LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

29th November 2024

"Further Upside Likely - Stay LONG US Equities"

Email: info@longvieweconomics.com

Daily RAG commentary is limited today given the US market holiday yesterday/today for Thanksgiving.

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

With US markets closed yesterday for Thanksgiving, many of our models have not updated overnight. The argument for staying LONG US equities, though, remains unchanged.

That is, after some softness in mid-November, the medium term uptrend has resumed/is ongoing. Several key indices, in that respect, broke out to new highs this week (particularly the cyclically sensitive ones). That included the DJIA and DJ Transports (e.g. see FIG 1c), the Russell 2000, and the equal weighted S&P500 (see FIG 1b), amongst others. Elsewhere the S&P500 trended higher (with mostly higher intra-day highs and lows this week, see FIG 1). Meanwhile the NDX has trended sideways/consolidated its recent gains (FIG 1a).

Reflecting that recent rotation into cyclicals, **growth parts of the US equity market are now oversold** (i.e. relative to both cyclicals and defensives, e.g. see FIG 1d). Some rotation back into 'tech heavy' indices is therefore likely, at least in the near term. That's also the message of other models, which point to further upside in the SPX & NDX. They are shown in FIG 1e, as well as FIGs 3 & 4 & 4a (albeit these have not updated since Wednesday's close). Elsewhere our key risk appetite models have moved somewhat lower this week and are currently close to their BUY thresholds (see FIGs 2 – 2b).

The risk reward therefore favours staying LONG US equities, with unchanged stops (please see above for detailed recommendations). US markets are closed today for half the trading session, following yesterday's Thanksgiving holiday. Volumes, therefore, are likely to be light. Please see below for a full list of today's key macro data and events.

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 Dec 24 futures 10 day tick chart shown with overnight price action

FIG 1a: NASDAQ100 Dec 24 futures 10 day tick chart shown with overnight price action

FIG 1b: Equally weighted S&P500 index, with its 50 & 200 day moving averages

FIG 1c: DJIA candlestick shown with 50 day moving average

FIG 1d: S&P500 long duration growth relative to S&P500 cyclical sectors vs. S&P500

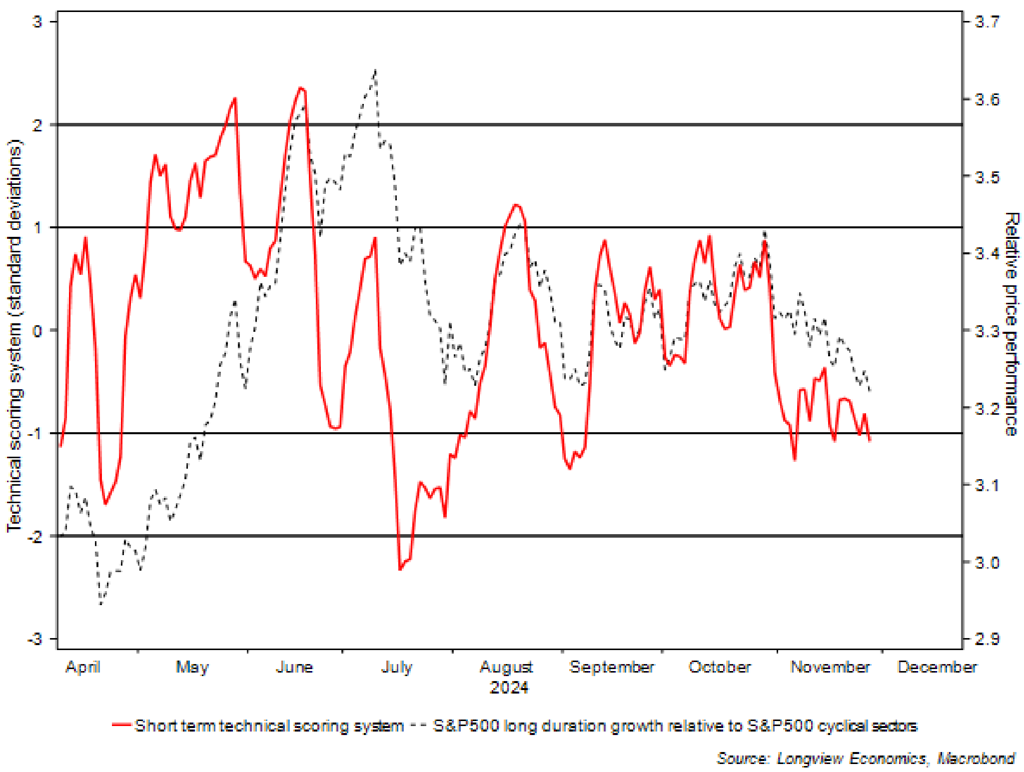
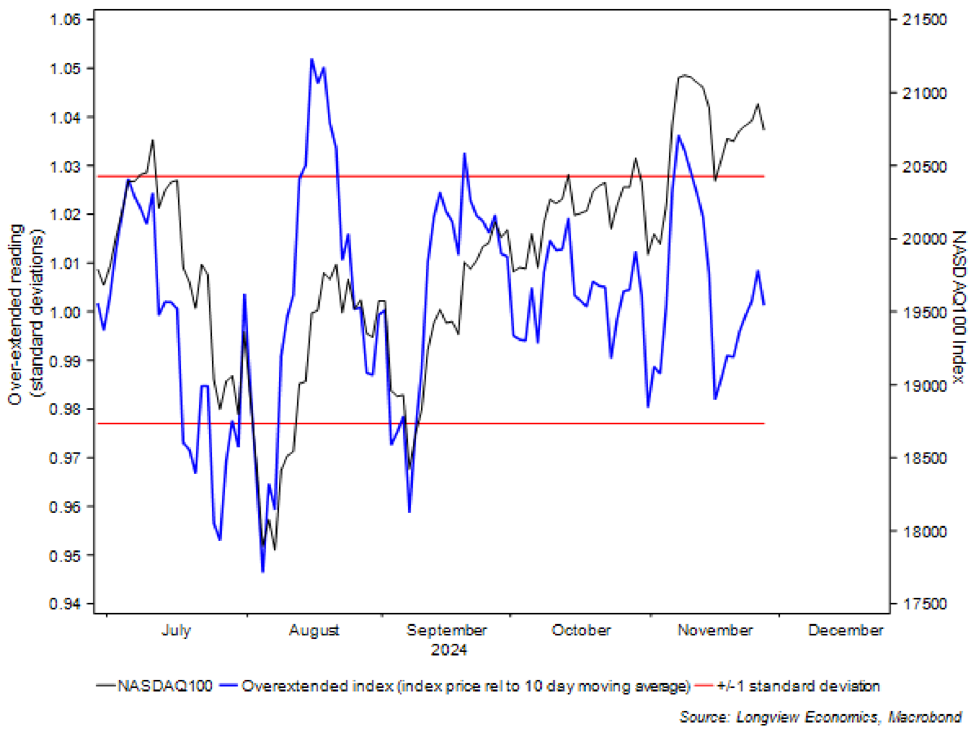


FIG 1e: NASDAQ100 overextended index (index price relative to 10 day moving average) vs. NASDAQ100



