

Equity Index Futures Trading Recommendations

16th January 2025

"Models NEUTRAL - Leave Orders to MOVE LONG on Weakness (if forthcoming)" 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 5,850.
- Increase to ½ on further weakness at 5,750.
- Implement a 3% stop loss on combined entry (i.e. at 5,626).

Rationale

Risk assets performed well on the better than expected US CPI inflation report yesterday. Of note both the monthly and annual core readings were 0.10pp. below expectations (0.2% m-o-m vs. 0.3%; & 3.2% vs. 3.3% expected), while headline was as expected (table 1).

That generated a strong rally in US Treasury prices (lower yields). US 2 year yields, for example, closed down 10bps, while the 10 year was 12bps lower (FIG 1b). With that, 9.5bps of 2025 rate cuts were 'priced back' into the rates market, the dollar moved lower (DXY: -0.2%), and there was a strong, broad based rally in US equities. That rally was led by large cap growth sensitive indices, e.g. the NASDAQ100 (+2.3%) and NASDAQ Computer (+2.6%). The S&P500 (+1.8%) rallied back to the middle of its recent trading range (closing at around its 50 day moving average, and above its 10 day, see FIGs 1 & 1a). Other key risk assets were also strong yesterday, including key commodities (e.g. silver: +2.5%; and WTI OIL futures: +3.3%) as well as certain 'liquidity sensitive' assets (e.g. Bitcoin: +4.1%).

Unsurprisingly, that strength in risk assets has pushed our **short term models higher overnight (and back to broadly mid-range levels)**. Our risk appetite indicators, for example, are now NEUTRAL (FIGs 2 & 2a); put to call models are NEUTRAL (with some leaning towards SELL, FIGs 3 & 3a); while our technical scoring systems are also NEUTRAL (but close to BUY levels), FIGs 4 & 4a. Elsewhere various single stock and breadth models have moved up towards their SELL thresholds (having recently been on/close to BUY – see FIGs 4b & 4c). Overall, therefore, short term models are NEUTRAL/do not currently have a clear message.

As such, and with a strong rally in equities in the past few days, **we would prefer not to chase this market**. That is, SPX futures are up 200 points since Monday's low (i.e. ~3.5%) and now trading about 40 points below their next key resistance level (at 6,050, i.e. the highs from mid-November and early January, see FIG 1). They are therefore *starting* to approach the top of their recent trading range. Moving LONG at current levels, given the NEUTRAL message of the models, is therefore an unattractive risk reward. We therefore favour patience at this juncture, with orders to MOVE LONG at much lower levels (albeit modestly higher than yesterday – see above for detailed recommendation).

Please see below for a summary of today's key macro data & events.

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>)

Table 1: US CPI data –> survey and actual

	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior Re
23)	01/15	13:30	🔔	🔔	📊	CPI MoM	Dec	0.4%	0.4%	0.3%
24)	01/15	13:30	🔔	🔔	📊	CPI Ex Food and Energy MoM	Dec	0.3%	0.2%	0.3%
25)	01/15	13:30	🔔	🔔	📊	CPI YoY	Dec	2.9%	2.9%	2.7%
26)	01/15	13:30	🔔	🔔	📊	CPI Ex Food and Energy YoY	Dec	3.3%	3.2%	3.3%
27)	01/15	13:30	🔔	🔔	📊	CPI Index NSA	Dec	315.616	315.605	315.493
28)	01/15	13:30	🔔	🔔	📊	CPI Core Index SA	Dec	323.400	323.383	322.657
29)	01/15	13:30	🔔	🔔	📊	Real Avg Weekly Earnings YoY	Dec	--	0.7%	1.0%
30)	01/15	13:30	🔔	🔔	📊	Real Avg Hourly Earning YoY	Dec	--	1.0%	1.3%

Source: Bloomberg

FIG 1: S&P500 futures candlestick chart, shown with 50 day moving average

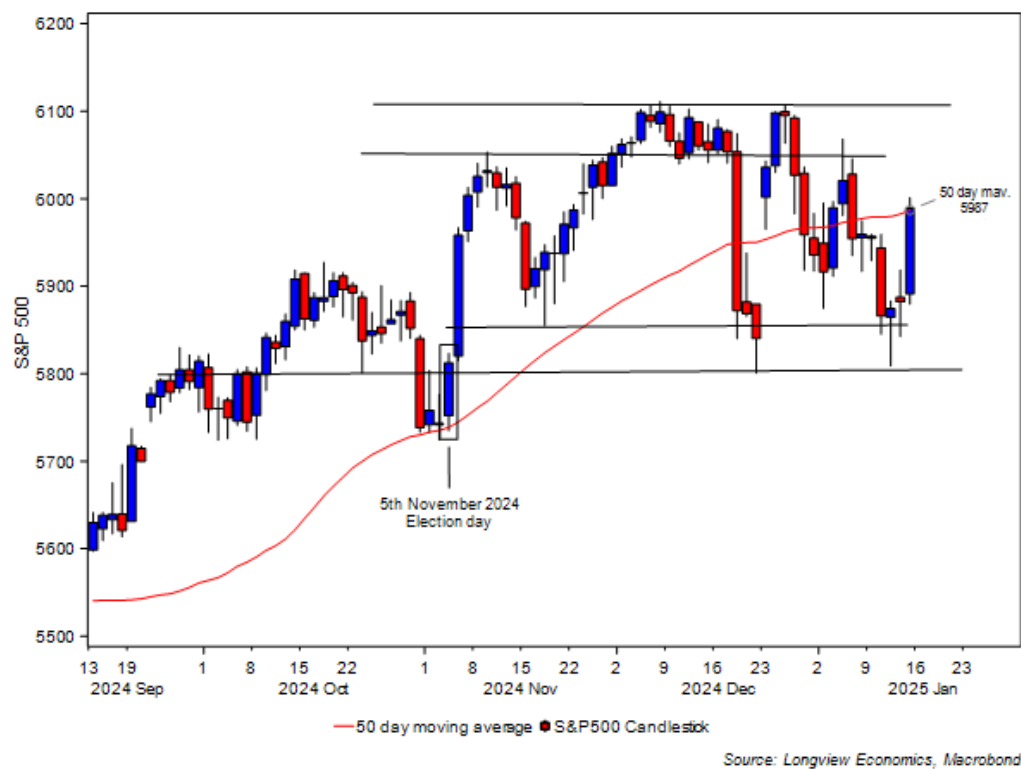


FIG 1a: S&P500 shown with its 10 & 50-day moving averages

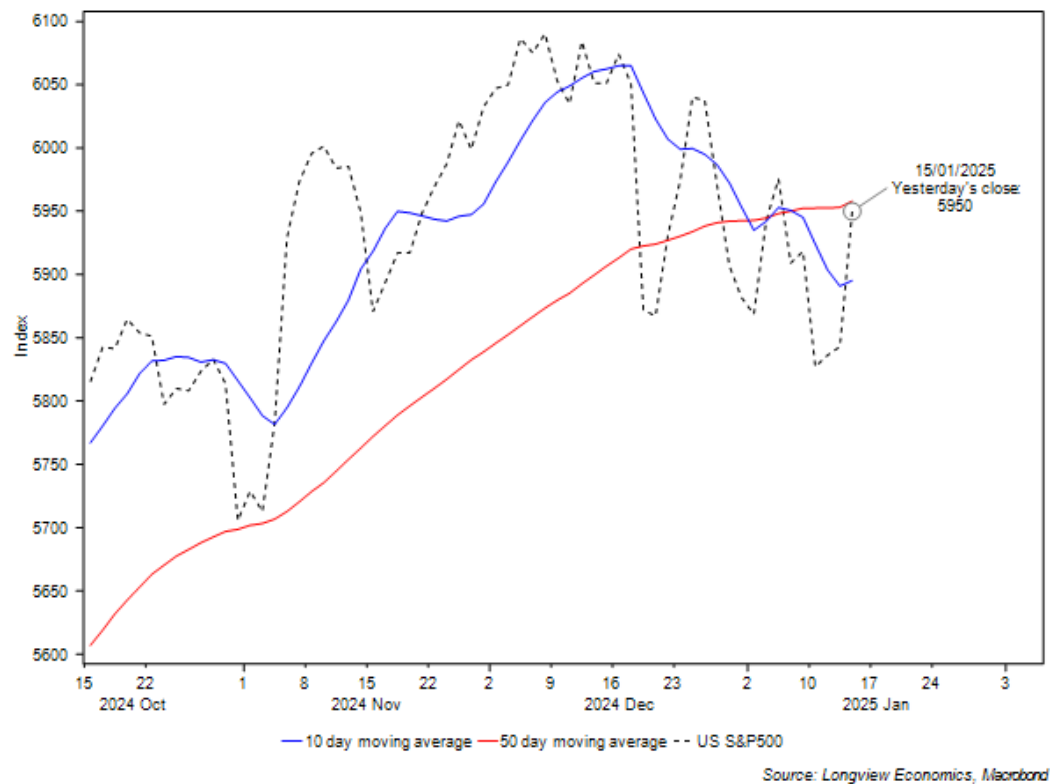
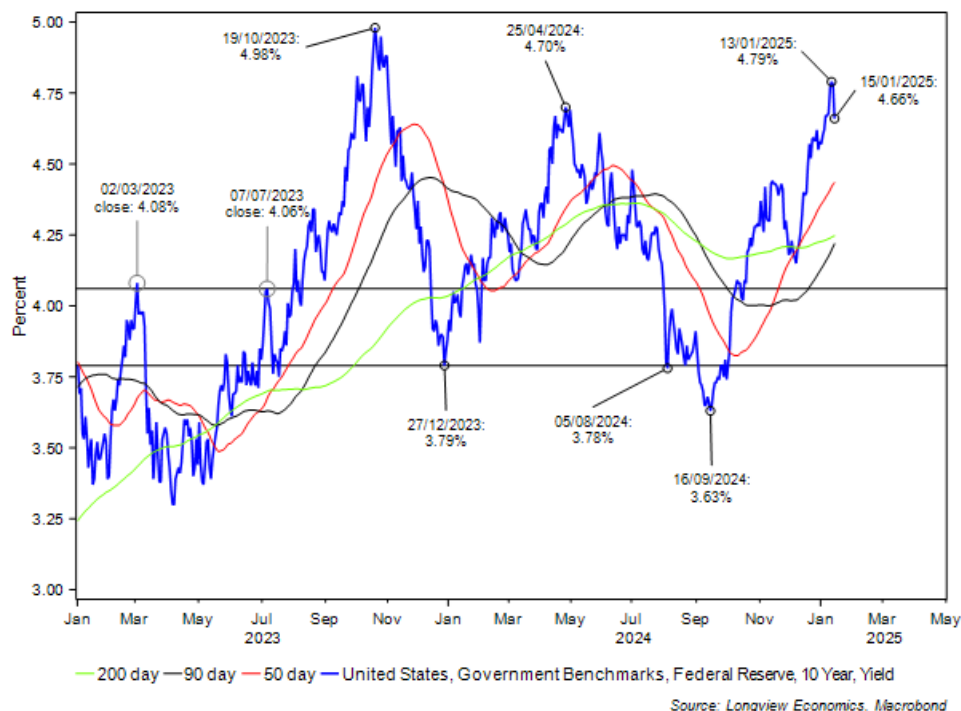


FIG 1b: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages



Risk appetite models are mid-range...

