

Equity Index Futures Trading Recommendations

18th December 2024

"Keep BUILDing LONG SPX Positions - Consolidation Ongoing now for Past 2 Weeks"

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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 at 6,110 (i.e. if the S&P500 moves back towards the bottom end of the recent consolidation range).
- Place stop 2% below blended entry.

Rationale

The consolidation phase continued yesterday, as the S&P500 fell by 0.4% and tested the lower end of its recent range. That range, in place since 3rd December, has been between 6,110 to 6,180 (March S&P500 futures – see FIG 1a). Volumes remained high, ahead of expiry of December futures on Friday (and as traders square their books coming into the holiday season – FIG 1d). By the close of play today (post the Fed meeting and press conference), it's likely that most of that 'squaring of books' will be done (given the Fed meeting is the final key event ahead of holidays next week). (Almost) all key areas of the US market were weak yesterday. Cyclical, defensives and long duration growth all closed lower (FIG 1c). Twenty five out of the 28 top level US equity indices that we track closed down; ten out of the 11 top level S&P500 sectors also closed lower, while most European indices were weak (e.g. Italian FTSE index - 1.2%; European STOXX -0.4%; & UK's FTSE100 -0.8%).

As the S&P500 has consolidated its gains over the past fortnight, excess has unwound in multiple areas of the market. Various models, for example, measuring the overbought/oversold nature of both US single stocks and sectors **have shifted from SELL to BUY over the course of December.** We show some of those below (see FIGs 2 to 2e). The list includes: i) The percentage of US single stocks which are overbought on a 14-day RSI model, which is now as low as 4% (one of its lowest readings in the past few years and typically a good BUY signal for the market – FIG 2); ii) US single stocks with upward momentum, which is similarly at low (BUY) levels (see FIG 2a); & iii) momentum in US sectors – another model that is at low/BUY levels (FIG 2d). **Longer term technical models for single stocks are also starting to generate BUY signals** – e.g. see the percentage of US stocks which are above their 50-day moving average (FIG 1 – which has just moved onto BUY overnight).

The positioning of these models reflects the concentration of strength in the US market this month in a small number of stocks, i.e. the tech/MAG7 area of the market. The NDX100, for example, is now overbought; an equally weighted basket of FAANMG stocks is similarly notably overbought (FIGs 3 & 3a). In contrast, the S&P500 index is now close to oversold, and the Russell 2000 index is oversold (FIGs 3 & 3a). Risk appetite models have also moved lower (FIGs 4 & 4a).

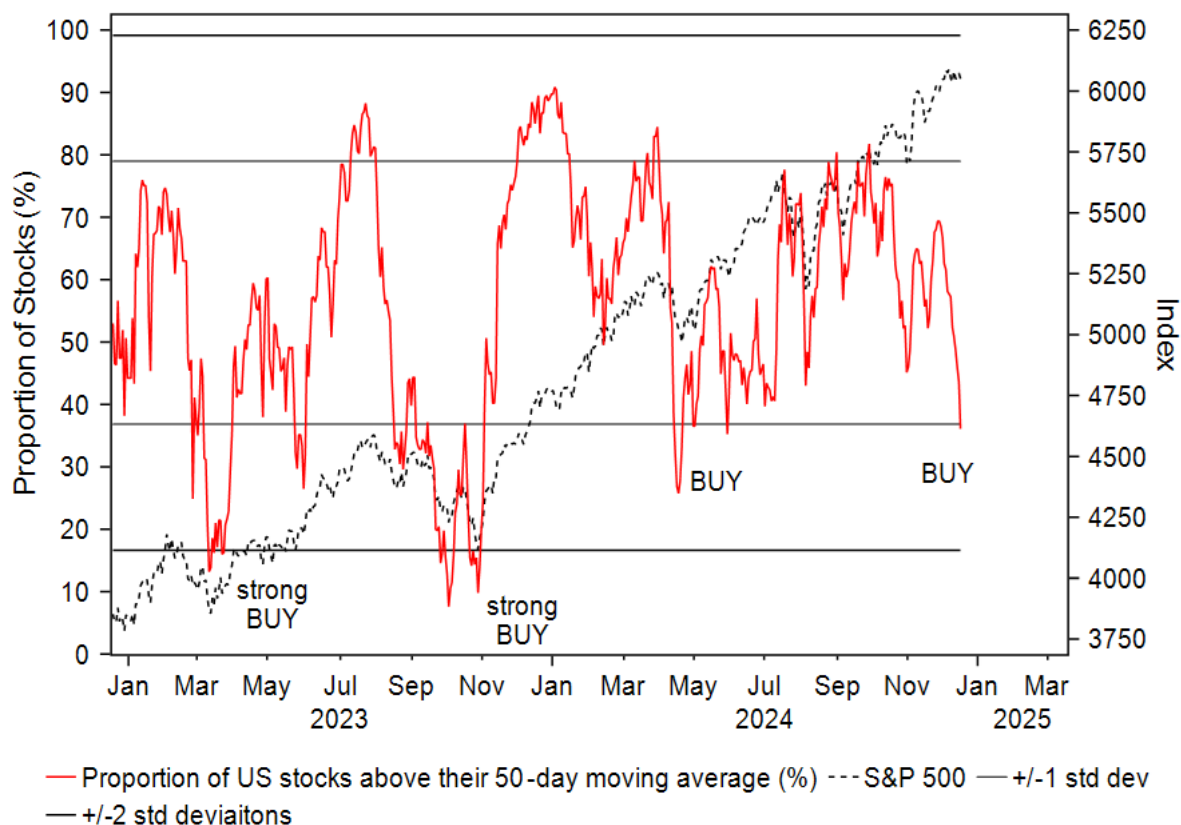
As such, **the market has rotated internally as it has consolidated in the past fortnight**. Overall, though, the risk appetite and technical S&P500, single stock and sector models are all on/leaning towards BUY. Given the traditional seasonality at this time of year and given that backdrop, we recommend STAYing LONG as we move into the second half of December. The Santa Claus rally seems likely to start post Fed (albeit the Fed meeting could generate near term volatility). We also advise BUILDing the LONG position size on volatility (if forthcoming) – see trading recommendation above for detail.

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

Kind regards,

The team @ Longview Economics

FIG 1: Proportion of US stocks above their 50-day moving average vs. S&P500

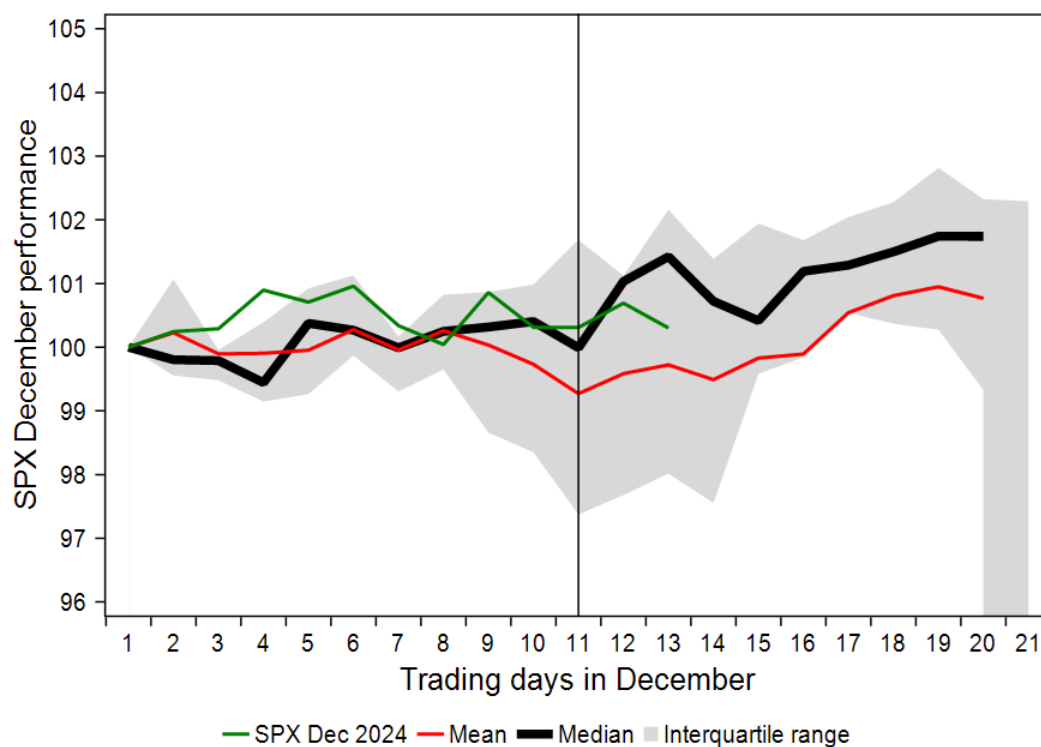


Source: Longview Economics, Macrobond

FIG 1a: S&P500 MARCH futures 15-day tick chart shown with overnight price action

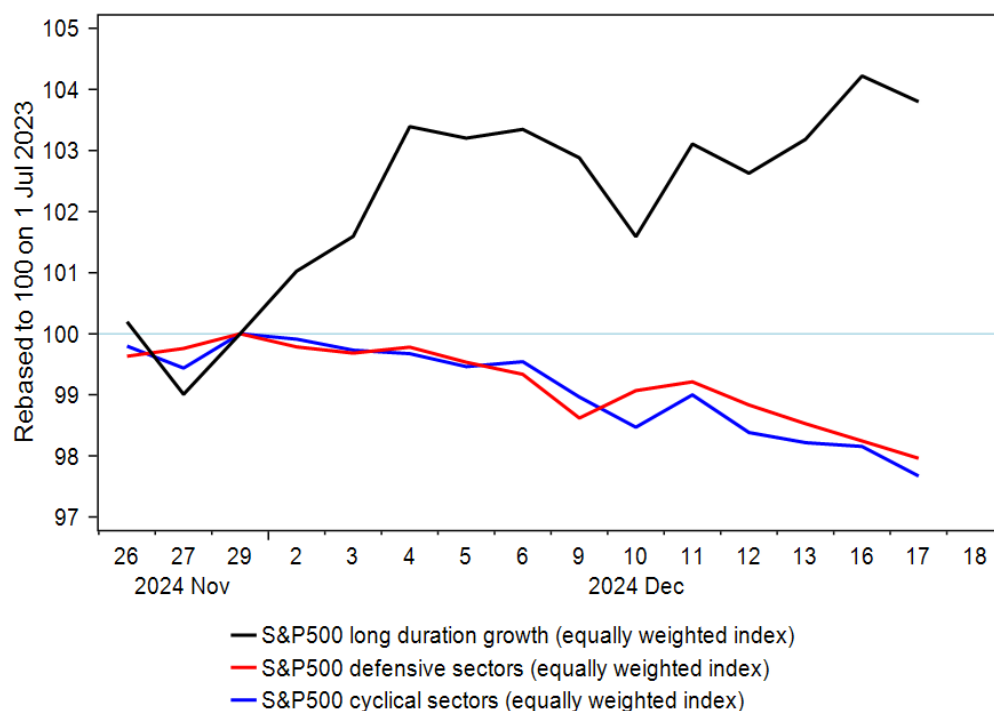


FIG 1b: S&P500 → December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)



