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ROHR ALERT!! A Bit of 'Risk On' Is Back

1 message

ROHR Alert <rohralert@gmail.com> Wed, Mar 10, 2021 at 10:46 AM
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Dear Subscribers,
The continued good news in the industrial and trade areas is boosting the US equities once again. That is with the added benefit of the '*good news is bad news*' psychology having abated for now. That is despite both Chinese and European inflation coming in somewhat hotter than expected, yet with the US CPI coming in as expected at a monthly 0.4% and annualized 1.7% (with Core subdued as well.)

Regardless of the risk being that Core annualized US inflation will be pushing up markedly in coming months due to losing the early pandemic inflation implosion from last March beginning in April, for now that neutralizes recent inflation fears. There is also the other factor noted in Tuesday's 'Bright Line COVID-19 Caution' ALERT!!: the consideration of any Fed interest in shifting its balance sheet blend to a longer-term maturity. Of course, that would involve monthly purchases of US government bonds and mortgage securities shifting to longer-term maturities. That said, the ECB is first on its announcement and press conference tomorrow.

The anticipation/hope is the Fed will go some way toward quelling the recent sharp rise in longer-term interest rates that have bothered both US equities and emerging currencies (as well as developed currencies to a lesser degree) on the shift to more of a near-term 'risk off' global psychology. While for now it appears that the upside reaction in global govvies is feeding that 'risk on' resurgence, Tuesday's 'Bright Line COVID-19 Caution' ALERT!! explored the reasons a shift back to a 'risk off' psychology may be in the works, even if not until late this month and beyond… review that below on who's really 'following the science'.

Courtesy Repeat of Tuesday's ALERT!!
Well, we suppose this makes us the ultimate contrarians. Falling COVID-19 new cases and the rising vaccination tide leaves most observers more upbeat now than at any time since the pandemic was first declared as such a year ago. It is also the case that the global economy will continue its return to overall growth on the back of the lower infection fears based on the various vaccination programs.

Yet the potential for a near-term surprise based on some governmental moves and the 'calendar' influence can further contribute to the tendency noted in Monday's 'Equities Turn More Erratic' ALERT!! While we will return to all of that below, first the good news… at least the tentatively improved global outlook.

This morning saw the Organization for Economic Cooperation and Development's (OECD) quarterly Interim Economic Outlook (http://bit.ly/2xQTogU.) That website comes with the links to its Chief Economist Laurence Boone's press conference including the (downloadable) presentation graphics, and the full text of the report. Its 'Strengthening the recovery: The need for speed' title of course references the importance of continuing to broaden and accelerate the global vaccination effort.

While still cautioning that even the improved pace of global recovery still leaves a gap between the pre-pandemic 2019 multi-year growth assumptions, it notes that 'World GDP' under its 'Upside scenario' could approach pre-pandemic growth trajectory by late 2021 (https://bit.ly/3l0YXPj excerpted GDP alternative graph that is interactive in full report.) This is very heartening, yet also includes the 'Downside scenario' which still leaves it very suppressed through most of 2022.

We suspect a hybrid of those two clear outcomes is likely, with the potential for near-term concerns returning, yet the overall trajectory still doing well overall. That is why we remain near-term skeptics of the US equities for now, yet are still overall bullish on trend after any sizable reaction. For much more on the very complex in-depth indications from OECD, short of reading the full report we suggest review of the presentation PowerPoint (https://bit.ly/3bqMzFf.) It is very clear on the continued weakness compared to pre-pandemic growth (page 8.)

Yet the question now is just how much any COVID-19 resurgence might weigh on the economies once again in an improved vaccination acceleration environment? And that acceleration is indeed impressive in some countries while others lag. The US now hitting an average of 2.2 million shots per day is impressive, even if some other areas (Europe) are still lagging. Yet impressive US efforts still have only 10% of the population fully vaccinated, a fraction of 'herd immunity'.

That is the message from new CDC head Rochelle Walensky, who cautions that the need to follow COVID-19 suppression protocols remains. That is also the message from the most qualified of epidemiologists, including the pre-eminent Dr. Anthony Fauci. As noted in Sunday's CNN Health article (http://cnn.it/3qxGjjn), he says, "*The US shouldn't loosen coronavirus restrictions until daily new cases fall below 10,000*." Yet the governors of some key states are indeed ditching even the most basic and effective of pandemic suppression step: wearing masks.

It was fascinating to hear from both Texas Governor Abbott and Mississippi Governor Reeves on the Sunday political talk shows. While we cannot find a citation of it anywhere, we heard Reeves go so far as to say, "*The people who said follow the science are now not swallowing the science*." The message from Texas Governor Abbott was much the same on the current rates of infection and hospitalization dropping so far as to leave the mask mandate unnecessary.

These folks need a lesson in 'cause and effect'. The current statistical drop is in the wake of the previous mask requirements, which had likely driven the drop. That said, this is an individual state choice, and while some are repeating the Reeves-Abbott mistake, others are taking a more enlightened approach to reopening their economies. Connecticut Governor Ned Lamont has reopened most businesses, yet is maintaining the mask mandate. As such, any negative impact from dropping the mask mandate is going to be a less than national problem, except of course to the degree there is no US movement restriction.

