LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

13th December 2024

"Re-instate LONG SPX futures position (on weakness)"

Email: info@longvieweconomics.com

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

- Move 1/3rd LONG S&P500 March 2025 futures on weakness, at 6,050;
- Increase position size to 2/3rds on further weakness, i.e. at 6,000;
- Place stop at 5,844 (i.e. 3% below blended entry).

Rationale

Inflation concerns appeared to resurface yesterday, with markets moving on the stronger than expected US PPI reading for November ('final PPI demand' was +0.4% M-o-M, vs. the consensus of +0.2%). Illustrating that, US 10 year yields moved higher (principally following that data release, to close at 4.32%, see FIG 1e); the US dollar strengthened (DXY: +0.2%); while certain precious metals/liquidity barometers were weaker (e.g. gold: -1.4% & silver: -2.9%).

With that, most of the 28 indices that we track closed lower, led by high beta parts of the market including the Nasdaq Transports (-1.4%); Russell 2000 (-1.4%); and NASDAQ Biotech (-2.0%). Breadth was also weak with the number of declining stocks on the NYSE significantly higher than the number that were advancing (FIG 1).

Having said that, **giveback in equities has been orderly, and the S&P500 has continued to follow its usual pattern for this time of year** (FIG 1a). That is, the index has basically traded sideways in the first half of December. Typical **seasonality in the second half points to a 'Santa Claus' rally** into year-end (i.e. probably beginning today or early next week).

Of note, while the S&P500 has consolidated its gains, SELL signals from our models (generated in early December) have mostly unwound, with several **indicators now either NEUTRAL, or close to BUY**. The S&P500, for example, is no longer overbought (FIG 2), cyclically sensitive indices are oversold (e.g. the Russell 2000, see FIG 2b) while various breadth, volatility, and momentum models for US equities are back on/close to BUY (e.g. see FIGs 2c – 2f). That supports the case for a resumption of the uptrend (especially given the seasonal patterns at this time of year). Elsewhere it's encouraging that US high yield credit spreads haven't widened as equities have consolidated in the past fortnight (see FIG 1d).

The case for re-instating LONG positions is therefore building.

Risks, as always, are multiple and include some of our short term models which are not yet onside for LONG positions (e.g. see FIG 2a, FIGs 3 – 3b, and FIGs 5 & 5a). Elsewhere, next week's Fed policy decision & press conference remains a key (two way) risk for markets.

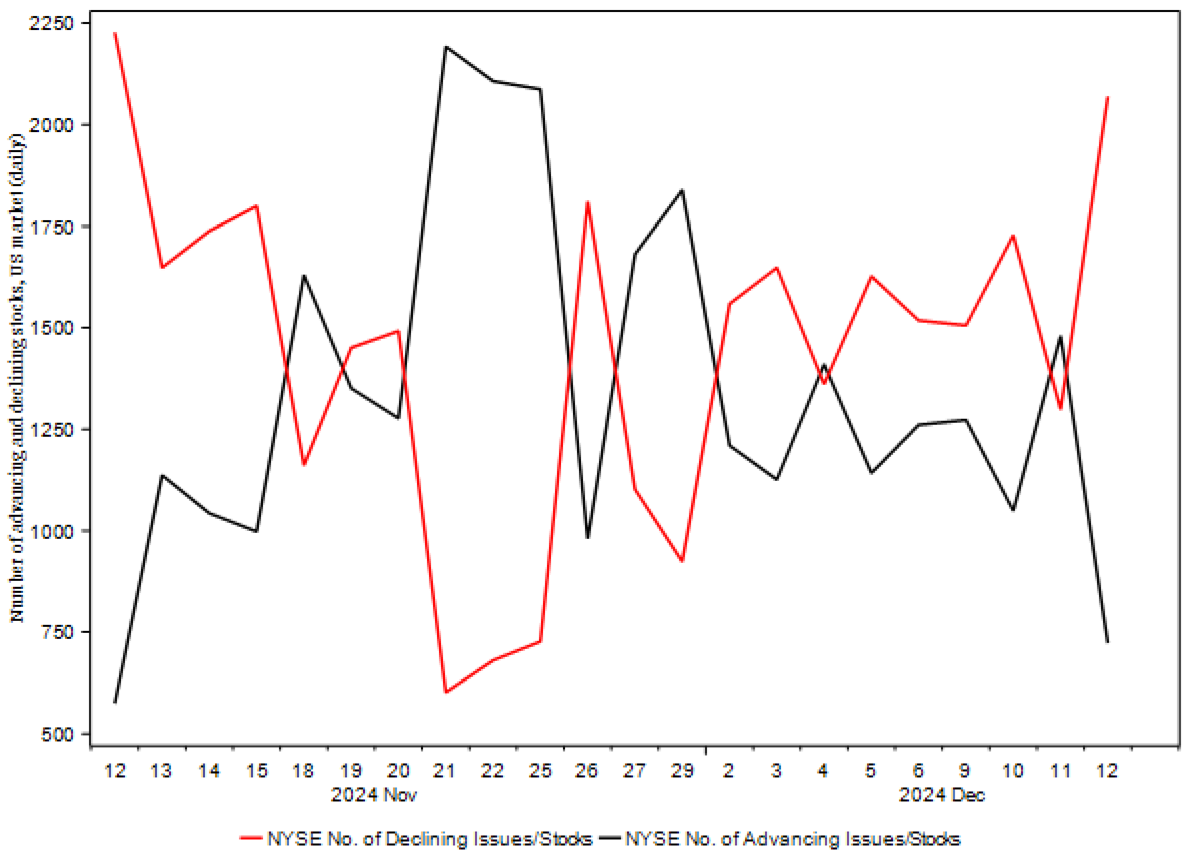
On balance, therefore, the **risk reward favours starting to BUILD LONG positions in the S&P500 on weakness**, if forthcoming, initially at 6,050 but adding to that position at lower levels (please see above for detailed recommendation).

A full list of today's key macro data & events is outlined below.

Kind regards,

The team @ Longview Economics

FIG 1: NYSE advancing & declining stocks (daily data/totals)



