Equity Index Futures Trading Recommendations

2nd December 2024

"Stay LONG"

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

- Stay ¼ LONG S&P500 December '24 futures (entry was at 5,952.75 on 20th November);
- Retain the stop at 5,915 (approx. 2% below current prices).
- Stay ¼ LONG NASDAQ100 December '24 futures (entry was on Monday last week at 20,957);
- Keep the stop loss unchanged at 20,540 (i.e. approx. 2% below entry).

Rationale

Despite a shortened Thanksgiving trading week, **most key US equity markets posted new record highs last week.** That included the S&P500, the DJIA, the DJ Transportation index and the equal weighted S&P500 as well as the Russell 2000. Most of those markets gained around 1% – 1.5% on the week (FIG 1a). The laggards/exceptions were primarily in the tech area of the market. The NDX100 failed to take out its post-election 8th November closing high; while the Philly SOX closed the week lower and continues to look 'technically' challenged (i.e. trading below its 200-day moving average with weak momentum).

Today is the first trading day of December. Typical December seasonality (for the S&P500) includes a weak 1st half of the month, followed by the traditional Santa Claus rally starting around the middle of the month (i.e. 11th trading day). FIG 1 below illustrates that, drawing upon the S&P500's price action in the past 15 Decembers (back to and including 2009). On average the S&P500 is 0.75% lower by the 11th trading day, recovering that loss (and making gains) by the end of the month.

Our short-term models (collectively), though, are not yet at a level which suggests caution. Risk appetite models, for example, have plenty of headroom until they reach SELL (suggesting that short term market participants are not yet 'greedy'- FIGs 3 & 3a); neither the S&P500 nor the NDX100 is overextended relative to its 10 day moving average (and as FIGs 2 & 2a show, these models tend to reach SELL before the S&P500/NDX100 experience pullbacks or periods of short term consolidation); whilst most other equity index-based technical models also have headroom until they get to SELL levels (i.e. whether momentum models or Longview technical scoring systems – FIGs 4 & 4a). These models therefore support an expectation of continued new record highs.

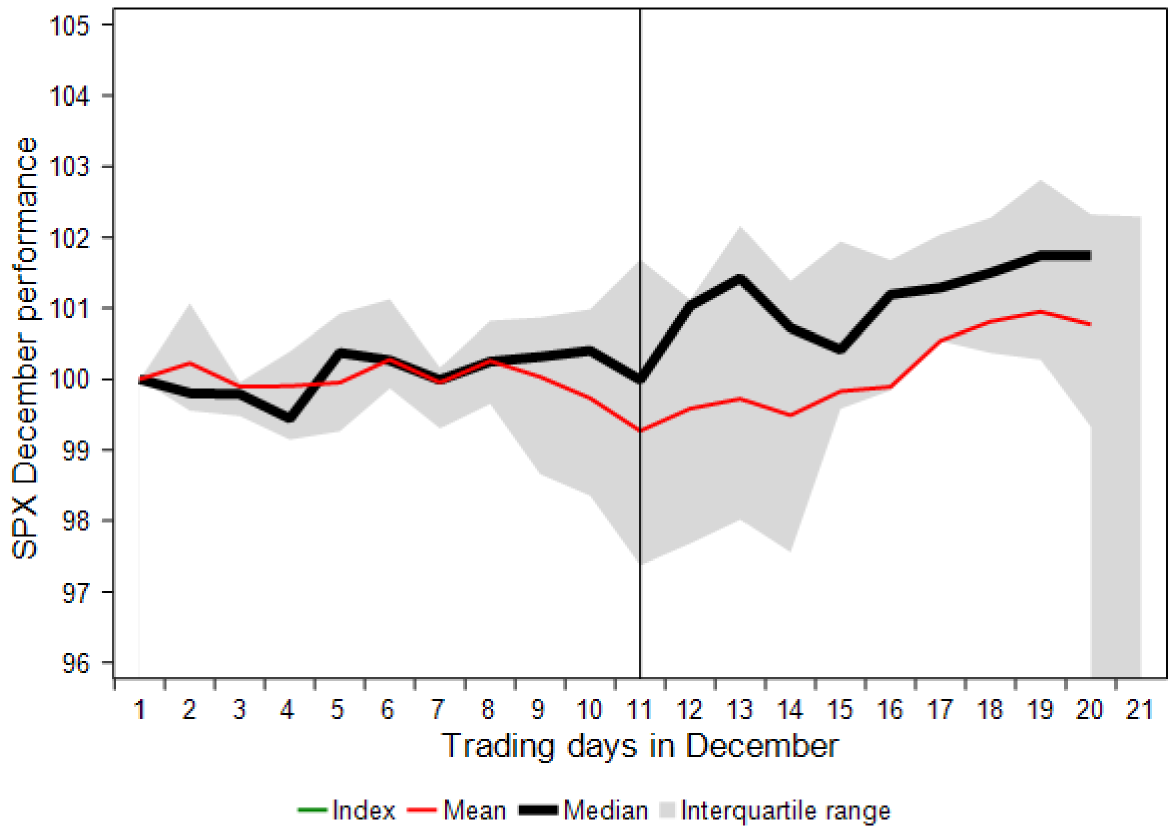
Consistent, however, with the suggestion that seasonally the first half of December is a challenging period for equity markets, other short-term models are starting to generate a SELL message. In particular there's a lack of downside protection in portfolios (see short term put to call ratio – FIG 5), while our sector and single stock technical models are on/close to SELL (i.e. looked at from that perspective, the market is overextended, see FIGs 4b & 4c). On balance, though, and given strong upward momentum in the S&P500, in particular, we **recommend staying LONG until there is a clearer and more broad-based short-term SELL message**.

Risks, as always, are multiple and include the current French political challenges which have been driving widening French spreads over German Bund yields (FIG 1b). Over the weekend the National Rally Chief Bardella (le Pen's No 2) has "vowed to sink French government unless there is a 'miracle'" (**source:** Bloomberg headlines). Other risks include various key macro data releases this week, especially in the US (with ISM manufacturing, for example, published later today at 3pm London time).

Kind regards,

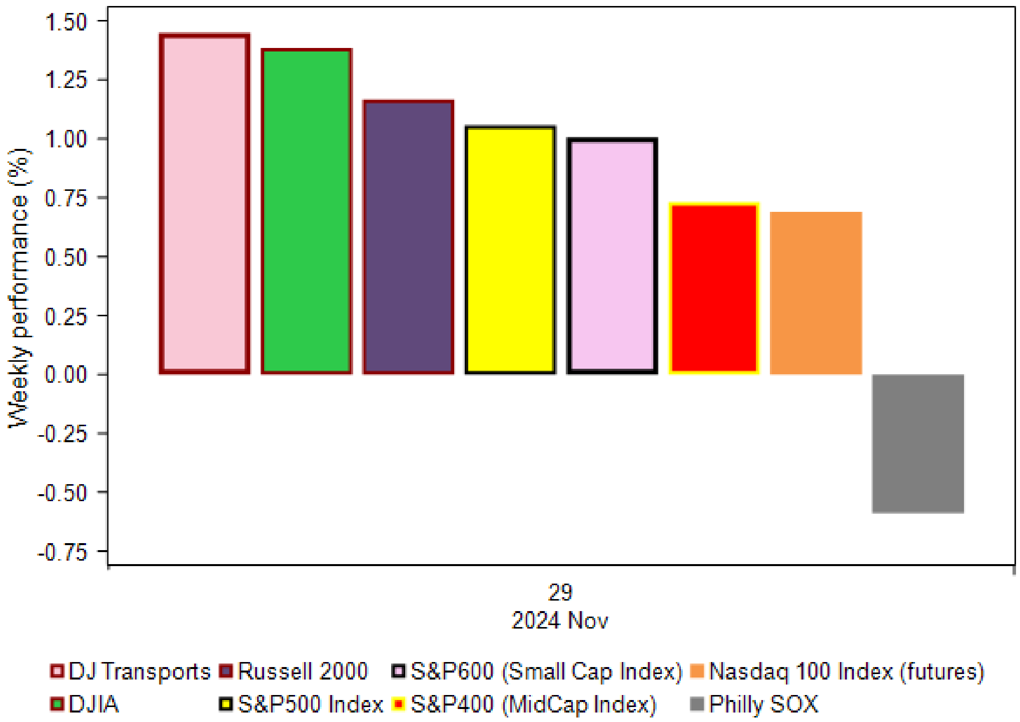
The team @ Longview Economics

FIG 1: S&P500 –> December seasonality (drawing upon December 2009 – 2023 data)



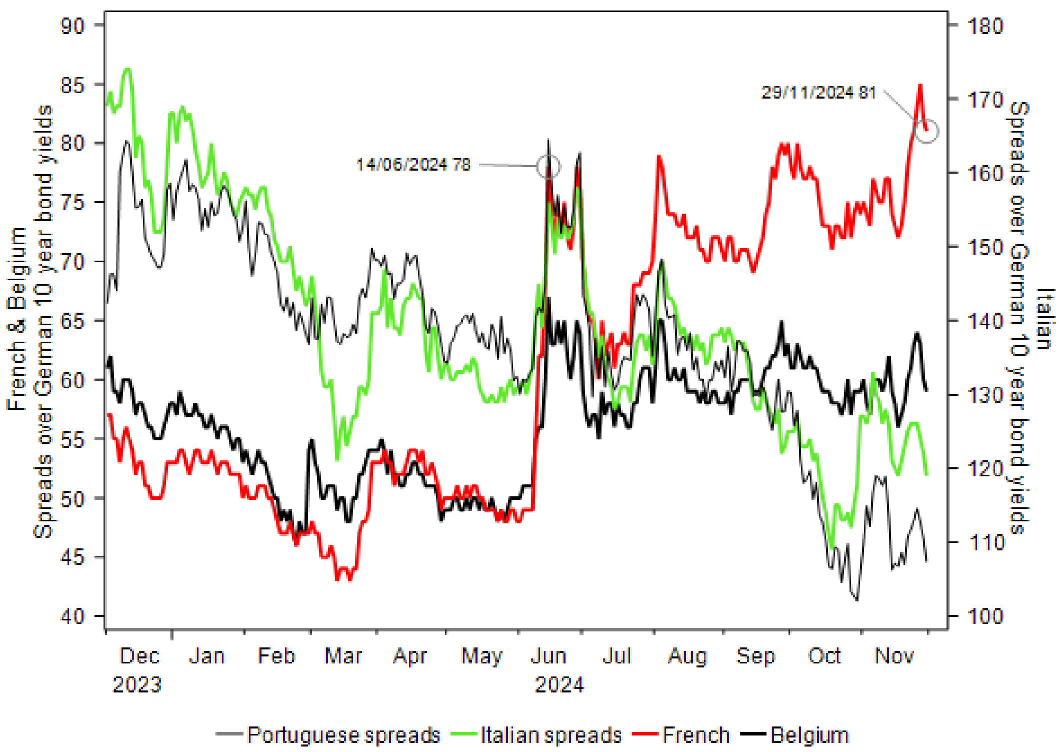
Source: Longview Economics, Macrobond

FIG 1a: Key US equity indices - weekly performance (% return last week)



