LVRAG

Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

22nd January 2025

"Models on SELL - Stay SHORT SPX futures"

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

- Stay ¼ SHORT March S&P500 futures (entry was yesterday at 6,080);
- Retain unchanged stop loss 2.5% above entry (at 6,232).

Rationale

US equities rallied across the board yesterday, with 27 of the 28 major indices we track closing higher on the session. That strength was led by high beta parts of the market, including small and mid caps (e.g. the Russell 2000: +1.9%; & S&P400: +1.6%). Defensives also performed well on lower bond yields (e.g. with strong gains in Health Care: +1.7% and Real Estate: +1.8%). In particular, the 10 year Treasury yield closed 4bps lower (extending its decline since last Monday's local high, see FIG 1d). Elsewhere the US dollar was weak (DXY: -1.2%) and is now technically oversold (see FIG 1e).

Given that move higher in US equities, and with the S&P500 closing up 0.9% yesterday, we were filled on our order to move SHORT the S&P500 (i.e. at 6,080 on March futures).

Our view remains unchanged from yesterday. That is, with the S&P500 rallying 5% in the past 6 trading days, it's now vulnerable to some near term giveback/weakness. Of note, in that respect, the **SELL message of the short term models has strengthened overnight**, with a number of key technical models turning SELL. That includes the S&P 'overextended' index (FIG 1); our technical scoring system for the S&P500 (FIG 4); and our 'global equity' momentum model (FIG 4a). Other key US single stock models have also turned SELL (e.g. FIGs 1a & FIGs 5 – 5b). Elsewhere downside put protection has fallen to low levels, with put to call models therefore highlighting near term complacency and frothiness in markets (and generating contrarian SELL signals, see FIGs 3 & 3a). Risk appetite models are also on close to SELL (FIGs 2 & 2a) and, as such, the overall SELL message of the models is reasonably clear and broad based at this juncture.

Added to which, and with some further modest strength this morning, the S&P500 **is back at a key resistance level** (the top of its recent trading range, i.e. at around 6,100, see FIG 1b). As such, and given the SELL message of the models, the risk reward favours staying SHORT SPX futures (please see above for detailed recommendation).

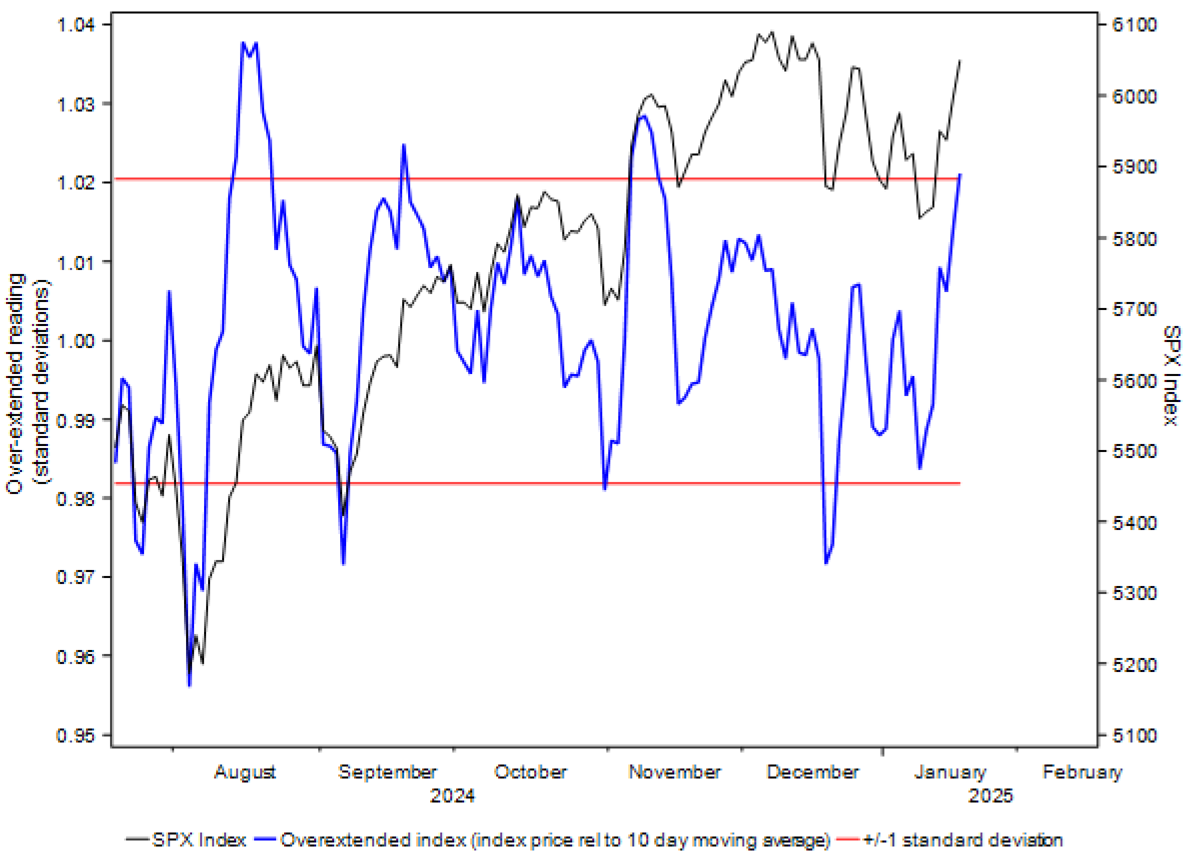
Risks as always are multiple and include the possibility that US equities are resuming their uptrend, having consolidated gains in the past three months. Please see below for a full list of today's key macro data and events.

Kind regards,

The team @ Longview Economics

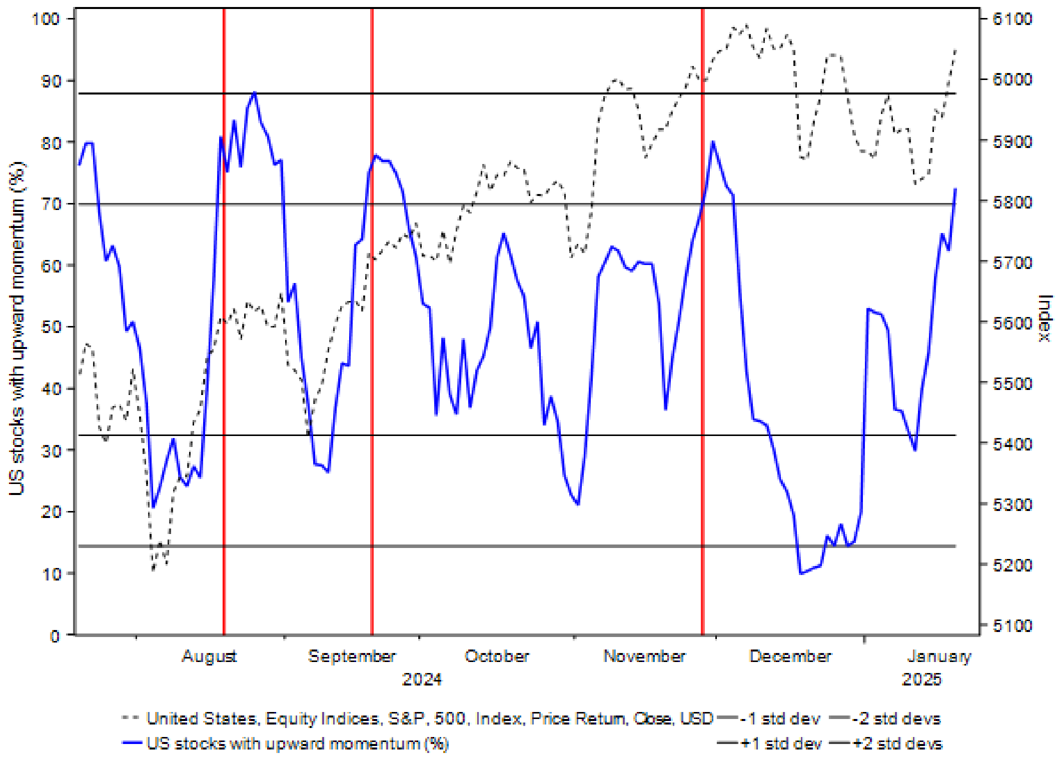
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500



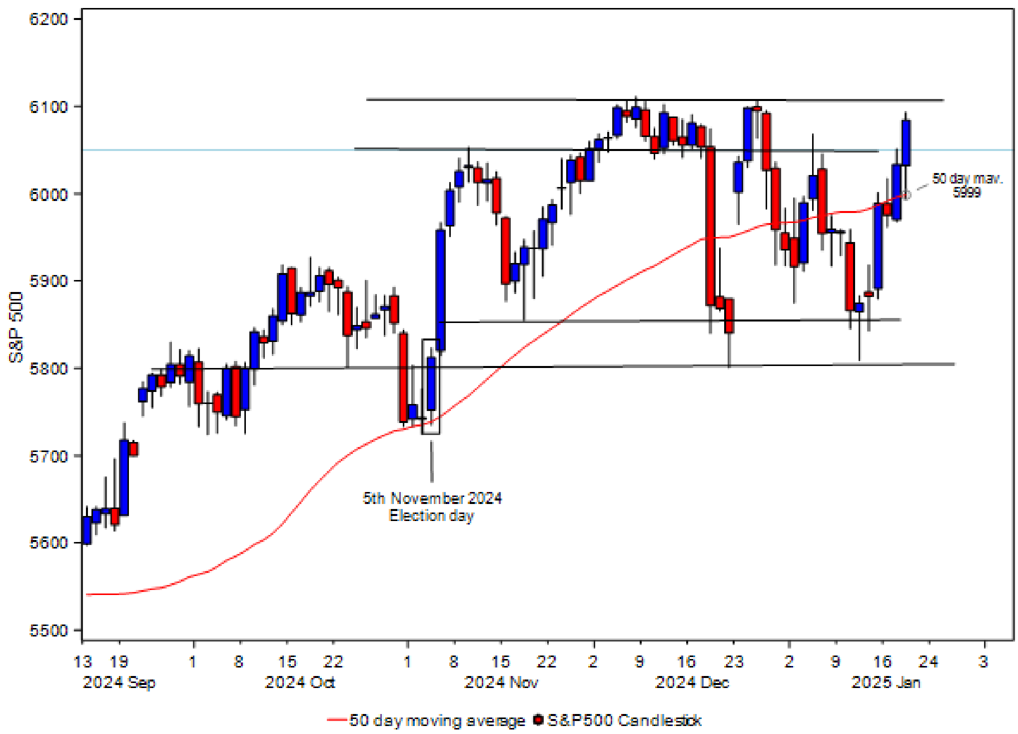
Source: Longview Economics, Macrobond

FIG 1a: US S&P500 stocks with upward momentum shown vs. S&P500



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1c: NASDAQ100 futures candlestick, shown with its 50 day moving average

