Technical Strategy

# Trend & Cycle Roadmap

Robert Sluymer, CFA
Technical Strategist, Portfolio Advisory Group

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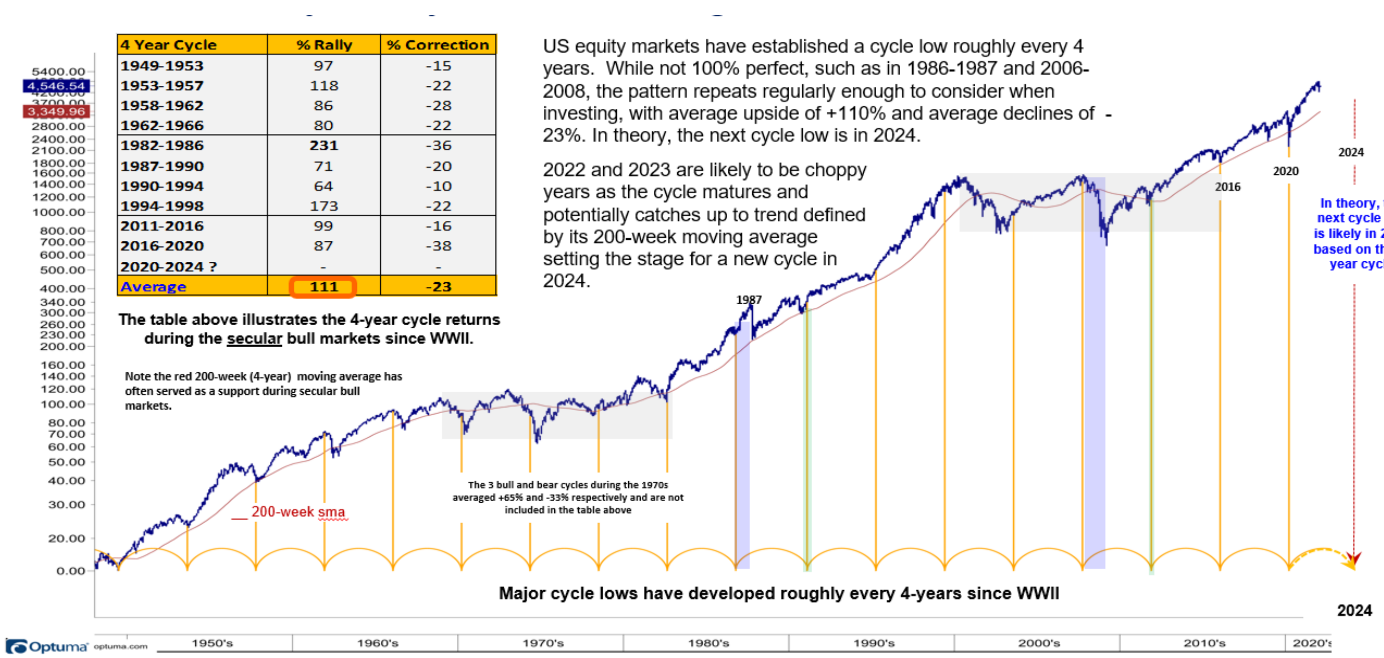
**Keeping the long-term in perspective while keeping an eye on key tactical levels.**

At the beginning of January we featured the chart below to illustrate the underlying 4 year market cycles that define the longer-term secular trends of the S&P 500. Of course, the cycles do not perfectly bottom every 4-years, but the pattern is reasonably consistent to consider in an investment process. As we noted in early January, these multi-year market cycles are primarily driven by liquidity supplied by central banks and the corresponding reaction by the underlying economy.

With central banks beginning to transition toward raising interest rates in the coming quarters, investors are understandably concerned that the market cycle that began in 2020 may be peaking. For longer-term investors, the chart below and on the following page suggests the cycle is showing technical evidence of maturing, but it is premature to conclude the cycle has turned negative.