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

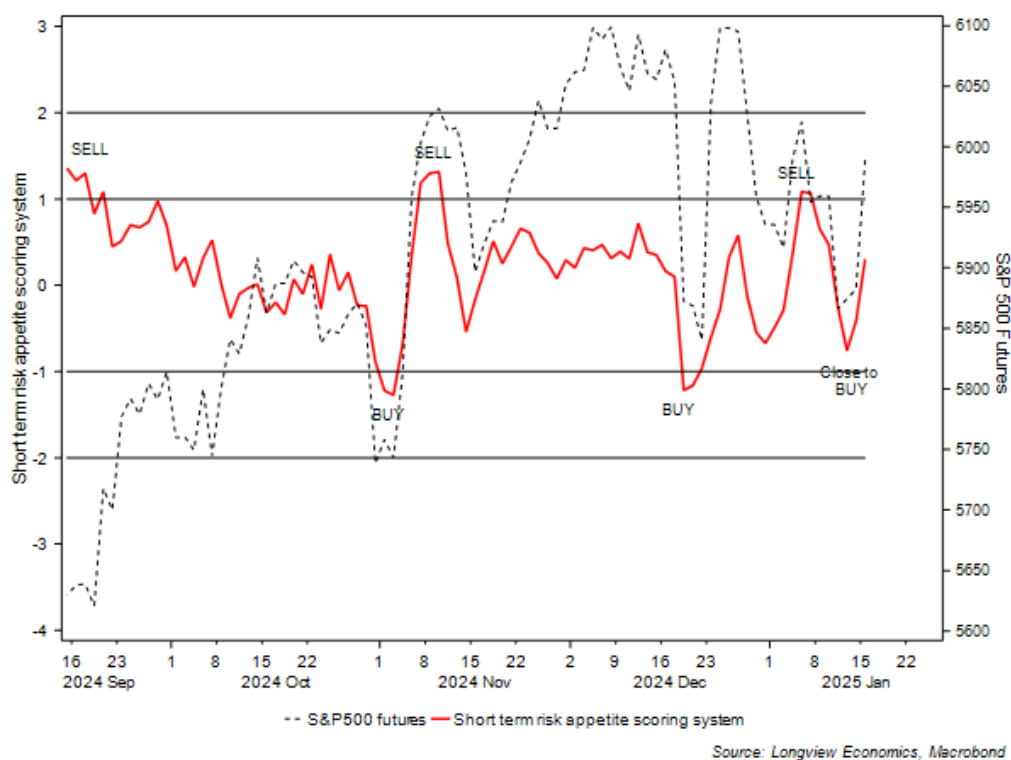
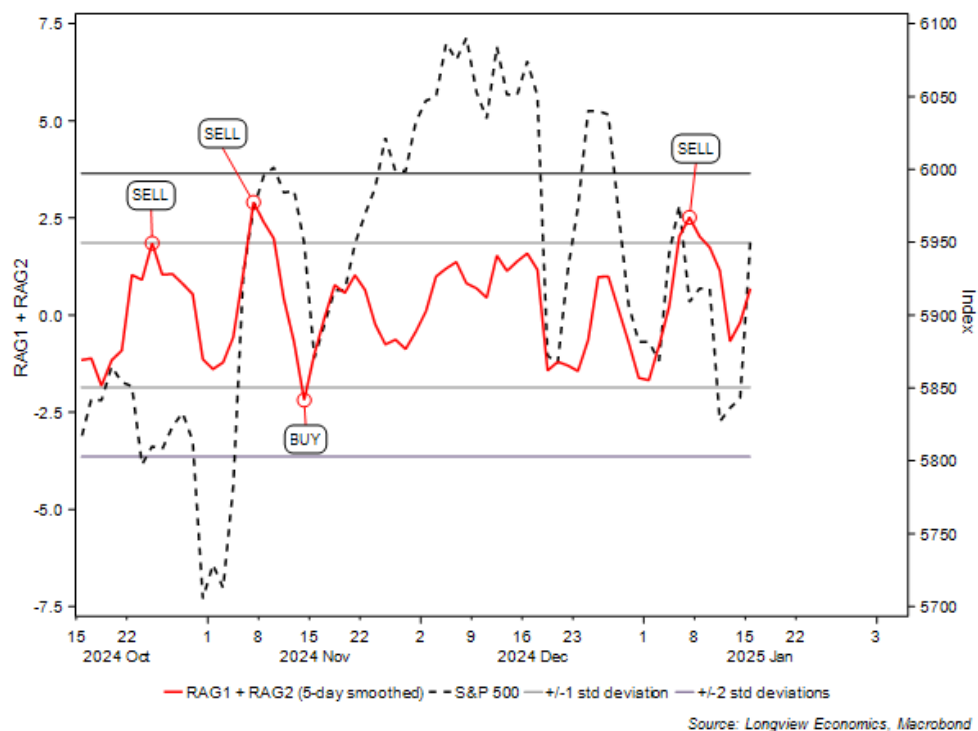


FIG 2a: Longview combined key ‘risk appetite’ models (RAG1 + RAG2) vs. S&P500



Put to call ratios are mostly mid-range/leaning towards SELL.....

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

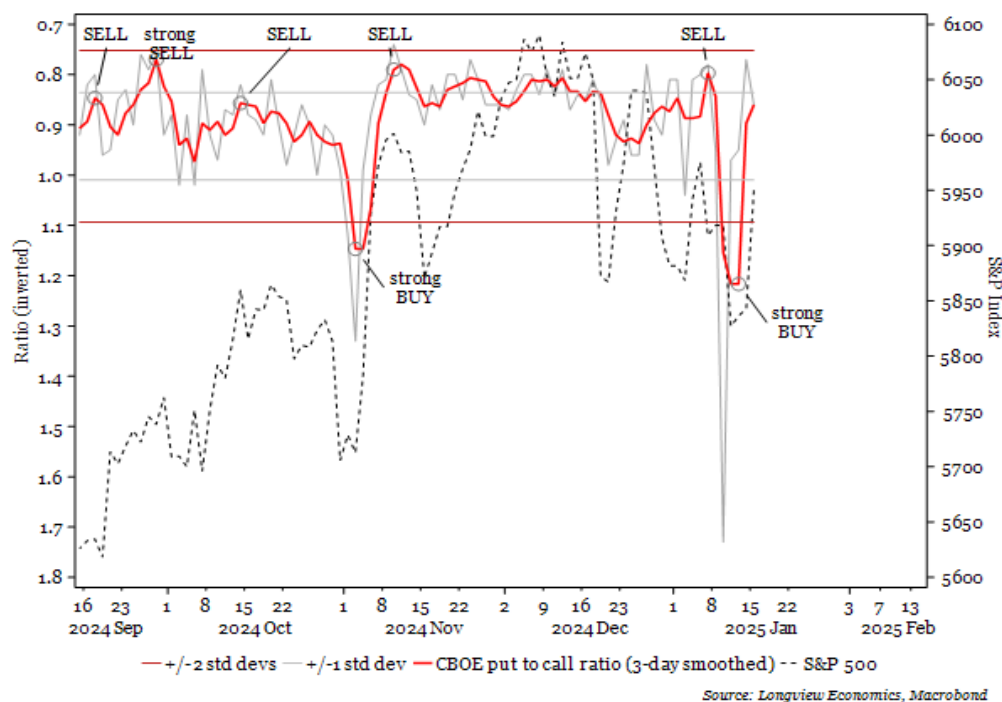
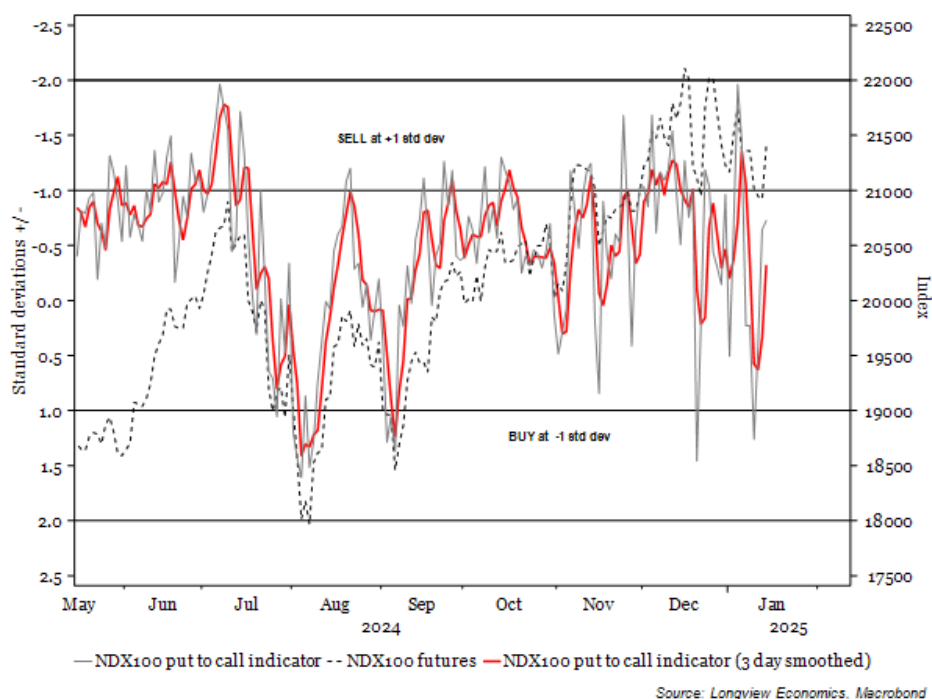


FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



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

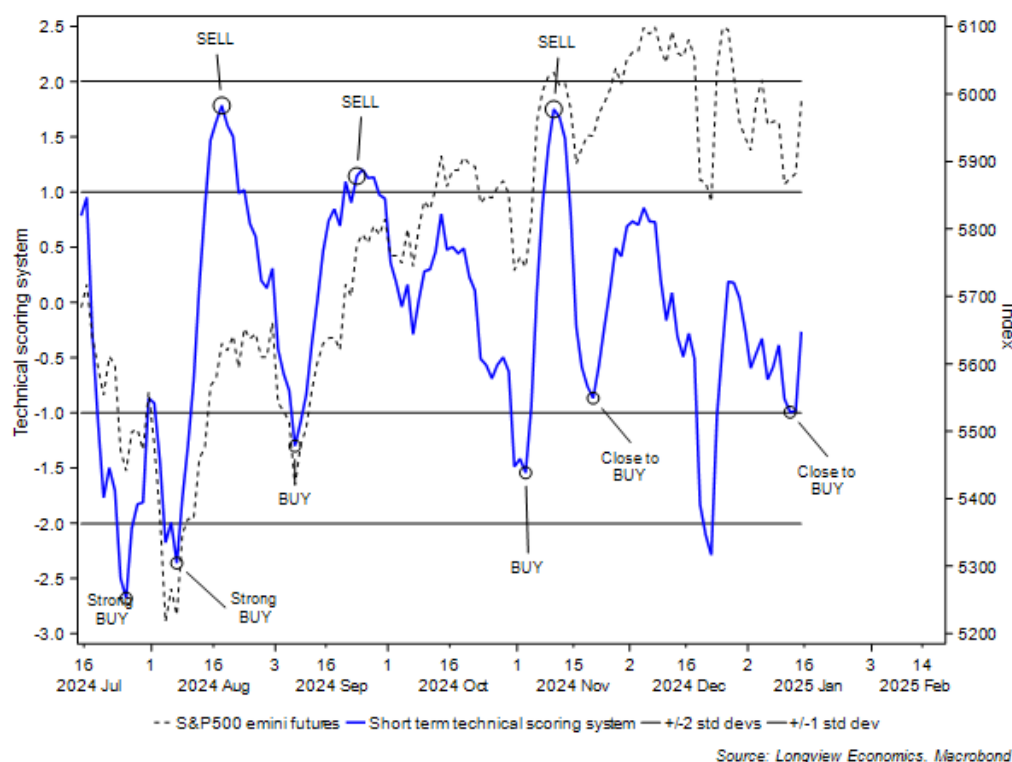
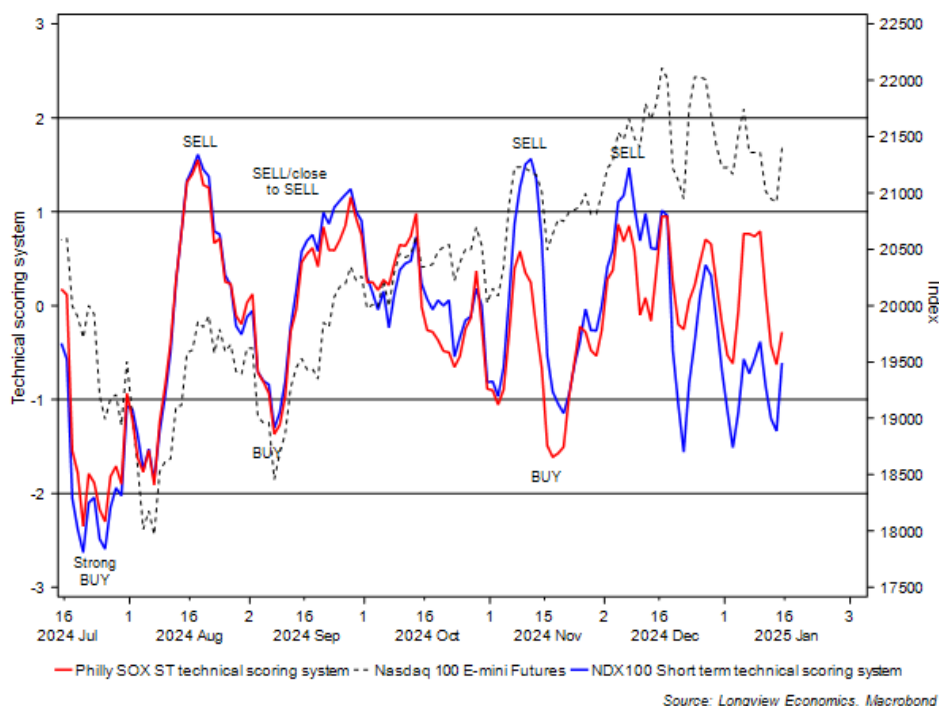


FIG 4a: Longview NDX100 & Philly SOX short term **‘technical’** scoring systems vs. NDX100 futures



Sector and single stock technical models have bounced from BUY levels....

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

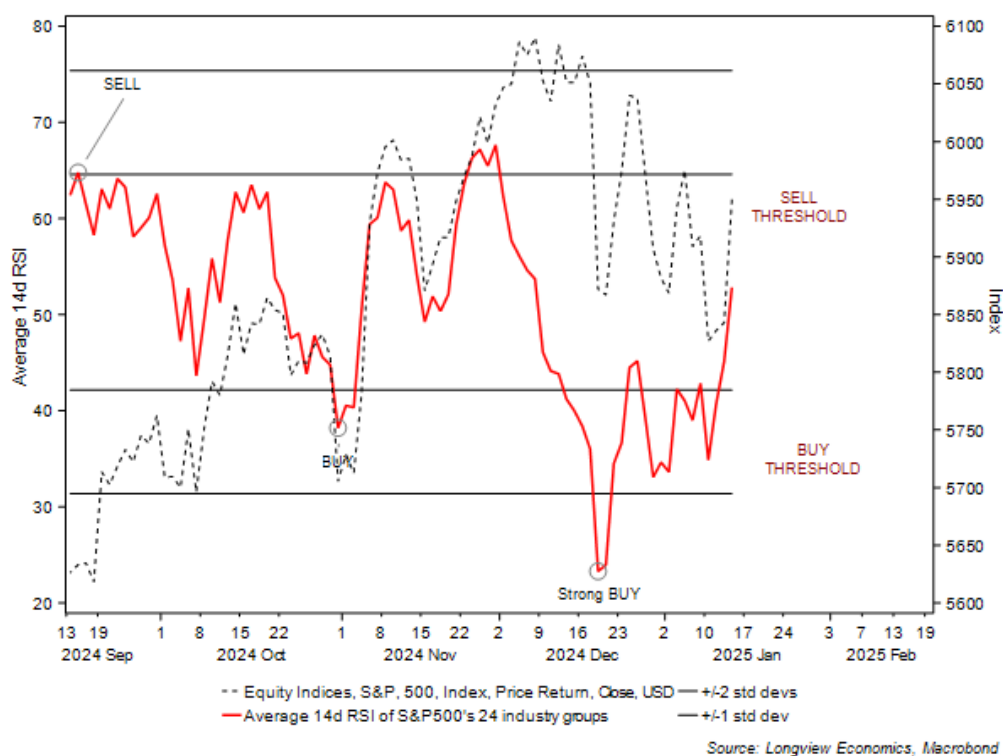
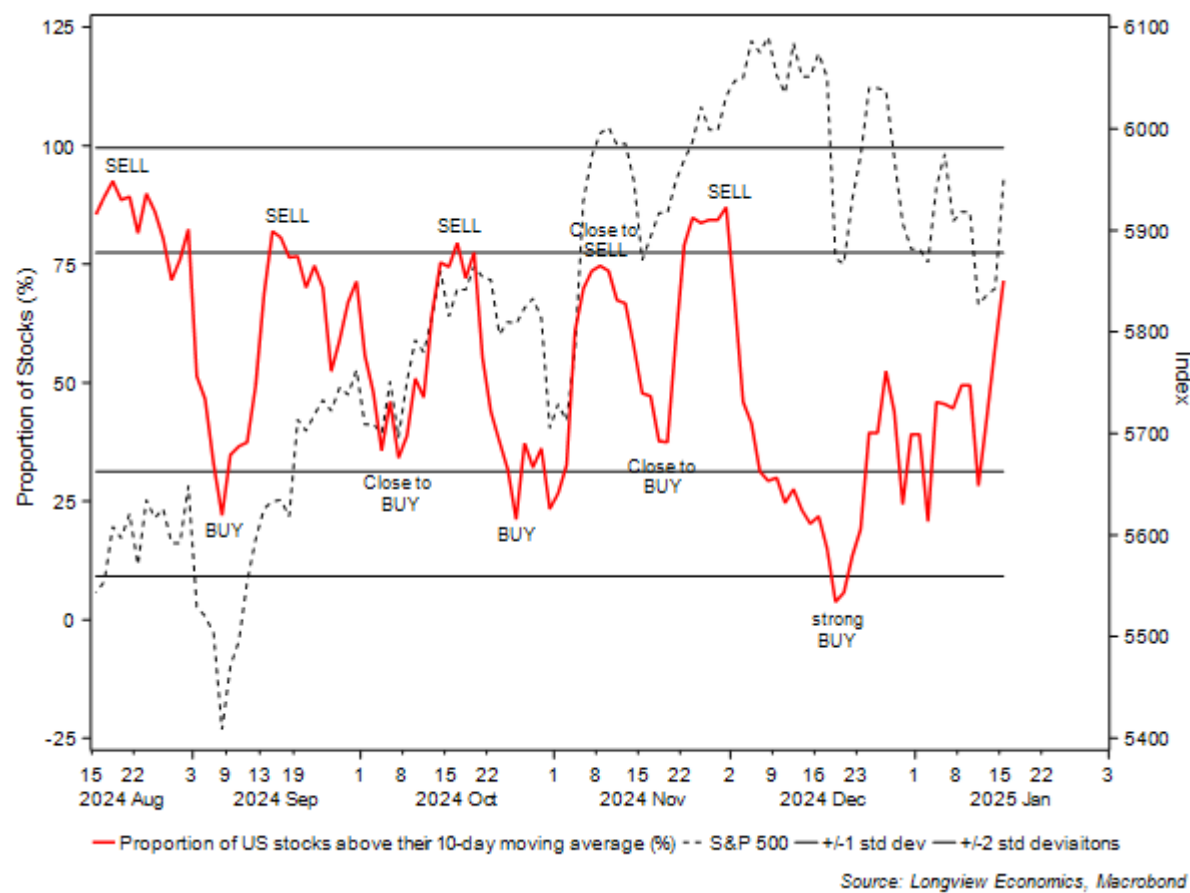