FIG 1d: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages

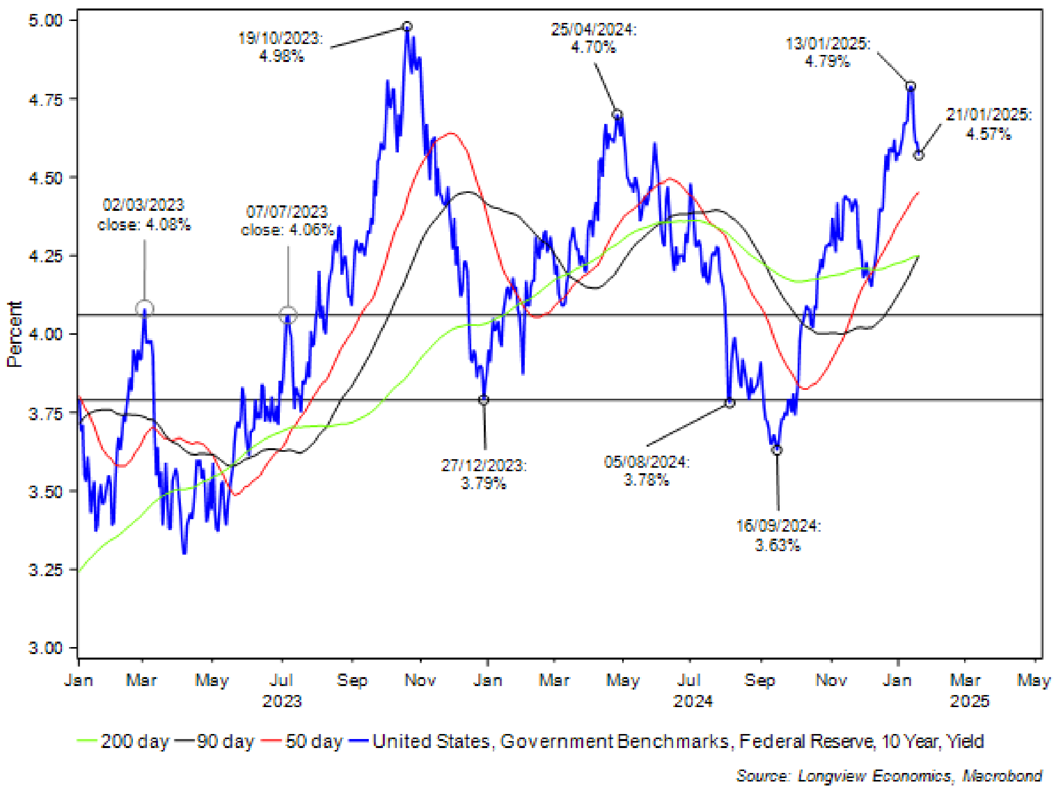
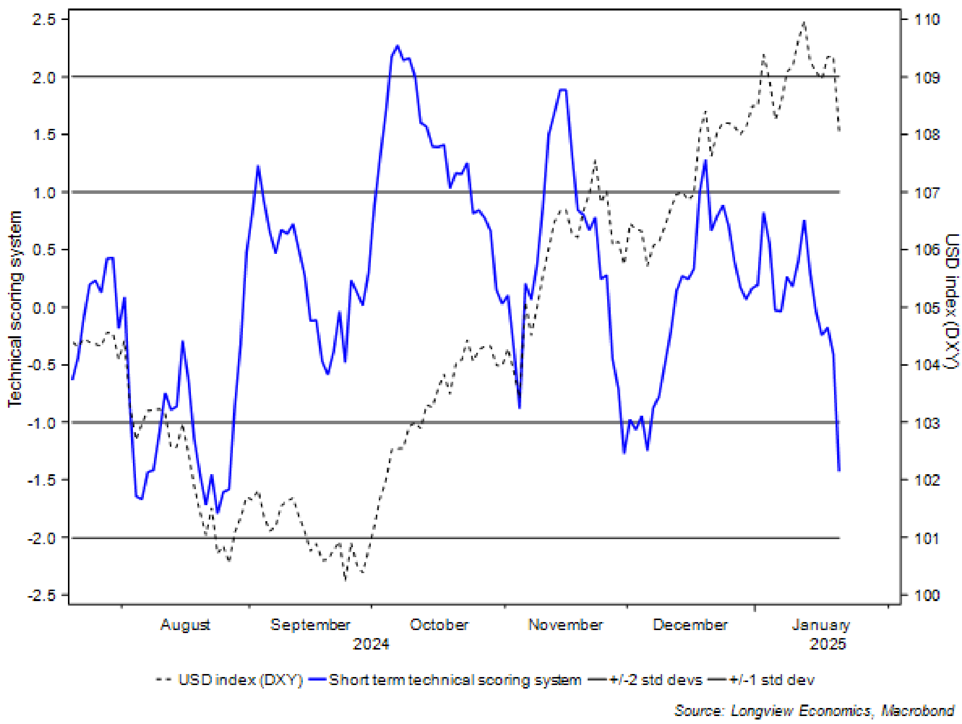


FIG 1e: Longview **US dollar** short term **'technical'** scoring system vs. US dollar (DXY)



Risk appetite models are on/close to SELL...

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

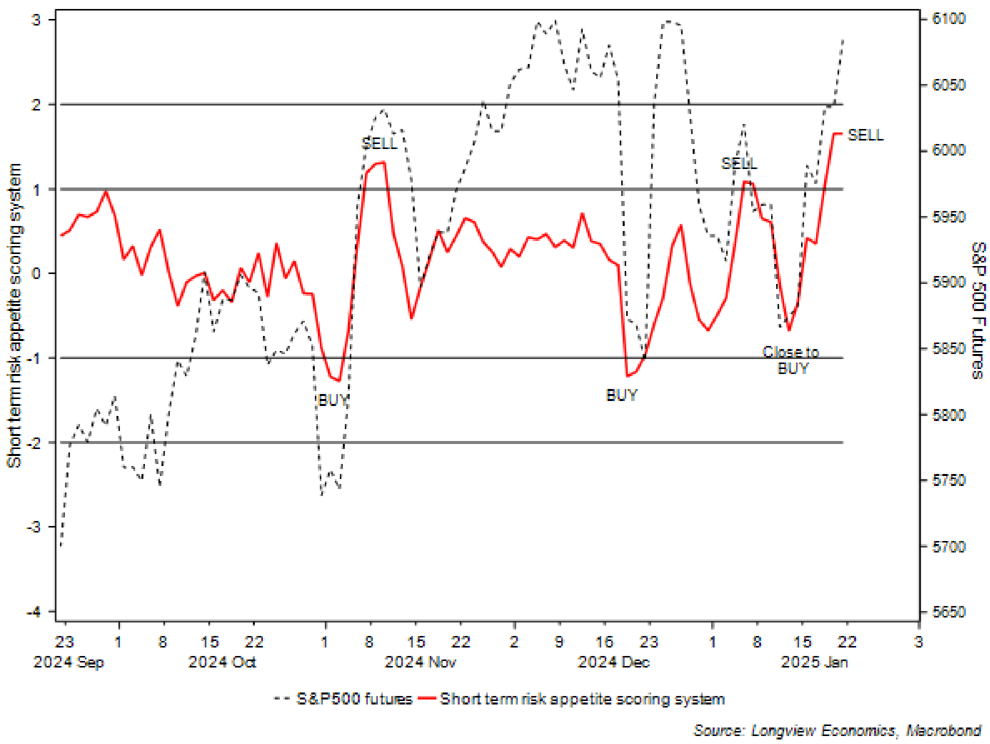
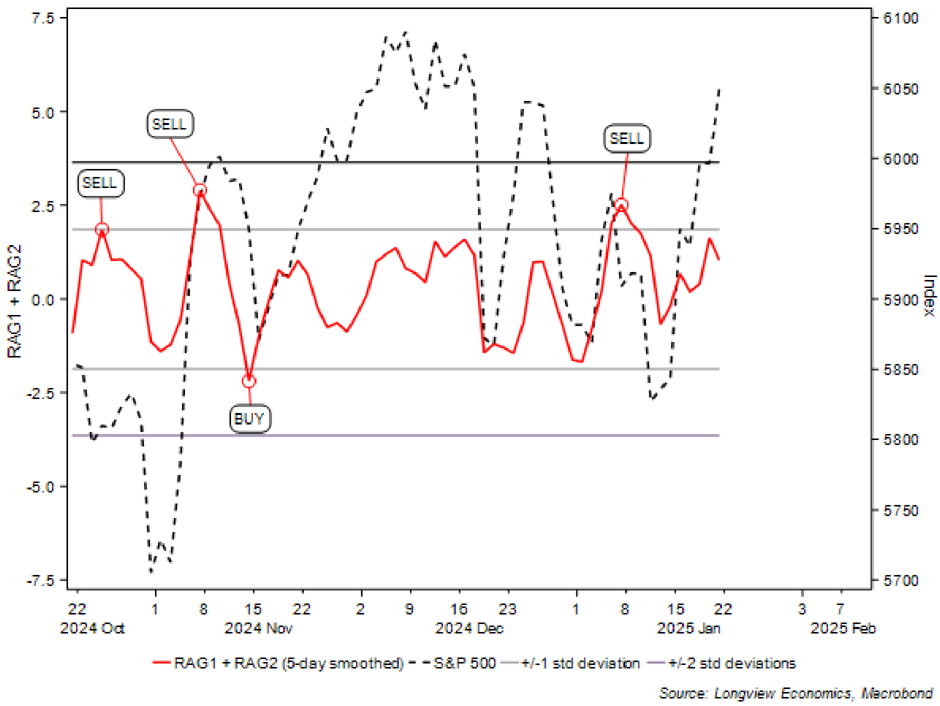


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Put to call models are on strong SELL.....