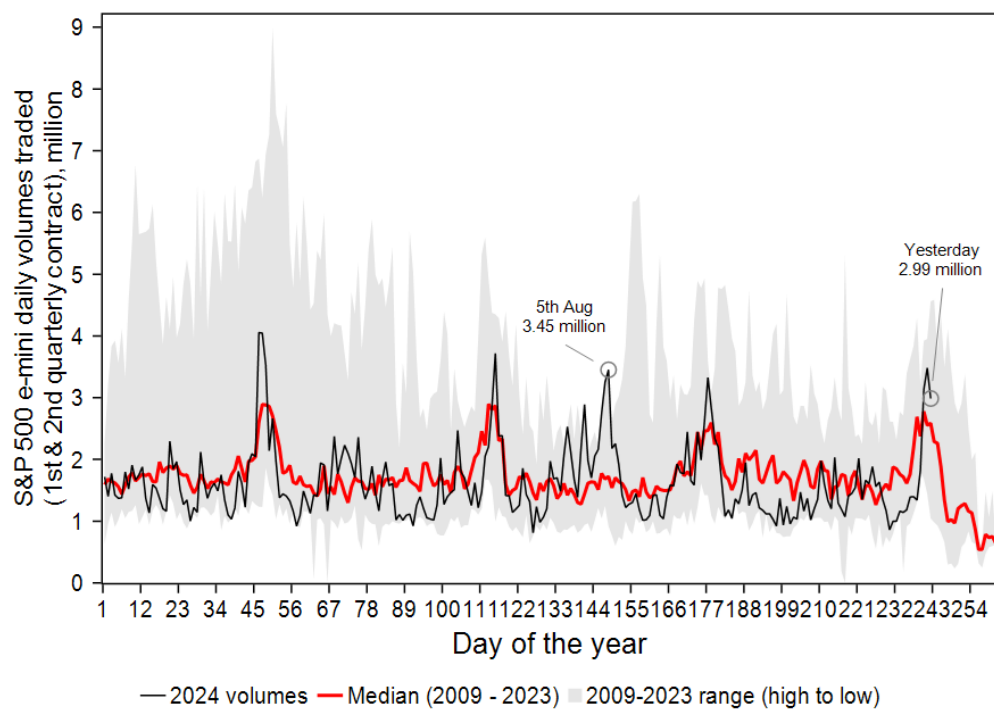
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

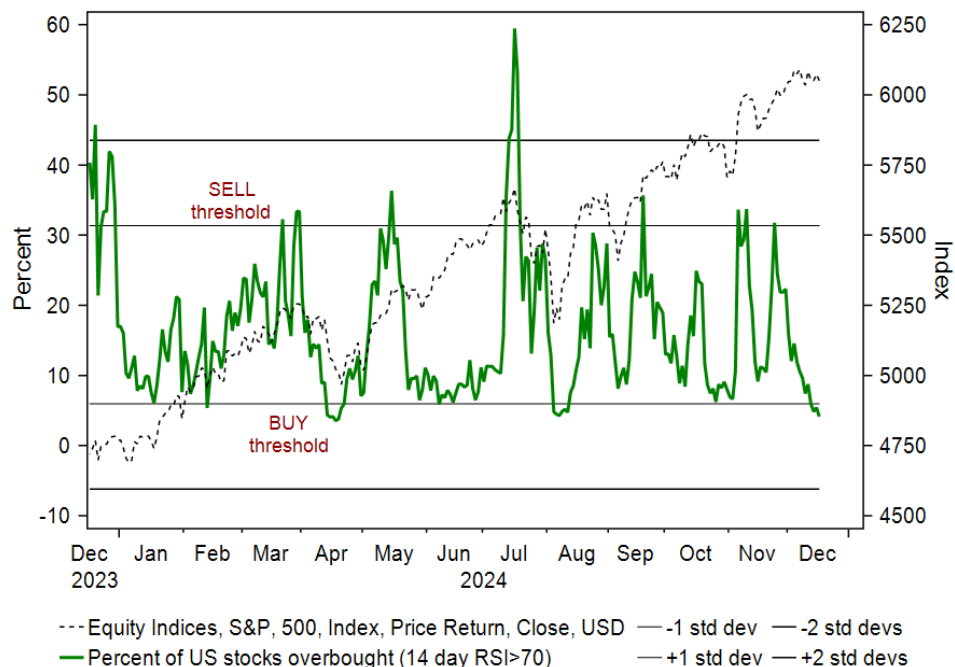
FIG 1d: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



Source: Longview Economics, Macrobond

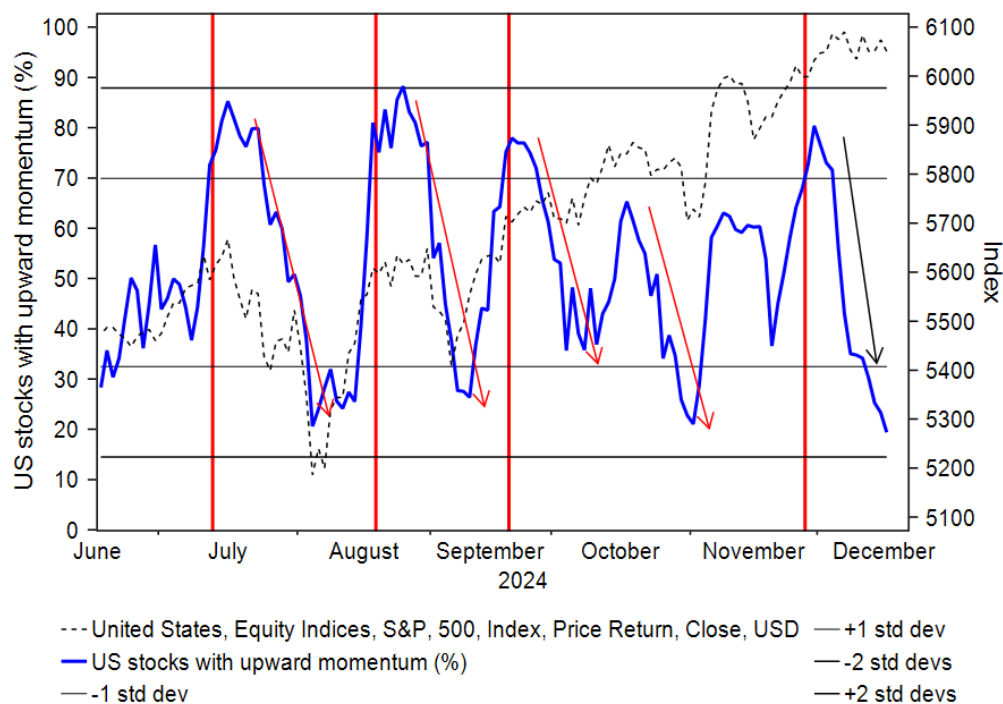
Technical 'single stock' models are all on BUY...

FIG 2: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



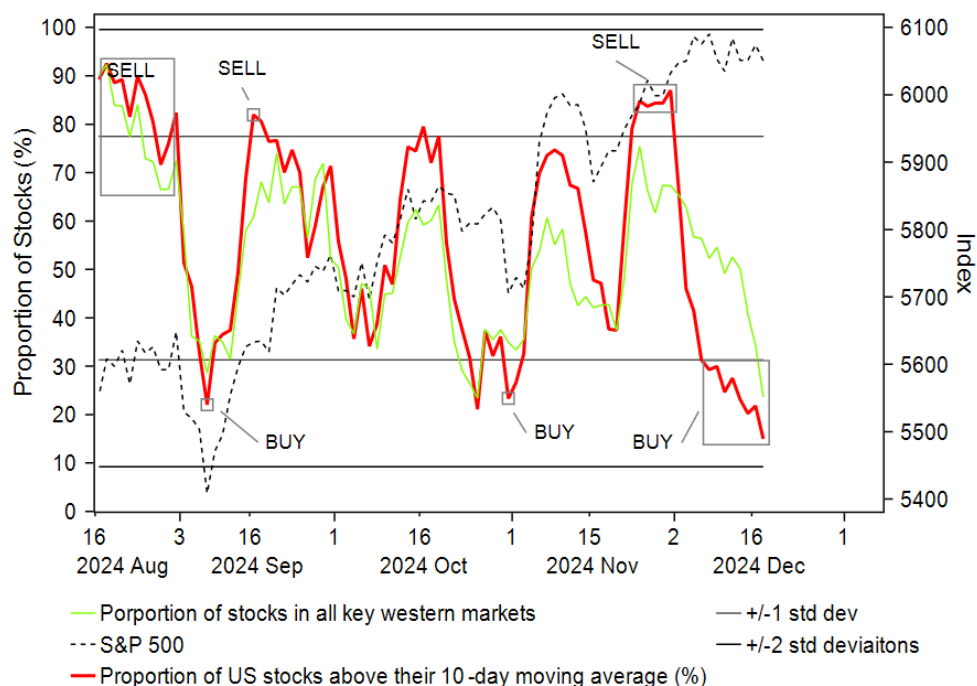
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

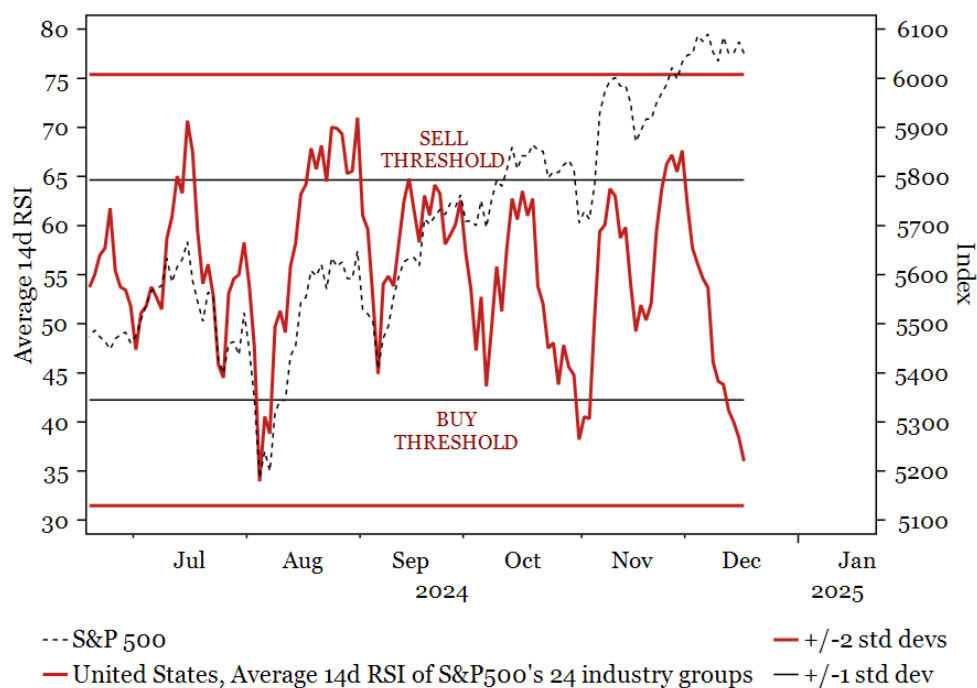
FIG 2b: Proportion of US/Western stocks above their 10-day moving average vs. S&P500



Source: Longview Economics, Macrobond

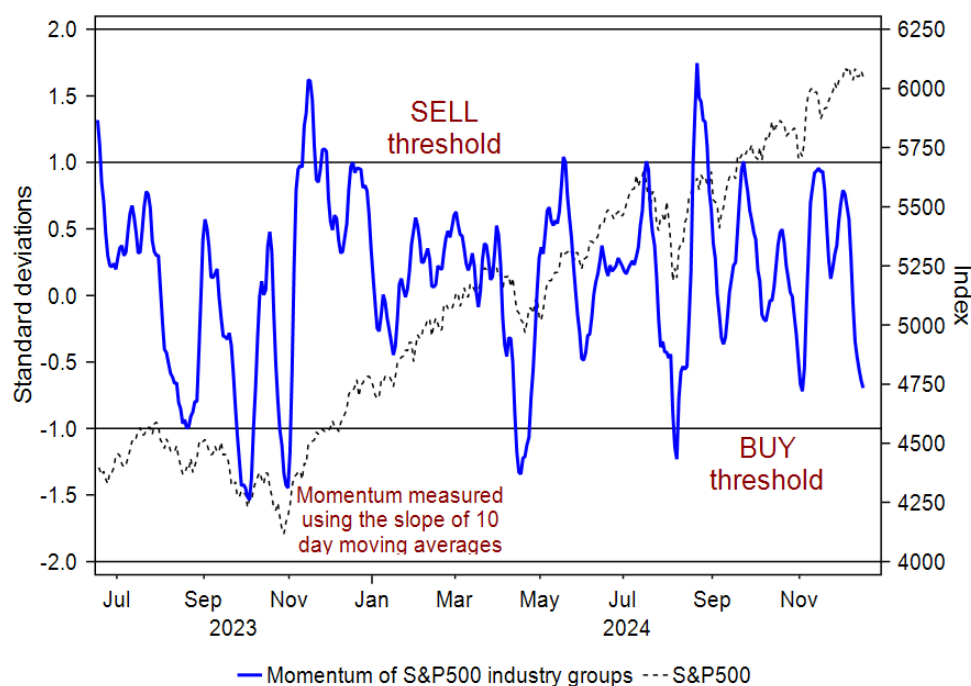
Similarly technical sector models are also all on BUY....

