PHASES & CYCLES®

Testing Long-Term Support:
Is the Market Preparing for Its Next Advance?

September: Seasonal Weakness and a Pullback Toward Long-Term Support

September lived up to its reputation as a seasonally weak month, with most major North American equity indices retreating toward their respective 200-day moving averages (200dMAs). The notable exception was the S&P 500, which remained above its 50-day moving average (50dMA) for much of the month.

However, the relative resilience of the S&P 500 masked considerably greater weakness beneath the surface. The S&P 500 Equal Weight Index, which weights each constituent equally regardless of market capitalization, declined alongside the other major indices, moving closer to its 200dMA.

As the table below illustrates, the Dow Jones Industrial Average, NYSE Composite, and S&P 500 Equal Weight Index declined between 4% and 5% during September, compared with a relatively modest 0.4% decline in the capitalization-weighted S&P 500.

Index	Recent High	Aug. 31st Close	Sept. 30th Close	Loss in Sept.
Dow Jones Ind.	54,744	53,186	50,906	-4.3%
S&P500	7,817	7,686	7,652	-0.4%
NYSE Composite	24,867	24,462	23,491	-4.0%
S&P TSX 300	36,814	36,270	355,236	-2.9%
S&P500 Equal Weight	9,041	8,872	8,429	-5.0%

As we discussed previously, the S&P 500's heavy concentration in a relatively small number of large-cap stocks can distort the headline index's performance relative to the broader market. Strength in these heavily weighted companies, META, for example, surged from about $570 to $730 in September, even as most stocks experienced meaningful corrections.

This divergence is particularly important when assessing underlying market health. While the S&P 500 appeared relatively resilient throughout September, the broader indices underwent a much larger correction.

The charts on the final page illustrate this distinction, showing how most major indices retreated toward their respective 200dMAs while the S&P 500 remained considerably stronger.

Charts courtesy of Workspace by LSEG

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October: An Encouraging Rebound, but Resistance Lies Ahead

October began with the major indices extending their September declines, moving slightly closer to their respective 200dMAs during the first trading session. Since then, however, the markets have staged an encouraging recovery.

From their October 1 lows to their subsequent highs, the major indices have advanced between 3.0% and 3.5%, recovering a meaningful portion of their September losses. More importantly, this rebound has carried the indices back toward their respective 50dMAs, bringing an important technical test into focus.

As the table below illustrates, the S&P 500 and S&P/TSX Composite have already moved back above their 50dMAs, while the Dow Jones Industrial Average and NYSE Composite remain just below these levels.

Index	Oct. 1st low	Oct. High	Oct. Gain	50dMA	Recent Close
Dow Jones Ind.	50,547	52,317	3.5%	52,500	52,178
S&P500	7,617	7,845	3.0%	7,708	7,744
NYSE Composite	23,333	24,085	3.2%	24,255	24,067
S&P TSX 300	34,938	36,143	3.4%	36,045	36,137

This is an encouraging development, but it is too early to conclude that the correction has run its course.

The 50dMAs now represent an important dividing line between a temporary rebound within an ongoing correction and the potential resumption of the longer-term uptrend. A sustained move above these averages, particularly if accompanied by improving market breadth, would initially indicate that upward momentum is returning.

Conversely, if the indices encounter resistance at their 50dMAs and turn lower, another test of the recent lows would become increasingly likely.

With the US midterm elections approaching, we would not be surprised to see volatility persist in the coming weeks, potentially extending beyond the elections themselves.

Momentum and Market Breadth: Early Signs of Improvement

Market breadth is showing encouraging signs after the substantial deterioration in September.

Although the number of stocks reaching new 52-week lows continues to exceed the number reaching new highs, both advancing issues and advancing volume on the NYSE have begun to improve.

Since the beginning of October, advancing volume has increasingly exceeded declining volume, reaching ratios of approximately 2:1 on October 6 and 8. This suggests that buying interest is beginning to broaden and that the recent recovery is not being driven exclusively by a handful of heavily weighted stocks.

Equally important, the September correction has substantially reduced the overbought conditions that characterized the market in mid-August.

At that time, approximately 58% to 59% of NYSE stocks were trading above their respective 10-week and 30-week moving averages (10wMA and 30wMA). By September 30, those readings had declined sharply, with just 20.74% of stocks above their 10wMAs and 32.03% above their 30wMAs.

These levels are comparable to those last observed in April, indicating that a substantial portion of the market's earlier overextension has been worked off.

This is a potentially constructive development. Markets rarely advance indefinitely without periods of consolidation or correction, and the retreat toward longer-term support has helped bring prices and moving averages back into closer alignment.

However, the improvement in breadth remains preliminary. While the recent increase in advancing issues and volume suggests that selling pressure may be easing, a more sustained expansion in participation will be needed to confirm that the broader market is regaining strength.

In particular, we would like to see the number of stocks reaching new 52-week highs begin to exceed those reaching new lows, accompanied by an increasing percentage of stocks recovering above their shorter-term moving averages.

