Gmail

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

ROHR ALERT!! Happy Equities but Upset Govvies

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,
Well, the news this morning from Pfizer that it had finally achieved a broad enough sampling to announce that its COVID-19 vaccine is 90% effective is just the sort of tonic the US equities were looking for to push through the prominent early September topping activity. More on that below, yet first it is also important to note that the global govvies are not taking this news well. This is a sign there may now be major global economic recovery and some inflation anticipation.

This gets back to two market precepts we have recently shared extensively once again, which are at work in today's Evolutionary Trend View (ETV.) The first is the old adage, "*The market is a creature of expectations*." And the second is, "*The market dislikes nothing quite so much as uncertainty*." Certainly, today's Pfizer announcement creates much more positive 'prospective' certainty about a better likely path across time… on multiple levels (more below on the process efficacy.)

There is also quite a bit more 'contingent' certainty on the US election results, with a potentially more effective COVID-19 pandemic suppression approach from a Biden-Harris administration. Once again, that is not a political statement on our part, just an assessment of the *realpolitik*. Yet as the Trump approach has left the pandemic rampant, markets expect a different, science-based (mask-wearing) approach will possibly yield a much more effective address of the pandemic.

Along with those, it is important to remember that US equities (along with most others) trade on a 6-9 month forward anticipation. As such, even though the pharmaceutical companies as well as the more enlightened folks in financial services and the political class are clear that today's announcement from Pfizer is not a panacea, the market is looking forward to much better economic times.

There is now 'anticipation' (market participants' application of the market being a '*creature of expectations'*) that the economic and business climate will possibly be substantially back to normal after all of the COVID-19 pandemic stresses. Especially note this morning's major surge in assets like travel and leisure stocks and financial services. Before we further explore why the news from Pfizer is so good (even beyond the sheer COVID-19 efficacy rate of over 90%), we need to briefly explore the highly divergent EVT implications for key asset classes.

The 'macro' implication is of course that any return to 'normal' business and overall economic activity will take place against a backdrop of recent (and still some future) central bank accommodation and US government stimulus/relief. However, the full rebound will not occur until any vaccine already proven to be safe and effective in final (stage 3) trials is broadly available and 'implemented'.

However, the December S&P 500 future is fully exhibiting that 6-9 month forward anticipation in sharply overrunning the early September 3,505-10 DOWN Closing Price Reversal (CPR) top. Of note, there was also a long-term (10-year) topping line up into the low-3,500 area in early September that helped restrain the rally. That is now up to the 3,550 area, which is now also being substantially exceeded. This is important, as we are not updating our charts until after today's Closes.

The historic high weekly Oscillator differential (MA-41 plus 390-400) is also being blown out, leaving it anybody's guess when the market might be 'overbought' once again. As a rule of thumb under current highly volatile market conditions, once a particular key technical level is violated, it is reasonable to look for another $200-$250 trend extension. As such, the front month S&P 500 future violation of the 3,550 area would seem to imply the potential to extend the rally to 3,750-3,800 area prior to becoming 'overbought' again, at least in the near term.

Part of those very elevated US equities valuations and sheer trend extensions is based on inflationary pricing for the major companies. That may sound a bit counterintuitive to many folks, based on the idea inflation will cause the Fed to tighten. Yet historically it has been established that a bit of inflation is good for US equities, due to the implied stronger pricing power. Yet it is also historically clear which asset class does not enjoy any benefit from that: global govvies.

This is most telling today in the December T-note future weakness back below the low end of the key 138-16/-00 range. This was only very temporarily violated on the US PPI upward blip into early June, yet with an immediate recovery to the mid 139-00 area. 138-00 was also under attack when it appeared the Democrats might get control of the Senate last Tuesday (on fears of US government profligacy.)

That was also immediately reversed once the 'Blue Wave' failed to overwhelm the current Republican control, at least until the January 10th Senate runoff elections in Georgia. See last Wednesday's ALERT!! for much more on that. After the late week rally back to the 139-00 area, the front month T-note future settled into a 138-17 weekly Close, based on Democratic prospects in key runoff elections.

As such, the current T-note weakness while the issue of control of the Senate will not be settled until early January means it must be based on unfolding economic anticipation into next year. While that '*creature of expectations*' psychology is mostly applied to US equities ignoring near-term economic indications at times, it also applies to any sharp shifts in future economic prospects being discounted by the global govvies; as is occurring at present. Once again, this is important due to our only updating the longer term chart projections after today's Closes.

