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.
- Trends, however, are not linear and regularly have cyclical bear markets, similar to what developed in 2022.

The current 4-year market cycle

- The current 4-year cycle that began in 2020 peaked in early 2021 and has declined roughly 20-25% which is in line with the average cyclical bear market that developed in the past during the secular bull markets of the 1950s-1960s, 1980s-1990s and 2010s. As is often the case, the weakness is driven by one of the primary drivers of cycles, central bank liquidity, 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, and while working toward oversold levels, they have yet to bottom suggesting there is likely more choppy/volatile market behavior before a new sustained uptrend takes hold which is likely in 2024, based on the pattern of prior 4-year cycles.
- However, on the positive side, from a tactical/intermediate-term perspective, most markets and sectors are showing evidence of bottoming at or near rising 4-year/200-week moving averages with market internals and sentiment indicators deeply oversold and starting to recover. In addition, interest rates showing early evidence of peaking near their prior cycle highs in 2018 is an important inter-market change developing and supports the case equities likely established an important low in Q2.

- Global Markets – MSCI EAFE, MSCI Emerging Markets (EM), MSCI Europe and Toronto TSX
- MSCI EAFE, MSCI EM, MSCI Europe and the TSX all remain in a corrective trend with oversold tactical rebounds underway, some from important longer-term support. In relative performance terms, very few are showing evidence of reversing downtrends.
Trend & Cycle: The Long View – August 2022

INTEREST RATES

• US 10-year yields – Further evidence of rates beginning to peak at the prior cycle high of 2018 near 3.25%.

CURRENCIES

• US Dollar Index (DXY) – Uptrend intact but overbought and showing very early signs of stalling/peaking intermediate-term.
• Canadian dollar (CADUSD) – Choppy trading pattern continues above critical support near 0.77.

COMMODITIES

• Copper broke below important support near 400 on concerns of an economic slowdown but is now back to next support near 330.
• Commodity Index (CRY) – Further evidence of stalling near important resistance at its 62% retracement level.
• WTI Oil – Uptrend intact with WTI in a broad consolidation above 95-100 support but below resistance between 123-130.
• Gold has weakened with most commodities and is now oversold testing next important support at 1676. Key resistance remains 2000.

MARKET, SECTORS and INDUSTRY GROUP CYCLES

• Many sector and group indices are bouncing from oversold levels near important long-term support, defined by 4-year/200-week moving averages. Growth and economically sensitive groups are leading the rebound from rising 200-week moving averages while inflation sectors, such as Energy and Materials, are beginning to rally from important risk control levels near their rising 200-day moving averages.
• In contrast, defensive sectors such as Staples, Healthcare and Utilities, remain in uptrends but are showing very early signs of peaking intermediate-term in relative performance terms versus the S&P 500 as more offensive sectors and groups rebound from oversold levels.
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 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.
S&P 500 – Could the S&P rally to 14,000?

- Although 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 green uptrend line aligns with a similar target near S&P 14,000.

Interestingly, while the S&P made new highs into 1974, the Dow Industrials peaked in 1966.

Source: RBC Wealth Management, Bloomberg, Optuma
S&P 500 - 1940-2022 with drawdowns from 3 year highs

- Gray shaded bars = US recessions defined by NBER.
- Declines below the red 4-year moving average have often resulted in recessions.
- The blue ^ characters indicate when the S&P has declined by more than 20%.

Source: RBC Wealth Management, Bloomberg, Optuma
S&P 500 index and a repetitive 4-year cycle

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 peaked after a 120% rally.

During the secular bull markets of the 1950s-1960s, 1980s-1990s and 2010s, the S&P has often stabilized and bottomed near the red 200-week moving average.

