

Equity Index Futures Trading Recommendations

24th December 2024

"Stay LONG SPX (increase size on weakness)"

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Christmas and New Year publication schedule for Daily Risk Appetite Gauge emails: We will publish updated models with limited commentary through to 6th January (on London business days).

Merry Christmas and Happy New Year.

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

- Stay ½ LONG S&P500 March futures (blended entry was 5,937.33*).
- If markets retest last week's intraday lows, then increase to 2/3rds LONG (i.e. at 5,875.0).
- Keep stop loss at 5,777.75 (i.e. 2% below initial entry).

*Initial entry was last Friday (1/3rd position at 5,895.75). This was increased to a ½ position size yesterday morning (at 6,020.50).

Rationale

The price pattern of US equities has been **encouraging for the bulls** in recent trading days. In particular, there was (i) a sharp reversal of last week's weakness on Friday (on the better than expected PCE inflation report); which was followed by (ii) stable price action yesterday, with most major indices rallying into the close (and holding onto Friday's gains), see FIG 1. Volatility therefore faded further yesterday, with the VIX edging lower & closing just below its 50 & 90 day moving averages (FIG 1a), while SPX e-mini volumes have fallen sharply (as is normal ahead of Christmas and into year end, see FIG 1b).

Our view remains unchanged from yesterday. That is, after a mid/late December wobble, US equities are broadly following their usual Christmas playbook (shown in FIG 1c). If correct then they are likely to drift higher into year end.

Short term models also continue to support that expectation (i.e. as well as seasonality). In particular, our risk appetite and technical scoring systems have both recently generated BUY/strong BUY signals (see FIGs 2 & 2a); while various momentum, breadth, and price based models are either on or close to their BUY thresholds (see FIGs 2b – 2e). Furthermore, last weeks' wobble in US equities has generated a degree of fear/panic in markets, with investors/traders adding some downside put protection to portfolios. As such put to call indicators are now mid-range, having been on SELL (see FIGs 3 & 3a). Elsewhere our medium term models have started to generate BUY signals (as we noted in yesterday's publication, e.g. see FIG 1d).

Having added to LONG positions yesterday, the **risk reward therefore favours staying LONG SPX futures, and increasing the position size** further on weakness (if forthcoming – see above for detailed recommendation).

Risks, as always, are multiple and include the recent (and possibly ongoing) move higher in US Treasury yields (e.g. see FIG 1e). That appears to be underpinning the move higher in the dollar (e.g. with the DXY up 0.4% yesterday). Often a strong dollar is a headwind for US equities (albeit that relationship has somewhat broken down in recent months).

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

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 March '25 futures 10-day tick chart shown with overnight price action



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

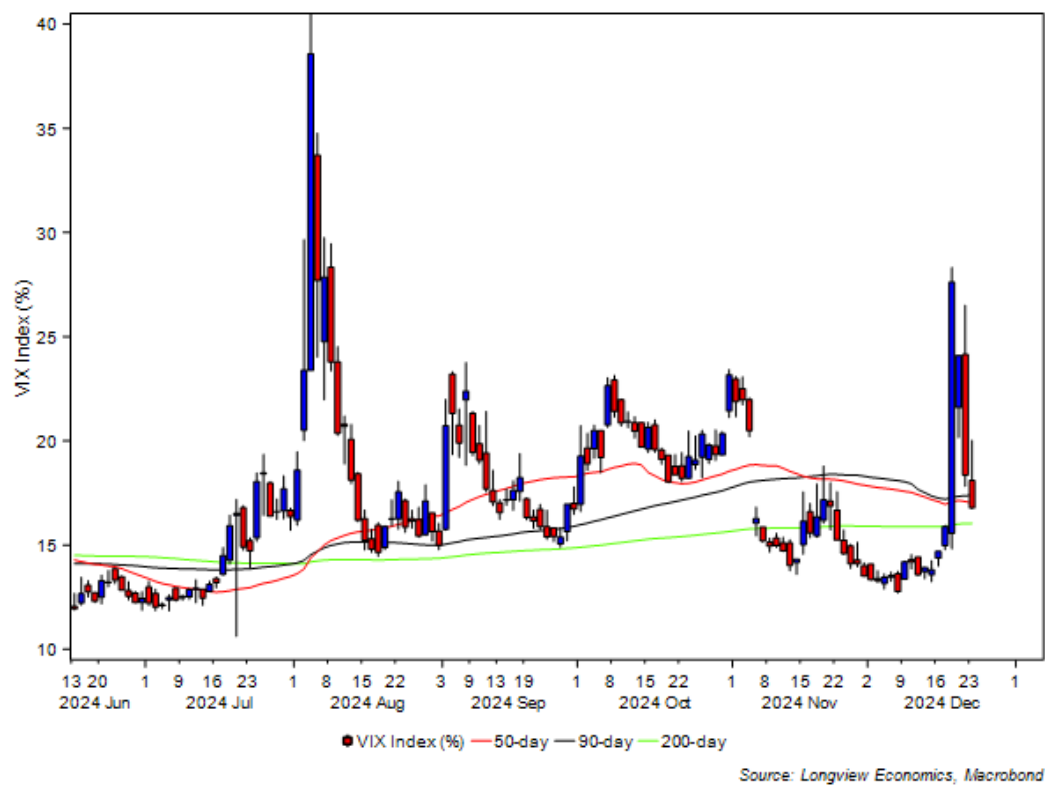


FIG 1b: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages

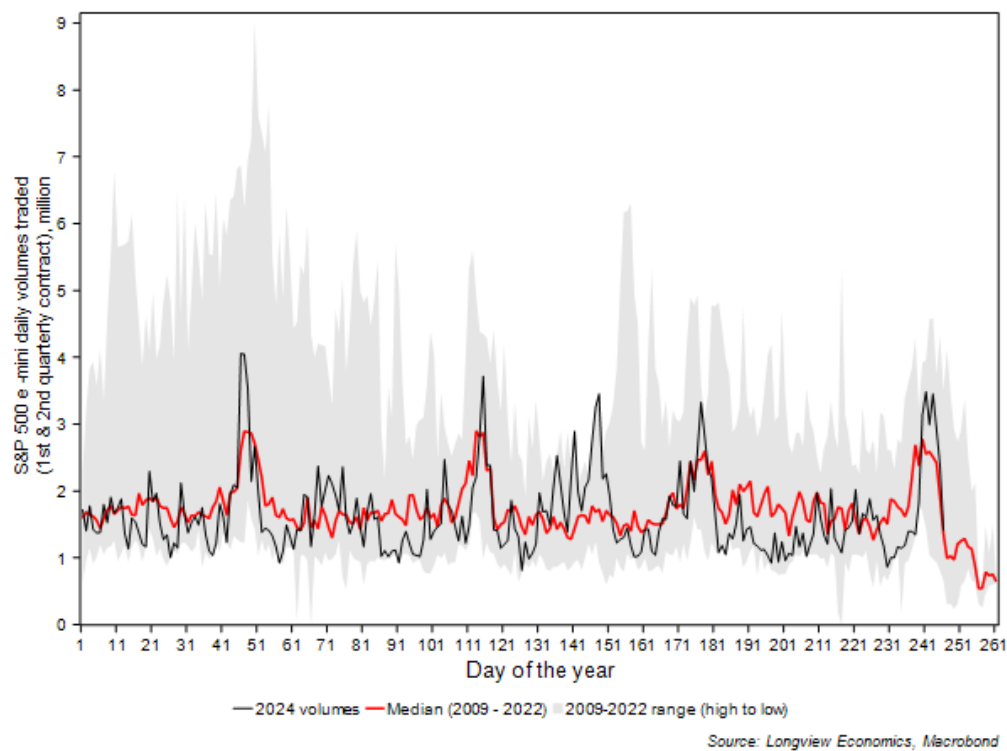


FIG 1c: S&P500 → December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)

