Equity Index Futures Trading Recommendations

13th January 2025

"Risk Reward Changing - SPX Close to Key Support Levels"

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

- Start BUILDing LONG S&P500 March futures position on weakness (if forthcoming).
- Specifically MOVE ¼ LONG S&P500 March futures at 5,750.
- Implement a 3% stop loss.

Rationale

Markets remained under pressure on Friday as the stronger than expected non-farm payrolls data pushed US bond yields higher, priced rate cuts out of the curve (i.e. 15bps from Dec 2025 Fed fund futures) and pushed equities lower. Earlier in Friday's session, the S&P500 futures had been up on the day (and close to our entry position at 5,960 –> with an intraday high of 5,959.25). Markets sold off sharply, though, as soon as the labour market data was published (1:30pm London time/8:30am EST). As such, and with the S&P500 down 1.5% by the close on Friday, the market is now trading near the lower end of its multi-month consolidation range. That range is 5,800 to 6,100/6,150 (FIG 1a). Below those lows, further key long-term support is also at 5,720 (i.e. intraday highs from July 2024, and lows in early October and November – see FIG 1b).

As this consolidation phase has played out, models have been unwinding their SELL signals. Many of them are on/starting to move onto BUY. Technical models, as highlighted last week for example, are already on BUY. Equity indices are close to oversold on our technical scoring systems (FIGs 4 & 4a); the S&P500 is close to overextended to the downside relative to its 10-day moving average (FIG 4b); while sector and single stock technical models are all on BUY (FIGs 4c & 4d). Our single stock momentum model, for example, which measures and aggregates the momentum across a wide range of US single stocks is back on BUY (and liable to reach strong BUY with 1 – 2 days of further weakness). The put to call ratios have also been moving rapidly and are collectively moving towards BUY (see FIGs 3, 3a & 3b). In contrast, while risk appetite models have moved lower, they remain at high levels (FIGs 2 & 2a). Short term models overall, therefore, are moving towards generating a collective BUY signal (but are not yet at that point).

Bonds, meanwhile, which have been pressurising equities as yields have backed up, are also at oversold levels. A medium-term RSI for US 10-year Treasuries, for example, is on BUY (and is close to 2 standard deviations oversold – FIG 1).

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Overall, therefore, there remains a risk of further near-term downside in the S&P500. The risk reward on the SHORT side of this trade, though, is changing as the index is now close to its initial strong support (i.e. 5,800 at the bottom end of its consolidation range – FIG 1a). Added to that, the models are moving towards a collective BUY message (with put to call ratios now mostly on/close to BUY, along with the technical models). As such, we don't advise attempting to move SHORT (having missed entry again on Friday). We do now, however, recommend starting to BUILD LONG positions, especially in the event of marked S&P500 weakness. In particular, we recommend MOVING ¼ LONG at 5,750 (i.e. on a move towards the lower key support level at 5,720) – see trading recommendation above for detail.

Of note, today sees the start of the US Q4 earnings season with the banks reporting later. A full list of today's key macro data & events is outlined below.

Kind regards,

The team @ Longview Economics

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: Medium term RSI (US bond futures) vs. US bond futures

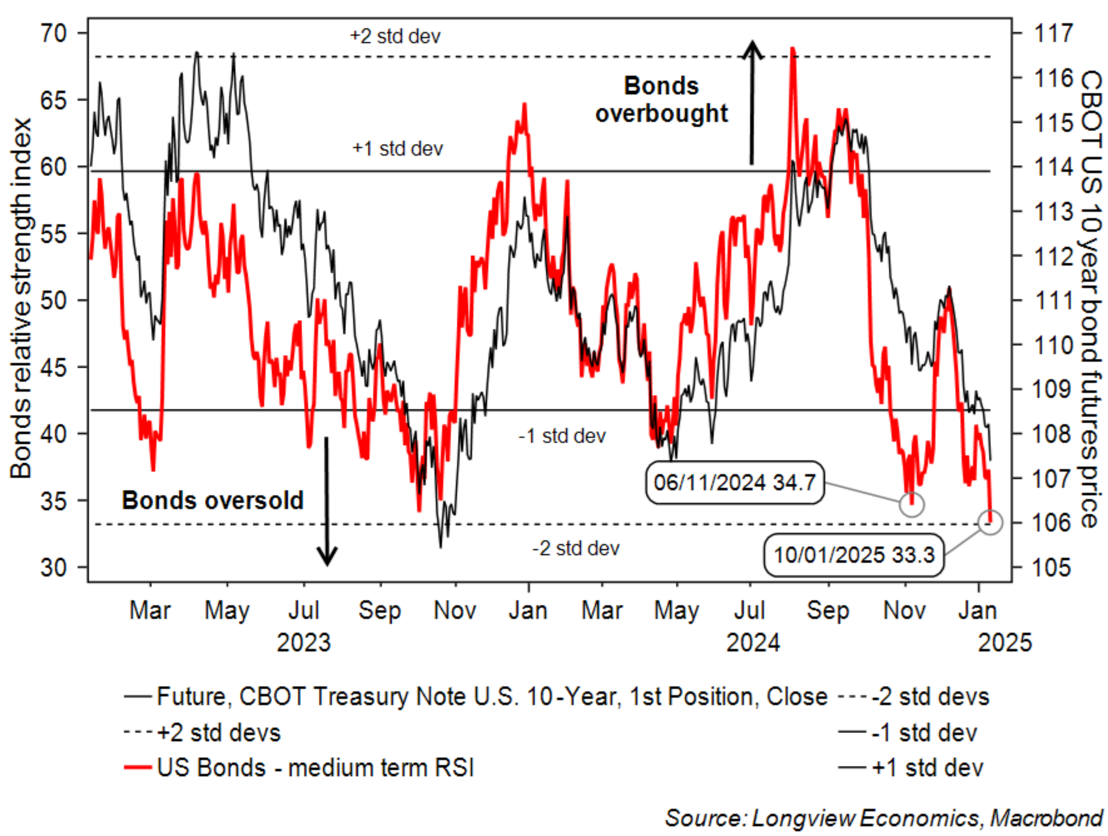

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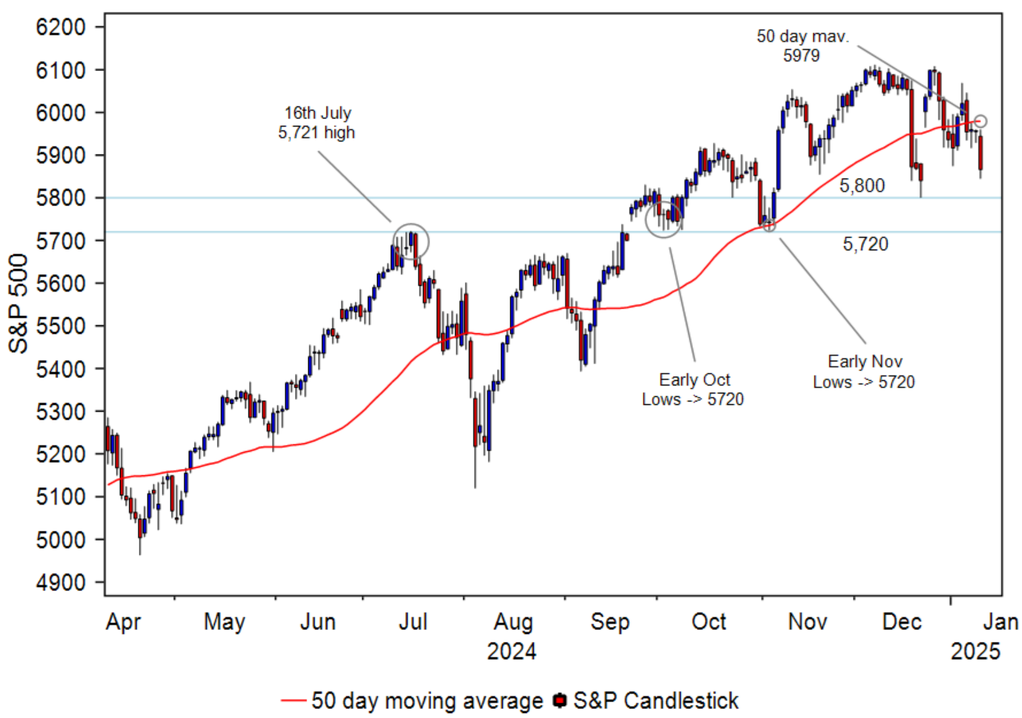
FIG 1a: S&P500 futures candlestick shown with its 50 & 200 day moving average – **last 3 months**

Source: Longview Economics, Macrobond

FIG 1b: S&P500 futures candlestick shown with its 50 & 200 day moving average – **last 8 months**



