

Equity Index Futures Trading Recommendations

20th January 2025

"Watch & Wait (for now); Models Starting to Move onto SELL"

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US equity & bond markets are closed today for Martin Luther King Jr. Day (US holiday). It's also Inauguration Day for President-elect Trump. Markets resume trading as normal tomorrow. Given the holiday, commentary below is somewhat limited but will resume tomorrow in full.

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

- WATCH & WAIT (for now) – US markets closed today.

Rationale

US equities rallied last week on the back of the better-than-expected inflation data (both PPI & CPI on Tuesday & Wednesday). **Over the course of the week, the S&P500 moved from the bottom of its recent trading range (i.e. 5,809 intraday lows on Monday), back towards the top end by Friday – see FIG 1.** The inflation data triggered a rally in bonds (i.e. fall in yields), which eased the pressure on the equity market. The bond rally was sharp, reflecting the oversold nature and overly crowded short positioning in the bond market. US 10-year yields closed the week at 4.61%, having been as high as 4.82% (earlier in the week). US two-year yields also closed 13bps lower (on the week). In the US, leadership came primarily from the semiconductors (Philly SOX), and the small and midcap indices (S&P400 & S&P600 – FIG 1). European markets were also higher (mostly up around 3 – 4% on the week, FIG 1a), along with the main Asian markets (with the exception of Japan*).

With that strength in US equity markets, a **wide variety of '1 – 2' week market timing models have moved back towards, or onto, SELL.** The risk appetite scoring system, for example, is now on SELL (although the combined RAG1 plus RAG2 is yet to reach SELL – FIGs 2 & 2a); downside put protection models are mostly now on SELL (with the exception of the NDX & R2K specific ones – FIG 3c) – the broad CBOE put to call ratio, for example, is on SELL (FIG 3); while the volume of outstanding single stock call options is at record highs (FIG 3a). Technical (price based) models are increasingly generating SELL signals – Europe (& the DAX) are overbought (FIG 4b); the S&P500 and global equity market are moving towards overbought levels (FIGs 4 & 4a); while the NDX (& tech centric indices like the FAANMGs) remain closer to their oversold thresholds (FIG 4c). Technical sector and single stock models are also on/moving close to SELL (FIGs 5 & 5a). Other than the tech heavy parts of the US market, therefore, the key US and European indices are increasingly at/close to overbought levels. Of note, with respect to tech, NDX sentiment also remains at low levels, while its put to call indicator is mid-range (FIG 3c).

US markets are closed today for Martin Luther King Jr. Day. Given that, we recommend WATCHing and WAITing (for now). Clearly, though, there's an argument brewing to start thinking about SHORT positions in key equity indices. Please see below for a summary of today's key macro data & events. The most important events over the next 24 (to 48 hours) are likely to be the 'Executive Orders' that Trump signs once inaugurated.

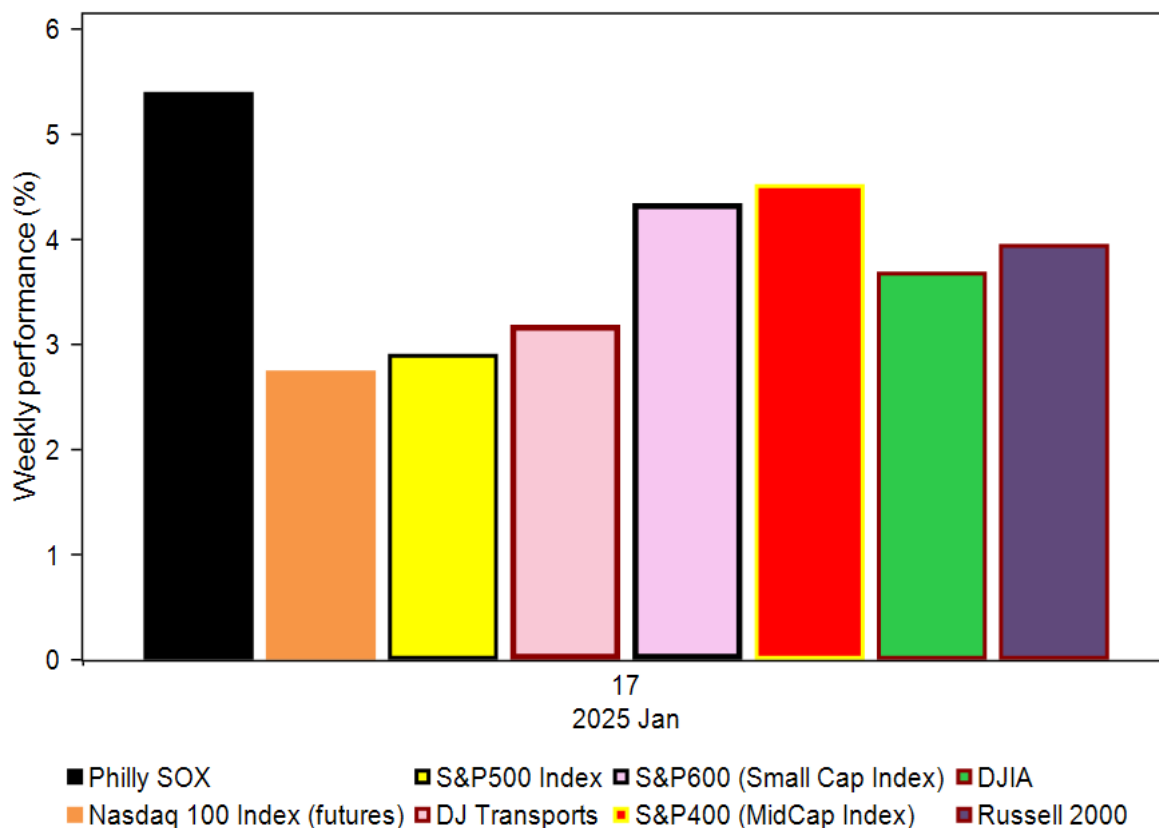
Kind regards,

The team @ Longview Economics

*NB Likely reflecting the strength of the Yen last week (which was supported by higher 1 & 2 year Japanese bond yields as the BoJ increasingly seen as likely to hike rates in January).

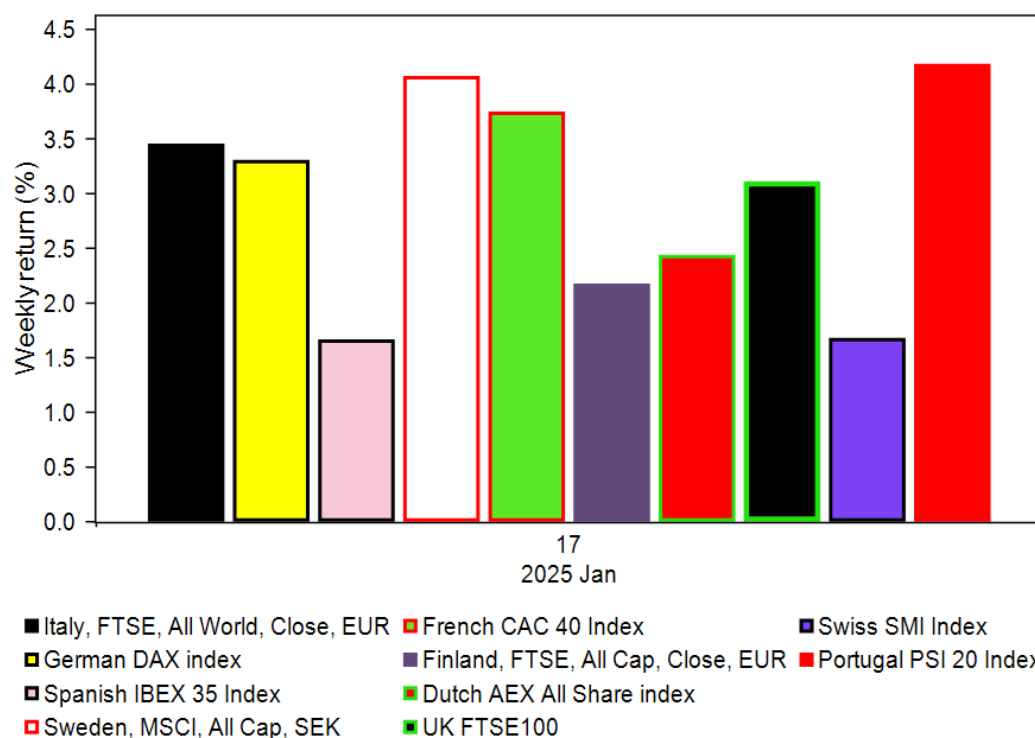
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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: Weekly performance → key US equity markets (%)



Source: Longview Economics, Macrobond

FIG 1a: Weekly performance -> key European equity markets (%)



Source: Longview Economics, Macrobond

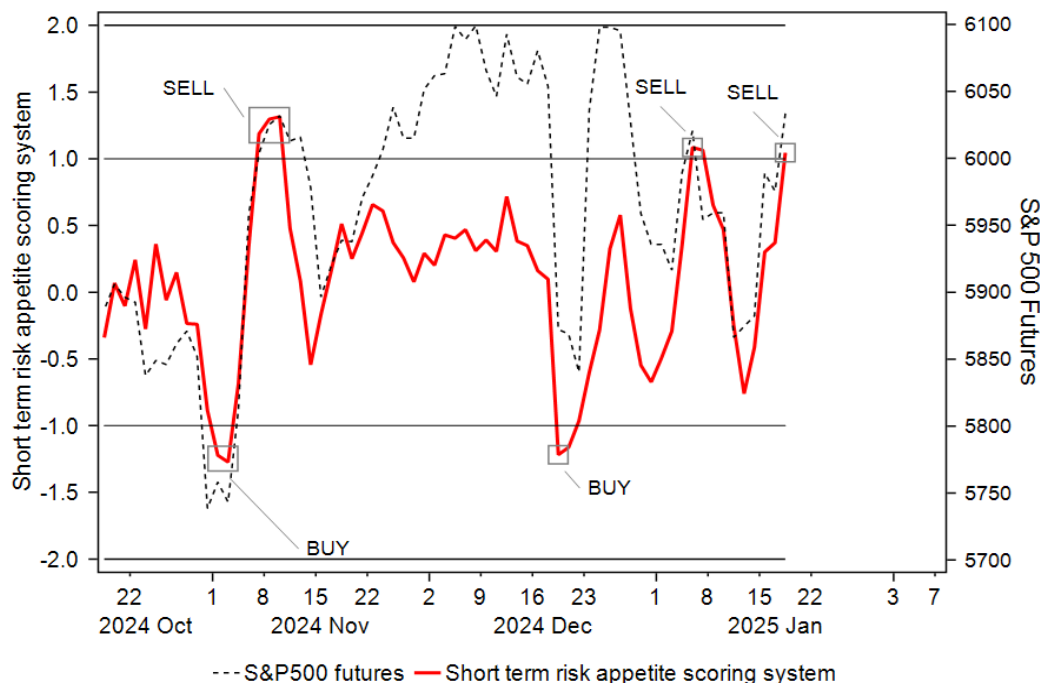
FIG 1b: S&P500 futures candlestick chart, shown with 50 day moving average



