Equity Index Futures Trading Recommendations

10th January 2025

"S&P500 Likely Still in near term Downtrend"

Email: info@longvieweconomics.com

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

- BUILD SHORT S&P500 March futures position (on modest strength if forthcoming).
- MOVE ¼ SHORT at 5,960.0 (SPX March futures).
- Implement a stop loss just above the top of the pennant at 6,055 (approx. 1.6% above entry price).

Rationale

Given the closure of the US equity market yesterday for the funeral of former President Carter, most of the short-term models are unchanged (as discussed below). The cash equity market was closed yesterday (i.e. NYSE etc), while the futures were open for part of the day (see 3-day GIP chart below/FIG 1b). Given that partial closure, volumes were light and the equity market traded in a narrow 30-point range (when open, FIG 1b). US Treasuries (similarly) were open for part of the 24 hours (but mostly closed). The 10-year yield ticked 1bps higher (i.e. nothing meaningful); UK 10-year GILT yields (which were open as normal) ended the day unchanged (4.77%); while the US dollar (open all day) edged higher and is now close to its 2nd January highs (which were the highest since late 2022 – FIG 1). A rising dollar, along with higher bond yields, are both adding downside pressure to the equity market. Bitcoin (a gauge of speculative market liquidity) has continued its recent downtrend, albeit it bounced modestly yesterday – FIG 1c.

As mentioned, given the full/partial closure of many markets yesterday, most of the short-term models are unchanged overnight*. Some have moved given the global nature of their inputs. Others like the US sectors and single stocks models haven't updated overnight. The message, therefore, remains the same as yesterday. That is:

> "at an index, sector and single stock level US equity markets are at/close to oversold levels (on our short term '1 – 2' week timeframe). In contrast, **risk appetite and put to call models* remain on SELL.** That is, market participants are not hedged to the downside and remain greedy (see risk appetite scoring system, combined RAG1 plus RAG2, and the put to call ratios)."

Source: Yesterday's 'Daily Risk Appetite Gauge' email, published 9th January 2025.

Our approach to trading the S&P500 futures, therefore, also remains the same as yesterday. We expect this recent downtrend to continue over coming trading sessions. As such, we continue to look for a good entry point into SHORT positions (see trading recommendation above for detail).

A full list of today's key macro data & events is outlined below and includes non farm payrolls data later (1:30pm UK time).

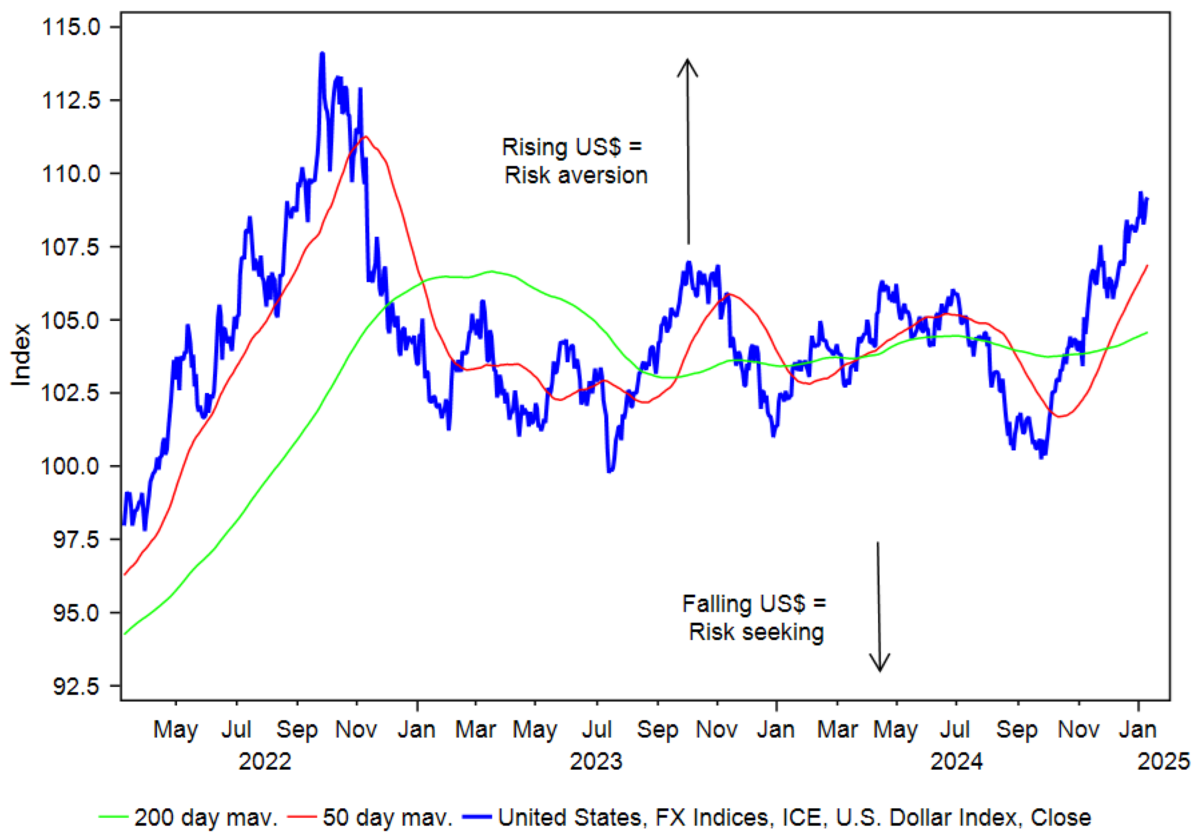
Kind regards,

The team @ Longview Economics

*NB the US CBOE put to call ratio has updated overnight. Yesterday's reading, though, is distorted by the partial opening of some equity futures and therefore should be ignored. The model (in reality) remains close to SELL levels.

NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); OR for longer term investors, with a 6 month to 2 year timeframe, see our 'Strategic Investor' publications (available HERE: https://www.longvieweconomics.com/the-strategic-investor)

