

Equity Index Futures Trading Recommendations

17th December 2024

"Keep BUILDing LONG Positions"

Email: info@longvieweconomics.com

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

- Stay 1/3rd LONG S&P500 March 2025 futures (entry was at 6,130).
- Increase position size to 2/3rds LONG March futures if weakness is forthcoming, i.e. at 6,071 (equivalent to 6,000 on December 2024 futures).
- Place stop 3% below blended entry.

Rationale

Despite rallying by 0.4% yesterday, S&P500 futures remain within the range that's been in place for most of this month. That range is shown below for the March 2025 e-mini contract and is approximately 6,110 to 6,175 (since 4th December, FIG 1). The S&P500 also continues to trade in line with its normal seasonal pattern and is +0.7% month to date (see FIG 1a). E-mini volumes were again high yesterday (as traders/investors rolled into March positions and shut down trading books ahead of the Christmas break – FIG 1c).

As the S&P500 has traded sideways in the last 10 days, there's been significant rotation under the surface (as highlighted in yesterday morning's email). That pattern continued yesterday as the Philly SOX (+2.1%) and the NDX100 (+1.4%) led the market higher. In contrast the cyclical DJIA and the DJ Transportation indices both moved lower (-0.2% & -0.8%, respectively). Sector strength replicated that pattern as consumer discretionary (+1.7%), communication services (+1.3%) & IT (+1.0%) were the best performing top level sectors. Broadcom and the mega cap tech stocks drove the S&P's advance (i.e. in terms of single stock points contribution – FIG 1d). Nvidia was the exception as the stock fell sharply on the day.

As the S&P500 has tracked sideways (and other cyclical and defensive areas of the global stock market have been weak – e.g. see FIG 1b), various short term market timing models have moved lower onto, or close to, BUY. That's most evident at a sector and single stock level → the percentage of single stocks trading above their 10 day moving averages, for example, is on BUY (FIG 2d); sector and single stock momentum is also on BUY (FIGs 2c & 2e); while the S&P500 technical scoring system is close to BUY and the Russell 2000 equivalent is on BUY (FIGs 2 & 2b). Risk appetite models have moved lower. The risk appetite scoring system, for example, is below NEUTRAL, while combined RAG1 + RAG2 is mid-range (FIGs 4 & 4a).

Overall, therefore, given the usual seasonal patterns, the unwinding of various short term SELL signals, and the tracking sideways for the past two weeks, we continue to expect upside in the S&P500 into year end. Risks, as always, are multiple and include the Fed meeting tomorrow (Wed, 7pm London time announcement). Some of the models also remain at high/SELL levels (e.g. put to call ratios), while the NDX100 segment of the US market looks increasingly overextended (in the short term – FIG 2a). For choice, though, we recommend STAYing LONG S&P500 futures and adding to that position on weakness (if forthcoming/perhaps on the Fed announcement, for example).

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

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 MARCH futures 30-day tick chart shown with overnight price action

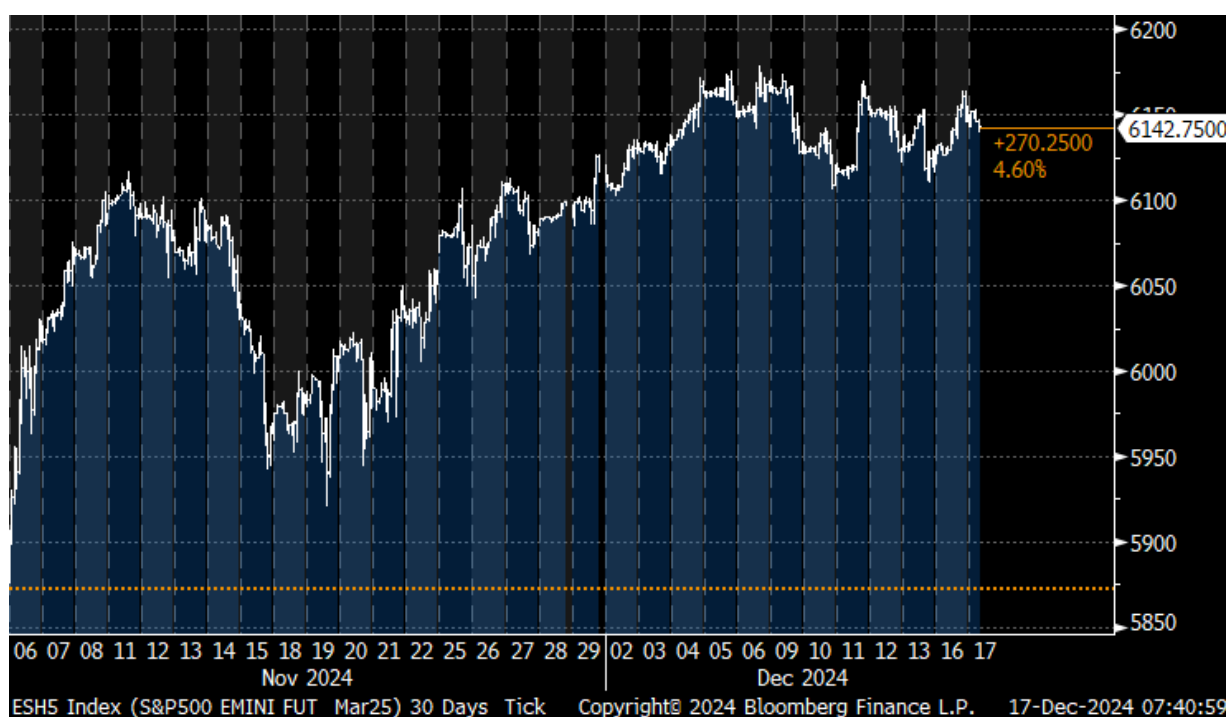
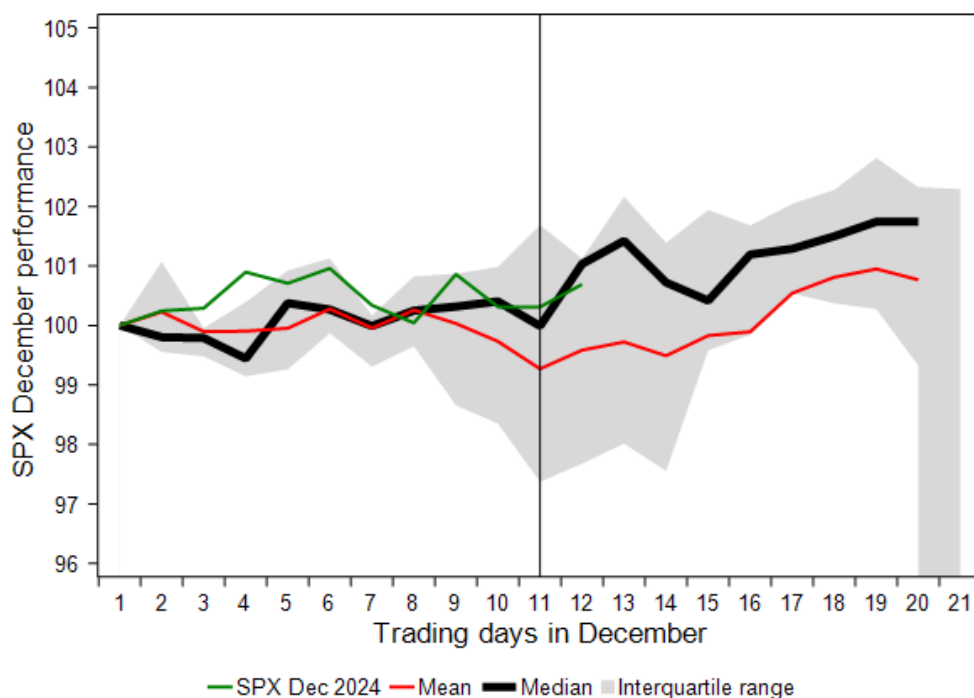
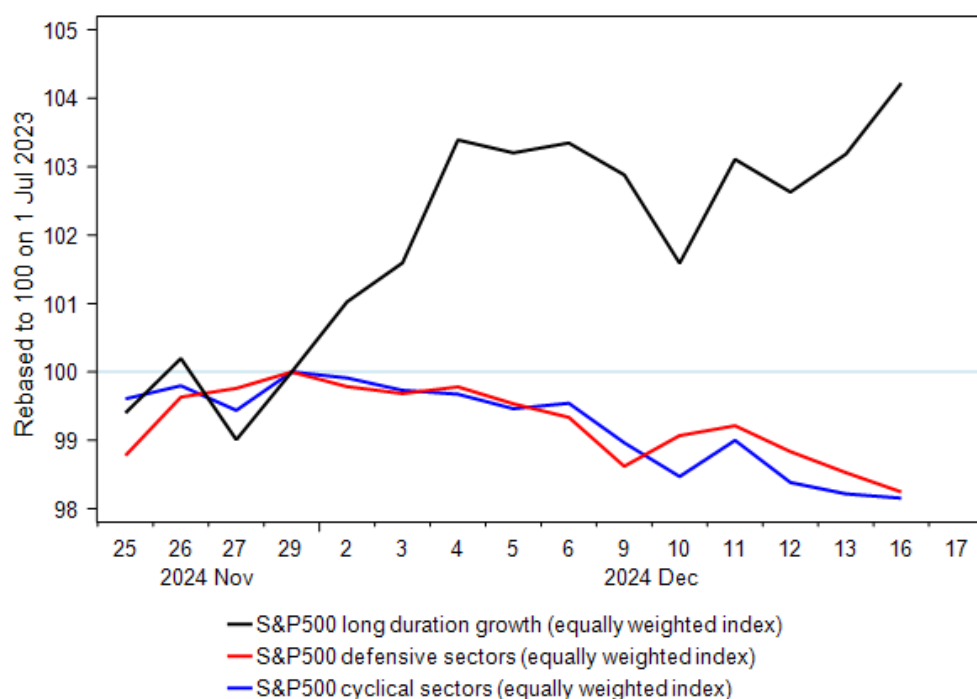


FIG 1a: S&P500 → December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)



