Equity Index Futures Trading Recommendations

23rd December 2024

"Keep BUILDing LONG positions"

Email: info@longvieweconomics.com

Christmas and New Year publication schedule for Daily Risk Appette Gauge emails: We will publish a full daily email tomorrow and then updated models with limited commentary through to 2nd January (on London business days).

Merry Christmas and Happy New Year.

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

- Stay 1/3rd LONG S&P500 March futures (entry was at 5,895.75).
- Increase to ½ LONG at current prices.
- If markets retest last week's intraday lows, then increase to 2/3rds LONG (at 5,875.0).
- Implement stop loss 2% below initial entry (i.e. at 5,777.75).

Rationale

Markets bounced on Friday as the better-than-expected PCE inflation data triggered strength in risk assets, reversing some of the weakness from earlier in the week. That weakness had been generated by the Fed's inflation and rates forecasts (SEP) as well as by Powell's comments at his press conference (see last week's Daily Risk Appetite Gauge publications for detail).

Friday's core PCE inflation, coming in at 0.1% (m-o-m) versus expectations of 0.2% provided some pushback on that narrative, triggering that relief rally: The S&P500 closed +1.1%; NDX100 was +0.8%; while all 28 US headline indices that we track closed higher on the day. All top-level S&P500 sectors were also positive, along with all industry groups. US bond yields (1, 2 & 10 amongst others) all eased modestly; volatility pulled back sharply, with the VIX having its biggest one-day percentage fall since August (FIG 1b); and the US dollar sold off.

As laid out in Friday's email, the short-term models were highlighting the likelihood of a bounce in equities/risk assets:

> "**All of the above, therefore, supports an expectation of at least a bounce** – which is likely to start today or in the next 1 – 2 trading sessions. That bounce might either last a handful of trading sessions (i.e. 4 or 5); OR continue for several weeks (i.e. if the uptrend resumes/Santa rally etc.). Those are the two most likely outcomes, at this juncture."

Source: Friday's Daily Risk Appetite Gauge email (20th December)

The majority of those short-term models, that were on BUY at the back end of last week, remain similarly set-up: The risk appetite scoring system, the S&P500 (& global) technical scoring systems, as well as other technical indicators, for example, all remain on, or close to, BUY (see FIGs 2 to 2e). The degree of downside hedging in portfolios did pick up last week (although the model didn't reach BUY levels) and remains mid-range (FIG 3). Also of note, over the weekend, the US government funding bill was passed (thereby averting the shutdown risk).

Seasonally, this time of year is typically positive for equity markets (Santa rally etc.). Volumes usually start to fall away as traders have by now mostly closed down books for 2024 (FIG 1). That adds to the likelihood that this market drifts higher into year end. The model backdrop supports that expectation (as highlighted above). Some risks remain, as always. Medium term models are also, though, starting to move onto BUY. The steepness of the volatility curve and the percentage of stocks above their 50 day moving averages, for example, are two models which are now generating medium term BUY signals (see FIGs 1c & 1d).

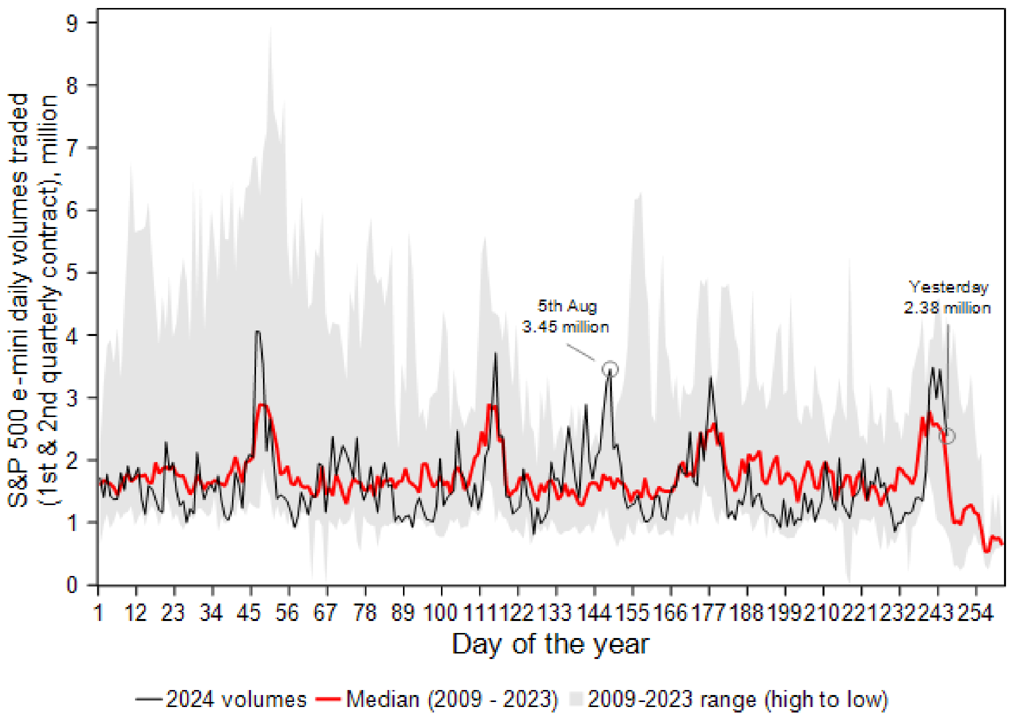
As such, we recommend STAYing LONG S&P500 futures, ADDing to the position size at current levels (and increasing on any renewed weakness if forthcoming). See trading recommendation above.

A full list of today's key macro data & events is outlined below.

