

Market Outlook: Solid Gains, Subtle Cracks Beneath the Surface

While 2025 has been a strong year for U.S. equities, it was not without turbulence. After sharp swings and a notable correction in March and early April—driven by tariff-related jitters, the market recovered well. The S&P 500 gained 16.87%, the Nasdaq advanced 20%, and even lagging small cap stocks, represented by Russell 2000, finished 13.76%.

That said, near-term warning signs are beginning to emerge.

Holiday Price Action Signals Caution

Market behavior during the shortened Christmas and New Year trading weeks was noticeably shaky. The Nasdaq reversed lower and closed below its 50-day EMA, while the S&P 500 tested its 20-day EMA and struggled to break above recent highs. These technical developments suggest weakening momentum rather than renewed upside acceleration.

Short-Term Risks That Are Hard to Ignore

Despite our long-term bullish stance, several short-term signals warrant attention:

Rising distribution days: Over the past month, major indices have experienced an increasing number of distribution days—sessions where prices decline on higher volume—often an early sign of institutional selling.

Seasonality risk approaching: According to research by Tom Bowley (earningsbeats.com), historically, the most bullish period for the S&P 500 over the past 75 years has been October 27 through January 18. In 66 of those 75 years, the index closed this window above its October 26 close. Importantly, in 6 of the remaining 9 years, the market ended the following year in the red. At present, the S&P 500 is struggling to decisively clear its October 27 high near 6,920, which raises concern as this seasonal window nears its end.

Defensive rotation underway: The ratio of Consumer Discretionary to Consumer Staples (XLY: XLP) continues to make lower highs and lower lows. This indicates investors are gradually shifting away from risk-on sectors toward more defensive positioning.

Narrow leadership in tech: While semiconductor stocks rallied recently on AI-related news out of China—boosting names such as TSM, MU, and ASML—former leaders like Nvidia and Broadcom continue to struggle. Meanwhile, the software sector remains under pressure, with the Dow Jones U.S. Software Index hovering near recent lows.

Crypto weakness as a risk signal: Cryptocurrencies, particularly Bitcoin, have been stuck below their 200-day EMA for an extended period. Over the past decade, Bitcoin has often peaked ahead of the S&P 500. If this relationship holds, current crypto weakness may reflect broader investor hesitation toward riskier assets, with capital rotating toward alternatives such as gold and defensive sectors.

Presidential cycle headwinds: 2026 is a U.S. midterm election year, historically the weakest year of the presidential cycle. On average, the S&P 500 finished the second year of the cycle higher only 53% of the time, with a modest average gain of 4.6%.

What This Likely Means Going Forward?

Traditionally, bullish momentum persists through January 18, supported by the Santa rally and holiday optimism, before giving way to consolidation. This time, however, stocks are less correlated, leadership is narrowing, and there has been no major drawdown to act as a launchpad for another strong leg higher, unlike in 2023 or the April 2025 pullback.

As a result, another high gain appears unlikely (although Wall Street strategists are calling for a fourth consecutive winning year for the S&P 500). A more realistic expectation is a choppy, range-bound environment, with the S&P 500 facing a rougher cycle—or potentially modest losses—if broader conditions deteriorate further. While a full-fledged bear market is not our base case, the path forward may be far less forgiving than the headline gains of 2025 suggest.

Performance of major markets during last one week and the month is as follows:

Market Scorecard

Ticker	Last Day	Weekly	Monthly	YTD	1 Yr
S&P 500	0.19%	-1.03%	0.43%	0.19%	16.87%
Nasdaq Composite	-0.03%	-1.52%	-0.76%	-0.03%	20.51%
Nasdaq 100	-0.17%	-1.71%	-1.37%	-0.17%	20.17%
Dow Jones Ind	0.66%	-0.67%	1.91%	0.66%	14.13%
Russell 2000	+1.06%	-1.05%	1.81%	+1.06%	13.76%

Sector Pulse

S&P 500 Sector	Weekly Monthly	
Consumer Cyclical (XLY)	-3.03%	+0.31%
Healthcare (XLV)	-0.35%	+1.17%
Basic Materials (XLB)	+0.02%	+4.92%
Consumer Defensive (XLP)	-0.69%	-0.58%
Financial Services (XLF)	-1.24%	+4.32%
Communication Services (XLC)	-0.91%	+1.78%
Utilities (XLU)	+0.94%	-0.99%
Real Estate (XLRE)	-0.35%	-0.41%
Industrials (XLI)	+0.49%	+3.77%
Technology (XLK)	-1.52%	-0.09%
Energy (XLE)	+3.28%	+2.15%

Sector Spotlight

Market action shifted meaningfully this week, offering a noticeably different setup compared to the prior period. Leadership rotated away from aggressive, growth-oriented sectors such as Discretionary, Technology, and Communication Services, while defensive groups—including Utilities, Healthcare, and Consumer Staples—held firm or posted modest gains. The change in leadership suggests a more cautious posture from investors rather than broad-based risk appetite.