FIG 1: US dollar futures (DXY) index shown with key moving averages



Source: Longview Economics, Macrobond

FIG 1a: Dollar futures (DXY) 10-day tick chart shown with overnight price action

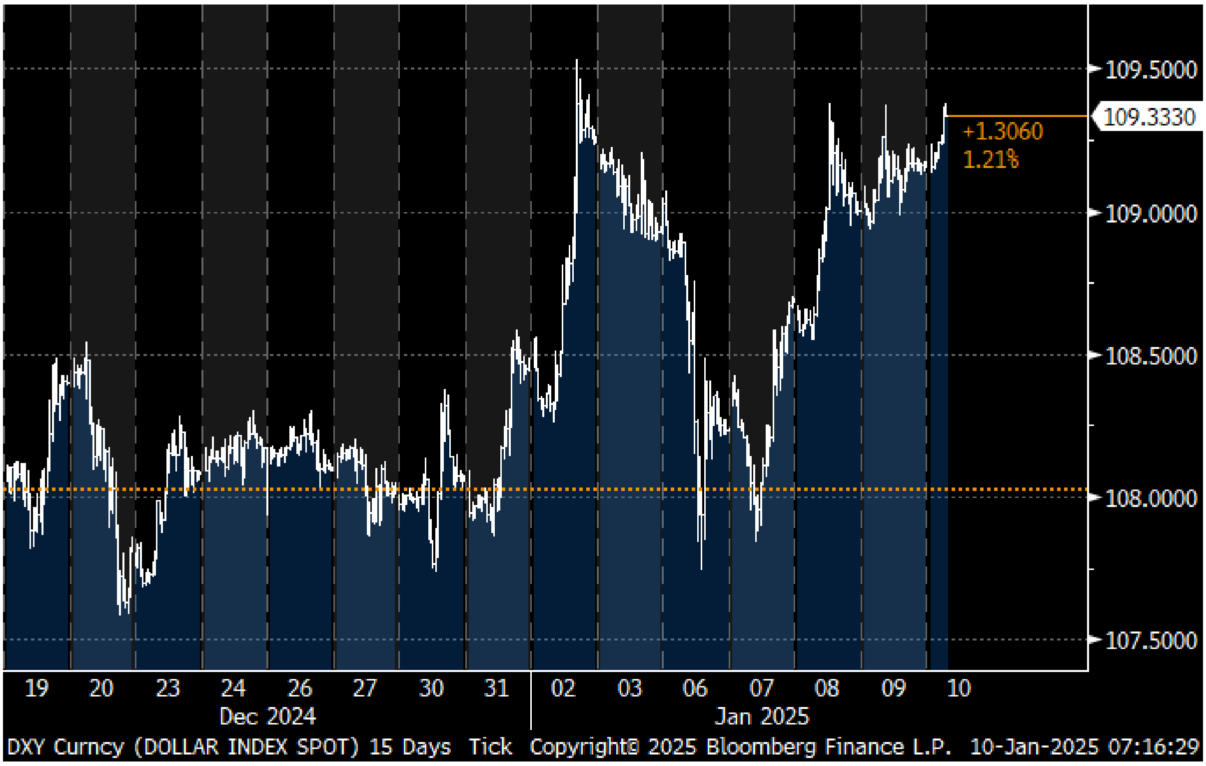


FIG 1b: S&P500 futures 3-day tick chart shown with overnight price action

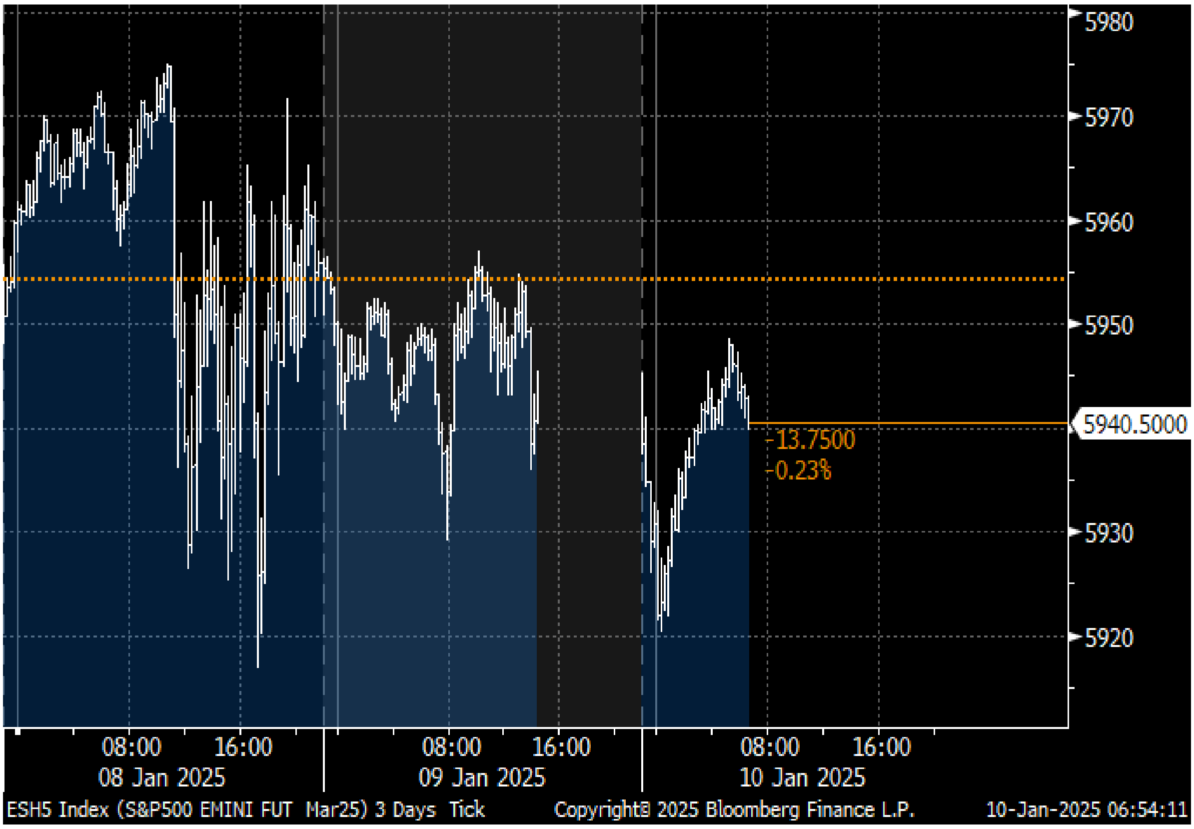
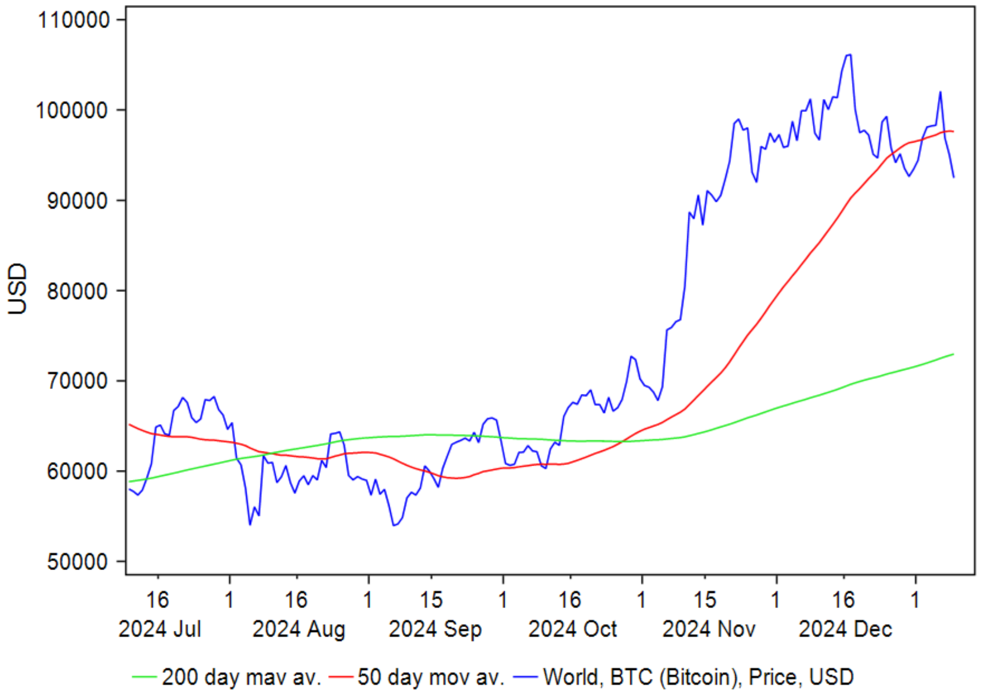


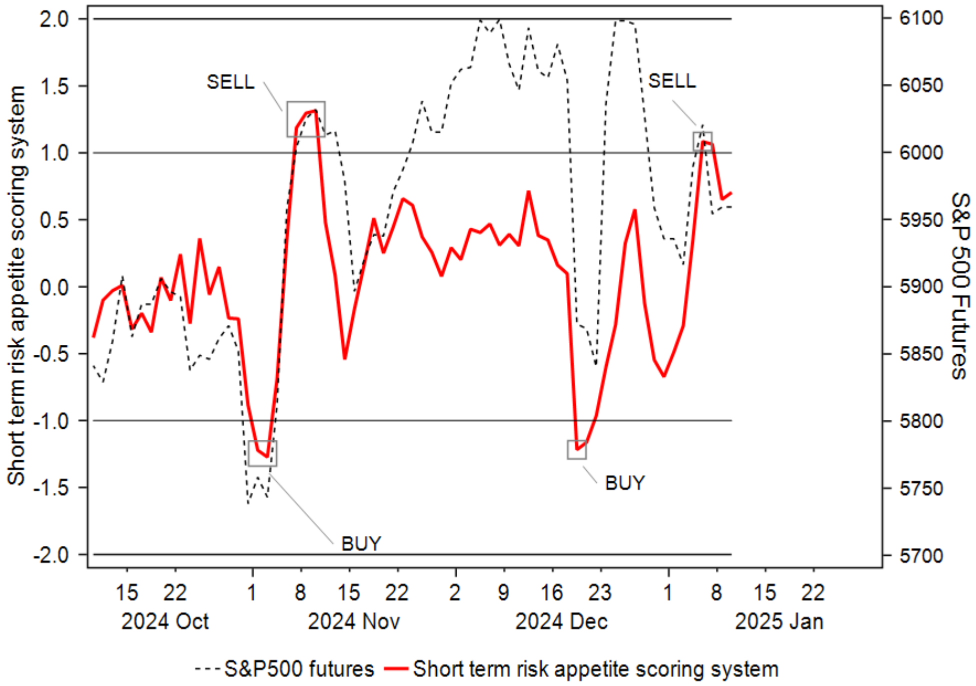
FIG 1c: Bitcoin (US$) shown with key moving averages



Source: Longview Economics, Macrobond

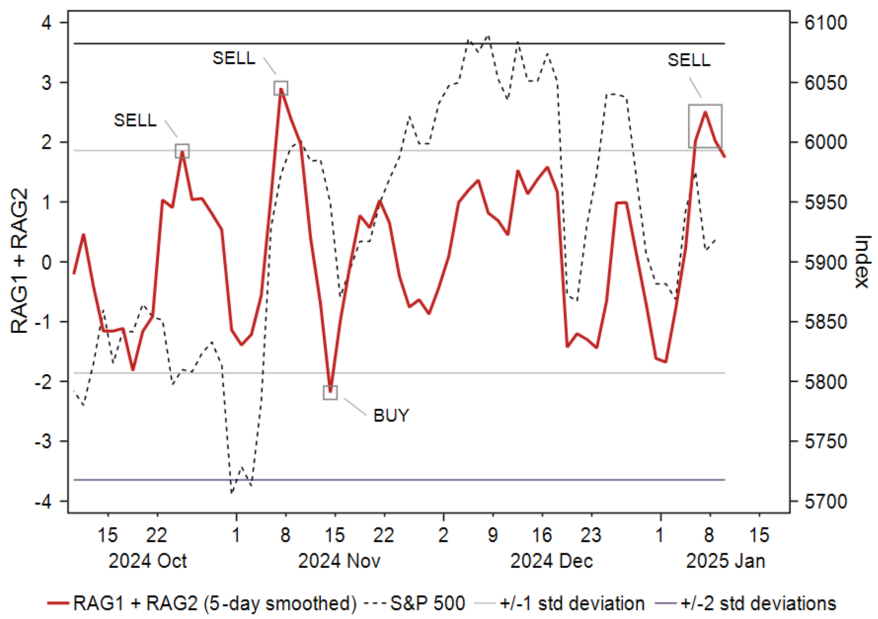
Risk appetite models are on/close to SELL…

