

A Change in Character Has Taken Place

Building on a hard reversal the week before, the market followed through with a big gain last week and changed the character of the market.

Breadth hinted at a turn. The market plunged to a lower low, but many breadth readings refused to move lower. The 5 and 10-day moving averages of the AD line were trending higher. Stocks above key moving averages put in a higher low. The high-low on various lookback periods did not drop below previous lows. The S&P and Nasdaq moved lower, but many individual stocks were quietly basing and refusing to go lower. The market was telling us something. We were warned that despite sentiment being terrible and Trump threatening to end the Iranian civilization, Wall Street was at peace. It wasn't overly worried. It was done selling stocks. And with that, the market bottomed.

There was a huge gap and run off the low that ended up being the biggest up day since last May. Then, after a few pause days, there was another giant gap that turned into the second-biggest up day. And the up days continued. We got a robust move off the low. Then we got follow through. First, it was a couple consecutive up days. Then it was five days. Then six. Then seven. And on Friday, the eighth consecutive up day was recorded. Each day a new study triggered that pointed to higher odds of 2026 being a good year. Here are a few.

On Wednesday, the S&P posted a 6th straight up day. Over the last 20 years, the market has posted a 6-day win streak at some point during the year 16 times and failed to post such a streak 4 times. Of the 16, the market posted a gain 15 times. Of the 4 that didn't contain a streak, all four posted a loss for the year. It's a filter. Long win streaks are characteristic of good markets.

When it takes greater than 40 days for the S&P 500 to drop 5%, the market has never moved into a bear market, which is a 20% drop. This year it took 50 days to drop 5%. The idea is, when the market is in bad shape, it falls fast. When it's "not that bad," it drops slowly. A majority of slow-to-develop 5% pullbacks stayed in the mild 5–10% range, with some growing into 10–20% corrections, but none escalated to bear territory. So, the speed of the initial drop is filter, separating normal pullbacks from when real trouble is brewing.

As of Thursday's close, the S&P had posted a 7-day win streak and was up more than 7%. Since 1950, after similar streaks, the S&P posted the following gains: Up 100% of the time two weeks later with an average gain of 2.5%; up 89% of the time one month later with an average gain of 4.4%; and up 78% of

the time three months later with an average gain of 10.2%. More than half of the 3-month gains were greater than 10%.

Building on the 7-day win streak and referencing the 6-day streak above, of the last 20 times a year has contained a 7-day win streak, the market posted a gain for the year 19 times, with an average gain of 18.8%. Long win streaks simply do not happen when the market is in bad shape.

As of Friday's close, the S&P had posted an 8-day win streak and was up more than 9%. In the past, when looking out a week, a month and two months, the market is mostly up. In fact, two months later, the market has never been down.

One more. Also, as of Friday's close, the market had posted back-to-back 3% up weeks. Going back to 1950, this has happened 16 times. One and three months later, the market was up more than 80% of the time, and the average gains were significantly more than the "all years" data.

The sum of these studies tells us 2026 is likely to be a good year. There are no guarantees - just historical tendency pointing up.

Long win streaks typically only take place during good years.

Big gains in short periods of time also filter out bear markets.

And slow grinding drifts down are characteristic of pullbacks within up trends, not the beginning of downtrends.

The vertical move off the late-March low likely ended the downtrend. Unless there is no peace agreement between the US and Iran, the market is not going back to the lows. At least not now. If inflation has a second surge and the jobs market deteriorates, other factors will come into play. But for now, the worst is probably behind us.

