

Trend & Cycle Roadmap

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April 17, 2024



Intermediate-term equity pullback continues while rates are becoming overbought short-term.

We have repeatedly featured the weekly chart of the S&P 500 with momentum indicators as a useful way to track the 1-2 quarter tactical swings that markets transition through most years. As a reminder, the momentum indicators in the top and bottom panels moved from oversold levels in Q4 2023 to overbought levels heading into mid Q1 2024.

While the Q4-Q1 uptrend for the S&P index remained intact into late Q1, the weekly momentum indicators began to peak in mid Q1 signalling the trend was decelerating and at risk of peaking moving into Q2. Now with the S&P beginning to pull back from its Q1 highs, weekly momentum indicators continue to weaken which suggests to us that Q2 is likely to remain volatile. While the indicator in the top panel is tracking the S&P 500 index itself, we find the index in the bottom panel to be useful as it is measuring the intermediate-term trend of every stock within the S&P 500.

Our outlook remains unchanged viewing the current intermediate-term pullback as a healthy pause after a strong rebound with potential to remain choppy into late Q2. Our expectation is that the indicator in the bottom panel is likely to move back into oversold territory by mid-late Q2 which should present better entry points for investors looking to add equity exposure. See short-term levels next page.



Source: RBC Wealth Management, Bloomberg, Optuma

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 All values in U.S. dollars and priced as of April 17, 2024 at 2pm ET unless otherwise noted.

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Produced: April 17, 2024 16:41ET; Disseminated: April 17, 2024 16:51ET

S&P 500 becoming oversold short-term – The S&P has now broken its Q4-Q1 uptrend as well as the widely followed blue 50-day moving average confirming a correction is underway. As noted on page 1, we continue to expect Q2 to remain choppy with an oversold short-term trading bounce likely within the coming week. Why? Short-term momentum, in the top panel, is oversold with the S&P index now testing its next support band near 5000. Should the S&P break below 4990 next support is at the yellow 100-day ma at 4926.



Source: RBC Wealth Management, Bloomberg, Optuma

US 10-year yield – Short-term peak pending? – Equities have continued to weaken as the US 10-year has pushed above important levels starting at 4.33% followed by 4.5% with 4.7% the next key threshold. Given short-term momentum in the bottom panel is overbought and likely peaking, our expectation is for the 10-year yield to begin to pause and pull back which should support a short-term bounce by the S&P 500.



Source: RBC Wealth Management, Bloomberg, Optuma



Semis and energy revisited

A progression of rebounds developed in Q4 moving into Q1 with technology/growth stocks, notably semiconductors, leading the charge.

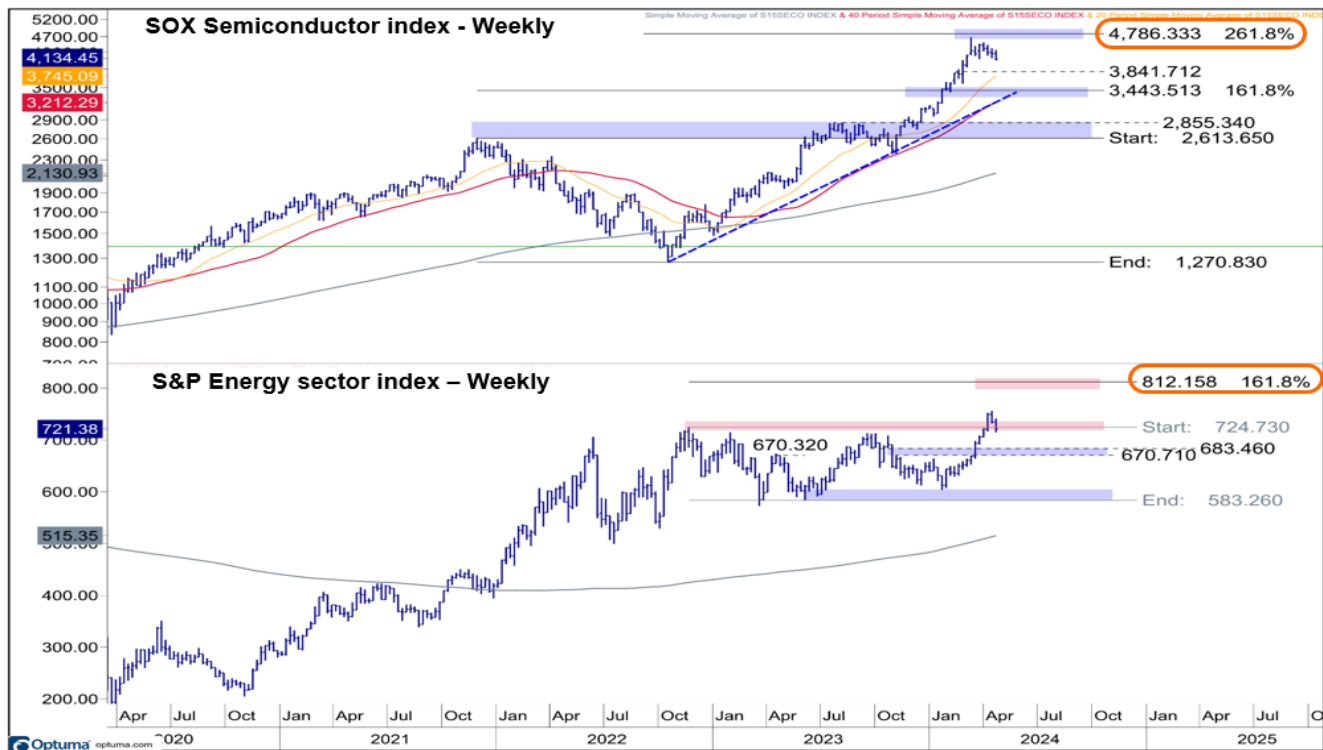
In March, we highlighted that the **SOX semiconductor index** had surged to its next resistance level near 4786 and that a pause/pullback was likely. We continue to expect semiconductors, along with the broader market, to continue churning sideways in a choppy trading range well into Q2 as part of a normal consolidation following the surge in Q4-Q1.

In contrast, **energy** was a noteworthy laggard moving into early Q1, which we featured as bottoming profile moving through Q1. Now with the energy sector index back to its 2022-2023 highs, a pause/pullback is developing in that sector as well.

What now? While further volatile trading remains likely moving through Q2, we continue to view weakness in both groups as opportunities to add exposure this quarter as part of a bar-bell portfolio strategy that has exposure to one of the leading market groups (semiconductors) and to an emerging group (energy) thus providing a hedge to inflation.

Bottom line: While we appreciate that remaining patient and waiting for pullbacks has been frustrating for many investors moving through the second half of Q1 into Q2, it is proving to be the appropriate tactic.

Our expectation is for the SOX semiconductor index to bottom near 3443-3841 between its 20-week moving average and its 2022-2024 uptrend line. For the S&P 500 energy sector, we expect pullbacks to be limited to the 670-683 range.



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