LVRAG
Daily Risk Appetite Gauge

# Equity Index Futures Trading Recommendations

17th January 2025

"S&P500 Likely Still in near term Downtrend"

*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

**On the surface**, key US equity markets were largely unchanged yesterday: The S&P500 closed 0.2% lower (on average volumes for this time of year, i.e. 1.57mn e-mini contracts); the Philly SOX was up a modest 0.2%; while the Russell 2000 (+0.15%) & the small cap S&P600 (+0.3%) similarly closed with modest gains.

**Under the surface**, though, there was a broad dispersion of performance, driven by continued sharp falls in US (and other) bond yields. US 10-year yields, for example, fell a further 5bps after falling 12bps on Wednesday (after the 'better than expected' CPI data – FIG 1c). Bonds, as we've been highlighting in recent publications, have been deeply oversold (e.g. see Wednesday's 'Longview Alert'/available for Tactical subscribers). With that, defensive sectors were the best performers in the S&P500. The S&P500 utilities sector, for example, was +2.6% after rallying +1.5% (prior day); real estate was +2.2%, whilst IT, communication services and consumer discretionary all closed down on the session (-1.3%, -0.95%, -0.9%).

Given that limited movement in the S&P500, it remains just under its 50-day moving average (a resistance level). It also **remains firmly within its consolidation range of the past 2 – 3 months** (5,800/50 up to 6,100/150 – FIG 1b).

The **short-term 1 – 2 week (market timing) models**, meanwhile, having bounced from a BUY bias are **now generating a mixed message**. That is, risk appetite models are now both close to zero (i.e. NEUTRAL/mid-range – FIGs 2 & 2a); technically the main US market has bounced from oversold levels and is now generating a NEUTRAL signal (FIG 4). The NDX100, technical scoring system, meanwhile, is close to BUY (FIG 4a); the FAANMGs are oversold (FIG 4b); while certain other key country/regional indices, like the EU STOXX50 are, in contrast, overbought – FIG 1a (along with the South Korean Kospi index, a cyclical bellwether, and the DJ Transportation index)!

As such, there's a mixed technical message at the index level (and an absence of an 'across the board' washout – which, if it had occurred, would generate confidence that this is a renewed uptrend). At the US sector and single stock level, those technical models (which look underneath the headline indices) have also bounced sharply (FIGs 5, 5a & 5b).

As such, with the S&P500 sitting in the middle/towards the upper end of the trading range (and on key resistance), the key question is: Will the index continue to push to the upper end of the range (and potentially break out to the upside); or is consolidation set to continue with a revisit (of the 5,800/850 level)*. **That is, should traders buy the dips or sell the rallies?**

**For choice**, the behaviour of the technical sector model makes us cautious about chasing the recent upwards momentum in this market and supports the expectation that there is more weakness in the near term (i.e. possibly with another retest of the bottom of the range). That is, as sector strength has been broadening out (as shown by the 'average RSI model' moving higher – FIG 1), the S&P500, the headline equity index, has been trending lower (making lower highs and, to a degree, lower lows). Added to which, there has also been high(ish) levels of single stock call option buying.

Given that backdrop, we recommend leaving in place the order to **BUY towards the bottom end of the trading range**. See trading recommendation above.

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

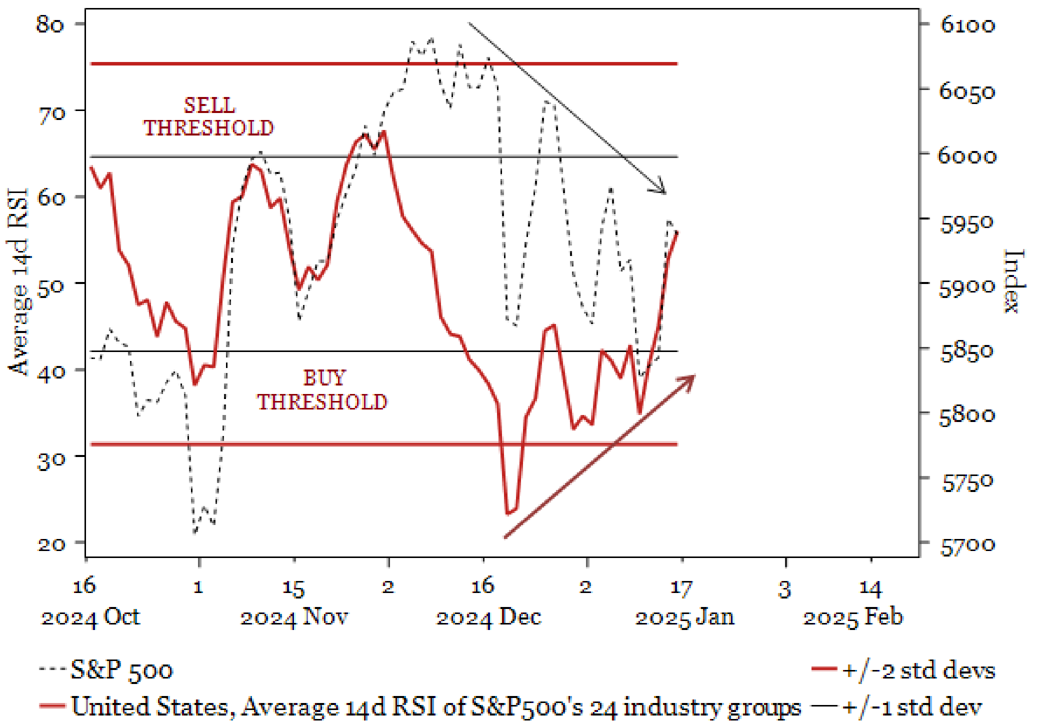
Kind regards,

The team @ Longview Economics

*Or even potentially a breakout to the downside of the range.

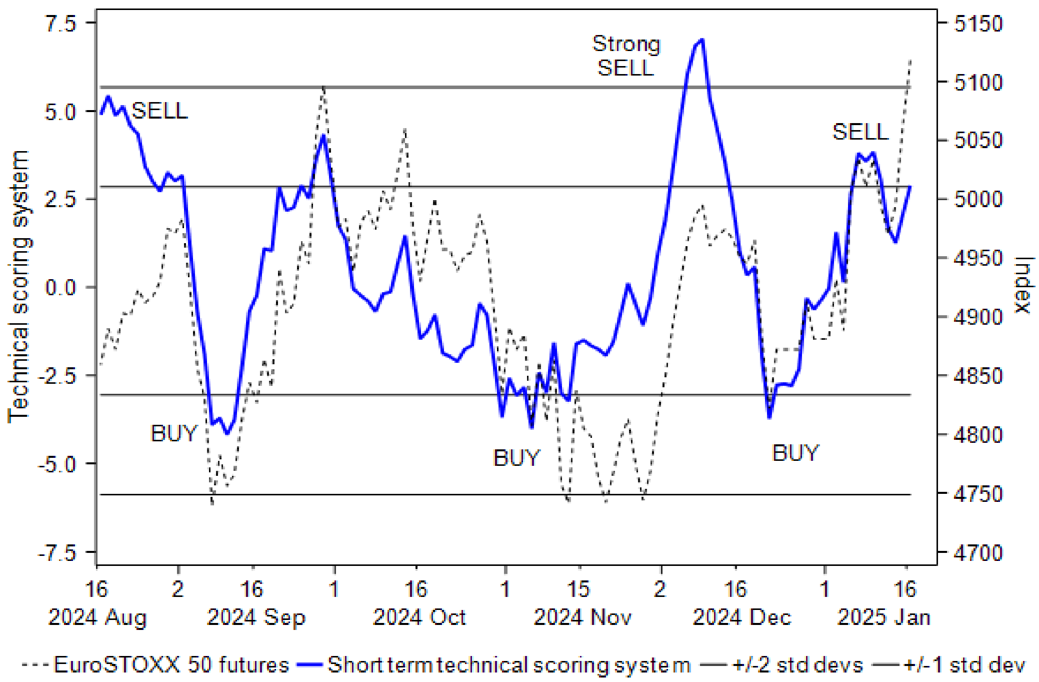
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500 – **last 3 months**




*Source: Longview Economics, Macrobond*

**FIG 1a:** Longview Dow Jones Euro STOXX 50 Index short term **'technical'** scoring system vs. Dow Jones Euro STOXX 50 index



