Equity Index Futures Trading Recommendations

27th January 2025

"Stay SHORT SPX - tighten stop loss"

Email: info@longvieweconomics.com

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

- Stay ¼ SHORT March S&P500 futures (entry was last Tuesday at 6,080);
- Tighten stop loss to 6,180 (from 6,232).

Rationale

Price action in US equities was poor on Friday, and has deteriorated further overnight/this morning. In particular, key 'growth heavy' indices started to reverse/give back their recent gains on Friday, with weakness in the NASDAQ100 (-0.6%); Nasdaq Computer Index (also -0.6%) and the Philly SOX (-1.9%). With that, the Philly SOX generated a bearish key day reversal (KDR) pattern*, which typically signals a near term change of trend (i.e. from bullish to bearish – see FIG 1a). That's been followed by further weakness this morning, e.g. with S&P500 (-1.9%) and NASDAQ100 (-3.2%) futures trading sharply lower. Those moves, according to recent newsflow, reflect the threat/reminder of tariffs on key US trading partners (i.e. with Trump using tariff threats this weekend to cut a deal with Colombia, e.g. see HERE).

As well as that, though, the equity market was **primed for some near term giveback**, as highlighted by the **clear, across the board SELL message from our short term models** mid/late last week. That SELL message remains intact/broadly unchanged overnight. In particular, key US equity indices are still over-extended to the upside (FIGs 1b & 1c); risk appetite models are on/close to SELL (FIGs 2 & 2a); downside put protection is low (highlighting near term complacency in portfolios, see FIGs 3 & 3a); our technical scoring systems are on SELL (FIGs 4 & 4a); while various breadth, momentum, and single stock models are also on/close to SELL (see FIG 1d, and FIGs 5 & 5a).

Given that clear message from the models, and with momentum in US equities starting to roll over, the risk reward favours staying SHORT S&P500 futures. We also recommend tightening the stop (for risk management purposes – please see above for detailed recommendation).

Risks, as always, are multiple and include the possibility that equities are merely in the midst of a short term wobble (i.e. and the uptrend is about to resume). Other (two way) risks to this trade include this week's Fed policy decision and press conference on Wednesday. There are also several earnings reports from key tech companies this week, including Microsoft, Meta, and Tesla on Wednesday, followed by Apple and Amazon on Thursday.

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

Kind regards,

The team @ Longview Economics

*Bearish key day reversals occur when the index opens higher, makes a new intraday high, and then closes below the previous day's intraday low.

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 60-day tick chart shown with overnight price action

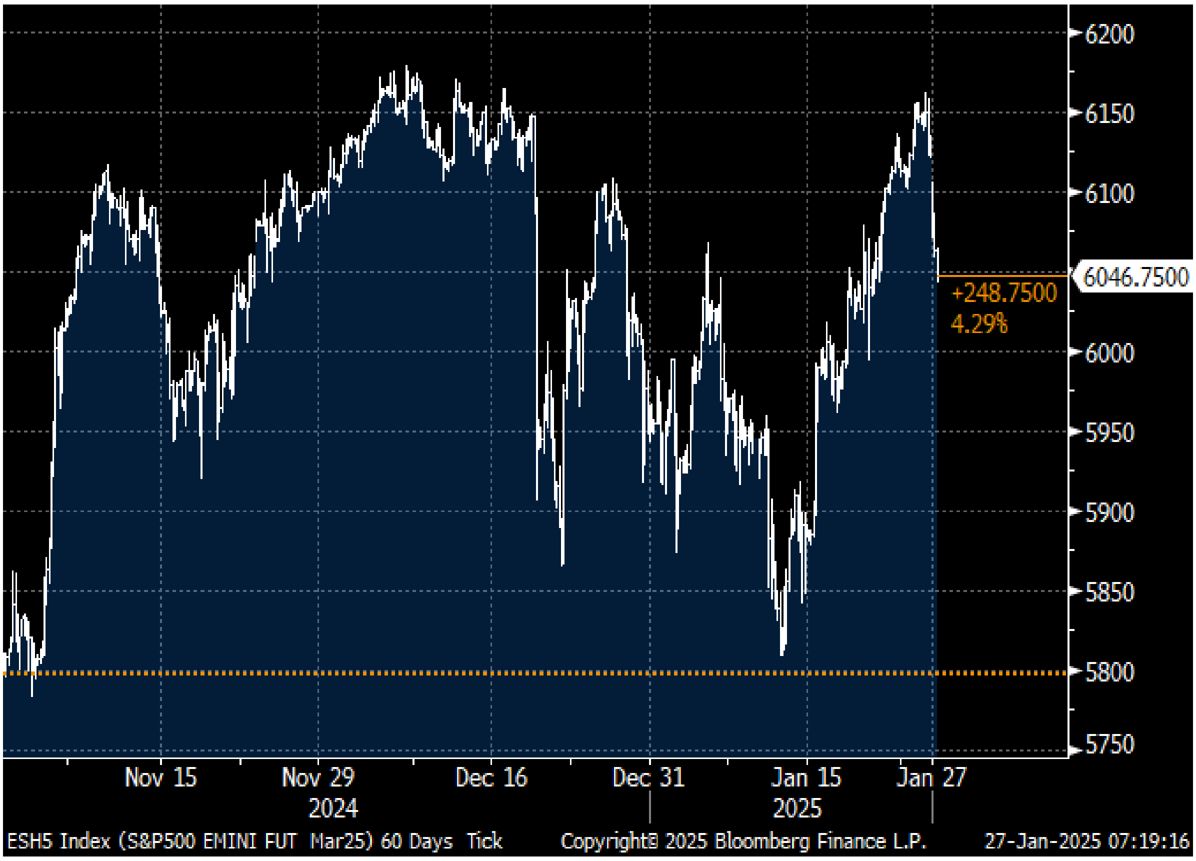
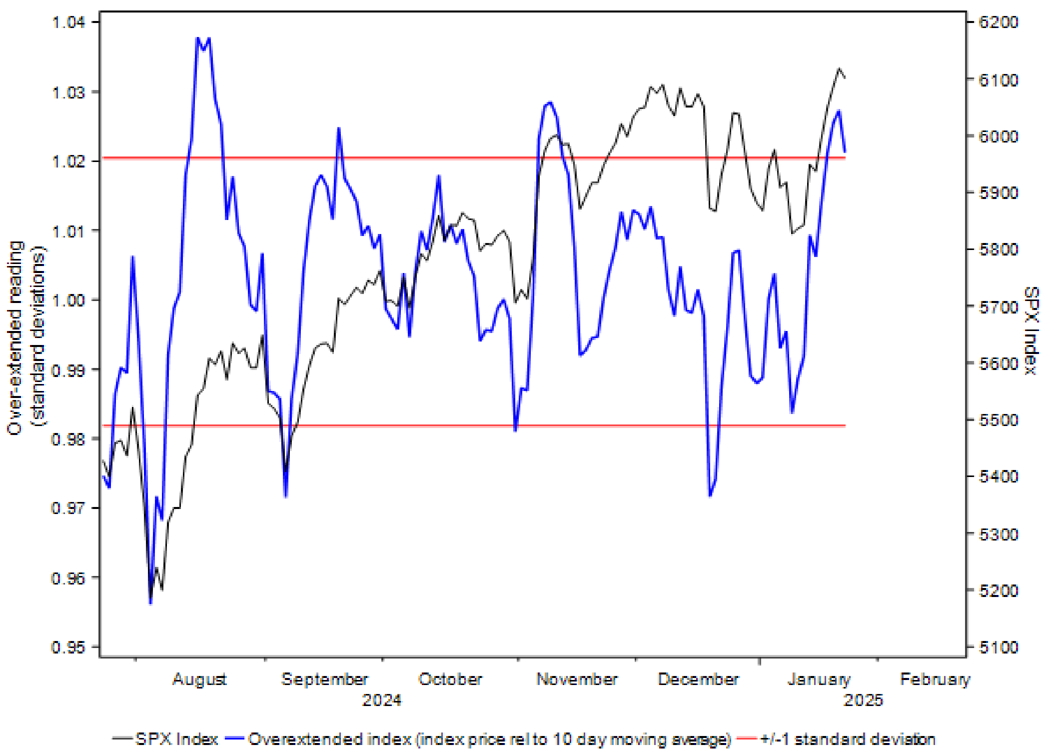


FIG 1a: Philly SOX cash index candlestick, shown with 50 & 200 day moving averages

Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1c: NDX100 overextended index (index price relative to 10 day moving average) vs. NDX100

