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ROHR ALERT!! Split Personality into Trend Test

1 message

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Dear Subscribers,

As noted in Monday's 'Non-Anticipatory Fed Boom and Problem' ALERT!!, in addition to the Fed possibly allowing more inflation than will be healthy, the other problem is with the Biden administration's two-edged infrastructure and social support plan. To wit, *"While the spending is of course welcomed by the US equities as a driver of near-term strength in an already recovering economy, concerns over the higher taxation is finally a more real concern."*

That is now along with the continued upward price spirals in so many economic inputs. It has left the US equities with a 'split personality': Both enthused by the prospect of more US government spending, yet concerned about the degree to which recent strong corporate earnings may be impacted by higher costs as well as the prospect of that higher taxation to pay for the Biden infrastructure plan.

That said, given the resistance to some aspects of that plan by moderate Democrats (and at this point all Republicans), possibly the compromise position will end up being more 'risk-on' than the full Biden plan government spending due to the potential for less of a tax increase. We shall see, as that still remains an economic and market issue in flux. More concentration on actual physical infrastructure and less extensive social spending characterized as infrastructure would probably be the best outcome for the economy and the markets.

That might even garner a select number of so far very elusive Republican votes. After Senate Minority Leader McConnell's admonition that there would be 'zero' Republican votes for Biden's plan, that would likely also be good for the markets in the context of showing there can be some constructive bipartisan action.

However, that is yet to be seen, and in the meantime the concerns over whether Biden's plan will pass at all, or in a diminished form that was not part of market psychology during strong US equities early-mid April runup. At that point the 'risk-on' psychology was able to feed on the expanded spending plans alone.

Biden's recent more definitive outlining of the taxation to pay for it has created the current 'split personality' that leaves the June S&P 500 future in a test of lower supports. The first of those was the recent 4,140-50 interim congestion already violated this morning, with the more prominent congestion into the low 4,100 area (mid-April pullback lows) with next major support not until the early April 4,021-15 UP Runaway Gap. That's due to the straight line early April rally.

That said, the current near-term support is important due to the degree to which bull trends sometimes experience a bit of discomfort which bring straight down drops that look scary, yet stop on a dime once they are 'priced in'. This is exactly what transpired on the June

S&P 500 future April 22nd afternoon selloff into 4,115 that saw it stabilize and push back up into recent highs the following morning.

In this case that would be consistent with the broader short-term pattern (not actually a contradiction in terms) since mid-April suggesting the potential for a Head & Shoulders Top. That would favor a return either to or near the low-4,100 area lows prior to stabilizing. Downside volatility rising for the first time in a couple of weeks suggests below 4,140 area the near-term selloff will not have run its course until a further weakening into that low 4,100 area that then holds.

The other interesting aspect of the current US equities selloff is the degree to which the 'risk-on' psychology has not been heavily affected by recent weakening of the US equities. While the US Dollar Index has strengthened a bit again, that is only up into the low 91.00 area, which is reflected in EUR/USD near the low end of the 1.2100-1.2000 area gain. Which will be as critical as the emerging currencies so far holding no worse than their recent support. That is USD/ZAR only testing 14.40-.50 resistance to this point, and USD/MXN is no better than 20.30.

For anyone who has not done so already, we also still suggest a review of Monday's 'Non-Anticipatory Fed Boom and Problem' ALERT!! There is likely at least some inflation concern on the back of the Fed possibly allowing more inflation than will be healthy. That was explored in a very good CNBC interview (<https://cnb.cx/3aZCChn>) of Mohamed El-Erian on the Fed's lack of utilizing projections versus waiting to see inflation. Historically that has not ended well.

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/3ufmjVb> 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.

It is also the case there is a weekly Oscillator threshold into 4,210 this week on the back of a \$25/week rise in weekly MA-41. It appears the market anticipated this last week by leaving a 4,211 new all-time trading high last week. Of course, this makes that level that much more critical a technical threshold on any attempt to extend the rally this week. Along with that the next threshold rises to 4,240 this week that was also set at last December's high end Closes. However, if the market makes it that far, it would also represent fully overrunning the 4,200 area, with the higher UP Runaway Gap Objective not until that 4,316 level.

Yet the current selloff below the 4,140-50 interim congestion suggests a test of the more prominent congestion into the low 4,100 area (mid-April pullback lows.) If that fails, next major support is not until the early April 4,021-15 UP Runaway Gap (post-US Employment report.) That's due to the straight line early April rally.

Thanks for your interest.

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