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>
</tr>
</thead>
<tbody>
<tr>
<td>1949-1953</td>
<td>97</td>
<td>-15</td>
</tr>
<tr>
<td>1953-1957</td>
<td>118</td>
<td>-22</td>
</tr>
<tr>
<td>1958-1962</td>
<td>86</td>
<td>-28</td>
</tr>
<tr>
<td>1962-1966</td>
<td>80</td>
<td>-22</td>
</tr>
<tr>
<td>1982-1986</td>
<td>231</td>
<td>-36</td>
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<tr>
<td>1987-1990</td>
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<td>1990-1994</td>
<td>64</td>
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<tr>
<td>2011-2016</td>
<td>99</td>
<td>-16</td>
</tr>
<tr>
<td>2016-2020</td>
<td>87</td>
<td>-38</td>
</tr>
<tr>
<td>2020-2024 ?</td>
<td>120</td>
<td>-</td>
</tr>
</tbody>
</table>

Average 111 -23

In theory, the next up cycle is likely in 2024 based on the 4-year cycle.
• The shorter-term trend for the S&P, represented by the green 4-month moving average (ma), remains below the longer-term trend, represented by the red 13-month moving average, confirming an ongoing downtrend.

• Next support below 3800 is at 3500 with 4100-4200 resistance.

• The histogram in the bottom panel is green when the 4-month ma is above the 13-month ma, and red when the 4-month ma is below the 13-month ma. This indicator continues to confirm the S&P is in a downtrend and would need to flip green to signal the trend is turning positive again.

Source: RBC Wealth Management, Bloomberg, Optuma
The S&P is now nearing the lower end of the trend channel that has been in place since 2009 with early signs of bottoming tactically.

Monthly momentum remains down/negative and unlikely to bottom and turn positive until 2023, possibly 2024.

Source: RBC Wealth Management, Bloomberg, Optuma
• Weekly momentum, tracking 1-2 quarter swings, has turned up signaling an intermediate-term rebound underway.

• Next important resistance is between 4100-4200, followed by 4416.

• Next support below the June lows of 3636 is at 3500, near the rising gray 200-week moving average.
• The Nasdaq has corrected to its 4-year/200-week moving average and is showing early signs of rallying from that key support band near 10,000, coinciding with a 62% retracement of the 2020-2022 rally.

• While it is premature to conclude the correction is over, we view the rebound from this important support range to be an encouraging indication that a bottom is developing.
AAII US Investor Bullish and Bearish Sentiment (contrarian indicators)

- AAII Bullish Sentiment collapsed to contrarian levels not seen since the 1990s but is showing signs of improving, rising close to 30% over the past two months.

- AAII Bearish Sentiment is declining from 'high' levels seen in Q2 falling to 40%.

- These sentiment indicators remain a positive contrarian signal.

Source: RBC Wealth Management, Bloomberg, Optuma
MSCI EAFE – Monthly with relative performance vs the S&P 500

- Monthly momentum, tracking 2-4 year swings, remains negative as the MSCI Europe, Asia and Far East Index (EAFE) continue to correct from a broad resistance band (highlighted in red).

- EAFE is now challenging its next important support band coinciding with 50-62% retracements of the 2020-2021 rally between 1755-1881 with early signs of a rebound taking hold.

- EAFE’s relative performance versus the S&P 500 remains in a longer-term downtrend with no meaningful evidence of reversing to the upside.
MSCI Emerging Market Index and relative performance vs S&P 500

• After peaking in early 2021, the MSCI EM has yet to show meaningful evidence of bottoming as it falls below the 50% and 62% retracement levels of the 2020-2021 rebound.

• 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.

Source: RBC Wealth Management, Bloomberg, Optuma
The MSCI Europe had fallen below important support at 145 coinciding with the upper end of a 20-year trading range in June.

However, in late June and July Europe began to rally from next support at its rising 4-year/200-week moving average and is showing signs of recapturing the 145 support band highlighted in red.

Similar to MSCI EAFE and MSCI EM, MSCI Europe is not showing meaningful evidence of reversing its relative performance downtrend versus the S&P 500. Further upside above the downtrend line would be needed to support overweighting the region versus the S&P 500.
S&P/TSX Composite Index - Monthly

- Monthly cycle momentum remains negative for the TSX as it pulls back to test its long-term uptrend near 18K. Early signs of stabilizing.

