Equity Index Futures Trading Recommendations

26th November 2024

"Stay LONG US Equities"

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);
- Retain unchanged stop loss at 5,915.
- Stay ¼ LONG NASDAQ100 December '24 futures (entry was yesterday at 20,957).
- Retain unchanged stop loss at 20,540 (i.e. approx. 2% below entry).

Rationale

Yesterday there were sharp moves in the US bond market, with 10 year Treasury yields falling by 14bps, while 2 year (-16bps) and 5 year (-13bps) yields were also notably lower (e.g. see FIG 1e). Arguably that was trigged by the nomination of Scott Bessent as Treasury secretary on Friday, coupled with his weekend comments published in the WSJ (see yesterday's Daily Risk Appetite publication for detail). In particular, Bessent favours a softer approach to imposing tariffs (which he suggests should be "layered in gradually"). With that, and consistent with lower yields, the dollar was notably weaker, e.g. with the DXY down 0.7% on the day.

That created a strong set up for **cyclically sensitive parts of the US equity market** yesterday. Of note, while most major indices closed higher, the strength was led by high beta indices including the S&P400 mid caps (+1.5%); S&P600 small caps (+1.8%); and DJ Transports (+2.3%). Elsewhere both the SPX & NDX continued to trend higher (see FIGs 1a & 1b), most sectors of the S&P500 closed up on the session, and volumes were strong on the day, especially in advancing stocks (see FIG 1).

Our view remains unchanged from yesterday. That is, **the medium term uptrend in US equities has resumed** (i.e. following modest giveback in mid-November). Usually, in up-trending markets, it pays to stay with LONG positions, at least until short and medium term models are generating a clear/across the board SELL message.

That's not, though, currently the case. Having recently generated BUY signals, the message of the models is now mixed, with several key **indicators still leaning towards BUY**. Risk appetite models, for example, are mid-range (FIGs 2 & 2a); technical and momentum models are NEUTRAL (having recently generated BUY signals, see FIGs 3 & 3a); while certain NASDAQ100-specific models are still on/close to BUY levels (e.g. see FIGs 4 & 4a). Elsewhere, our 'over-extended' indicators for both the S&P500 and the NASDAQ100 are mid-range and support the case for **further near term strength in those indices** (see FIGs 1c & 1d).

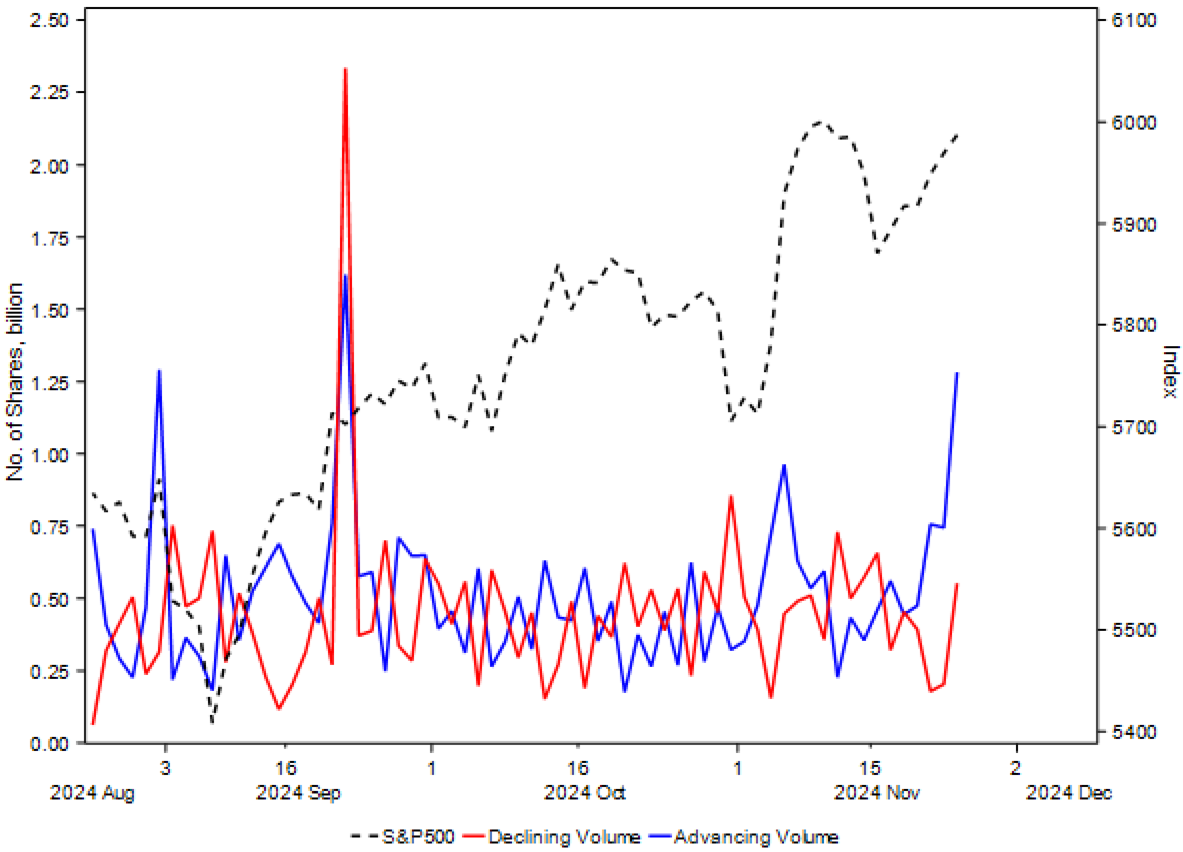
As such, and while some faster moving breadth models have *started* to turn SELL (e.g. see 3b & 4b), the overall message of the short term models points to **upside headroom in this equity market**. The positioning of our medium term models is similar (e.g. see FIG 1f).

The risk reward therefore continues to favour staying LONG US equities (see above for detailed recommendation). Risks, as always, are multiple and include signs of near term complacency in portfolios (e.g. see FIGs 5 & 5a). Please see below for a full list of today's key macro data, earnings & events.

Kind regards,

The team @ Longview Economics

FIG 1: NYSE volumes of advancing & declining stocks shown with the S&P500



Source: Longview Economics, Macrobond

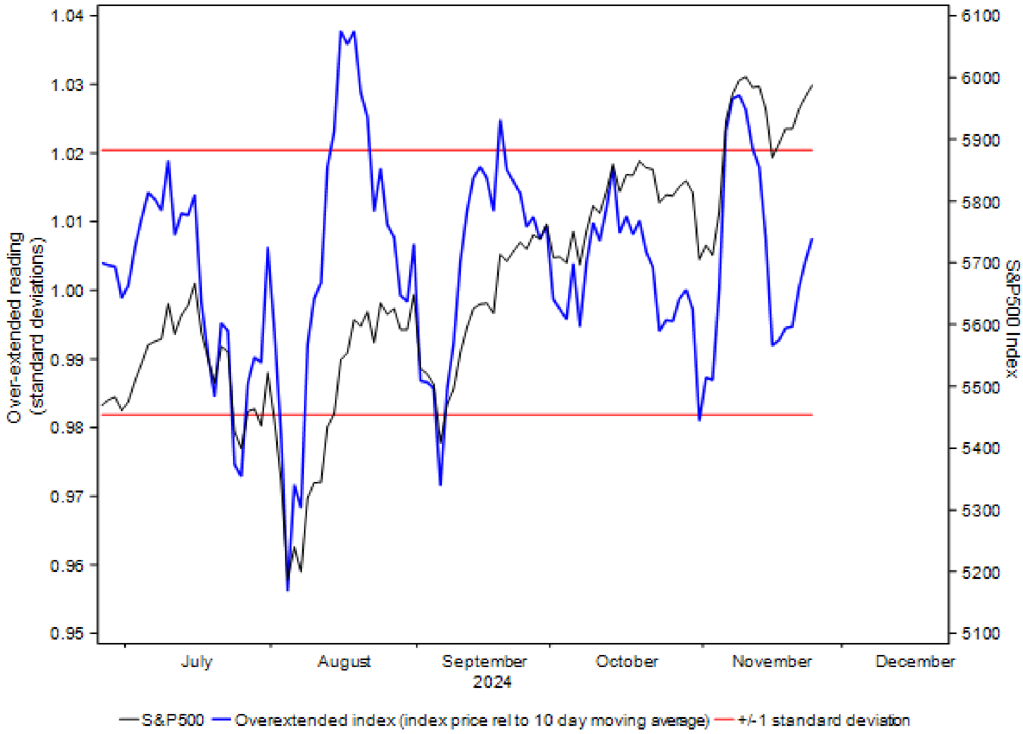
FIG 1a: S&P500 futures candlestick shown with 50 day moving average

Source: Longview Economics, Macrobond

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

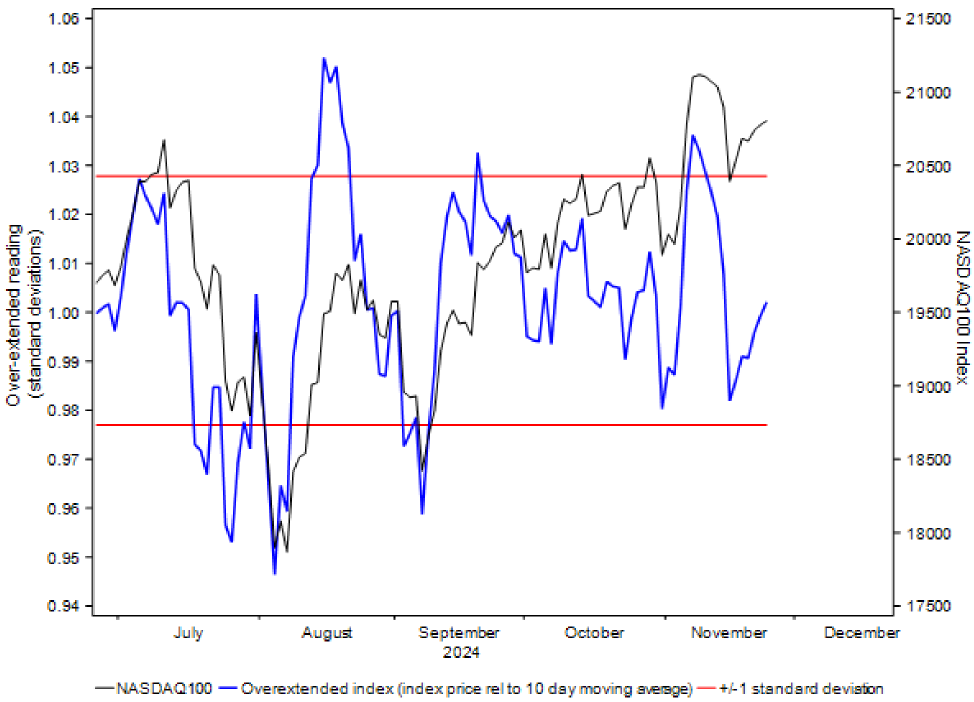
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1d: NASDAQ100 overextended index (index price relative to 10 day moving average) vs. NASDAQ100



