

Equity Index Futures Trading Recommendations

27th November 2024

"Stay LONG (both SPX & NDX)"

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

Rationale

US equities continued to push higher yesterday. In particular, most major indices closed higher on the day, with the S&P500 and NASDAQ100 (both +0.6%) rallying into the close (i.e. bullish price action). With that, S&P500 futures have made higher highs & lows (on most trading days this past week, see FIG 1a), and yesterday the index made a new closing high (FIG 1). The NASDAQ100 has behaved similarly (with mostly higher intra-day highs & lows this past week, FIG 1b).

From that perspective, **the uptrend remains ongoing/is intact**, and equities have held up well in the past 48 hours, i.e. despite Trump's tariff announcements on Monday (a 25% tariff on all imports from Canada and Mexico, and an extra 10% on Chinese goods). That is, while the CAD (-0.5%) and MXN (-1.8%) closed lower yesterday, price action in US equities has been resilient (despite concerns that tariffs will hit S&P earnings).

Our view remains unchanged from yesterday. That is, in up-trending markets, the **risk reward favours staying with LONG positions**, at least until short term models have a clear and across the board SELL message.

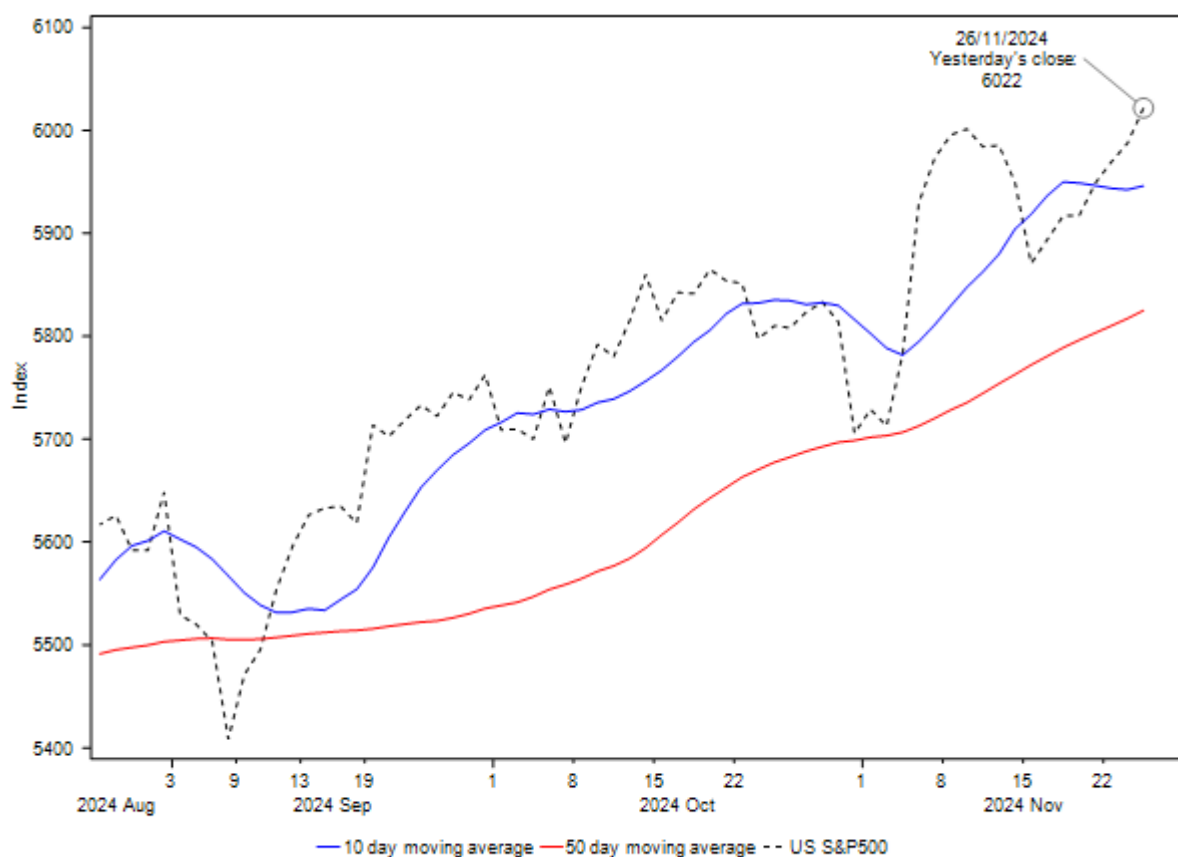
Currently, in that respect, most of our key short term indicators are NEUTRAL/mid-range, having **mostly generated BUY signals** last week. Risk appetite models, for example, are mid-range (FIGs 2 & 2a); technical and momentum indicators are not yet on SELL (having recently been on BUY, FIGs 3 & 3a); most NASDAQ100 models are still leaning towards BUY (see FIGs 4 – 4b); while our key 'over-extended' indicators for the S&P500 and the NASDAQ100 are mid-range **and therefore also point to more upside headroom** (i.e. over the next few days/weeks), see FIGs 1c & 1d.

We therefore continue to favour staying with LONG positions (for now). Please see above for detailed recommendations. **Risks**, as always, are multiple and include low levels of downside put protection in portfolios (FIGs 5 & 5a), as well as the emerging SELL signals from certain breadth models (e.g. see FIGs 3b & 4b), albeit signals from these indicators are often early in up trending markets.

Kind regards,

The team @ Longview Economics

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



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

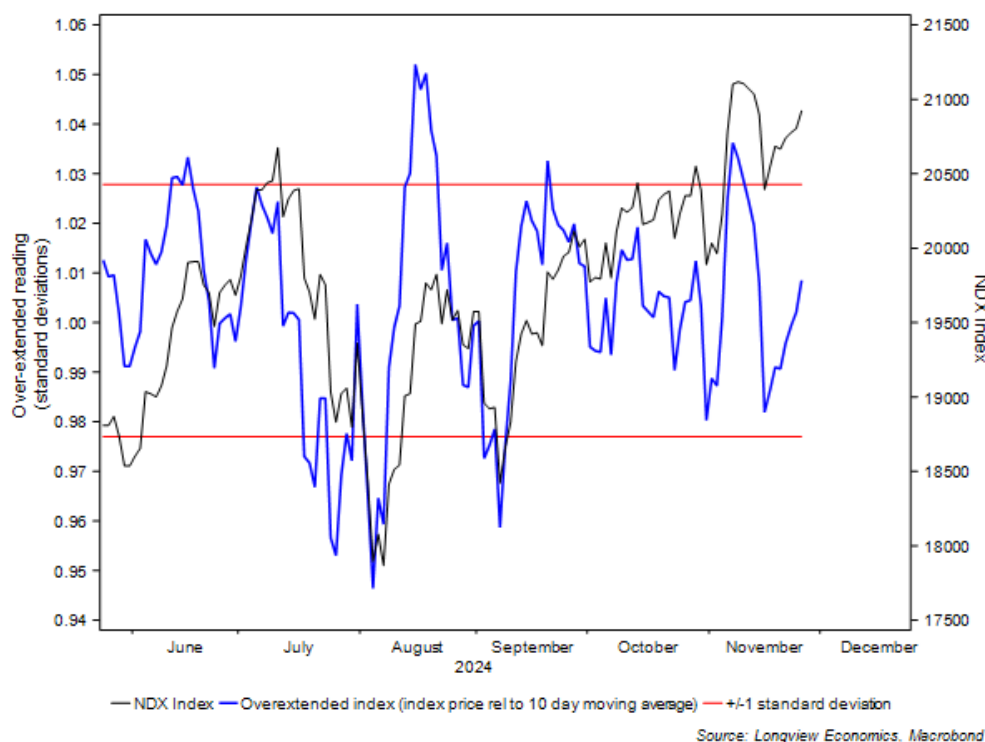


FIG 1d: NASDAQ100 overextended index (index price relative to 10 day moving average) vs. NASDAQ100

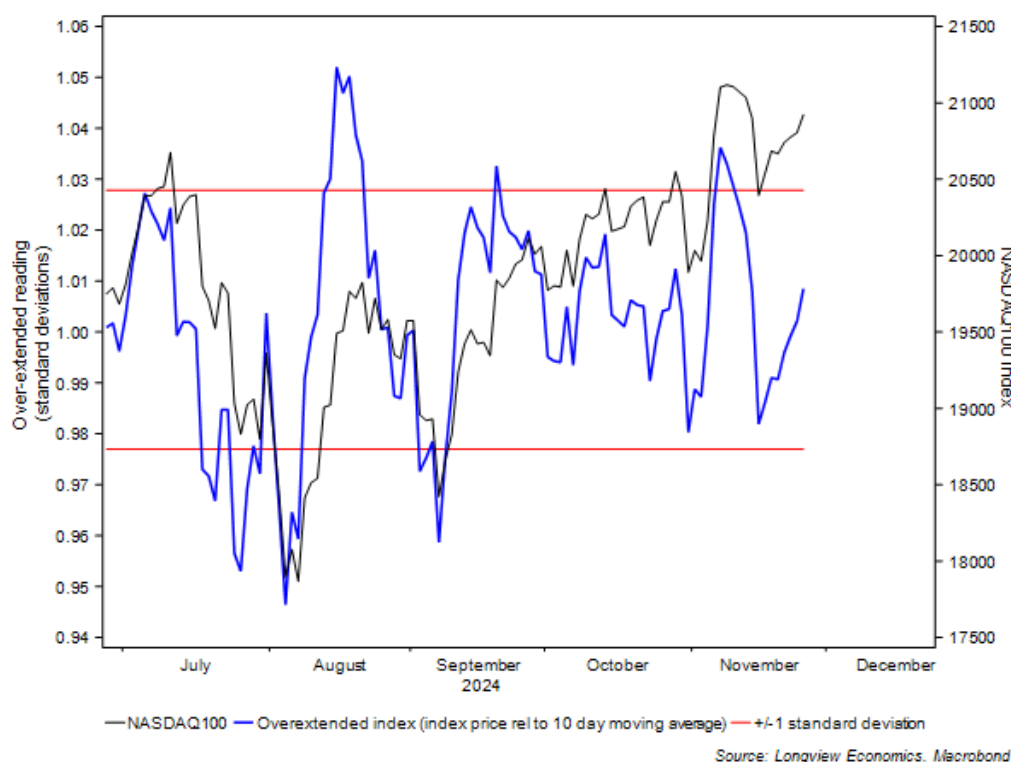
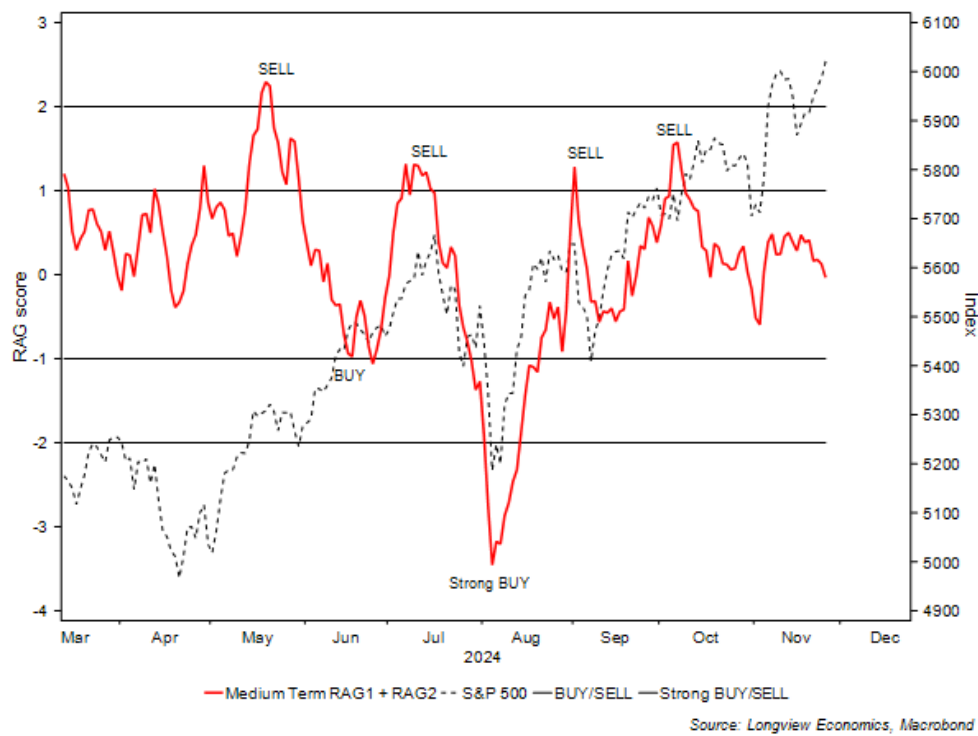


