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ROHR ALERT!! Powell Put Political Problem

1 message

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Dear Subscribers,
Tuesday's 'Powell Put Expectations Again' ALERT!! title was on target, as the Fed Chair was certainly supportive of all manner of intervention to continue COVID-19 relief to offset the pandemic's economic disruption. No surprises there, and you can view the full Senate testimony and extended Q&A at https://bit.ly/3e8WDBG.

Yet the extent to which he agreed with the Democrat's on all manner of additional support to most heavily affected groups has a more than minor problem. That is the degree to which many Republicans are becoming more averse to immediate additional major spending in the wake of the $3 trillion already approved.

In some cases this is based on returning to overall fiscal rectitude (something their party jettisoned as far back as the Bush the Younger years.) Others are just wanting to take a 'wait and see' attitude as previous support programs play out. Either way, Powell's insights on how severely damaged the economy is overall despite some recent improved data encourages further government support.

He even defended the idea that relative to current lending and economic support needs there is nothing particularly troubling about the Fed's balance sheet ballooning to $7 trillion. While paying lip service to 'ultimately' addressing the burgeoning federal debt, he was clear that at this time, with the risk of depression a distinct potential, that is not something Congress should worry about.

There was an excellent article in TheHill (https://bit.ly/3d97URo) Tuesday evening laying out many of the most salient details of Powell testimony and Senate Q&A. Most concerning on any further spending plans were the comments from financially savvy fiscal conservative Senator Toomey (R-PA.) After allowing that there are still issues despite the recent economic data improvement he pointedly noted, "*I would just remind my colleagues there's no such thing as a free lunch, and we have authorized several trillion dollars of government spending in a variety of ways*." This is a warning on immediate future GOP spending plans.

Given it is a general election year, it is highly likely they can be 'arm-twisted' into more spending at some point. Yet will that be soon enough, and will they allow spending on some key constituencies that are not normally their favorite targets for government largesse? As an example, Democrats noted that state and local governments have shed more than 1.5 million workers since March. This is an area where Republicans have been resistant even though those budgets are under review now, due to these entities having been profligate in the past.

Yet Powell was tacitly supportive of that spending, and as we move toward the November election the Republicans might need to adjust their view. Once again the question is how soon with those state and municipal budgets being finalized into the end of July? Speaking

of which, $600/mo. supplemental unemployment benefits are also due to expire on July 31st… will an extension be approved?

The Democrats drove home another major spending area where the economy might suffer: the degree to which the pandemic quarantines have caused quite a few business failures that have left many permanently closed (see Monday's ALERT!! reference to the YELP data on this.) The attendant unemployment has hit lower income individuals and families particularly hard, as they are a major employee segment for those businesses. The risk as eviction forbearance from either rentals or even home ownership lapses is that these folks will lose their homes and apartments. It is important to note that the forbearance did not eliminate the payments, it only temporarily suspended the evictions.

As such, the rents and mortgage payment arrears have been accumulating, which will be an unpayable burden on many of those folks. Powell was clear that the loss of abode would only exacerbate the economic weakness which will already be daunting among that demographic due to many likely permanent job losses in dining, hospitality, cleaning services, and many low-level employment areas.

Yet what is it the Democrats are proposing? The federal government picking up the salaries of all of those folks in order to maintain their housing? We can guarantee that there will be major Republican resistance to any such effort. However, once again there is a general election in November, and Republicans will need to consider how far Democrats will be able to leverage any parsimony on the part of the GOP into the worst effects of the pandemic?

As noted in the 'Colossal Cross Current Complexity' title of Monday's ALERT!!, along with outright evolution of the COVID-19 pandemic in the US and elsewhere (now a more critical market influence again), the impact of anti-discrimination protests play right into consideration of whether the US is headed for a major social shift which will heavily impact the outcome of the November election.

Of course, that will also alter the path of US fiscal policy as well as other areas which will in turn be major market influences. It is still too early to tell, as the phrase "*a week is a long time in politics*" attributed to British Prime Minister Harold Wilson in the mid-1960s certainly applies five months ahead of the US election.

However, we continue to suggest referencing the updated RealClear Politics reading on Biden vs. Trump (https://bit.ly/2XBFTgL) for signs of whether the US might be heading toward a major social spending binge. Quite a bit may also rest with how the Trump administration is regarded on COVID-19 pandemic developments. It is the case that his encouraging state reopenings will likely either be a boon or a bust in the context of rising infections and hospitalizations at present. Is that a temporary bump, or the return of the phase two surge that would be a real economic problem?

Highlighting the global risk of the latter was an important bit in the OECD World Economic Outlook (https://bit.ly/3h7zem2) last Wednesday morning prior to FOMC announcements and Powell's somewhat downbeat press conference that led to the US equities weakness. Chair Powell was also very clear that the path of the COVID-19 pandemic would be a major economic factor… and by extension political as well.

What do the markets think of this so far? Well, the US equities have rebounded from the weakness into Monday morning, substantially in the wake of some better data and the Fed's explicit commitment to purchase corporate bonds. The global govvies have given back a bit of their recent surge, yet are respecting lower reinstated supports (from prior to their weakness two weeks ago on the US Employment report and US equities strength.) And emerging

currencies are gaining back a bit of the ground they lost on the sharp 'risk off' drop late last week on US equities weakness.)

Another Courtesy Repeat of Monday's critical consideration
[To be revised after Thursday's SNB and BOE rate decisions and statements] 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 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.

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