Equity Index Futures Trading Recommendations

12th December 2024

"S&P500 remains rangebound/WATCH & WAIT (for now)"

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

- Continue to WATCH & WAIT (for now).

Rationale

Equities started to rally just after 1:30pm London time yesterday, immediately after the release of the US inflation data. That data was in-line with expectations (0.3% m-o-m for core CPI; and +0.3% m-o-m for headline) but, more importantly, generated generally positive commentary:

"Some analyst takeaways note (that the) latest data suggests reacceleration in inflation remains unlikely with key highlight centered on moderation in shelter inflation......While shelter index rose 0.3% m/m and accounted for ~40% of all-items increase, both rent and OER printed at 0.2%, softer than some expected and slightly decelerating from October's readings."

Source: Factset, StreetAccount Event Recap, November CPI report, 11th December 2024

That data then solidified expectations for a 25bps rate cut next week at the Fed meeting (Wed 18th December). The probability of a 25bps cut moved from an 85% probability (at Tuesday's close) to 98.6% by yesterday's close (according to Bloomberg's WIRP function – FIG 1). That increased probability was, then, the key driver of the strength in US equities. Of note, Dec 2025 rate cut expectations moved the other way (but only by 1bps).

Despite that 0.8% rally in the S&P500, it remained within its range of the past 4 – 5 trading sessions (FIG 1b), although pushed towards the top end of its seasonal norms (for December – FIG 1a). The tech part of the market (specifically the NDX100) did, though, make a new closing and intraday high (+1.8% on the day). The Philly SOX was also strong (+2.7%), with communication services (+3.1%); consumer discretionary (+2.0%); & IT (1.5%), the strongest top-level S&P500 sectors. S&P500 e-mini volumes remained reasonably light for this time of year (1.34 million contracts traded).

Our **short-term market timing models** continue to generate a mixed message (FIGs 2 – 4a): i) Single stock and sector technical models remain on/close to BUY (although those signals can be early and read both ways*); ii) risk appetite models are NEUTRAL (i.e. no clear steer on market direction); iii) there remains an absence of downside protection in portfolios coupled with high levels of outstanding single stock call options (with both suggesting caution towards LONG positions); while iv) technical index models are notably mixed with the NDX100 overbought, the Russell 2000 oversold, and the S&P500 mid-range.

Given those mixed model signals and the message of the seasonal factors at this time of year, we recommend continuing to STAY on the sidelines (for now). For choice, the models (collectively) point to a possible internal rotation – i.e. from tech to cyclical areas of the market (like the R2K).

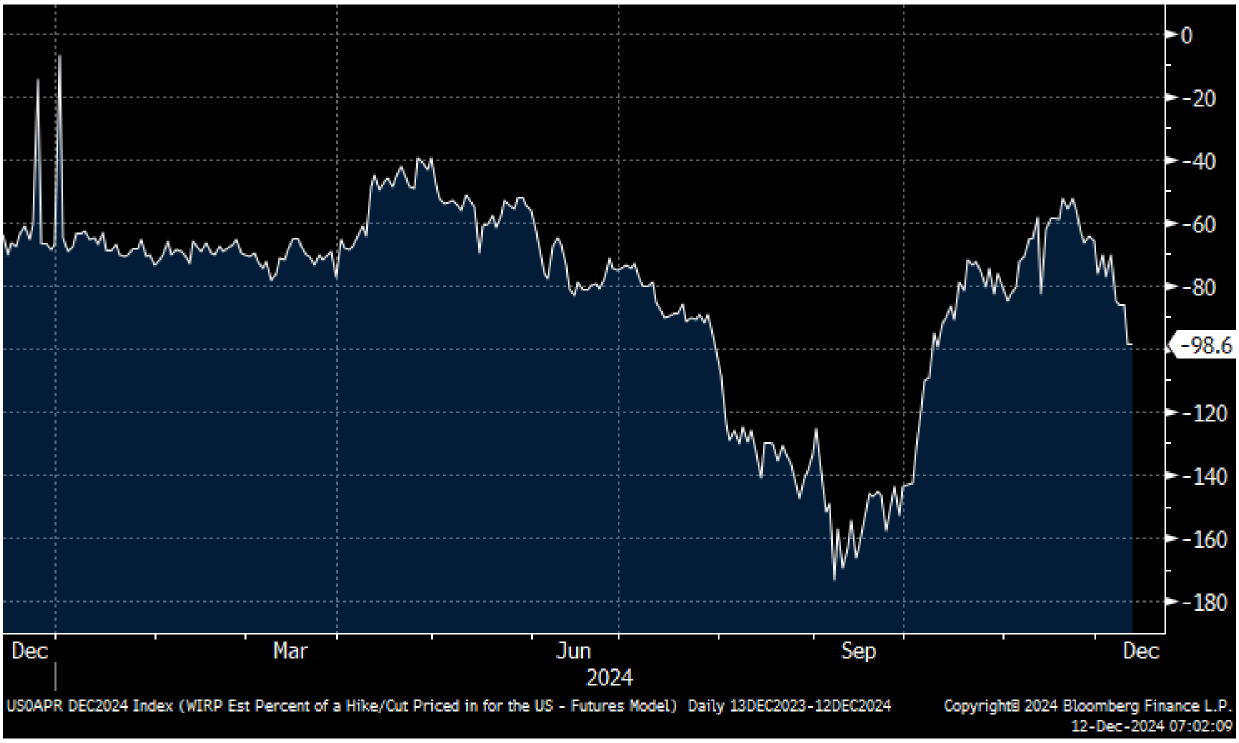
Please see below for a full list of today's key macro data & events.

Kind regards,

The team @ Longview Economics

*For example, they could be seen as indicative of a market that is losing its underlying strength, as fewer stocks/sectors push it higher.

<u>**FIG 1:** The probability of a 25bps rate cut** at next week's Wednesday 18th December Fed meeting</u>



**NB a negative probability in this instance is referencing a cut in rates.

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

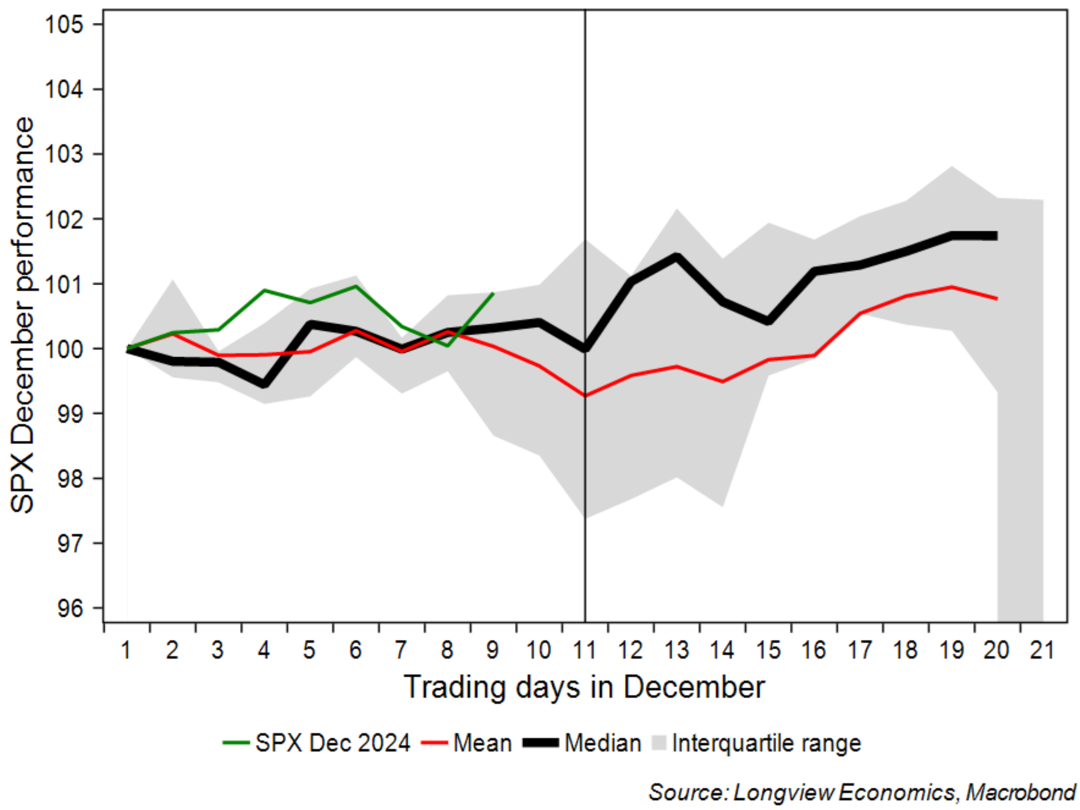
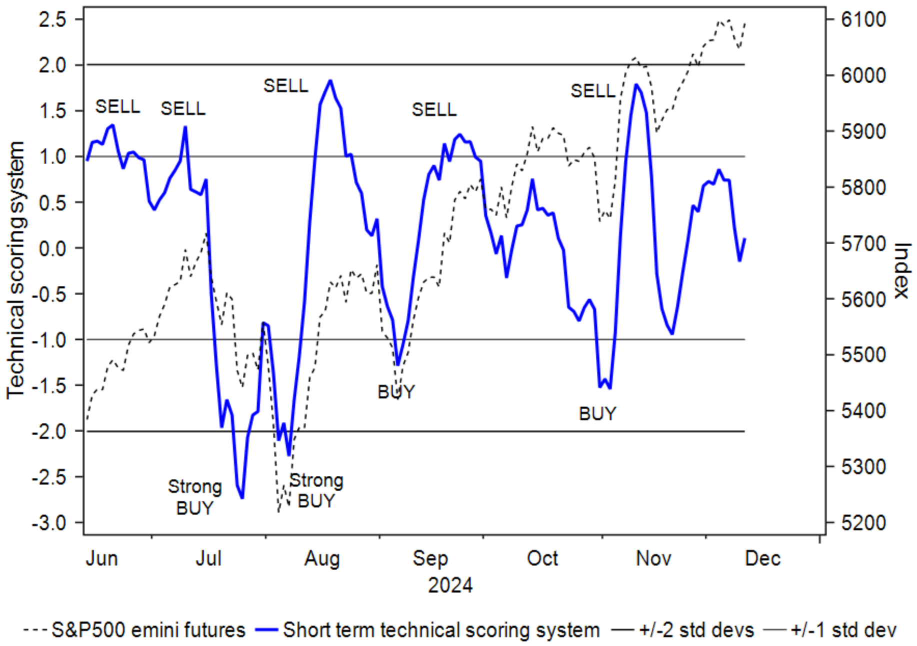