FIG 4c: Proportion of US stocks above their 10 day moving average vs. S&P500

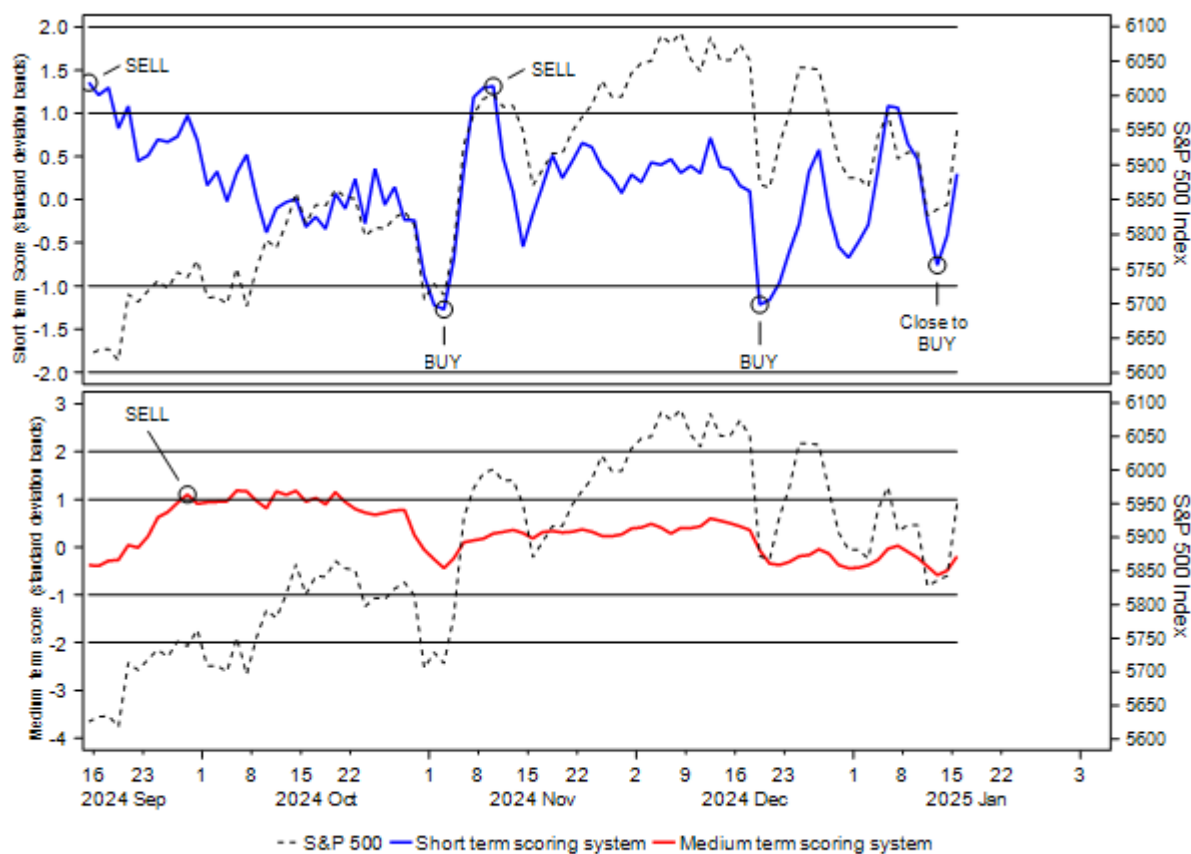


Key Longview Scoring Systems (chart below):

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 RICS house price balance** (Dec, 12:01am); Australian employment data (Dec, 12:30am); UK monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (Nov, 7am); German headline & core CPI (December final estimate, 7am); Italian core CPI (Dec, 9am); Eurozone trade balance (Nov, 10am); US Philadelphia Fed business outlook (Jan, 1:30pm); Canadian housing starts (Dec, 1:30pm); **US retail sales** (Dec, 1:30pm); US imports and exports price (Dec, 1:30pm); US New York Fed service sector business activity (Jan, 1:30pm); US weekly jobless claims (1:30pm); US business inventories (Jan, 3pm); US NAHB housing market index (Jan, 3pm).

Key events today include: ECB publishes account of December meeting (Thurs, 12:30pm).

Key earnings today include: **UnitedHealth, Bank of America, Morgan Stanley, PNC Financial, US Bancorp.**

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 yesterday, 15th 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

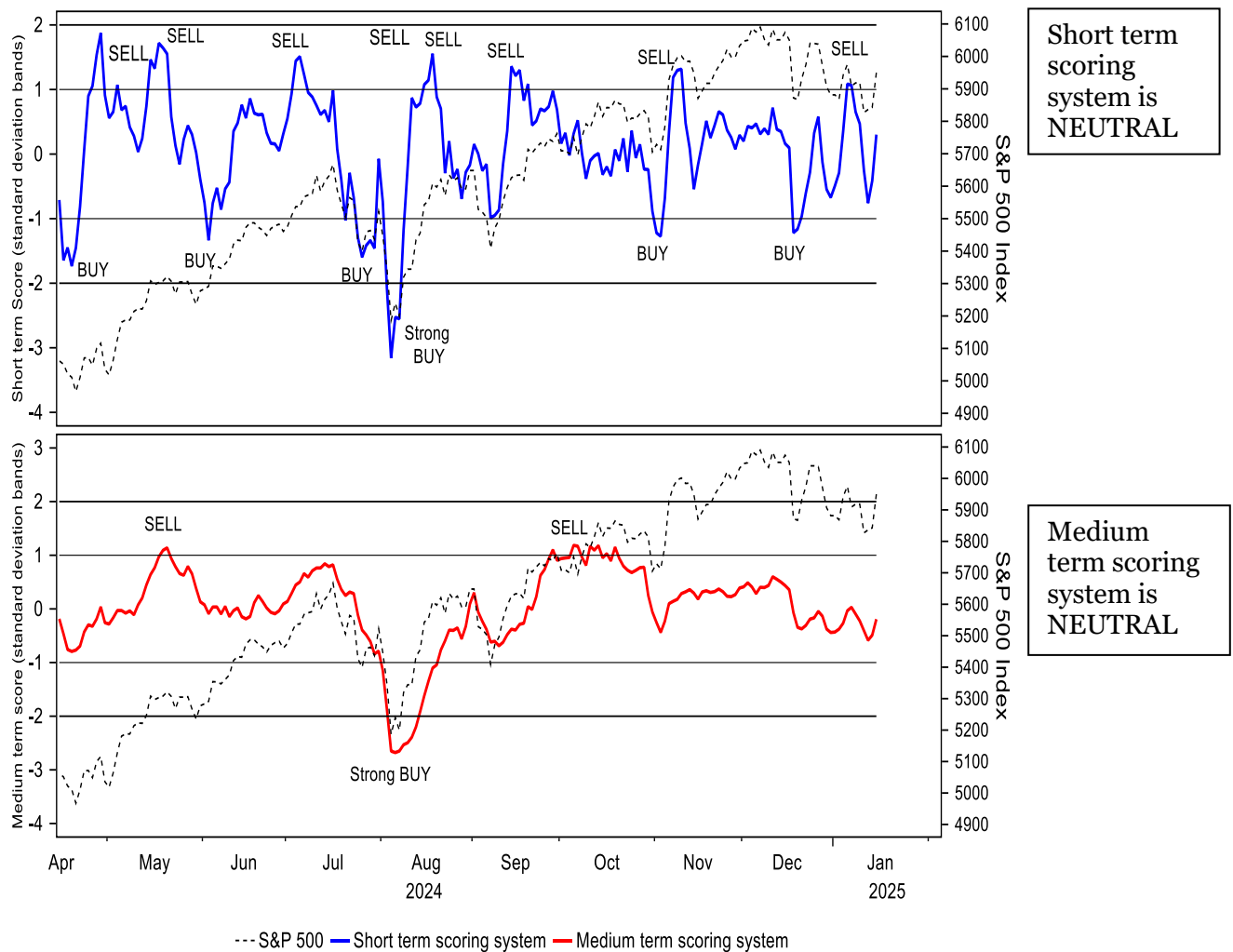
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16th January 2025

