Equity Index Futures Trading Recommendations

28th 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 6,104 (from 6,180 yesterday).

Rationale

US tech stocks sold off sharply yesterday, led by a large drawdown in in Nvidia (-17%), which lost ~$600bn in market cap. That was on the news that DeepSeek (the Chinese AI app) had build a language model for a fraction of the cost of OpenAI (i.e. questioning America's leadership in the AI sector). Other semi conductor names also performed poorly, e.g. Micron (-12%) & Broadcom (-17%), with key, 'tech heavy' indices therefore closing lower (the worst performers were the NASDAQ Computer Index: -5%; and Philly SOX: -9.2%).

With that, there was some rotation into cyclicals and defensives, e.g. with strength in the DJ Transports (+1.5%) and Nasdaq Insurance (+2.8%) indices. As such, and while the S&P500 closed down 1.5% (FIG 1a), sector **dispersion within the index was wide**, with the gap between the best and worst performing S&P500 sectors at its widest level since last November (8.43pp., with Consumer Staples up 2.9% on the session, while IT was down 5.58%). **Wide sector performance dispersion often occurs at key turning points** in the index (i.e. either major local lows or local highs – see FIG 1b).

The key question, therefore, is: Will weakness in tech increase and spread to other sectors over coming trading days? Or, was yesterday's DeepSeek news only enough to generate a 'one day wobble' (albeit a large one), i.e. with US large cap tech stocks about to recover/march higher?

Our short term models, in that respect, have only moved modestly lower and, in some cases, are **still on/close to SELL**. Downside protection in portfolios, for example, is still relatively low (the CBOE put to call ratio is on SELL, while the NDX model is mid-range, FIGs 3 & 3a); risk appetite models are NEUTRAL (having recently been on/close to SELL, FIGs 2 & 2a); technical scoring systems are only just below their SELL thresholds (see FIGs 4 & 4a); while several key breadth/price based models remain on SELL (see FIGs 5 & 5a). Summarising those signals, as well as the message of the medium term models, our 'combined short & medium term' scoring system is still leaning towards its SELL threshold (having recently been on SELL, FIG 1).

Usually, when momentum in markets starts to roll over, and the models retain a SELL bias, it pays to **stay with SHORT positions** (typically until the SELL signals have fully unwound). The risk reward therefore favours staying SHORT March SPX futures (albeit with a tighter stop loss – please see above for detailed recommendation).

Risks are multiple and include the possibility that tech stocks over-reacted to yesterday's news (and will therefore retrace their losses in coming trading days). Of note, in that respect, Nvidia is deeply oversold (technically, see FIG 1e), while both the NASDAQ100 and Philly SOX appear to have found support/rallied from key levels (see FIGs 1c & 1d).

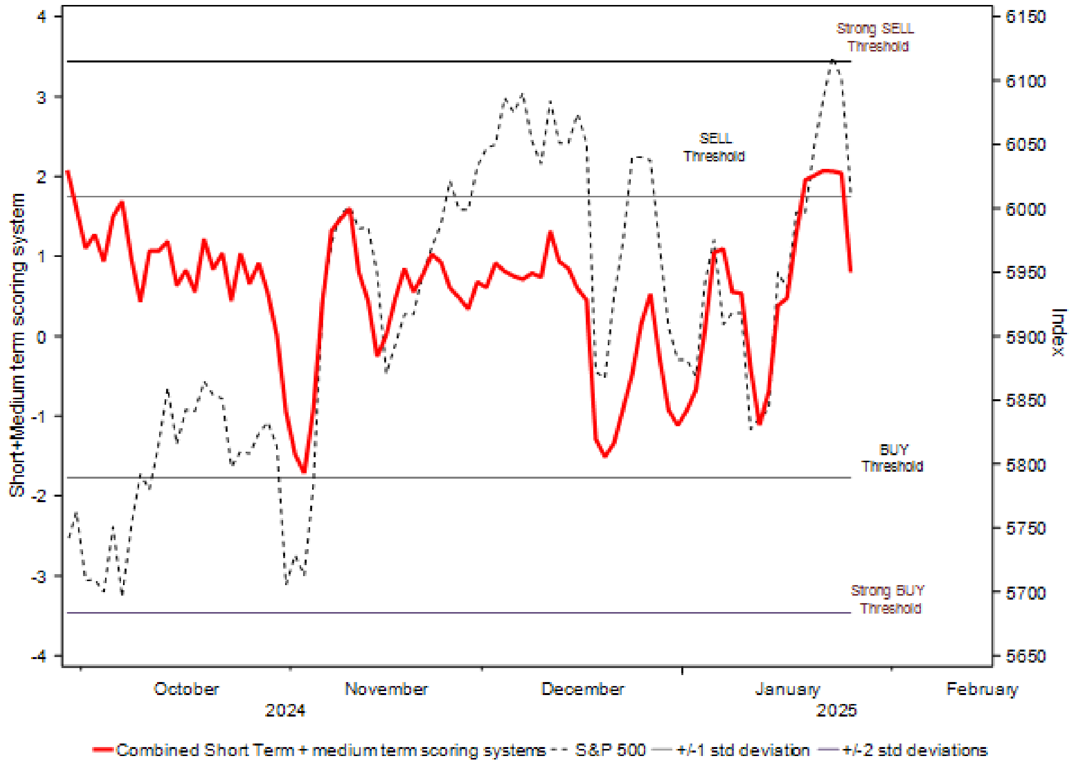
Please see below for a full list of today's key macro data, events, and US earnings reports.

Kind regards,

The team @ Longview Economics

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: Combined short and medium term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

FIG 1a: S&P500 March 2025 futures 60-day tick chart shown with overnight price action

FIG 1b: Gap between best & worst performing sectors each day in S&P500 (pp.) vs. S&P500

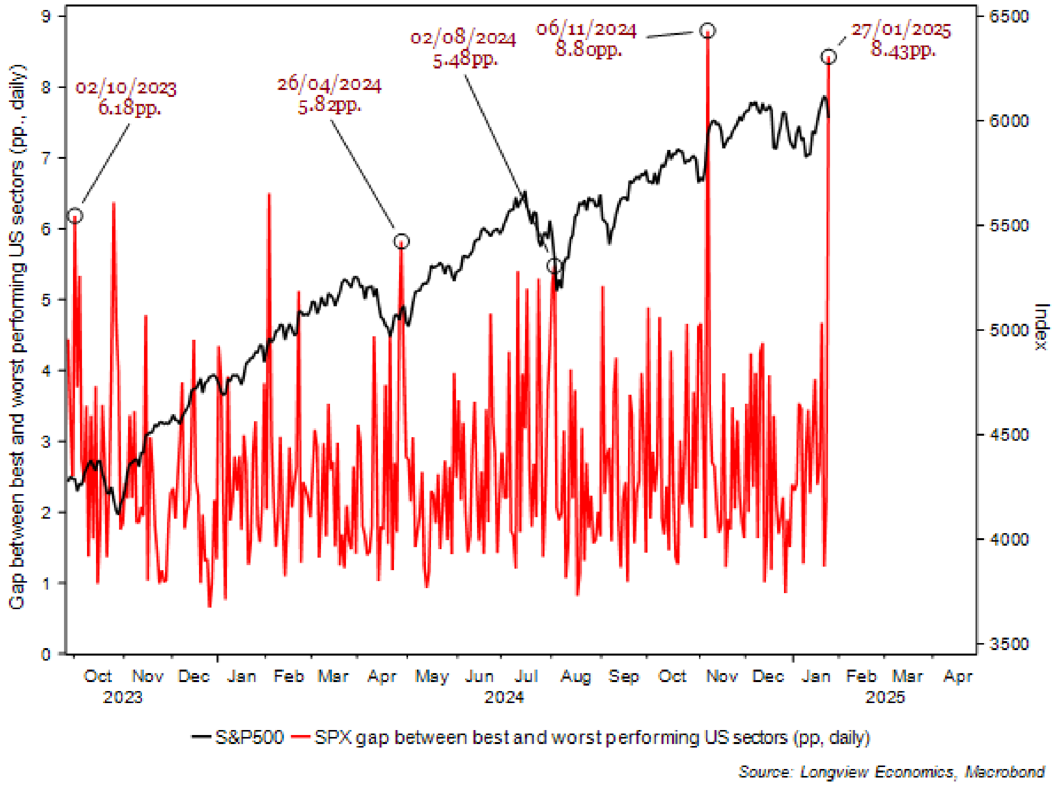
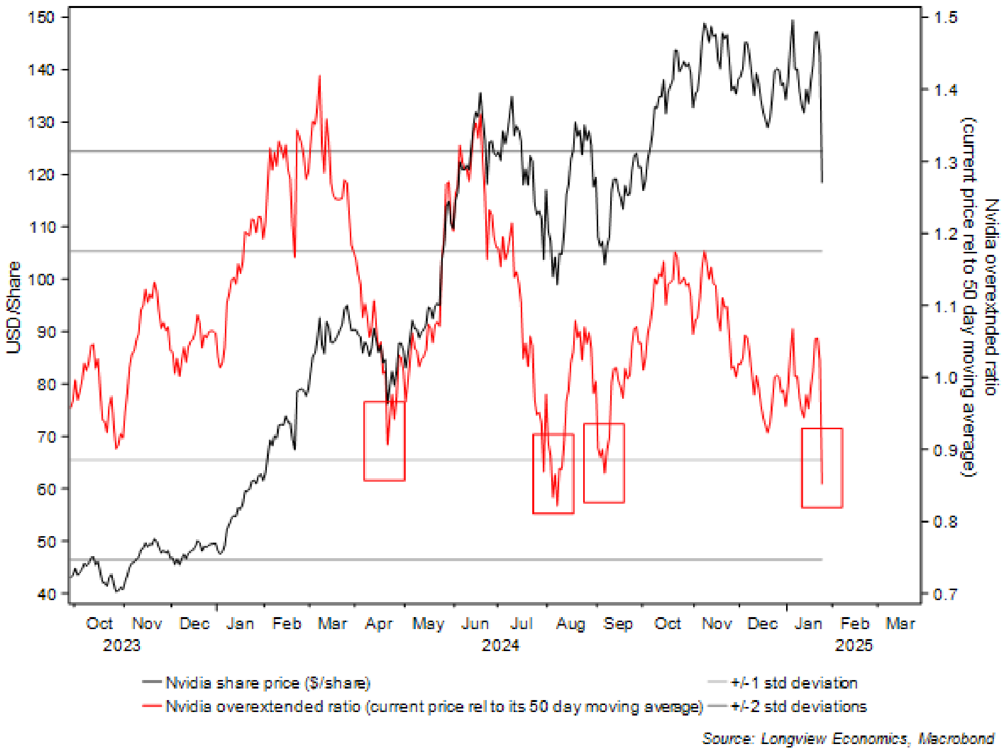


