Equity Index Futures Trading Recommendations

19th November 2024

"BUY case BUILDing (WATCH & WAIT for now)"

Email: info@longvieweconomics.com

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

- WATCH & WAIT.

Rationale

Price action in US/global equities was encouraging for the bulls yesterday. In particular, most of the 28 key indices we track closed higher, with that strength relatively broad based across sectors. The strongest performing indices, for example, were the DJ Utilities (+1.0%); Nasdaq Financials (+1.0%); Nasdaq Industrials (+1.1%); and the Philly SOX (+1.1%). Sector strength within the S&P500 was also mixed/broad, and led by energy (+1.1%), i.e. reflecting the sharp moves higher in oil (e.g. Brent futures: +3.2%).

With that, a number of indices have **found support at key levels** in the last two trading days. Both the S&P500 & NASDAQ100, for example, have stabilised within their mid-October trading ranges (e.g. see FIG 1); small cap stocks have found support at a key level (e.g. see FIG 1b); while global equities are currently at/testing their 50 day moving average (e.g. see FIG 1b).

The key question, therefore, is: **Have US/global equities started to build a base?** Will they rally from those key levels? Or, are they about to break below them?

Of note, in that respect, the dollar has *started* to weaken in the past two trading days, from significantly over-bought levels (see FIG 1c). Added to which, sentiment towards the dollar is bullish (a contrarian SELL signal) and the 'LONG USD' trade is crowded (see FIG 1d). There's therefore plenty of fuel for a weaker dollar, which is usually a key **tailwind for US equities**.

Elsewhere, a number of key **short term models are on or close to BUY levels**. That includes our risk appetite indicators, which have recently been on/close to BUY (see FIGs 2 & 2a); as well as various technical, momentum, and breadth models (see FIGs 3 – 3e). Those models suggest that markets should find support/rally from their key levels.

The case for re-instating LONG SPX positions is therefore building.

Risks, though, remain multiple. In particular, there are still some signs of **near term complacency** in markets. Downside put protection in portfolios, for example, is low (FIG 1f); the number of outstanding call options on single stocks is high (FIG 1e), while volatility remains subdued (i.e. see the VIX).

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On balance, therefore, the risk reward favours WATCHing and WAITing (for now).

Please see below for a full list of today's key macro data, earnings & events.

Kind regards,

The team @ Longview Economics

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

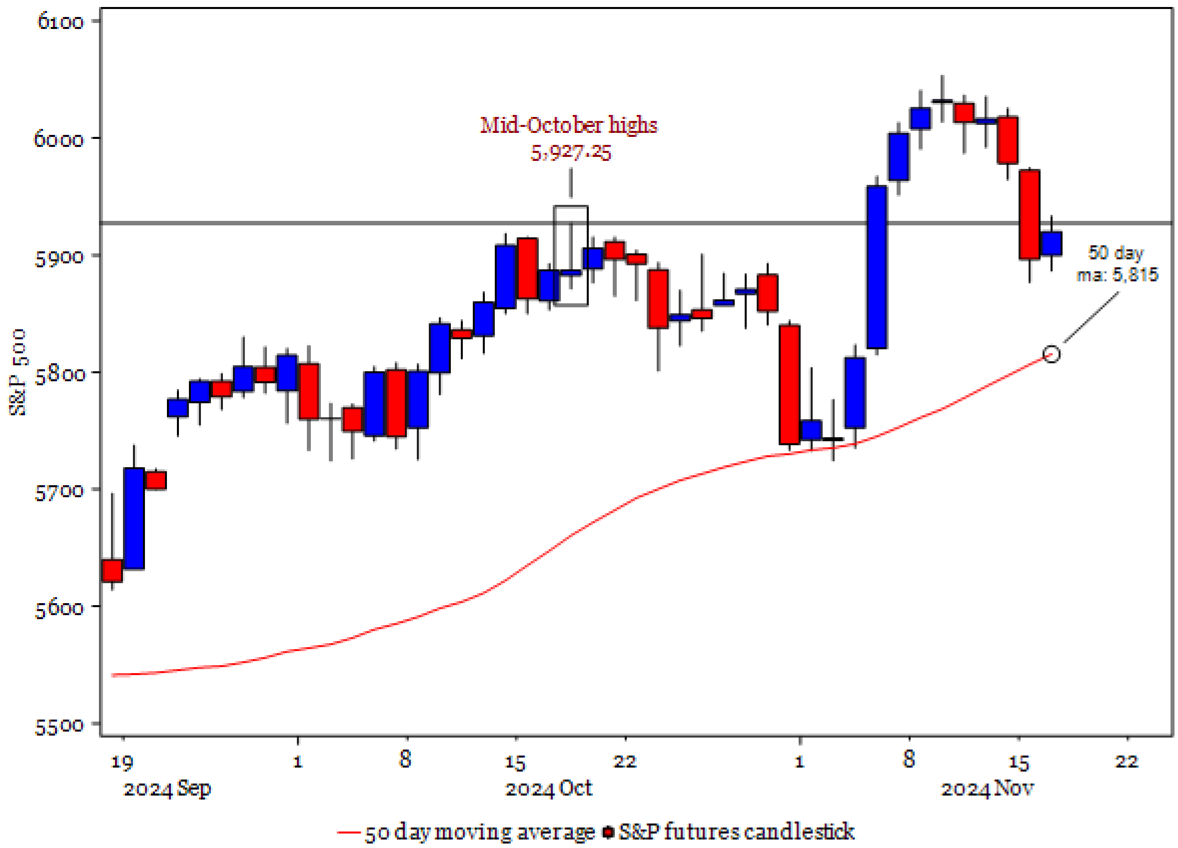

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FIG 1a: Russell 2000 futures candlestick shown with 50 & 200 day moving averages

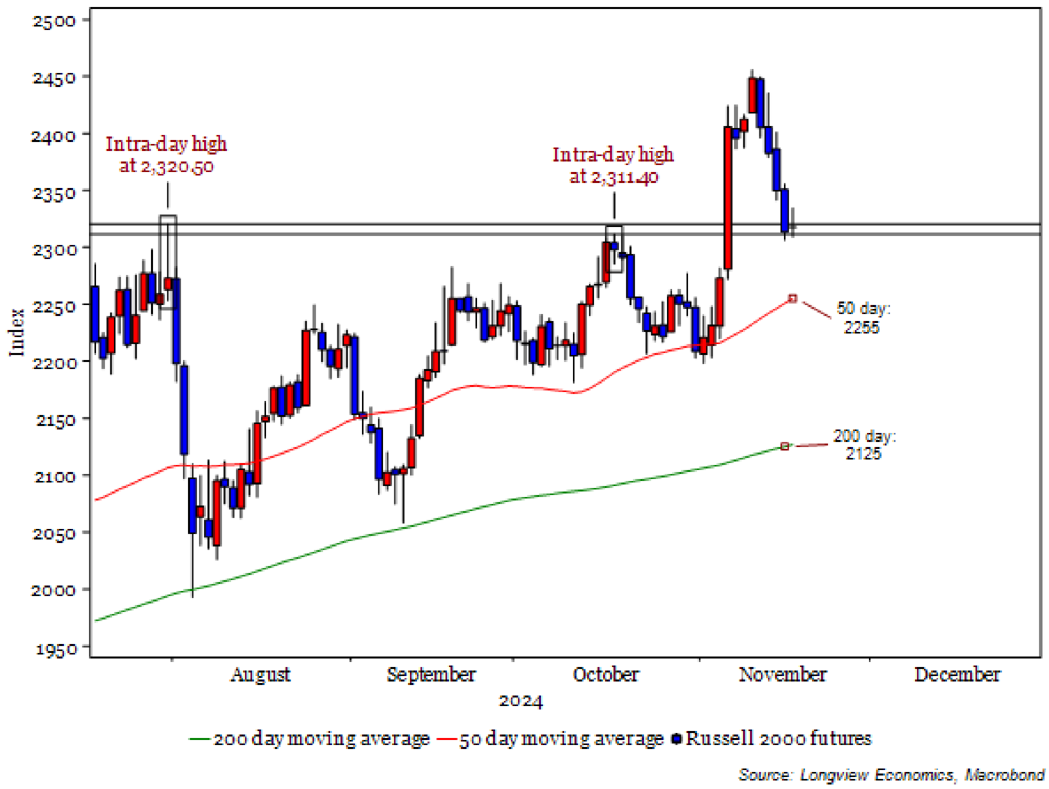

FIG 1b: DJ global equity index shown with 200 & 50 day moving averages

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FIG 1c: Longview **US dollar** medium term **'technical'** scoring system vs. US dollar (DXY)

