

Equity bull cycle intact but rising rates and deteriorating breadth are a concern

Robert Sluymers, CFA, Technical Strategist – New York

The S&P 500's trend remains positive, but rising long-term interest rates remain a concern that has led to deteriorating breadth as measured by the NYSE Advance-Decline line. While interest rates have yet to reverse, the silver lining is that the decline in many sectors through Q3 has moved some technical indicators toward oversold levels that often support a multi-month rebound.

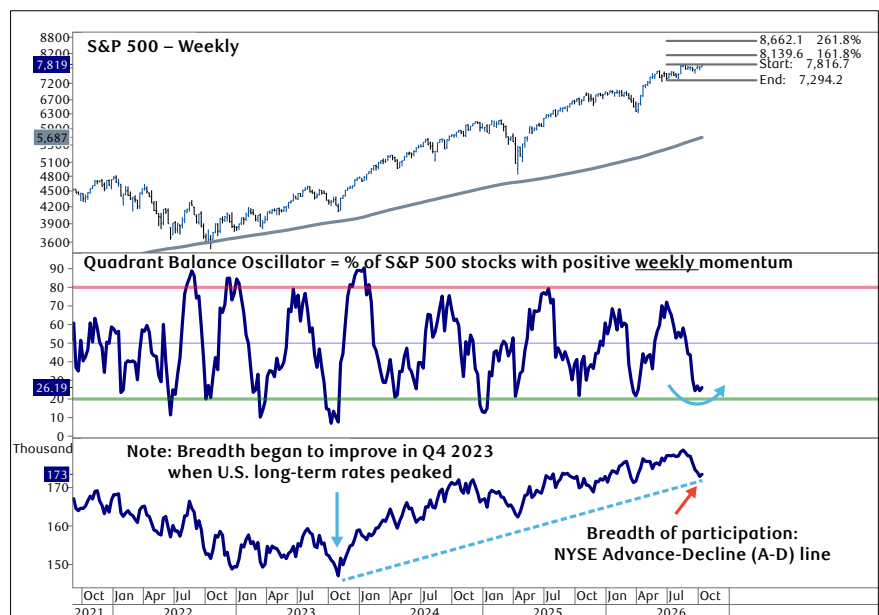
Equity trends remain positive, but interest rates a headwind

In our last Global Insight Weekly [technical update](#) on July 23, we noted that while the equity bull market that began in Q4 2022 remained intact, supported by a strong trend in breadth as measured by advance-decline lines, the risk to breadth was likely a move by the U.S. 10-year and 30-year Treasury yields above their 2023–2026 trading ranges heading into the seasonally weak late Q3.

Divergences within the S&P 500

With U.S. long-term interest rates now trending above their 2023–2026 trading ranges, a noteworthy divergence has developed within equity markets. The chart at right shows the S&P 500 Index (top panel) has remained impressively resilient to the rise in interest rates, supported by strength in large-cap

S&P 500 with a weekly momentum indicator and NYSE Advance-Decline line



Source - RBC Wealth Management, Bloomberg, Optuma

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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growth and Technology stocks, while most other sectors weakened significantly through late summer into early Q4. The NYSE Advance-Delay (A-D) line (bottom panel of first chart)—the proportion of stocks moving up versus those moving down—reflects the internal weakness within equity markets, as the recent decline has reversed the 2023–2026 uptrend in response to U.S. long-term rates pushing above their three-year trading ranges.

End of the cycle or just seasonal weakness?

With long-term interest rates marching higher, investors have valid reasons to be more cautious, particularly given the combination of elevated valuations, high market capitalization concentration, ongoing geopolitical instability, and pending uncertainty around the upcoming U.S. midterm elections. While these concerns and many others are legitimate headwinds to the equity bull cycle that began in Q4 2022, we believe there is a technical case that the recent decline in many stocks into late Q3 was temporary in duration, which could set the stage for a rebound in Q4.

