

PHASES & CYCLES®

EQUITIES DEFY SEASONALITY: BULLISH MOMENTUM PERSISTS

The market's strength is unmistakable, having pushed to new all-time highs through what is typically a soft period – September and early October – despite overbought conditions and a steady stream of negative headlines. As more investors who had been anticipating a pullback turn bullish and abandon those expectations, the likelihood of a correction increases. From a contrarian perspective, markets often retreat once optimism becomes broadly accepted.

Short-term pullbacks tend to emerge quickly, as seen on October 10 when major U.S. indices dropped an average of 2.2% in a single day, testing their 10-week moving averages (10wMAs). The TSX slipped a comparatively modest 1.4%, closing at 29,850.89 – still comfortably above its 10wMA (see table below).

Index	Close Oct. 9th	Close Oct. 10th	Change
S&P 500	6,735.11	6,552.51	-2.7%
Dow Jones Industrials	46,358.42	45,479.60	-1.9%
NY Composite	21,548.26	21,096.92	-2.1%
S&P TSX Composite	30,269.98	29,850.89	-1.4%

Investor optimism reached elevated levels last week, with *Investor's Intelligence* bullish sentiment rising to 57.7% – above the 55% threshold that typically signals caution. Similarly, the *AII* survey showed 45.9% of respondents identifying as bullish, well above its long-term average of 35.7%. These readings are likely to ease following Friday's sharp market declines.

That said, several indicators point to some softening beneath the surface. Advancing-versus-declining volume has weakened, and short-term MACD divergences suggest a loss of internal strength. In addition, a 35-day cycle low is projected for late October.

Even so, the broader uptrend remains intact. Overbought conditions can persist longer than many expect, and bull markets are often punctuated by brief, sharp pullbacks before resuming higher. While a correction is possible, there is no assurance it will be deep or long-lasting. Investors might consider taking partial profits to lock in recent gains, then look to re-enter on weakness to capture renewed upside momentum. Given the still-bullish outlook into Q1 2026, pullbacks should continue to be viewed as buying opportunities.

Charts courtesy of LSEG

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Technical Perspective

In last month’s *Market Comment* (September 11, 2025 – MKT-578), we noted that a modest pullback would help relieve overbought conditions without disrupting the broader bull trend. The charts now confirm that last week’s decline – particularly the October 10 selloff – brought major U.S. indices down to their 50-day moving averages (10wMAs), where they found support and rebounded earlier this week. The 50dMAs now coincide with the July–August highs

– a prior resistance zone that may now serve as support (see dotted lines). Should prices retreat further, the 200-day moving averages are expected to provide strong secondary support.

The TSX remains comfortably above its 50-day moving average, currently near 29,000. The next key level to watch is the 50DMA near 29,900, which has yet to be tested.