Short-term risk appetite models are leaning towards BUY…

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

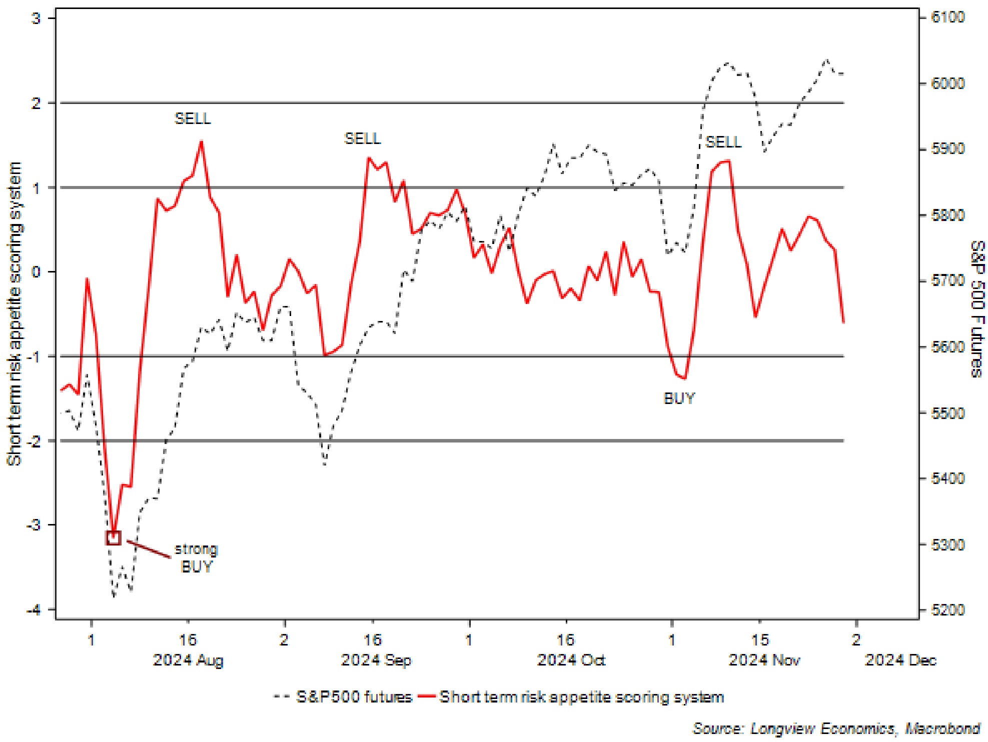


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

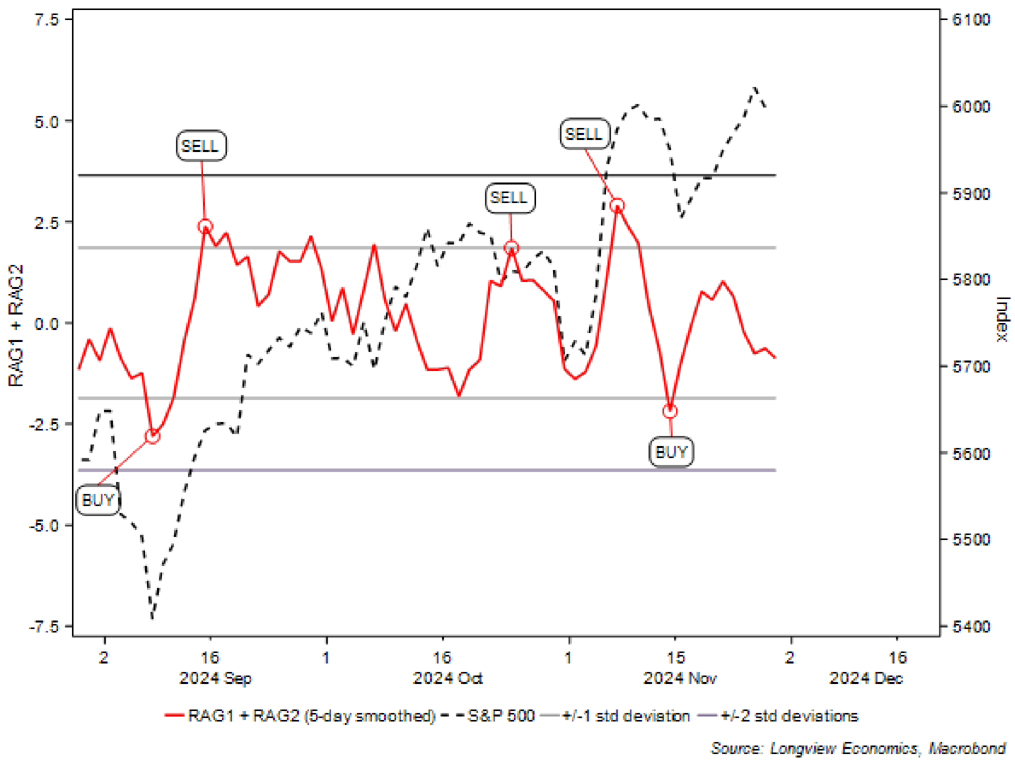
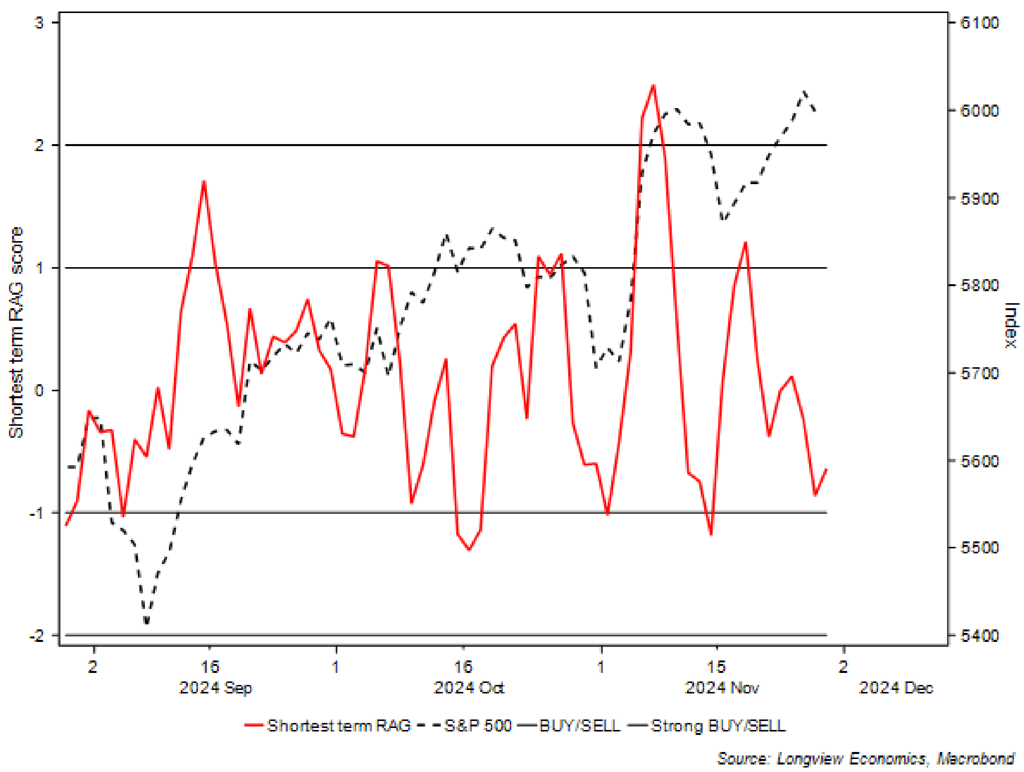
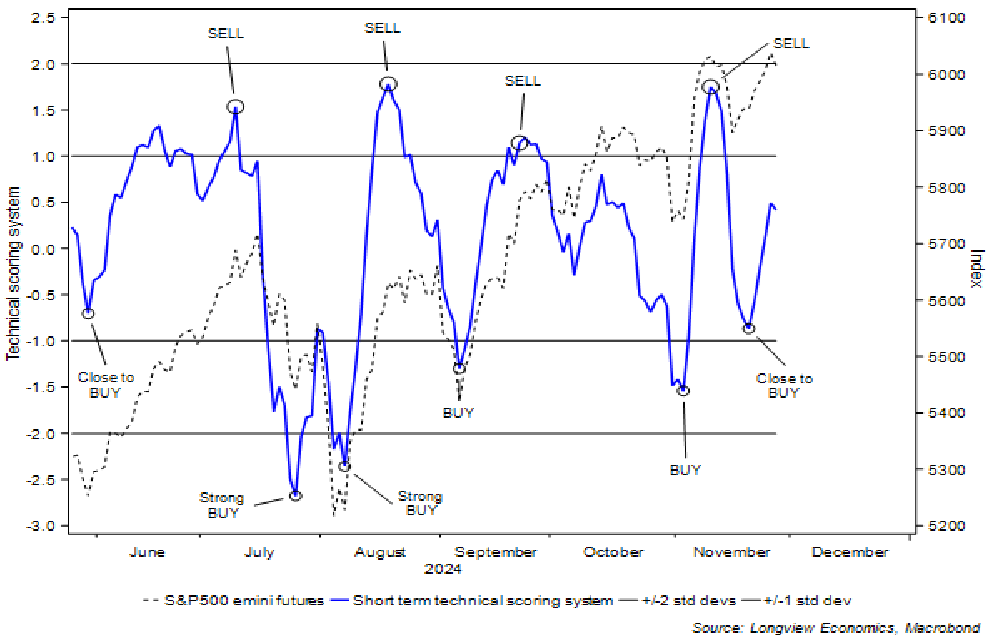


FIG 2b: Shortest term RAG vs. S&P500



Other short-term models are mostly NEUTRAL (having been on BUY), NB they have not updated overnight due to yesterday's market holiday.

