



Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! PMIs Speaketh: 'Risk On' Baby!!

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,

Amidst the current highly divergent cross currents it is easy to wonder what fundamental (macro) drivers are going to push which markets in what direction. There is the continued pandemic pressure offset by better vaccination news on the Biden administration's nationalization of the program. The major winter blast in the US South is disrupting that on some levels. And even though that is temporary, it still represents a direct economic and health drag as well.

The major \$1.9 trillion Biden ARP proposal chances of progress on Democratic Party Congressional unity is a major near-term economic support influence, even if some details need to be worked out with their Moderates in the Senate. And it is also the case that new Treasury Secretary Yellen now reinforces consistent calls from Fed Chair Powell since last Summer that 'more it better', and we'll worry about the inflation later. Yet it is now the case that inflation is starting to show up.

That has led to the recent more pronounced than previous selloff in the global govvies, with prominent (if still historically modest) increases in interest rates. That context has led to the logical thread that higher yields were not priced into the US equities (and others), and that is leading to a trend reversal there due to the higher yields on what is now also improved economic data. Right? NO!!

As we have noted many times of late, the instinct to feel the initial increase in yields (even the recent push to new recent highs) will turn the trend of the US equities has always been a misguided bit of overly anxious assumption. We had to learn this decades ago, when interest rates were very much more volatile. Seeing what was previously extended interest rate weakness reverse, we thought the US equities were going to need to respect that, and reverse their bullish trend because the modest percentage uptick in rates was not going to be tolerated.

This is wrong, as the reason the rates were reversing to the upside was indeed that the economy was strengthening enough to create inflation anticipation. However, what less than historically aware individuals miss is that the early phase of inflation is actually 'good' for US equities valuations. While it might seem a bit perverse in the current initial phase of the recovery, if you are so inclined you can reference our August 3rd 'Liquidity Rally' ALERT!! extended discussion on "...the 'replacement value' of existing plant and equipment."

This is in conjunction with the consideration that any modest US equities selloff must break some form of important lower near-term support to reinforce the idea that the pullback is anything more than a minor correction in a still dynamic rally. As explicitly noted in Thursday's 'Back to Bifurcation... With a Twist' ALERT!!, "*The question under immediate review (regarding whether it was indicating a trend top) would seem to be whether the*

March S&P 500 future can indeed weather the current test of that 3,890-85 area with its 3,878 Tolerance."

As it has 'vigorously' tested that lower Tolerance of the 3,890-85 support from Wednesday morning through lunchtime Thursday and held, the conclusion from the market activity is that the bull trend has survived the test... at least so far. And as the US equities have also been our barometer for the 'risk on' psychology.

That means it should be reflected in other asset classes. And today's important global Advance PMIs have supported that. While there was a bit of weakness in Australia, Japan, Europe and the US saw strong Manufacturing PMIs, with strength in US Services as well. As might have been expected, this has brought additional pressure onto the already weak global govies. However, the US equities have rebounded into higher key congestion in the March S&P 500 future 3,925-30 area. We need to allow that unless it can escape that resistance soon, there might be another test of 3,890-85 into its recently tested 3,978 Tolerance.

That said, the ability of the US equities to counter-trend against the influence of global govies weakness in the near-term reinforces historic expectations for the US equities resilience despite the initial higher yields. That is especially telling in the context of new selloff lows today in the global govies. Foreign exchange is also reflecting a return to a full 'risk on' psychology. The US dollar is weakening further against the other developed currencies, losing a recent 'haven' bid that was encouraged by concerns over global growth under higher yields.

The emerging currencies are far more mixed after their recent strength. Yet a split psychology there can be attributed to individual 'country' influences. The global 'risk on' psychology is still being reflected in the SA rand, Turkish lira and ruble. That the Mexican peso is weaker in recent trade can be attributed to the influence of the same arctic vortex southern breakout that has affected the economy of the US South. It will be interesting to see how it fares once that weather clears.

On balance we have gone from Thursday's 'Back to Bifurcation... With a Twist' to what is a fairly broad-based 'risk on' psychology due to better economic growth data even if that brought with it higher inflation indications. The continued US equities rally in the face of somewhat higher yields, and the US dollar weakening on the more upbeat global perspective for other currencies is classical stuff.

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/3jVlvzt> (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.

Based on previous weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are weekly MA-41 plus 520 and plus 550. Based on weekly MA-41 now rising an impressive 25 points per week, those are up to 3,975 and 4,005 next week (Friday Close-based.) Those are more realistic near-term targets now that March S&P 500 future has pushed above the previous 3,862 all-time high, if it continues to hold the 3,890-85 support 3,878 Tolerance.

Thanks for your interest.

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