Source: Longview Economics, Macrobond

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

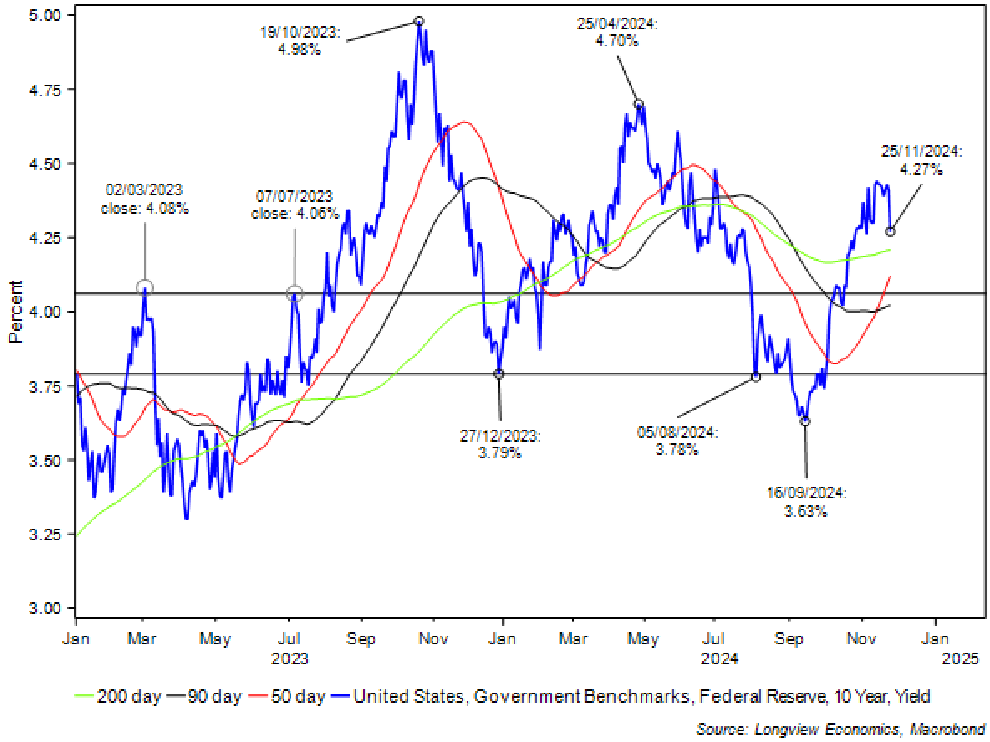
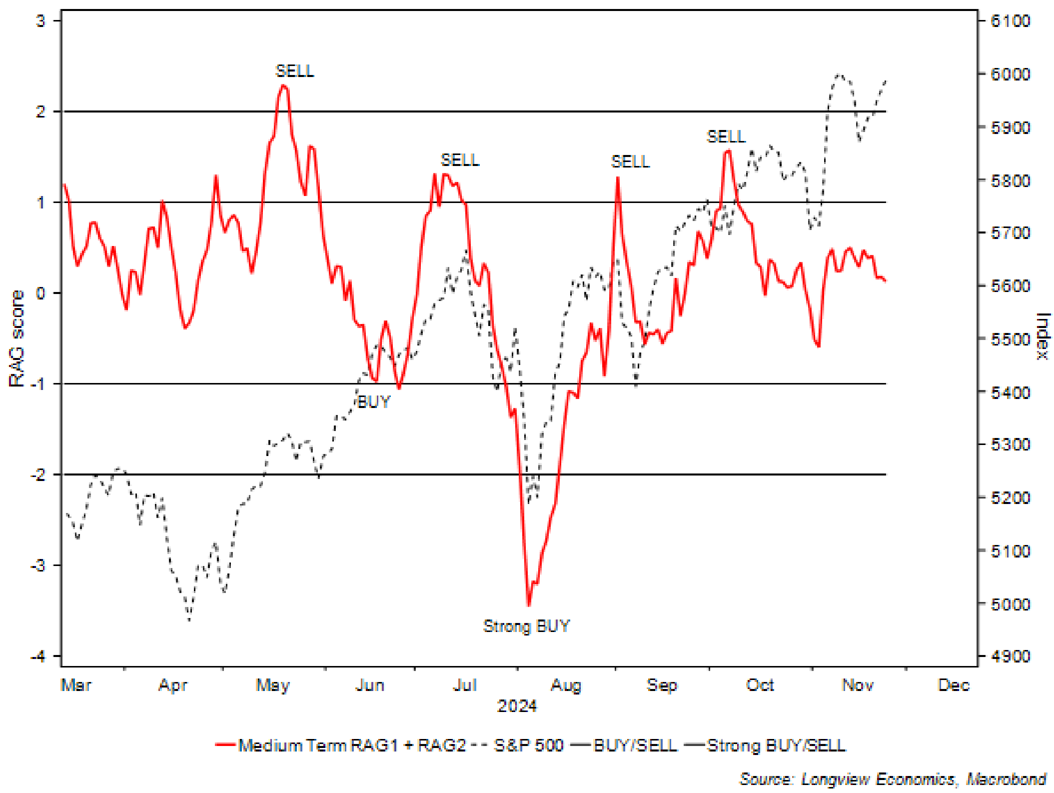
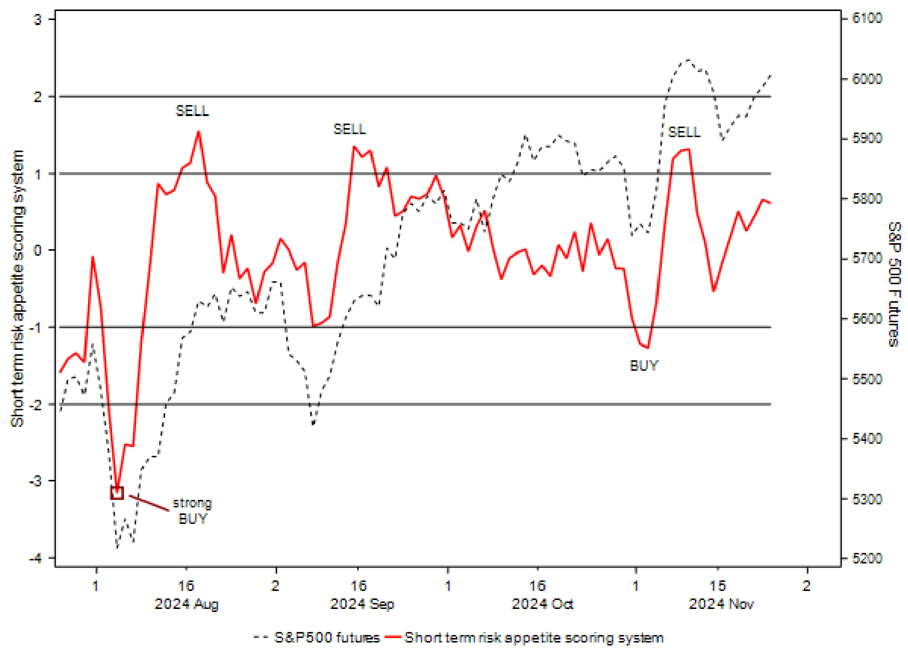


FIG 1f: Medium term RAG1 & RAG2 vs. S&P500



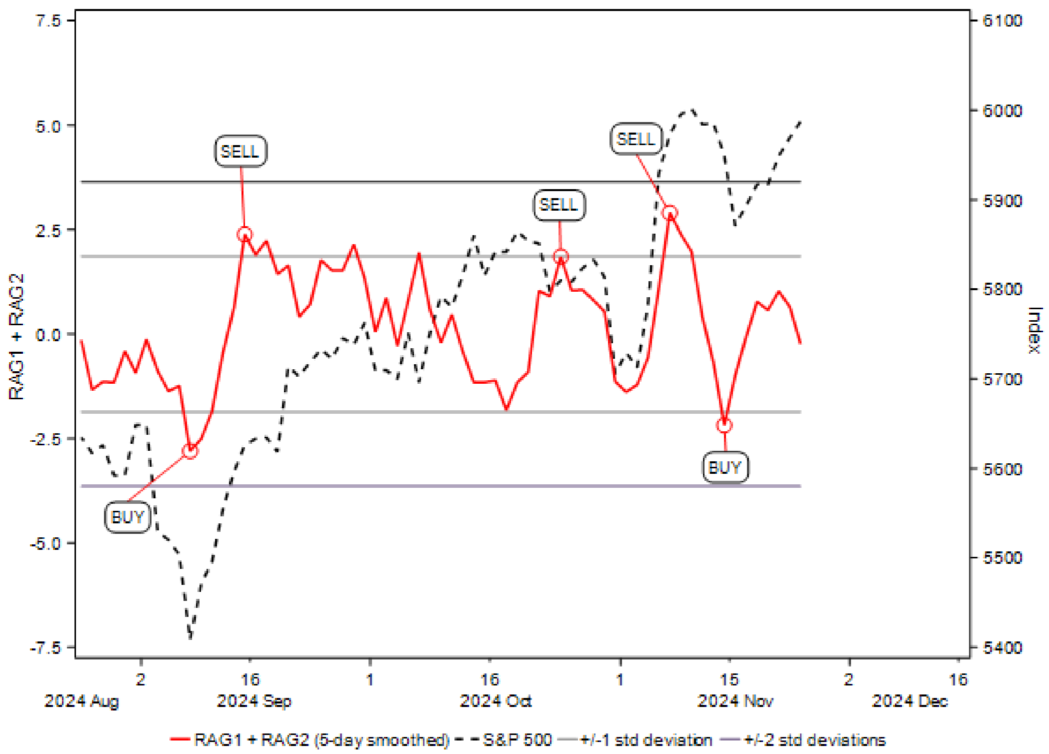
Short-term risk appetite models are mid-range...

