Equity Index Futures Trading Recommendations

16th December 2024

"Trading Day 11 in Dec; Start BUILDing LONG Positions"

Email: info@longvieweconomics.com

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

- Move 1/3rd LONG S&P500 March 2025 futures at current prices (around 6,131).
- Increase position size to 2/3rds LONG March futures if there is further weakness, i.e. at 6,071 (equivalent to 6,000 on December 2024 futures).
- Place stop 3% below blended entry.

Rationale

Most US equity indices closed down last week. That weakness was led by the small & mid-caps as well as some of the other cyclical areas of the market. The Russell 2000, for example, was 2.6% lower; the DJIA was 1.8% lower; while the S&P400, S&P600 and DJ Transportation index were all also down. Tech was the key outperformer (with NDX100 and Philly SOX both up on the week – see FIG 1). Reflecting that mixed top level sector performance, the S&P500 was only down 0.6% on the week (supported by the strong tech performance).

With that, the **S&P500 is now tracking in line with its normal December seasonal pattern**. That is, month to date, the index is flat after 11 trading sessions (see FIG 1a). Within the S&P500, though, there's been significant rotation in December as the long duration growth/tech part of the market is up approx. 3% (MTD), whilst the defensive and cyclical areas are down 1.5% – 1.7% (MTD – see FIG 1b). As a result, key parts of the market like the Russell 2000 are now oversold in the short term, whilst the NDX100, in contrast, is close to overbought (FIGs 2a & 2b). Added to that, underlying single stocks and sectors are also mostly oversold (i.e. given the high number of cyclical stocks and low number of key tech stocks) - e.g. see breadth models like FIG 2c & 2d.

Today is the 11th trading day of December which, as FIG 1a shows, is usually the market's low point in the month (from a seasonal perspective). Interestingly, as well, S&P500 e-mini volumes were high on Friday (FIG 1c) - most likely reflecting traders and investors rolling positions from December to March contracts (NB Dec contracts expire this Friday). It probably also, though, reflects traders starting to shut books down for the holiday period (as many do at this time of year). Also of note, the Fed is announcing its latest monetary policy decision this week (on Wednesday). That has the potential to generate some market volatility. A 25bps cut is highly anticipated (current probability 97%, according to Bloomberg WIRP function). Over the past week, though, market participants have priced out 16bps of cuts from the 2025 Fed fund futures contract (hence the weakness in cyclical areas of the stock market).

Coming into Wednesday's decision, therefore, there's a possibility that Powell pushes back on the pricing out of those cuts (i.e. have a slight dovish tilt). If that happens, it should encourage the cyclical areas of the market.

Our key short-term models are shown below. As described above, they are mixed.

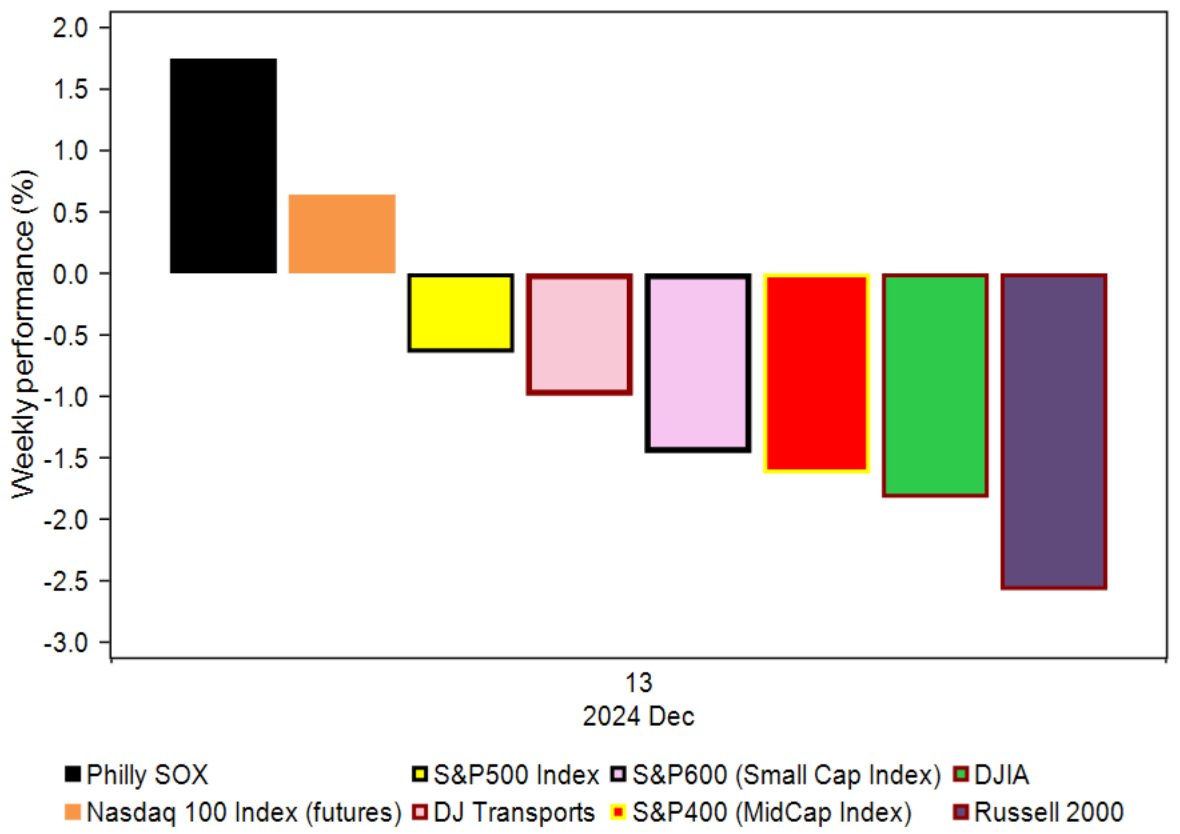
Our view remains as per Friday. That is, we are looking to build LONG positions for the expected Santa rally into year end. On Friday, due to an internal miscommunication, we mentioned March futures in the recommendation, when we meant Dec futures. We are, therefore, implementing that 1/3rd LONG position at current prices (i.e. close to our equivalent intended entry level of 6,050 on Dec futures). We are, though, implementing that using March futures (to avoid rolling later in the week). We also recommend increasing that position size on weakness if forthcoming.

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

Kind regards,

The team @ Longview Economics

FIG 1: Key US equity markets weekly performance (%)



Source: Longview Economics, Macrobond

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

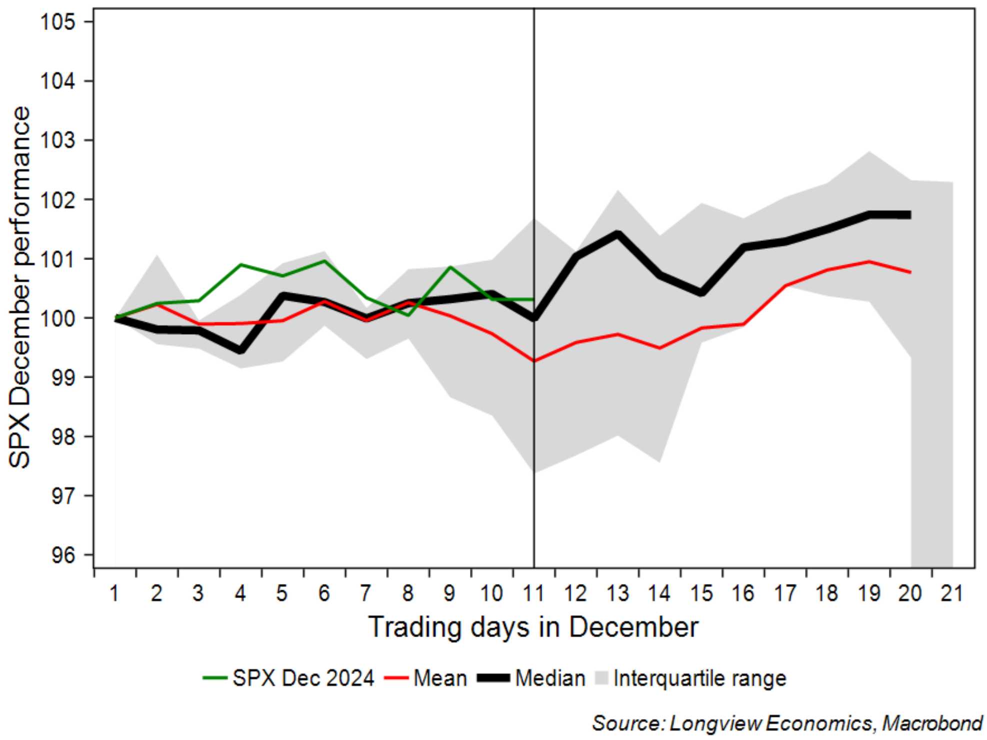


FIG 1b: S&P500 broken into cyclical, defensive and long duration growth/IT sectors