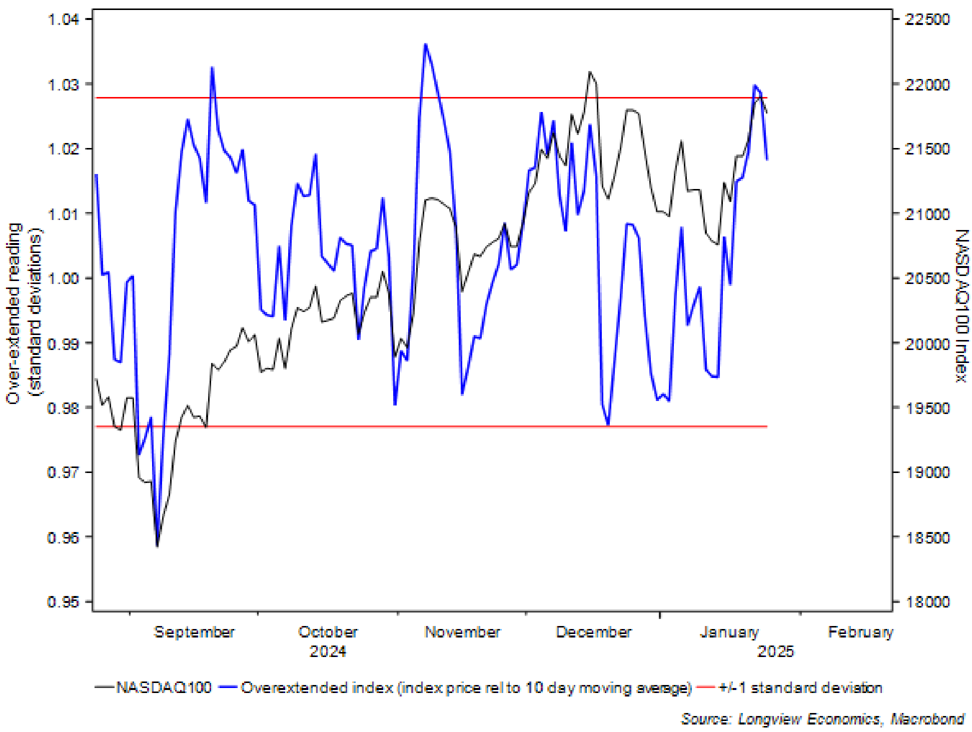
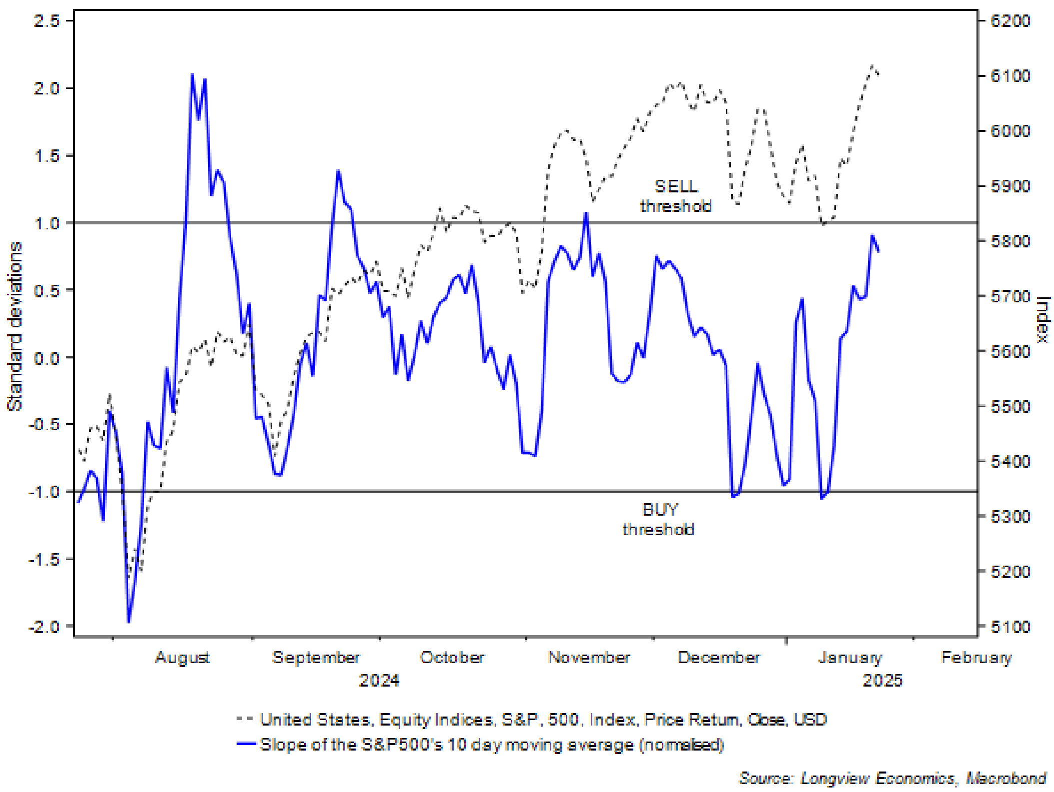


FIG 1d: US S&P500 stocks with upward momentum shown vs. S&P500



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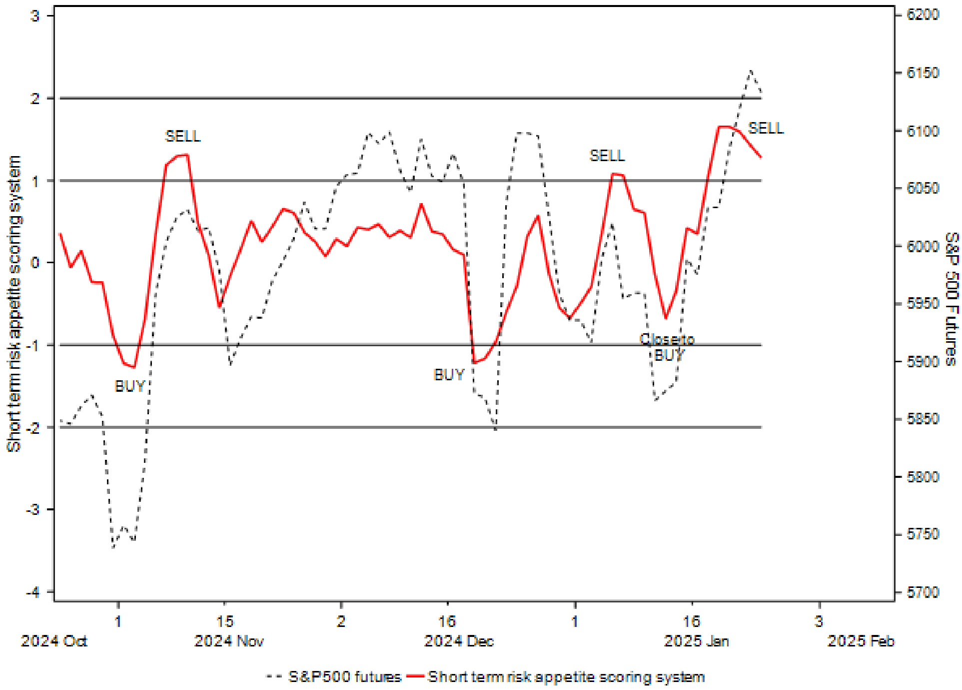
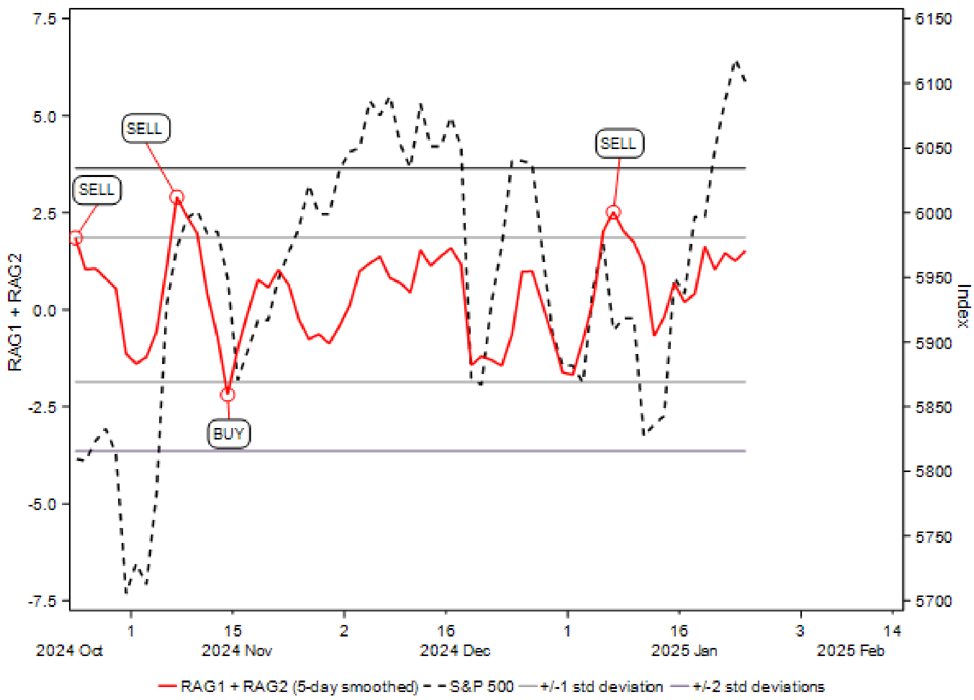
Risk appetite models are on/close to SELL…