FIG 1c: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages

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

FIG 1e: Nvidia overextended ratio (current price rel. to its 50 day moving average) vs. Nvidia share price (USD/share)



Risk appetite models are on/close to SELL…

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

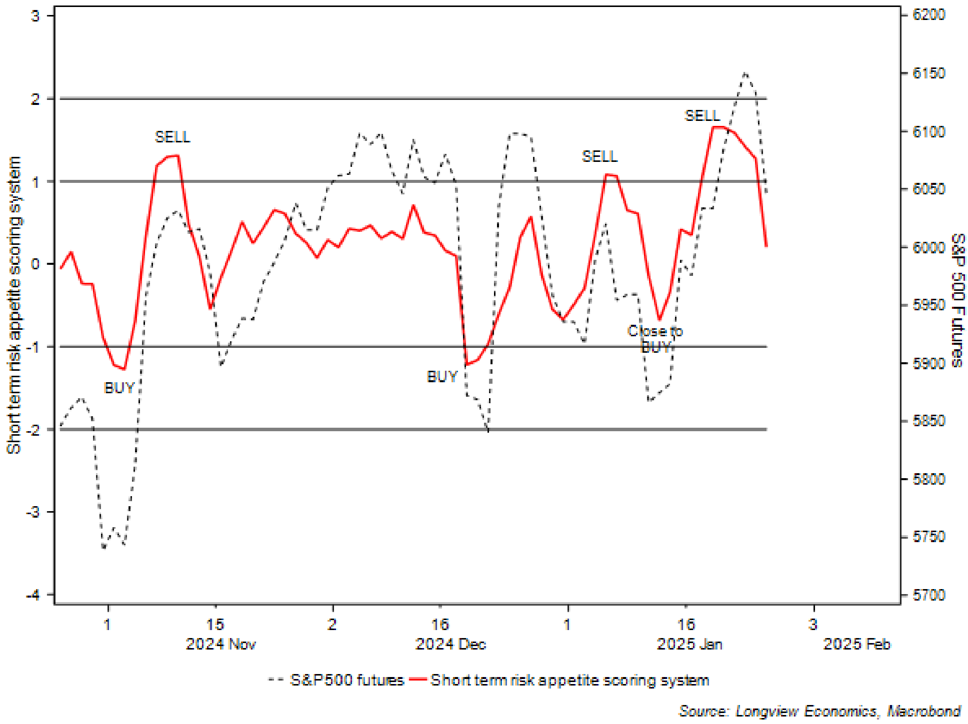
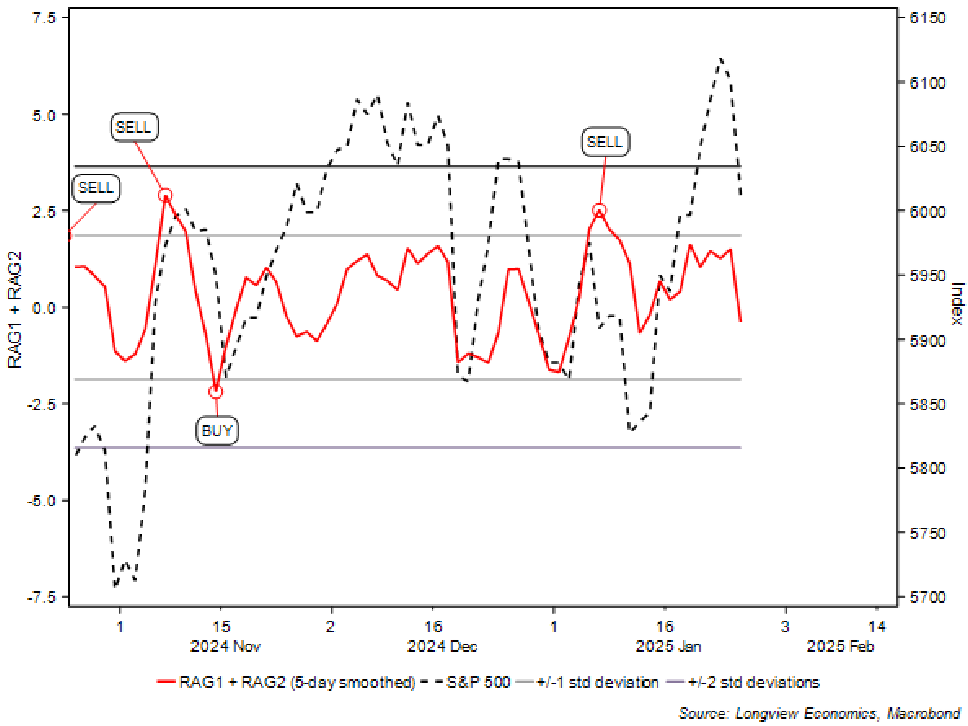


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



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

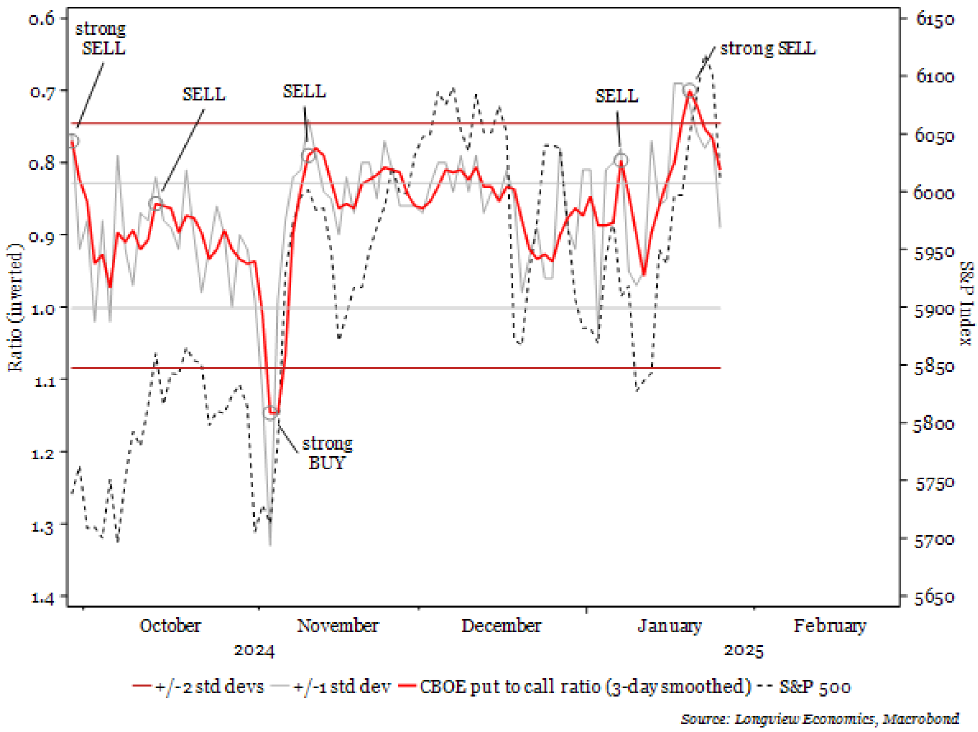
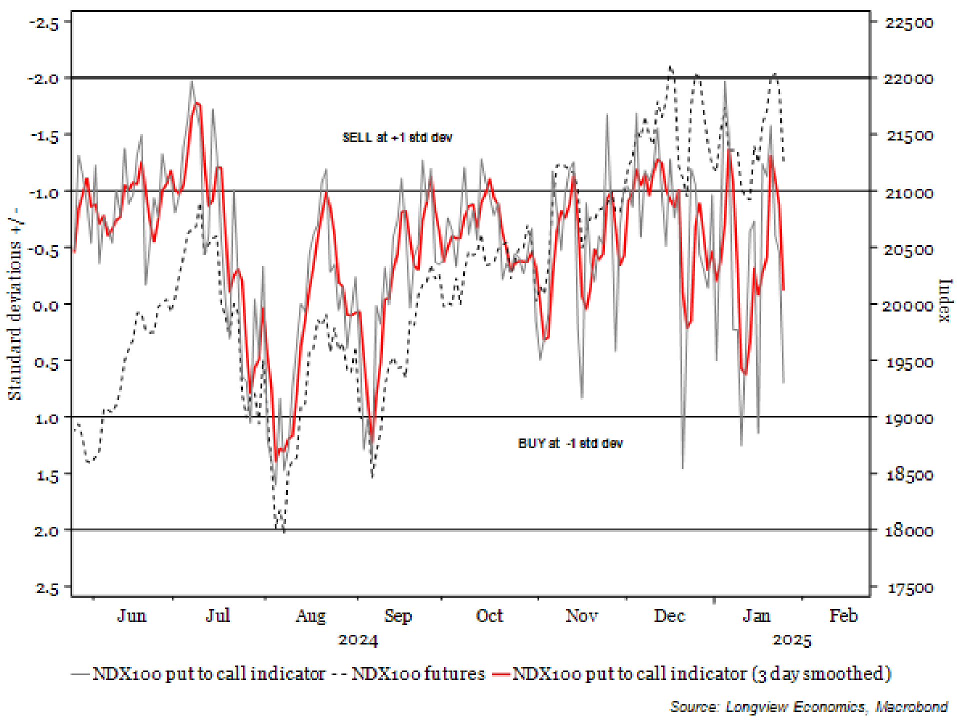
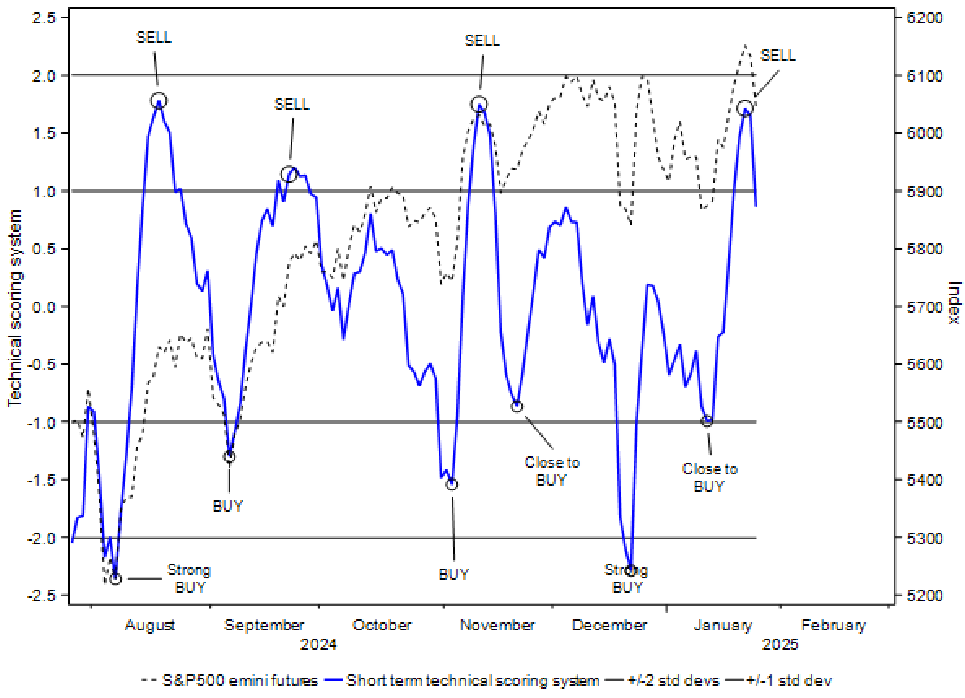


