LVRAG

Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

14th January 2025

"Models Moving - BUILD LONG Positions on Weakness"

Email: info@longvieweconomics.com

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 5,815.
- Increase to ½ on further weakness at 5,720.
- Implement a 3% stop loss on combined entry (i.e. at 5,594.50).

Rationale

US equities tested key levels yesterday. In particular, S&P500 futures sold off early in the session to 5,809. That is a key support level which is (i) just above the intra-day lows from late December and late October (5,801), and (ii) around the highs from late September/early October (see FIG 1). It's now therefore been tested multiple times. Encouragingly for the bulls, the index then rallied into the close (bullish price action). Other key US indices also reversed their initial losses and closed higher on the session. Of note the rally was led by cyclically sensitive indices including the DJIA (+0.9%); DJ Transportation index (+0.9%) and NASDAQ Banks (+1.1%). Tech/growth sensitive indices, in contrast, closed lower on the day, albeit modestly (e.g. NDX100: -0.3%; & Philly SOX: -0.4%).

Overall, therefore, **price action in equities remains relatively resilient** given the recent move higher in bond yields, rate expectations, and the dollar. That continued yesterday, with Dec 25 & 26 implied rates edging higher (FIG 1a), while the dollar was stronger (DXY: +0.3%). US Treasury yields mostly edged higher across key parts of the curve.

Added to which, and with weakness in risk assets this past week, short term models continue to move towards BUY levels. As such, and while their message is not yet clear/compelling, **the case for starting to build LONG positions is clearly growing**. In particular, our key risk appetite models have moved lower overnight and are sitting (just) above their BUY thresholds (see FIGs 2 & 2a); downside put protection in portfolios has risen (highlighting a degree of fear/panic in markets – see FIGs 3 & 3a); while a number of short term technical models are starting to generate BUY signals. That includes our scoring system for the S&P500 (effectively on BUY, FIG 4), and for the NASDAQ100 (on BUY, see FIG 4a). Other short term (price based) models are also on/close to BUY (see our overextended model, as well as a number of breadth & momentum indicators, FIGs 4b – 4d below).

As such, given that emerging BUY message from the models, the risk reward favours increasing the order level (for starting to build LONG S&P500 positions). In particular we recommend initially moving LONG SPX futures at 5,815 (just above yesterday's low/the next key support level), and increasing the position size on weakness (at 5,720). Please see above for detailed recommendation.

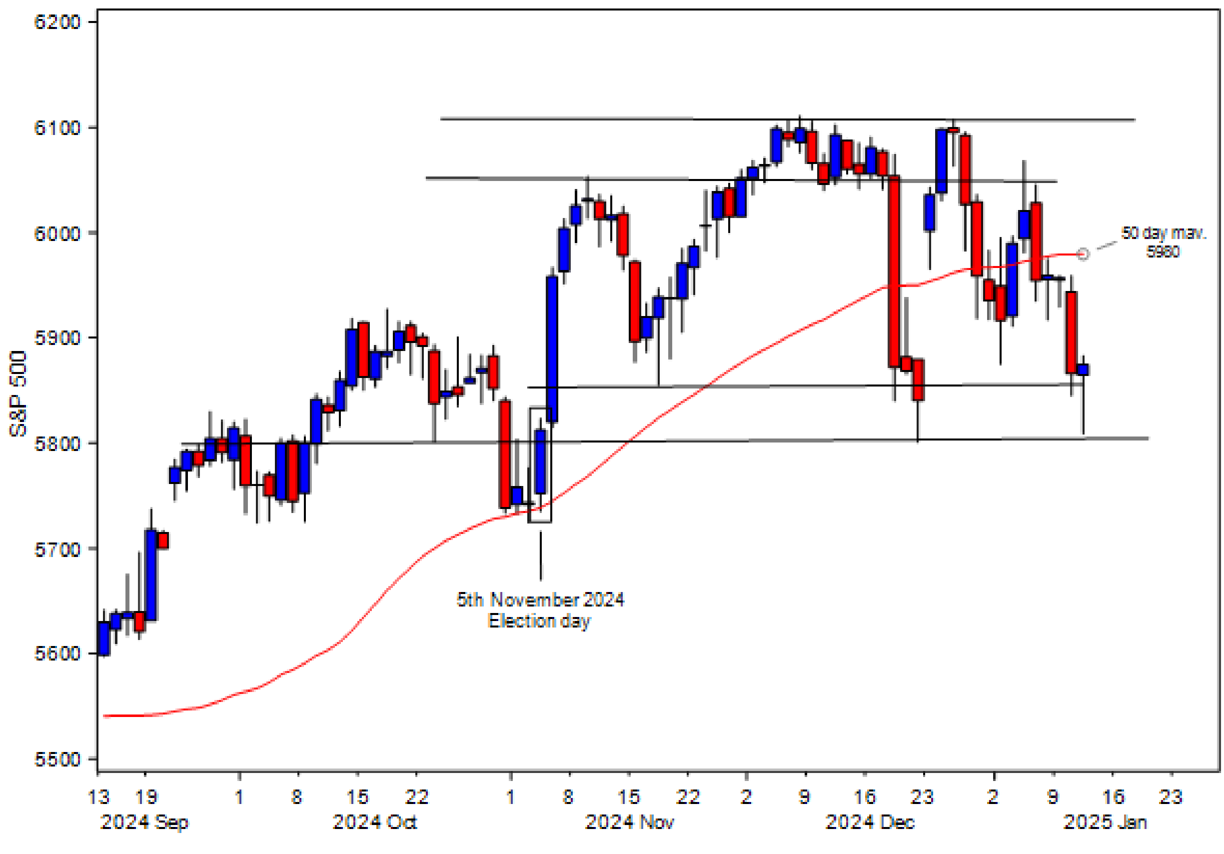
Risks, as always, are multiple and include the recent uptrend in yields/the dollar (which is possibly ongoing/has the potential to generate volatility in equities). Other (two way) risks include tomorrow's US CPI inflation report for December (i.e. key for the near term direction of rates/FX).

Kind regards,

The team @ Longview Economics

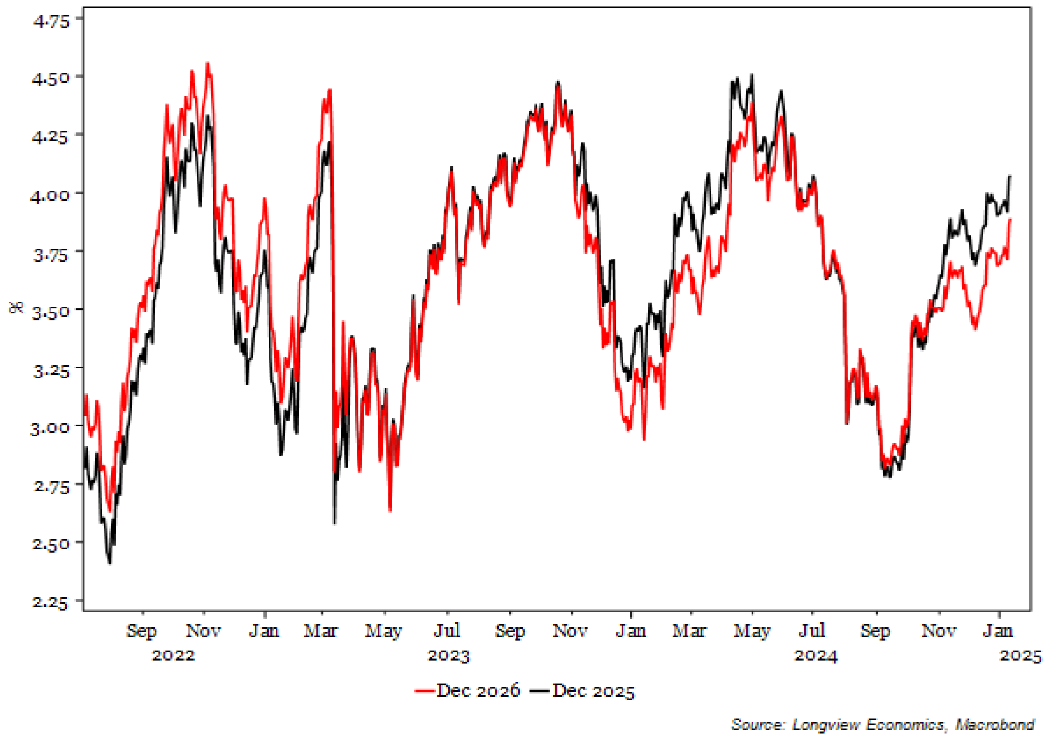
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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: S&P500 futures candlestick chart, shown with 50 day moving average



Source: Longview Economics, Macrobond

FIG 1a: Implied Fed fund futures rates (December 2025 & 2026)