FIG 1e: Medium term RAG1 & RAG2 vs. S&P500



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

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

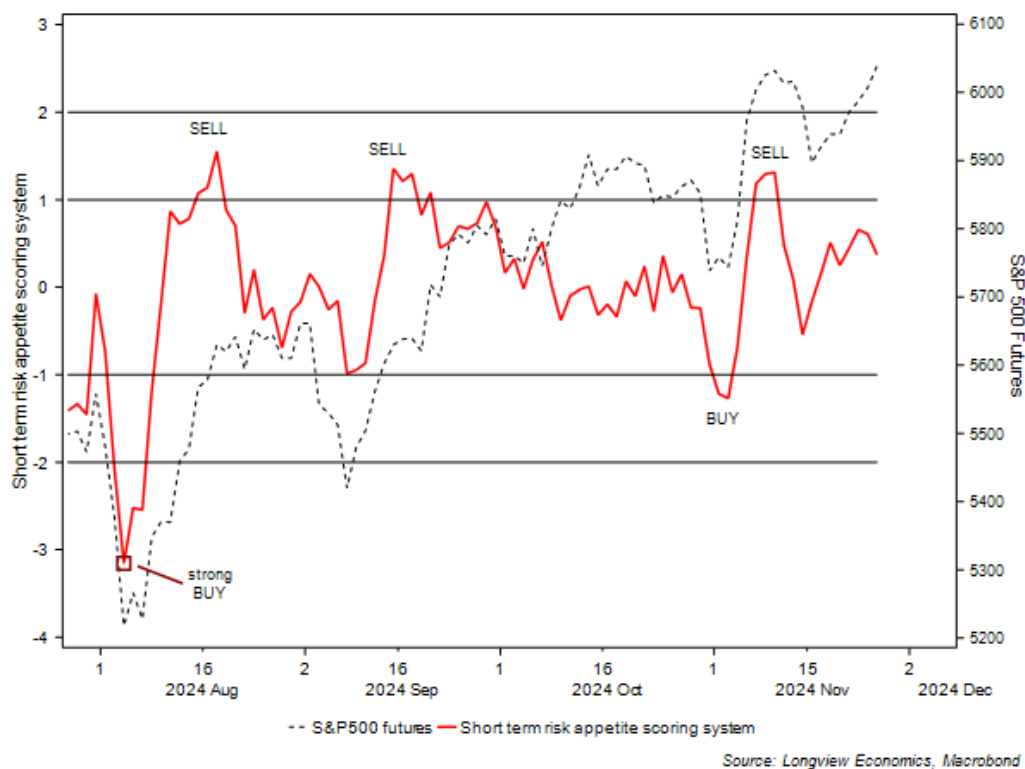
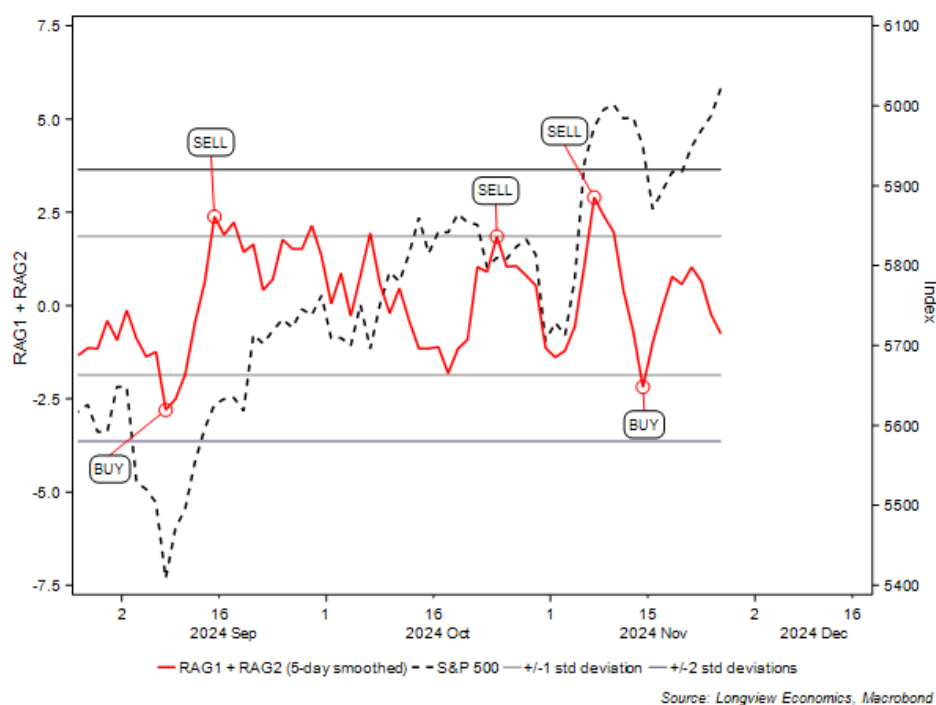


FIG 2a: Longview combined key **‘risk appetite’** models (RAG1 + RAG2) vs. S&P500



Other short-term models are NEUTRAL/leaning towards SELL...

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

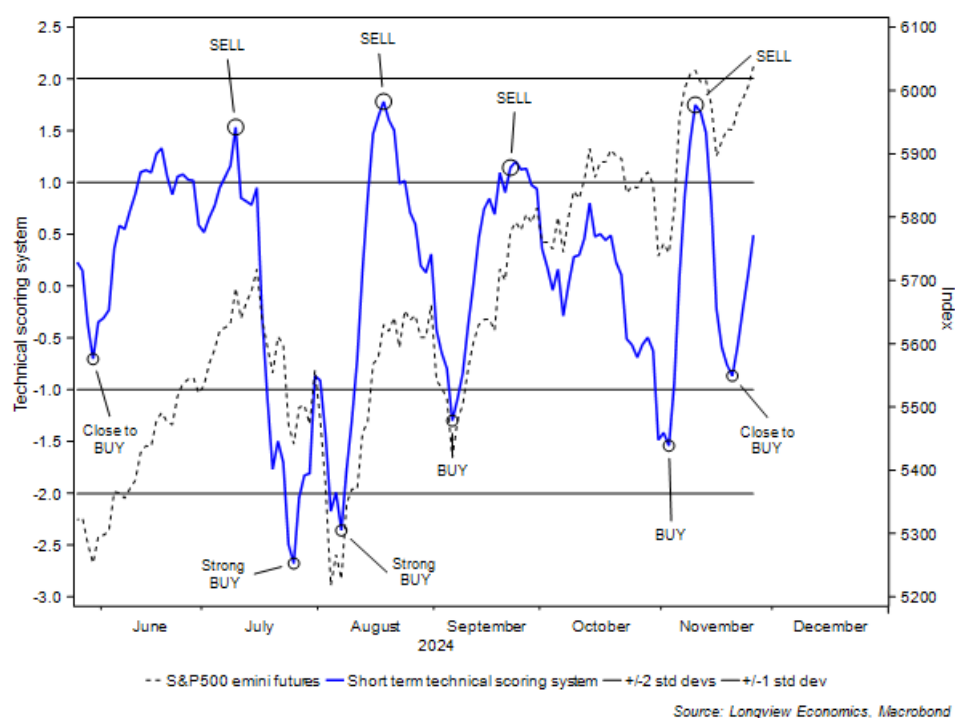


FIG 3a: Global composite momentum model vs. S&P500

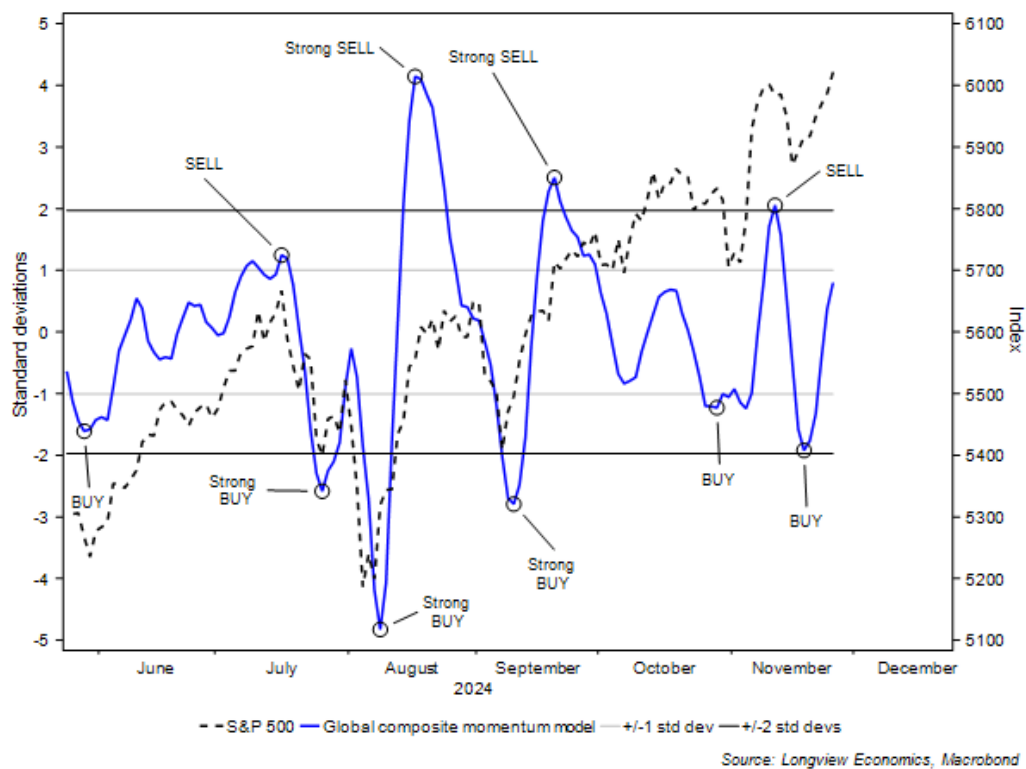
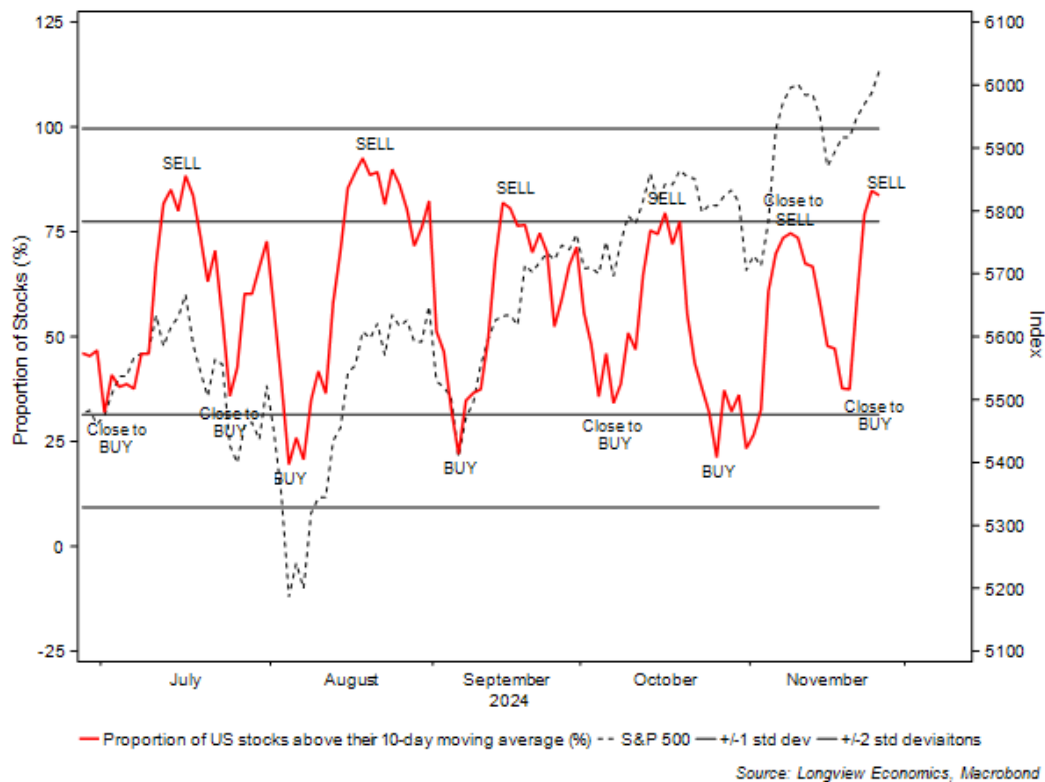


