Equity Index Futures Trading Recommendations

10th December 2024

"Markets are Starting to Follow December's Usual Seasonal Pattern"

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

- Continue to WATCH & WAIT (for now).

Rationale

US equities shifted back into their typical December pattern yesterday as the S&P500 fell by 0.6% and (just about) moved back into its normal seasonal range (FIG 1). With that, there was red pretty much across the board as all the key 28 US equity indices that we monitor went down (including S&P600 small caps -0.25%; S&P400 mid-caps -0.51%; Russell 2000 -0.7%; Philly SOX -0.84%; & NDX100 -0.84%). Nine out of the 11 top level S&P500 sectors also fell with the defensive healthcare (+0.22%) and real estate (+0.09%) sectors the only exceptions. Europe was more mixed (with French CAC +0.7%; UK's FTSE100 +0.5%; & the Italian FTSE index -0.6%), while the dollar index was largely unchanged, volatility (VIX) went up; and US 10-year bond yields moved up by 5bps. Traded volumes (in the e-mini S&P500 contracts) picked up modestly from Friday's notably low levels. With that, all of the above (potentially) points to some squaring of books by traders ahead of year end (i.e. typical seasonal behaviour in 1H December).

Given that weakness, some of our short-term market timing models are starting to move lower (towards, or onto, BUY). The technical sector and single stock models are both now on/close to BUY (FIGs 2b & 2c). They are the first models to have unwound most (maybe all) of their recent high readings. Single stocks, for example, now appear oversold relative to their short-term trend lines (i.e. 10-day moving averages); sectors are also oversold relative to short term 14-day RSIs.

Other models, though, are more mixed and continue to lean towards, or even remain on, SELL. Downside put protection, for example, remains at low levels (with those models on SELL – FIGs 3 & 3a); technically the S&P500 is no longer overextended/overbought (those models, though, whilst NEUTRAL are closer to SELL – FIGs 2 & 2a); while there is still a high level of outstanding single stock call options (which implies latent bullishness, i.e. a contrarian SELL signal – FIG 3b). Risk appetite models remain NEUTRAL (FIG 4).

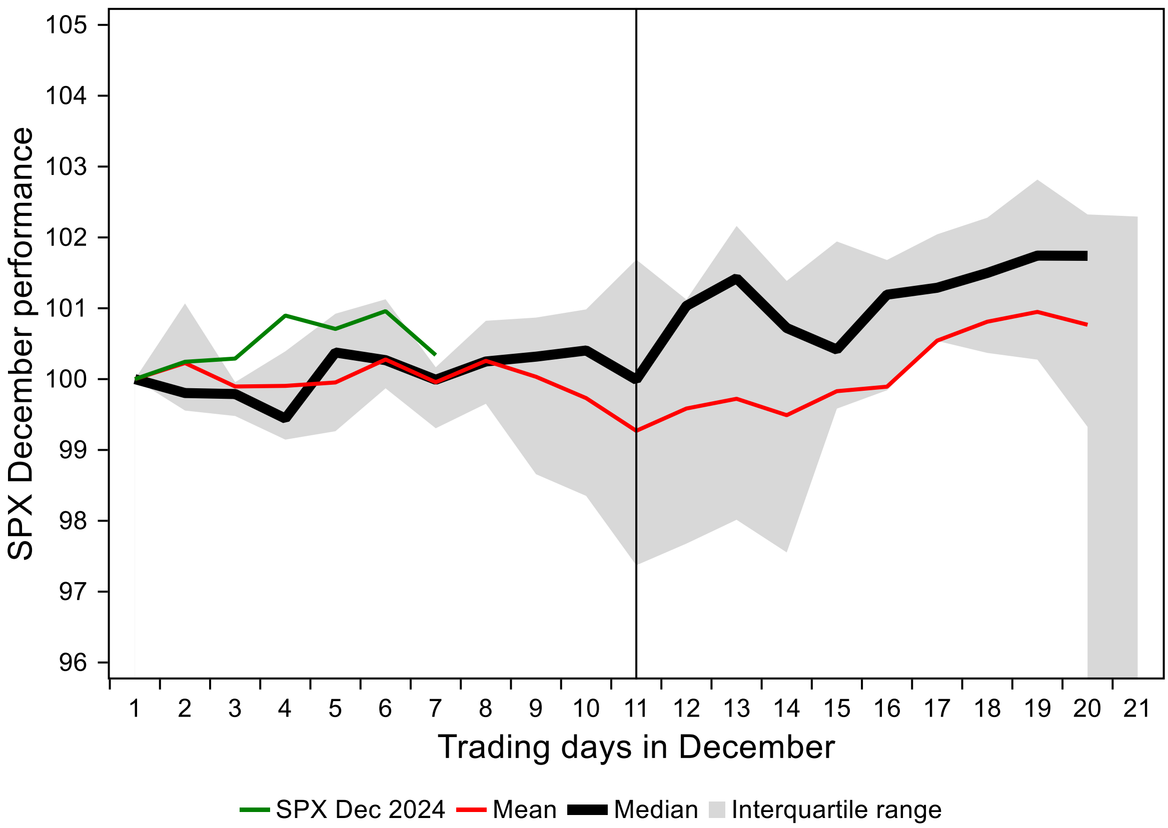
Overall, therefore, we'd look for models to move lower before becoming confident of the case for moving LONG again. Seasonally, as well, it's typically the 11th (or 12th) trading day of the month that the Santa Claus rally begins (currently we're on the 7th trading day). Of note, while it's important to not be overly prescriptive, the 11th trading session is Monday next week. Also, of note in that vein, the Fed monetary policy announcement is Wednesday next week (18th).

For now, therefore, we continue to WATCH and WAIT (i.e. stay on the sidelines). Key data today includes the US NFIB small business survey. The full list of events and data is laid out below.

Kind regards,

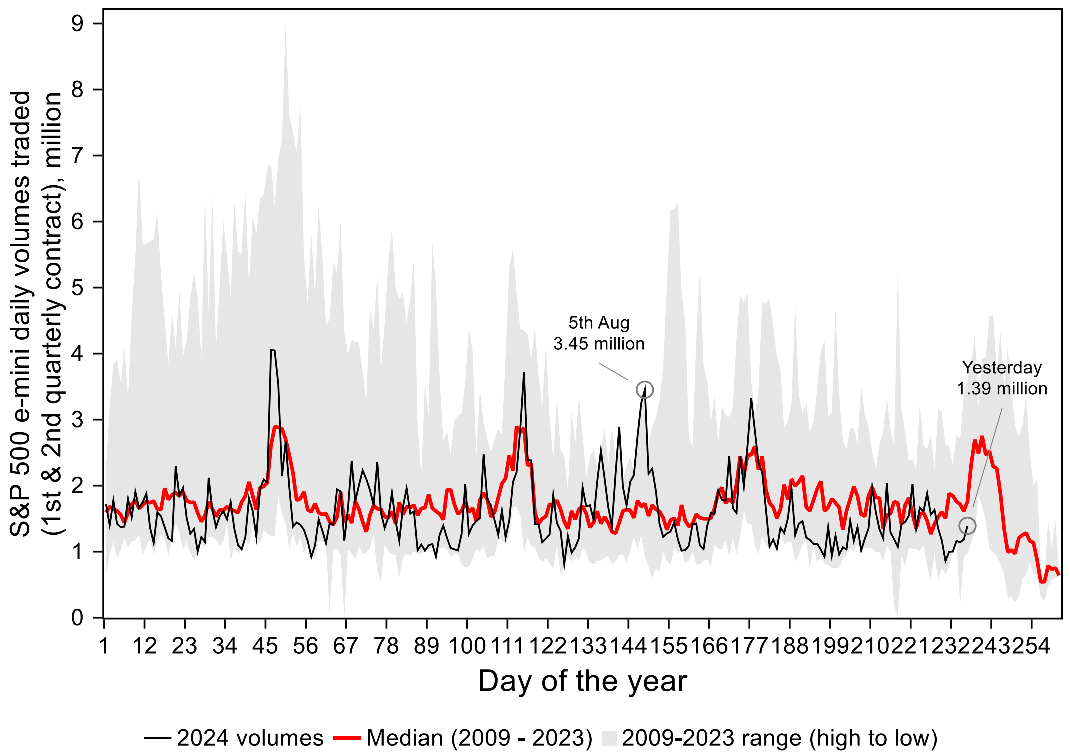
The team @ Longview Economics

FIG 1: S&P500 –> December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)