Is there risk of a bear market? Possibly, but our expectation is for 2022 to remain choppy with weakness likely in 2023 that sets the stage for another cycle low in 2024 near the rising 4-year (200-week) moving average. On the next page we discuss why the January low near S&P 4200 serves as a useful technical risk control level for investors that are more tactical.




| 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 |

Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC / Portfolio Advisory Group
All values in U.S. dollars and priced as of February 1, 2022 unless otherwise noted
**For Important Disclosures, see page 4**



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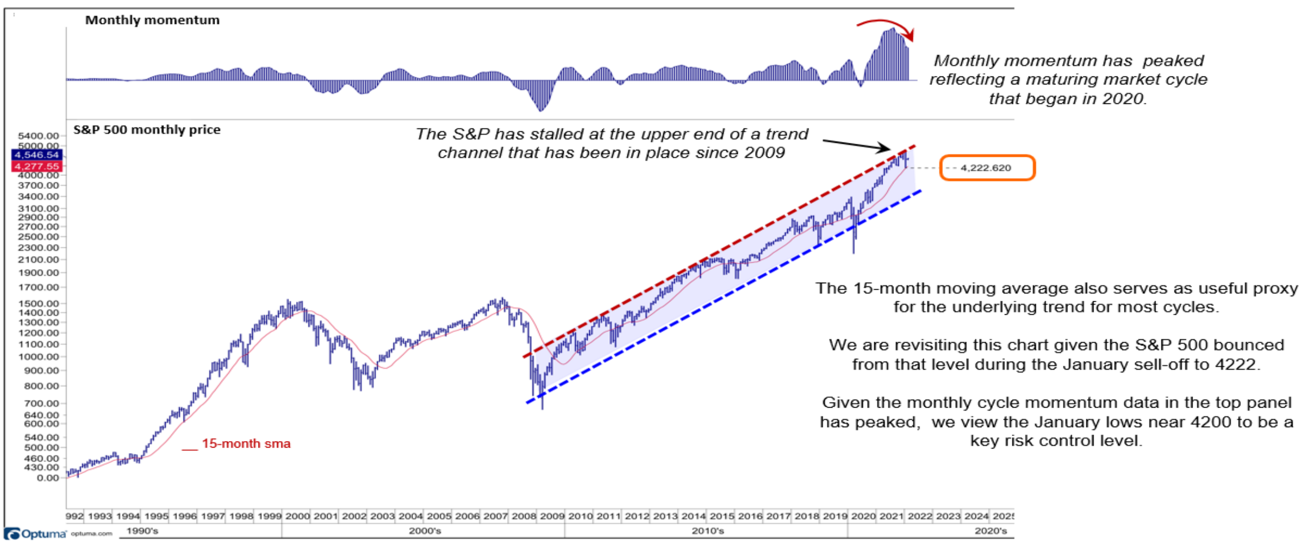
**The current cycle and why S&P 4200 now defines a risk control level for tactical investors.**

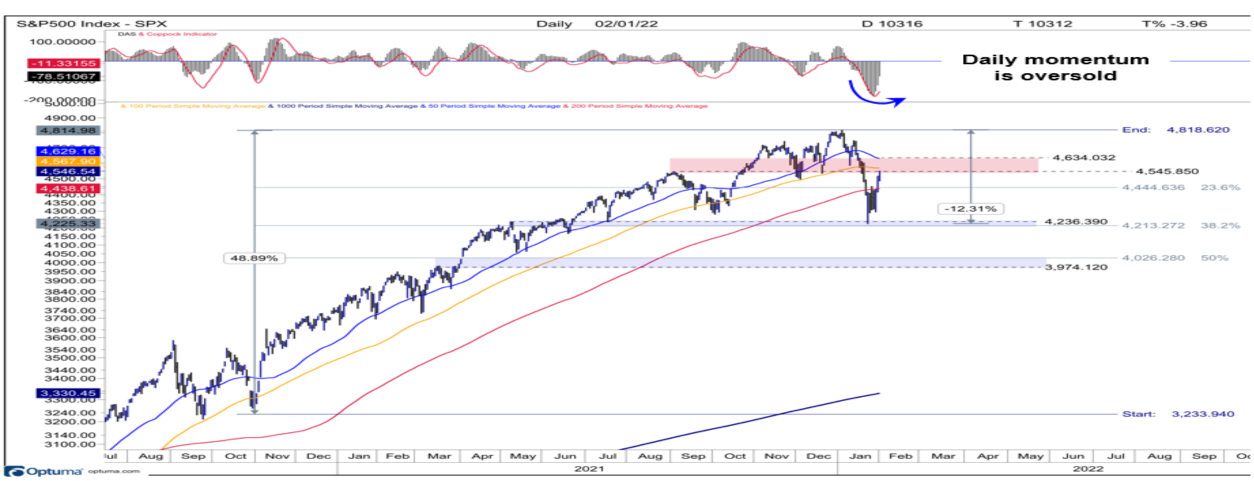
We are revisiting the long-term chart of the S&P 500 below to reiterate the importance of the recent lows near S&P 4200 as a key level to control equity exposure for tactical investors and traders. The S&P 500 correction in January bottomed very near the 15-month moving average, which often serves as a proxy for the underlying trend for most market cycles. A break below the 15-month average would be needed to technically signal the bull market that began in Q1 2020 is showing evidence of peaking. For now we encourage investors to stay the course while considering using the 15-month moving average to manage some long side risk in equity portoflios.




