

Equity Index Futures Trading Recommendations

"Stay SHORT SPX - Short Term Models on SELL"

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23rd January 2025

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

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

Rationale

US equities were mixed yesterday. In particular, growth heavy indices performed well, with strong gains in the NASDAQ100 (+1.3%); Philly SOX (+1.7%); and Nasdaq Computer index (+2.0%). Cyclical and defensives, in contrast, closed lower. That included weakness in cyclically sensitive indices like the Russell 2000 (-0.6%) and S&P400 (-0.4%). Defensives also closed down, with weakness in S&P sectors like Real Estate (-1.8%) and Utilities (-2.2%).

Overall, therefore, while the S&P500 edged higher on the day (+0.6%), the March futures have (so far) failed to break above their December highs (see FIG 1). Similarly, the S&P500 cash index tested its early December highs yesterday (intra-day – see FIG 1a), but has so far failed to break above them.

Our view remains unchanged from yesterday. That is, after strong gains in US equities this past week, this market is over-extended to the upside, with clear signs of frothiness/complacency. It's therefore vulnerable to some near term giveback (possibly from around current levels, which are close to/just below those December highs, i.e. key technical resistance for the S&P500).

That view is supported by the signals from our models, which have a **clear/across the board SELL message**: Our risk appetite models, for example, are on (or close to) SELL (FIGs 2 & 2a); downside put protection in portfolios is low (FIGs 3 & 3a); US equities are technically over-extended to the upside (FIGs 4 & 4a); momentum models are on SELL (e.g. see FIG 4b); while a number of key breadth, single stock, and price based models are also back on SELL (e.g. see FIGs 1b, 1c, and FIGs 5 & 5a). All of which suggests that recent upward momentum in US equities should fade/reverse over coming trading days.

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

Risks, as always, are multiple and include the possibility that the uptrend in US equities is resuming. In that scenario, the signals from our models are likely to be early (if not false). Reflecting that risk we recommend keeping the position size small (with a reasonably tight stop loss).

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

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 March 2025 futures 30-day tick chart shown with overnight price action

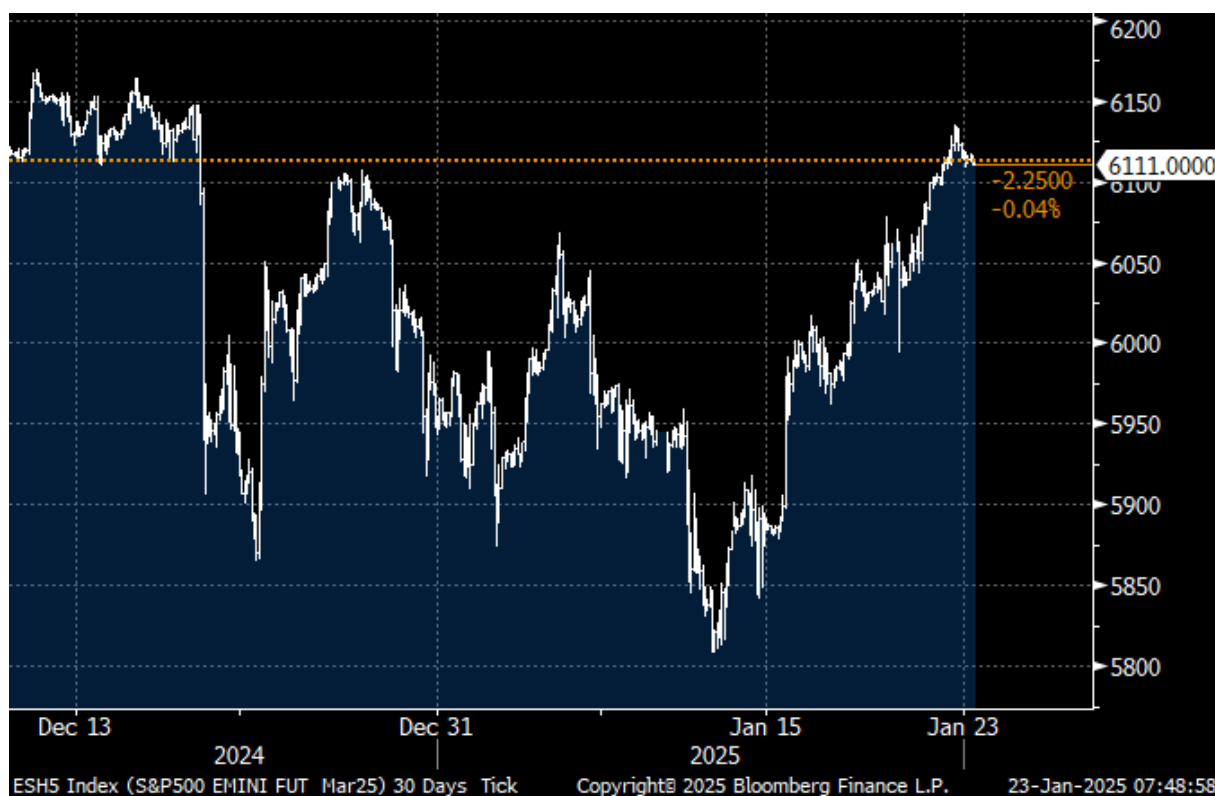


FIG 1a: S&P500 cash index candlestick, shown with 50 day moving average



FIG 1b: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500

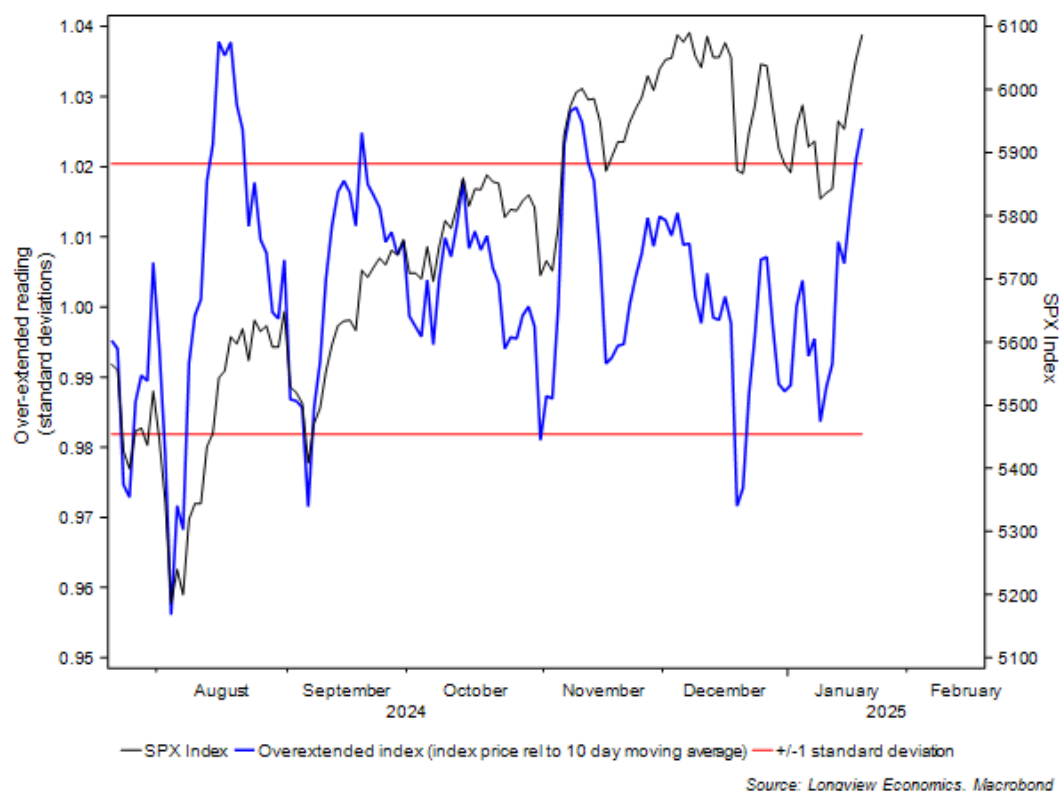
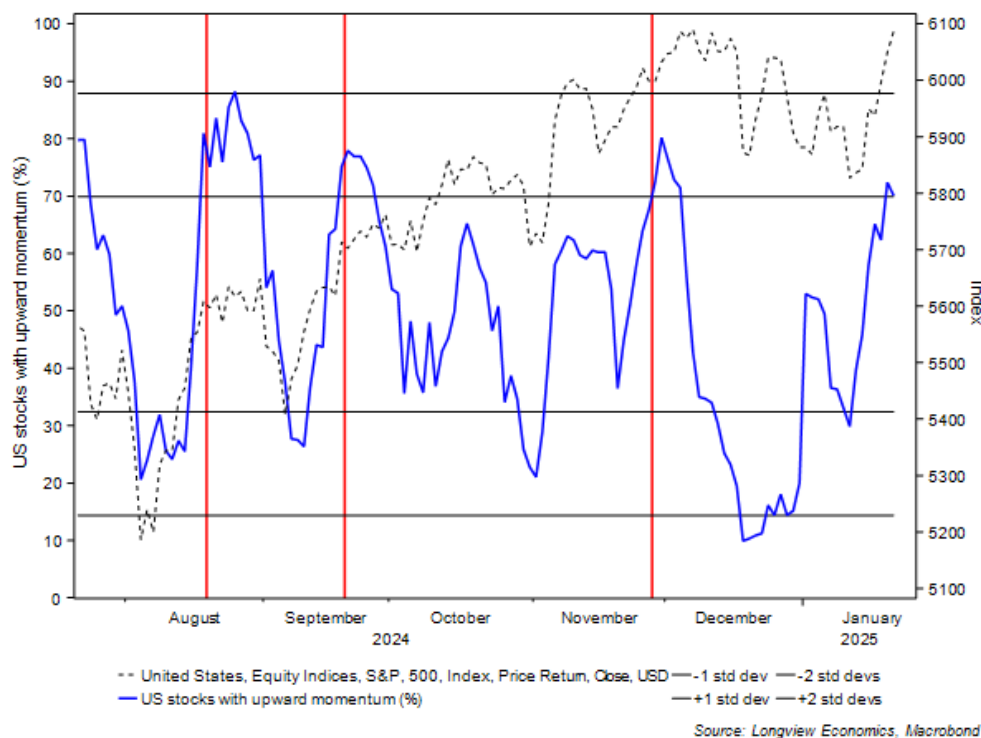


