Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

25th November 2024

"Increase LONG US Equity positions"

Email: info@longvieweconomics.com

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

- Stay ¼ LONG S&P500 December '24 futures (entry was last Wednesday at 5,952.75);
- Tighten stop loss to 5,915 (from 5,848 on Friday).
- Move ¼ LONG NASDAQ100 December '24 futures at current prices;
- Place stop loss at 20,540 (i.e. approx. 2% below current prices).

Rationale

Upward momentum in US equities continues to build. In particular, almost all of the 28 indices we track closed higher on the session on Friday. That was led by high beta parts of the market, including the S&P400 mid-caps (+1.7%); Russell 2000 small caps (+1.8%); and the NASDAQ Banks (+2.0%). The S&P500 also edged higher on Friday (+0.4%), continuing its pattern of making higher intra-day highs & lows (as it has been for most of the week, see FIG 1c). It also closed above its 10 day moving average, highlighting that momentum remains upwards.

Elsewhere the equal weighted S&P500 closed at a new high last Friday (FIG 1b), volatility remains low (and has failed to break above its 50 & 90 day moving averages, FIG 1d), while other US/global indices have rallied from key levels (e.g. see FIGs 1e & 1f).

Upward momentum has continued this morning, with most major US indices opening higher (e.g. S&P500 futures +0.4%). Arguably the overnight strength has been underpinned by Trump's pick for Treasury secretary (Scott Bessent), who (re)emphasised plans this weekend to cut taxes (& make Trump's first term tax cuts permanent), i.e. see yesterday's WSJ article (https://www.wsj.com/economy/scott-bessent-sees-a-coming-global-economic-reordering-he-wants-to-be-part-of-it-533d6e71).

Our view remains unchanged from last week. That is, the medium term uptrend in US equities has resumed (i.e. after some giveback of the initial election-related gains). Usually, in up-trending markets, it pays to stay with upward momentum, at least until short term models are generating a clear SELL message.

Currently, though, while our risk appetite models have moved higher, they are not yet back on SELL (see FIGs 2 & 2a). With that, several **short term indicators are still leaning towards BUY**. That includes our technical scoring systems for major indices (the S&P500, NASDAQ100, Philly SOX, and so on), which have recently generated BUY signals. These models have generated timely signals in recent months (FIGs 3 & 3a). Elsewhere various momentum models are still close to BUY (FIG 3b), while breadth models are starting to move higher/towards SELL (i.e. having recently been on BUY, see FIGs 3c & 3d). Overall, therefore, while models are starting to move higher, they point to further headroom in this equity market (i.e. over coming days/weeks). Added to which the S&P500 is not currently overextended relative to its 10 day moving average. In up trending markets, it typically pays to stay with upward momentum until it reaches an overextended state on this model (FIG 1a).

The **risk reward therefore favours staying LONG** S&P futures. We also recommend complimenting that with a LONG NASDAQ100 futures position (see above for detailed recommendation). Of note, as well as the NDX technical scoring system, a number of other NASDAQ100 specific indicators point to further upside in that index (e.g. NDX breadth & momentum models, FIGs 3e & 3f).

Risks, as always, are multiple, and include some signs of near term complacency. That is, portfolios are not well protected to the downside (i.e. the 3 day CBOE put to call ratio is on SELL, see FIG 4), while positioning in single stocks is bullish (see the volume of outstanding call options, FIG 4a). We therefore favour tightening the stop loss, to 5,915, i.e. to just below the mid-October highs (and approx. 1.6% below current levels, see above for detailed recommendation).

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

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 futures shown with 10 & 50 day moving averages