Source: Longview Economics, Macrobond

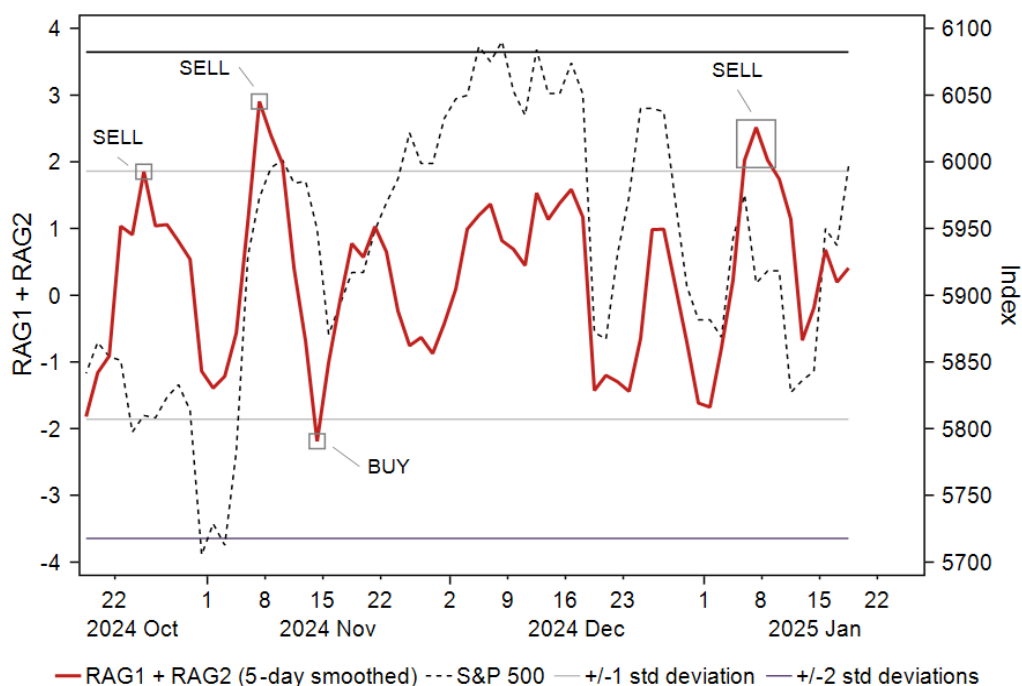
Risk appetite models are starting to generate SELL signals...

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



Source: Longview Economics, Macrobond

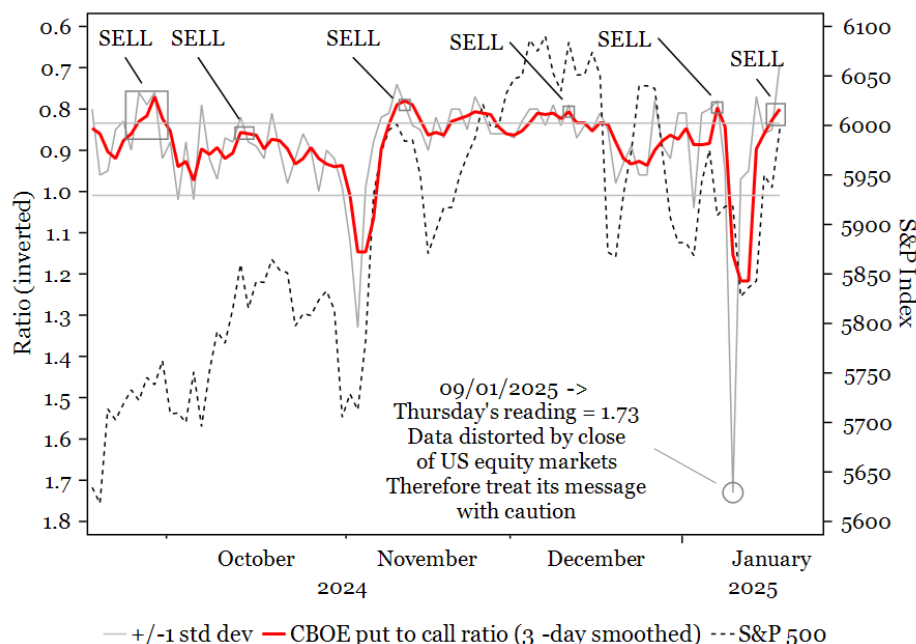
FIG 2a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

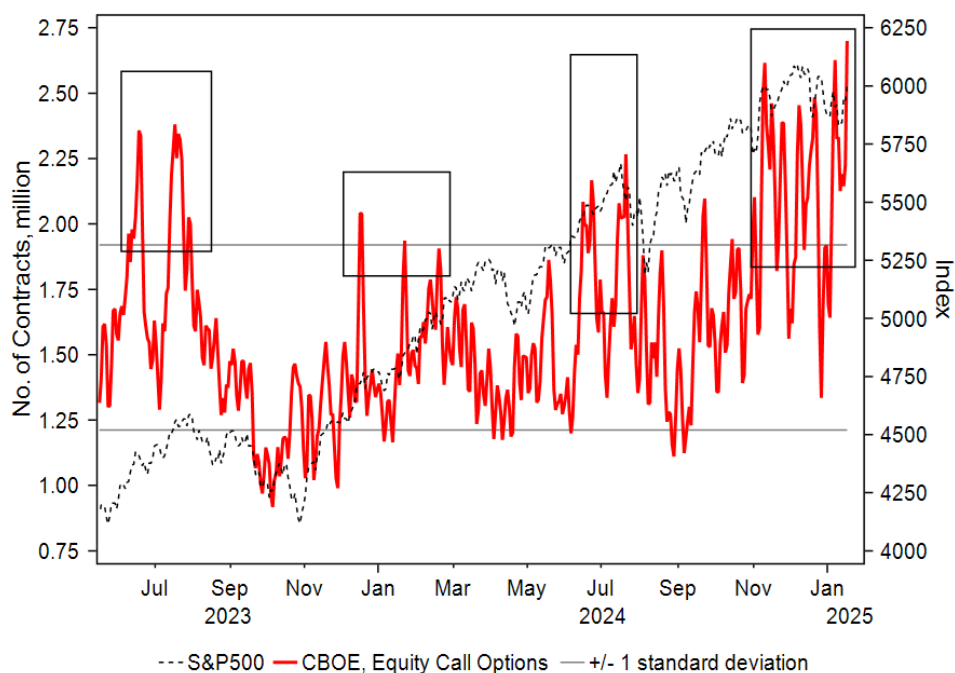
Put to call ratios are also starting to generate SELL signals.....

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



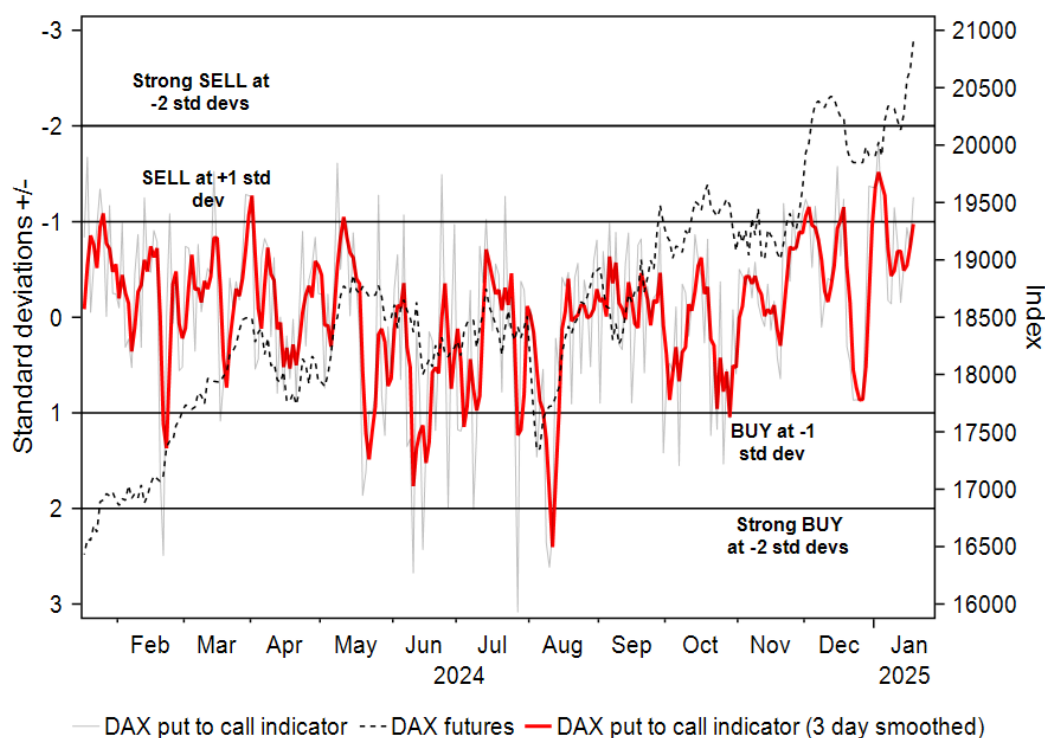
Source: Longview Economics, Macrobond

FIG 3a: Volume of outstanding CBOE 'single stock' call options (3 day smoothed) vs. S&P500



