Equity Index Futures Trading Recommendations

22nd November 2024

"Stay LONG SPX (modestly tighten stop loss)"

Email: info@longvieweconomics.com

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

- Stay ¼ LONG S&P500 December '24 futures (entry was on Wednesday at 5,952.75);
- Tighten stop loss to 5,848 (from 5,808 yesterday).

Rationale

Strength in US equities was broad based yesterday, with 27 of the 28 indices we track closing higher on the session. The (intra-day) price action was also encouraging for the bulls. That is, the initial weakness in the session was reversed (i.e. like other days this week), and most major indices, once again, made higher intra-day highs & lows. That's happened in recent trading sessions in the S&P500 (+0.5%); NASDAQ100 (+0.4%); the Russell 2000 (+1.7%), see FIGs 1, 1b, & 1c (as well as in global equities, see FIG 1d). Mirroring that, volatility has remained subdued, with the VIX failing to break above its 50 & 90 day moving averages this week (FIG 1a).

From that price action perspective, therefore, **US/global equities have found support, and started to rally from, key levels** (i.e. typically at around/just above their 50 day trend lines). That has followed the bullish key day reversal pattern* generated on Tuesday (in the SPX & NDX), which appears to have correctly signalled a near term change of trend in markets (i.e. from bearish to bullish).

Our view remains unchanged from yesterday. That is, after some giveback (of the initial US election-related gains), equity markets have built a base, and the medium term uptrend has probably resumed. For detailed medium term (1 – 4 month) equity market views, please see our latest tactical equity asset allocation publication (published 6th November).

In up-trending markets, it typically pays to stay with LONG positions, at least until short term models have moved back to SELL. Our short term risk appetite models, in that respect, have started to move higher (but are still NEUTRAL, see FIGs 2 & 2a). Elsewhere our key technical scoring systems, for the S&P500, NASDAQ100, and Philly SOX (and others), **remain on/close to BUY** (e.g. see FIGs 3 & 3a). Other key breadth, momentum, and price based indicators are now mid-range, having recently generated BUY signals (see FIGs 3c – 3e).

The risk reward therefore favours staying LONG (please see above for detailed recommendation).

Risks, as always, are multiple. As highlighted yesterday they include ongoing signs of near term complacency in markets (e.g. bullish positioning and low downside put protection in portfolios, see FIGs 4 & 4a). Reflecting that risk, as well as the move higher in most of our models overnight, we recommend a modestly tighter stop loss (i.e. at 5,848, and just below Tuesday's intra-day low).

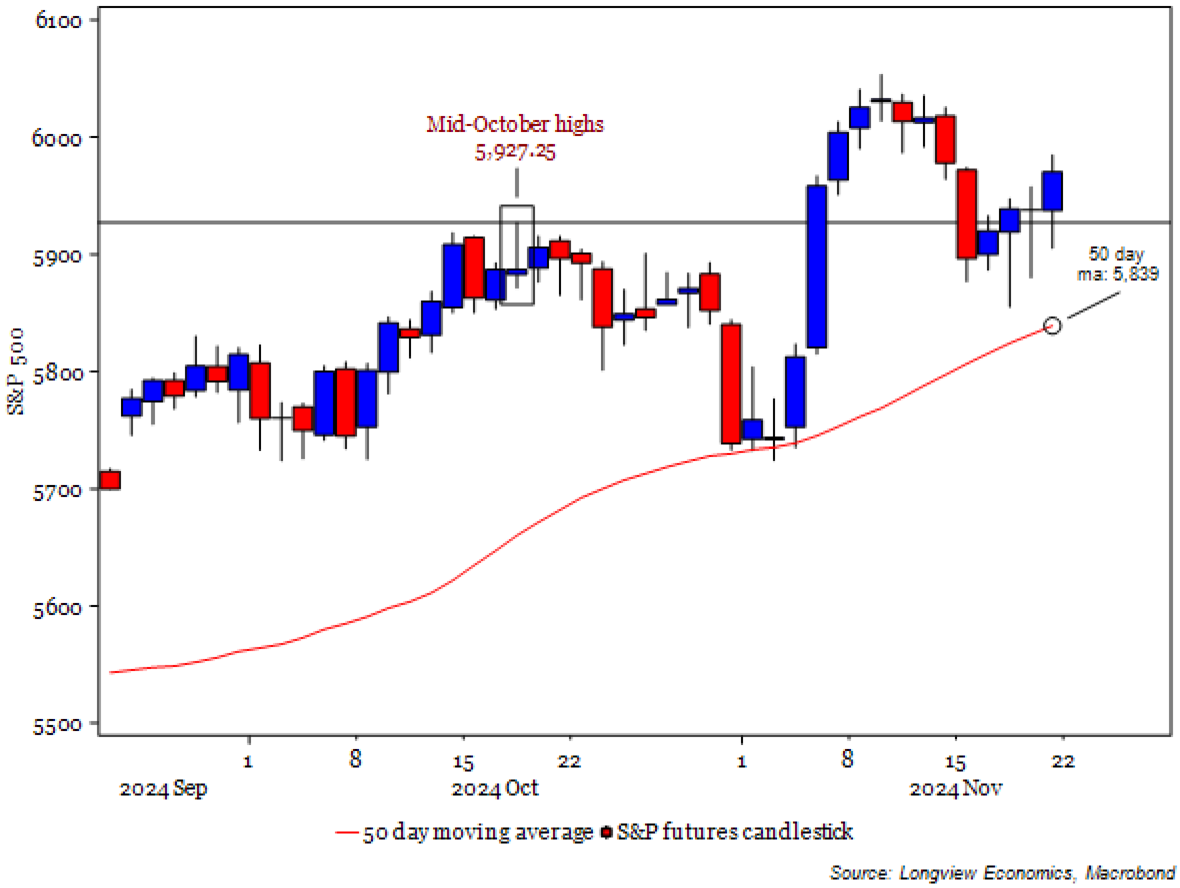
Please see below for a full list of today's key macro data, earnings & events.

Kind regards,

The team @ Longview Economics

*Albeit technically it's not the most compelling key day reversal (given the index only just opened below the prior days close). NB A bullish key day reversal 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



