

# Equity Index Futures Trading Recommendations

“WATCH & WAIT”

Email: [info@longvieweconomics.com](mailto:info@longvieweconomics.com)

29<sup>th</sup> January 2025

## Trading Recommendation (‘1 – 2’ week equity index trading recommendation)

- WATCH & WAIT

## Rationale

US equities rallied sharply yesterday, with markets seemingly dismissing the DeepSeek concerns/news. In particular, Nvidia closed up 8.9% while other MAG7 pushed higher. At an index level, therefore, the rally was led by ‘tech heavy’ indices including the NASDAQ100 (+1.6%); Nasdaq Composite (+2.0%); and Nasdaq Computer index (+3.4%). Cyclical and defensives, in contrast, edged lower. Elsewhere risk appetite in global markets remained reasonably strong. US high yield spreads, for example, tightened; certain commodities were strong (e.g. gold: +0.8% and silver: +0.7%), while key European indices closed up on the session (e.g. the Spanish IBEX: +1.3%; & FTSE250: +1.1%).

As such, and with the S&P500 up 0.9%, we were stopped out of our SHORT futures trade (for a small loss). NB entry was last Tuesday at 6,080, the stop was 6,104.

**Models update:** Despite rolling over, our short term models are still *leaning* towards SELL. Downside put protection in portfolios, for example, remains low (FIG 3); technical scoring systems remain close to SELL (e.g. see FIGs 4 & 4a); risk appetite models have recently generated SELL signals (e.g. see FIG 2); while some breadth/price based indicators are still on/close to SELL levels (e.g. see 5 & 5a). Summarising those signals, our combined ‘short plus medium term’ scoring system still has a SELL bias (and has recently generated a SELL signal – FIG 1a). From a models’ perspective, therefore, near term risks remain tilted to the downside.

Added to which, our SELL-off indicator has been building towards high levels (and is currently on a reading of +16). When it reaches +20 it warns of a wave of risk aversion in global markets (i.e. potentially in four trading days’ time). Of note, though, and while that model is *starting* to signal caution, risk assets often squeeze higher as the indicator is moving towards its +20 threshold (i.e. as complacency and euphoria in markets continue to build). Of note, in that respect, Nvidia remains relatively oversold (FIG 1d), while key leadership indices like the NDX100 & Philly SOX appear to have found support at key levels (e.g. see FIG 1c).

On balance, therefore, and having been stopped out of our trade yesterday, the risk reward favours WATCHing & WAITing for now.

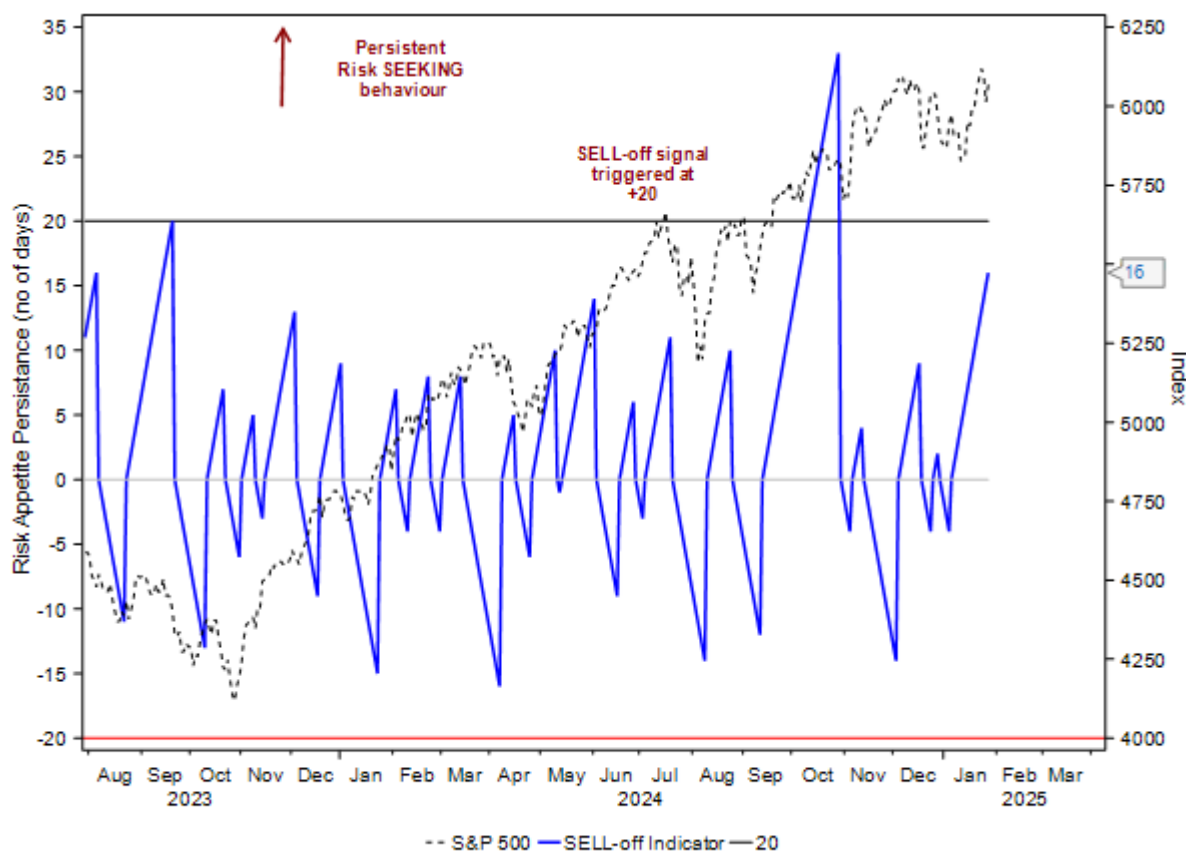
Two way risks today are multiple and include tonight's Fed policy decision (7pm London time) and press conference (7.30pm). There are also several key earnings reports today, including Microsoft, Meta, Tesla, and IBM (amongst others). Please see below for a full list of today's key macro data, events, and US earnings reports.

Kind regards,

The team @ Longview Economics

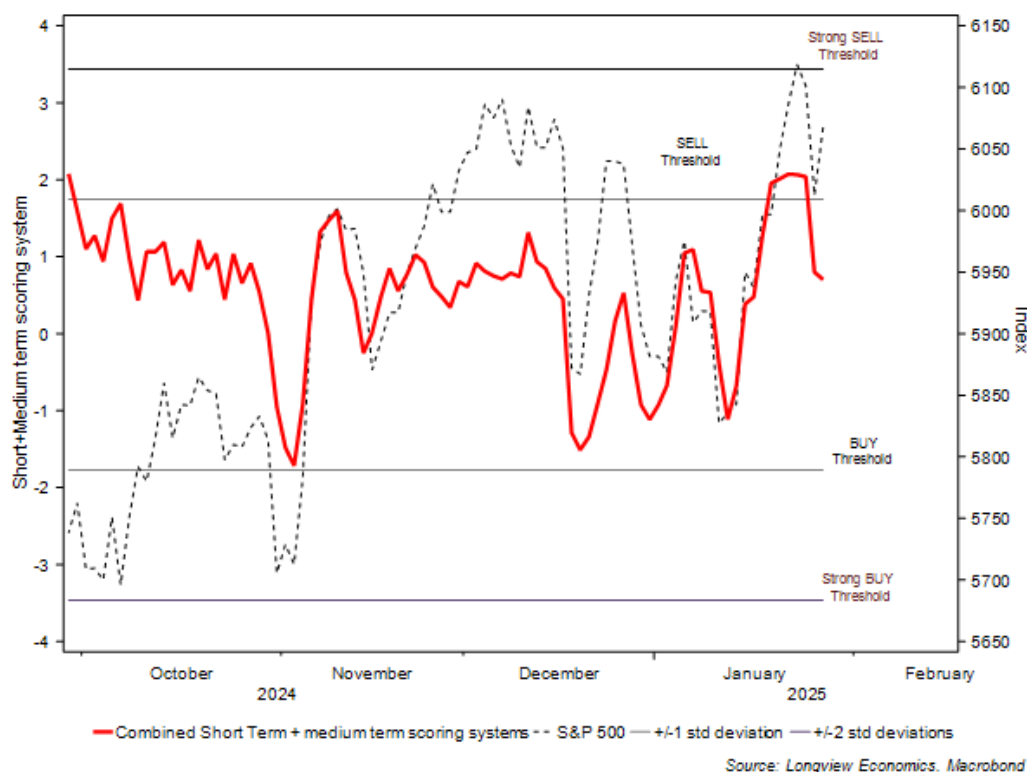
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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: Longview SELL-off indicator vs. S&P500**



Source: Longview Economics, Macrobond

**FIG 1a:** Combined short and medium term ‘risk appetite’ scoring system vs. S&P500



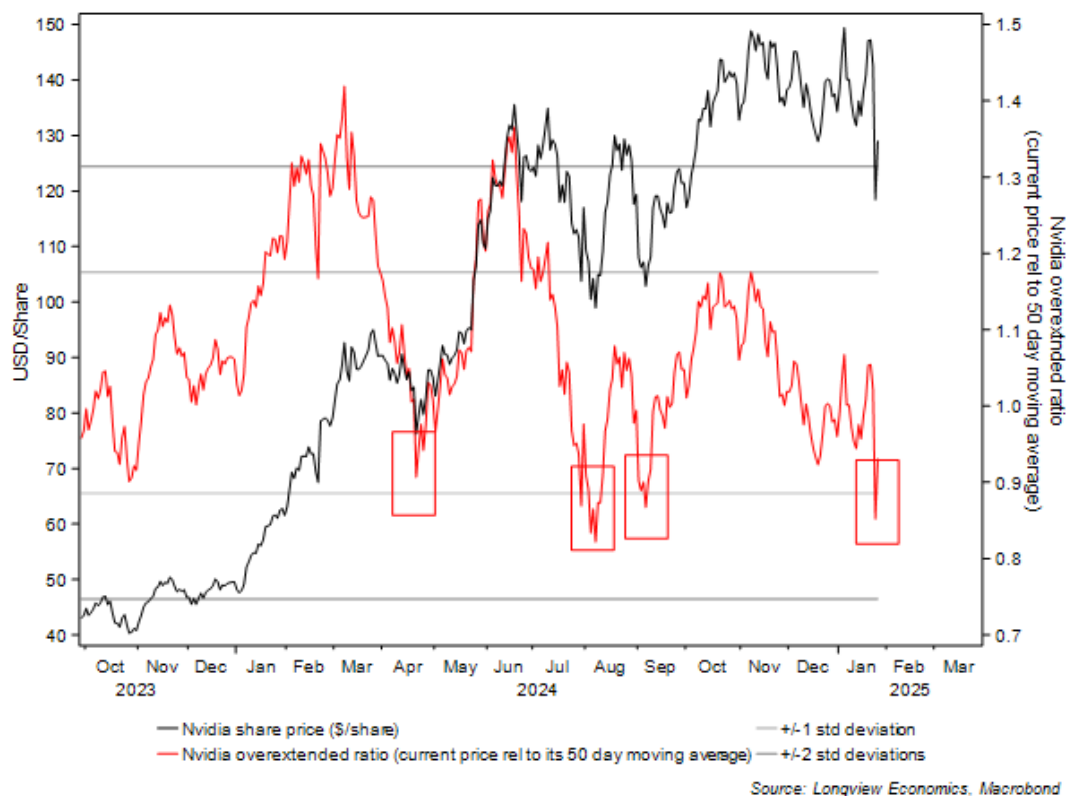
**FIG 1b:** S&P500 March 2025 futures 60-day tick chart shown with overnight price action



