

## Equity Index Futures Trading Recommendations

28<sup>th</sup> November 2024

"Stay LONG (NB US markets closed for Thanksgiving)"

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**US markets are closed today for Thanksgiving (with a half day's trading tomorrow).**

**Today's commentary is therefore limited.**

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

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- Stay 1/4 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 1/4 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**

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Our **view remains the same as yesterday**: The uptrend in US equities is ongoing (following modest giveback in mid-November). Price action yesterday was consistent with that view. That is, despite weakness across most major indices, both the S&P500 and NASDAQ100 closed above their 10 day moving averages (which continue to trend higher, e.g. see FIG 1a). Yesterday's weakness was therefore relatively orderly.

Overall our **short term models support that expectation** (of further gains in US equities in coming days/weeks): Most key indicators have recently generated BUY signals and, in up-trending markets, it pays to stay with LONG positions until those signals have unwound/moved back to SELL. Risk appetite models, in that respect, are either NEUTRAL or close to BUY (FIGs 2 – 2b); technical models are mid-range (see FIGs 3 & 4); while our over-extended models for both the S&P & NDX point to further upside (e.g. FIG 1c). Elsewhere, given the rally in bonds (& bond proxies), coupled with weakness in tech stocks yesterday, **long duration growth is now notably oversold** in the short term (i.e. relative to defensives, see FIG 1 below).

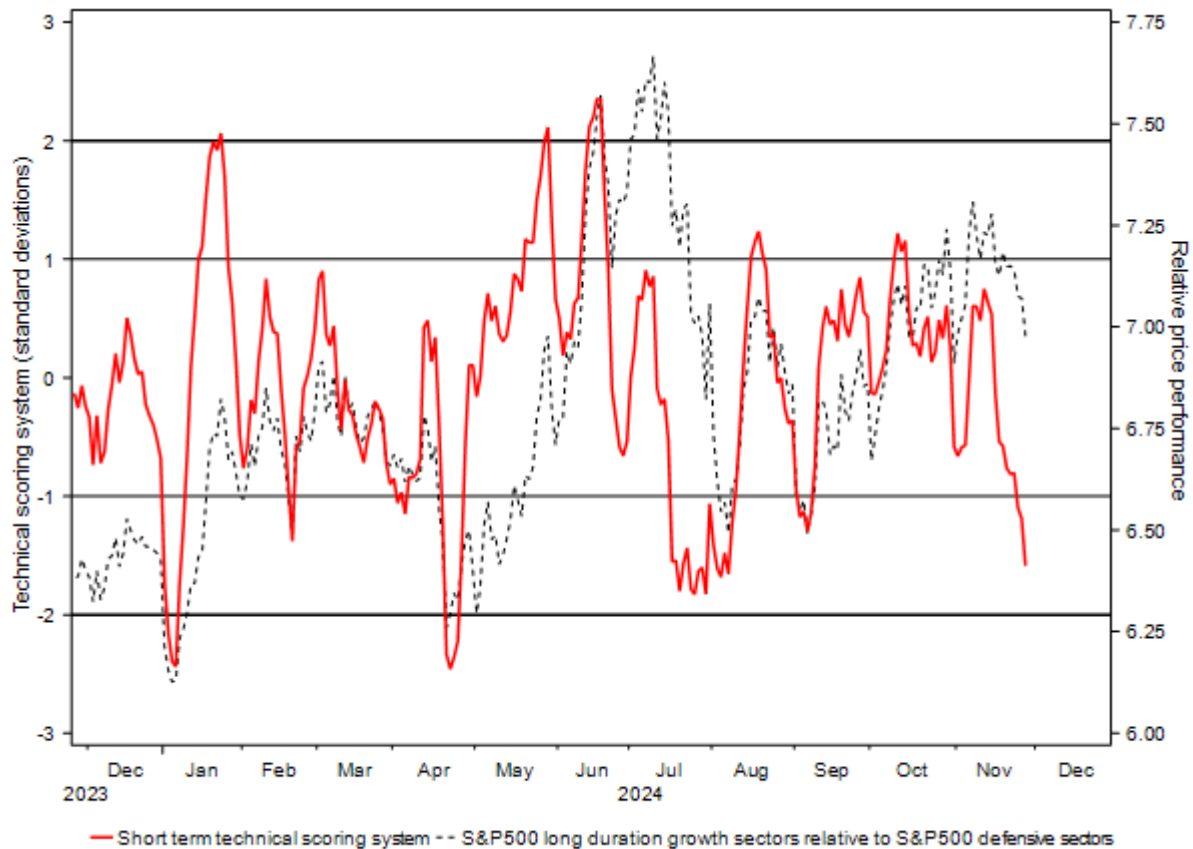
The **risk reward therefore favours staying LONG** US equities. **Risks** are multiple and include the lack of put protection in portfolios (FIGs 5 & 5a); low volatility readings (a sign of complacency, FIG 1d); as well as the recent widening of certain spreads (e.g. see FIG 1e).