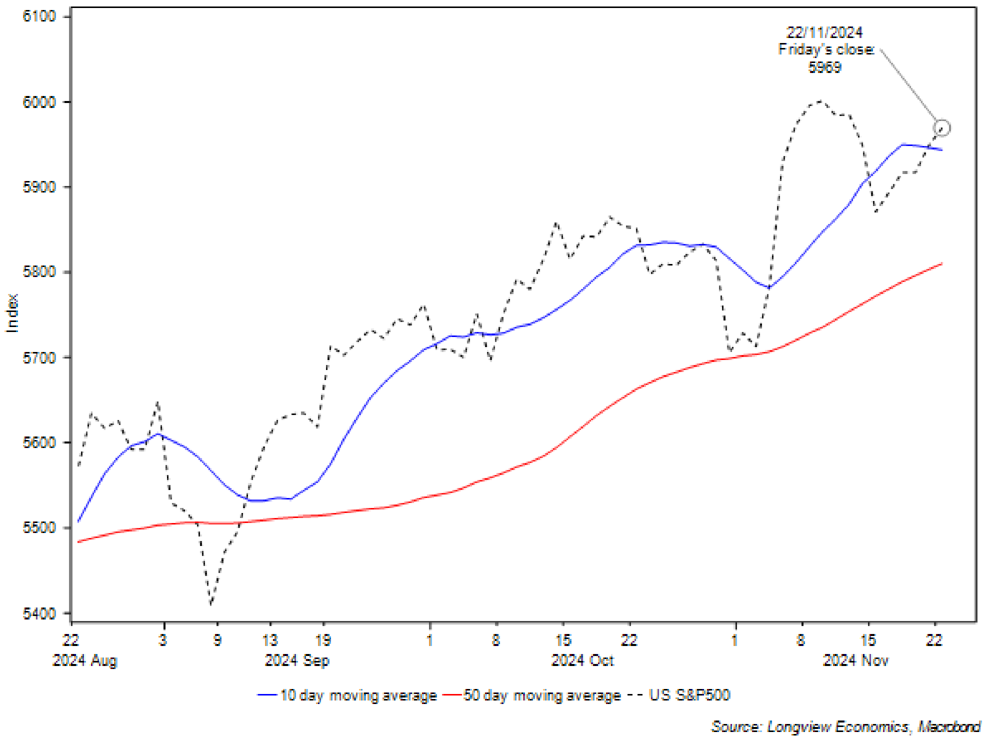

FIG 1a: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500

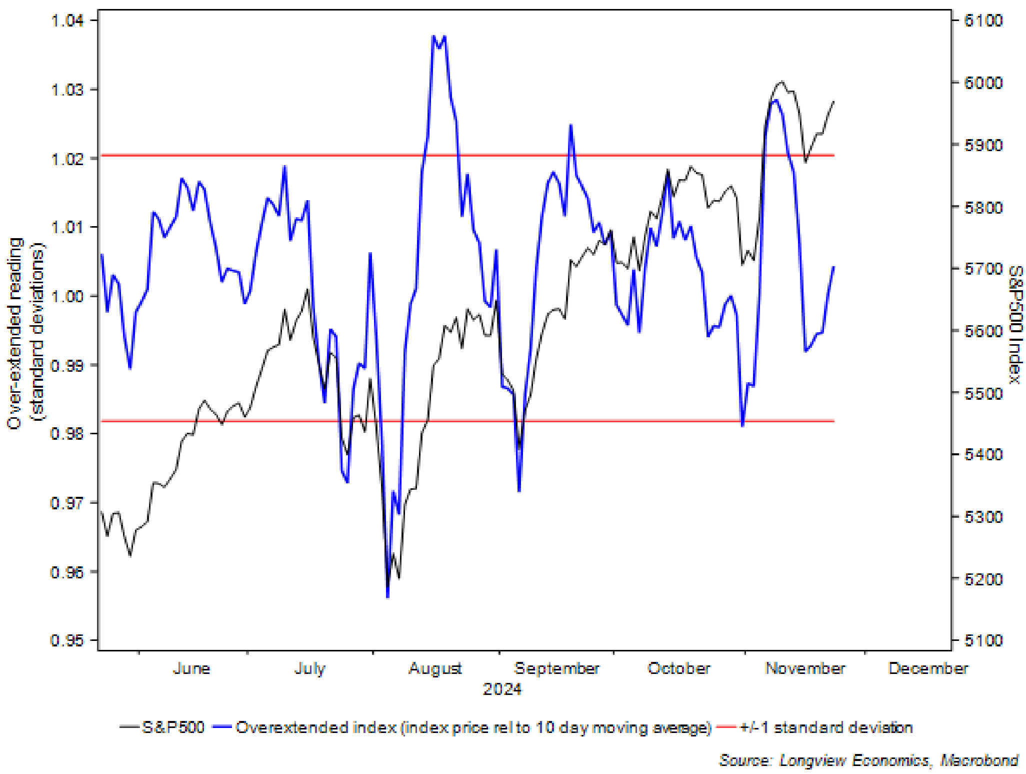

FIG 1b: Equal weighted S&P500 index, with its 50 & 200 day moving averages

FIG 1c: S&P500 futures candlestick shown with its 50 day moving average

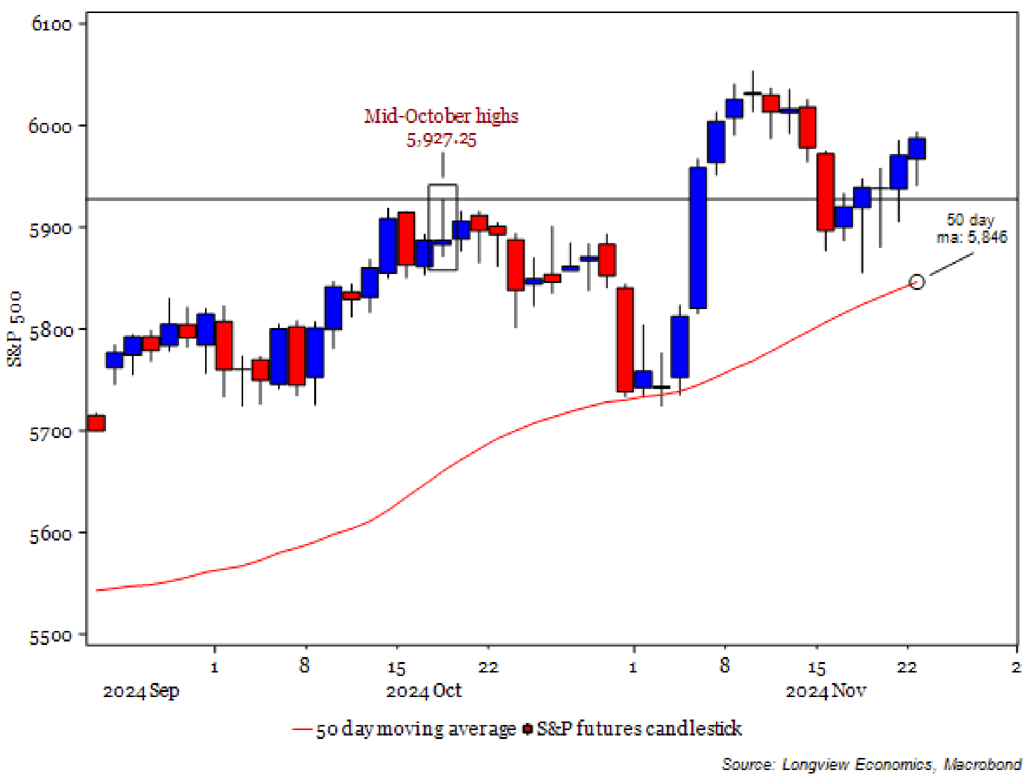

FIG 1d: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

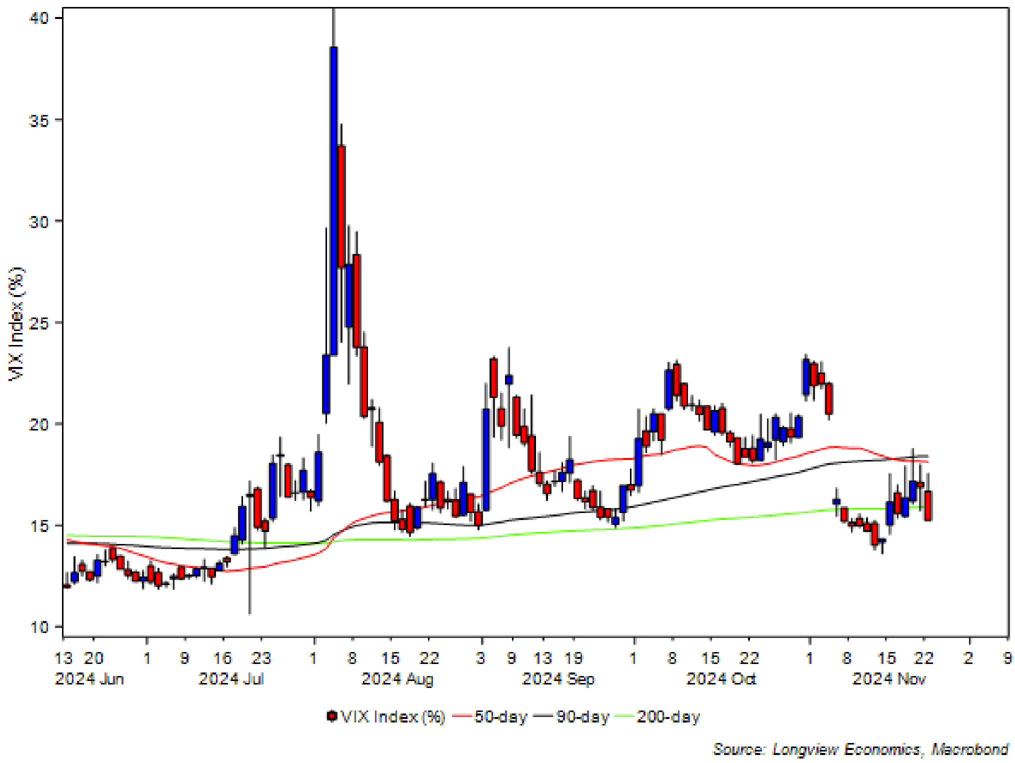

FIG 1e: Russell 2000 futures candlestick shown with 50 & 200 day moving averages

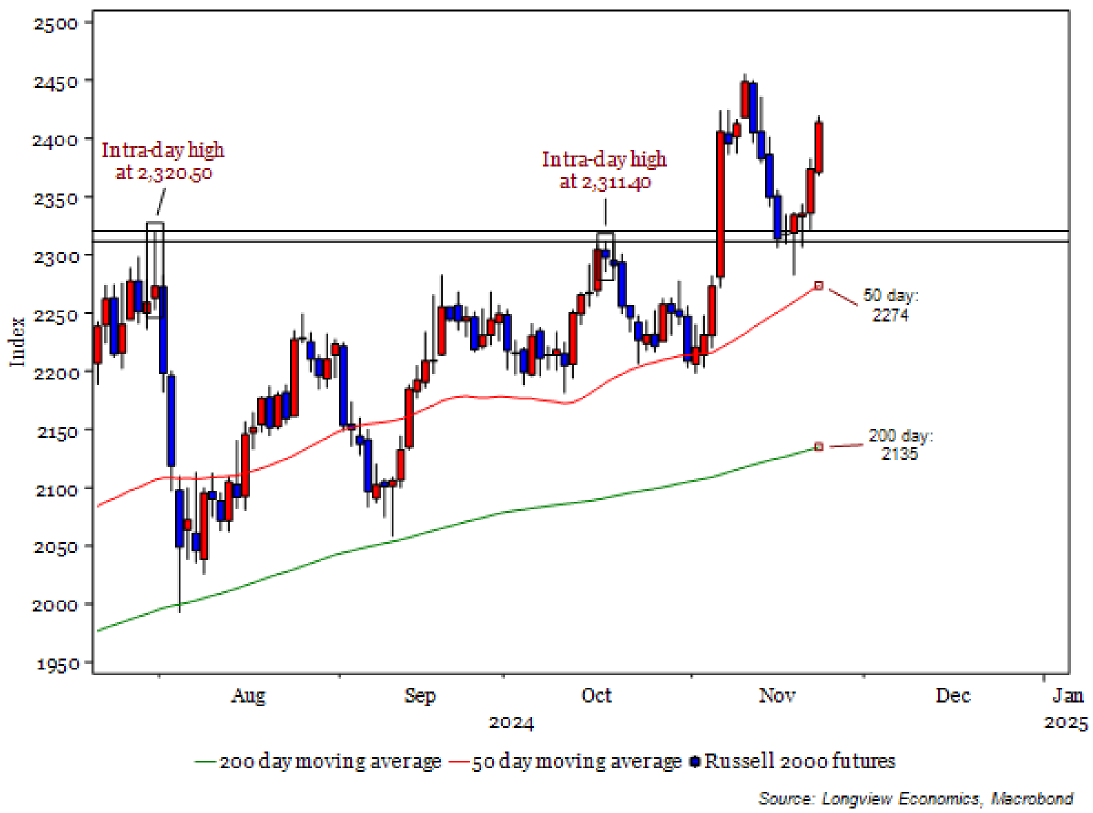

FIG 1f: DJ global equity index shown with 50 & 200 day moving averages

FIG 1g: S&P500 Dec '24 futures shown with overnight price action

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Short-term risk appetite models are mid-range…

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

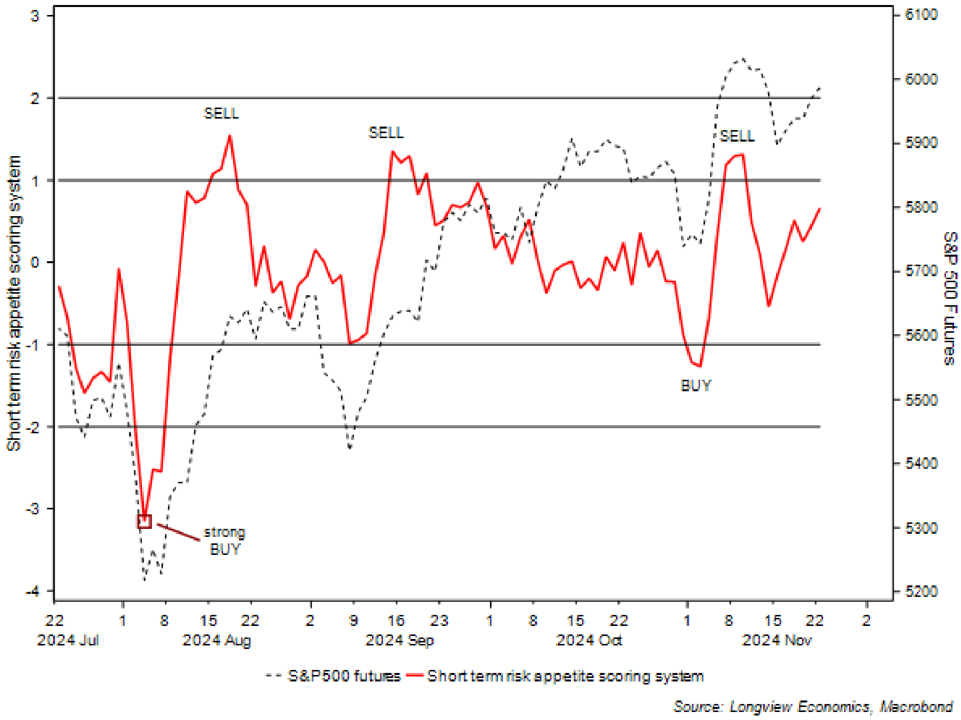
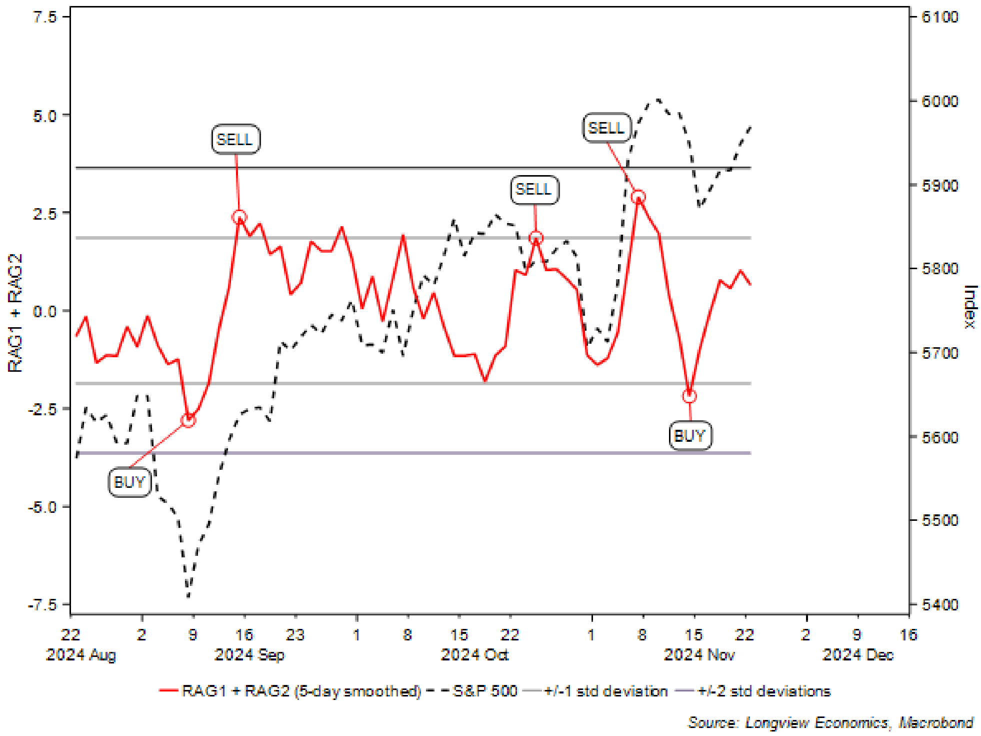
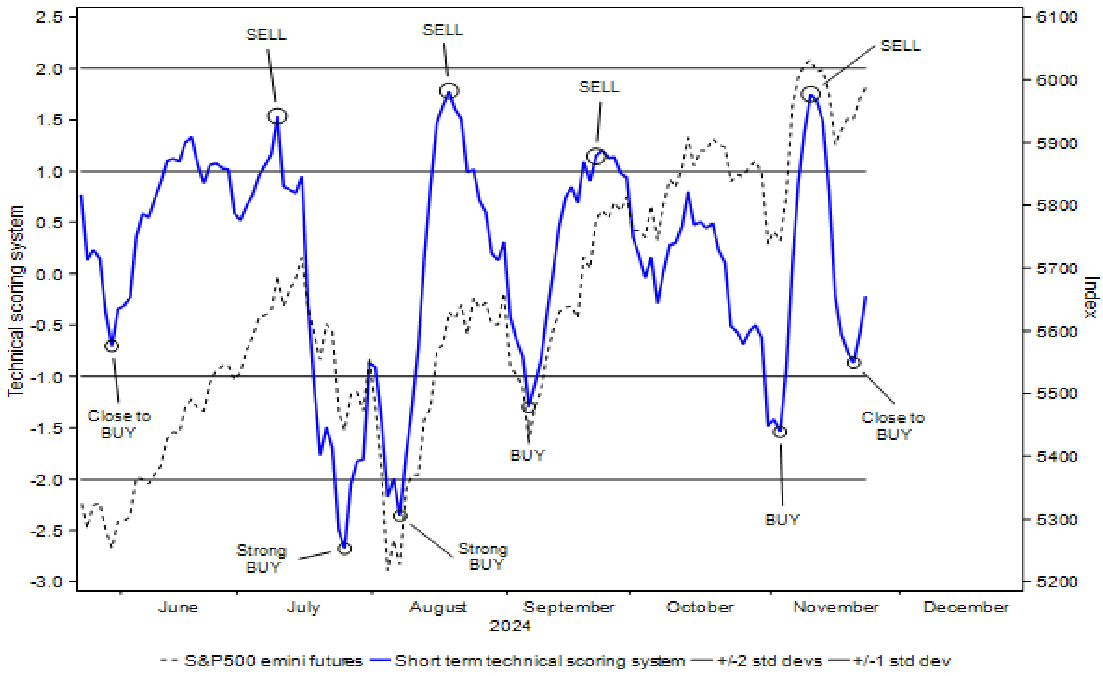