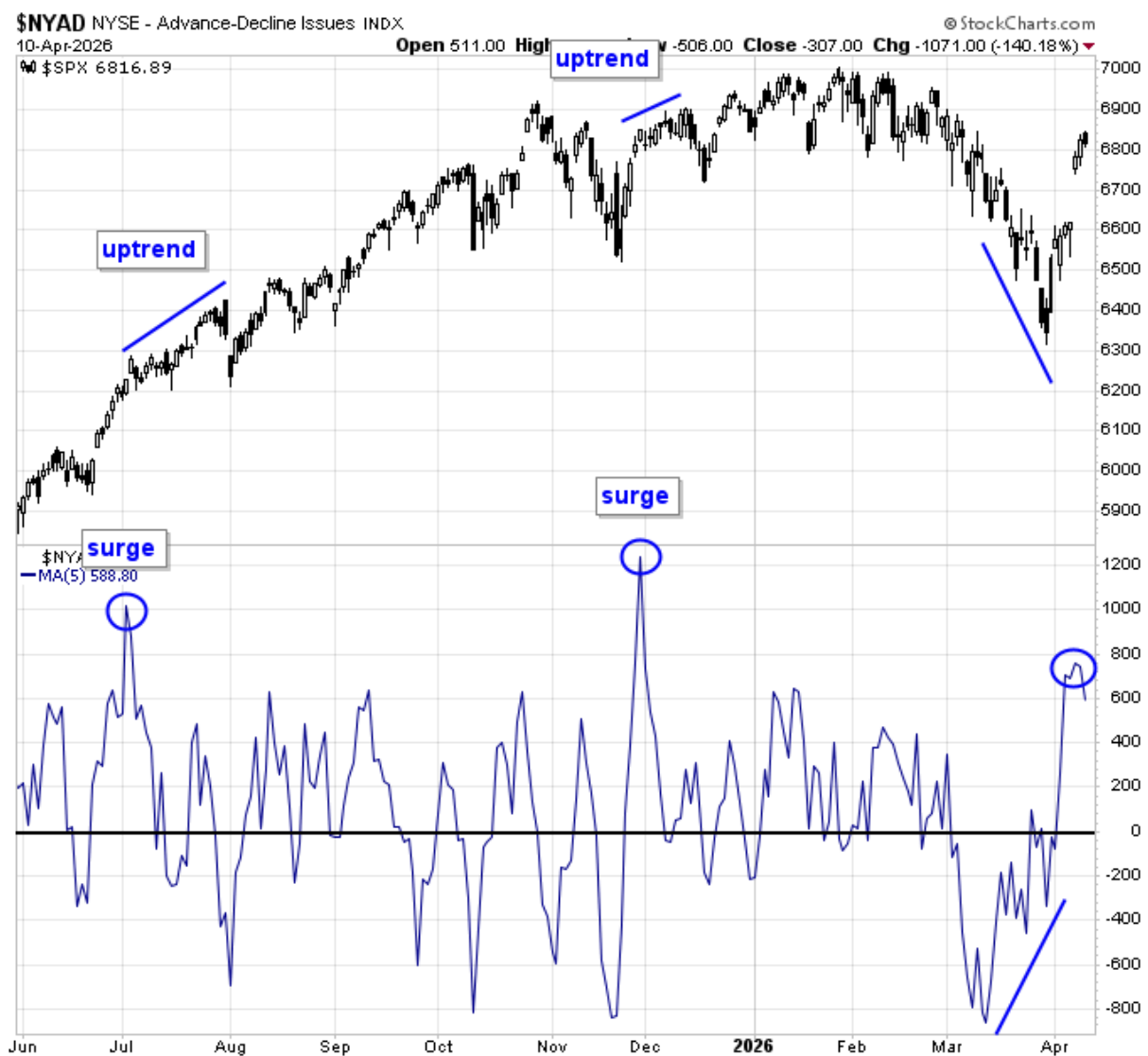
This doesn't mean throw all caution to the wind at get long. Far from it. After such a vertical move, our risk/reward for new trades is not good. But it does mean we can focus more on buying dips and holding for more than a day or two. We can open up a little and trade under the assumption the market will do moderately well looking out a month and longer.

Advance-Decline Data

S&P 500 vs 5-day MA of the NYSE AD Line: The first positive divergence between the S&P and the 5-day of the AD line was ignored by the market, but we kept tracking it. The second put in a bottom. Now we have a vertical move in the market and the highest AD print of the year.

The surge into July 2025 was followed by an up-trending market for the following month. An August flush was short-term; the market trended up after that.