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

Kind regards,

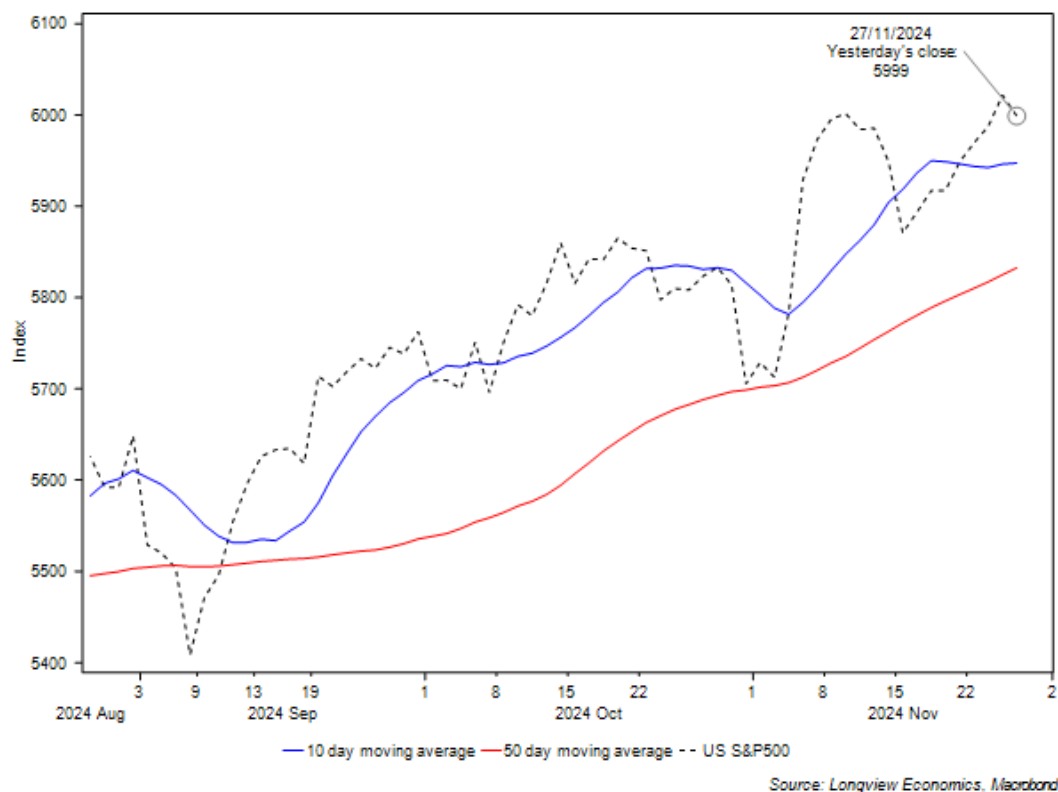
The team @ Longview Economics

**FIG 1:** Short term technical scoring system: S&P500 **long duration growth relative to defensive sectors** vs. S&P500

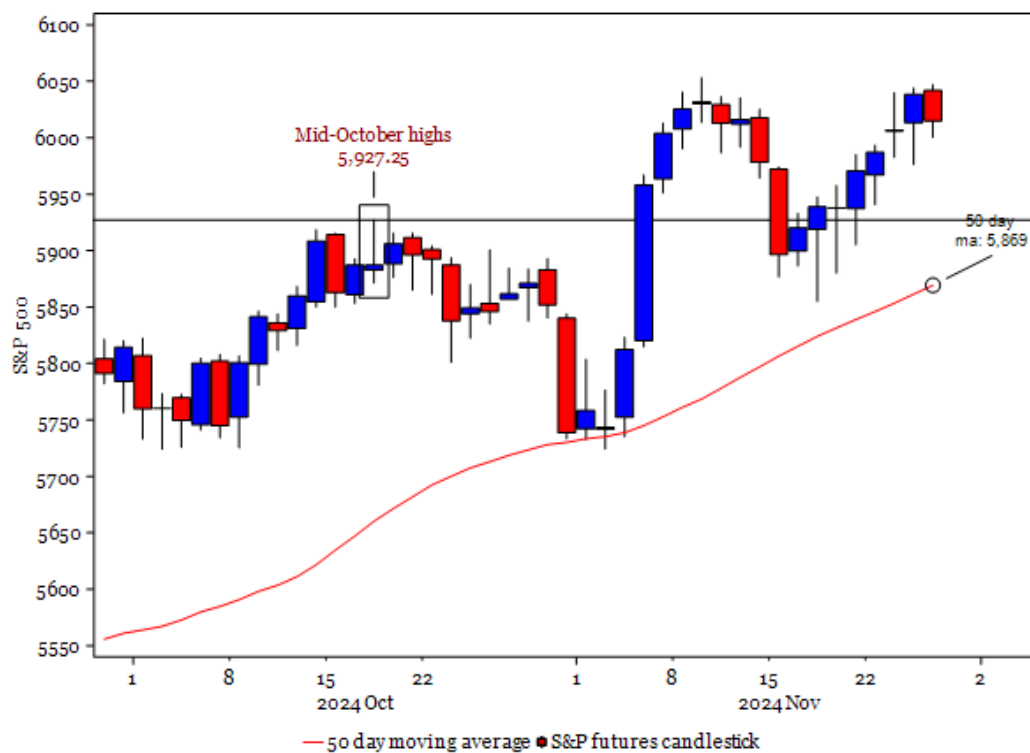


Source: Longview Economics, Macrobond

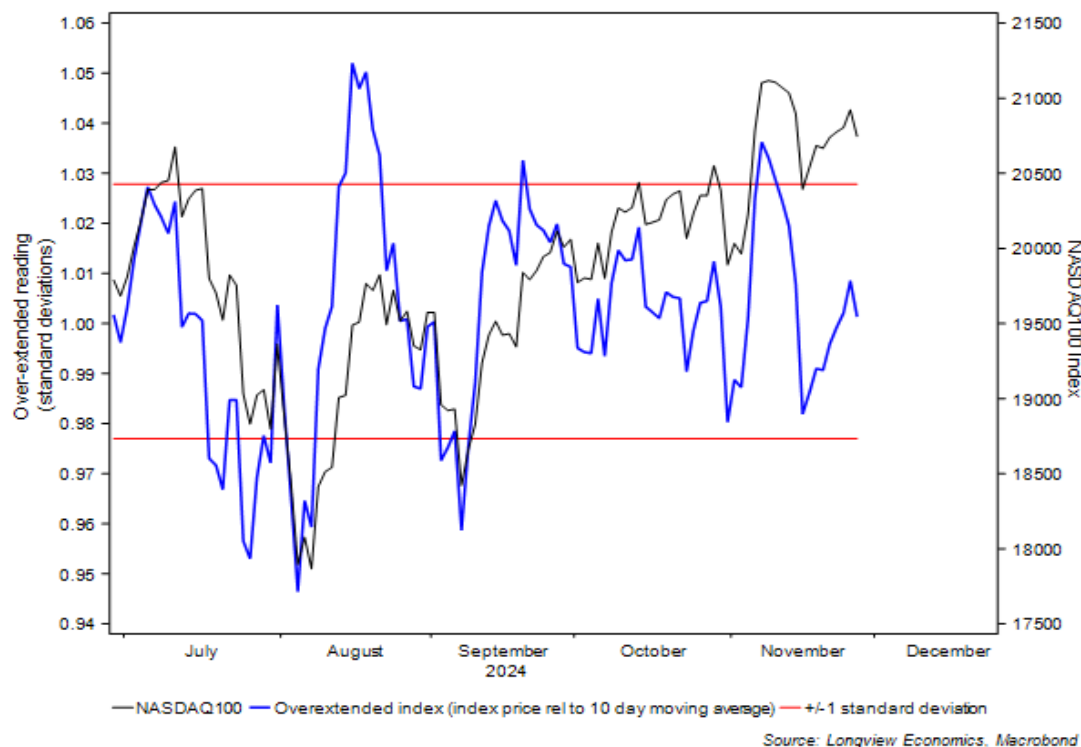
**FIG 1a:** S&P500 futures shown with 10 & 50 day moving averages



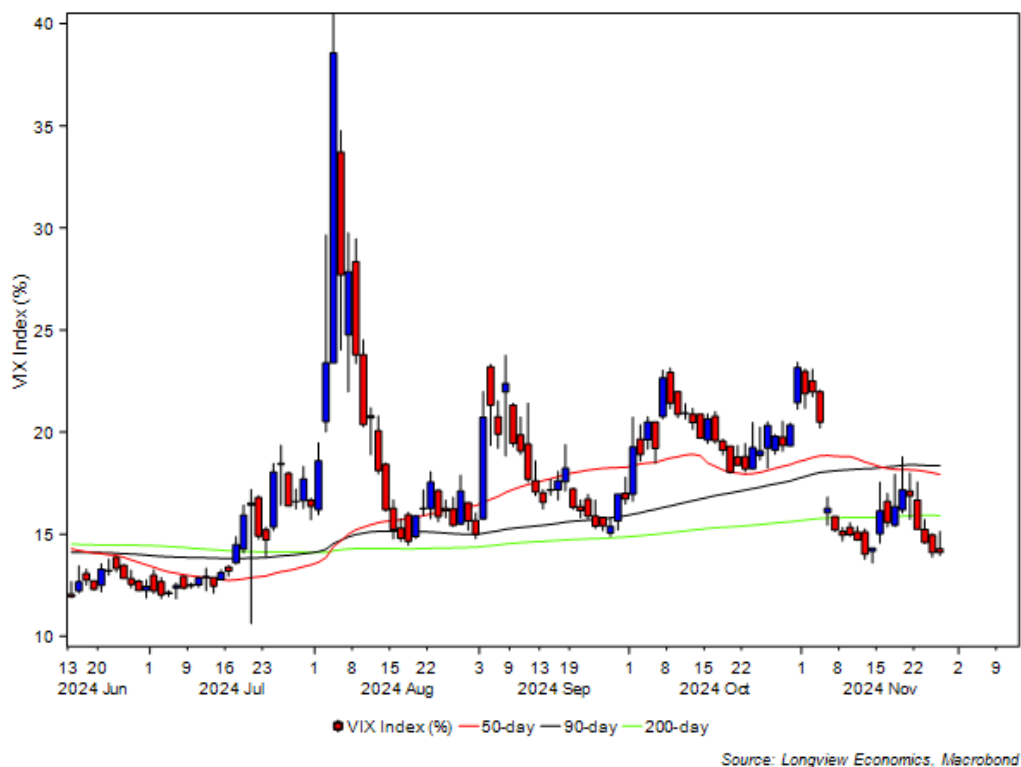
**FIG 1b:** S&P500 futures candlestick shown with 50 day moving average



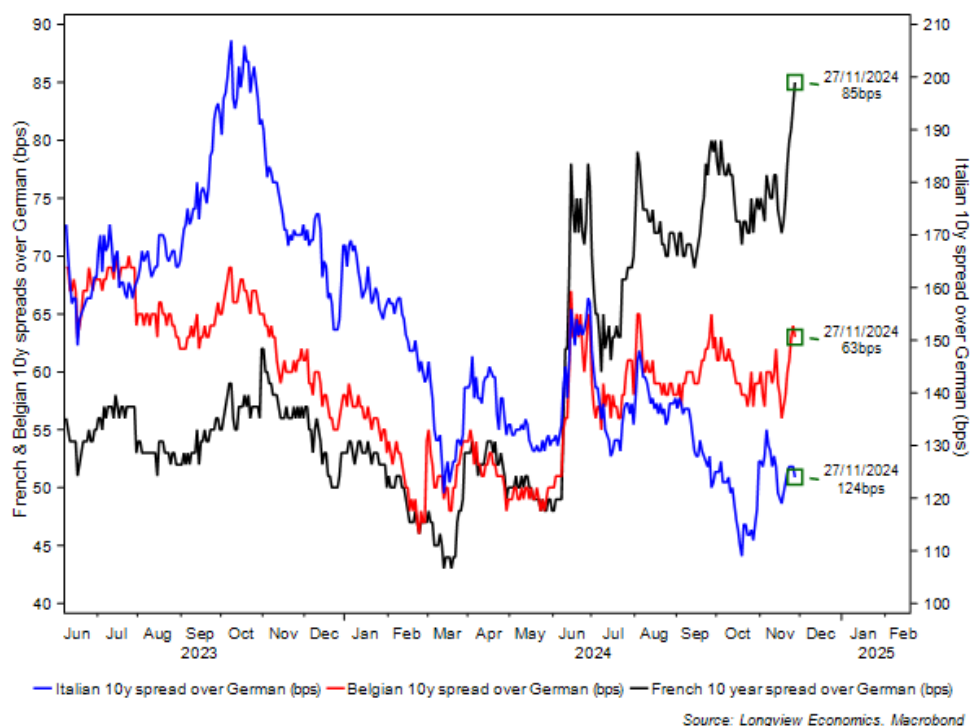
**FIG 1c:** NASDAQ100 overextended index (index price relative to 10 day moving average) vs. NASDAQ100



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

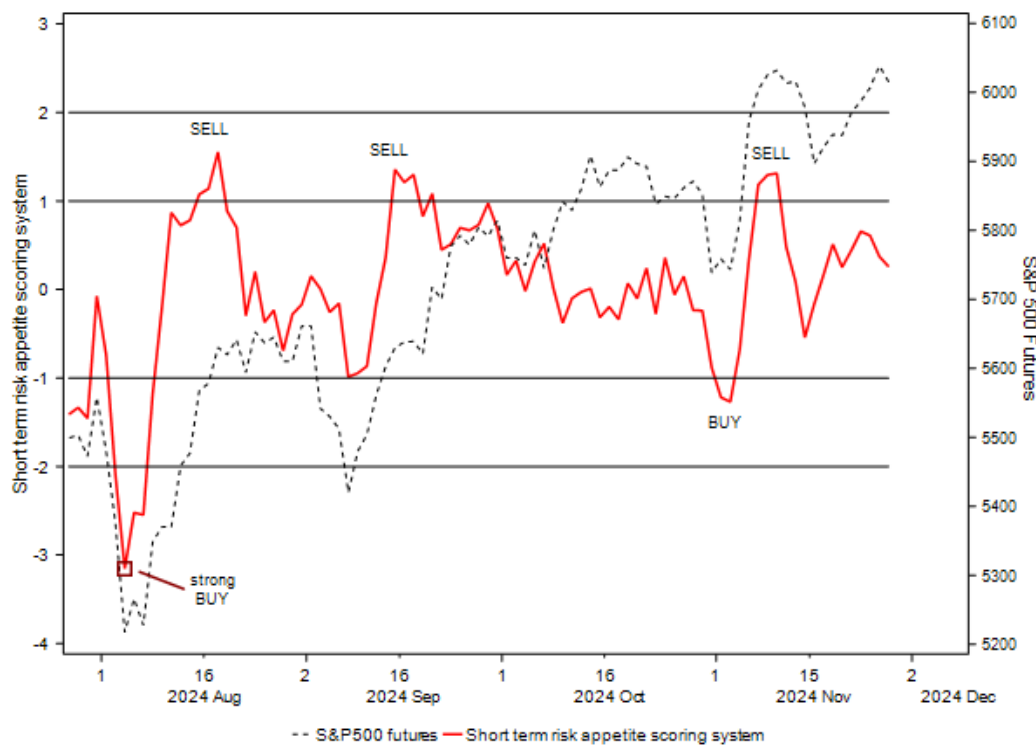


**FIG 1e:** French, Italian & Belgium spreads over 10 year bunds (bps)

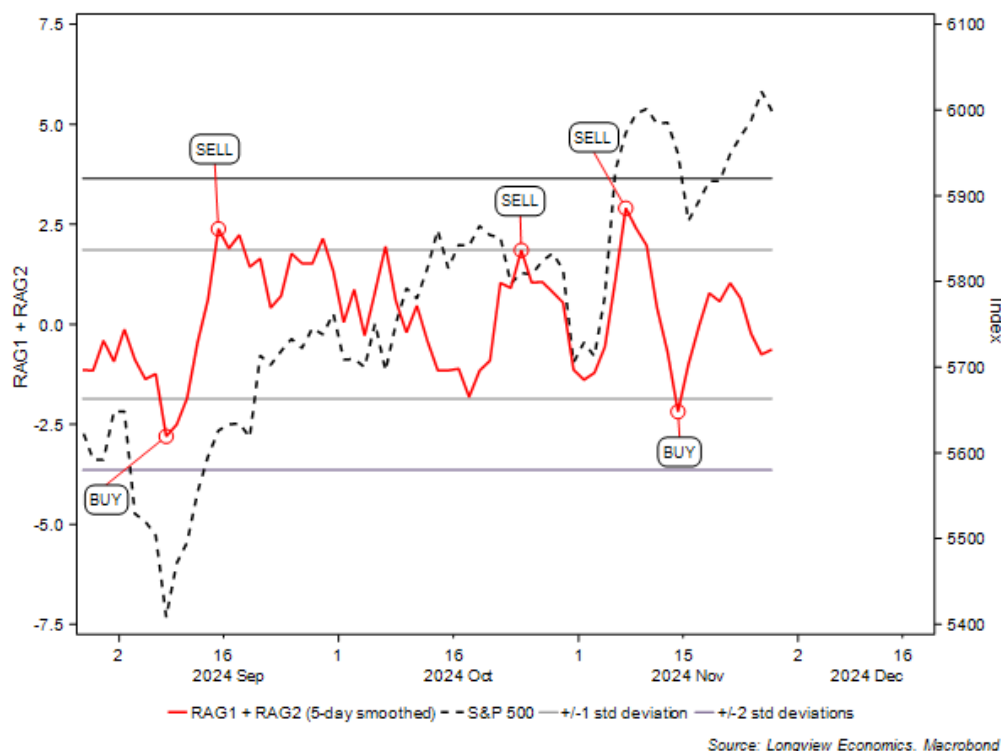


Short-term risk appetite models are mid-range/leaning towards BUY...

