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ROHR ALERT!! Runaway or Over-Extension?

1 message

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Dear Subscribers,

It would be easy to assume the US equities strength on the back of Friday's very strong US Employment report indicating the addition of 916,000 Nonfarm Payroll jobs (versus the 647,000 estimate) and the Unemployment Rate dropping to 6.0% is a bona fide 'runaway' into a new bull market extension. That includes the front month S&P 500 future pushing above the psychological 4,000 'big penny' level during limited US trade Friday while the rest of the Christian world was Closed.

That particular aspect continues today, with markets outside of Asia Closed for Easter Monday from New Zealand right through Canada. (That's right US clients... it seems the rest of those markets still are better at partying than we are.) It is therefore a current question that would otherwise not be the case as to whether the US equities strength is the runaway above higher resistance (more below) it appears to be, or the over-extension mentioned in the title of today's research?

Rather than revise our Evolutionary Trend View (ETV) below, we are repeating the assessment from late last week that already anticipated the higher levels to watch into this week, and will be updating that once the markets see the additional impact from all of those combined Good Friday and Easter Monday countries' markets being back in action on Tuesday. In the meantime, we will cut to the market analysis chase with a concise discussion of the various asset classes current behavior, and the ongoing 'fly in the bull market ointment' noted previous.

On current form front month S&P 500 future appears to have decisively overrun the weekly Oscillator resistances in the 4,010 and 4,035 areas that were tested last Friday. Yet those are weekly Closing thresholds that will need to be watched later this week for any indication buyers from other countries Closed for both Good Friday and Easter Monday were not crowding in to hedge their purchases of their domestic markets which were not accessible over the past several days.

If so, that may defuse or even reverse to some degree the extreme strength seen over the past two trading days. That would be in the context of them buying their own equity markets and liquidating their hedges in the US equities. That said, if the front month S&P 500 future holds setbacks to technically and psychologically prominent low-4,000 area, it must be assumed it can maintain a bull trend for now. The next weekly Oscillator thresholds this week are the 4,110 and 4,140 areas loosely noted last week, which are back to rising approximately \$25 per week (up from \$20 per week) based on the recent sustained strength of the overall trend.

That said, the global govies are not painting nearly as upbeat a 'risk on' picture insofar as that should bring price pressure (i.e. higher yields) due to stronger growth and inflation expectations. Yet after taking some pressure in Friday's US electronic trade after the strong US Employment report, they are recovering at present in the face of the extended US

equities strength. Obviously, here as well we will need to wait until Tuesday to see the European activity as a context.

Foreign exchange on the other hand is reflecting more of a 'risk on' psychology, as gains in recently weak developed currencies drop the US Dollar Index back below its 92.75-.85 area, even if the lower 92.30-.00 range is more important. It is also the case that the recently stronger emerging currencies continue to gain ground in an orderly manner. All of which is subject to the influence below...

Back to the 'fly in the bull market ointment', it is the continued race between what are impressive levels of US vaccination that however remains somewhat limited (18.5%), and a potential COVID-19 new cases resurgence. At least so far that has not reached threatening levels, yet is closer on many measures at present. The question is whether the new cases (and ultimately hospitalizations) resurgence will reach sustained levels triggering reimposition of pandemic restrictions.

We are keeping a close eye on that, with recent CDC indications still becoming disconcerting on a daily new cases rise back up to 67,989 on Saturday, and a 7-day moving average still rising up to 62,542, both up from significantly lower levels into mid-March. You can monitor this via the CDC COVID-19 Data Tracker (<https://bit.ly/3rw4eAb> noting the April 1st new cases rise to 74,912), all of which approaches the key levels from last July we have highlighted previous.

While still just only just up to those key levels of roughly 75,000 new cases and that 67,377 7-day average from July 2020, the trend is decidedly higher. And the more interesting and troubling element is the degree to which current increases are based on the COVID-19 B.1.1.7 variant that is so much more prevalent among children and young adults in a way which was not the case during the first 10 months of the pandemic. Consider again what Dr. Osterholm has to say...