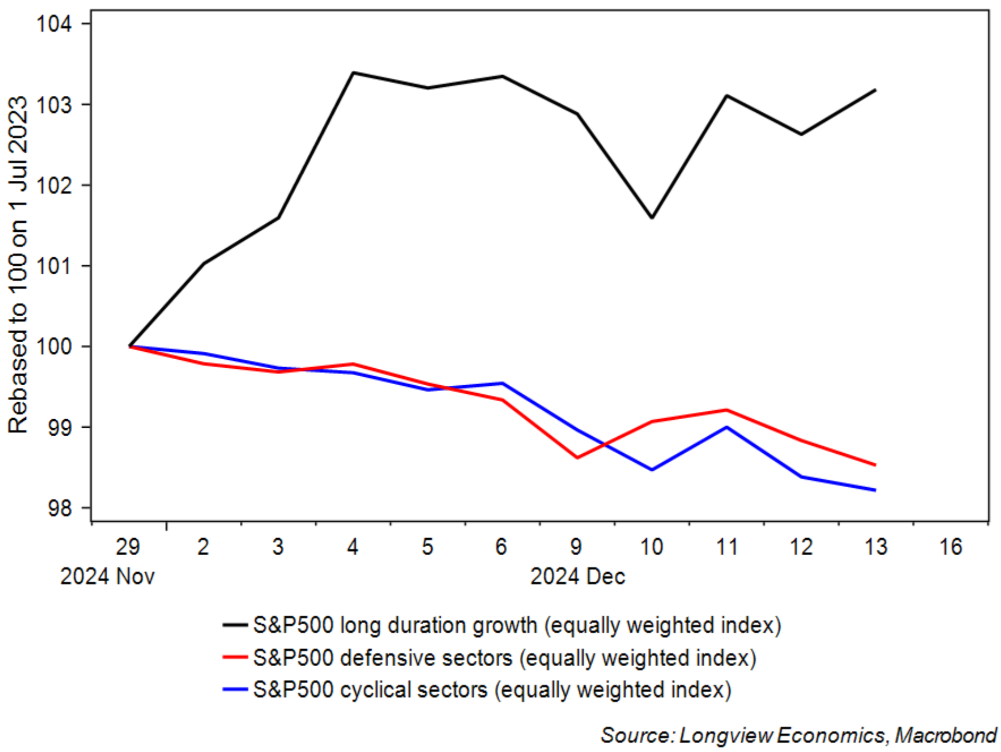
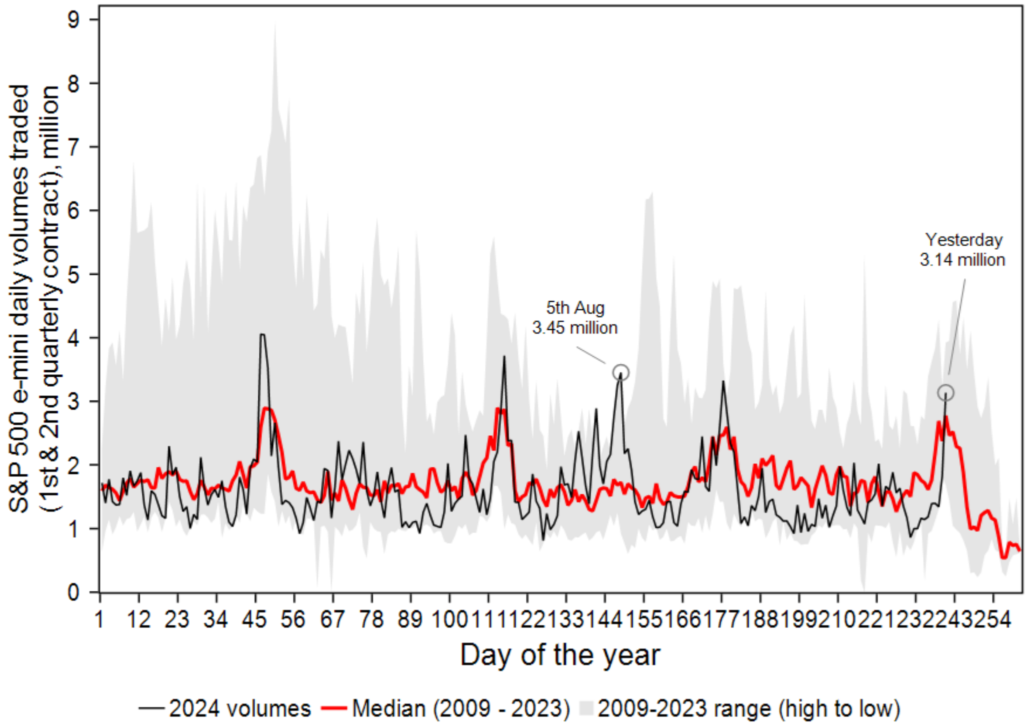


FIG 1c: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



Source: Longview Economics, Macrobond

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

FIG 1e: S&P500 **DECEMBER** 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

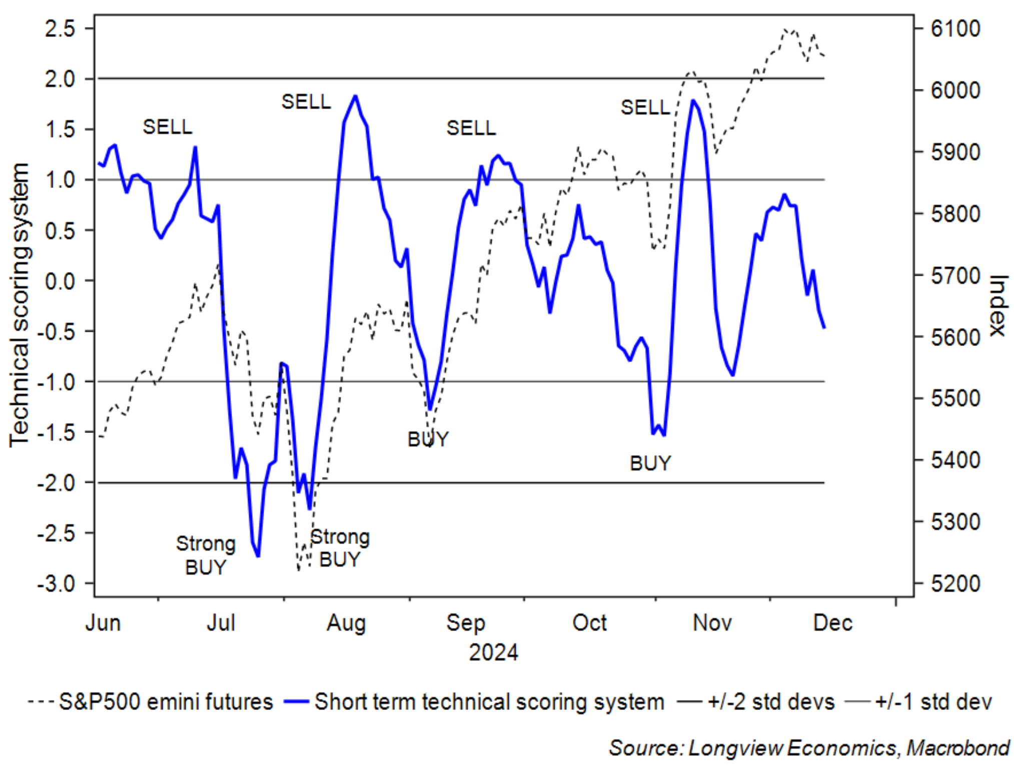
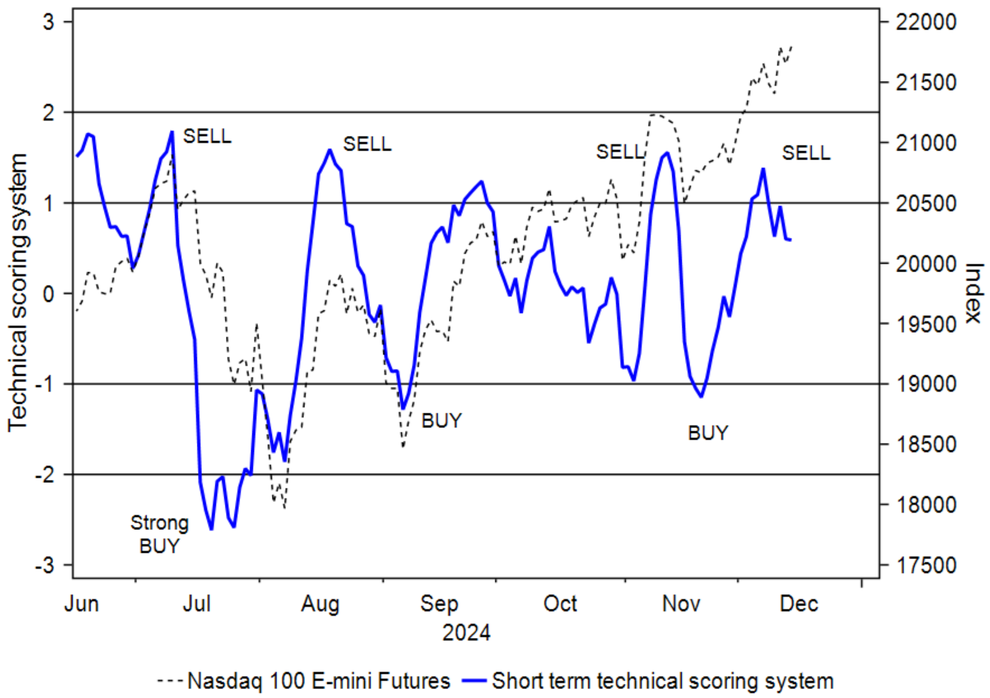
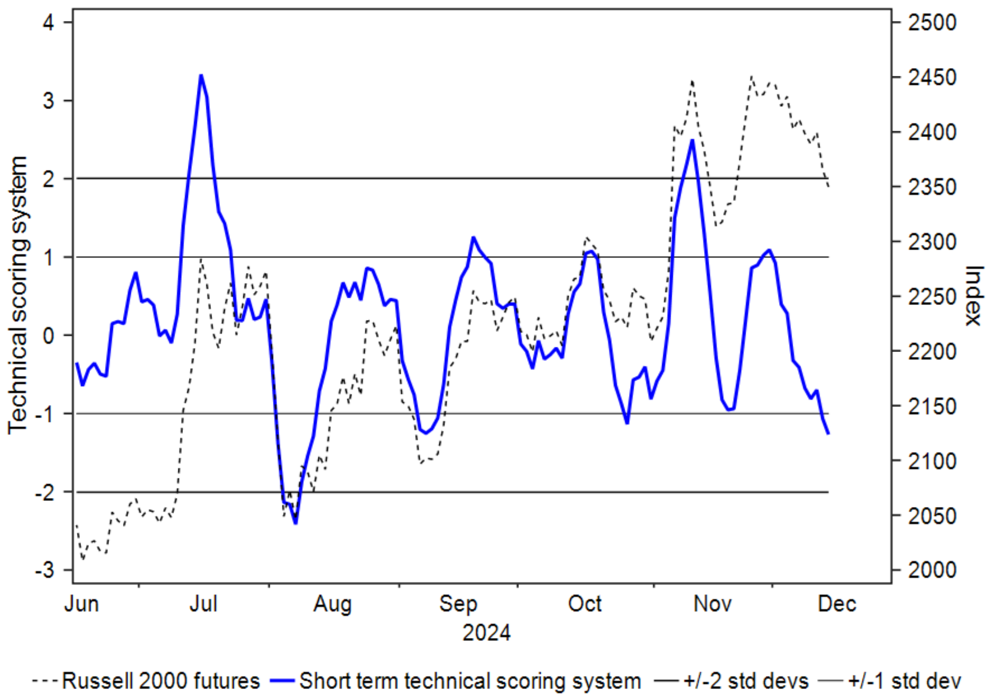


