
ROHR ALERT!! The Clock is Ticking

1 message

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Dear Subscribers,

The typically multiple macro factors necessary to weigh on the US equities were extensively reviewed in Monday's 'Shifting Macro' ALERT!! (repeated below for your ease of access.) Those are primarily concerns over the weakening of the Chinese economy that is spilling over more broadly into Asian economic issues, at this point also meaning international trade concerns on product availability and supply lines into other economies. We revisit another aspect of that below.

We also reviewed the US fiscal picture as it regards the current stall and potential overall failure of the Biden administration's bipartisan \$1.2 trillion infrastructure plan due to the Congressional impasse with Democratic Party progressives demanding the concurrent passage of the \$3.5 trillion 'social infrastructure' plan. The need to delay the vote on the \$1.2 trillion infrastructure plan until the end of this month is a risk. That is regardless of how much anyone would like to believe the Democrats failing to pass that is tantamount to 'political suicide' (as we suggested in Friday's 'Charge of the Flight Brigade' ALERT!! (also repeated again below for your ease of access.) Yet there is a much more critical horizon...

...in the form of the need to raise the US government debt ceiling, the failure of which will leave it unable to pay its bills after the October 18th deadline. It is the classical 'received wisdom' that this has come close before, and "*they'll never let that happen.*" However, there are contingencies discussed in Monday's Reuters article (<https://reut.rs/2YvPIFs>) around whether Republicans longstanding signal that they will not vote for the debt ceiling increase is a real stumbling block.

Or is it more so as Senate Minority Leader McConnell holds, that Democrats are averse to raising the debt ceiling on their own through 'reconciliation' (needing only the 50 Senate votes the Democrats control) due to not wanting to appear solely responsible for raising it. That could be used against them in political campaigns, which is also the height of hypocrisy by the Republicans. During the Trump administration the Republicans raised the debt ceiling three times (with the cooperation of the Democrats) increasing the national debt by \$8 trillion.

Yet it is a bit more complex to implement reconciliation, and will distract the Democrats from addressing their internal dueling infrastructure plan resolution. As troubling as the potential US payment default and cancellation of many internal payments to Social Security and Veterans Benefits recipients may be, it is likely to be resolved. The Democrats cannot possibly allow it to fail by next Thursday's deadline without invoking another form of political suicide.

However, the other main issue for US equities and overall risk appetite, thereby affecting the global govies and foreign exchange as well, is Chinese economic fortunes intensified by the problems in their property sector. Another Reuters article (<https://reut.rs/3izTaAh>) this morning highlighted how Evergrande's cash flow and debt payment problems were likely spilling over (at least mildly for now) into other Chinese property companies. The good news is that Evergrande's sale of some assets has provided it with \$5 billion. While that may address its need to make deferred interest payments later this month, it remains an issue.

That amount only covers a sliver of Evergrande's \$300 billion of debt. It will be interesting to see what transpires when the 'grace period' for its September 23rd missed interest payment lapses on Saturday, October 23rd. On current form, it will likely have the funds to make that payment and

address other near-term payments due later this year. However, as the article notes, any discounted 'fire sale' prices for Evergrande assets will affect other Chinese property companies.

And Evergrande debts are only part of the problem, as it is also on the hook to still develop 1.6 million homes for which it has taken deposits along with forced investments made by many employees (a condition of continued employment) to the tune of \$145 million, characterized as high interest loans. It was the case that the employees were threatened with the loss of performance pay and bonuses.

However, the company recently stopped repaying those loans even prior to missing its dollar-bond payments over the past two weeks. It employs over 120,000 people in many Chinese cities, where the local economies also rely on commerce from those folks. Sounds a lot like the US situation back in 2008, which was also a slow motion train wreck due to near-term stop-gap measures.

Some of the scariest bits of information over the past several days have been the citations by various financial 'experts' that Evergrande is only a small part of the Chinese debt market, and cannot possibly cause a more general meltdown in such a major Chinese economic sector, which commands 40% of national wealth. However, this is reminiscent of the folks (including Fed Chair Bernanke at the time) who cited subprime mortgages as only comprising a small percentage of the overall US housing finance market. Look at how well that turned out.

The blessing at this point is that the broader global financial industry and general investment community are not significantly exposed. That is due to the previous Chinese restrictions on 'foreign' investment in so many of its industries. While it might have seemed a bit xenophobic at the time, Mr. Xi and his minions appear to have done the rest of the world a favor. Yet to be clear, any major weakening of the Chinese economy will still represent a sustained drag on the global economy.

