Gmail

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

ROHR ALERT!! Will She, Won't She?

1 message

ROHR Alert <rohralert@gmail.com> Mon, Oct 26, 2020 at 10:20 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
We are coming to you a bit earlier than usual at the top of a very big economic reporting and 'macro' influence week. The former includes all of the major late month economic data that will see the advance indications of major Q3 economic reports like GDP numbers, and also key late month October indications.

That said, the latter includes the late phase of the US election campaigns into next week Tuesday's US general election, and whether there is a breakthrough in long-stalled US government COVID-19 stimulus/relief package negotiations from the administration and the House. The latter is the basis for today's ALERT!! title, regarding whether Speaker Pelosi will surprise the opposition by agreeing a deal.

That would surely be a fillip for the now struggling US equities on the back of slightly less bad (as opposed to fully bullish) economic expectations. The reason it will only partially offset economic concerns is that it is only a counter to the intrinsic COVID-19 widening weaker factors. (More below on all of that.)

As noted in Friday's 'Decisive Debate' ALERT!!, while President Trump did much better last Thursday, that was a low bar after his first debate performance. And it was the case that VP Biden also did well. As mentioned there, "*And that is a problem for Trump, who needed Joe Biden to have a 'bad' night to weaken Biden's opinion poll leads. Short of that, and allowing for any surprises in the last eleven days of the campaigns prior to the November 3rd election, the abiding perspective is that Biden will most likely win by at least a narrow margin*."

With that in mind we also noted on Friday, "*To cut directly to the market chase at this critical juncture, this means there is now a distinct disconnect from the typical intermarket tendencies. As noted in yesterday's summary comment on this, 'Concerns over accelerated profligacy (under a Democratic regime) is a psychology that explains both the weakness of the global govvies as well as the greenback.' That is a very unusual Evolutionary Trend View (ETV) in the context of recent US equities weakness, which might normally signal more of a 'risk off' near-term psychology with opposite effect elsewhere*." And so it remains.

Yet there are two complicating economic factors in the context of that extensive expansion of government spending anticipation. The first is the degree to which even if the Democrats manage to flip control of the Senate, it is not very likely the 'Progressive Left' wing of the party will control the legislative flow. That is due to the degree to which the Democrats elected in 2018 to gain control of the House and those running now for the Senate are Moderates. As such, spending priorities and regulatory efforts are likely to be more moderate in nature.

The second, more immediate, influence is the now very aggressive spread of the COVID-19 pandemic in both the US and Europe. Whether this is the extension of Phase I (as is likely in the US) or the dreaded Fall-Winter Phase II (which looks far more likely the case in a Europe that had been doing better) doesn't really matter in the broader economic context. Many new all-time high infection rates in both areas with higher hospitalizations that threaten health systems are not good.

Whether there are renewed or expanded government COVID-19 restrictions is at least in part beside the point. As the news worsens there will also be an aversion among vulnerable populations to engaging in public gathering and commerce. This will be the sort of economic drag that is not yet factored into buoyant US equities and other foreign currencies against the US dollar. The latter has also been burdened by anticipated greater Biden-Harris US government profligacy.

As noted above, that may not actually be the case when the dust settles on the potential new administration next year. Yet as we also noted again Friday (as well and many times before), "*The market is a creature of expectations.*" While we normally specify that regarding the equities, it seems to be the case now for the global govvies and US dollar as well. On pure anticipation into a major political sea change, that is reasonable regardless of how things actually turn out.

That said, the current seemingly COVID-19 driven weakness of the US equities is also bringing just a bit of a 'haven' bid back to the US Dollar Index on slippage in both developed currencies (greater COVID-19 concerns in Europe) and emerging currencies (due to a bit less 'risk on' psychology.) The same is true for the global govvies after some recent extensive weakness on that future anticipation.

There was a CNBC interview of Allianz' Mohamed El-Erian this morning where he noted that there was a 50-50 possibility of some economies in Europe going back into recession based on fresh pandemic economic restrictions; the 'focused' approach is not working. Even with the US equities being more of a 'behavioral' market based on massive central bank liquidity, the rest of the economy still resides in a real world where the situation is getting worse once again.

As we have noted quite a few times since the OECD mid-September Interim Outlook release (https://bit.ly/2Fzh3rz), we were surprised their interactive graphic (https://bit.ly/3knSYml) eliminated the Q4 'Double-hit scenario' potential from the June forecast (click the 'Compare with June forecasts' button to see the previous projections compared to September.) Seems that might still be the case.

Which is why El-Erian is surprised that the market reacts to every little twist and turn of the Trump-Mnuchin-Pelosi negotiation when the chances anything they agree will pass the Senate remains negligible. Recall that our assessment the Speaker might move this week was strictly for the political purpose of looking reasonable, putting the Republicans in a bad light on the eve of the election, and (already accomplished) depriving Trump of a pre-election photo op. It is still not likely Trump can actually get the Senate Republican Senate to get on board.