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



Source: Longview Economics, Macrobond

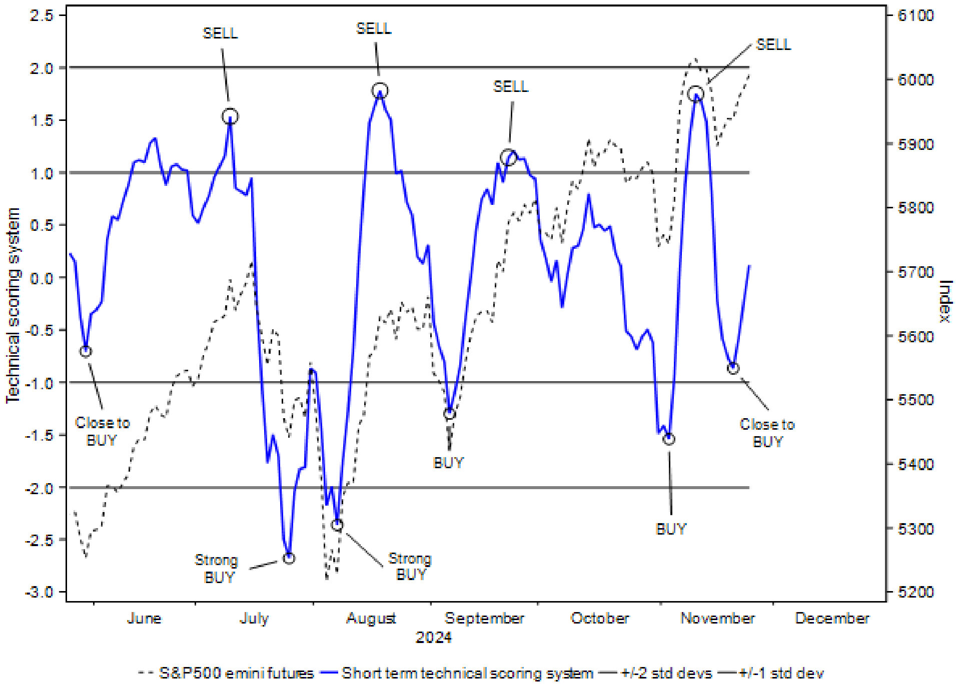
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

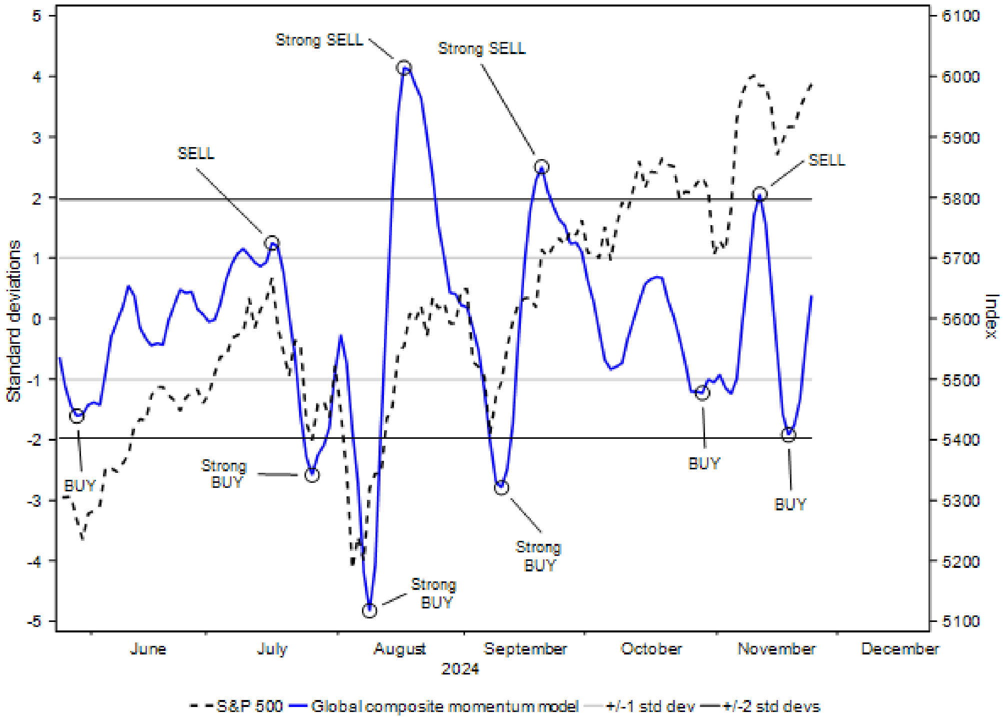
Other short-term models are mixed...

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



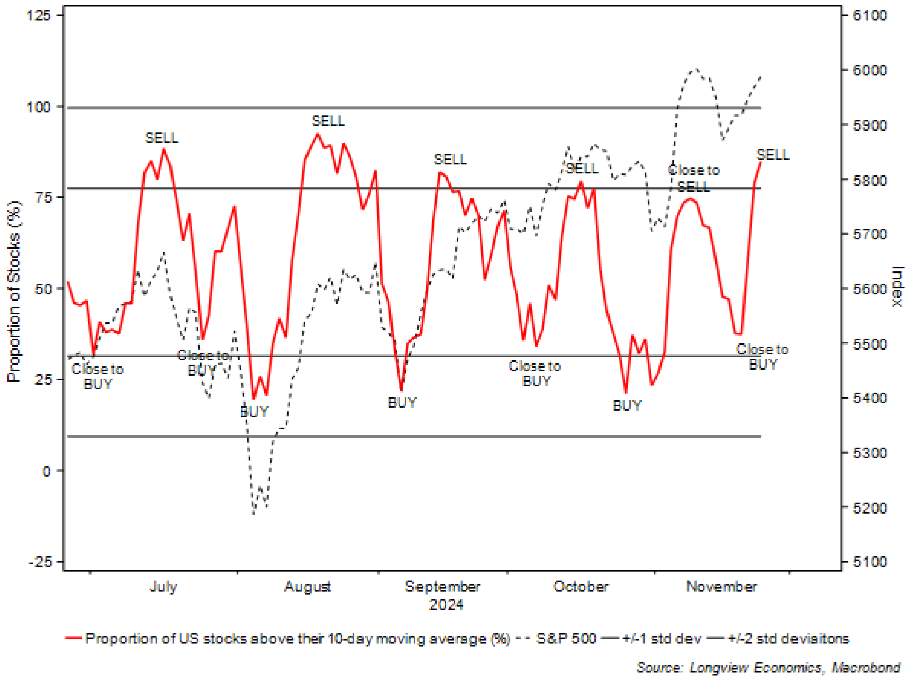
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Nasdaq100 specific models are either leaning towards BUY – or they are NEUTRAL/not yet on SELL…

FIG 4: Longview NASDAQ100 short term **'technical'** scoring system vs. NASDAQ100 futures