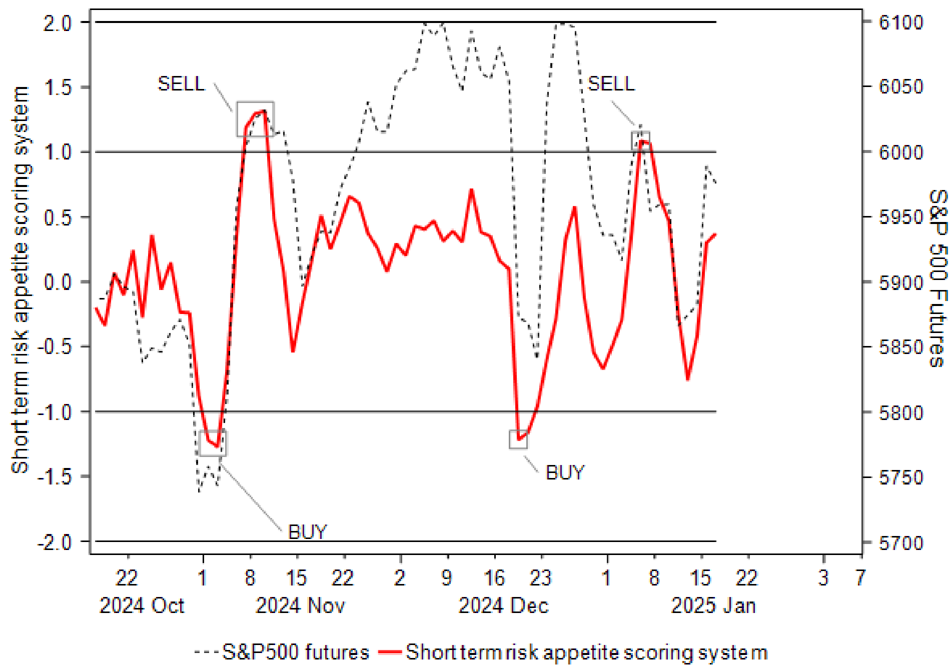

*Source: Longview Economics, Macrobond*

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


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

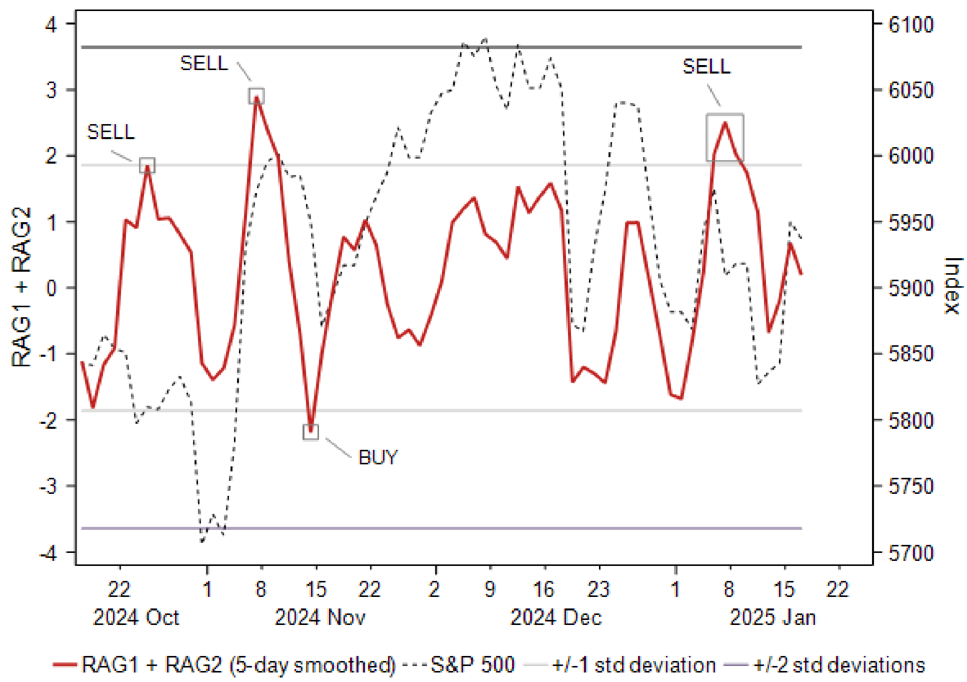
## Risk appetite models are mid-range…

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




Source: Longview Economics, Macrobond

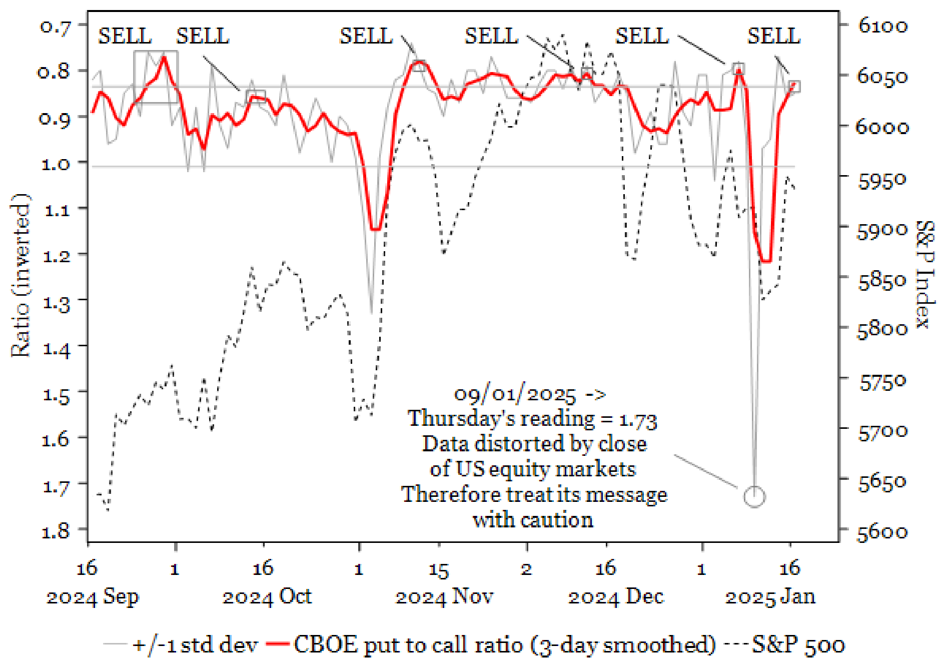
**FIG 2a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500




Source: Longview Economics, Macrobond

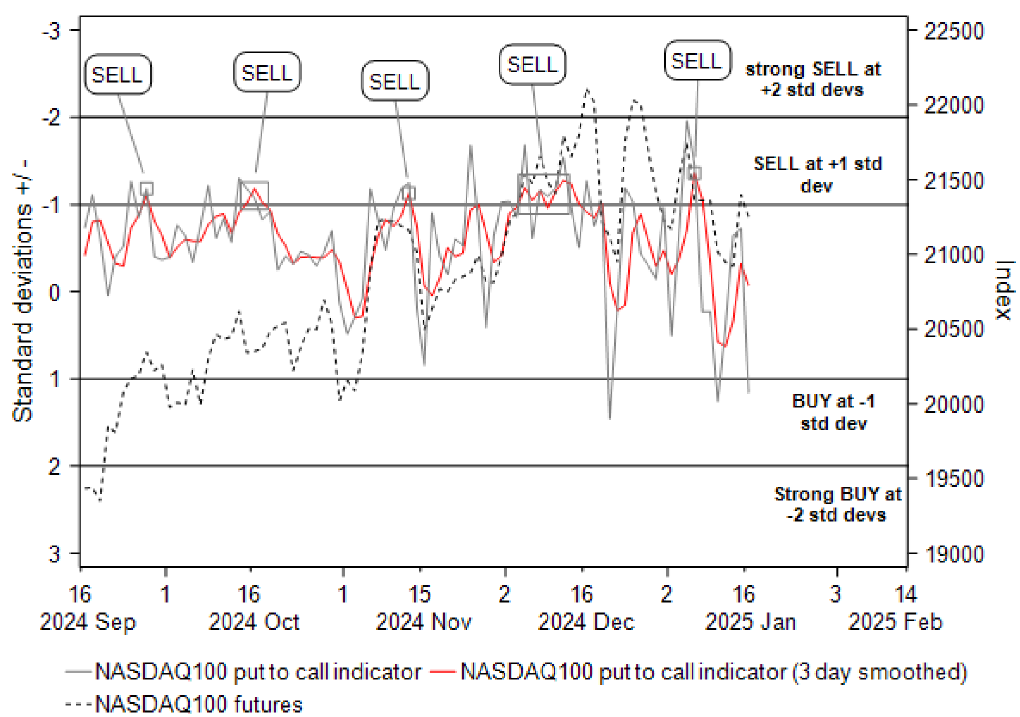
## Put to call ratios are mixed, although the CBOE model is now on SELL.....

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




*Source: Longview Economics, Macrobond*

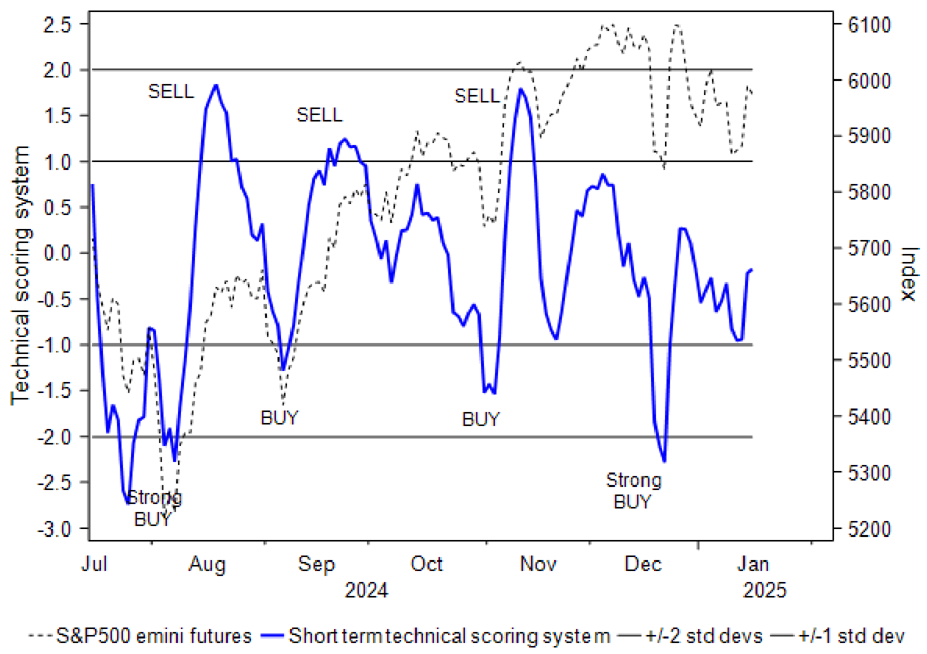
**FIG 3a:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100




