Gmail

Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! Colossal Cross Current Complexity

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

Mon, Jun 15, 2020 at 9:06 AM

Dear Subscribers,
Hypervolatile price swings in US equities seem to be justified by the flip-flops in major 'macro' factors. And those will continue to buffet the markets. Yet over the near-term they are becoming more nuanced; their complexity is also becoming as colossal as the major factors in a very critical market phase. And that complexity means this is a more extensive ALERT!! than we have published for a while.

The question that hangs in the balance is whether the US equities rally extension two weeks ago was the 'real' trend, or just a near-term upside 'aberration' in a bear market rally? The answer to that question will not just be critical for the next major US equities trend decision into this summer.

Whether there is a general 'risk on' or 'risk off' psychology will also be very significant for the global govvies. Note their sharp recoveries in the past week on US equities weakness after those same govvies were the weakest they had been in a while on the early June US equities strength.

And to the degree global govvies did not fail below key lower supports, they had already continued to hint at more economic weakness to come. While recently strong emerging currencies had eluded any return of a 'risk off' psychology into the middle of last week, Thursday it returned for the first time in several weeks.

As to our previous broad range of analysis last week, Friday's 'And So It Goes' ALERT!! noted we had already reviewed the major areas of concern outside of specific COVID-19 developments. This included Monday's 'Social Shift or Just a Blip?' ALERT!! exploring whether prominent US anti-discrimination protests were encouraging a significant political change into the November general election.

It was followed by Wednesday morning's 'OECD Rains on Friendly Fed Party', which shared OECD's very downbeat World Economic Outlook prior to the FOMC announcement and Fed Chair Powell's press conference (https://bit.ly/2XSw2mU.) Therefore it was already the case that the OECD had set the table in a major way for Powell to be less than optimistic (https://bit.ly/3hg8mAz.) As we had observed Wednesday morning, the third OECD page panel includes the graphic (with a link to its animation) on just how weak the global economy is going to be even without any COVID-19 resurgence (with much more from many other OECD links.)

What was clear even from later Wednesday (i.e. prior to the Thursday US equities debacle) was US equities disappointment with Powell's downbeat view yet with no further immediate stimulus. Hence Thursday's ALERT!! title (ostensibly the question from US equities to the Fed) 'So, What Have You Done For Me Lately?'

As we noted Wednesday morning, insofar as the US equities were entertaining potential for a push through higher resistance they are "*...vulnerable to hoping the Fed will also*

***announce some additional stimulus this afternoon*…" Once that did not occur, the psychology became stale. After the US equities sharp selloff back to lower major support (more below), they as well as other asset classes are left with a critical psychology into this coming week.**

And on top of all that was news out of Wednesday into the end of last week on rising COVID-19 infections. That last bit may be the most toxic of all in the context of various ways it might undermine the US economic reopening. However, this is another area where the news is not completely clear at this time (more below.)

These cross currents are indeed colossal insofar as a US political change along with how the stabilized economic situation evolves after various US and other government support programs lapse, and also the path of progress against COVID-19 contagion, all have potential to foster agony or ecstasy on the US and global economy and markets. We are therefore especially watching US equities.

Yet the manner in which the macro factors are evolving across all of these fronts is becoming more complex, and requires nuanced analysis. First are COVID-19 issues, where rising infections have elicited heightened concerns. There are three critical factors, the first of which is at least so far this does not appear to be a resurgence in the hardest hit areas like the US northeast corridor. There is also the consideration of states which avoided significant infections in the original 'first wave' are now seeing them rise… likely more so a first wave extension.

And governors of states anxious to reopen are rightfully pointing out that the major increase in testing was bound to uncover higher levels of infection. This is all fine and good. Yet as we have noted previous, a heavy splurge of unprotected (i.e. sans masks and social distancing) activity in many precincts around the US Memorial Day holiday leaves this coming couple of weeks the horizon for when greater infections based on renewed contagion could be the case. We shall see.

As of this weekend there are 21 states which are showing seriously heightened levels of COVID-19 infection. Those especially include the southwest (Texas and Arizona) and west (California.) Yet problems are as bad or worse elsewhere.

Alabama, Oregon and South Carolina are states with the biggest increases, where Alabama saw a 92 percent change in its seven-day average, Oregon's seven-day average was up 83.8 percent and South Carolina's was up 60.3%. Hospitalizations are up as well, with Arkansas seeing a 120.7 percent increase in hospitalizations, from 92 cases to 203, since Memorial Day. Health officials warn mass gatherings of any type could worsen the spread of the virus, as the 2020 election heats up (Trump rallies now as well) and nationwide protests stretch into their third week.