Kind regards,

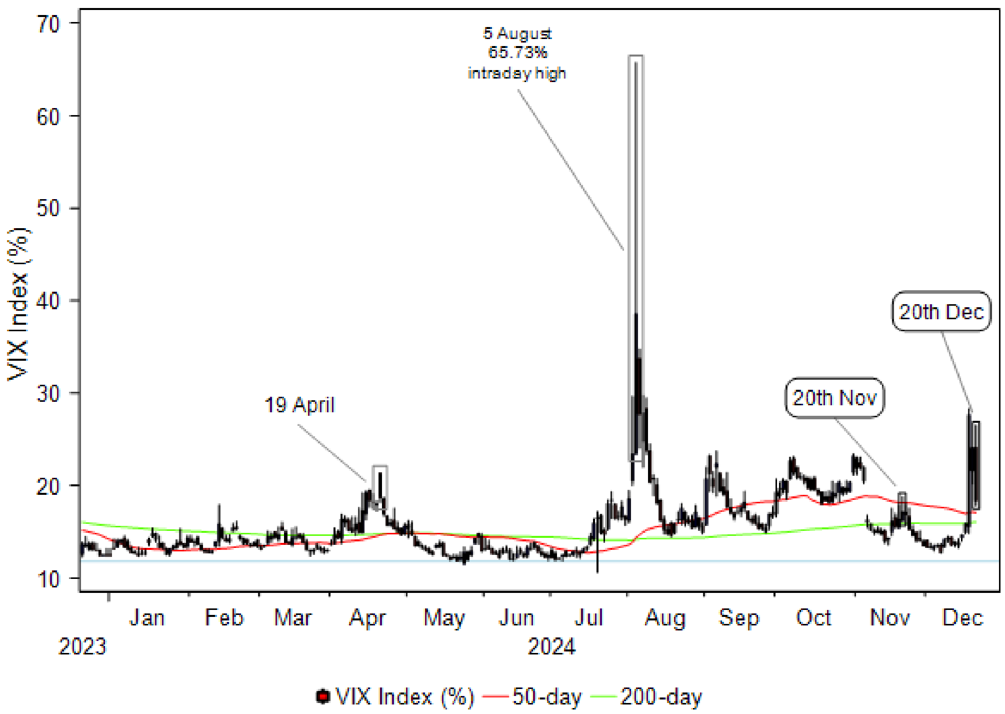
The team @ Longview Economics

FIG 1: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



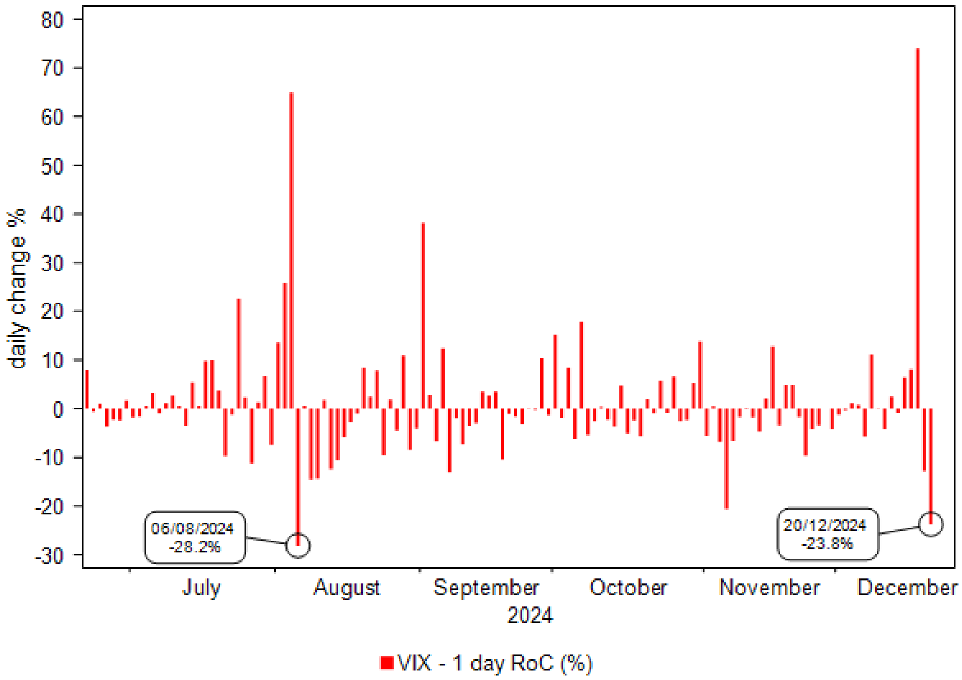
Source: Longview Economics, Macrobond

FIG 1a: VIX candlestick chart shown with key moving averages



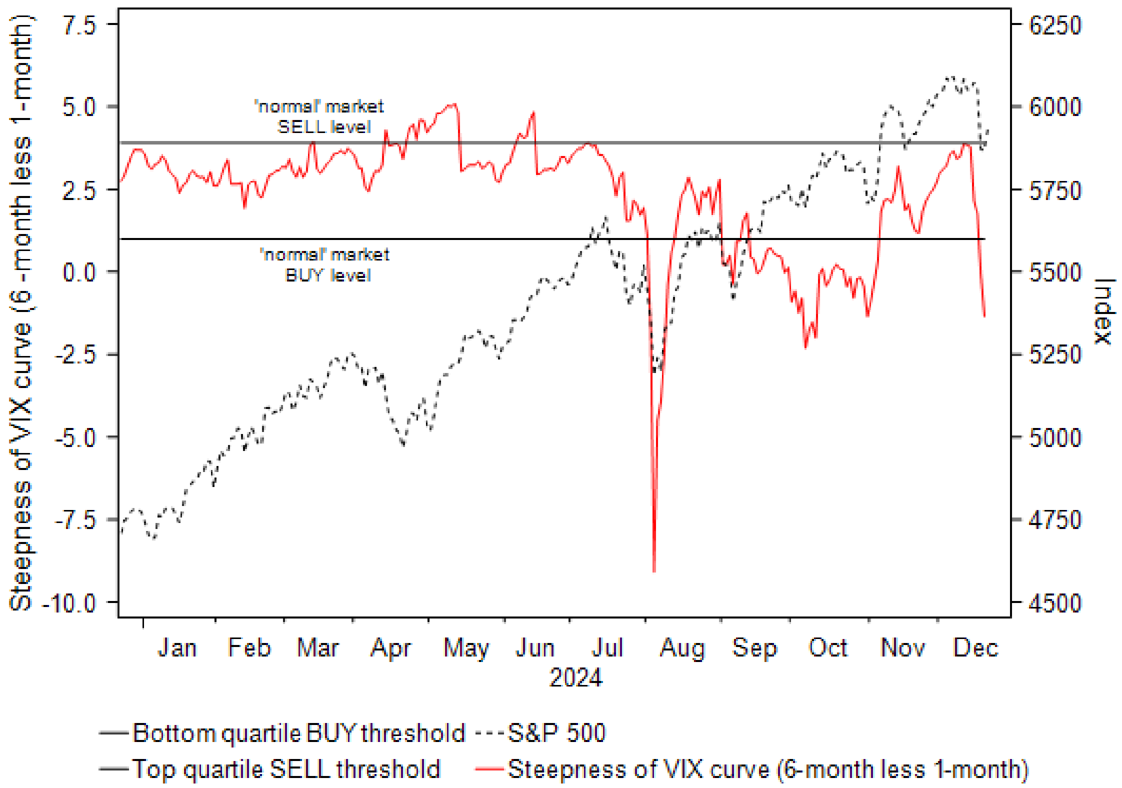
Source: Longview Economics, Macrobond

FIG 1b: VIX one day returns (%)



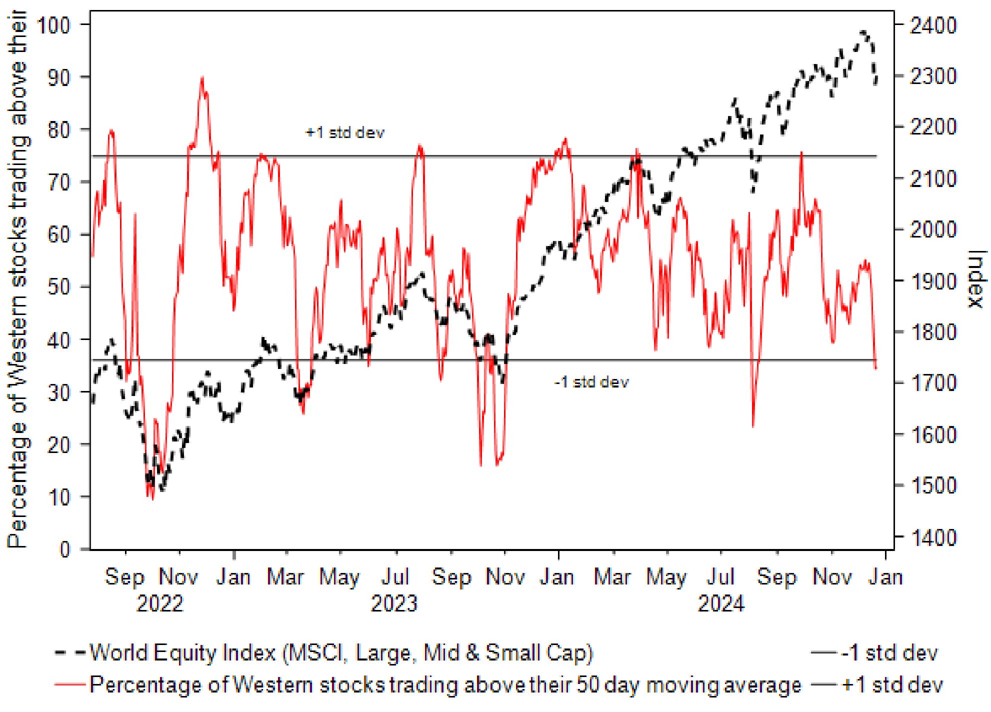
Source: Longview Economics, Macrobond

FIG 1c: Steepness of VIX curve (6 less 1 month futures) vs. S&P500



Source: Longview Economics, Macrobond

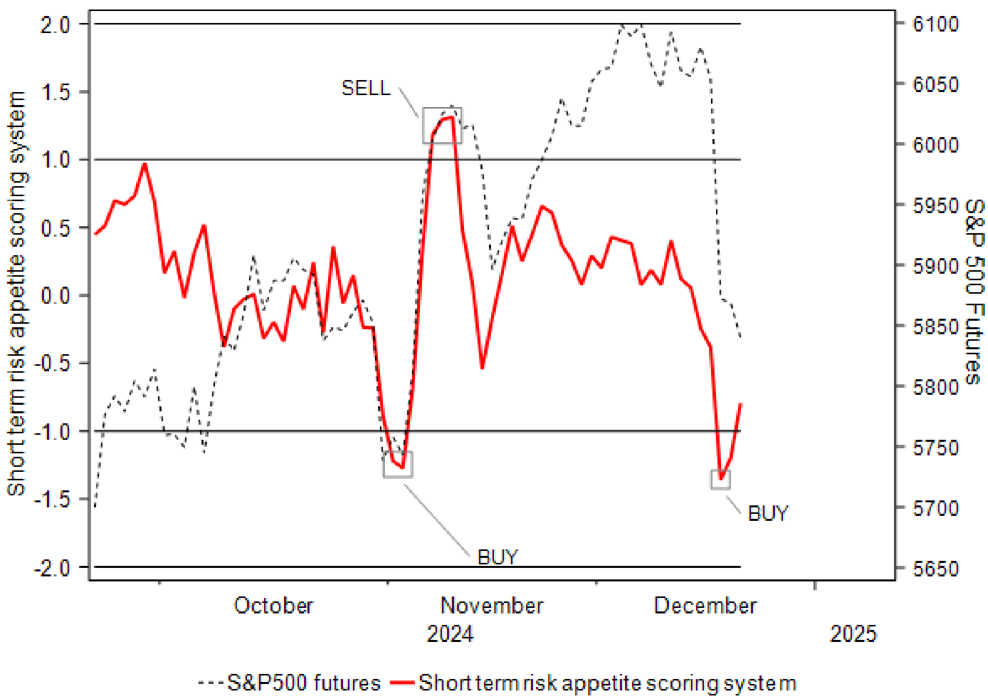
FIG 1d: Proportion of US stocks above their 50 day moving average vs. S&P500



Source: Longview Economics, Macrobond

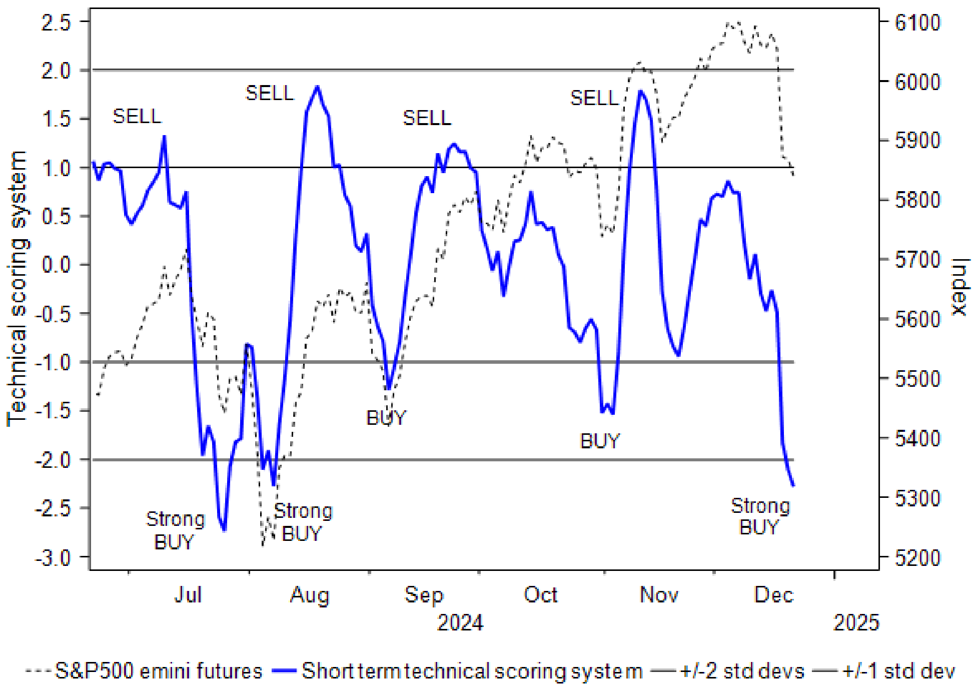
Short term market timing models are mostly on/close to BUY…