*Source: Longview Economics, Macrobond*

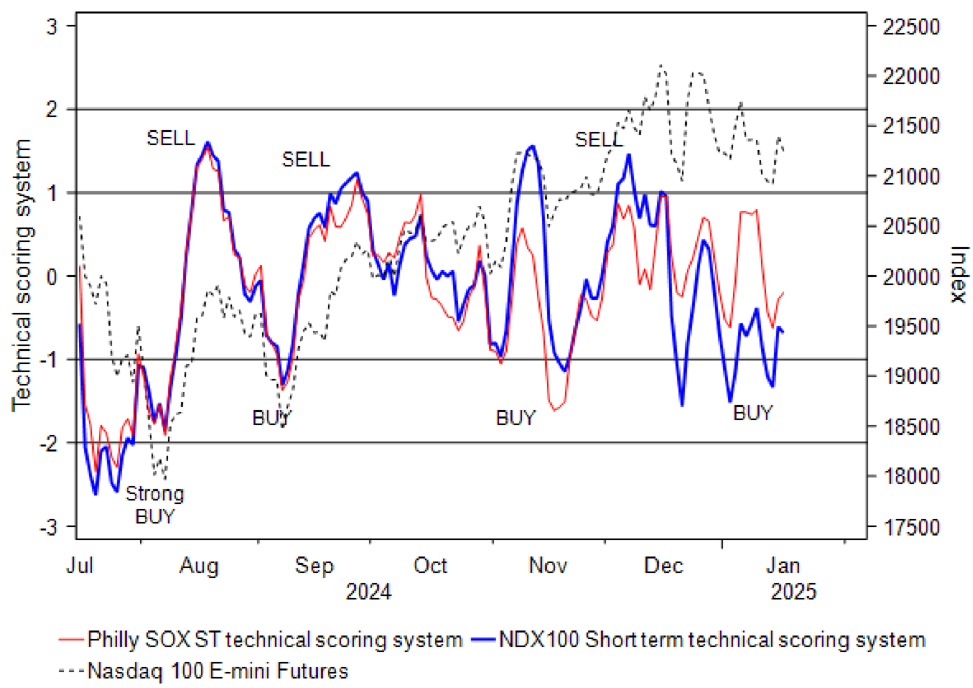
## Technical models (for indices) are mixed….

**FIG 4:** Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures



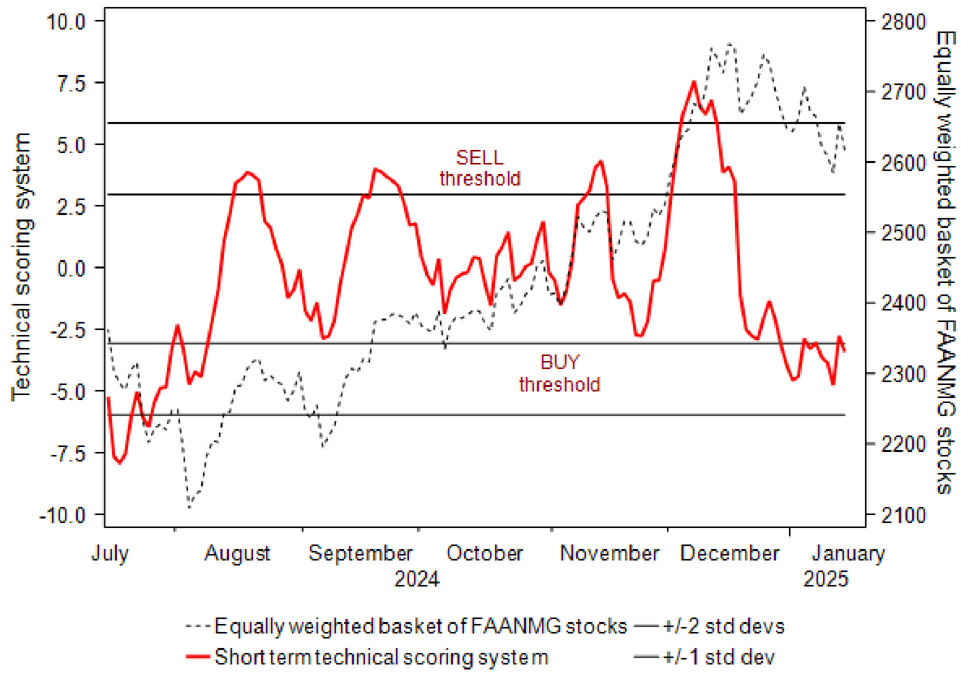

*Source: Longview Economics, Macrobond*

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




*Source: Longview Economics, Macrobond*

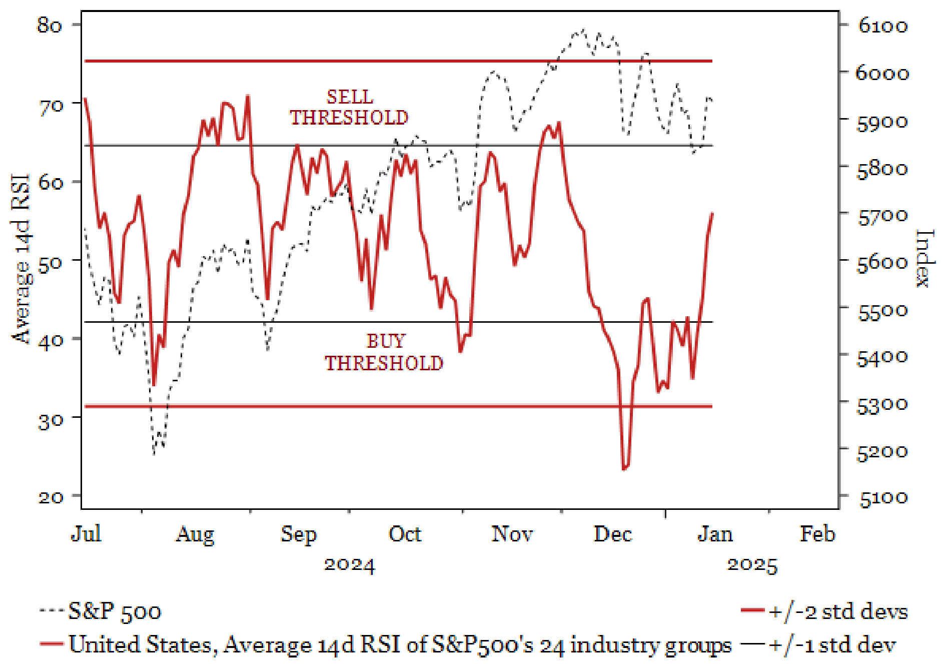
**FIG 4b:** Short term **'technical'** scoring system for an equally weighted basket of FAANMG stocks (vs. FAANMG stocks, equally weighted)




*Source: Longview Economics, Macrobond*

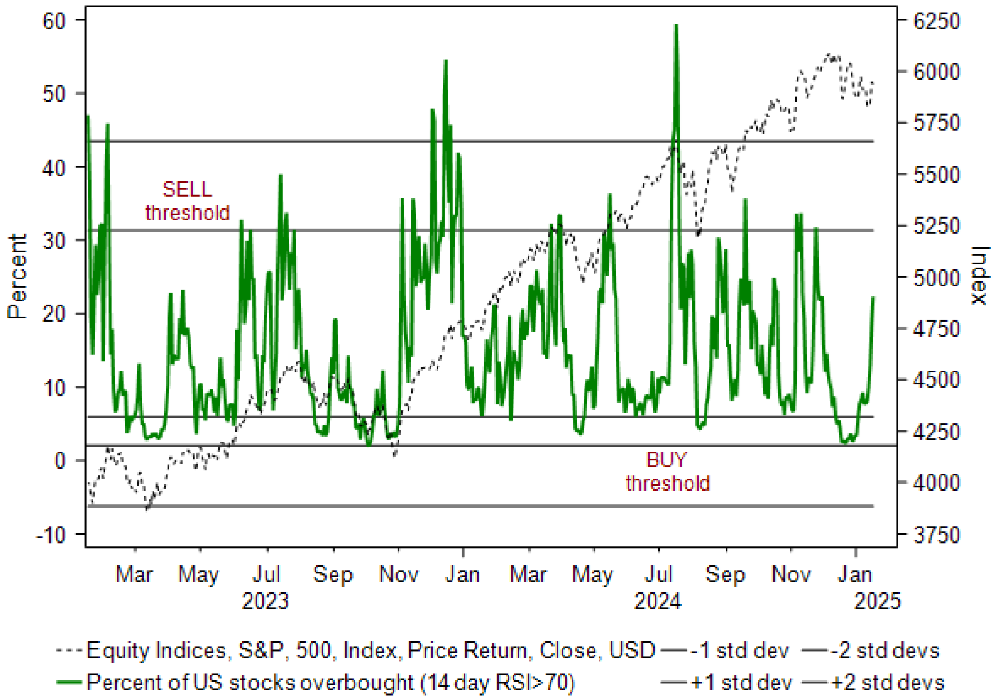
## Sector and single stock technical models have bounced sharply from BUY levels....