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

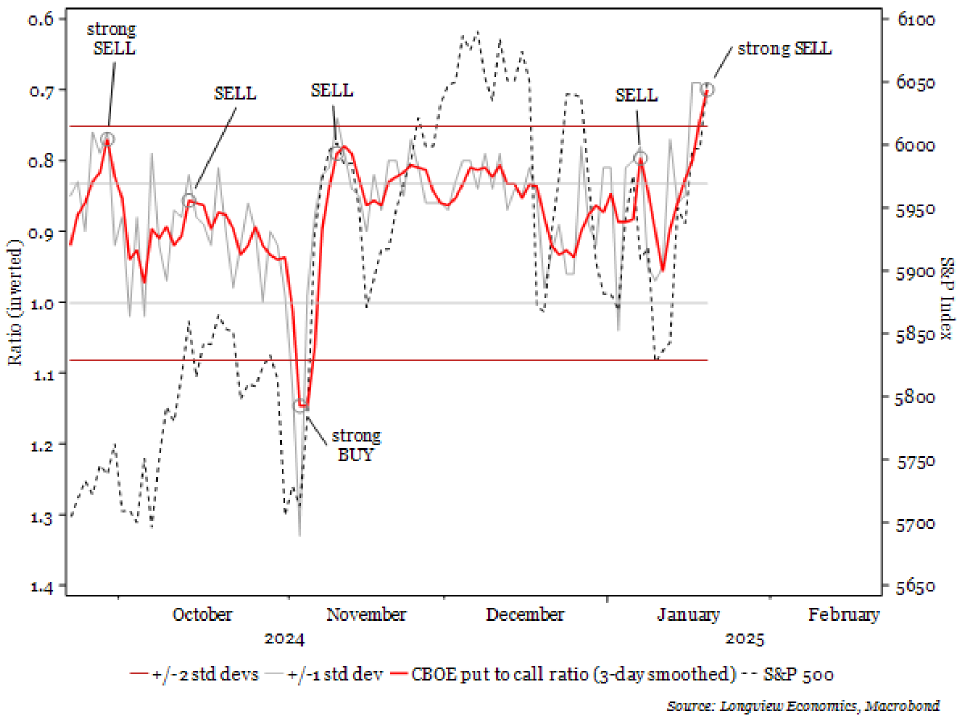


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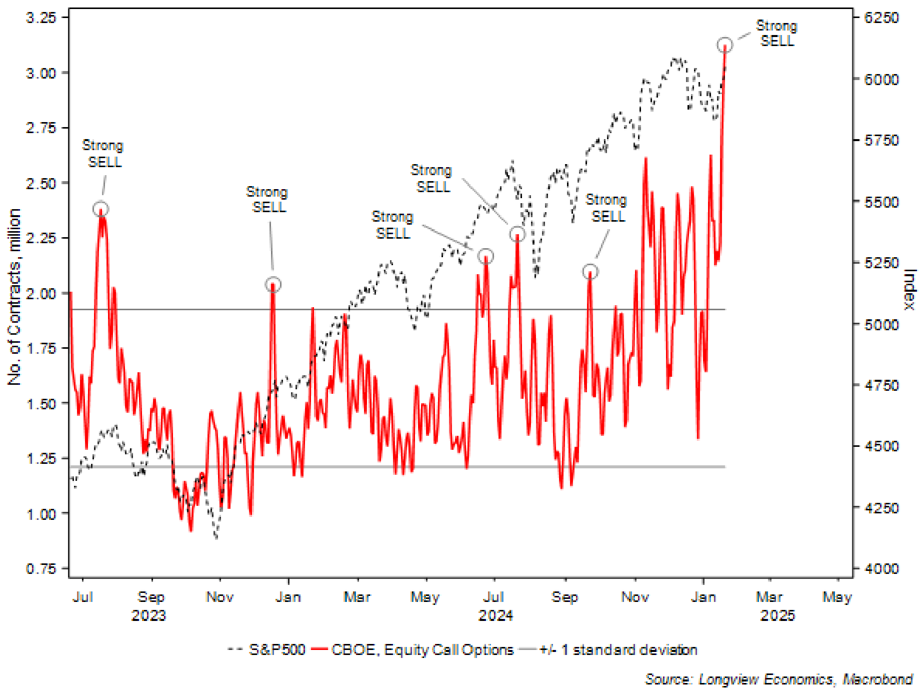
FIG 3a: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500



Technical & momentum models (for indices) are on SELL/strong SELL....

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

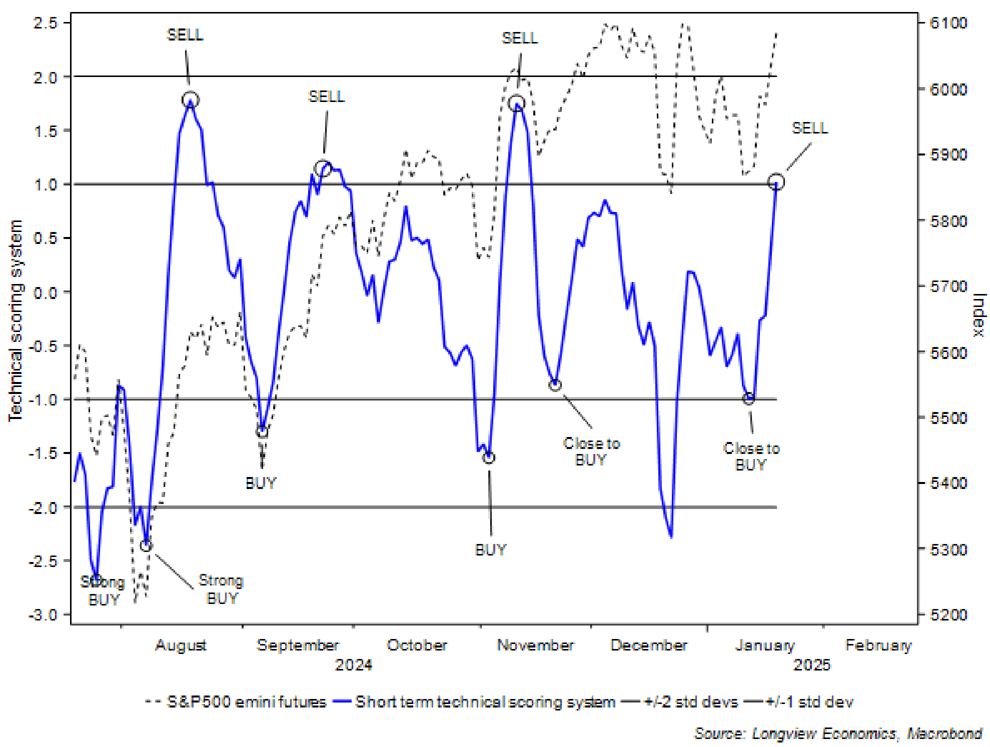
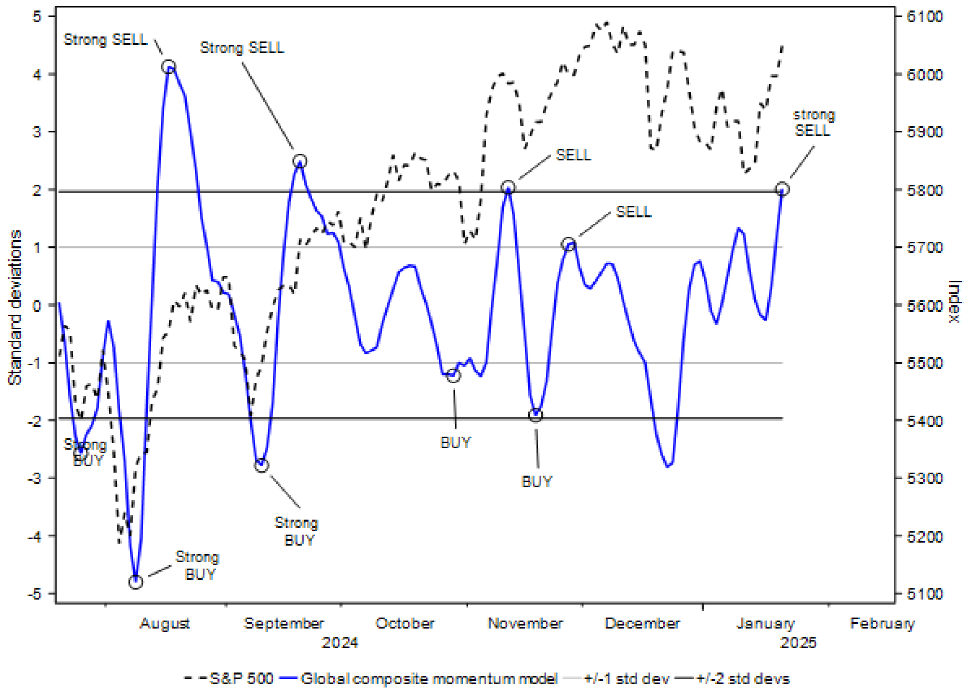


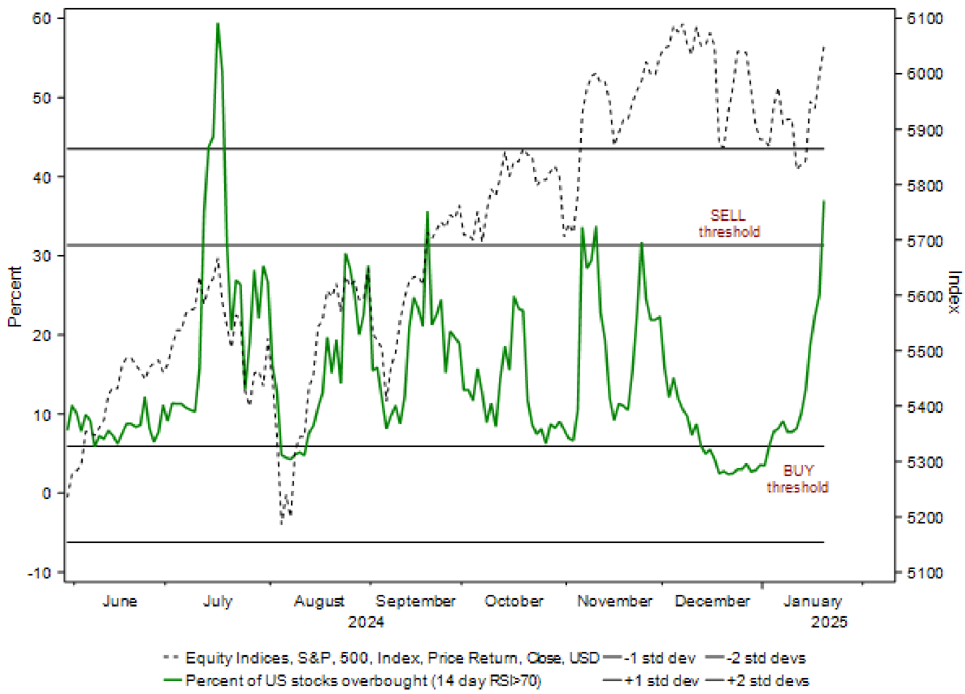
FIG 4a: Global composite momentum model vs. S&P500



Source: Longview Economics, Macrobond

Sector and single stock technical models are also on, or close to, SELL....

