Trend & Cycle: The Long View – May 2022

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May 3, 2022 / RBC Capital Markets, LLC / Portfolio Advisory Group

All values in U.S. dollars and priced as of market close on May 2, 2022 unless otherwise noted

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Produced: May 3, 2022 10:15ET; Disseminated: May 3, 2022 10:38ET

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Trend & Cycle: The Long View – May 2022

EQUITY MARKETS

Long-term secular equity cycles

- The repetitive 17-year generational cycle remains positive and suggests the secular bull market could last into the mid 2030s.

The current 4-year market cycle

- The current 4-year cycle that began in 2020 continues to show evidence of peaking as one of the primary drivers of cycles, central bank liquidity, is being removed while the second driver, economic growth, is increasingly viewed to be at risk. Monthly momentum indicators, tracking 2-4 year cycles, remain negative for most markets suggesting 2022 is likely to remain choppy before a new 4-year cycle low develops in 2024. Our expectation is that the S&P will catch up to its 200-week moving average over the coming 2 years, which should support a new 4-year cycle.
- The technology heavy S&P 500 is beginning May oversold short-term but at a fragile technical level stress testing the Q1 2022 lows between ~4100-4200. A break below 4100 would leave the S&P vulnerable to a decline to 3800 and possibly further.
- Silver lining: The contrarian AAII Sentiment survey has moved to tactical extremes not seen since the 1990s.

Global Markets – MSCI EAFE, MSCI Emerging Markets, MSCI Europe and Toronto TSX

- 2020-2021 bull cycles have stalled/peaked for MSCI EAFE, EM with critical retests of the Q1 2022 lows currently underway.
- However, relative performance trends vs the S&P 500 remain in long-term downtrends, which does not support overweighting yet.
- S&P TSX – Uptrend intact after breaking above a sideways range that was in place between 2008-2020. 24k next resistance, 18k support.

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INTEREST RATES

- **US 10-year yields** – US 10-year yields have pushed higher toward next key technical levels at the prior cycle high at 3.00-3.25%.

CURRENCIES

- **US Dollar Index (DXY)** – Uptrend intact challenging the upper end of a trading range that began in Q4 2019 at 103-104.
- **Canadian dollar (CADUSD)** – Bottoming pattern continues but the CADUSD needs to hold above critical support near 0.77.

COMMODITIES

- **Copper** – Correcting quickly along with most markets in April with 395-400 critical support.
- **Commodity Index** – Uptrend intact with the CRY index pushing above the 50% retracement level toward its 62% retracement level.
- **WTI Oil** – Uptrend intact but pulling back from 130 and 116 resistance levels and likely to consolidate around the 100 level.
- **Gold** – Monthly cycle momentum is early in an upturn for Gold, with a move above 1965-2075 needed to confirm a new uptrend.

MARKET, SECTORS and INDUSTRY GROUP CYCLES

- After a strong March rebound, April saw most market groups correct strongly to test or break their Q1 2022 lows.
- With the overall market cycle showing further signs of peaking, we encourage investors to continue to manage downside risk at the Q1 2022 lows. Groups below the Q1 lows are by definition in downtrends given lower highs and lower lows are in place.
- Very short-term, most markets and groups are oversold but given the decay in the broader cycle, we view a rebound as counter trend and likely to be short lived.

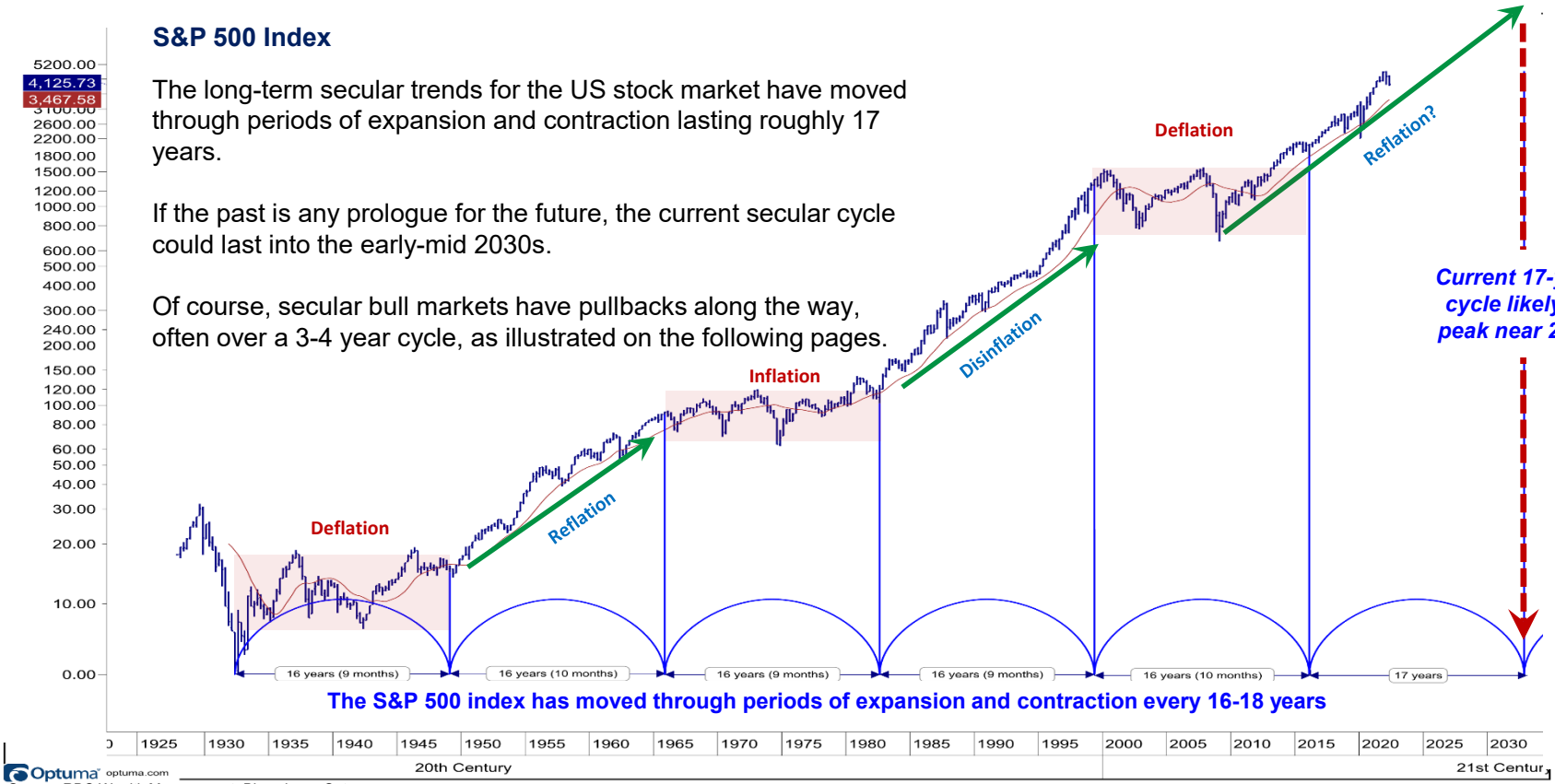
US equity generational cycles lasting roughly 16-18 years

S&P 500 Index

The long-term secular trends for the US stock market have moved through periods of expansion and contraction lasting roughly 17 years.

If the past is any prologue for the future, the current secular cycle could last into the early-mid 2030s.

Of course, secular bull markets have pullbacks along the way, often over a 3-4 year cycle, as illustrated on the following pages.

