LVRAG
Daily Risk Appetite Gauge

# Equity Index Futures Trading Recommendations

19th December 2024

"After That, Now What?"

*Email: info@longvieweconomics.com*

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

- WATCH & WAIT (for now)

## Rationale

"would say today's rate decision was a closer call"; "Downside labour market risks have diminished"; "we see inflation as still broadly on track"; "slower pace for cuts reflects higher (inflation) readings this year"; "uncertainty around inflation is higher"; "when the path is uncertain you go a bit slower"; "US Fed now significantly closer to end of easing cycle"; "expected growth slowdown keeps not happening"

**Source:** Powell press conference, 18th December 2024 (yesterday)

**A hawkish Fed meeting, 'dot plot' and press conference yesterday sent risk asset prices sharply lower** (with all US headline indices, top level sectors and industry groups down on the session)**, yields across the US curve higher** (2 & 10 year yields up 10bps)**, the dollar up 1% and gold down 2.26%.**

**Indeed, the Fed followed through on what the market had started thinking* and then went further than expected (hence the weakness in risk assets).**

The extracted comments above (from Powell's press conference) illustrate the shift in tone and expectations at the Fed, as Powell (and the committee) outline a picture of **more robust economic growth and 'higher inflation readings'** than previously forecast by the Fed. That also showed up in their forecasts with the SEP** showing inflation forecasts for 2024, 2025 and 2026 shifted rightwards relative to the September projections (i.e. higher expected inflation – both at the headline and core level); GDP forecasts increased notably for 2024; modestly for 2025 (and then broadly the same beyond that); while the forecasts for the unemployment rate were largely unchanged. With those changes (especially the stickier inflation projections), the committee's forecasts took out 50bps of cuts from 2025 with that flowing through into 2026 (see table 1 below). As a result, Fed fund futures priced out 14bps of cuts from the 2025 and 2026 December Fed fund futures.

With that weakness, though, our **short-term models are generating a more convincing BUY message**. The risk appetite scoring system is now back on BUY; the US S&P500 is technically oversold as per our technical scoring system, while single stock and sector technical models are generating a strong/clearer BUY message (see charts below, FIGs 2 – 3d). Some medium term (1 – 4 month) models are also starting to look interesting with the 'stocks above their 50 day moving averages' model, for example, generating a BUY signal (FIG 1a).

So, the question is whether the Fed's hawkishness will set off a chain reaction, with selling begetting more selling, much like late December 2018 into Christmas eve (when again the Fed proved more hawkish than expected at its December meeting); OR is the model set-up sufficient to kick start the traditional rally in the second half of December? Is the Fed the 'Grinch of Christmas'? Or is Santa coming to town?

Models are clearly encouraging, in that respect, although the lack of downside protection is a concern (FIG 4). Not surprisingly, we were stopped out of our LONG position by yesterday's sharp weakness. For choice, we view a Santa rally as the most likely outcome. We'd look for some semblance of price stability today, though, before we started moving LONG again. As always, having been stopped out yesterday, we're reticent to re-implement the same trade straightaway (i.e. as good discipline), and therefore we're standing back and 'WATCHing & WAITing' (at least for today).

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

Kind regards,

The team @ Longview Economics

*i.e. that the market had already started pricing out rate cuts for 2025. Both since September, and again since early December, the implied policy rate (as per Fed fund futures) for year end 2025 and 2026 has been shifting higher – see FIG 1.
**Summary of Economic Projections

**<u>Table 1:</u>** <u>Fed's Summary of Economic Projections – headline changes</u>

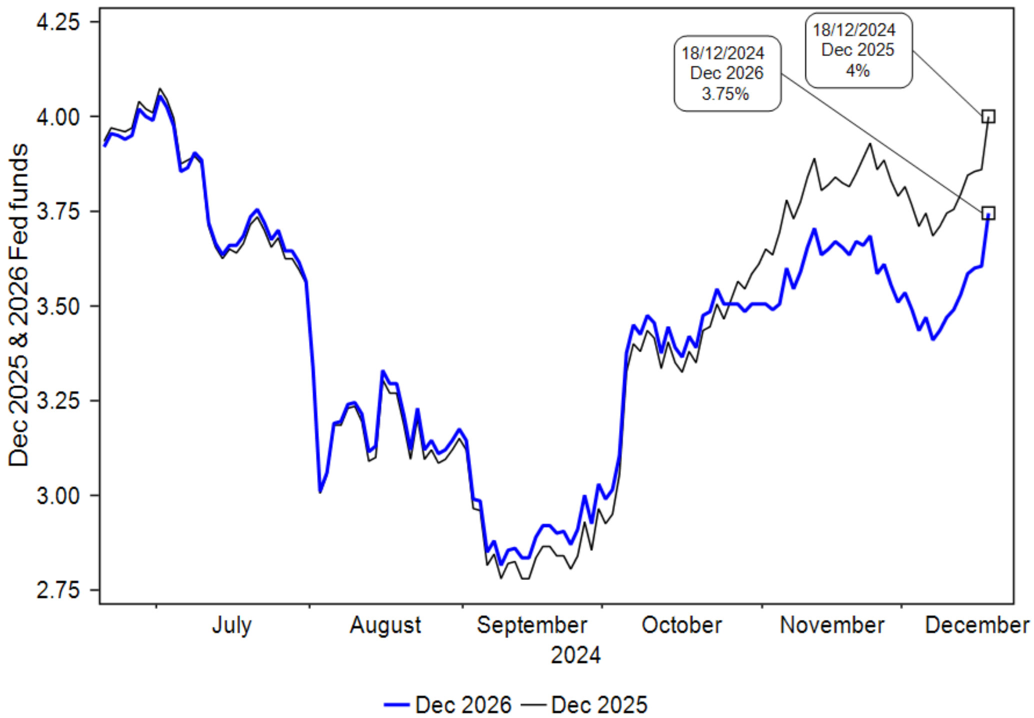
**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2024**

Percent

| Variable | Median[1] | | | | | Central Tendency[2] | | | | | Range[3] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | Longer run | 2024 | 2025 | 2026 | 2027 | Longer run | 2024 | 2025 | 2026 | 2027 | Longer run |
| Change in real GDP | 2.5 | 2.1 | 2.0 | 1.9 | 1.8 | 2.4–2.5 | 1.8–2.2 | 1.9–2.1 | 1.8–2.0 | 1.7–2.0 | 2.3–2.7 | 1.6–2.5 | 1.4–2.5 | 1.5–2.5 | 1.7–2.5 |
| September projection | 2.0 | 2.0 | 2.0 | 2.0 | 1.8 | 1.9–2.1 | 1.8–2.2 | 1.9–2.3 | 1.8–2.1 | 1.7–2.0 | 1.8–2.6 | 1.3–2.5 | 1.7–2.5 | 1.7–2.5 | 1.7–2.5 |
| Unemployment rate | 4.2 | 4.3 | 4.3 | 4.3 | 4.2 | 4.2 | 4.2–4.5 | 4.1–4.4 | 4.0–4.4 | 3.9–4.3 | 4.2 | 4.2–4.5 | 3.9–4.6 | 3.8–4.5 | 3.5–4.5 |
| September projection | 4.4 | 4.4 | 4.3 | 4.2 | 4.2 | 4.3–4.4 | 4.2–4.5 | 4.0–4.4 | 4.0–4.4 | 3.9–4.3 | 4.2–4.5 | 4.2–4.7 | 3.9–4.5 | 3.8–4.5 | 3.5–4.5 |
| PCE inflation | 2.4 | 2.5 | 2.1 | 2.0 | 2.0 | 2.4–2.5 | 2.3–2.6 | 2.0–2.2 | 2.0 | 2.0 | 2.4–2.7 | 2.1–2.9 | 2.0–2.6 | 2.0–2.4 | 2.0 |
| September projection | 2.3 | 2.1 | 2.0 | 2.0 | 2.0 | 2.2–2.4 | 2.1–2.2 | 2.0 | 2.0 | 2.0 | 2.1–2.7 | 2.1–2.4 | 2.0–2.2 | 2.0–2.1 | 2.0 |
| Core PCE inflation[4] | 2.8 | 2.5 | 2.2 | 2.0 | | 2.8–2.9 | 2.5–2.7 | 2.0–2.3 | 2.0 | | 2.8–2.9 | 2.1–3.2 | 2.0–2.7 | 2.0–2.6 | |
| September projection | 2.6 | 2.2 | 2.0 | 2.0 | | 2.6–2.7 | 2.1–2.3 | 2.0 | 2.0 | | 2.4–2.9 | 2.1–2.5 | 2.0–2.2 | 2.0–2.2 | |
| Memo: Projected appropriate policy path | | | | | | | | | | | | | | | |
| Federal funds rate | 4.4 | 3.9 | 3.4 | 3.1 | 3.0 | 4.4–4.6 | 3.6–4.1 | 3.1–3.6 | 2.9–3.6 | 2.8–3.6 | 4.4–4.6 | 3.1–4.4 | 2.4–3.9 | 2.4–3.9 | 2.4–3.9 |
| September projection | 4.4 | 3.4 | 2.9 | 2.9 | 2.9 | 4.4–4.6 | 3.1–3.6 | 2.6–3.6 | 2.6–3.6 | 2.5–3.5 | 4.1–4.9 | 2.9–4.1 | 2.4–3.9 | 2.4–3.9 | 2.4–3.8 |

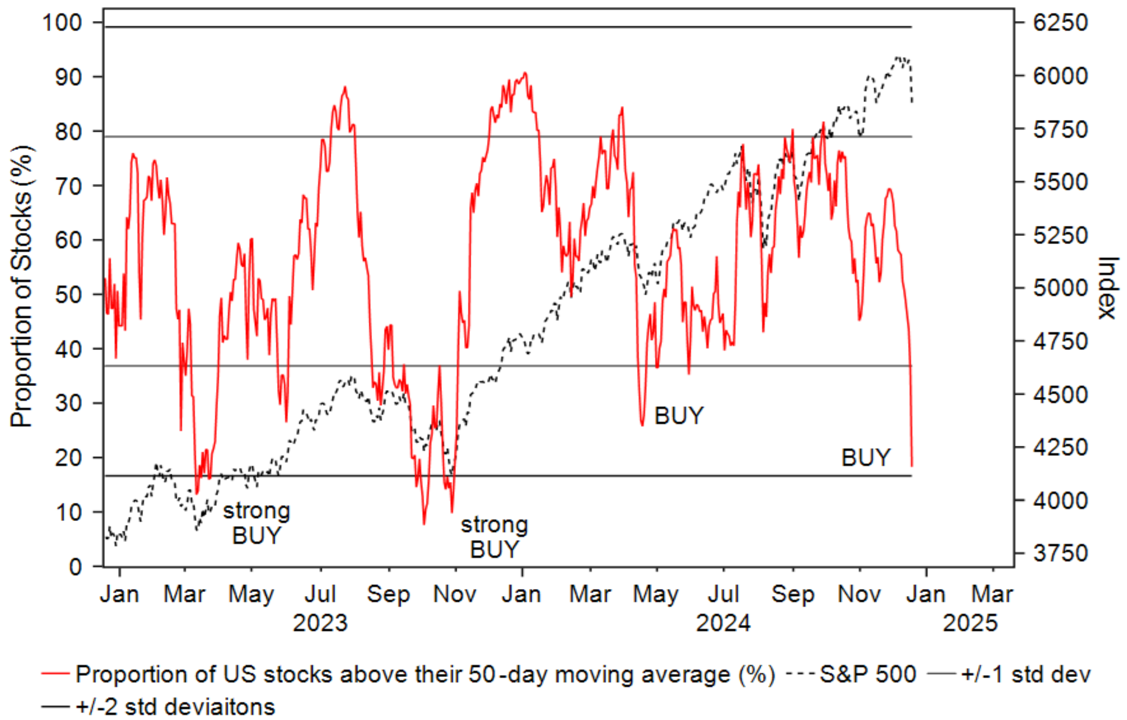
**Source:** Federal Reserve,
https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20241218.pdf

