

Equity Index Futures Trading Recommendations

14th January 2025

"Models Moving - BUILD LONG Positions on Weakness"

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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 5,815.
- 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.

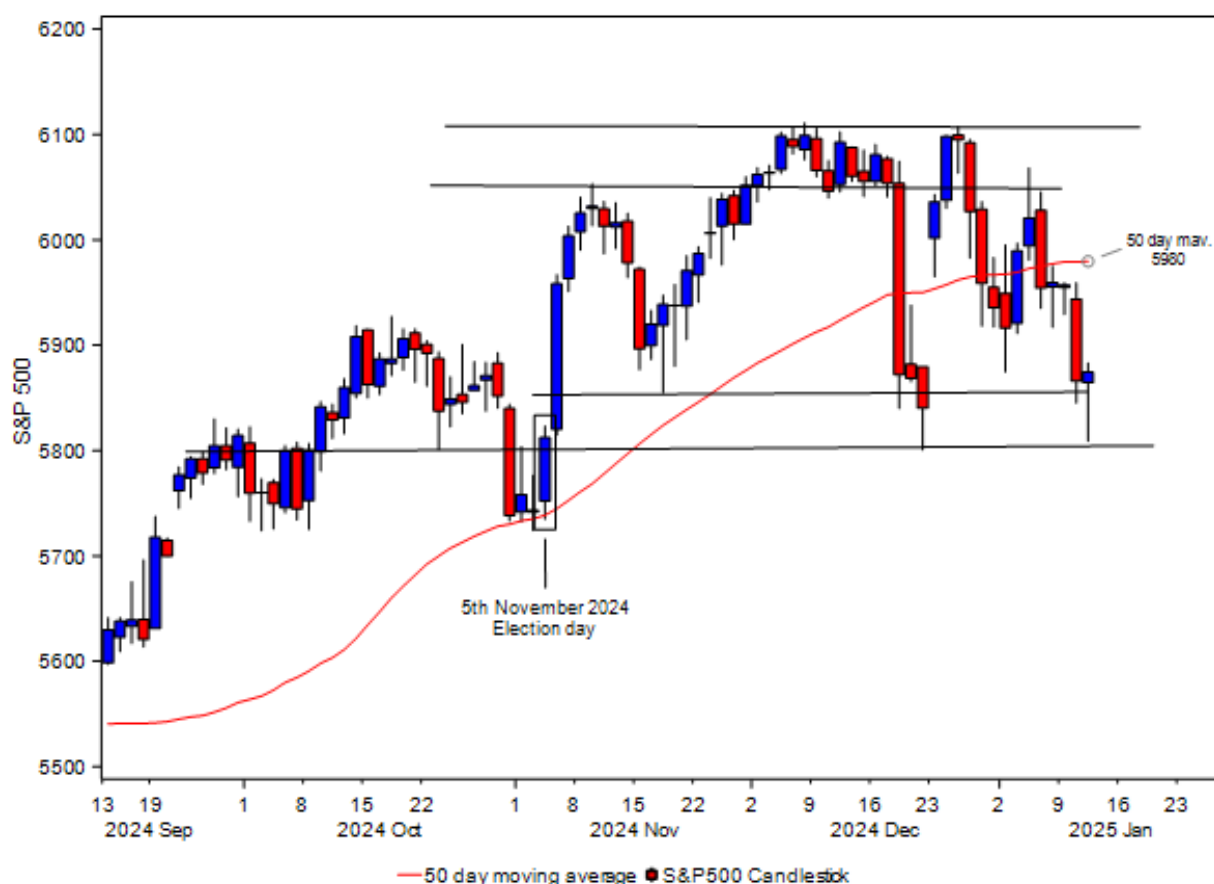
Risks, as always, are multiple and include the recent uptrend in yields/the dollar (which is possibly ongoing/has the potential to generate volatility in equities). Other (two way) risks include tomorrow's US CPI inflation report for December (i.e. key for the near term direction of rates/FX).

Kind regards,

The team @ Longview Economics

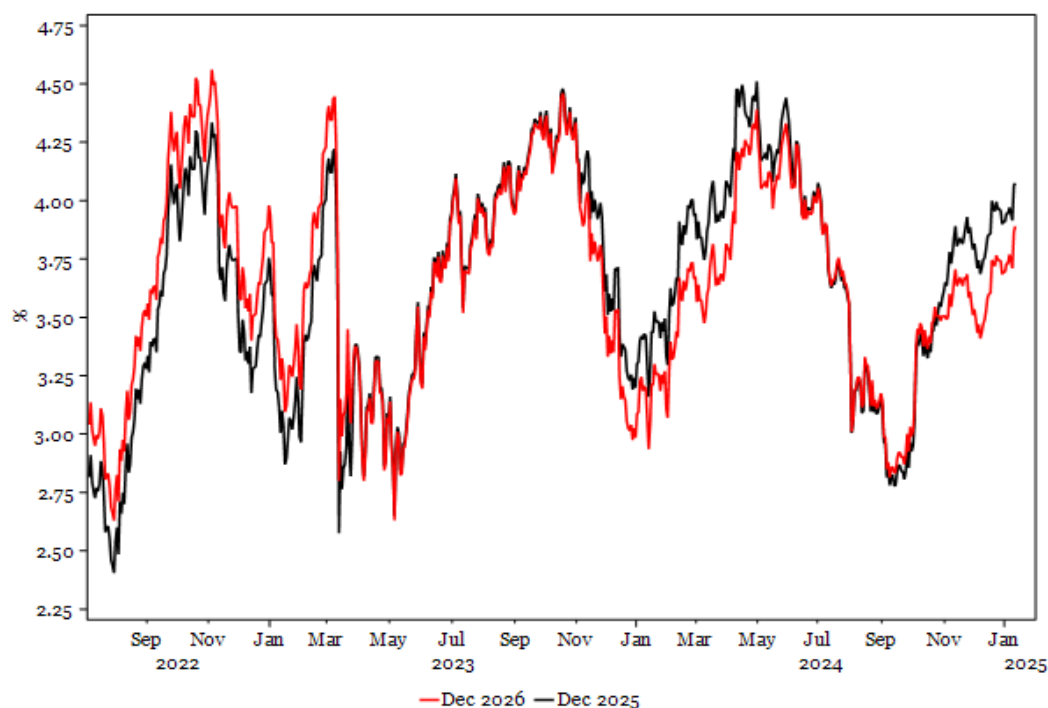
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>);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

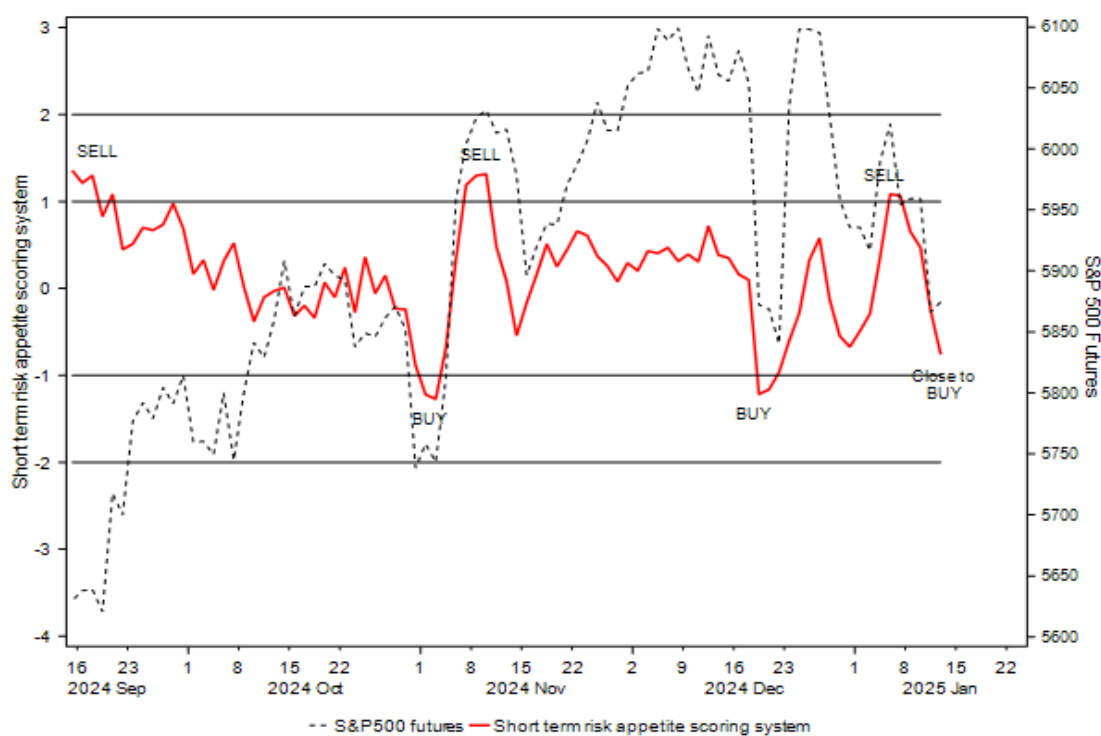
FIG 1a: Implied Fed fund futures rates (December 2025 & 2026)