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



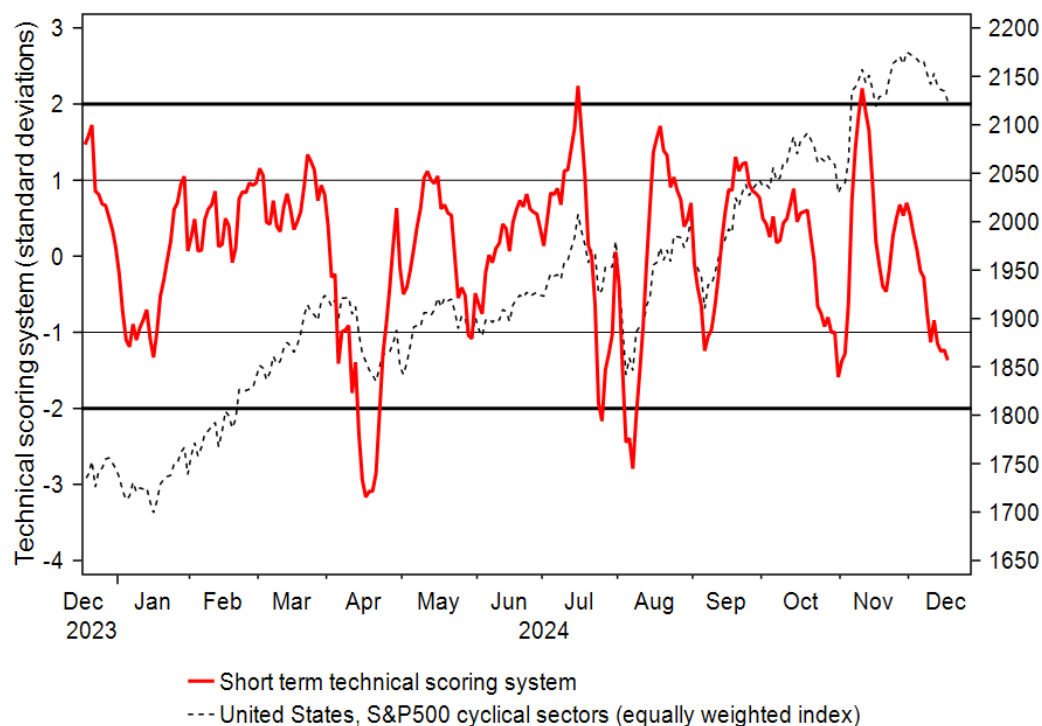
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 2e: Longview short term technical scoring system for S&P500 cyclical sectors vs. cyclical sectors index



Source: Longview Economics, Macrobond

Technical models (for the headline indices) are mostly moving towards BUY....

FIG 3: Longview **S&P500** short term **‘technical’** scoring system vs. S&P500 futures

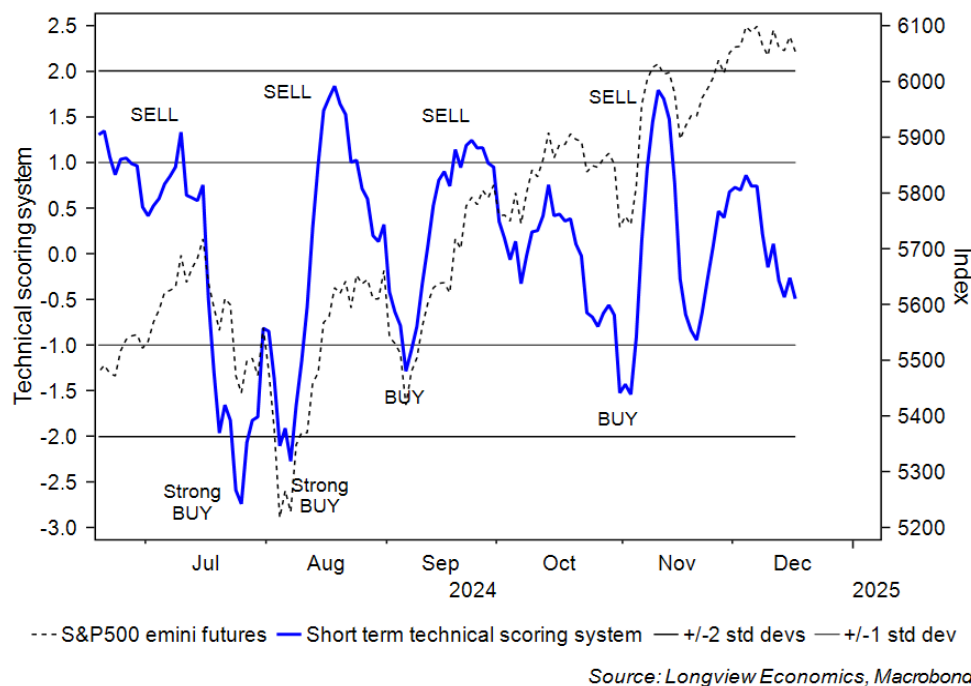
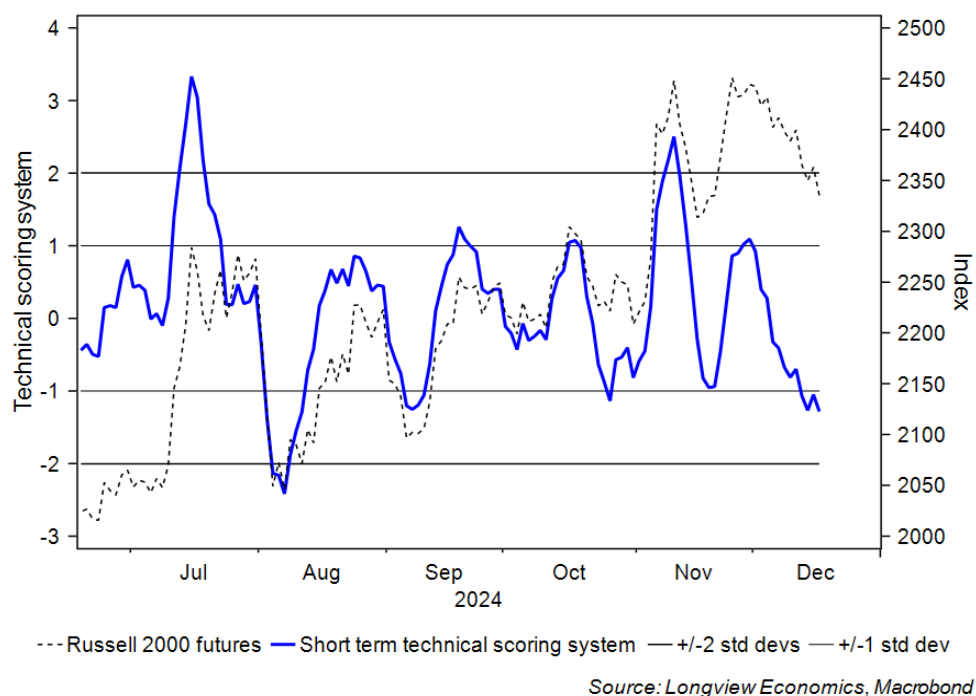
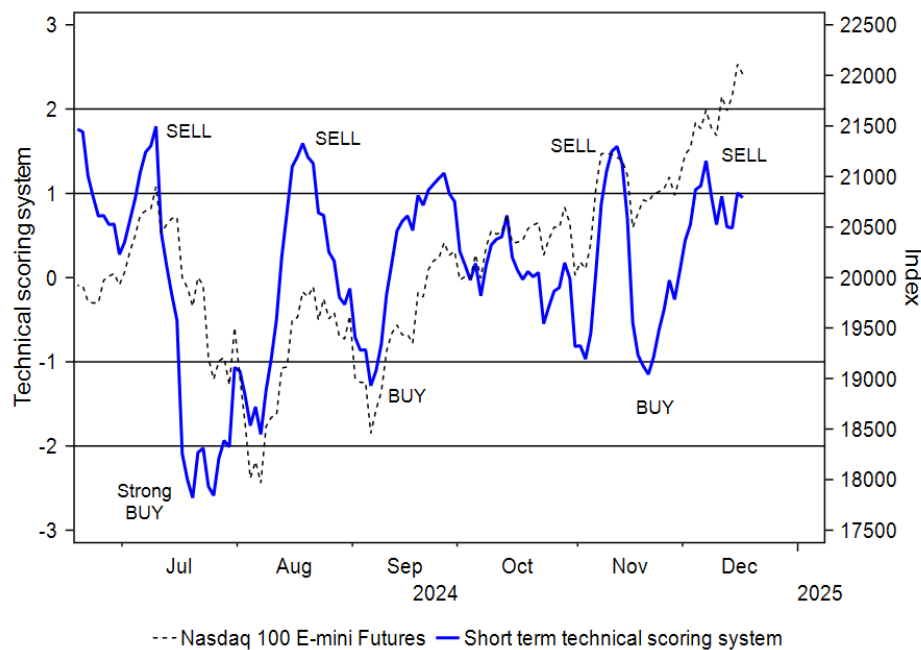


FIG 3a: Longview **Russell 2000** short term **‘technical’** scoring system vs. Russell 2000



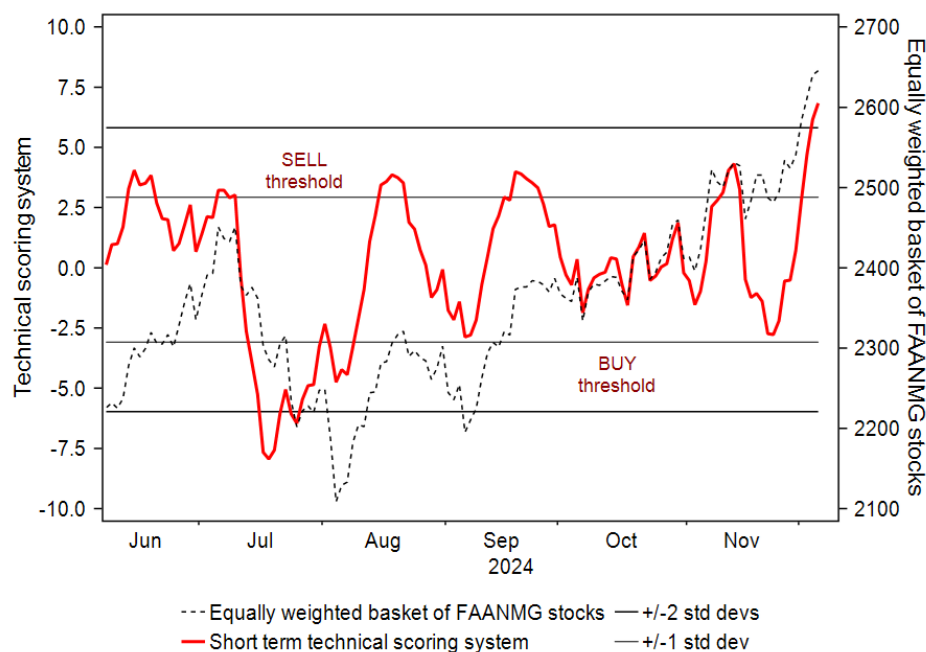
With the exception of the tech/NDX100 area of the market (which is close to overbought)....