Source: Longview Economics, Macrobond

FIG 1b: Various key EZ government bond spreads over German bund yields (bps)



Source: Longview Economics, Macrobond

FIG 1c: Equal weighted S&P500 index, shown with its 50 & 200 day moving averages

Neither the S&P500 nor the NDX100 is overextended relative to its 10-day moving average…

FIG 2: S&P500 overextended indicator (index price relative to its 10-day moving average) vs. S&P500

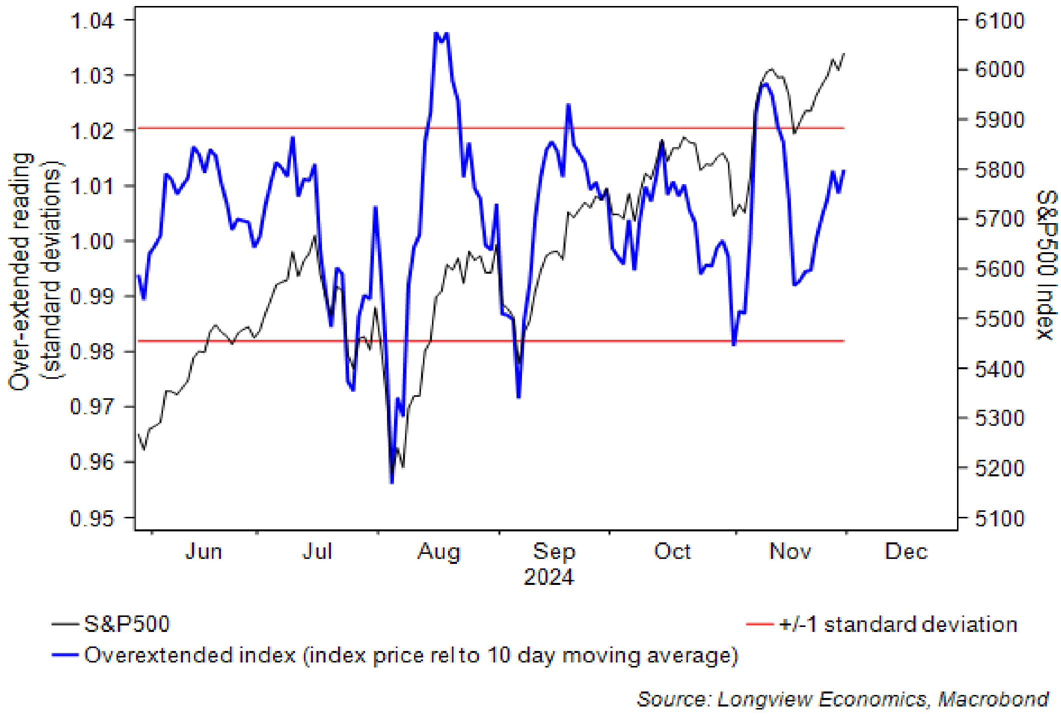
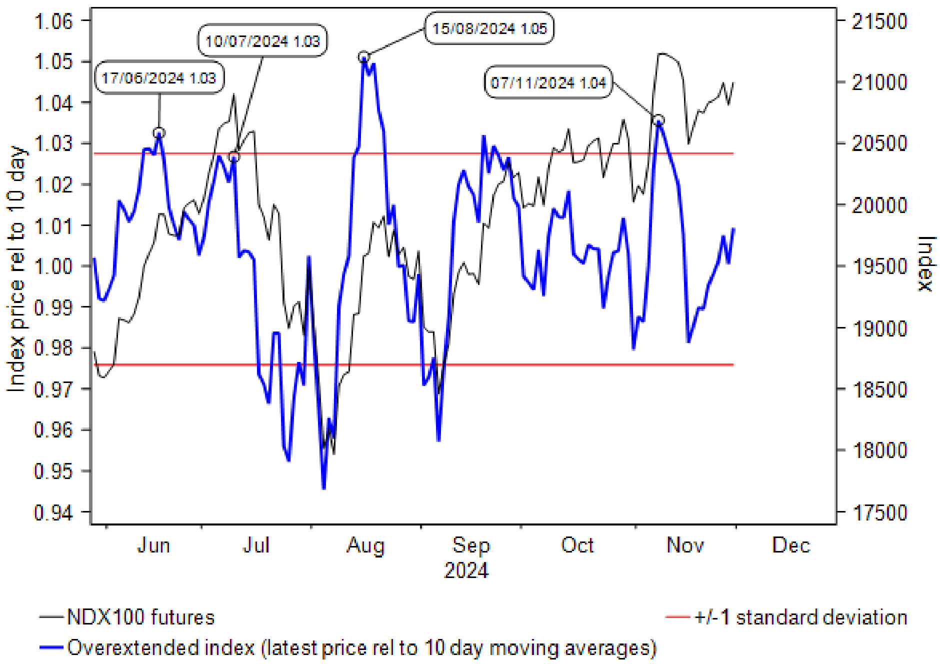


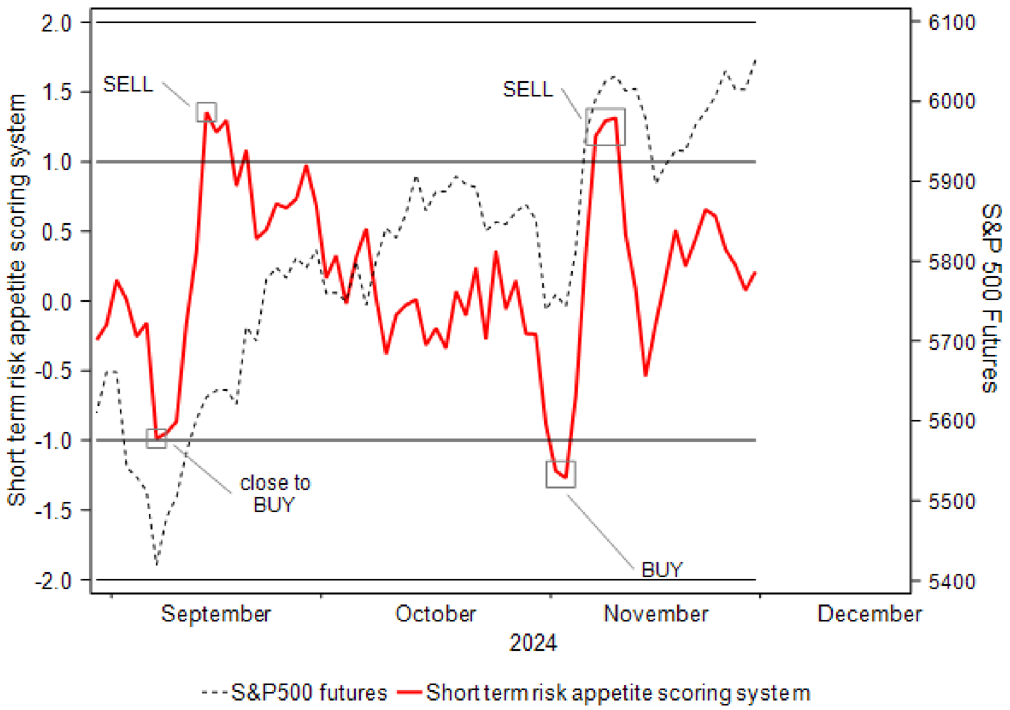
FIG 2a: NASDAQ100 overextended index (index price relative to 10-day moving average) vs. NASDAQ100



