Equity Index Futures Trading Recommendations

21st November 2024

"Stay opportunistically LONG SPX"

Email: info@longvieweconomics.com

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

- Stay ¼ LONG S&P500 December '24 futures (entry was yesterday at 5,952.75);
- Retain unchanged stop loss at 5,808 (i.e. just below the 50 day moving average).

Rationale

US equities increasingly appear to be building a base. In particular, despite some weakness early in the session yesterday, most major indices rallied into the close to finish higher/flat on the day. With that the S&P500 made higher highs and higher lows intra-day (compared to Tuesday/Wednesday), see FIG 1. That's encouraging price action and consistent with the bullish key day reversal pattern* generated on Tuesday. Elsewhere the NASDAQ100 is trading in a similar manner, while global equities (continue to) find support at around their 50 day moving average (FIG 1b). In recent trading days the rates market has *started* to price Fed cuts back into the curve (FIG 1c) while recent upside momentum in the dollar has started to fade.

Our view remains unchanged from yesterday. That is, after some initial giveback (following strong gains in early November), US equities are building a base and likely to rally (on a 1 – 2 week view).

That view largely reflects the message from our short term models, most of which point to **upside in equities in coming days/weeks**. In particular, while our risk appetite indicators are broadly mid-range (FIGs 2 & 2a), our short term technical scoring systems are on/close to BUY (i.e. for the S&P500, NASDAQ100, and Philly SOX, e.g. see FIGs 3 & 3a). Those models have generated timely signals in recent months. Added to which, various momentum, breadth, and price based models are also on BUY (FIGs 3b – 3e). US equities are therefore oversold and poised to rally in the near term.

The risk **reward therefore favours staying LONG** S&P500 futures (please see above for detailed recommendation).

Risks to this trade are multiple, and include signs of near term complacency in markets. Portfolios, for example, are not well protected to the downside (FIG 4) and the number of outstanding call options on US single stocks is elevated (albeit less so in recent days, see FIG 4a). Elsewhere the poor price action following Nvidia's (better than expected) earnings is troubling. Reflecting those risks we continue to view this trade as somewhat opportunistic.

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

Kind regards,

The team @ Longview Economics

*That happens when an index opens lower, makes a lower intra-day low, and then closes above the intra-day high from the prior day. Key day reversals typically signal a change of near-term trend (in this instance, from bearish to bullish).

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

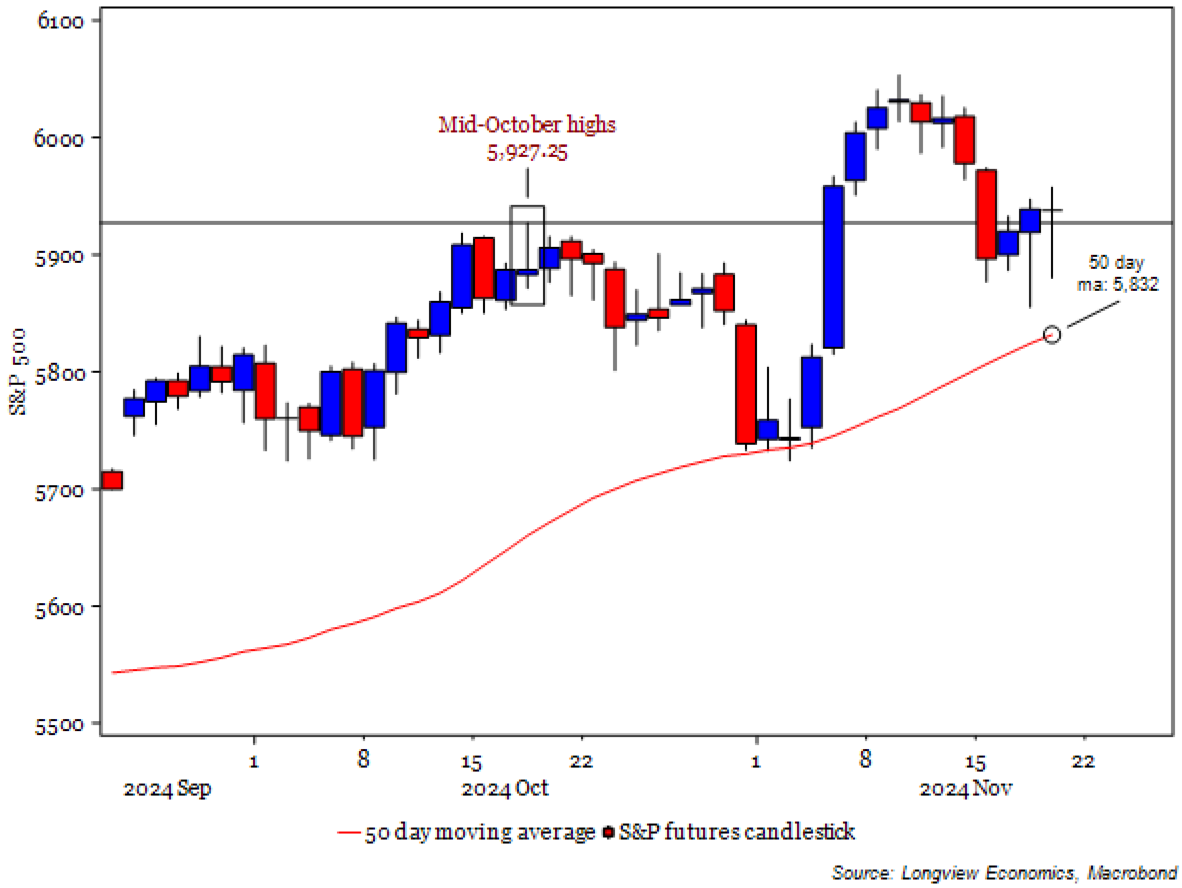
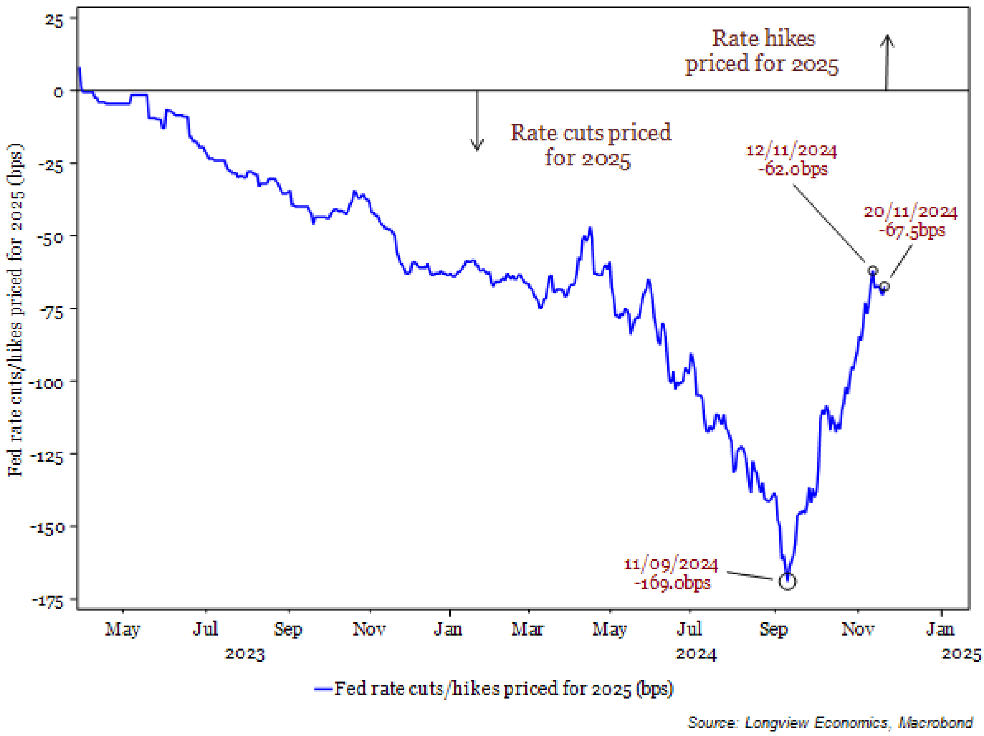


FIG 1a: S&P500 futures 10 day tick chart shown with overnight price action

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

FIG 1c: Fed rate cuts/hikes priced for 2025 (bps)