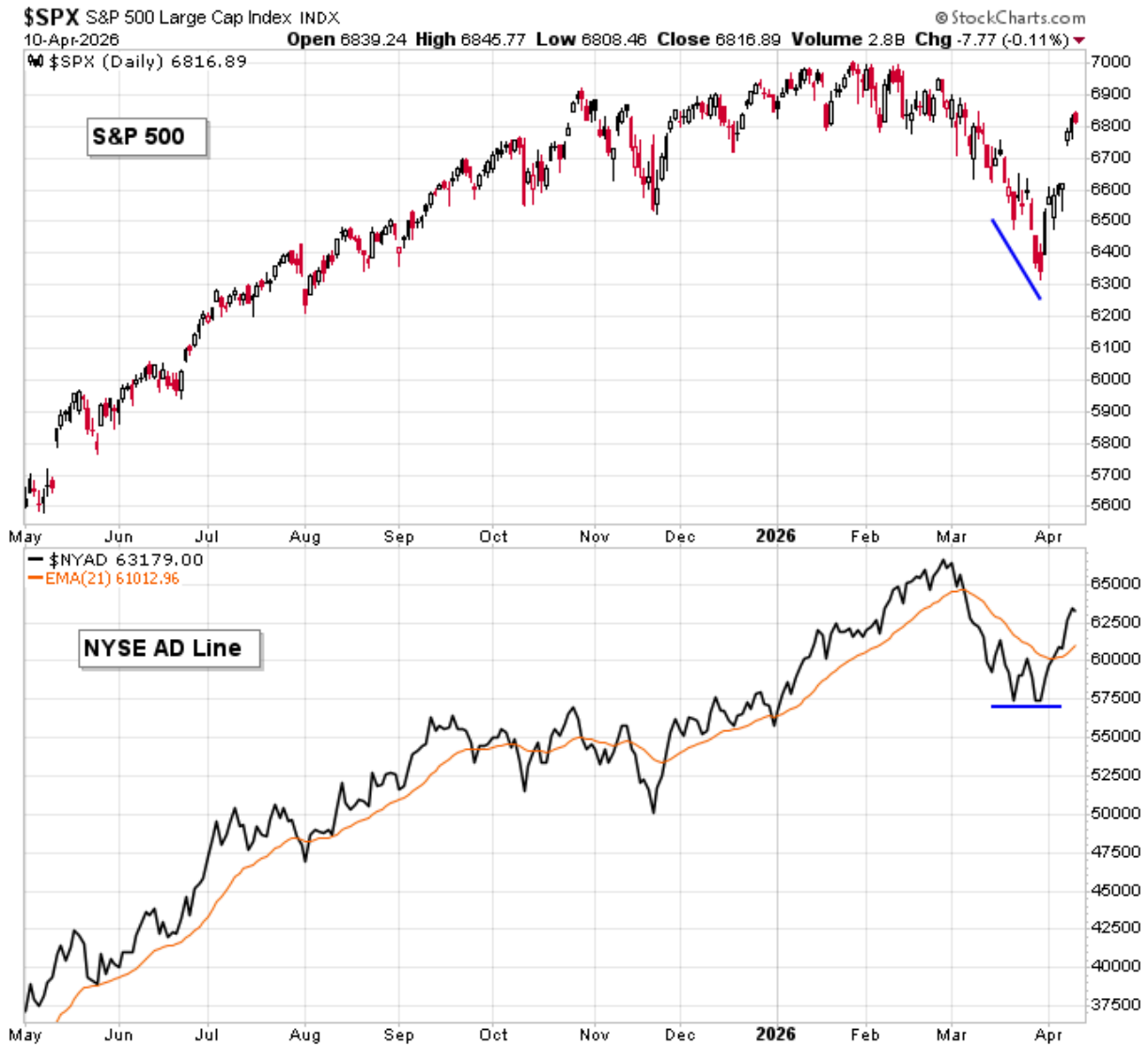
The surge at the end of November was followed by a grind higher for two weeks. A quick flush in mid December reversed, and several higher highs were printed the following six weeks.



S&P 500 vs 10, 20 and 50-day MA of the NYSE AD Line: Like the 5-day, the 10-day put in a positive divergence and then rallied hard. It's now well above zero. The 20-day has gone from a 52-week low to being above zero for the first time in a month. The 50 is also above zero. Advancers have dominated decliners since the market bottomed. Participation has been very good. The market is not being dragged higher by a small number of stocks. Breadth is broad based.



S&P 500 vs Cumulative NYSE AD Line: The cumulative AD line doubled and then surged above two previous highs and above its 21-day EMA. As long as the moving average holds, the market should be in good shape.