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

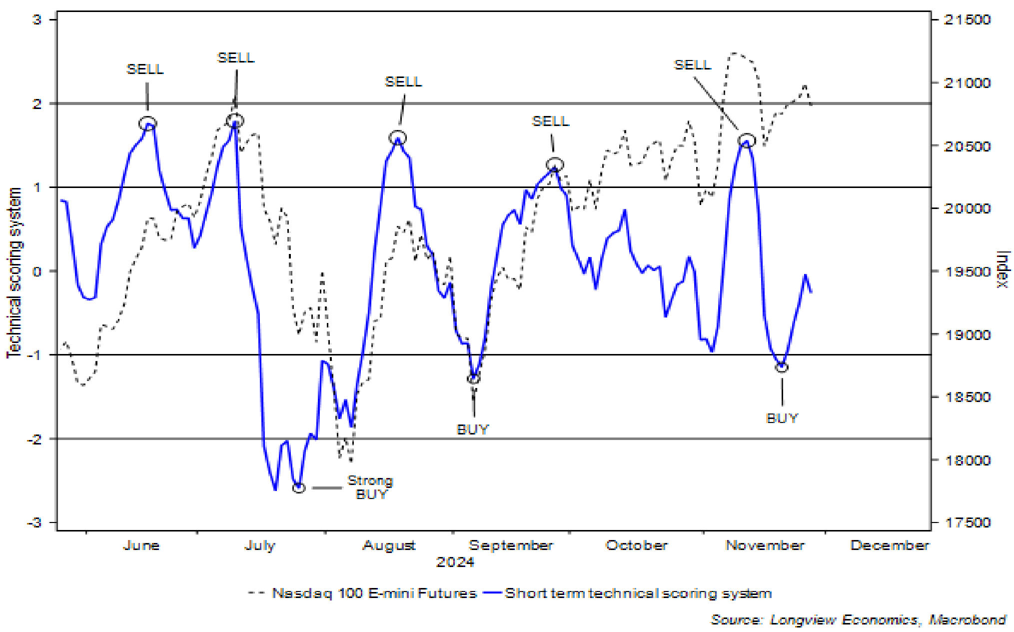
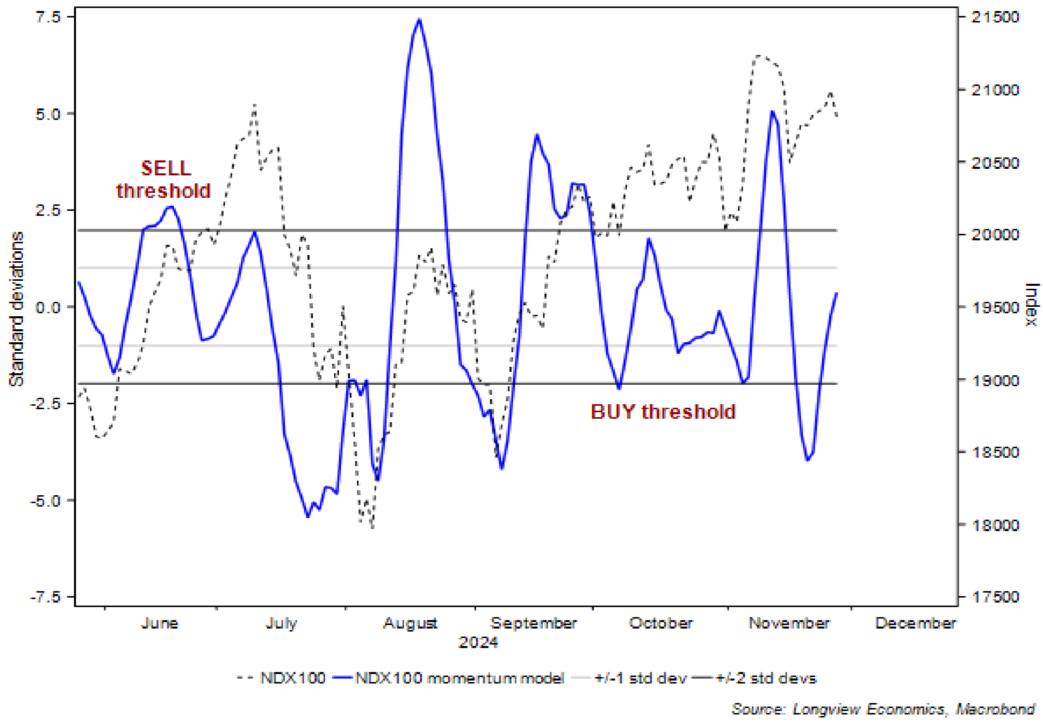


FIG 4a: NDX100 momentum model shown vs. NDX100



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

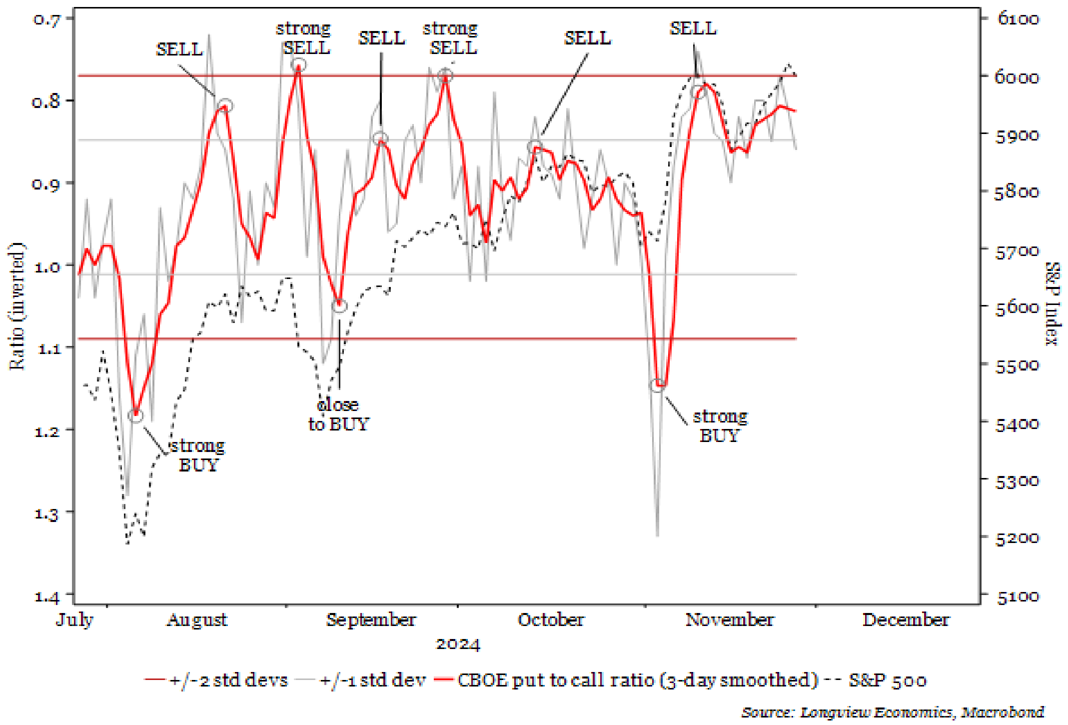
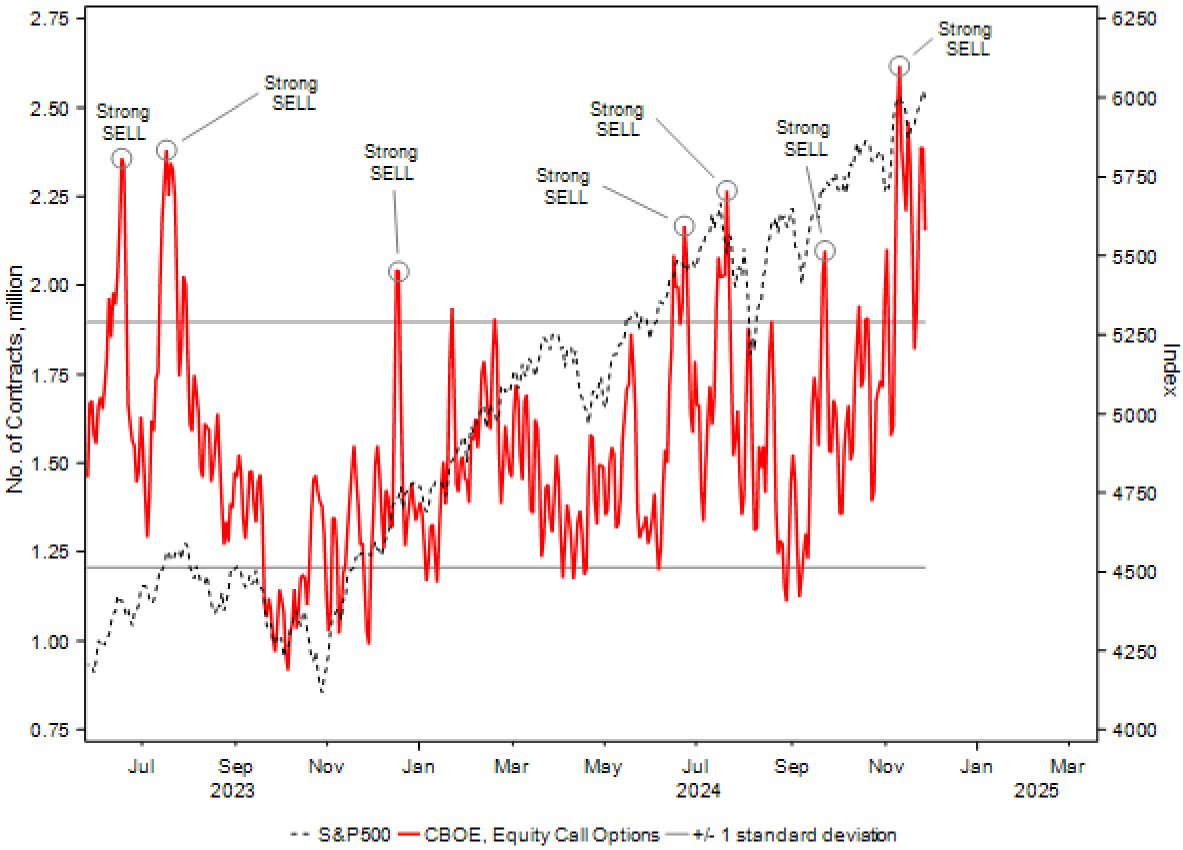