Risk appetite models are close to BUY…

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

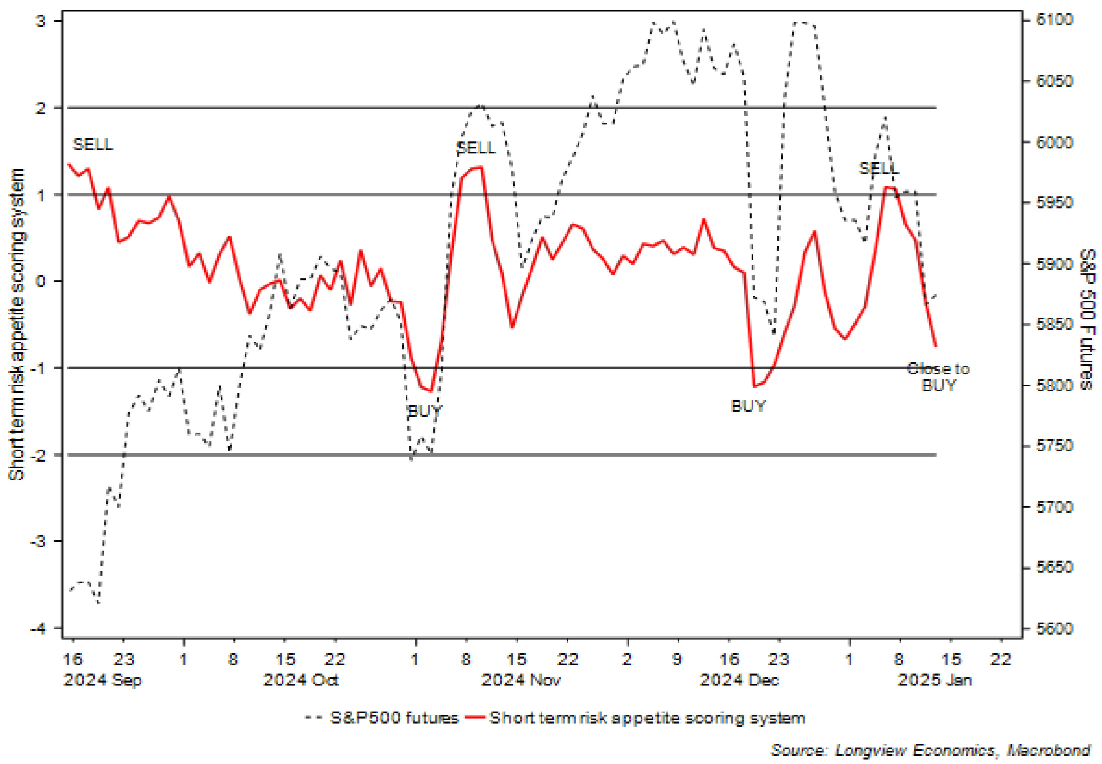
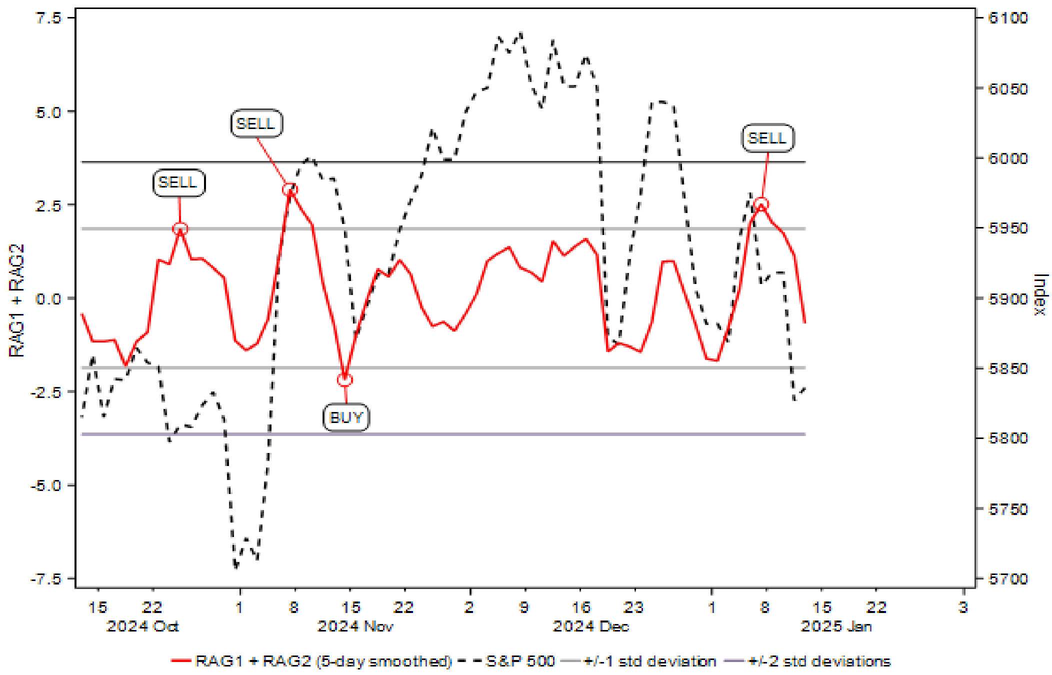


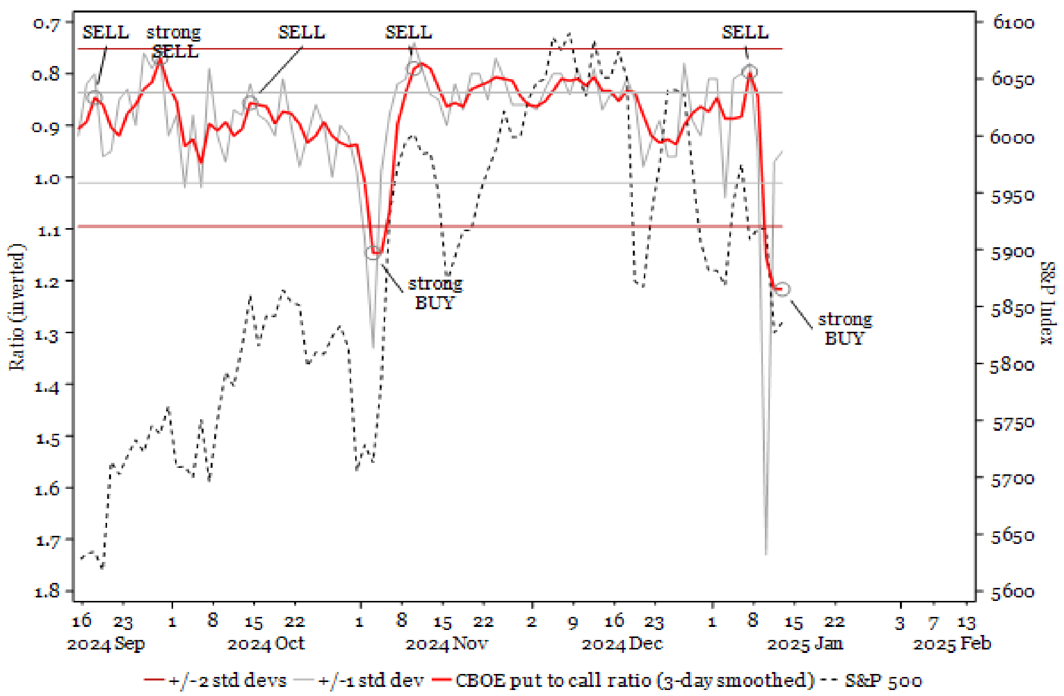
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

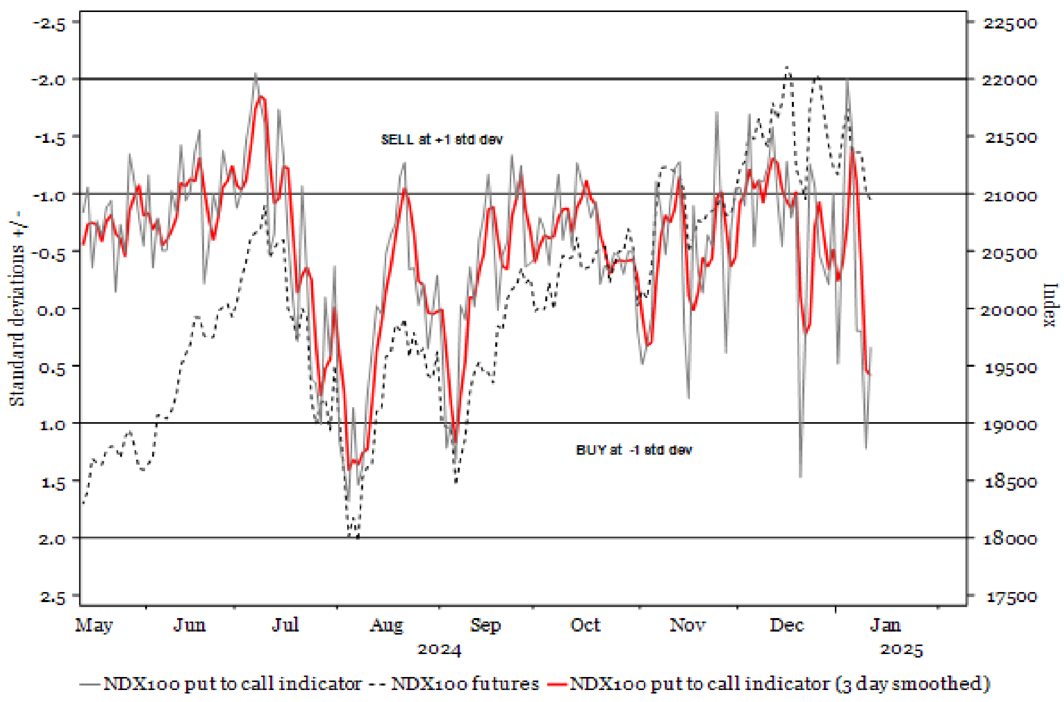
Put to call ratios are moving to/towards BUY.....

