LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

5th June 2025

"Stay LONG - Upside Breakout Expected"

Email: info@longvieweconomics.com

Trading Recommendation ('1 – 2' week equity index trading recommendation)

- Stay ½ LONG June S&P500 futures (entry was yesterday at 5,982.75);
- Retain unchanged stop at 5863.0 (i.e. ~2% below entry).

Rationale

US macro data disappointed yesterday. The May ISM Services reading came in just below 50 (at 49.9), falling short of consensus expectations of 52. The New Orders component was especially weak (46.4). ADP employment was also poor, with just 37k new private sector jobs created in May (vs. consensus of +114k). That generated a relatively sharp move lower in US Treasury yields, with both 2 & 10 year yields down 9bps on the day (e.g. see FIG 1a). With that the rates market priced in more Fed easing at the front end (i.e. modest extra cuts in 2025 & 2026).

US equity markets, though, remained relatively resilient. That is, despite edging lower into the close, the S&P500 was unchanged on the day, while other long duration growth parts of the market performed well. The S&P500, and other indices, therefore continue to trade near the top of their recent ranges (FIGs 1b & 1d), while some have **broken out to the upside** (e.g. the Philly SOX which rallied 1.3% yesterday, see FIG 1c).

Elsewhere other risk asset prices have performed well. Key commodity prices have moved higher in recent trading days (e.g. copper & oil) while EZ sovereign spreads have tightened/remain tight (most notably Italian spreads). As FIG 1 shows, tighter Italian spreads are a classic sign of risk appetite in markets, and often consistent with strength in US equities.

Our short term models remain broadly unchanged from yesterday. That is, our risk appetite indicators; technical scoring systems; put to call models; and breadth indicators are all broadly at mid-range (NEUTRAL) levels (see FIGs 2 – 2i). They therefore still have headroom before they reach their SELL thresholds. In that sense, they continue to support the case for **further upside in equities**.

Our view therefore remains unchanged from yesterday. In particular, following the consolidation in the S&P500 since early/mid-May, there's a **good chance of an upside breakout** in the index (i.e. above its recent trading range). As noted yesterday, it may be a false breakout (but still a breakout/tradable rally). We therefore favour staying LONG SPX futures with an unchanged stop (please see above for detailed recommendation).

Please see below for a full list of today's key macro data and events, which include the ECB's policy decision, US Challenger job cuts for May, and speeches by various Fed governors.

Kind regards,

The team @ Longview Economics

FIG 1: Italian sovereign spreads over BUNDs (inverted) vs. S&P500

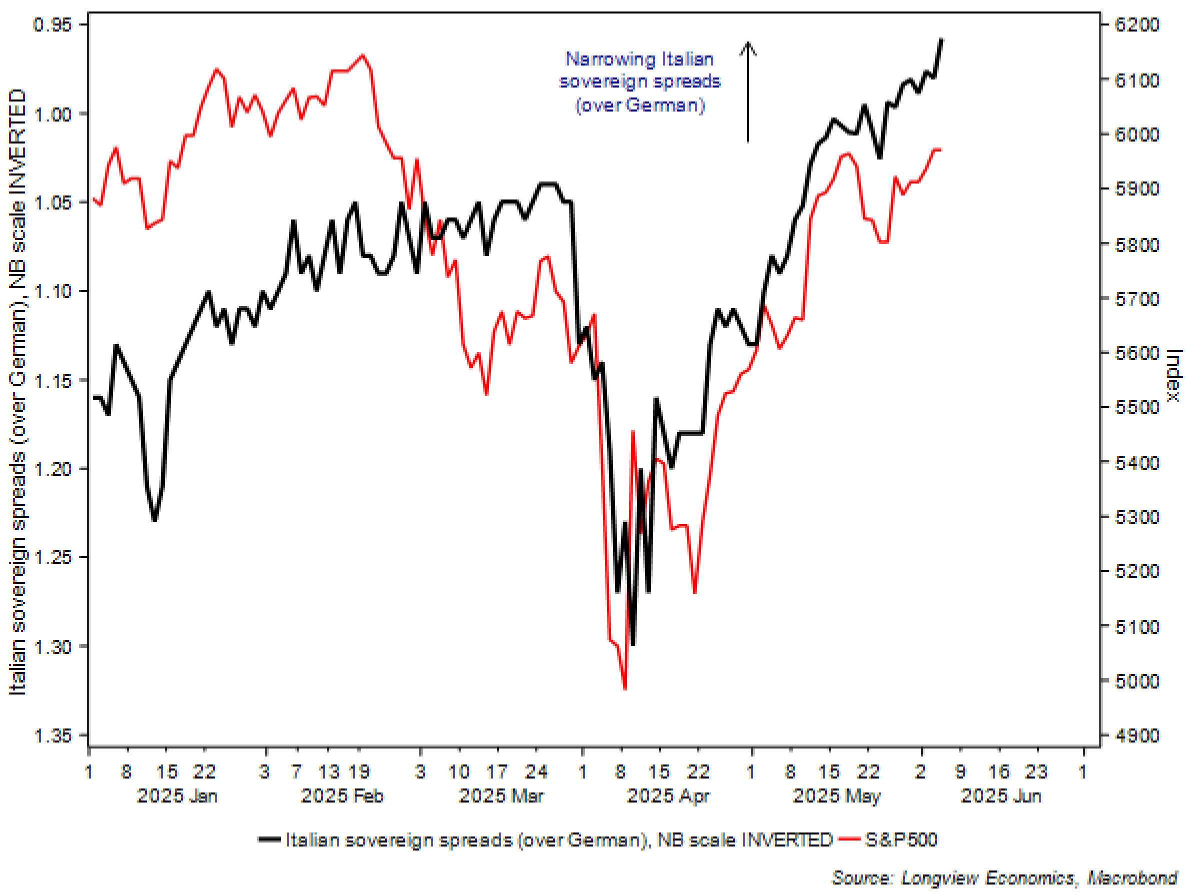


FIG 1a: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages

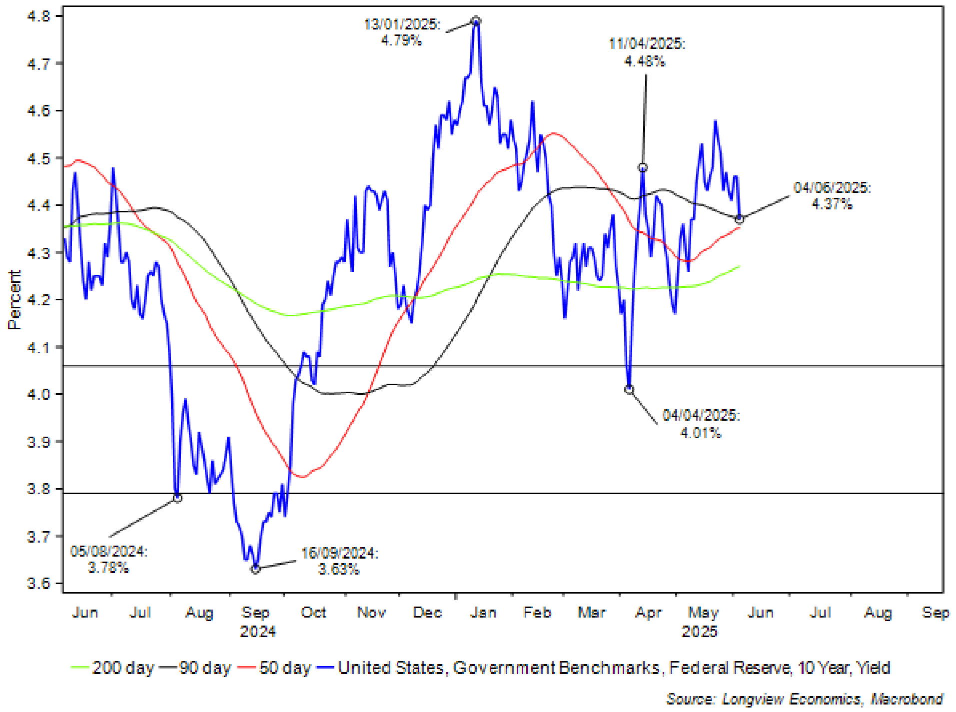


FIG 1b: S&P500 futures shown with 50 & 200 day moving averages

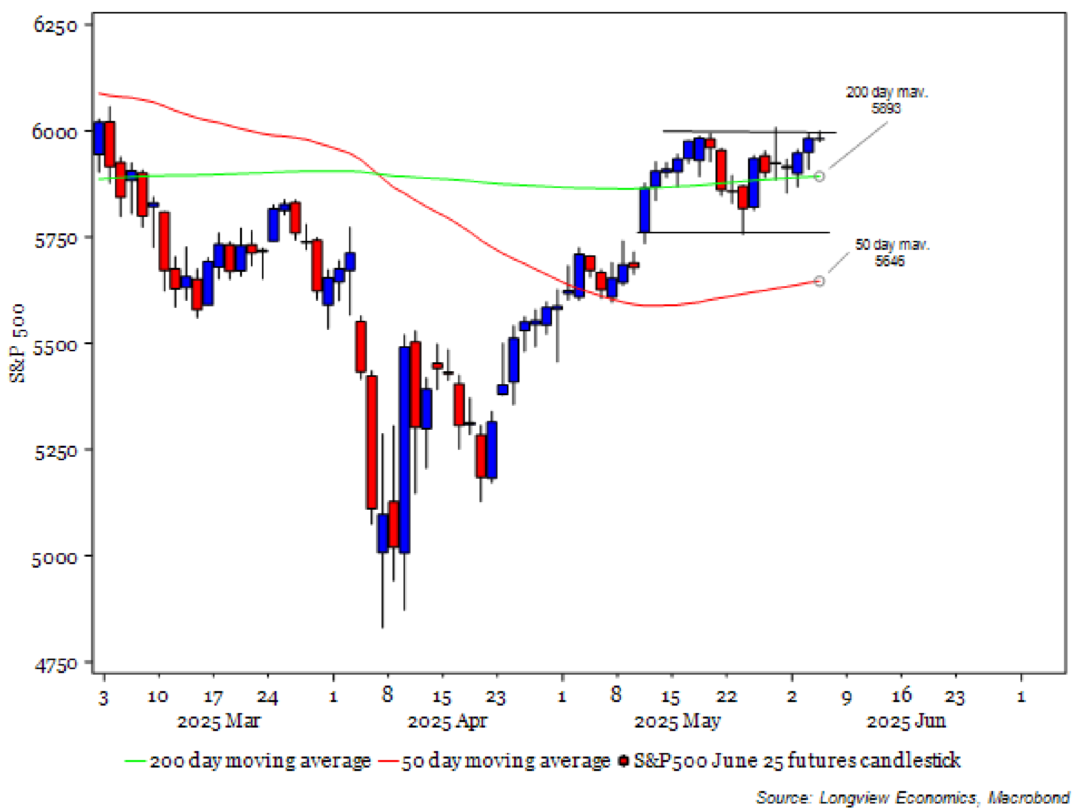


FIG 1c: Philly SOX cash index candlestick, shown with 50 & 200 day moving average

