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ROHR ALERT!! Churning Risk-On Still Rules

1 message

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Dear Subscribers,

However grudging the US equities rally (and general 'risk-on' psychology) may be, the overall context remains bullish for those instruments. That grudging nature of the bullish activity is readily explained by the whole series of influences which bring it into question, yet cannot seem to foment a full reversal at present.

The entire situation seems to be a classic variation of the old "*market (which is to say equities) climbing the 'wall of worry'.*" At the fringes, and even a bit closer to the core drivers, there are indeed worries. Those include pandemic, economic and political factors. Yet for the 'risk-on' psychology these are still not prominent enough to either derail the global reopening economic expansion or trigger a negative impact on any premature central bank removal of accommodation.

On the last point, a major consideration is the mixed nature of economic data that seems less than encouraging for the economic outlook. Yet it is also encouraging the overall continuation of central bank accommodation. For markets that are floating higher on a 'sea of liquidity' that is a positive. It is as noted during the last bout of inflation worries weighing on 'risk-on' psychology in the wake of the FOMC meeting and subsequent Fed minions views on sustained inflation.

It was inconsistent with the major overly anticipated removal of central bank accommodation which would have hurt the tech sector that the NASDAQ 100 made a new all-time high on Thursday, June 18th (the day after the FOMC meeting and Powell press conference.) And that was while the DJIA made a new 2-month trading low... completely counterintuitive for any withdrawal of liquidity in the context of a stronger reopening that could have hit the tech stocks.

Instead, that looked like more of the trade that might be in force if the COVID-19 Delta variant was becoming more of a problem globally (which is clearly now the case) and in the US (also becoming more of a problem.) In other words, the tech heavy NASDAQ 100 was behaving more so like a return to more restrictions after the recent 'back to normal' happy talk... and the same was true for the DJIA.

So that is one of the key areas of concern in the near-term, as is the US political scene as it relates to much anticipated further stimulus based on infrastructure spending in the wake of a very hopeful bipartisan agreement. Yet the positive US politics late last week turned into what we can only describe as '*political cleanup in aisle infrastructure*'. In what is the hubris which turns off moderates on both sides of the political divide, after what was a hard-fought negotiation to forge a \$1.2 trillion bipartisan deal, the Progressive Left made a new demand...

...that the Biden administration not sign the bipartisan deal unless a much larger (by a factor of 5) solely Democratic 'social infrastructure' package was presented to Biden at the

same time. And Biden seemingly bought into that in a statement shortly after the bipartisan deal announcement, specifically saying (as recounted in a Reuters article on the entire matter <https://reut.rs/3y1D1ZE>), *"If this is the only thing that comes to me, I'm not signing it."* This was at least incongruous.

Yet in an unusual Saturday pronouncement Biden said he wanted to correct any 'misimpression', with his statement, including that his comments, *"... created the impression that I was issuing a veto threat on the very plan I had just agreed to, which was certainly not my intent."* We do not know how his very explicit Thursday statement could have been just an 'impression'. Yet at present that bipartisan \$1.2 trillion deal seems back on track. However, this is the sort of thing the markets have to worry about on any expectation of future US stimulus.

So the 'wall of worry' versus anything more overtly bullish on the drivers for the current 'risk-on' psychology seems to be the case. As such, the current US equities churn higher rather a more explosive rally will need to be tolerated, with the recent propensity for sharp short-term reactions still likely (more below.)

The same seems to be true in foreign exchange, where developed currencies are slow to regain their recently lost bid against the US dollar. That could also be in part a COVID-19 Delta valiant differential based on the situation elsewhere being worse at present than in the US. Emerging currencies are also losing some of the ground they regained after somewhat substantial recent downside reactions. It is also of note global govies have a bid back again, which is often a harbinger of some form of global stresses emerging... like a partial pandemic resurgence.

This is the 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/3hdbKNf> 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 recent downside reaction was whether the September S&P 500 future (\$10 discount to expiring June contract) could re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance two weeks ago. It was necessary to make sure that Powell provided comfort on inflation and planned Fed action in his testimony last Tuesday.

That is exactly what transpired. That left the 4,200 area support once again if there was any setback from around the old mid-May 4,238 all-time high. Yet instead it churned above the Immediate higher resistance at the previous week's 4,246 weekly DOWN Closing Price Reversal (CPR with 4,249 Tolerance.) The new mid-June 4,267.50 all-time high (part of the DOWN CPR) being exceeded last week for another new 4,276.75 all-time high clearly Negated that topping signal.

It is now the case that the weekly Oscillator thresholds are 4,275 and 4,300 this week. The higher one is near the 4,316 higher Runaway Gap Objective, and the extended Oscillator thresholds (from December) are not until 4,370 and 4,400.

Thanks for your interest.

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