Courtesy Repeat of Monday's 'Shifting Macro' ALERT!!

As extensively explored in Friday's 'Charge of the Flight Brigade' ALERT!! (repeated below for your ease of access), there are now three key fronts on which the current price level of US equities are being challenged. As also noted there, it typically takes multiple headwinds to create more than a minor and temporary setback in the US stock market. Yet it seems they are finally at that juncture after almost a full year (since late last October) of only modest short-lived selloffs.

Yet both in terms of the duration of this near-term down trend (from a month ago) and its inability to recover above key near-term Evolutionary Trend View (ETV) price levels it is the most sustained correction since the early September 2020. That is all apparent on the front month S&P 500 future weekly continuation chart through last Friday's Close (<https://bit.ly/3FkeW58>.) Of special note is December S&P 500 future price activity in the wake of an impressive Merck pharmaceuticals announcement Friday morning only leaving it back up into failed 4,348 support.

See Friday's analysis below for quite a bit more. Yet that a potential COVID-19 'game changer' (effective self-administered therapeutic) not creating sustained upside activity shows that this particular 'cure' is not going to reverse the current market concerns. Those are more so based on ingrained inflation into a global economic slowdown, and even the delay in US approval of what was considered at least the very likely approval of classical bipartisan infrastructure spending.

The inflation is now considered to be more durable and elevated than the more sanguine central bankers had still hoped as recently as several months ago. It is now the case that everyone at the Fed from Chair Powell on down is allowing that it is based on reopening bottlenecks that are not so easily addressed. On top of many international shipping delays, that is in part due to the spillover from Trump administration policies which are limiting access due to remaining tariffs, etc.

As an example this morning was a 'Road Back Barometer' report by CNBC's Steven Liesman on automobile and truck production issues beyond the computer chip shortage that involves sourcing chassis (see the associated graphic <https://bit.ly/3AaqQdY>.) It also highlighted the extremely slow shipping and elevated transportations rates, yet focuses on how remaining Trump era tariffs do not allow American manufacturers to offshore sourcing of this key auto production part (especially from

China.) And attempts to ramp up domestic production are hampered by... yep, you guessed it: supply shortages.

As such, and as this pervades most industries, the inflation is here to stay even as the lower production levels contribute to a slowdown. Without being overly alarmist about it, that is biting into not just top line company income, but bottom line profits as well... in other words the first real 'macro' basis for the return of 'stagflation' not seen since the 1970s. Also noted on Friday was the degree to which this affecting China is driving a distinct weakening of the Asian economy which has been a key component of the overall global reopening strength.

Therefore, we suspect the combined lack of further US fiscal support for its economy until at least later this month (along with other items like the debt ceiling political struggle), higher inflation for longer than was expected, and the weakening of the global economic tendencies we have noted for some time all add up to enough headwinds to create more of a downside sustained US equities reaction than seen in some time. That last week's late week selloff was despite some weakening of recently surging yields (note the bounce in global govies) is further evidence that there is some real economic weakening now. That is also reflected in both developed currencies and emerging currencies weakening against a buoyant US dollar... seeming like the first 'haven' bid in a while.

Courtesy Repeat of Friday's 'Charge of the Flight Brigade' ALERT!!

While there has been a bit of a reversal on some very interesting positive news this morning (more below), in general the previous 'risk-on' psychology investors had taken flight by late Thursday morning. That was on December S&P 500 future again failing the key 4,348 level we heavily highlighted since early last week.

As noted since Wednesday's 'US Equities *Déjà Vu*' ALERT!! (repeated below for your ease of access), *"The market doesn't repeat, but it rhymes." In a modified way, the December S&P 500 future 4,348 area has reverted to the key support again this week on the renewed yield escalation pressure. And much like last week, it was temporarily violated relatively early this week..."* However, previous that seemed to be on yield escalation indicated by weakness of global govies.

That is not so much the case anymore, with extended signs of global economic weakness on the sustained impact of the COVID-19 pandemic leading to much lower expectations. And as we have often noted, US equities classically do not succumb to any single negative influence. The current multiple weaker influences is what brought to mind Alfred, Lord Tennyson's heroic 1854 poem "Charge of the Light Brigade" as today's title (with apologies to the long-dead UK Poet Laureate for the parody to relate it to the current flight of previously sanguine bulls.)