FIG 3b: Longview NDX100 short term **‘technical’** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

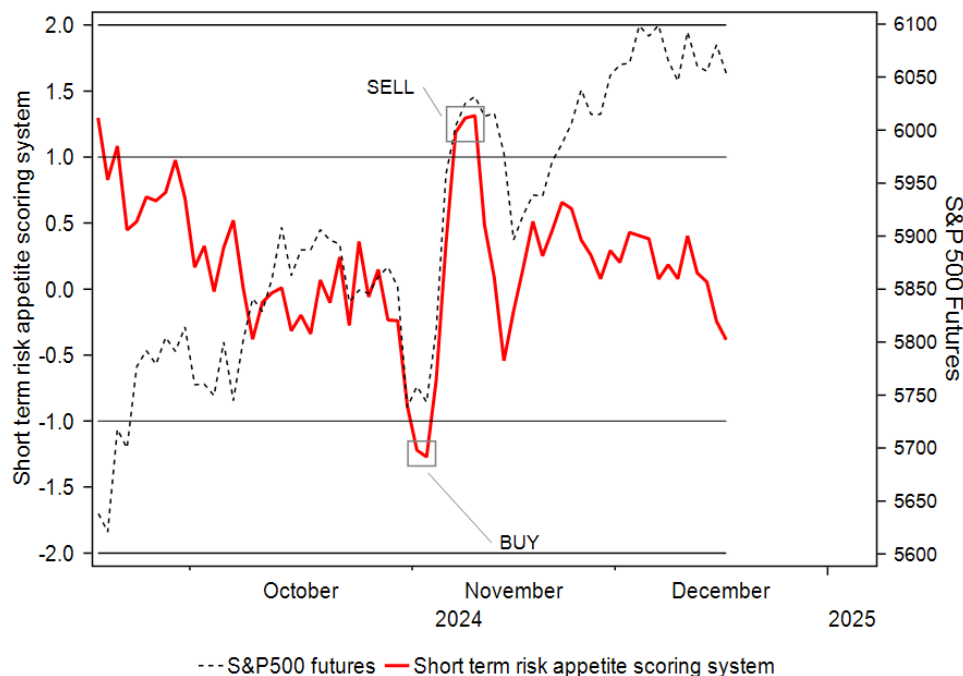
FIG 3c: Short term **‘technical’** scoring system for an equally weighted basket of FAANMG stocks (vs. FAANMG stocks, equally weighted)



Source: Longview Economics, Macrobond

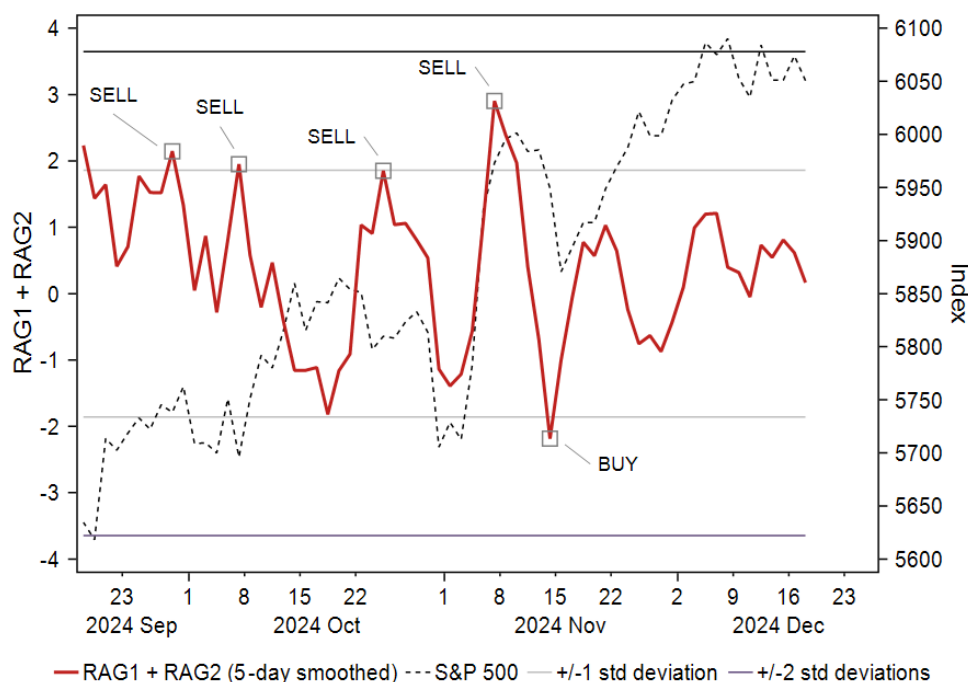
Risk appetite models are moving towards BUY...

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



Source: Longview Economics, Macrobond

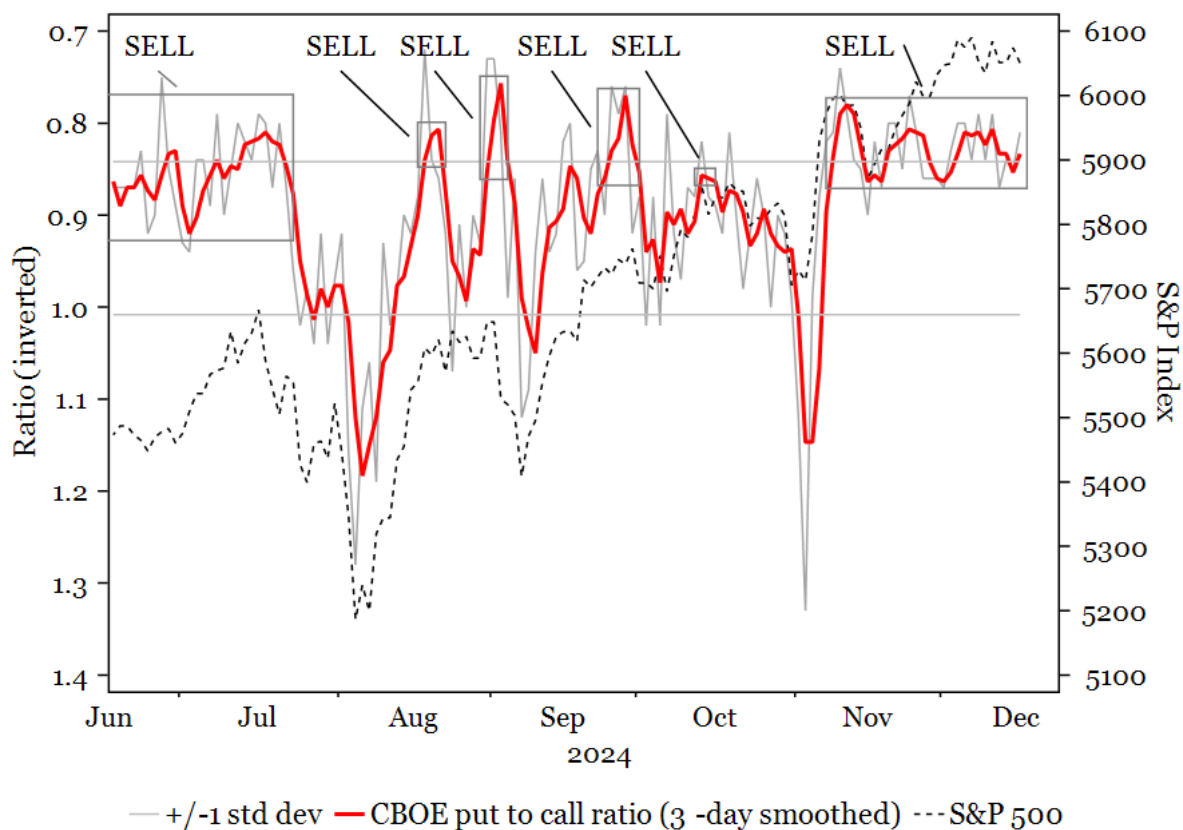
FIG 4a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection in portfolios remains low...

FIG 5: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



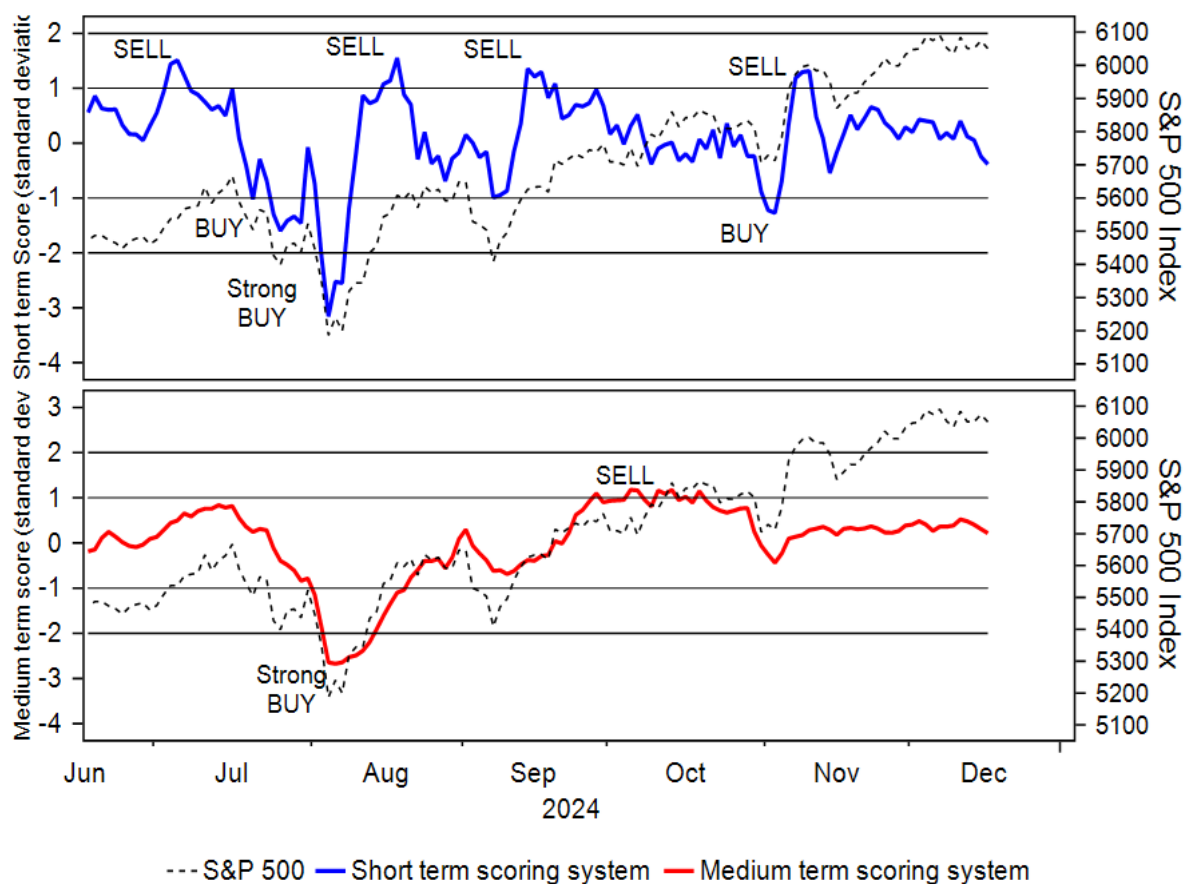
Source: Longview Economics, Macrobond

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 headline & core CPI**, RPI & PPI (Nov, 7am); UK Land Registry house price index (Oct, 9:30am); Eurozone headline & core CPI (November final estimate, 10am); Eurozone construction output (Oct, 10am); UK CBI industrial trends orders (Dec, 11am); **US housing starts & building permits** (November first estimate, 1:30pm); US current account balance (Q3, 1:30pm).

Key events today include: **Riksbank** monetary policy meeting (8am); speeches by the ECB's Muller in Tallinn (7:35am), Lane in MNI Webcast (9am) & Nagel in Karlsruhe (9:30am); **Fed policy decision** & summary of economic projections (7pm) followed by press conference (7:30pm).

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.