Short-term risk appetite models are mid-range…

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

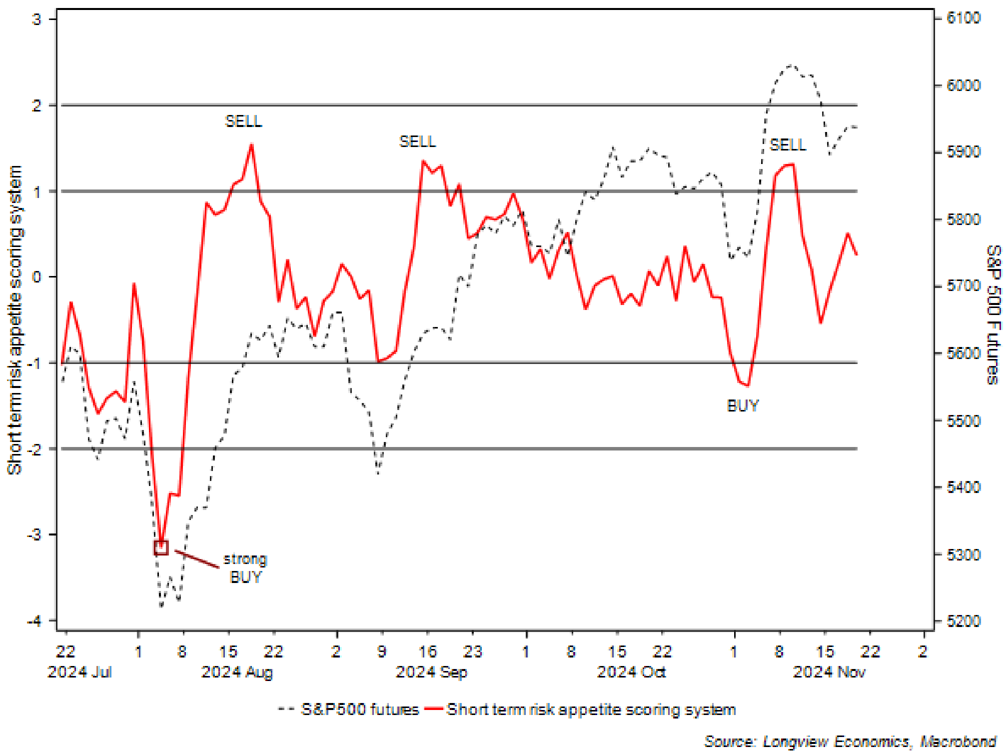
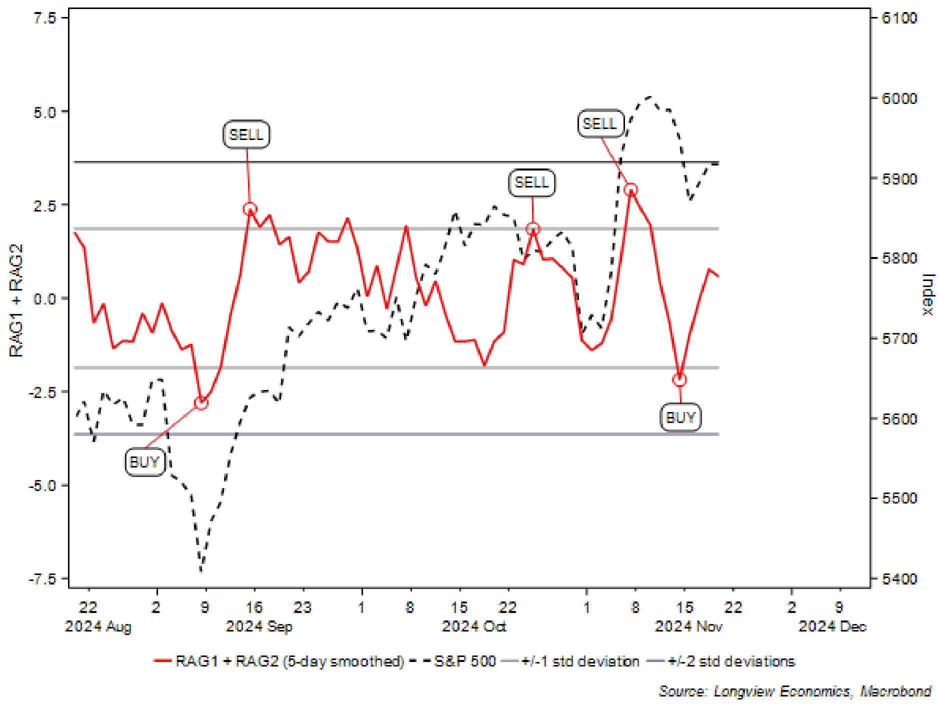


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Other short-term models are on/close to BUY levels…

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

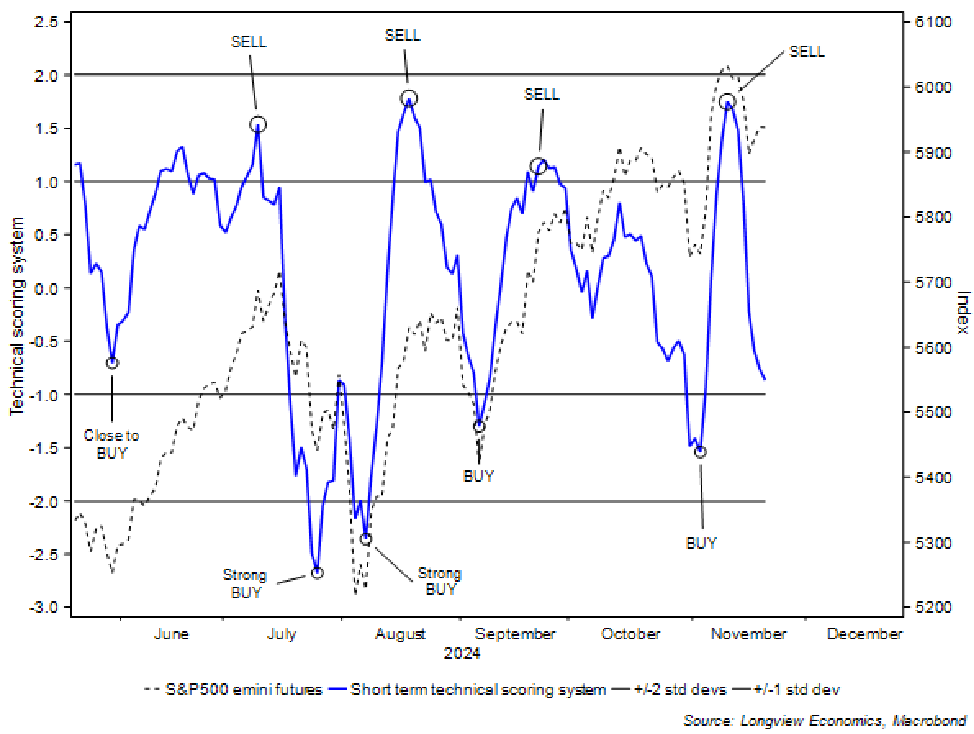


FIG 3a: Longview NASDAQ100 short term **'technical'** scoring system vs. NASDAQ100 futures