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

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



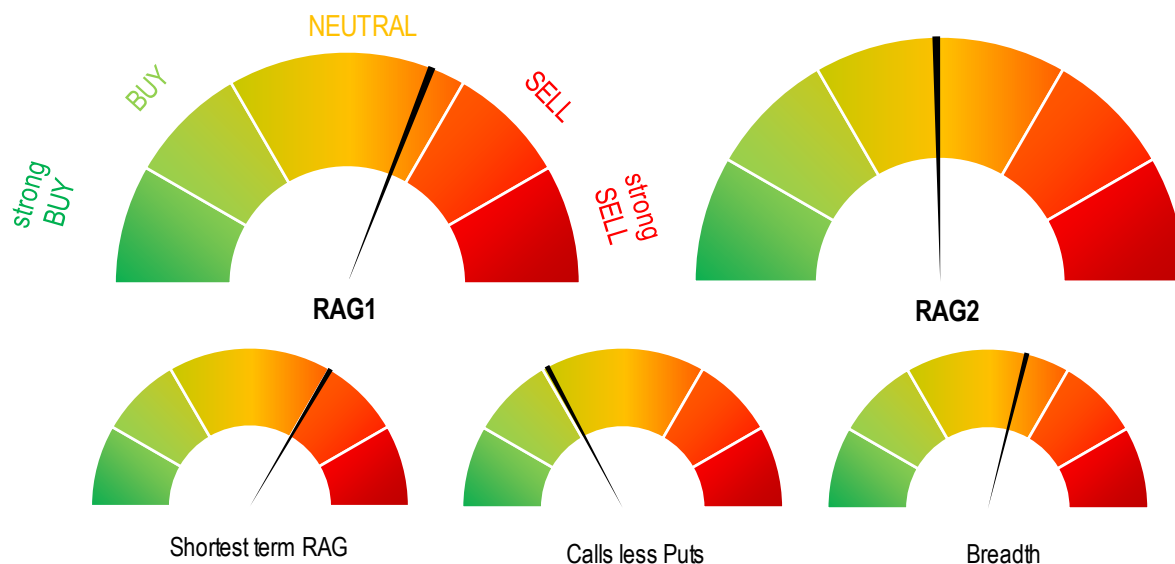
Source: Longview Economics, Macrobond

*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**

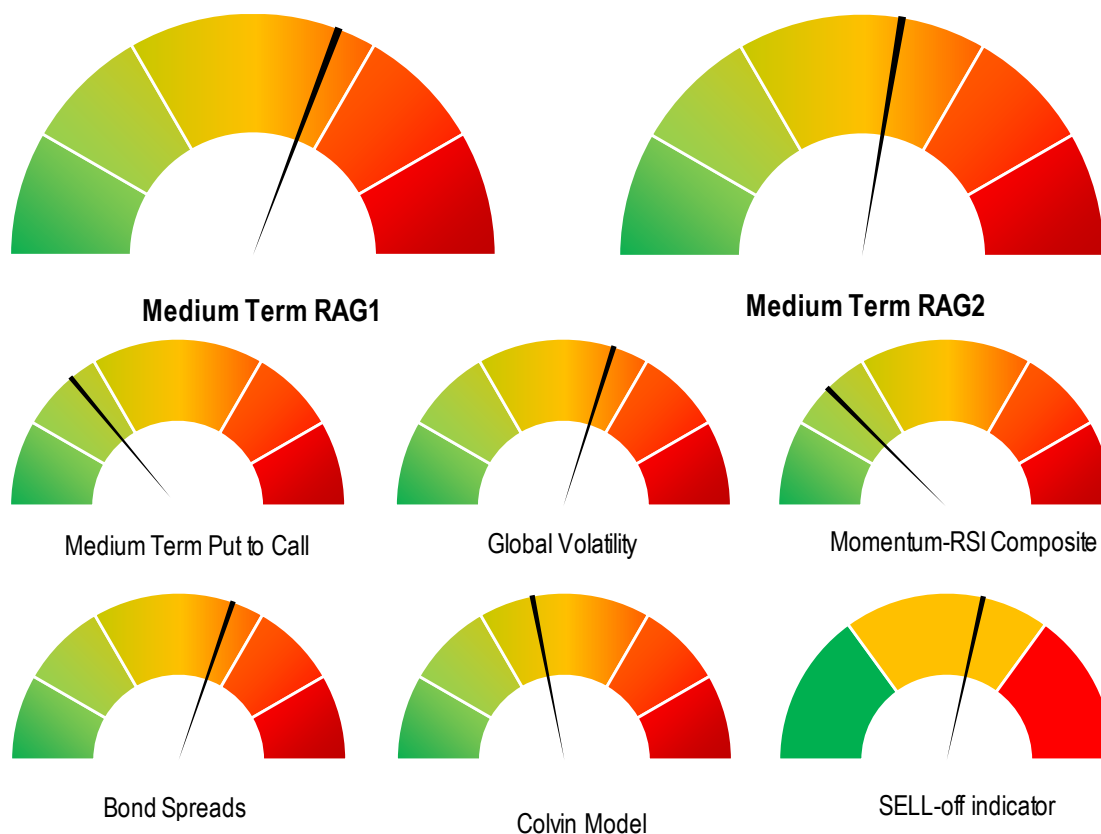
Section 1a: Summary of indicator signals**

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

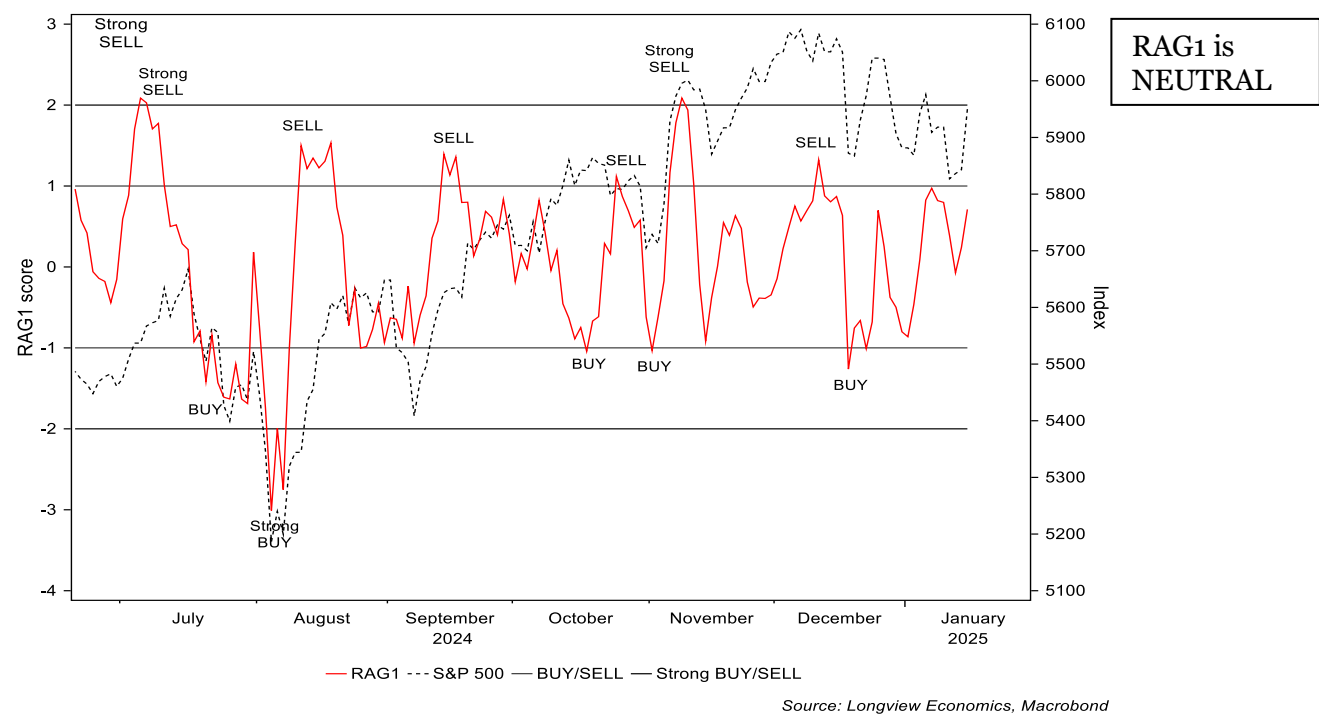
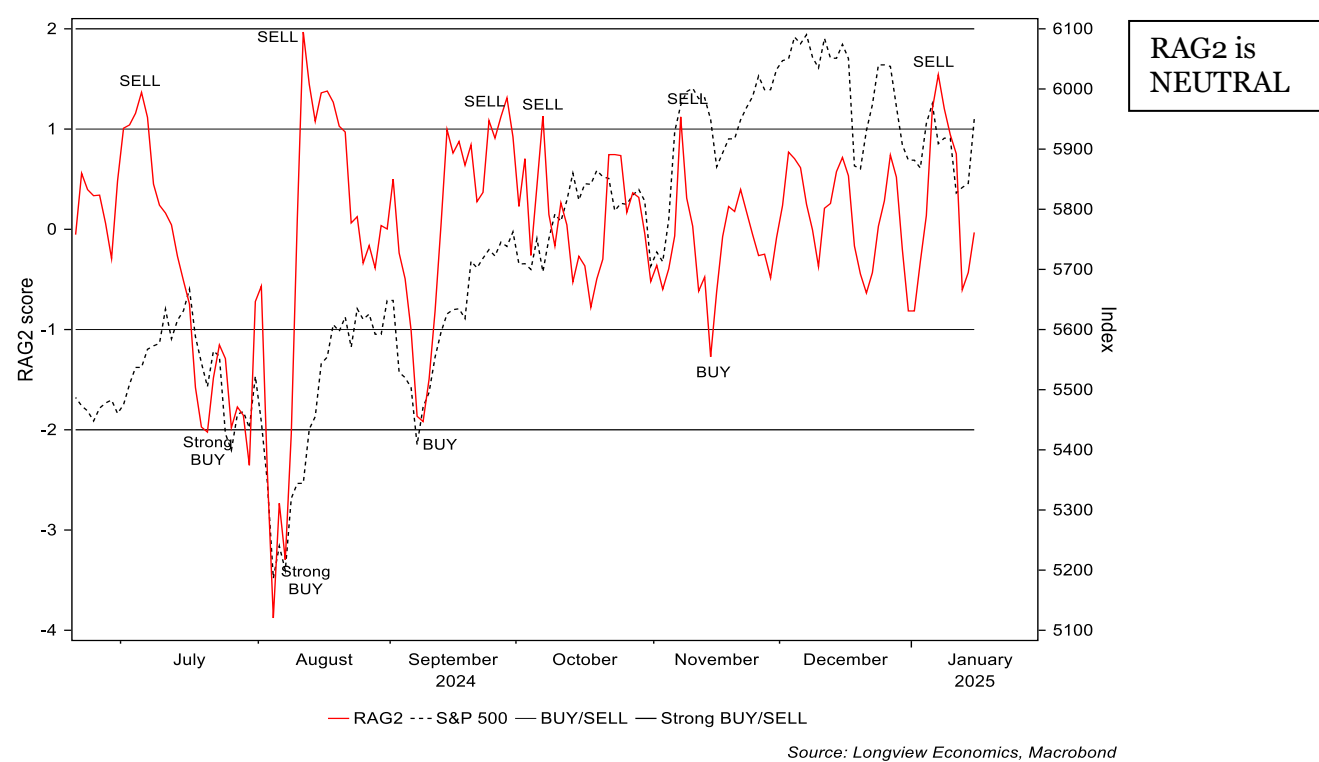