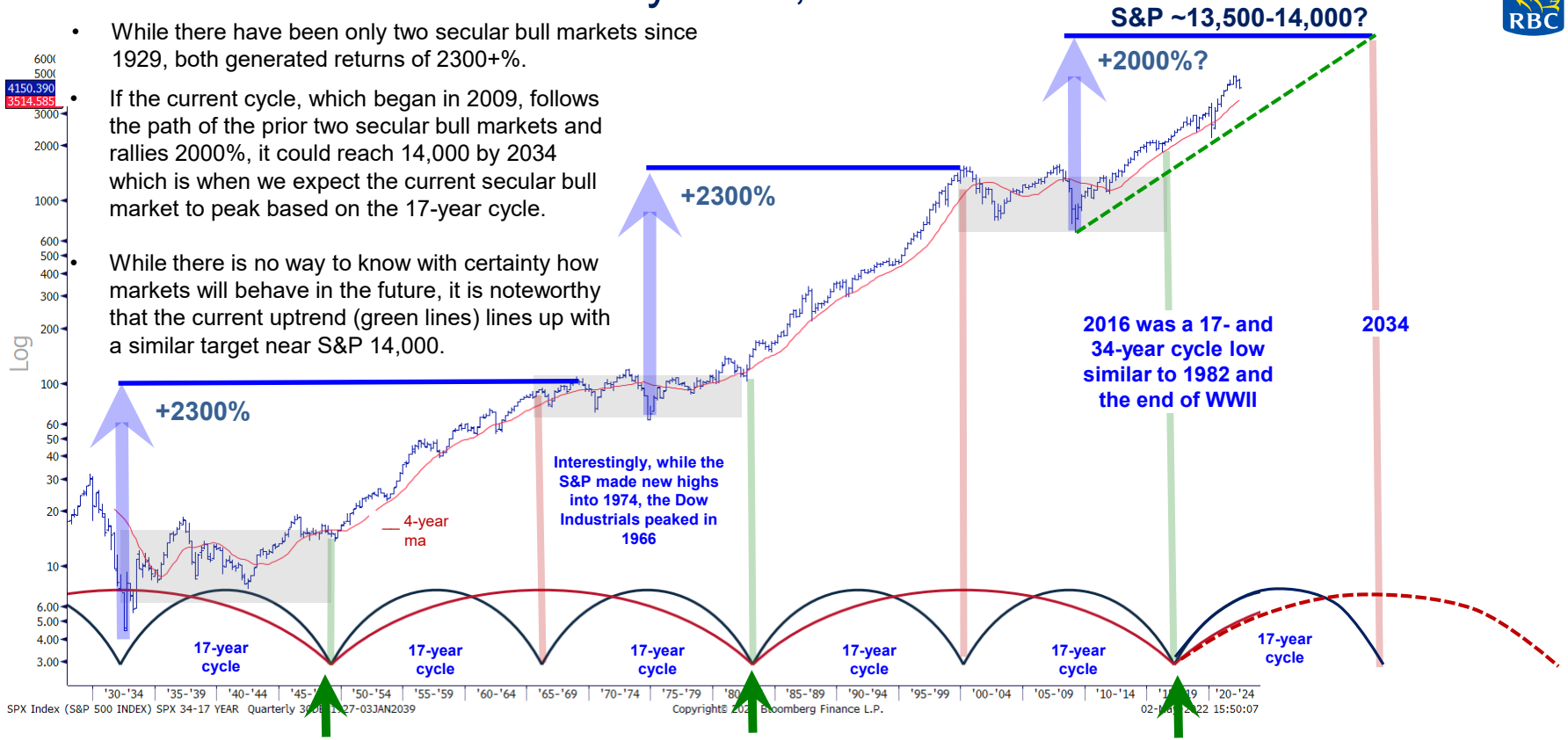


Optuma optuma.com

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 – Could the S&P rally to 14,000?

- While there have been only two secular bull markets since 1929, both generated returns of 2300+%.
- If the current cycle, which began in 2009, follows the path of the prior two secular bull markets and rallies 2000%, it could reach 14,000 by 2034 which is when we expect the current secular bull market to peak based on the 17-year cycle.
- While there is no way to know with certainty how markets will behave in the future, it is noteworthy that the current uptrend (green lines) lines up with a similar target near S&P 14,000.



Source: RBC Wealth Management, Bloomberg, Optuma

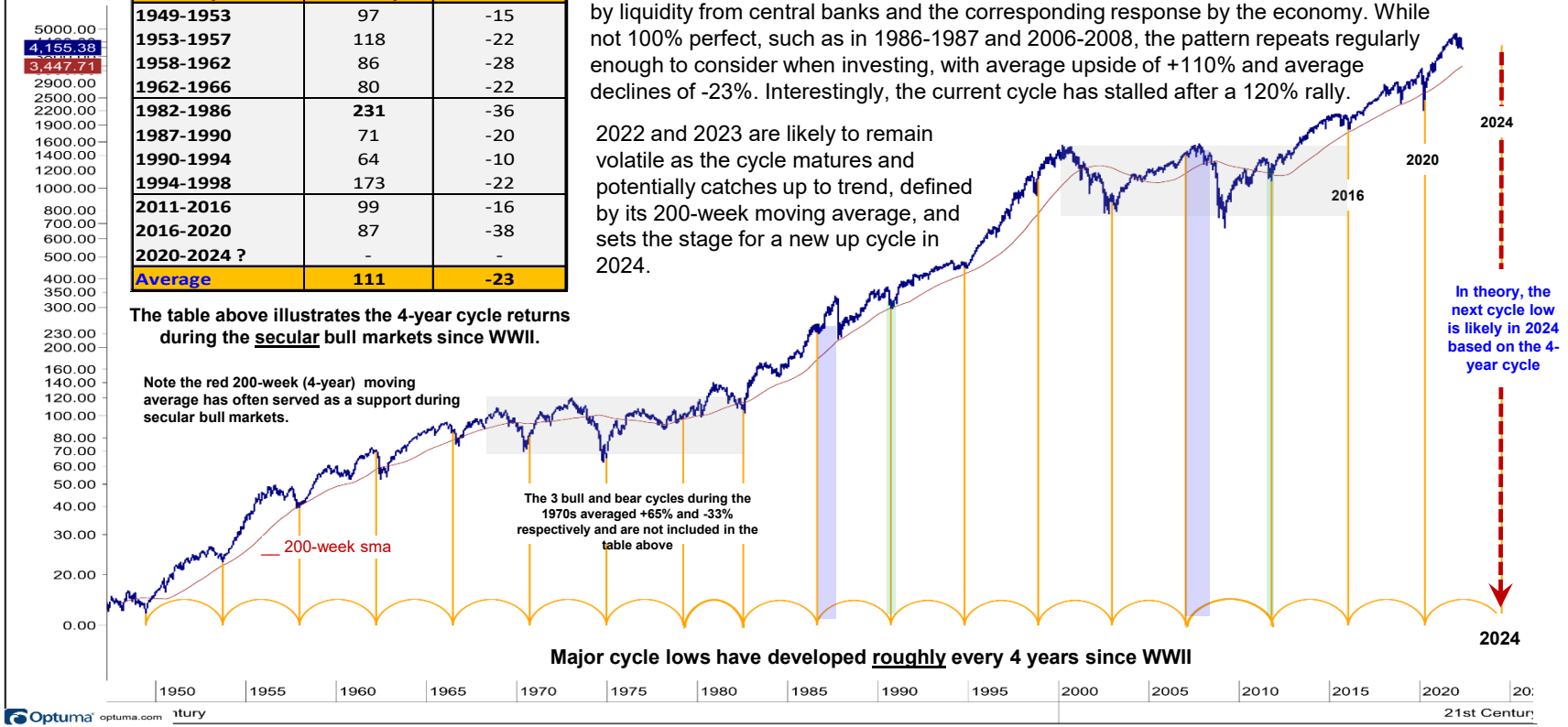
S&P 500 – The 4-year cycle that began in 2020 is peaking

4 Year Cycle	% Rally	% Correction
1949-1953	97	-15
1953-1957	118	-22
1958-1962	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 ?	-	-
Average	**111**	**-23**

