

## Equity Index Futures Trading Recommendations

11<sup>th</sup> December 2024

"Watch & Wait (for now)"

Email: [info@longvieweconomics.com](mailto:info@longvieweconomics.com)

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

- Continue to WATCH & WAIT (for now).

### Rationale

Most US equity markets were weak again yesterday, with 24 of the 28 indices we track closing lower on the session. That was led by tech heavy parts of the market (e.g. the Philly SOX: -2.5%). With that the S&P500 closed down 0.3%; below its 10 day moving average (FIG 1); and back at 'typical levels' for this point in December (i.e. the 8<sup>th</sup> trading day, see FIG 1a).

If equities continue to follow the usual/seasonal pattern, they'll make a low next Monday (the 13<sup>th</sup> trading day), before rallying into year end. Naturally this type of analysis is only a rough guide, and one shouldn't be overly-prescriptive.

Having said that, it's consistent with the **emerging BUY message** from some short term models (which support the case for a near term low/BUYing opportunity in a handful of trading days). The S&P500, for example, is no longer overbought (FIG 2a); some indices are close to oversold levels (e.g. the Russell 2000, FIG 2b); a range of breadth models are starting to generate BUY signals (see FIGs 3 – 3b); and our key indicator, which measures the percent of US stocks with 'upward momentum', is close to BUY (see FIG 2).

The case for re-instating LONG positions in US equities is therefore beginning to build.

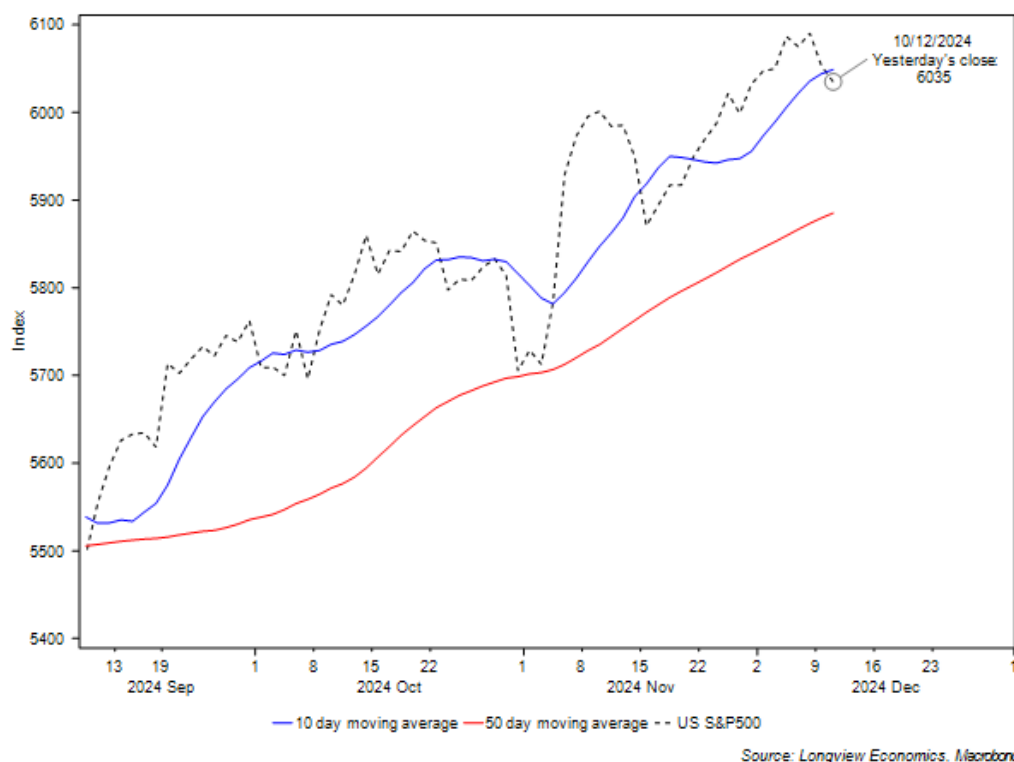
On balance, though, the **risk reward continues to favour WATCHing & WAITing** (for now). In particular (i) downside put protection in portfolios is low (FIGs 4 – 4b); and (ii) our risk appetite models are neutral (FIGs 5 & 5a). Elsewhere, two way risks are multiple and include today's CPI report for November (1.30pm London time), as well as next Wednesday Fed policy decision & press conference. Both events have the potential to generate a bout of stronger volatility (and, with that, a spike in volumes/near term panic). Of interest, in that respect, recent trading volumes in S&P500 futures, have started to edge higher, but remain low for this time of year (FIG 1b).

Please see below for a full list of today's key macro data & events.

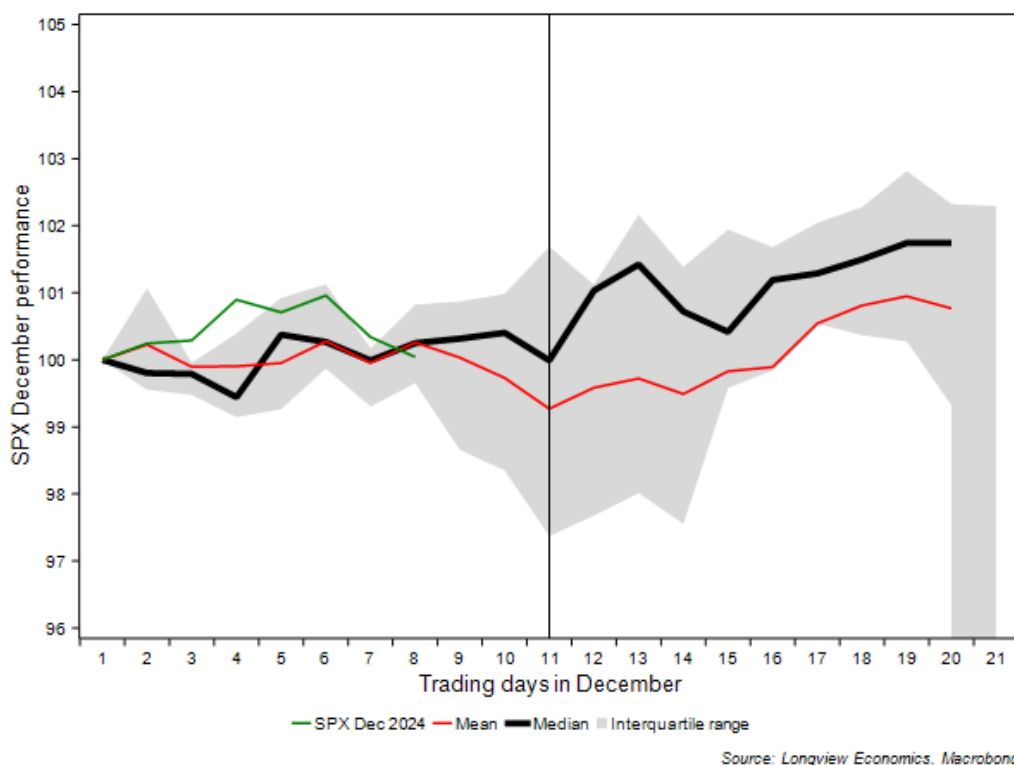
Kind regards,

The team @ Longview Economics

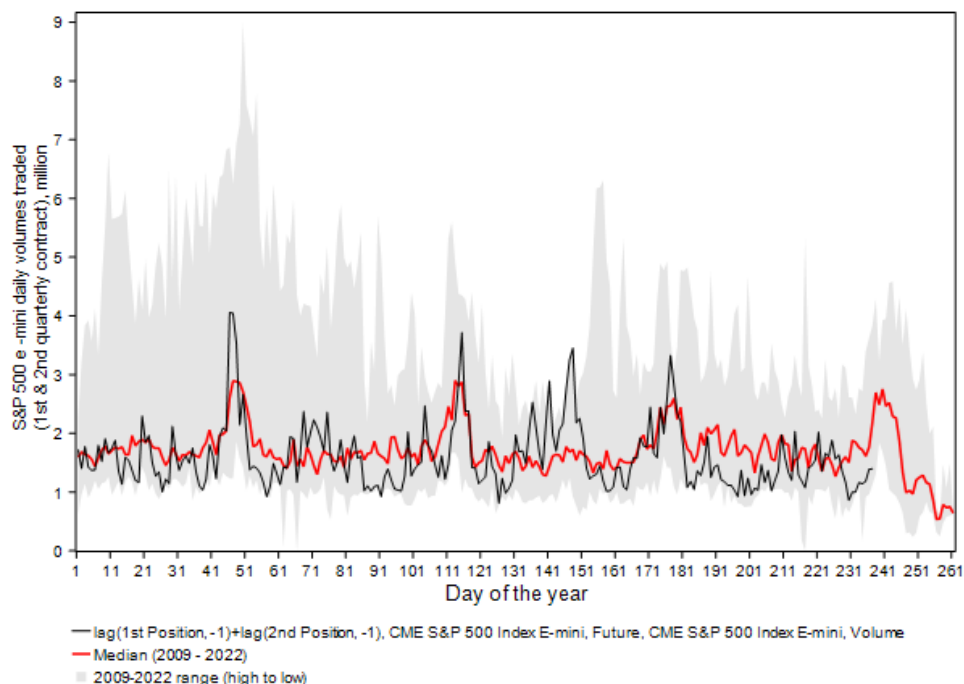
**FIG 1: S&P500 futures shown with 10 & 50 day moving averages**



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



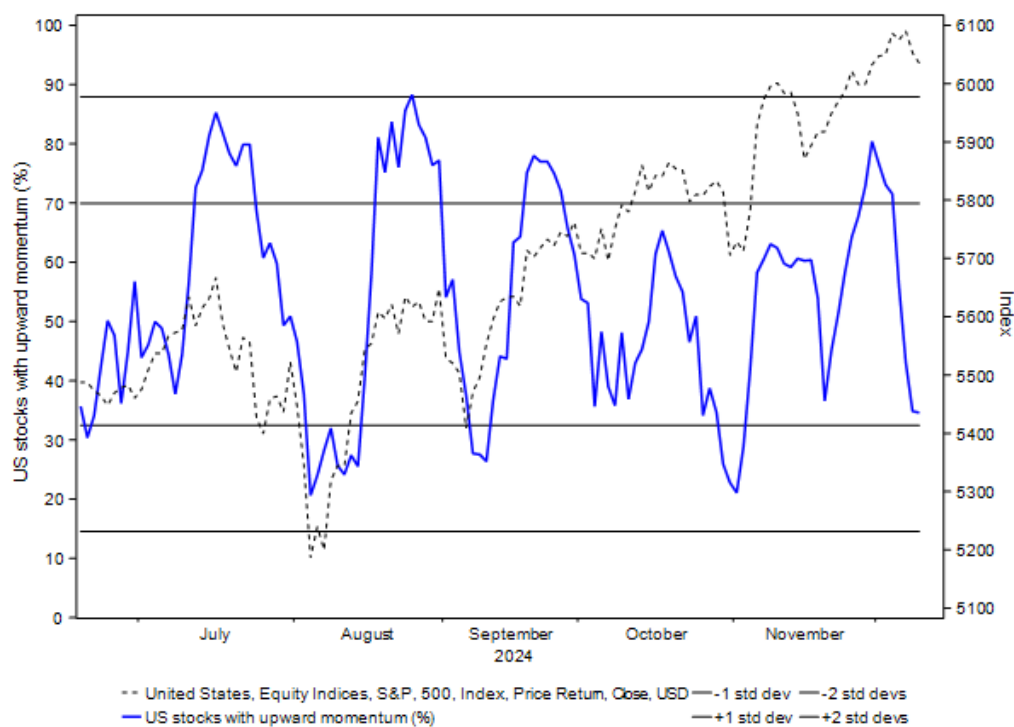
**FIG 1b: S&P500 e-mini volumes (1<sup>st</sup> & 2<sup>nd</sup> quarterly contracts), shown with seasonal averages**