FIG 1b: S&P500 futures 10-day tick chart shown with overnight price action

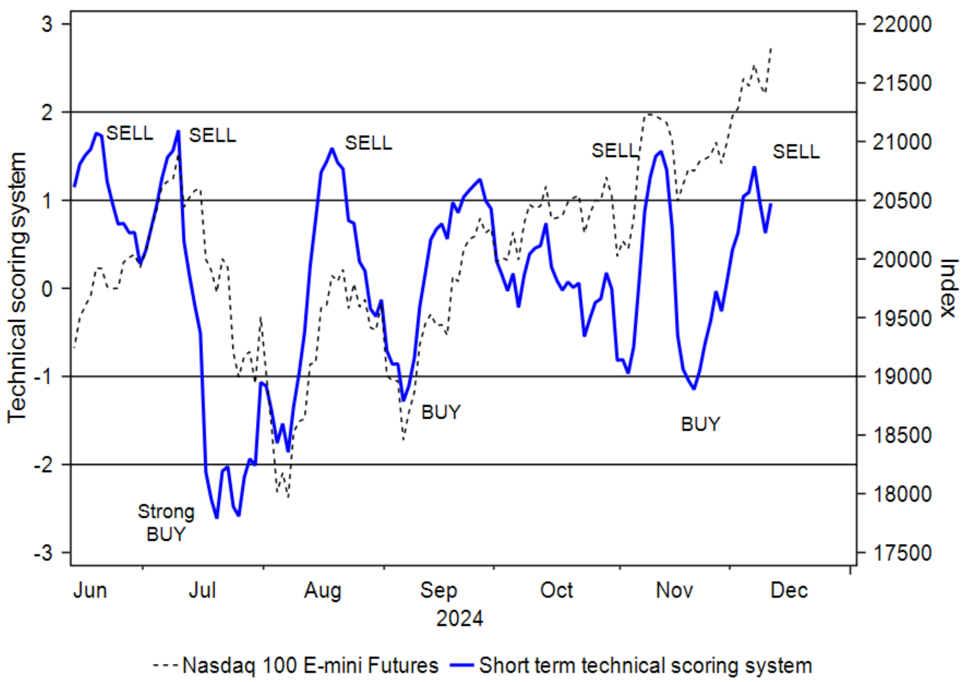
(index based) Technical models are mixed….

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



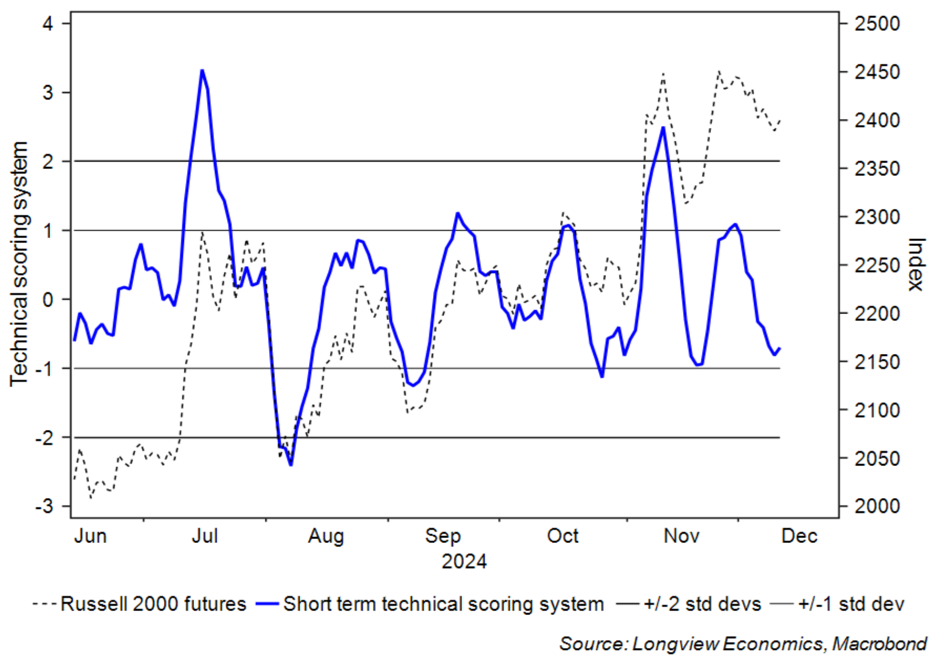
Source: Longview Economics, Macrobond

FIG 2a: Longview NDX100 short term **'technical'** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

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



Single stock momentum & breadth models are highlighting the risk of a '1 – 3' day wobble in the S&P500……

…..as single stock (& sector) breadth has been weak which often foreshadows some weakness in the index…

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

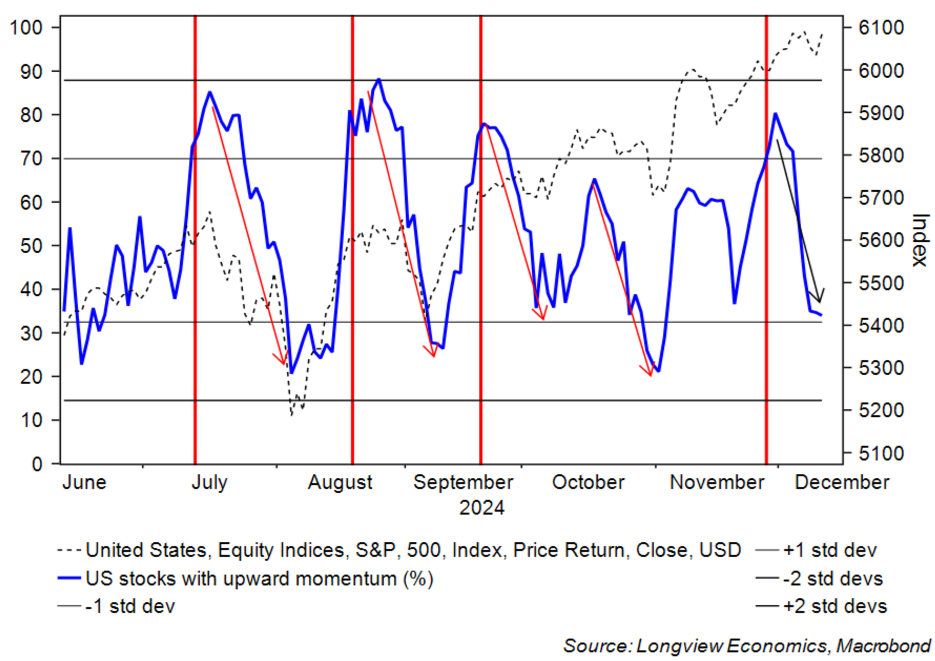
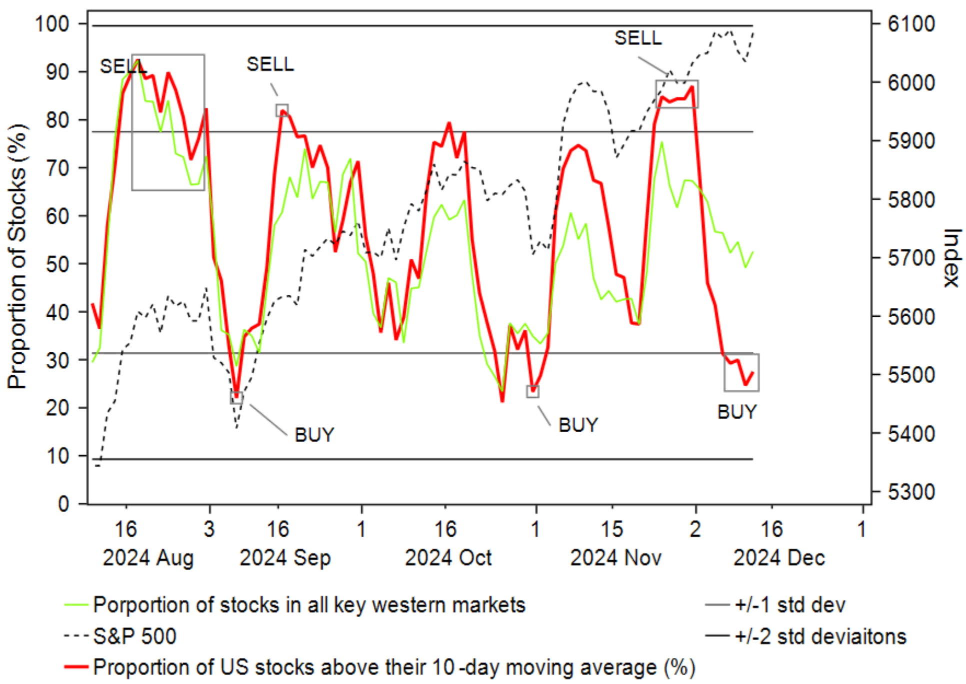


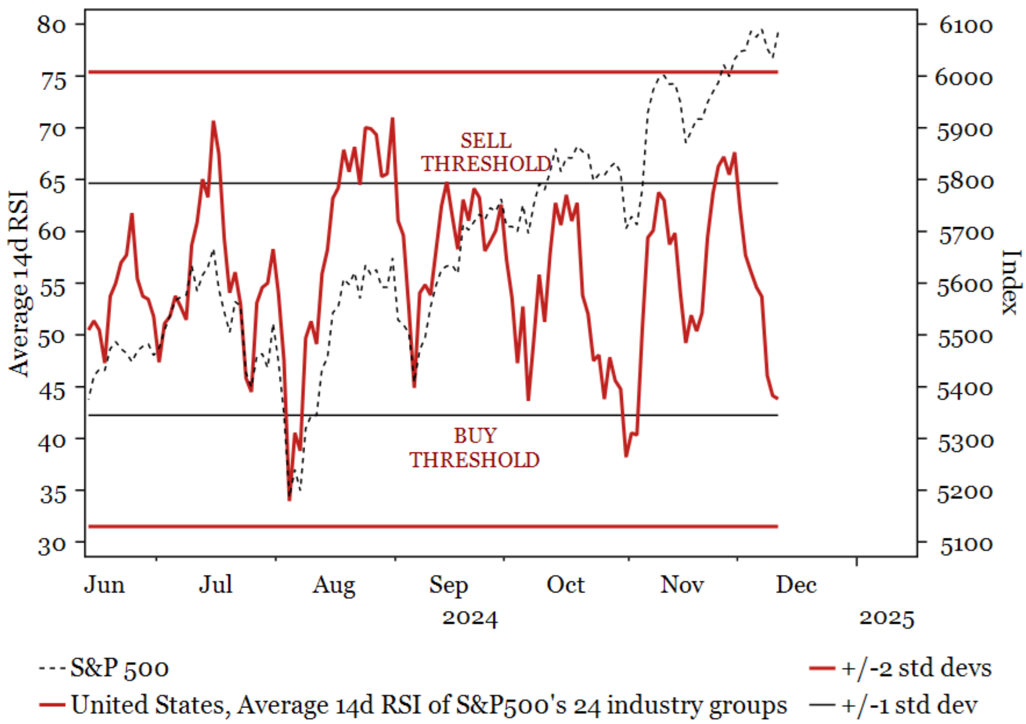
FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