FIG 5a: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

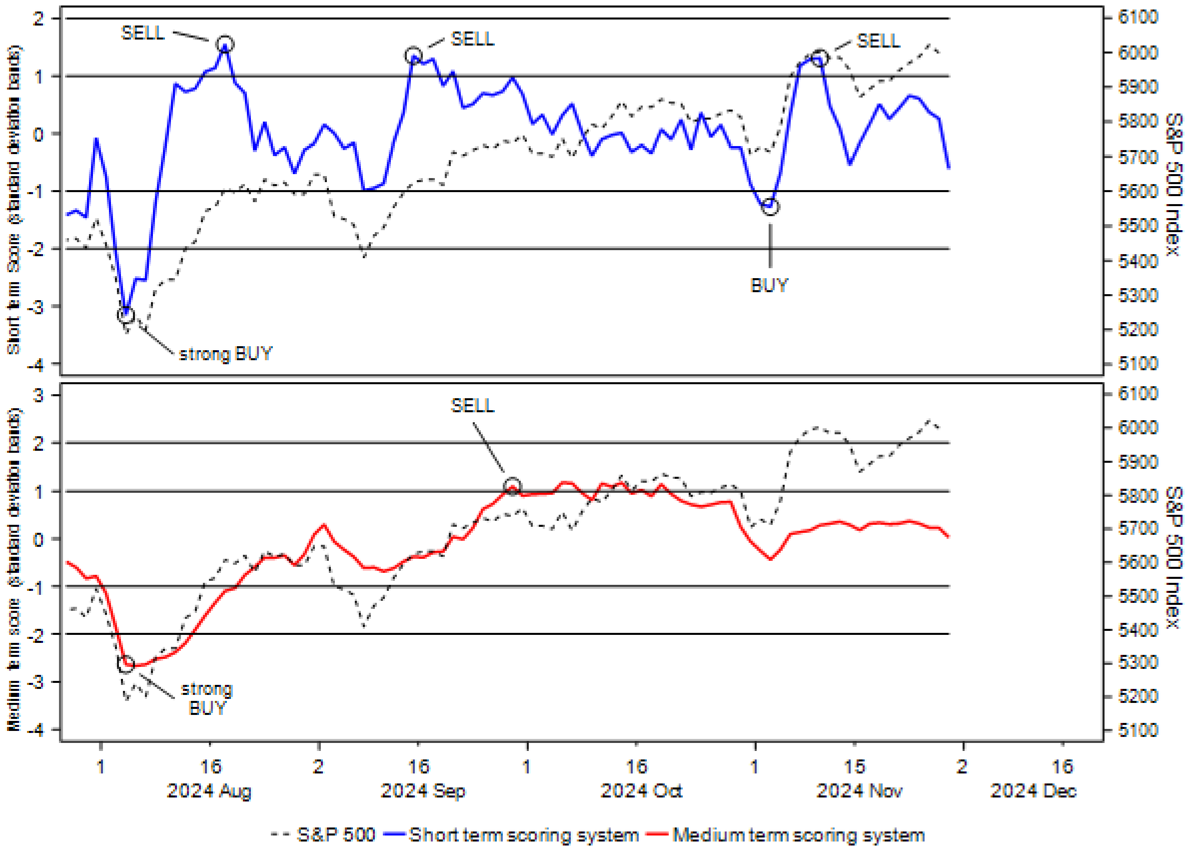


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **NEUTRAL** (close to BUY)
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: Australian private sector credit (Oct, 12:30am); Japanese housing stats (Oct, 5am); **Japanese ESRI consumer confidence** (Nov, 5am); UK Lloyds business barometer (Nov, 12:01am); **German retail sales** (Oct, 7am); French GDP (Q3 final estimate, 7:45am); **French headline CPI** & PPI (November first estimates, 7:45am); Spanish retail sales (Oct, 8am); German unemployment change (Nov, 8:55am); ECB 1 & 3 year inflation expectations (Oct, 9am); **UK Net consumer credit, mortgage approvals, mortgage lending & M4 money supply** (Oct, 9:30am); **Eurozone & Italian headline & core CPI** (November first estimates, 10am); Canadian GDP (Sept, 1:30pm); **Chinese manufacturing & service sector PMIs** (Nov, 1:30am) (Saturday).

Key events today include: **Bank of England publishes financial stability review and FPC summary** (10:30am); speech by the ECB's Nagel at Euro20+ event (1pm); **RBNZ policy decision** (1pm).

Key earnings today include: N/A

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.

LVRAG
Daily Risk Appetite Gauge

Longview Economics
@chriswatling
@LviewEconomics
Longview Economics
Longview Economics
Longview Economics