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

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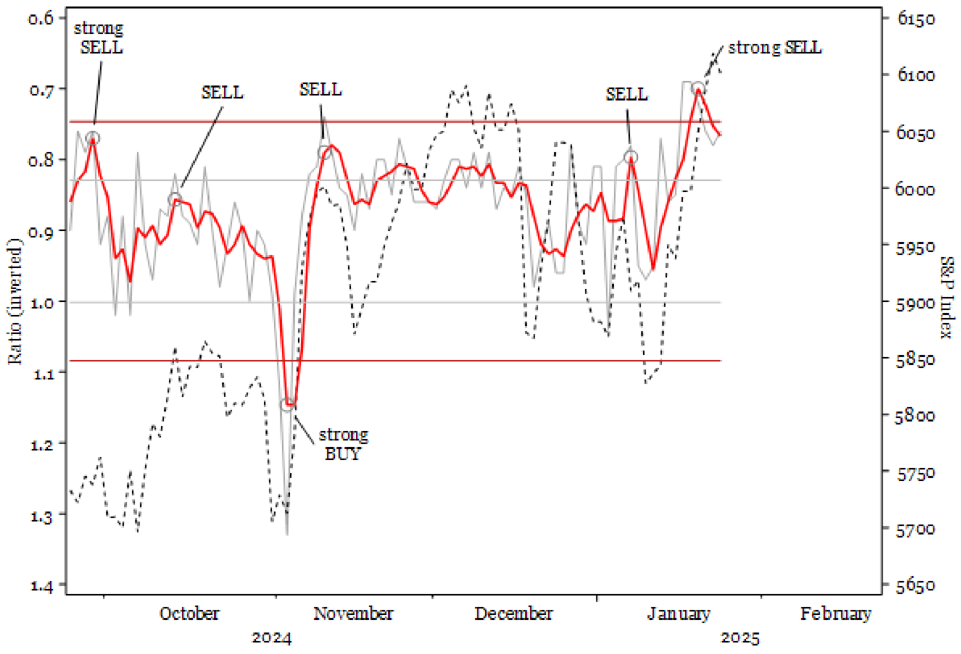
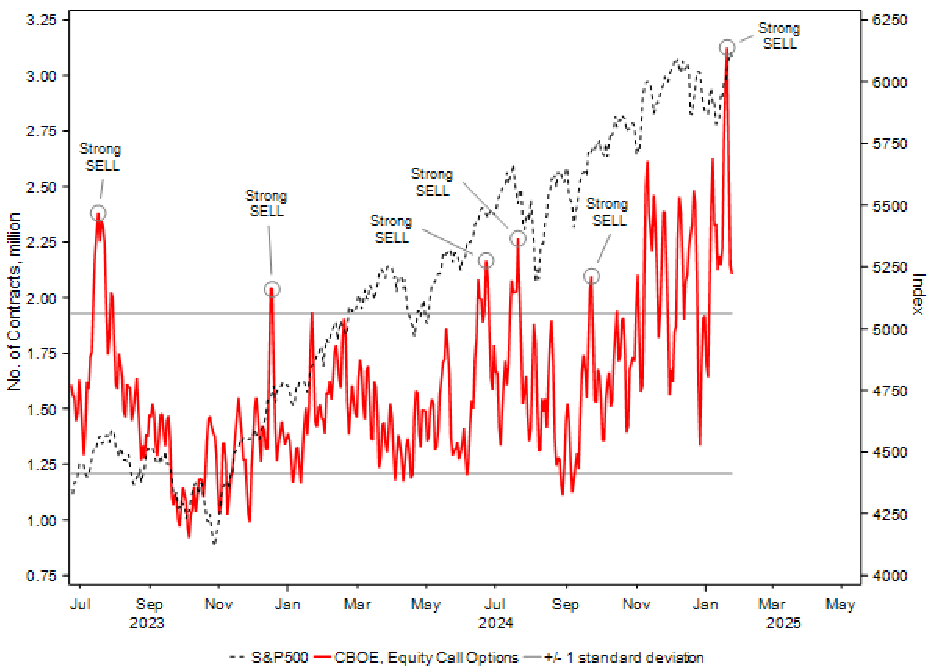
Put to call models are on strong SELL…..

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Technical models (for indices) are on SELL....

FIG 4: Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures

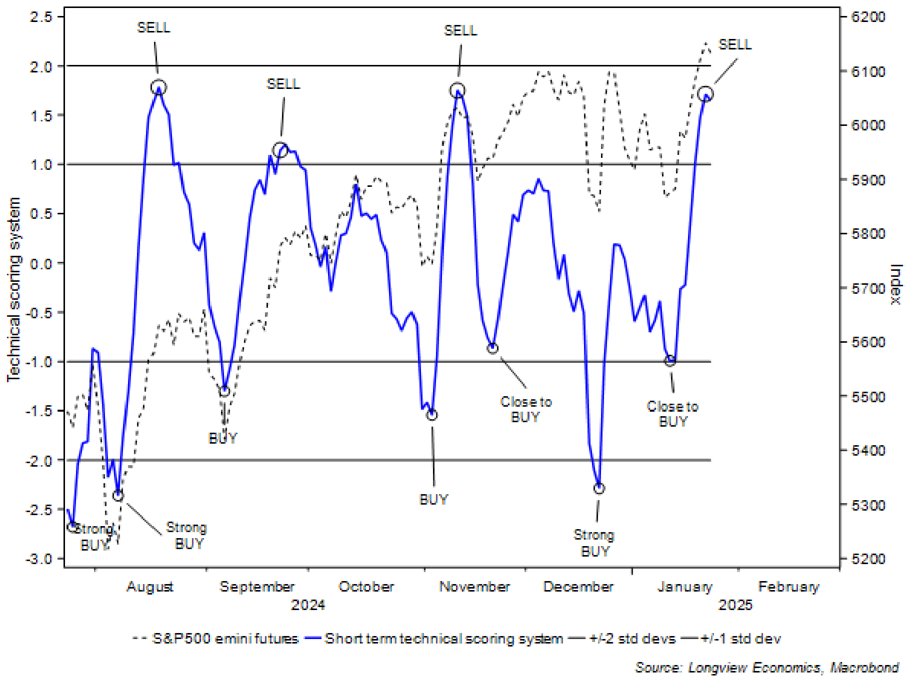
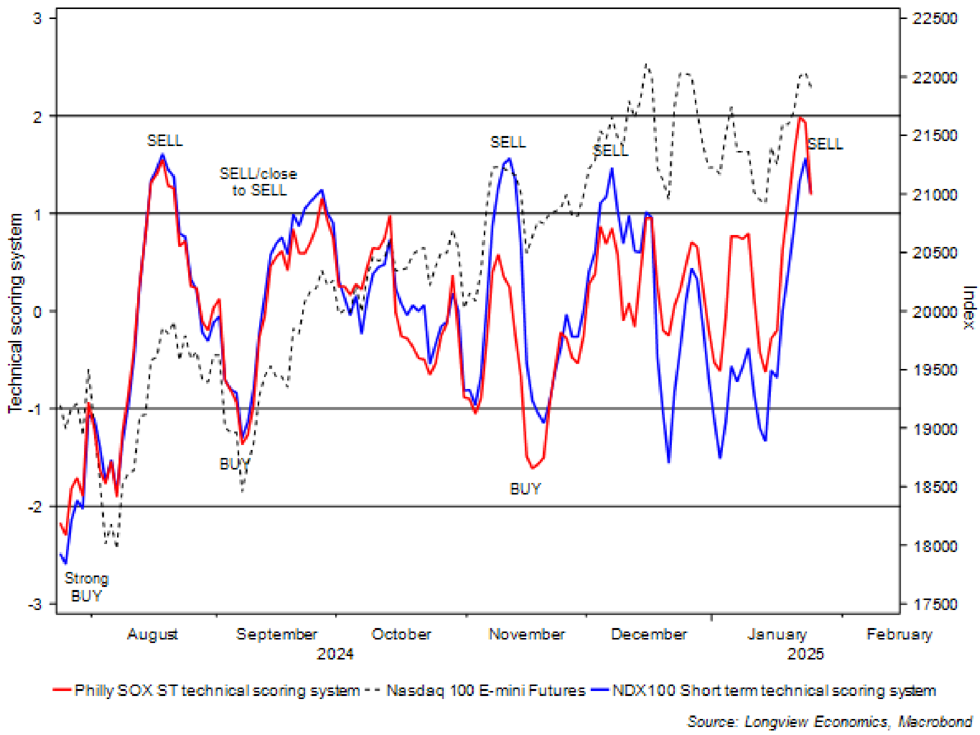
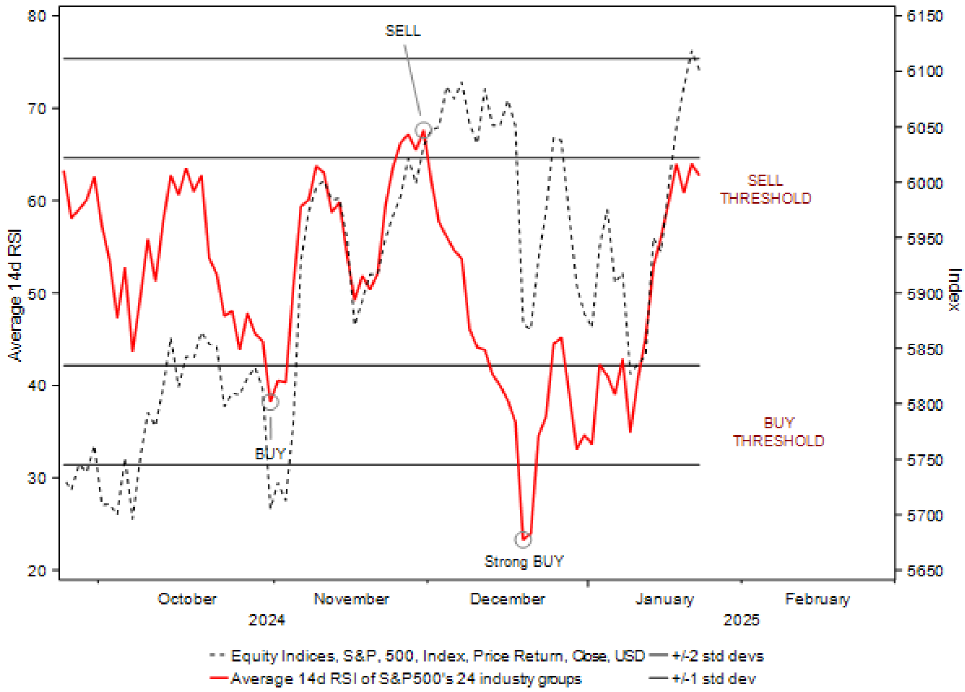