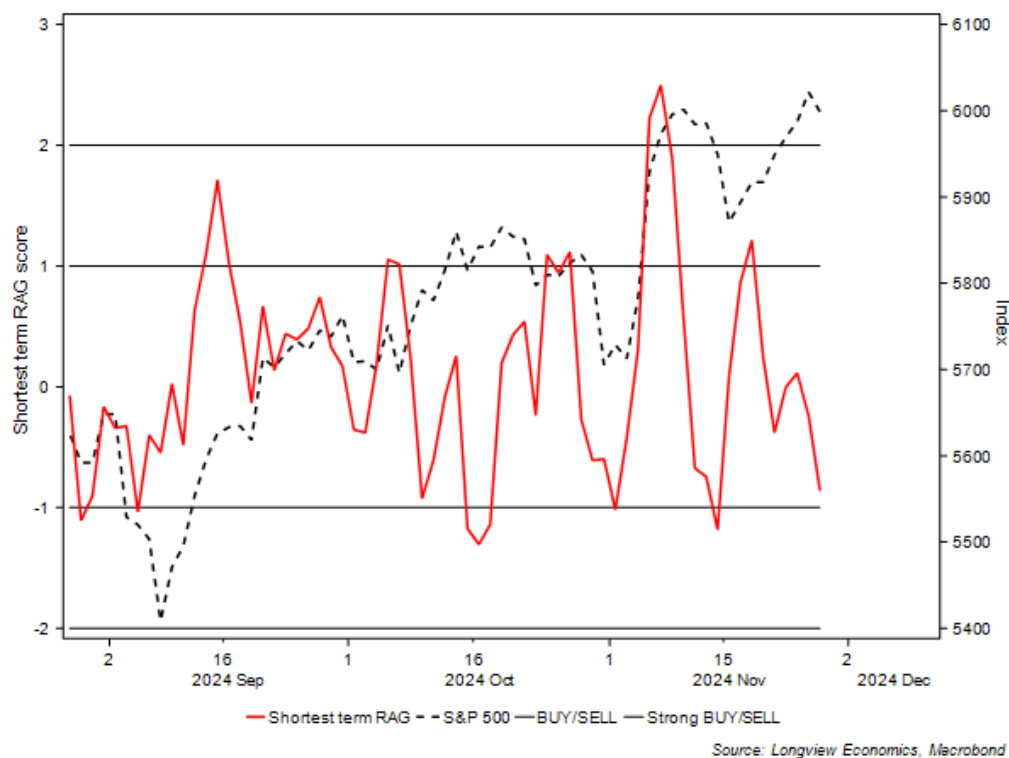
**FIG 2:** Longview short term 'risk appetite' scoring system vs. S&P500



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

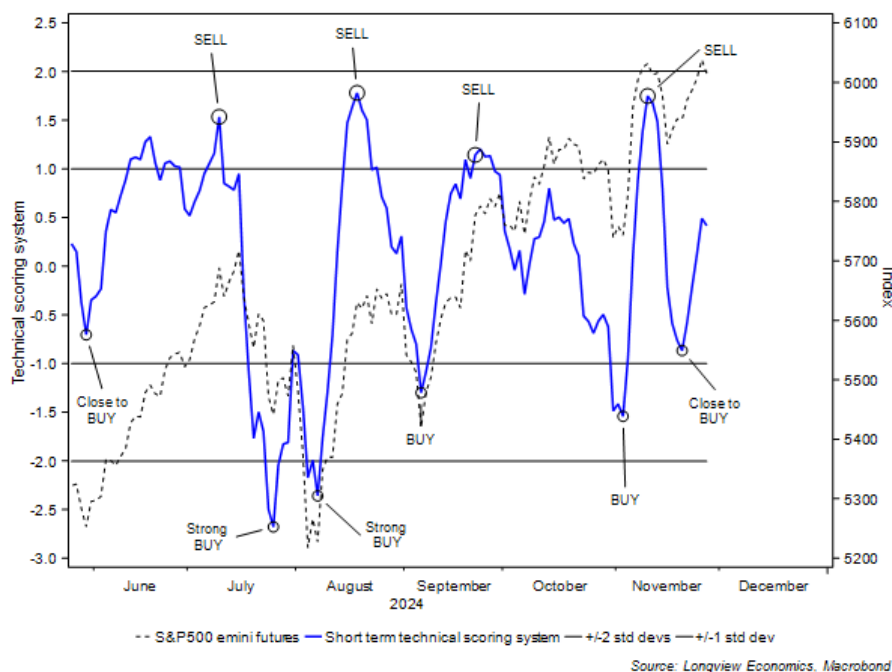


**FIG 2b:** Shortest term RAG vs. S&P500



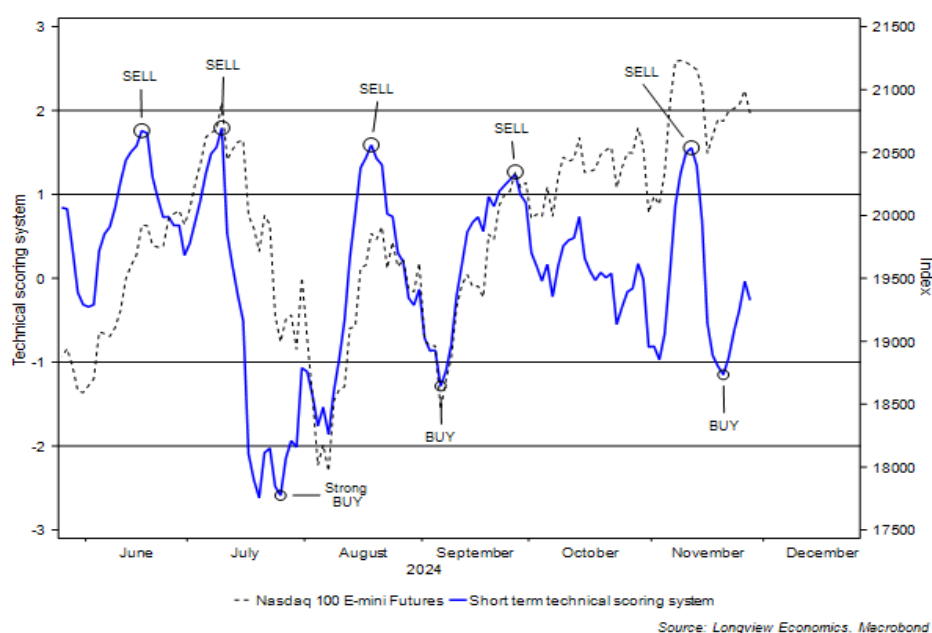
**Other short-term models are NEUTRAL/leaning towards SELL...**

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



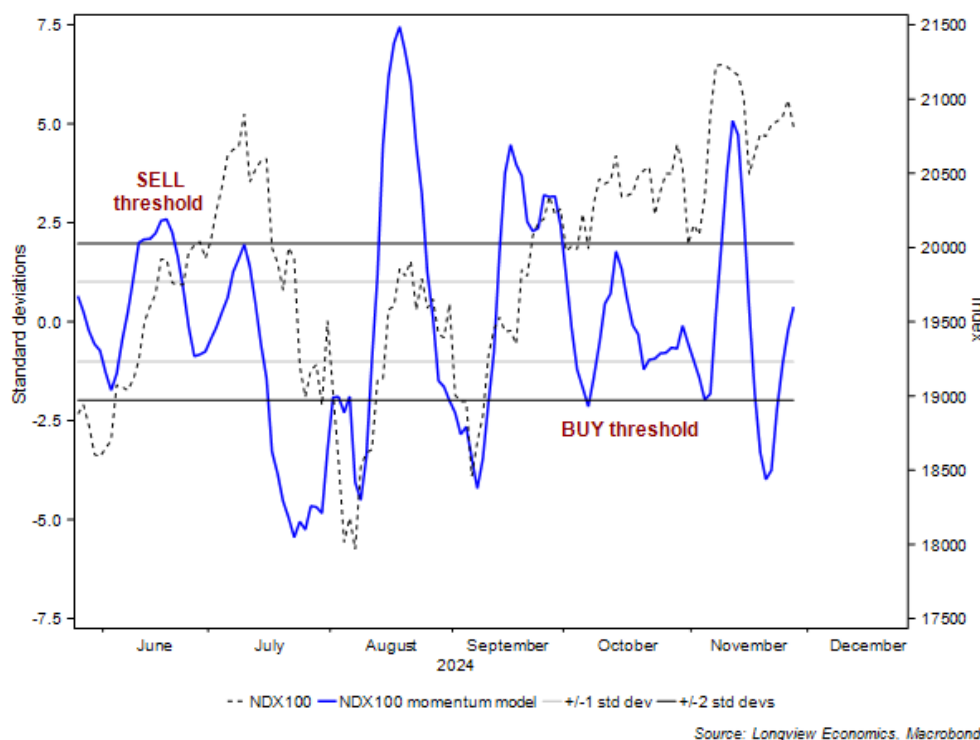
**NASDAQ100 specific models are mostly NEUTRAL, having recently generated BUY signals...**