FIG 1d: Russell 2000 futures candlestick shown with 50 & 200 day moving averages

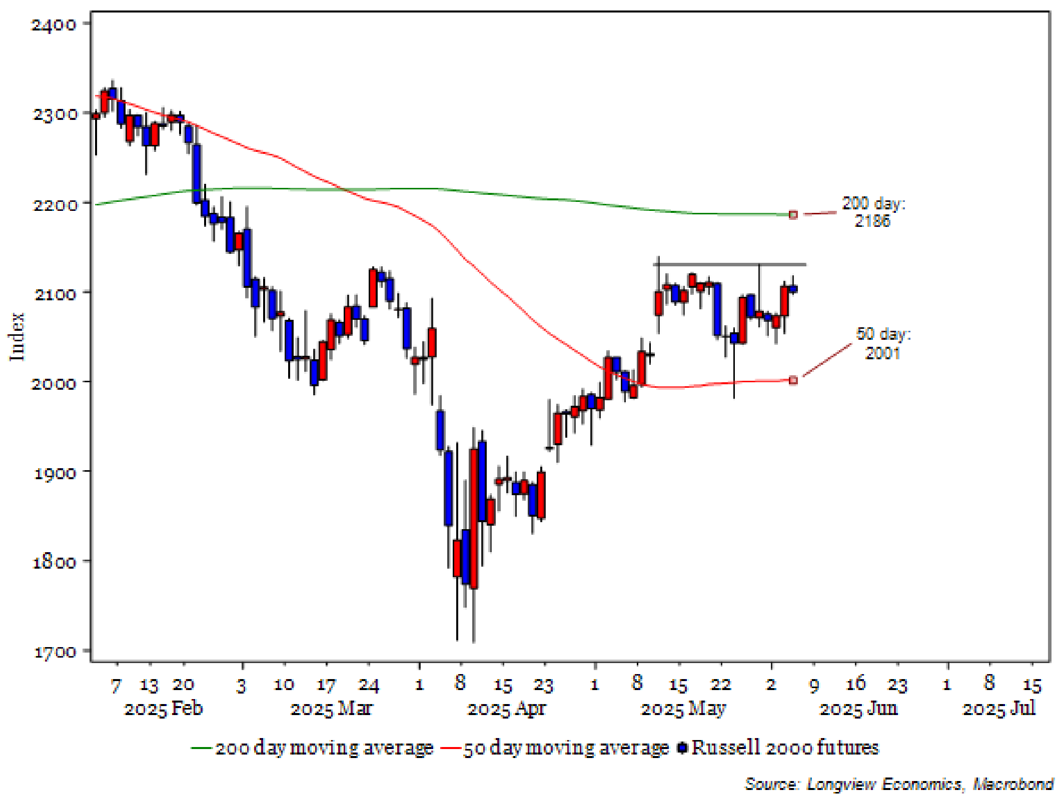


FIG 1e: S&P500 futures 10-day tick chart shown with overnight price action

FIG 1f: NDX100 futures 10-day tick chart shown with overnight price action

Short term models are mostly mid-range/NEUTRAL…

FIG 2: Longview short term **'risk appetite'** scoring system vs. S&P500

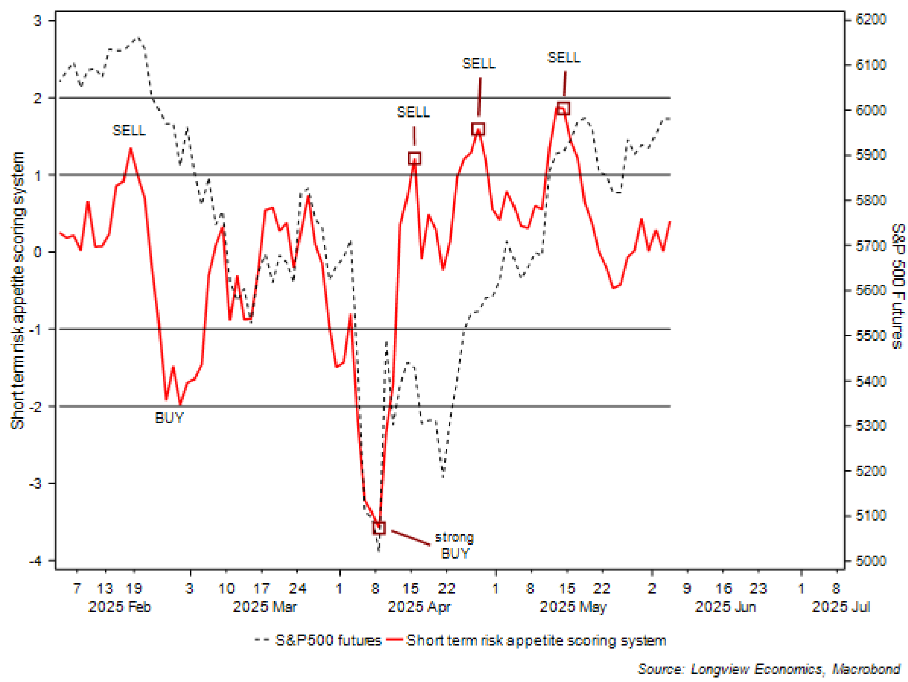


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

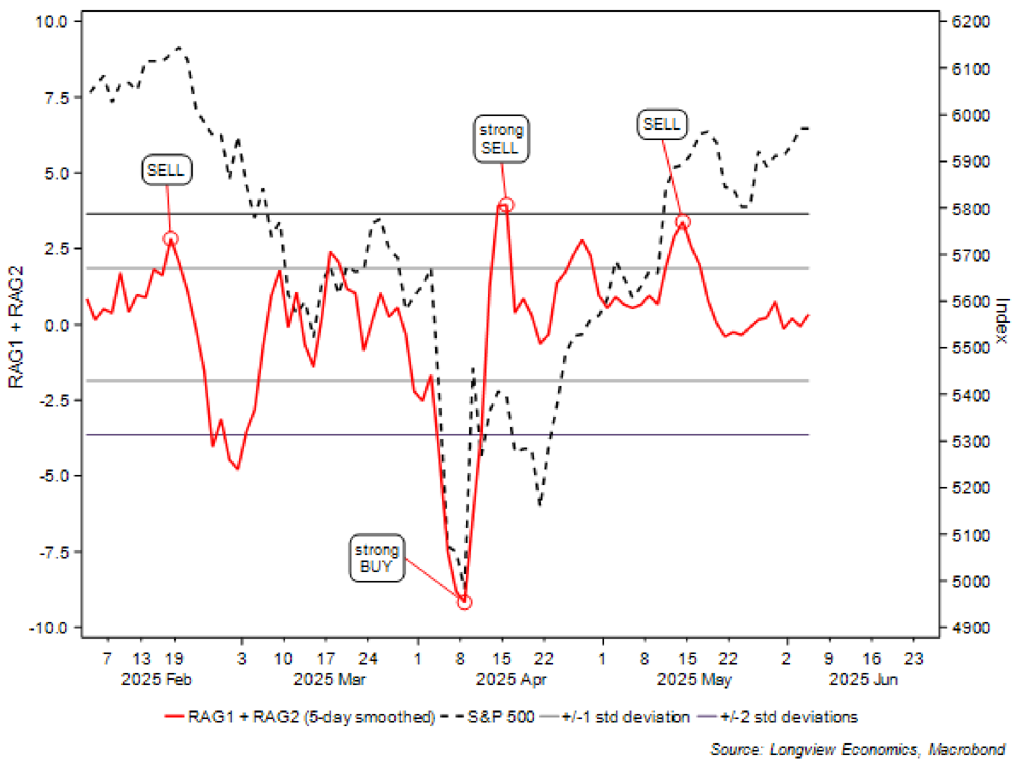


FIG 2b: Longview S&P500 **short term 'technical'** scoring system vs. S&P500 futures

