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ROHR ALERT!! Slightly Soggy So Far

1 message

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Dear Subscribers,

Despite the burgeoning negative news on the COVID-19 pandemic contagion front, US equities have only slipped to interim technical support so far. This is as we might have expected in the context of our 'Some Good, Some Bad and Massive Either Way' ALERT!! discussion on Thursday and in previous notes.

The dilemma is that the financial and scientific US equities (and others) support from positive influences is sufficient to offset seeming inexorable acceleration of the negative factors. It is needless to list the latter here, as we have explored so much of that over the past several days. Those include not just the radical rise of COVID-19 infection and death rates in key US South and West states (like Florida <https://bit.ly/38JHBQV> with similar tendencies in Texas and Arizona hotspots.)

Beyond the sheer infection rates, there is the economic impact of the slowing or reversal of various states reopening efforts. That now includes the key Northeast corridor (New York, New Jersey and Connecticut) states' two-week quarantine requirement on travelers from the higher infection areas. That has effectively killed whatever already depressed summer holiday travel might have occurred.

That is in turn related to the significant sustained pressure on US airlines that had been hoping for further traveler traffic into July and August (see Thursday's ALERT!! for much more.) The bottom line is October 1st government proscription on layoffs had a 60-day 'warning' notice requirement, with United Airlines already signaling it will be issuing 36,000 of those; with others likely soon to follow. All of this will make late July into August 1st a key market 'expectations' horizon.

As we have revisited quite a few times of late, the old axiom is, "*The market (which is to say equities) is a creature of expectations.*" We add the Rohr Axiom, "*Great traders (analysts, portfolio managers) are creatures of anticipation.*" It is still our anticipation that the negative Q2 news spilling over into Q3 is going to be a more negative impact than currently priced into US equities. That now includes the outlook for retail bankruptcies. Note the recent news on just how many firms are in bankruptcy protection facing major stores closures or liquidation.

The fact this low margin, heavily indebted economic sector is getting hammered by the additional COVID-19 traffic and spending restrictions is not a surprise, as noted in Wednesday's Yahoo Finance online article (<https://yhoo.it/2ZXzDzD> with a very good video discussion.) Not included in the article's interesting graphic is Wednesday's late declaration by premium household goods retailer Sur La Table.

This is another area, like the already extensively explored restaurant and airline industries, suffering permanent closures where Fed Chair Powell has noted there is little chance those retail store jobs will be returning anytime soon. Many of these companies (like restaurants

and airlines) were hoping that things would be better by now after the quarantines. As such, those folks will need to be retrained in other jobs, as the migration away from bricks and mortar stores to online warehouse fulfillment does not offer any potential to laid-off retail workers.

This is very much like the restaurant and airline businesses and many others that will create a bit of permanent drag on any economic recovery., That is especially in light of the reversal of reopenings in the US South and West. While viewed as a COVID-19 Wave I extension, those are serious enough to act like a de facto US Wave II relative to the previously more upbeat economic expectations.

It gets back to the OECD World Economic Outlook (<https://bit.ly/3hg8mAz>) 'Global Economy on a Tightrope' on June 10th that we highlighted along with Fed Chair Powell's downbeat press conference leading to that Thursday's sharp US equities selloff to key lower support. The projection graphic (<https://bit.ly/3h7zem2> also on the third screen of that post) shows the problem if Q2 weakness spoils over into further weakness into Q3-Q4... as the US states 'de-opening' tends to suggest.

On the other hand is the prospect of further US government support in one form or another. While 'something' needing to be done has bipartisan support in an otherwise fractious US Congress, the devil is surely in the details and nothing can possibly happen until the Senate return from its July 4th break on the 20th.

And in an even more positive development on the medical front, Gilead Sciences recently announced that it is striving to develop an aerosol form of its COVID-19 therapeutic remdesivir. See the late-June International Business Times article (<https://bit.ly/2W4Abmr>) for more on the early phase FDA-approved trials.

Well, THAT could be a real game changer, which would obviously be a major influence on the economic and financial front. If it is possible for individuals to self-administer a doctor prescribed dose of this COVID-19 drug early in a bout of the disease instead of waiting to be critically ill in hospital, it could positively affect the entire pandemic psychology. As noted previous, it is the 'psychology of fear' in the vulnerable community (especially the many well-to-do older folks) that will likely remain a drag on important 'sustained' levels of economic activity until a safe vaccine is available. Yet early, effective treatment may help a lot.

In the meantime we remain frustrated US equities bears on their recovery after serial tests of key interim support this week (more below.) And as part of that 'churn', emerging currencies are strengthening a bit further after holding lower support despite a weaker outlook, even as global govies remain well bid up near higher resistances under that influence. Another 'bifurcated' market situation.

Courtesy Repeat of Thursday's critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future 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/2ZLWs9H> updated through Thursday.) 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 in early June 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 also rallied directly to 3,200 in 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, and that remains the most prominent higher resistance. 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 weak.

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 early week into mid-June, and had revisited at the beginning of last week as well prior to the current economic data-driven rally. That congestion is reinforced by the manner in which it churned up against the low end into May.

It was churning into the 3,100-30 interim congestion in the middle of those major ranges pending clarification of the future 'macro' factor psychology. As on the expanding COVID-19 concerns, it dropped back again early last week. Yet having recovered now left it in a critical near-term decision into higher levels again, with the current drop back to 3,100-30 the interim decision once again as well.

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