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ROHR ALERT!! Well... That Explains A Lot

1 message

ROHR Alert <rohralert@gmail.com> Fri, Jun 5, 2020 at 10:11 AM
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Dear Subscribers,
This morning's May US Employment report was an upside blowout. A gain of 2.509 million was into the estimated 8.0M job losses. That seems a goodly part of why the US equities could rise so far in recent weeks despite other, troubling rearview mirror economic data. And that meant the key Unemployment Rate also dogged the anticipated rise to 19.8% with a drop to 13.3%. Along with this global govvies dropped below supports and emerging currencies extended their rally.

This is a full blown 'risk on' psychology. And that so much of the gain was in "Leisure & Hospitality" speaks well of the pace at which the US post-quarantine reopening is accelerating, even as far back as mid-May (when these figures begin to be compiled.) That speaks of June figures showing even more improvement, yet with one fly in the ointment: the degree to which the employment gain was 'rehiring' based upon the PPP loans to business. This is an unknown that will only be determined once those loans have expired into businesses getting back to the 'new normal'... or more so what we have deemed the 'new abnormal'.

Of course on top of that obviously better-than-expected news is the central bank accommodation which has so markedly expanded in recent days, as we further articulated in Thursday's 'ECB Shifts to Warp Speed' ALERT!! Lagarde & Co. indeed massively accelerated their bond buying right into the face of that recent German Constitutional Court ruling questioning their programs (see Thursday's analysis for much more and the link to the ECB press conference.)

However, despite current US employment improvement, there is another key market psychology question: is the US political dynamic changing in a way that speaks of even more major largesse being piled on top of the huge expansion of US government support already enacted to counter COVID-19? In the context of the current social unrest, could there be the major sea change that has been hoped for, yet failed to materialize for decades, on minority empowerment?

Might this be the opening gambit in the enactment of 'Great Society 2.0'? That refers to what was Lyndon Johnson's now obviously failed major 1960s policy initiative which provided more welfare spending. What we have learned is that sheer 'social transfers' to address deprivation are not enough. In hindsight many have said that Johnson's program was merely a payoff to keep the underclass happy in order to allow him to pursue the Vietnam War, another misguided effort.

Yet current awareness might actually lead to programs that make more sense, even if they will take time. Among them is education, both for current students and the couple of lower income generations that have missed out on education and skills training. Why all this social commentary in market analysis? Because it is a key to the 'long arc' for all asset classes, and we will have more to say soon.

In addition to US equities pushing above some key resistance back toward an interim zone last seen in February (more below), as noted above global govvies are under more pressure (i.e. higher yields) than seen over the past couple of months. The other developed currencies are also continuing to gain on the US dollar along with the emerging currencies… a full 'risk on' psychology for now.

Two further thoughts into the weekend on all that. The first is that all of this government (especially now that Europe is on board as noted in Thursday's ALERT!!) and central bank largesse may finally foster some inflation. Yet in the historic context, the early phase of inflation is actually good for US equities. It is a reflection of higher nominal US dollar valuations for assets then more expensive to replace with depreciated currency. Seems perverse, but that's how it goes.

Secondly, the importance of that political dynamic is intensified by the US general election looming into early November. It will need to be seen how the sentiment goes, and ultimately how the actual voting transpires, once the current social unrest quiets down. That said, at present the Trump militaristic response to the social unrest has been of benefit to a previously quieter Vice President Biden.

We assume there are some who were on the fence who will now vote 'against' Trump regardless of the Democratic Party ticket. The current RealClear Politics (the most credible source for this information) national average poll shows Biden moving up from a recent low single digit advantage to up 7.2%. Yet as many have pointed out, polls are fickle, and as important are 'Betting Odds' which showed Trump doing much better against Clinton in 2016 than the polls had predicted.

And the Betting Odds show Biden with a five-point advantage; and that is from an eight-point deficit as recently as late May. So the question is whether that is a social unrest headline-driven aberration? Or might the US be ready for a far more Liberal regime that is ready to spend much more on social support and especially education? The implications for the markets are staggering. Any further opening of fiscal floodgates, even for righteous redress of the previous social cohesion failures, will finally likely drive the US equities, global govvies and currencies psychology based on political influence. We hate to do that to you.

Yet as important as November's US election was already likely to be, under the circumstances it looms even larger in the 'long arc' market context. So will there be more corporate largesse trickling down with possibly more corporate support for social engagement? Or is it "Hello Great Society 2.0"? We shall see.

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. That was below support from the push above the multi-year topping line at 3,070developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/2Y0AJJY updated through Friday.) That was the recent key higher resistance it had violated on its push above its 2,675 trading high Tolerance from prior to the DOWN Break (including monthly MA-48.)

As such, it is reasonable 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. And the front month S&P 500 future pushed out of the broad higher range top in the 3,030-2,970 area late last week and sustained it, with the 3,200 area the next higher meaningful resistance. That is obviously what the market knew once it exceeded the 3,030 area.

The key levels along the way were previously violated support at 2,850 area and 2,750 area, both of which had 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 left open the potential to retest that more prominent confluence of resistance factors in the 2,970-3,030 range despite previous slippage. That resistance was further reinforced by the manner in which volatility had returned to the downside frm late April into mid-May. This created a more highly focused Evolutionary Trend View (ETV) in the form of a near-term Head & Shoulders Top pattern.

That pattern along with the other key low-mid 2,800 area technical indications 'confluence' is reviewed at length in our TrendVlew Video from late May (https://bit.ly/2XylbNn) on June S&P 500 future 'long arc' and shorter-term (04:00-06:40) developments. There is also comparison with a 2008 front month S&P 500 future recovery rally (07:10-11:30) with important implications for the current US equities decision.

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