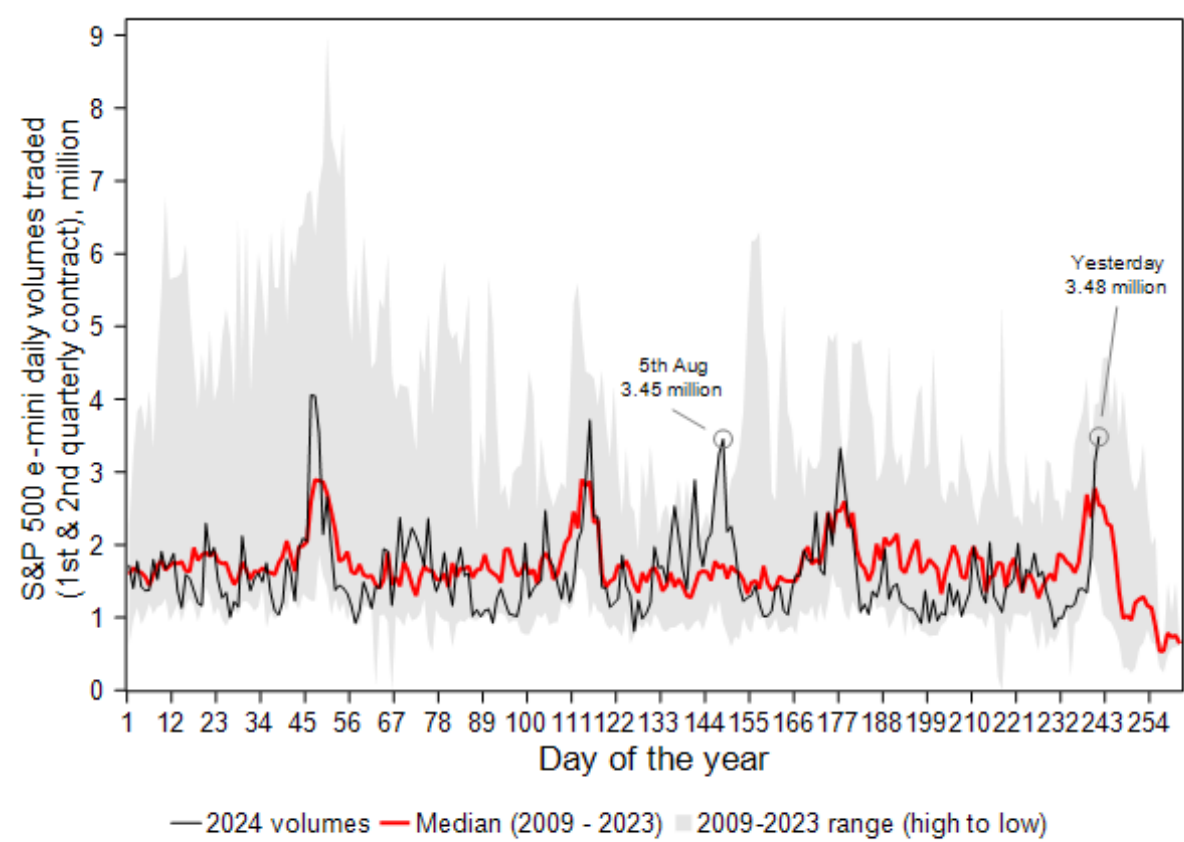
Source: Longview Economics, Macrobond

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



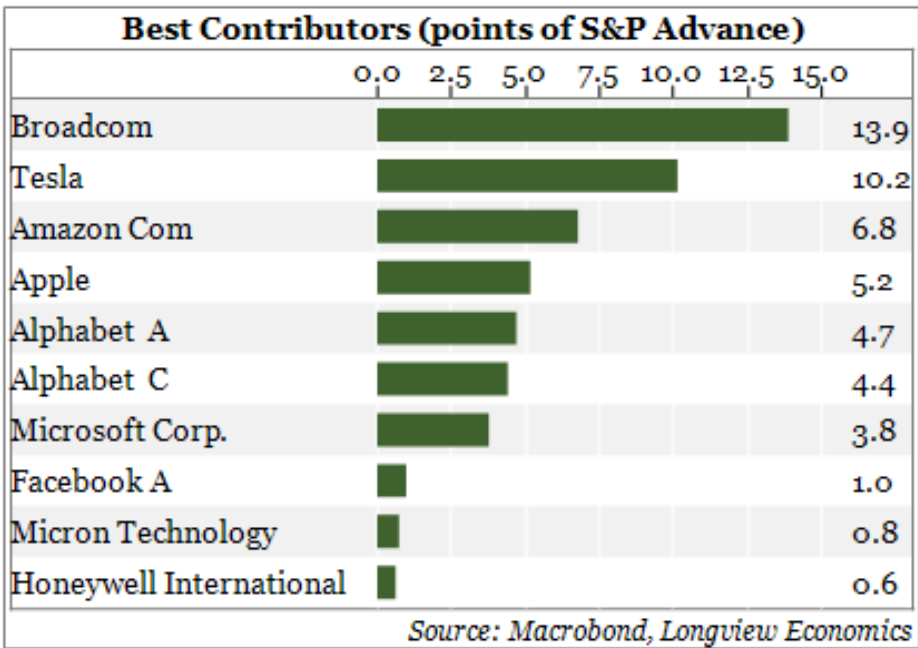
Source: Longview Economics, Macrobond

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



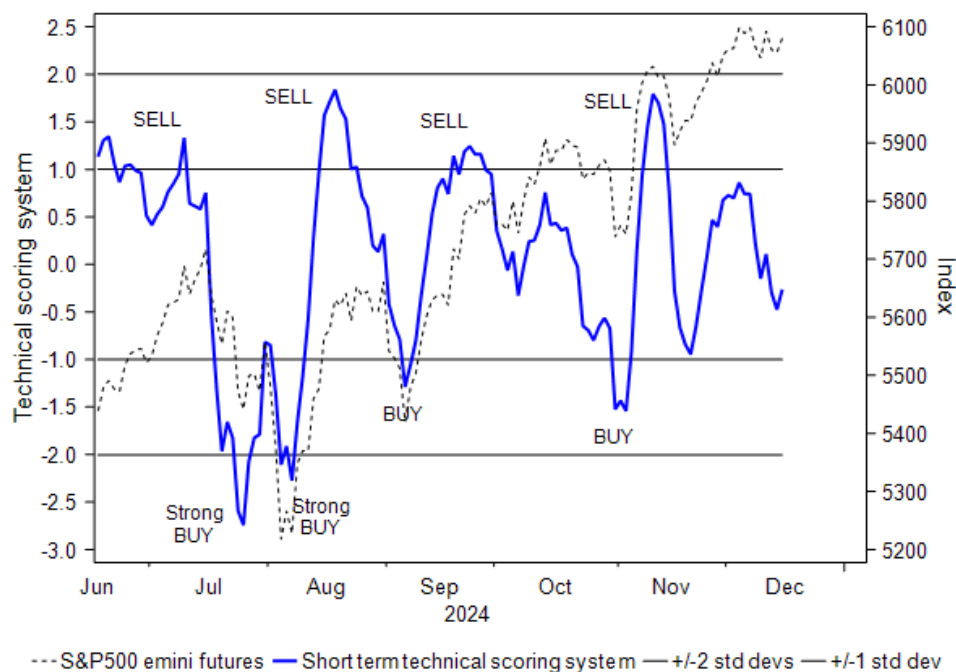
Source: Longview Economics, Macrobond

FIG 1d: Single stock points contribution to the S&P500's move yesterday



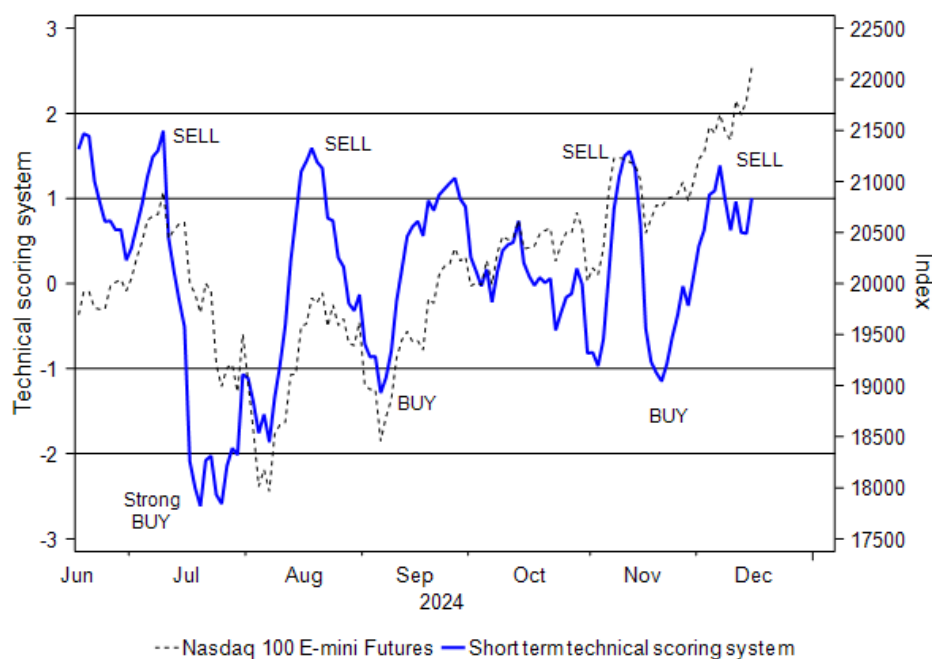
(index based) Technical models are mixed....