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

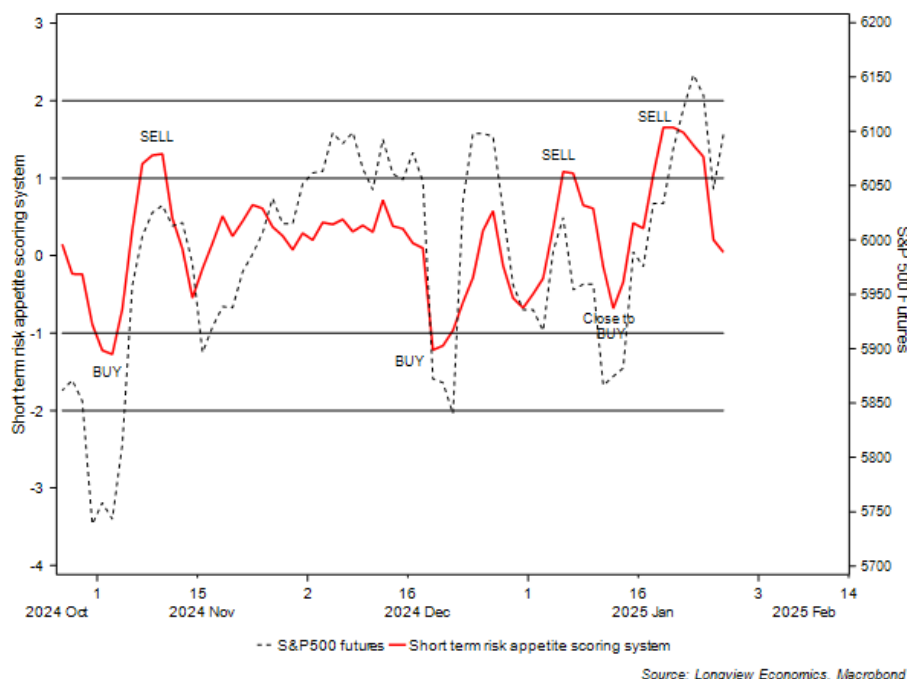


**FIG 1d:** Nvidia overextended ratio (current price rel. to its 50 day moving average) vs. Nvidia share price (USD/share)



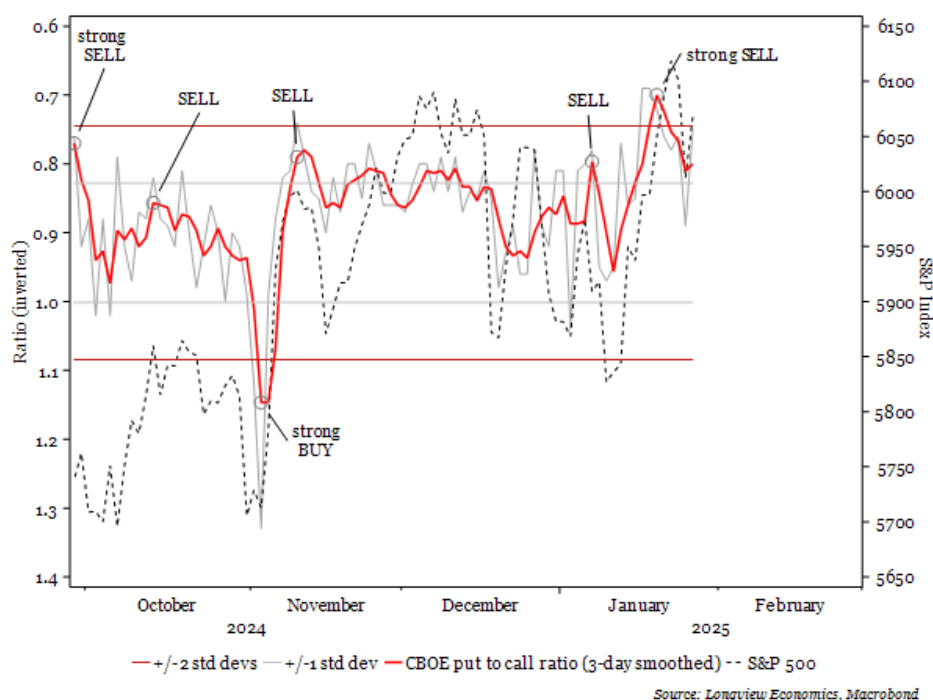
**Risk appetite models have recently been on SELL...**