Source: Longview Economics, Macrobond

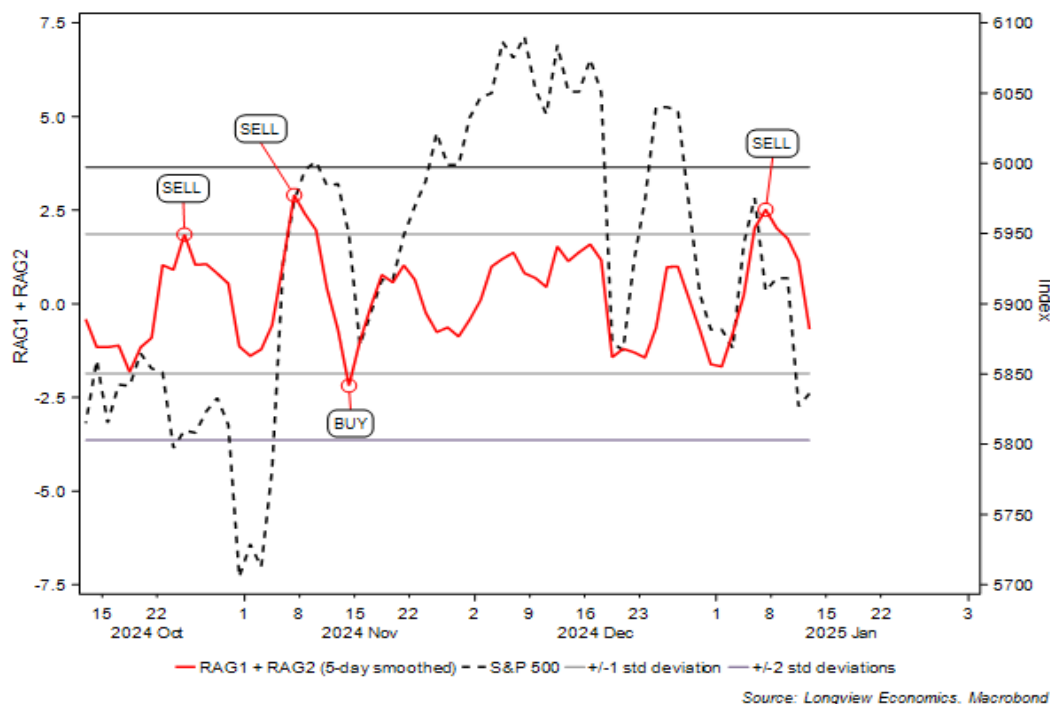
Risk appetite models are close to BUY...

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



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

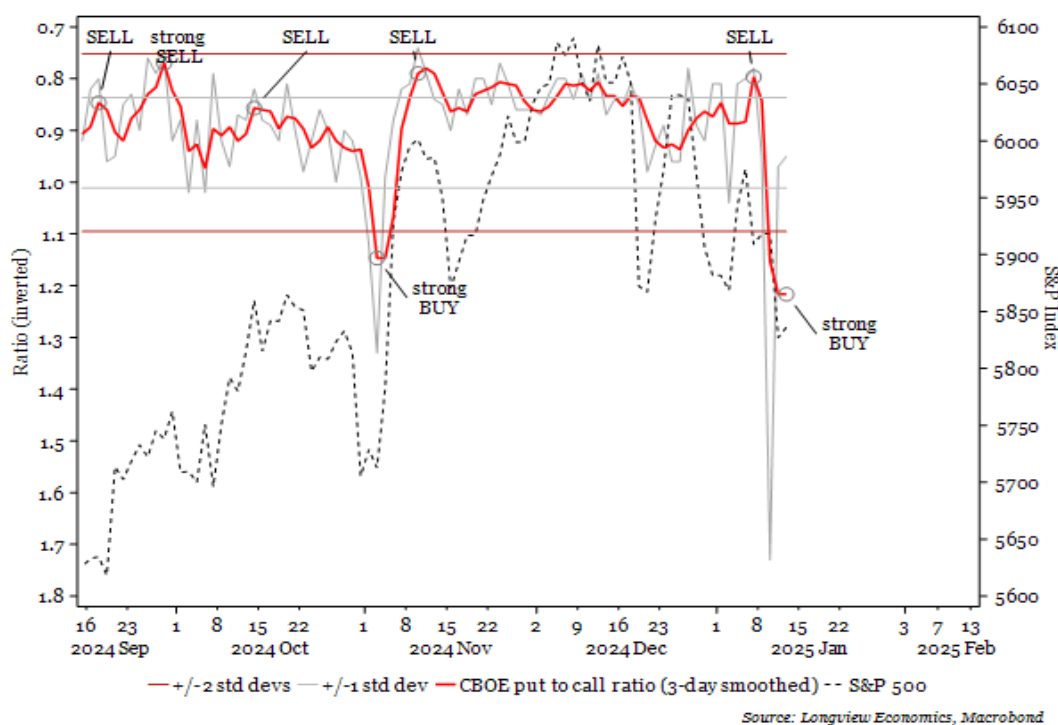
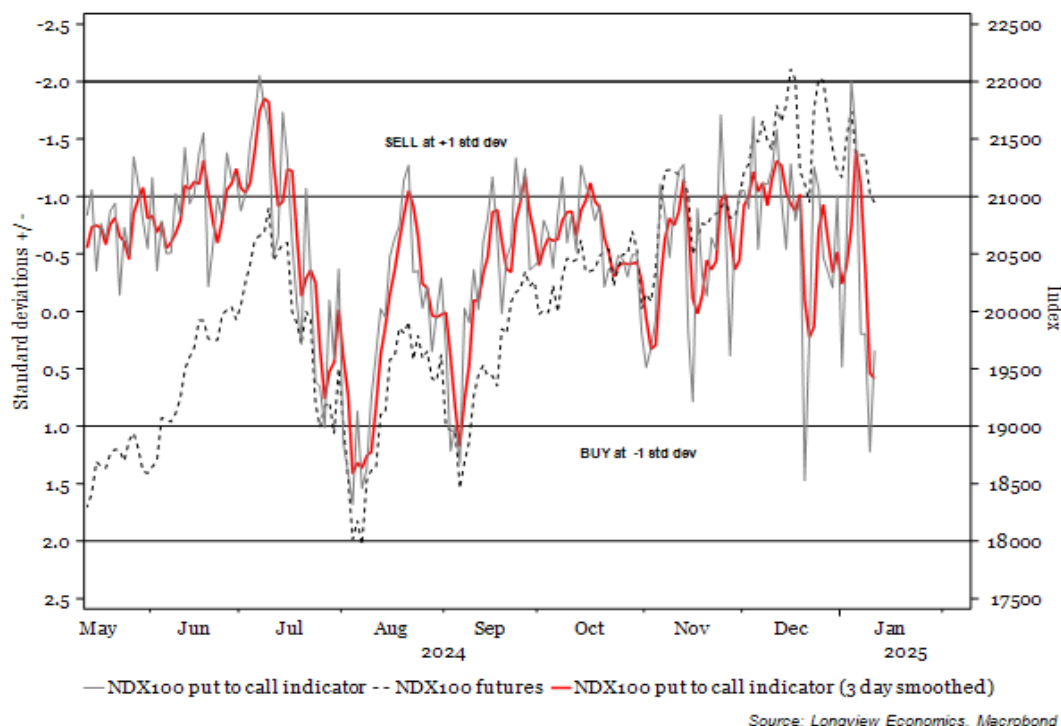


FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



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

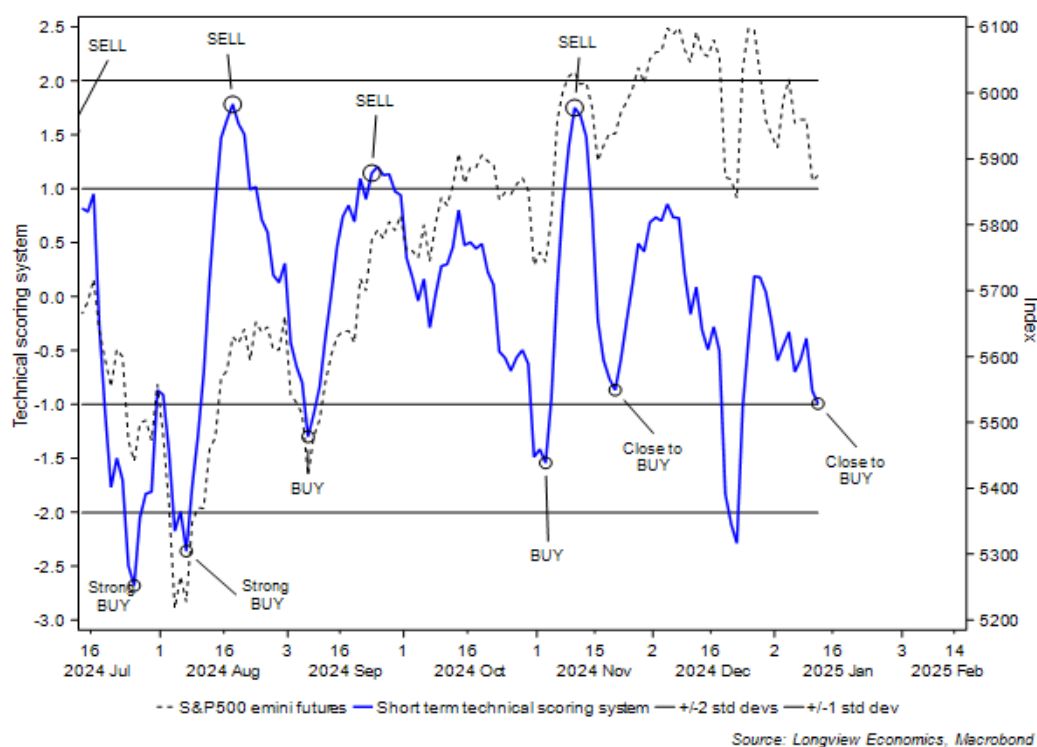


FIG 4a: Longview NDX100 short term **‘technical’** scoring system vs. NDX100 futures