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



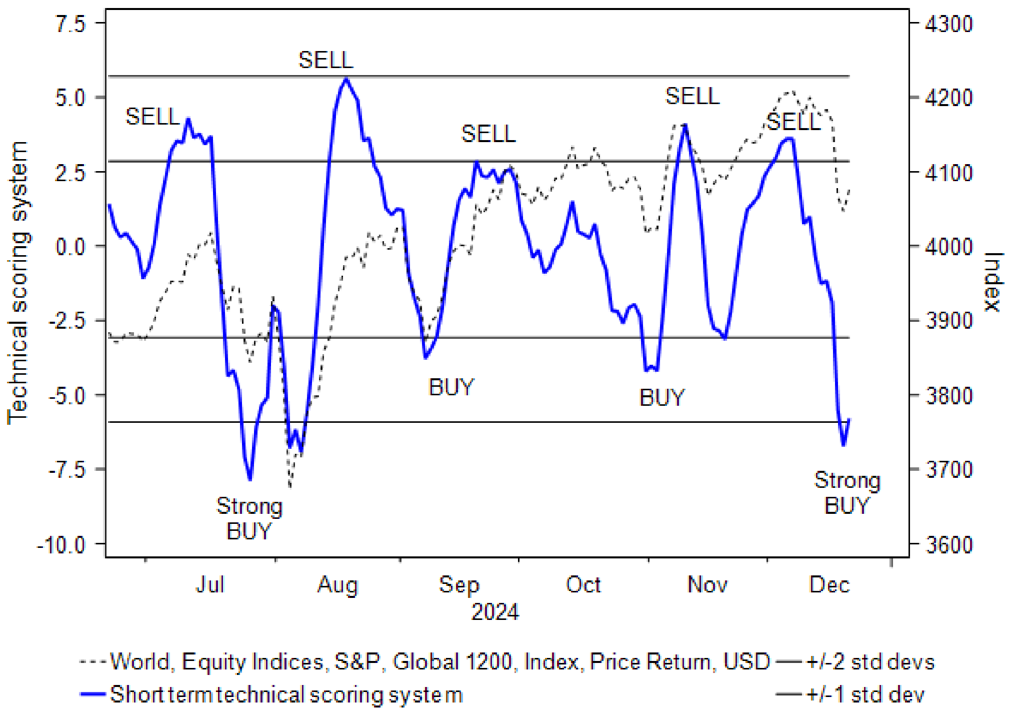
Source: Longview Economics, Macrobond

FIG 2a: Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures



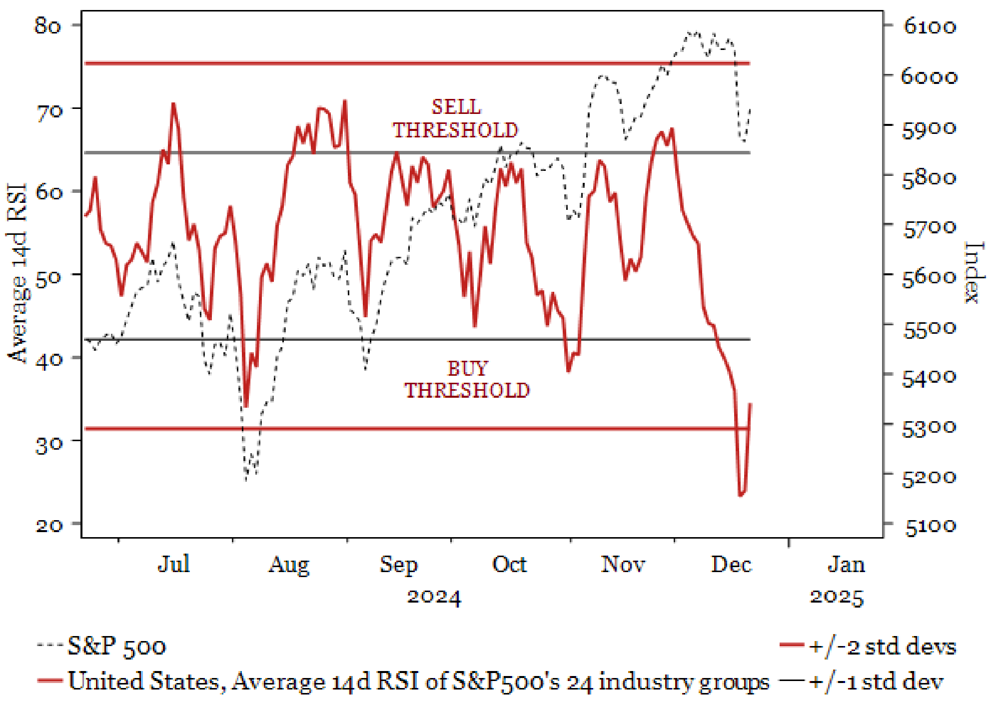
Source: Longview Economics, Macrobond

FIG 2b: Longview global short term **'technical'** scoring system vs. global equity index