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



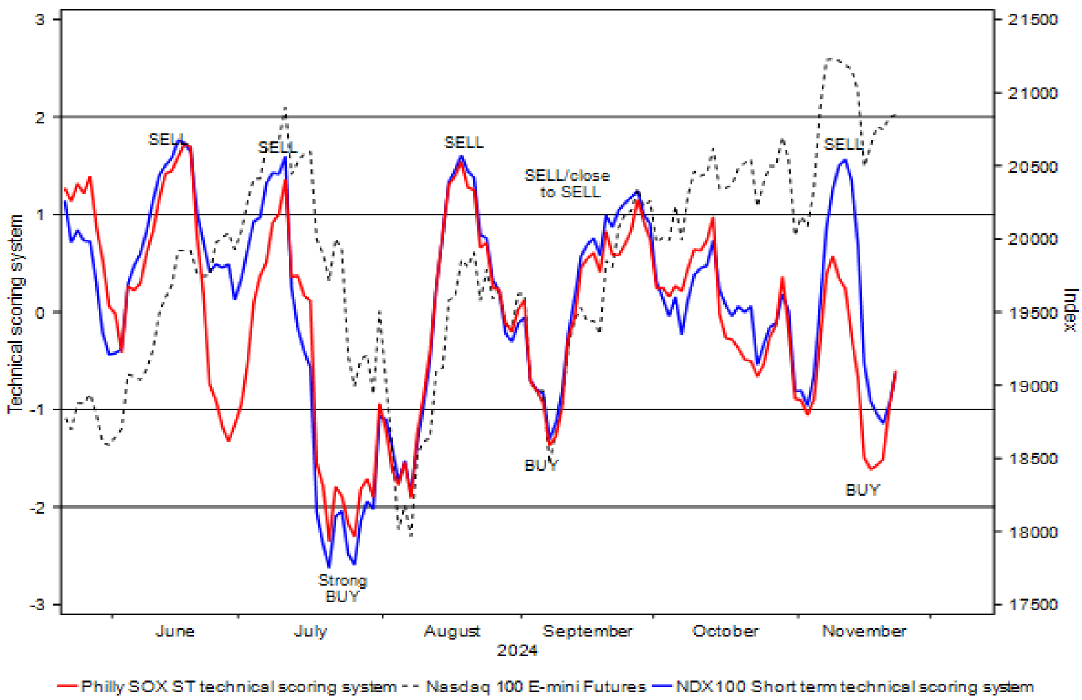
Other short-term models are on/close to BUY levels...