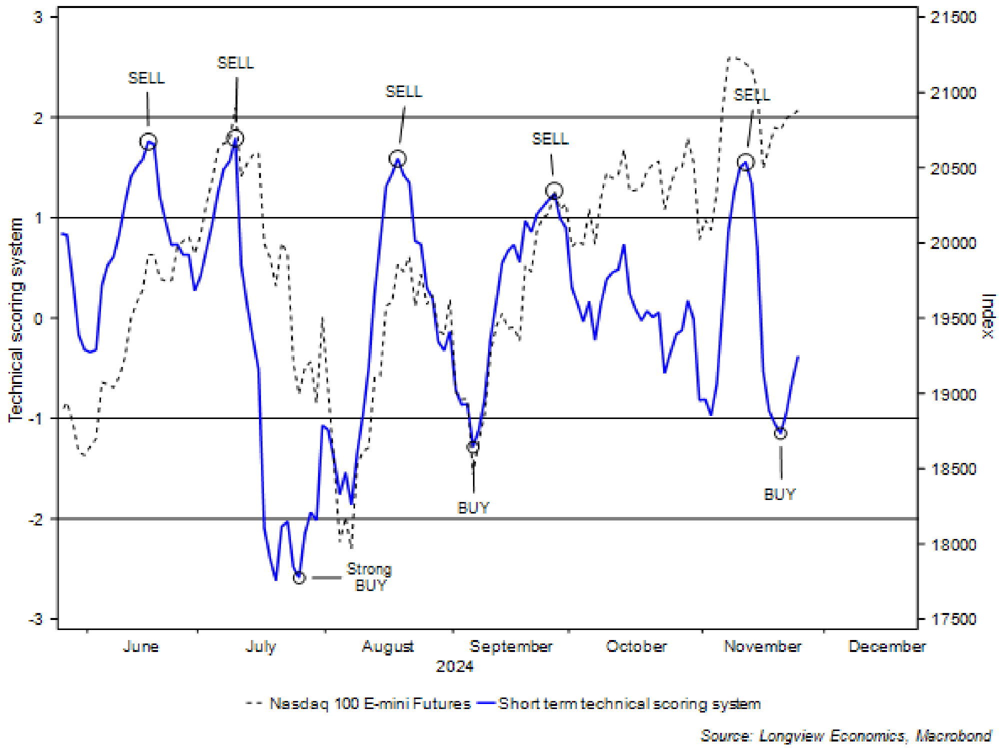


FIG 4a: NDX100 momentum model shown vs. NDX100

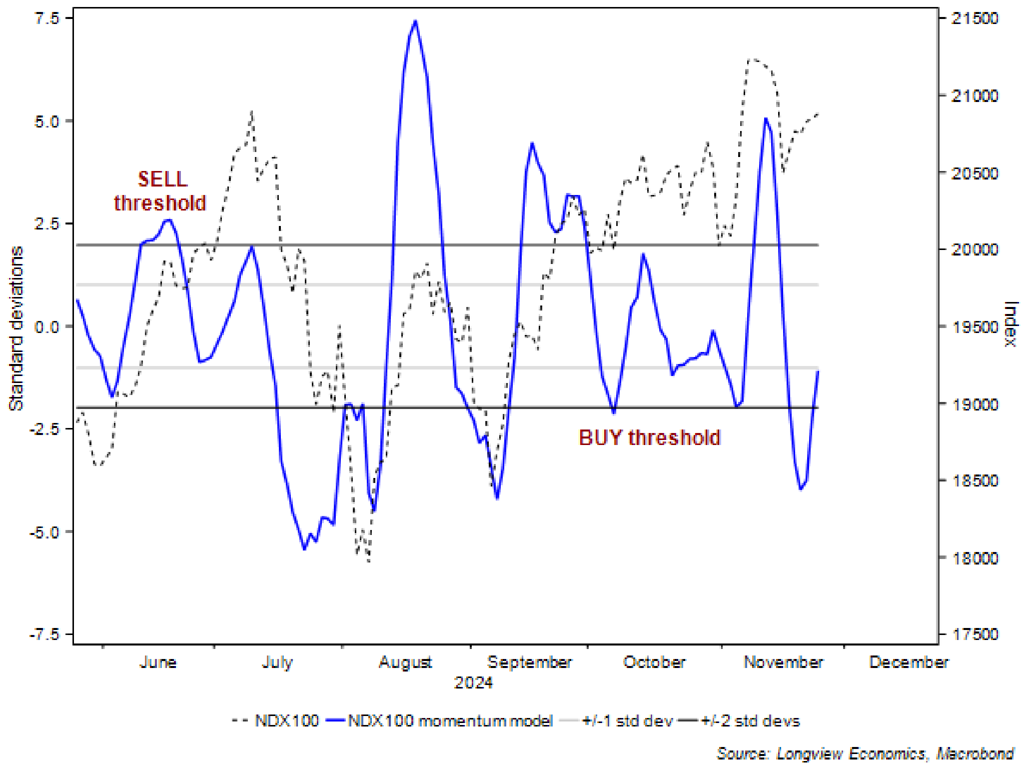


FIG 4b: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index

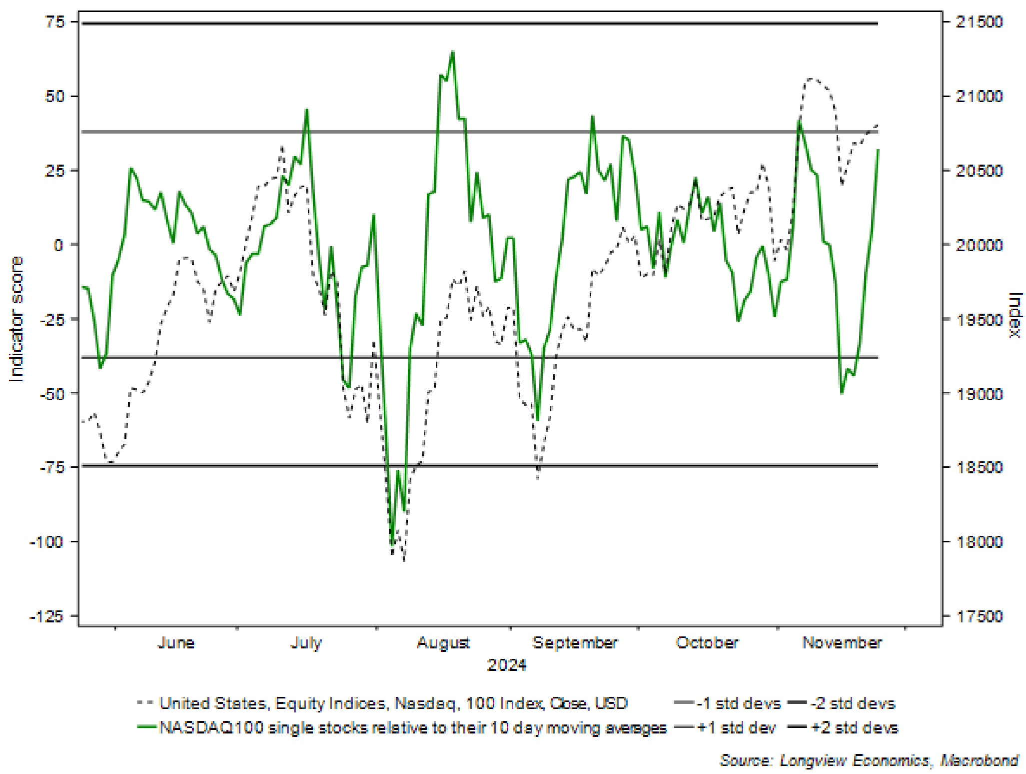
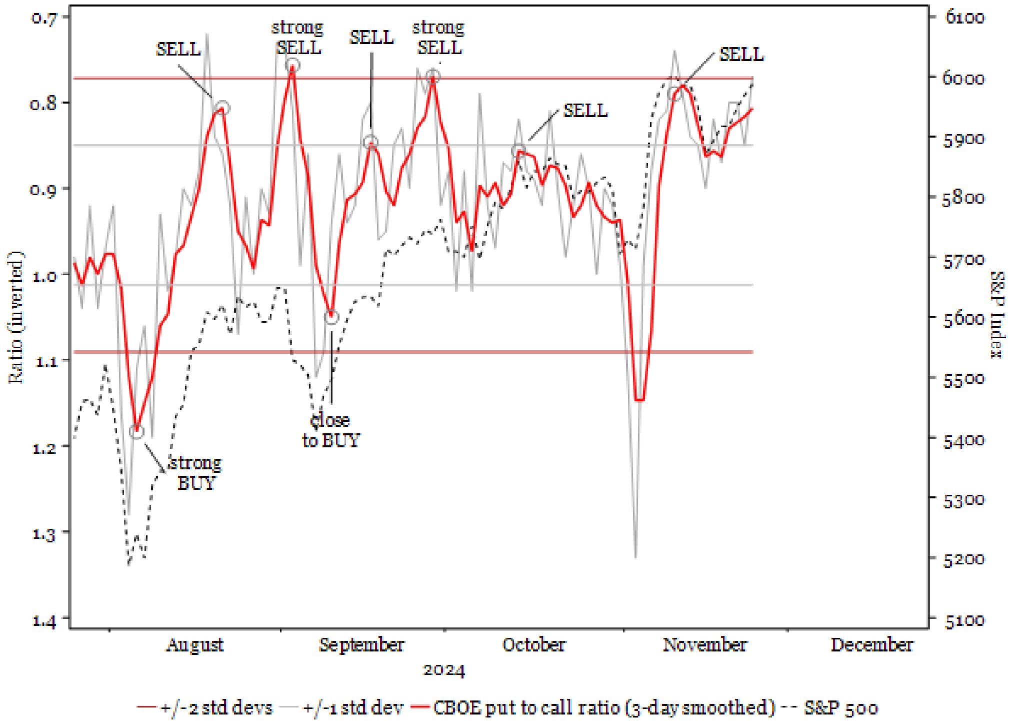
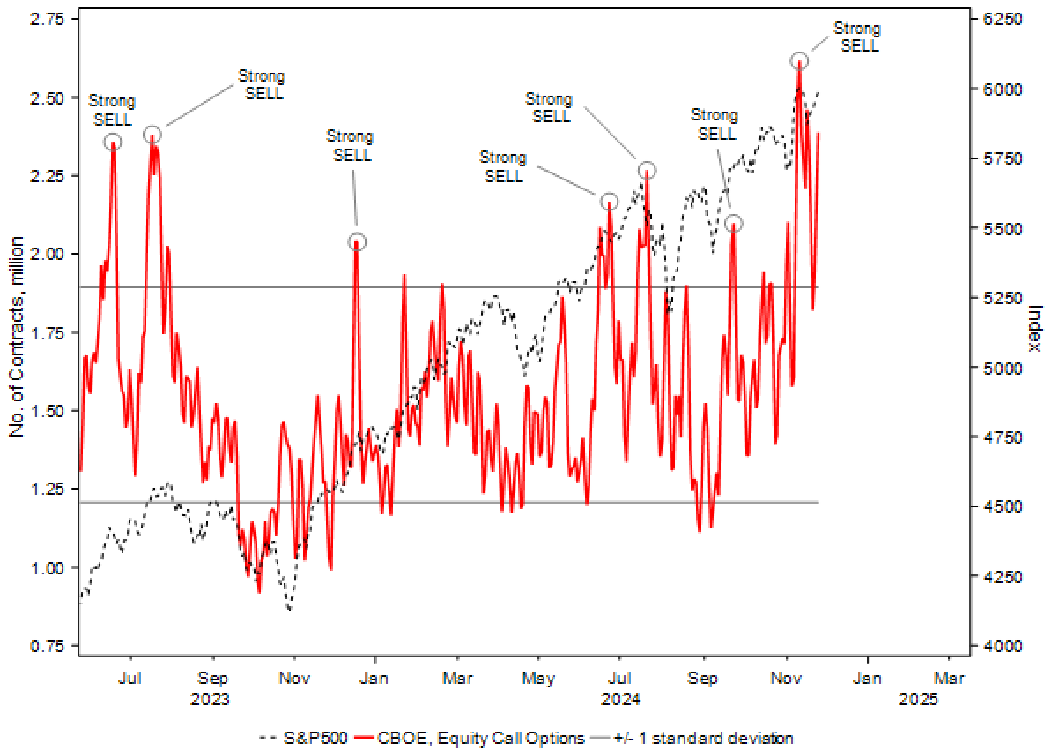


FIG 5: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

FIG 5a: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

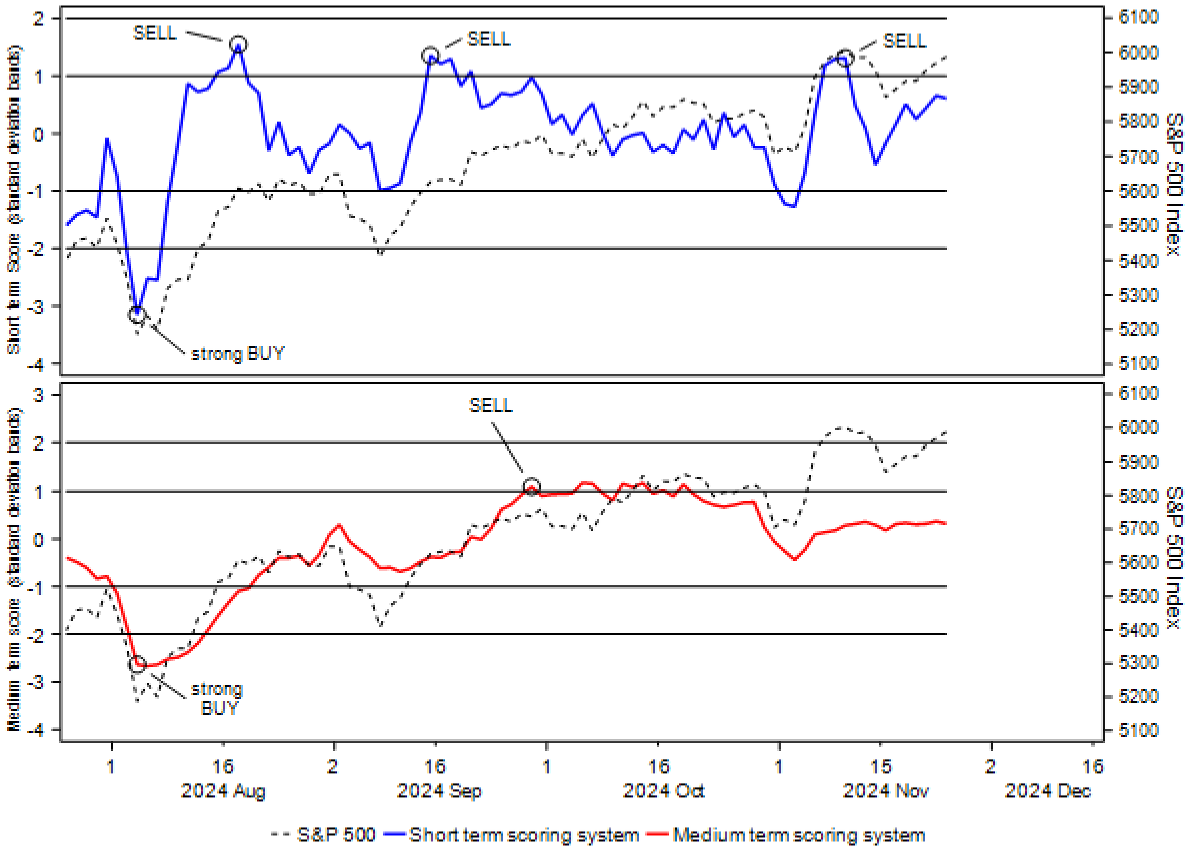


Source: Longview Economics, Macrobond

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: UK BRC retail prices (Nov, 12:01am); UK CBI distributive trades survey (Nov, 11am). US Philadelphia Fed service sector activity (Nov, 1:30pm); US FHFA house price index (Sept, 2pm); US house price purchase index (Q3, 2pm); US S&P/Case-Shiller 20-city & national house prices (Sept, 2pm); **US new home sales** (Oct, 3pm); **US Conference Board consumer confidence** (Nov, 3pm); US Richmond Fed manufacturing (Nov, 3pm); US Dallas Fed service sector activity (Nov, 3:30pm).