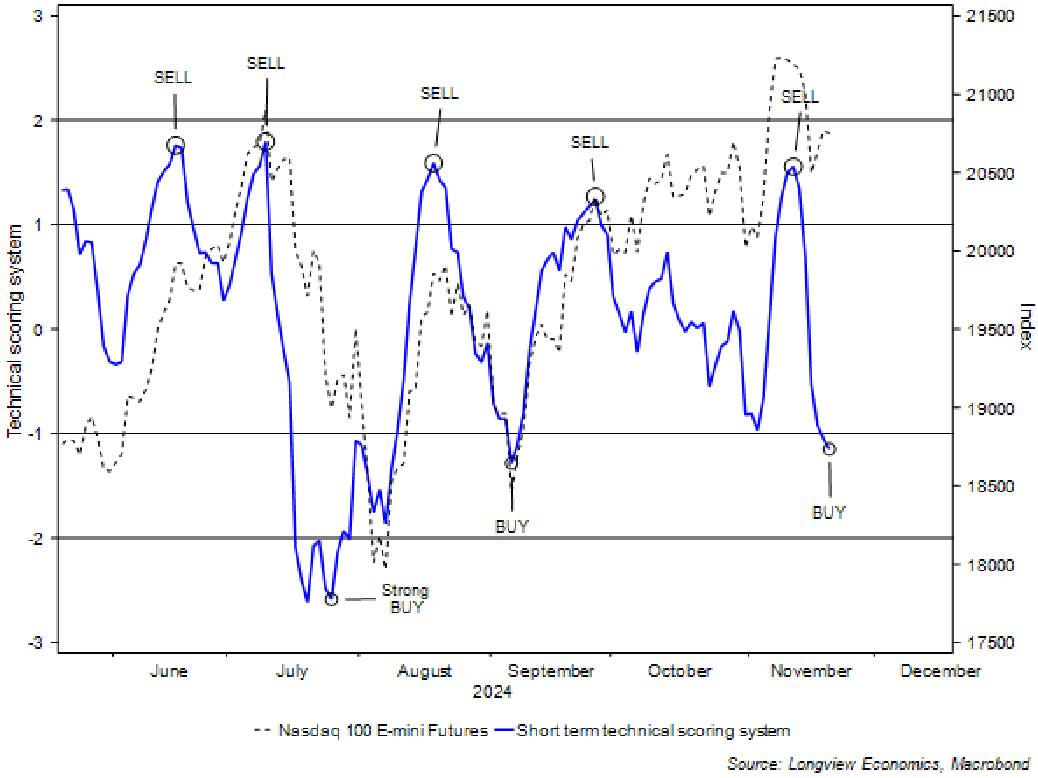


FIG 3b: Global composite momentum model vs. S&P500

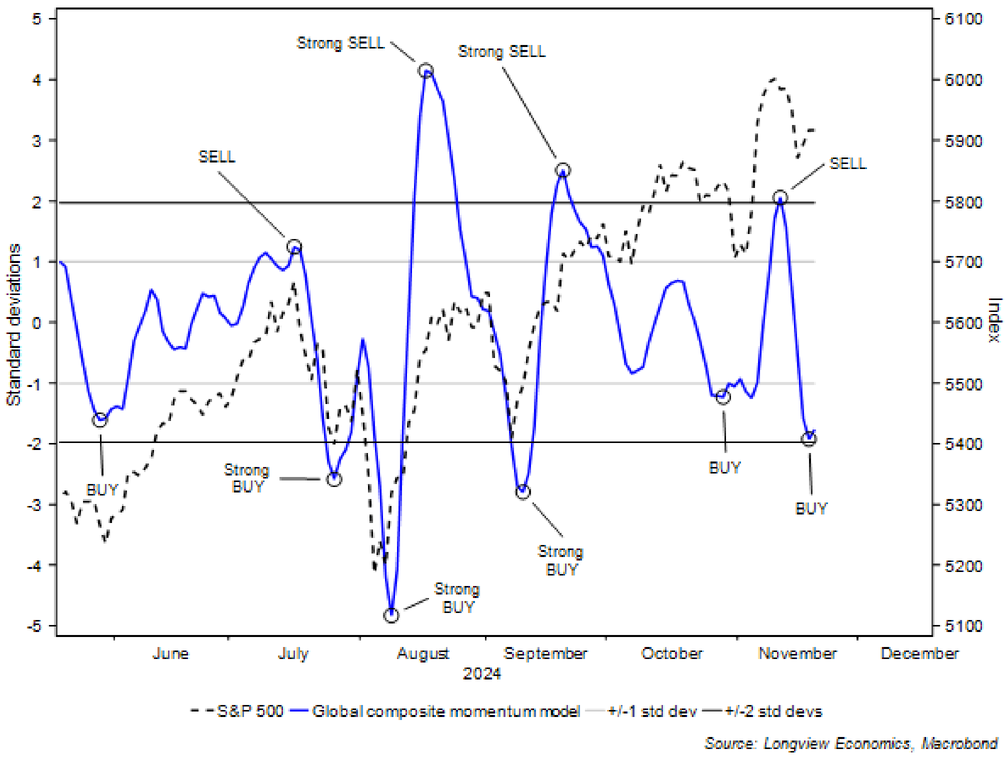


FIG 3c: Short term NYSE breadth model vs. S&P500

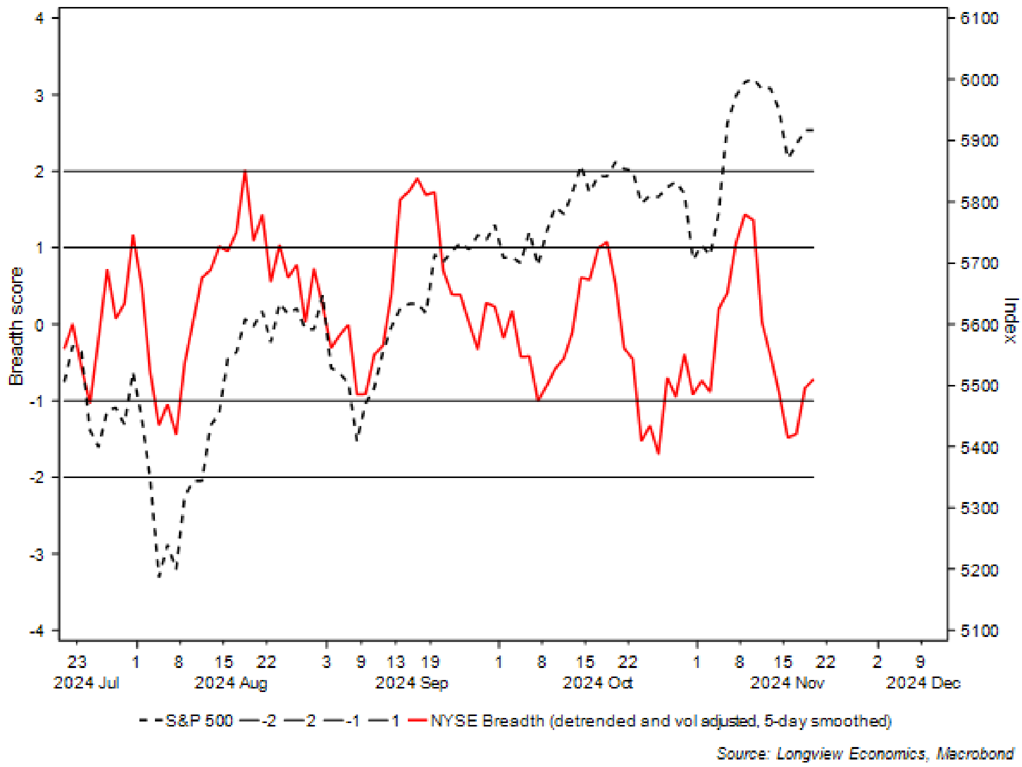


FIG 3d: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index

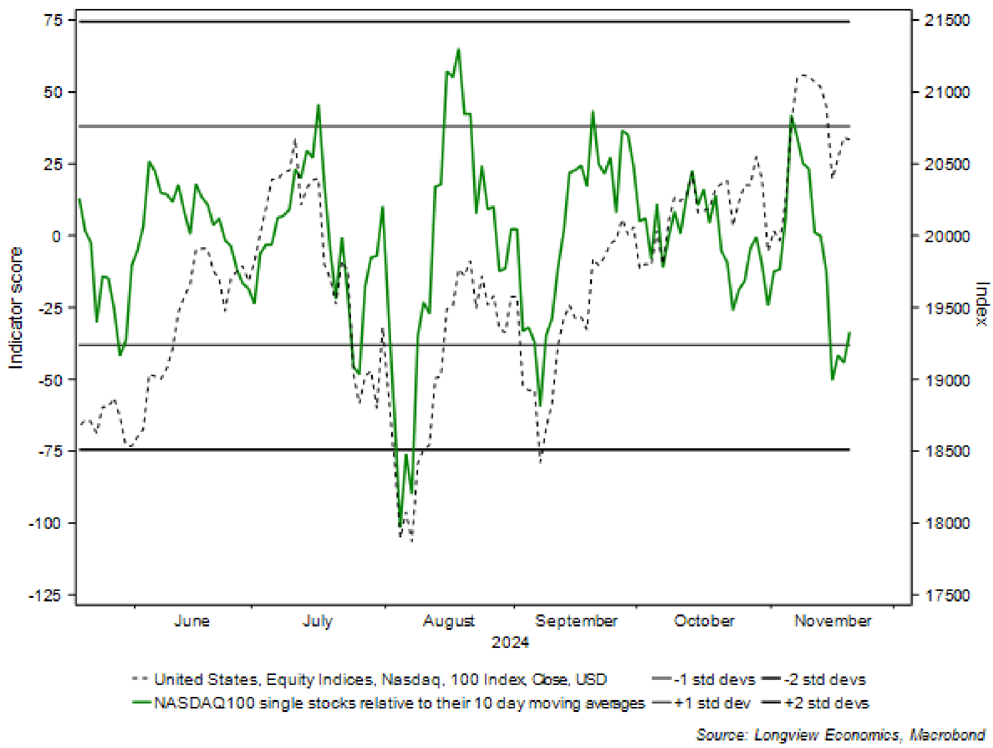
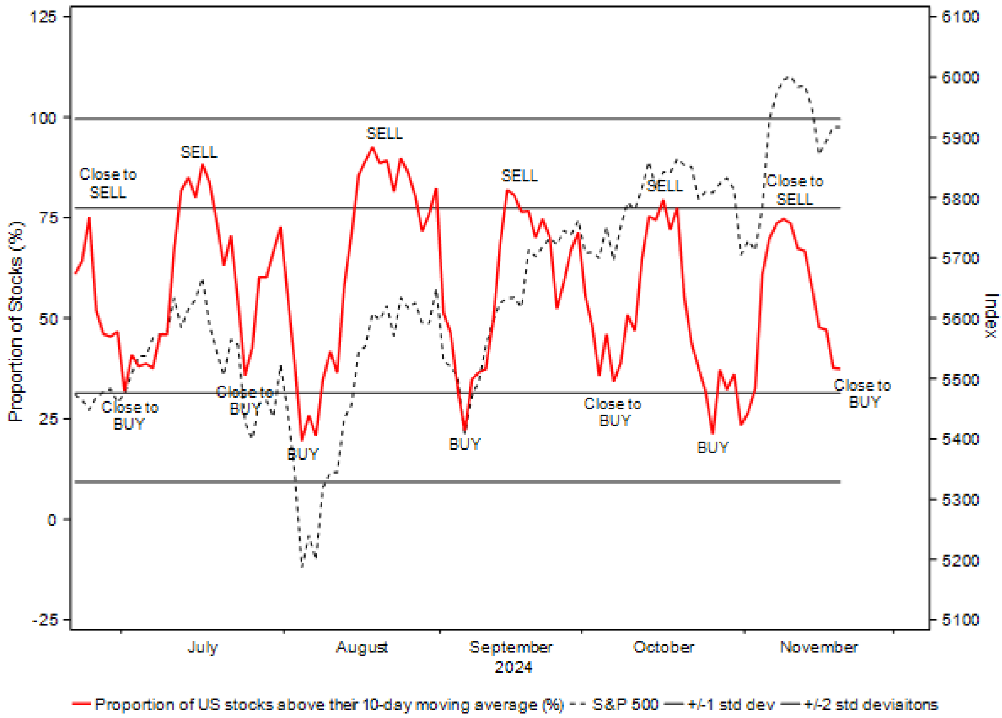
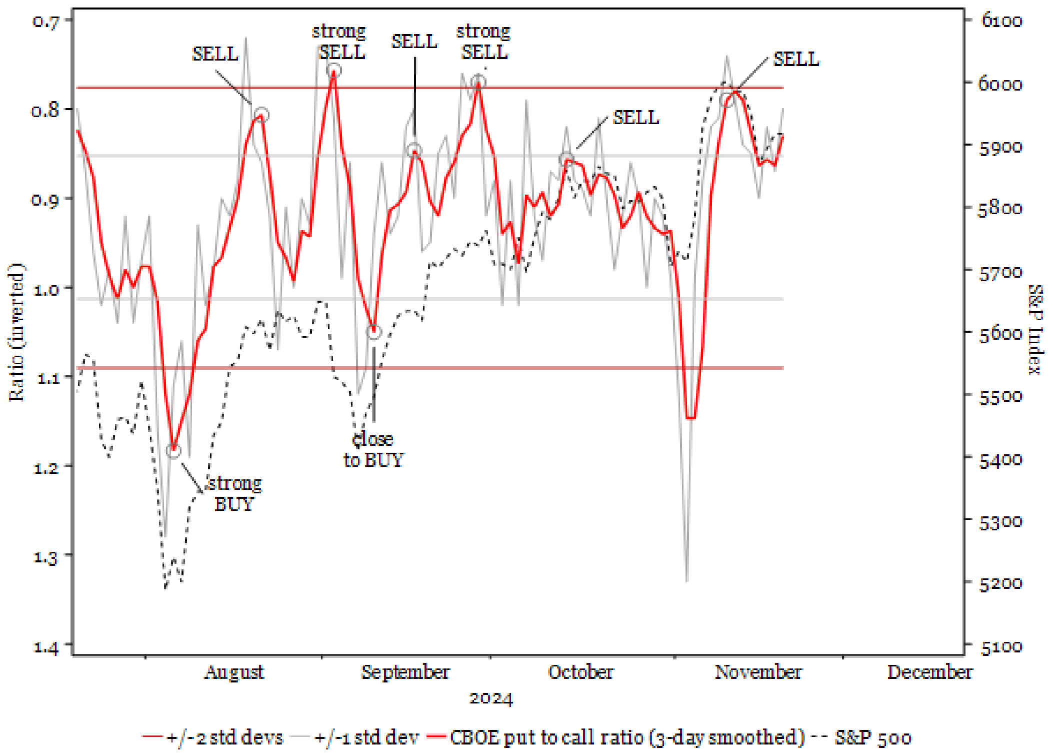


