Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! Bifurcation Galore

1 message

ROHR Alert <rohralert@gmail.com> Fri, Jul 24, 2020 at 10:15 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
The inconsistencies in the trends between asset classes are more pronounced than even we had previously highlighted. US equities were on a fresh UP Break earlier this week on further EU and US government COVID-19 relief spending.

Yet that US equities clean UP break is now in question on the recent front month S&P 500 future slippage back below the key early June 3,230 area trading high. As noted previous, that was the next resistance December 2018 to February 2020 congestion above once the market escaped the important 3,030-2,970 area. Yet it must still be considered strong unless there is a failure below 3,200. That could signal the early week push above 3,230 was a full-blown false UP break, which could lead to a far more extensive selloff at least back to major lower support.

The current weakness is also in opposition to recent data which only flowed in the later part of this week. As noted in Thursday's 'Finally… Some Data' ALERT!!, outside of the as expected US Leading Index, the other data was weak. Yet it is the case today that the global Advance PMIs came in on balance stronger than was expected. As such, the US equities weakness is more so a sign of just how important the 'macro' view has become on a forward view compared to the data.

Before we get back to those broader economic perspectives, consider the degree of 'bifurcation' across all asset classes. During the entire recent US equities rally the global govvies have acted like they couldn't care less. While their relative trends have not pushed up strongly, they have held lower support and rebounded every time the US equities have pushed up on seemingly positive influences.

One of the key factors in the US equities (and others) rally extension has been a promise of further EU and likely US COVID-19 support spending. However, it is reasonable for global govvies to assume that these secondary relief packages will more so only prevent further damage rather than restore real economic strength and attendant inflation. Yet the most interesting bifurcation against the global govvies resilience is Gold running up from 1,450 as recently as March to near its 1,924 September 2011 all-time high this week. That should speak of some real inflation returning, which should in turn be weighing on global govvies.

Yet it is important to remember how much Gold also thrives in any environment of sheer uncertainty and also inflation 'expectations' rather than needing a reality of broad-based higher prices. Looking back to September 2011, global govvies were already on a major rally from March lows as the previously feared inflation on extended Fed QE did not materialize. In fact, US inflation rose into September 2011, but peaked for a major slide into 2012. In a current weakening environment, it might also be the case that the Gold rally is more so psychological than real.

Then there is the currency factor, where as we have explained recently at length that the US dollar does not necessarily develop a crisis 'haven' bid in those cases where the US is at the center of the problem; as is now the case on the global COVID-19 pandemic. Yet the lack of faith in the US dollar on other factors as well (political and diplomatic), can also drive the strength of Gold at the same time it perversely encourages expectations of higher US multinationals earnings. It is likely the case the latter is at least partially driving the current US equities rally.

Back to the 'macro', what are the factors which could still derail the US economy, and by extension the US equities rally, despite the major additional government relief programs in both the EU and US? Well, as we have also been noting for quite some time, there are problems with the general COVID-19 environment that government spending cannot address. It is a matter of which businesses can develop a successful model in the 'sustained' pre-vaccine economic protocols?

We first refer back to the looming (even if slightly longer-term) next US housing crisis based on the end of rental and mortgage payment forbearance. This also has a strong potential to exacerbate the COVID-19 pandemic in the US. (See Thursday's ALERT!! for more on this item we have noted since late March.)

Also (for anyone who might have missed it) to the 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 due to government preferences and the budget.

He and Liesman agree (from 03:30 onward) that at some point it is necessary for owners to decide whether the business is viable enough to support taking on further debt. Otherwise they will close and lay off workers who will need to shift into other industries, which is exactly what Fed Chair Powell has said as well. However, that will take time, and add to near-term sustained unemployment.

And it seems that the mainstream economic press is waking up to the 'sustained' economic environment problems in a pre-vaccine COVID-10 world. It is especially telling that Reuters titled an article (https://reut.rs/2BppbJ0) 'Fed hoped to skirt a second virus wave. Small businesses may sink in it.' They certainly cannot be accused of 'burying the lead', as the title kind of says it all on a more dire outlook.

As the article notes, "...*the months ahead look far grimmer as cash balances dwindle, federal help expires, and the disease surges back*." It goes on to note that the Fed seemed confident of a timely recovery at its June 10th meeting. Based on the early deployment of government funds, many businesses were confident of having the wherewithal to survive until conditions improved.

Yet it is the case as consumers returned to hotspots like bars and restaurants and participated in group activities (often not respecting COVID-19 protocols), the pandemic infections surged; especially in states spared initial damage. Per the Reuters article, "'*We do expect closures to continue*,' said Yelp VP for data science Justin Norman. '*We anticipate states will roll back or delay reopening plans ... possibly turning even more temporary closures into permanent ones*.'"

And that does not include those businesses which are outside of the required closure areas, yet which decide that their model is not viable within COVID-19 social distancing and mask-wearing protocols. Sad but true.

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.)

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 at which it failed previously 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 was a strong indication. However, sinking back below 3,230 late this week is a cautionary sign, as the weekly Close above that level is necessary to fully signal that UP Break. Back below 3,200 would signal a 'false' UP Break, which could indicate an important near-term top… it's on the cusp.

If it does manage to press higher, 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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