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ROHR ALERT!! Quiet Churn Before the Storm?

1 message

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Dear Subscribers,

Last week saw wildly volatile activity. That was mostly a one way slide in global govies with major two-way whipsaws in US equities and emerging currencies, even as developed currencies were a bit more subdued. So the question becomes whether the current relative calm after Monday's mutual US equities and global govies recovery is a sustained future market condition? Frankly, we doubt it.

In the first instance, there was today's less than impressive European economic data, which has boosted both the global govies and a sense it is a '*good news is bad news*' psychology right now which has been mitigated by that weak data. There is a consideration of whether this can continue into more major economic releases through the balance of this important first week of the month, beginning again with Wednesday's global Services PMIs and the Fed Beige Book.

On an Evolutionary Trend View it is also important that so far the US equities are also only back up to the same congestion from which they failed into the later part of last week on the back of global govies weakness. This is important in the context of the recent US equities pressure having stemmed from the outsized higher yield surge beyond the typical modest 'uptick', which the US equities have historically tended to be able to shake off after only modest downside correction.

We suggest a read of Monday's 'Coming Back as the Bond Market' ALERT!! to redirect you to last week's analysis on that. That is important because 'if' the global govies continue to determine the 'risk appetite' psychology, then any return to extended weakness there would likely spill over into the US equities as renewed weakness. We need to allow that is admittedly a very big 'if'.

We will need to watch it closely. Yet with further improvements in the COVID-19 numbers and vaccination availability (Johnson & Johnson now) and programs, stronger economic data (outside of Europe today), and positive expectations for the remaining economic releases this week (especially Friday's US Employment report), there is every reason to believe that the 'good' news will continue. Will it adversely affect global govies once again? Will it spill over into US equities?

It is important to note that all central bank speakers in addition to their heads (Powell, Lagarde, Bailey, Macklem, *et al.*) have been stressing their belief that extreme monetary accommodation must continue while any major segment of their respective economies remains under extensive COVID-19 stress.

And it is likely the economies remain in need of assistance. However, the fact that US President Biden's \$1.9 trillion ARP stimulus/relief program will likely pass the Senate (sans the \$15/hour minimum wage) soon is a further inflationary factor.

As in so many cases over recent years, there is the question over whether the inflation will actually develop to the 'expected' degree. However, just the fact that all central banks have indicated they will tolerate inflation pushing temporarily above their targeted levels is indeed encouraging more 'inflation expectations'. See last Tuesday's 'Not a Powell Put' ALERT!! for much more on the likely path of 10-year yields if the FOMC is allowing inflation temporarily above its 2.0% target.

And as the global govies (like all other markets) are a '*creature of expectations*', we suspect this will remain a '*good news is bad news*' situation. Of course the big test will be on that Friday US Employment report, both in its own right and the 'prismatic' US equities versus global govies view: Can the US equities get enough 'good' news to shake off any drag from a swing back to higher yields like we saw last week? It's going to be interesting, and likely volatile once again.

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/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.

On recent form, March S&P 500 future dropping below key near-term 3,880 area congestion support was a near-term Head & Shoulders Top DOWN Break. It is of note that the nominal 3,802 Objective was seen twice late last week prior to this week's significant recovery. Also of note is the 3,931 Tolerance of that DOWN Break, which was seen last Wednesday prior to the Friday slide back down to the 3,800 area. Whether 3,931 can be definitively exceeded is the near-term market activity key, along with whether there is a sustained drop back below 3,880.

If the weakness returns, the more prominent supports if global govies continue to exert pressure for a break below the 3,800 area 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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