Source: Longview Economics, Macrobond

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

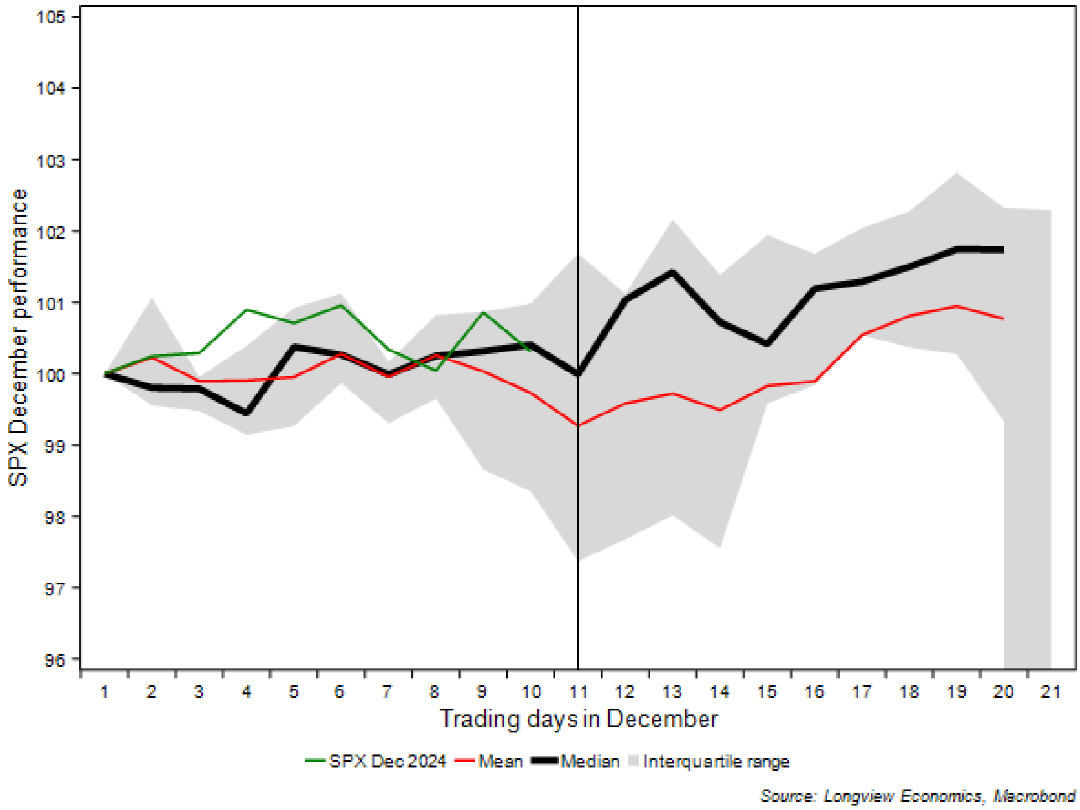


FIG 1b: S&P500 futures 10-day tick chart shown with overnight price action

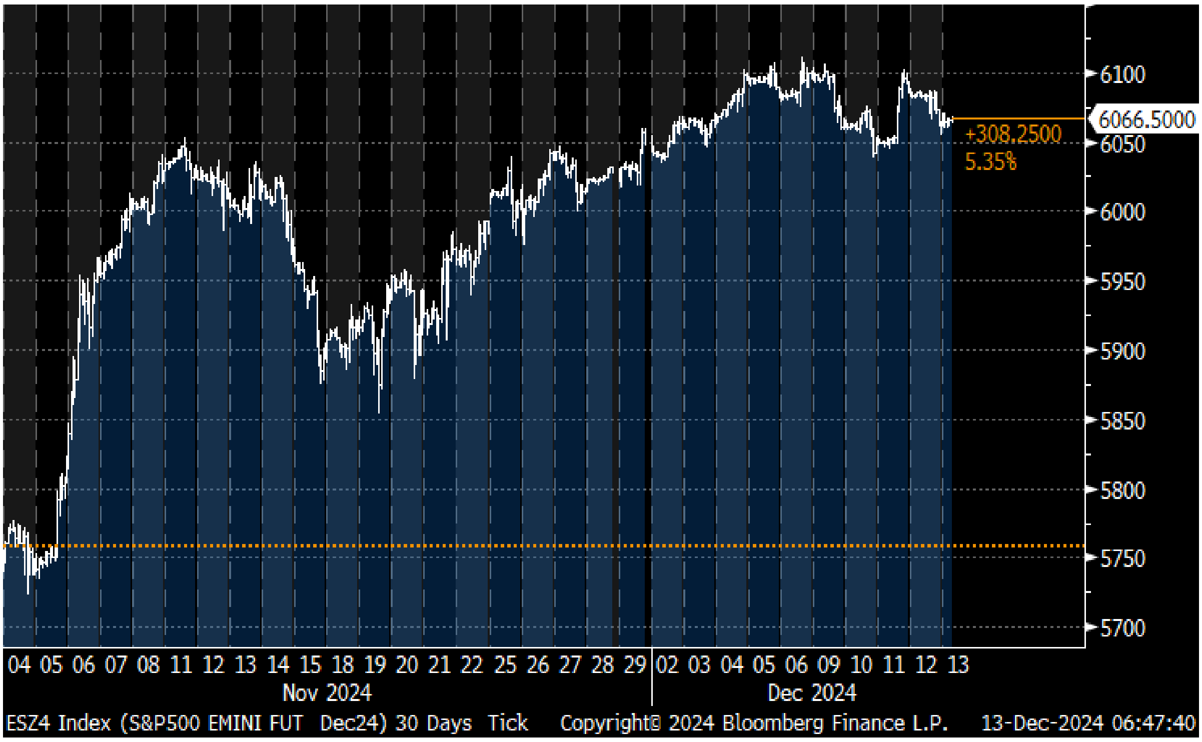


FIG 1c: S&P500 futures shown with 10 & 50 day moving averages

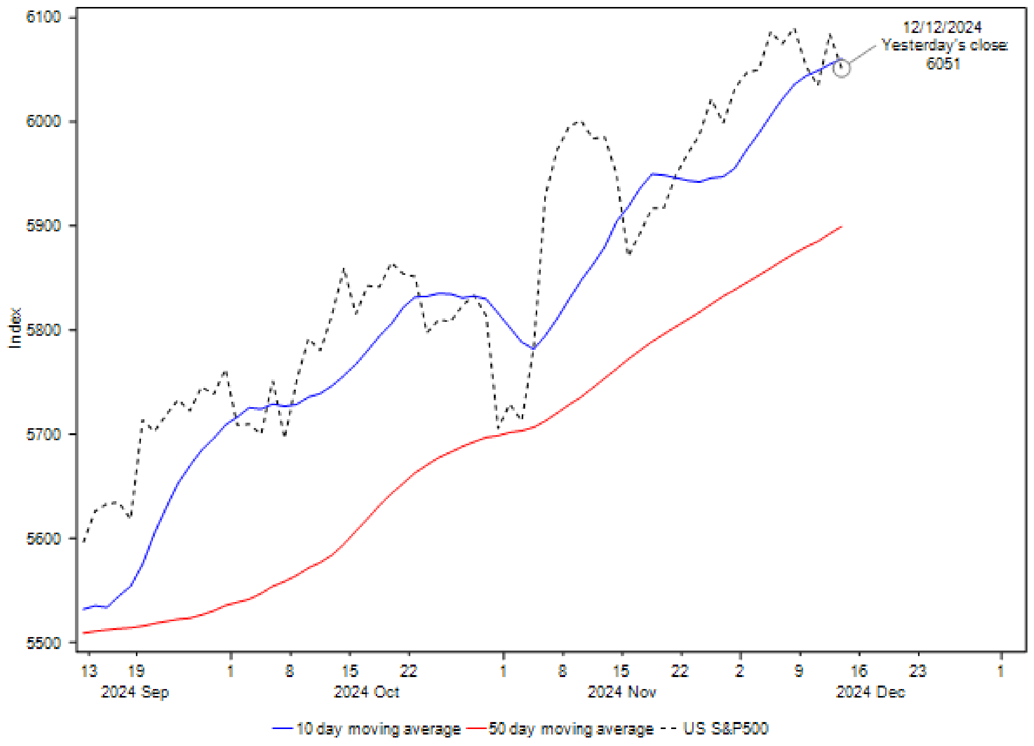


FIG 1d: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500

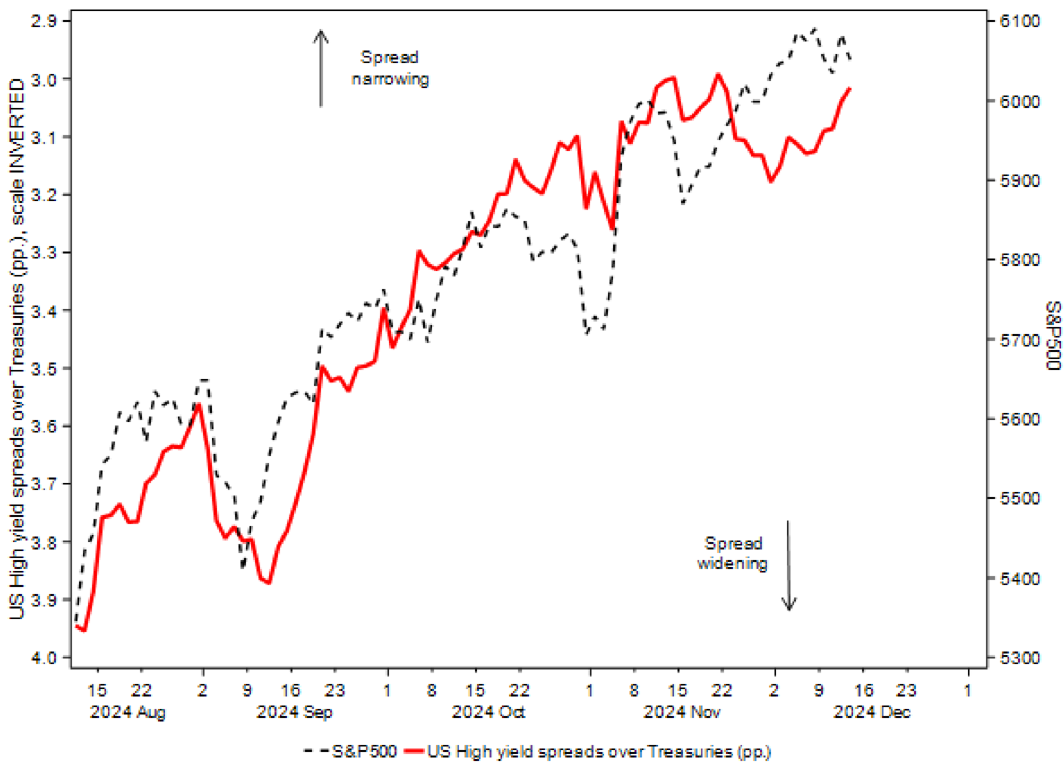
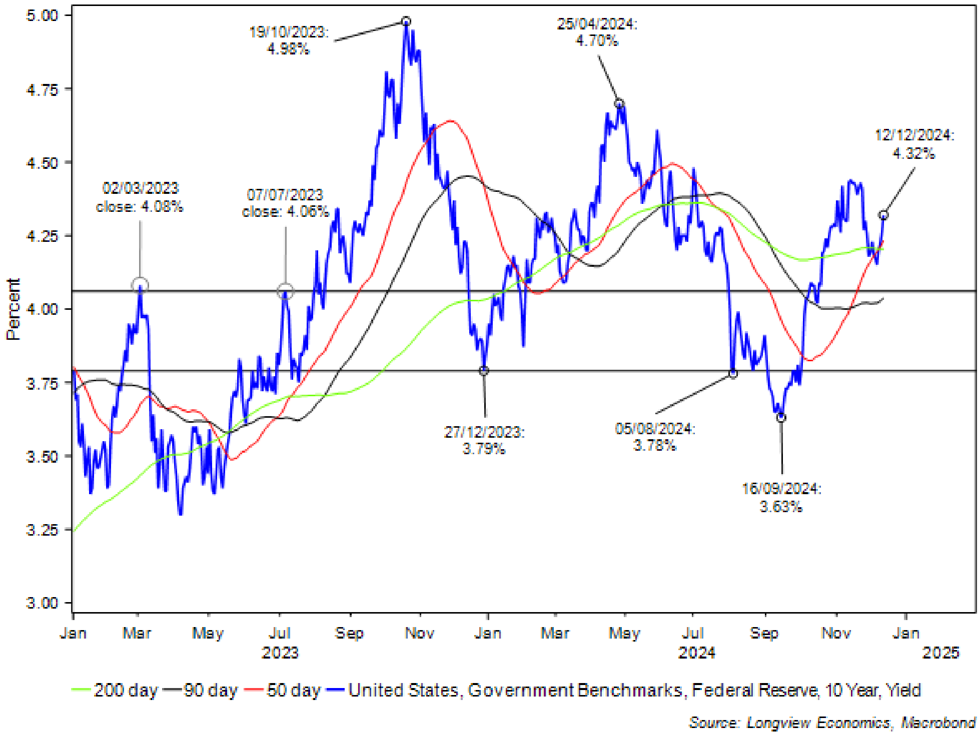


FIG 1e: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages



(index based) Technical models are mixed….

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

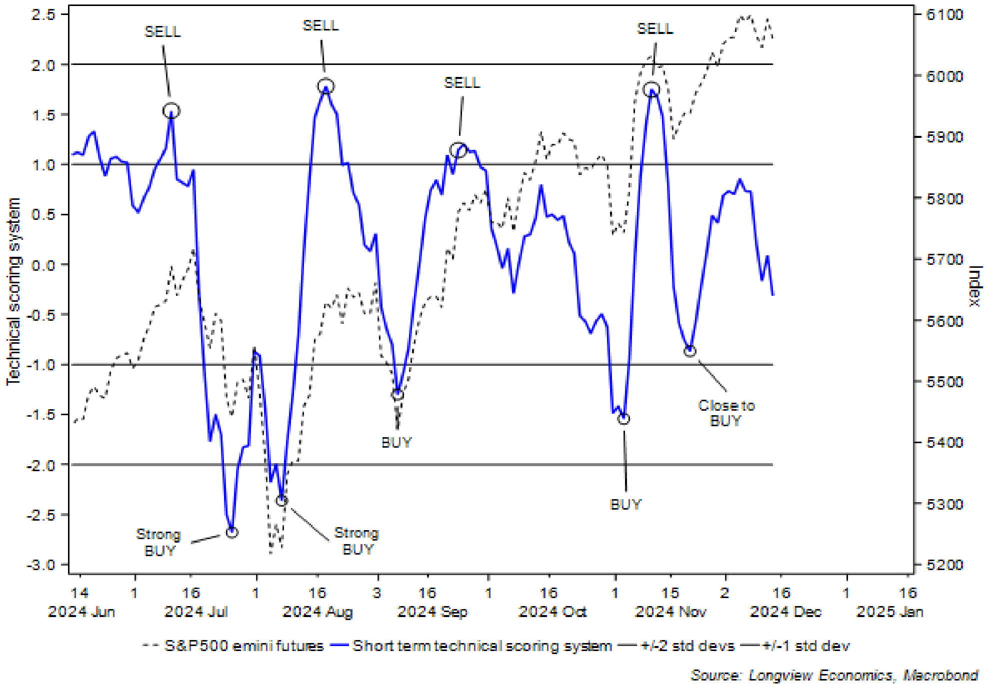
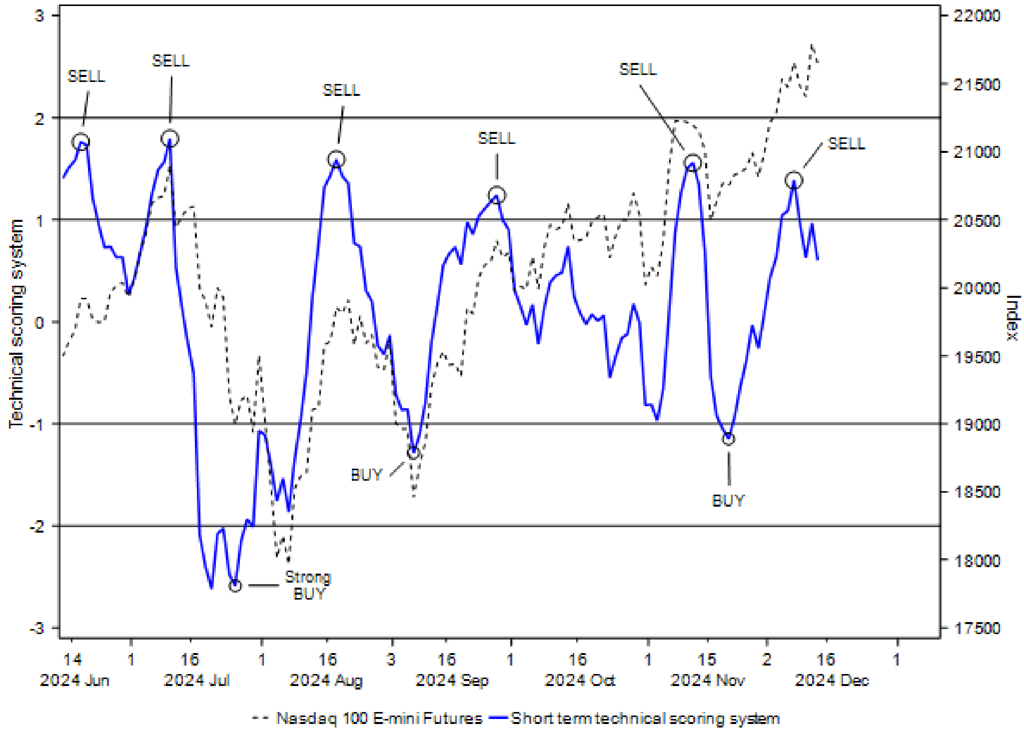
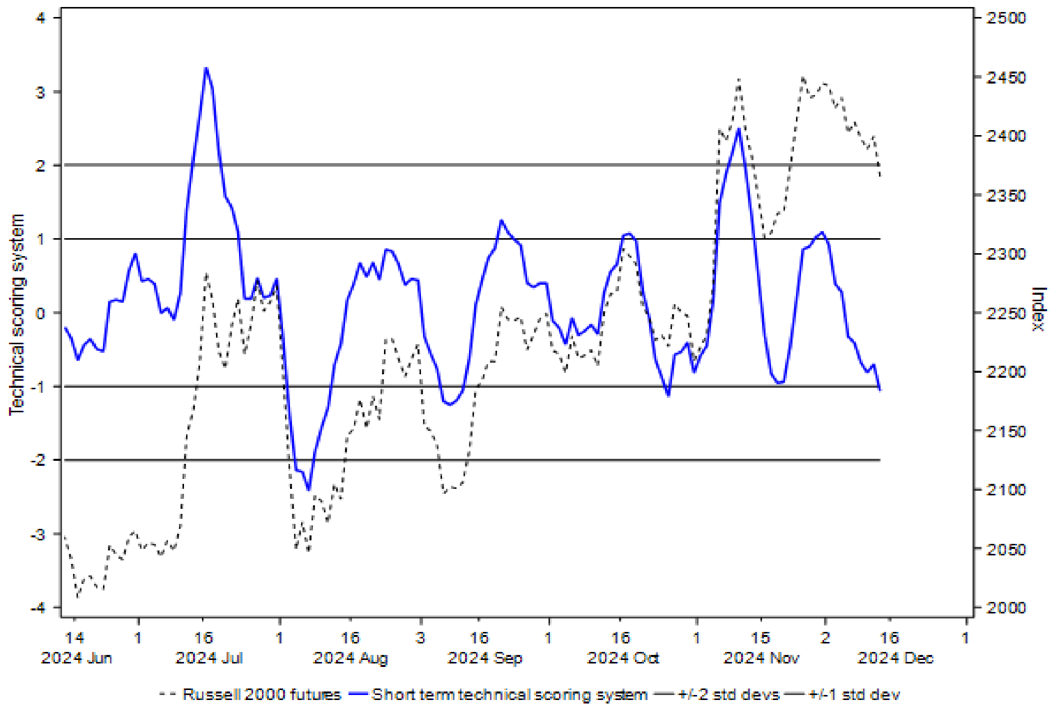