FIG 3b: Proportion of US stocks above their 10-day moving average vs. S&P500



NASDAQ100 specific models are mostly NEUTRAL, having recently generated BUY signals...

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

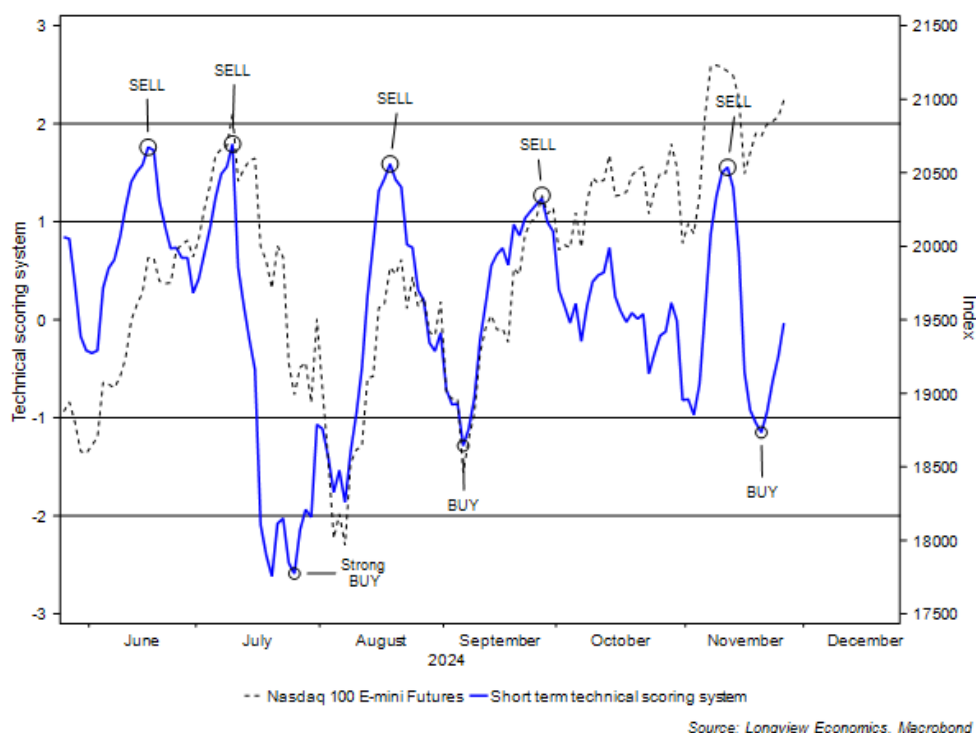


FIG 4a: NDX100 momentum model shown vs. NDX100

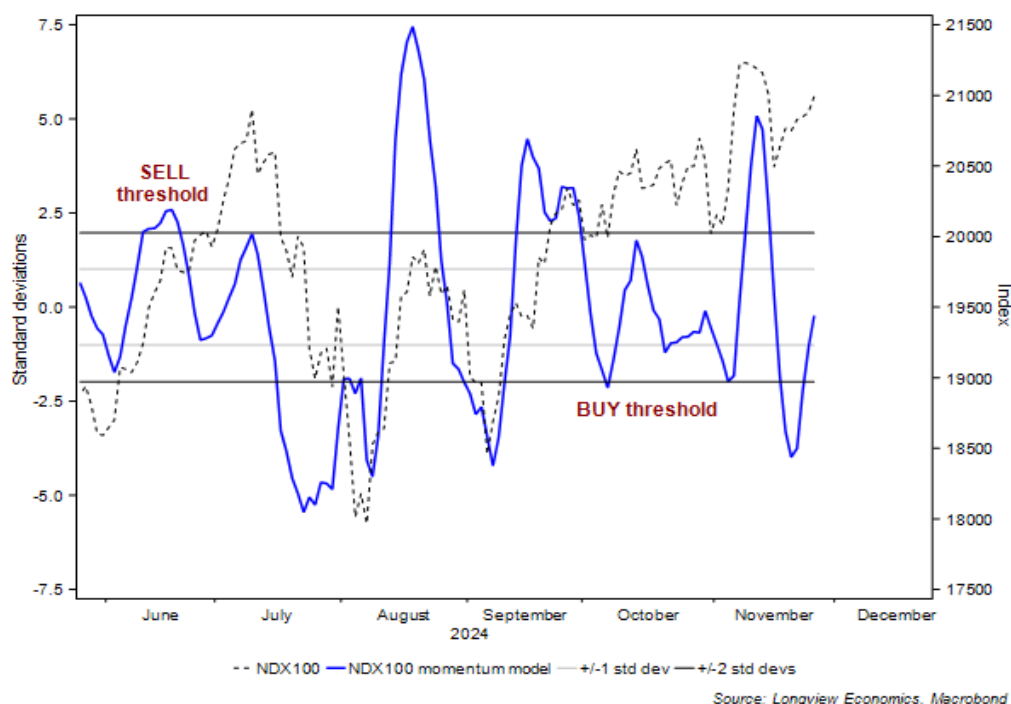
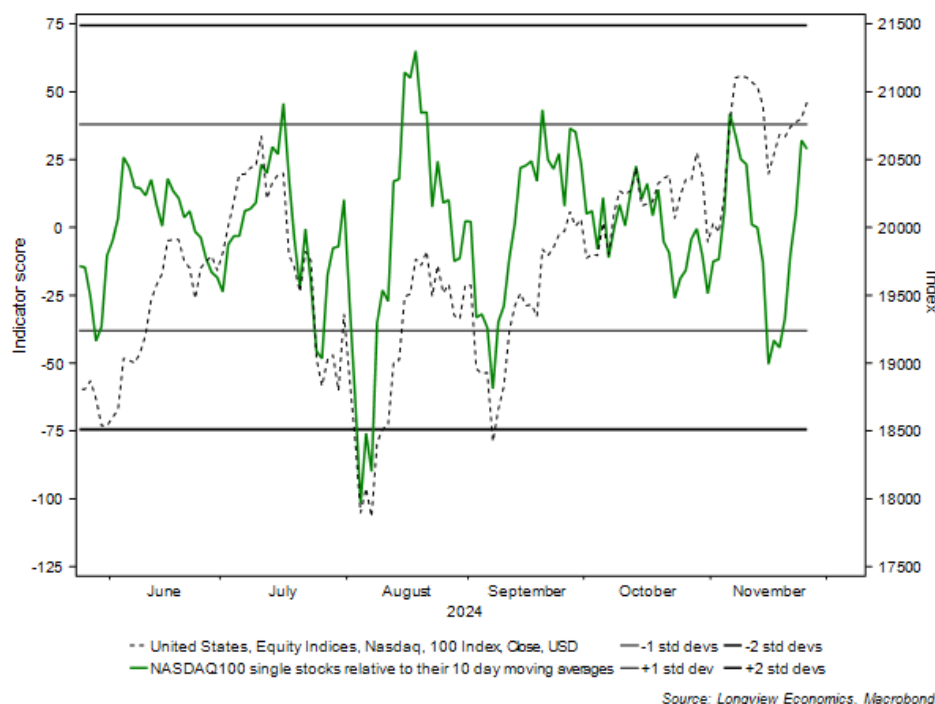