Source: Longview Economics, Macrobond

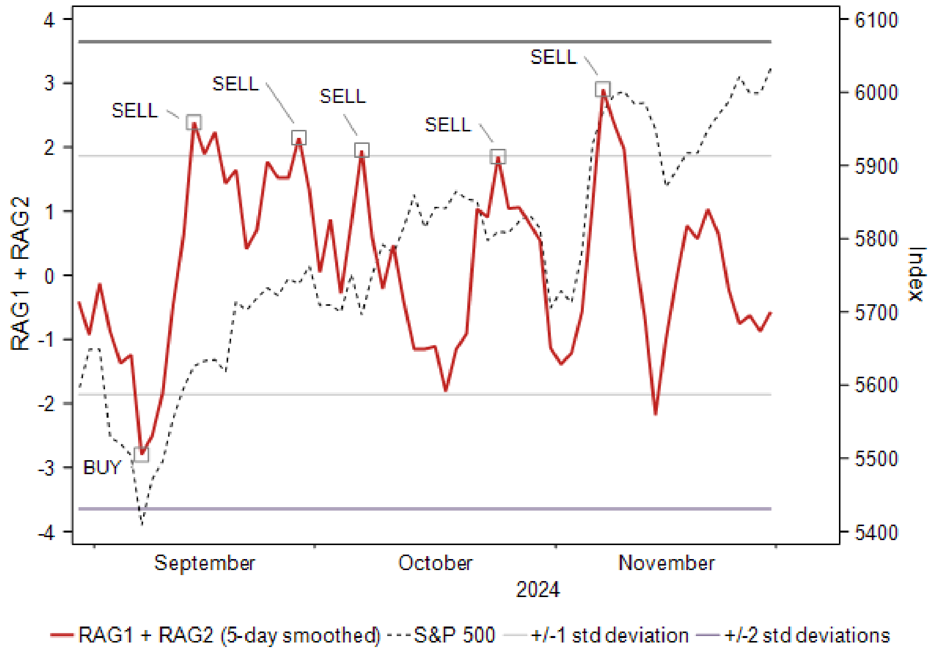
Risk appetite models are NEUTRAL…

FIG 3: Longview short term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

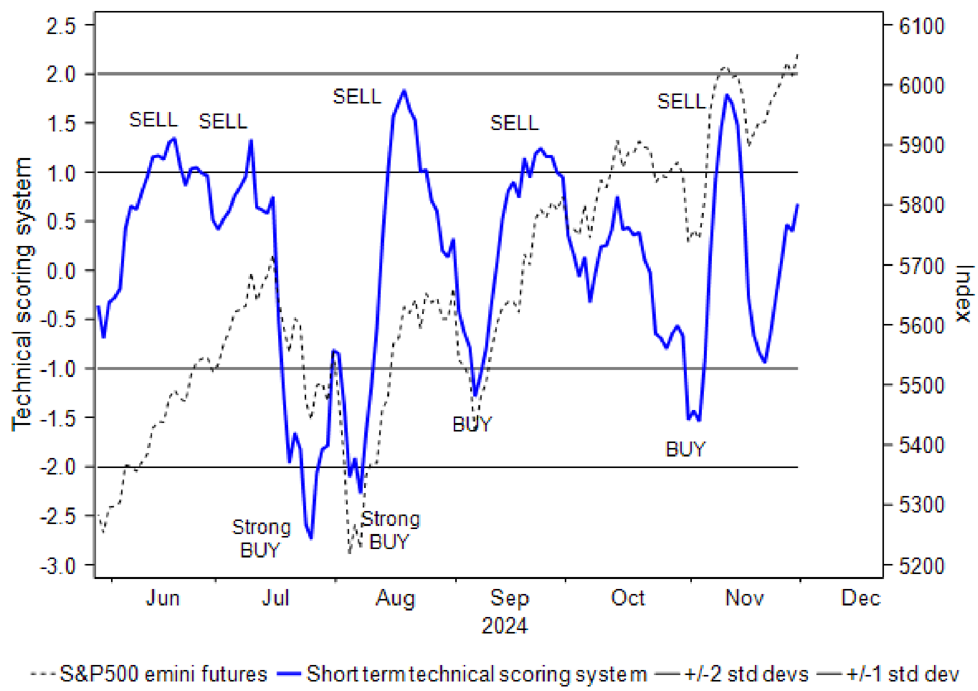
FIG 3a: Longview combined key **‘risk appetite’** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

Key US equity indices are not overbought in the short term…..

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



Source: Longview Economics, Macrobond

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

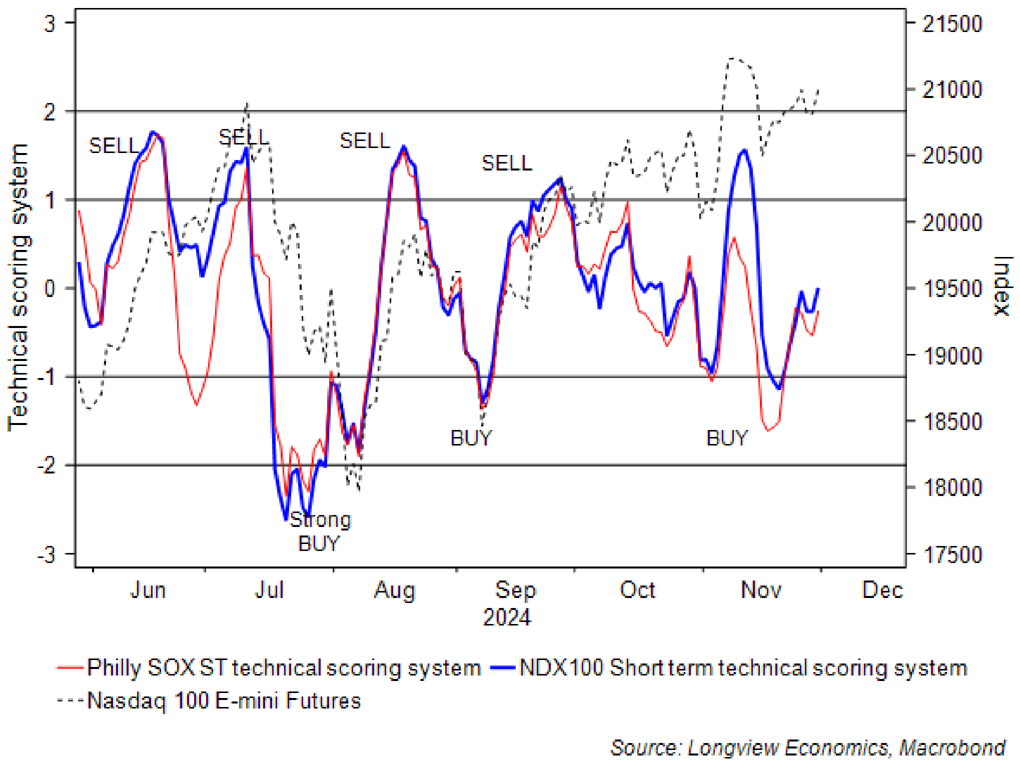


FIG 4b: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

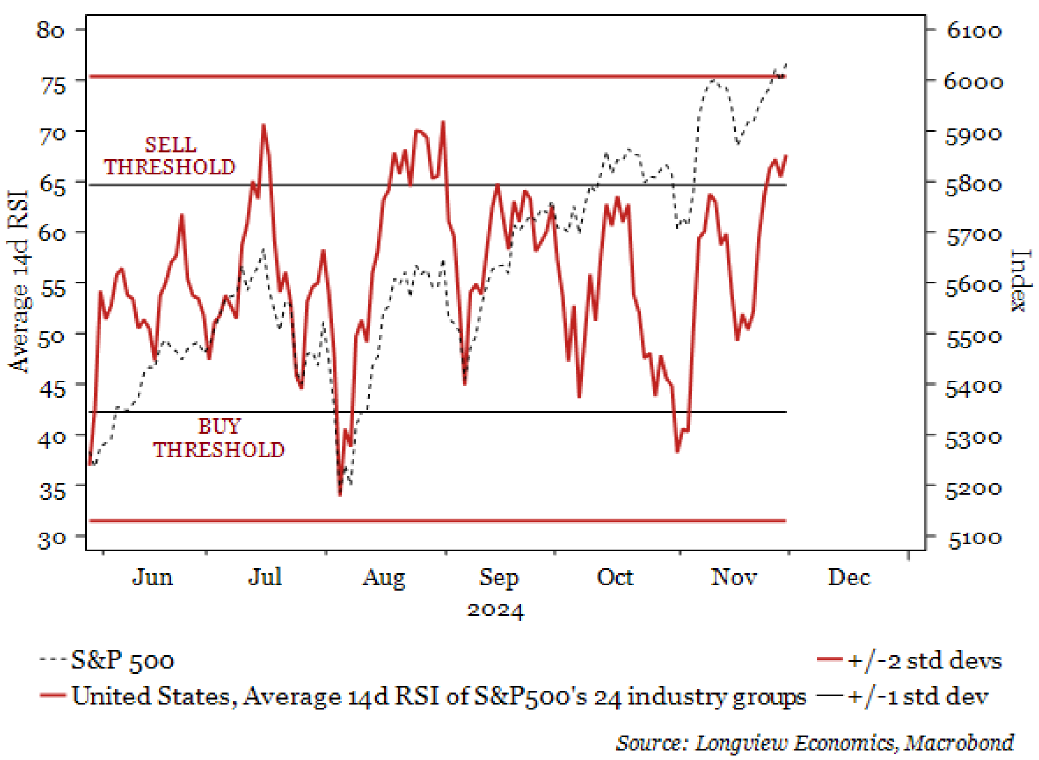
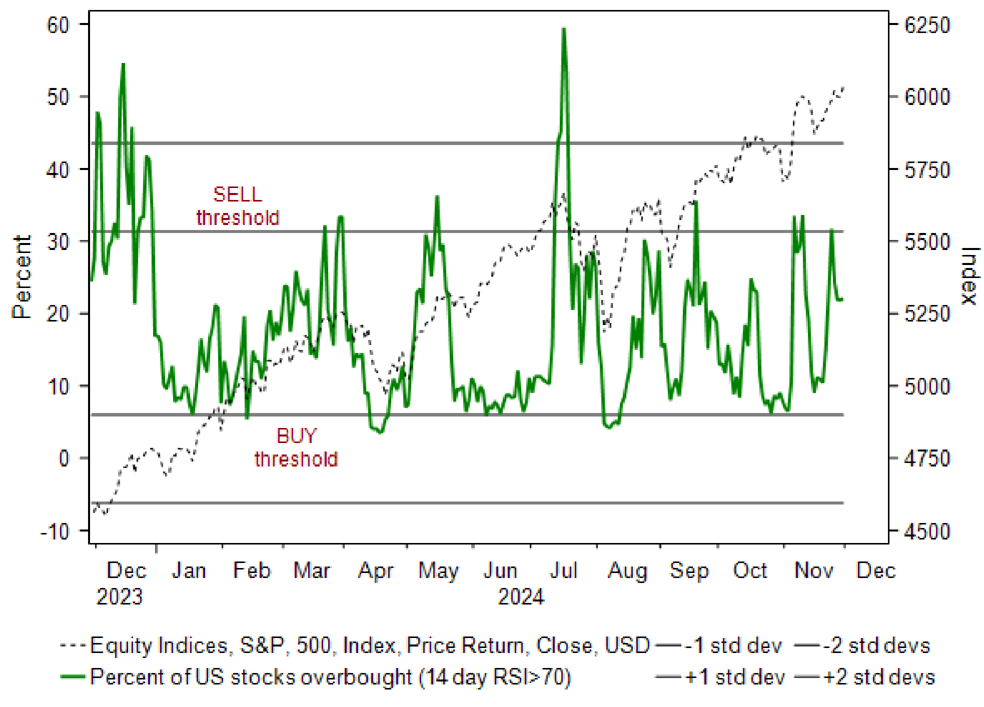
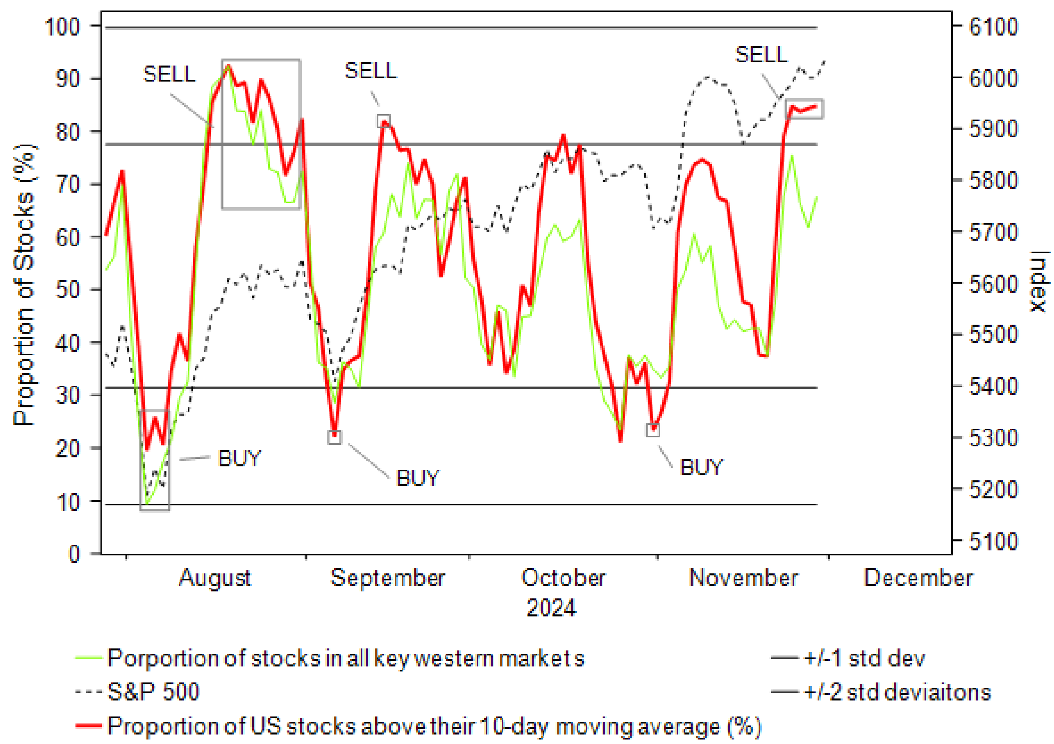