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

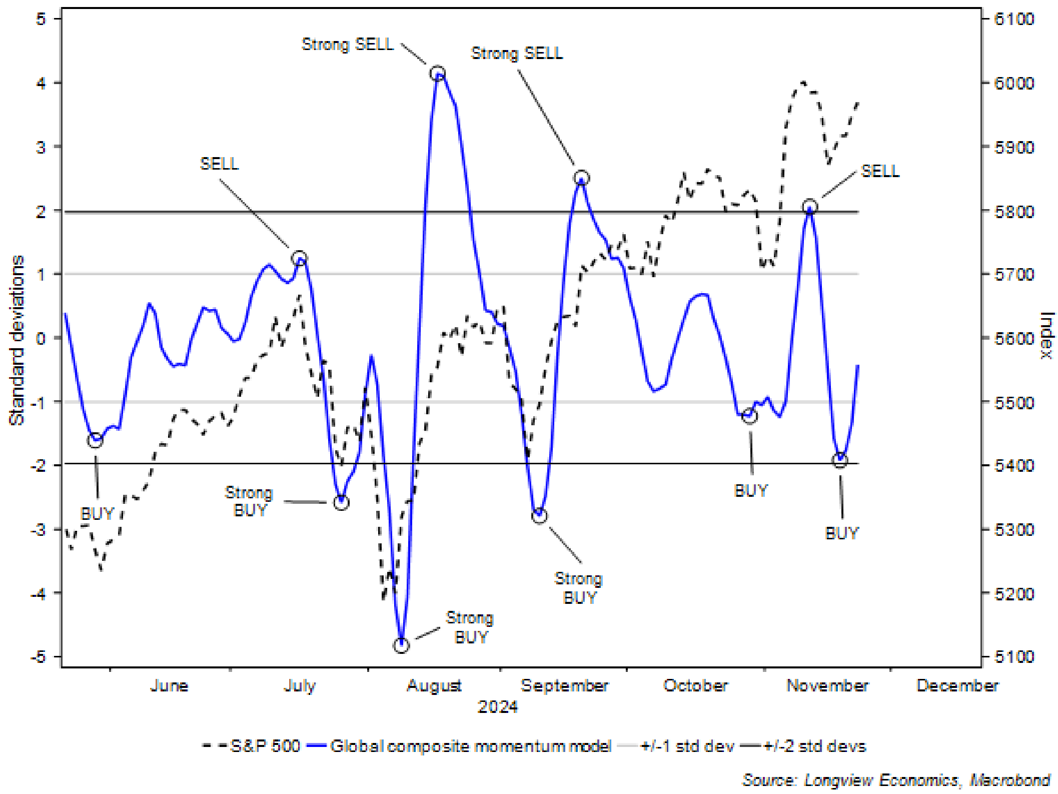


FIG 3c: Proportion of US stocks above their 10-day moving average vs. S&P500

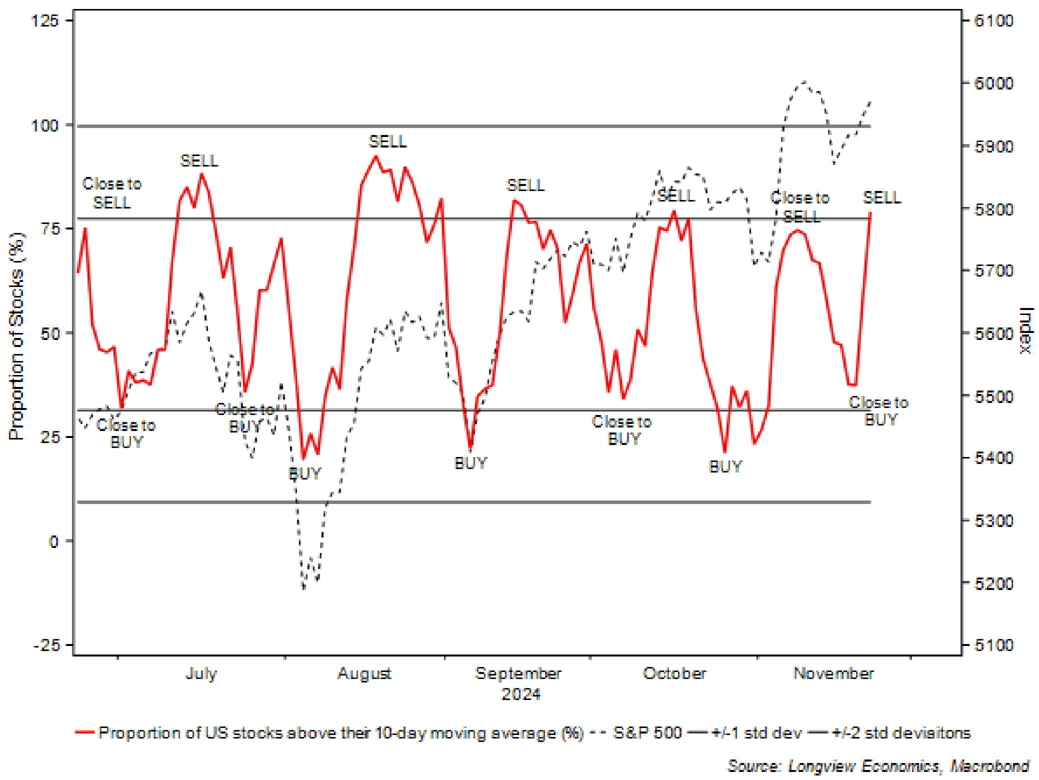


FIG 3d: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index

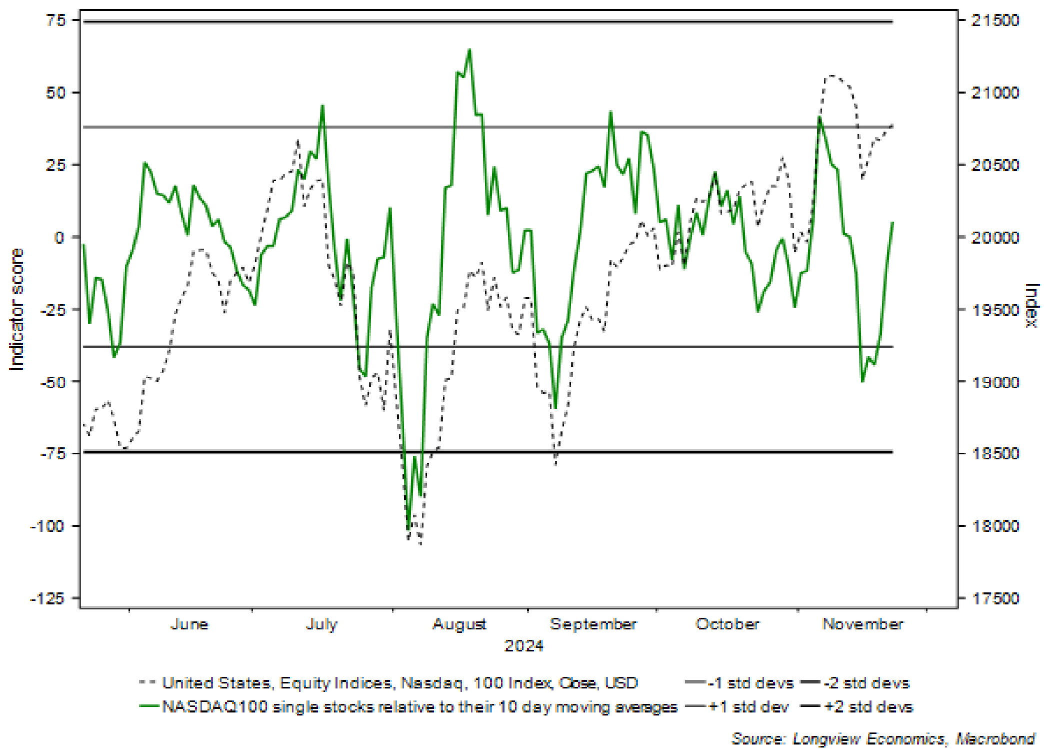


FIG 3e: NDX100 momentum model shown vs. NDX100

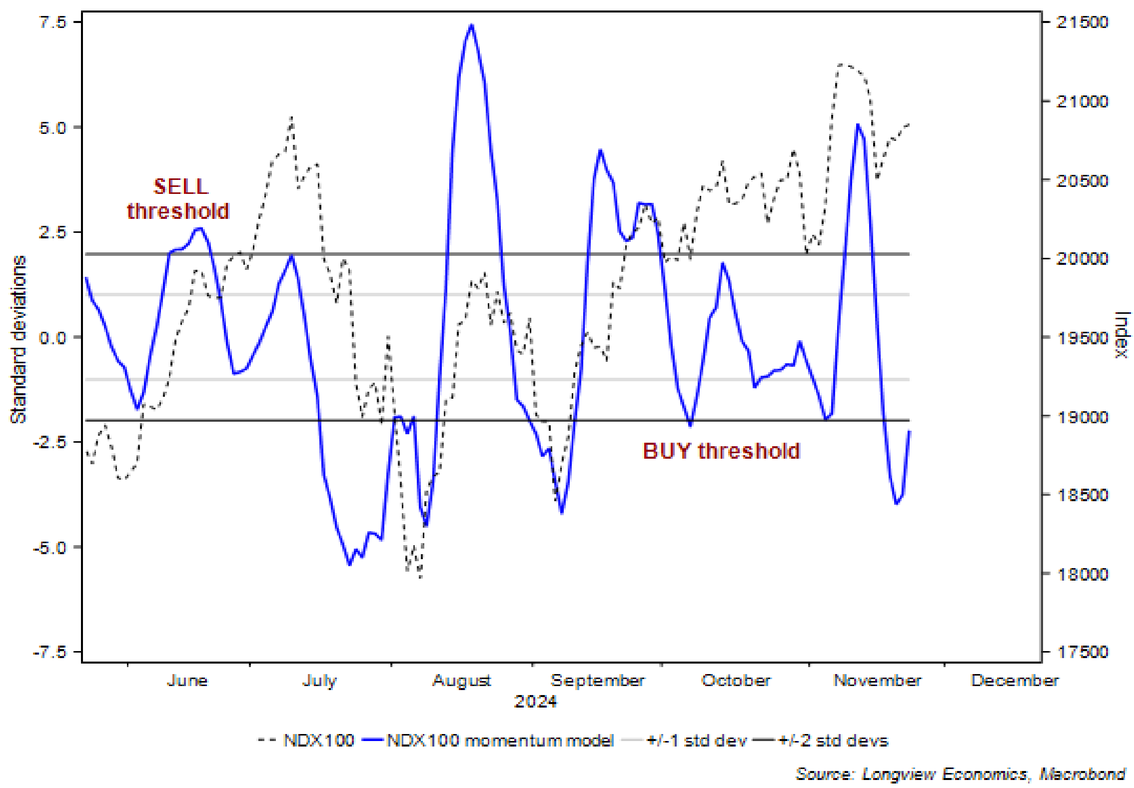
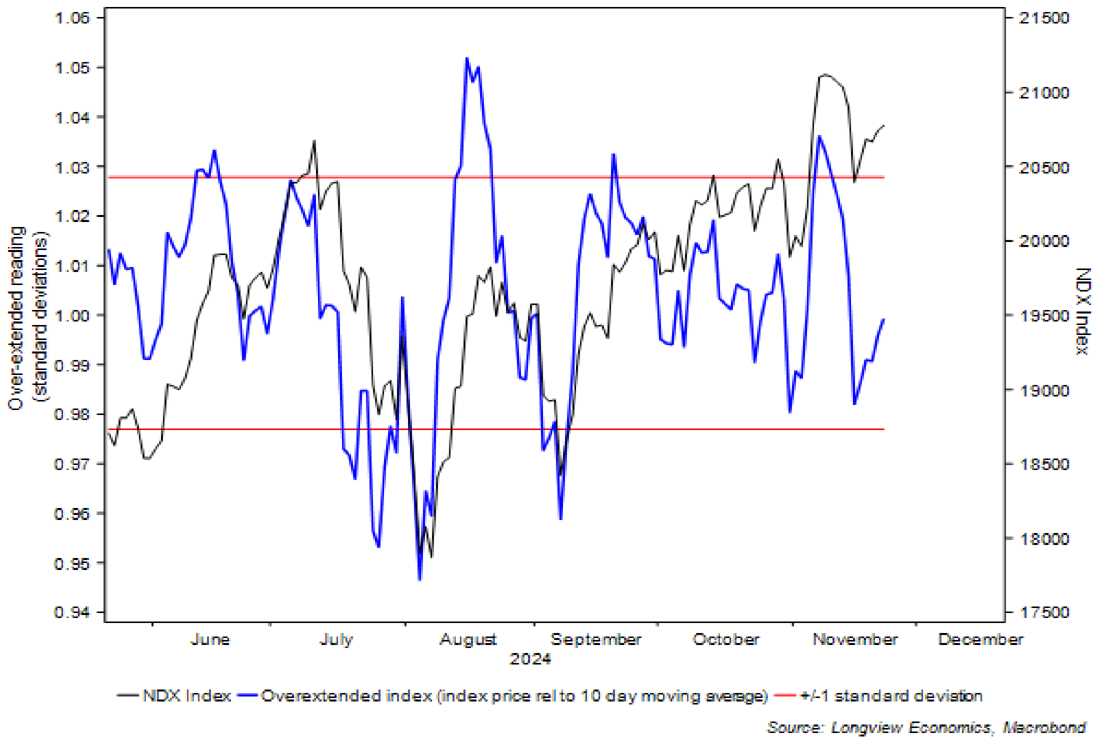
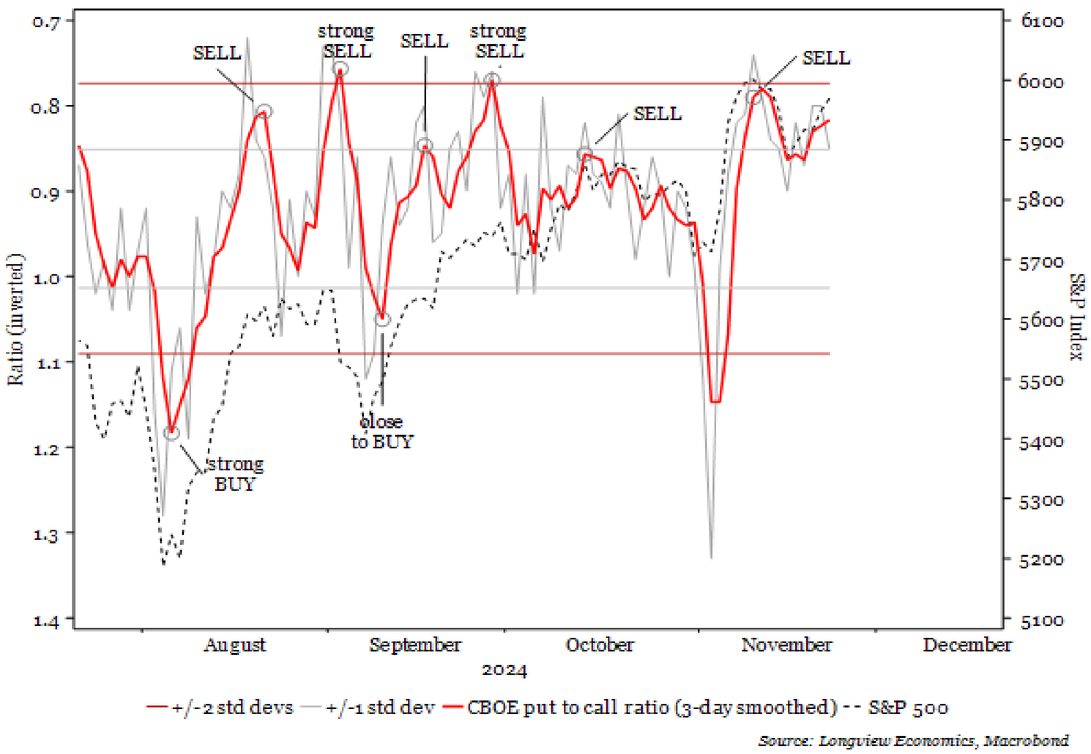


FIG 3f: NDX100 overextended index (index price relative to 10 day moving average) vs. NDX100