FIG 2a: Longview NDX100 short term **'technical'** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Single stock momentum & breadth models have moved lower and are now mostly back below their BUY thresholds…

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

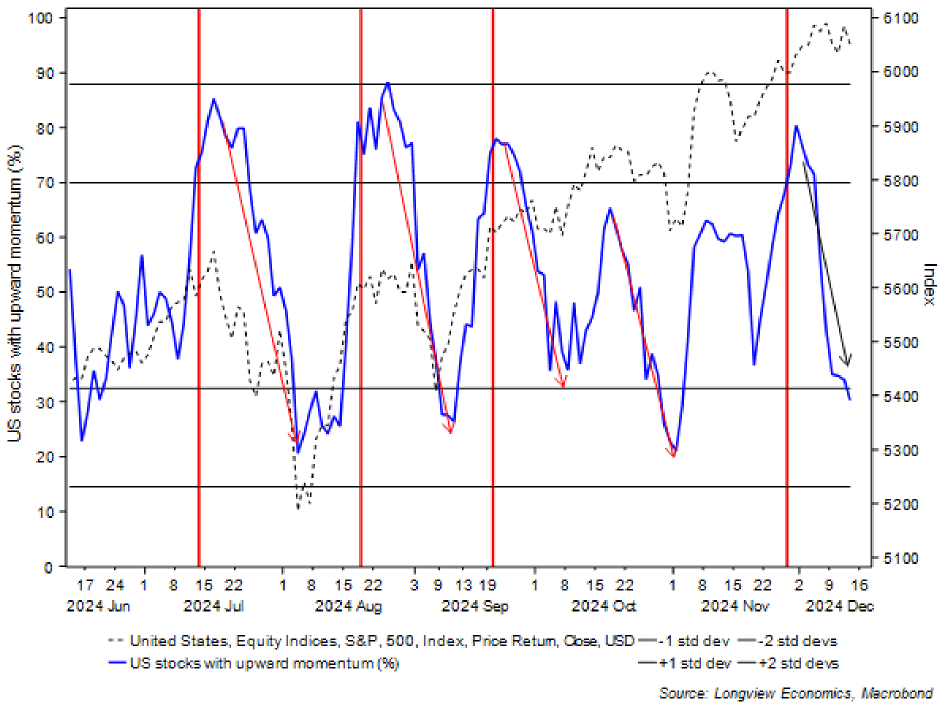
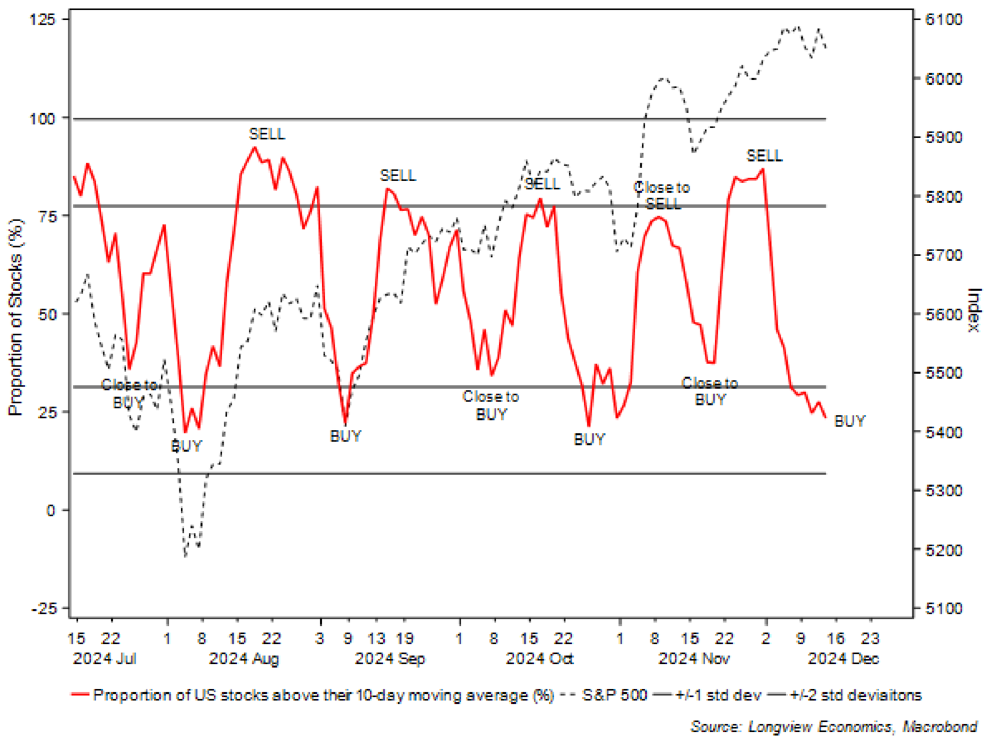
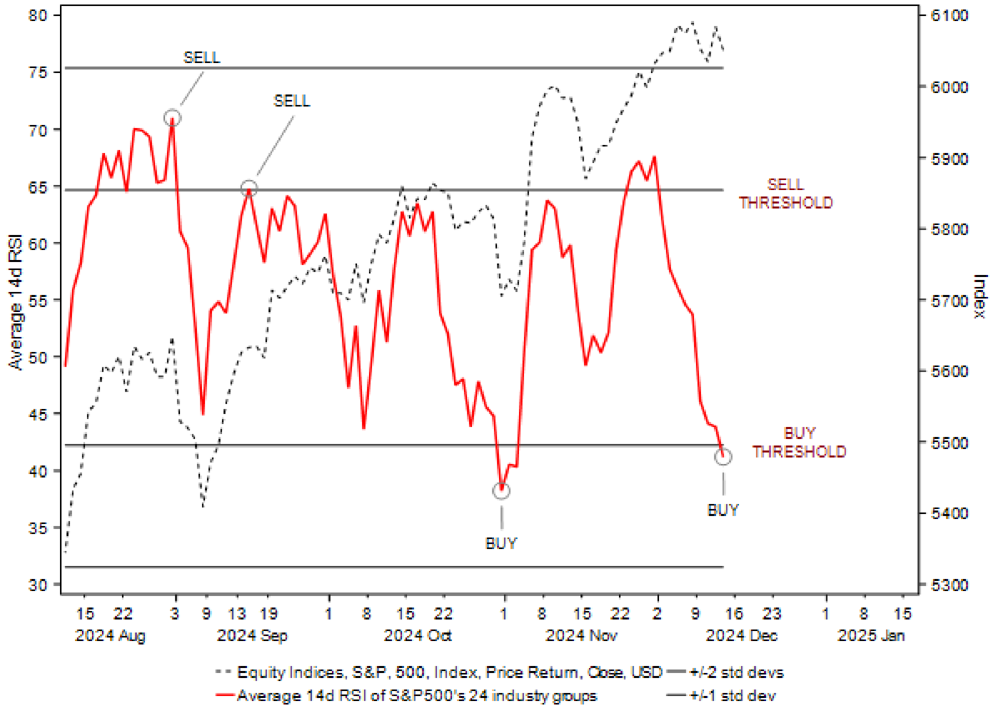


FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500



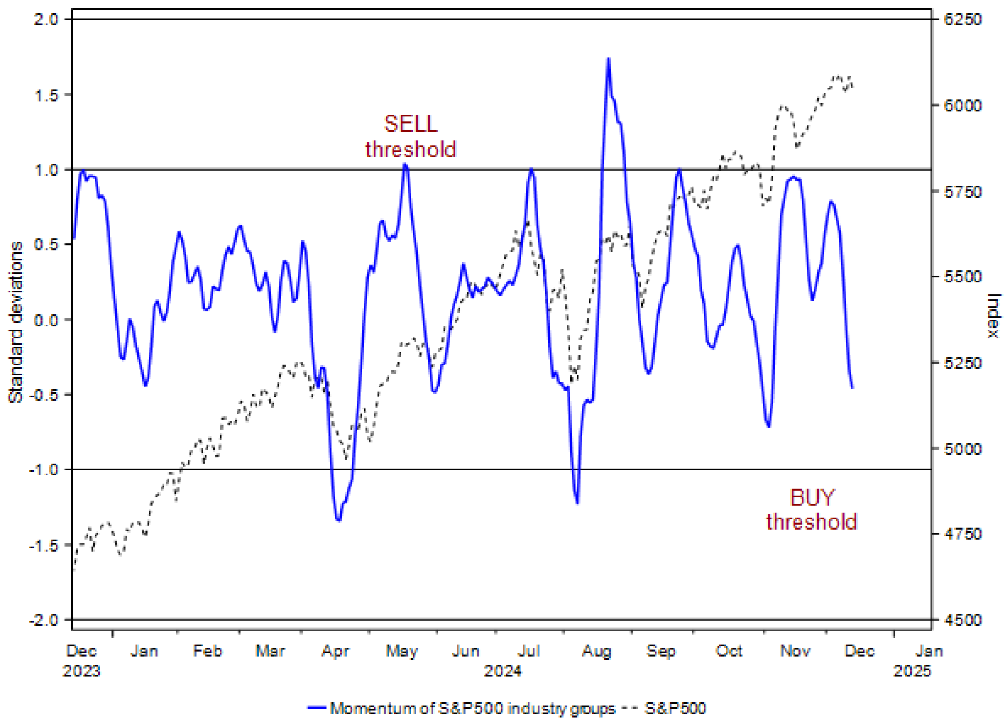
Sector models have a similar message (to the single stock ones)….