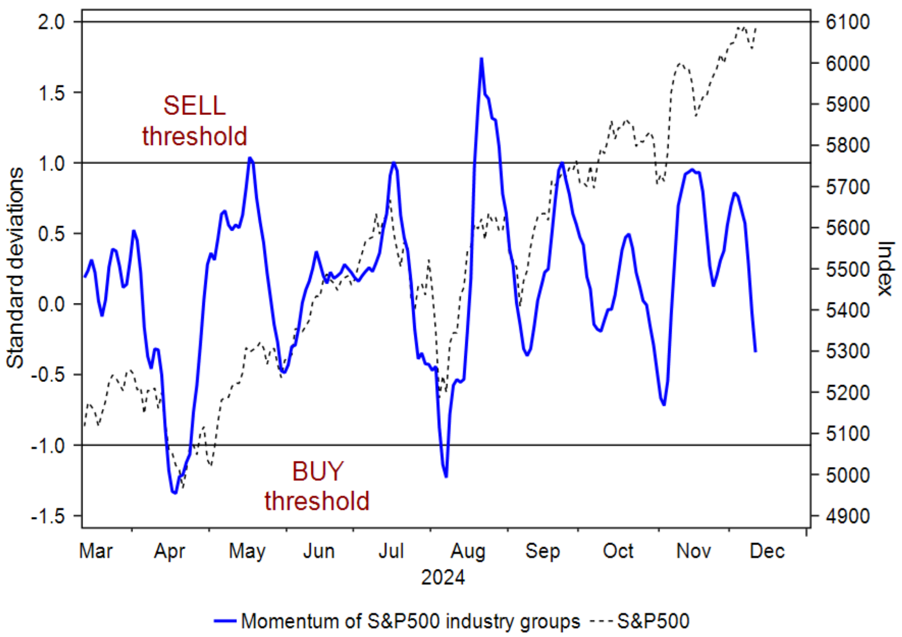
Sector models have a similar message (to the single stock ones)….

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



Source: Longview Economics, Macrobond

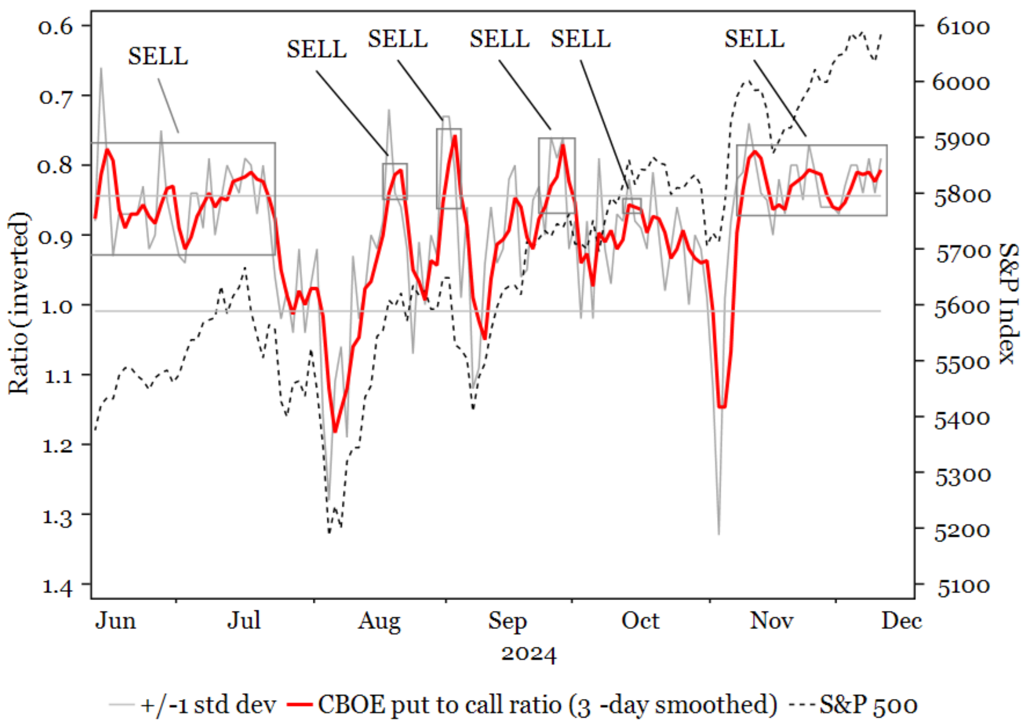
FIG 2f: Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

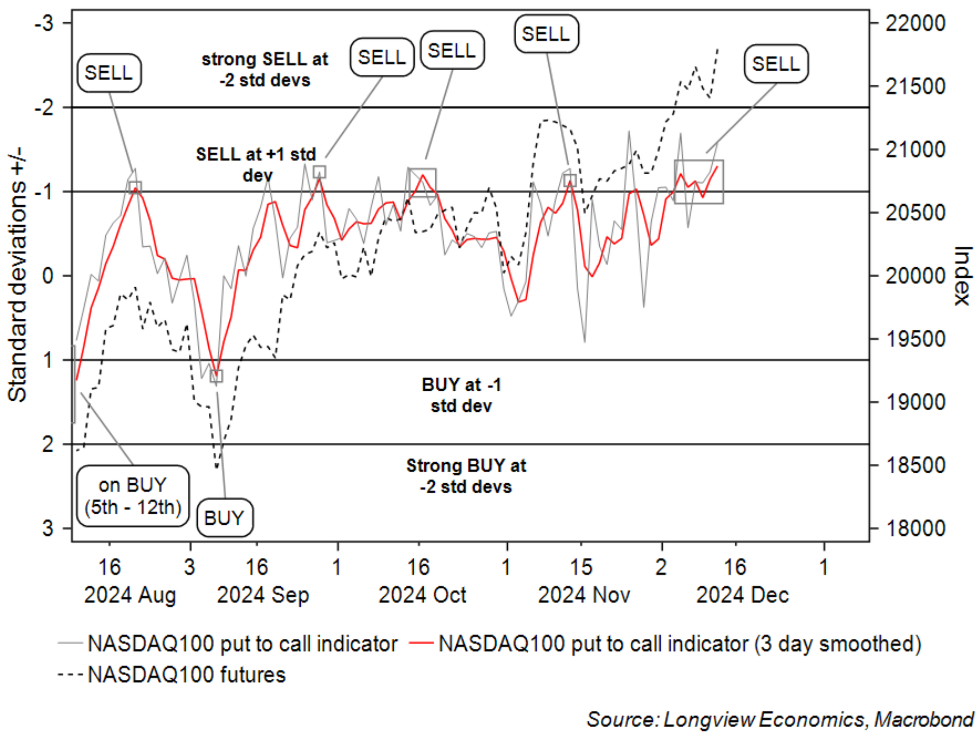
Downside put protection in portfolios remains low…