Fig 2b: RAG 2 vs. S&P 500



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

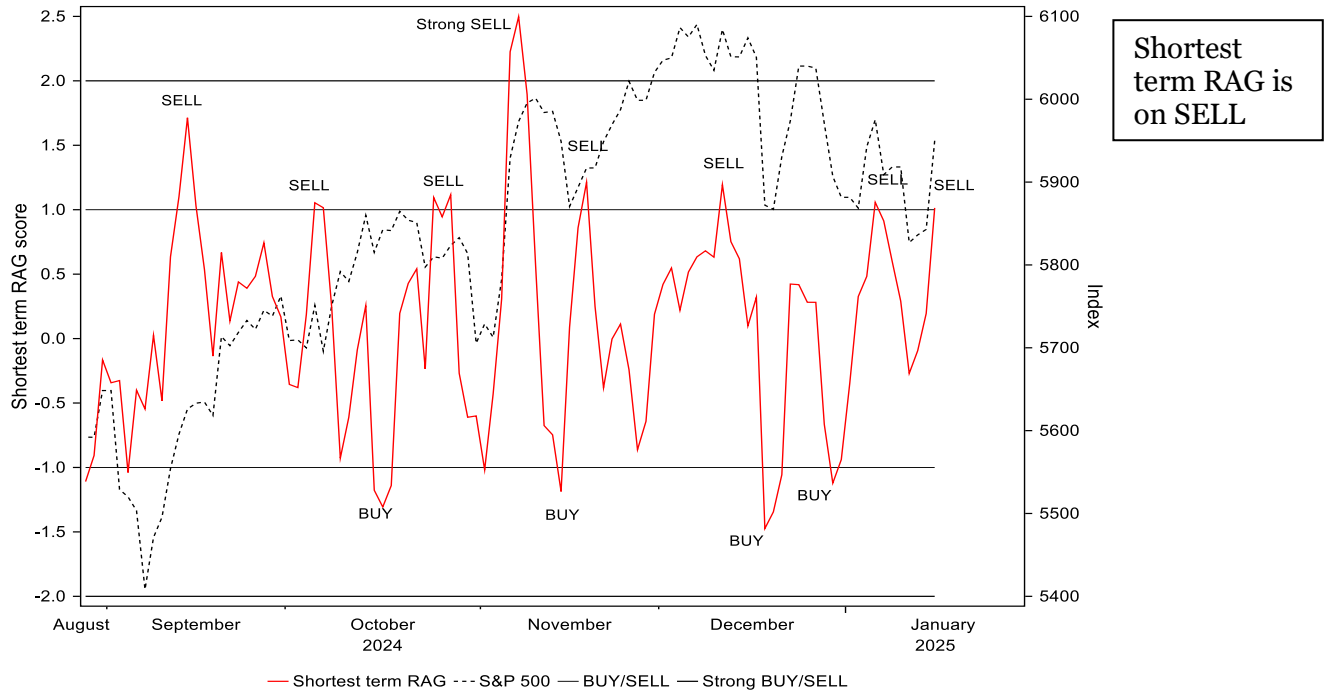
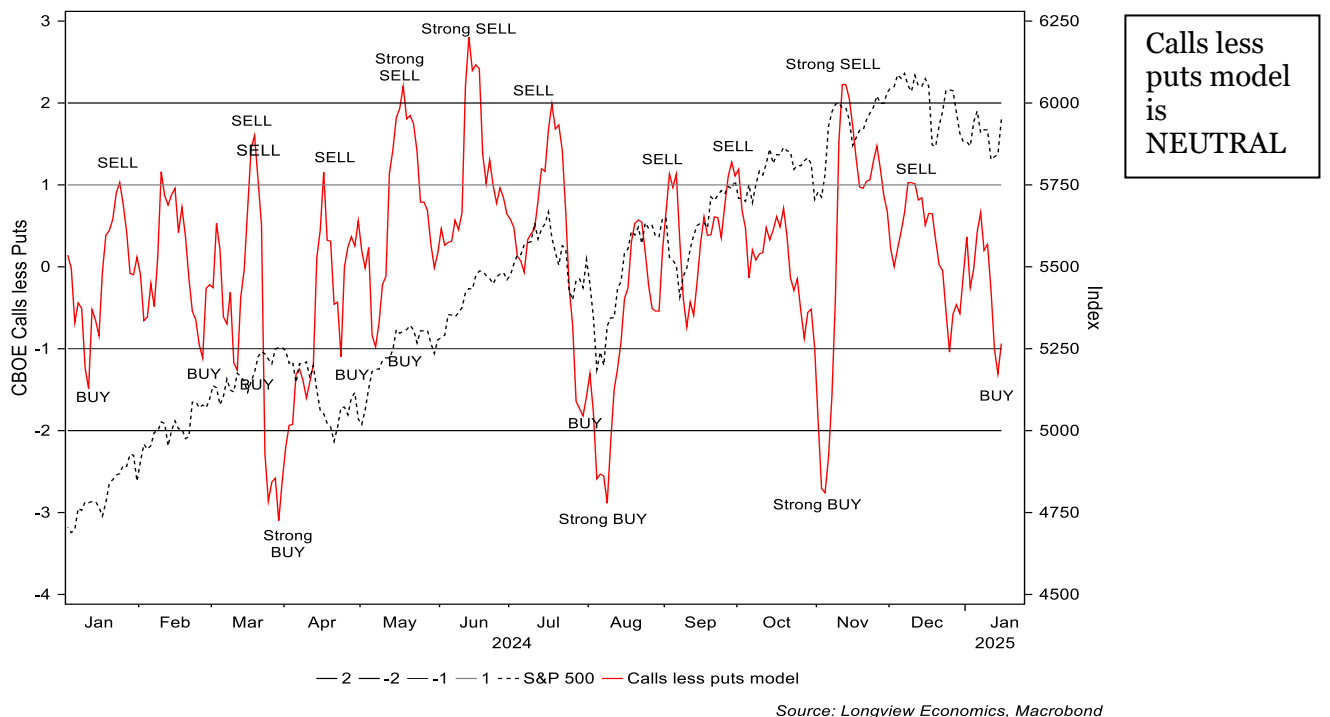
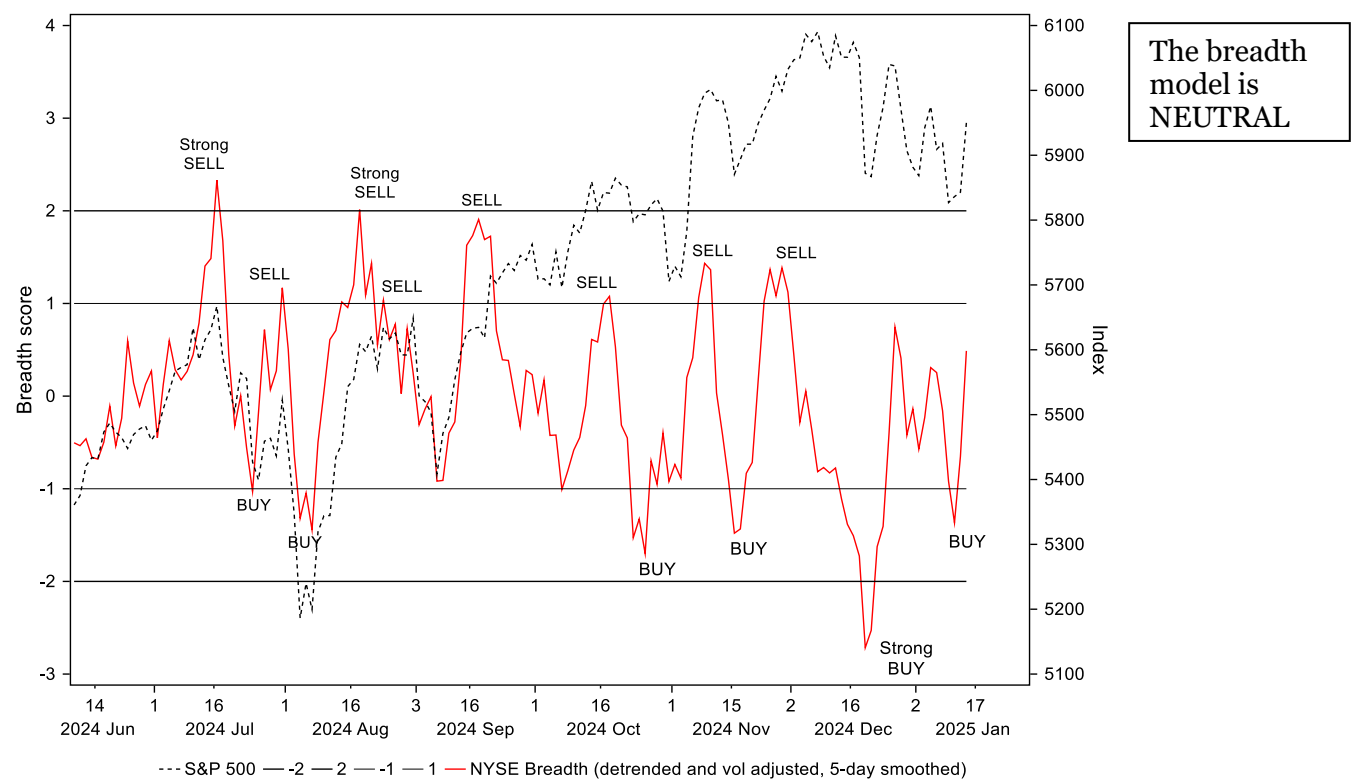


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

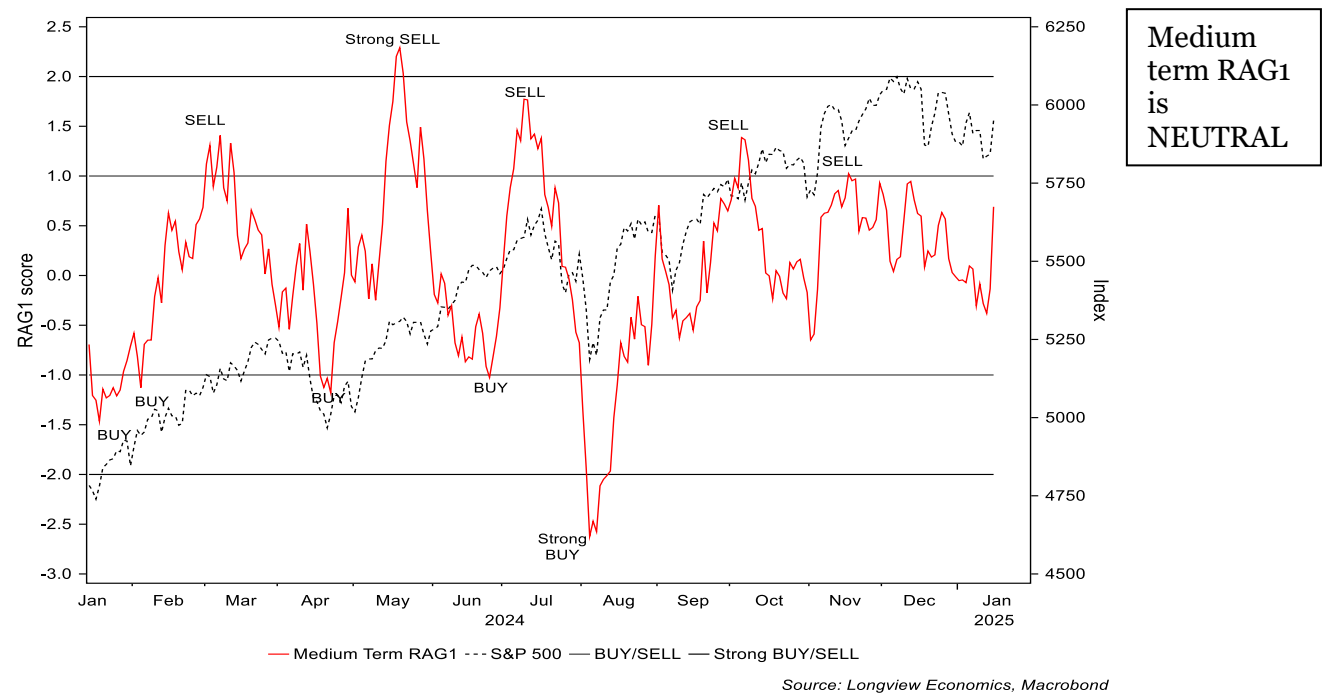
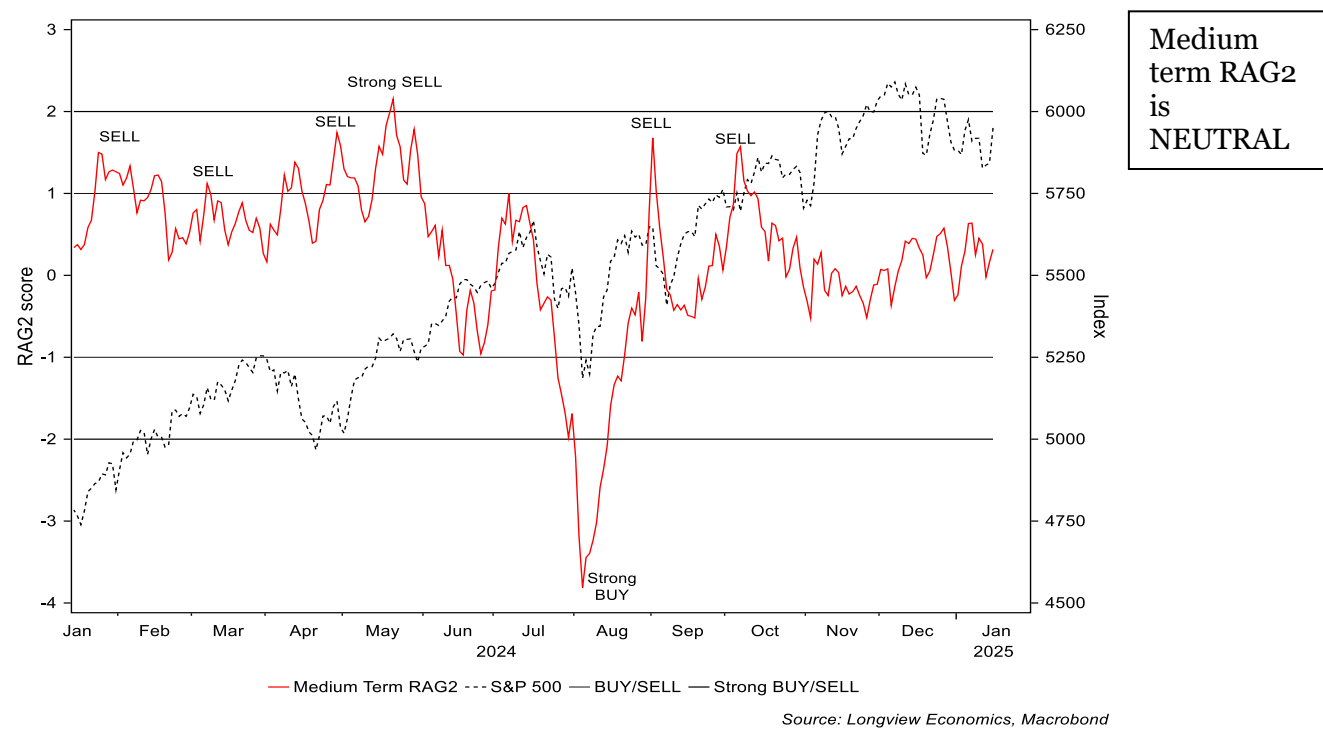