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

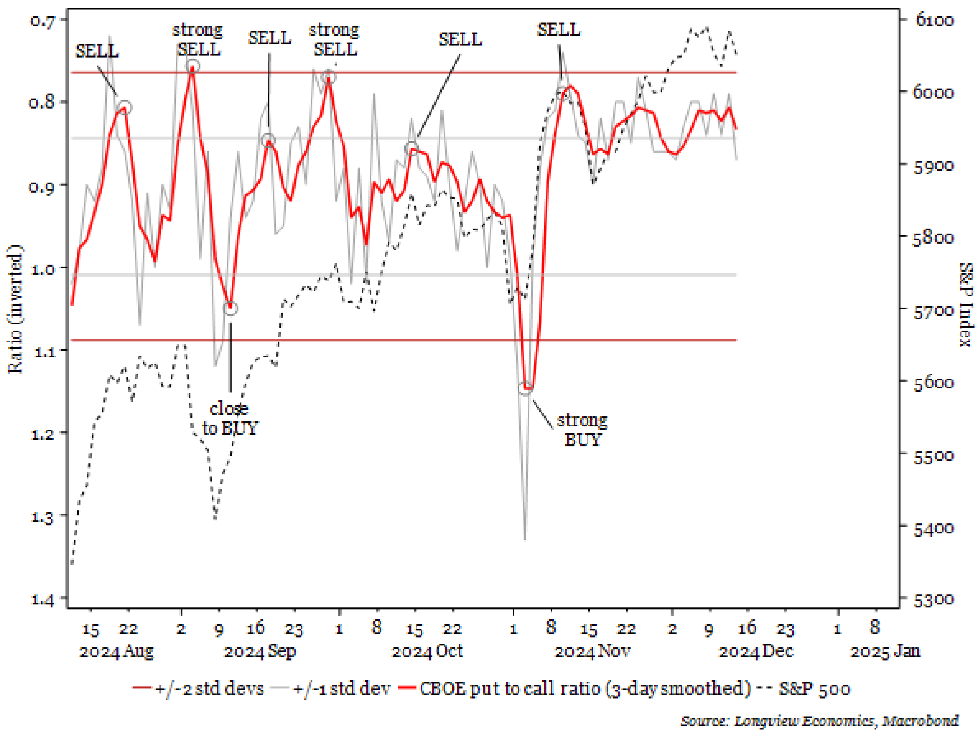
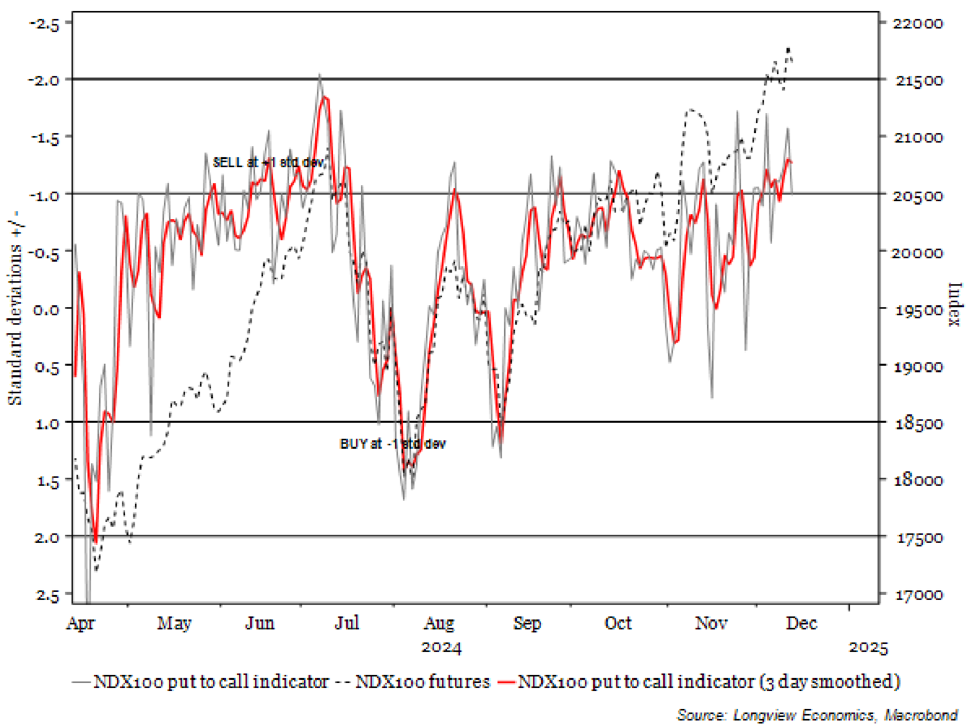
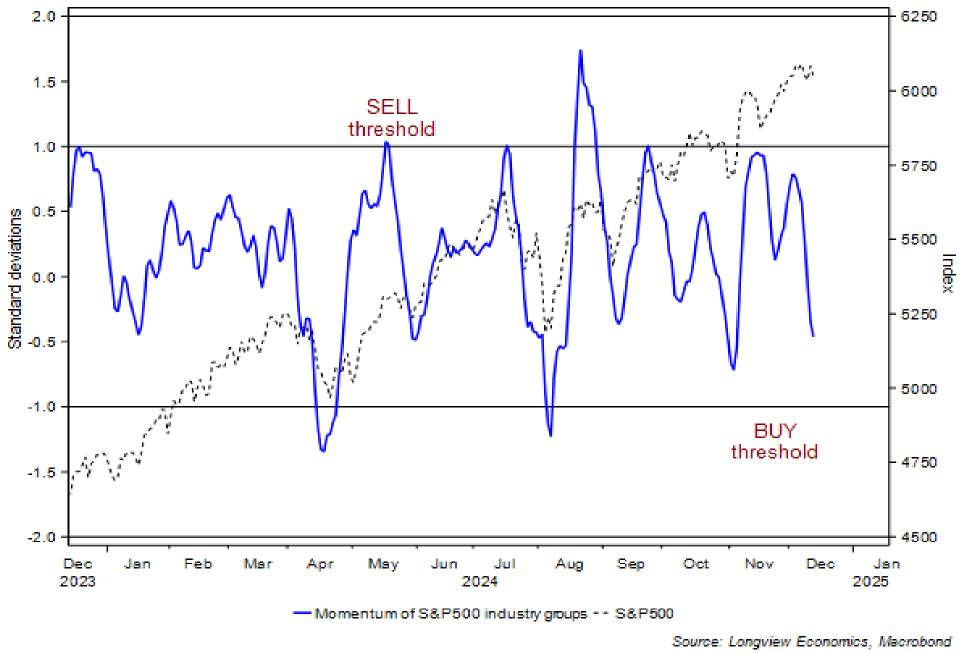


FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



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

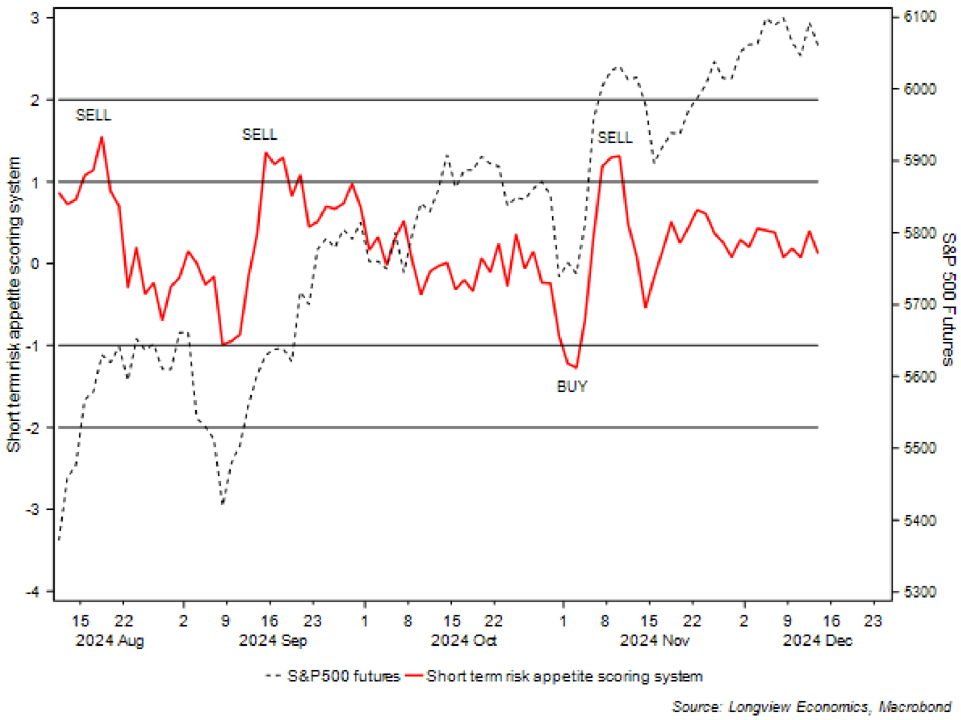
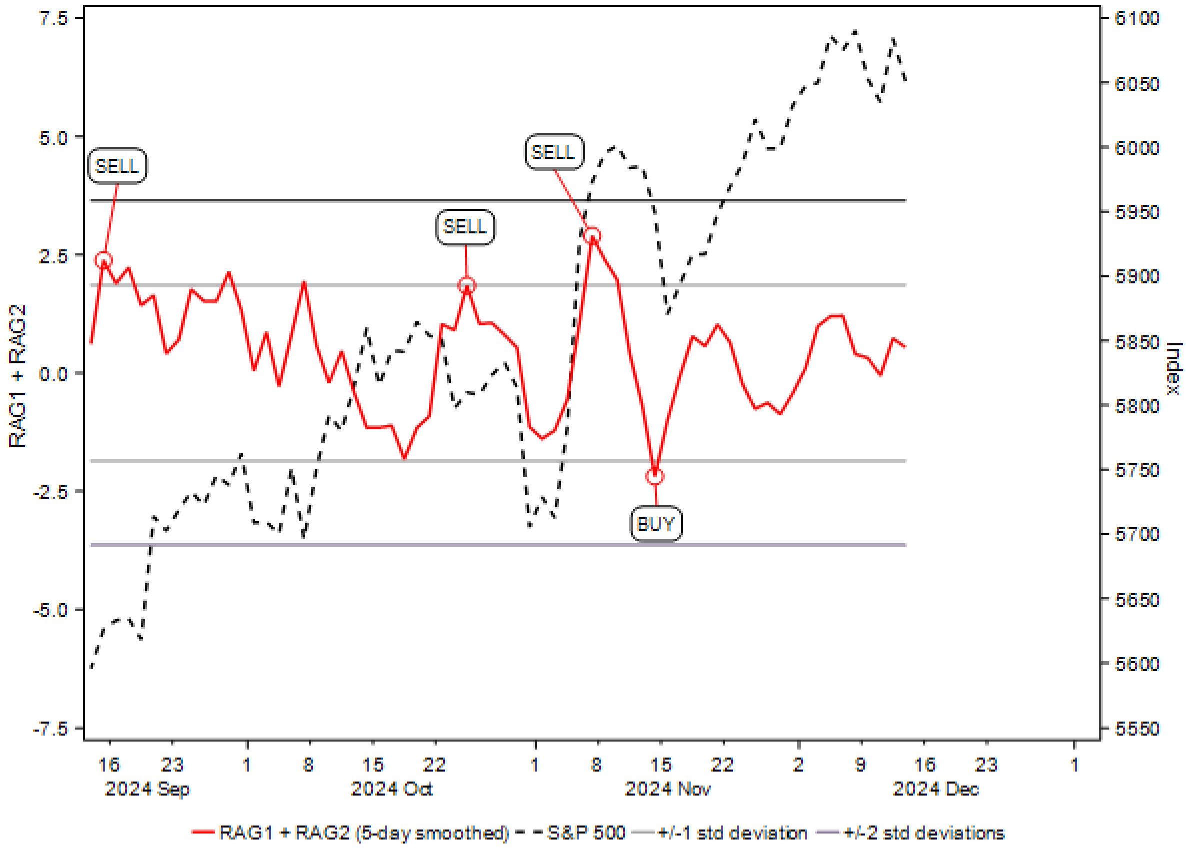