FIG 4a: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures



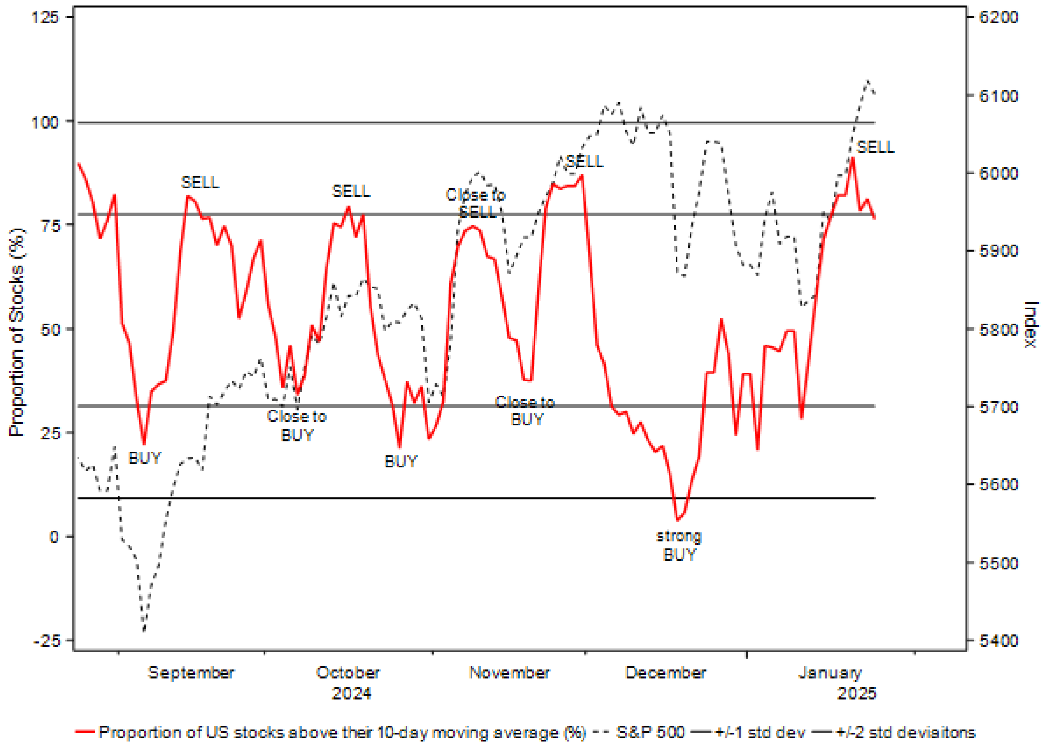
Sector and single stock technical models are also on, or close to, SELL....

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



Source: Longview Economics, Macrobond

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

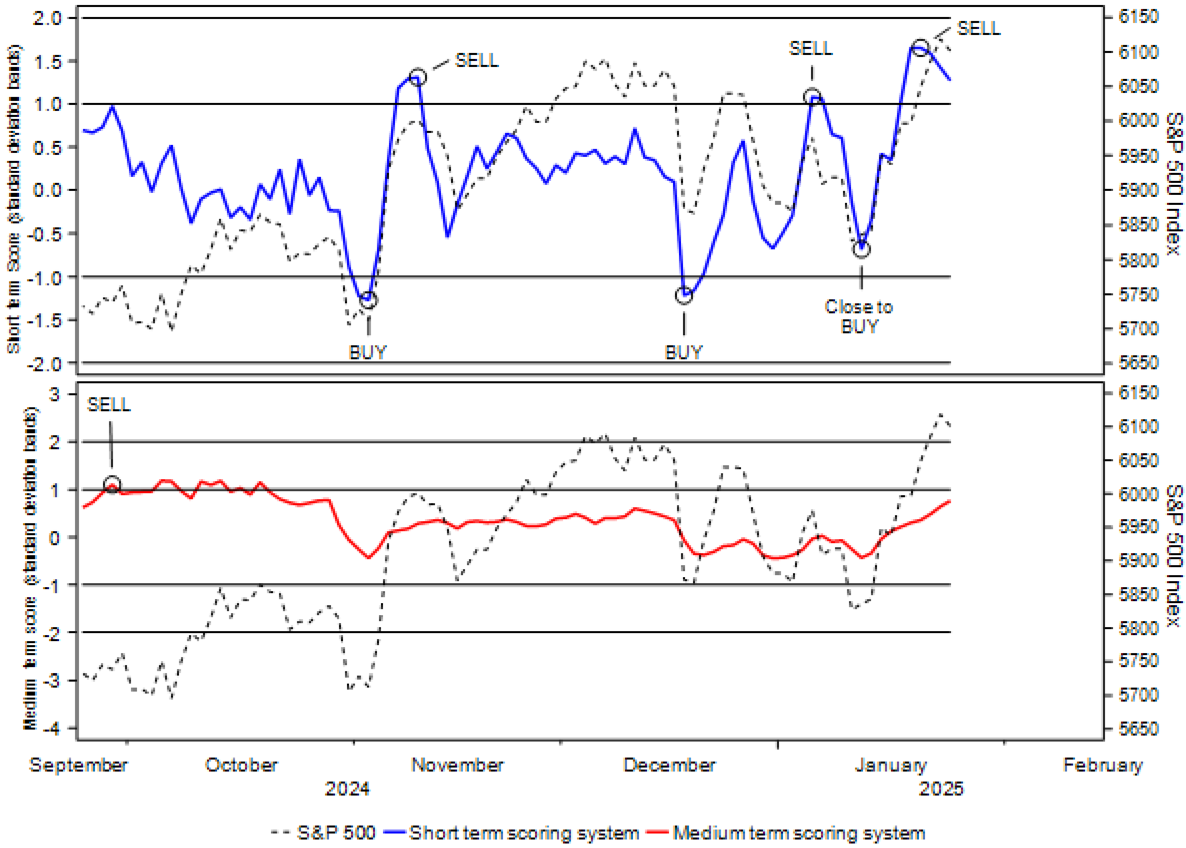


Source: Longview Economics, Macrobond

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

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Key macro data/events

Key data today include: **Chinese manufacturing & service sector PMIs** (Jan, 1:30am); Chinese industrial profits (Dec, 1:30am); Japanese ESRI leading index (November final estimate, 5am); **German IFO business climate** (Jan, 9am); US building permits (December final estimate, 1pm); US Chicago Fed national activity (Dec, 1:30pm); **US new home sales** (Dec, 3pm); US Dallas Fed manufacturing sector activity (Jan, 3:30pm); Japanese PPI services (Dec, 11:50pm).

Key events today include: Speeches by the ECB's Orban, Lagarde, Holzmann, Kazimir & Vujcic at a central bank conference in Hungary.

Key earnings today include: AT&T, Fanuc Corp.

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 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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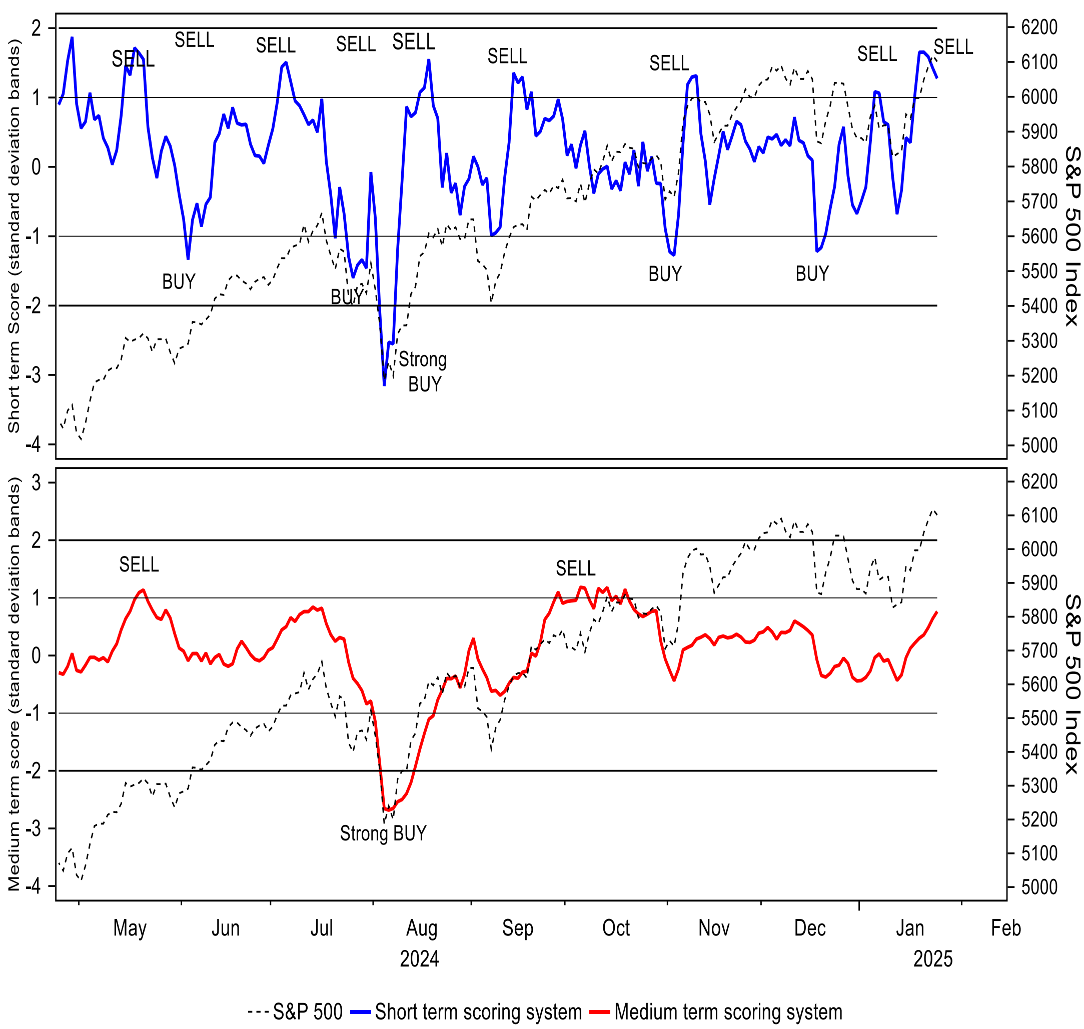
1 – 2 Week View on Risk

