Technical Strategy

Trend & Cycle Roadmap

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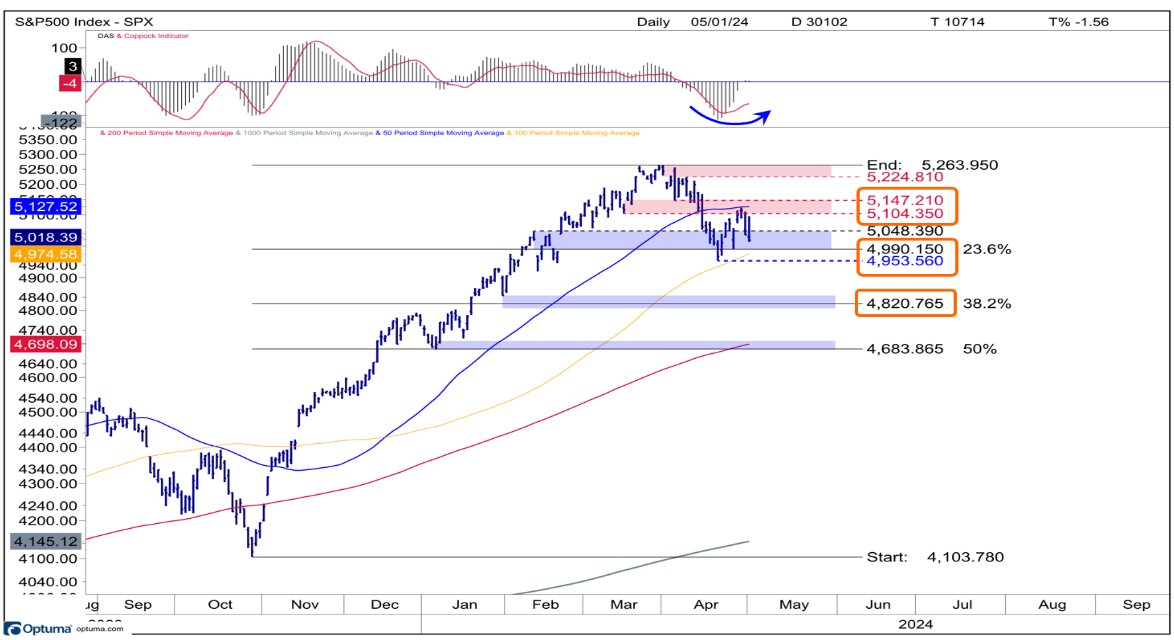
Equity bounce stalls at first resistance while US 10-year yields continue to pause at 4.7%

Key levels: Last week equity markets began a short-term bounce from oversold levels that usually support a 2-4 week rally. Over the past week the S&P rallied back to its first resistance band between 5104-5147 and stalled at its blue 50-day moving average at 5127.

Although it is premature to conclude the oversold bounce is failing, an important retest of recent lows at 4953 near the yellow 100-day moving average at 4974 is now underway. Should those support levels break, it would confirm an aborted trading rally with a test of next support at 4820 (-8% from the Q1 highs) likely with the risk window open for a test of the 200-day moving average near 4700 (-11% from the Q1 highs) and the 50% retracement level of the Q4-Q1 rally.

While a break below 4953 would be an obvious negative for investors, we continue to view the recent weakness to be consistent with a normal intermediate-term pullback following a 28% rally by the S&P 500 between Q4 and Q1. **Our outlook remains unchanged** and we encourage investors to maintain perspective of the longer-term positive trends, remain patient as markets pull back, and view weakness in Q2 as an opportunity to add equity exposure once intermediate-term/weekly technical indicators (page 2) show signs of bottoming. Our expectation remains that an investable low will develop in late Q2/early Q3.



Source: RBC Wealth Management, Bloomberg, Optuma

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All values in U.S. dollars and priced as of May 1, 2024 at 4pm ET **unless** otherwise noted.

