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ROHR ALERT!! Déjà Vu Fed Disappointment

1 message

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Dear Subscribers,

It's back to the June 10th FOMC announcements and Powell press conference, which led to such disappointment that the US equities had a significant drop over the ensuing several days. Much the same as June, the Fed confirmed all of its major previous accommodative stances. Yet also as in June, they did not offer any 'additional' radical steps which some market participants had hoped to hear.

This time it was on the FOMC July 28-29 Meeting Minutes (<https://bit.ly/2CNkyl6> our marked-up version for ease of identification of key sections) noting the still very significant pandemic risks to the US economy. Yet the Fed had nothing new to then add on any additional action. Amidst that general assessment, there were several key sections worth noting in their own right. See the highlighted sections in pages 7-11, but especially the page 3 note regarding small business impact.

This explains quite a bit about how the still dire broad economic and employment indications (reinforced this morning on the unexpected significant jump in US Initial Weekly Jobless Claims) are not impeding the US equities sustained rally. The small businesses which are not part of major stock indices are continuing to suffer while major firms that have direct access to capital markets can borrow heavily at the current very low rates. The big get bigger while the small suffer.

This also has to do with the nature of businesses: online centered ones versus direct contact shops like restaurants, retail goods shops theaters, etc. As the FOMC minutes note, *"In contrast, smaller firms not well represented in the S&P 500 may be experiencing greater effects on their businesses due to the virus."*

This stress on smaller businesses is also discussed further in the section on borrowing costs. Credit conditions for small businesses considered at risk are rightfully tightening on their lenders' concerns about their overall viability. And those were not unreasonable in light of the additional FOMC minutes note that *"...the prospect arose of many businesses having to shut down operations again in response to rising coronavirus cases. Small business loan performance deteriorated significantly; short-term delinquencies were comparable with levels seen in early 2008."* Not surprisingly, the FOMC again implored Congress to act.

A very good synthesis on these important cross currents regarding the fate of big and small businesses was CNBC's Liesman discussing it with Allianz' Mohamed El-Erian (<https://cnb.cx/2Qbcm8Y>) this morning. Liesman reminds us that US small businesses represent between 50% and 60% of total employment, and the crippling of small businesses in favor of large ones also stifles critical innovation.

In addition to reviewing the same topics in the FOMC minutes, El-Erian makes a very good point near the end of the segment on the extreme need for Congress to do more. He notes

that small businesses are not just employers. *“They also are the main way to have inclusive capitalism, and an inclusive market-based system. And if you want capitalism to be sustained, you need buy-in from a lot of people. You cannot get buy-in if it’s all about large corporations.”* Well said.

Then there was the other topical issue on which some folks fixated as the next Fed radical action ‘panacea’ that they were hoping to hear it endorse: Yield Curve Management, which the minutes referred to as *“yield caps and targets.”* Yet it was clear that the FOMC was not at all interested in that at this time. It rightfully noted, *“... most judged that yield caps and targets would likely provide only modest benefits in the current environment, as the Committee’s forward guidance regarding the path of the federal funds rate already appeared highly credible and longer-term interest rates were already low.”* While once again well said, this is likely one of the areas where bullish US equities expectations were disappointed.

The extensive ‘bifurcation’ we have noted between the psychology of different asset classes is confirmed as being based on economic divergence as well. It is a matter of the US (and in some good measure the global) economy rotting from the foundation even if the businesses at the top thrive on amenable conditions delivered in part by the Main Street weakness. At some point this is likely to catch up with larger businesses as well. In the meantime, US equities hold setbacks.

The headwinds for the global economy and areas beyond small businesses like commercial real estate continue as significant concerns. China’s loss of global export share is a concern after the recent extreme miss on its Retail Sales, which speaks of its failure to transition to a consumer-led economy.

Even those firms which are encouraging employees to return to urban offices are seeing a very low uptake... and are not at all bothered by it. It will likely lead to lower rent bills in future. Yet that will be a real problem for landlords and banks down the road; even if many are hoping for better conditions. Shades of 2008.

This is why despite the US equities resilience the global govvies have regained their bid after last week’s US inflation data hiccup. And while the US dollar has regained some ground against the developed currencies, it remains a long way from any sign its overall downward trend is reversing.

And emerging currencies that had regained some ground of late are back under some nominal pressure once again. We suspect that is on today’s weak US Initial Jobless Claims, yet with the bigger indication coming in Friday’s next round of global Advance PMIs that are anticipating further nominal Manufacturing gains.

Courtesy Repeat of Wednesday’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/3h5ruRg> 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. Yet pushing above it in late July opened the door to a retest of the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again since two weeks ago.

The only nominal resistance above that is February's 3,397.50 front month future all-time high. Along the way is a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR is so minor in the face of a major rally back from the February-March debacle, it is hard to imagine it can prevent the front month S&P 500 future from at least taking a look above 3,397.50. Current trading up into the low-3,390 area supports that previous view.

That is also just above the extended 'adjusted' weekly Oscillator range, with the next (all-time) Oscillator range not until the 3,405-10 area this week, and also riding \$7 per week on the continued MA-41 rise. That is the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. It's going to be very interesting.

Does classical over-extension take its toll, or do US equities just power higher? For more on those 'contingencies' based on adjustment to the previous classical Oscillator thresholds (and how they were evolved), please see Tuesday's ALERT!!

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