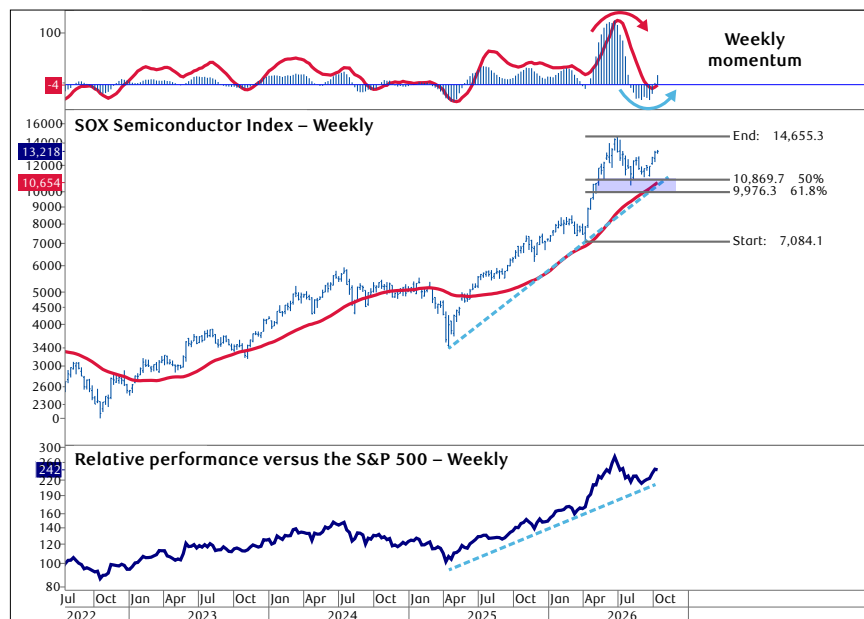
Becoming oversold heading into Q4?

The weekly Quadrant Balance Indicator (center panel of first chart), tracking the percentage of S&P 500 stocks with rising weekly momentum, has been a useful indicator to track one- to two-quarter swings within equity markets. That indicator has transitioned from overbought (high) levels at the end of Q2 toward oversold (low) levels heading into late Q3 and early Q4. The recent decline through Q3 reflects most stocks in the S&P 500 having either paused or declined over the past few months, consistent with the weakness seen in the NYSE A-D line. With the indicator declining toward 20 percent, a reading we consider as oversold (low), we expect a bottom to develop over the coming weeks that should be supportive of a recovery in Q4.

U.S. long-term interest rates test next important technical levels

While upcoming corporate earnings reports will be a catalyst for equities in the coming weeks, a pullback in interest rates will likely be needed to support a meaningful equity rebound, in our view, particularly for more interest-sensitive mid- and smaller-cap indexes. Although we think it is premature to conclude that interest rates are beginning to pull back, both the U.S. 10-year and 30-year Treasury yields are now well advanced above their 2026 uptrends and nearing next technical levels we view

SOX Semiconductor Index begins an oversold rebound



Source - RBC Wealth Management, Bloomberg, Optuma

to be likely pause levels at 5.35 percent and 5.8 percent to 6.0 percent, respectively. Interestingly, while some interest-sensitive equity groups, such as homebuilders, remain weak, others, such as the Utilities sector, show a noteworthy divergence, displaying early signs of bottoming after a steep decline into the end of Q3.

Semiconductors: New upleg underway or potential cycle peak?

The semiconductor group is arguably the most important one within equity markets, given it often bottoms and peaks ahead of the broader market and well in advance of major changes in its fundamentals. After a 600 percent surge from the Q4 2022 cycle low with over 300 percent of the move developing since Q2 2025, the uptrend for the Philadelphia Semiconductor Index (SOX) appears intact but well advanced, as shown in the chart above. The 29 percent correction in June–July pushed 2–4+ month indicators from overbought levels in June back to oversold levels moving into September, with most semiconductor stocks staging rebounds from important support levels near rising 200-day moving averages.

We view the current rebound as another legitimate upleg taking hold with potential to make new highs in Q4 2026–Q1 2027. However, what would concern us is if the SOX failed to make new highs and began another downside move. Such a pattern would establish a lower high, which often develops at major cycle peaks, with a break below most recent lows in Q3 needed to confirm that a bear market trend is underway. For this reason, we would encourage investors to remain alert to the technical behavior of the semiconductor group and to consider managing downside risk at the recent lows.