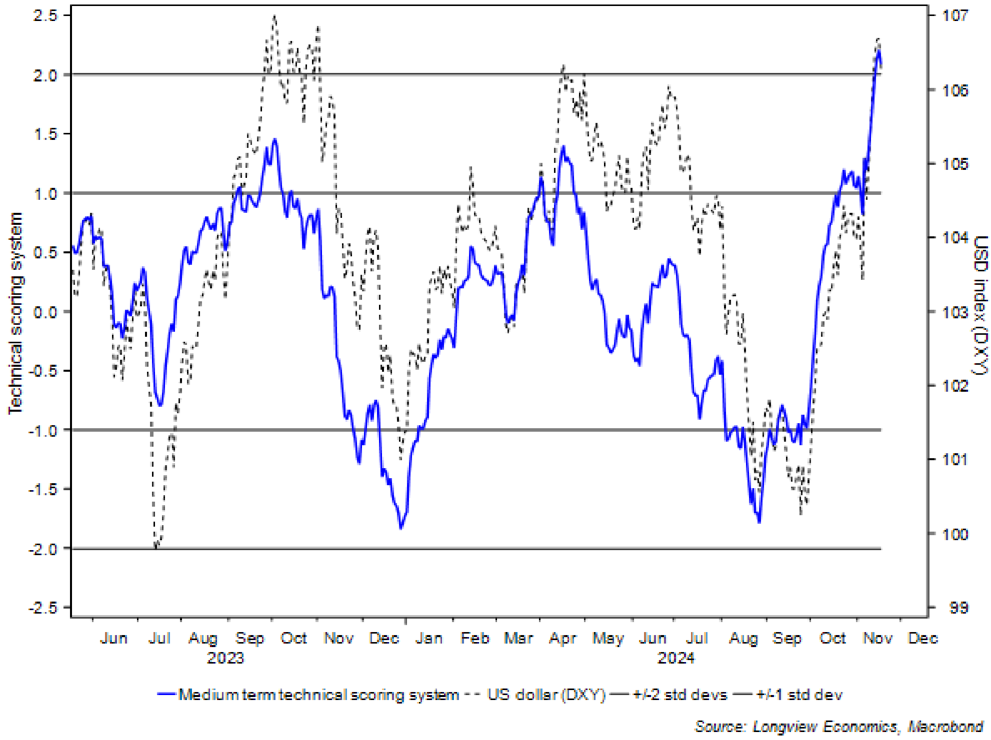

FIG 1d: Aggregated USD value of positioning vs. Broad US dollar index

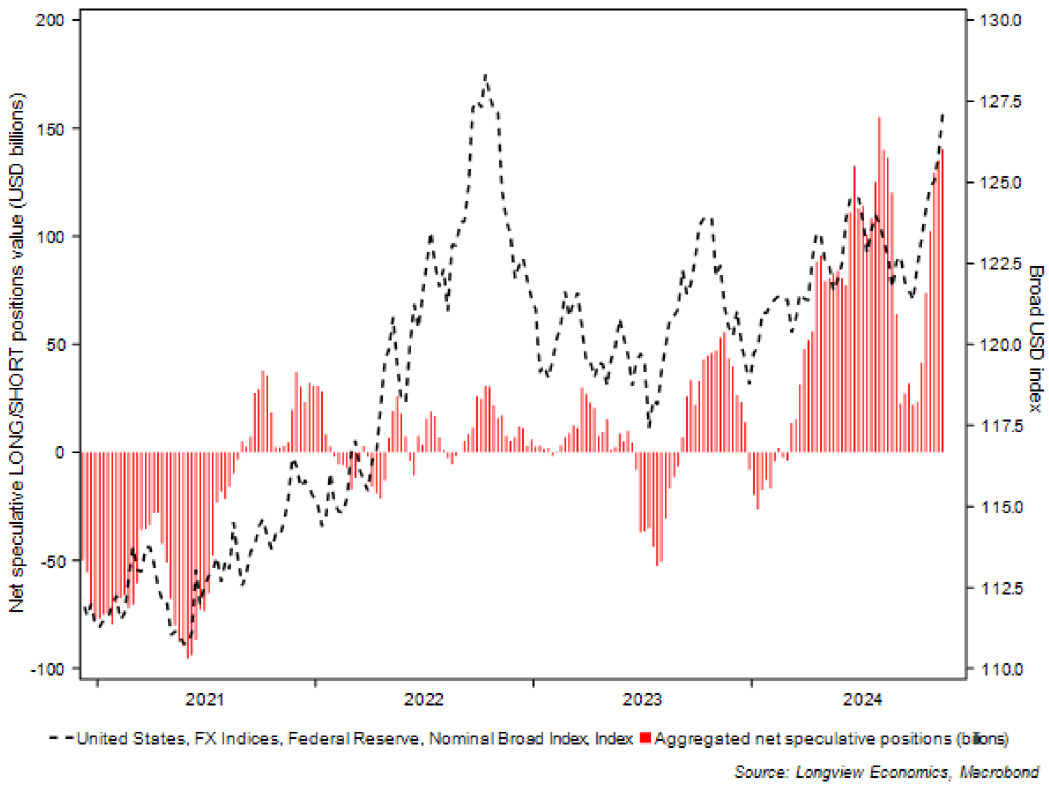

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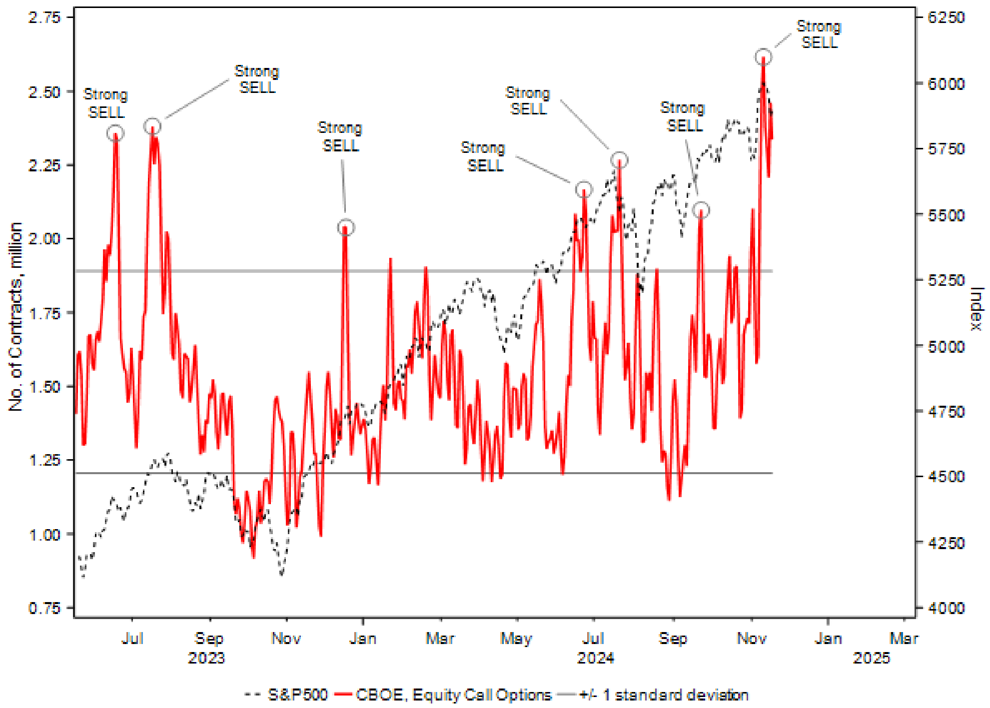
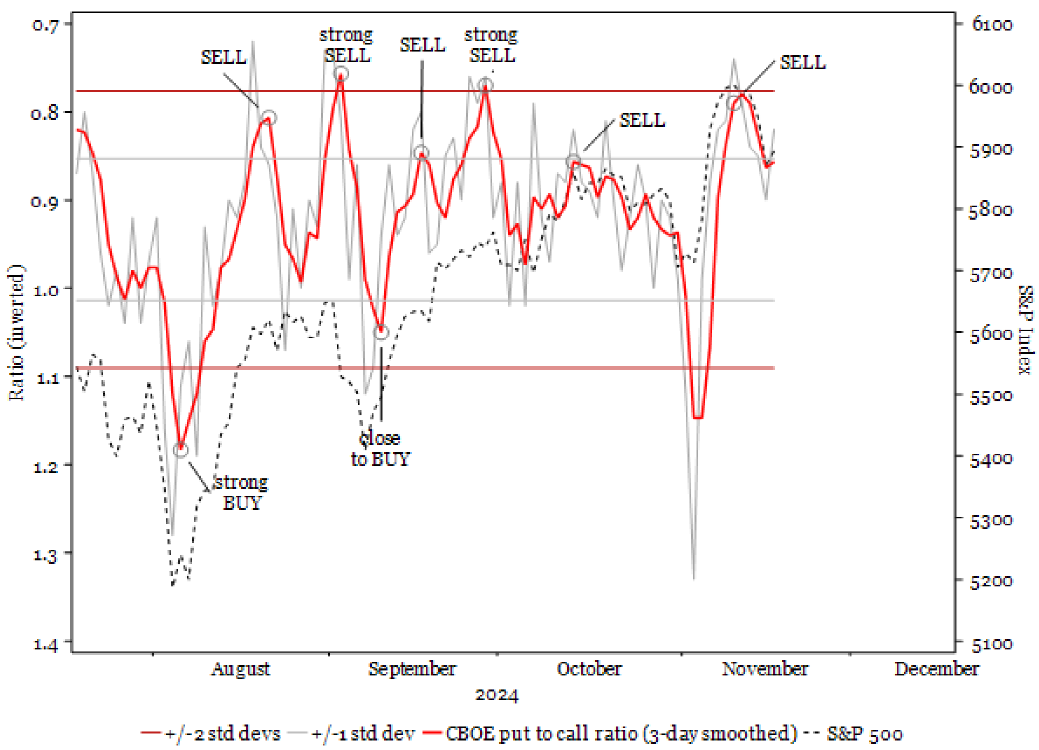
FIG 1e: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500



Source: Longview Economics, Macrobond

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



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Short-term risk appetite models are mostly on/leaning towards BUY levels…

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

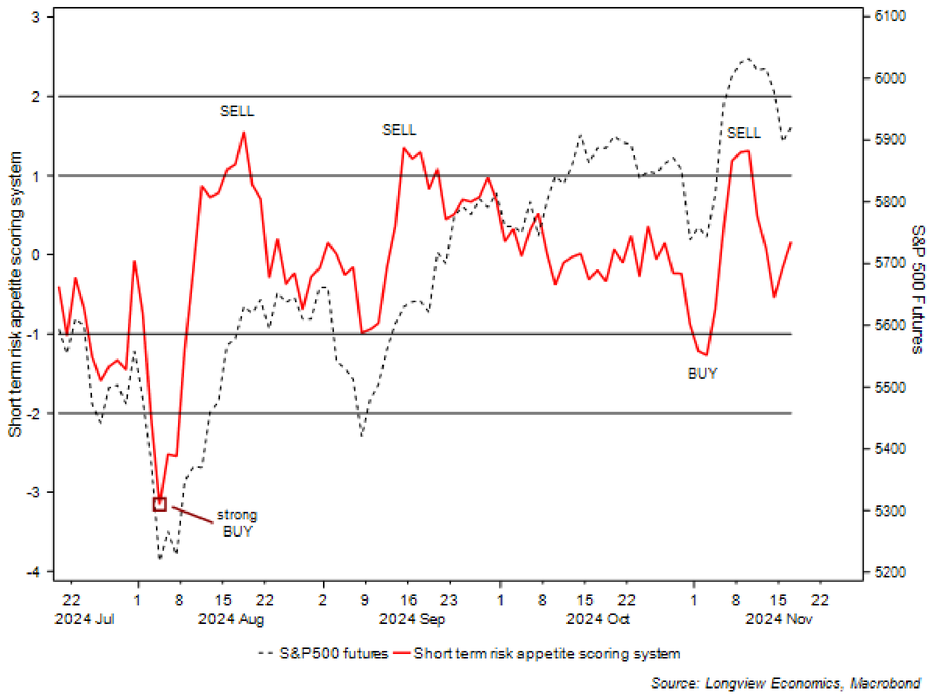
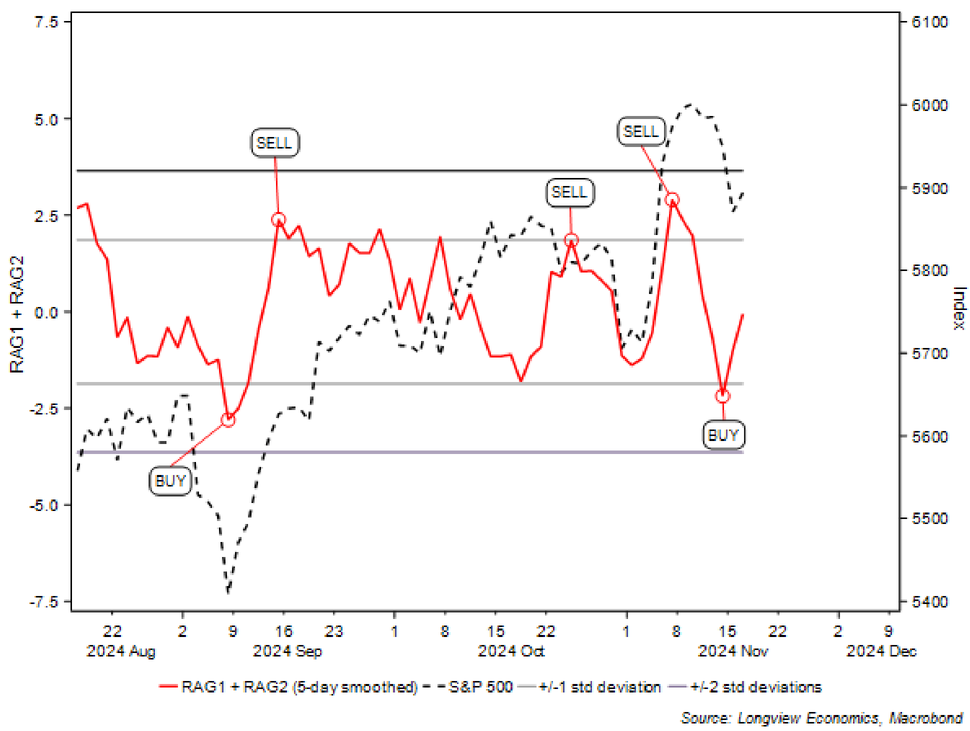


