Trend & Cycle: The Long View – October 2021

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All values in U.S. dollars and priced as of market close on October 4, 2021 unless otherwise noted

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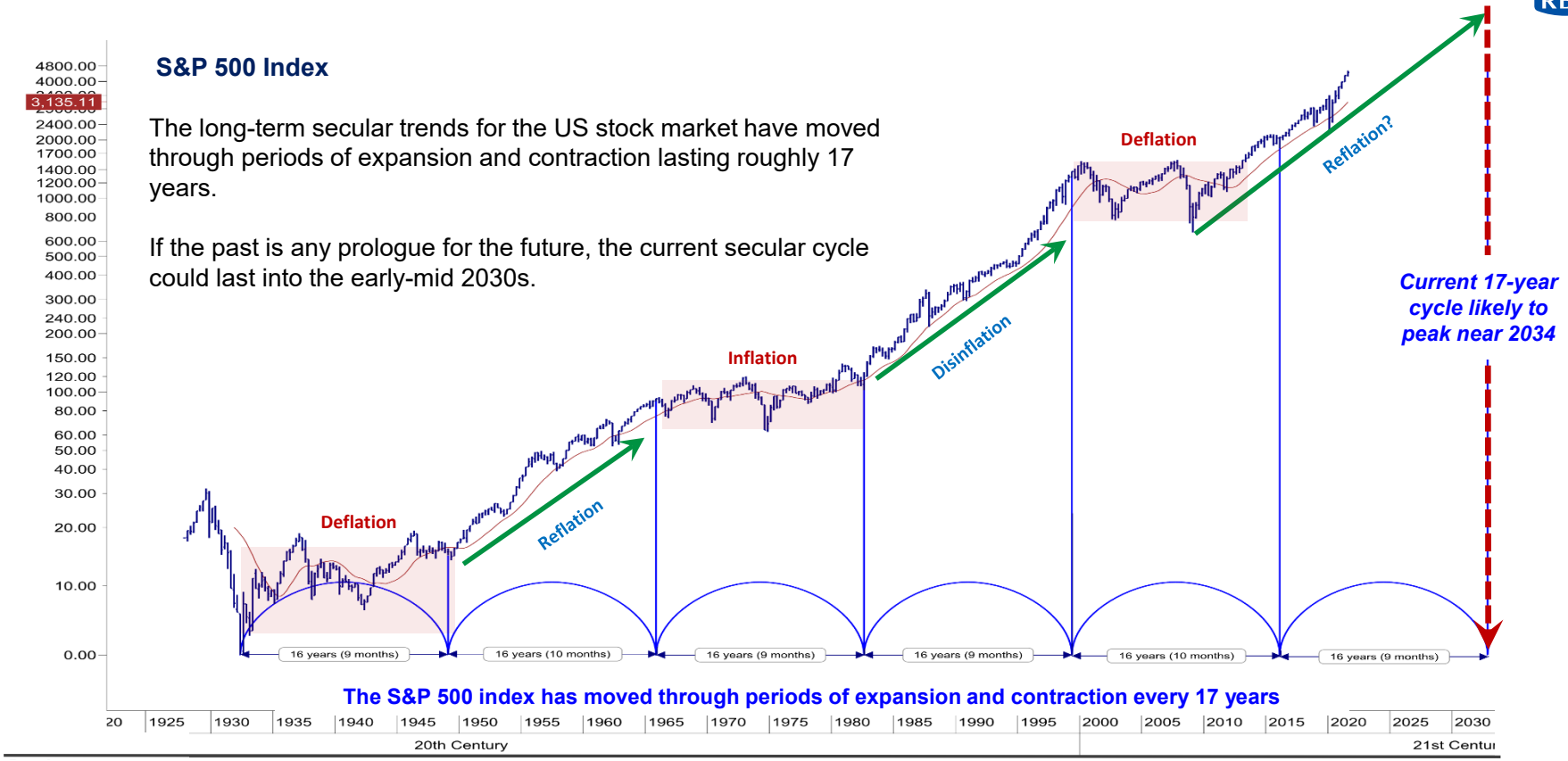
Trend & Cycle: The Long View – September 2021

- **Long-term secular equity cycles** – A repetitive 17-year generational cycle that could support the secular bull market into the mid 2030's.
- **The 4-year cycle since WWII** – An underlying cycle too repetitive to ignore that supports further upside into 2022.
- **The current equity cycle** measured by 4 and 13 month moving averages – Uptrend beginning to stall at the upper end of a 12-year channel.
- **S&P 500** price uptrend beginning to stall but the relative performance uptrend versus bonds remain intact.
- **MSCI EAFE, MSCI Emerging Market and MSCI Europe Indices** – Europe breaks out of a 20-year trading range but a pause is developing.
- **S&P TSX** – Uptrend intact after breaking above a sideways range that was in place between 2008-2020. 22k next resistance, 18k support.
- **US 10-year yields 1900-2021** – Range bound between 1.126%-1.80% after retracing 50% of the 2017-2020 decline. Short-term trend is up.
- **US Dollar Index (DXY)** – Long-term downtrend intact but with DXY stress testing important resistance at 93-94.
- **Canadian dollar (CADUSD)** – Long-term uptrend intact with CAD$ currently consolidating under resistance at 0.83-0.84 and above 0.77.
- **Copper** – Uptrend intact with Copper consolidating under resistance near 465.
- **WTI Oil** – Uptrend intact with Oil challenging 76-77 resistance. Next key upside level is near 90-91.
- **Gold** is range bound between 1900-2000 resistance with 1670 important support.
- **Major markets, S&P sectors and industry cycles** – Leadership relay race and rotation continues: After rebounding strongly through Q2 and Q3, growth/technology stocks are now pulling back from overbought levels within longer-term uptrends. In contrast, cyclicals, which pulled back through Q2-Q3 (as technology rallied), have caught up to their uptrends near rising 200-day moving averages and are beginning to rally. We expect growth stocks to lag the S&P 500 through Q4 while cyclicals lead into year-end.