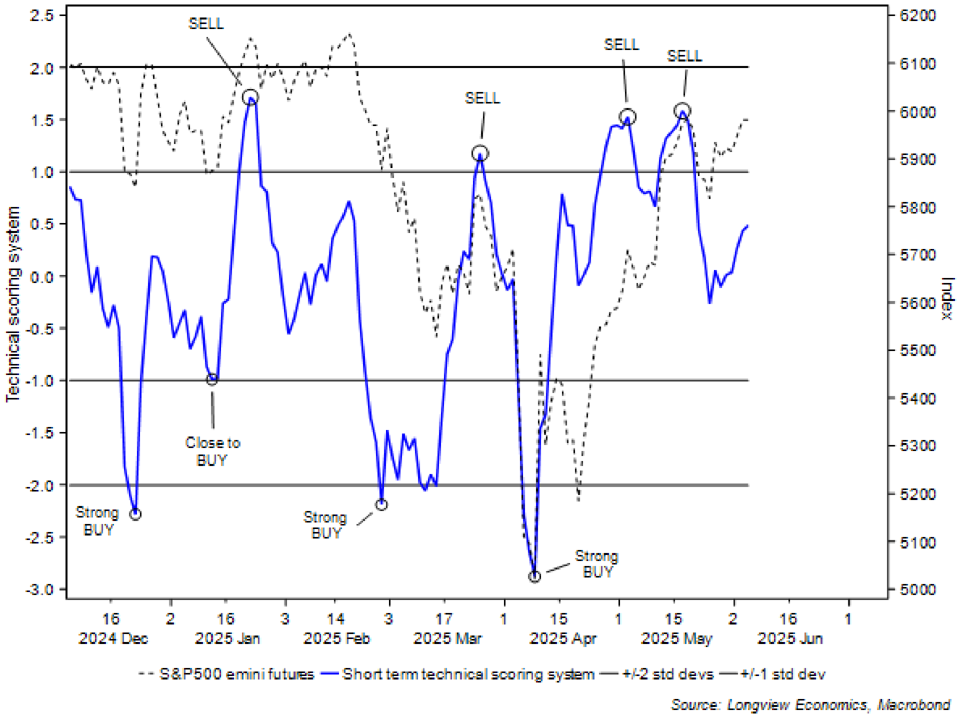


FIG 2c: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures

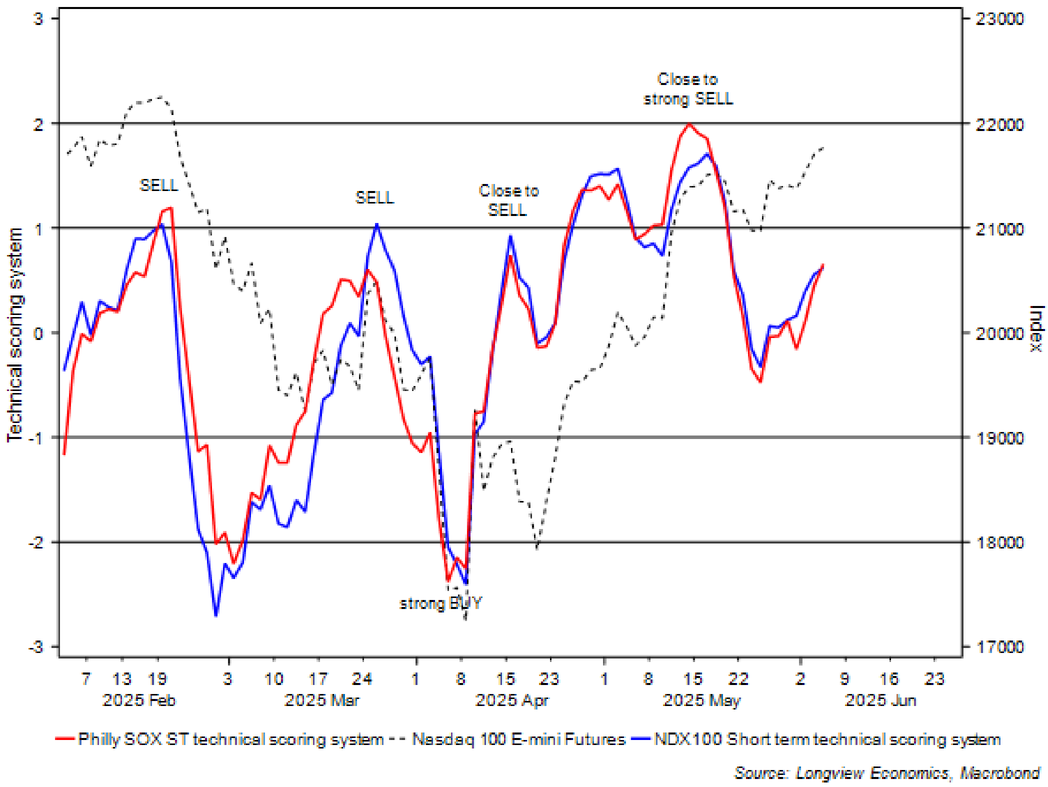


FIG 2d: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500

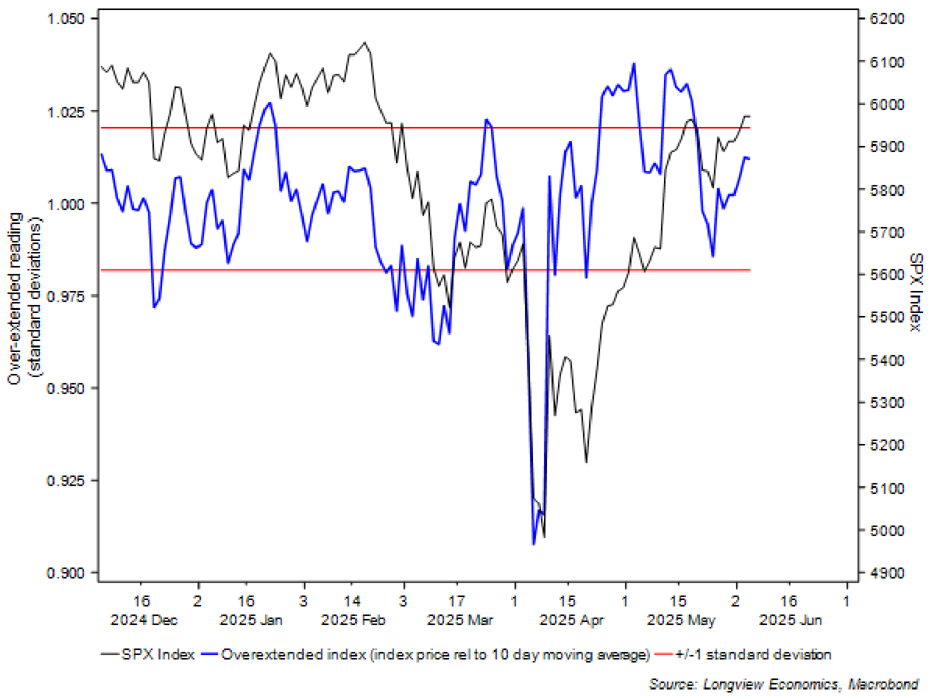


FIG 2e: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

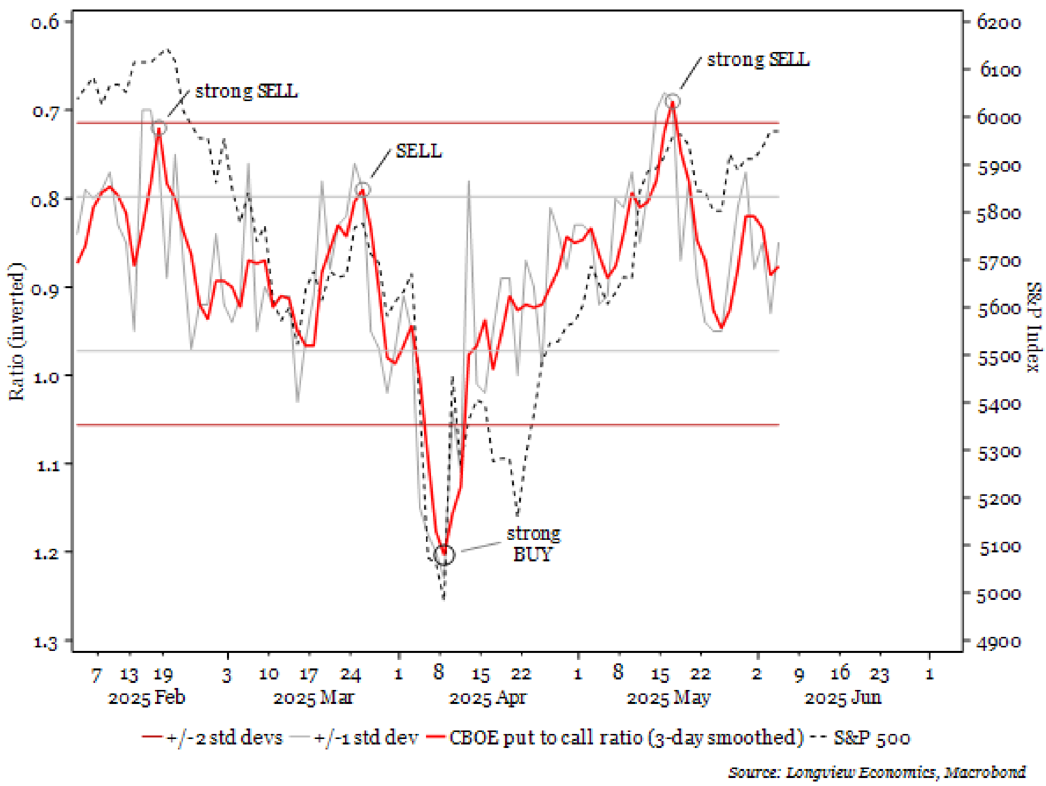


FIG 2f: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

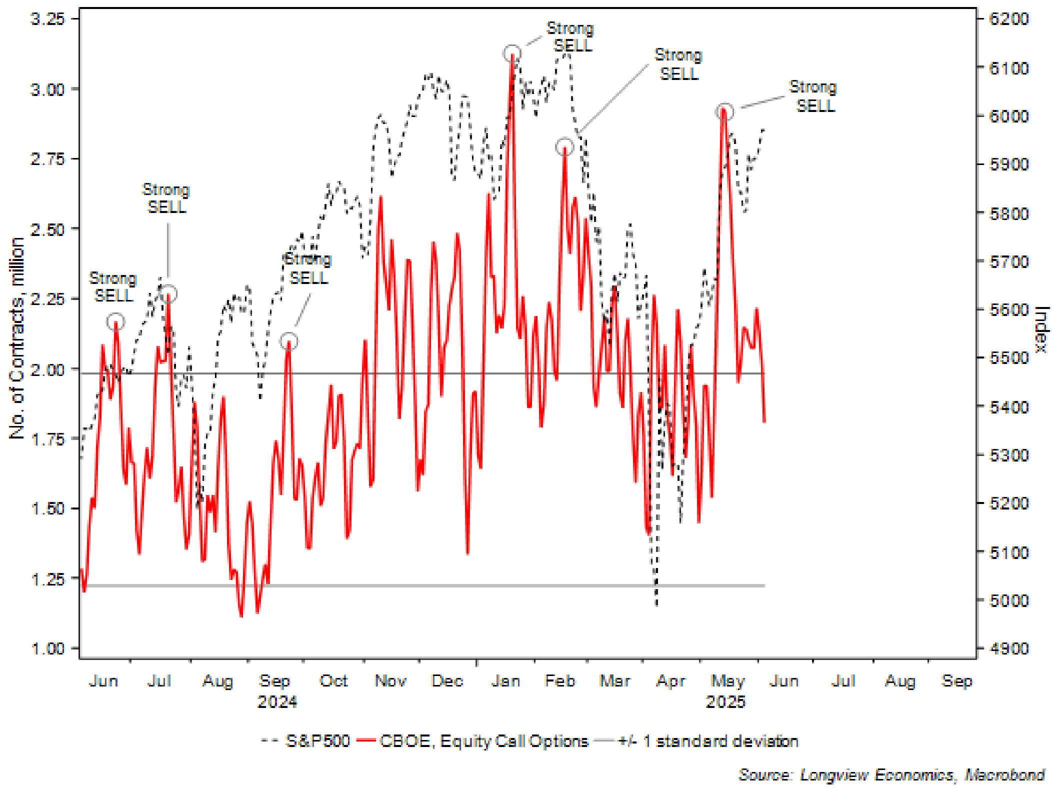


FIG 2g: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

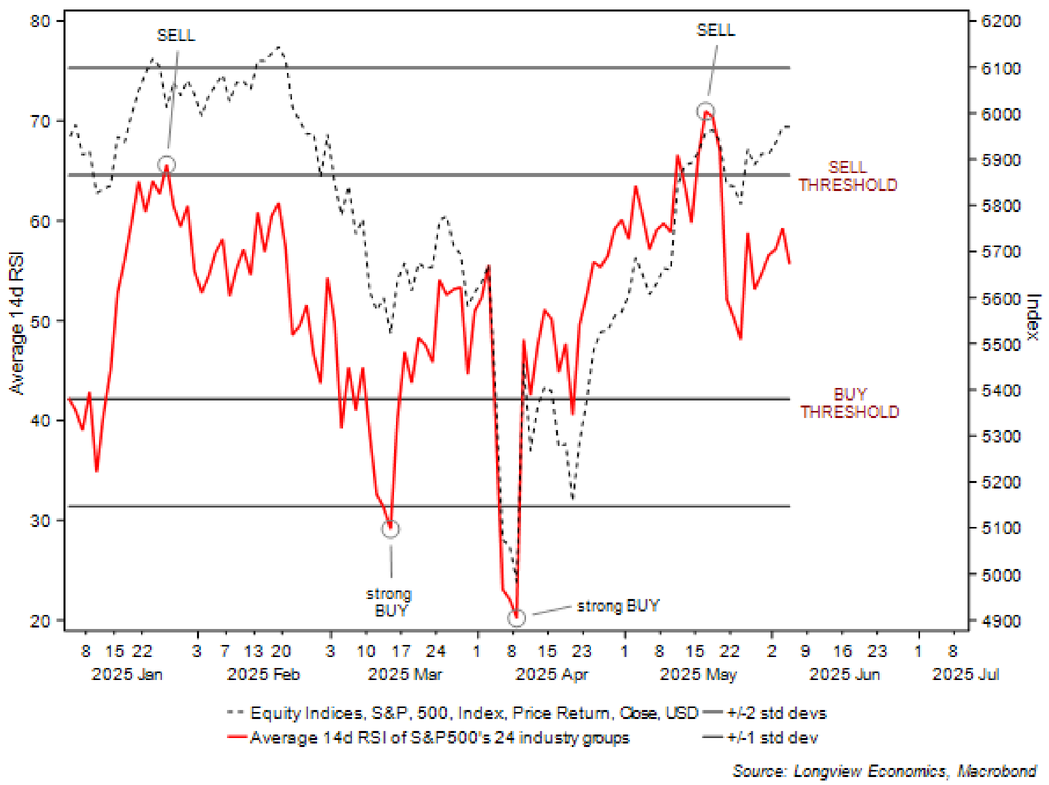


FIG 2h: Proportion of US stocks above their 10-day moving average vs. S&P500

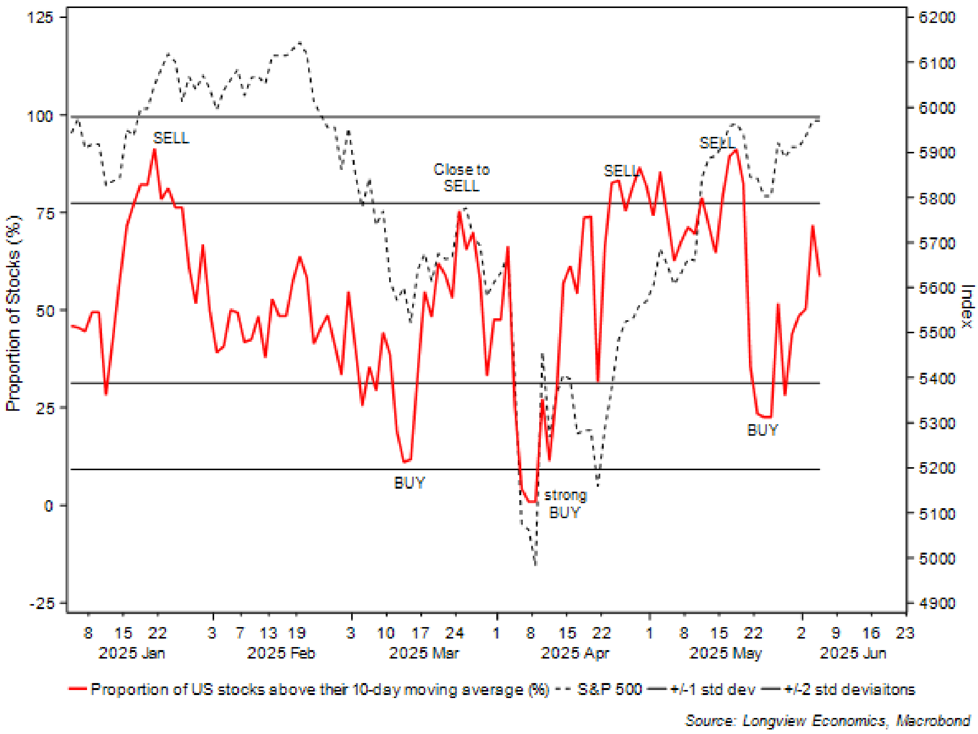
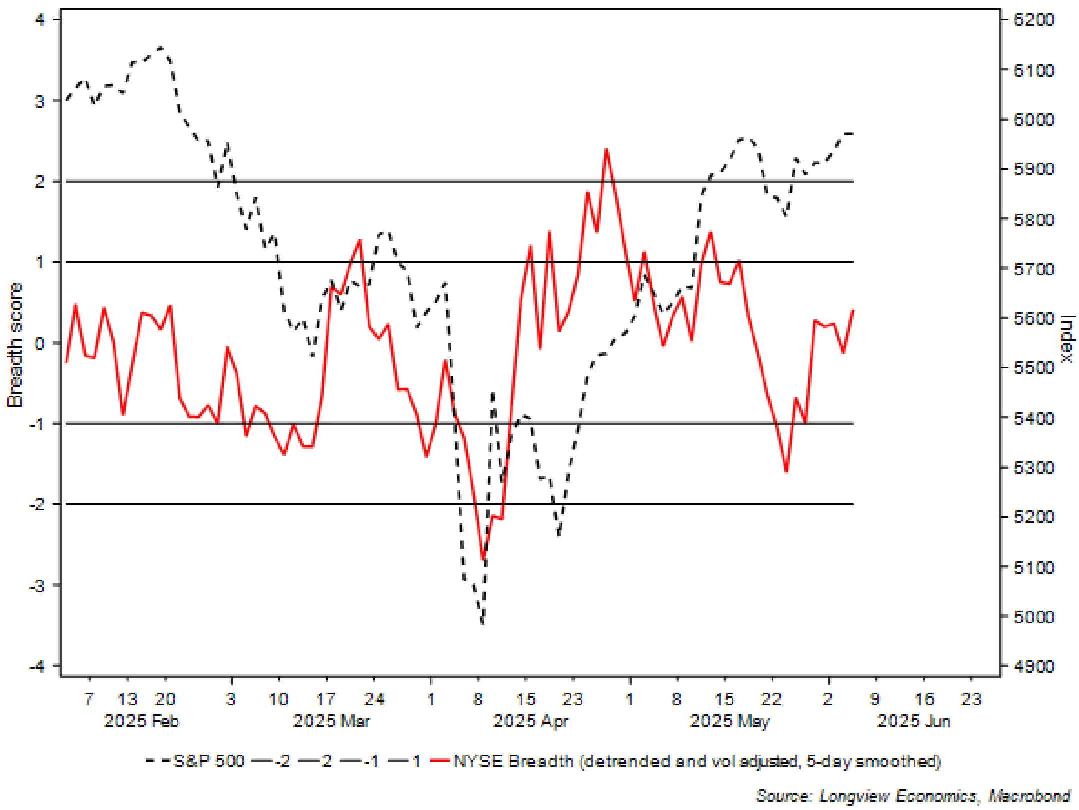


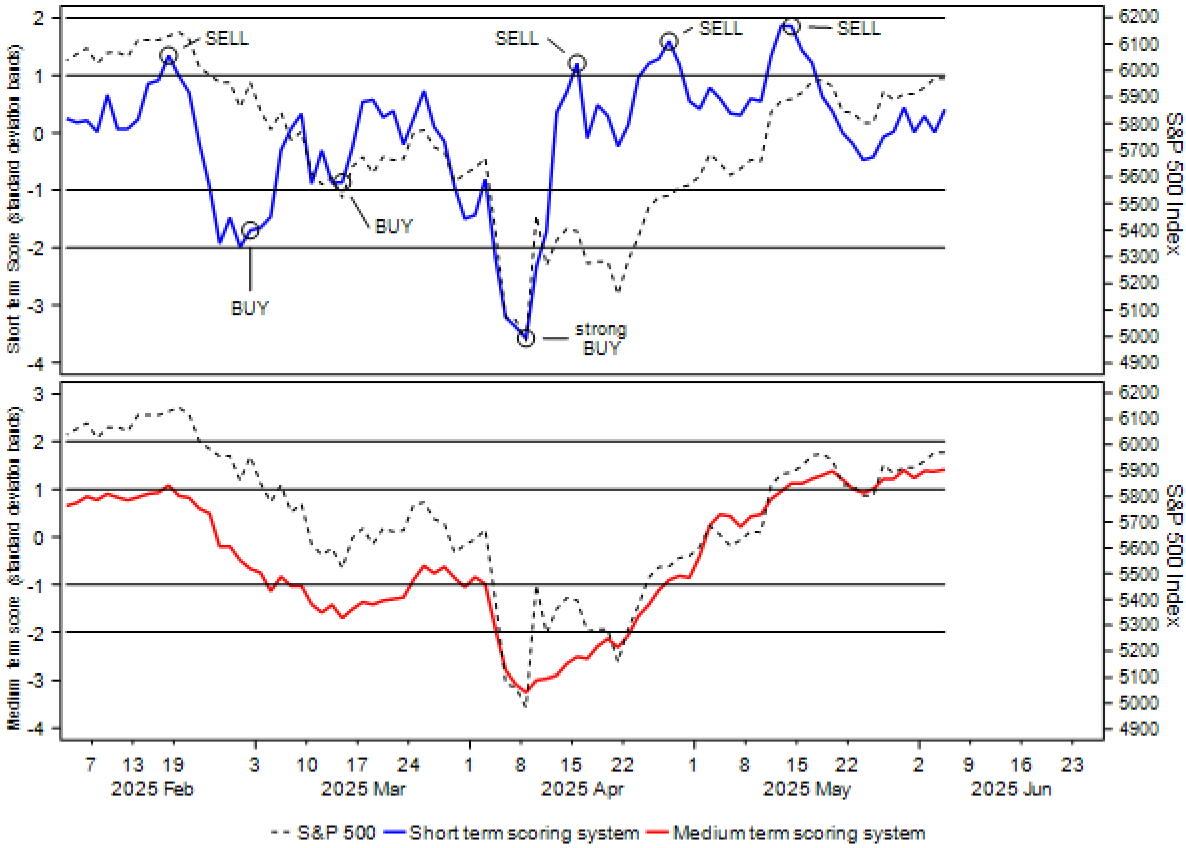
FIG 2i: Short term NYSE breadth model vs. S&P500



Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **SELL**

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

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Key macro data/events

