Technical Strategy

# Trend & Cycle Roadmap

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September 1, 2021

A review of four markets to gauge whether investors are becoming more bullish or bearish.

- The S&P's uptrend remains impressively resilient. 4372 and 4257 remain important levels.
- Stay focused on the US 10-year yield and Russell 2000 as proxies for investor sentiment.
- Currencies: Why the relationship between the Euro and Japanese Yen matter to a portfolio.

**Key levels for the S&P 500 that would signal the uptrend is stalling.**
For many investors, staying with the current uptrend feels like a game of chicken given the growing valuation concerns, worries about potentially slowing earnings growth, and the uncertain effects of changes in the Federal Reserve's balance sheet and interest rate policy.

**What index levels and markets are we watching for a signal that something might be changing?** For the S&P 500 index, we continue to view the blue dashed uptrend line and blue 50-day moving average as a proxy for the current trend. A break below 4372 (-3%) would be needed to signal the uptrend is beginning to falter, with next support at 4257(-6%). On the next pages we again revisit the US 10-year yield and Russell 2000, and for something different, we look at Euros priced in Japanese Yen, as three other markets to gauge whether investors are becoming more optimistic or more cautious.


Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC/Portfolio Advisory Group
All values in U.S. dollars and priced as of September 1, 2021 unless otherwise noted
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Produced: September 1, 2021 13:29ET; Disseminated: September 1, 2021 13:35ET

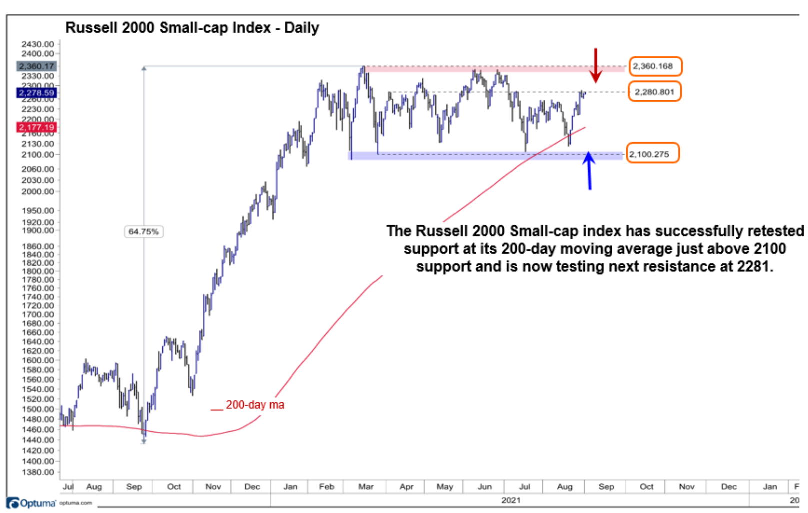
## Revisiting the US 10-year yield

While the large-cap technology stocks continue to push the S&P 500 higher, the bond market continues to send a different message regarding the underlying economy's strength. Regular readers of this note are aware of our view that rates are likely carving out a bottoming pattern through the summer into the fall. So far that view is tracking well, although the pattern remains choppy. Three key levels are now clearly defined at 1.37%, 1.22% and 1.126%. We believe that a move above the recent highs at 1.37% would be positive for cyclical stocks, notably banks, while a move below 1.22% would signal that investors are becoming more cautious on the economy, with a move below 1.126% needed to negate our view that interest rates are bottoming. We expect early-mid September to remain very choppy, followed by further upside in yields into Q4.

Source: RBC Wealth Management, Bloomberg, Optuma

## Key levels for the Russell 2000: 2100 on the downside, 2281 followed by 2360 on the upside

After the 60+% surge into Q1 2021, the Russell 2000 continues to trend sideways in what looks to be an orderly consolidation to support at its 200-day moving average. Similar to our view that the 10-year yield is bottoming, we remain optimistic that the Russell 2000 will ultimately resolve its recent trading range to the upside. Currently the Russell 2000 is testing resistance at 2281 with a breakout above 2360 needed to signal a new uptrend is beginning. 2100 remains a key downside support that needs to hold to keep our optimistic outlook intact.



Source: RBC Wealth Management, Bloomberg, Optuma

**Why the Euro-Yen currency pair is worth paying attention to in the coming weeks**
Currency markets are not generally a major focus for private investors but they do regularly provide important information regarding the flow of money globally. For example, Euros priced in Japanese Yen often signal whether global money managers are increasingly positive or negative about the outlook for global economic growth. If the Euro-Yen pair is moving up, it generally reflects a more optimistic outlook for global economic growth. Conversely, when the Euro-Yen is declining, it tends to reflect a more cautious outlook for the global economy.

For example, through 2018 into 2020, the Euro-Yen was generally in a downtrend and most cyclical stocks were weak in price or were underperforming the S&P 500. Since the lows in 2020, the Euro-Yen currency pair has generally been in an uptrend, reflecting a more optimistic outlook for global economic growth which has resulted in cyclical stocks rallying.

Why does this matter now? Similar to the recent pullback and pause underway in the US 10-year and Russell 2000 small-cap index, the Euro-Yen has pulled back through Q2 into Q3. Now, however, the Euro-Yen is showing early signs of bottoming near support at its 40-week (200-day) moving average which is another market indicator suggesting the Q2-Q3 slowdown is starting to bottom.

What do all these markets mean to an investor's portfolio? In our view the bond market, small-cap index and Euro-Yen are helpful indicators to manage risk within a portfolio. As long as these markets are holding their recent lows and are strengthening, which is our expectation, we encourage investors to have exposure to cyclical stocks that will benefit from an expanding global economy. Should these markets break below their summer lows, we would suggest reducing cyclical exposure and increasing portfolio exposure to safety stocks with higher dividend yields. Until we see that negative event develop, we encourage investors to maintain a balanced portfolio between secular growth and cyclical growth equities.

Source: RBC Wealth Management, Bloomberg, Optuma

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**Distribution of ratings – RBC Capital Markets, LLC Equity Research**

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As of June 30, 2021

| | | | Investment Banking Services Provided During Past 12 Months | |
|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
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| Hold [Sector Perform] | 575 | 40.69 | 173 | 30.09 |
| Sell [Underperform] | 51 | 3.61 | 4 | 7.84 |

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