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

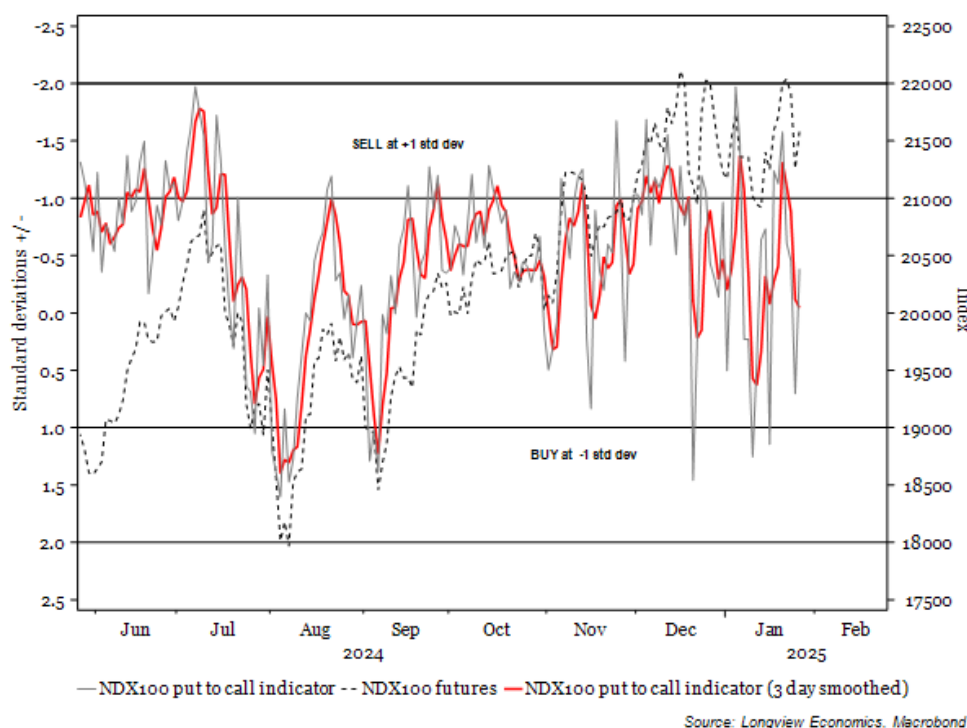


**Put to call models have recently been on SELL/strong SELL.....**

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

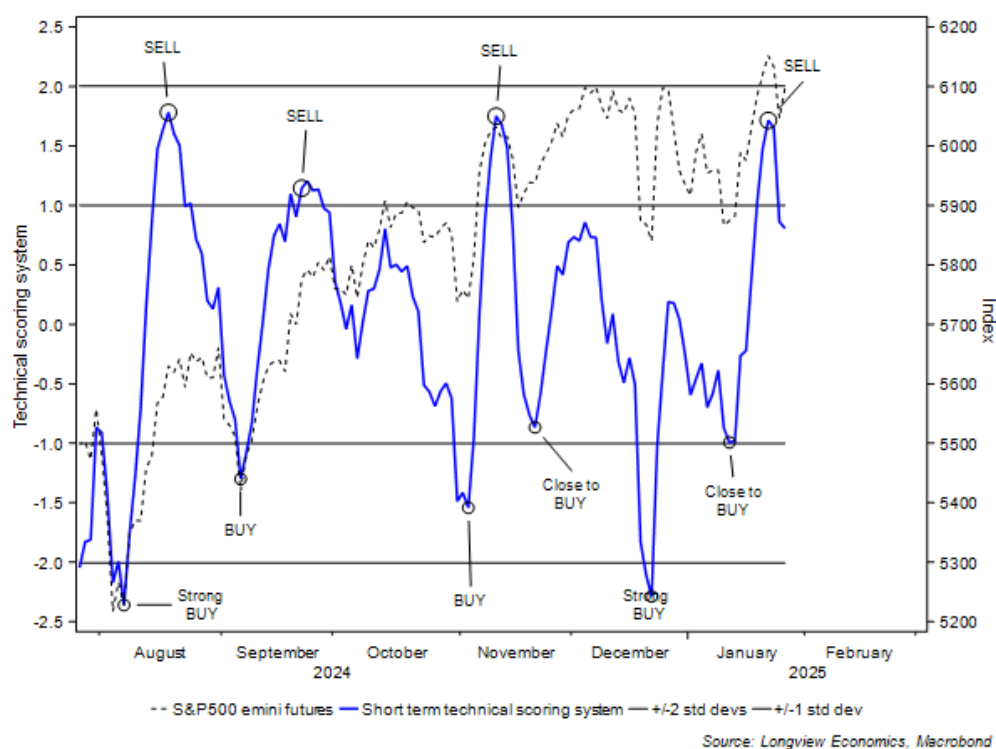


**FIG 3b:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

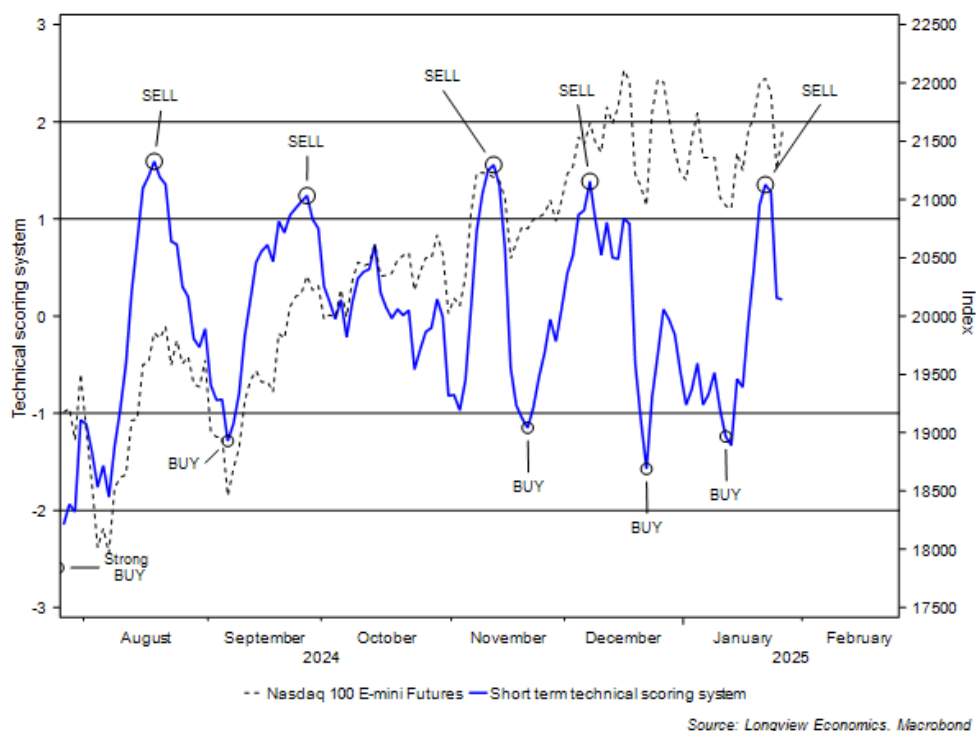


**Technical models (for indices) have a SELL bias (overall)....**

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

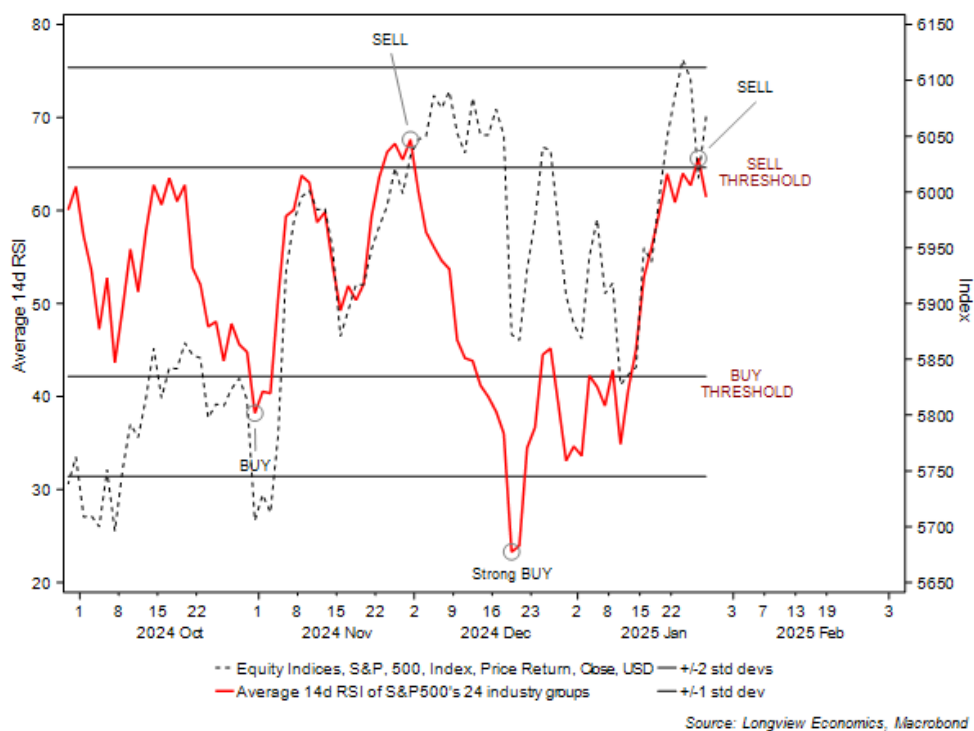


**FIG 4a:** Longview NASDAQ100 short term **‘technical’** scoring system vs. NASDAQ100 futures



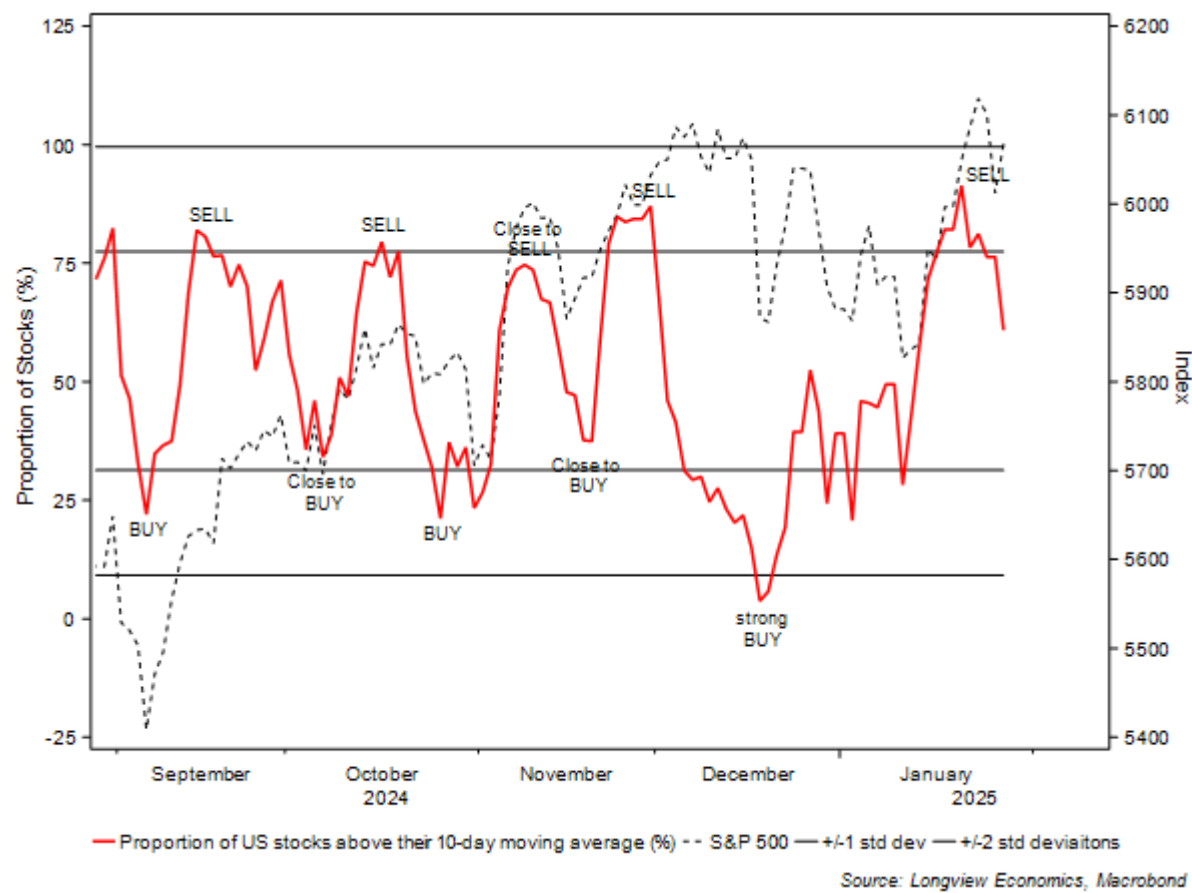
**Sector and single stock technical models are close to SELL....**

**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



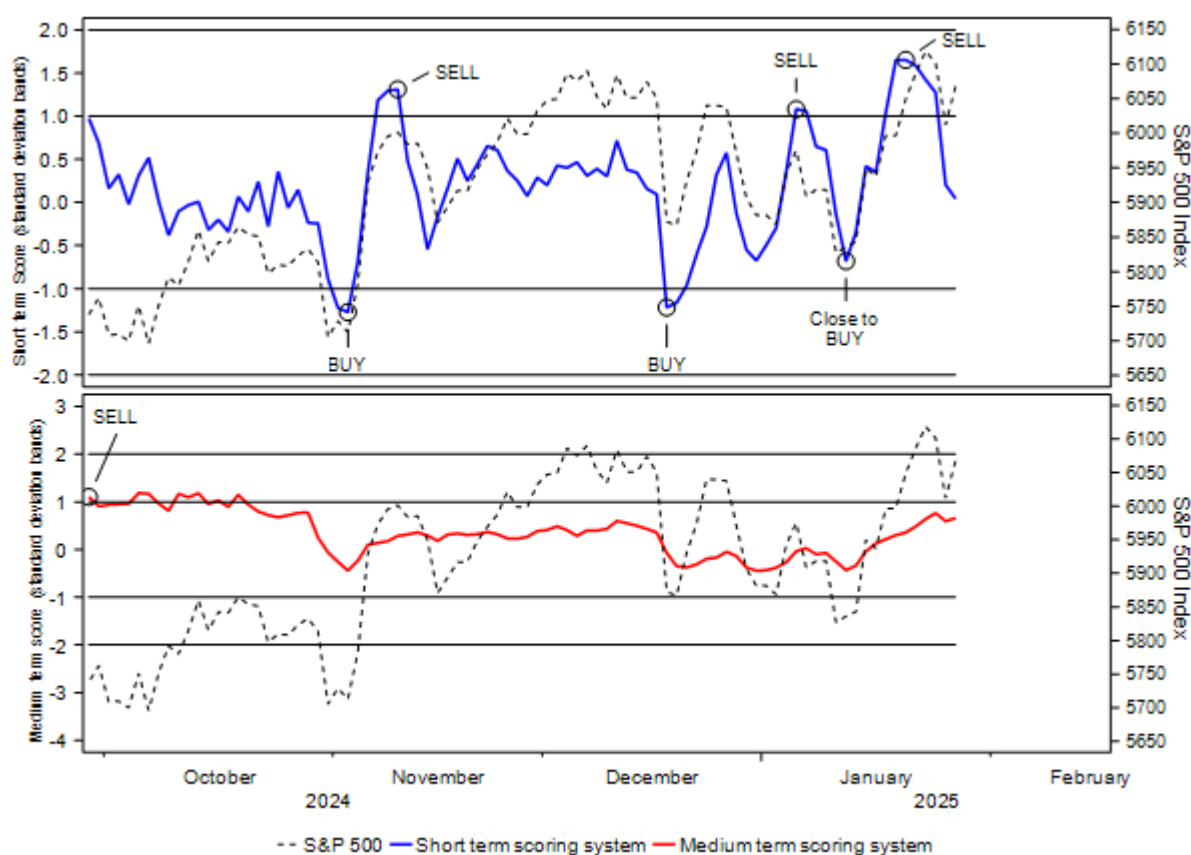


### Key Longview Scoring Systems (chart below):

**Short term** (1 – 2 week) scoring system: **NEUTRAL** (from SELL earlier this week)

**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: **Japanese ESRI consumer confidence** (Jan, 5am); **Spanish GDP** (Q4 first estimate, 8am); **Eurozone M3 money supply** (Dec, 9am); Italian ISTAT consumer & manufacturing confidence (Jan, 9am); US wholesale & retail inventories (December first estimate, 1:30pm).