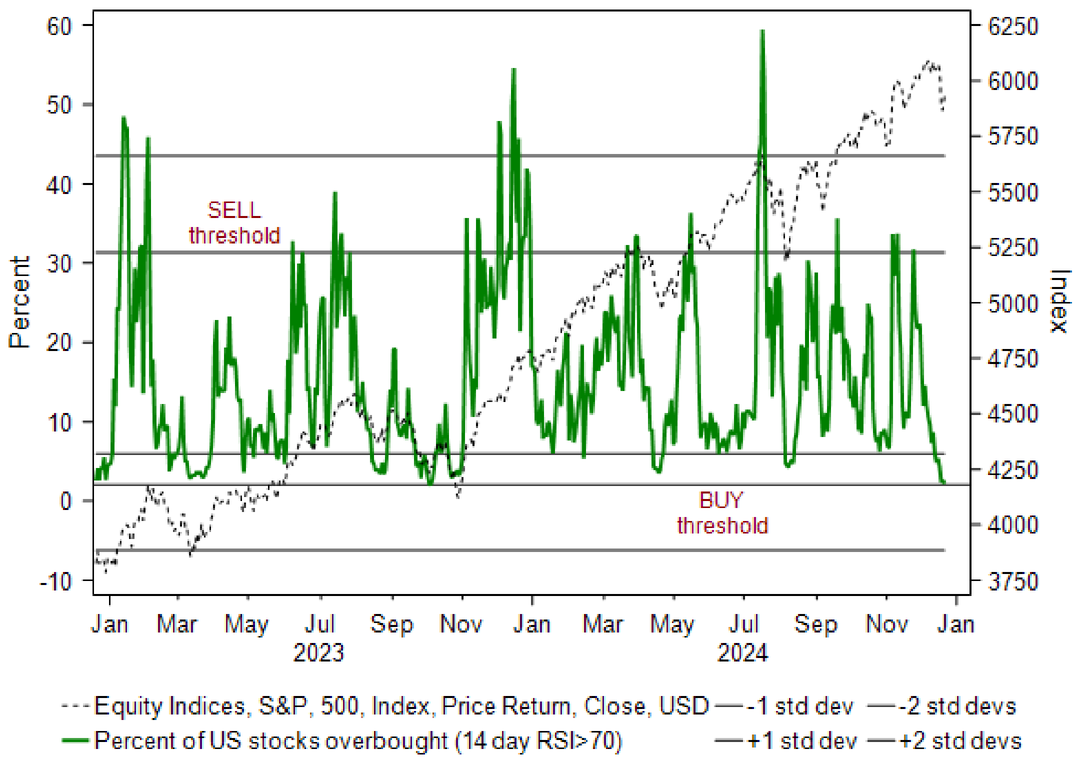
Source: Longview Economics, Macrobond

FIG 2c: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



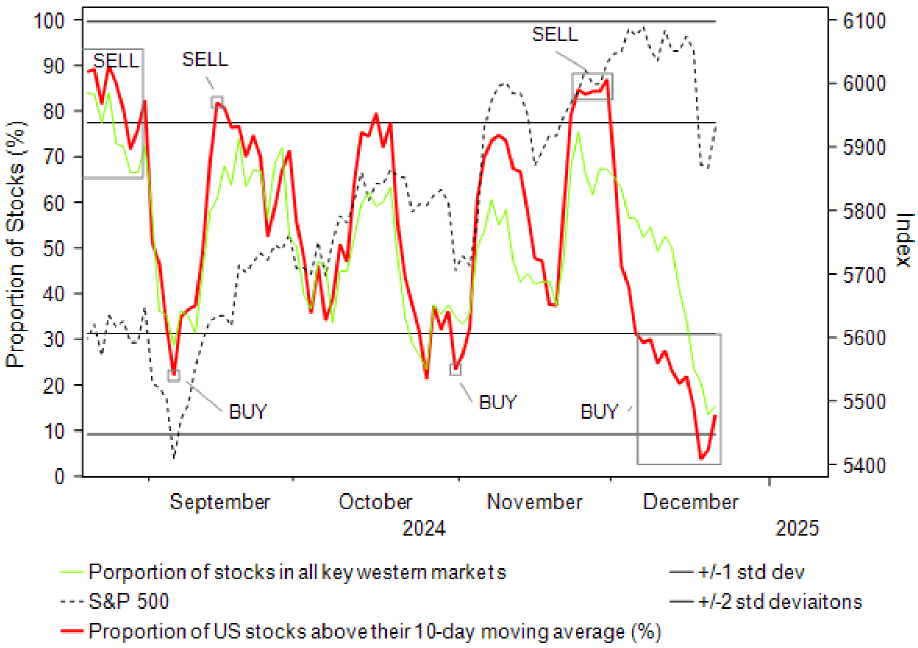
Source: Longview Economics, Macrobond

FIG 2d: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



Source: Longview Economics, Macrobond

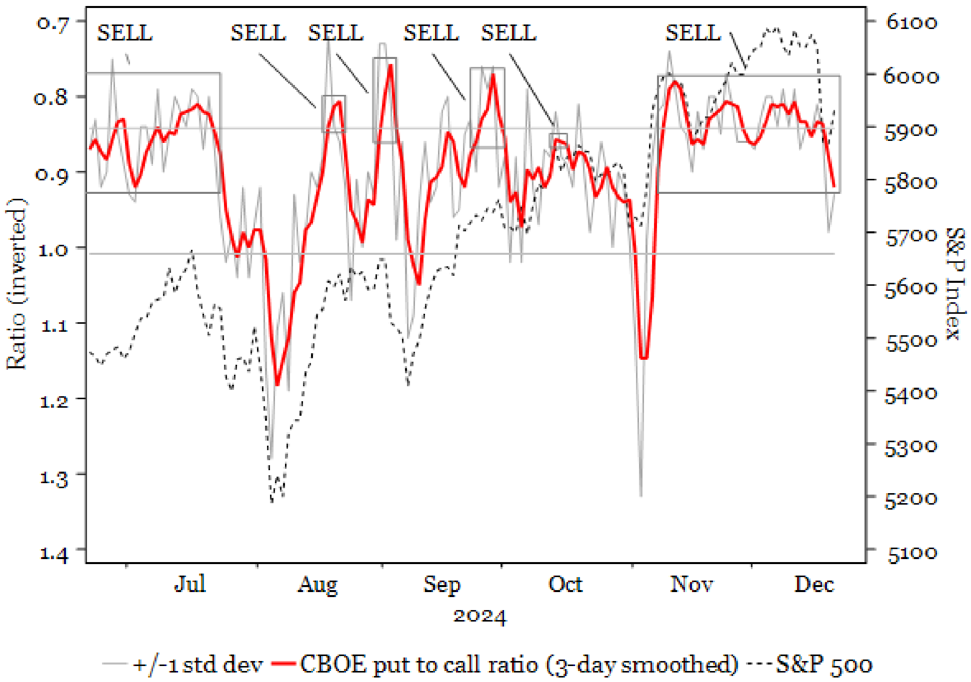
FIG 2e: Proportion of US/Western stocks above their 10-day moving average vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection in portfolios remains low…

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

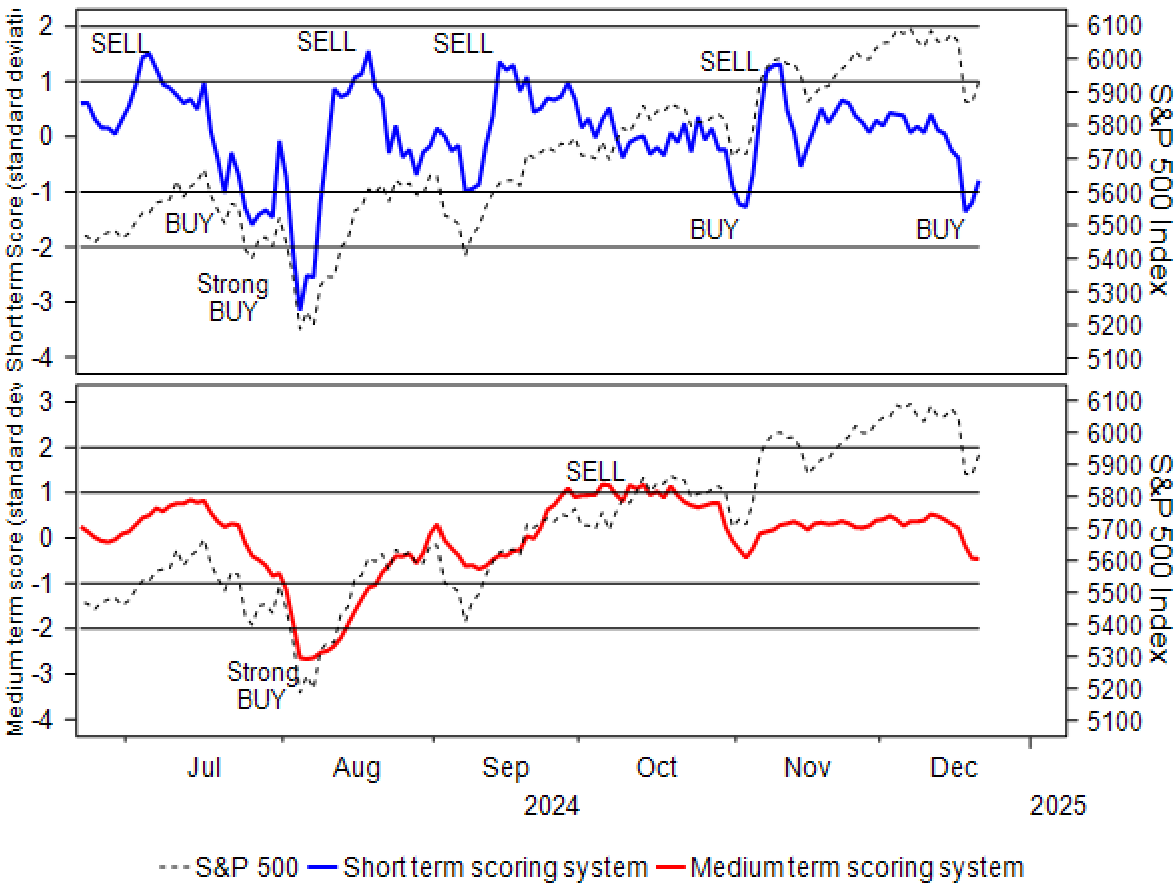


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from BUY last week)
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 Lloyds business barometer (Dec, 12:01am); UK GDP (Q3 final estimate, 7am); Spanish GDP (Q3 final estimate, 8am); Canadian GDP (Oct, 1:30pm); US Chicago Fed national activity (Nov, 1:30pm); **US Conference Board consumer confidence** (Dec, 3pm).

Key events today include: BOJ publishes minutes from October meeting (11:50pm).

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 earlier this month on 5th December 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