FIG 3e: Proportion of US stocks above their 10-day moving average vs. S&P500



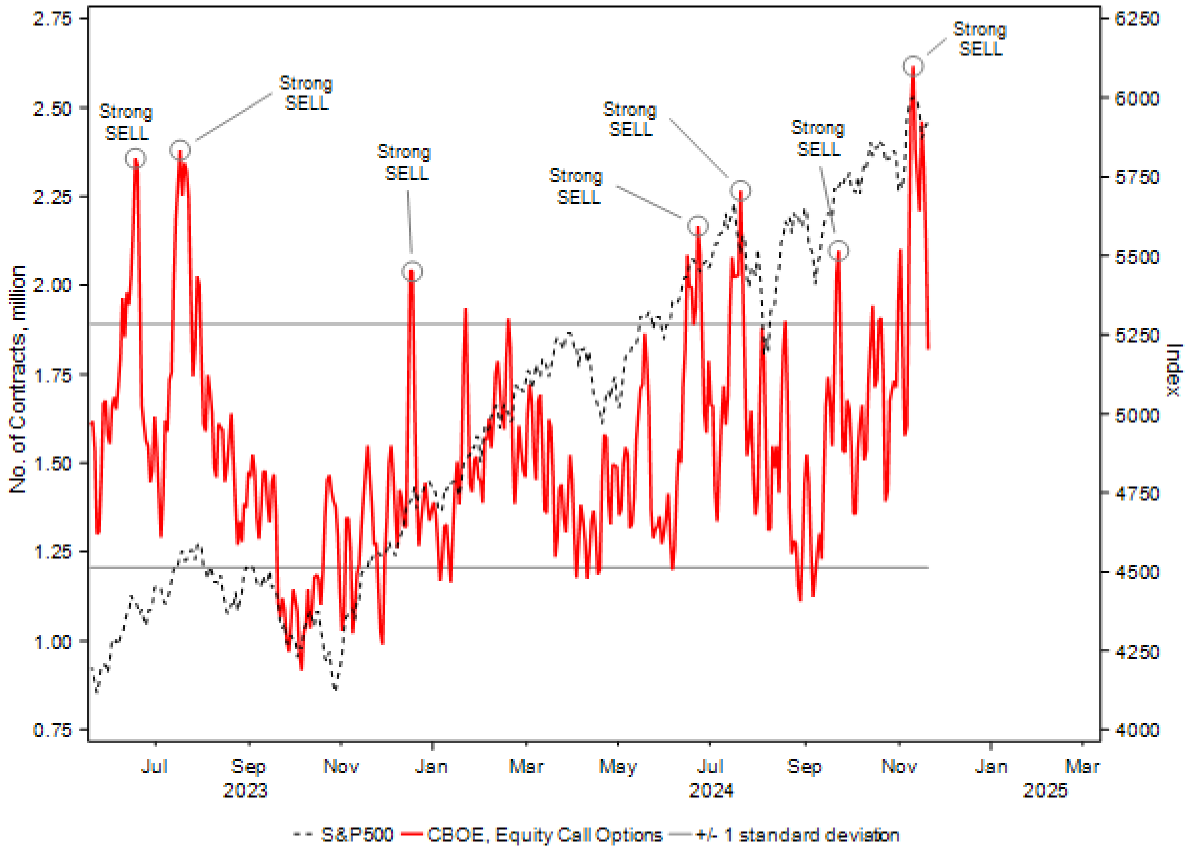
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 4a: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

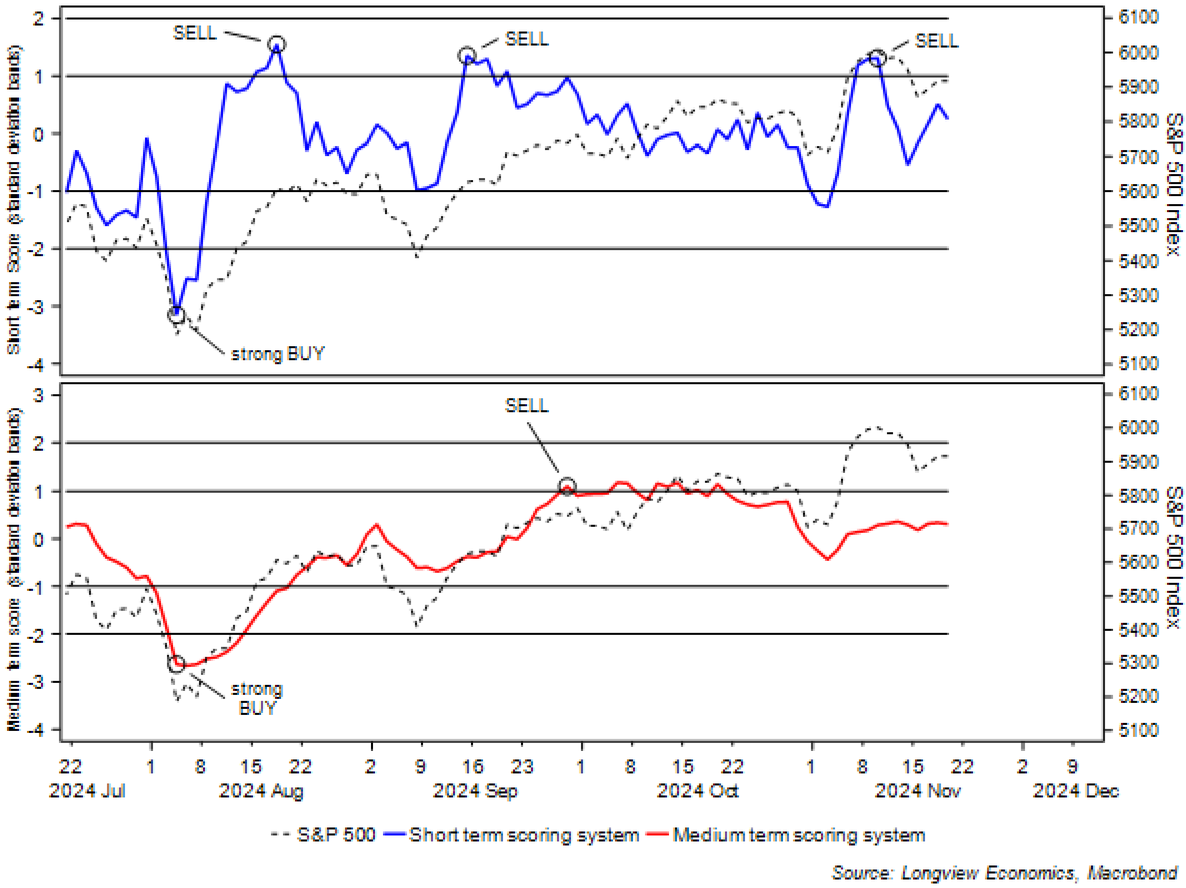


Source: Longview Economics, Macrobond

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



Key macro data/events

Key data today include: UK Public sector finances (Oct, 7am); UK CBI industrial trends orders (Nov, 11am); Eurozone new car sales (Oct, 5am); French INSEE business & manufacturing confidence (Nov, 7:45am); **Eurozone consumer confidence** (November first estimate, 3pm); US Philadelphia Fed business outlook (Nov, 1:30pm); US weekly jobless claims (1:30pm); **US Conference Board leading index** (Oct, 3pm); **US existing home sales** (Oct, 3pm); US Kansas City Fed manufacturing sector activity (Nov, 4pm); Australian S&P manufacturing & service sector PMIs (November first estimates, 10pm); **Japanese headline & core CPI** (Oct, 11:30pm).

Key events today include: Speech by the RBA's Bullock at the Women in Payments Conference (8am); speech by the Bank of England's Mann in a fireside chat with Brown Brothers Harriman (2pm); speeches by the ECB's Villeroy in Tokyo (5:25am), Knot in Amsterdam (8am), Holzmann in Vienna (8:30am), Cipollone in Frankfurt (8:30am), Escriva in Spanish Parliament (9am), Lane in Amsterdam (3:30pm) & Holzmann, Kazimir & Vujcic in Vienna (4pm); speeches by the Fed's Hammack at the 2024 Financial Stability Conference (1:45pm) & Goolsbee in a moderated Q&A (5:25pm).

Key earnings today include: **Intuit**, **Deere&Company**, Copart, **PDD Holdings.**