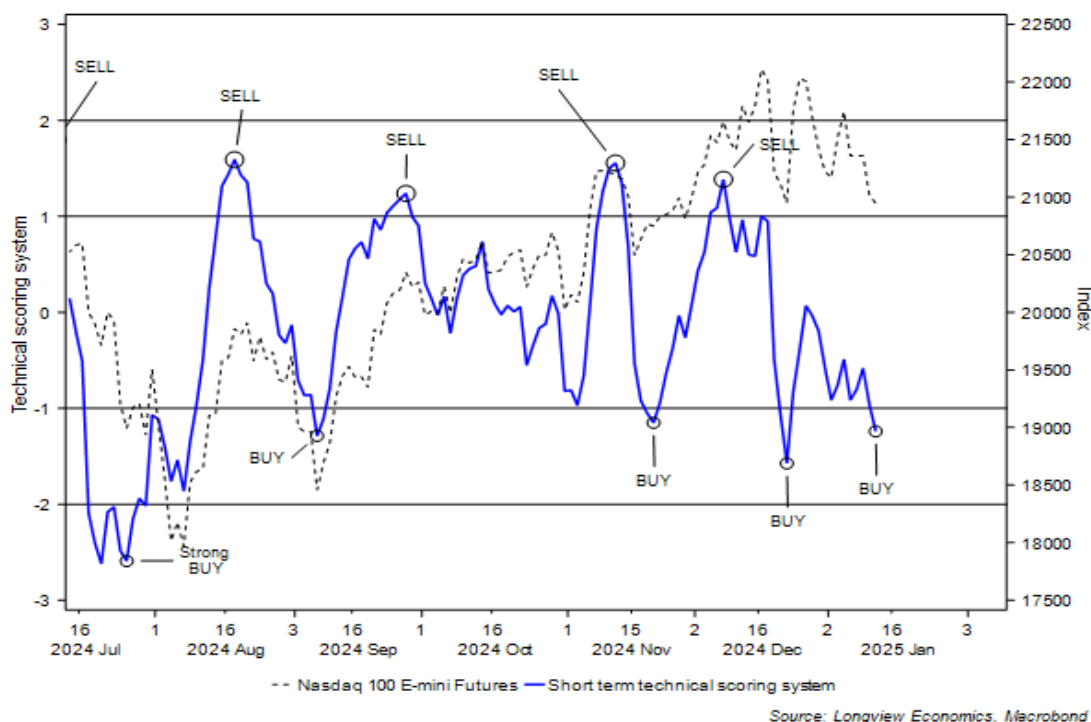
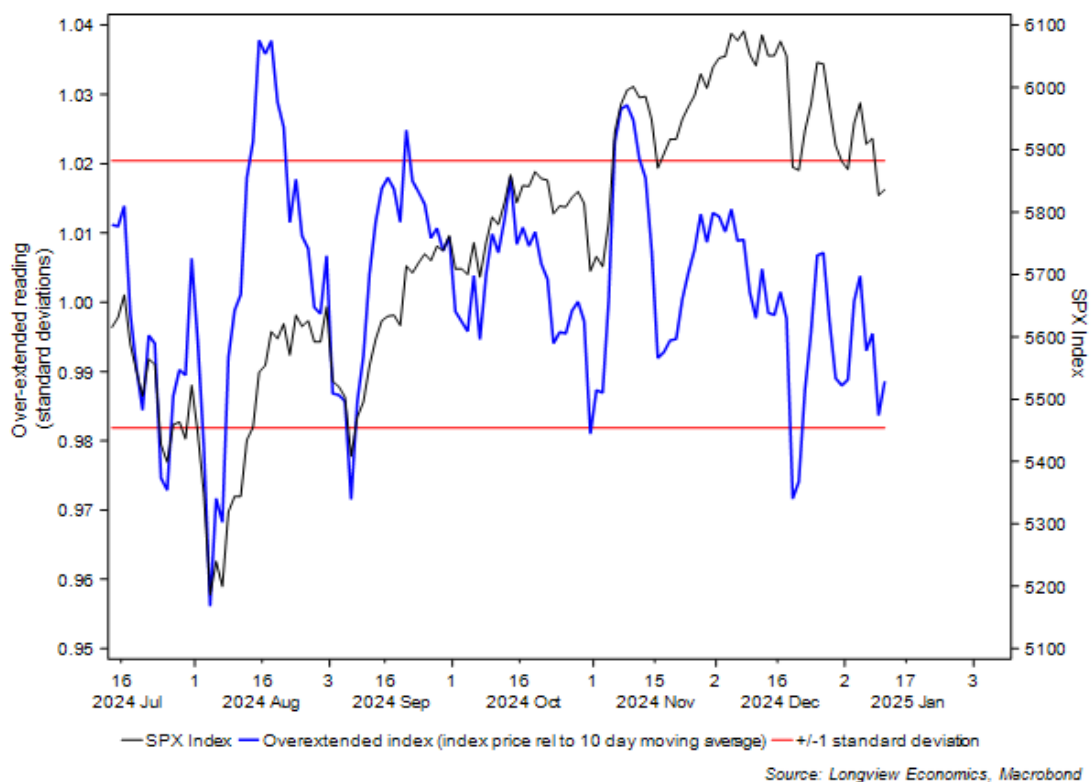


FIG 4b: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500



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

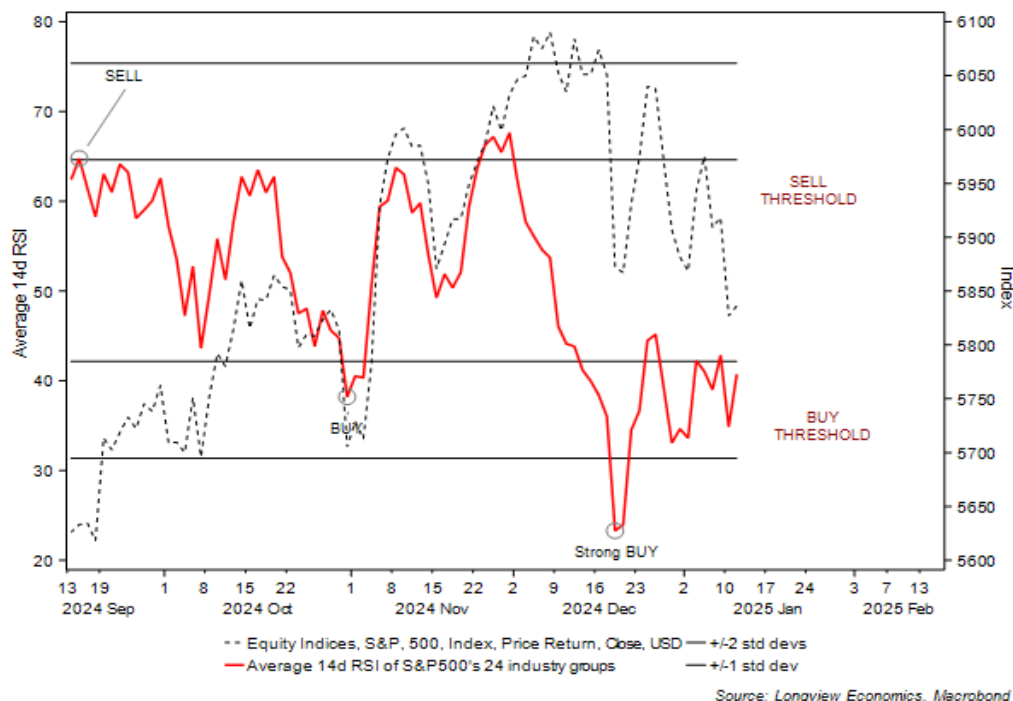
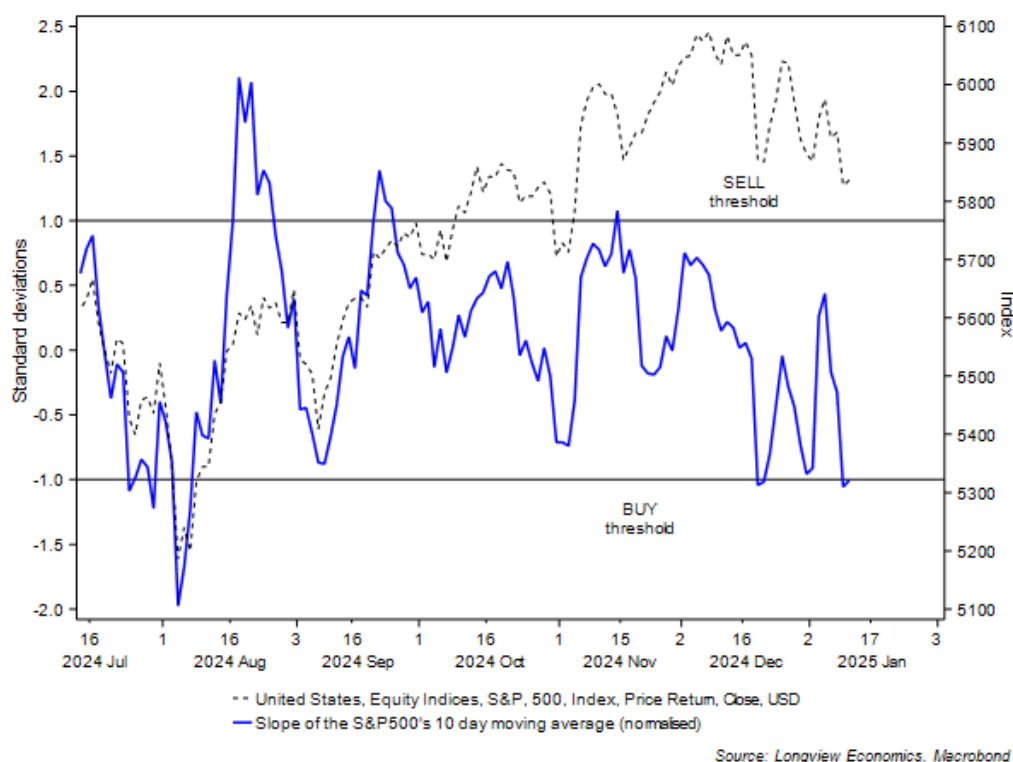


FIG 4d: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



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

Equity Index Futures
Trading Recommendations
| 8

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.