UNITED STATES

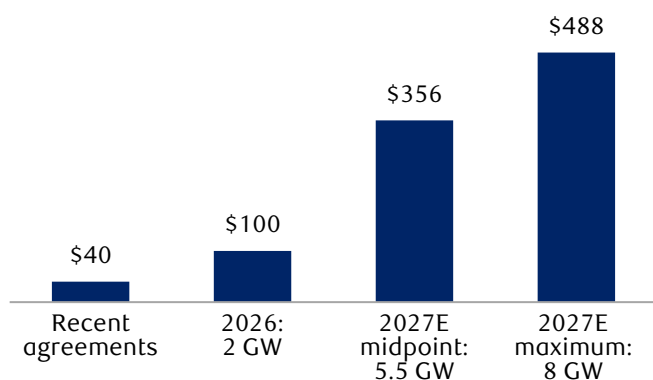
Miles D'Alessandro – Minneapolis

■ **AI financing remains at full throttle as SpaceX looks for \$40B in funding to acquire NVIDIA processing units.** The company continues to work towards the goal of orbital data centers, which Elon Musk has argued are less expensive and more feasible than terrestrial variants. Recently, SpaceX's latest Starship launch made headway on this goal by reaching orbit, but it ended the flight earlier than planned. Continued launch progress may lag Musk's expectations, which initially called for daily Starship launches in 2027 but more recently shifted the goalposts to weekly. Investors noted this 75% cut in presumptive "guidance," but we note that Musk has often made highly optimistic projections for his companies, which in our view is an effort to promote his businesses rather than to set realistic expectations. Still, plans for orbital data centers are increasingly concrete, as seen by SpaceX seeking to acquire these processing units.

■ **SpaceX joins hyperscalers seeking debt financing as available capital stretches to its limit.** According to a MarketWatch report, SpaceX will look to split the financing 25:75 between bank loans and investment-grade debt. SpaceX will exclusively utilize NVIDIA chips within the company's data centers. Interestingly, this round of funding would nearly match SpaceX's projected sales for 2026; by contrast, it would represent just under 2% of SpaceX's \$2.3 trillion market cap. From another angle, to fund the midpoint of Musk's outlined plans for 5–10 gigawatts of computing capacity by the end of 2027, MarketWatch reports that SpaceX requires more than \$300 billion in funding in 2027. This is an example of mega-cap stocks increasingly funding AI investments with debt. We view this as a riskier funding solution, given that these companies have maxed out their available capital to allocate towards AI, and higher leverage from debt financing requires higher returns on invested capital as debt must be paid off over time. As a result, we believe

SpaceX aiming to build its AI capabilities

Projected funding required to reach year-end 2027 compute capacity targets (USD billions)



Source - RBC Wealth Management, MarketWatch, FactSet

investors will progressively look for signs of returns on invested capital from AI to validate higher leverage.

CANADA

David Iacono, CFA & Connor Sigouin, CFA – Toronto

■ **On Monday, Quebec voters elected a Parti Québécois (PQ) minority government** with 59 seats—a dramatic surge from just three seats in the 2022 election, though still short of the 64 needed for a majority. Despite receiving 28% of the popular vote—the lowest for any Canadian provincial government, according to polling analyst Philippe Fournier—the PQ secured more seats than the Liberals (40) and Conservatives (19), while the previously governing Coalition Avenir Québec (CAQ) failed to win any. Premier-elect Paul St-Pierre Plamondon has committed to two key priorities: (1) addressing homelessness by reducing the number of people experiencing it by half by 2030 and increasing food bank funding by CA\$5 million annually, and (2) holding a provincial referendum on sovereignty contingent upon U.S. President Donald Trump leaving office. Meanwhile, Canada faces another sovereignty challenge, as Alberta prepares to hold a “referendum on a referendum” regarding potential secession on Oct. 19.

■ **Pacific Link (previously the West Coast Oil Pipeline) is the first project to be listed as a “project of national interest” by the Major Projects Office.** This designation grants it an accelerated approval process at the federal level, significantly reducing the permitting timeline compared to other similar infrastructure projects. The proposed 1,250 km pipeline will transport an additional 1 million barrels of crude oil per day from Alberta's oil sands to a yet-to-be-constructed export terminal on British Columbia's coast. Preliminary cost estimates from the Government of Alberta's proposal put the construction cost in a range of CA\$35.2–CA\$43.7 billion. While construction isn't expected to begin until September 2027, the national interest designation marks an important milestone. The project supports Prime Minister Mark Carney's goal of doubling non-U.S. oil exports over the next decade to reduce dependence on exports to the United States. Pacific Link is expected to create more than 140,000 jobs and to generate over CA\$20 billion in GDP per year and CA\$100 billion in government revenue by 2060, according to the federal government.

UK & Europe

Rufaro Chiriseri, CFA & Frédérique Carrier – London

■ **France's fiscal position remains in focus as the current government budget proposal for 2027 aims for a deficit of 5% of GDP,** well above the 3% limit European Union members are required to respect. Against this backdrop Marine Le Pen, the National Rally's candidate

for the 2027 presidential election who is currently ahead in the polls, has presented a detailed fiscal plan.