FIG 3b: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



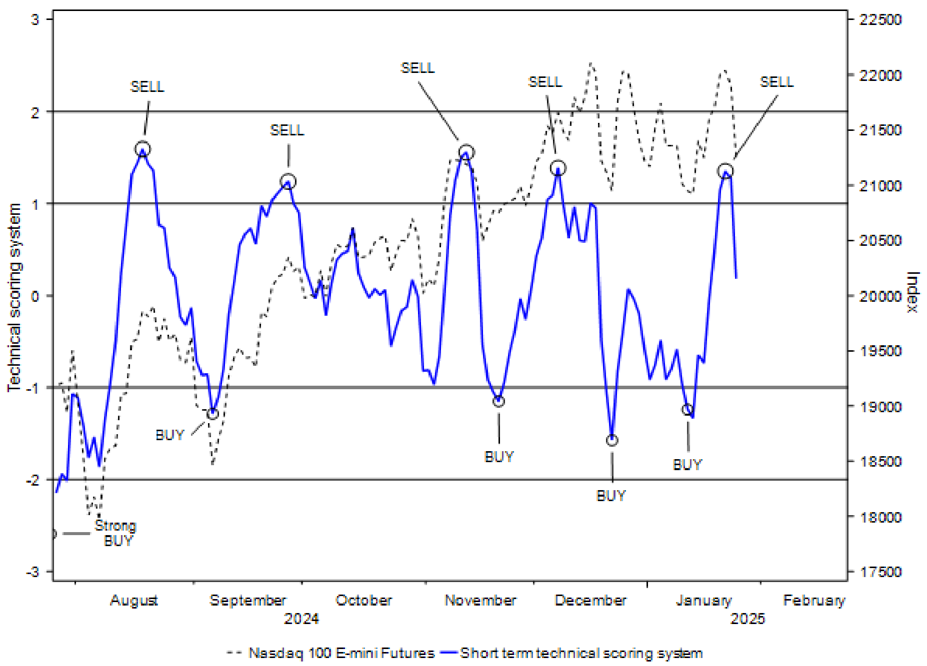
Technical models (for indices) are on SELL….

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

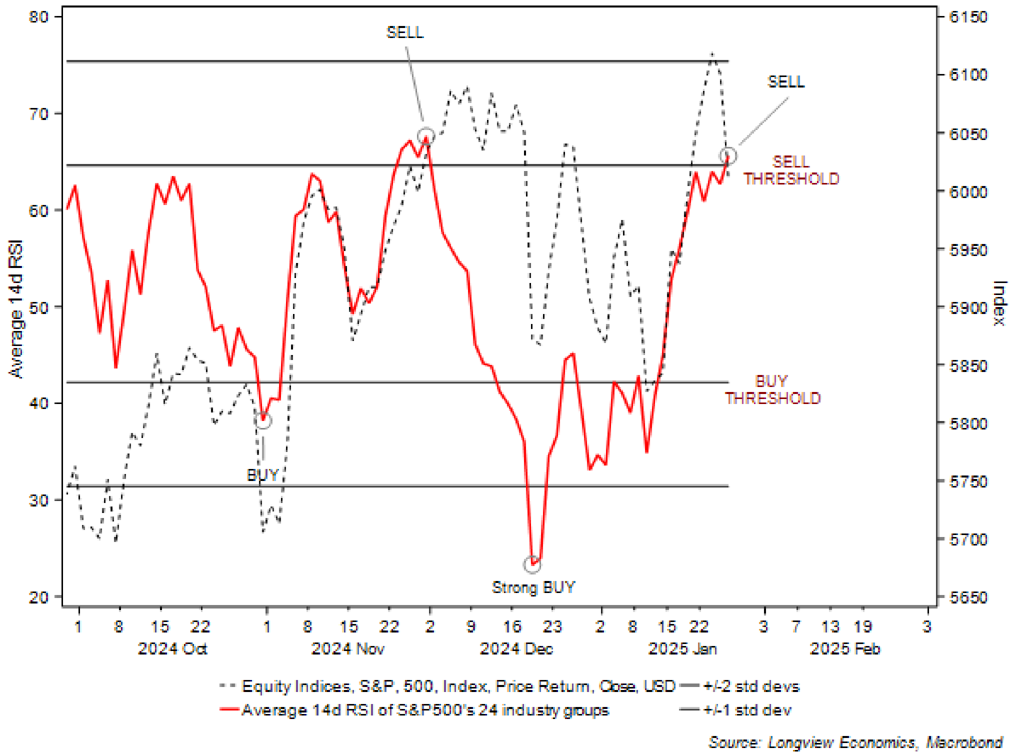
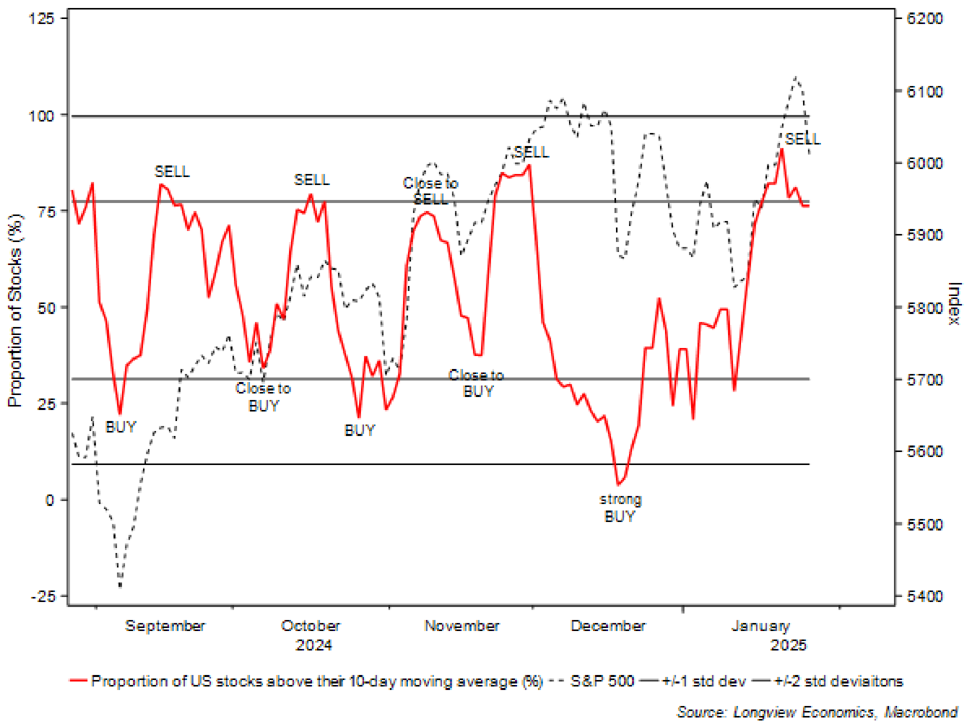