**FIG 1:** US Implied policy rate at year end 2025 and 2026 (based on Fed fund futures)




*Source: Longview Economics, Macrobond*

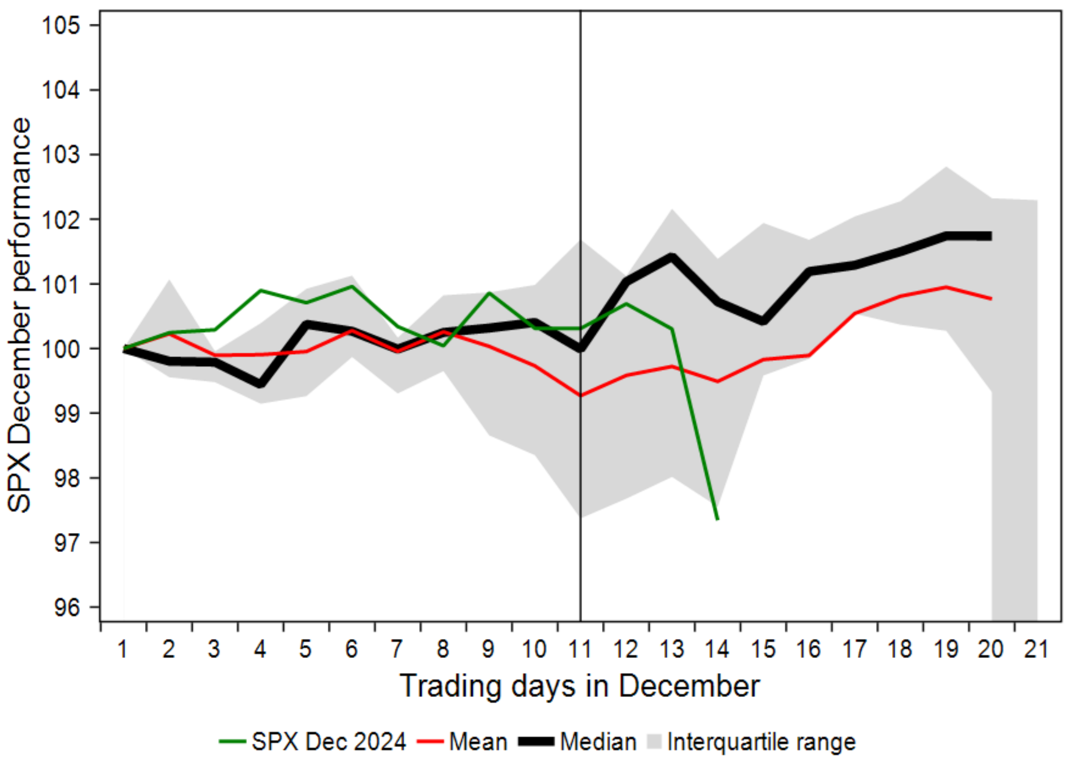
**FIG 1a:** Proportion of US stocks above their 50-day moving average vs. S&P500




*Source: Longview Economics, Macrobond*

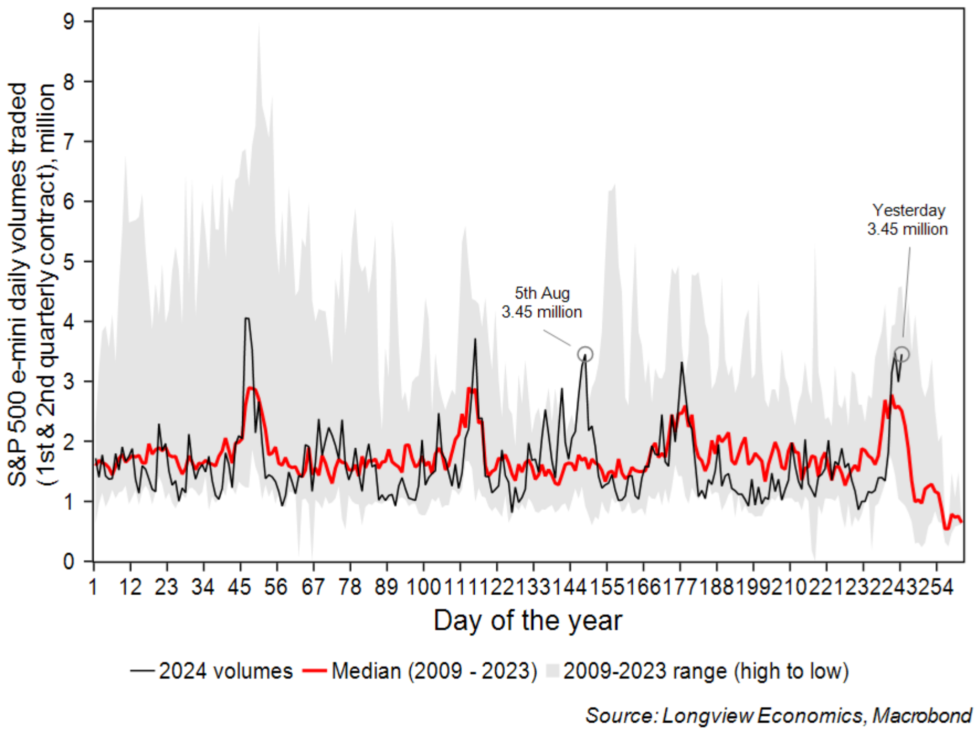
**FIG 1b:** S&P500 **MARCH** futures 10-day tick chart shown with overnight price action


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




*Source: Longview Economics, Macrobond*

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




## Risk appetite models are now on/close to BUY…

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

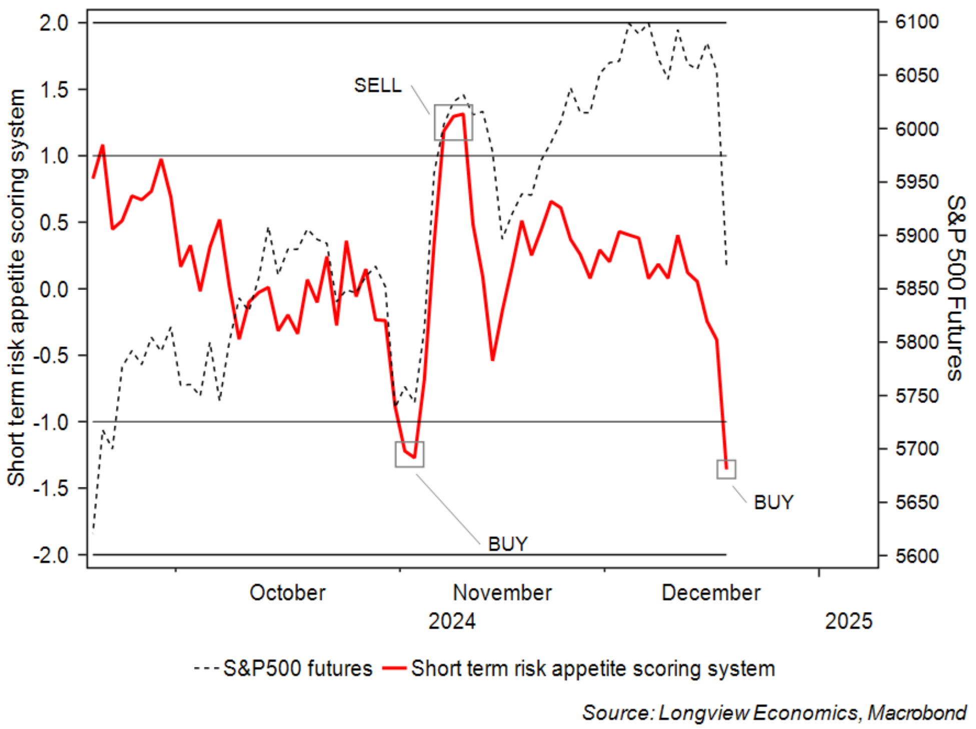
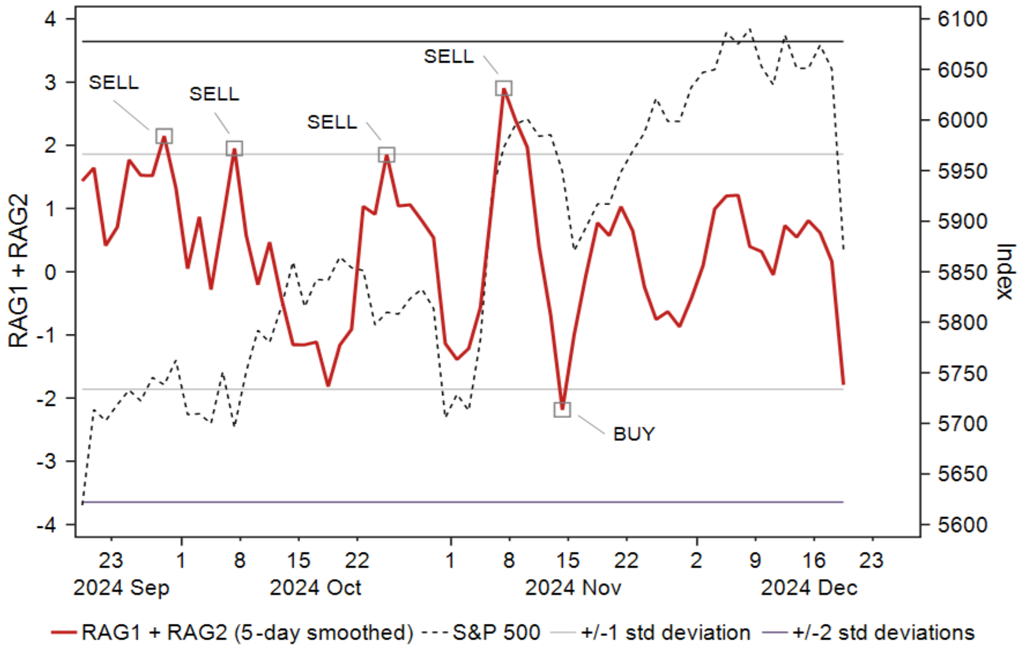