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



Source: Longview Economics, Macrobond

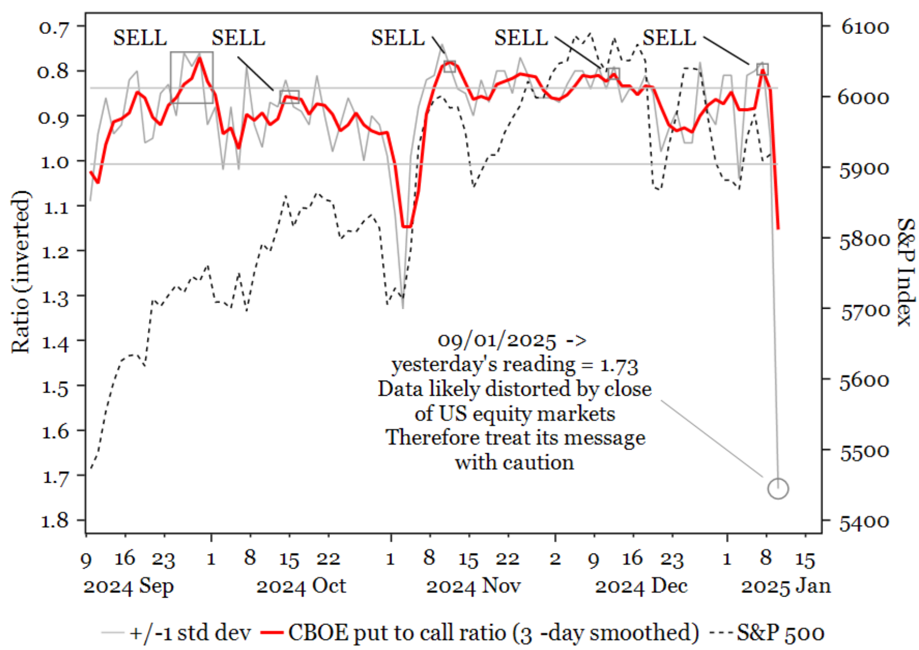
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

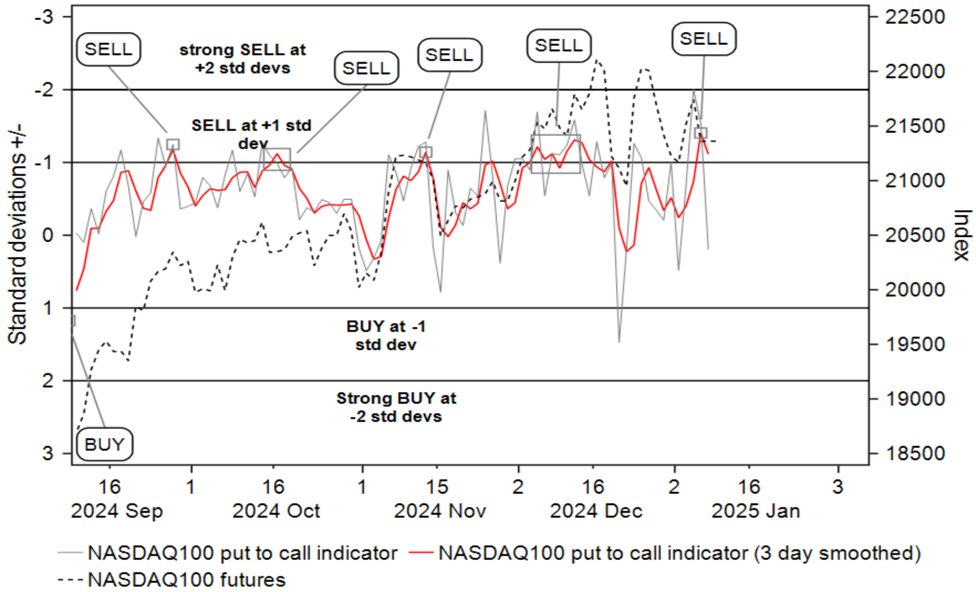
Yesterday's CBOE put to call ratio chart is distorted given yesterday's partial market closure, and therefore a distorted total put to call reading – the real message remains closer to SELL (than BUY)....

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 – **unchanged overnight (given US closed yesterday)**

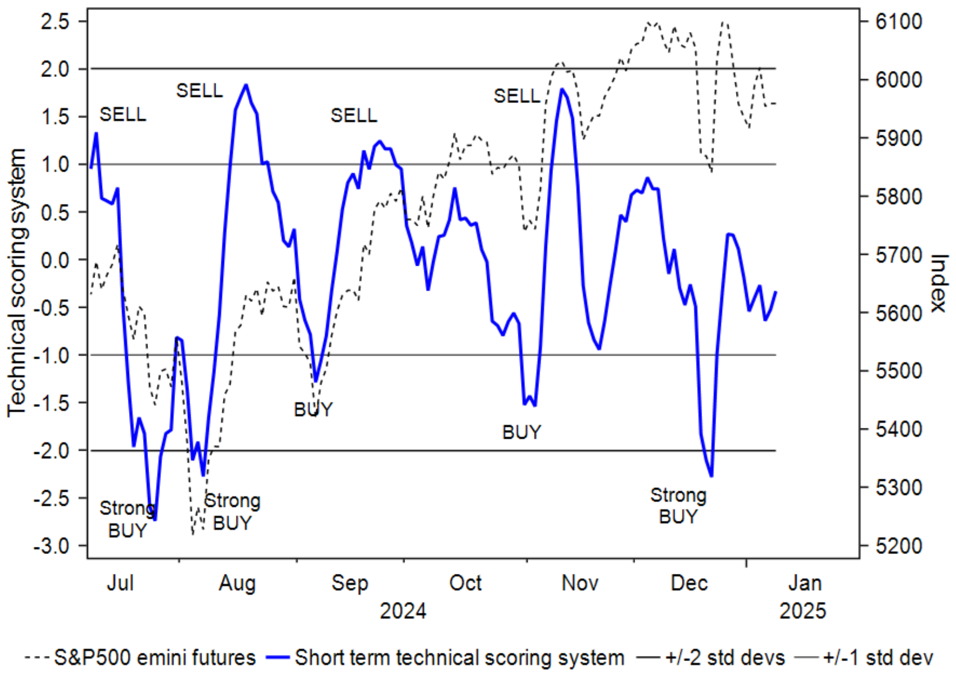


Source: Longview Economics, Macrobond

Technical models (for indices) are leaning towards BUY….