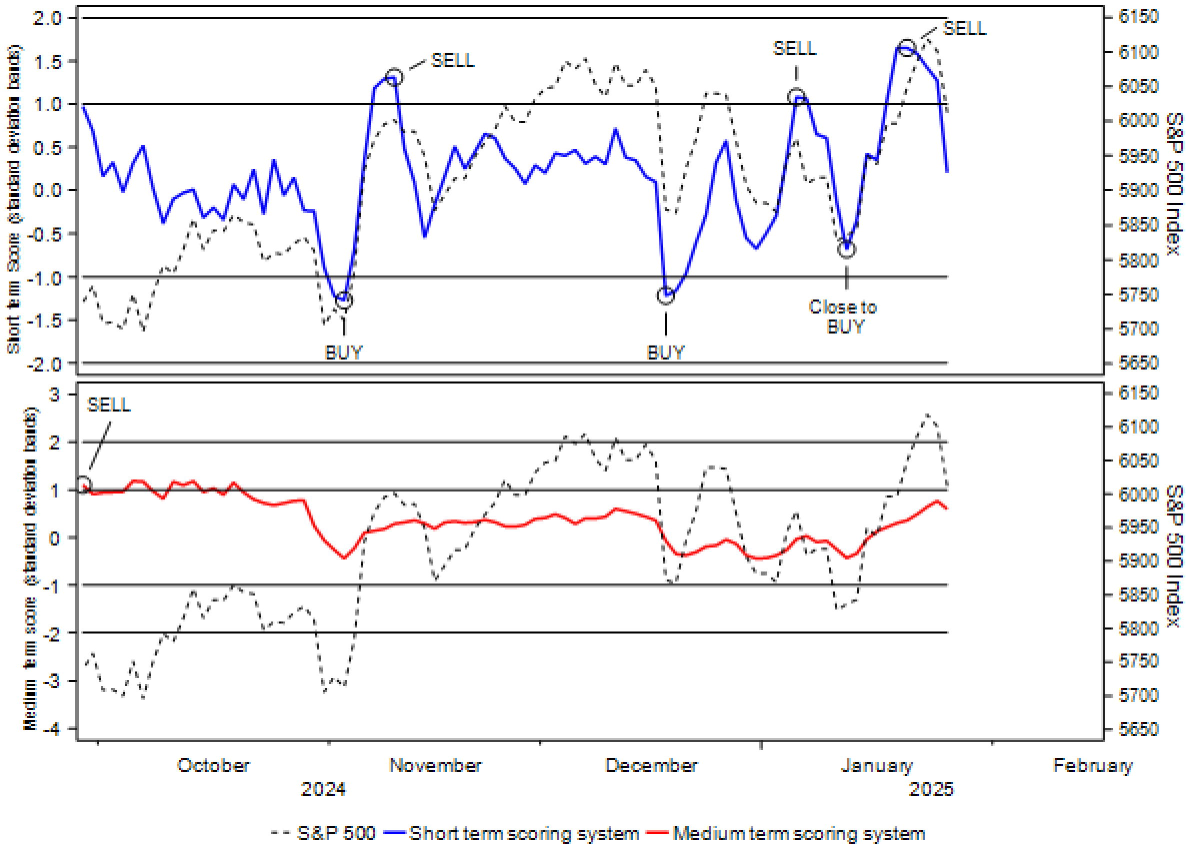
FIG 5a: Proportion of US stocks above their 10-day moving average vs. S&P500



Key Longview Scoring Systems (chart below)**:**

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL yesterday)
Medium term (1 – 4 month) scoring system: **NEUTRAL**

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

Key macro data/events

Key data today include: UK BRC shop price index (Jan, 12:01am); Australian headline CPI (Dec, 12:30am); Australian NAB business confidence (Dec, 12:30am); Japanese machine tool orders (December final estimate, 6am); **French INSEE consumer confidence** (Jan, 7:45am); Spanish unemployment change (Nov, 8am); **US durable goods orders** (December first estimate, 1:30pm); US FHFA house price index (Nov, 2pm); US S&P/Case-Shiller 20-city & national house prices (Nov, 2pm); US Dallas Fed service sector activity (Jan, 2:30m); **US Conference Board consumer confidence** (Jan, 3pm); US Richmond Fed manufacturing index (Jan, 3pm).

Key events today include: Riksbank policy decision (8:30am); ECB releases bank lending survey (9am); speeches by the ECB's Villeroy in Paris (9:30am) & Cipollone at an event organised by the Banque de France (2:30pm); market holidays in various Asian countries e.g. China on account of Chinese New Year (Tues – Fri).

Key earnings today include: **Rtx corp**, **Stryker**, **Boeing**, Lockheed Martin, **Starbucks**, Chubb, Royal Caribbean Cruises Ltd, General Motors, PACCAR, **Louis Vuitton**, **Atlas Copco.**

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.