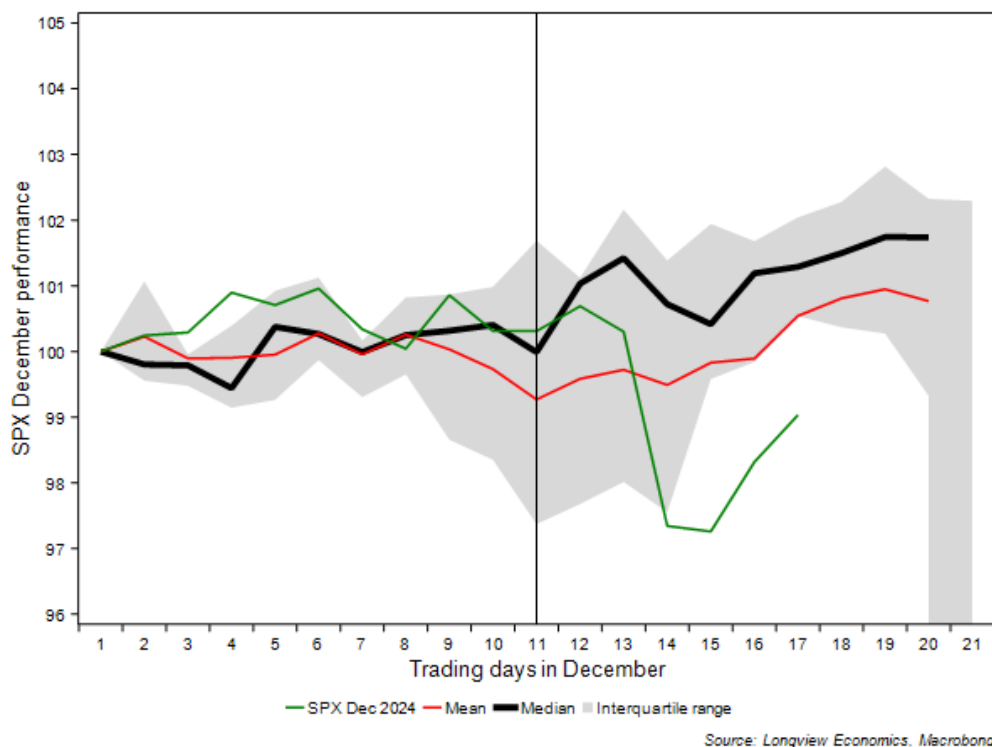


FIG 1d: Proportion of US stocks above their 50 day moving average vs. S&P500

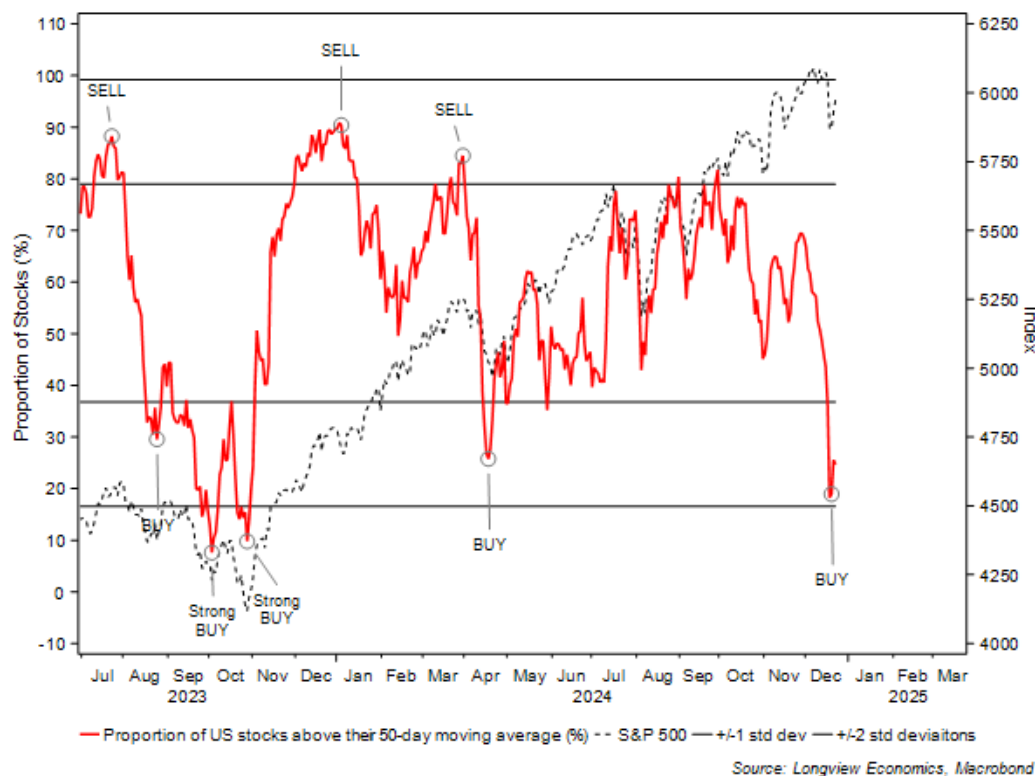
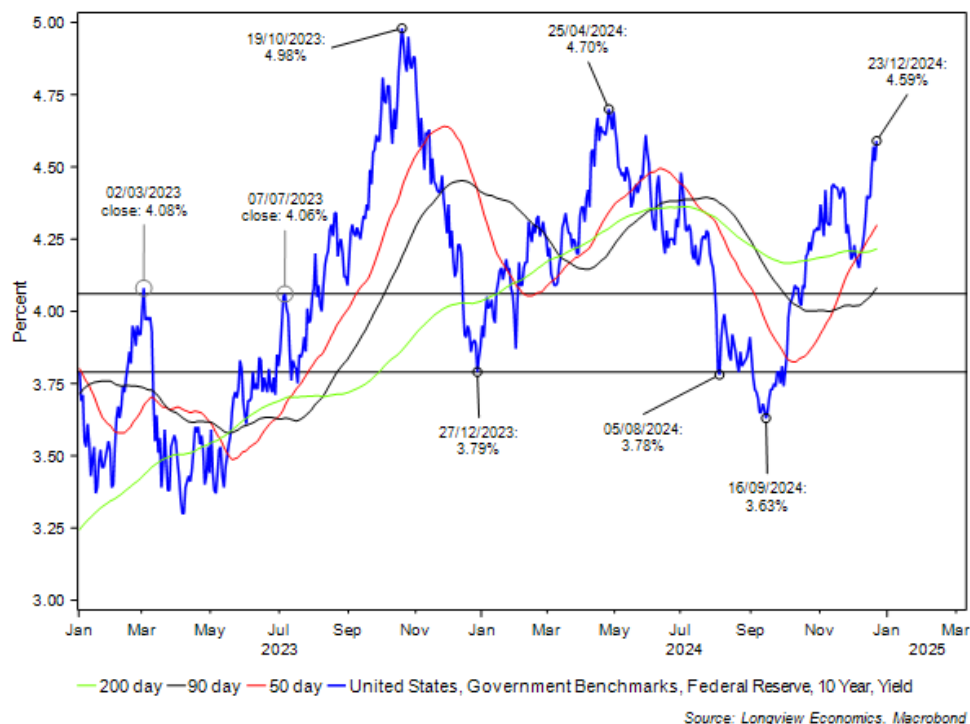


FIG 1e: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages



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

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

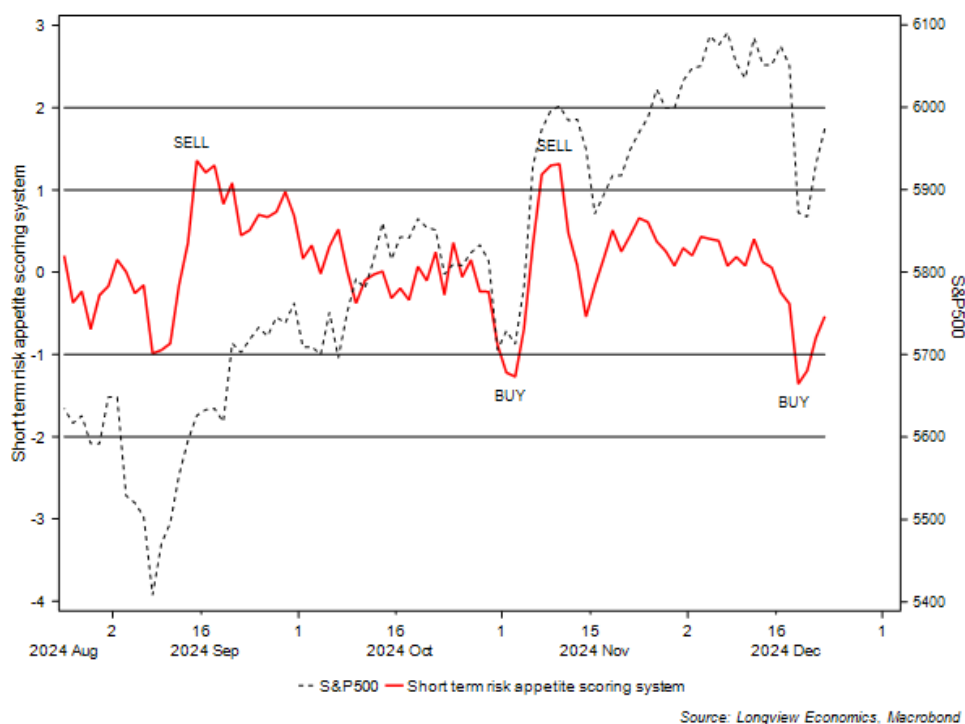
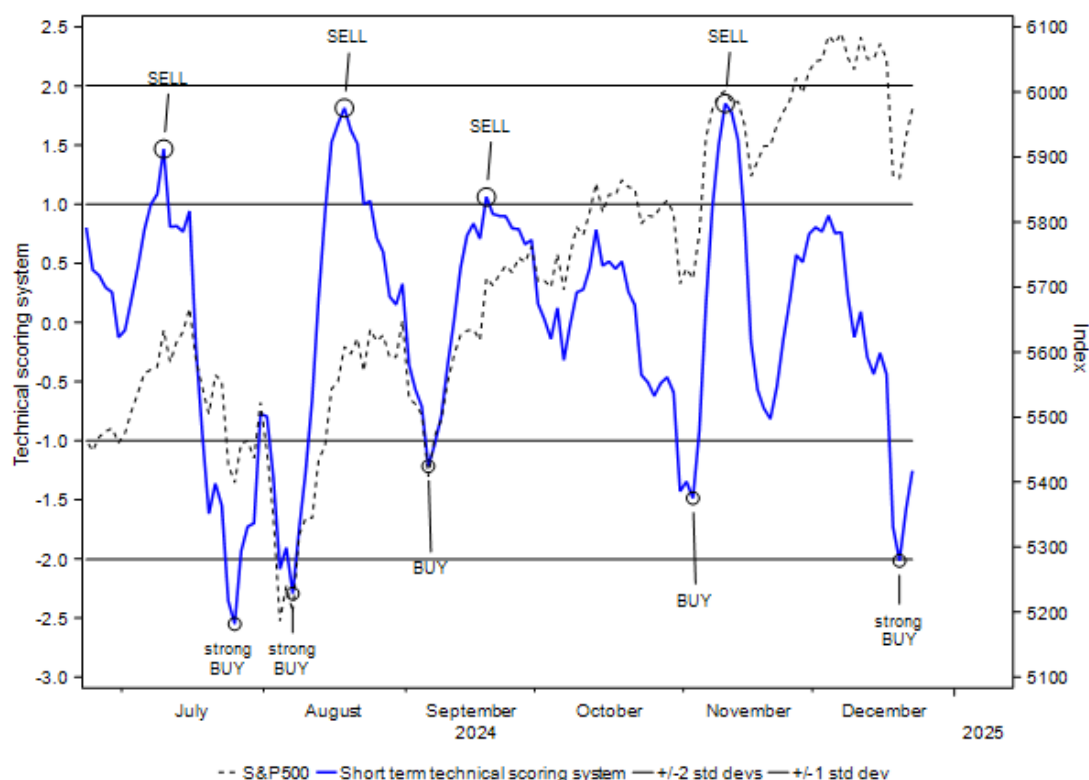
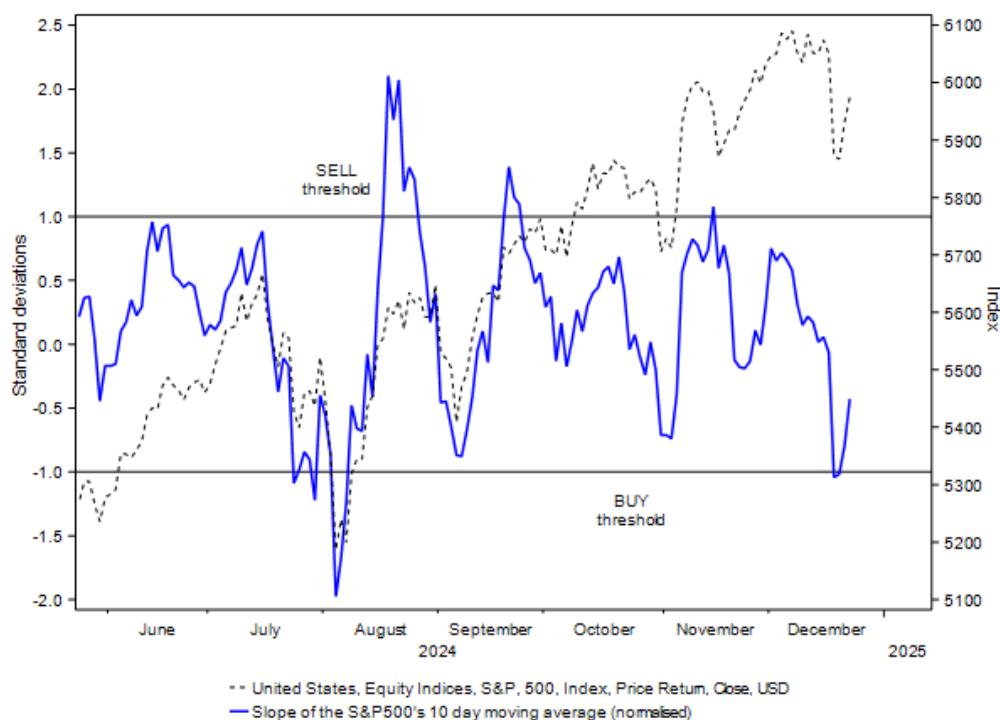


