

# Equity Index Futures Trading Recommendations

“WATCH & WAIT”

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30<sup>th</sup> January 2025

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

- WATCH & WAIT

## Rationale

“We do not need to be in a hurry to adjust our policy stance”

**Source:** Federal Reserve Chair Powell, 29<sup>th</sup> January ’25 press conference

Markets viewed yesterday’s message from the Fed as somewhat hawkish. In particular, the language in the statement was tweaked to read that labour market conditions “remain solid” (from “generally eased” in the prior statement) and that inflation “remains somewhat elevated” (rather than “has made progress toward the Committee’s 2% objective”). In the press conference, Powell suggested that the Fed was in ‘wait and see’ mode (e.g. see quote above), and that policy was currently “very well calibrated” (i.e. to achieve its two main policy goals).

The market reaction was mixed. US Treasury yields, for example, moved sharply higher across the curve on the statement while equity indices sold off. By the close, though, the 10 year yield was unchanged on the day and equities had retraced much of their losses. The S&P500, for example, closed 0.5% lower (having been down 0.8% earlier in the day). Earnings from key tech stocks after hours (Microsoft, Meta, & Tesla) were mixed and NDX/SPX futures are trading higher overnight. Of note S&P500 is currently trading towards the top of its multi-month range (but has failed to break out – see FIG 1b).

Most of our short term models, **having been on SELL earlier this week, are now NEUTRAL/mid-range**. Risk appetite indicators, for example, are NEUTRAL (FIGs 2 & 2a); technical scoring systems have unwound their SELL signals (FIGs 4 & 4a); the NASDAQ100 put to call model is leaning towards BUY (the CBOE indicator is on SELL, see FIGs 3 & 3b); while various single stock and sector breadth models are also no longer on SELL (FIGs 5 & 5a and FIG 1c). Overall, therefore, short term models are not providing a clear steer on market direction (albeit they have a SELL bias).

Given that mixed message from short term models, the risk reward continues to favour WATCHing & WAITing for now.

Of note, though, our medium term models suggest that signs of complacency/frothiness in markets are building/elevated. Our SELL-off indicator, for example, is on a reading of +17 (FIG 1). At +20 it warns of a pullback in global risk assets (i.e. potentially in three trading days' time). Elsewhere our medium term 'RAG1 plus RAG2' model has turned SELL overnight (FIG 1a). The case for re-establishing SHORT equity positions, at some stage in coming days/weeks, is therefore growing.

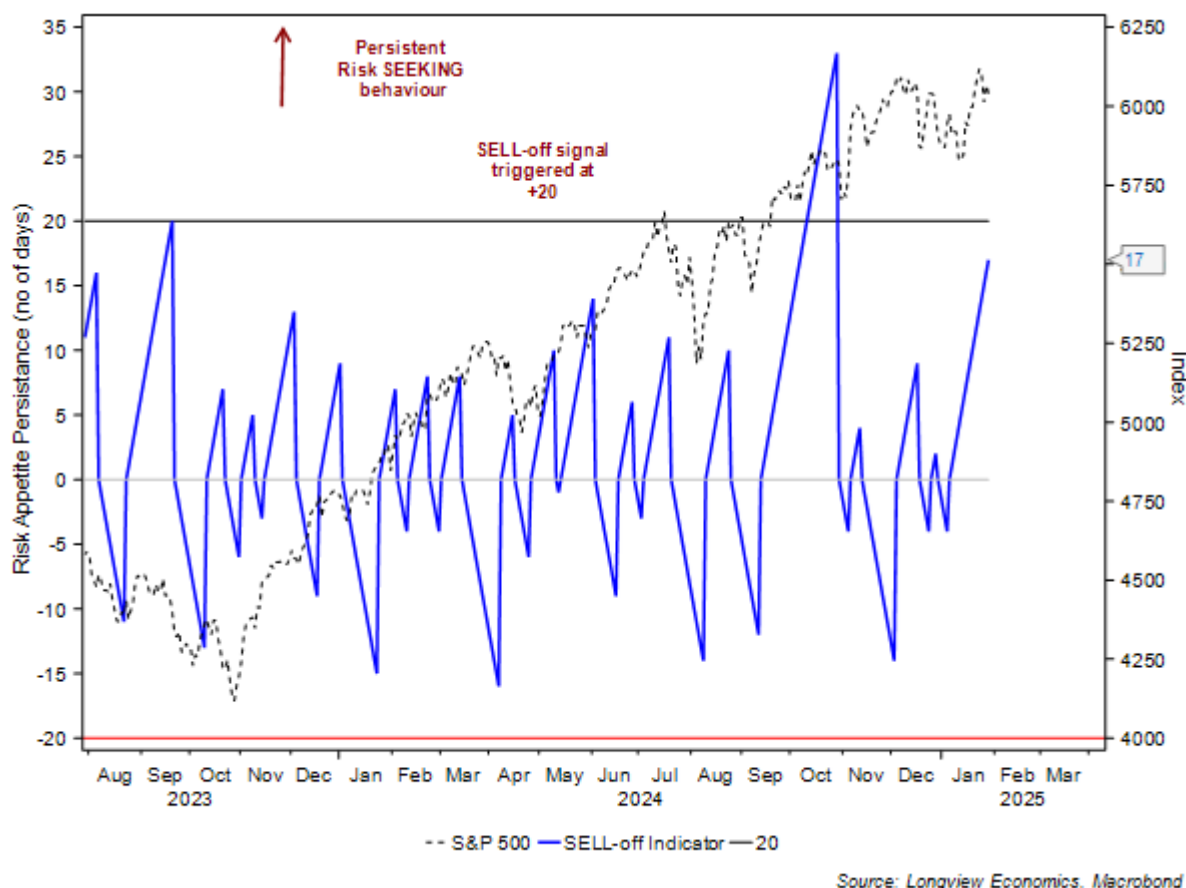
Please see below for a full list of today's key macro data, events, and US earnings reports.

Kind regards,

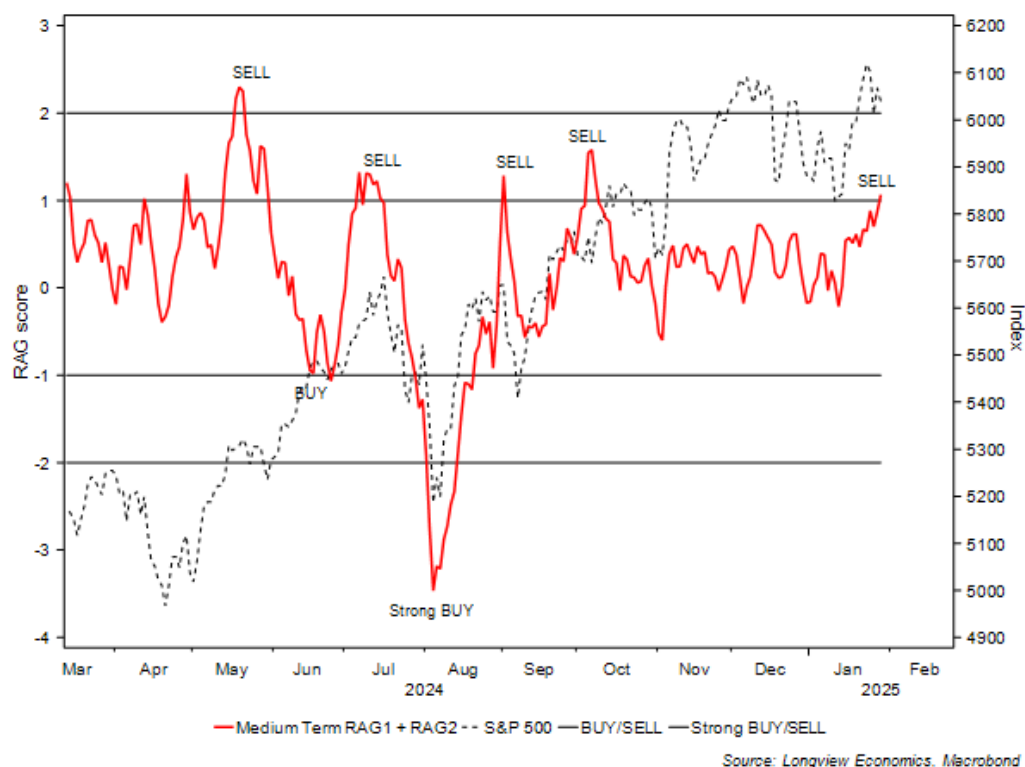
The team @ Longview Economics

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**



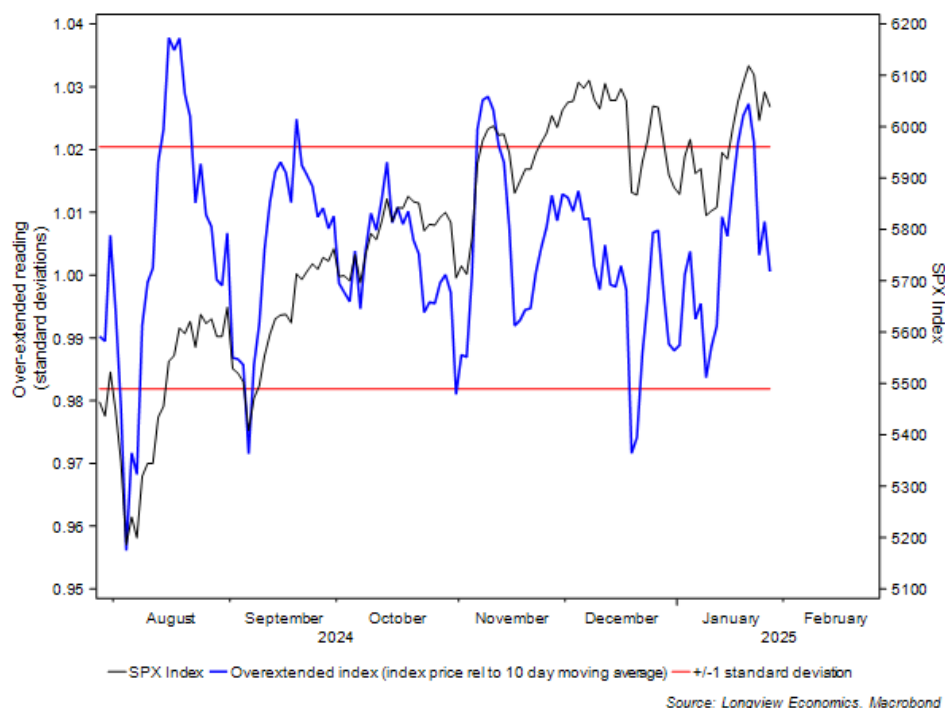
**FIG 1a:** Medium term RAG1 & RAG2 vs. S&P500