Source: Longview Economics, Macrobond

FIG 1a: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



Source: Longview Economics, Macrobond

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

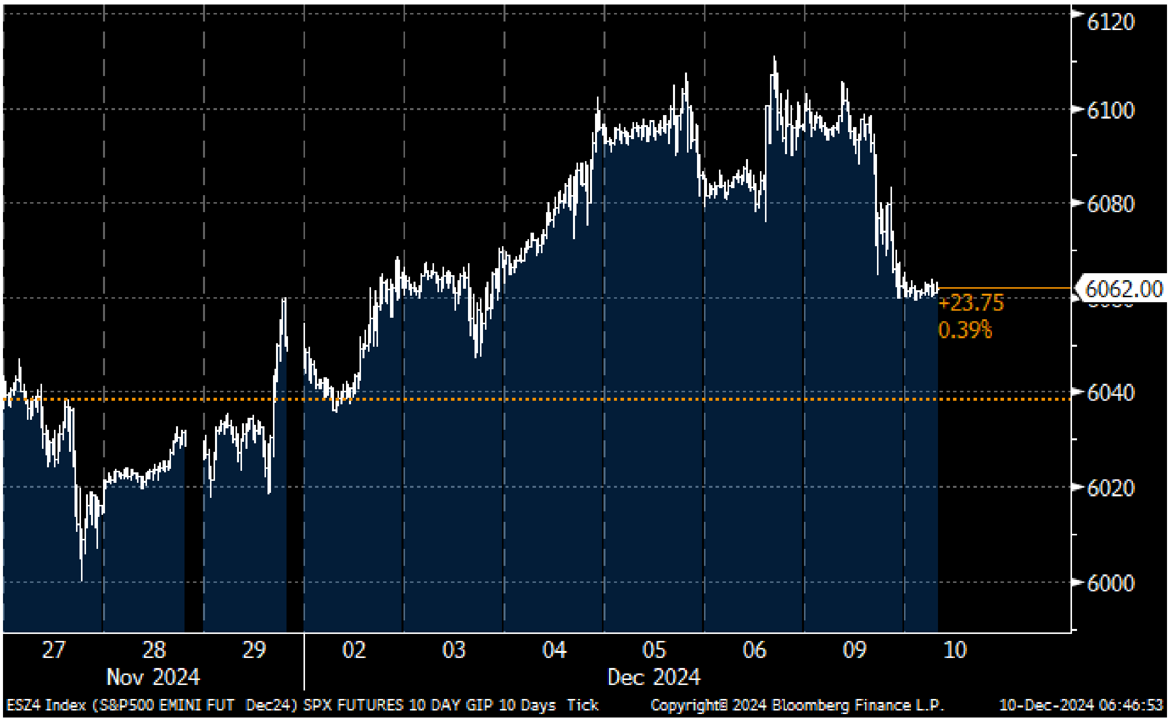
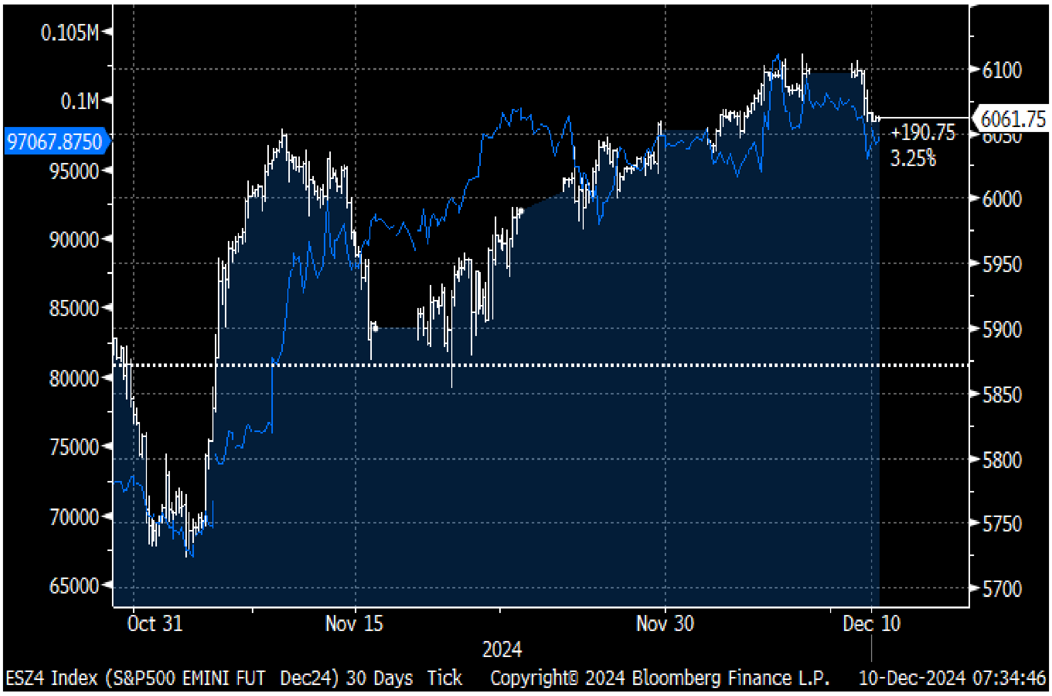
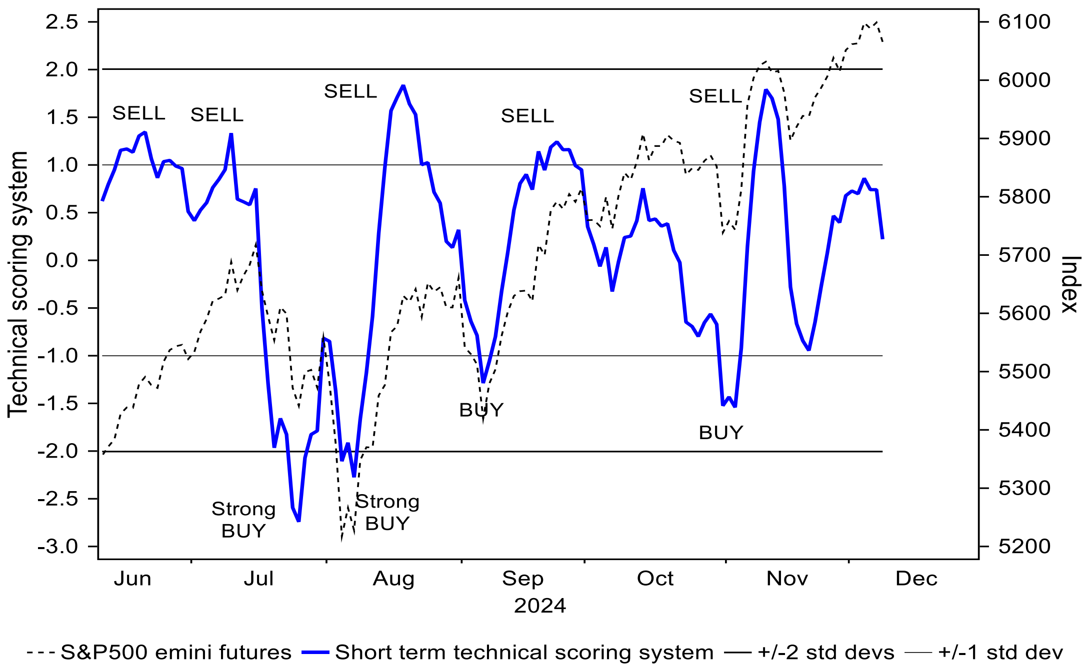


FIG 1c: Bitcoin spot price (US$) & S&P500 futures 30-day tick chart shown with overnight price action



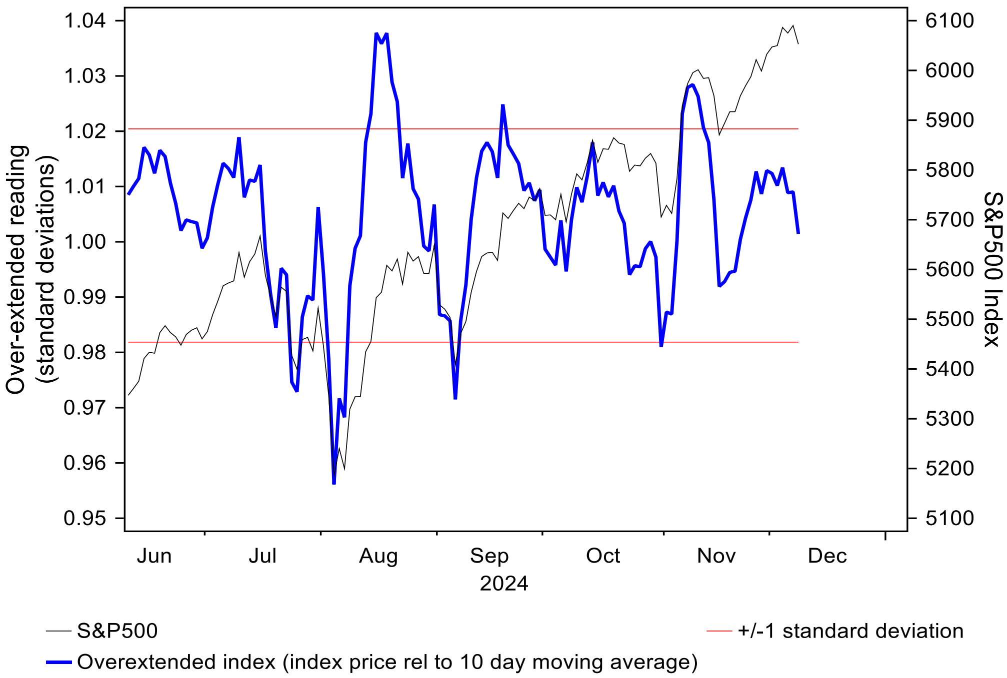
Technical models (on the S&P500) are mostly rolling over from overbought levels.....

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



Source: Longview Economics, Macrobond

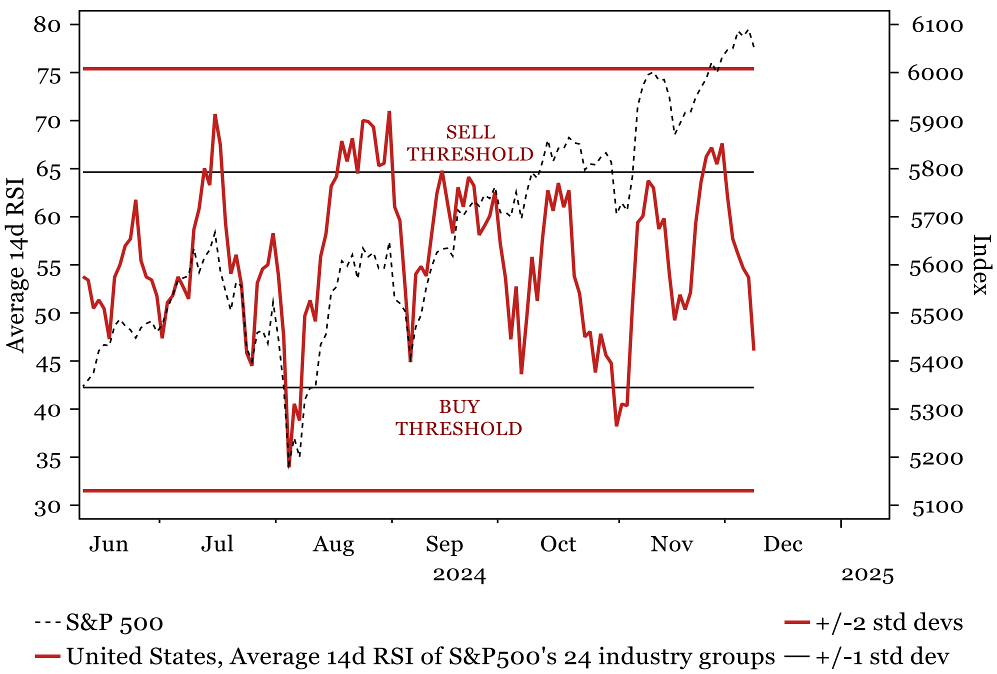
FIG 2a: S&P500 overextended indicator (index price relative to its 10-day moving average) vs. S&P500