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

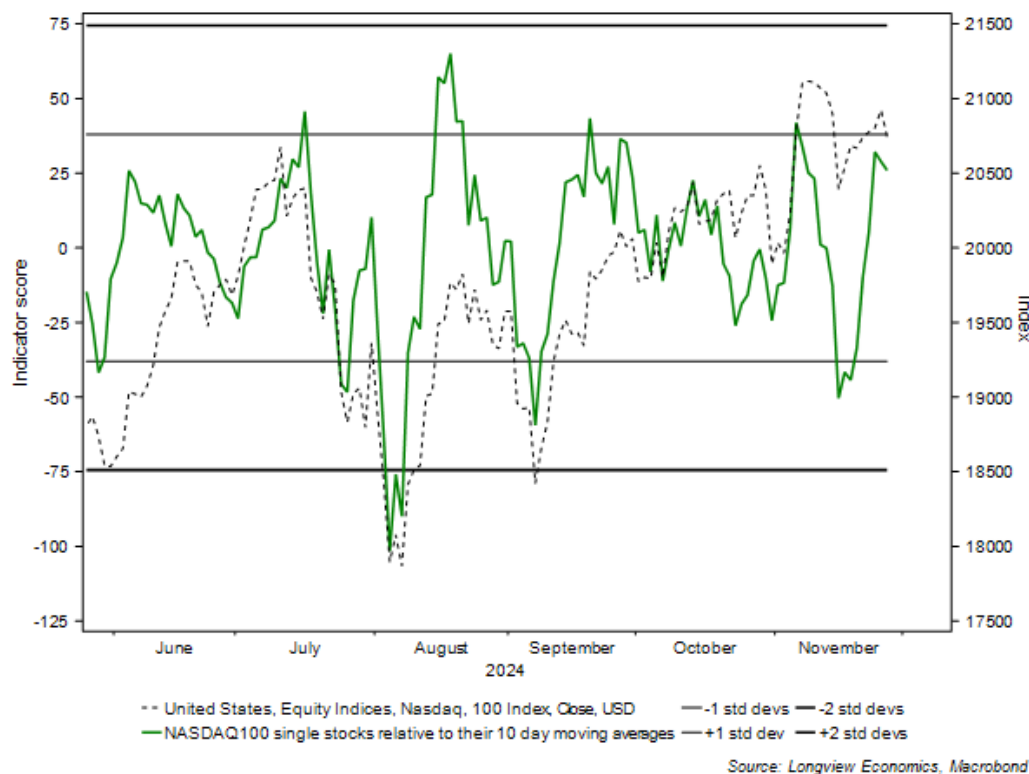




**FIG 4a:** NDX100 momentum model shown vs. NDX100



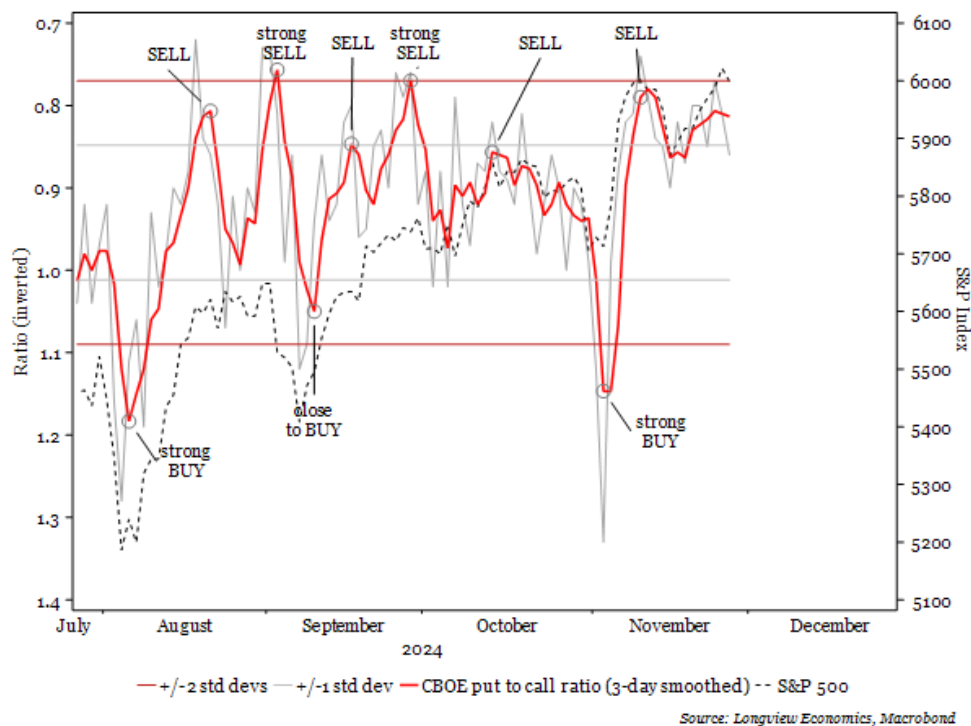
**FIG 4b:** NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index



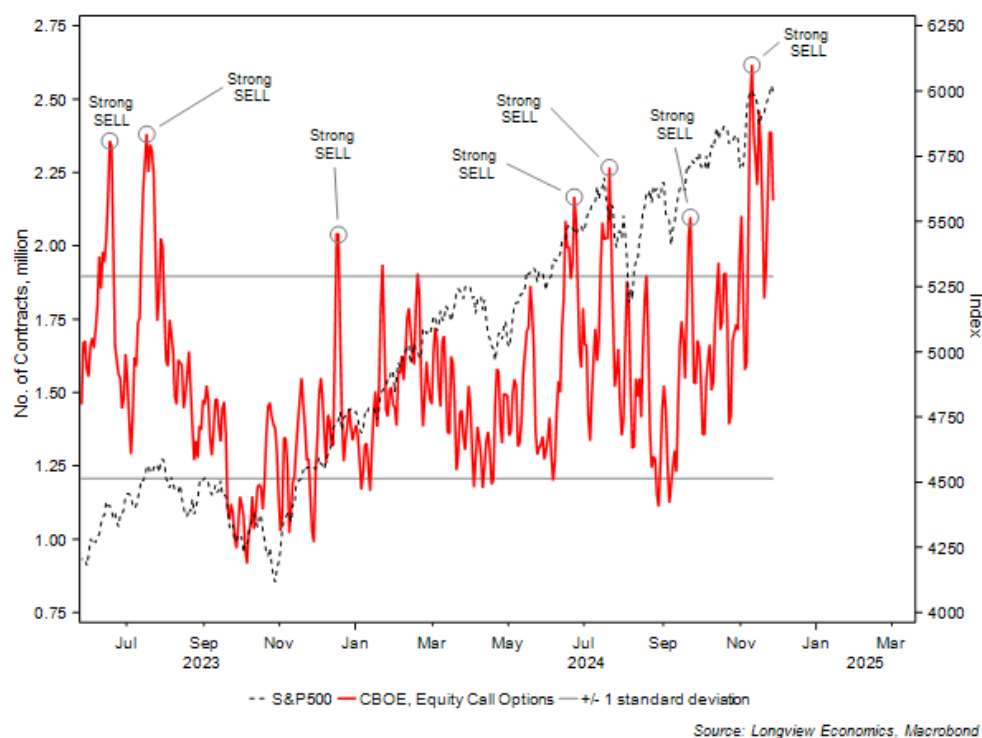


## Downside put protection in portfolios remains low

**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

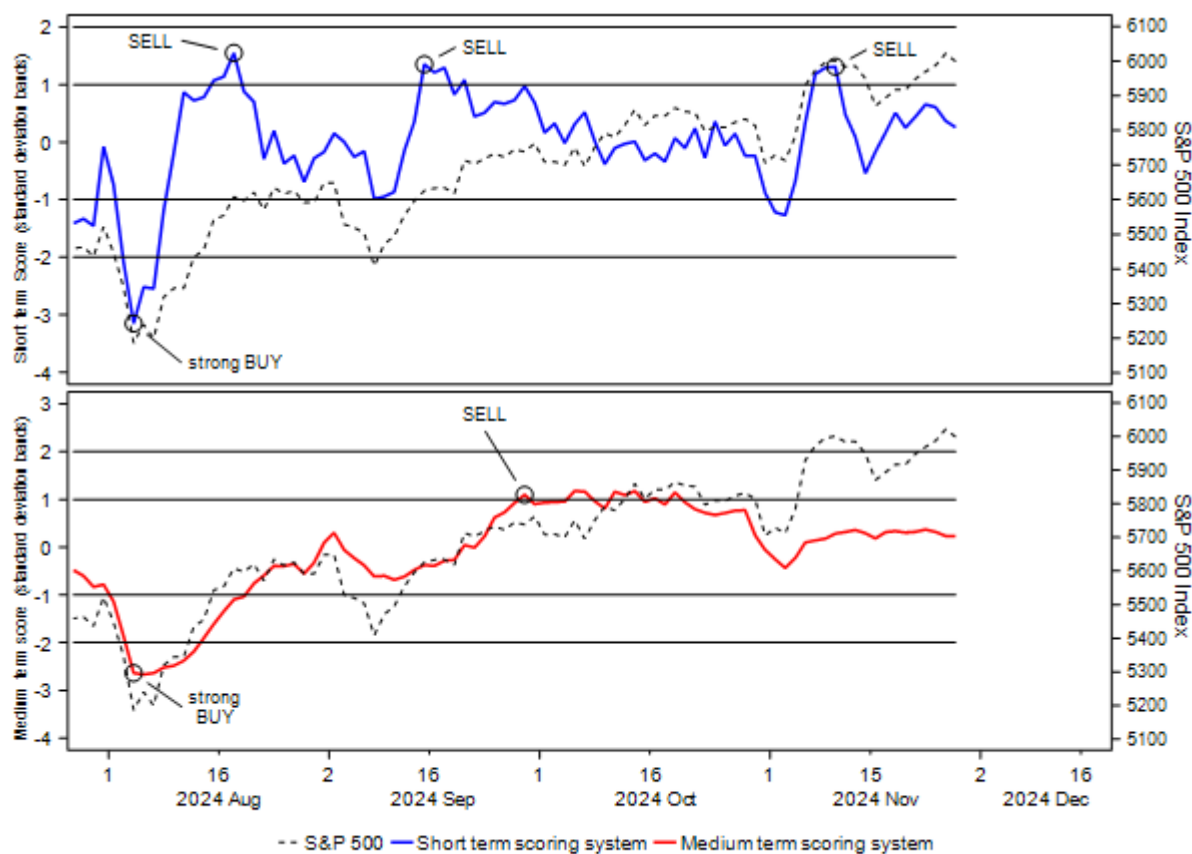


## Key Longview Scoring Systems (chart below):

**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 private capital expenditure (Q3, 12:30am); Spanish total mortgage lending (Sept, 8am); **Spanish headline & core CPI** (November first estimate, 8am); Italian ISTAT consumer & manufacturing confidence (Nov, 9am); **Eurozone M3 money supply** (Oct, 9am); Eurozone consumer confidence (November final estimate, 10am); Italian PPI (Oct, 10am); **German headline CPI** (November first estimate, 1pm); Canadian CFIB business barometer (Nov, 12pm); Canadian employment change (Sept, 1:30pm); Japanese jobless rate (Oct, 11:30pm); **Japanese retail sales** (Oct, 11:50pm); Japanese industrial production (October first estimate, 11:50pm).

**Key events** today include: Thanksgiving holiday (market closed); speech by the RBA's Bullock at the Annual CEDA Conference (8:55am); speeches by the ECB's Villeroy, Knot & Lane in Paris (1:30pm, 1:50pm & 5pm).

**Key earnings** today include: **Kroger**.

## 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 6<sup>th</sup> November 2024. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).