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



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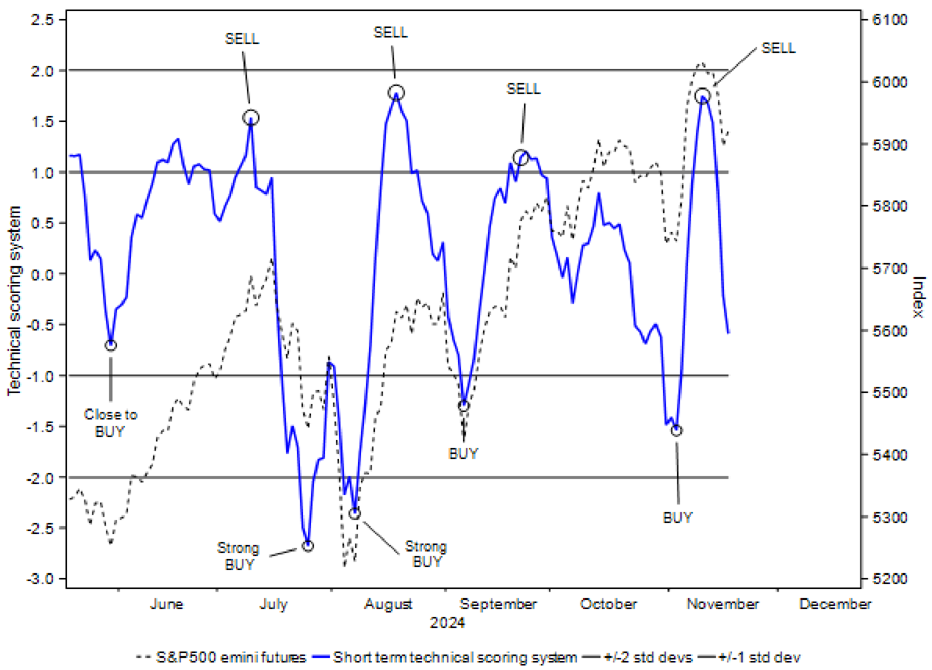
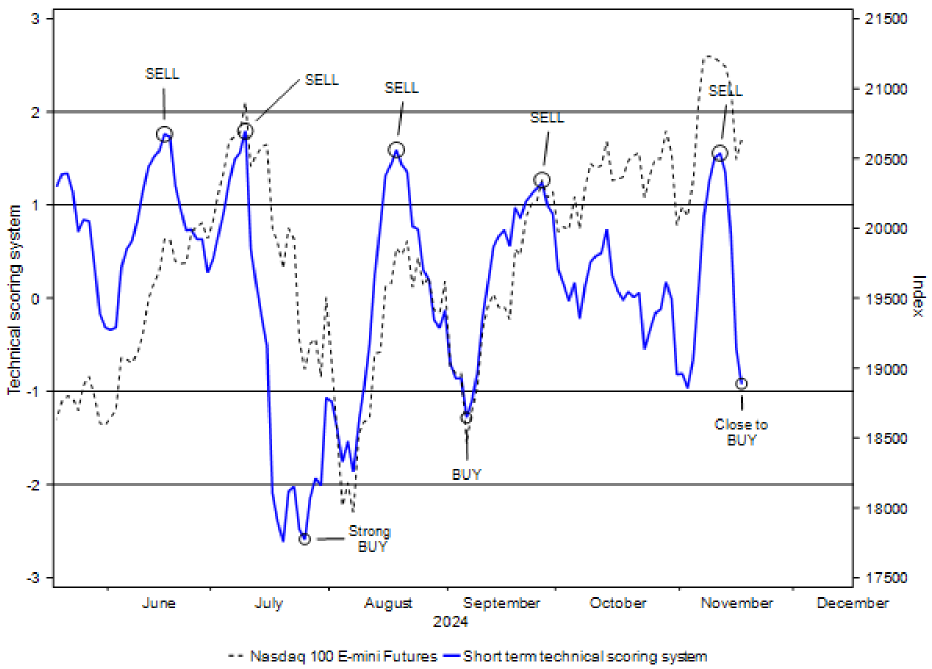
Other short-term models are (mostly) NEUTRAL, but approaching BUY levels…

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



Source: Longview Economics, Macrobond

FIG 3a: Longview NASDAQ100 short term **'technical'** scoring system vs. NASDAQ100 futures



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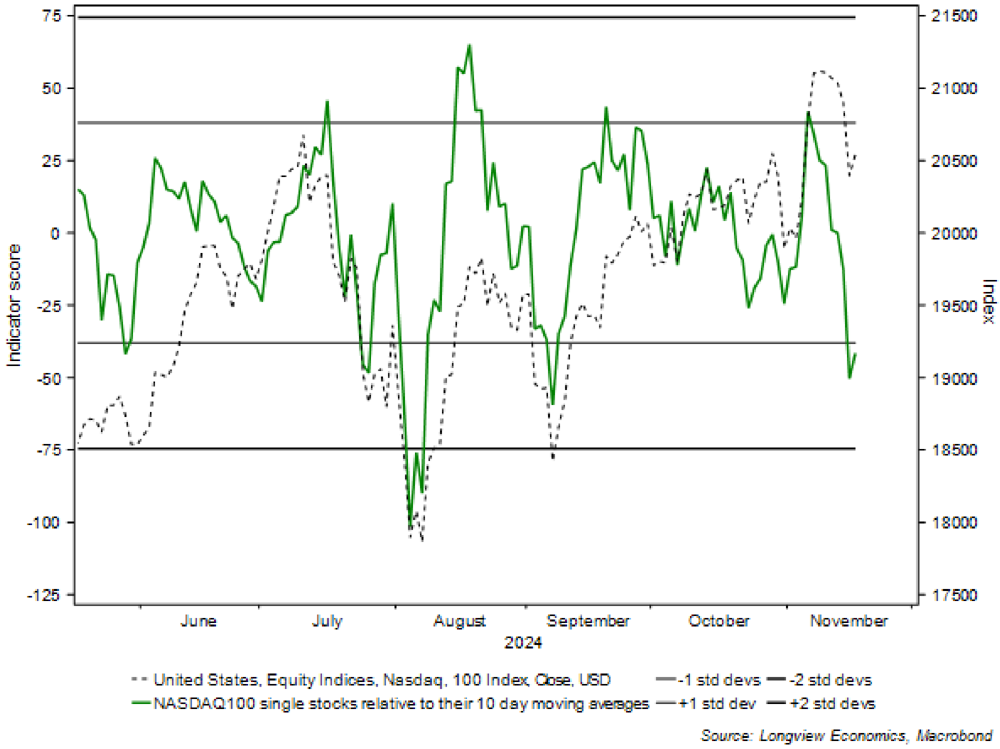
<u>FIG 3b:</u> <u>NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index</u>



<u>FIG 3c:</u> <u>Global composite momentum model vs. S&P500</u>

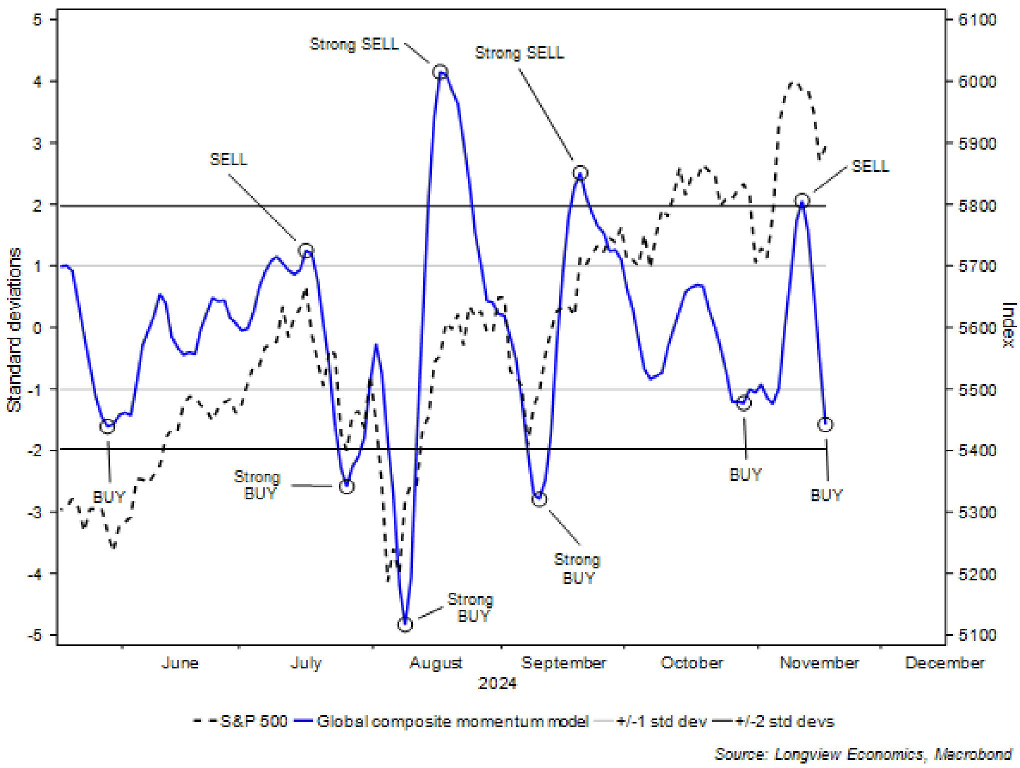


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FIG 3d: Short term NYSE breadth model vs. S&P500