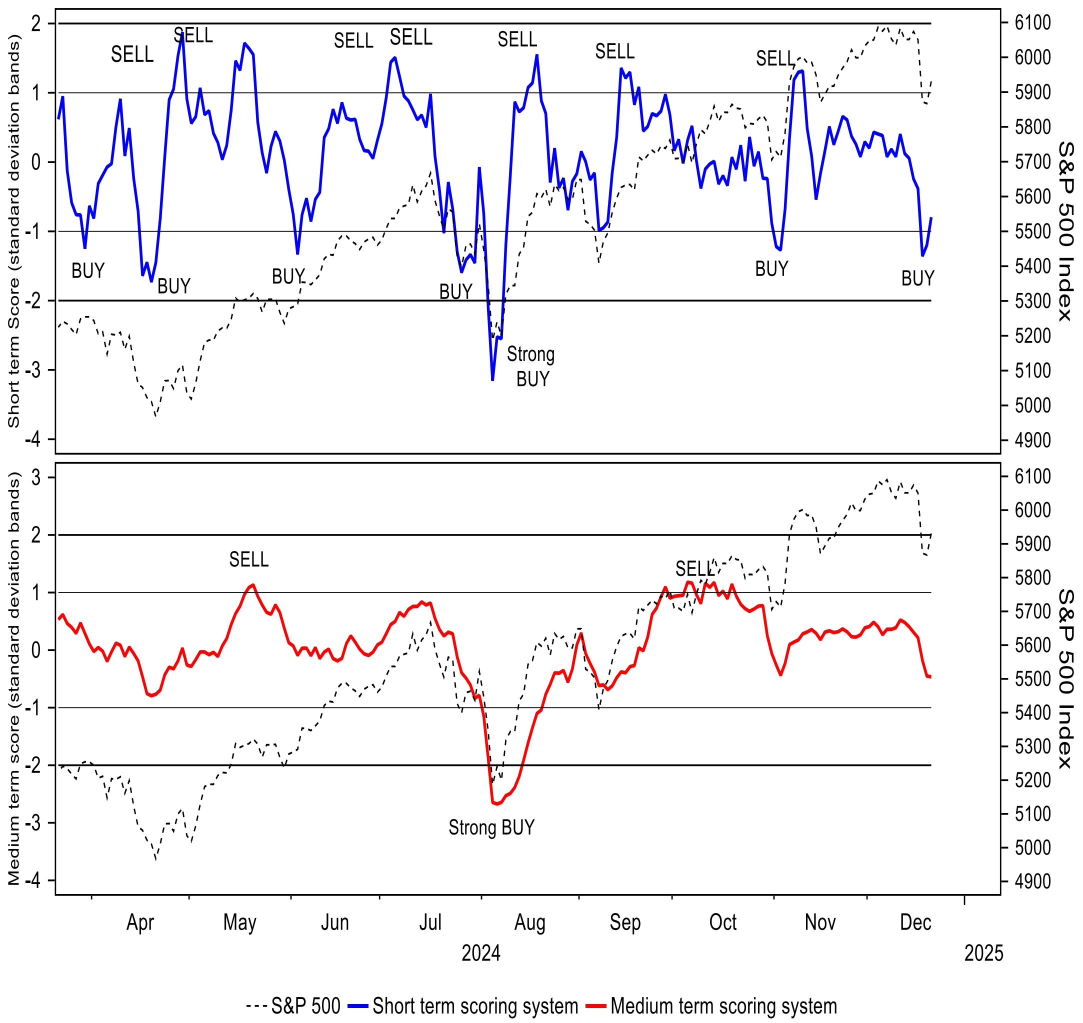
1 – 2 Week View on Risk

23rd December 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

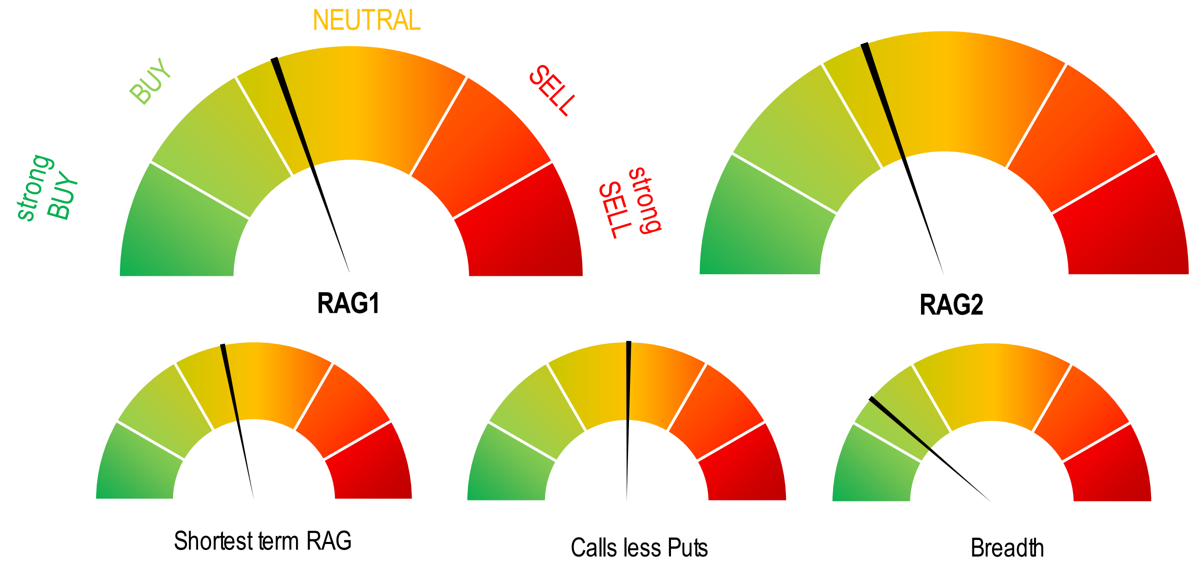
Source: Longview Economics, Macrobond

*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

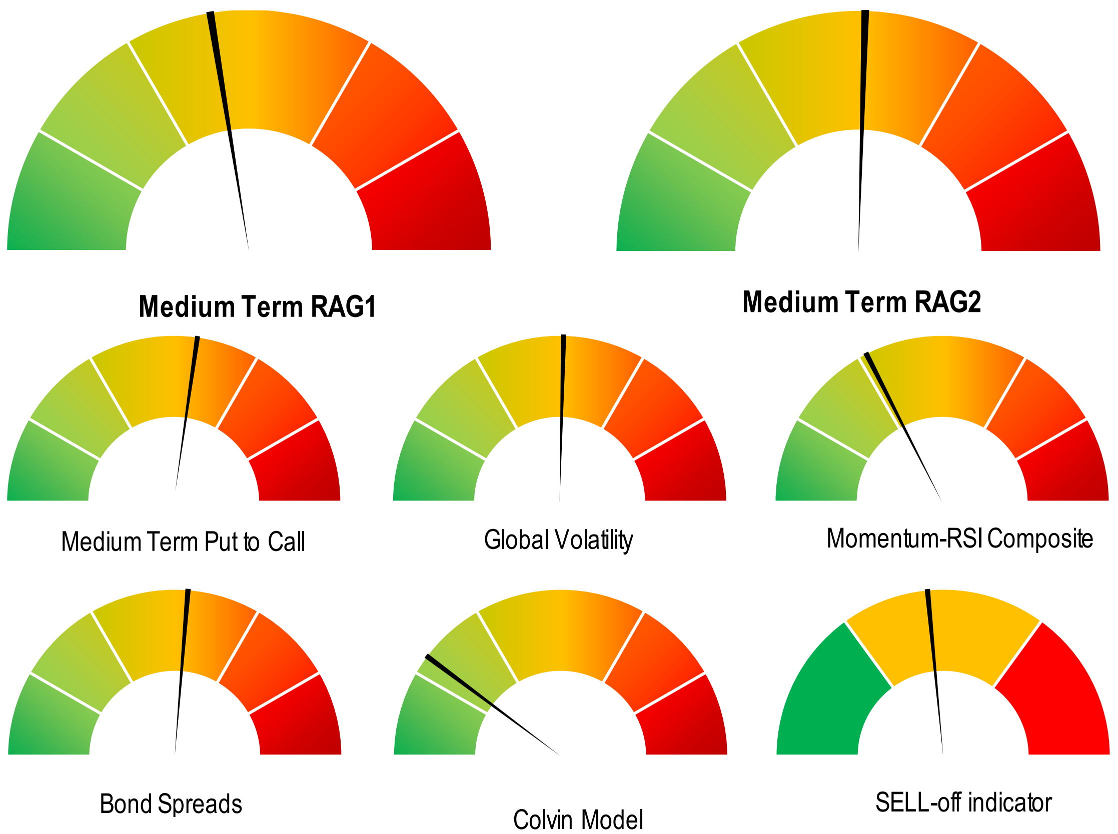
Section 1a: Summary of indicator signals**