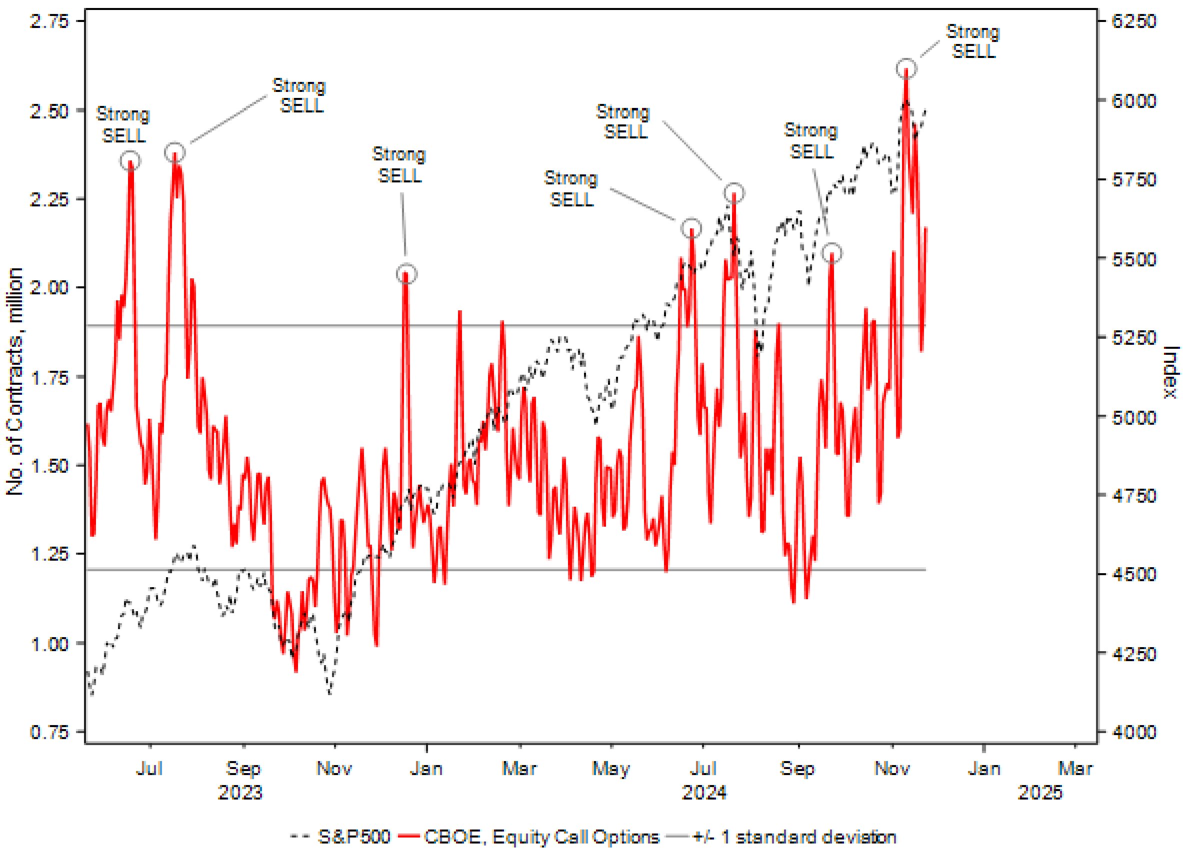
Source: Longview Economics, Macrobond

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

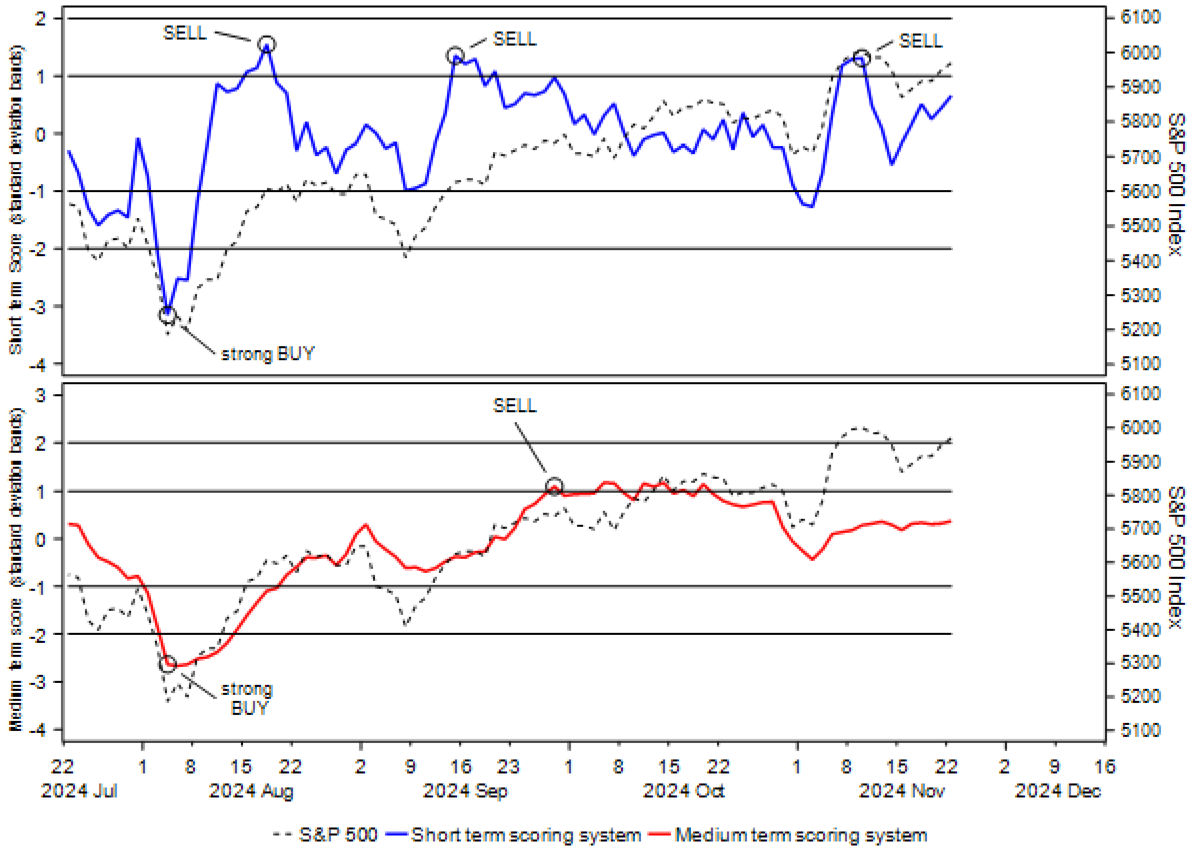


Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Japanese ESRI leading index (September final estimate, 5am); Spanish PPI (Oct, 8am); **German IFO business climate** (Nov, 9am); US Chicago Fed national activity index (Oct, 1:30pm); US Dallas Fed manufacturing sector activity (Nov, 3:30pm); Japanese PPI services (Oct, 11:50pm).

Key events today include: Speeches by the Bank of England's Lombardelli & Dhingra at the BOE Watchers' conference in London (9am & 10:30am); speeches by the ECB's Lane in London (4:30pm), Nagel in Dortmund (5:30pm) & Makhlouf at Society of Professional Economists annual dinner (7pm).

Key earnings today include: **Agilent Technologies.**

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.

