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ROHR ALERT!! “...just because it wants to”

1 message

ROHR Alert <rohralert@gmail.com> Mon, Mar 29, 2021 at 11:19 AM
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Dear Subscribers,
The US equities late Friday upside explosion was a bit of a surprise not just in its volatility. It was also a push above some key bearish Evolutionary Trend View indications that had taken two weeks to develop. The key questions now are how could this be, and is it a full return to the recently elusive ‘risk on’ psychology?

Taking the first part first, the answer to that sort of radical shift from the previous stubbornly bearish tone in the face of all manner of bullish ‘macro’ influences is that any market can do this “...*just because it wants to*.” We like to relate this to one of the key price trend assessment tools that many experienced investors, traders and analysts develop across time as it compares to the methodology of a famous fictional detective: Sherlock Holmes, well known for his analytic rigor.

Early in Arthur Conan Doyle’s book ‘The Sign of the Four’ (Lippincott’s Monthly Magazine, 1889), Holmes' investigative companion Dr. Watson is very impressed with a conclusion Holmes has drawn on a particular issue. The always demure Holmes responds that his conclusion is merely a simple matter of deduction, and expresses his lack of agreement with Watson’s enthusiasm by saying, “*Eliminate all other factors, and the one which remains must be the truth*” (repeated in other forms many times elsewhere in Conan Doyle’s episodic Holmes adventures.)

This relates back to market analysis through some seasoned analysts ability to discount unlikely possibilities. Diminishing the likelihood of some aspects of the overall market outcomes can make it easier at times to consider what might be the most tenable future path for the market. However, it must be remembered that even the most insightful analysis is just a derivative of the market once removed.

The market is still the market, and credible analysts know that, unlike criminal investigation, nothing is ‘impossible’ in the sense Holmes expressed regarding physical evidence in ‘The Sign of the Four’. That is because in market movements nothing is in fact ‘impossible’, as I have often noted regarding the potentials:

“*The market does whatever it wants, whenever it wants, just because it wants to*.” That is despite the degree to which ‘macro’ analysis may seem all encompassing, and the technical tendencies seem to support the ‘macro’ conclusions in even the most cogent ‘macro-technical’ analysis. That seems to be what happened to our near-term bearish assessment of the US equities late last week. It is important to note that the chapter in which that form of Holmes’ quote appears is ‘The Science of Deduction’. And it must be allowed that (once again as opposed to physical science), in markets we are more so involved in ‘the science of inference’ with anything still ‘possible’, and the analysis contingent on continual reinforcement.

That gets us to the second question regarding whether US equities are back to a full return of the recently elusive 'risk on' psychology? Frankly we doubt it, and quite a bit of the reinforcement for that will rest with this week's market activity. However much last week's finish seemed to Negate the previous topping activity (more below), it will be important to see the June S&P 500 future further overrun the key technical levels to feed the bullish psychology. Otherwise last week's strength could end up appearing like a temporary emotional upward 'spike'.

That said, there is much to commend the bullish argument at present. The Biden ARP program is distributing massive funds for various purposes, there is even more proposed for a major infrastructure bill, and the support for the already highly improved US COVID-19 vaccination program is encouraging many folks to shun the pandemic suppression measures which limited retail gathering activities and travel. Yet that last bit is the cautionary indication for the near-term future.

The extended dilemma is as we have been noting for most of March, ever since the Governors of Texas and Mississippi (along with some others) lifted not only commercial restrictions but also their states' mask mandates. As also noted previous, the 'calendar' implication is also pernicious into Easter holiday travel following weeks of the Spring Break period. The latter is particularly accentuated by the degree to which the COVID-19 B.1.1.7 variant has seen its worst outbreak in Florida just as massive crowds of young people converge on the state from all over the US; and will be traveling back to their home states shortly thereafter.

This might seem like a late phase issue into the face of the serial improvements in the US vaccination program. And we agree this might (indeed hopefully 'will') be the 'last hurrah' of the pandemic if the current vaccines prove to be effective against the recently identified variants. Yet there are issues with that which might prove to be more troubling than anything which is currently priced into markets.

In the first instance, as of last week only 14% of the total US population has been fully vaccinated. Concentration in the most vulnerable including health workers, other frontline employees and older folks could reduce serious consequences seen in last year's hospitalization and death numbers. Yet, any major resurgence of new cases that will bring back the sort of restrictions which are not currently priced into the market psychology could be a problem for US equities. Just to be clear, we are not longer-term bearish, yet must allow for a serious 'speed bump'.

As the title of our ALERT!! last Thursday shared (and even after the late Friday rally), it appears the US equities are in a 'Critical Psychological Inflection Phase**'. That is on the degree to which the several week delay (which we had clearly cautioned would be the case) since the early March lifting of all restrictions, including the mask mandate through much of the US, the situation is now entering the more telling phase… and the indications are at least somewhat troubling on the most recent indications from the Centers for Disease Control.**

Note their most recent indication through last week (https://bit.ly/3u3XU4F) on the number of daily news cases and the data-smoothing of the 7-day moving average. As context for the current situation, note at the height of the previous surge last July (prior to the far more major Winter problem) new cases peaked somewhat above 75,000 with a 7-day average of 67,377. The recent sharp fall left indications back below that to some degree, at an average of 53,570 on 40,369 new cases back on March 14th. Yet since then those are back to an average of 60,425 on daily new cases of 71,593 on March 26th. Viewing this as a trend, it is

important to consider whether the recent fall was a 'cleanout' pending an up trend resumption.