LVRAG

Daily Risk Appetite Gauge

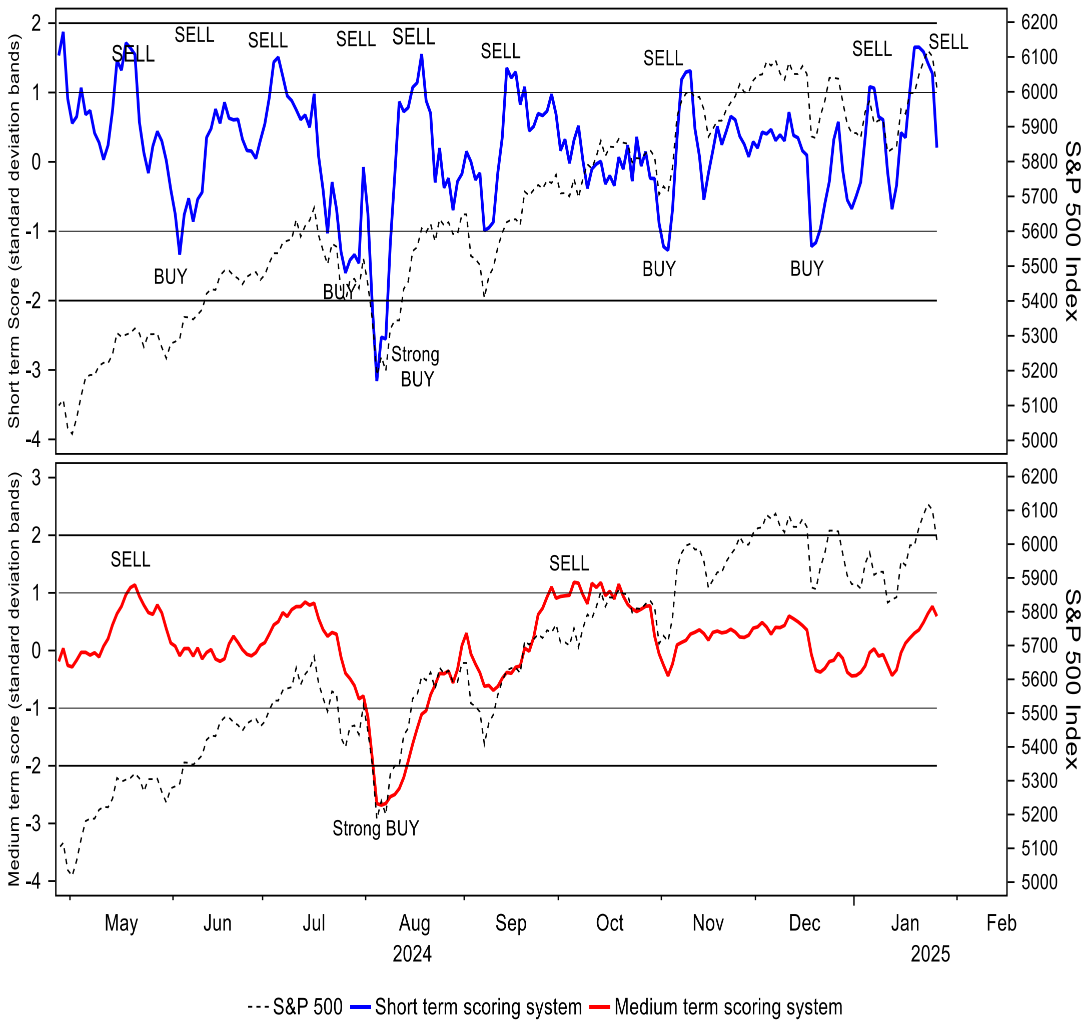
1 – 2 Week View on Risk

28th 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 NEUTRAL

Medium term scoring system is NEUTRAL

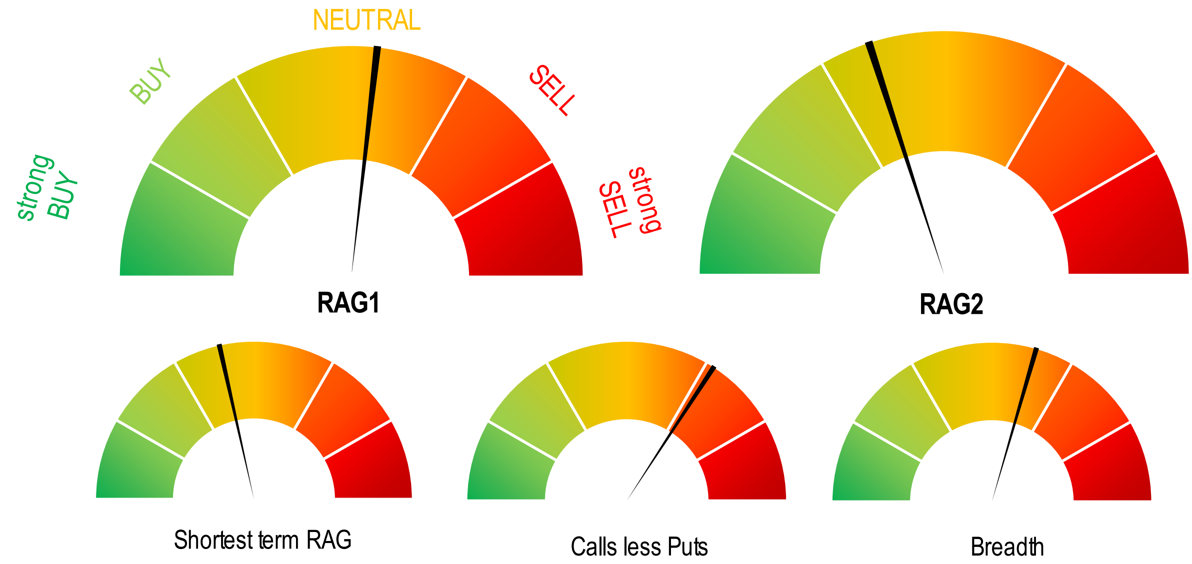
Source: Longview Economics, Macrobond

*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

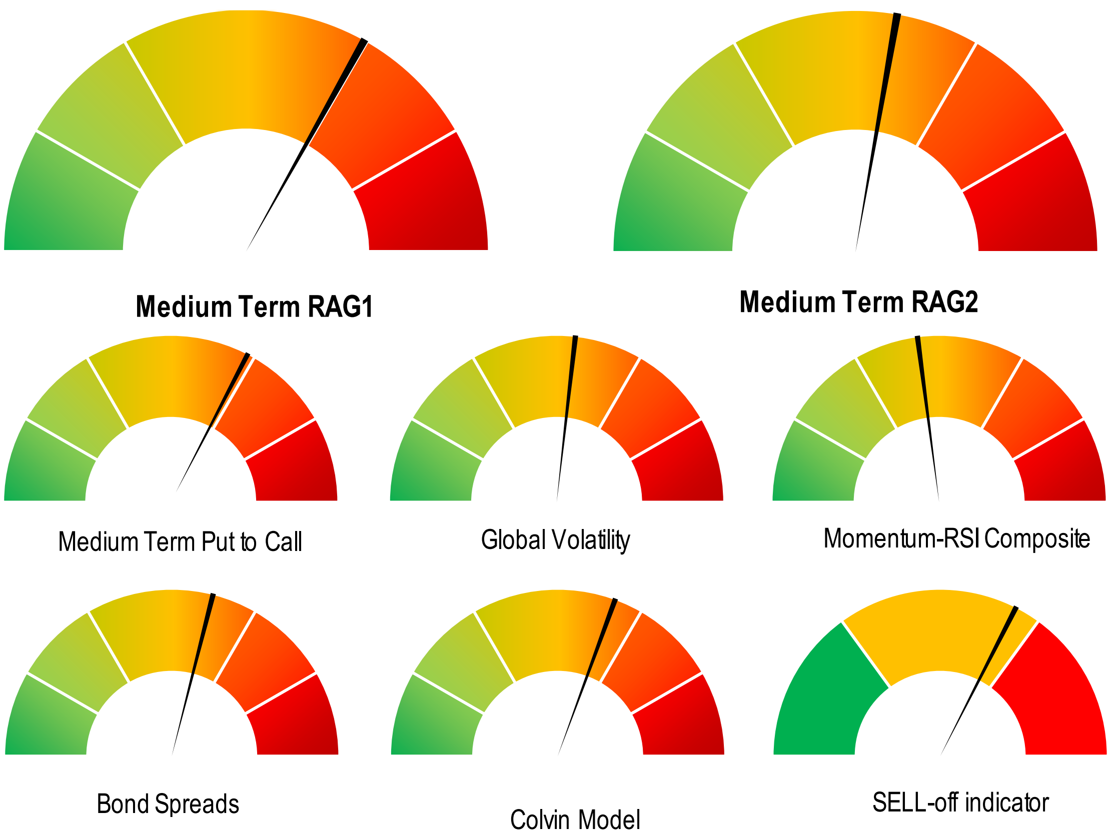
Section 1a: Summary of indicator signals**

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

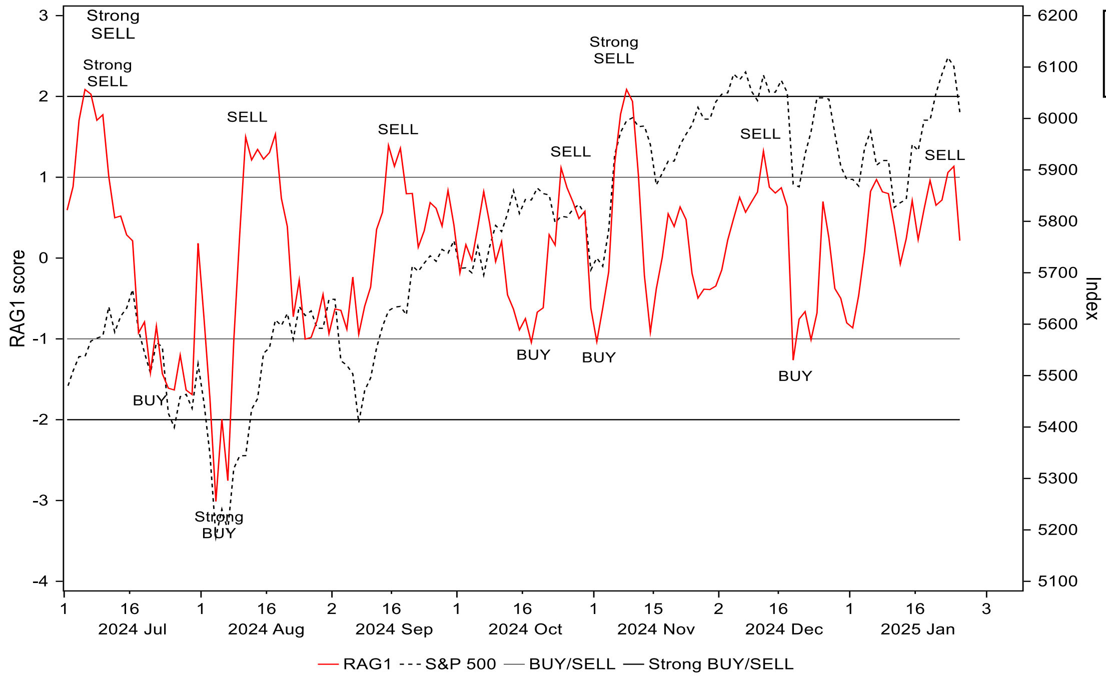


Source: *Longview Economics*

**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

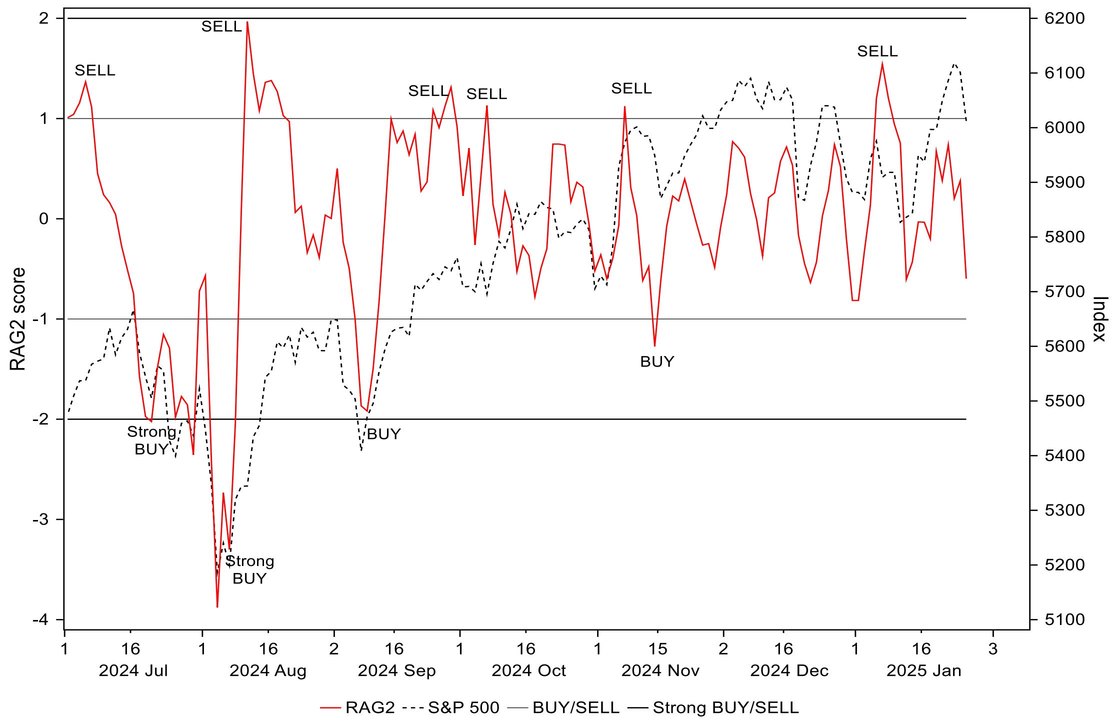
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

