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ROHR ALERT!! Tectonic Trend Tipping Point

1 message

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Dear Subscribers,
It is the beginning of what may be among the most critical recent weeks. While the markets were becalmed into the end of last week, that is likely for the reasons we noted on pending major influences that would only be decided into this week.

Among the most telling are combined US and European decisions on COVID-19 relief packages and further stimulus. The reason this is the key is the upcoming expiration of the at least nominally effective previous efforts, or the degree to which they are running out of the major funding from back in March and April.

In mid-June we noted there were colossal cross currents (June 15th ALERT!!) However, those have taken on additional weight to a degree that they are more so like continental tectonic plates butting up against each other. In general, on the positive side are the more timely medical breakthroughs on potential vaccines and therapeutics, like the Moderna dual function mRNA-1273 drug we reviewed a few times last week. That and others could be a real psychological game changer.

On the other hand is the now obvious surge in COVID-19 infections, which is not just a health problem yet also a 'fear psychology' influence on economic activity. This gets back to 'sustained' economic activity outlook which we still feel is the key to the markets as well over the intermediate term. It is the case that previous hopeful 're-opening' based economic improvement is going backward on the current pandemic surge 'de-opening' actions in US states and also globally.

As an example, last week CNBC covered the KBW 'Restoration Index' that combines 15 key indicators related to economic activity (especially credit card usage in restaurants and at retail.) What it showed (https://bit.ly/2OMu2Hb) was that after the US Memorial Day broad-based reopening there was a peak into mid-June that was rapidly fading into early July. It seems positive momentum was based in part on the major payments from previous relief packages.

That fomented even higher spending among lower income households than even when they were working. As noted above, those funding sources from both the US PPP (Paycheck Protection Program) staff rehiring incentives and especially the major blast of the original 'stimulus' checks. It is easy to see how those are now in desperate need of further supplementation (https://bit.ly/32xQHiR) if any sharp spending (and ultimately economic) contraction is to be avoided.

With that in mind, the balance between the major fears and widespread outright business hurdles due to the now necessary 'de-opening' in many regions against the very hopeful (if indeed still somewhat forward) medical hopes (covered in Friday's 'Hoping to Bridge the Trough' ALERT!!) has created the 'Tectonic Trend Tipping Point'. Economies and markets

are facing it from early this week onward into any final decision from the EU and especially US government negotiations.

While there is quite a bit more we will review soon on troubling ongoing business developments as well as some key medical aspects (including the US testing and contact tracing issues), we will reserve those for a bit later this week pending what we hear from the EU and US governments. Suffice to say that it is not a matter of whether there will be further relief packages. None of the politicians in either continent want to appear so callous as to deny more help is necessary.

It will be more so a matter of degree. As we have already noted in the US, there is a major ($2.0 trillion) gap between the $1.0 trillion Republican offer and the 'ask' from the Democrats of $3.0 trillion. The latter would add funding for beleaguered states and municipalities that is a major philosophical taboo for the GOP.

It is even also a question of the form of the relief, which Trump economic advisor Larry Kudlow would like to see as a waiver of the payroll tax that would not even get into the economy timely at all. As noted previous (and as true for Europe as well), there is a big gap between the spenders and the more fiscally conservative sides, and there is little time to 'bridge the trough'. We shall see what happens.

This is the 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/3fOhpY4 updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also 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 if there is another selloff below the key 3,030-2,970, with interim levels at 2,850 and 2,750 that were important in the recent up trend. That is because the front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance just retested and failed on the current rally.

That is also where It stalled all three days after the early June US Employment surge with no sign it was going to push further, and it remains very prominent higher resistance. After the following Wednesday's downbeat Fed communication yet with no additional stimulus into a still weak economic situation (see that Thursday's ALERT!!), the S&P 500 dropped back to test and hold 3,000 area.

After churning recently around the 3,100-30 interim congestion in the middle of those major ranges pending clarification of the future 'macro' factor psychology, that remains a key interim area to watch. Expanding COVID-19 concerns dropped it back again early last week, yet with the US Congress back in this week.

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