Source: Longview Economics, Macrobond

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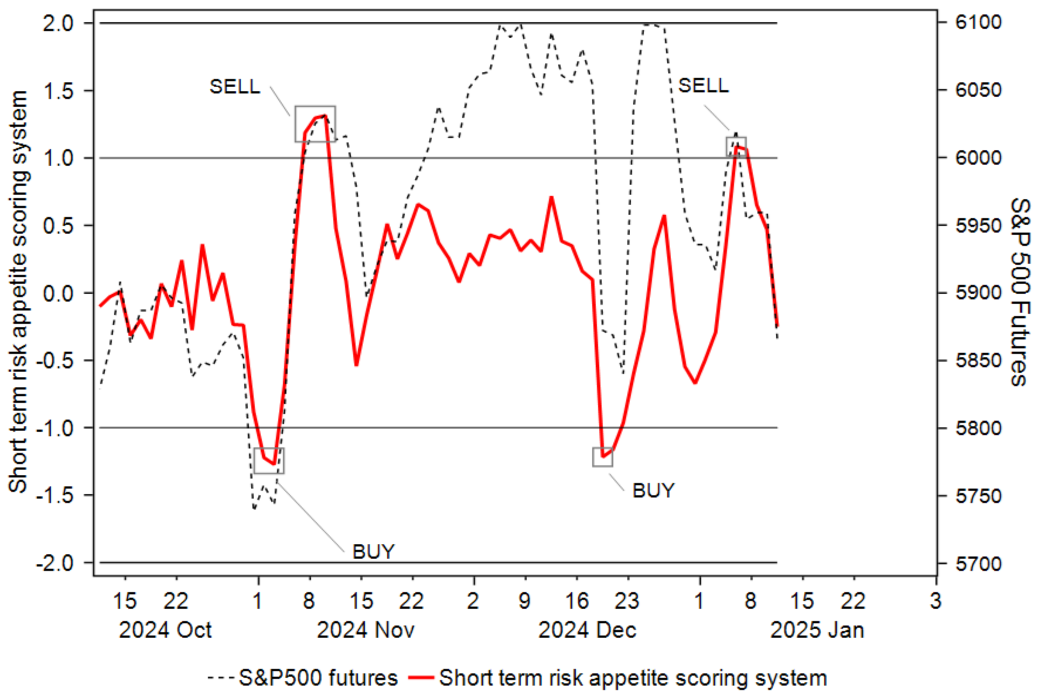
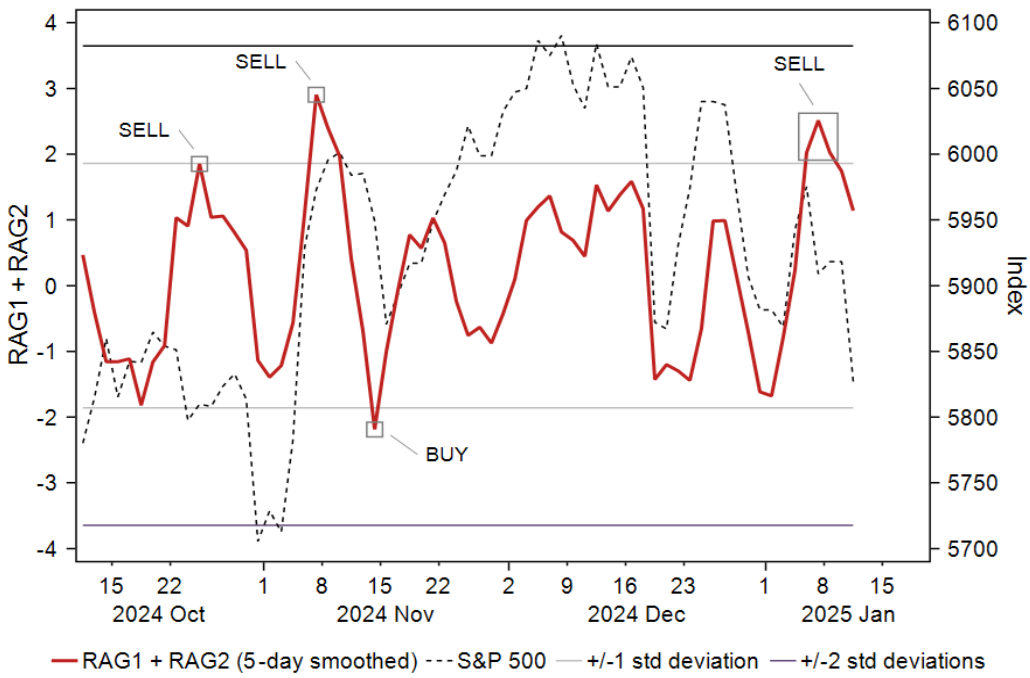
Risk appetite models are rolling over from SELL…

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



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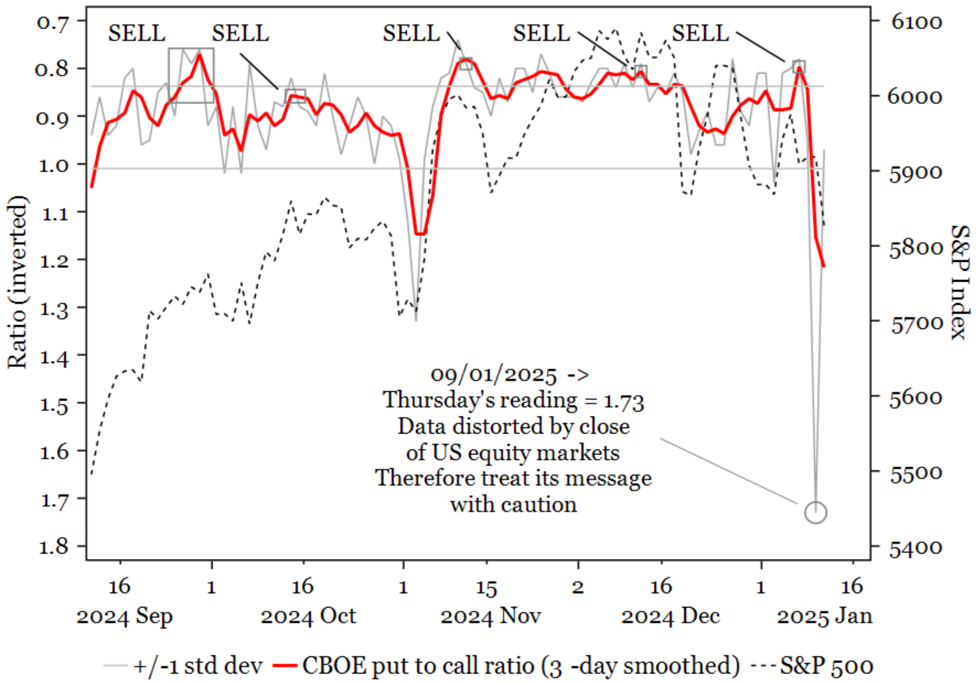
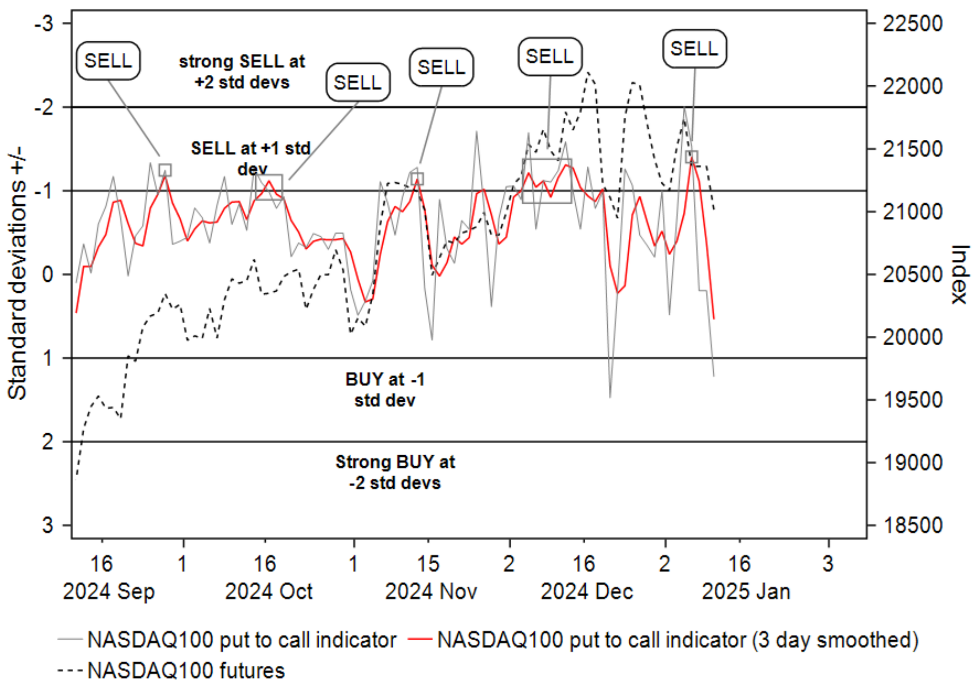
Put to call ratios are moving to/towards BUY…..

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



Source: Longview Economics, Macrobond

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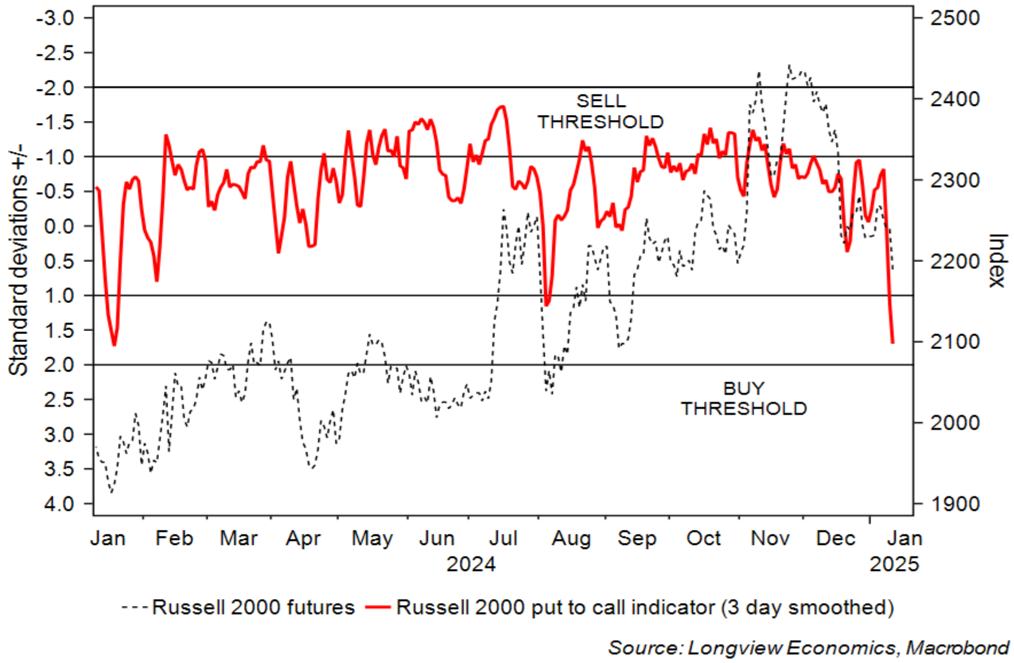
FIG 3b: Russell 2000 put to call indicator (1 & 3 day smoothed) vs. Russell 2000 futures



Technical models (for indices) are mostly on (or close to) BUY....