US equity generational cycles lasting roughly 17-years



Source: RBC Wealth Management, Bloomberg, Optuma

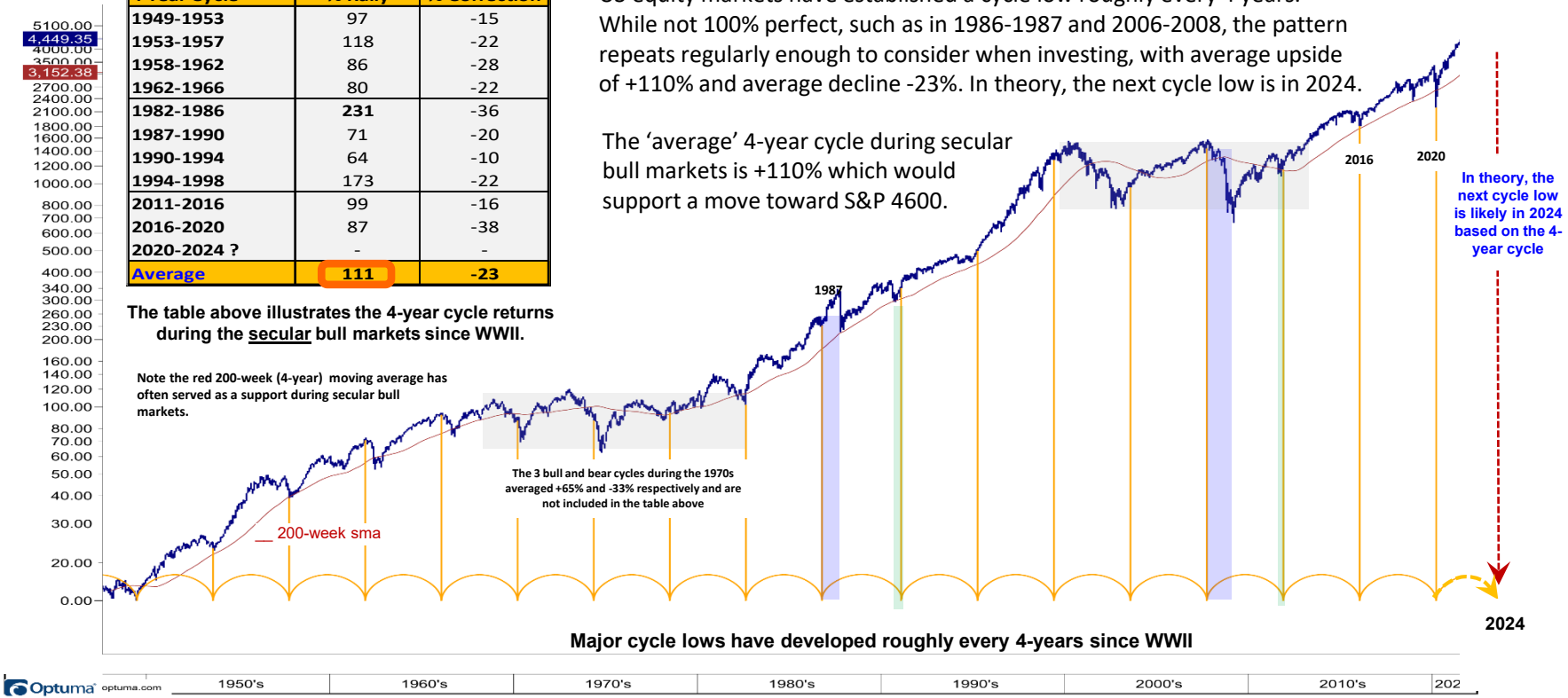
S&P 500 – A repetitive 4-year cycle to consider

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 secular bull markets since WWII.

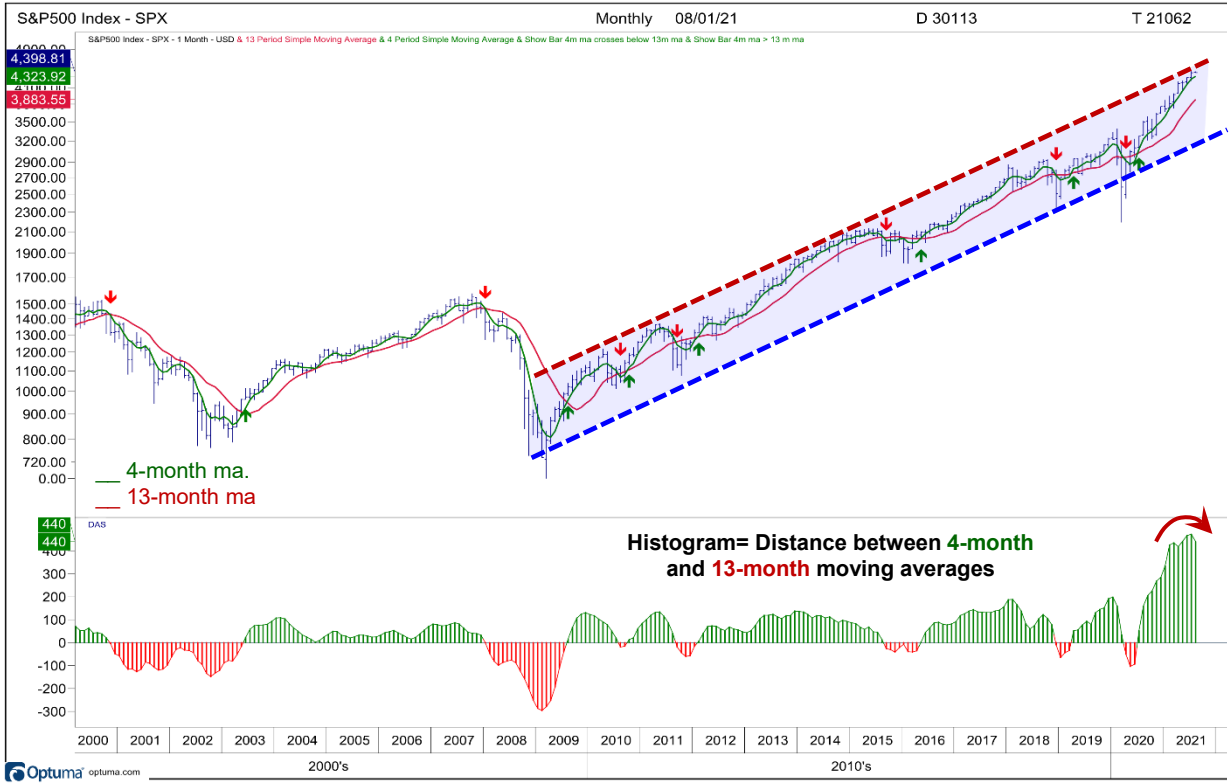
US equity markets have established a cycle low roughly every 4 years. While not 100% perfect, such as in 1986-1987 and 2006-2008, the pattern repeats regularly enough to consider when investing, with average upside of +110% and average decline -23%. In theory, the next cycle low is in 2024.

The 'average' 4-year cycle during secular bull markets is +110% which would support a move toward S&P 4600.