**Key events** today include: **Fed policy decision** (7pm) followed by press conference (7:30pm); **Bank of Canada policy decision** (2:45pm); market holidays in various Asian countries e.g. China on account of Chinese New Year (Tues – Fri).

**Key earnings** today include: **Microsoft, Meta Platforms, Tesla**, T-Mobile US, ServiceNow Inc, IBM, Danaher, Progressive, ADP, Lam Research, Waste Management, General Dynamics, Norfolk Southern, **Volvo**, SEB, **ASML Holding, Alibaba**, MediaTel, Sumitomo Mitsui Financial, Shin-Etsu Chemical, Advantest 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 15<sup>th</sup> January 2025. 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

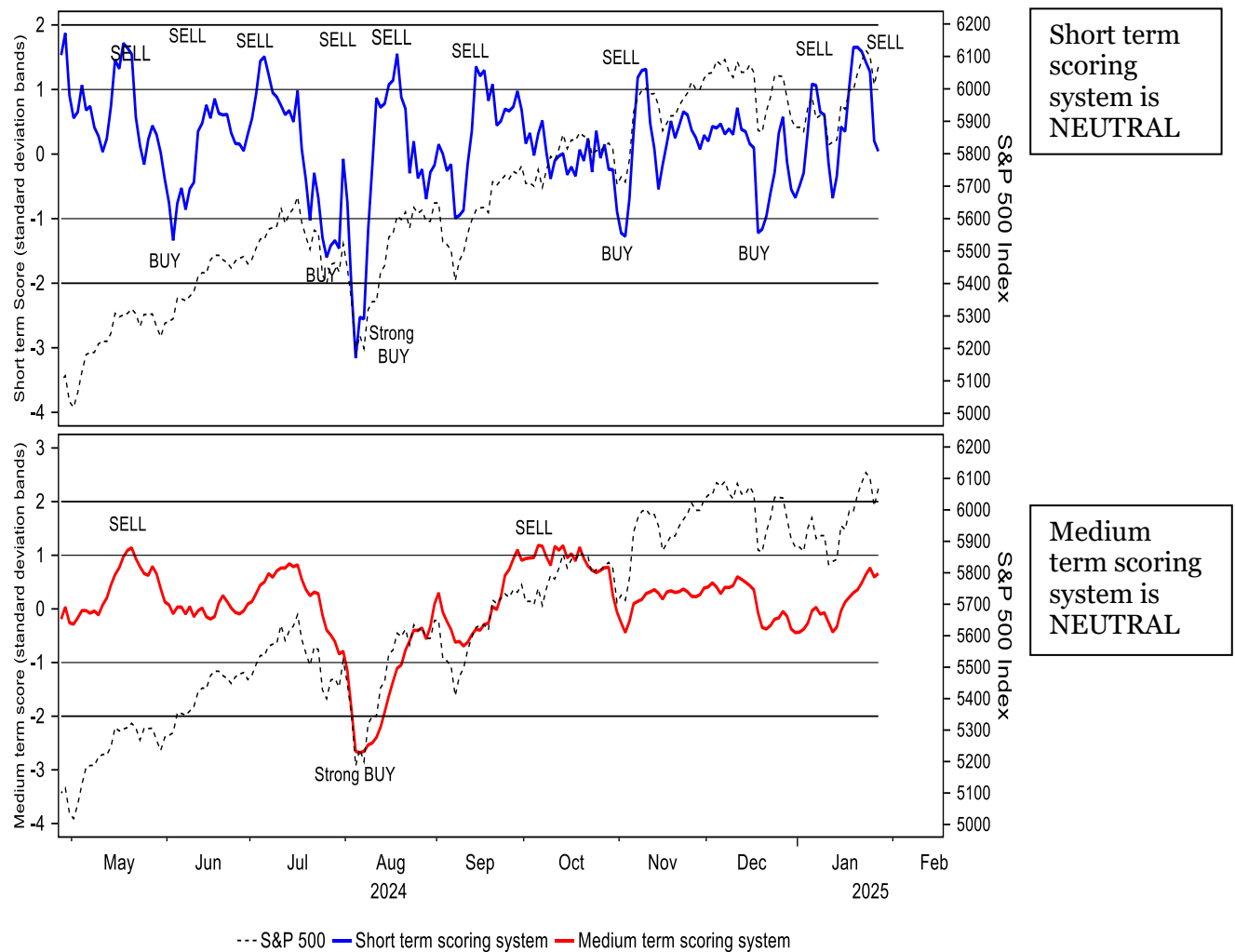
Longview Economics

Email: [research@longvieweconomics.com](mailto:research@longvieweconomics.com)

29<sup>th</sup> January 2025

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

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



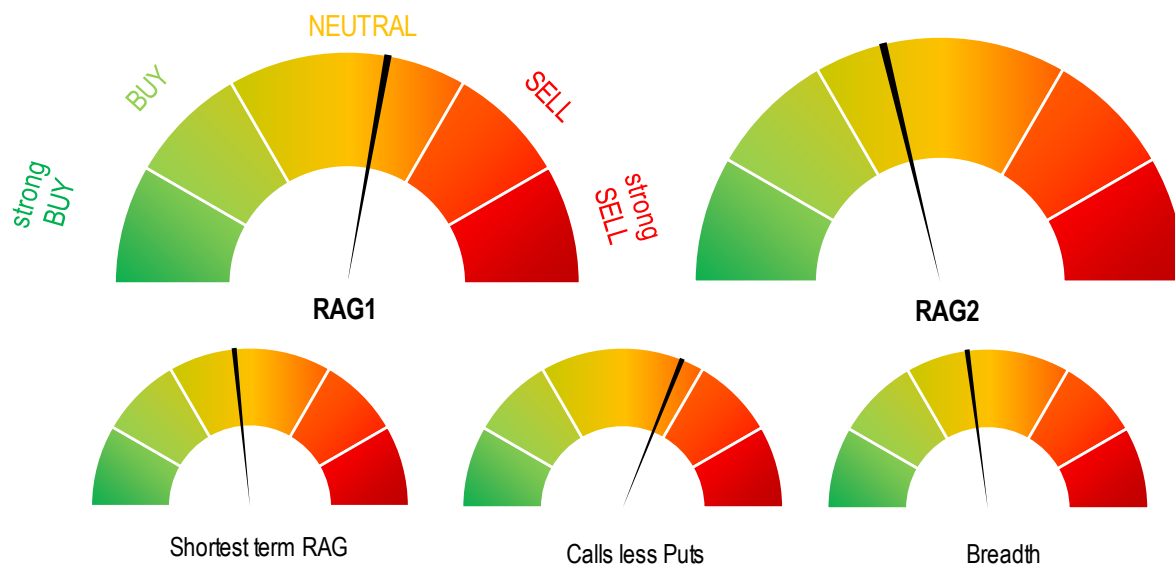
Source: Longview Economics, Macrobond

\*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**

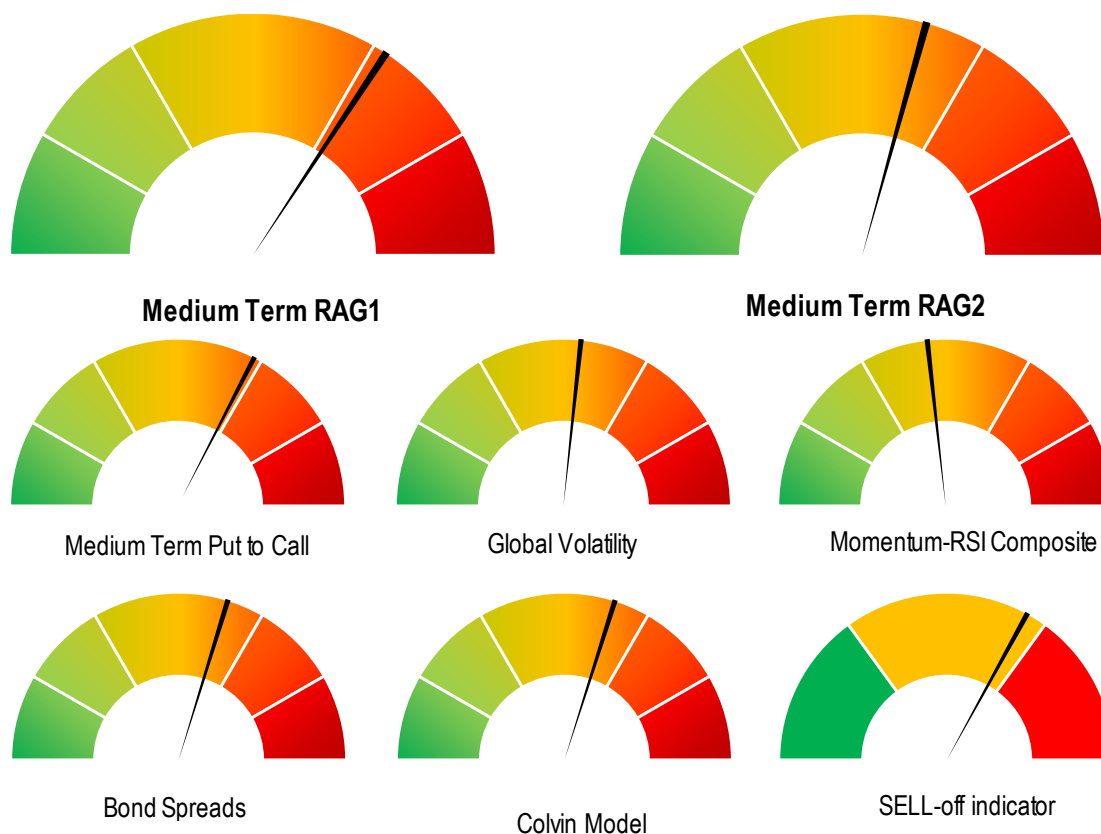
## Section 1a: Summary of indicator signals\*\*