FIG 2a: Longview S&P500 short term **‘technical’** scoring system vs. S&P500



Source: Longview Economics, Macrobond

FIG 2b: US S&P500 stocks with upward momentum shown vs. S&P500



Source: Longview Economics, Macrobond

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

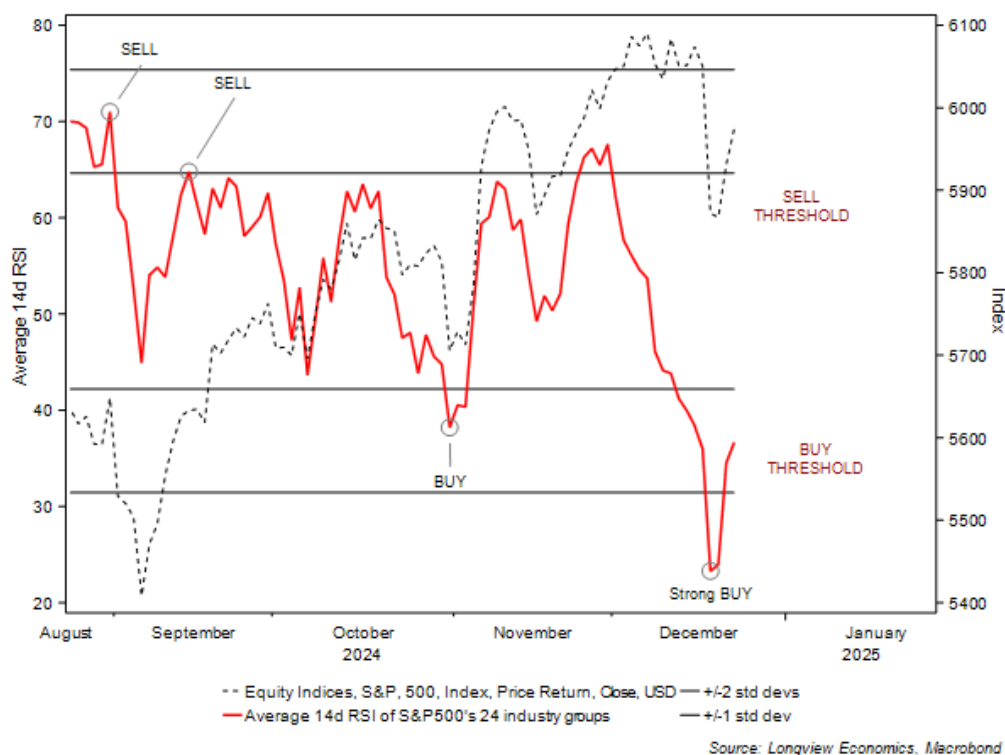


FIG 2d: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500

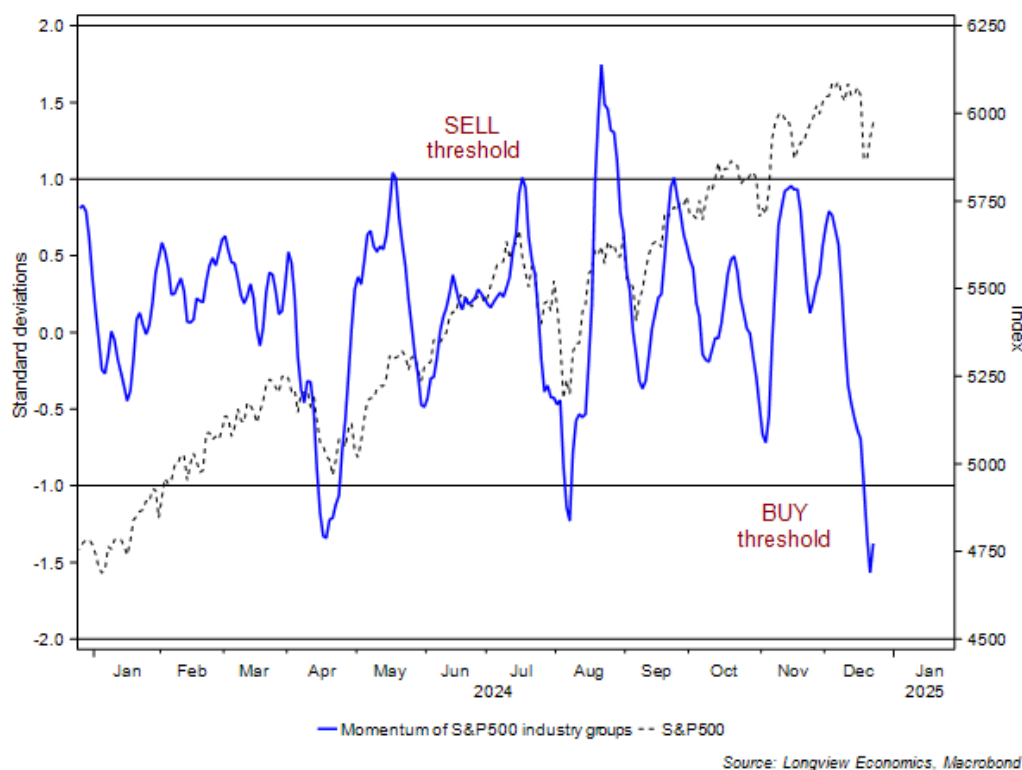
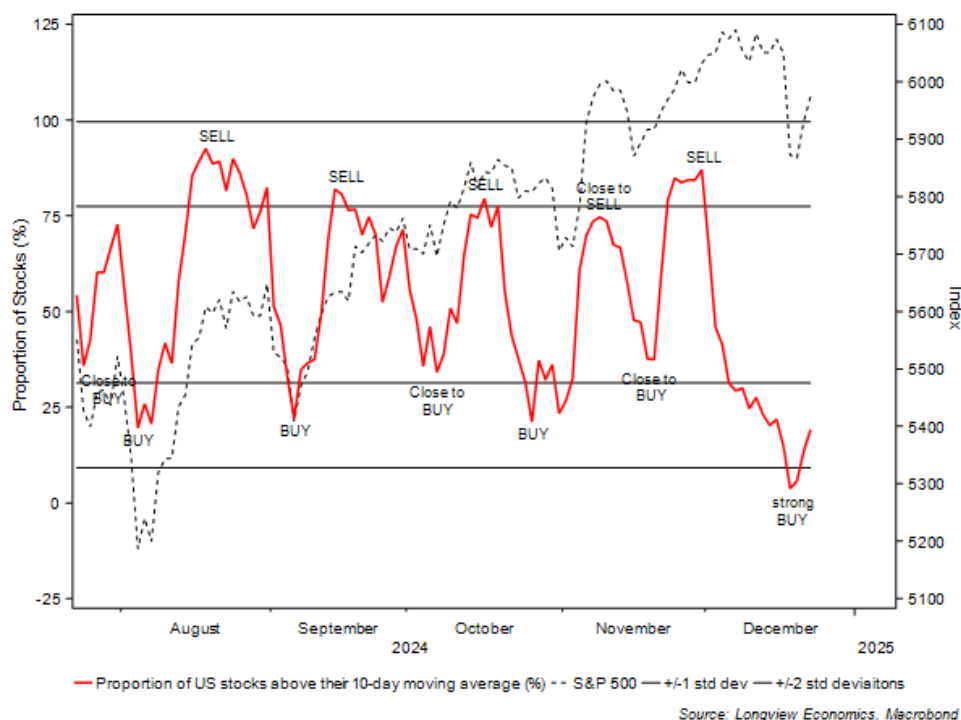


FIG 2e: Proportion of US stocks above their 10-day moving average vs. S&P500



Downside put protection in portfolios is mid range...

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

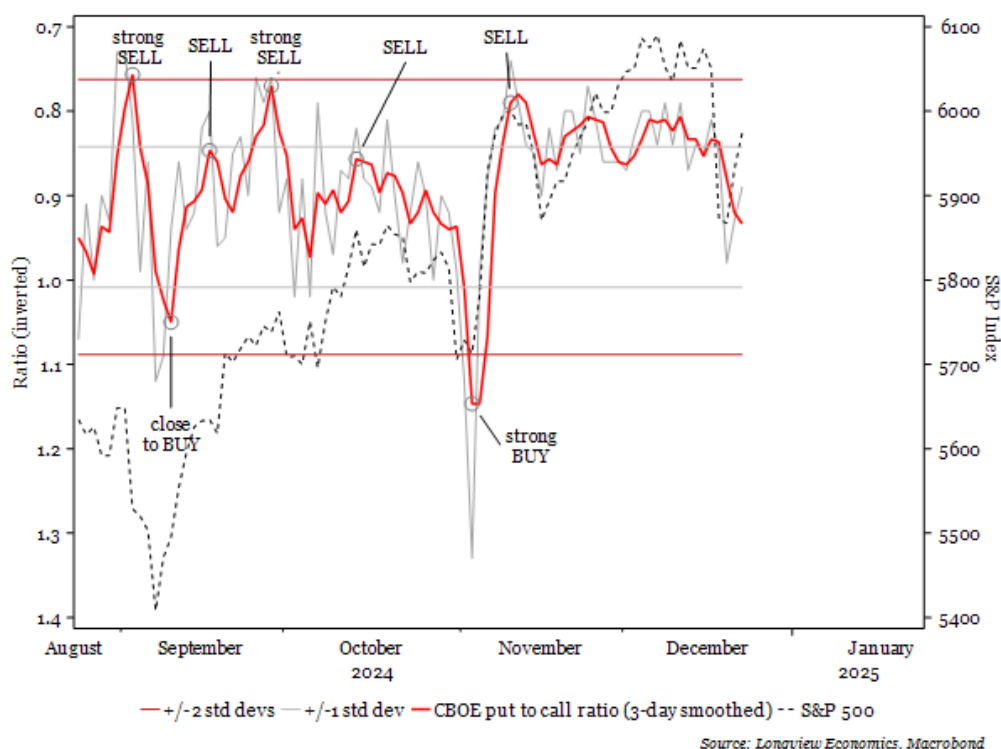
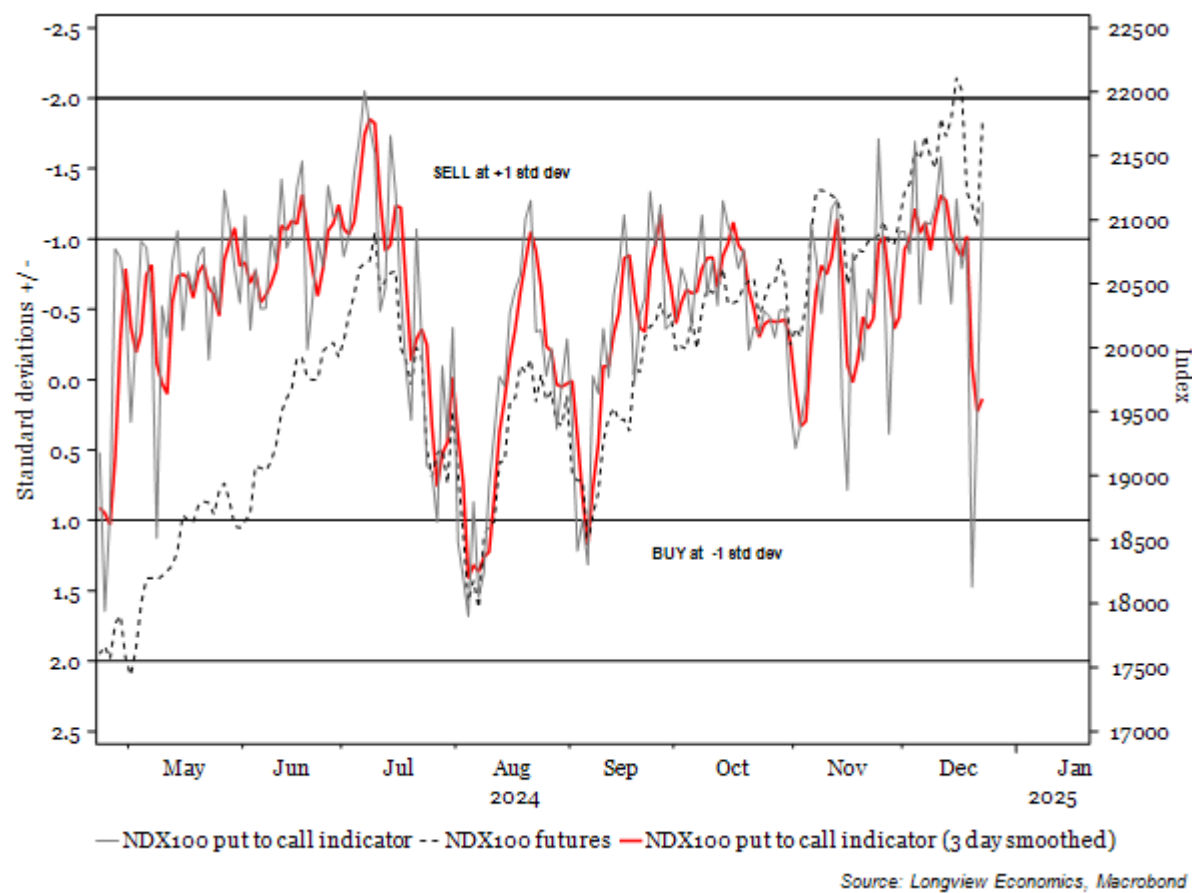


FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

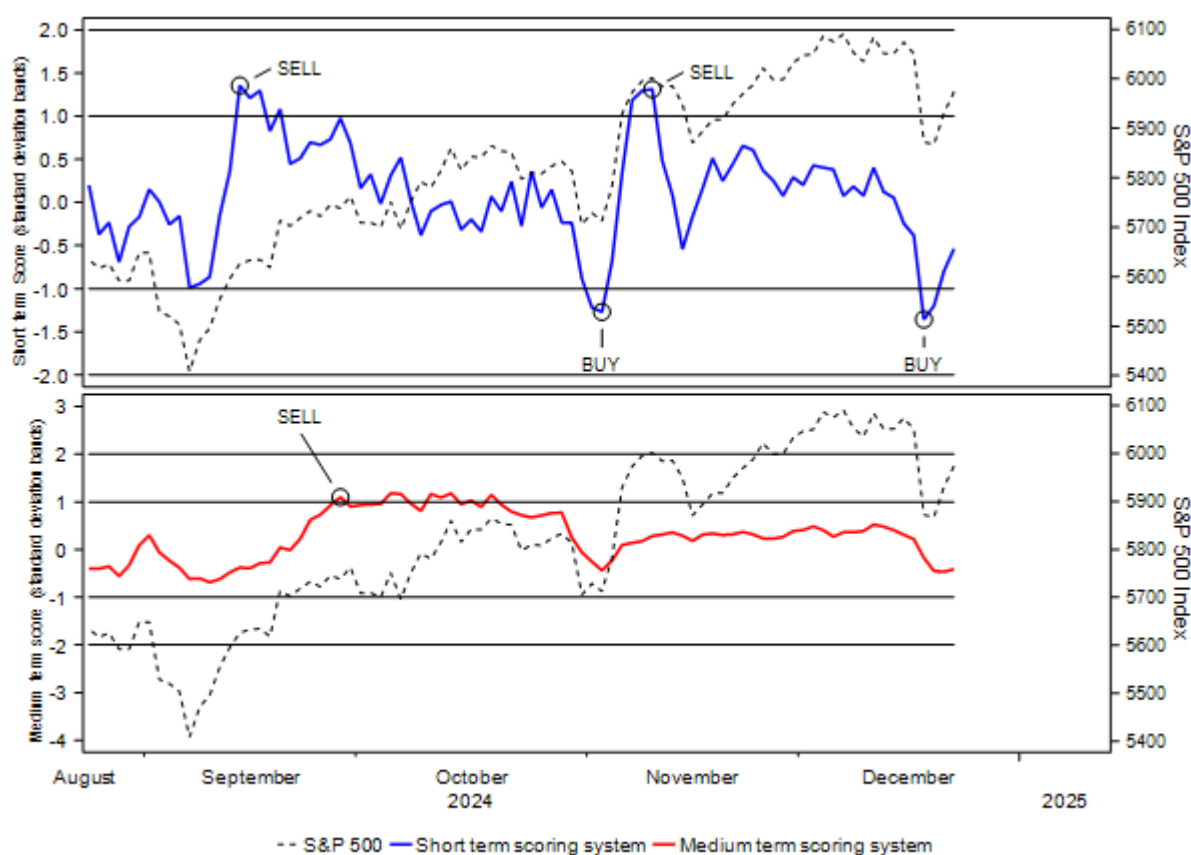


Key Longview Scoring Systems (chart below):

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: US Philadelphia Fed service sector activity (Dec, 1:30pm); US Richmond Fed manufacturing index (Dec, 3pm); Japanese PPI services (Nov, 11:50pm).

Key events today include: RBA publishes minutes from December meeting (12:30am).

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.



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1 – 2 Week View on Risk

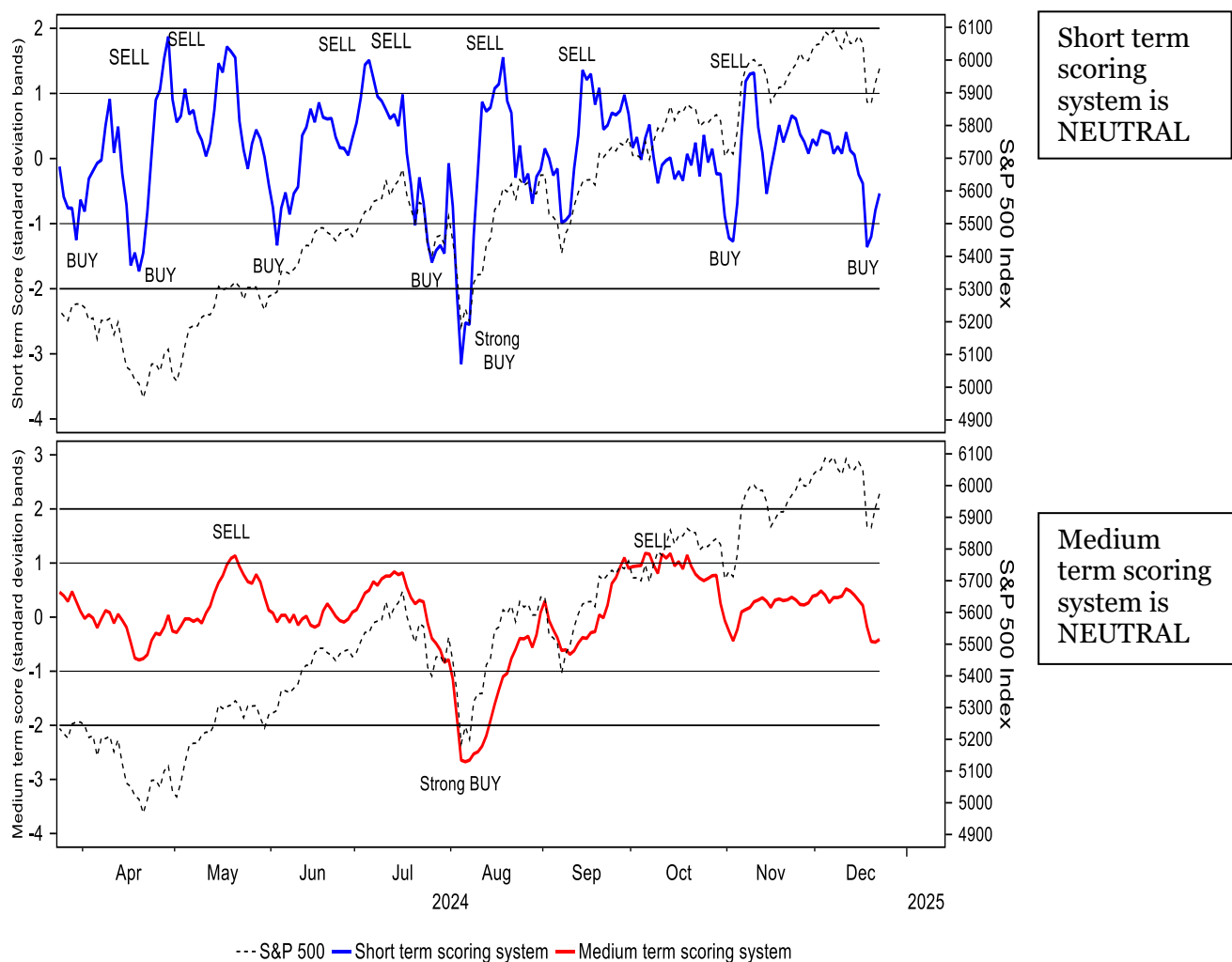
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24th December 2024