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

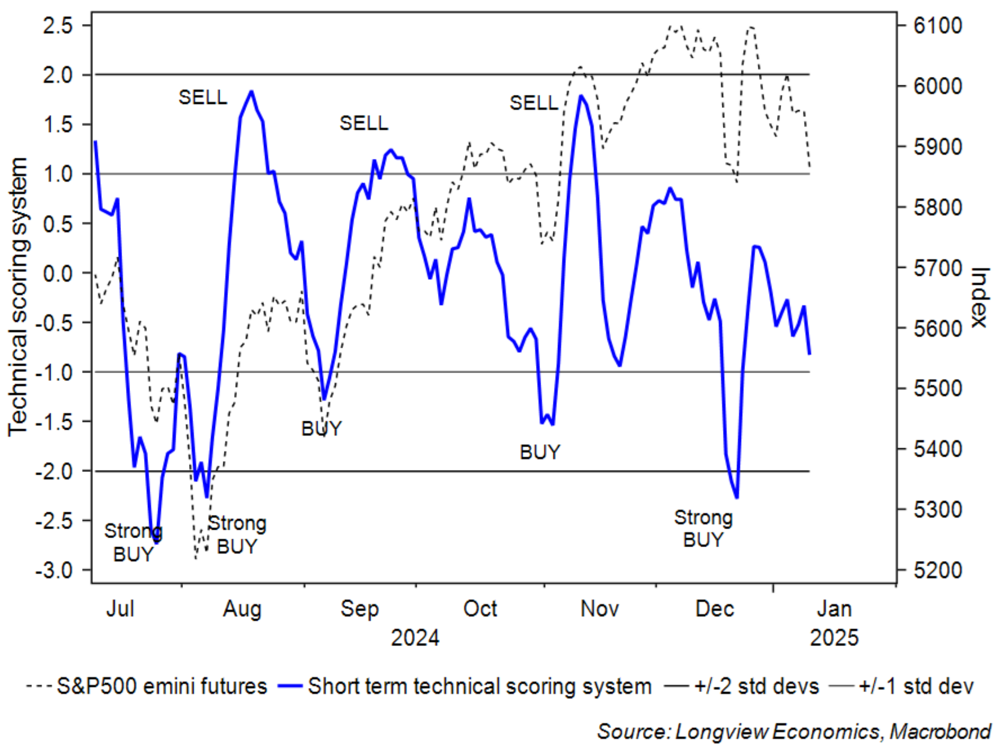


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FIG 4a: Longview NDX100 short term **'technical'** scoring system vs. NDX100 futures

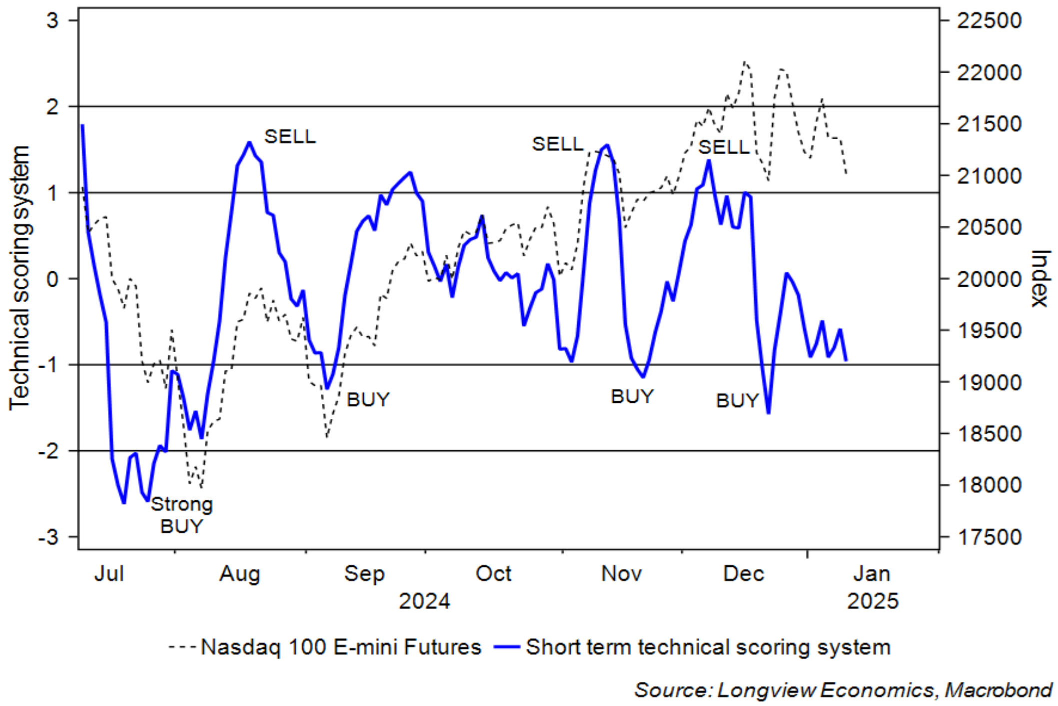
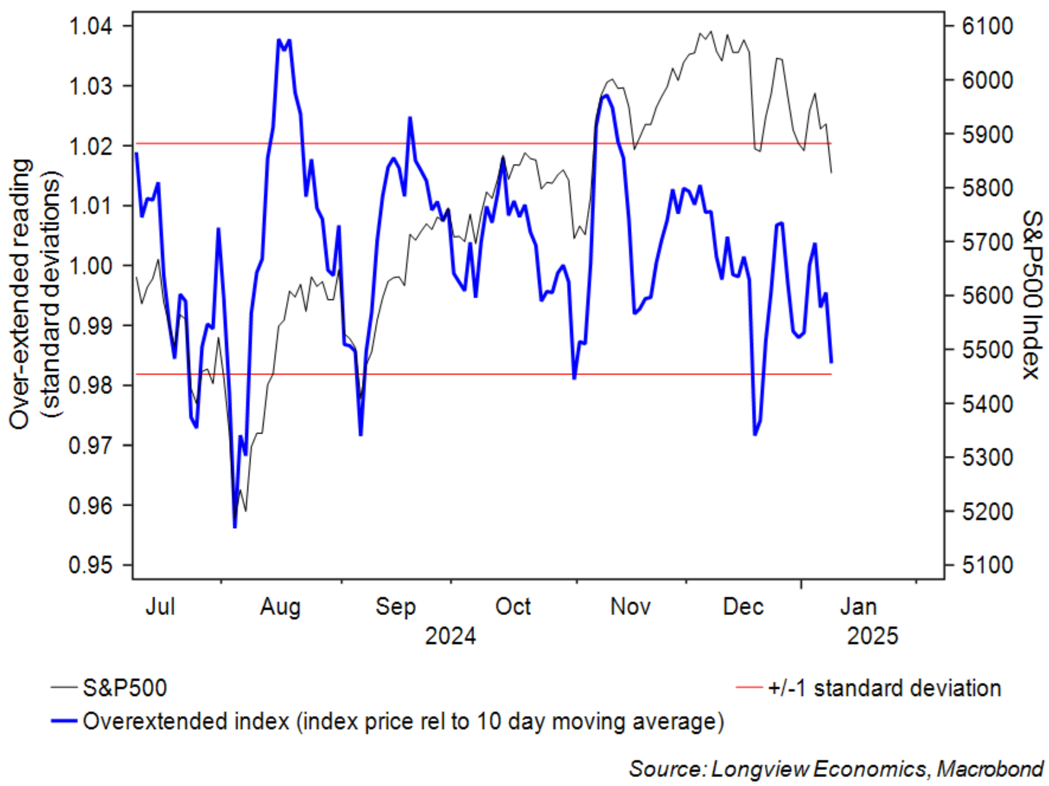


FIG 4b: S&P500 overextended indicator (10 day moving average relative to underlying index price)