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

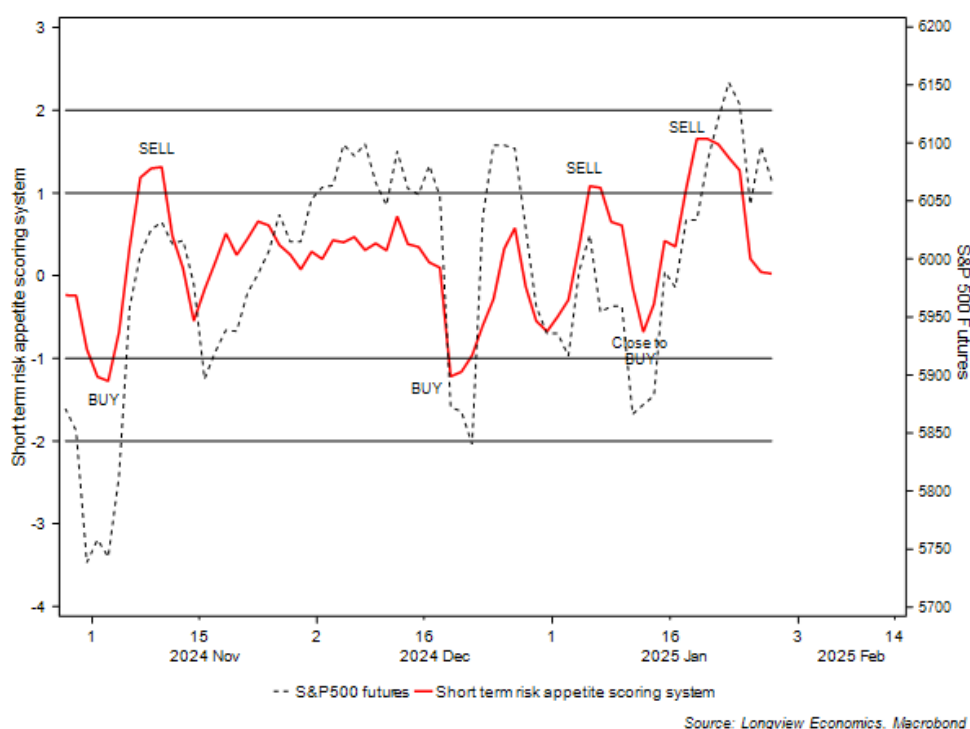


**FIG 1c: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500**

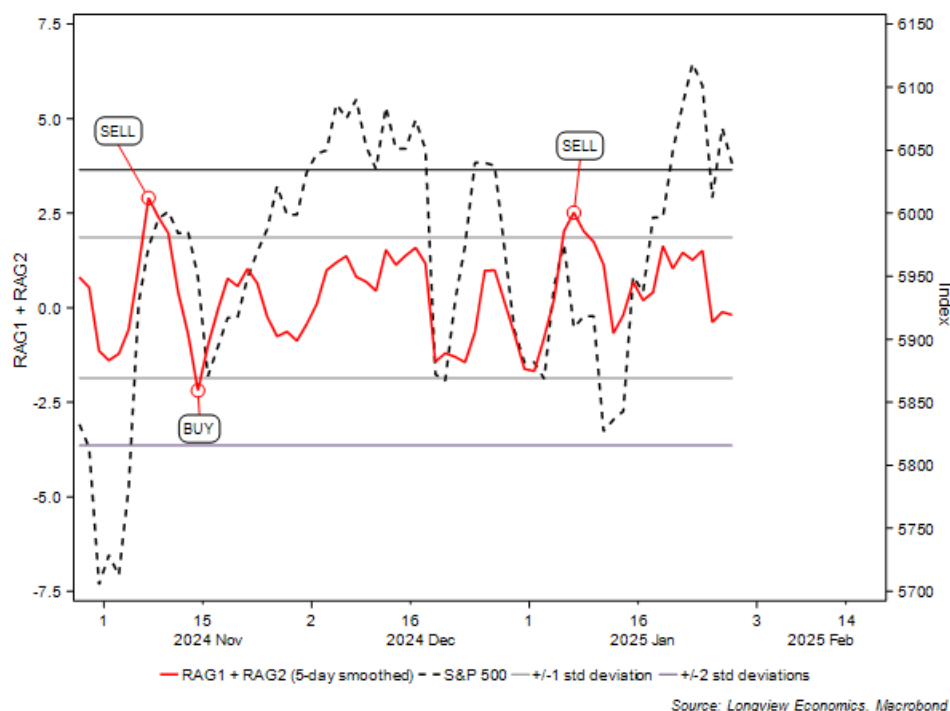


**Risk appetite models are mid-range...**

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

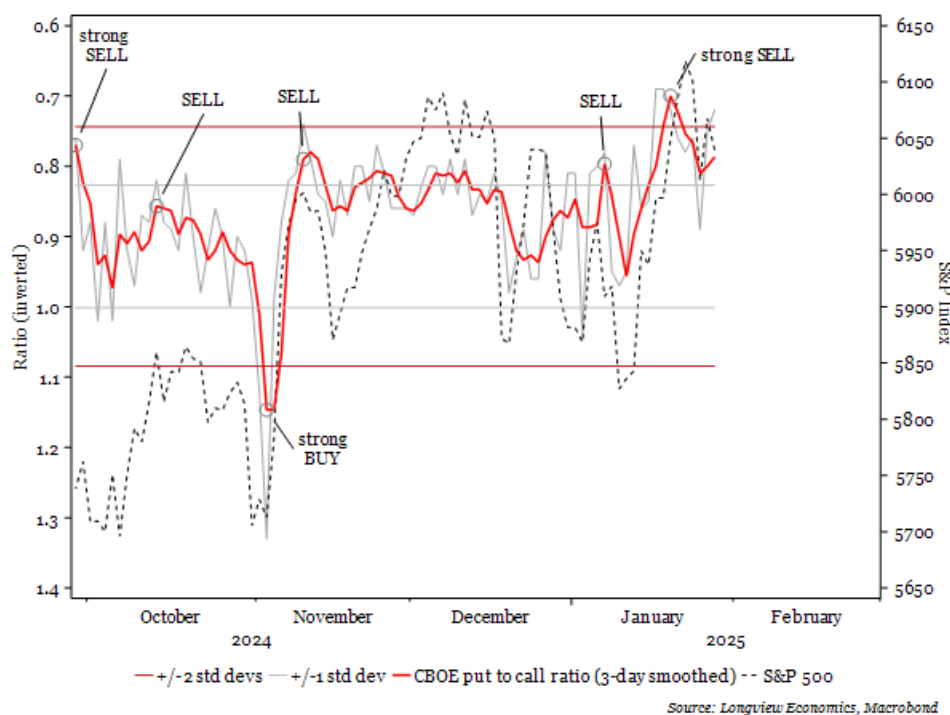


**FIG 2a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



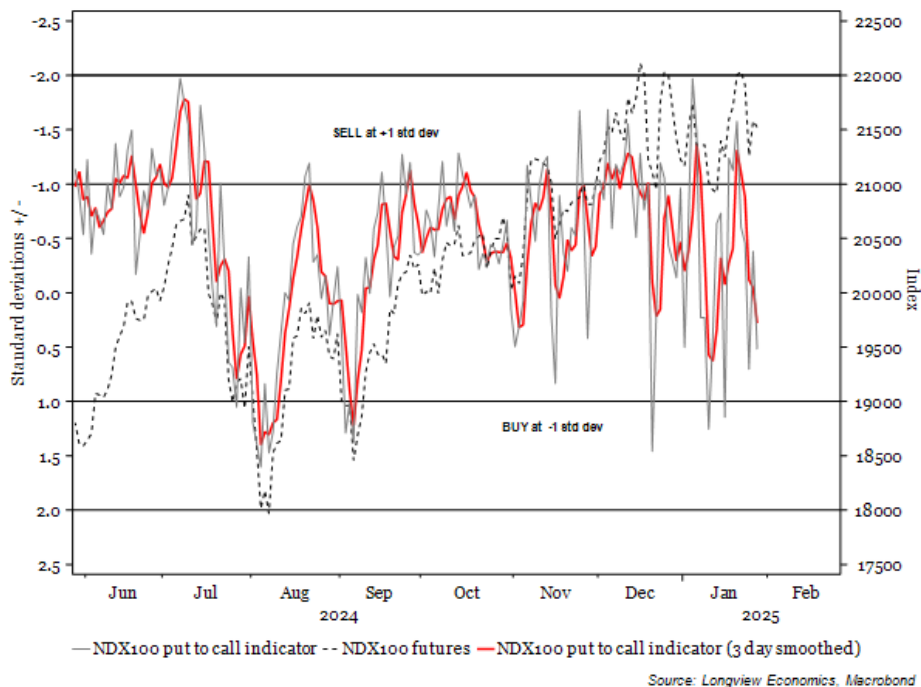
**The three day put to call model is on strong SELL.....**

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



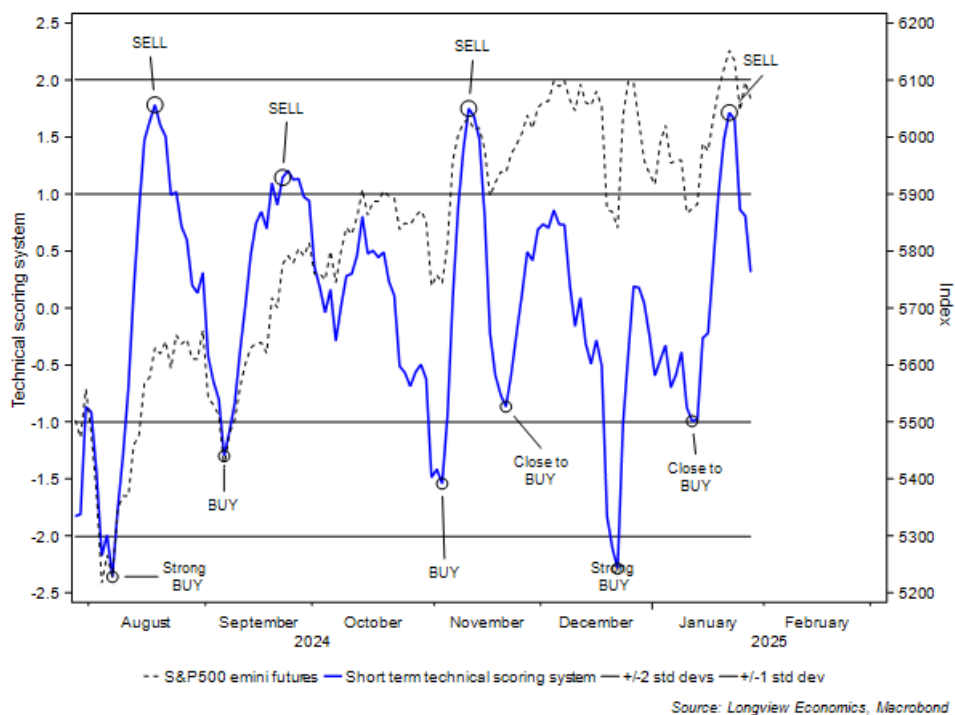
...While the NDX100 put to call model leaning towards **BUY**.