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



Source: Longview Economics, Macrobond

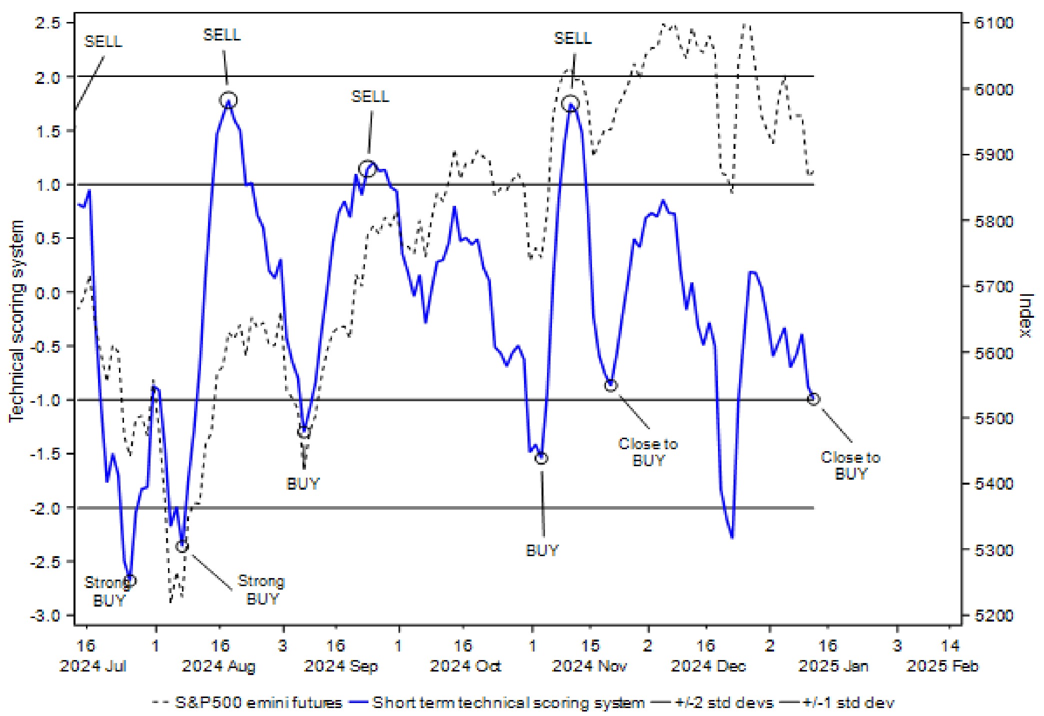
FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

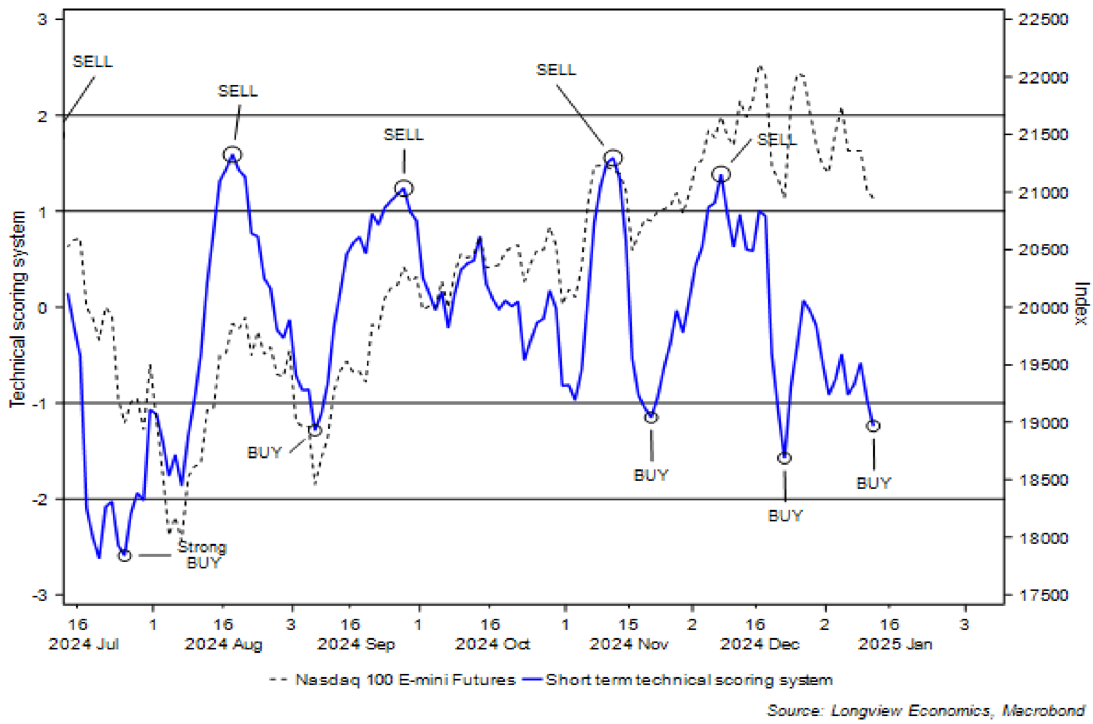
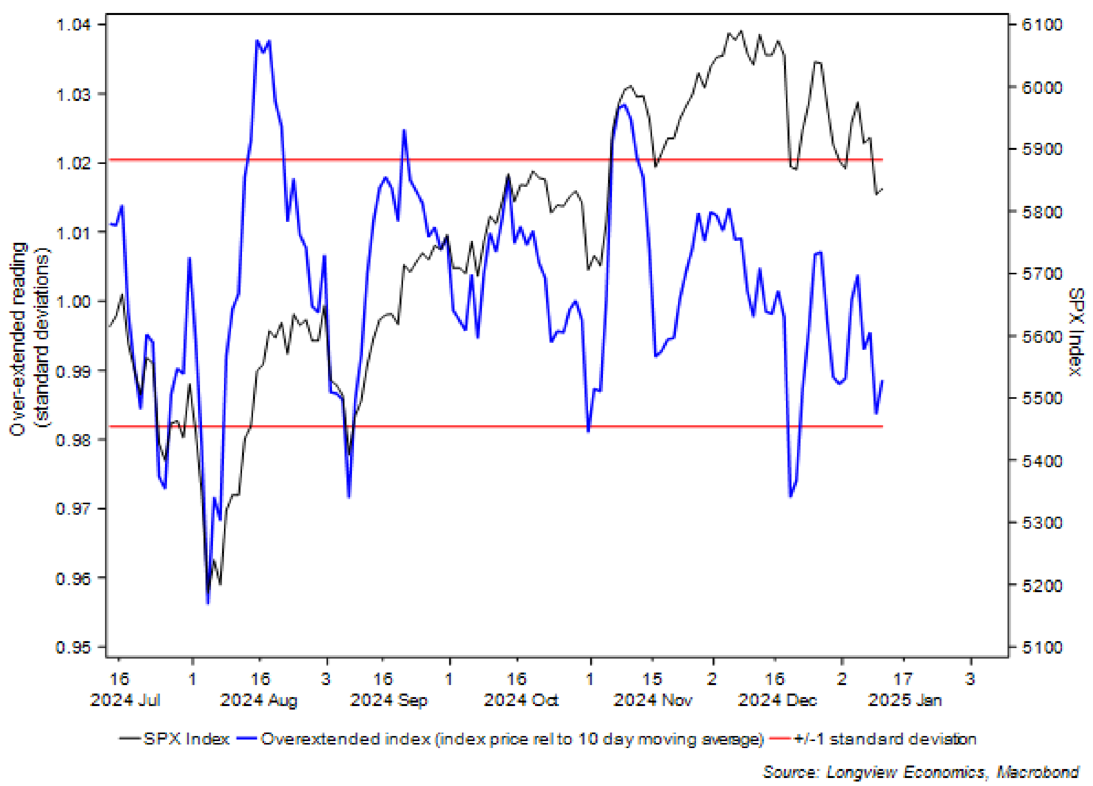


FIG 4b: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500



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

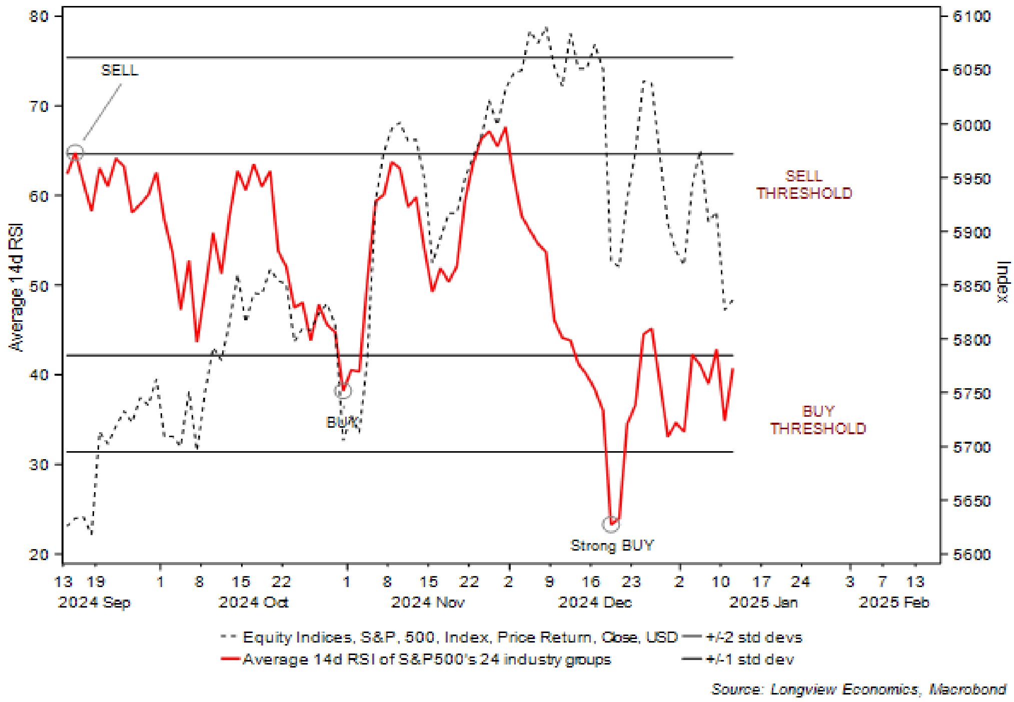
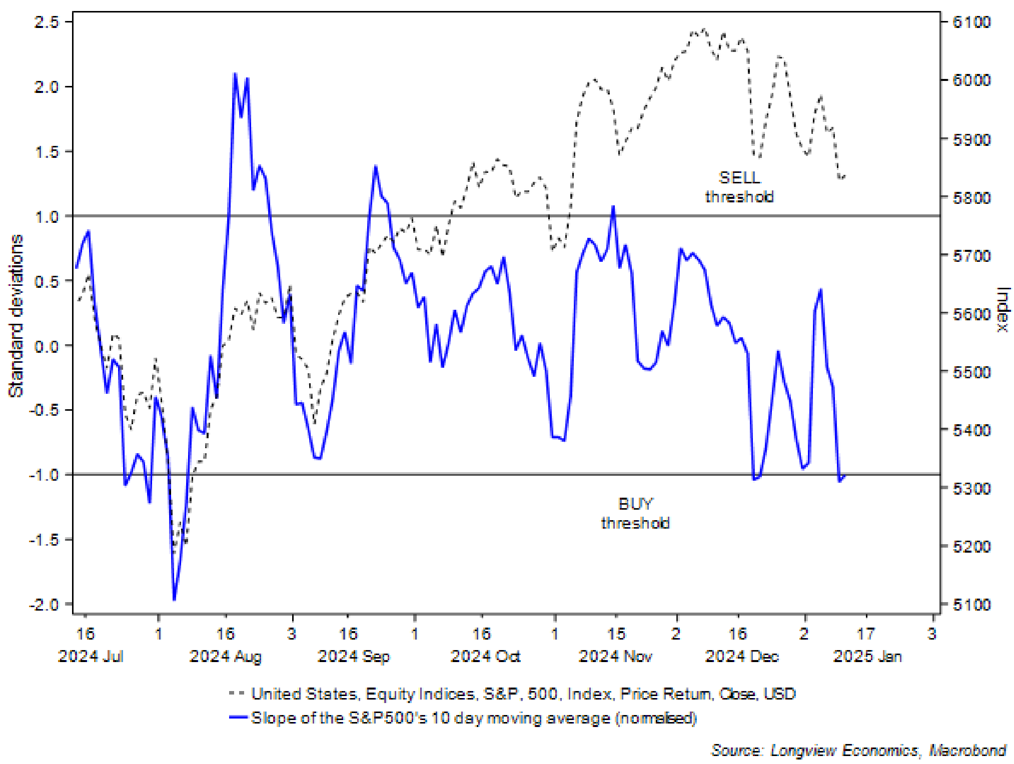