Key data today include: **Chinese Caixin service sector PMI** (May, 1:45am); Australian imports/exports, & trade balance (Apr, 2:30am); Australian household spending (Apr, 2:30am); **German factory orders** (Apr, 7am); German imports/exports, & trade balance (Apr, 7am); HCOB construction sector PMI for Germany (May, 8:30am); UK New car sales (May, 9am); UK S&P construction sector PMI (May, 9:30am); Italian retail sales (Jan, 10am); **Eurozone PPI** (Apr, 10am); **US Challenger job cuts** (May, 12:30pm); US nonfarm productivity & unit labour costs (Q1 final estimate, 1:30pm); US weekly jobless claims (1:30pm); US trade balance (Apr, 1:30pm).

Key events today include: Speech by the Bank of England's Greene at ECONDAT conference 2025 (8:45am); **ECB policy decision** (1:15pm) followed by Lagarde press conference (1:45pm); speeches by the Fed's Kugler at the Economic Club of NY (5pm) & Harker on economic outlook (6:30pm).

Key earnings today include: **Broadcom.**

Definitions & other matters:

RAG = Risk Appetite Gauge

The 'Daily Risk Appetite Gauge' publication is designed to generate '1 to 2' week trading recommendations on equity indices. For trading recommendations on currencies, rates, bonds and other assets, pls see Macro-TAA trade publications.