FIG 5: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500



Source: Longview Economics, Macrobond

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

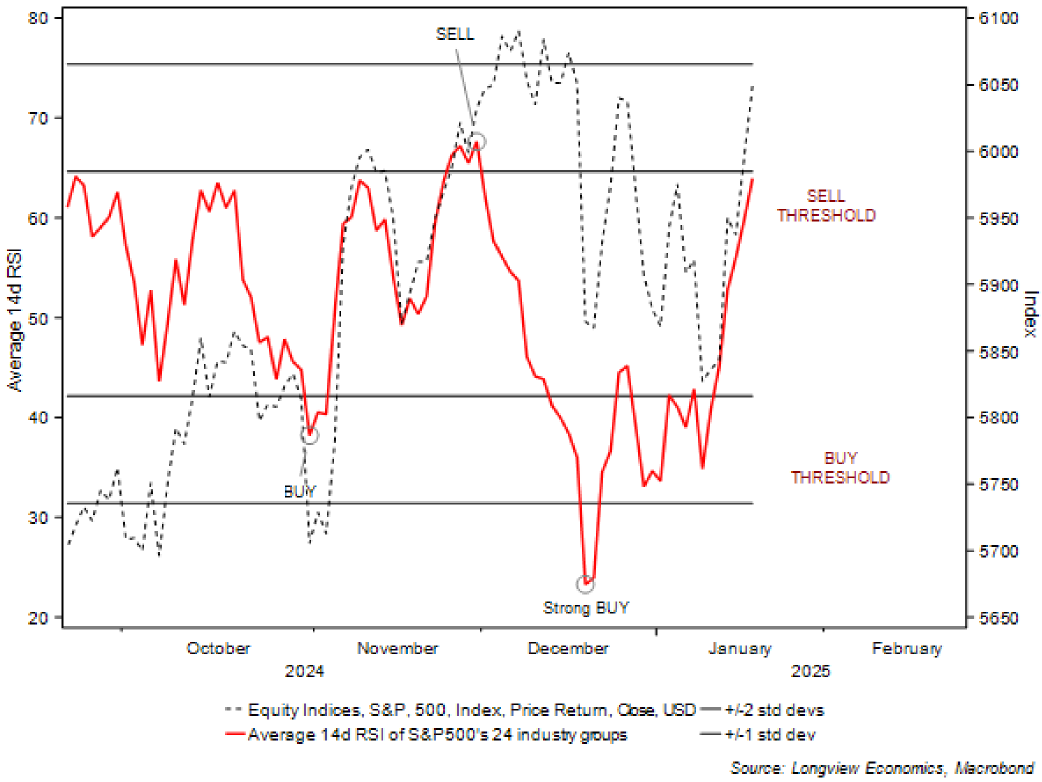
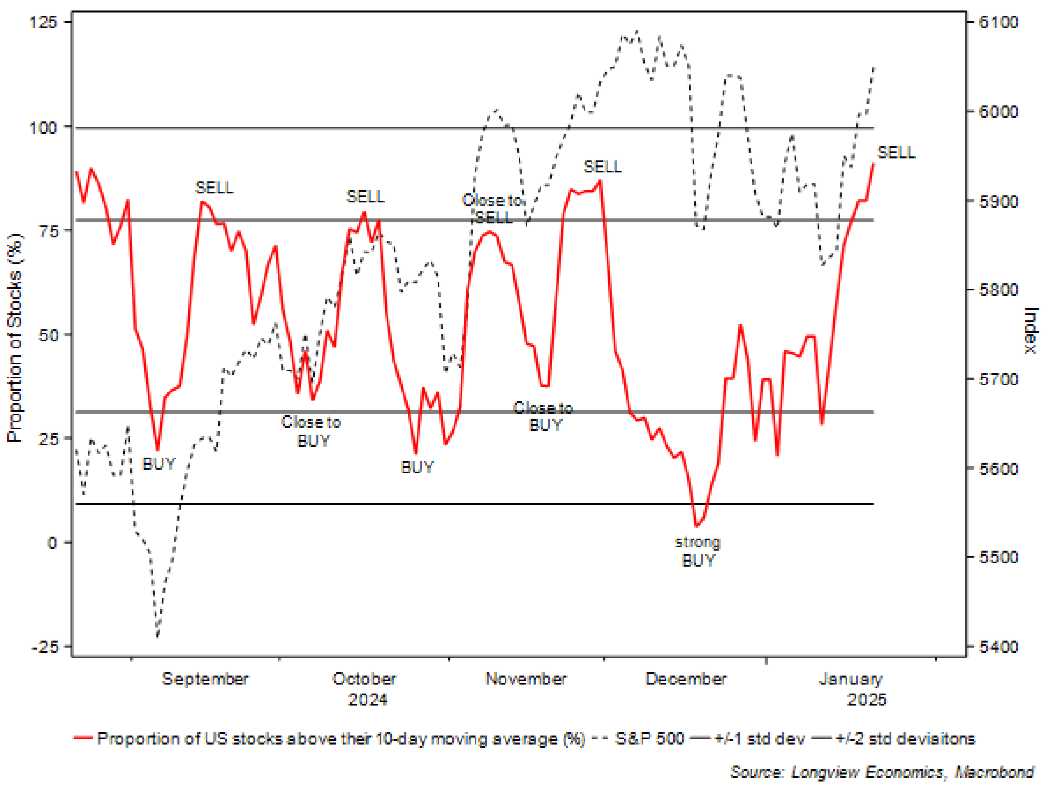


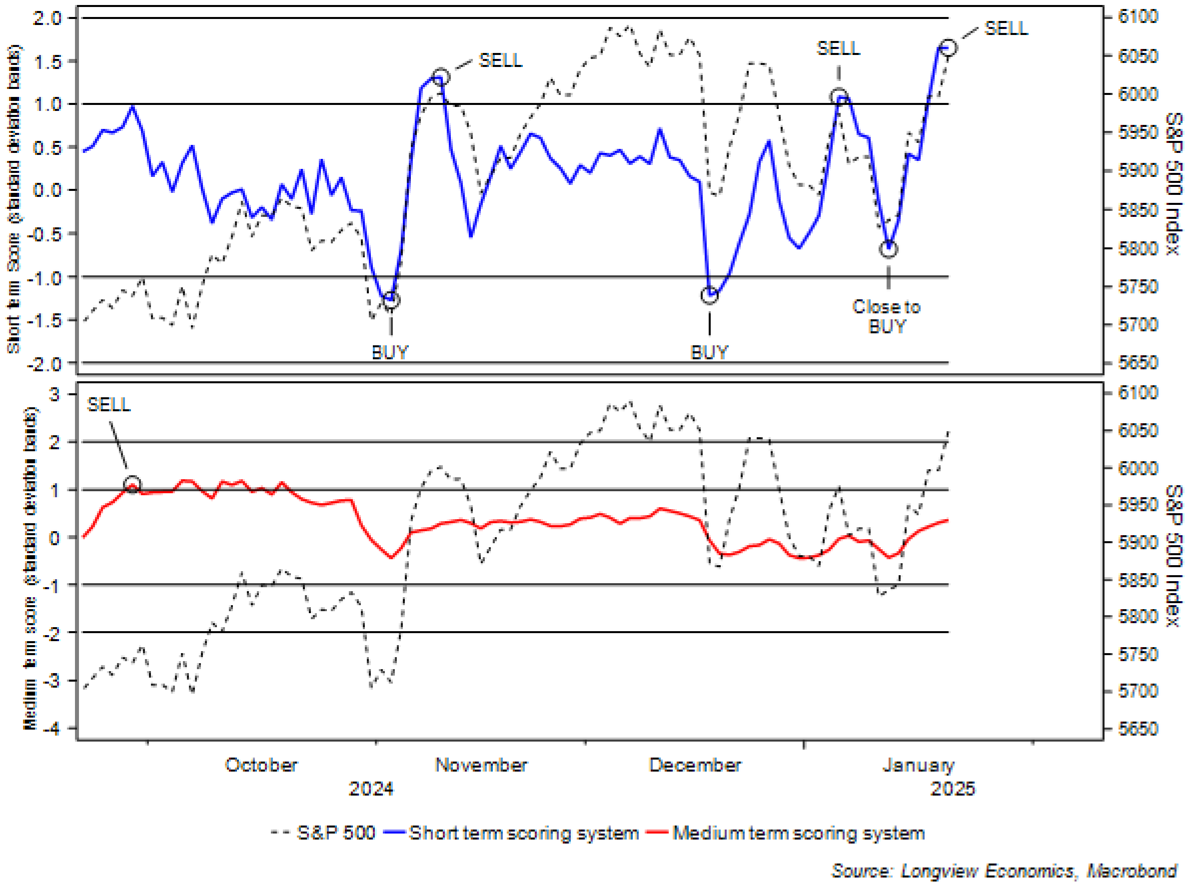
FIG 5b: Proportion of US stocks above their 10-day moving average vs. S&P500



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

Short term (1 – 2 week) scoring system: **SELL**
Medium term (1 – 4 month) scoring system: **NEUTRAL**

<u>**FIG A:** Longview short and medium term scoring systems vs. S&P500</u>



Key macro data/events

Key data today include: UK Public sector finances (Dec, 7am); **US Conference Board leading index** (Dec, 3pm); Japanese imports/exports, & trade balance (Dec, 11:50pm).

Key events today include: Speeches by the ECB's Villeroy, Knot, Lagarde & Nagel in Davos (9:15am, 10:30am, 3:05pm & 6:30pm).

Key earnings today include: **P&G**, **J&J**, ServiceNow lnc, Abbott Labs, Progressive, GE Vernova LLC, Amphenol, Kinder Morgan, Kia Corp.