27th January 2025

Longview Economics
Email: research@longvieweconomics.com

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

Fig 1: Longview ‘short term’ and ‘medium term’ scoring systems



Short term scoring system is on SELL

Medium term scoring system is NEUTRAL

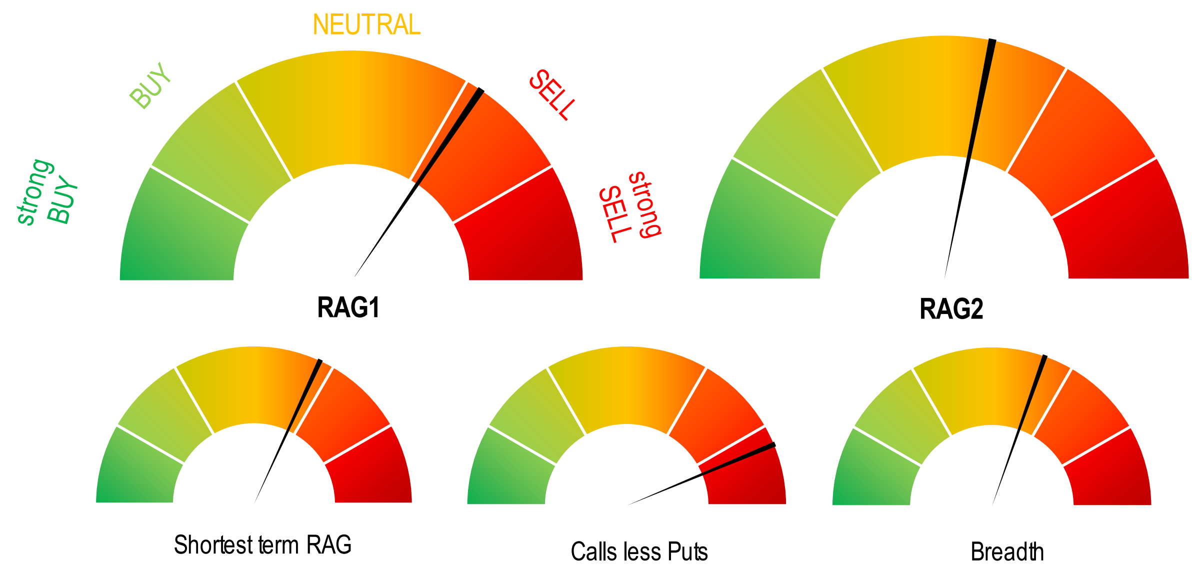
Source: Longview Economics, Macrobond

*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

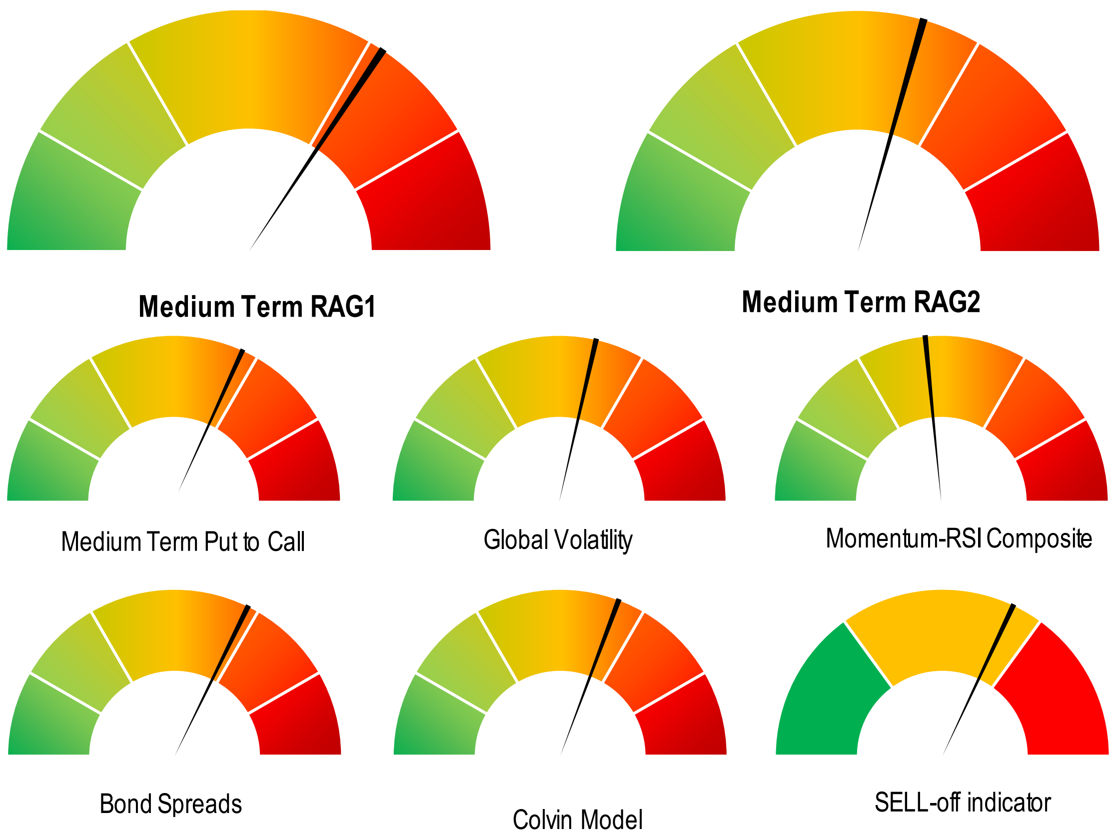
Section 1a: Summary of indicator signals**

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

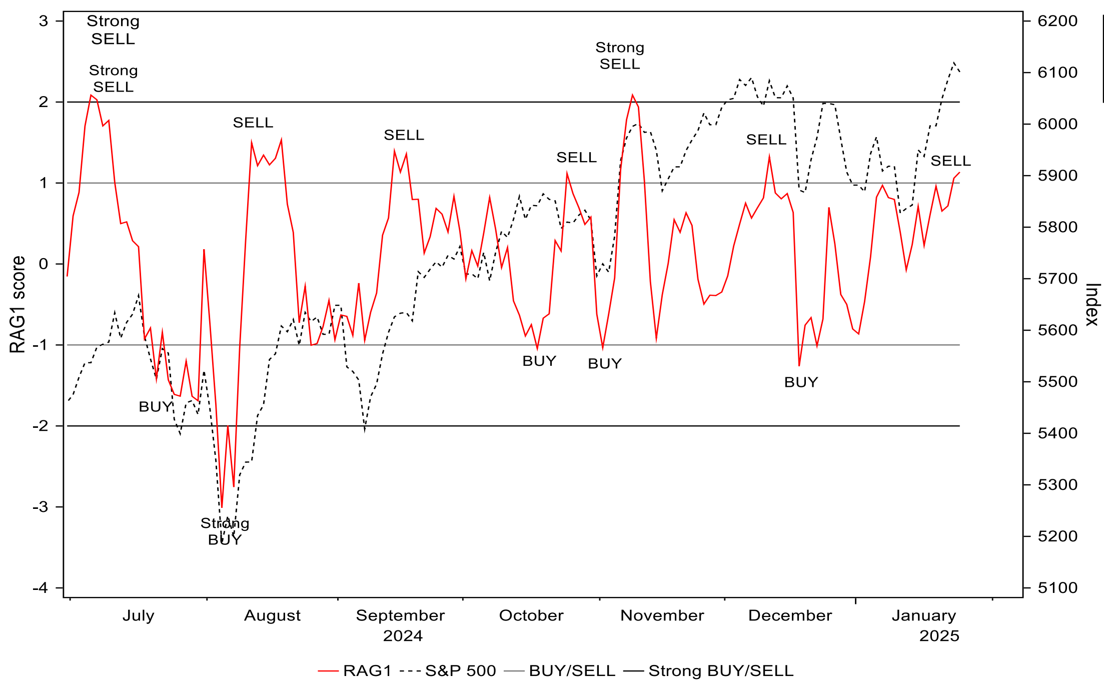


Source: *Longview Economics*

**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

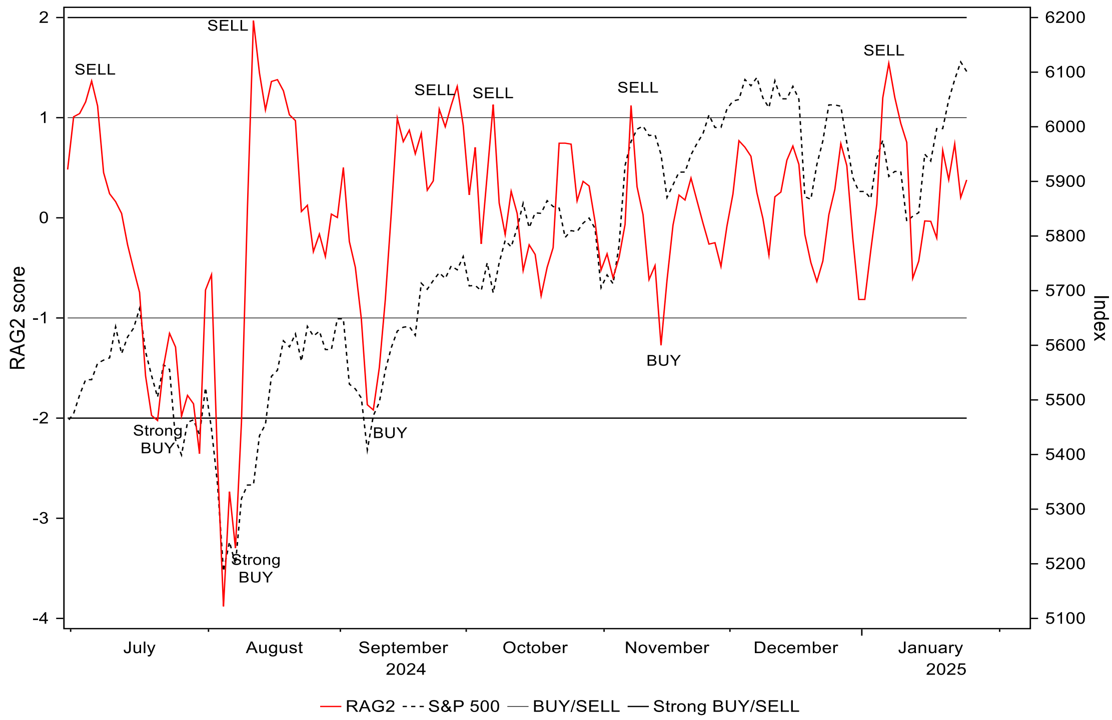
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on SELL

