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ROHR ALERT!! ‘Risk On’ Redux

1 message

ROHR Alert <rohralert@gmail.com> Wed, Oct 14, 2020 at 10:58 AM
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Dear Subscribers,
After the past several days focus on a return of US equities ‘risk on’ psychology despite some key macro factors, the trend dynamics are now again very clear. That has to do with still highly ‘bifurcated’ fundamental forces into what has clearly become the ‘Liquidity Rally’ we referred to in Tuesday’s ALERT!! title.

And we refer you back to our analysis from late last week and earlier this week for more on the sustained and worsening fundamental influences, especially on the resurgence or further spread (take your pick) of the COVID-19 pandemic. This is in the context of what some feel is a further hit from the extensive first wave in the US. Many others credibly see it as the heavily predicted, and dreaded, beginning of the major Fall-Winter (i.e. more indoor activity) global second wave.

Yet as in yesterday’s sharing of Monday’s CNBC interview with the estimable Mohamed El-Erian (https://cnb.cx/3dm5Hnh), while there are other considerations now, the US stimulus is the key factor. He also noted (although not included in this video clip) that while the US equities ‘liquidity rally’ looks good now on future stimulus anticipation, when other markets have defied overall negative factors…

“*...they tend to catch up all at once*.” He even says that if any limited stimulus deal can be made, it might not get through Congress in time to have a significant impact… certainly not prior to the November 3rd election. He notes the market believes it is a matter of time (and we wholeheartedly agree), but…

“*...the problem with the ‘matter of time’ argument is that ongoing damage to the economy every day, so it really does matter when it will come*.” And in what is a ‘behavioral’ market, “*...it has been reinforced to believe that liquidity is not just necessary but sufficient for ever higher asset prices. So this market will look at whatever silver linings are around, and extrapolate that*.” Most interesting.

And in Evolutionary Trend View (ETV) terms, market dynamics have crystallized around the key levels this week. That is the weekly topping line and key Oscillator resistance (based on the late August high weekly Close) into the 3,540 area tested on the upsurge extension at the beginning of this week (more below.) Yet stalling into that exact area restrained the complete overrunning of the early September 3,505 area weekly Closing Price Reversal (CPR) and its 3,510 Tolerance.

However, that is so far only a temporary respite for beleaguered bears. They must foment a more definitive ‘refail’ below the 3,505-10 range to suggest any broader downside potential than Tuesday’s minor blip, even in the near-term; much less any sign the low 3,500 area DOWN signal remains a definitive top in a ‘behavioral’ bull trend. Considering the ‘big penny’ psychology, that obviously means a more extensive selloff below the 3,500 area.

Given the shorter-term price activity out of August into early September, that likely means at least daily Closes below 3,475.

The near-term 'risk on' psychology is locked into a battle with the idea (shared by El-Erian as well) that there will be quite a bit more near-term economic damage if there is indeed no US government stimulus/relief until possibly after the January 20th inauguration of the US President… with a possible Democratic silver lining.

Many questions remain on the November US election decision despite sustained Biden-Harris polling gains. Yet quite a few Republicans are concerned about the degree of Trump's deficit, and if that might be reflected in the final vote. If so, there is serious angst about the 'down ballot' results… even the potential for the Republicans to lose control of the Senate. (This is surely the reason they are pushing Judge Barrett's Supreme Court confirmation so aggressively.)

If so, it would be a Democratic sweep of all three legislative wings: the White House, Democratic dominated House and then the Senate as well. This is a concern due to the recently accelerated disapproval of President Trump. As such, any reservations about the sizable Democratic COVID-19 stimulus/relief spending would vanish. Given the additional damage to the US economy if that needs to wait until after January 20th, the size of the package might balloon to truly Brobdingnagian proportions… $3.0 trillion could become $4.5-$5.0 trillion.

Yet for all of their recent strength, US equities still trade like in a fairly unstable fashion. That is due to there still being some trepidation (likely constructive) on the Democratic side over the huge miss by the polling organizations that had Hillary Clinton winning in 2016; especially in the key battleground states. Yet it is the case now that if the Biden-Harris lead holds up at current levels, they will indeed prevail… even if that might lead to tax and regulation increase 'agony' later next year after any initial flush of stimulus/relief spending 'ecstasy'.

Shepard Smith is back broadcasting the news (CNBC weekdays 19:00 ET), and we are glad to see this balanced professional back on the air. He was forced out at FOX News Channel for being too 'balanced' among the Trump cheerleaders, who the President has now turned on as well. On Monday he had NBC's election poll expert Steve Kornacki dissect the polling situation (https://bit.ly/3jZpr2m.)

As Smith pointed out (from 01:28), it boils down to the potential for the pollsters to be wrong again, just like 2016. That is especially regarding the most important factor: the key battleground states. While the polls had general election results right in 2016 (Clinton winning the popular vote by several percentage points), they blew the battlegrounds, and thereby the overall election prediction.

However, Kornacki points out the Biden-Harris lead in most of those key states is large enough to withstand even major polling failure of 2016 proportions. This is in addition to the pollsters improving their approach from the 2016 base which did not include enough 'non-college educated whites'. Yet that notwithstanding, at present (which can of course still change), the Biden-Harris lead would still overcome even the major 4.8%-7.4% 2016 errors to still give them the key states: narrowly in Wisconsin, yet more decisively in Pennsylvania and Michigan.

As such, the market psychology battle now on the clearly defined ETV since the early week price activity would seem to revolve around that December S&P 500 future 3,540 versus low

3,500 area confrontation. While the still weak US dollar in the broad foreign exchange dynamics would seem to reinforce overall 'risk on' psychology, global govvies strength despite the hotter than expected US PPI this morning seems to refute it. It is all still 'bifurcated', pending US equities' decision.

Another Courtesy Repeat of Monday's 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. The only nominal resistance above that is the early September 3,587 front month S&P 500 future all-time trading high.

Thanks for your interest.

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