FIG 2a: Longview NDX100 short term **'technical'** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

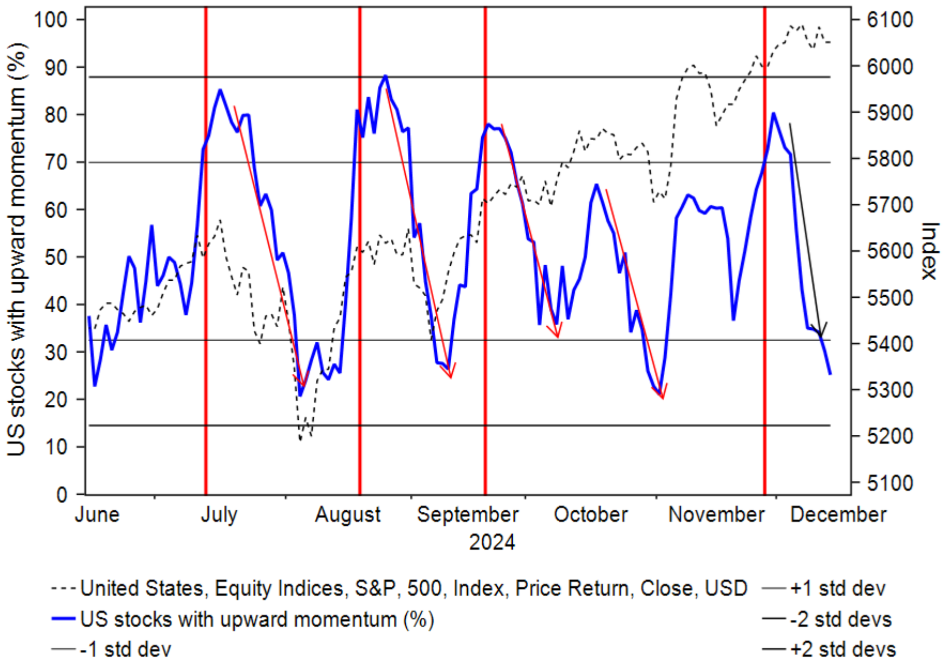
FIG 2b: Longview **Russell 2000** short term **'technical'** scoring system vs. Russell 2000



Source: Longview Economics, Macrobond

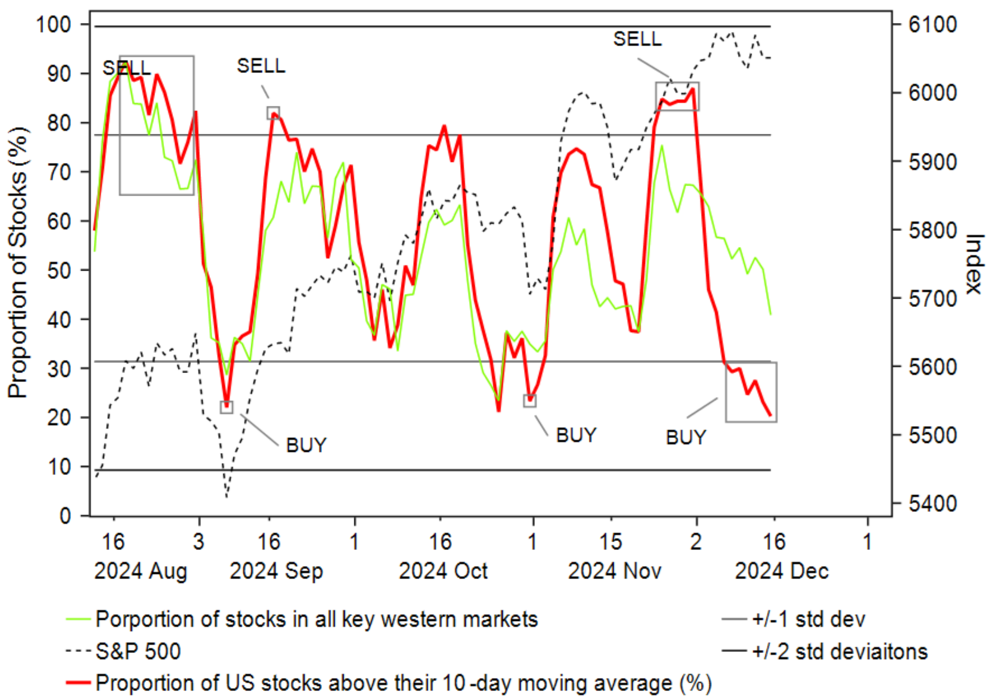
Single stock momentum & breadth models have moved lower and are now mostly back below their BUY thresholds…

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



Source: Longview Economics, Macrobond

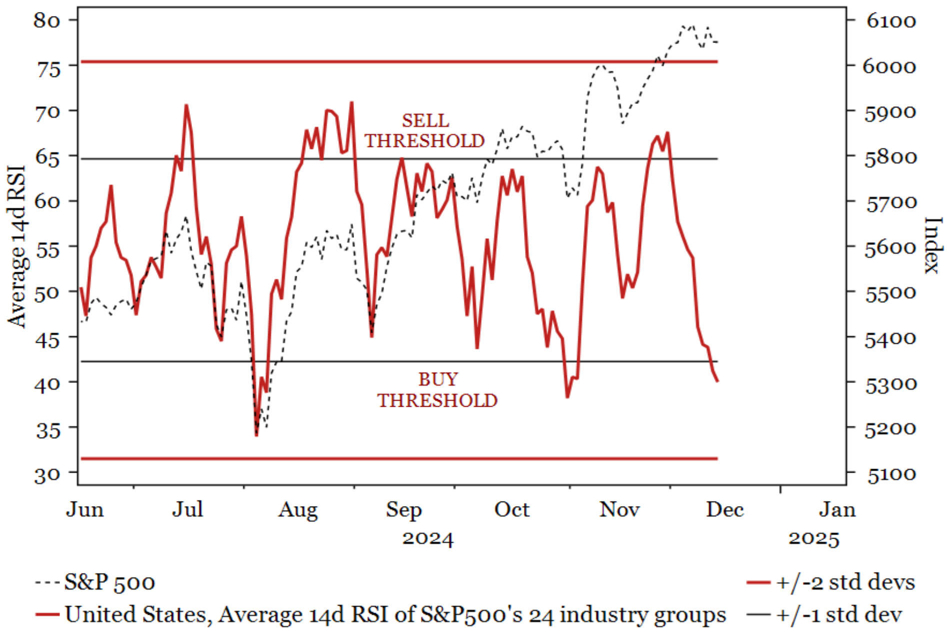
FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

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

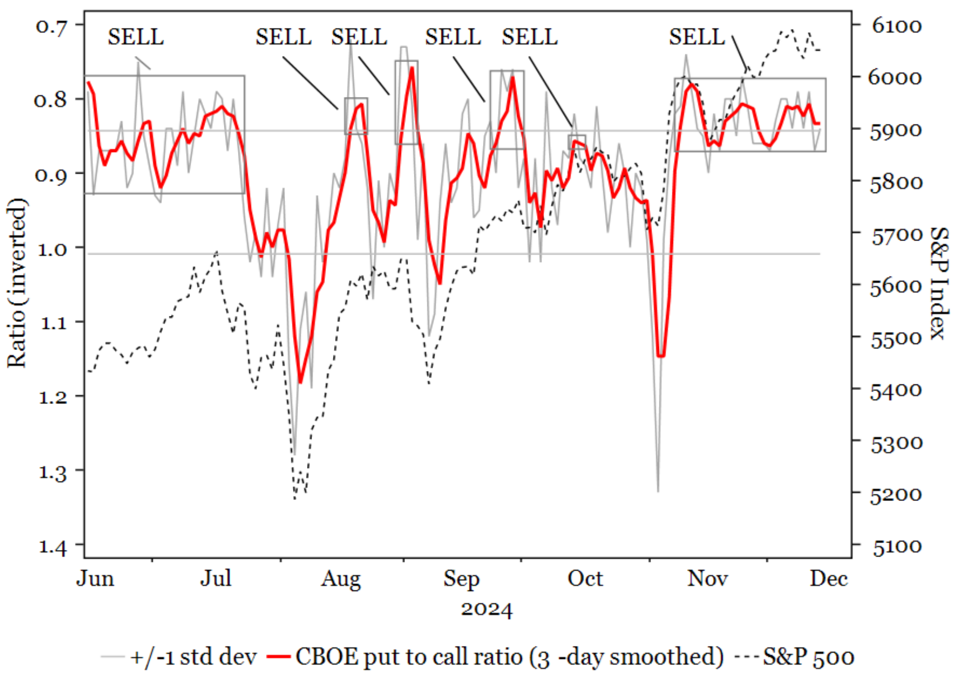
FIG 2e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection in portfolios remains low…

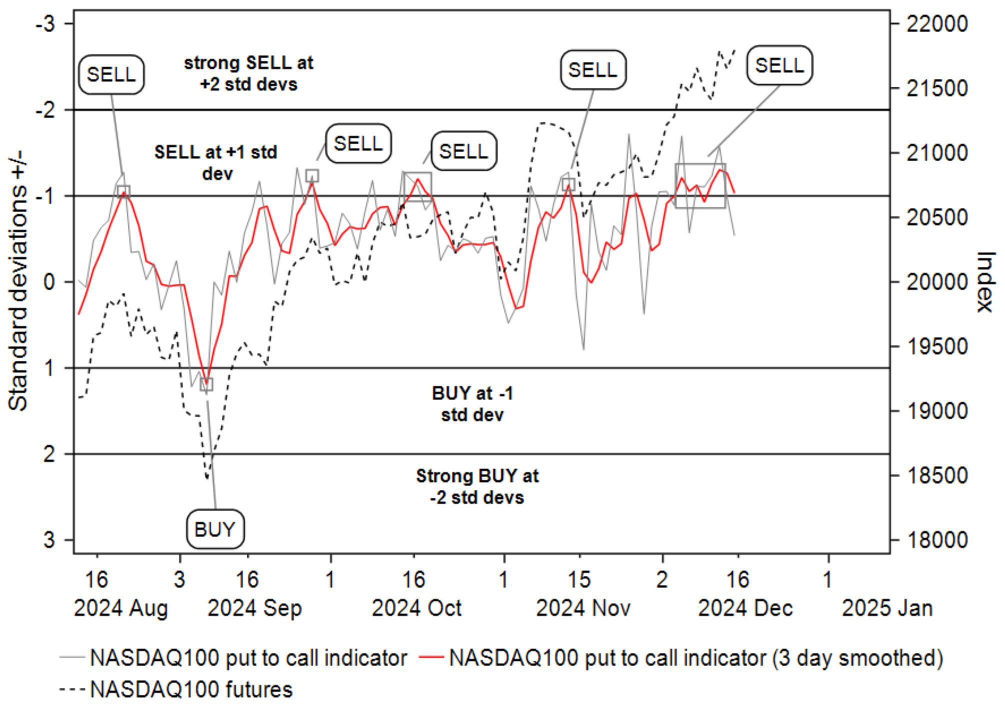
FIG 3: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