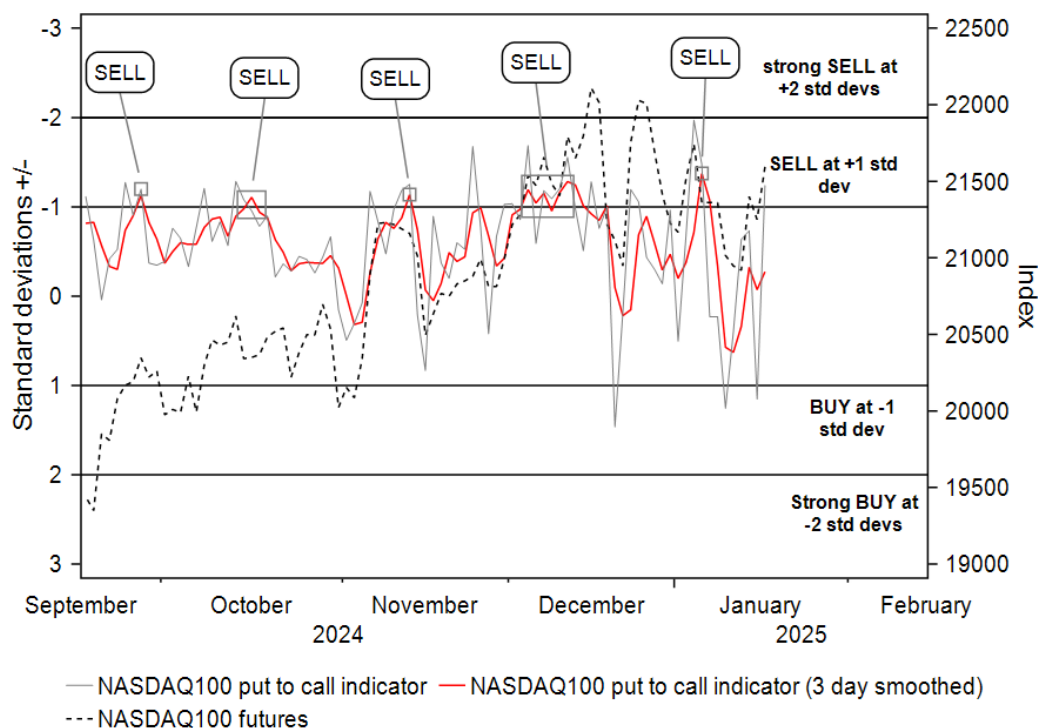
Source: Longview Economics, Macrobond

FIG 3b: DAX40 calls less puts indicator (5 day smoothed) vs. DAX40 index



Source: Longview Economics, Macrobond

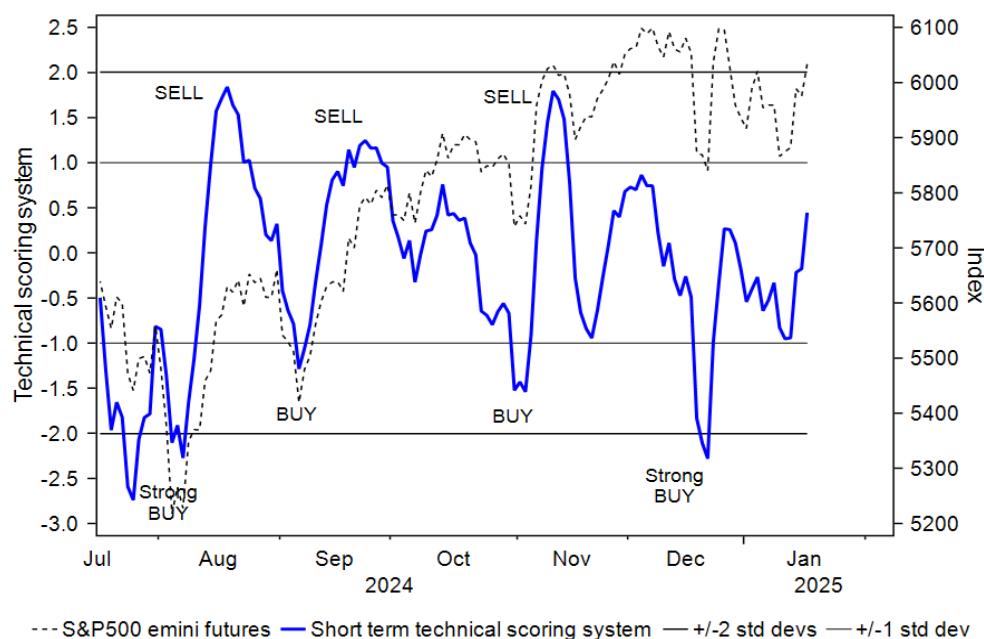
FIG 3c: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

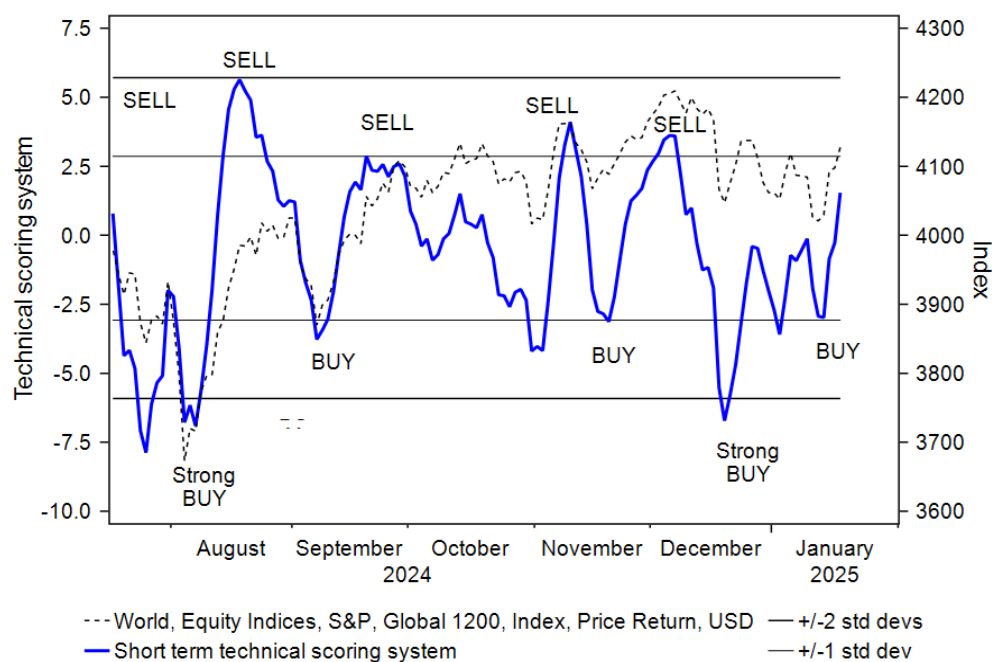
Technical models (for indices) are moving towards a collective SELL message....

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



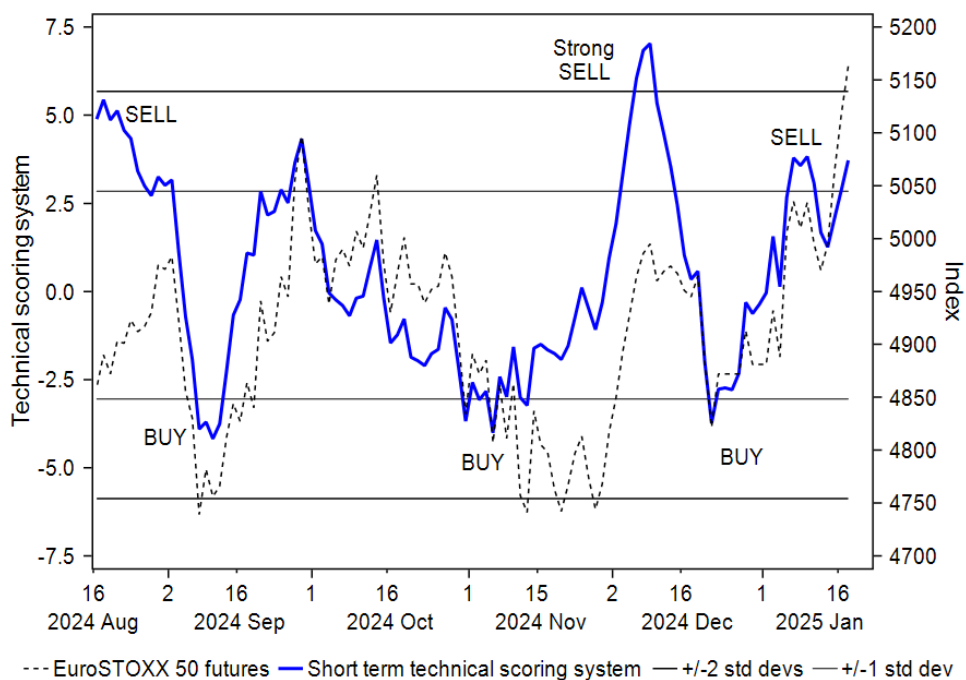
Source: Longview Economics, Macrobond

FIG 4a: Longview global short term **'technical'** scoring system vs. global equity index



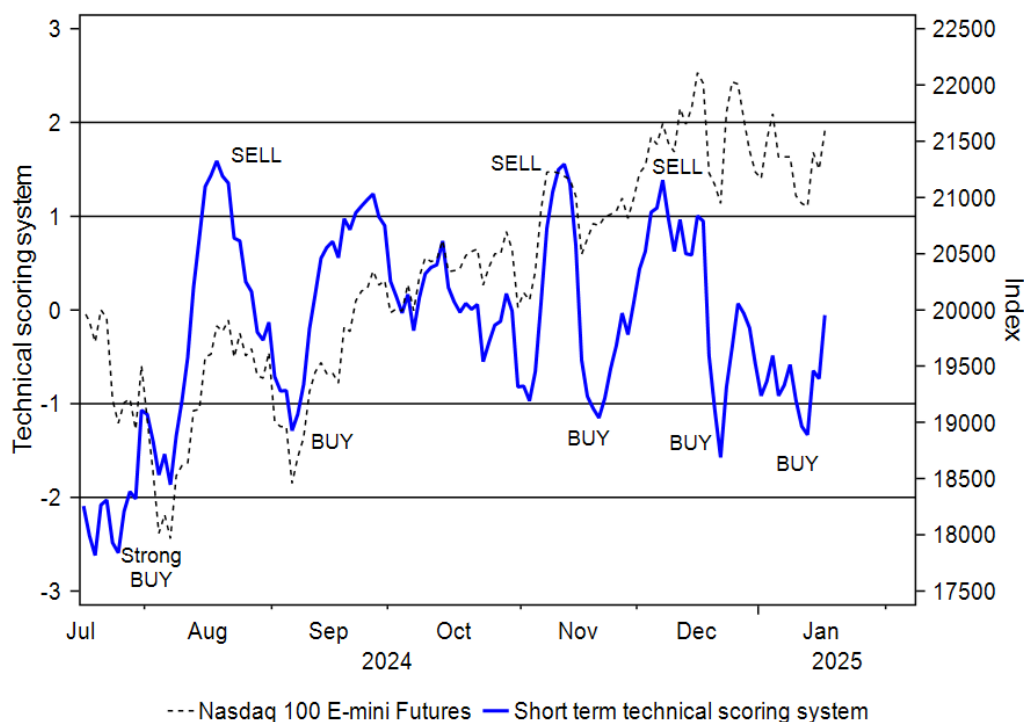
Source: Longview Economics, Macrobond

FIG 4b: Longview Dow Jones Euro STOXX 50 Index short term **‘technical’** scoring system vs. Dow Jones Euro STOXX 50 index