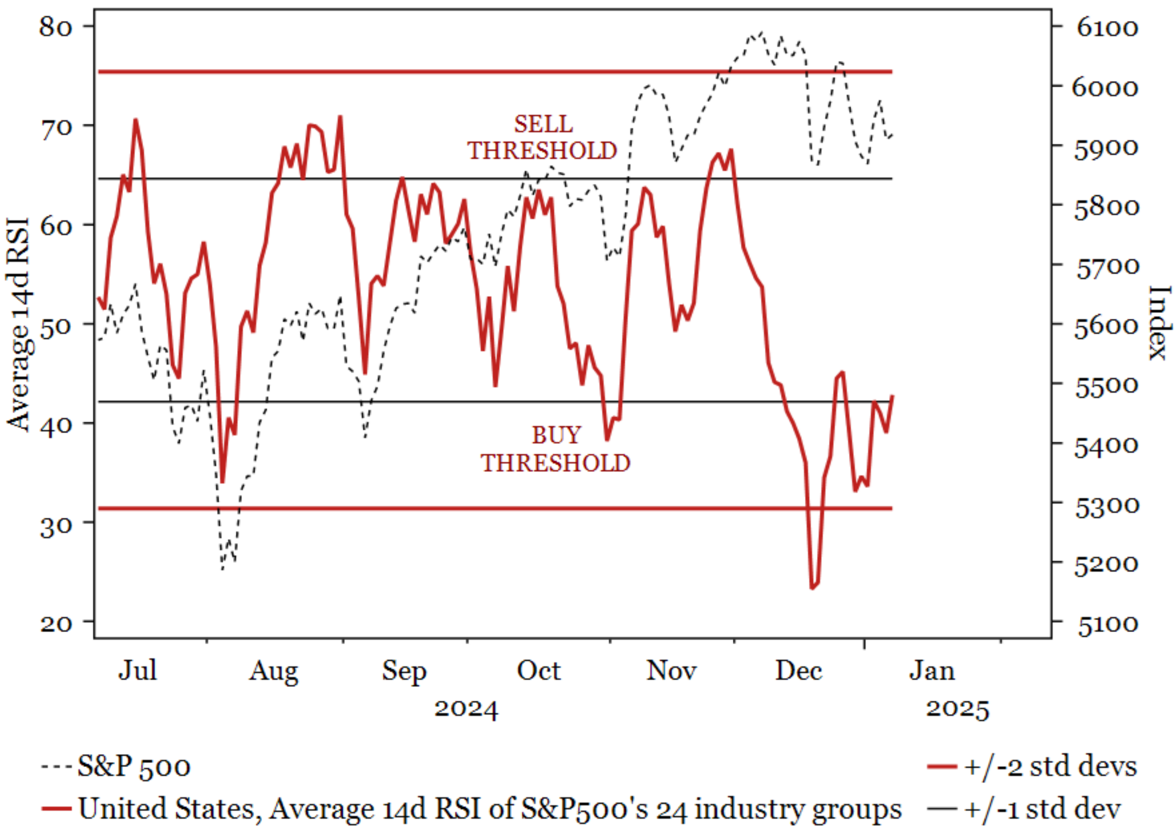
NB these models are unchanged overnight

FIG 4: Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures



Source: Longview Economics, Macrobond

FIG 4a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

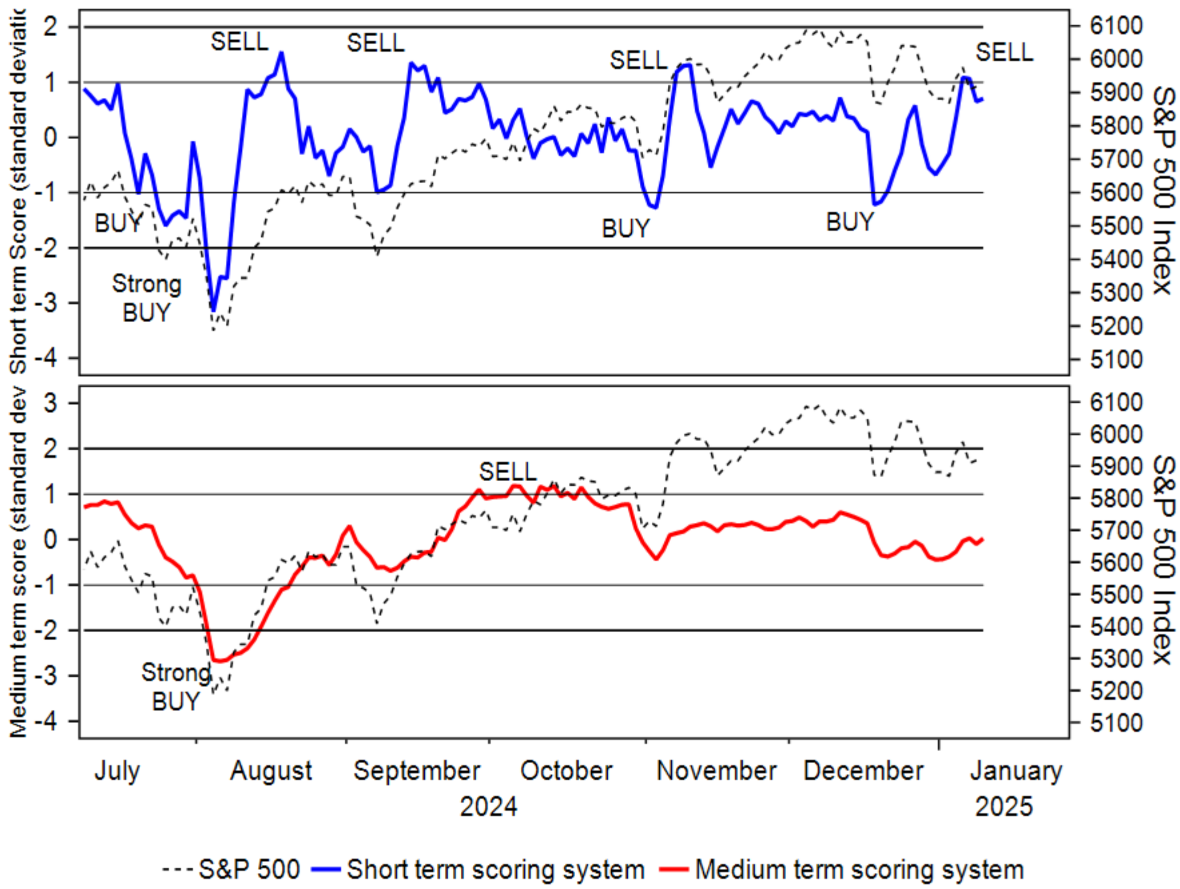


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL earlier this week)
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 household spending (Nov, 12:30am); **Japanese ESRI leading index** (November first estimate, 5am); **Chinese total social financing, new yuan loans, and M0, M1 & M2 money supply** (Dec, time tentative); French consumer spending (Nov, 7:45am); French industrial & manufacturing production (Nov, 7:45am); Spanish industrial production (Nov, 8am); Italian retail sales (Nov, 9am); Canadian employment change (Dec, 1:30pm); **US nonfarm payrolls, hourly earnings & unemployment** (Dec, 1:30pm); Canadian building permits (Nov, 1:30pm); **US Michigan Sentiment** (January first estimate, 3pm).

Key events today include: N/A

Key earnings today include: Constellation Brands, Delta Air Lines.

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 earlier this week, 7th January 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

LVRAG
Daily Risk Appetite Gauge

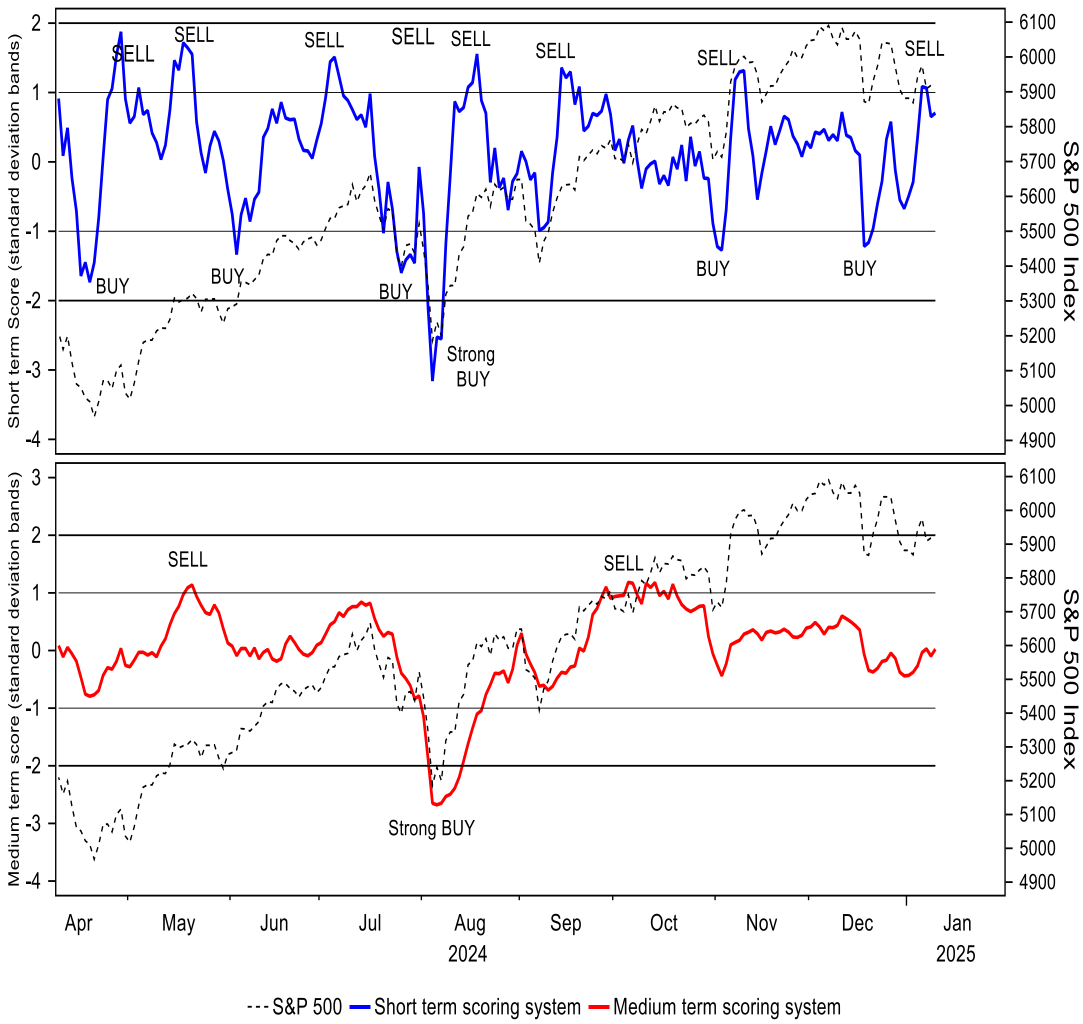
1 – 2 Week View on Risk

10th January 2025

Longview Economics
Email: research@longvieweconomics.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