Source: Longview Economics, Macrobond

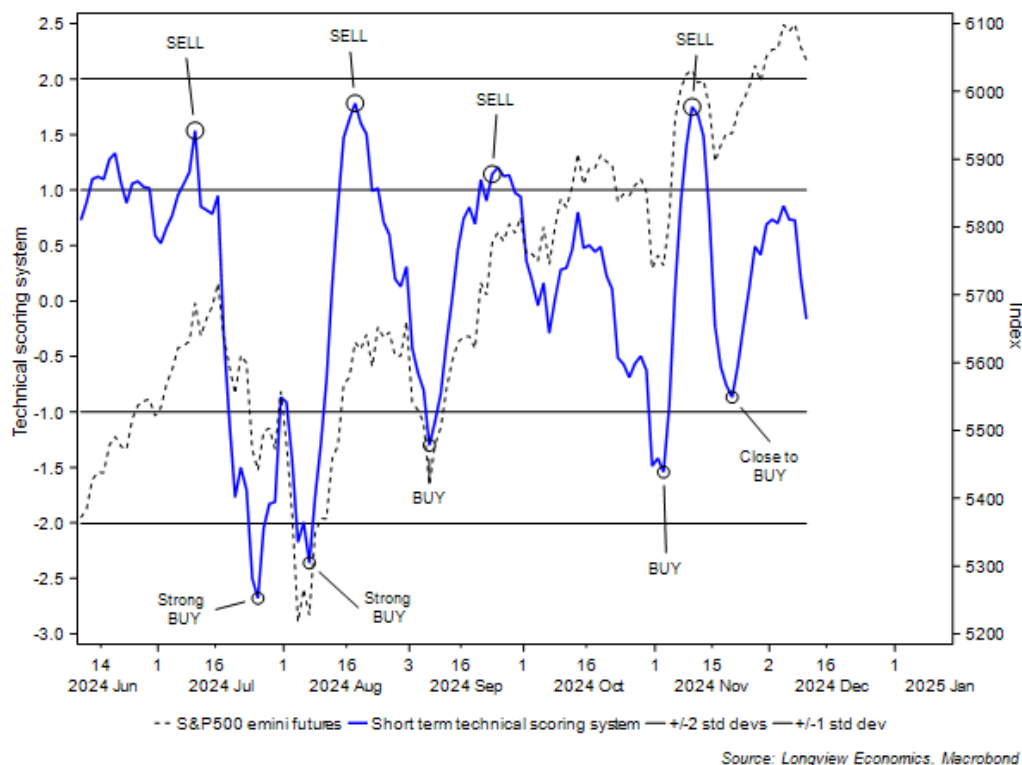
**Technical models are starting to move back towards BUY...**