Source: Longview Economics, Macrobond

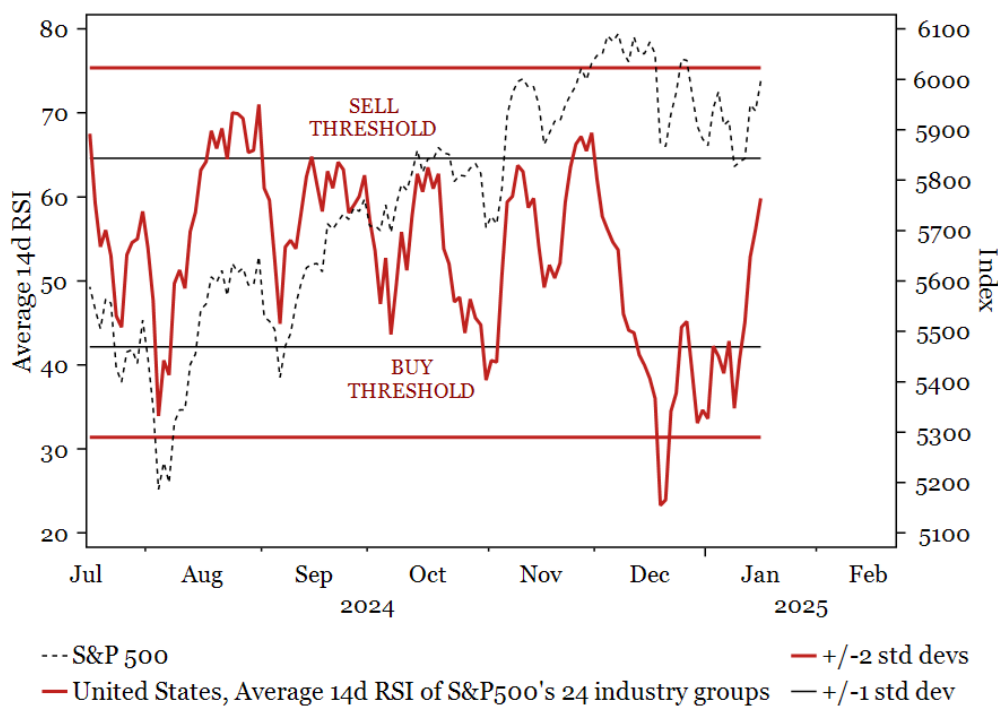
FIG 4c: Longview NDX100 short term **‘technical’** scoring systems vs. NDX100 futures



Source: Longview Economics, Macrobond

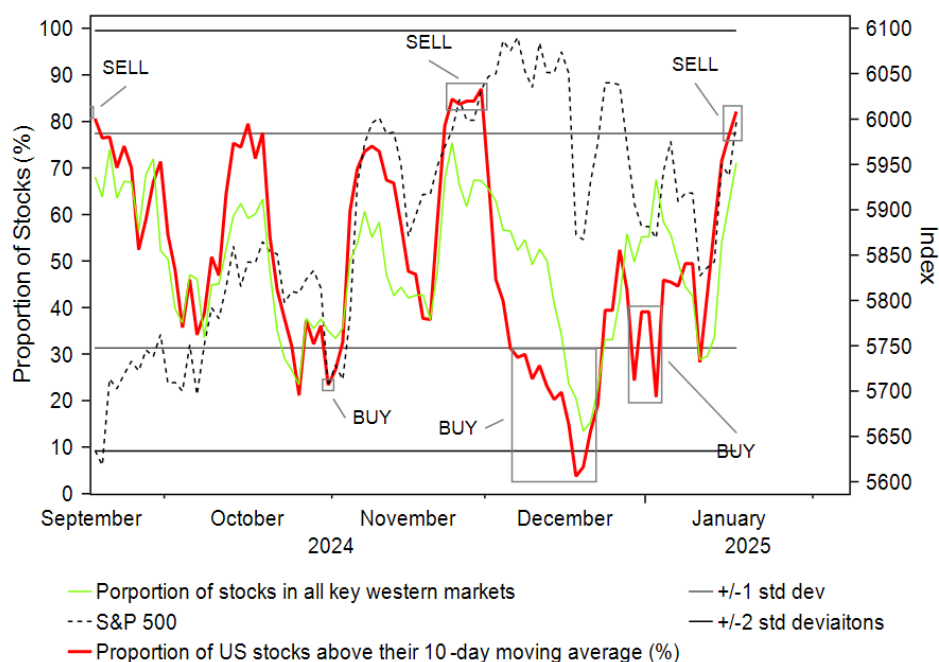
Sector and single stock technical models are also back at, or close to, SELL levels....

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



Source: Longview Economics, Macrobond

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



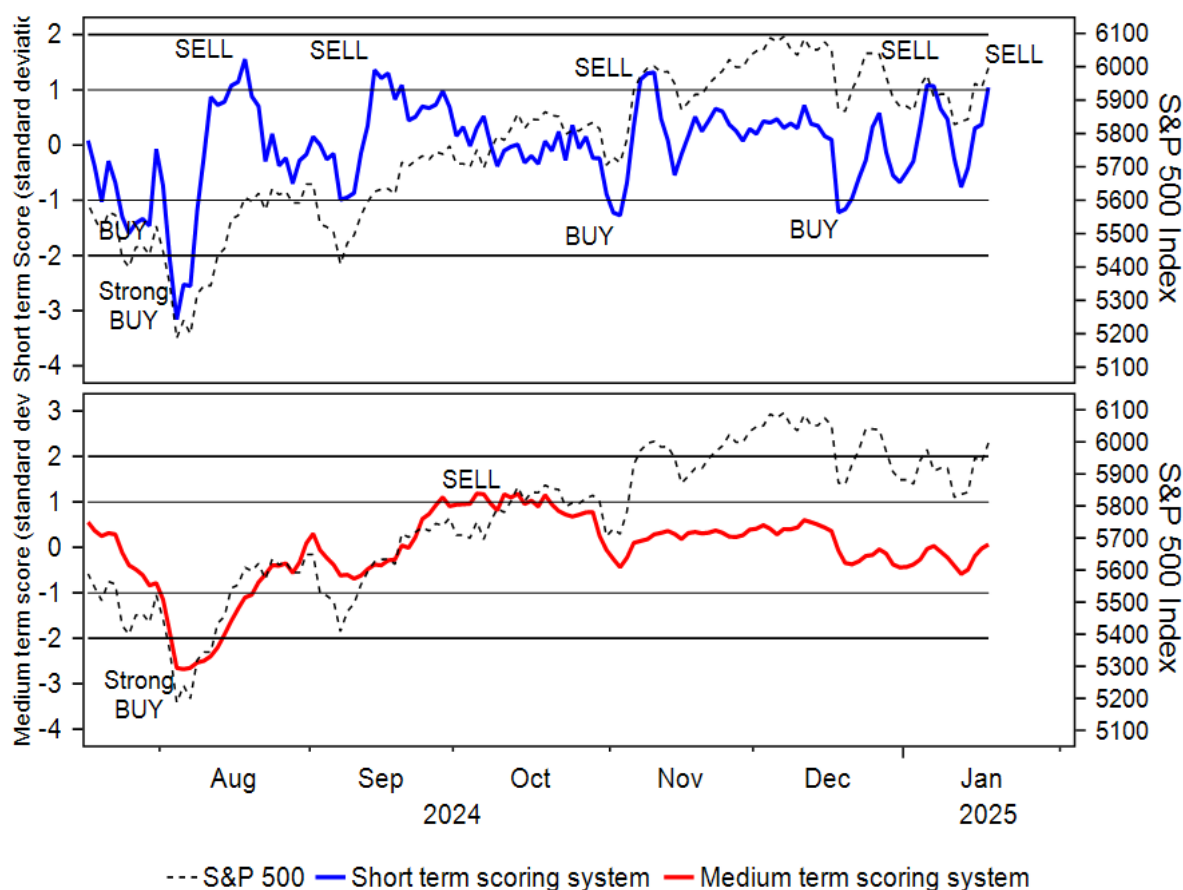
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **SELL**

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 Rightmove house prices (Jan, 12:01am); Japanese industrial production & capacity utilisation (November final estimate, 4:30am); **German PPI** (Dec, 7am); Spanish home sales (Nov, 8am); Eurozone construction output (Nov, 10am).

Key events today include: **PBOC policy decision** (1am); speeches by the ECB's Vujcic at LC-MA Forum on The Future of Inflation (2pm) & Holzmann at the conference of Austrian National Bank on energy-market regulation (2:30pm); **US Presidential inauguration & market holiday in the US on account of Martin Luther King, Jr. Day.**

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 last week, 15th January 2025. 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

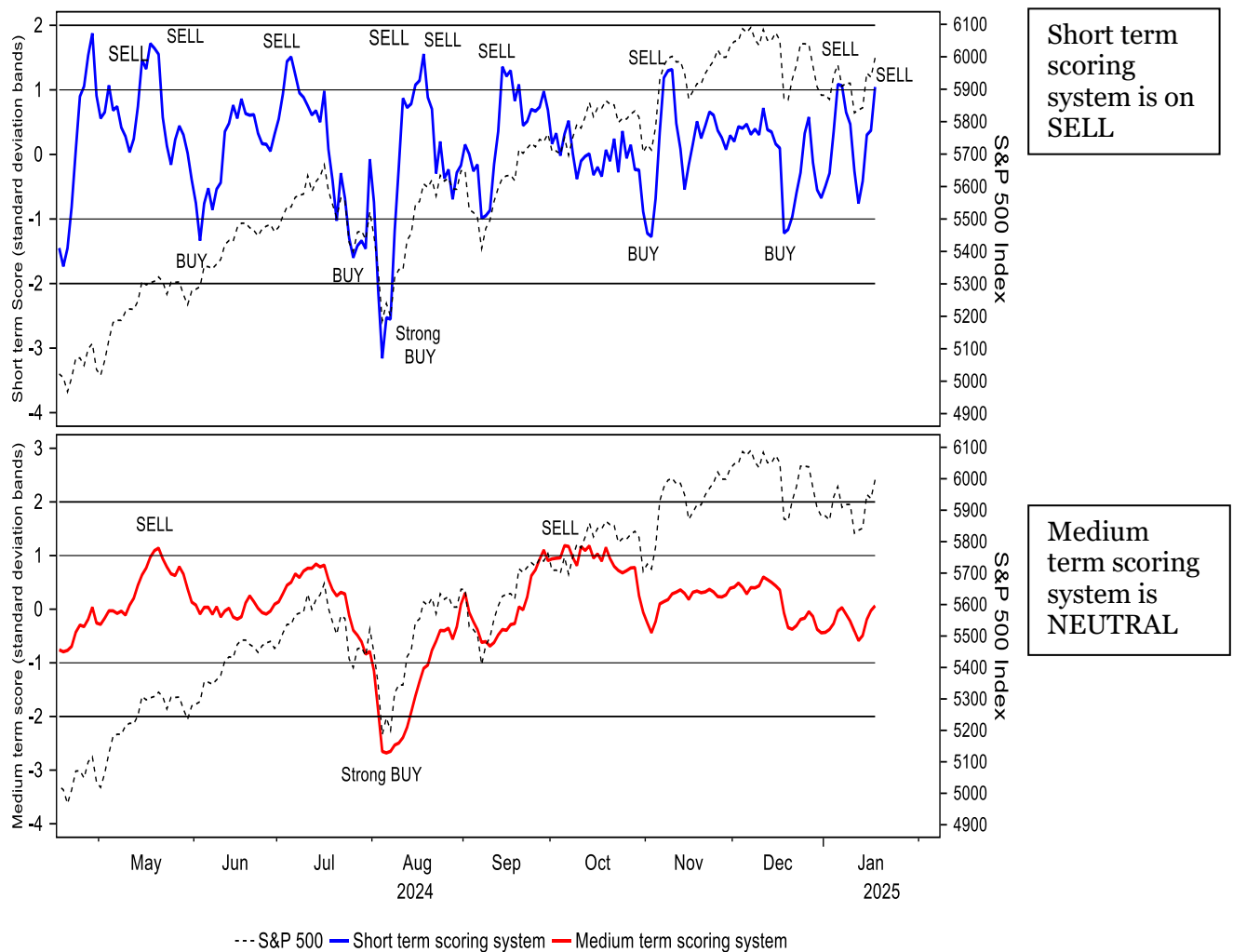
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20th January 2025

