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**ROHR ALERT!! Bank Stress Test Joy**

1 message

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**Dear Subscribers,**

**It was most interesting that the US equities that had sagged near the key lower support (more below) from midday Wednesday through most of the session on Thursday pushed higher in the last hour of trading. We suspect this was in anticipation of the Fed's bank stress tests being a positive factor, even though the press release and reports were not going to be available until 16:30 EDT.**

**Lo and behold, that unsurprising result is exactly what we got, with US equities holding up this morning on that release (<https://bit.ly/3g1pg4p> our marked-up version.) That includes links at the bottom to the full 'Dodd-Frank Act Stress Test 2020: Supervisory Stress Test Results' and 'Assessment of Bank Capital during the Recent Coronavirus Event' PDFs. In the wake of the Dodd-Frank rules since a decade ago, it is not surprising that the banks are generally well-capitalized.**

**This is unmitigated good news. Also note the forward guidance from the Fed that will continue to ensure bank solvency, like restrictions on dividend payouts and other forms of benefits to stockholders. This is a stark contrast to the Housing and Credit Bust, when health of banks holding large amounts of toxic Mortgage Backed Securities (MBS) on minimal balance sheets was a real concern for the global economy and indeed the very existence of the financial system.**

**Yet, once again we must ask whether the banks being well capitalized enough to weather even a distended (and possibly deeper) COVID-19 recession is enough to put the economy back on the sort of strong growth path seen prior to February of this year? We remain skeptical. This is much like the positive initial response to the Fed's first early March emergency 50 basis point rate cut which we deemed as 'meaningless' in the context of the broader early COVID-19 pandemic contagion.**

**It is interesting this phase of 'friendly Fed' response is US equities recovering once again from the same front month S&P 500 future 3,000 area as the early March bounce. And as we've suggested since late last week, it all seems to be so much 'Normalcy Bias' on misplaced confidence things are actually moving back toward 'normal'. Yet the bank balance sheet strength simply removes that as an additional risk factor. Much like early March, no amount of liquidity contributes to better 'sustained' economic activity once current government supports terminate.**

**Even leaving global concerns aside for now, the degree of not just concern but also actual impact from the COVID-19 spread in the US is troubling for 'sustained' economic activity potential. Thursday's Reuters article (<https://reut.rs/3g0qnBc> updated early this morning) title "U.S. sets one-day record for COVID-19 cases, Texas pauses reopening" says it all. As we had noted, Texas Governor Abbott is a key Trump ally who has been rue to keep his state on lockdown, yet is now forced to return to constraints. There is similar concern**

elsewhere, which include orders for hospitals to curtail elective surgery to make room for a COVID-19 surge.

Without being at all political on an issue which has indeed been politicized, the key is the wearing of masks. A non-political operator was on CNBC this morning pointing out how much better Asian cultures, which have traditionally been good with masks, have done compared to Europe and especially the US. That is the estimable 'Black Swan' author Nassim Taleb who anticipated the 2008-2009 Crisis and was also prescient on the likely impact of COVID-19 early this year.

As we have felt it necessary to point out in the current partisan environment, this is NOT a political statement. Yet science (even from the White House coronavirus task force) tells us that masks are the key to suppressing contagion. Taleb noted they are 'essential', as the masks "...*block the path of the virus spread.*" It is a matter of what Washington Governor Inslee said (paraphrased) when he made them mandatory, "*It is an issue of social concern for others...*" (and so forth.)

Which is why we continue to see the current US equities ranging activity up at elevated levels as so much 'Normalcy Bias'. We are certain that all those folks seen at various functions (from parties to rallies to parks and elsewhere) who are not wearing masks in public are buying into the optimists' views on the COVID-19 pandemic being on the wane. In not wearing masks, they are ensuring it is not.

That said, and despite our concerns over the recent record new infections in the US and elsewhere, we are always humble about the market having the ultimate say in whether things are bad enough to warrant a full return to a more negative Evolutionary Trend View (ETV.) In this case that means the September S&P 500 future (front month since last Friday) will need to post Closes below the key 3,030-2,970 range once again. This gets back to Thursday's 'Creaky But Not Crumbling ...Yet' ALERT!! views. Of course it is of note that this is the same range that was so important during the hypervolatile early March selloff, and held after a washout last week Monday, and was vigorously tested into yesterday.

This also sets the stage for important ETV decisions in other asset classes. It is the case that the global govies have fully recovered from weakness in the wake of the US equities strength three weeks ago, yet have been only churning higher of late. Any overt US equities weakness would likely reinvigorate those up trends.

And emerging currencies which had such a positive 'risk on' psychology run into even as recently as two weeks ago are now back under pressure. Fresh COVID-19 economic concerns also bolstered the US dollar against developed currencies of late, and any further pandemic fears are likely to exacerbate that trend as well.

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 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 last 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 that 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 was recently churning into the 3,100-30 middle of those major ranges pending clarification of the future 'macro' factor psychology.**

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