Technical Strategy

Trend & Cycle Roadmap

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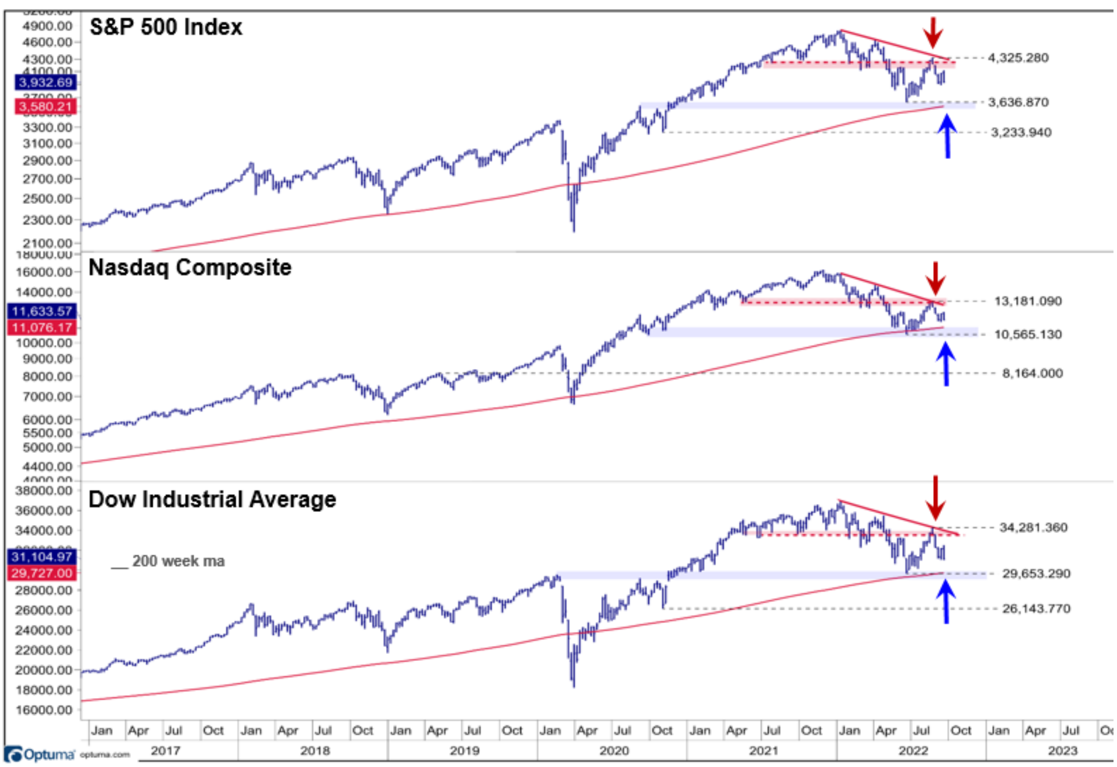
September 14, 2022

Between a rock (the 2022 downtrend) and a hard place (rising 200-week moving average).

Equity markets began to rally last week from short-term oversold levels only to see most of those gains reversed in one day in response to Tuesday's higher than expected CPI inflation report.

Stepping back for perspective from the near-term volatility, equity markets remain trapped between their 2022 bear market downtrends and their longer-term uptrends defined by rising 4-year/200-week moving averages. A clear resolution of this narrowing pattern is unlikely to develop until at least the middle of Q4 as investors wrestle with the uncertainty of inflation, central bank interest rate policy and upcoming earnings reports.

While our expectation is for equity markets to remain in a choppy trading range into Q4 and improve into year-end, they will need to show evidence of stabilizing and begin to rally at or above their 200-week moving average to signal a bottoming pattern is in fact developing. On page 2 we review the key short-term support and resistance levels that are important in the coming week.