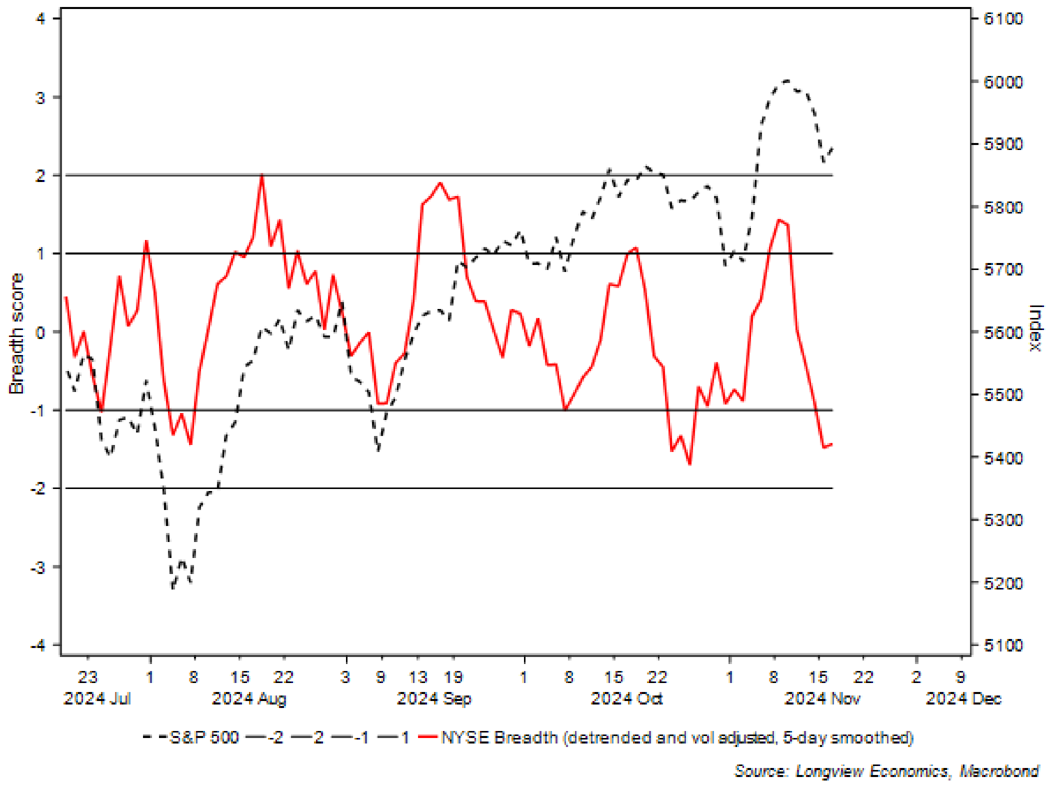
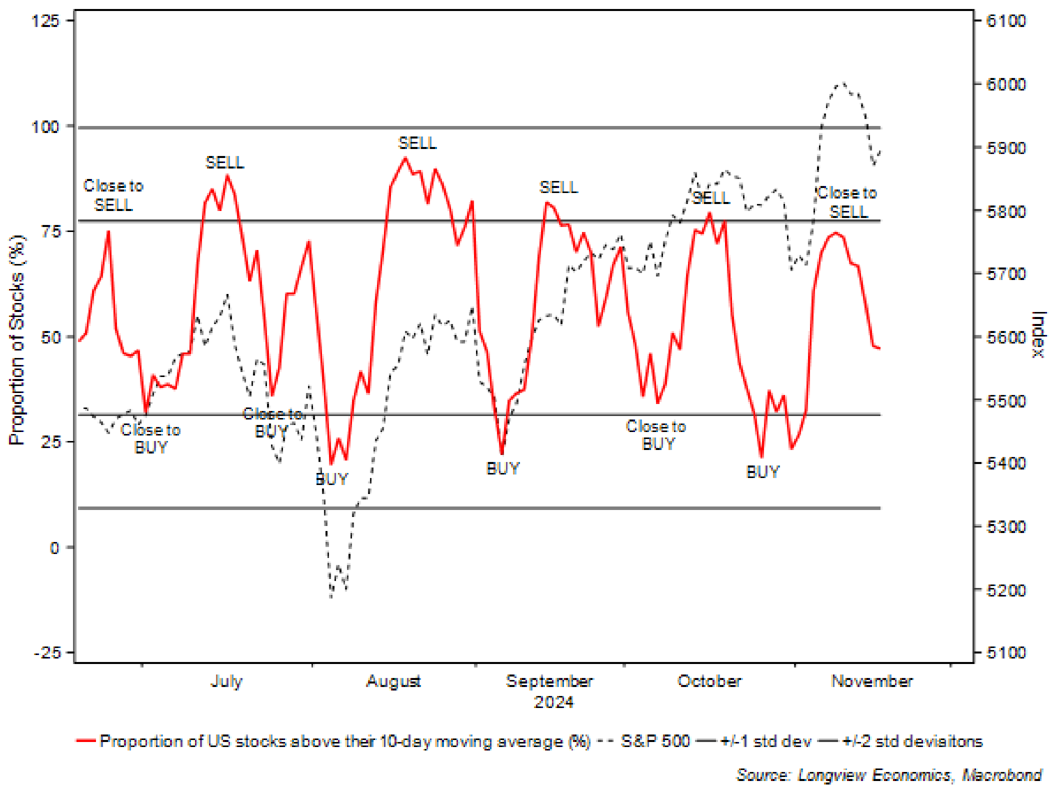


FIG 3e: Proportion of US stocks above their 10-day moving average vs. S&P500



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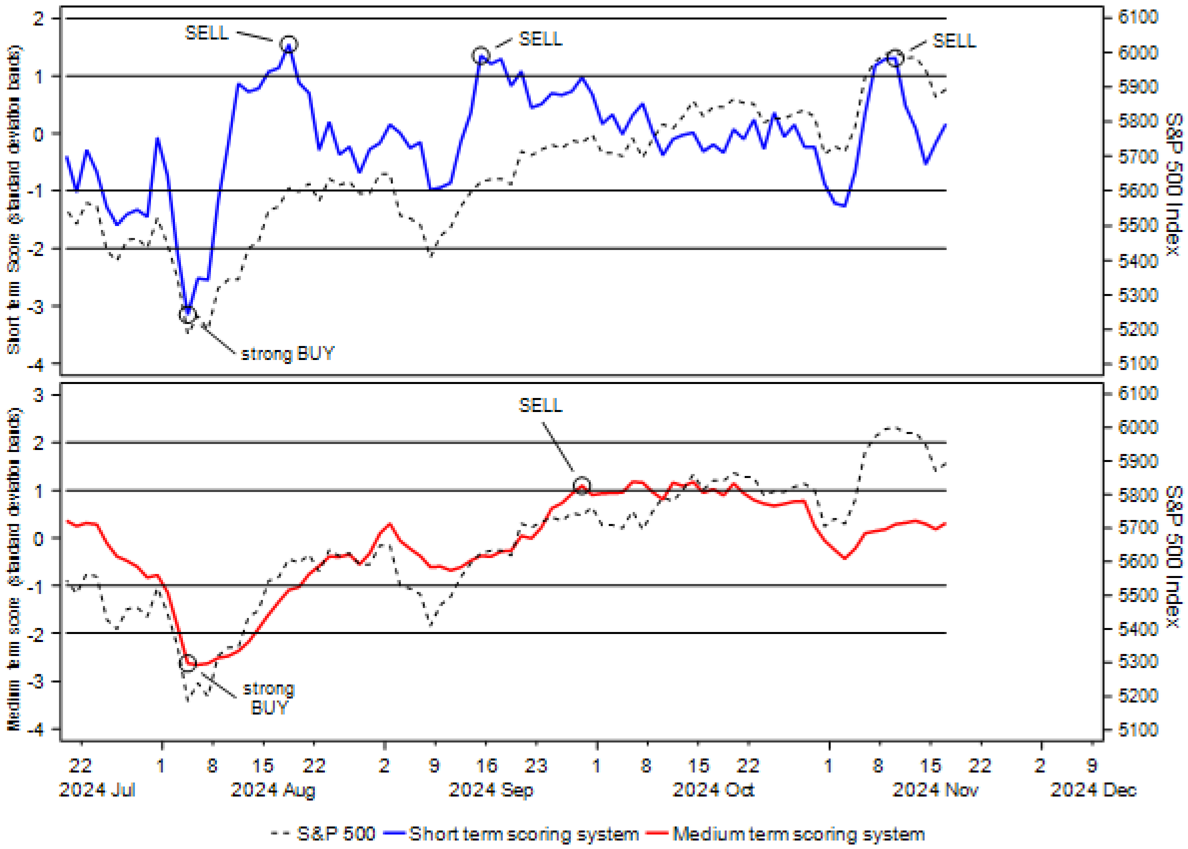
Key Longview Scoring Systems (chart below)**:**

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



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Key macro data/events

Key data today include: ECB current account (Sept, 7pm); Eurozone headline & core CPI (October final estimate, 10am); **US housing starts & building permits** (Oct, 1:30pm); Canadian headline & core CPI (Oct, 1:30pm); Australian Westpac leading index (Oct, 11:30pm); Japanese imports/exports and trade balance (Oct, 11:50pm).

Key events today include: RBA minutes from November meeting (12:30am); speeches by the ECB's Elderson at Green Finance Forum (8:30am) & Vujcic in London (10:45am); ECB publishes Euro Area negotiated wages indicator for Q3 2024 (10am).

Key earnings today include: **Walmart**, **Lowe's**, Medtronic.