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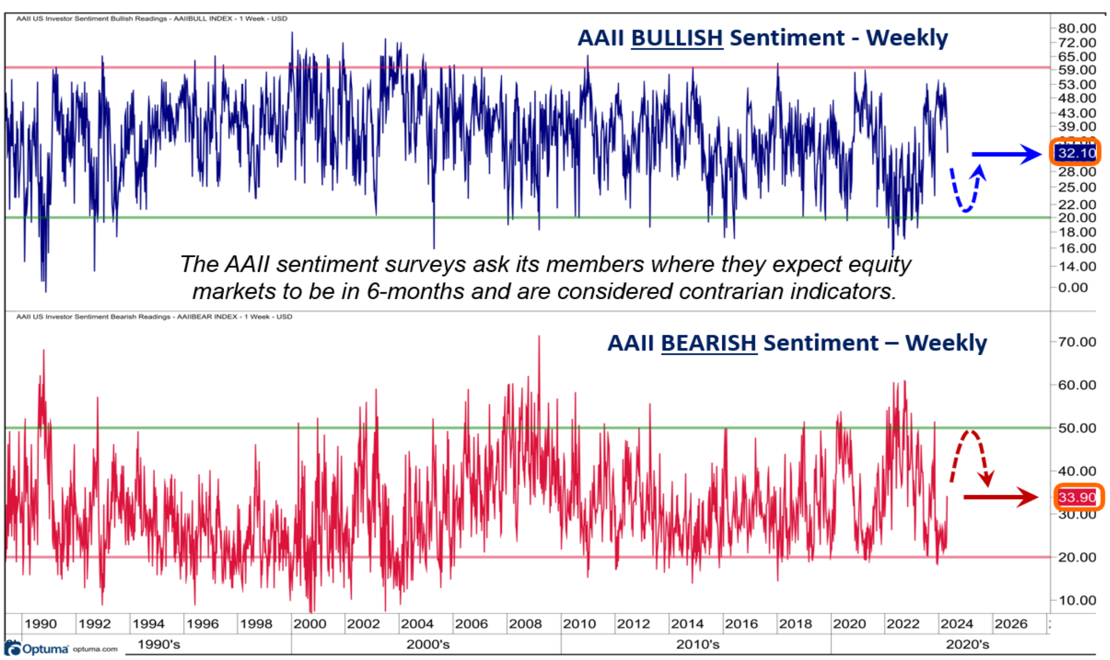
Staying focused on the intermediate-term/weekly backdrop for the S&P 500. We continue to feature the weekly S&P chart with its momentum indicators in the top and bottom panels as a helpful tool to navigate the 1-2 quarter swings that regularly develop. As we noted here last week, while the recent 6% pullback in April may be the end of the recent correction, the weekly momentum indicators suggest further choppy trading into mid-late Q2, possibly early Q3.

Source: RBC Wealth Management, Bloomberg, Optuma

AAII Sentiment readings also suggest further weakness/churn through Q2. The AAII sentiment readings are useful contrarian indicators that are signalling a similar message to the weekly momentum indicators in the top panel. Bullish sentiment (top panel) is pulling back from relatively high levels reached in Q1 while bearish sentiment (bottom panel) is beginning to rise from low levels. We are encouraged by the recent trend and would view a move closer to levels seen in Q4 as a positive contrarian signal that equity markets are at another investable low.



Source: RBC Wealth Management, Bloomberg, Optuma

The **US 10-year yield** continues to show early signs of stalling at its next key technical level of 4.7% following last week's PCE report and this week's FOMC meeting. Short-term momentum (bottom panel) has peaked suggesting the US 10-year yield is likely to drift lower in the coming weeks, with this Friday's employment report the next key test for rates. Key downside levels start at 4.5% followed by 4.3% while a move above 4.7% (not our expectation) would likely see further upside toward 5% and additional weakness in equity markets.

Source: RBC Wealth Management, Bloomberg, Optuma

Utlities rallying while Healthcare bottoming tactically. While we do not expect Utilities and Healthcare to be leadership through year-end, their recent improvement is consistent with a tactical rotation toward safety sectors in Q2 as cyclicals and growth stocks pull back. The recent strength in Utilties also suggests US rates are not headed meaningfully higher, while the recent pullback in Healthcare is showing very early signs of bottoming with pharma, biotech and select medical technology stocks beginning to improve.

Source: RBC Wealth Management, Bloomberg, Optuma

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			Count	Percent
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