FIG 1c: US S&P500 stocks with upward momentum shown vs. S&P500



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

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

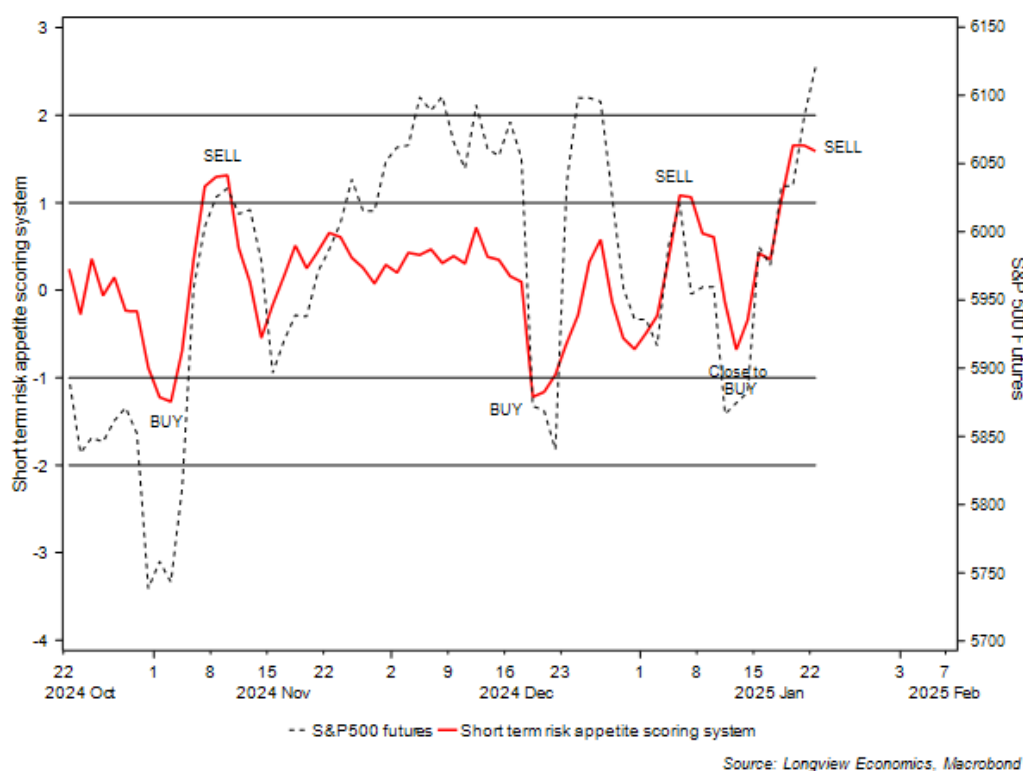
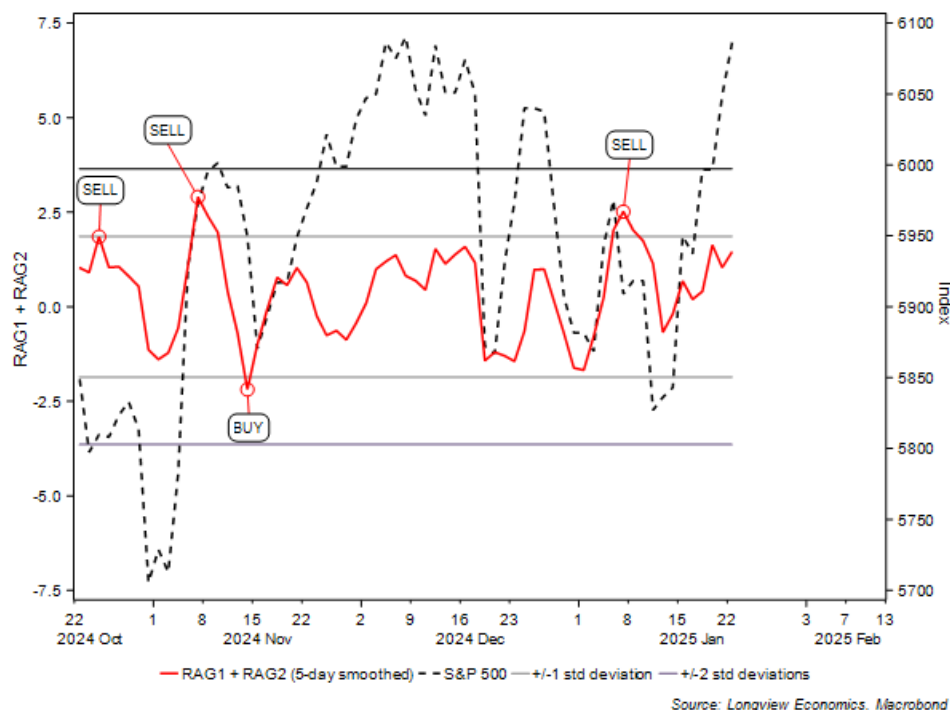


FIG 2a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



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

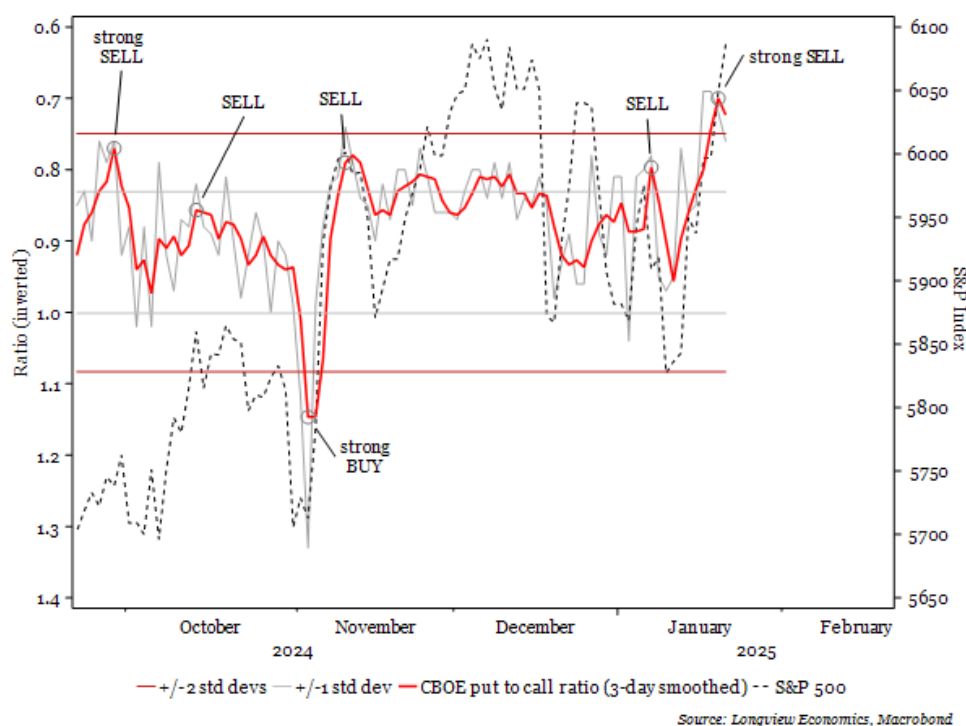
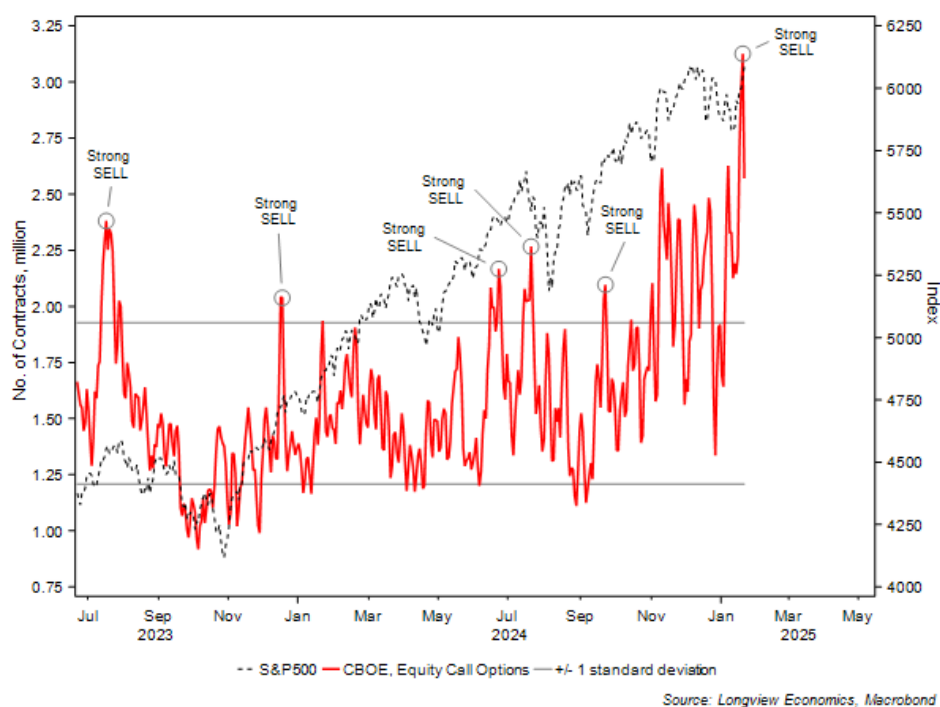


FIG 3a: Volume of outstanding CBOE ‘single stock’ call options (3 day smoothed) vs. S&P500



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

FIG 4: Longview S&P500 short term ‘technical’ scoring system vs. S&P500 futures

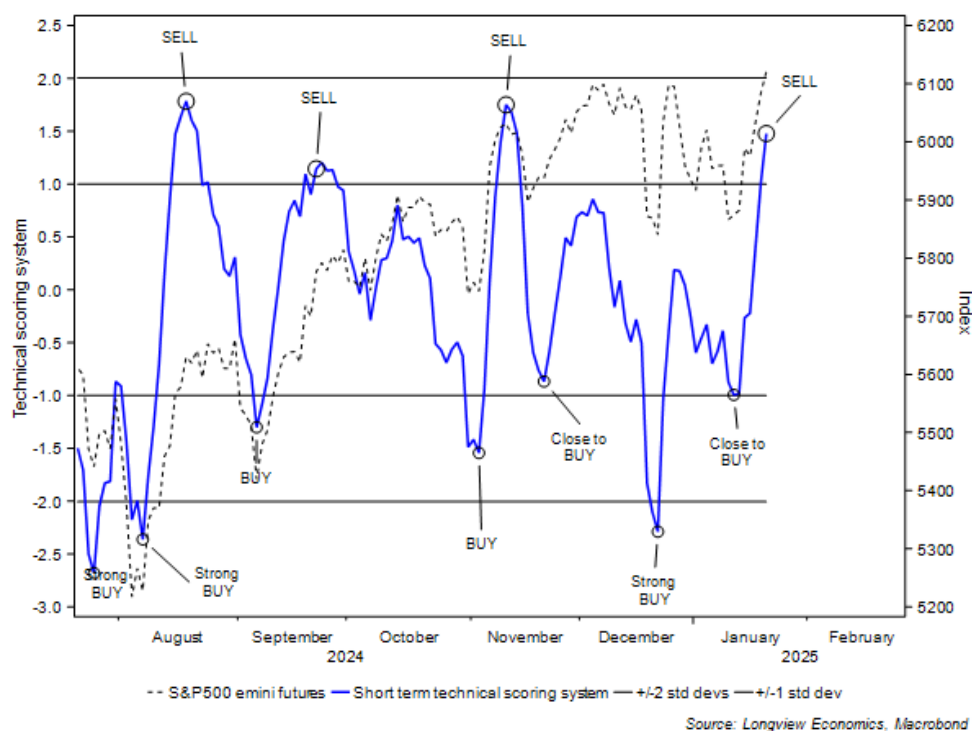


FIG 4a: Longview NASDAQ100 & Philly SOX short term **‘technical’** scoring system vs. NASDAQ100 futures