Source: Longview Economics, Macrobond

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

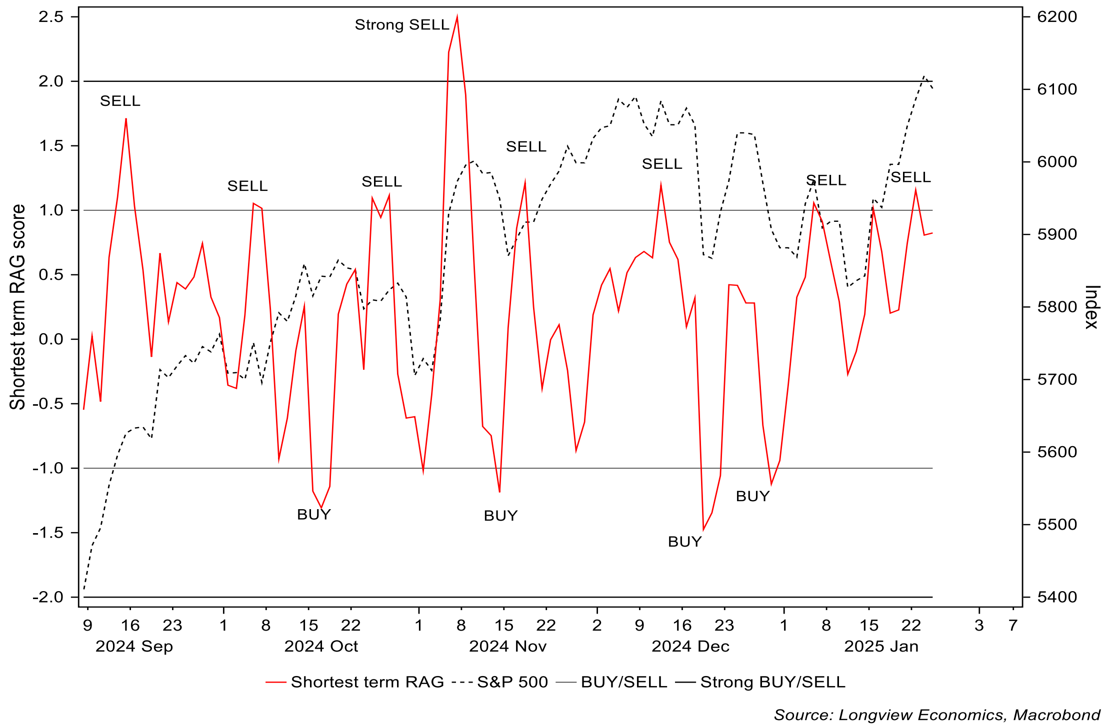


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

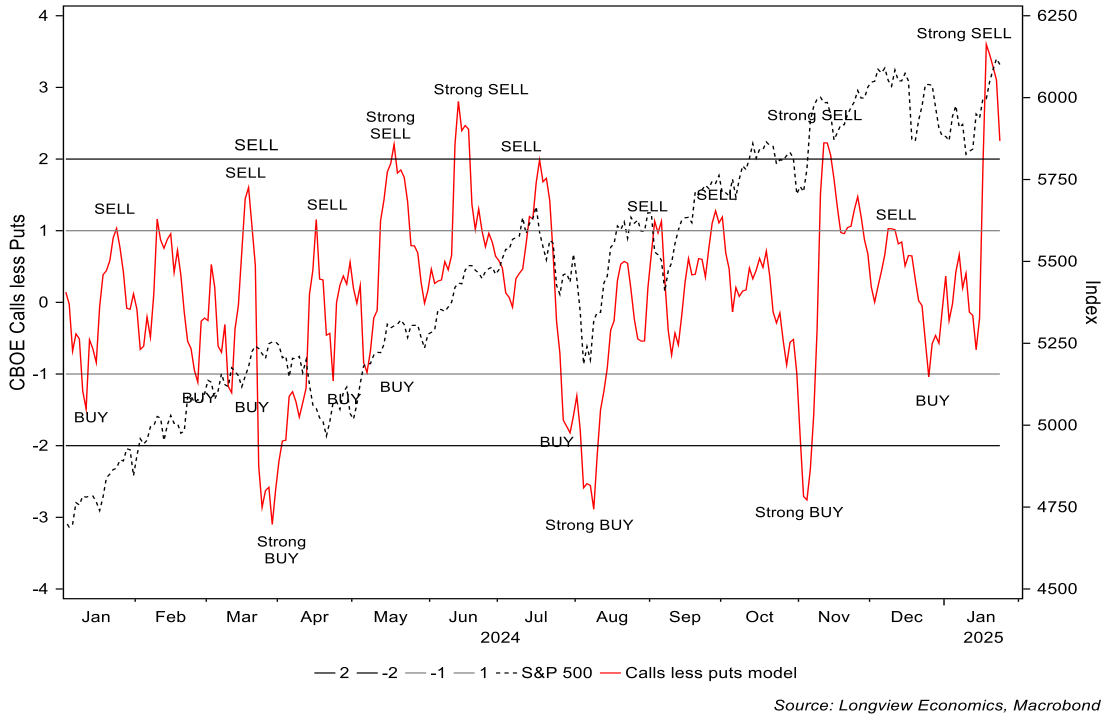
For explanations of indicators please see page 10

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



Shortest term RAG is NEUTRAL

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



Calls less puts model is on Strong SELL

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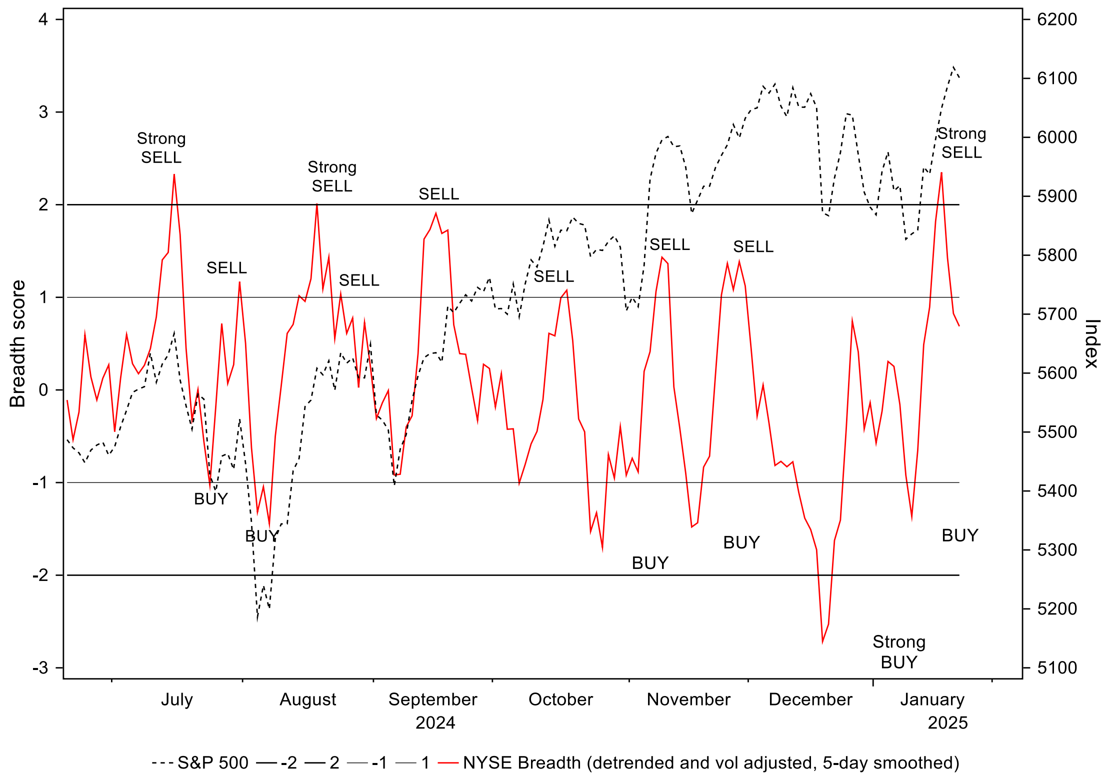
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

