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

ROHR ALERT!! Santa’s Already in Town

1 message

ROHR Alert <rohralert@gmail.com> Tue, Dec 8, 2020 at 11:00 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
There are many reasons to remain bullish into the late part of this year. Yet in all years where US equities are doing well around the US Thanksgiving holiday, there is a residual friendly factor: Santa Claus… or more so ‘Santa Portfolio Manager’.

While we will have more to say on that below, first let’s explore the many other macro-technical reasons for a sustained bullish view into the late part of the year. As noted in Thursday’s “More ‘Bad News is Good News’” ALERT!! (and other previous analysis), “*While it is never good to root for less constructive economic data, in this case it is fine to look for anything that will finally pressure the US Congress to get its act together, and provide some relief to the beleaguered American public*.” In that regard, there are now multiple recent factors.

As we have explored the extended aspects and their market influences at length in previous research, we will quickly swing through them. Of course, the most important have been the Biden election victory confirmations from the individual states, and ‘ascertainment’ by the GSA that he was in fact the ‘apparent winner’. After the previous unusual delays, this was considered particularly important for the smooth transition into what is going to be challenging COVID-19 vaccination hurdles. Team Biden needs to hit the ground running on January 20th.

The ‘proof in the pudding’ on that being so important was the December S&P 500 future still stalling at no better than its 3,585-75 congestion on Monday, November 23rd when the AstraZeneca vaccine announcement was the third in two weeks. Only after the key Michigan and Pennsylvania battleground state ‘certifications’ were delivered into Tuesday morning did the US equities push above that area.

However, even after that was sorted out (and Biden has been constructively busy appointing his cabinet), the focus rotated back around to the more so near-term problems that were going to plague the US economic outlook long before the proverbial vaccine ‘light at the end of the tunnel’ could be reached. Those are the December 26th end of unemployment benefits for 12 million Americans, and the December 31st end of the Centers for Disease Control eviction moratorium.

This finally got the attention of bipartisan US Congress members. They know that under the circumstances it would be both inhumane and politically untenable to leave on their holiday break into so many Americans about to experience so much more suffering. As such, after stalling for several days into last Monday, the December S&P 500 future pushed above the interim congestion (established after the November 16th Moderna vaccine announcement) in the 3,625-35 area.

As the impetus for Congress to shed rigid partisan lines was looming economic weakness and individual pain, that made last Friday's weaker than expected US Employment report a 'win-win' affair on the classical 'bad news is good news' anticipation. It was further spurring Congress to 'do something'. While there are a couple of key hang-ups right now, the market anticipation is something will come from current negotiations… also including major necessary government funding.

On the technical side, ever since the December S&P 500 future blew out the major early September 3,505-10 DOWN Closing Price Reversal on the early November Pfizer vaccine 90+% efficacy announcement, the projections were for a likely push to the 3,750-3,800 range before becoming overextended once again. This is the important backdrop to the overall 'risk on' psychology reinstatement.

And even though the December S&P 500 future is dropping back from its 3,700 new all-time high from last Friday (after that 'bad' US Employment report), it is not anywhere near violating even near-term trend support. That said, the global govvies are bid again in a 'bifurcated' psychology where they might be more so anticipating the negative near-term macro influences. Yet the other factor for the Gilt and especially the Bund may well be the lack of any final agreement in the Brexit negotiations that will possibly see a disorderly exit of the UK from the EU at the end of this month. That also likely accounts for British pound weakness.

Yet with those additional factors affecting near-term developed currencies activity against the US dollar (which has shown secular weakness), the real insight into that 'risk on' psychology is more likely the activity in emerging currencies, and they have remained quite strong against the greenback. In fact, they are gaining ground today even as the other developed currencies stall against the US dollar. In that regard, despite the modest reaction of US equities and the 'bifurcated' bid in the global govvies, the overall sense of a 'risk on' psychology remains intact.

And back to the title tendency, there is that 'Santa Claus Rally' seasonal factor. As this tendency goes back through many years of our late year seasonal analysis, we are very comfortable repeating our assessment from years gone by (Original version posted Monday, December 23, 2013) with adjustments to reflect this year's particularly unique factors and current market tendencies…

One of the key aspects which many market participants expect to be critical at this time of year is whether or not there will be a classical 'Santa Claus' equity market rally into the end of the year. And we say there is a certain element of *humbug* inherent in any such assumption.

Even as a 'very merry' disposition is apparent in the recent major extension of the equities rally that is reinvigorated by better prospects for COVID-19 vaccine efficacy into next year and the previously noted long-delayed US Congressional action on a COVID-19 relief package, the question remains "*Who is this capitalistic, market profit-oriented 'Santa'?*" Of course, there is a question of whether anyone really believes 'Santa Claus' exists in a market context in the first place, regardless of desire to believe or not in their personal life.

In fact, the idea there is a Santa Claus which visits the broad market indices in December is at least a bit of a misnomer. In truth, as we have noted each year, any benefits to the broader market into December are more so due to 'Santa Portfolio Manager', and whether he decides to provide joy from his cash hoard to the other market participants.

And his tendencies in that regard are rather more very self-serving than altruistic. He must assess whether it looks smarter to be holding cash or holding stocks. And that in turn has to do with the position of the market indices relative to their highs or lows of the year. The further below their highs of the year (or indeed closer to their lows like 2018) stock indices are trading into December, the less inclined 'Santa' is to provide gifts to the other participants in the form of further purchases. Sort of a "Scrooge's Scrooge" in those sorts of already trying times.

However, the closer the indices are to their highs of the year, the more so Santa Portfolio Manager is inclined to provide cash to the market so that he is fully invested at the calendar year-end… regardless of whether his overall returns for the year have been spectacular or second-rate.

To wit (and to the tune of *Santa Claus is Coming to Town*)…

<u>Verse</u>:
He buys them when they're lower,
He buys them when they're high.
Can't have any cash on the books
When New Year's Day is nigh.

<u>Refrain</u>:
No need to pout,
No need to cry.
He'll only shout,
"Buy, Buy, Buy."
Santa Portfolio Manager's
Coming to town.

Courtesy Repeat of Monday's critical consideration
Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart https://bit.ly/3m12pZv updated through Friday. Such a significant rally above the previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. After that held once again, the recent surge 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. Yet instead the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk

On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from serial positive vaccine news across the past month.

The near-term question was whether it could hold around near-term support at the early-September 3,587 trading high and 3,582 Close from four weeks ago, with a Tolerance to 3,575 congestion? Even though it slid below them three weeks ago on US election concerns, those issues clearing up early two weeks ago had reinstated the 'risk on' psychology. Recently above that left minor resistance at congestion in the 3,625-35 range resistance. Also above that pointed to the recent 3,668 all-time high that was exceeded last week for a 3,700 new all-time high. However, overall the extension above September's 3,505-10 DOWN Closing Price Reversal points to the 3,750-3,800 area before it is 'overextended'.

Thanks for your interest.

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