FIG 4a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

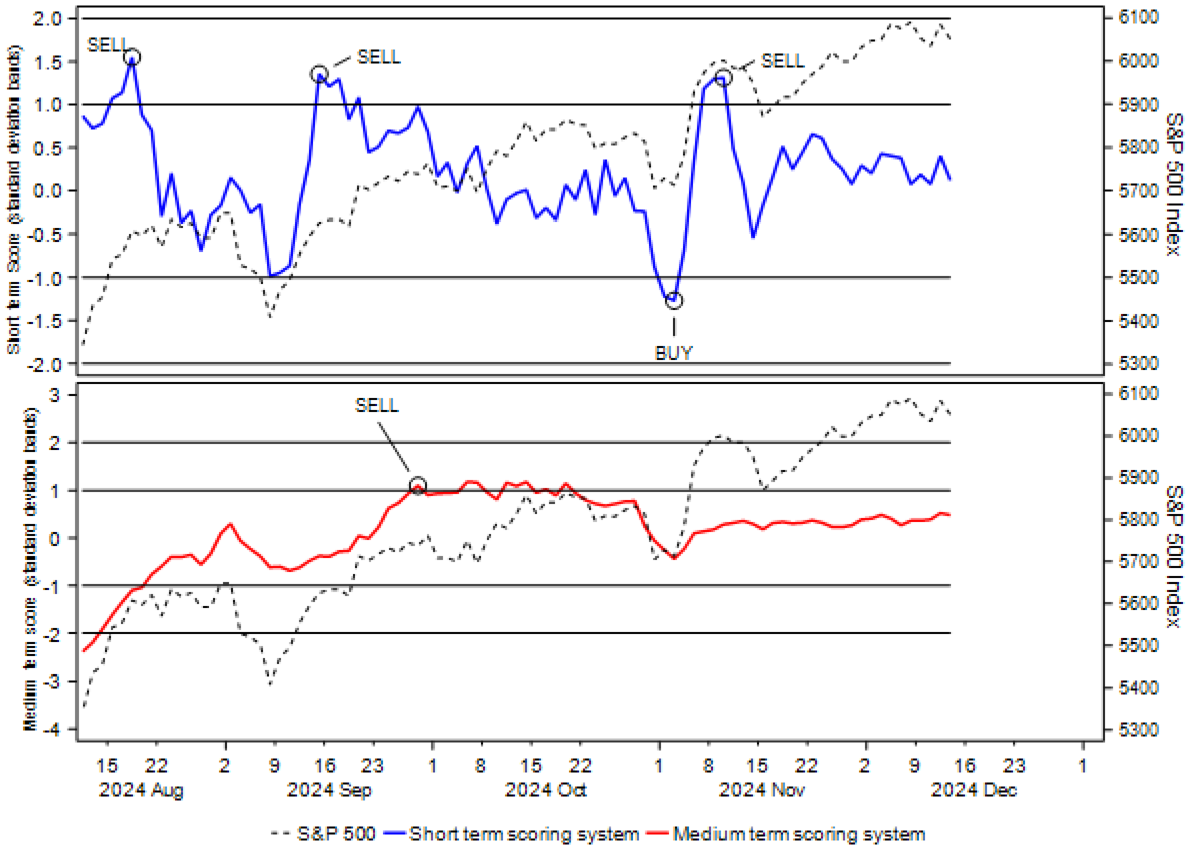


Source: Longview Economics, Macrobond

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 GfK consumer confidence (Dec, 12:01am); Japanese industrial production & capacity utilisation (October final estimate, 4:30am); **Chinese total social financing, new yuan loans, and M0, M1 & M2 money supply** (Nov, time tentative); UK monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (Oct, 7am); Bank of England 1 year inflation expectations (Nov, 9:30am); French headline & core CPI (November final estimate, 7:45am); French wages (Q3 final estimate, 7:45am); Spanish headline & core CPI (November final estimate, 8am); German imports/exports (Oct, 8am); **Eurozone industrial production** (Oct, 10am); US import & export price index (Nov, 1:30pm); Canadian capacity utilization (Q3, 1:30pm).

Key events today include: Speeches by the ECB's Villeroy in Paris (8am) & Holzmann in Vienna (9am); speech by the RBA's Hunter at the University of Adelaide (SACES) Luncheon (1:30am).