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

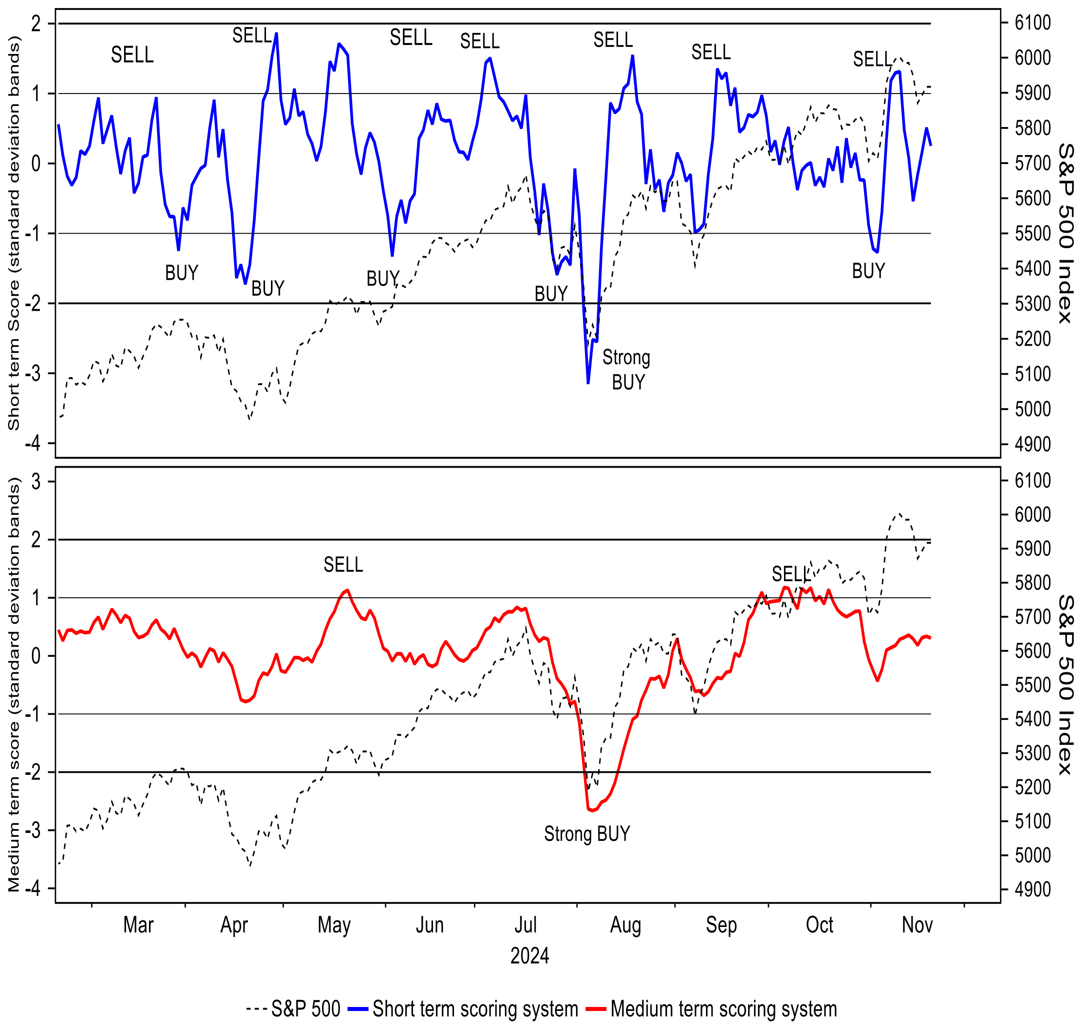
1 – 2 Week View on Risk

21st 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

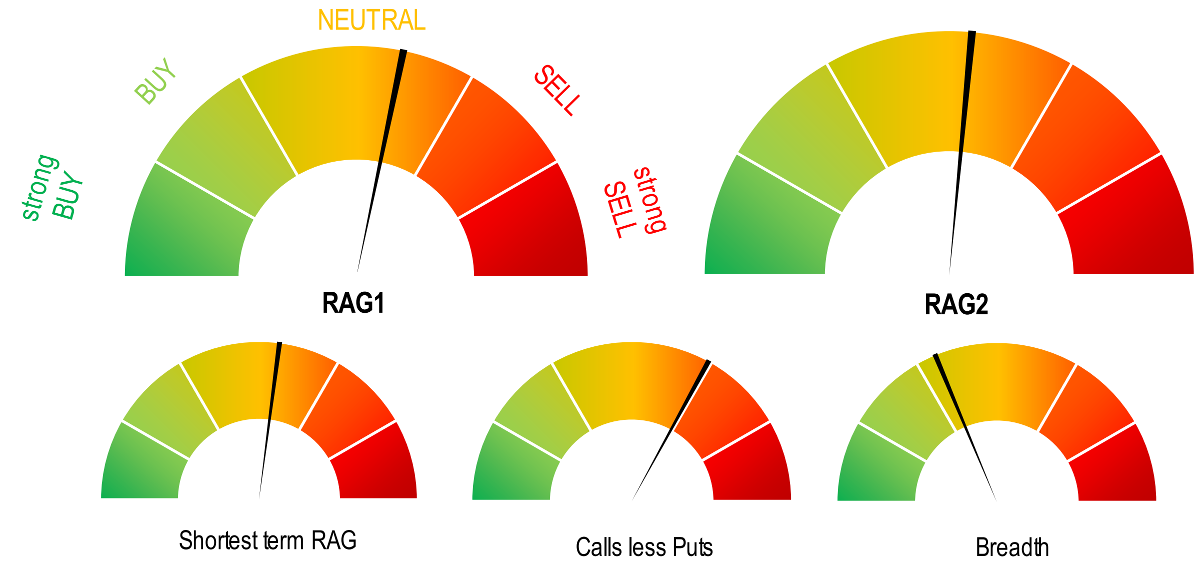
Source: Longview Economics, Macrobond

*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

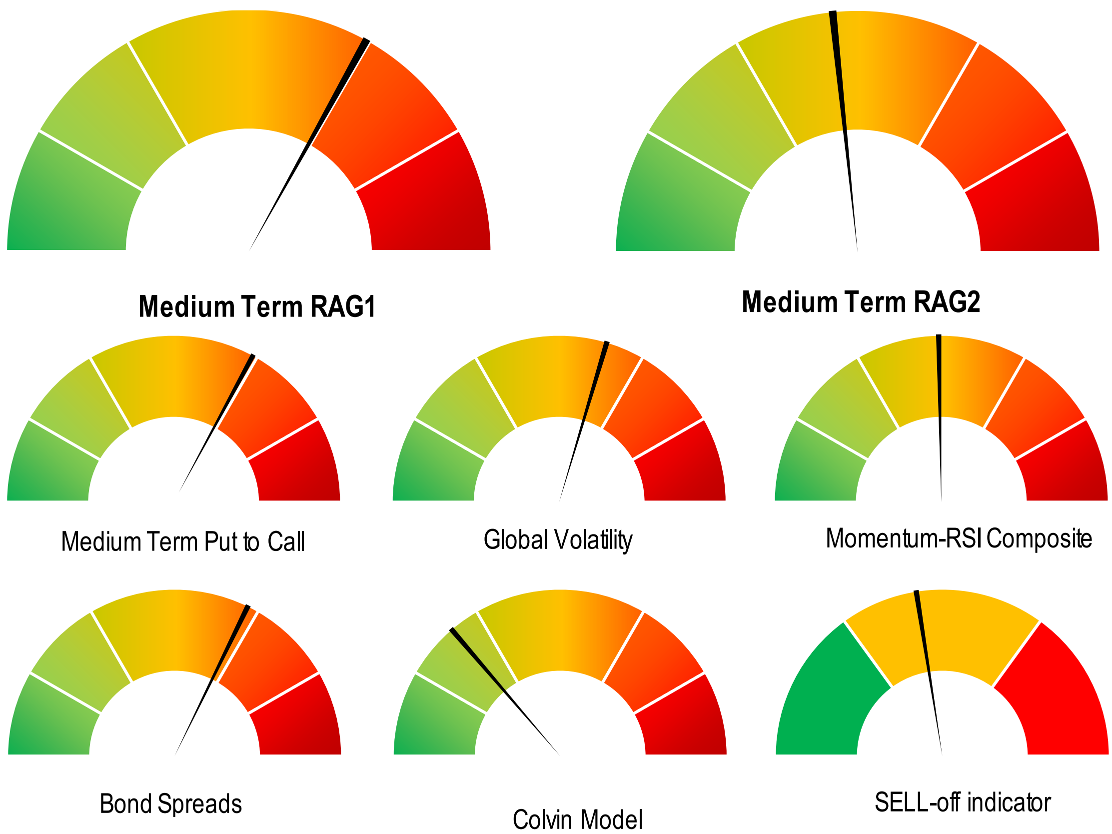
Section 1a: Summary of indicator signals**