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## 1 – 2 Week View on Risk

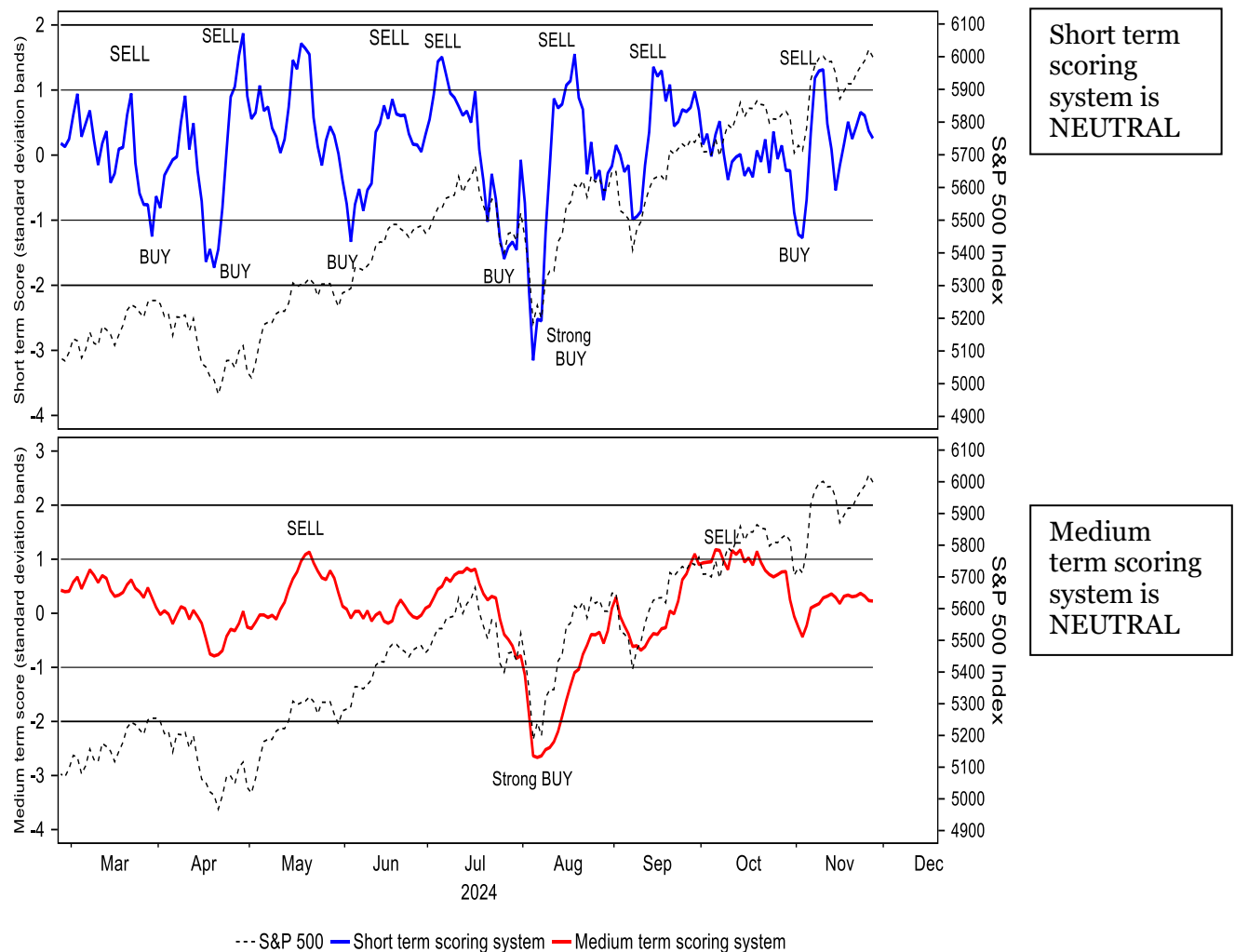
Longview Economics

Email: ragtrader@dailyragtrader.com

28<sup>th</sup> November 2024

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

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



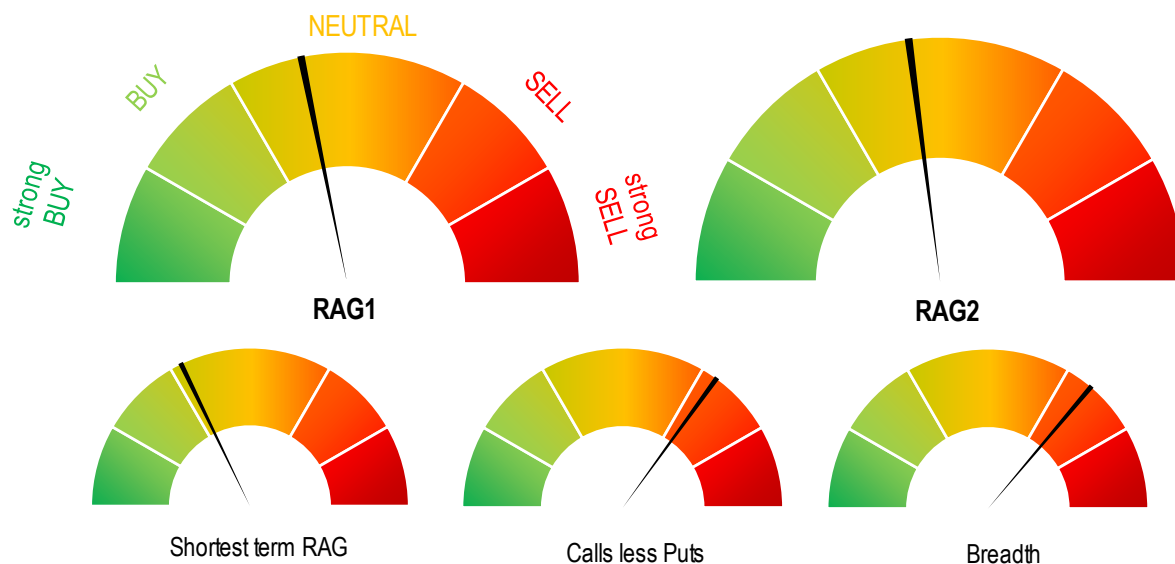
Source: Longview Economics, Macrobond

\*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**

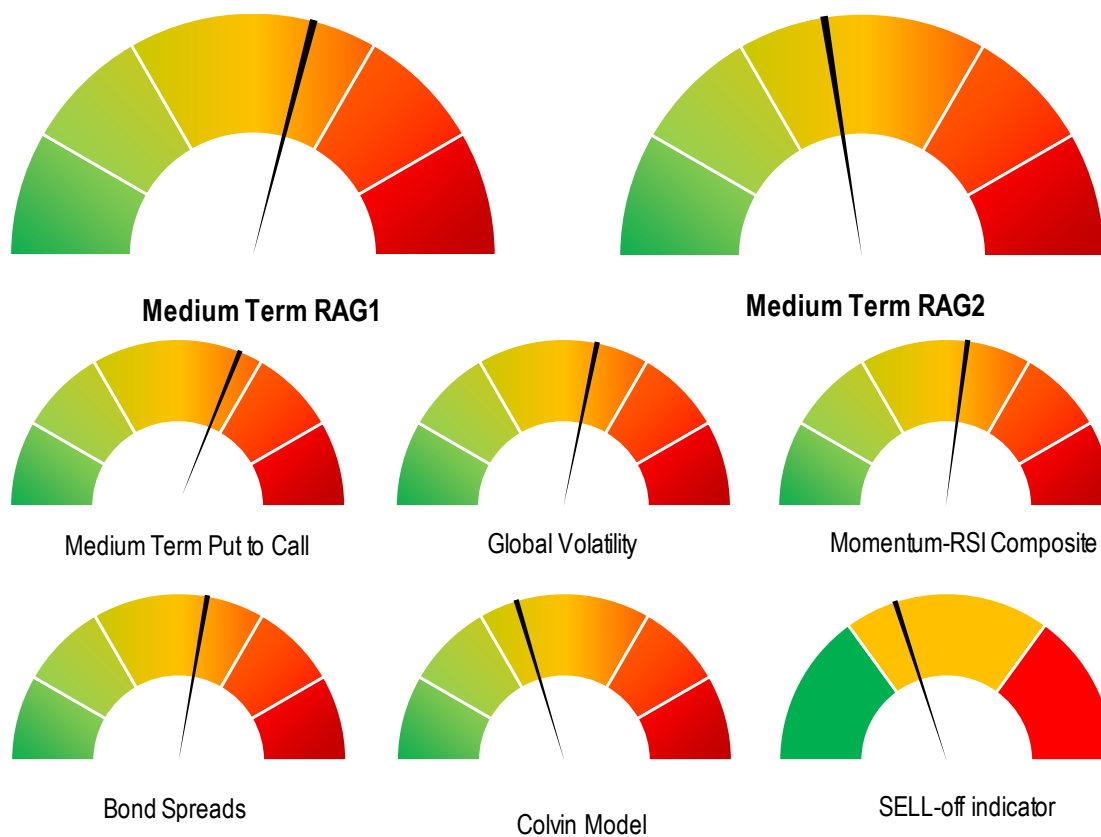
## Section 1a: Summary of indicator signals\*\*