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

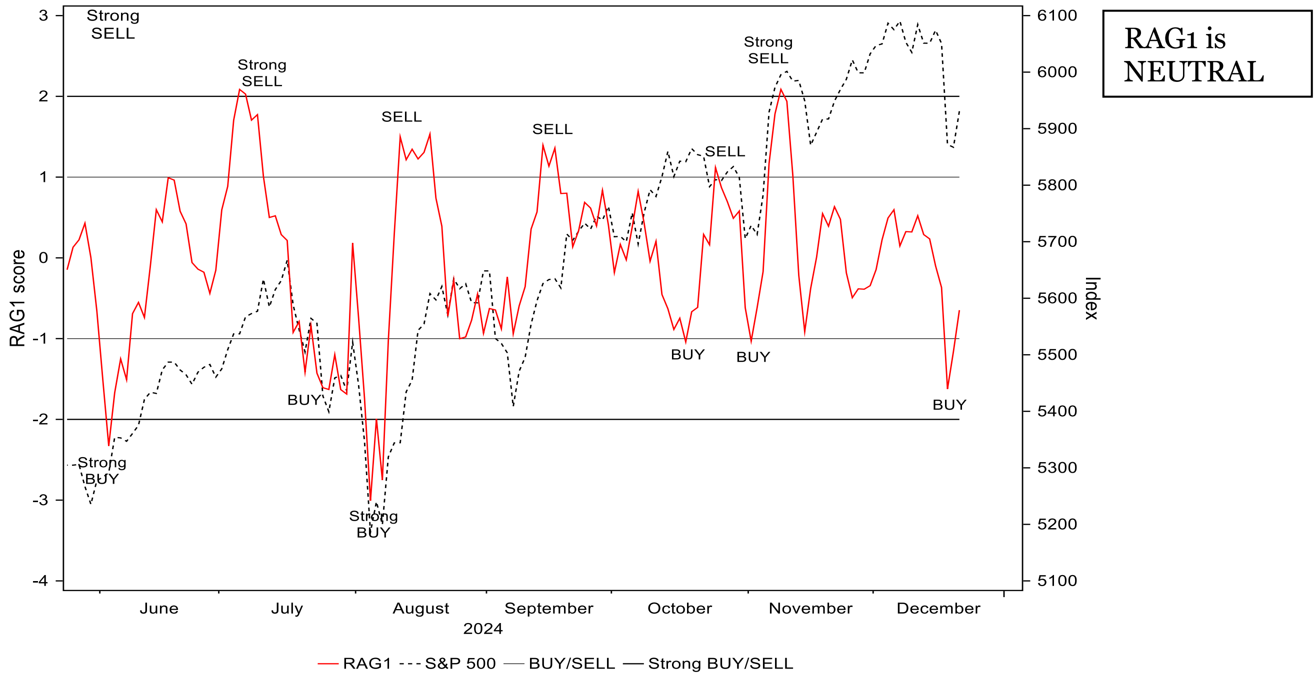


Source: *Longview Economics*

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

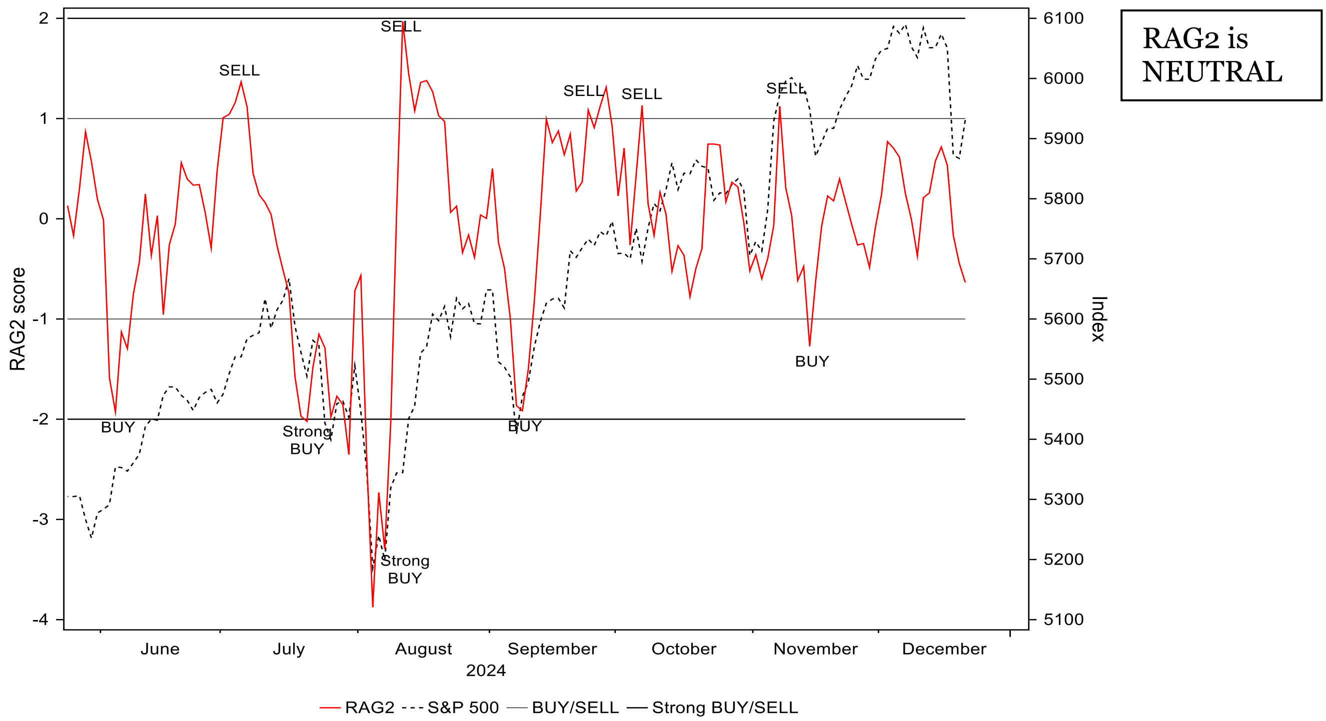
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

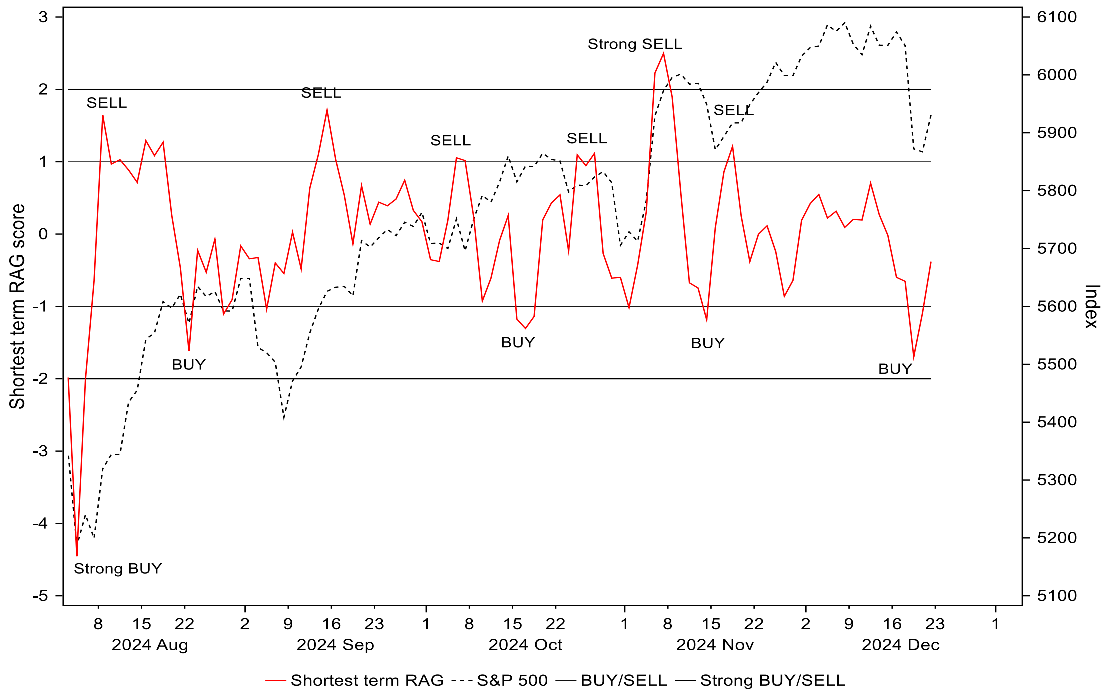
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

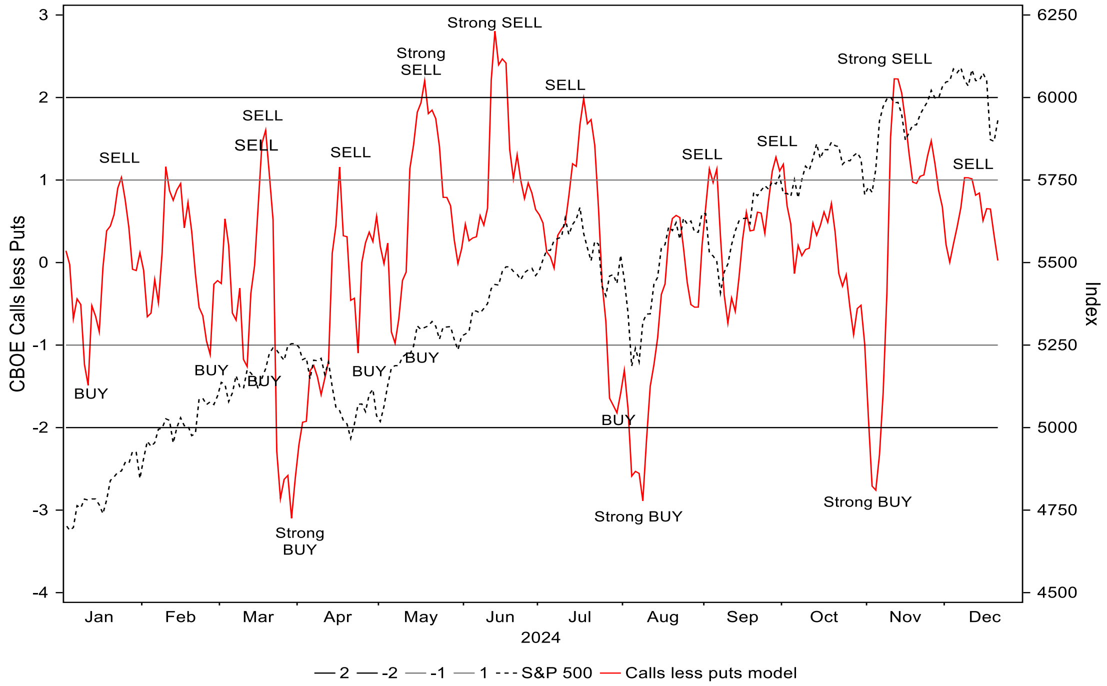
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

