PHASES & CYCLES®

Strong Beginnings, Maturing Trends: The 2026 Market Outlook

Despite the sharp pullback in April 2025, all major North American equity markets finished the year with double-digit gains, highlighting the resilience of the current bull market (see table below).

Index	2024 close	2025 close	% change
DJI	42,544.22	48,063.29	+13.0%
SPX	5,881.63	6,845.50	+16.4%
NYA	19,097.10	22,003.93	+15.2%
TSX	24,727.94	31,712.76	+28.2%

That underlying strength has carried into 2026, with major indices posting solid gains over the first five trading days of the year (see table in next column) and reaching simultaneous new all-time highs. Although the traditional Santa Claus rally failed to materialize, the firm start to January presents a more constructive outlook for 2026. Continued gains through the remainder of the month would further strengthen the case for a positive year-end outcome.

January 2026	SPX	DJI	NYA	TSE
2nd	+12.97	+319.10	+229.96	+170.61
5th	+43.58	+594.79	+198.30	+336.58
6th	+42.77	+484.90	+138.72	+187.07
7th	-23.89	-466.00	-229.59	-271.53
8th	+0.53	+270.03	+144.42	+243.155
5-day net change	+75.96	+1,202.82	+481.81	+665.88

Historically, positive first-five-day performance in January has been associated with a **75–80% probability of a positive year**, according to the *Trader's Almanac*. Similarly, when January finishes higher, the odds of a positive full-year outcome rise to approximately **70–75%**. The *Trader's Almanac* combines these indicators into a simple framework:

First Five Days	January	Historical Implication
Up	Up	Best case – strong odds of a good year
Up	Down	Mixed/volatile, but often resolves higher
Down	Up	Choppy year, moderate returns
Down	Down	Worst case – elevated risk of a weak year

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However, *The Trader's Almanac* cautions that "If Santa Claus should fail to call, bears may come to Broad and Wall." Historically, a weak or negative Santa Claus rally—defined as the last five trading days of the year plus the first two of the new year—has often preceded periods of flat performance, bear markets, or recessions. The absence of a Santa Claus rally at the end of 2025, therefore, raises some investor concern.

Viewed alongside the bullish first five trading days of 2026 and the push to new all-time highs, this warning suggests that while near-term downside risk appears limited, vulnerability may increase later in the year. In this context, the strong January start appears to have **postponed, rather than eliminated, the Santa Claus warning**, potentially shifting risk toward the second half of 2026. From a broader seasonal perspective, years ending in "6" have historically been favorable. Since 1906, ten of the twelve such years have finished positively for the S&P 500, with only 1946 (-12%) and 1966 (-13%) ending lower. Since 1960, the **S&P 500 has averaged gains of 10.68% in years ending in six**. In addition, within the typical four-year market cycle—and with the current bull market having begun in 2023—2026 is likely to be positive, albeit potentially less robust than 2025, with a tendency toward weakening in the second half of the year.

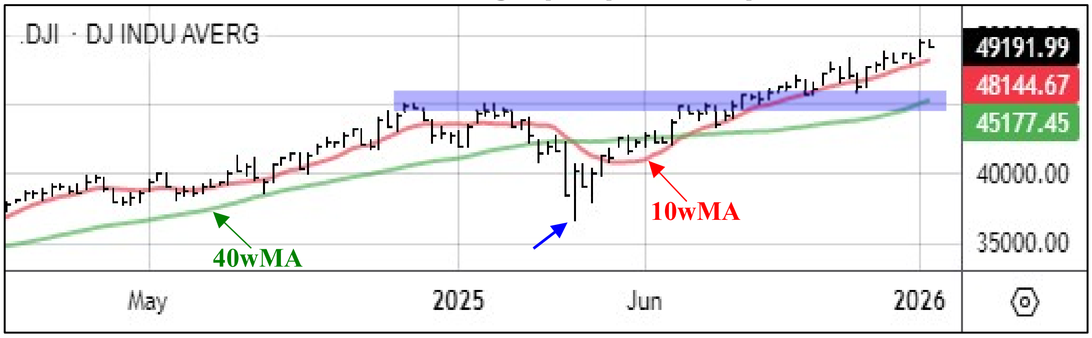
In the near term, our research points to a maturing 21-day cycle around mid-January (approximately January 16), which could coincide with a short-term market low. This would likely be followed by a 35-day cycle maturation in early February, a period during which markets would be expected to resume their respective uptrends.

Stepping back, we believe the bull market is now at least halfway complete. As the primary trend matures, technical failures and breakdowns will carry greater significance. While further upside is still expected during the first half of 2026, we will be increasingly attentive to emerging signs of weakness—particularly any inability to hold key support levels—as the year progresses.

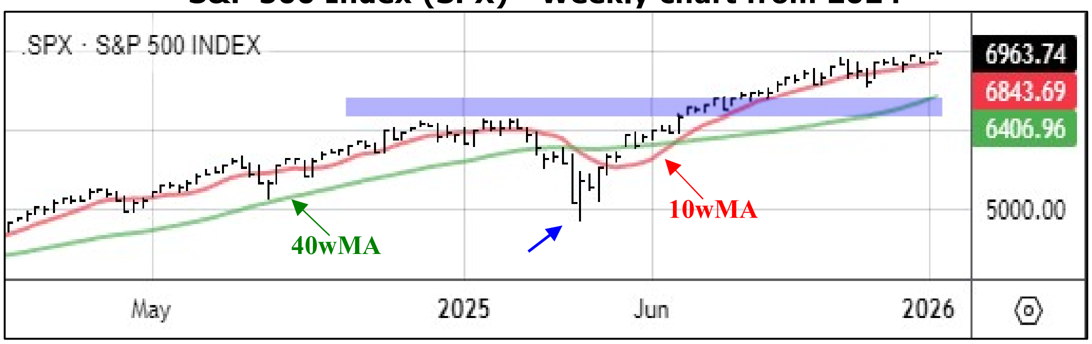
With at least three months remaining in the 12-month window following the breadth thrust signal triggered last year (see Market Comment 574, May 14, 2025), we remain confident in the performance outlook for the first quarter of 2026. This period will conclude the final months of the historically strong post-breadth-thrust phase that began in April 2025.