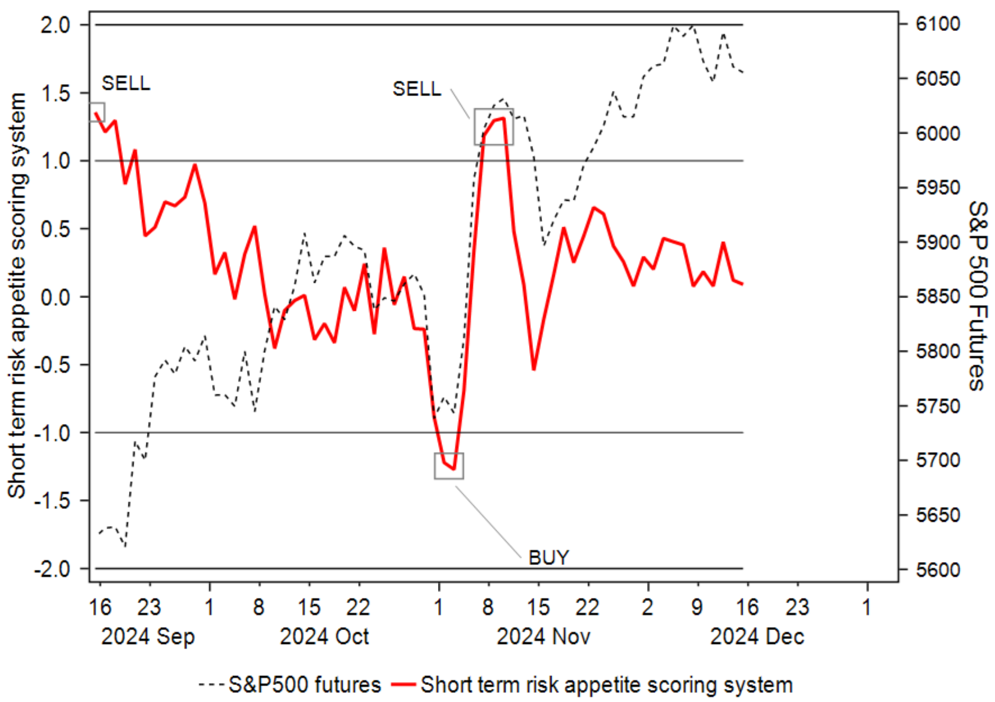
FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

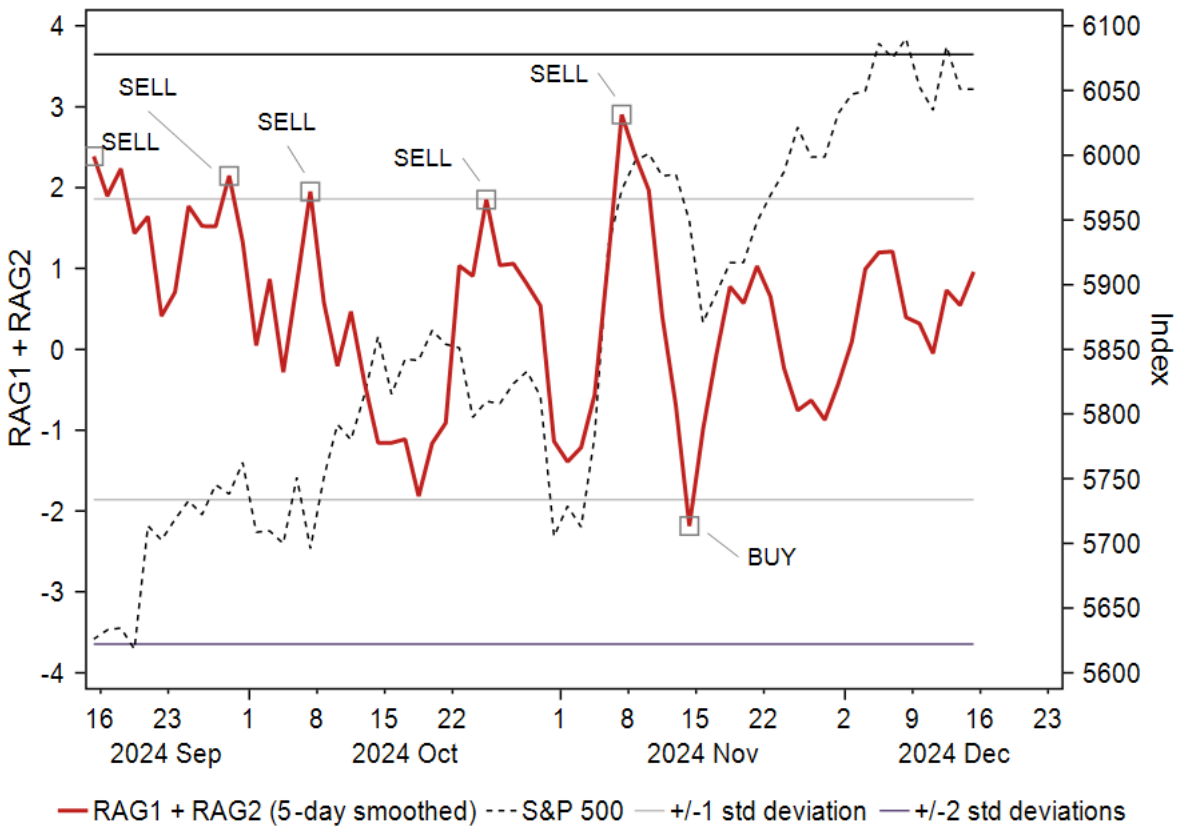
Risk appetite models are NEUTRAL…

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

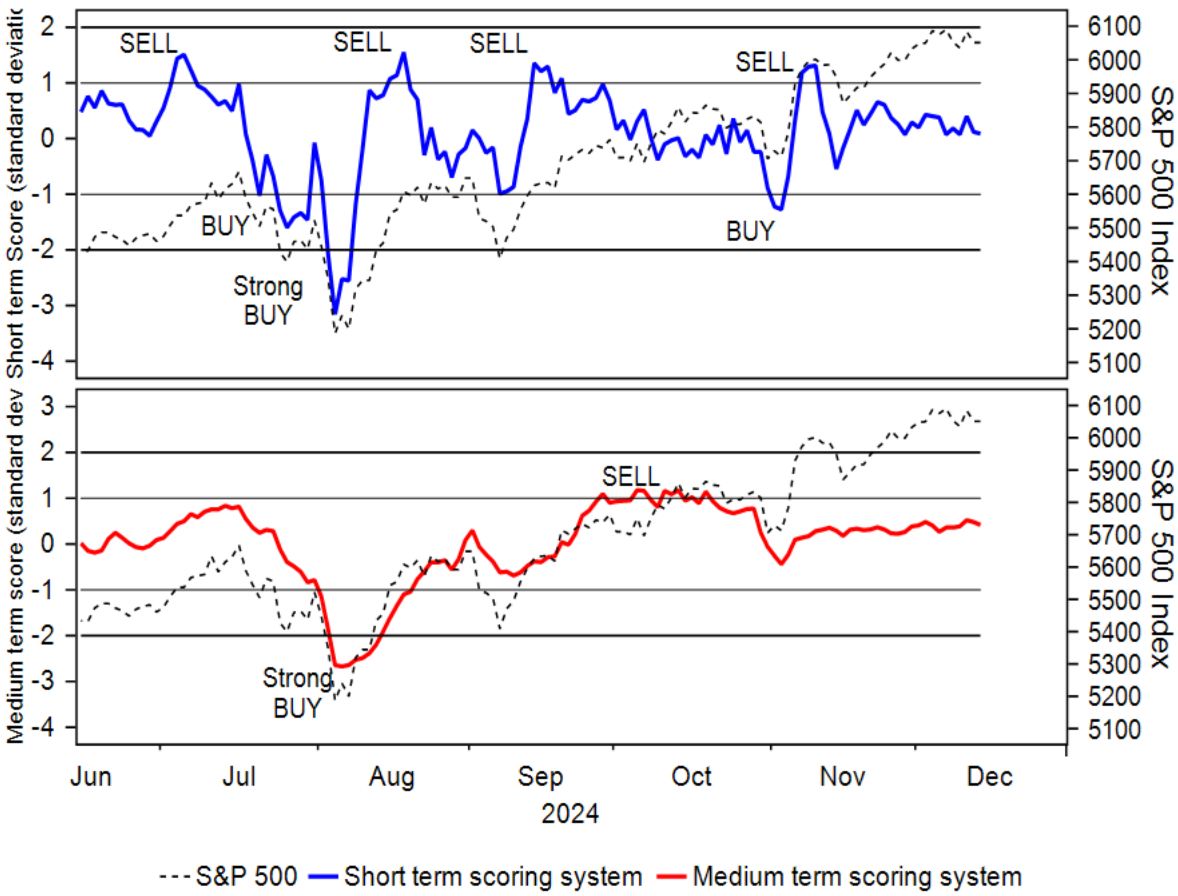


Source: Longview Economics, Macrobond

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 Rightmove house prices (Dec, 12:01am); **Japanese Jibun Bank manufacturing & service sector PMIs** (December first estimates, 12:30am); Chinese new & used home prices (Nov, 1:30am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Nov, 3am); Japanese Tertiary industry index (Oct, 4:30am); Spanish home sales (Oct, 8am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all December first estimates; **UK S&P manufacturing & service sector PMIs** (December first estimates, 9:30am); Eurozone labour costs (Q3, 10am); Italian core CPI (Nov, 10am); Canadian housing starts (Nov, 1:15pm); US Empire manufacturing (Dec, 1:30pm); Canadian existing home sales (Nov, 2pm); **US S&P manufacturing & service sector PMIs** (December first estimates, 2:45pm); Australian Westpac consumer confidence (Dec, 11:30pm).