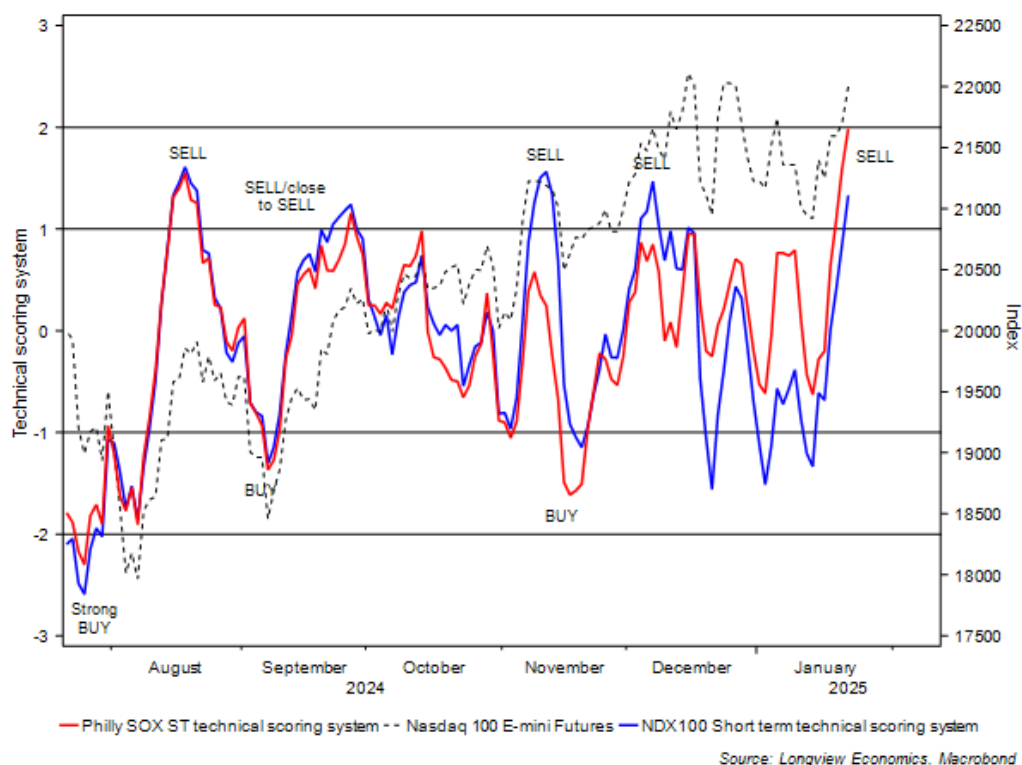
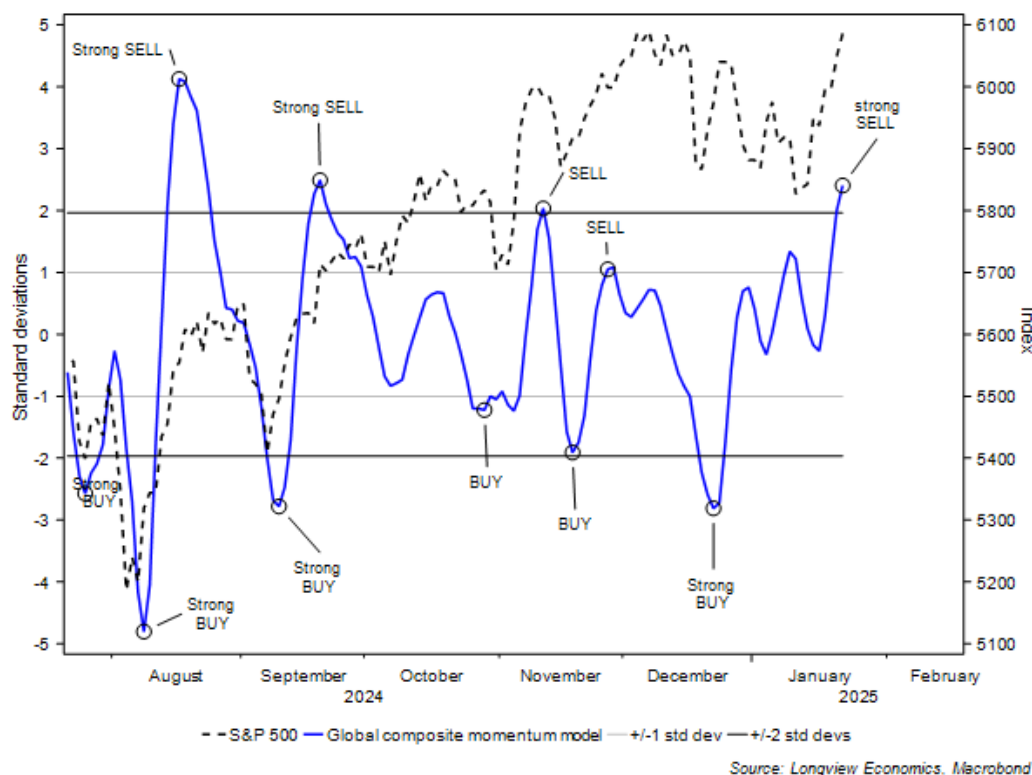


FIG 4b: Global composite momentum model vs. S&P500



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

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

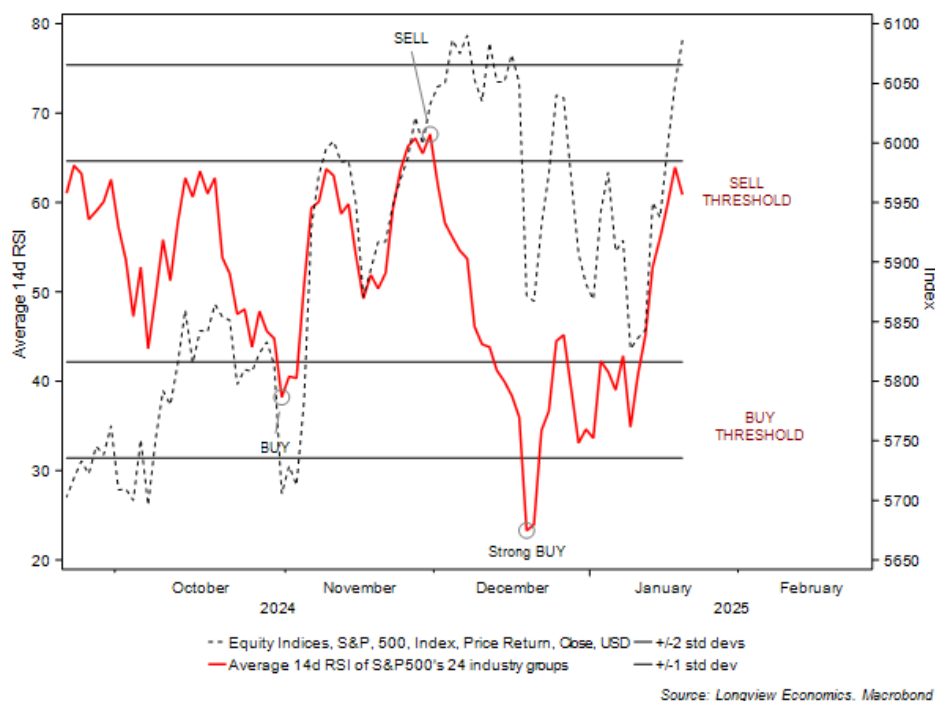
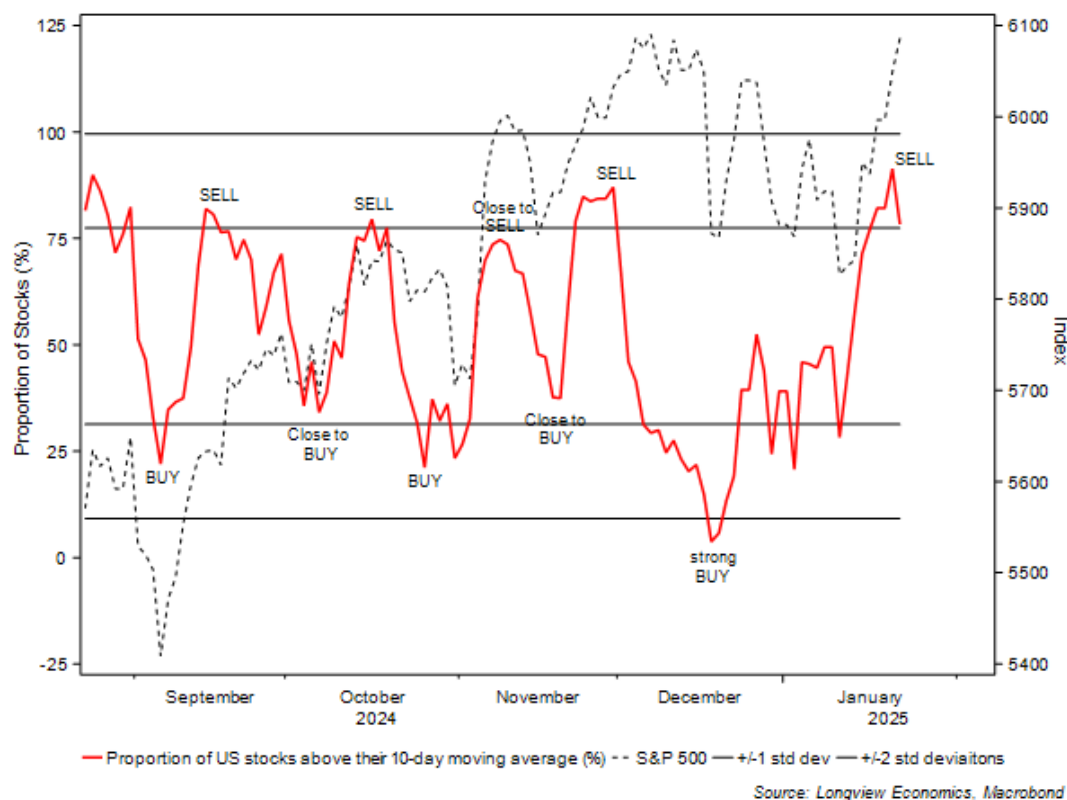