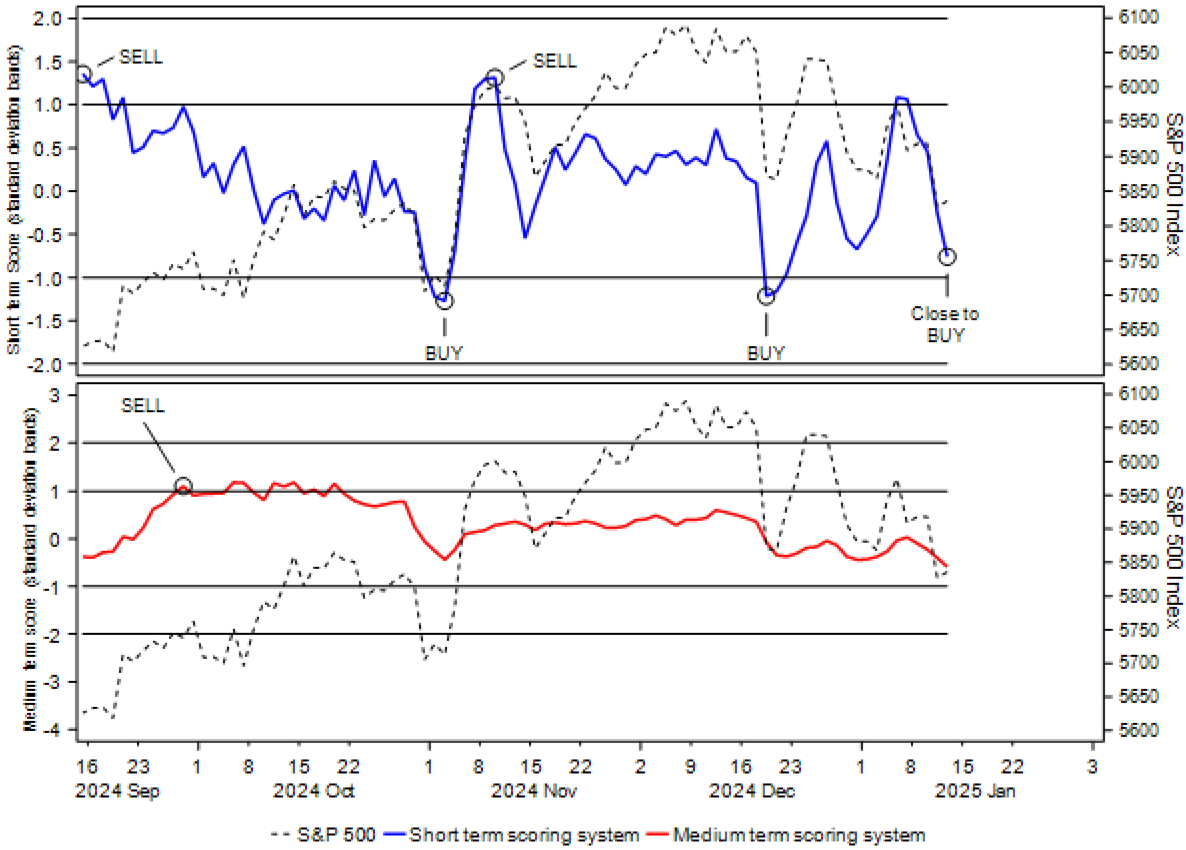
FIG 4d: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (close to BUY)
Medium term (1 – 4 month) scoring system: **NEUTRAL**

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



Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

Key macro data/events

Key data today include: **US NFIB small business optimism** (Dec, 11am); **US headline & core PPI** (Dec, 1:30pm); Italian industrial production (Nov, 9pm); **Japanese M3 money supply** (Dec, 11:50pm).

Key events today include: Speeches by the ECB's Lane in Hong Kong (7:35am) & Holzmann at Euromoney conference in Vienna (8am); speech by the Bank of England's Breeden in Zurich (8:30am); speech by the BOJ's Deputy Governor Himino in Kanagawa (Tues, 1:30pm); speeches by the Fed's Schmid in Kansas City (3pm) & Williams at NY Fed event (8:05pm).

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, 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

Longview Economics
@chriswatling
@LviewEconomics
Longview Economics
Longview Economics
Longview Economics