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



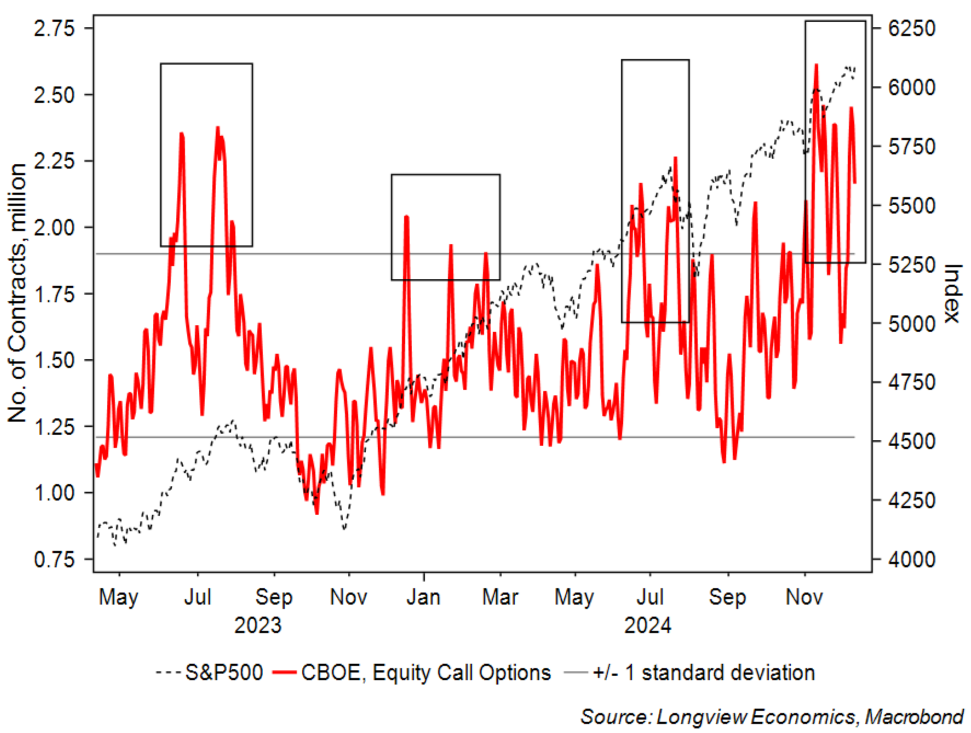
Source: Longview Economics, Macrobond

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



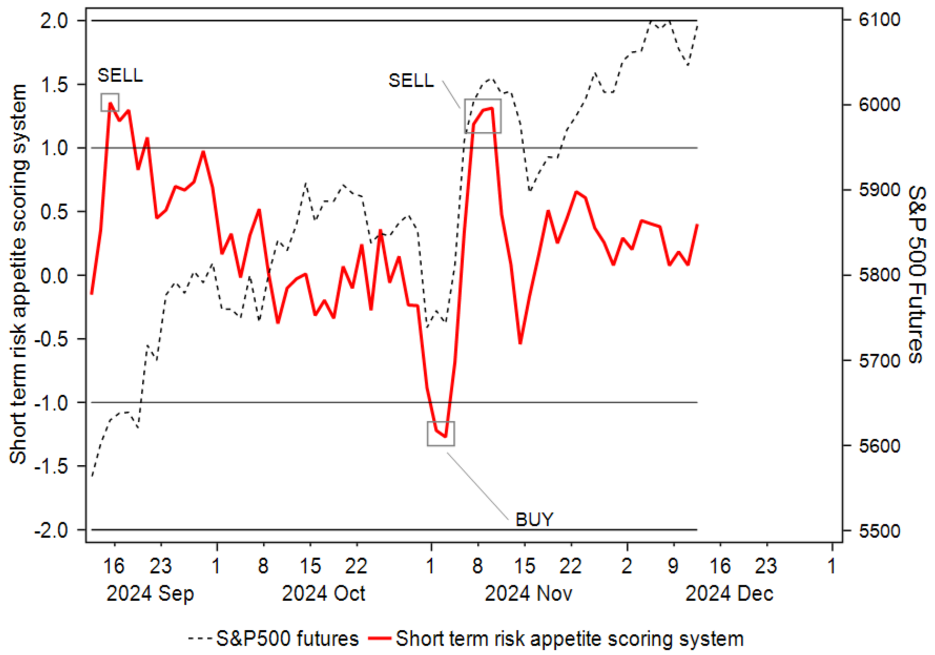
Single stock call option BUYing is at high levels....

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



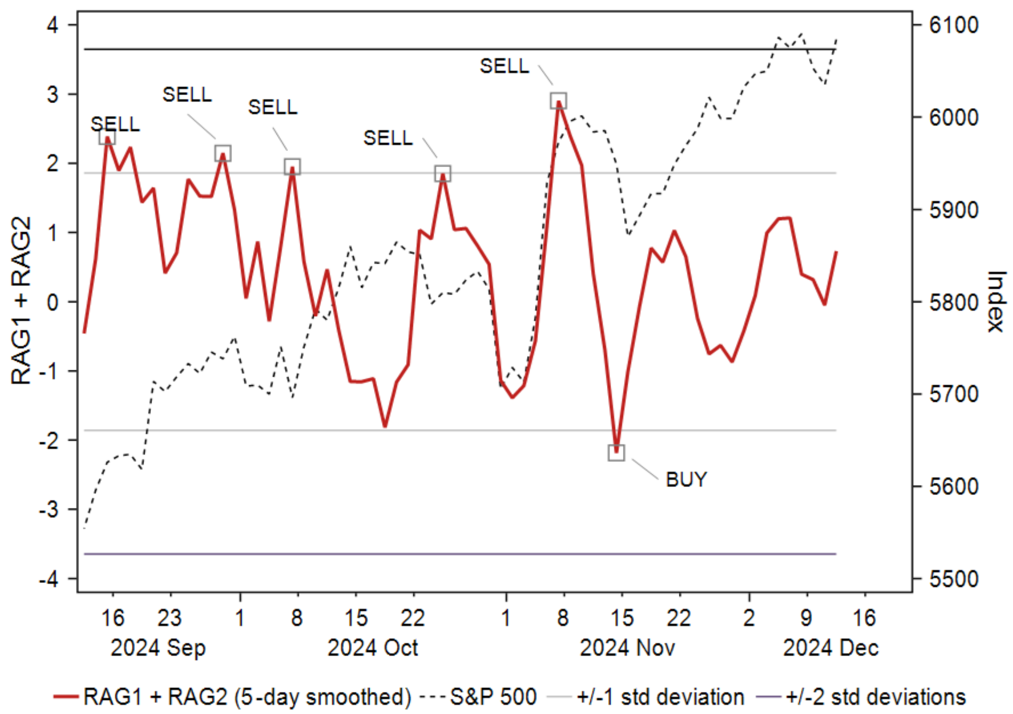
Risk appetite models are NEUTRAL…

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



Source: Longview Economics, Macrobond

FIG 4a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

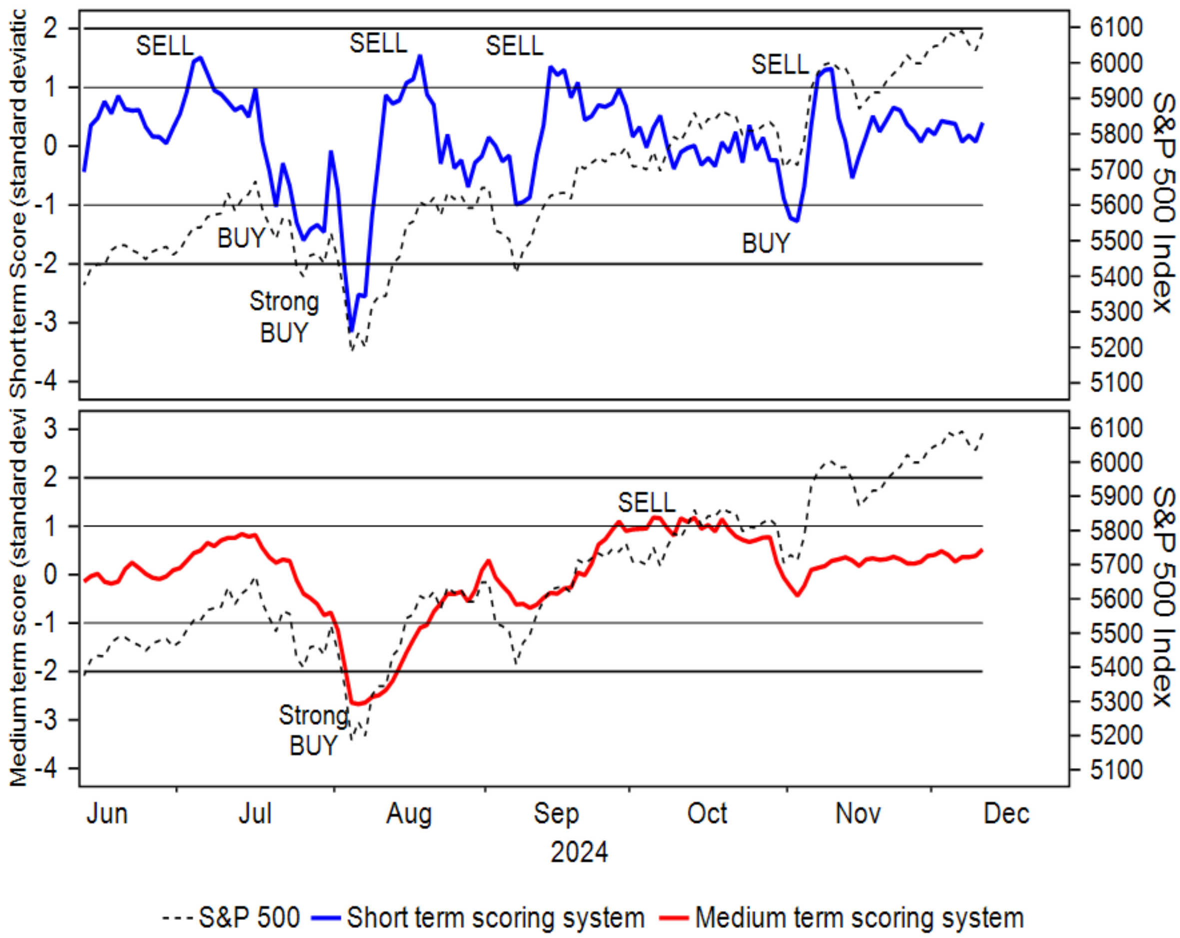


Source: Longview Economics, Macrobond

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: **UK RICS house price balance** (Nov, 12:01am); Australian employment data (Nov, 12:30am); Italian unemployment rate (Q3, 9am); **US headline & core PPI** (Nov, 1:30pm); Canadian building permits (Oct, 1:30pm); US weekly jobless claims (1:30pm); US household change in net worth (Q3, 5pm); **Japanese Tankan manufacturers & non-manufacturers quarterly survey** (Q4, 11:50pm).

Key events today include: **ECB policy decision** (1:15pm) followed by press conference (1:45pm); **SNB policy decision** (8:30am) followed by press conference (9am); China Economic Work Conference (CEWC – Wednesday & Thursday) – fiscal stimulus announcement expected.

Key earnings today include: **Broadcom**, **Costco.**

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.