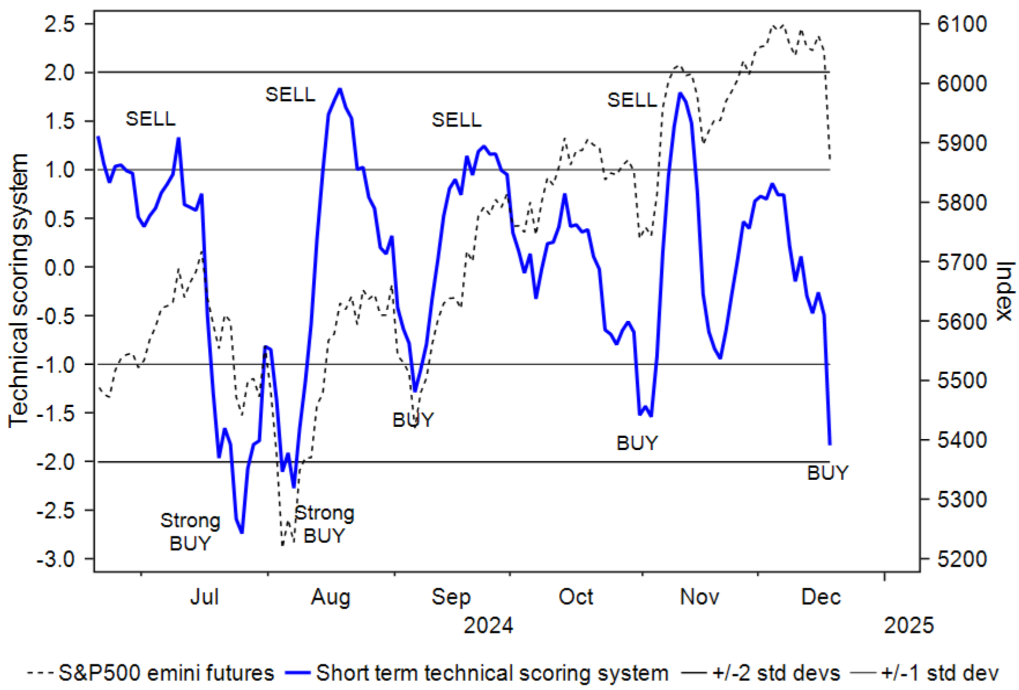
**FIG 2a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500




*Source: Longview Economics, Macrobond*

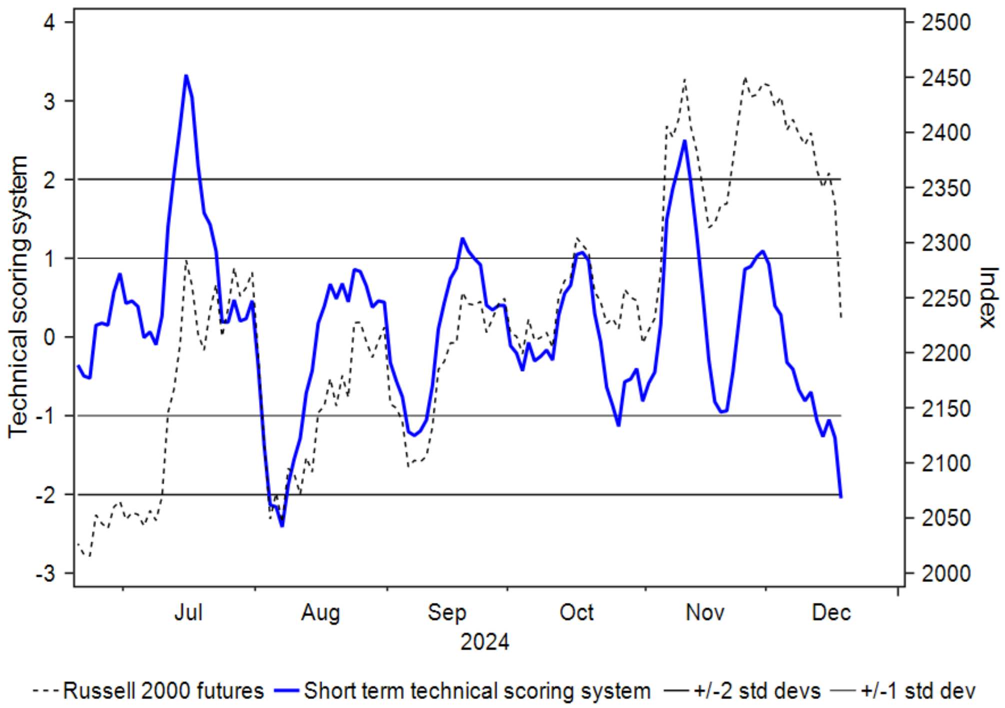
## Technical models are mostly on BUY....

