PHASES & CYCLES®

Market Weakness Deepens, But Longer-Term Support Remains

The longer-term market uptrends remain firmly intact, but conditions beneath the surface have weakened considerably. While the major indices have proven relatively resilient so far, deteriorating momentum and breadth suggest the current weakness may have further to run, consistent with the risks highlighted in our previous two market comments.

Importantly, we continue to view the current weakness within the context of the broader bull market. A further correction toward longer-term support would not, in itself, undermine the primary uptrend and could ultimately provide the foundation for a renewed advance once the current period of weakness has run its course.

Momentum and Breadth

Last week, declining volume on the NYSE exceeded advancing volume by ratios of approximately 2:1 and 3:1 on separate occasions. Declining issues likewise outnumbered advancing issues by similar proportions, while 52-week lows outnumbered 52-week highs by as much as six to one.

The last time all three of these indicators turned decisively negative was in March 2026 and, before that, in April 2025. As the charts on the following page illustrate, the major indices subsequently declined toward their respective 40-week moving averages during both periods (points A and B). While history does not necessarily repeat, the similarity in the deterioration of these internal indicators suggests that additional weakness in the weeks ahead would not be surprising.

Investor Sentiment

Meanwhile, according to Investors Intelligence, bullish sentiment has declined considerably from its mid-August peak. At that time, bullish sentiment stood at 57.4%, bearish sentiment at 14.8%, and the bull-bear spread at 42.6%.

This week's readings show bulls at 48.1%, bears at 16.7%, and the bull-bear spread at 31.4%.

Although sentiment has weakened meaningfully, current readings remain well above the levels observed near recent significant market lows. For comparison, bullish sentiment fell to 33.3% in April 2026 and to 23.5% in May 2025. Bearish sentiment reached 31.5% in April 2026 and 35.3% in April 2025.

In other words, some of the optimism that characterized the market in August has been unwound, but sentiment has not yet reached the more pessimistic levels seen near recent correction lows. This suggests there may still be room for sentiment to deteriorate further if market weakness continues.

Charts courtesy of Workspace by LSEG

Monica Rizk

What Does This Mean for Investors?

Depending on their investment horizon, investors should prepare for additional market weakness through the remainder of September and potentially into early October.

Historically, October has tended to produce stronger market performance than September, although the transition from September into October has not always been smooth. In addition, U.S. midterm election years have historically been associated with greater market volatility and relatively weaker performance in the period leading up to the election. These historical tendencies provide additional context for the possibility of near-term weakness, but they should not be viewed as a forecast or guarantee.

From a longer-term perspective, however, the technical structure of the major indices remains intact. A correction toward longer-term support would therefore remain consistent with the broader uptrend. If the market subsequently stabilizes and momentum and breadth begin to improve, the longer-term advance could resume, potentially resulting in stronger market conditions later in the fourth quarter.

Key Support Levels

In our previous market comments, we have often noted that when the 10-week moving average (10wMA) fails to provide support, the next significant support area has often been near the 40-week moving average (40wMA).

Several major indices have now slipped below their respective 10wMAs, increasing the likelihood that their 40wMAs will become the next key technical test.

The S&P 500 continues to hold near its 10wMA. However, the S&P 500 Equal Weight Index has fallen below its 10wMA, as have several of the other major indices. This divergence once again highlights the influence that a relatively small number of heavily weighted stocks, including NVDA and AAPL, can have on the capitalization-weighted S&P 500.

As the table below demonstrates, the major indices currently stand, on average, approximately 3.5% above their respective 40wMAs. Accordingly, an additional pullback of roughly 3.5%, on average, could bring the indices back toward this key support area without necessarily compromising the market's longer-term technical structure.

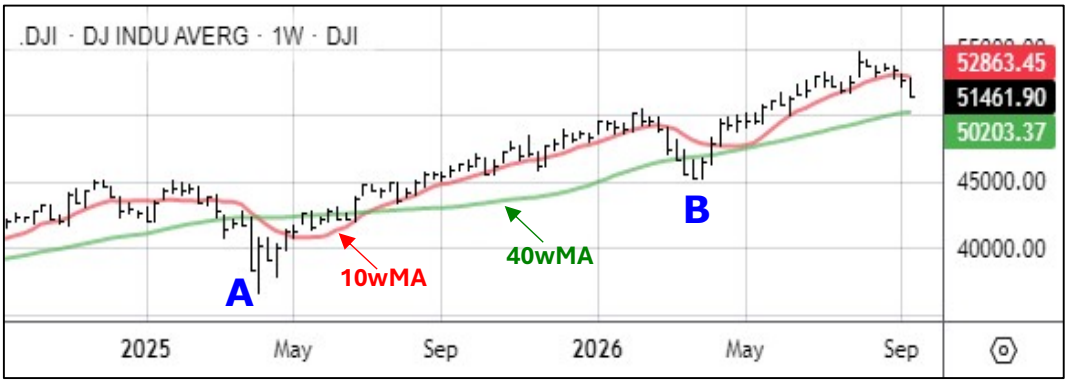
A move toward the 40wMAs would therefore represent an important test, but not necessarily a reversal of the primary trend. As we saw in March of this year and again in April 2025, periods of heightened volatility can temporarily push the major indices below their 40wMAs before they recover and resume their longer-term advances.