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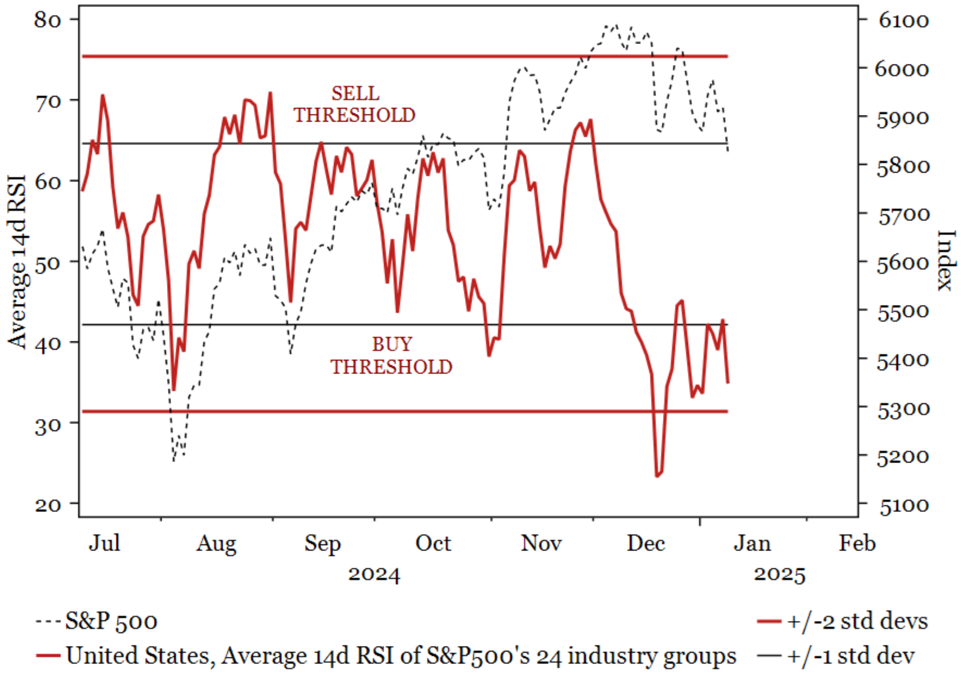
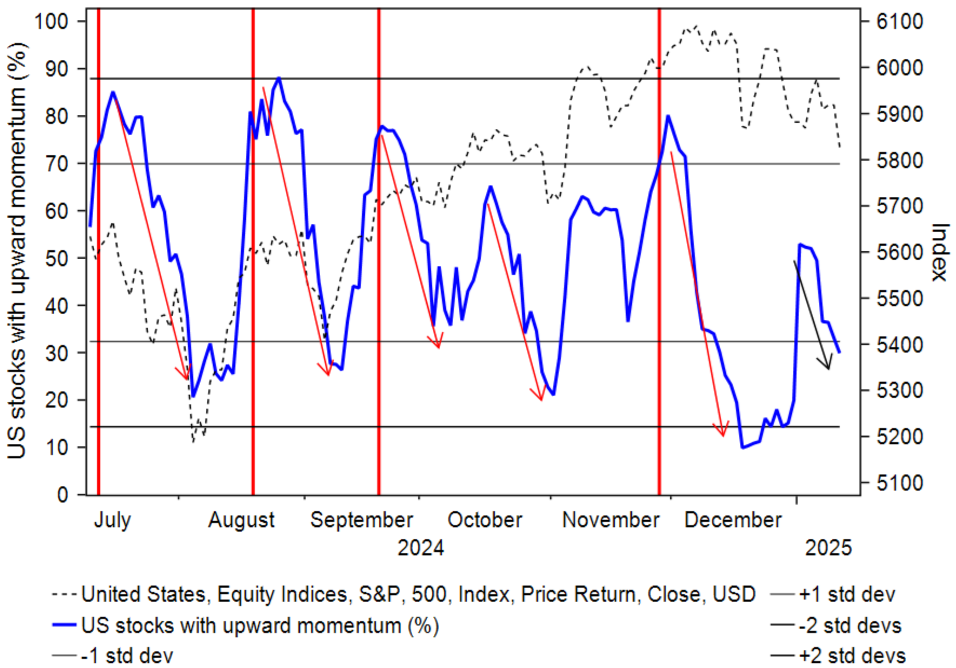
Sector and single stock technical models are on BUY….

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



Source: Longview Economics, Macrobond

FIG 4d: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



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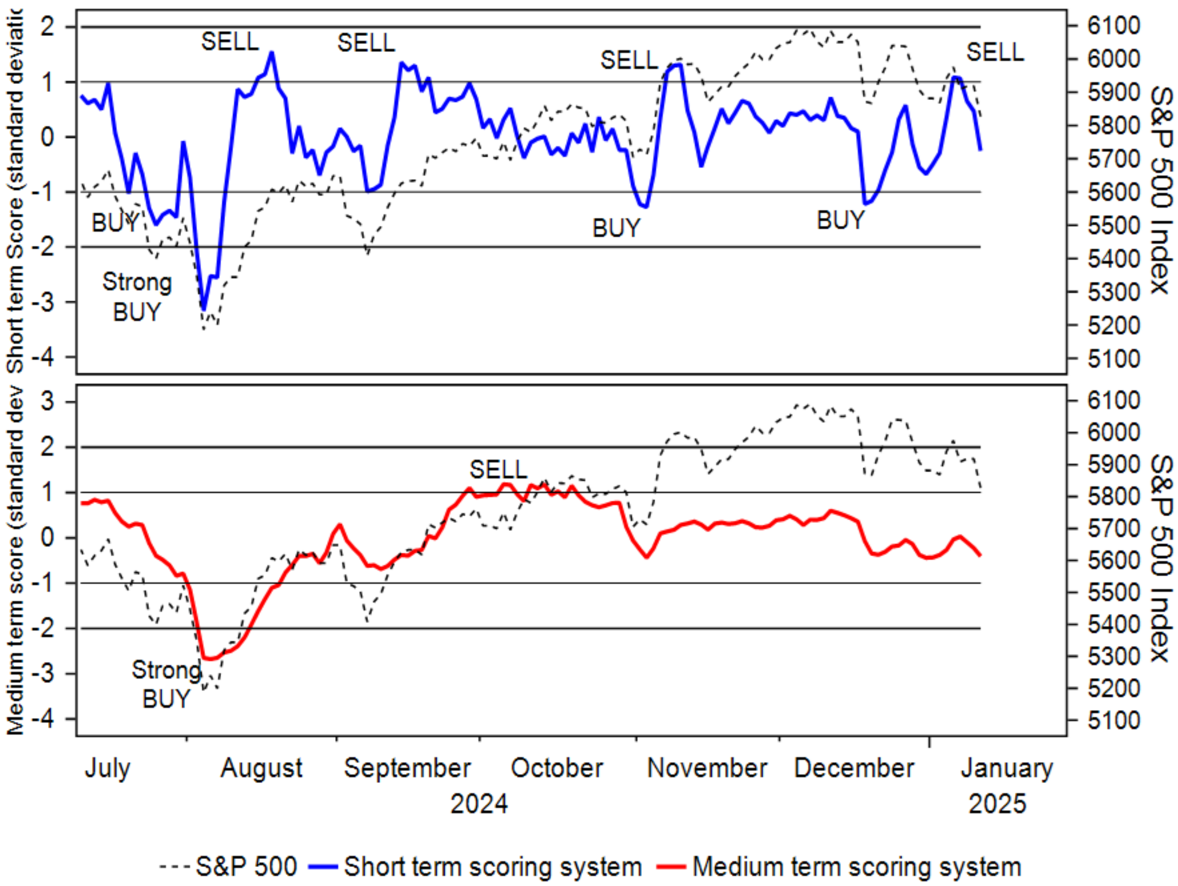
Key Longview Scoring Systems (chart below):

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

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



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Key macro data/events

Key data today include: Australian headline CPI (Dec, 12am); Australian Indeed job advertisements (Dec, 12:30am); Chinese imports/exports, & trade balance (Dec, 2am); US NY Fed 1 year inflation expectations (Dec, 4pm); US Federal budget balance (Dec, 7pm); Japanese bank lending (Dec, 11:50pm).

Key events today include: Speeches by the ECB's Lane & Rehn at AFF in Hong Kong (3:15am); Market holiday in Japan on account of Respect the Aged Day.

Key earnings today include: **JPMorgan**, **Wells Fargo & Co**, **Goldman Sachs**, Citigroup, BNY Mellon.

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, 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

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LVRAG
Daily Risk Appetite Gauge

1 – 2 Week View on Risk

13th January 2025

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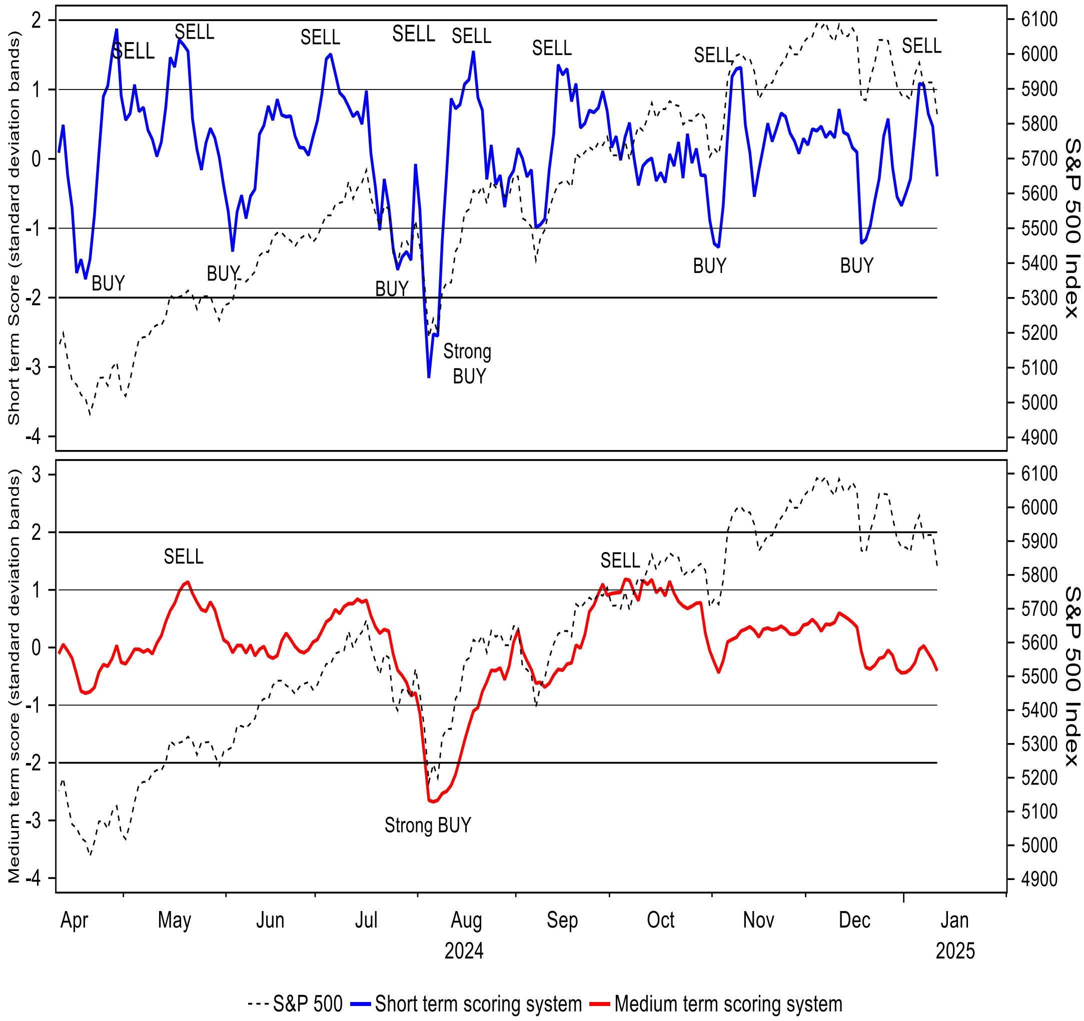
Section 1: Longview Scoring Systems (short & medium term*)