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



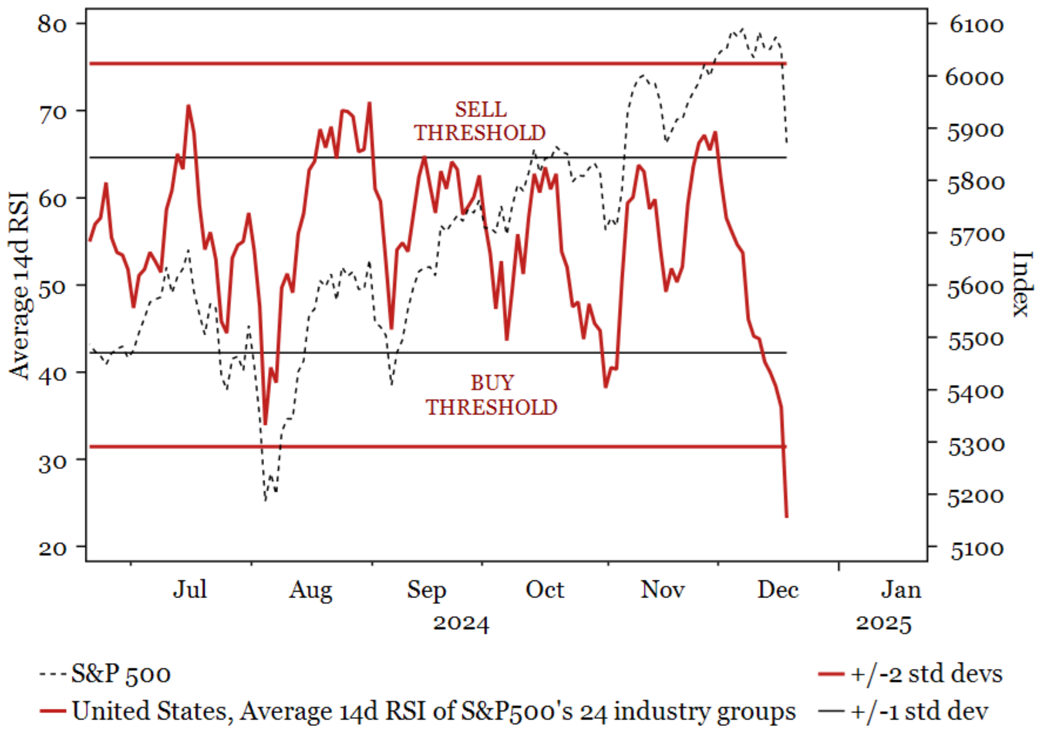

*Source: Longview Economics, Macrobond*

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



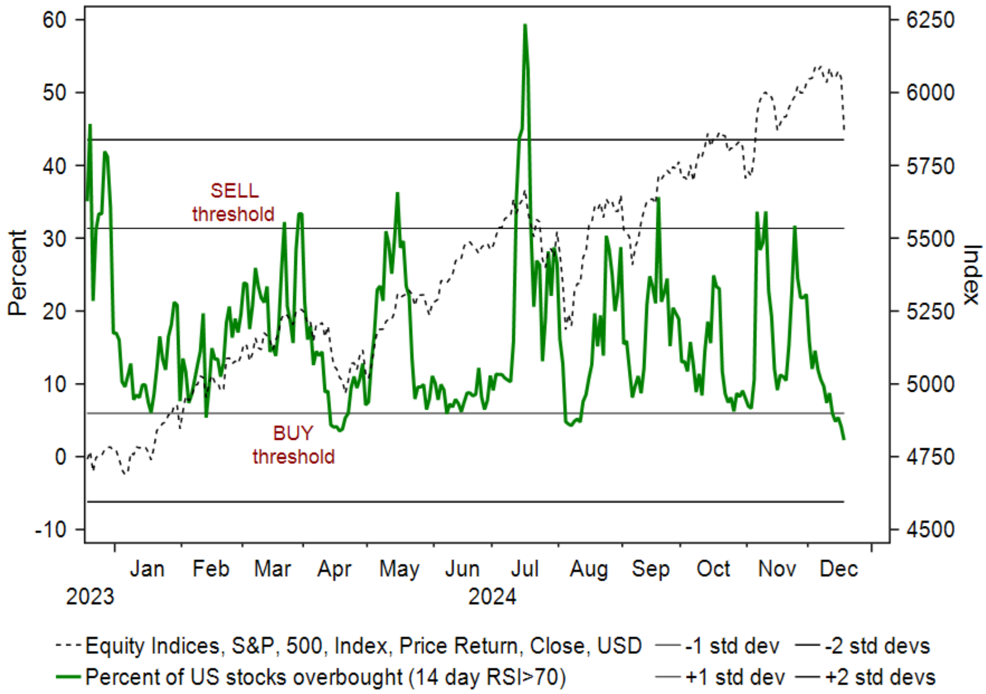

*Source: Longview Economics, Macrobond*

**FIG 3b:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



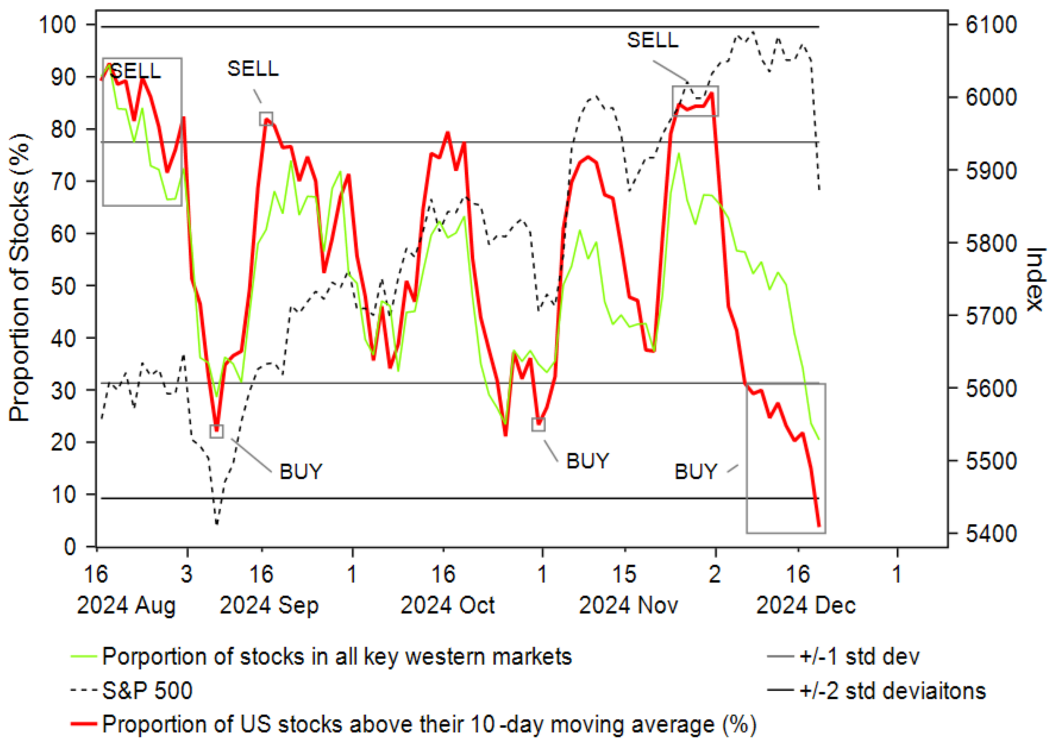

*Source: Longview Economics, Macrobond*

**FIG 3c:** Percentage of US single stocks which are overbought (i.e. with RSIs>70)




Source: Longview Economics, Macrobond

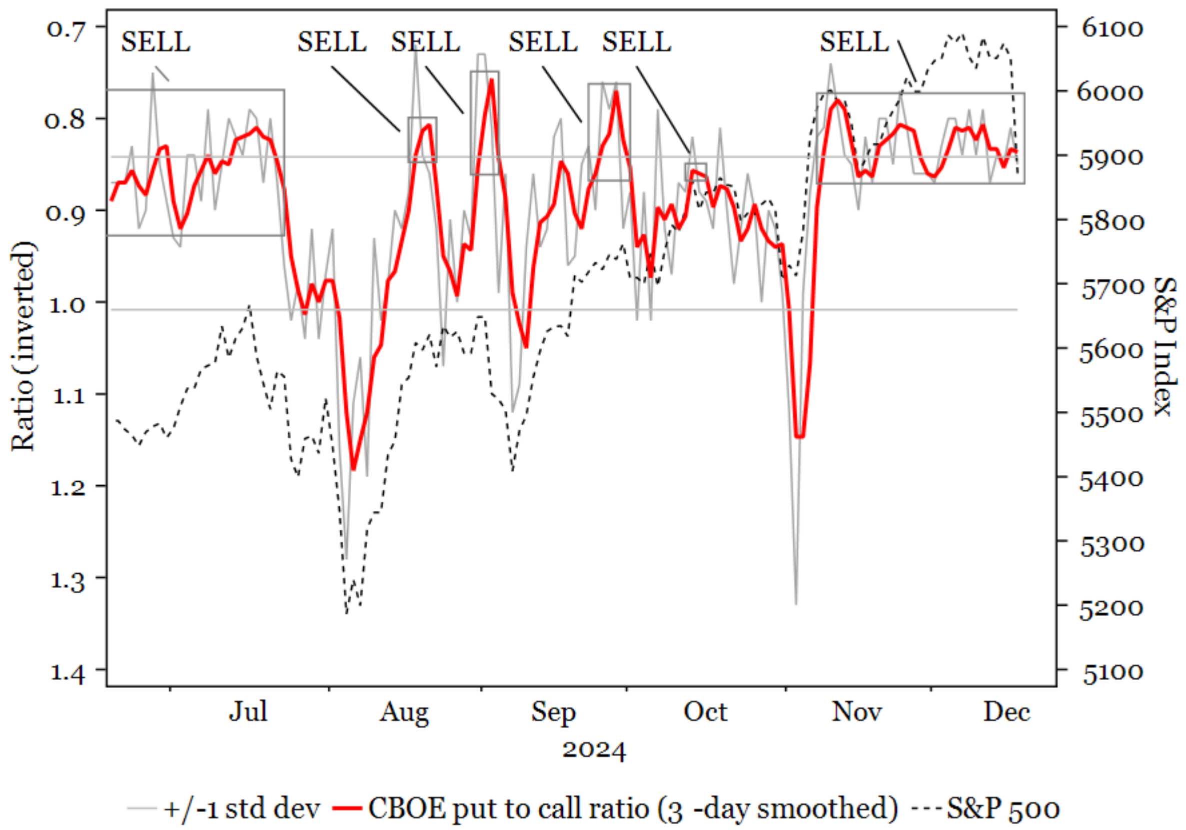
**FIG 3d:** Proportion of US/Western stocks above their 10-day moving average vs. S&P500




Source: Longview Economics, Macrobond

## Downside put protection in portfolios remains low…

**FIG 4:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

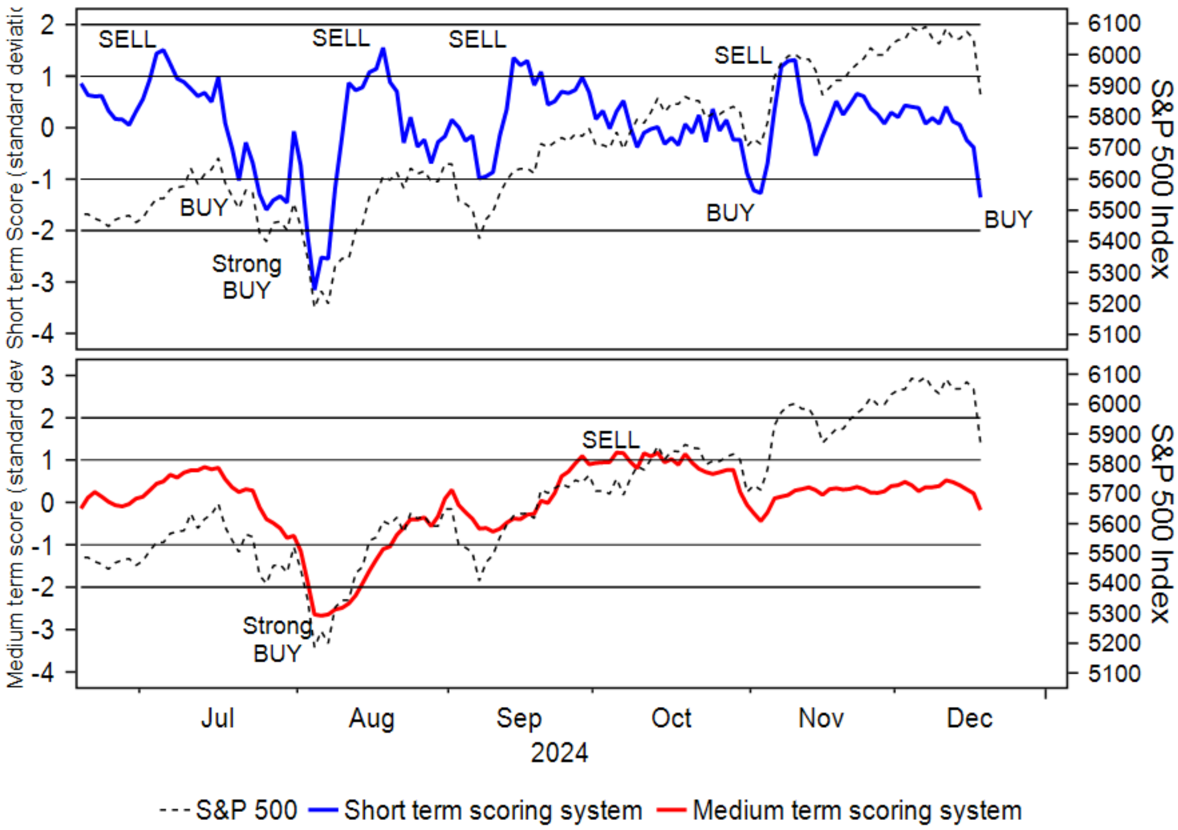



*Source: Longview Economics, Macrobond*

**Key Longview Scoring Systems** (chart below)**:**

**Short term** (1 – 2 week) scoring system: **BUY**
**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: Australian consumer inflation expectations (Dec, 12am); Eurozone new car sales (Nov, 5am); German GfK consumer confidence (Jan, 7am); French INSEE business & manufacturing confidence (Dec, 7:45am); ECB current account (Oct, 9am); Canadian CFIB business barometer (Dec, 12pm); Canadian employment change (Oct, 1:30pm); US GDP (Q3 third estimate, 1:30pm); US Philadelphia Fed business outlook (Dec, 1:30pm); US weekly jobless claims (1:30pm); **US Conference Board leading index** (Nov, 3pm); **US existing home sales** (Nov, 3pm); US Kansas City Fed manufacturing sector activity (Dec, 4pm); US total net TIC flows (Oct, 9pm); Japanese imports/exports, & trade balance (Nov, 11:50pm).

**Key events** today include: **Risbank policy decision** (8:30am); **Bank of England policy decision** (12pm); **BOJ policy decision** (overnight last night).