FIG 5a: Proportion of US stocks above their 10-day moving average vs. S&P500

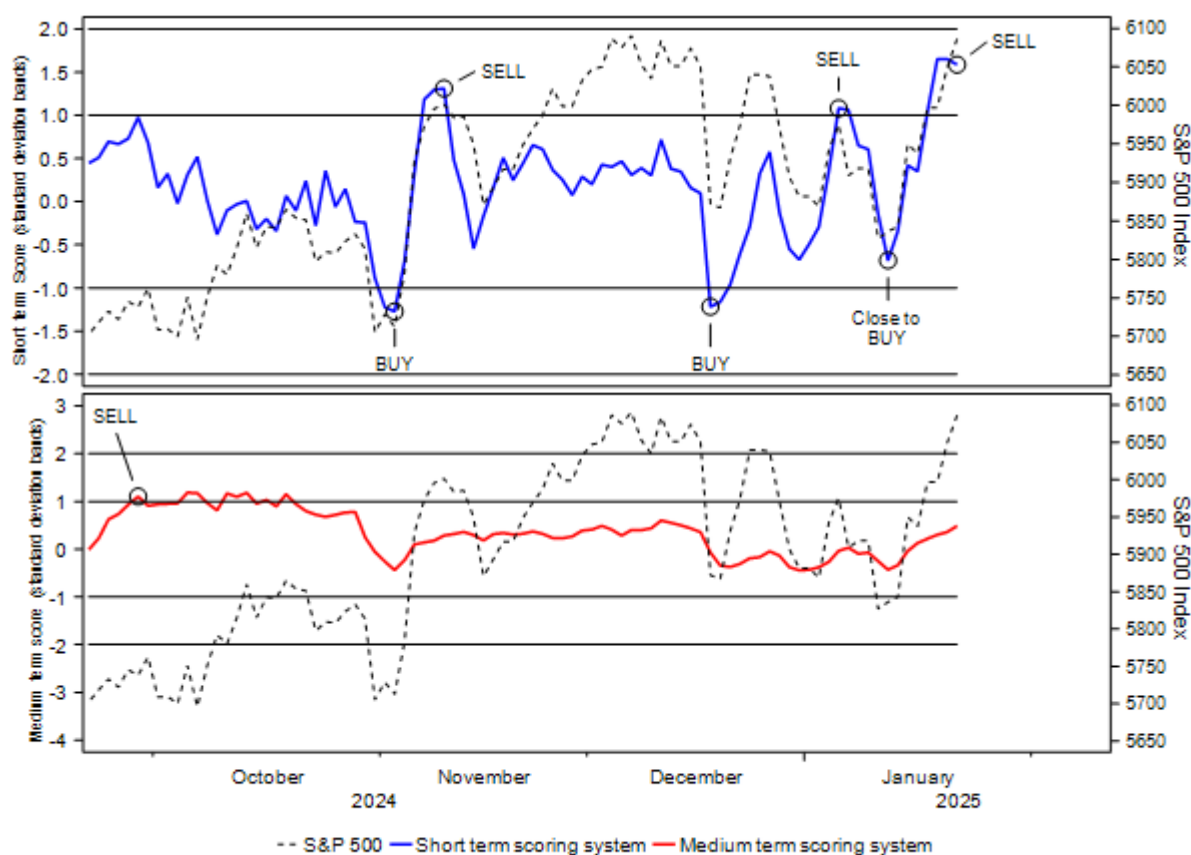


Key Longview Scoring Systems (chart below):

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

Medium term (1 – 4 month) scoring system: **NEUTRAL**

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: French INSEE business & manufacturing confidence (Jan, 7:45am); UK CBI industrial trends survey (Jan, 11am); Canadian retail sales (Nov, 1:30pm); US weekly jobless claims (1:30pm); **Eurozone consumer confidence** (January first estimate, 3pm); US Kansas City Fed manufacturing sector activity (Jan, 4pm); Australian S&P manufacturing & service sector PMIs (January first estimate, 10pm); **Japanese headline & core CPI** (Dec, 11:30pm).

Key events today include: Speech by the Bank of England's Wilkins on geopolitics and financial stability (10am); speech by the ECB's Escriva in Davos (10:30am).

Key earnings today include: Intuitive Surgical, **GE Aerospace**, **Texas Instruments**, **Union Pacific**, Elevance Health, CSX, Freeport-McMoran, **Louis Vuitton**, Investor AB, EQT AB, SK Hynix Inc, Hyundai Motor.

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

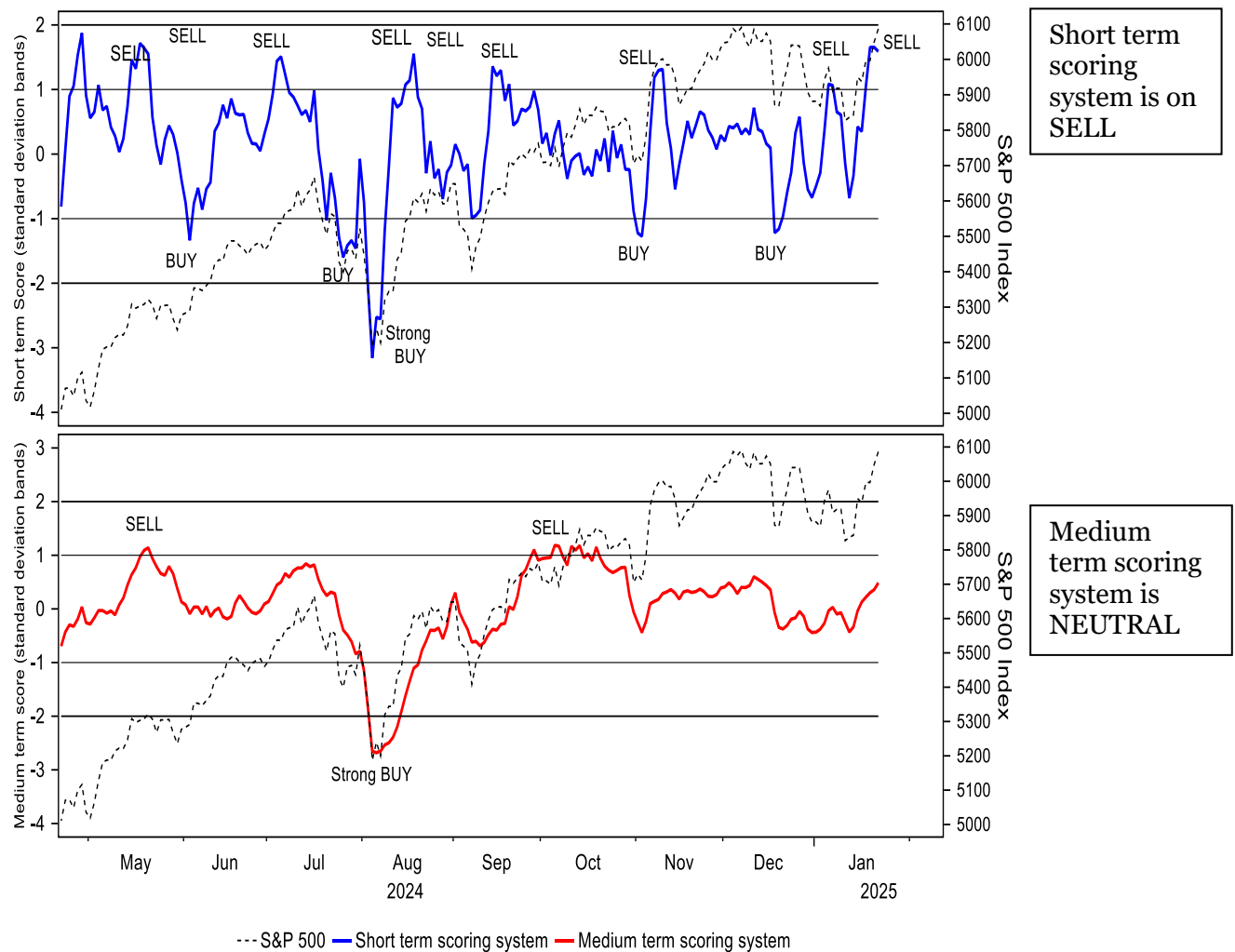
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23rd January 2025