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*](mailto:info@longvieweconomics.com)

LVRAG
Daily Risk Appetite Gauge

1 – 2 Week View on Risk

22nd January 2025

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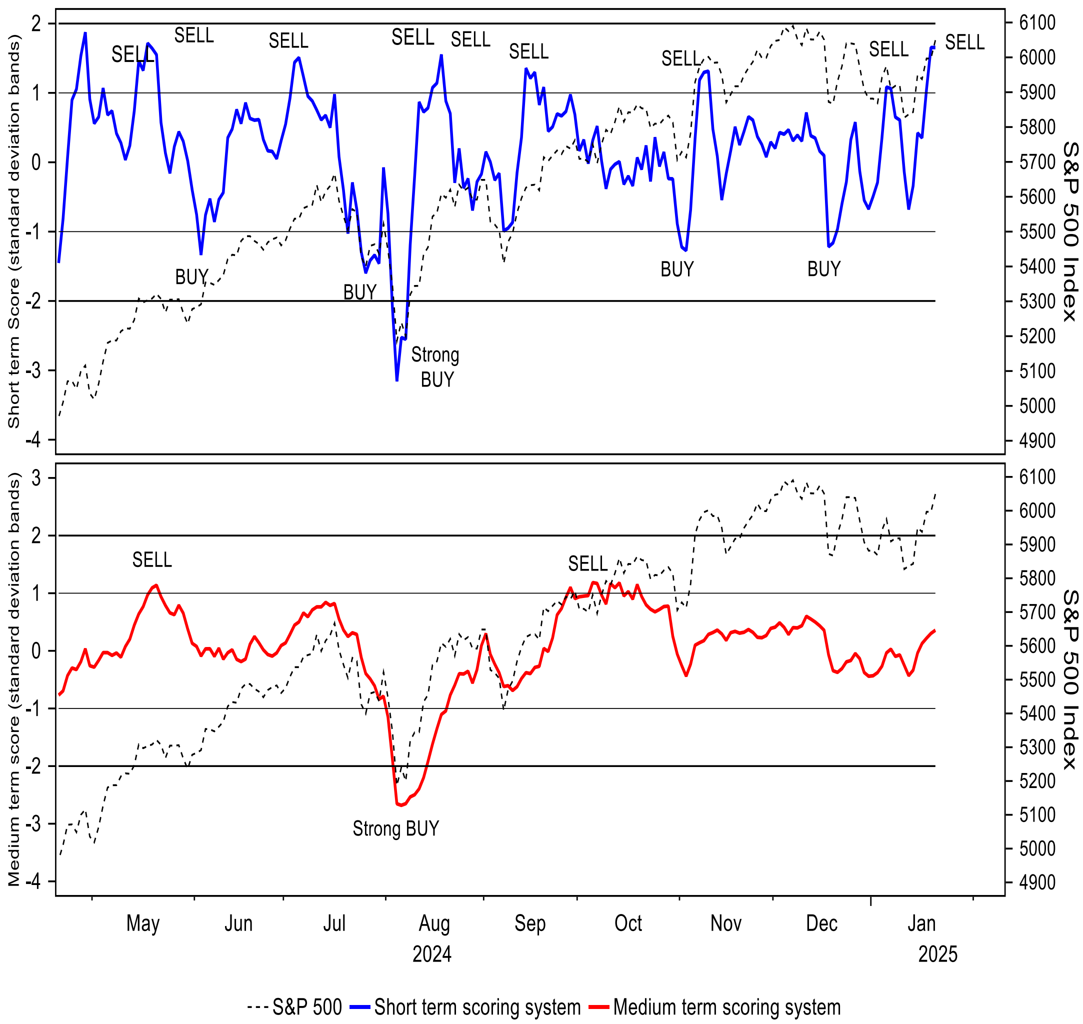
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is on SELL

Medium term scoring system is NEUTRAL

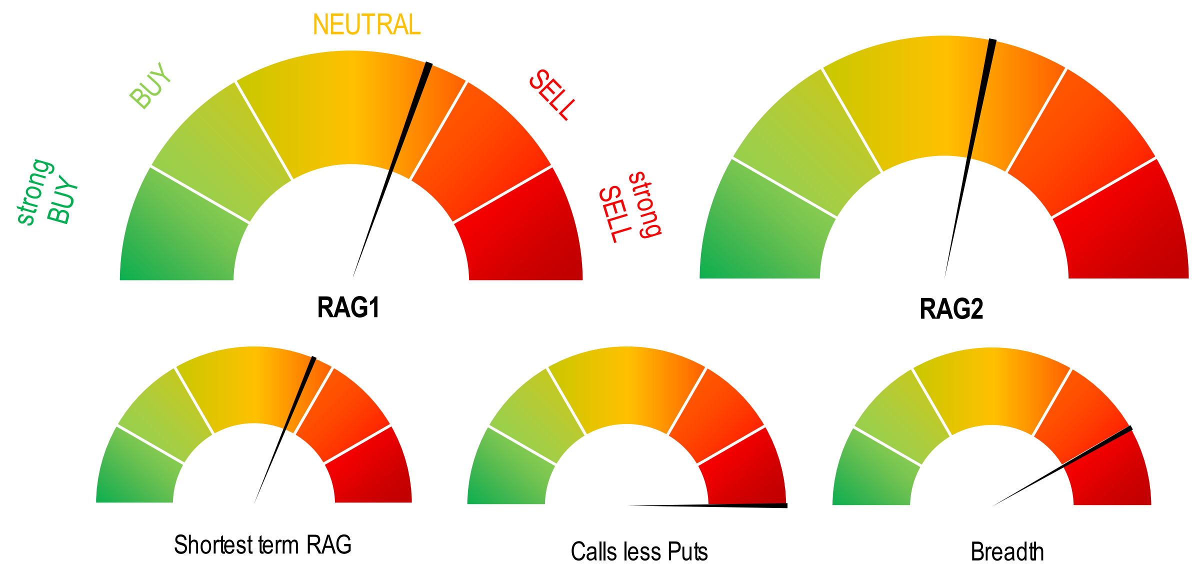
Source: Longview Economics, Macrobond

*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

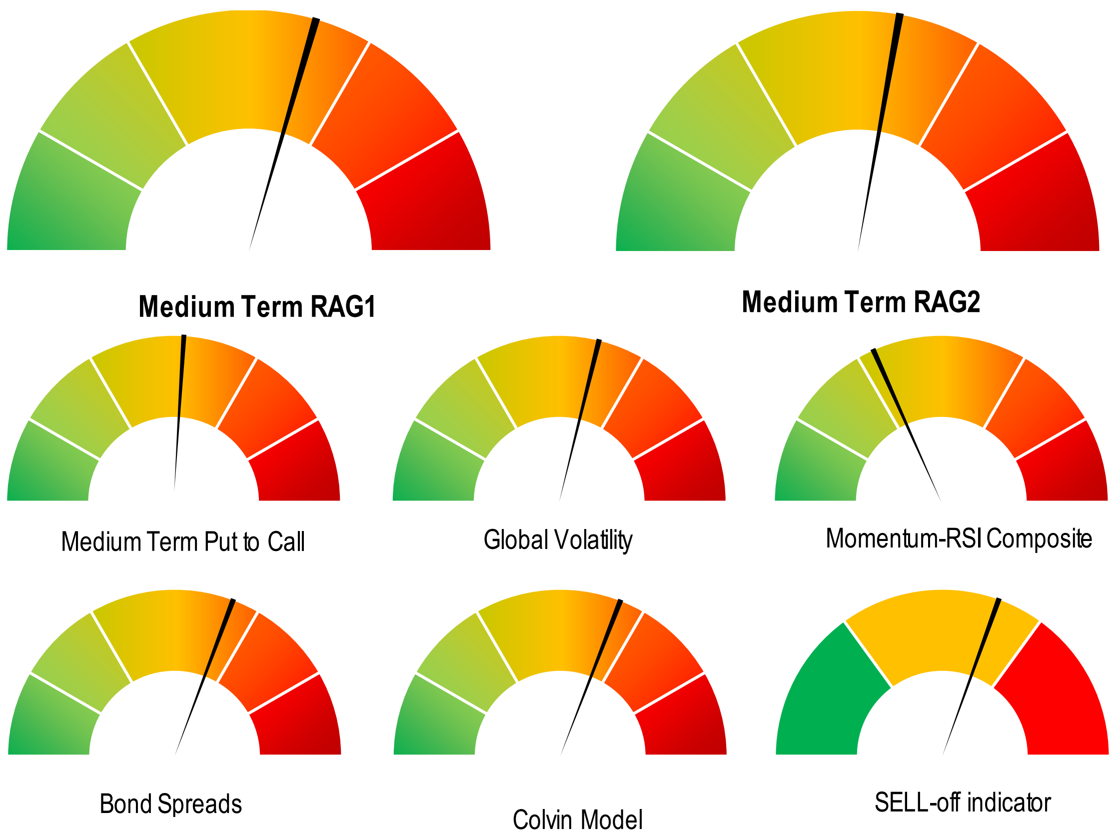
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

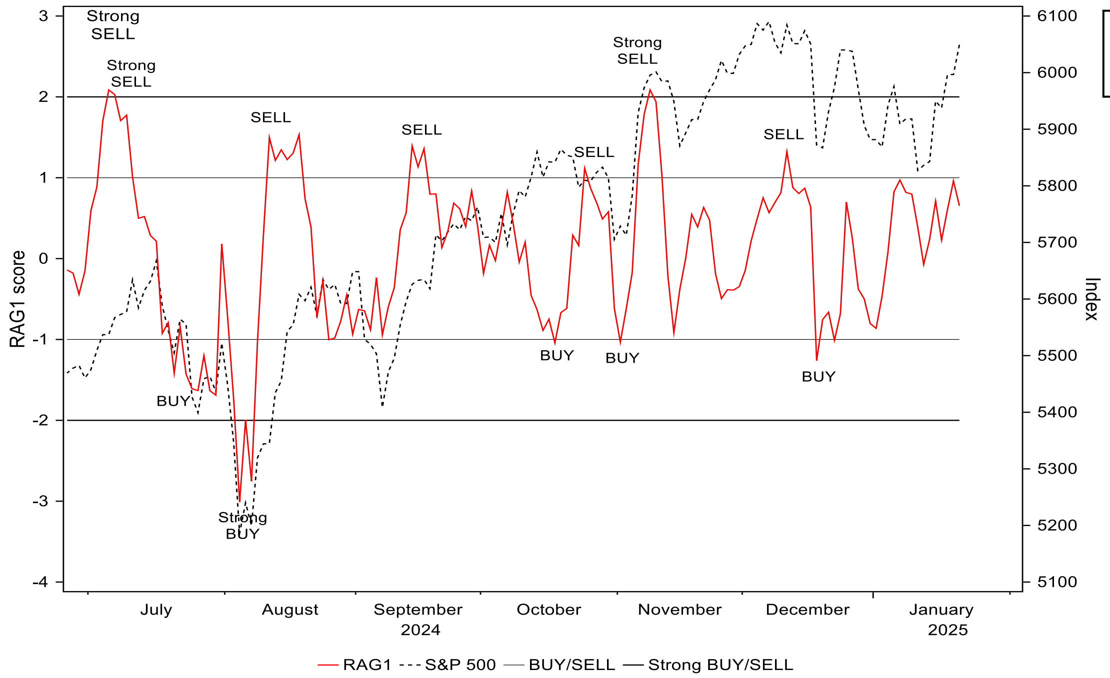
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