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1 – 2 Week View on Risk

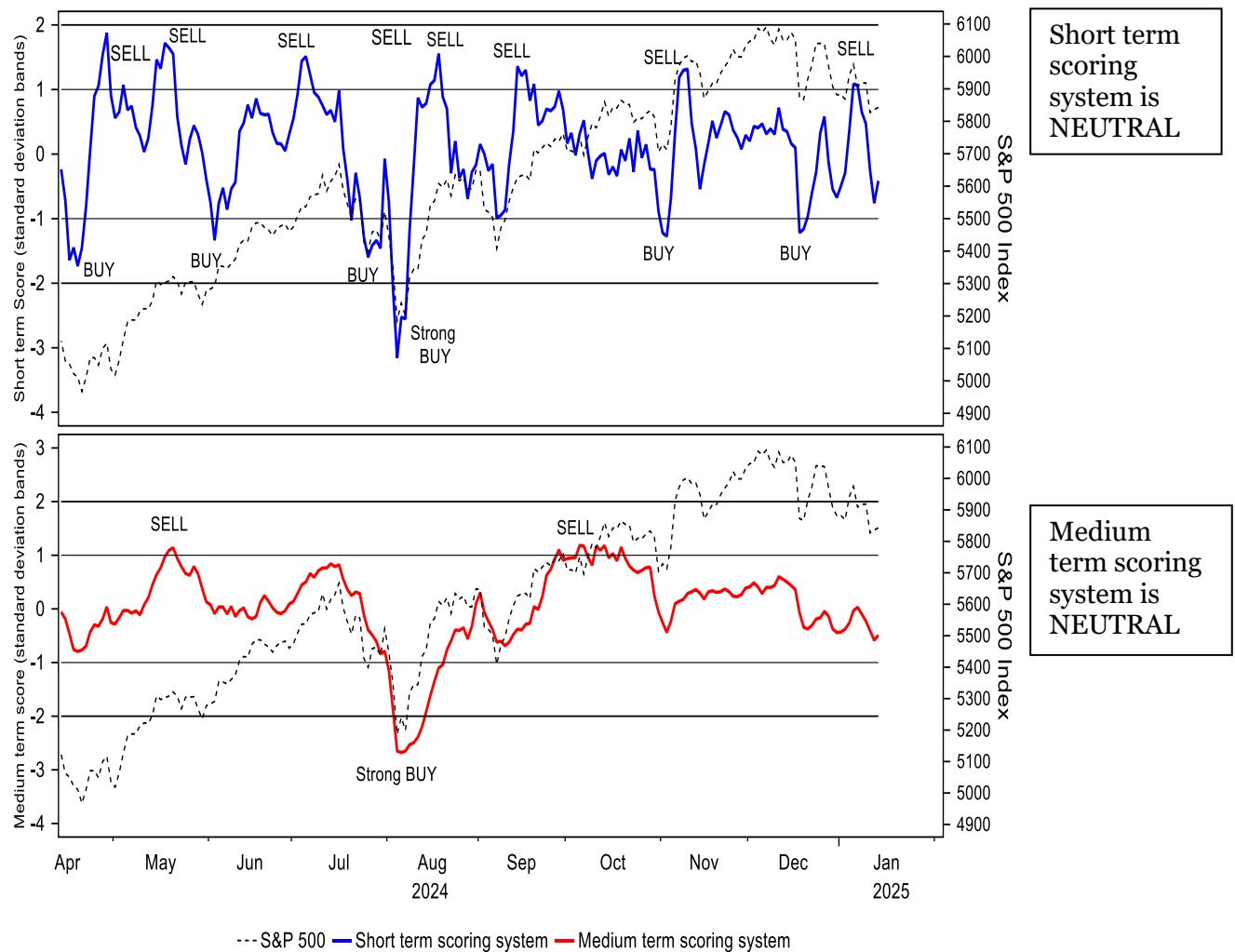
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15th January 2025

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

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



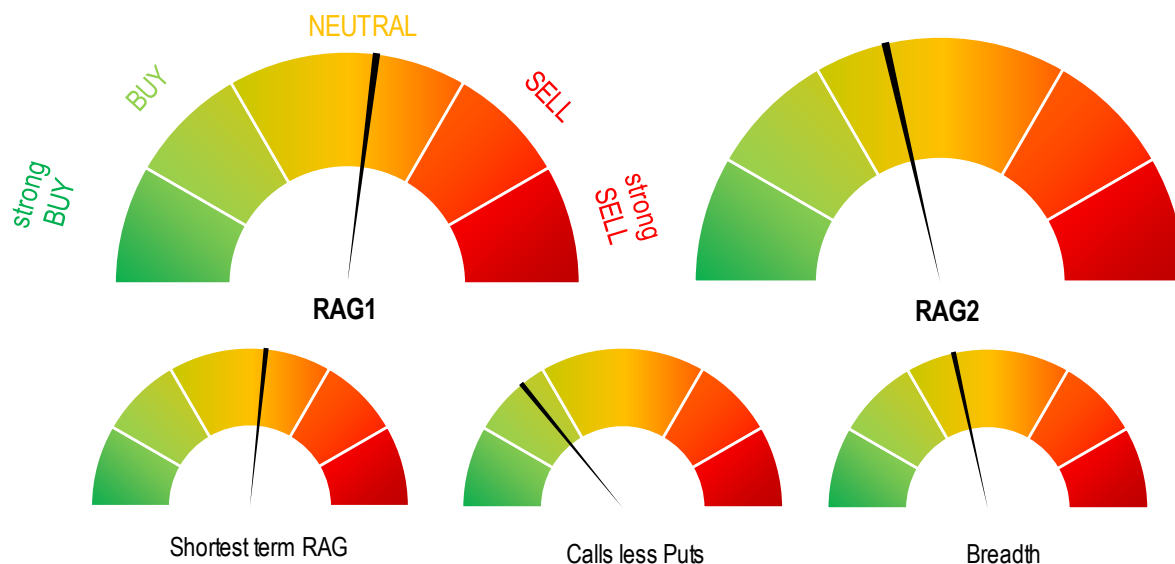
Source: Longview Economics, Macrobond

*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**

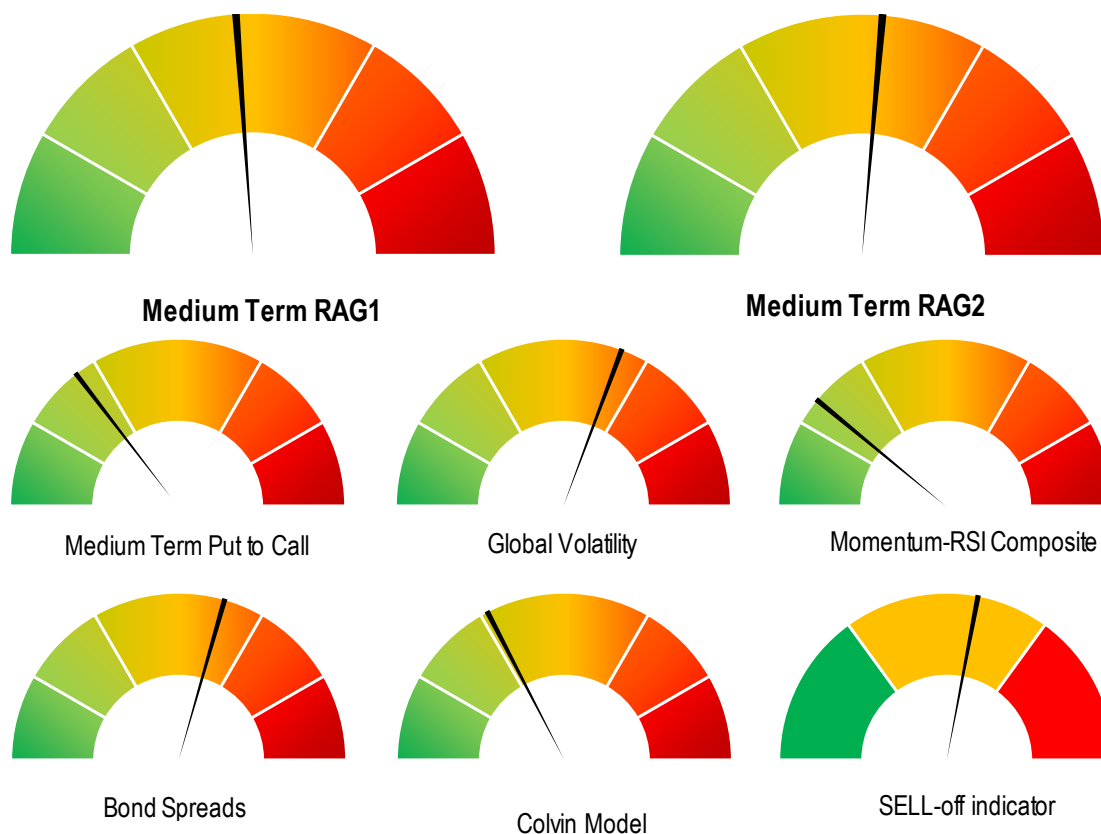
Section 1a: Summary of indicator signals**