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

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



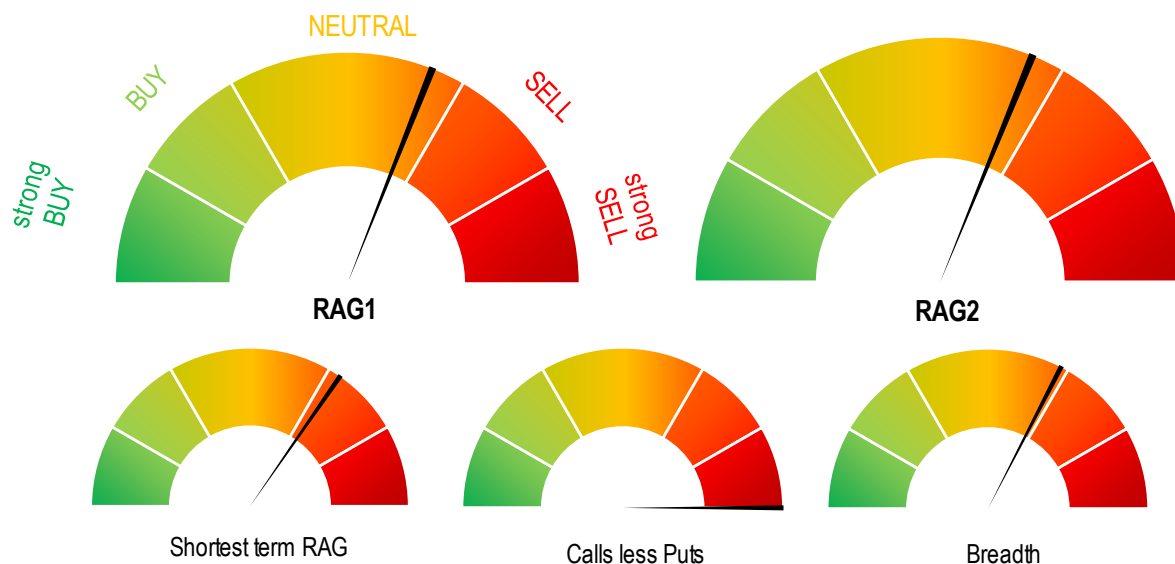
Source: Longview Economics, Macrobond

*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

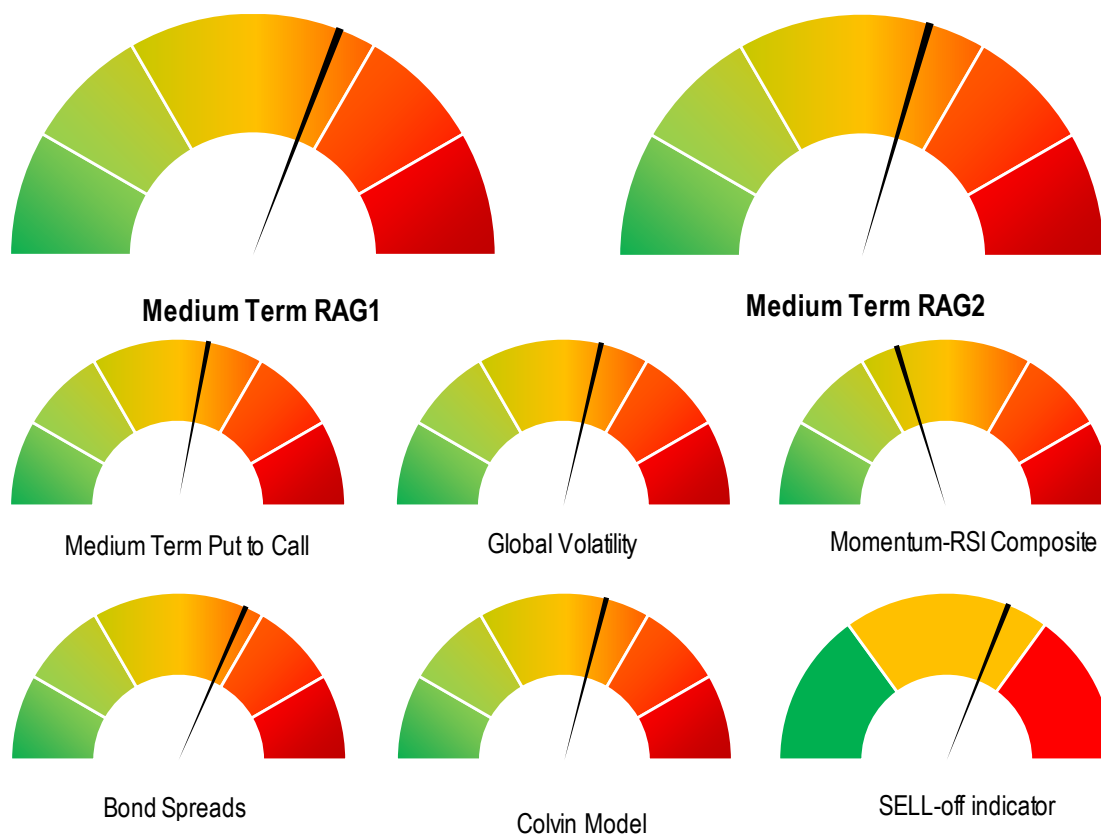
Section 1a: Summary of indicator signals**

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

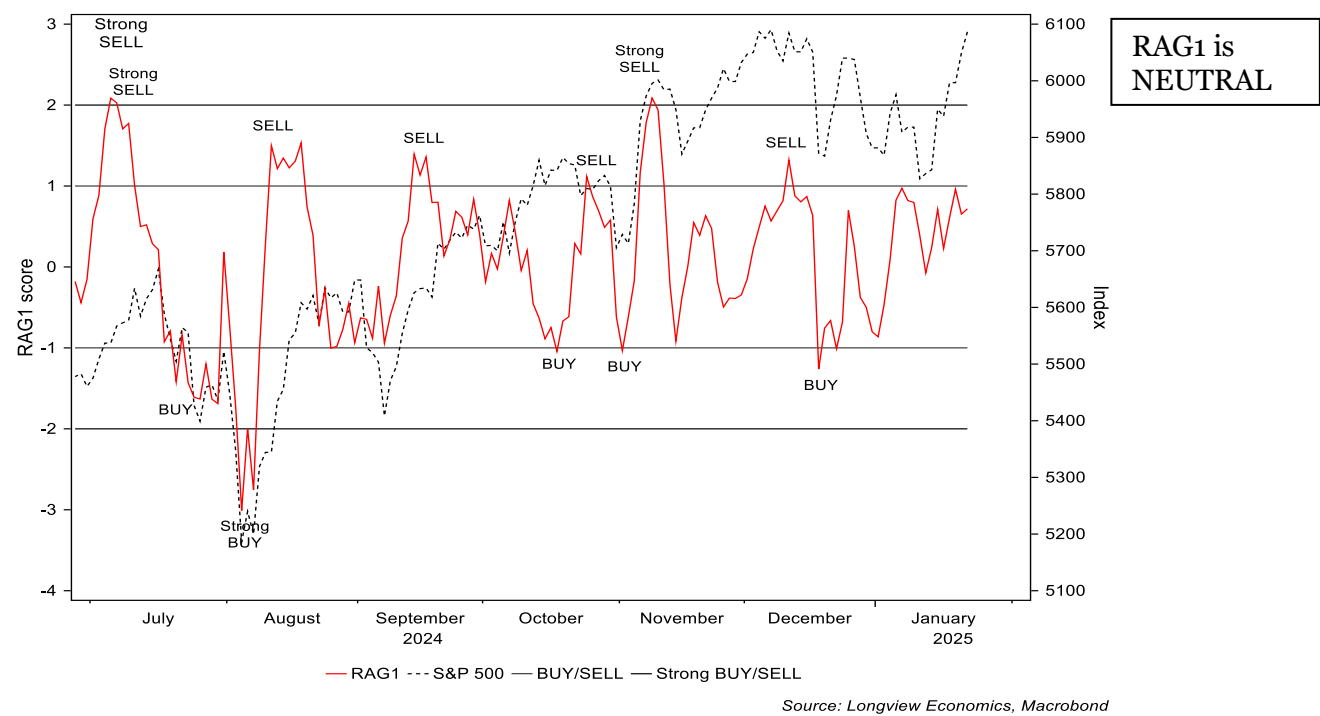
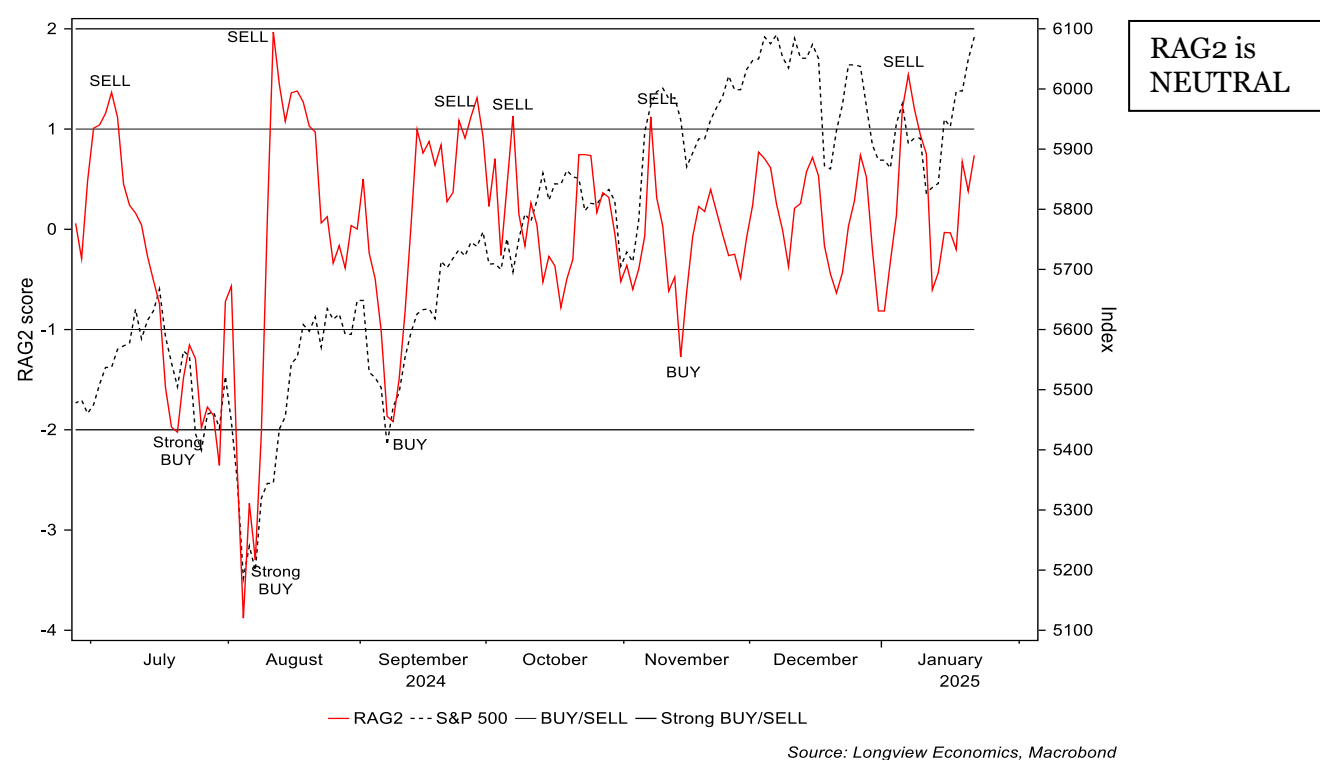