For a medium-term recommendation please see our '1 – 4' month tactical market views which are updated at the start of each month in our Tactical Equity Asset Allocation publication (as well as occasional ad-hoc intra month Tactical Alerts). The latest update was published on 19th May 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

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1 – 2 Week View on Risk

5th June 2025

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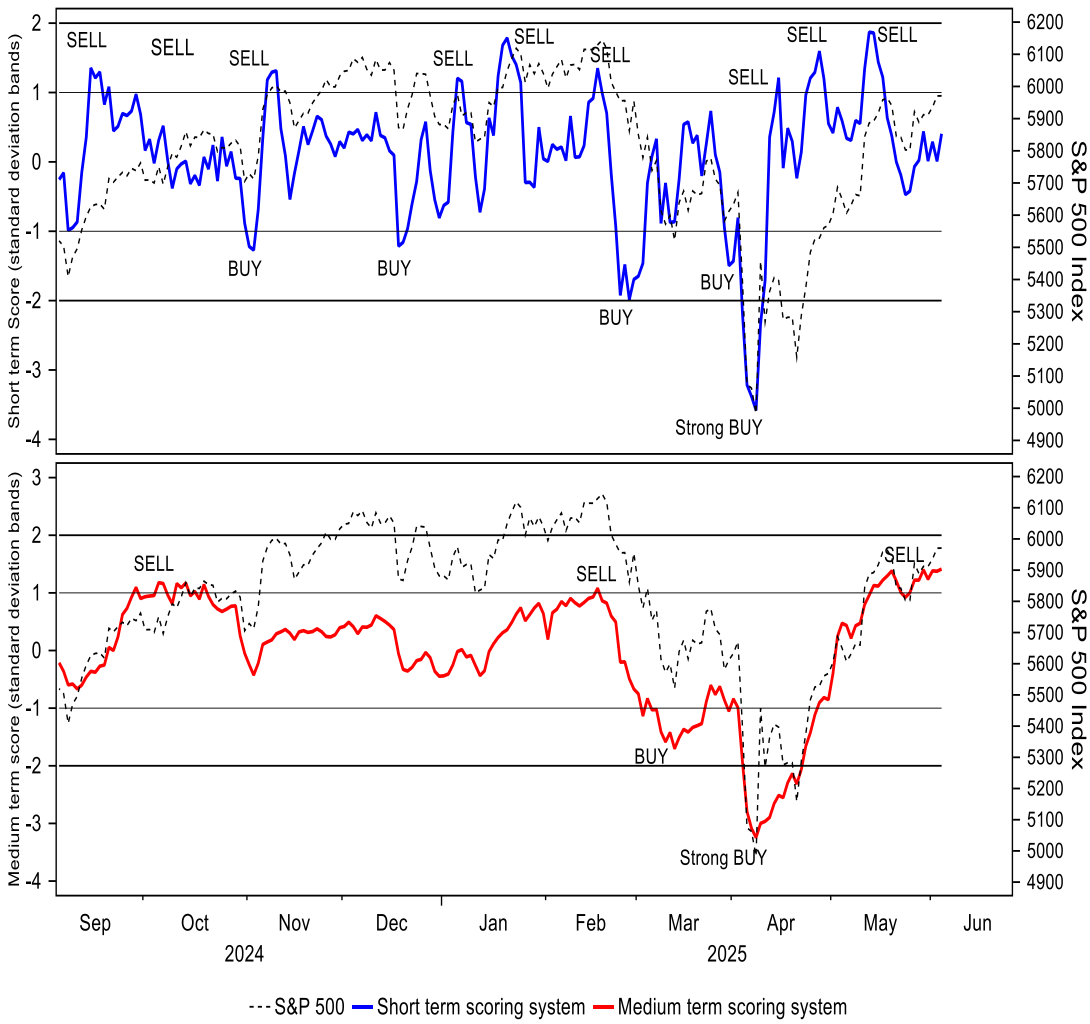
Section 1: Longview Scoring Systems (short & medium term*)

Fig 1: Longview 'short term' and 'medium term' scoring systems



Short term scoring system is NEUTRAL

Medium term scoring system is on SELL

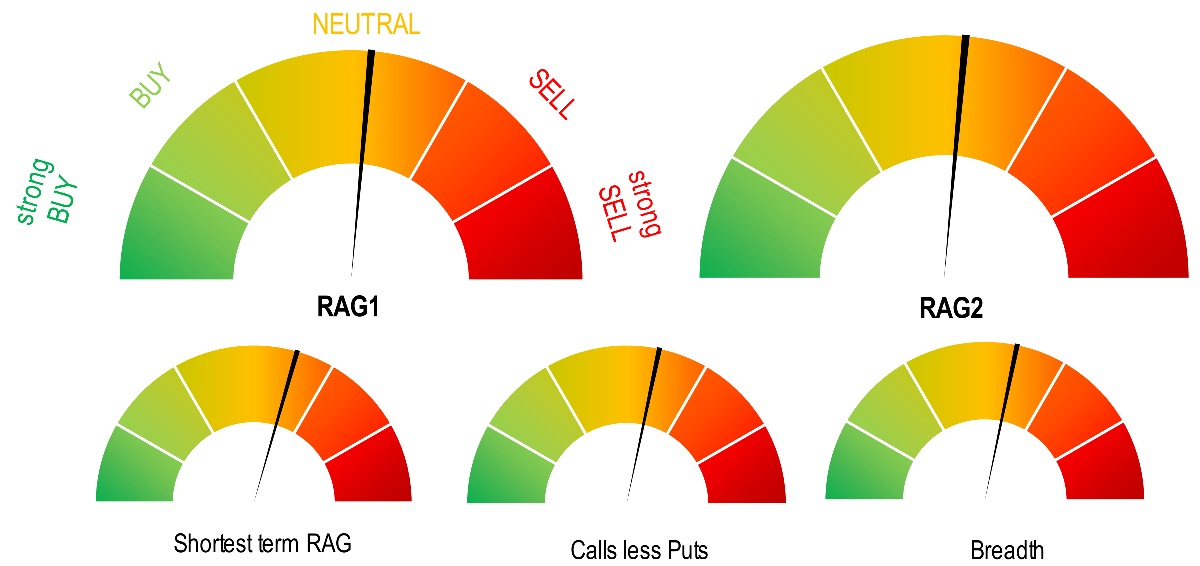
Source: Longview Economics, Macrobond

*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

Important disclosures are included at the end of this report
For explanations of indicators please see page 10

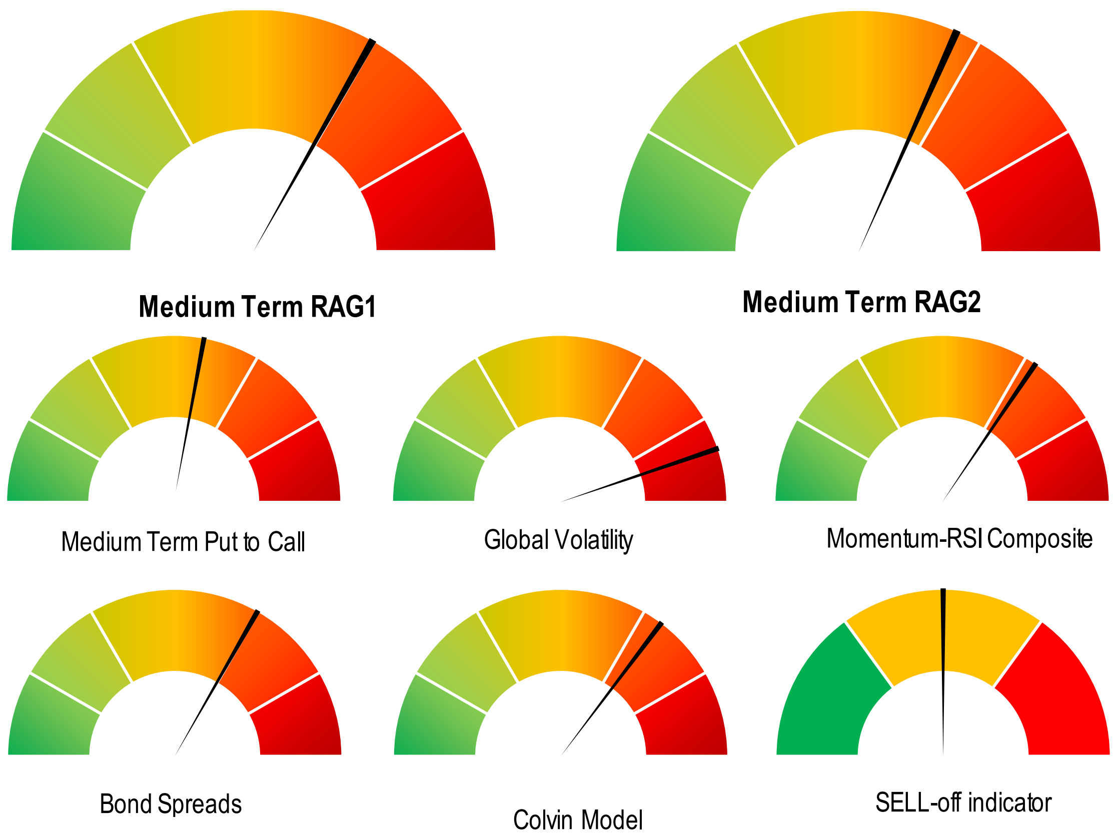
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

Fig 1b: Medium term models – shown as gauges using standard deviation bands



Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

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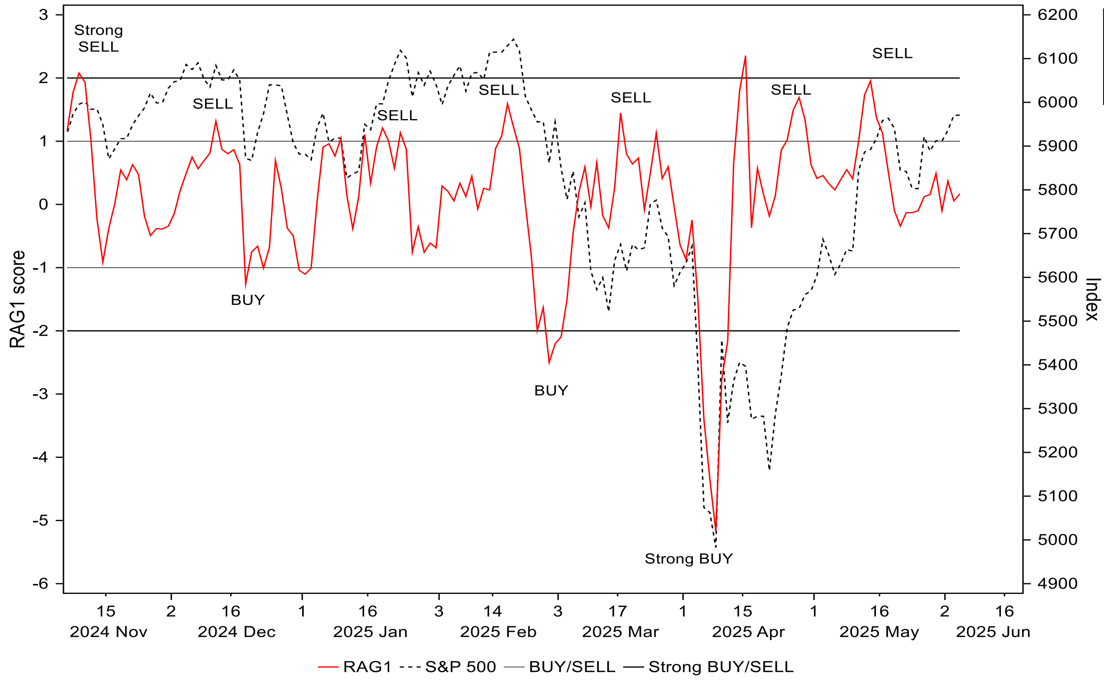
Section 2: Short term (1 – 2 week) trading models