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

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



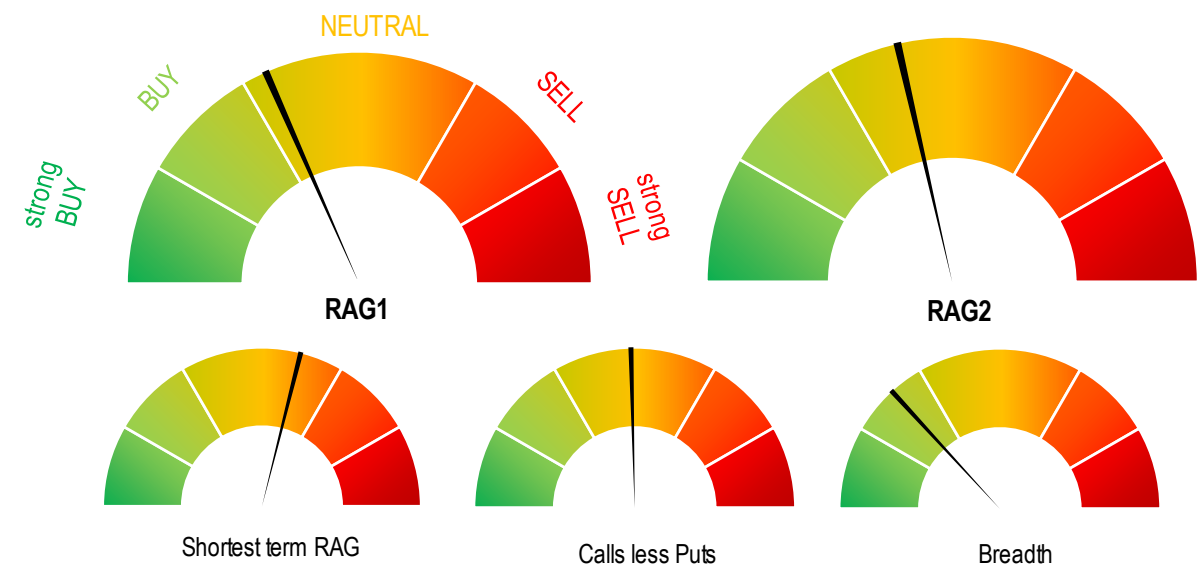
Source: Longview Economics, Macrobond

*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**

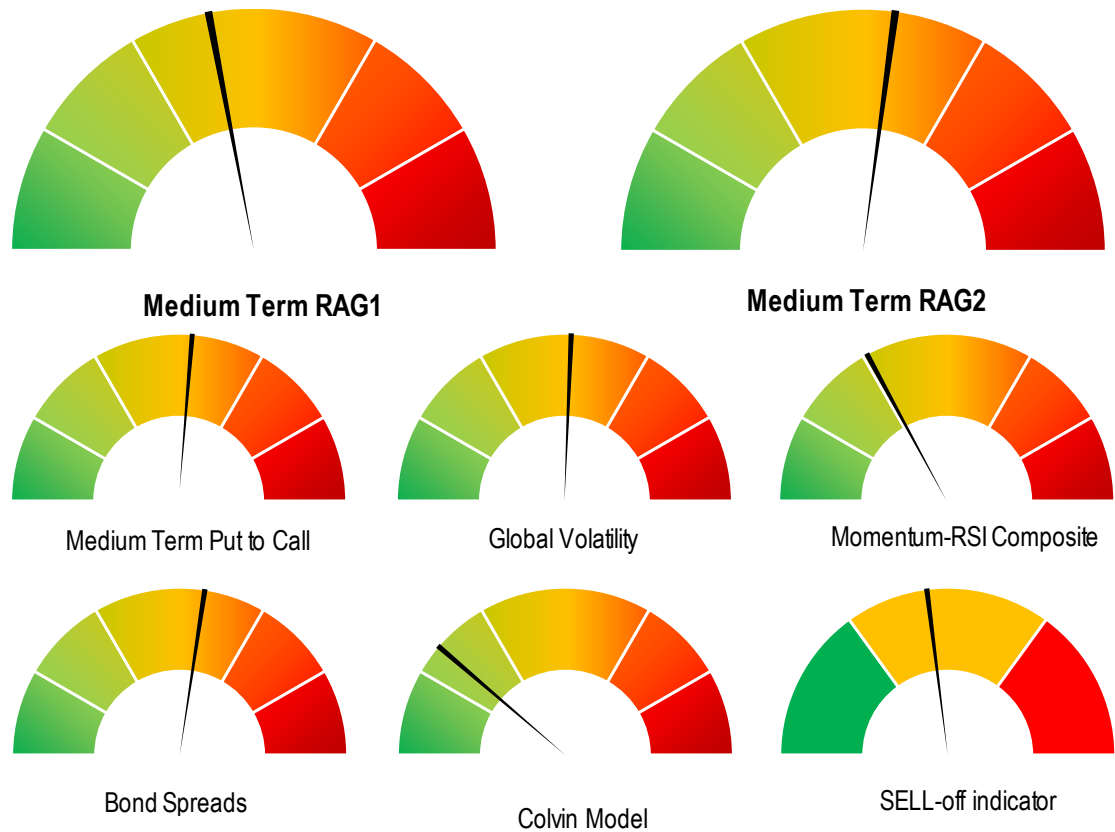
Section 1a: Summary of indicator signals**

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

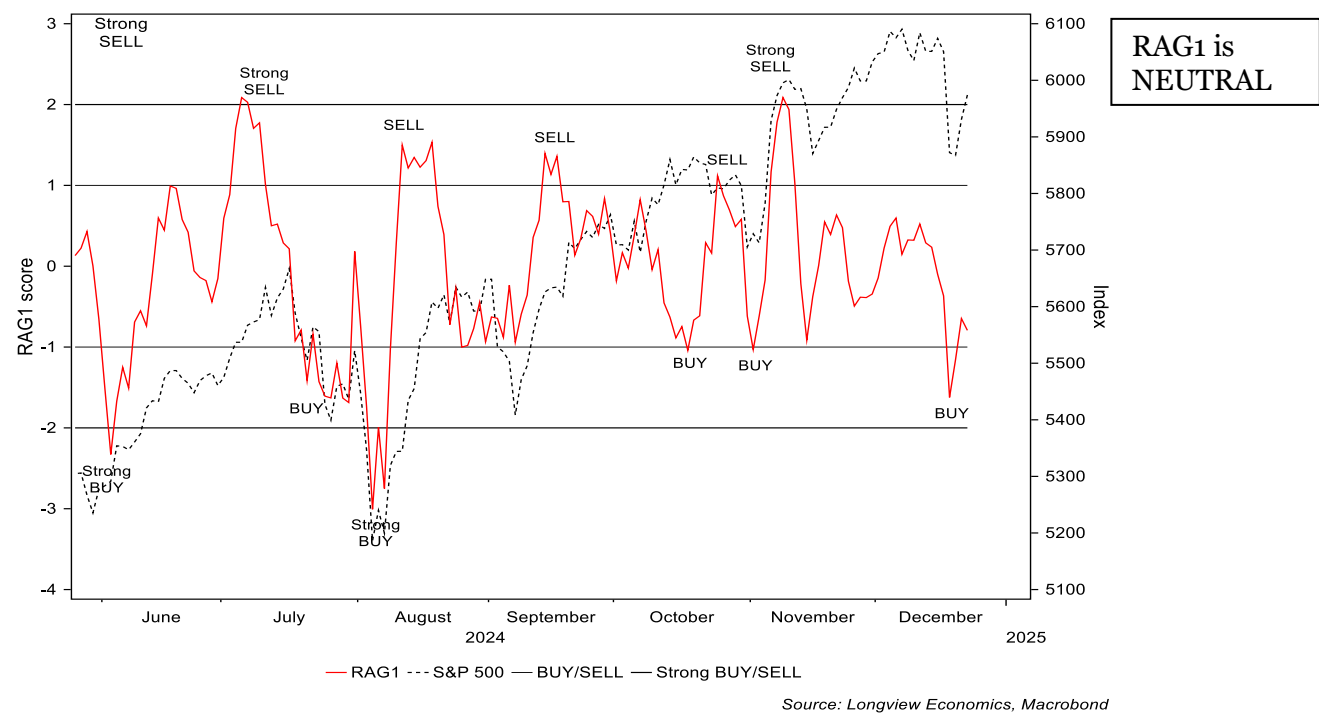
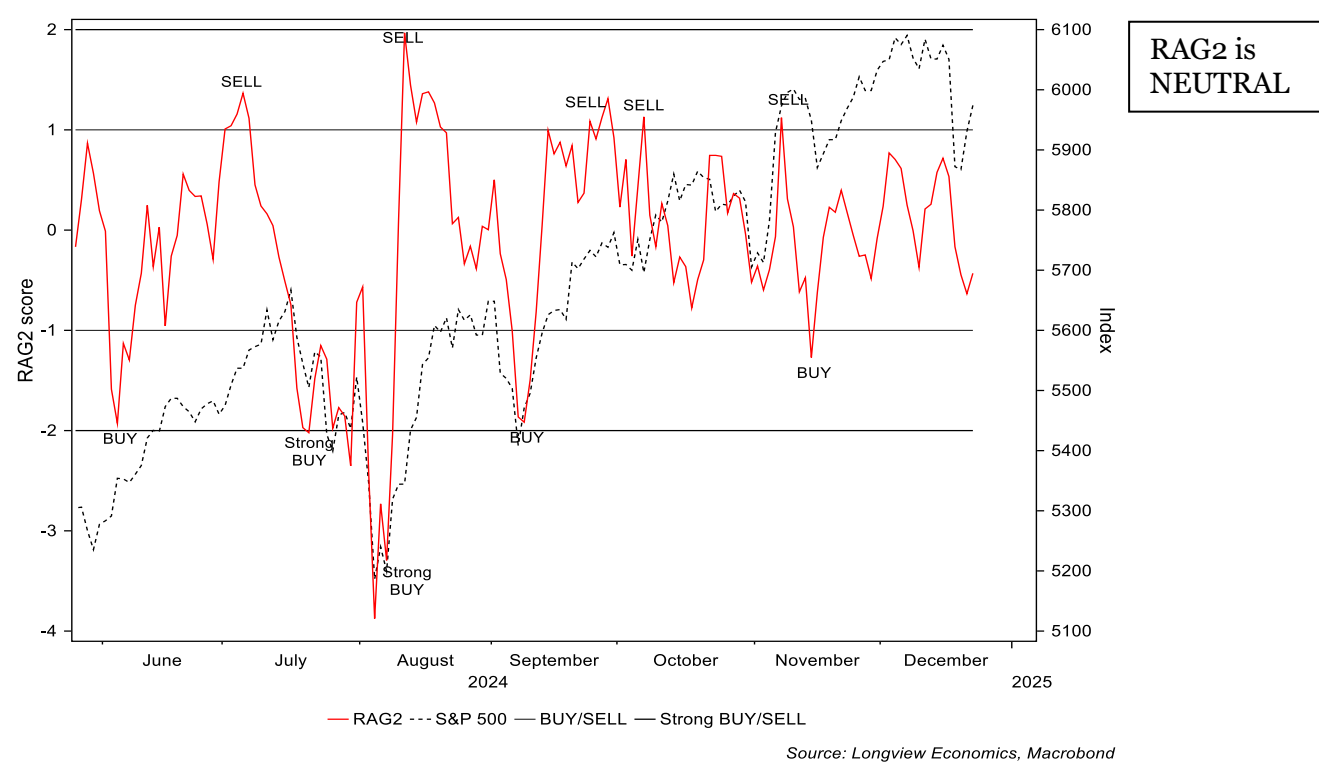