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

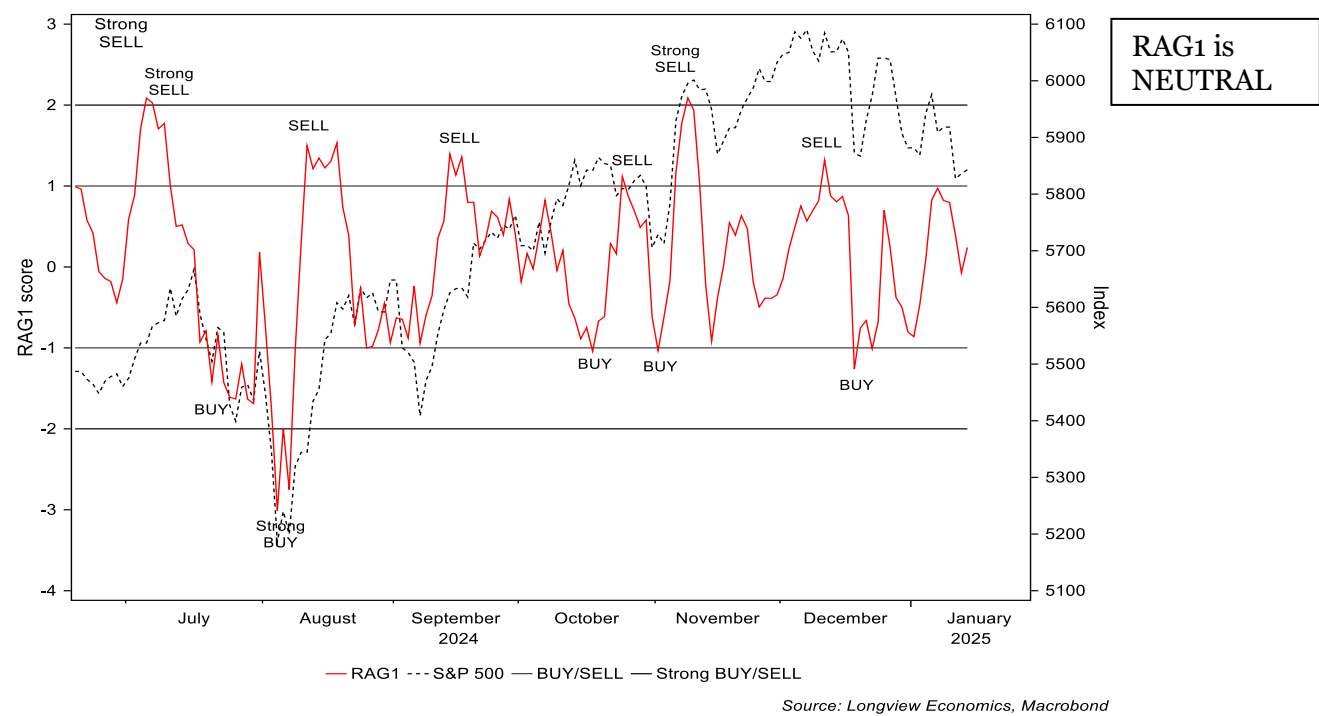
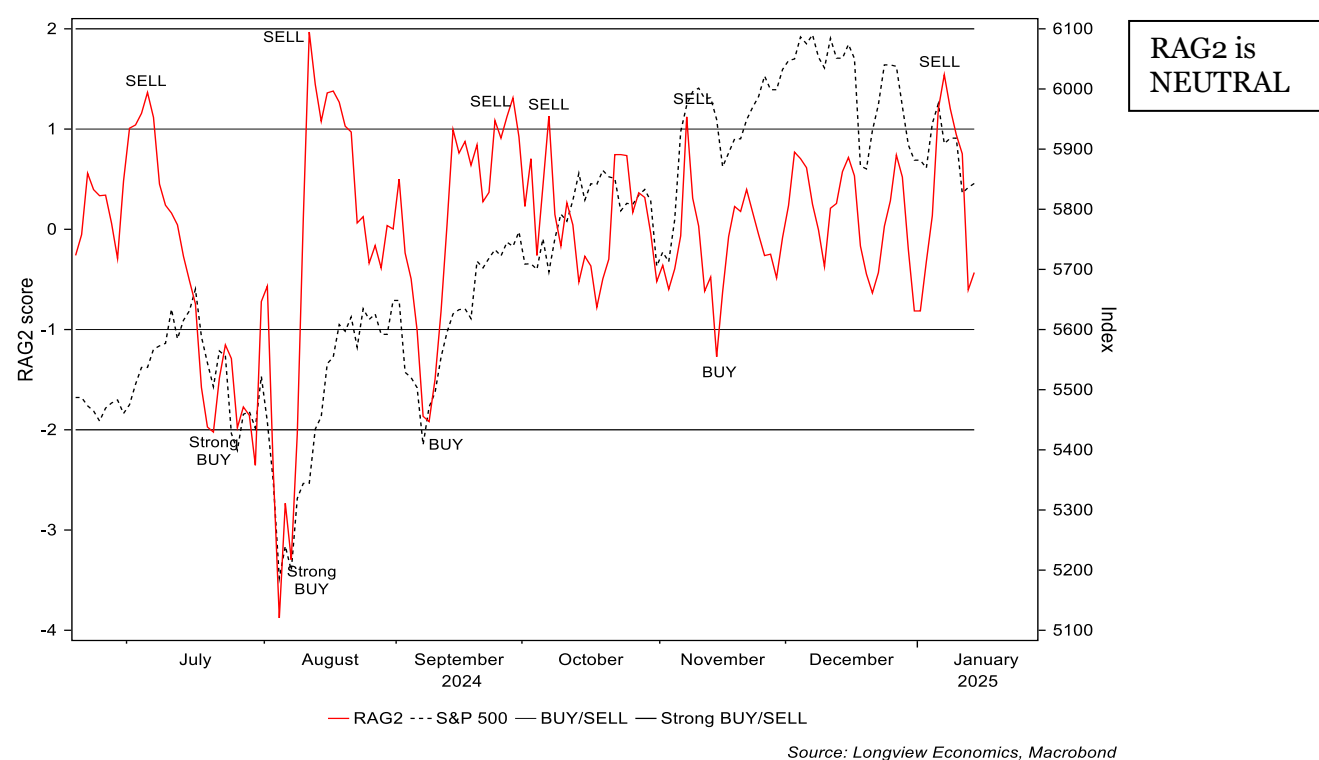


Fig 2b: RAG 2 vs. S&P 500



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

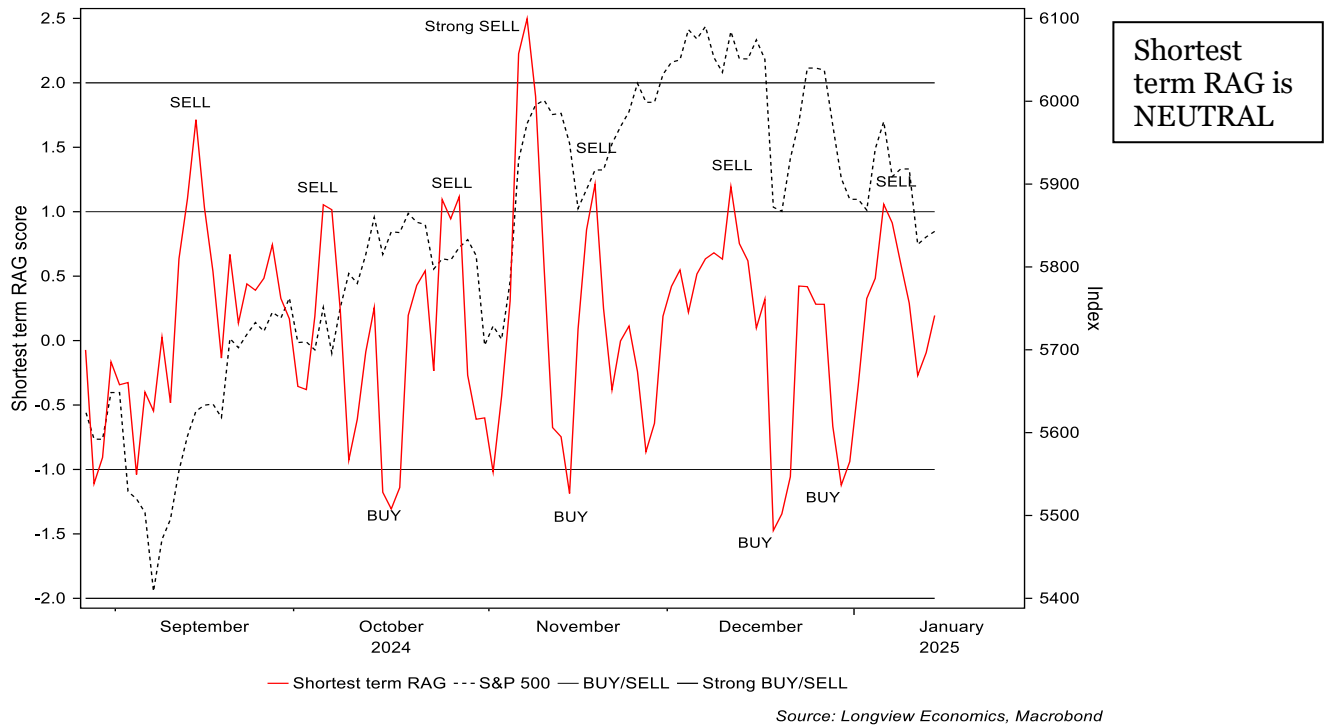
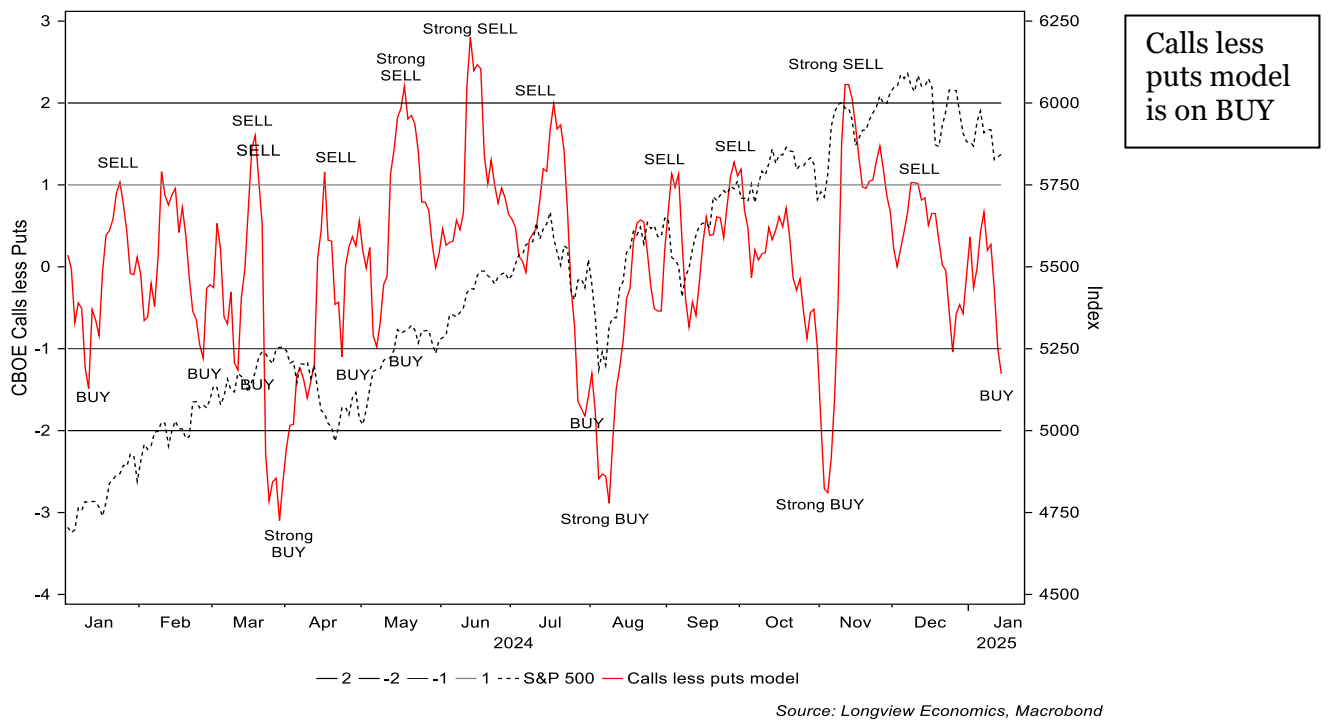
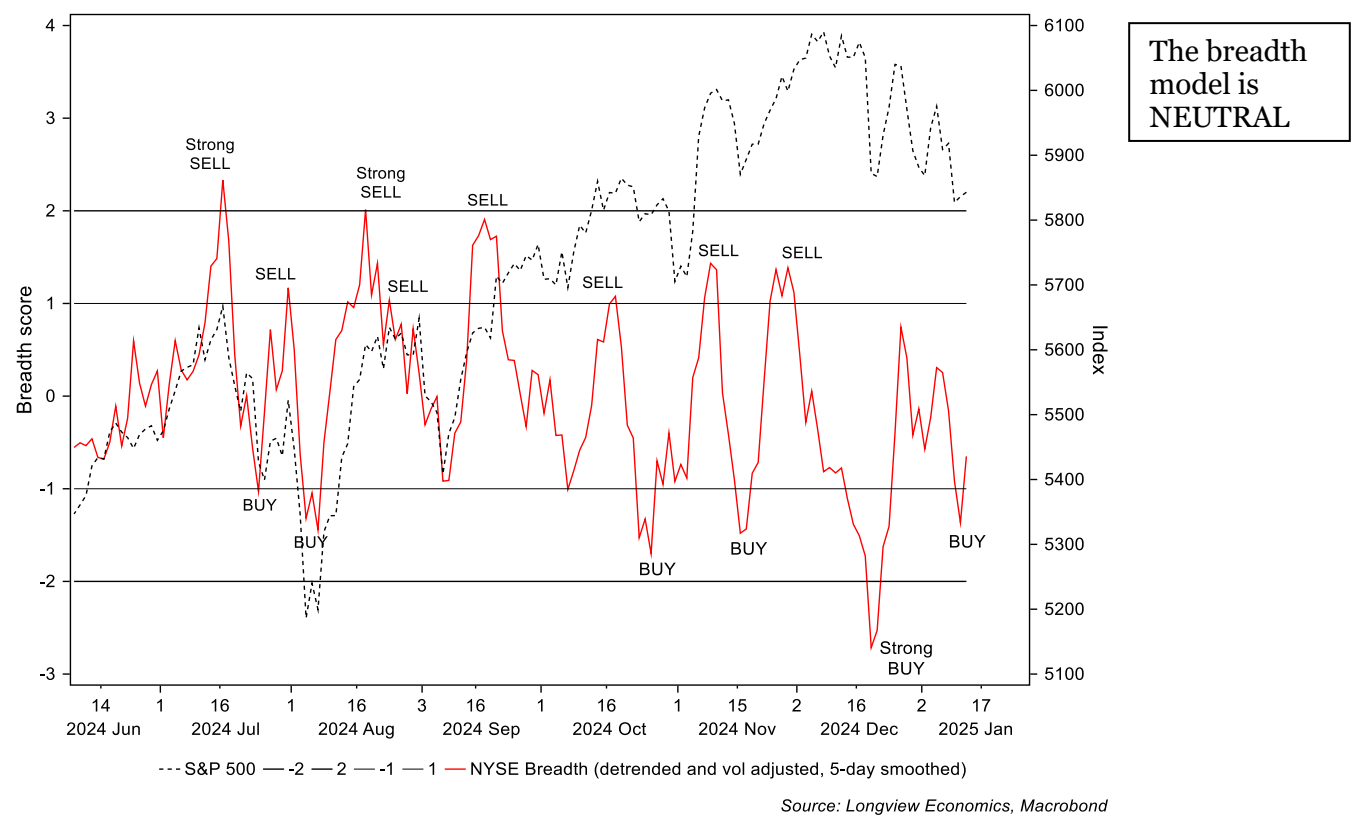