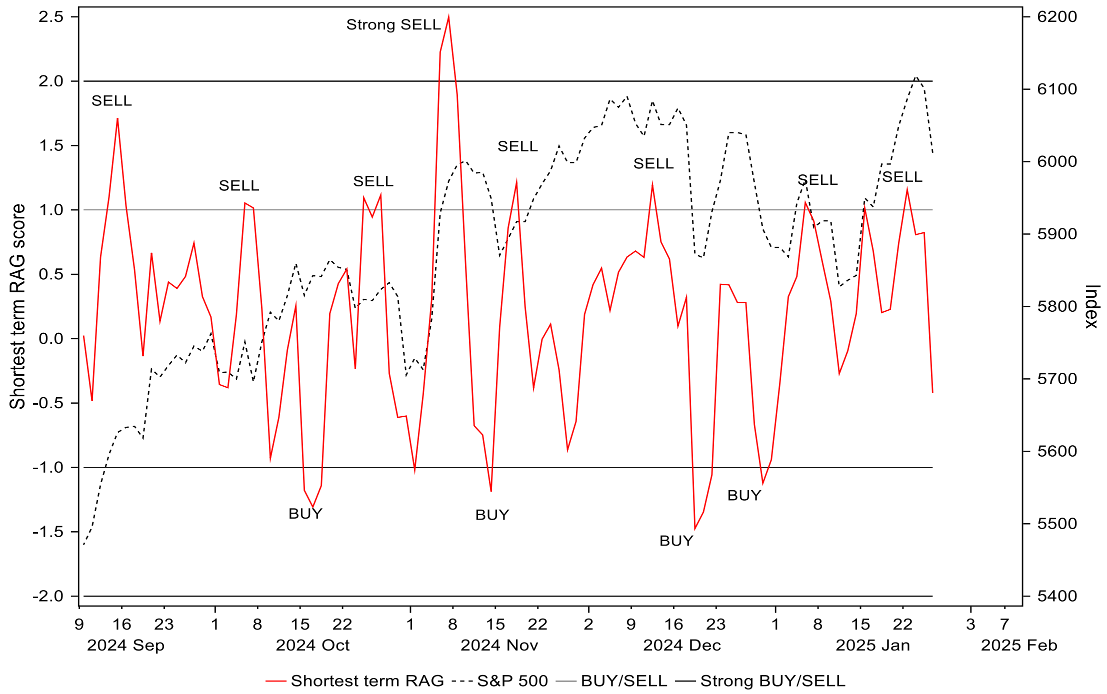


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

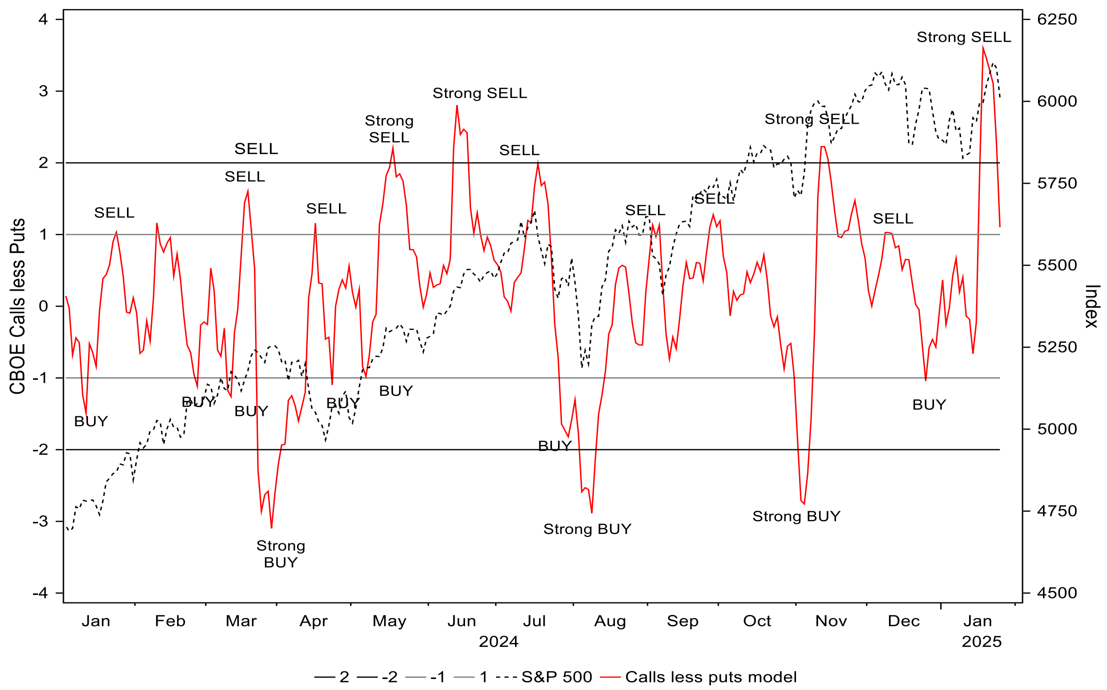
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

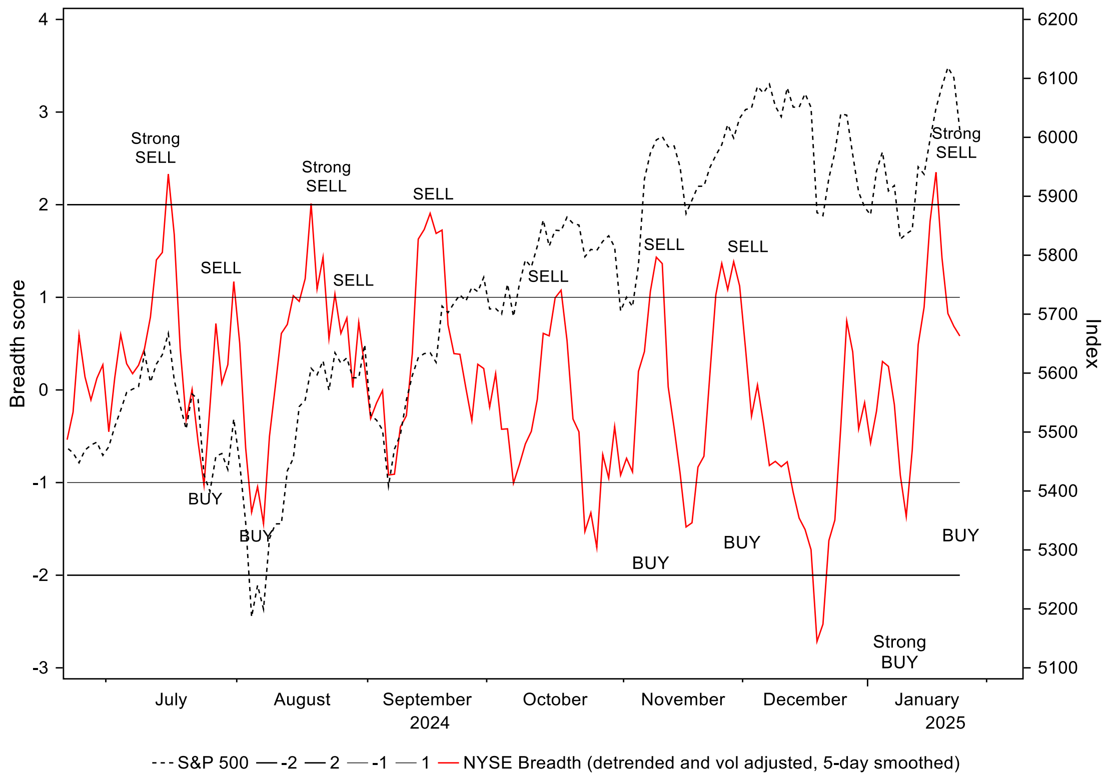


Source: Longview Economics, Macrobond

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



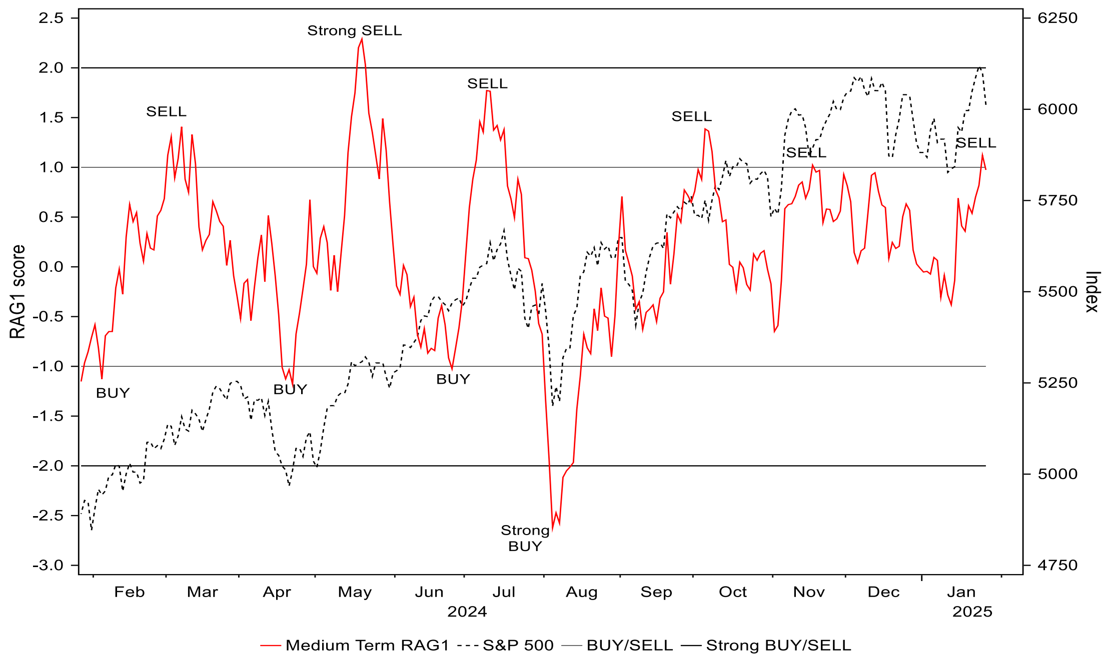
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