FIG 2: Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures



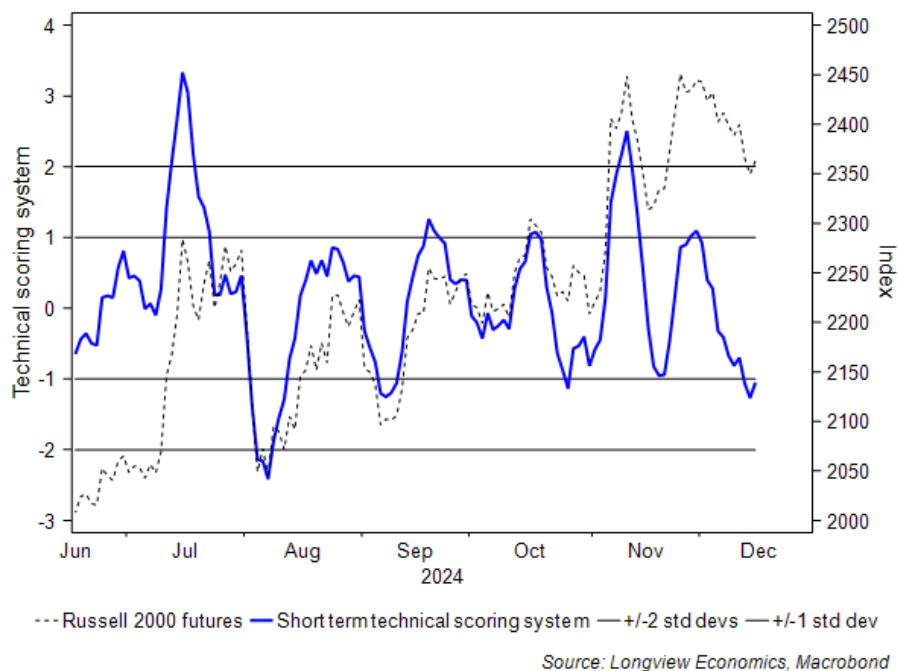
Source: Longview Economics, Macrobond

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



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

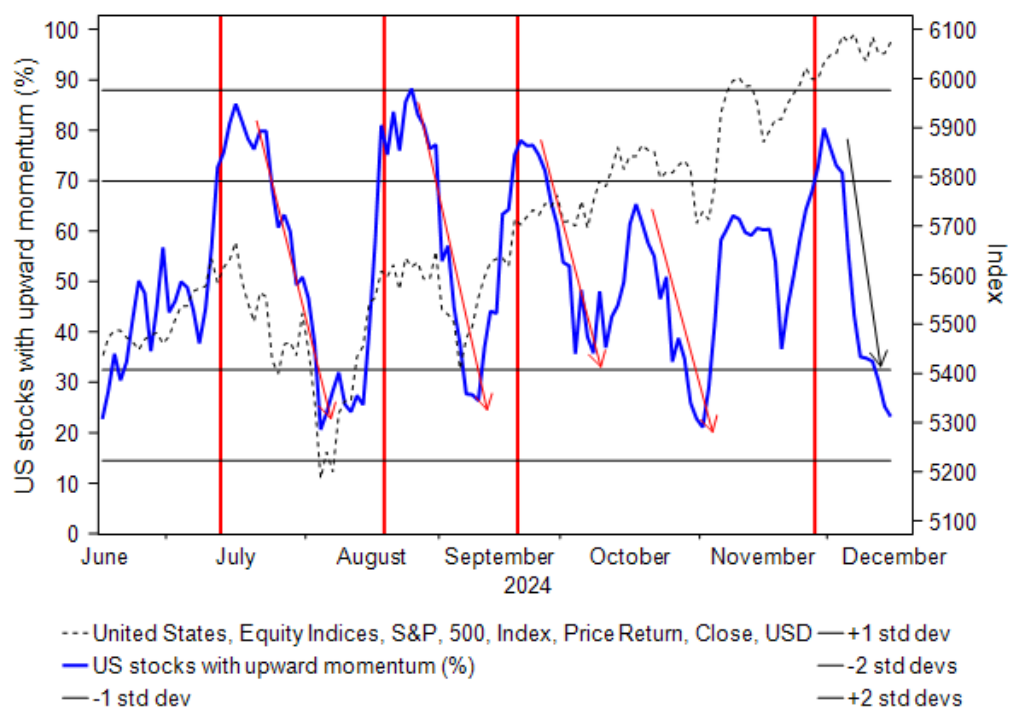
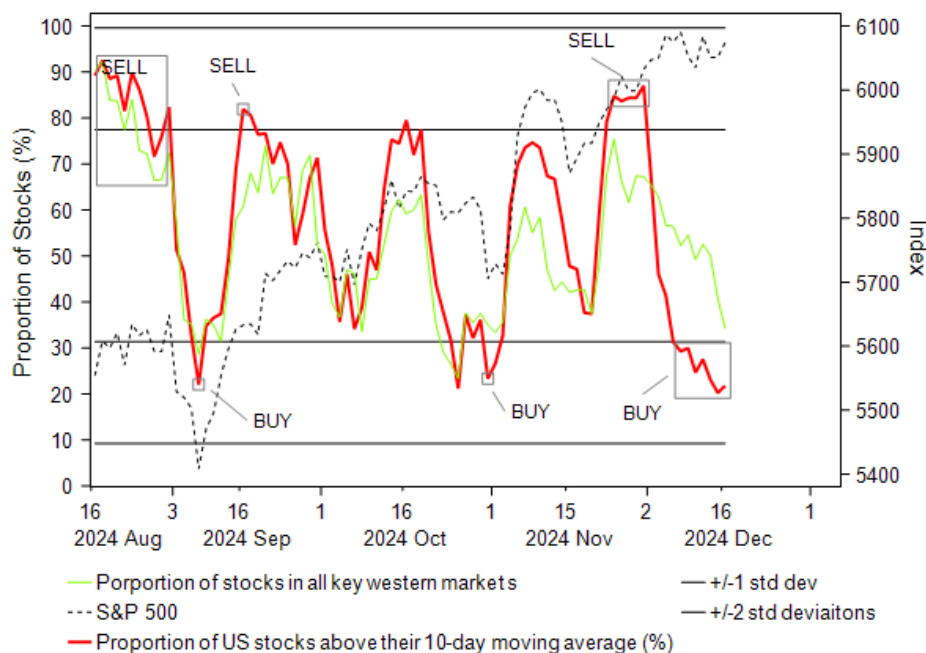
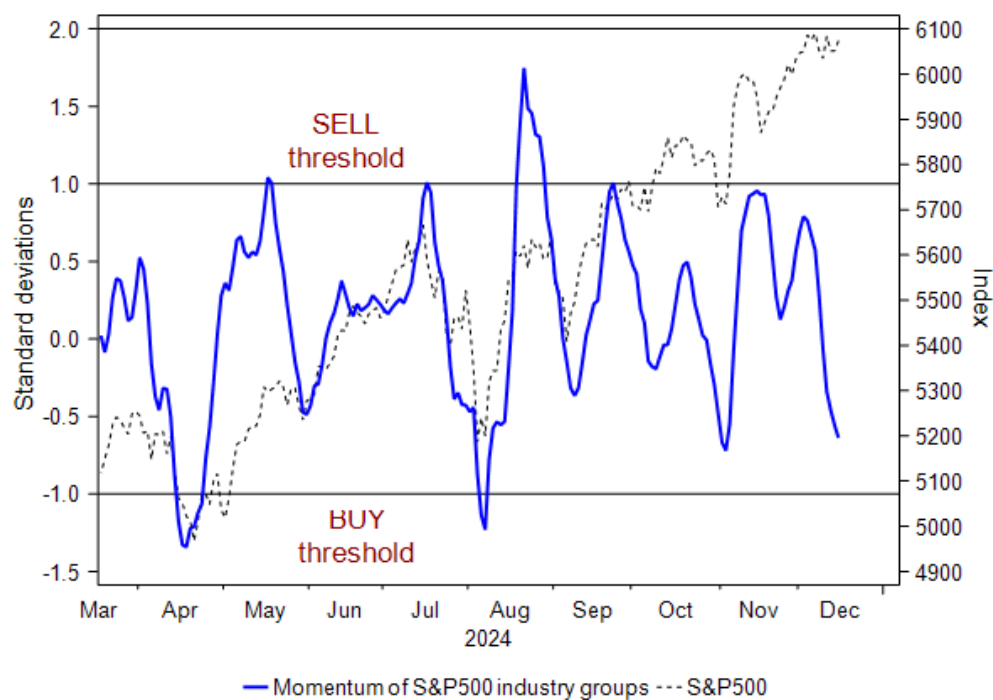


FIG 2d: Proportion of US/Western stocks above their 10-day moving average vs. S&P500



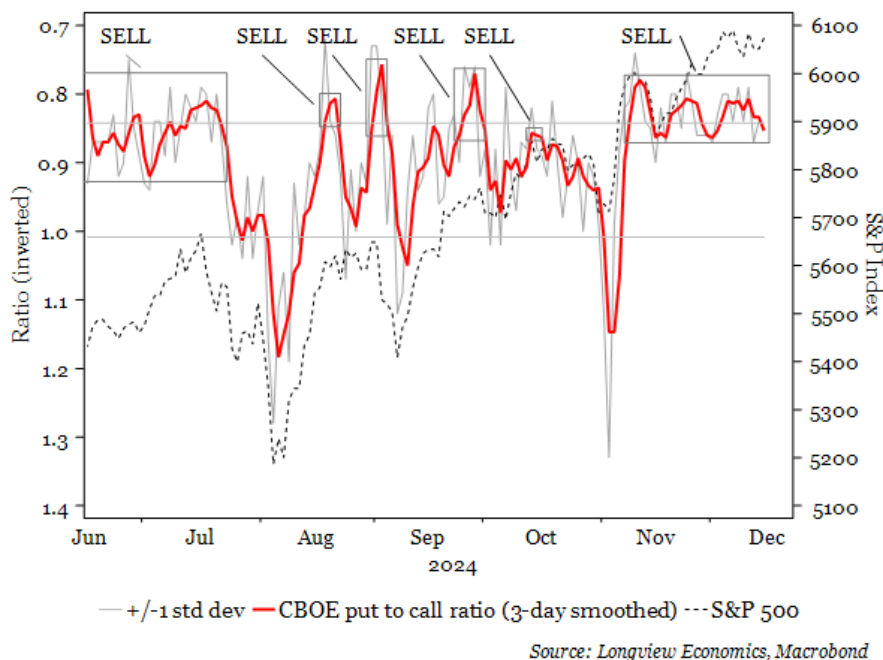
Sector models have a similar message (to the single stock ones)....

FIG 2e: Momentum of S&P500 industry groups vs. S&P500 cash index



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



Risk appetite models are NEUTRAL/moving towards BUY...

FIG 4: Longview short term 'risk appetite' scoring system vs. S&P500

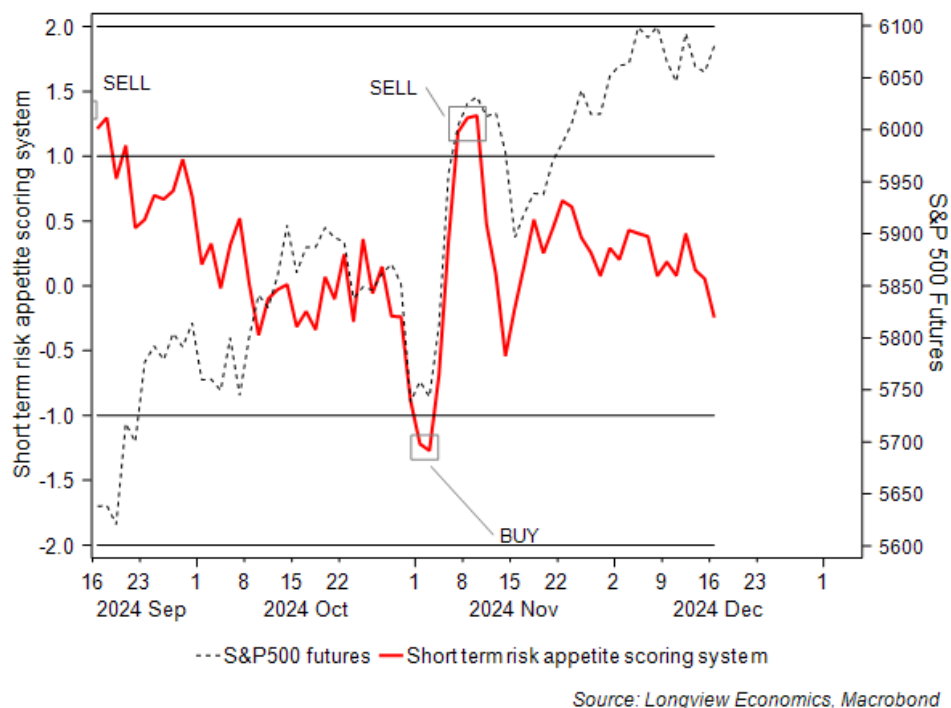
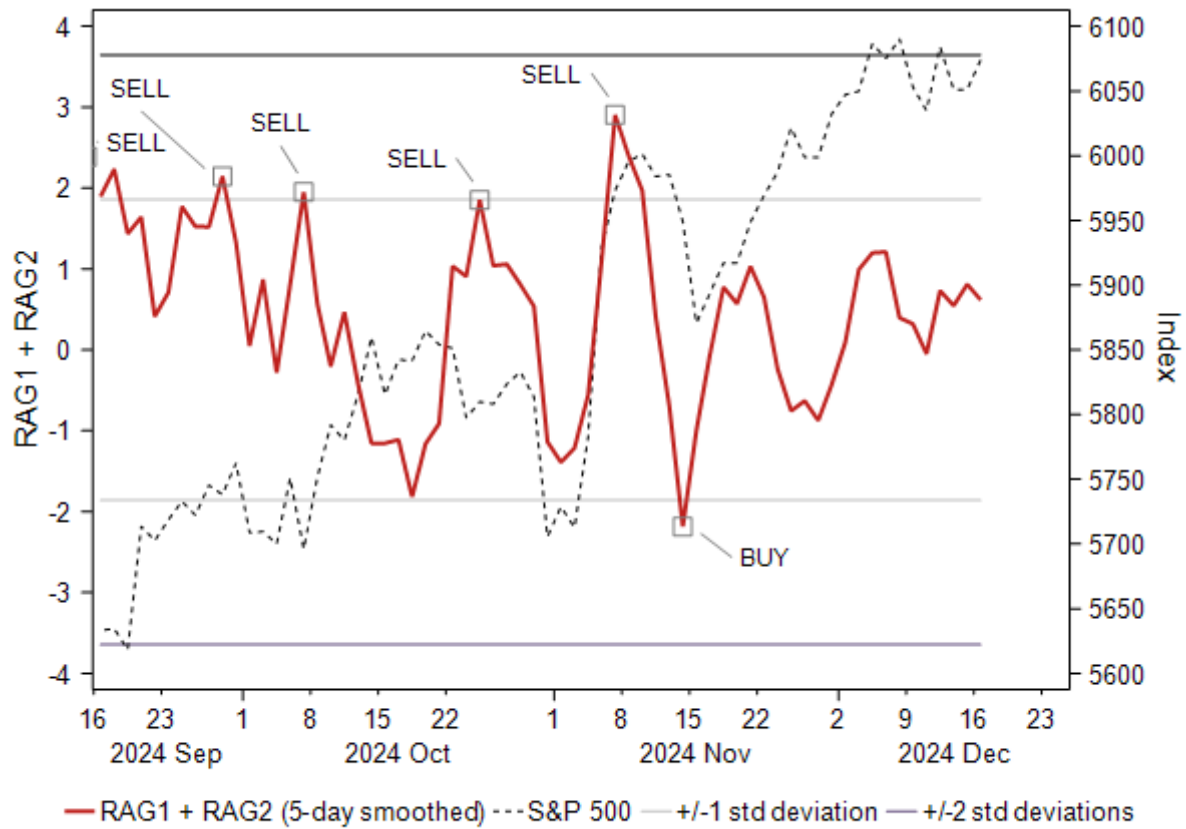