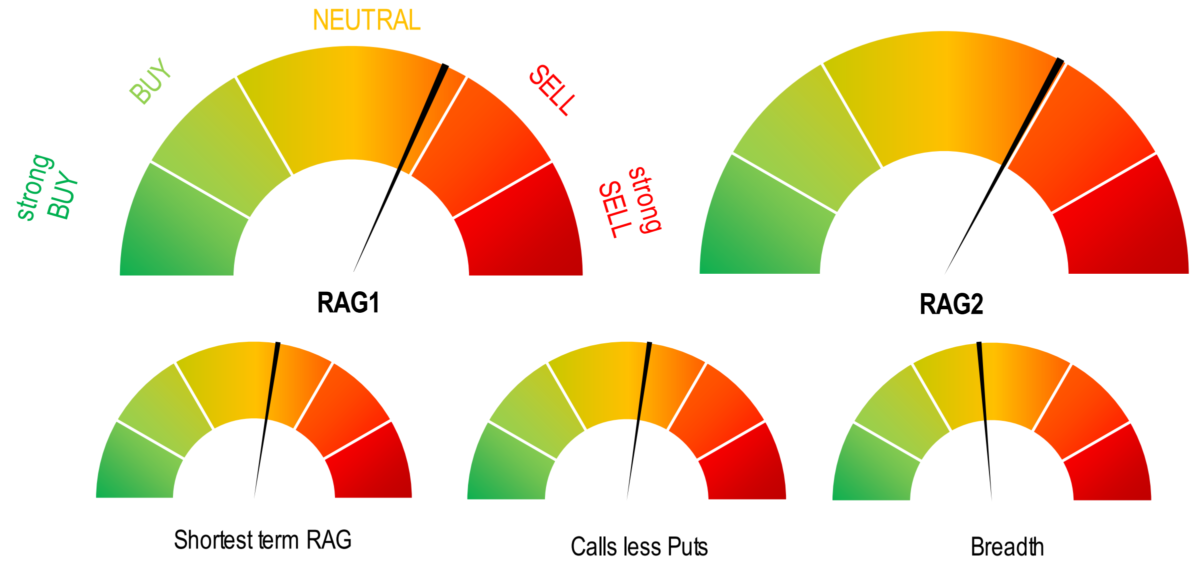
Source: Longview Economics, Macrobond

*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

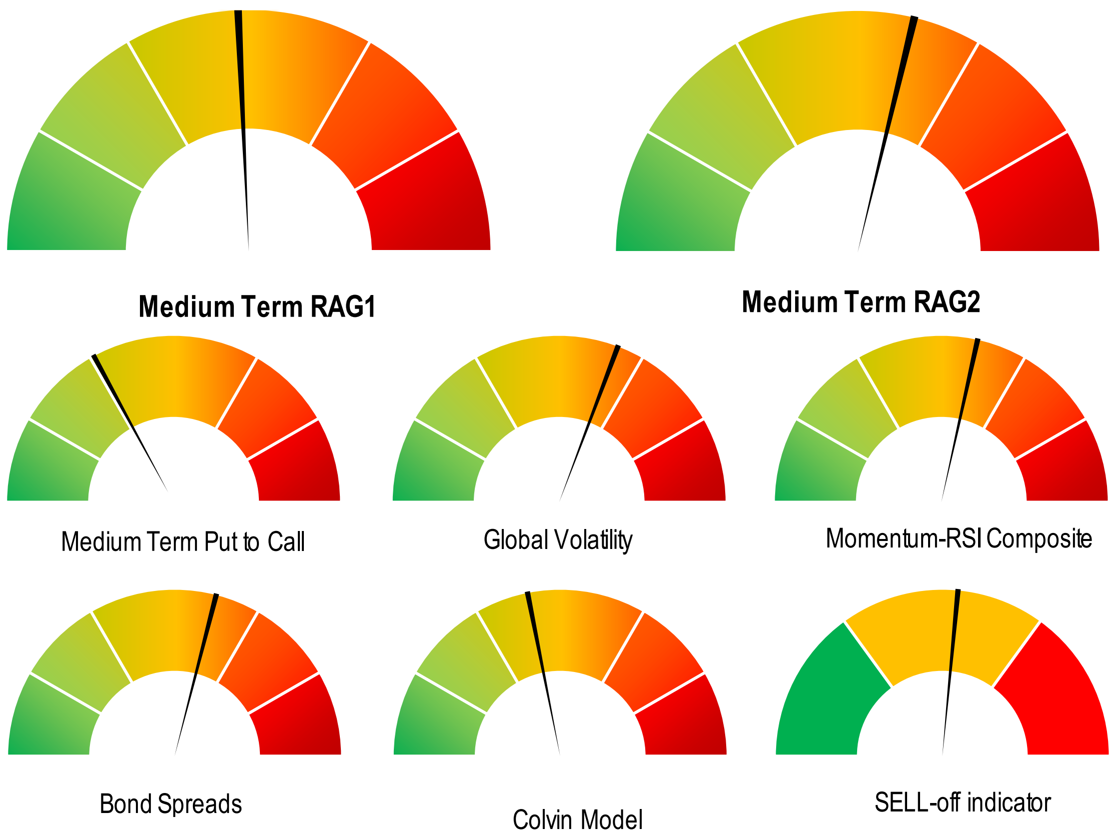
Section 1a: Summary of indicator signals**

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

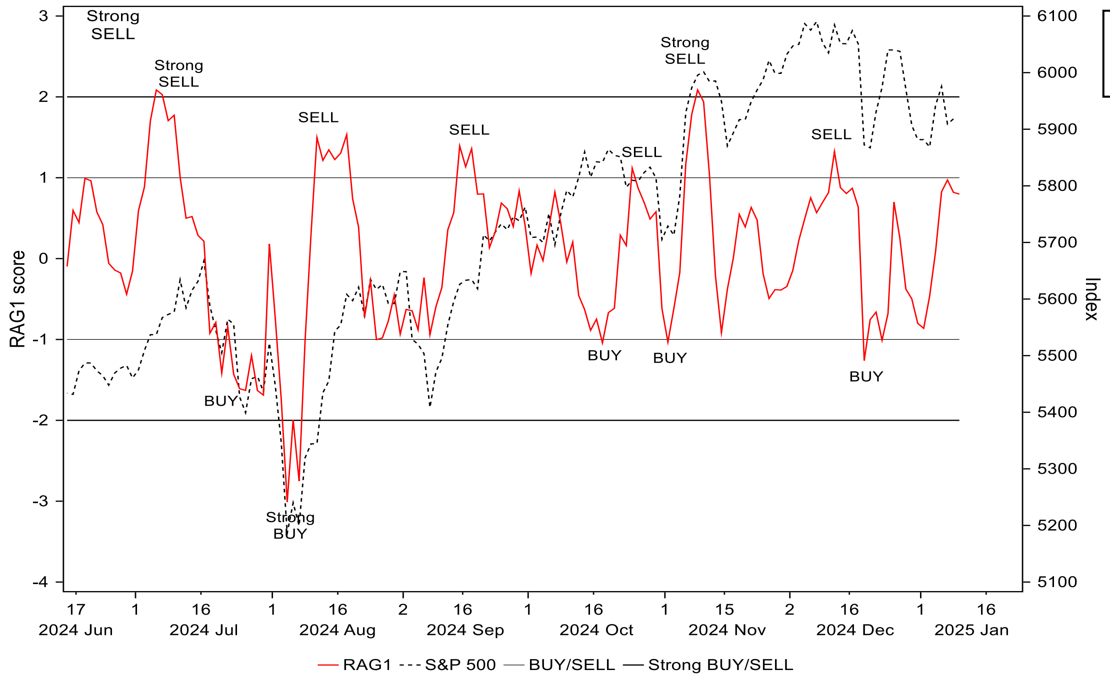


Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

LVRAG
Daily Risk Appetite Gauge

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

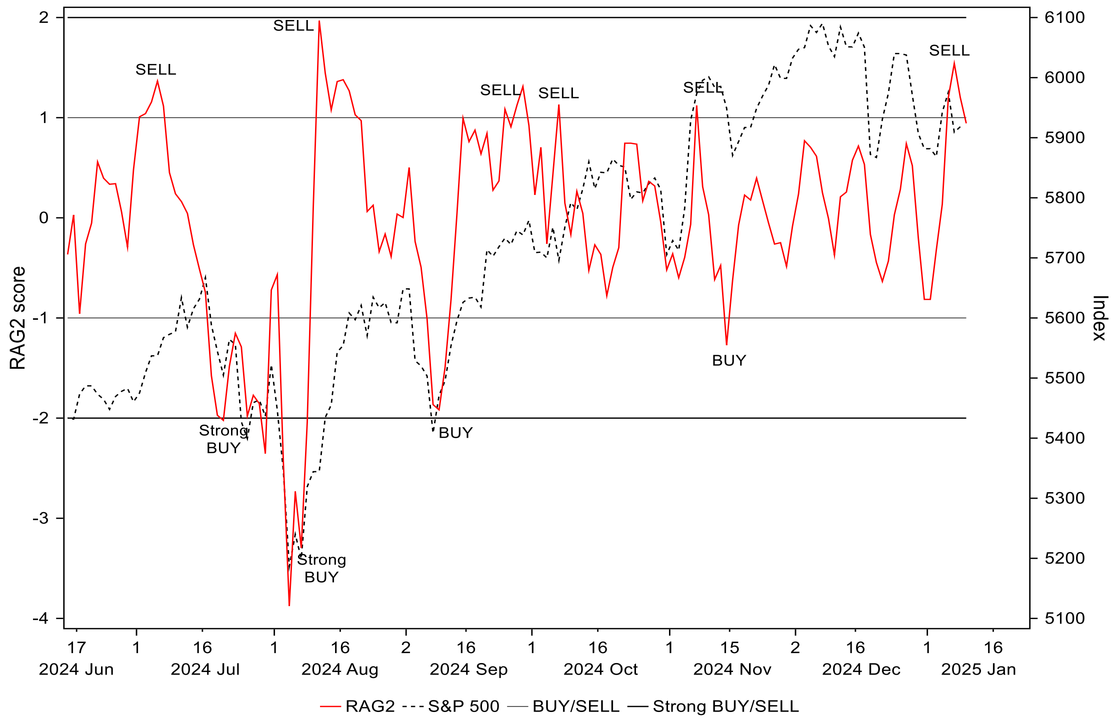
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

