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ROHR ALERT!! US Equities Critical 'Risk On' Decision

1 message

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Dear Subscribers,

Given the lack of any extensive economic releases today at the start of the major late month data tsunami later this week (and Chair Powell's Tuesday-Wednesday semi-annual Congressional testimony), we are cutting right to the market chase as a way to assess the current state of the 'risk on' psychology. As noted many times of late, we closely monitor the US equities not just for their trend in its own right, yet also as a barometer for the overall health of the 'risk on' psychology.

After Friday's 'PMIs Speaketh: 'Risk On' Baby!!' ALERT!! has seen the weakening of the US equities, it is worth noting that this seems due to a 'good news is bad news' reversal of previous US equities strength on weakish economic data. There has been much better data and stronger inflation indications. While we have also noted the initial phase of inflation is not necessarily bad for equities, the rampant rise of global govies yields (i.e. price drops) has been an issue.

That is likely what has worried US equities over the last several sessions, and will continue to be a problem if the global govies continue to weaken. The operative term there is 'if'. We were not at all surprised by the recent down trend there, as we had noted since the rally failures since late last year (post Biden's election victory) that global govies failures on rallies indicated they had finally shifted to a bear trend. While that was quite a statement at the time considering they had been in a 35 year bull market, we continue to believe that in the wake of the recent 'lower lows'. That is especially on 'macro' factors changing so radically on the early January Biden certification, and Democrats taking control of the Senate.

Yet the 'if' factor on the aggressive global govies selloff is more prominent now that they have reached the first significant lower supports. While the support on our regular weekly front month T-note future chart (<https://bit.ly/37Dfnbf>) looks like the mid 134-00 area pullback lows from March 2020, the broader price history shows mid-low 135-00 congestion around the mid-2012 previous all-time high. Which means that the stronger sister T-note has hit lower support for now.

Also note the weaker sister German Bund had neared its next lower 173.00-172.50 support below the violated 175.50-.00 area prior to a current substantial bounce. And the weakest sister (downside leader) UK Gilt has been slipping below key lower 130.50-.00 support of late, yet has continued to firm back above it. It all raises the question of whether the obviously very negative influence from the rightfully weak global govies might have run its course for now. We shall see.

That is especially critical for the US equities that have seen such a drop on the recently improved overall economic data. The obvious question is whether this is the beginning of a bigger correction, or just an untoward hiccup in what remains an overall bullish trend that will soon reassert itself? As noted above and previous, this is not just a US equities

question, yet rather a consideration for the overall global 'risk on' psychology. This is also reflected in the recent return to weakness of the emerging currencies after a sustained bull phase this year. That is even though the previously lagging developed currencies have held firm.

So why has this near-term US equities decision become so critical, how do we assess it? Well, for that we are going to bring you into something we rarely do in the context of the intermediate-term trends, yet regularly check in our own right to monitor the short-term trend evolution within them: a look at a clear dynamic on a fully annotated short-term (hourly increments) March S&P 500 future chart (<https://bit.ly/3qL75FM>) that is showing a recent Head & Shoulders Top pattern (LS-HEAD-RS) with a DOWN Break at 3,881. A much bigger bear signal?

Maybe, and maybe not. In the first instance, the DOWN Break below the 'Neckline' (across the lows of the previous recent reactions) does not guarantee anything. As we have noted many times, the technical pattern signals will NOT tell us which way the market is GOING to go, just highlighting a key signal level at a particular point in time. The advantage is having a signal to monitor, and not a guarantee of the future market activity. Secondly, the key arbiter of any Breakout's success is whether it can demonstrate active and timely follow through on the initial signal.

At least so far in this case, the drop was only back to test the next obvious lower support at the previous late-January 3,862 all-time high. That was hit prior to the GameStop downside volatility temporary psychological disruption of the steady 'risk on' psychology. Yet the March S&P 500 future seemed stalled after its quick recovery back up into the 3,820-40 area prior to pushing aggressively back above it all in one fell swoop on February 4th. While noted previous, it is worth repeating the key 'macro' factor here as part of the overall macro-technical analysis:

The afternoon into the evening of February 4th was the initial US Senate review and voting on President Biden's American Rescue Plan (ARP) proposal. It was the confirmation that some somewhat reticent moderate Democrats were on board to pass the ARP, which was a hearty reinforcement for the further invigoration of the 'risk on' psychology. This is where the 'macro' and 'technical' nexus informs our view of how to interpret the current US equities selloff. While the jury is still out, the weakness to this point does not seem to cancel overall 'risk on' psychology.

Referring back to the global govies, it will be important that they now hold the more major lower supports to which they have sunk. Any further weakness there could come back to further weigh on US equities. And the US equities in their own right need to reassert the bull trend prior to March S&P 500 future slipping any further than the lows of today's selloff to stanch the recent weak tide.

There are also clear hurdles on the upside, with the blessing being that they are indeed 'clear'. While technical pattern signals will NOT guarantee any future price movement, they do come with definitive parameters. In the first instance, can the current March S&P 500 future 3,881 DOWN Break? The longer it remains either no worse, or only modestly below that level, without violating the next lower support, the less credible the DOWN signal becomes. That said, the ultimate Negation of the DOWN Breakout only comes with Closes above its 'Tolerance'.

Classically that is 3,931 the high of the Right Shoulder (RS) which occurred early Friday morning. The pattern's reliability is further impugned by the abbreviated nature of the Right

Shoulder, as a lack of classical 'conformance' to being more symmetrical is often a telling sign of a lack of reliability. It took a week to complete the Left Shoulder while the RS formed across only two days.

That 3,931 level is also important as last week's very minor DOWN Closing Price Reversal (CPR) from the previous week's 3,931 Close. As such, with the RS high it forms the sort of 'confluence' of technical trend indications we like to see as reinforcement for the importance of any technical trend area. As CPRs go, it was also very problematic in being so limited: the late week activity could not even fall below the previous week's 3,878 trading low. This is also a sign that the CPR is not very reliable, potentially leading to it being overrun in the near-term future.

Without dwelling on any of the limited if still across-the-board strong economic data that started this week, there is the extremely well-defined Evolutionary Trend View from a macro-technical perspective that leaves blessedly clear indications for what to look for next during this very busy 'macro' influence week.

Courtesy Repeat of Friday's critical consideration (updated S&P 500 chart)

[It is much the same. To be updated after critical Tuesday morning influences]

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/3aloWb6> (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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