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1 – 2 Week View on Risk

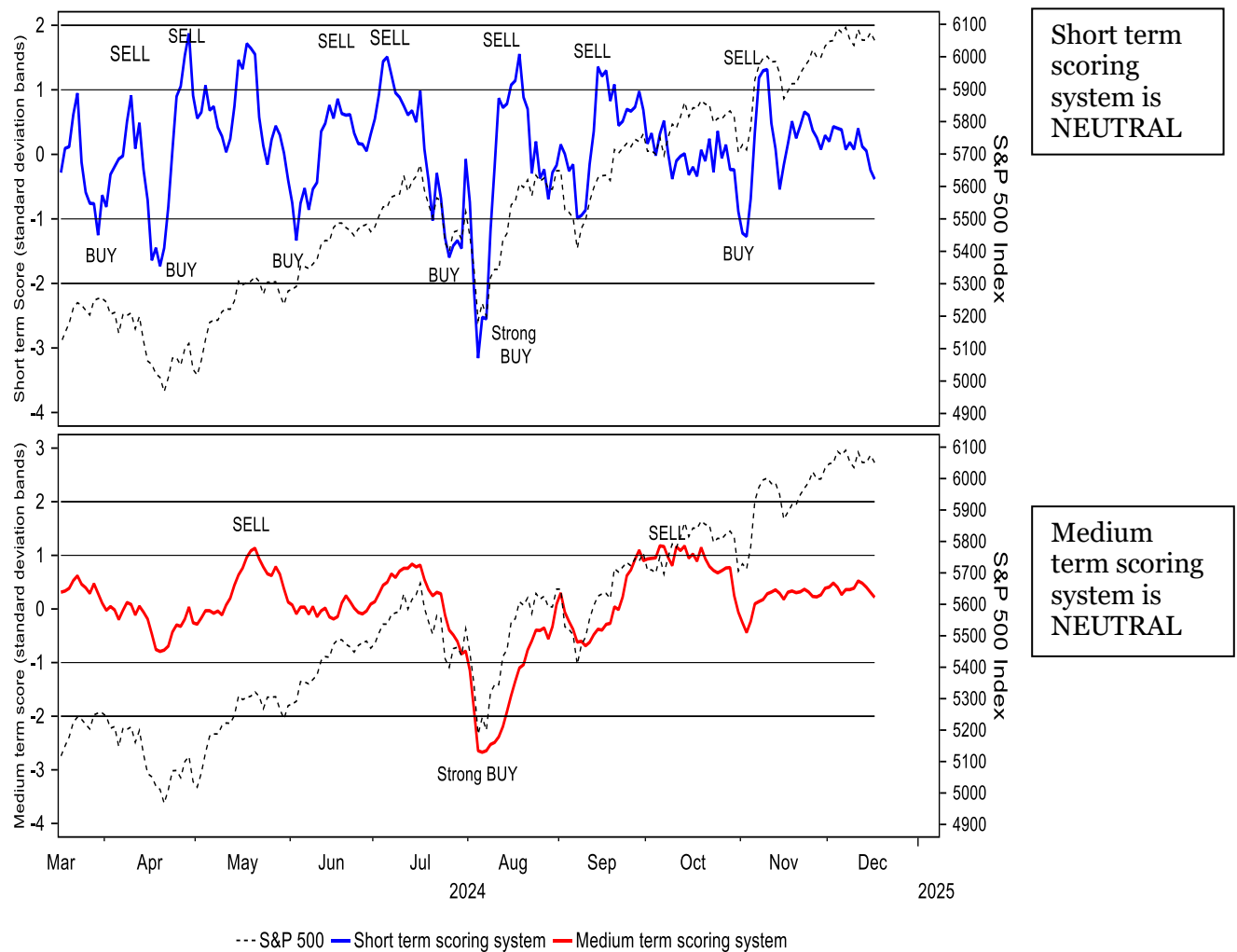
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18th December 2024

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

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



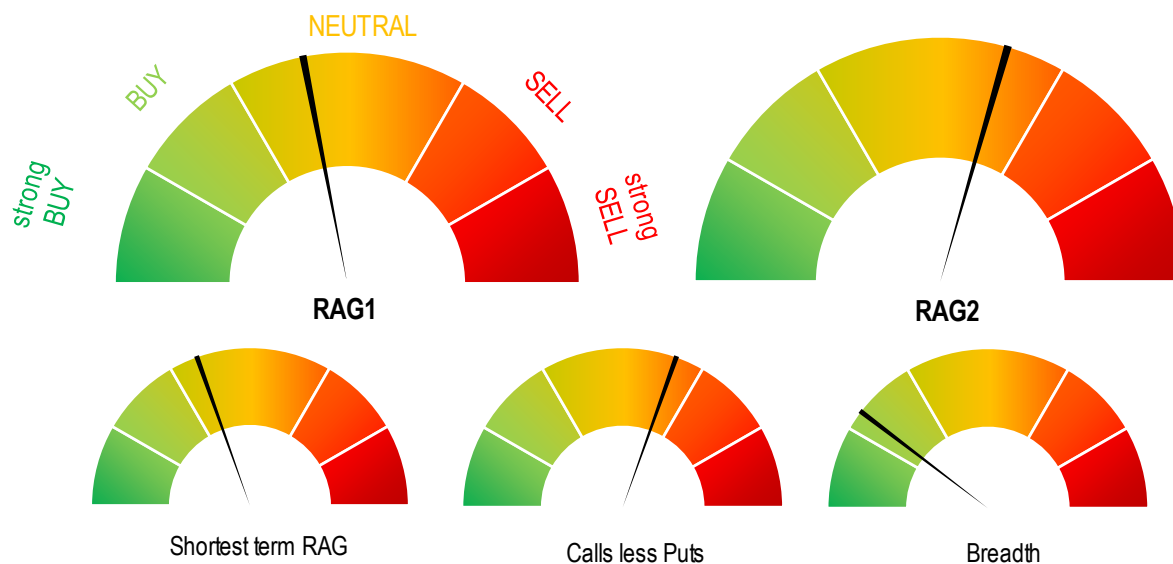
Source: Longview Economics, Macrobond

*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**

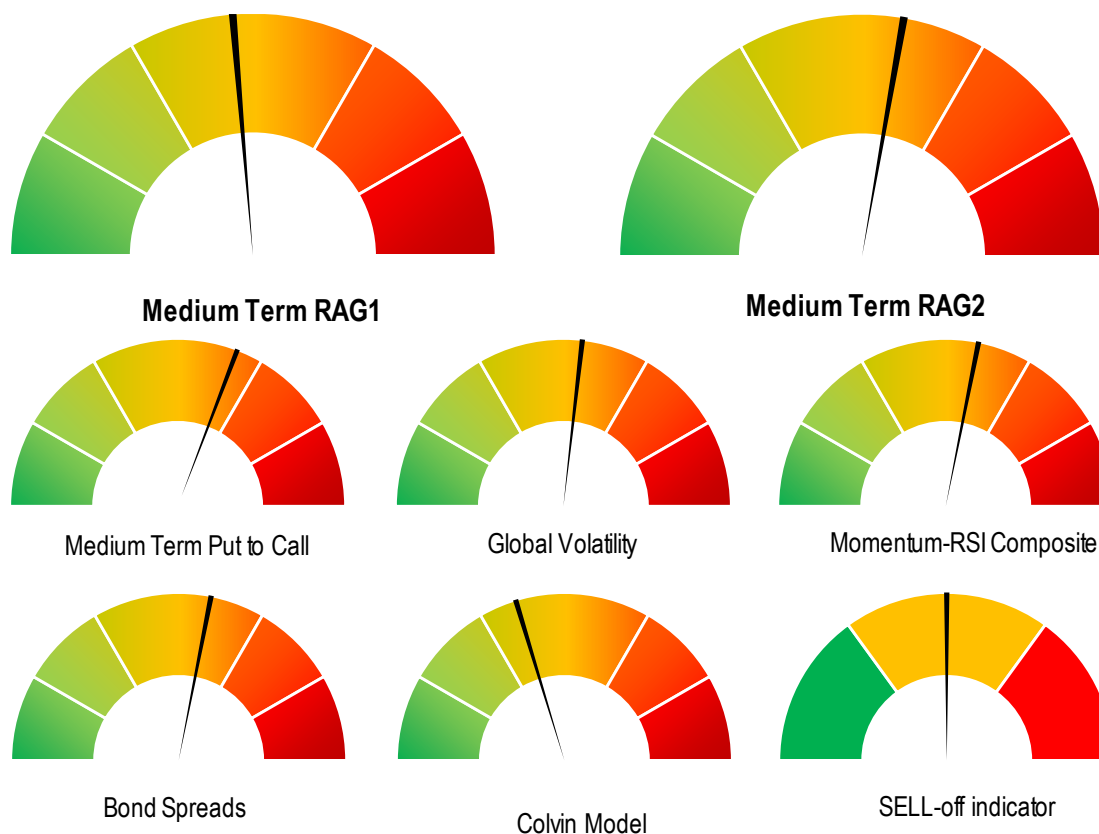
Section 1a: Summary of indicator signals**

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

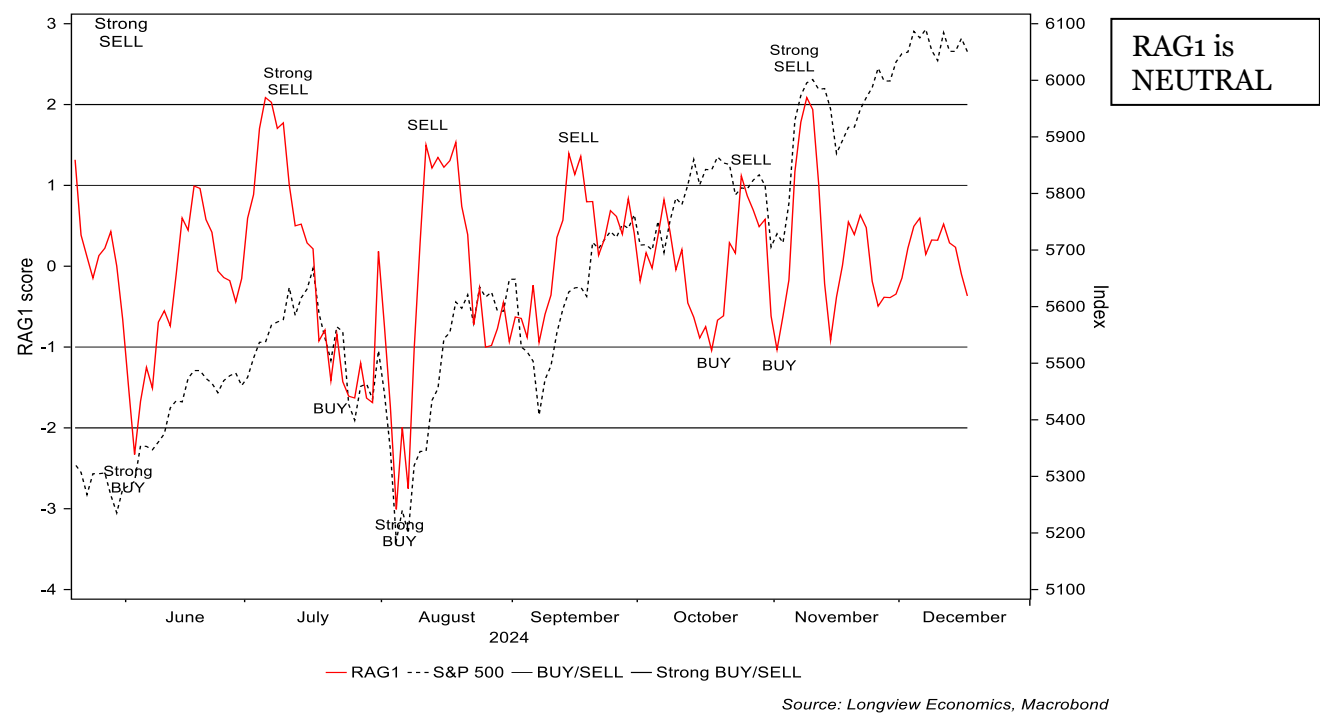
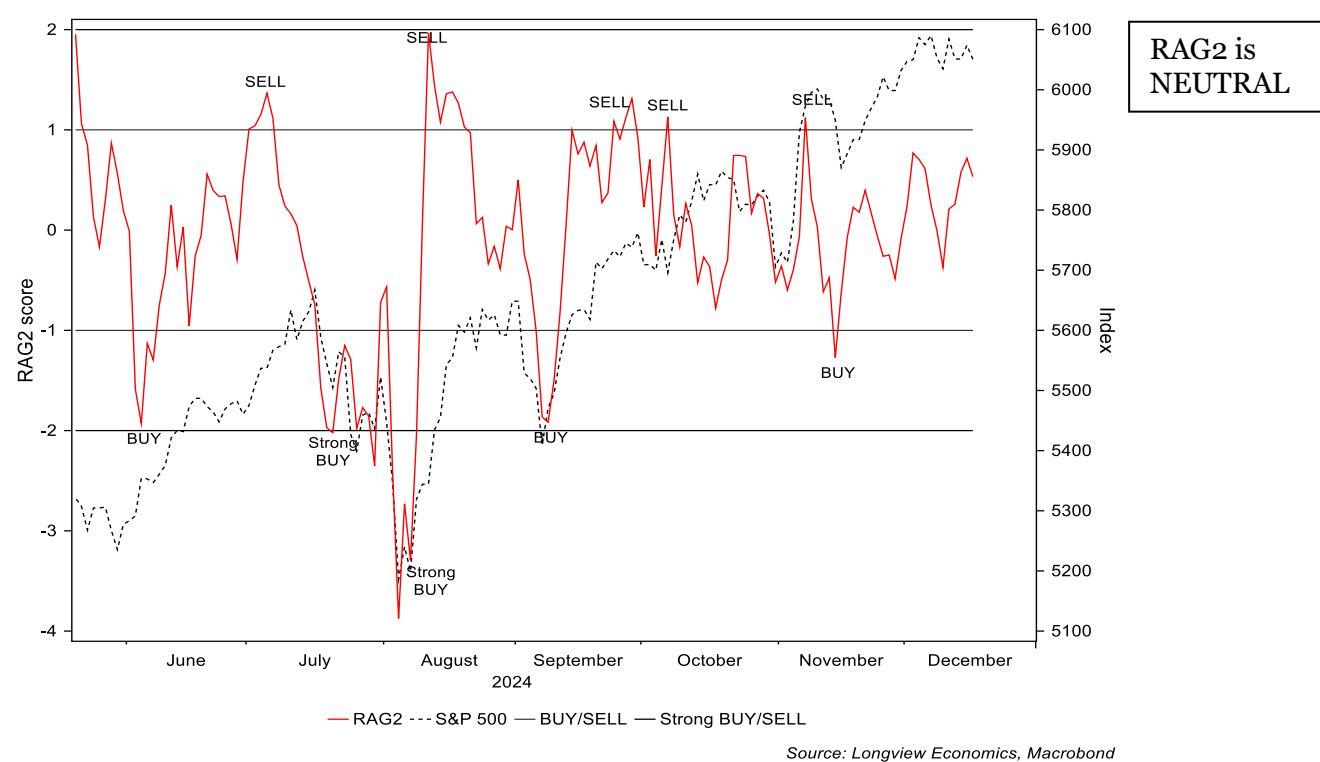


