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ROHR ALERT!! Coming Back as the Bond Market

1 message

ROHR Alert <rohralert@gmail.com> Mon, Mar 1, 2021 at 11:03 AM
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Dear Subscribers,

Once again relating back to assumptions in last Tuesday's 'Not a Powell Put' ALERT!!, the global govvies continued yield escalation in the wake of sustained strong economic data and sentiment indicators was the more telling influence on US equities than accommodative central banks and improved 'macro' factors. While not stated in so many words, the lesson from that extensive exploration of the global govvies sustained weak activity (i.e. higher longer-term interest rates) versus FOMC (and other central banks) commitment to remain accommodative during recovery from the COVID-19 pandemic, is that the bond market rules.

For some folks the idea that the Fed does not control interest rates further out on the yield curve (except by modest psychological influence) is a bit of a shock and a disappointment. It would be much more convenient to just need to figure out central bankers' psychology than the whole wide world of 'macro' influences out much farther into the future. Yet those who have seen multiple interest rate cycles are well aware of a simple reality: the Fed and the other central banks are merely lagging confirmation indications of what are most often well-advanced decisions.

There is a good reason for this: Central banks do not want to be seen as killers of economic growth, especially ever since they became more open and transparent going back into the 1980s. They have gone from being 'inscrutable' to at least border line 'insufferable' in the sheer volume of their communication and often contradictory opinions. Believe it or not in the context of the incessant central bank communication of today, they used to not say much at all, even on rates.

Back into the early 1980s and earlier, the lack of any specific announcements of what had transpired at their rate setting meetings (when they finally opened up about the specific schedule that had also been previously cloaked) fostered an entire industry of 'Fed Watchers'. These firms claimed contact with either Fed Governors or high level staff to share what the FOMC had done with the balance sheet and money supply, which were the arbiters of the Federal Funds Rate.

Amazing, huh? Yet even far more extensive communication from the Fed over the Greenspan era (as he realized he needed to diffuse public angst over the FOMC) still meant the Fed was often a lagging actor in the wake of interest rate changes that were already apparent in the global govvies. This was very apparent during interest rate moves out of the 1980s right into recent Fed actions, like emergency FOMC rate cuts into early March 2020. At that point global govvies yields had already imploded prior to the FOMC action… the Fed was the lagging indicator.

One of the most telling iterations of the major influence of the global govvies was the observation from one of the most respected US political consultants and Son of the South, James Carville. After he was a prime mover in Bill Clinton's 1992 US presidential election

upset victory, there was some real concern over the 1994 US 10-year yield climbing from 5.2% to just over 8.0%. That was fueled by concerns about federal spending… sound familiar? That influence of longer term interest rates on recent US equities activity is why we are sharing this memory of why Bill Clinton approved a tax hike he had vowed to avoid, yet rates came back down.

In the event the always loquacious, very clever Mr. Carville paid homage to the global govvies insofar as they were able to foment a response from both the other markets and even the most powerful politicians of the world. To wit (in an interview quoted by Bob Woodward), "*I used to think if there was reincarnation, I wanted to come back as the President, the Pope, or a .400 baseball hitter. But now, I want to come back as the bond market. You can intimidate everybody*."

While the markets have all reacted today, those who were not expecting the initial uptick in global govvies interest rates to make any difference to US equities and the overall 'risk on' psychology might want to review the opening section of Thursday's 'Two-Way Stretch' ALERT!! That explored the degree to which the longer dated interest rate movement of the previous month was more than just a nominal 'uptick'. That was the key to the pressure which weighed on the US equities despite all of the improved economic data and even Fed Chair Powell's sustained insistence that the FOMC was going to remain accommodative.

Yet as noted in Friday's 'Govvies Win the Two-Way Stretch' ALERT!! and even somewhat previous, the US equities had turned into a 'good news is bad news' psychology based on the more than nominal longer-term yield surge. There was also the sudden pronounced weakness of the emerging currencies. That was after they had to some degree fought the previous yield increase and US equities indication of waning 'risk on' psychology until the later part of last week.

That said, what of today's sharp reactions against the US equities weakness and even the global govvies selloff continuing into the later part of last week? Well, the March S&P 500 future has bounced all the way back up to slightly above the 3,880 short-term Head & Shoulders Top DOWN Break. Yet much as last week, any inability to rally aggressively above the 3,931 Tolerance of that signal will leave them vulnerable. And the somewhat impressive emerging currencies recovery is also a bit problematic in conjunction with that. The one exception of the Russian ruble is underpinned by the continued strength of Crude Oil.

Developed currencies also weakening a bit against the US dollar is a sign of a still challenged return to a full 'risk on' psychology. While much quieter than their emerging currencies counterparts, they are nearing key levels again versus a US Dollar Index that is back up near its key 91.00 congestion and 91.23 Tolerance. With all of that said, we suggest still keeping an eye on the global govvies which have also recovered today, yet only back up near key violated supports.

Courtesy Repeat of Friday's critical consideration (with updated chart)
[To be updated after Tuesday's major data and central bank speeches]
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/2PoeJlz (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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