**FIG 5:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



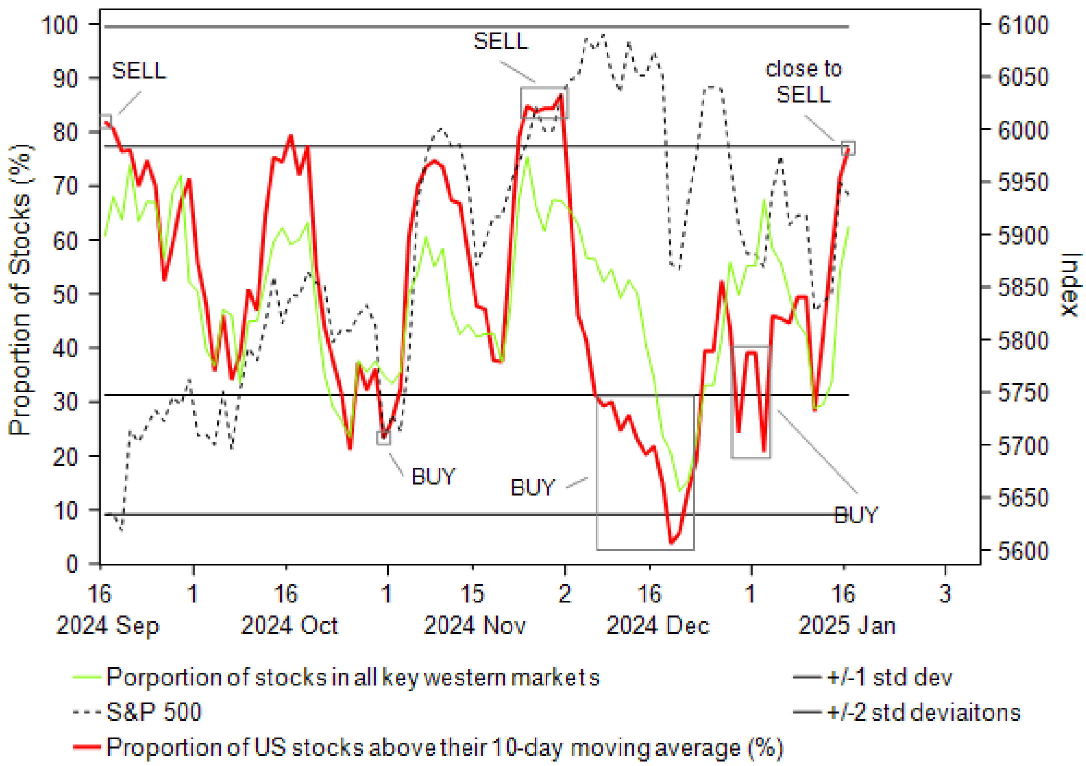

*Source: Longview Economics, Macrobond*

**FIG 5a:** Percentage of US single stocks which are overbought (i.e. with RSIs>70)




*Source: Longview Economics, Macrobond*

**FIG 5b:** Proportion of US stocks above their 10-day moving average vs. S&P500

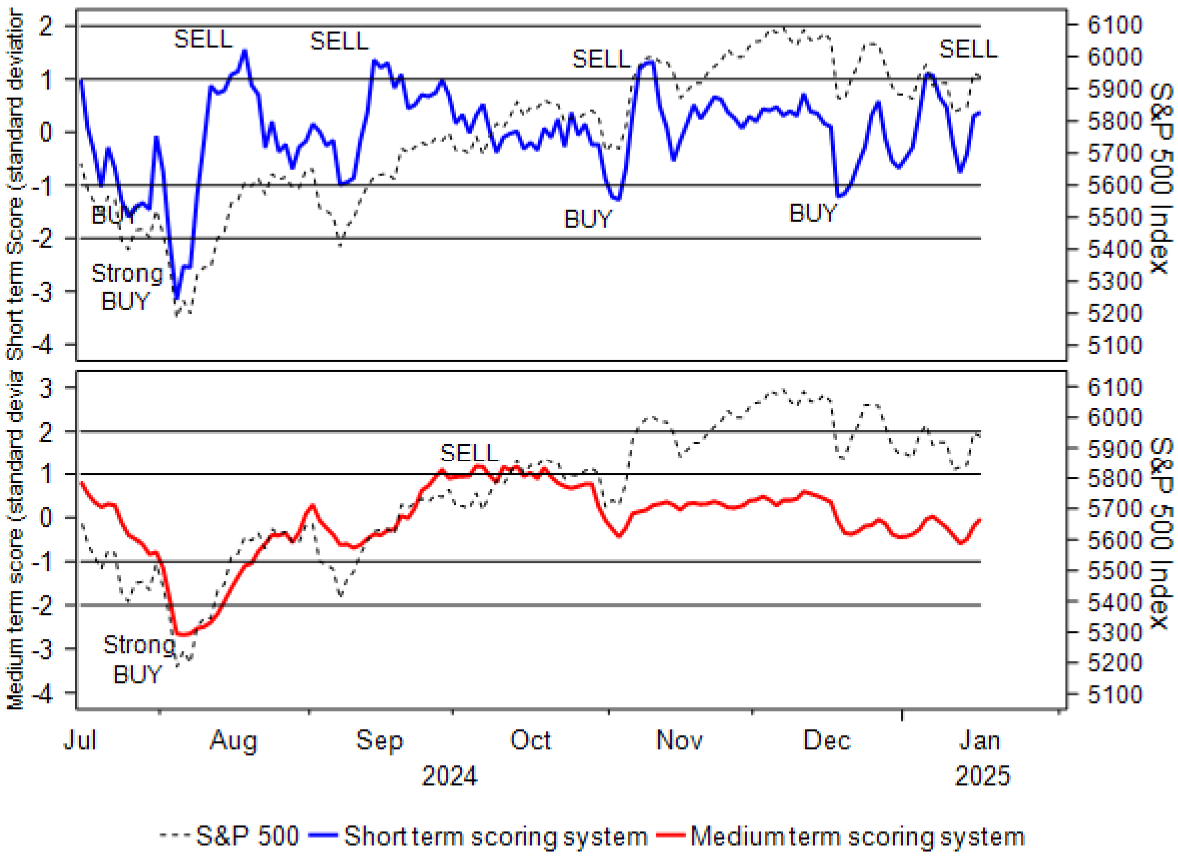



*Source: Longview Economics, Macrobond*

## 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: **Chinese new & used home prices** (Dec, 1:30am); **Chinese GDP** (Q4, 2am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Dec, 3am); **UK retail sales** (Dec, 7am); ECB current account (Nov, 9am); Eurozone headline & core CPI (December final estimate, 10am); **US housing starts & building permits** (Dec, 1:30pm); US industrial & manufacturing production & capacity utilisation (Dec, 1:30pm); US total TIC flows (Nov, 9pm).

**Key events** today include: N/A

**Key earnings** today include: **Truist Financial Corp**, Schlumberger.

## 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 week, 15th January 2025. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).*

LVRAG
Daily Risk Appetite Gauge

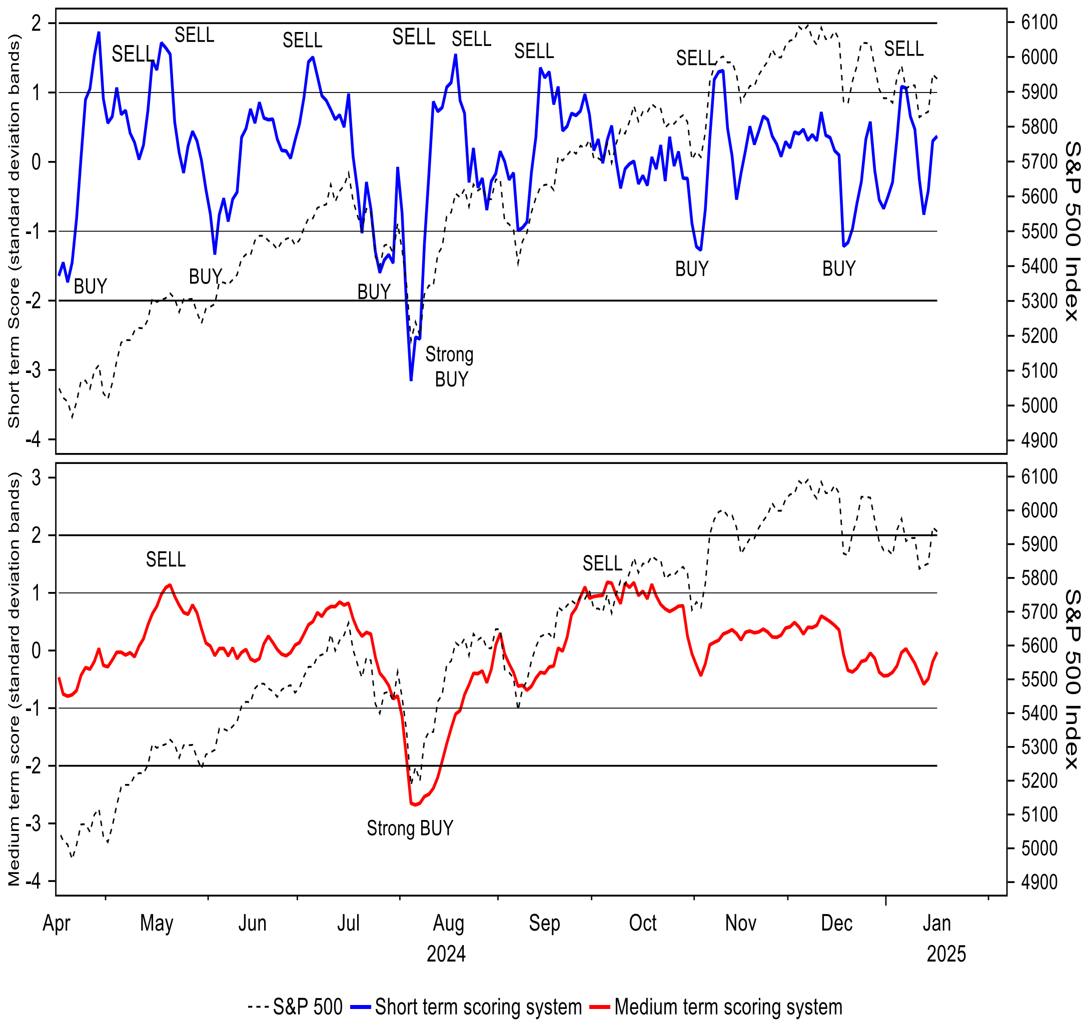
## 1 – 2 Week View on Risk

17th 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*

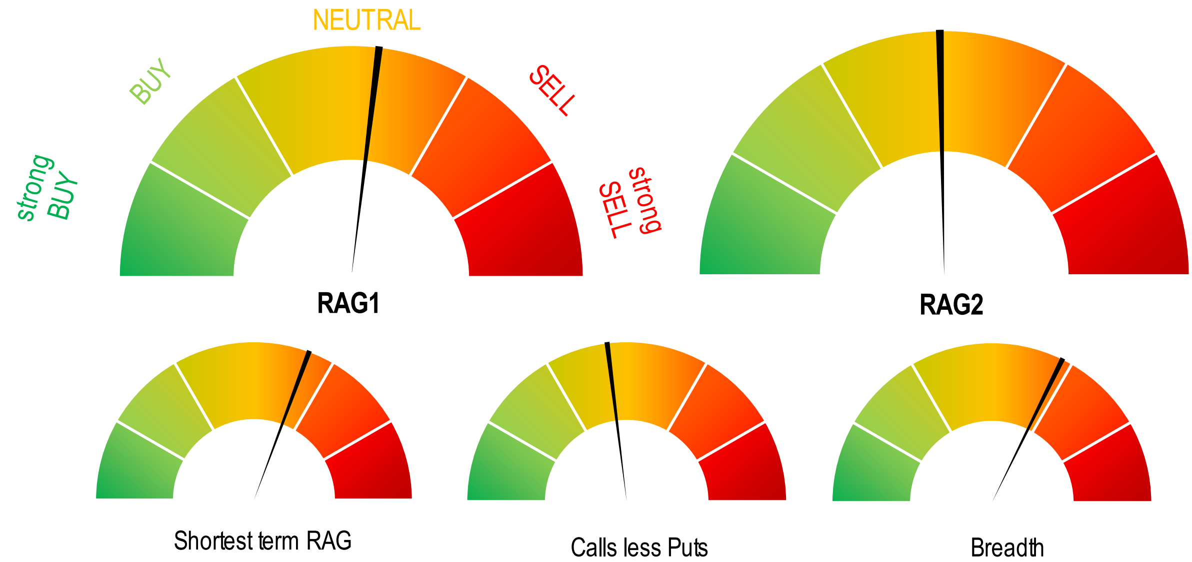
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

