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ROHR ALERT!! The Binary Risk Appetite Event Horizon

1 message

ROHR Alert <rohralert@gmail.com> Wed, Feb 3, 2021 at 11:39 AM
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Dear Subscribers,
As explored since the middle of last week, there are multiple macro and micro factors which have impacted the markets with varying degrees of influence on the previously predominant 'risk on' psychology. Of course, some have been a significant factor in supporting the overall US equities bull trend, even into the social market disruption out of last week into early this week. This has been with somewhat more complex influences and reactions in the other asset classes.

As reviewed a bit more at length in Tuesday's 'So What Now?' ALERT!!, even the extreme activity driven by short-term 'social market' influences out of the Reddit (and other social media sites) crowd mania short squeezes in a select number of stocks like GameStop only triggered a US equities drop to very clear near-term support (more below.) For anyone wanting to know more about crowd tendencies and why it is nothing new, we suggest a read of 'Extraordinary Popular Delusions and the Madness of Crowds' (1841, Mackay, Richard Bentley Publishing.)

It includes review of the Dutch Tulip Mania asset bubble (maybe the first of its kind versus previous investment bubbles) that collapsed spectacularly in 1637. The important aspect for current markets is the current GameStop implosion from last week's inflated levels is removing all manner of irrational fears of a general market debacle, which included a US equities implosion… delusions indeed.

In turn that has allowed a reinstatement of the 'risk on' psychology that had buoyed the US equities prior to the perceived problems from the middle to the end of last week. It must be allowed that the economic data during this intense first week of the month has been pretty good, including firm-to excellent PMIs and this morning's better than expected US ADP Employment Change data.

That said, in recent memory the broader 'macro' influences have been the more telling drivers for the US equities trend and other reflections of 'risk appetite'. That context has obviously left us with two key components in the wake of the distended US election disarray finally being settled with Joe Biden's inauguration two weeks ago today. The intermediate-term focus is, of course, the COVID-19 pandemic fight as currently reflected in the success (or lack thereof) in the US and other countries' vaccination programs. It is to the credit of the new Biden administration that they have taken key steps to accelerate this effort.

However relevant that may be for the overall US and global economy later this Summer into the Fall, it is by nature a somewhat distended influence. It may nonetheless foster some further upbeat economic sentiments, yet will clearly not provide necessary assistance to the various economies over coming months.

That will be more so based on the continued and expanded stimulus/relief efforts of the US and other governments. This has already been seen to be the greater near-term influence on markets, like the negative reaction of German Bund prices to the ECB's Lagarde suggesting in her January 21st press conference that more stimulus than the already robust Euro-zone program was likely necessary.

This gets back to the likely most critical current short-term determinant of the risk appetite that will affect the markets: the immediate prospects for the Biden ARP $1.9 trillion COVID-19 stimulus/relief proposal. The concept of an 'event horizon' is borrowed from quantum physics. [For anyone wanting more on that application of the concept, we suggest a read of the late, great Stephen Hawking's 'A Brief History of Time' (1988, Bantam Books).] It was a major physics breakthrough.

It essentially states that when considering the impacts on any object or force, an expanding conceptual 'cone' of the totality of all objects or forces which might be in proximity to act on it across time must be considered, even if possibly remote. From a market perspective this is loosely related to Nassim Taleb's 'Black Swan' paradigm (book overview WIKI http://bit.ly/3rvMaqv.) That was a breakthrough concept for considering unlikely market influences that might have a 'fat' tail risk.

We have adapted the 'event horizon' concept to be closer to Taleb's concept, and can especially focus on the operative aspect 'across time' for relating it back to the markets. After all the markets have actual specific, or loosely expected known upcoming events, like the schedule for important economic releases that are a bit of known economic 'event horizons'. Those would be like the more important regular monthly economic data releases, like this Friday's US Employment report.

As seen again across time and especially of late, there also various more loosely defined politico-economic influences, which can have sustained market influence in both their anticipation phase and in the event; or in the lack thereof. That latter potential for there to be critical action, or possibly it failing to occur, is important for the current 'Binary Risk Appetite Event Horizon'. As noted above, this is based on the successful passage of President Biden's ARP proposal.

There is a subset of this regarding 'in what form'. That is related to the important requirement that all 50 Democratic Senators vote for it in order for them to be able to use 'reconciliation' budget bill function to force it through without any Republican votes. That gets back to the ways it may be diluted just a bit (but nowhere as weak as the already rejected Republican alternative proposal.)

This is due to the need to satisfy the moderate Democrats demand that it needs to be more targeted. One aspect we have suggested previous would be a rational and feasible adjustment (also part of the Repubican counter proposal.) That is to reduce eligibility for the $1,400 individual stimulus checks from $150,000 annual income for a couple down to $100,000. In the event, we believe that US equities would not react too negatively to that more limited, yet immediate distribution.

Note the phrase 'more immediate' as another key element of 'across time'. This is due to the urgent need for the relief, considering the harmful delays and limited nature of the stimulus/relief passed in December. As we have stressed of late, there is a very short window for the ARP action to be taken which will address the obvious need among those who have suffered the most from the pandemic.

The passage of a slightly diminished ARP package is essential prior to the full commencement of ex-President Trump's Senate impeachment trial next Tuesday. Even if preliminaries will occur on Monday, from Tuesday for as long as the trial lasts, the Senate is proscribed from engaging in any other business. That would mean that lack of passage of the ARP in the House by Friday (or maybe this weekend) would not leave time for a Senate vote and signature by President Biden prior to next Tuesday… and a delay of at least one (maybe two) weeks.

That would be a bad 'Binary Risk Appetite Event Horizon' failure, with the potential for a short-term reversion to US equities weakness along with similar influences back into the other asset classes. As noted on Tuesday, the restored 'risk on' psychology is apparent in the March S&P 500 future climbing back up slightly above the 3,800-20 range. That is into the early January congestion highs at which it failed Thursday on the bounce back from the Wednesday 'flash crash'. Whether it maintains that bid may well rest with the fortunes of the ARP proposal.

The same goes for the recent further recovery of emerging currencies after their recent uncertainty-driven selloff, and the pressure on the global govvies that now includes a bit more weakness in the previously more resilient US T-note.

Courtesy Repeat of Tuesday'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/2MeAAkz (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 previous 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 3,880 and 3,910 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.

After the March S&P 500 future recovered back above the 3,775 area minor recent congestion, last week left it pushing up to that next new 3,860 all-time high (right into last week's lower weekly Oscillator resistance.) However, the pressure on the 'risk on' psychology we had warned of came home to roost last Wednesday on the market ignoring the classical 'friendly Fed anticipation' even before Powell's press conference. As noted for quite a while, the more important psychological and technical support below the 3,800 area was the interim 3,740 area.

That is the congestion level seen on misplaced fears of a Democratic-controlled Senate in early January. That was held during that selloff despite the more far prominent lower support being into the 3,700-20 area it had been trading below early that week. Even as last Wednesday's sharp selloff led to an immediate test of that area all in one day, and it was retested on Friday after Thursday's major bounce, it held and still remains the significant support this side of 3,600 area and lower levels; including weekly MA-13 up to the low 3,700 area this week.

Thanks for your interest.

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