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

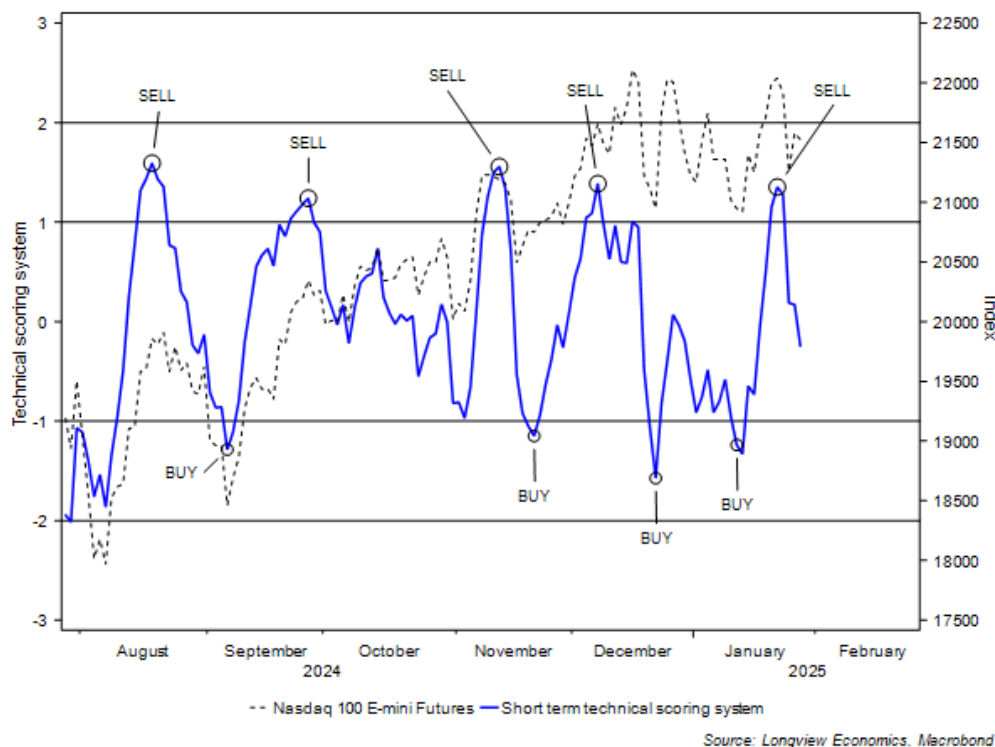


Technical models (for indices) are **NEUTRAL**....

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

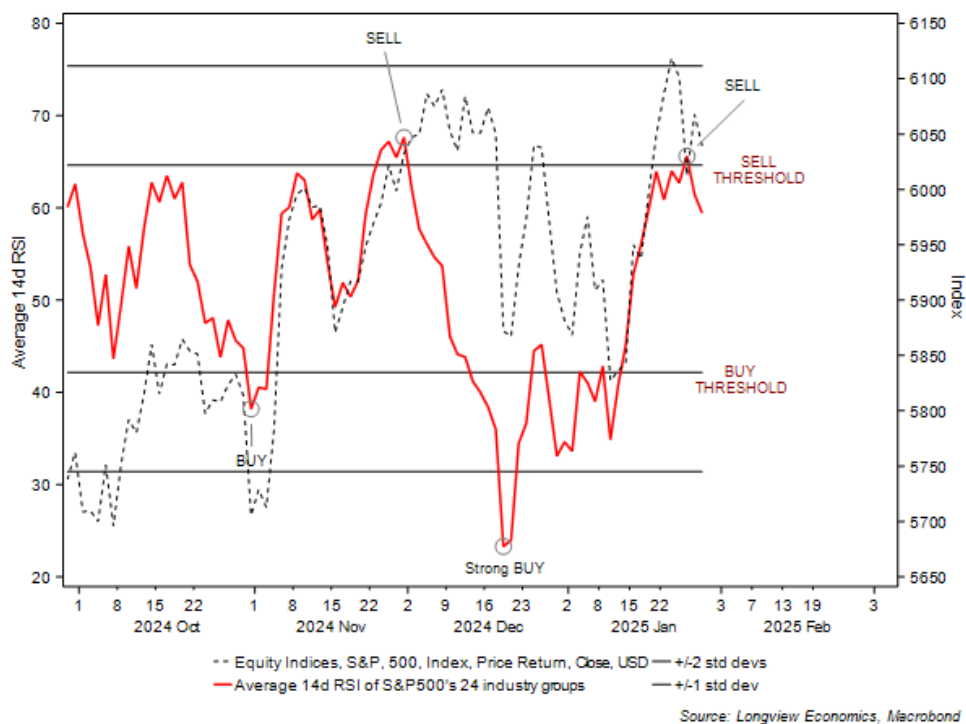


**FIG 4a:** Longview NASDAQ100 short term **‘technical’** scoring system vs. NASDAQ100 futures



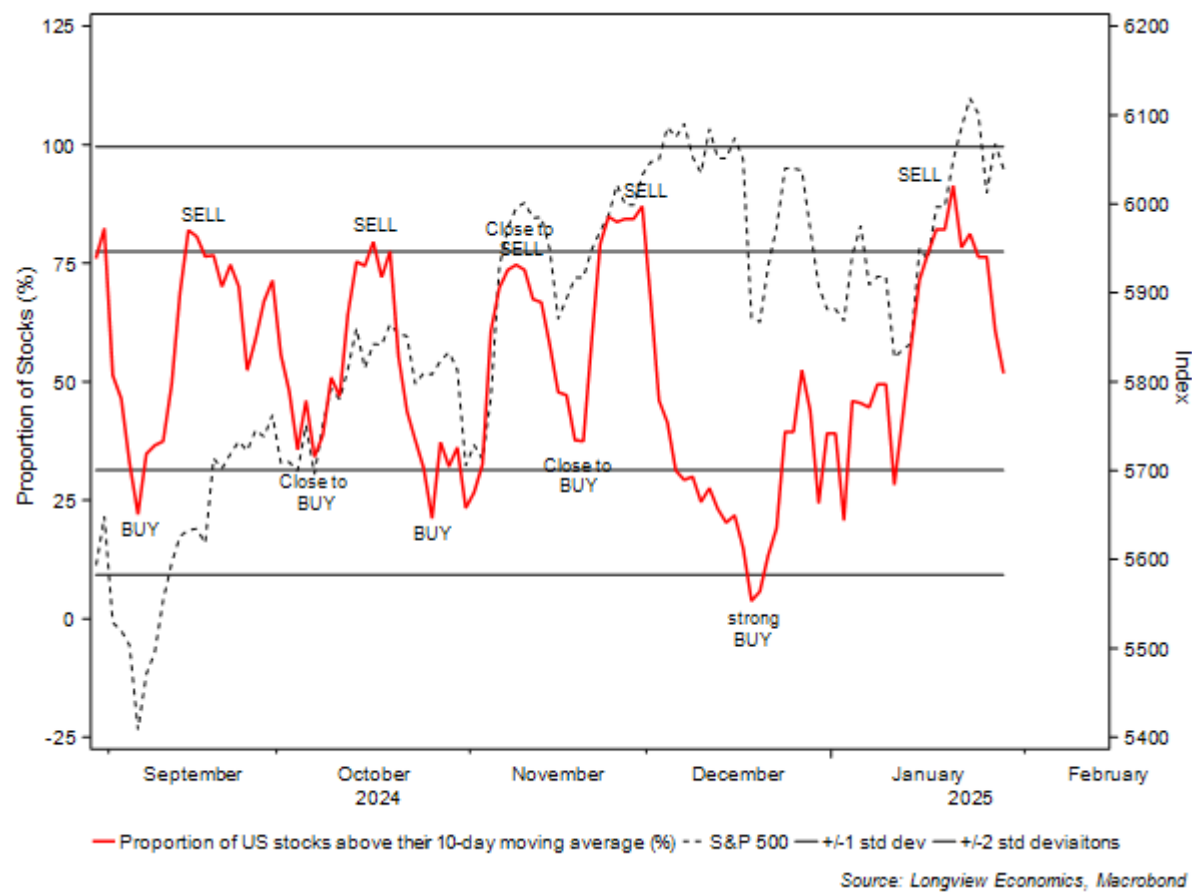
**Sector and single stock technical models are mixed/NEUTRAL....**