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

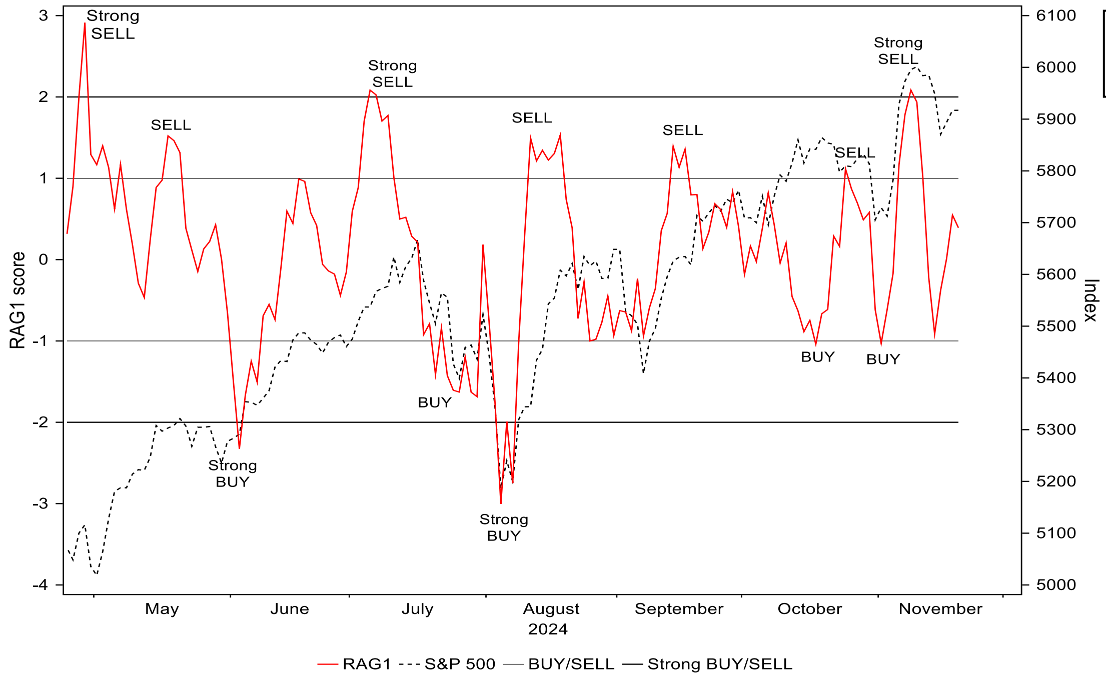


Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

LVRAG
Daily Risk Appetite Gauge

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

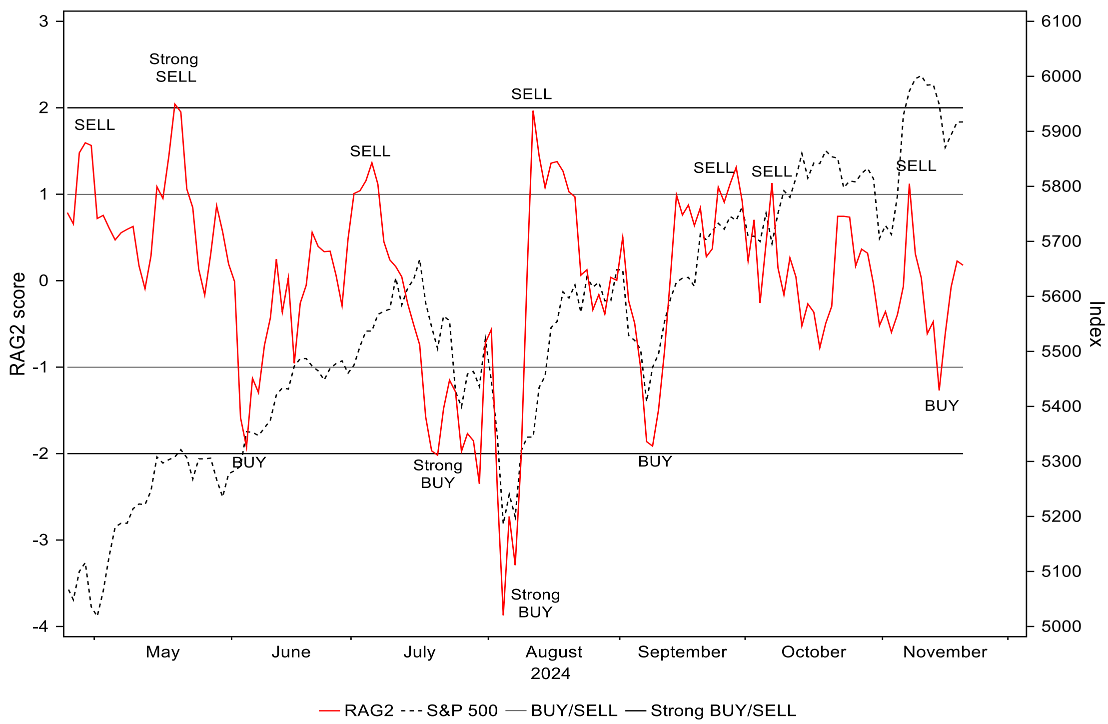
Fig 2a: RAG 1 vs. S&P 500



Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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

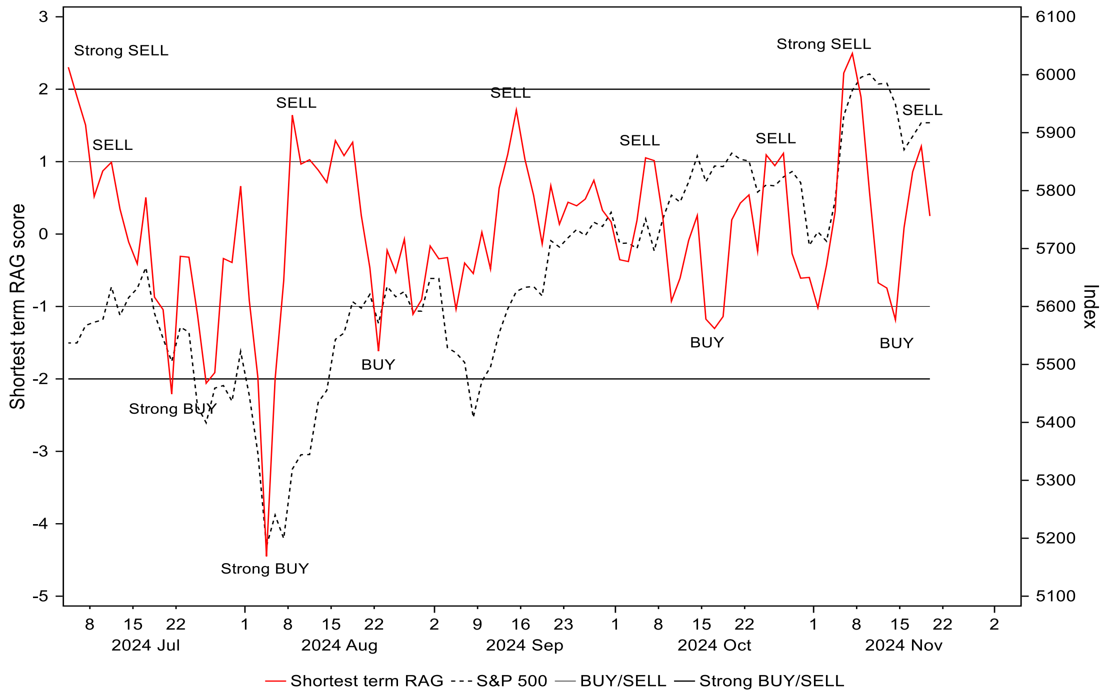


Source: Longview Economics, Macrobond

RAG2 is NEUTRAL

For explanations of indicators please see page 10

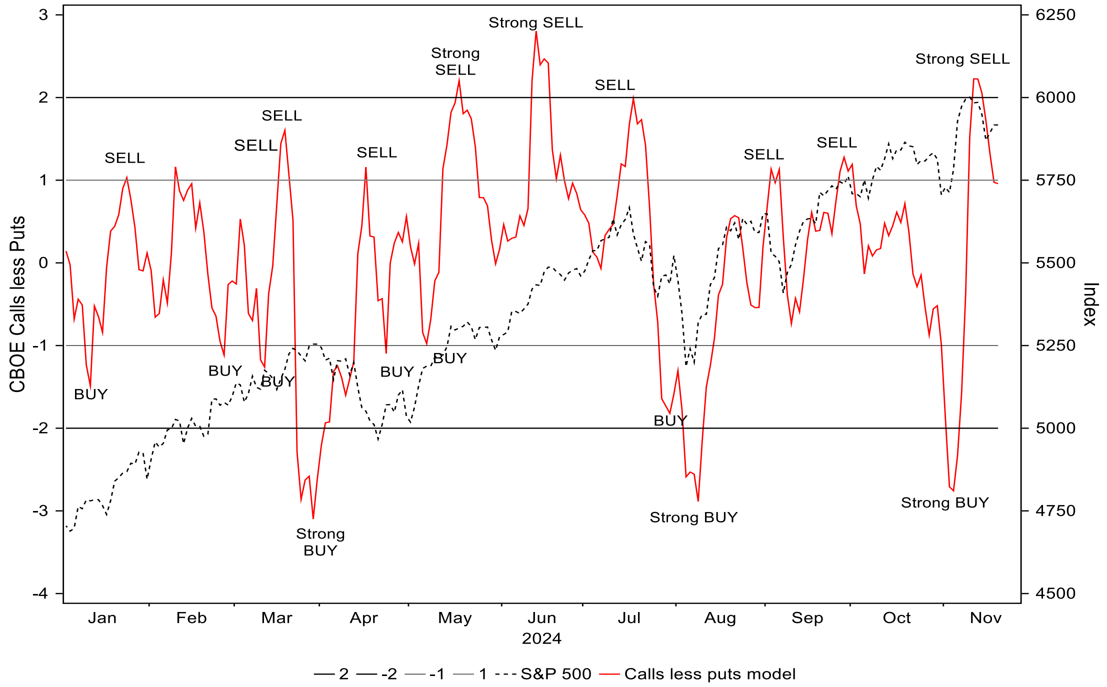
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