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

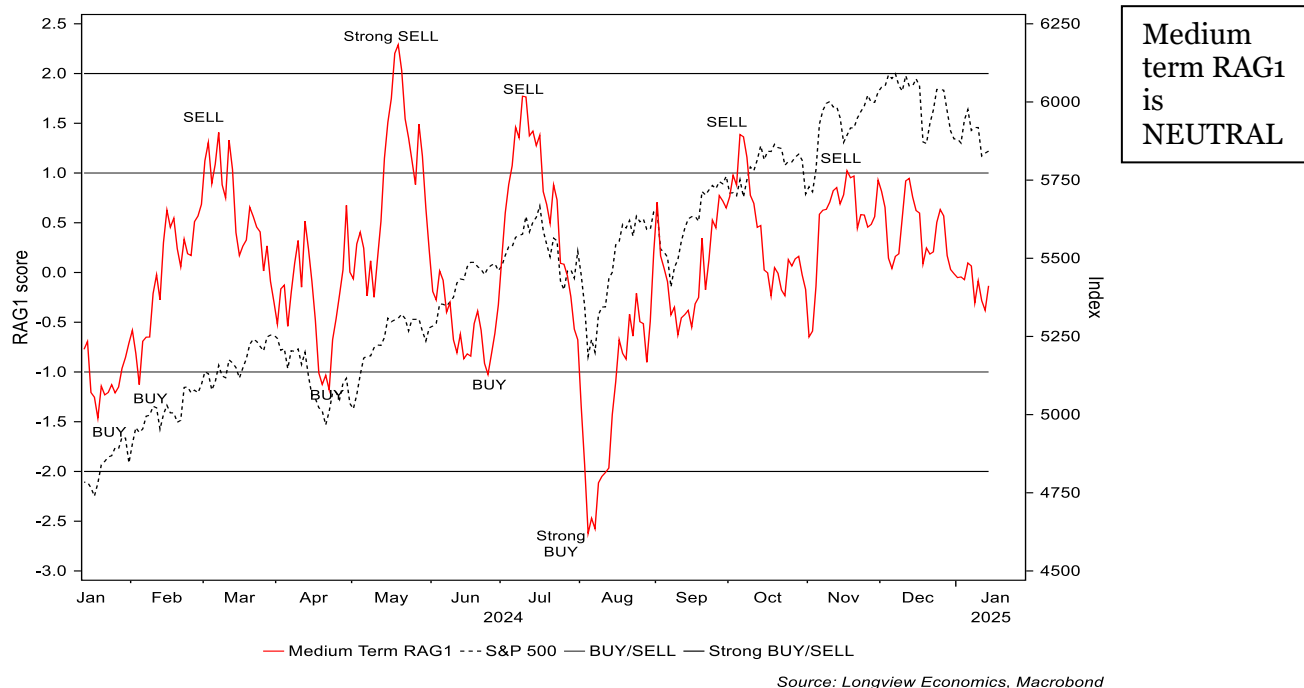
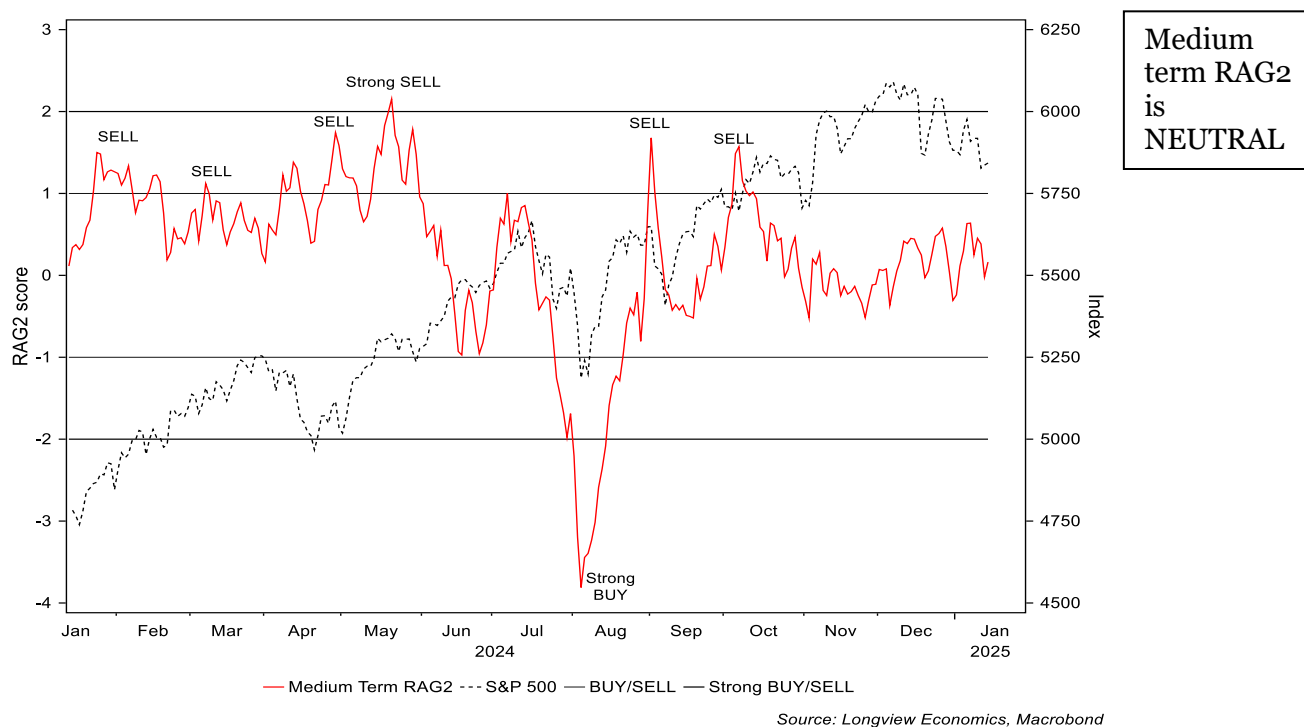