Fig 2b: RAG 2 vs. S&P 500



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

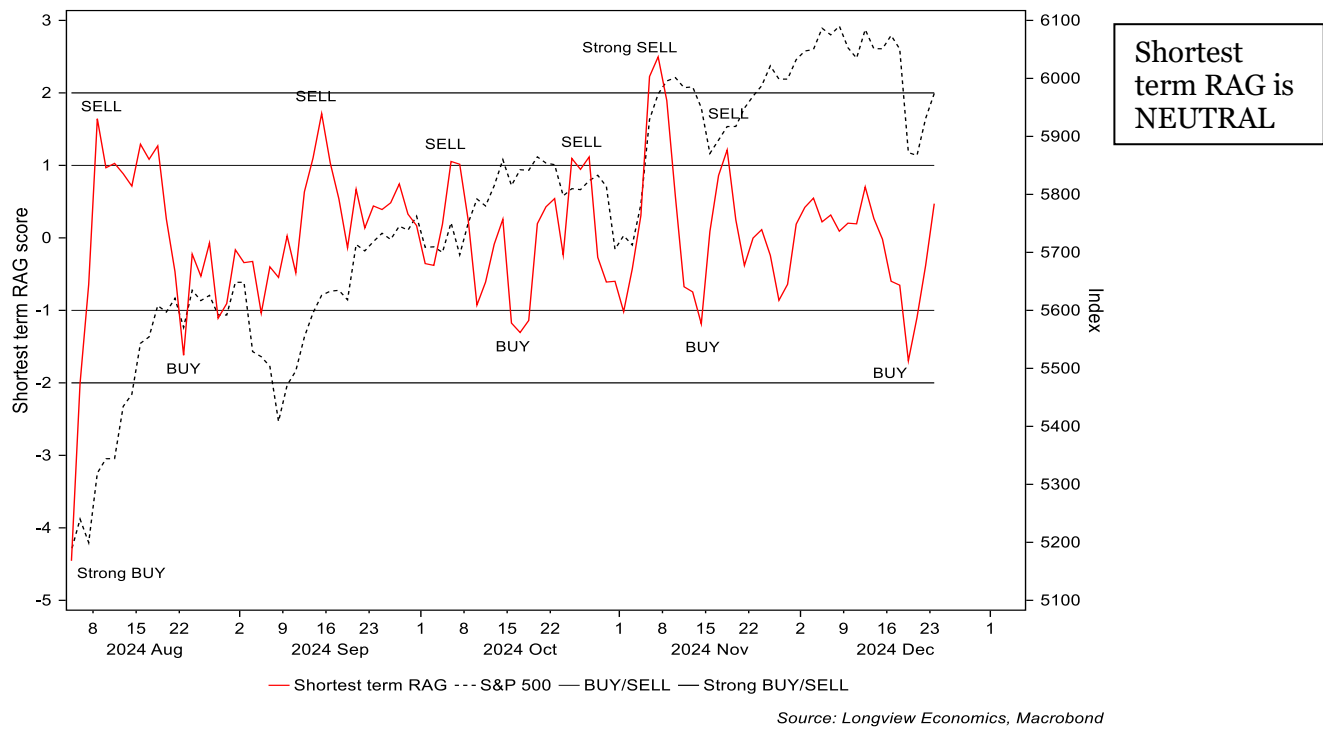
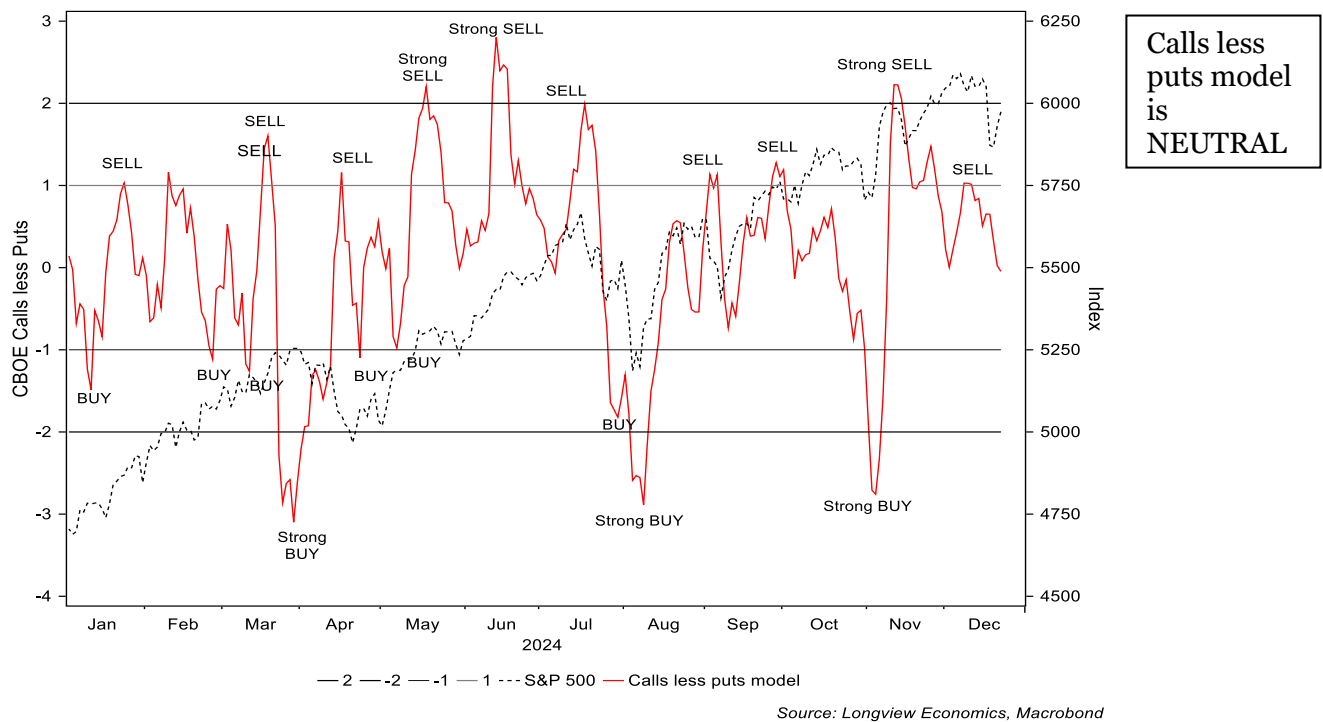
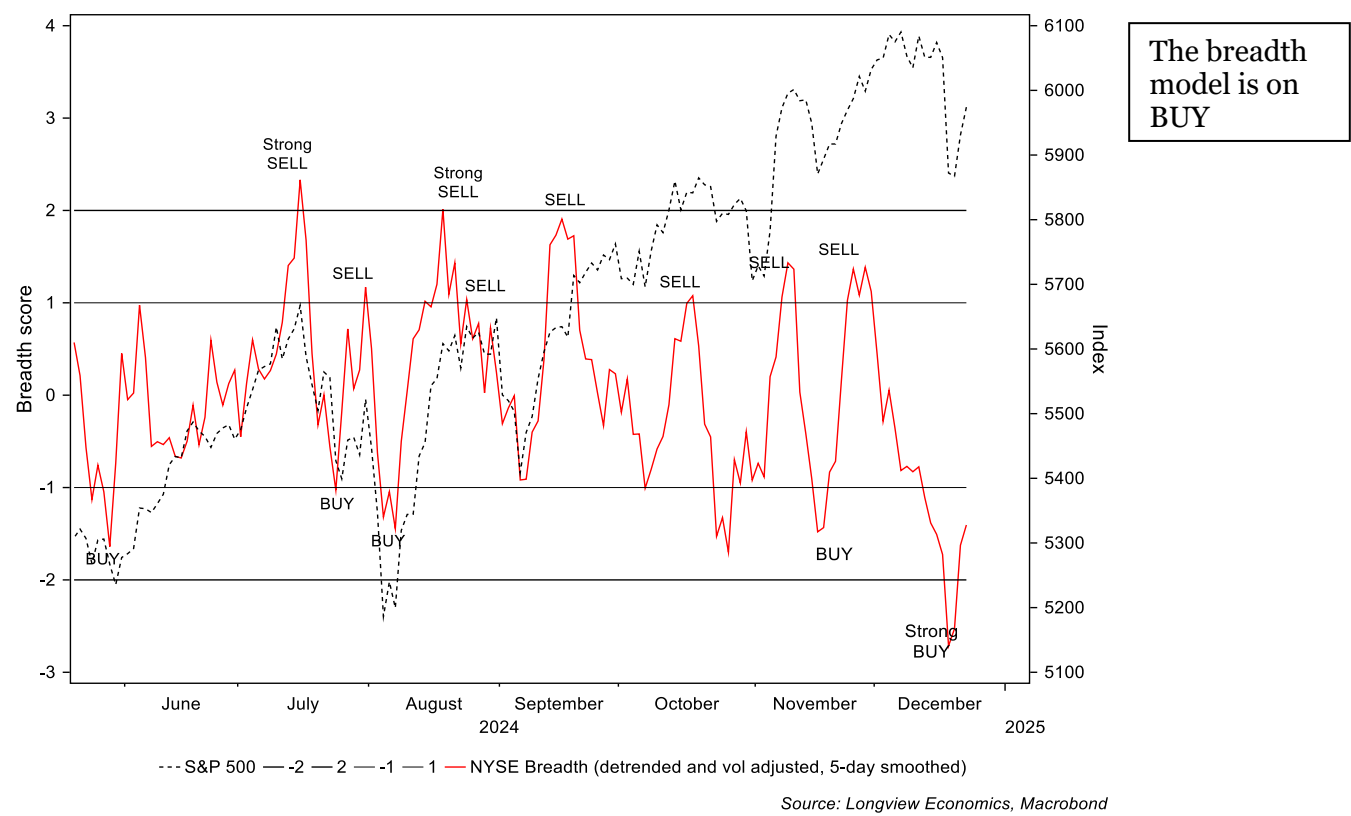