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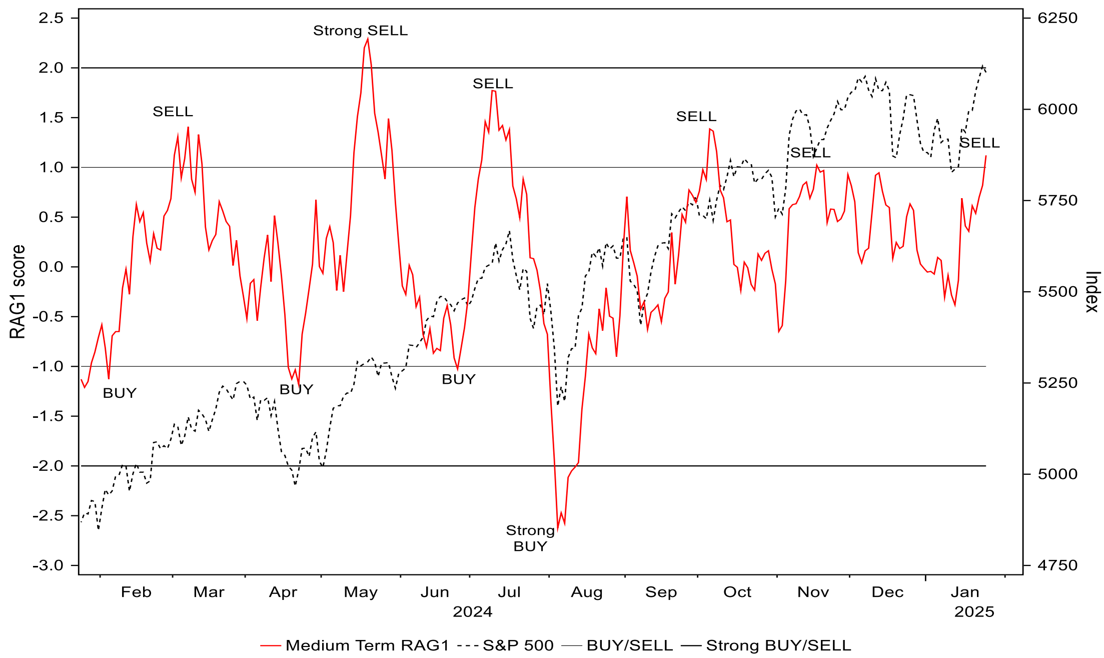
Section 3: Medium term (1 – 4 month) outlook

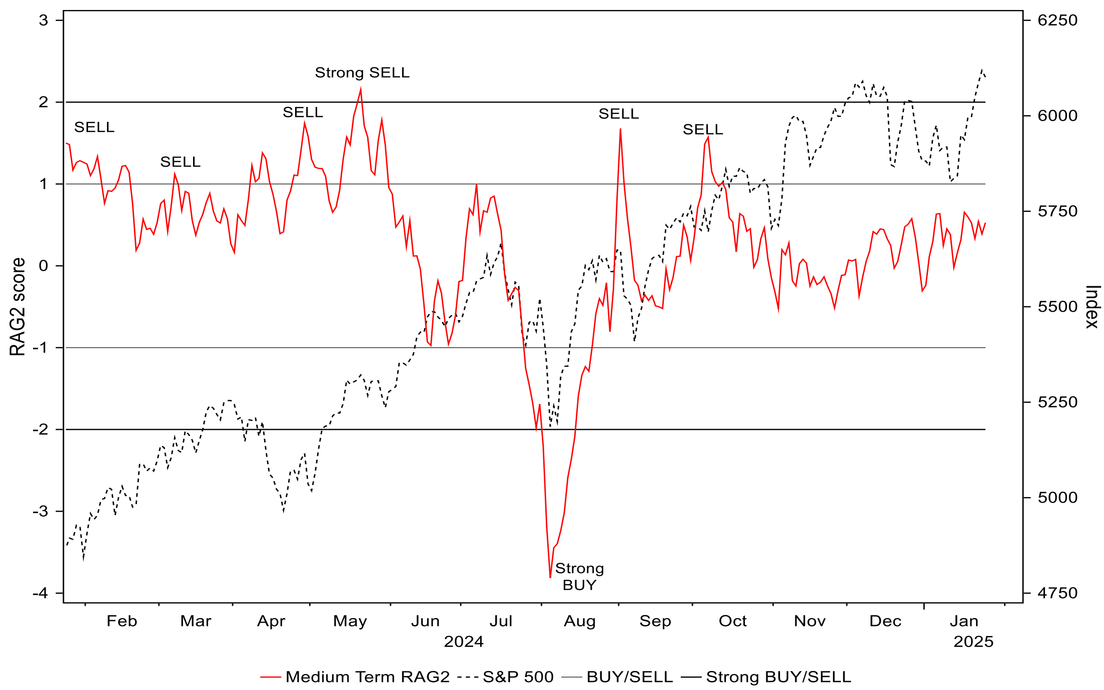
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is on SELL

Source: Longview Economics, Macrobond

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



Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

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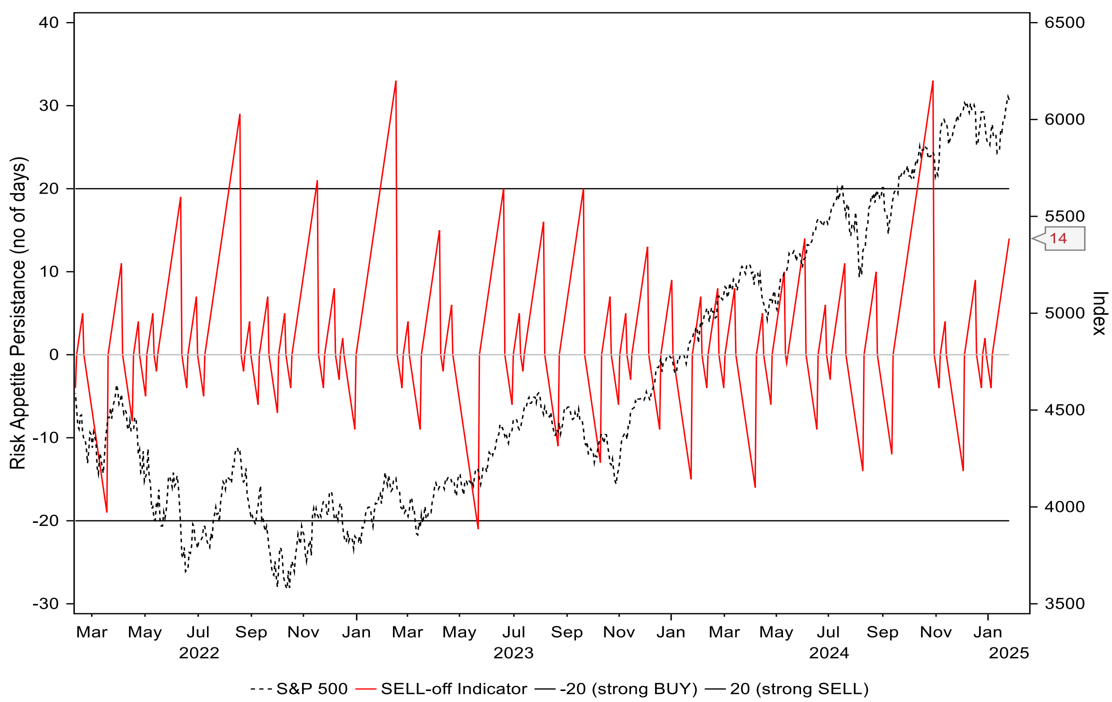
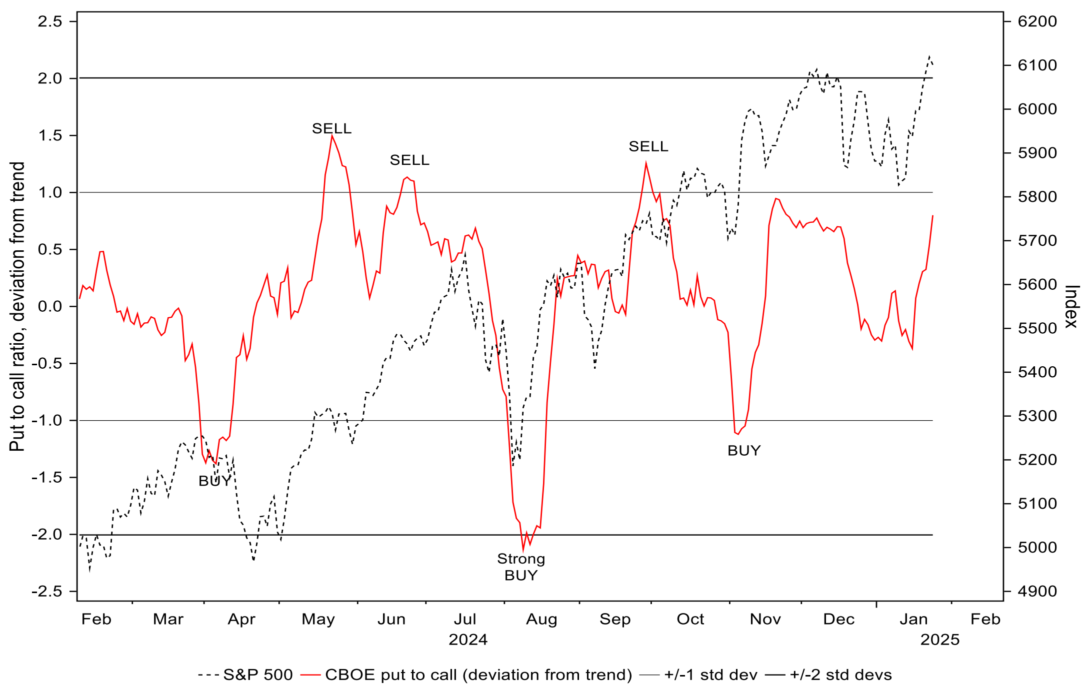
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