It memorializes the heroic charge of British Light Cavalry into withering cannon fire at the Battle of Balaclava earlier that Fall. On the way in they faced enfilades on all three sides, and after they had finished their action it was the same on the way back out... *"Cannon to right of them, Cannon to left of them, Cannon behind them Volleyed and thundered..."* It must feel a bit like that to the previously still bullish 'risk-on' psychology investors who are seeing multiple problems now.

Having moved from our own more bullish Evolutionary Trend View (ETV) as the front month S&P 500 future stalled into weekly Oscillator thresholds in early September, there was always still the question of just how much of a correction would discount the 'macro' influence shift. After last week's Evergrande-driven weakness below 4,348 abated on diminished fears over the impact of its missed bond interest payment, the December S&P 500 future recovered well back above the 4,348 area... pushing back above a weekly channel 4,410 DOWN Break.

Once that failed to hold, it was back down into the 4,348 area. That was assumed to be in part on the pressure from the past two weeks rising yields, exacerbated by further global govies weakness to new recent lows this week. However, the renewed US equities weakness Thursday along with developed currencies and emerging currencies maintaining previous weakness was definitely not on any further yield escalation. In fact, global govies recovered from key lower support levels late Thursday into this morning. So what could the matter be?

Well, on a multiple problems scenario, the cannon fire on three sides is from one flank on the newly infused question over previously assumed US fiscal support for the economy. The issue is the Democratic Party 'moderates' not supporting the full 'progressives' \$3.5 trillion extended 'social infrastructure' plan.

As you are likely already well aware, this is after a bipartisan \$1.2 trillion 'classic infrastructure' plan was approved by negotiators from both parties months ago. However, as the progressives are bound and determined to see the broader 'unconventional infrastructure' plan pass Congress, they are threatening to scuttle the \$1.2 trillion plan unless their moderate members go along with the 'unconventional infrastructure' plan. This would be an act of political suicide.

In one of our classical brief insights into the US political undercurrents, the progressives have been running around for months saying that *"because the Democratic Party holds the White House and 'controls' (not really true) both houses of Congress"*, they should be able to pass both bills. The truth is that with such a slim legislative majority in the House and a tied Senate, they only control when any piece of legislation commands total support from all party members.

The minutiae of the price level and key program specifics of the 'unconventional infrastructure' plan are less important than the problem that occurs if the demand it be passed leads to the failure of the 'classic infrastructure' plan. In that case, there will be no success for President Biden's agenda in the first year of his term. That is along with seriously flagging approval ratings on the overall COVID-19 stubborn problems, Afghanistan withdrawal, and southern border immigration.

In the established context of the tendency for the party that won the presidential election to see slippage in its Congressional seats in midterm elections. With that already a consideration, the lack of any significant legislative progress from the Democrats would likely only exacerbate that tendency, which already portends a loss of both their Senate and House majorities. This is a good reason why (as opposed to his resistance to the first term Obama administration) Senate Minority Leader McConnell could not be happier in opposing Democrats at every turn.

If they fail to achieve any legislative victories (like at least the \$1.2 trillion 'classic infrastructure' plan), the Democrats have basically written Republican's campaign ads for them for the 2022 election. Recall the progressives mantra, *"because the Democratic Party holds the White House and 'controls' (not really true) both houses of Congress"*? Well, all the Republicans need to do is add the idea that even with all of that they accomplished 'nothing'... and "Do you really want to return these folks to Washington to waste more time and taxpayer dollars?"

This is why the next few days are so critical to not just the Democratic Party agenda and future political fortunes, but also whether any expected further fiscal support from the US government will be forthcoming at all. If not, it removes a source of actual economic activity in the form of fixing public transportation, seriously degraded roads and bridges, water systems, high-speed internet, and clean energy based on expanded electric vehicle programs. Going back to voters and saying "We've got nothing" would be a critical failure for the Democratic Party, and even more so would be a real disappointment for markets.

On the other flank is still elevated COVID-19 infections, deaths and restrictions in the US and elsewhere. The resilience of the pandemic based on the Delta variant spread is part of the broader problem affecting the global outlook. While there are increasing vaccination levels, the degree to which some key industrial centers like China still need to impose select quarantines has created, and will continue to create, drags on the performance of key functions; like shipping and retail.