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Daily Risk Appetite Gauge

FIG 1a: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

FIG 1b: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages

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

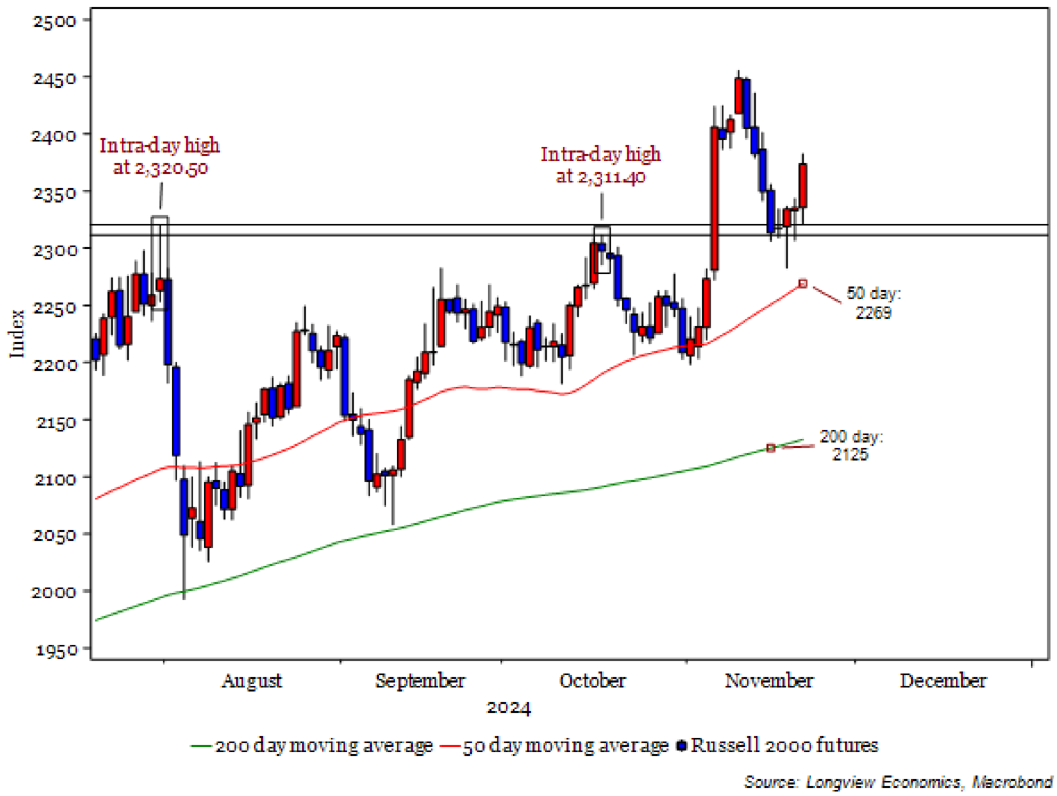


FIG 1d: DJ global equity index shown with 200 & 50 day moving averages

Short-term risk appetite models are mid-range…

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

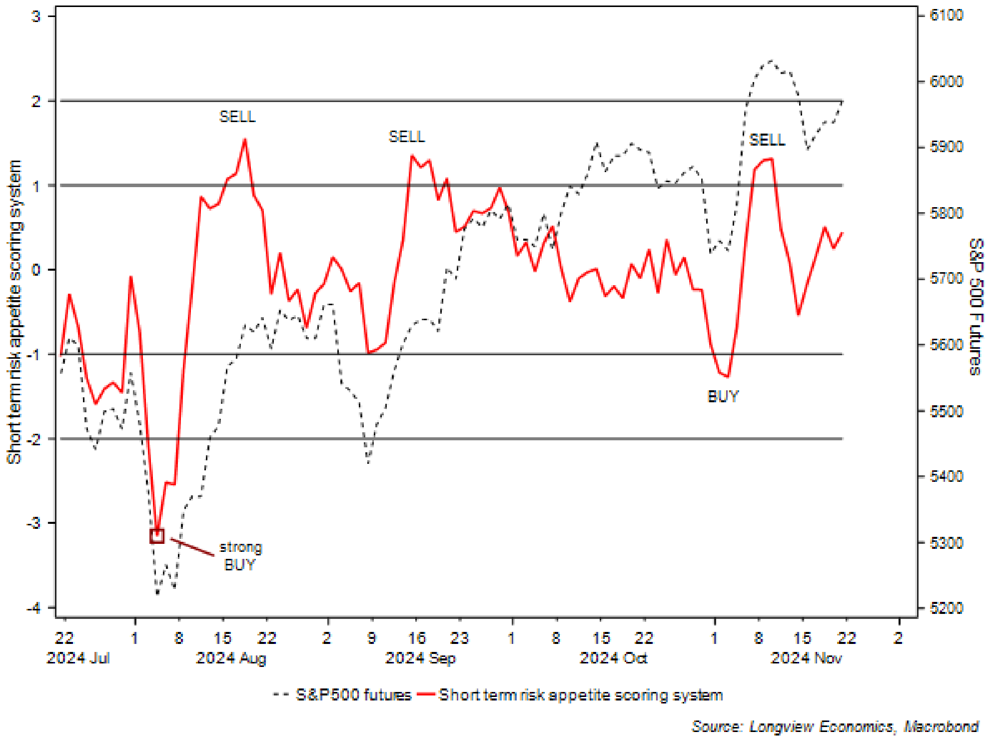
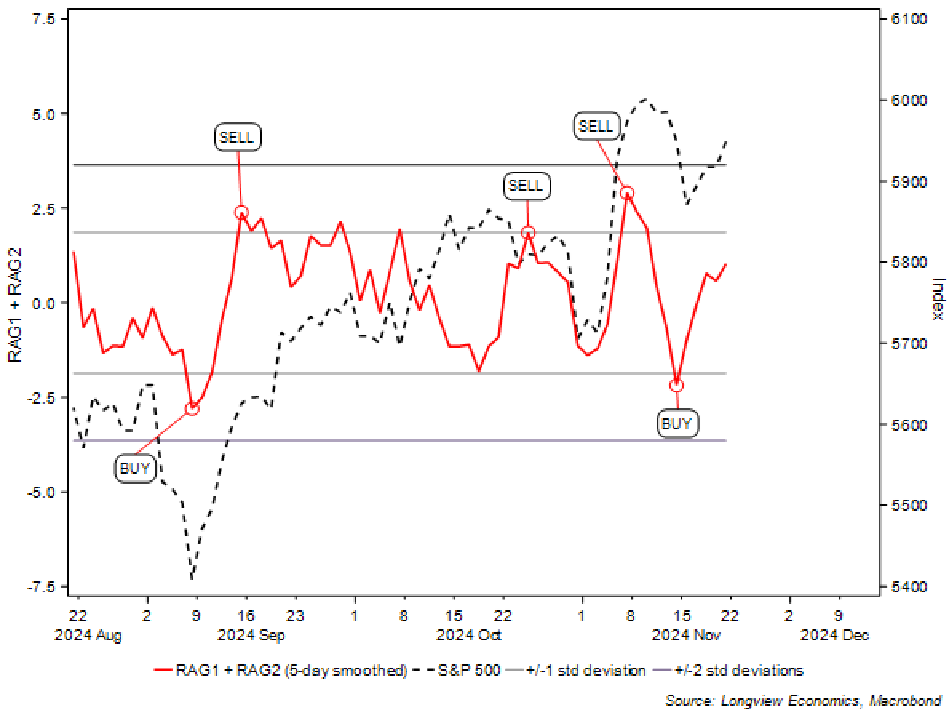
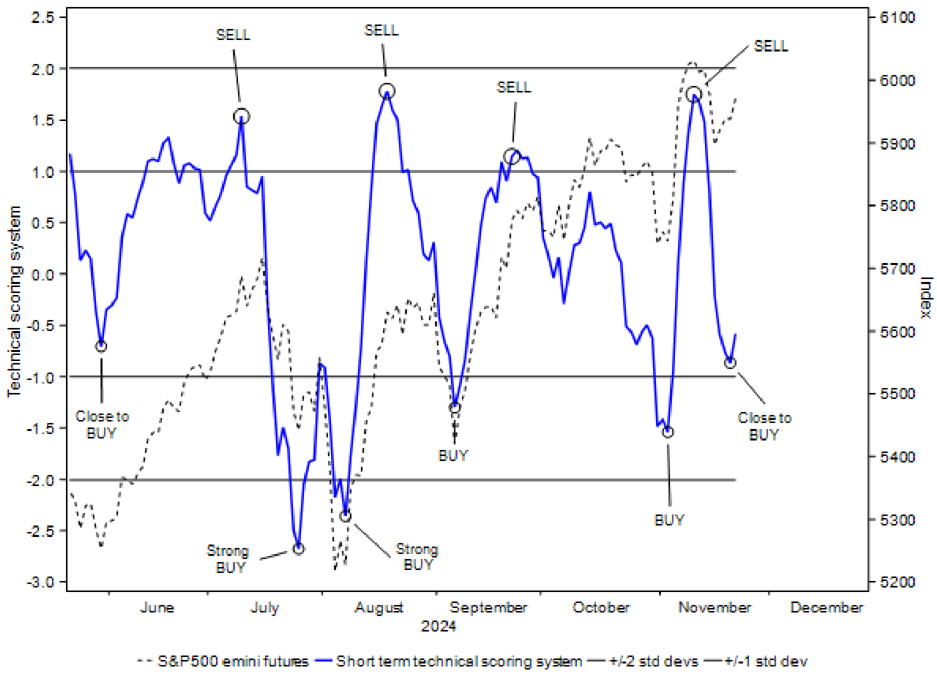


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



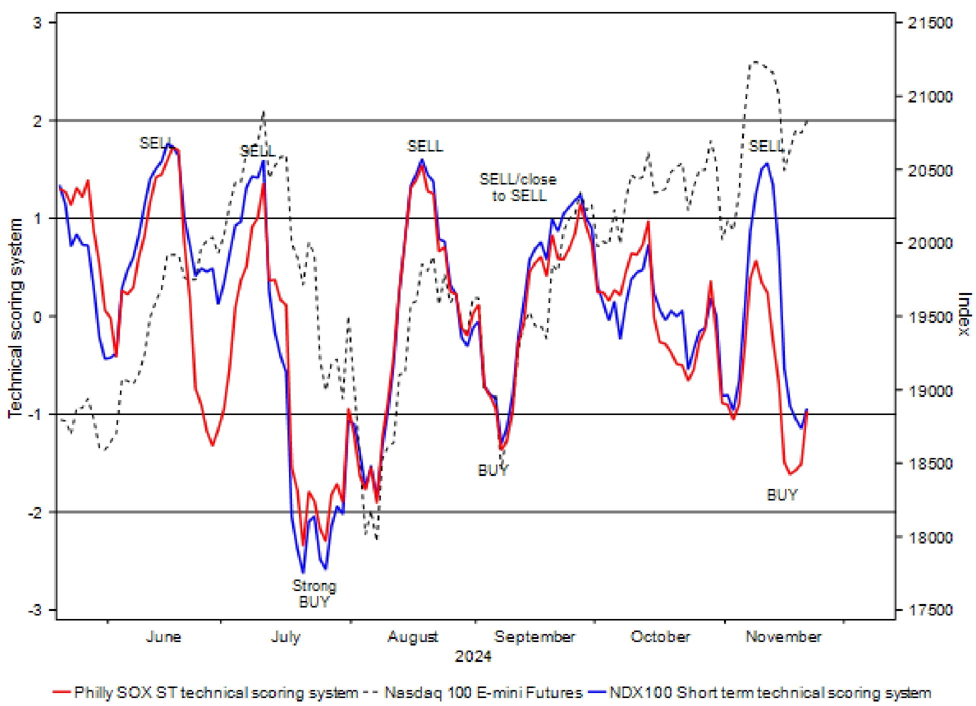
Other short-term models are on/close to BUY levels…

