

# Trend & Cycle Roadmap

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Wealth  
Management

## \*\*\*Please note our next Roadmap will be on March 13

With the bulk of high profile large-cap equity earnings reports now behind us, investors will likely return their focus to the macro-economic backdrop and the direction of interest rates and inflation.

This Thursday's Personal Consumption Expenditures report (PCE), followed by next Friday's (03/08) employment report and February's CPI inflation report two business days later (3/12) will likely define the direction of interest rates through March.

Since the beginning of the year the US 10-year yield has moved back to an important level at 4.3% coinciding with the October 2022 highs. Short-term indicators (top panel) are overbought and beginning to peak **suggesting a pause/pullback is likely over the coming 2-4 weeks.**

Granted, strong PCE, employment and/or CPI reports should see rates move higher but our expectation is that a move higher will likely be temporary and stall in the band between 4.4-4.45% coinciding with the 50-62% retracement levels of the Q4 2022 decline. Key downside levels start at 4.19% then 4.07% followed by the late December lows at 3.8%.



Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC / Portfolio Advisory Group

All values in U.S. dollars and priced as of February 28, 2024 2:00 pm ET **unless** otherwise noted.

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**S&P – Intermediate-term and short-term** - We continue to feature the weekly chart of the S&P 500 to highlight that weekly momentum indicators (top and bottom panels) have moved from oversold levels in Q4 2023 to overbought levels by mid Q1 with a pause likely moving into Q2. The quadrant



balance indicator in the bottom panel continues to decline reflecting a growing list of stocks pulling back from their recent highs. **Bottom line:** Given the bullish longer-term backdrop, we view a pullback following the strong Q4-Q1 rebound to be a healthy technical development and encourage long-term investors to remain invested and patient.

**S&P – Short-term levels** - The S&P daily chart illustrates key levels heading into the upcoming economic reports with next resistance at the upper end of the uptrend channel near 5175. More



importantly, the lows at 4920 now serve as a new downside risk control level given a break below those lows would signal an uptrend break and confirm further weakness toward 4800-4802. Our expectation is for the S&P to pause and pull back from current levels but weakness is likely to be relatively shallow with choppy trading developing above 4818-4920.

## More sectors and groups are resolving multi-year trading ranges to the upside.

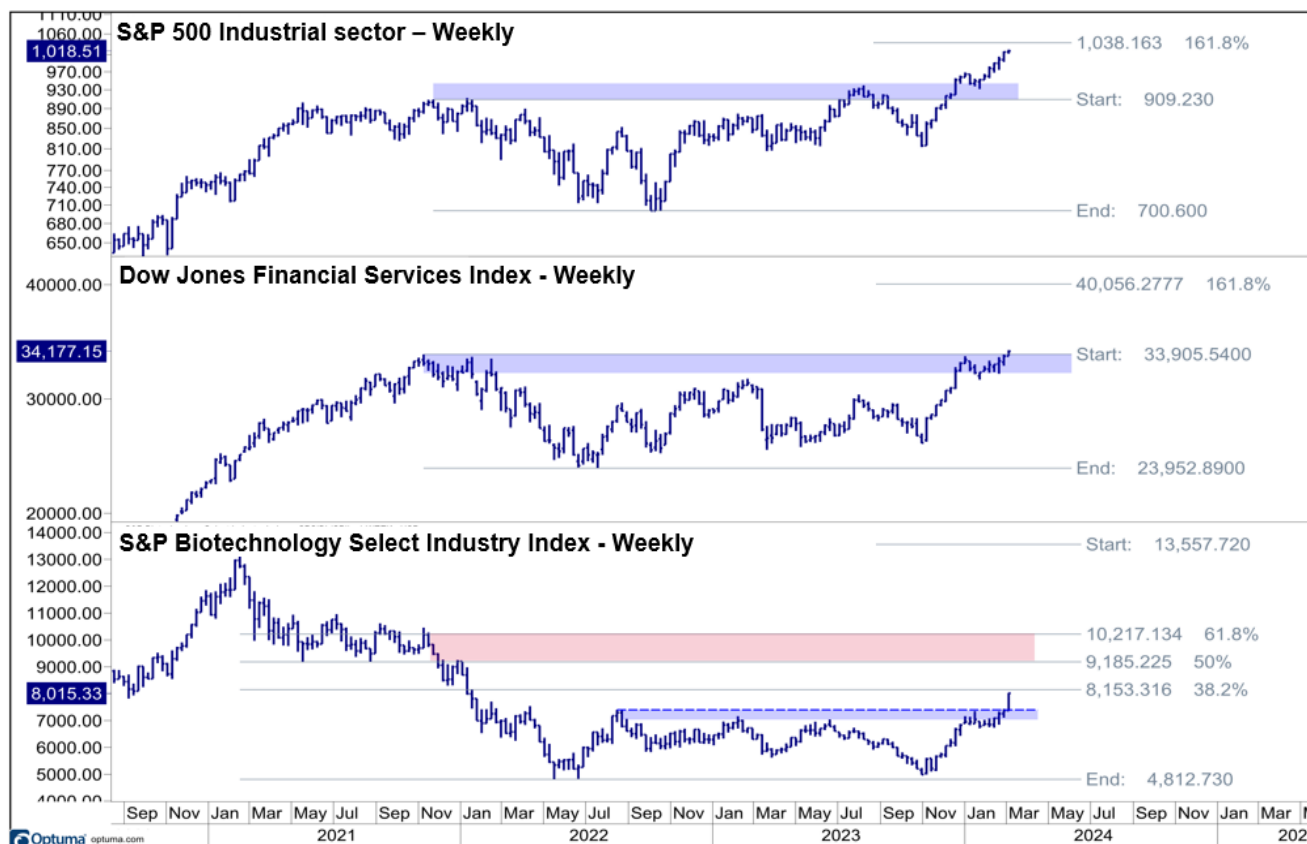
While the weekly momentum indicators for the S&P 500 suggest the index is likely to pause and pull back, we also see evidence that a rotation within the index is developing as some of the large-cap growth/technology stocks pause.

We view the following to be the key technical developments:

**S&P 500 Industrials** – We have featured this chart repeatedly over the past few quarters to illustrate that while large-cap technology stocks are leading the S&P 500, other sectors, notably those that are more cyclical, are improving despite the concern of a pending recession that dominated the headlines through 2023. We view the industrial sector index breaking out to new 2-year cycle highs to be an indication that the economic backdrop continues to improve. Tactically, while a pause is likely here as well as the index moves toward its next extension level at 1038, we view pullbacks into Q2 as opportunities to add exposure over the coming months.

The DJ Financials Service Index, which includes brokers, exchanges and ratings agencies is a noteworthy example of an index that has paused through much of Q1 in a narrow range but is already showing evidence of emerging to the upside. Granted, some of the recent strength is tied to the recent rise in digital assets but overall we view the improving list of financial service stocks to be consistent with an improving/emerging market cycle.

Lastly, the S&P Biotechnology index has surged over the past week breaking out of a 22-month base/trading range and is confirmation of another industry group that lagged through 2022 and 2023 transitioning to a bullish uptrend.



Source: RBC Wealth Management, Bloomberg, Optuma

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			Count	Percent
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