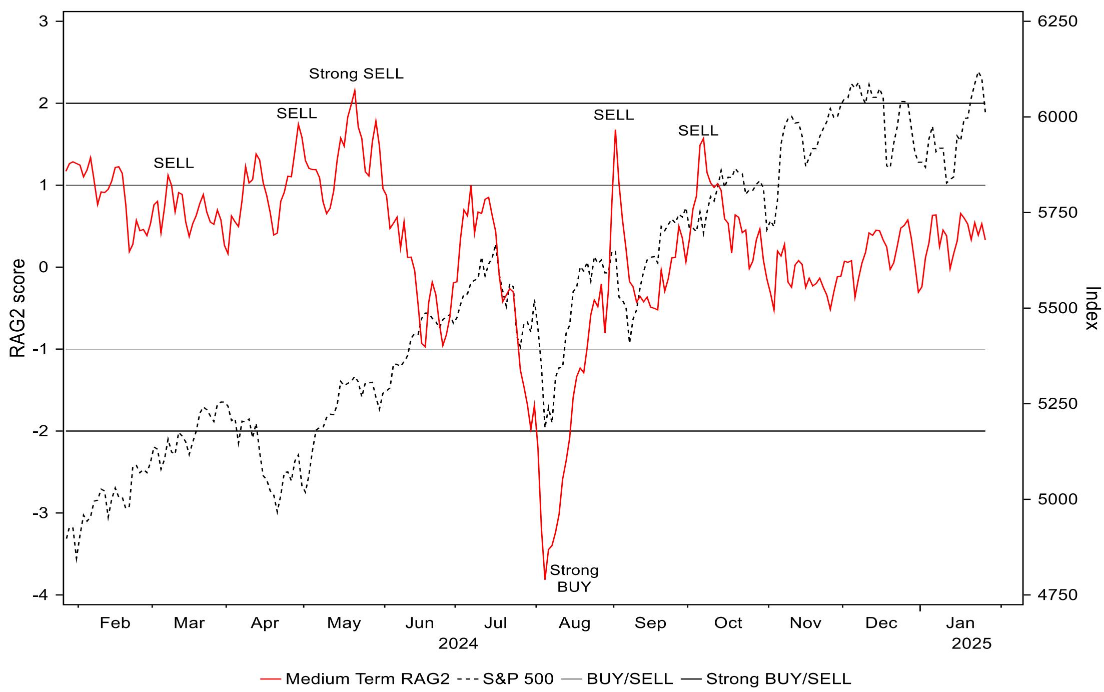
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

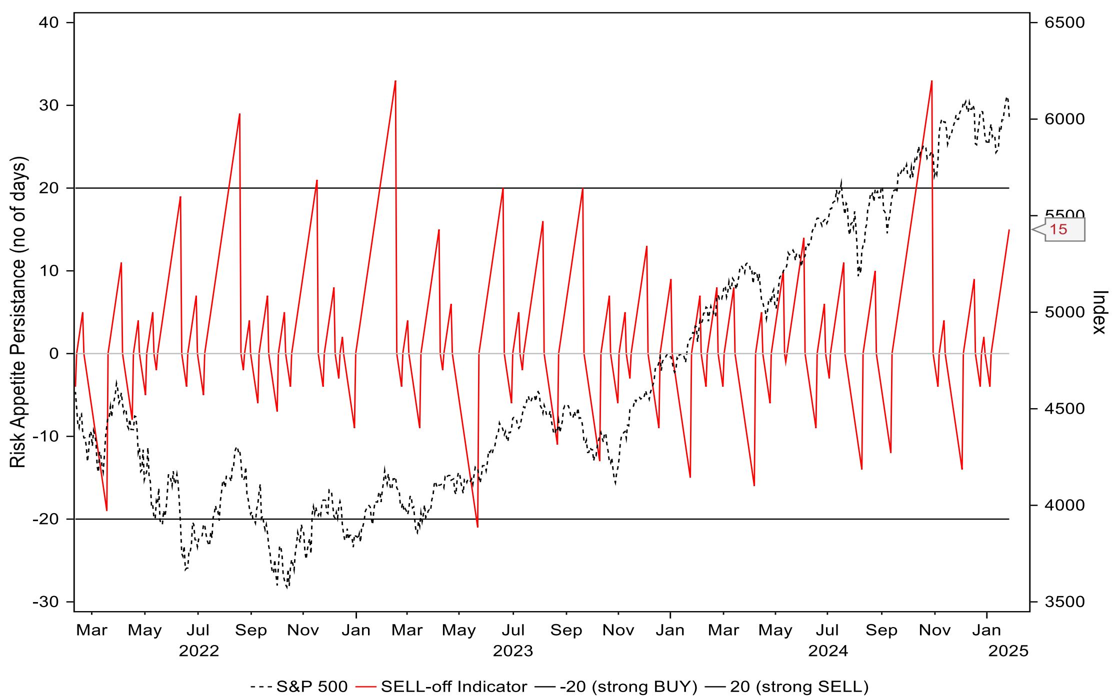


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

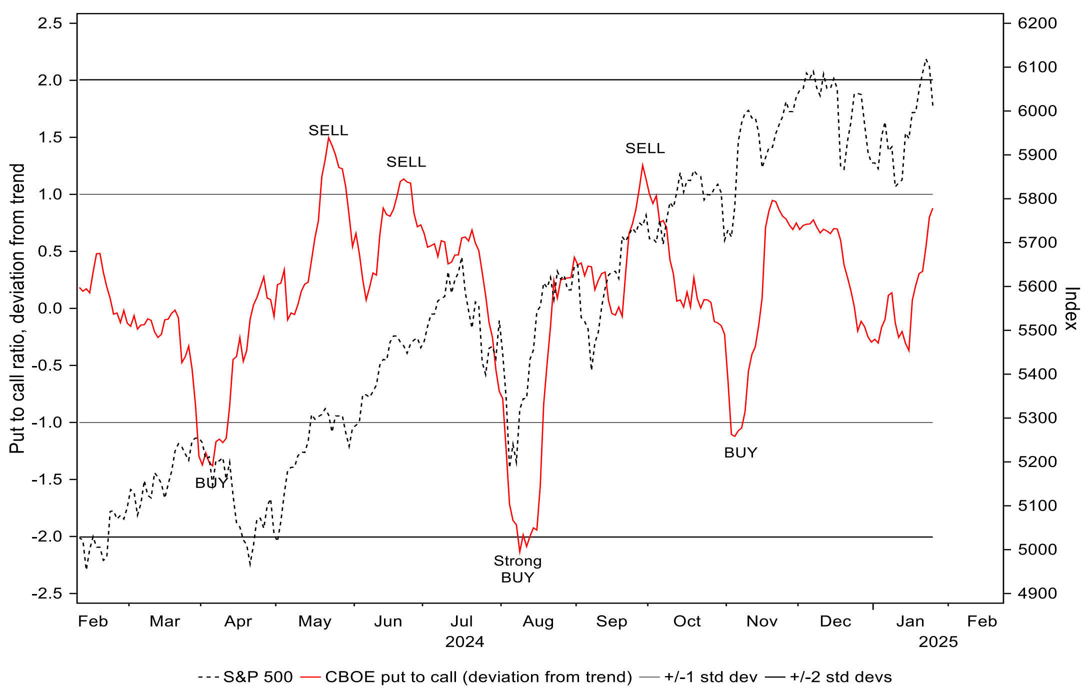
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