LVRAG
Daily Risk Appetite Gauge

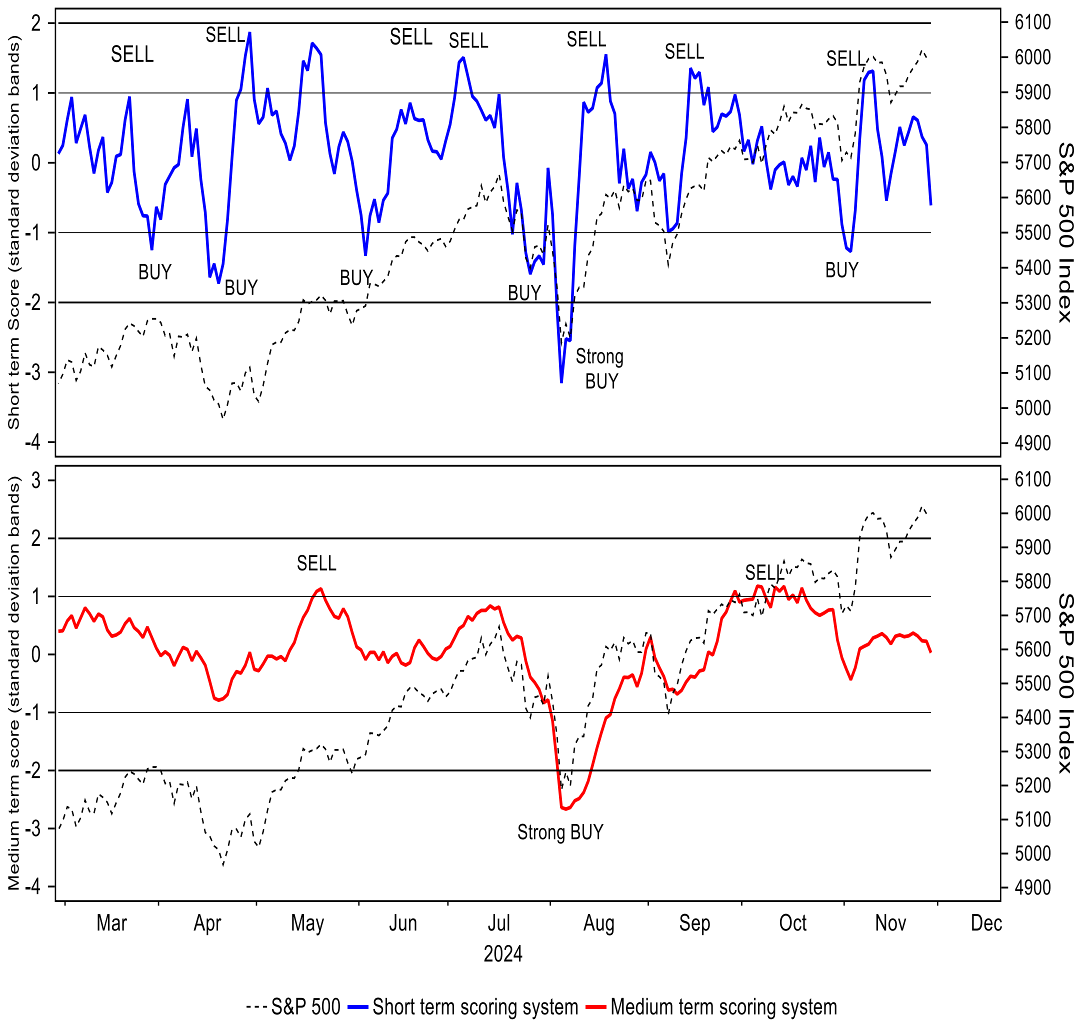
1 – 2 Week View on Risk

29th November 2024

Longview Economics
Email: ragtrader@dailyragtrader.com

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

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



Source: Longview Economics, Macrobond

Short term scoring system is NEUTRAL

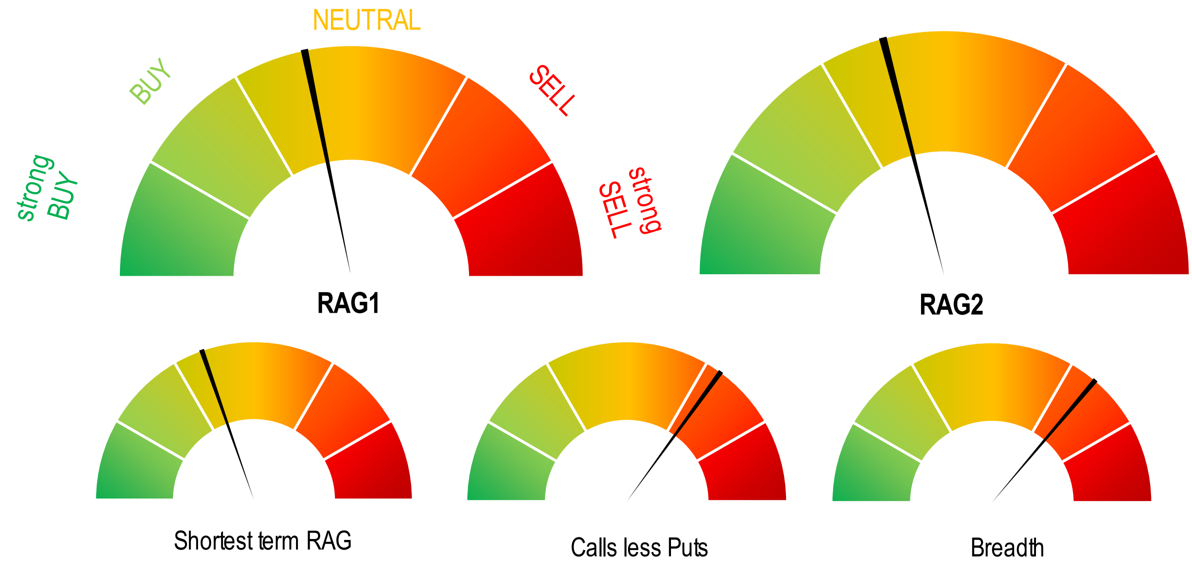
Medium term scoring system is NEUTRAL

*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

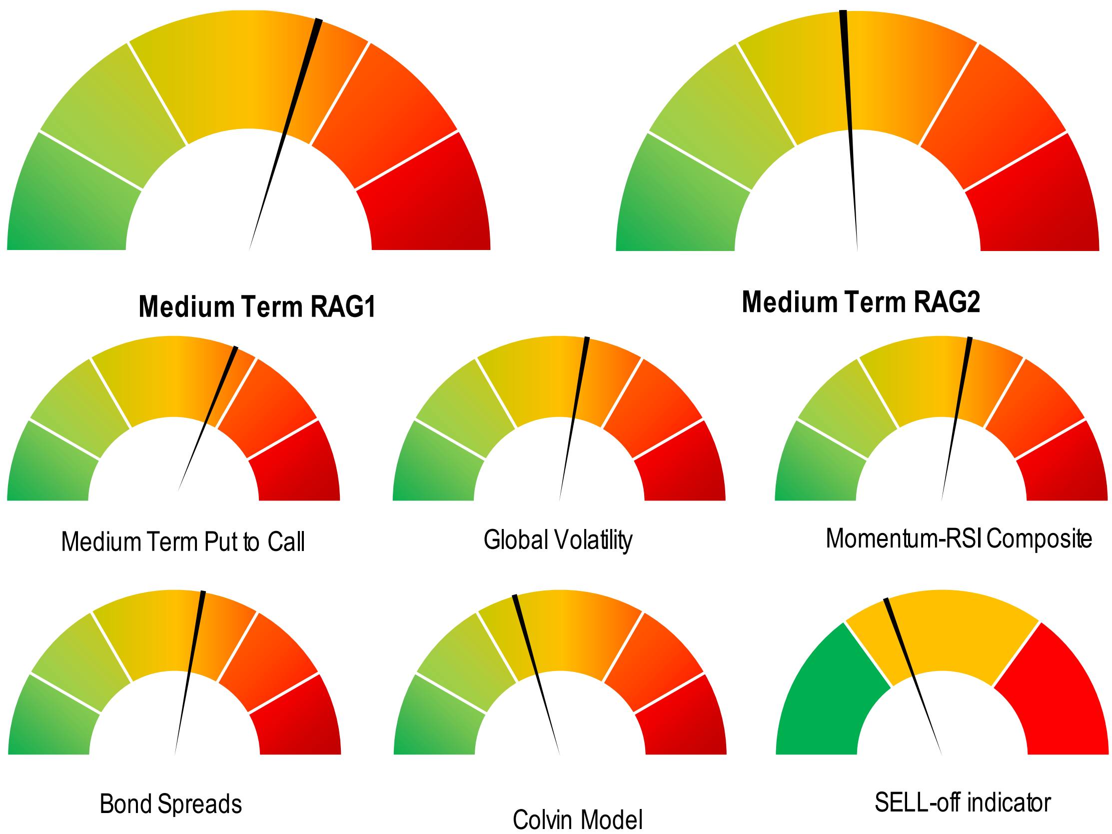
Section 1a: Summary of indicator signals**

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

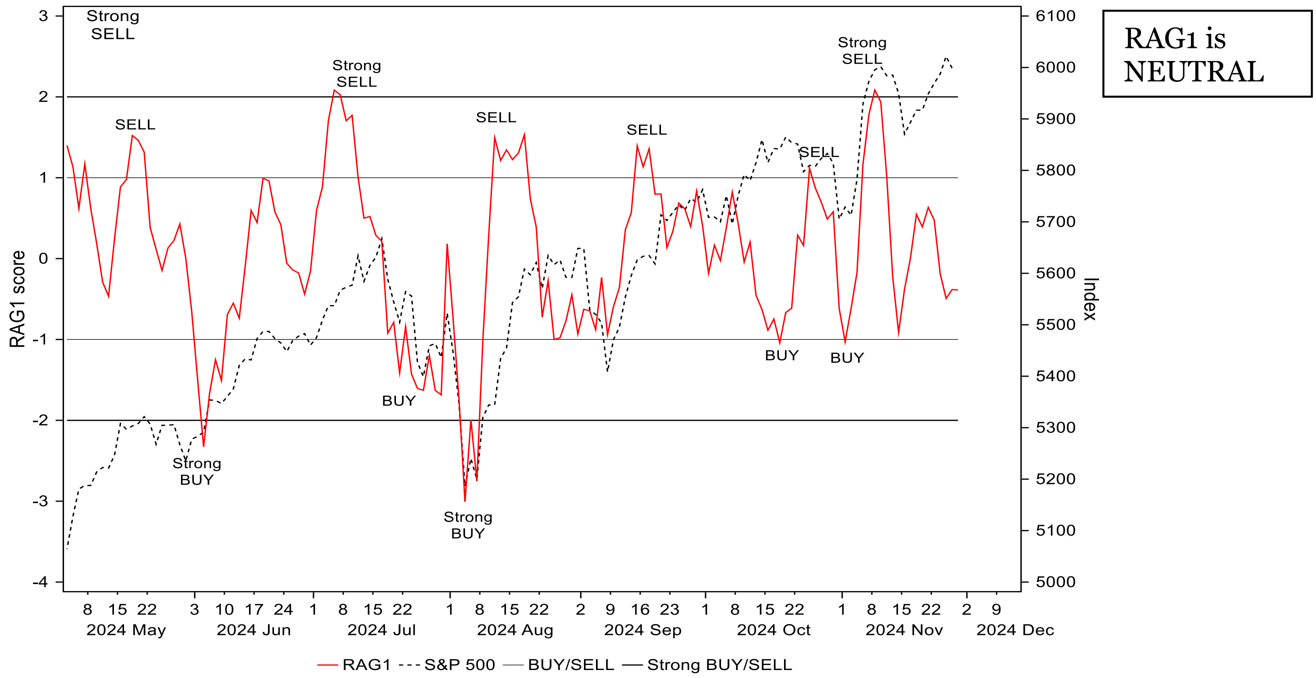


Source: *Longview Economics*

**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

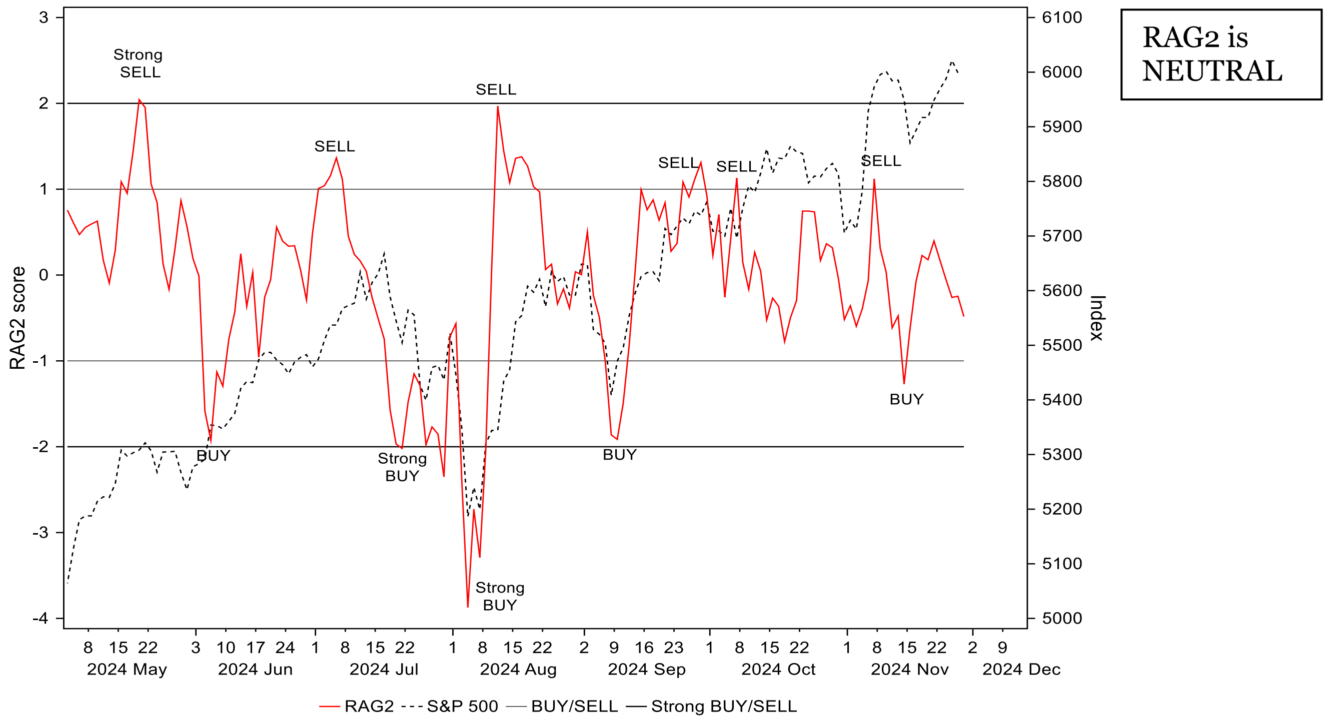
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