Fig 2b: RAG 2 vs. S&P 500



For explanations of indicators please see page 10

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

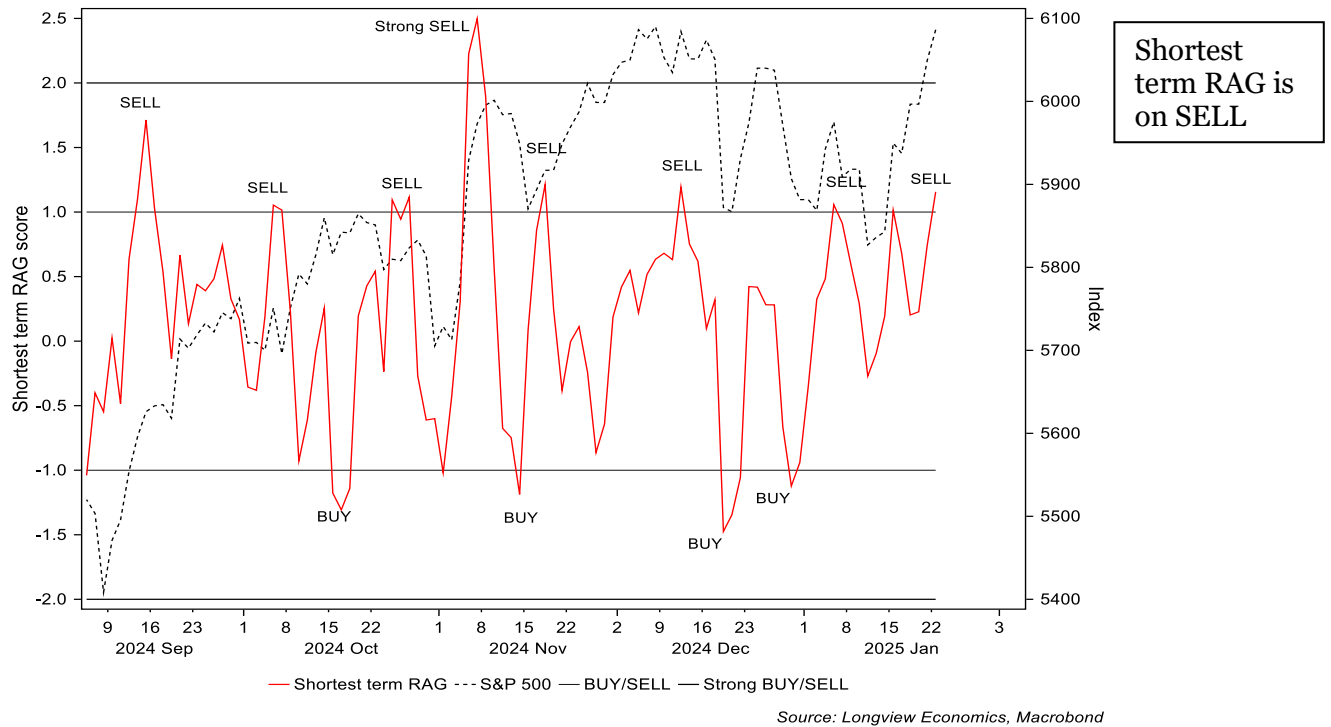
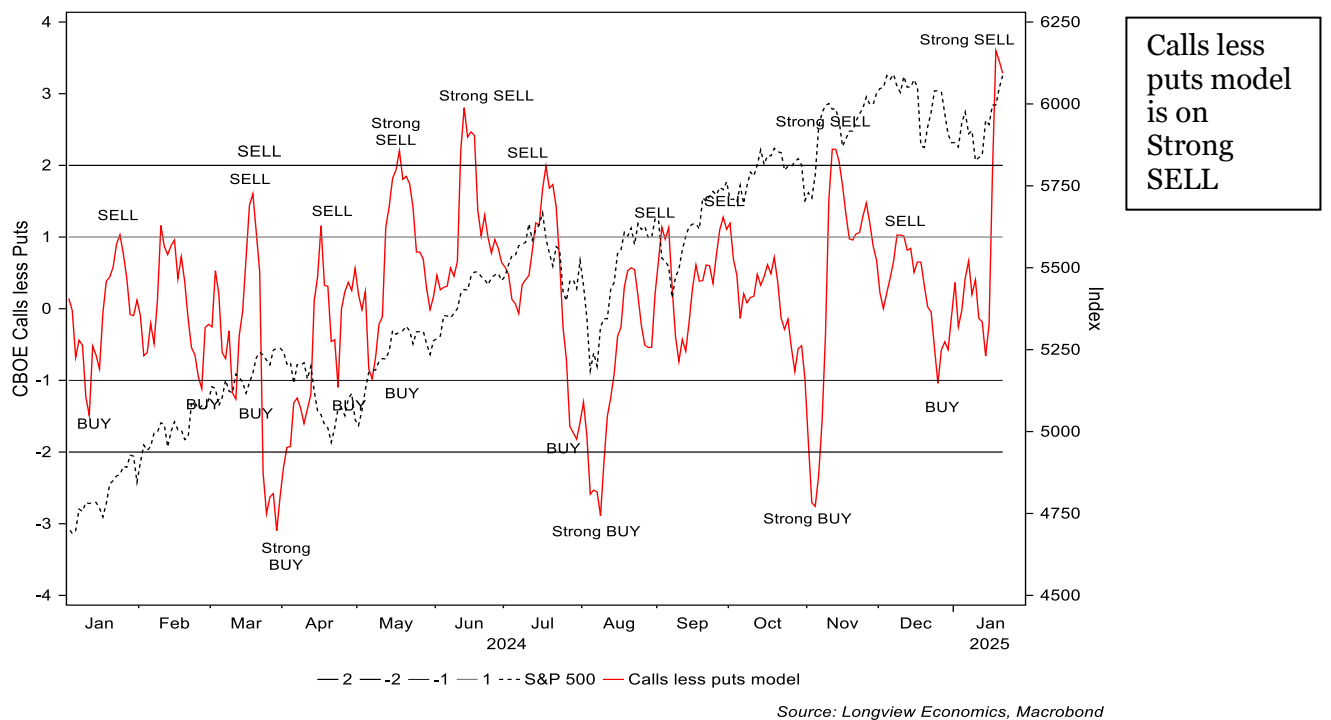
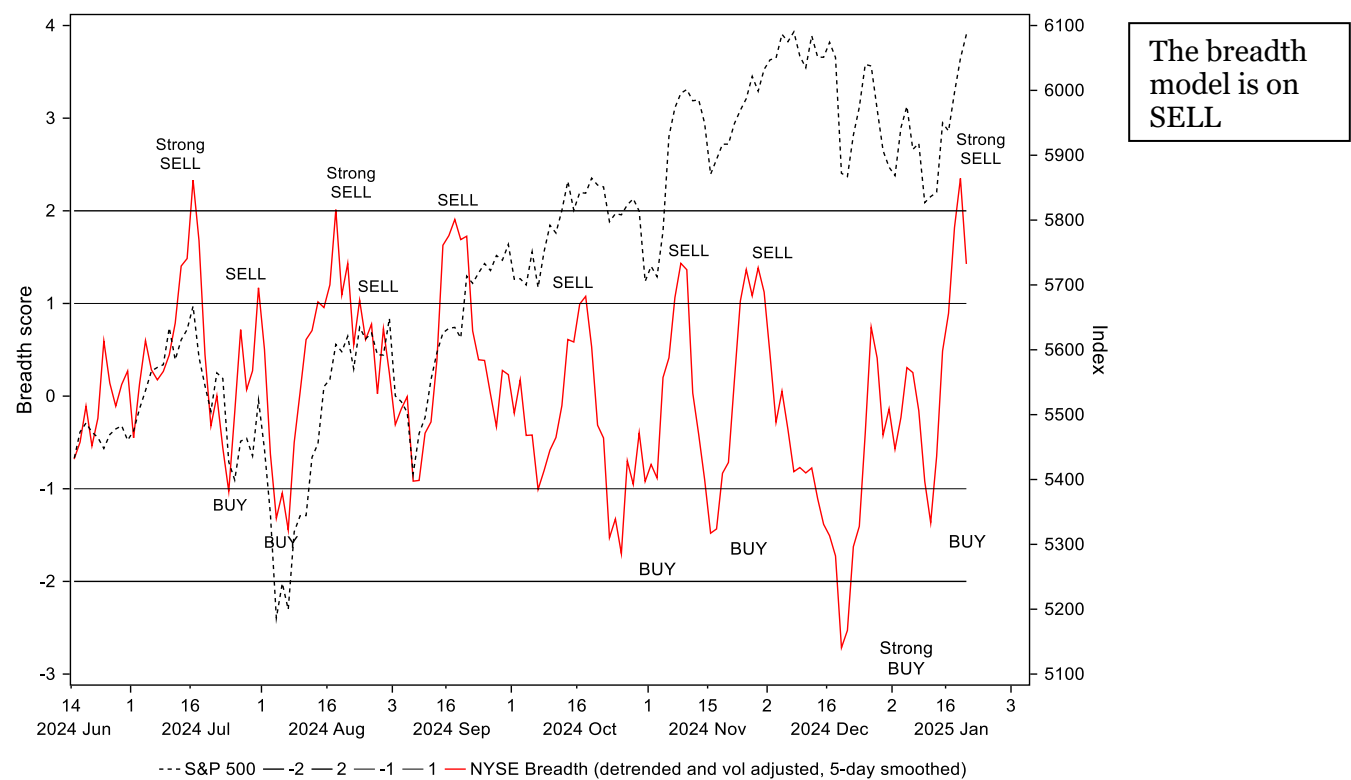


