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ROHR ALERT!! Congress to the Rescue?

1 message

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Dear Subscribers,

US equities that survived controlled selloffs into lower interim support (see Friday's 'Slightly Soggy So Far' ALERT!!) are not surprisingly back up into key higher resistance (more below) from which they failed after the early June US Employment report rally extension. And that is in the face of burgeoning negative news on the COVID-19 pandemic contagion front leading to 'de-openings'.

While there is some good medical news, it is more likely the rally assumes there will be fresh US government spending. That's fair, as even the lower Republican interest in funding all of the extended spending needs does not mean they will resist all spending efforts to support the economy. They surely do not want to be characterized as overly parsimonious in a way that seriously burdens the US economy with a much less popular leader into a general election in November.

Yet what constitutes adequate support in the wake of the previous COVID-19 relief packages expiring in stages between the end of this month and the end of August will be a point of contention. We have noted this for some time, and were glad to see one of our favorite research sources devote extended attention to this key consideration. The Financial Times' WeekendFT article "US heads for fiscal cliff as stimulus fades" article (<https://bit.ly/2Wg1euT> for our mildly marked-up version) covers both government spending and key business perspectives.

To wit, "*While Democrats have pushed to maintain (the relief) until the economy improves, the White House and Congressional Republicans are resisting on the grounds that they discourage employment. The stand-off risks creating a dangerous economic cliff unless it is soon resolved.*" And as we have noted, the US Senate is not back from its current break until July 20th, with the enhanced unemployment benefits due to expire at the end of July. As a further note, while the schedule can be changed for emergency purposes, both houses of Congress are then out from August 8th until after Labor Day Monday (September 7th.)

As such, there is a very narrow window to bridge a very wide divide. Along with an excellent brief summary of the relief efforts to date, the FT article also quotes qualified sources on, "...while Democrats are pushing for a wide-ranging package worth an additional \$3tn, White House officials and congressional Republicans have suggested a more modest amount, worth \$1tn, that could struggle to meet all the needs." And, "As well as hitting consumer spending, the withdrawal of fiscal stimulus could also make it harder for low and middle-income families struggling because of the pandemic to pay rent and mortgages, damaging the housing market..." where forbearance in that area is only until the end of August.

Of course, that backs up into an impact on the banks. As we have noted all of this previous, we are not surprised. Yet whereas they were only anticipatory concerns several weeks ago, they will loom large into next week's return of Congress. It is also the case that the general

global business environment is weakening as well. Note 'de-opening' of Hong Kong Disneyland due to a fresh COVID-19 outbreak. However, that pales in comparison to the US surge of infections fomenting 'de-opening' in many US South and West states, even as the market ignores that.

This is why we are convinced the recent US equities strength is a bit of 'bad news is good news' on the expectation that the US Congress will authorize some major additional COVID-19 relief that is driven by the extent of the pandemic spread in recent days. Yet what constitutes enough relief in the market's mind in the face of quickly spreading infections and higher hospitalizations is yet to be seen.

And as we often note, the best way to 'read' the market is to let it tell us what it thinks of itself. The technical projections in the Evolutionary Trend View (ETV) are like a Rosetta Stone from which we can translate what the market is saying to us. In this case the September S&P 500 future push up from recently holding the interim 3,100-30 area to more important 3,200-30 area sets up a clear message.

It is saying it expects effusive fiscal support from the US government which will be more than adequate to counter the pandemic spread and renewed government restrictions and fear COVID-19 is spreading. If it surmounts that area, the higher resistance is back up near the 3,400 area mid-February all-time highs. If not, then it is possible the disappointment will leave it spilling back down to the 3,030-2,970 major lower area. Even with the key influences this week from major economic data releases and central bank meetings (including the ECB on Thursday), it is likely maintaining the current 'risk on' psychology rests with the US Congress.

Courtesy Repeat of Last Thursday's critical consideration

[Due to technical issues, delayed until Tuesday yet are still the relevant ETV]

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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