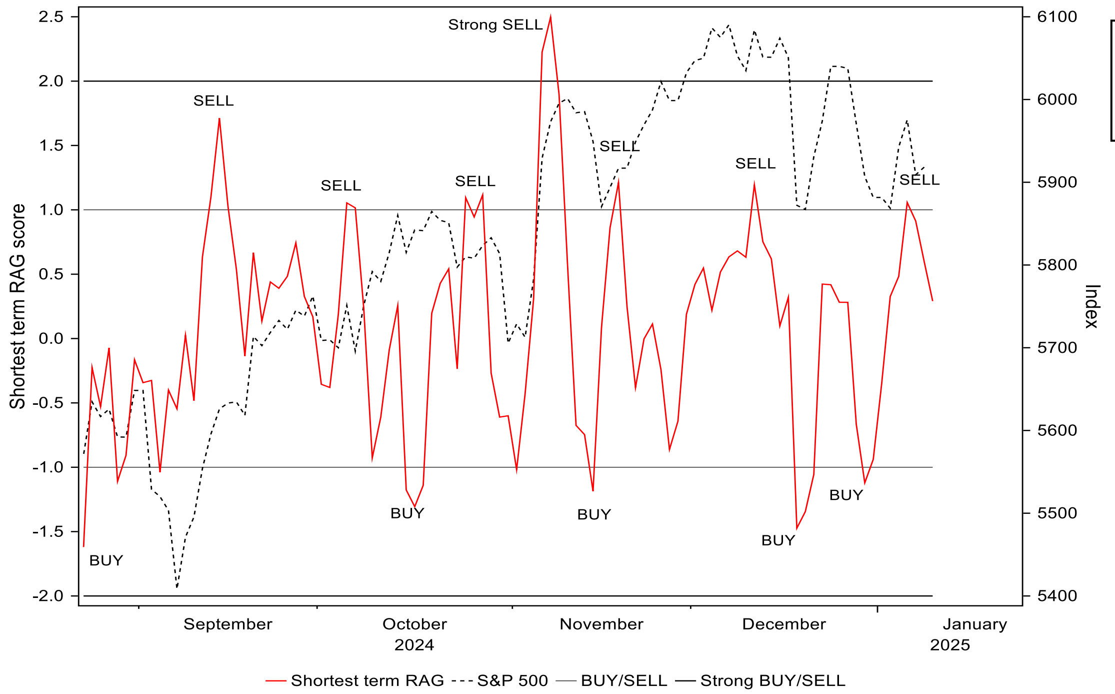


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

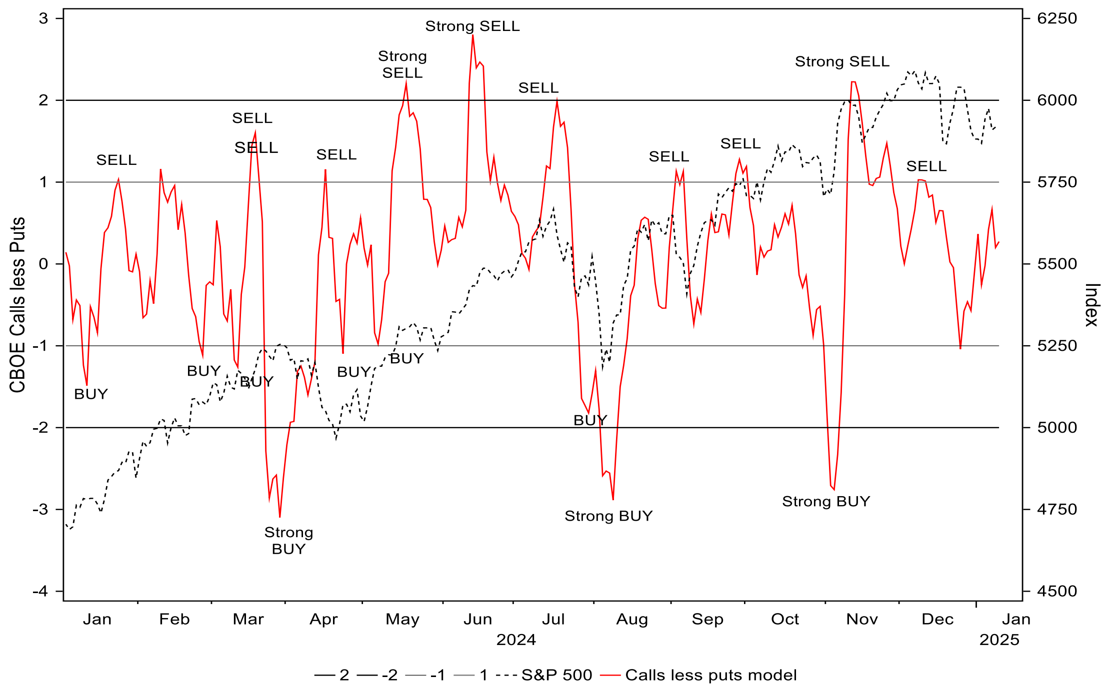
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

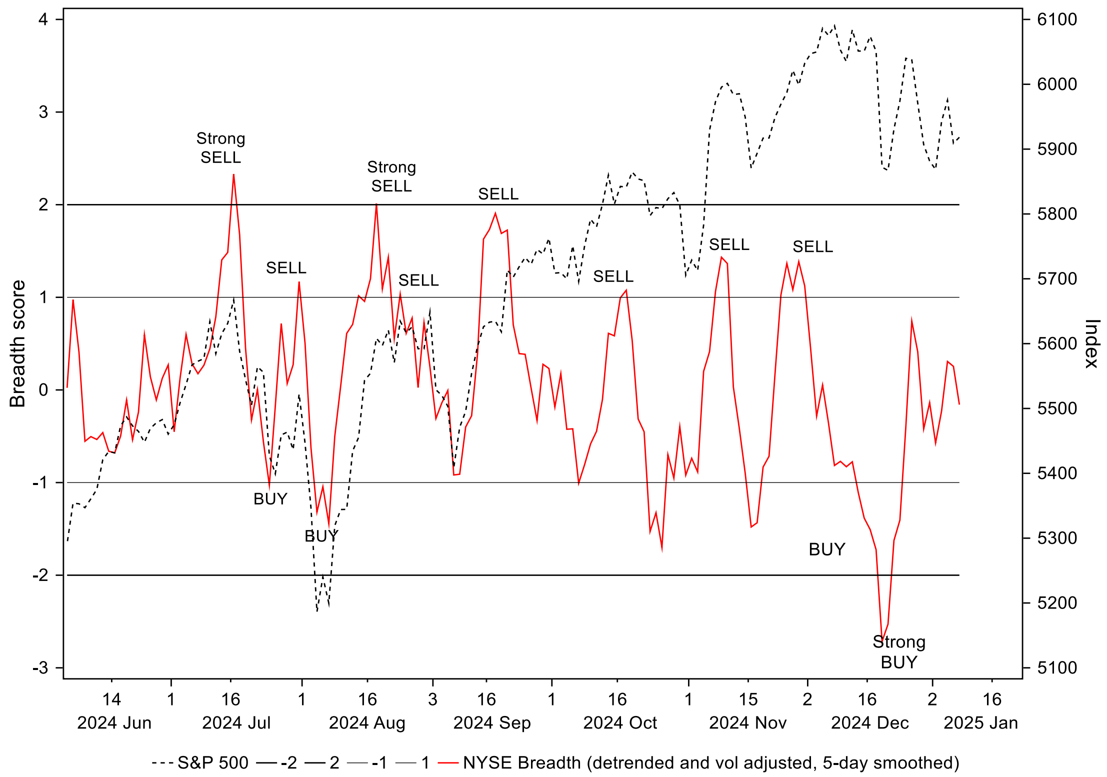


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



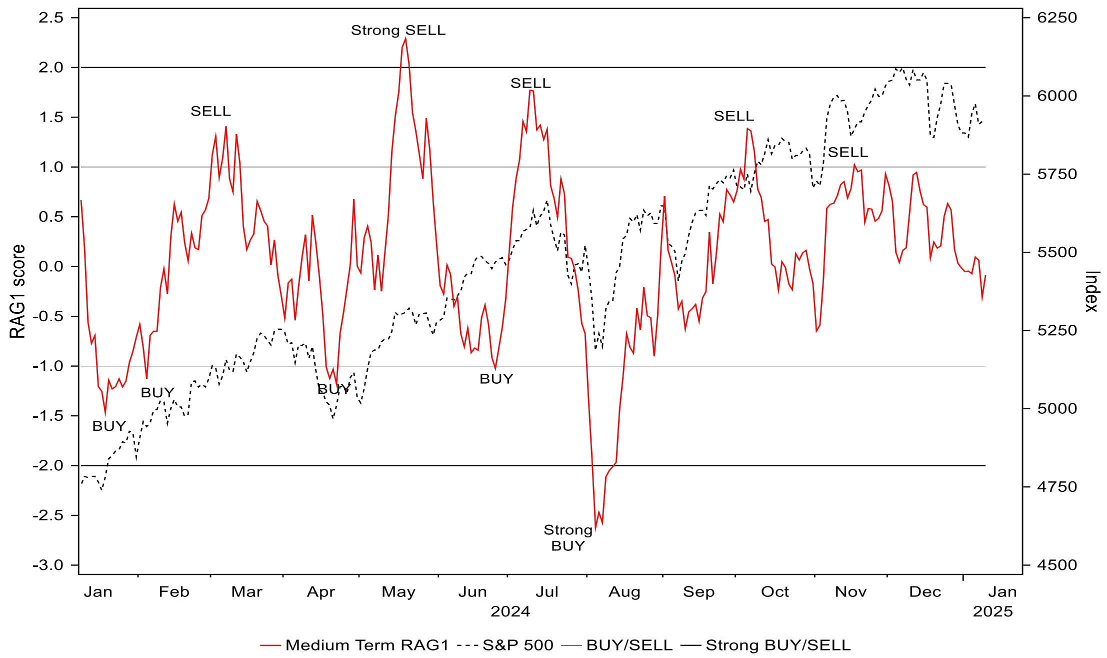
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