FIG 4b: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index



Downside put protection in portfolios remains low

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

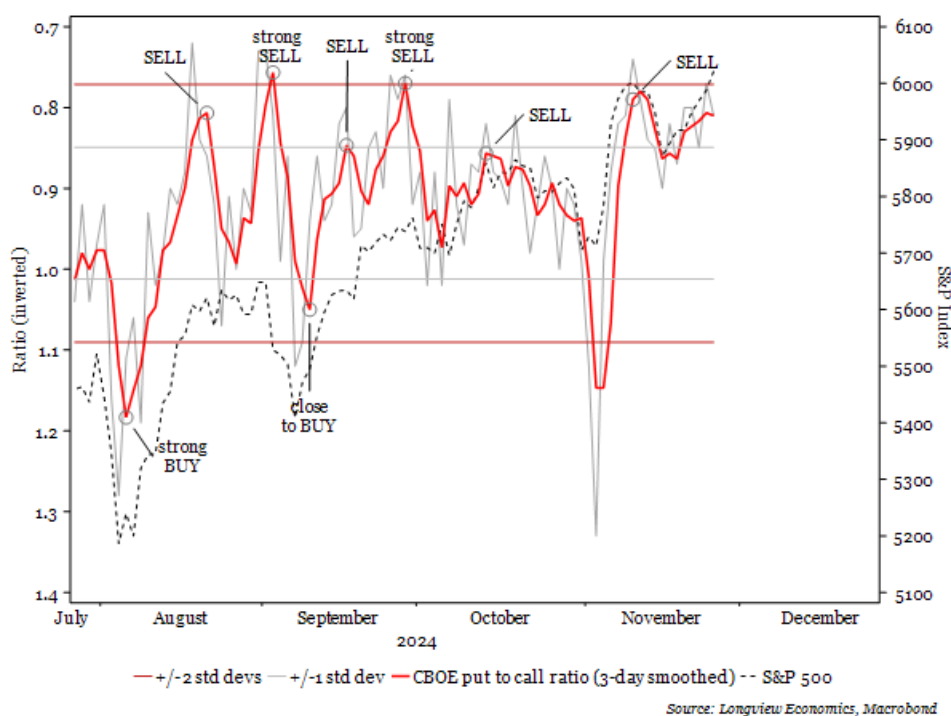
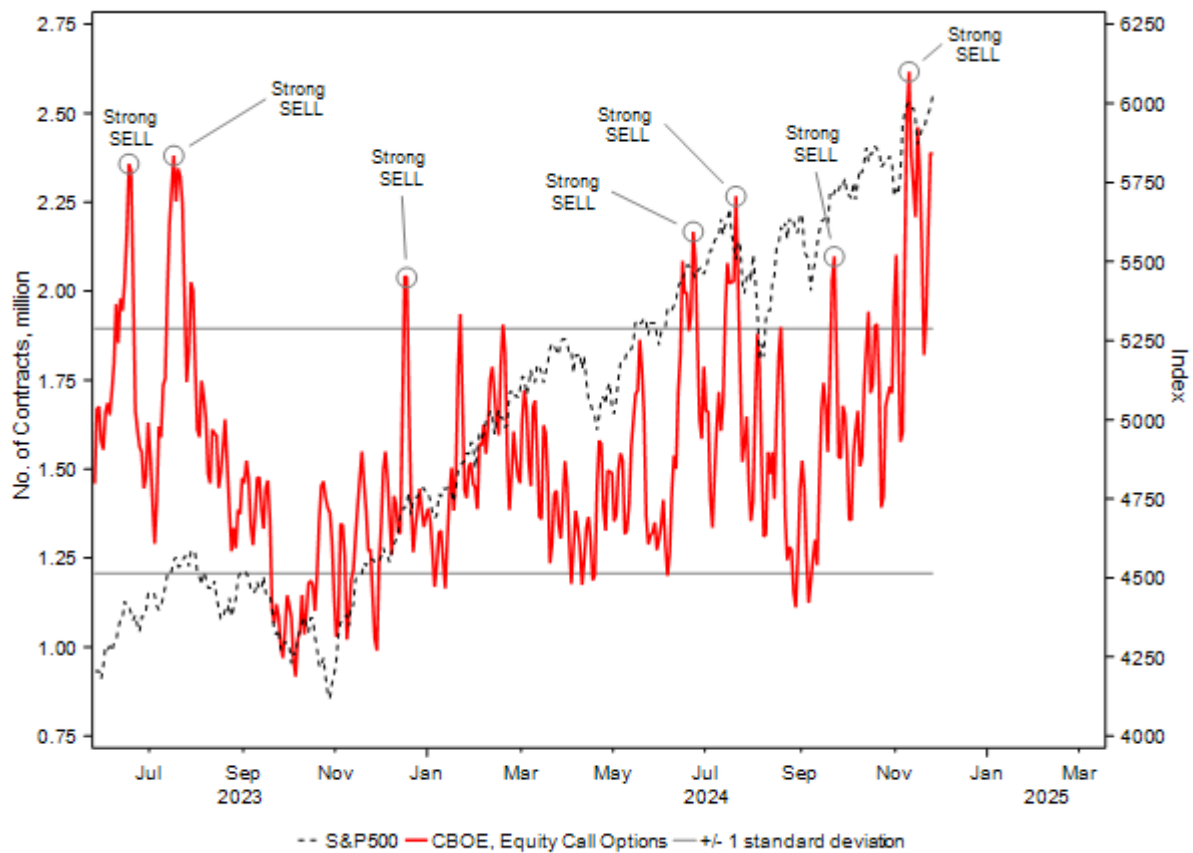


FIG 5a: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500



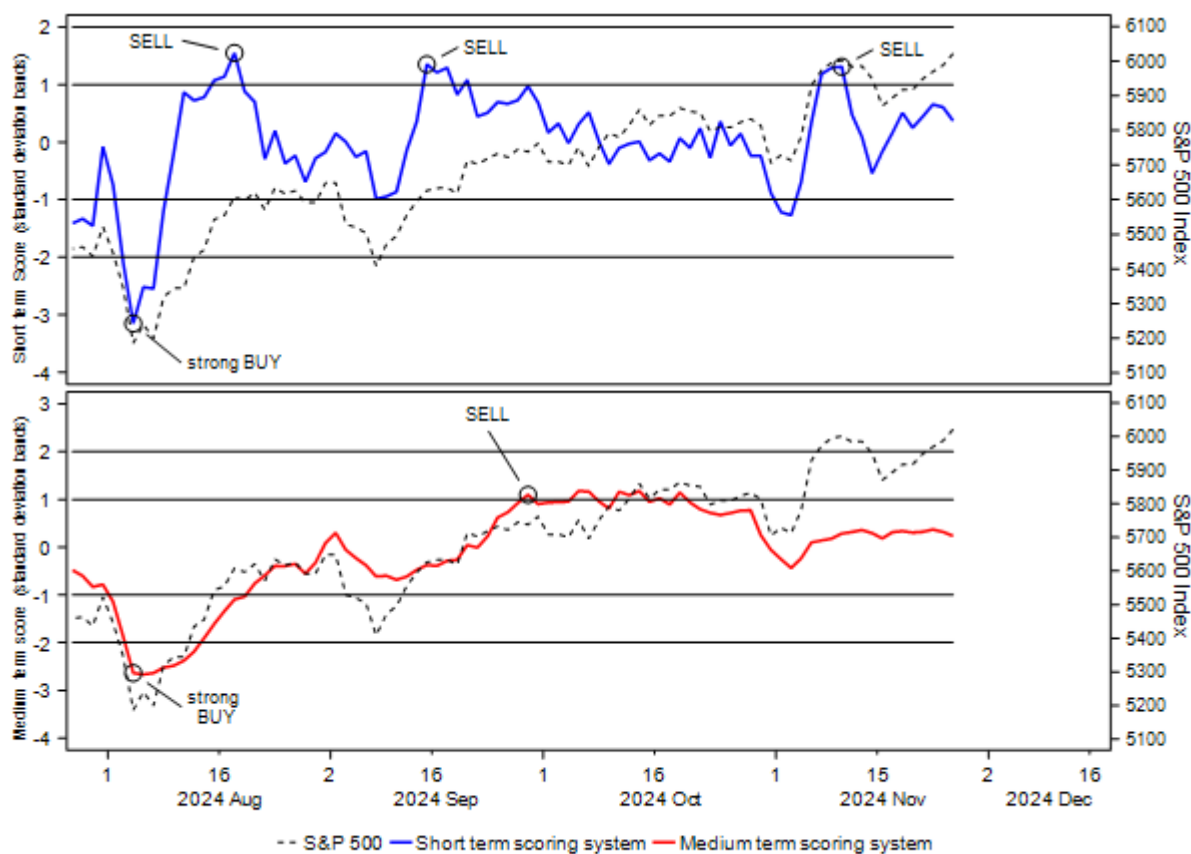
Source: Longview Economics, Macrobond

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: Australian headline CPI (Oct, 12:30am); Chinese industrial profits (Oct, 1:30am); **French INSEE consumer confidence** (Nov, 7:45am); German GfK consumer confidence (Dec, 9:30am); US GDP (Q3 second estimate, 1:30pm); US wholesale & retail inventories (October first estimate, 1:30pm); **US durable goods orders** (October first estimate, 1:30pm); US weekly jobless claims (1:30pm); **US Chicago PMI** (Nov, 2:45pm); **US personal income & spending including headline & core PCE** (Oct, 3pm); US pending home sales (Oct, 3pm).

Key events today include: Speech by the ECB's Lane in Frankfurt (6pm).

Key earnings today include: **Diageo**, BAE Systems.

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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1 – 2 Week View on Risk

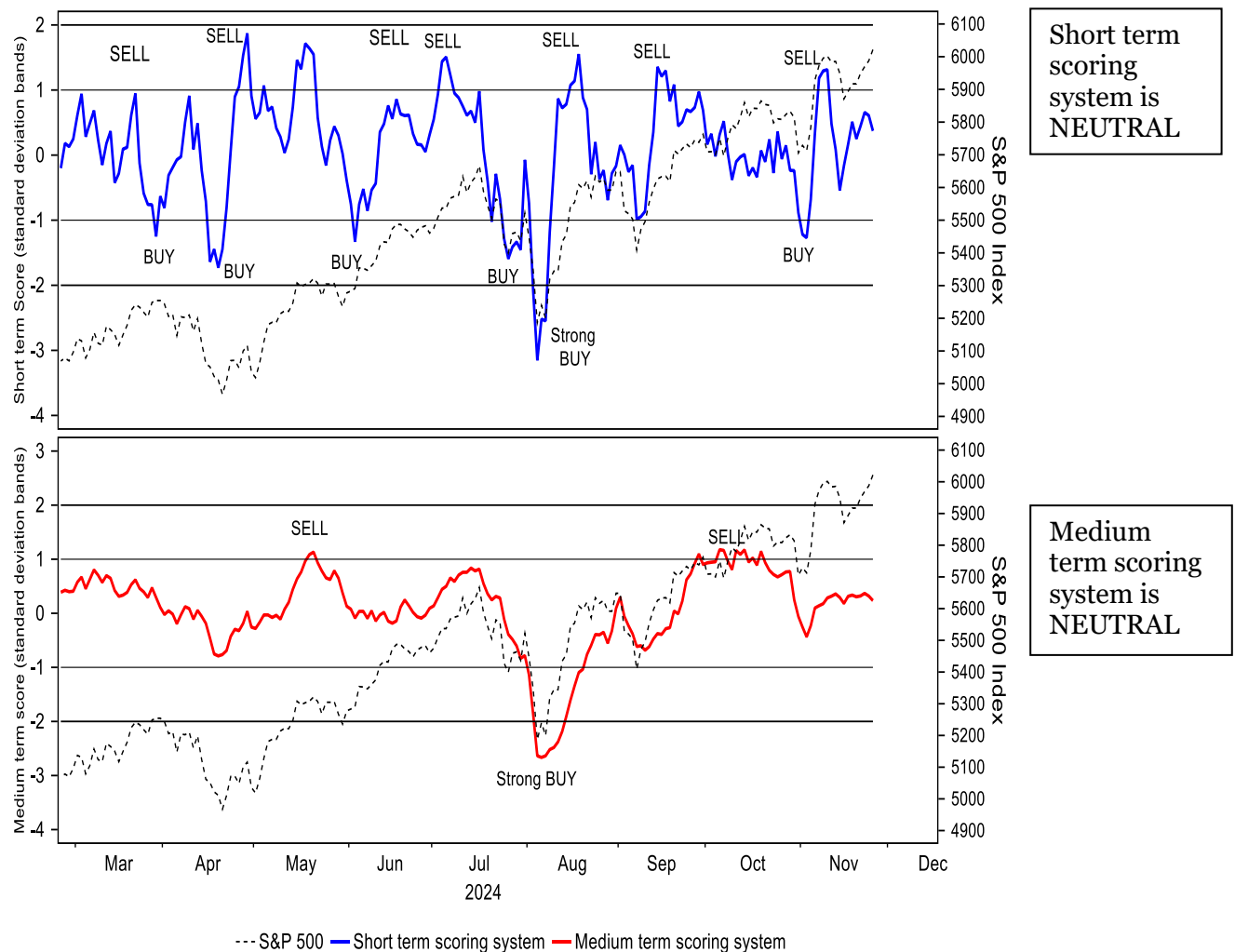
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27th November 2024

