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From: ROHR Alert <rohralert@gmail.com>
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To: undisclosed-recipients:
Subject: ROHR ALERT!! OVERVIEW: Downside Volatility Indeed... Now What?

Dear Subscribers,

The US equities have seen a selloff from very near anticipated key resistance. And the volatility seems to confirm overall bearish trend tendencies. Yet the rapid selloff raises questions over why the reversal of the sustained recovery rally was so sharp, and why it might have happened on seemingly improved news?

We now temporarily digress into data and market considerations. Data (especially today's delayed Euro-zone Manufacturing PMIs) is more or less as expected. Yet that still means very bad. And in its own right along with being a psychological bellwether for other asset classes, the June S&P 500 future fell back from the resistance we had anticipated to below 2,850 support, with 2,750 the next level. That said, if it holds there, another rally could occur if near-term stressors abate.

For more on the reasons for the US equities spill, see Thursday's 'Friendly Fed Indeed and COVID Cure?' ALERT!! In this case 'Friendly Fed' meant not just the Fed but also overall indications from the other central banks last week, including BoJ Monday and ECB on Thursday. The one disappointment we noted on Friday was lack of a formal 'Eurobond' (pan-European funded government bond) from the ECB, blamed for some of Thursday's later losses. (But there is more below.)

Yet as we noted during the initial phase of the COVID-19 sharp bear selloff back on March 3-4, the major FOMC rate cut was not going to in any way address the problems created by the novel coronavirus. Hence a sharp March S&P 500 future recovery rally from below 3,000 only carried very temporarily (for a couple of hours on the rate cut morning) above 3,100 prior to failing again.

A further fall was also only temporarily stanching into Wednesday by Joe Biden's Super Tuesday primary election victories. The combined inference on those was that the broad central bank commitment to provide further support isn't going to be a primary factor in reversing the bear trend, apparent later last Thursday.

There was also the key factor on the temporary COVID-19 'cure' factor euphoria. While Gilead Sciences' remdesivir is great for treating those who are seriously ill with COVID-19, it is indeed only useful once someone is very sick. It is not a 'preventative' like a vaccine. As such, it is neither going to provide anyone more confidence they can resume 'life as usual' from prior to the COVID-19 pandemic, nor assist the global economy in providing income for businesses or work.

For more on those issues please see last Wednesday's "'Short-Term' versus the 'Long Arc'" Rohr-Blog post. The bottom line for public-engaged businesses is that social distancing-based restrictions on their traffic and income will still be in place through this Summer into the Fall. And even achieving any improvement back to those diminished performances is based on a public appetite for getting back to their previous socializing and spending habits. Is this realistic?

As for socializing, there is a case for some improvement. Yet it is only back above the very low bar of the current broad-based quarantine. And we have previously noted at length (see the Rohr-Blog post) the limitations from a business model standpoint, as well as the consumer attitude (once again see a recent CBS News poll <https://bit.ly/351adDz>.) And it gets worse on overall consumer spending...

... as it appears it will be the 'long road back' we have suggested rather than the very strong rebound ('V' shaped recovery) the Trump administration is touting. That CBS News poll is reinforced by more recent indications on business and consumer activity, justifying all around skepticism. CNBC's Steve Liesman had a very good analysis (<https://cnb.cx/3c5kBgb>) based on multiple insights into the progress of the US reopening, even allowing it is still very early days.

Yet rather than reversing, the store closings are still up 14%. Liesman points out this may be due to some stores that held on for a while, yet now realize they will not be economically viable (as we had suggested might occur.) Medically, new infections are still running at the same 30,000 cases where it has been. And even averaging cities in 10 now newly partially reopened states, according to the widely respected TomTom surveys, store traffic is still only 22% of normal rates.

Liesman seems to agree with our views in noting there may be a secondary wave of stores closing due to economics. And he once again highlights the issue of whether consumers will return to old habits. Playing on the words of the classic 1989 movie Field of Dreams "*If you build it, he will come*", he ends his key points with the consumer proclivities question, "*If you open it, will they come?*"

There is a good chance at least for the intermediate-term the avid consumerism of recent decades may be seeing a major reset. Of special note is the attitude of younger Chinese consumers who had previously abandoned the frugal habits of their elders to join a debt-fueled Chinese government mandated shift to a more consumer based economy. Might there be a permanent shift back to frugality?

That is explored in today's Reuters article (<https://reut.rs/3aVA2WN>), with the nuance that some newfound frugality is fueled by reduced incomes. Yet this is a cautionary tale for the US and the rest of the global economy where many lower end jobs lost during the COVID-19 crunch will not be so fast to return. As such, it is still reasonable to be concerned about lower overall consumer spending if the lowered shopping expectations become a habit rather than a short-term phase.

However, the case for China may remain stressed, lowering expectations for exporters who have taken advantage of Chinese consumerism. That especially means for Europe. Lower expectations for China overall can be a case that is readily supported by the latest US-China relationship developments. In the wake of concerns over US supply chains back into China that are impacting access to both medicines and medical supplies, there is a major US repatriation effort.

Once again see a Reuters article (<https://reut.rs/2KXOqDG>) on what is now being rightfully referred to as a US 'turbocharged' effort to rip supply chains back from China. As much of the recent decades' Chinese prosperity and growth has been based on those, any broad awareness in China that this very extensive business is going away will likely affect overall consumer spending psychology. There is an old adage that personal frugality is good, as long as everyone doesn't do it.

