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ROHR ALERT!! Bifurcated ‘Risk On’ Churn

1 message

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Dear Subscribers,
While this was always going to be another of the lighter reporting days of the week, we had highlighted the continued importance of the US Weekly Initial and Continuing Jobless Claims… and they contributed to what have been negative overall influences from the economic releases this week. The surprising Initial Claims reading remained up near 800,000 (versus a 757,000 estimate), with Continuing Claims reflecting much the same tendencies. After the weakish data out of Europe earlier this week along with the US NFIB Small Business Optimism Index, that has returned us to a disjointed psychology between asset classes.

The ‘bad news is good news’ psychology in anticipation of the ultimate passage of the $1.9 trillion Biden ARP stimulus/relief proposal by mid-March continues to drive a churning sort of bullish US equities psychology. The same is true in the foreign exchange markets, where developed currencies have improved a bit against the US dollar but the emerging currencies have turned quite strong again on the anticipatory ‘risk on’ psychology. Yet the global govvies are reacting more so to current weak data… resurrecting that ‘bifurcated’ asset class psychology.

And the overall ‘bad news is good news’ psychology on hopes for passage of Biden’s ARP proposal was given a major boost by Fed Chair Powell’s Wednesday afternoon labor market speech (https://bit.ly/2MO3Sqw for our mild mark-up.) There was especially the insight on the US BLS misreporting many folks as being employed who are actually unemployed(!??) Powell asserts this means the actual Unemployment Rate is closer to 10.0% than the officially reported 6.3%.

That’s a real shocker while not being any surprise to the folks in the most heavily affected industries that Powell cites once again (see our highlights on pages 4 and 5.) There is also chapter and verse (and accompanying charts) on the degree to which the drop in the Participation Rate is especially greater in the lower income ‘gathering’ economy businesses (dining, hospitality and others), which by far more so affect the lower income brackets of the US economy. Sad but true.

As such, it is all the more fodder for the philosophical and practical position of the Democrats’ Progressive-Left wing that more relief is necessary now than the official statistics imply. This also fits right in with our Tuesday ALERT!! review of the relevant argument recently raised by some Progressive-Left Democrats.

That is the degree to which the government can only operate at present with the income data from 2019, as the US tax filings for 2020 are not due until April 15th. This is actually a good point, and favors the more aggressive stimulus due to some folks with higher incomes having experienced either layoffs or salary cuts during 2020. It rebuts the calls we have heard for ‘means testing’ (which we also supported) due to that being impractical. And

if Powell's speech was accurate, Conservative claims of overall economic improvement are likely also misguided.

We apologize for this aspect of the discussion once again diving into the US political weeds in addition to any economic relevance it may have. Yet it is important to the markets as well at present whether something along the lines of Biden's ARP proposal is passed absolutely no later than early-to-mid March.

Another Courtesy Repeat of Monday's critical consideration
[Still relevant and to be updated Friday prior to the US holiday weekend]
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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