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

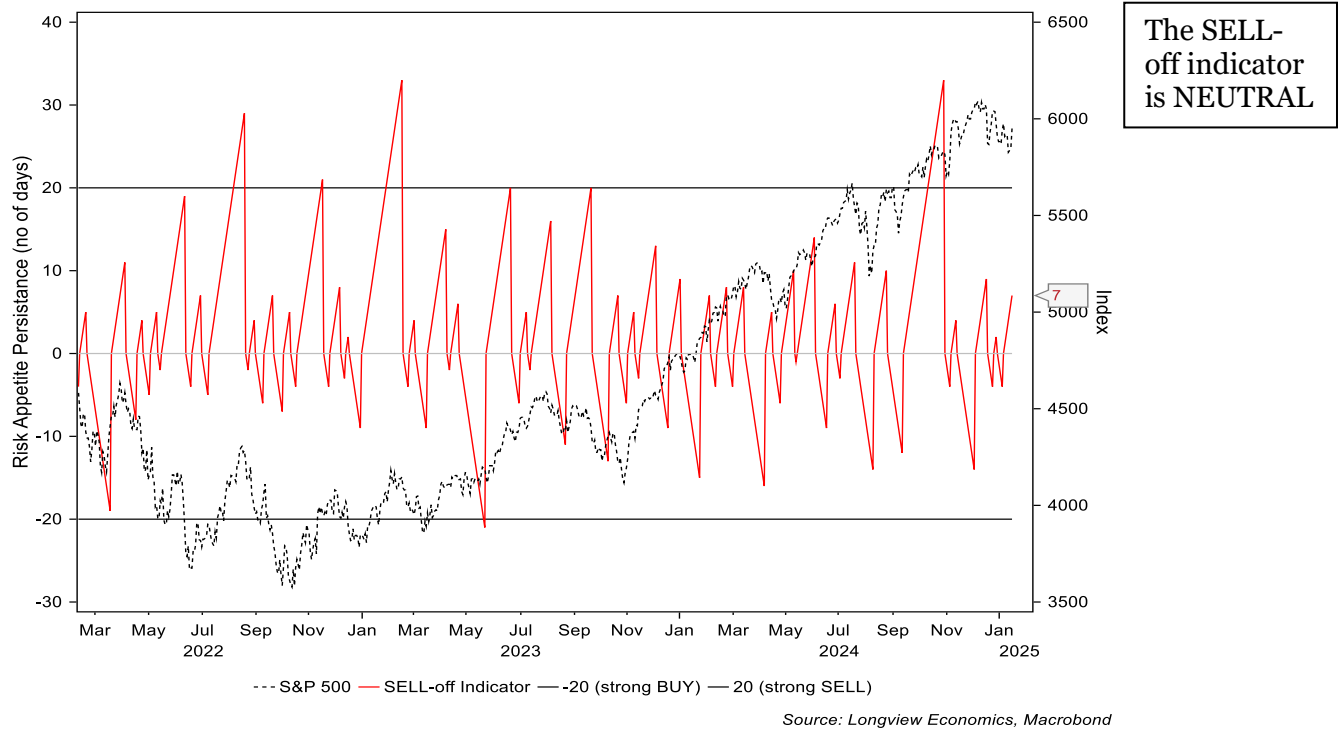
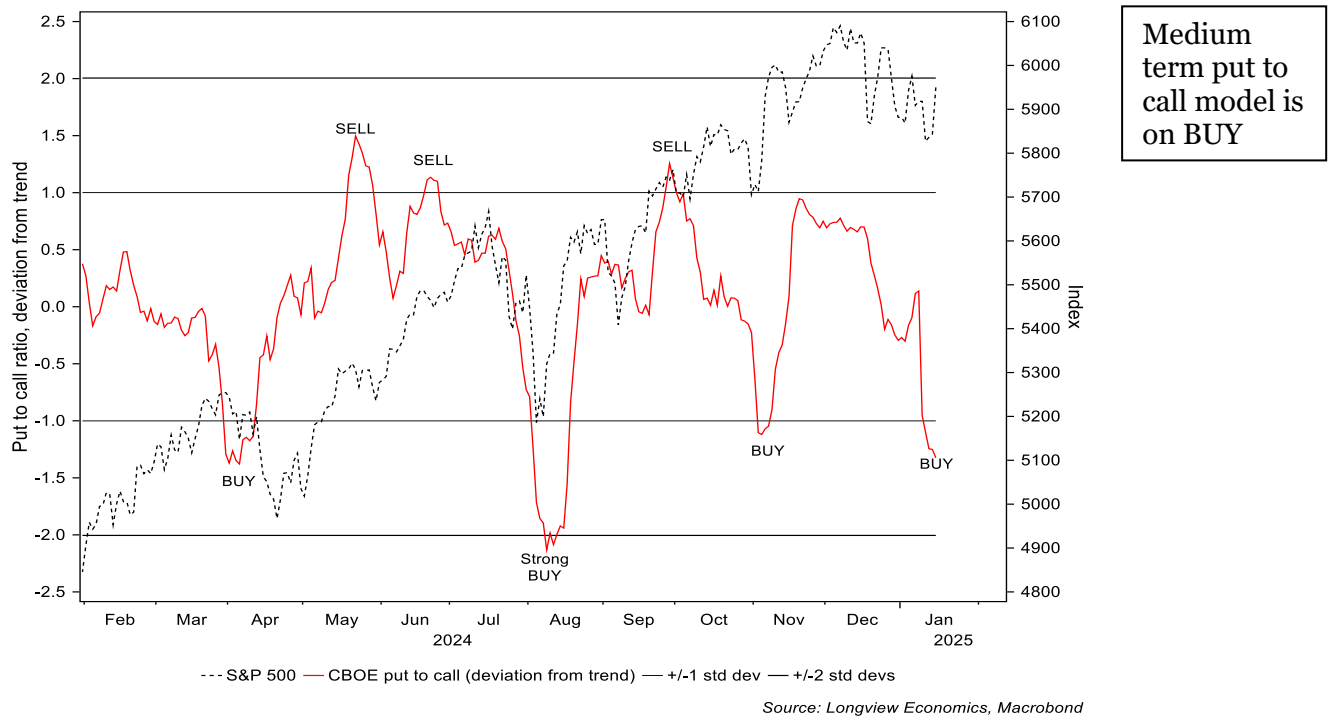