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

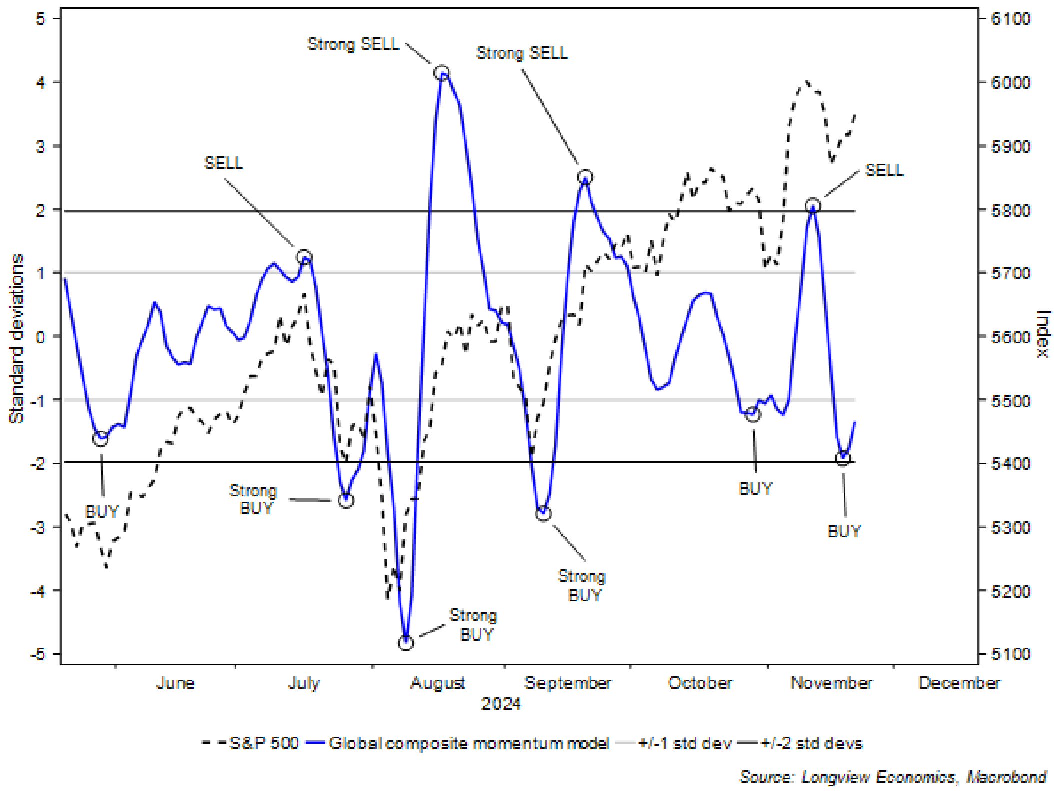


FIG 3c: Short term NYSE breadth model vs. S&P500

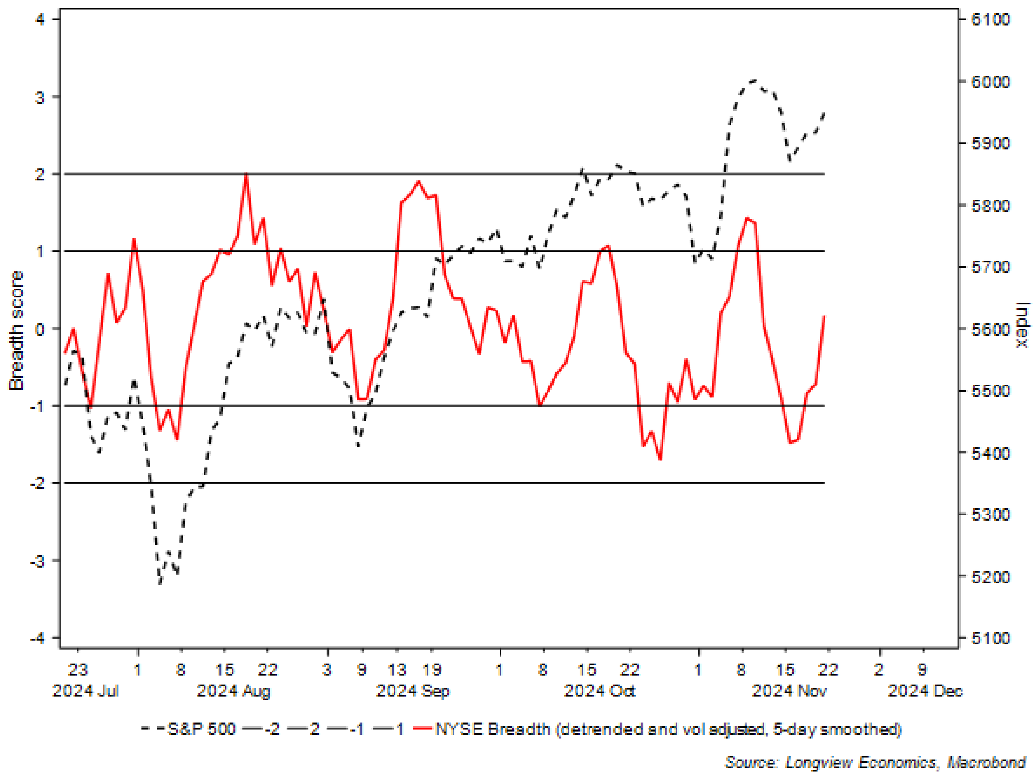


FIG 3d: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index

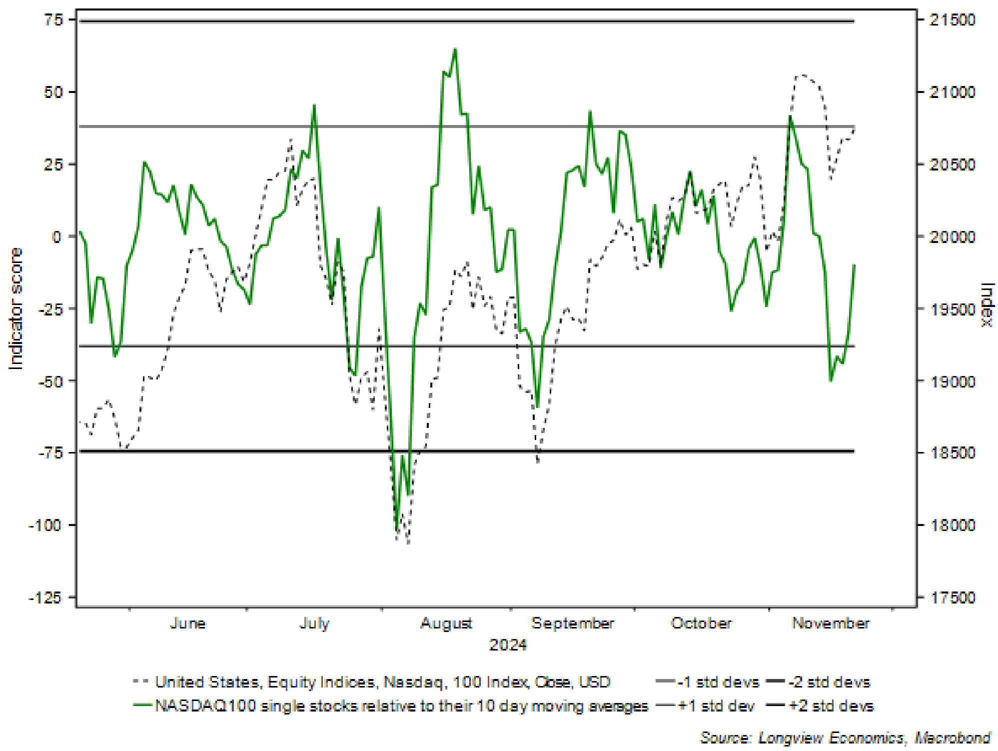


FIG 3e: Proportion of US stocks above their 10-day moving average vs. S&P500

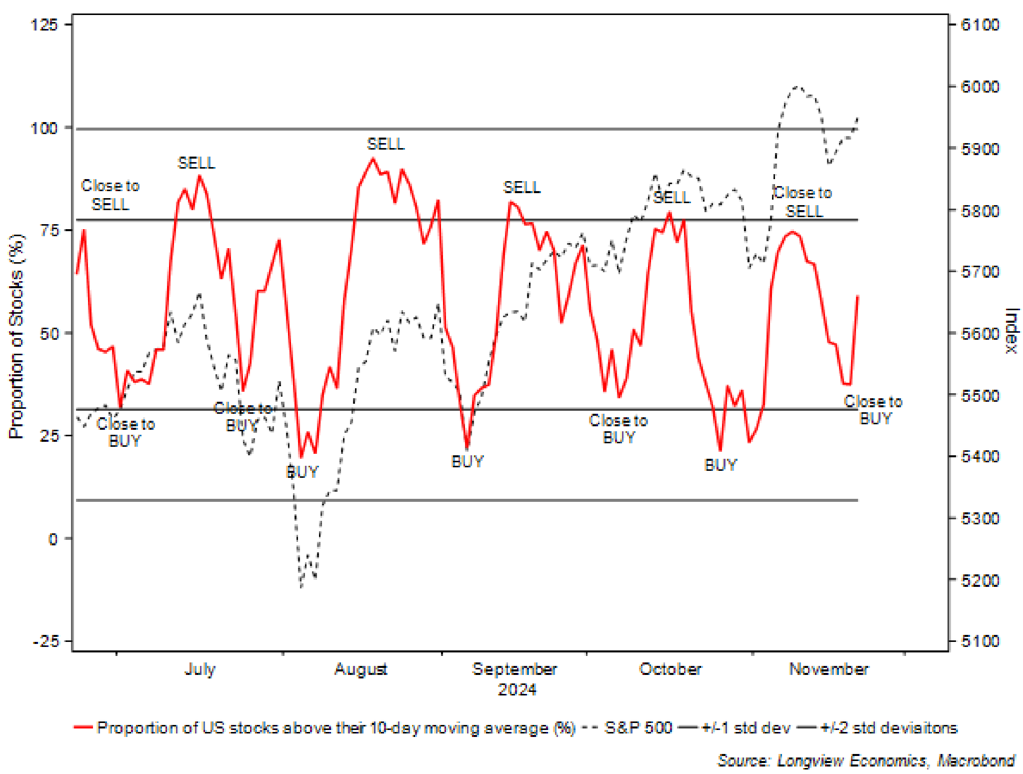
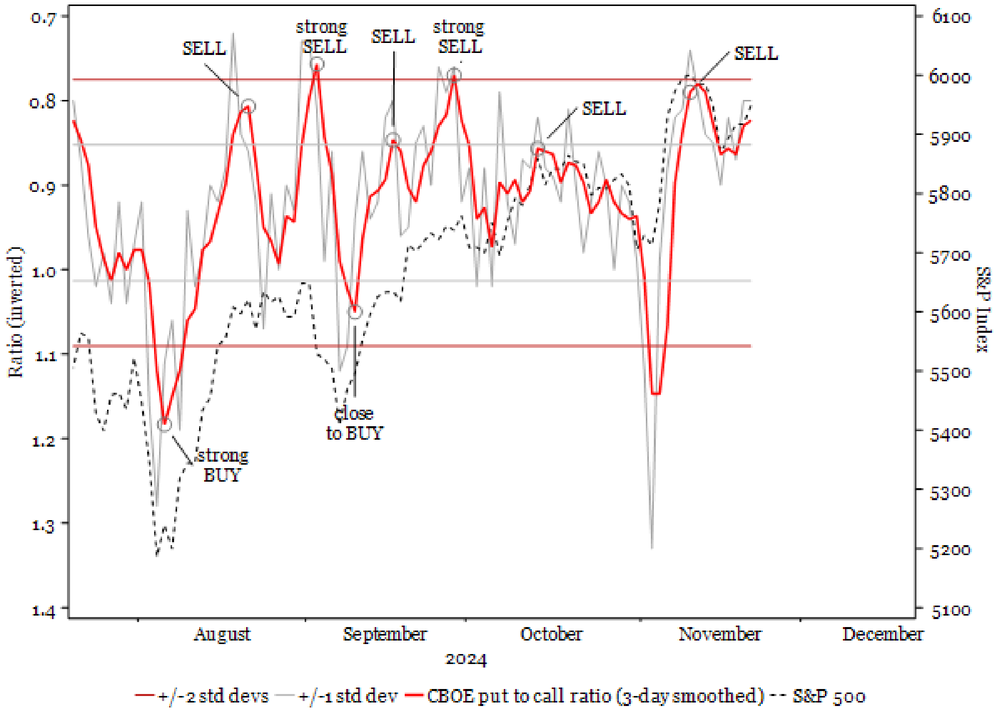
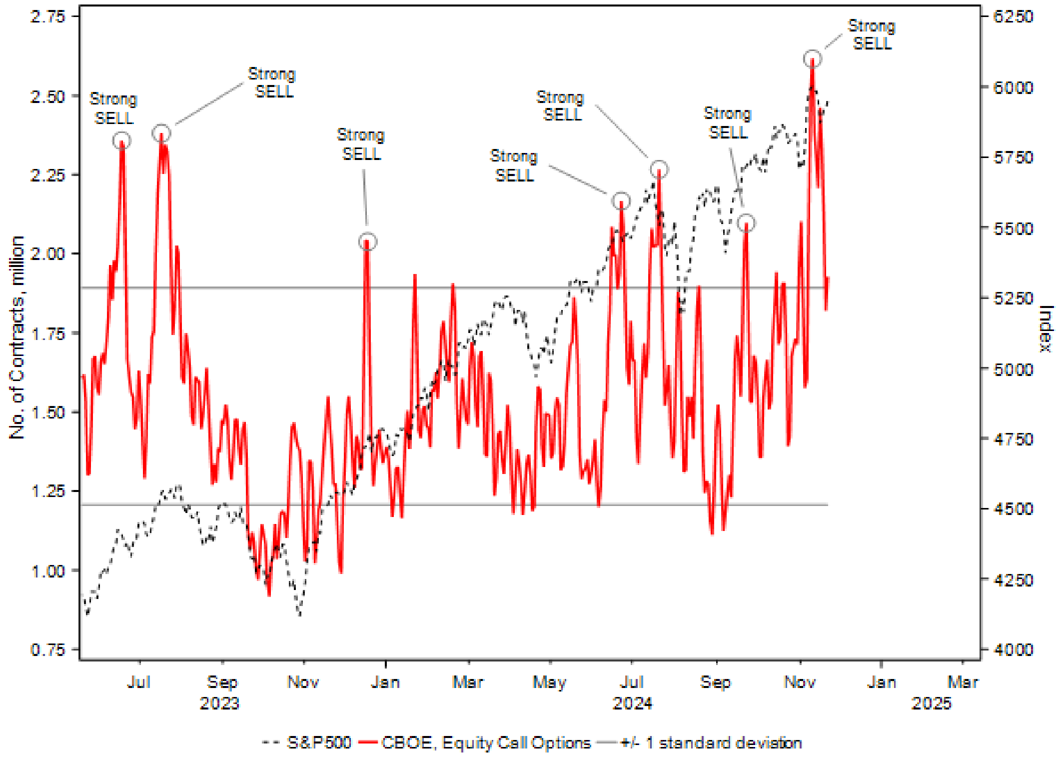