That said, El-Erian also points out that any relief will likely need to wait until next year, as there is no greater potential for the McConnell Senate to pass a larger package after the election if Trump has lost the White House; or indeed even if he pulls out a victory. Therefore El-Erian notes the economic 'scarring' will continue, leading to more long-term

unemployment, bankruptcies and greater inequality; with the latter of concern on long-term educational and employment aspects.

Then there is the other economic drag that has been suppressed so far during the pandemic due to the 'eviction moratorium' based on the 'friendly' government move to encourage (and later actually enforce) 'forbearance' during the shocking early phase of the pandemic back into March. Immediately after the 'forbearance' push was announced as a way to prevent evictions, we clearly assessed it.

That was in our March 27th 'Think Implementation…' ALERT!! It highlights the problems that will hit very early into 2021, as also reviewed in CNBC's real estate expert Diana Olick's report last Friday (https://cnb.cx/31Cs96P.) There is still quite a bit of forbearance for homeowners with mortgages due to their banks not being in a hurry to foreclose (they learned their lesson back in 2009 and 2010.) Yet that is not the case for renters, where the situation is bad in a way that could lead to the massive surge in homelessness which the Fed's Powell has warned against.

While this is a problem which will not occur until early 2021, as Olick points out it means 1.34 million renter households will owe a cumulative $7.2 billion in back rent by December, which equates to $5,400 per household. What are the chances that any significant number of those households so heavily affected by COVID-19 related layoffs can possibly come up with those sums to remain in their homes?

And the CDC recent extension of the moratorium through December 31st has just been updated to allow landlords to begin the eviction process immediately even if the actual removal of the tenant cannot occur until January 1st. That may create an accelerated homeless crisis which could weigh on economic prospects.

And it will also be the case that the banks may be impacted by many commercial mortgage issues in the multifamily housing area. As we noted back in late March (and is important to review again prior to all of the other influences this week):

"*Friday's 'Think Implementation' ALERT!! ...now has the added note that recent stories are already highlighting complaints from landlords if rents are suspended, they cannot pay their bills. They will risk declaring bankruptcy. From last Friday*:

"'*Forbearance' is a term the US government has bandied about a lot in recent suggestions on how we can all get through the crisis. Fair enough. Sounds very comforting and optimistic. But will it withstand the test of commercial reality?*

"*'Forbearance' has a specific legal definition: refraining from exercising a legal right, especially enforcing the payment of a debt. And of late the US government has told debt holders and landlords owed rent to show forbearance in collecting scheduled payments and rents while their tenants or borrowers have no income*.

"*That's great… but there is no mechanism in the US Code which outlines how to proceed, and therein lies the rub. Here's a real-world example that illustrates the dilemma. The major US restaurant chain The Cheesecake Factory just informed its landlords that due to having no income, they would be completely suspending rent payments for now. Might the landlord want to show 'forbearance'?*

"*Sure. But does that landlord own the building, or does it have a commercial mortgage? Chances are good it is the latter in most cases; and it likely counts on the rents to make monthly mortgage payments. So now we move on to whether the lender will show*

***'forbearance'. Maybe they would like to as well, and all major banks are thankfully very well-capitalized and expecting to take an earnings hit*.**

"*Yet that might also require that bank is ready to carry more debt on the books that are non-performing loans (NPL) in the short term. Will they get the latitude to do so from their regulators? Will there be adjusted guidelines from the Federal Reserve, FDIC, the Securities and Exchange Commission and others? It may be*.

"*Yet all of this illustrates that the lack of any such 'crisis adjusted' legal structures leaves room for local and regional parochial interests to hamstring the otherwise enlightened federal effort at popular and commercial support*."

All of that said, it is something to keep in mind for future reference on the broader economy rather than an immediate concern. For now the two key factors are the likelihood of a Biden-Harris victory supporting the US equities while weighing on global govvies and US dollar in anticipation of more US government spending. That will be prior to the promised tax hikes, which will only become more of an issue a bit further down the road, and depend on their actual focus and extent.

And of course there is the prospect of some sort of breakthrough in the stalled US government COVID-19 stimulus/relief talks that might cause a temporary bear squeeze in the US equities. That relies in part on Speaker Pelosi deciding this week is the right time to strike in what would be a problem for Mitch McConnell's Senate Republicans. However, even if she does finally decide to 'declare victory and go home', any near-term euphoria on that will need to be tempered by the fact that it may be hard for the Trump administration to secure any GOP votes.

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/34snlxy 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 recently 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 3,550 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 3,380 Tolerance of the 3,400 area (now including weekly MA-9 & MA-13) this side of the still major 3,230-00 area heavy congestion.

Thanks for your interest.

NOTICE: The Rohr International, Inc. research team or its principals may already have entered positions or have orders working based on this view.

This Current ROHR TREND ALERT!! will be available soon via the sidebar at www.rohr-blog.com for Gold and Platinum echelon subscribers.

Please reply **'Unsubscribe'** if you no longer wish to receive these emails.

Contact: rohralert@gmail.com