LVRAG
Daily Risk Appetite Gauge

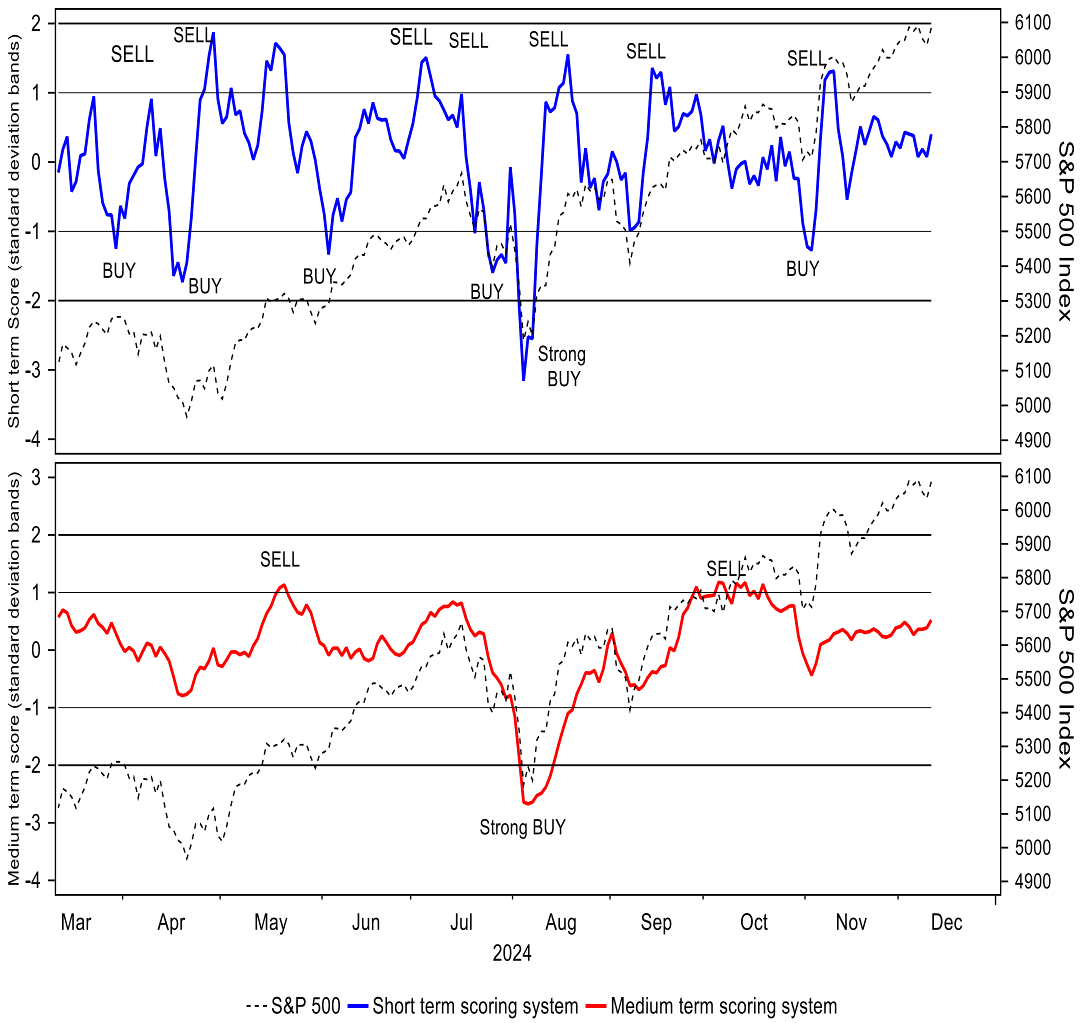
1 – 2 Week View on Risk

12th 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

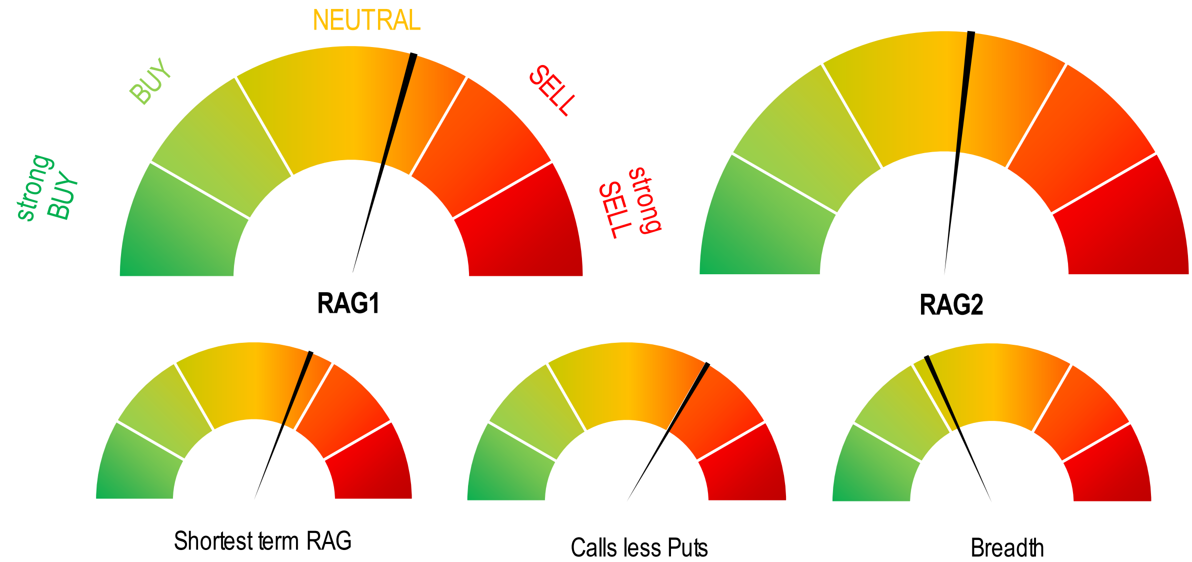
Source: Longview Economics, Macrobond

*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

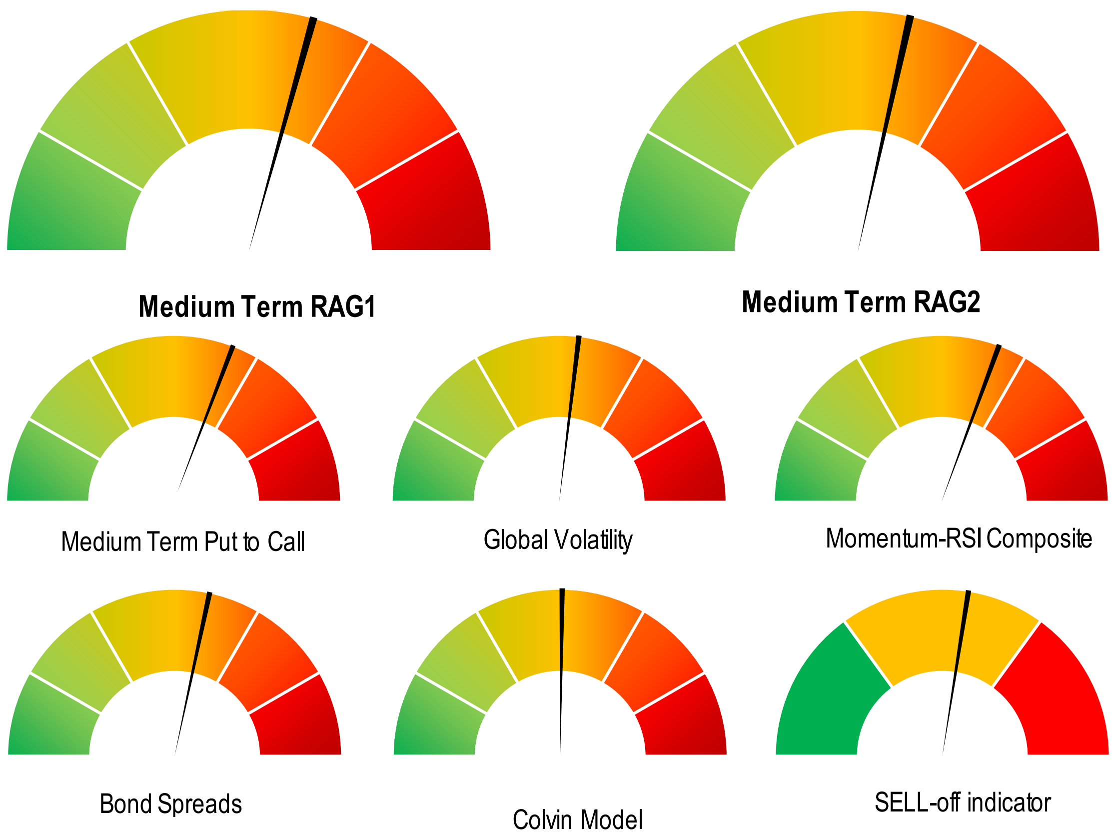
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

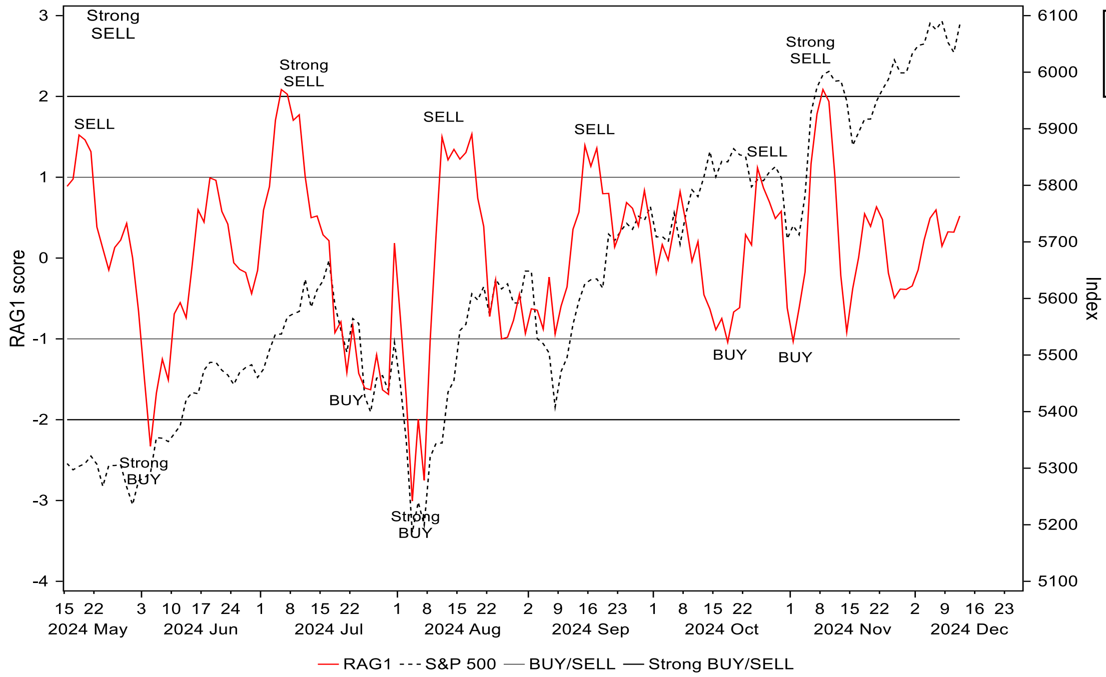
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