**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



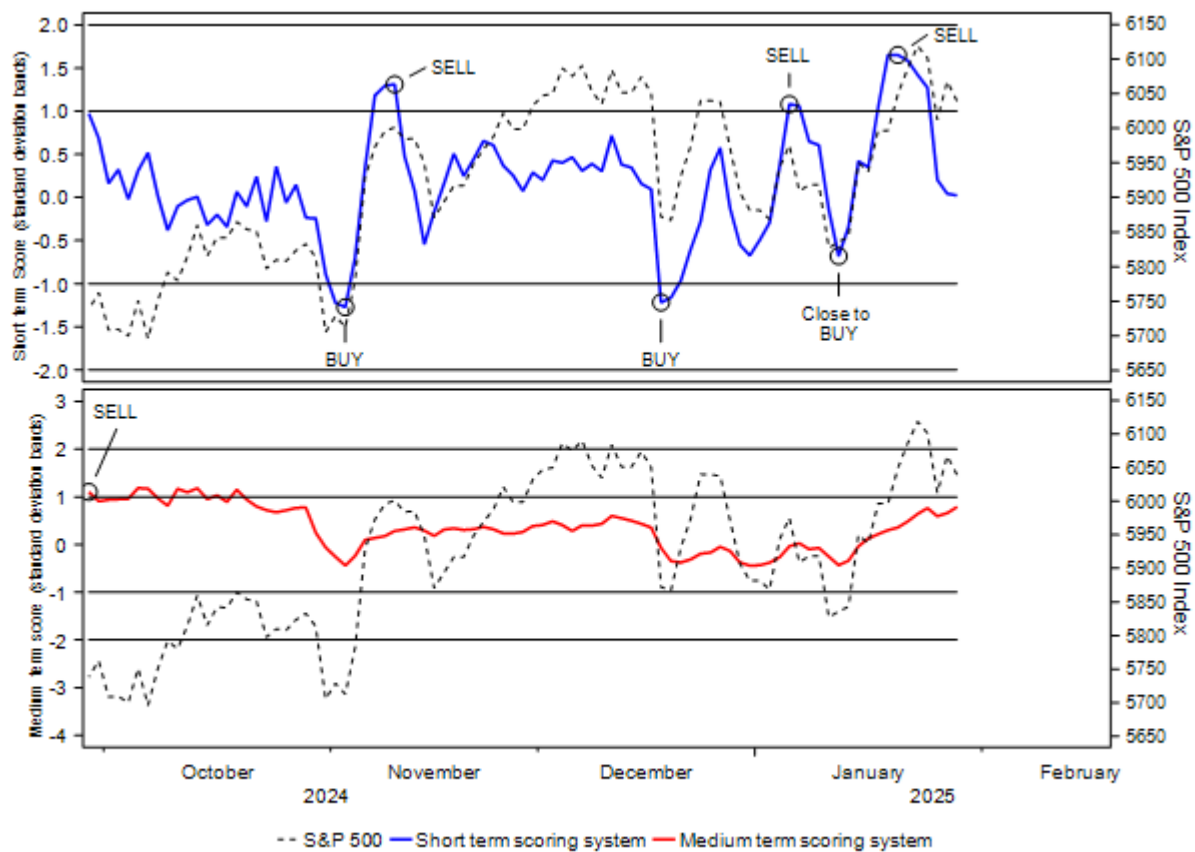


**Key Longview Scoring Systems** (chart below):

**Short term** (1 – 2 week) scoring system: **NEUTRAL**

**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: French consumer spending (Dec, 6:30am); **GDP** for **France** (6:30am), **Italy** (9am), **Germany** (9am) & **Eurozone** (10am) – all Q4 first estimates; **UK Nationwide house prices** (Jan, 7am); Spanish headline & core CPI (January first estimate, 8am); **UK Net consumer credit, mortgage approvals & M4 money supply** (Dec, 9:30am); European Commission consumer confidence (January, 10am); Italian unemployment rate (Dec, 9am); Eurozone unemployment rate (Dec, 10am); Canadian CFIB business barometer (Jan, 11am); Canadian employment change (Nov, 1:30pm); **US GDP** (Q4, 1:30pm); US weekly jobless claims (1:30pm); US pending home sales (Dec, 3pm); Japanese jobless rate (Dec, 11:30pm); **Japanese retail sales** (Dec, 11:50pm); **Japanese industrial production** (December first estimate, 11:50pm).

**Key events** today include: Speech by the RBA's Jones in a fireside chat (3:20am); speech by the BOJ Deputy Governor Himino at Hitotsubashi University (6:10am); **ECB policy decision** (1:15pm) followed by Lagarde press conference (1:45pm); market holidays in various Asian countries e.g. China on account of Chinese New Year (Tues – Fri).

**Key earnings** today include: **Apple, Amazon, Visa A, Mastercard, Blackstone**, Thermo Fisher Scientific, Caterpillar, Comcast, United Parcel Service, Marsh McLennan, KLA corp, Intel, Sherwin-Williams, Trane Technologies, Parker-Hannifin, Altria, Cigna, Northrop Grumman, Arthur J Gallagher, Atlassian Corp Plc, **ABB, Nordea Bank, Shell**, H&M, Sanofi, Ferrari, BBVA, Caixabank, 3i Group, Chugai Pharmaceutical, Takeda Pharmaceutical, Oriental Land Co. Ltd., NEC 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).



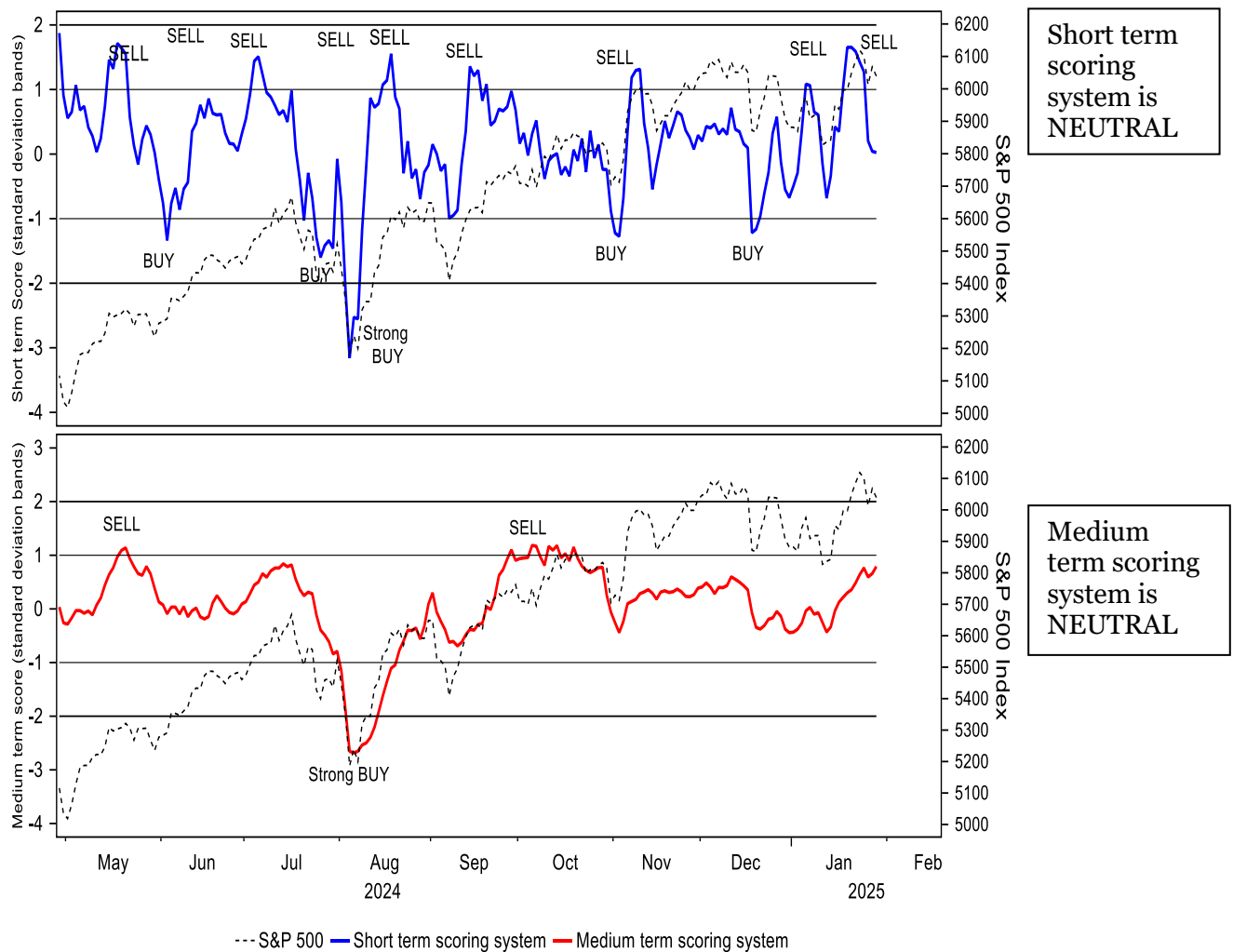
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30<sup>th</sup> January 2025

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

**Fig 1:** Longview ‘short term’ and ‘medium term’ scoring systems



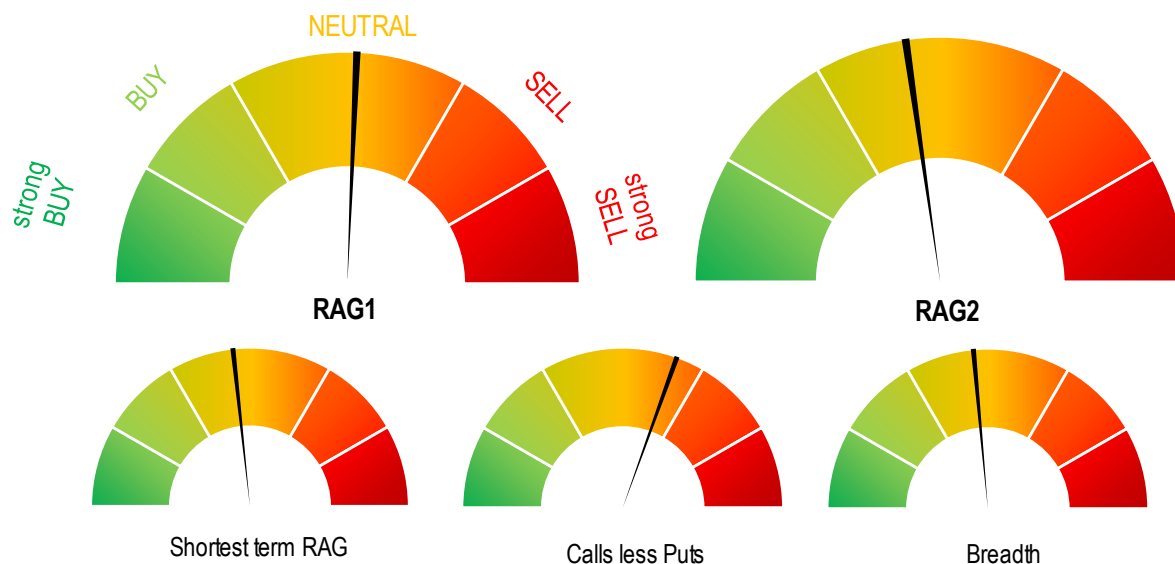
Source: Longview Economics, Macrobond

\*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**

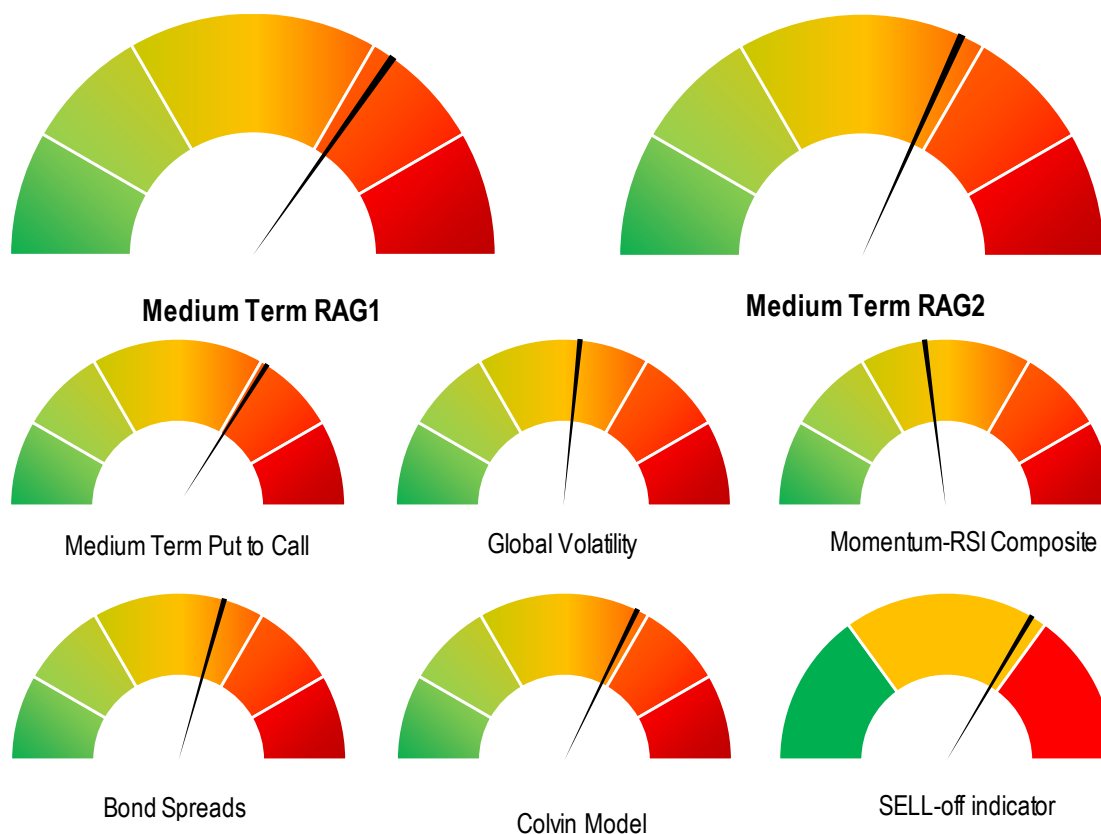
## Section 1a: Summary of indicator signals\*\*