Source: RBC Wealth Management, Bloomberg, Optuma

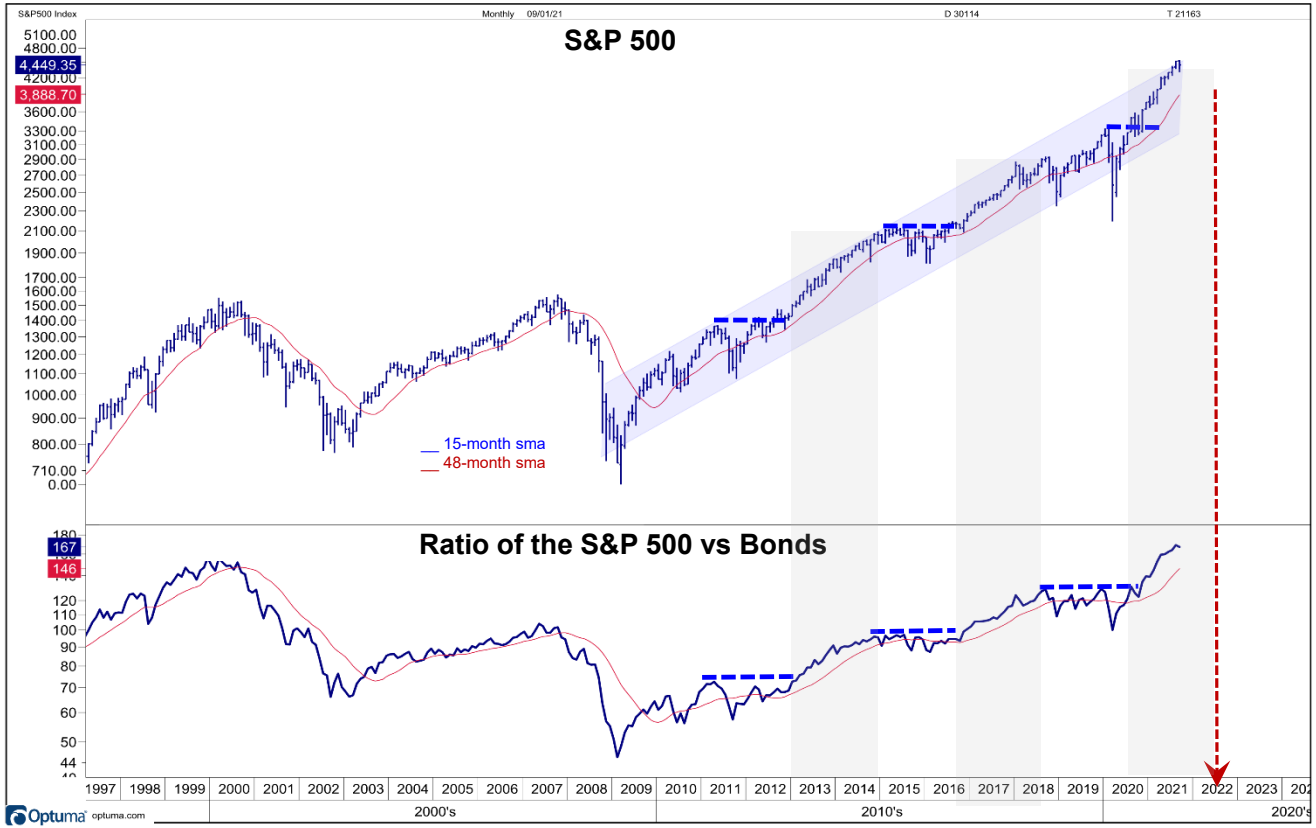
S&P 500 Index - Monthly with 4 and 13 month moving averages



Source: RBC Wealth Management, Bloomberg, Optuma

- The current trend for the S&P remains positive but well advanced and testing the upper end of a 12-year trend that began in 2009.
- The shorter-term trend for the S&P, represented by the 4 month moving average, remains positive but well advanced above the longer-term trend, represented by the 13 month average.
- The red and green arrows indicate when these two moving averages cross each other. Although there are times when the crossovers result in whipsaws, they can be a helpful technical tool to avoid the major drawdowns that develop in bear markets, such as 2000 and 2008.
- 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 is beginning to stall, suggesting market returns are likely to moderate in 2022.

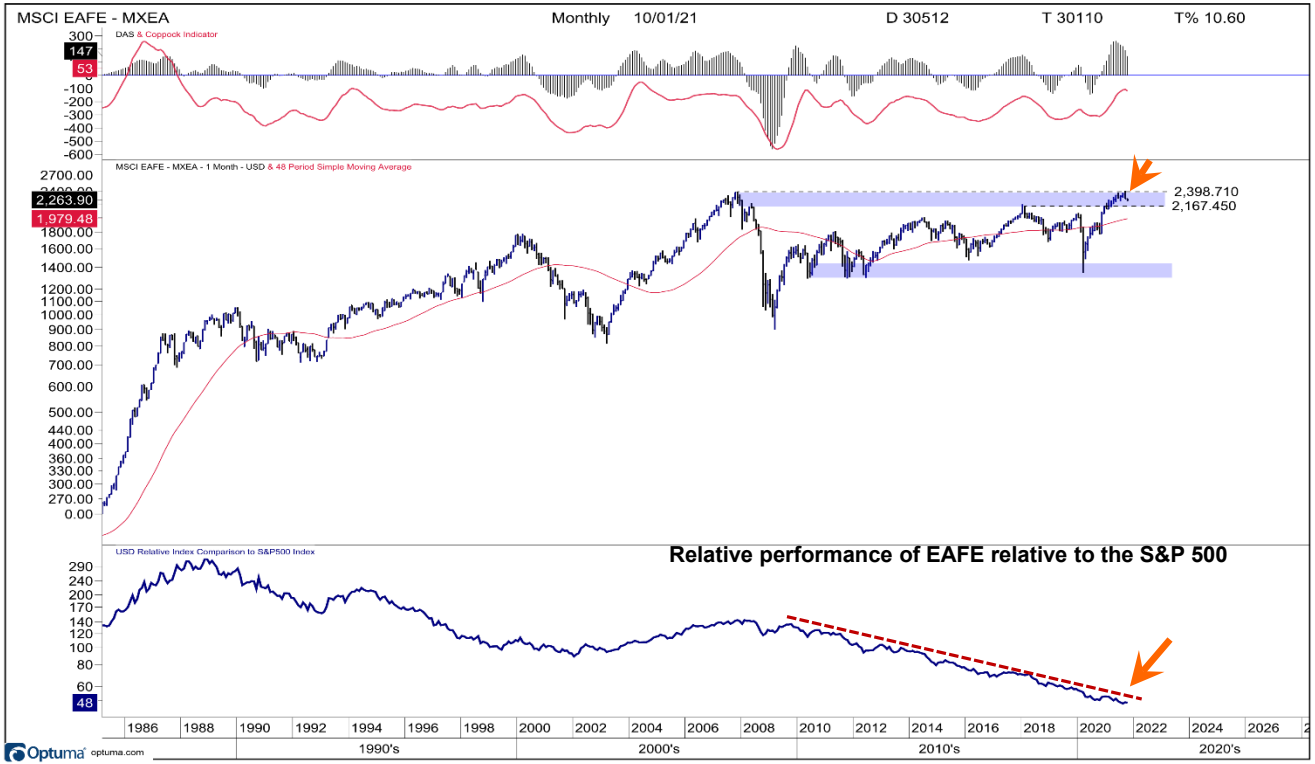
S&P 500 monthly and relative performance vs Bonds



Source: RBC Wealth Management, Bloomberg, Optuma

- The current cycle for the S&P remains positive but advanced at the upper end of 12-year trend channel.
- The relative performance of the S&P versus the Barclays All Aggregate Bond Index, one of the most widely used bond benchmarks, continues to make new cycle highs similar to the 2016 and 2012 cycles.
- If the past two 4-year cycles are any guide, then stocks are likely to outperform bonds through the balance of 2021 well into 2022.