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

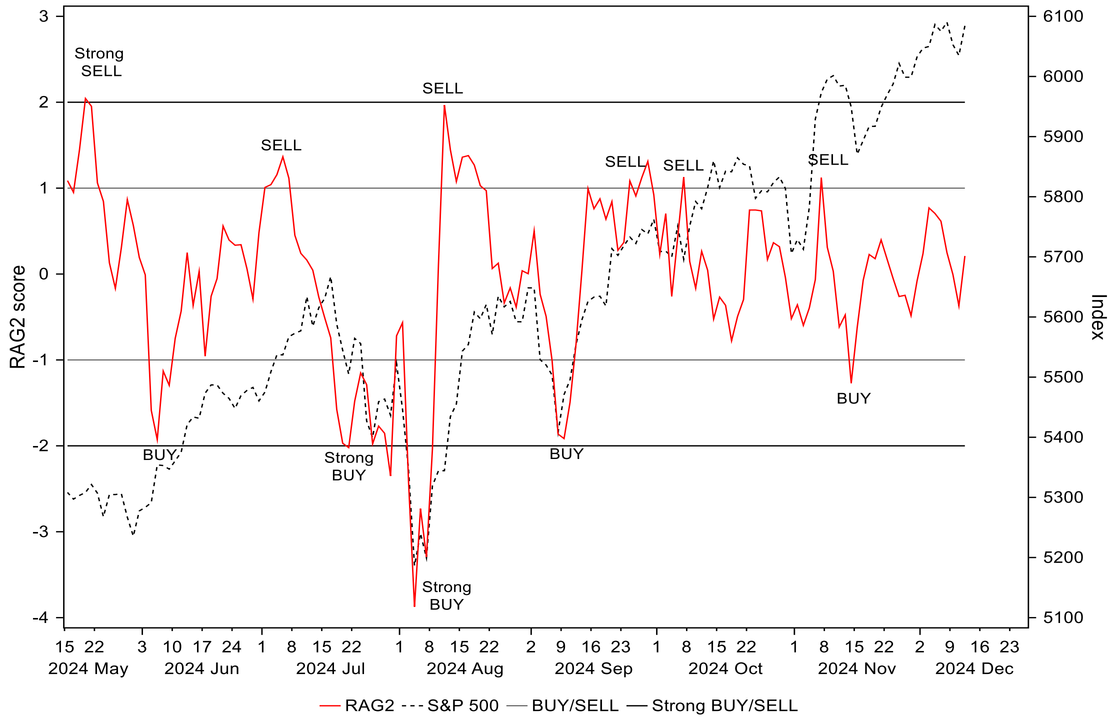
Fig 2a: RAG 1 vs. S&P 500



Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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

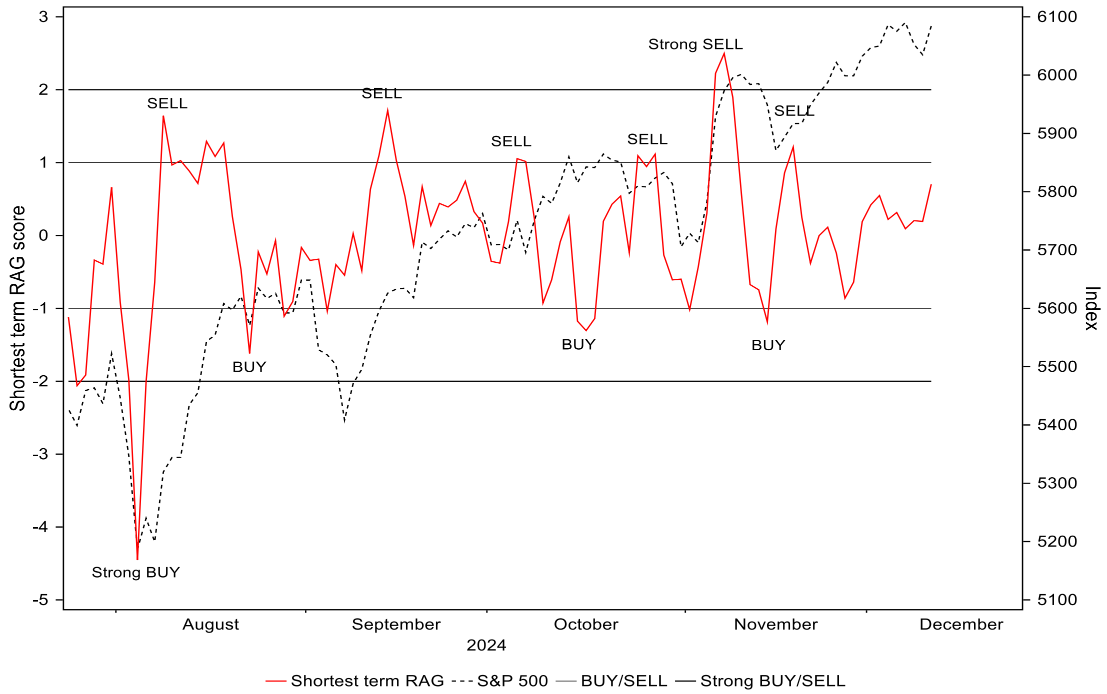


Source: Longview Economics, Macrobond

RAG2 is NEUTRAL

For explanations of indicators please see page 10

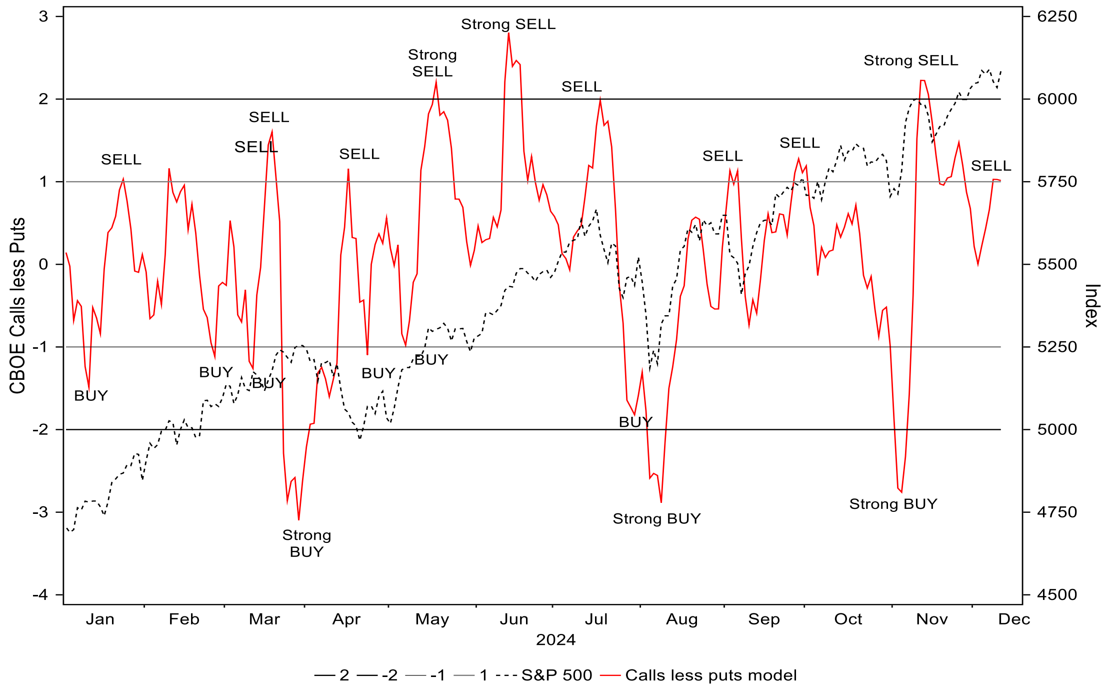
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

