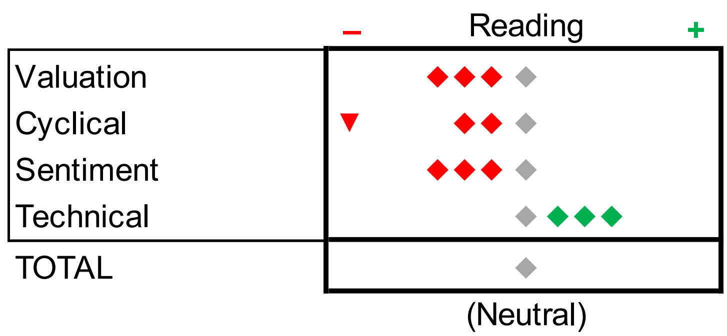
MAJOR TREND INDEX

quant assessment of stock market health

Prepared by Phil Segner

Report date: September 8, 2026
Data for the week ending September 4, 2026

Major Trend Index



Cyclical Backdrop Weakens

September started on a quiet note for the market, as minds seem focused on beaches, lakes, and the start of school. Most major indexes were marginally higher for the week, with the one exception being the average stock in the S&P 500 (-80bps). This continued the recent rough patch for breadth among Large Caps.

Month-end data dumps led to some interesting changes in our Cyclical work, most notably the heavily weighted Fed Liquidity Index. That line item keeps a bead on how much cash is sloshing around in the banking system. It takes the Fed's total assets and subtracts the two big places cash gets locked away: the Treasury's checking account and the reverse repo facility. Thanks to a flattened Fed balance sheet, cash has been siphoned out of the banking system faster than it's being replenished—roughly 2%, or $115 billion over the last three months. Concurrent downgrades in other areas of the Cyclical space, like our ISM Price Indexes and the Lumber/Gold Oscillator, played a smaller role in the decision to demote the overall category to -2.

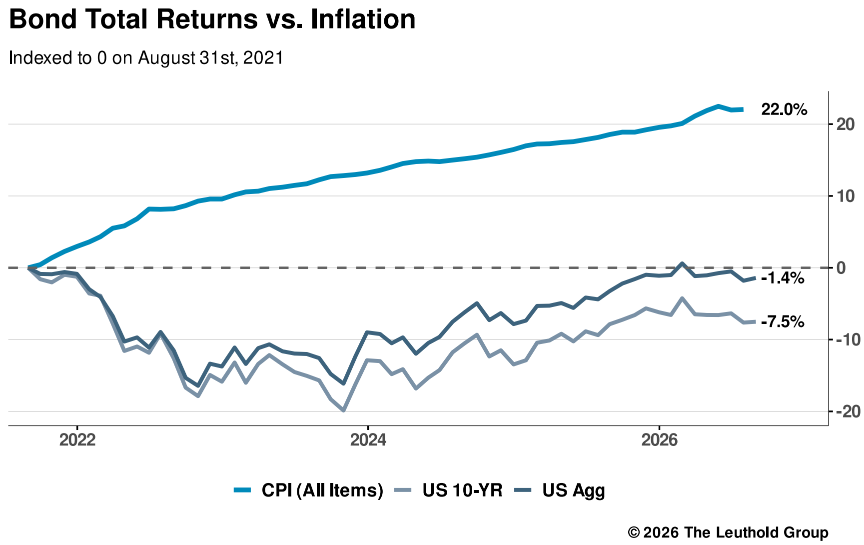
A few weeks ago, we seemed primed for a potential upgrade in our Major Trend composite. With the weakening score in Cyclicals, the balance seems to have shifted in the other direction. For now, the MTI composite score remains at Neutral, and net equity exposure in Leuthold tactical accounts is a moderate 56%.

Our Sentiment category starts September with a score of -3, suggesting optimism and complacency are still high—not a surprising observation given this year's solid equity returns. Last month's consumer surveys leaned optimistic on the "present situation" and remained very bullish on the stock market outlook, leading to a few downgrades in those contrarian gauges. Our option-based signals were muted last month as the VIX® ratio continued to hover around its one-year low (registered in July). Despite the recent bond market turmoil, the MOVE Bond Volatility Index has matched the VIX by remaining range-bound at a surprisingly low level.

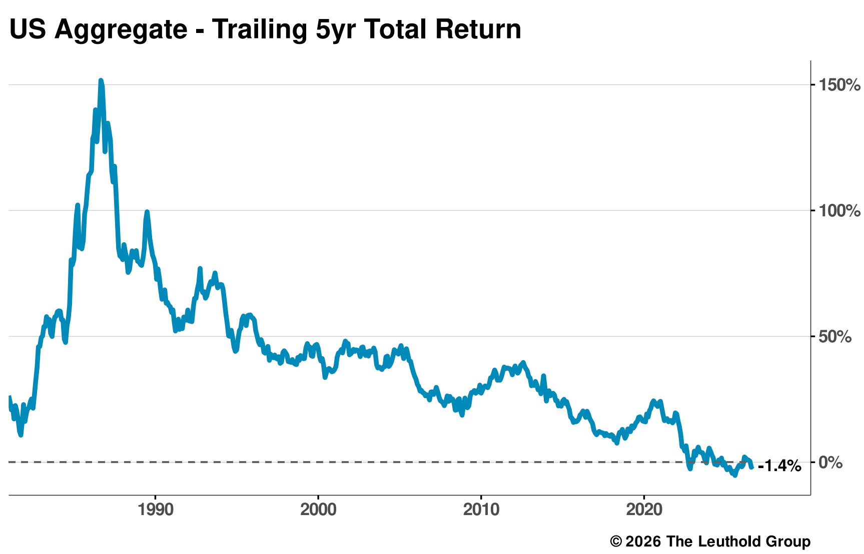
Treasury rates continued to march higher last week. Upward pressure has been most evident in two- and five-year notes, both of which have tacked on 20bps in yield over the last three weeks. We've written quite a bit about the drag that higher rates have on Valuations, areas of the Cyclical work, and even the Technical category. Overall, the trend and level of yields have made us less willing to walk further out on the equity exposure plank within our safety-first strategies. While we're wringing our hands about the potential risks in equities, bond investors are incredibly familiar with the risks that come along with higher rates.

Cyclical Backdrop Weakens

If you remember five years ago, one had the opportunity to lend the government money for 10 years at a rate of 1.3% (up from 50bps a year earlier!). Since then, the Bloomberg 10-year Treasury Index has declined more than 7%. That means, in real terms, investors have lost nearly 30% of their spending power holding a "risk-free" Treasury.



The Bloomberg U.S. Agg is only slightly better over the last five years, posting a total return of -1%. This "re-normalization" of rates off the COVID low has produced the worst five-year-rolling bond returns since the Carter administration. Going forward, the math of current higher yields will offer much more downside protection for bonds, increasing their defensive value within diversified portfolios.



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.