**Key earnings** today include: **Accenture**, **Nike**, Cintas, FedEx, Paychex.

## 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.*

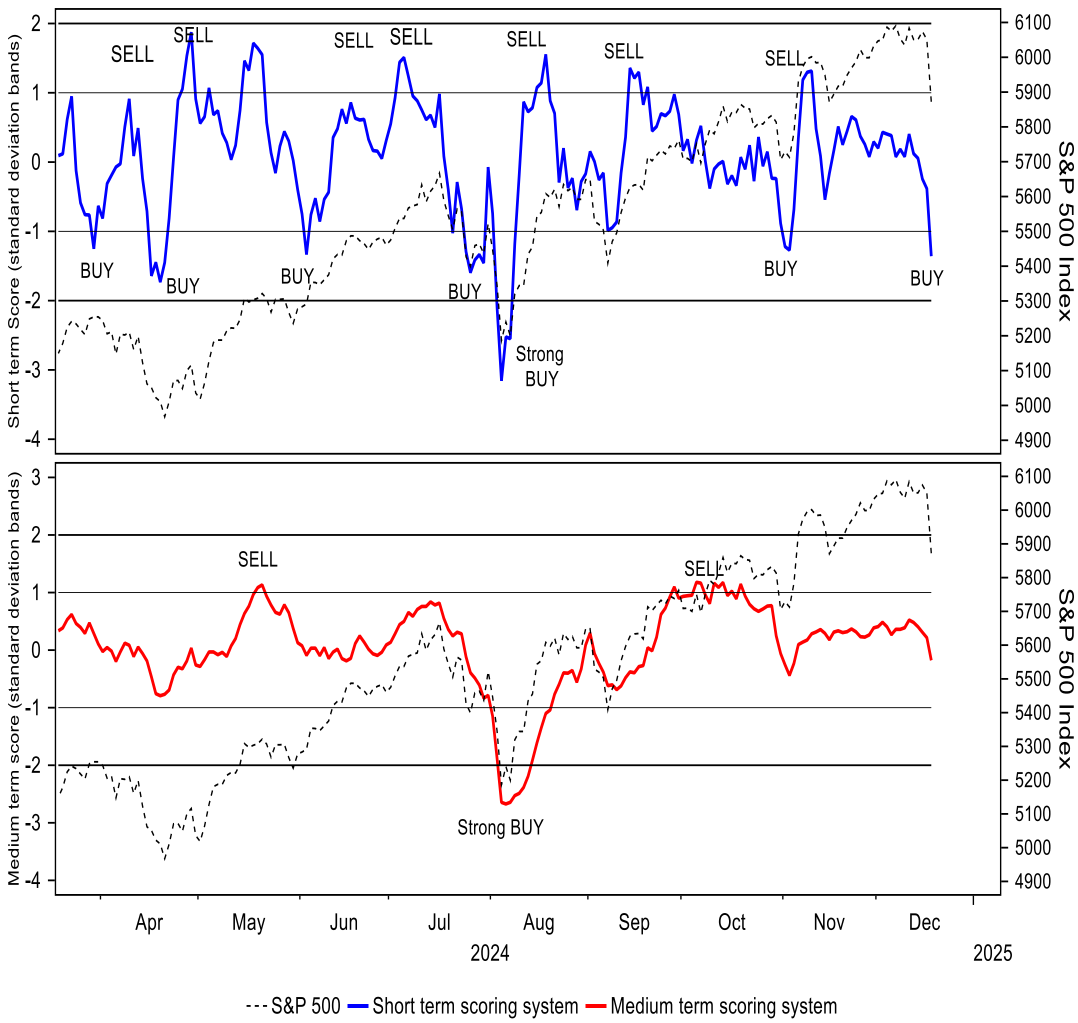
# 1 – 2 Week View on Risk

19th 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 on BUY

Medium term scoring system is NEUTRAL

*Source: Longview Economics, Macrobond*

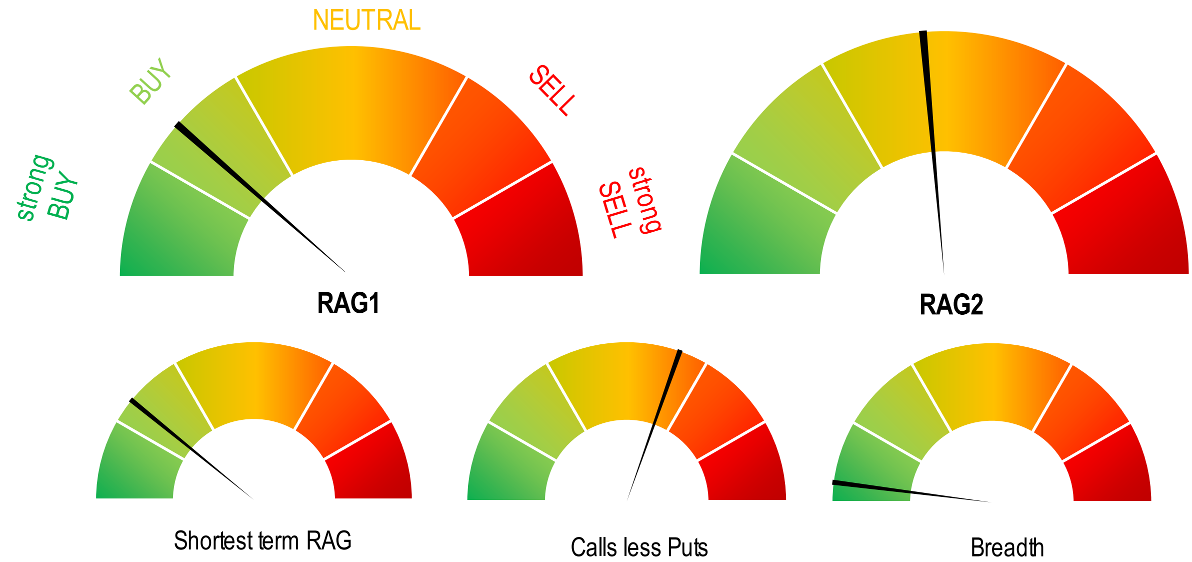
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

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

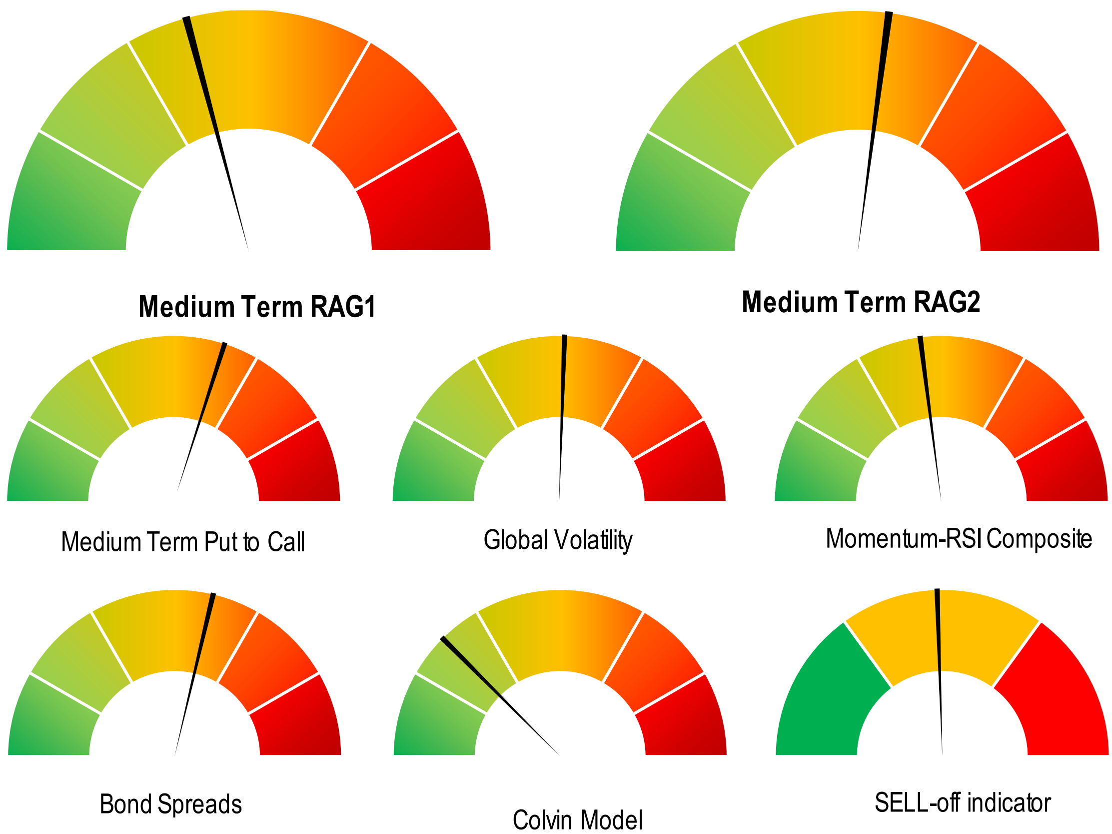
## **Section 1a:** Summary of indicator signals**