Key earnings today include: N/A

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

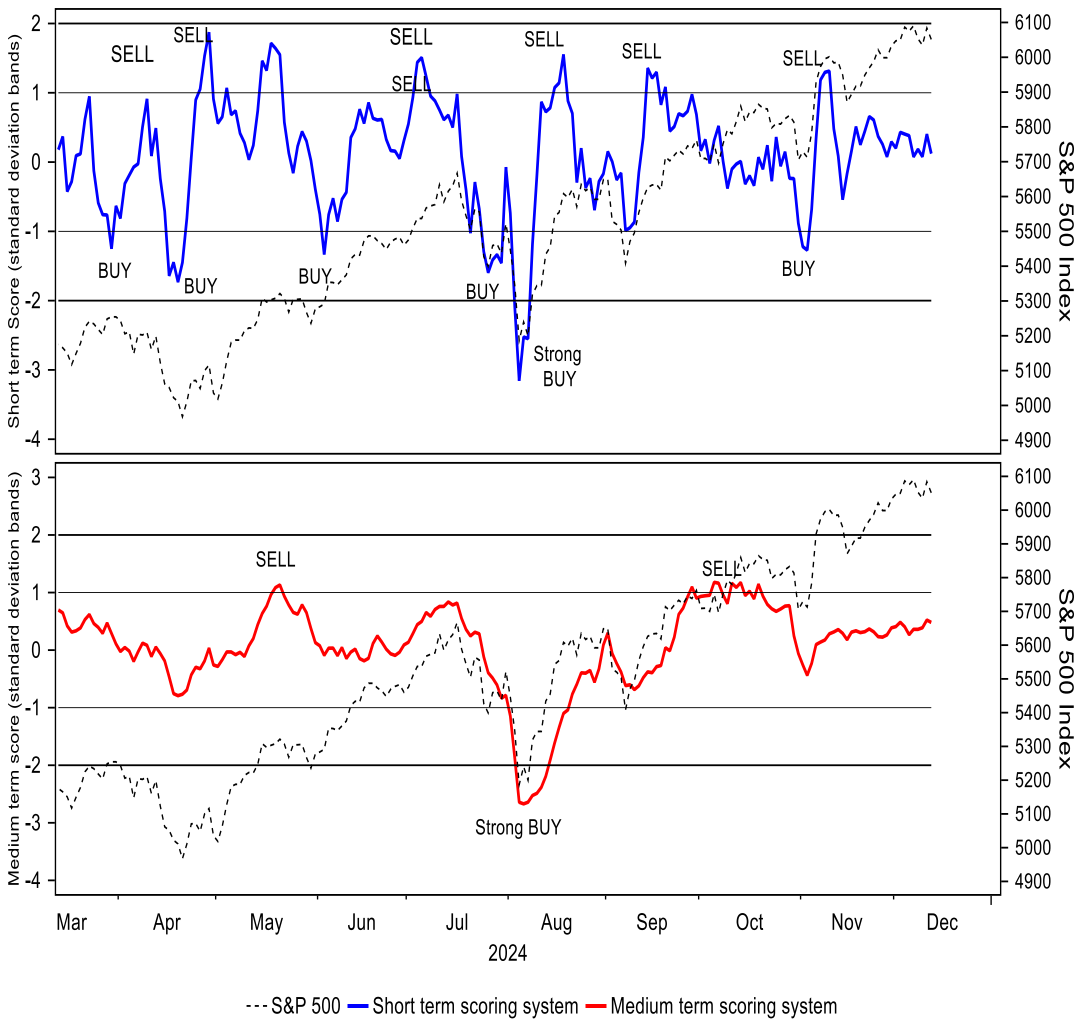
1 – 2 Week View on Risk

13th 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

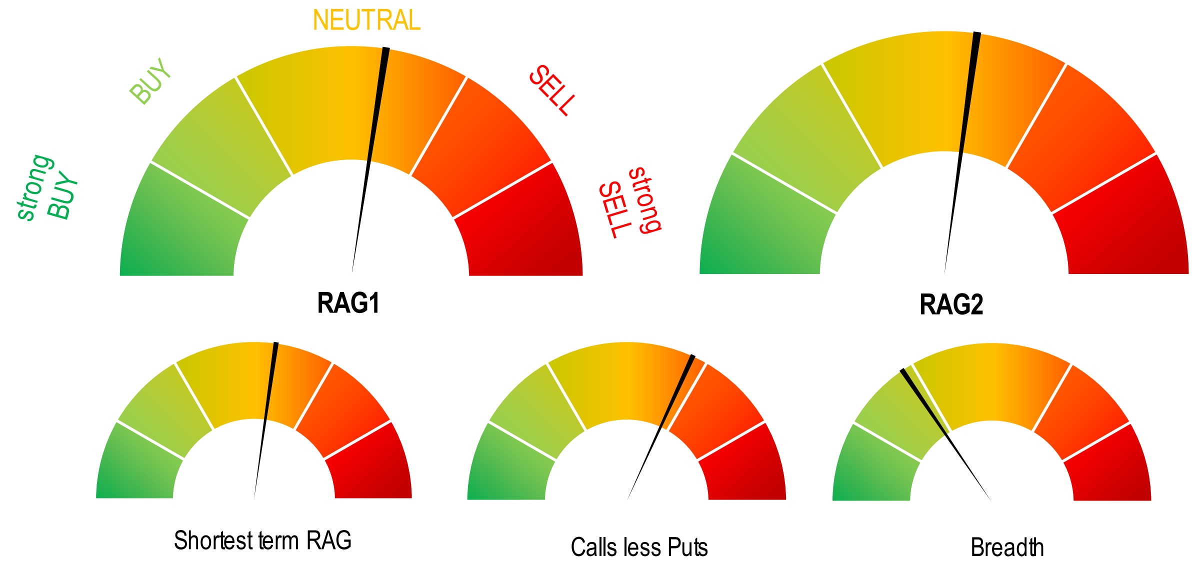
Source: Longview Economics, Macrobond

*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

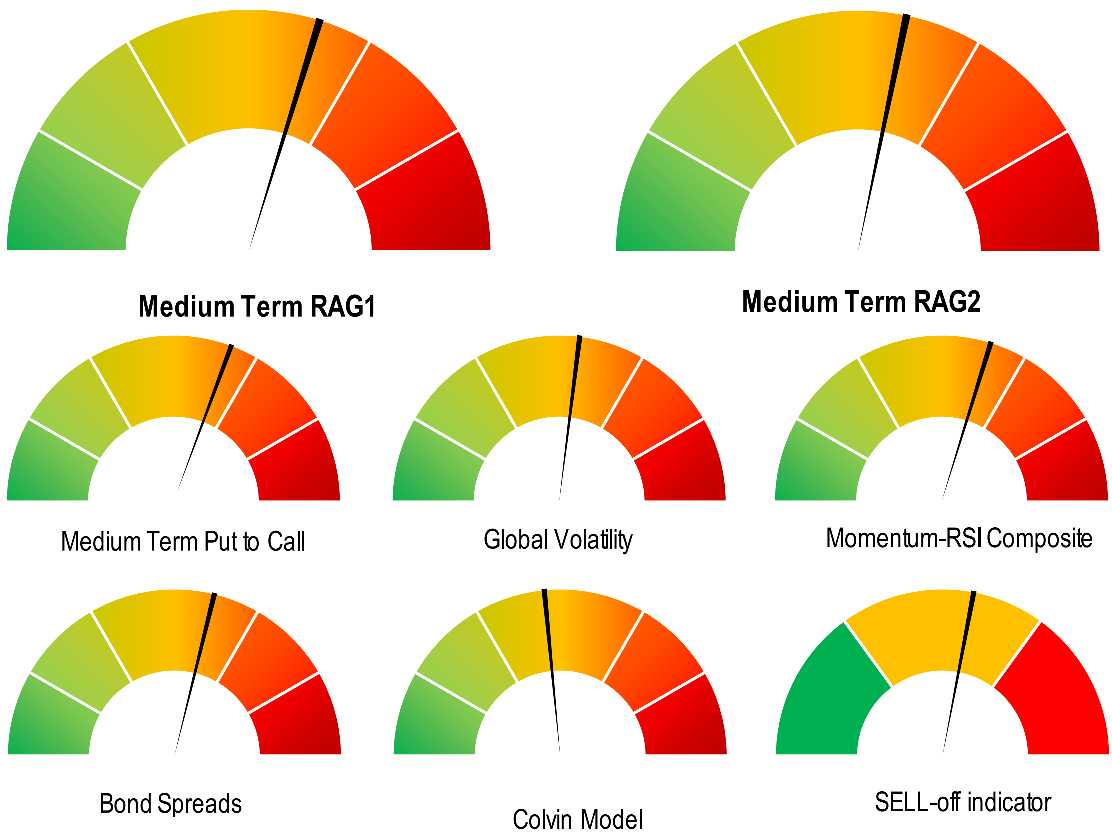
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

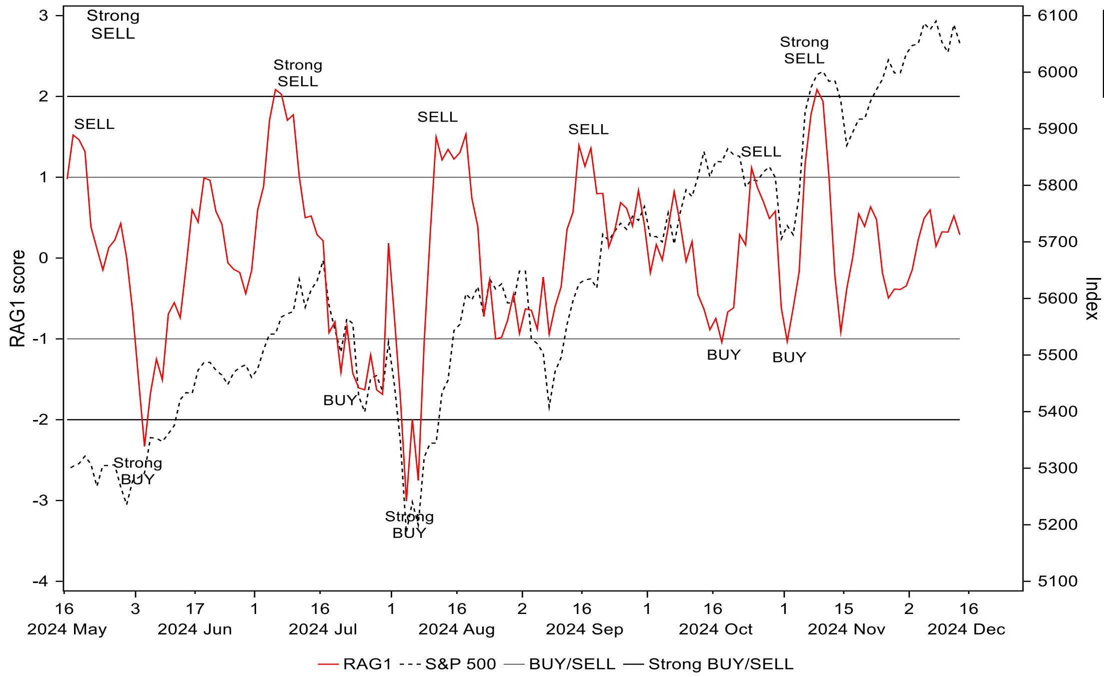
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

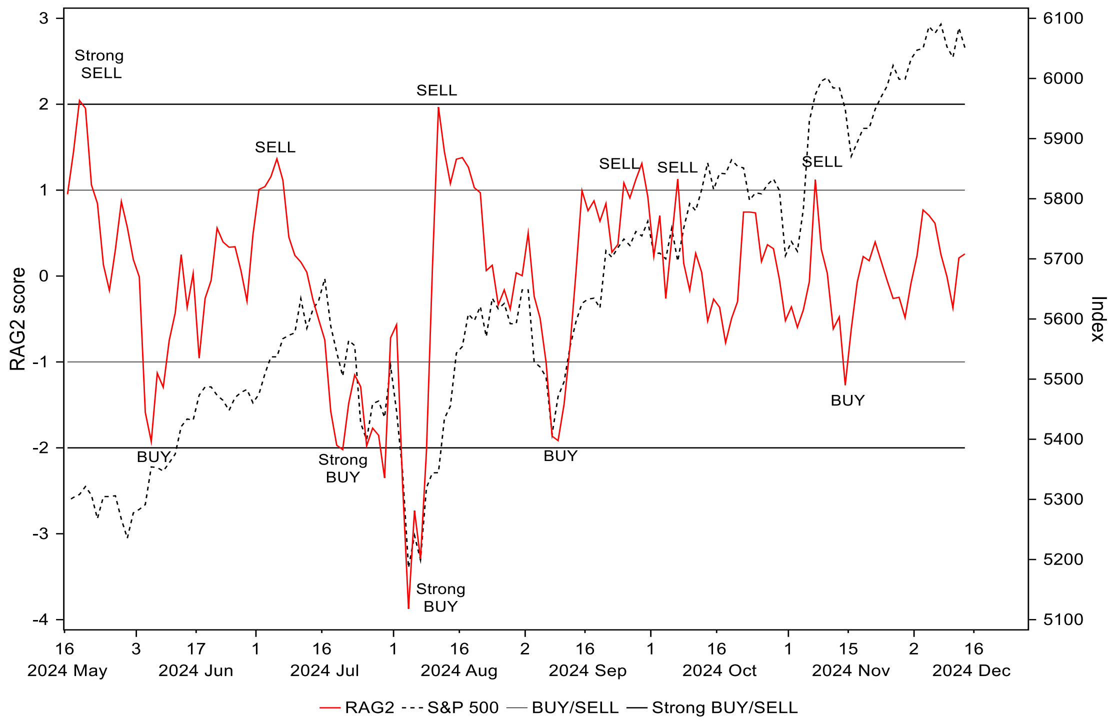
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

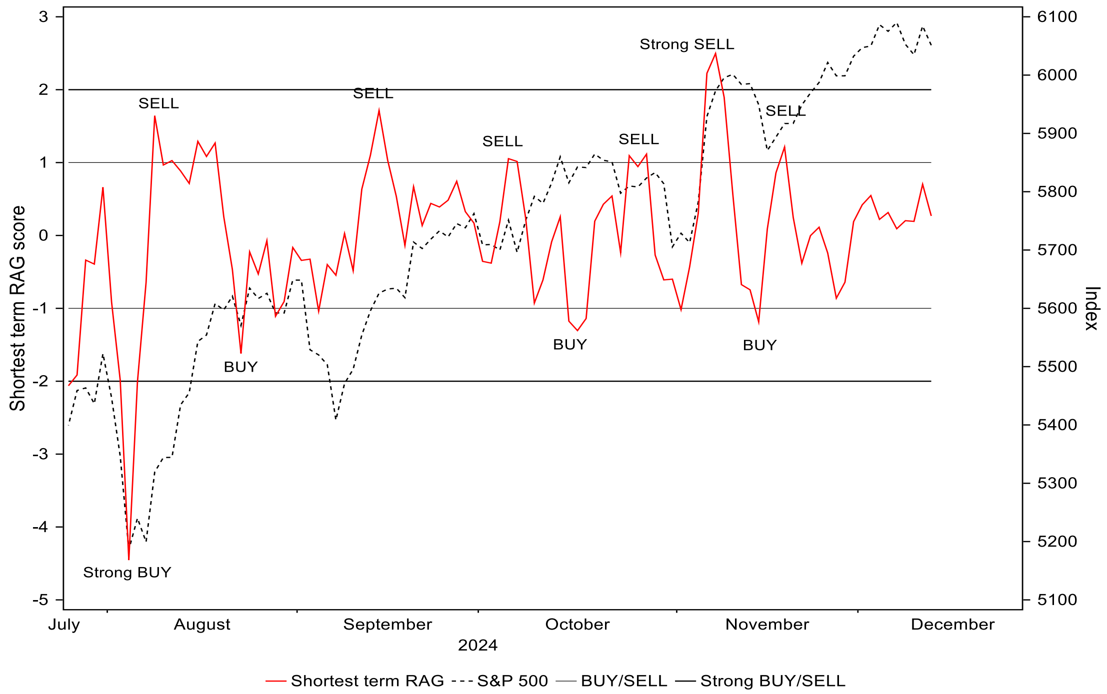


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

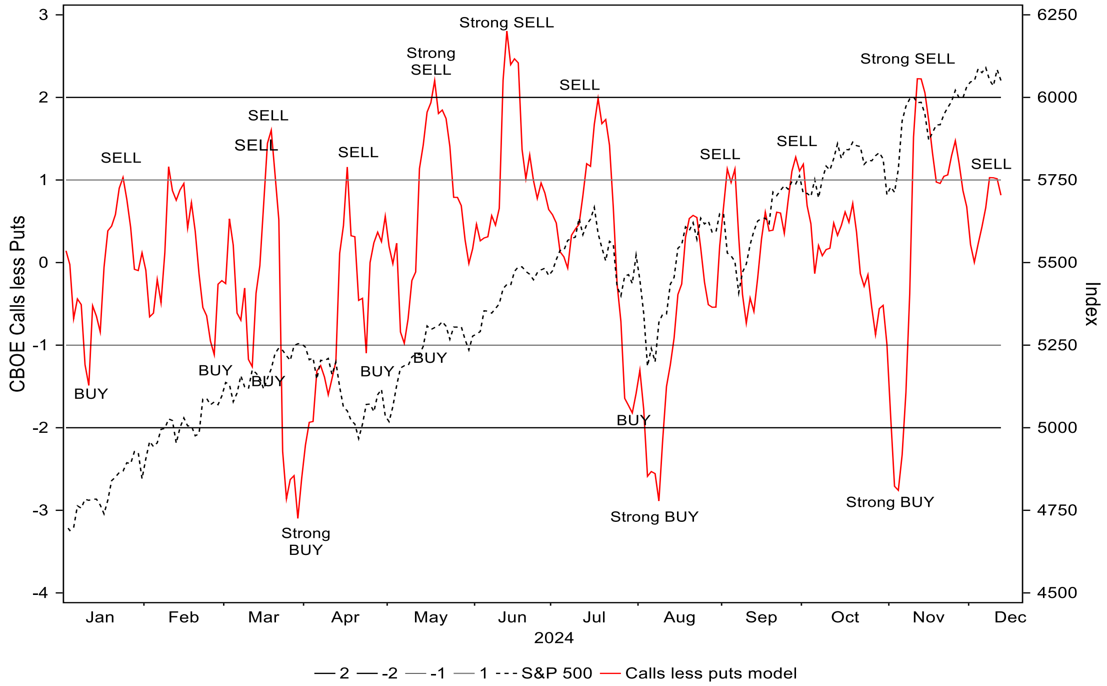
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