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

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



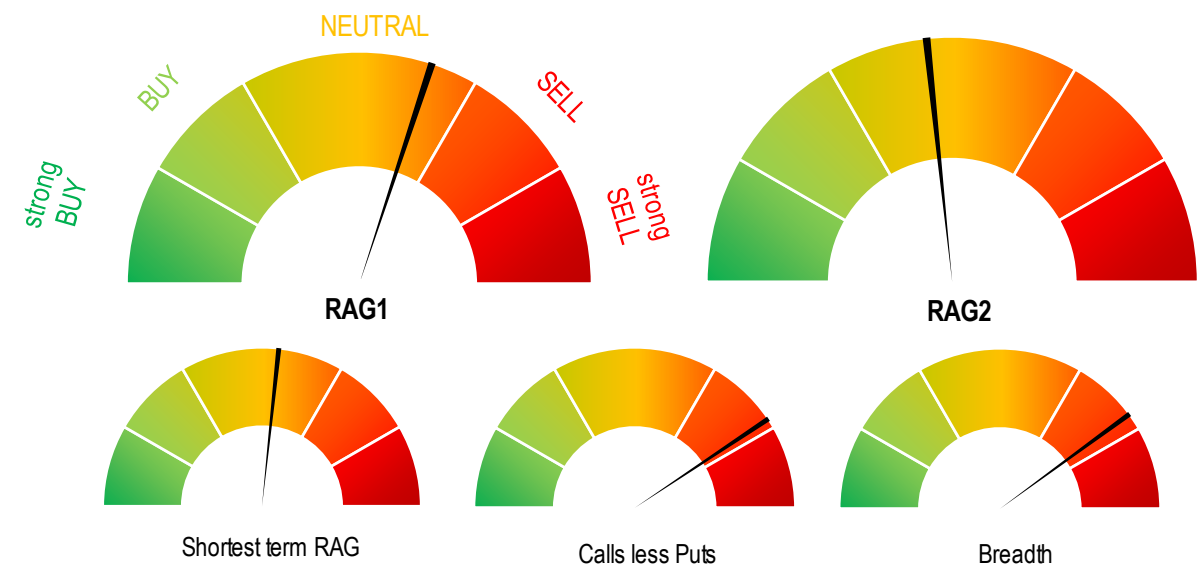
Source: Longview Economics, Macrobond

*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**

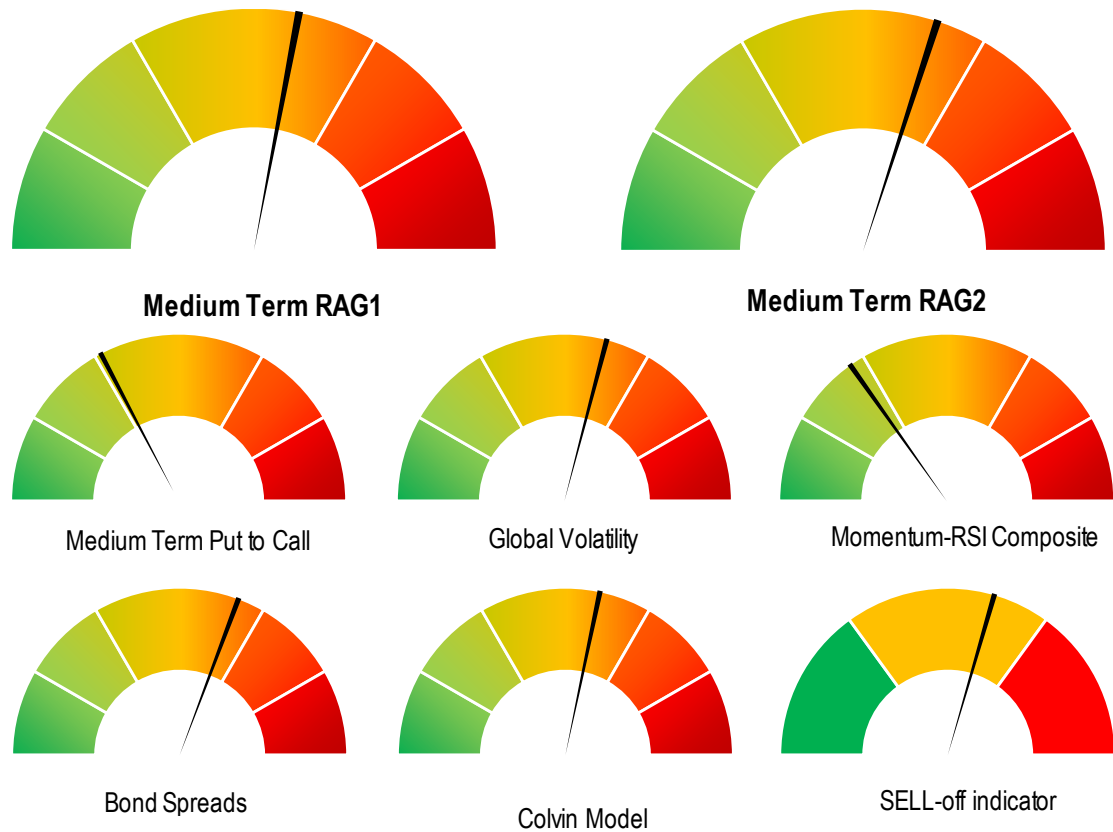
Section 1a: Summary of indicator signals**

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

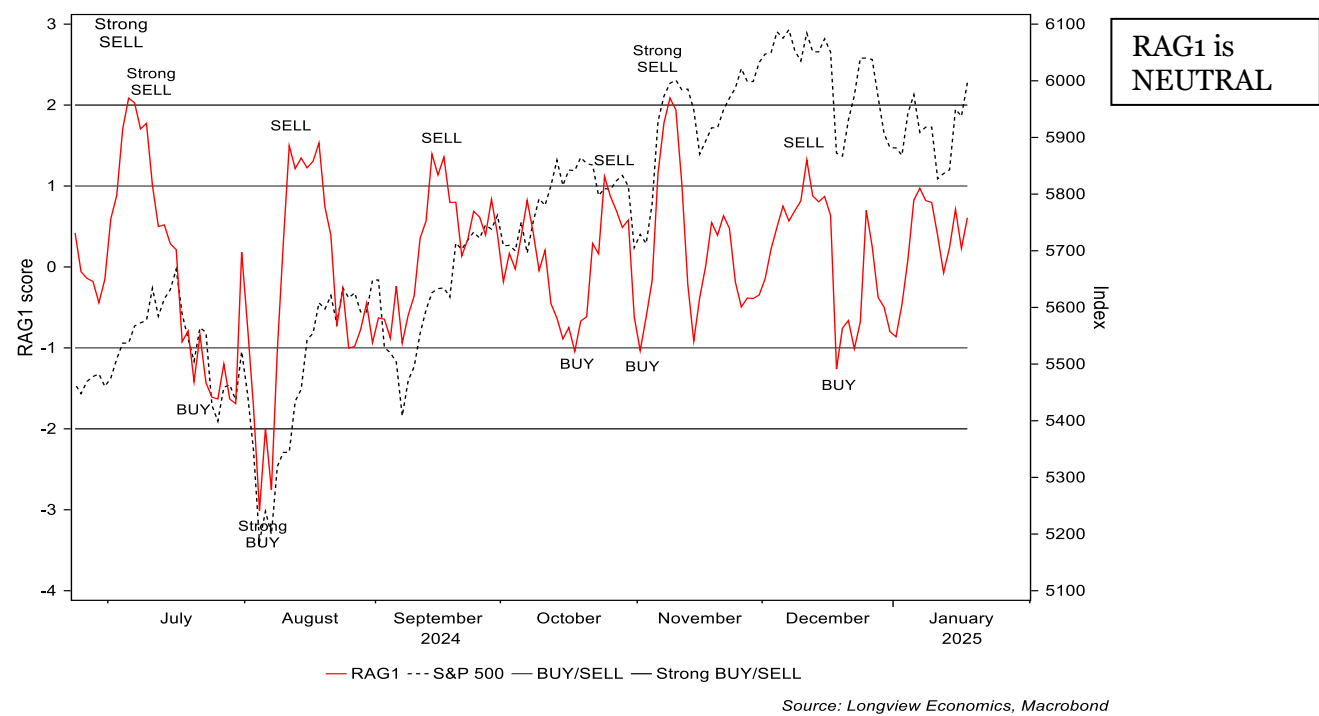
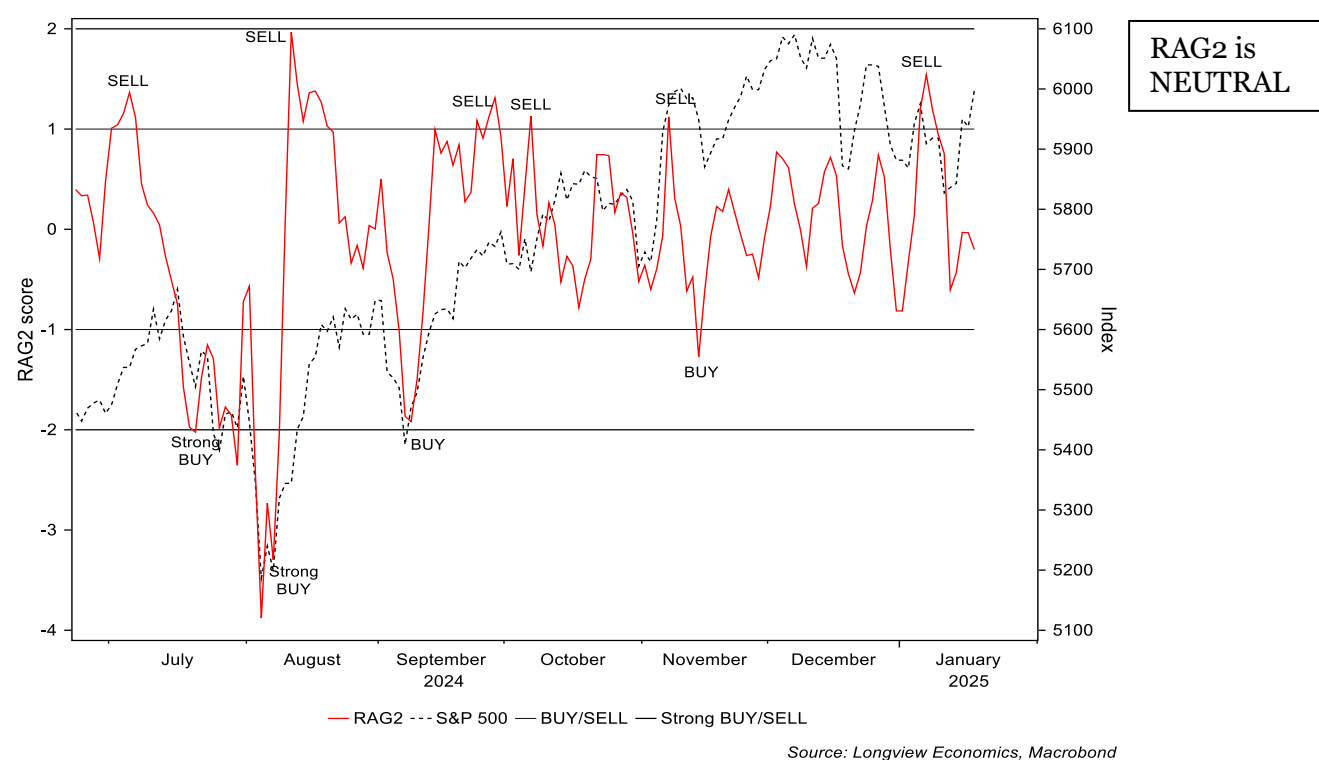