FIG 4: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

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

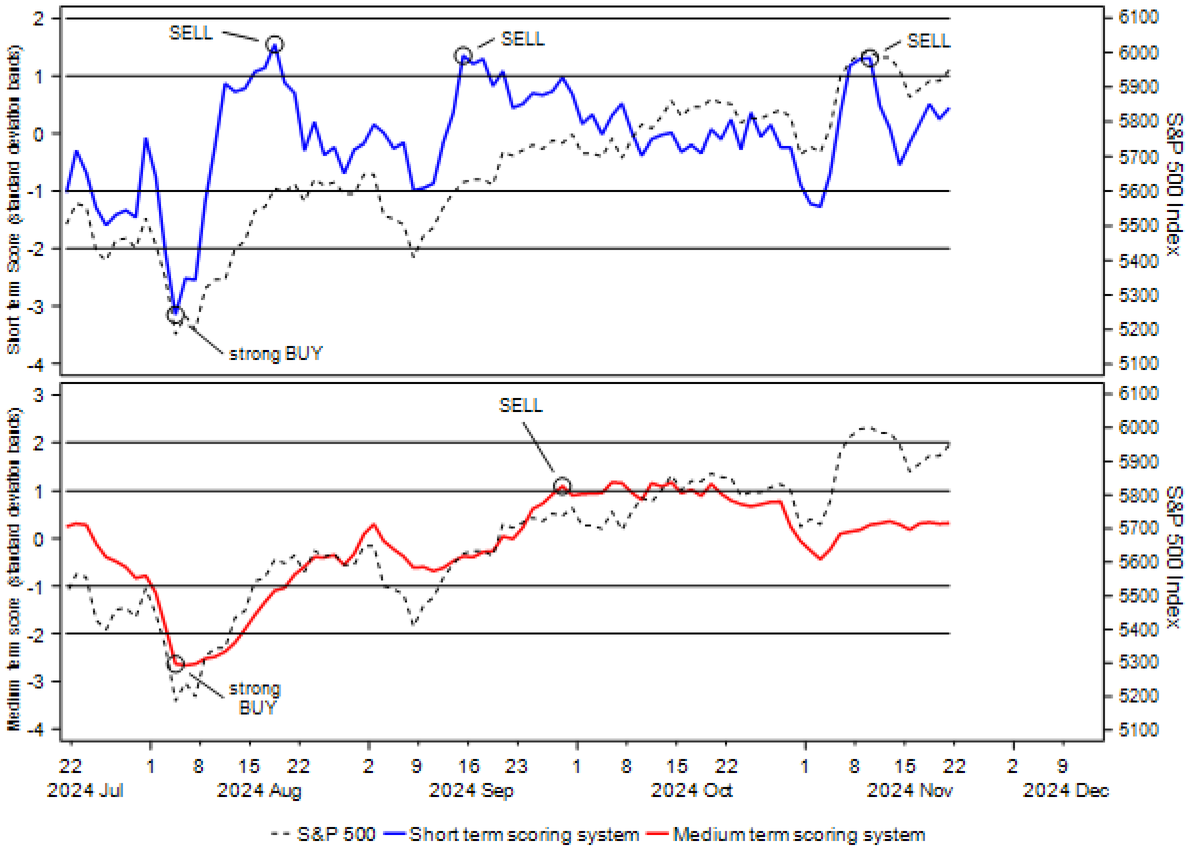


Source: Longview Economics, Macrobond

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: **Japanese Jibun Bank manufacturing & service sector PMIs** (November first estimates, 12:30am); UK GfK consumer confidence (Nov, 12:01am); **UK retail sales** (Oct, 7am); **UK S&P manufacturing & service sector PMIs** (November first estimates, 9:30am); German GDP (Q3 final estimate, 7am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all November first estimates; Canadian retail sales (Sept, 1:30pm); **US S&P manufacturing & service sector PMIs** (November first estimates, 2:45pm); US Michigan sentiment (November final estimate, 3pm); US Kansas City Fed service sector activity (Nov, 4pm).

Key events today include: Speeches by the ECB's **Lagarde** in Frankfurt (8:30am), Centeno in London (9am) & Nagel & Villeroy in Frankfurt (1pm).

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 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