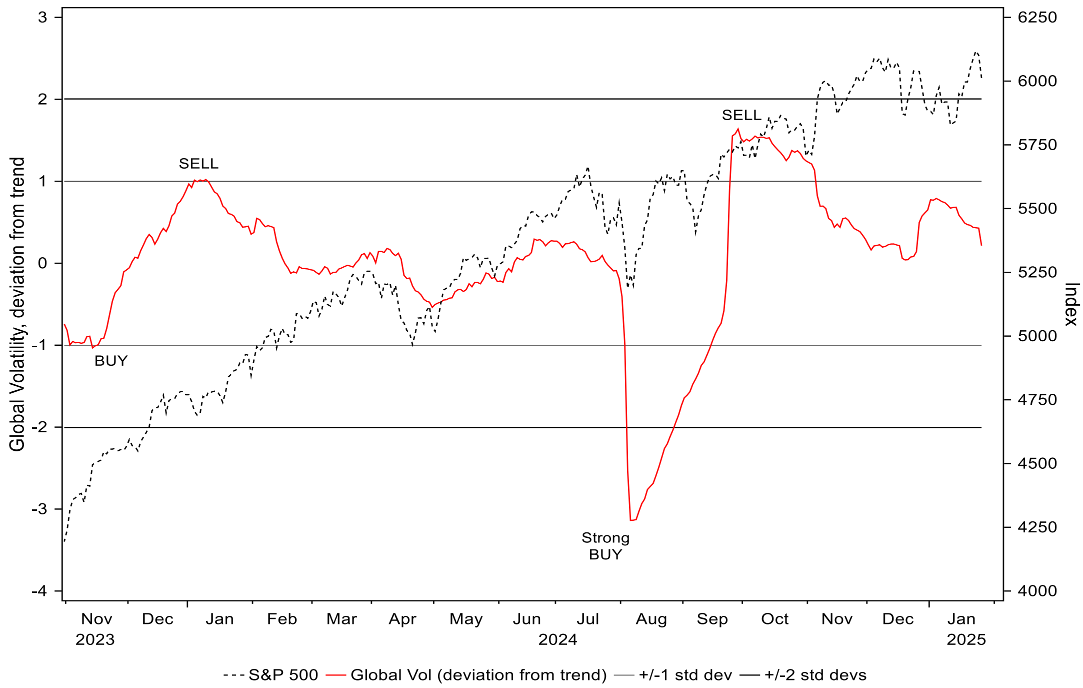


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

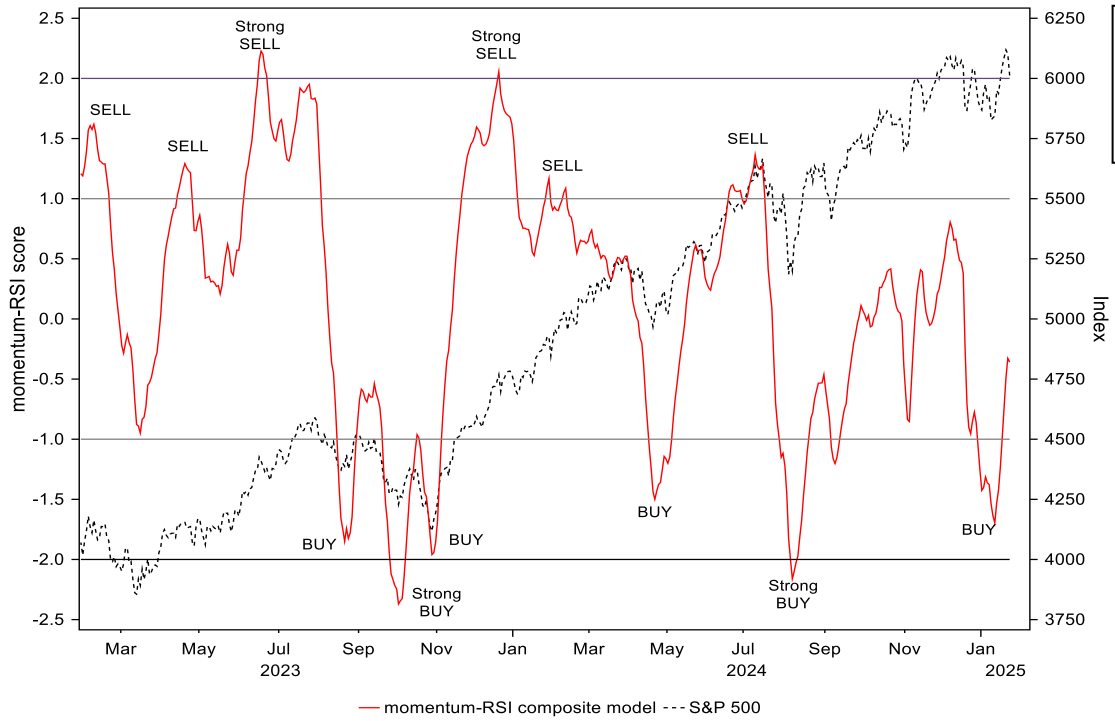
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

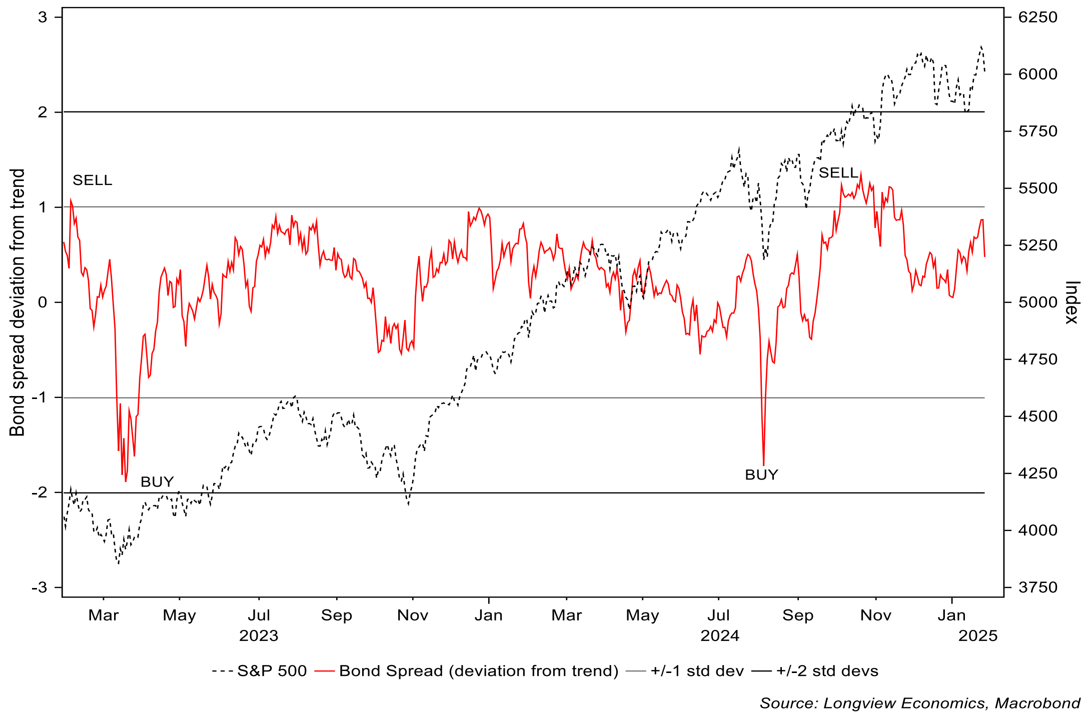
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

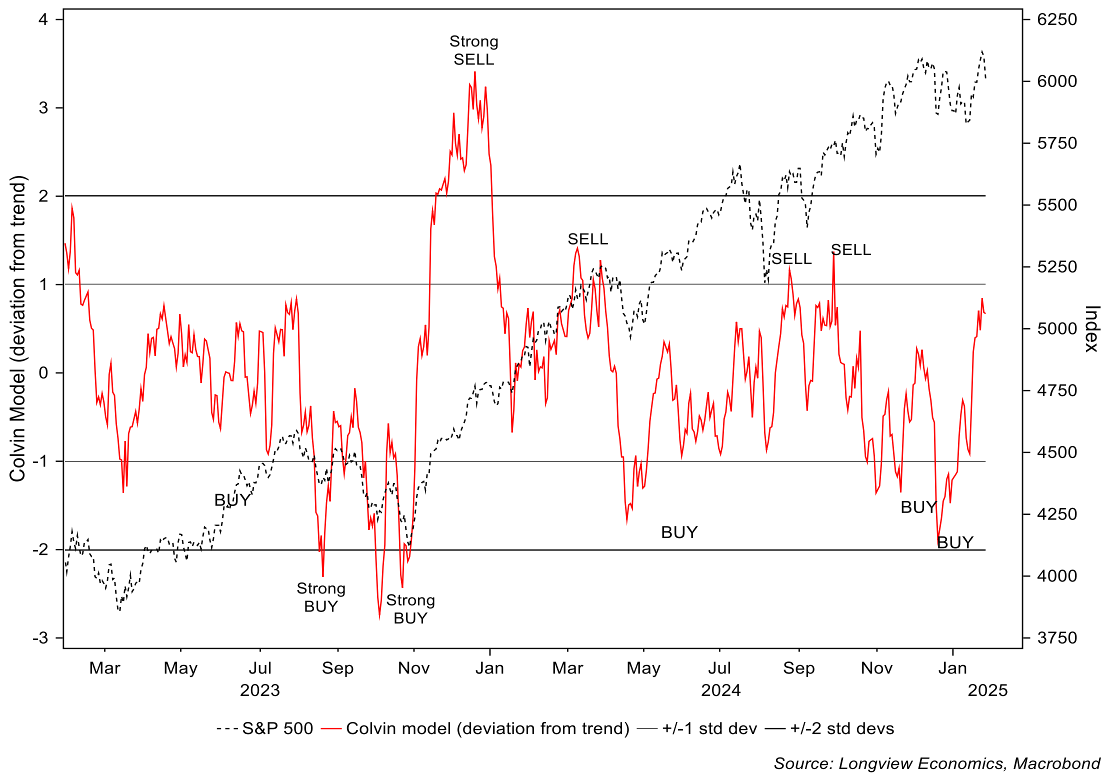
Source: Longview Economics, Macrobond

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



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.

Disclaimer

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.