Technical Strategy

Trend & Cycle Roadmap

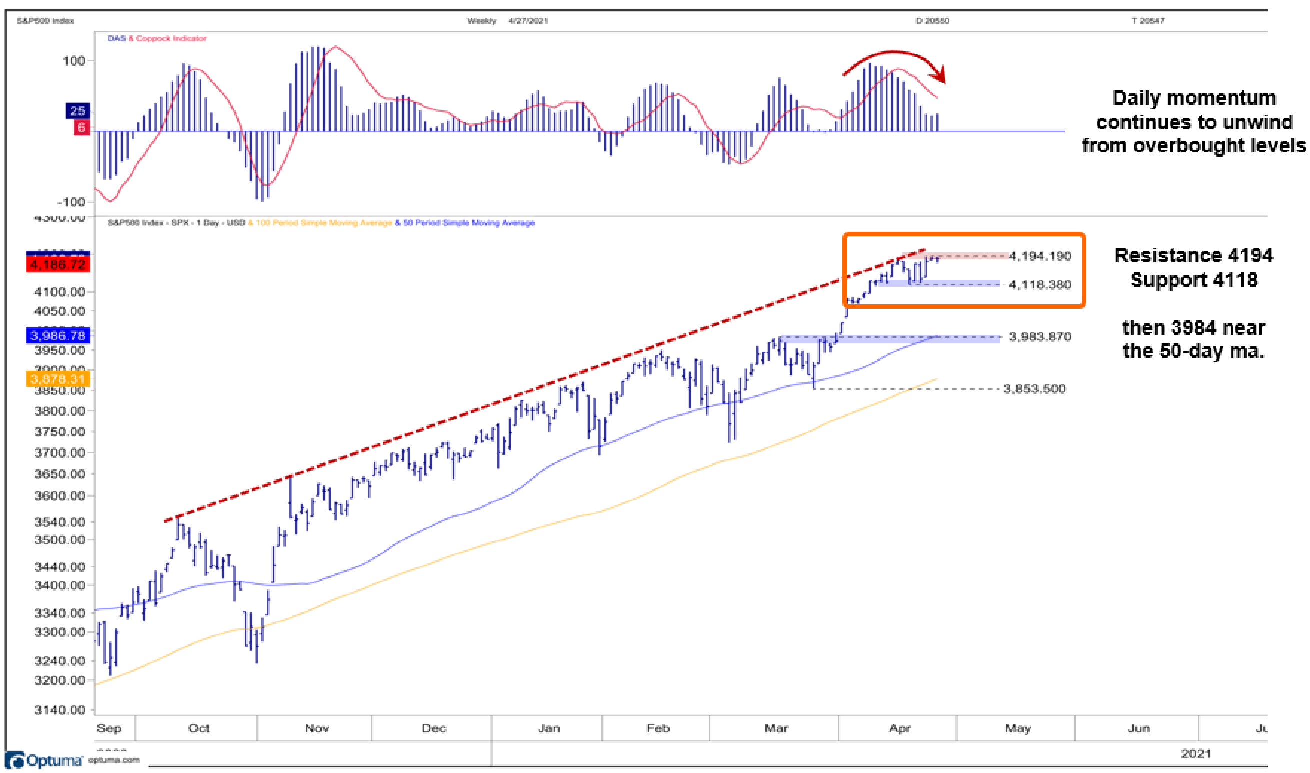
Robert Sluymer, CFA
Technical Strategist, Portfolio Advisory Group

April 28, 2021

Revisiting key levels for the S&P 500 and Russell 2000 and Growth ETFs

- S&P: Pausing at resistance – Two key levels are at 4194 resistance and 4118 support
- Small-caps revisited: Topping pattern or just a consolidation? – Last week's bounce is encouraging
- Growth ETFs: Early signs of bottoming after corrections in February and a choppy March and April

Key trading levels: S&P 4118 and 4194 - The longer-term backdrop for equities remains positive but with the adage "sell in May and go away" likely to be making more headlines in the coming week, we are again focusing on the short-term technical levels we view to be important. Resistance remains at the upper end of the October-April trend line (red dashed line) and this week's highs at 4194. A break above this level would likely see traders covering short positions to support another short-term push higher into May. In contrast, a break below first trading support at 4118 would likely see traders take profits, with next support closer to 4000-3983.



Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC/Portfolio Advisory Group
All values in U.S. dollars and priced as of April 27, 2021 unless otherwise noted
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Produced: April 28, 2021 10:23ET; Disseminated: April 28, 2021 10:45ET

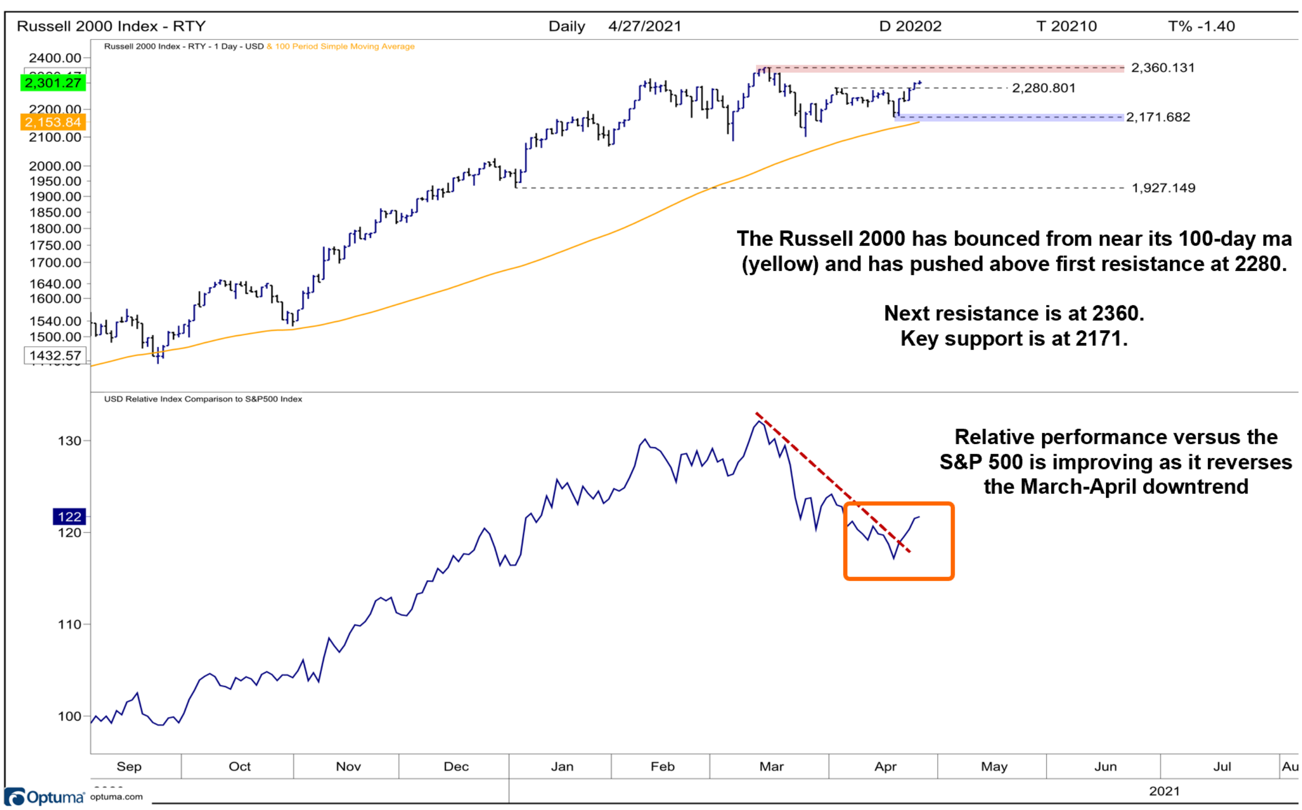
Revisiting the small-cap Russell 2000 Index – What's changing?

Top or consolidation? In last week's Trend & Cycle Roadmap, we raised the question of whether the Russell 2000 was developing a top or was merely in a consolidation after an impressive rebound in Q4-Q1. To help answer that question we highlighted the lower end of the February-April trading range as a key support level that coincided with the rising 100-day moving average for the Russell 2000.

An encouraging bounce the past week - The lower end of the 2021 trading range is an important support band for the overall price trend for small-caps. Interestingly, last week the Russell 2000 sold off on April 20th to 2171, only to reverse the next day and push higher through the week above trading resistance at 2280. The next important technical level for the Russell 2000 is at 2360.

Relative performance versus the S&P 500 begins to reverse to the upside - More importantly, the Russell 2000's relative performance versus the S&P 500 finally began to show some encouraging signs of improving by reversing the downtrend that had been in place through March and April.

Why does it matter? – Small-cap stocks tend to be riskier investments so they are one barometer to monitor whether investors are becoming more defensive or more offensive. We view last week's rebound as an encouraging short-term improvement for equity markets overall. The 100-day moving average (2153) remains a reasonable proxy for the trend of the Russell 2000 and is very close to last week's lows at 2171. So far that uptrend remains intact and the choppy Q1 trading range appears to be a normal sideways consolidation in an uptrend. We would need to see the Russell 2000 break below 2171 to become more cautious on the outlook for small-cap stocks.