Then there are also the extended drivers beyond sheer commercial concerns driving that disinvestment in China, which are more bellicose. President Trump and his team have led the effort to blame China for a lack of transparency on the nature and extent of the early phase of the COVID-19 pandemic. It is now being joined by others like the UK (again see Reuters <https://reut.rs/2KXOqDG>.)

Yet the more pernicious aspects this pressure on China have of course come from the US... some of which are self-defeating at best, and at worst a major threat to an already crippled global economy. And the worst offender is Trump himself, who often 'spitballs' ideas that we know for certain cannot have possibly been approved. There was last week's assertion that the US might just cancel the US debt China owns as Treasury securities. We were only surprised by the lack of any news story on Larry Kudlow dying because he had swallowed his tongue.

Someone ought to give Prez Baby a tutorial on the definition of the term 'bond'. Even beyond that idea, Trump reverted to his long-standing comfort zone: tariffs. Yet even in the context of the likely very rightful pique with China, with an already depressed global economy is this the right time to raise any tariffs on anybody?

Here again, a tutorial might be in order: 1930 Smoot-Hawley Act, raising tariffs. Reinforcing the penchant for governments to act on populist drive rather than informed perspective, the US Congress passed that in March 1930... ...4 months after the stock market's Great Crash!! As that misguided action is almost as old as the Spanish Flu, here's a bit of meaningful background: <https://bit.ly/35rTJoe>

And last, yet by no means least, there's the US-China rhetoric deteriorating to the point it almost sounds like a prelude to even military action. This is not based on the COVID-19 situation alone. Yet as the rest of the world deals with the COVID-19 impacts, China (and Russia to some degree) is pressing some of its territorial claims in Southeast Asia. This has brought the US and its allies closer to outright hostilities with China. That would be really devastating to the markets.

Yet the question beyond any of the intrinsic COVID-19 pandemic global health and medical pressures is how much of those other aspects is real? That is very important to short-term trends due to the degree to which they most certainly contributed to the recent US equities slide; and similar reversion to weakness in emerging currencies as well as the continued bid in global govies (even if more subdued at this point in the US.) So on each of them, what now?

Well, to begin with the most dire, we doubt there will be any outright hostilities. That is due to China knowing how to play the 'long game', and not wanting to actually take on the US and allied militaries at this point. That would run counter to its attempt to defuse blame for culpability in the spread of COVID-19 pandemic and paint itself as a global leader. And the US and its allies also having damaged economies not likely being prepared to push major hostilities is another reason.

As far as US reneging on bond obligations to China, this is a truly daft idea. If the Trump administration tried that, China could sue in any US court and win: it is strictly prohibited under US law that any particular holder of a security can be treated differently than any other holder of that same security. And the very thought that the US might withhold interest or principal payment is pernicious.

That leaves the potential for tariffs... a favorite Trump 'go to' area. Yet this is also a daft idea under current circumstances. Despite China's reported successful reopening (with 'reported' being the operative term), business levels there remain weaker than previous (see the consumer analysis above.) And as it is clear US medical and pharmaceutical firms desperately need the still offshored products to address the pandemic in the US, this would be a significantly backward move.

Yet if we are to believe his repeated public pronouncements, Trump still believes the Chinese are paying the tariffs. He's always waxing eloquent on how much the US has 'made' off of China in that regard. Of course, it's totally wrong, belied by every investigative report and academic assessment. Yet as Trump believes it, he might try an executive order to punish China for its lack of early phase COVID-19 transparency. Hopefully cooler heads in Congress will prevail.

All-in-all, likely waning of the most recent serial stressors will lead to a renewal of the US equities recovery rally. Yet in our view it is still nothing more than that on the 'short-term' relief rally. And the 'long arc' still looks like US equities will succumb to the broader stresses from the both social distancing constrained business performance linked back to that suppressed US consumer psychology. [We once again suggest a read of that *'Short-Term' versus the 'Long Arc'* post.]

This is the critical consideration

COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Front month S&P 500 future was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion (see our previous 'Crunch Time' ALERT!!) That was also below support from the push above the multi-year topping line at 3,070 as well and left the late-February 2,970 DOWN Break below the intermediate-term up channel (from the late 2018 low.)

Did this signal reversal into a bear trend? Maybe not, but the subsequent fresh DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate it was. That is from the early 2016 low (<https://bit.ly/35vNBvi> updated through last Friday's Close.) That was the recent key higher resistance it has now exceeded on the violation of its Tolerance: that was to the 2,675 trading high of the week ending March 20th (and includes the monthly MA-48)

As such, it is reasonable that the June S&P 500 future will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support. This leaves front month S&P 500 future up into a broad higher range, with the top back into the 3,000 area. The key levels along the way are previously violated support at 2,850 area and the 2,750 area, both of which have been exceeded. It held below the latter in late-April without ever nearing the 2,675 Negated Tolerance of the 2,600 area DOWN Break.

This leaves open the potential to retest that more prominent 2,970-3,030 range, and its prominence as the key resistance. That was further reinforced by the manner in which it failed badly from near its low end on Thursday despite very positive fundamental influences; such as the central bank support all week and the COVID-19 therapeutic developments noted previous. The question now below the 2,850 area is whether it can hold the lower 2,750 support and recover back above 2,850 to foster another swing to test 2,970-3,030 resistance. We shall see.

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