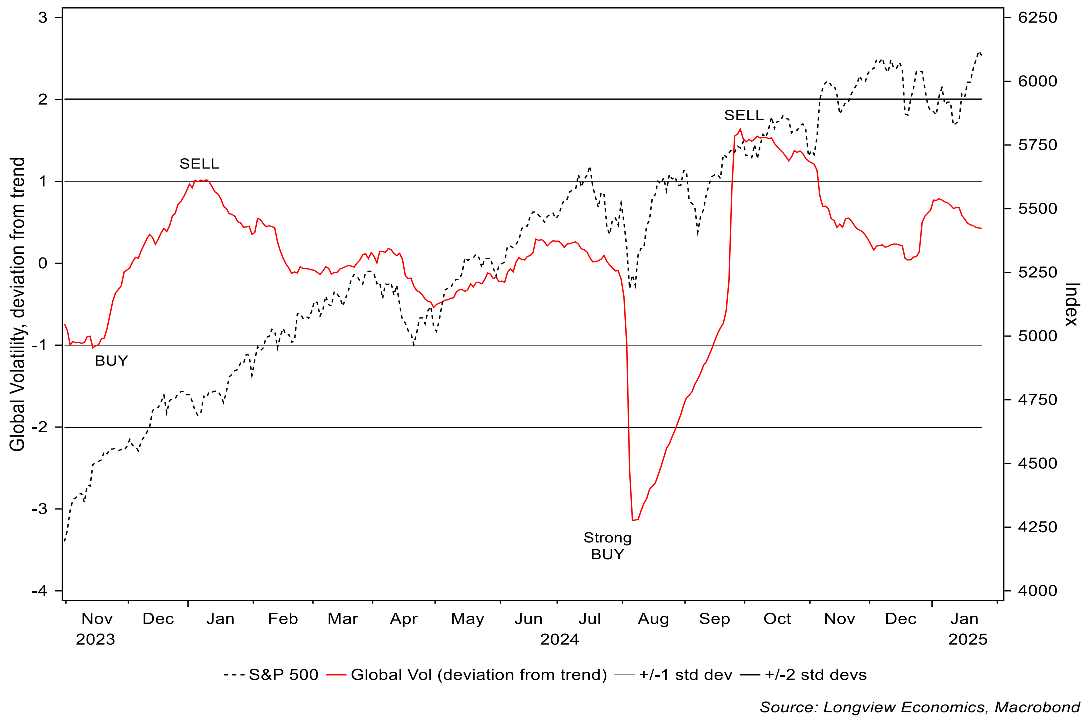


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

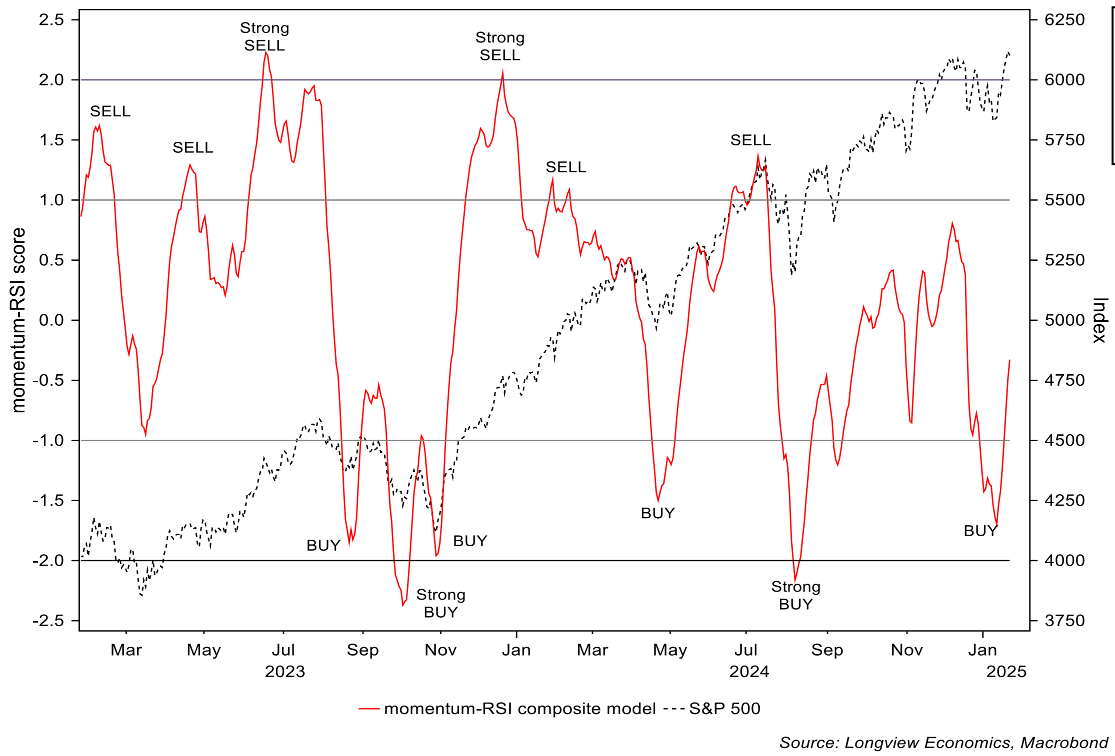
For explanations of indicators please see page 10

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



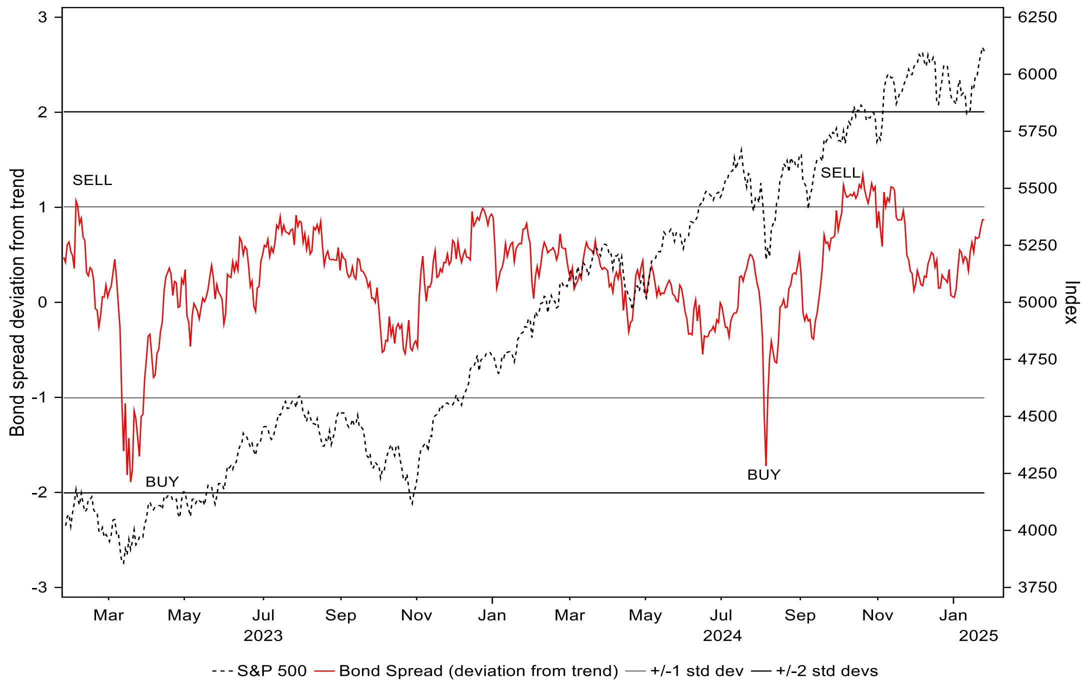
Global volatility indicator is NEUTRAL

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



US momentum RSI composite model is NEUTRAL

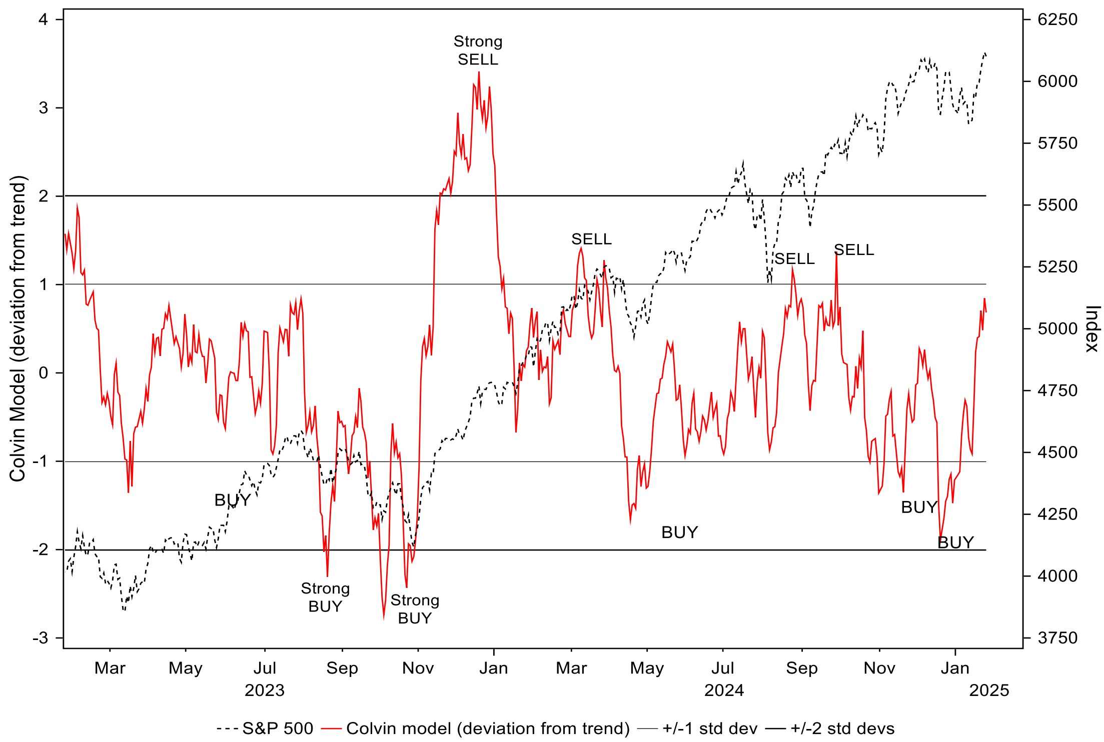
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 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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