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

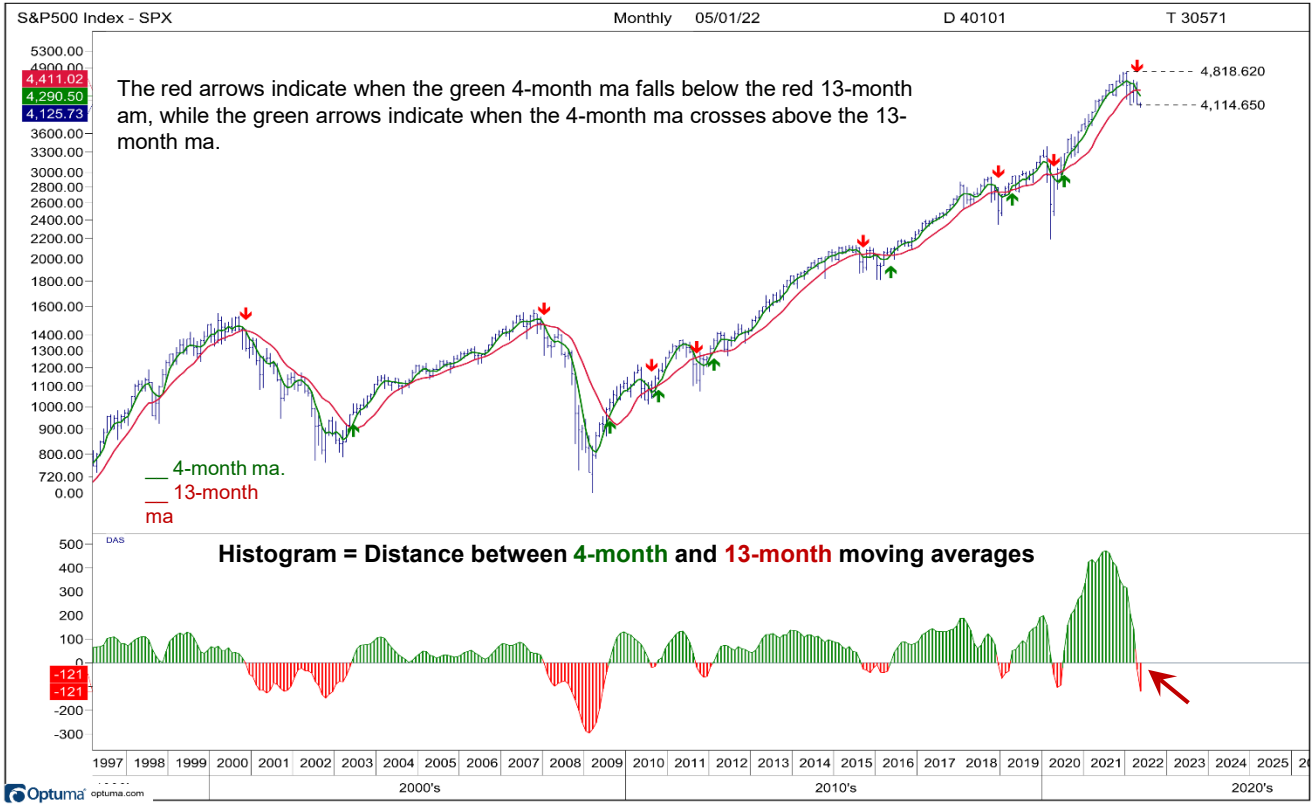
US equity markets have established a cycle low roughly every 4 years generally driven by liquidity from central banks and the corresponding response by the economy. While not 100% perfect, such as in 1986-1987 and 2006-2008, the pattern repeats regularly enough to consider when investing, with average upside of +110% and average declines of -23%. Interestingly, the current cycle has stalled after a 120% rally.

2022 and 2023 are likely to remain volatile as the cycle matures and potentially catches up to trend, defined by its 200-week moving average, and sets the stage for a new up cycle in 2024.



Source: RBC Wealth Management, Bloomberg, Optuma

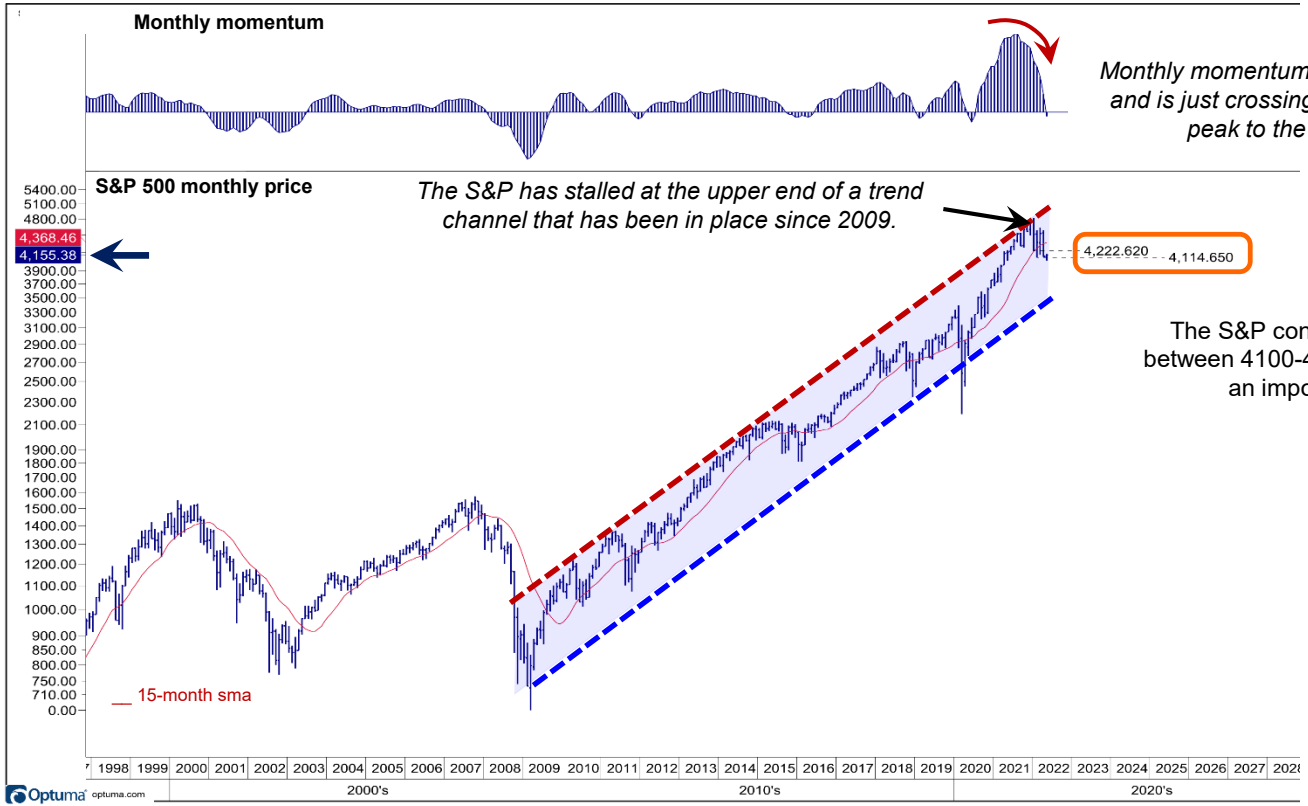
S&P 500 Index – Monthly with 4- and 13-month moving averages



Source: RBC Wealth Management, Bloomberg, Optuma

- The shorter-term trend for the S&P, represented by the green 4-month moving average (ma), is now breaking below the longer-term trend, represented by the red 13-month moving average, thereby signaling a cycle peak and the beginning of a new downtrend. A break below the Q1 lows near 4100 would confirm the new downtrend.
- We continue to view the Q1 lows between S&P 4100-4200 as an important risk control level.
- By definition, a new cycle downtrend would develop on a beak below the Q1 lows given lower highs and lower lows would be in place.
- The histogram in the bottom panel is green when the 4-month ma is above the 13-month ma, and is red when the 4-month ma is below the 13-month ma. This indicator is very close to confirming a change in trend from positive to negative.