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

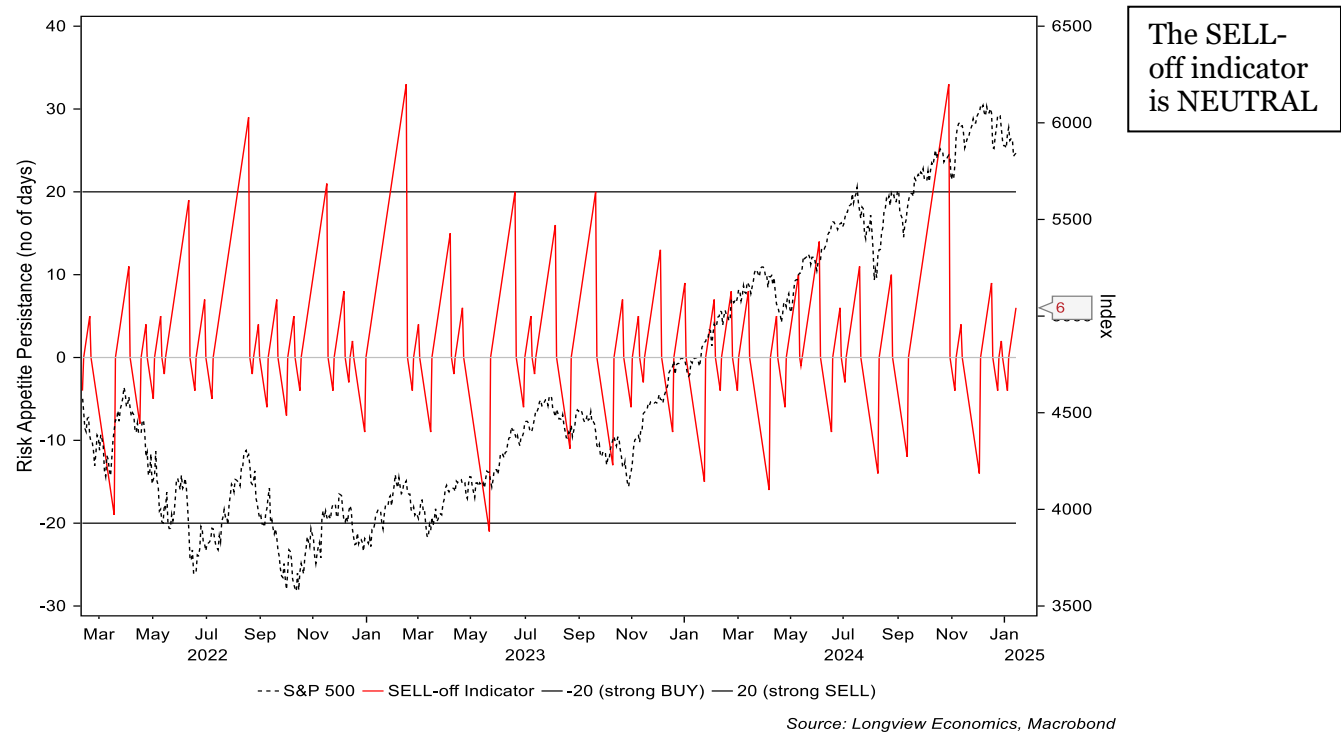
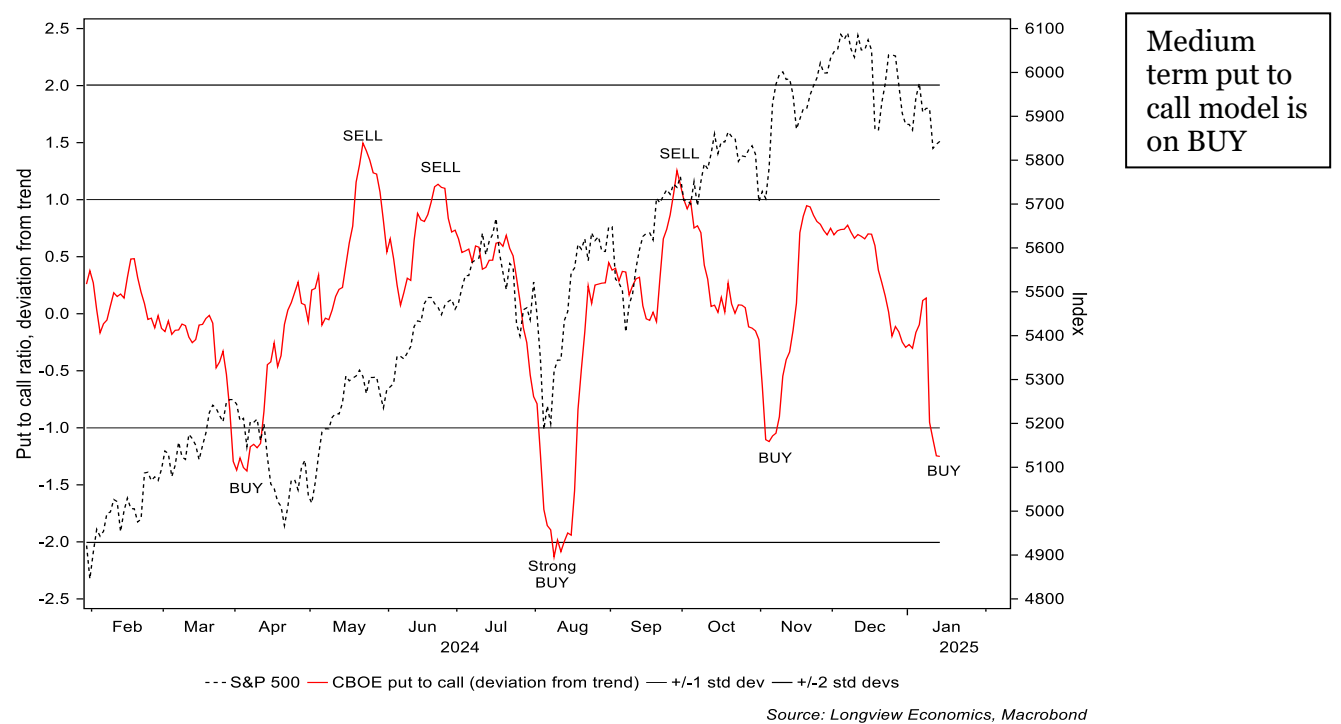