Source: Longview Economics, Macrobond

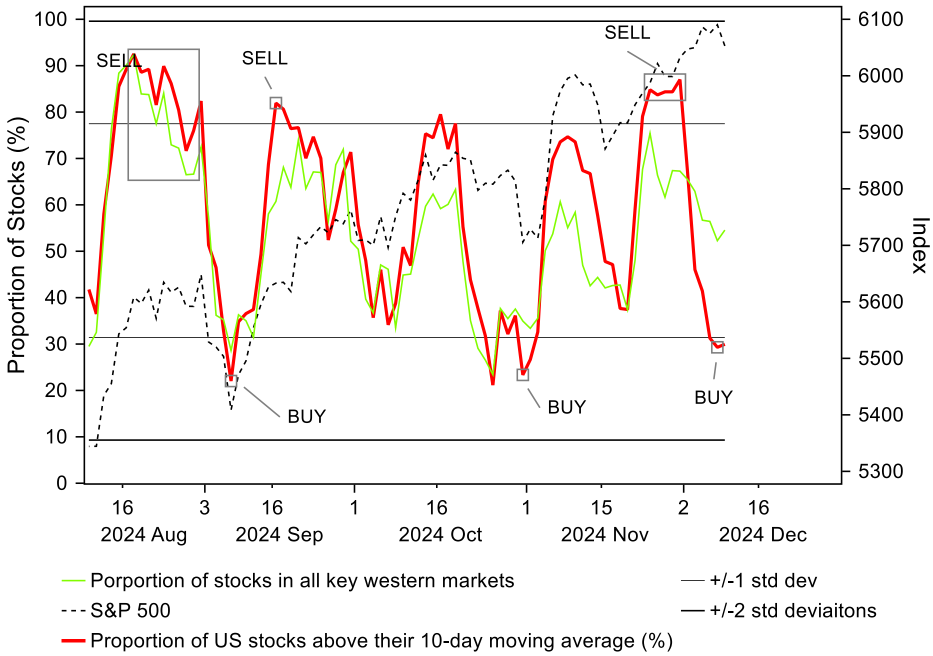
Sector and single stock technical models are close to BUY...

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



Source: Longview Economics, Macrobond

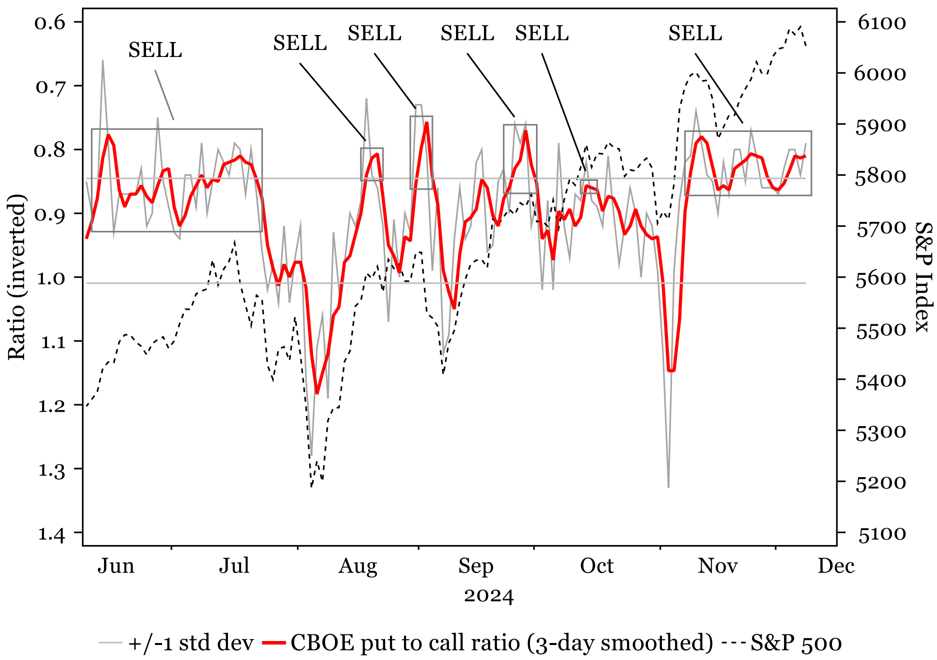
FIG 2c: Proportion of Western stocks above their 10-day moving average vs. S&P500



Source: Longview Economics, Macrobond

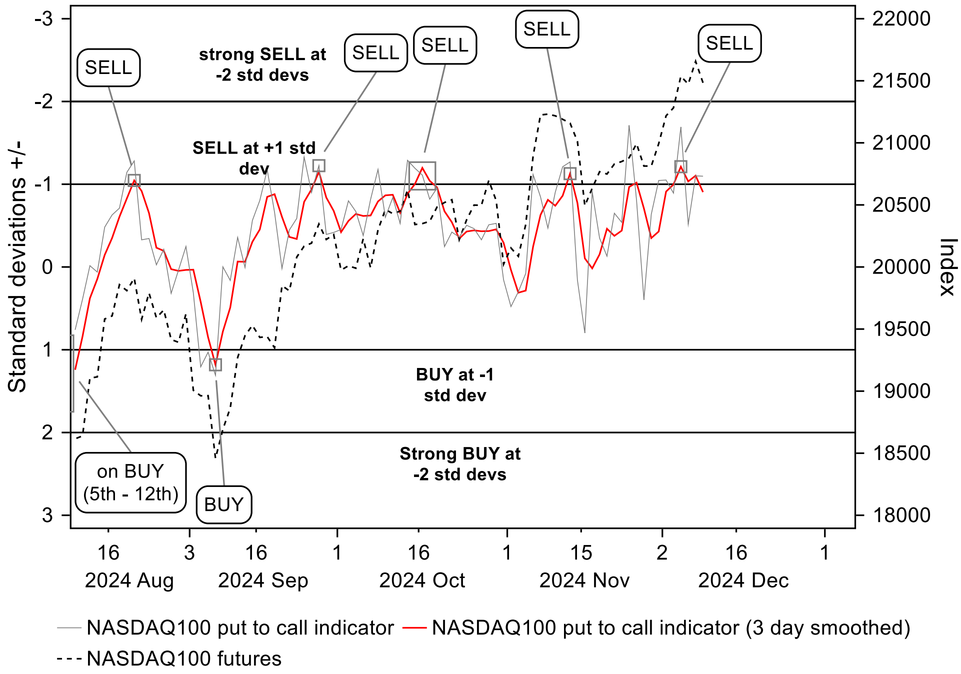
Downside put protection in portfolios remains at low levels…

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



Source: Longview Economics, Macrobond

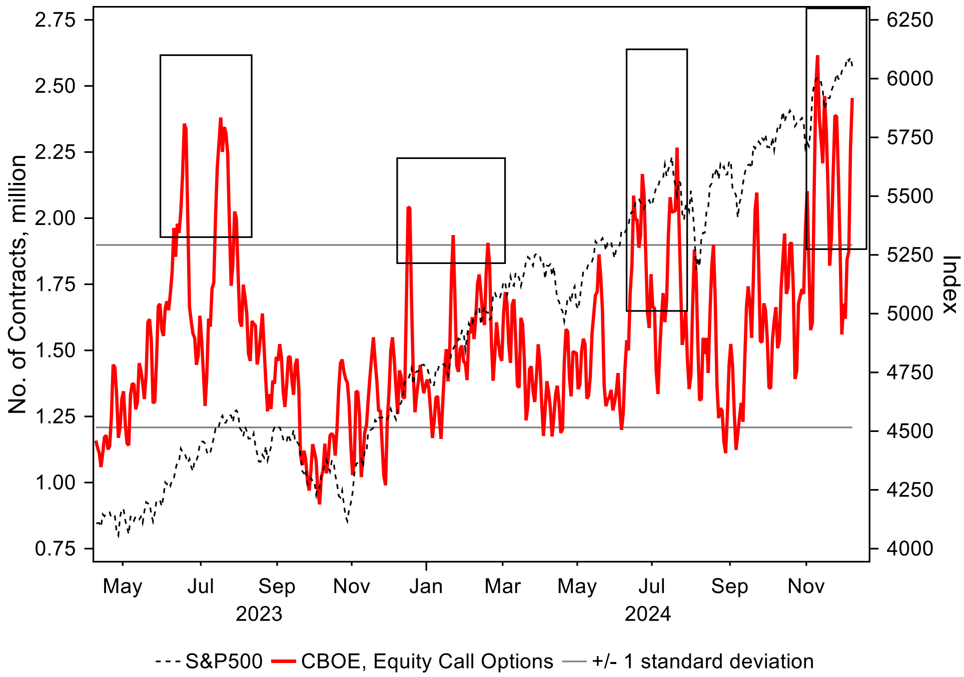
FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

Single stock call option BUYing is back at high levels....

