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ROHR ALERT!! Finally… Some Data

1 message

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Dear Subscribers,
In a week that was mostly a data desert through Wednesday outside of some central bank communication, today has seen some meaningful data. It is worse than expected in general, yet the US equities are holding up. That is consistent with our Wednesday 'China Chill' ALERT!! observation that the further Sino-US diplomatic fallout had only the most very temporary negative impact.

This is as expected with the recent EU COVID-19 pan-European rescue package into the likely passage of the same in the US sometime soon. On the 'macro' front the further major government spending is going to overshadow any negative news in the near-term. And speaking of the data, that includes this morning's unexpected first rise in many weeks for the US Weekly Initial Jobless Claims.

While that could have been a chilling sign, it was not completely unexpected in the context of the recent 'de-opening' in some US states where the COVID-19 infection levels had spiked in recent weeks. Yet other data like the Australian Business Confidence, Italian Business Climate and Euro-zone Consumer Confidence were also weak even as the US Leading Index came in as expected.

It all goes to the degree to which the combination of both EU and now likely US further government COVID-19 relief packages will override concerns over any major weakening of the global economy in the near-term. Yet, it may be getting near the end of the sheer government spending versus more contingent support to get the economies back to a realistic level of 'sustained' activity in future.

As also noted in Wednesday's ALERT!!, there was an insightful CNBC interview (https://cnb.cx/39hAe3H) with business advocacy group American Action Forum President Douglas Holtz-Eakin. Along with CNBC's Steve Liesman, he points out (00:35-01:30) that while the first wave of *carte blanche* government support for business was enlightened in a pandemic crisis, future funding will need to be as loans and not forgivable grants. He and Liesman agree (from 03:30 onward) that at some point it is necessary for owners to decide whether the business is viable. Otherwise they should close and lay off employees who will need to shift jobs into either industries, which is exactly what Fed Chair Powell has said as well.

If not, then it is senseless for the government (and by extension taxpayers) to continue to pour money into 'zombie' businesses. This both makes sense, and gets back to our longstanding position that it will be the 'sustained' level of pre-vaccine economic activity that is important to the economy and earnings once the government support lapses. As that support is near-term assured, it is likely US equities' rally on a renewed 'risk on' psychology can continue for now.

However, another still significant hurdle is also looming large in the near-term future: A potential US eviction crisis as rent and mortgage payment forbearance periods lapse. This morning's Reuters article (https://reut.rs/32PDrGi) provides a glimpse of what may occur on a much broader scale as we proceed into the late Summer and Fall. As noted as far back as our March 27th 'Think Implementation' ALERT!!, the rent and mortgage 'forbearance' was not 'forgiveness'.

It is also compounded by the lower- and lower-middle income employment part of the COVID-19 pandemic crisis. While there were one-time stimulus checks sent, there was no specific support for rents and mortgages where payments were temporarily suspended. Yet those back rent and mortgage payments will be due long with current payments when the forbearance periods end. As the article notes, "*As many as 28 million people could be evicted in coming months*."

Further, "*That's nearly triple the estimated 10 million Americans who lost their homes during the years after the 2008 mortgage crisis*." And also, "*In addition to the hardship that comes with losing one's home, they say, the evictions could lead to a second-wave public health crisis as the newly homeless are forced into shelters or tight quarters with relatives, increasing risk of spread of COVID-19*."

The extended effect will also likely be that those folks are not likely to return to full employment anytime soon. There could also be delays in being able to even apply for employment, or failures in delivery of relief as they are shifting to new addresses which it will take the system some time to recognize. In addition to the sheer degree of job losses from businesses that permanently close if their model cannot be sustained in the restricted COVID-19 protocol world, it is yet another stressor the economy and the markets will need to deal with across time.

Along the way, government spending does seem capable of sustaining the US equities rally in the near-term. While we are not believers in the long-term viability of the rally, as we advised into early-Summer 2007 on the continued up trend in US equities, "Learn to love the bubble" (http://bit.ly/2c03eOH FT LEX blog post.) Just remember to maintain flexibility, and not to get married to it along the way.

In the meantime, the global govvies are also maintaining their recent strength, even if not advancing above the higher key resistance while the US equities have the bid. Yet it is impressive that the strength of the US equities has not fomented any weakness based on growth and inflation concerns. And being in the center of the global COVID-19 pandemic at present, the US dollar continues to weaken on the atypical consideration it will not get a 'haven' bid when the US is the problem.

Another Courtesy Repeat of Tuesday's critical consideration
[To be updated after Friday's global Advance PMI's: the real data of the week]
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.)

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 retested and failed recently 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 a very prominent technical area, which it has just pushed above. After churning recently around the 3,100-30 interim congestion in the middle of the 3,030-2,970 and 3,200-30 ranges rallying above 3,230 despite the expanding US COVID-19 concerns is a strong indication. Next resistance is the February 24th major gap down from the February 21st 3,339.25 weekly Close. That is also key congestion as higher resistance, even if the gap begins at the 3,312 high of the following week (established Monday of that collapse week.) The only nominal resistance above that is February's 3,397.50 front month future all-time high.

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