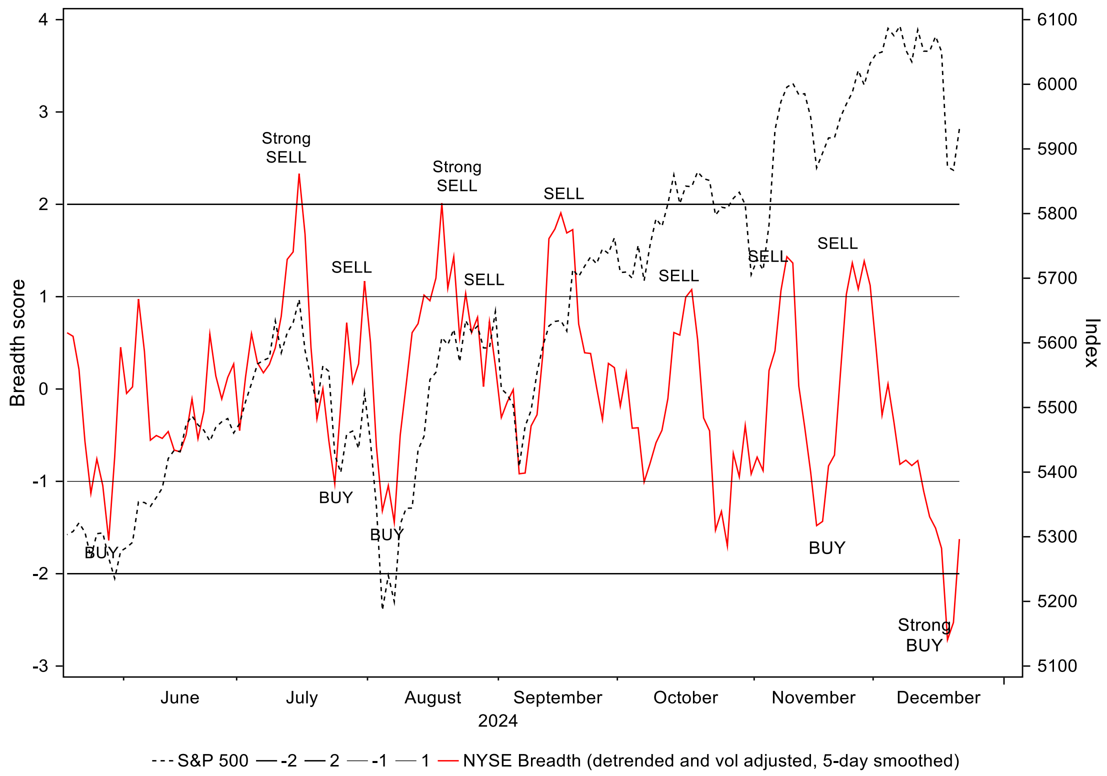


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



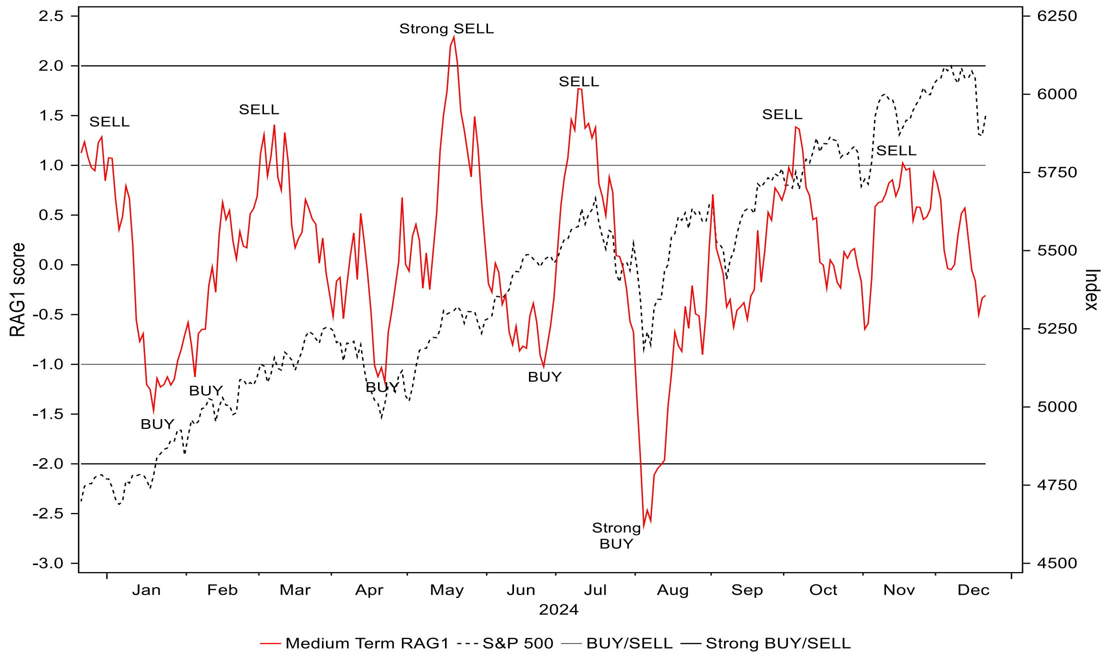
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

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

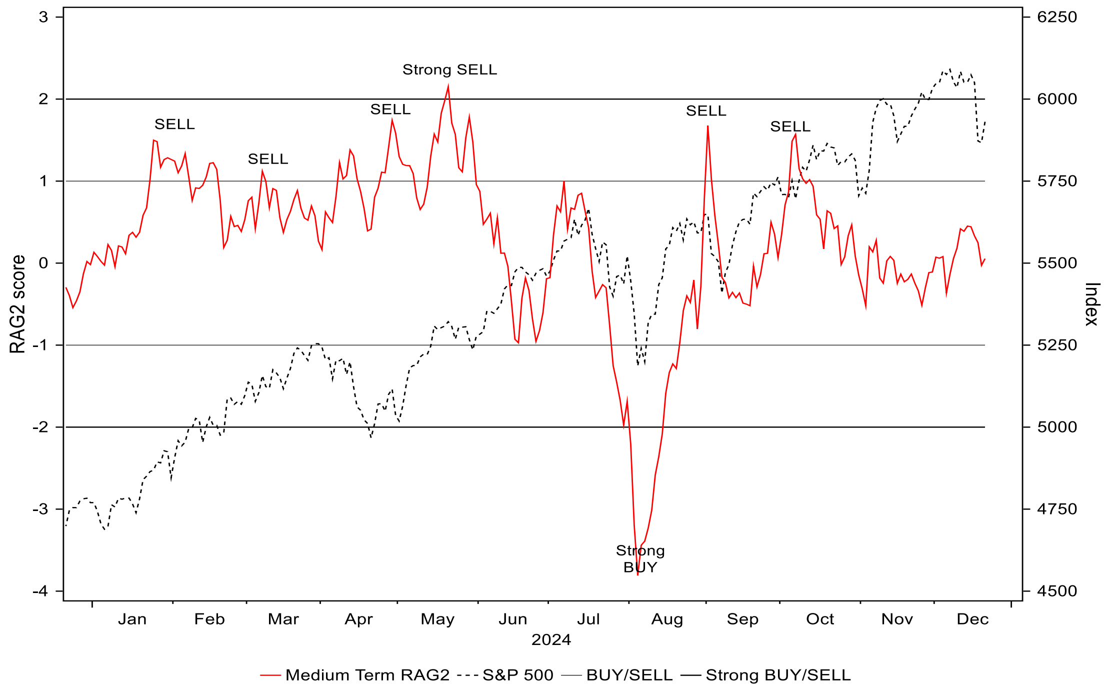
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

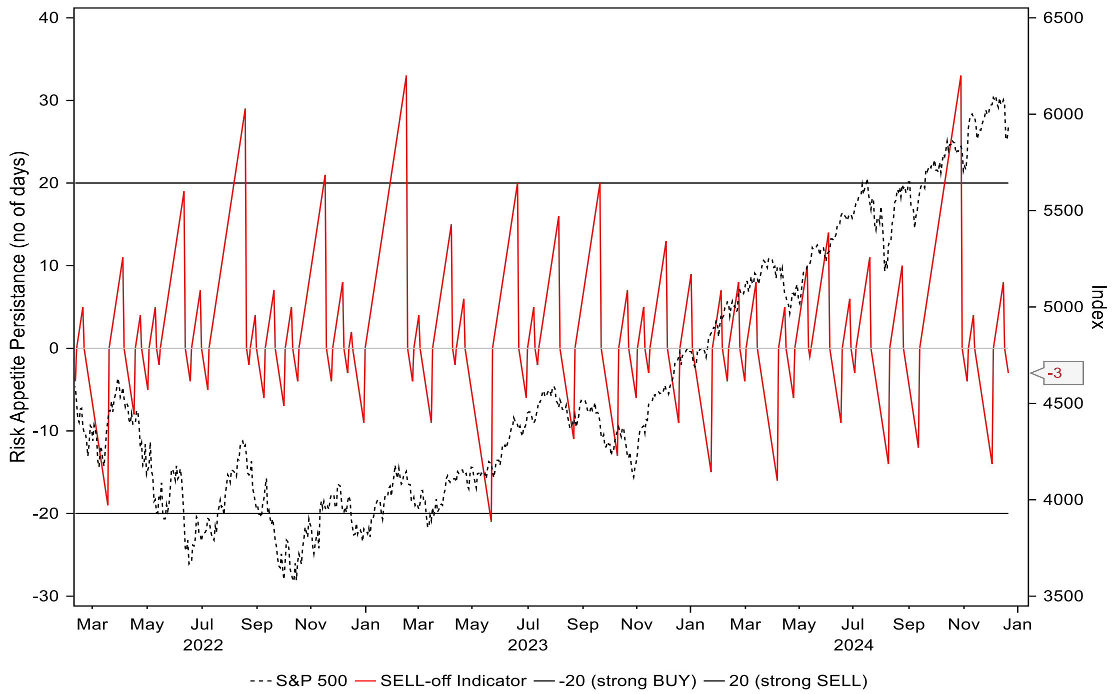


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

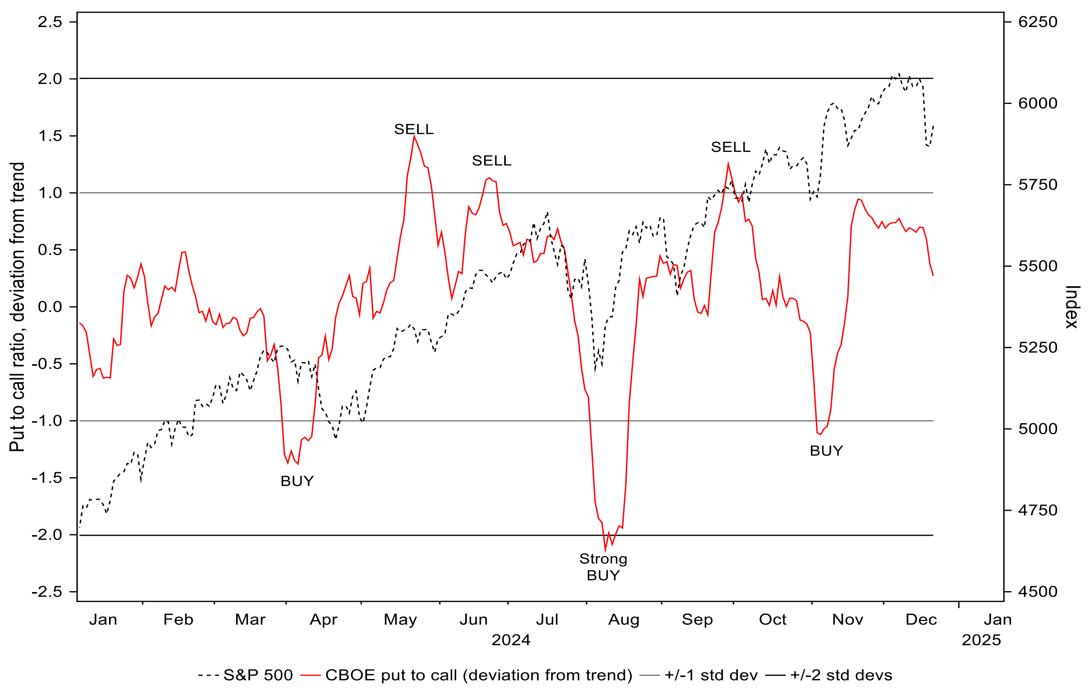
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

