**Outlook unchanged: Beyond near-term pullbacks, further equity upside expected well into Q1**

Equity markets have remained volatile this year with a strong rebound in 1H 2023, a pullback in Q3 into Q4 followed by the recent surge to the upside in November. While large price moves have been unnerving for many investors, the chart below illustrating the path of the S&P 500 from 1950 through today provides a longer-term perspective.

The yellow vertical lines highlight the multi-year cycle lows that develop roughly every 3-4 years. The cycles are not perfectly symmetrical of course, and while 1987 and 2007 were major outliers, we believe the pattern repeats regularly enough to be considered when investing.

In general, these cycles are driven by central banks providing liquidity to markets by either raising (tightening) or lowering (easing) interest rates, which in turn affects the growth outlook for the economy and corporate earnings.

So where are we now? While the current cycle lows were likely established in 2022 at the red 4-year moving average, similar to what has developed in the past, the S&P still remains in a broad trading range between 3500-4800. Our expectation continues to be that a new upcycle will be confirmed with a breakout to new highs in Q1 2024.

S&P 500 and a 3-4 cycle driven by central bank **liquidity** and the economic and earnings **growth** in reaction to that liquidity.
**S&P intermediate-term** – We are revisiting the weekly chart of the S&P 500 to help manage 1-2 quarter volatility in portfolios. As regular readers of the Roadmap recall, we have viewed the Q3 decline to be consistent with a seasonal pullback that has moved the weekly indicators (bottom panel) from overbought levels this past summer back to oversold and bottoming levels moving into Q4. Bottom line: While a pause is likely near the red resistance band between 4510-4637, we expect further upside well into Q1 before our weekly indicators peak and signal another pending pullback.

![Weekly Chart of S&P 500](chart1.png)

**S&P short-term** – The S&P has surged to its next resistance band between 4527-4567, and with short-term momentum indicators now overbought, a pullback appears likely. However, given the positive intermediate-term (2-4+ month) view above, we continue to expect pullbacks to be short-lived with further upside likely well into Q1 with support between 4401-4447.

![Daily Momentum Chart](chart2.png)

![Daily S&P Chart](chart3.png)
US 10-year yields – We have regularly featured the weekly chart of the US 10-year yields in recent Roadmaps to highlight that they were near a multi-month peak at 5% and poised to pull back. The daily chart below illustrates that the US 10-year yields are now becoming oversold short-term, based on the momentum indicator in the top panel, suggesting a pending bounce from support near the blue uptrend line. While a bounce appears likely, here again, we expect it to be short-lived with resistance in the 4.7-4.8% range.

![US 10-year yields chart](chart1.png)

Smaller-cap equity update – The Value Line Geometric index (1700 stocks equal weighted) and Russell 2000 Small-cap index have lagged the larger cap S&P 500 through 2023 but both are showing evidence of bottoming at key support near their Q4 2022 lows. While these indices will need to rally through 2023 highs to signal new bull cycles, we view their recent improvement as an encouraging development that many of the weak and oversold areas that dominate these indices, such as financials, utilities, healthcare, consumer discretionary and staples, are beginning to bottom as interest rates peak and pull back.

![Value Line Geometric index chart](chart2.png)

![Russell 2000 Small-cap index chart](chart3.png)
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