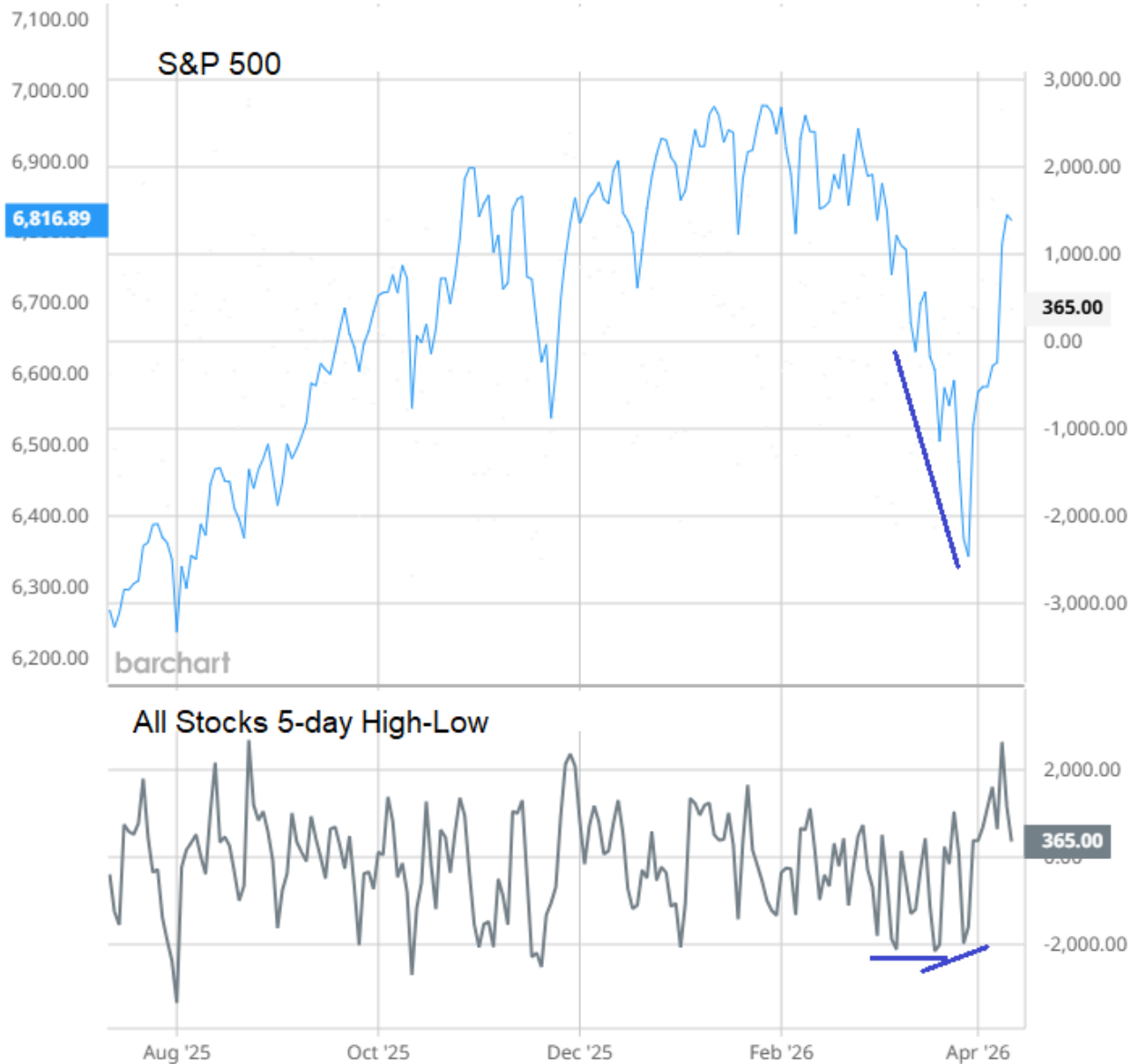


S&P 500 vs 10-day EMA of Advancers vs Total Stocks: We are not going to get a Zweig Breadth Thrust (that's when this indicator goes from 40% to 61.5% in ten days), but we still got a surge to a 9-month high.



New Highs and New Lows

S&P 500 vs All Stocks 5-day High-Low: The 5-day high-low didn't just move to its highest level since the end of November, it stayed elevated this entire month. It wasn't a quick pump and dump. Stocks printed new highs...and then did it again and again.



S&P 500 vs All Stocks 1-month High-Low: The 1-month high-low tested previous lows several times before forming a positive divergence. The market dropped to a new low, but the number of stocks printing new lows declined. It was a subtle hint. Then we got a ramp up and one of the highest prints of the last year. The current bounce is well supported.



S&P 500 vs All Stocks 3-month High-Low: The 3-month high-low put in lower highs for two months and then formed a positive divergence. The signs were there. The market wasn't in great shape, but it was getting less bad. Now we have positive prints. If these can hold, the market should be in decent shape.