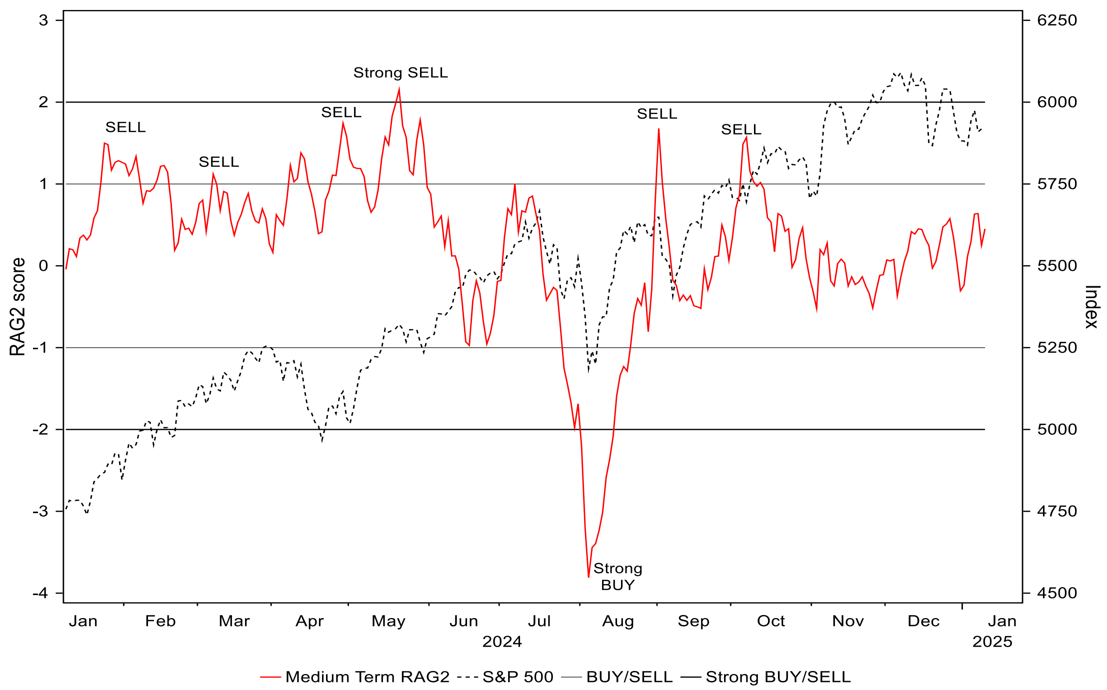
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

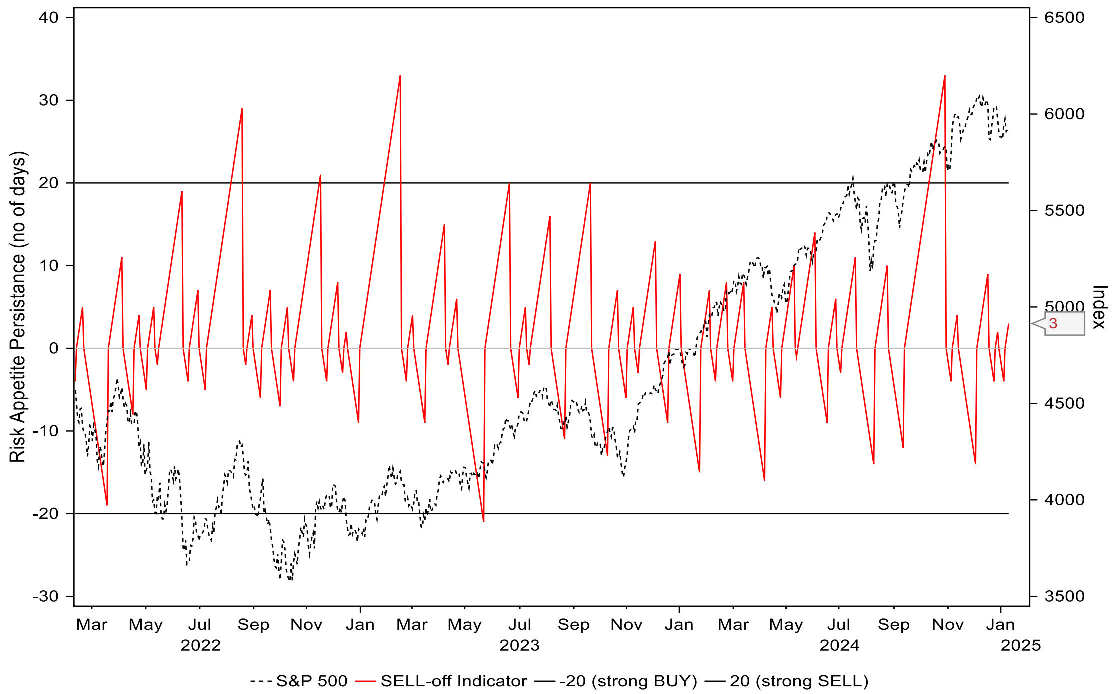


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

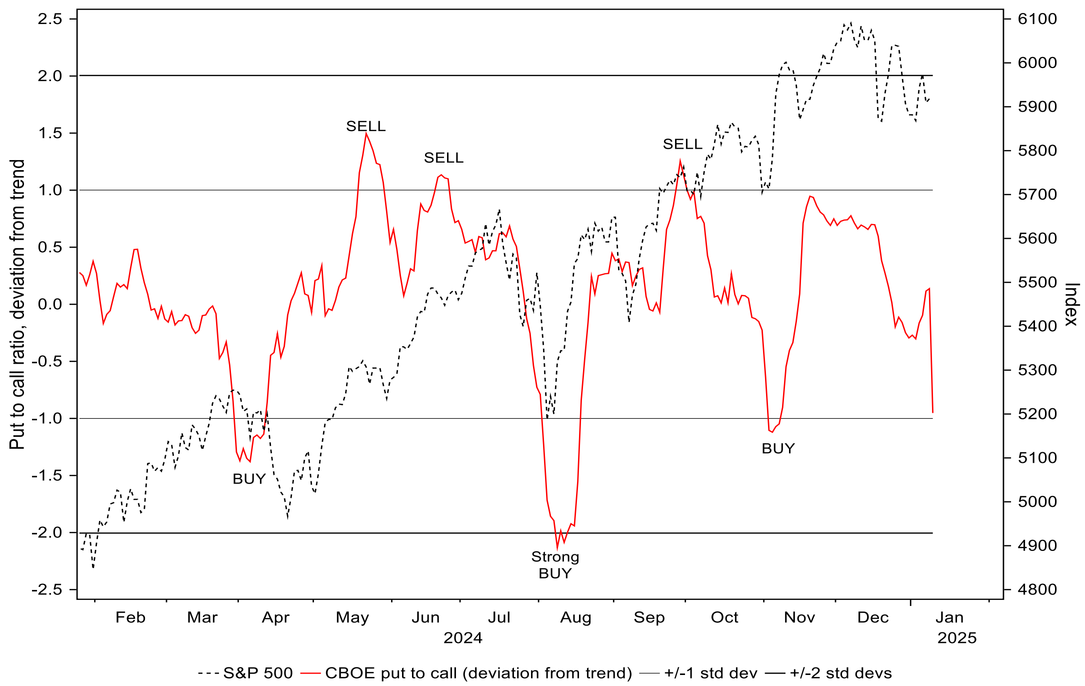
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