**FIG 2: US S&P500 stocks with upward momentum shown vs. S&P500**

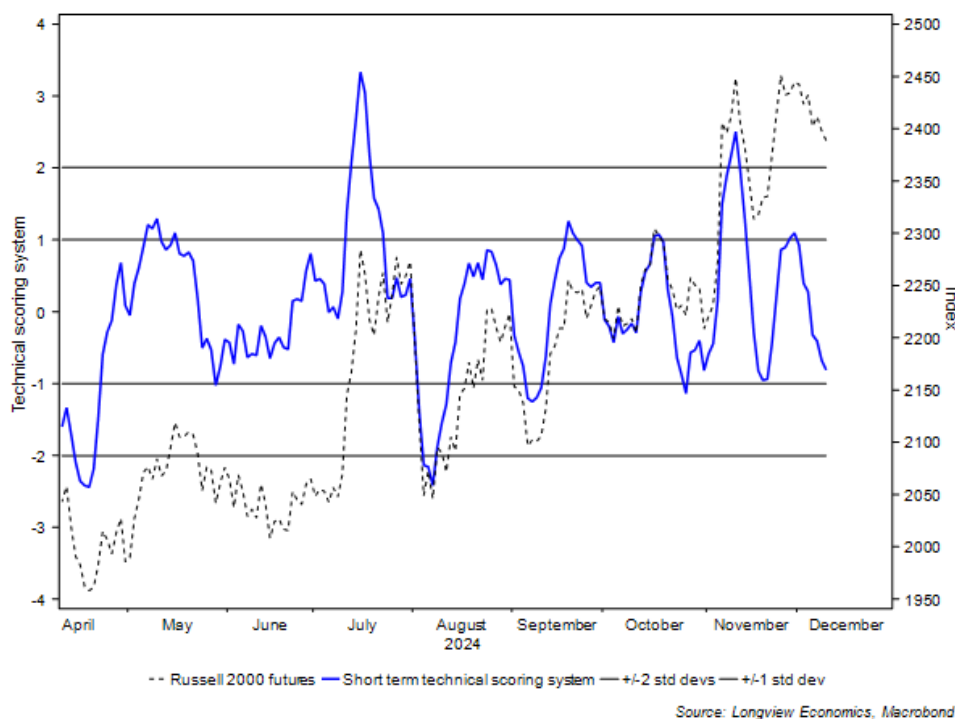


Source: Longview Economics, Macrobond

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

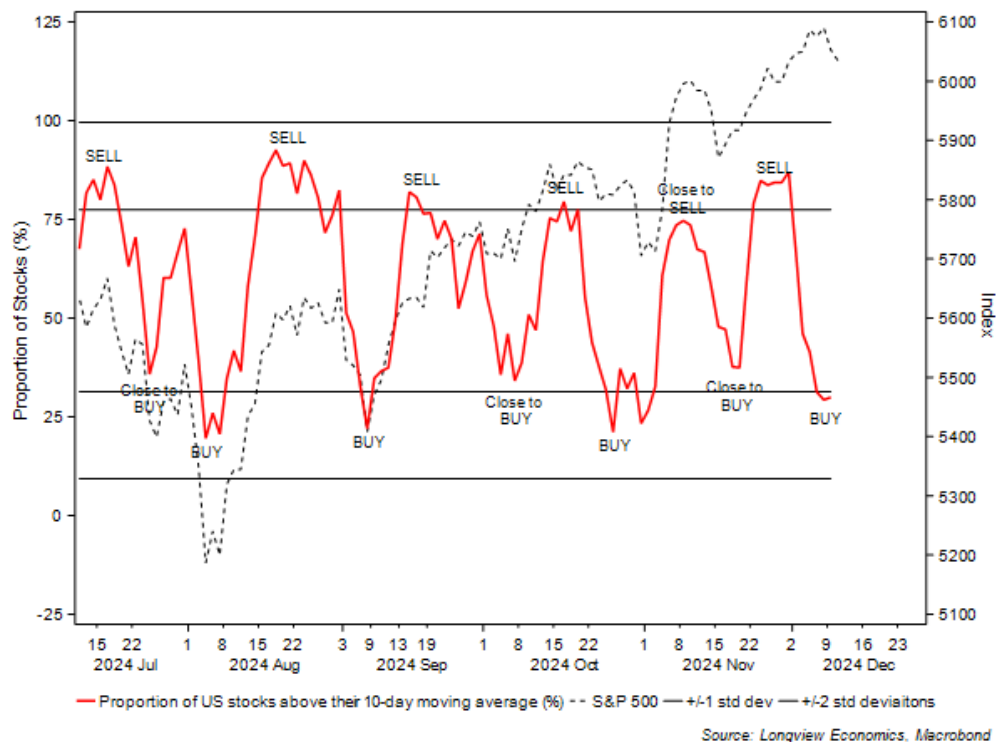


**FIG 2b:** Longview Russell 2000 short term **‘technical’** scoring system vs. Russell 2000

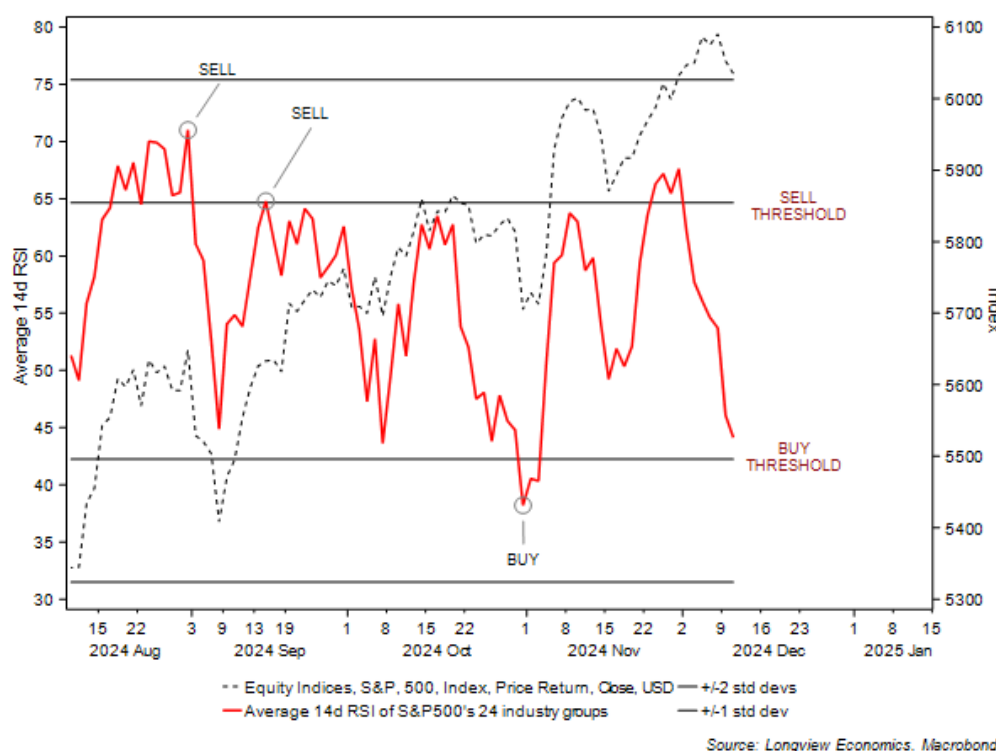


## Breadth models are starting to generate BUY signals....

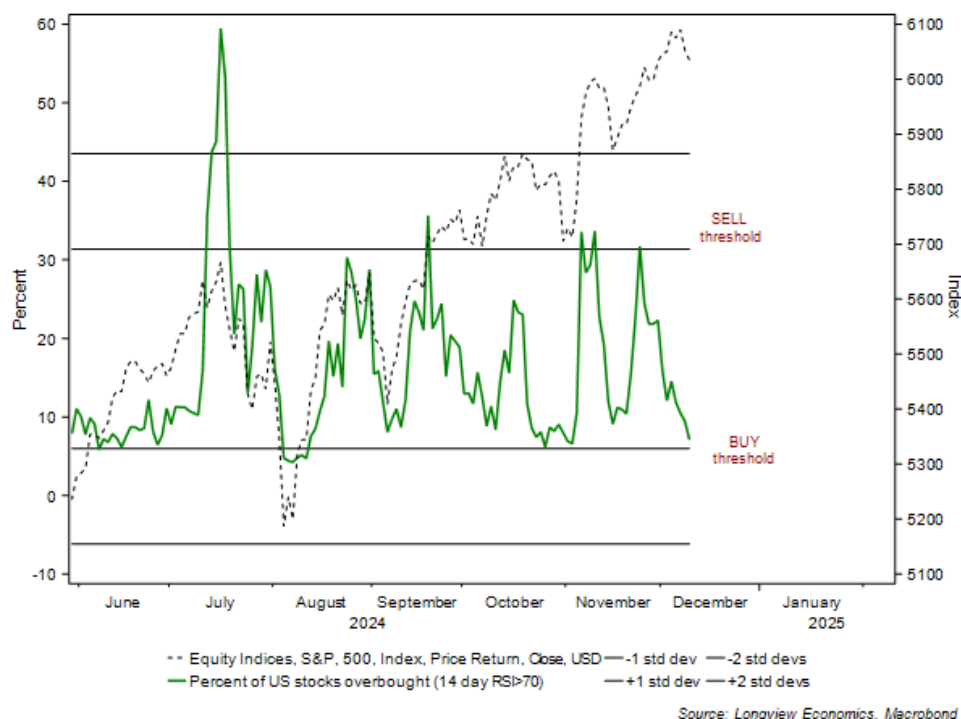
**FIG 3:** Proportion of US stocks above their 10 day moving average vs. S&P500



**FIG 3a:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

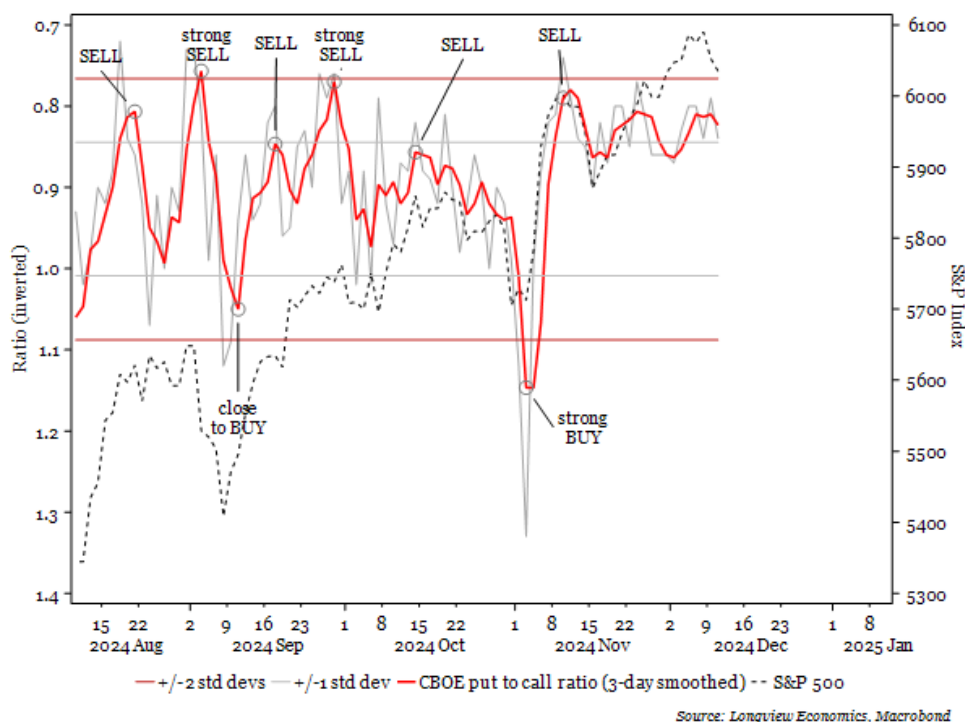