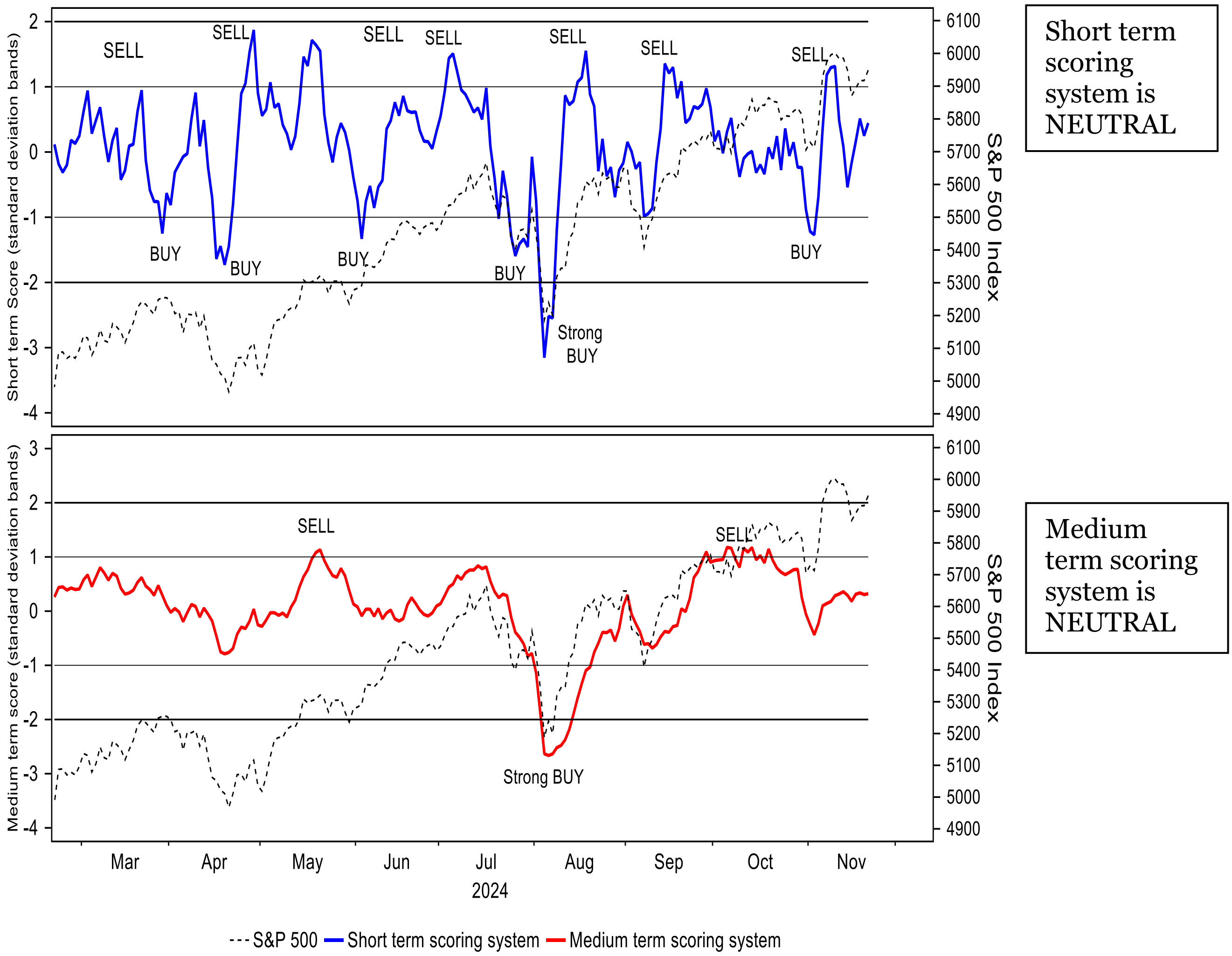
1 – 2 Week View on Risk

22nd 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



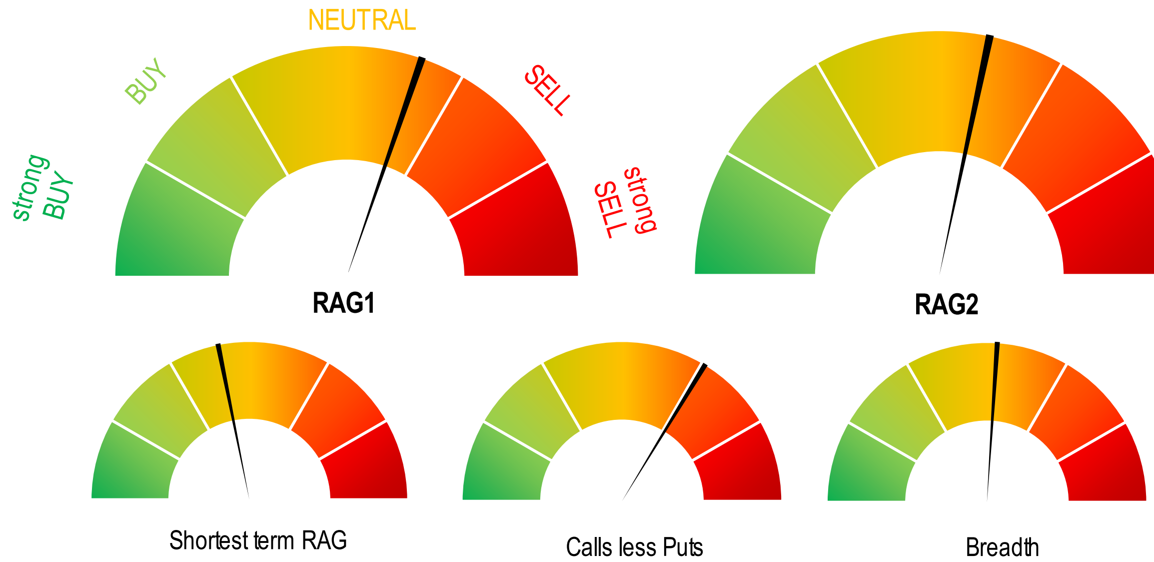
Source: Longview Economics, Macrobond

*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

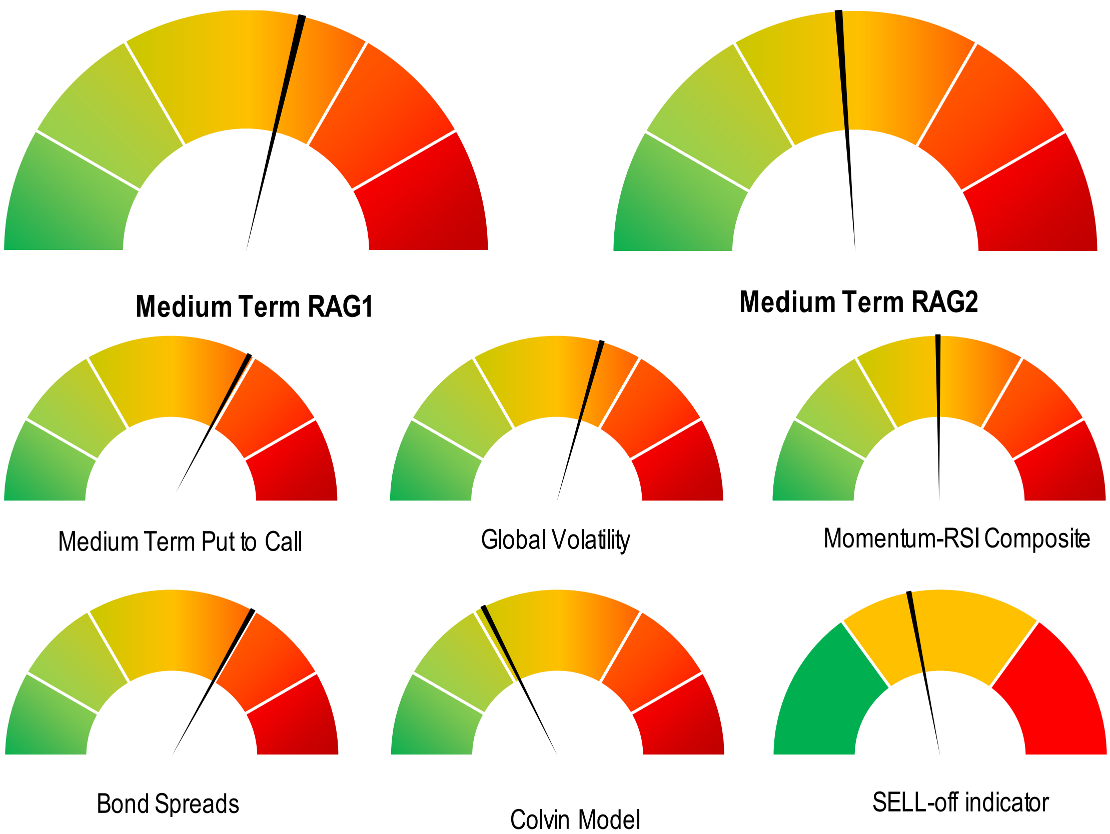
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

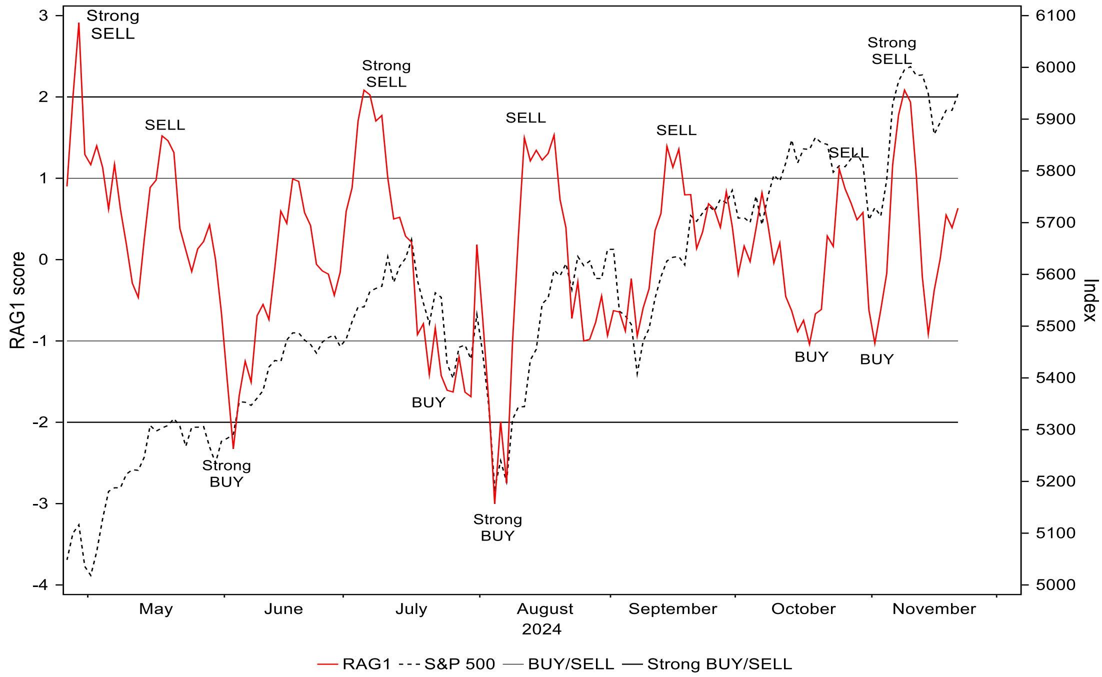
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