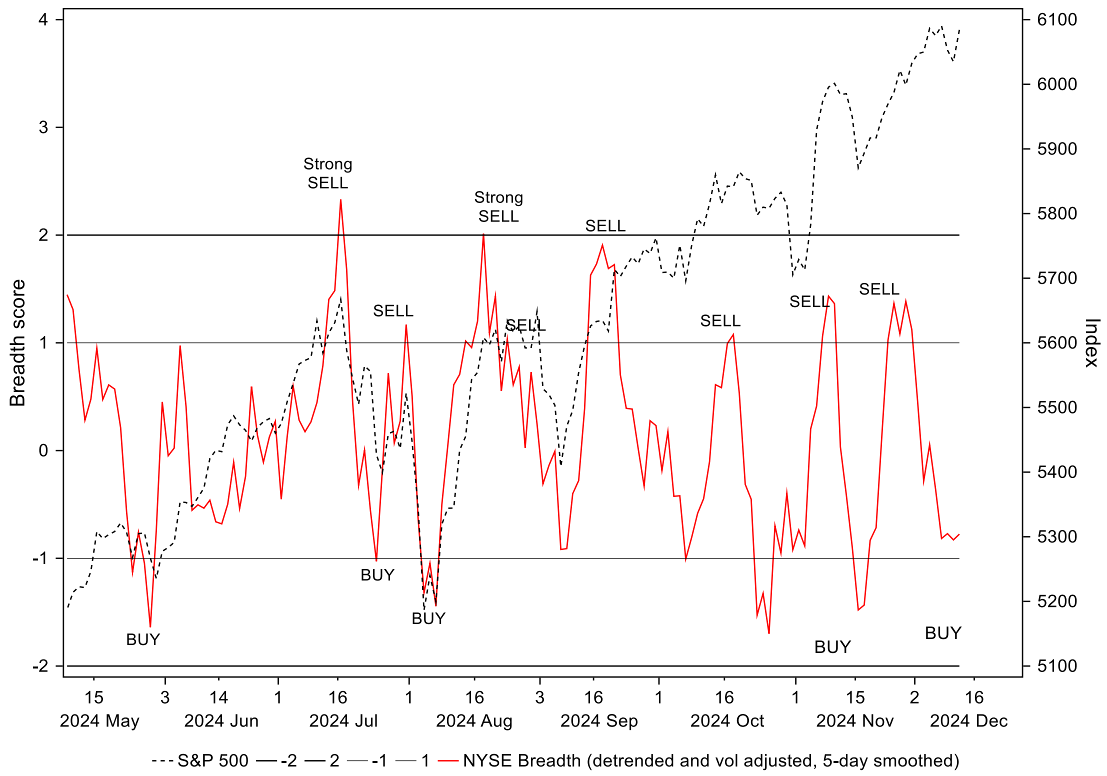


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



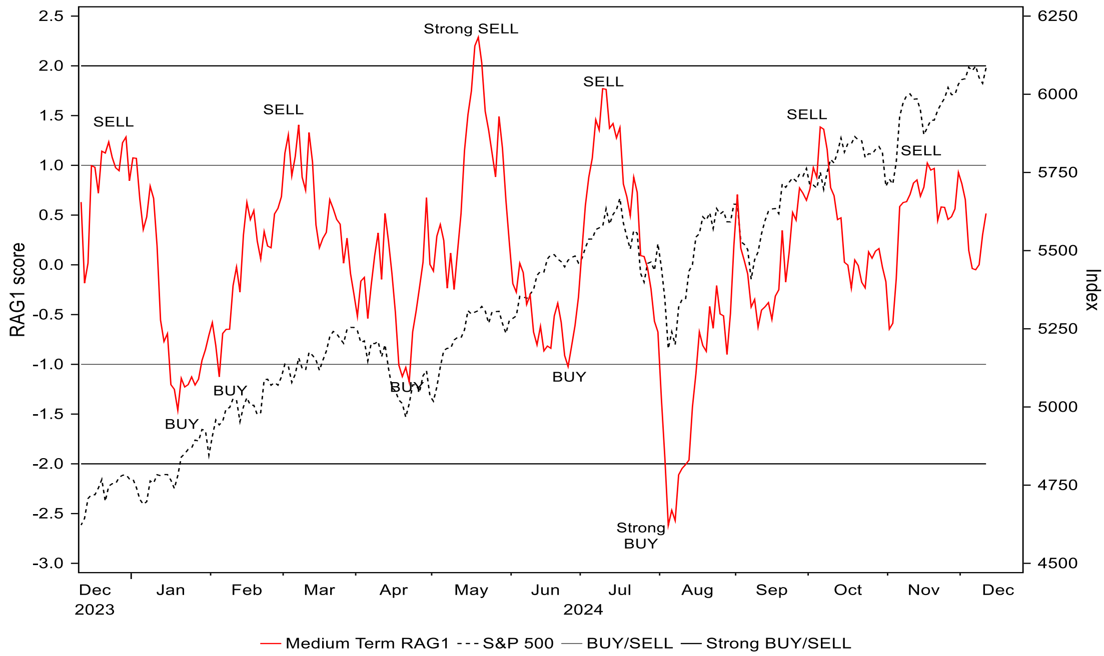
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

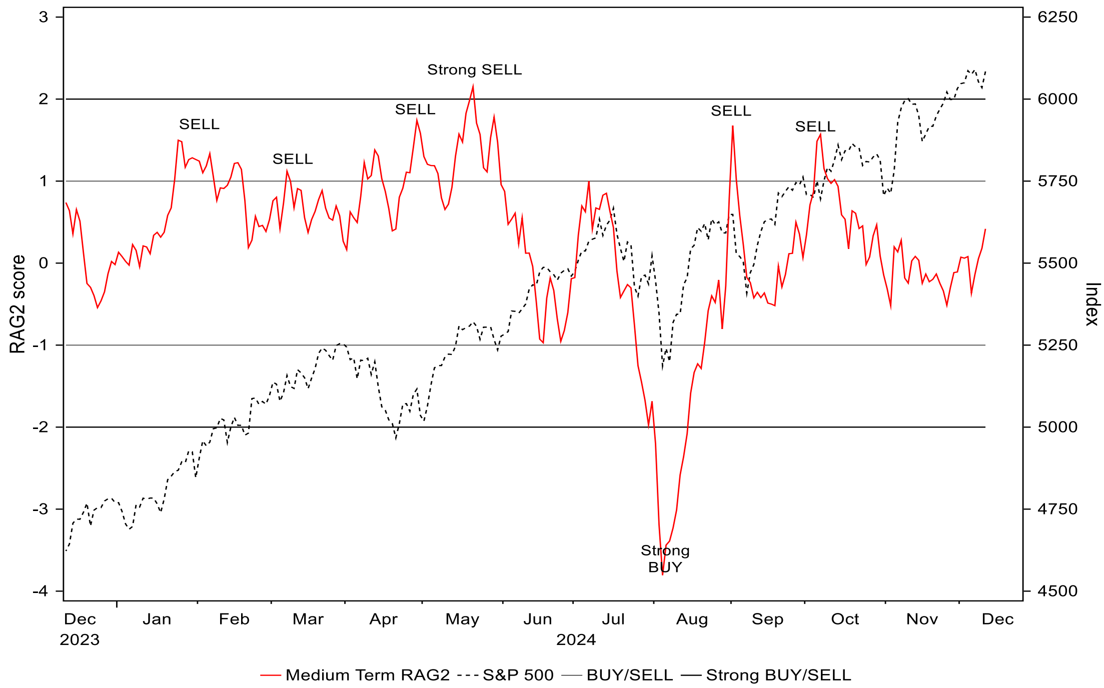
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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



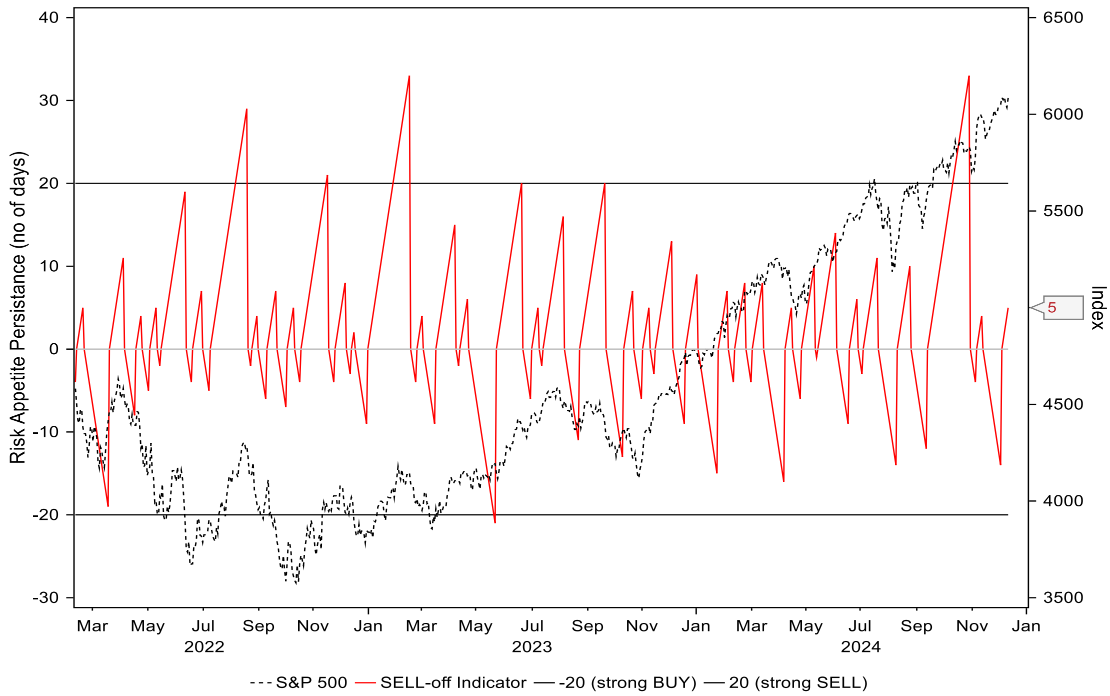
Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

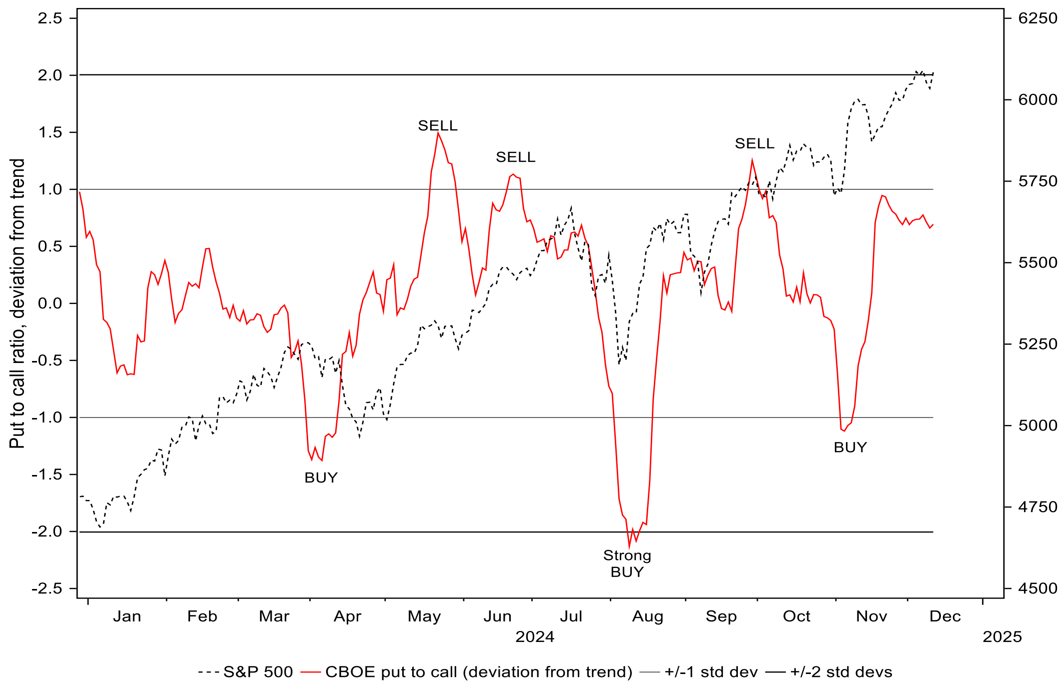
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