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

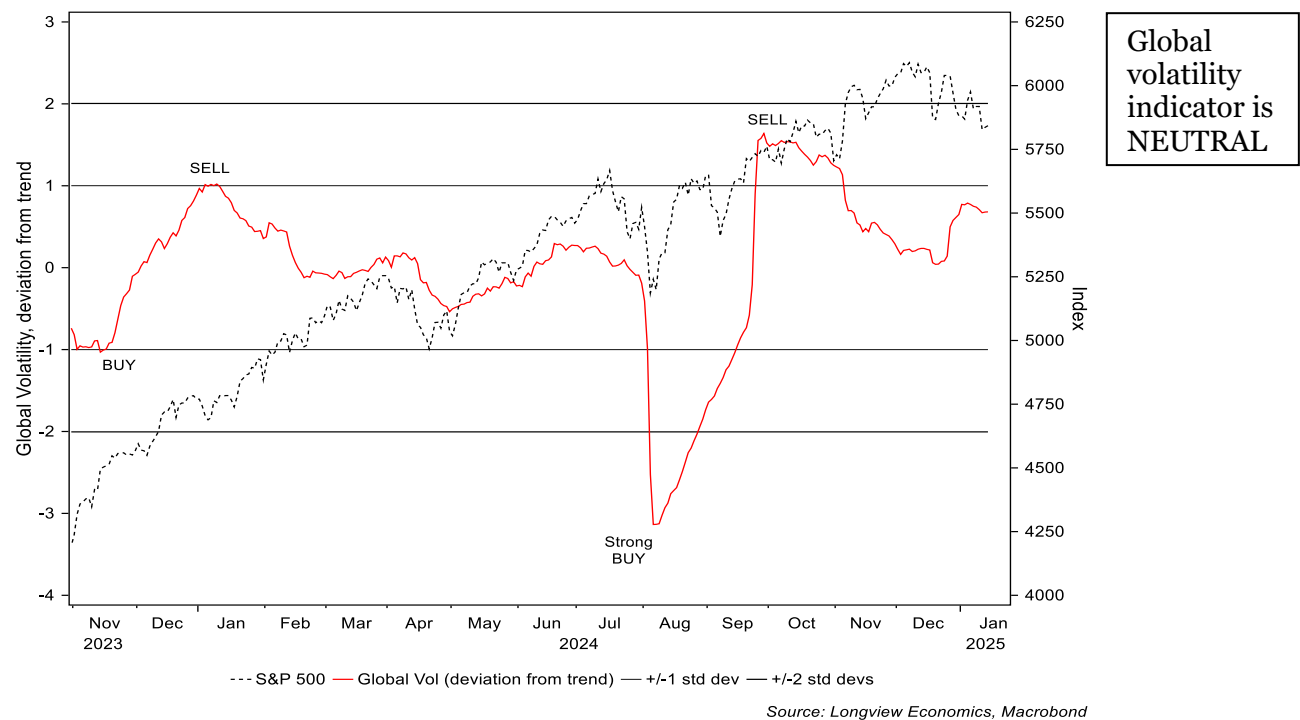


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

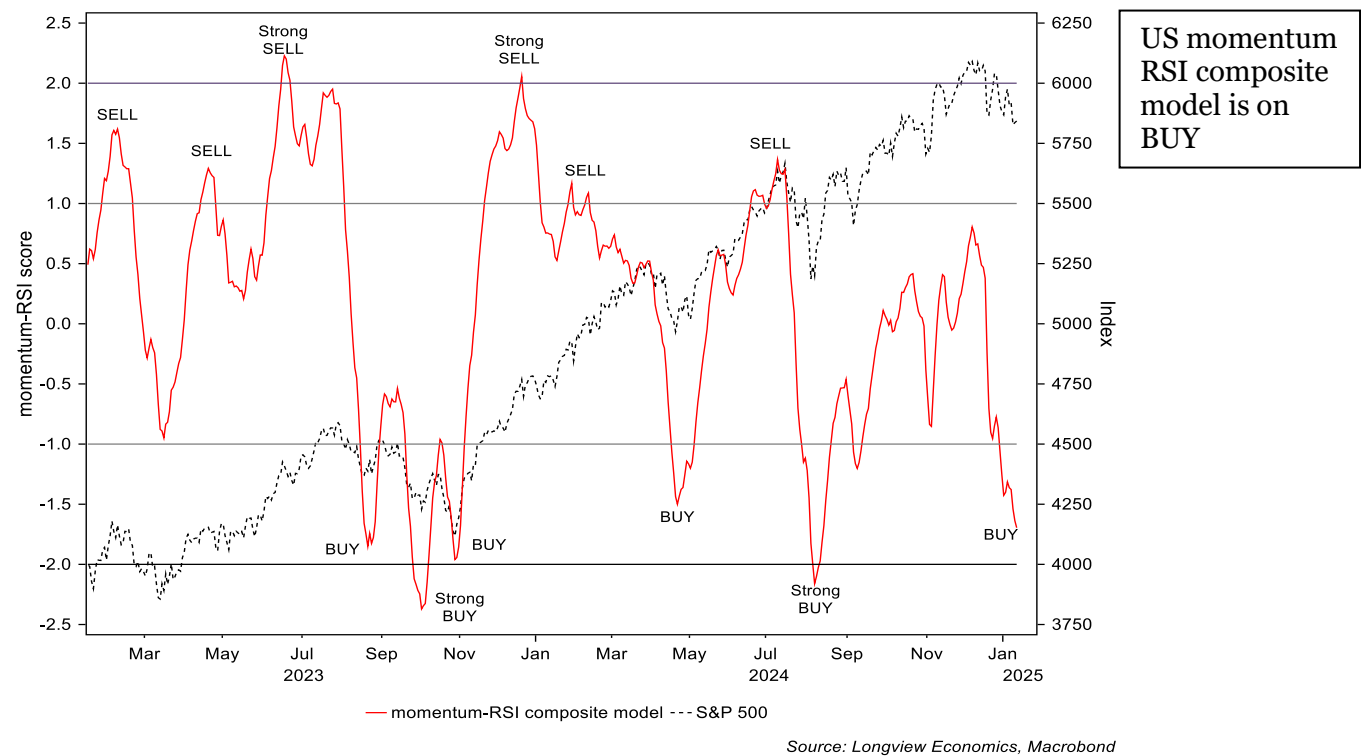


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

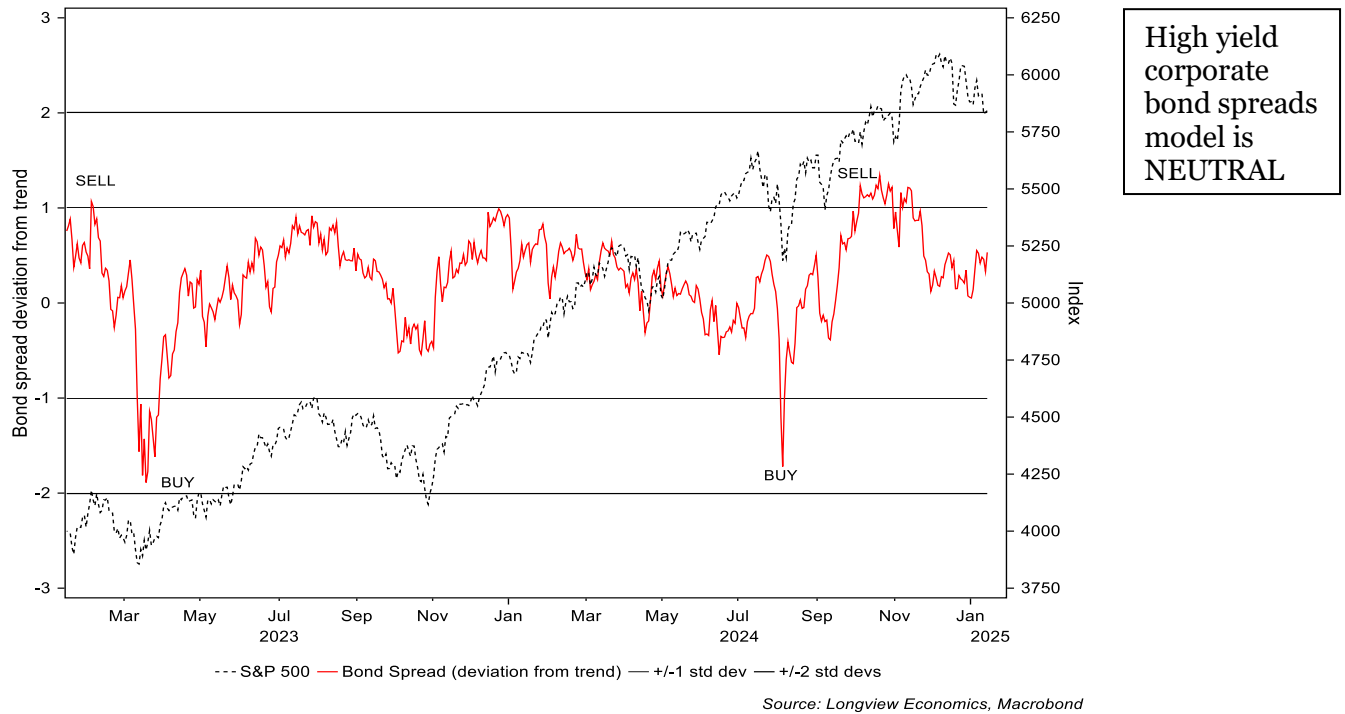
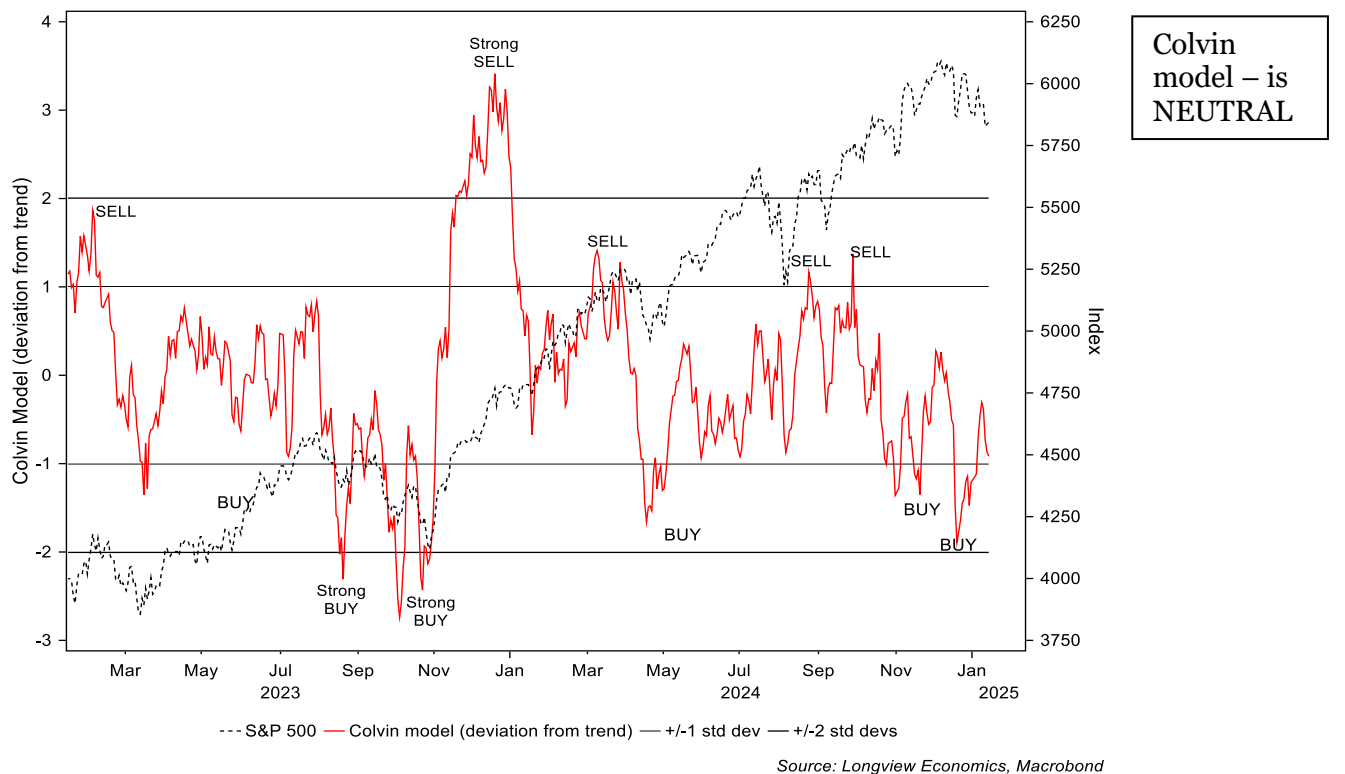


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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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