

Trend & Cycle Roadmap

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Rebounds test next key resistance for the S&P 500, Nasdaq, Energy, Financials and Semis

Equity markets have continued to push higher through January, defying understandably cautious forecasts by economists and equity market strategists.

The S&P is now challenging an important technical resistance level coinciding with the 2022 downtrend line at 4040 and the Q4 bounce highs. For bullish investors a reversal of the 2022 downtrend and a push above the Q4 highs would be an important technical confirmation that the bear market is over. For bearish investors a failure to rally through these levels would be viewed as merely a bear market bounce with further downside ahead.

Our view remains unchanged. We view the Q4 lows as the bottom for the cycle with a progression of sectors and groups carving out bear market bottoms. On page 2 we highlight that short-term indicators, tracking 2-4 week swings, are becoming overbought which suggests a pause or pullback is likely heading into February. However, given that many of our cycle indicators are oversold and beginning to turn up as equity markets and key sectors such as financials and semiconductors (page 3) carve out bottoming patterns near rising 4-year averages, our expectation is for pullbacks to be relatively shallow and likely to provide opportunities for investors to build equity exposure in anticipation of a new upcycle in 2024.

Please note our next weekly Roadmap will be published February 8.



Source: RBC Wealth Management, Bloomberg, Optuma

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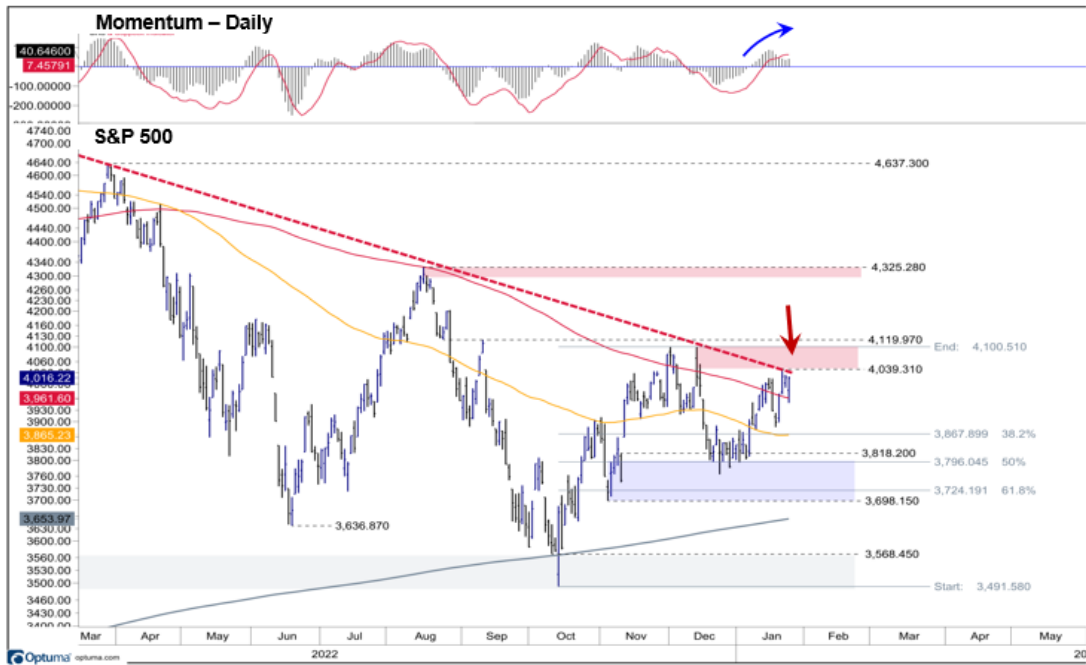
All values in U.S. dollars and priced as of January 25, 2023 at 4pm ET unless otherwise noted.

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S&P short-term – The S&P is now challenging an important resistance band coinciding with its 2022 red-dashed downtrend near 4040 and the December highs near 4120. With daily momentum, tracking 2-4 week swings, becoming overbought, a pullback is likely. We expect pullbacks will remain relatively shallow with support beginning at the 100-day ma at 3865 followed by 3700-3800.



Source: RBC Wealth Management, Bloomberg, Optuma

Nasdaq short-term – Similar to the S&P 500, the Nasdaq composite is approaching its next important technical resistance at 11,571 with short-term momentum (top panel) becoming overbought, suggesting a pause near current levels is likely. Next resistance above 11,571 is at 12,316.