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

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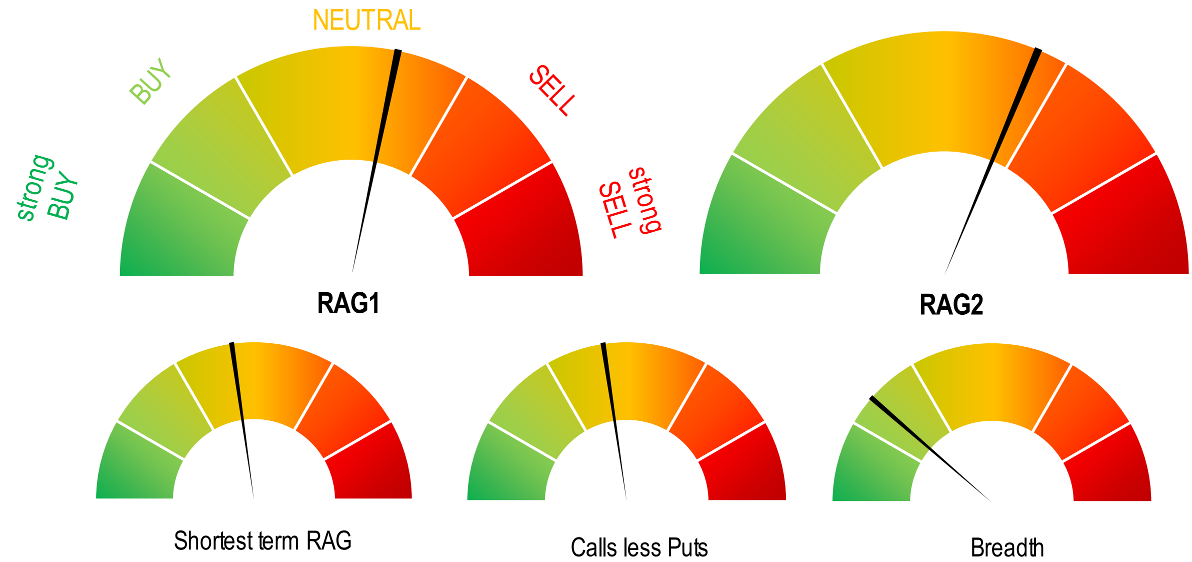
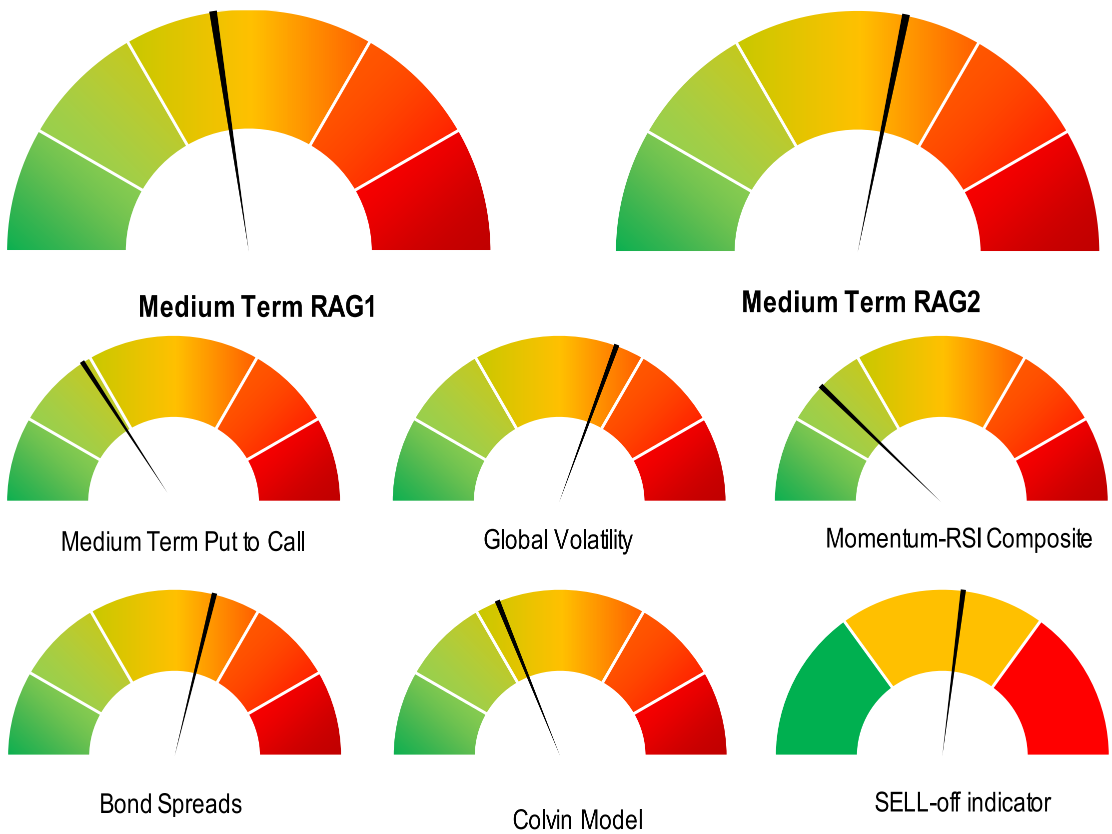
Section 1a: Summary of indicator signals**

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

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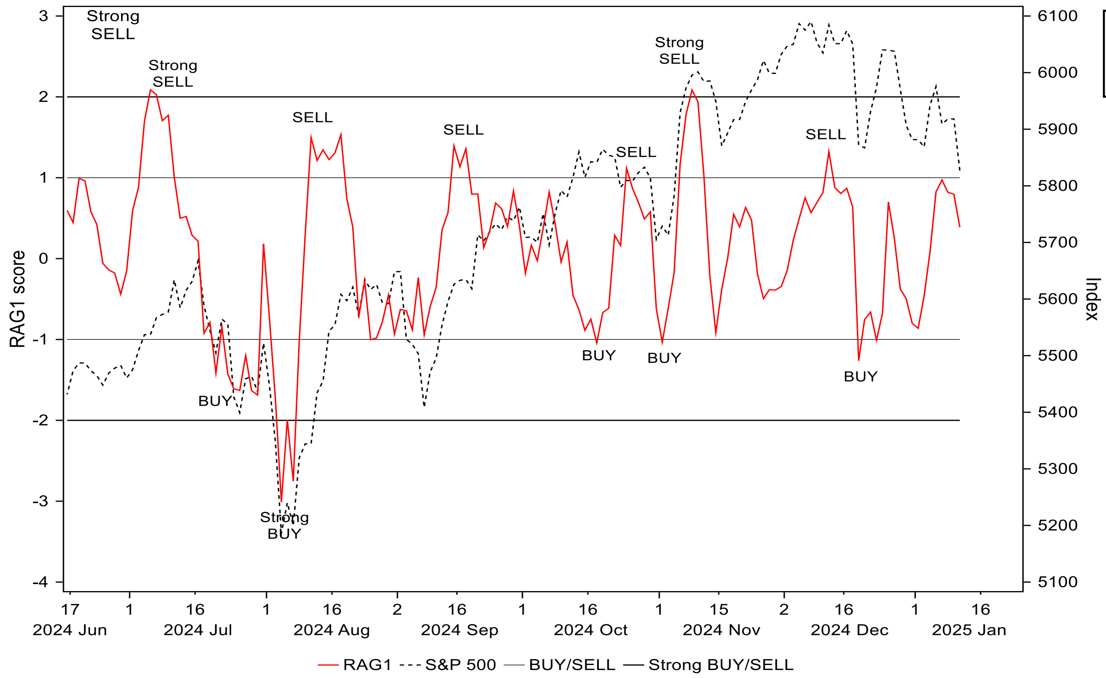
LVRAG
Daily Risk Appetite Gauge