FIG 4c: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



Source: Longview Economics, Macrobond

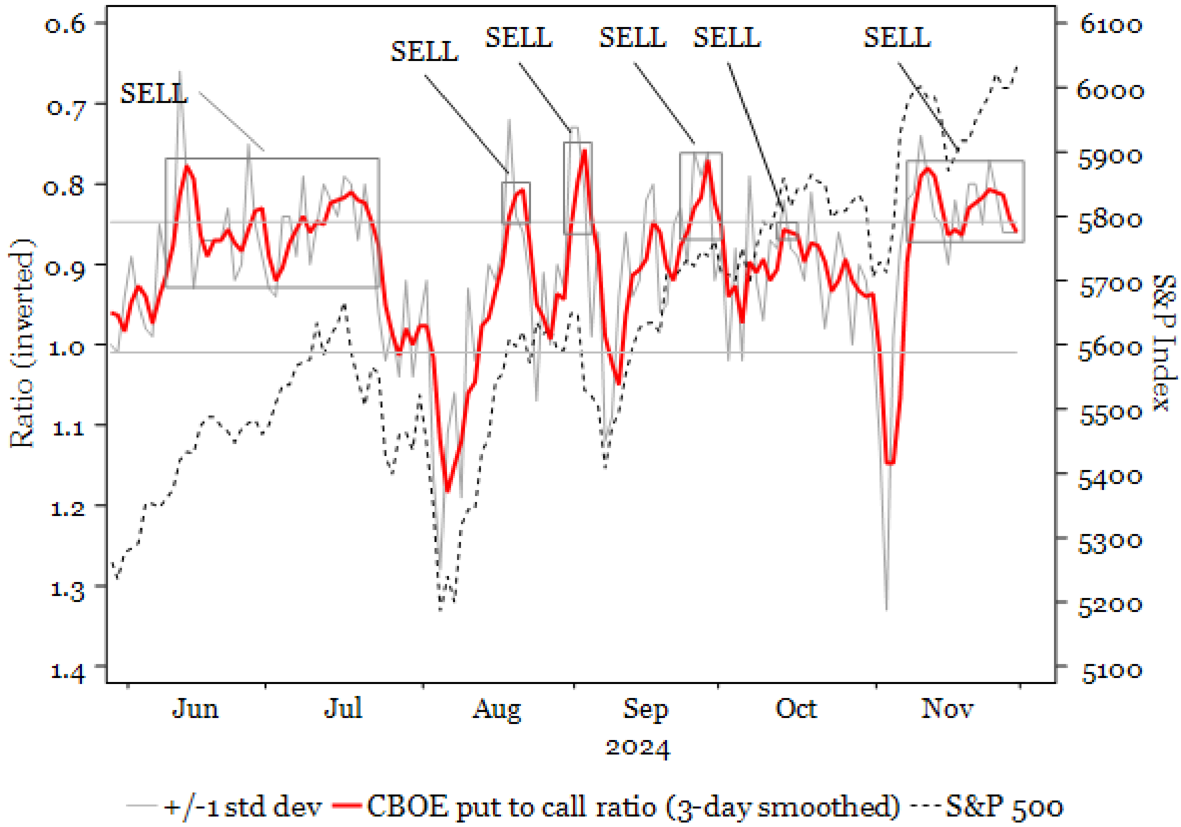
FIG 4d: Proportion of Western stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection in portfolios is low…

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

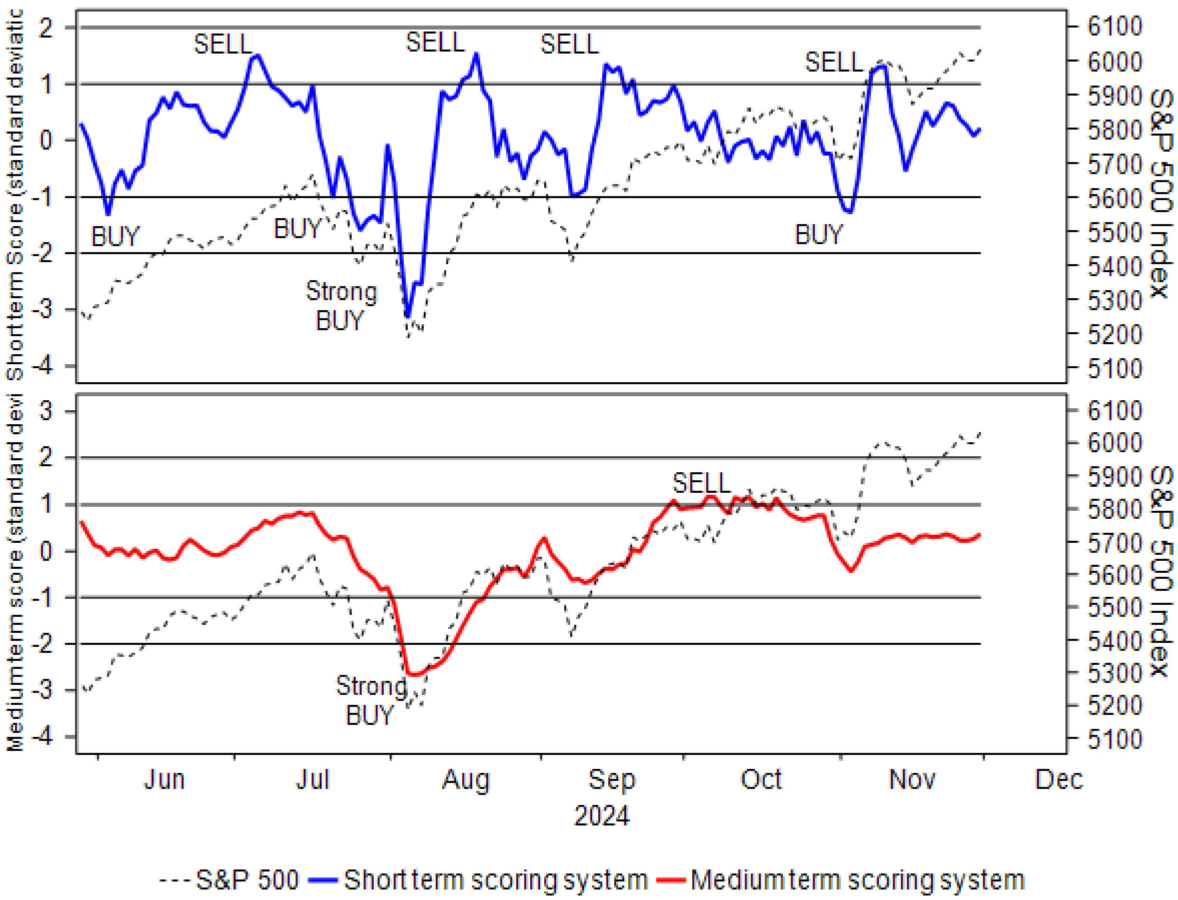


Source: Longview Economics, Macrobond

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 (Nov, 12am); UK Lloyds business barometer (Nov, 12:01am); Japanese Jibun Bank manufacturing sector PMI (November final estimate, 12:30am); Australian ANZ-Indeed job advertisements (Nov, 12:30am); Australian building approvals, private sector housing, and retail sales (Oct, 12:30am); **Chinese Caixin manufacturing sector PMI** (Nov, 1:45am); **Nationwide house prices** (Nov, 7am); HCOB manufacturing sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all November final estimates apart from Spain & Italy; Italian unemployment rate (Oct, 9am); Italian GDP (Q3 final estimate, 9am); UK S&P manufacturing sector PMI (November final estimate, 9:30am); Eurozone unemployment rate (Oct, 10am); US S&P manufacturing sector PMI (November final estimate, 2:45pm); US construction spending (Oct, 3pm); **US ISM manufacturing** (Nov, 3pm); Italian new car sales (Nov, 5pm); Japanese money supply (Nov, 11:50pm).

Key events today include: Speech by the RBA's Jacobs to the Australian Securitisation conference (2:25am); speeches by the Fed's Waller at Fed Framework conference (8:15pm) & Williams at the Queens Chamber of Commerce (9:30pm).

Key earnings today include: Zscaler.

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.