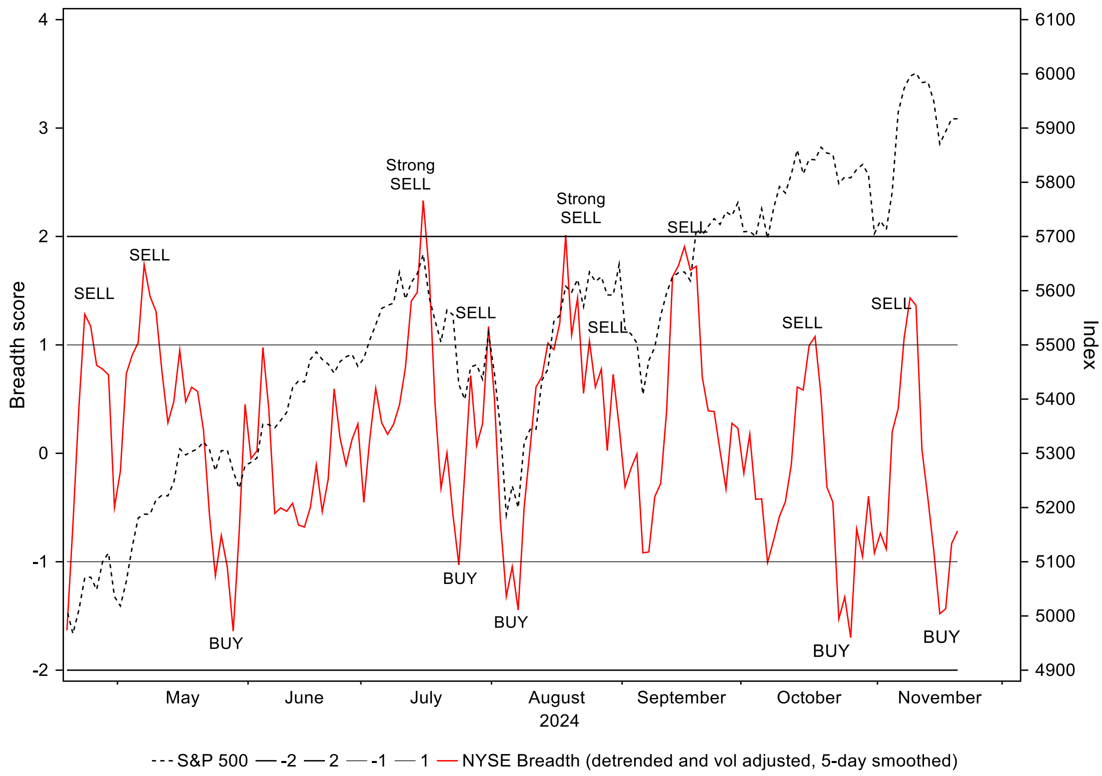


Calls less puts model is NEUTRAL

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



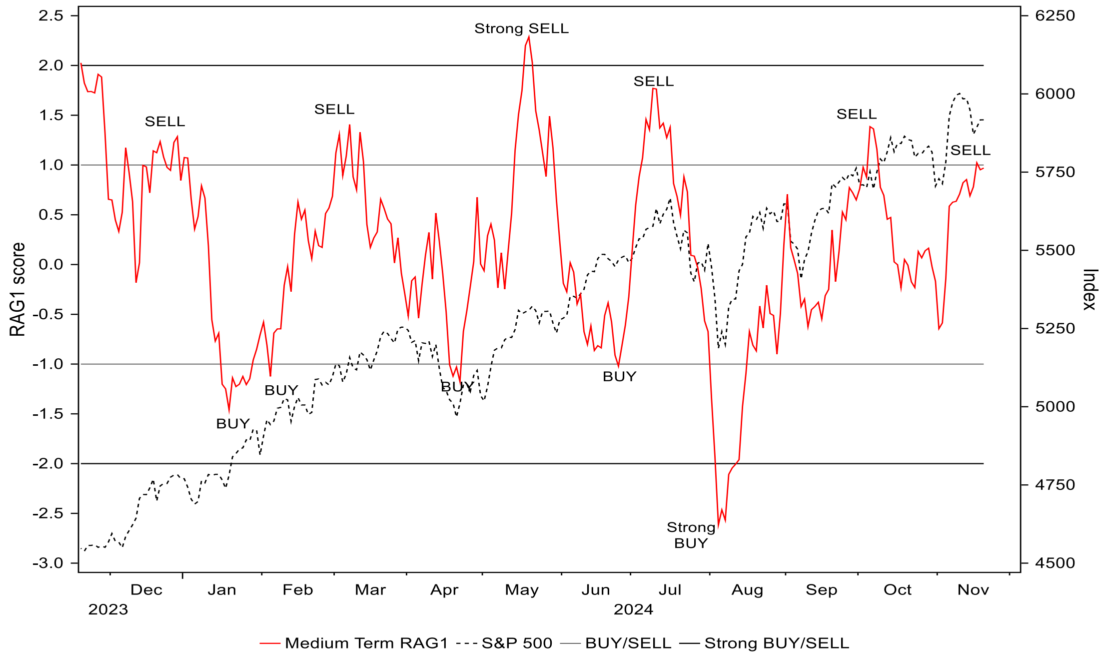
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

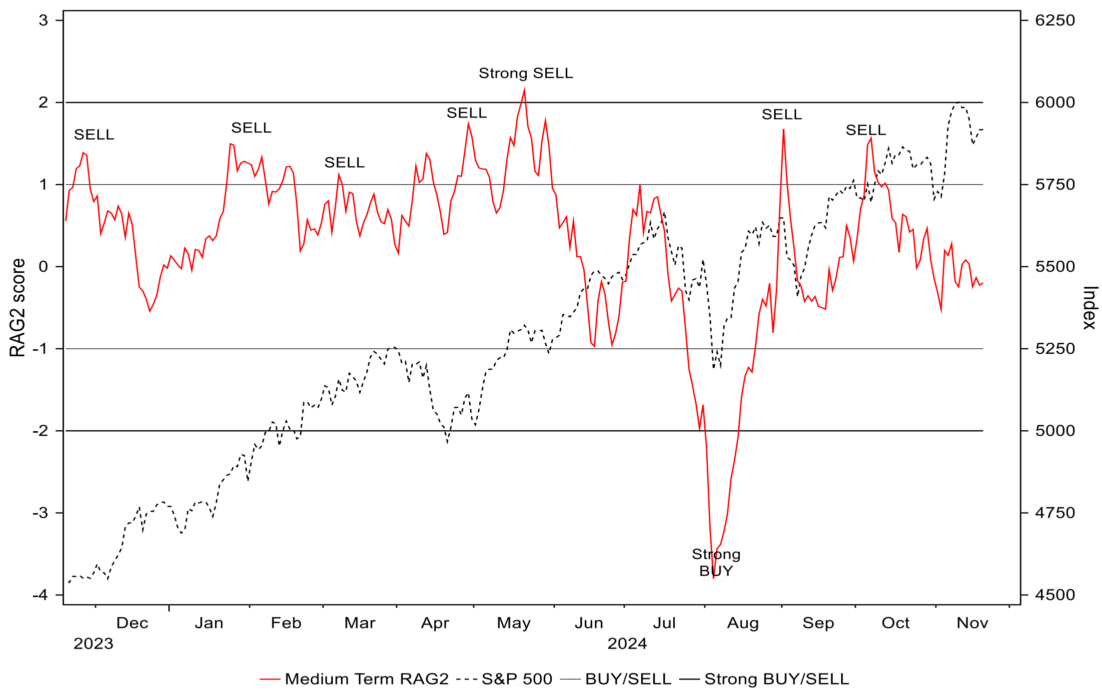
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

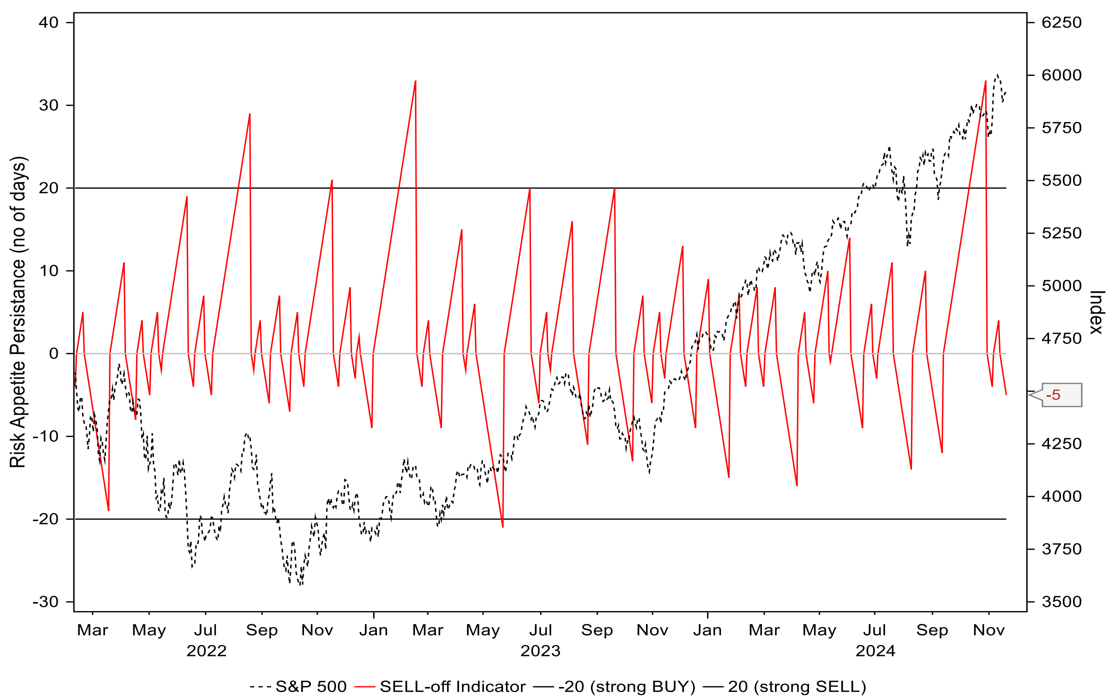


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

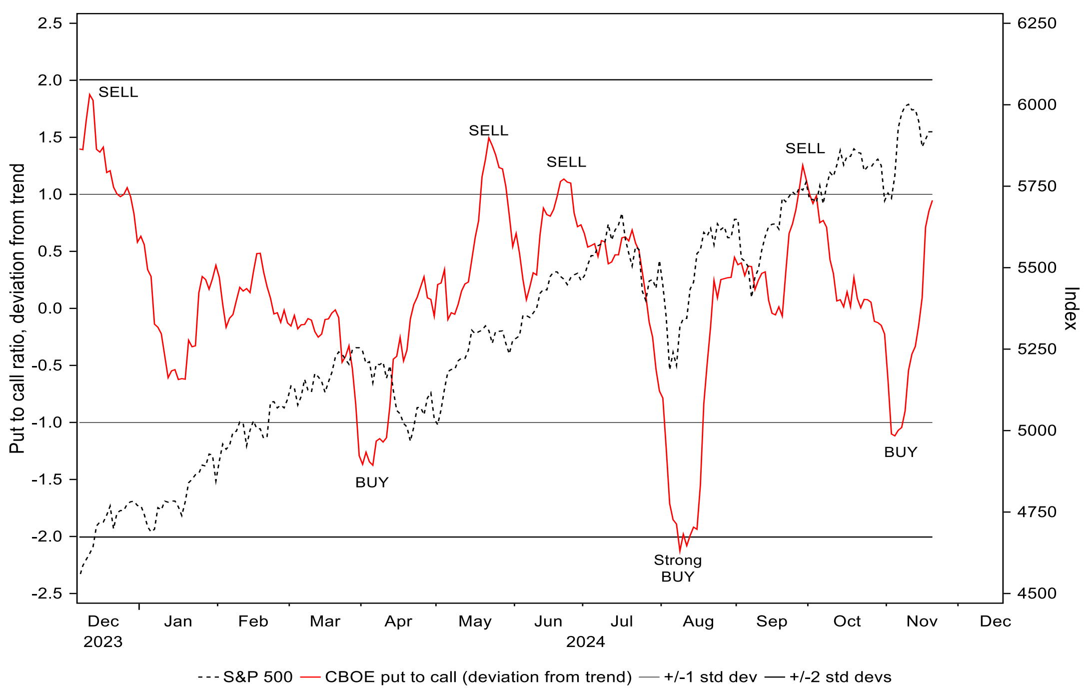
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