S&P 500 Index

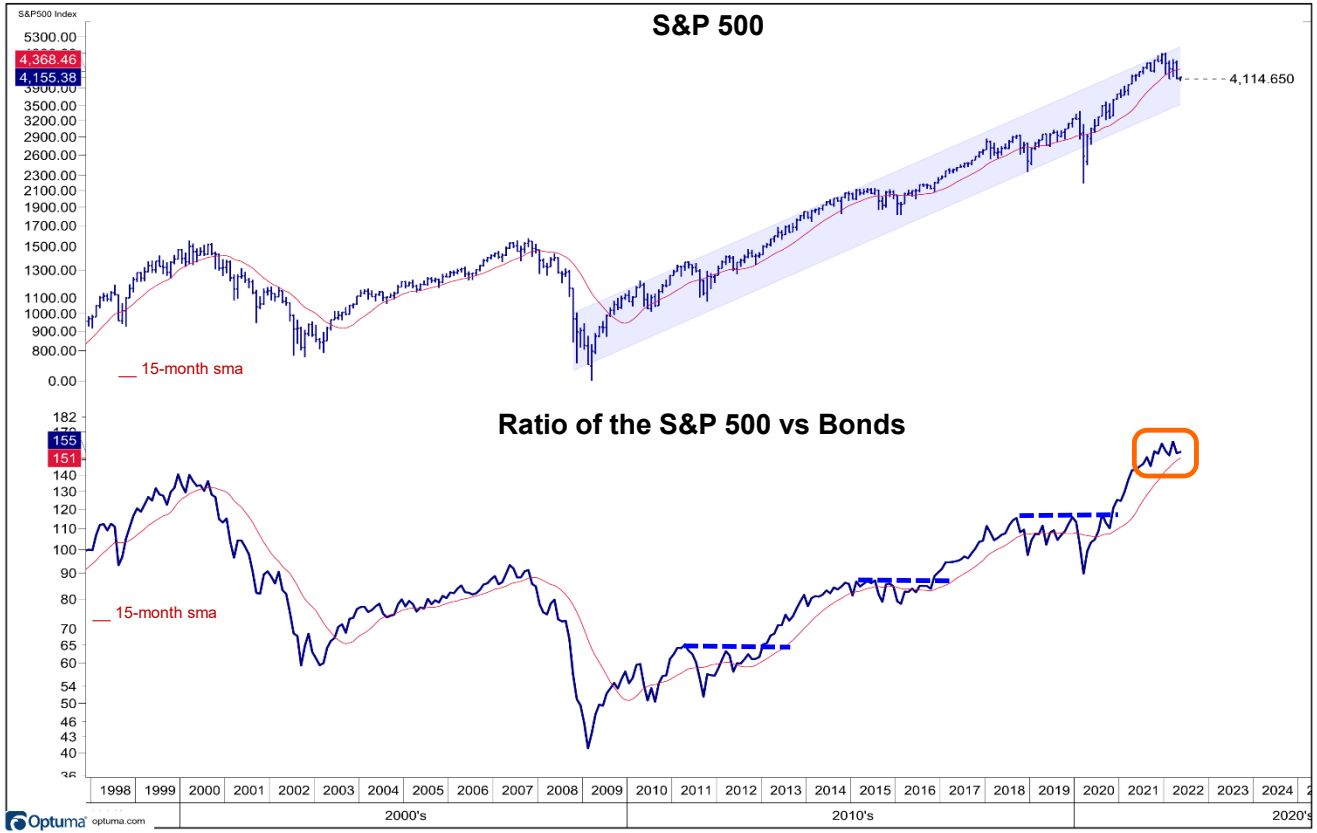


Monthly momentum has peaked, continues to decline and is just crossing below the zero axis, reflecting a peak to the cycle that began in 2020.

The S&P continues to stress test support between 4100-4200 which continues to define an important risk control level.

Source: RBC Wealth Management, Bloomberg, Optuma

S&P 500 price and relative performance versus bands



Source: RBC Wealth Management, Bloomberg, Optuma

- The current cycle for the S&P has stalled at the upper end of its 12-year uptrend channel and is now challenging important support at the Q1 lows near 4100. A break below the Q1 lows would signal a new downtrend by establishing lower highs and lower lows.
- Bottom panel: The relative performance ratio of the S&P versus the Barclays All Aggregate Bond Index (one of the most widely used bond benchmarks) is showing early signs of stalling after the strong gains in 2020-2021.
- A break below the 15-month relative performance moving average would support reducing an overweight in equities.

S&P 500 – Weekly

Source: RBC Wealth Management, Bloomberg, Optuma

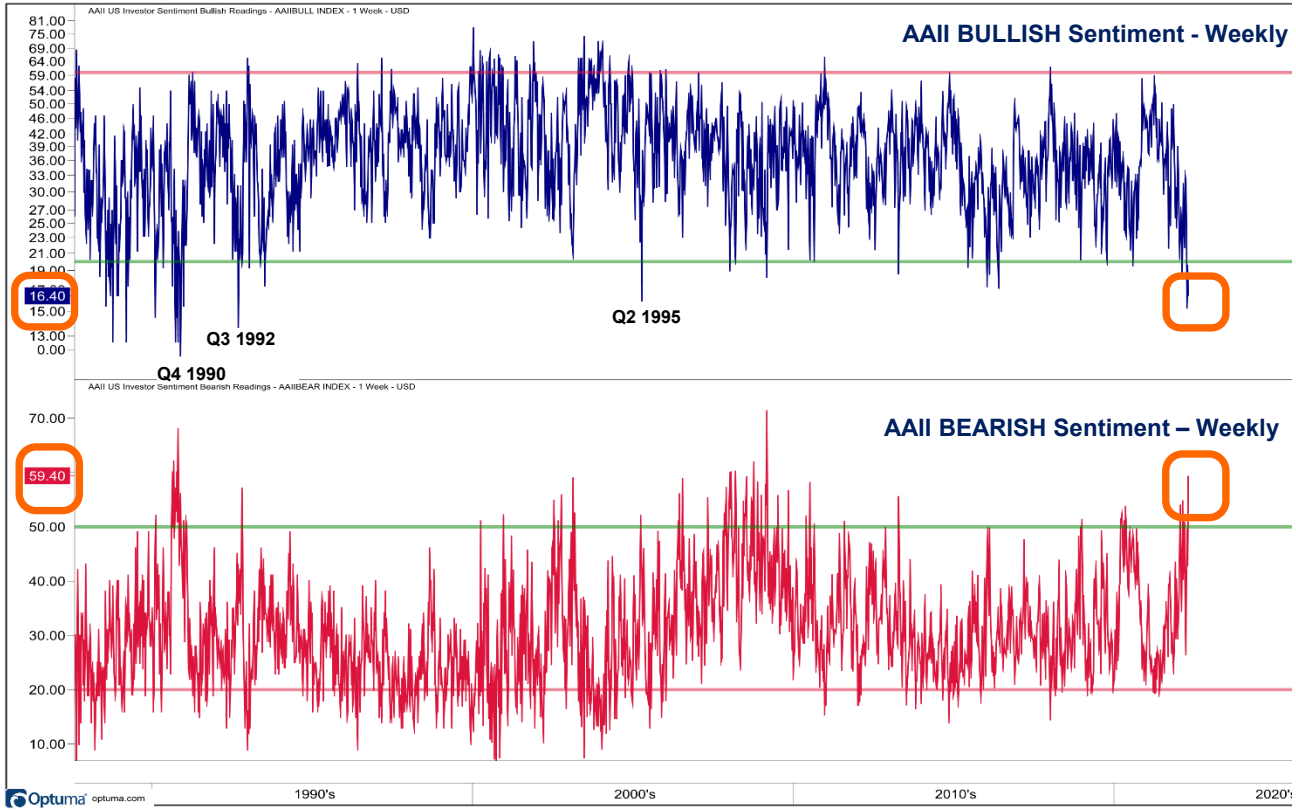
- After stalling in late March near 4600, the S&P is now stress testing critical support at the Q1 lows between 4100-4200 which we view as a key risk control level.
- A break below the Q1 lows would likely lead to a decline to next support at 3800 and potentially to 3500-3600 coinciding with long-term support near the rising 200-week/4-year moving average and 50% retracement of the 2020-2021 rebound.

NASDAQ Composite – Uptrend intact but with divergences!