FIG 4a: Longview combined key ‘risk appetite’ models (RAG1 + RAG2) vs. S&P500



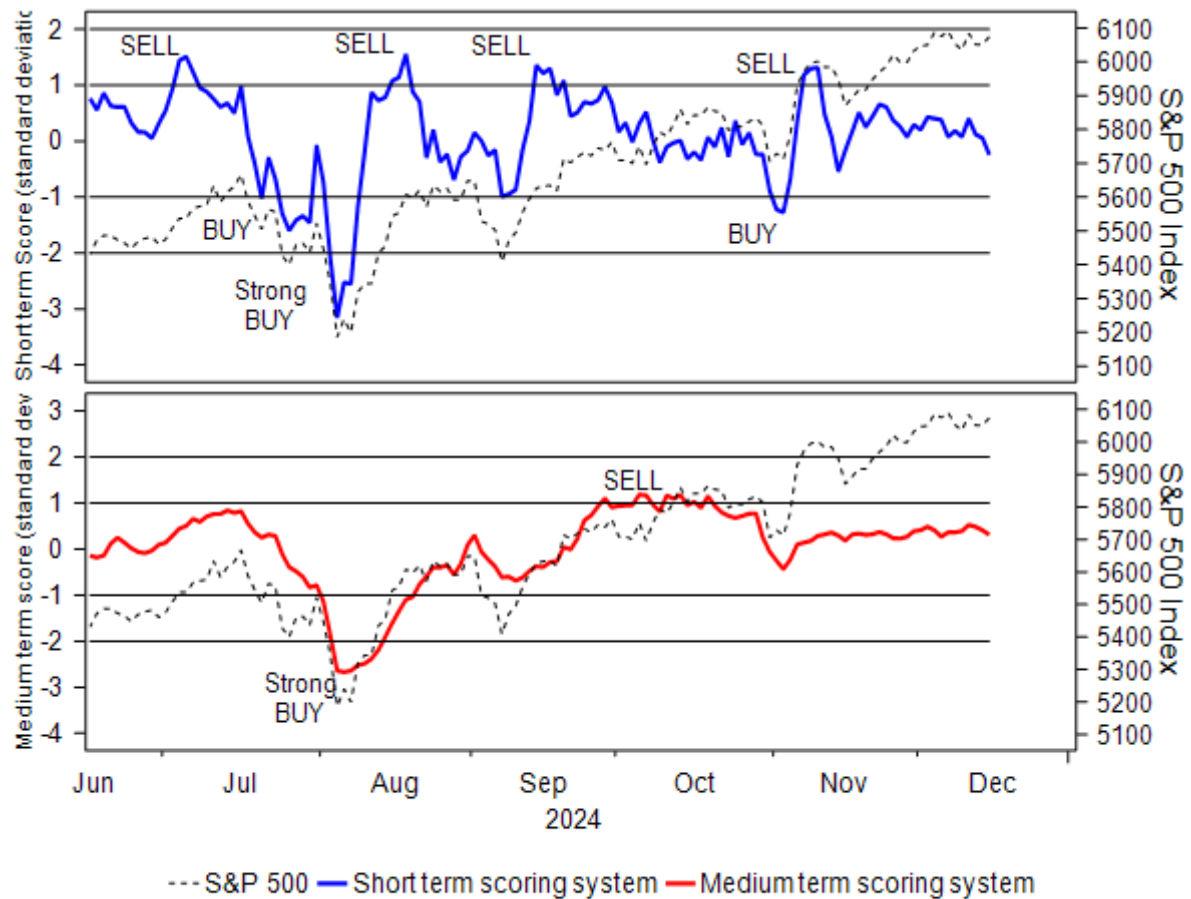
Source: Longview Economics, Macrobond

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 Employment, jobless claims & average weekly earnings** (Nov/Oct, 7am); Spanish labour costs (Q3, 8am); German IFO business climate & expectations (Dec, 9am); German & Eurozone ZEW survey - expectations & current situation (Dec, 10am); Eurozone trade balance (Dec, 10am); **US retail sales** (Nov, 1:30pm); **Canadian headline & core CPI** (Nov, 1:30pm); US New York service sector business activity (Dec, 1:30pm); US industrial & manufacturing production & capacity utilisation (Nov, 2:15pm); US business inventories (Oct, 3pm); **US NAHB homebuilders index** (Dec, 3pm); Australian Westpac leading index (Nov, 11:30pm); Japanese imports/exports, & trade balance (Nov, 11:50pm).

Key events today include: Speeches by the ECB's Kazimir in Bratislava (9am) & Rehn in Helsinki (9am); Bank of Spain publishes Economic forecasts (12pm).

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 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.



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-  @chriswatling
-  @LviewEconomics
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1 – 2 Week View on Risk