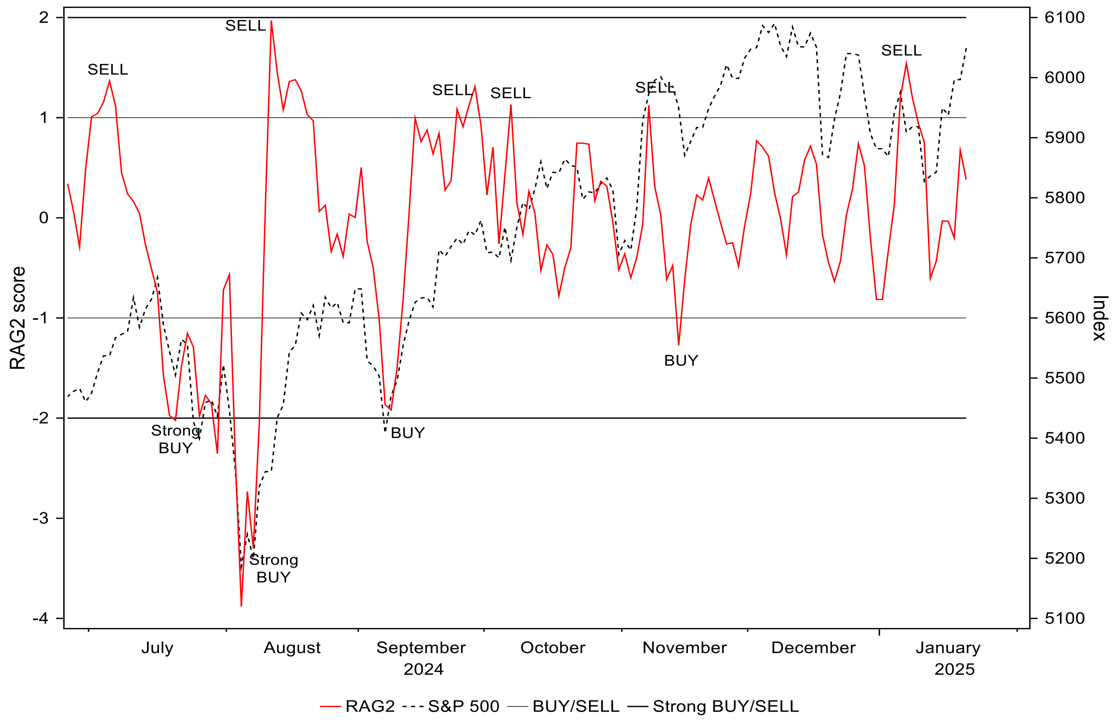
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

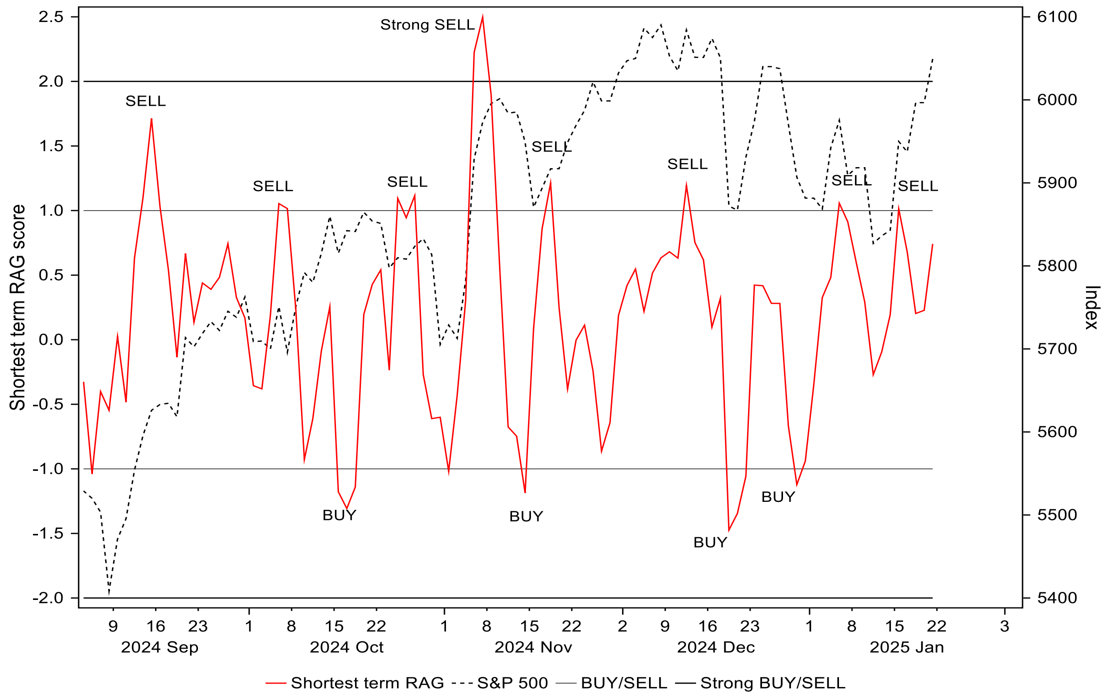


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

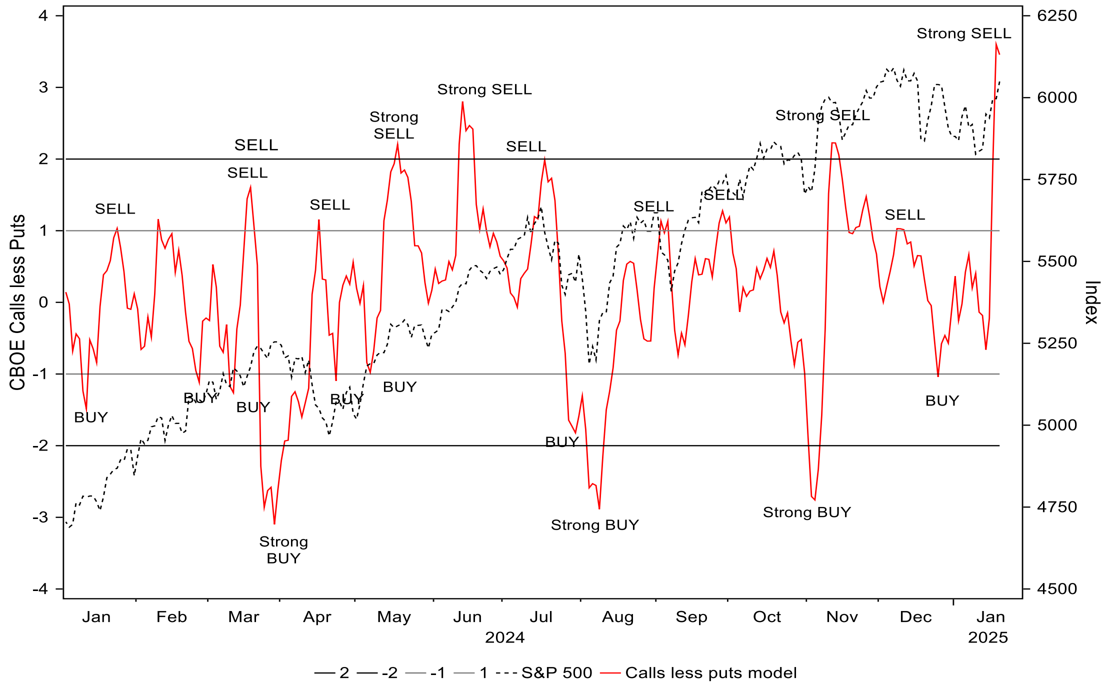
For explanations of indicators please see page 10

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



Shortest term RAG is NEUTRAL

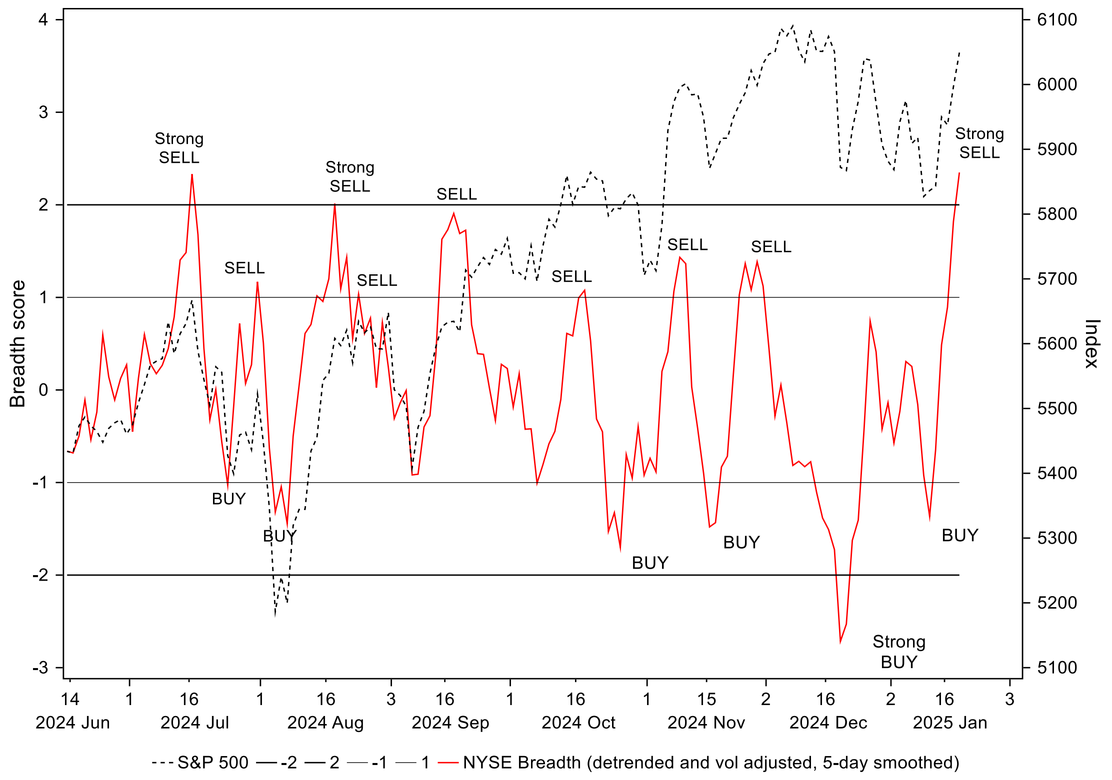
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