Yet those statistics mask another key reality: the job losses that will stem from sharply curtailed 'community' retail activity even where governments lift the very damaging quarantines and 'shelter at home' orders. The relative virus avoidance psychology (prior to development of a vaccine) of those at risk will have more to do with stabilized business and economic activity than any government edict.

News on sustained contagion levels will undoubtedly affect a major percentage of more well-to-do older consumers (i.e. the vulnerable population over 60 years of age), and their relative level of comfort getting back to many activities. If they are not comfortable

returning to leisure (including dining) and hospitality (including hotel stays and travel), the stabilized economic turnover will be depressed.

This is likely what Chair Powell was referring to responding to a reporter's inquiry on why the US Unemployment Rate was going to remain up around 10.0% into the end of 2020. Think about all the restaurant and hotel workers and ancillary airline services where the same number of jobs are just not viable if business income is going to shrink by between 20% to as low as 50%. Powell's specific response was "...*into the millions of people who don't get to go back to their old job and there may not be a job for them for some time*." As noted previous, he articulated the reason as the need for them to train for a job in a whole different industry.

As that may mean there will be a return to work for those folks at some point, it is likely not going to be timely to create a full 'V-shaped' recovery the cheerleaders (including Mr. Trump's minions) are promoting. While even the OECD allows there will be a 'V-shaped' recovery, the amplitude of that economic bounce is going to be less robust than a full recovery limited (see the OECD report.) In fact, they say the global economy will not be back to 2019 growth levels for at least two years.

And this is not an original perception. For some time prior to, and intensely into, the week before the full COVID-19 meltdown began (due to the asymptomatic contagion we had noted since January), we had been in agreement with the estimable and often prescient Mohamed El-Erian. In our February 18th ALERT!! we noted his CNBC interview (https://cnb.cx/2vGtrAK) comments from earlier that morning on the likely worse than expected 'Wuhan Virus' impact.

He returned to his theme (from 01:45 into the segment) that central banks had "*deeply conditioned*" market participants to react to even exigent shocks as being "...*containable, temporary and reversible*...", and yet that this was not likely to be the case this time… which now applies to the economy.

And the most telling COVID-19 impact at present may be the US surge in new infections and hospitalizations in some states based on the recent reopenings. Yet another, in its way even more troubling, factor has resurfaced: new COVID-19 infections in China that have caused authorities there to restrict activity in parts of Beijing. According to a current Reuters article (https://reut.rs/2zvBHFU) there are school shutdowns as well as a major number of temperature checks at all manner of crowded venues as well as round-the clock checkpoints.

Why would a China resurgence make a difference to western financial markets? Quite simply because China was the first major impact of COVID-19, and it had been assumed its extreme suppression measures had managed to fully contain it. At least that was the official message. If it is now obvious this is not the case, it does not bode well for other global areas which are now loosening restrictions. This is another reason why the US overall reopening gaining momentum into the Memorial Day holiday creates a critical horizon over the next two weeks.

Against the recent economic implosion and the stale outlook is the massive US (and other) government support programs. Here as well, the situation is more nuanced than the initial major government funded 'relief' response to economic weakness that had never been witnessed before in such a short time.

Little doubt the literally trillions of dollars committed by the US Congress with the blessing of the Treasury, and expansion into programs offered by the Federal Reserve, have been a buffer against total economic collapse. Yet, they do not run businesses which will need to decide if they are viable under the new protocols.

One of the key US efforts has been the Paycheck Protection Program (PPP) which encouraged businesses to keep folks on payrolls to avoid them landing on the Unemployment rolls. While there were some early glitches, this has helped many businesses to continue to pay their staff. Yet the month-long quarantines and 'shelter at home' orders flew in the face of those businesses earning the money to sustain that employment beyond the eight weeks of the original PPP.

After quite a bit of feedback on this, in an atypically enlightened move, last week Congress forwarded and President Trump signed the PPP Flexibility Act. That will allow businesses to apply the PPP loans across 24 weeks, up from the original less than productive 8 weeks. It also allows for lower paycheck PP fund usage, down to 60% from the previous 75% requirement. In addition to other enlightened changes, keep in mind that satisfying those program requirements means the loans will be converted into grants… basically a gift from the federal government.

The bad news is that this is yet another in a series of shifts that has worried small business owners enough to have many of them send back the loans. Just as we noted above, they are worried about their actual level of business in what will still be a restricted environment after the program ends on June 30th.

As noted by the New York Times' Stacy Cowley last Wednesday, one such concerned individual is spa owner Caren Griffin. "*Refitting her spa to comply with new safety guidelines will be expensive, and no one knows when customers will be willing to get high-touch services like massages and facials. Ms. Griffin, who is 63, wonders if she would be better off closing the business and retiring*."

