Technical Strategy

Trend & Cycle Roadmap

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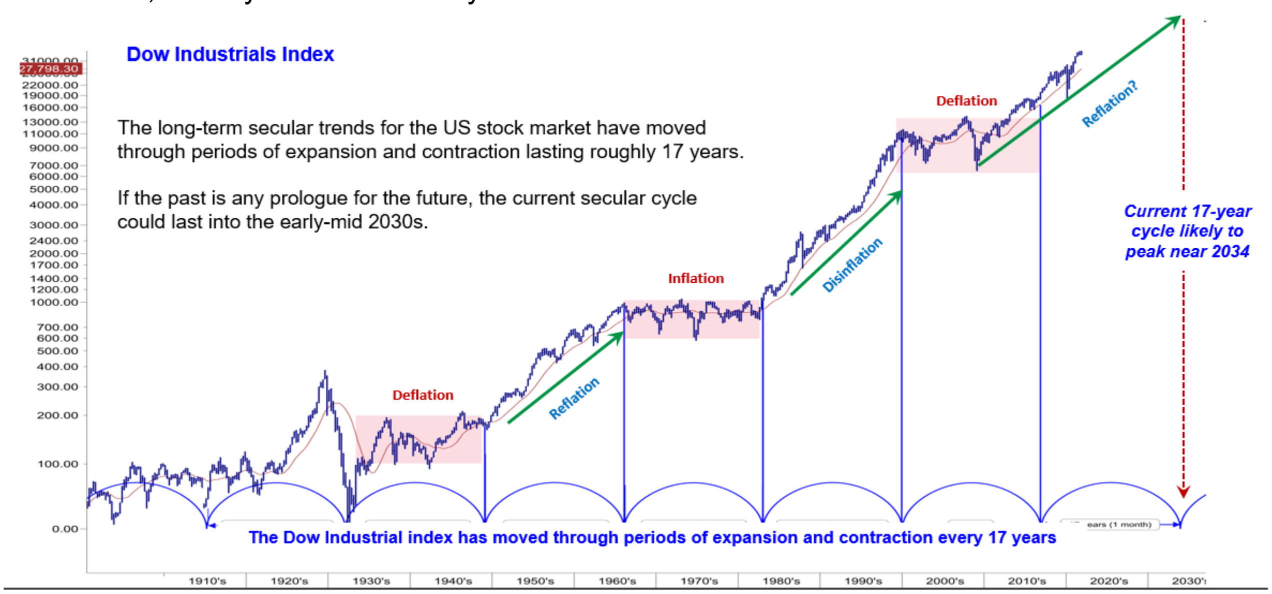
Four key charts from our Trend & Cycle 2022 Technical Outlook published on January 4.

Happy New Year Roadmap readers! On Tuesday, January 4 we published a 60+ page 2022 Technical Outlook. Please contact your RBC advisor if you're interested in receiving a chartbook reviewing global equity markets, currency markets, commodities, sectors, industry groups along with timely equity ideas.

Chart 1 below illustrates the secular trends and cycles that develop over a 17-year cycle. If the current cycle tracks prior cycles, we expect equity markets to move higher into the mid 2030s.

On page 2, we revisit the 4-year cycle to illustrate that during secular bull markets, markets regularly rally and pullback over a 3-4 year time frame and that the next major cycle low is likely in 2024.

Finally, and arguably most importantly, the two charts on page 3 illustrate the leadership rotation developing within equity markets. Growth stocks are progressively rolling over to value stocks, notably for mid and smaller caps while cyclical groups, after almost a year of choppy trading, are beginnig to resolve their 2021 trading ranges to the upside. The bottom line is we encourage investors to review their overall equity exposure and to continue to diversifying heavy concentrations in growth to more value stocks, both cyclicals and safety stocks.



Source: RBC Wealth Management, Bloomberg, Optuma

RBC Capital Markets, LLC/Portfolio Advisory Group
All values in U.S. dollars and priced as of January 04, 2022 unless otherwise noted
For Important Disclosures, see page 4

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The 4-year cycle revisited – Maturing after a 2-year rebound but the uptrend remains intact.