Fig 2b: RAG 2 vs. S&P 500



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

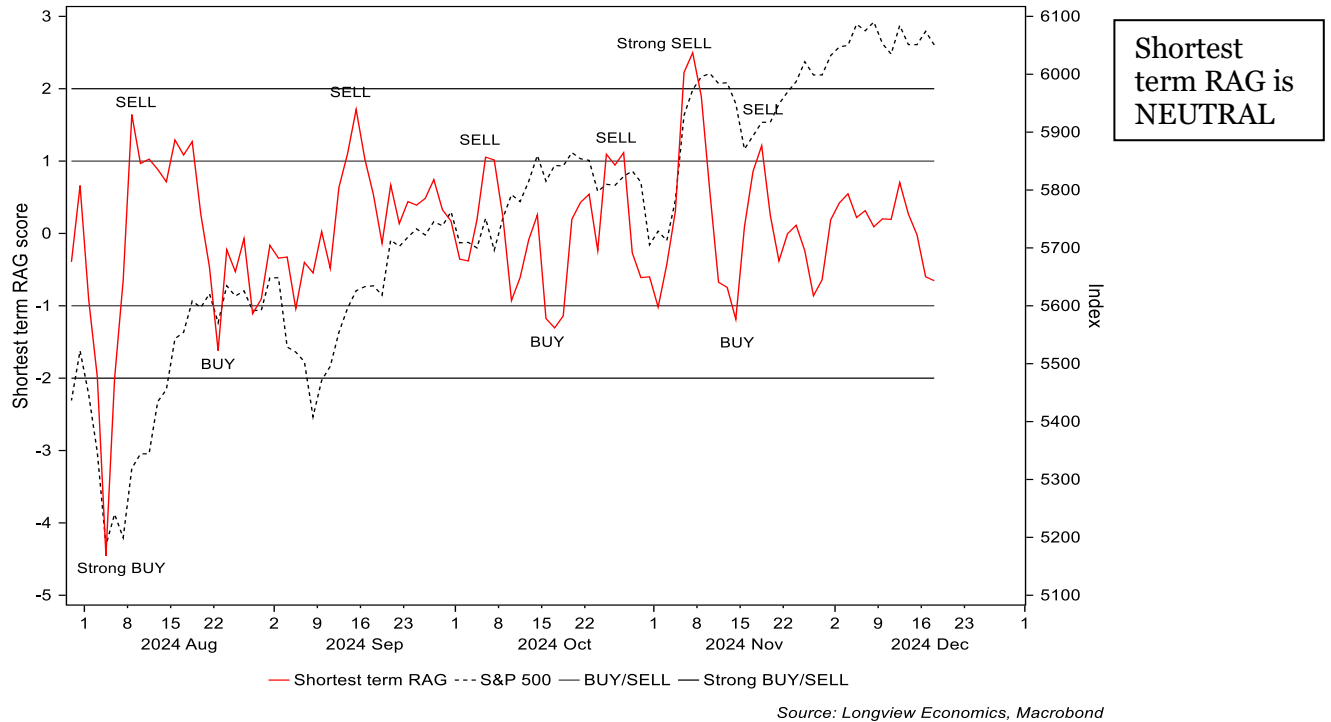
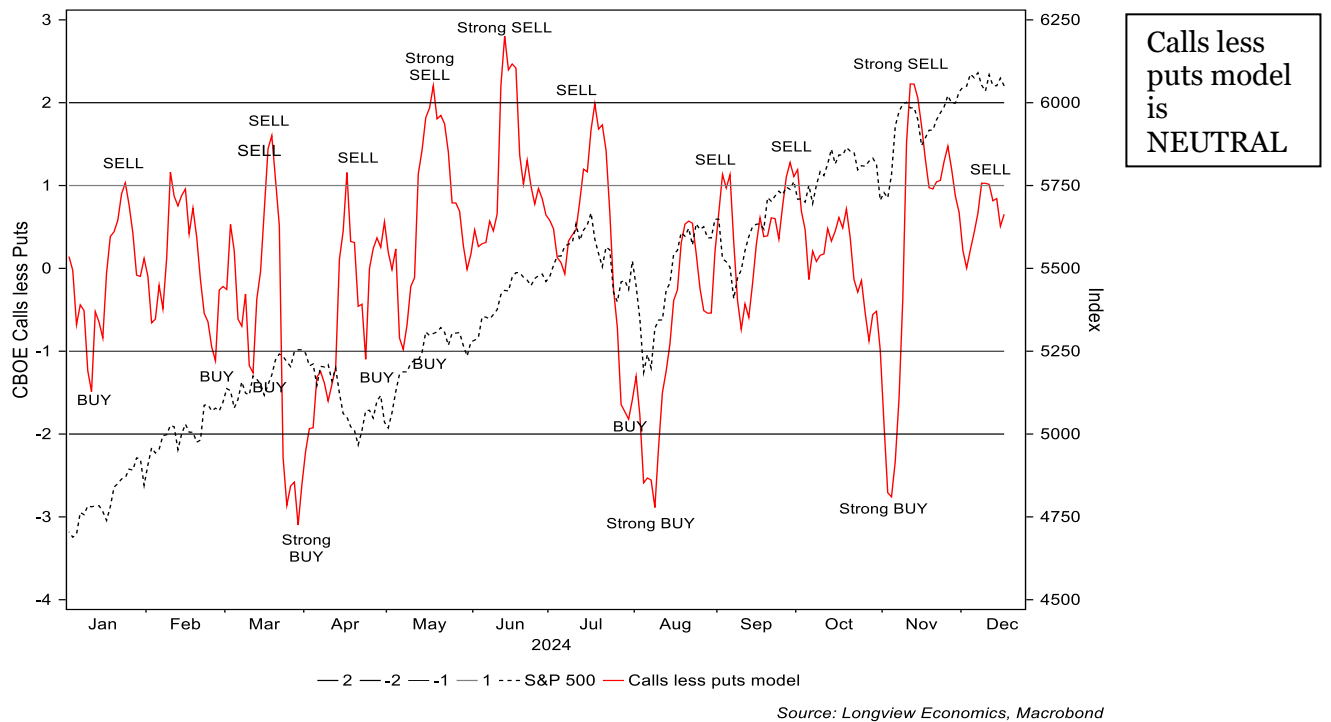
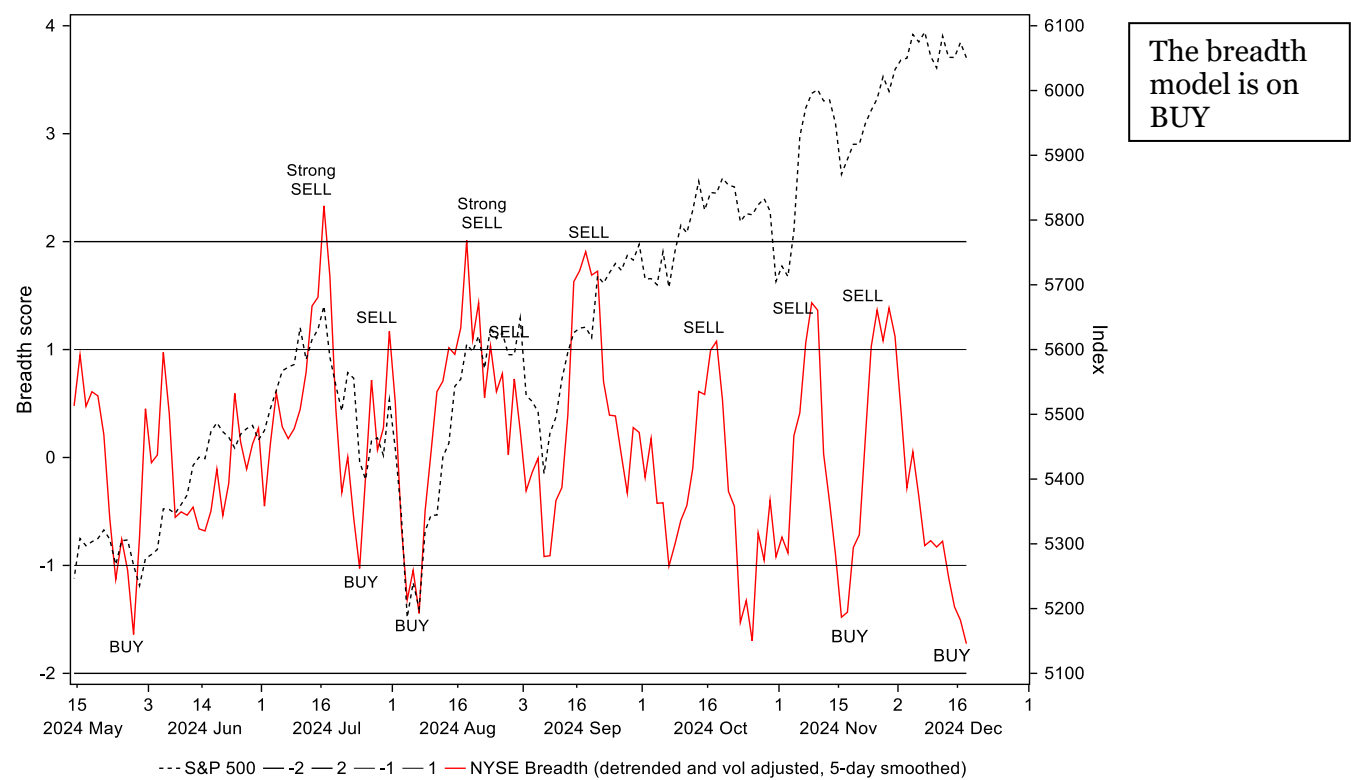