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

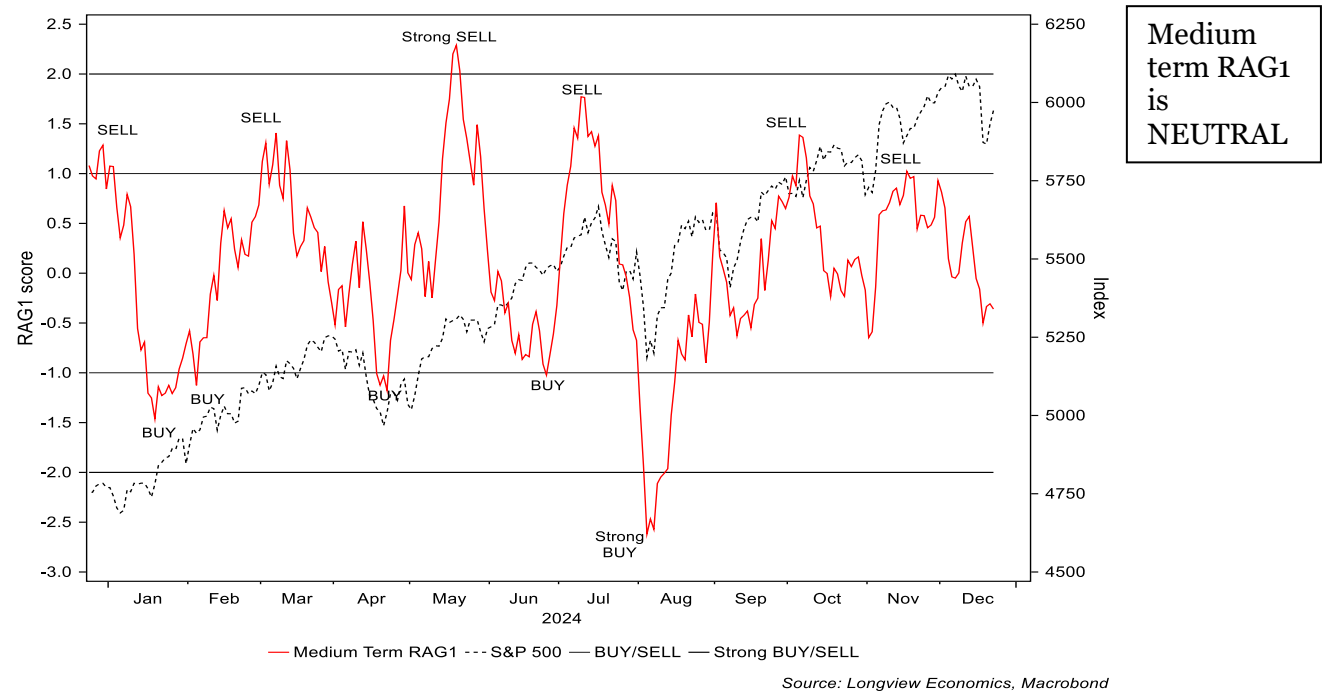
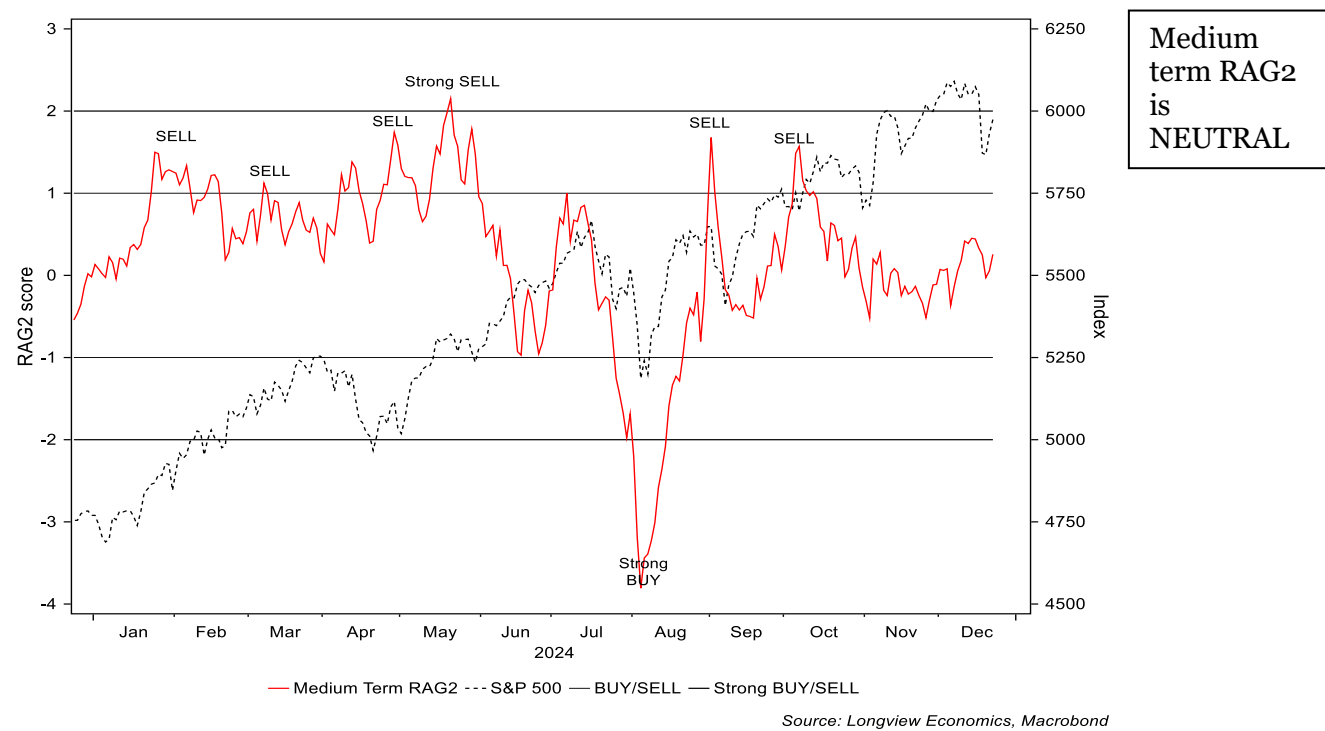


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

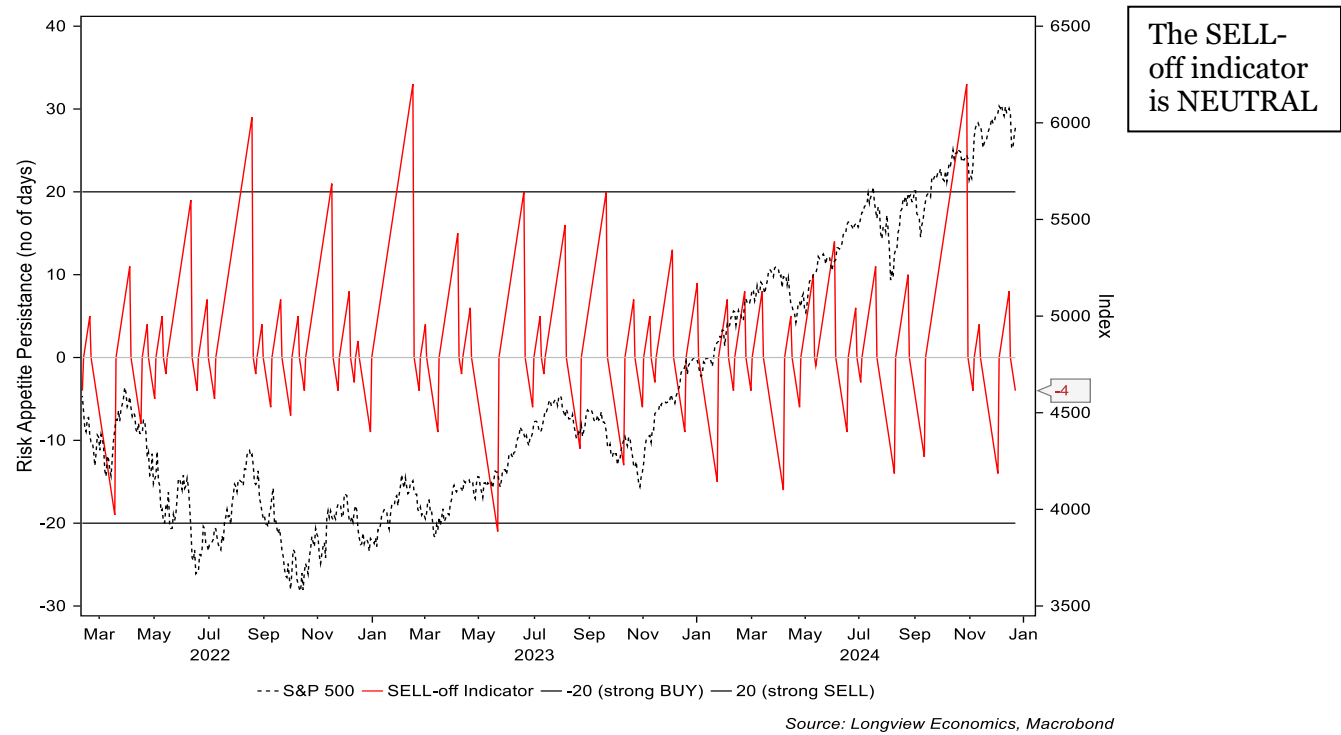
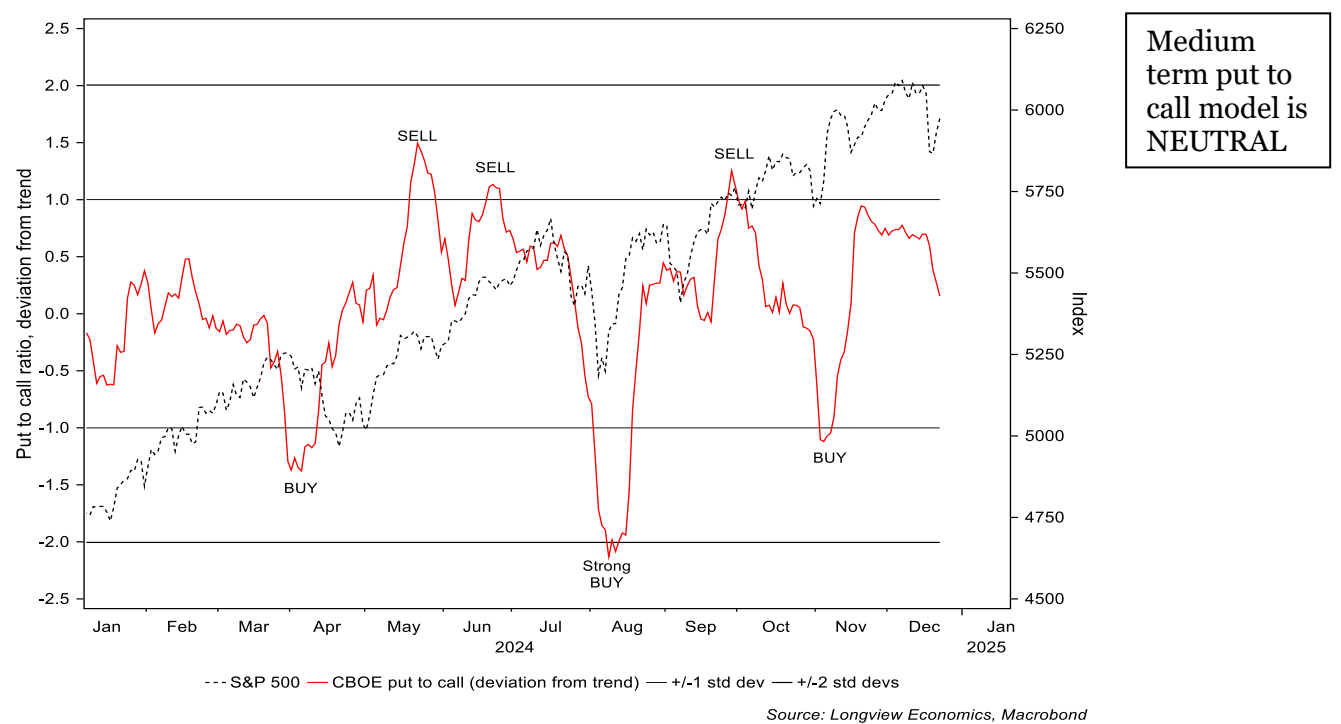