- Relative performance versus the S&P 500 is showing very early signs of improving.
After the decline in interest rates through the 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.

The US 10-year yield is showing early evidence of stalling/peaking at its prior cycle high in 2018 near 3.25%.
Given inflation remains the central topic for many investors, we are illustrating the US 10-year treasury yield (red) along with the year-over-year percentage change in CPI (blue) and with recessions, according to the NBER (gray bars).

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, large year-over-year moves in CPI have generally led to a recession.
• The US Dollar index (DXY) remains a headwind for risk assets as it breaks out above its prior cycle highs in 2016 and 2020 near 103-105.

• Next resistance is near 109 with DXY showing very early signs of pausing/stalling near that level.

• A break below 101-102 is needed to signal the dollar’s trend is reversing to the downside.
The Canadian dollar fell from resistance near 0.83-0.84 in June 2021 back to, and marginally below, important support near 0.77.

With monthly momentum (top panel) still declining, we expect the dollar to remain in a very choppy trading range around 0.77 which it is showing early evidence of holding above in July.

However, a move below 0.77 would be a negative signal for risk assets in general with risk to next support at 0.7469.
Thomson Reuters/Jefferies CRB Commodity Index - Monthly

- Monthly cycle momentum has peaked as the CRB Commodity Index shows further evidence of stalling at its next important resistance band near the 62% retracement of the 2008-2020 decline at 331.

- This chart suggest the commodity cycle that began in 2020 is likely in the early stages of stalling, with a broad trading range likely to follow well into 2023.

- First support is 287 followed by 226.

- Note: Relative performance versus the S&P has reversed a downtrend that began in 2008.

Source: RBC Wealth Management, Bloomberg, Optuma
Copper Futures – Monthly

Monthly momentum continues to decline but is moving toward oversold levels as copper corrects to next support near its 50% retracement of the 2020-2022 rebound, coinciding with the 2018 cycle highs near 330.

Our expectation is for copper to remain in a choppy trading range at or above current levels through 2H 2022.

The ratio of Copper vs Gold will need to rally above the red horizontal resistance line to confirm copper is beginning to outperform gold.
WTI Oil Future - Monthly

- WTI Oil’s peaked at 130 in March 2022 and is now in a broad sideways consolidation with support between 95-100 near its 200-day moving average.
- We expect Oil to continue to stabilize and trade in the high 90s to low 100s well into Q4.
- A break below 90, however, would likely see Oil move toward its next support band in the mid 70s.

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.
Commodities - Gold - Monthly

- Monthly momentum peaked in early 2020 as Gold stalled near 2000, began to bottom in early 2021 but has recently turned negative again.

- Gold is now testing important support near 1670 near its rising 4-year/200-week moving average and is suitably oversold tactically to support a trading rally.

- A breakout above the 1965-2075 range is needed to confirm a new long-term uptrend.

- A break below 1670 support would raise the likelihood gold is again completing a top with that level now serving as an important stop loss level.
Growth vs Value - Monthly

• Large-cap Growth versus Value has broken the 2016-2021 uptrend.

• As we noted last month, a short-term bounce was starting to develop in July with further evidence that an oversold rebound is likely to continue in August.

• Small-cap Growth versus Value has meaningfully diverged from large caps over the past two years, but is now showing very early signs of stabilizing near its longer-term uptrend.

Source: RBC Wealth Management, Bloomberg, Optuma
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.

• Most sectors and groups did rally strongly in July from support near rising 200-week moving averages which raises the question of whether the bear market lows are now in place and a new bull cycle is underway. Given the long-term monthly cycle momentum for most markets and groups remains down, it is premature to conclude the broader correction is over.

• In July’s Long View we noted many market and sector indices are now at important long-term trend support defined by 4-year/200-week moving averages which should support a bounce but it is premature to conclude the broader correction is over.

Source: RBC Wealth Management, Bloomberg, Optuma
Industry Group 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.

Source: RBC Wealth Management, Bloomberg, Optuma
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