Technical Strategy

Trend & Cycle Roadmap

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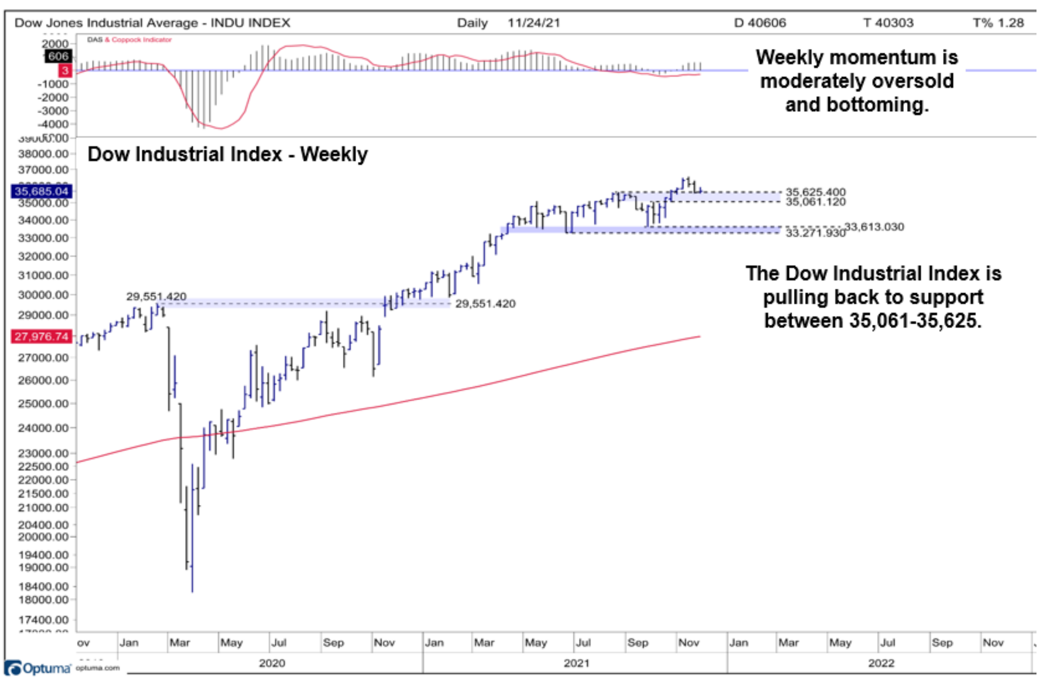
A review of key support levels as markets pullback and revisiting a leadership shift.

Before discussing the state of the markets we want to wish all of you a happy, healthy and relaxing Thanksgiving with family and friends. There is so much to be sincerely grateful for. To our regular readers, thank you for your support and interest. If you have any feedback, please reach out and let us know how we can make this weekly Trend & Cycle Roadmap more useful in your investing.

After the impressive rebound into November most equity markets are pulling back, raising the question of whether this is a pause or the beginning of a bigger market correction. We continue to view the pullback as short-term in nature and expect most equity markets to begin bottoming in the coming 1-2 weeks followed by further upside into year-end and early Q1. The weekly chart for the Dow Industrial index illustrates the recent pullback underway. Our expectation is for the Dow to hold above the top blue support band between 35,061-35,625. On the following pages we discuss similar support levels for the S&P and Russell 2000 along with an important change in leadership developing within equity markets to consider when reviewing portfolios heading into 2022.



Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC/Portfolio Advisory Group
All values in U.S. dollars and priced as of November 24, 2021 at 10:30ET unless otherwise noted
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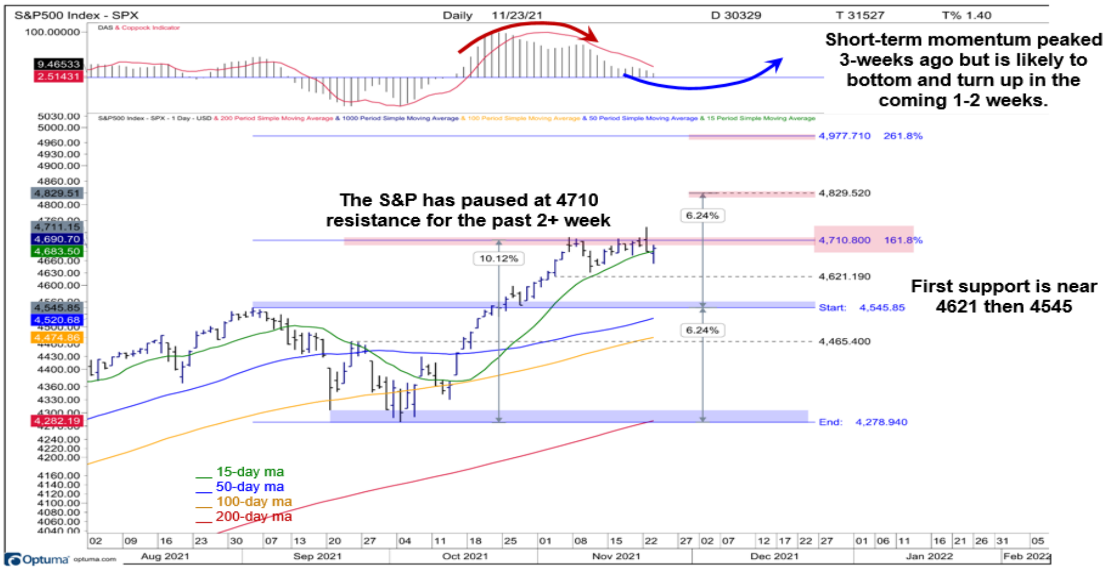
S&P 500 levels – Consolidating above key support

After a 10% surge in September-October the S&P 500 has stalled near 4710 and is pulling back in what we view to be a healthy consolidation. Short-term momentum indicators are unwinding from the overbought levels that developed in early November and are likely to begin bottoming over the coming 1-2 weeks. First support is at 4621 followed by 4545.



