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ROHR ALERT!! Critical Late Week 'Risk-On' Test

1 message

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Dear Subscribers,

As noted in Thursday's "Biden's 'Risk-On' Address" ALERT!!, the President's joint Congressional address was a full blown return to 'big government' with all of the attendant major spending. While the concerns over the associated higher tax rates that were sure to come are a headwind for the US equities, that is still considered something 'down the road'. As discussed many times on the previous stimulus/relief spending plans, markets are more likely to reflect spending first.

That is also in light of the continued major central bank accommodation despite higher inflation indications. That is only reasonable in the context of the banks' assurances that the inflation is transitory. While recent indications seem to belie that notion, at least so far US interest rates are cooperating (whereas European rates are pushing higher from their previous very low, indeed negative, levels.)

There is also the limited early week economic data expanding into the recent over-the-top bullish data on everything from US Q1 GDP to European sentiment indications and economic data into US Personal Income (up a record 21.1%) and Spending numbers among other data. On the back of that very strong stimulus check-driven Personal Income figure, the US Savings Rate is up to 27.6%, which is insane in historic terms for the nation known for 'conspicuous consumption'. All of it points to the likelihood that continued strong retail sales is most likely.

So why the downside reaction in US equities at this particular time? Well, there were a couple of earnings misses of late, which also comes in the context of very rich price/earnings multiples. There is also the classic idea of "*buy the rumor, sell the fact.*" Yet as the 'facts' are likely to remain strong into next week's global PMIs and other data into Friday's US Employment report, where the estimate is already for another gain in Nonfarm Payrolls of nearly one million additional jobs.

What remains is consideration that maybe markets are nervous at the next critical Evolutionary Trend View (ETV) technical and psychological threshold. It was fully explored in Thursday's "Biden's 'Risk-On' Address" ALERT!! that after the June S&P 500 future traded up through the lower 4,193 UP Runaway Gap Objective, the key weekly Oscillator threshold moves up to the 4,210 level next week. And lo and behold, what does that correlate to? This week's trading high set on the 'risk-on' reaction to the Biden speech just prior to Thursday's Regular Trading Hours. Therefore, it is reasonable this is a bit more than just 'big penny' psychology.

Thursday's ALERT!! is repeated below for your ease of access to our full assessment of how the various asset classes are acting under the 'risk-on' psychology generated by all of that further proposed US government spending. Yet, the key question on today's reaction is whether it is just a brief bout of nerves, or might it indicate something more troubling for the US equities?

The answer for the US equities (also a key barometer for the overall 'risk-on' psychology in other asset classes) is whether the June S&P 500 future holds not much worse than last week's 4,171.50 weekly Close. Any Close today below it is at least nominally a weekly DOWN Closing Price Reversal (CPR) from last week's Close (Tolerance to last week's 4,186.75 high.) As usual, it is a matter of degree.

If it is only marginally below 4,171.50, it is the sort of weak DOWN signal that is very likely to be Negated on a push back above 4,186.75. Assessing short-term charts gives the impression it would need to be at least back below 4,150-45 congestion to indicate any meaningful DOWN CPR, and also be enough weakness compared to a high up \$50 on the week. If not that weak (or maybe not Closing below 4,171.50 at all), this is just a nominal setback from what the market must sense is an important hurdle, with near-term support into that 4,150-45 area.

And the same slippage in the 'risk-on' psychology is apparent in the key other asset class: foreign exchange. Both the developed currencies and emerging currencies are back under pressure, yet still within their broader up trend support parameters. Of course, that will also likely therefore be critical on the US equities indication of just how badly the 'risk-on' psychology is damaged... or not.

Courtesy Repeat of Thursday's "Biden's 'Risk-On' Address" ALERT!!

Say what you will about President Biden, after years of dealing in Washington DC, he knows how to open a negotiation. On the back of his \$2.0 trillion ARP program passage, his latest proposals announced in last night's NOT State of the Union Address bring proposed total US government social spending up to \$6.0 trillion.

This appears to relate to the classical 'negotiating with a mule' parable regarding domination of any dealing with a highly partisan divide in Congress, and possibly even the more moderate members of his own party. Step 1: grab a sizable (4 foot) piece of construction timber; 2.) run up to the mule and smash it on the nose as hard as possible; 3.) Now that you have the mule's undivided attention, it is time to begin the negotiations. This also relates to making your initial request the sun and moon and stars, figuring you'll get some portion of the obvious overreach.