Source: RBC Wealth Management, Bloomberg, Optuma

- Although the secular cycle backdrop is notably different from 2000 given it was the end of a 17-year cycle, the underlying cycle that began in 2020 continues to show evidence of decay.
- Top panel – The Nasdaq is beginning to break back into the uptrend channel that developed between 2009-2020, slipping below key support at 13,000 which we've identified as an important risk control level.
- Next major support is near the lower end of the channel between 9-10K.
- *Bottom panel – **A noteworthy divergence.** Relative performance versus the S&P peaked in 2021 well ahead of the Nasdaq's price peak, and continues to lead to the downside.*

AAII US Investor Bullish and Bearish Sentiment (contrarian indicators)



Source: RBC Wealth Management, Bloomberg, Optuma

- AAII Bullish Sentiment collapsed to contrarian levels not seen since the 1990s!

…while…

- AAII Bearish Sentiment is again at ‘high’ levels.

- These sentiment indicators remain a positive signal within an otherwise weak equity market.

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

Source: RBC Wealth Management, Bloomberg, Optuma

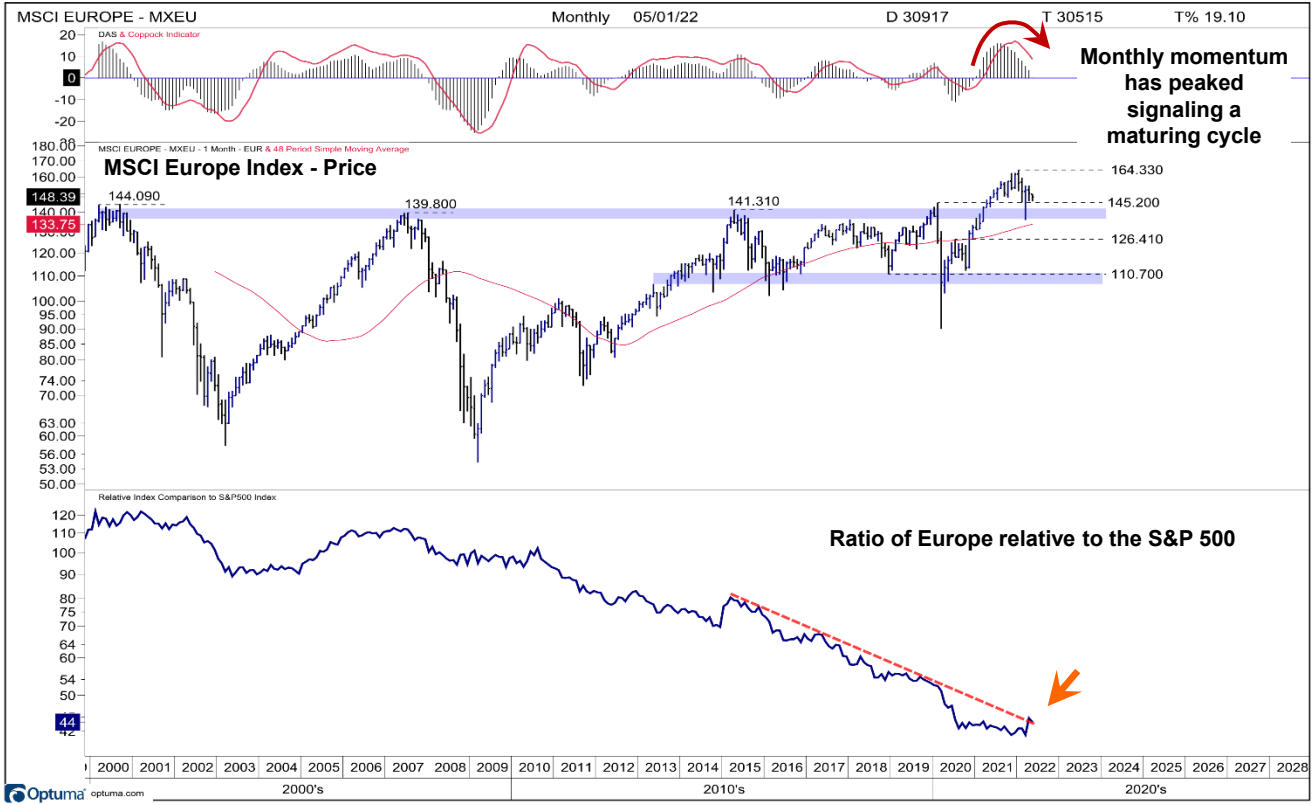
- Cyclical sectors account for 60% of the MSCI EAFE (Europe, Asia and Far East).
- EAFE's uptrend remains intact while it continues to pause under resistance at its 2007 highs near 2400 while holding above a key support level between 2000-2200.
- A move in either direction, above 2400 or below 2000, would likely signal the next major move for EAFE.
- Relative performance versus the S&P 500 in US dollars (bottom panel) remains down despite the recent short-term bounce.
- To truly signal a change in global equity leadership away from the US, the relative performance line in the bottom panel will need to reverse its (red) downtrend.

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

Source: RBC Wealth Management, Bloomberg, Optuma

- Over the past few quarters, the MSCI Emerging Market (EM) index has been in a steep correction after marginally breaking out to new highs.
- MSCI EM has yet to show meaningful evidence of bottoming after breaking below support at its 48-month (4-year) red moving average at 1120. While a bounce is underway, it is premature to conclude a long-term bottom is developing at this time.
- Relative performance versus the S&P 500 remains in a downtrend and would need to reverse above the (red) downtrend line to signal a longer-term trend shift favoring EM.

MSCI EUROPE – Monthly with relative performance vs S&P 500



- The MSCI Europe index is pulling back to stress test important support at the upper end of its 20-year trading range near the 140-145 range.
- Similar to MSCI EAFE and MSCI EM, MSCI Europe is showing very early signs of challenging its relative performance downtrend vs the S&P 500. Further upside would be needed to support overweighting the region versus the US.

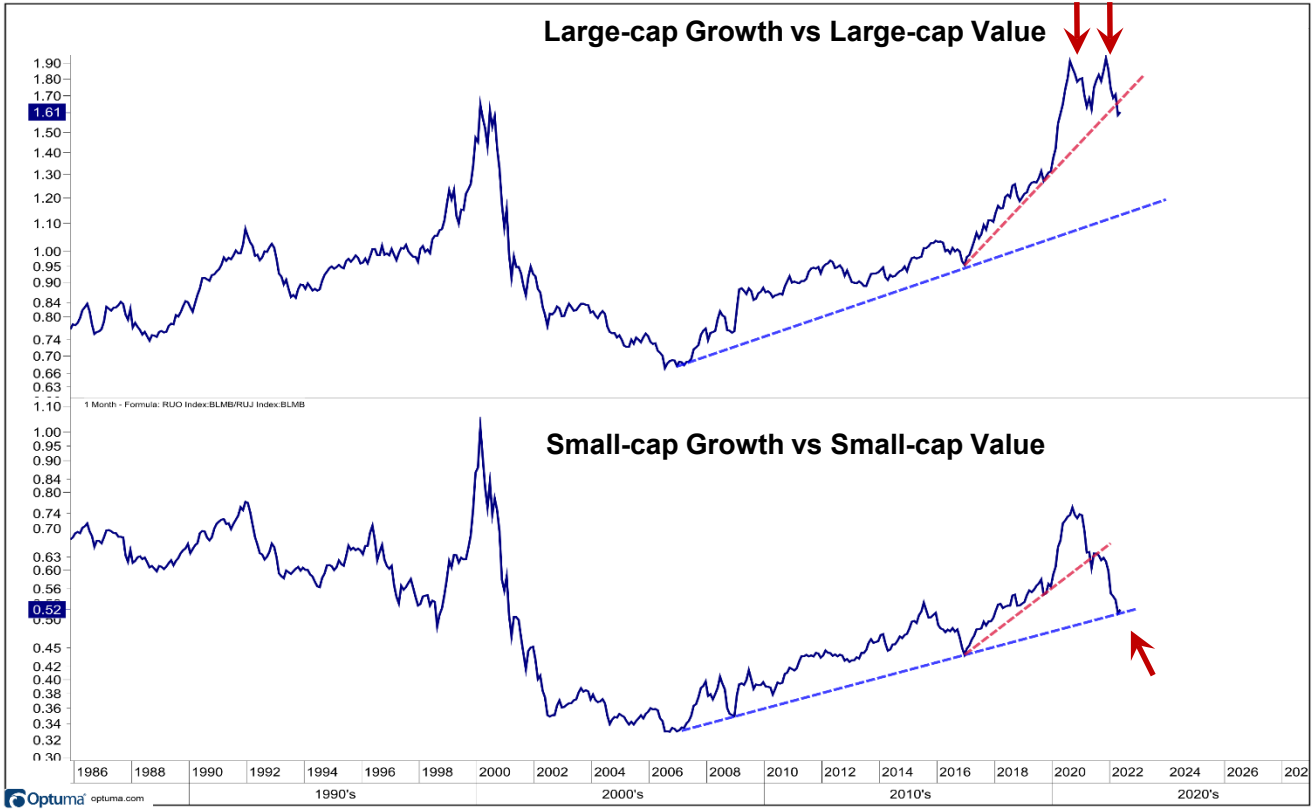
Source: RBC Wealth Management, Bloomberg, Optuma