Key events today include: Speeches by the ECB's Villeroy in Paris (8am & 9:15am), Centeno in Lisbon (9am) & Rehn at the Finnish Parliament (10am); **Fed minutes from November meeting** (7pm).

Key earnings today include: **Analog Devices**, **Dell Tech**, CrowdStrike Holdings, Workday, Autodesk.

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

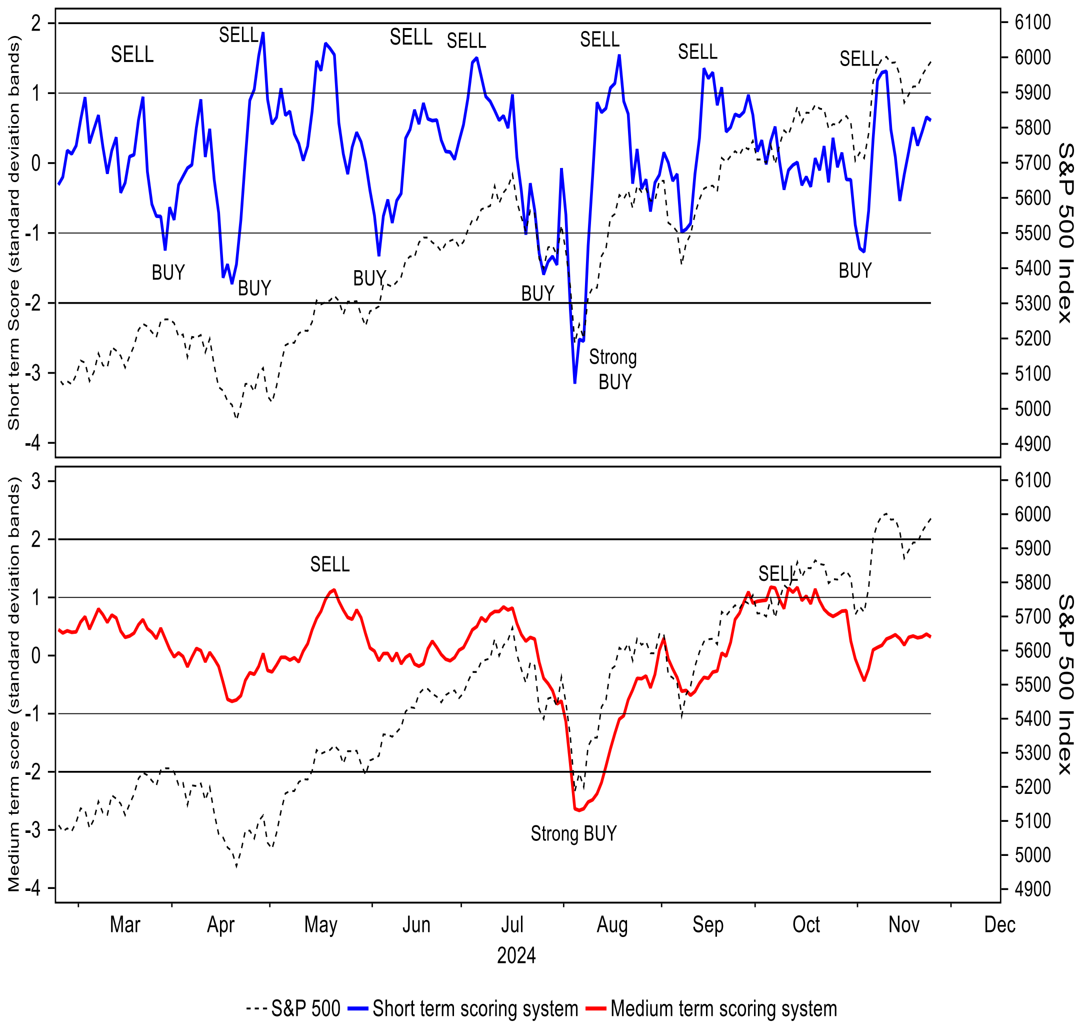
1 – 2 Week View on Risk

26th 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

Short term scoring system is NEUTRAL

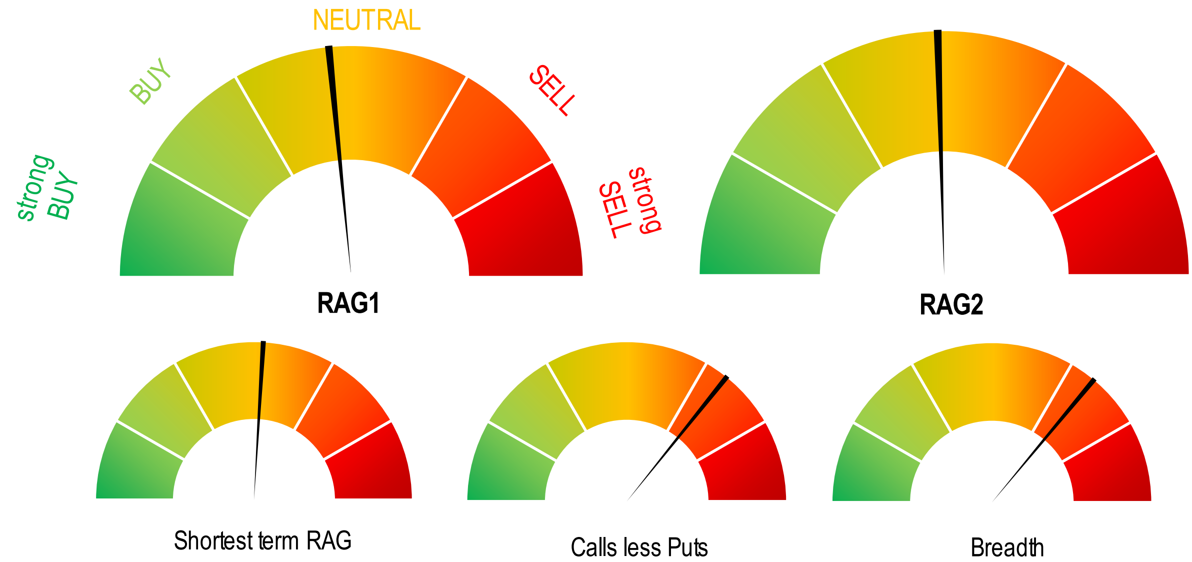
Medium term scoring system is NEUTRAL

*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

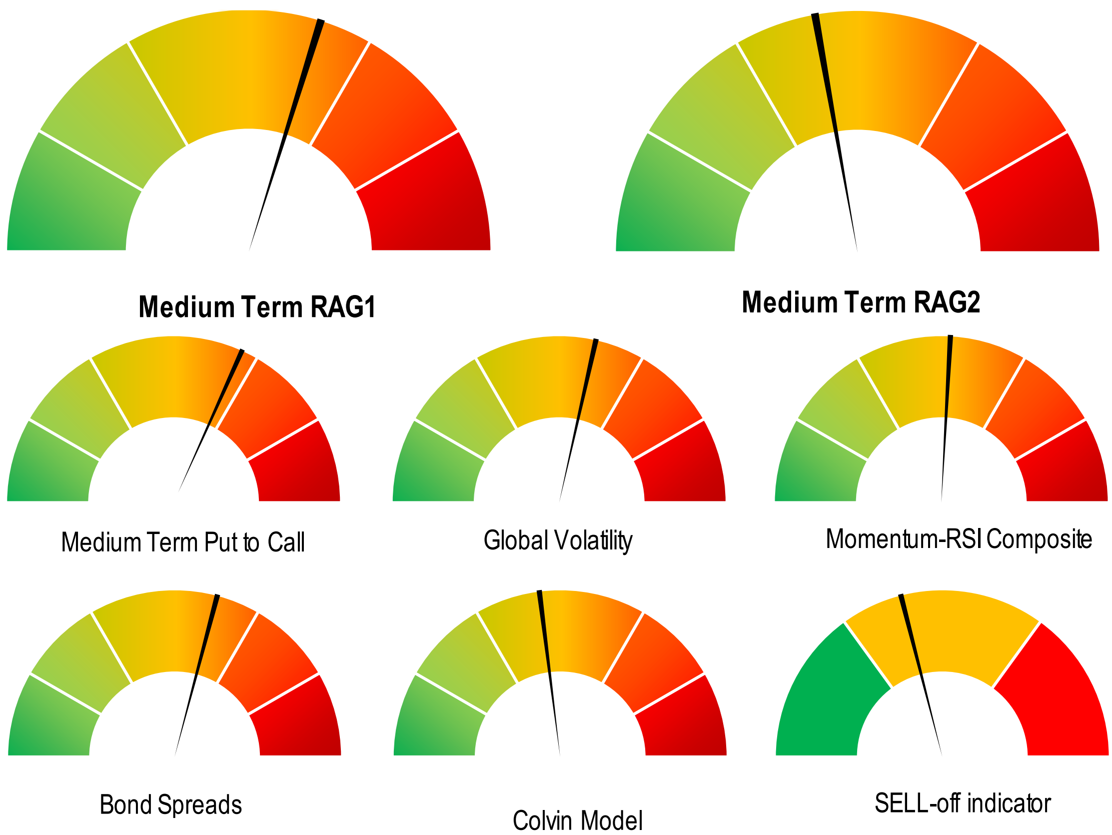
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

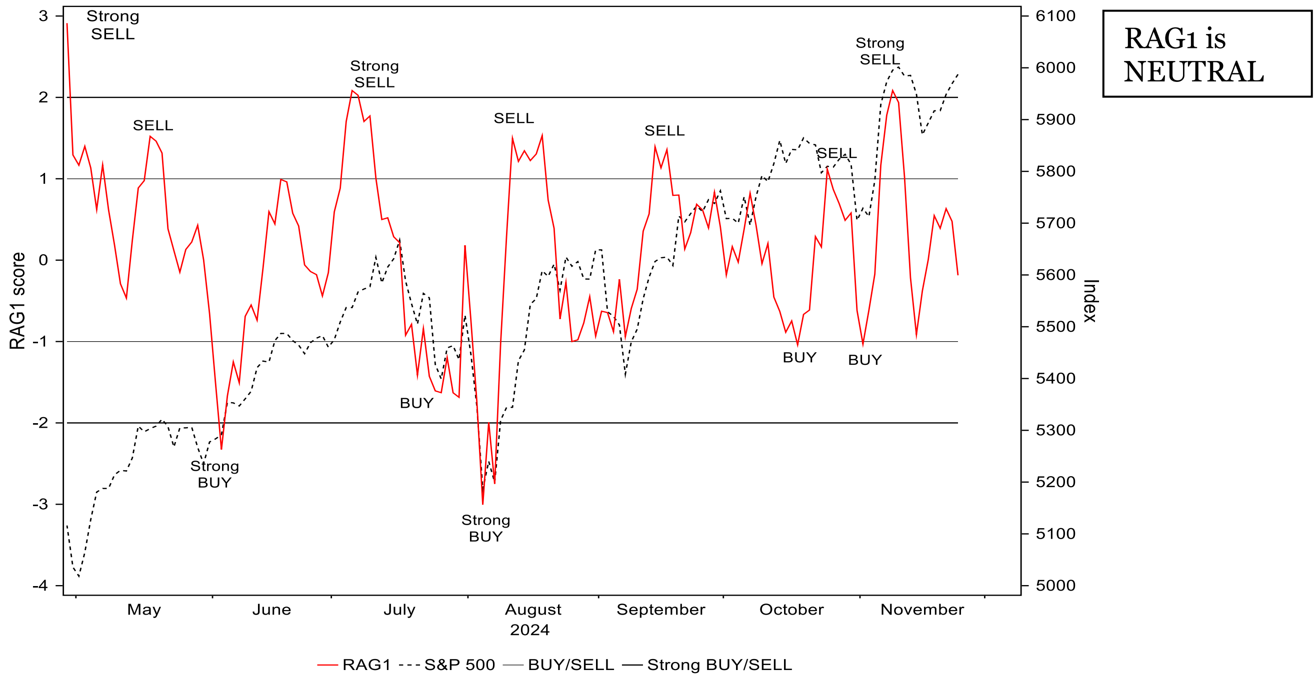
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