Source: RBC Wealth Management, Bloomberg, Optuma

Produced: September 14, 2022 09:12ET; Disseminated: September 14, 2022 09:20ET

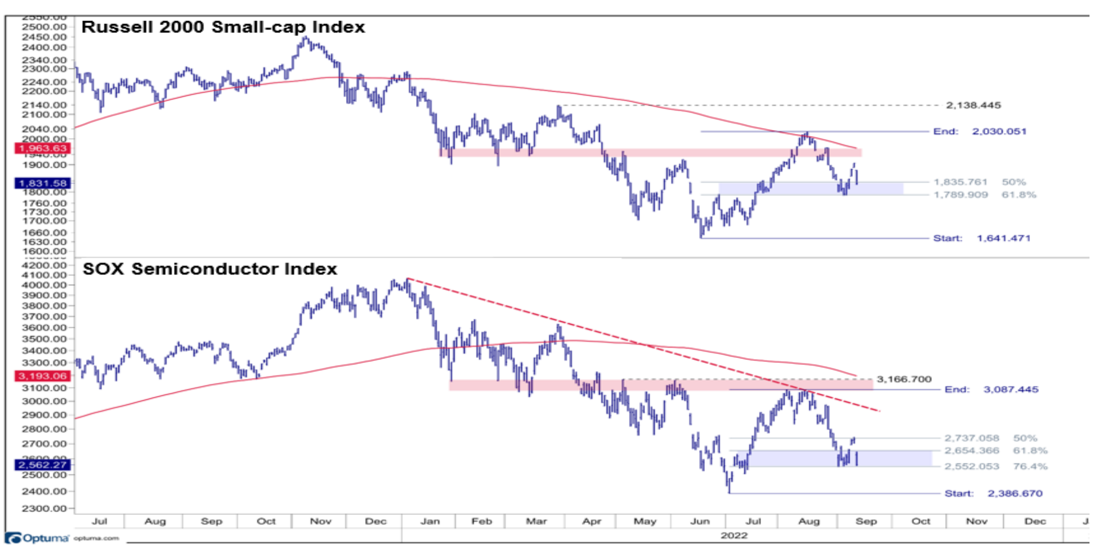
S&P short-term – Trading indicators remain in upturns as the S&P reverses last week's gains.

US equity markets remain in narrowing triangular ranges with red downtrends in place through 2022 with blue short-term uptrends still intact from the June lows. Interestingly, short-term trading indicators remain early in upturns despite Tuesday's decline, with 3900 a key support level that needs to hold to keep the bottoming pattern intact. A break below 3900 would likely see the S&P test its next support bands between 3639-3721.

Source: RBC Wealth Management, Bloomberg, Optuma

Russell 2000 Small-cap index and SOX semiconductor index.

Small-caps and Semiconductors remain important barometers of investor's appetite for risk. A silver lining, while the overall price pattern for small-caps is similar to the S&P 500, they have been outperforming the larger cap indicies. Semiconductors often lead markets at important turns, so their behavior over the coming weeks is likely to prove important. In contrast to the small-cap indices, Semiconductors have not shown evidence of outperforming recently, remain in downtrends and at risk of breaking below first trading support at 2552 and a potential test of their summer lows at 2386.



Source: RBC Wealth Management, Bloomberg, Optuma

US 10-year yields, US 2-year yields and the US dollar.

Rising US interest rates and the US dollar remain the major macro headwinds for equities that will need to show signs of peaking for equity markets to bottom.

The chart below illustrates the ongoing uptrends through 2022 with the US 10-year yield challenging important resistance at the June highs near 2.50%, the US 2-year yield breaking out above 3.46% to new cycle highs at 3.78%, and the US dollar attempting to retest its recent highs at 110.78.

We noted in last week's Roadmap that while the uptrends for interest rates and the dollar remained intact, shorter-term momentum indicators were becoming overbought and likely to peak shortly. While the US dollar did pull back over the past week, the underlying trend for rates remains intact with the 2-year surging to new highs with Tuesday's CPI report. Short-term indicators remain overbought, but interest rates and the dollar will need to show evidence of reversing their uptrends to support a rebound in equities.

What levels do we view as important technically? Key reversal levels for the US 10-year yield begin at 3.00% followed by 2.70%. The US 2-year yield will need to fall back below 3.4% with a move below 2.85% needed to signal a reversal of its 2022 uptrend. For the US dollar, last week's low at 107.6 near the rising blue 50-day moving average is first support with a move below 104 needed to signal a reversal of the 2022 uptrend.

Source: RBC Wealth Management, Bloomberg, Optuma

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