S&P/TSX Composite Index – Monthly

- The long-term price trend remains positive with early signs of pausing after a strong surge into Q1 2022.
- Next resistance is 24K with important support starting near 18,000.
- Relative performance versus the S&P 500 remains in a longer-term downtrend BUT is showing very early signs of improving.

Source: RBC Wealth Management, Bloomberg, Optuma

Growth vs Value – Monthly

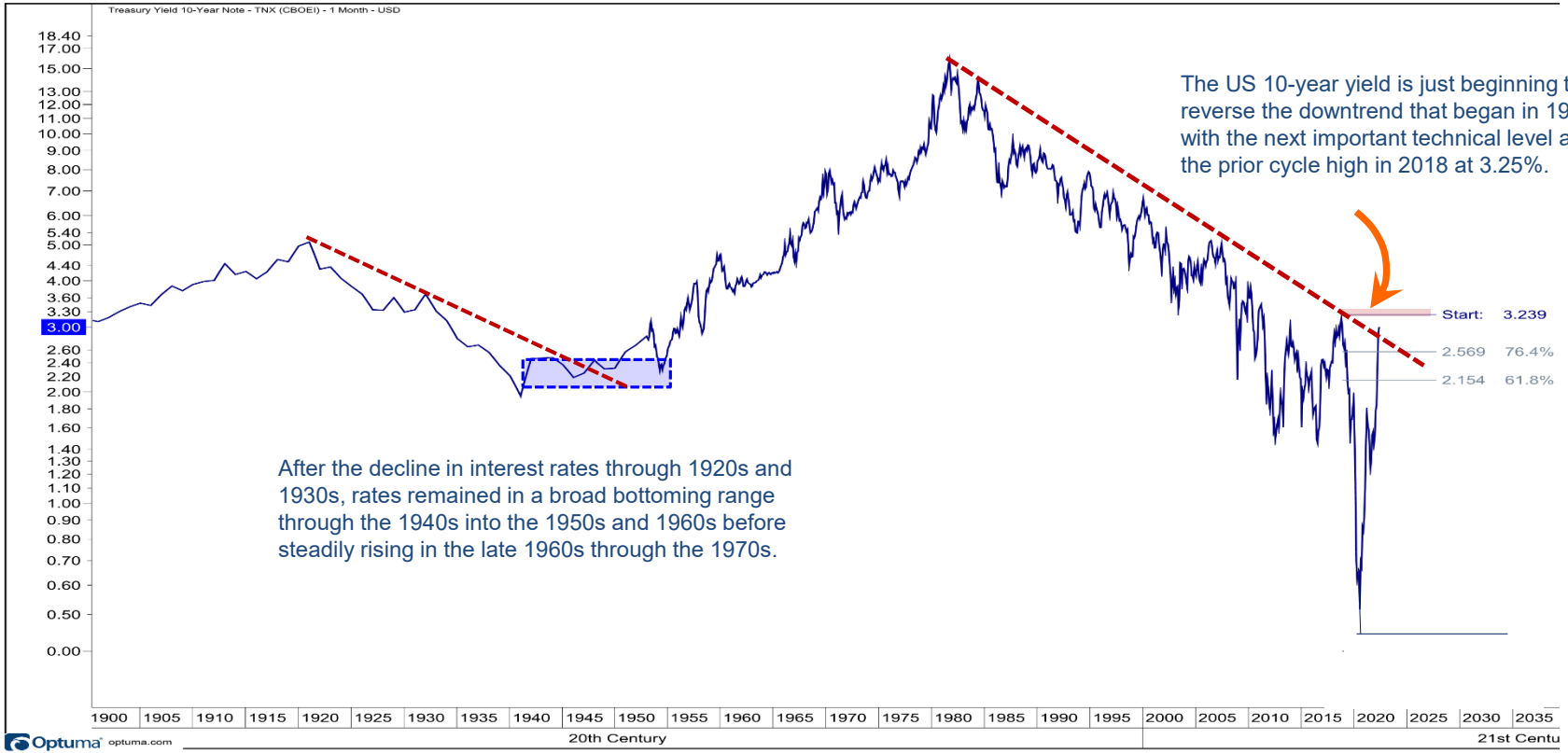


- Large-cap Growth versus Value has peaked and is just beginning to break its 2016-2021 uptrend with more relative under-performance likely in 2022.

- Small-cap Growth versus Value has meaningfully diverged from Large-caps and has broken the 2016-2021 uptrend and is now challenging its long-term uptrend that began in 2006.

