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ROHR ALERT!! Oh No! Not More Misguided Stimulus/Relief!

1 message

ROHR Alert <rohralert@gmail.com> Fri, Jan 15, 2021 at 11:11 AM
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Dear Subscribers,
Well, here we go again. And you can't say we didn't warn you. There is much to commend the American Rescue Plan President-in-Waiting Biden rolled out Thursday (see this CNBC article for the important details http://cnb.cx/39vziZU.) That is his answer to weaknesses in the current administration's COVID-19 rescue plan. Yet, there was the one glaring weakness we had warned of previous: the lack of means testing for the next round of stimulus/relief checks.

This is not a new critique on our part, as it is the same position we took in our December 21st 'Relief Rally… Or What?' ALERT!! [Rather than have you hunt around to review that, here is a short-link: https://bit.ly/3bGpO0H.] As noted again in Thursday's 'Stimulus Thursday' ALERT!!, it is hoped moderate Democrats will revisit the nature of the next round of stimulus/relief checks. Otherwise, as noted there, a lot of money will go to folks who are not in need of relief at present.

Think about it: a family of five making up to $150,000 per year will be receiving $1,400 for each family member: yep, a total of $7,000 of other Americans money, most of which will not likely be spent right away… in part because of the current lockdowns and rightful aversion to public gathering or travel that preclude it. While there are nuances, that money would seem better utilized elsewhere; like by unemployed folks having trouble feeding their families and paying their rent.

Previously we had noted a key indication to watch: the US Savings Rate, which ballooned after the March CARES Act on the same economic considerations. Should that happen again in the near-term future, it will be a sign that current checks are another case where money spent will not be as effective a 'stimulus' as if they are sent to folks who would necessarily indeed spend them right away.

All of that said, there are aspects of the ARP which are indeed constructive regarding key components "(as noted Thursday) ...*left out of the December's $900 billion package, and money for accelerated COVID-19 vaccination efforts also less than prominent in December. And those highlight the dynamic the markets are dealing with at present: continued COVID-19 pandemic spread (including the more infectious variants) fomenting near term economic pressure from quarantines and lockdowns (especially in the UK), and the hopeful anticipation around successful herd immunity from major vaccination programs*."

That extended economic weakness is now significantly showing up again in erosion of economic data into real weakness, like today's US Retail Sales and Michigan Consumer Sentiment. That is in the wake of many folks who continue to be unemployed, with those rolls expanding from the most stressed businesses, like dining, hospitality, small retail, etc. Both of those figures, along with the very weak December US Employment report and spike in Initial Jobless Claims can be laid at the feet of a Republican Senate that so stridently resisted more extensive stimulus/relief spending. That was on the basis of (as Senator

Toomey repeatedly noted), "The economy is getting better" (based on previous statistics until now.)

Once again, that should not be taken as a political comment on our part, as we are equal opportunity critics when either side seems misguided. Yet a *realpolitik* shift back Democratic missteps is apparent in not just the untoward aspects of Biden's ARP, but also the support it is receiving from his ardent acolytes. This reminds us of all of the specious support Trump has received from his supporters which was less than reasonable… at least insofar as it was strictly partisan.

The Left-Progressive economist Jared Bernstein was the Chief Economist and Economic Adviser to Biden in the Obama Administration, and is now a member of his transition team and Council of Economic Advisors. He was on CNBC this morning supporting Biden's stimulus/relief plan despite weaknesses we have noted in previous relief plans: like the *carte blanche* (as Senator Manchin has characterized it) nature of the 'stimulus' checks being sent even to households who have not been impacted by the pandemic via job losses or reduced incomes.

This blanket support for announced programs from administration officials gets back to the same sort of problems we highlighted with the Trump administration (and those of previous White House denizens) on the need to promote less than optimal programs once they are the official position. This gets back to just what we (among others) were hoping the US could avoid on the changing of guard in the White House and Congress. There was a hope, possibly still capable of being fulfilled, that the Biden administration will take a more 'granular' (i.e. fine line specific) approach to program implementation that will avoid 'headline' errors.

That was most recently apparent in the very enlightened Trump administration Operation Warp Speed push for accelerated COVID-19 vaccine development, which was such a success on the rapid availability that had previous taken at least a few years. However, as opposed to their commitment to "vaccinate twenty million Americans by the end of 2020", they had actually left the vaccination program to the states, which were singularly unprepared to implement it.

What will be most interesting in the coming days is whether any of the rational critiques of the ARP from moderate Democrats will be forthcoming, and will they be a meaningful influence on the program. If so, there will be hope the Democrats can indeed govern effectively after the Trump administration missteps, However, if the program is pushed forward in its current form without any rational review, fears of just more 'big spending' inefficient Democratic government will ensue.

As far as market responses, the key nature of 'means testing' of stimulus/relief checks might be part of why the US equities are reacting so poorly to a promise of such major further US government spending. While current economic data erosion might be part of it, the degree to which the next round of checks might not be as stimulative as hoped (as explored above) must be considered.

In any event, the March S&P 500 future has now slipped below that near-term 3,775 interim congestion it had been holding since Monday. We had noted the previous holding was in part due to anticipation of the Biden stimulus/relief program announcement later this week. That leaves the door open to a test of the lower 3,740 support (seen last Tuesday on temporary concerns over Democrats dual Georgia Senate runoff election victories), and previous 3,720-00 congestion.

It is also of note in the wake of another $1,9 trillion in proposed US government stimulus/relief spending that the US govvies are trading higher. Earlier this week the March T-note future had temporarily slipped below the important weekly continuation chart Area Gap in the 136-24 area. That was from back during the volatile rally and reaction in the March 2020 COVID-19 pandemic-driven surge.

Yet after slipping below the 136-16 quarter point Tolerance of that gap into Tuesday, it recovered back above it and even 136-24 at present. That would seem to be a sign that no matter how large the next round of US government COVID-19 pandemic cure spending may be, the govvies are not fearful of it strengthening the economy enough to create more threatening 'demand-pull' inflation. It is also the case in Europe that the March Bund future that had slipped back below its 177.50-.00 congestion (going all the way back to its Summer 2019 all-time high) has ratcheted above it after early week slippage for a similar sign there.

The foreign exchange implication is a somewhat better US economy attracting a bit more support for the US dollar, even as US yields slip back a bit at present. However, as any successful COVID-19 pandemic suppression will foment a broad global economic recovery, the idea that the greenback will experience any secular strength based on US improvement is not a likely overall outcome.

Yet even with more US government spending programs from the Democrats, the US Dollar Index dodged a bullet earlier this week after the bear trend had slipped into the top of the 89.50-.00 area. Yet the current rally into the 90.50-91.00 historic congestion (also the tops of December rallies) would need to sustain a weekly Close well above it (Tolerance 91.23) to hint at any reversal of its down trend.

Courtesy Repeat of Thursday'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/39pEsqa (updated through Friday January 8.) 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, last 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, last week's recovery from early week jitters negated that potential, with higher resistances more prominent. And this week's straight down drop does not establish any technical top in its own right, with the lower supports more so critical on any further pressure.

At least so far the March S&P 500 future is holding no worse than minor recent congestion in the 3,775 area. However, important psychological and technical support remains down in the 3,740 area. That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate last week Tuesday) likely to hold on a further selloff below 3,800 despite concerns. That was held despite the more prominent lower support being the 3,700-20 area it had been trading below early last week. Those are now key near term supports on any further selloff.

Thanks for your interest.

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