Industrials were a relative outlier, showing resilience amid broader rotation. Strength was driven primarily by Aerospace & Defense, supported by renewed government contracts across defense and aviation-related companies. Boeing advanced 5.2% on the week, while General Electric—our pick from last week—gained 1.9%. Airlines also contributed to the sector’s performance, helping Industrials outperform despite the overall defensive tilt in the market.

Healthcare reclaimed its 20-day EMA as medical equipment, medical services, and pharmaceutical stocks continued to consolidate recent gains. While the technical improvement is constructive, follow-through will be important to confirm renewed upside momentum. Financials declined 1.2% for the week, led lower by Visa and Mastercard, each falling more than 2%. In addition to routine profit-taking, investor concerns are growing around large retailers, including Walmart, exploring alternative payment systems such as stablecoins—an emerging risk that bears monitoring.

Technology performance highlighted increasing internal divergence. Semiconductors outperformed, with the sector ETF gaining 2% on strength in Micron, Western Digital, TSMC, and ASML. Chip stocks rallied late in the week following positive AI-related developments out of China and analyst upgrades, with ASML rising 8% on Friday alone. However, software stocks weakened materially. The software ETF slipped below its 20-day EMA as major names including Microsoft, Salesforce, Adobe, and cybersecurity leaders CrowdStrike and Zscaler sold off sharply. Year-end profit-taking, rotation toward semiconductors, and longer-term uncertainty around AI's potential impact on the traditional SaaS model weighed on the group.

Consumer Discretionary remained under pressure, due to weakness in its largest constituents. Tesla declined 7.8% after failing to hold near all-time highs, while Amazon fell 2.6% in the week, keeping the sector on the defensive.

Materials were mostly flat overall. Gold pulled back but found support near its 20-day EMA, suggesting an orderly consolidation rather than aggressive selling. While this setup could form a base for further upside, confirmation is still needed. Strength in metals and mining helped stabilize the sector, with the ETF jumping 3.8% on Friday.

Energy posted a modest weekly gain but remains range-bound and choppy, offering limited directional clarity. One exception was the solar group, which surged 5% on Friday and finished the week up 1.5%. Despite the bounce, sustained follow-through will be necessary before drawing stronger conclusions.

Important Economic events next week:

Some Important economic events scheduled for this week are:

Monday Jan 5: ISM Manufacturing PMI (Dec) and Prices (Dec), Atlanta Fed GDPNow (Q4)

Tuesday Jan 6: S&P Global Services PMI (Dec)

Wednesday Jan 7: ADP Nonfarm employment change (Dec), ISM Non-Manufacturing PMI and Prices (Dec), JOLTS Job openings

Thursday Jan 8: Initial Jobless Claims

Friday Jan 9: Average Hourly Earnings (MoM) Dec, Nonfarm Payrolls, Unemployment rate

Important Earnings this week:

Not many important earnings are scheduled for release before the earnings reporting season starts next week.

Long-Term Stock Picks:

Our long-term stocks are those in which we have the conviction that they have strong business fundamentals and enjoy moats in their respective industries; hence the chances of long-term profits are high.

NVDA	<p>Nvidia lost 0.88% again for the week although it gained 1.26% on Friday but it is failing to come out of the range it established since September. We mentioned last week that it is actionable at these prices and then at 196 (Nov 20th reversal day) where it has a chance to move back above 200 and test the highs at 212.18. However, the end of the bullish period after mid-January could also trigger a rollover which is yet to be seen.</p> <p>Nvidia is still a long-term player and enjoys support from investors on every pullback.</p>
AAPL	<p>Apple is still rebounding from its 50-day EMA line. Aggressive investors could add further for a short-term test back to recent highs at 288.62. However, if Apple loses its recent low of 266.95 (which is expected with a broader market pullback) then position should be closed although AAPL is a long-term leader and its long-term trend is intact. We should also consider that period from Dec-Feb is also a weaker one for Apple compared to May-Aug.</p>
AVGO	<p>The range of 356-358 was mentioned as overhead resistance. Broadcom tested it and reversed from a high of 360.66 back below 350. Position was closed at this test as mentioned, which was the right decision as it fell back to 347.62. It is, therefore, suggested to close this position at the test of this level to protect gains. Being a long-term leader, it will remain in our watchlist for another entry.</p>
GOOGL	<p>Google gained another 0.52% last week and continues to prove its dominance among the Mag7 stocks. Google remains our long-term leader and is actionable at current levels for aggressive long-term investors who do not care about a 10-15% drop.</p>

Interesting new picks:

We continue to maintain our cautious outlook given the fact that market seems poised for a pullback. However, this action could also generate some good opportunities as well:

CRM: Down 23.3% in last one year, Salesforce has been labelled as an AI loser, however, fact of the matter is that it just posted its best last quarter, analysts expect EPS to surge 89.3% and revenue to grow 9.5% in 2026 while maintaining a mean target of 330.06 (28.3% upside). Our TR indicator also shows that it is trying to find support at its 50-day EMA line. Keep an eye on its price action and any move back again above 258.33 (its 200-day EMA) will likely sustain.