Source: RBC Wealth Management, Bloomberg, Optuma

US 10-Year Yield (TNX) 1900-2022 – Monthly

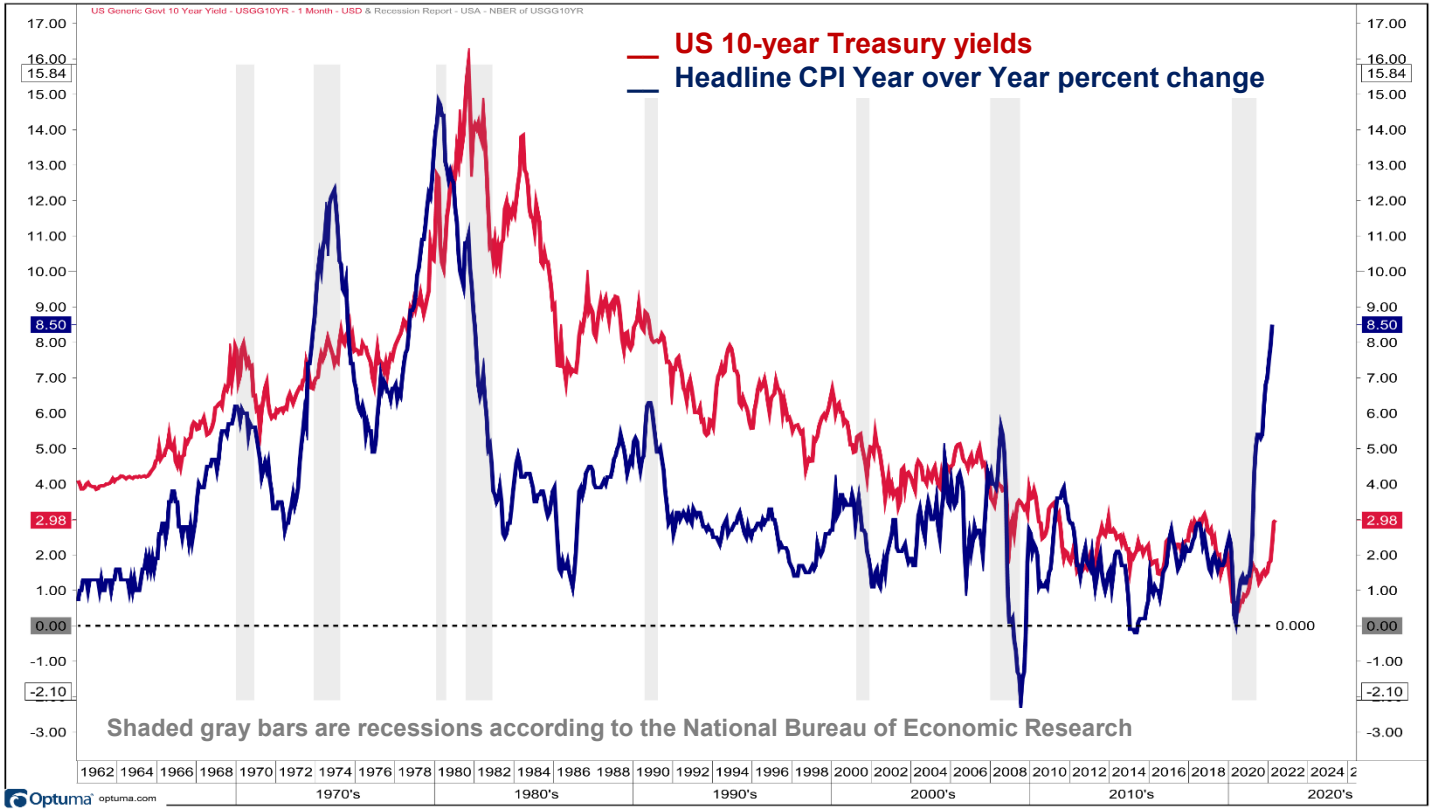


The US 10-year yield is just beginning to reverse the downtrend that began in 1981 with the next important technical level at the prior cycle high in 2018 at 3.25%.

After the decline in interest rates through 1920s and 1930s, rates remained in a broad bottoming range through the 1940s into the 1950s and 1960s before steadily rising in the late 1960s through the 1970s.

Source: RBC Wealth Management, Bloomberg, Optuma

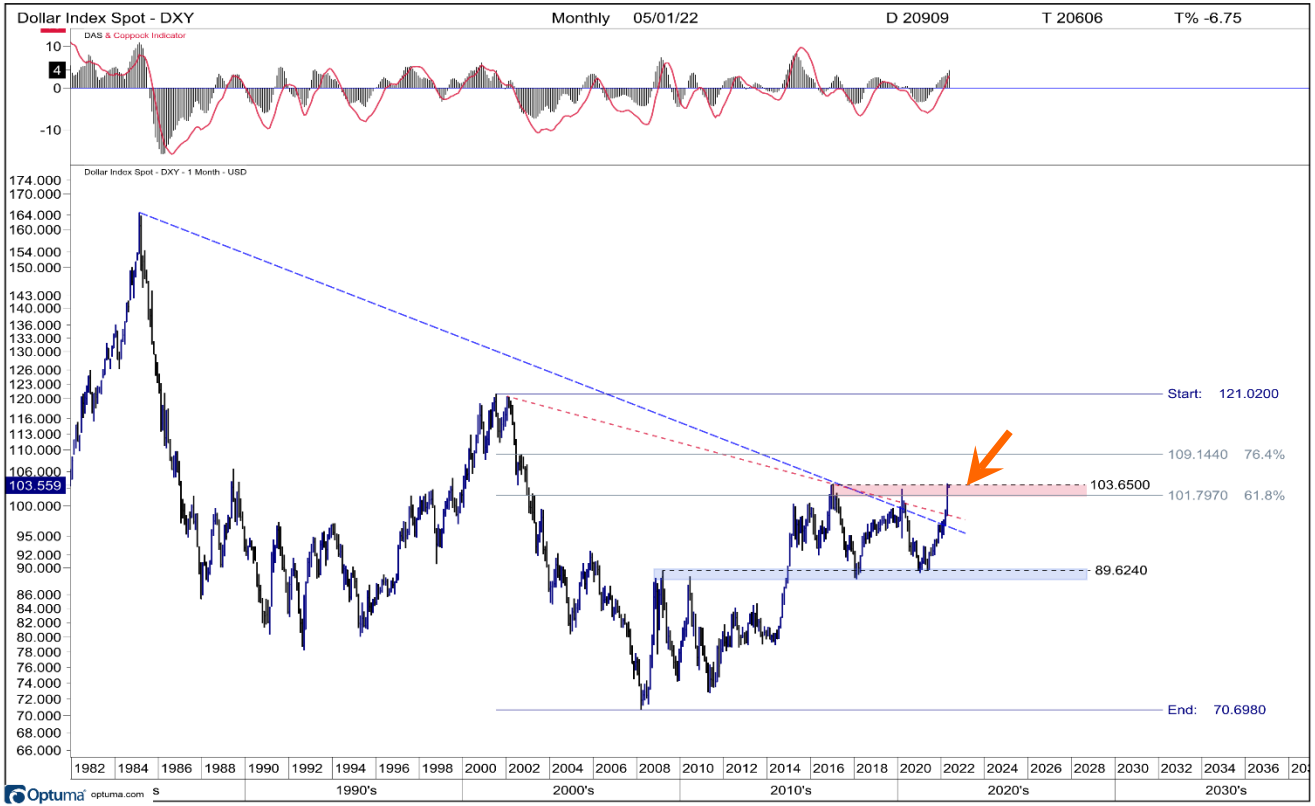
US 10-year yields (red) and CPI Inflation YoY (blue)



- With inflation a central topic for many investors, we have had many requests to illustrate the US 10-year treasury yield (red) with the year-over-year percentage change in CPI (blue) along with recessions according to the NBER.
- While spikes in CPI have led to recessions in the past, there is no clear level to signal a pending recession.
- Although the sample set is small, year-over-year moves in CPI have generally led to a recession.

Source: RBC Wealth Management, Bloomberg, Optuma, Bureau of Labor Statistics, National Bureau of Economic Research

DXY USD Dollar Index – Monthly



- The US Dollar index (DXY) has reversed its long-term downtrend and is now challenging the upper end of a trading range that began in Q4 2016.
- A move above 103 would confirm the DXY's new uptrend with next resistance at 109.

Source: RBC Wealth Management, Bloomberg, Optuma

Canadian Dollar / US Dollar – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The Canadian dollar pulled back from resistance near 0.83-0.84 in June 2021 and has been bottoming above key support near 0.77 since Q3 2021.
- We expect the CADUSD to continue to firm from current levels with a break below 0.77 support needed to change our view.
- A move above 0.834 would suggest additional upside toward the 50% retracement level at 0.87 followed by next resistance at 0.91 at the 62% retracement level.
- However, a move below 0.77 would be a negative signal for risk assets in general with risk to next support at 0.7469.

Copper Futures – Monthly

- Monthly momentum continues to decline as copper consolidates in a broad range under resistance close to the 2011 highs near 465 and above support near 400-422.
- We view the current consolidation as a healthy pause with a move above the recent highs likely to confirm a resumption of the longer-term uptrend.
- To turn the backdrop negative, copper would need to break below 396-400 support.
- The ratio of Copper vs Gold is testing cycle highs with a breakout above the red horizontal resistance line confirmation of copper's leadership.

Source: RBC Wealth Management, Bloomberg, Optuma

Thomson Reuters/Jefferies CRB Commodity Index – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- The CRB Commodity Index remains in a long-term uptrend and has just pushed above its next resistance band near its 50% retracement level at 288 with 312-332 next major resistance corresponding to the 62% retracement levels.
- First support is in the 287-272 band.
- Note relative performance versus the S&P has reversed a downtrend that began in 2008.

WTI Oil Future – Monthly

- Oil's uptrend remains intact with resistance at 115-116 then 130.
- Support remains near 95-100.
- Our expectation is for Oil to consolidate near the 100 level.