***Important disclosures are included at the end of this report***
***For explanations of indicators please see page 10***

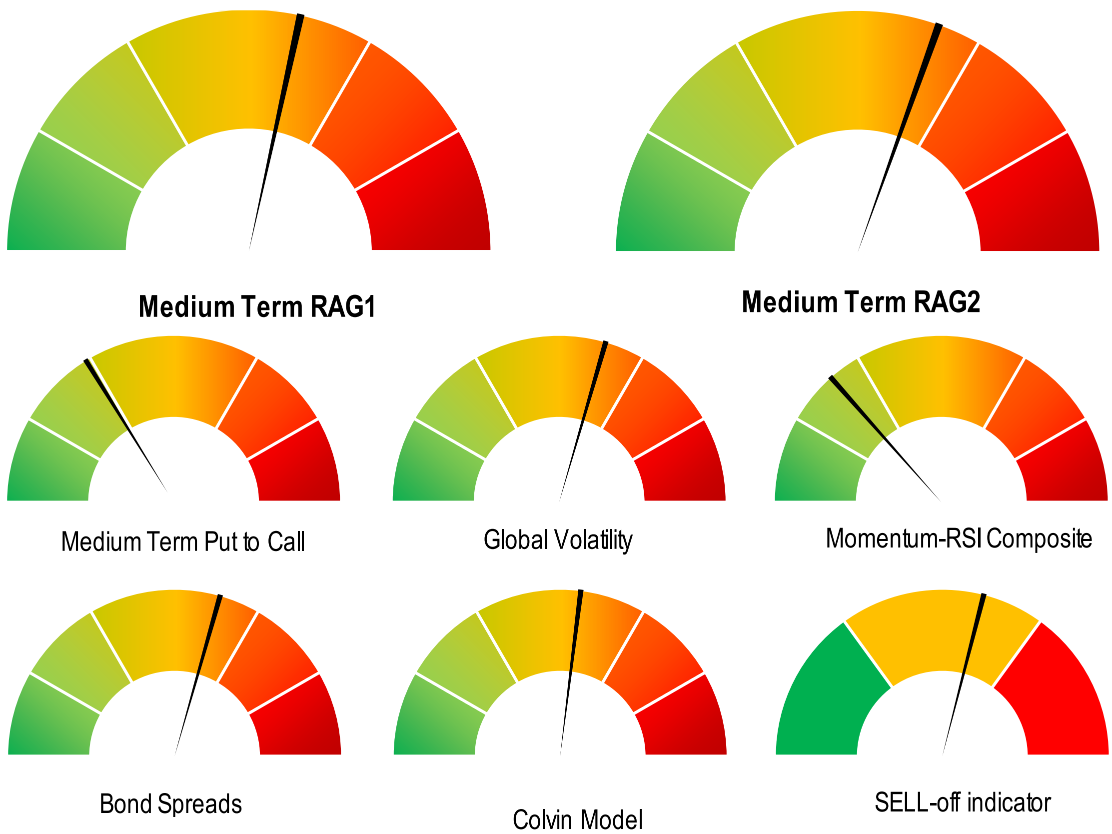
## **Section 1a:** Summary of indicator signals**

**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

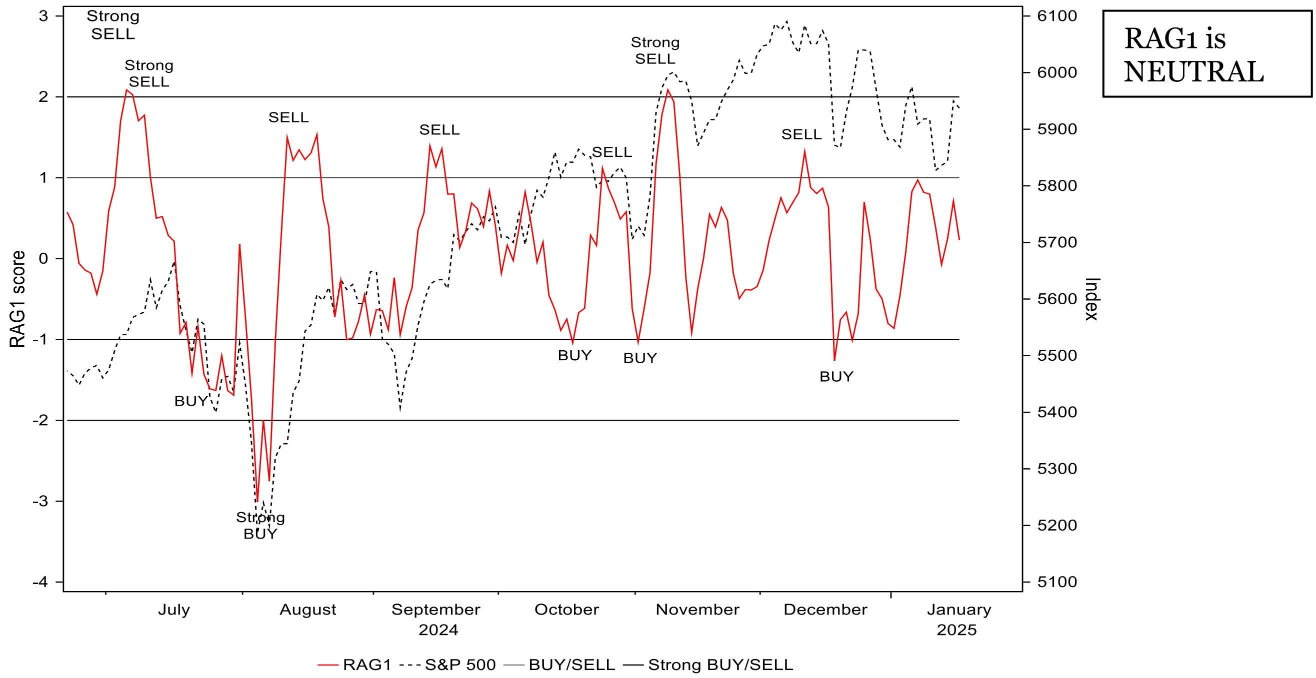



***Source:*** *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

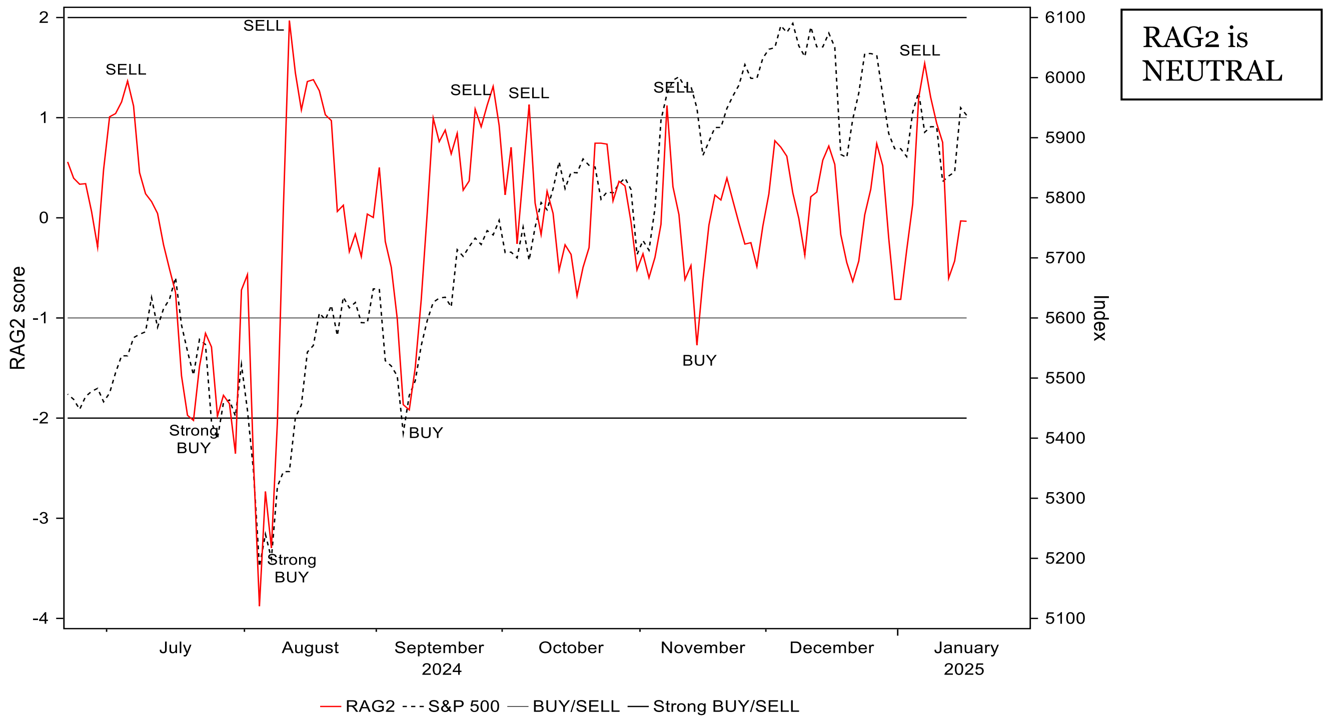
## **Section 2:** Short term (1 – 2 week) trading models

