PHASES & CYCLES®

BULL MARKET STRENGTH CONTINUES, BUT SIGNS OF NEAR-TERM EXCESS EMERGE

Though July was relatively flat, the first week of August brought a renewed burst of strength. North American equity indices surged once again, reaching new all-time highs and providing further confirmation that the longer-term bull market remains firmly intact.

At the same time, however, several indicators suggest that the market may be entering a period of increased vulnerability. Momentum remains strong, breadth has improved considerably, and investor sentiment has become increasingly bullish. While these conditions can support further gains, they also suggest that the market is becoming stretched and increasingly susceptible to a sudden bout of profit-taking.

Momentum and Breadth

Momentum remains positive across all major indices, with each trading well above its respective 10-week moving average (10wMA). Importantly, the recent advance has not been confined to a single sector or group of stocks. Instead, participation has broadened considerably, with all the major North American indices advancing to new all-time highs at the same time (see charts on the last page).

This is an important distinction from some recent rallies. At times, the S&P 500 has advanced sharply as technology stocks surged while the broader market failed to participate. During those periods, the S&P 500 Equal Weight Index did not confirm the move, while indices such as the Dow Jones Industrial Average (DJI) and NYSE Composite (NYA) also lagged. This time, however, the strength has been much more widespread, with the major indices advancing together.

Breadth indicators further confirm the strength of the current advance. On the NYSE, 58.88% of stocks are trading above their 10wMAs and 58.44% are above their 30wMAs. On the S&P 500, 65.94% of stocks are above their 10wMAs, while 71.58% are above their 30wMAs (courtesy of Investors Intelligence).

These readings confirm that the market's strength is broad-based rather than being driven by a relatively small number of stocks. This broad participation is constructive for the longer-term trend. At the same time, the major indices are becoming increasingly extended following the recent advance. Strong momentum can persist for some time, but the further the indices move above their intermediate-term averages, the greater their vulnerability to a short-term correction.

Charts courtesy of Workspace by LSEG

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Investor Sentiment

Investor sentiment is providing another reason for near-term caution. According to Investors Intelligence, the percentage of bullish investors jumped to 57.4% this week, up from 53.7% last week and 49.1% the week before. This is the highest reading since early February, when bullish sentiment was retreating from levels above 60% in January.

At the same time, bearish sentiment remained unchanged at just 14.8%, representing the lowest level of bearishness since late last winter.

As a result, the bull-bear spread widened significantly to 42.6%, up from 38.9%. This is particularly noteworthy because the spread has now remained in the "danger zone" of +30% or higher for nine consecutive readings. More importantly, the current spread is above +40% for the first time since early February 2026.

The combination of rapidly rising bullish sentiment and very low bearish sentiment suggests that investors have become increasingly confident in the continuation of the market advance. While this does not mean that a correction is imminent, elevated optimism can leave the market more vulnerable to a sharp reversal should conditions begin to change.

What Does This Mean for Investors?

There may still be profits to be made in the days and weeks ahead. Indeed, the strength and breadth of the current advance suggest that the market could continue moving higher before experiencing a meaningful correction. However, investors should remain mindful of the conditions under which these gains are occurring, as markets can shift quickly when sentiment and positioning become stretched.

From a longer-term perspective, the technical picture remains clearly bullish. The major indices are at or near record highs, momentum is positive, and participation has broadened considerably. None of the indicators discussed above suggests that the longer-term bull market is ending.

The near-term picture, however, warrants greater caution. Investor sentiment has become increasingly bullish, the major indices are extended above important moving averages, and the market is approaching what has historically been a more difficult seasonal period. Individually, none of these factors is sufficient to signal an imminent correction. Together, however, they suggest that the market is becoming more vulnerable to profit-taking should a catalyst emerge.

Sentiment is particularly important in this context. A few days of market weakness could quickly bring bullish sentiment back toward more moderate levels without materially damaging the longer-term trend. However, when elevated optimism coincides with stretched technical conditions and the approach of the seasonally weakest period of the year, the potential for a sudden correction increases.

September has historically been the weakest month of the year for U.S. equities, although the timing of seasonal weakness varies considerably. In some years, weakness begins in late August; in others, markets remain strong well into September. Seasonality should therefore be viewed as a risk factor rather than a timing signal.

In short, the bull market remains strong, but the combination of elevated sentiment, stretched technical conditions, and less favourable seasonality argues for increased awareness of near-term downside risk.

Key Support Levels

The table below shows the percentage distance of each major index from its respective moving averages. The 10-week moving average (10wMA) provides an important measure of shorter-term support, while the 40-week moving average (40wMA) represents a more significant longer-term support level.

As the table demonstrates, the major indices currently stand, on average, approximately 8% above their respective 40wMAs. This suggests that a correction of roughly 8%, on average, could occur without necessarily compromising the longer-term technical structure of the market.

Initially, we would look to the 10wMAs as the first important areas of support during any market pullback. A retreat toward these averages would be consistent with the pattern seen throughout much of the current advance and, by itself, would not represent a significant deterioration in the technical outlook.