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

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

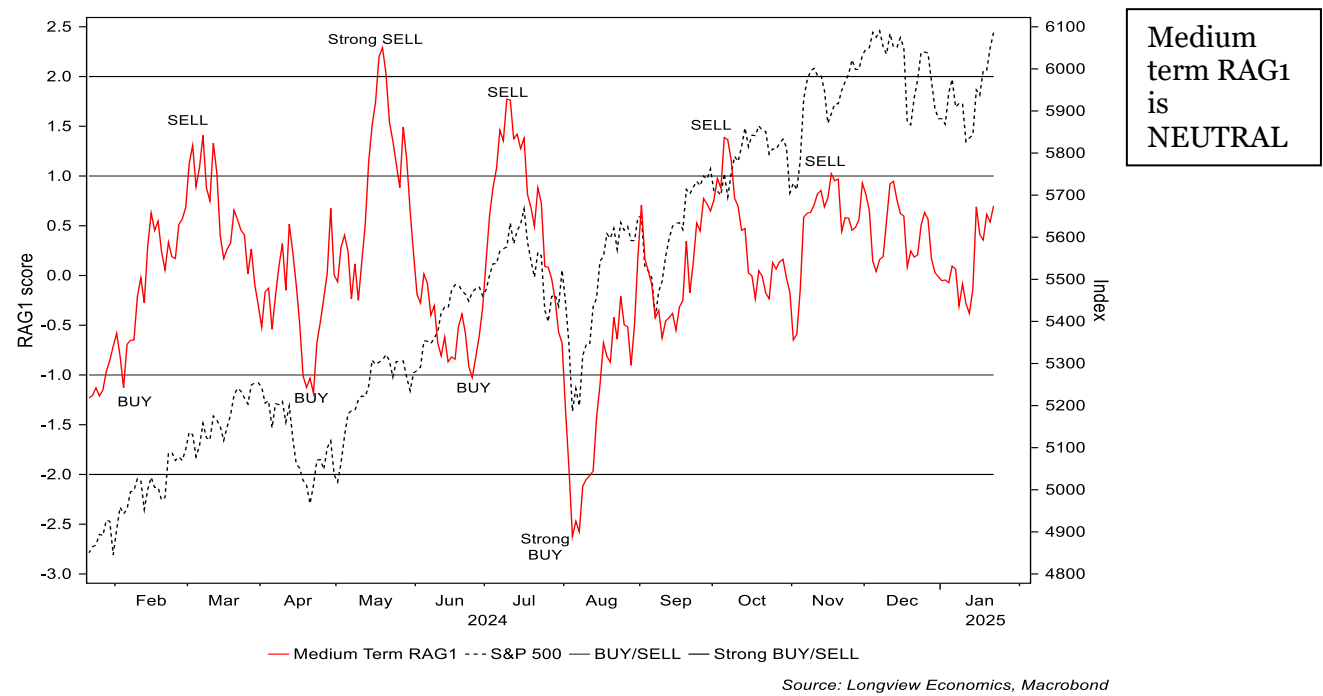
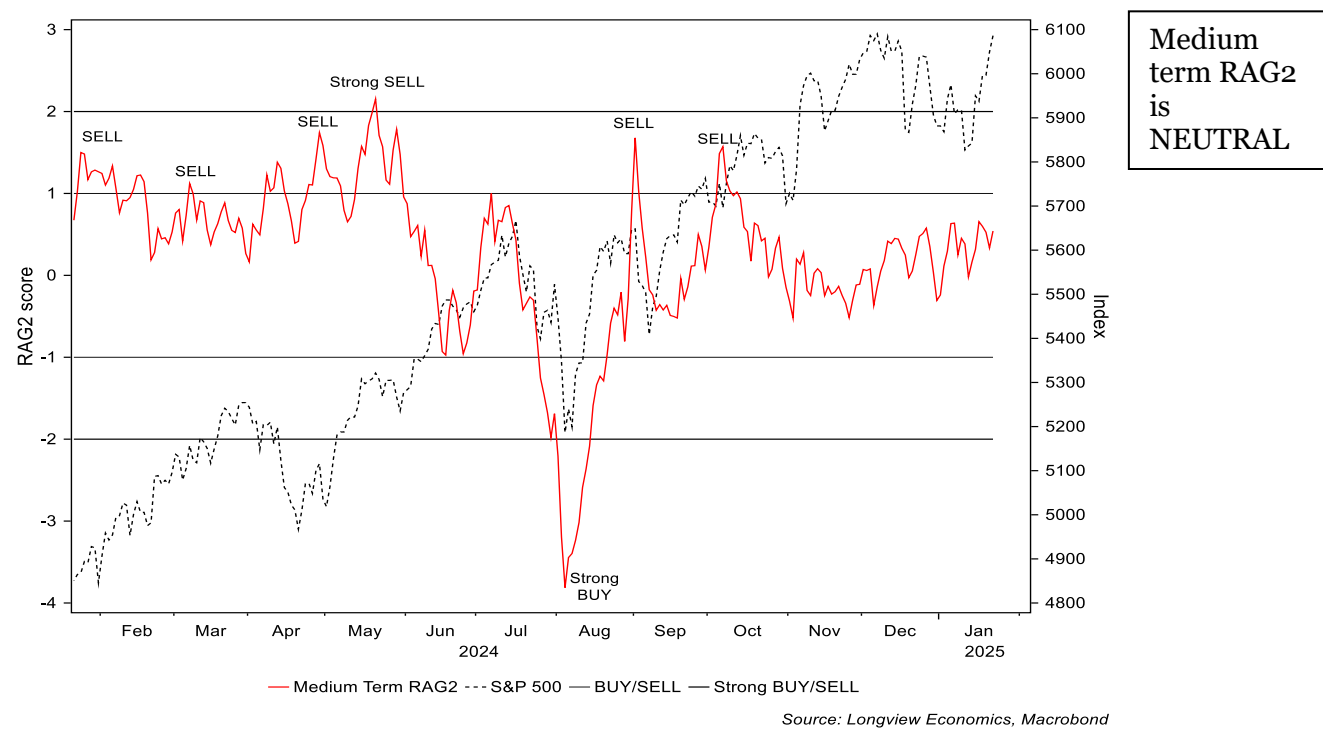


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

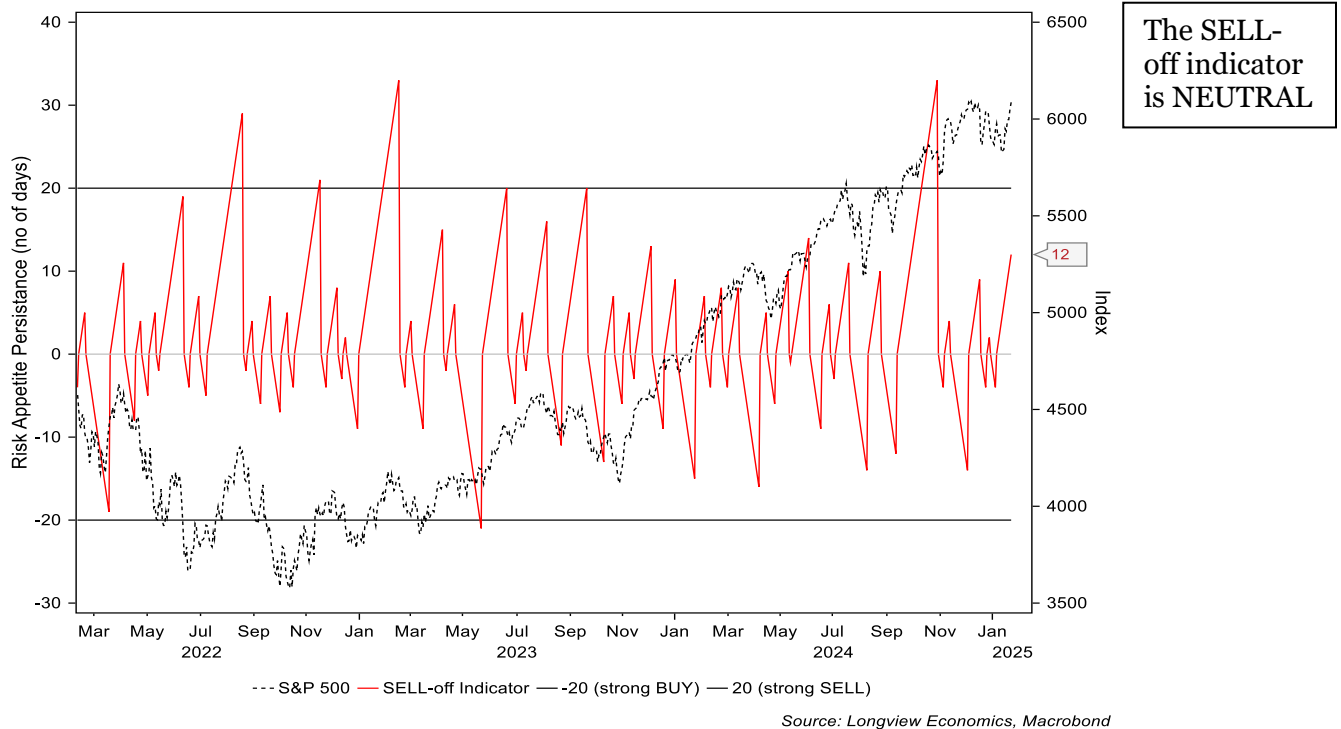
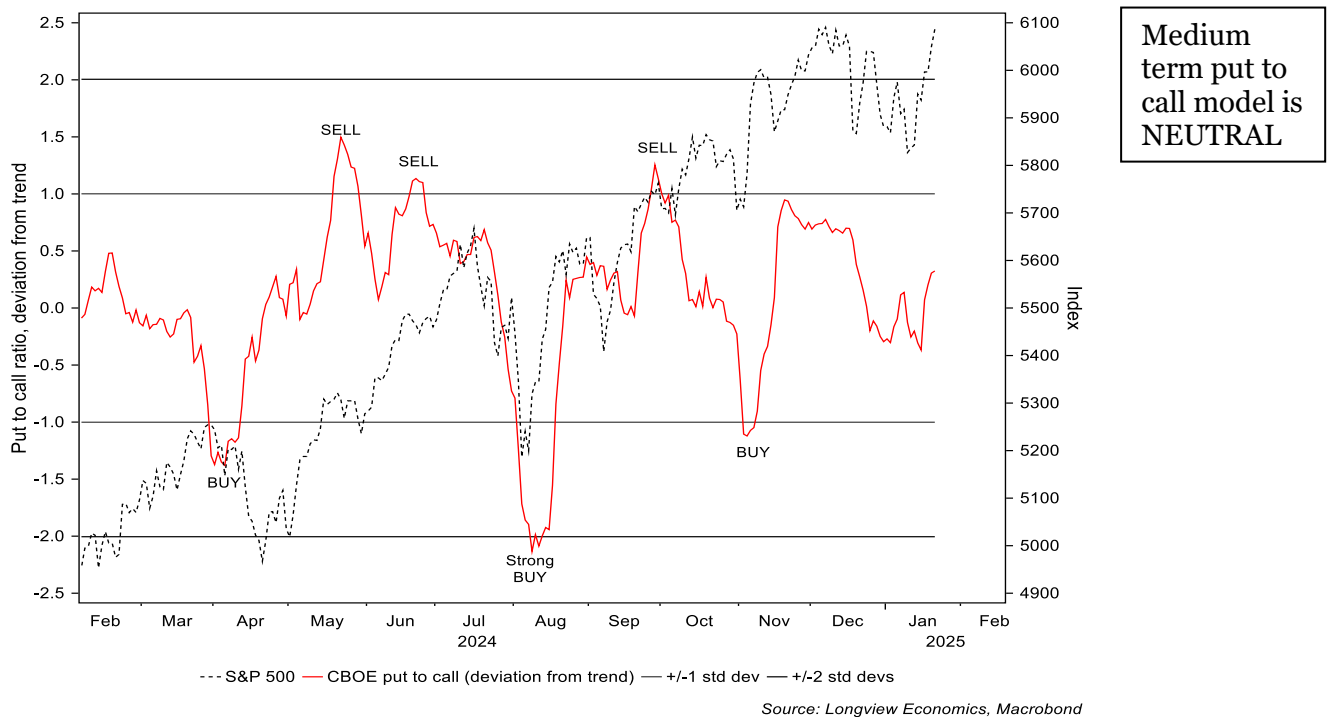