Key events today include: The ECB's Simkus & **Lagarde** hold short press conference before conference in Vilnius (7:15am), speeches by Guindos in Madrid (8:45am), Wunsch in Brussels (12pm), Escriva in Madrid (12:30pm) & Schnabel in Paris (4:30pm).

Key earnings today include: **Micron**, Lennar.

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 earlier this month 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

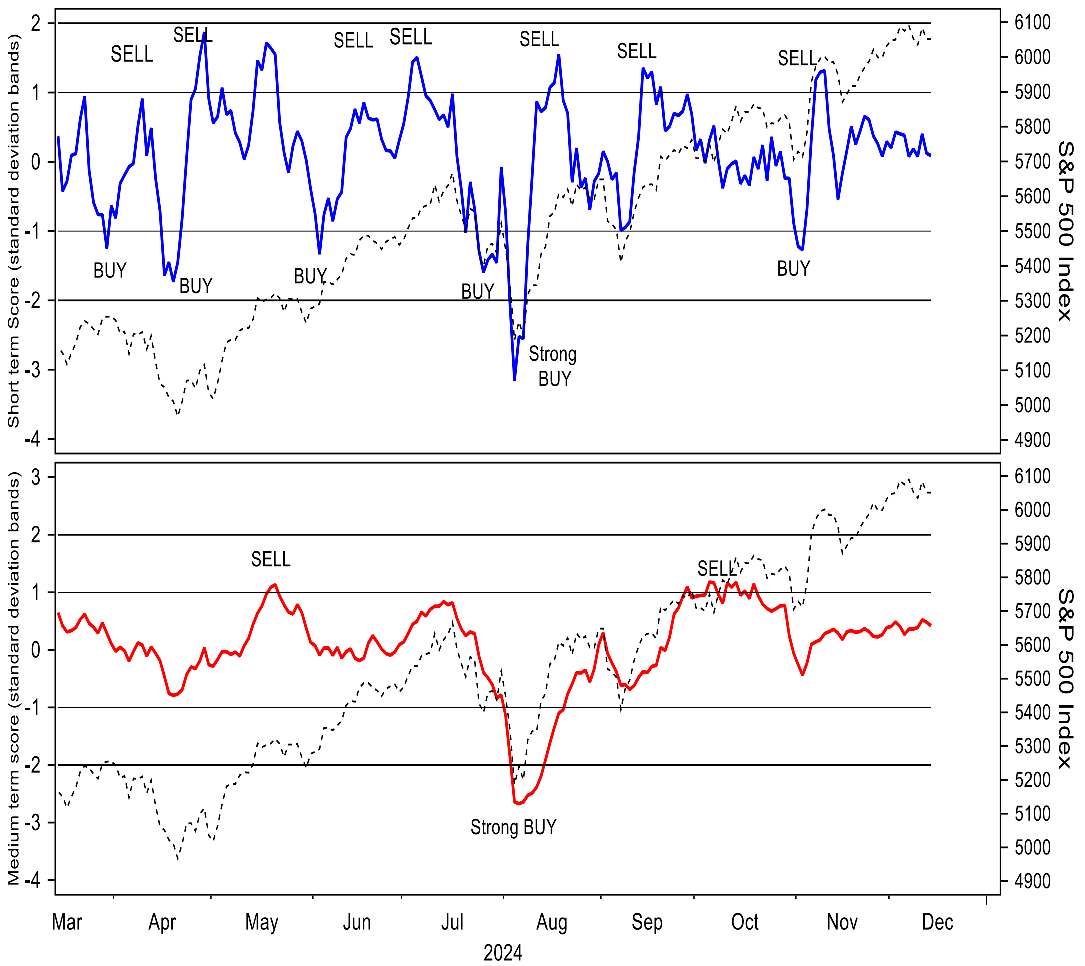
1 – 2 Week View on Risk

16th 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

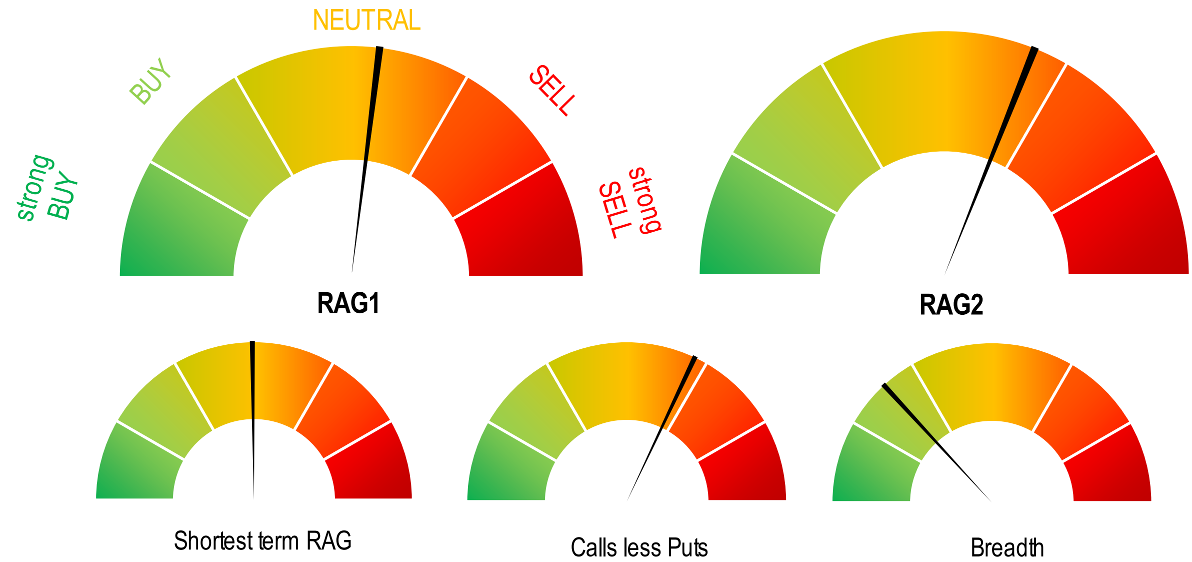
Source: Longview Economics, Macrobond

*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

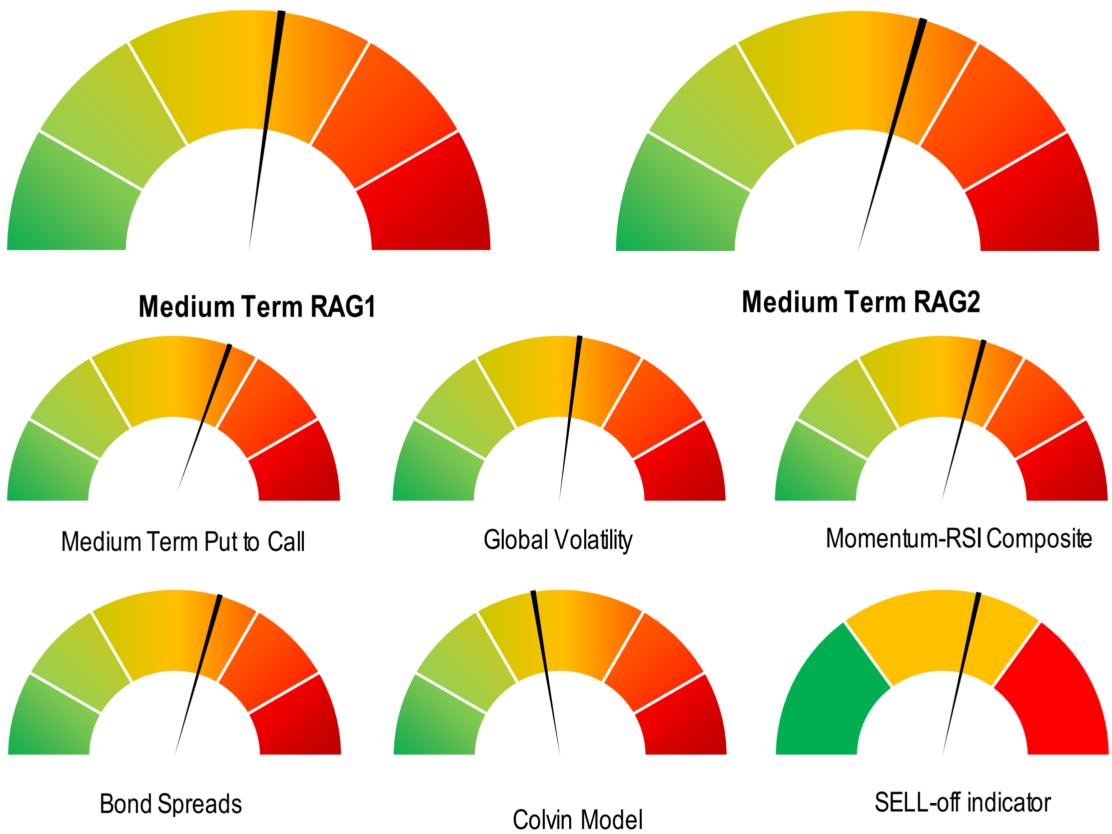
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

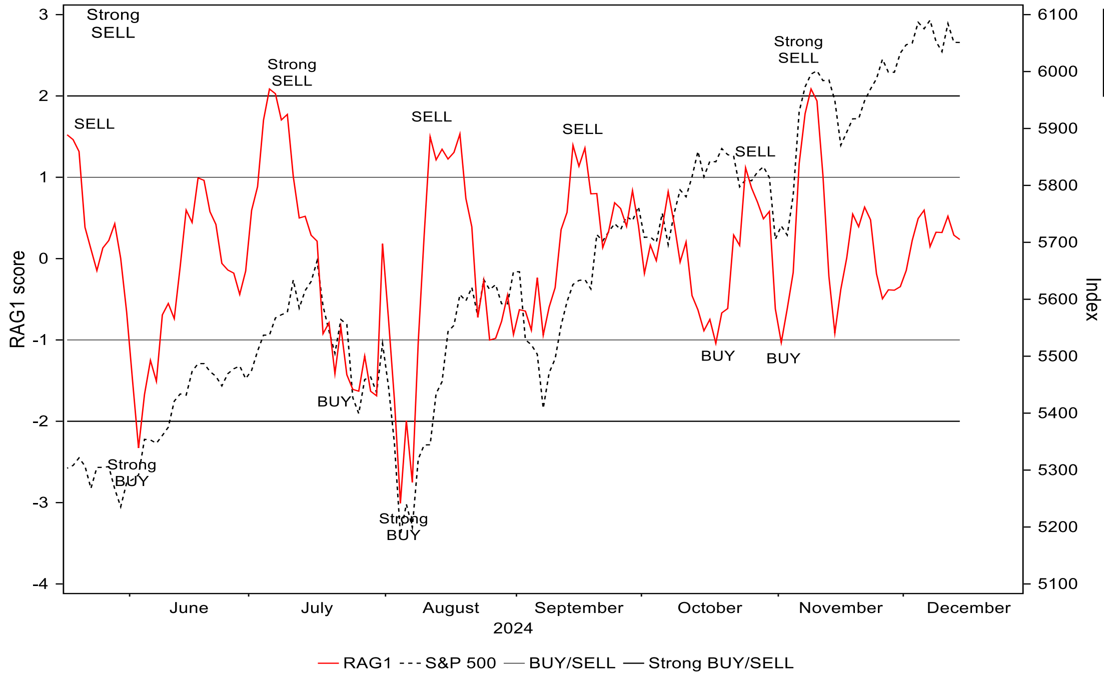
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