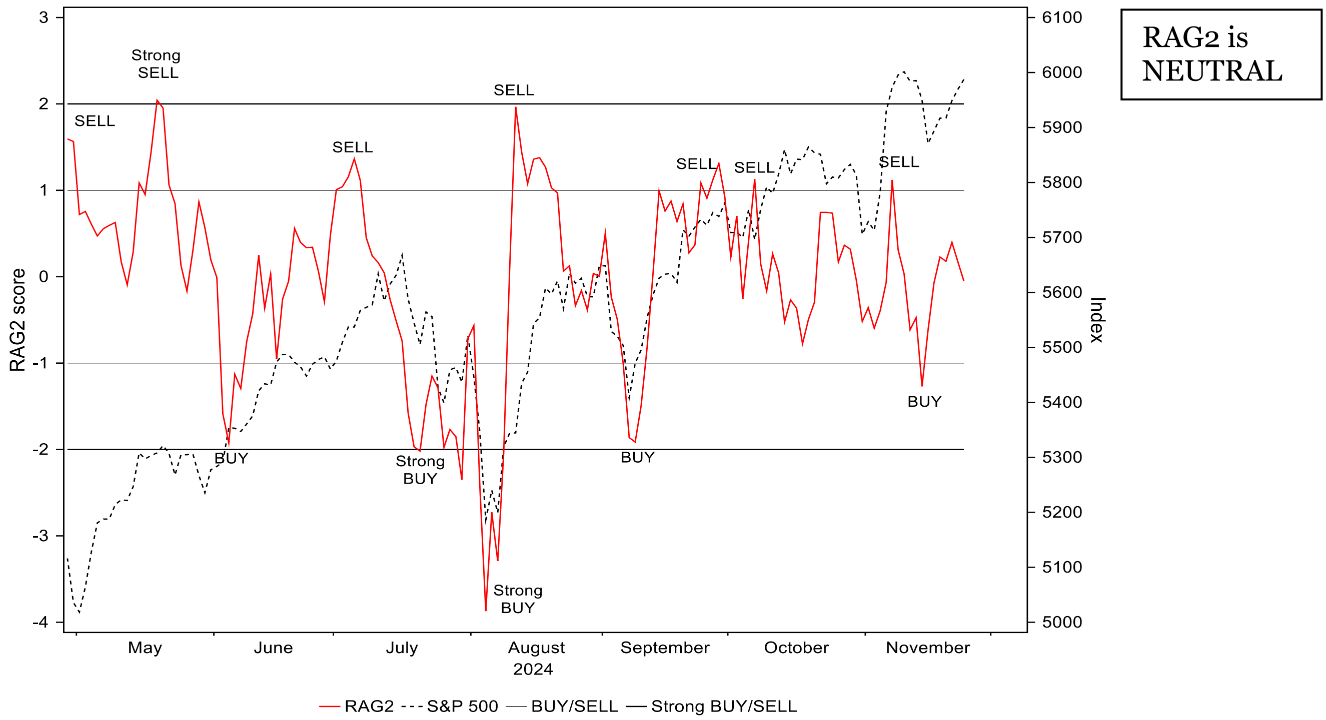
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

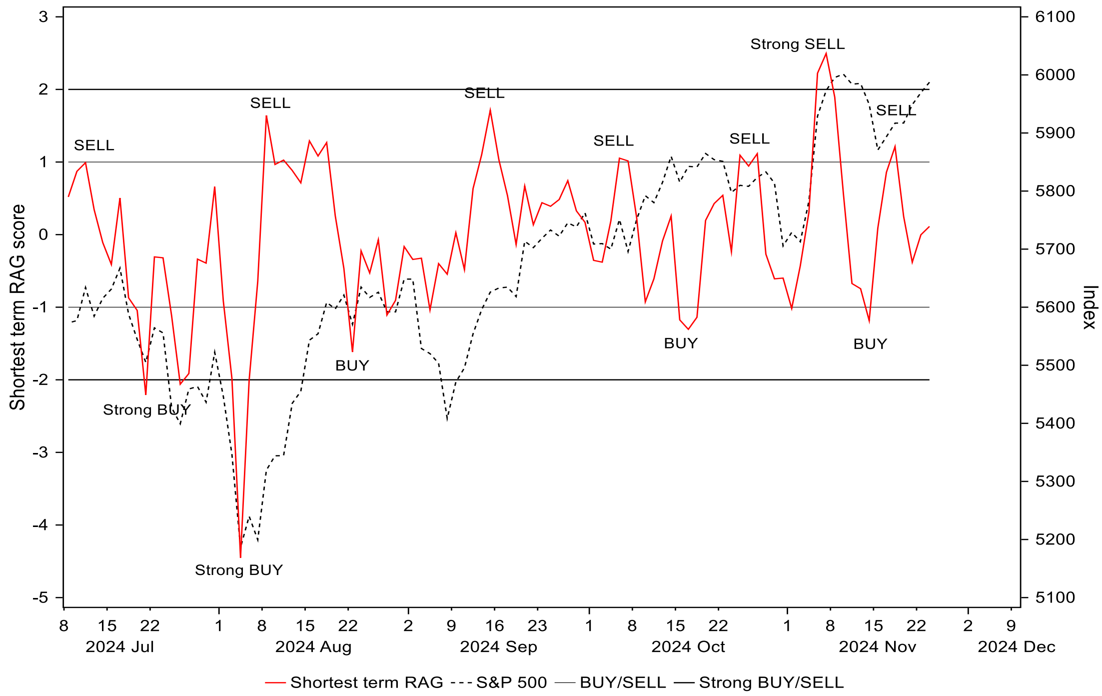
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

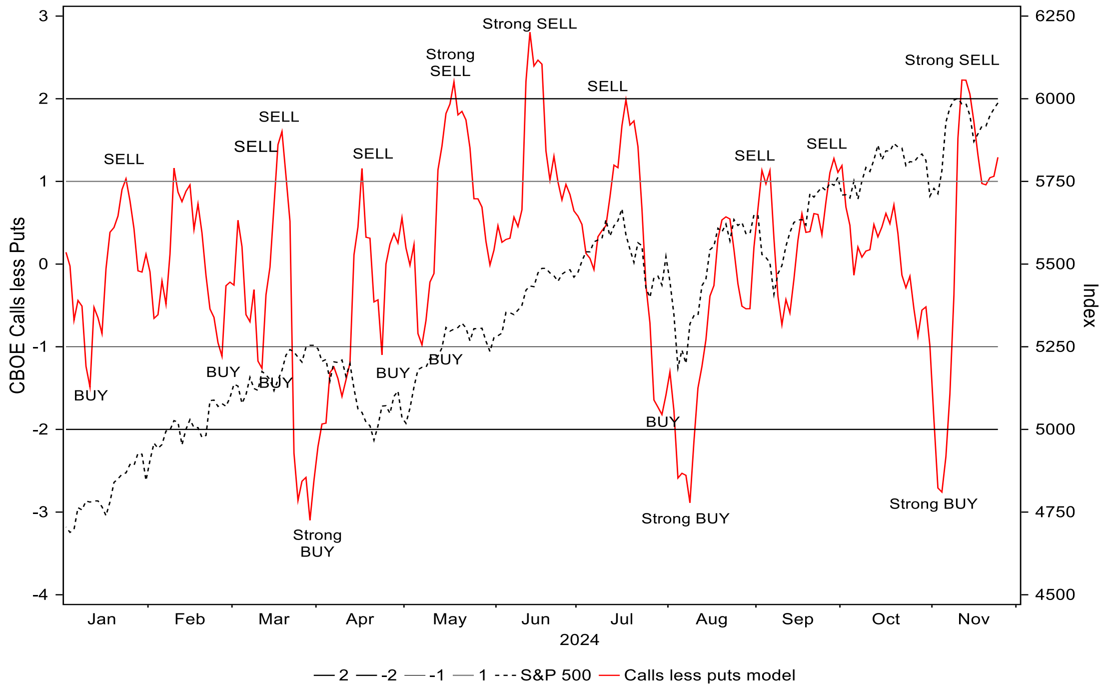
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