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



Source: RBC Wealth Management, Bloomberg, Optuma

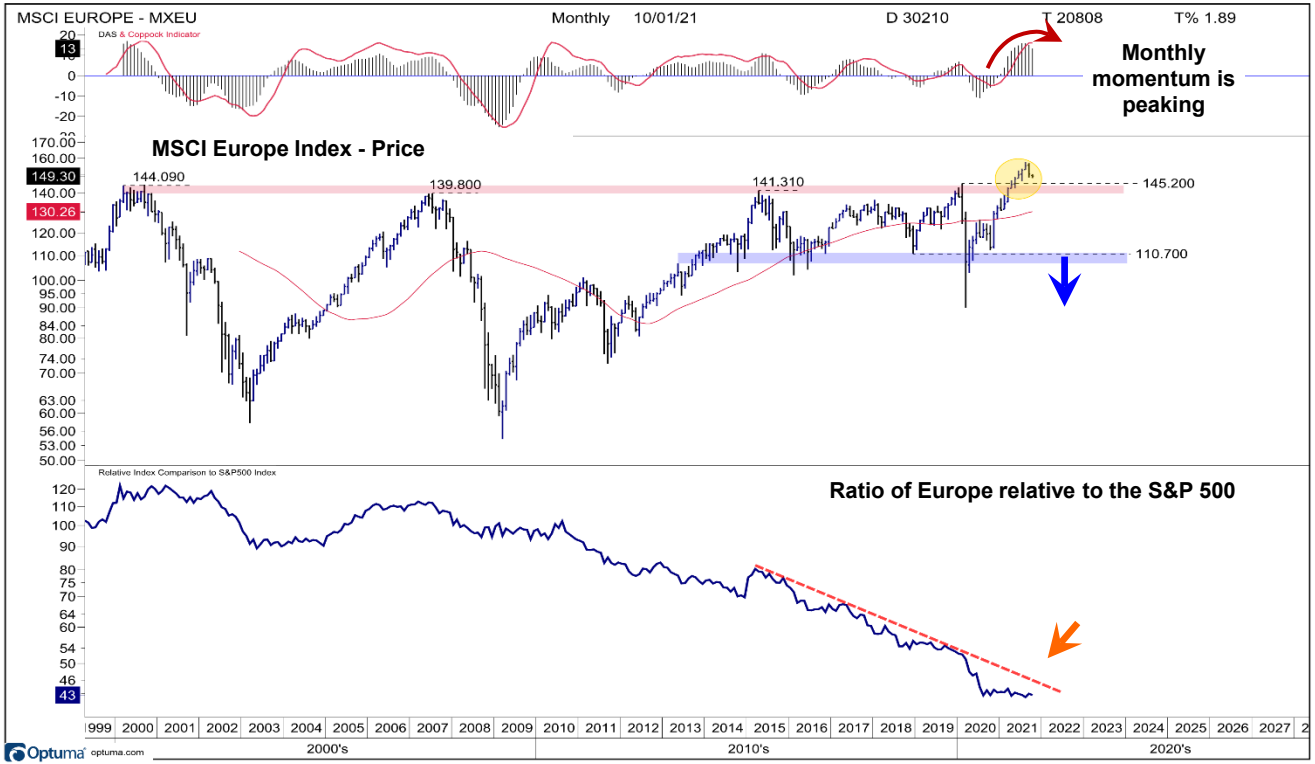
- Cyclical sectors account for 60% of the MSCI EAFE (Europe, Asia and Far East) so an improvement in the EAFE index is a reflection of an improving global economy.
- EAFE's uptrend remains intact but is pausing/stalling near resistance at its 2007 highs (2398) with support between 2000-2200.
- To truly signal a change in global equity leadership away from the US, the (red) relative performance line in the bottom panel will need to reverse its downtrend.

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

- Over the past few months, the MSCI Emerging Market (EM) index stalled as many of the larger Chinese stocks which dominate this index, sold off in response to changing regulations.
- Currently, the MSCI EM is trading sideways above key support near 1200.
- A break below 1200 would signal a failed breakout with next important support near the 48-month moving average at 1117.
- Relative performance versus the S&P 500 remains in a downtrend and would need to reverse to the upside to signal a longer-term trend shift favoring EM.

Source: RBC Wealth Management, Bloomberg, Optuma

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



- The MSCI Europe index is heavily influenced by cyclical stocks similar to the EAFE index.
- This index is breaking out of a 20-year trading range with support near the 140-145 range.
- However, similar to MSCI EAFE and MSCI EM, MSIC Europe has yet to show meaningful technical evidence of reversing its relative performance downtrend vs the S&P 500 to support overweighting the region versus the US.