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

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



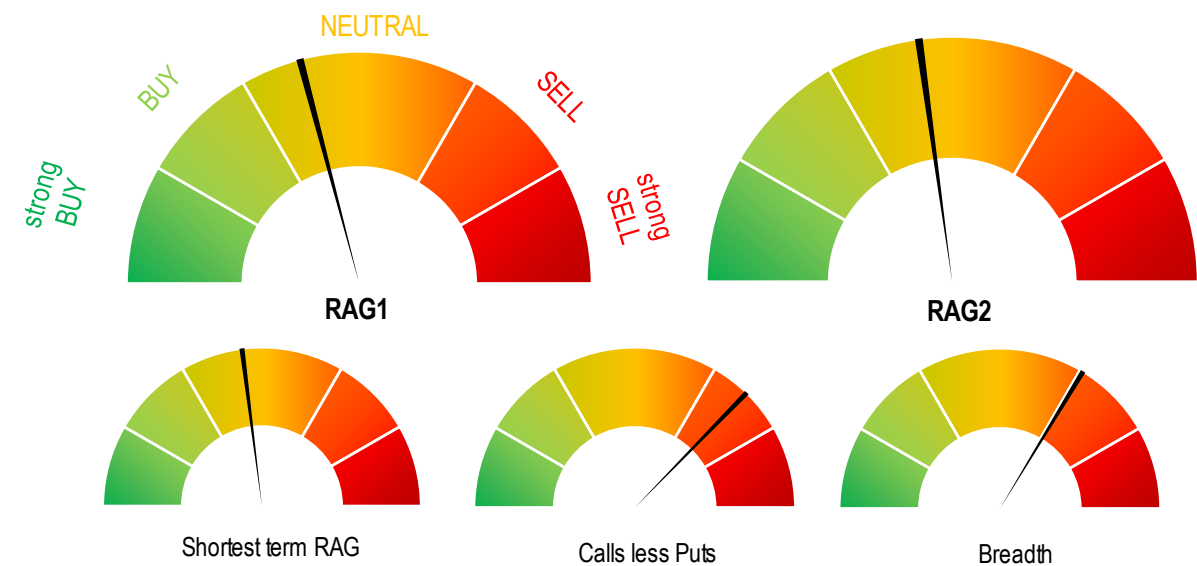
Source: Longview Economics, Macrobond

*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**

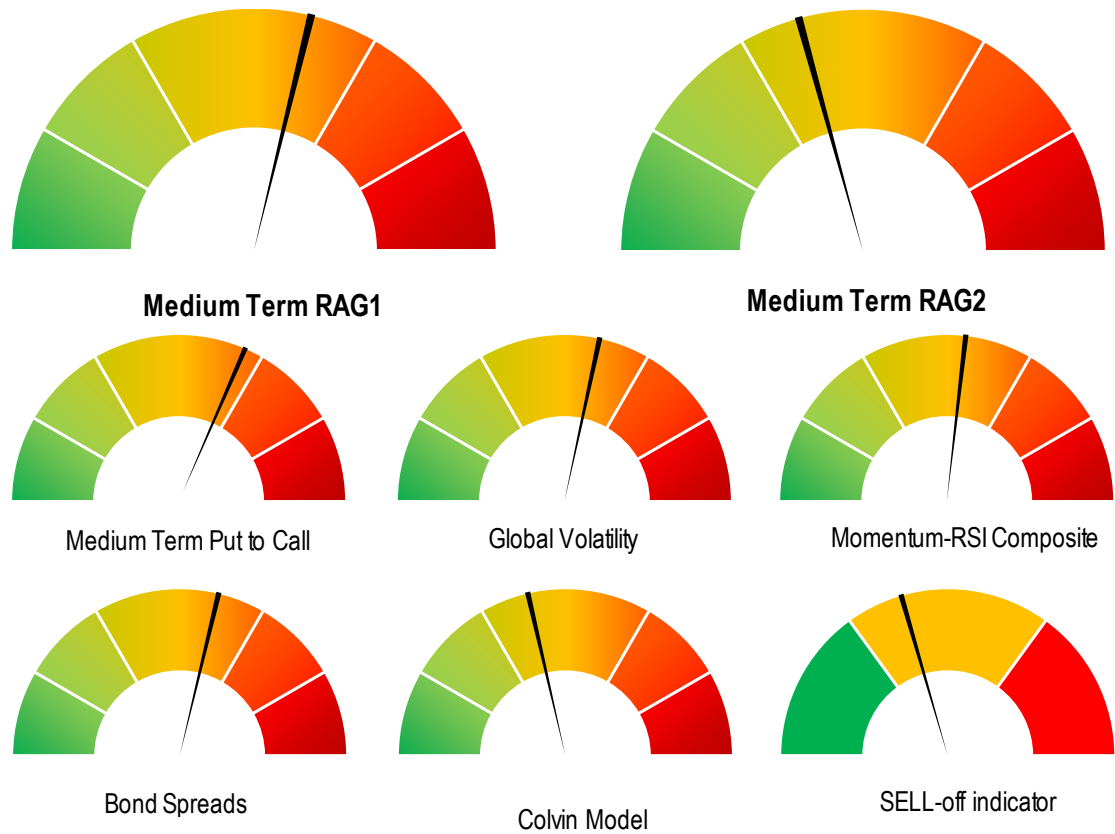
Section 1a: Summary of indicator signals**

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

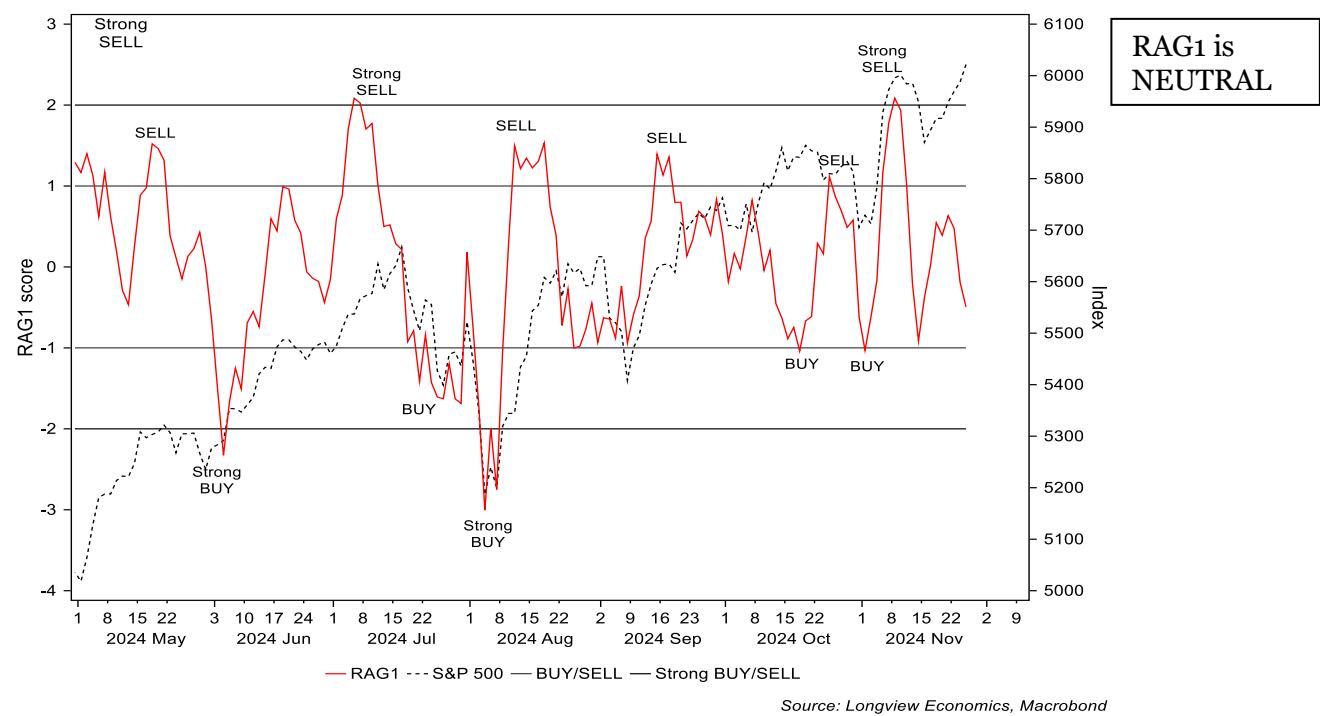
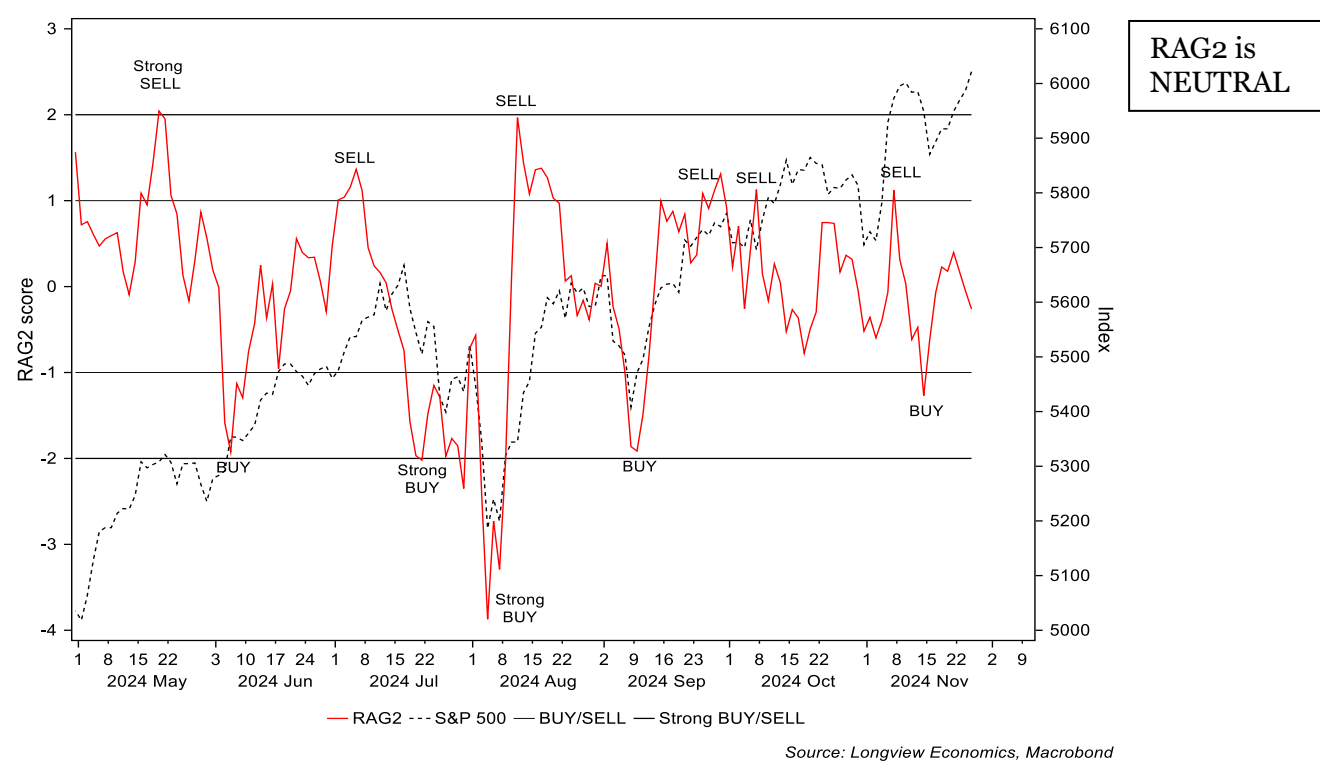


