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OCTOBER 22, 2020

Credit Markets: Big Picture Update During Political Storms

We have three regrets to announce:
That Beethoven had not composed one more symphony;
That Mahler had composed one less;
That the Bull Market will not last for another year.

Yield Curve: Failure at 20 –Month EMA
Credit Contraction Further To Go

The Yield Curve has a rather implacable nature. Typically the major trend can last for a couple of years; always on a boom it runs to inversion as short rates rise above long rates. Moreover, on our charts back to 1857 every inversion has been followed by a recession.

Getting above the + 00 [1] line marks inversion, which occurred in summer 2019 when we called for the recession. Of course, the severity of the plunge in the economy was due to authoritarian governments using the Wuhan Flu as an excuse to impose radical controls.

From which collapse the classic remedy is more bureaucratic intrusions, as they live well and ordinary folk suffer malignant policymaking.

On the nearby chart the Monthly Momentum Peaks have been emphasized. And the next step has been the test of the 20-Month EMA which is demonstrated by the oblique lines.

[1] Anyone experienced in surveying and familiar with this numerical form can get in touch with Bob.

Contractions often run longer than anyone can tolerate. And then some. The ultimate indicator could be Monthly Momentum declining to below the 30 line.

Credit Spreads: OK But Dodgy

This chart shows spreads narrowing with the compulsion to take on risk. Always increasingly confident investors buy "garbage for yield" as well as too many issues that will suffer downgrades.

This is the Monthly plot set up such that that although spreads narrow on the boom, it shows as rising. It makes the chart sympathetic to the bull market and sequal.

The inevitability of contraction in the two previous bubbles is the key failure. Marked by the oblique line, the dreadful date was June – in both 2001 and in 2008.

Recent action remains positive, but seems to be setting up for a failure. And the ultimate low for the RSI is out there somewhere.

Nearer-Term

Clearly, changing outlooks on the US election have been roiling the markets. A Democrat win would advance the global authoritarian movement tremendously. Forcing both political and economic disaster. The Left is very hostile to any form of limited government with individual freedom. And as hostile towards those who prefer freedom.

And without self-limitation it never quits and, regrettably, the only thing that stops it is economic collapse and widespread poverty. Of course, the latter is never suffered personally by the governing classes. Unlimited power and preferential prosperity go together. Which iniquities inspire reform. Same old, but why go through the disaster?

Fortunately, our update of the nuances of dialectical materialism provides the reasoning behind the compulsion to impose authority.

"I want free stuff."

Why?

"Because!"

Firming prices for agricultural commodities was in the charts. Ross caught the bottom rather well.

Firming base metal and energy prices was natural coming out of the Covid PANIC. [2]

As welcome as firming prices for orthodox items has been, the strength after August could be discounting a Trump win. In which case, all hell could be delivered by the petulant Left. And riots in Republican jurisdictions may be prevented or quelled by legal force.

Costs of self-inflicted damage should not be picked up by regions still enjoying the benefits of limited government.

Of course, action now is opposite to the action attending the 2016 Election. Markets were weak discounting a strong win by the Clinton-Obama machine. Also, the political promotion included that – while impossible – a Trump win would trash the markets.

Indeed, *MarketWatch* on that fateful November 2nd headlined: ***"The Danger to Your Portfolio From a Trump Win is Huge"***.

For the S&P, the decline was severe enough to register a "Downside Capitulation". That was on November 4th and Trump's win was conceded on November 9th, which was also the date when in 1989 ordinary folk started to tear down the Berlin Wall.

The Capitulation was followed by a Weekly Springboard Buy and these pages soon started describing the rally as being fueled by "Rational Exuberance". Which was a fun way of describing the positive financial results of the developing Trump Reform.

During the summer and into September, stock market action, by technical measure, had gone beyond "Rational" to "Irrational Exuberance".

A win for freedom, could inspire a brief rally. On the news.

However, the action remains vulnerable.

Wrap

Some historians point out that this is the most intense and violent political struggle since the 1860s Civil War. Part of that conflict was Republican convictions to extend freedom to everyone. Democrats opposed.

The nemesis in the current struggle is Democrat compulsion to extinguish freedom through arbitrary control over everyone. Republicans oppose.

Stay healthy and nimble.

[2] We don't think that a slightly more severe influenza merits full capitalization, but any PANIC does.