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ROHR ALERT!! Like a Stradivarius

1 message

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Dear Subscribers,

We probably do not need to explain there have been wild vacillations in market psychology based on anticipation for a now significantly delayed next round of US government COVID-19 stimulus/relief: It's on, it's off, it's on again, it's off. However, throughout these machinations two overriding factors abide. The first is the stubborn resistance of the Senate Republicans to any sizable relief package.

As a reminder, none of this is a political statement on our part, as we are not at all partisan in our comments. This is all rather meant as our typical exploration of the *realpolitik* on what to expect for market anticipation. The Senate aversion to the more major spending the Democrats have requested since passing their next COVID-19 relief bill back in mid-May. It is cast in some discussions as a return to fiscal discipline by a party that has found it easy to spend like drunken sailors (with apologies to the real sailors) when it suits their purposes: like on defense.

The more realistic argument (as we have noted previous) is their stated aversion to providing money to any Democratic-run cities and states that will use it to cure self-inflicted damage due to massive underfunding of their pension programs. However that is specious at best for two reasons. The first is that any rational analysis of how funds will be distributed to states and municipalities shows that Republican entities will benefit almost as much as the Democratic precincts.

The second is that the alleged Democratic culprits have all agreed to only use any relief funds for just that purpose: to offset significant drops in sales tax revenue (and other revenue sources) due to the pandemic which has fractured all of their budgets. Basically, just as much as any PPP business employment support programs, they would use funds to maintain payrolls for key workers like police, fire, health, garbage collection, and so forth... and NOT pension plan repair.

The second overriding overall factor in the stimulus/relief negotiation is the finesse by House Speaker Nancy Pelosi. In the context of the extremely divergent political positions into the major November 3rd US general election, she is clearly playing the other side like a Stradivarius (<https://bit.ly/35jbu9A>.) No less so than a violin virtuoso, she is turning political position evolution timing into an art form.

To cut to the politico-economic-market chase, we strongly suspect that by the mid-to-late part of next week she will have her House cohorts agree to pass a bill formalizing whatever elevated amount and spending priorities she has wrangled from Trump and Mnuchin. The question is why 'then' instead of 'now', or for that matter over the past month or so? The answer can be cast in market terms.

Have you ever assessed a market that was surely ready to head in a particular direction, yet you knew it was only going to be ready to move after a particular point in time? While we

touched on it last Thursday, 'why' Pelosi continues to find short-term reasons to delay approval of increased offers from the administration, often on specious grounds, is worth revisiting in the currently evolved context:

"And even though (Mnuchin) 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/3IK06tK>) with associated video on Senate Majority Leader 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 Mnuchin's Wednesday comment came against that backdrop."

In the context of another week's evolution of the negotiations where the Trump administration had upped its bid for overall COVID-19 relief spending to a lofty \$1.8 trillion (in the wake of Trump very temporarily cancelling negotiations last week before a full *volte face*), it might be reasonable to expect that Democrats would find reason to "...not let the perfect be the enemy of the practical..." in a situation where they are still asking for \$2.2 trillion to aid suffering Americans.

Yet there is also still strong resistance from the Senate Republicans. While the President stated in last Thursday's town hall (more so a contentious interview) that if the administration and House reached agreement, he could get the Senate Republicans to go along, that was immediately rejected by Leader McConnell. This has been strongly reinforced by his explicit statements this week.

He was very clear that he was not sure Senate Republicans would vote for such a measure after being adamantly against a sizable package for months. And in terms of the legislative calendar, according to today's very good Reuters article (<https://reut.rs/2FN3Rzn>), "McConnell told his fellow Republicans that a deal on a package now could threaten his plans to rapidly move Amy Coney Barrett's Supreme Court nomination through the full Senate next week."

It is a particularly contentious election campaign issue among some voters that the Senate Republicans can move so quickly on that, yet not agree to higher relief spending even as US pandemic spread is fomenting more economic restrictions. However, this is just what Speaker Pelosi is counting on, not just regarding Joe Biden capturing the White House, but

also a reasonable expectation Democrats might end up with a US Senate majority as well due to so many close races.

Given that Trump and Mnuchin have already signaled they are ready to spend a lot more than their parsimonious Senate allies, Speaker Pelosi feels she can wait for a deal that will still be available whenever she is ready. In fact, in the past 24 hours McConnell implored Trump-Mnuchin to NOT strike any deal with the House due to that likely creating a serious conflict or split inside the Republican Party.

Along with the potential delay in the Barrett confirmation process, nothing could suit Speaker Pelosi better. As noted briefly in Monday's "Relief 'Push'" ALERT!!, *"All of which gets us back to our previous cynical realpolitik view of what the Speaker is playing at: delaying relief measure negotiations long enough to have any agreement only occur just before the election. That will allow the Democrats to look accommodative, push the Senate into the role of being the 'bad guys' on the eve of the vote, and not give President Trump a photo op."*

Which only leaves the question of why would we attribute such mastery of the political process to the Speaker, instead of just assuming she is fumbling along like the rest of the politicians? The simple answer is that she is always among the smartest, and often THE smartest politician in the room. For our not politically oriented US readers and our extended international audience, be aware of her political pedigree (<https://bit.ly/37rVi8B>.) Her parents were active in Baltimore politics, with her father serving as both US Congressman and Mayor.

Per her WIKI, *"She helped her father at his campaign events. She attended John F. Kennedy's inaugural address when he was sworn in as U.S. president in January 1961."* *"In 1962, she graduated from Trinity College in Washington, D.C., with a Bachelor of Arts in political science. Pelosi interned for Senator Daniel Brewster (D-Maryland) in the 1960s alongside future House majority leader Steny Hoyer."* And in a classic example of the loyalty of her political comrades, Hoyer has been either the House Majority Leader or the Minority 'Whip' since 2003.

Her early political tutelage under her parents left her with two abiding lessons. The first is one should never push an issue unless they have the votes. The failed Trump impeachment attempt was something she got forced into by the overly emotional Progressive Left of her party. That was even though she had vowed to hold off until things were so bad for Trump she could count on the Republicans agreeing to convict him in the Senate. Other than that there have been no instances in which she has ever violated her number one attribute: *"I can count."*

The second lesson goes back to the Ecclesiastes verse from the Bible, *"...for everything there is a season..."* Outside of the misguided impeachment effort, she is a consummate timing maestra. In any event, if we are anywhere near accurate in our anticipation of her relief negotiation decision into next week, it will be apparent in hindsight she played the other side "like a Stradivarius."

That is why we are still very negative on (or at least wary of) US equities in the near-term. Yet we can see a point into next week where the bears will be at risk of a sharp squeeze higher based on the political scenario explored above.

This potential Republican disarray based on the Speaker's negotiation timing is likely also why the global govies are suffering despite the US equities weakness. That is on potential

for a Democratic sweep of both houses of Congress and the White House creating a more profligate period than during the pandemic. While central bank liquidity and fiscal largesse have not created more inflation in recent years, it might possibly be a prevailing psychology into a major political change.

That same psychology (possibly along with the very poor US COVID-19 pandemic response) is also likely at least part of the weaker US dollar psychology. That is now both against emerging currencies as well as other developed currencies, where some of the latter might also have issues with their pandemic performance being under pressure again from the renewed spread in Europe. Even the British pound is strengthening despite its pandemic surge along with Brexit problems.

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/31IF3pG> 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 level is the 3,475 near-term congestion below the low-3,500 area.

Thanks for your interest.

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