Fig 2b: RAG 2 vs. S&P 500



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

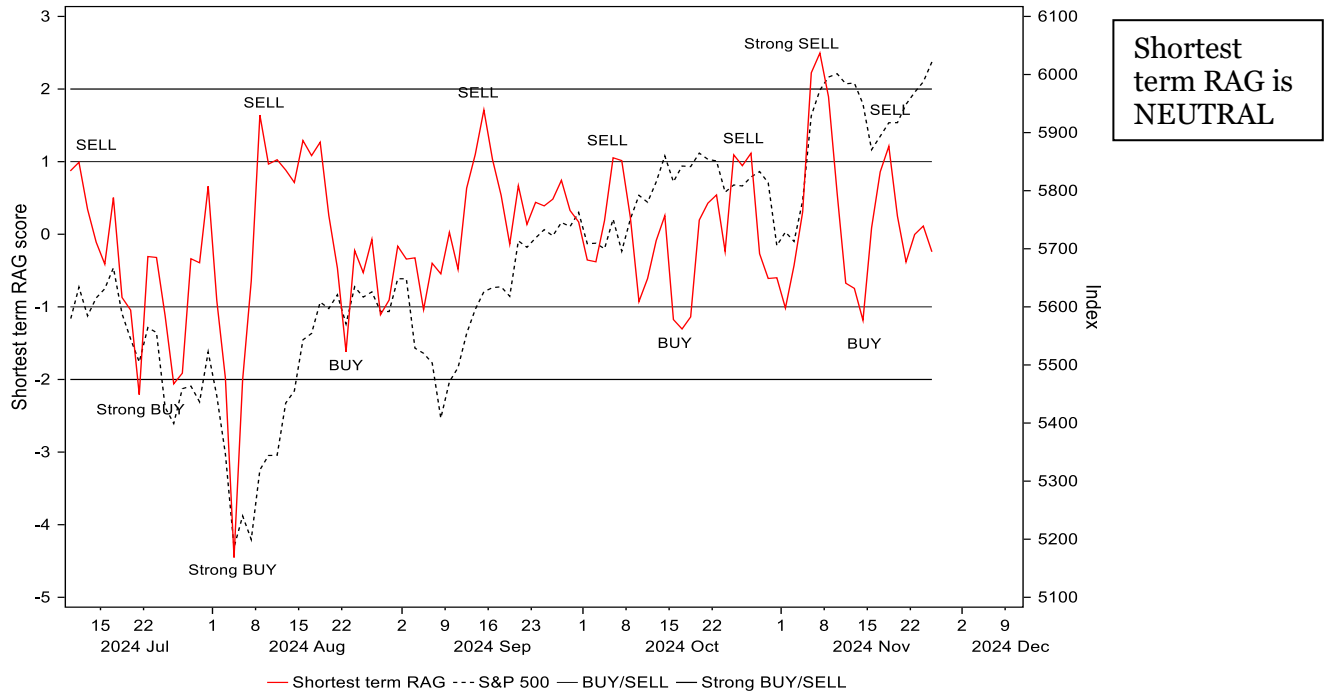
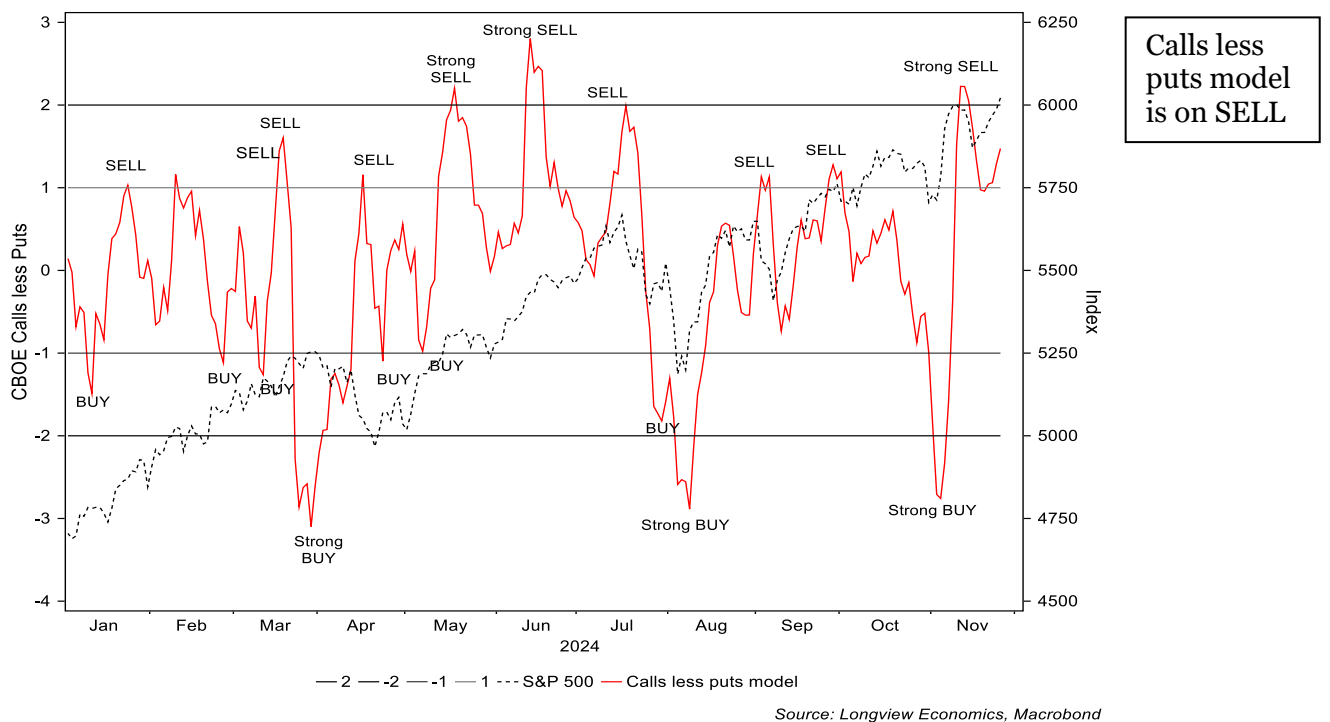
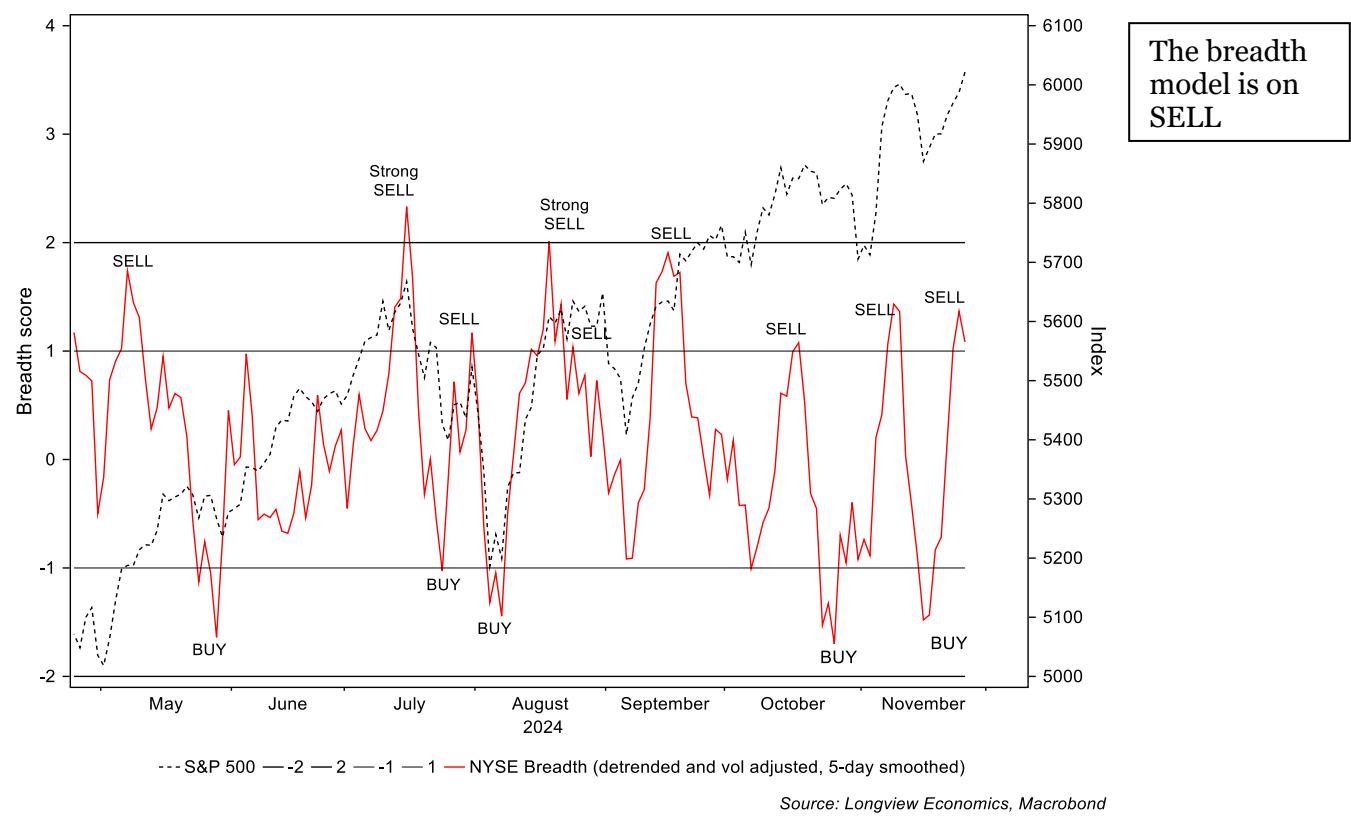


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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 – 2 month) outlook