**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



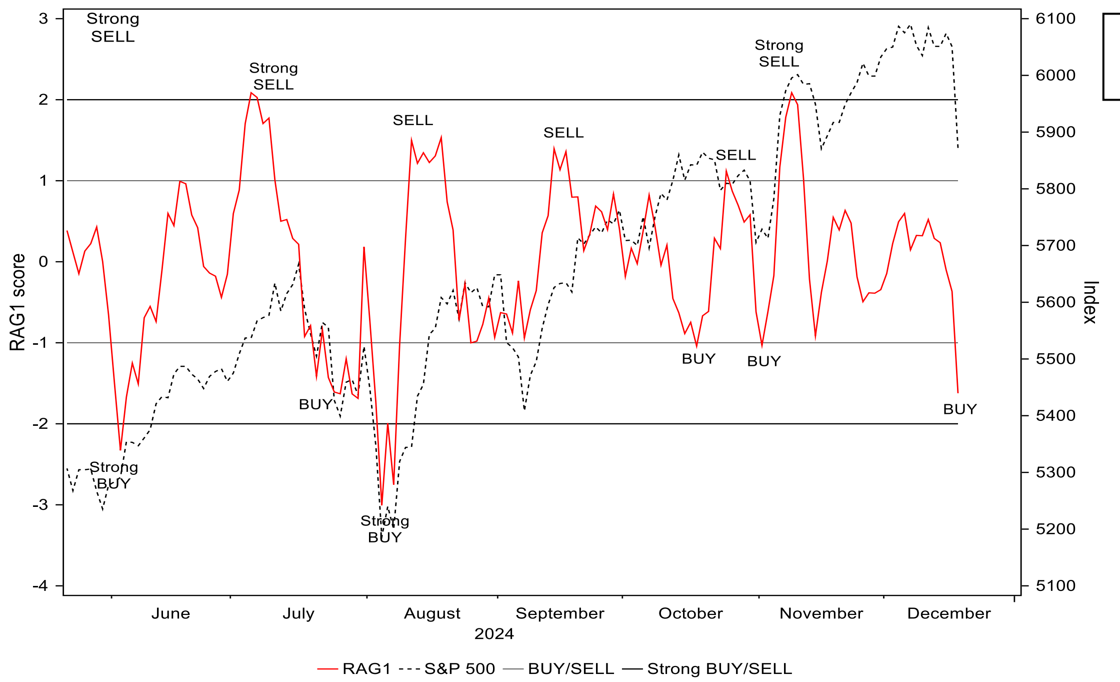

***Source:*** *Longview Economics*

**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

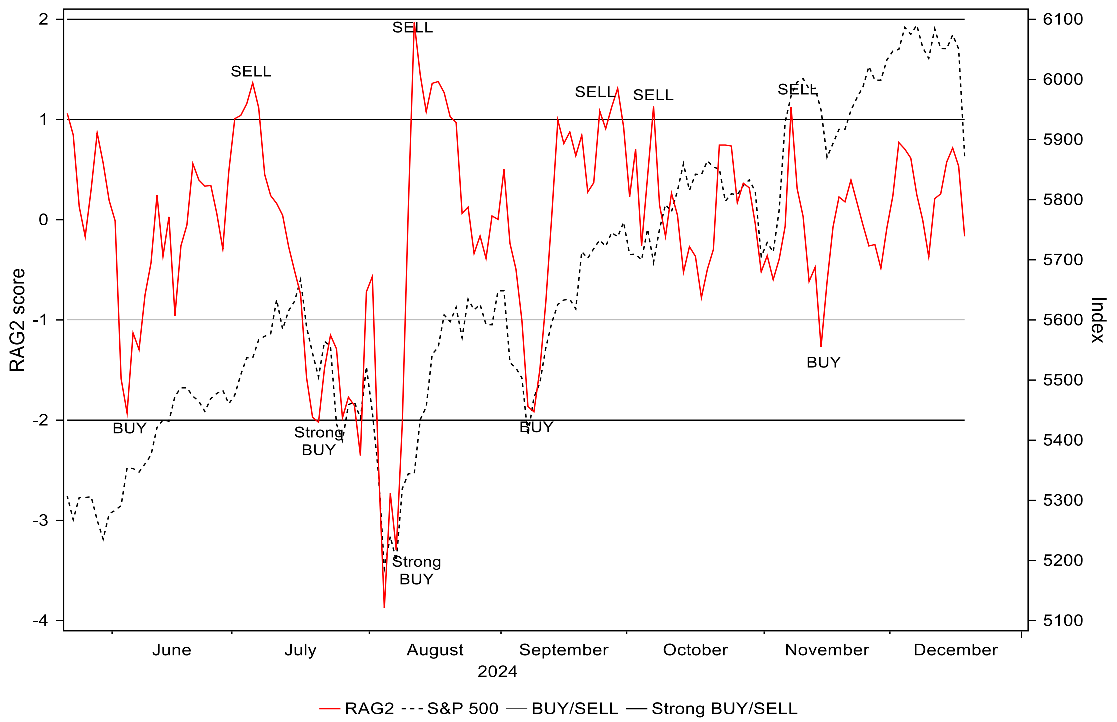
### **Fig 2a**: RAG 1 vs. S&P 500




RAG1 is on BUY

*Source: Longview Economics, Macrobond*

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



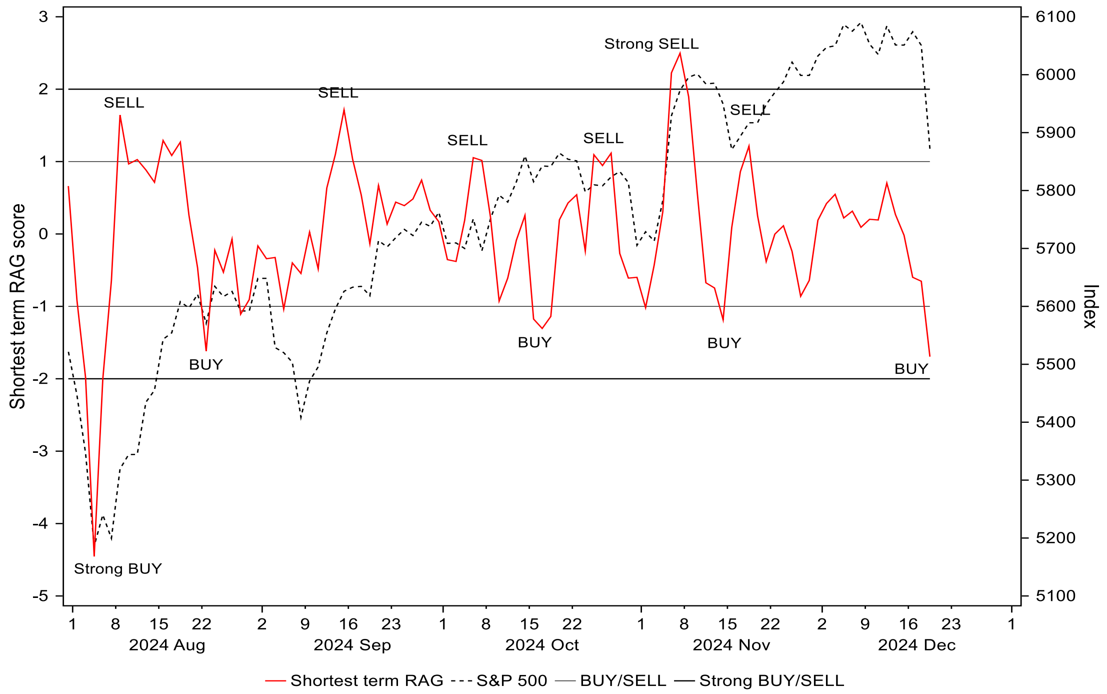

RAG2 is NEUTRAL

*Source: Longview Economics, Macrobond*

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

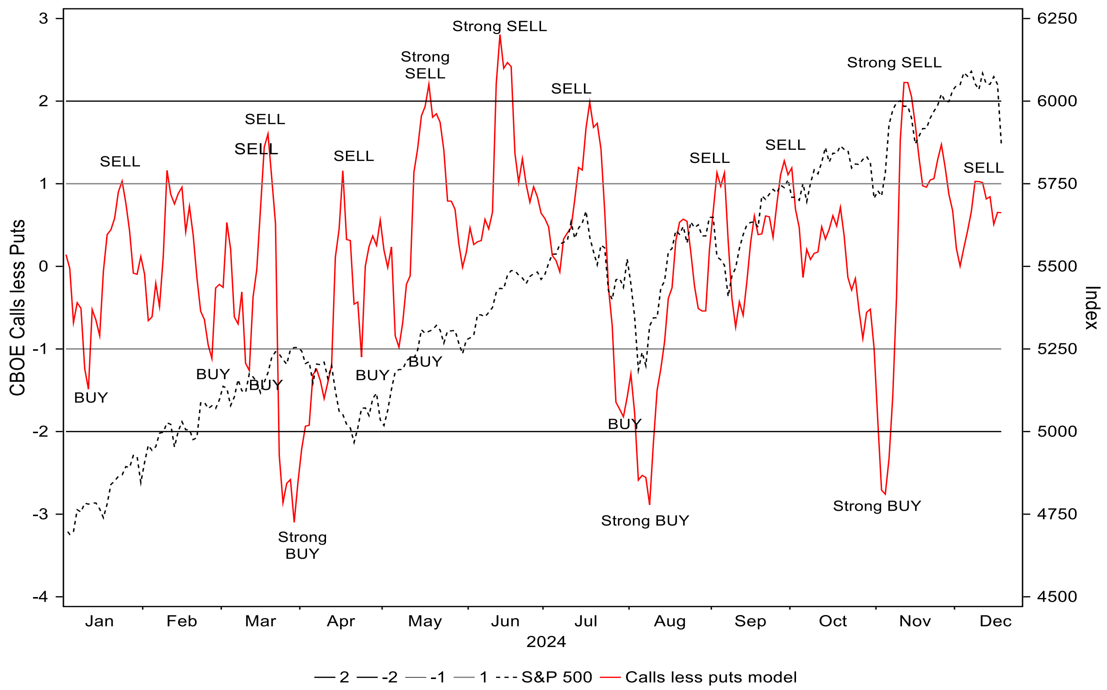
## **Fig 2c:** Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500