**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

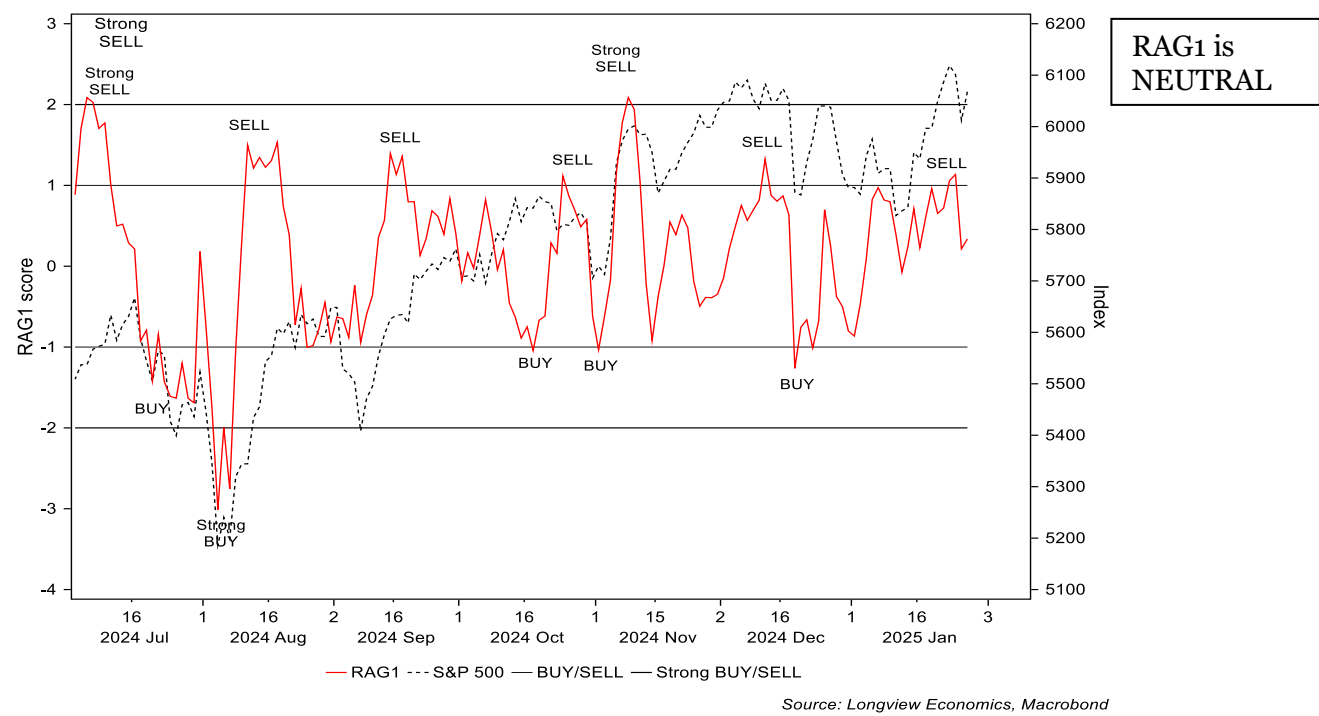
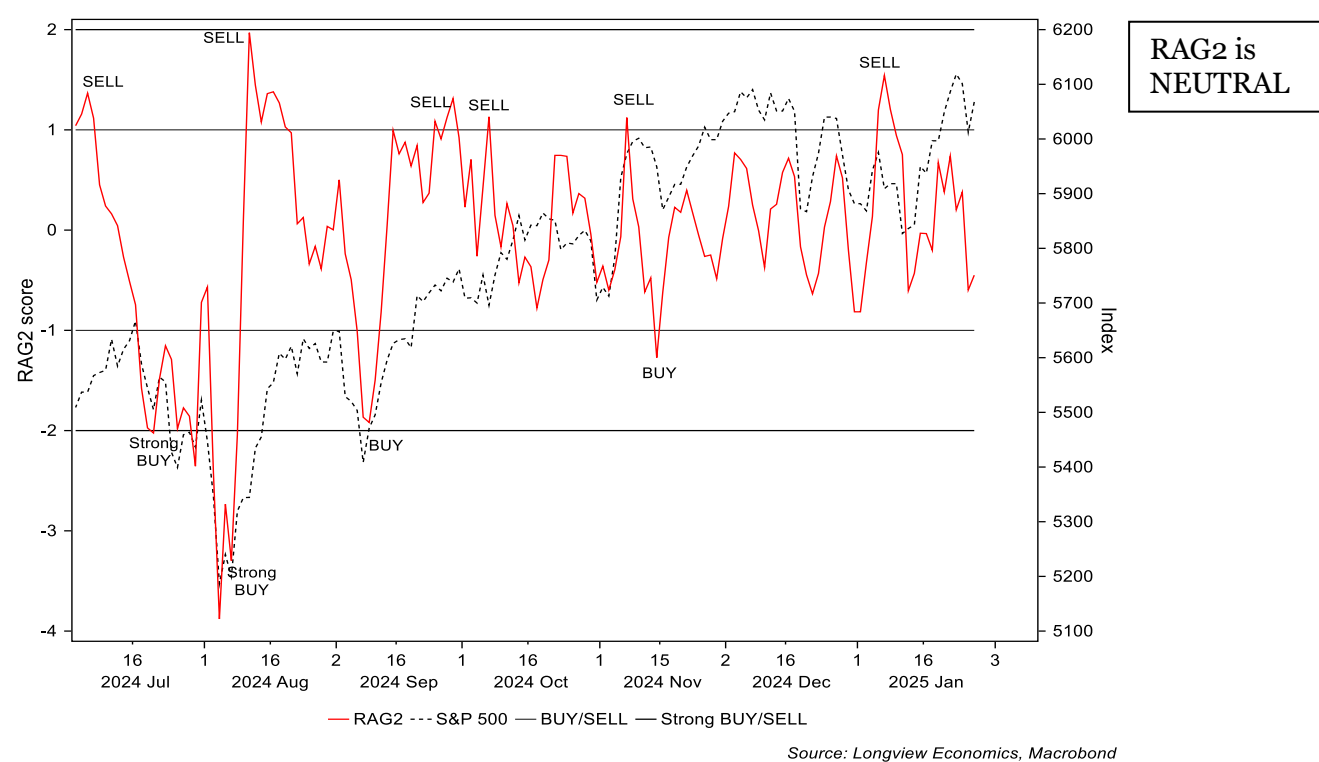
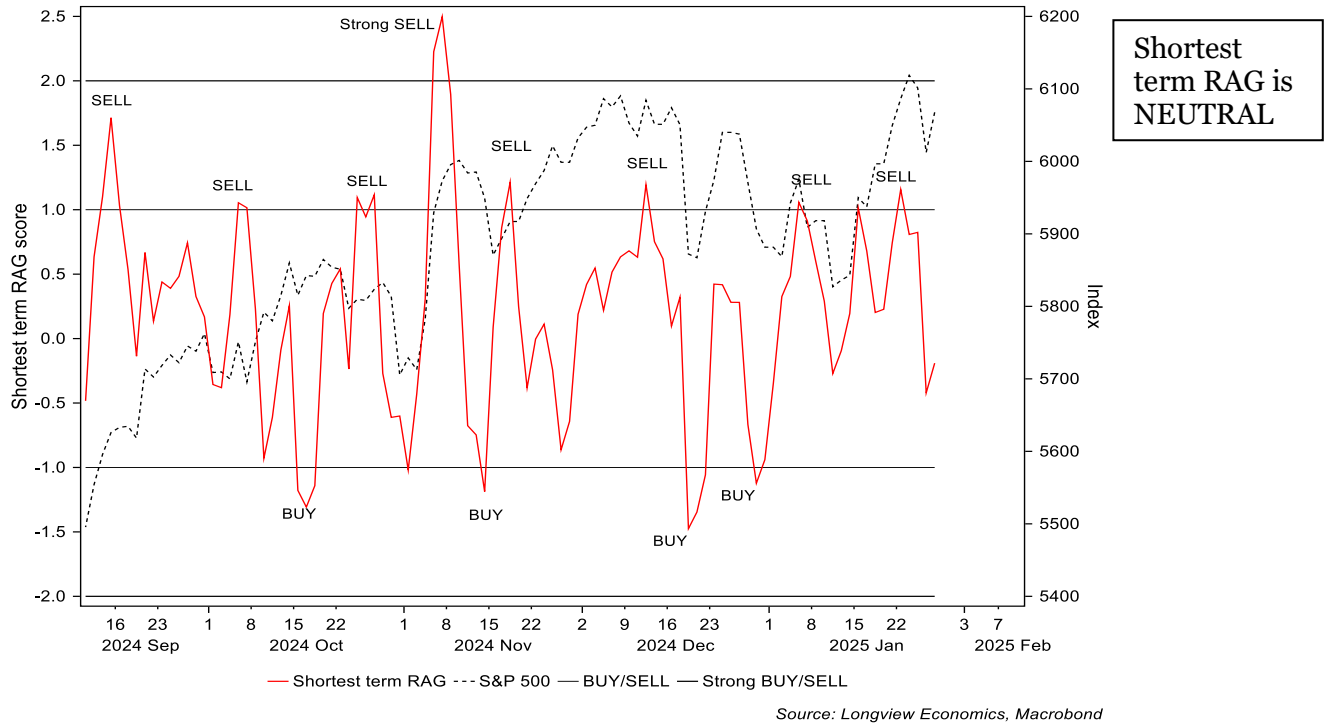