**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

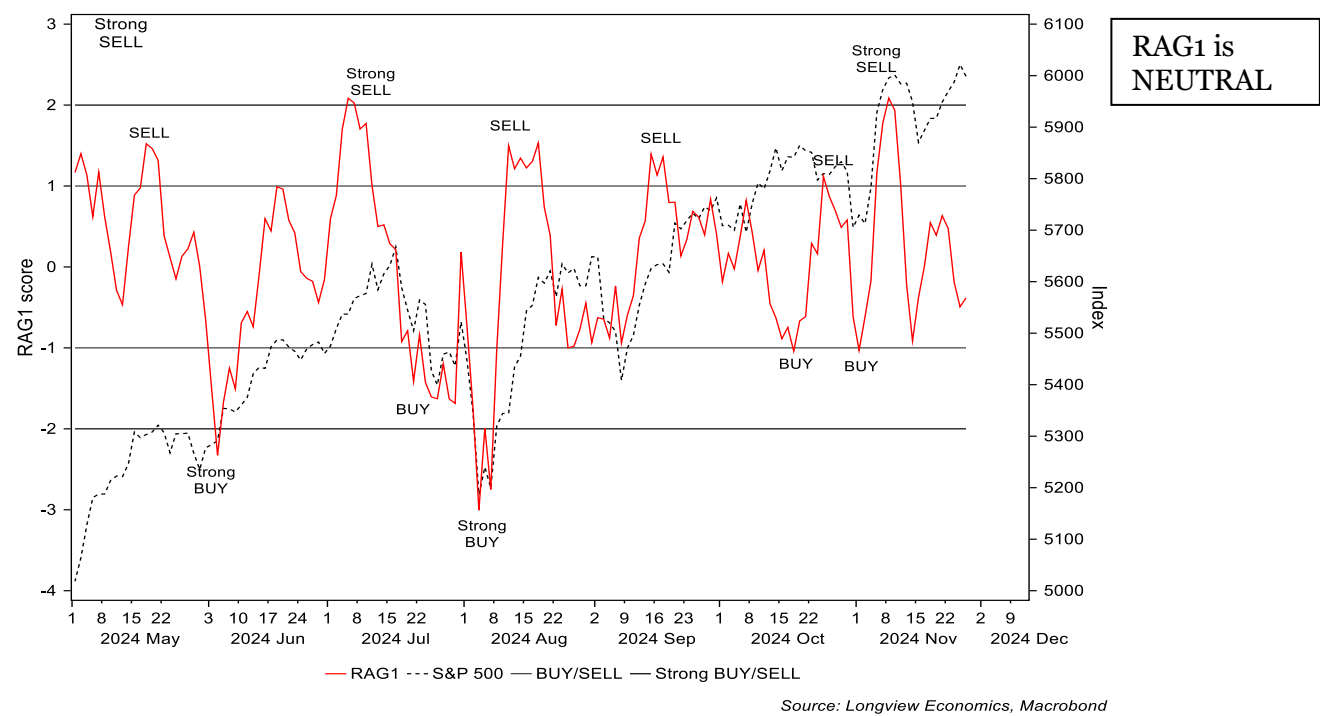
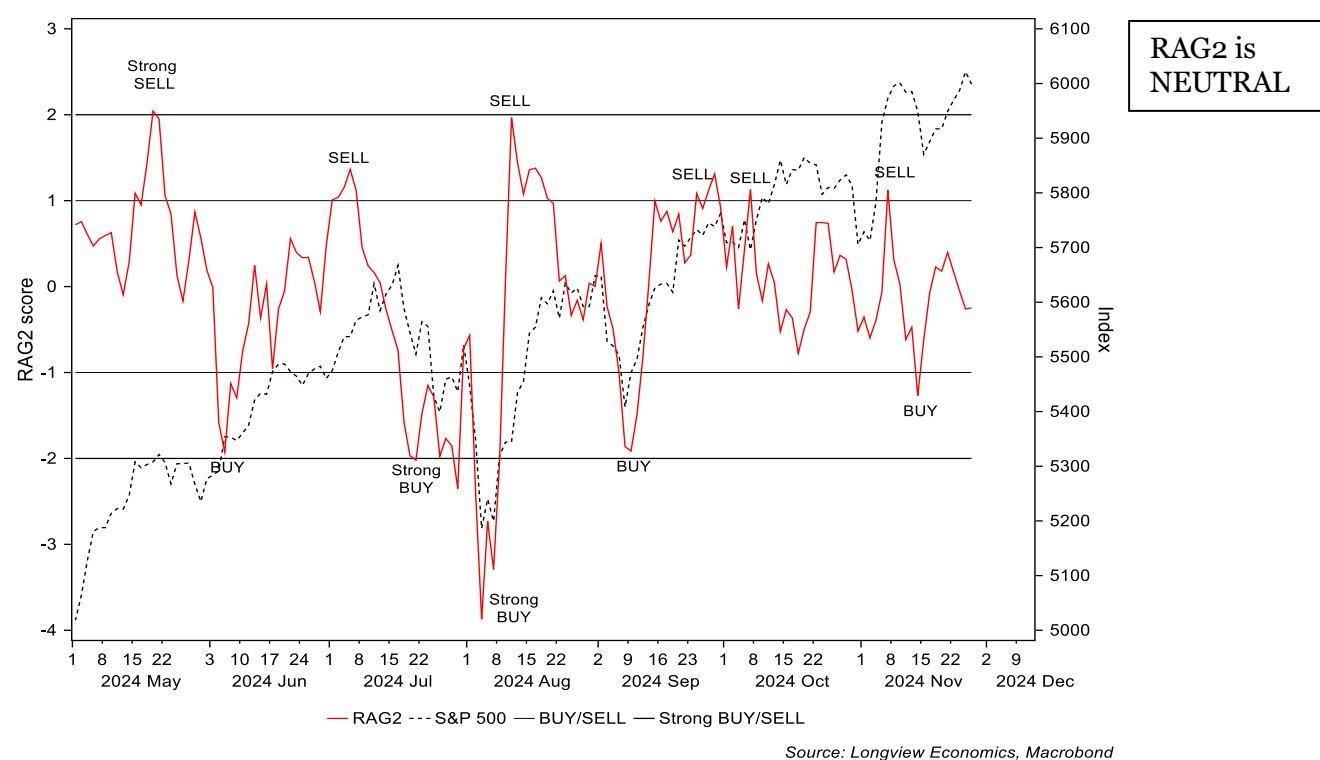
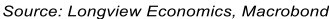


Fig 2b: RAG 2 vs. S&P 500

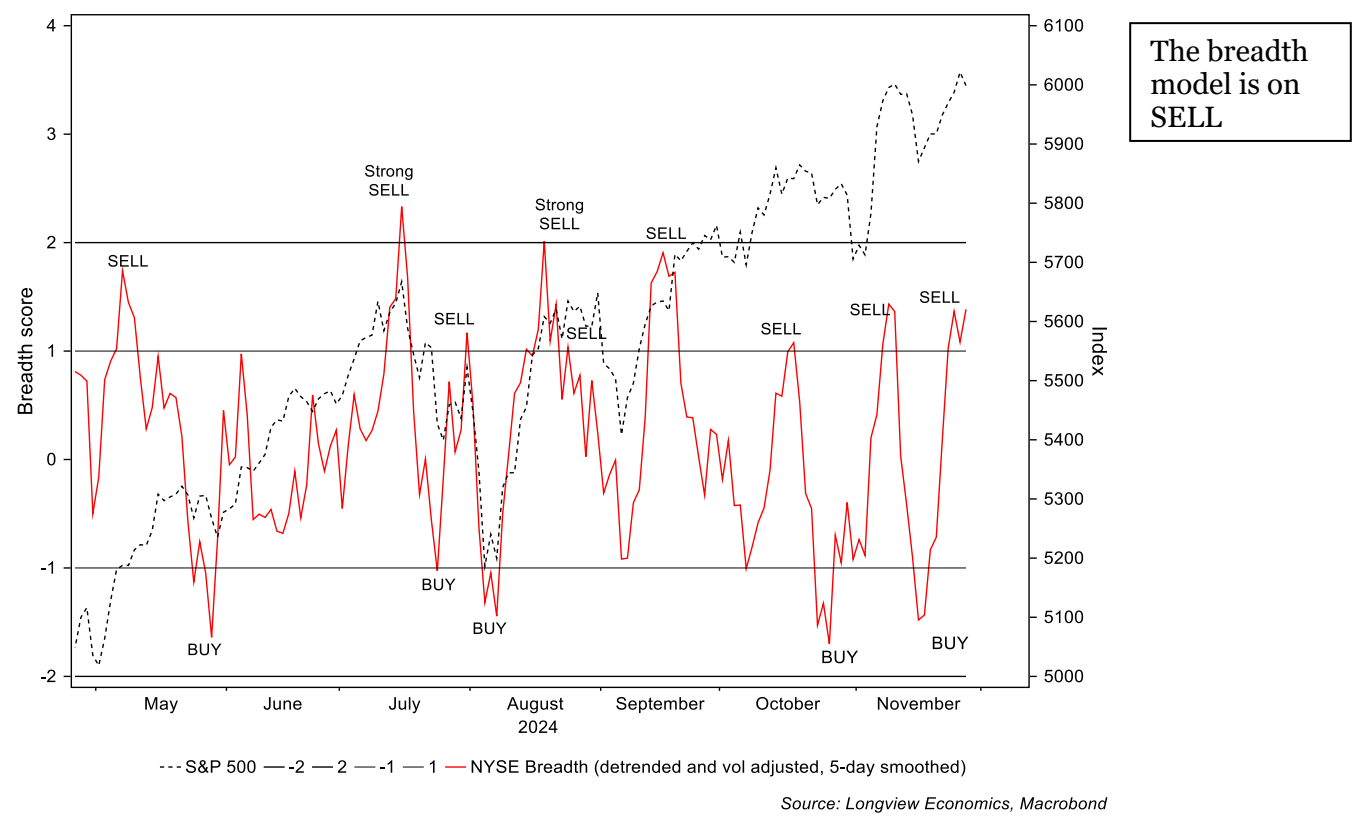


For explanations of indicators please see page 10





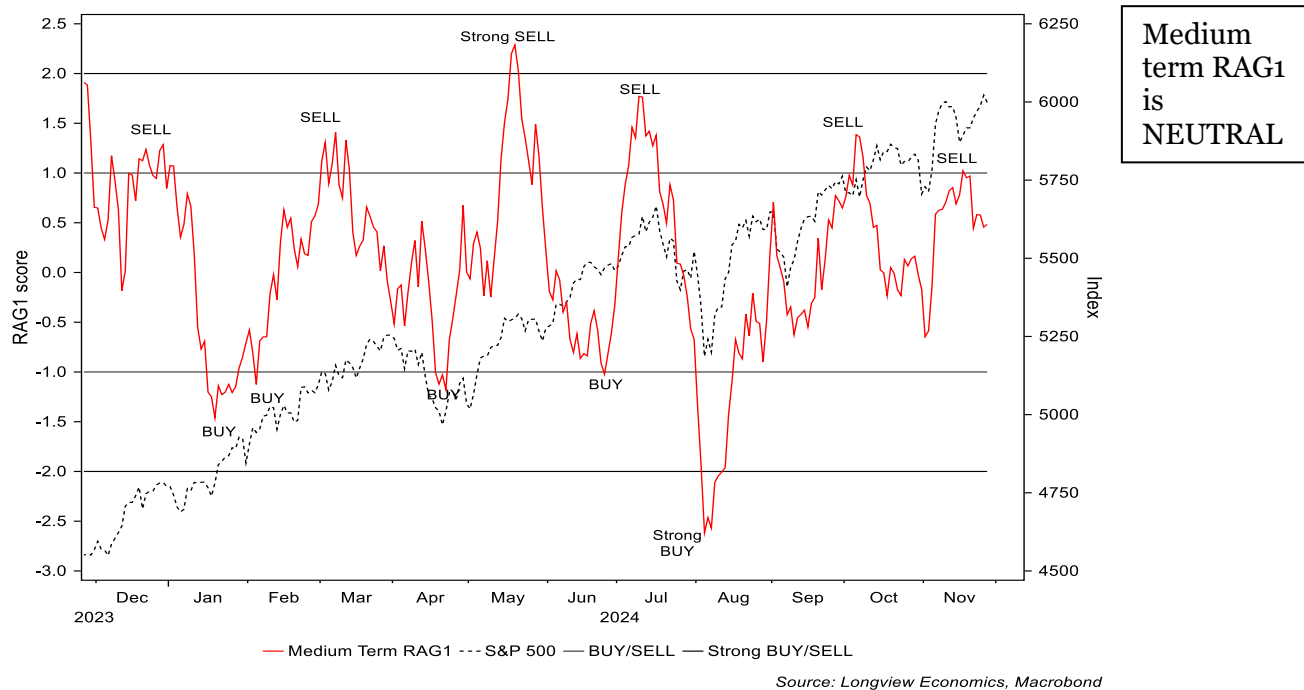
**Fig 2e:** Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



