Technical Strategy

Trend & Cycle Roadmap

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Key levels for the S&P, Nasdaq and Semiconductor weakness versus strength in Energy

- S&P 500: Stalling at resistance after an impressive surge – Next key levels: 4118, 4014 then 3950
- Nasdaq 100 and Semiconductor (SOX) Index relative weakness – March lows remain key level
- Energy stocks - More signs of sector rotation as the sector recovers while Technology cools

May has certainly started off by living up to its reputation of being a weak month for stock market indexes. For perspective, since March 25 the S&P 500 has rallied almost 10% into resistance- indicated by the red dashed line in the chart below. A break below 4118 would likely see further weakness toward the 50-day moving average at 4014 and the support band between 3950-3993. Let's also keep in mind that the S&P has rallied an impressive 30% just since the end of October 2020 and is now 20% above the February 2020 highs. While further weakness would not be surprising, we encourage investors to remain focused on the positive longer-term market cycle backdrop and to view pullbacks and corrections as a normal part of the ebb and flow of bull markets.

Source: RBC Wealth Management, Bloomberg Optuma

RBC Capital Markets, LLC/Portfolio Advisory Group
All values in U.S. dollars and priced as of May 4, 2021 unless otherwise noted
For Important Disclosures, see page 4

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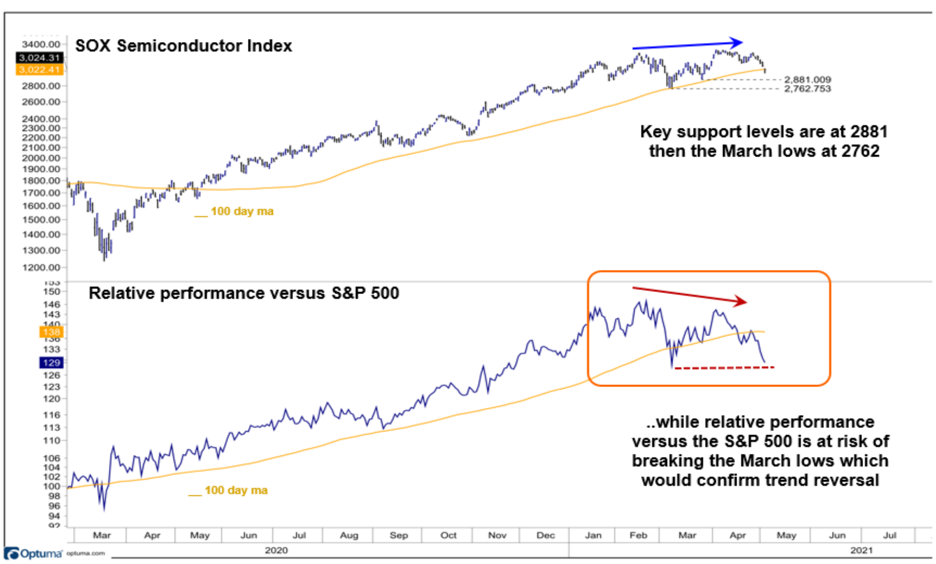
Keeping a close eye on Technology's relative performance versus the S&P 500

Price is news, as they say, suggesting headlines and market stories are often driven by changes in price. However, it is the change in relative performance that we view as far more important. Why? Consider how much capital is invested with institutions whose primary focus is to outperform a market index like the S&P 500. So, while dramatic changes in market levels often make headlines, we would argue that it's the changes in relative performance that force institutional investors into action, or more specifically, reaction.

Why does this matter? Notice how much weaker the relative performance line in the bottom panel of the Nasdaq 100 and SOX Semiconductor index charts is versus the price in the top panel (chart below). With this divergence in place, we continue to view the March relative performance lows as an important level investors should consider to manage tactical exposure. A break below the March lows would confirm a new relative downtrend by establishing lower highs and lower lows.

Source: RBC Wealth Management, Bloomberg Optuma



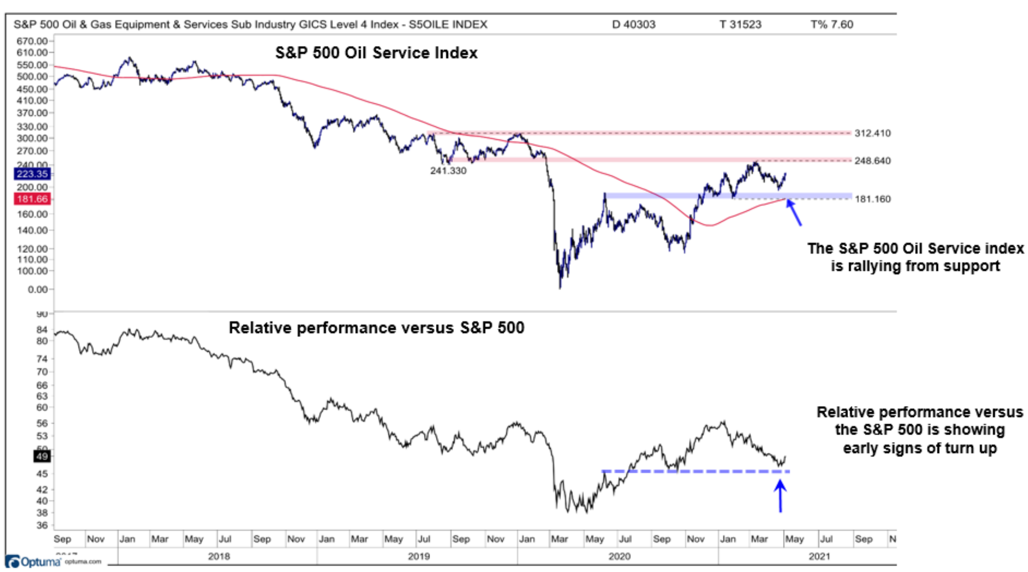
Source: RBC Wealth Management, Bloomberg, Optuma

Technical perspective of the Energy sector – Tactical opportunities in Oil Service

The S&P 500 Energy sector peaked in 2015 (top panel, top chart below) while its relative performance to the S&P peaked 7 years earlier in 2008. Interestingly, the collapse in March 2020 bottomed very close to the cycle lows that developed in 2000. While it is possible the lows in 2020 defined a structural low, the overall technical profile has yet to show evidence to suggest it is becoming new long-term market leadership.

However, there does appear to be a tactical opportunity underway that investors with the appropriate risk appetite and flexibility may want to consider. The S&P 500 Oil Service index (second chart below) continues to show evidence that it is trending higher in a stair step pattern. After declining -20% from the March 2021 high, oil service stocks are starting to rebound from support. A move back to the March highs appears likely, which is just over 10% higher for the Oil Service index, while a move back to next resistance at the February 2020 high is over 35% from current levels. Our expectation is that energy stocks will continue to recover in 2021 as part of the overall rotation toward value stocks.

Source: RBC Wealth Management, Bloomberg, Optuma



Source: RBC Wealth Management, Bloomberg, Optuma

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