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ROHR ALERT!! Two-Way Stretch

1 message

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Dear Subscribers,
After our assumptions in Tuesday's 'Not a Powell Put' ALERT!!, we feel we need to reassess that negative view. However, based on the activity in global govvies signaling continued yield escalation, there is also not necessarily a clear path to higher US equities despite Wednesday's impressive recovery into this morning.

As we have stressed previous, the initial uptick in yields from sustained low levels will not reverse any vibrant US equities bull trend. The operative term there is 'uptick', and the current yield bulge has quickly become more than just a very minor blip. In fact, the continued economic data improvement has continued to weigh on the already significantly weak global govvies right into this morning.

That is now the 'two-way stretch'. It is between the US equities wanting to move higher on the secondary Fed Chair Powell Wednesday testimony that the FOMC is not at all interested in raising rates until they can 'see the whites of the economic recovery's eyes', even if that means tolerating (actually more so enjoying) an inflation bulge well above its 2.0% target, and the degree to which that will foment higher longer-term global govvies rates. The latter will weigh on the US equities.

As such, the question goes beyond any of the stronger than expected economic data releases seen of late into likely passage of the Biden American Rescue Plan stimulus/relief bill into March. It goes to whether overall 'risk on' psychology can survive further escalation of the already striking increase in longer-term yields.

Therefore, we are not going to dwell on already significant late month economic data seen this week, with the final wave of the tsunami due tomorrow. We are instead going to cut to the market activity chase for US equities and the global govvies as a guide to what will be significant into the end of this important week.

After the important March S&P 500 future 3,881 short-term Head & Shoulders DOWN Break (see the annotated chart from Monday https://bit.ly/3qL75FM), it ranged down near that pattern's 3,800 Objective early Tuesday. That seemed to conform to our 'Not a Powell Put' perspective. However, it spent the balance of the day Tuesday recovering back up into the 3,881 DOWN Break area, and exceeded it Wednesday on what might have been encouragement from Powell.

While this has been impressive, the 'Tolerance' of that pattern top is the 3,931 high of the Right Shoulder that it has only passingly tested so far. As such, only more sustained activity above 3,931 will signal the US equities are back on a more sustained (and possibly aggressive once again) bullish track. If not, then watch the area of the 3,881 DOWN Break to see if the more bearish forces can dominate once again. Of course, this is also a measure of overall 'risk appetite'.

On the other hand are the bearish global govvies trends, which have already run further than many folks had expected (present company excluded.) While the old axiom, "*Good news is bad news*" seems perverse in the US equities, it is actually always the case to some degree for the global govvies. The stronger economies become, the more so 'fixed income' vehicles (longer-term bonds) fear inflation.

That is especially so under the circumstances of already Brobdingnagian central bank accommodation and major government fiscal stimulus. And nobody can deny the presence of those two factors at present. Of course, there is also rightful anticipation of the influence of the $1.9 trillion Biden ARP stimulus/relief plan.

Even in that context, the down trends in global govvies are telling not only in their accelerated extent to date, yet also in the degree to which they are getting down near their next key technical trend areas. Those are worth reviewing. Whether the global govvies can stanch the bearish tide after what have already been such significant drops, or whether they just keep going lower (i.e. even more elevated longer-term interest rates) could be a key factor for overall 'risk appetite'.

While we do not normally review the Evolutionary Trend View (ETV) for the global govvies in our 'macro' assessment, they now are a key factor in their own right. However much the March T-note future has been the more resilient, it has also followed the UK and European downside leadership. While the intermediate-term (5-year) weekly continuation charts we include in extended analysis only show a bit of minor support from March 2020 in the mid 134-00 area, there is much more.

The longer-term view also includes the significant 2012 highs and congestion in the mid 135-00 area into heftier mid 124-00 area congestion. As such, it is fairly striking that this 'stronger sister' has indeed already dropped below 135-00 into the 134-08 area, the latter being a Tolerance for general 135-00/134-16 support.

More important is the implication if it is violated. If that should be violated, the next historic support is not until the mid-low 132-00 area. If so the next historic support is not until the mid-low 132-00 area. Given it is already into some critical longer-term support, can it take much more 'good news' or US equities strength?

This is even more so the case for UK and European govvies. While their general 10-year yield levels are well below the US (recently 1.47% versus UK Gilt 0.78% and German Bund -0.24%), this has meant their bond market price activity has been that much worse. The front month Bund future has fallen from the 178.00 area in late January to below the key 175.50-.00 congestion. It is presently at the lows of the overall selloff, at the top of the next 173.00-172.50 support.

And the downside leader front month Gilt future has fallen from up around the 136.00 area at the top of the year to below some significant 130.50-.00 support just this week. This is likely at least partially based on the elevated inflation expectations surrounding the Brexit hurdles from the UK leaving the EU despite some weaker UK economic data. As it is not yet near its next 128.00 area support, its near-term activity will likely be influenced by whether the T-note and Bund hold their respective supports, or fail. We are not expecting the Gilt to recover under the circumstances of further intermediate-term yield escalation elsewhere.

It is important to keep in mind that global govvies decisions are more important than usual both in their own right, and as a barometer for whether US equities can continue to shake off the ostensibly negative influence of higher yields. Considering the Biden ARP plan in

conjunction with the 'friendly Fed' should be a 'risk on' psychology driver, we should know soon on the US equities decision.

As far as the overall global 'risk on' psychology, there is also the current modest weakening of emerging currencies that might be signaling a crack in optimism. That said, this area has been very volatile of late, with 'country' deviations from any broad trends: like the recent Mexican peso weakness we attribute to the same sort of economic pressures suffered in Texas from the extreme weather.

Courtesy Repeat of Tuesday's critical consideration
[To be updated after Friday's major month-end economic data]
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 this week (Friday Close-based.)

Yet those are now less realistic near-term targets with the March S&P 500 future dropping below the key near-term 3,880 area congestion support on a near-term Head & Shoulders Top DOWN Break. While that has a nominal Objective in the 3,800 area, that is a minimum which will need to be closely watched. The more prominent supports if global govvies continue to exert pressure are in the 3,700 area (held during the GameStop volatility), the 3,600 area, and even down into the 3,500 area… the Negated September CPR top and weekly MA-41 into next week.

Thanks for your interest.

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