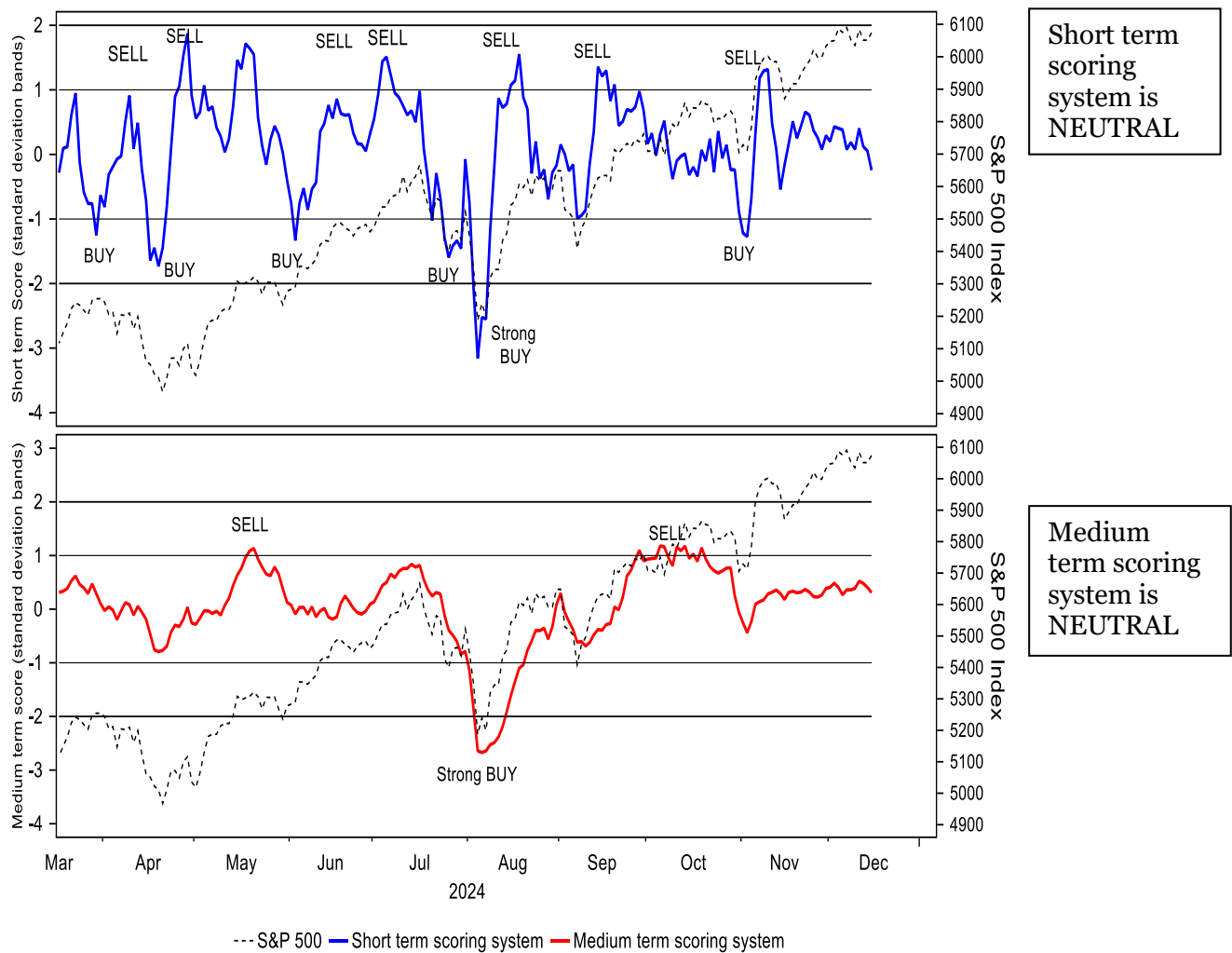
Longview Economics

Email: ragtrader@dailyragtrader.com

17th December 2024

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

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



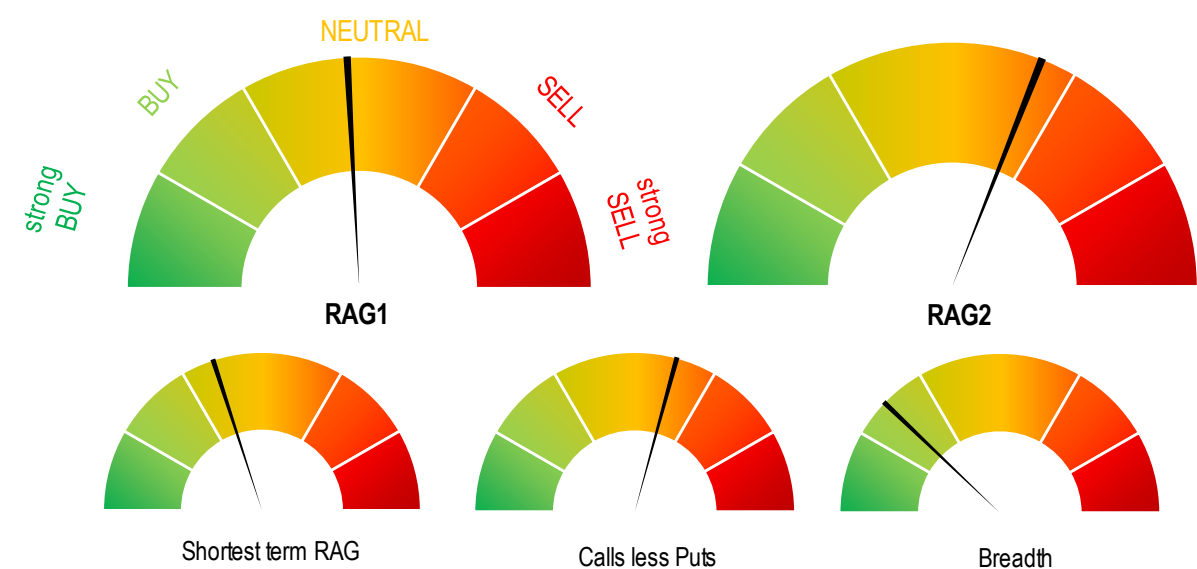
Source: Longview Economics, Macrobond

*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**

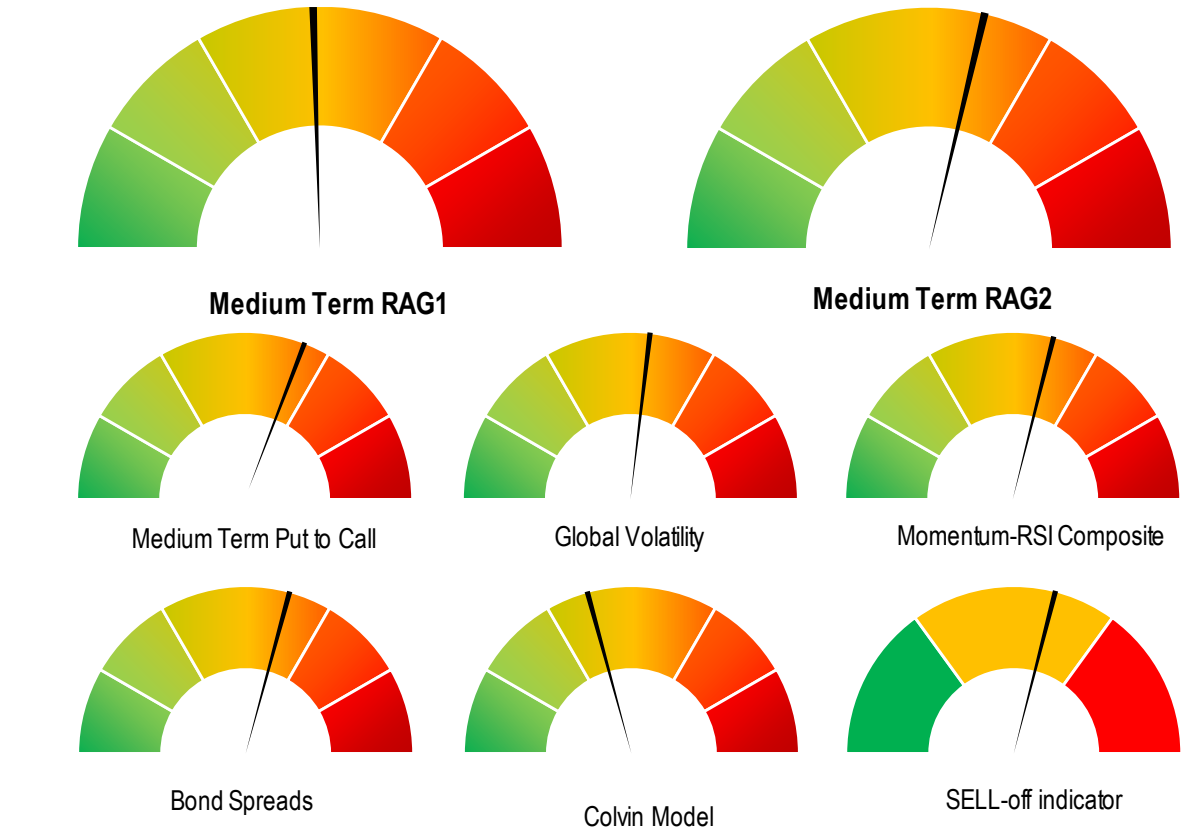
Section 1a: Summary of indicator signals**

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

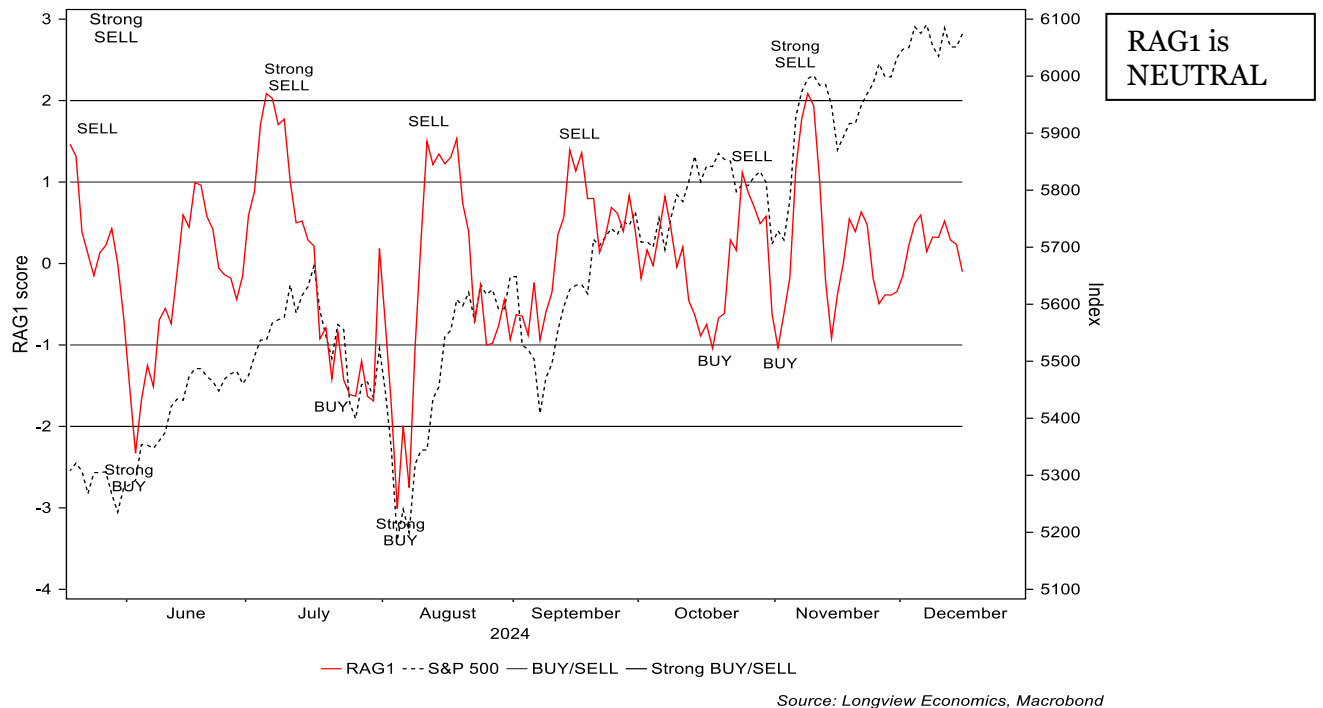
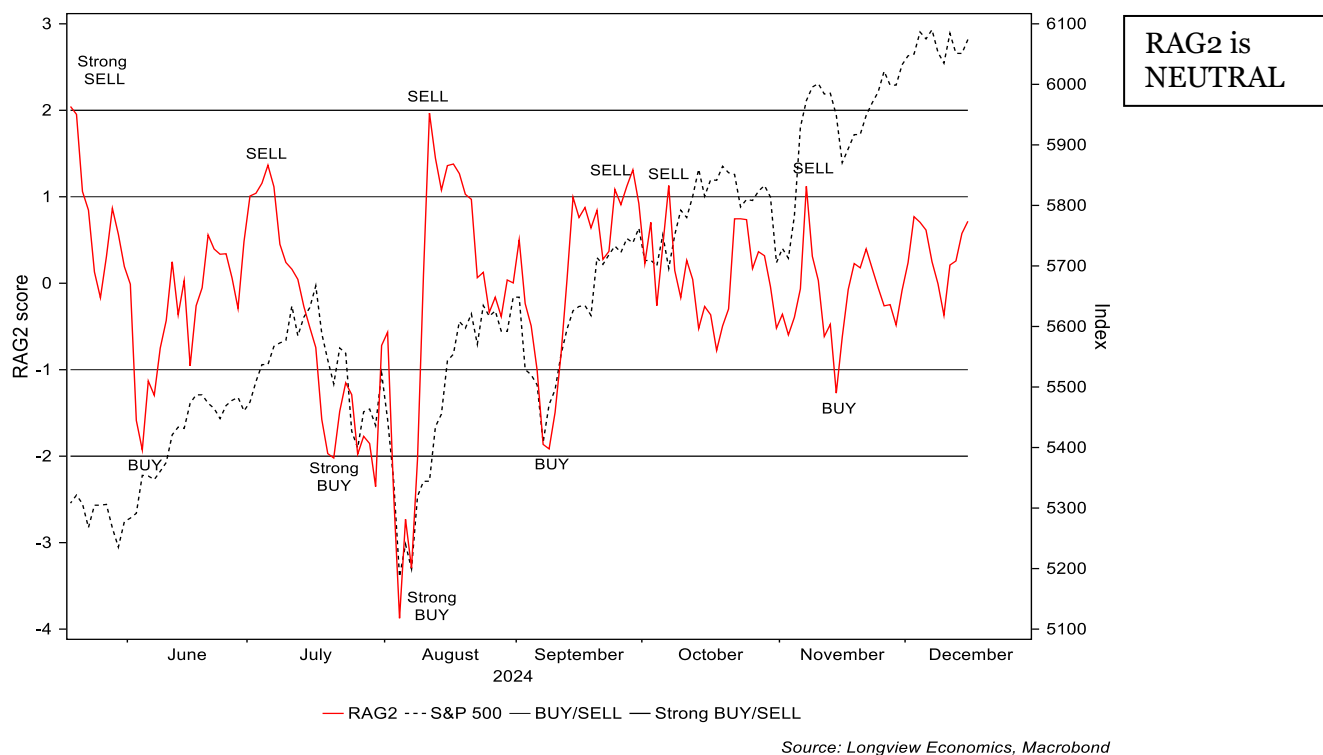