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

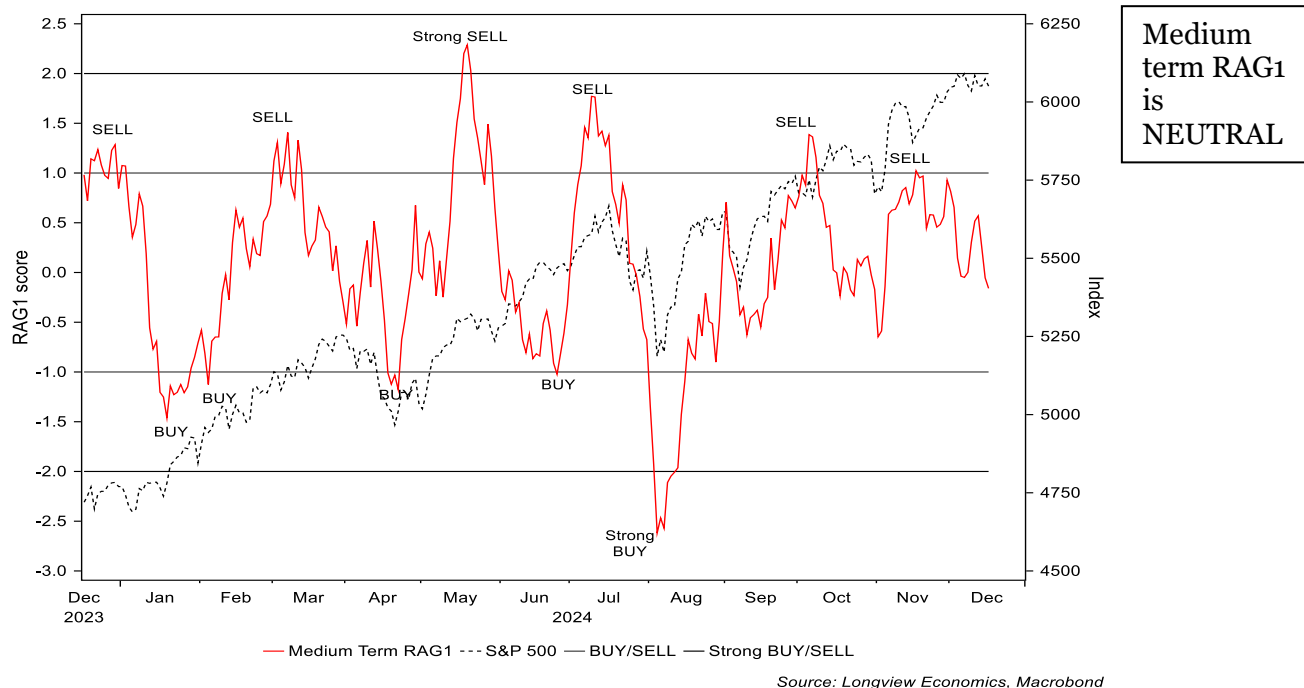
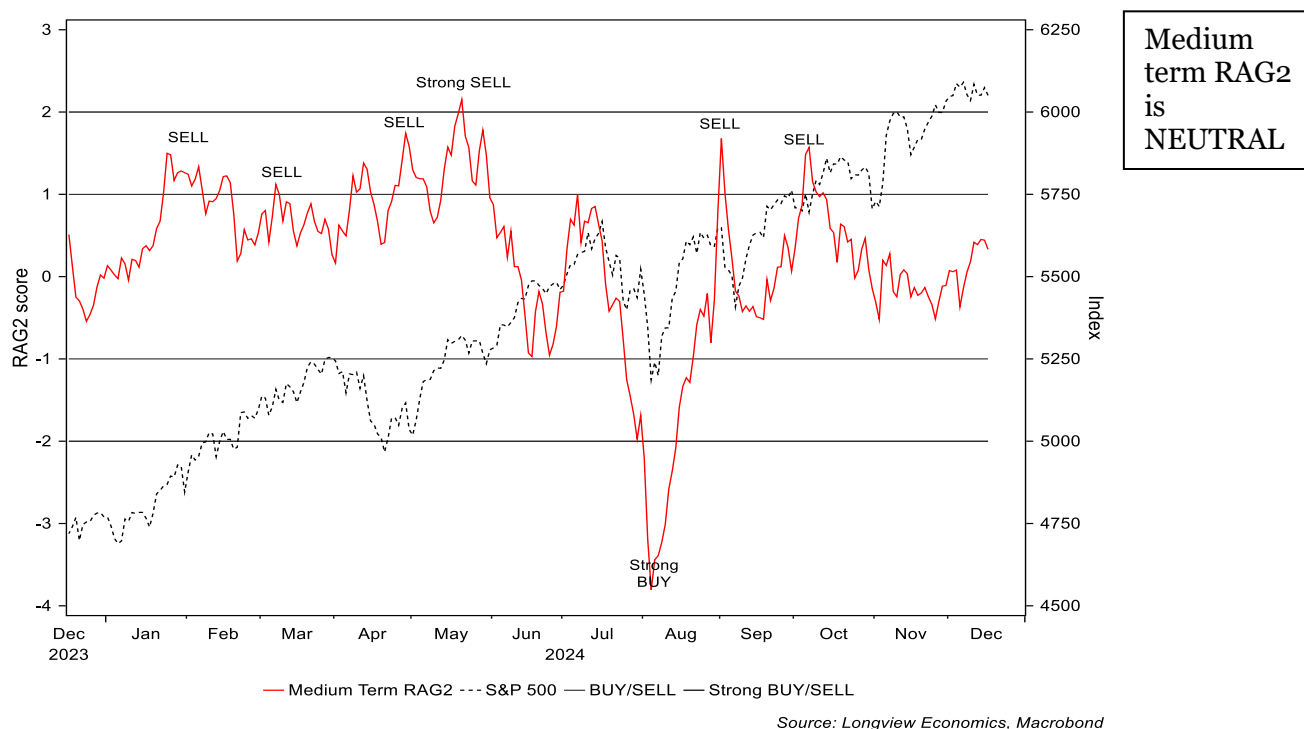


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

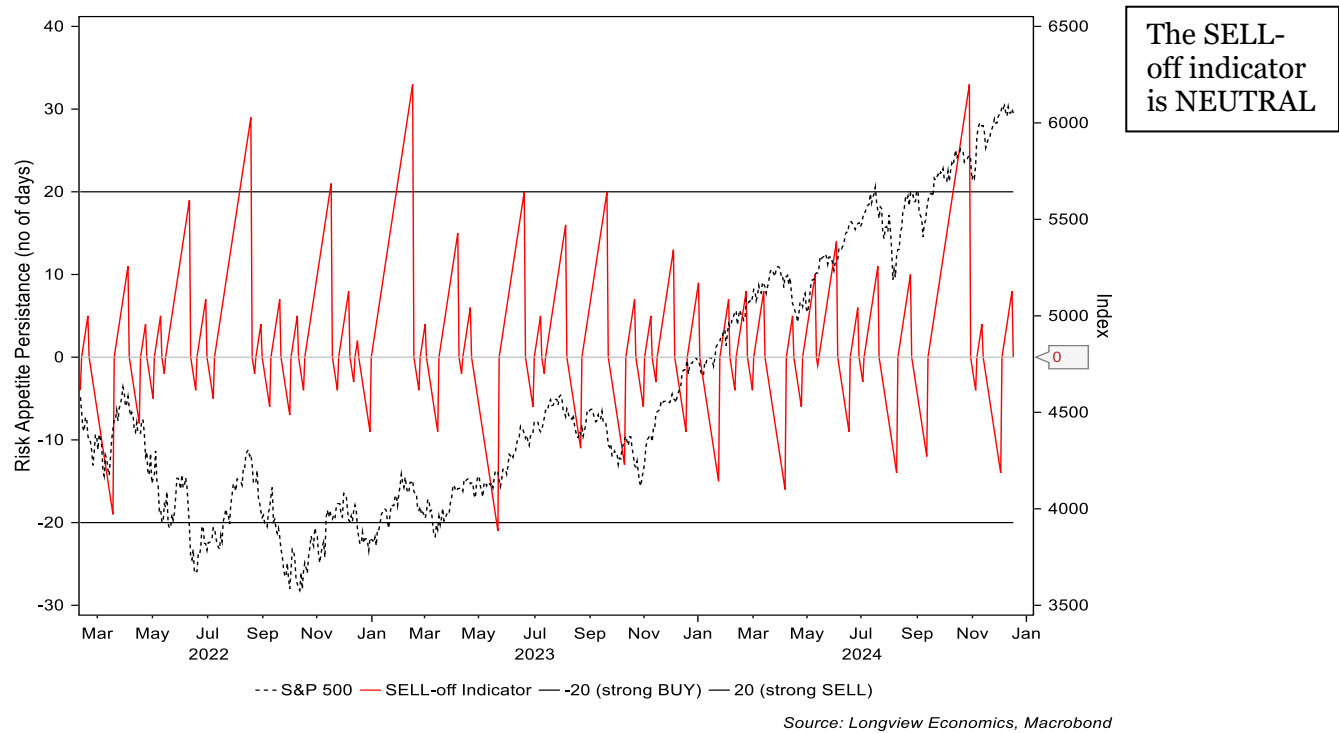
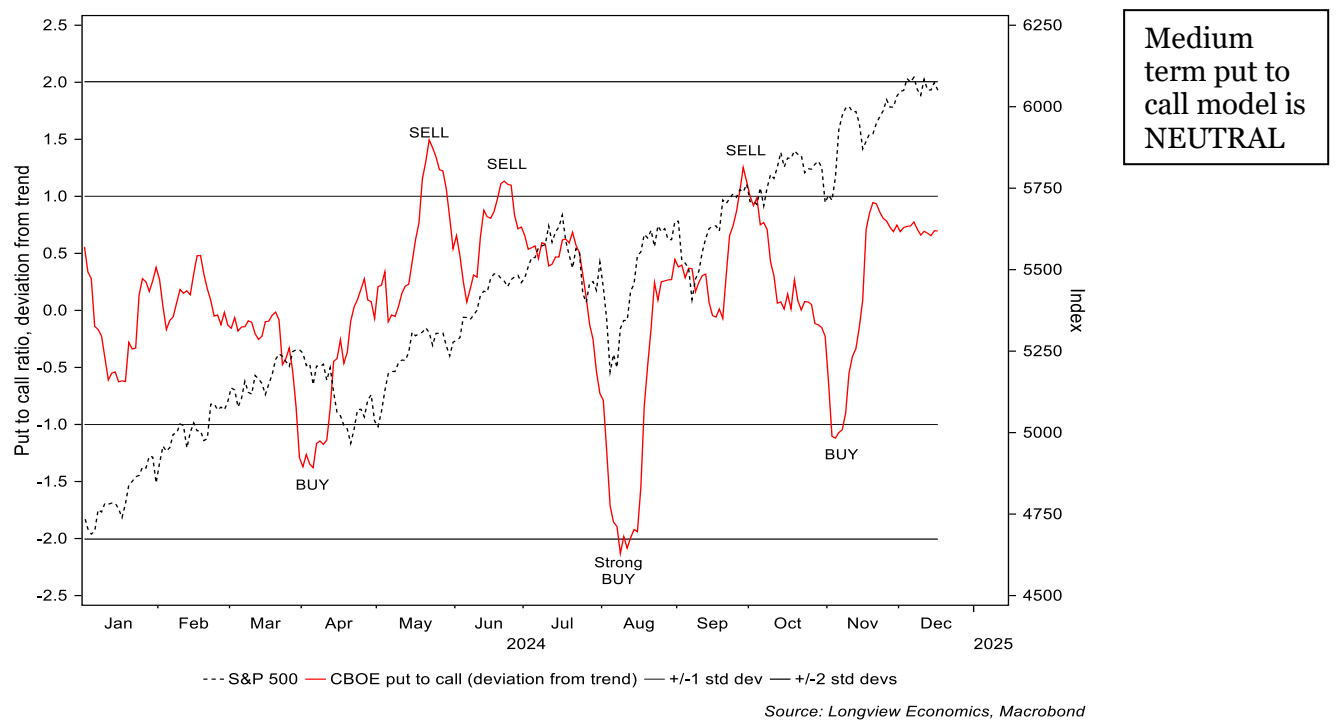