**FIG 3b:** Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500

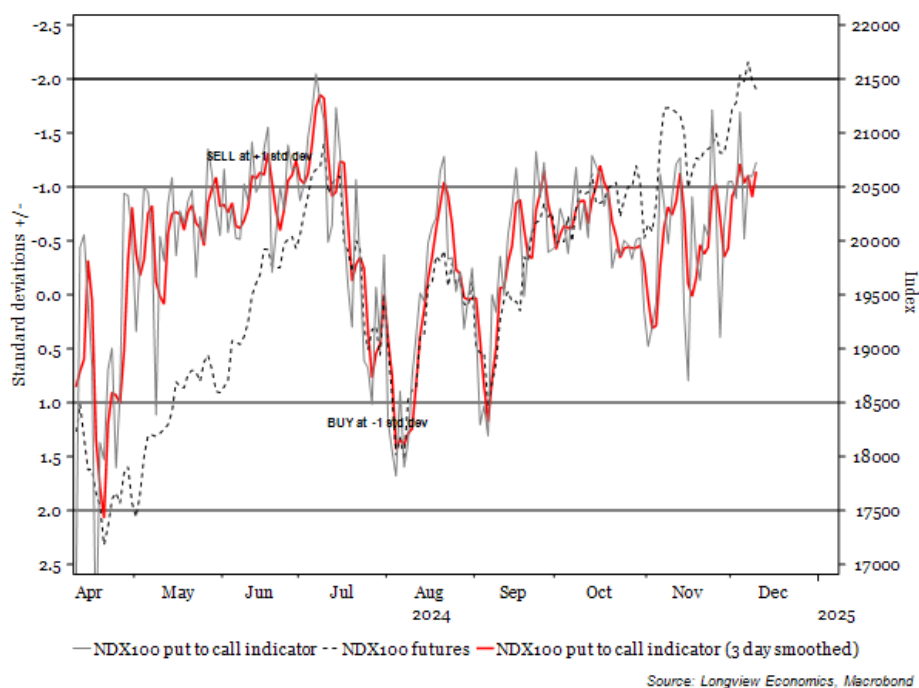


**Downside put protection in portfolios remains low...**

**FIG 4:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

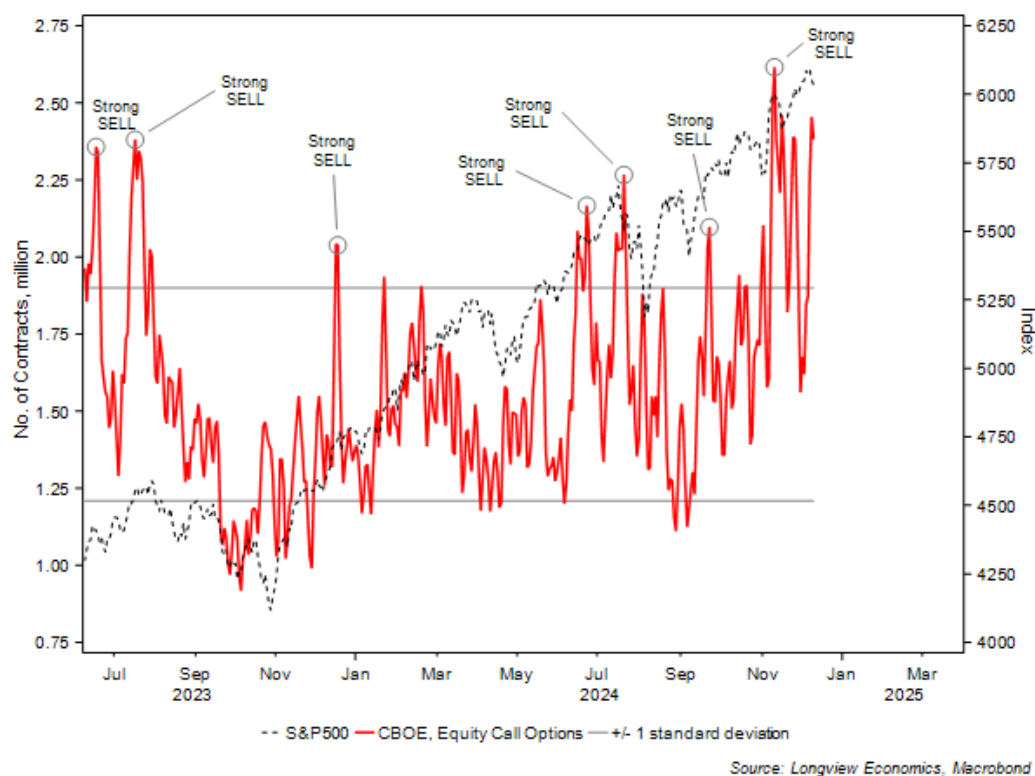


**FIG 4a:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



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

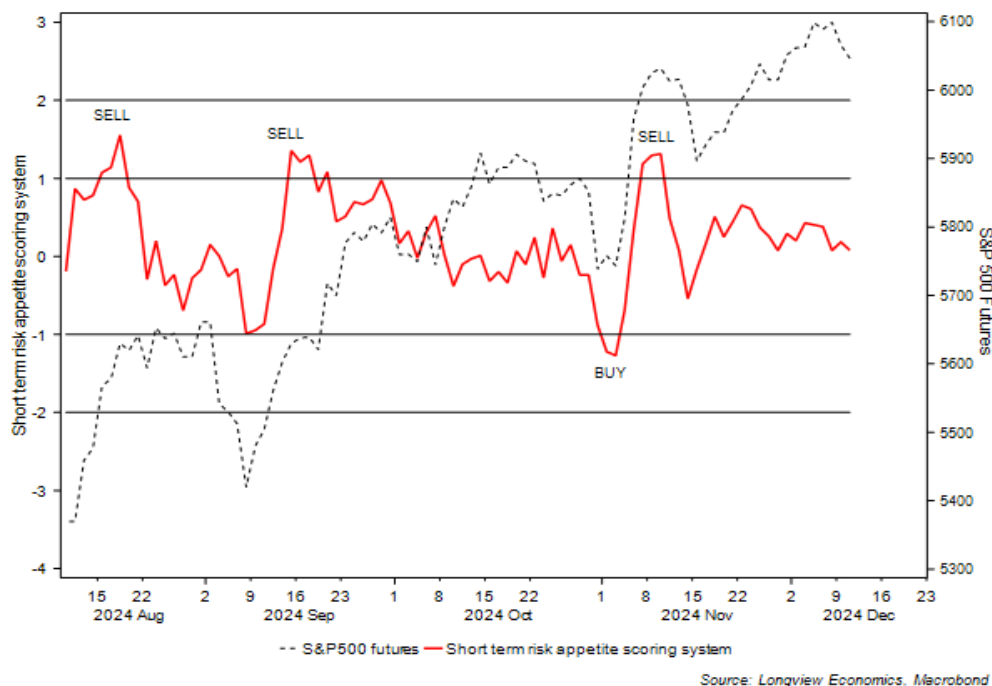
**FIG 4b:** Volume of outstanding CBOE 'single stock' call options (3 day smoothed) vs. S&P500