Which gets back to the central cannon fire which is bothering the markets, and cannot be so easily reversed: a weaker Asian economy (based in good measure on China) driving lower global growth expectations into problems in Europe. Reuters posted a very good article (<https://reut.rs/3A1eRzk>) this morning on how the Asian economy led by China is no longer a reliable source of global growth.

However much the second quarter reopenings were very hopeful, there is little doubt that waned in the third quarter... as previously reported regarding the September 14th OECD Composite Leading

Indicators (<https://bit.ly/3nxve3S>.)

Therefore, the thought that the US equities might hold a limited correction that seemed possible on the recovery from last week's early week Evergrande debacle now seems to not be the case. And the idea it is only driven by higher yields also went by the wayside Thursday into this morning on the US equities weakness independent of any further global govvnies selloff, as they actually rallied a bit.

Yet that stubborn pandemic problem is where the 'good news' may make a difference in the intermediate-term. It was Merck pharmaceuticals announcement this morning that, along with its partner Ridgeback Biotherapeutics, it had developed a pill which (according to this morning's extensive Reuters article <https://reut.rs/2WwOval>) "...could half the chances of dying or being hospitalized for those most at risk of contracting severe COVID-19..." That self administered pill would be a real advance on the current in-hospital infusion requirement for the current COVID-19 acute symptom treatment, Gilead Science's Remdesivir.

Yet that has only brought a modest December S&P 500 future recovery back above the interim 4,300 area that was loosely held last week prior to being violated down to the 4,260 level overnight into this morning. Unless it is going to demonstrate at least the ability to recover back above the 4,348 area sometime soon, an extension of the correction down to the more prominent May-June 4,235-00 congestion or even the low 4,100 area congestion is very likely.

Courtesy Repeat of Monday's critical consideration

After the early July downside reaction the recovery back above the 4,300 area violated support left the higher resistance into the previous week's 4,360 DOWN Closing Price Reversal with a Tolerance to 4,364. That is clear on the S&P 500 future weekly chart (<https://bit.ly/3FkeW58> updated through Friday.) It is of note the September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

And the September S&P 500 future subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising \$25 per week. As such, the Oscillator indications remained important after what was the 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level (on weekly MA-41 up \$25), there seemed to finally be some real risk.

Yet even below the key lower interim levels into the recent 4,425 area congestion and 4,380-65 area bottom of that, it also held key lower support in mid-August looking forward into the following week. That bigger level was 4,340 on weekly MA-13 (loosely held on all sharp reactions) at that time, and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

In the event, the recent late week recovery back above the 4,425 area pointed to the strength of the psychological recovery as well as exceeding the key technical resistance areas. That led to the recent new all-time highs above the previous week's 4,476.50 trading high (prior to the temporary selloff.) That again left the near-term Oscillator thresholds into 4,515 and 4,540 areas (on the rising MA-41), which it failed to maintain in early September, fomenting the reaction.

This led to the violation of the 4,492 interim daily chart congestion after trading around it previous, with the more prominent 4,462 area also being violated two weeks ago. And while it traded back above that as well early last week, recent softening below it spoke of an ability to trend lower in the near term. That left the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

Having tested that area into the Close three weeks ago and violating it from the beginning of last week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative fundamental influence flowing out of China. As usual there is a Tolerance below that (as seen on selloffs in both June and July) down to the 4,350 area lower congestion developed during the temporary July topping activity, and retested on the mid-August sharp temporary reaction to a 4,347.75 trading low. While that may seem to be a broad berth, on past form only below the 4,350 area does the market signal a full trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And the December S&P 500 future held overall against interim low-4,300 support, and ended the week back above the low 4,400 area. The extent of the temporary selloff means that it needed to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it established it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,430 area this week.

That said, the 4,348 area had reverted to the key support again last week on renewed pressure. And much like previous, it was temporarily violated early last week. The difference is that the daily 'trend flow' is a bit different, where the previous week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. Last week it slipped on Tuesday, and was churning around it early Thursday with much less slippage.

Yet it ultimately failed even worse than the previous week, and the late week Merck news only left it retesting that failed 4,348 support. The lower supports are into the 4,235-00 range May-June congestion it surmounted in late June. If that should fail to hold, there is also prominent congestion back into the low-4,100 area, with weekly MA-41 in the mid-4,100 area along the way.

Thanks for your interest.

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