Shortest term RAG is on BUY

*Source: Longview Economics, Macrobond*

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

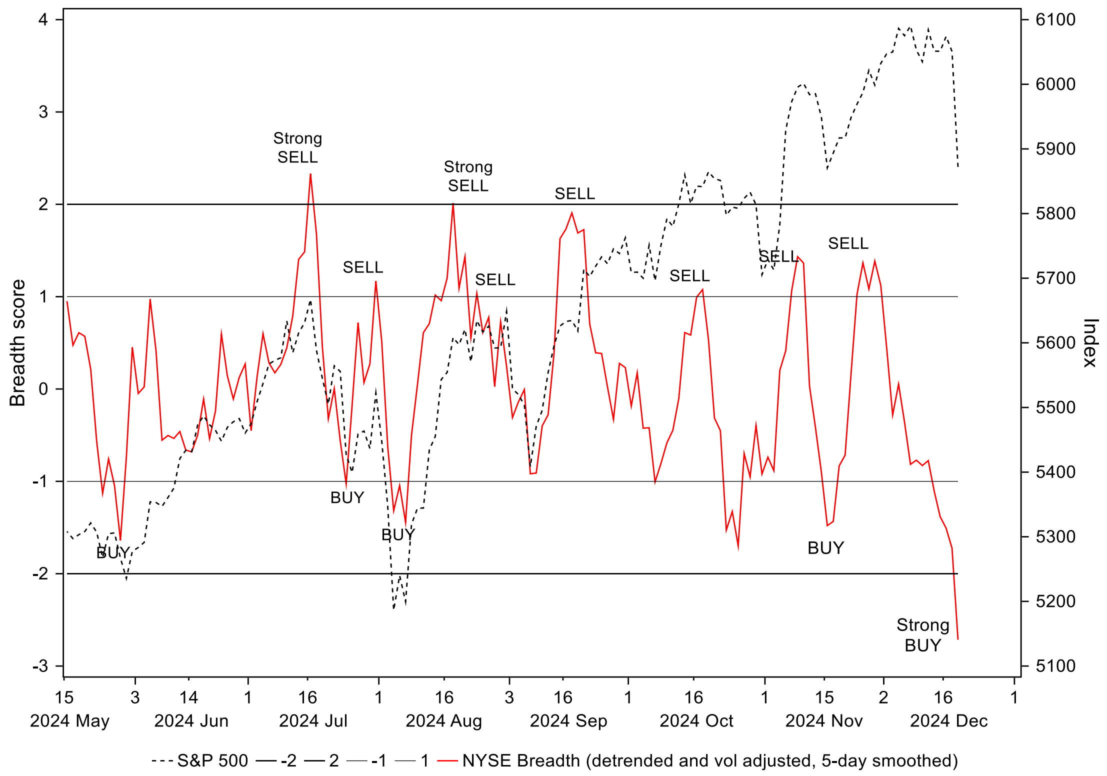



Calls less puts model is NEUTRAL

*Source: Longview Economics, Macrobond*

***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

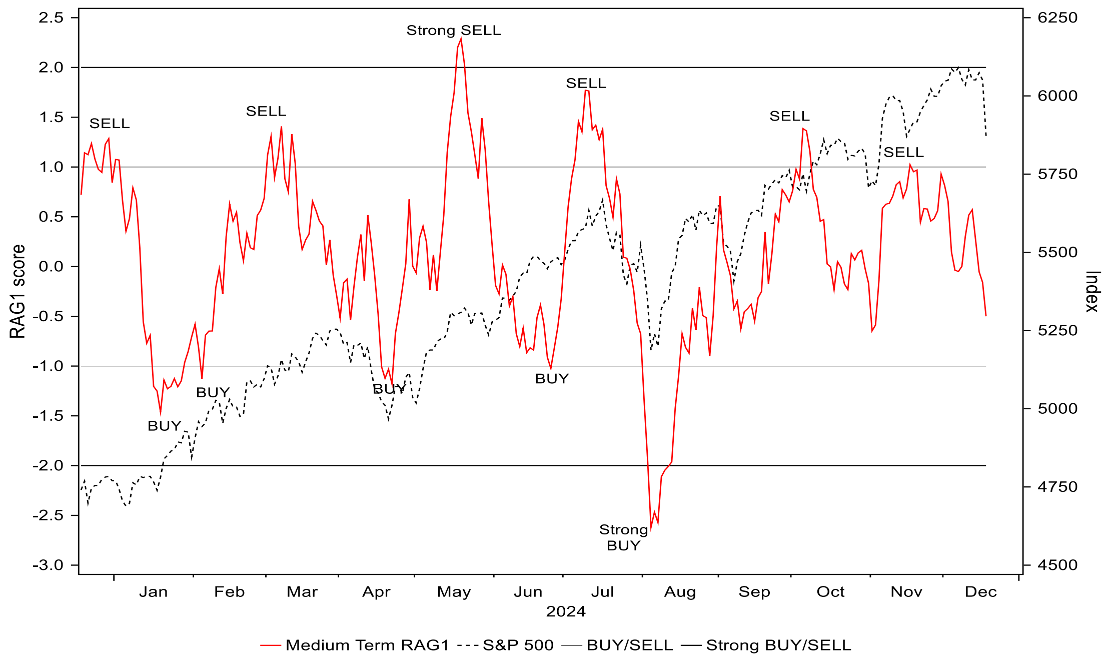
The breadth model is on Strong BUY

*For explanations of indicators please see page 10*

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

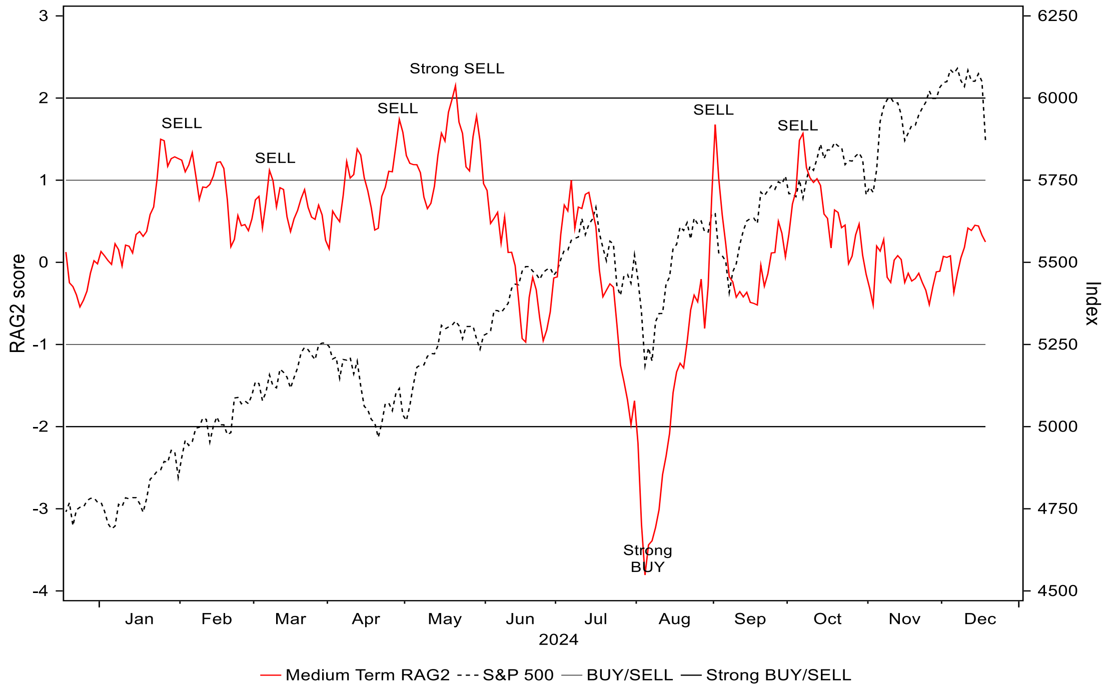
### **Fig 3a:** Medium term RAG1 (1 – 4 month view) vs. S&P 500




Medium term RAG1 is NEUTRAL

*Source: Longview Economics, Macrobond*

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



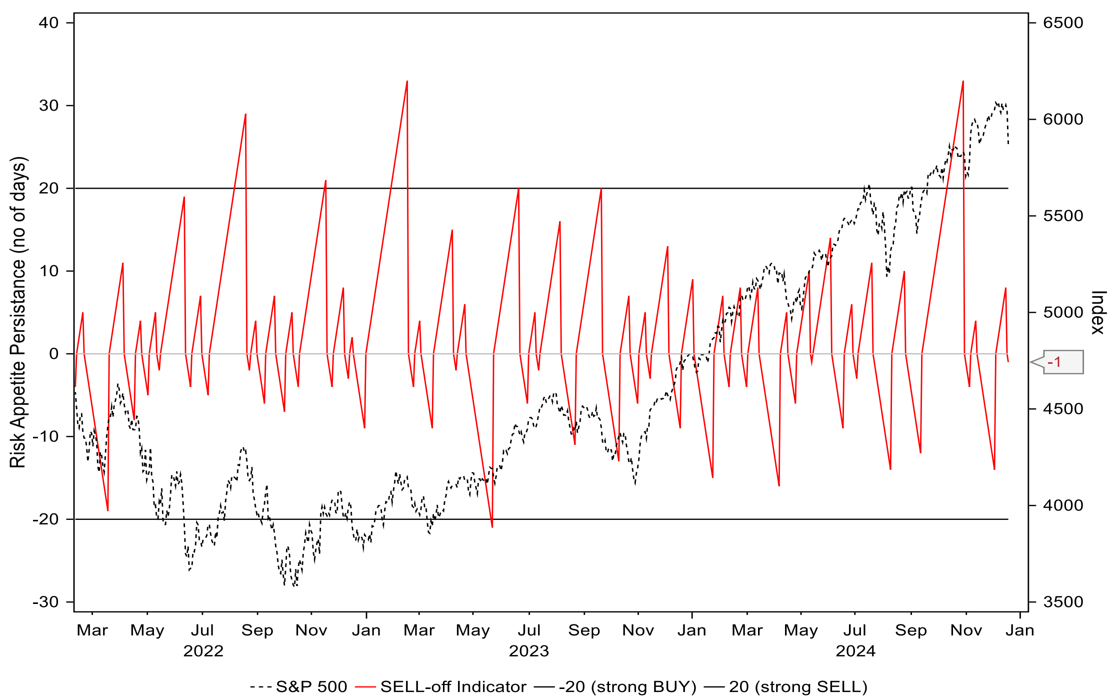

Medium term RAG2 is NEUTRAL

*Source: Longview Economics, Macrobond*

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

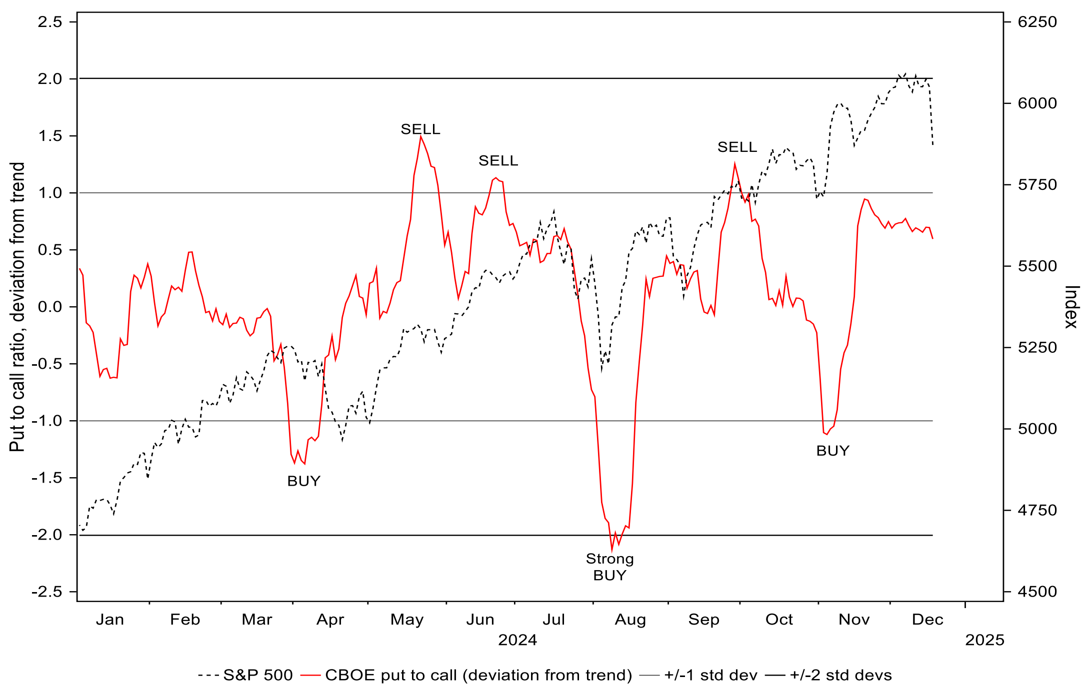
**Fig 3c:** SELL-off indicator (shown vs. S&P500)