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 on 6th November 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

LVRAG
Daily Risk Appetite Gauge

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LVRAG

Daily Risk Appetite Gauge

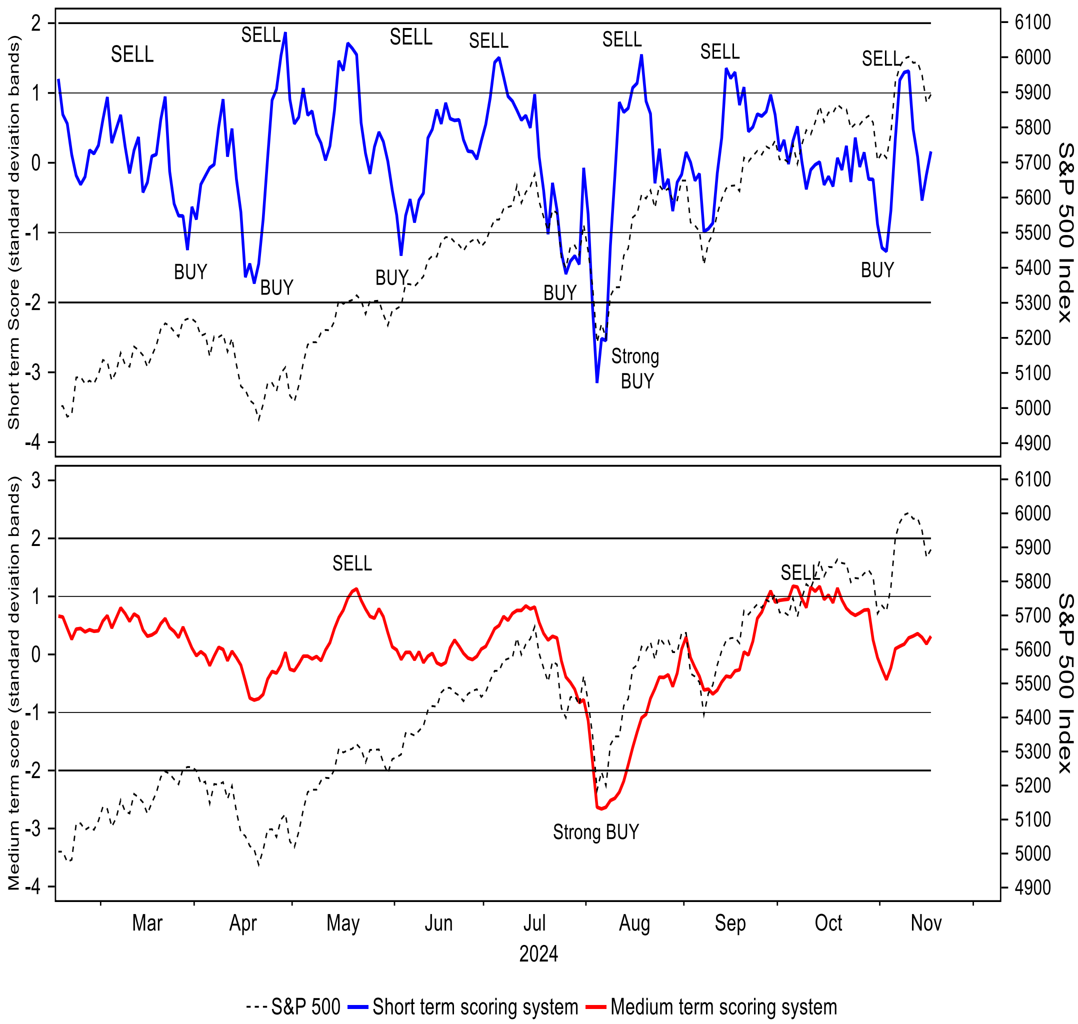
1 – 2 Week View on Risk

19th November 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 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

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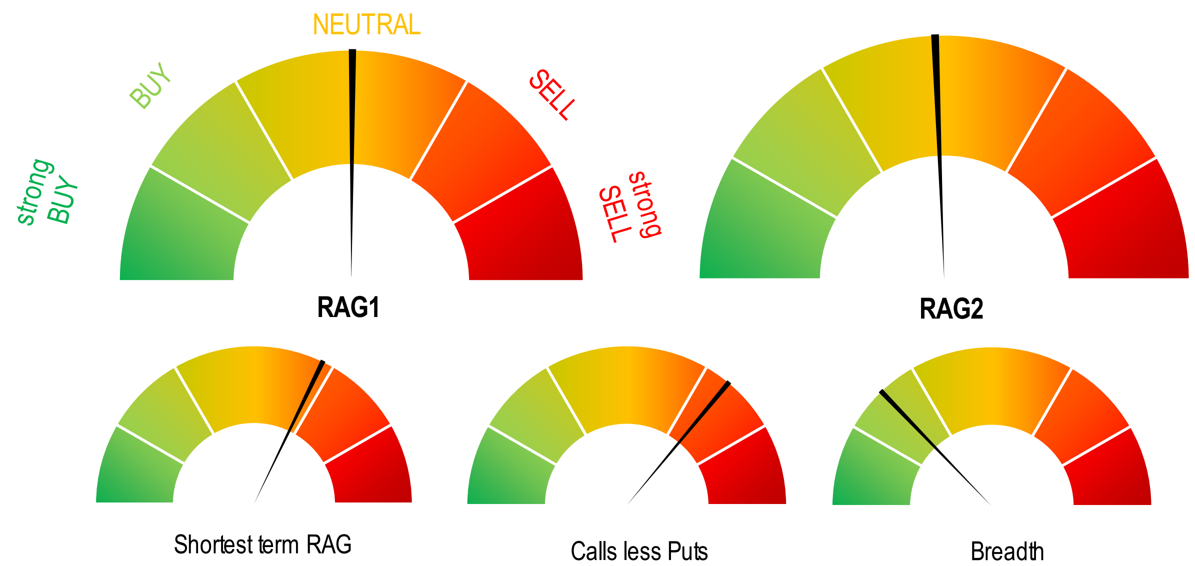
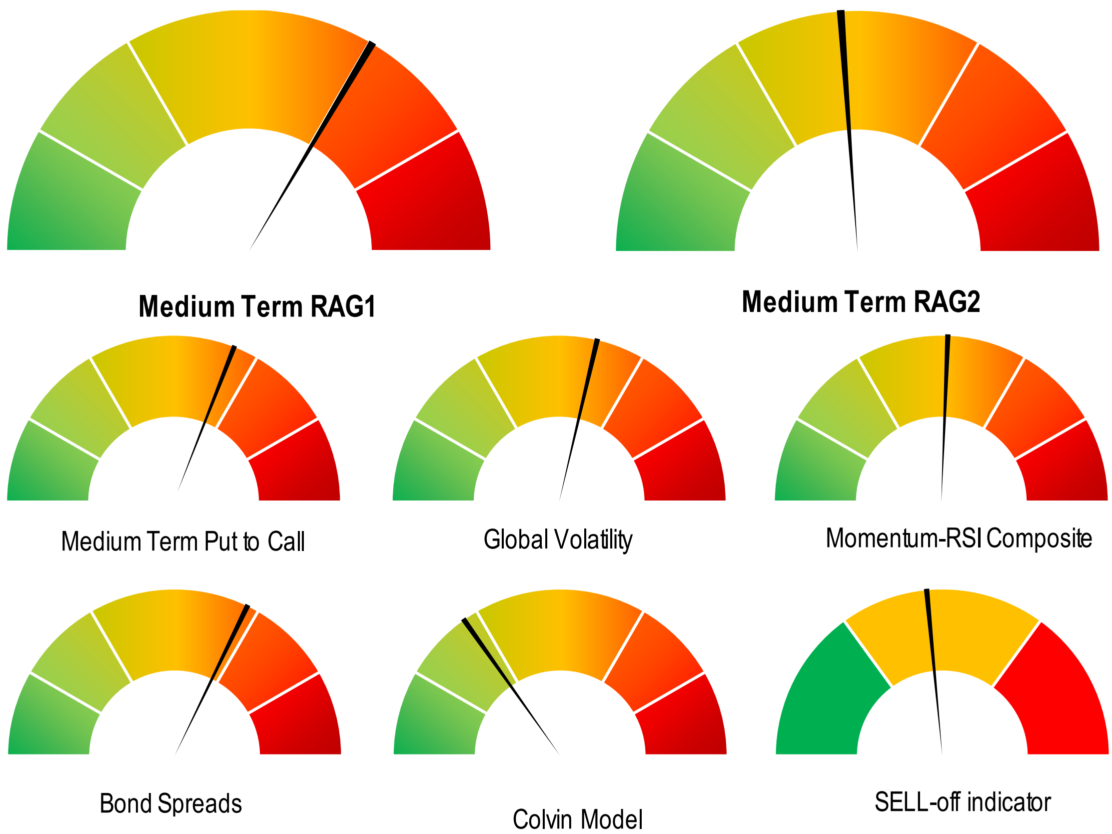
Section 1a: Summary of indicator signals**

