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ROHR ALERT!! Not So 'Stress'-ful

1 message

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Dear Subscribers,

As noted in Thursday's 'Stress Test Day' ALERT!!, that afternoon's release of the Federal Reserve Bank's annual bank stress tests was the next potential speed bump for the US equities and general 'risk-on' psychology. Yet it turned out to be more of a turbocharger on the health of the big banks. This annual exercise that is dictated by the Dodd-Frank legislation actually showed (right from the opening of the press release https://bit.ly/3wSdcey) that "...*large banks continue to have strong capital levels and could continue lending to households and businesses during a severe recession*." That page also has the link to the full report…

...where it is apparent that the important 'Aggregate common equity capital ratio' that has been strengthening ever since the 2008-2009 implosion has hit a new all-time high. Much as already seen through the 2020 COVID-19 pandemic pressure, there was never any question of whether the banks would be able to continue to lend to qualified borrowers based on bank balance sheet problems and capital ratios. It was one bright spot in the depth of the pandemic crunch.

Yet as also noted in Thursday's 'Stress Test Day' ALERT!! (repeated below for your ease of review), even with the US equities now leading the revived 'risk-on' rally (compared to previous leader emerging currencies against the US dollar), It is churning higher rather than surging. While the September S&P 500 future is sustaining activity to this point above last week's 4,246 weekly DOWN CPR (reviewed in detail below), the rally has only carried up to near last week's very nearby 4.267.50 all-time high. While any weekly Close in that would NEGATE the DOWN CPR, it is suspicious in its lack of more upside momentum so far. Yet if it continues, weekly Oscillator thresholds rise to 4,280 and 4,305 next week.

In fact, this market has been churning ever since recovering from the mid-May 'Fed Dread' scare in that month's stranger inflation data. And as we have noted previous and again after Fed Chair Powell served up a major portion of sanguine inflation 'comfort food' Tuesday, it is not likely 'fear of Fed' tightening potential is the culprit behind recent US equities and 'risk-on' psychology weakness. That is also apparent in the US equities intermarket tendencies (more below as well.)

It is more likely that the recent more aggressive spread of the COVID-19 Delta variant through the rest of the world is an issue for the overall global economic reopening; with a potential to affect the US at some point. There is also comfort for the US equities from the seeming progress on a 'bipartisan' infrastructure proposal in Congress. Yet that outbreak of bonhomie is looking more so like a bit of kabuki in the wake of the subsequent Democratic Party pronouncements.

This was also covered yesterday, and a link to the key Reuters article is repeated below as part of that analysis. It points out that any Republican support for the bipartisan 'classical' infrastructure bill (roads, bridges, even broadband access) is at risk if Biden and

Democratic leaders make enactment of that bill contingent on passage of Dems' more expansive 'social infrastructure' package running into many more trillions of dollars. That would include key Left Progressive demands for a broad-ranging childcare, healthcare, climate and education package.

Especially the Republicans, yet also moderate Democrats are skeptical of the need to link classic and social infrastructure legislation. It is basically a demand that makes no sense. Dems will still be taking credit for classic infrastructure spending that has been lacking across so many previous administrations. It is also the case that Biden and Dems will increase their standing with the working class folks who have shifted to the more socially conservative Republicans in recent years. They can always fashion a second bill sans Republican support.

COVID-19 Delta variation risks, along with the minutiae attached to the political process of a 'classical' infrastructure bill passing timely to support optimistic expectations for US equities and the economy now seem to be the key risks.

Courtesy Repeat of Thursday's 'Stress Test Day' ALERT!!

Our Wednesday 'Risk-On Revival' ALERT!! title said it all in terms of the US equities ability to fully shake off the latest round of central bank inflation reaction fears, much as occurred in a more major way back into and after mid-May. It is another example of market participants 'getting out over the tips of their skis', leaning into accommodative psychology that is not likely to change for a while.