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

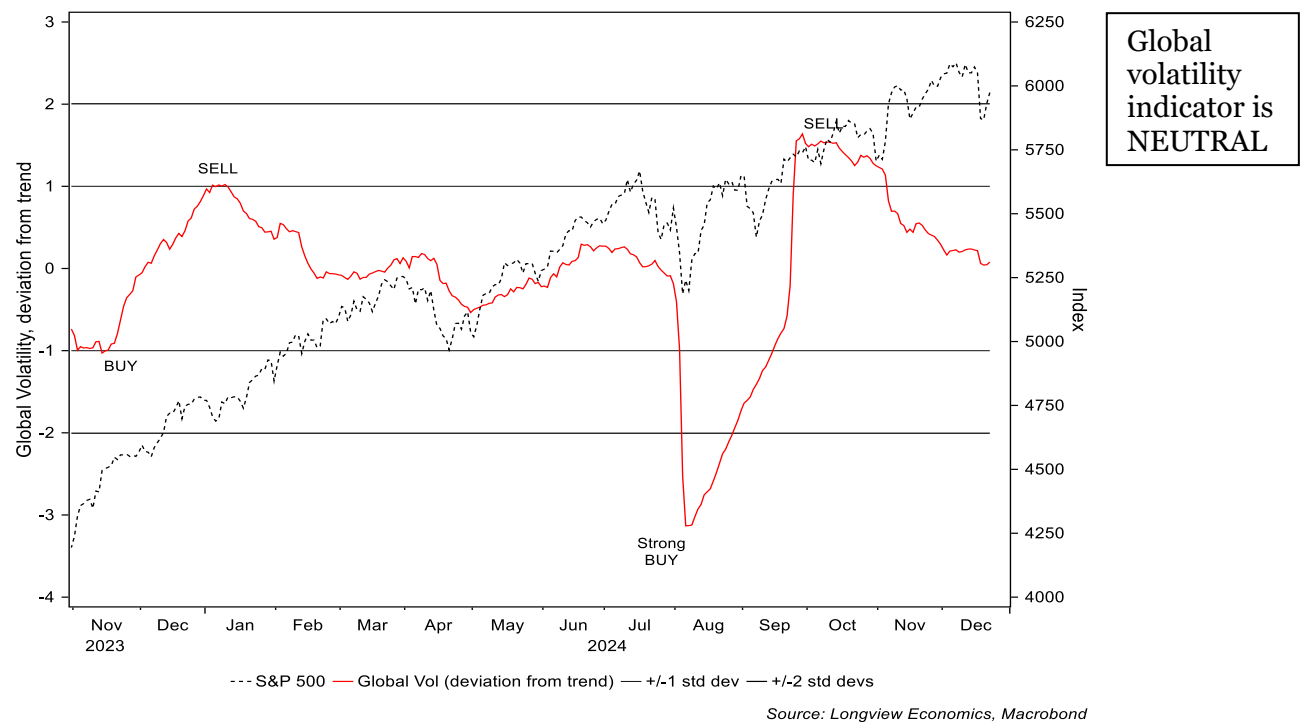


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

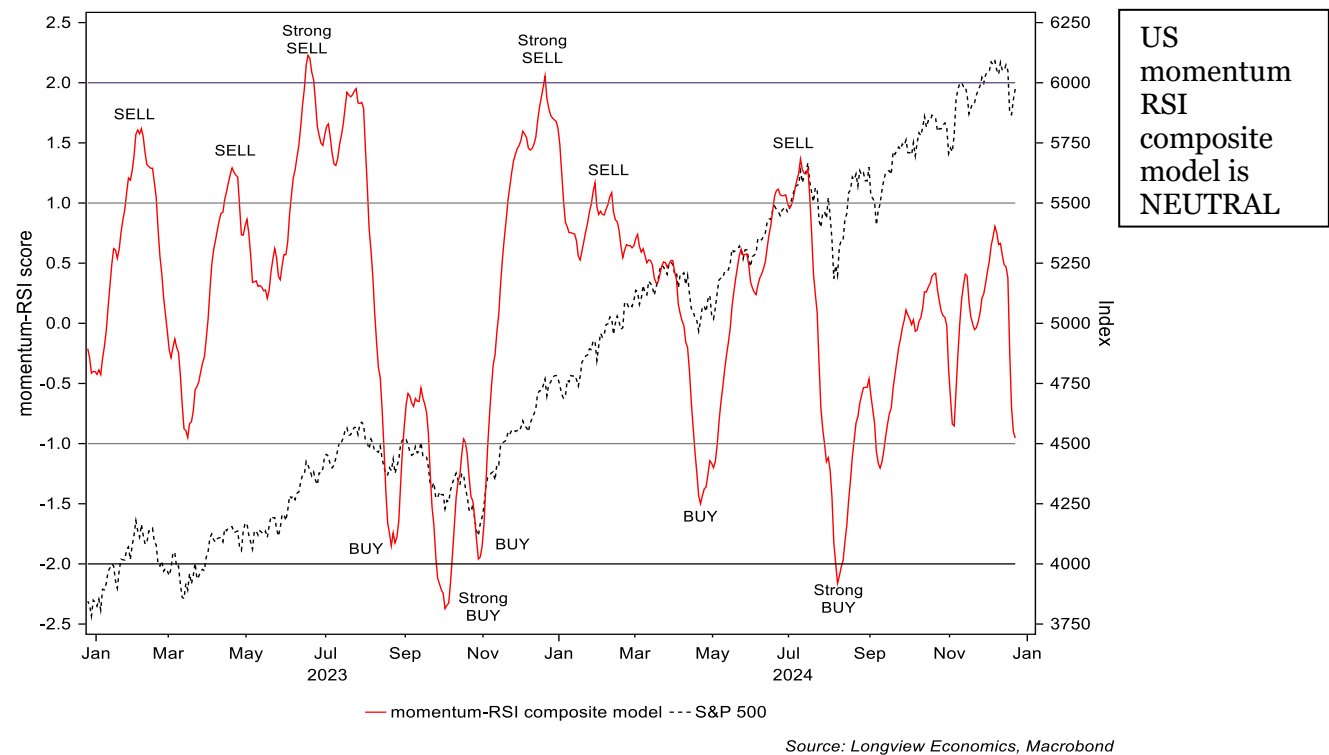


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

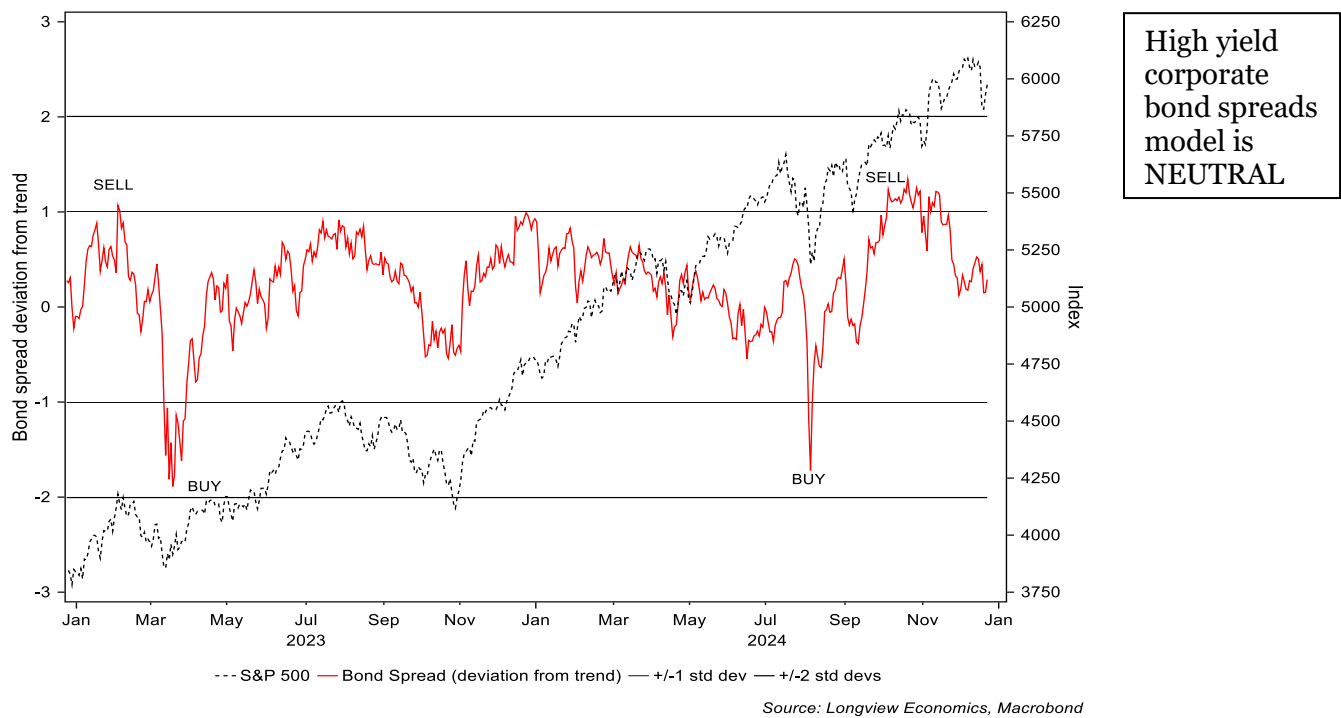
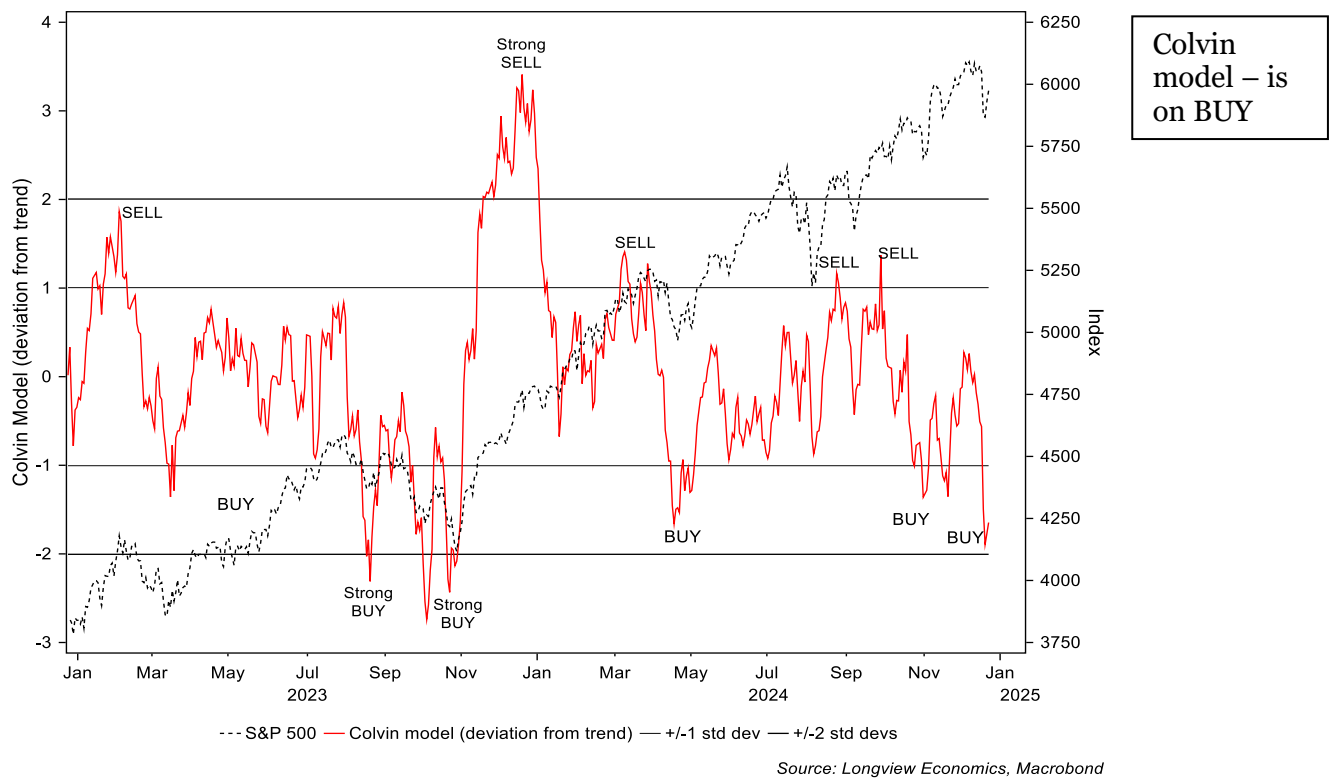


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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