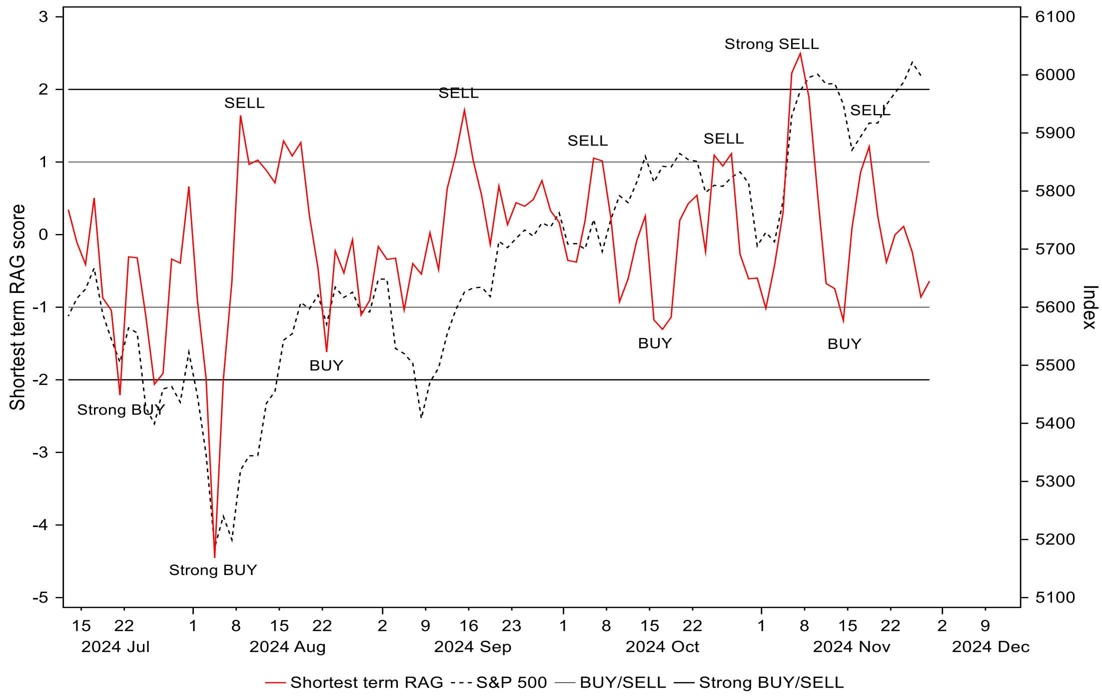
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

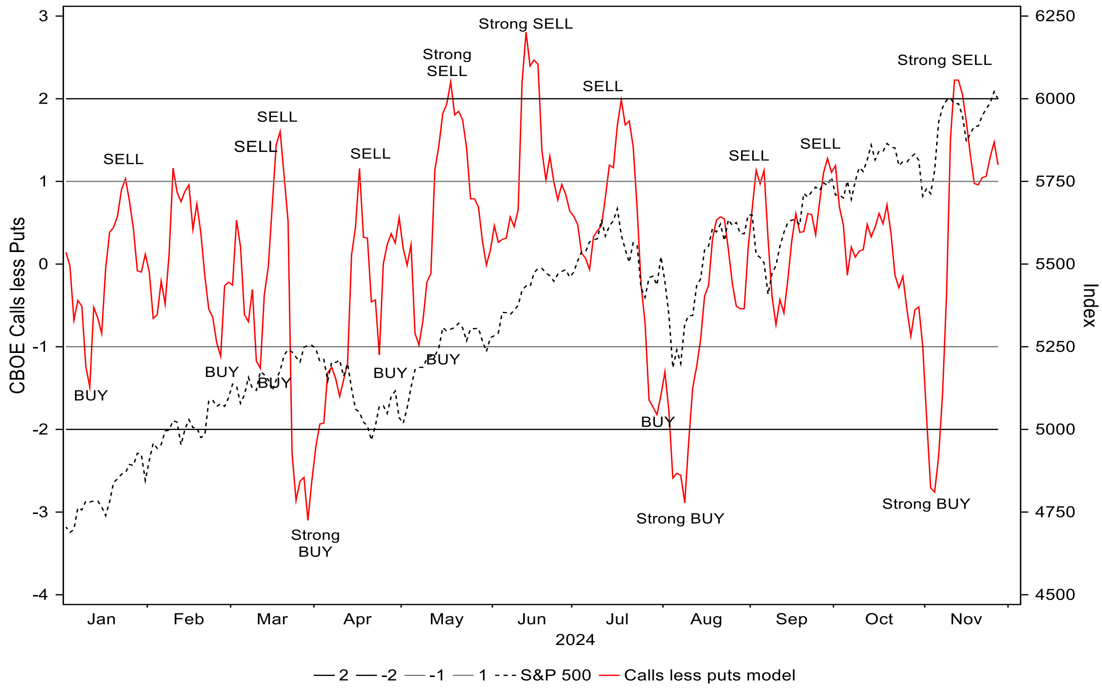
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

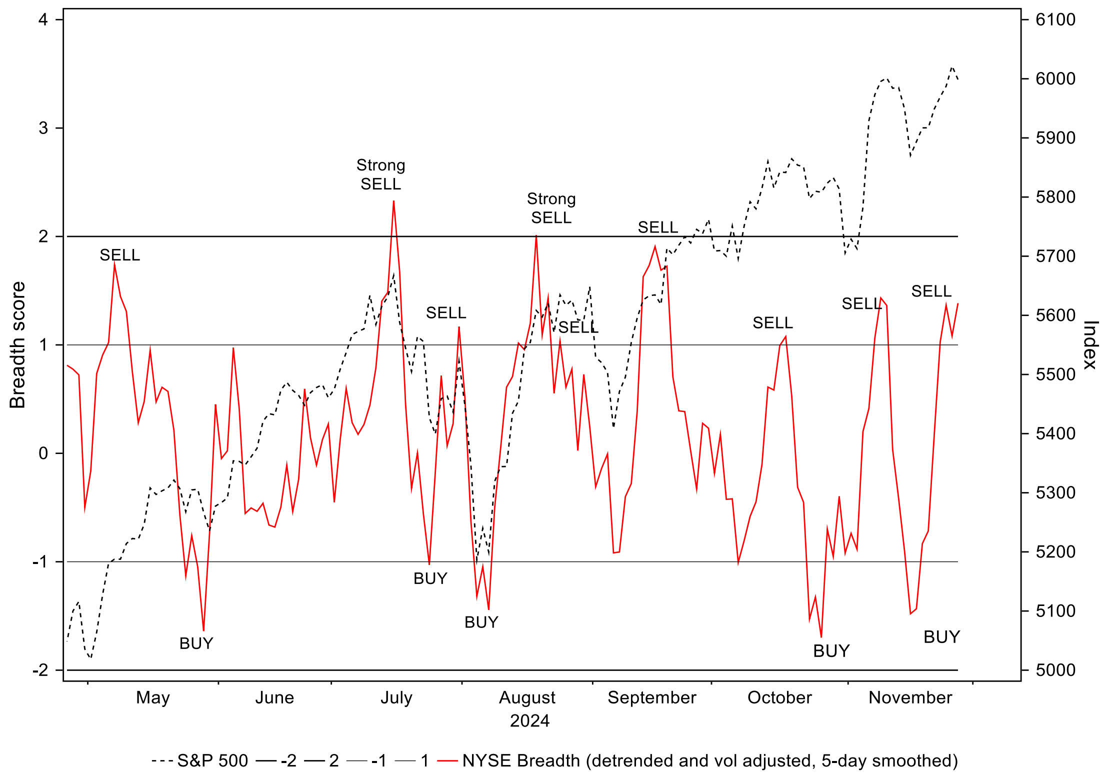


Calls less puts model is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



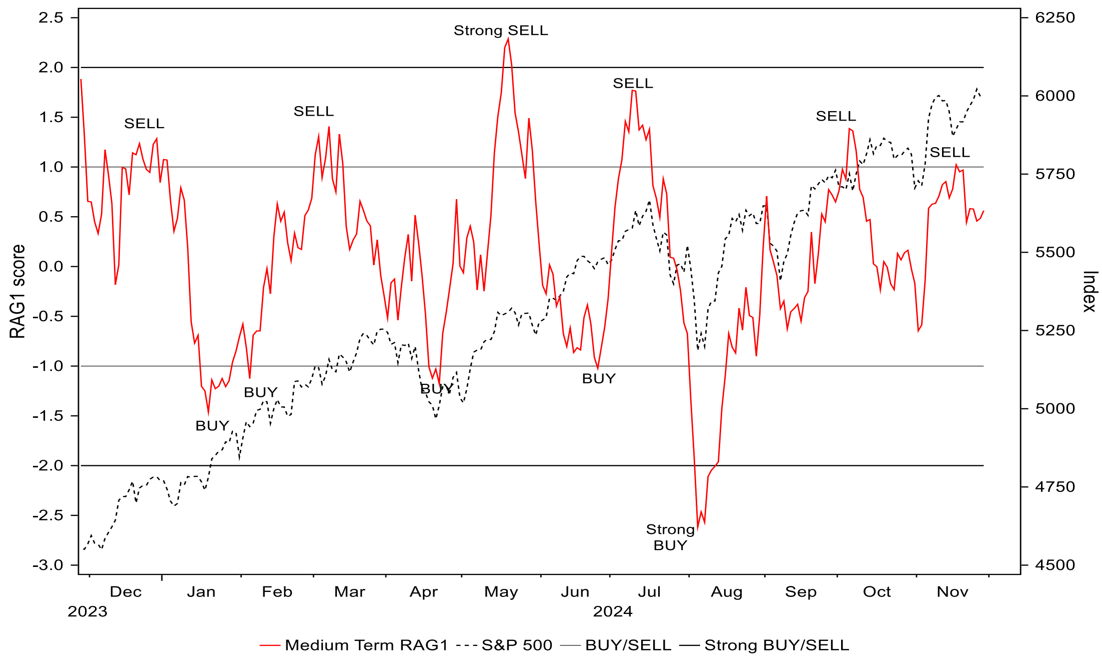
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