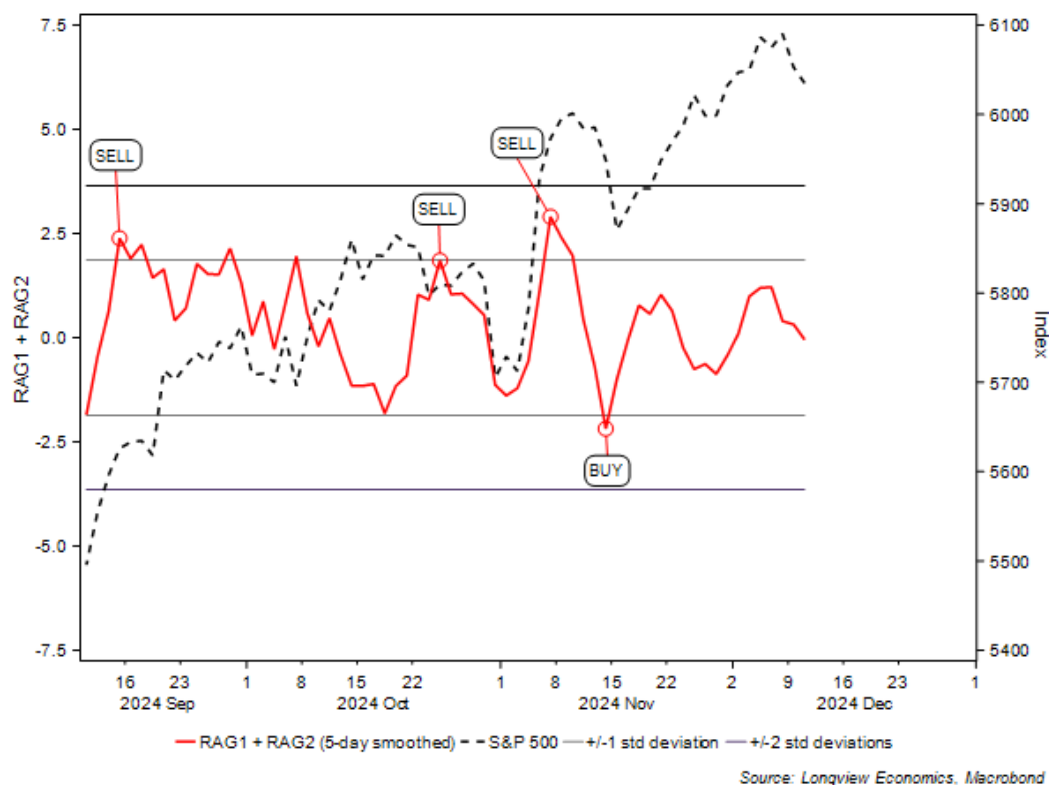


## Risk appetite models are NEUTRAL...

**FIG 5:** Longview short term 'risk appetite' scoring system vs. S&P500



**FIG 5a:** Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



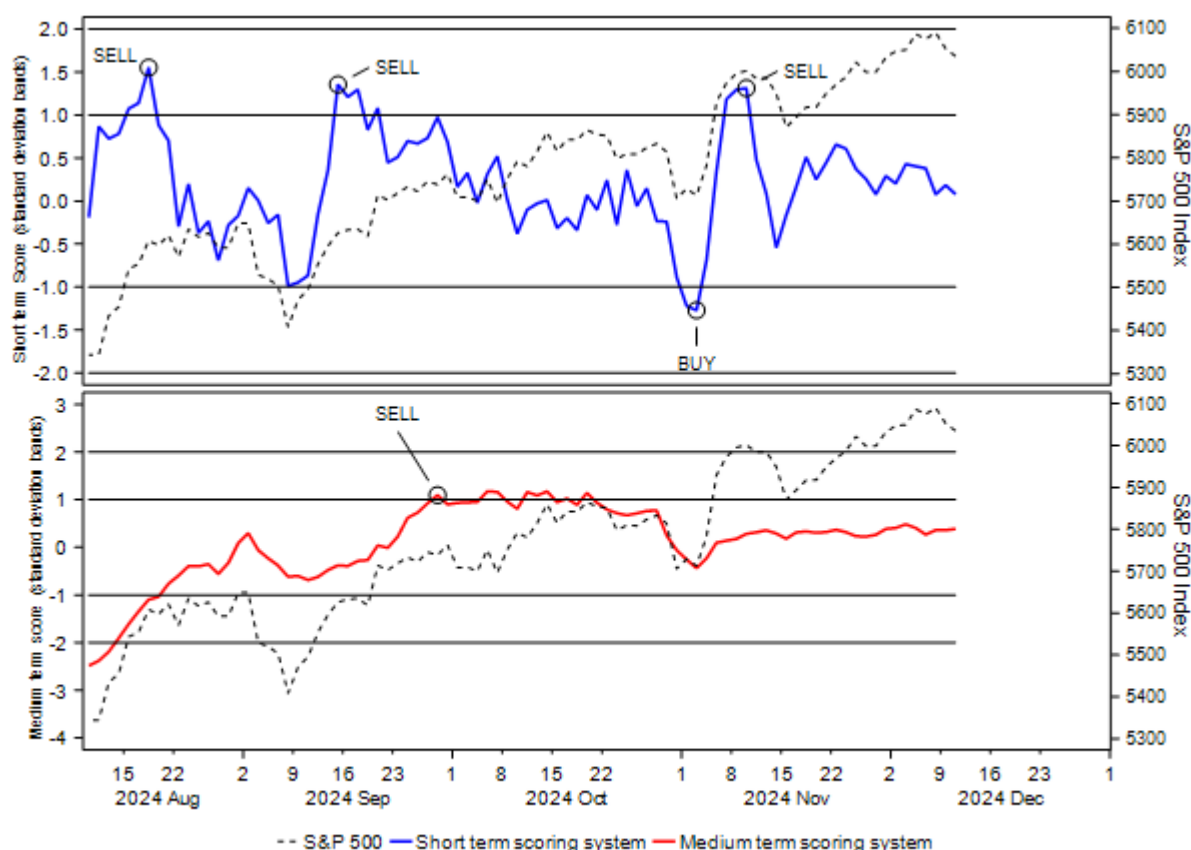


## Key Longview Scoring Systems (chart below):

**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: **US headline & core CPI** (Nov, 1:30pm); US monthly budget balance (Nov, 7pm).

**Key events** today include: Speeches by the RBA's Hauser at the ABE Annual Dinner (7am) & Jones at the AusPayNet Summit 2024 (10:15pm); China Economic Work Conference (CEWC – Wednesday & Thursday) – fiscal stimulus announcement expected; **Bank of Canada policy decision** (Wed, 2:45pm).

**Key earnings** today include: **Adobe**, Lennar, Inditex.

## 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 5<sup>th</sup> December 2024. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).



