Equity Index Futures Trading Recommendations

31st January 2025

"SELL-off Model -> BUILDing Towards/Close to Key Signal"

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

- WATCH & WAIT

Rationale

Sector rotation has been the key theme in markets this week, with cyclicals and defensives taking up leadership (while tech/long duration stocks have rolled over). That's illustrated in FIG 1 which shows the YTD performance of those three key parts of the US equity market. In particular, 'defensive sectors' collectively made a new YTD high yesterday (on falling bond yields, FIG 1e), with strong gains in Health Care (+1.1%), Real Estate (+1.4%), and Utilities (+2.1%). Tech stocks, in contrast, have continued to edge lower (IT: -0.6%), i.e. having bounced on Tuesday.

Overall, therefore, reflecting that mixed performance, the S&P500 is trading back at the top of its recent trading range (but has not broken out to the upside), see FIG 1a. Meanwhile the NASDAQ100 (more growth heavy) is trading in the middle of its recent range (FIG 1b).

European markets, in contrast, have been much stronger, breaking out sharply to the upside in recent trading sessions (& squeezing sharply higher, e.g. see IBEX, DAX etc.). Many of those markets have now generated near vertical price action. Consistent with that, the SELL-off indicator continues to BUILD towards its key +20 level (currently on +18), see FIG 1d. At +20 it warns of the potential for a wave of risk aversion (major SELL-off), which tends to occur after bouts of near term euphoria in parts of the global financial market (as is currently happening in Europe – e.g. see the DAX or IBEX, FIG 1c). Other medium-term models are also starting to generate a troubling message, including the medium term put to call ratio and medium term risk appetite models (both now on SELL).

Short term models are broadly consistent with that message and retain a SELL bias. In particular, the SELL message is strong amongst indicators that draw from a wide range of (equally weighted) stocks/sectors (i.e. reflecting the over-bought nature of the defensive and cyclical areas of the market). The industry group momentum model, for example, has a clear SELL message (FIG 1f); various sector and single stock technical indicators are on/leaning towards SELL (e.g. FIGs 5 & 5a); while (in general) put protection in portfolios is notably low/on strong SELL (see the CBOE put to call model, FIG 3). In contrast, some of the NDX100 models are lagging/at low levels reflecting the recent rotation out of that area of the market - the NASDAQ100 put to call indicator, for example, is leaning towards BUY (FIG 3b). Similarly, the NDX technical scoring system is mid-range (FIG 4).

As such the key question is: Will the global equity market continue to squeeze higher in coming days/weeks? Or is it about to roll over and pullback sharply? Or even consolidate its recent gains?

The SELL bias of the short & medium term models suggests it's likely to be the latter (near term giveback). Added to that, in two trading days' time, our SELL-off indicator will probably generate a signal. Once this model reaches its +20 threshold it warns of a wave of risk aversion in global markets.

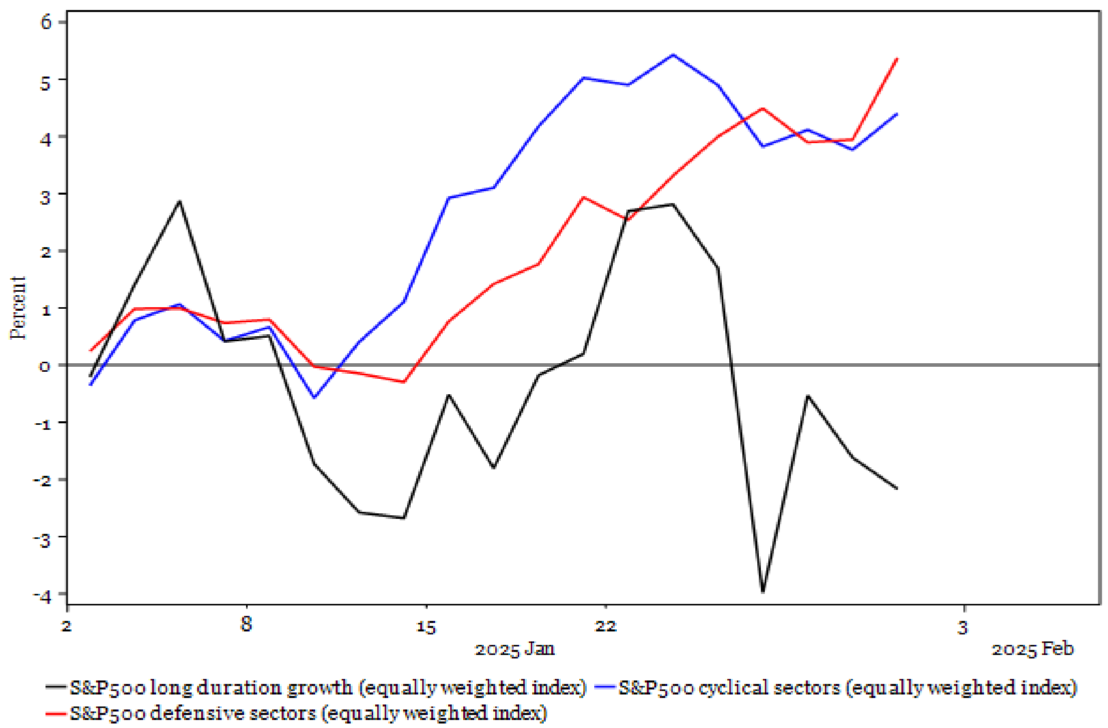
For now, therefore, the risk reward favours WATCHing & WAITing for that +20 signal. Key risks for markets are multiple and include: i) today's macro data (most notably the US PCE report for December); ii) the possibility of tariffs being imposed by Trump over the weekend (i.e. given his self-imposed 1st February deadline) as well as; iii) ongoing earnings reports (please see below for a full list of today's key macro data, events, and US earnings).