Fig 2b: RAG 2 vs. S&P 500



For explanations of indicators please see page 10

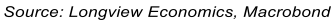
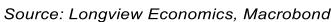
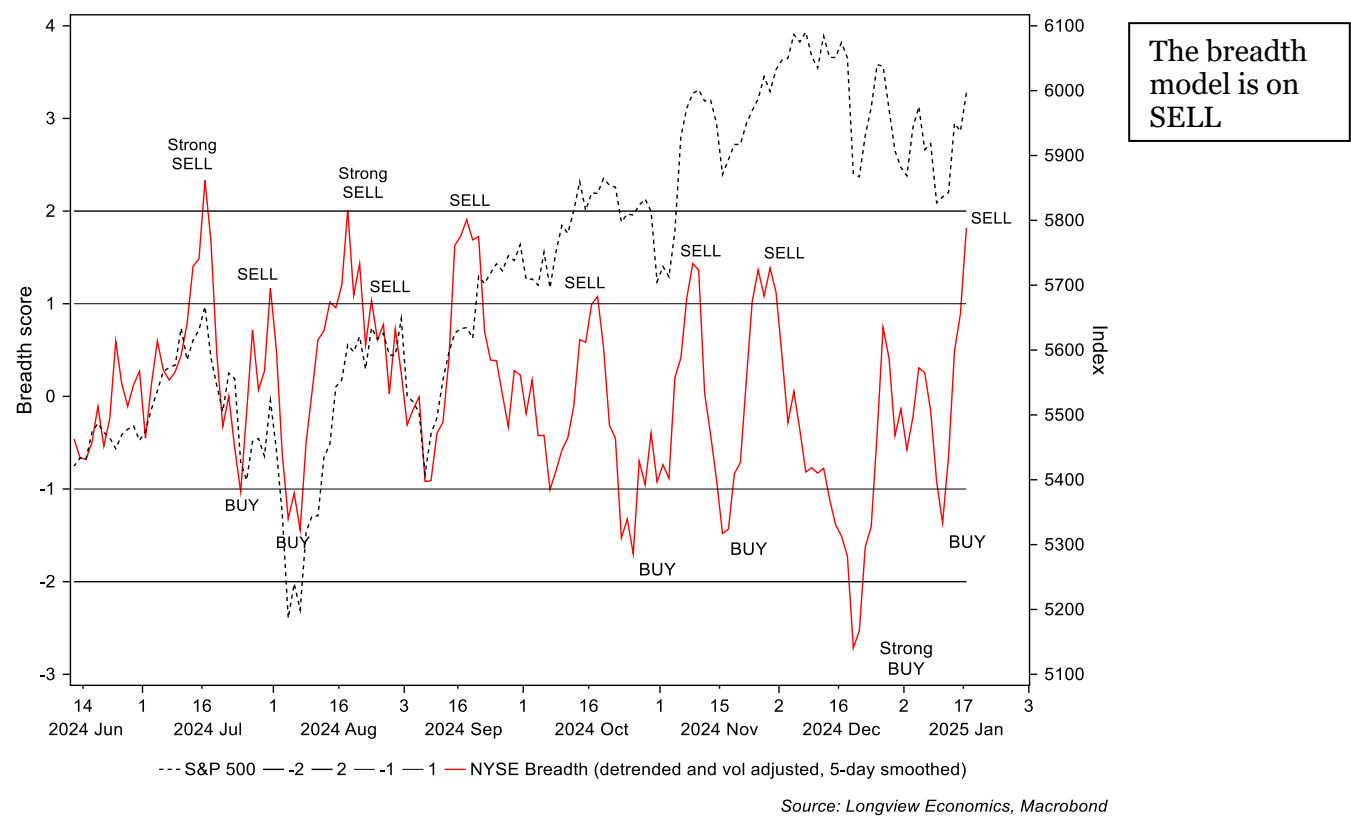


Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



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

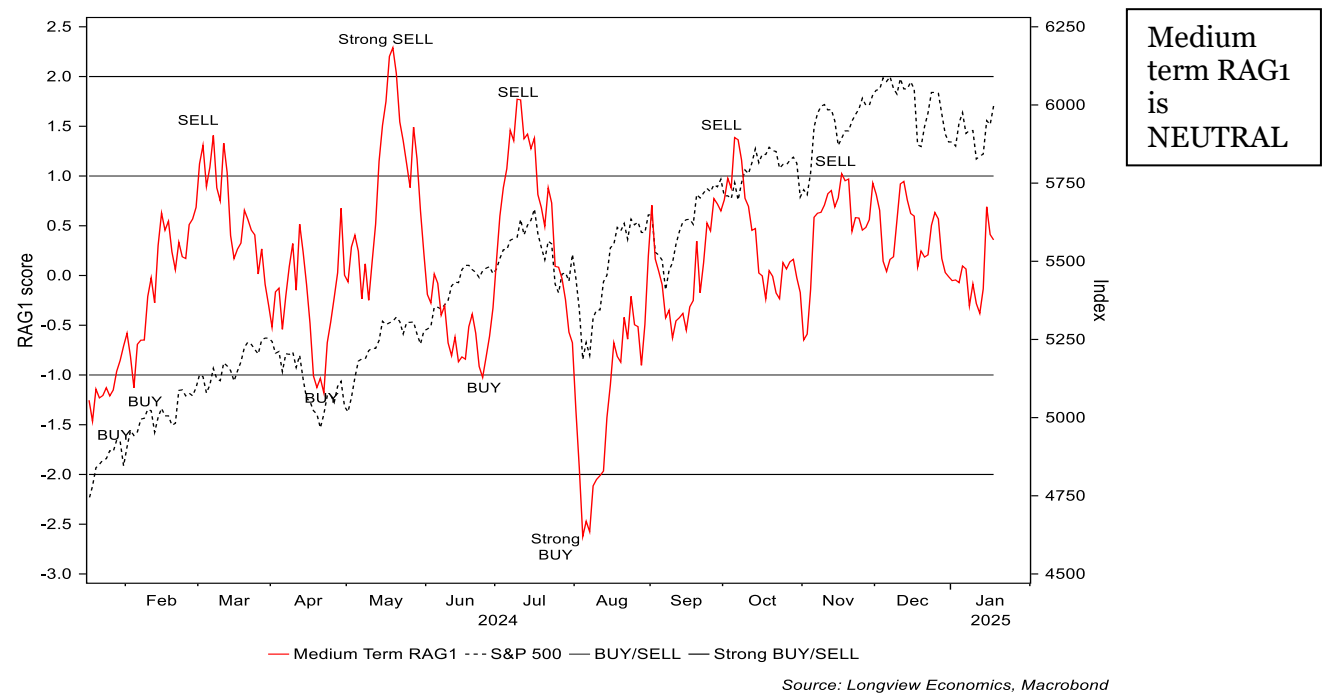
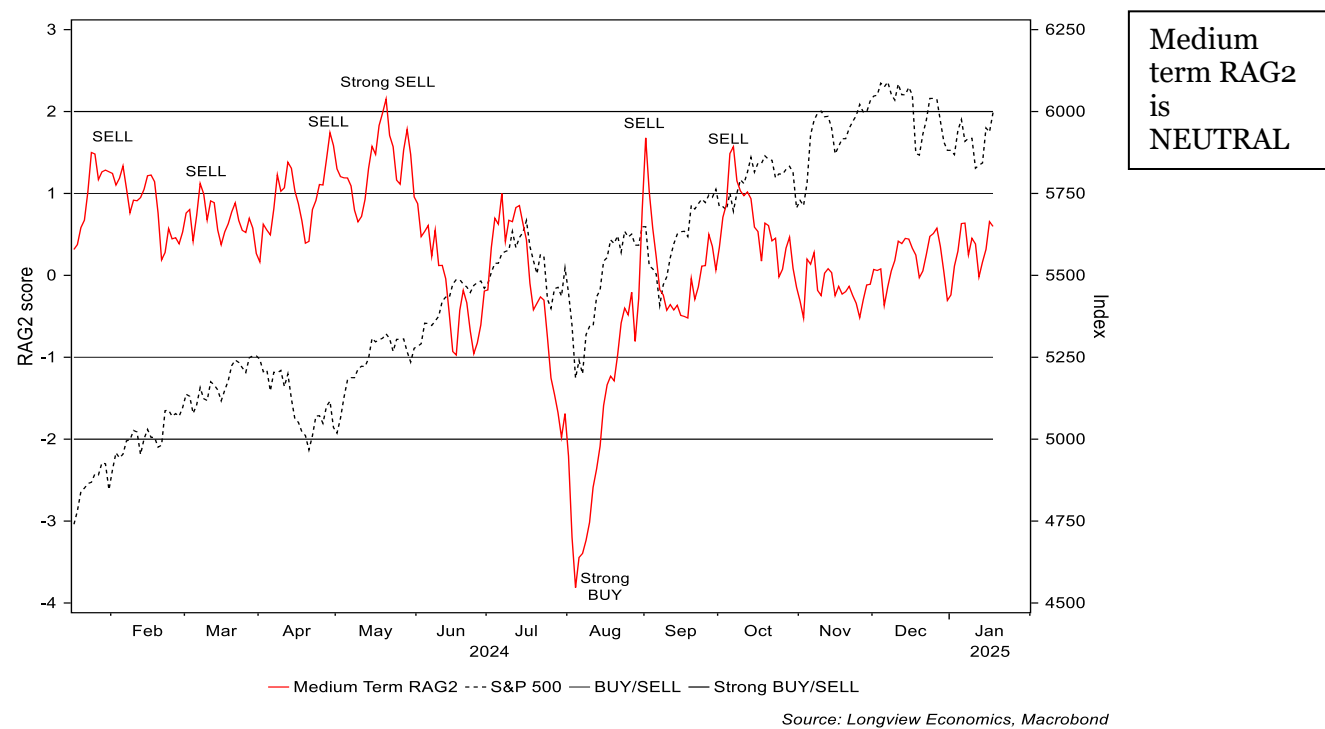