LVRAG

Daily Risk Appetite Gauge

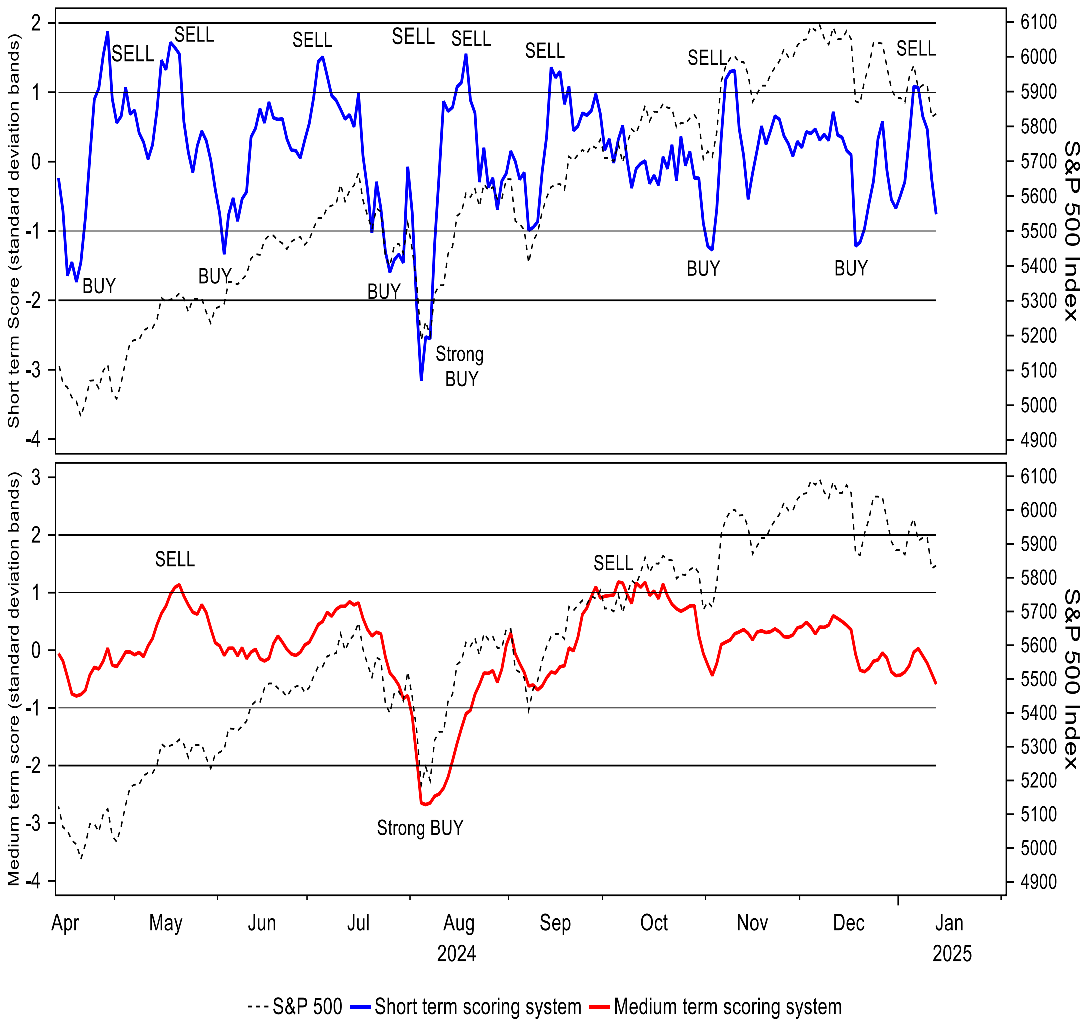
1 – 2 Week View on Risk

14th 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

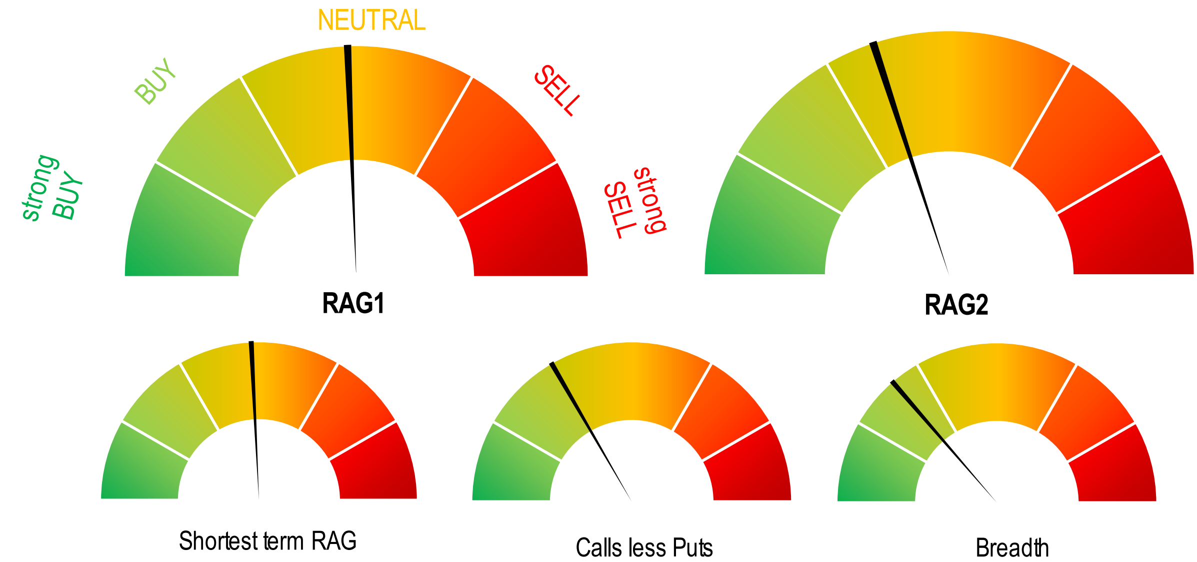
Source: Longview Economics, Macrobond

*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

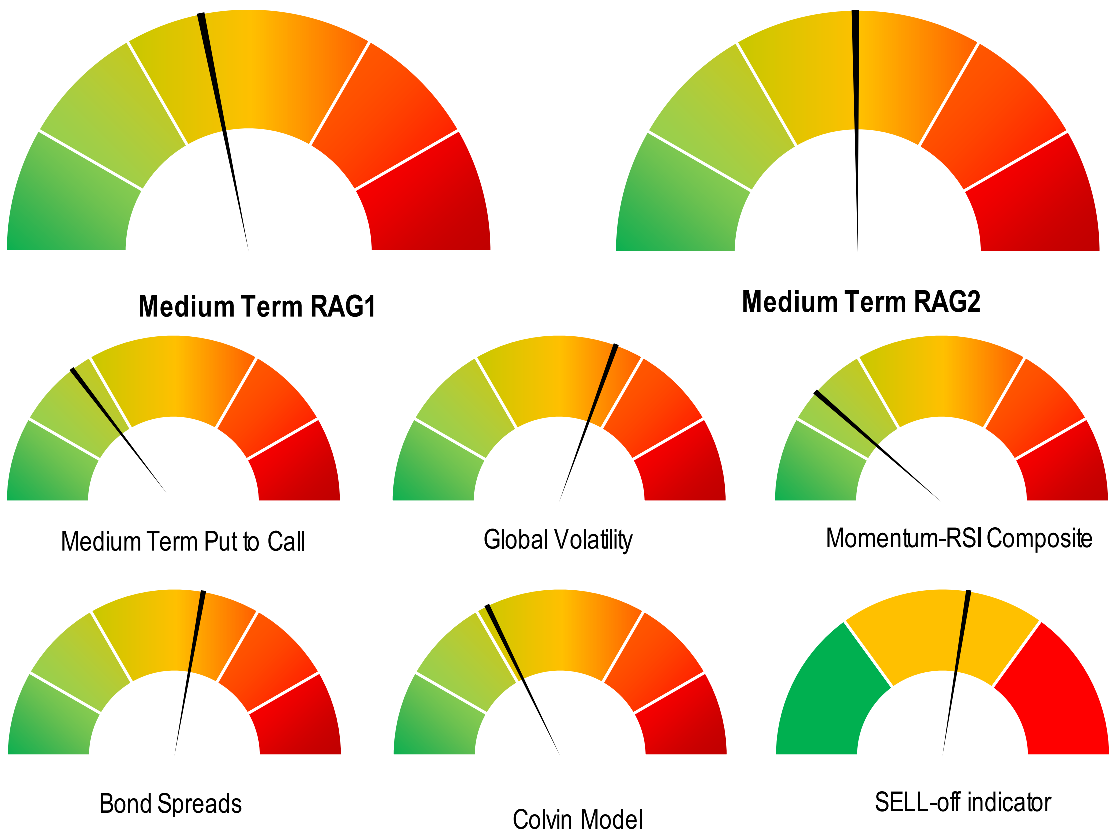
Section 1a: Summary of indicator signals**

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

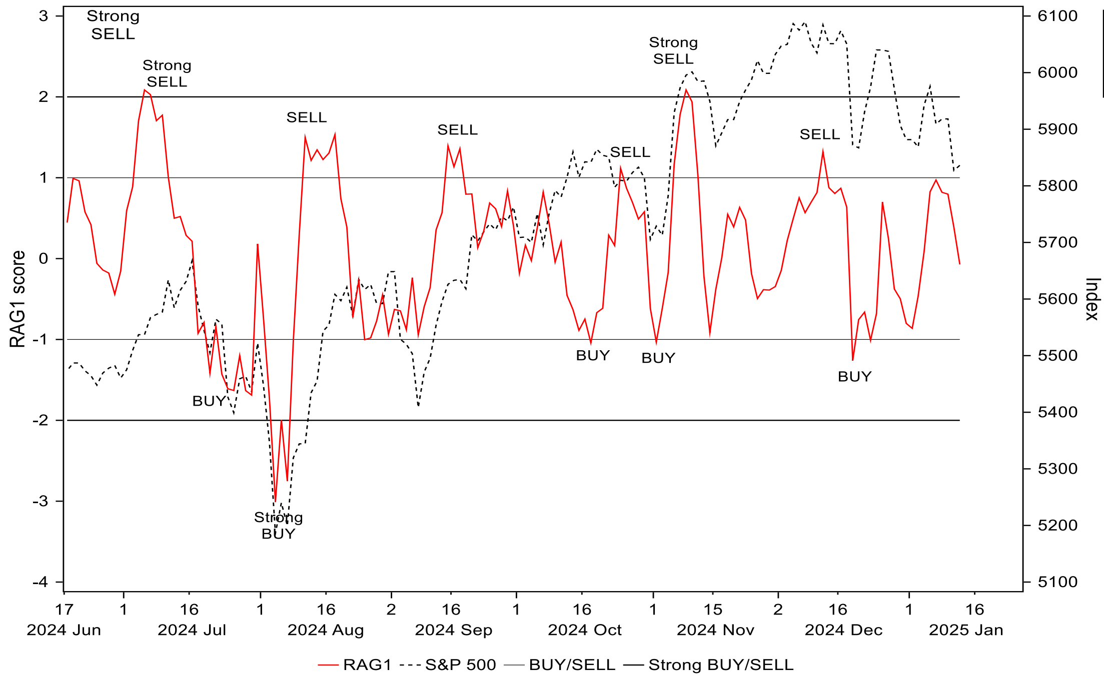


Source: *Longview Economics*

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

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

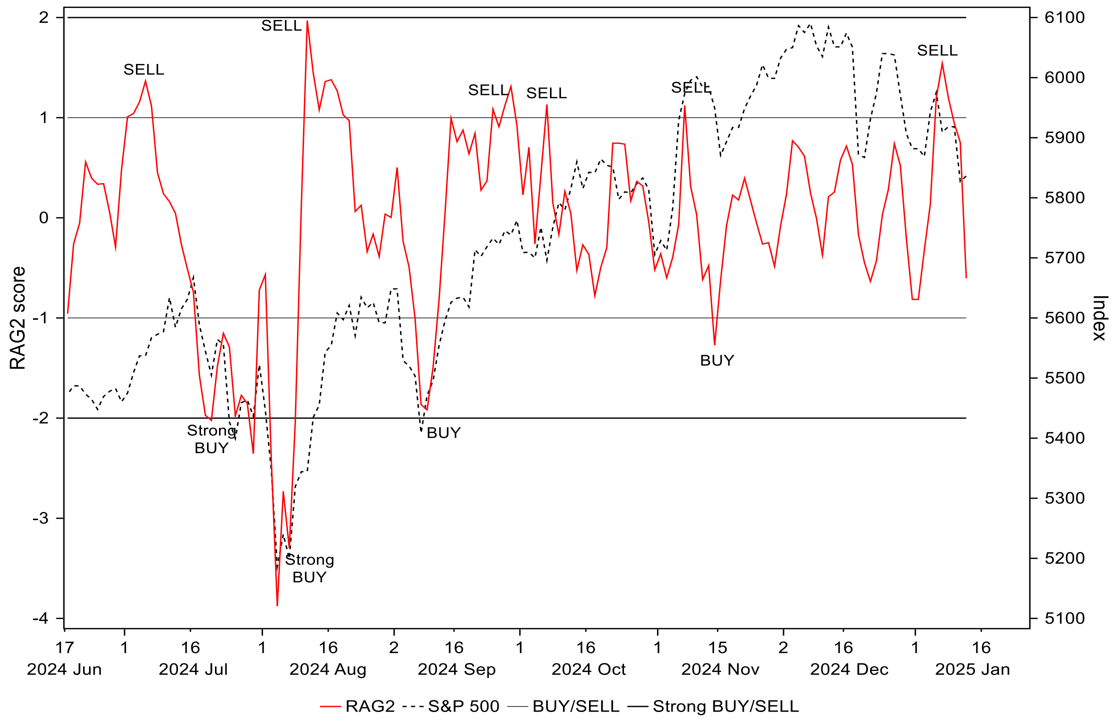
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