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

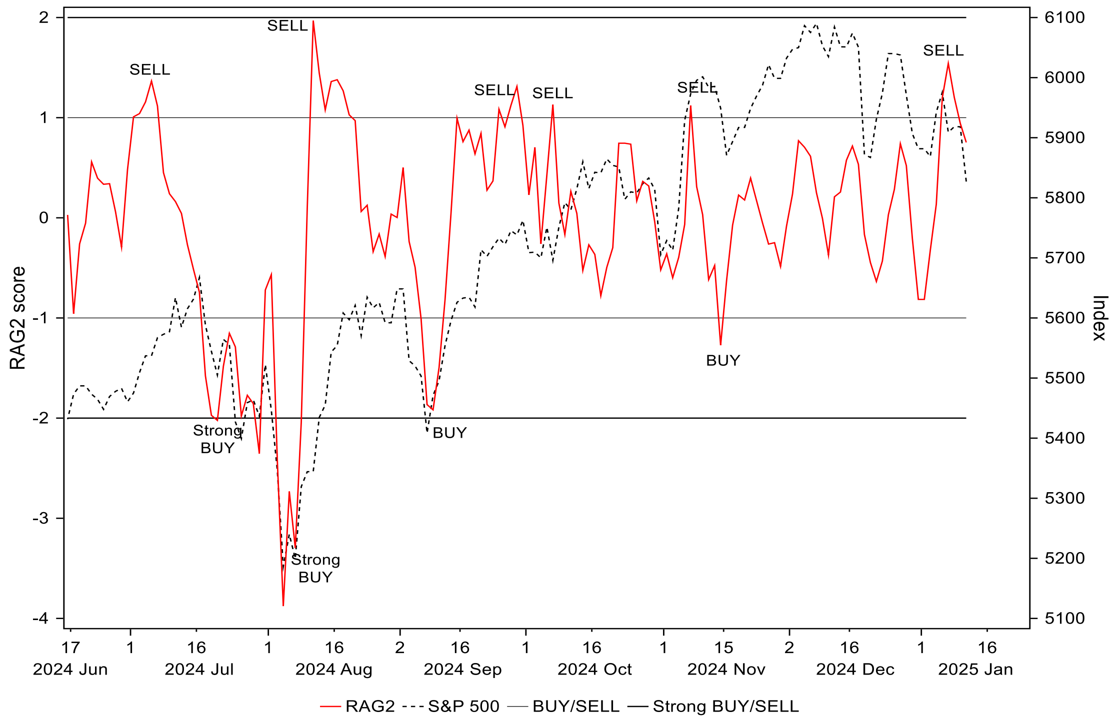
Fig 2a: RAG 1 vs. S&P 500



Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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



Source: Longview Economics, Macrobond

RAG2 is NEUTRAL

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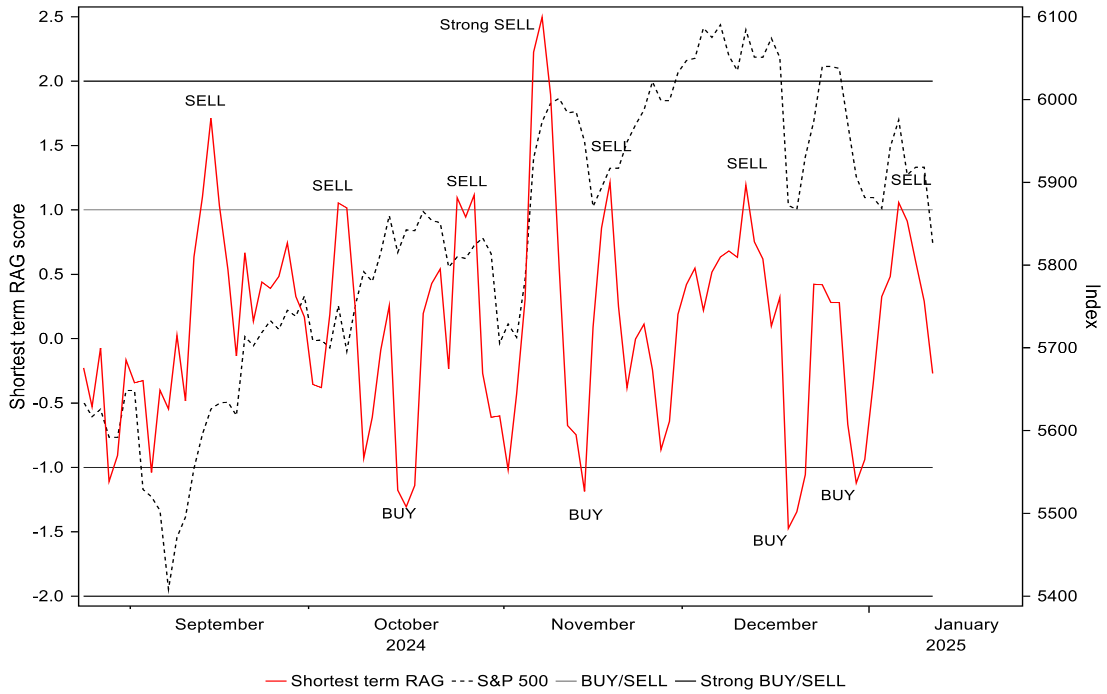
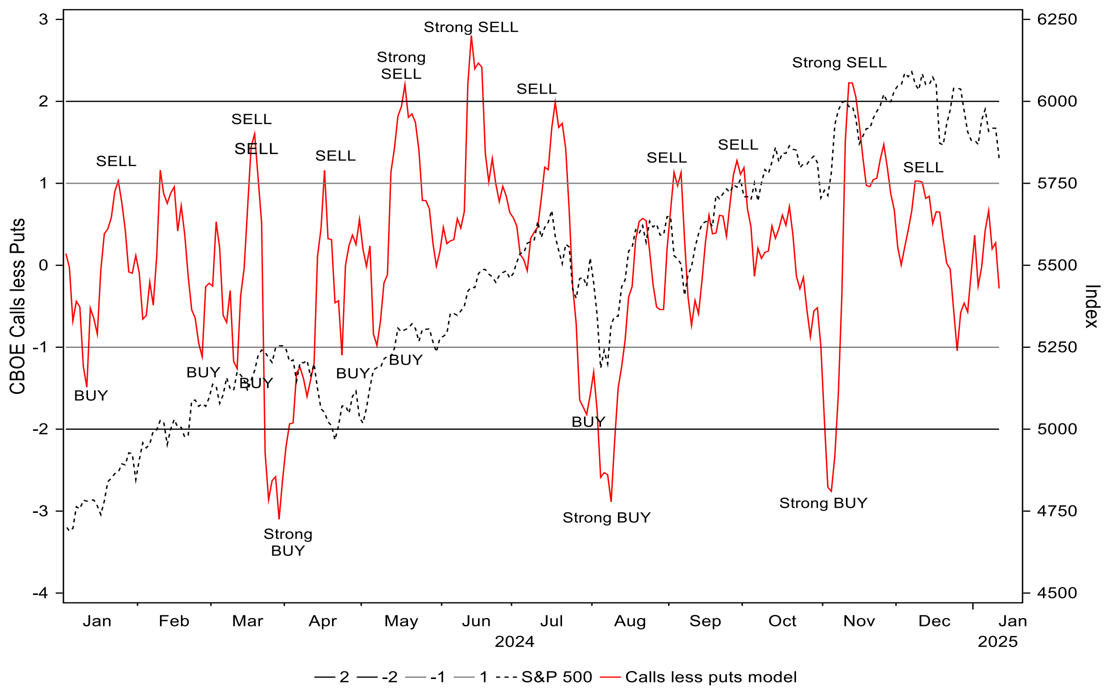
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



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

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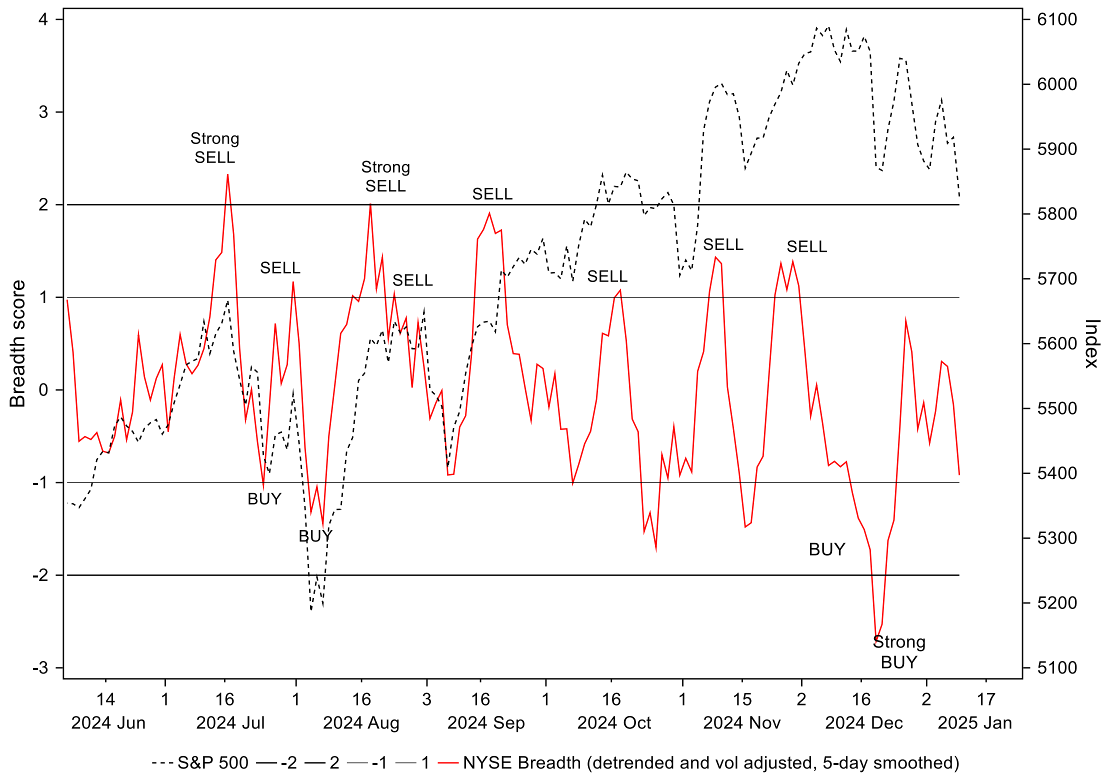
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