Such developments would strengthen the case that the September correction has laid the groundwork for another sustained advance.

Investor Sentiment: Optimism Remains Elevated

Investor sentiment presents a somewhat less encouraging picture.

According to Investors Intelligence, bullish sentiment currently stands at 55.5%, while bearish sentiment remains relatively low at 16.7%. This leaves the bull-bear spread at a substantial 38.8 percentage points, suggesting that optimism remains elevated despite the September correction.

Ordinarily, a meaningful market correction is accompanied by a noticeable deterioration in investor confidence. Although prices have retreated and technical conditions have become considerably less extended, sentiment has not reset in a comparable way.

This raises the possibility that the market may require additional time, or perhaps another bout of weakness, before a more durable advance can develop.

However, investor sentiment does not necessarily need to reach extreme bearish levels before markets can resume their upward trajectory.

For perspective, during the April 2025 correction, bullish sentiment declined to just 23.5%, while bearish sentiment climbed to 35.3%. Those readings reflected a much more pronounced shift toward pessimism than we have witnessed during the current correction.

Yet such extremes are not a prerequisite for a market recovery.

We need only look back to June, when bullish sentiment stood at 48.2% and bearish sentiment at 22.2%. The market subsequently advanced substantially without first experiencing the extreme pessimism recorded in April 2025.

This suggests that a more moderate decline in investor optimism may be enough to restore a healthier balance between confidence and risk.

Nevertheless, with bullish sentiment still relatively elevated, the market remains vulnerable to renewed selling pressure should the current recovery falter.

Market Outlook: Long-Term Support Remains the Key

Despite the September correction, the longer-term technical outlook remains constructive.

The major indices have retreated toward important long-term support levels and, thus far, have generally held above their respective 200dMAs. This suggests that the recent weakness may represent a correction within an ongoing bull market rather than the beginning of a more significant deterioration in the longer-term trend.

At the same time, the October rebound has brought the indices back toward their 50dMAs, setting the stage for an important technical test.

Two broad possibilities remain in the weeks ahead.

The first is that the September correction has already built a strong enough foundation for the next advance. Under this scenario, the major indices would continue to recover, moving decisively above their 50dMAs as momentum and market breadth improve. A subsequent move above the previous highs would provide stronger confirmation that the longer-term uptrend has resumed.

The second possibility is that the current rebound represents an interim recovery within a correction that has further to run. In this case, the 50dMAs could act as resistance, prompting another retreat toward the October lows and the underlying 200dMAs.

We would not necessarily view such a development as negative, provided the longer-term support structure remains intact.

Indeed, another test of the recent lows, or even a brief decline below the 200dMAs, could contribute to a more meaningful reset in investor sentiment and help establish a firmer foundation for the next sustained advance.

The distinction would be whether any break below support proves temporary or develops into a sustained deterioration in the longer-term trend.

A brief violation followed by a decisive recovery would be considerably less concerning than a prolonged decline below the 200dMAs, particularly if accompanied by renewed weakness in market breadth.

Key Technical Levels to Watch

The charts on the following page highlight three important technical reference points:

- ***200-day moving averages:*** These remain the principal long-term support levels. A successful retest would reinforce the constructive outlook, while a sustained break below them would suggest that the correction is becoming more serious.
- ***50-day moving averages***: These represent the immediate technical hurdle. A sustained recovery above these averages would signal improving momentum and provide an initial indication that the longer-term uptrend may be resuming.
- ***Previous highs:*** A decisive advance above the prior highs, supported by improving breadth, would provide stronger confirmation that the correction has ended and a new upward leg is underway.

The interaction between these levels should provide valuable insight into the market's direction over the coming weeks.

Conclusion: A Constructive Correction, but Confirmation Is Still Needed

For now, the evidence suggests the September decline may be evolving into a constructive consolidation within the longer-term bull market.

The major indices have generally respected their long-term support levels, the correction has substantially reduced previously overbought technical conditions, and the October rebound has been accompanied by early signs of improving market breadth.

These are encouraging developments. However, the recovery remains incomplete. Bullish sentiment is still relatively elevated, several major indices have yet to reclaim their 50dMAs, and the approaching US midterm elections could contribute to continued volatility.

We therefore remain constructive on the longer-term outlook while recognizing that the market may require additional consolidation before the next sustained advance develops.

A decisive recovery above the 50dMAs, accompanied by improving breadth, would strengthen the case that the correction has run its course. Conversely, another retreat toward the October lows would not necessarily undermine the longer-term outlook, provided the major indices continue to demonstrate support near their 200dMAs.

The next several weeks should help determine whether the current rebound marks the beginning of the next advance or whether the market requires one final test of long-term support before the uptrend can resume.

Daily Charts – One year



DJI
Support:
50,000-50,500
50dMA:
52,500
Previous high:
54,744



SPX
Support:
7,200-7,250
50dMA:
7,708
Previous high:
7,845



NYA
Support:
23,150-23,300
50dMA:
24,255
Previous high:
24,866



TSX
Support:
34,000-34,500
50dMA:
36,045
Previous high:
37,069