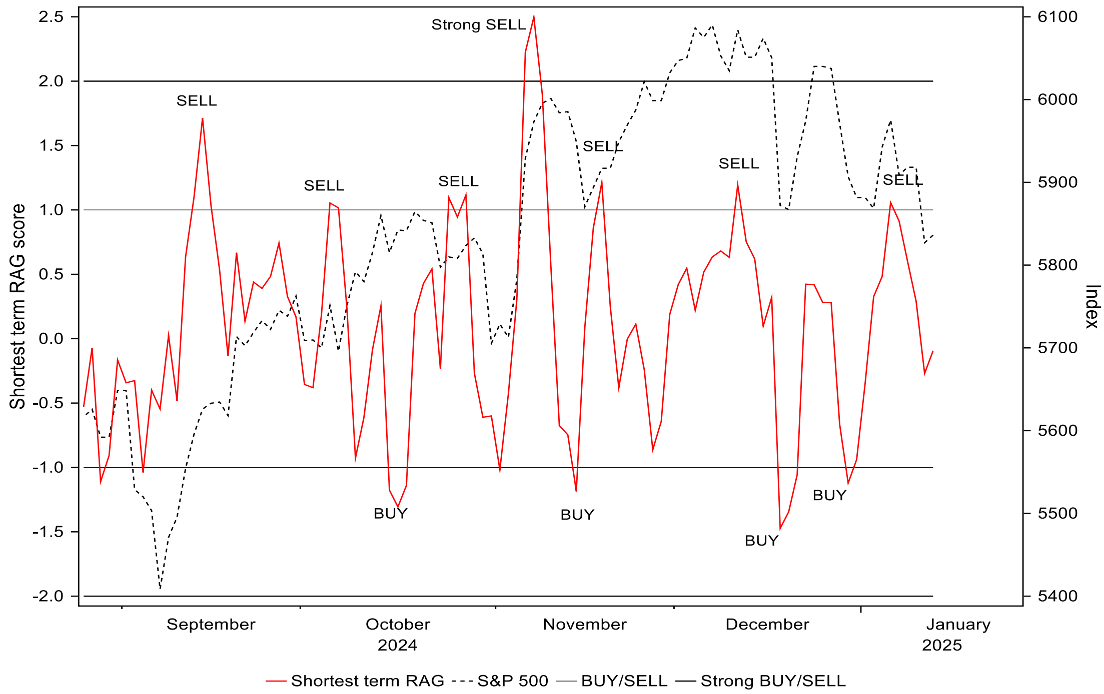


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

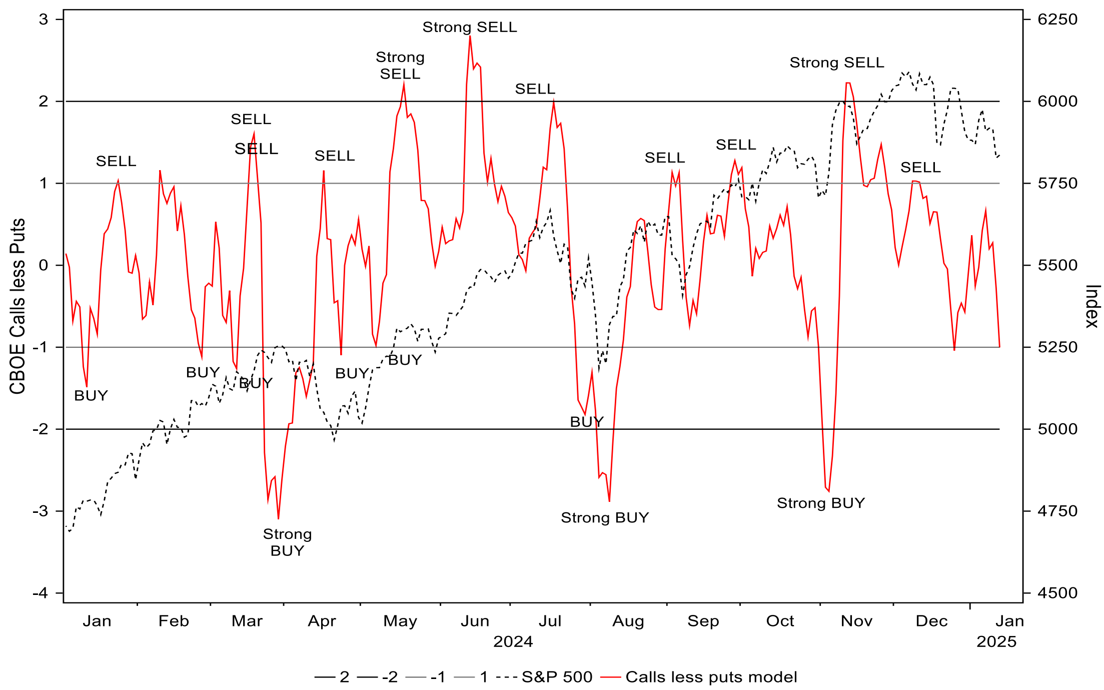
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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



Calls less puts model is NEUTRAL

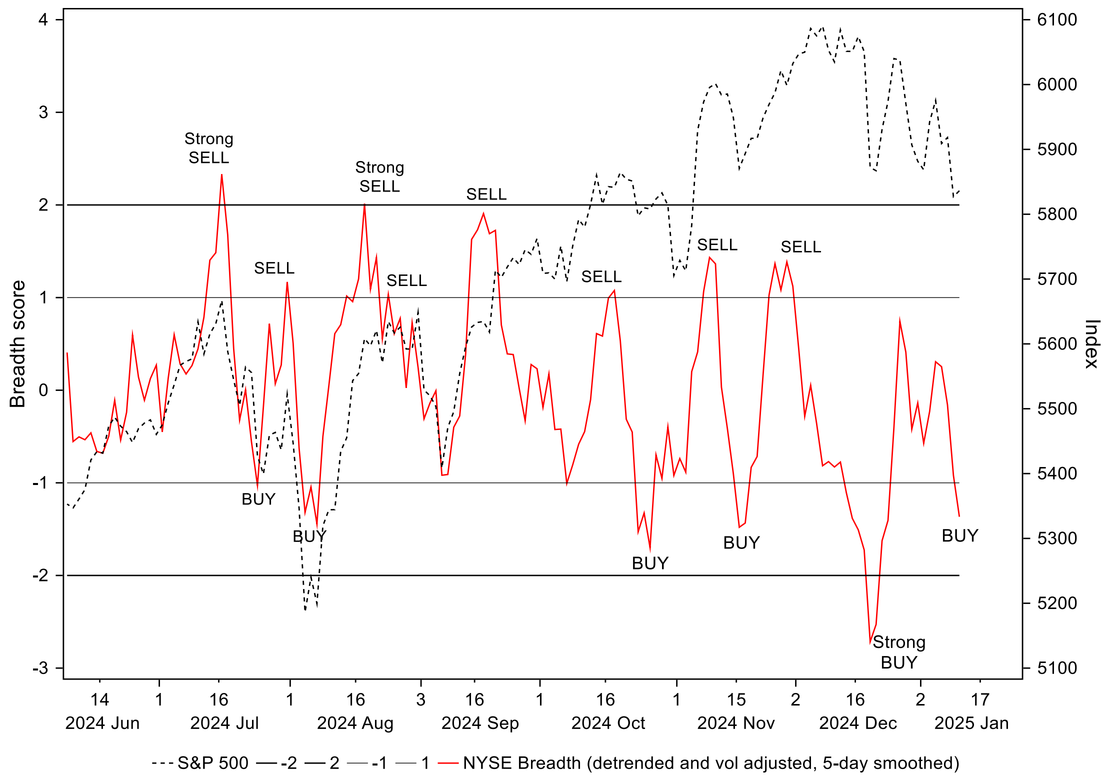
Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

For explanations of indicators please see page 10

  |

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



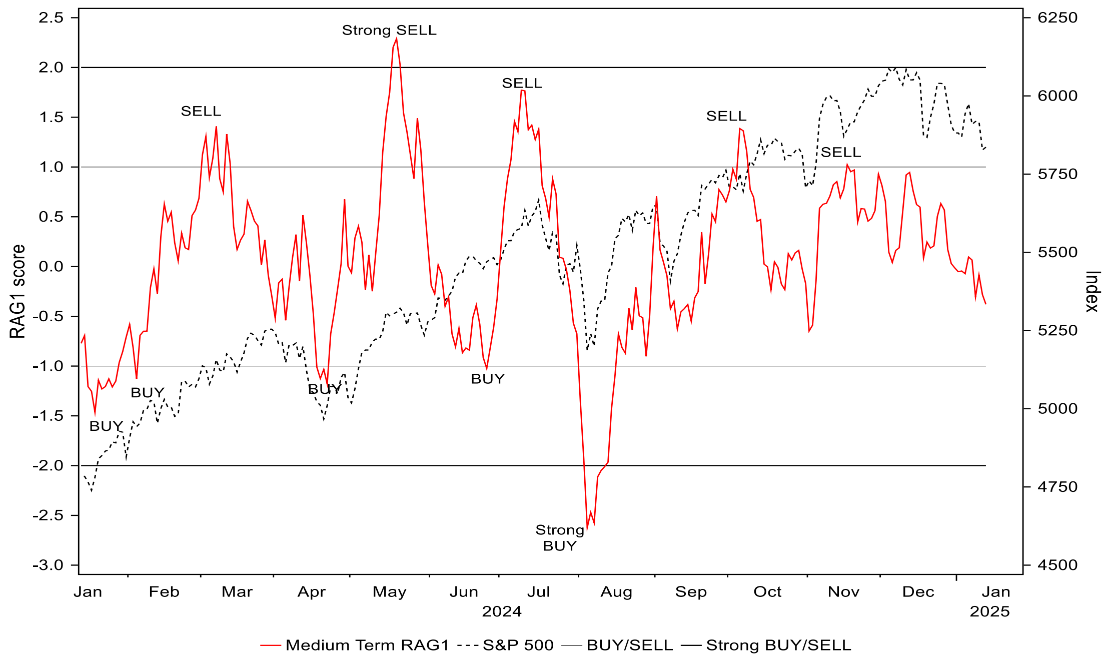
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

