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ROHR ALERT!! On the Yin-Yang

1 message

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Dear Subscribers,
According to industry legend, when the master financier John Pierpont Morgan (1837-1913) was asked by a bright young passerby what the stock market would do, he responded, "*I believe the market is going to fluctuate*." One gets the sense that Morgan would be right at home in our current volatile markets. This is especially apparent in the US equities, but also other asset classes as well.

Before going into a bit more of the background on the cross currents which can drive the sort of extreme volatility the US equities exhibited on Monday, it is important to consider the Evolutionary Trend View (ETV.) The great news on the Pfizer/BioNTech vaccine tests showing over 90% efficacy led to a massive US equities rally from the opening. That led the December S&P 500 future to spike up to a 3,668 new all-time trading high, well above September's 3,587 previous high.

Yet that early September high was also important as the trading high of that week prior to a significant weekly DOWN Closing Price Reversal (CPR.) The DOWN CPR was from the previous week's 3,505 weekly Close (with a Tolerance to that week's 3,510 trading high.) A major short-term selloff from the 3,668 trading high of over $100 into Monday's Close and current trading this morning, leaves US equities 'on the yin-yang', with further volatility very likely over the coming days.

Yet after such a sharp rally followed by a relative price implosion after the early Monday high, the proverbial 'burden of proof' reverts back onto the bears to force a selloff below 3,500 area. While some may be right that the early Monday activity was a classical 'blowoff', that does not make it a definitive top. Within the ETV it is always necessary to monitor the 'evolution' of the trend as the swings proceed.

In the event, the early September 3,505 DOWN CPR was never confirmed as a 'durable' top, because the further price activity could never break the lower 3,230-00 support, much less lower levels. Fast forward into the current ETV and bears will at the very least need to reinstate the bearish psychology back below the 3,505 area. Otherwise, any holding activity into that area (with a Tolerance to the lower 3,480 congestion) will appear just a retest of that area as support.

As noted in Monday's 'Happy Equities but Upset Govvies' ALERT!!, this is part of a 'sea change' after previous manic shifts in 'risk appetite'. The great Pfizer news seems to have infused a likely far more durable return of a 'risk on' psychology. Regardless of the US equities sharp selloff late Monday, the global govvies are still reflecting the perception that across time (i.e. with a very high degree of anticipation) the US and global economy can reverse the COVID-19 damage.

This is apparent in the lack of any bid returning to the December T-note future after its violation of key 8-month support in the 138-16/-00 range (the lack of downside performance

from a March DOWN CPR.) This is also the case for other global govvies violating key lower supports. The fact that they are well lower today despite an overall $150 selloff in the S&P 500 is a key indication.

As the old adage tells us, "*The govvies are the equities smarter older brother*." That is due to the global govvies ability to better reflect the true nature of the anticipation of future economic influences. On the other hand, US equities can ignore those at times, trading on liquidity, yields and central bank influences. Therefore, while the full impact of the effective and broadly distributed COVID-19 vaccines and therapeutics will take some time (maybe mid-late 2021) to deliver a dramatic improvement in US and global economies, it is being 'discounted' now.

However, the near-term path forward in the context of the rampant COVID-19 pandemic spread is the counterpoint to that hopeful expectation which is seemingly the reason there is such a violent market yin-yang at present. It is the case that the Pfizer vaccine and others and therapeutics will still take months to distribute and take effect. That is right into the major infection surge in the US to more than 10,000 new cases per day. And it is also a dire situation in much of Europe and the UK. That will depress near-term economic activity through both official government restrictions as well as plain old aversion to group activities.

As such, the operative term on the market anticipation of things improving into some point next year is 'a very high degree of anticipation'. And just to be clear, we are very hopeful the best expectations for the efficacy of the vaccines and therapeutics will be borne out. Yet that means quite a bit of bad pandemic news and possibly some erosion of recently better-than-expected economic data in the near term. Of course, the latter could be significantly countered by any move to finish the long-delayed US government stimulus/relief package in Congress.

Whether that is along the lines of the more robust Democratic spending request or the 'skinny' Republican proposals is moot. At this point any relief spending which occurs sooner than not will be a tonic for the US equities, and likely weigh on global govvies. However, that is deferred for now due to Trump administration attempts to impugn the current received wisdom that Joe Biden won the election.

Republican operatives are inclined to support extended maneuvers to uncover voting fraud despite state election officials (even Republicans) noting that any infraction widespread enough to reverse the election results are highly unlikely. However the uncertainty surrounding that is another market psychology aspect supporting sustained near-term volatility, likely impacting the US dollar as well.

For much more on the Pfizer COVID-19 vaccine developments and overall impact of the first mass mRNA vaccine development, please see Monday's ALERT!!

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/3eMWhle updated through Monday.) 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 was 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 early September attempt to stabilize 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 left 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 and now also 3,400-30 area and the 3,505-10 area as well as 3,550 at the beginning of this week. This is confirmation of our estimation the US election would be a win-win for US equities, and the accelerated bullish influence from positive vaccine news.

The question now is whether it can indeed hold the low 3,500 area (Tolerance to the 3,480 congestion) to see if the early September 3,505 DOWN Closing Price Reversal is being Negated. On classic form, that would open the door to an extended rally to the 3,750-3,800 area prior to becoming 'overbought' once again.

Thanks for your interest.

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