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ROHR ALERT!! OECD Upbeat… With a Caveat

1 message

ROHR Alert <rohralert@gmail.com> Tue, Feb 9, 2021 at 9:31 AM
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Dear Subscribers,
Among the other items which are so interesting out of Monday into this morning, there was the monthly release of the Organization for Economic Cooperation and Development's Composite Leading Indicators (https://bit.ly/36Yod2Z for our marked-up version.) And it was undeniably upbeat outside of the UK that has the dual COVID-19 and Brexit impacts, yet with a current troubling caveat. That is the future path of the global economy being dependent on the outcome of the battle between the COVID-19 pandemic and accelerating vaccination programs.

The troubling part of that is, of course, that even with the recent moves to expand the vaccinated percentage of the population on the way to herd immunity, that remains a very limited portion overall. That is in the developed world, with much lower vaccination numbers in the less developed areas. While it is alright to be hopeful, until there is some measure of global herd immunity there will be the potential for some variant of the virus to come back to impact the whole world.

Yet for now the markets are buying into the better prospects of herd immunity in the developed world, even if not until later on this Summer. And of course, the near-term hopes are hinged on the prospect of major US COVID-19 stimulus/relief passing the Congress by early March. That's especially important to head off the mid-March end of accelerated unemployment benefits as well as the urgent need for the extensive relief to those who need it after the limited December package.

As noted in Monday's 'Who Cares About Weak Data?' ALERT!!, that anticipation of significant fiscal stimulus has created more than a bit of a 'bad news is good news' psychology right now. This is also in the context of weakening economic data, like today's European data and US NFIB Small Business Optimism Index.

And that 'bad news is good news' psychology includes the weaker near-term economic data further underpinning the case for more aggressive stimulus rather than less. It also allows for some patience as long as the government spending looks assured to come not too far in the future versus right away. As noted late last week, it is an issue of 'inevitability' prevailing over 'immediacy' for now.

That became more obvious (and was reflected in full restoration of US equities strength) on the US Senate votes last Thursday which had all fifty Democratic Senators voting against Republican amendments to the initial form of Biden's ARP proposal, and for the final bill. That was taken as a sign that the Democrats can also all be counted on to vote for the final bill when it comes back from further development in the House. Yet there is now a fly in that ointment in the form of the powerful House Ways and Means Committee proposal coming back with the originally proposed annual income eligibility for $1,400 stimulus checks.

This is something to which more moderate Democrats like Senator Manchin (D-WV) had objected. It raises an issue over whether their very necessary votes can be counted on when the final bill gets back to the Senate. Of course, the Progressive Left proponents of maintaining the original eligibility are speaking of the problem with anyone making over $50,000 a year (or $100,000 for a married couple) being cut off from relief if they make $52,000. In the context of how the program has worked in the past (i.e. the March and December packages), that is wholly specious… there is a 'phase out' rather than a sharp cutoff.

That will likely form the basis for the Democratic moderates (and possibly the odd Republican or two) voting for the final form of the ARP bill on something we can already envision: a more aggressive curtailment of the stimulus check amounts for those earning more than the full payment eligibility limits. It will be a matter of how far Progressive-Left Democrats want to take the argument to more moderate members that higher earners still need relief… at $55,000 per year? $60,000?

It's going to be interesting, and there is an argument recently raised by some Progressive-Left Democrats that actually makes sense. The government can only operate at present with the income data from 2019, as the US tax filings for 2020 are not fully due until April 15th. That's actually a good point, and favors the more aggressive stimulus due to some folks with higher incomes having experienced either layoffs or salary cuts. It rebuts the many calls we have heard for 'means testing' (which we have also supported) due to that being impractical now.

Of course, this entire discussion is once again into the weeds on US politics, for which we apologize. As we have noted previous, as long as something along the lines of Biden's ARP proposal arrives, it will not likely be a major issue for the markets whether that is $1.9 trillion or possibly a bit lower figure… just so long as it appears likely to pass Congress by that early-mid-March deadline.

Courtesy Repeat of Monday'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/2YYXQ8A (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 and ultimately above 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 the 3,925 and 3,955 levels this week. Those are more realistic near-term targets now that the March S&P 500 future has recovered back above 3,775 area minor congestion and more prominent 3,800-20 range for the current push above the past several week's 3,862 previous all-time high.

Thanks for your interest.

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