Cowley reports Ms. Griffin says, "*I'm running through a dozen different scenarios for what our cash-flow structure might look like if we reopened with changes in our hours and services...*" "*We won't go back to normal. That's clear*." As of last Tuesday, $130 billion was still unclaimed by potential borrowers. For us that speaks volumes about real world concerns of many businesses which may close.

Just this morning CNBC reported on YELP business closure data (even this is partial) in an interview of its Justin Norman (https://cnb.cx/3d0bNbf.) While 23% of retail had closed, only 27% of those closures were permanent. On the other hand it was as we and many others had feared for restaurants where only 17% had closed, yet of those a whopping 48% were permanent. In general YELP has seen over 143,000 business closures, with 35% of those being permanent.

Specifically on restaurants there were quite a few weaker capitalized operations (which tends to be the case) closed immediately in April. Late-May brought a second wave of closures for those who have survived for a while, yet realized their business model was not viable across time. Total restaurant closures since March 1st is 24,974. Multiply that by the average number each of them employed, and consider the other businesses which are not viable at lower income levels.

This is a stark reinforcement for warnings from OECD on the global economy, as a socially distanced 'new normal' is anything but normal in our view. As noted on more than a few

recent occasions, it will become more of a 'new abnormal' until there is more definite confidence provided to at-risk communities, which means a proven safe and broadly available vaccine. In the meantime it also reinforces Chair Powell's confidence that the US economy will not be back to anywhere near 'normal' on a sustained 10% Unemployment Rate this year; and that is once again regardless of any state government decisions to continue the reopenings.

The final market driver is the US political landscape, which remains the least well-defined influence for now. The dilemma there is twofold. In the first instance last Monday's 'Social Shift or Just a Blip?' ALERT!! title summed up the degree to which any changes will only be determined by the outcome of the November US general election. Will the current economic weakness and anti-discrimination usher in a 'Blue Wave' of democratic Party victories with VP Biden winning the Presidency that heralds major policy changes? Or will there be a continuation of the Trump regime if the economy manages to recover better than expected?

And even if Biden does appear to be succeeding, will the fears over more social spending and higher taxes bring the US equities down? Market expectations on what US election results will mean have been wildly misguided in some recent circumstances. Look at the 2016 pre-election commentary by the Trump haters that if he was elected the economy and the US equities would implode. It was much the same on the inexperienced Bill Clinton back in 1992.

Yet even through the late-1960s Lyndon Johnson Great Society massive social spending years, the US economy managed to thrive on the sharply higher wages and personal spending until inflation became bad into the mid-1970's. Yet here as well, a high degree of uncertainty remains despite VP BIden's recent polling gains (see our favorite RealClear Politics for more (https://bit.ly/2XBFTgL.)

However it may now be now the case (possibly encouraged by Biden's recent gains) that a wing of the Democratic Party is doing what is necessary to 'snatch defeat from the jaws of victory'. According to another current Reuters article (https://reut.rs/3d77hrk), the far more Progressive than the party at large DNC "*council on climate change irked party leadership when it published policy recommendations*…" "...*calling for up to $16 trillion in spending to shift the U.S. economy away from fossil fuels while banning hydraulic fracturing and oil and gas exports*." This is just the sort of job killing environmental overreach that the party fears could restore Trump's recently diminished election prospects.

So where does that leave us? US equities have had quite a short-term spill, yet only back to key support so far back on Thursday and into this morning after the Friday bounce. The global govvies are obviously benefitting, and are back above some key technical hurdles they had recently slipped below. The US dollar is regaining some ground on renewed concerns about other developed economies, and emerging currencies are extending their recent return to weakness on the concerns over a weaker outlook based on COVID-19 resurgence. In general it seems like a shift back to a 'risk off' psychology that had lapsed into mid-May.

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 3,070 developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break. Isn't it interesting that the next significant decision is back in that area now.

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/3hrXDTC updated through Friday.) That was the key higher resistance it had violated on its mid-April 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, with interim levels at 2,850 and 2,750 that were important in the recent up trend. And the front month S&P 500 future pushed out of the broad higher range top in the 3,030-2,970 area three 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, as it rallied directly to 3,200 by late last week.

Yet it then stalled into all three days early last week right up against that 3,230 Tolerance with no sign it was going to push further. Especially after Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see above), the market was disappointed. While it is not that much lower in the context of recent hypervolatility, this opened the potential to retest that more prominent confluence of technical indications factors in the 2,970-3,030 range despite the recent strength. That congestion is reinforced by the manner in which the market churned up against the low end of it into May.

NOTICE: The Rohr International, Inc. research team or its principals may already have entered positions or have orders working based on this view.

Thanks for your interest.

This Current ROHR TREND ALERT!! will be available soon via the sidebar at www.rohr-blog.com for Gold and Platinum echelon subscribers.

Please reply **'Unsubscribe'** if you no longer wish to receive these emails.

Contact: rohralert@gmail.com