As far as the US dollar is concerned, it is a more nuanced picture. The greenback fell down to another test of the key lower US Dollar Index 92.50-.25 support on that same fear of a Democratic 'Blue Wave' taking control of the Senate (more US government profligacy) on the early US election results last Tuesday. It then also reflected those hopes falling by the wayside with a rally back exactly to the key 94.30 higher resistance, where it stalled prior to a weak 92.23 Close last week.

So far today, it is modestly strengthening, possibly under the auspices of any assumptions the US economy will rebound, and it will also see a more effective address of the COVID-19 pandemic. However, that seems to only be on a sharp recovery against the Japanese yen, which is another 'haven' currency used as a hideout when there is a 'risk off' psychology.

The US dollar is not really gaining against any other developed currencies, and is still losing further (sometimes substantial) ground against the emerging currencies under a shift to 'risk on'.

That is even against the recently very beleaguered Turkish lira. That points to the strength of the 'risk on' psychology, consistent with the latest vaccine news as well as the strong US equities price surge to new all-time highs. Here as well, this analysis is an important substitute for our chart projections and moving average indications until we update all of that to reflect today's important ETV changes.

Back to the extended reasons why the Pfizer announcement is so impressive. That is due to its better than 90% effectiveness in the first instance. It was clearly stated by all of the epidemiologists that most vaccines are only 60% effective, and anything above 50% would be acceptable to achieve FDA approval. At 90% it is on a par with the most effective vaccines ever developed. Those include the one for smallpox, which has been completely globally eradicated. There is also the polio vaccine, which is on the verge of being completely globally eradicated (especially if the US decides to remain in the WHO that is leading the effort.)

While not near global eradication, the measles and Whooping Cough vaccines have proven very effective prior to recent 'anti-vaxxer' attempts to avoid taking those shots. We suspect that in the wake of any COVID-19 pandemic vaccination success, the states will be tightening up rules for exemption from vaccination. That's very important for any success in addition to the 90% efficacy.

Part of the broad vaccine implementation will depend on uptake by the US and international population. And we would hope that previous fears of a low uptake have been at least partially offset by the degree to which Pfizer CEO Albert Bourla noted in a CNBC interview (https://cnb.cx/3n0M87w) this morning that the timing of today's announcement meant it was obviously not at all political. It was purely on the science, which Pfizer (among others) had always noted meant that any announcement was not likely prior to the US election, but possibly right after it.

That should be reassuring to folks who feared political pressure would mean a less than fully tested vaccine would be approved. Yet there is also another aspect which is even much more encouraging than the sheer 90% efficacy of the current vaccine, where the two dose process provides that protection only 28 days after the initial dose is administered. That is the rapid adaptability of the vaccine.

It is also a wonder of modern science (discussed but not included in the CNBC interview clip) that "Messenger RNA" (mRNA) vaccines can be quickly recoded to address mutations, or even applied to other diseases at some point in the future. The current vaccine development follows a couple of decades of research in this area, and is the first mass mRNA vaccine attempt. Anyone wanting much more information on this enlightened effort might want to consult the recent JAMA article (https://bit.ly/3lcZugE), which explores many of the important details.

In any event, this flexibility is very important in discounting any future COVID-19 developments, like possible mutation of the current virus or the outbreak of a future variant. While the durability of any immunity provided by the vaccine is another issue that will only become clear across time, the idea that any future coronavirus outbreak can be quickly addressed by the ability to provide broad immunity after only a brief period (versus what we

all have just been through) is likely another aspect driving the 'risk on' optimism. We can all only hope.

Another Courtesy Repeat of Wednesday's critical consideration
[To be updated along with all charts after Monday's US Close]

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/3jOJRKD updated through Friday, October 30.) Yet it also pushed above it 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. After violating the key 3,380 Tolerance of the 3,400 area (now including weekly MA-9 & MA-13) it also traded below 3,280.

That was important as the Tolerance of the interim 3,330-00 range. Yet it held brief tests of the far more major 3,230-00 area heavy congestion support, and then had an impressive rebound back above 3,300-30 once again on election day. Now also trading above the 3,400-30 area is confirmation of our estimation the US election would be a win-win for US equities. The next area to watch is the early September 3,505 DOWN Closing Price Reversal, with additional resistance into the mid 3,500 area of the major weekly topping line and ultimate weekly Oscillator levels.

Thanks for your interest.

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Contact: rohralert@gmail.com