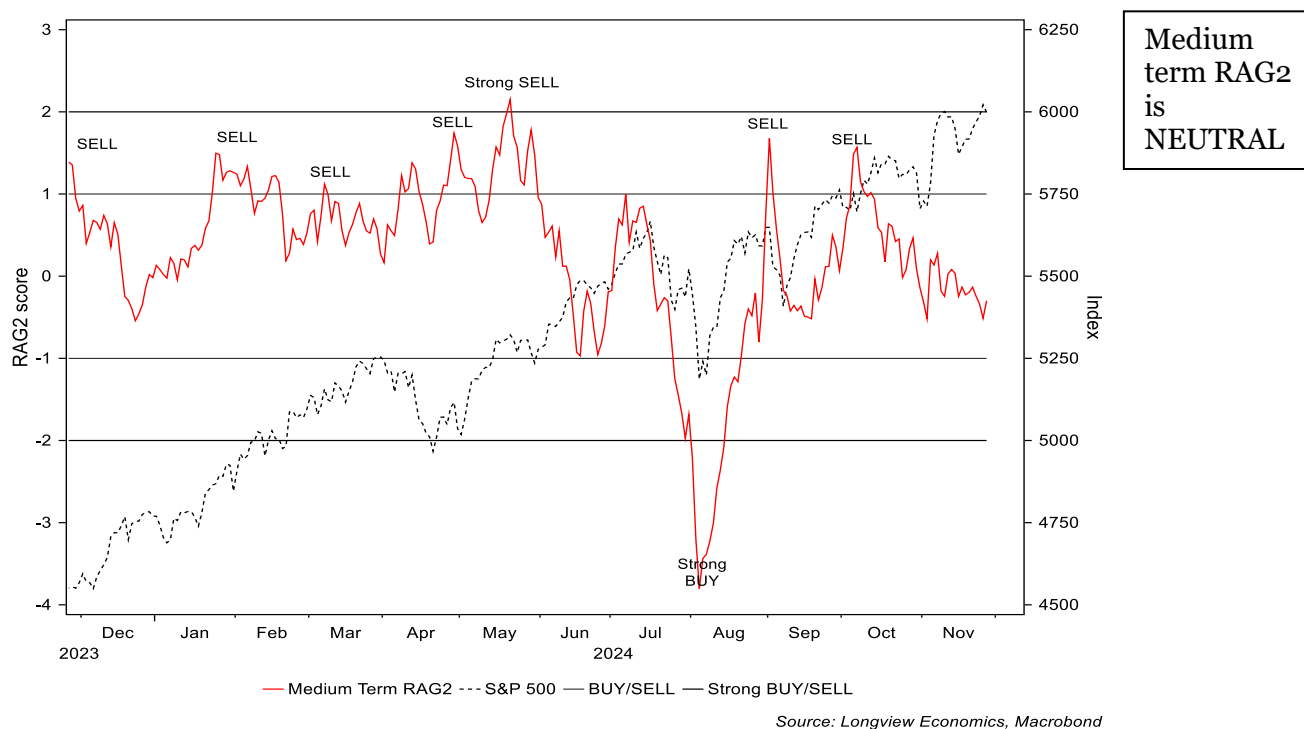
*For explanations of indicators please see page 10*