- 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

Commodities – Gold – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly momentum peaked in early 2020 as Gold stalled near 2000 but it is in the early stages of turning up in what looks to be another up cycle rebound taking hold.
- A breakout above the 1965-2075 range is needed to confirm a new long-term uptrend.
- Some investors have questioned whether Gold today is tracking the pattern of the top that developed in 2011-2012. While that is a possibility, we would highlight that the run-up during this cycle has been much shorter than the 2000-2011 bull market. **A break below 1670 would be needed to signal a bearish reversal.**

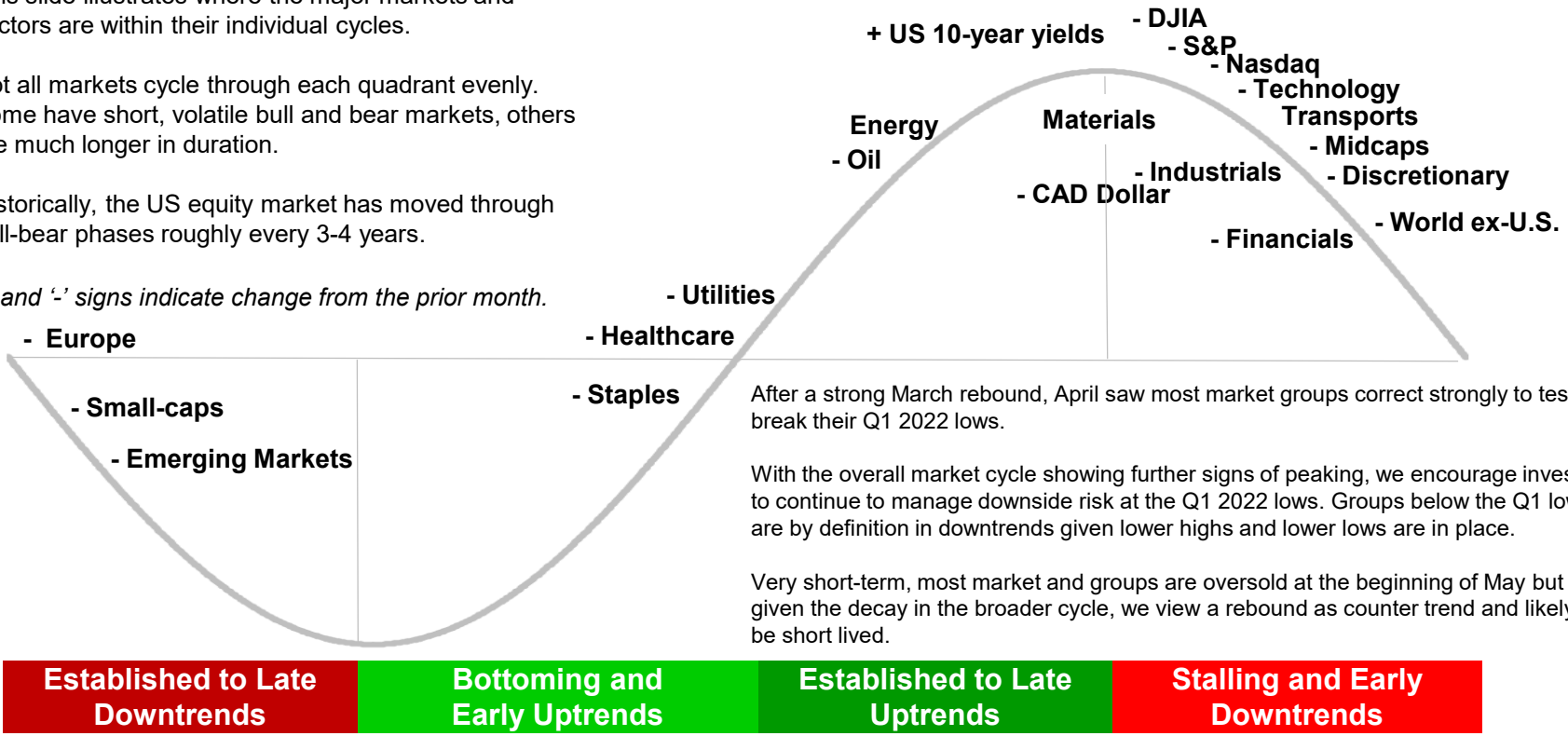
Major markets and S&P sector cycles

This slide 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.



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With the overall market cycle showing further signs of peaking, we encourage investors to continue to manage downside risk at the Q1 2022 lows. Groups below the Q1 lows are by definition in downtrends given lower highs and lower lows are in place.

Very short-term, most market and groups are oversold at the beginning of May but given the decay in the broader cycle, we view a rebound as counter trend and likely to be short lived.

Source: RBC Wealth Management, Bloomberg, Optuma

Industry Group Cycles

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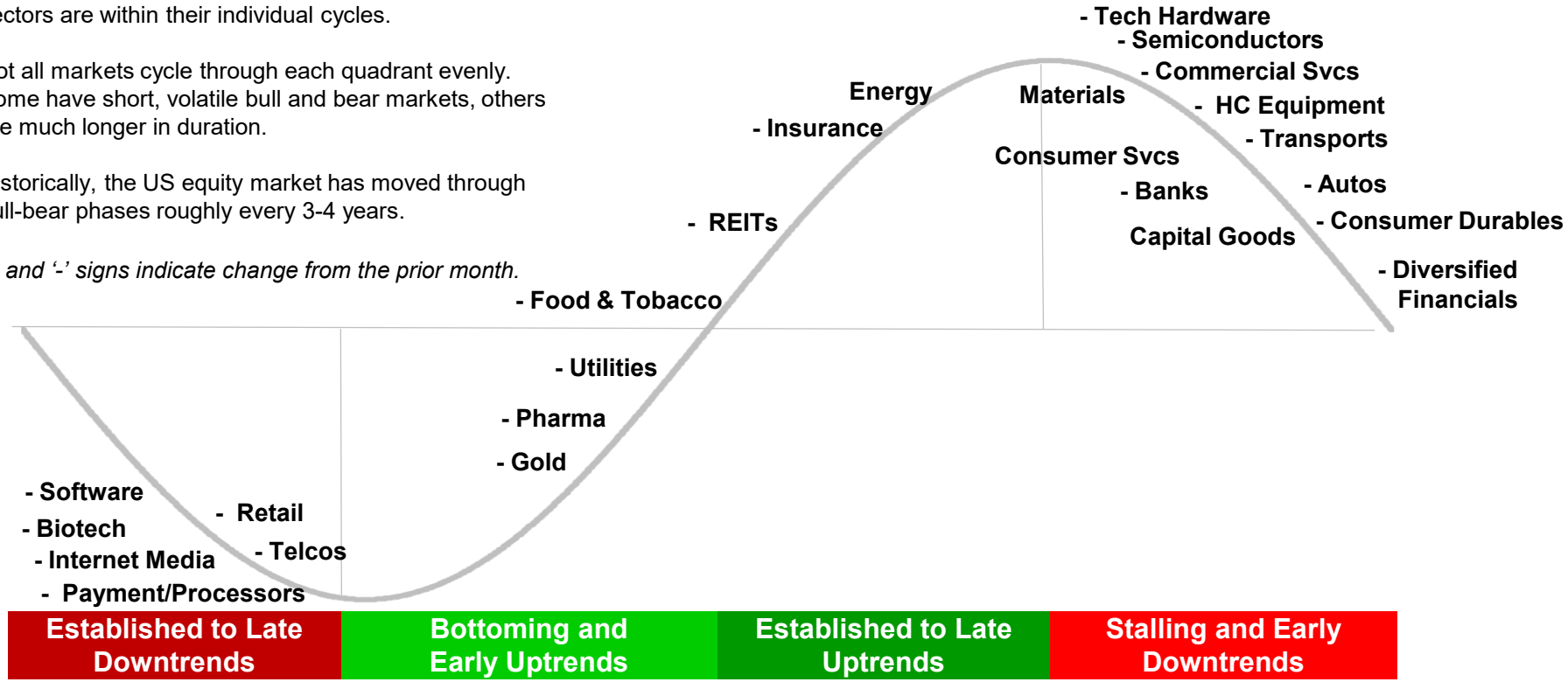

Source: RBC Wealth Management, Bloomberg, Optuma

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Sell [Underperform]	48	3.29	3	6.25

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