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




*Source: Longview Economics, Macrobond*

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

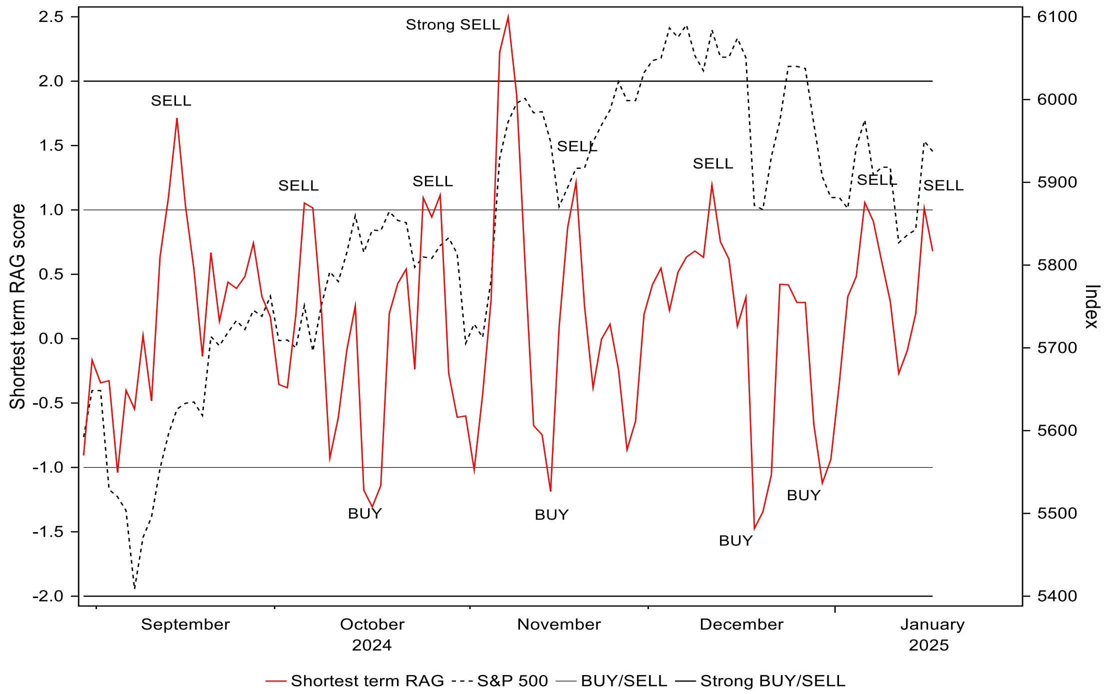



*Source: Longview Economics, Macrobond*

***For explanations of indicators please see page 10***

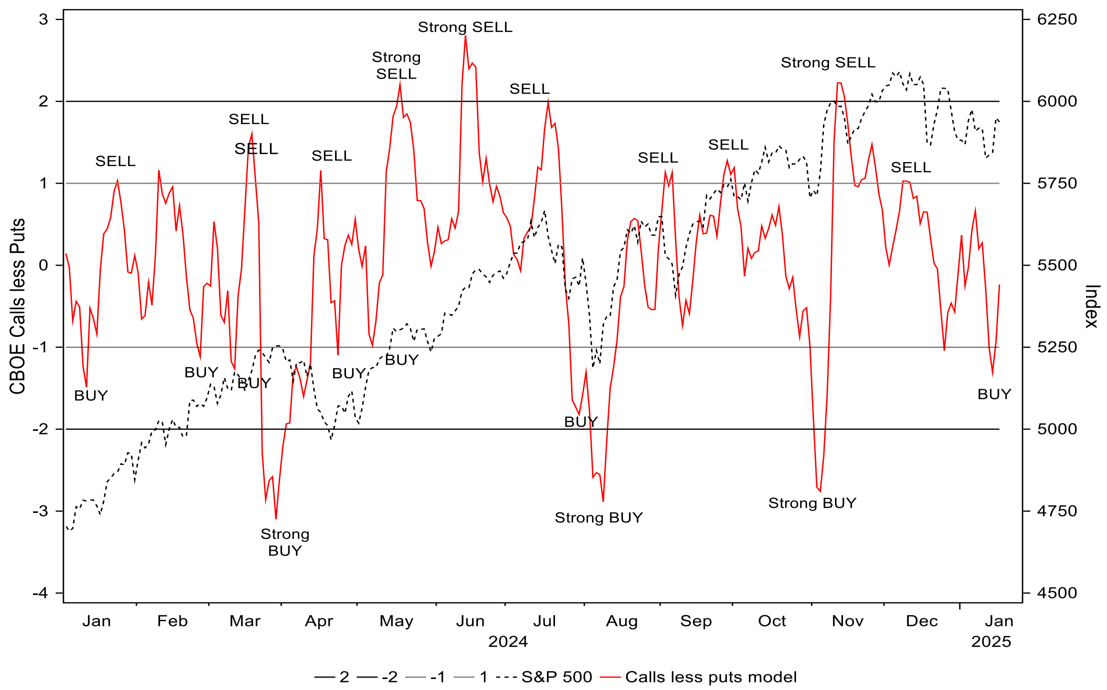
**Fig 2c:** Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500




Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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