APH: Amphenol Corporation designs, manufactures and markets electrical, electronic, and fiber optic connectors in the United States and internationally. It is offering an entry at 141.90 according to our TR Indicator with a stop loss below 130.55. Analysts expect sales growth in the current year while it is trading a low P/E ratio relative to the near-term earnings growth.

Medium- and Short-Term Picks:

GH	Guardant Health is flashing a buy signal at current prices as per the TR indicator. However, our market forecasts (see above) warrant a cautious approach with reduced position size and tight stop loss if an entry is taken.
GE	General Electric stock hit the buy point of 316.67 and finished the week with a 1.9% gain. The stock is still in a buy range , with dips to the 50-day or 200-day EMA offering better entry points. Again, caution with position sizing is warranted as market is likely to have a pullback soon.
NEM/KGC	These two gold miners retreated by 4.31% and 4.71% last week and gave back their gains of last week. Further incremental addition is possible at current prices, but position size should be reduced as profit taking could kick in at any time. We think gold miners in the long run will be fine as they will continue to capitalize gains in gold. KGC is within 5% of buy zone from 27.84 entry.
LLY	Eli Lilly was almost flat last week with a 0.24% gain. Any pullback to its 50-day EMA will be a buy as long-term trend is in place and expected to continue. Eli Lilly's competing weight loss pill (Forglipron) is expected for FDA approval by the end of first quarter 2026 and launch in the second quarter.
APP	Suffered heavy losses and showed a sell signal. Accordingly, the position is closed for the time being and moved to a watchlist.
AMZN	Amazon lost 2.59% last week as it continued to trade in a tight range It still offers another aggressive entry at current prices with a stop loss below 211. However, overall market conditions suggest a cautious approach as it could pull back Amazon stock to lower levels as well.
FTI	TechnipFMC continued its rise and gained another 5.96% last week. It is expected to test 50 and some profits should be made when they reach 15-20% range and reduce the position size as it is likely to consolidate or even come down soon. Watch a pullback to 50-day EMA for another possible entry.
IBM	IBM pulled back by 4.45% to close at 291 on Friday. Although IBM is positioned as an IT/AI leader but given the market conditions it could enter a consolidation phase. If it pulls back below 288 then the position should be closed at this time to protect capital.
WDC	WDC gained another 3.39% for the week. Although it looks poised to breakout but due to the prevailing market conditions, a better approach will be to buy it on pullbacks, especially at a test of its 50-day day EMA line.

ATAT	ATAT lost 4.47% last week. As said earlier, it is a volatile stock and can reach new highs but can also swing low amazingly fast in case of a pullback. Therefore, now new entry currently.
AMD	AMD found support at its rising 20-week EMA line twice and closed the gap created earlier September. We continue to think that anticipated weakness in aggressive areas of the market could also take a toll on AMD stock price and we should wait for a better entry point.
FIX	Comfort Systems gained another 4.13 last week, as it is trying to consolidate at current levels. This position was opened in September around 706 and some profits should be secured at this level. Entry is available at current prices ; care should be taken with tight stop losses since it can come down quickly in case of a market pullback.
MU	MU continued to surprise us with another 10.80% gain last week which started in August. The stock now seems extended and should find support around gap at 240-245 range or its rising 20-day EMA 254 in case of a pullback. Better to wait for these opportunities.
TSLA	Last week, it was noted that Tesla's history indicated a potential pullback, which indeed occurred as the stock closed near 438. We believe it is moving back down toward the 400 level, which may present an opportunity to consider entering. Till that time, no entry. Tesla's EV deliveries fell for a second straight year and its investors are betting on Robotaxi, self-driving and its energy business.
MPLX	MPLX was again flat with a modest 0.11% loss. This pipeline operator has increased its dividend yield recently and still offers 7.99% yield at current prices. Ideal for dividend seekers although seem extended at current prices. Another entry is possible at current prices as the stock is finding support at its 50-day EMA line.
GLDM	It was mentioned last week that gold was above the buy point. It pulled back by 4.43% last week and currently provides an entry around its 50-day EMA which is at 83. Any pullback in gold will not be likely to persist and could provide a better entry.

Website:

We have added a WhatsApp group where we post regular alerts on stocks and markets we follow. It could be found here:

<https://chat.whatsapp.com/FII6mn7fXA60wltZvRxOvm>

Please review our offers and if interested in our Excel based software, the TR (Trend Recognition) Indicator and the commentary then you could purchase it on: <https://analyzestocks.net>