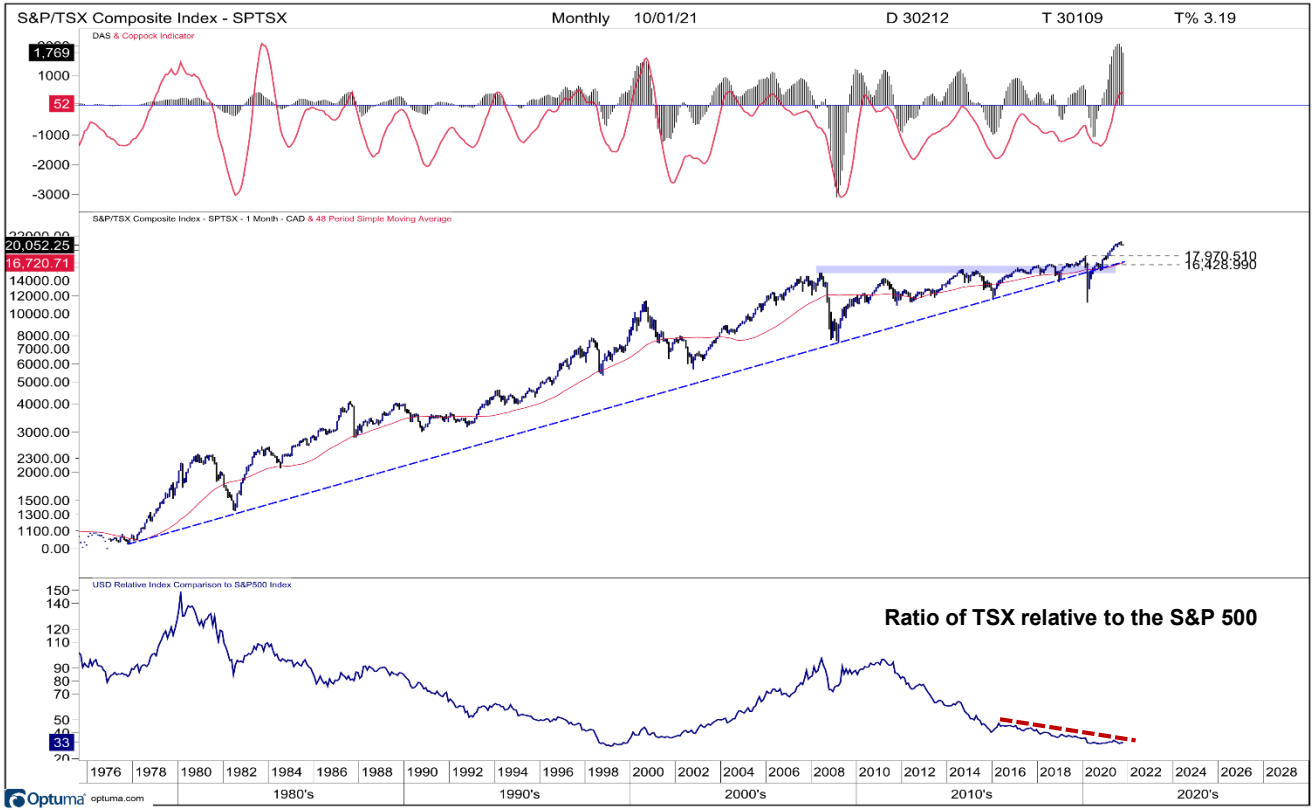
Source: RBC Wealth Management, Bloomberg, Optuma

NASDAQ Golden Dragon China Index – Weekly

- The NASDAQ Golden Dragon China Index (HXC) is a modified market capitalization weighted index comprising companies whose common stock is publicly traded in the United States and the majority of whose business is conducted within the People's Republic of China.
- The HXC is beginning to bounce from an important support band near its rising 200-week ma (grey line) and a support band between 10.2-11K.
- We expect the HXC to continue to carve out a bottoming pattern near current levels over the coming months.

Source: RBC Wealth Management, Bloomberg, Optuma

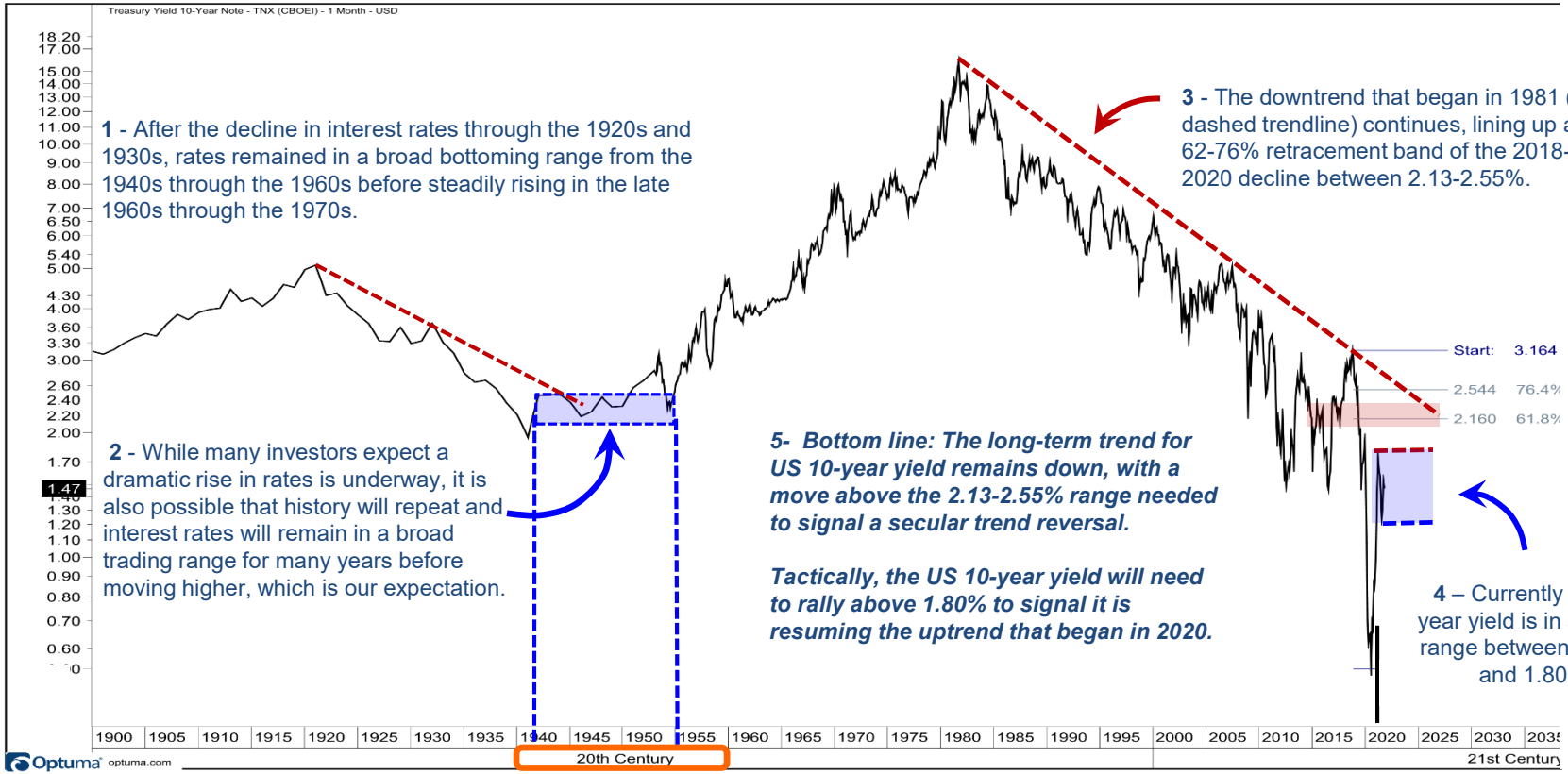
S&P/TSX Composite Index - Monthly



- The TSX is now trending strongly to the upside after breaking out of a broad trading range that began in 2008.
- After the recent surge a pullback would not be surprising. Next resistance is near 22k with important support starting near 18k followed by 16.5k.
- Relative performance versus the S&P remains in a longer-term downtrend BUT is showing early signs of improving.