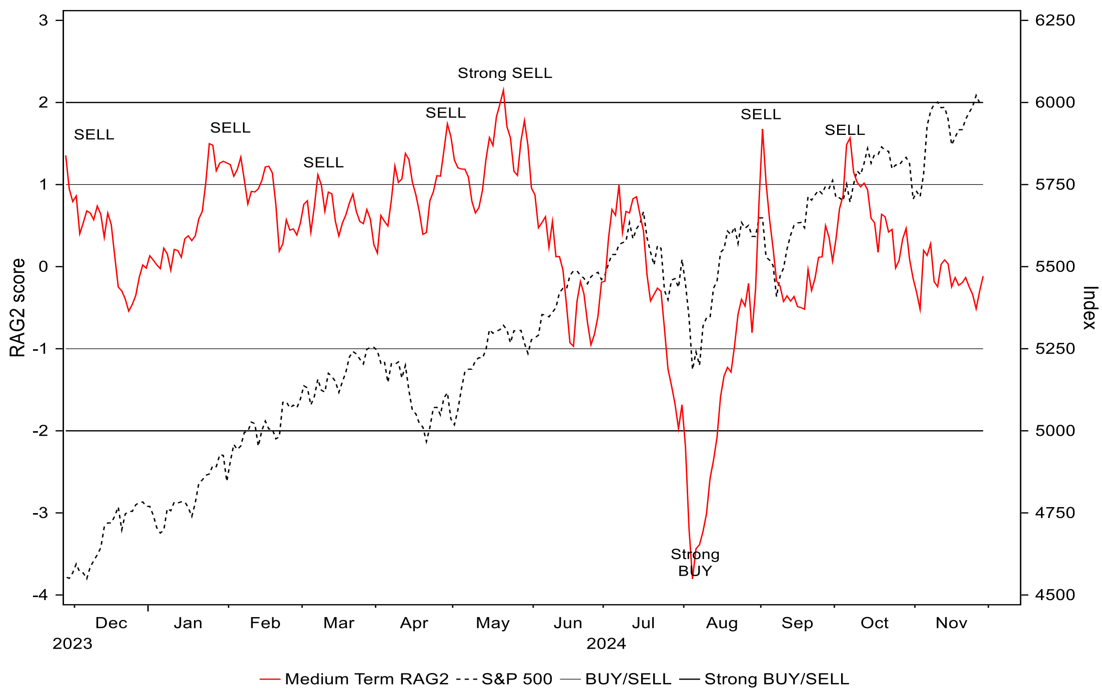
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

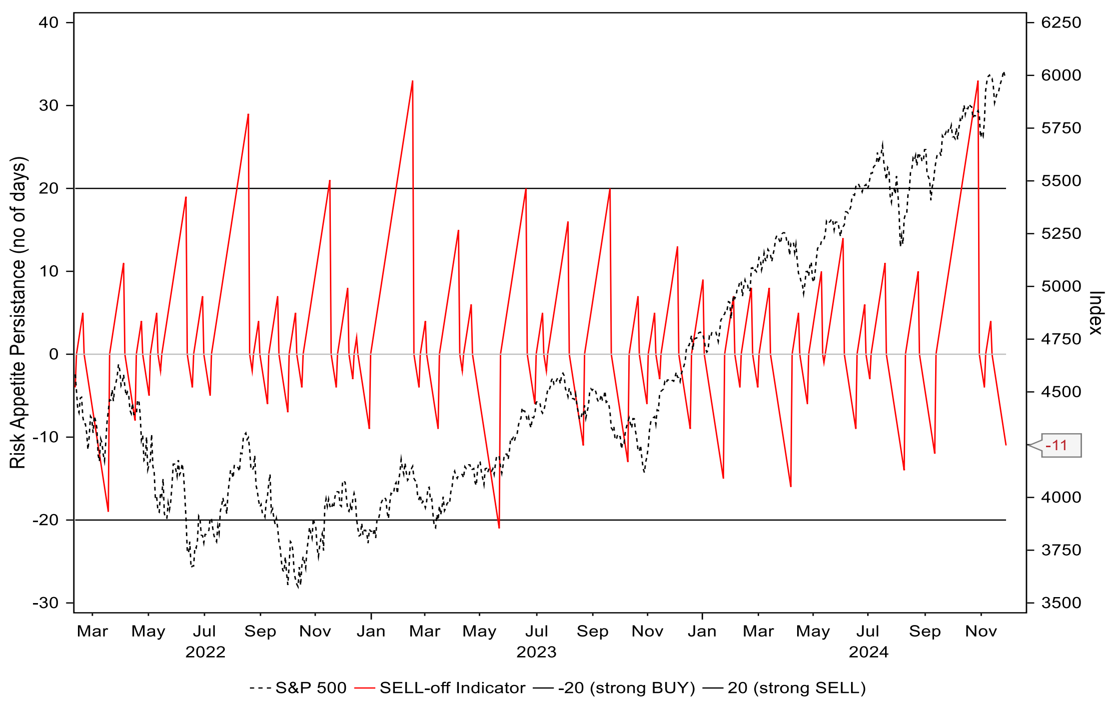


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

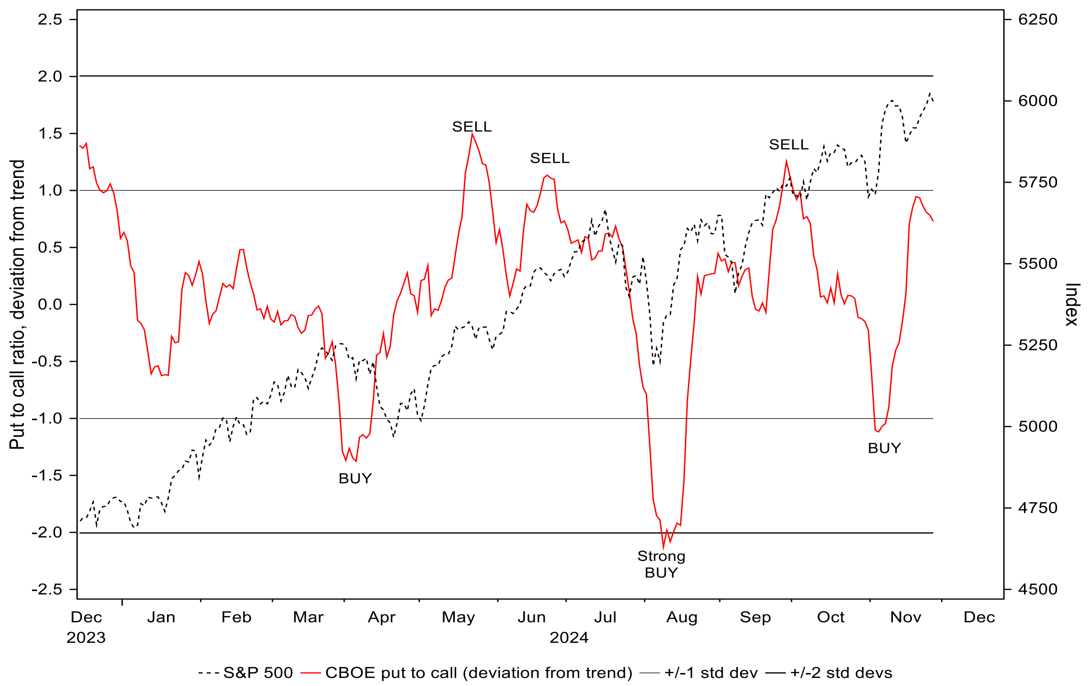
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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