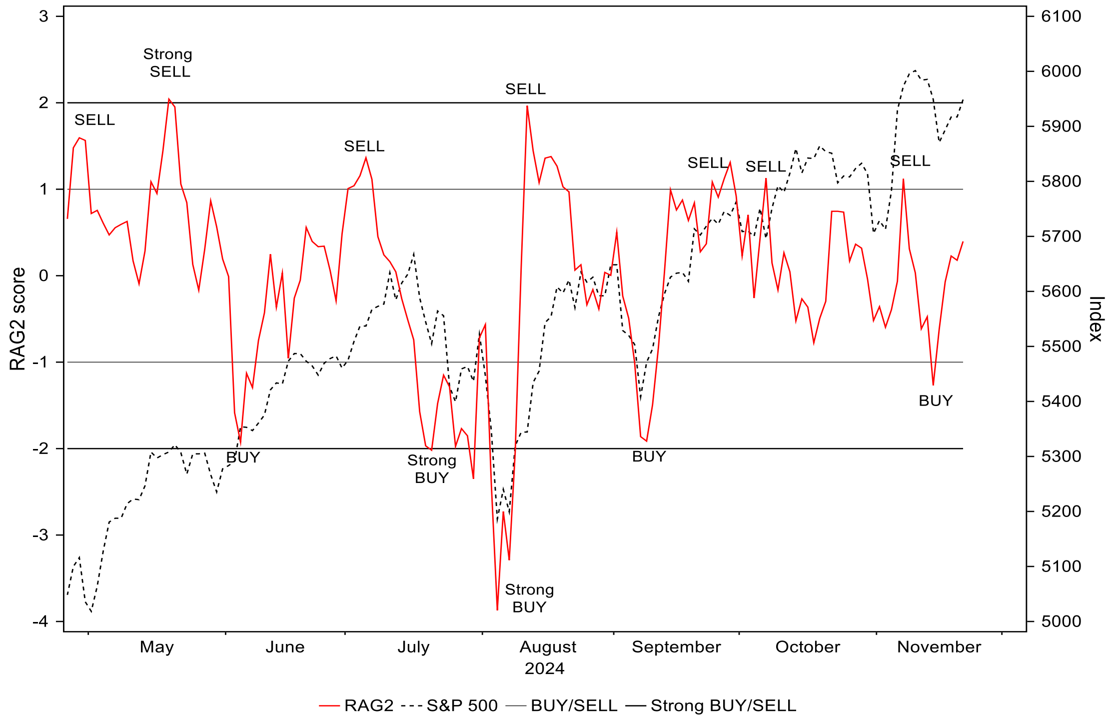
Fig 2a: RAG 1 vs. S&P 500



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

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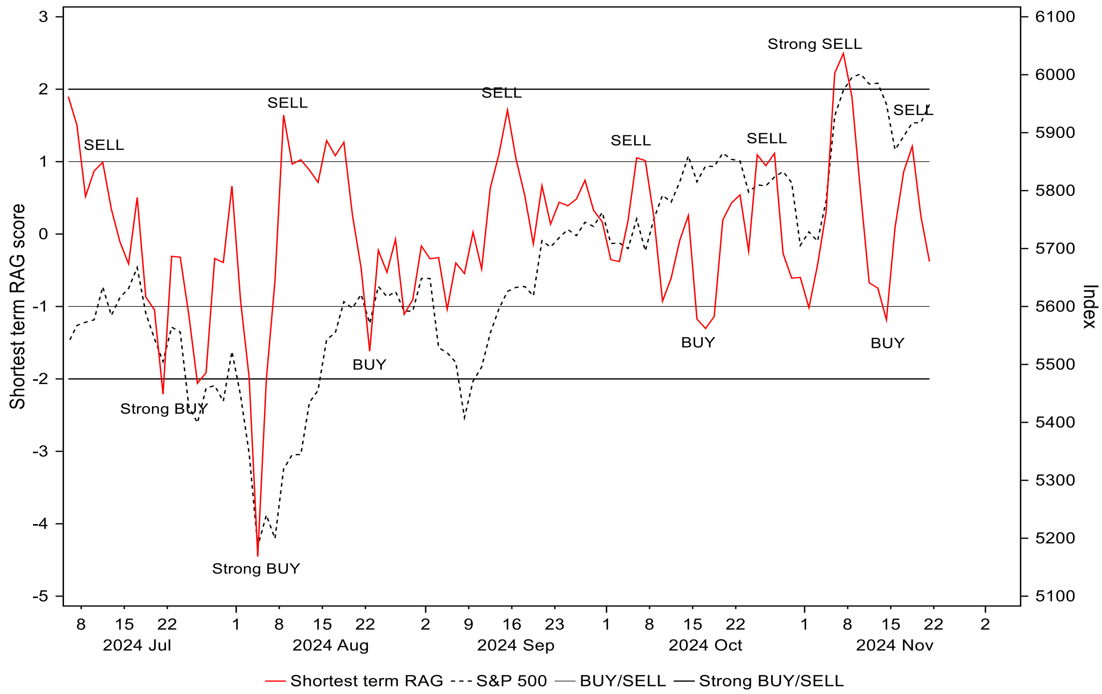
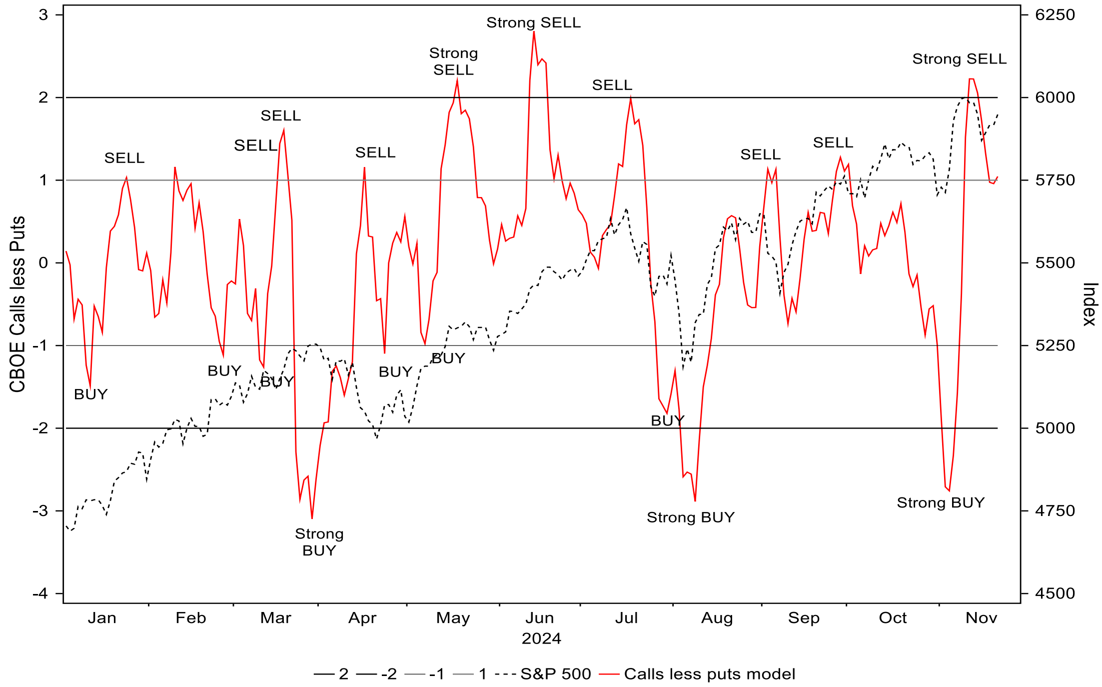
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

