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## ROHR ALERT!! Priced for Perfection Again?

1 message

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Dear Subscribers,

In the context of the positive influences at present and also ignoring somewhat troubling stumbling blocks, is it possible that the US equities are 'priced for perfection'? That might then also be the case for some other asset classes, like emerging currencies that are also a barometer for 'risk on' psychology. It was the case back in January 2020 that ignoring the looming COVID-19 threat (it wasn't even termed that yet), we noted that the sneaky 'uncertainty' was going to be more telling (See our extended, increasingly alarming 'Wuhan Virus' warnings that began with our January 27, 2020 "The 'Known Unknown' Carries the Day.")

Yet even that was only after we had posted our 'Priced for Perfection?' ALERT!! on January 21st, which had already alluded to the rising illness and death toll in Asia that the global equities were blithely ignoring. Also back then we visited the classical insight from Murphy's Law, "*Anything that can go wrong will go wrong.*" And one of the main extensions posits, "*...at the worst possible time.*"

We revisit all of that now because the same sort of ebullient atmosphere seems to pervade the US equities at present. And we need to allow there is good cause for that in the US vaccination program advances (quite a bit less so elsewhere like Europe), a significant drop in new COVID-19 cases, and a tsunami of additional US economic energy which is about to flow from the Biden ARP relief program implementation, even if quite a bit of that \$1.9 trillion gets spent later on.

However, the immediate spending and pandemic abatement should be cause for quite a bit of cheer even at the current elevated US equities valuations. Yet as we noted in Friday's 'So What's Wrong Now?' ALERT!!, "*The US equities flop back down from right near the major March S&P 500 future mid-February 3,959.25 front month future all-time high was striking on both the 'macro' factors and the Evolutionary Trend View (ETV.) Taking the latter first...*" "*Only getting very near (the mid-February 3,959.50 all-time high) on Thursday's 3,958.50 trading high prior to flopping back to the 3,931-35 range on the Close and weakening further (Friday) means the sense that a new high will be made (including serial Closes above the old high) on renewed 'risk on' psychology is neutralized to a degree.*"

This most interesting tendency that defies the classical overrunning of resistance near a previous high (and will be revisited below) is especially telling in light of all the positive factors being reinforced by this morning's OECD Quarterly G20 GDP Growth (<https://bit.ly/38HRfon> for our mildly marked-up version.) While that is somewhat dated Q4 2020 information, it highlights the degree to which even the pandemic suppression measure-based weakening left the growth on track.

Considering that in the context of all the current upbeat anticipation on not just current pandemic abatement but also the further improvement and relief spending, why in the world are US equities not pushing through that old high? We need to allow they just might at any

time during a week that will indeed see the first additional spending under the Biden ARP, robust economic data and surveys likely to show more improvement, and serial accommodative central bank influences... the most important being Wednesday's FOMC announcement, revised projections and especially Fed Chair Powell's press conference.

Yet much like January-February 2020, there is a proverbial 'ghost at the banquet' (with thanks to Shakespeare for that vision from Macbeth.) That is the premature full reopenings and even more so shedding all pandemic suppression protocols in several US states. To be clear, there are other states where reopenings are being pursued with (in our humble view) more sensible maintenance of some key suppression aspects (especially mask wearing.) Yet especially in Texas and Mississippi, masks mandates have been cancelled, and in fact Florida (which is a key Spring Break destination) there never was a statewide mask requirement. Along with some other states, Florida is moving to limit local mask protocols.

Additionally Florida is the US B.1.1.7 COVID-19 variant hotspot. Given the high degree of communicability of that variant and younger folks traveling from all over the US to Florida (along with similarly elevated levels of B.1.1.7 in Texas and California), the potential for a COVID-19 resurgence is now a real possibility. It is the case that the extensive vaccination of the vulnerable population in the US (20% have had one dose and 10% are fully vaccinated) means our resurgence is not likely to be as bad as in Europe that is shutting down again at present.

However, as we noted since last week Tuesday's 'Bright Line COVID-19 Caution' ALERT!!, there is room to be concerned that things may get bad enough in some regions to bring back pandemic suppression measures (like selective business shutdowns) just when the public and the markets had hoped we were done with all of that. This is the risk for US equities somewhat 'priced for perfection' again, as any recurrence of shutdowns due to the pandemic is likely not 'priced in'.

Just how bad any adverse market reaction might get was reviewed on Friday, and is revisited below. The tragedy outside of any renewed infections and deaths is that more discipline (even maintaining mask protocols in some areas discarding them) would leave the US vaccination success creating the right conditions for the return to near-normal. Those advising a premature shift to unbridled open economic activity are possibly bringing just what they want to eliminate.

Possibly the best metaphor for the misstep which may be occurring at present was from a most respected US epidemiologist, Dr. Anthony Fauci. Over the weekend he communicated the current risks with a US football metaphor. International readers may not be as familiar with this, but there is a tendency for some players advancing the ball to 'get sloppy' and lose control of the ball and blow the opportunity right before they actually would have scored a touchdown.

This is an apt metaphor for the premature declaration of victory we are seeing from some that are thereby creating a fresh window for a COVID-19 resurgence, with the risk that new variant infection spread will become more prominent in other states as well. On the 'Meet the Press' Sunday political talk show Fauci put it as a matter of, "*Don't spike the ball on the 5 yard line; wait until you get into the endzone.*" His full discussion of the issues with the 'plateauing' of new infections at a 60,000 level, European problems with premature reopening and the football metaphor can be seen in the 'Meet the Press' clip (<http://nbcnews.to/3rOVXrT>.)

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/3vtARSu> (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 was 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, the March S&P 500 future flop back down last week from right near the major mid-February 3,959.25 front month future all-time high was very striking. The 3,931-35 range was the mid-February minor DOWN weekly Closing Price Reversal (CPR) from the week ending February 19th as well as the key Tolerance of the short-term Head & Shoulders (H&S) Top 3,881 DOWN Break.

It should ideally be the case that the Negation of the CPR DOWN signal along with the H&S Top Tolerance means the previous all-time trading high will be overrun in short order. Only getting very near it (i.e. Thursday's 3,958.50 trading high) prior to flopping back to the 3,931-35 range on the Close and remaining stuck around it since then means the abiding sense that a sustained new all-time high above 3,959.25 is imminent on renewed 'risk on' psychology is neutralized to a degree.

The further decision is whether the front month S&P 500 future (June contract into the end of this week) will be able to stabilize and see a resurgence that carries well above that mid-February 3,959.25 all-time high. Failure of the March S&P 500 future very near that mid-February 3,959.25 front month future all-time high has left potential for a major Double Top pattern. We need to allow that bona fide 'Double' patterns are rare. That is because the nature of trends is that once a market gets that close to a previous major low or high, it is more likely to push through. Yet as that has not occurred so far this time raises concerns.

In this case it is particularly daunting because the intervening low between the highs was the post-US Employment report 3,720 midsession trading low prior to the substantial recovery back above that key 3,820-00 area. This means that even just to complete the 'Double Top' the front month S&P 500 future would need to drop back through all of the congestion noted above to hit 3,720 again. While that would only likely be on some factor

**not yet built into the market psychology, it is why we are still looking closely at that COVID-19 potential into what is at present upbeat vaccination program sentiment. And the Objective of the Double Top on a DOWN Break below 3,720? That is not until just below 3,500. Hmmm.**

**Thanks for your interest.**

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