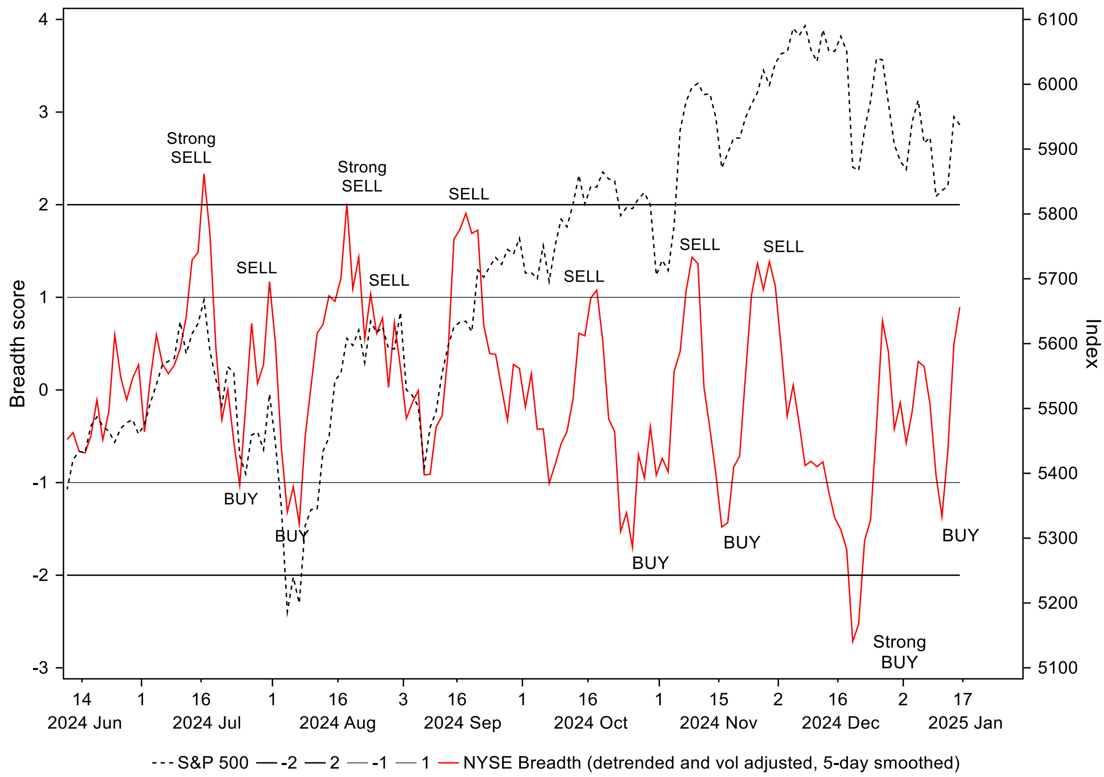

Source: Longview Economics, Macrobond

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




*Source: Longview Economics, Macrobond*

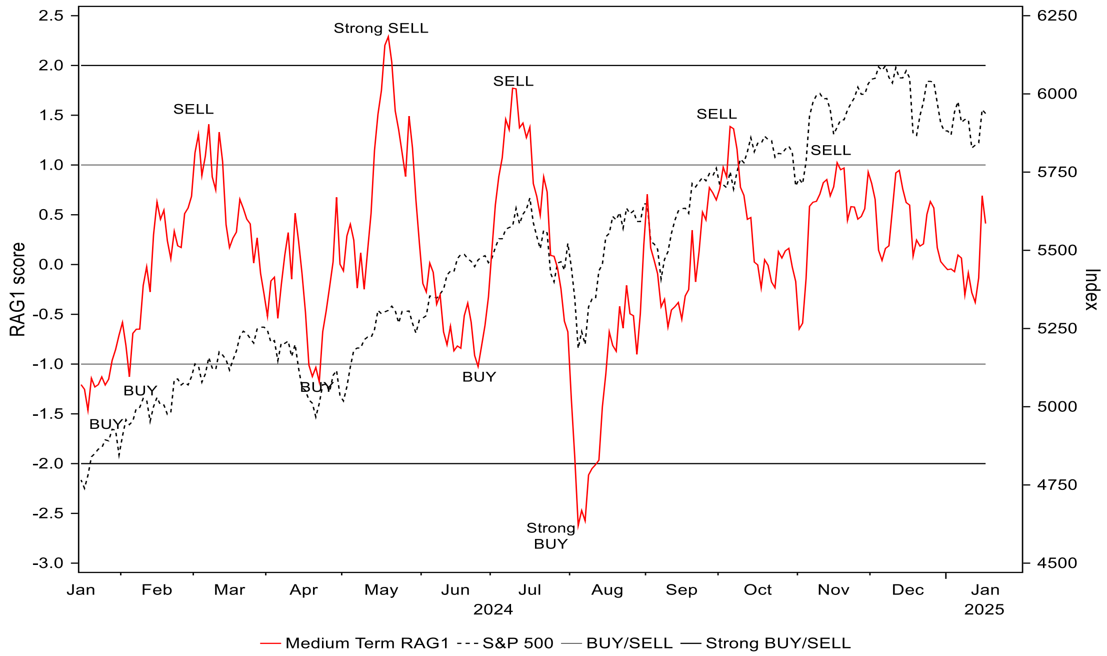
The breadth model is NEUTRAL

***For explanations of indicators please see page 10***

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

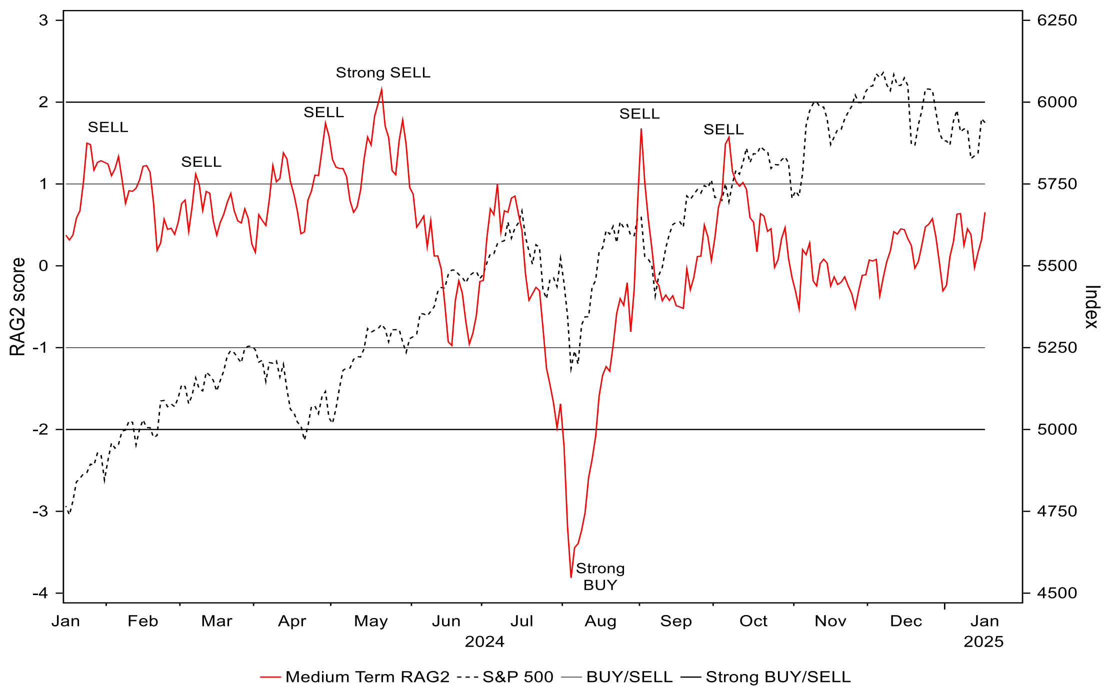
### **Fig 3a:** Medium term RAG1 (1 – 4 month view) vs. S&P 500




Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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



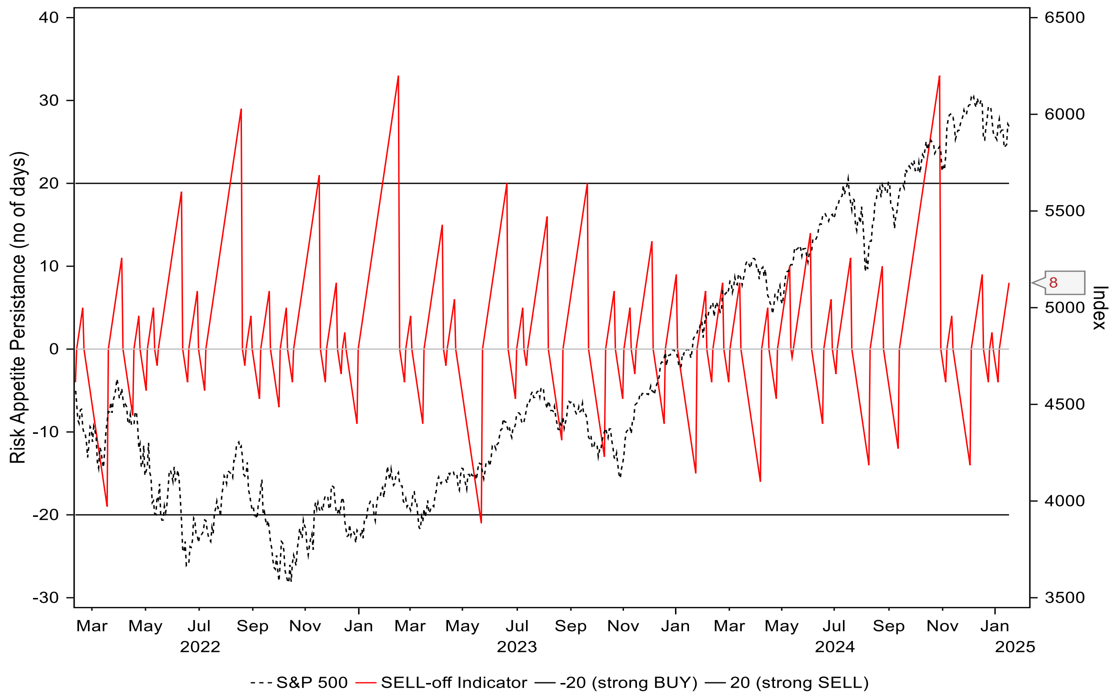

Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

***For explanations of indicators please see page 10***

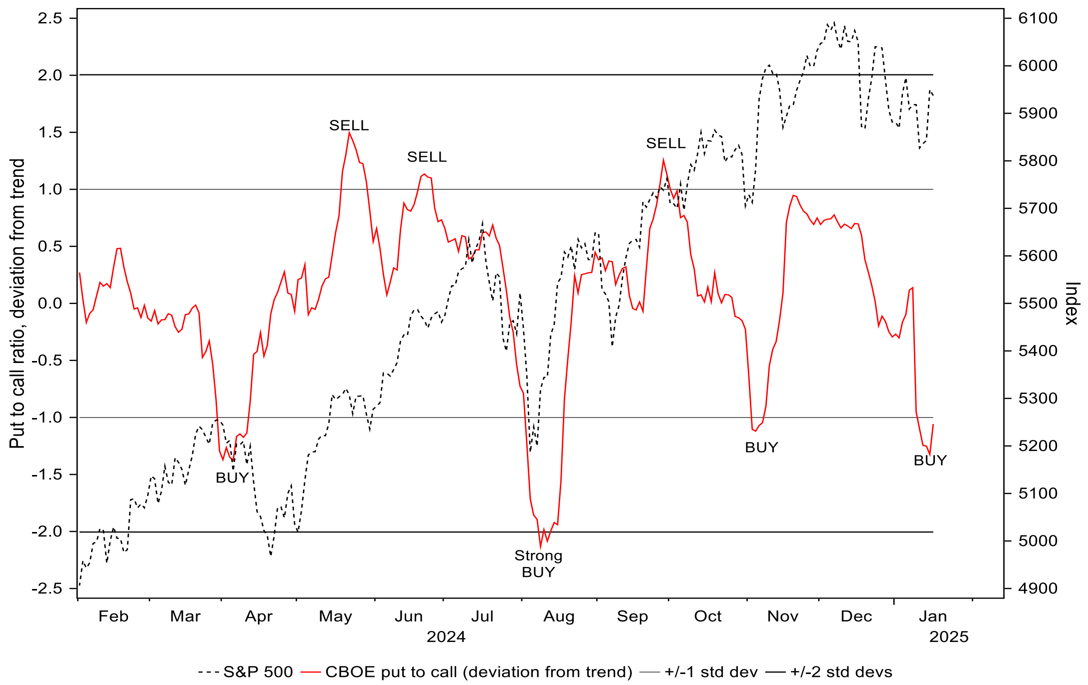
## **Fig 3c:** SELL-off indicator (shown vs. S&P500)




Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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



