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ROHR ALERT!! Friendly Biden Anticipation

1 message

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Dear Subscribers,

We are coming to you a bit earlier than usual after the long US holiday weekend, with the US equities in a rather more bullish mood than last week. Is this based on a solid improvement in economic expectations, or just a near-term fillip from the looming Biden-Harris inauguration on Wednesday? Well, we could wait for the actual event and immediate administration steps, quite a bit of which can actually be implemented with Presidential Executive Orders, and not wait on Congress.

Along with what markets believe the Biden administration can accomplish in that phase as well as more permanent legislation on Democratic control of Congress, it is likely this is creating a good deal of 'friendly anticipation'. We usually reserve that phrase for the approach of FOMC meetings, where the US equities very often experience 'friendly Fed anticipation' on hopes the FOMC will pull the next rabbit (move toward greater liquidity or even more *outré* direct market support) out of its policy hat. Of course, this often leads to disappointment after the fact.

Might this be the case for the 'friendly Biden anticipation' once his proposals go through the 'sausage grinder' of the legislative process? That is a reference to the old maxim on the messiness and strange twists in the US (and likely other countries') legislative processes. Attributed to the American lawyer-poet John Godfrey Saxe, he noted back in 1869, "*Laws, like sausages, cease to inspire respect in proportion as we know how they are made.*" And it remains the same.

As such, there might be more than a bit of 'friendly Biden anticipation' built into the US equities rally resumption, even though it is only recouping a portion of the losses since the euphoric response to the Democratic dual Georgia Senate runoff elections two weeks ago. Yet as we have noted since then, and especially last week, the concerns of the Democratic moderates will need to be dealt with on the amounts and nature of the stimulus/relief package if it is to pass Congress timely.

That said, the more aggressive Left-Progressive wing of the party is going to get a boost for its position in today's testimony from Treasury Secretary nominee Janet Yellen. She has been reported to support Biden's aggressive government spending agenda, saying it is time for the US to 'go big'. Along with very strong bank earnings announcements, that is reason for the US equities to respond well.

Yet as we have revisited ever since the reality of the March CARES Act became apparent, there is still a vexing issue of whether the extremely large \$1.9 trillion stimulus/relief Biden proposed last Thursday is going to actually be as strong an economic influence as its proponents hope. That will surely include Yellen in her current testimony, whatever her deeper feelings might be. And we suggest a read of Friday's 'Oh No! Not More Misguided Stimulus/Relief!' ALERT!! for much more on that subject, and what might come along to adjust the key aspects.

Just this morning someone with far more economic training and expertise than us was on CNBC (<http://cnb.cx/3sDJQyT>) talking about the Biden stimulus/relief package issues we have been raising (even since the modest December package finally passed.) American Enterprise Institute Director of Economic Policy Studies Michael Strain was asked about whether the broad scope was effective. He noted that for various reasons sending such large payments to higher income folks who were not negatively impacted by the COVID-19 pandemic was not going to provide as much actual stimulus to the economy as the Biden Team might hope.

However, the other Biden nominees who are going to appear before Congress along with Yellen, even before the new administration is in full gear, will likely support the more expansive spending. The Democrats are troubled by memories of the degree to which they were resistant to spending more to address the 2008 Housing and Credit Bust, due to it being seen as a Republican-created problem.

Even considering the degree to which the heavy personal, political and economic problems can be laid at the feet of the Trump administration, the Democrats want to make sure they are not seen as deficient in their response now. It is going to be interesting to see whether and how Democratic moderates can adjust the current stimulus/relief proposal to make it more effective for those really in need.

It is our considered opinion that less money going to the folks who don't need it, and more to those in need of even greater relief will be better for the US economy as well. Providing enough money to stressed individuals and families to spend on what at this point are major rent arrears (thousands of dollars per family) will also help the landlords who are stressed by a major lack of rental income... and by extension prevent any mortgage problem from rolling over into the banks.

It is also a matter of the degree to which lower payments to those really in need of relief (\$600 previous plus the additional \$1,400 Biden has proposed) is not going to allow them to either catch up on rent, put food on the table for very long, or take care of other needs (auto repairs, other travel, etc.) for very long. Even if the total spent turns out to be lower than Biden's proposal (back to that legislative 'sausage making'), the more that is provided to folks who really need to spend it (versus saving it) is going to represent the greater actual economic stimulus.

And even with the 'friendly Biden anticipation' assisting the March S&P 500 future in recovering back above the near-term 3,775 interim congestion it violated late last week, it has stalled near the 3,800 area psychological 'big penny' that it had trouble holding back above later on last week. That said, the more major lower support barely tested last week remains the 3,740 with 3,720-00 below that.

And while global govies have come back under a bit of pressure they are also back up into key technical levels they had temporarily failed last week prior to recovering into and after the Biden proposal. This is another sign that as presently configured the Biden plan does not inspire much fear of inflation.

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. Along with that there is support for the overall bullish perspective in the more major bid returning to emerging currencies. That is typically an indication of a global 'risk on' psychology, even if the developed currencies are still a bit soft.

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/3bOSSmQ> (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 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', 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 25 points per week, those are up to 3,855 and 3,885 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 still rising \$25/week based on the accelerated rise of weekly MA-41.

Of note, last week's straight down drop did not establish any technical top in its own right, with the lower supports more critical on any further pressure. After the March S&P 500 future was holding 3,775 area minor recent congestion most of last week, it failed late week... interestingly in the wake of Biden's major proposal.

However, important psychological and technical support remains down in the 3,740 area it barely neared prior to rebounding. That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate two weeks ago Tuesday.) 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.

Thanks for your interest.

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