The chart below is of the S&P 500 since the late 1940s, with the yellow vertical lines illustrating a repeating 4-year cycle that we believe investors should consider as part of their investment process.

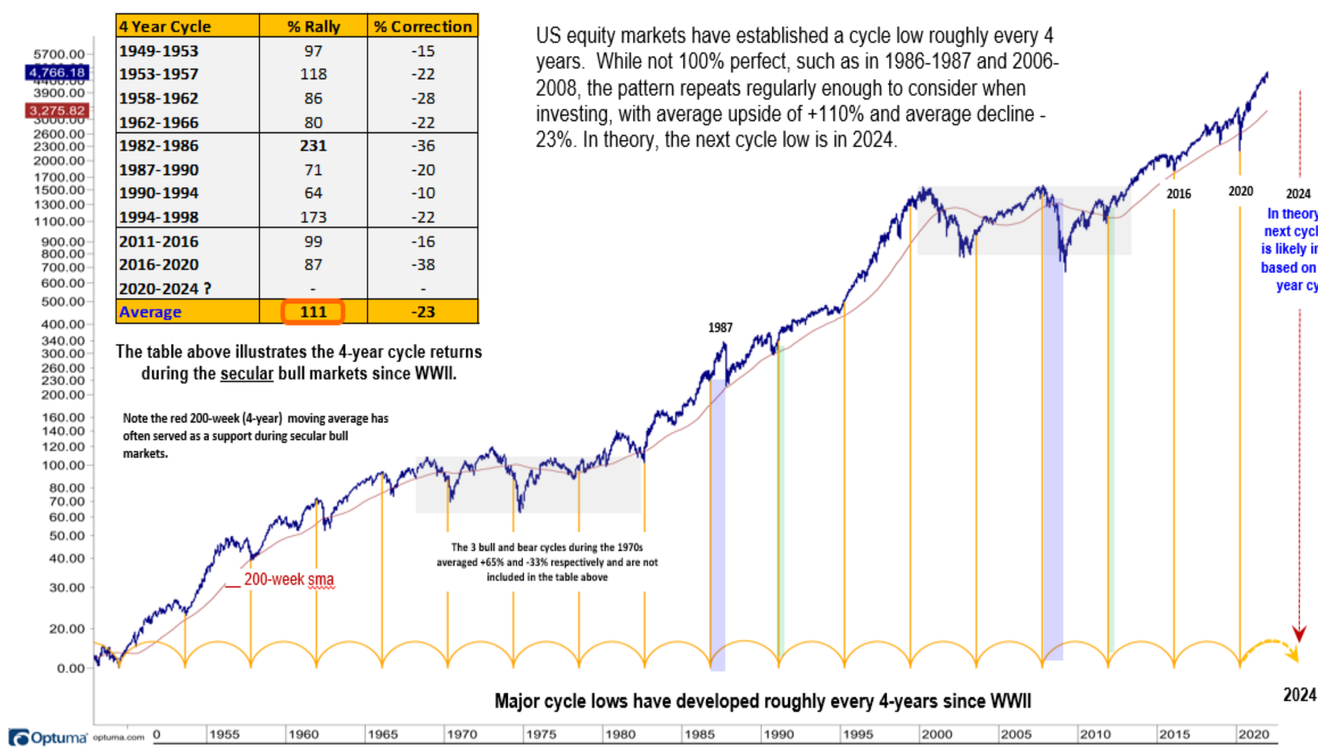
Although the pattern is obvioulsy not perfect, in general, a cycle low develops roughly every 4 years. Why does this happen? There are many reasons why stock prices accelerate then correct, but in general, equity markets respond to changing central bank policy (liquidity) and the response by the economy (growth).

Why does this matter to an investor today? The current cycle is just under 2 years old, having bottomed in 2020, with the next potential cycle low in 2024. As one roadmap to consider, this pattern suggests the current cycle is likely moving toward a maturing stage, which makes sense given central banks are moving away from policies that propelled markets so strongly since Q1 2020.