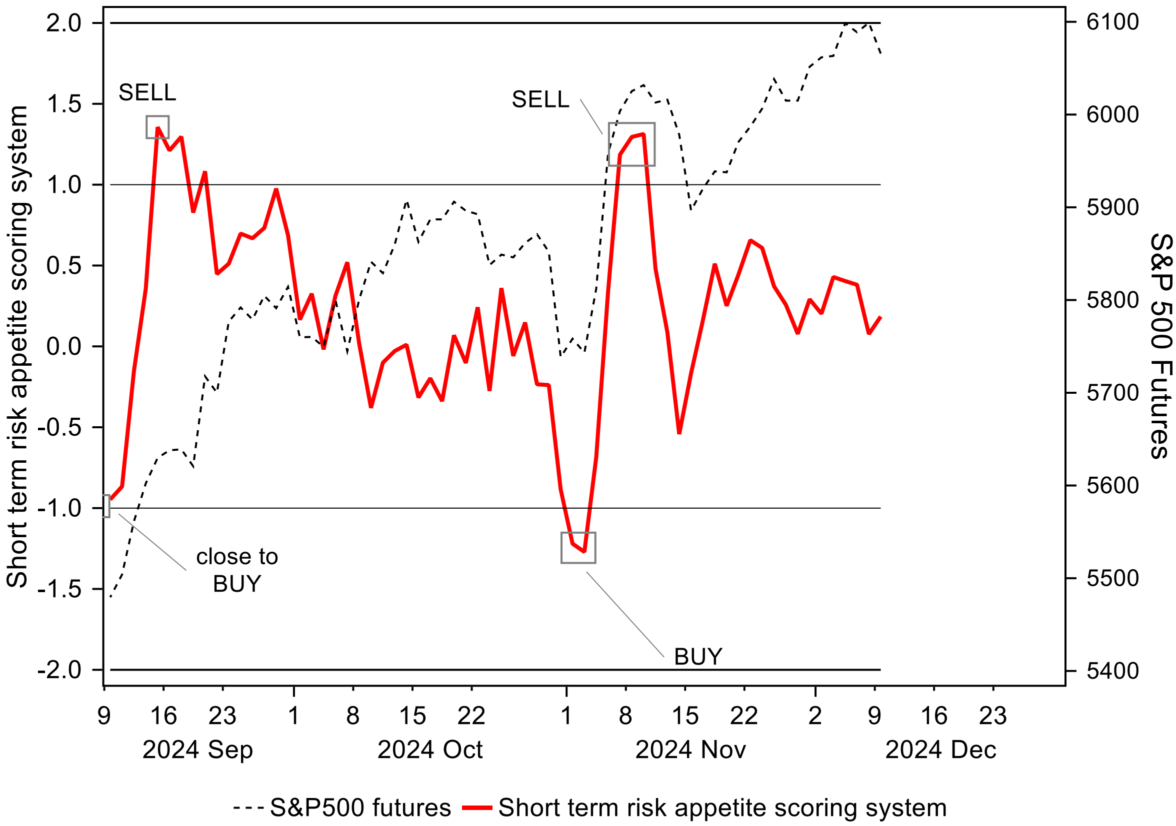
FIG 3b: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

Risk appetite models are NEUTRAL…

FIG 4: Longview short term **'risk appetite'** scoring system vs. S&P500

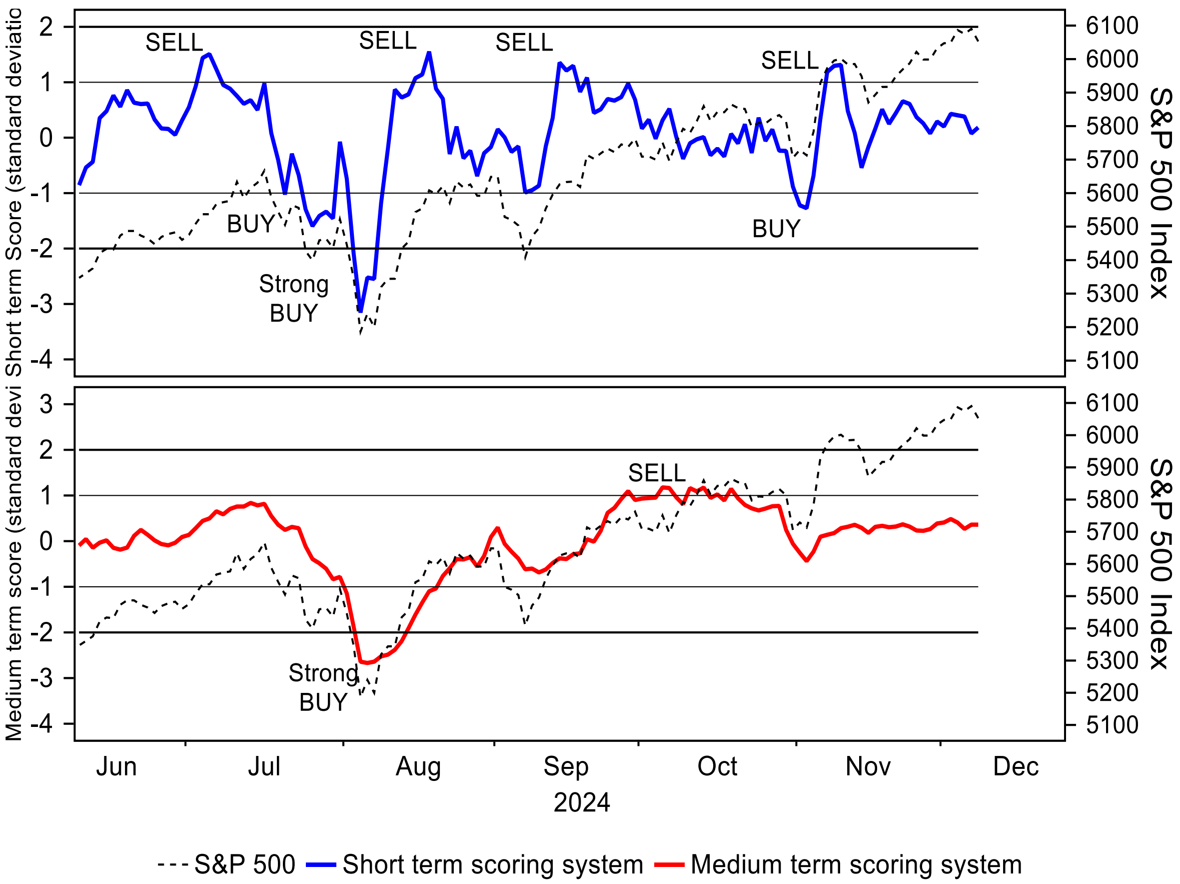


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below)**:**

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

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Australian NAB business confidence (Nov, 12:30am); Chinese imports/exports, & trade balance (Nov, 3am); **Japanese machine tool orders** (November first estimate, 6am); German headline CPI (November final estimate, 7am); Italian industrial production (Oct, 9am); **US NFIB small business optimism** (Nov, 11am); US nonfarm productivity & unit labour costs (Q3 final estimate, 1:30pm); Japanese BSI large industry & manufacturing index (Q4, 11:50pm).

Key events today include: **RBA policy decision** (3:30am).

Key earnings today include: AutoZone.

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 last week on 5th December 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