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

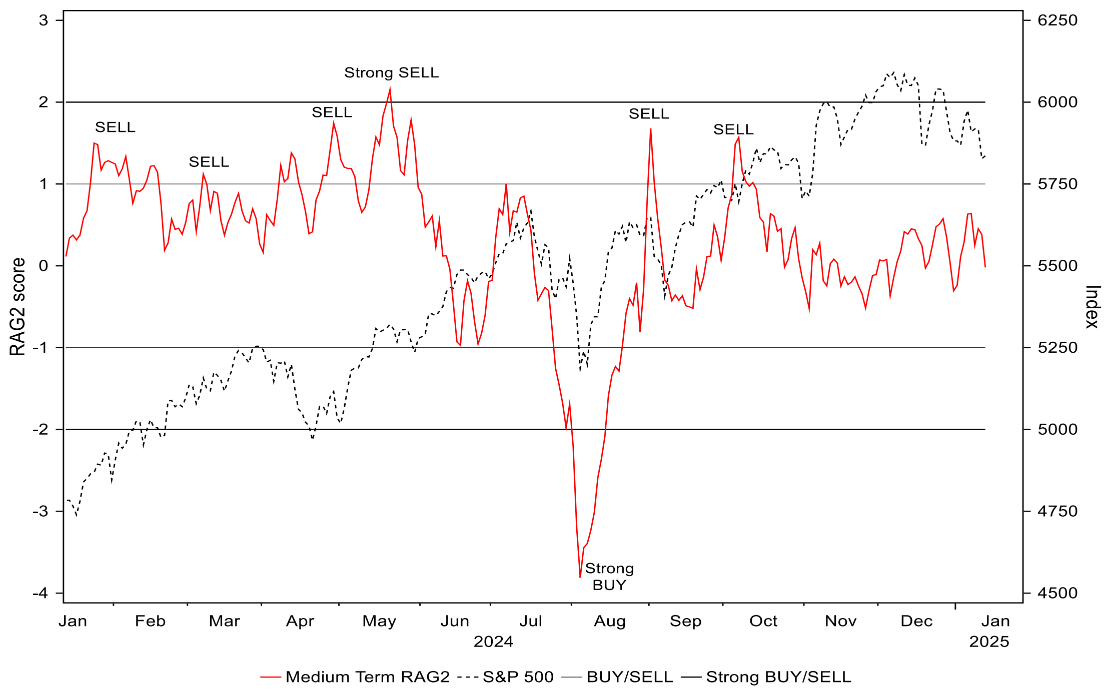
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

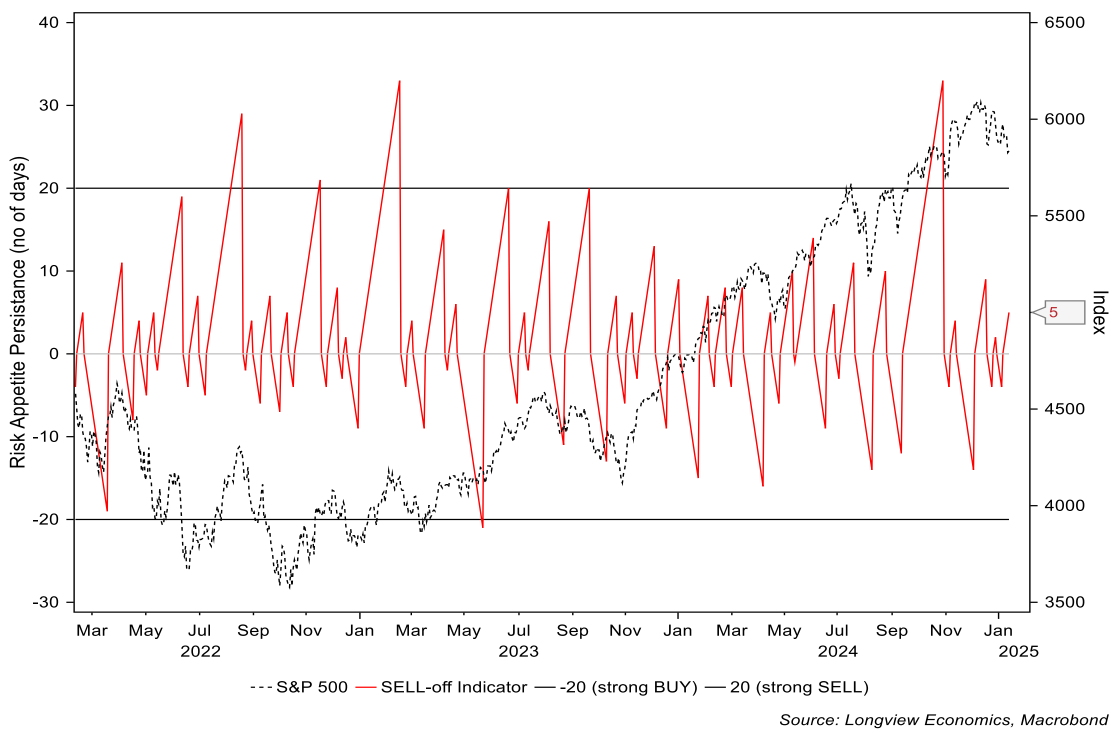


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

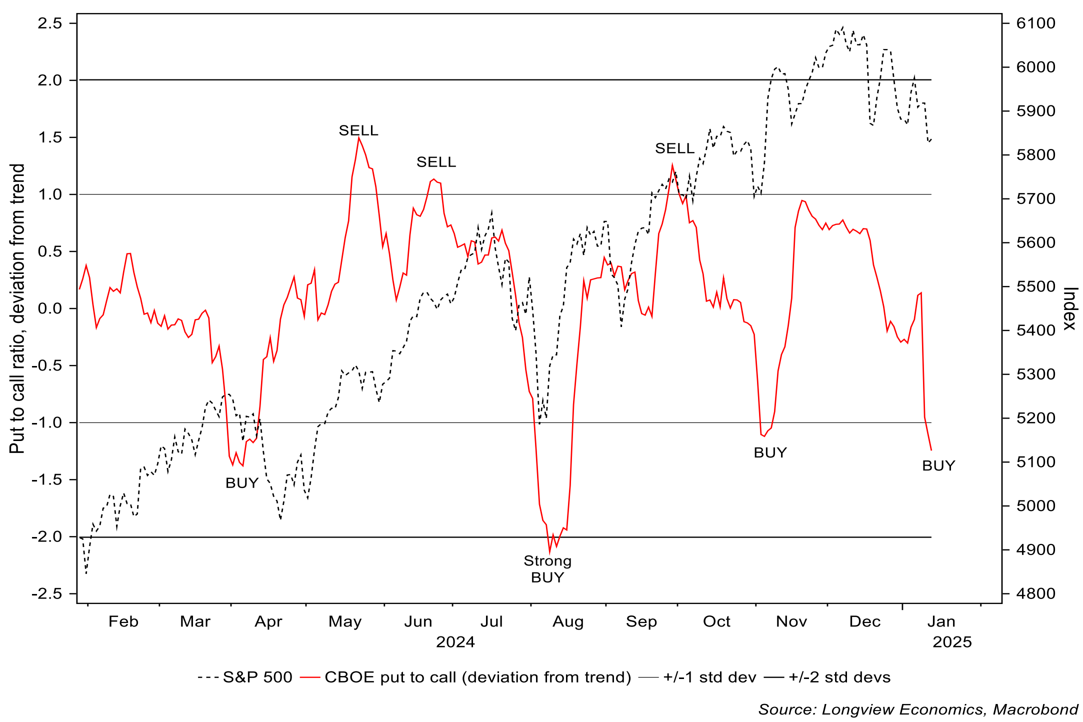
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