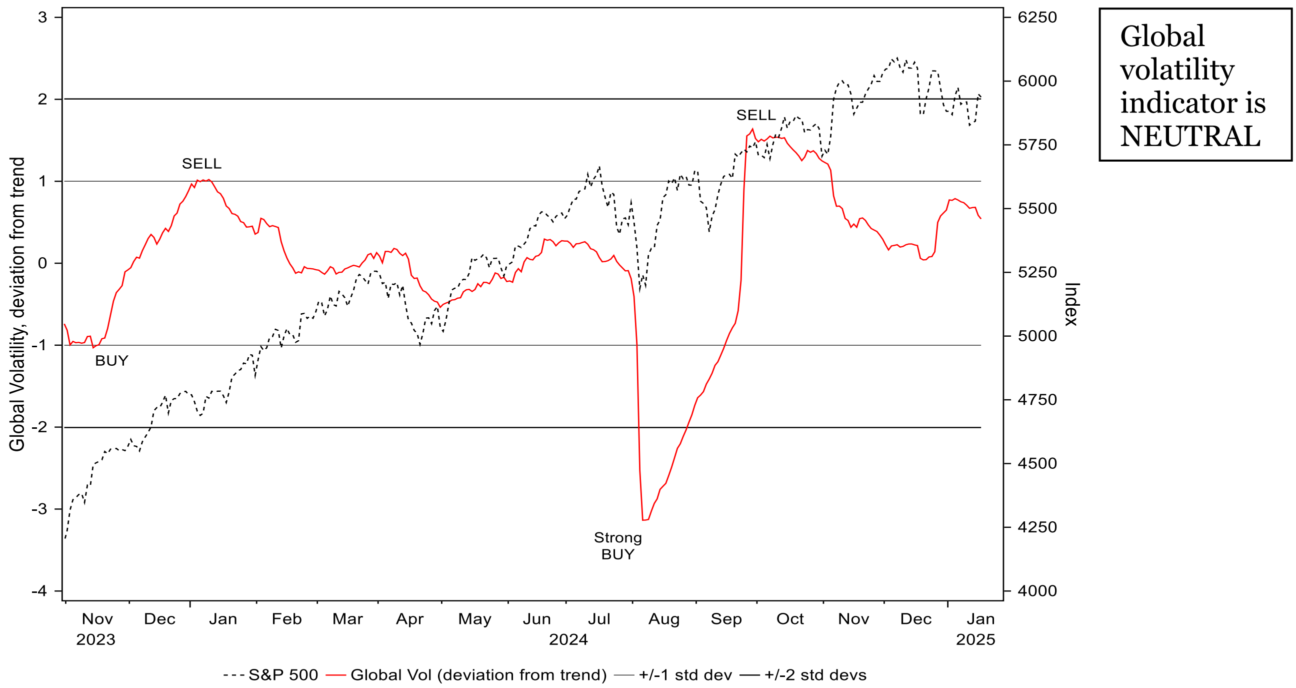

Source: Longview Economics, Macrobond

Medium term put to call model is on BUY

***For explanations of indicators please see page 10***

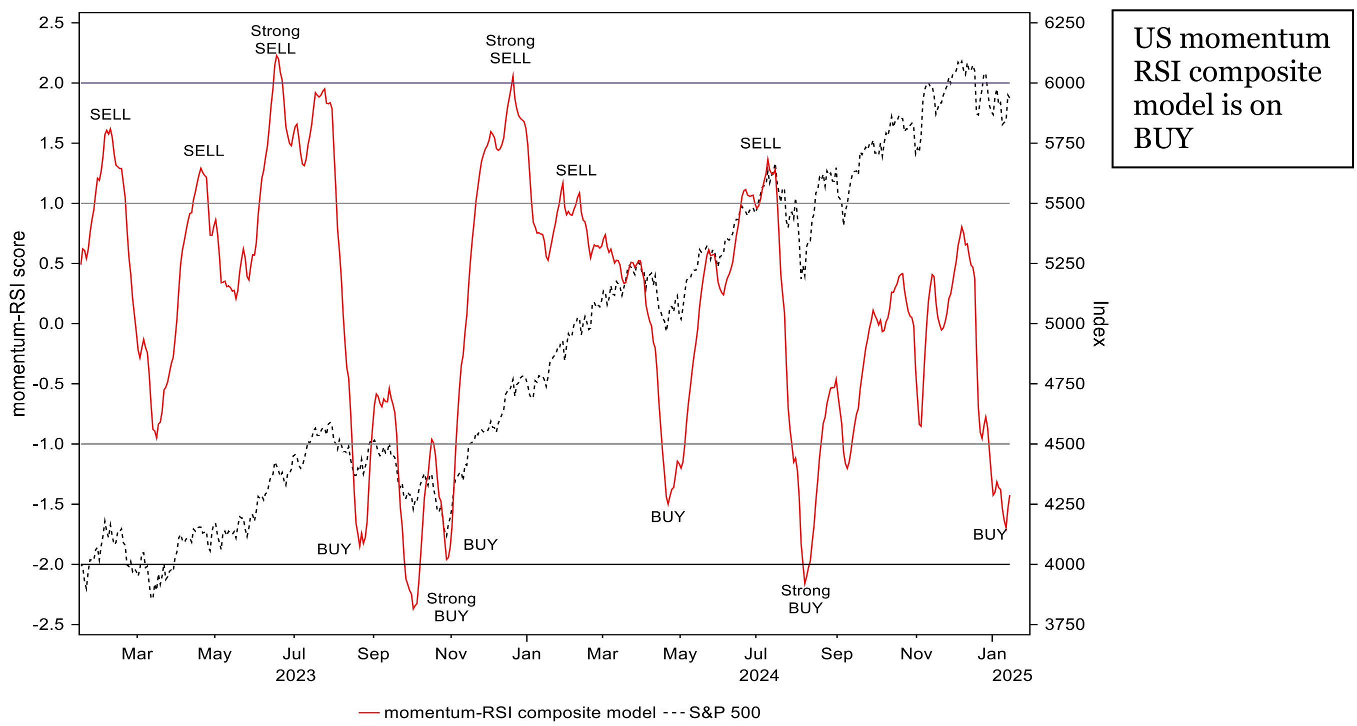
  

## **Fig 3e:** Global volatility (deviation from trend) model vs. S&P500




*Source: Longview Economics, Macrobond*

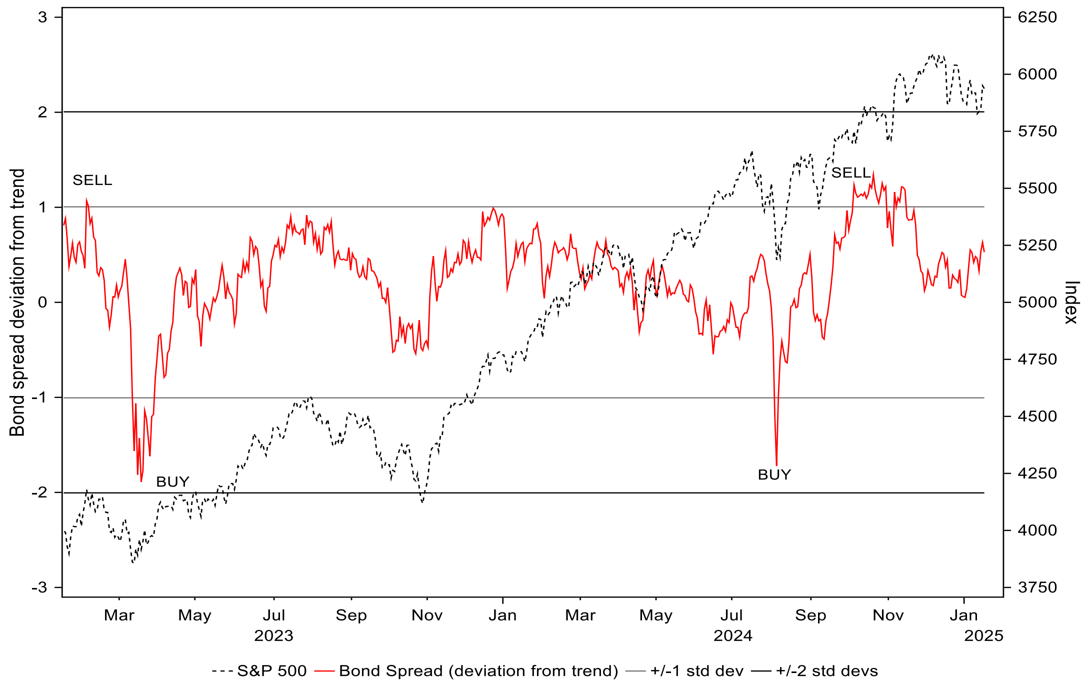
## **Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500




*Source: Longview Economics, Macrobond*

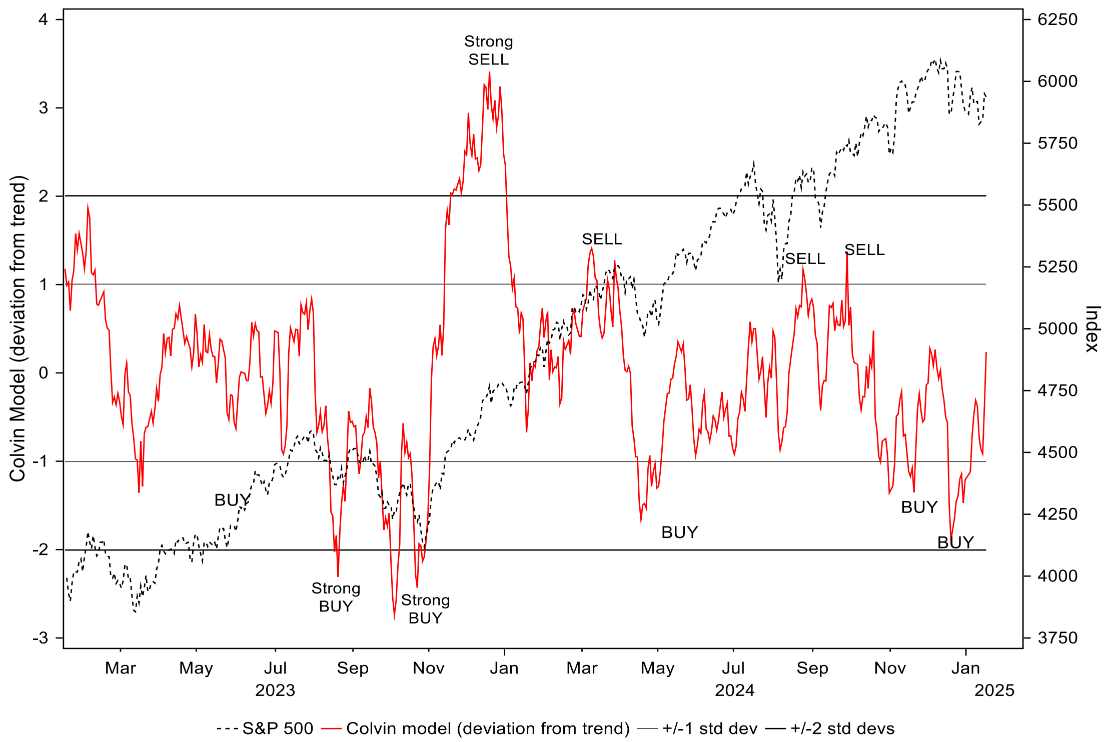
## **Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500




*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.

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