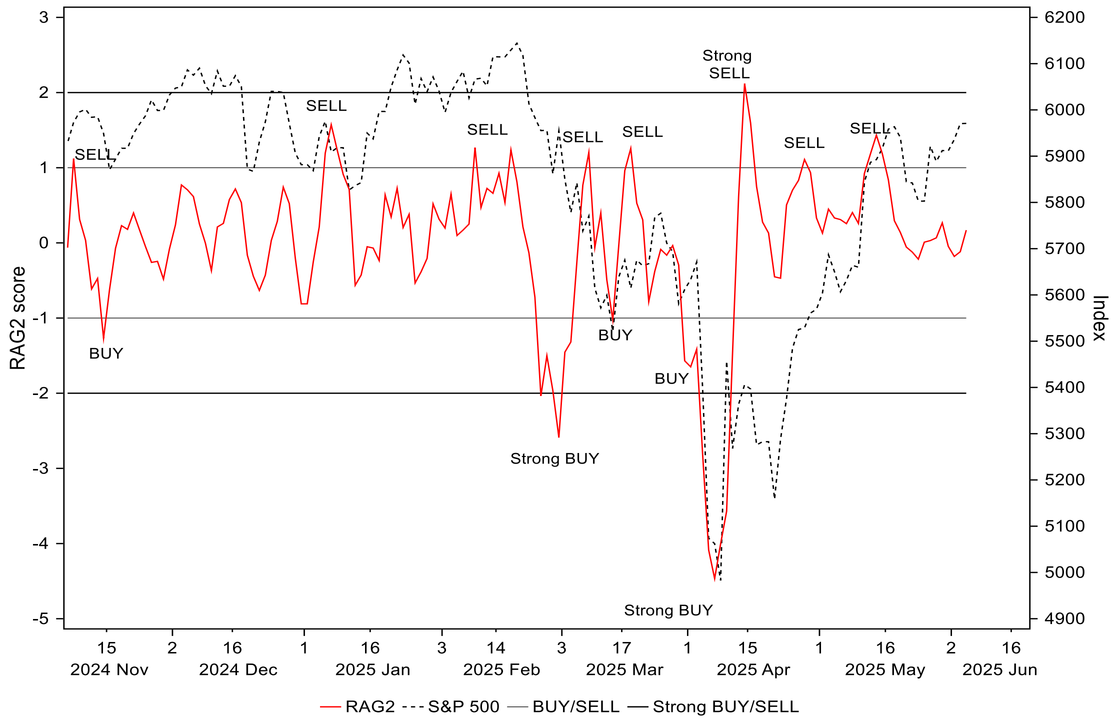
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

Fig 2b: RAG 2 vs. S&P 500

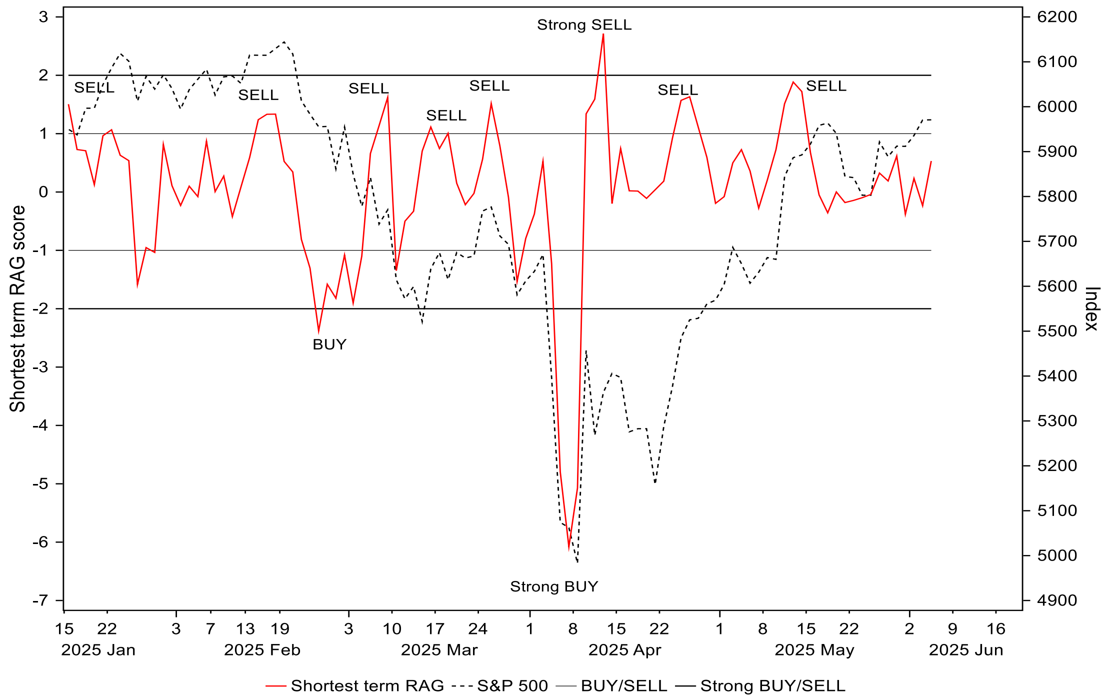


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

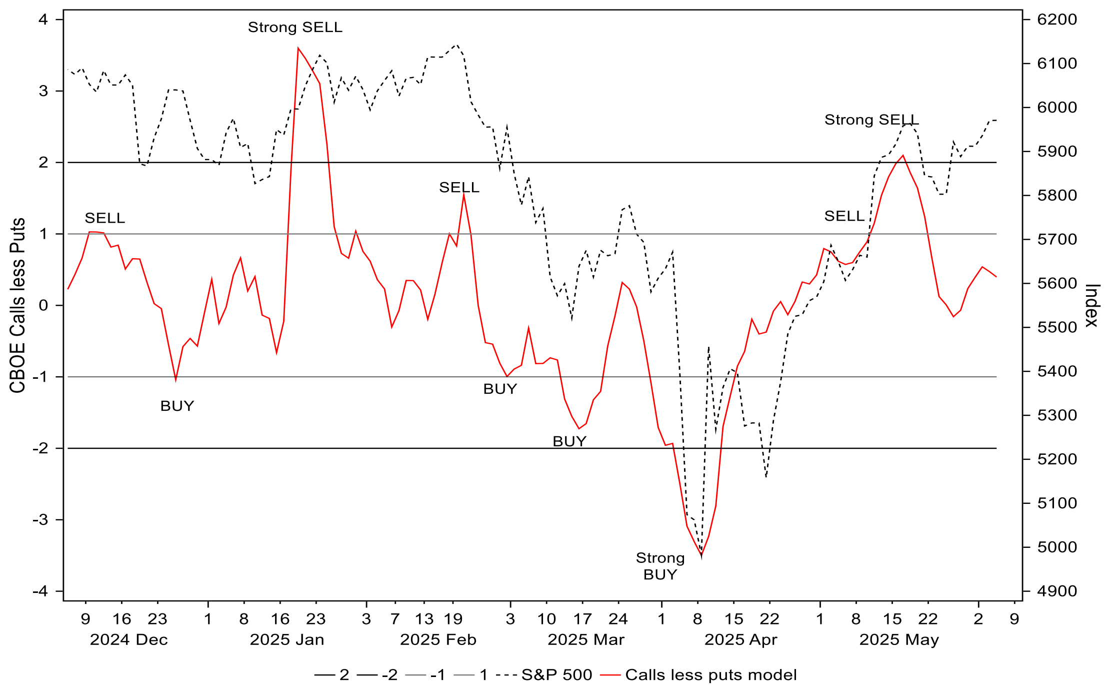
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500

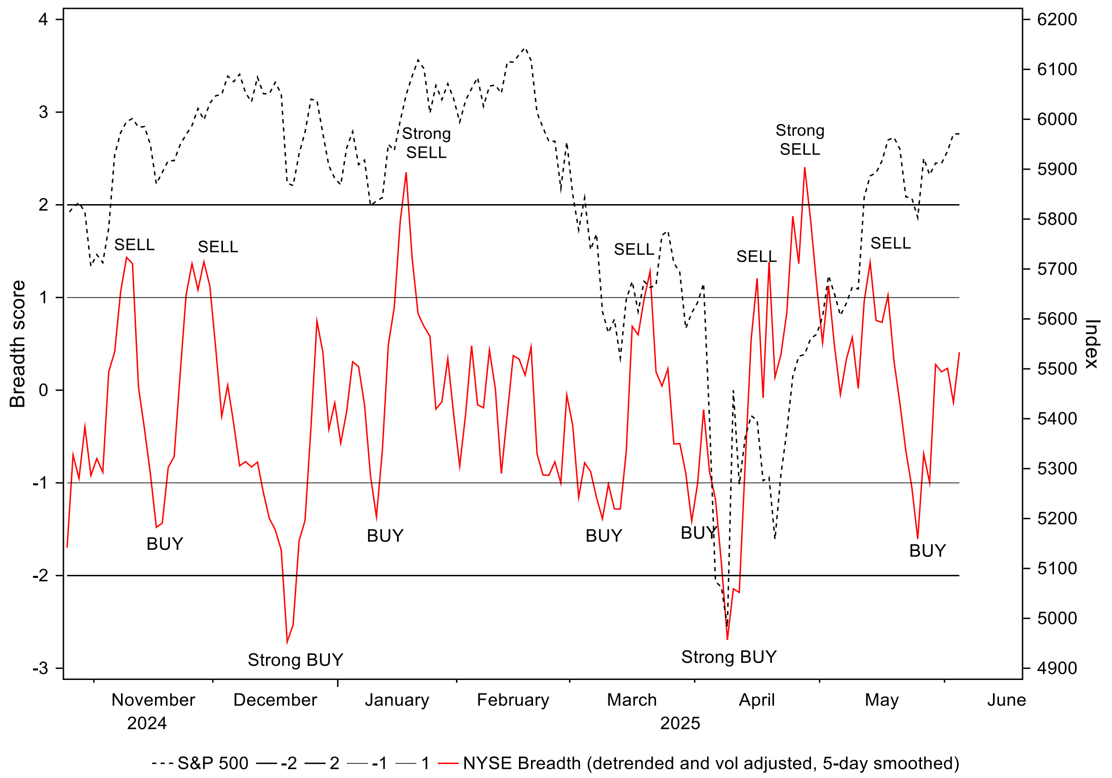


Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



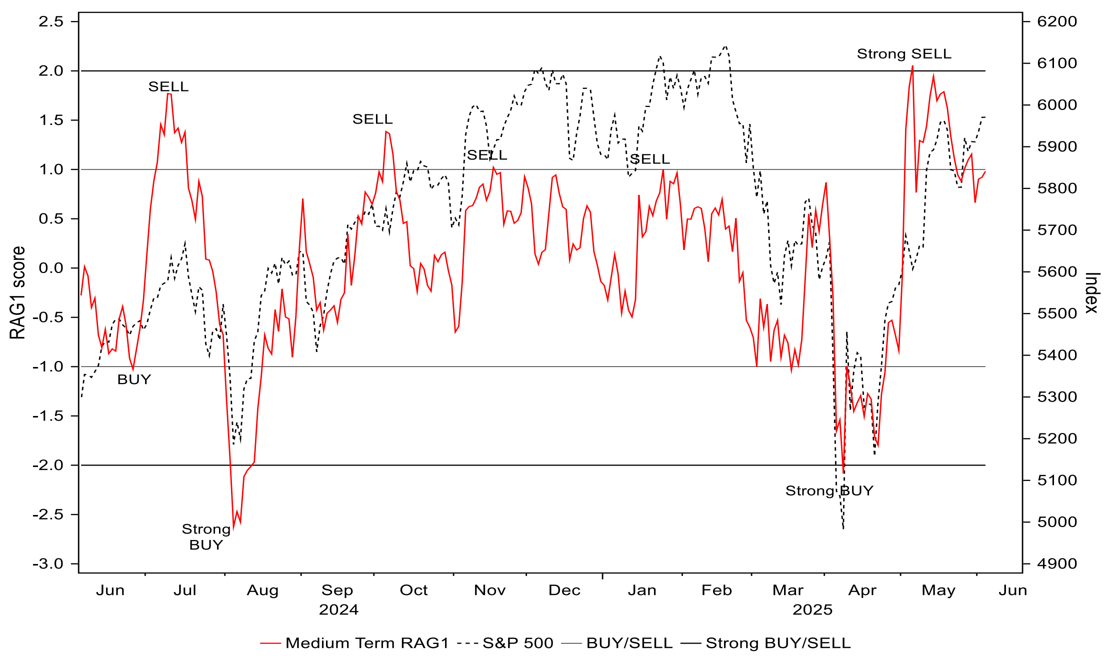
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