Fig 2b: RAG 2 vs. S&P 500



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

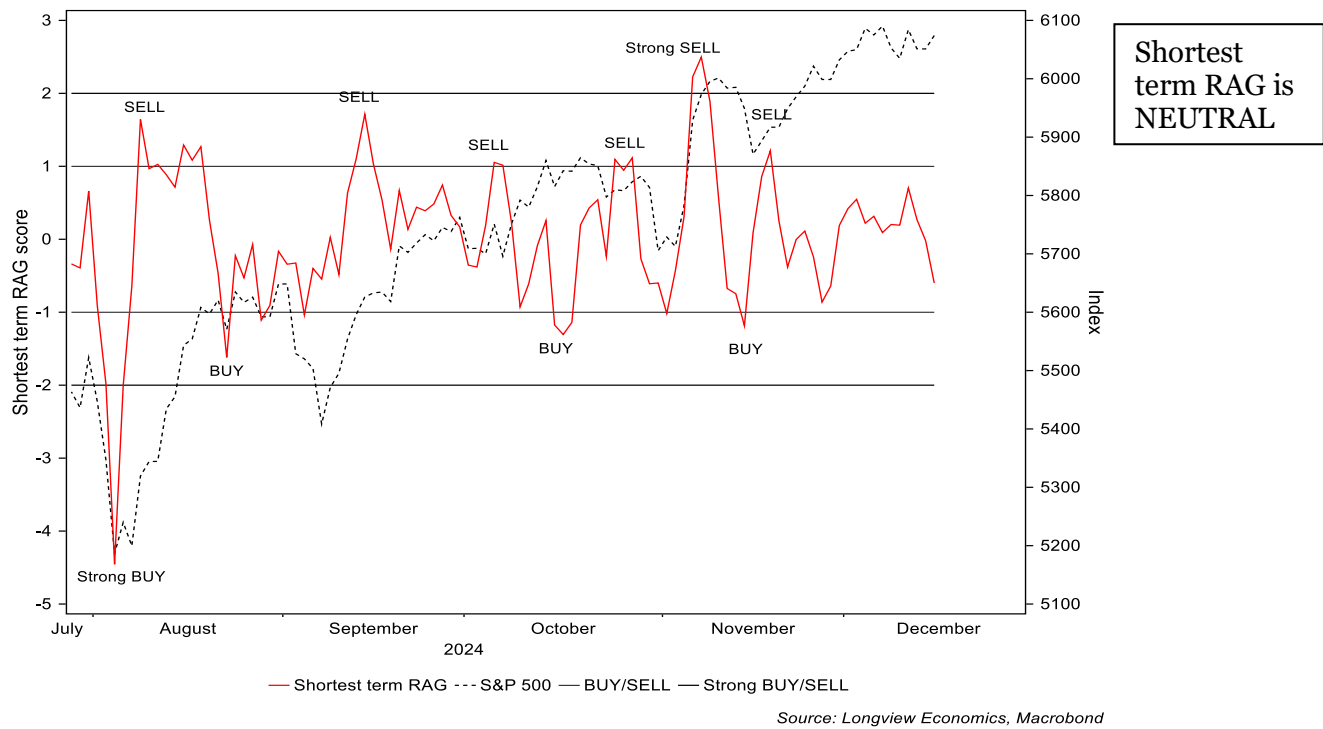
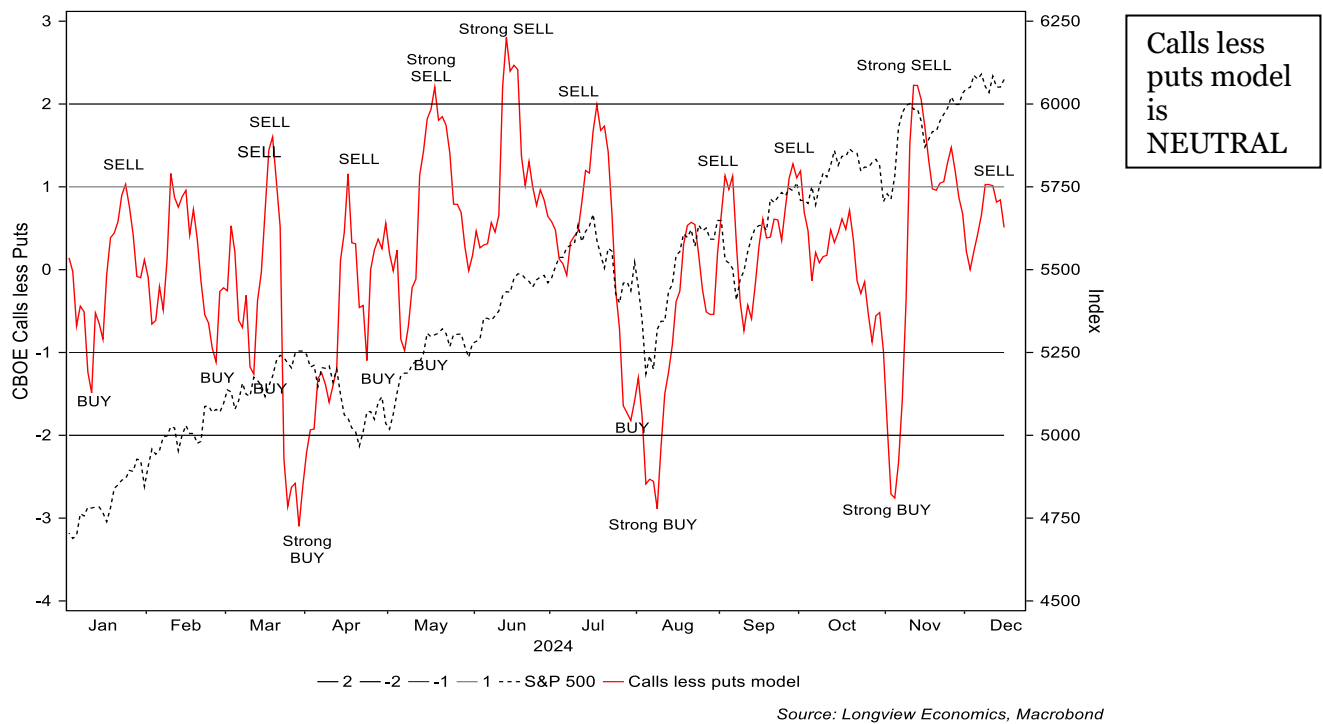
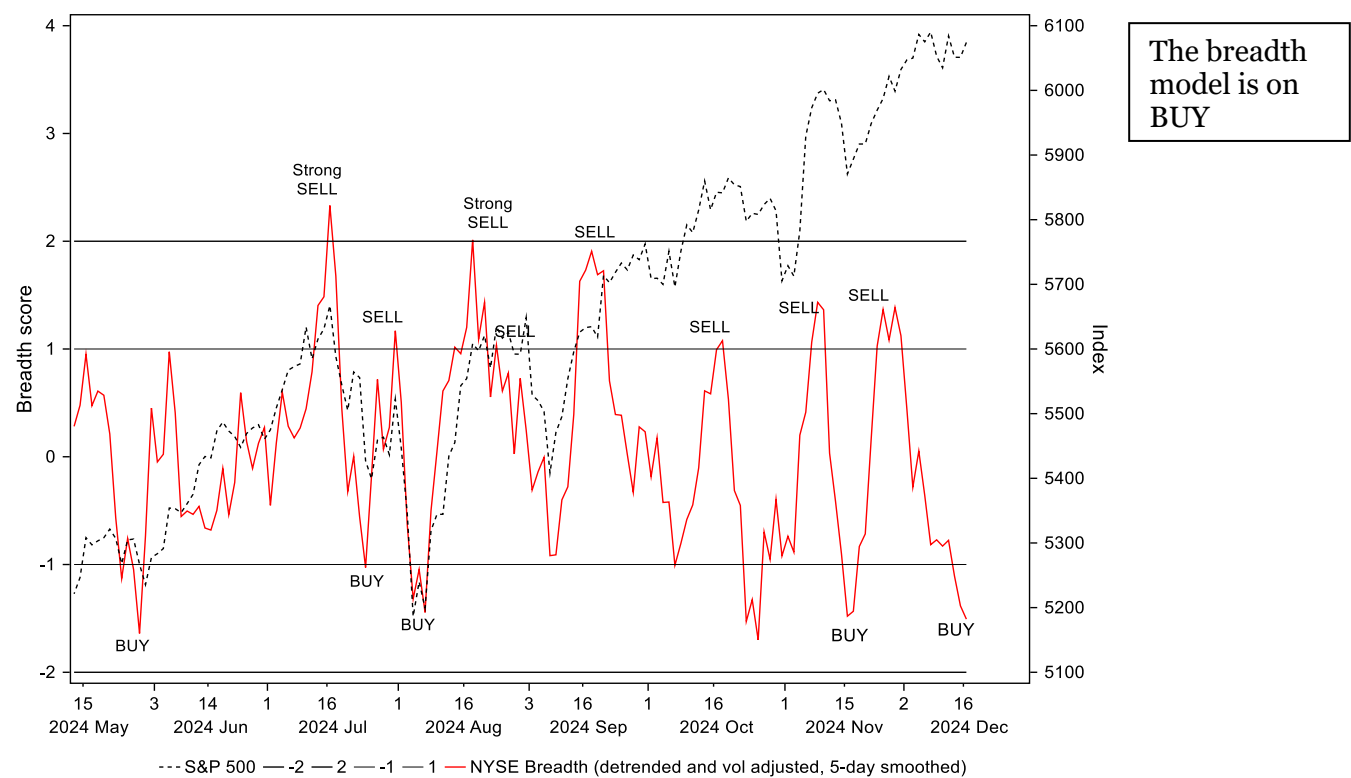