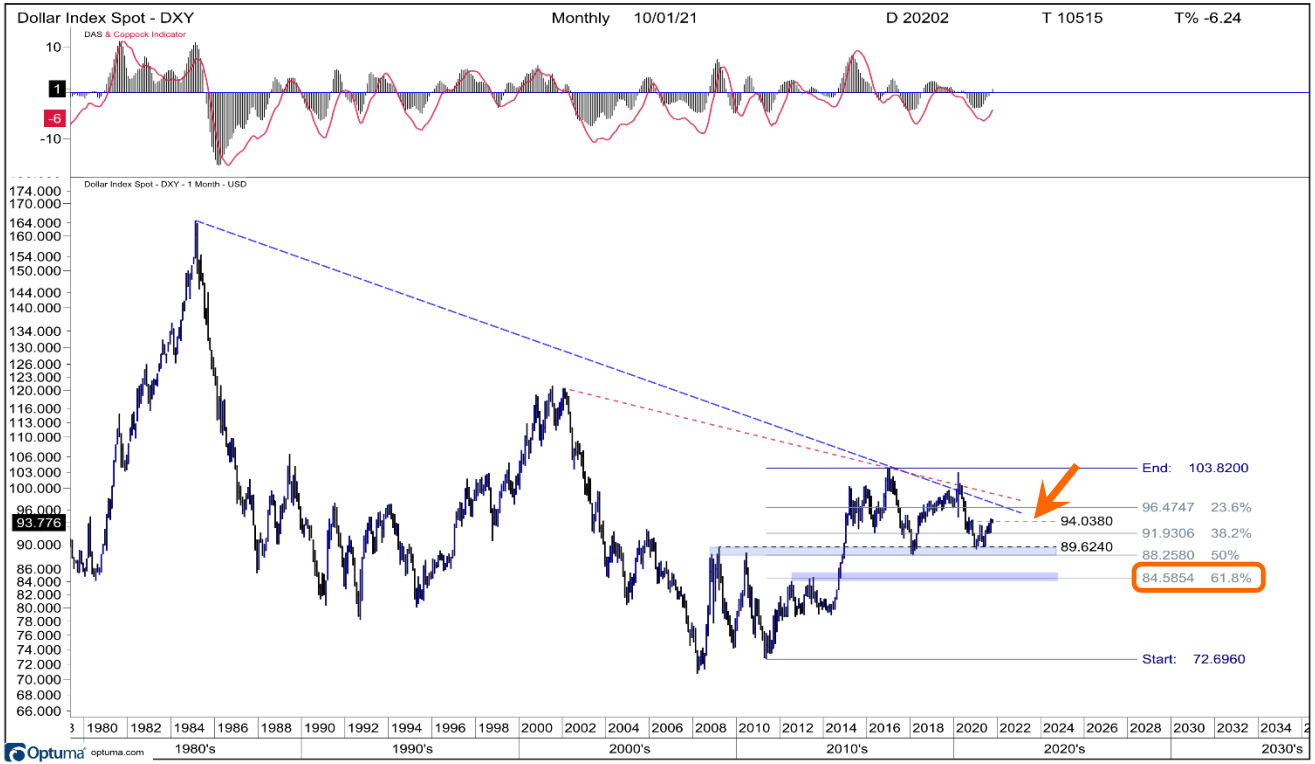
Source: RBC Wealth Management, Bloomberg, Optuma

TNX - US Treasury Yield 10-Year Yield – 1900-2021 - Monthly



Source: RBC Wealth Management, Bloomberg, Optuma

DXY USD Dollar Index – Monthly – Bouncing at 88-89 support



- The longer-term trend for the US dollar remains down, with a recent bounce from support between 88-89 likely to be short lived.
- Resistance is between 93-94 with the USD DXY Index currently challenging this level.
- A break below 88 will be needed to confirm the US Dollar's bear market is continuing, with next support at 84.5 coinciding with the 62% retracement of the 2011-2016 rebound.

Source: RBC Wealth Management, Bloomberg, Optuma

Canadian Dollar / US Dollar - Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

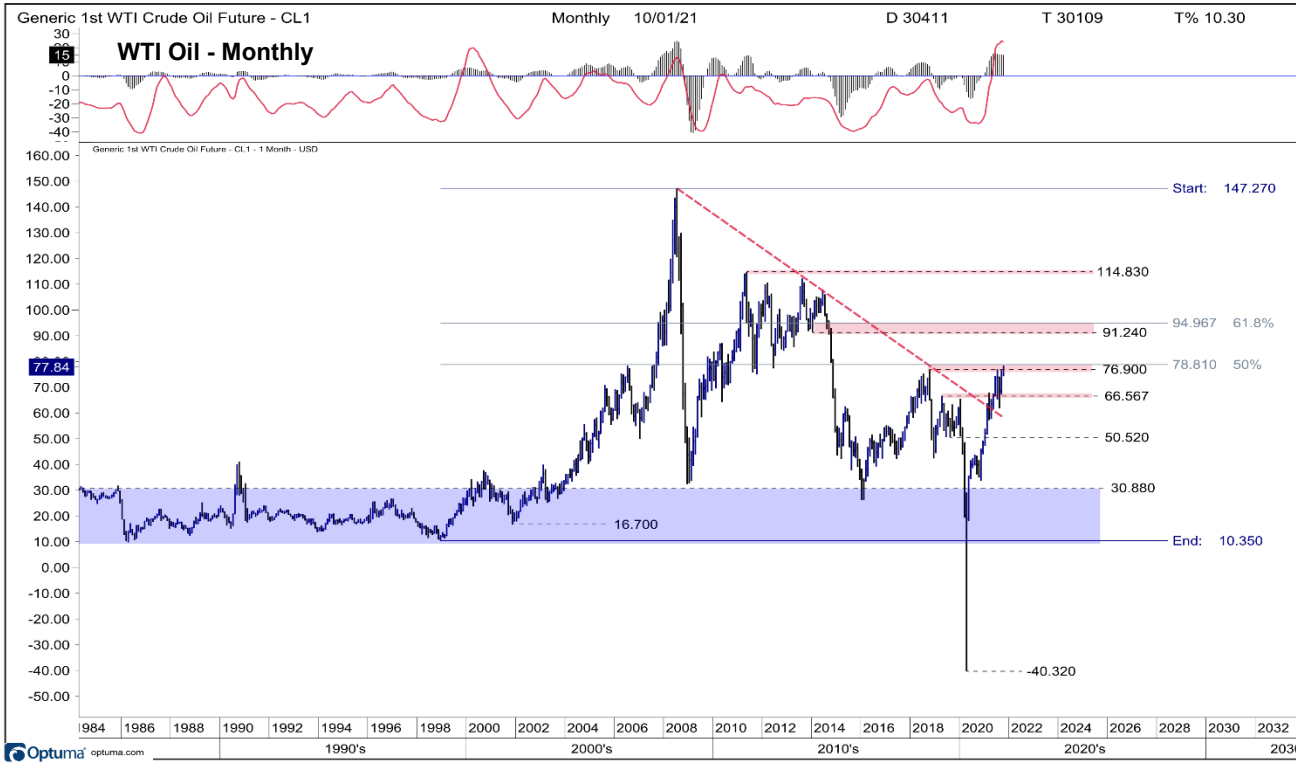
- The Canadian dollar's rebound from support near the 2016 low has stalled at major resistance between 0.83-0.84.
- Our view has been, and continues to be, that further sideways consolidation will develop under the 0.83-0.84 range into Q4, with 0.77 likely defining the lows for the CAD for the rest of 2021.
- 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.

