Gmail

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

ROHR ALERT!! ‘Risk On’ Rules… Looking Past the Trough?

1 message

ROHR Alert <rohralert@gmail.com> Fri, Oct 9, 2020 at 10:43 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
Well, it is clear bulls have taken control of US equities again. There are many possible rationales for this in the face of the continuing bad COVID-19 economic news and data. Rather than delve back into those aspects, which we have so extensively reviewed in recent days, we can only consider how the market is ‘looking past the trough’. That would seem to be on the prospect for additional US government stimulus relief, and the question is when that might occur…

...and does it make a difference if it is immediate or deferred? On a surface level, this gets back to President Trump’s sentiment. On Tuesday he seemed to blow up any possibility of even entertaining a comprehensive relief package, pronouncing it dead due to Speaker Pelosi and the Democrats not negotiating in good faith.

However, only hours later he engaged in a classical Trump tweet-storm, imploring Congress to pass piecemeal support for airlines, other businesses and $1,200 relief checks for individuals. This seemed to indicate his bluster in cancelling talks was a hardball negotiating tactic (see ‘The Art of the Deal’ for much more.)

His problem is that Speaker Pelosi is also adept at hardball. She did not budge a single iota in her commitment to any deal needing to include substantial relief for decimated sales tax-depressed state and municipal coffers. As noted previous, any money for those entities is an anathema for the Senate Republicans. See the CNBC interview link and analysis in Wednesday’s ‘Still Deal or No Deal’ ALERT!! for more on this stubborn assertion from GOP elder statesman Judd Gregg.

Trump was woefully misguided in suggesting that piecemeal relief could occur without the participation of the Speaker… because (as reviewed in Tuesday’s Stimulus RIP? ALERT!!) “*...spending bills need to originate in the House*…” However, now that he seems (according to messaging from Secretary Mnuchin) to be back asking for an ‘imminent’ package again, what the heck is going on?

The US equities strength on this calls for two considerations. In the first instance, as also explored on Tuesday, Trump’s more erratic than usual shifts (which is saying something in its own right) may relate back to the current high dose steroids treatment for his COVID-19 infection. Just to be clear, we are not saying that he is mentally unstable. Yet as we know from experience and noted Tuesday:

“*While it has always been the case with the President to ‘expect the unexpected’, that may now see even wider swings in his statements and actions*.” Yet the other aspect of any expanded immediate relief legislation is that it will need to pass the Mitch McConnell’s Senate. And despite what Mnuchin and Pelosi and now Trump might be saying or doing, the Senate has no interest in expanded spending.

So indeed chances for any immediate US government COVID-19 stimulus/relief remain very negligible. As the old saying goes, “*Between slim and none, and Slim just left*.” Yet the issue of what lies ‘past the trough’ might now be the key. It is the ‘received wisdom’ that a Biden-Harris administration will follow through on their promise to raise taxes on corporations and ‘the rich’. At present it seems opinion polls (for whatever they’re worth) are indicating an expanding Biden lead.

Fair enough. Yet it is important to note that quite a few vulnerable Republicans mean that the Senate is ‘in play’ (versus the assumption Democrats will continue to control the House.) And given Democrat’s commitment to more immediate expansive COVID-19 economic relief, what might the market expect if indeed they hold the White House, Senate and the House? While across time those higher taxes and some increased regulation (restoring Obama items that Trump rolled back) might weigh on the US economic prospects, the more immediate action will be to provide the additional assistance being blocked by the GOP Senate.

As such, just as the ‘received wisdom’ was wrong on the 2016 election of Donald Trump leading to an economic and financial market disaster, it might also be the same for the election of the Biden-Harris ticket. That said, it is still fascinating in the context of all the continuing bad COVID-19 pandemic spread news (especially now in the US) that the US equities can be ‘looking past the trough’ to a degree that includes actions which will only transpire after January 20, 2021.

However, we (among many others) always allow that the US equities tend to be a ‘discounting mechanism’ (i.e. anticipatory vehicle) for the state of things six to nine months into the future. As such, the market might be operating under the combined anticipation of both Q1 2021 stimulus along with the still hopeful developments on international vaccine development into Q2. That might be the sort of potent cocktail which will allow US equities to look past even the very likely further near-term bad pandemic news, and associated economic drags.

This is also what seems to be playing out in the global intermarket activity on the intensified US dollar weakness against both developed currencies and emerging currencies as well (except for the secular weakness in the Turkish lira.) The US Dollar Index falling further below 94.00 area speaks of a continuing down trend.

Yet the global govvies are holding their recent bid, and even extending it is the UK and Europe. That would seem to suggest even if the US equities can ‘look past the trough’ to better economic conditions by mid-2021, the near term damage will be enough to restrain inflation for quite some time. That is most likely true if the US and global employment situation remains weak overall.

This is the critical consideration
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 rally (as is clear on the weekly chart https://bit.ly/3d5p5EJ updated through Friday.) Yet it also pushed above that out of late July.

This opened the door to a retest of the February’s 3,397.50 front month future all-time high. And after such a major rally back from the February-March debacle, it was hard to imagine the old February all-time high could prevent the front month S&P 500 future from at least

taking a look above 3,397.50; and that then transpired on the late August push above it into the low 3,500 area.

Aside from the sheer magnitude of the selloff in the first week of September, it was important as a technical pattern top. With such a significant rally above the previous week’s 3,504.50 Close, the drop well below it established a major DOWN Closing Price Reversal (CPR). Along with the topping line, that is now the key higher resistance on any sizable recovery from lower support.

The next significant support after it traded below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the recent attempt to stabilize at no worse than the 3,300 area, the market exhibited a couple of less than credible pattern bottoms with key failures in the 3,400 area (see our September 18th ALERT!! for a full discussion and Evolutionary Trend View fully annotated chart analysis.)

The latest of those saw a lackluster 3,400 area UP Break early Tuesday September 15th that failed in the wake of key macro factors. That suggested a previous 3,295 trading low of the selloff would be violated, as occurred. Follow-through after that saw multiple tests of the 3,230-00 range (Tolerance to 3,185.) Near-term resistance in the low-3,300 area was exceeded last week, with the more prominent resistance up in the 3,400 area (February high and recent failures) now being exceeded. It is now the case that 3,504.50 DOWN CPR (Tolerance 3,510) will likely be retested.

Thanks for your interest.

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