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Daily Risk Appetite Gauge

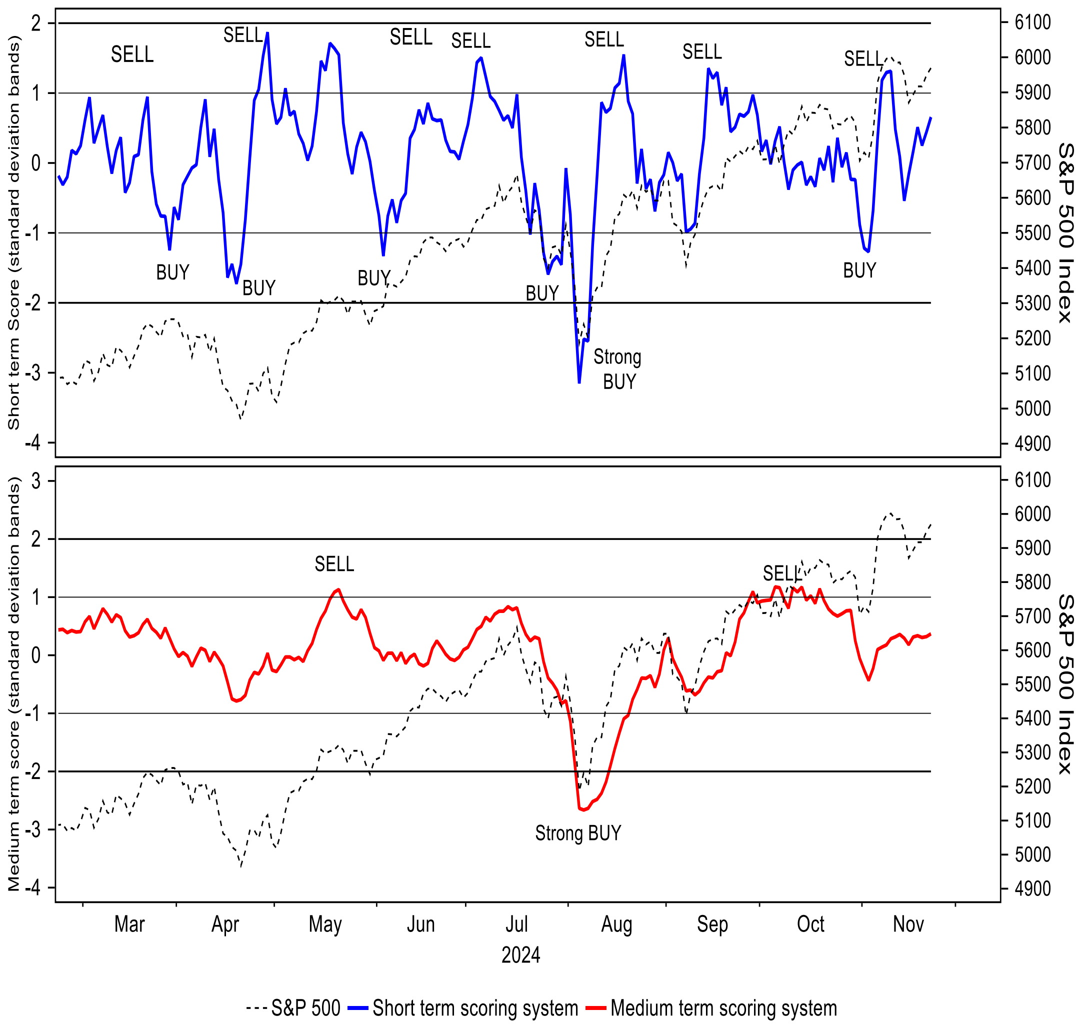
1 – 2 Week View on Risk

25th 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

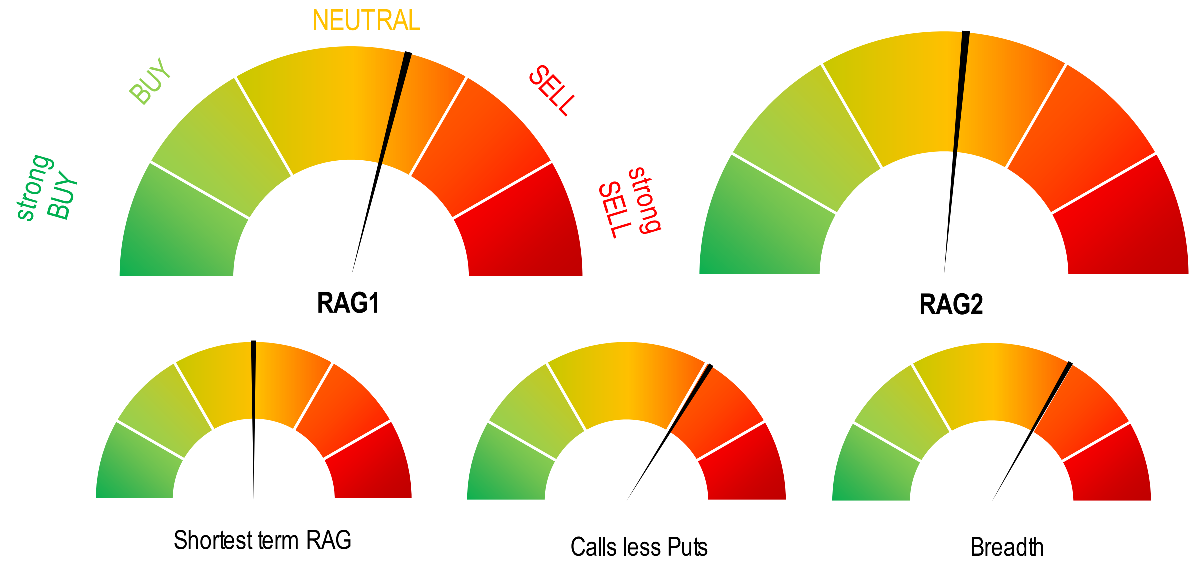
Source: Longview Economics, Macrobond

*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

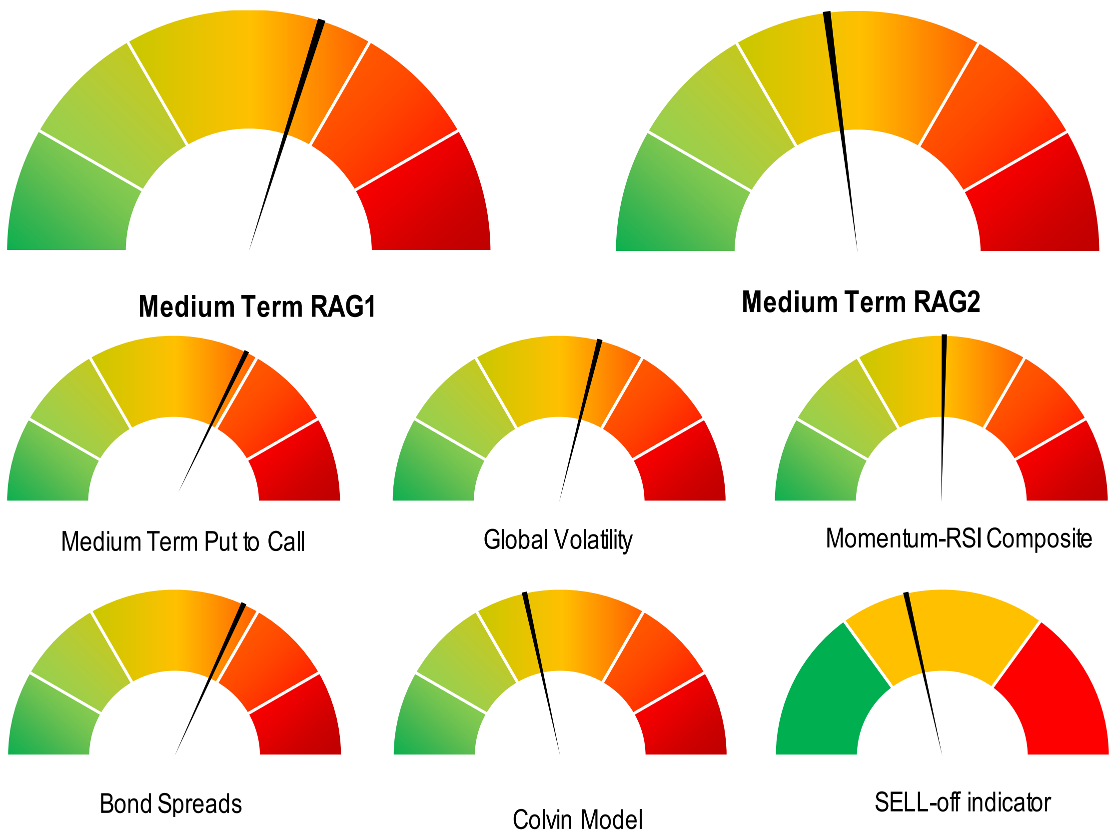
Section 1a: Summary of indicator signals**

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

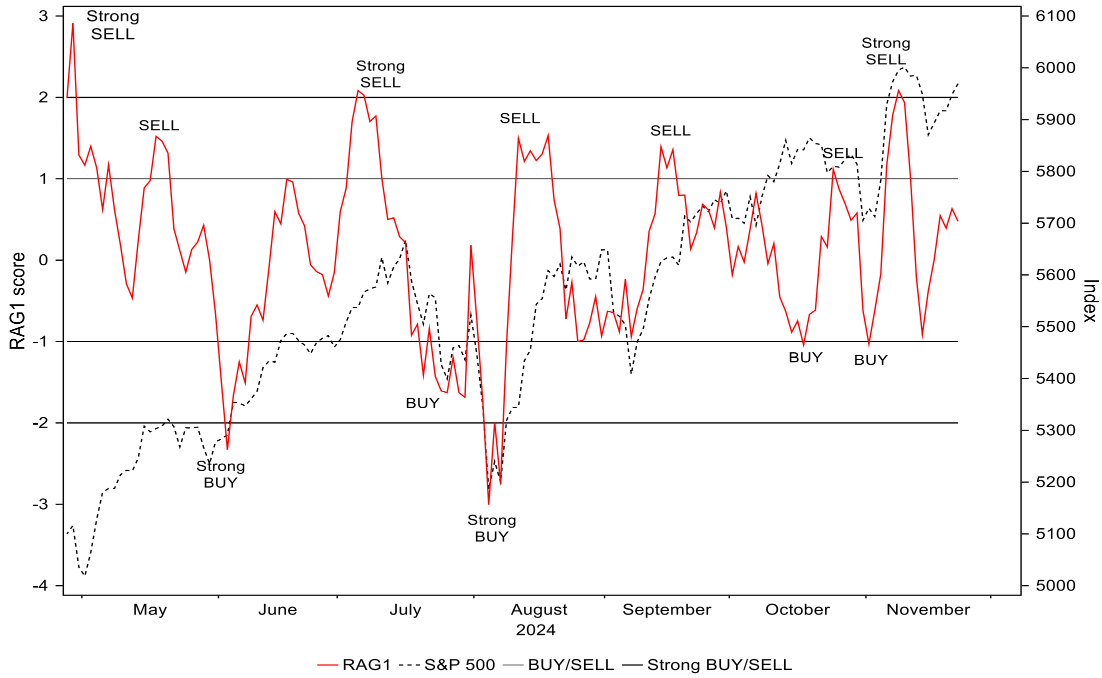


Source: *Longview Economics*

**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

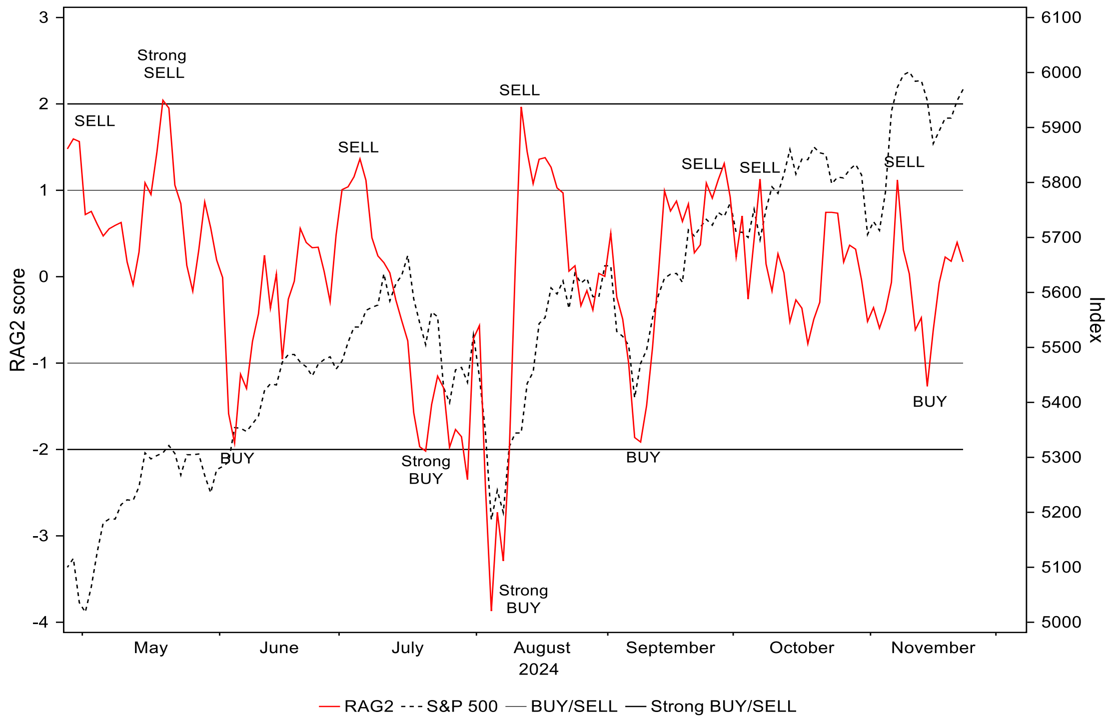
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

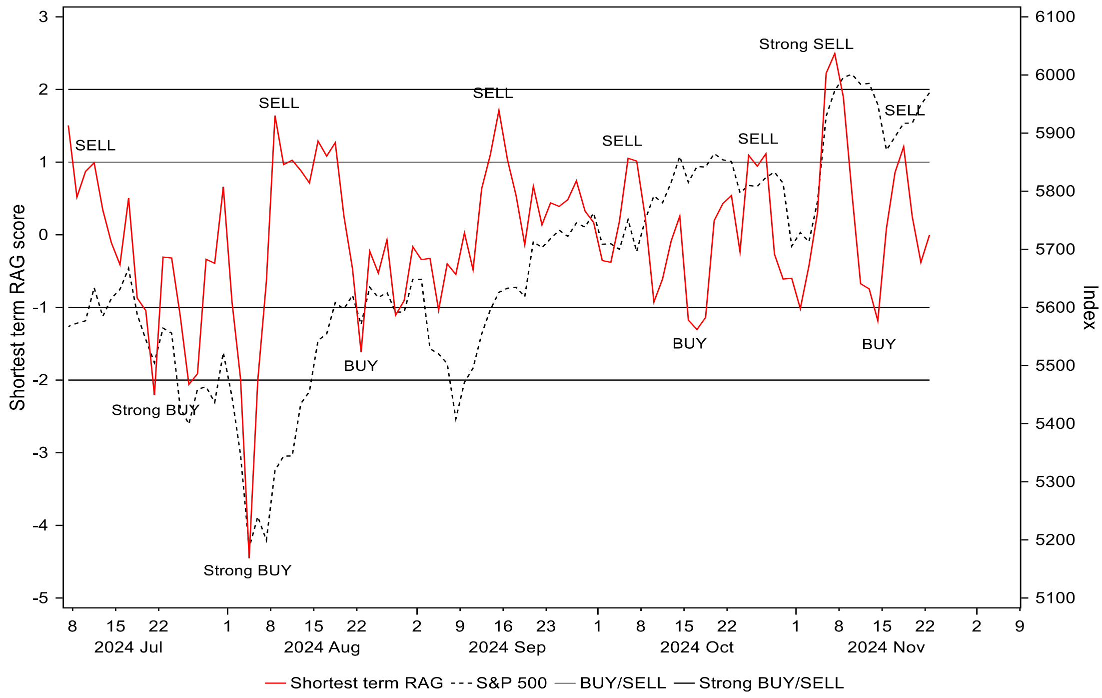


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

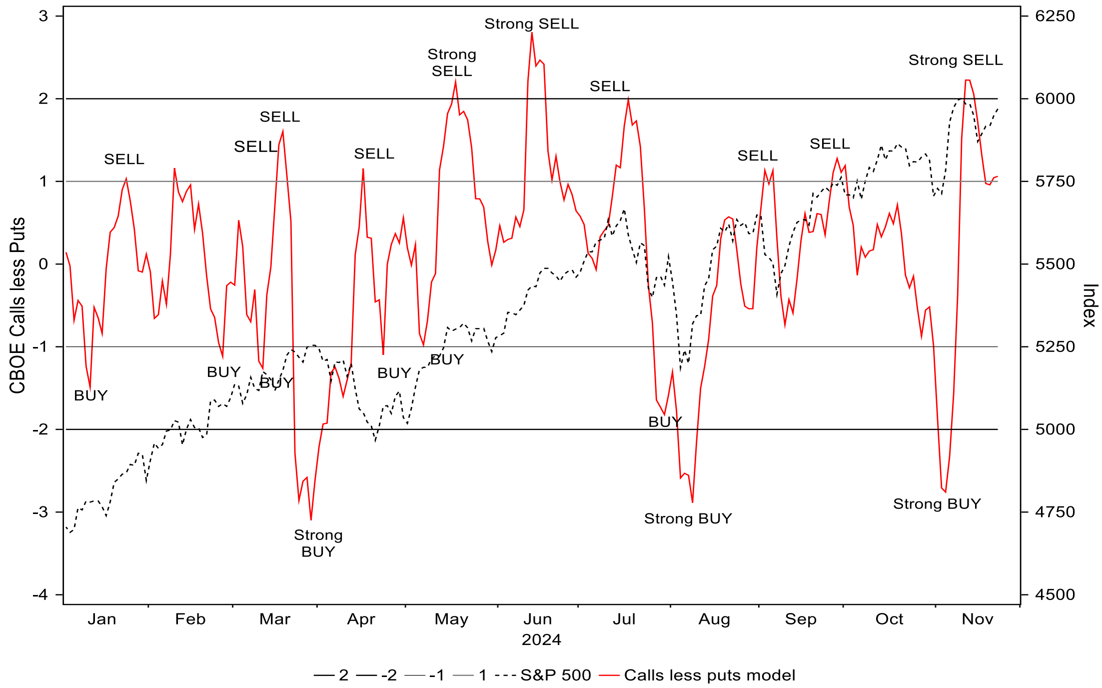
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