■ **The National Rally plan recognizes the need for fiscal consolidation and includes a commitment to bring the deficit to 3% of GDP by 2032.** However, in our view, some of its measures seem ill-defined or unrealistic. Le Pen's programme calls on the European Central Bank (ECB) to intervene to reduce the country's interest costs, a request which was flatly denied by the central bank. Should Le Pen win the election and implement this plan unchanged, we believe the deficit reduction may fall short of her targets.

■ **Meanwhile, Spain's Prime Minister Pedro Sánchez of the centre-left Spanish Socialist Workers' Party has called a snap election for Nov. 29.** Polls suggest a change of government is likely. The Spanish economy has been a bright spot in Europe, with 2.6% growth in 2025—more than twice the eurozone average—thanks largely to immigration that swelled the labour force. The most likely outcome, a coalition led by the conservative People's Party, would be less favourable to immigration, potentially limiting future growth. However, the coalition parties' conservative fiscal stances could reassure investors at a time when fiscal sustainability in the region is a focus.

■ **While France has been at the centre of the storm, Italian bond spreads have also been dragged higher.** Italian and French 10-year sovereign yield differentials relative to Germany hit intraday peaks of 135 basis points (bps) and 162 bps, respectively, on Oct. 2. Following the rally since then, Italian and French spreads are at 113 bps and 141 bps, respectively. We continue to expect a 25 bps interest rate hike at the ECB's December meeting.

■ With European sovereign spreads remaining wide and expectations for ECB rate hikes easing, the euro has continued to weaken against the U.S. dollar, UK sterling, and Swiss franc.

ASIA-PACIFIC

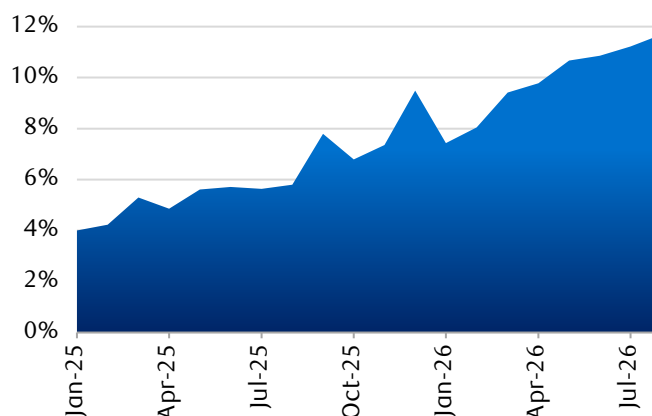
Jasmine Duan – Hong Kong

■ **European Union (EU) trade officials are having a fresh round of trade talks with their Chinese counterparts.** The talks aim to reduce the EU's growing trade deficit with China, which reached approximately €360 billion in 2025.

■ **China remains the EU's primary source of imported goods.** While the region's exports to China are substantial, these shipments are considerably smaller than its imports from China. Given the stability of EU export volumes to China, fluctuations in the trade deficit are predominantly driven by changes in EU import levels. Persistent trade imbalances have characterised EU-China commerce, particularly in machinery, vehicles, and manufactured goods sectors, which consistently generate large deficits for the EU.

China's automakers capturing market share in Europe

Chinese brands made up nearly 12% of European new car sales in August



Source - RBC Wealth Management, Bloomberg, Dataforce; monthly data through August 2026

■ **Bloomberg reports that the EU is developing protective measures to restrict imports of Chinese hybrid vehicles.** Potential restrictions may involve a temporary tariff-rate quota system that would impose duties on imports exceeding a specified threshold. Chinese brands captured approximately 12% of Europe's new car sales and a quarter of hybrid sales across Europe in August according to figures from automotive market research firm Dataforce.

■ **Japan Exchange Group is conducting the largest-ever restructuring of the benchmark TOPIX Index.** Starting Oct. 30, it will remove 683 companies under stricter inclusion criteria while adding 35 new members in the second phase of a multiyear effort to make the benchmark more investable by reducing illiquid small-cap holdings. The restructuring could shrink the number of index constituents from approximately 1,700 to under 1,000 within two years.

