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**ROHR ALERT!! 'Risk Off' Returns**

1 message

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Wed, Mar 3, 2021 at 10:19 AM

**Dear Subscribers,**

While the 'risk off' psychology seems to have constrained the US equities rally on Tuesday right into the key Evolutionary Trend View (ETV) range we have been highlighting for the past week, the return to weakness has been accompanied by a somewhat unusual psychology. That is US equities return to further weakness on a modest Tuesday afternoon slide and after this morning's ADP Employment Change coming in as a gain of just 117,000. That was versus estimates closer to 200,000 earlier this week. ISM Services PMI was also much weaker than expected.

Some might ask, "*What's the irony in that? Weaker economic data pressuring US equities seems pretty reasonable.*" Well, the dilemma might be that last week's unexpected slide was on higher global govies yields based on serial strong economic data, and other factors noted in Tuesday's 'Quiet Churn Before the Storm?' ALERT!! As such, it might have been expected for the weaker data to be back to more of a '*bad news is good news*' influence, along with any boost they might have provided to the global govies. Yet it is just not the case right now.

It is possible that the culprit was the overseas data this morning being relatively firm on their Services PMIs (even allowing some modest slippage.) Yet the global govies have been back under pressure since testing clear higher resistances (failed significant support areas) from Monday into Tuesday. This resurrects the prospect of their weakness reinfecting US equities and the emerging currencies after the very negative higher yields influence two weeks ago into last week.

This is as we very pointedly articulated in last Friday's 'Govies Win Two-Way Stretch' ALERT!!, as the title sums up the psychology of last week. And that was despite Tuesday-Wednesday dual Fed Chair Powell testimonies stressing the lack of any FOMC desire to raise the base rate anytime soon... despite the recently hotter inflation figures and rising inflation expectations. This is therefore in the context of the US central bank (accompanied by all of the others) not countering higher inflation while they perceive their recent Brodingnagian accommodation must necessarily be maintained to address pandemic-driven economic weakness.

As a rationale for why global govies may weaken at any time (as also noted yesterday), see last Tuesday's 'Not a Powell Put' ALERT!! for more on the likely 10-year yields path if the FOMC allows inflation temporarily above its 2.0% target. (HINT: Current US 10-year T-note yields around 1.50% are not nearly high enough in an historic 'real yield' context.) And while all of the additional central bank accommodation along with government largesse may well mean that the US equities (and others) are going to remain bullish overall, that does not necessarily make them bullish from current levels. The same goes for emerging currencies, which also need a return to more overt 'risk on' psychology to drive a rally.

For now all we can do is wait for this afternoon's Fed Beige Book (14:00 EST), and Thursday's relatively light international economic releases prior to the recently more telling US Weekly Initial and Continuing Jobless Benefits Claims. That is a bit more important this week in the wake of last week's much lower than expected numbers in that data set. However, there is strong suspicion that was due to the southern US Deep Freeze data disruption, and the numbers will normalize now.

**Courtesy Repeat of Tuesday's 'Quiet Churn Before the Storm?' ALERT!!**

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.

Courtesy Repeat of Tuesday's 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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