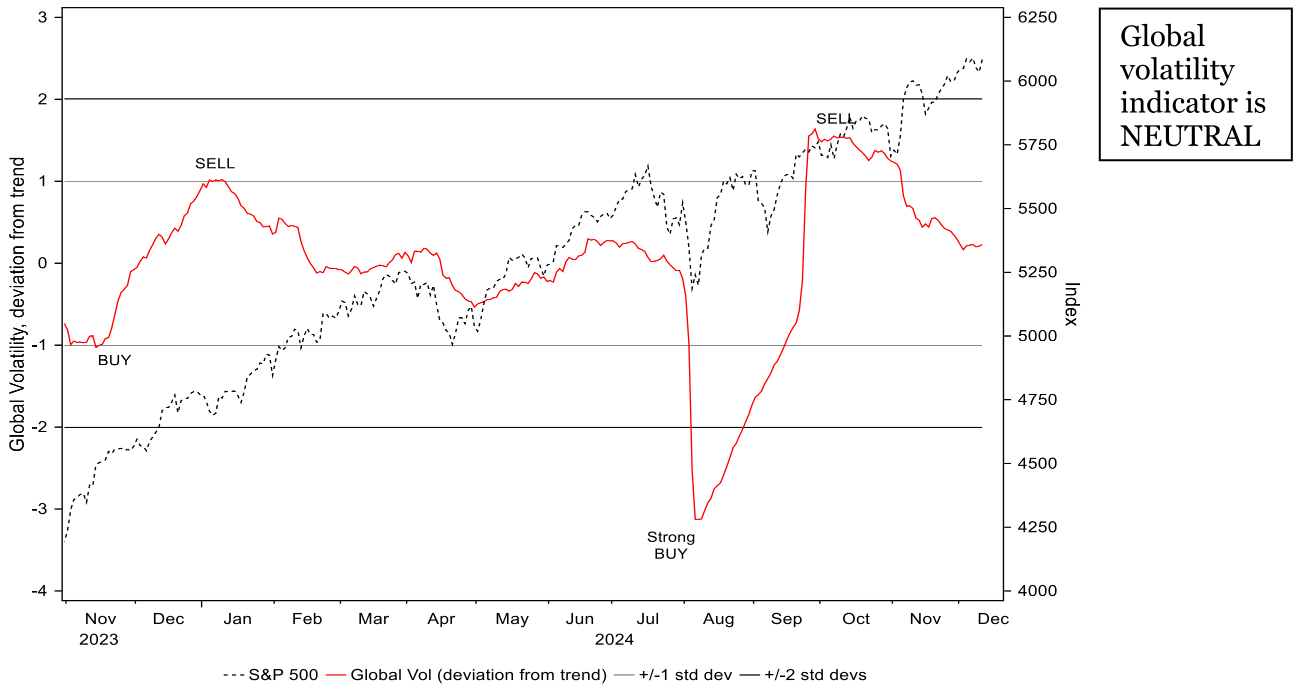


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

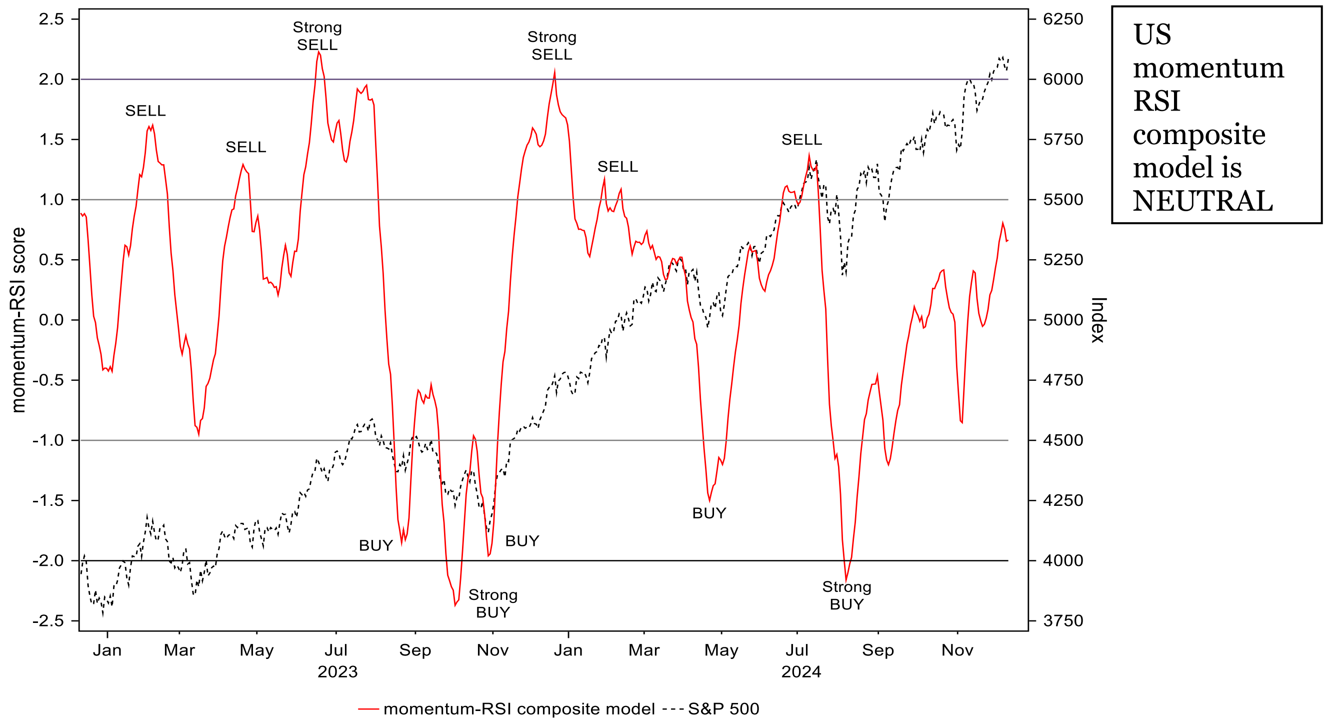
For explanations of indicators please see page 10

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



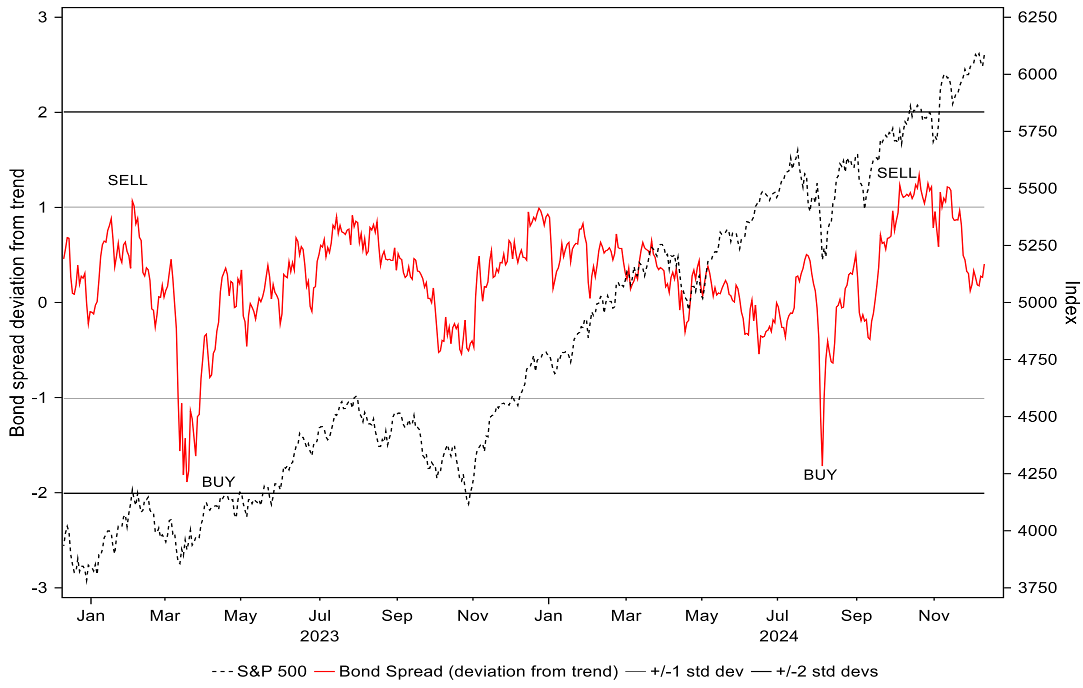
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

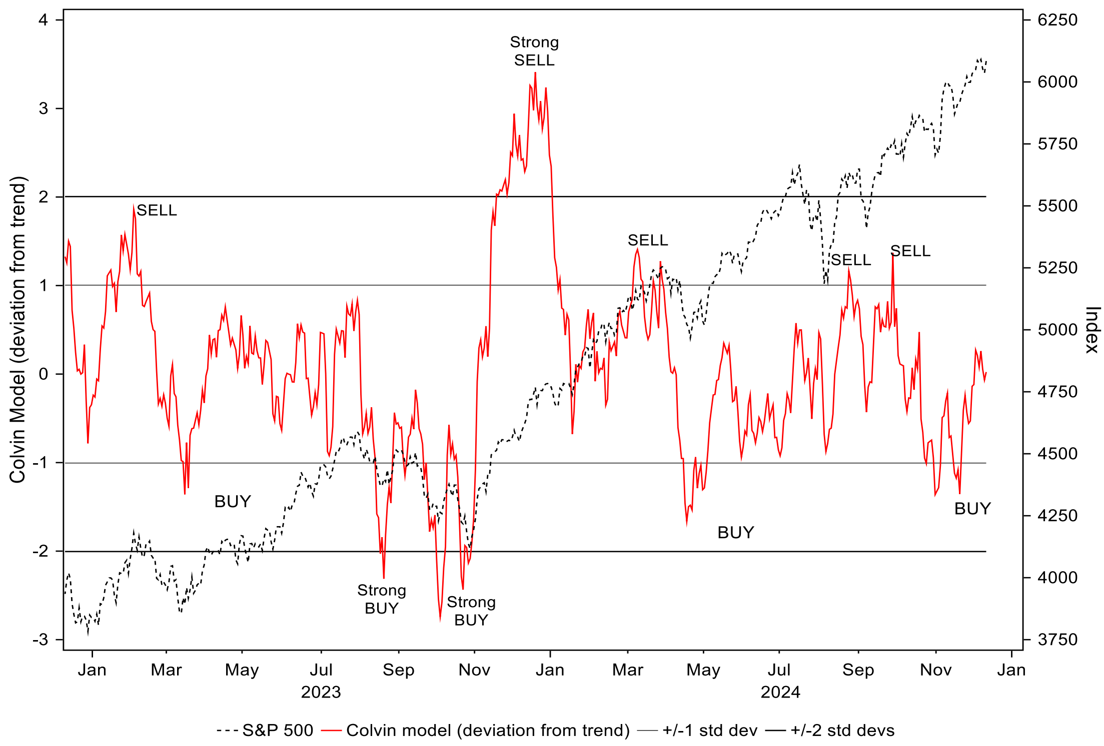
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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