Section 3: Medium term (1 – 4 month) outlook

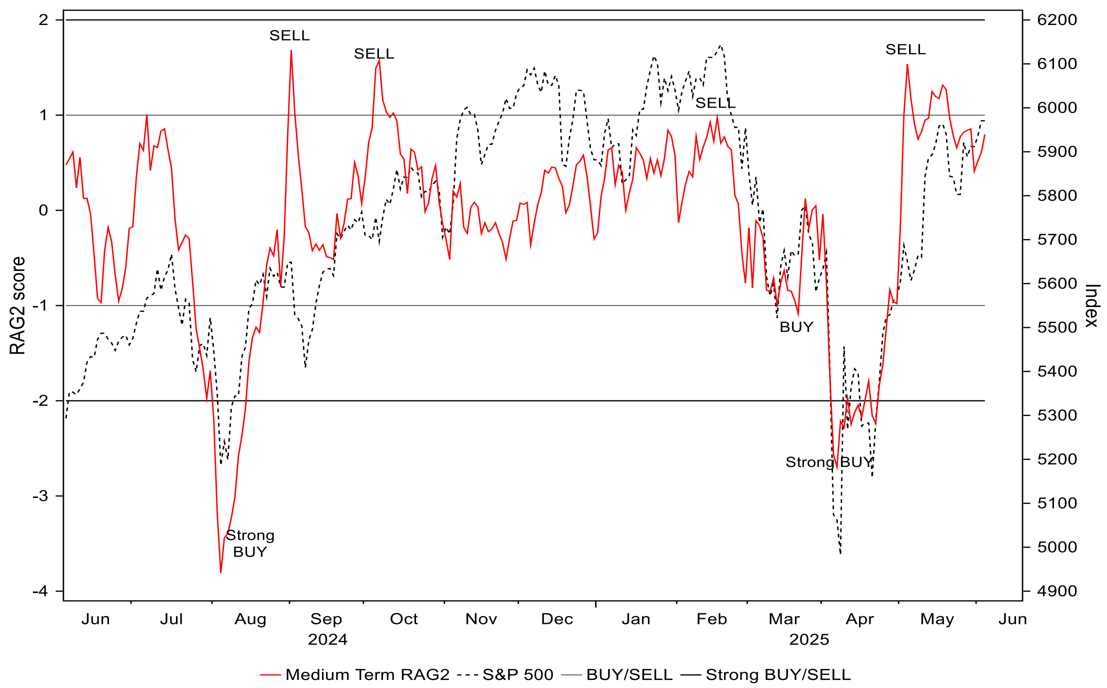
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

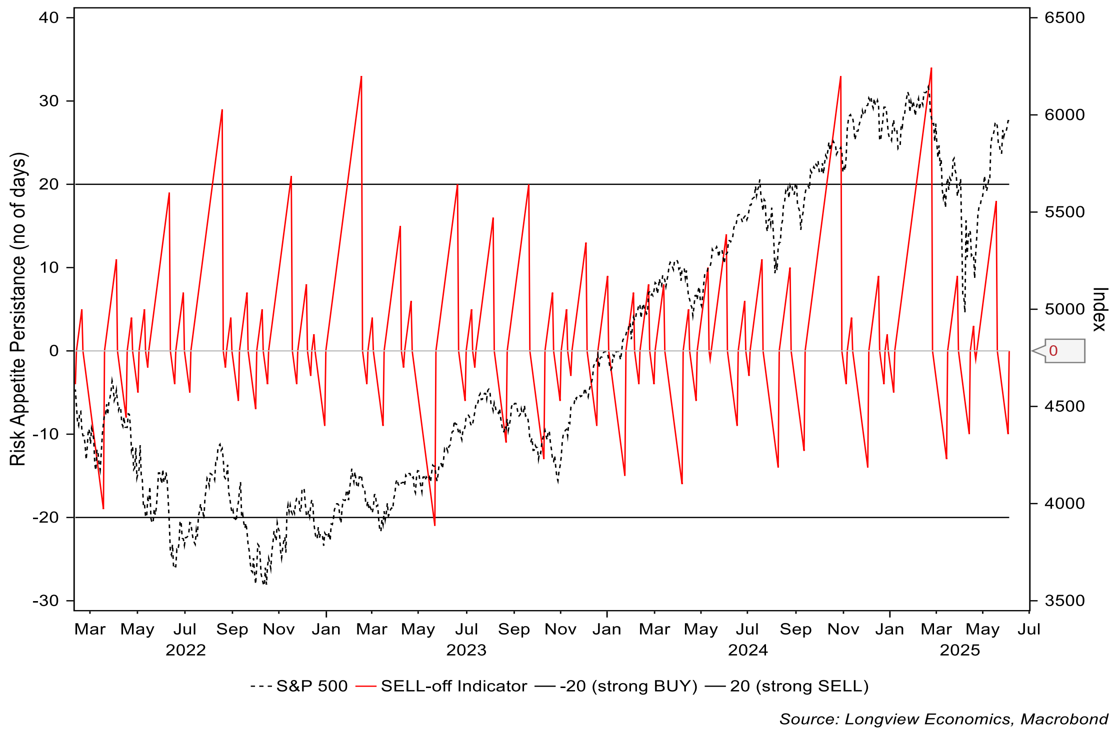


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

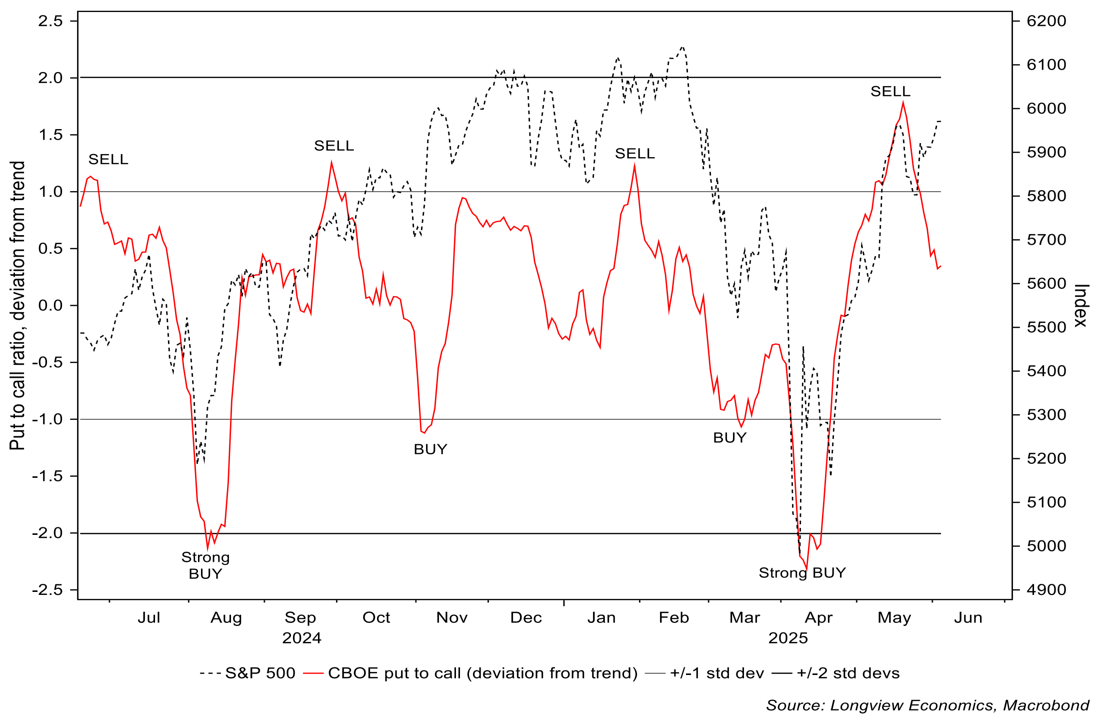
__For explanations of indicators please see page 10__

Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

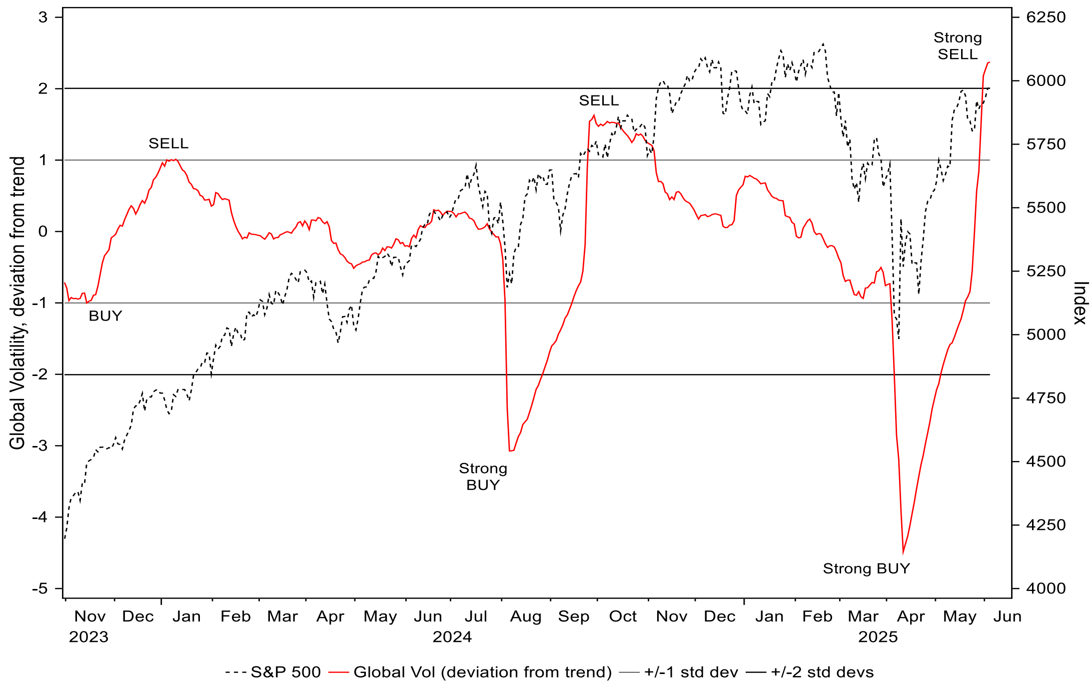
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