■ **We think the restructuring indicates a continued effort to strengthen corporate governance and shareholder returns,** though it may accelerate a shift toward large-cap dominance in Japanese equities. Small-cap stocks with free-float market capitalisations in the bottom 3% of Tokyo Stock Exchange-listed firms that could be removed from the index will likely face increased selling pressure in the near term, in our opinion.

MARKET Scorecard

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.70 means 1 Canadian dollar will buy 0.70 U.S. dollar. CAD/USD -3.8% return means the Canadian dollar has fallen 3.8% vs. the U.S. dollar year to date. USD/JPY 158.09 means 1 U.S. dollar will buy 158.09 yen. USD/JPY 0.9% return means the U.S. dollar has risen 0.9% vs. the yen year to date.

Source - Bloomberg; data as of 10/7/26

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	7,801.77	2.0%	14.0%	16.2%	37.0%
Dow Industrials (DJIA)	51,179.87	0.5%	6.5%	9.8%	22.0%
Nasdaq	27,538.69	2.5%	18.5%	20.8%	53.6%
Russell 2000	2,793.20	-0.1%	12.5%	13.6%	27.4%
S&P/TSX Comp	35,041.86	-0.6%	10.5%	15.5%	45.4%
FTSE All-Share	5,644.81	-1.5%	5.5%	10.2%	24.4%
STOXX Europe 600	630.25	-0.7%	6.4%	10.7%	21.3%
EURO STOXX 50	6,180.29	-1.4%	6.7%	10.1%	24.4%
Hang Seng	24,130.50	-2.0%	-5.9%	-10.5%	4.5%
Shanghai Comp	3,842.20	0.0%	-3.2%	-1.0%	15.2%
Nikkei 225	70,035.71	4.9%	39.1%	46.1%	78.1%
India Sensex	72,638.70	0.2%	-14.8%	-11.3%	-10.4%
Singapore Straits Times	5,608.44	-1.2%	20.7%	25.4%	55.8%
Brazil Ibovespa	204,302.33	9.6%	26.8%	44.5%	54.8%
Mexican Bolsa IPC	64,632.80	0.7%	0.5%	7.3%	24.2%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	5.284%	-0.1	111.7	116.1	125.8
Canada 10-Yr	3.950%	-4.4	51.7	76.7	71.0
UK 10-Yr	5.443%	1.9	96.4	72.4	123.5
Germany 10-Yr	3.475%	-11.1	62.0	76.6	121.9
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	5.54%	0.2%	-2.8%	-1.9%	2.5%
U.S. Investment-Grade Corp	6.01%	0.2%	-2.9%	-2.3%	2.6%
U.S. High-Yield Corp	8.18%	0.4%	0.5%	1.7%	9.8%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,108.87	-1.2%	-4.9%	3.1%	55.5%
Silver (spot \$/oz)	59.77	-1.1%	-16.6%	25.0%	88.6%
Copper (\$/metric ton)	14,482.68	0.2%	16.3%	35.0%	48.1%
Oil (WTI spot \$/bbl)	89.13	-1.4%	55.2%	44.4%	15.5%
Oil (Brent spot \$/bbl)	101.16	-2.3%	66.2%	54.6%	25.0%
Natural Gas (\$/mmBtu)	3.21	6.1%	-12.9%	-8.2%	16.9%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	102.2780	0.8%	4.0%	3.8%	-0.3%
CAD/USD	0.7012	-0.2%	-3.8%	-2.2%	-4.5%
USD/CAD	1.4261	0.2%	3.9%	2.2%	4.7%
EUR/USD	1.1195	-1.2%	-4.7%	-4.0%	2.0%
GBP/USD	1.3210	-0.4%	-2.0%	-1.6%	1.0%
AUD/USD	0.6961	0.2%	4.3%	5.8%	3.0%
USD/JPY	158.0900	0.4%	0.9%	4.1%	6.7%
EUR/JPY	176.9700	-0.8%	-3.8%	-0.1%	8.8%
EUR/GBP	0.8474	-0.8%	-2.8%	-2.4%	1.0%
EUR/CHF	0.9331	-1.5%	0.3%	0.3%	-0.5%
USD/SGD	1.2798	0.2%	-0.4%	-1.0%	-1.9%
USD/CNY	6.7060	0.0%	-4.0%	-5.8%	-4.5%
USD/MXN	17.9906	-0.4%	-0.1%	-2.2%	-6.7%
USD/BRL	5.0158	-3.1%	-8.4%	-6.3%	-8.6%

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			Count	Percent
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Sell [Underperform]	52	3.14	3	5.77

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