**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

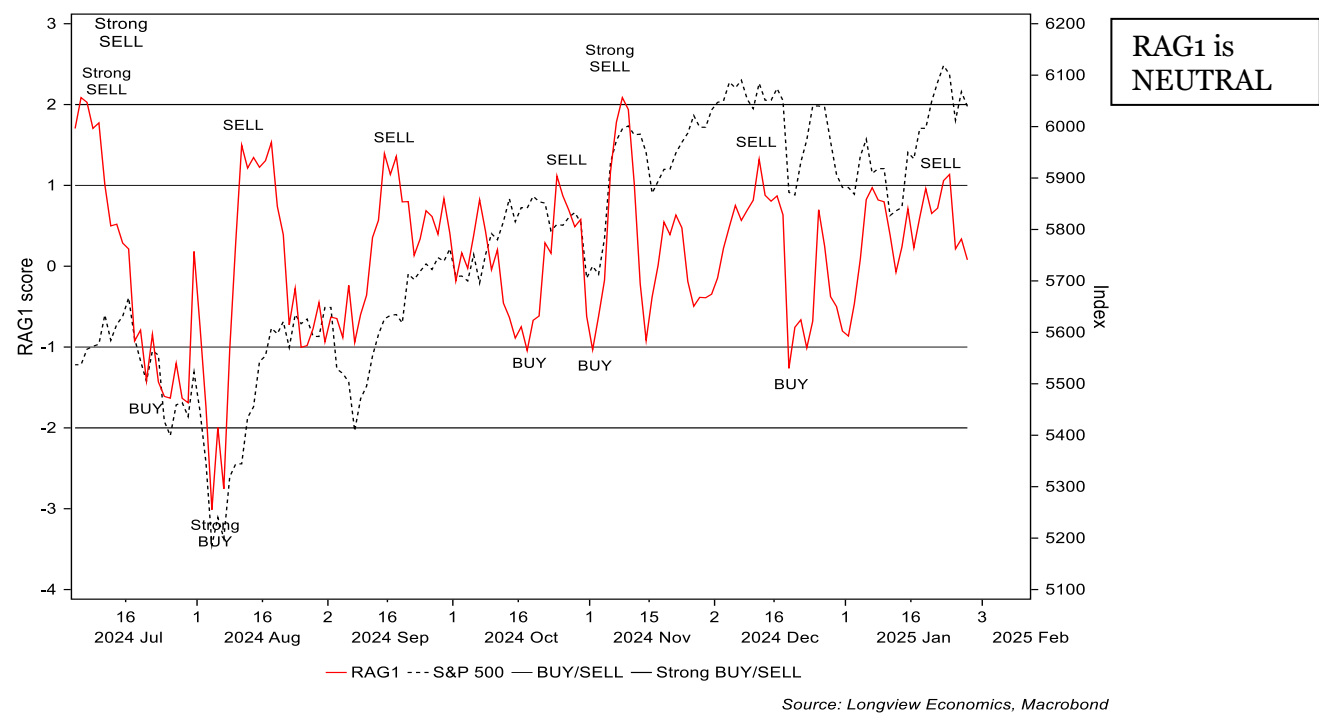
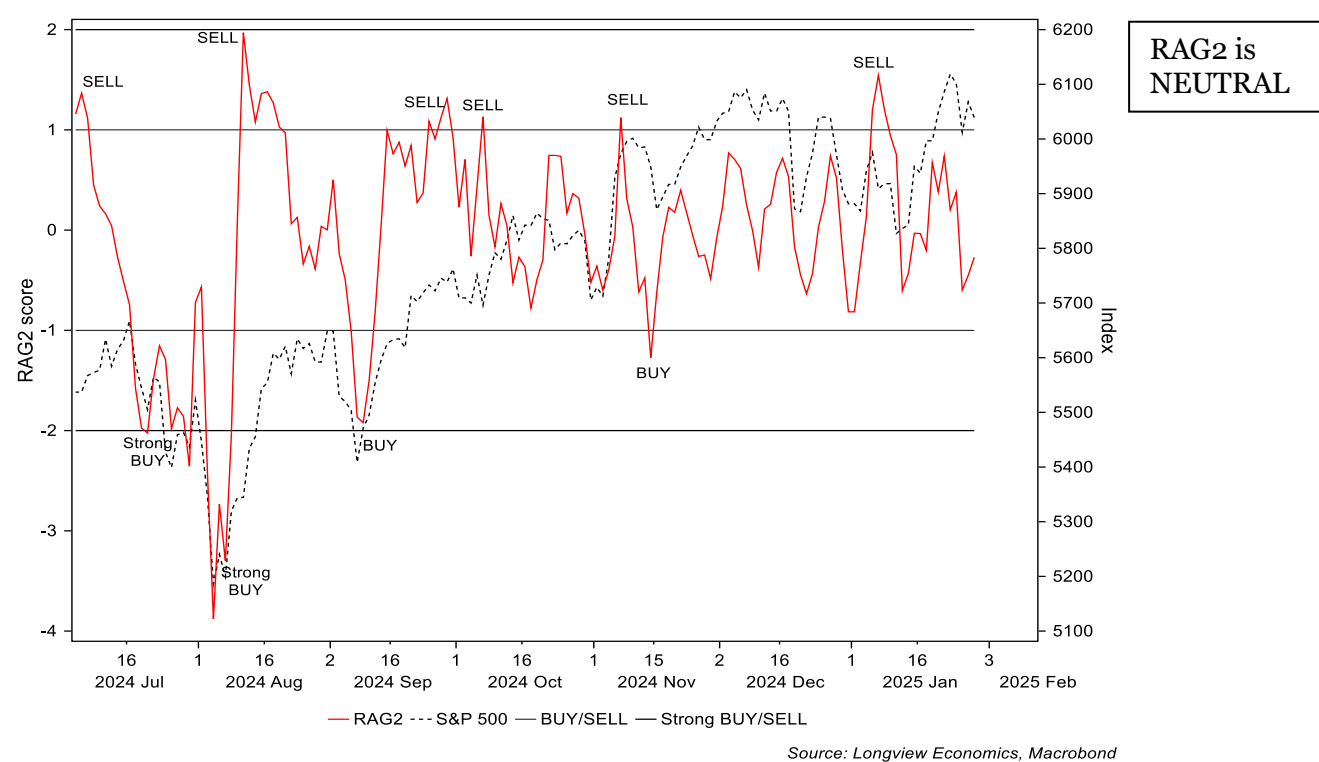
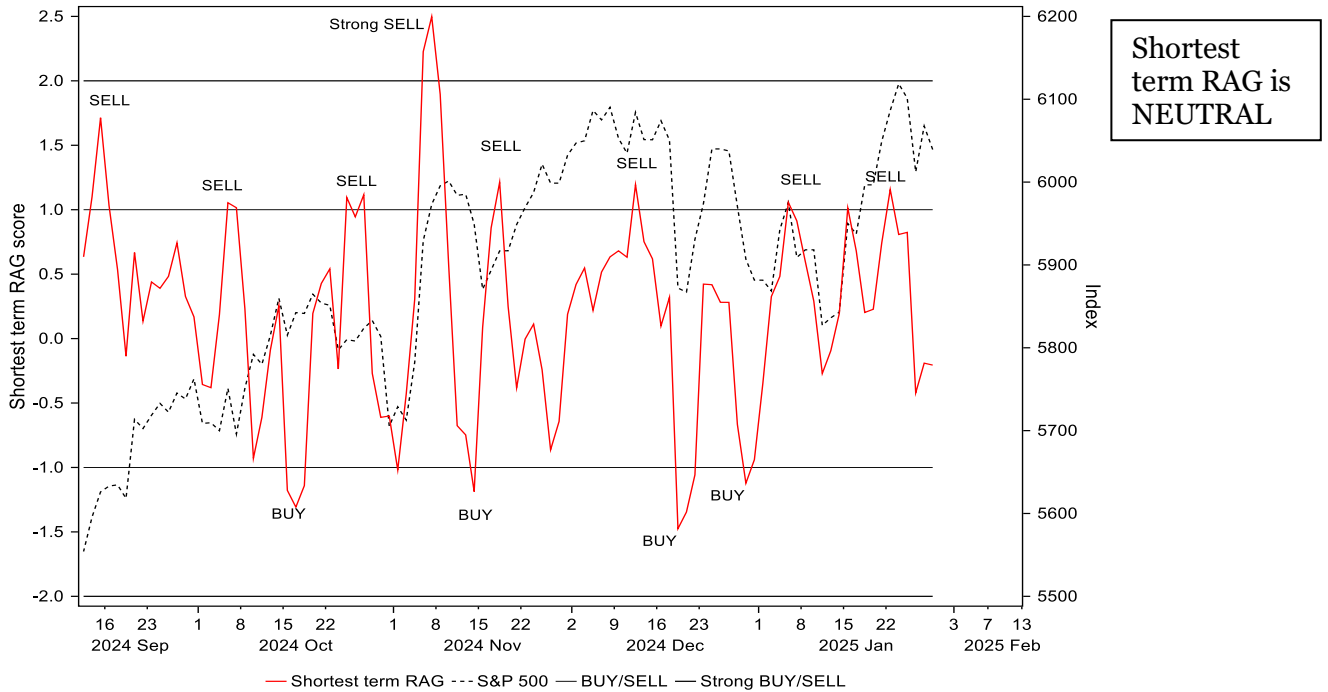