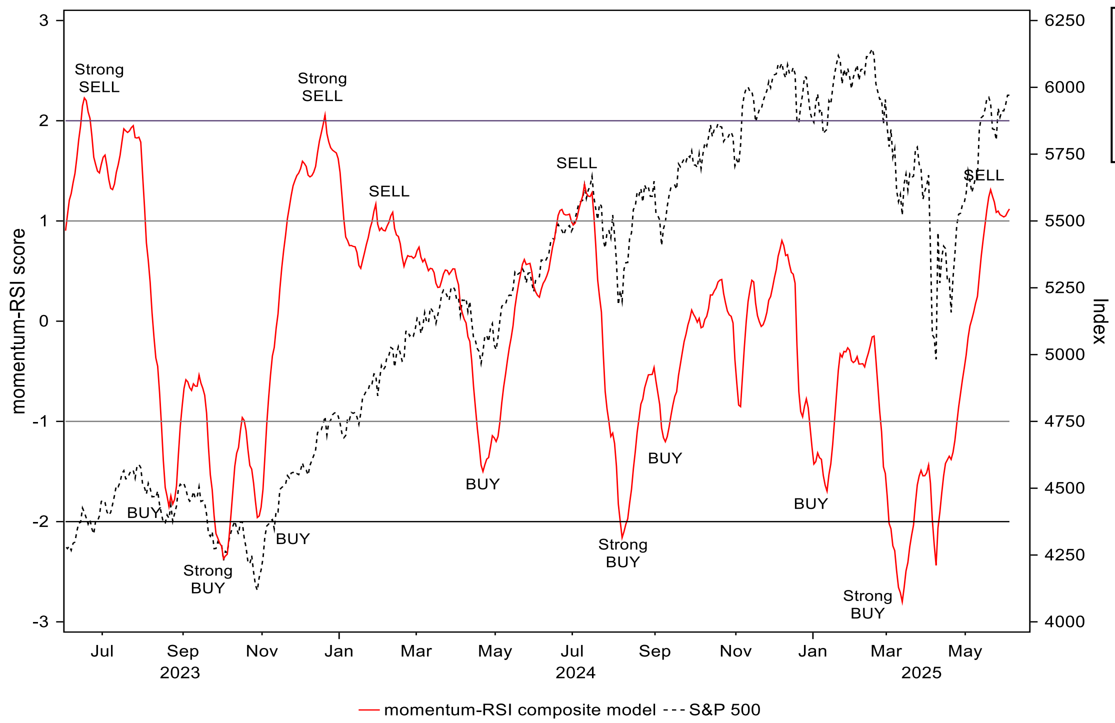
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on Strong SELL

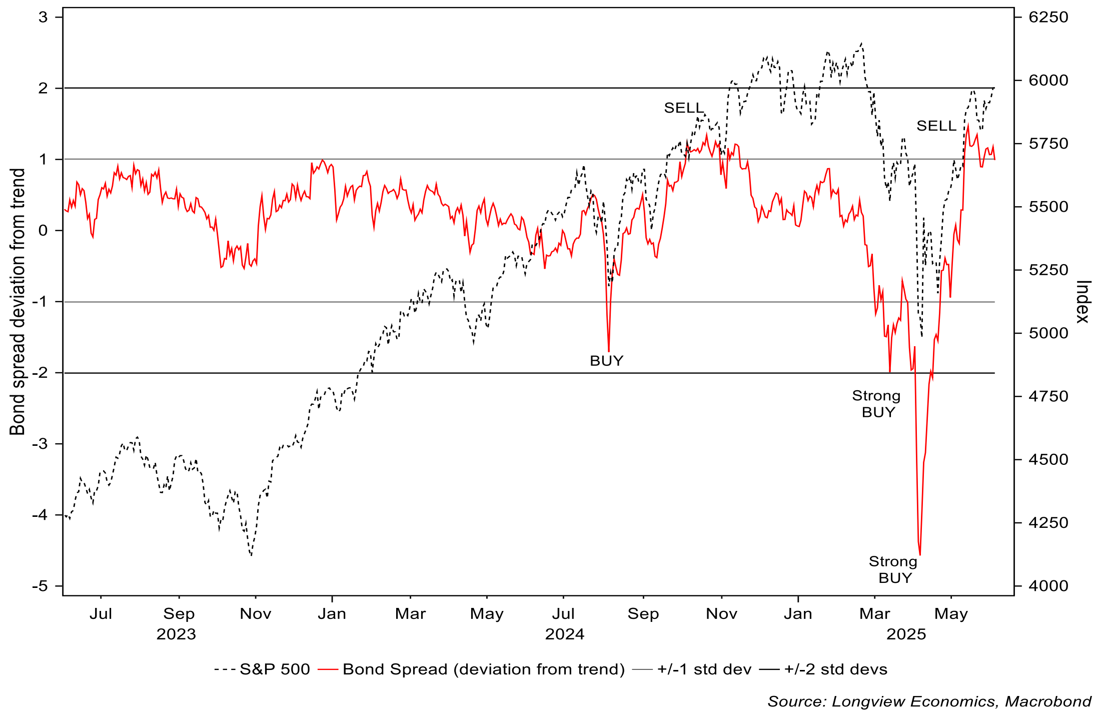
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

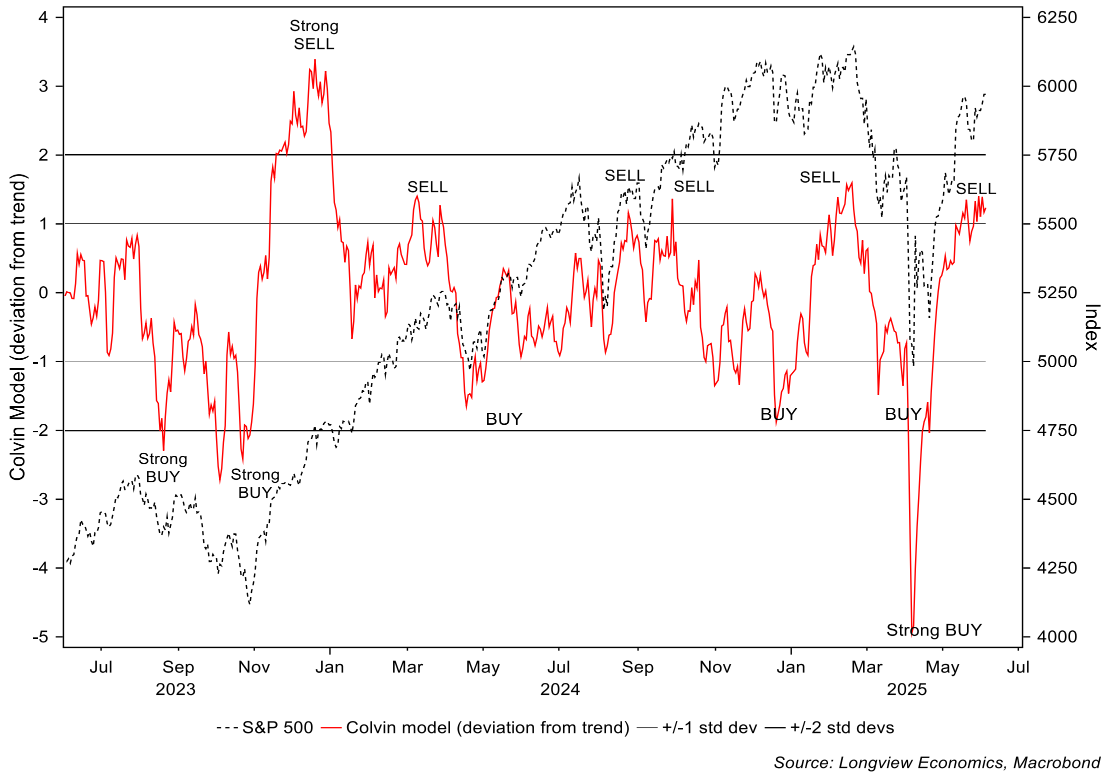
US momentum RSI composite model is on SELL

Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

Fig 3h: Colvin model (deviation from trend) vs. S&P500



Colvin model – is on SELL

For explanations of indicators please see page 10

Appendix: Model Explanations

Model 2a-b: Short term RAG1 & RAG2 (risk appetite gauge)
RAG1&2 each draw upon the volatility and price movement of approximately 70 financial instruments each day. By plotting risk curves we derive the risk appetite of the investment community as a whole on any and every day's trading in financial markets.

Model 2c: Shortest term RAG
This RAG model is a shorter term moving average risk appetite model than model 2a. By being shorter term in nature it helps to more accurately time the entry day for a specific trade.

Model 3a – 3b: Medium term RAGs
This is a medium term version of the risk appetite models. This is designed to forecast the direction of equity markets on a 1 – 2 month timeframe.

Model 3c: SELL-off indicator
The SELL-off indicator measures the number of days our RAG system has been on a SELL signal (i.e. as a positive number) and the number of days which it has been on a BUY signal (negative reading). When the indicator moves above +20 (i.e. risk appetite has been persistently high for a long period of time) this indicator warns of a potential sell-off in equity markets (and other risky assets). Most major SELL-offs in equity markets in recent years have been accompanied/foreshadowed by a reading of over +20.

Model 3d: CBOE put to call (deviation from trend model)
This model measures movements in the put to call ratio from its medium term moving average trend line. A sharp move higher (lower) in the put to call ratio indicates heightened levels of fear (complacency) and is used as a contrarian indicator. NB Given that the absolute put to call ratio has historically undergone long term structural trends, a deviation from trend model correlates more closely with medium term trends in equities.

Model 3e: Global volatility (deviation from trend model)
The (underlying) global volatility indicator measures the degree of complacency in financial prices. It achieves this by measuring short term realised volatility in over 150 financial assets from around the globe and across the asset class spectrum. A low reading indicates that only a low level of risk is priced into financial markets (and vice versa). Given, though, that volatility is an asymmetric measure of risk we use a deviation from trend version – which correlates more closely with trends in equities.

Model 3f: Momentum Model
Based on the rate of acceleration (or deceleration) of the momentum of the convergence (or divergence) of a short and a long term moving average of the equity or other price index. The concept is equally applicable to any financial market and the signals are particularly pertinent at extremes.

Model 3g: High yield corporate bond spreads (deviation from trend model)
This model measures movements in the spread of high yield corporate bonds over US Treasury yields from its moving average trend line. Given that the spread is an asymmetric measure of risk we use a deviation from trend version – which correlates more closely with trends in equities.

Model 3h: Colvin model
The Colvin model measures global market breadth i.e. the strength of the advance (or decline) in global risk asset prices. Extreme deviations from trend reflect rapid advances/declines in asset prices thereby leading to and generating overbought/oversold signals.

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