Calls less puts model is on Strong SELL

For explanations of indicators please see page 10

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



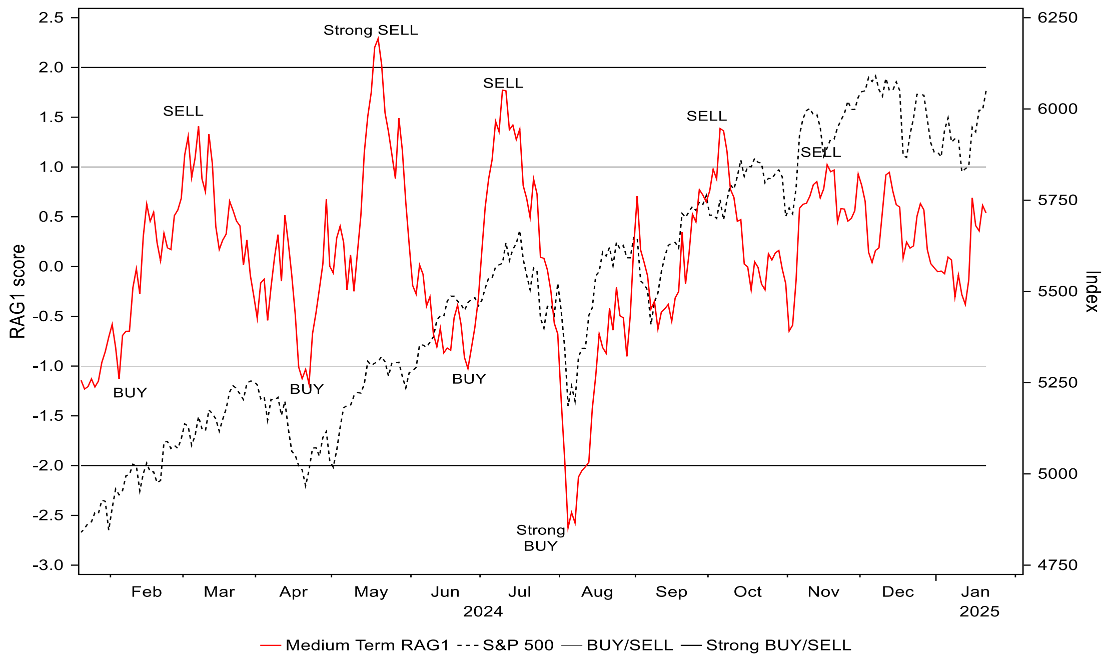
Source: Longview Economics, Macrobond

The breadth model is on Strong SELL

For explanations of indicators please see page 10

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

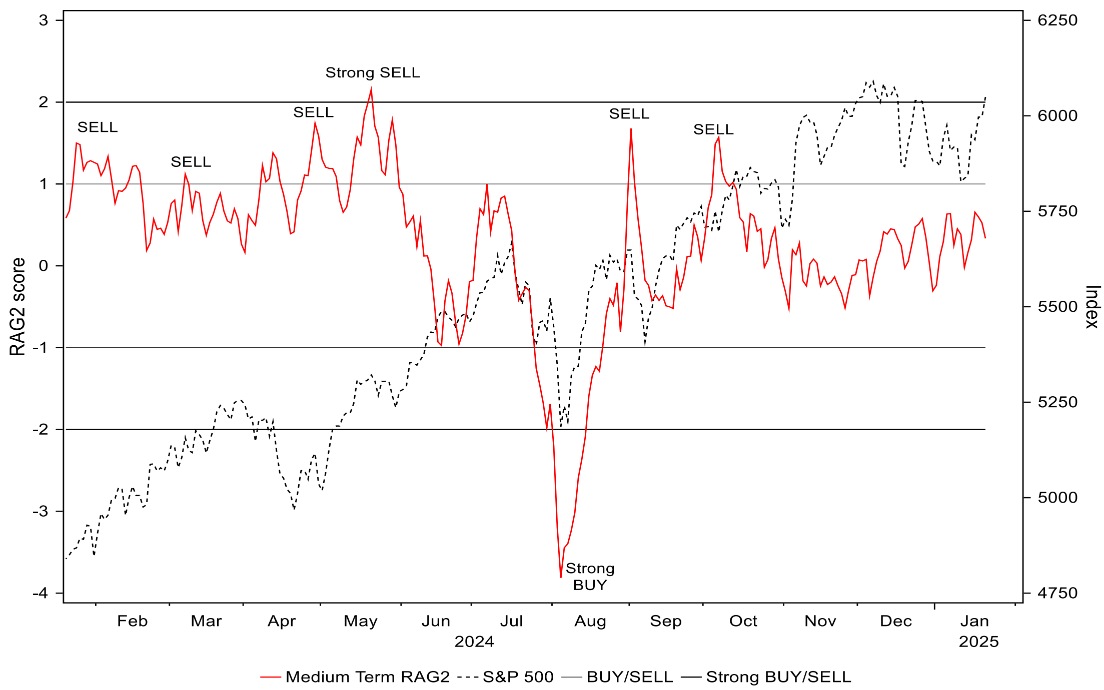
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

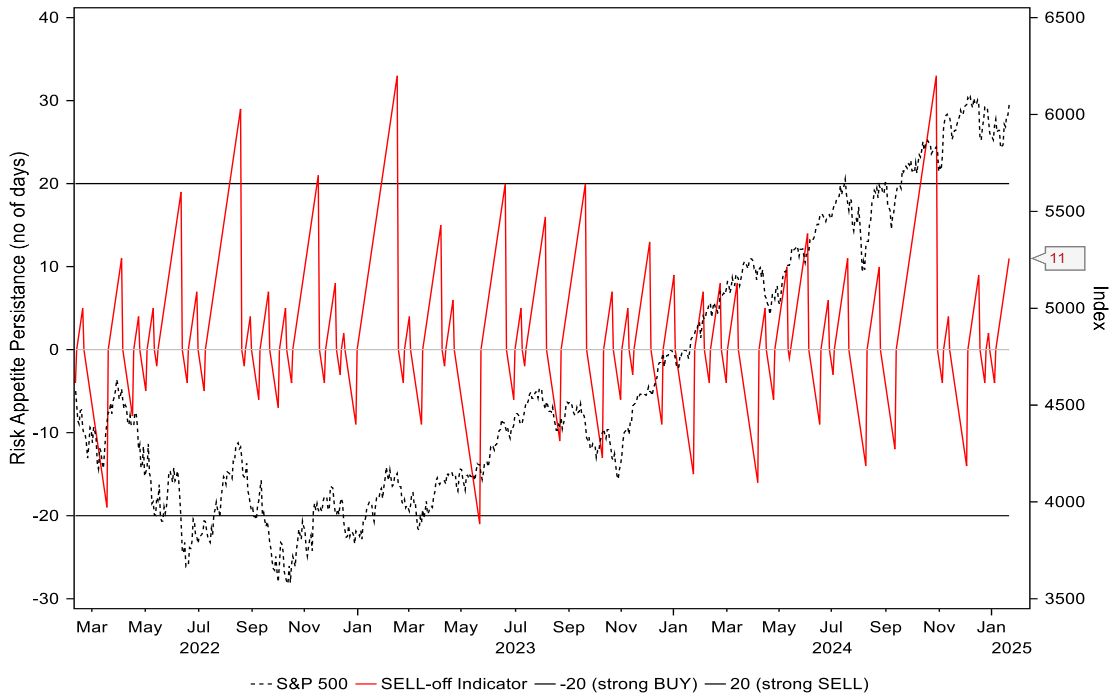


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

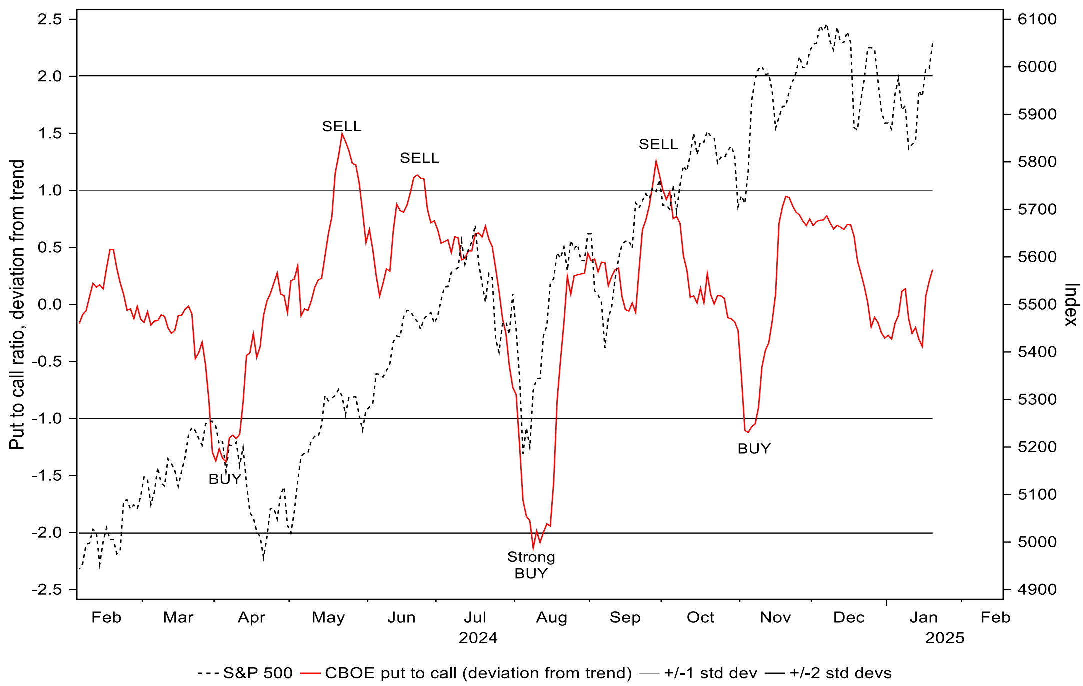
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