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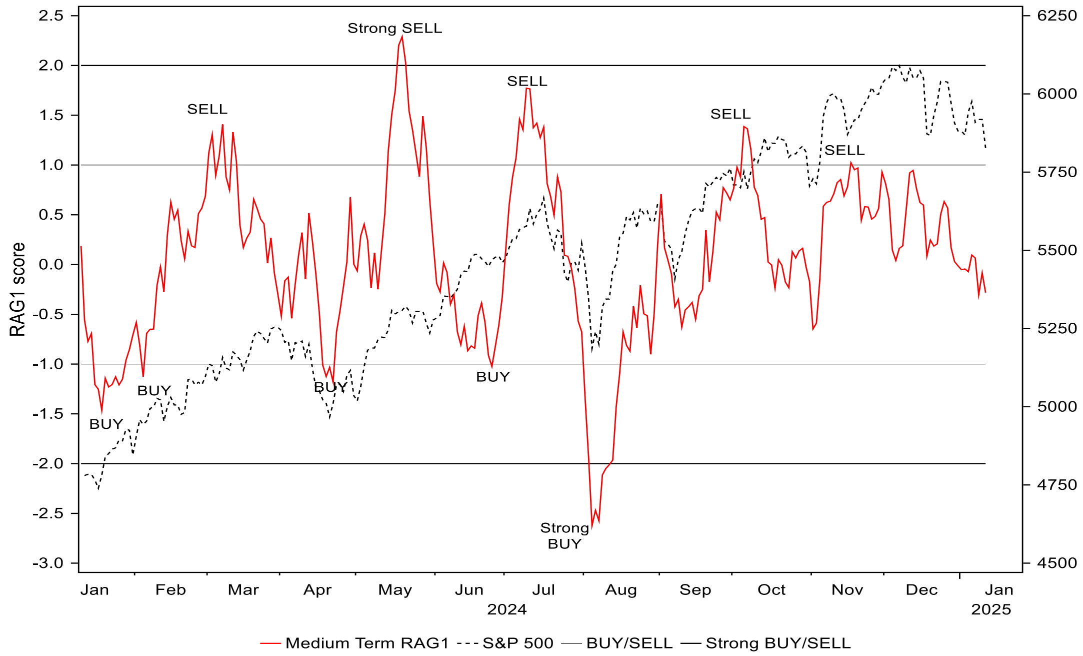
Section 3: Medium term (1 – 4 month) outlook

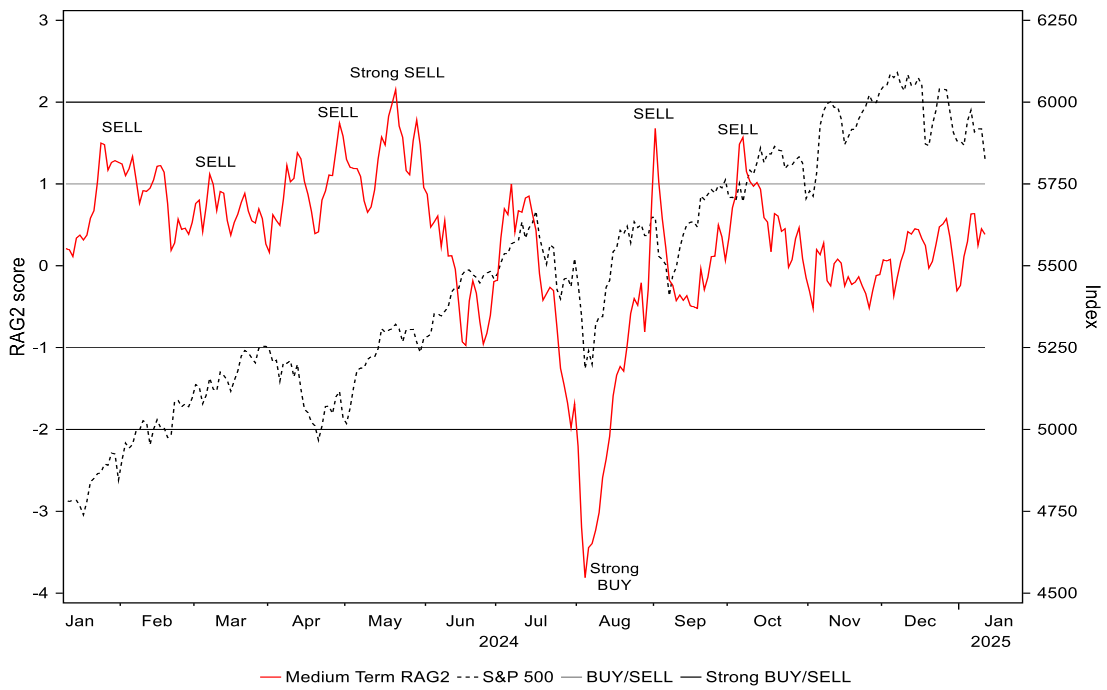
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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



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Medium term RAG2 is NEUTRAL

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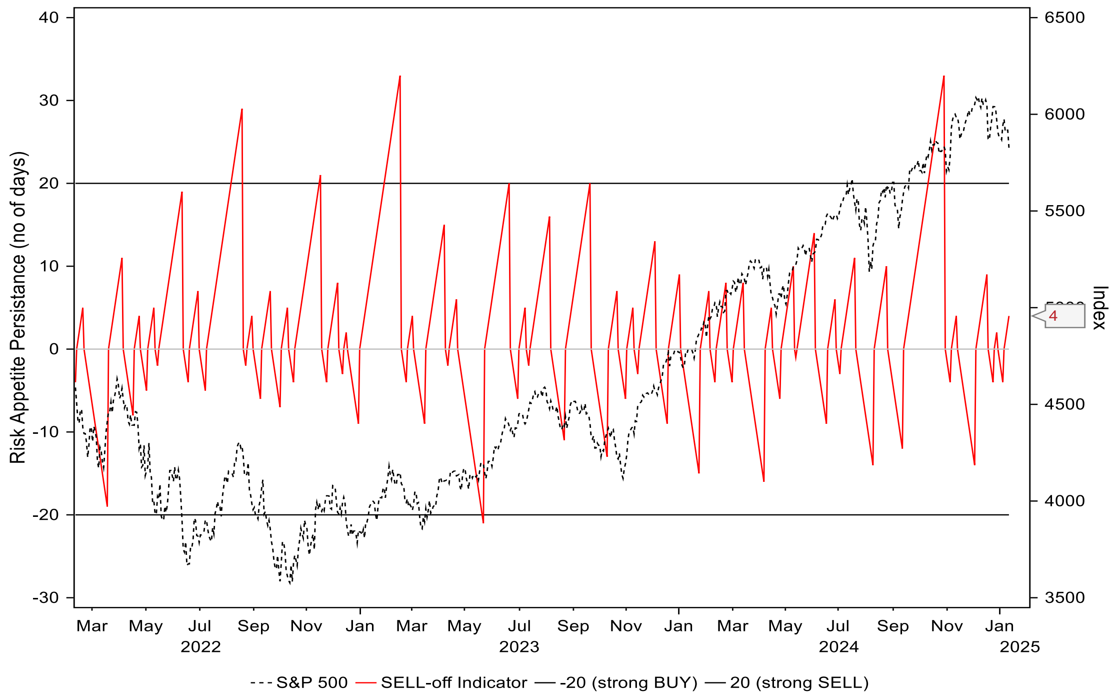
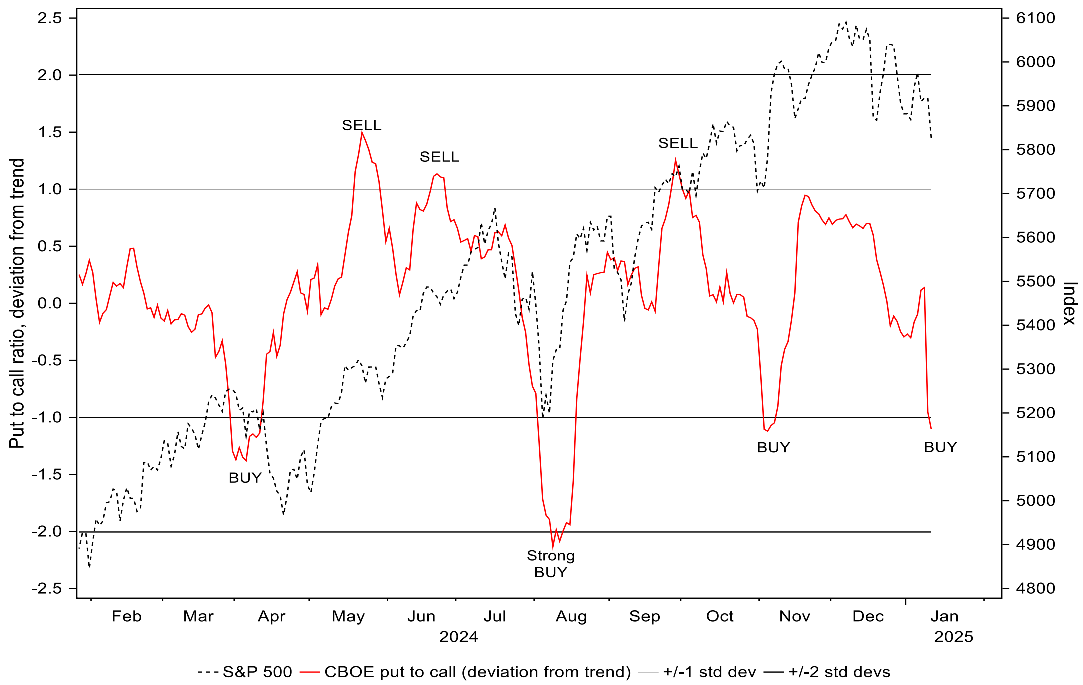
Fig 3c: SELL-off indicator (shown vs. S&P500)