Fig 2b: RAG 2 vs. S&P 500

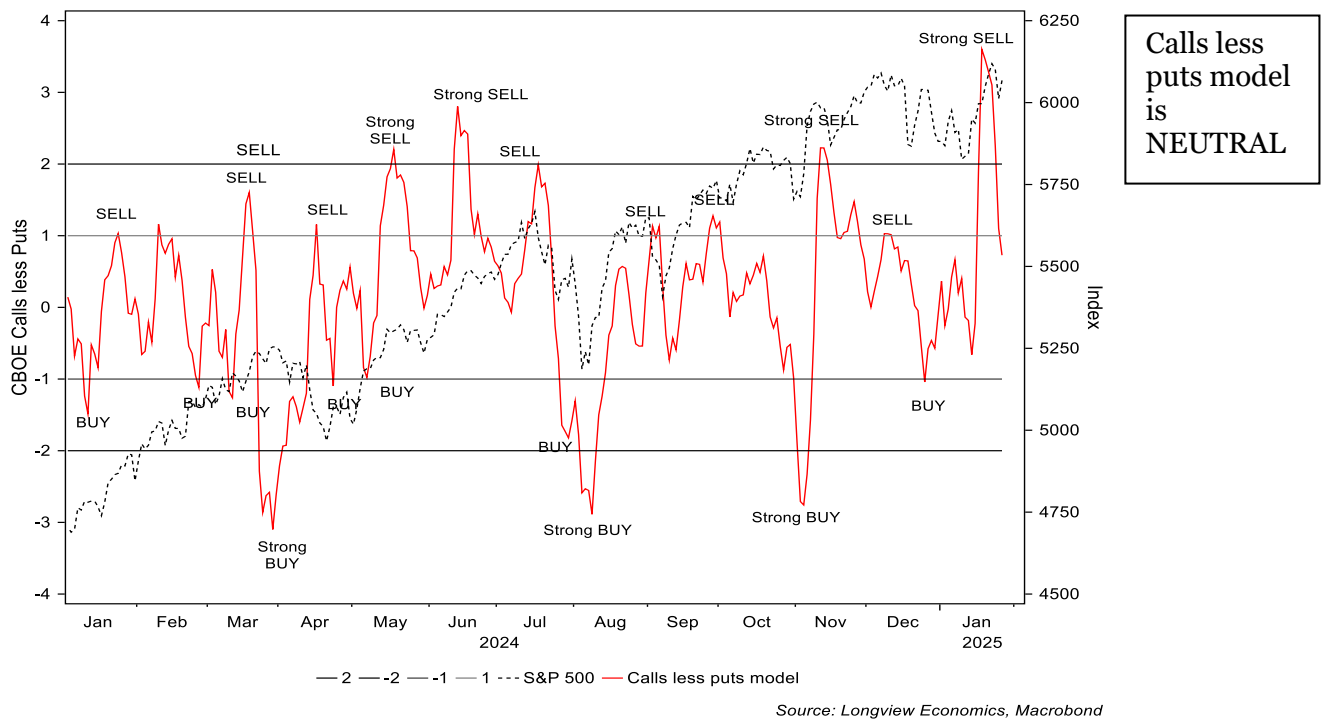


For explanations of indicators please see page 10

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

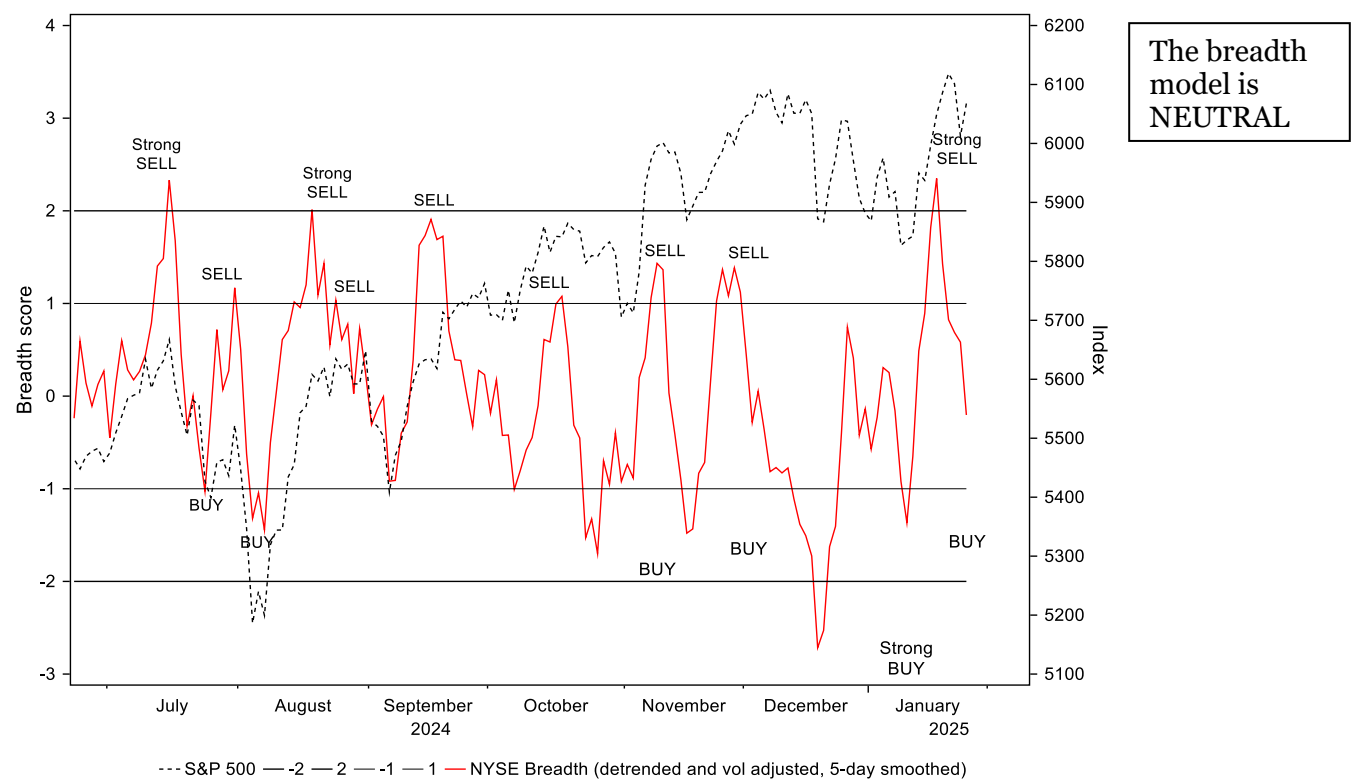


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



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

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



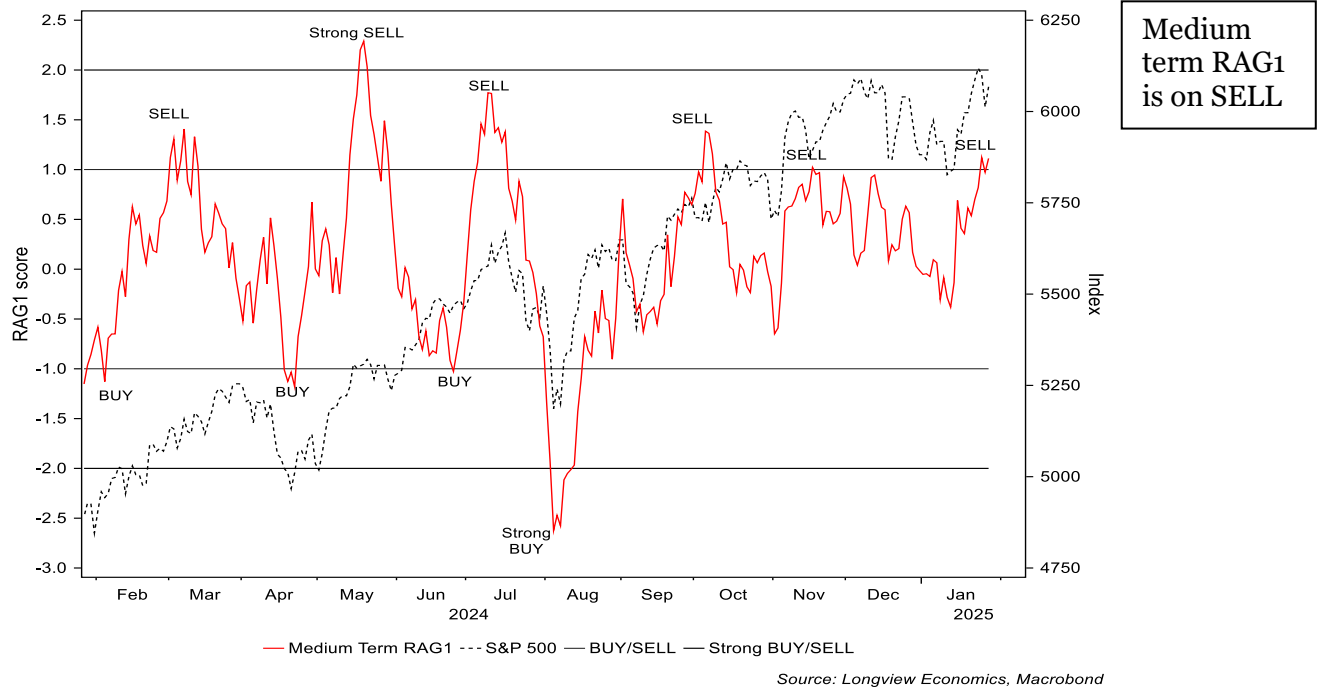
Source: Longview Economics, Macrobond