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

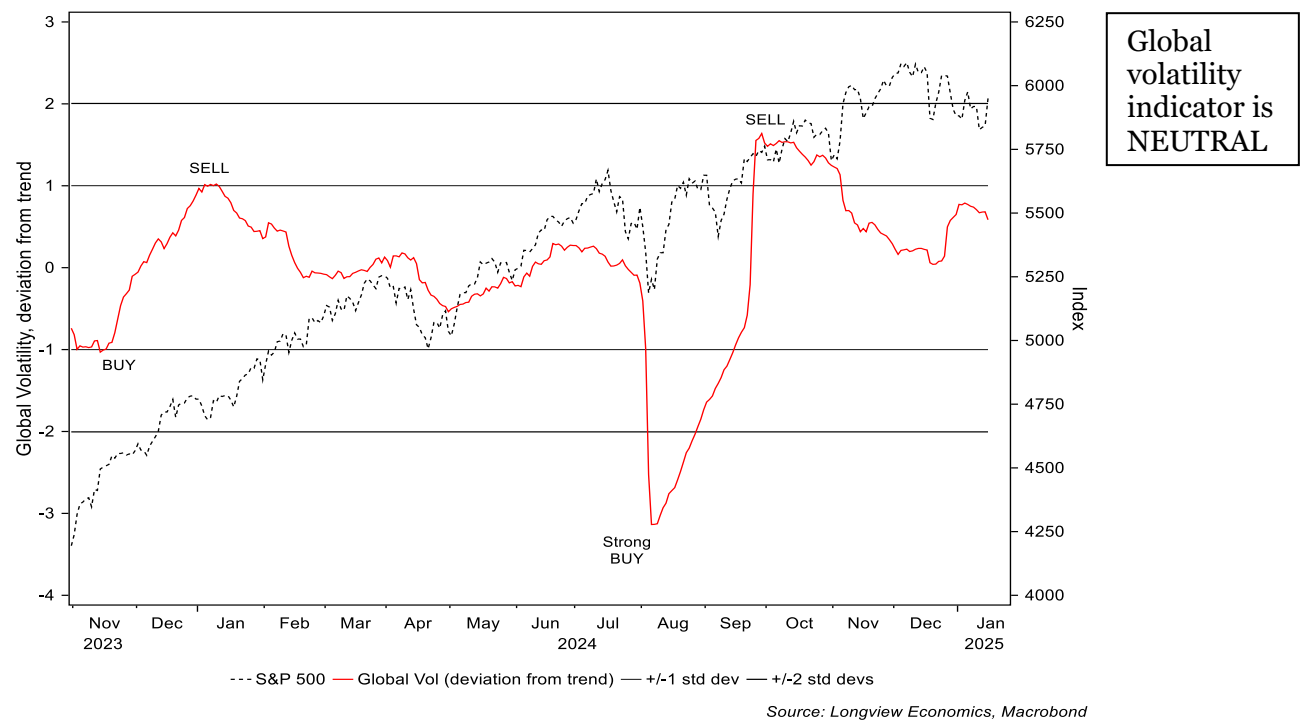


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

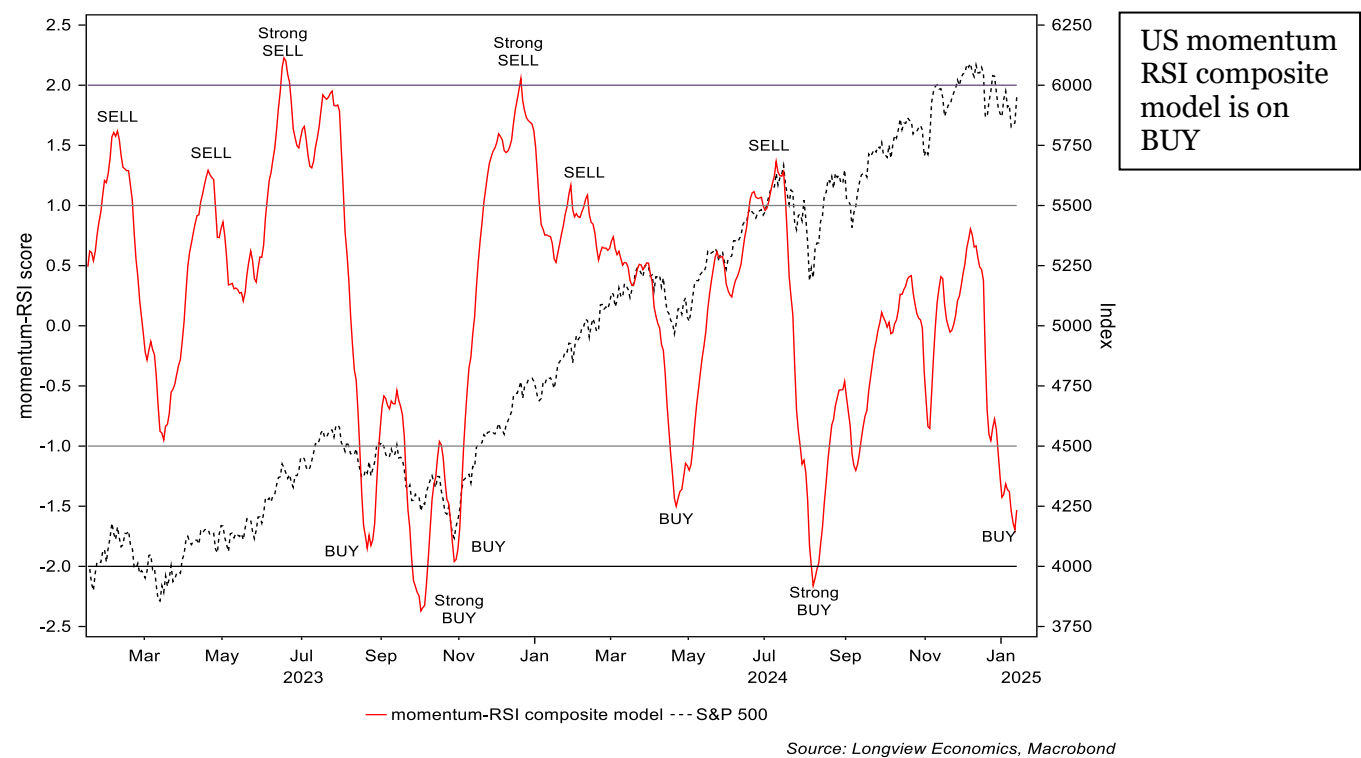


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

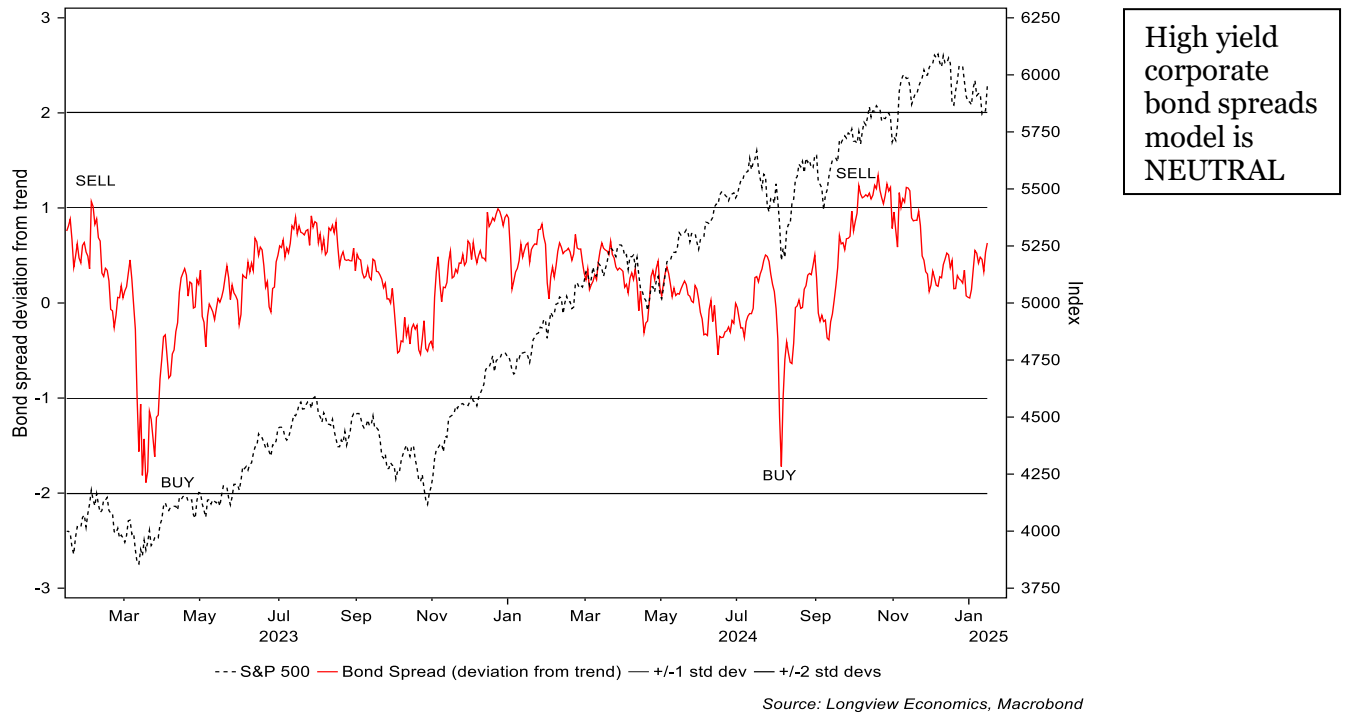
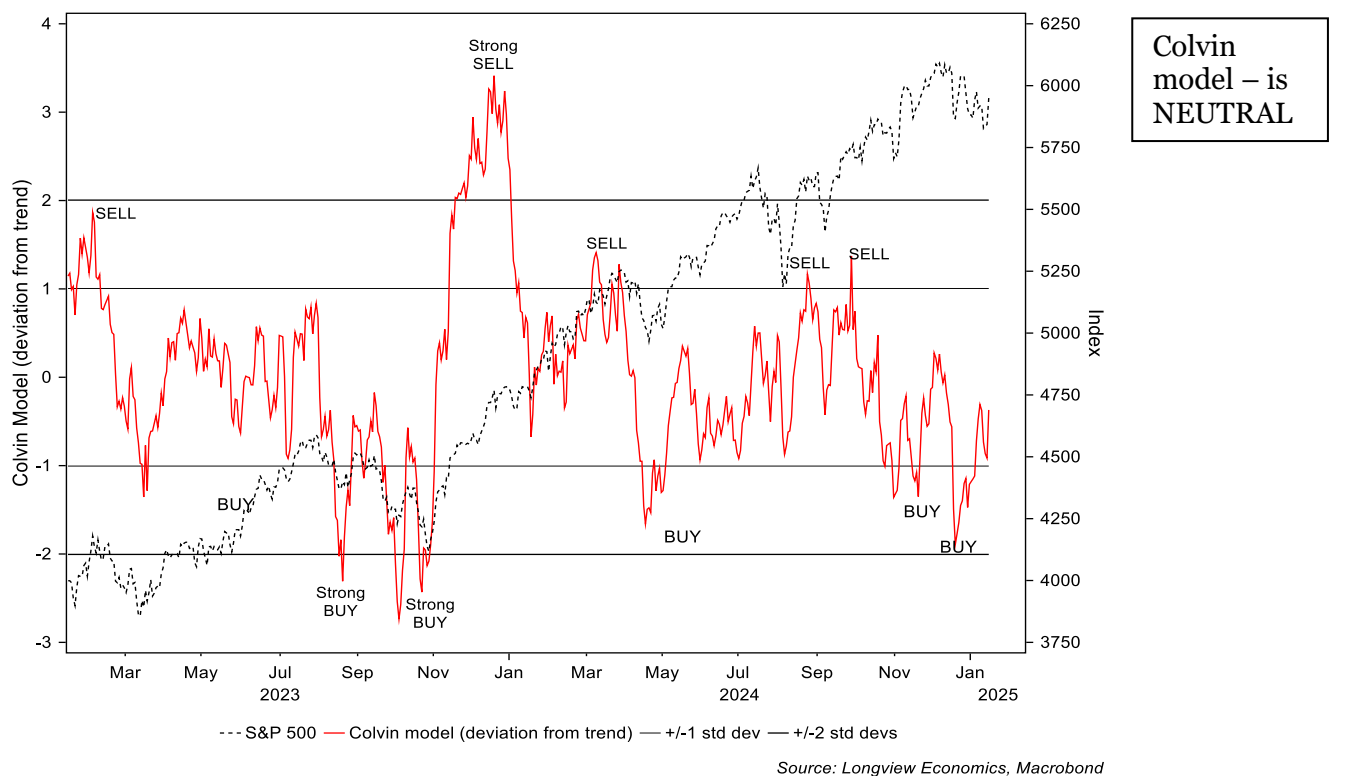


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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