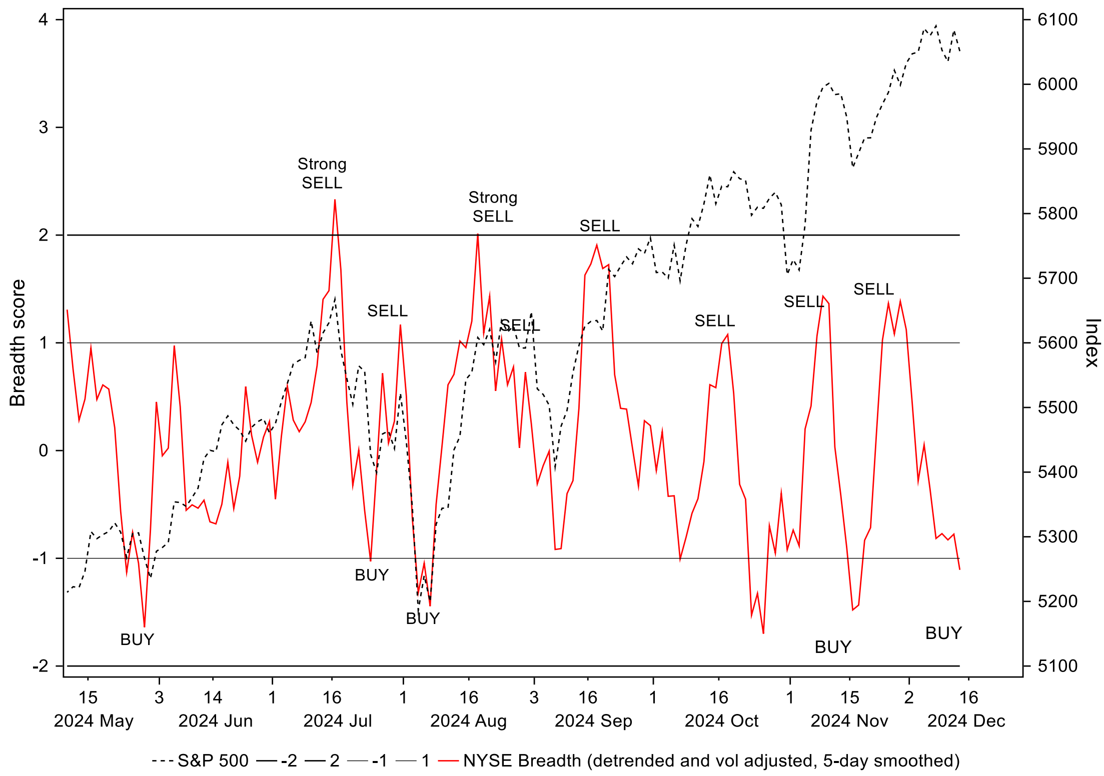


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



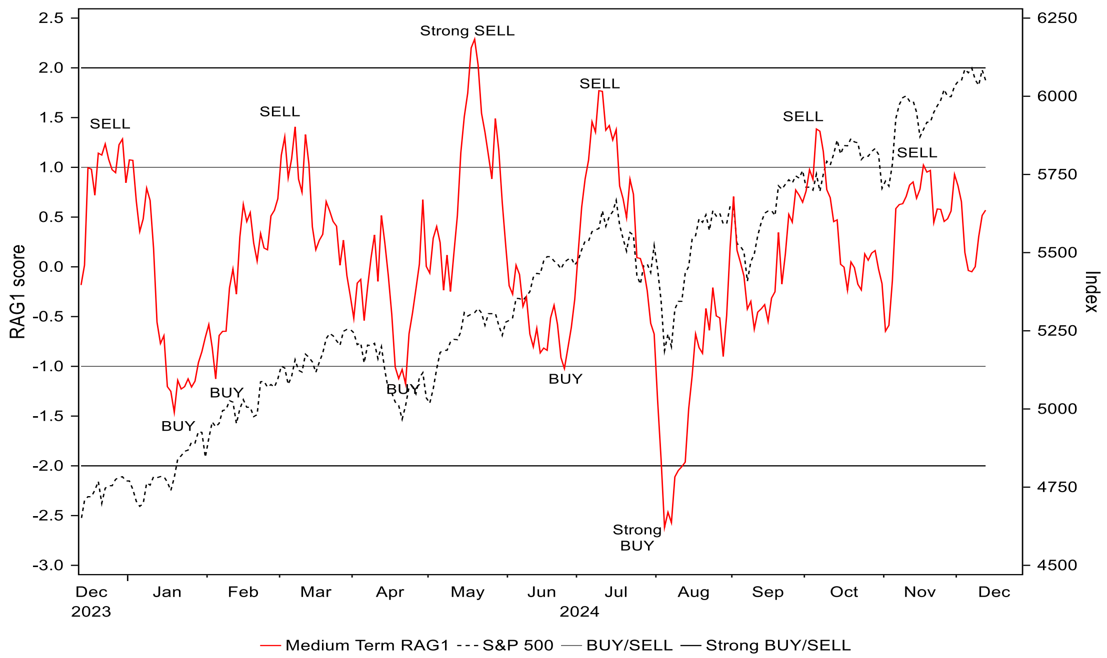
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

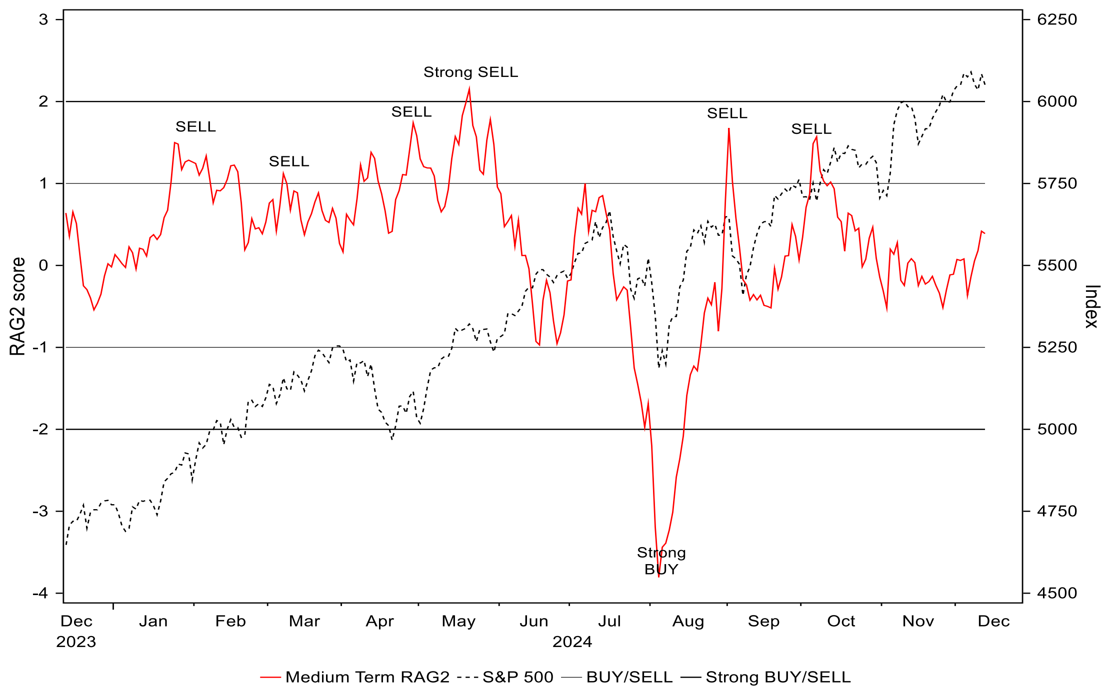
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

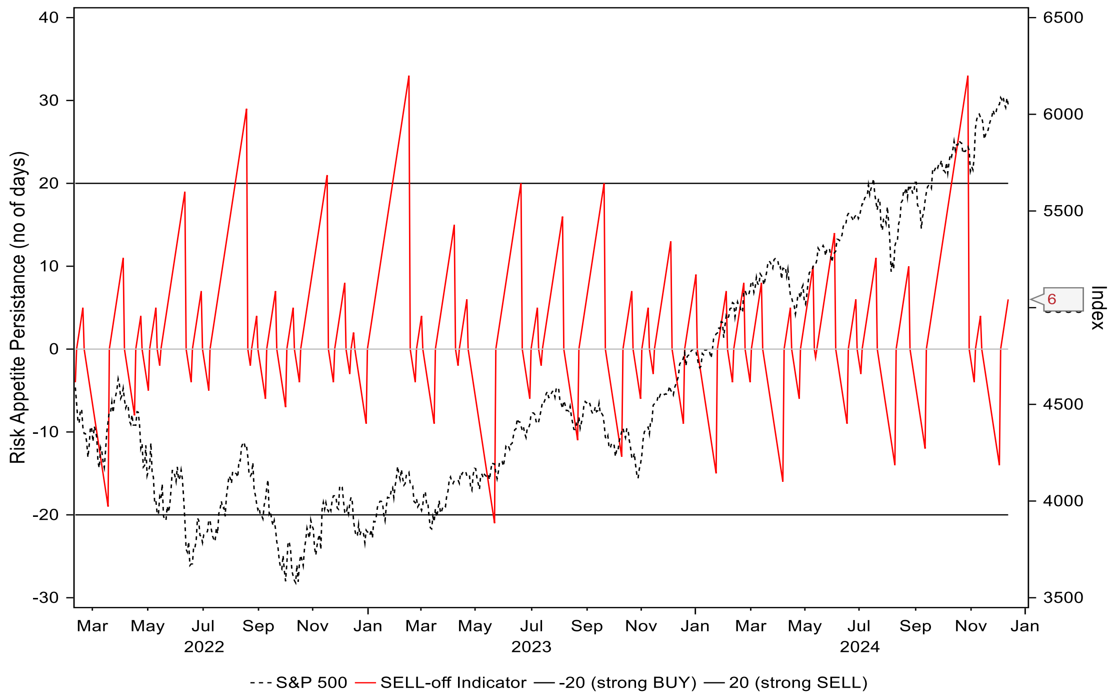


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

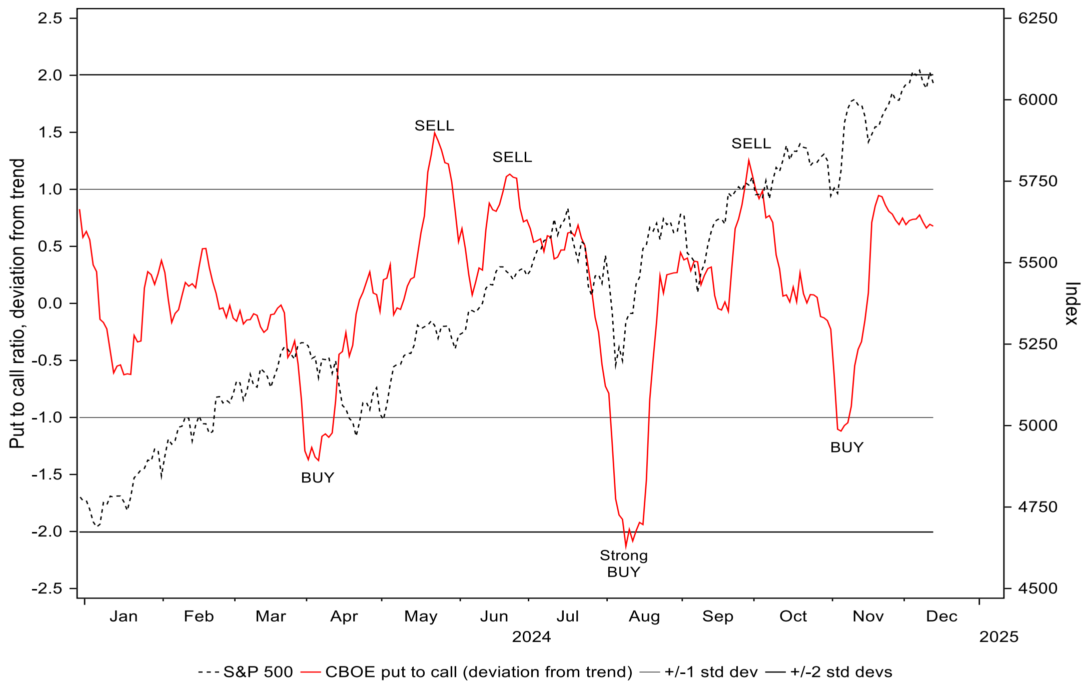
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