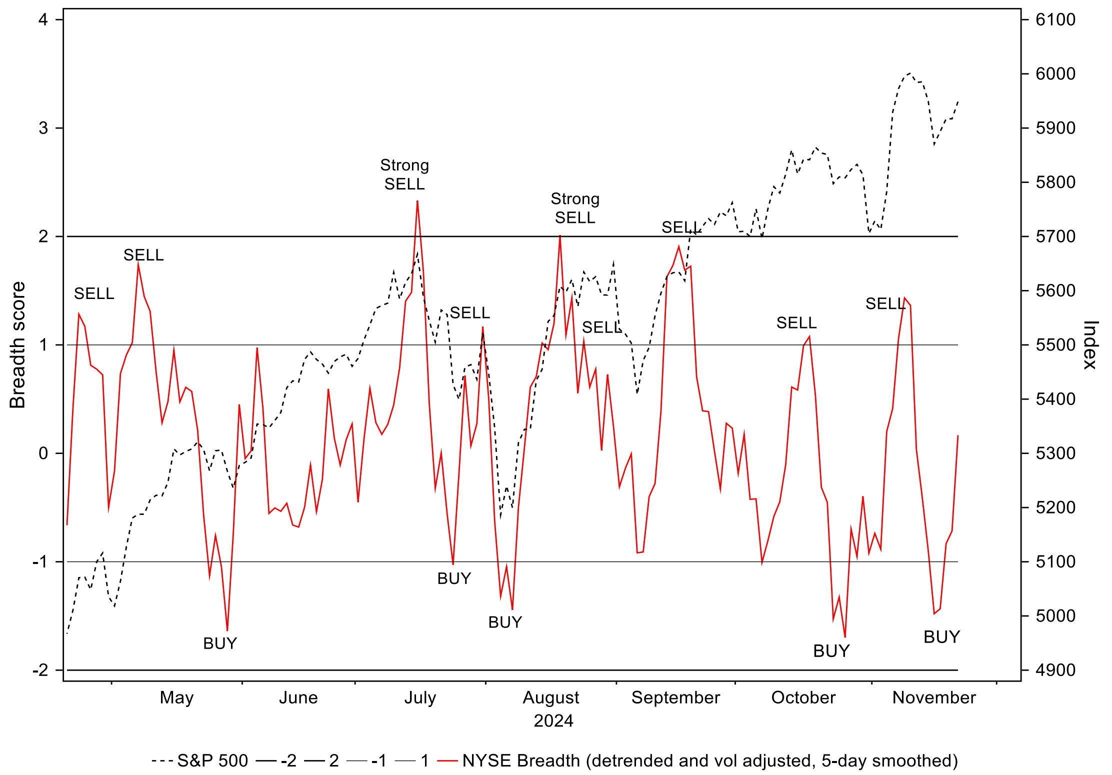


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



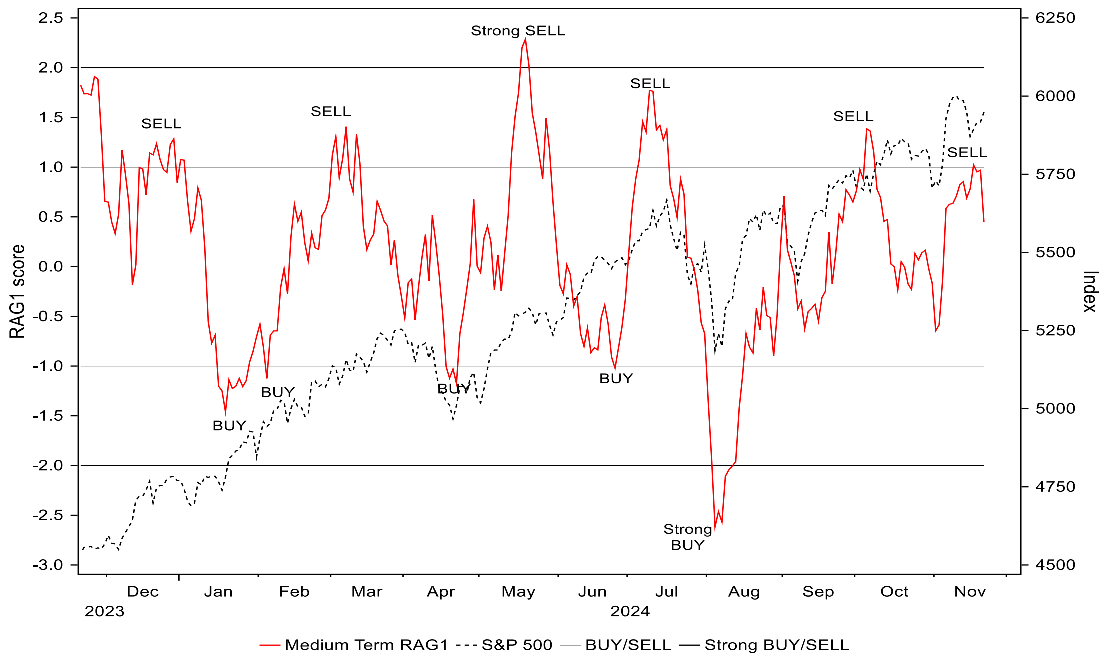
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

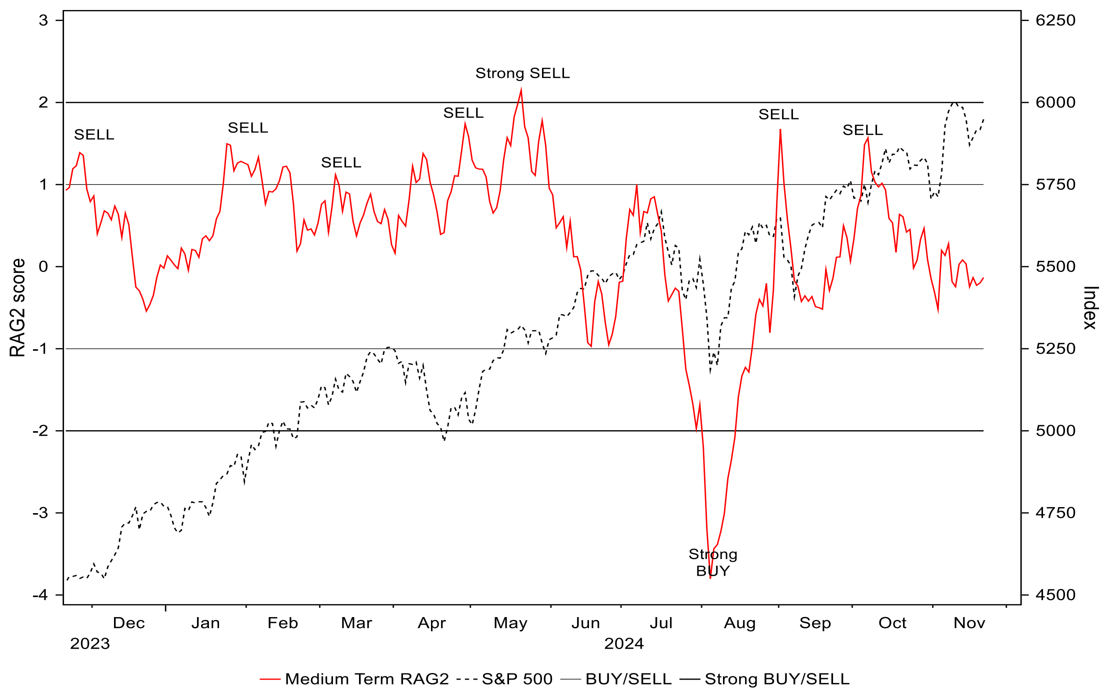
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

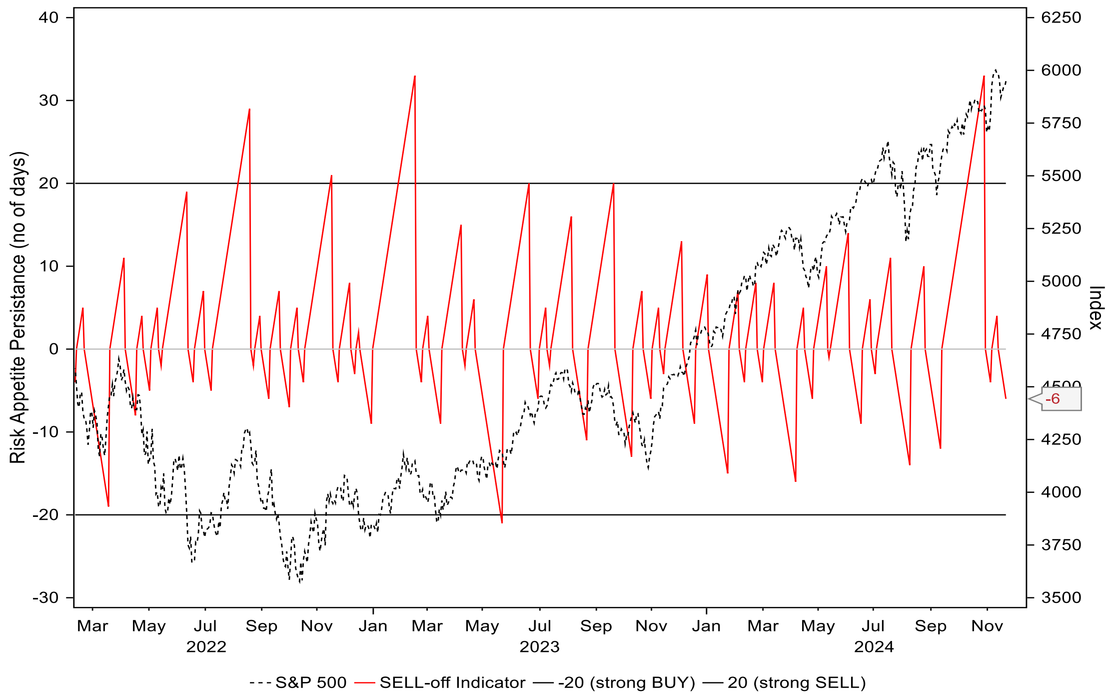


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

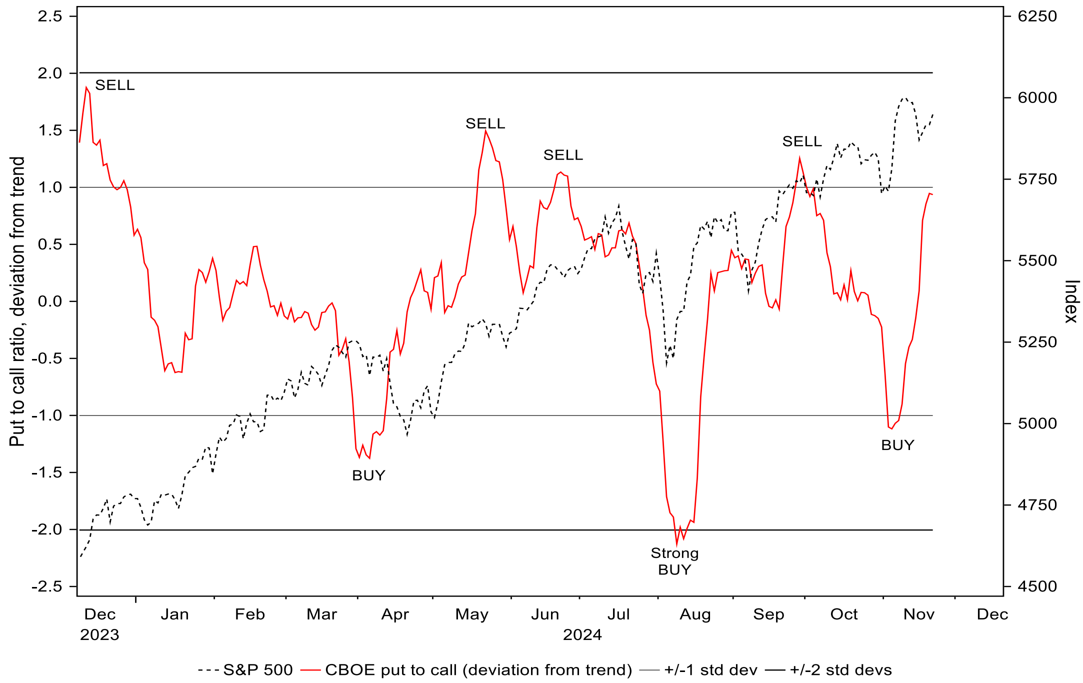
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

