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ROHR ALERT!! Relief Rally... Or What?

1 message

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Dear Subscribers,

Hoorraaaaay... the US Congress is going to pass that long-delayed COVID-19 stimulus/relief package!! Wait. What? The US equities are down over 1.5% as measured by the S&P 500 Index? How could this be? Well, as usual (and as we have articulated many times) any selloff in the US equities needs multiple drivers to see more than very temporary weakness, and this time is no different.

While we will return to that momentarily, we also remind everyone that this is the last ALERT!! this year before our annual holiday until January 4th. We wish you all a Very Merry Christmas holiday season and the Best for a Happy, Healthy and Prosperous New Year for You and Yours. We have also expanded Evolutionary Trend View technical assessments to account for aggressive price movement.

Of course, the current selloff has the compounding factor of the discovery of a new, more contagious strain of the COVID-19 virus. While that seems to be most prominent in the UK, they have noted this is in part due to their extensive testing, and it may be part of a general spread of the new virus variant elsewhere as well.

However, in any event, with the pandemic already rampant in many countries (especially the US) the idea of a more contagious variant afoot in the land is an especially troubling development. It goes back to the old adage, "*The market (which is to say the equities) dislikes nothing quite so much as uncertainty.*"

As such, a new virus variant represents a new very troubling unknown, despite the fact that the pharmaceutical community has so far downplayed the idea that might make it resistant to the encouraging current vaccines. The concerns are reasonable even without that very scary proposition. The new variant has caused additional disruption to an already troubled global economic landscape.

The UK is the most heavily affected at present, yet with spreading concerns the already quarantine- and lockdown-stressed global economy did not need. As is noted in this morning's Reuters article (<https://reut.rs/3rhh8TO>), the spread of travel restrictions requests is global, with even the worst hotspot US calling for restrictions on travelers from elsewhere. While that may seem a bit ironic, what is more compelling is the degree to which the global economy will suffer from the additional pressure on still weak international trade. The UK is already hearing warnings from officials about shortages of products it receives from the EU.

Therefore, even though the new more contagious COVID-19 variant will be an additional stressor, the situation was already deteriorating. That has fomented further partial or full lockdowns in many countries, even those which had seemed to defeat the COVID-19 spread previous. Everywhere from the Pacific Rim across to Europe and the UK as well as the US was seeing accelerated lockdowns driven by a key factor: the pressure on overburdened

hospital systems. As such, the idea the new COVID-19 variant was more contagious is a particular stressor.

And beyond all of that, the fresh US COVID-19 stimulus/relief package has its own weaknesses, which make it less effective than it might have been had it passed several months ago (with equal political blame apportioned to both sides.) It is a litany of mistakes, some repeated from the relief package earlier this year. Prior to launching into our aspersions, please see this morning's excellent Reuters article (<https://reut.rs/3hdvCzy>) for a full description of the contents of the package.

And as a precursor to discussion of the package specifics, we note the CNBC interview this morning (<http://cnb.cx/3auFxPE>) with Senator Pat Toomey (R-PA.) To his credit, deficit hawk Toomey has always been skeptical of overextending US government largesse. He also notes that the special Fed facilities passed with the original CARES Act back in March were to guarantee normal functioning of the lending markets when they might have been under threat, and always had an expiration date of December 31st. Yet the other factor is highly specious now:

Why would he make the repeal of those Fed facilities a requirement of passing the current desperately needed COVID-19 relief package? After pretty much all else had been agreed, he re-raised that issue as a requirement for the package to pass in the Senate. Hard to believe, except for one factor: the Republicans flexing pure political power into those critical Georgia Senate seat runoff elections. As a bit of US *realpolitik*, anyone who thinks Toomey raised these issues without the blessing of Majority Leader McConnell doesn't know how things work over here.

Regarding the COVID-19 relief spending, Sen. Toomey said we are not in the same situation as back in March, as the economy is getting better. It is another case of Republicans (much like Leader McConnell's overall perspective of recent months) looking at general trends of the economy, and ignoring extreme stress in certain important industries. That is especially true for employers (dining, hospitality, local retail, etc.) who are suffering, who are the key for so much US employment.

It seems to ignore the degree to which there are significant winners and losers, where large corporations have done well, and that is what is boosting equities. That is versus a real crisis at the more local level. While the markets and some economic data, at least until the recent slippage, have been sources of comfort to the optimists, the reality is that over 10 million of those who lost jobs in the initial pandemic crunch are still out of work. Just witness the burgeoning demands on food banks in recent days. A very prominent one says their volumes are up 60%.