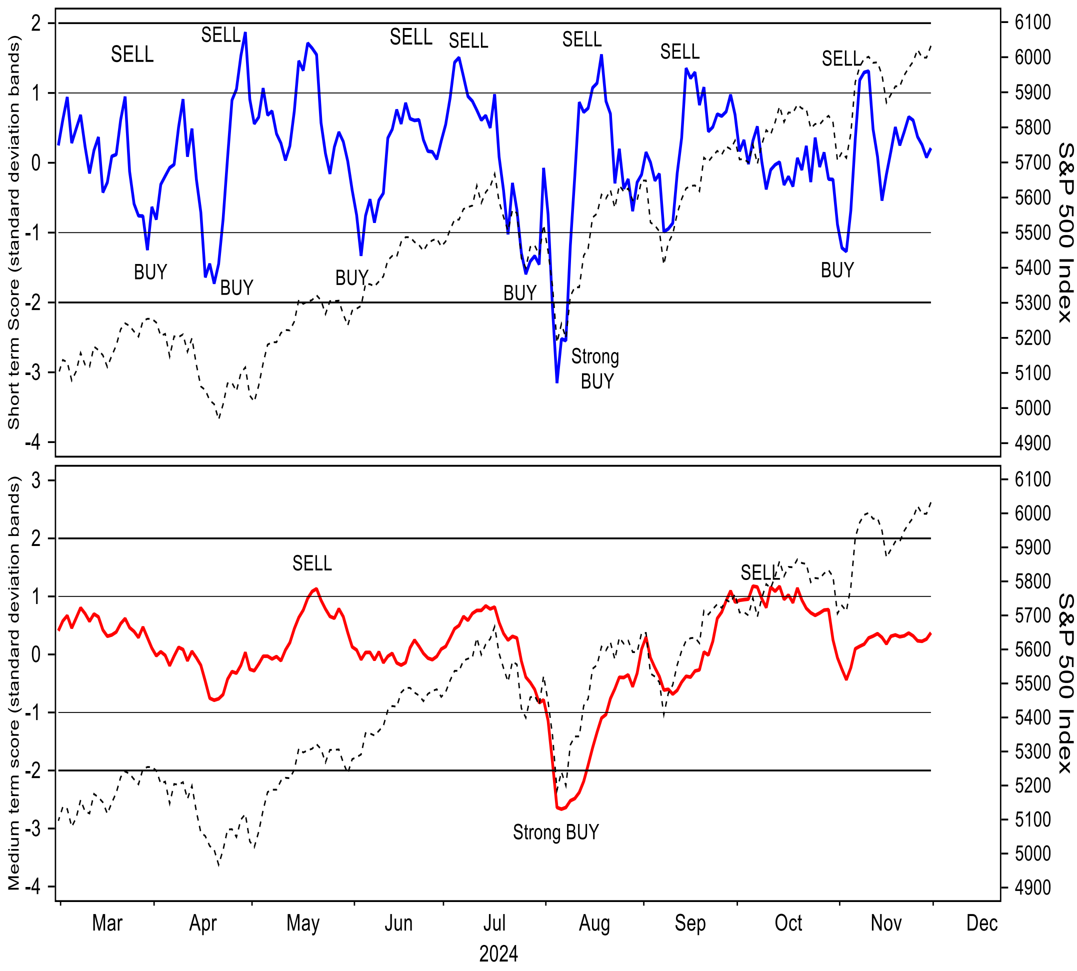
1 – 2 Week View on Risk

2nd December 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

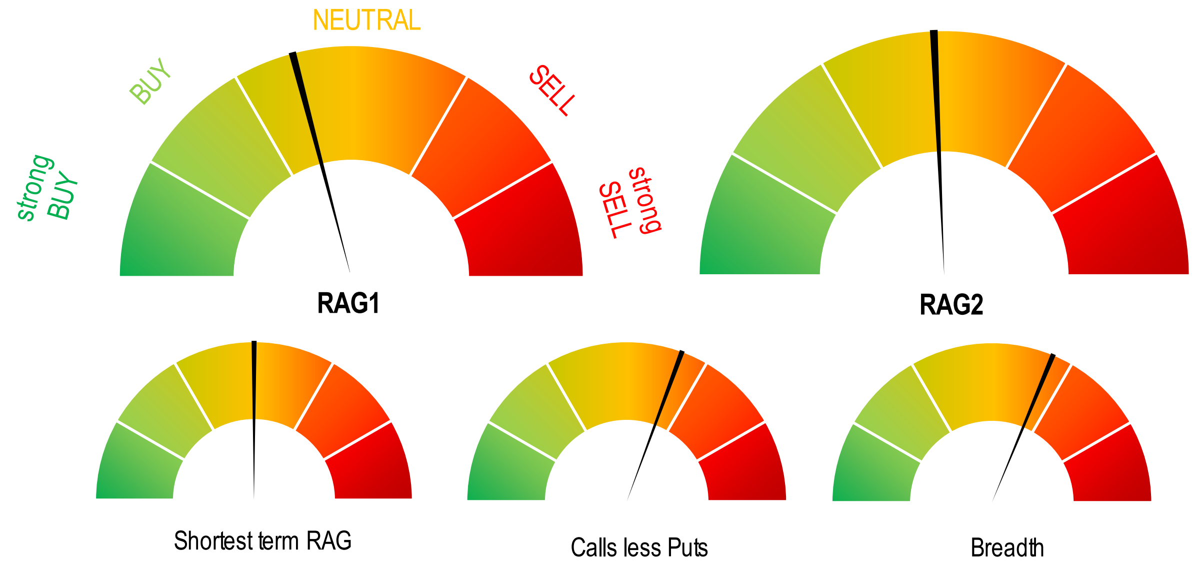
Source: Longview Economics, Macrobond

*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

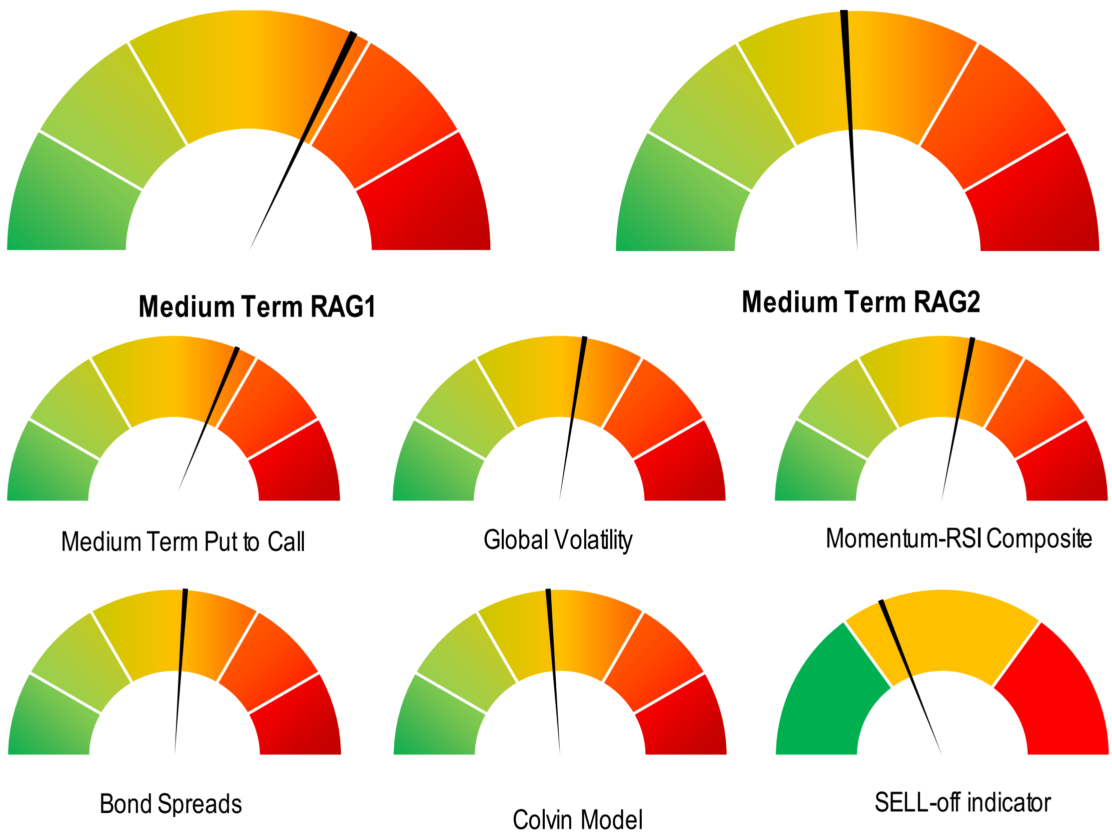
Section 1a: Summary of indicator signals**