The 40wMAs represent the more important test of the longer-term bull market. A correction toward these levels would be more substantial but could still occur within the context of an intact primary uptrend. A sustained decline below the 40wMA, particularly if accompanied by deteriorating breadth and weakening momentum, would represent a more significant technical development and could signal that the longer-term market outlook is beginning to weaken.

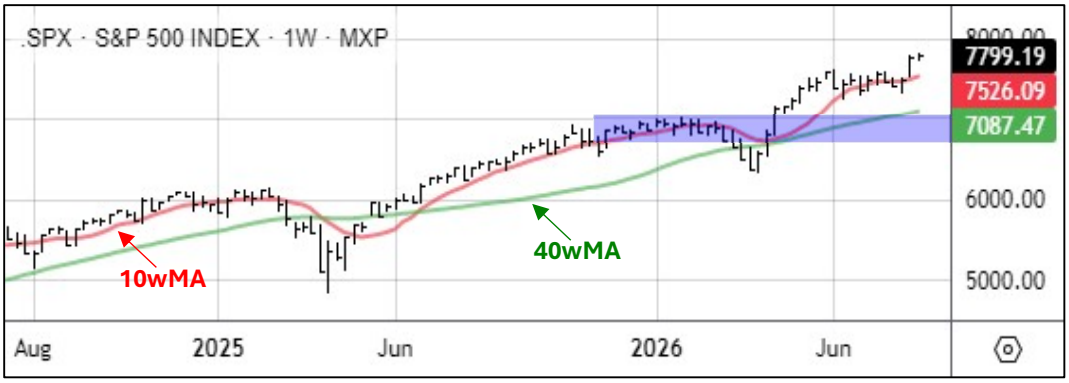
The key support levels for each index are highlighted in the charts on the following page.

Index	Recent close	50dMA	% to 50dMA	200dMA	% to 200dMA
DJI	53,770	~52,447	2.46%	~49,533	7.88%
SPX	7,749	~7,524	2.90%	~7,087	8.54%
NYSE	24,759	~23,993	3.09%	~22,912	7.46%
TSX	36,662	~35,415	3.40%	~33,460	8.73%

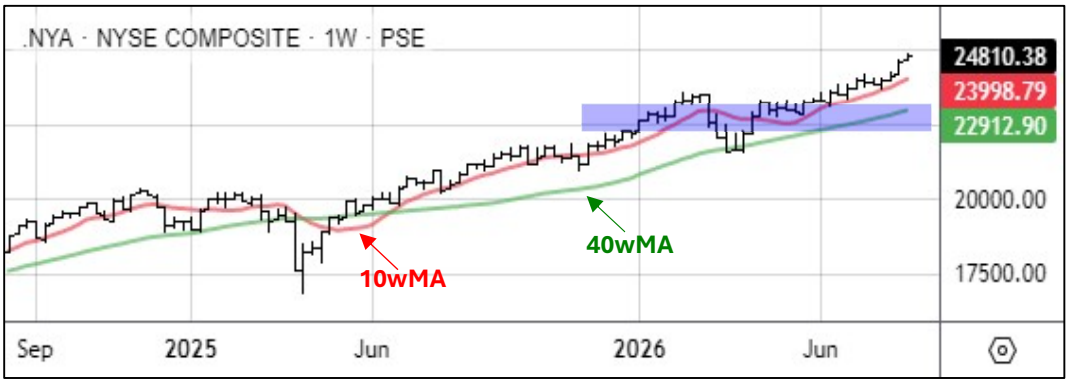
Dow Jones Industrial Average (DJI) **Weekly chart – two years**



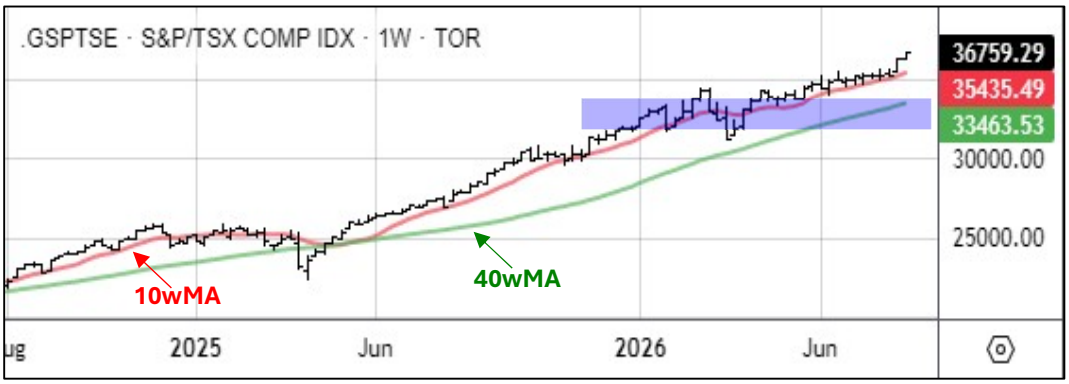
S&P 500 Index (SPX) **Weekly chart – two years**



NYSE Composite Index (NYA) **Weekly chart – two years**



S&P/TSX Composite Index (GSPTSE) **Weekly chart – two years**



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