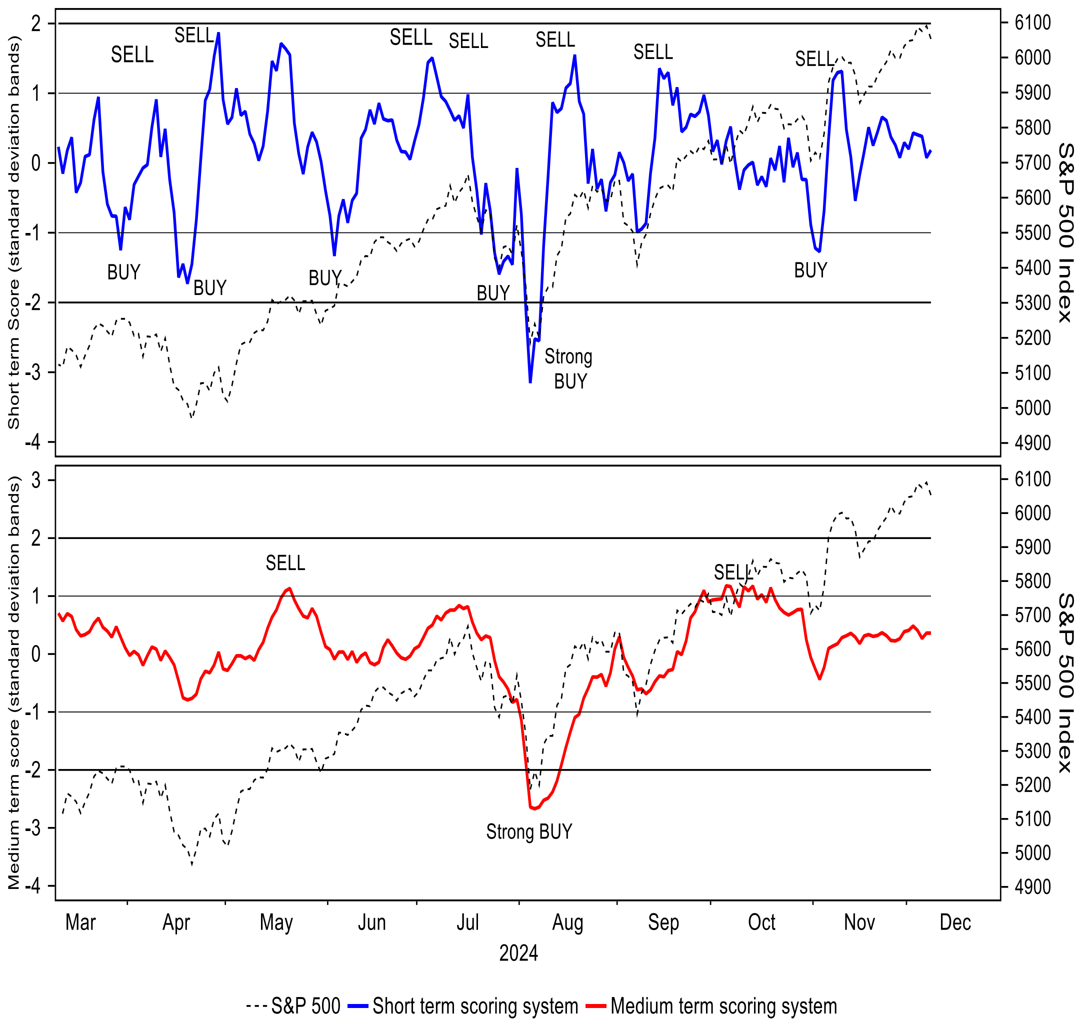
1 – 2 Week View on Risk

10th December 2024

Longview Economics
Email: ragtrader@dailyragtrader.com

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 NEUTRAL

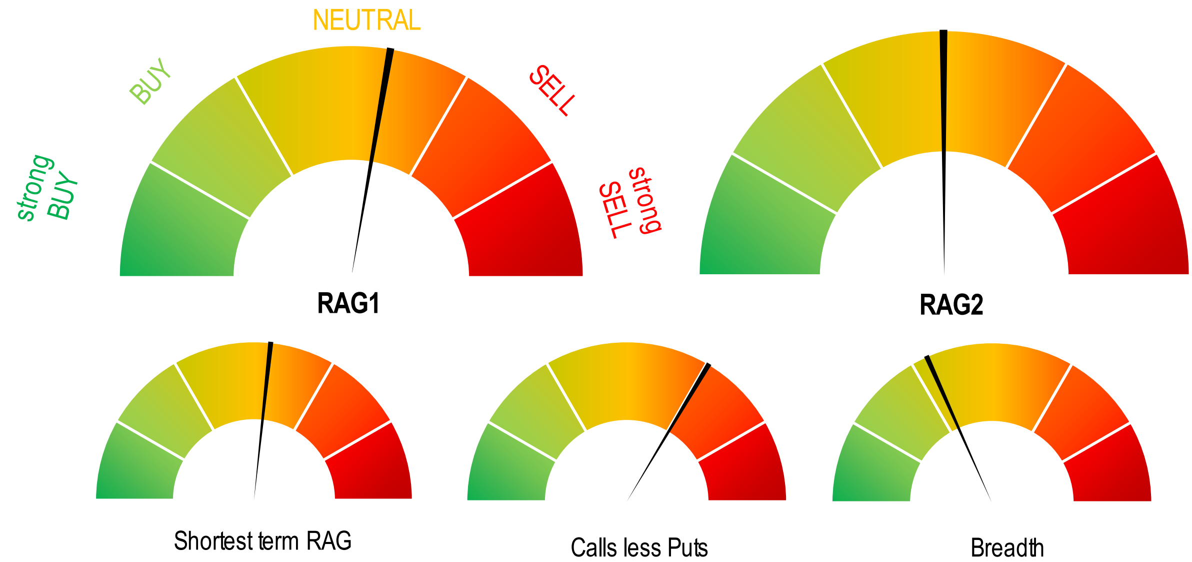
Source: Longview Economics, Macrobond

*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

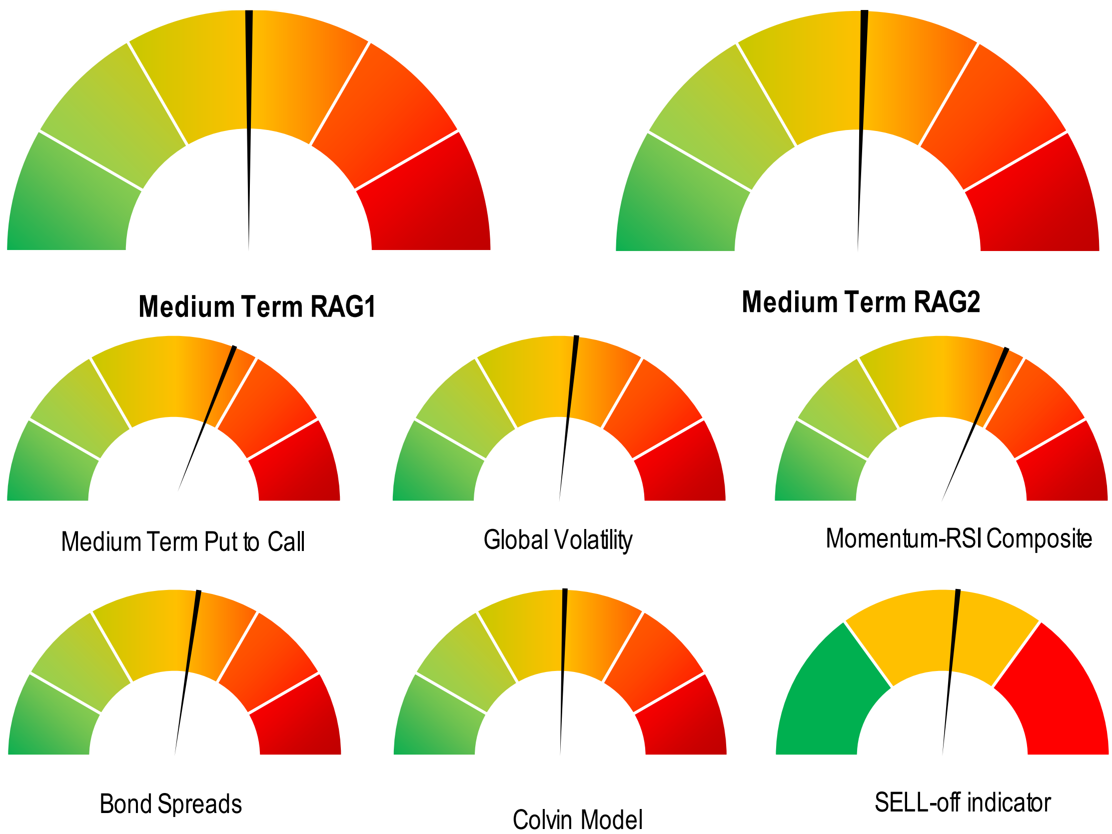
Section 1a: Summary of indicator signals**

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



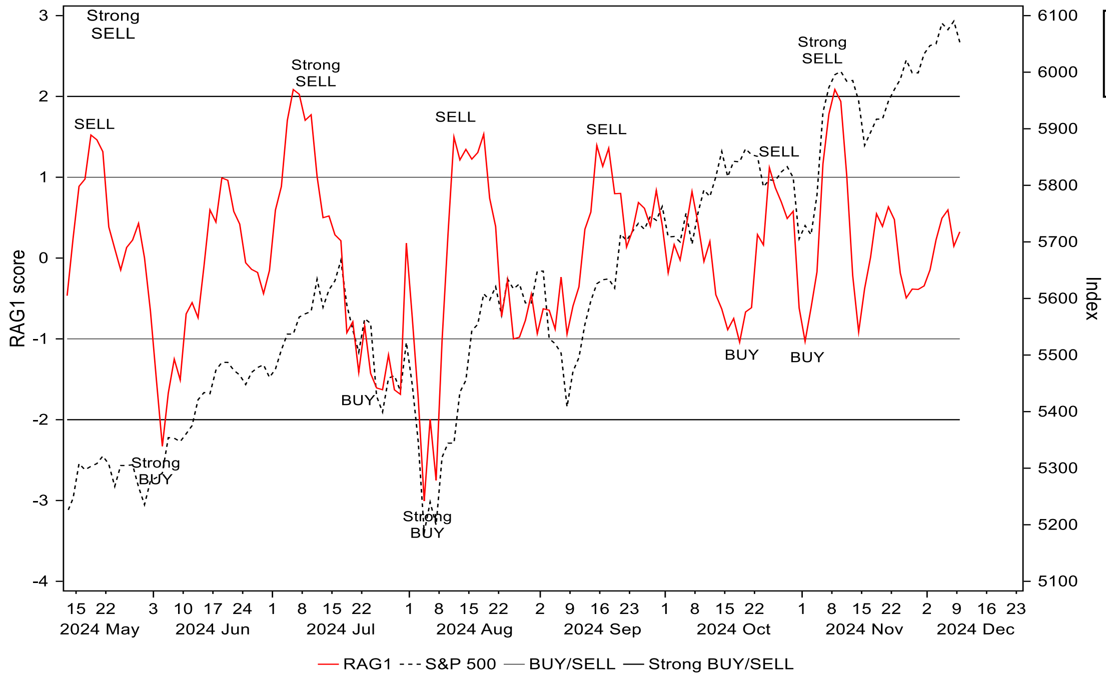
Source: *Longview Economics*

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

LVRAG
Daily Risk Appetite Gauge

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

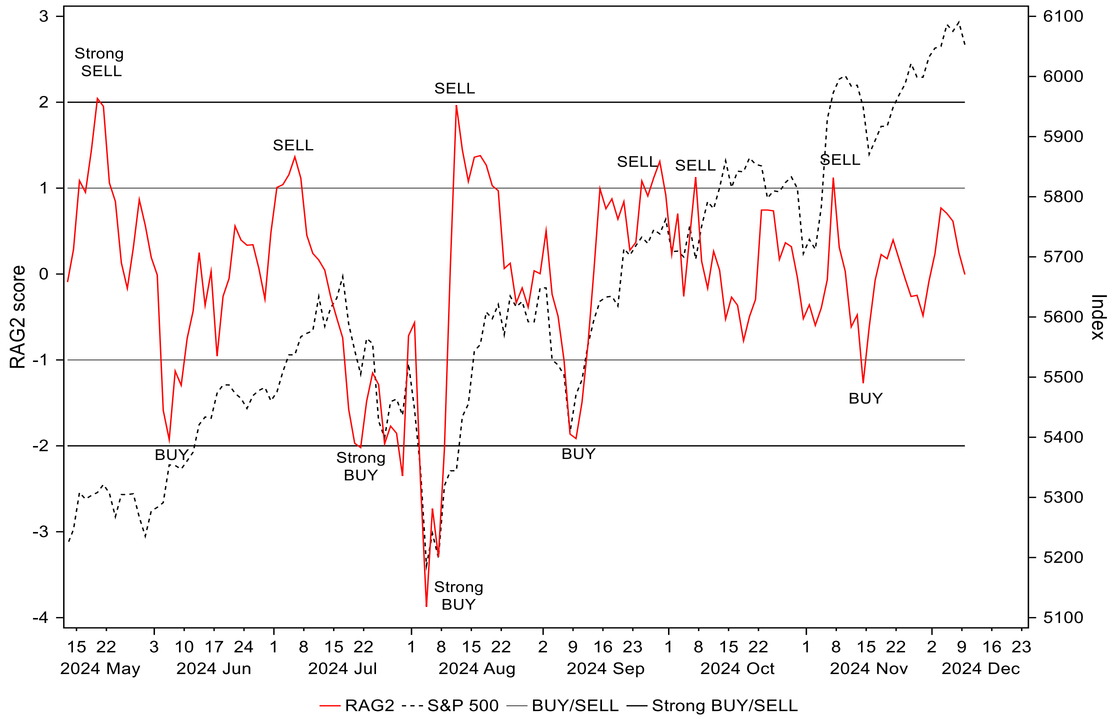
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