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

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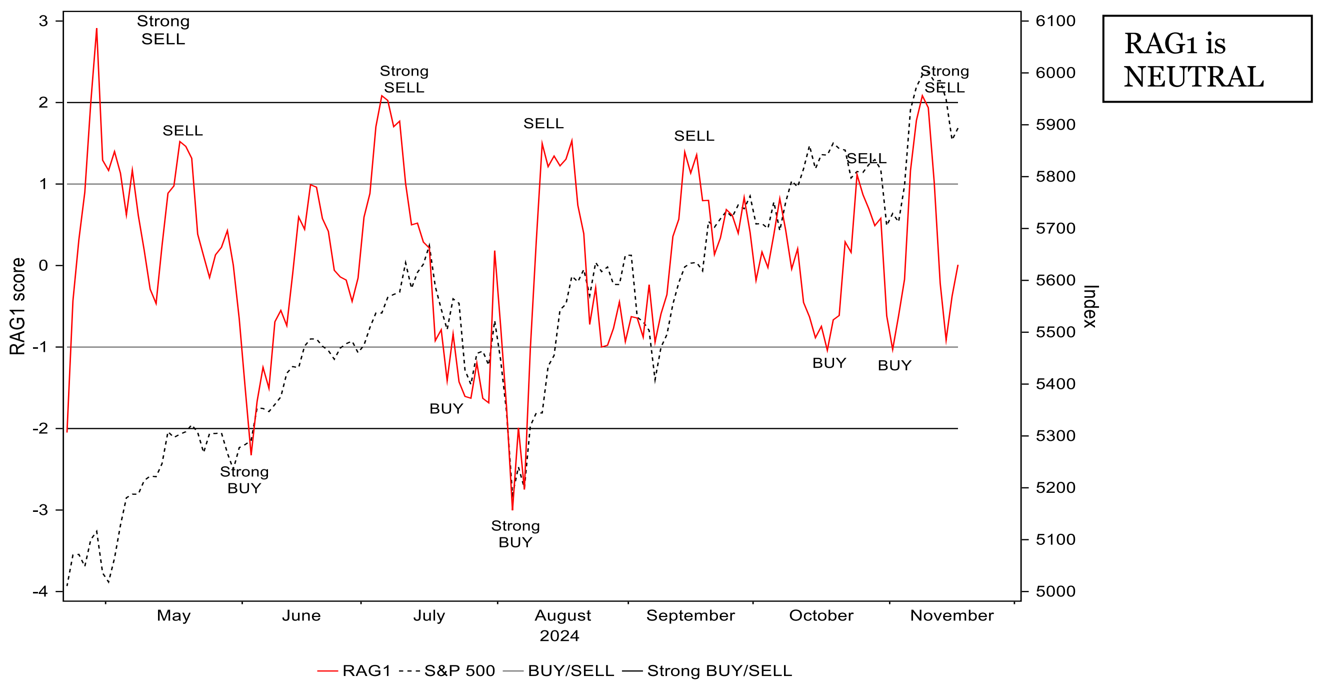
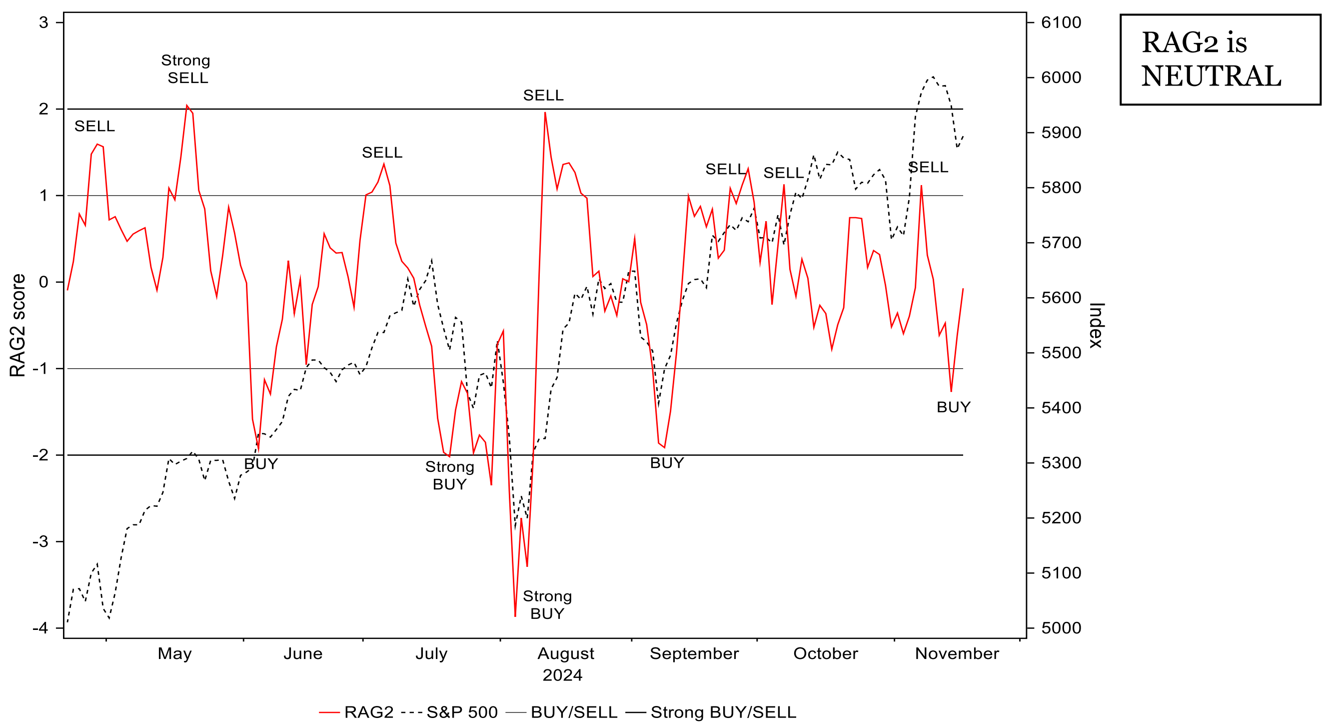
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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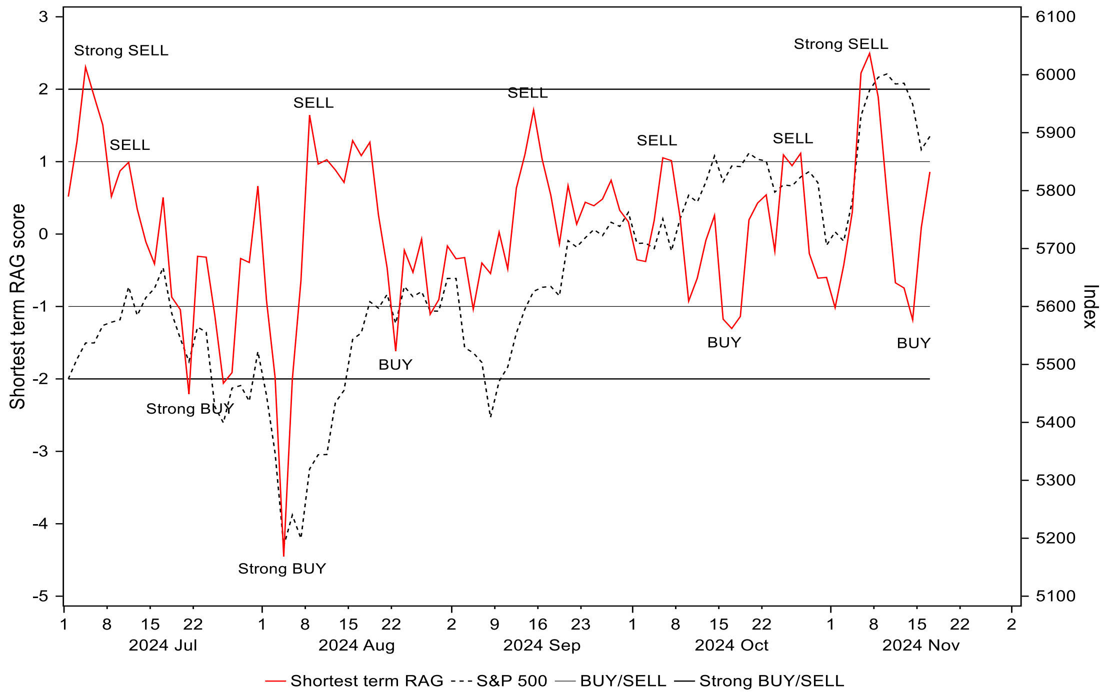
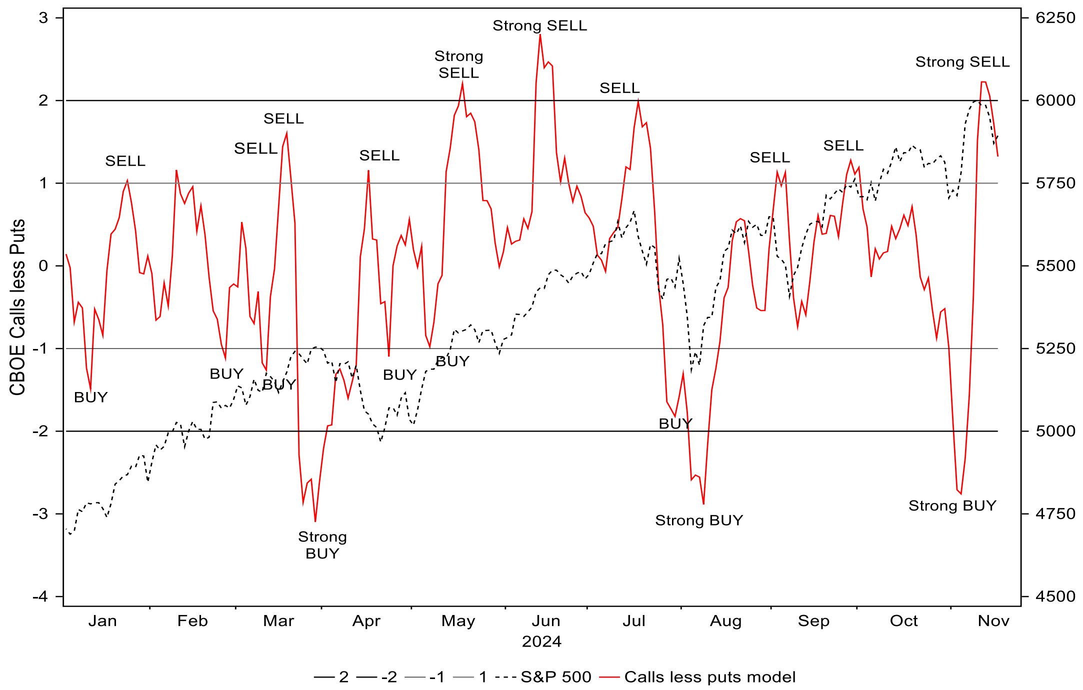
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



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 on SELL

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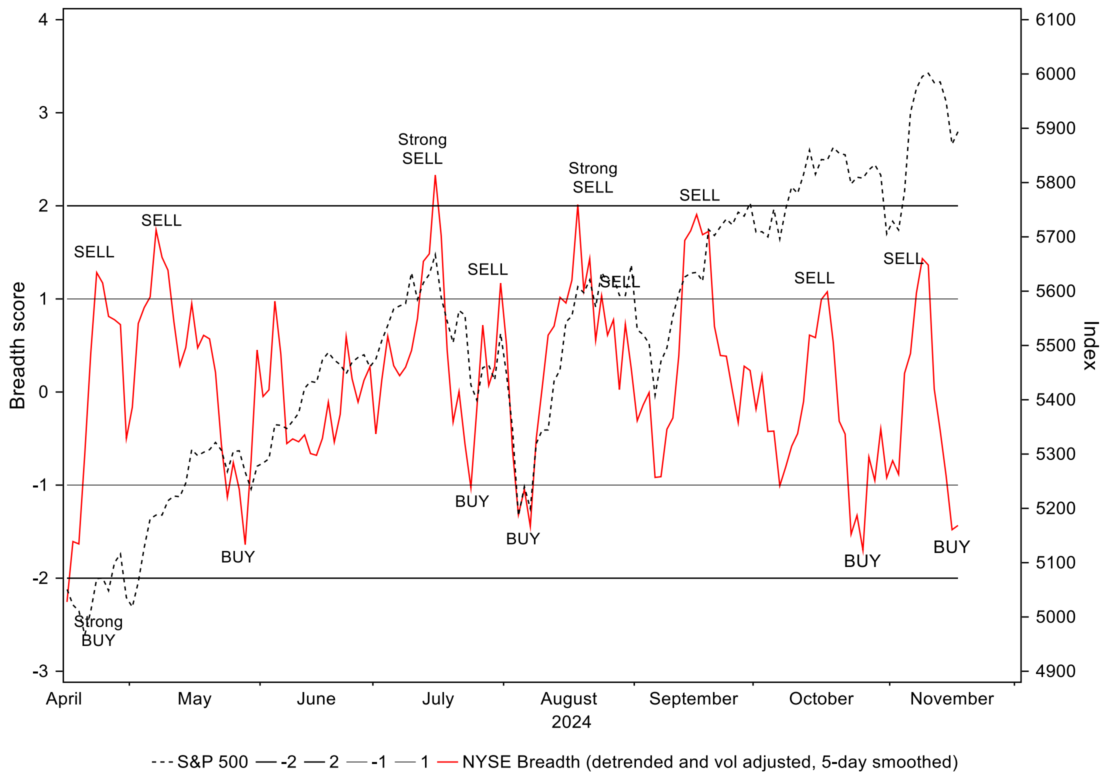
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



