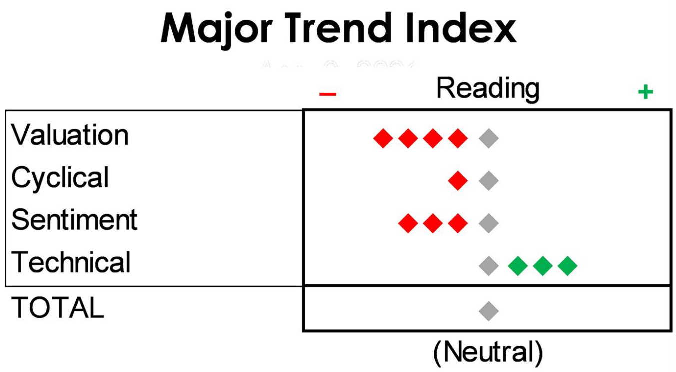
MAJOR TREND INDEX

quant assessment of stock market health

Prepared by Phil Segner

Report date: July 27, 2026
Data for the week ending July 24, 2026



Cry Wolf Valuations

Earnings reports with ever-ballooning capex figures from Google and Tesla were not well received last week. Declines from those two firms led to the worst daily drop in the Mag 7 (-4.6%) since the tariff rollout in April 2025. Since last Halloween, the Mag 7 complex has been anything but magnificent, underperforming the average S&P 500 stock by roughly 20%.

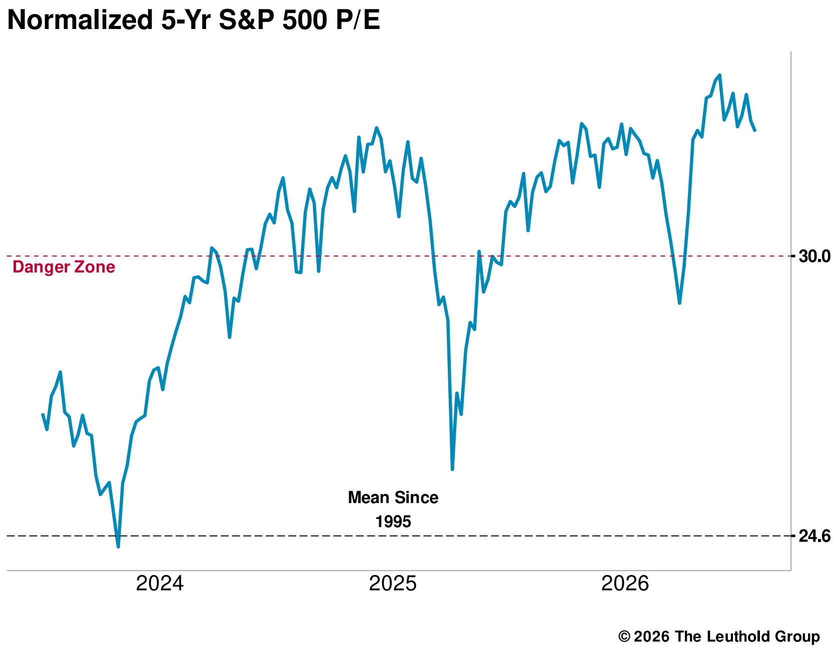
Adding to the recent theme, other areas of the market were resilient in the face of turbulence, and the cap-weighted S&P 500 posted a modest weekly loss. The index finished Friday almost perfectly centered within its 5% trading range of the past 50 sessions.

The broad market's sideways grind has coincided with earnings growth that remains hotter than a Canadian wildfire. That combination has led to a few upgrades in our Valuation work, which is on the brink of a promotion from its seemingly permanently awful state (-4). The MTI continues to score Neutral based on data for the third full week of July. Net equity exposure in Leuthold tactical accounts stands at a moderate 54%.

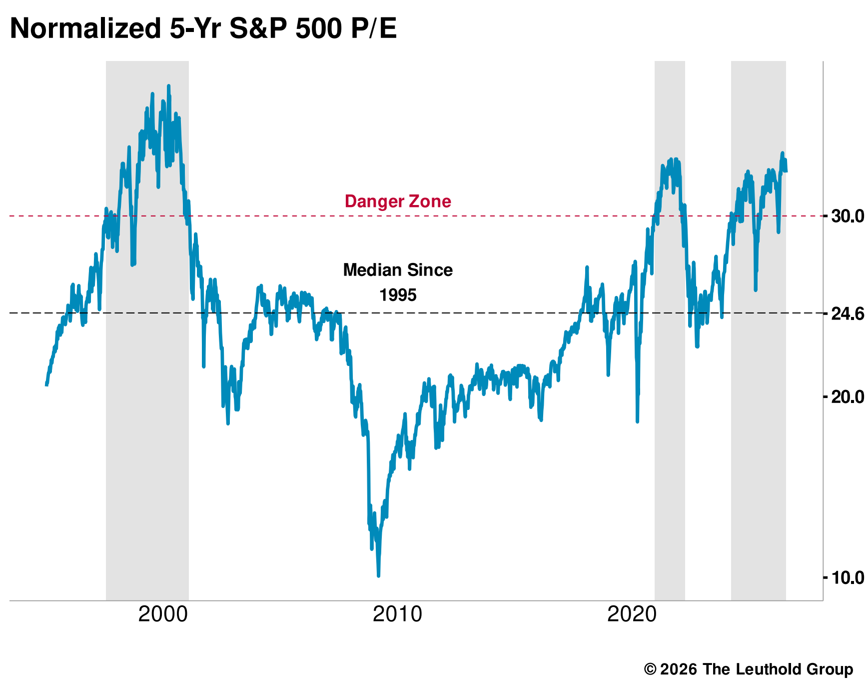
Oil and interest rates continued their July climb. Spot crude has now gained 26% month-to-date, while the 10-year Treasury yield has risen 25 basis points. Since the end of February, the 10-year yield has tacked on more than 70 bps while the two-year note has increased more than 90 bps. This market tightening among the Cyclical measures will soon be joined by a higher fed funds rate, possibly as soon as Wednesday. Hope for a traditionally favorable market backdrop with low price pressures and increasing liquidity seems distant.

Despite the aforementioned recent improvements, the lightly weighted Valuation category has little chance of becoming additive to the overall MTI anytime soon. Back in March 2024, we noted that our favorite valuation measure for the S&P 500—the five-year normalized P/E ratio—was inching ever so close to 30x. Prior to then, that nice round number had been breached only twice before and, with the benefit of hindsight, made the Tech and Covid-stimulus bubbles seem obvious. Sure enough, just a few months later, we entered that valuation danger zone and have pretty much stayed there ever since… 26 months and counting.

Anyone who jumped ship at that 30x level in 2024 missed the second half (to date) of the current bull market—nearly +50%. The strength in underlying fundamentals from that breach point has been phenomenal. The 15% annualized gain in our staid Normalized EPS estimate over this span is exactly double the 30-year average of +7.5%. This has kept the S&P 500 Normalized P/E multiple very high, but range-bound.



It's a cliché that valuations aren't timing tools, but they are a very good gauge of risk. The current "Cry Wolf" environment will eventually be validated, much like the unprecedented 36-month run of 30x Normalized P/E ratios that finally ended in 2001. Technical breakdowns will be weighed with that elevated risk profile in mind.



The Major Trend Index is designed to recognize major market trends rather than intermediate moves, combining around 130 individual components to assess the overall health of the stock market. Revisions and weight adjustments are made from time to time.