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ROHR ALERT!! Social Shift or Just a Blip?

1 message

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Dear Subscribers,
The accelerated US equities rally has been most impressive. The upside blowout May US Employment report Friday is the obvious driver. Yet, is there something more at work? Are US anti-discrimination protests that have spread around the world actually heralding a broader shift in US (and others') spending priorities?

In short-term psychology terms, Friday's 'Well... That Explains A Lot' ALERT!! focuses on massive upside overshoot in the US (and also Canadian) Employment indications. A gain of 2.509 million was into the estimated 8.0M job losses was always going to be a major influence. Yet as also noted there, the Unemployment Rate still remains at a hefty 13.3%, which is not really all that bullish.

The entire massive hiring splurge was also under the auspices of the US Payroll Protection Program (PPP), raising a question over whether that was the driver as opposed to any organically strong economic growth? If so, then once PPP ends there will be adjustment as businesses recalibrate for their actual business levels versus government program inspired hiring to meet program requirements.

This could be quite a roller coaster, and not just the case in the US. An excellent Reuters article (https://reut.rs/2UlvJ1H) points concerns over future consumer activity for service economies driven by their activity in recent years. We had already highlighted the newfound wariness of Chinese ultra-consumers even as theirs was the first economy to reopen. The Reuters article revisits that, yet also the concerns of businesses in Europe and North America. To wit, "*A 2012 paper by IMF researchers found that lingering uncertainty after the onset of the 2008-09 recession boosted saving rates durably, leading to lower consumption and growth in the wider economy*." As such, current upbeat US equities sentiment may prove a classic "*Triumph of hope over experience*." We shall see.

However, even if that is so and future spending (and by extension company hiring for sustained employment) disappoints, might there be a broader dynamic at work in the wake of the US anti-discrimination unrest? Are current polls which show President Trump's re-election potential suddenly weakening markedly a real sea change or just a blip? The most recent RealClear Politics (the most credible source for this information) national average poll (https://bit.ly/2XBFTgL) shows Biden moving up from a recent low single digit advantage to up 7.8%.

Yet 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 four-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? This would be 'The 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 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. That 'guns & butter' approach was why the US equities could continue to rally during the late 1960s, undoubtedly among the most tumultuous historic eras.

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. So rather than 'guns & butter' this time around, the major additional spending would be devoted to 'pens & butter'. This would actually make sense on multiple fronts, as long as it is properly focused and managed.

One of the hurdles to that is Progressive movement mistrust of business. It is however necessary to enlist business to focus academic and skills education to suit what will be real jobs for the previously under-educated (the lack of which was a failure of the original Great Society.) Given there were literally millions of US jobs unfilled due to a lack of skilled labor even as the Trump administration was pushing for repatriating jobs, this should be an area of bipartisan agreement.

Why all this social commentary in our market analysis? Because it is a key to the 'long arc' for all asset classes. This includes global govvies dropping modestly below supports, and developed and emerging currencies extending their rally against the US dollar. This is very reminiscent of the sustained trends seen in the late 1960s, and reinforces the question of whether the current shifts are durable or just a headline-inspired blip. The importance of that political dynamic into the US general election looming into early November is huge. That said, we must allow that five months is an eternity in politics… especially in the US.

Bottom line for all this political contingent thinking is… there is no bottom line, at least not yet. The market situation will require monitoring of both COVID-19 infection rates into the soon-to-be more dangerous phase of the global economic reopening, and the extent of the political response to whatever form continued anti-discrimination protests take. These are more likely to endure than previous short-term outbursts, as there is "all eyes on the prize" of the US Presidency.

Just to be clear, that makes the near-term market outlook more so susceptible to anticipation of what the 'long arc' will bring. Is the US going to see an extension of Republican dominance, with Trump in the White House and the GOP retaking the House? Or in the context of the surge of social justice politics and spending, will Vice President Biden usher in the 'Great Society 2.0' era with all the attendant social spending even if under higher taxation? That didn't bother the late 1960's US equities bull market, as average incomes and spending also rose markedly.

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/2MHIxfA 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 two weeks ago and sustained it, with the 3,200 area the next higher meaningful resistance that has a 3,230 Tolerance. 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 from 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 TrendVIew Video from late May (https://bit.ly/2yDHtVJ) 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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