The breadth model is on BUY

Source: Longview Economics, Macrobond

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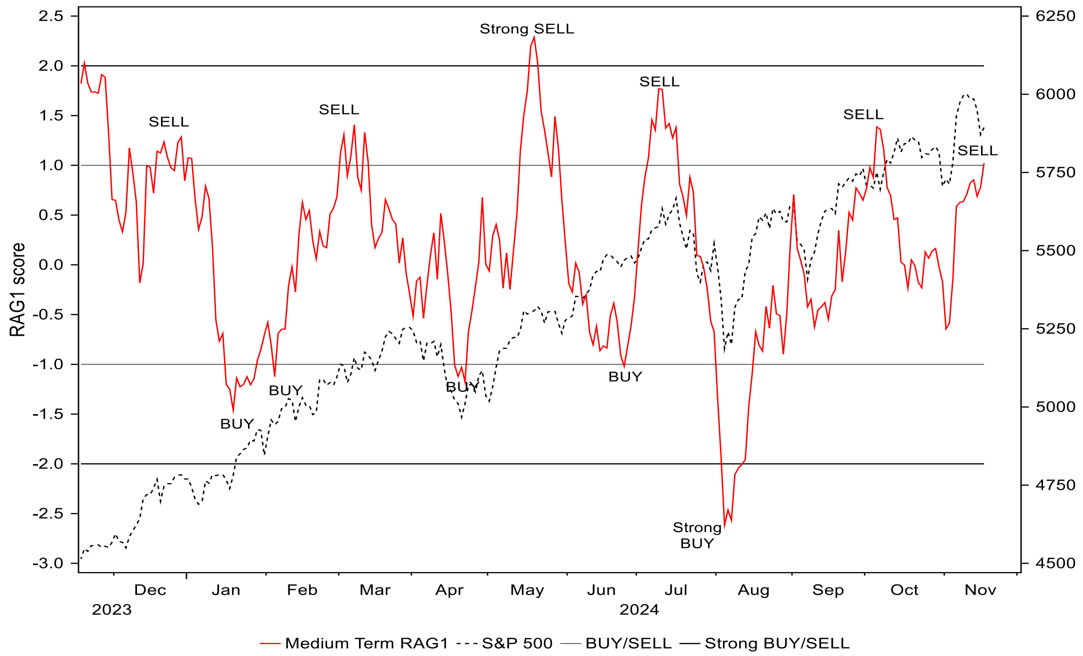
Section 3: Medium term (1 – 2 month) outlook

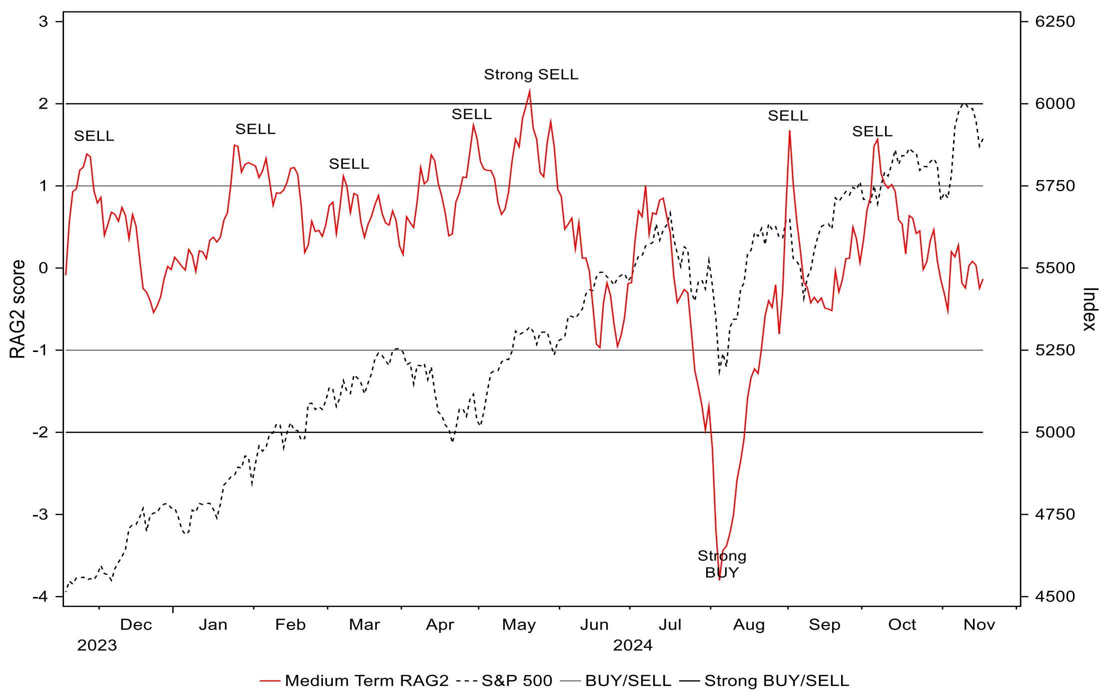
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



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Medium term RAG2 is NEUTRAL

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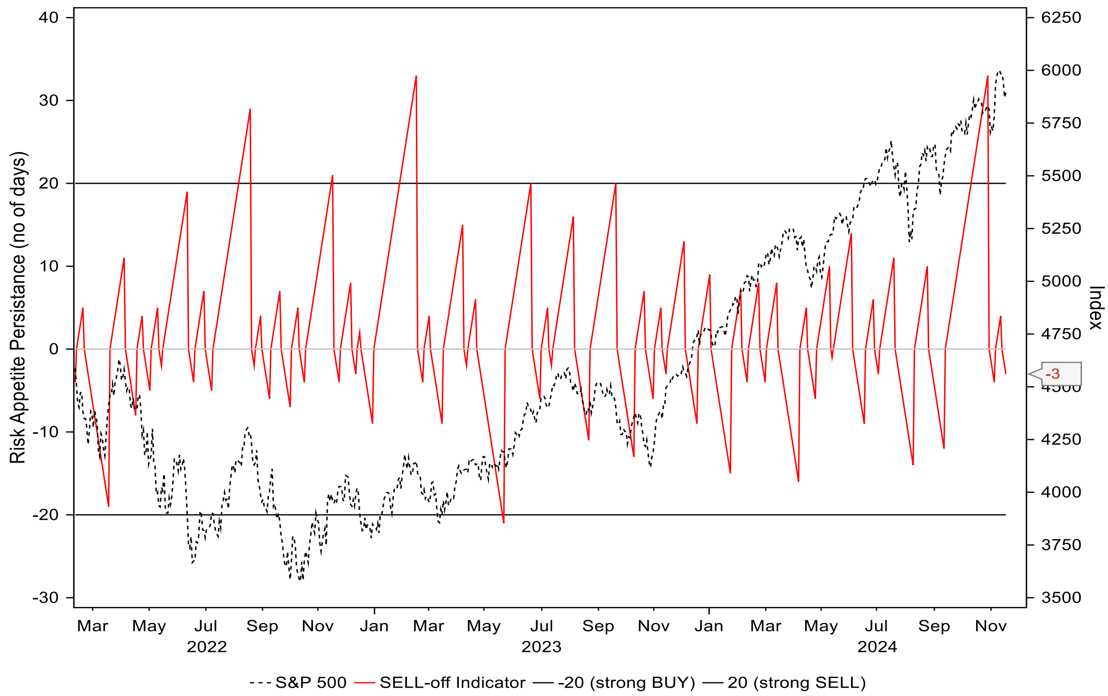
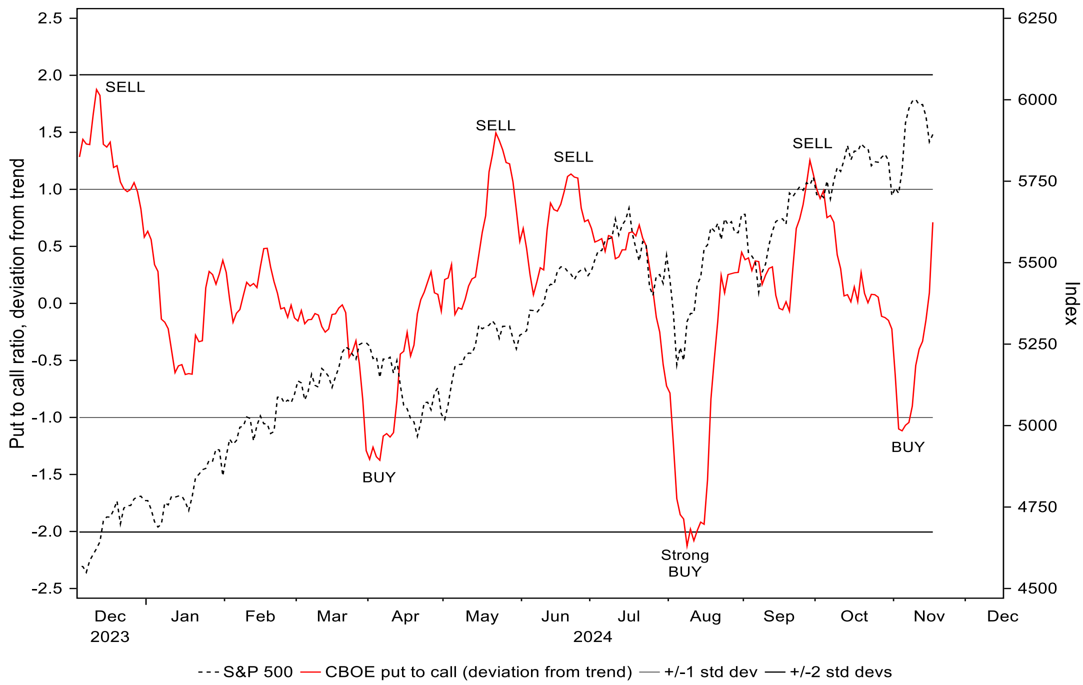
Fig 3c: SELL-off indicator (shown vs. S&P500)