The SELL-off indicator is NEUTRAL

*Source: Longview Economics, Macrobond*

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




Medium term put to call model is NEUTRAL

*Source: Longview Economics, Macrobond*

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

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

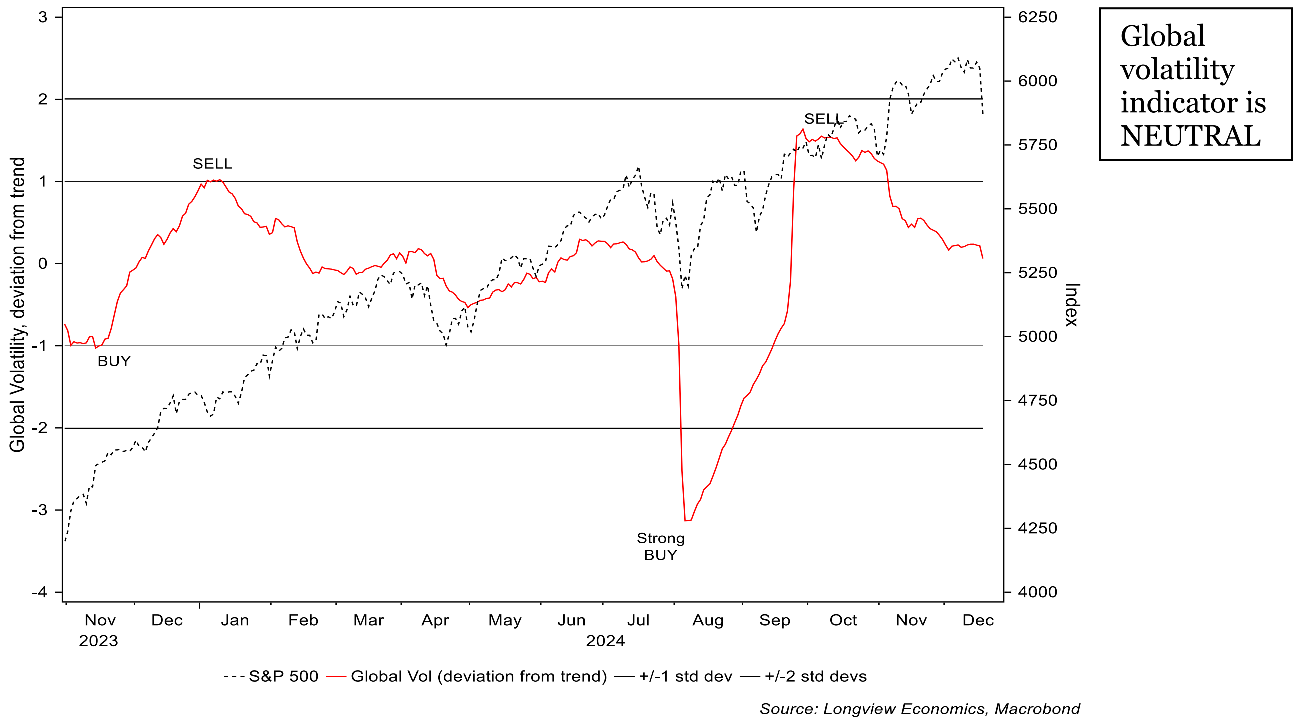
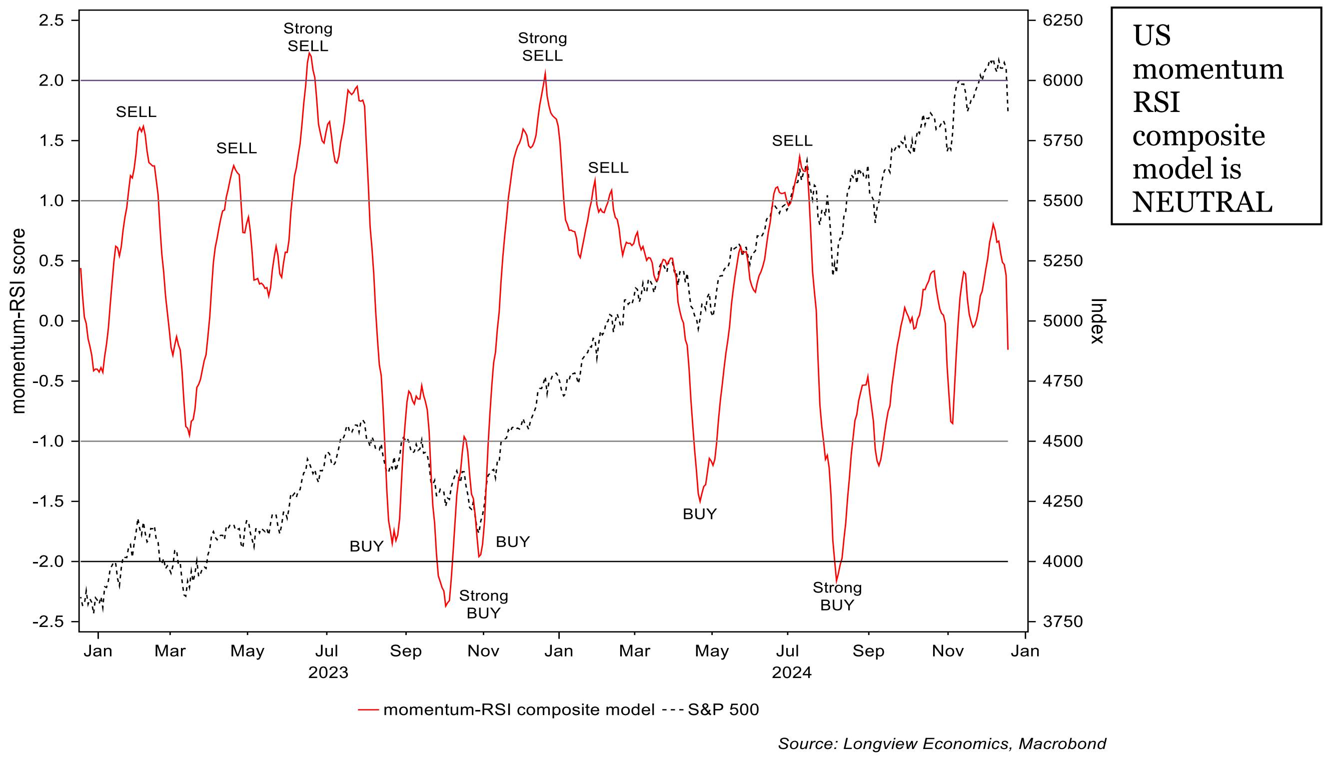
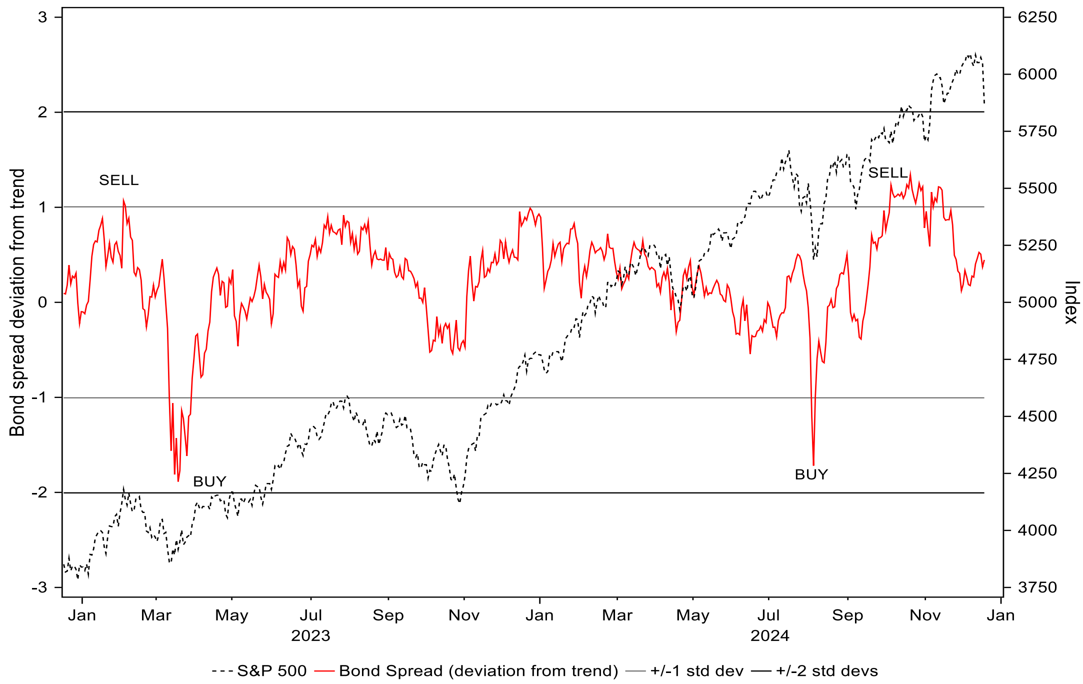



**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



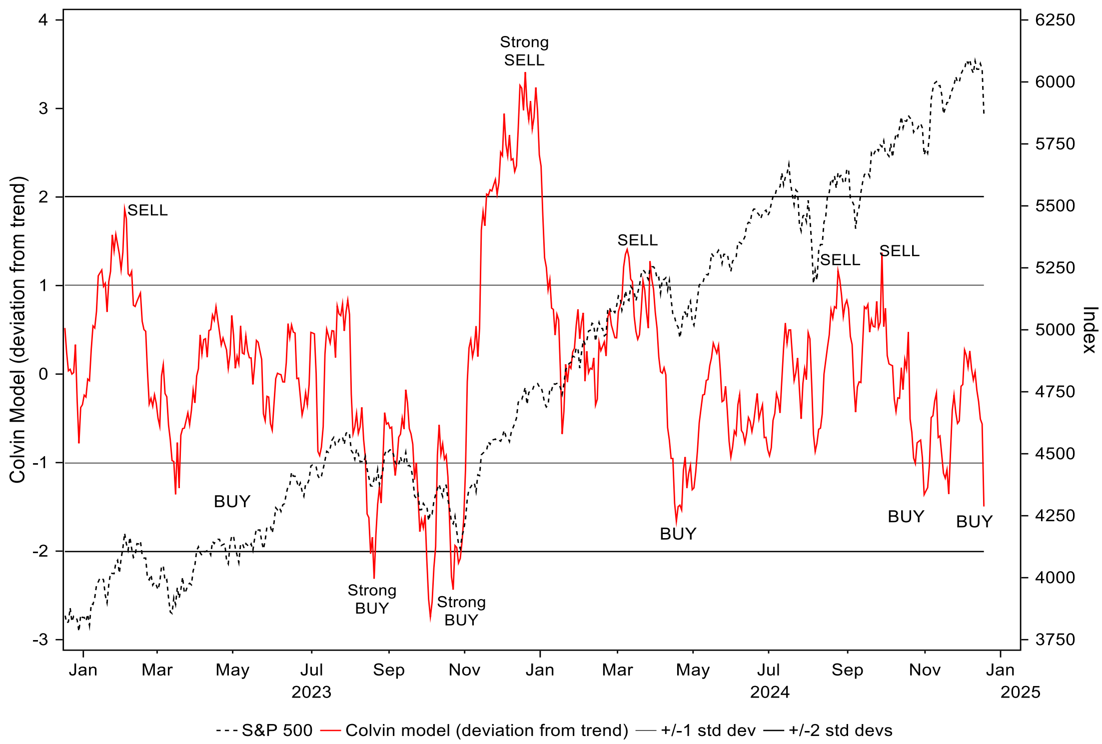
## **Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500




*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 on BUY

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

LVRAG
Daily Risk Appetite Gauge

## **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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