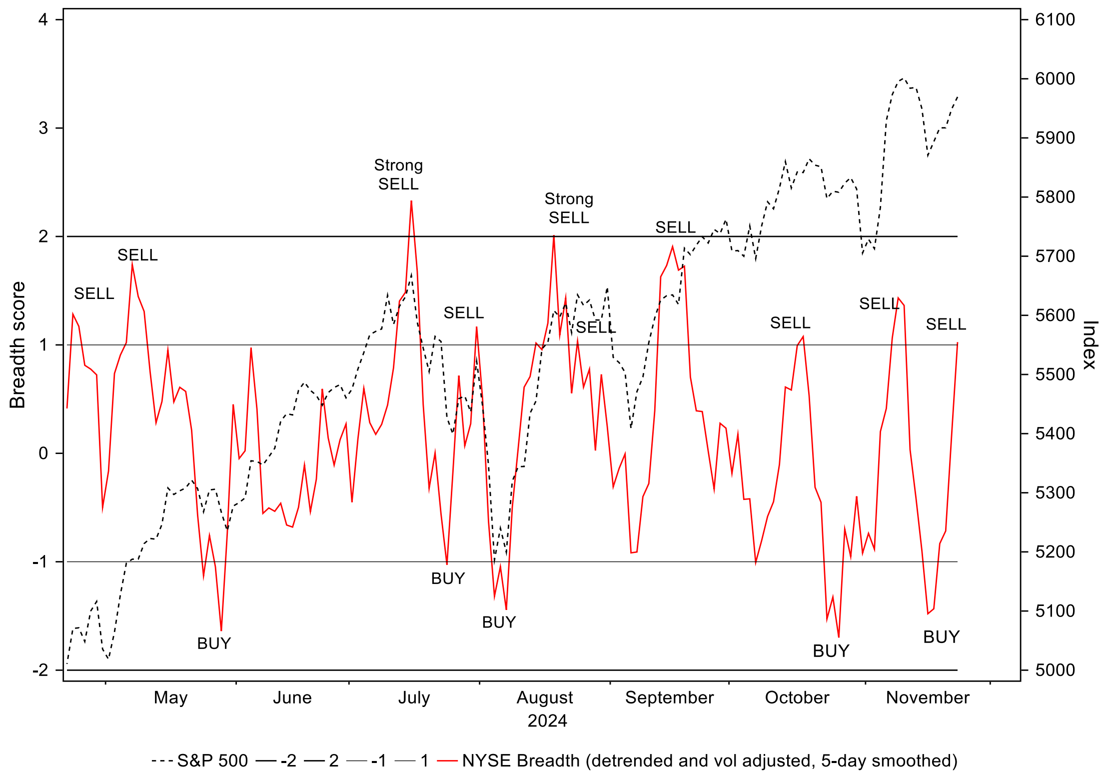


Calls less puts model is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



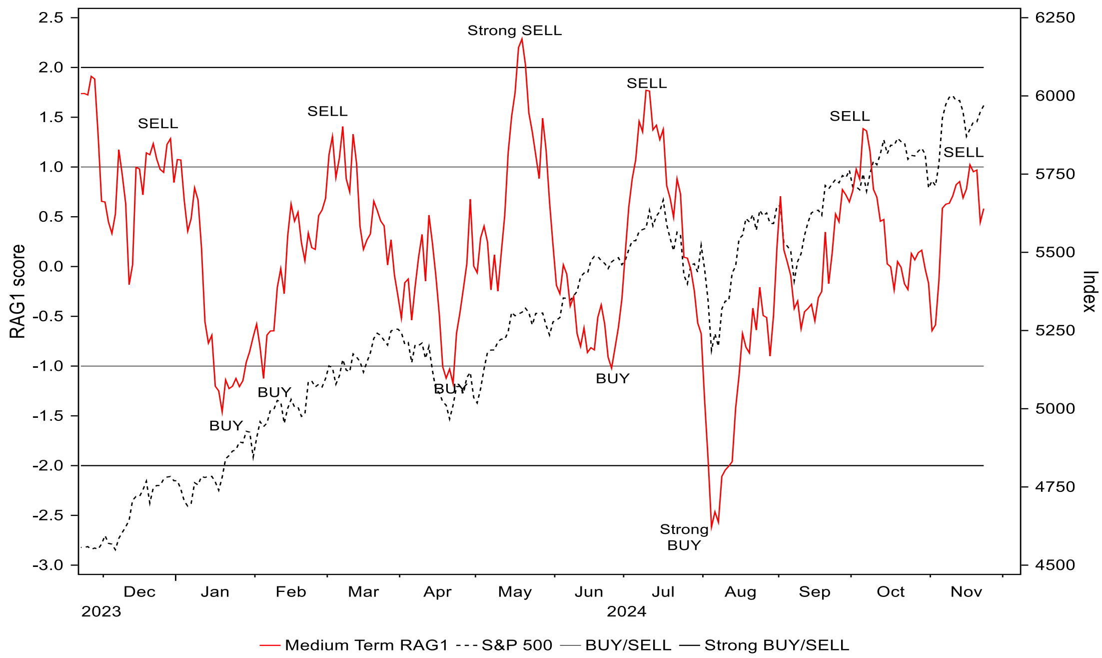
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

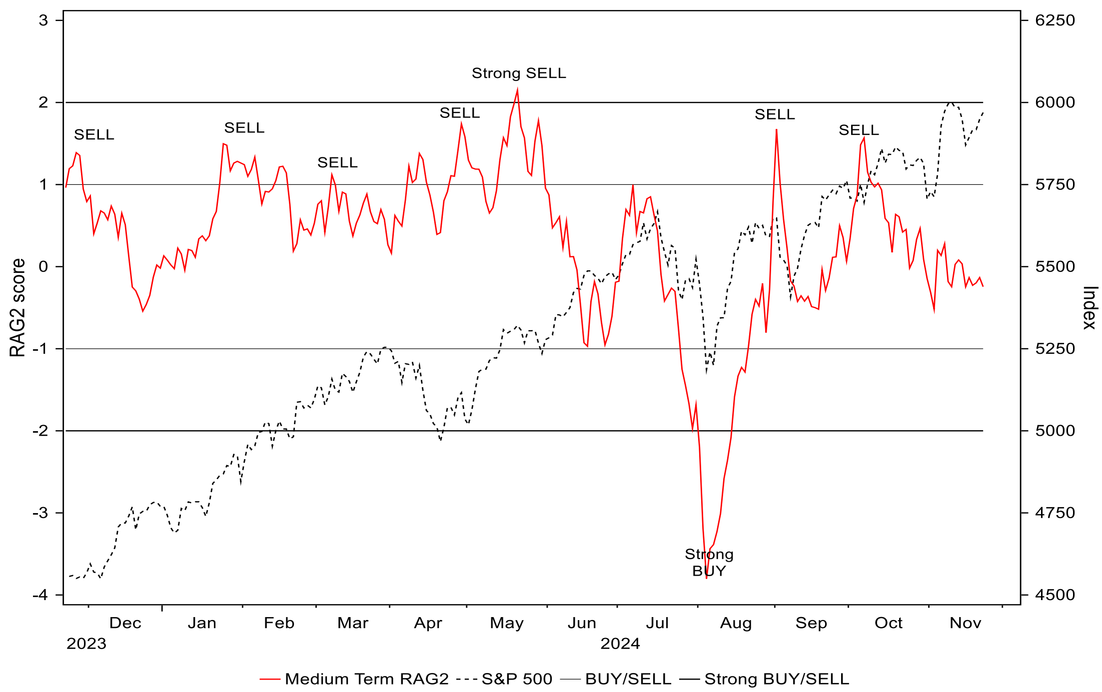
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

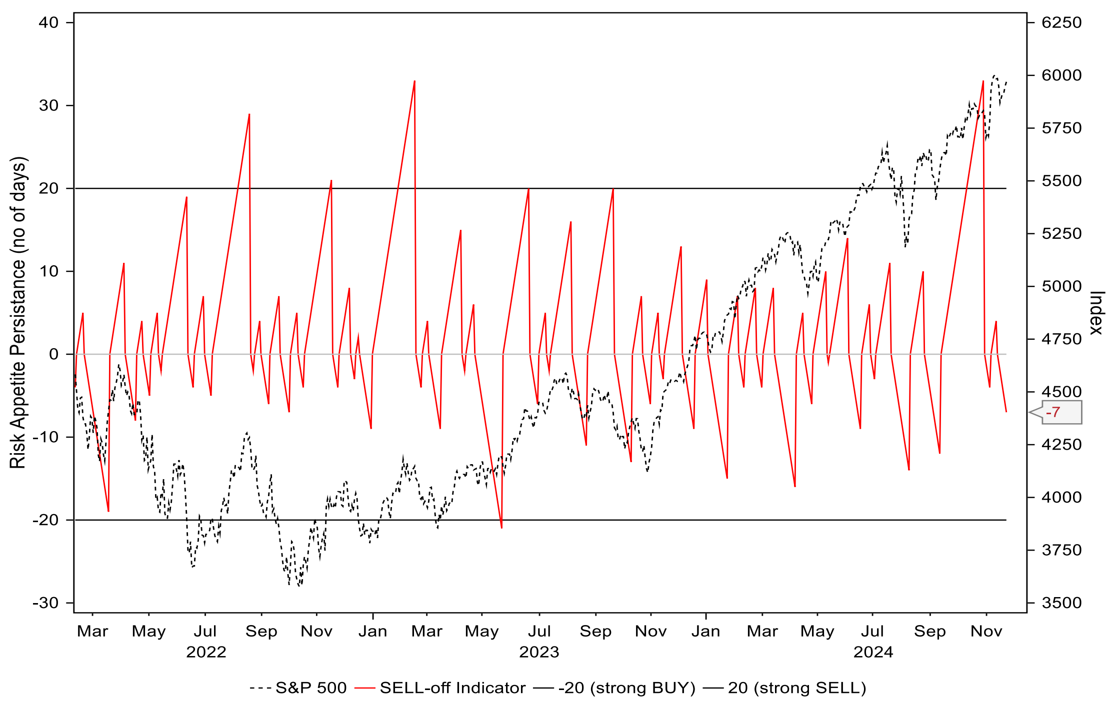


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

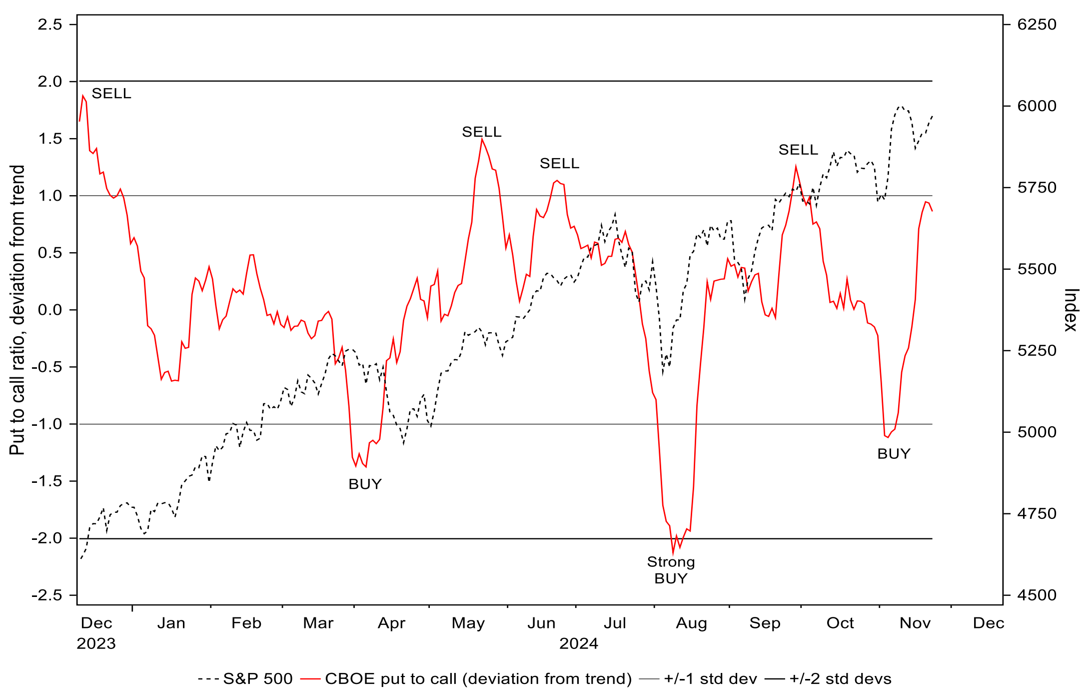
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