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 NEUTRAL

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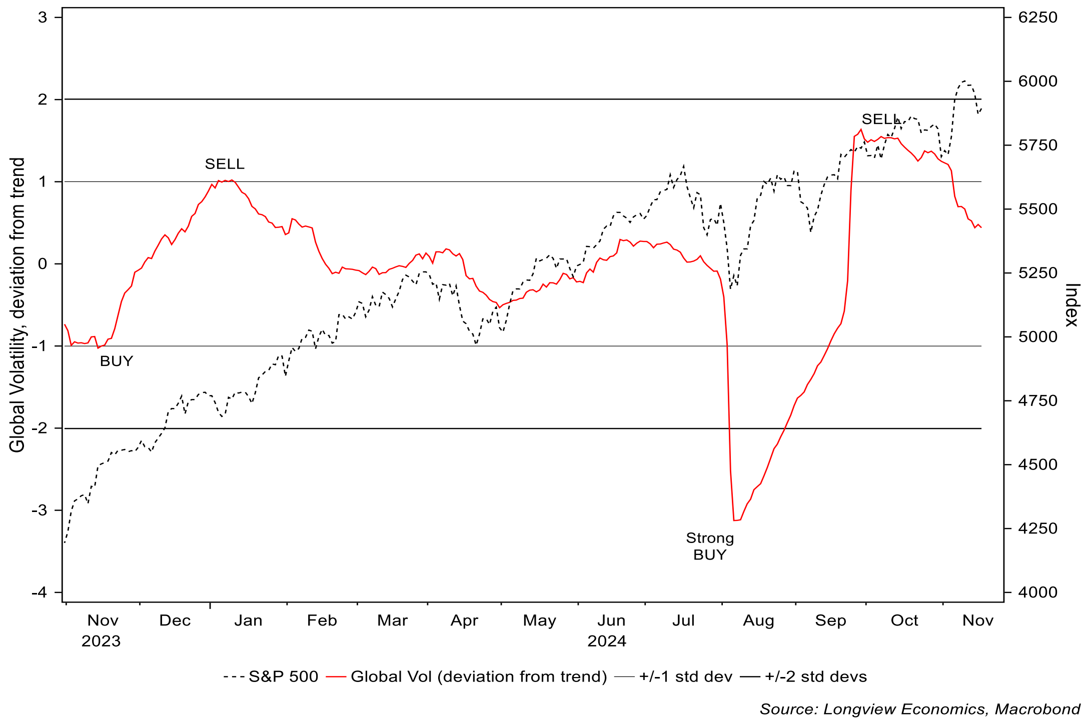
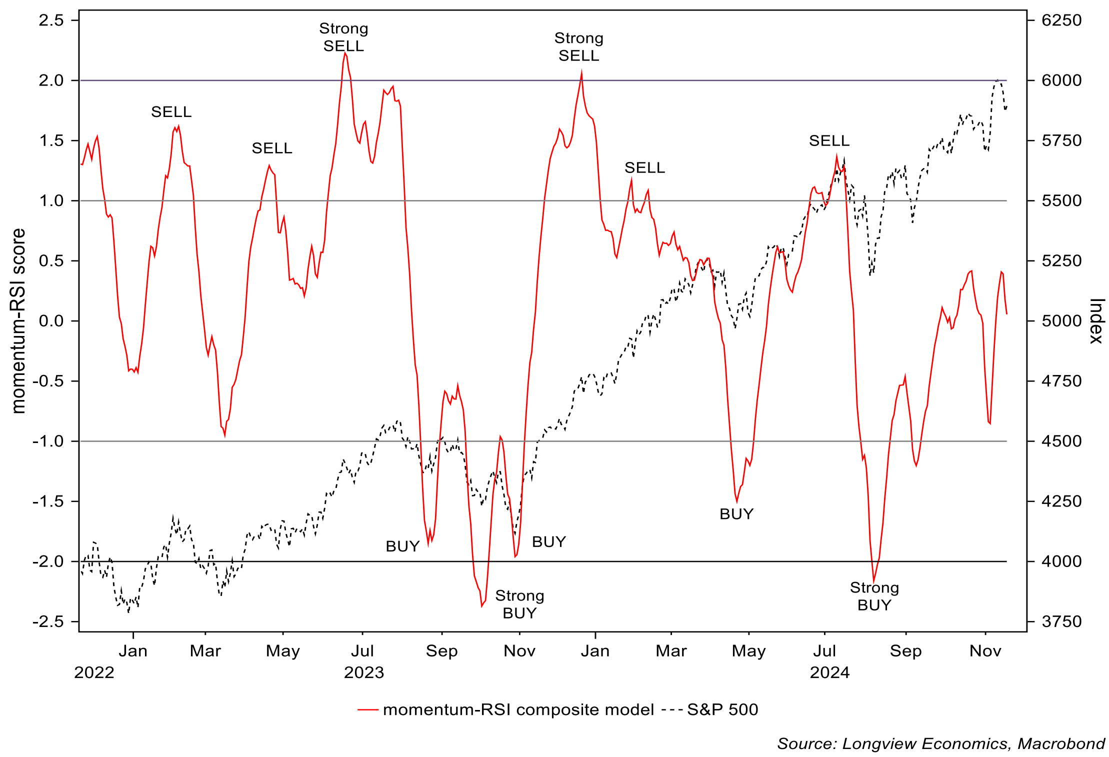
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

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



US momentum RSI composite model is NEUTRAL

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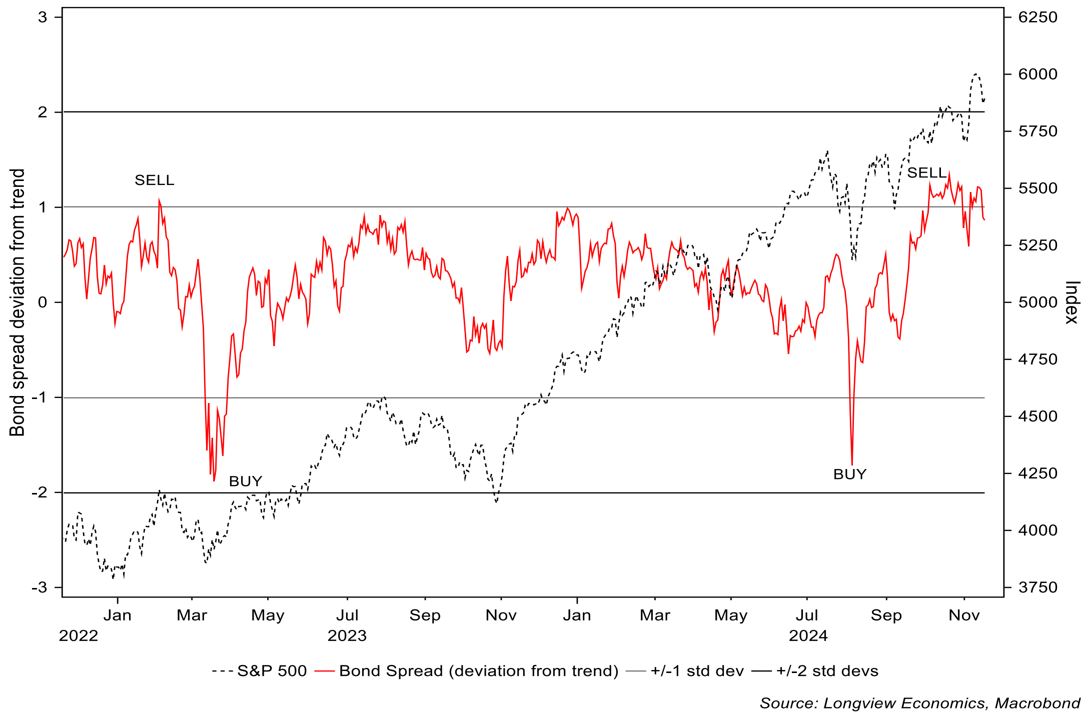
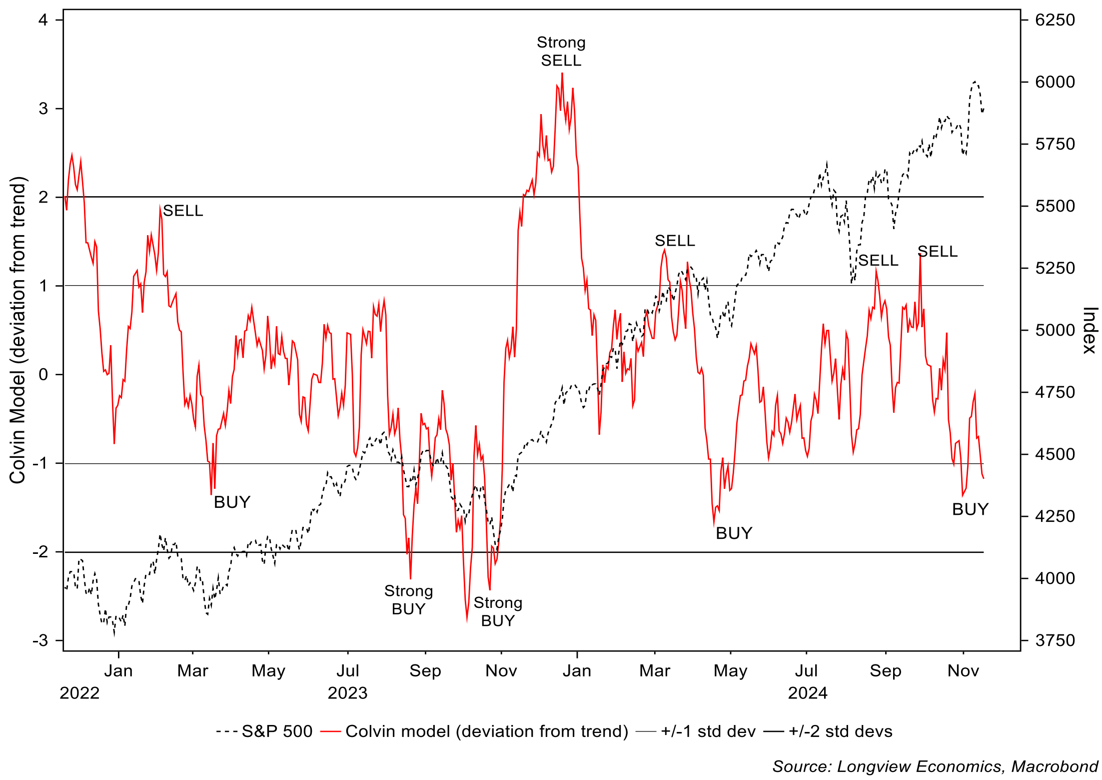
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

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



Colvin model – is on BUY

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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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