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

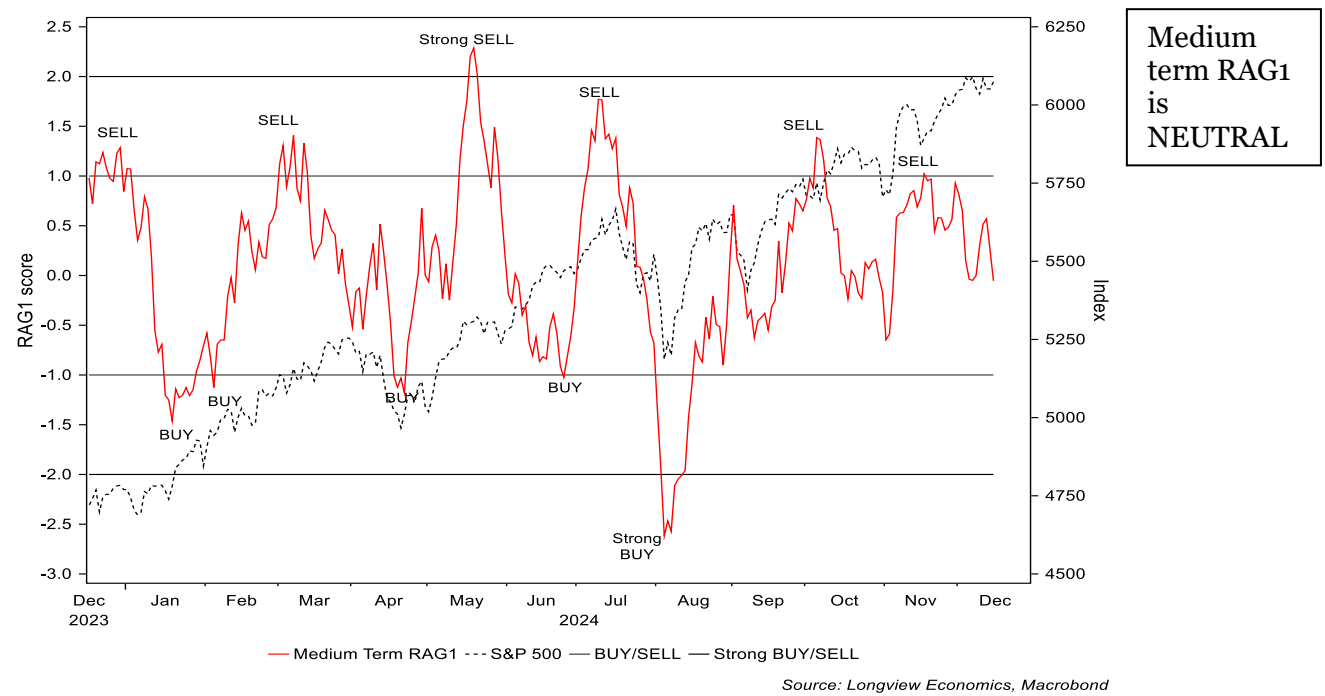
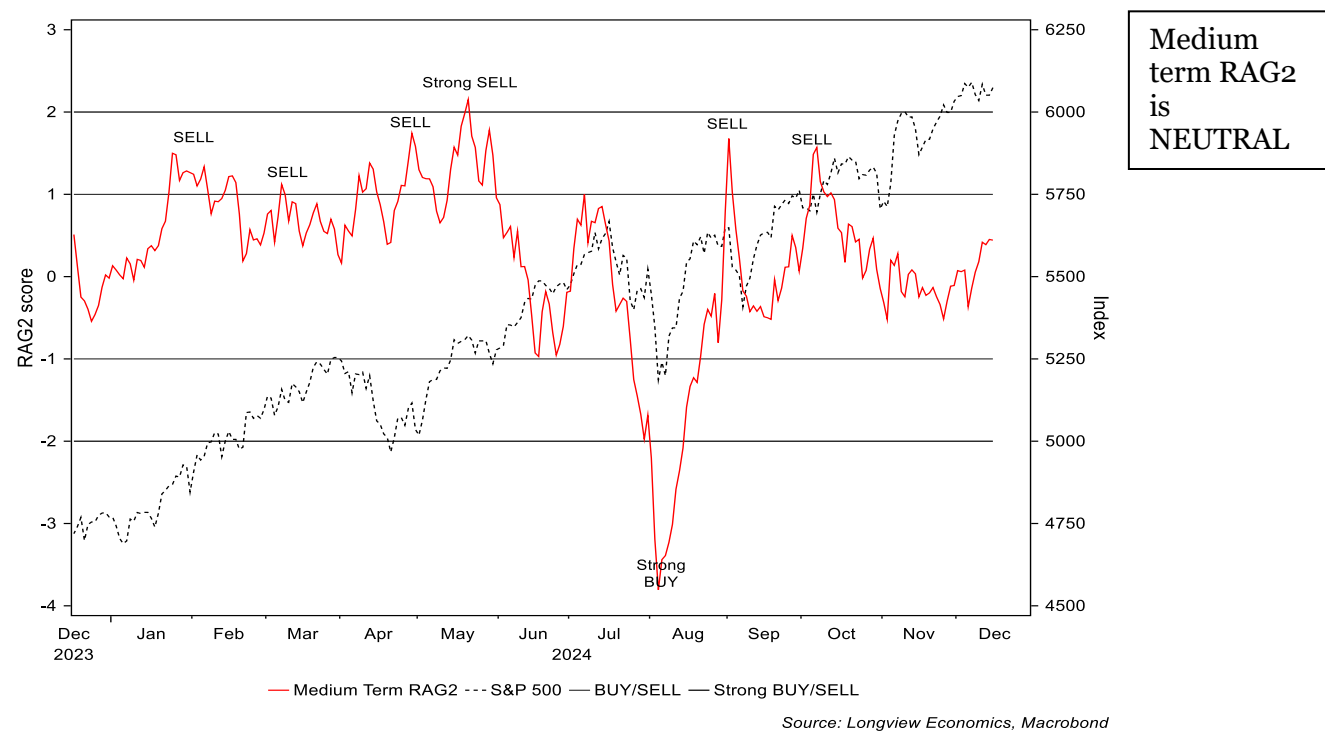


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

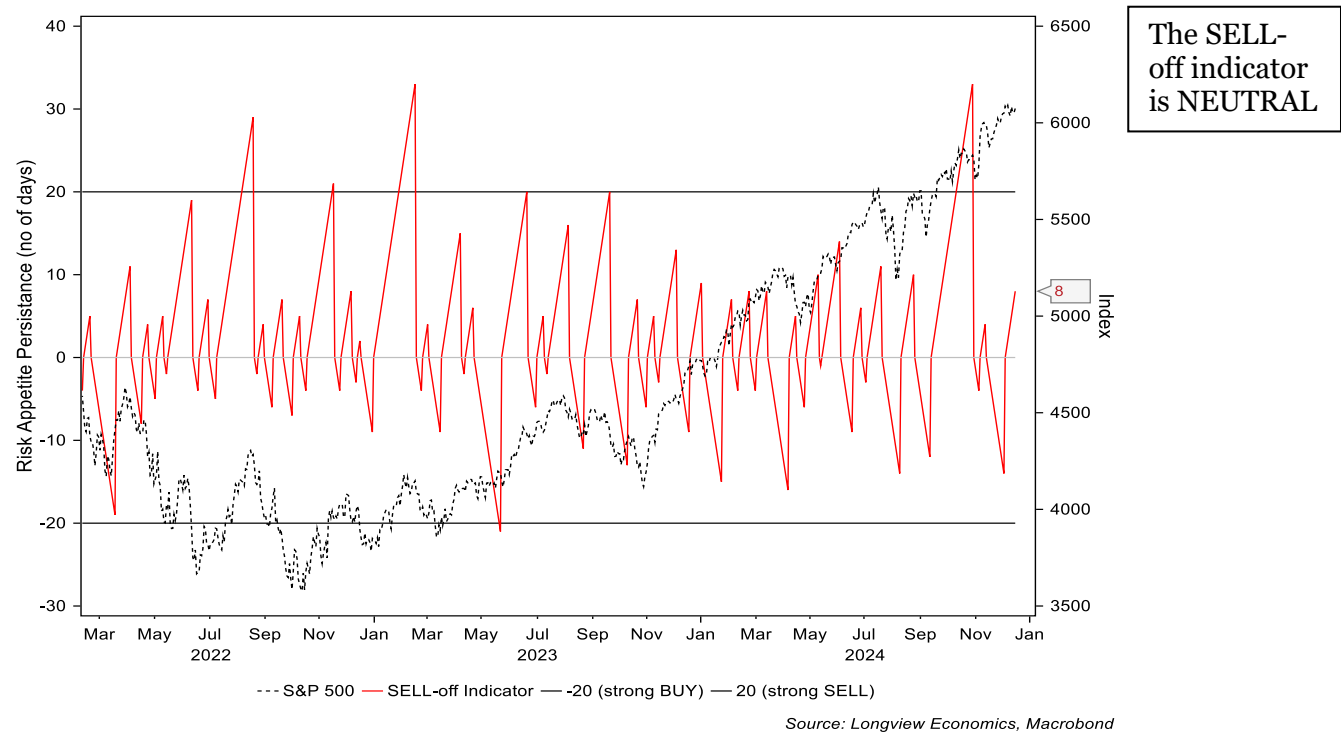
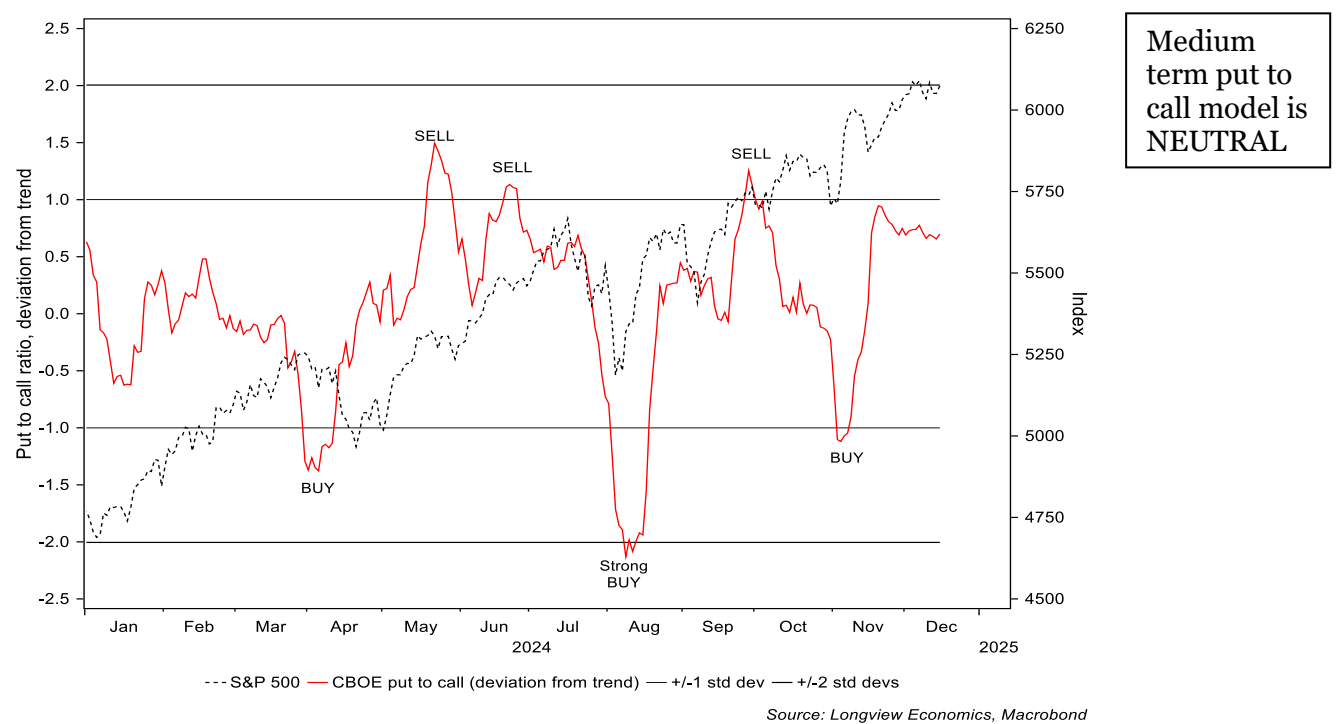