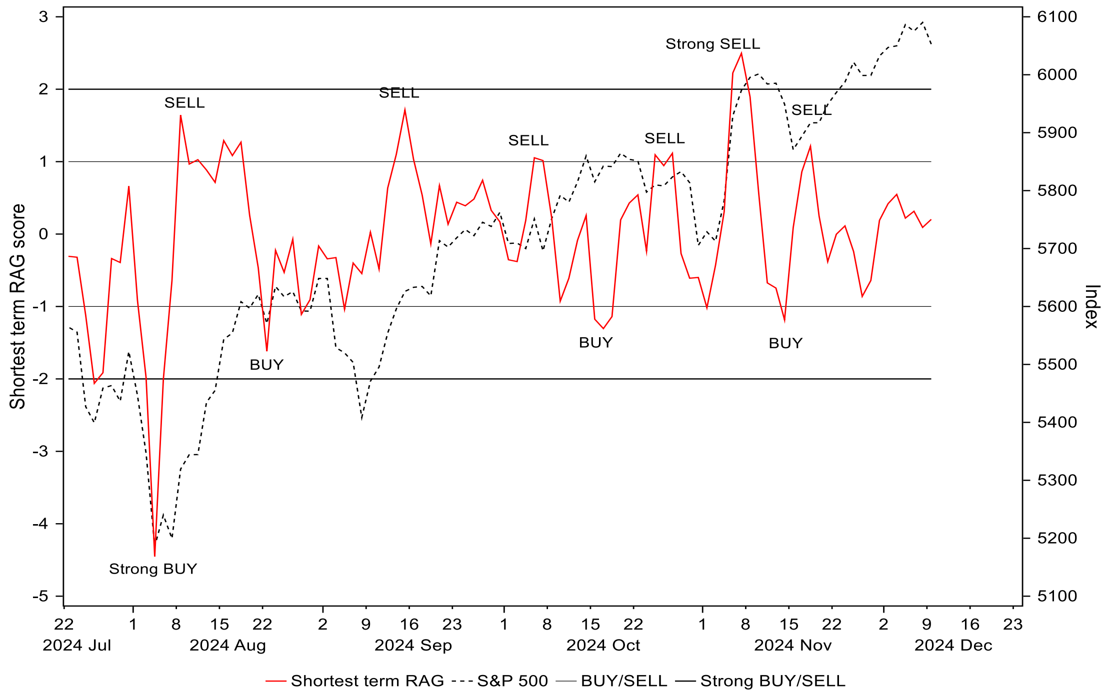


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

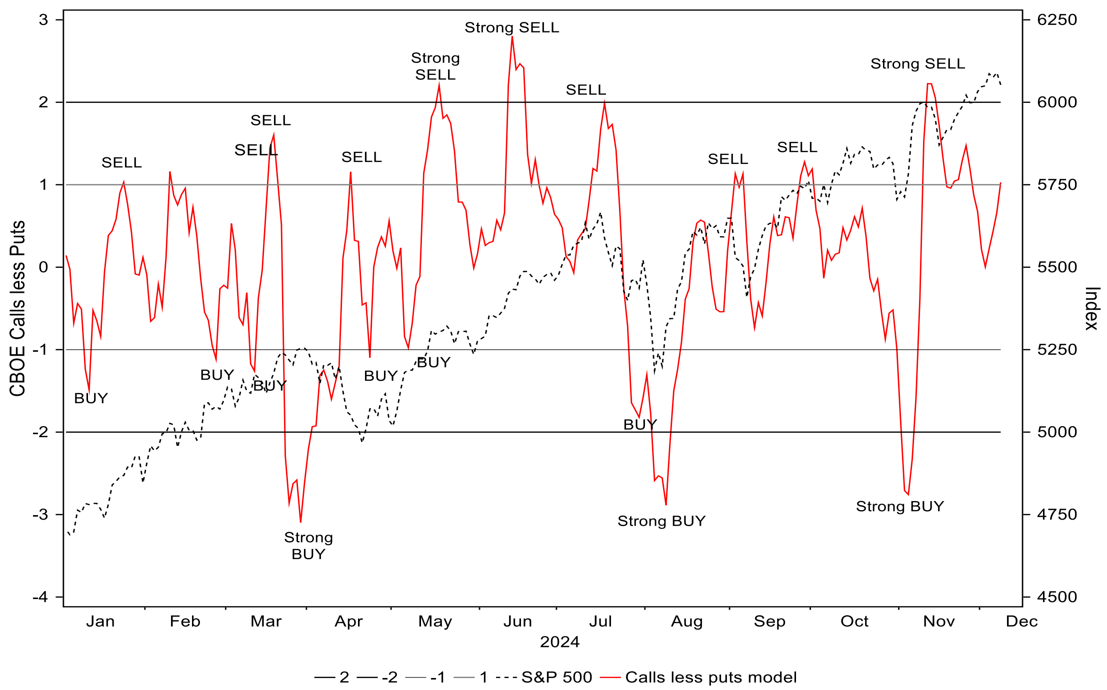
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

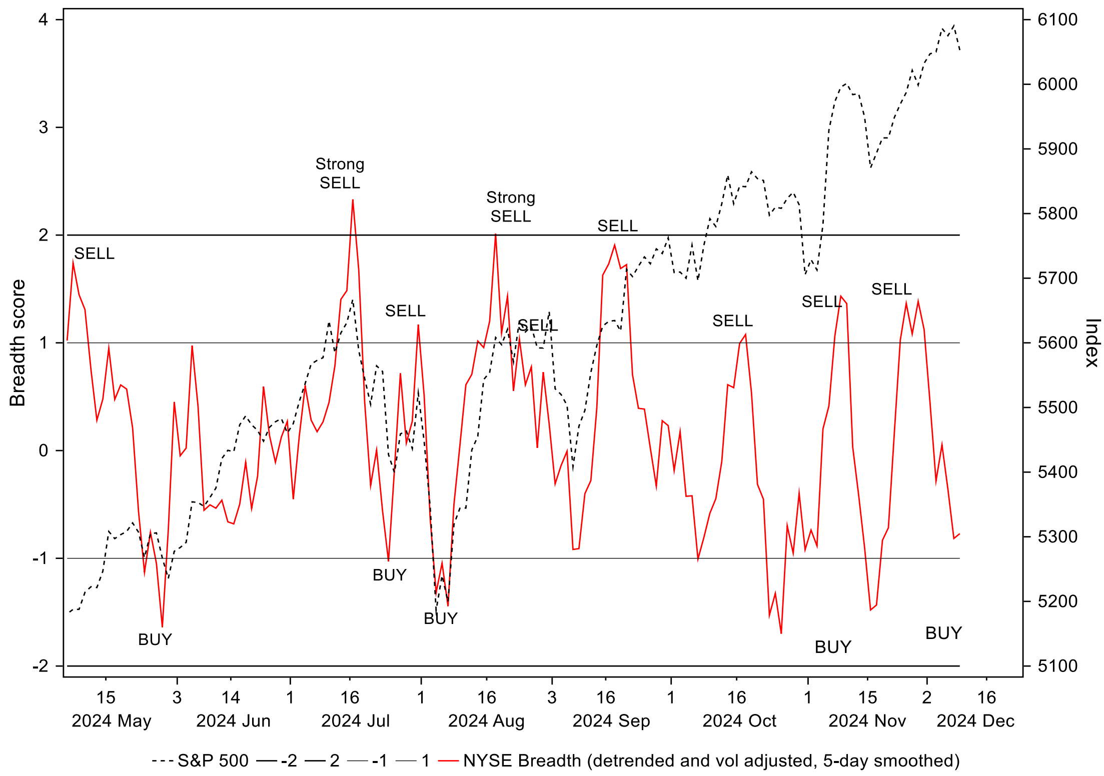


Calls less puts model is on SELL

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



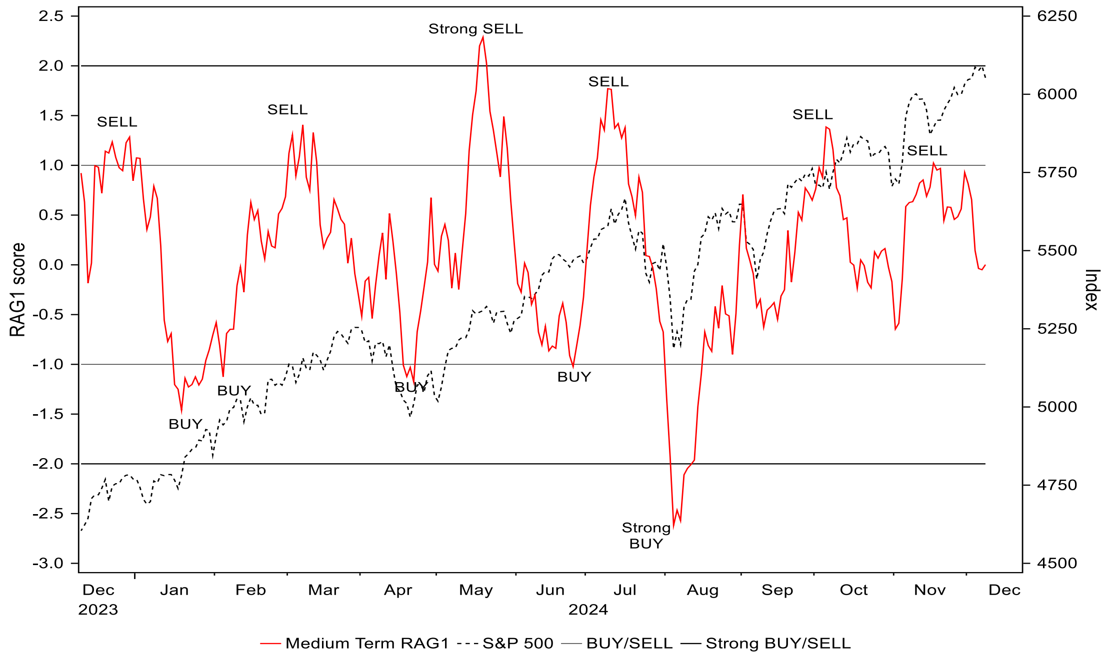
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