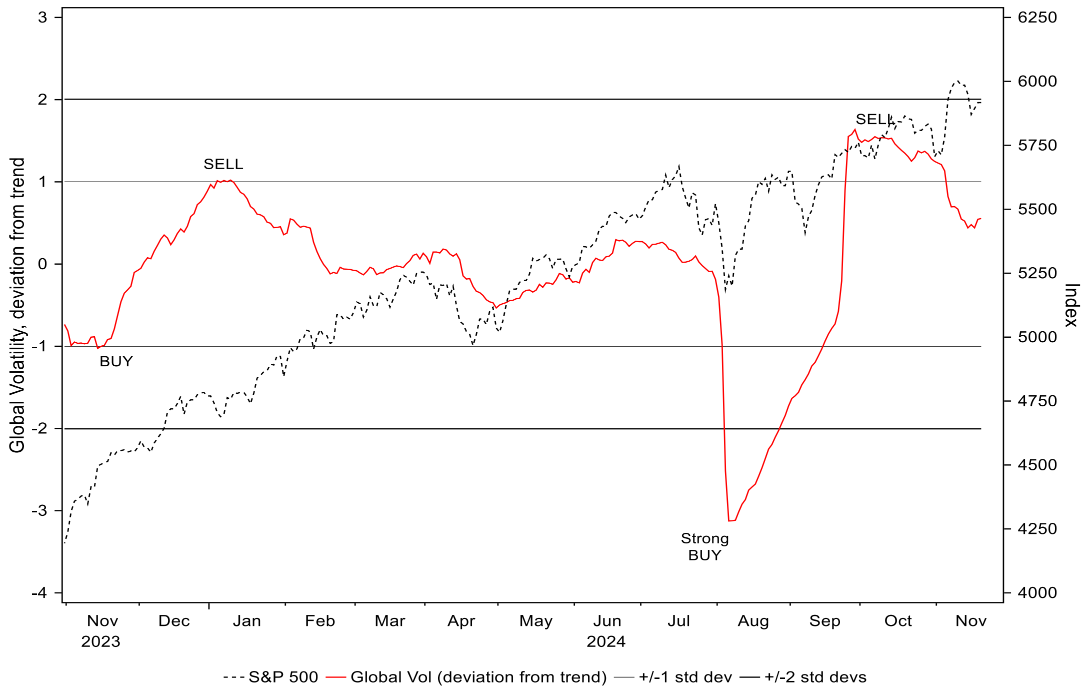


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

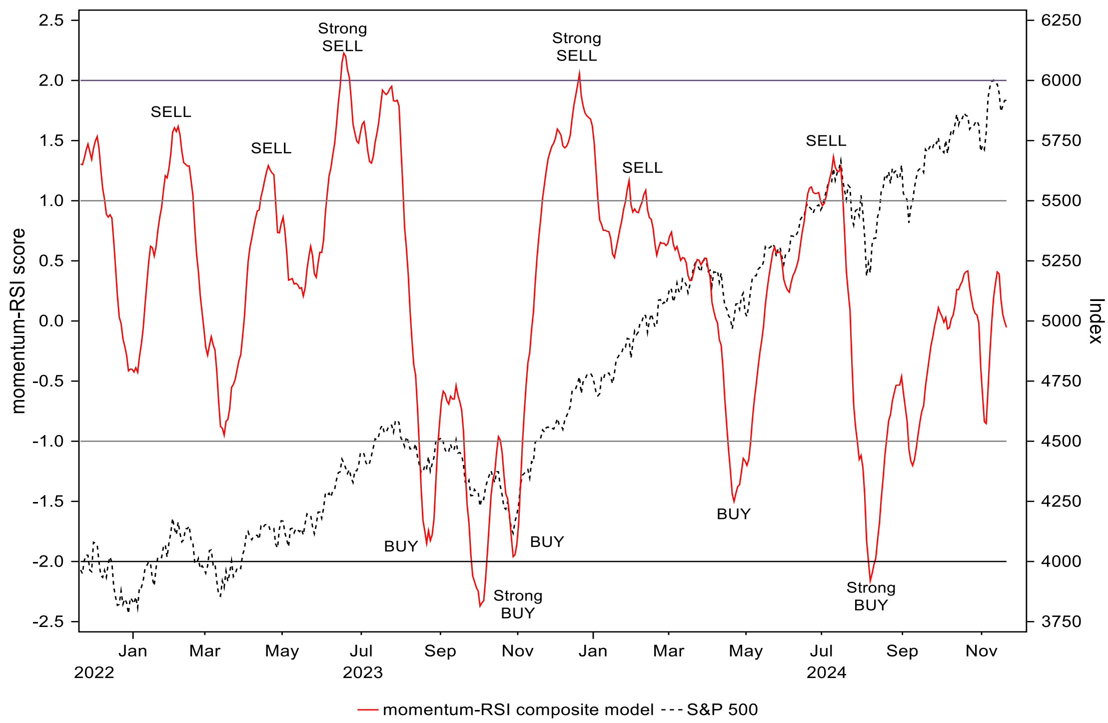
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

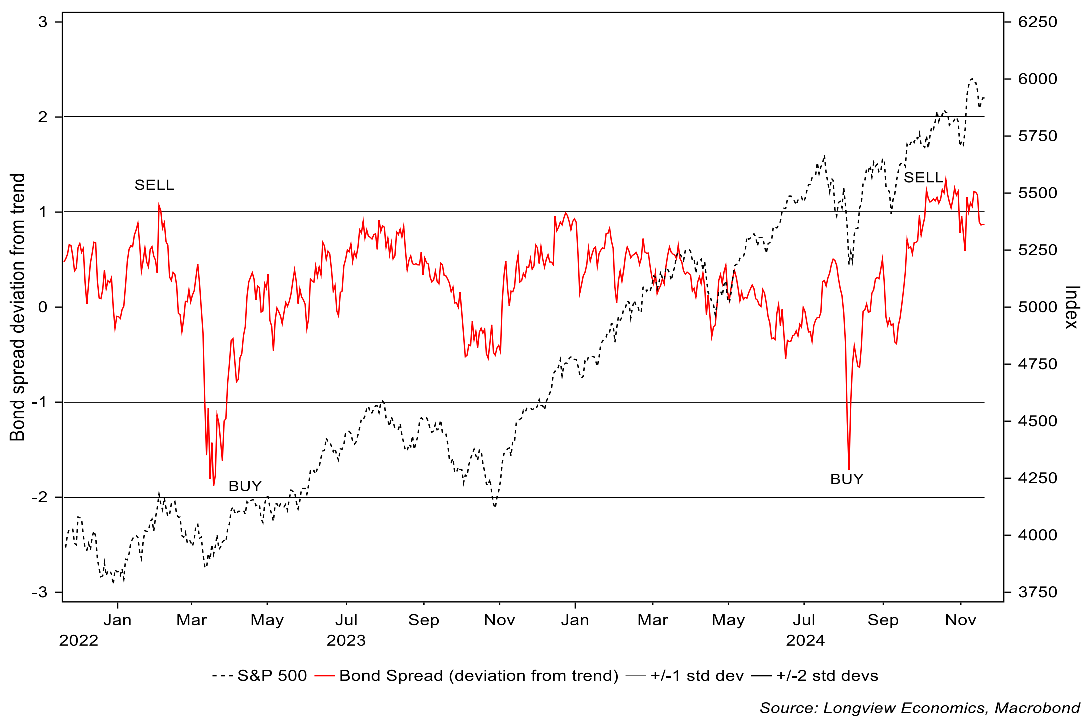
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

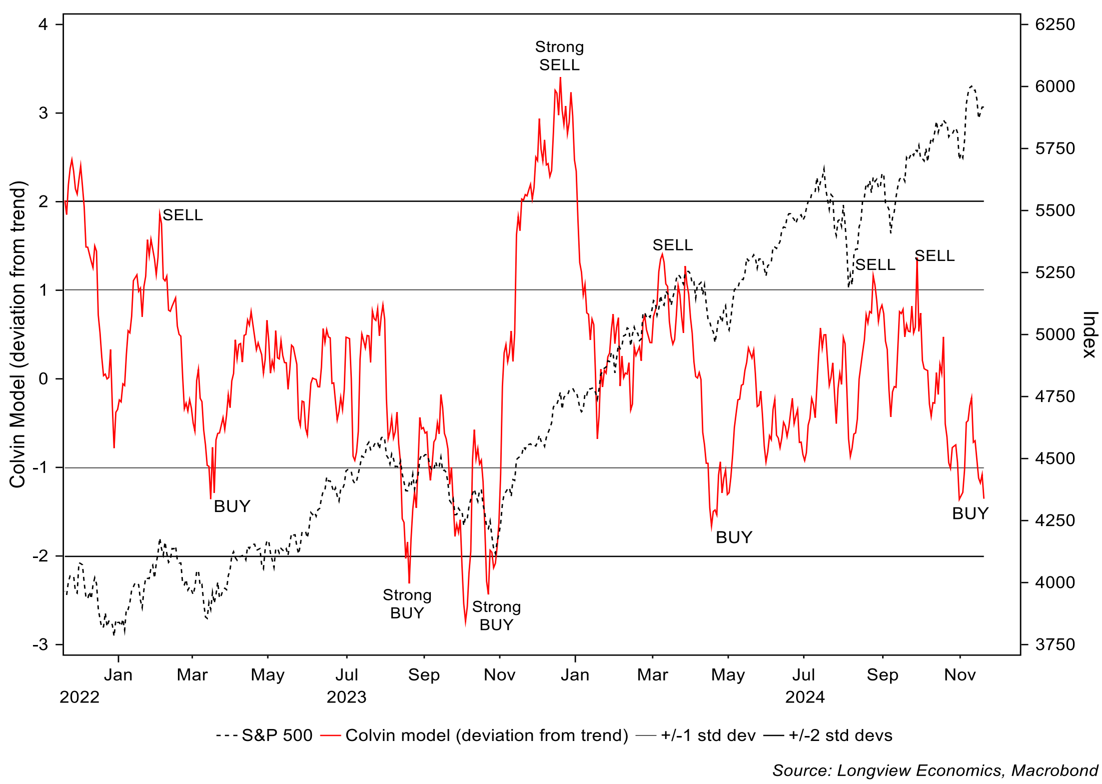
Source: Longview Economics, Macrobond

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

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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