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

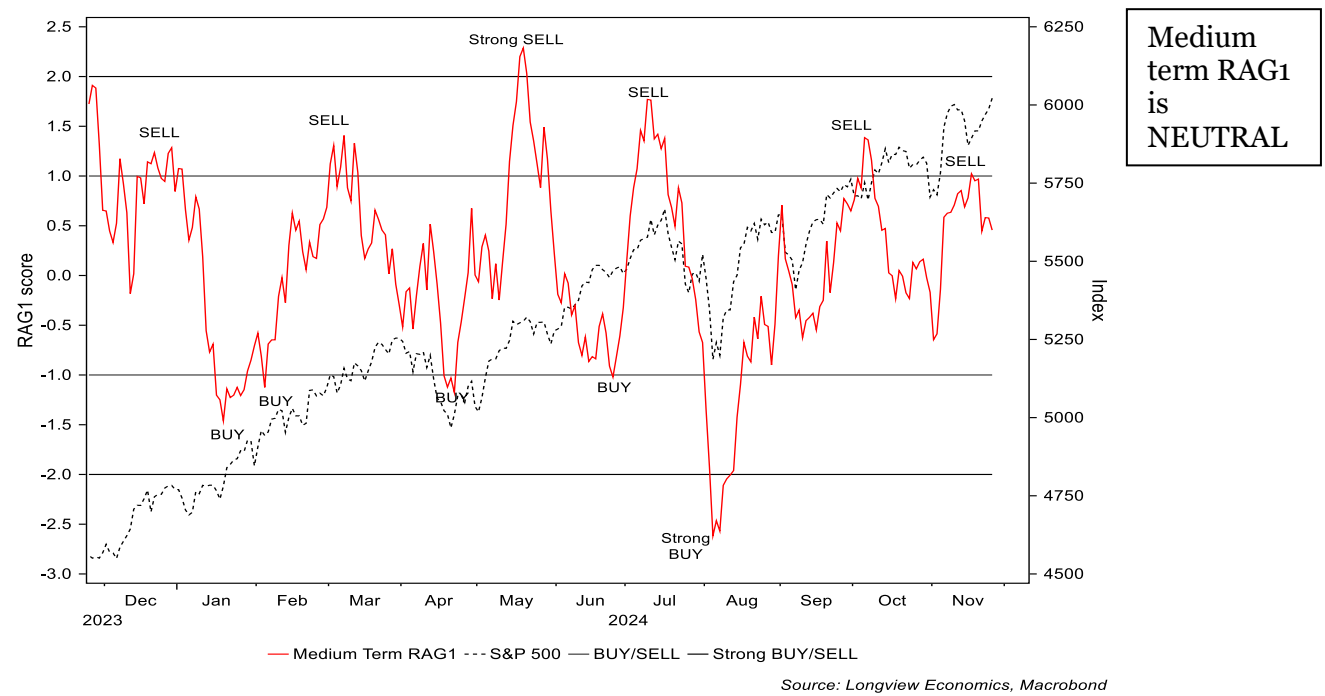
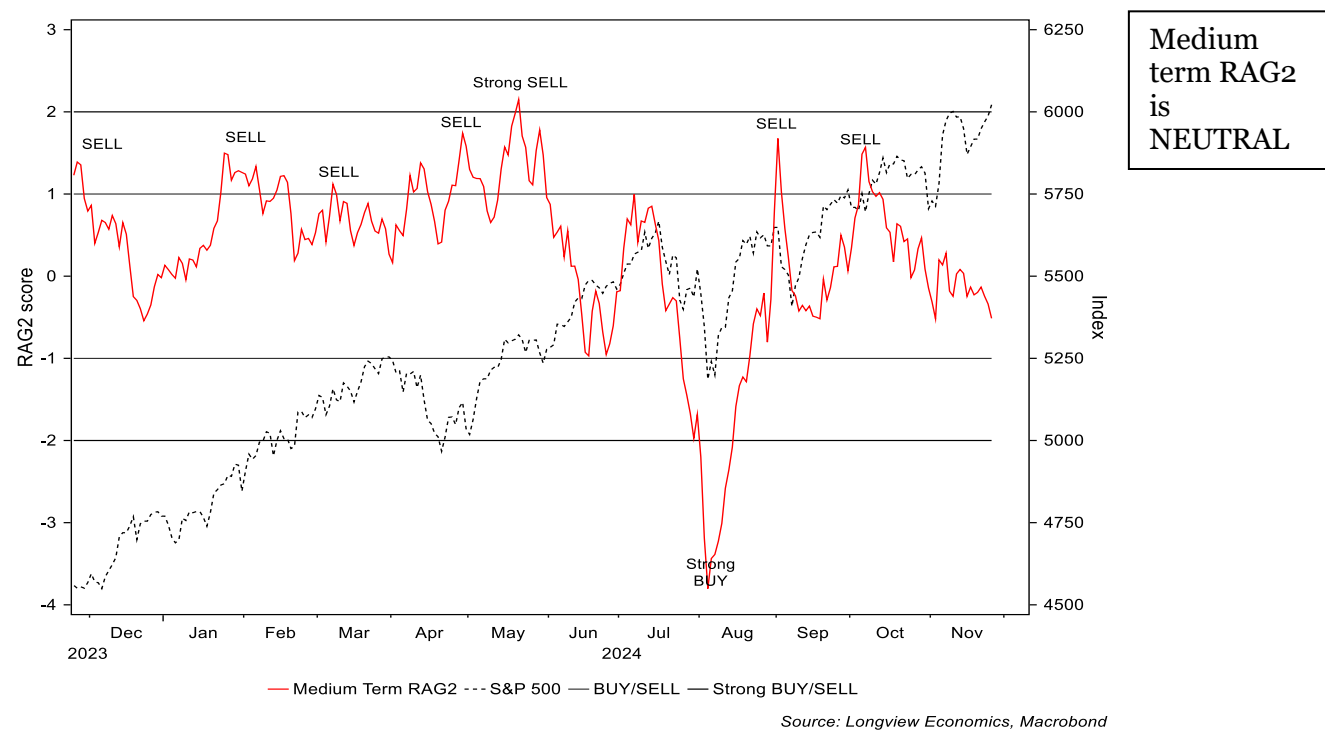


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

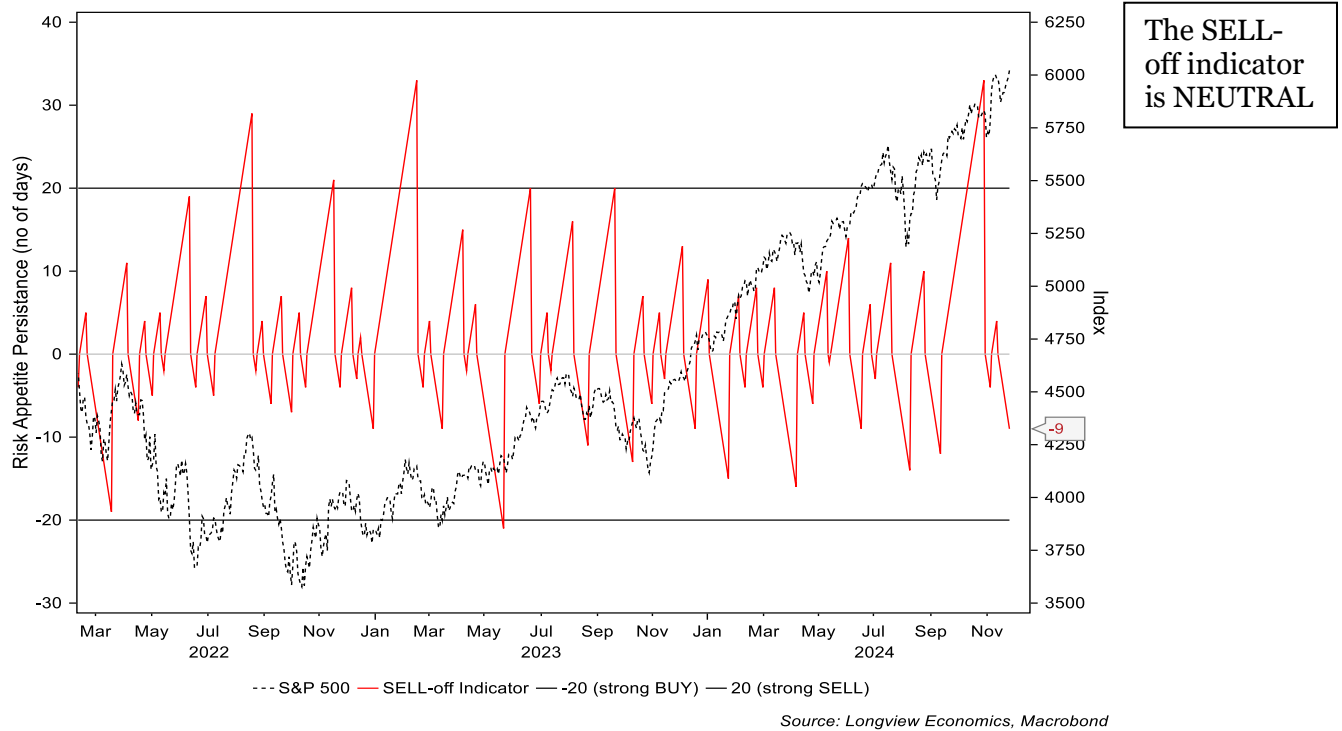
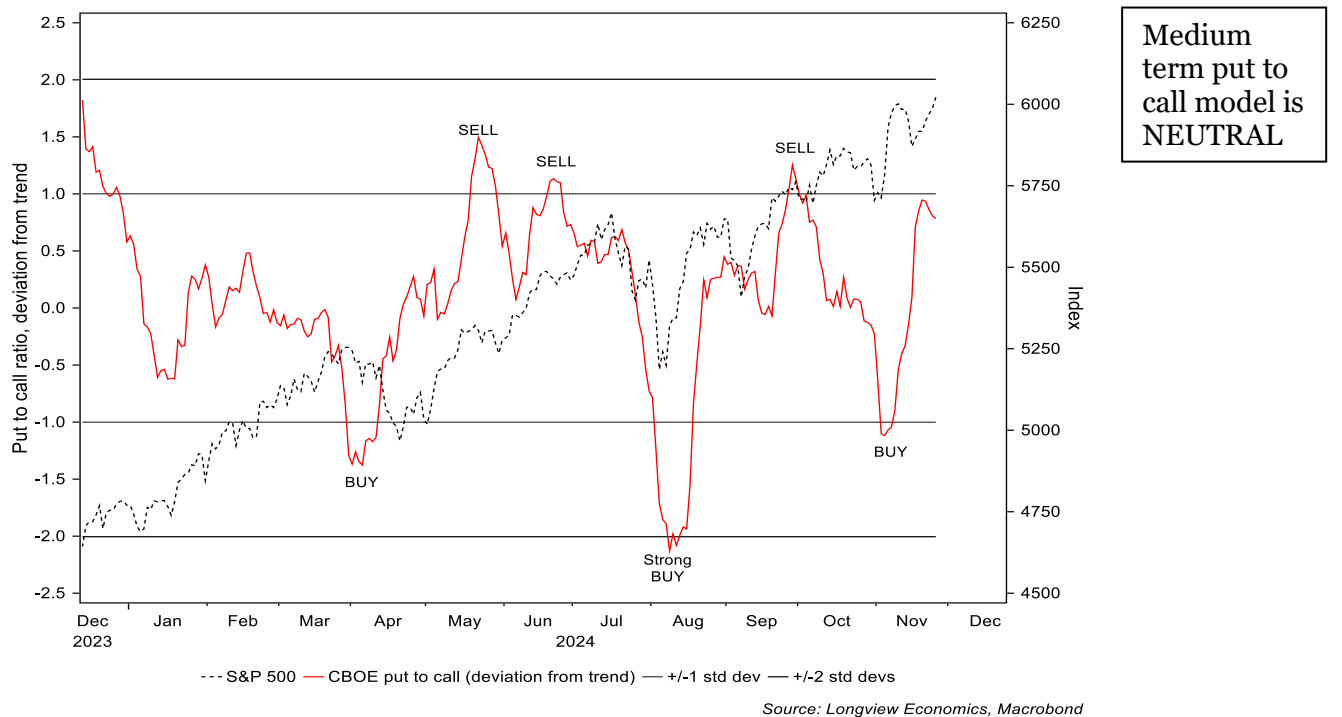