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

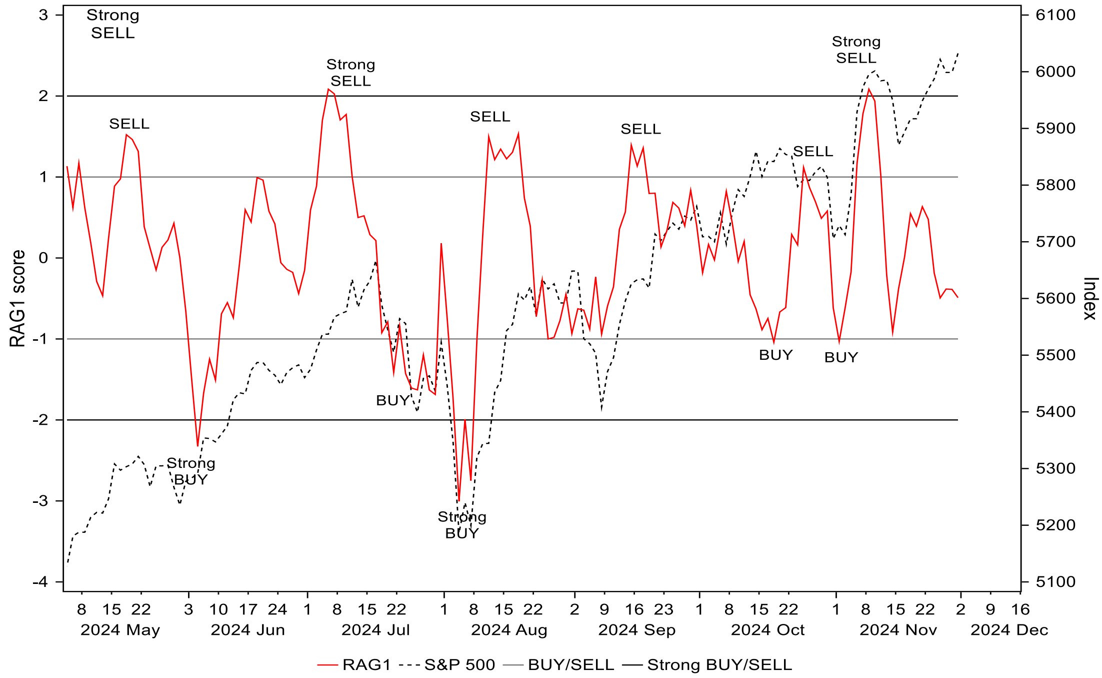


Source: *Longview Economics*

**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

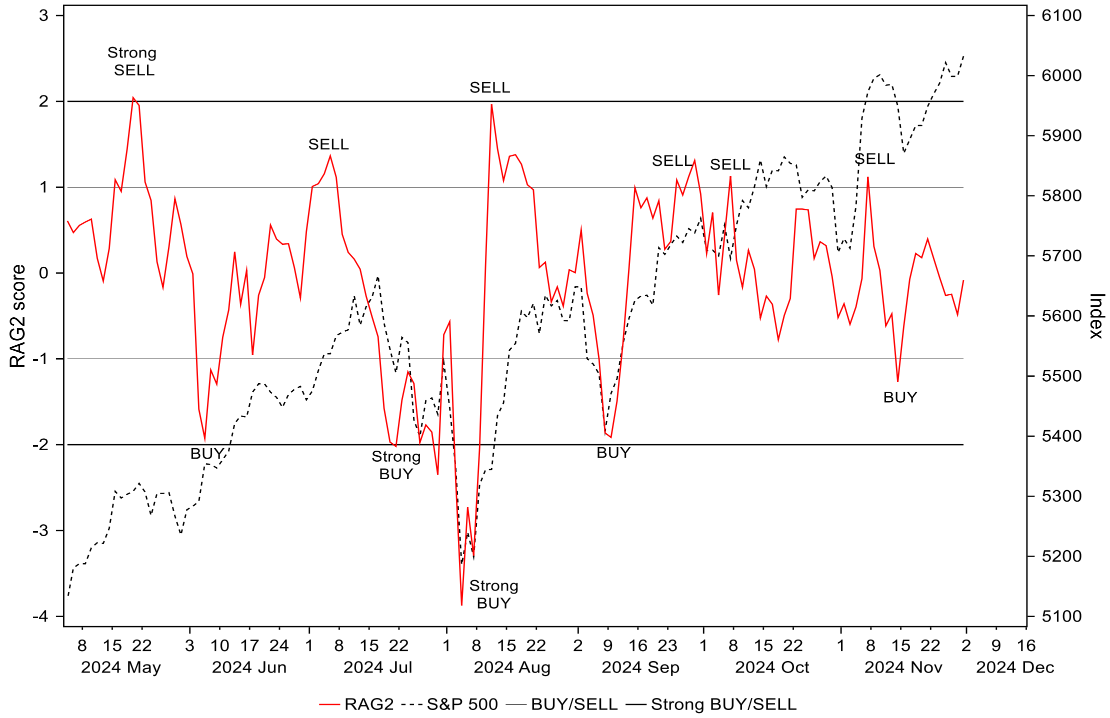
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

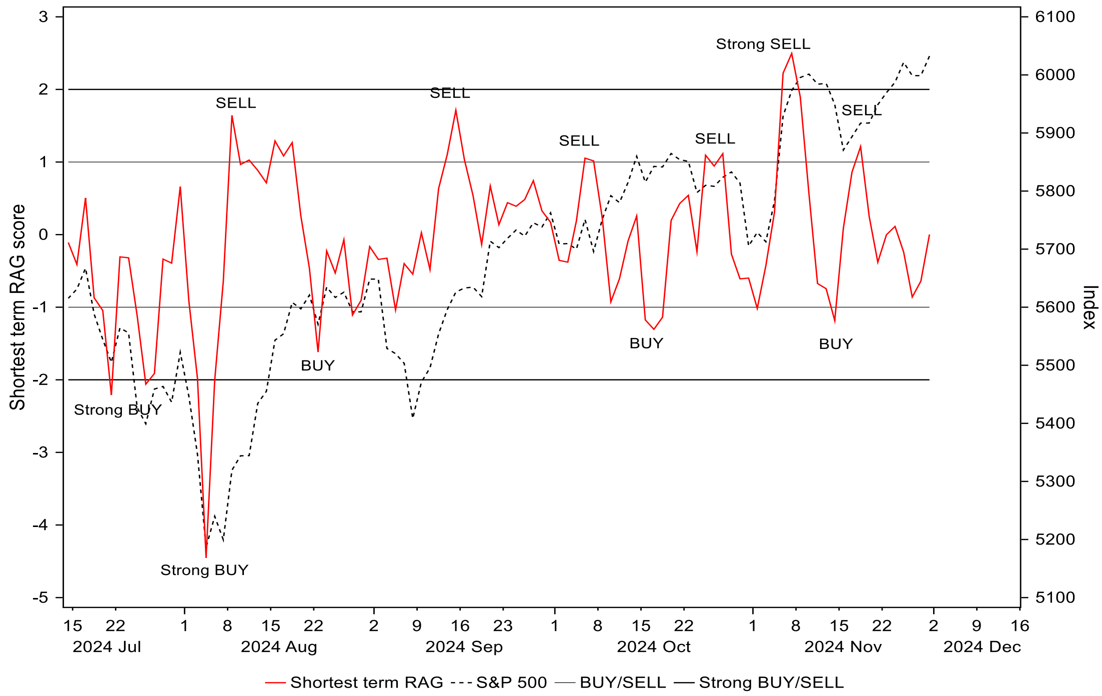


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

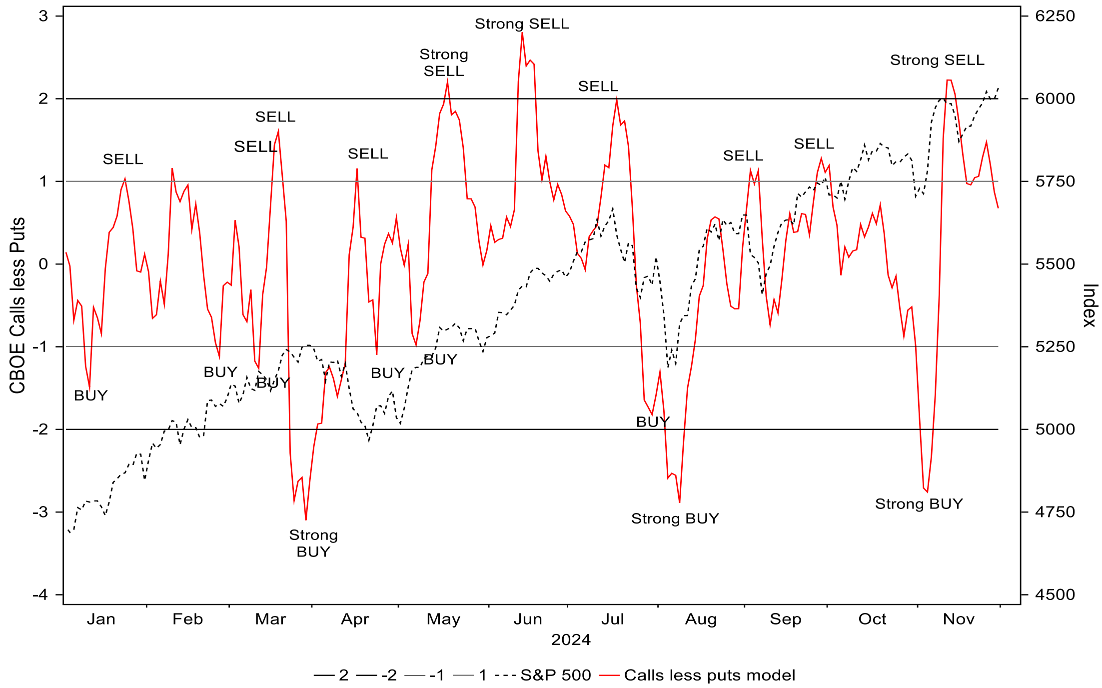
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

