Gmail

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

ROHR ALERT!! ‘Risk On’ Forever?

1 message

ROHR Alert <rohralert@gmail.com> Mon, Oct 12, 2020 at 10:44 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
The US equities surge late last week gives the impression that it may be back to ‘risk on’ forever once again, which most recently lapsed in the very beginning of September. And to cut straight to the market chase, that early September activity comes back to be very relevant now. That is because of the clear topping activity.

As noted in Friday’s ‘Looking Past the Trough?’ ALERT!! and in all analysis since early September, “*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 annotated chart and background on the trend evolution in the ‘critical consideration’ below.)

And that sizable recovery has indeed occurred with last week’s December S&P 500 future push above the recent 3,400-30 resistance, which was right around the important February 3,400 area previous all-time high. The push above 3,400 area was impressive in coming after a month of stalling on rallies back up into it.

And on a ‘macro’ level that also means key front month S&P 500 future (still September at the time) 3,430 trading high on September 16th was into the next still negative quarterly OECD Interim Economic Outlook (https://bit.ly/2Fzh3rz.) That was followed by angst over Fed Chair Powell’s press conference that afternoon not providing any further new stimulus programs from the Fed.

As such, after the front month S&P 500 future (December into late September) multiple tests of the 3,230-00 range next lower support, the push back above 3,400-30 represents a reconfirmation of the dynamic nature of the US equities bull trend... for now. Also on a macro level, this is occurring into clear deterioration of the COVID-19 pandemic spread in the US, with what appears to be a very distinct second wave in major parts of Europe. Given the likelihood that this will engender further economic restraints to suppress the pandemic spread, there is a good question over why US equities are acting like the future outlook has improved.

To further consider the near-term market anticipation at this time, it is necessary to revisit the return to a bifurcated ‘macro’ psychology. The likely worsening of the overall economic landscape on further small business failures and pressure on some larger businesses (especially airlines and hospitality among others) paints a worsening picture. That is apparent in the resilience of global govvies that have been pushing quietly higher despite the US equities strength.

And in foreign exchange recent extended US dollar weakness has been another ostensible sign of a better economic psychology elsewhere in the world (i.e. no ‘haven’ bid.) Or is it? Might it simply be the shunning of the greenback due to the less opportune outlook for the

US due to its seeming lack of ability to grapple with necessary actions to suppress the COVID-19 pandemic spread? This is also in the context of better results across the Pacific Rim, where cultural tendencies and government action have combined for successful COVID-19 suppression.

As such, rather than "'Risk On' Forever", current US equities strength still has that final hurdle to overcome in order to signal all the 'macro' problems are being overwhelmed by the potential noted on Friday for '… Looking Past the Trough'. That is the front month S&P 500 future early September 3,505 DOWN CPR, which has a Tolerance to the previous week's 3,510 trading high. That is reinforced by the 'adjusted' weekly Oscillator threshold (weekly MA-41 plus 395-400) we first provided in early September at 3,510-15 this week, rising 6 points per week.

There is also the 3,540 weekly Oscillator threshold based on the actual differential of the late August 3,505 new all-time high Close against weekly MA-41. While not necessarily a surprise, it is of note that the longer-term topping line has also risen to the 3,540 area this week, representing the secondary resistance of which both traders and investors need to be aware on the potential for a reinstatement of more of the 'runaway' bull psychology from August into early September.

Yet the question remains, why is there any more of a 'risk on' psychology now into seemingly worsening global macro issues with the resurgent COVID-19 pandemic spread? Quite simply, it is the '… Looking Past the Trough' sense of things despite the current US government COVID-19 stimulus/relief package logjam. That is between a suddenly more accommodative Trump administration, problematic possibly compliant Democrats, and the hard core resistance to any further spending beyond a nominal amount in the Republican controlled Senate.

Yet, as noted on Friday, "...*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*." And the politics looks better now.

That is because the Biden-Harris ticket no longer represents an immediate drag on US equities. That is in part on a lack of progress on US government COVID-19 stimulus/relief at present. The ongoing major damage to the US economy later this year from a lack of action will likely be met with an even more extensive Democratic Party ask for stimulus/relief into early next year if Biden should win.

As such, rather than the fears over what will likely be some increased taxation and regulation from Biden-Harris, there are also hopes for greater infrastructure spending that will spur job creation, which ended up not happening during the Trump administration. And on the stimulus/relief prospects, US equities are able to 'look past the trough' to what will likely be truly major stimulus into early 2021. Whether that will be enough to surmount the somewhat major low-mid 3,500 area technical trend resistance is now the operative question. We shall see.

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/3iPO4NN 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) with a 3,510 Tolerance. Along with the 3,540 topping line, that is now key resistance after a recent 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.)

Yet it held that 3,230-00 area once again. And now finally surging back above the 3,400-30 area leaves a burden of proof on the bears to get the market to fail back below that area. In the meantime, whether the December S&P 500 future can post serial weekly Closes above first 3,505-10 and ultimately the 3,540 area will decide if it is indeed again 'Risk On' Forever.

Thanks for your interest.

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