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

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

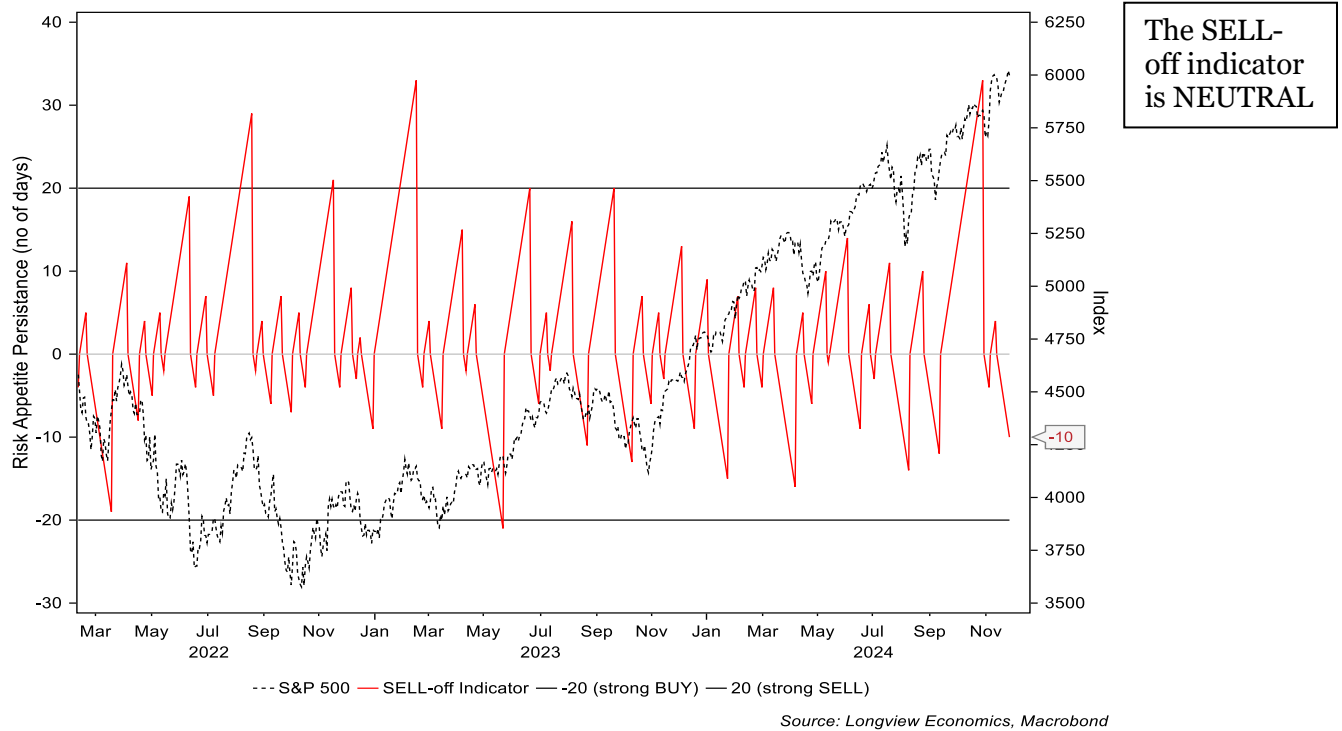


**Fig 3b:** Medium term RAG2 (1 – 2 month view) vs. S&P 500

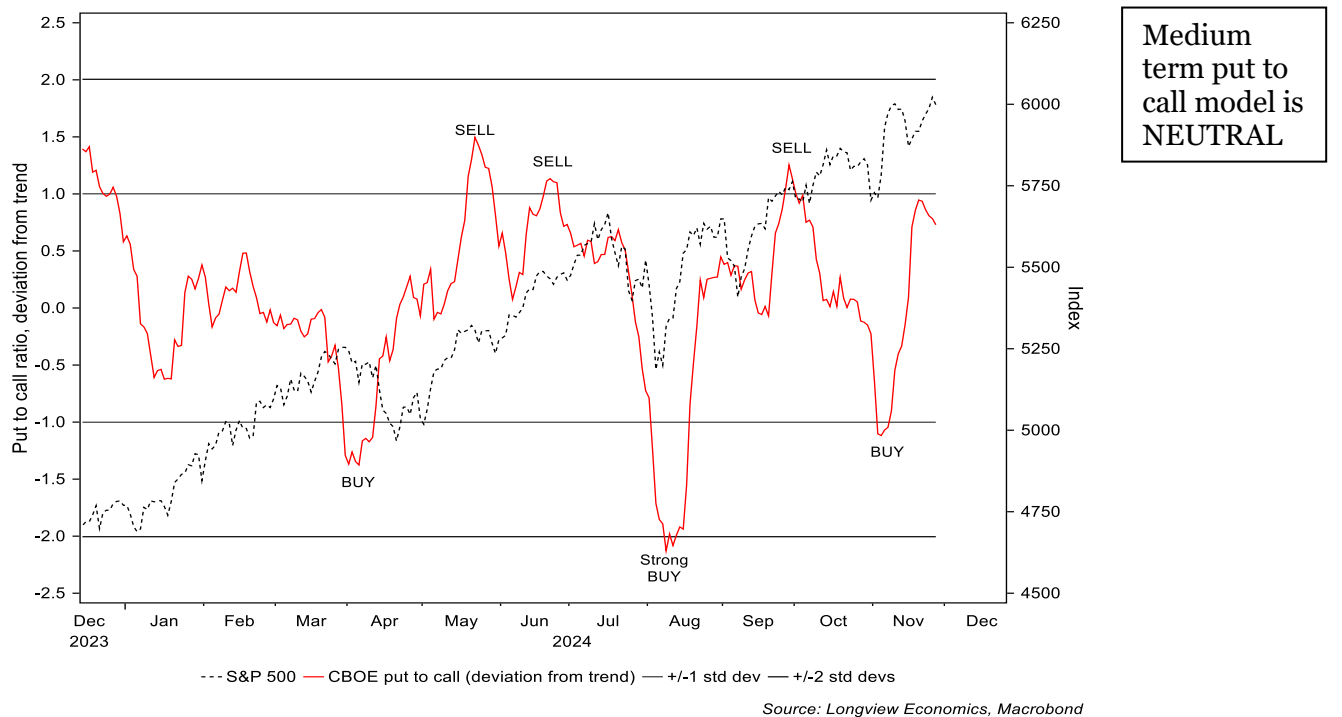


*For explanations of indicators please see page 10*

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

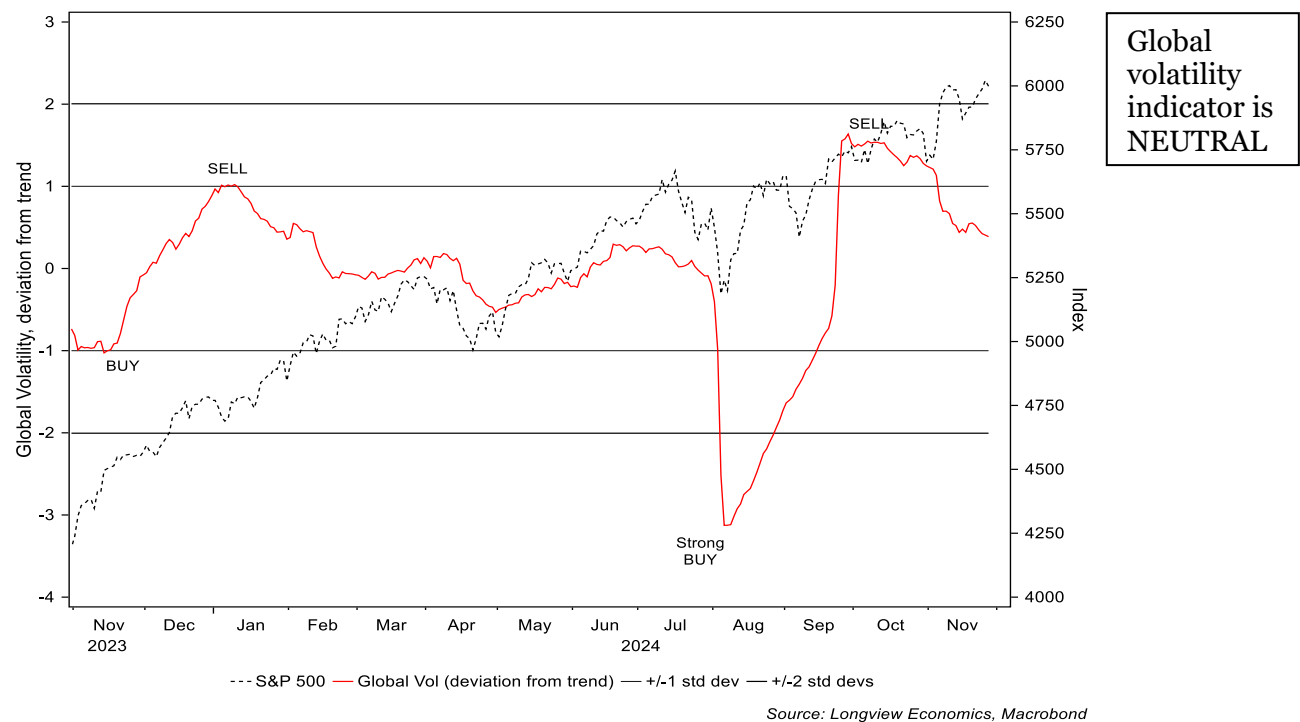


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

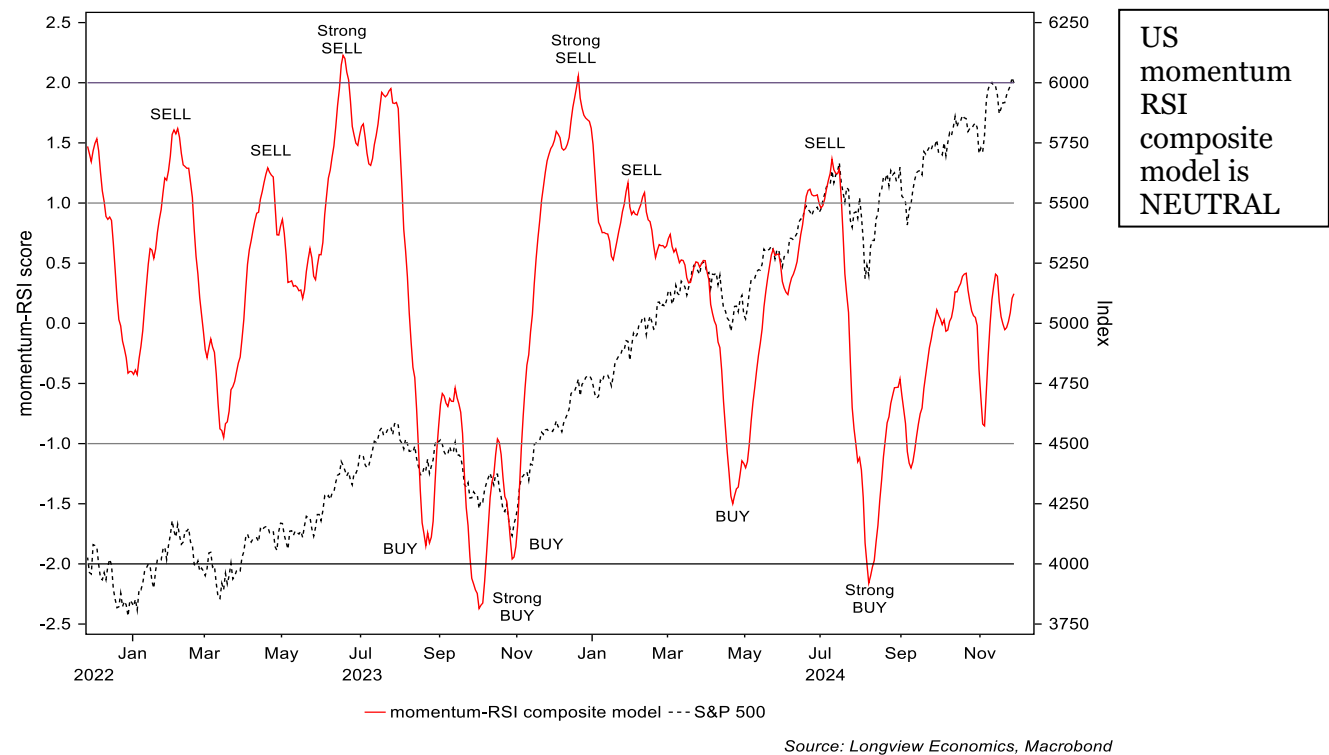


**For explanations of indicators please see page 10**

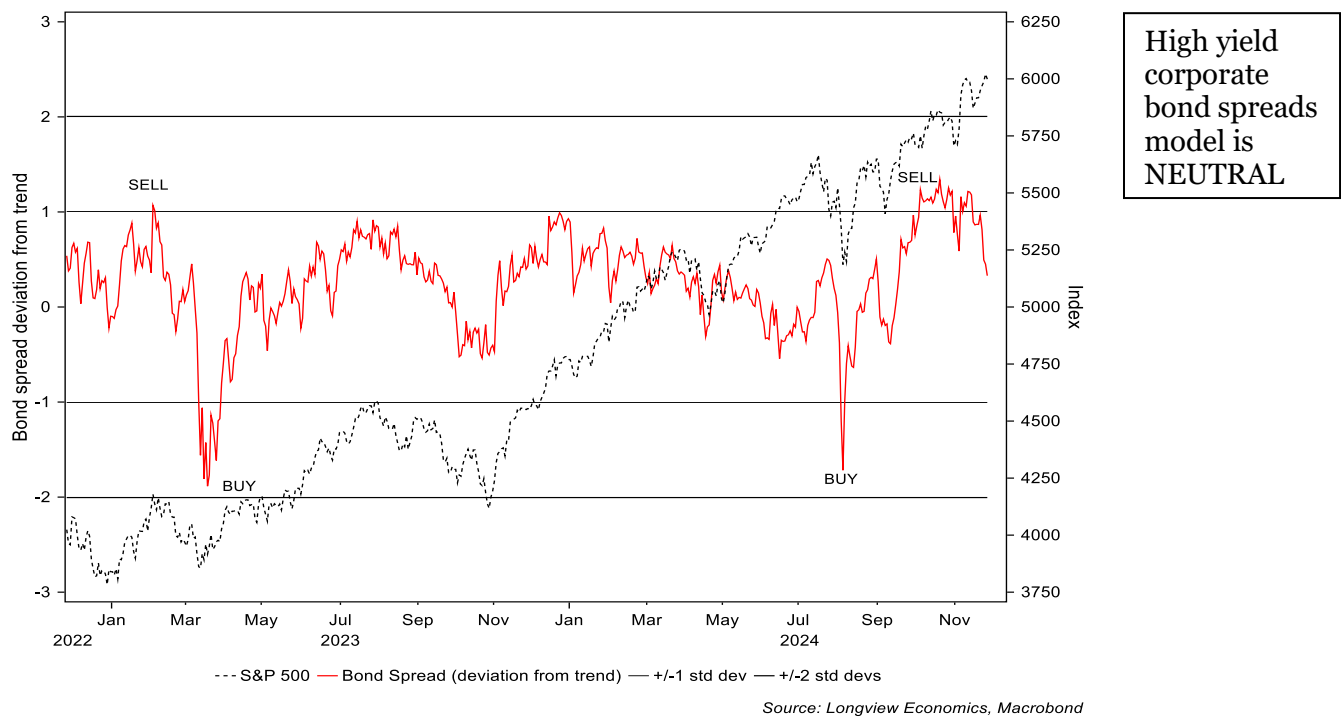
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



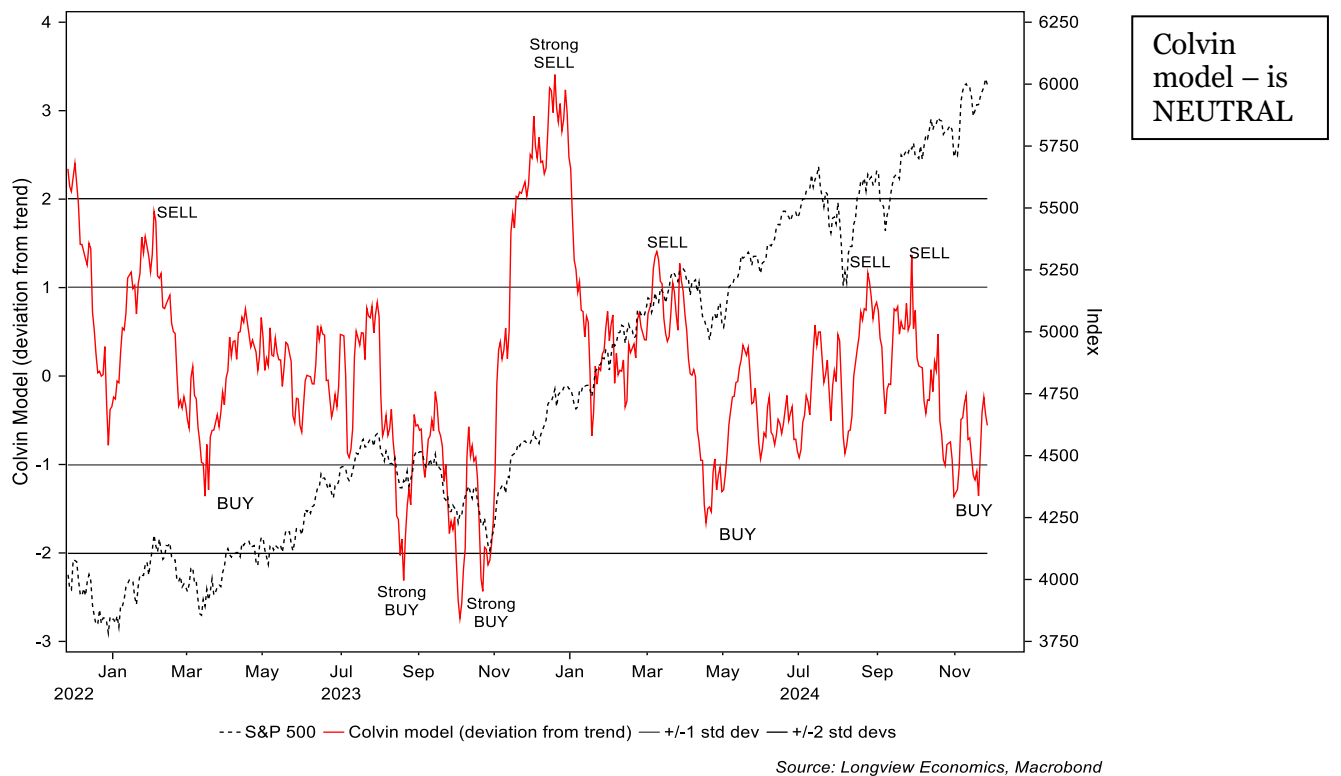
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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

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### **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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