The question is, of course, will the economy be able to propel itself forward with less central bank support, and more importantly, how will it affect asset price, specifically equity market leadership.

Our expectation is for the equity market to make further headway in 2022 but at a much slower pace than in the past two years. More imporantly, we are seeing further evidence of equity leadership shifting from some of the leading groups, notably growth stocks, that did well during the initial stages of the recovery when the central banks were aggressively easing, toward those groups that benefit from an economy that is incrementally moving forward without training wheels.

On the following page we illustrate the internal rotation progressively taking hold within the equity markets.

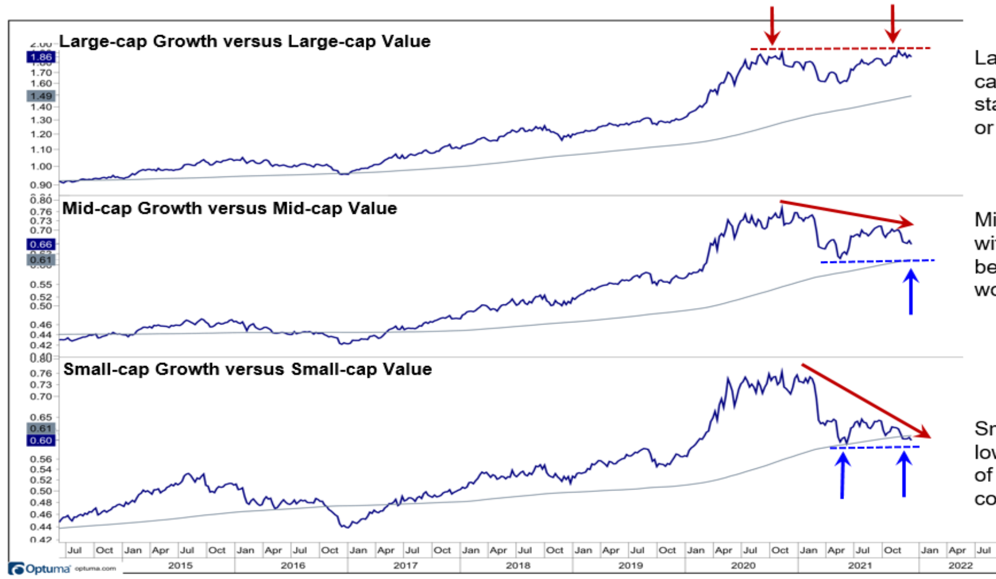


4 Year Cycle	% Rally	% Correction
1949-1953	97	-15
1953-1957	118	-22
1958-1962	86	-28
1962-1966	80	-22
1982-1986	231	-36
1987-1990	71	-20
1990-1994	64	-10
1994-1998	173	-22
2011-2016	99	-16
2016-2020	87	-38
2020-2024 ?	-	-
Average	111	-23

Source: RBC Wealth Management, Bloomberg, Optuma

Growth stocks, notably higher risk mid and small caps, are weakening to value stocks.

The charts below illustrate the relative performance of large-cap (top panel), mid-cap (center panel) and small-cap growth stocks versus value stocks. After an impressive 4-year trend of growth stocks outperforming value stocks, a significant divergence began to develop in late 2020 that continues as 2022 begins. The bottom line is investors should consider diversifying portfolios toward value stocks.



Source: RBC Wealth Management, Bloomberg, Optuma

Cyclical sectors and groups are beginning to emerge to the upside from sideways 2021 ranges.

Over the course of 2021, we repeatedly featured a variety of cyclical groups in the three panel format below to illustrate that economy sensitive stocks were merely in sideways trading ranges rather than completing major tops. We continue to view the price patterns for cyclicals such as Materials, Banks and Energy positively as they resolve choppy 2021 trading ranges to the upside.

Bottom line: Investors should continue to diversify portfolio exposure to include cyclicals.

Source: RBC Wealth Management, Bloomberg, Optuma

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Sell [Underperform]	55	3.81	3	5.45

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