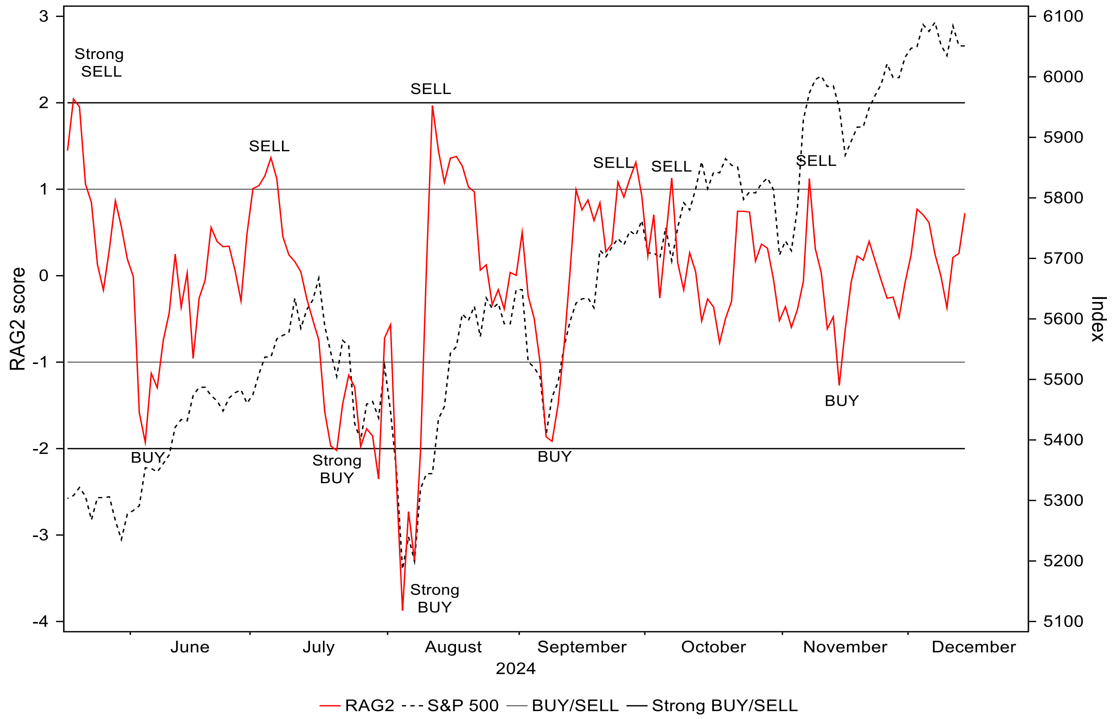
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

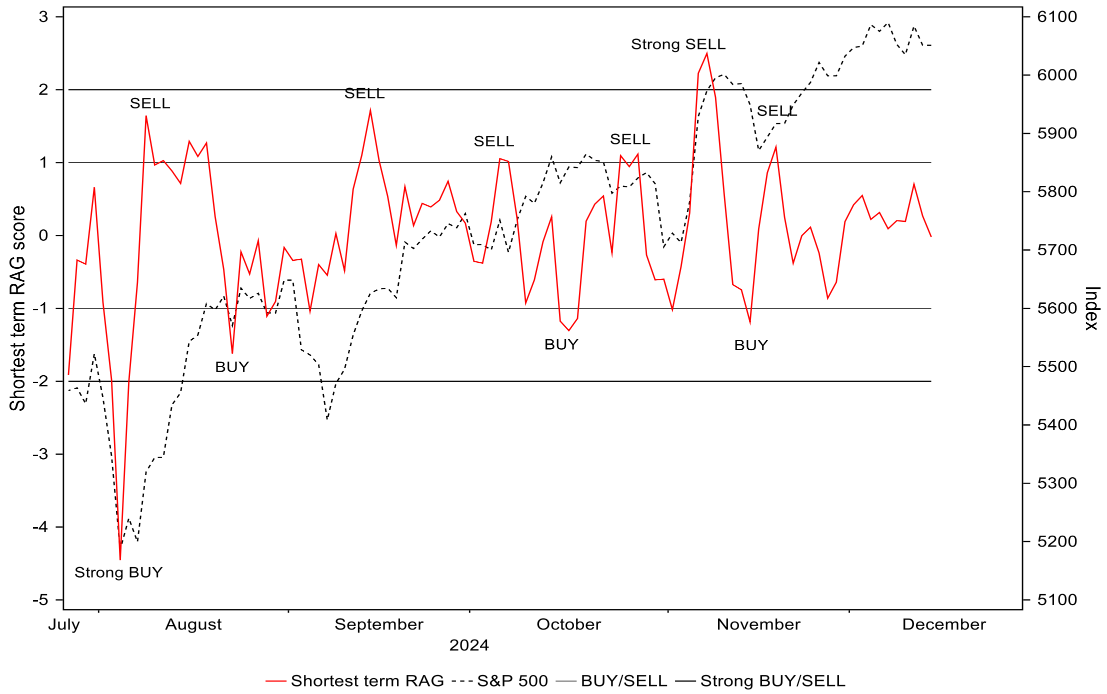


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

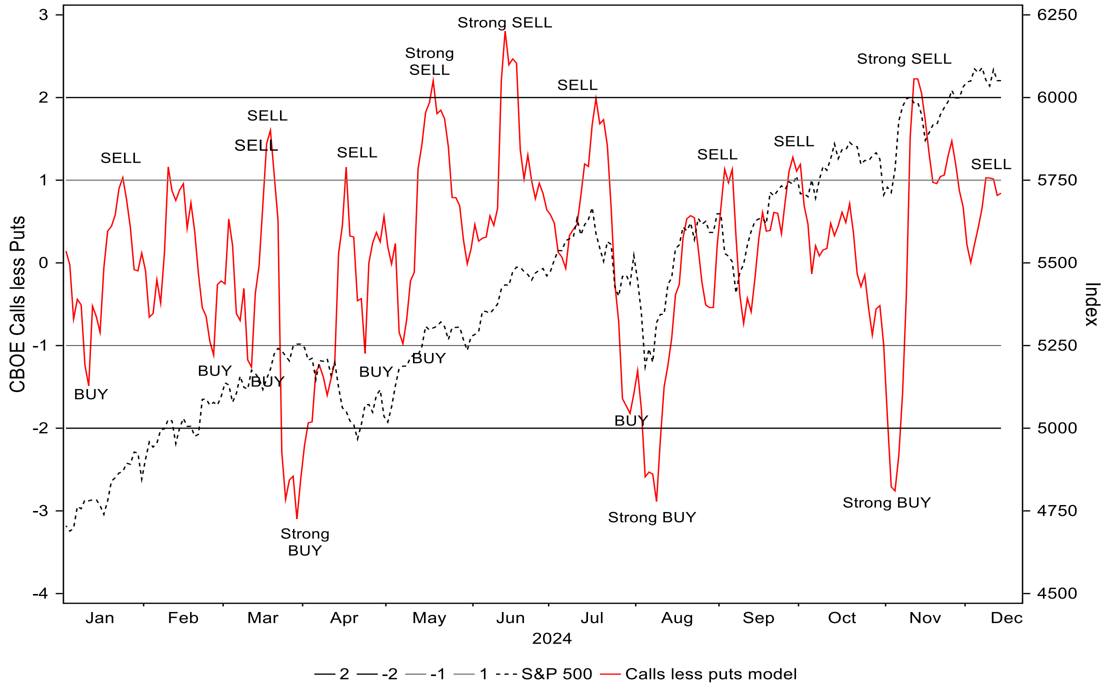
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