Fig 2b: RAG 2 vs. S&P 500

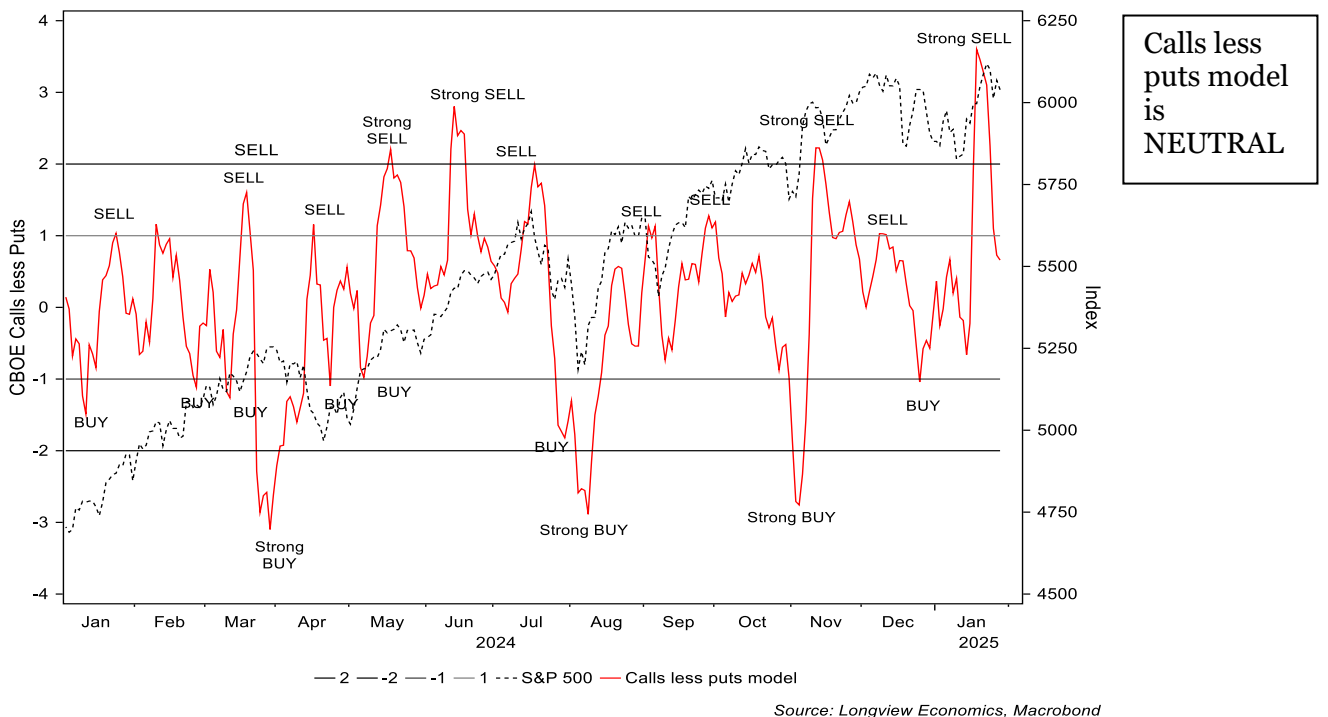


For explanations of indicators please see page 10

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

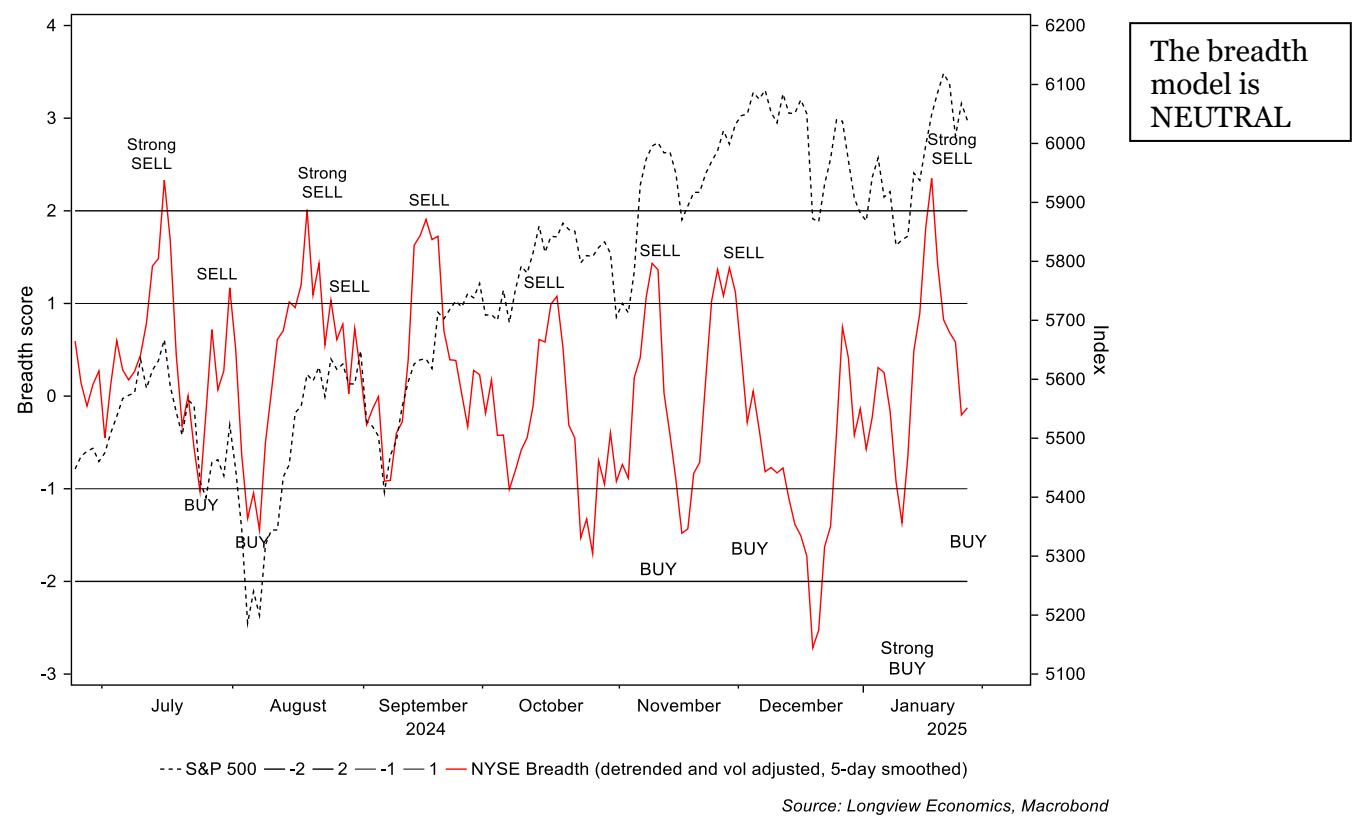


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