*For explanations of indicators please see page 10*

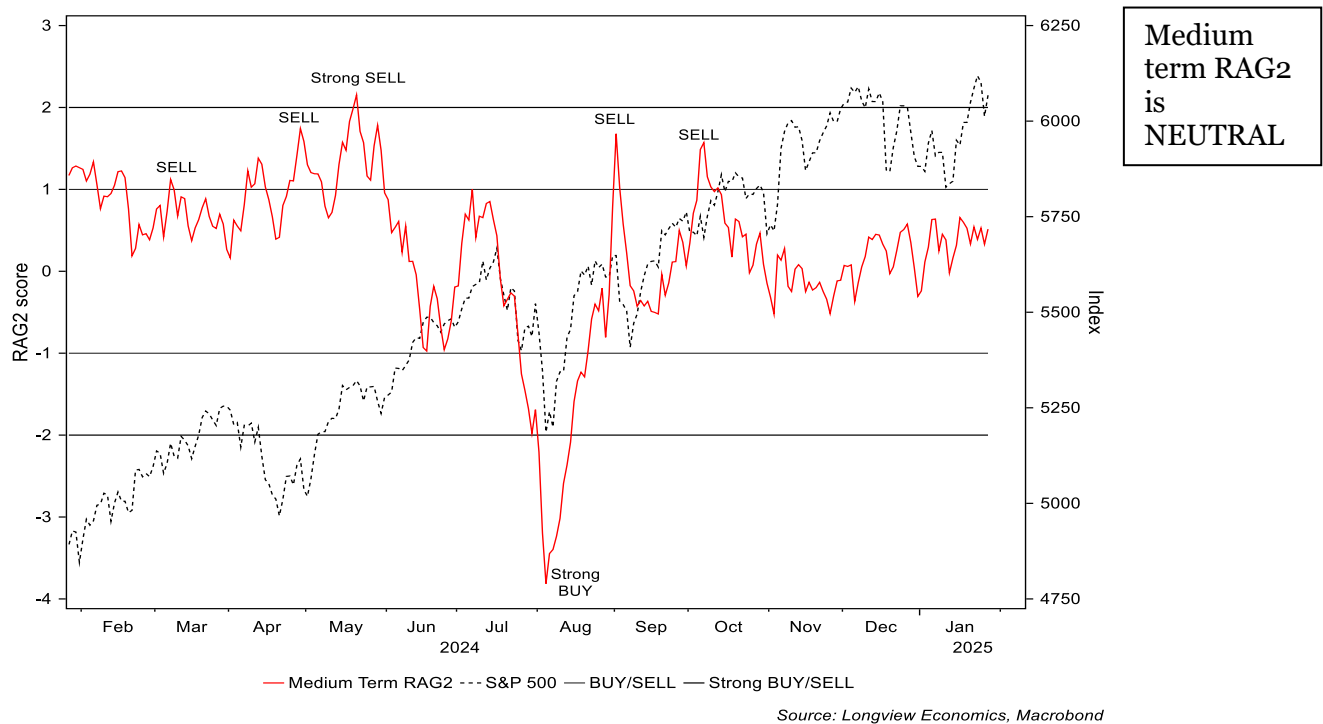


### Section 3: Medium term (1 – 4 month) outlook

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

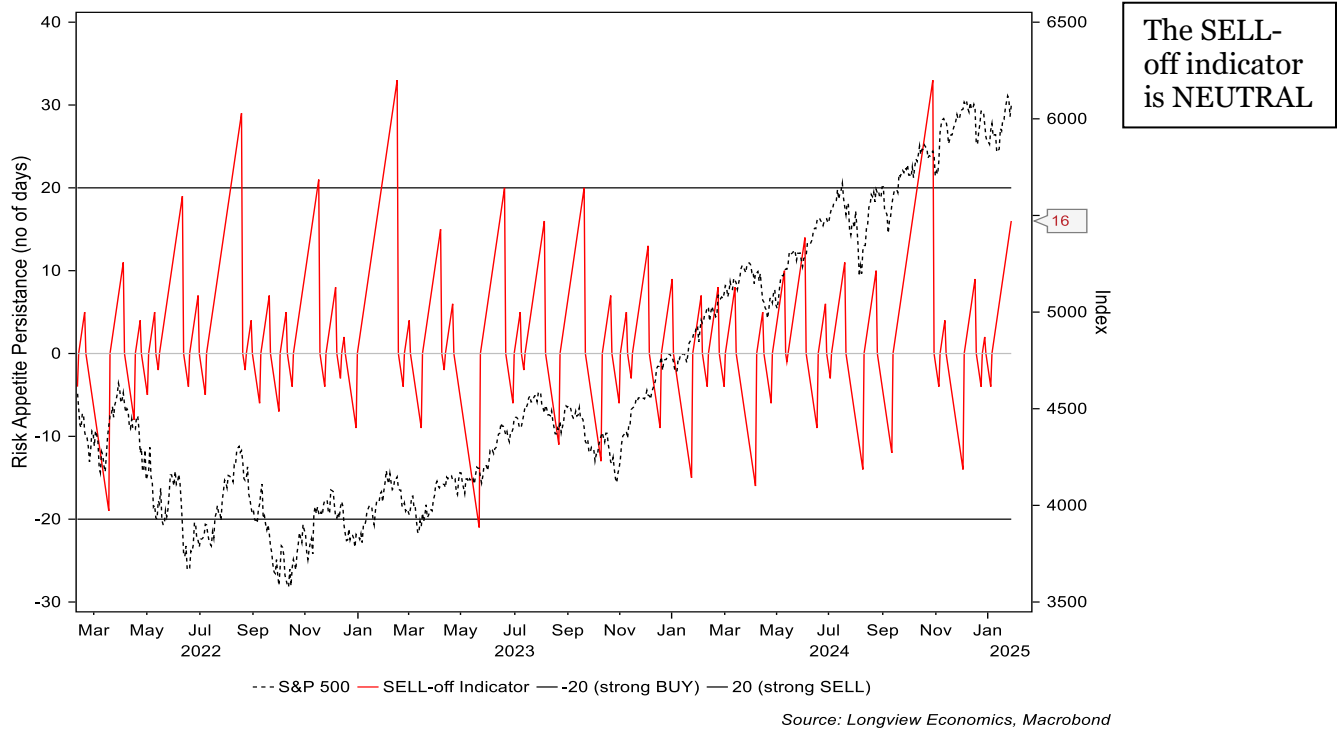


**Fig 3b:** Medium term RAG2 (1 – 4 month view) vs. S&P 500

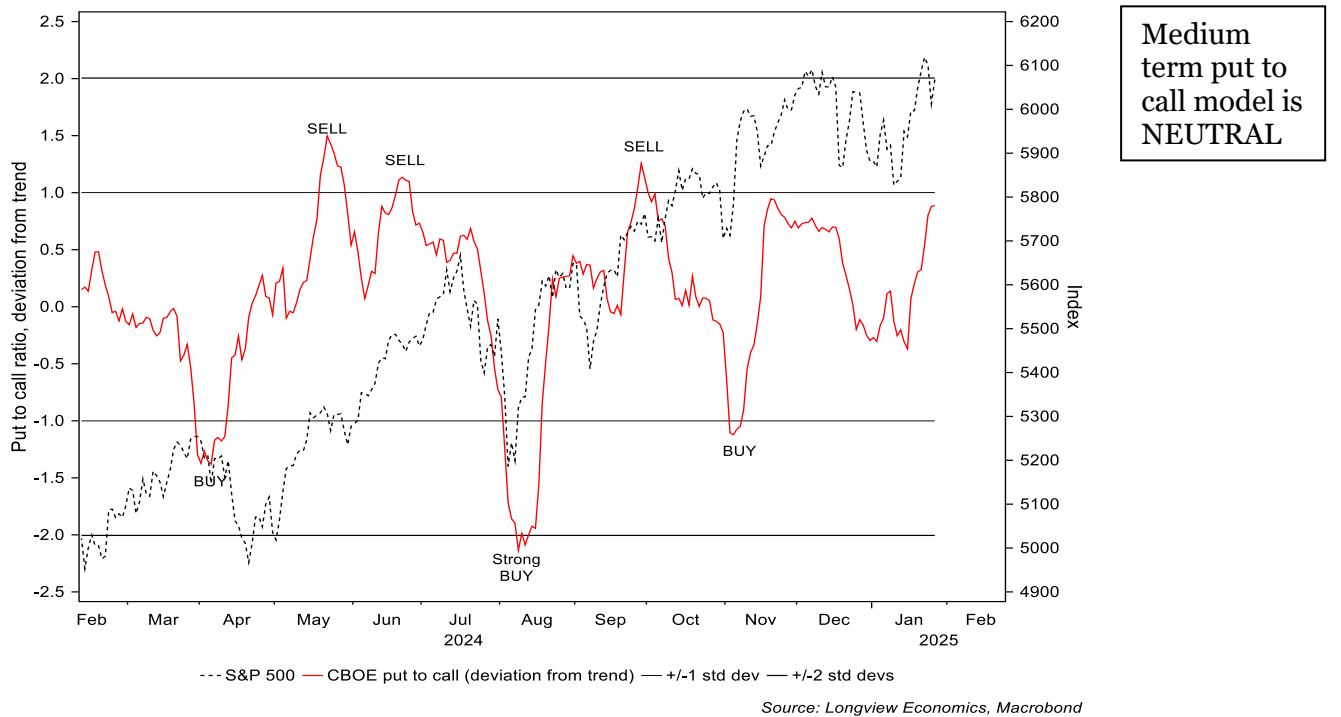


*For explanations of indicators please see page 10*

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