As noted again recently, the consideration the Fed is going to tighten because the early phase of economic recovery is creating some inflation is misguided most of the time. This was a lesson that for us goes back to the economic and US equities and economic recovery out of the 1974 recession, driven by the original October 1973 OPEC Oil Embargo. During that more volatile time, inflation was up into double digits into early 1975 with a huge recovery of the US equities. Yet the Fed cut rates markedly (from 13.0% to 5.25% into April 1975) after it realized previous hawkish policy was not curing inflation and was stifling any chance for growth.

On a much more subdued level, given the Powell precept of the current inflation being 'supply-disruption' driven, it is reasonable that the Fed will continue to pursue an accommodative policy until there is further progress on its recently reset full employment mandate. For much more on the major difference between 'supply-disruption' inflation and the more pernicious 'demand-pull' variety, please Wednesday's 'Risk-On Revival' ALERT!!, which segues into how this supports Fed Chair Powell's patient approach to current inflation he considers temporary.

As such, the classic "*Don't fight the Fed*" psychology is back as a key part of the overall 'risk-on' psychology along with other factors. One of those is the Fed's annual Bank Stress Tests to be released this afternoon (16:30 EDT), which are again not expected to show any lack of capital at major financial institutions. It is now a point of faith that for all the negative aspects of Dodd-Frank regulations for the economy coming out of the 2008-2009 recession, stronger financial institution balance sheet requirements were a plus; especially during the 2020 pandemic.

Along with the accommodative Fed, there is now a better chance that the most recent compromise US infrastructure proposal may actually have a chance of becoming law. That

will be the case if President Biden endorses the latest $1.2 billion 8-year spending plan from the G-21 group of Senators he is meeting with this afternoon. According to a very good Reuters article (https://reut.rs/3dbtyY2), while it doesn't include some of the advanced ‘infrastructure’ demands of the Progressive Left, it would provide Biden a legislative ‘win’. It is very important that he shows some real progress in an area where previous administrations have failed despite major promises in an area in dire need of spending.

This is also a major political prerogative for him to wean some of the working class folks who have shifted away from long-term Democratic Party support in recent years to the more socially conservative Republicans. His promise to govern in a bipartisan manner means much more than compromise with (at least at present) a recalcitrant Republican Party. It is also about delivering on his promise to assist the American middle class stem its multi-year slide.

Presuming no surprises in this afternoon’s Stress Test releases (admittedly a minor hostage to fortune), with all of that seemingly reinforcing the ‘Risk-On Revival’ psychology that has assisted the US equities recover from temporary slippage below key support late last week on the misplaced ‘Fed Dread’, what is there to worry about? Well, there is still that pesky COVID-19 pandemic which everyone would like to believe we’ve seen the back of after last year’s problems.

Yet the Delta variant is creating some problems even in the well-vaccinated countries of the world, and even more so in places which have ignored the vaccinations or cannot afford them. In another very good Reuters article (https://reut.rs/3zX4CNM) this morning it is apparent that even countries with a stellar track record on previous social measures to contain the pandemic are worried once again… like Australia. Russia is experiencing a major outbreak with record deaths in some areas, and as noted previous the UK is experiencing delays in its much desired reopening due to the Delta variant. This is in addition to the exposure in the US south, where vaccination rates are way too low (https://bit.ly/35P5fLc for single shots), a risk factor for later this Summer.

And this dichotomy of the US being mostly better versus the hotspots in the rest of the world is seemingly showing up in the intermarket tendencies. September S&P 500 future that was down below the area of the 4,175 Tolerance of the 4,200 area quickly recovered this week, and is now overrunning last week’s 4,246 weekly DOWN Closing Price Reversal (Tolerance at previous week’s 4,249 high.)

Above that is last week’s new 4,267.50 all-time high it has not yet breached, and the question remains whether it can fully Negate last week’s 4,246 weekly DOWN CPR by Closing this week above its 4,249 Tolerance. That decision may be driven by today’s Stress Test indications, or Friday’s additional US late month data.