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

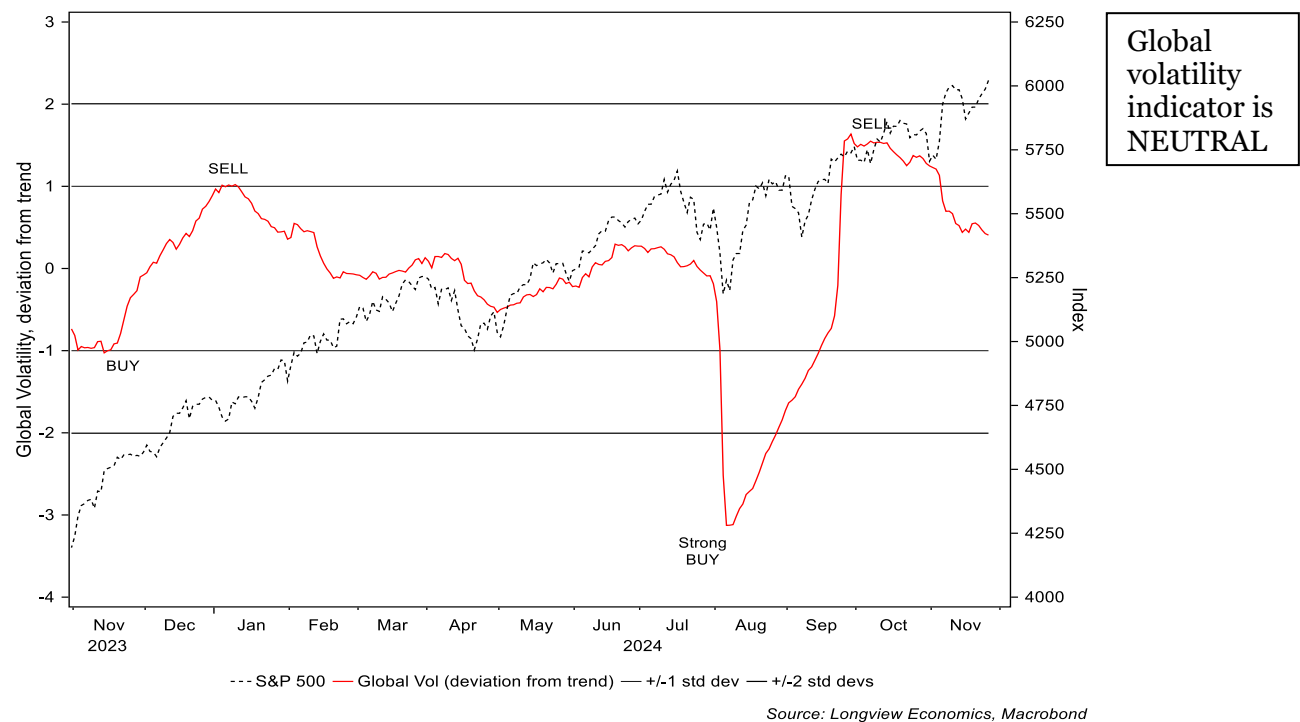


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

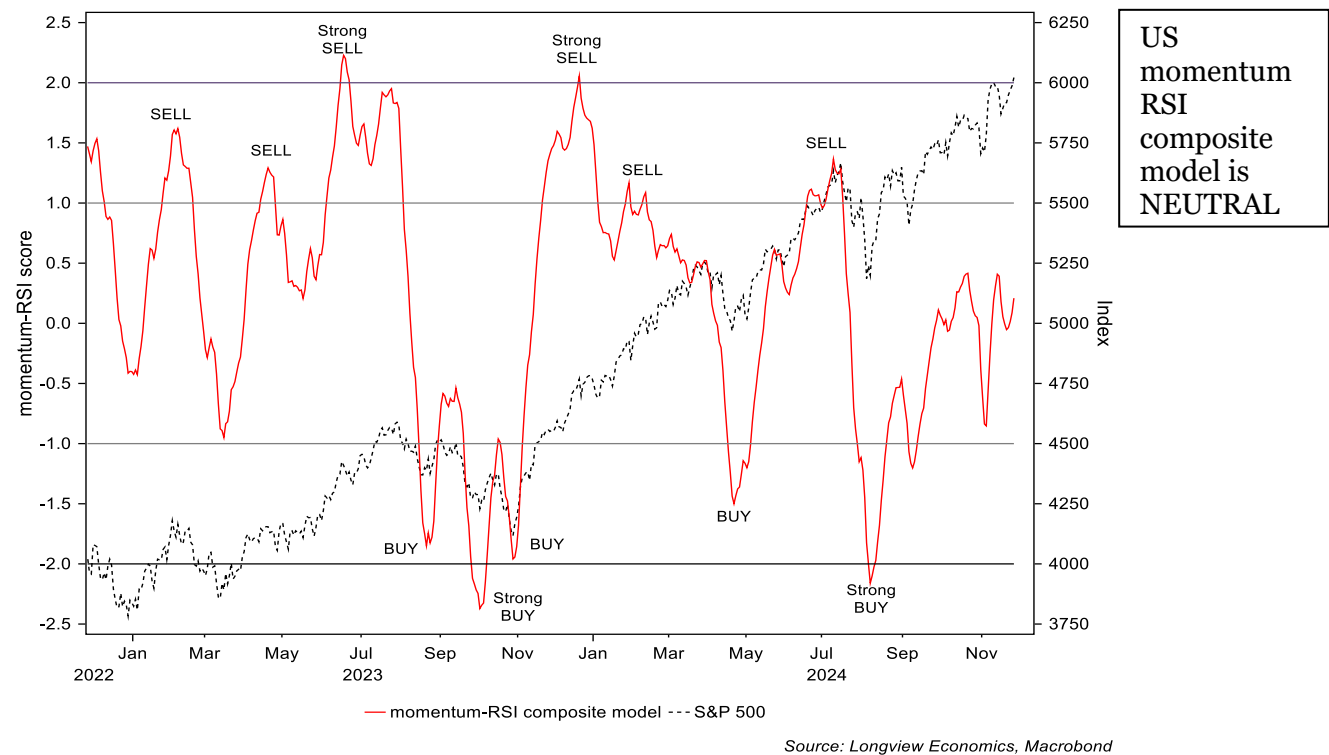


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

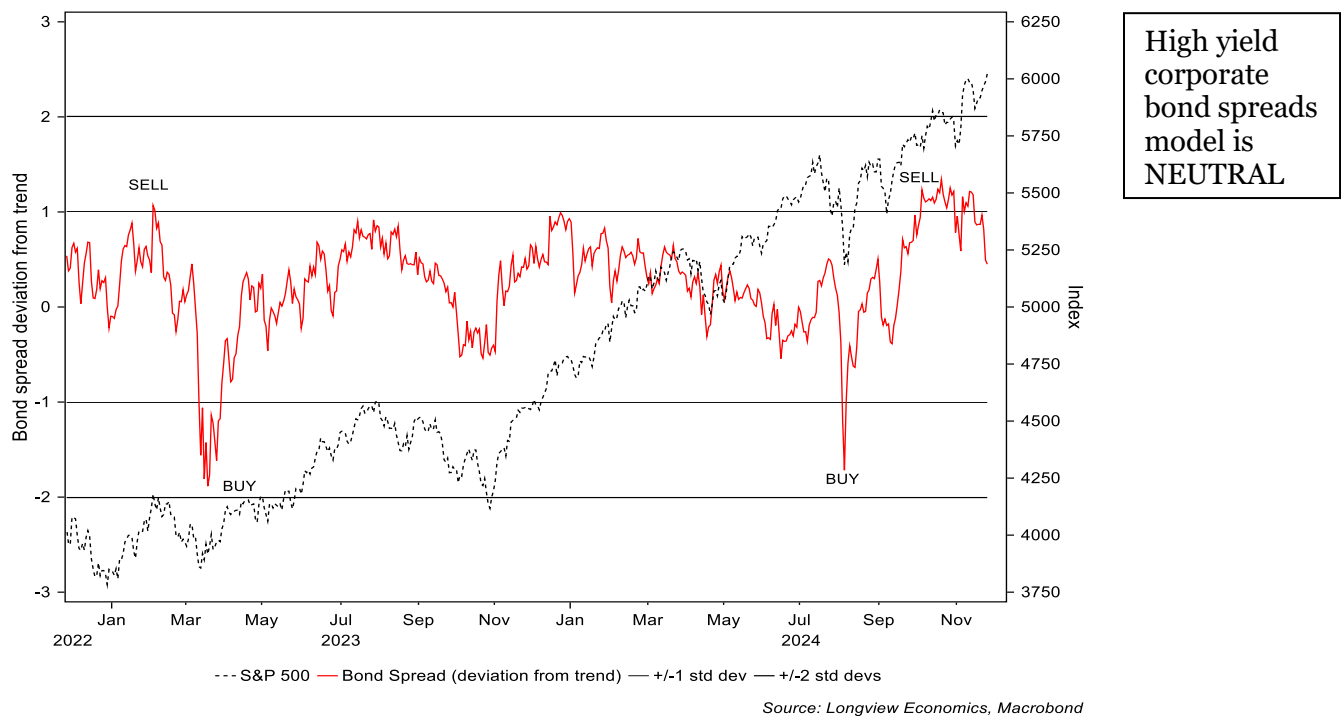
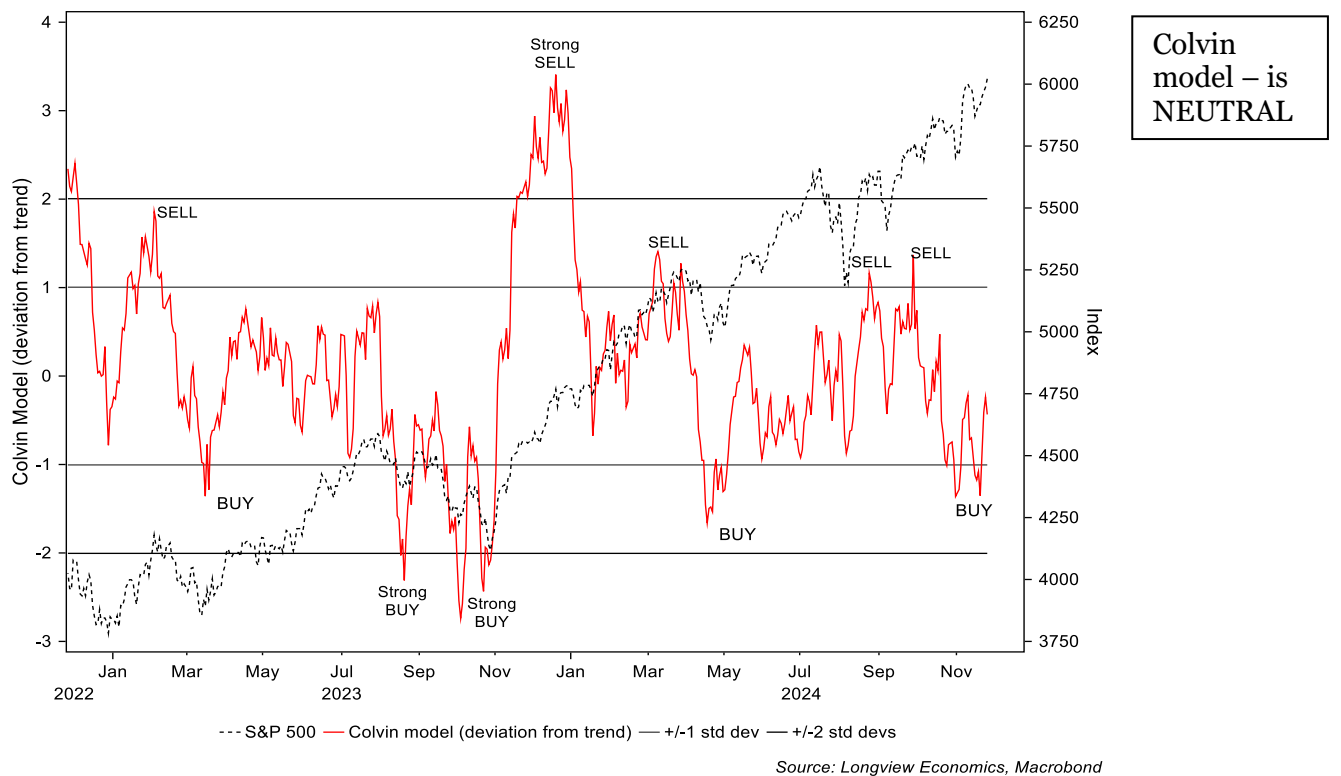


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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