This all gets back to what's wrong with the current US COVID-19 stimulus/relief bill that everyone seems so glad to watch finally (at long last) pass the Congress, with an assurance President Trump will sign it. As noted in the Reuters article, "*The bill includes \$166 billion in new direct payments of up to \$600 per adult and child, for individuals making up to \$75,000 a year and \$1,200 for couples making up to \$150,000 a year.*" As such, quite a lot of money is being sent once again to folks who are still employed in successful industries rather than more payments to the unemployed. It was a wonder, and was a passing cause for more extended hope after the original March relief spending that the US savings rate spiked.

Yet what that really meant was there was a lot of money paid to folks who did not necessarily need it... and here we go again. Along with that, there is "...additional \$300 per

week for some unemployment recipients...”, which is far less than the \$600 additional benefit in the original recent bipartisan proposal. That was the amount added to the original March relief package, which some in the GOP griped was a ‘disincentive to return to work’ ...hardly an issue now that the renewed lockdowns are eliminating the potential for work in the near term

Which brings us to another problem with the current COVID-19 stimulus/relief package: the degree to which it resurrects something akin to the PPP (Paycheck Protection Program.) There is :...***\$284 billion for government payroll loans, including expanded eligibility for nonprofits and newspaper and TV and radio broadcasters, \$15 billion for live venues, independent movie theaters, and cultural institutions...***” Breathtaking. As long-time students of the US political process, we are accustomed to seeing repeated mistakes across many years.

Yet avoiding this one doesn’t require much institutional memory, which the US Congress often seems to totally lack. (Once again, this is not a political criticism of either party in particular; and more so another expression of the *realpolitik*.) One of the most telling criticisms from both general observers and especially the businesses who were availed of the previous PPP loans (cum grants if they met the program’s hiring requirements) was that this was into extensive lockdowns.

All of those businesses who were required to hire back any employees laid off in the initial COVID-19 crunch, pointed out that they didn’t have any duties for the employees to perform with there being ‘no business’. And here we are into a fresh round of equal or greater lockdowns (to defend against a hospital system collapse), and here comes Congress again with a program requiring hiring.

This puts us in mind of an ancient Bob Dylan lyric (“Stuck Inside of Mobile with the Memphis Blues Again” from the Blonde on Blonde album, 1966) we have cited many times on repeated mistakes by the US government and others (like Housing & Credit Bubble investors): ***“An’ here I sit so patiently, Waiting to find out what price, You have to pay to get out of going through all these things twice.”*** It is the eternal question of how can we elect a US government that can finally recognize its own mistakes, as to avoid making them again in the future? Wishful thinking.

It is the case, in our humble opinion, that far more should have been spent on the most burdened among the unemployed. That also has a more direct economic benefit from the degree to which they need to spend it right away. If that meant far less being spent on everyone who is still working who might well not spend it (note Spring savings rate surge), then so be it. In the context of the extreme delay in passing any relief package, there is little doubt where the real need exists.

Despite joy that ‘something’ might finally be passed, under the combined lack of enlightened direction in the US government relief package and fears of the new variant of the COVID-19 virus, the ‘risk on’ psychology that was recently renewed on the positive vaccine developments and waning US election concerns seems to be in full retreat. The US equities are seeing the front month S&P 500 future slip back below not just the recent 3,700 DOWN signal (see below), but also the early November previous 3,668 all-time high it had been above since late November.

The shift away from ‘risk on’ is also more obvious in the renewed aggressive bid in the global govies, which had been maintaining their ‘bifurcated’ overall rally despite the recent US equities gains. There is now also a return to more US dollar strength against both

developed currencies and especially some of the emerging currencies than seen in recent trading. In fact, it is all a bit of 'risk off' for now.

This is the 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/3nBUa7L> 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 the serial positive vaccine announcements since early November.

The near-term question was whether it could hold support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them in early-mid November on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the beginning of December with a 3,700 new all-time high. While it traded slightly above that two weeks ago, the following Wednesday saw a selloff back below that area into the area of that previous 3,668 all-time high.

That left a minor (based on only a very nominal 3,714.75 new all-time high) DOWN Closing Price Reversal. The rule of thumb on 'nominal' DOWN signals in a sustained bull trend is that they tend to be violated after only a brief reaction.

Whether that would be the case here was the next question. What we know for now is that there has been erratic activity on the obvious 'binary risk appetite' regarding the fortunes of the US COVID-19 pandemic relief package. That previous 3,668 all-time high has a Tolerance of the more recent 3,655 congestion, which it slipped below and then recovered above in recent trading.

Yet early last week it held into the additional interim support in the 3,625-35 range congestion that it had slipped below in today's early aggressive selling. As long as those hold, the 'risk on' rally extension psychology above September's major 3,505-10 DOWN CPR (which remains the major lower support) will maintain. If it can once again exceed 3,700 area, 3,750-3,800 area remains the higher resistance before it is 'overextended' and more likely to react again in a more major way.

Thanks for your interest.

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