Michael Osterholm is the Director of the Center for Infectious Disease Research and Policy at the University of Minnesota, and is a member of President Biden's COVID-19 Advisory Board. While he is seen as a bit alarmist, he has also been more so right than many others (especially politicians) on the likely path of the COVID-19 pandemic. Consider for a moment our citation of what he had to say in our March 9th 'Bright Line COVID-19 Caution' ALERT!!, which was in response to more than a few US states lifting their COVID-19 suppression mask mandates:

He noted, *"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."* That was of course into just the beginning of the Spring Break flood of young people into Florida, which we (among many others) noted was THE B.1.1.7 variant US hotspot (along with Texas, California and now others.)

While he did not go so far as to specifically cite the higher contagion for the massive number of young people traveling into and back from Florida over the past month, that is implicit with the overall conditions and future warning he offered on various Sunday political shows over this past weekend.

To wit, the article on his interview by the moderate Chris Wallace on Fox News Sunday includes the link to the video (<https://fxn.ws/3rQFsec>.) At 02:00-05:10 he notes that while the pandemic new cases seem to have cooled in some areas, they have exploded in others,

like the Upper Midwest and New England. That is consistent with how the pandemic has remained so stubbornly resilient in the past (and also in Europe), and is complicated by the current B.1.1.7 variant.

That is due to the aforementioned prevalence among children and young adults in a way which was not the case during the first 10 months of the pandemic, and calls for a reconsideration of many of the 'kids back in school' efforts that have seemed reasonable up to this point. Yet the recent resurgence is among a much higher percentage of them, consistent with B.1.1.7 also being more contagious.

It also seems to be far more damaging among that population, which had mostly avoided serious symptomatic illness during any infection from previous variants. The recent rise in hospitalizations and deaths among that population is troubling on both the consideration of their youth, and the degree to which it brings into question quite a few of the economic reopening plans based on schools opening.

While there is good news in the degree to which the current batch of vaccines seems to be effective against the B.1.1.7 variant, that is still more so limited to older members of the population, and certainly not younger folks to any degree; including those who were gathering which such abandon in Spring Break locales like the entire state of Florida. Dr. Osterholm noted all of the other nations who suffered an extensive spread of the B.1.1.7 variant have reverted to lockdowns. The problem he notes with B.1.1.7 is that it is possibly not the 'next wave' of the existing pandemic so much as a 'new pandemic' based on its major differences.

Once again, we do not want to be overly focused on one highly negative factor amidst the several positive developments. That said, much upbeat psychology in the US (which is the leading source of positive global expectations at present) is based on the 'reopening' that is gaining momentum. That optimistic psychology is ignoring sustained warnings from the epidemiologists about the still relatively low level of overall US vaccinations despite impressive program acceleration.

As such, even with all of the current improved economic data, airline and hotel bookings, restaurant reopenings, etc., there is a risk factor in the potential for a problem on renewed restrictions not being priced into the equation at present. That would likely take a new cases surge along with higher hospitalization rates, which suggests monitoring the CDC COVID-19 Tracker noted above. Yet there is also a critical factor in the degree to which any pandemic spread is also seen to be more threatening to children and young adults. While everyone wants them back in school for their own educational and socialization needs, that is not likely to be supported at the risk of them being lethally impacted by the pandemic.

This is therefore a very 'binary' market psychology, insofar as broader economic indications across many sectors appear to be benefitting from general reopening of the US economy. However, if indeed the current spread of B.1.1.7 new cases (Michigan and the Northeast for now along with California and Colorado surges) should accelerate (possibly based on that Spring Break travel), then there may be a quantum shift in the market psychology which is not 'priced in' at present.

Courtesy Repeat of Wednesday's critical consideration (updated chart)

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/3cOCa72> (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 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. 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 (also front month future) overnight 3,989 all-time trading high that evening.

Yet then various factors conspired to drop it back to the 3,960 area that Thursday. In any event, the June S&P 500 future (front month since March 19th) 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.

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 last week 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, lower supports are the 3,880-70 range with lower support at 3,820-00. However, if it remains strong, higher resistances are into 4,005-30 and 4,100-30 into next week based

on the weekly Oscillator (with MA-41 still rising \$20/week.)

Thanks for your interest.

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