Section 3: Medium term (1 – 2 month) outlook

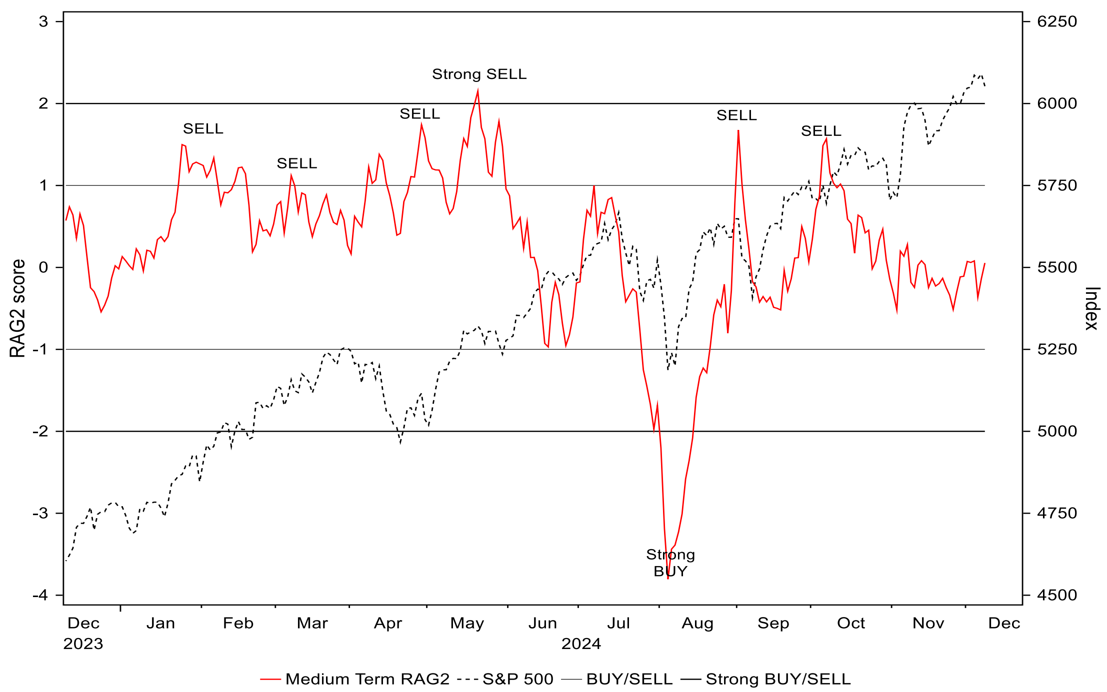
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

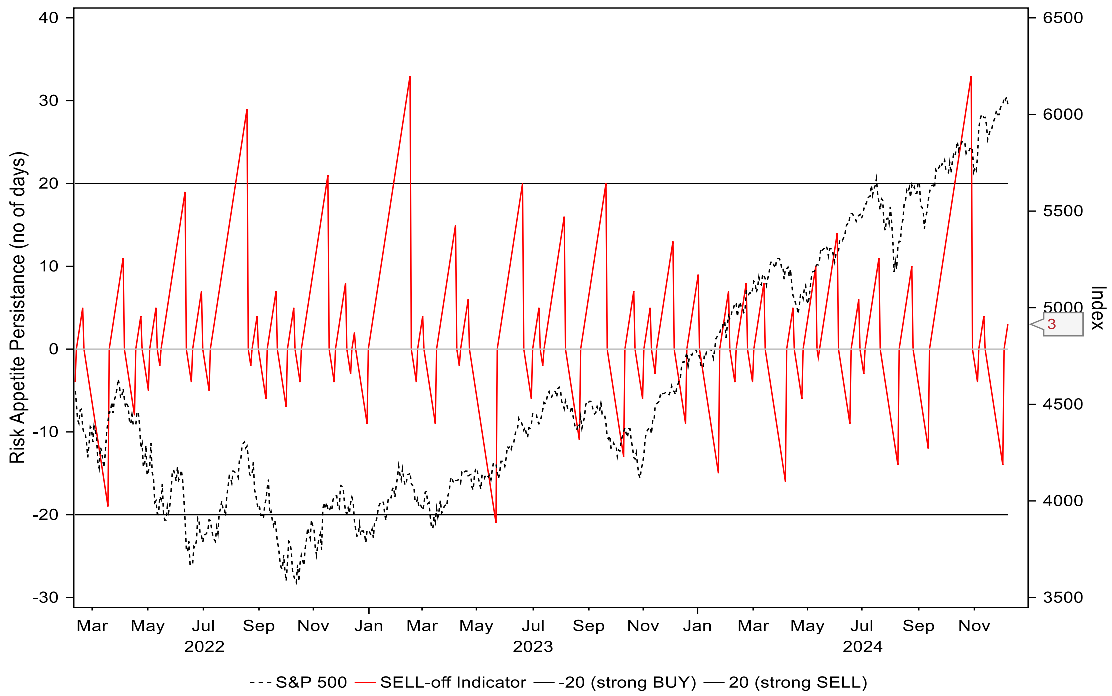


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

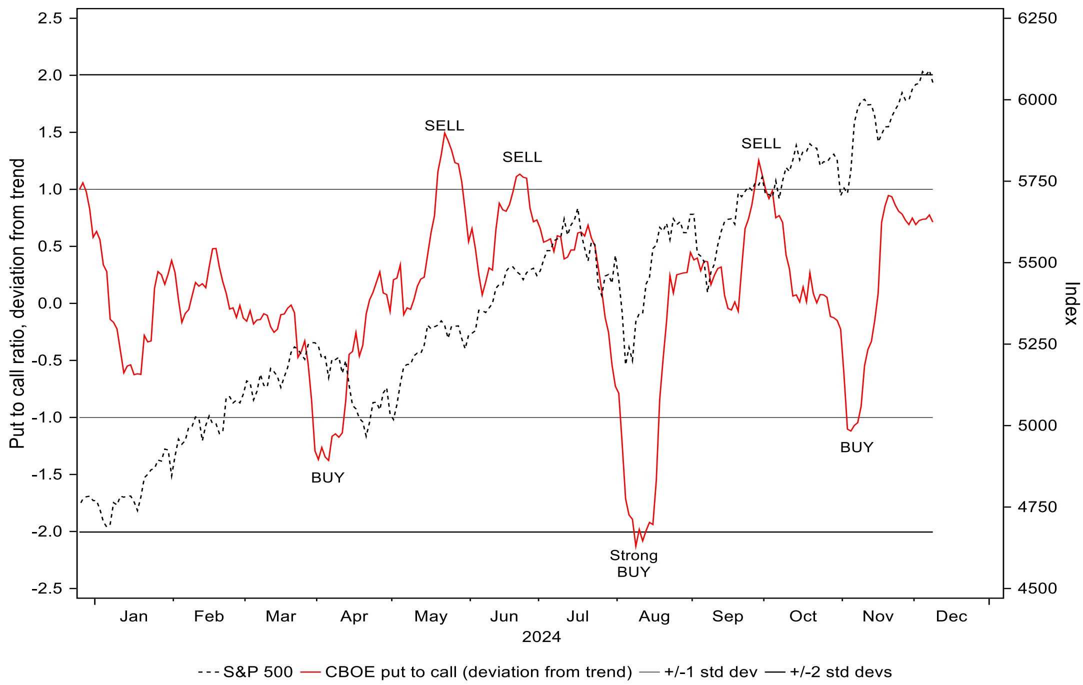
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