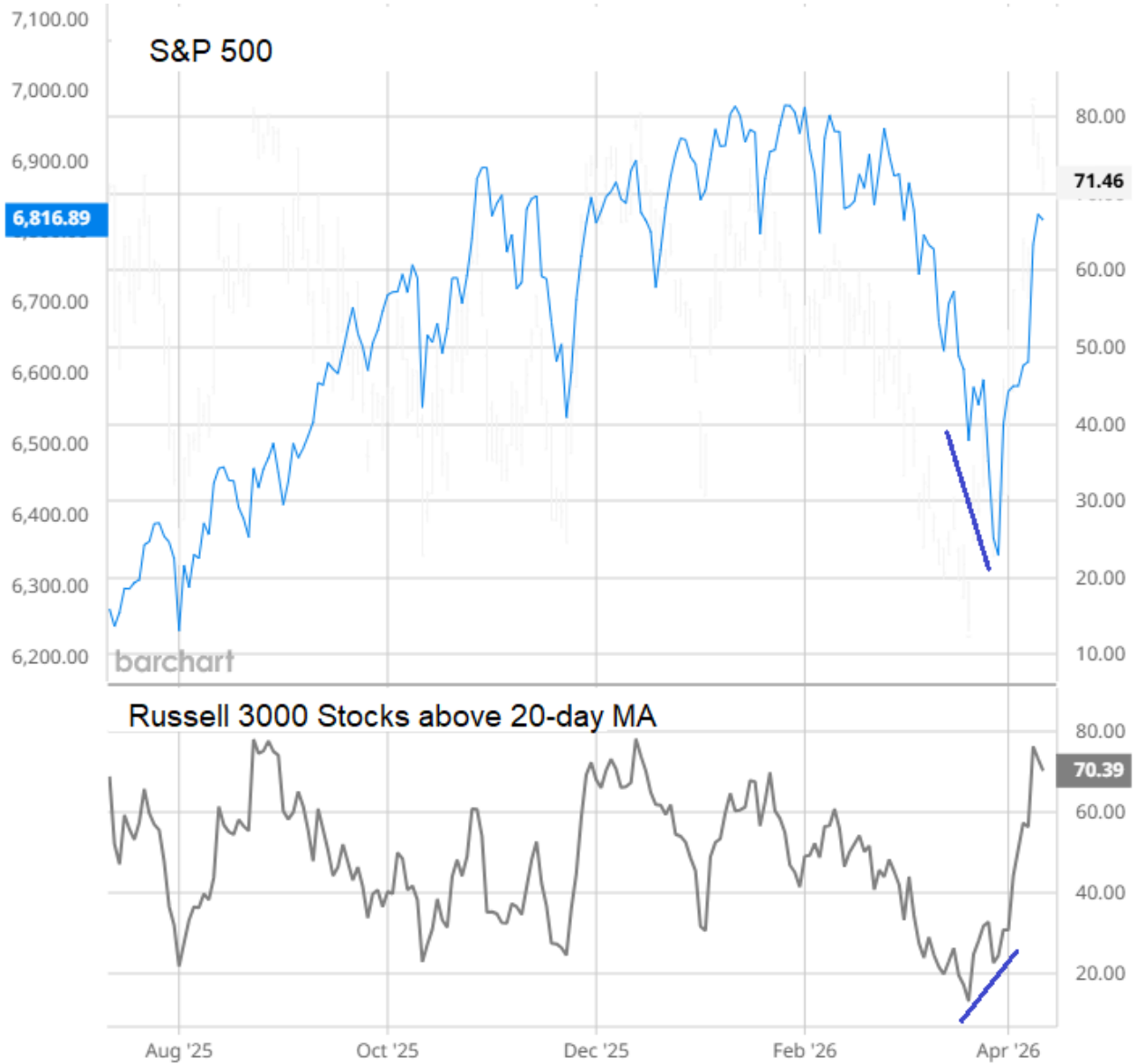


S&P 500 vs All Stocks 52-week High-Low: The 52-week high-low print grinded lower in a channel for two months and then quickly reversed. Steady prints between zero and 200 have support uptrends in the past.



Stocks Above Moving Averages

S&P 500 vs Russell 3000 Stocks above Their 20-day Moving Averages: Stocks above their 20's formed an obvious positive divergence at the lows and then surged above 70%. Participation has been very good. Many stocks bounced hard.



S&P 500 vs Russell 3000 Stocks above Their 50-day Moving Averages: Stocks above their 50's also put in a positive divergence and then sprinted up above 50%.



The situation in the Middle East can change quickly. Bad news can hit at any time. We can't get lazy managing positions. Before you enter any position, know where your stop is and being okay with it. The market is not "in the clear."

Bias remains to the upside. If the market can resist falling back much, a move to the highs is in order.

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