This is why the most prominent US epidemiologists are warning that the recent wholesale abandonment of the COVID-19 pandemic suppression protocols is potentially a major problem. And they have the experience of Europe having to return to restrictions (most aggressively in Italy and France) to inform their view on the risks. Rather than count on our sporadic perspectives on the CDC data, you can follow it yourself via this daily updated short-link: https://bit.ly/3rw4eAb.

It seems that sustained COVID-19 new cases above the 7-Day Moving Average of 67,377 seen at last July's peak would indicate the return of a bigger problem. While that needs to be assessed on the basis of individual states and the impact on their health systems, there would be a far greater likelihood of reimposition of the recently abandoned restrictions. To the degree that means a return of even temporary business closures, it will not be good for the 'risk on' psychology.

For now it is important to watch the degree to which the June S&P 500 future can sustain pushing above the clear 3,942 front month S&P 500 future weekly DOWN Closing Price Reversal (CPR), and its 3,960 area Tolerance (also a mid-February prominent previous all-time high.) If so, then possibly today's slippage back to the 3,942 area recent CPR signal area is just a minor reaction. However, if there is any serious weakness back below that area, it might speak of Friday having been the aberration due to some odd factor; possibly an end of week order imbalance.

And there is another aspect which was odd about US equities late Friday upside explosion insofar as it was not reflected in other asset classes. Global govvies had recently rallied, seemingly in the wake of the US equities weakness. Yet as noted previous, that the US equities had indeed weakened without being led lower by the global govvies (i.e. higher yield concerns) was a tellingly weak sign for the US equities. However, after global govvies had slipped from resistance on Thursday into Friday, they have only weakened a bit more today.

Similarly in foreign exchange, there was not really any significant reaction that would speak of the major return of the 'risk on' psychology. Whereas that is most prominent in the emerging currencies, they have mostly continued to maintain the weaker levels seen since their peaks two weeks ago that modestly faded overall last week. The same is even more so true for other developed currencies, as evidenced by the US Dollar Index having overrun some key 92.00-.30 recent and historic resistance last week (including a weekly DOWN CPR from just two weeks earlier) last week; and then keeping its bid into the key higher 92.75-.85 resistance (including weekly MA-41.) It didn't even budge on Friday, and above it now feels like a US Dollar 'have' bid that is the antithesis of 'risk on' psychology.

For much more on the previous questionable aspects of US equities psychology that include ignoring much global central bank accommodation encouragement and the impact from the Biden ARP program as well as the (still admittedly limited if much improved) US vaccination program, please see Friday "It's a 'Push' Into the Weekend" ALERT!! We also apologize for the fully annotated weekly charts of key markets being modestly delayed this week by a technical issue with our ISP. We expect that will be cleared up later today, and those will appear tomorrow.

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/3f37L6s (updated through Friday March 19th.) 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 stalled into the old high, and then US equities struggled to sustain activity above the 3,959.25 previous all-time high by more than $10 (both a natural rule of thumb and key weekly Oscillator level) through all of last week. This was the further indication that Negation of the 3,931-35 dual resistance might be more of a ‘failure swing’ than full bullish signal.

There was even atypical weakness into the FOMC announcements and Chair Powell’s press conference last Wednesday (14:00 EDT and after.) In fact, it was only on revised economic projections that the March S&P 500 future pushed back above the old 3,960 area high, further encouraged by Powell’s statement that US growth was likely to be very strong and any inflation would be very transitory. That not only caused a further push higher during Regular Trading Hours, but fomented a new March contract overnight 3,989 all-time trading high that evening.

Yet then various factors conspired to drop it back into the 3,960 area Thursday. Might that have been the renewed weakness of global govvies to new near-term trading lows (higher yields) after they bounced on the Powell inflation perspective on Wednesday? Or was it the renewed COVID-19 pandemic spread risk we had noted for weeks in the wake of quite a few US states lifting pandemic suppression measures (very likely prematurely)? The latter was reinforced by the return to more draconian measures in Europe that had reopened too early as well as the press coverage of the increasing US Spring Break mayhem into late last week.

In any event, the June S&P 500 future (front month as of Friday) held not too much worse than 3,960 area through Thursday morning, and temporarily spiked back up to it into lunchtime. However, by right after lunch it fell sharply back not just from that area, but also

well below the previous week’s 3,942 weekly Close. [Please see the fully annotated short-term June S&P 500 future chart into very early Monday morning trading (https://bit.ly/3lDwdfW in fact Sunday evening.]

That was important insofar as it established a 3,942 weekly DOWN Closing Price Reversal (CPR.) Of note that has a Tolerance at the previous week’s high, most interestingly 3,958.50, right near 3,960 again. Finishing Friday above both of those levels was odd due to that ‘risk on’ psychology not being reflected elsewhere (see above), and now it will be important to see if it maintains the trend above those levels or reverts to more bearish activity once again. If the latter, there are lower supports into the 3,880-70 range with lower support at 3,820-00.

Thanks for your interest.

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