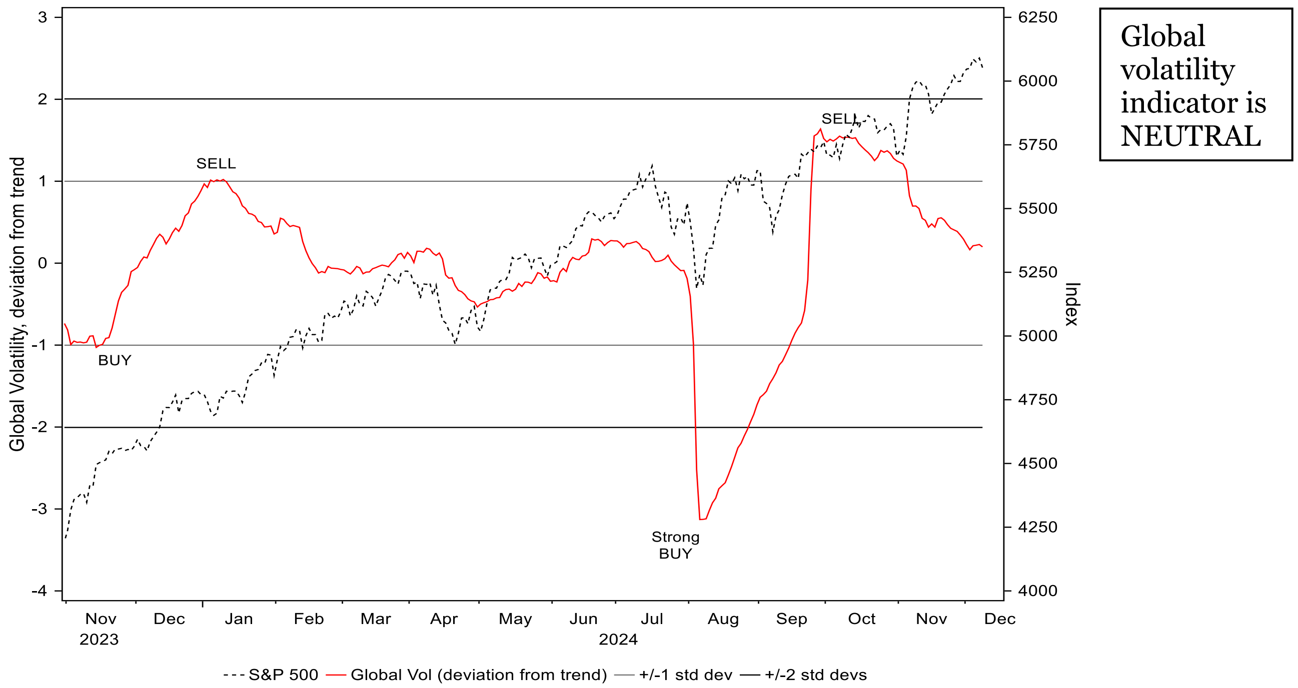


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

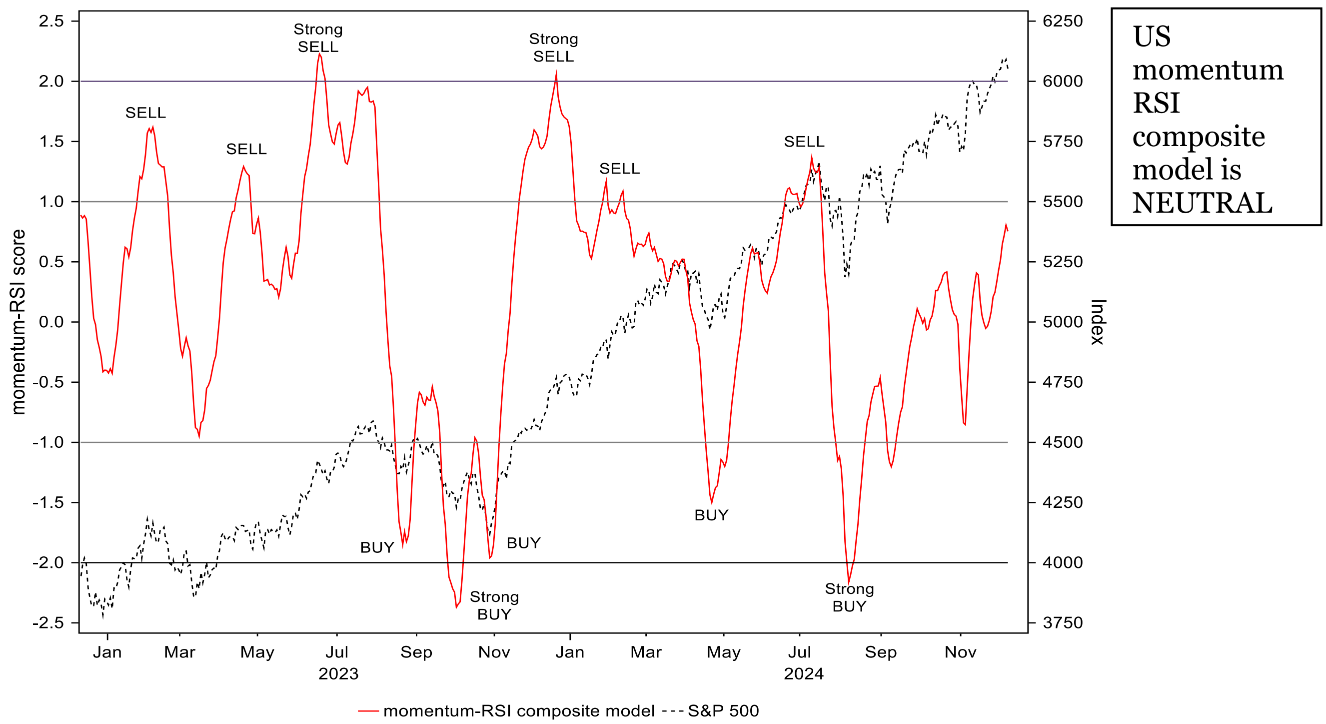
For explanations of indicators please see page 10

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



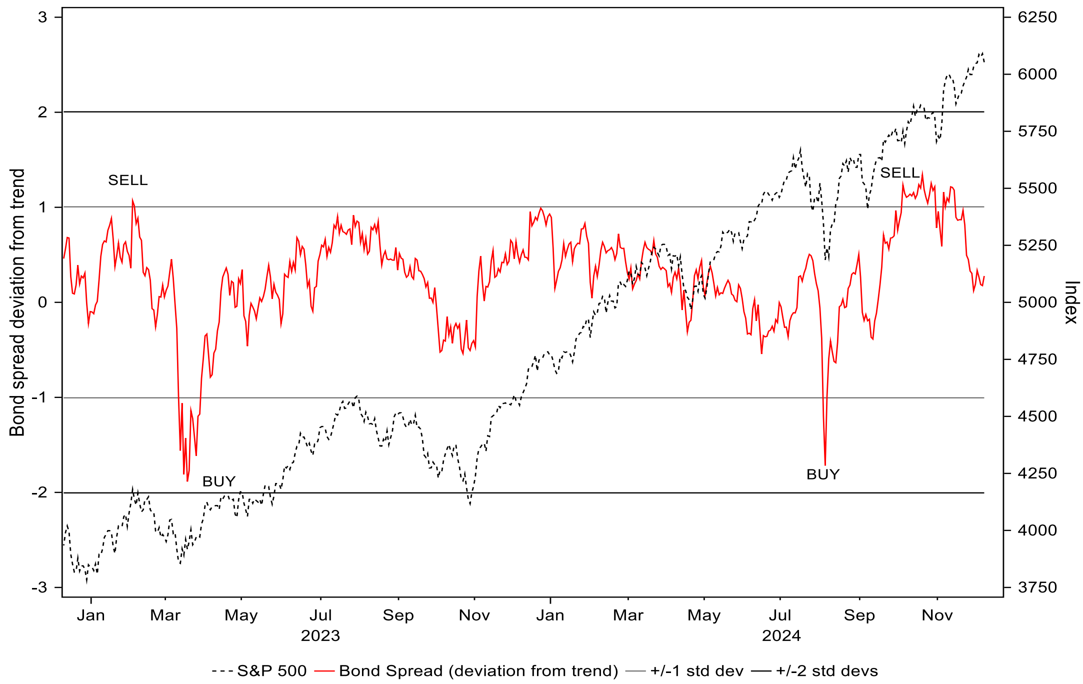
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

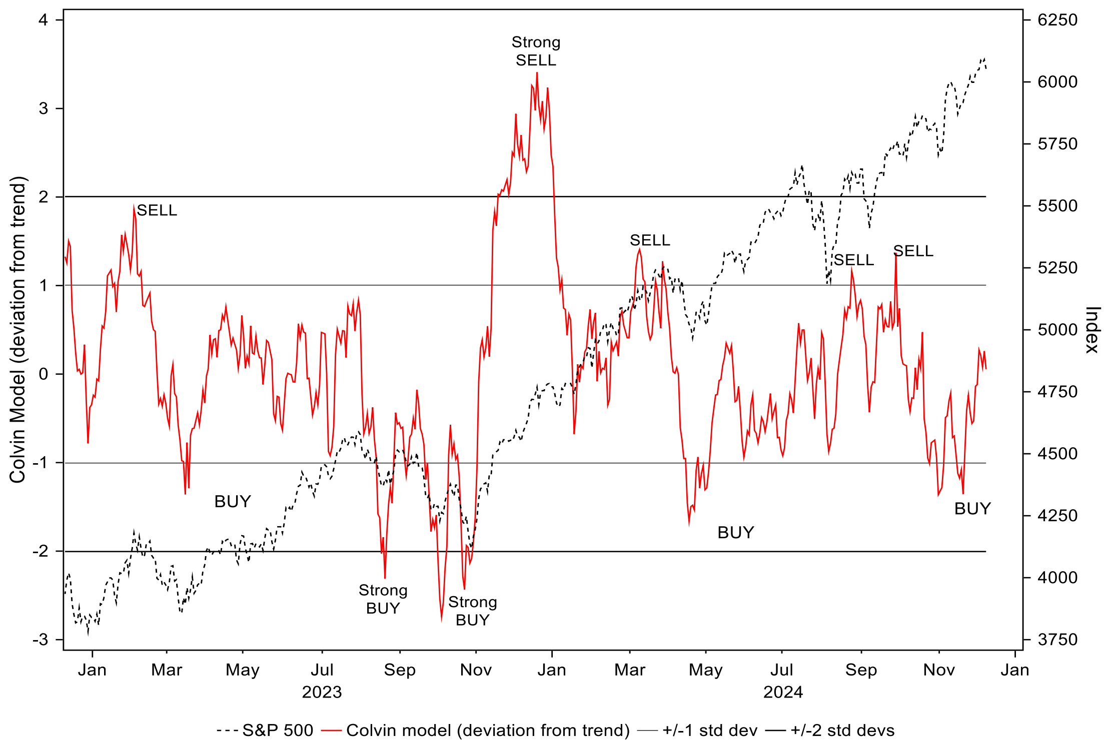
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is NEUTRAL

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



Source: Longview Economics, Macrobond

Colvin model – is NEUTRAL

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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