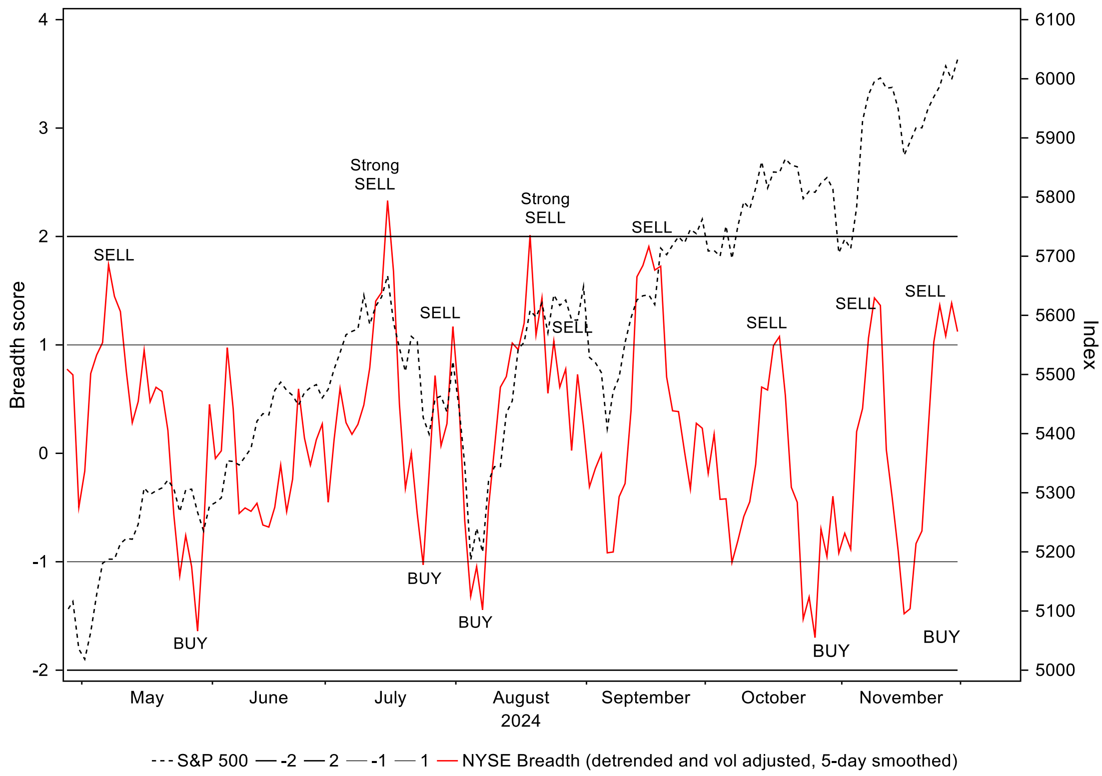


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



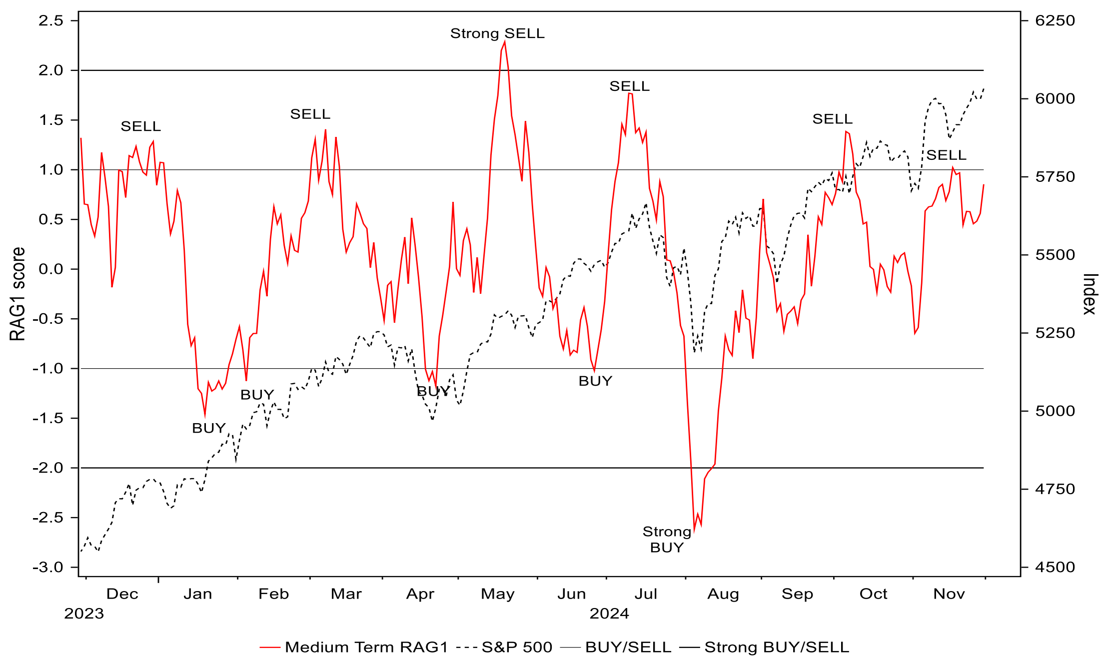
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

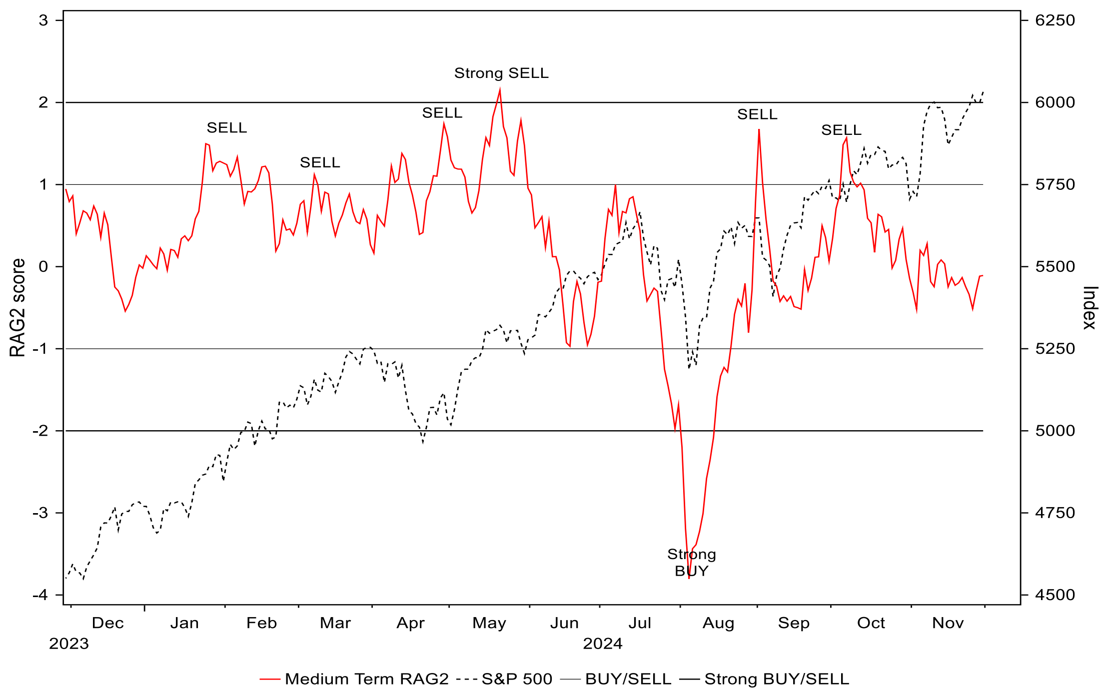
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

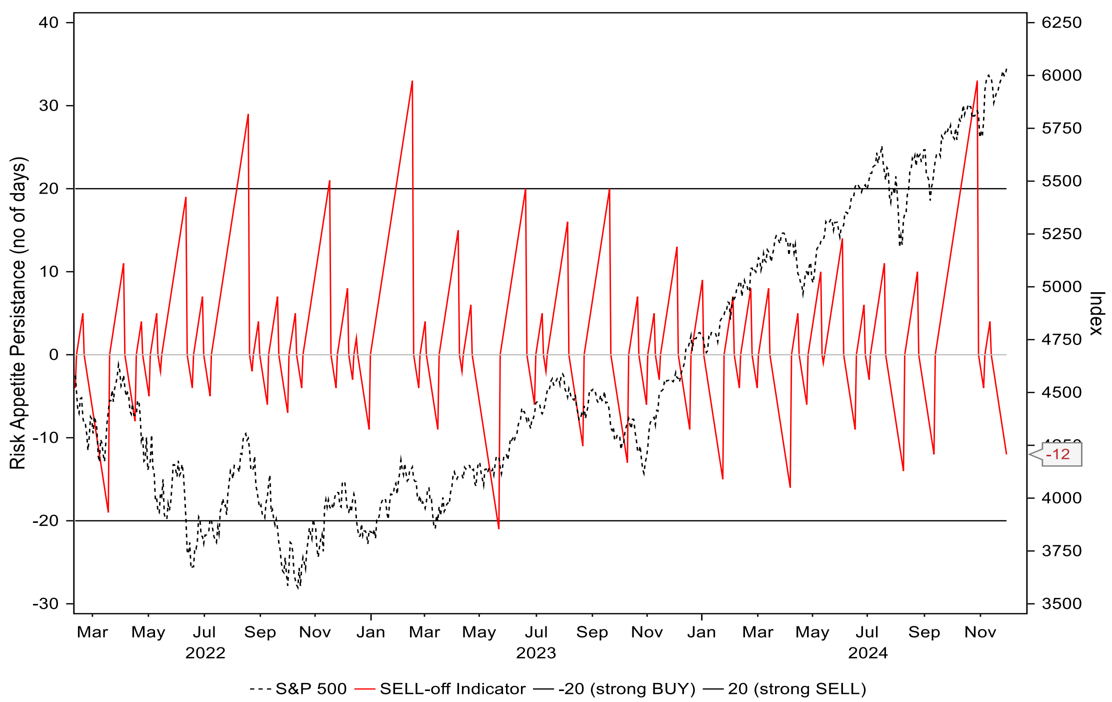


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

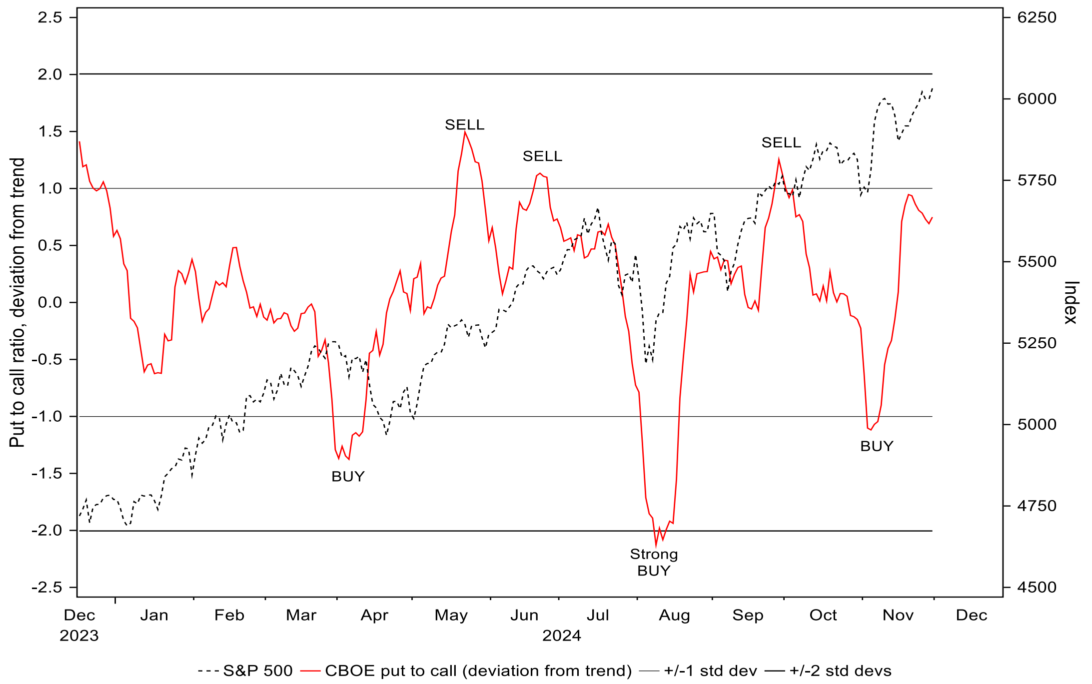
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

