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**ROHR ALERT!! 'Normalcy Bias' Cracks Begin to Show**

1 message

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**Dear Subscribers,**

Since late last week we have refocused on 'Normalcy Bias' due to everyone being fed up with COVID-19 constraints, and wishing everything were back to 'normal'. Yet also noted repeatedly, there is no normal or even serial touted 'new normal' this side of a safe and broadly available COVID-19 vaccine. What we have instead is wishful thinking and lax application of protective measures which are leading to an untoward spread of the disease in places which were supposed to be OK.

This goes beyond more distended risks noted in Tuesday's 'Sustainable Strength or More 'Normalcy Bias'? ALERT!! Please refer back to that on the risk later this summer of a shift into a renter eviction and partial mortgage foreclosure crisis (not as bad as 2008-2010, yet still a problem for which even Fed Chair Powell has expressed extensive concerns.) Yet even more is occurring in the near-term.

The 'cracks' in the *"everything is OK even if there are some more infections"* are surfacing in myriad ways right on time: as we had anticipated, a rather sloppy (sans masks and social distancing), euphoric US Memorial Day reopening was likely to see a surge of infection spread in mid-late June. This was in turn likely to bring a reversal of the upbeat reopening psychology and reality in some states.

Let's leave aside for the moment that China, which had been deemed by optimists to have had a problem and going past it, is seeing COVID-19 resurgent in Beijing. In the US there is rampant infection spread in Texas, Arizona, Florida, California, as well as North and South Carolina. To be clear, we are in no way happy to be reporting this, as we are also tired of the COVID-19 fears and restrictions.

Texas Governor Greg Abbott, who was a key promoter of the "everything's OK" mentality, has pulled a volte face in strongly suggesting everyone wear masks. This goes against the example of 'fearless leader' Trump... speaking of which, now that he has held a couple of mass rallies, we can expect him to hold more prior to any COVID-19 impact being clear from events that began with the Tulsa rally last Saturday. And the tangible results of those will appear into late July.

The reason Gov. Abbott felt compelled to provide the masks recommendation is the rampant growth of infections in Texas. It is a state where many residents are still resistant to wearing the face coverings despite US health authorities (and others) having scientific proof that masks are a key to suppressing virus spread.

In fact, according to a CNN report a week ago, *"Nine Texas mayors, including those in Houston, Dallas, Austin and San Antonio, have urged Gov. Greg Abbott to give them the authority to require masks be worn in public..."* Even with that, Abbott has only now provided the recommendation with a suggestion that the public be educated. This is similar

to the situation elsewhere, as articulated in Tuesday's Reuters article (<https://reut.rs/2BxZiqa>) on the overall situation.

The exception is Washington state, where Governor Jay Inslee has made masks a requirement that will also aid reopening of the economy. In other words, masks are not an impediment to economic reopening some politicians have postulated. Aside from that, Inslee states the obvious which the 'mask resistant' folks have failed to acknowledge, *"...it's about showing respect and care for one another..."*

And the article also gets to the point early on that, *"While the United States appeared to have curbed the outbreak for several weeks in May, overall cases rose 25% last week, with 10 states reporting a greater than 50% rise in new infections, according to a Reuters analysis."* This would seem to fly in the face of the assertion by some that the higher number of cases are merely a function of expanded testing. Whether an extension of Wave I or a second wave, it seems much greater than that, with a few states near needing to surge hospital capacity.

Therefore, our consistent view that the markets seemed to be overly reliant on the 'Normalcy Bias' inference of a best case scenario COVID-19 suppression seems to be coming to fruition. What other reinforcement is there for this? Well, the past couple of days brought economic data which can be described as anywhere from passingly positive on Advance PMIs to really outstanding on items like German IFO Expectations, and US New Home Sales and Richmond Fed Manufacturing.

Yet what have the US equities done? They have remained stuck, just like last week's inability of the front month S&P 500 future (June then and September now) to close above 3,100-30 interim congestion range, even though it ranges well above it at times. The recent improved data has weighed a bit on global govies, yet that is only back to lower supports after last week's strength.

Emerging currencies which had been improving earlier this week are under some pressure again, sustaining their overall weakness since the return of a 'risk off' psychology two weeks ago. Developed currencies are also back under pressure against the US dollar in a sign that slower global growth due to the COVID-19 pandemic resurgence elsewhere as well will not be good for Europe or Asia.

Courtesy Repeat of Tuesday's 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 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/31fEdeO> 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 front month 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 into early June.**

**It stalled all three days early the following week up against that 3,230 Tolerance with no sign it was going to push further. After the following Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see the Thursday's ALERT!!), the US equities were extremely disappointed. In the context of recent hypervolatility, this opened the potential to retest that more prominent confluence of technical factors in the 2,970-3,030 range, which it vigorously tested into early last week.**

**That congestion is reinforced by the manner in which the market churned up against the low end into May. It is now churning in the interim 3,100-30 middle of those major ranges pending clarification of the future 'macro' factor psychology.**

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