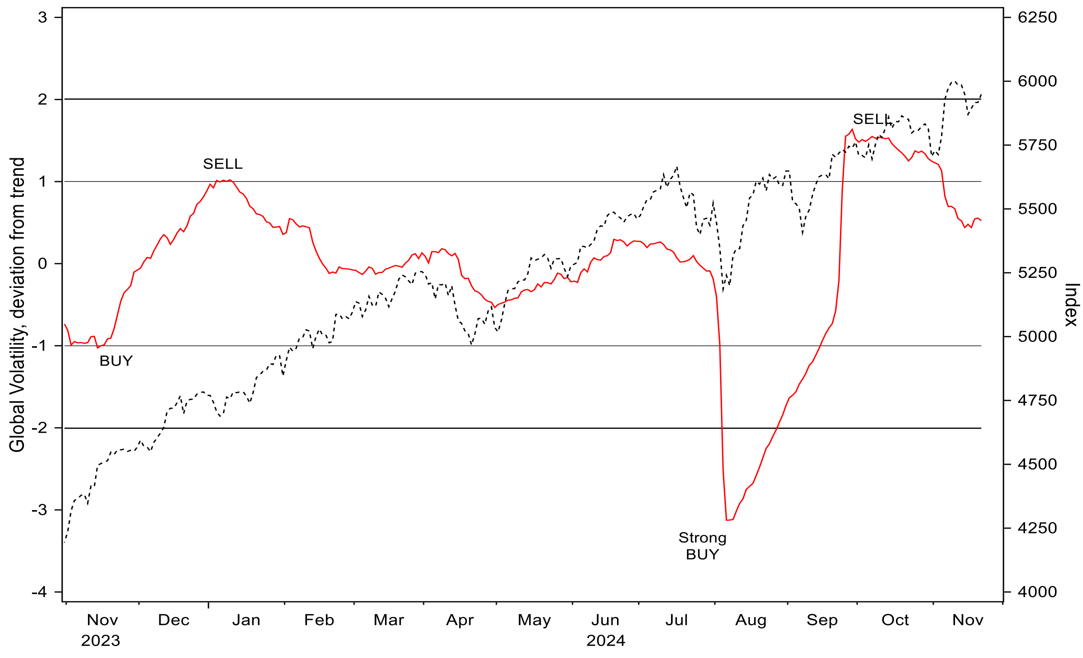


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

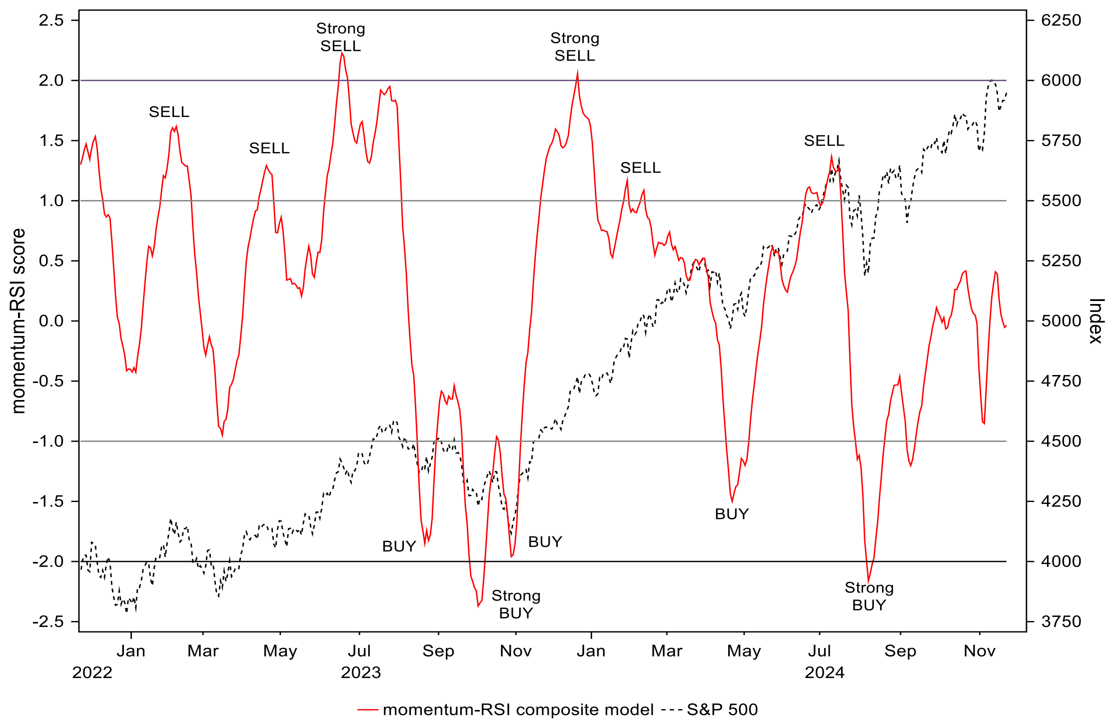
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

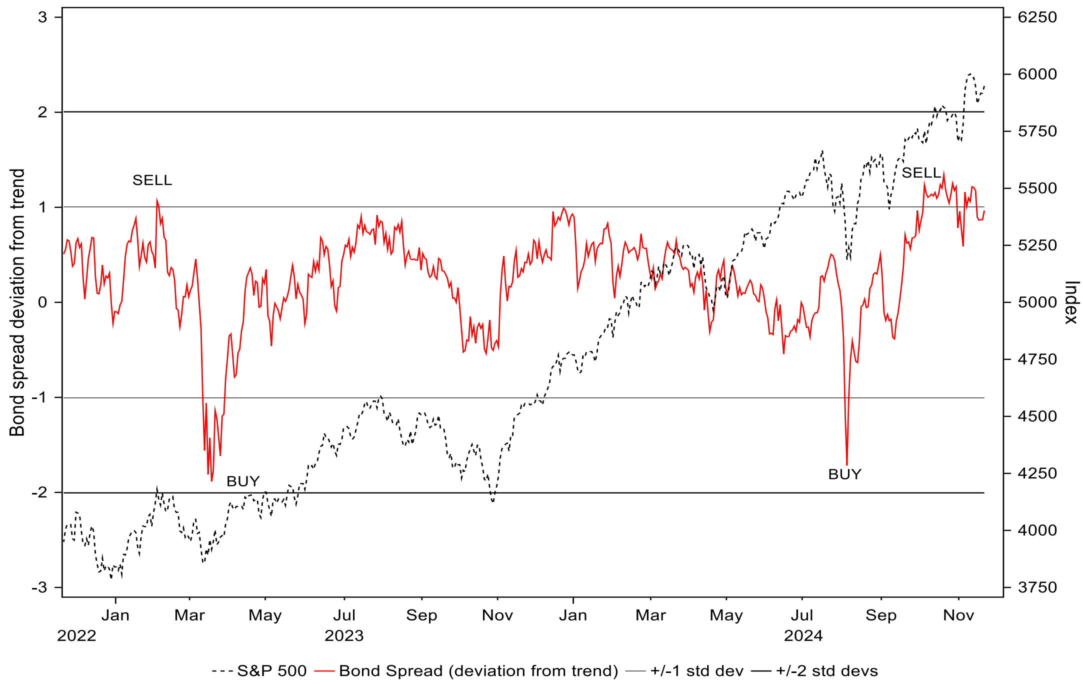
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

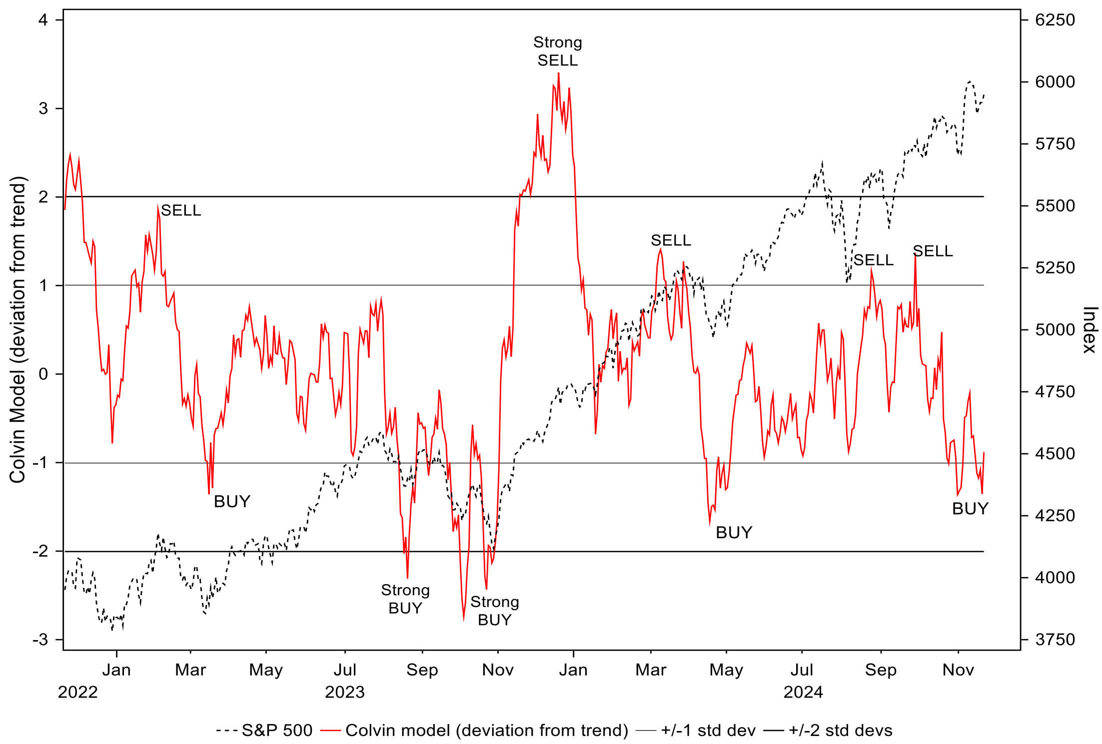
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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