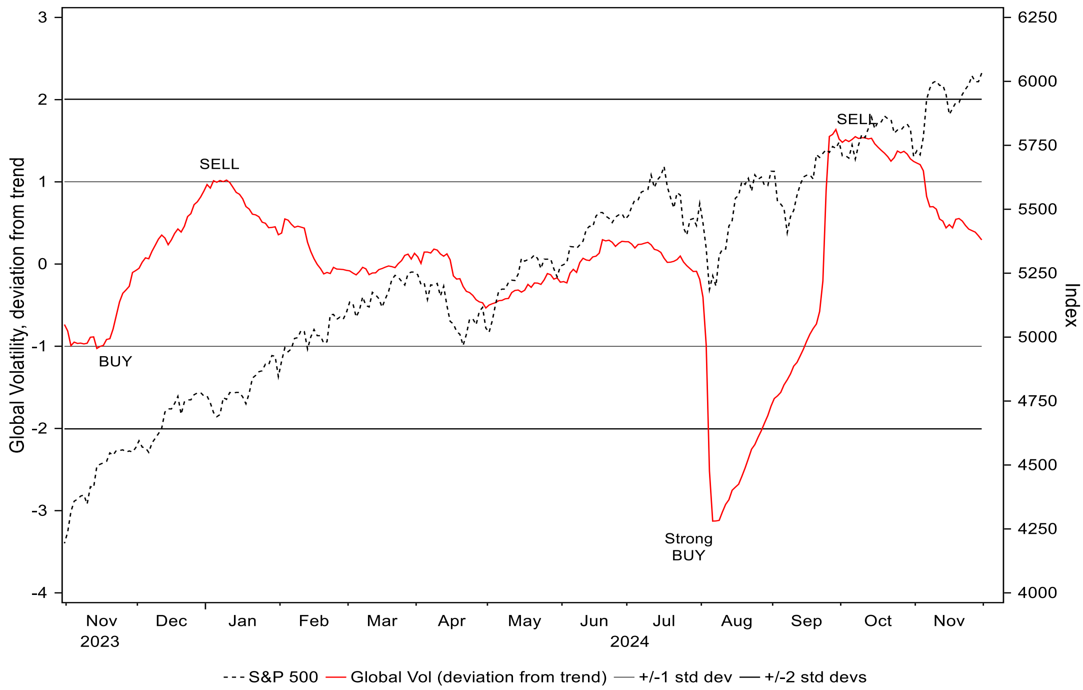


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

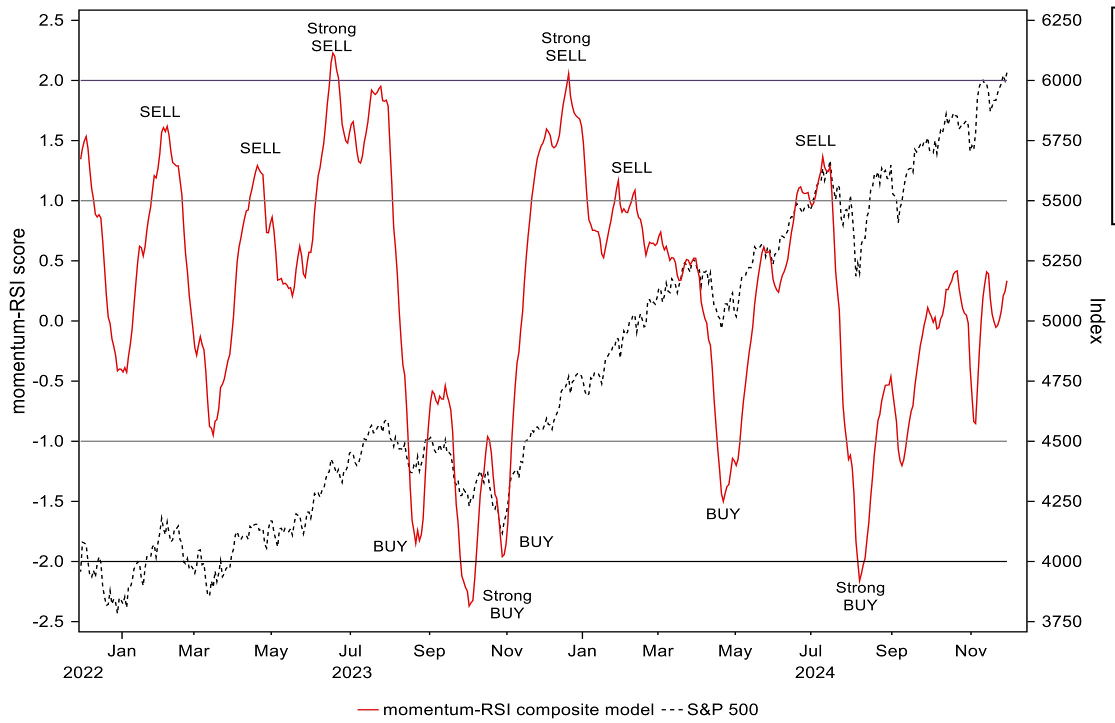
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

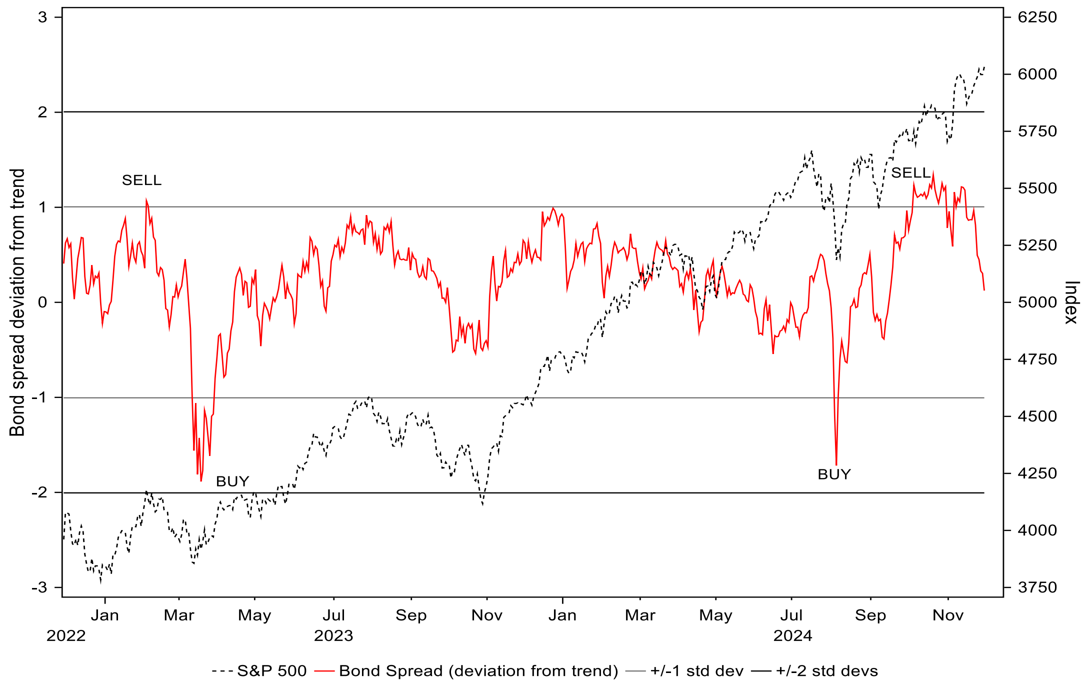
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

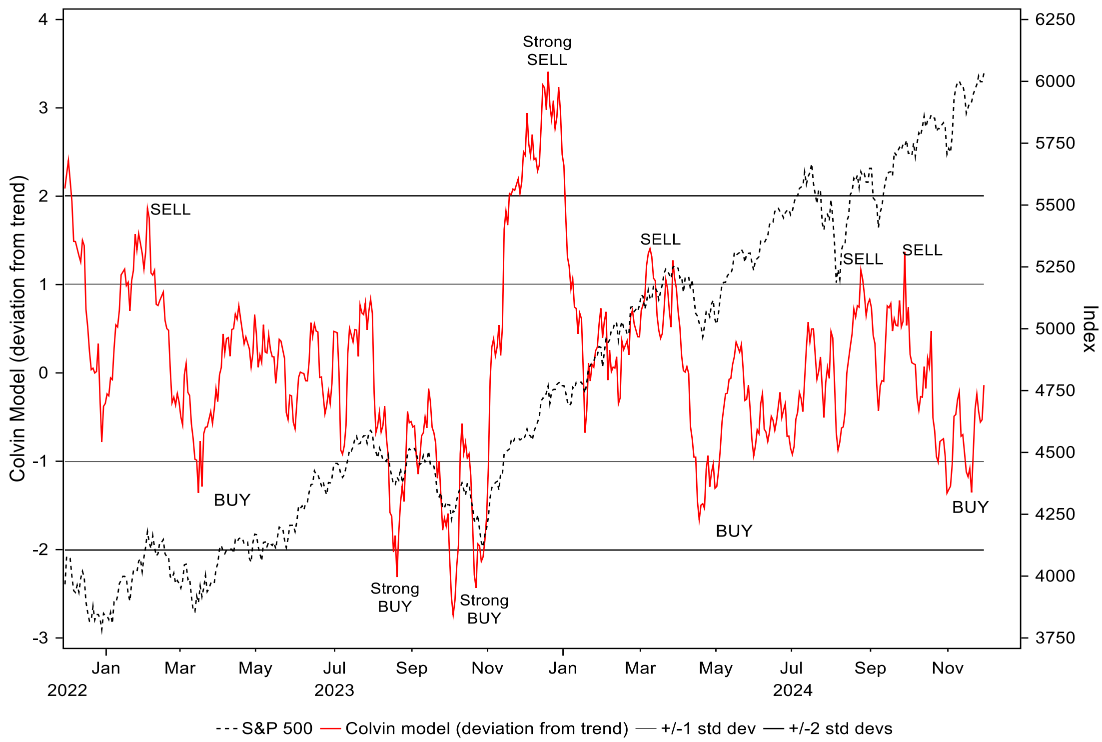
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

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