Copper Futures – Monthly

Source: RBC Wealth Management, Bloomberg, Optuma

- Monthly momentum is peaking as copper stalls at resistance near the 2011 highs at 465.
- Support is between 400-422, just above the rising 200-day moving average (not shown) which copper is begging to stabilize at.
- The ratio of Copper vs Gold (bottom panel) is also showing early signs of pausing near the 2017-2018 highs.
- We view the current action as a healthy pause with a move above the recent highs likely to confirm a resumption of the longer-term uptrend. Put differently, it would likely signal a longer-term trend favoring industrial commodities over safety assets.

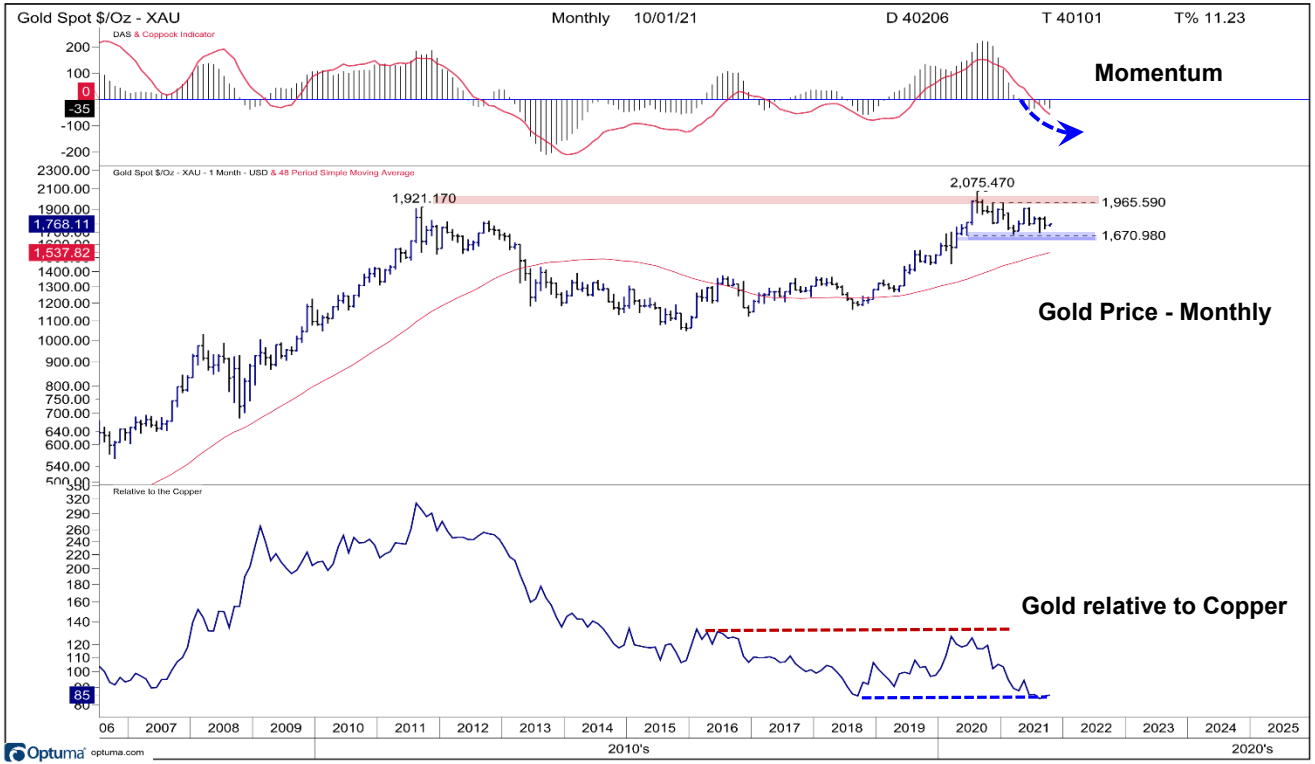
Commodities - WTI Crude Oil Future



Source: RBC Wealth Management, Bloomberg, Optuma

- Oil has reversed its longer-term downtrend with WTI Oil currently challenging next resistance between 76-77.
- A breakout above 76-77 resistance would likely support a move toward 91-94, which coincides with a 62% retracement of the decline from 147 to 10.
- For reference, we are using 10 as the low end of WTI's long-term trading range rather than the temporary spike into negative territory at -40.