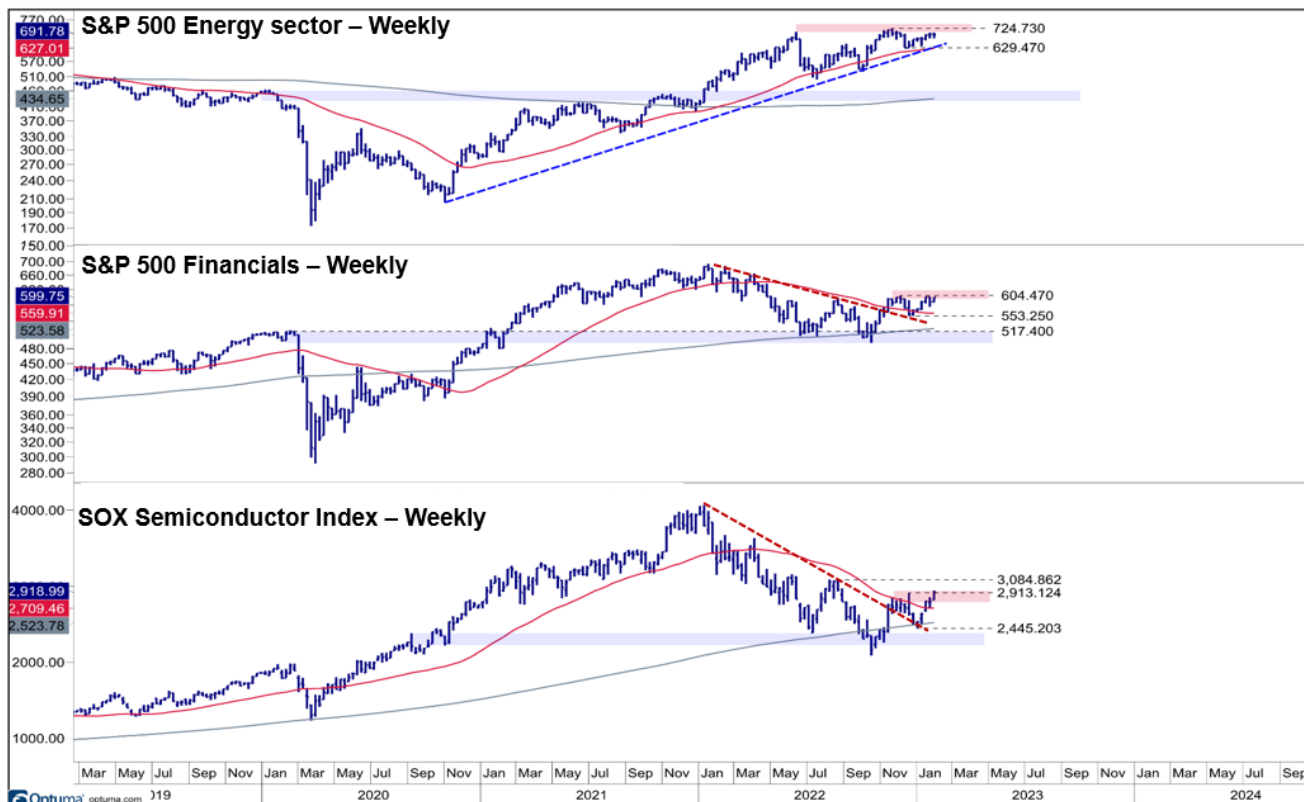


Source: RBC Wealth Management, Bloomberg, Optuma



Energy, Financials and Semiconductors test next important technical resistance.

- The 3 panel chart below illustrates the weekly prices of the S&P 500 Energy sector, S&P 500 Financial sector and SOX Semiconductor index (featured last week) with key support and resistance levels highlighted. Given uptrends are defined by a series of higher highs and higher lows, each of the indices need to push above the resistance levels indicated in each panel to confirm accelerating uptrends.
- **Our expectation is for each of these indices to continue trending higher in the coming months but a move below the support levels indicated would signal their rebounds are likely failing. We view these support levels as useful stop-loss levels.**
- **The S&P 500 Energy sector's** uptrend remains intact even though it paused in a choppy range in late 2022 as other sectors and groups began to bottom. A move above 724 resistance is needed to keep the uptrend intact while a move below the December lows at 629 would be a signal the uptrend is beginning to falter.
- In contrast to the Energy sector, the **S&P Financial sector** and **SOX Semiconductor index** continue to show evidence of completing cycle lows after reversing their 2022 downtrends in Q4 and established higher lows in December. A move above the Q4 highs at 604 for the Financial index and 2913 for the Semiconductor index would establish a higher high and complete the bottoming pattern for two of the more important sector indices in the market.



Source: RBC Wealth Management, Bloomberg, Optuma



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