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ROHR ALERT!! So It's 'Risk Off'

1 message

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Dear Subscribers,
Events have conspired to dislodge what had been the stubbornly effective US equities 'risk on' psychology. It was not just one factor, based on the market reaction to various bits of good and bad 'macro' influences (economic data as well as news.) However, it would seem that Treasury Secretary Mnuchin's clear acknowledgement Wednesday morning that a US stimulus/relief deal was unlikely prior to the US election was the *coup de grâce* that felled the 'risk on' psychology.

And even though he was on CNBC this morning claiming that he was hopeful something could happen sooner than not, that is still based on a 'skinny' package which can pass the very much more (even more so than the White House) limited spending appetite in the Senate. While we have been highlighting it for many weeks, the latest indication on the differences between the sides is striking.

The UK Independent ran an article (https://bit.ly/3lK06tK) with associated video on Senate Majority Leader Mitch McConnell laying out that it is simply a blame game. There is very little hope of any resolution unless the House significantly lowers its spending request. What was bizarre was it occurring during a debate with his election challenger Amy McGrath, where McConnell broke into sustained laughter as McGrath pointed out the economic and societal urgency of the situation.

Was McConnell actually laughing at the prospect of no stimulus/relief package passing anytime soon? Or was he simply slap-happy from the sustained stress of the current negotiations? (Needless to say, the term 'slap-happy' and McConnell's name in the same sentence would seem more than a bit of a *non sequitur*.)

Yet in addition to that, the definitive statement from the Leader (watch the video) is the ultimate confirmation the chasm between the Senate and House positions (which at this point also includes the more accommodative White House) is still massive. So Minuchin's Wednesday comment came against that backdrop.

As such, our previous instincts on this despite the December S&P 500 future early week push above the early September 3,505 area weekly DOWN Closing Price Reversal (CPR) and its 3,510 Tolerance have been borne out near term. There was an Evolutionary Trend View (ETV) problem for the bulls even above that area in the form of a long-term weekly topping line and key weekly Oscillator resistance (based on the late August high weekly Close) into the 3,540 area.

That was tested on Monday's upsurge. Yet stalling into that exact level prevented complete overrunning of the 3,505 area DOWN CPR. It was a case of the market shoving the bears right up against the last ditch resistance; yet that also left the 'burden of proof' on the bulls to show the rally could overrun it. That said, it was only a temporary respite for beleaguered

bears. They needed to 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.

Given shorter-term price activity out of August into early September, that means at least daily Closes below the 3,475 congestion. And in the wake of Mnuchin's Wednesday comments against an already problematic US stimulus/relief package landscape, the December S&P 500 future indeed dropped down to trade and Close around that area on Wednesday. The ETV issue now is whether it can claw its way back up above the low 3,500 area, and ultimately surge above 3,540.

If not, then it is reasonable it will at least swing down for a retest of the 3,430-00 area out of which it exploded late last week. Recall that the 3,400 area is also the previous front month S&P 500 future all-time trading high. And the weight from the continued US COVID-19 pandemic spread in the US (as well as Europe) will maintain economic pressure. In fact, whether an extended first wave or a dreaded second wave, the spread into the previously unscathed US heartland is daunting.

Note the New York Times map (https://bit.ly/2SXTv2l) for the new COVID-19 case count through Wednesday. While new cases are overall back above 50,000 now, the striking part is the impact on the Midwest and Northern Plains, which are much less well equipped to handle it. That is due to the lack of the sort of extensive hospital facilities which assisted the Northeast in getting past its crisis.

The word from Iowa and South Dakota (as well as hints from other places) is that ICU beds are rapidly being taken, with no regional capacity to absorb overflow. This is both a tragic health situation, and is just the sort of thing which will foster more draconian restrictions to attempt to suppress the pandemic. Quite a few folks at the Centers for Disease Control have already suggested even small family gatherings might need to be curtailed… right into Thanksgiving? Blasphemy!!

It all gets back to our last week of questioning the durability of the 'risk on' US equities psychology in the absence of any prospect for a stimulus/relief package. We have noted the potential for a major package if the Biden-Harris campaign manages to win in November (especially if Dems also take control of the Senate.) However, it is also still as we cited from Monday's CNBC interview with the estimable Mohamed El-Erian (https://cnb.cx/3dm5Hnh.) While there are other considerations now, he stressed the US stimulus is the key factor.

He also noted (although not included in this video clip) that while the US equities 'liquidity rally' looked good on future stimulus anticipation, when other markets have defied overall negative for any extensive period of time…

"...*they tend to catch up all at once*." He even said that if any limited stimulus deal can be made, it might not get through Congress in time to have an impact… certainly not prior to the November 3rd election. That seems particularly prescient just three days later. He notes the market believes it is a matter of time (and we wholeheartedly agree) until the US passes some form of relief, 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.

There is also a key US election assessment in Wednesday's ALERT!! that is worth reviewing if you have not done so already. It addresses the key issue of what any opinion poll errors might mean if on the same scale as the 2016 miscalculations.

In terms of the global Evolutionary Trend View, the key now is whether December S&P 500 future can post serial Closes once again first above the low 3,500 area, and ultimately the 3,540 area (rising to 3,545 next week.) And a shift to a 'risk off' psychology is being reinforced to a modest degree by the recently quite weak US dollar getting a bid against both developed currencies and emerging currencies.

And once again the global govvies are confirming the old axiom that they are "...*the equities' smarter older brother*." Out of what has recently once again been a very 'bifurcated' macro psychology pending US equities' decision, the global govvies never came under the sort of extensive pressure that would have been consistent with the a much improved fundamental economic situation, or at least the confidence that would have flowed from a substantial new US stimulus/relief spending package. Instead the global govvies continued to reflect skepticism, with the US now getting more of a bid, but Europe exploding to the upside.

Another Courtesy Repeat of Monday's critical consideration
[To be updated after Friday's major European and US economic releases)
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. And the key lower support is the 3,475 near-term congestion below the 3,500 area.

Thanks for your interest.

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