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ROHR ALERT!! Democratic Sweep NOT a Blue Wave

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jan 7, 2021 at 11:02 AM
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Dear Subscribers,
After the dual Democratic US Senate runoff election victories in Georgia on Tuesday, they control both houses of Congress. And the shockingly tumultuous events surrounding the joint Congressional 'read-in' of the Electoral College votes on Wednesday (into the wee hours this morning) would seem the final word on the Biden-Harris election victory for President and Vice President.

Obviously, the events surrounding that vote, especially its violent interruption, lead to more questions than answers for now. Yet the net effect of the Republican 'objections' to various states' electoral slates end up being as Shakespearean as we had suggested in recent days, "...*full of sound and fury, Signifying nothing*." (The Tragedy of Macbeth, Act 5 Scene 5, 1623.) Once again, none of this should be construed as a political comment on our part, as we are always only striving to communicate the *realpolitik* as it relates to the markets in the context of political developments. That is especially so for the edification of our offshore readers who may not normally closely follow all of the US political machinations.

In that regard, the process went mostly as expected, yet with a goodly number of Republican Senators abandoning their commitments to raise objections in the wake of the violent pro-Trump protests breaching the House chamber. To be clear, this was at the very least an embarrassment for the world's leading democracy. For more on the facts and opinions regarding Trump and his supporters since his December 20th tweet calling for a 'wild' demonstration on January 6th, please see today's Reuters article update (https://reut.rs/3s3qnaH) with many more details.

At worst, it was sedition that was fomented by a sitting President of the United States, and at least interference with the election process… which is also a rather important federal crime. Yet for all the concern and strong criticism surrounding Mr. Trump's encouraging and partially directing the mob attack on the Capital, there is real indecision about what to do about this in his last two weeks in office.

Can a sitting US President be charged with sedition or election interference and jailed, and would that be a productive thing to do? We are going to demur on that issue for a simple reason: it has nothing to do with the markets. The far more important driver for market psychology is the Democratic control of both the White House and now the full Congress. As noted in Wednesday's 'Georgia on My Mind' ALERT!!, knee-jerk reaction to Jon Ossoff's growing lead over Republican opponent David Perdue was for US equities to take fright. (For more extensive background on the Georgia runoff elections, see Wednesday's ALERT!!)

Yet that is inconsistent with the *realpolitik* of the sequence of what is likely under a Biden administration. As we have noted for a while and revisited on Wednesday, "...*while there may be tax hikes at some indeterminate point in the future, this will take a back seat to repairing and rejuvenating COVID-19 damaged US economy. Of course, while this may be*

***most prominent in the US, it is a global function anticipating much more stimulus/relief spending first*.” That means much more mutually agreed government spending, with the more challenging tax bills later.**

There was also a goodly degree of fear mongering out of the Republican side during the recent elections on the degree to which the Democratic Party has been co-opted by its Radical Left-Progressive wing. In fact, nothing could be further from the truth. In November’s election the Democrats not only did not benefit from a Blue Wave of left-wing support, they actually lost seats in the House.

That was in large measure due to the rejection of the Far Left’s agenda, with the most Progressive members far underperforming Joe Biden despite the fact they might have still won. It is also of note that Democrats taking control of the House in 2018 was more so on the strength of moderate candidates who won in ‘purple’ districts (closely split between conservative ‘red’ and liberal ‘blue’ constituents.)

Therefore, if there had indeed been a Blue Wave (suggesting some sort of heavy Left-Progressive tsunami) in November, some of the more radical Left ideas might actually be of concern. Those include a radical environmental agenda (which Biden has already rejected as the right way to proceed), adding more states (like the very liberal District of Columbia and Puerto Rico), packing the Supreme Court, and a host of other items. However, those purple district Democrats know that any such moves would be a real problem when they run for re-election.

As such, the hoped for Blue Wave has diminished into a more likely Blue Tide. Many moderate Democrats like West Virginia Senator Joe Manchin have already been gaining more prominence in the House leadership, which is only likely to increase under a Biden administration that is looking to heal the partisanship of the Trump era. Of note, Manchin was a key leader of The Problem Solvers Caucus that brought the two sides together for the ultimate late year stimulus/relief deal.

That is showing up in the March S&P 500 future overrunning the potential DOWN Closing Price Reversal (CPR) from last Thursday’s 3,748.75 Close we only began noting on Tuesday. That It is now defunct on the likely tendency to remain higher on the week into all-time highs. This points to 3,800 and 3,830 weekly Oscillator higher resistances this week, based on December topping activity. Those are significantly rising over $30 per week based on weekly MA-41 acceleration.

The global govvies are quite a bit more bothered by the prospect of a much more profligate US administration that will likely now have the backing of a Democratic Senate majority (with VP Harris being the decisive vote.) It is of note that the front month US T-note future bears successfully defended the 138-00/-16 resistance over the past two months (since the early November failure on Biden-Harris ticket victory and vaccine announcements.) While interim support is into the 136-24 gap area, the more substantial support is not until more so in the 135-00/134-16 area.

Yet it is important to remember that the global govvies trade on the ‘real yield’. Considering that inflation may well remain low on COVID-19 weakened economic activity through the first half of this year, any more substantial bear trend may need to wait until a mid-2021 anticipation of a ‘normal’ US and global economy.

Also of note, the US dollar has not reacted badly to the prospect of a combined more profligate US administration and Congress. This flies in the face of the ‘received wisdom’,

with the US Dollar Index back modestly above the critical 89.50-.00 range it has been testing over the past several days. This is another sign that the greater near-term relief spending, and possibly the end of political uncertainty after the Congressional Electoral College 'read-in', is actually a positive influence for the US economy after so much troubling disruption.

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/3rNLo92 updated through Thursday. 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 into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally' late last week, saw it up near the 3,750-3,800 resistance.

However, based on recent weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 30 points per week, those are up to 3,800 and 3,830 this week. And as is often the case at a new extended all-time high, those are presently the only quantifiable resistances, and they are rising over $30/week based on the accelerated rise of weekly MA-41.

And following up on our previous observations, Monday's drop from a new all-time high above the end of December 3,749 weekly Close left a potential for a weekly DOWN Closing Price Reversal. However, this week's recovery from early week jitters has negated that potential, with higher resistances more prominent.

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