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## 1 – 2 Week View on Risk

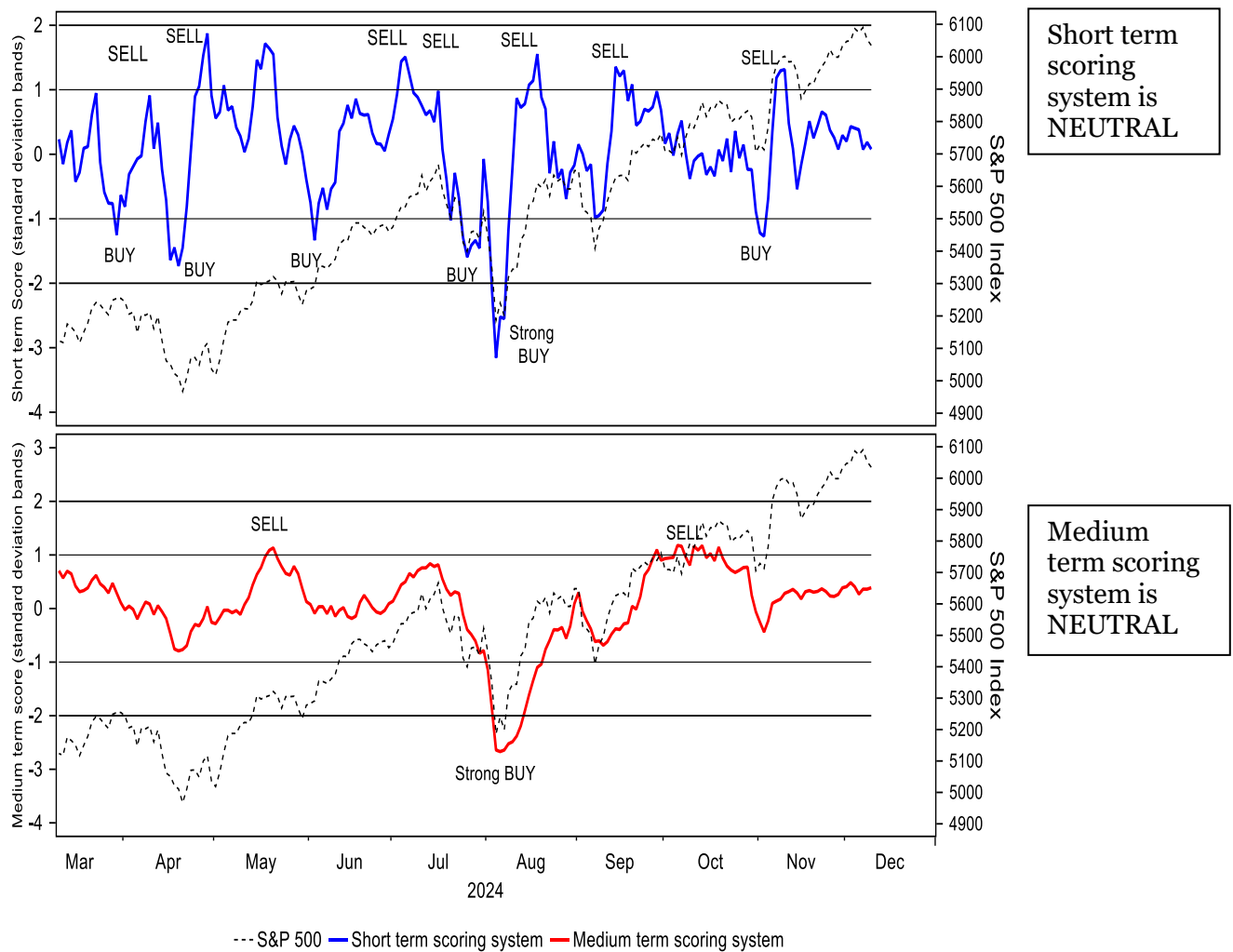
Longview Economics

Email: ragtrader@dailyragtrader.com

11<sup>th</sup> December 2024

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

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



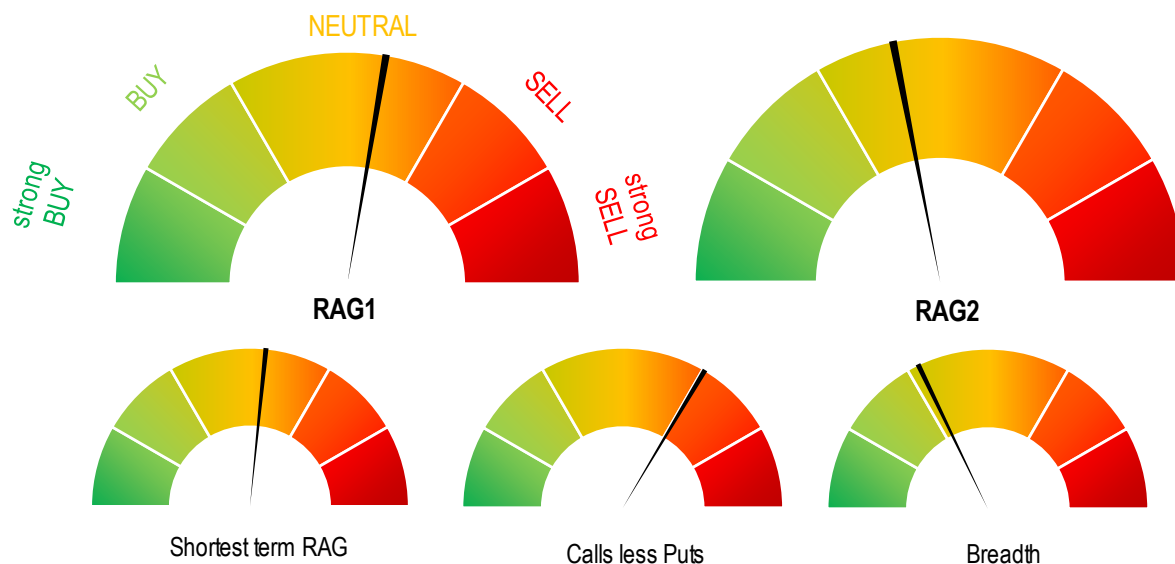
Source: Longview Economics, Macrobond

\*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**

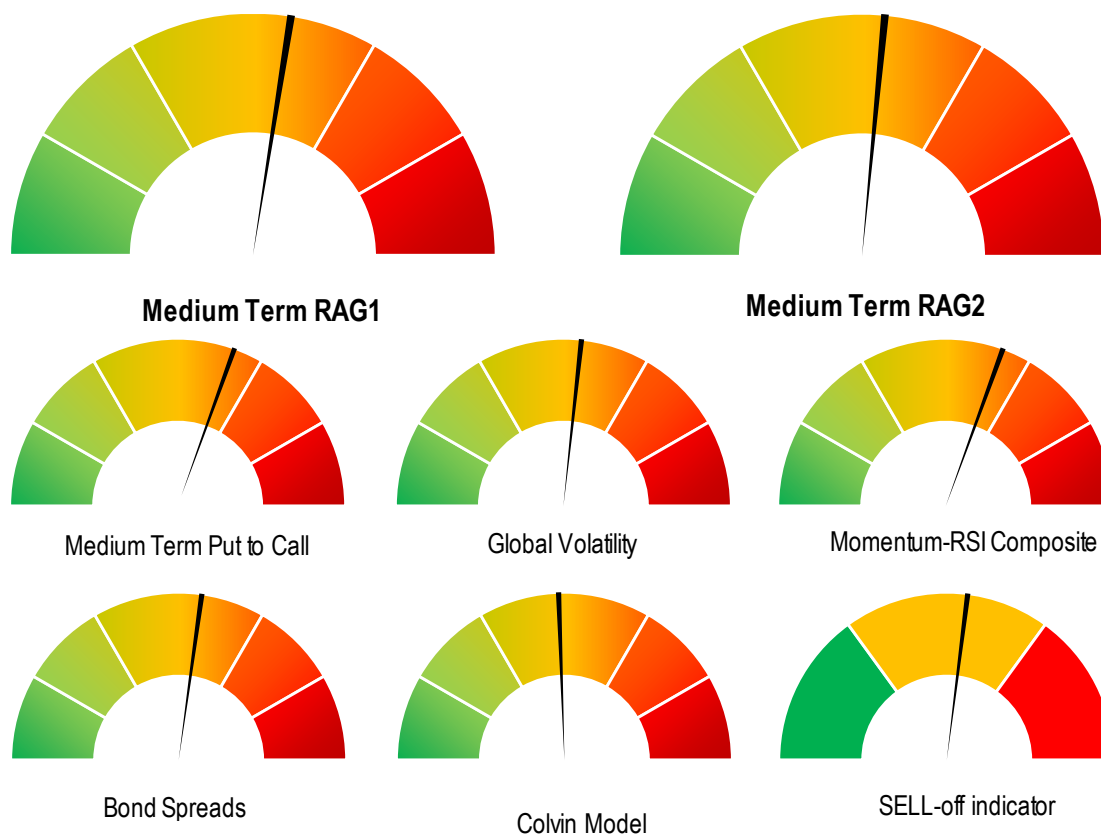
## Section 1a: Summary of indicator signals\*\*

**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

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

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

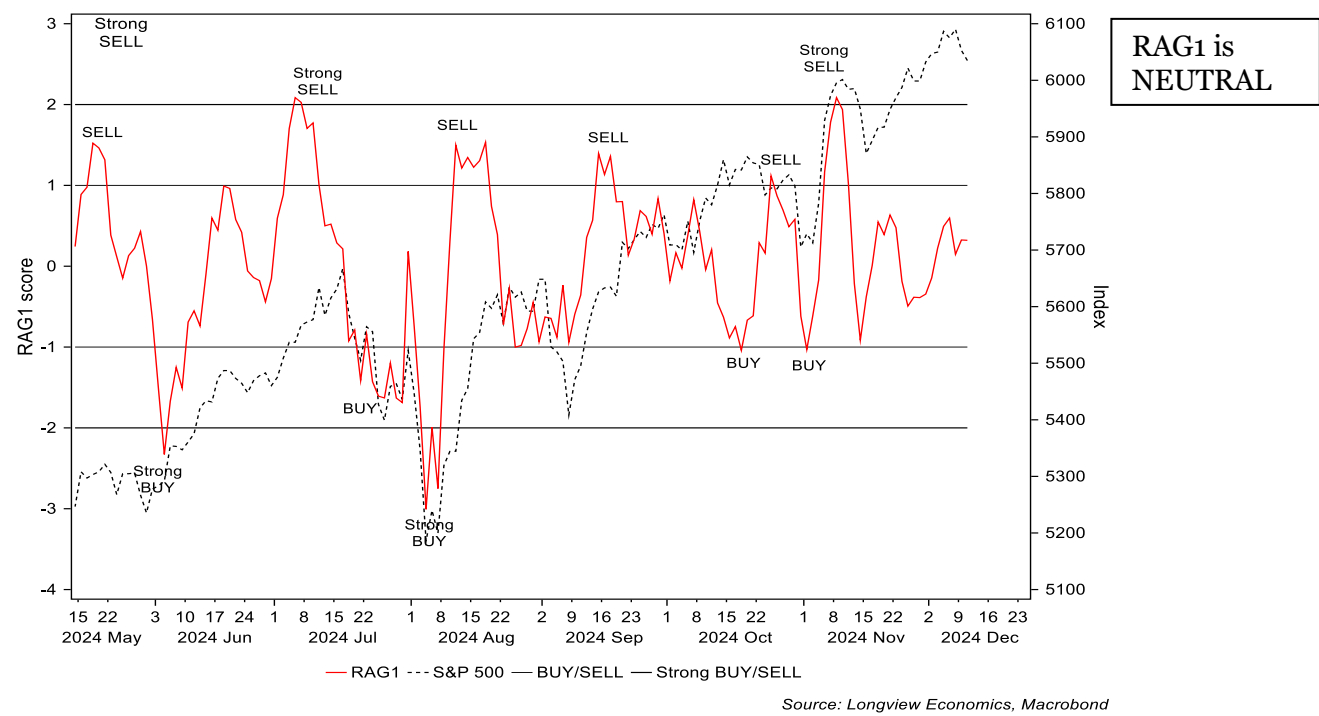
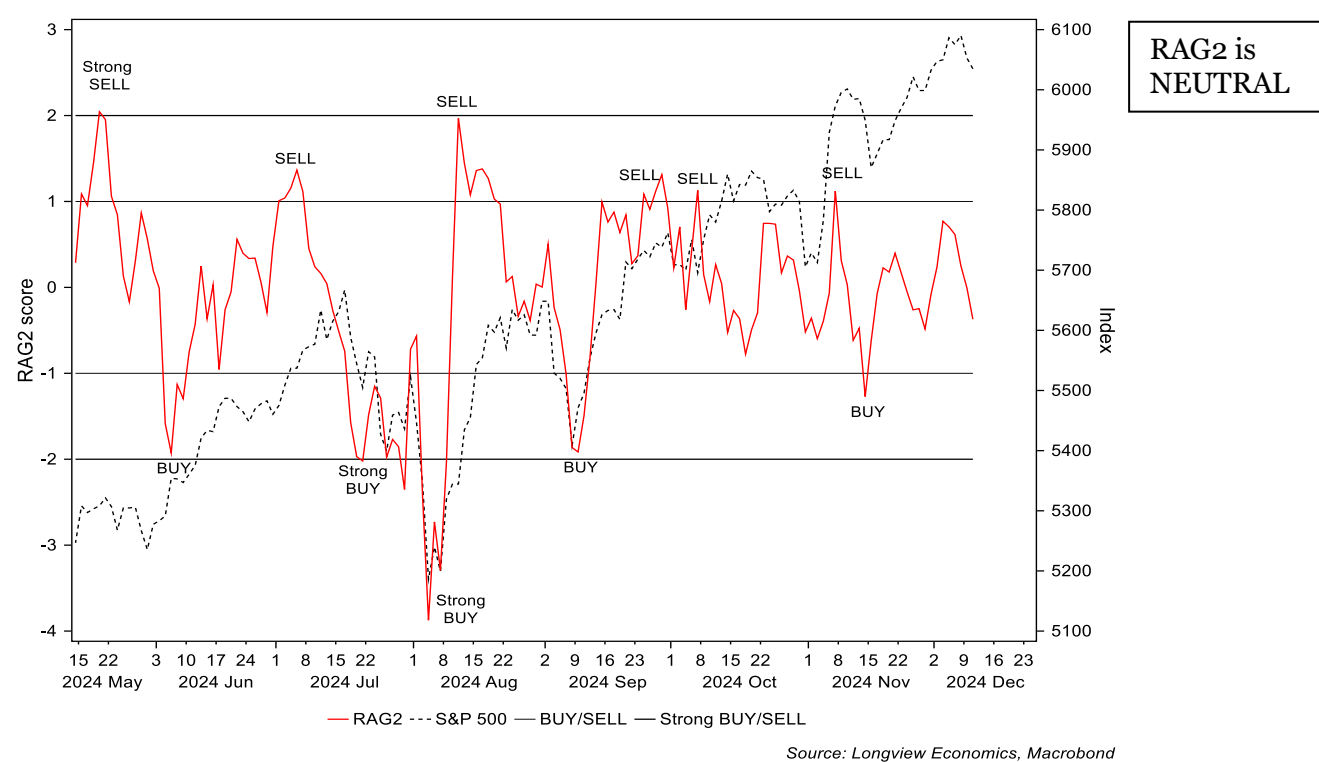
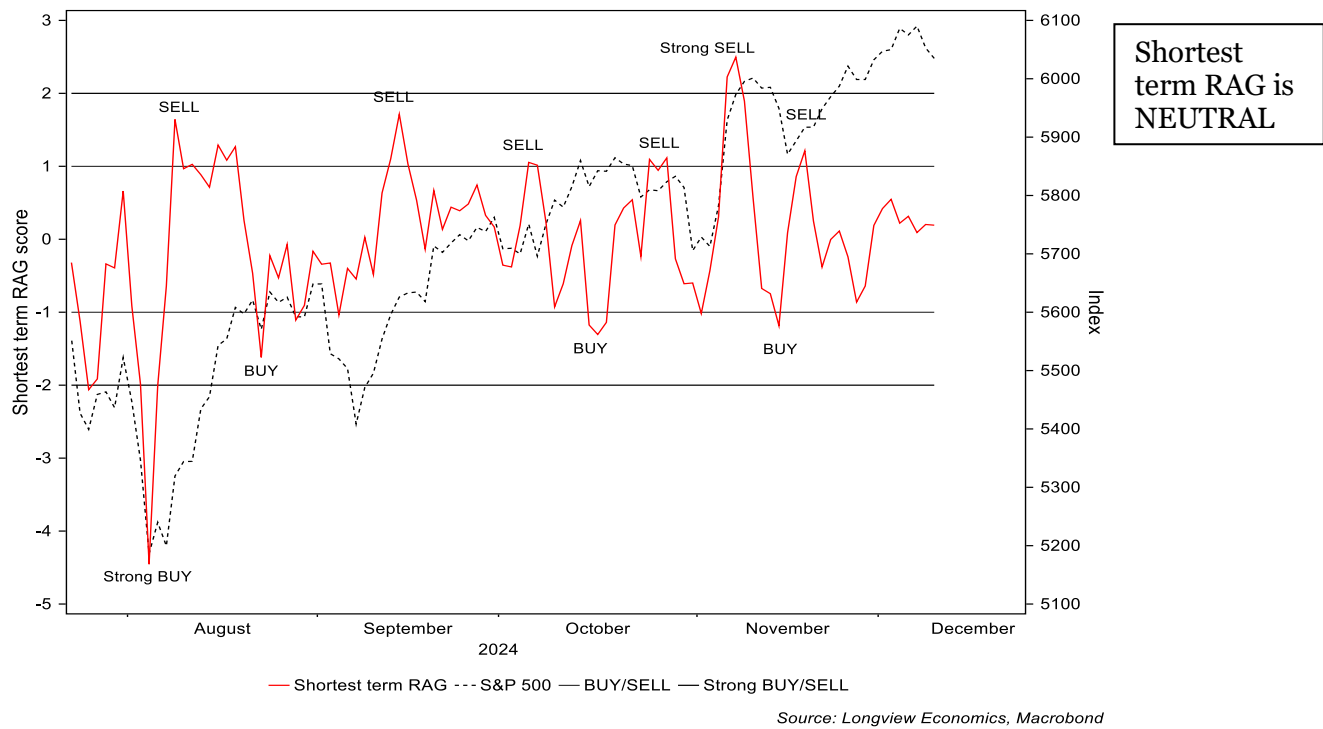