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

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



*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

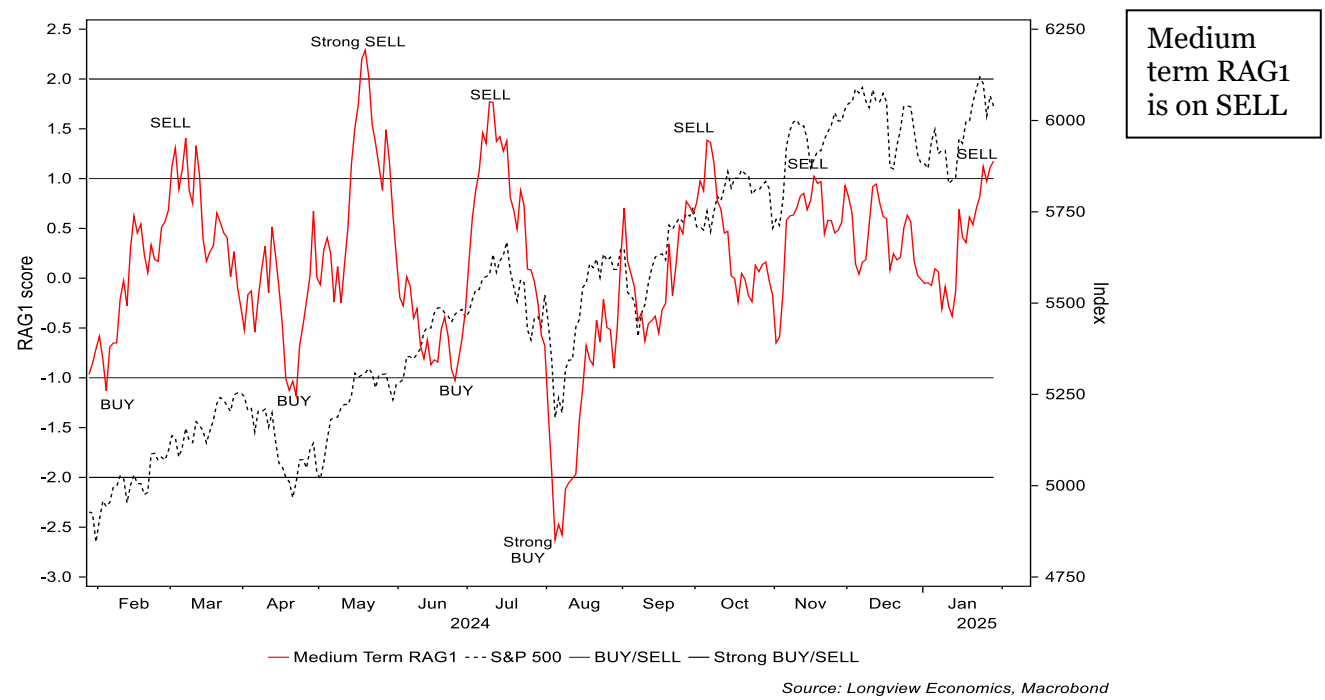
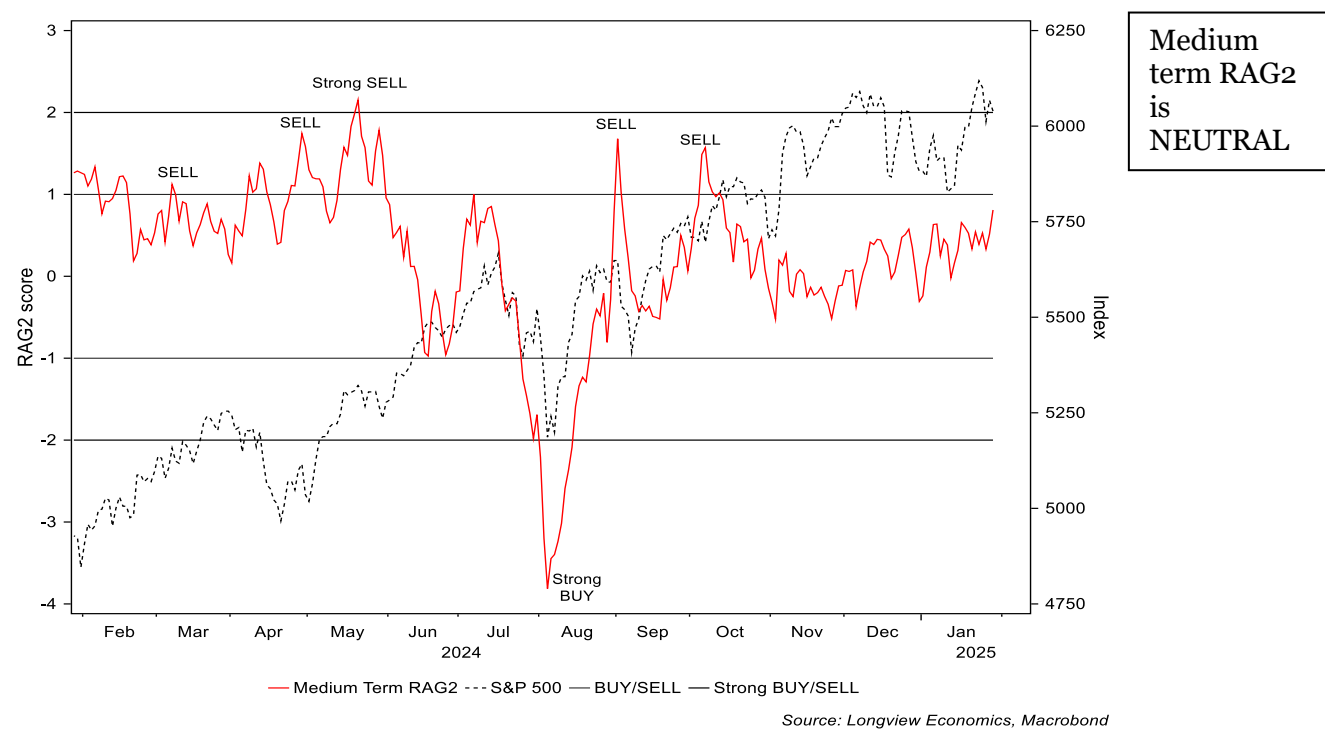
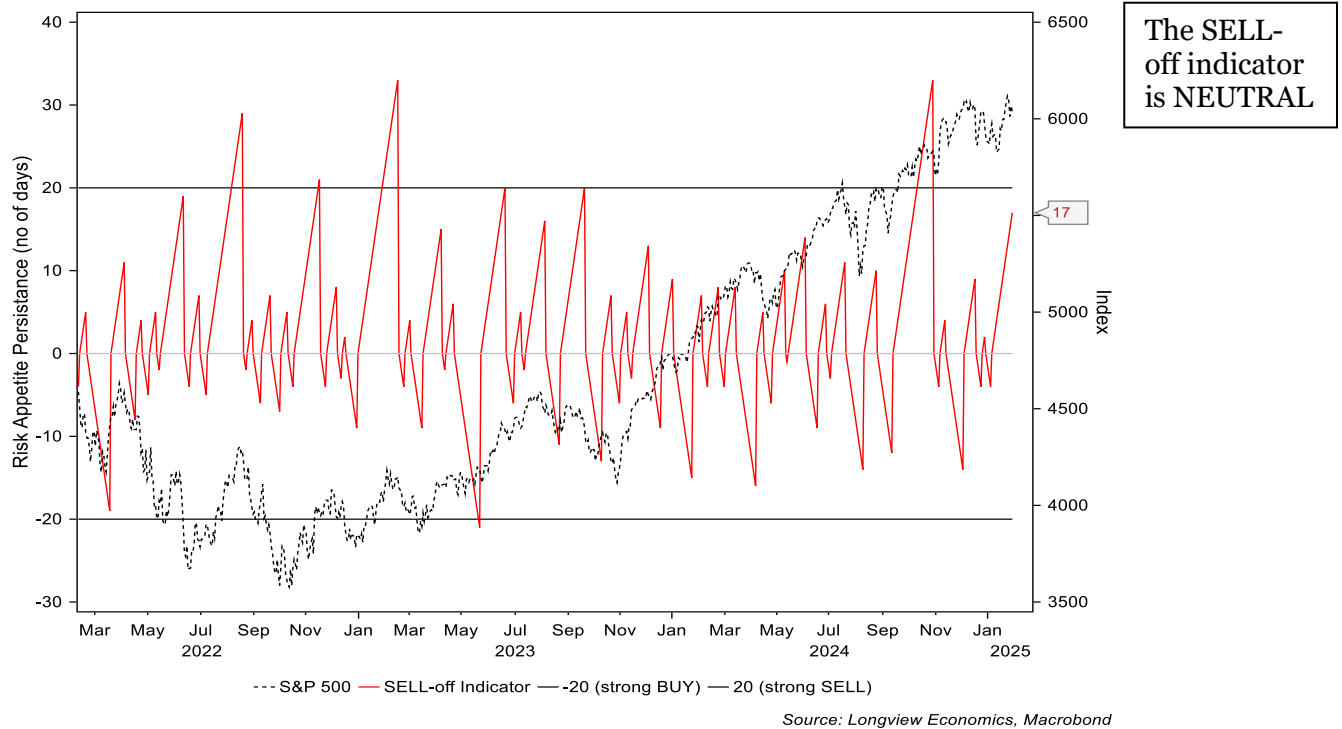


