength and rising rates remain headwinds, we expect Gold to bottom near current levels. Copper's longer-term chart profile remains positive with the Q1-Q2 pullback showing signs of bottoming at key support near 360.

Equity leadership
• After a strong 1H 2023 most stocks pulled back through early August which we view to be consistent with seasonal weakness that often develops into late Q3. Overall we expect many of the leading growth stocks to remain in choppy sideways consolidations through Q3 that should unwind much of the overbought technical conditions that developed heading into the summer. Despite tactical weakness in secular and cyclical growth stocks, there is no meaningful evidence of a rotation toward more defensive sectors, such as utilities and staples, which remain in relative performance downtrends. Lastly, Energy remains an emerging sector following its correction from the highs in Q2 2022 and to the bottom that developed in Q3 2023.
The S&P 500 index has moved through periods of expansion and contraction every 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.

- 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 pullbacks with cycle lows often developing near a 4-year moving average every 3-4 years similar to what developed in Q4 2022.

Source: RBC Wealth Management, Bloomberg, Optuma
S&P 500 – 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.

Source: RBC Wealth Management, Bloomberg, Optuma
S&P 500 - A repetitive 4-year cycle to consider when investing

- A cycle low has developed roughly every 4 years.
- During secular bull markets the cycle regularly bottoms at the red 4-year (200-week) moving average with the average rally 111% and average decline -23%.
- We view the lows in Q4 2022 to be the lows for this cycle.

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

<table>
<thead>
<tr>
<th>4 Year Cycle</th>
<th>% Rally</th>
<th>% Correction</th>
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<tr>
<td>1949-1953</td>
<td>97</td>
<td>-15</td>
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<tr>
<td>2016-2020</td>
<td>87</td>
<td>-38</td>
</tr>
<tr>
<td>2020-2024 ?</td>
<td>120</td>
<td>-27</td>
</tr>
<tr>
<td>Average</td>
<td>111</td>
<td>-23</td>
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</table>

Source: RBC Wealth Management, Bloomberg, Optuma
One technical tool to track the trend of the equity 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.

Since Q4 2022 the faster moving 4-month ma has been turning up, and as of the end of March 2023, crossed above the 13-month ma signaling the S&P’s trend has turned positive.

Another way to track this relationship is to measure the vertical difference between the two moving averages and plot the difference as a histogram, as illustrated in the bottom panel.

This indicator bottomed in Q4 2022 and continues to build positively, confirming the S&P’s trend is changing from negative to positive.
S&P 500 price and relative performance versus bonds

- The rebound from the low end of the 2009-2023 uptrend channel continues, with the S&P breaking above an important resistance level at 4300.

- A short-term pullback is underway that is consistent with seasonal weakness moving through the balance of Q3 but our expectation is for the pullback to be shallow.

- The relative performance ratio of the S&P versus the Barclays All Aggregate Bond Index is beginning to break out of its 2022-2023 trading range, shifting the longer-term trend from neutral to up for stocks versus bonds.
S&P 500 – Seasonality

- Monthly seasonality data varies widely depending on the start date with returns generally weak in September.

**Monthly seasonality since 1928**

**Monthly seasonality since 2000**

Source: RBC Wealth Management, Bloomberg, Optuma

September 6, 2023 | RBC Wealth Management Portfolio Advisory Group | Robert Sluymer, CFA – robert.sluymer@rbc.com
• AAII sentiment readings have retreated from moderately advanced levels.

• We view this pullback in sentiment to be a healthy development, with further weakness in bullish sentiment and strength in bearish sentiment a welcome development to support a more meaningful rebound following the seasonally weak late Q3.
MSCI EAFE – Monthly with relative performance vs the S&P 500

EAFE (Europe, Asia and Far East)

- Cycle momentum bottomed in Q4 2022 and continues to build positively through 2023 while EAFE pauses under key resistance between 2167-2416.