Commodities - Gold - Monthly



Source: RBC Wealth Management, Bloomberg, Optuma

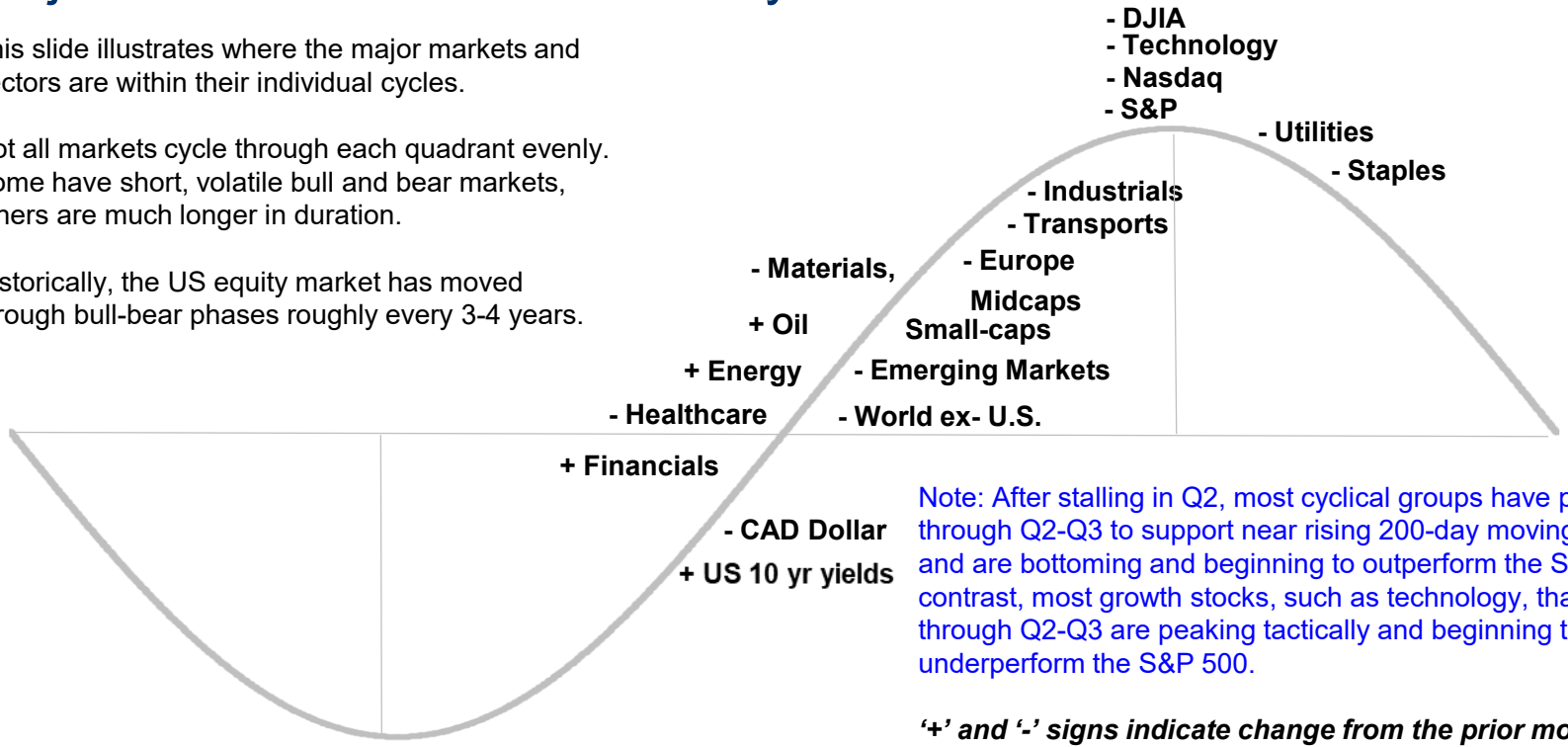
- Monthly momentum remains negative after peaking 8 months ago as Gold stalled near 2000, but it is likely moving into oversold territory heading into late Q4/early Q1.
- Gold remains range bound after bouncing from 1670 support back to resistance just above 1900.
- Some investors have questioned whether 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.



Note: After stalling in Q2, most cyclical groups have pulled back through Q2-Q3 to support near rising 200-day moving averages and are bottoming and beginning to outperform the S&P 500. In contrast, most growth stocks, such as technology, that rallied through Q2-Q3 are peaking tactically and beginning to underperform the S&P 500.

'+' and '-' signs indicate change from the prior month.

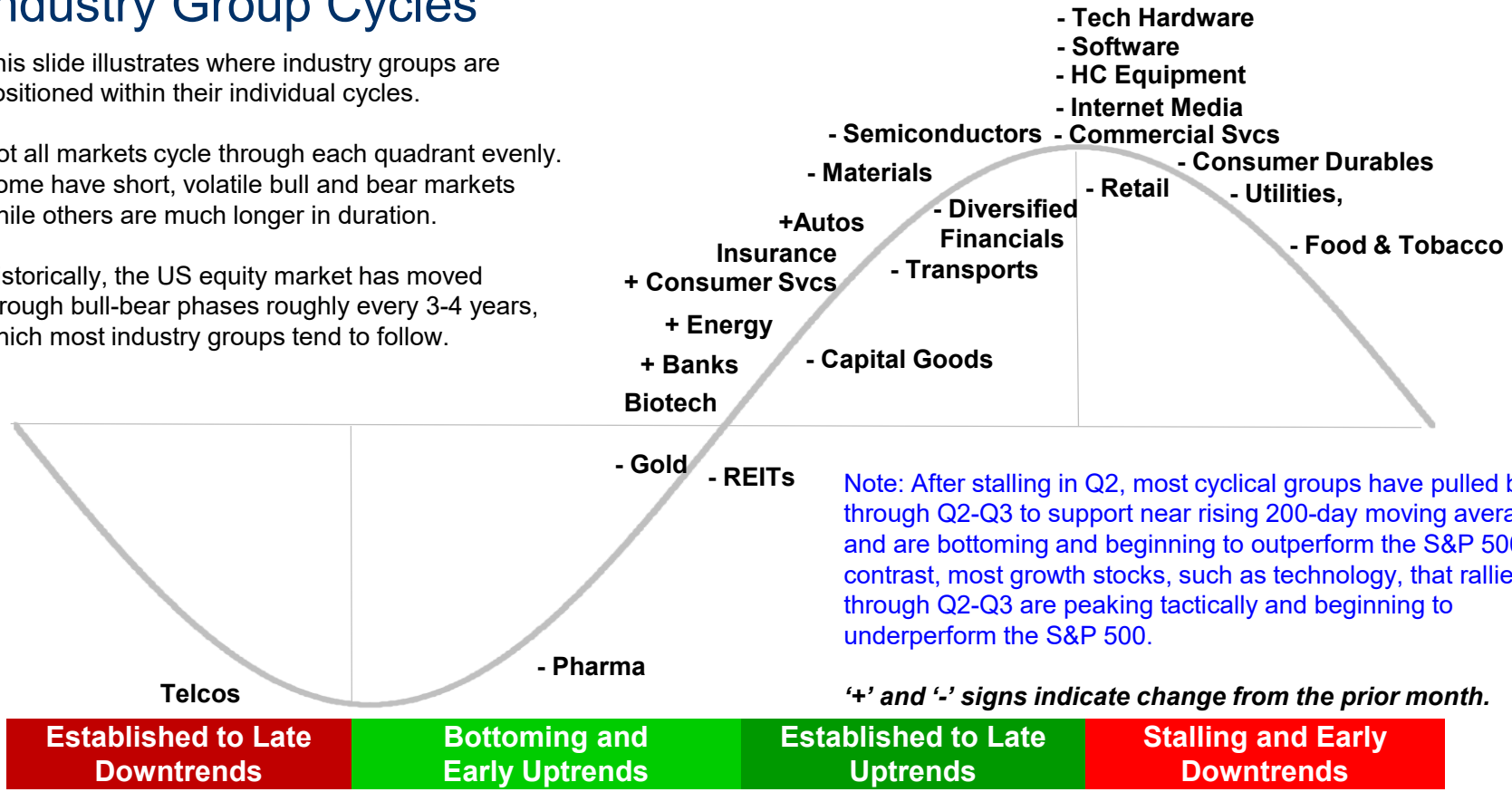
Source: RBC Wealth Management, Bloomberg, Optuma

Industry Group Cycles

This slide illustrates where industry groups are positioned within their individual cycles.

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

Historically, the US equity market has moved through bull-bear phases roughly every 3-4 years, which most industry groups tend to follow.



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Source: RBC Wealth Management, Bloomberg, Optuma

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