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

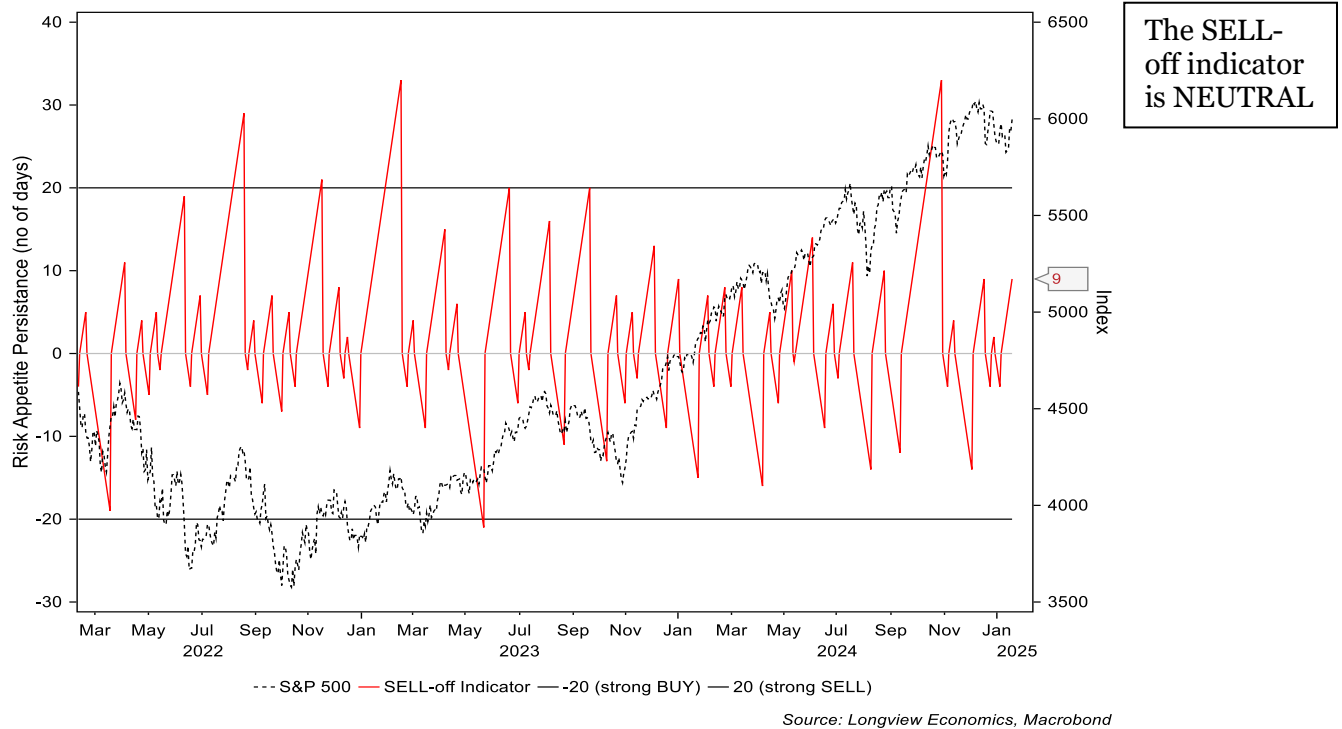
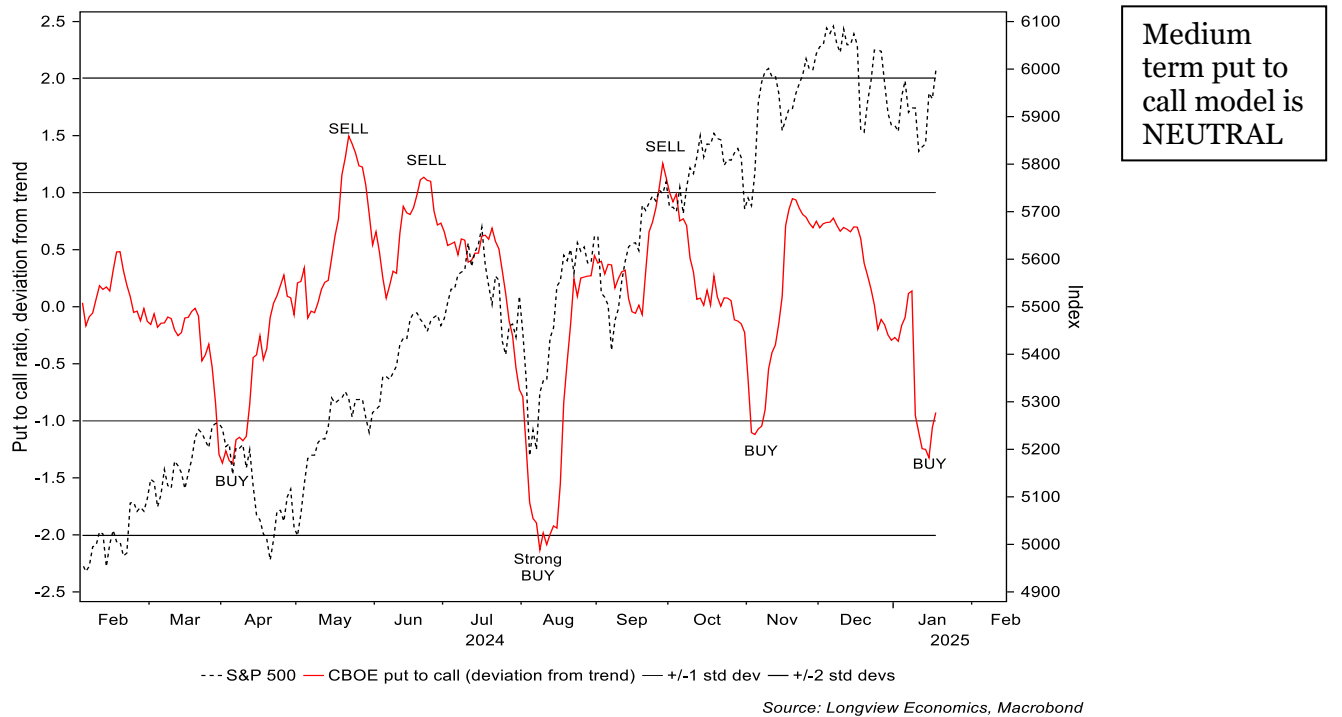