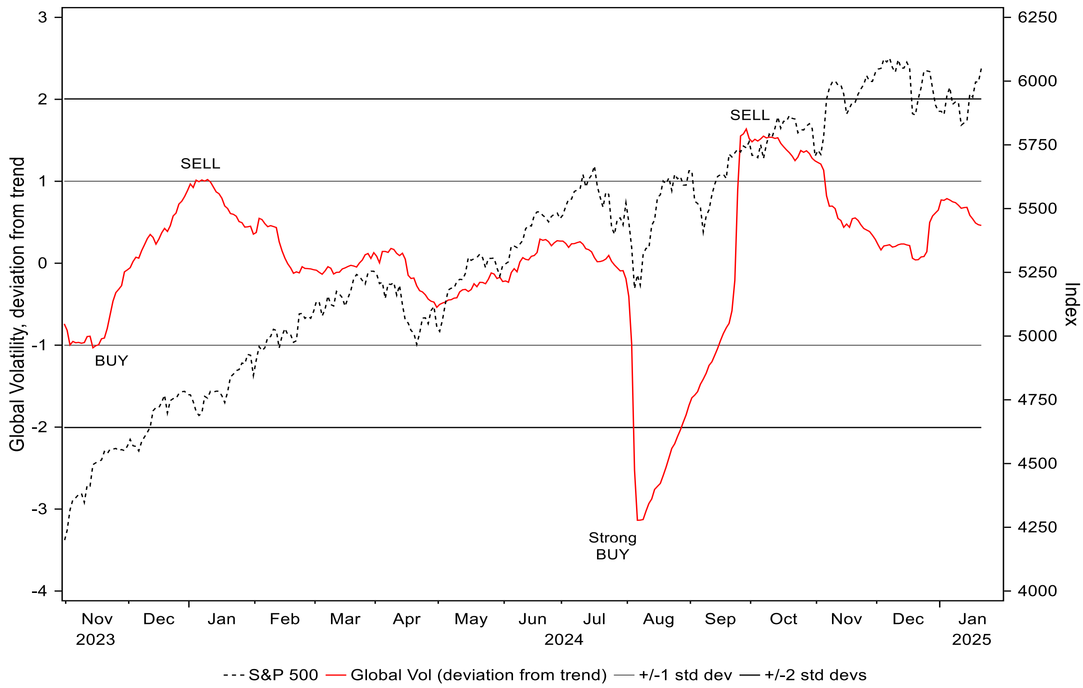


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

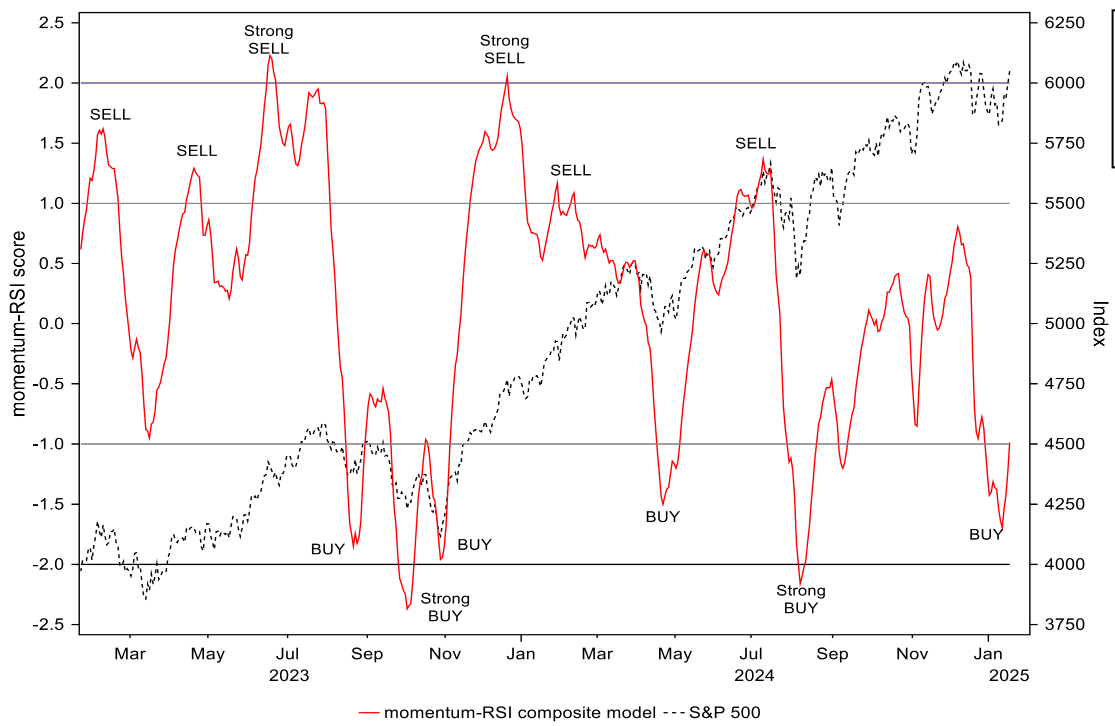
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

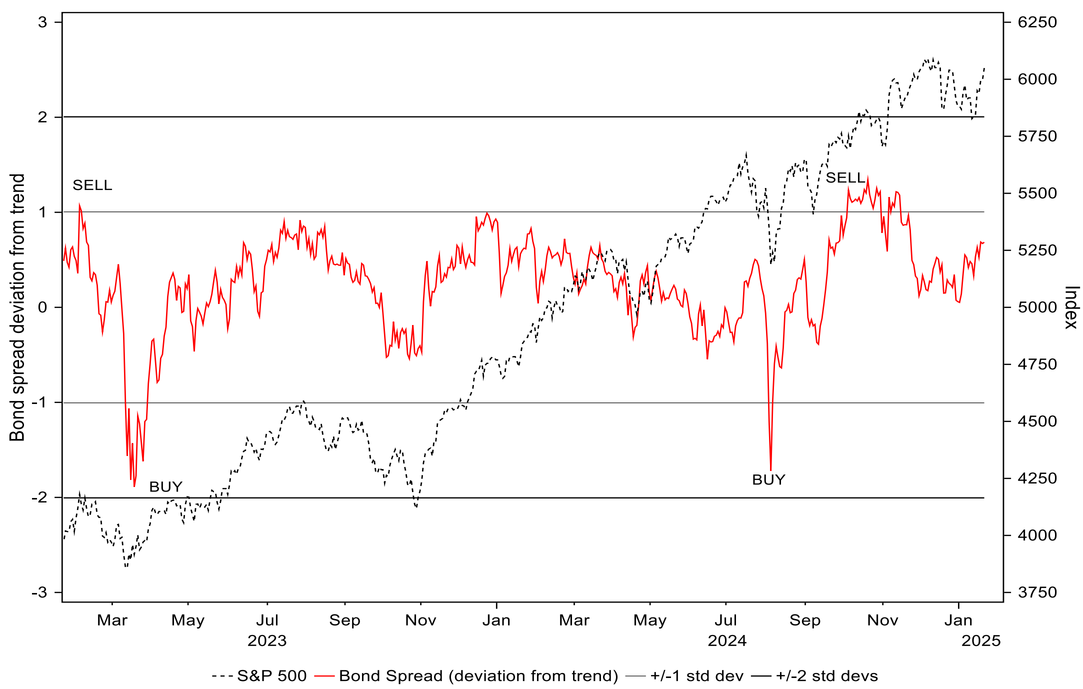
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

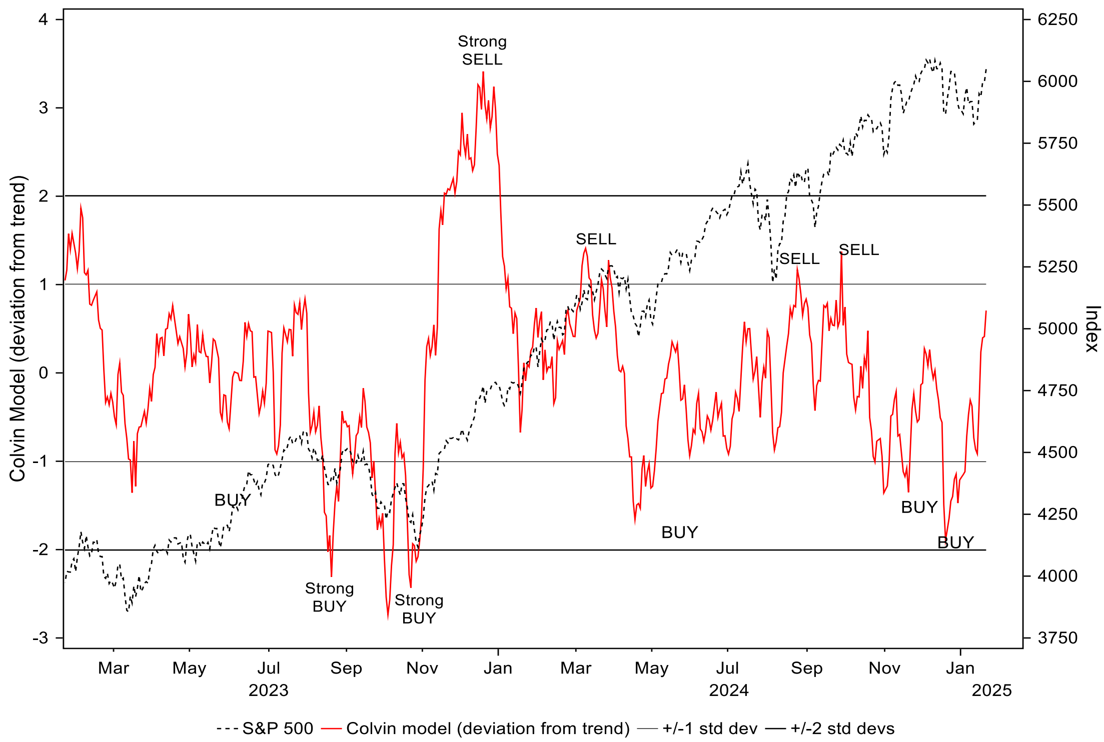
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 NEUTRAL

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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