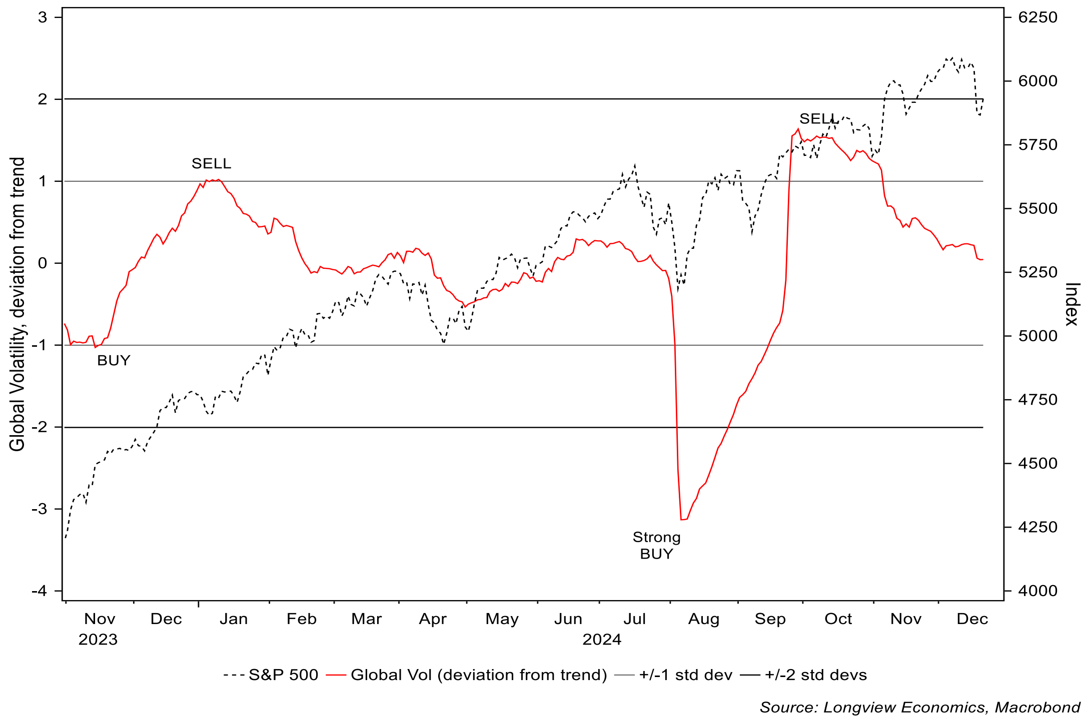


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

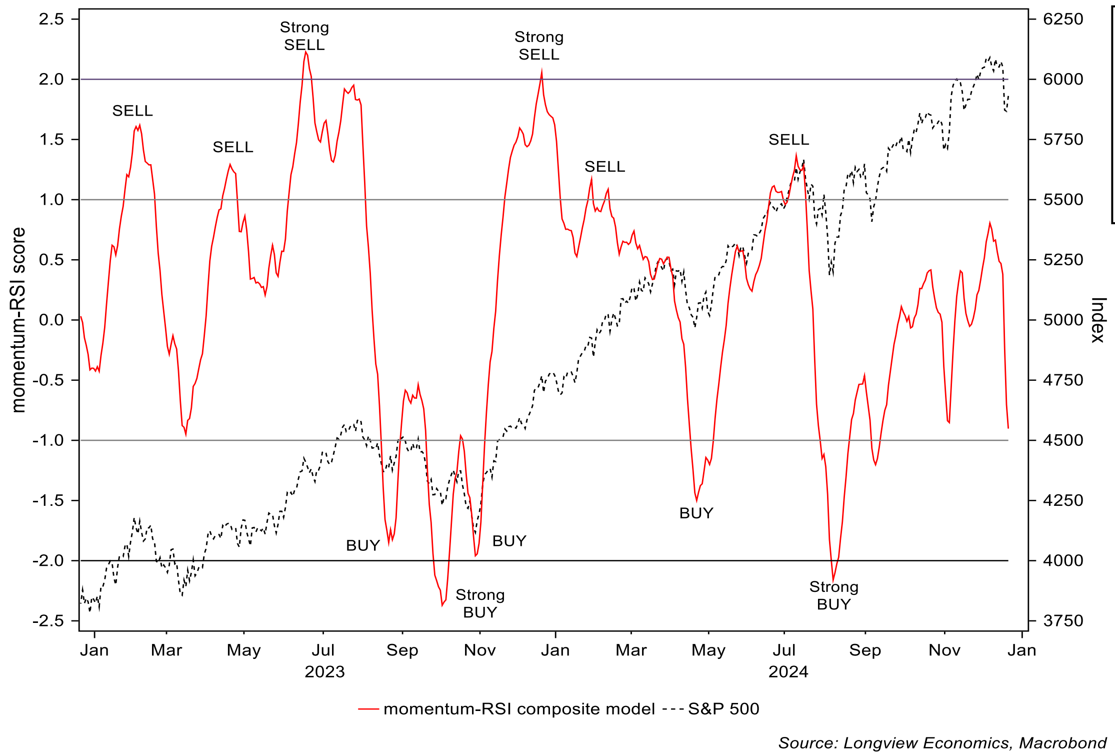
For explanations of indicators please see page 10

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



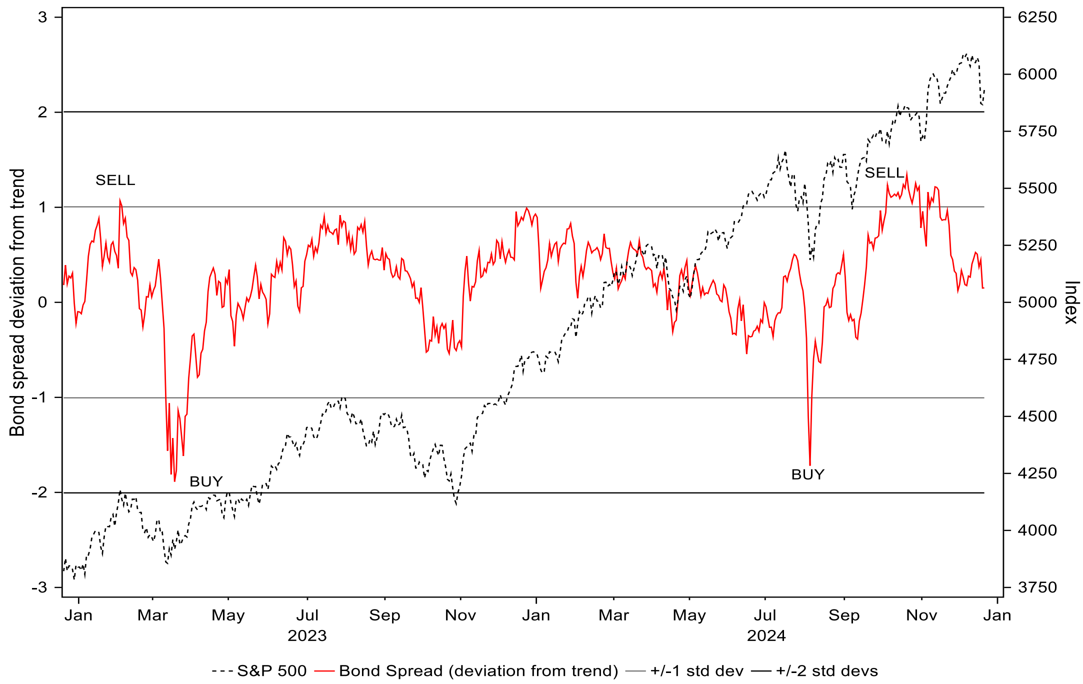
Global volatility indicator is NEUTRAL

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



US momentum RSI composite model is NEUTRAL

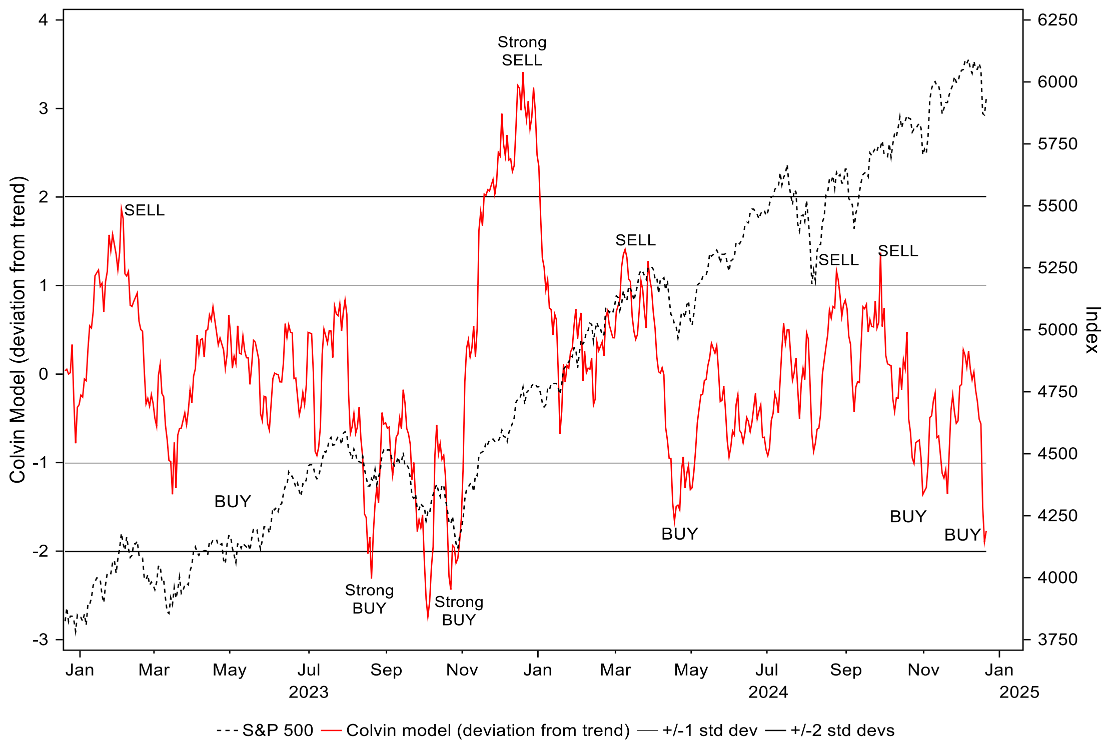
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 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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