Yet beyond that, the Biden 'ask' is also for the return of 'big government', which would be the reversal of the Reagan Revolution, where the psych and programs were that *'the government is not the solution to the problems; it is the problem'*. His proposals rival those seen in Roosevelt's Depression-ending New Deal and Lyndon Johnsons' Great Society Program to offset the 1960's social schisms.

Biden is again restoring the idea that 'big government' can be a positive. And he is doing so in everyday terms that sound quite a bit less radical than Progressive members of the Democratic Party. It is actually very clever that he is appealing to the working class, where broader support for the additional government spending is critically supported in the polls; and proposing 'the rich' pay for the programs.

Will this work in practice? Probably not. In the first instance, 'the rich' are not actually as rich in liquid terms as the rest of the folks tend to think. Even if they are, they have always found ways to avoid any draconian tax hikes. At that point the tax burden needs to be extended to the upper-middle class in a way that ends up being a burden on the economy. Take higher capital gains and incomes taxes. The rich are often in a position to not need to sell, or actualize income. This has been attempted before, and actual tax receipts never meet the 'static' projections.

That said, whatever one may think about Biden's proposals on a longer term basis, they are politically and economically effective for now. In the first instance, by appealing to 'blue collar' workers with promises of a lot more work and higher wages he is building popular support for a populist agenda. That is also effective politically as a way to pry that socially conservative base away from Republicans. Secondly, regardless of the concerns about the inflation potential in combined higher government deficits, higher wages and any inflation that might create (which is partially already here), the US equities like the higher spending for now.

The question over just how 'risk-on' Biden's proposal actually is should become more apparent late this week into next. That will be on the basis of how well the June S&P 500 future manages to breach the 4,200 area 'big penny'. Sometimes those psychological levels are not really technically relevant. However, in the context of the current Evolutionary Trend View (ETV), it is important this time even if as with the early April US Employment report, it might churn a bit for now.

As repeatedly noted since Monday's ALERT!!, the lower of the two 4,015-21 UP Runaway Gap Objectives is 4,193. As the higher one is not until 4,316, whether a push generally above 4,200 can be maintained is a key indication on that front. Further, it is also the case there was a weekly Oscillator threshold into 4,185 this week. However, with a \$25/week rise in weekly MA-41, that leaves it moving up to 4,210 next week. That rise also applies to a slightly higher threshold that was set last December rising to 4,240 next week. Yet that would be fully overrunning the 4,200 area, with the higher UP Runaway Gap Objective not until the 4,316 level.

The 'risk-on' nature of the Biden proposal is also showing up markedly in other asset classes. The global govies had recently been buoyant on the back of the central banks' sanguine expressions of the transitory nature of any inflation. However, as the inflation is already here on many fronts, they began to weaken again on Tuesday (possibly in anticipation of Powell extreme accommodation into Biden's pre-signaled massive spending request.) And it looks like they were right.

At present the June T-note future is back below the key 132-00 area, and June Gilt future which had rallied back to the low 129.00 area is well back below 128.00. Weak sister June Bund future that had a problem rallying much above the top of its 170.50-169.75 range is now into a new selloff low near the low end of that area. While we need to allow that is also on today's hotter than expected Euro-zone inflation data, bonds with yields below 0.00% are going to be more vulnerable.

Foreign exchange is a similar situation, where US Dollar Index early weakness below the low end of 91.00-90.50 has been somewhat reversed while remaining in a downward trend. That still speaks of the lack of a sustained 'haven' bid on the 'risk-on' psychology still encouraging better global sentiment that is still buoying other currencies. This will likely take the same path as US equities, leaving June S&P 500 future critical on overall 4,200 area psychology late this week into next.

Courtesy Repeat of Thursday'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/3gB9ctH> 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.

While that might have been a sustained top, 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, along with 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 that 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. Even the March S&P 500 future push back above the old 3,960 area high, saw various factors conspire to drop it back to 3,960 area. June S&P 500 future (front month since March 19th) also fell sharply 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), nominally a real top.

Of note that had a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again. However, after overrunning that the previous Friday, a strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. The following Monday there was a 4,015-21 UP Runaway Gap, where the Objectives are 4,193 with a higher one not until 4,316. As such, whether a push generally above 4,200 can be maintained is a key indication on that front.

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Thanks for your interest.

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