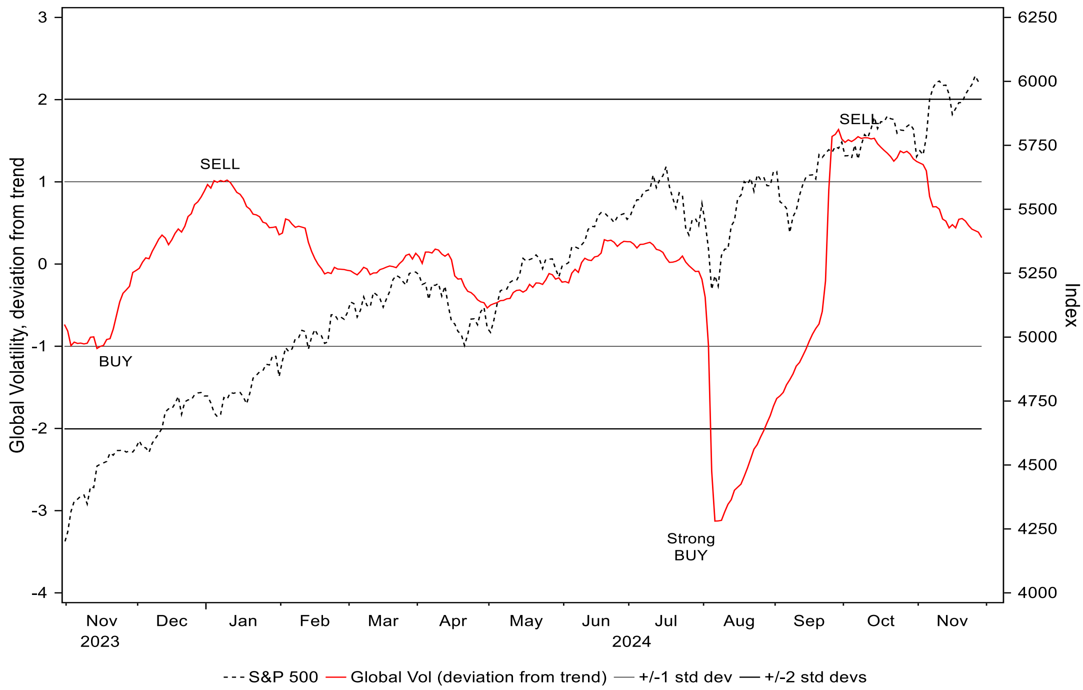
Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

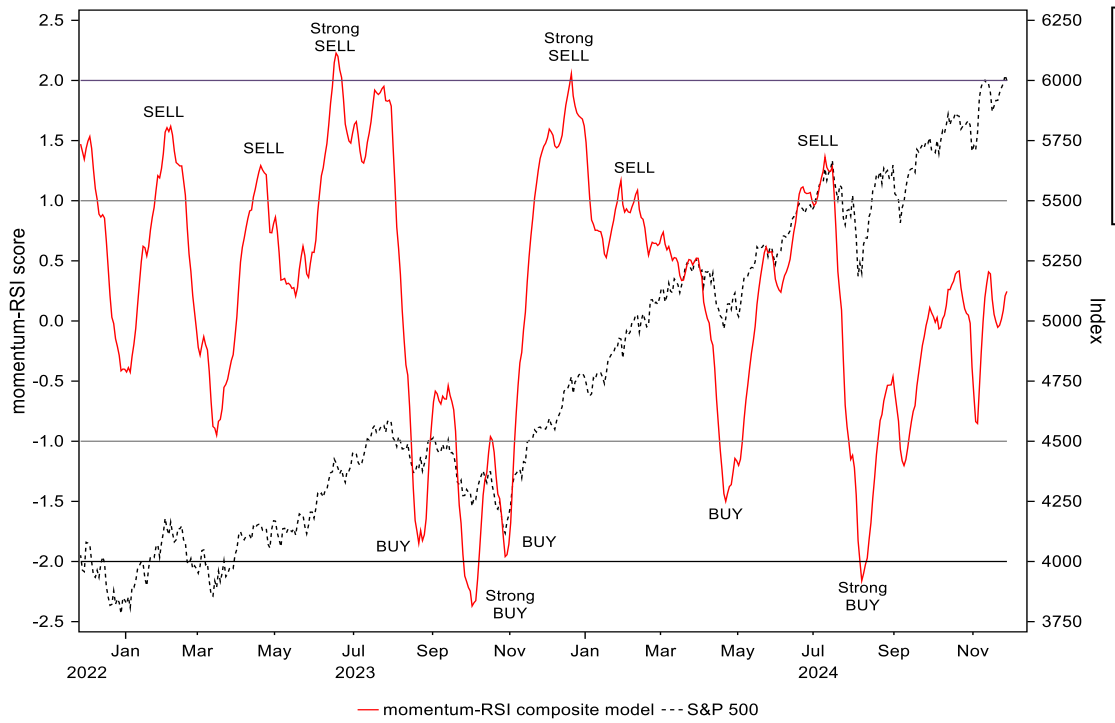
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

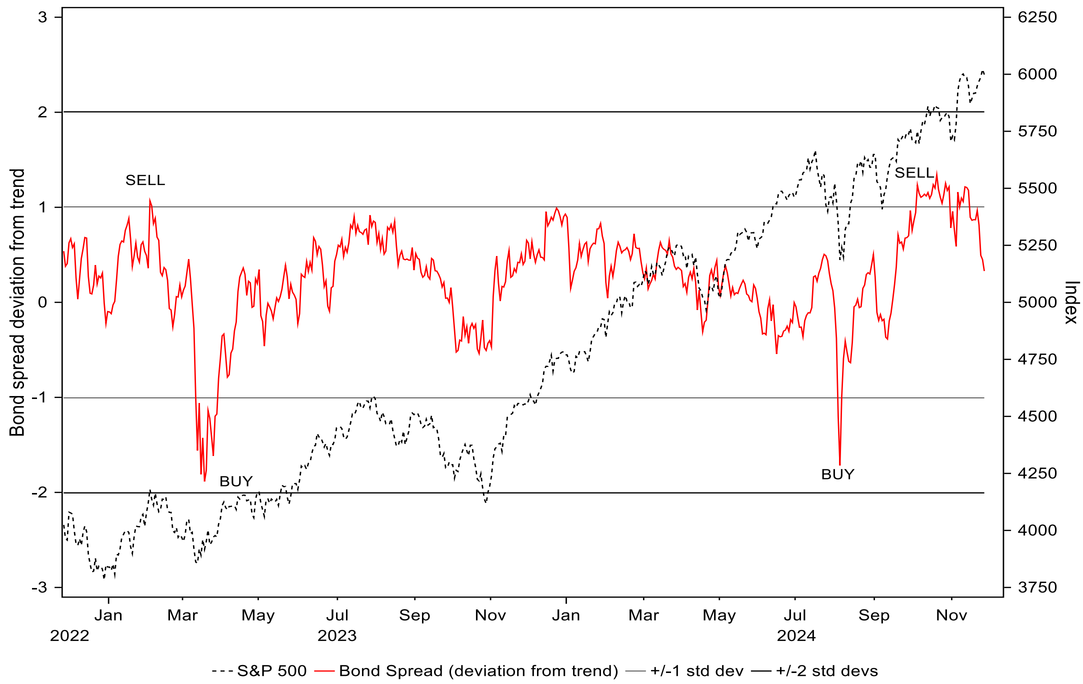
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

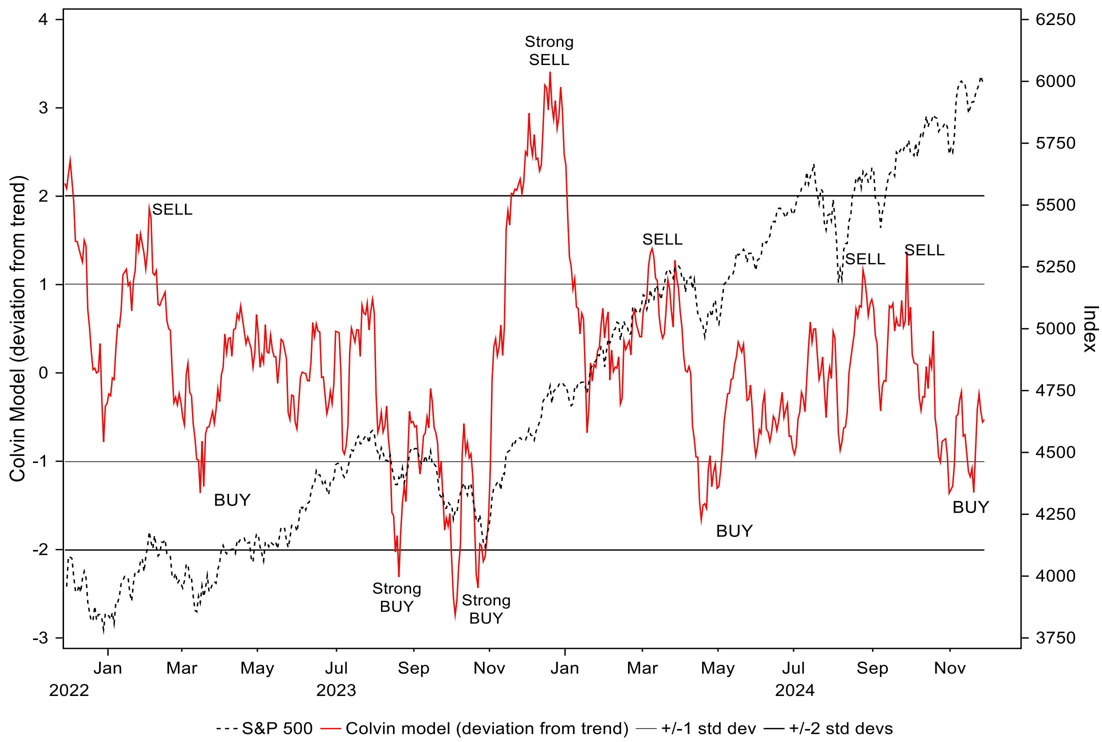
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

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.