Fig 2b: RAG 2 vs. S&P 500

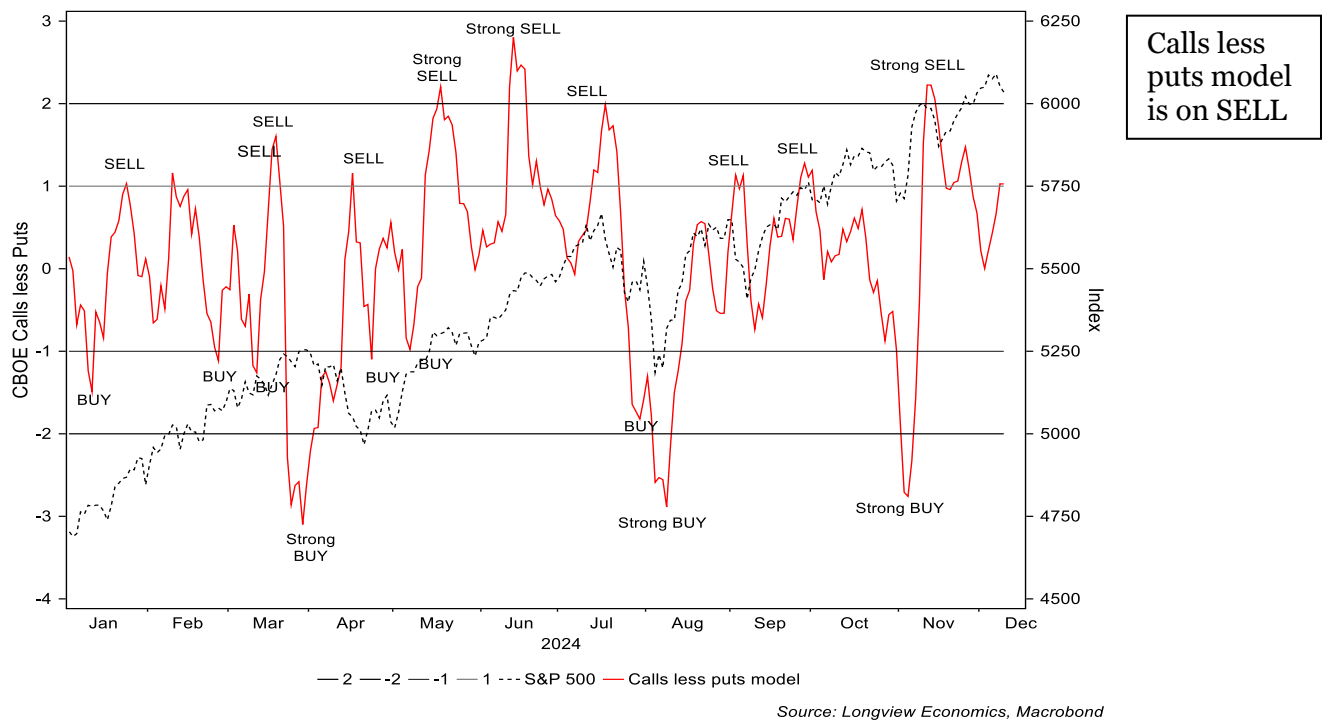


For explanations of indicators please see page 10

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

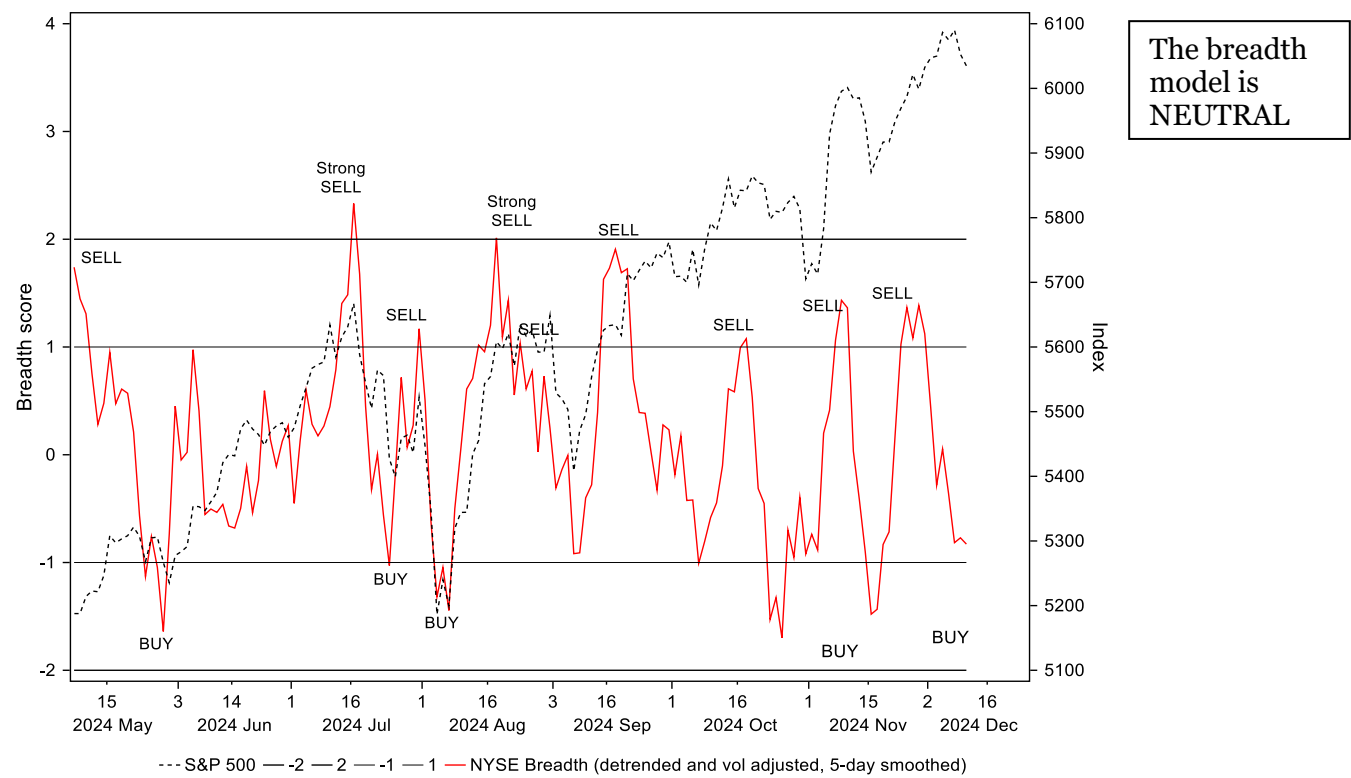


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

*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

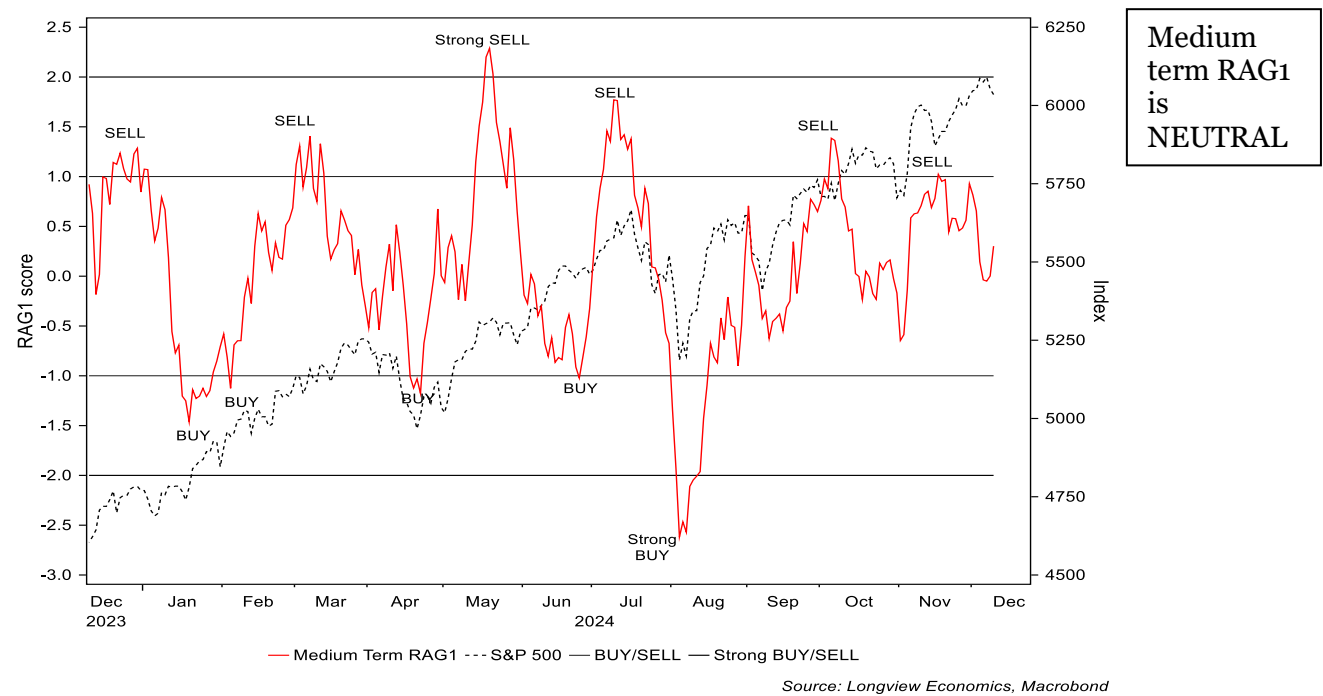
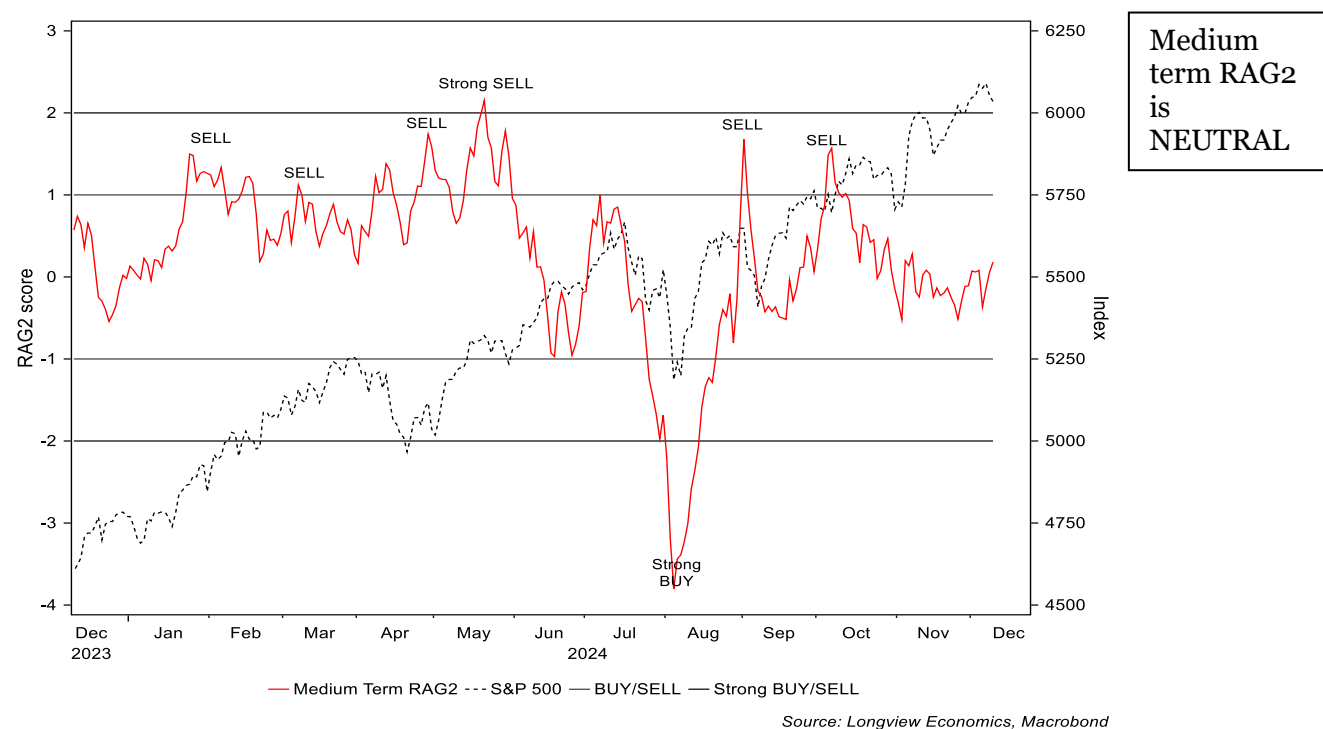
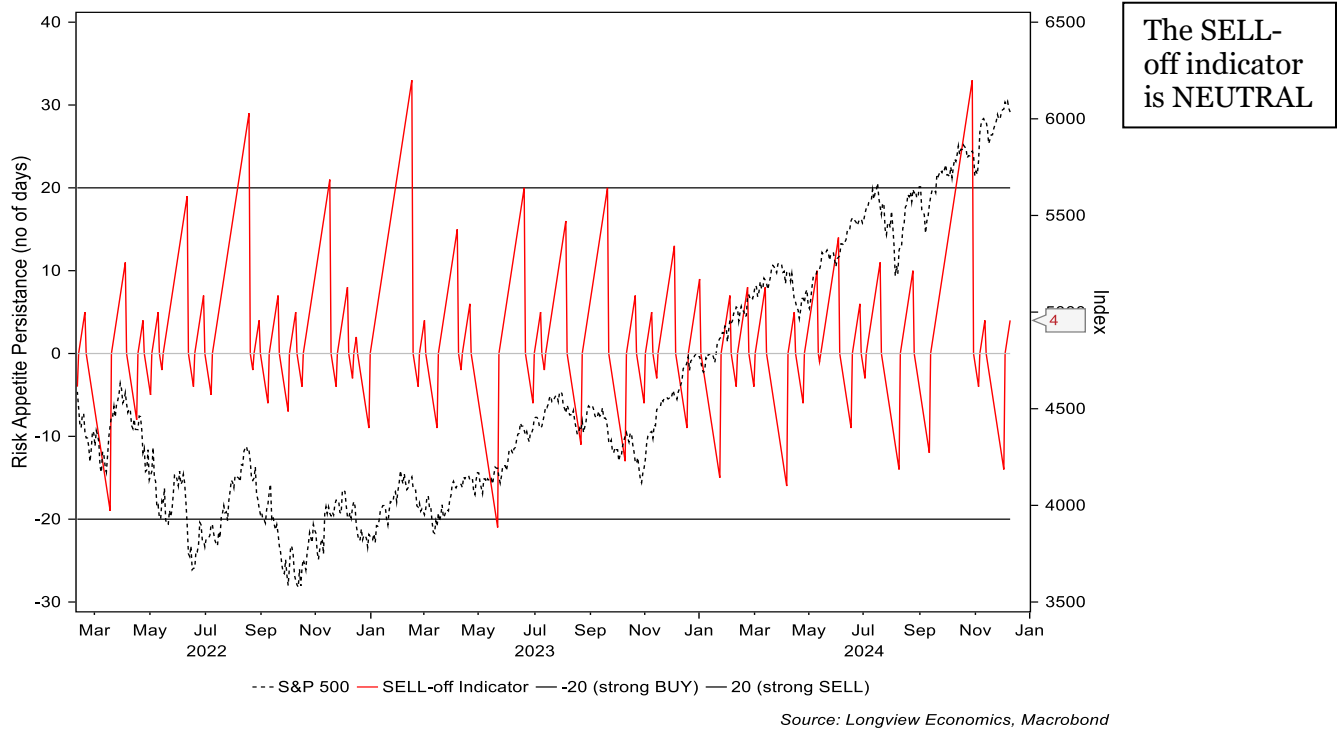