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

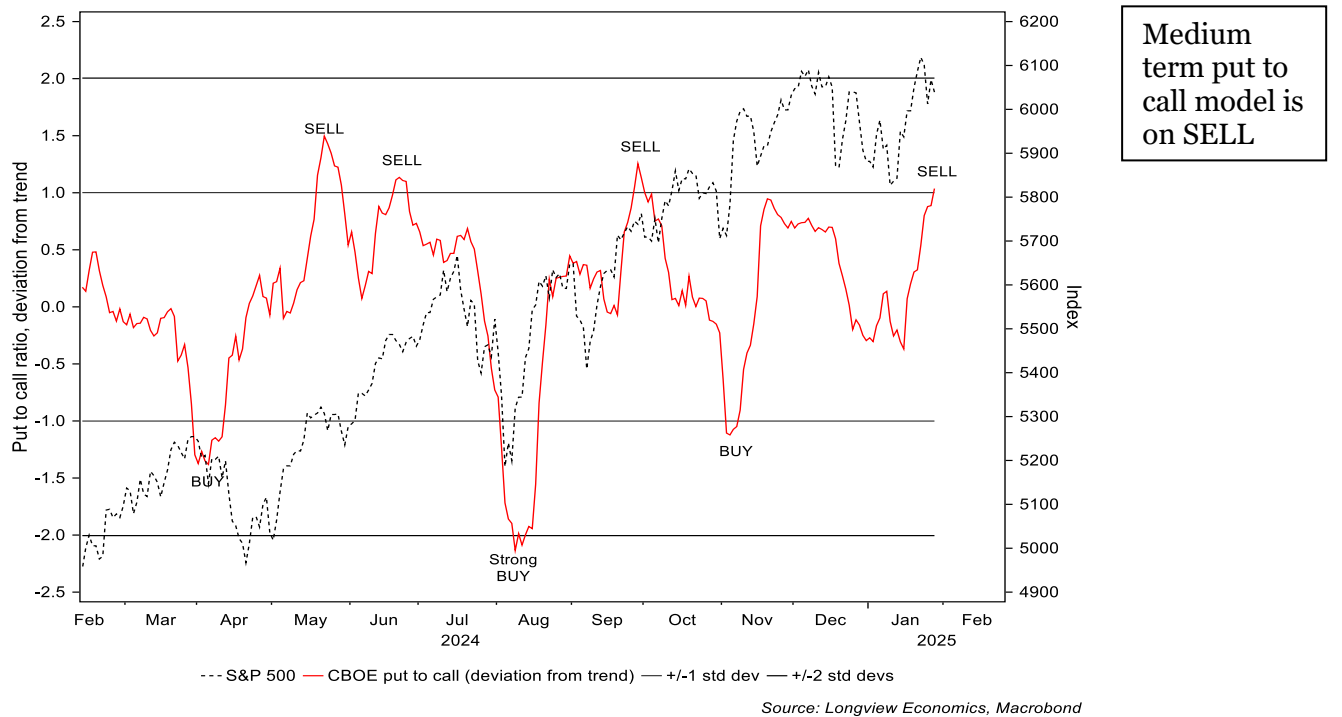


For explanations of indicators please see page 10

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

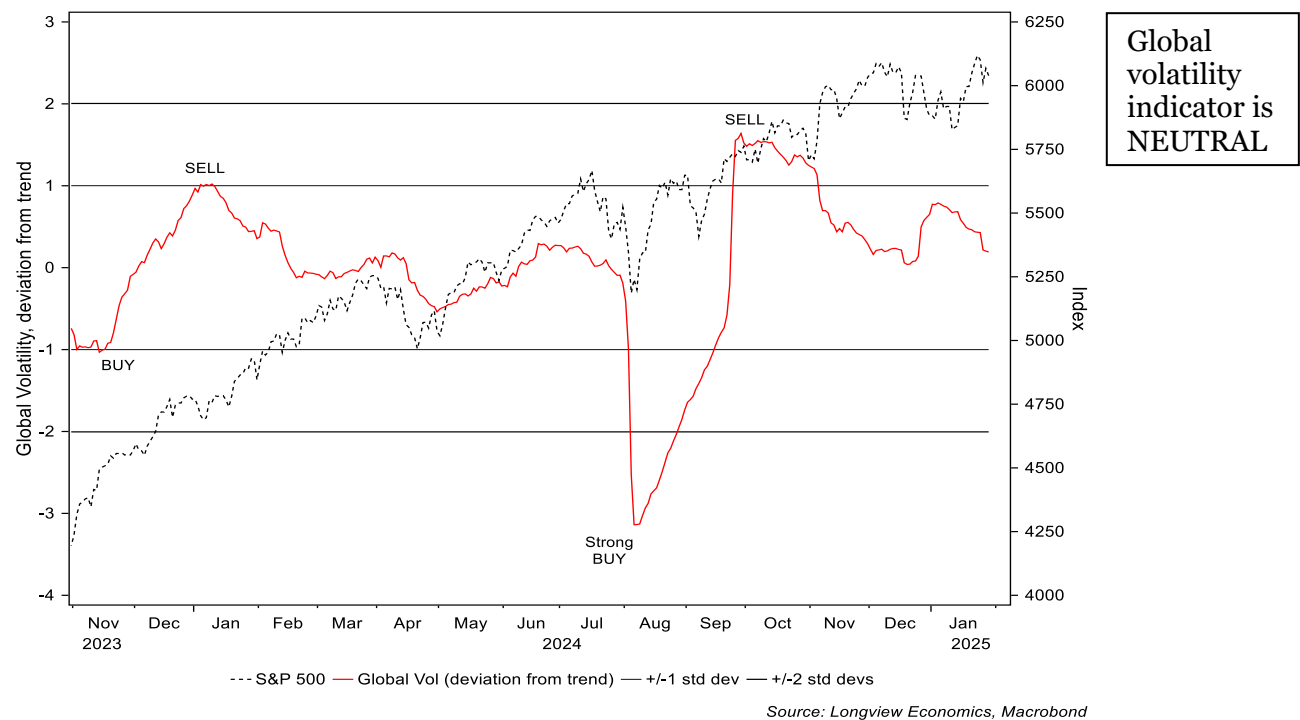


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

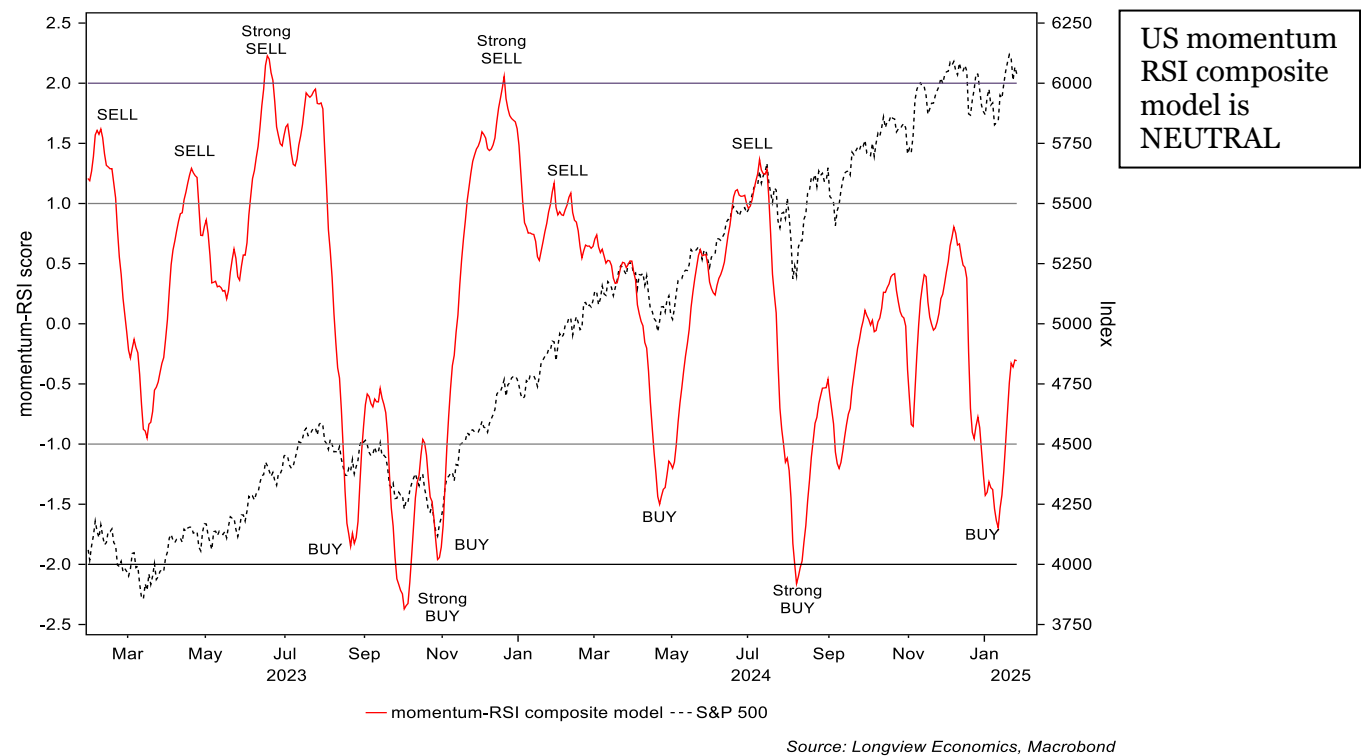


**For explanations of indicators please see page 10**

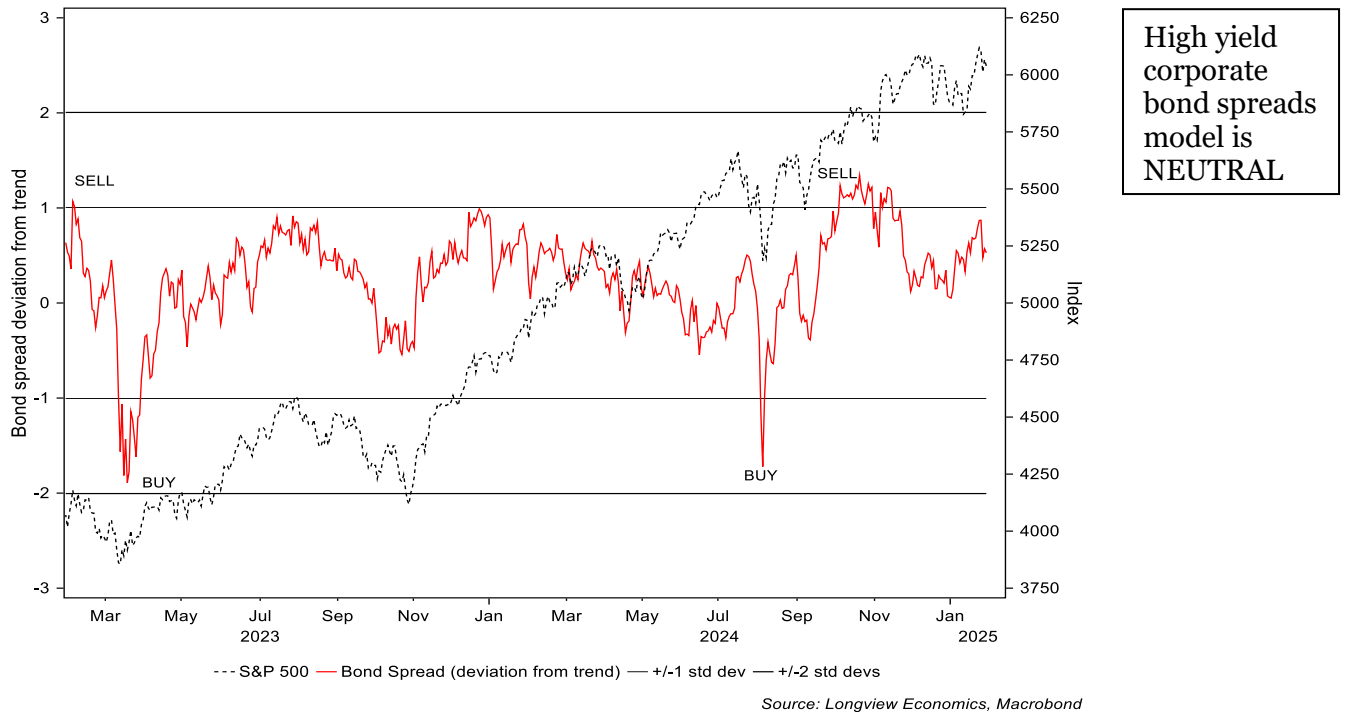
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



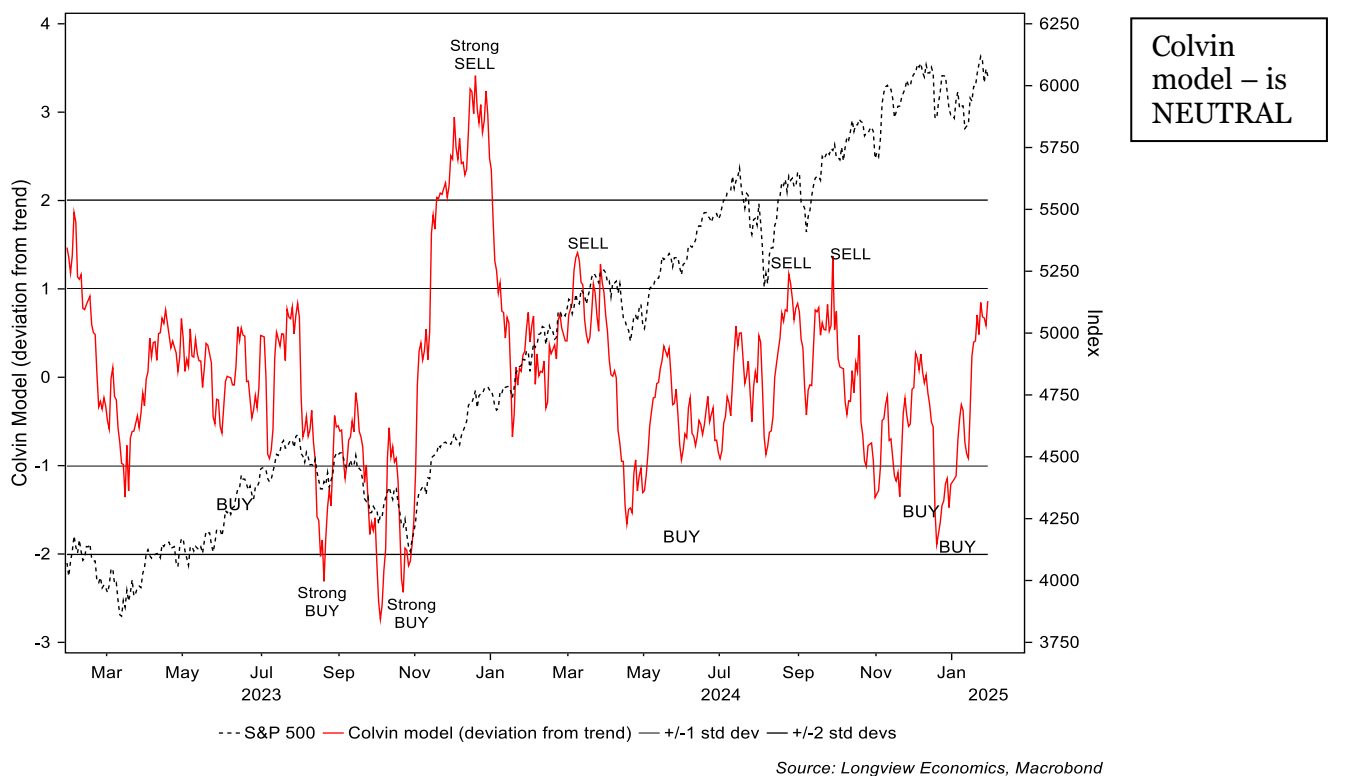
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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