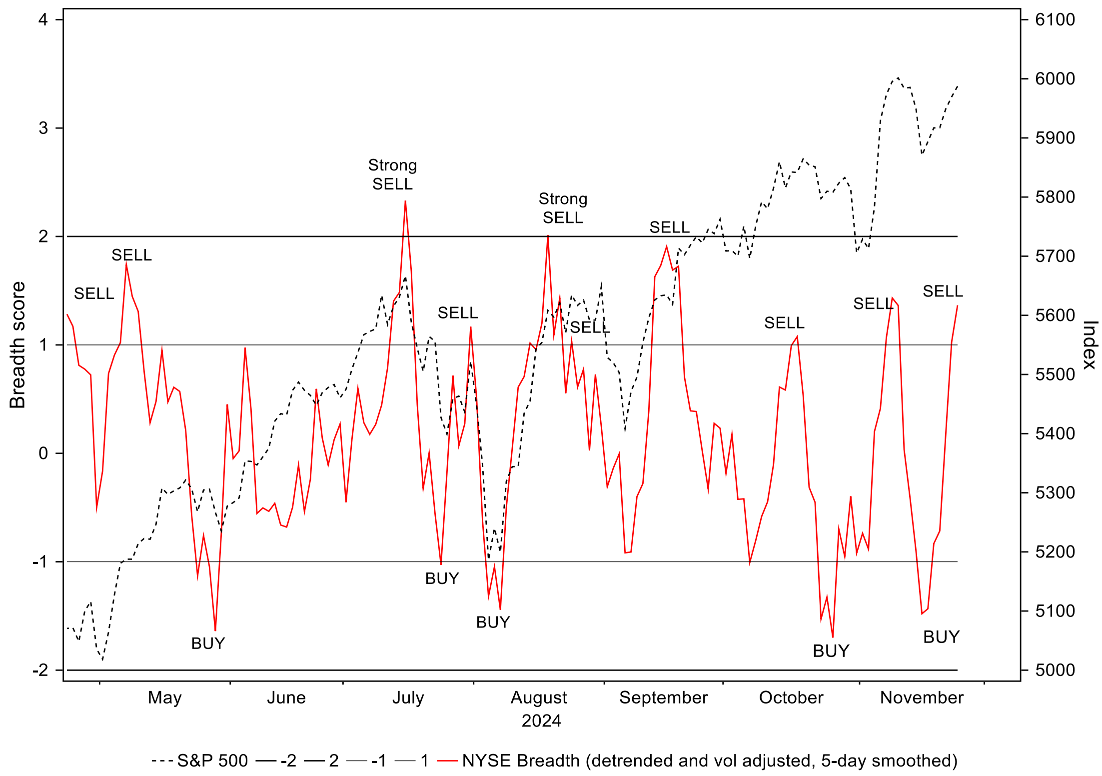


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



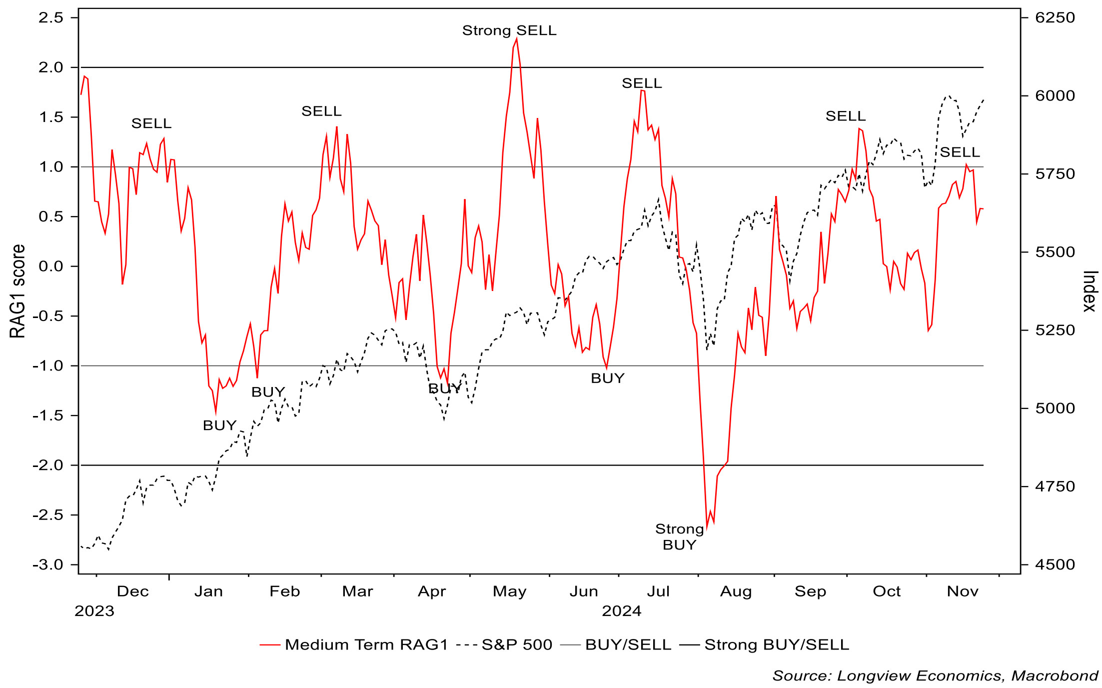
The breadth model is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

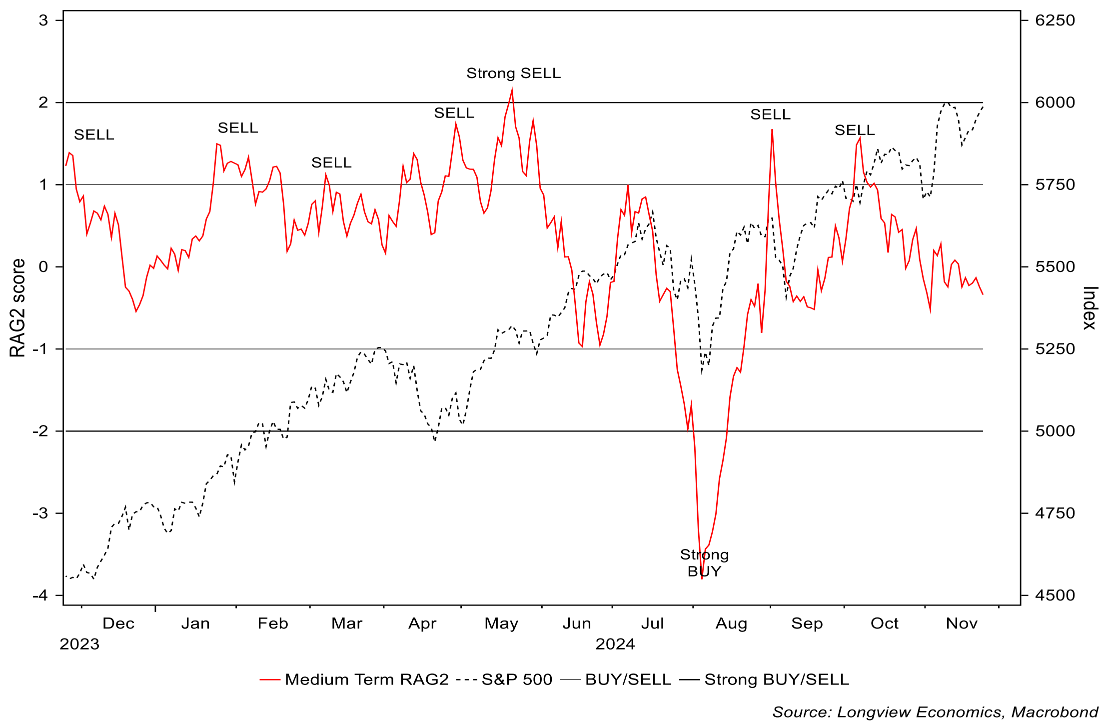
Section 3: Medium term (1 – 2 month) outlook

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



Medium term RAG1 is NEUTRAL

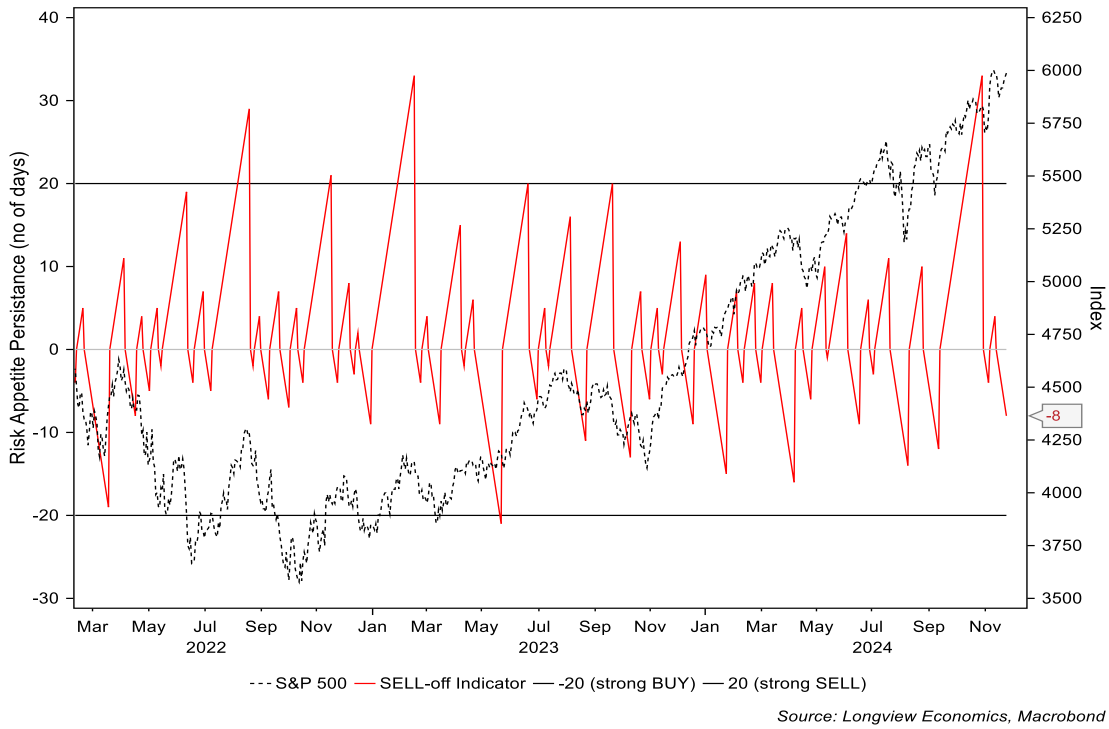
Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



Medium term RAG2 is NEUTRAL

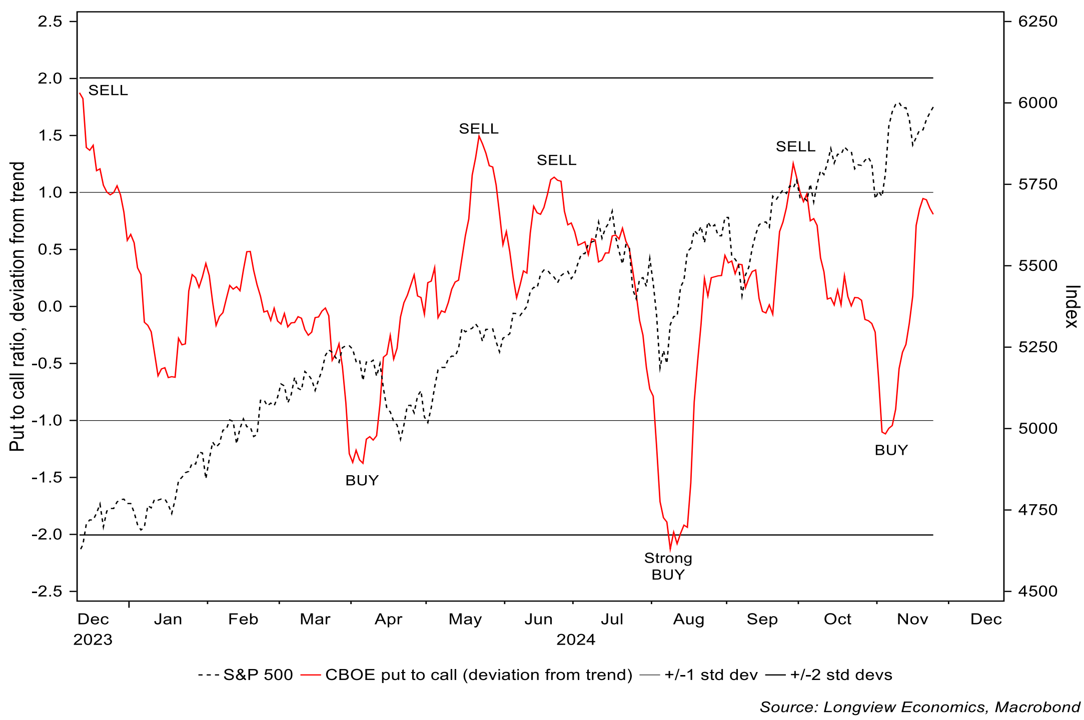
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