Source: RBC Wealth Management, Bloomberg, Optuma

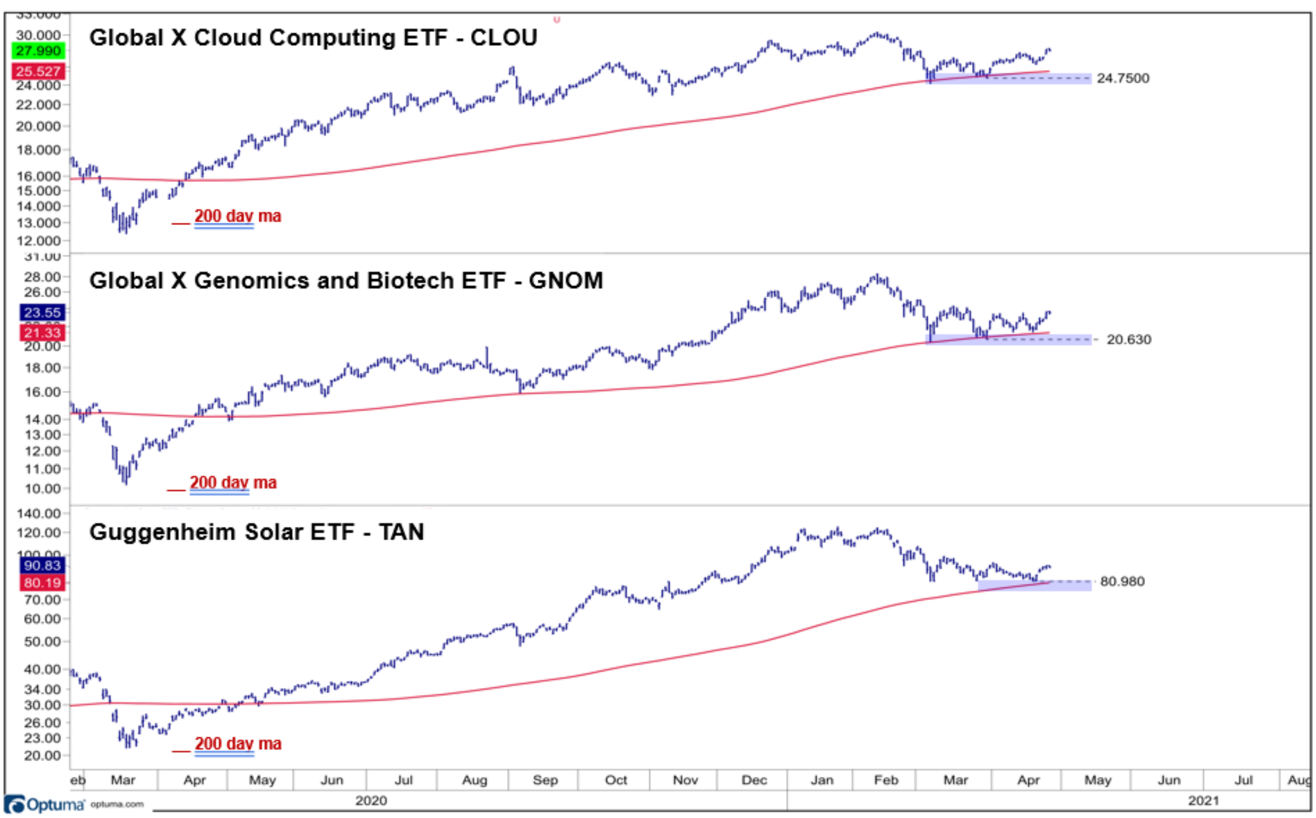
A look at key levels for some of the popular high momentum Growth ETFs

Investors in high momentum growth ETFs were well rewarded through 2020 until the sell-off in February 2021.

The three ETFs below, Global X Cloud Computing (CLOU), Global X Genomics and Biotech (GNOM) and Guggenheim Solar (TAN), are a small but representative sample of the type of price trends in place for most of the growth ETFs. To be clear, we are featuring these ETFs as examples of the technical chart patterns of many growth stocks and not as specific recommendations. After all, following -20%, -28% and –35% declines respectively over the past few months, investors are understandably questioning whether the risk is worth the reward.

The bottom line for these ETFs and for growth stocks in general is that the recent February-April lows now define an important technical risk control level. The 200-day moving averages (red line) remain a reasonable proxy for the longer-term uptrend for these ETFs. As long as the price lows near those 200-day moving averages are not broken, the overall trends remain positive. Those key levels are at 24.75 for the CLOU ETF, 20.63 for the GNOM ETF and 80.98 for the TAN ETF.

As always, we encourage investors review their portfolio holdings and have an exit strategy for the more volatile, higher risk positions.



Source: RBC Wealth Management, Bloomberg, Optuma

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