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

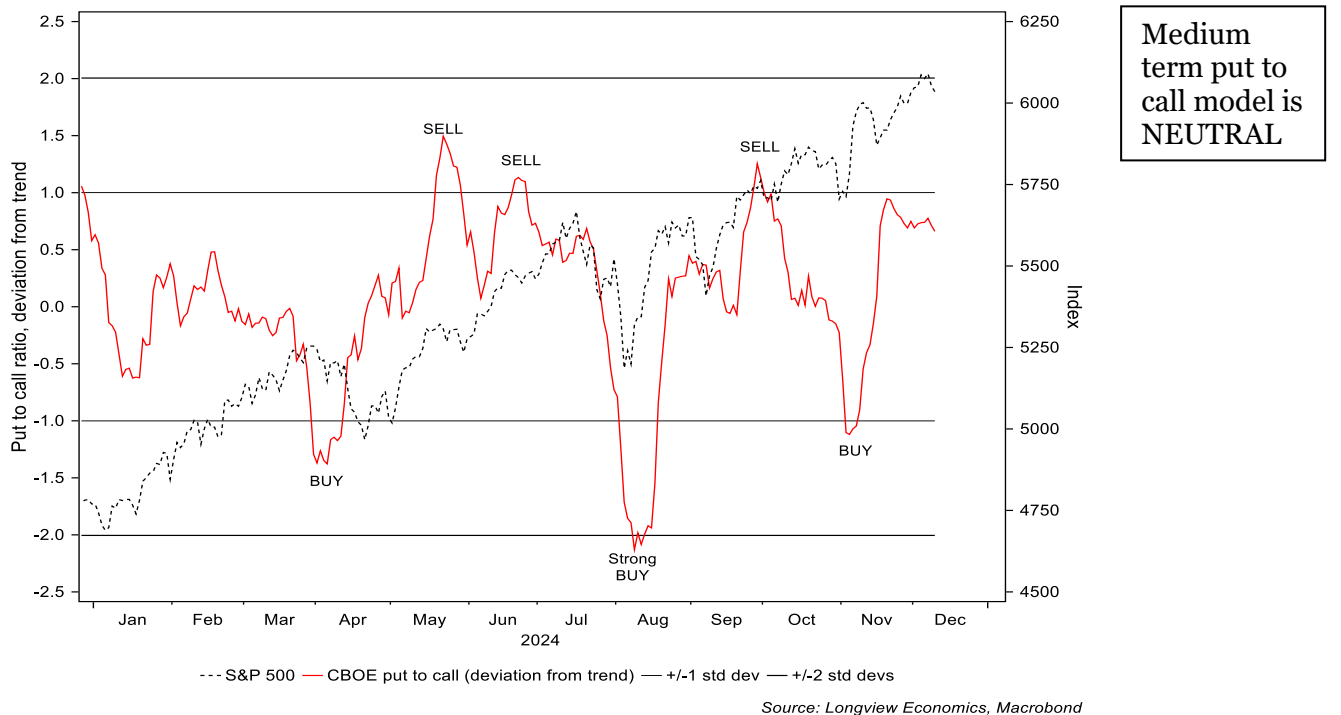


For explanations of indicators please see page 10

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



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

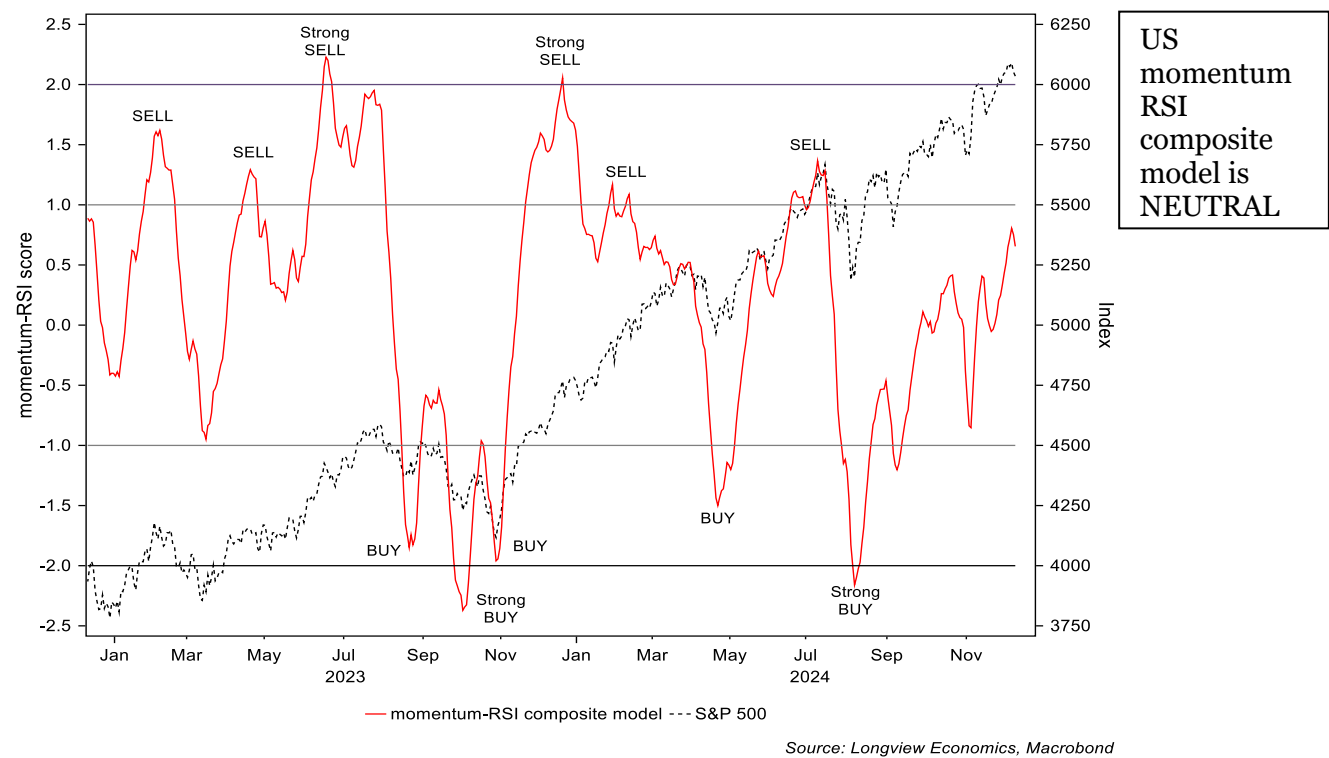


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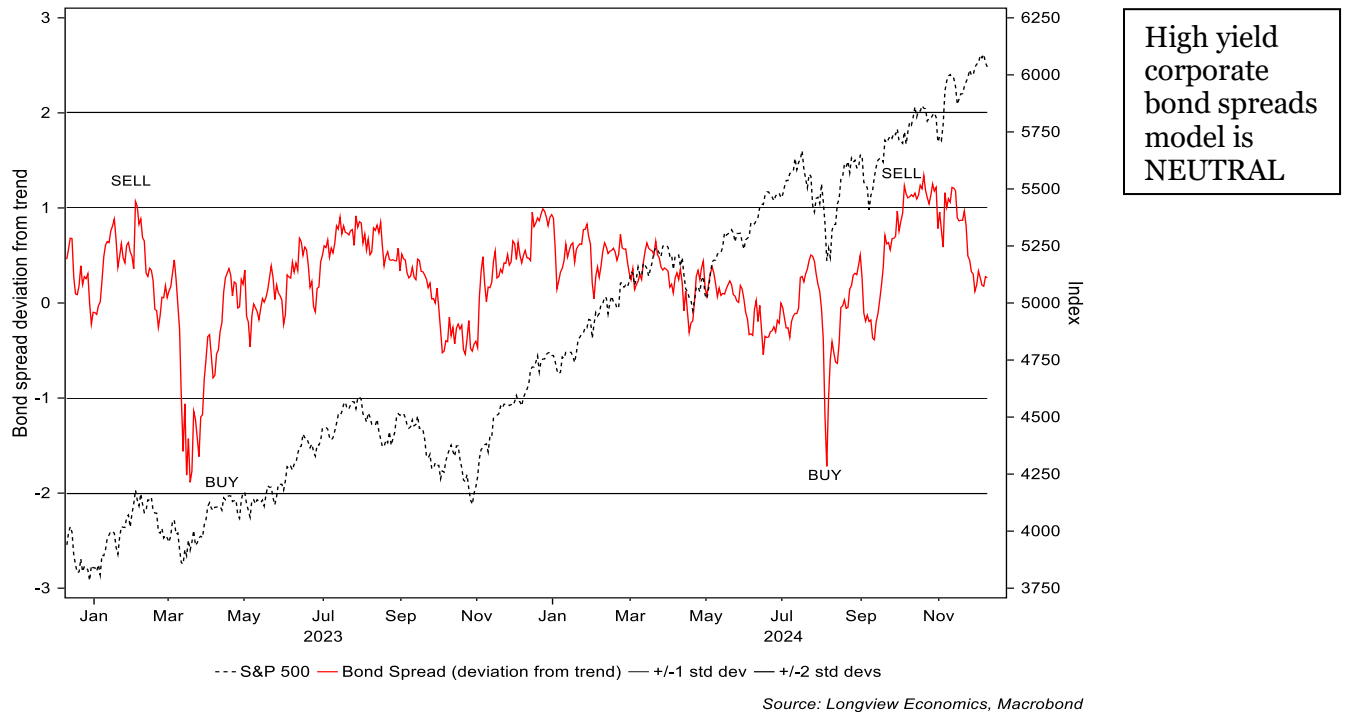
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



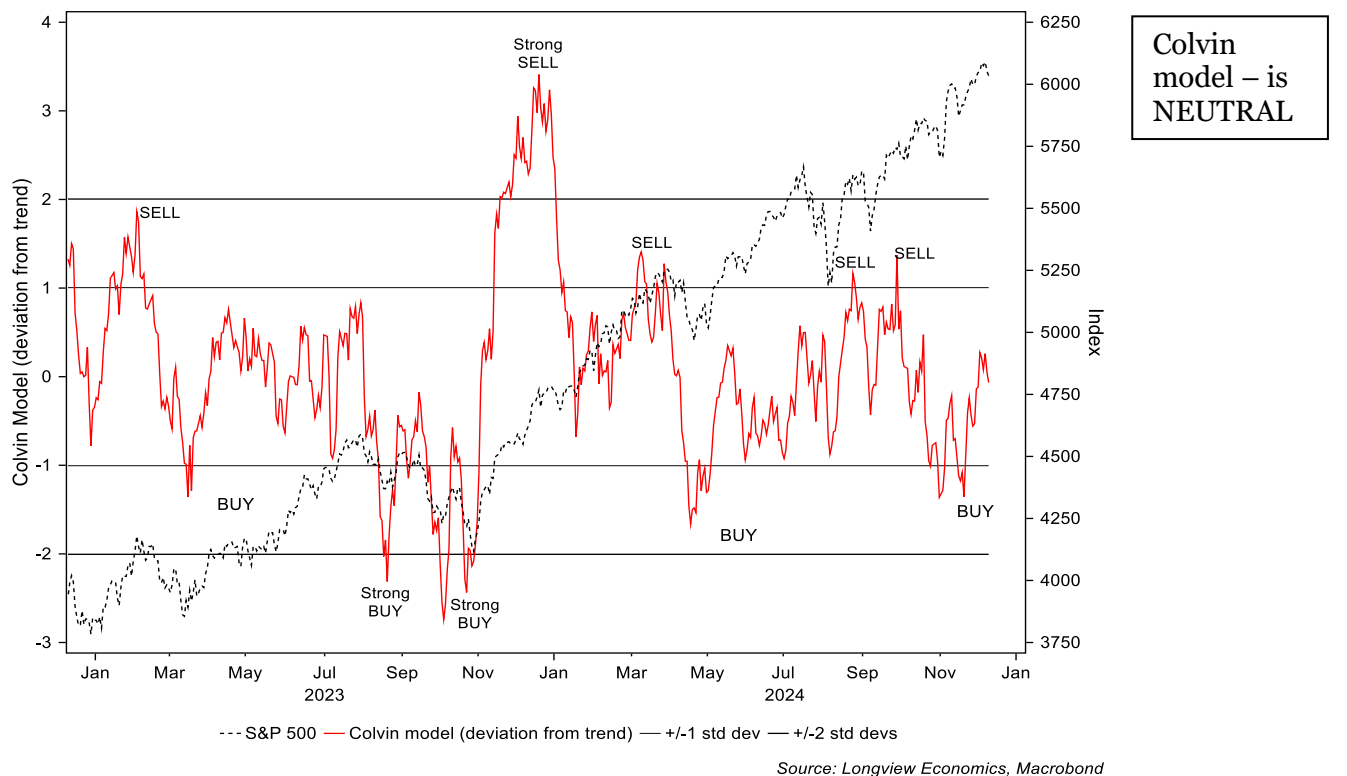
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



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



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



*For explanations of indicators please see page 10*

## Appendix: Model Explanations

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### **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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