It is also a question of the timing of many states dropping the mask requirements, which is known to be the most effective simple step to suppress the pandemic. Over the weekend there was press coverage on a 'mask burning' event in Idaho that had lifted its mask requirement in February. Yet this is also as we approach the next great 'gathering' holiday when families get together: Easter on April 4th.

The lifting of the mask requirements seems especially troubling to pandemic experts in its likely creating a greater spread of the more infectious virus variants (more below) just as there is likely to be more travel and gathering. It has been the case lately that younger folks are less concerned about the pandemic, and less likely to observe social distancing or mask protocols. This will be massively exacerbated of course into the looming Spring Break season, which is already in progress and continues through this month right into Easter.

As such, there is a real opportunity for COVID-19 contagion to spread again at present, and continue into early April. The 'stealth' nature of the early phase of the illness means that significant reduction of mask suppression of its spread will create a resurgence which reverses the recent statistical improvement. This is especially the case for the new more infectious B.1.1.7 variant, which is becoming a more dominant strain in the US and elsewhere. While we dislike playing the Cassandra while so many others are focusing on more optimistic health and economic developments, it is part of what we do to maintain effective analysis.

Consider that our late January 2020 analysis was inconsistent with much of the political spin being applied to the early phase of the international transmission of the COVID-19 virus. Yet we were adamant about the degree to which that early infection two week 'stealth' contagion period was wholly different than even the 2002-2003 deadly SARS virus outbreak. See our January 27, 2020 "The 'Known Unknown' Carries the Day" ALERT!! for our initial exploration of that problem on the 'stealth' contagion, which we significantly amplified into early February.

So, what do you want to do as the COVID-19 pandemic wheel keeps spinning? Place your bets on Fauci and Walensky, or back the perspective of Abbott and Reeves (and others) who claim to know more on 'the science' than the experts?

And here we are again. Our expectation is that even if the vaccination progress to date will likely buffer any new pandemic spread, the resurgence will likely be more than the US equities have priced in at present. Just to be clear, this is not for this week or next, but more so a cautionary outlook into early April. It is much as the repeated warnings shared from late January 2020 into February that only came to fruition once 'experts' downplaying the contagion were proved wrong.

And the key is the risk is from the particular new variant that is spreading rapidly into a US population that remains on balance 'under vaccinated'. According to that same CNN Health article now citing Dr. Michael Osterholm, "*Just one month ago, B.1.1.7 made up around 4% of coronavirus cases in the US, among those that have undergone genomic sequencing. Today, it's up to 30 to 40%. And what we've seen in Europe, when we hit that 50% mark, you'll see cases surge*."

The nexus of the epidemiological and cultural tendencies is not promising, as the B.1.1.7 variant has already been confirmed in 48 states and Washington, DC with particular concentrations in Florida, California and to a lesser degree in Texas. Yep, some of your primary Spring Break locales. The bad news is that B.1.1.7 is both more infectious and lethal. While there is good news in that the three main vaccines show good efficacy against B.1.1.7, once again only 10% of the US population is fully vaccinated. As such, potential for a resurgence with a return to much higher new case numbers and hospitalizations is high into late this month, and will possibly surge into mid-April after Easter holiday travel and gatherings.

In the near-term US equities are going to be inspired by the very likely passage of the Biden $1.9 trillion ARP stimulus/relief plan in the next couple of days. There is also the potential for a less aggressive expectation on the recent global govvies rate escalation. That is in anticipation for there to be an adjustment to the Fed's balance sheet strategy to stress longer-term bonds at next week's FOMC meeting (announcement on Wednesday.) That will buffer another negative influence.

And the overall arch of COVID-19 pandemic will very likely diminish across the intermediate-term, yet with that meaning out into this Fall. Based on everything we are seeing, the contrarian view that there could be a surprise for the pandemic progress and economic growth seems reasonable if a bit deferred right now.

Updated 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/38gNaas (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 several times prior last Friday's temporary violation in the wake of the stronger than expected Nonfarm Payrolls aspect of the US Employment Report. That has continued through this week.

As noted previous, the 3,931 Tolerance (high of the Right Shoulder) of the Head & Shoulders Top could not be exceeded once again on any of the recent rallies, and remains a key threshold to be watched on the current push back up. It is also the case that the 'lower lows' seen since mid-February had established an overall 3,860 down channel UP break which it has churned above in recent days.

As that is rather than a clean UP Break above that resistance projection, it is a bit suspicious, yet with only sustained activity back below speaking of a reversion to a more

bearish near-term trend once again. Of course, that still leaves the Head & Shoulders Top 3,802 downside Objective reinstated as a key lower threshold, and more prominent supports back in the 3,700 area, the 3,600 area congestion, and even down into the 3,500 area… the Negated September CPR top.

Thanks for your interest.

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