Yet also inconsistent with major Fed accommodation withdrawal (as discussed previous) is DJIA being under pressure into a new 2-month trading low late last week while the NASDAQ 100 set a new all-time high last Thursday. That was even after damaging comments from St. Louis Fed President Bullard.

That remains the case on the DJIA still struggling only somewhat above its key 33,700-800 congestion, yet with the NASDAQ 100 pushing up into more new highs, belying the idea the Fed is about to embark on any withdrawal of liquidity. This feels more so like some looming problem with the global and US economic reopening that assists tech and weighs on the more mainstream companies.

It is also of note that the recently buoyant global govvies are coming back under pressure (i.e. higher yields) in another sign the 'risk-on' psychology is attempting to rescue itself after last week's post-FOMC damage. That is especially interesting on September T-note future (front month as of Monday with a full point discount to the expiring June contract) dropping back nearer to the major 132-00 area. That it has held so far is a sign of the global pressures the US seems to be avoiding.

In the context of 'risk-on' psychology which was led by emerging currencies at some recent points while the US equities stalled, it is the reverse now. While the emerging currencies are seeing some recoveries, that is more sporadic than previous and in no way leading the overall trend. The same is true for developed currencies that were not as strong as emergings of late and have now reacted.

While the developed currencies have seen the US Dollar Index is fading back from its recent test of the higher 92.00-.30 congestion after pushing above the lower 90.50-91.00 area, they still have higher resistances at recently violated support like EUR/USD 1.2100-1.2000 area, and GBP/USD in the 1.4000 area.

Courtesy Repeat of Wednesday's critical consideration
On previous form, the March S&P 500 future stalled into its old all-time 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. That is clear on the front month S&P 500 future weekly chart (https://bit.ly/2SjDKGG updated through Friday.)

There was even atypical weakness into the mid-March FOMC announcements and Chair Powell's press conference. Even a 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 an early-April weekly Oscillator threshold into 4,230 on the back of a $25/week rise in weekly MA-41. It appears the market anticipated this previous by leaving a 4,211 new all-time trading high the previous week (when that was going to be the Oscillator threshold into early April.) This made that level that much more critical a technical threshold on any attempt to extend the rally, and it was overrun despite the weak April Employment report.

A really interesting part of the overall equation is whether generally overrunning the 4,200 area (including that lower 4,193 Objective), just means a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Yet on the recent sharp selloff it revolved around the degree to which the June S&P 500 future could hold the 4,100 Tolerance of the 4,120-10 support, or needed more of a correction.

Much below the 4,100 area the overall up trend corrected back near the early April 4,021-15 weekly UP Runaway Gap, as expected. While that was a significant further slide, it was

actually very reasonable based on the straight up surge from the gap into the upper-4,100 area prior to stalling in mid-April. Yet the inflation concerns which triggered the mid-April selloffs have been addressed.

As such, June S&P 500 future pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective would seem to speak of it maybe being ready to extend the rally to a higher 4,316 (weekly chart) Objective. Yet that push above the 4,193 (daily chart) Objective at this point is also in line with this week's 4,215-4,240 weekly Oscillator thresholds (MA-41 rising $20/week.) 4,193 down to 4,175 should still be viewed as key near-term congestion support.

The question on the downside reaction was whether September S&P 500 future (front month as of last Friday morning) at its $10 discount to the June contract can re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance late last week. It was necessary to make sure that Powell provided comfort on inflation and planned Fed action on Tuesday.

That is exactly what transpired (see above.) That leaves the 4,200 area support once again if there is any setback from around the old mid-May 4,238 all-time high the market is challenging again. Immediate higher resistance is last week's 4,246 weekly DOWN Closing Price Reversal (Tolerance at previous week's 4,249 high), and the new 4,267.50 all-time high from early last week prior to the 'Fed Dread'.

Thanks for your interest.

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