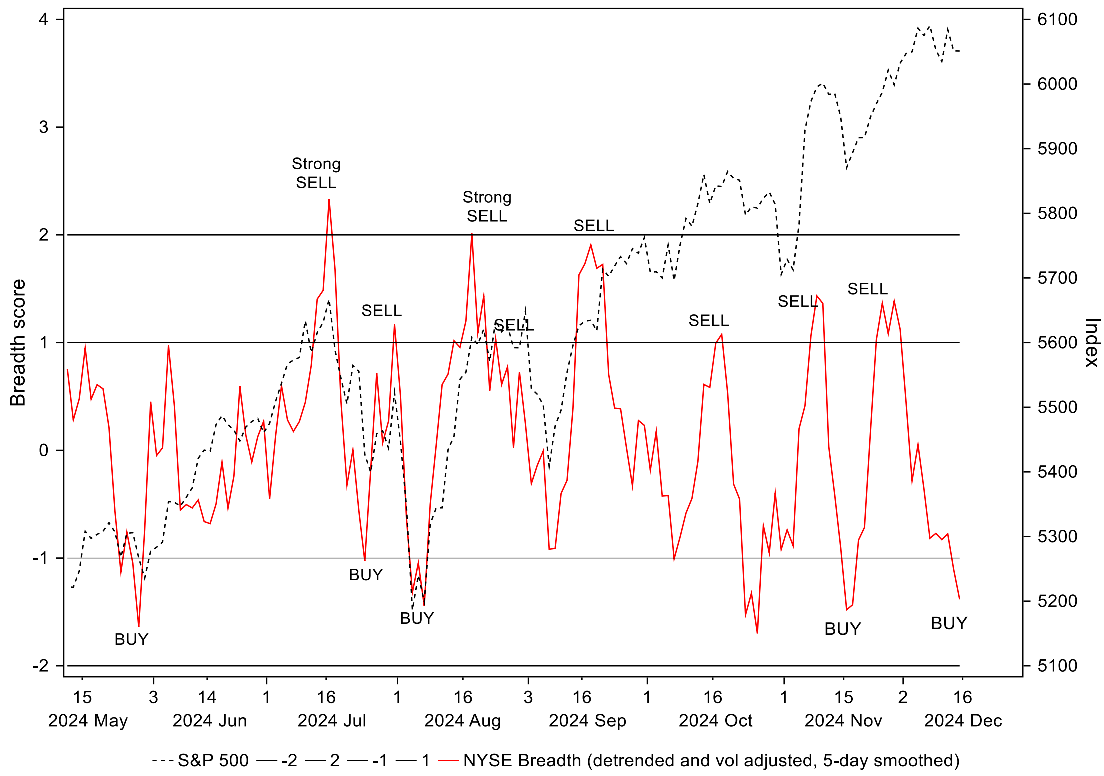


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



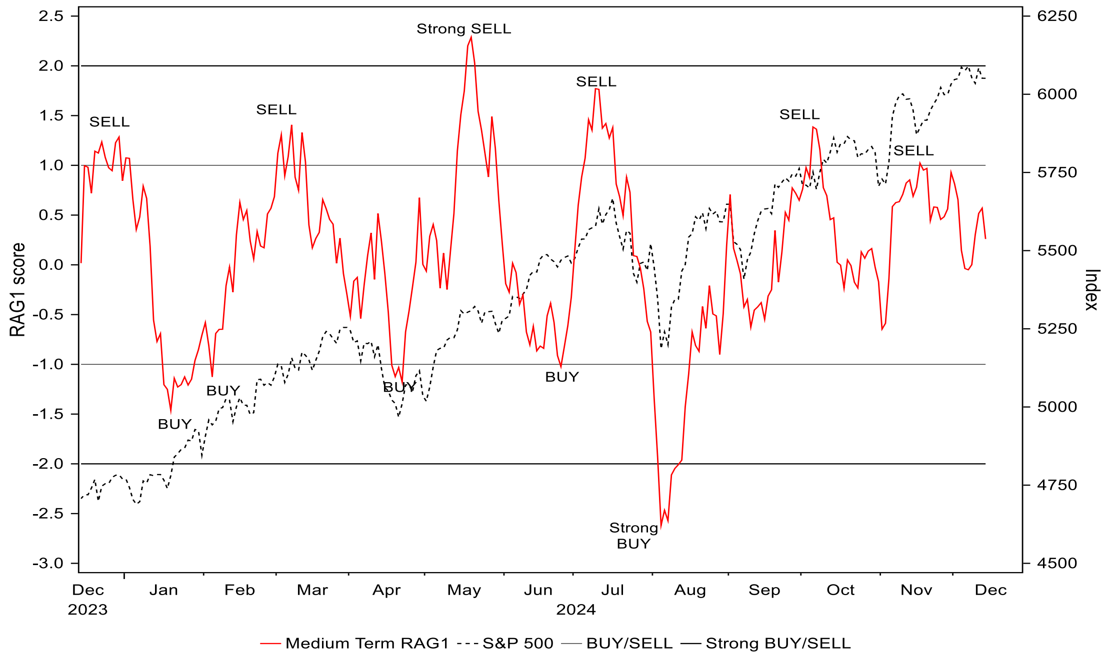
The breadth model is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

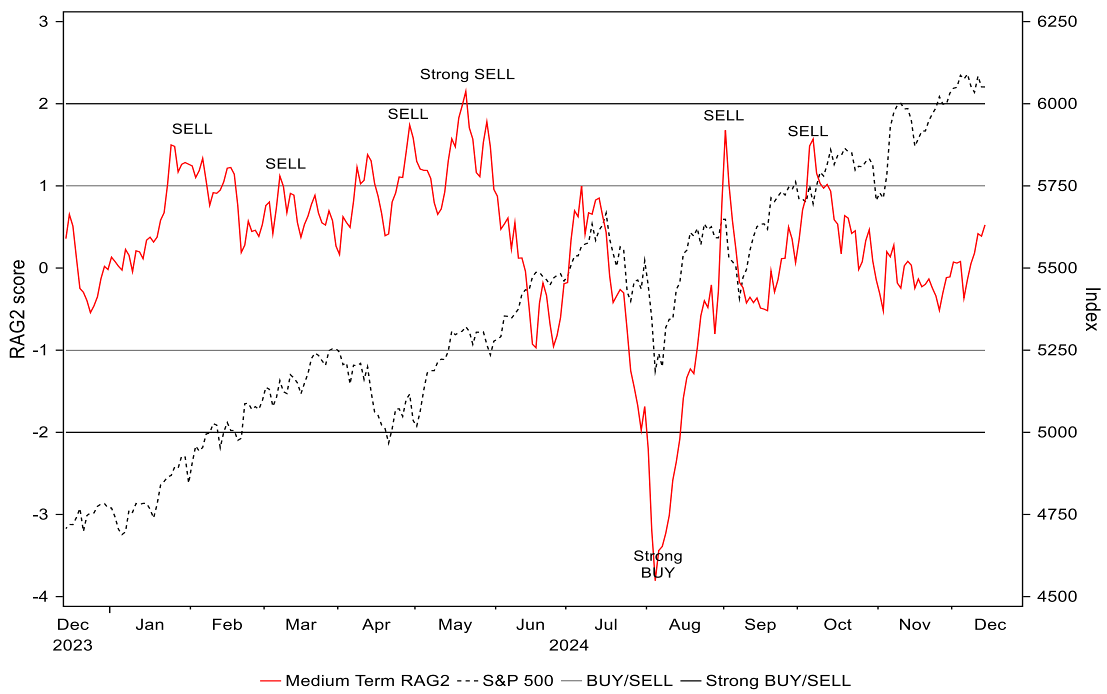
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

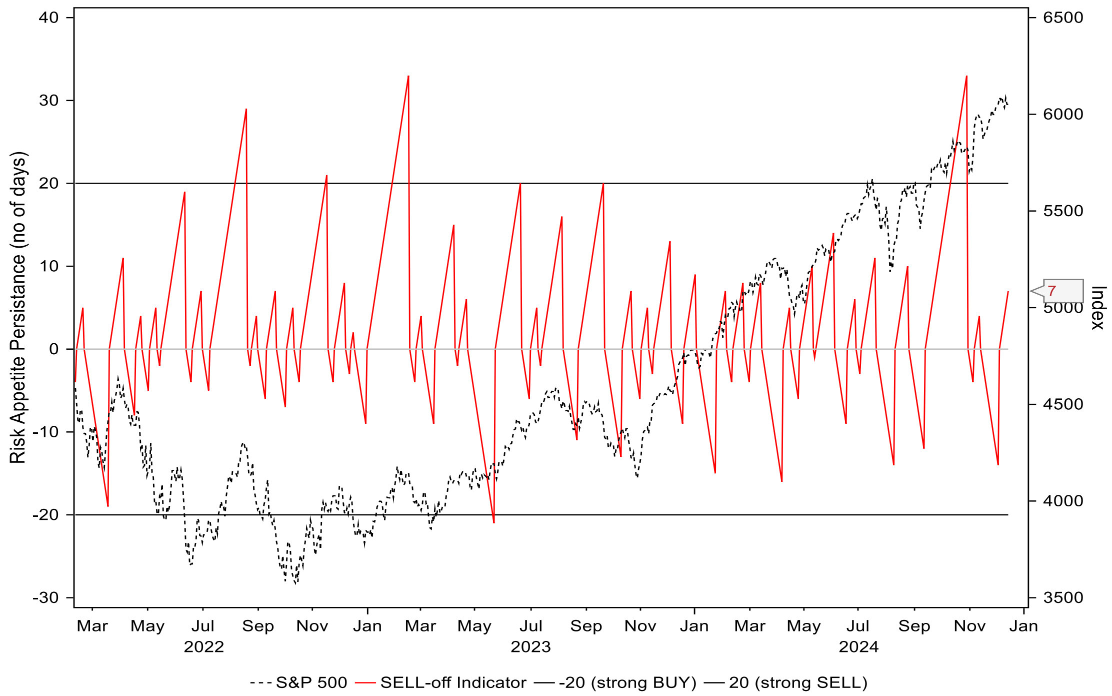


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

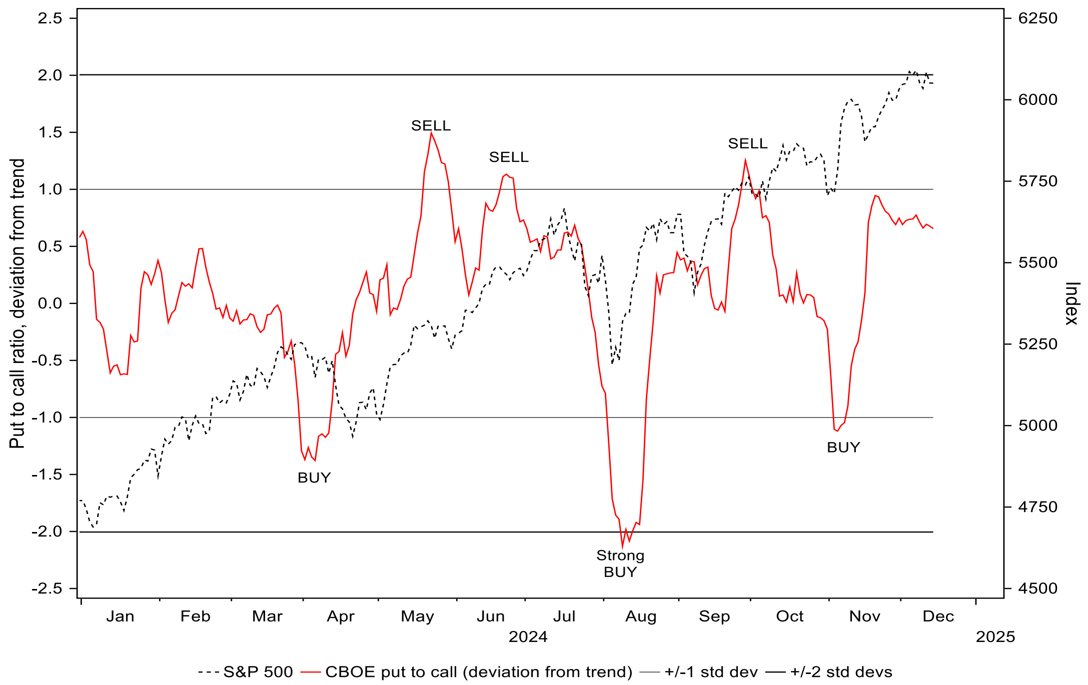
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