The charts below illustrate the powerful rally from the April 2025 lows (arrows), with major indices consistently finding support near their respective 10-week moving averages (10-wMA). The sustained eight-month advance above these levels underscores their importance as primary trend support. A decisive break below the 10-wMA would signal the potential onset of a more meaningful correction, with the 40-week moving average (40-wMA) expected to act as secondary support (shaded areas).

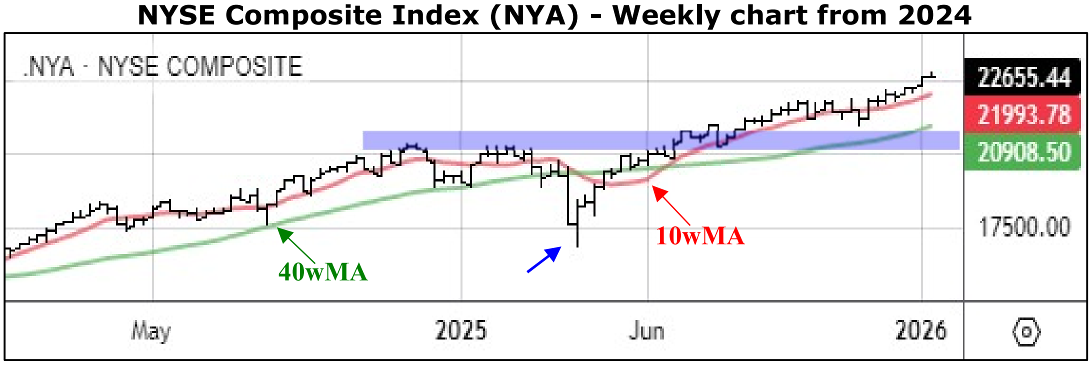
Dow Jones Industrial Average (DJI) - Weekly chart from 2024



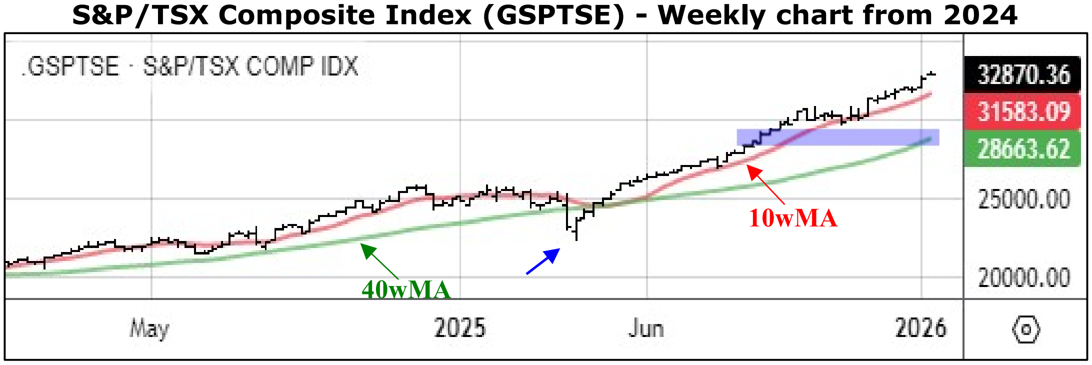
S&P 500 Index (SPX) - Weekly chart from 2024



NYSE Composite Index (NYA) - Weekly chart from 2024



S&P/TSX Composite Index (GSPTSE) - Weekly chart from 2024



The table below highlights each index's distance from its key moving averages. The TSX stands out as significantly more extended than its U.S. counterparts, reflecting its heavy weighting in gold stocks and the six major Canadian banks. These six banks alone account for roughly 20% of the index. For example, TD Bank is currently about 8% above its 10-wMA and 28% above its 40-wMA, while Royal Bank is approximately 6% and 23% above those levels, respectively. Alongside this, Agnico Eagle is currently about 14% above its 10-wMA and 38% above its 40-wMA, while Barrick Gold is approximately 21% and 76% above those levels, respectively. While a retracement to the 40-wMA appears unlikely in the near term, a pullback toward the 10-wMA represents the most probable support zone should a correction develop.

Meanwhile, three of the four largest-weighted stocks in the S&P 500 (Nvidia, Apple and Microsoft), together representing roughly one-quarter of the index, have spent the past one to two months consolidating near their 40-week moving averages. This has restrained the index's advance relative to other North American markets. In contrast, the S&P 500 Equal Weight Index has recently broken out to new highs, signaling improving participation and strengthening breadth beneath the surface.

Index	**Jan 12 close**	**10wMA**	**% to 10wMA**	**40wMA**	**% to 40wMA**
DJI	49,590	48,185	2.8%	45,185	8.9%
SPX	6,977	6,845	1.9%	6,410	8.1%
NYA	22,696	22,000	3.1%	20,900	7.9%
TSX	32,875	31,585	3.9%	28,665	12.8%

Charts courtesy of LSEG

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