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

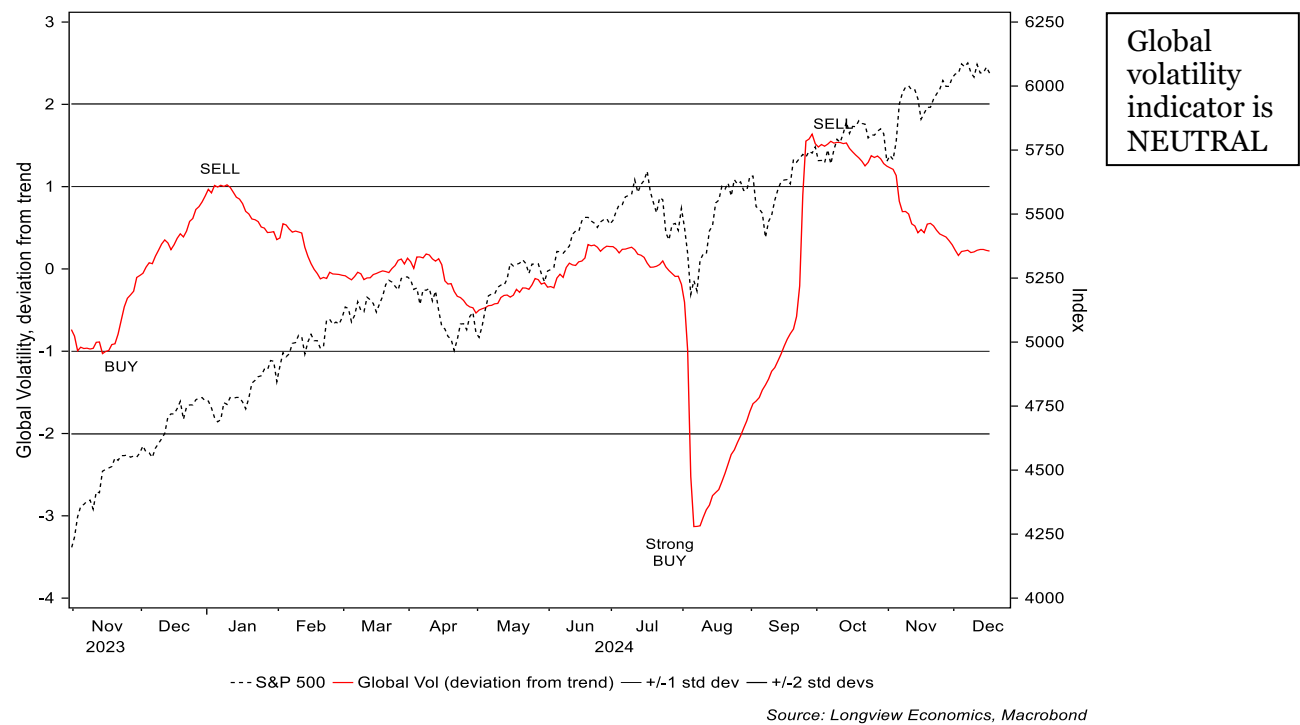


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

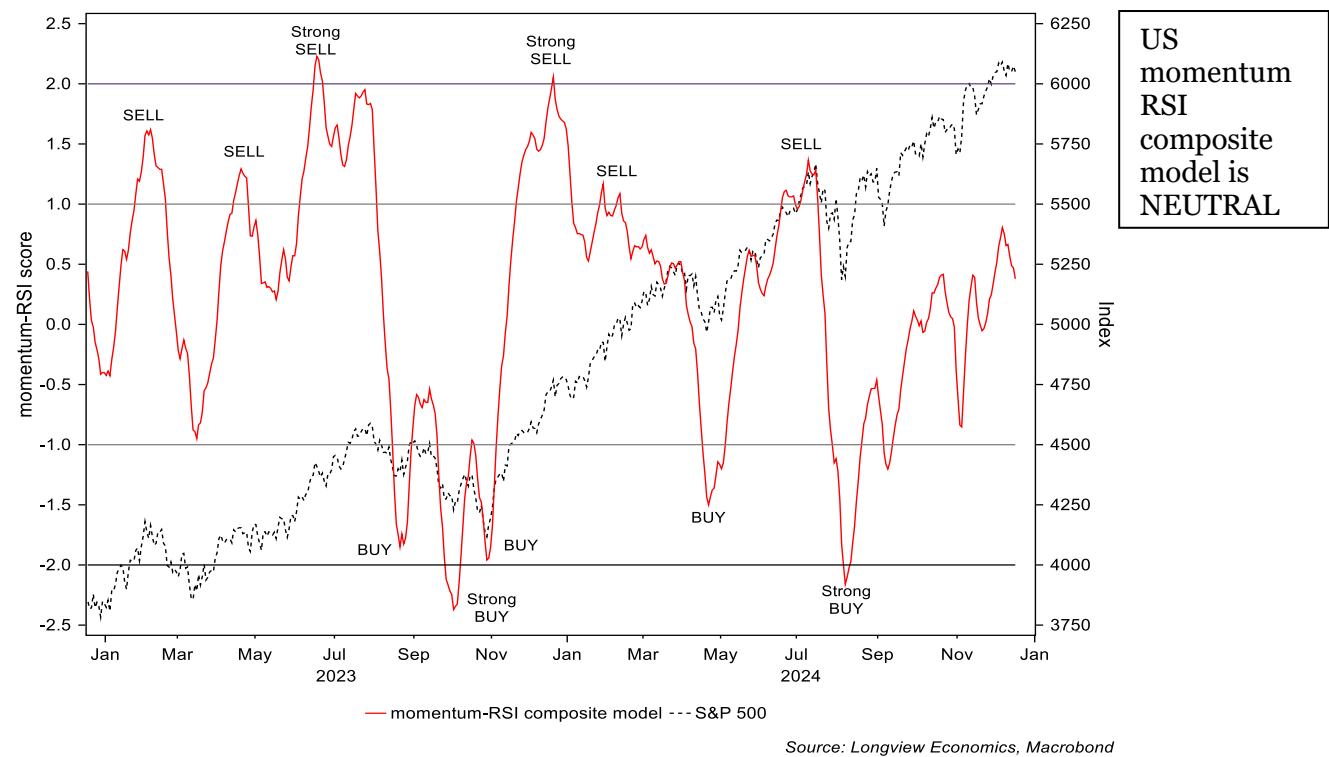


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

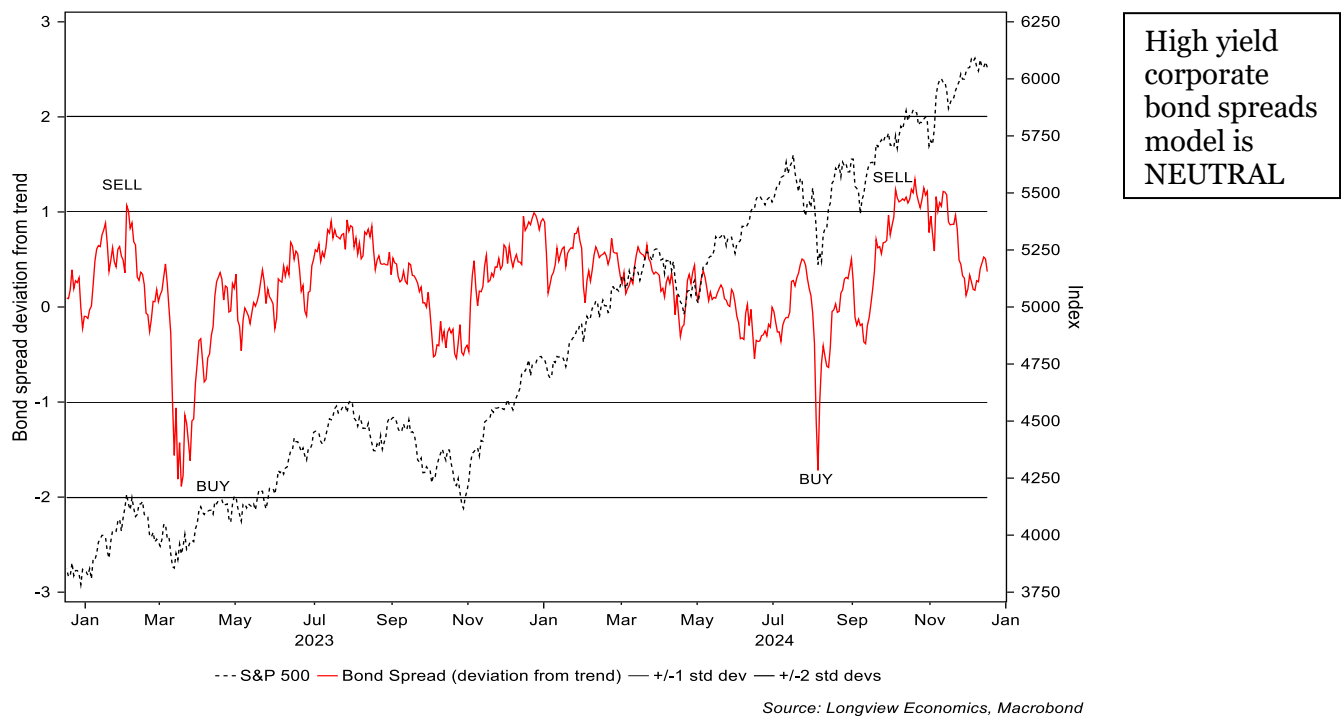
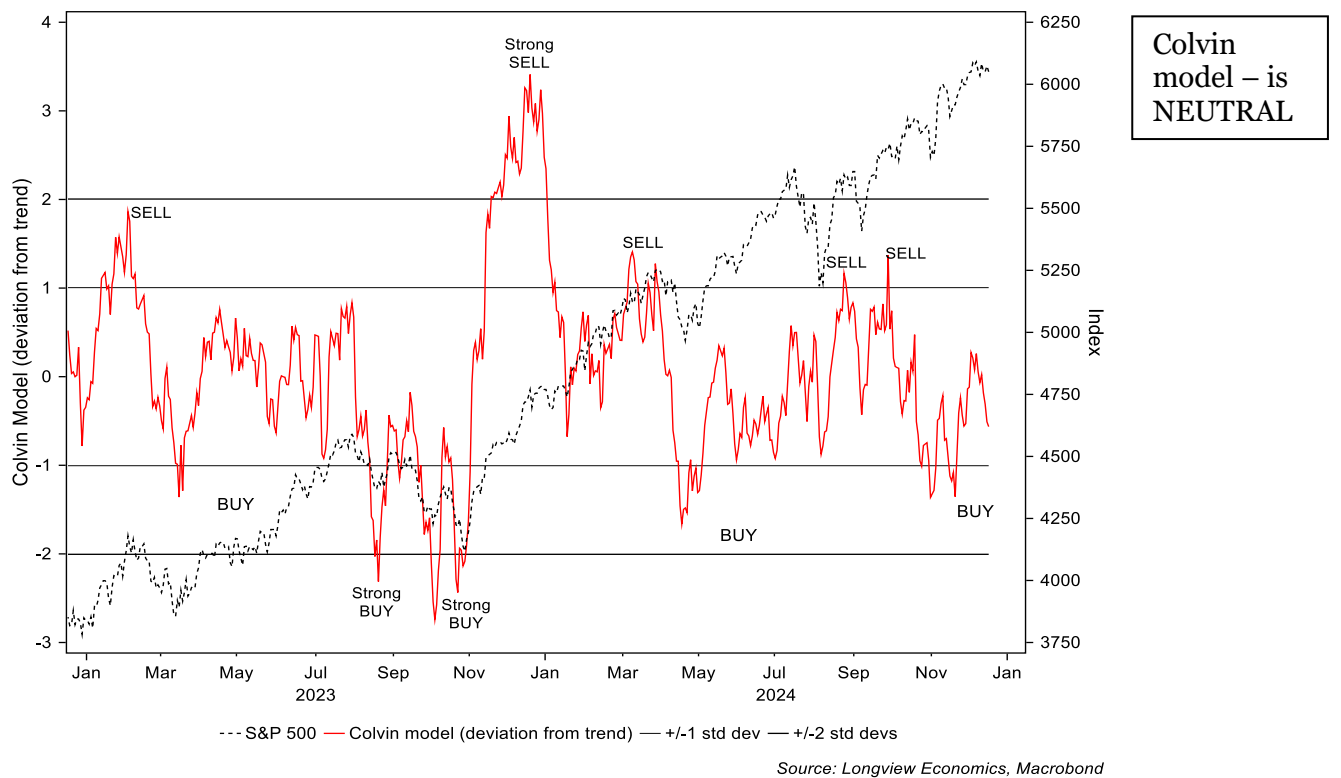


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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