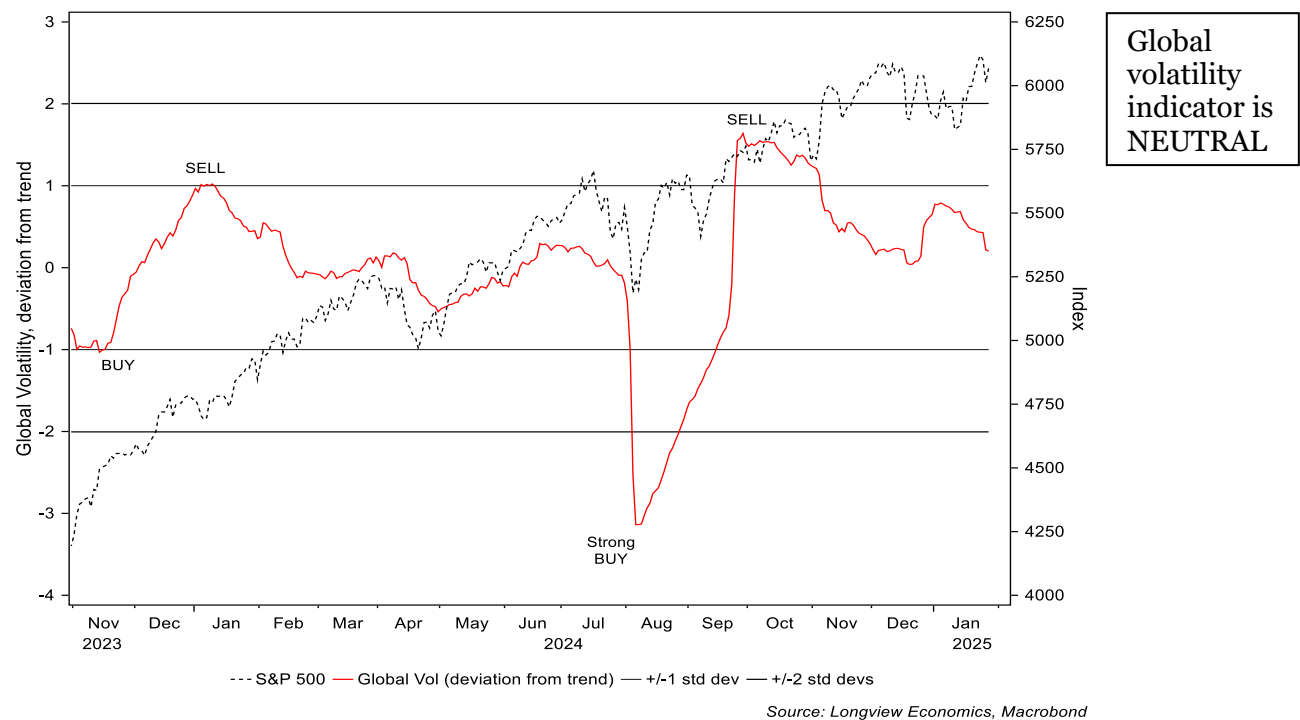


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

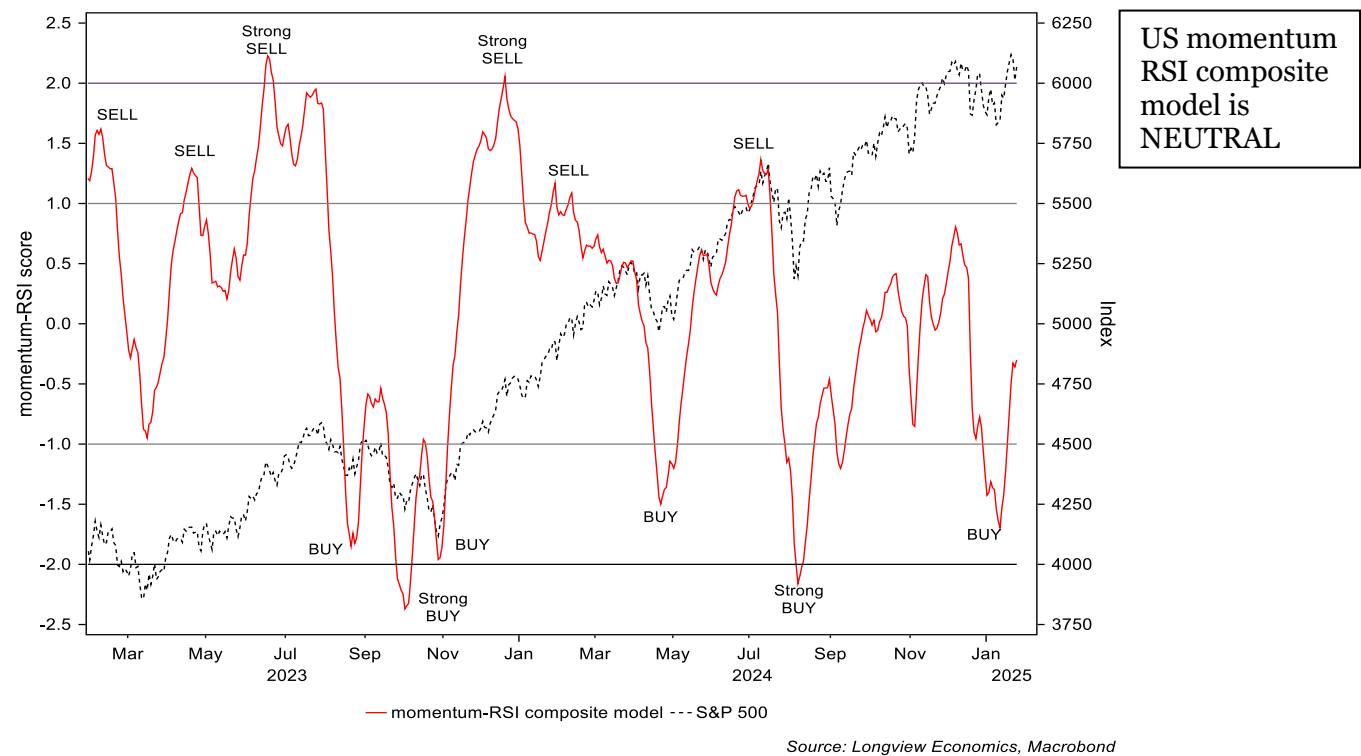


**For explanations of indicators please see page 10**

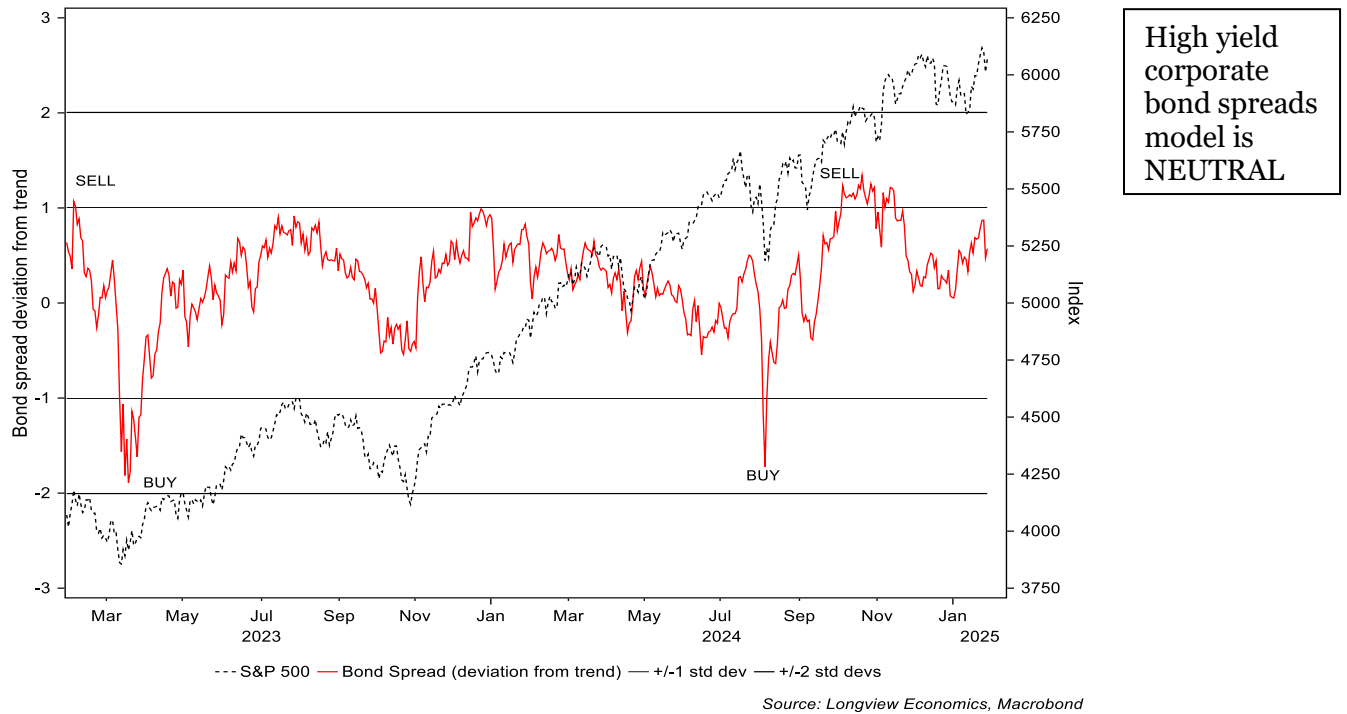
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



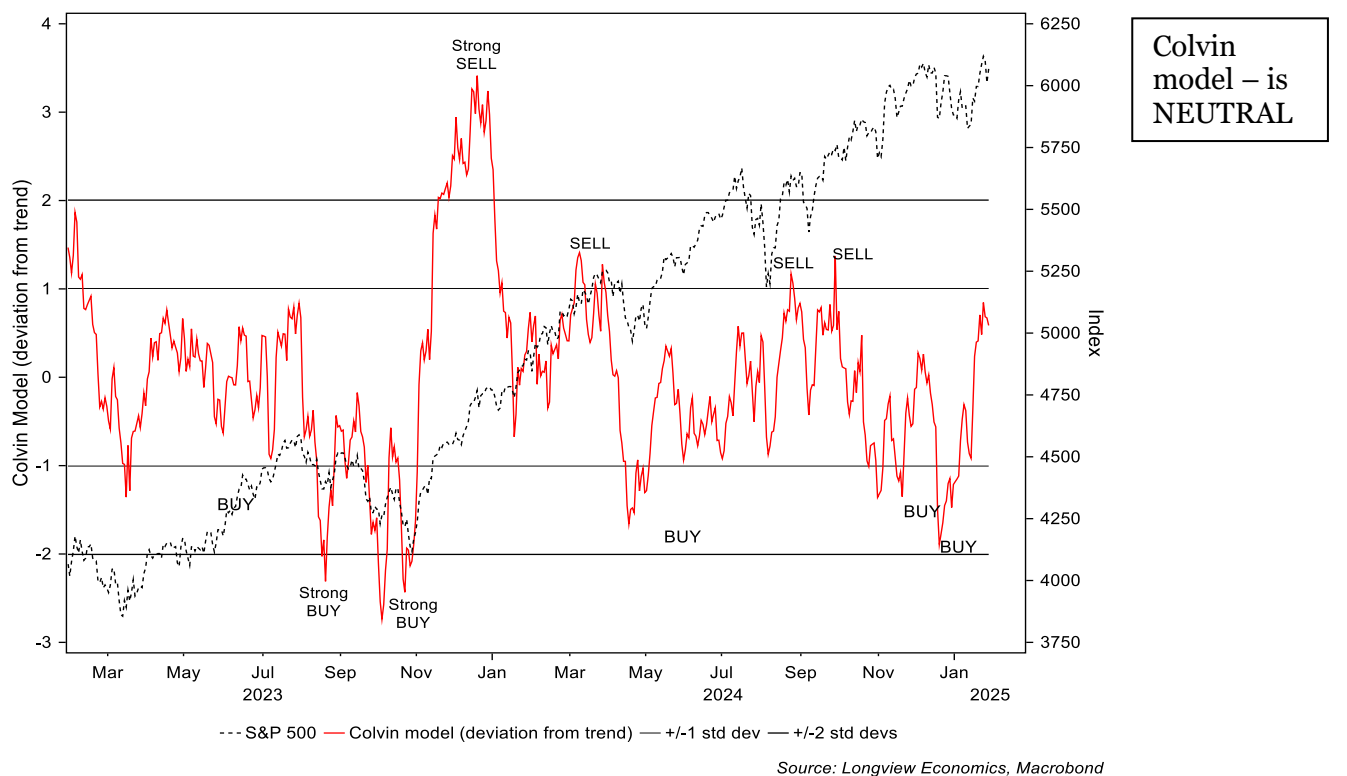
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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