Source: RBC Wealth Management, Bloomberg, Optuma

**S&P 500 – Short-term momentum is turning up from oversold levels supporting further upside.**

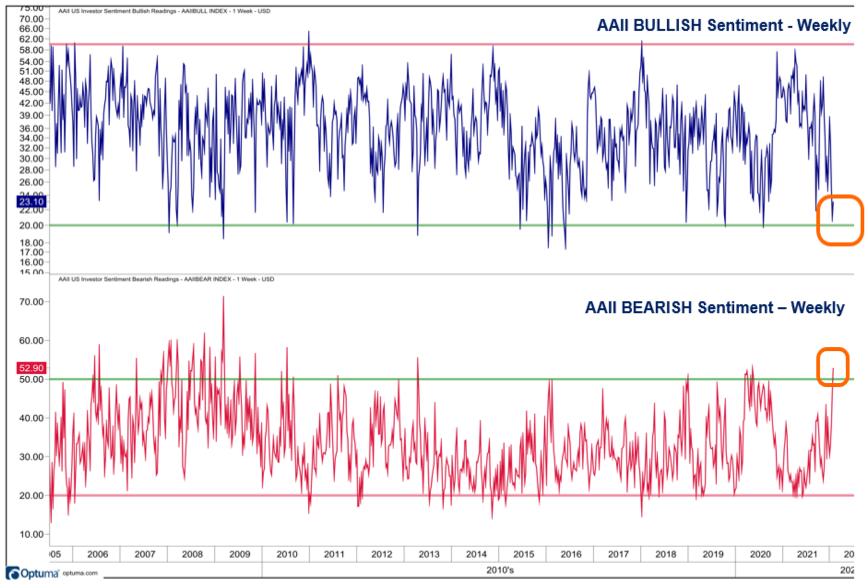
In last week's Roadmap we highlighted that the S&P was suitably oversold near support at 4200 to expect a rebound. The daily momentum indicators in the top panel are still early in an upturn suggesting further upside over the coming 2-4 weeks. In the very short-term the recent bounce has pushed the S&P into next resistance band near 4500-4600 suggesting markets are likely to trade in a choppy range, but we do not expect a full retest or break of the recent lows.




Source: RBC Wealth Management, Bloomberg, Optuma

### AAII Investor Sentiment – Consensus is not bullish, which suggests a pending rebound.

We are revisiting the AAII Sentiment readings again this week to illustrate the lack of Bullish sentiment and high levels of Bearish sentiment now in place. As contrarian indicators we view the recent readings as support for a rebound for equities.




- AAII Bullish Sentiment is oversold supporting further equity rebound…

…while…

- AAII Bearish Sentiment has also moved to Bearish levels often corresponding to a market rebound.

Source: RBC Wealth Management, Bloomberg, Optuma

### The Russell 2000 Small-cap Growth Index has corrected to next support at its 200-week ma

High P/E mid and small-cap growth stocks have been weak since Q2 2021 but were sold agressively in Q4 2021 into the end of January. The Russell 2000 Small-cap Growth index is a useful index to track investor’s appetite for higher beta, higher risk small cap stocks. What is noteworthy now is that the index is showing early signs of bouncing from important support near its rising 200-week moving average which often serves as long-term support for markets in general and was the case in 3 of the past 4 corrections since 2010. Our expectaion is that small- and mid-cap growth are in the very early stages of a short-term oversold rebound. While a short-term trade is likely developing we caution investors not to assume a new bull market is developing. We recommend using the recent lows near 1190 as a risk control/stop loss level and view 1420 as major resistance.


Source: RBC Wealth Management, Bloomberg, Optuma

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|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
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| Hold [Sector Perform] | 557 | 38.60 | 180 | 32.32 |
| Sell [Underperform] | 55 | 3.81 | 3 | 5.45 |

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