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

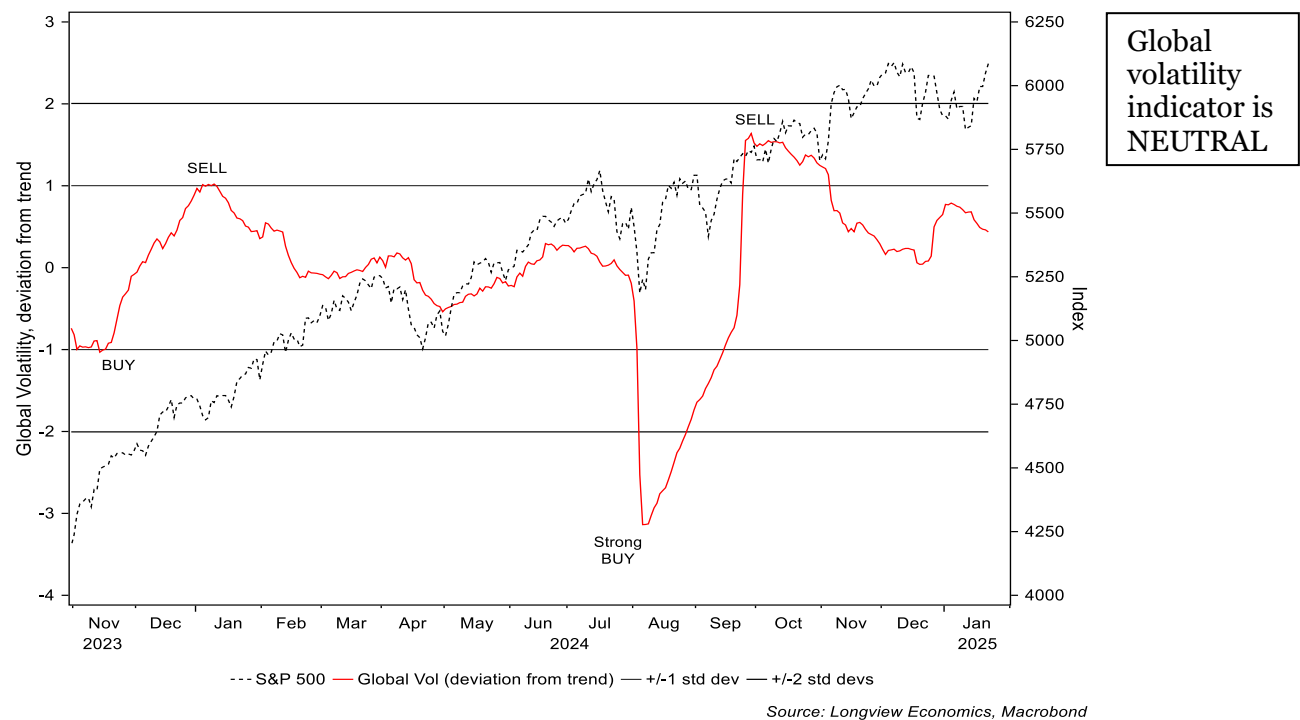


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

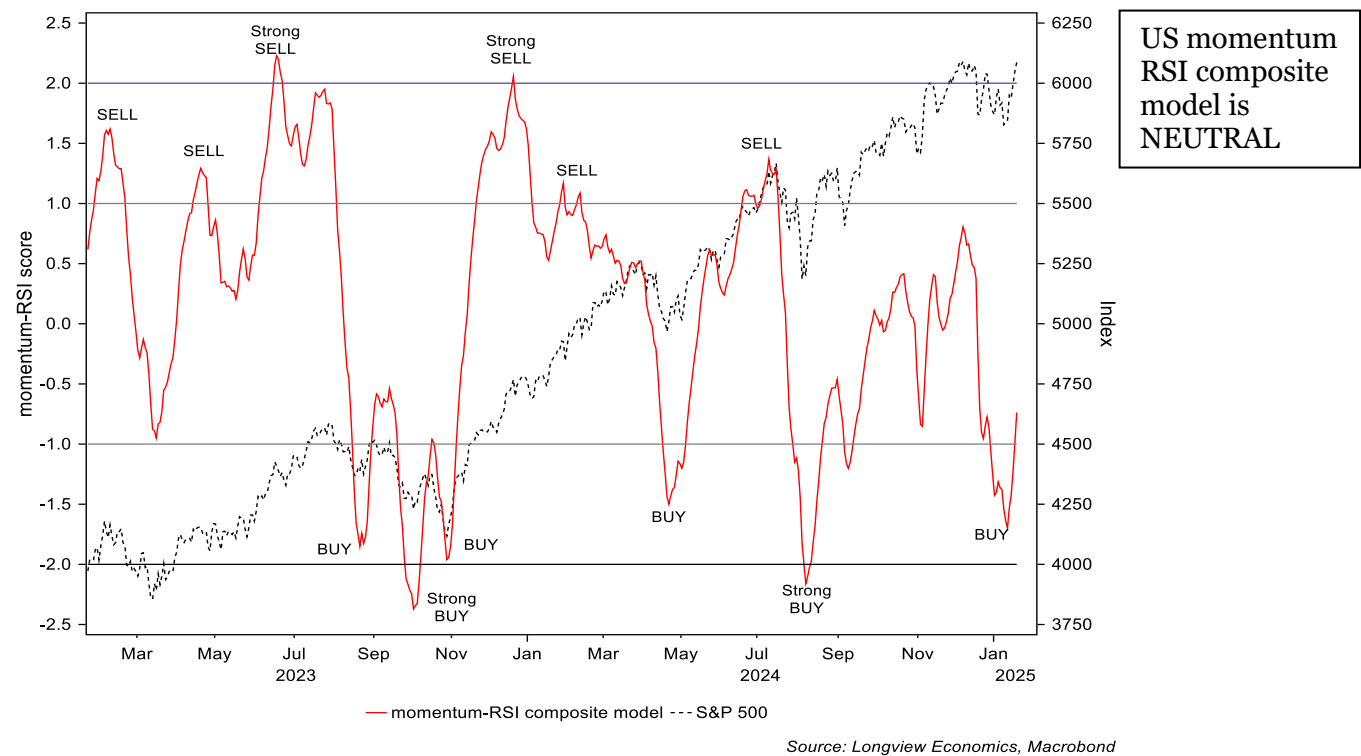


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

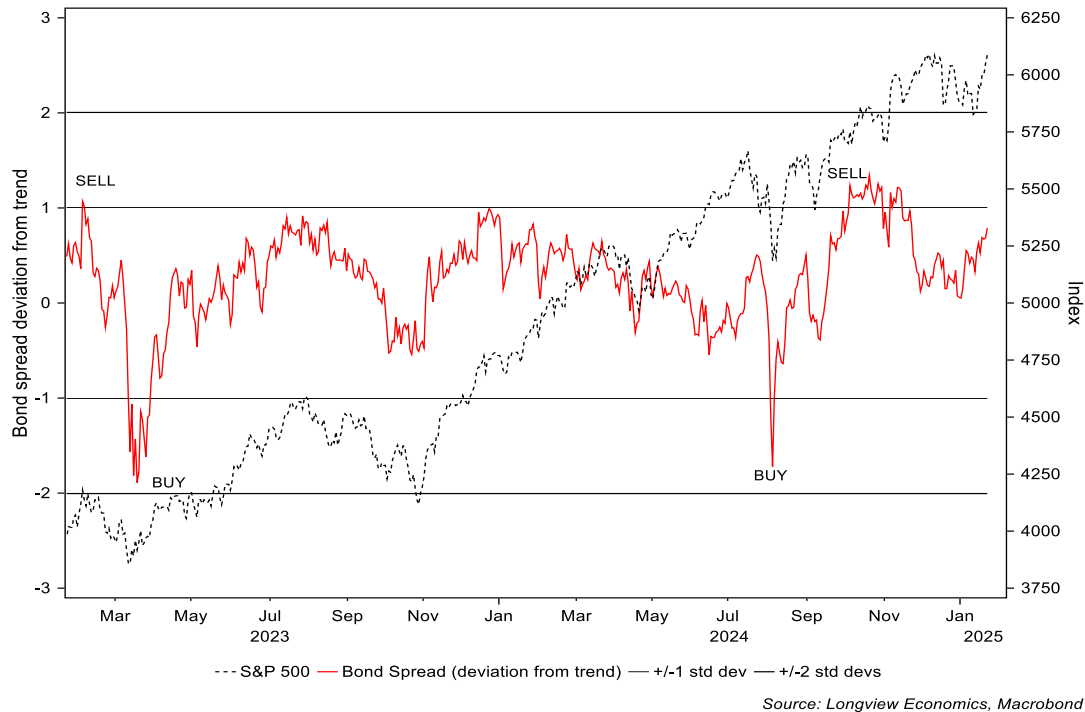
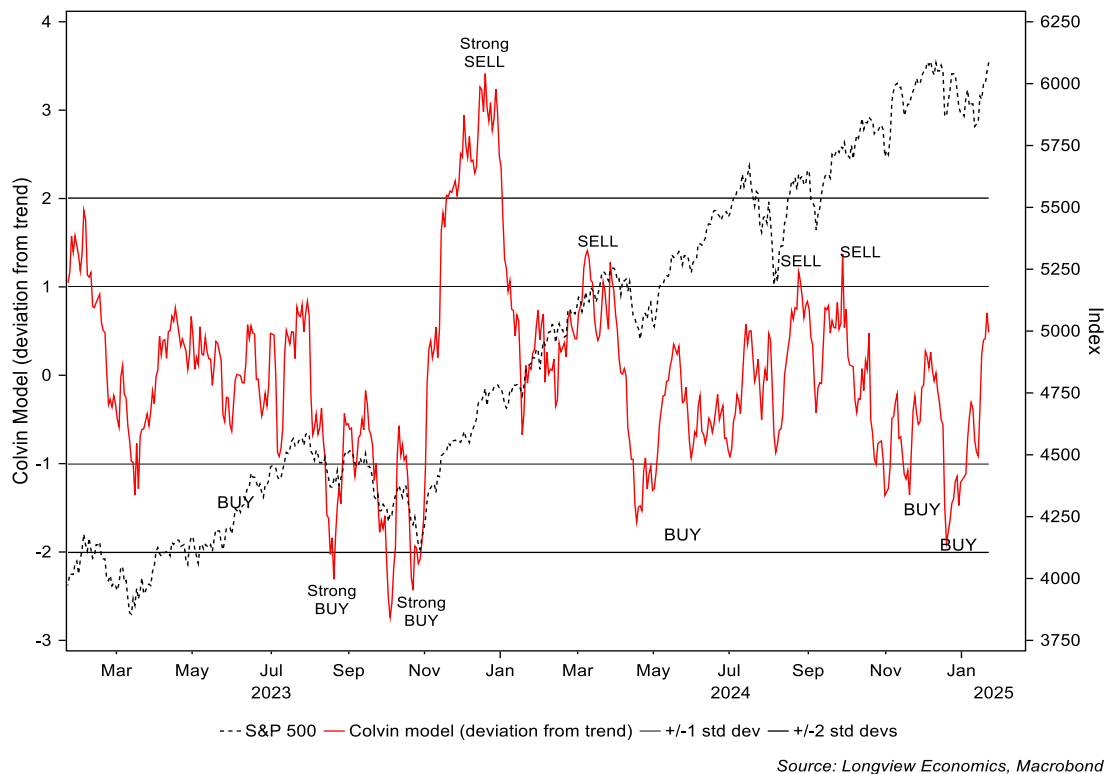


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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