Source: RBC Wealth Management, Bloomberg, Optuma

Russell 2000 small-cap index – Retesting key support after the recent breakout

After breaking above the 2021 trading range in early November, the Russell 2000 has pulled back below 2306 raising the question of whether the recent rally was a failed breakout. While we keep an open mind to potential changes in the market, we view the recent pullback as a retest of a support band between 2309-2360. Our expectation is that the Russell 2000 will begin to bottom again in the coming 1-2 weeks given the short-term momentum indicator (top panel) is likely to be oversold in the coming week. What would change our optimistic view? A decline below 2252, near the rising 200-day, would cause us to re-evaluate our optimistic view.

Source: RBC Wealth Management, Bloomberg, Optuma

Growth stocks versus Value Stocks – A noteworthy divergence continues to develop

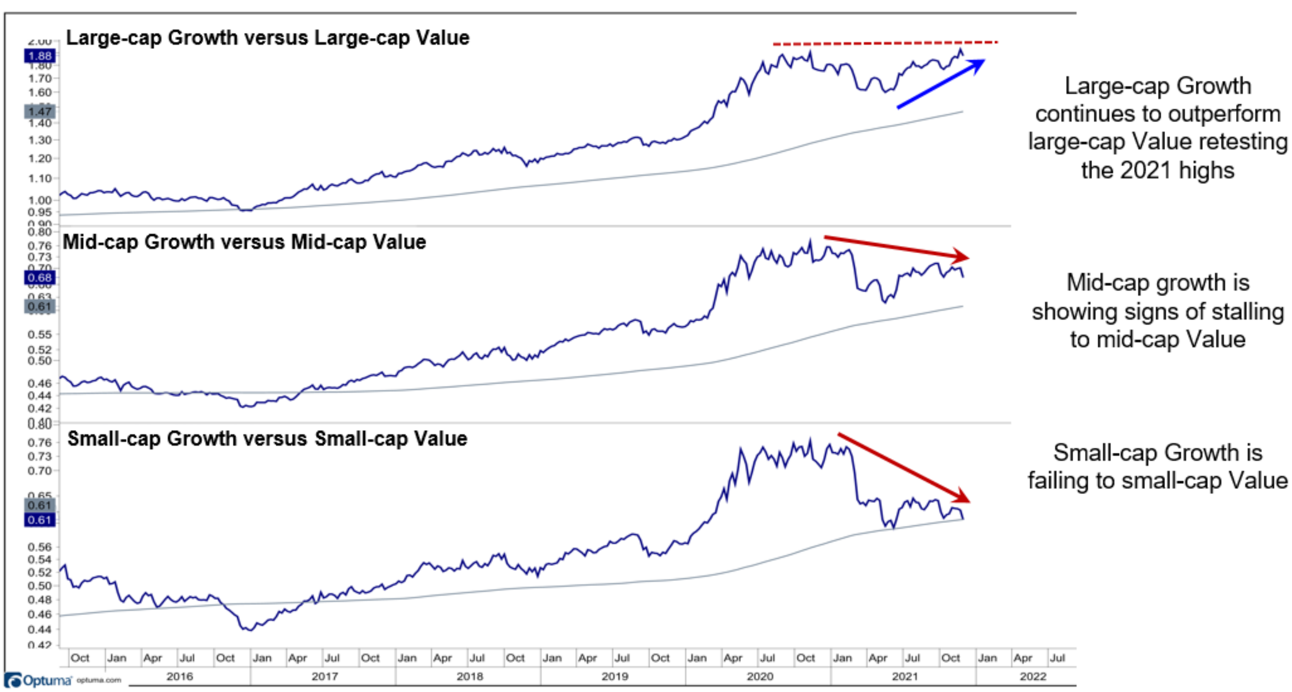
The decision to own more growth stocks or more value stocks remains an ongoing debate among investors. History suggests value stocks should outperform in the long run, but growth stocks have been handily outperforming value stocks since 2006 led primarily by technology stocks.

The chart below, however, highlights an important trend change developing within the relative performance of growth vs value that we encourage investors to seriously consider when reviewing their portfolio holdings. Each of the panels illustrates the relative ratio of growth stocks versus value stocks categorized by the size of the companies, with large-caps in the top panel, mid-caps in the center panel and small-caps in the bottom panel.

Prior to the second half of 2021 the relative performance lines of growth versus value across all three market cap sizes tended to rise and fall together. However, in Q3 of this year, a notable divergence developed with large-cap growth stocks outperforming value stocks to test their 2021 highs (top panel) but mid-cap, and more importantly small-cap growth versus value, have diverged and headed lower.

One of the reasons for this divergence, and there are many, is that as interest rates have begun to rise, many of the more expensive/high P/E stocks that dominate the mid- and small-cap growth indexes are being sold by investors.

What does this mean for an investor's portfolio? The divergence between large-caps and mid and small-caps suggests leadership is likely changing within equity markets. The decline in the more risky mid- and small-caps reinforces our recommendation for investors to consider a more balanced portfolio that is less dominated by higher P/E growth stocks and includes more value stocks such as cyclicals and select safety stocks.



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 September 30, 2021

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