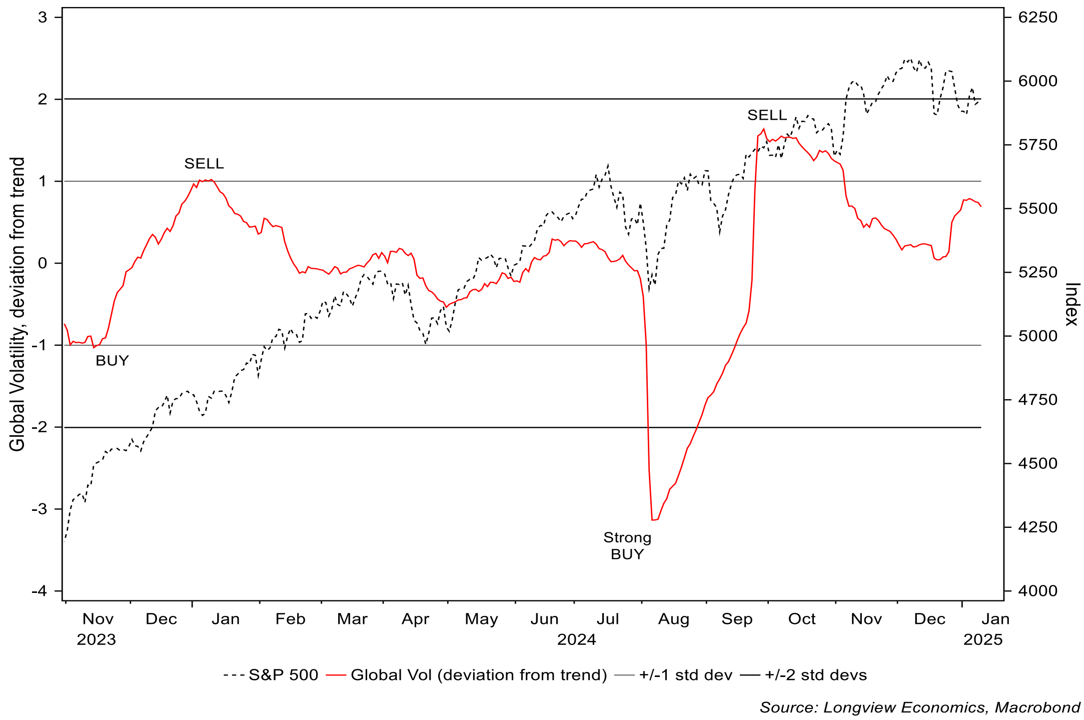


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

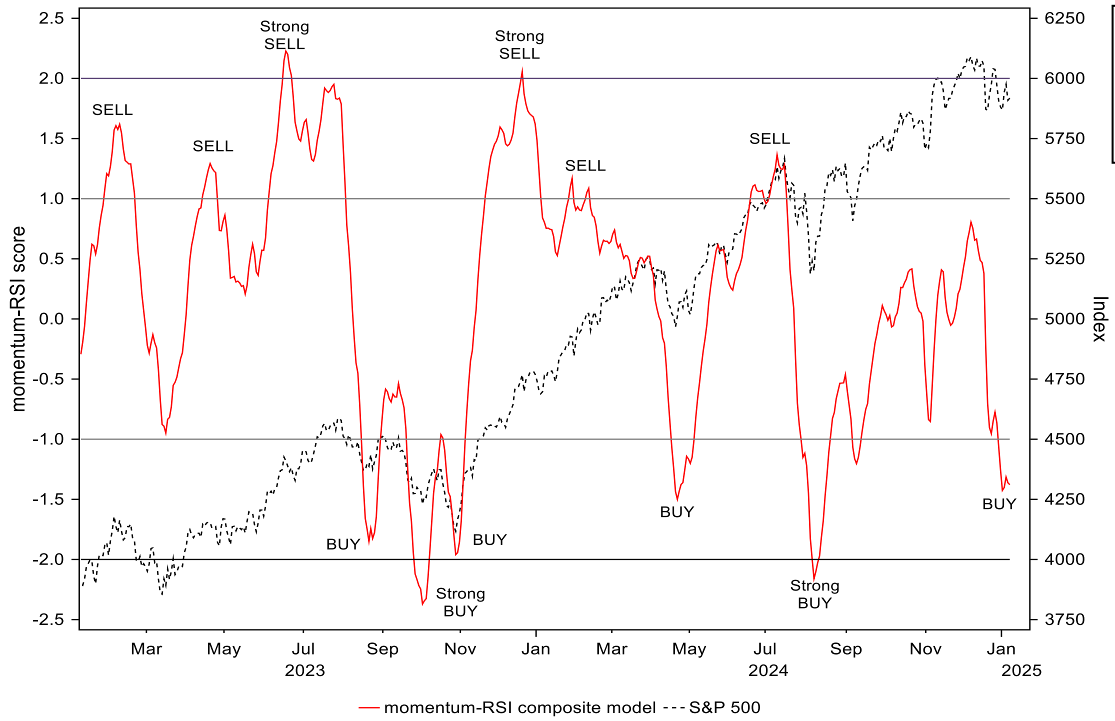
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

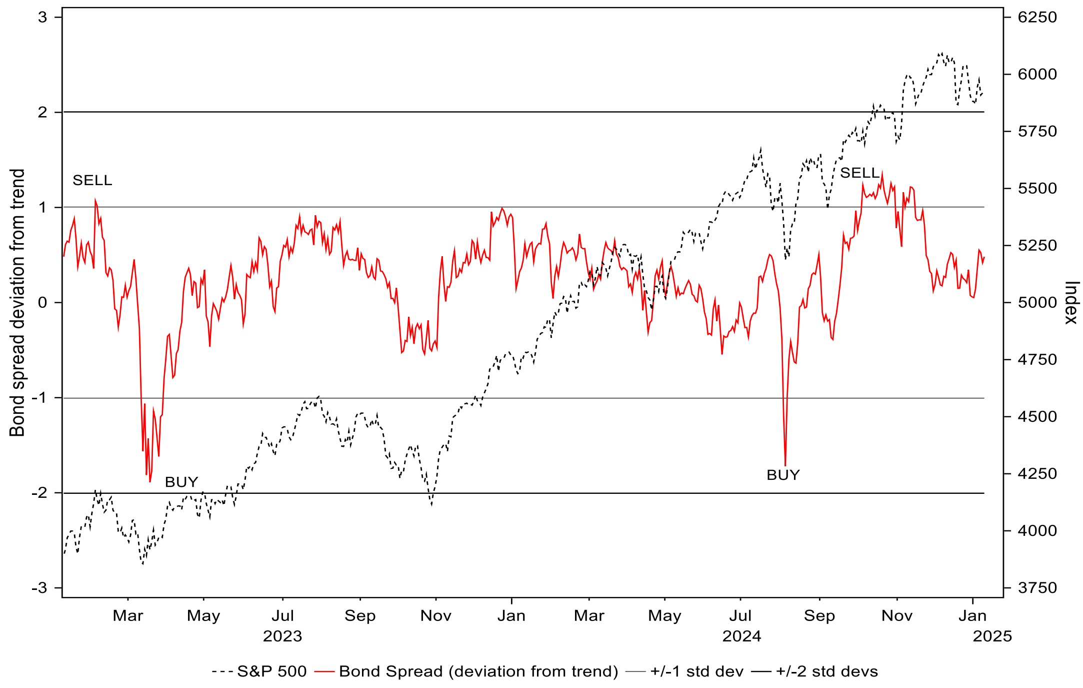
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is on BUY

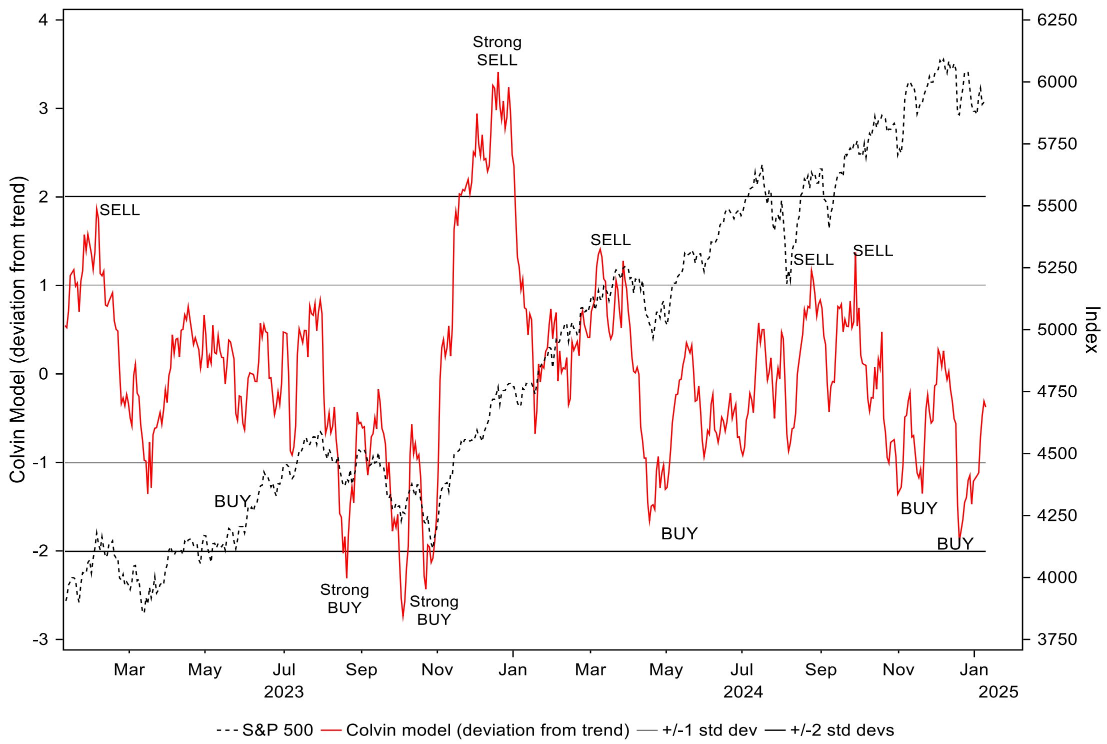
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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