- We expect a breakout to new highs over the coming 6-12 months, with many pullbacks and choppy trading along the way.

- Relative performance versus the S&P 500 improved in 2022 while US technology stocks corrected but it has stalled at its long-term downtrend. We would need to see a reversal of the long-term downtrend to support adding exposure to EAFE.
Monthly cycle momentum bottomed in Q4 2022 as the TSX rallied from support near 18,000 at its longer-term uptrend from the late 1970s.

Our expectation is that the TSX remains in a trading range between tactical support at 19,000 and resistance at 21,000 with a breakout to new highs likely later in 2023.

Relative performance remains flat to weak versus the S&P and would need to push above the 2020-2022 highs to support overweighting.
The US 10-year yield is testing its next resistance band near 4.04-4.33%.

To negate our view that a cycle top has developed, the US 10-year yield would need to push above the 2022 highs at 4.3% with 5% the next key upside level.
US 10-year yields (red) and CPI Inflation YoY (blue)

- CPI inflation (blue) has peaked and is back to 3.2% with…
- …the US 10-year yield (red) also showing evidence of pausing.

• Monthly momentum, which tracks the direction of multi-year cycles, remains negative.

• After peaking at the cycle high of 113-114 the US dollar index is bouncing from a support band between 100-102.

• We continue to expect bounces to be short lived with further US dollar weakness in 2023 heading into 2024.
Canadian Dollar / US Dollar – Monthly

Monthly cycle momentum is bottoming and turning up, signaling a new up cycle for the Canadian dollar.

Overall, the price behavior of the Canadian dollar continues to track the pattern of a cycle that is bottoming, with a move above the 0.75-0.76 resistance band needed to confirm the bottom.

Our expectation is for the Canadian dollar to continue to strengthen through 2023 with 0.77 followed by 0.80 next key resistance levels.
Monthly cycle momentum is bottoming for WTI after correcting from 130 back to key support between 60-70.

- Although WTI Oil remains volatile, we view the lows in Q3 in the high 60s/low 70s to be the lows for the year.
- WTI has now rallied above a key resistance band in the low 80s with next resistance near 93.

- 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 – A positive long-term backdrop with potential to break out**

- While we view gold to be range bound under resistance near 2000-2075 in the short to medium term, we view the longer-term pattern to be positive with potential to break out above 2075 in the coming quarters.

- A breakout above 2075 is needed to confirm a new longer-term uptrend taking hold for gold.
Copper Futures

- Monthly momentum bottomed in Q4 2022 as copper established its cycle lows near major support between 320-330.
- After an initial rebound a pullback has developed that we view to be bottoming near 360 support which we expect will define the lows for the balance of 2023.
- The ratio of copper vs gold remains range bound with a breakout above the 2017 and 2021 relative highs needed to confirm a new upcycle for copper.

Source: RBC Wealth Management, Bloomberg, Optuma
Major markets and S&P sector cycles

- After a strong rebound through 1H 2023 that saw participation broaden into the summer, a pullback/pause is underway consistent with Q3 seasonal weakness. As growth and technology stocks pause, energy is showing evidence of emerging following a pause that began in 2H 2022. Defensive sectors remain weak, and while oversold, have yet to show evidence of bottoming.

- Note - We have moved Energy to better align its cycle position with Oil after a broad sideways trading range by most energy stocks.

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

- Not surprisingly, similar shifts are underway at the industry group level as secular growth and cyclical growth stocks pause and consolidate their 1H 2023 gains while energy shows evidence of emerging.

- Our expectation remains for the pullbacks to be relatively short lived and consistent with seasonal weakness that often develops in late Q3.

- Note - We have moved Energy to better align its cycle position with Oil consistent with the prior page after most energy stocks traded sideways in broad trading range for the past year.

Source: RBC Wealth Management, Bloomberg, Optuma

Not all markets cycle through each quadrant evenly. Some have short, volatile bull and bear markets; others are much longer in duration.

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