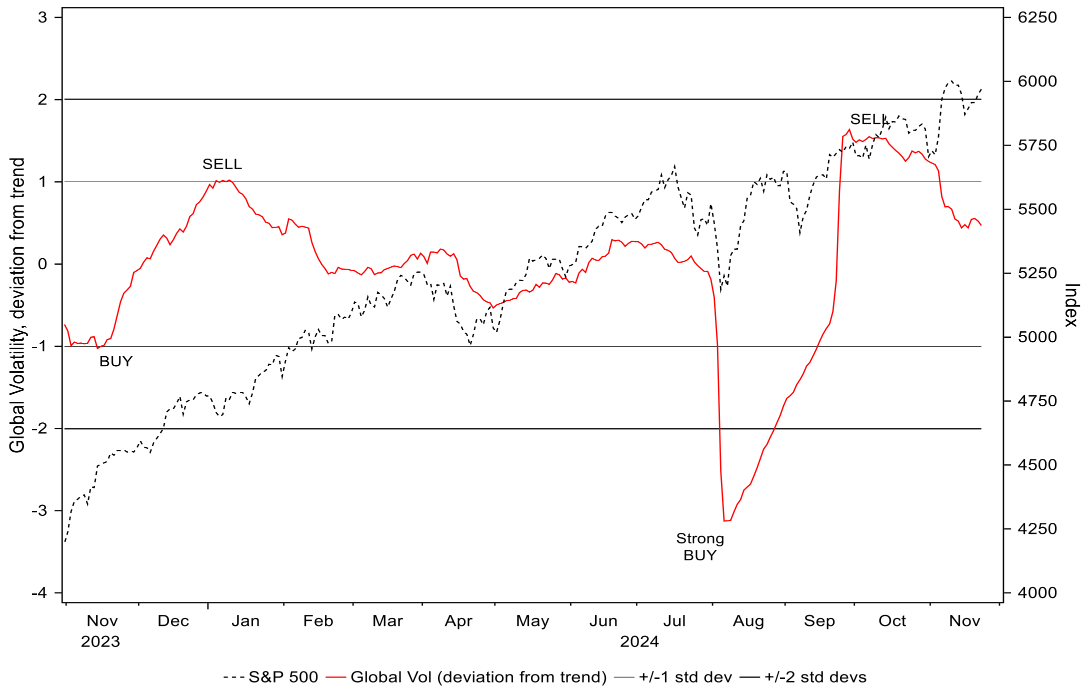


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

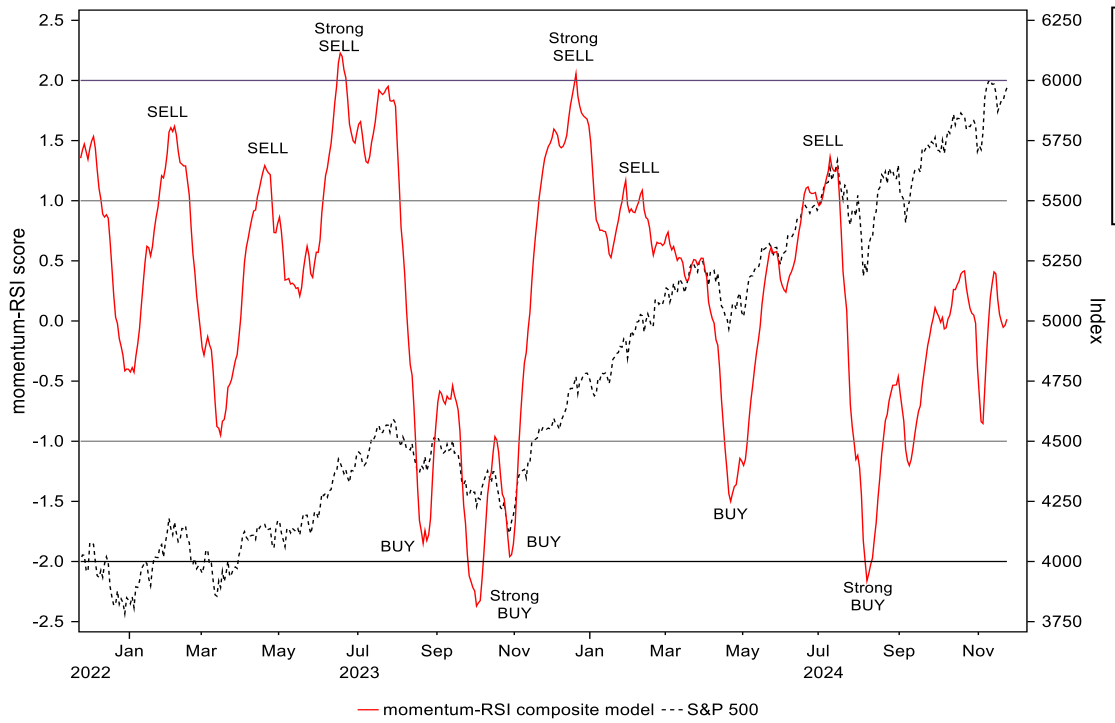
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

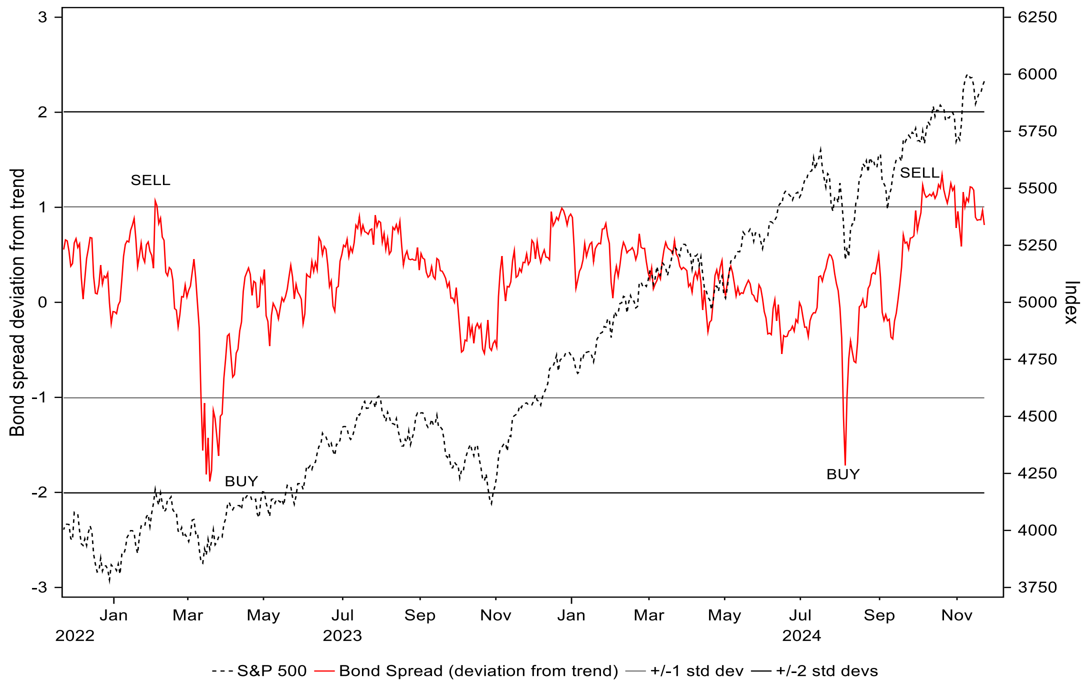
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

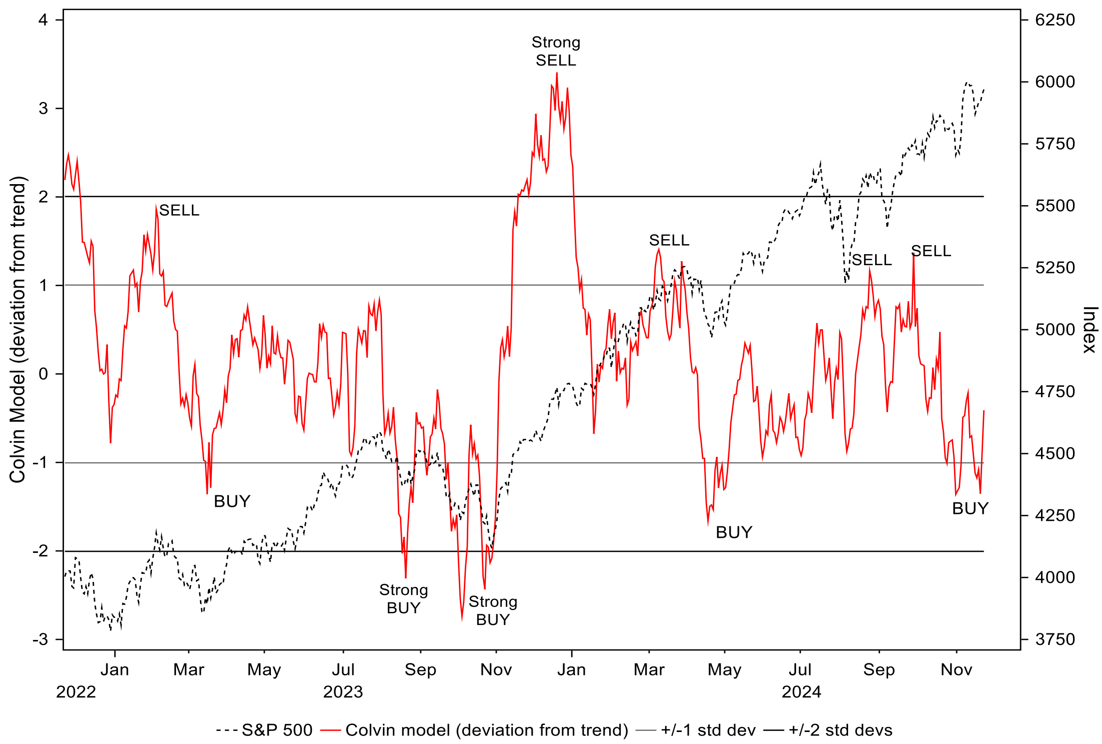
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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