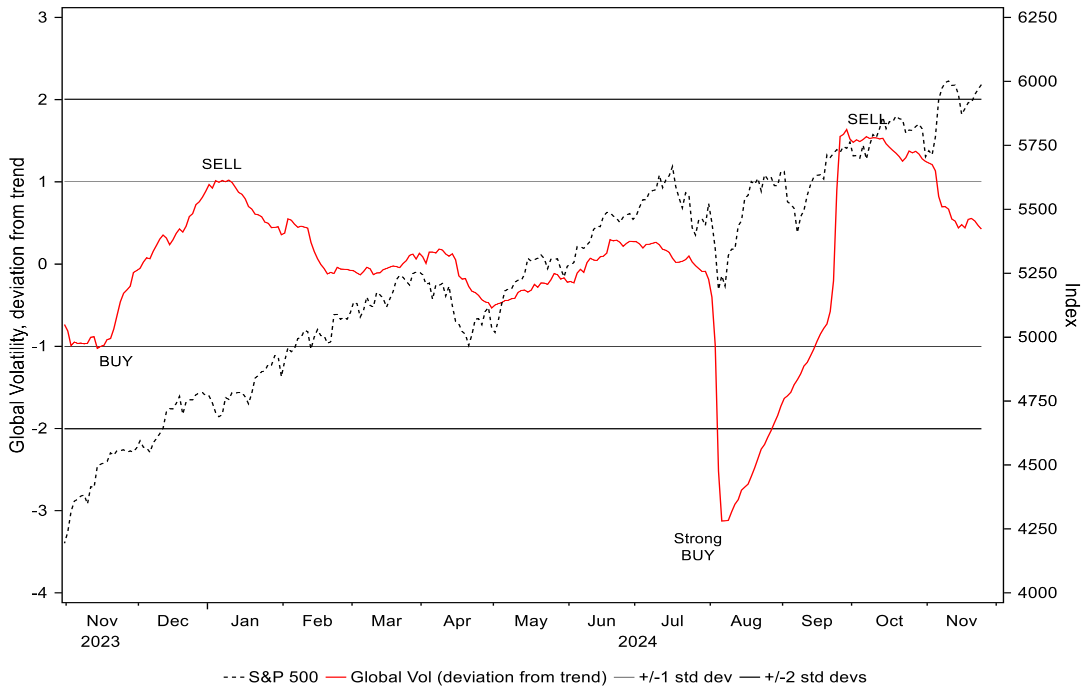
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

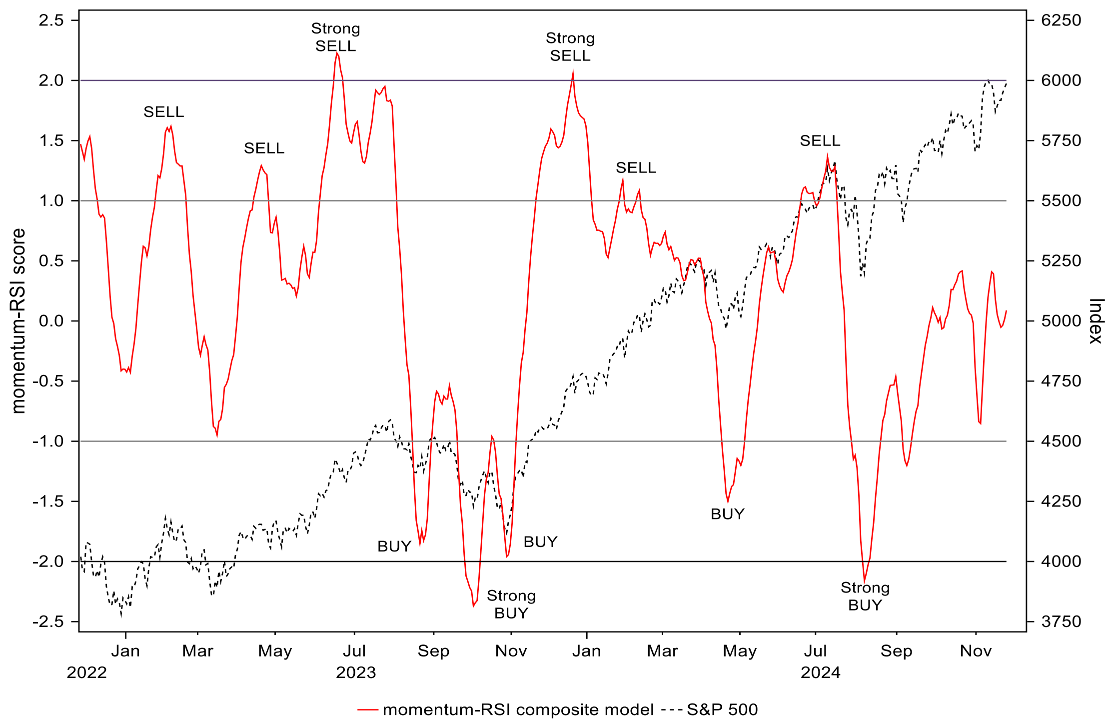
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

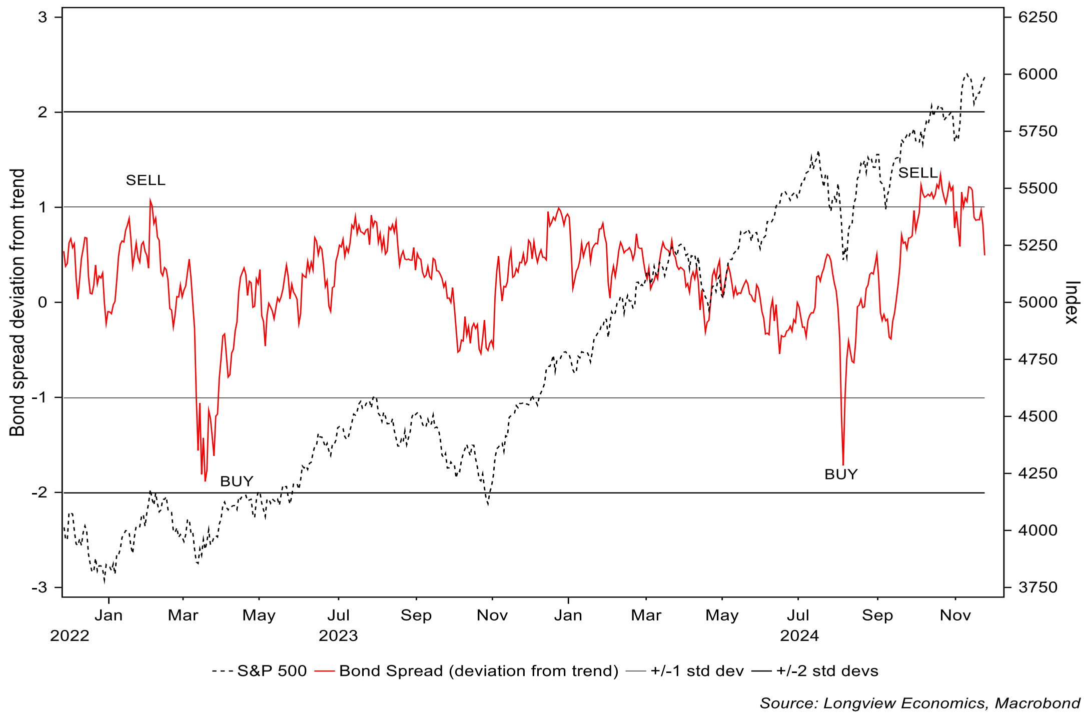
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

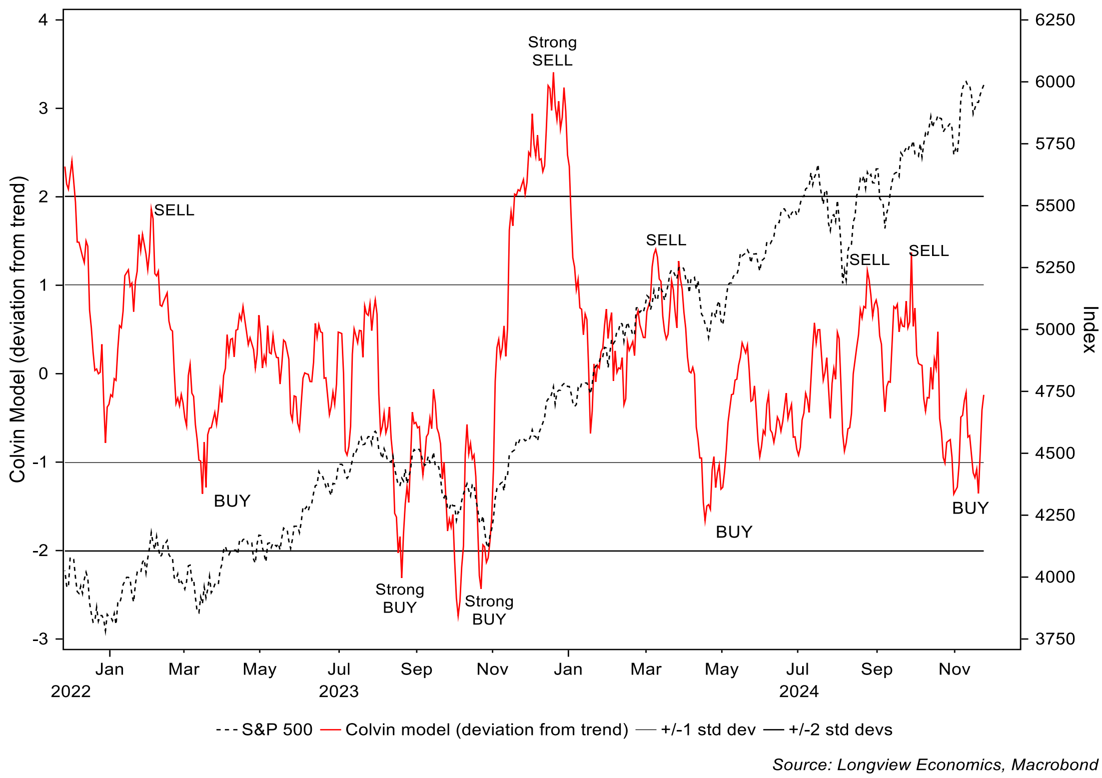
Source: Longview Economics, Macrobond

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



High yield corporate bond spreads model is NEUTRAL

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



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.

LVRAG
Daily Risk Appetite Gauge

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