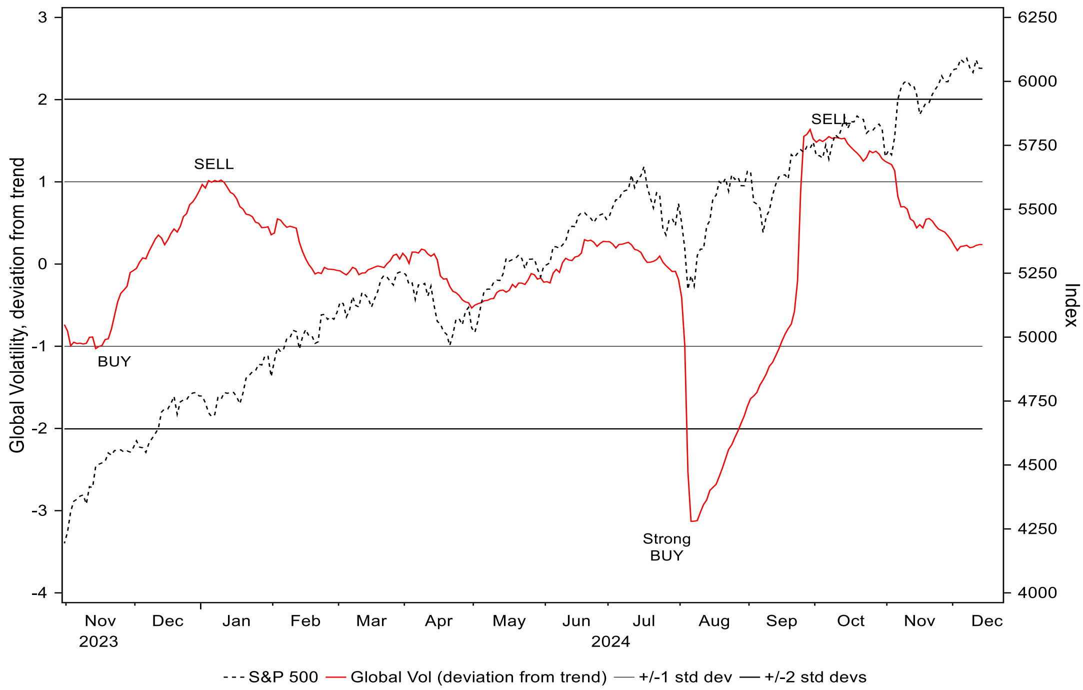


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

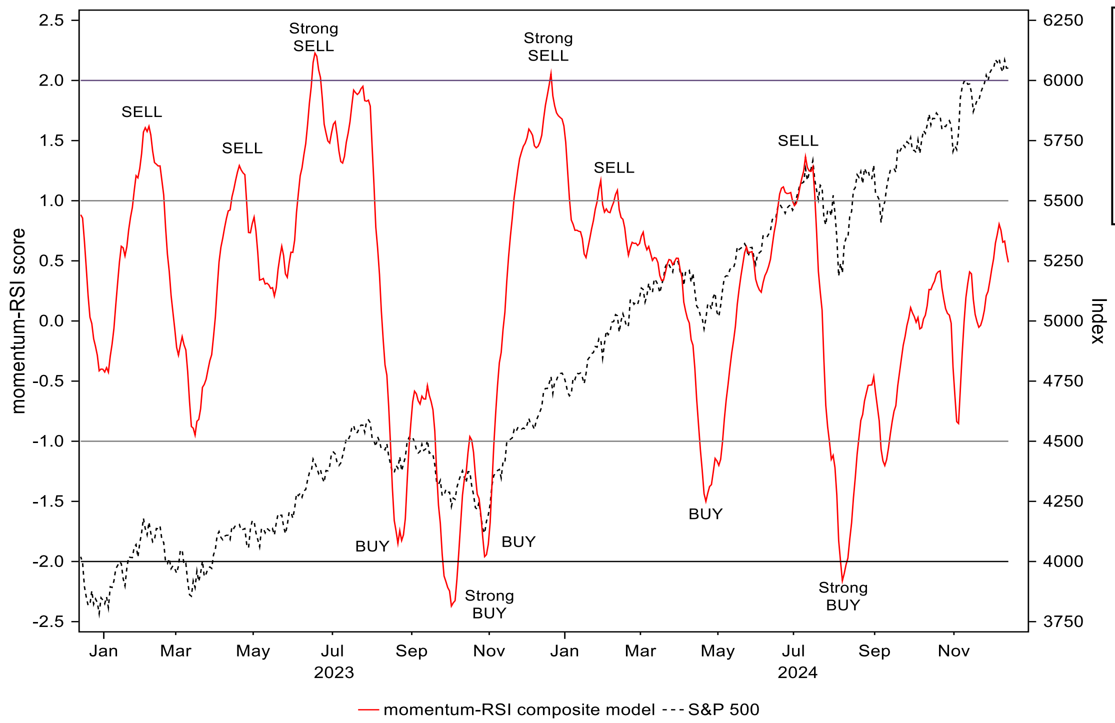
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

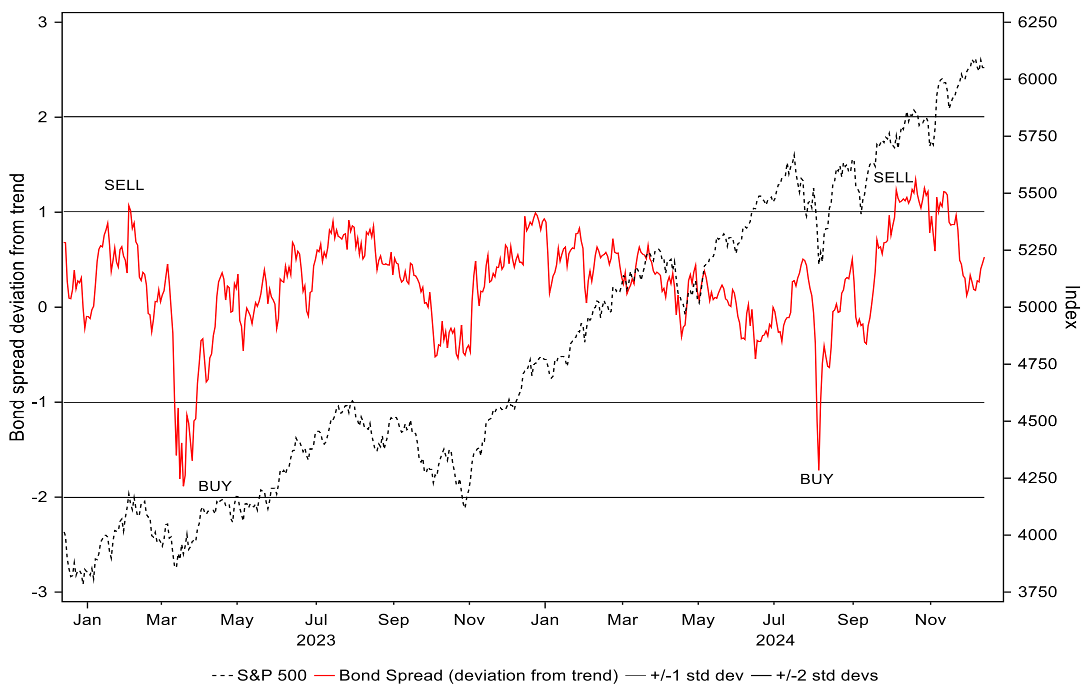
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

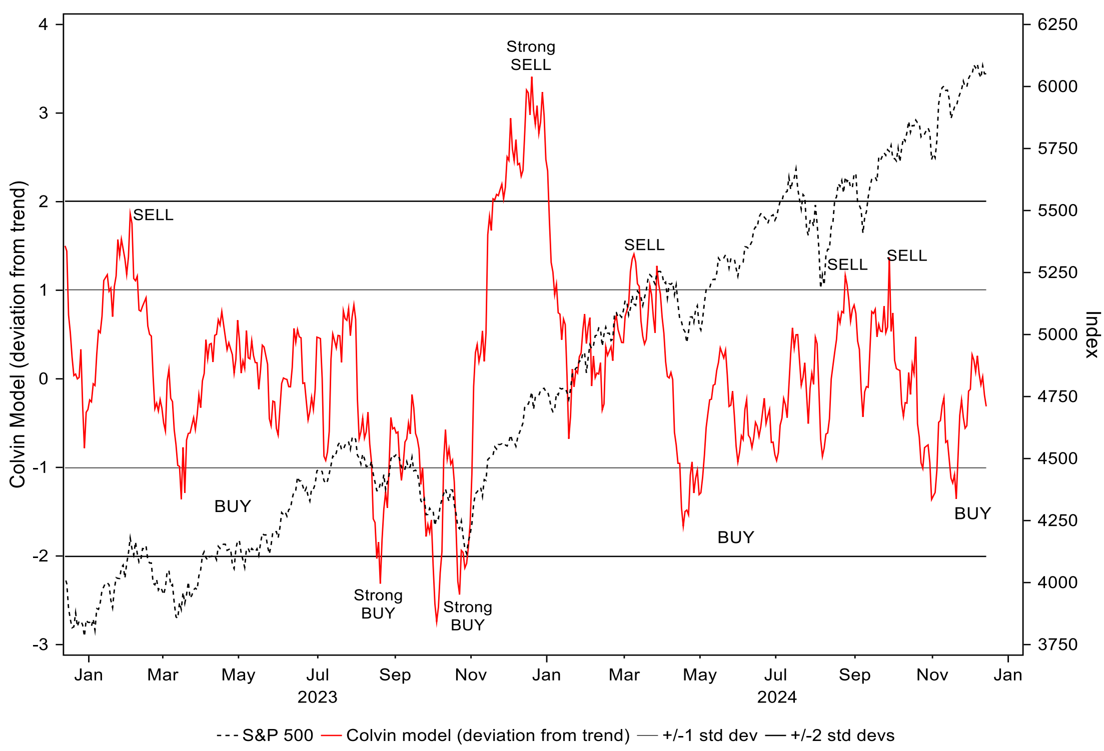
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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