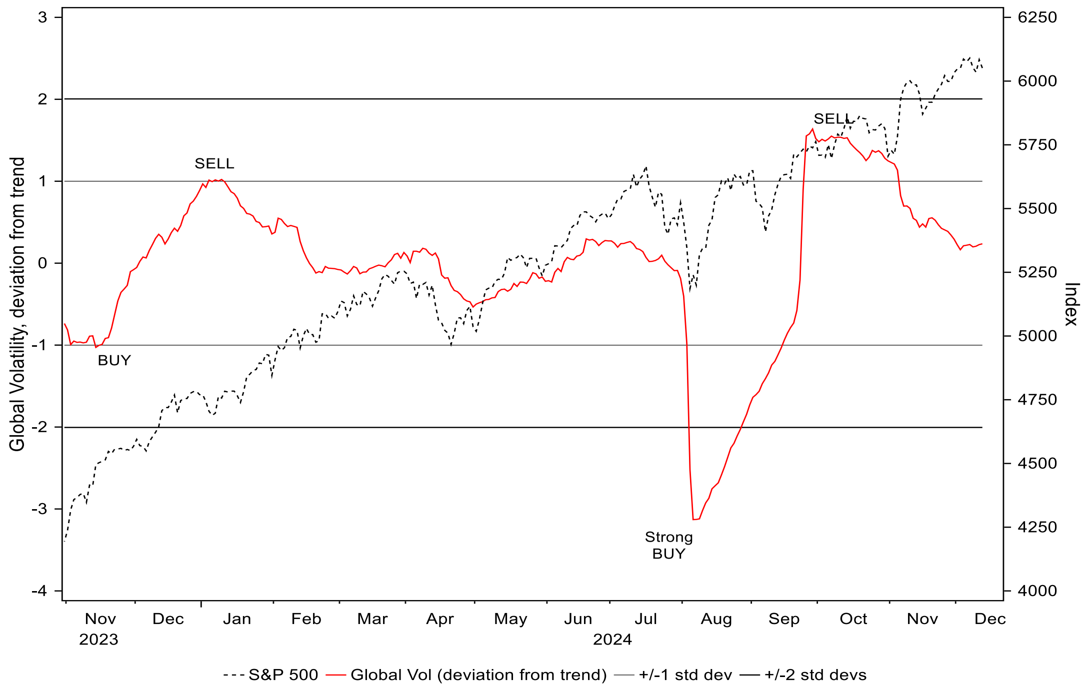


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

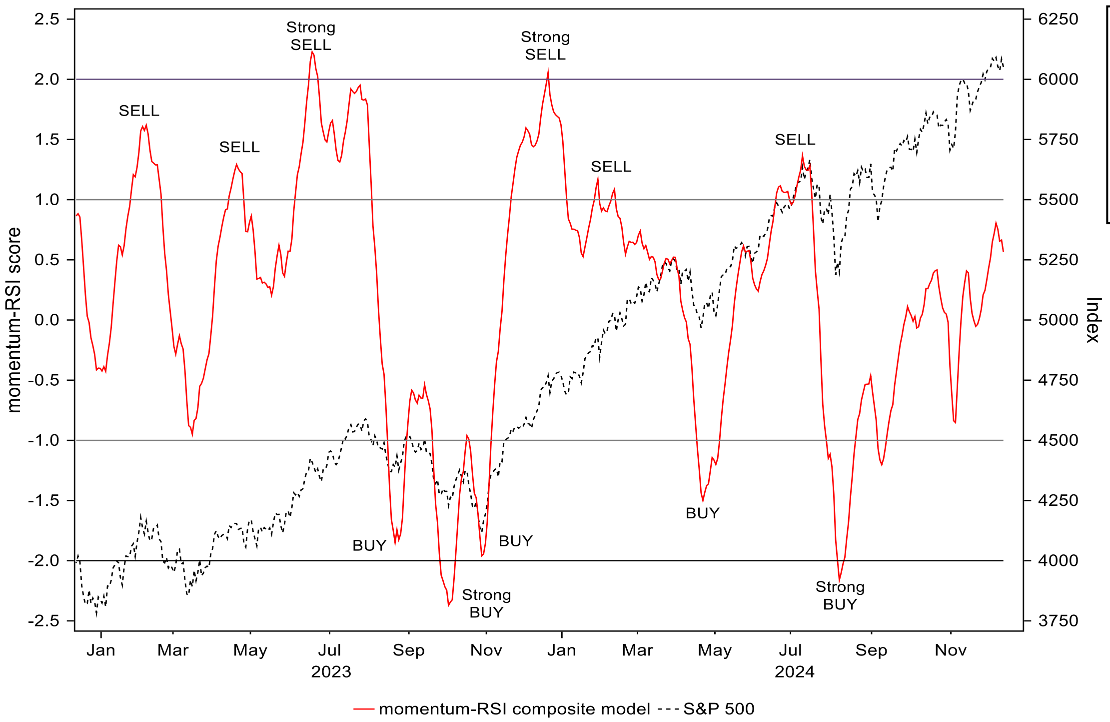
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

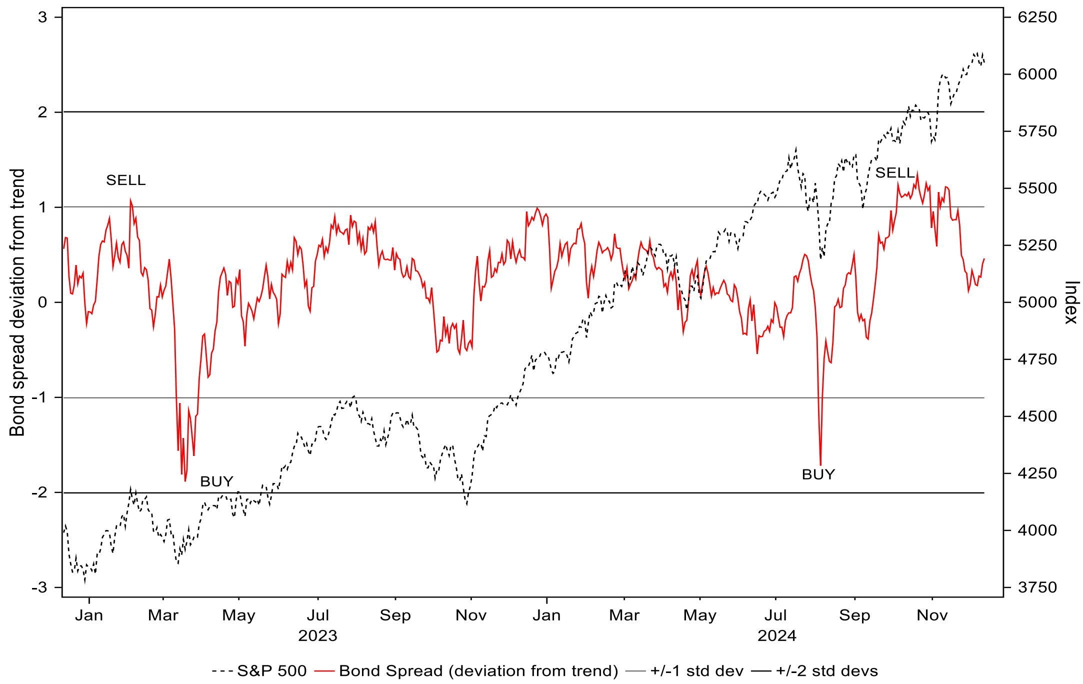
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

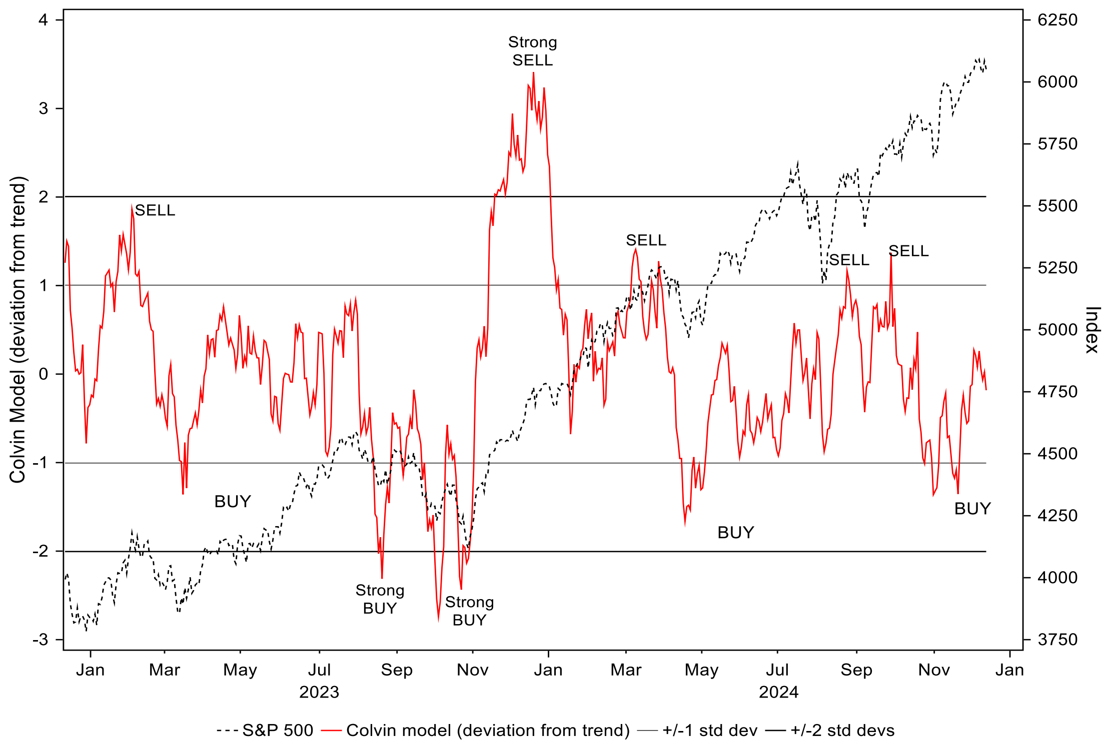
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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