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 on BUY

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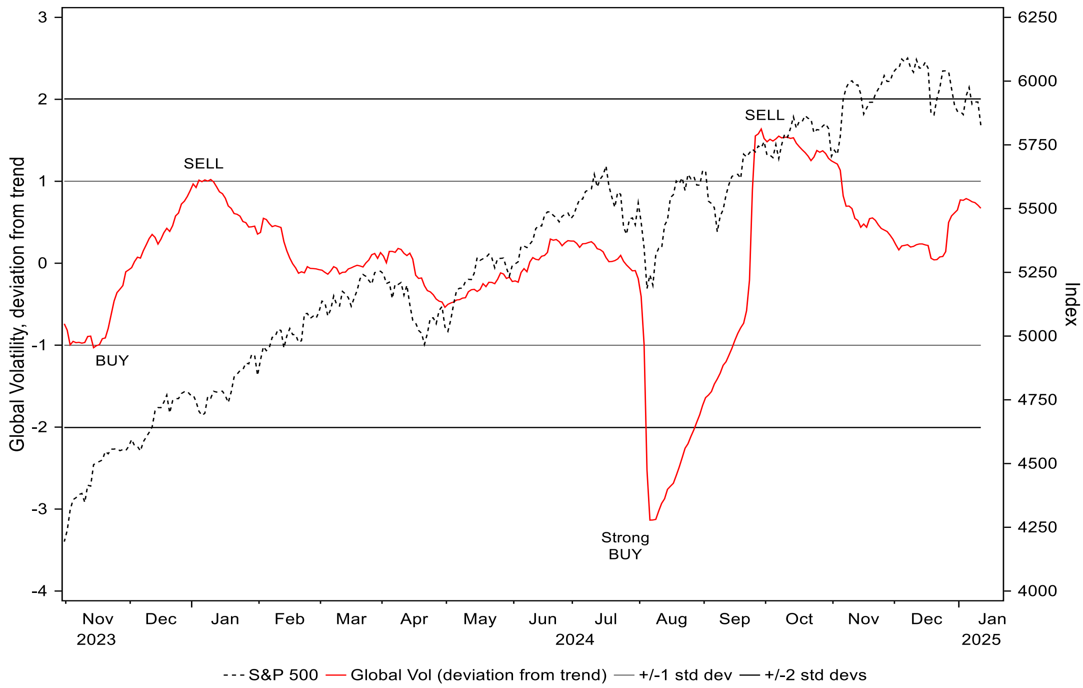
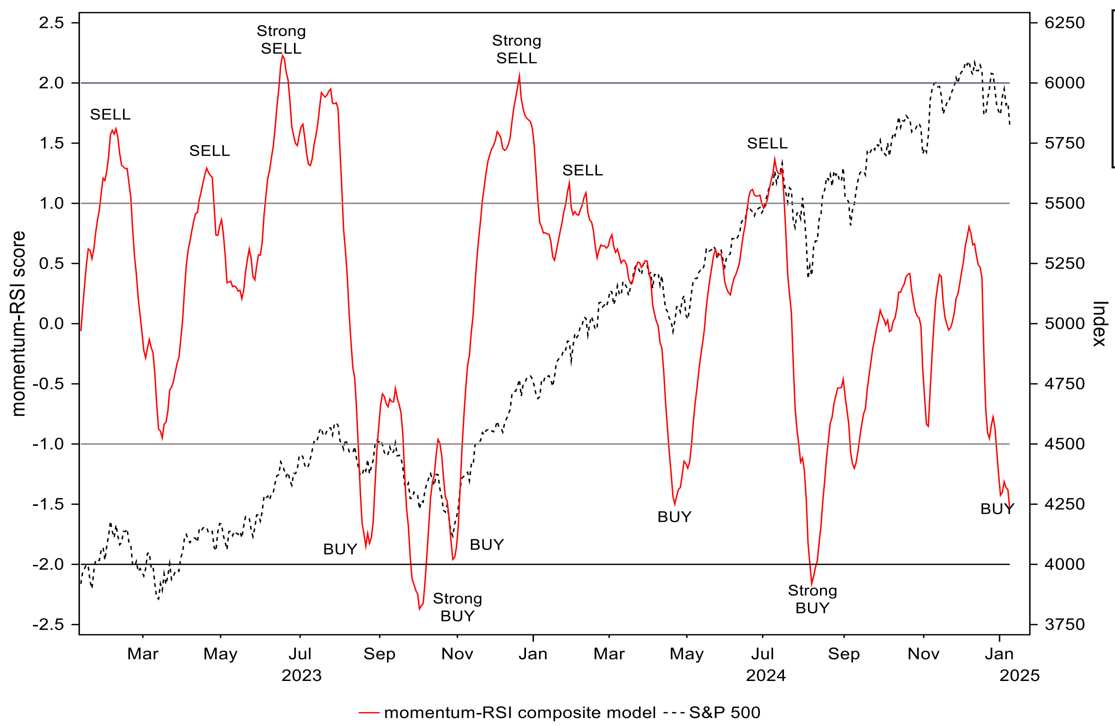
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



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

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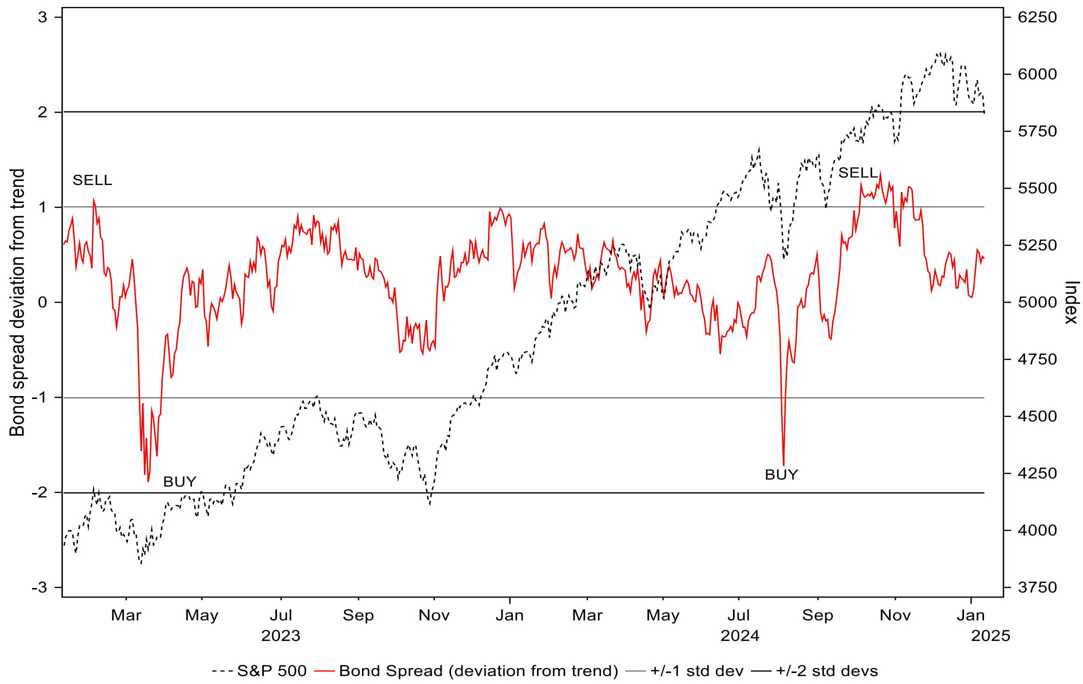
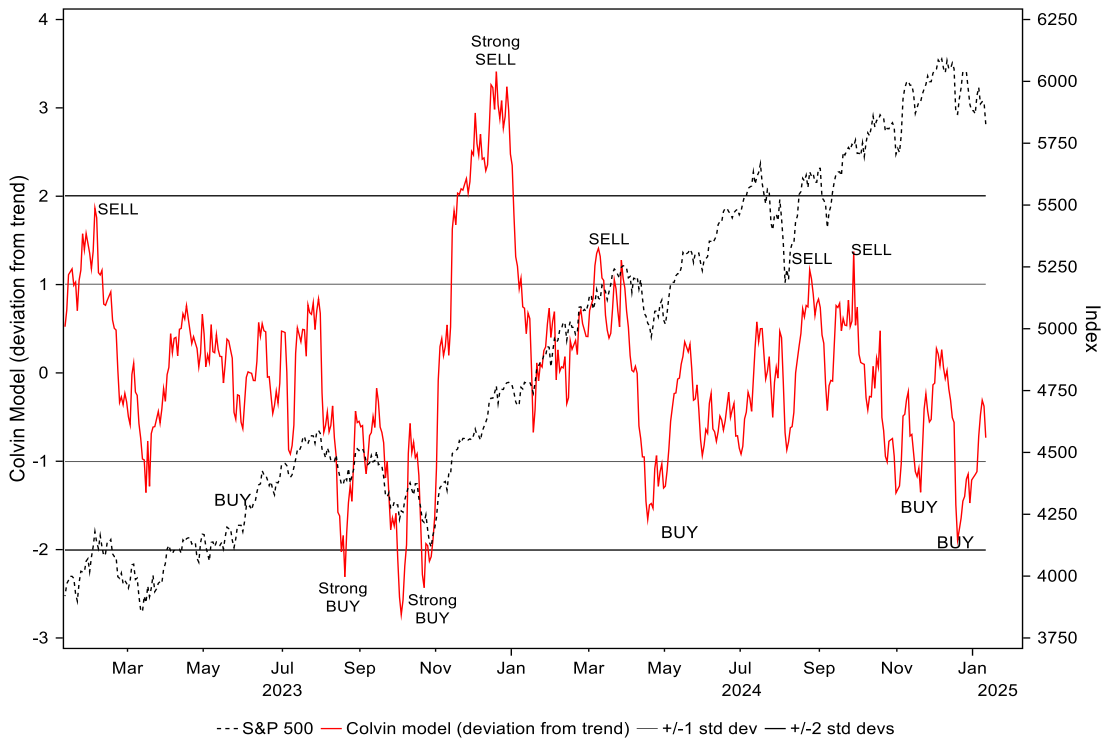
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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

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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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