Consequently, even a brief break below the 40wMA would not, by itself, be sufficient to conclude that the longer-term trend has reversed. More important would be the market's subsequent behaviour: whether the indices stabilize around these levels, whether momentum and breadth begin to improve, and whether they are ultimately able to reclaim and hold above their 40wMAs.

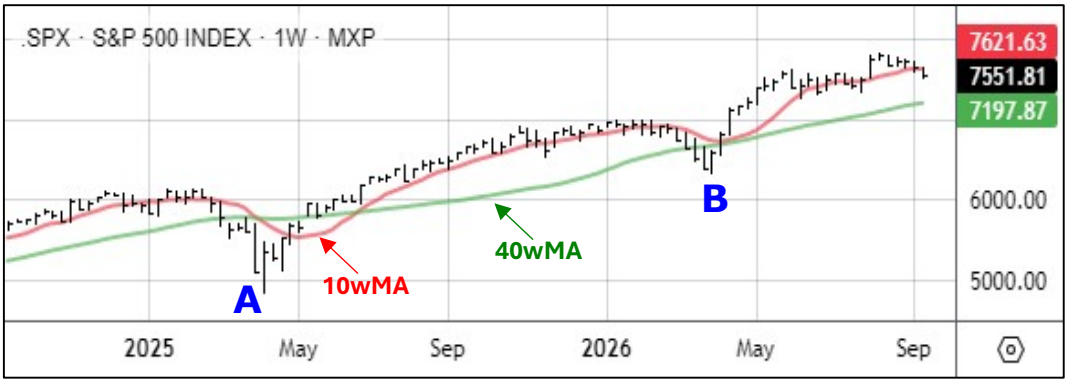
For now, the evidence points to a weakening near-term technical picture within a longer-term uptrend that remains intact. We will therefore continue to monitor the 40wMAs closely as the next important test of market support.

Index	Recent close	40wMA	% to 40wMA
DJI	51,462	~50,203	2.4%
SPX	7,552	~7,198	4.7%
NYSE	23,934	~23,261	2.8%
TSX	35,491	~34,117	3.9%

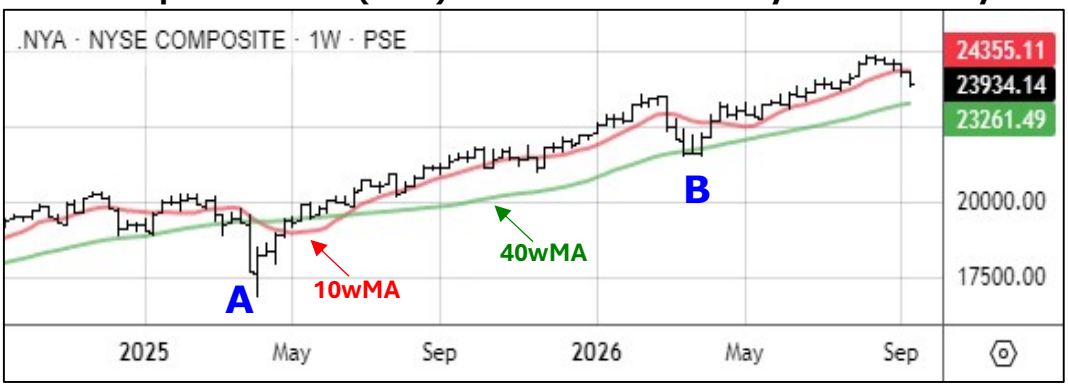
Dow Jones Industrial Average (DJI) **Weekly chart – two years**



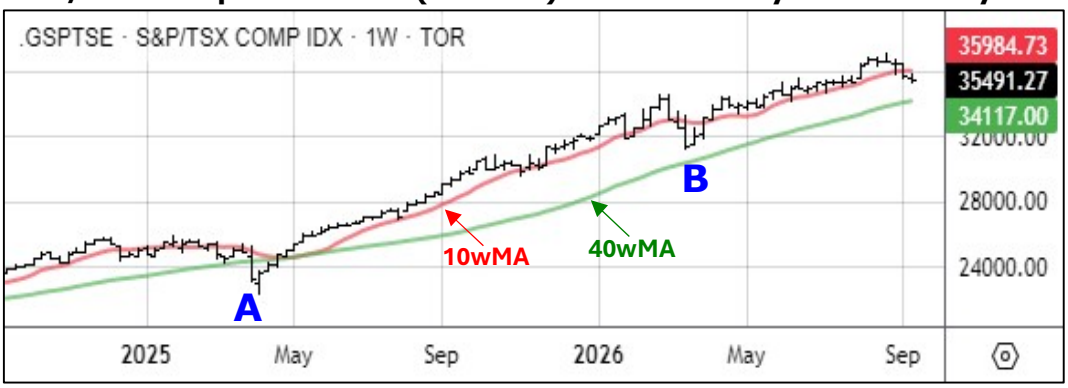
S&P 500 Index (SPX) **Weekly chart – two years**



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



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



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