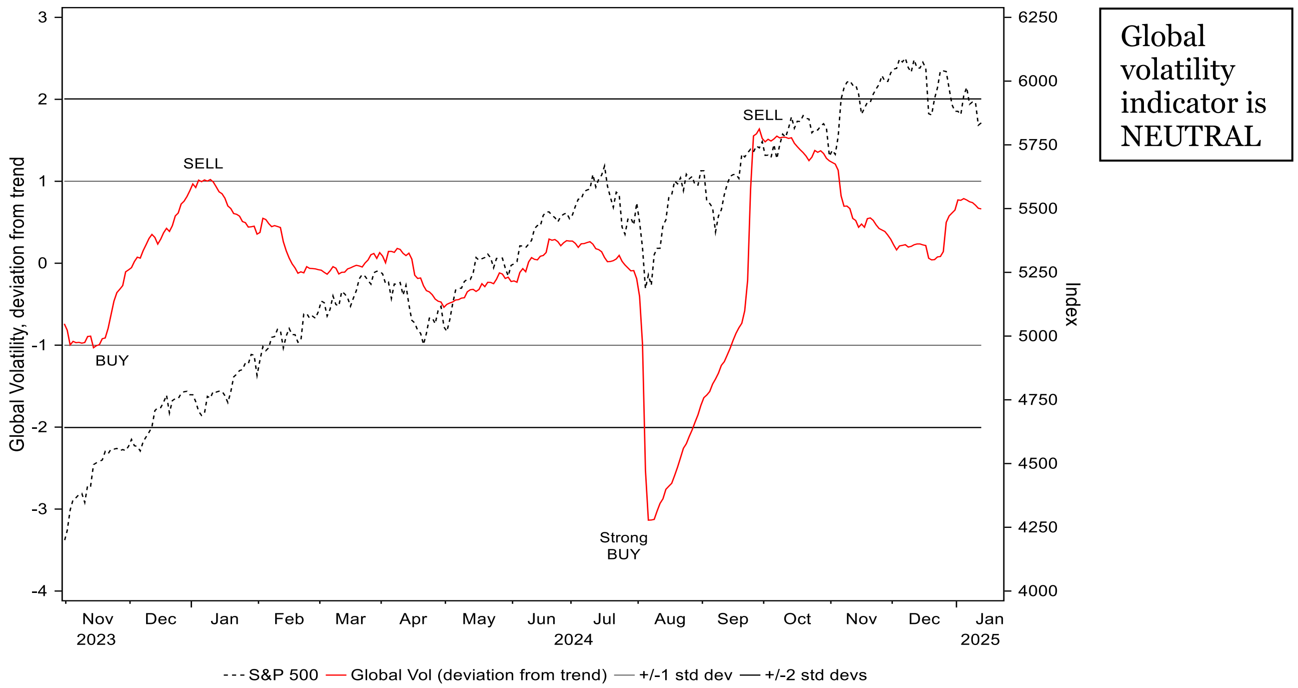
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is on BUY

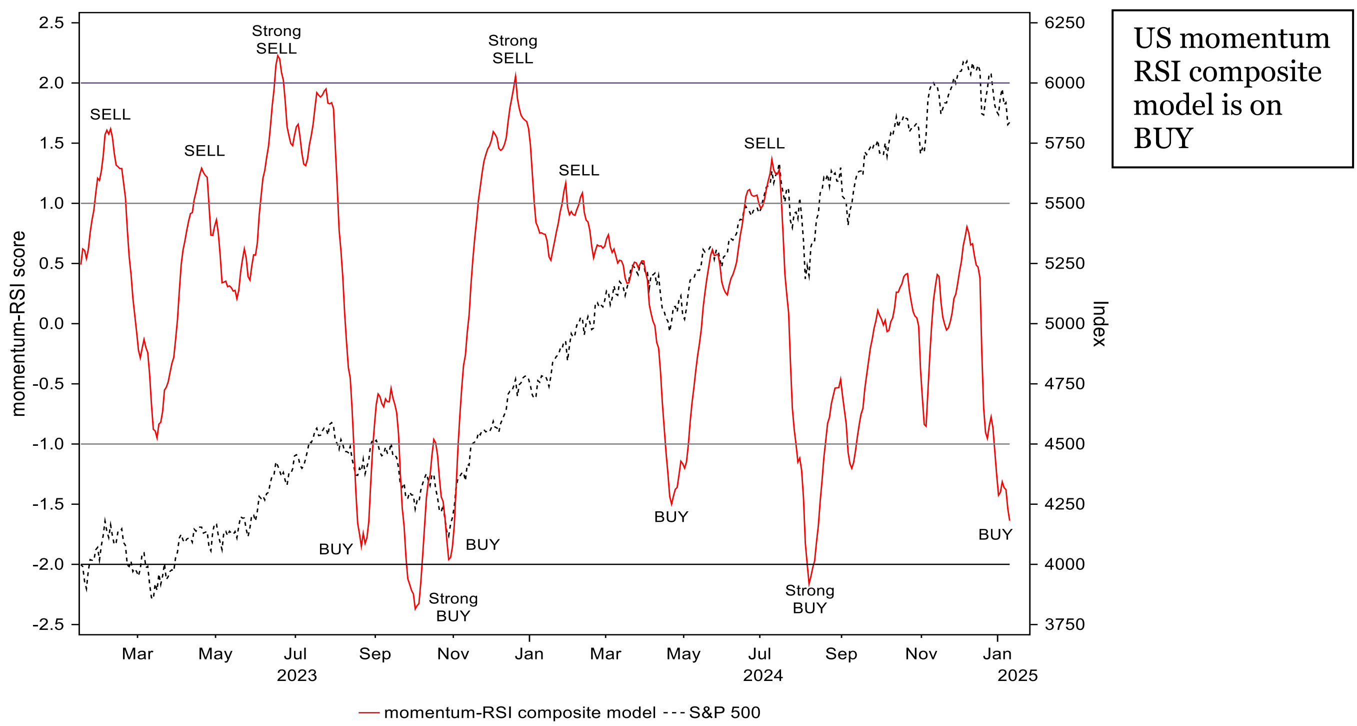
For explanations of indicators please see page 10

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



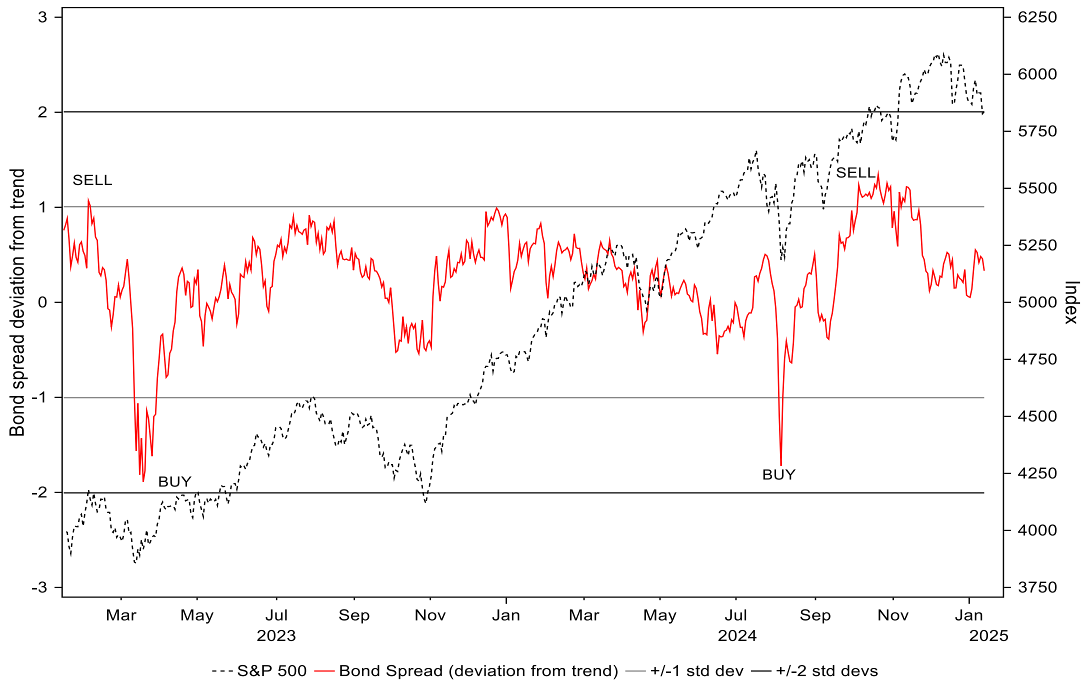
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

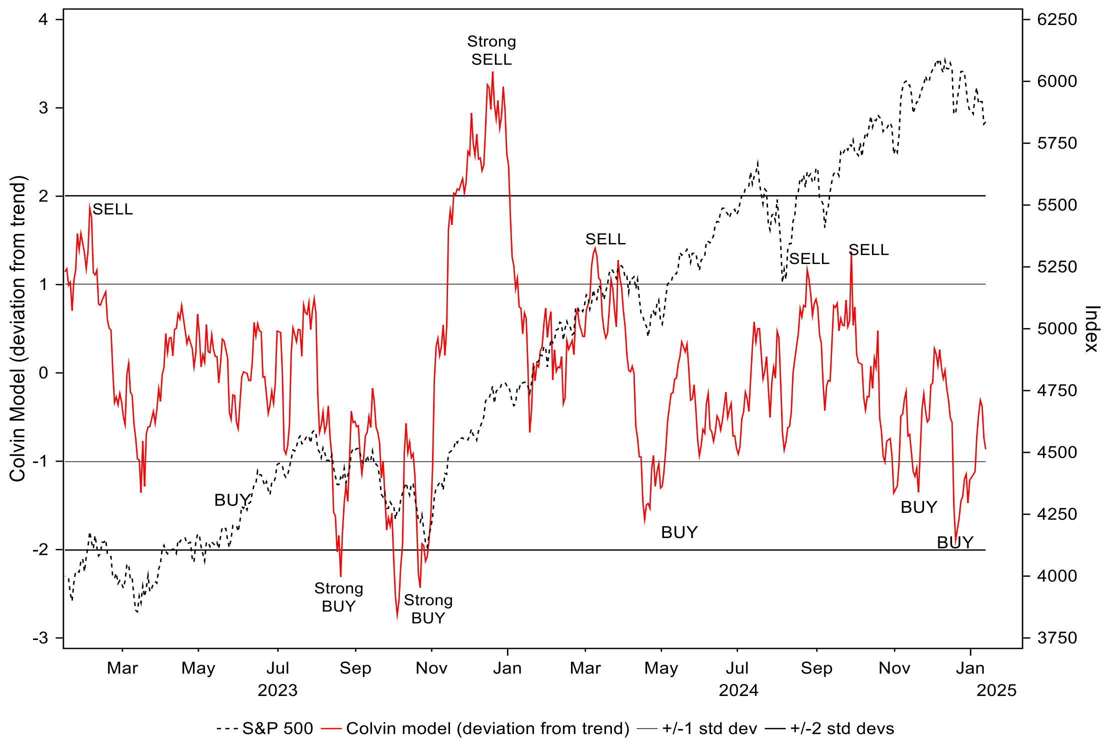
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

Disclaimer

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.