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

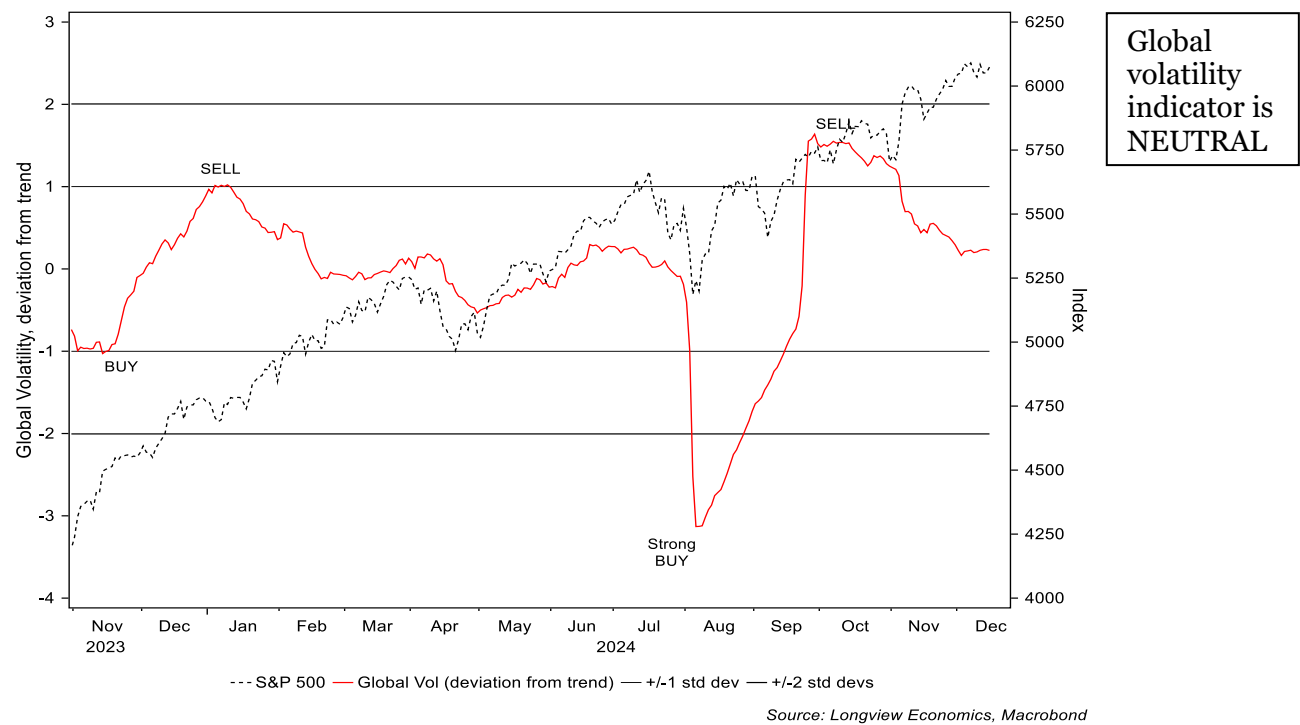


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

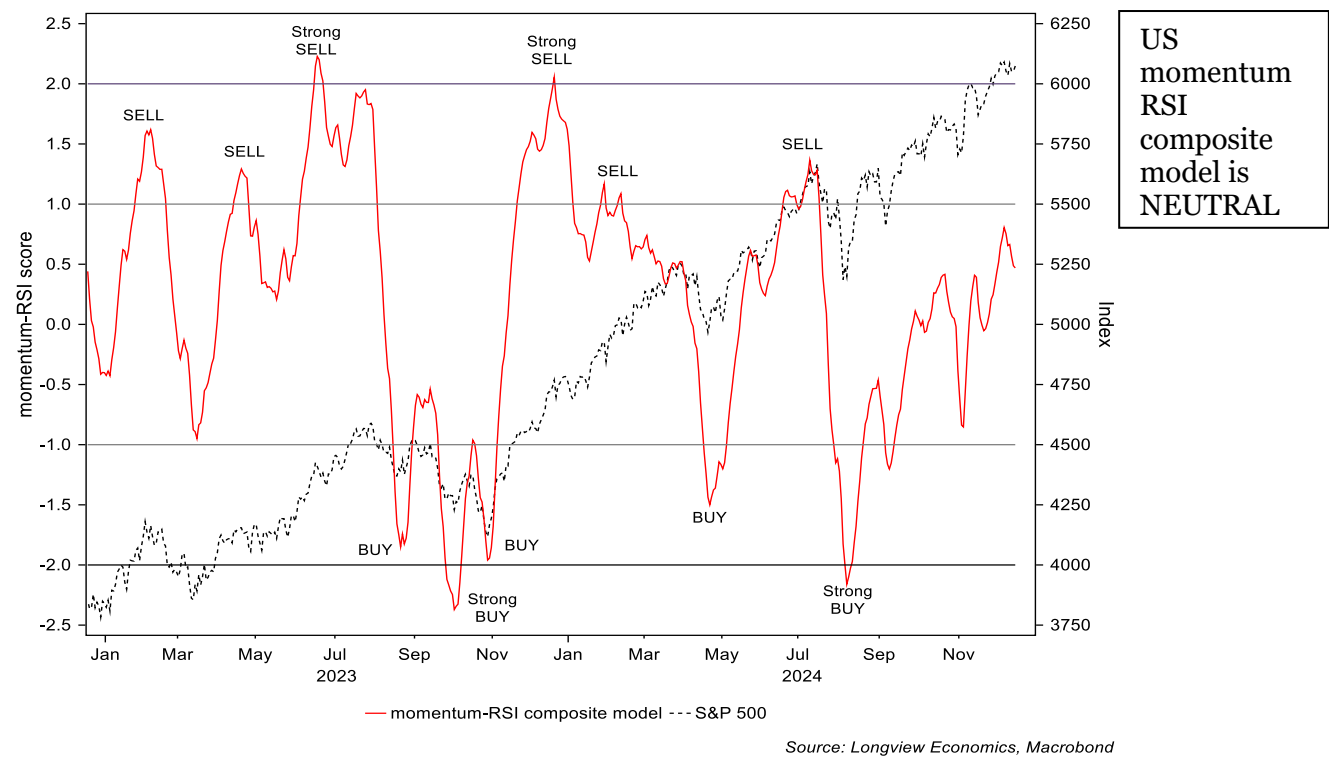


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

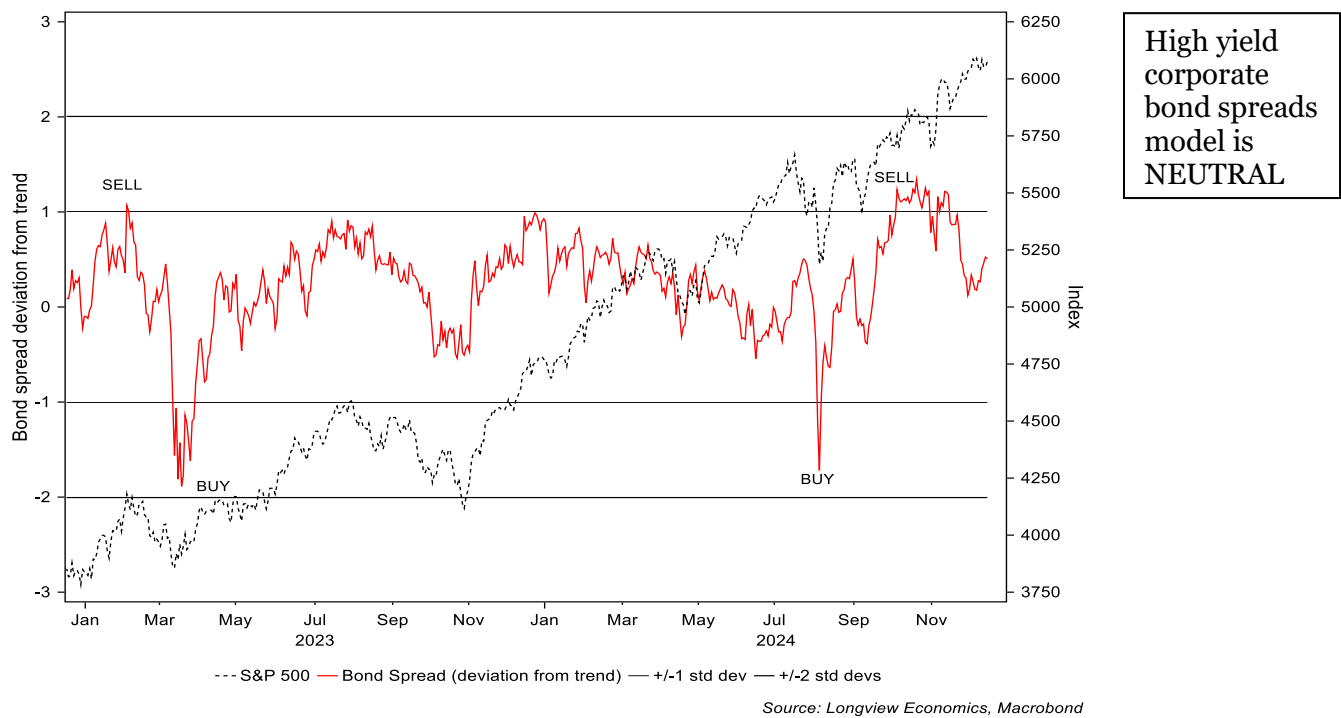
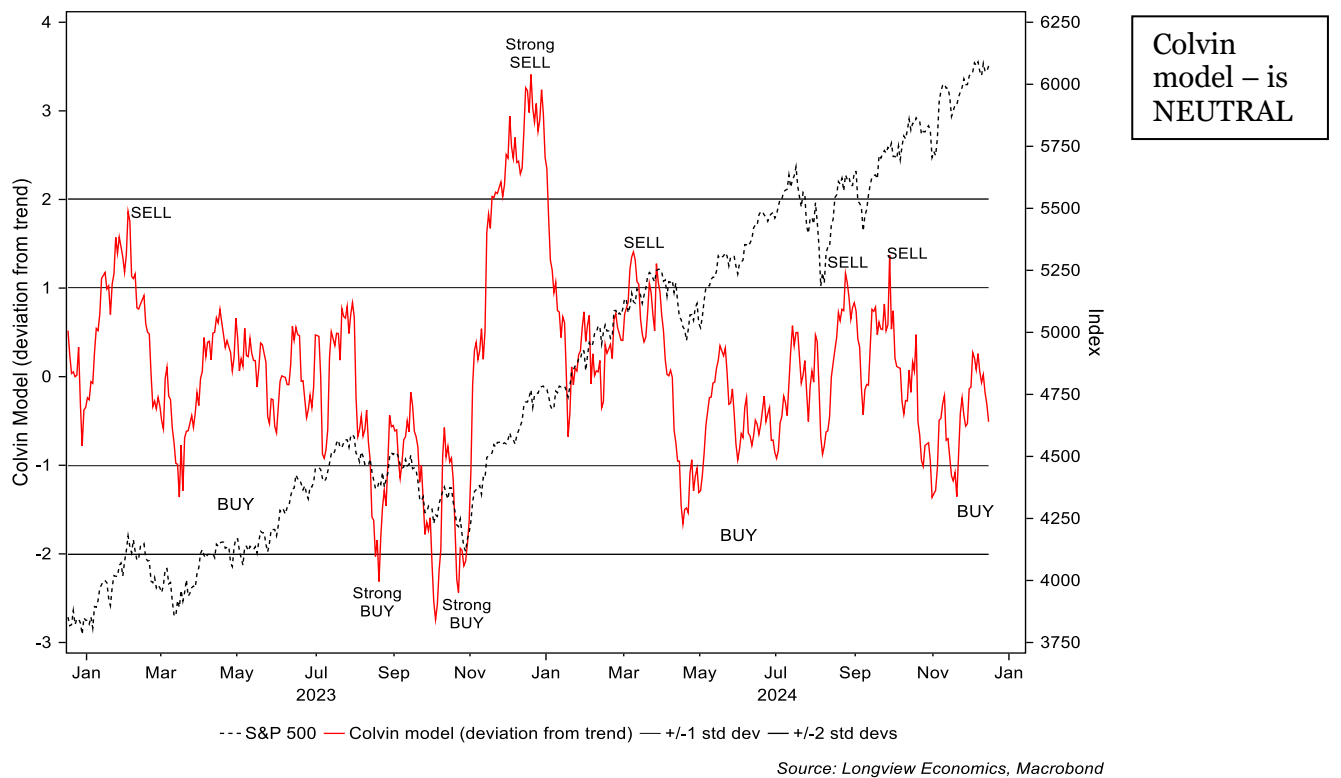


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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