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

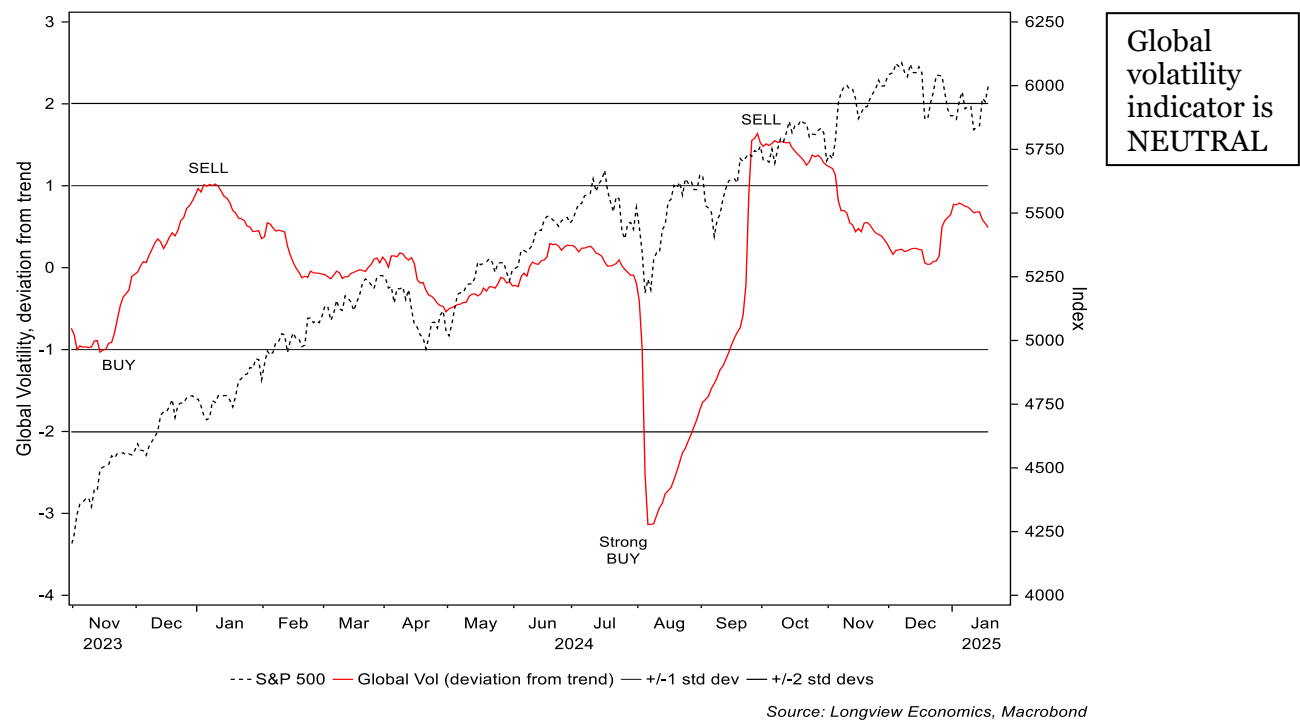


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

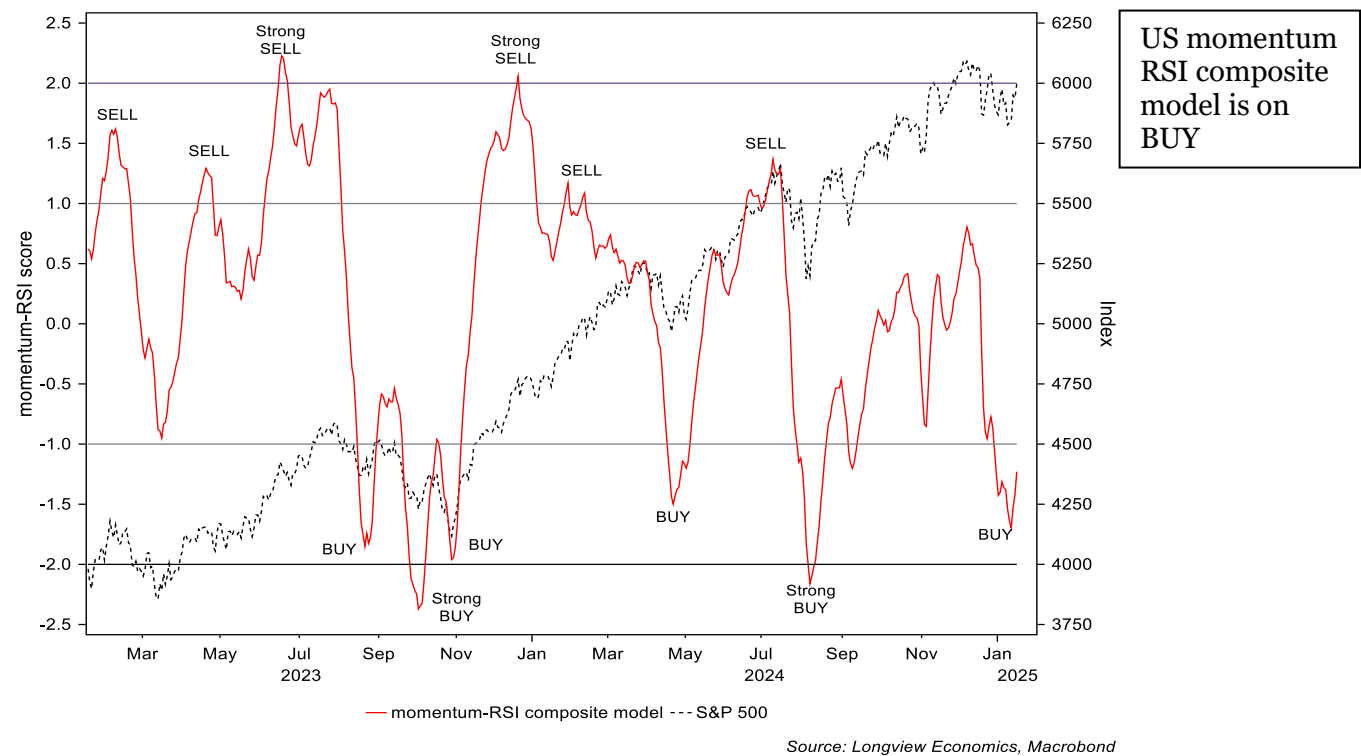


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

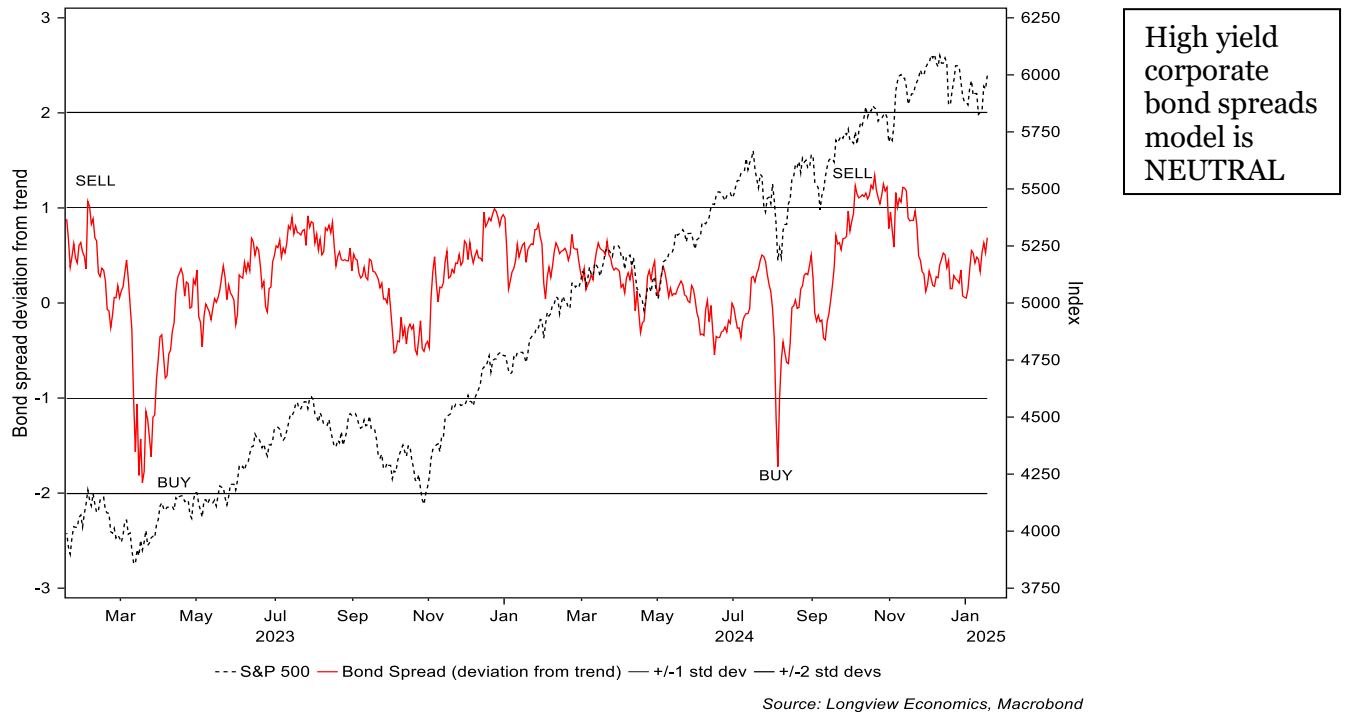
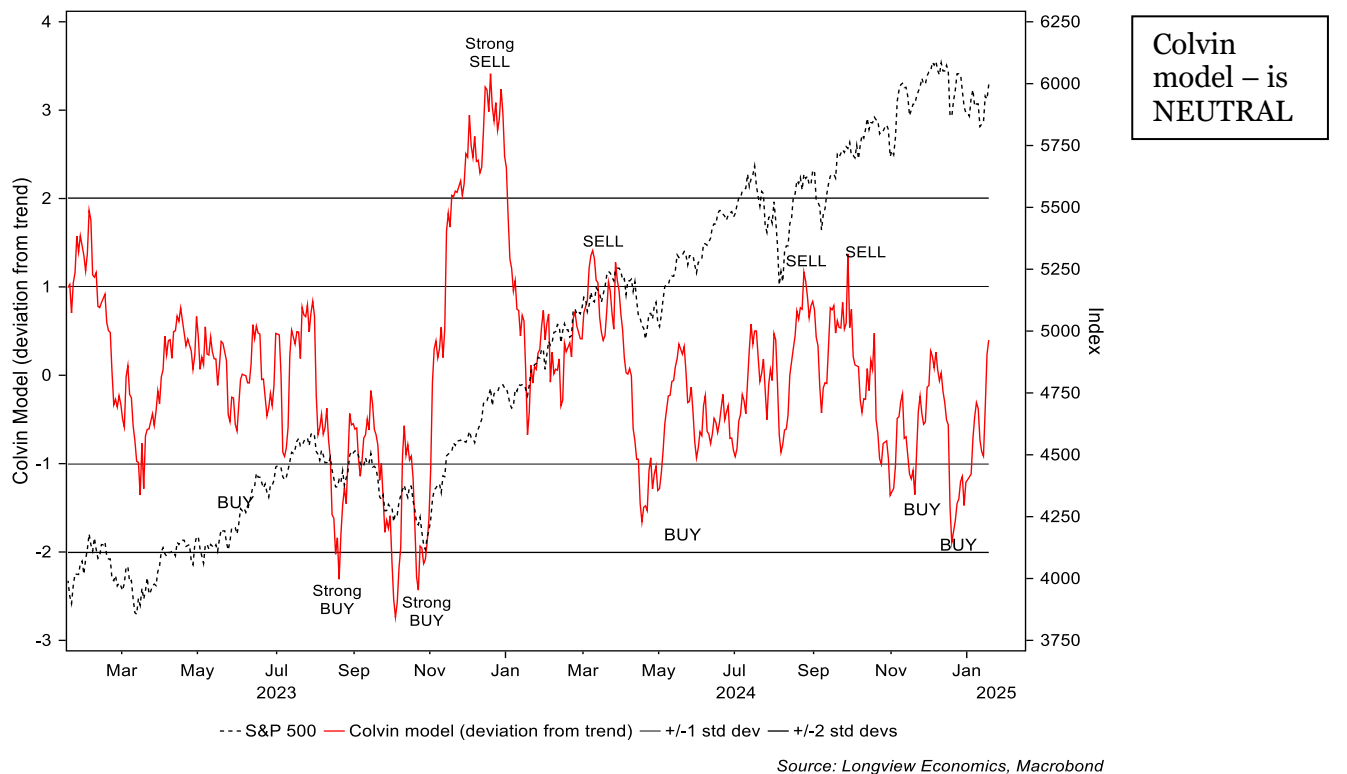


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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