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: S&P500 index – divided into cyclicals, defensives and long duration growth



Source: Longview Economics, Macrobond

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

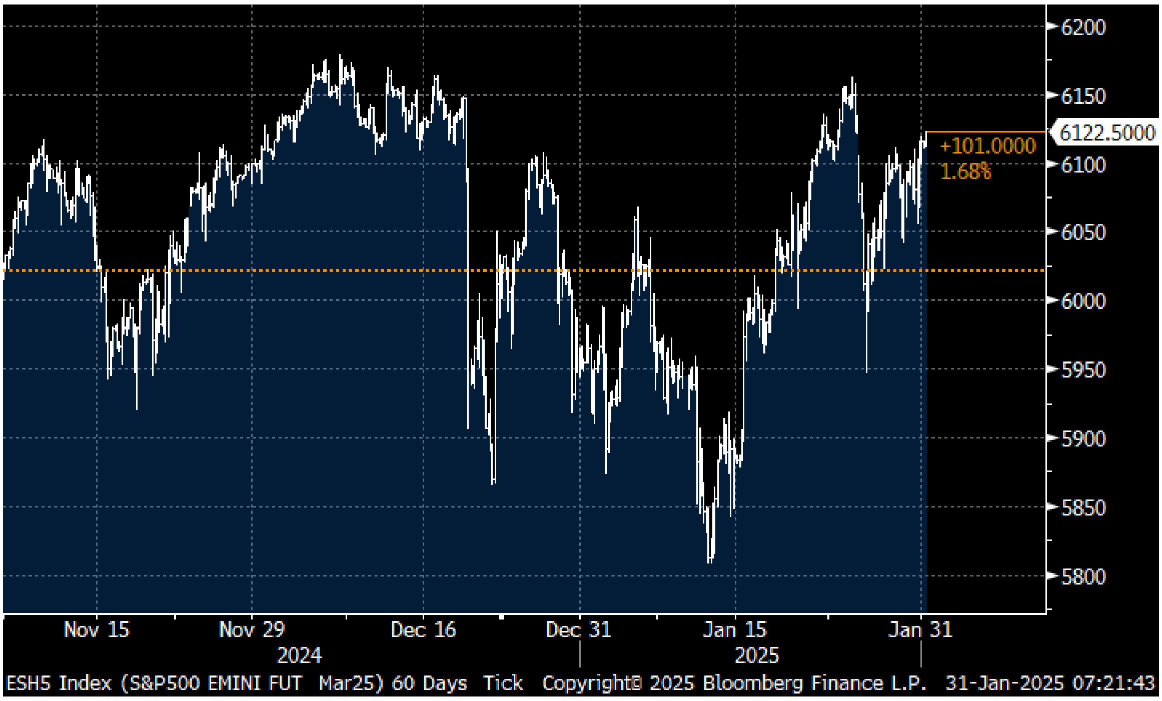


FIG 1b: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages

FIG 1c: Spanish IBEX35 candlestick shown with 50 day moving average

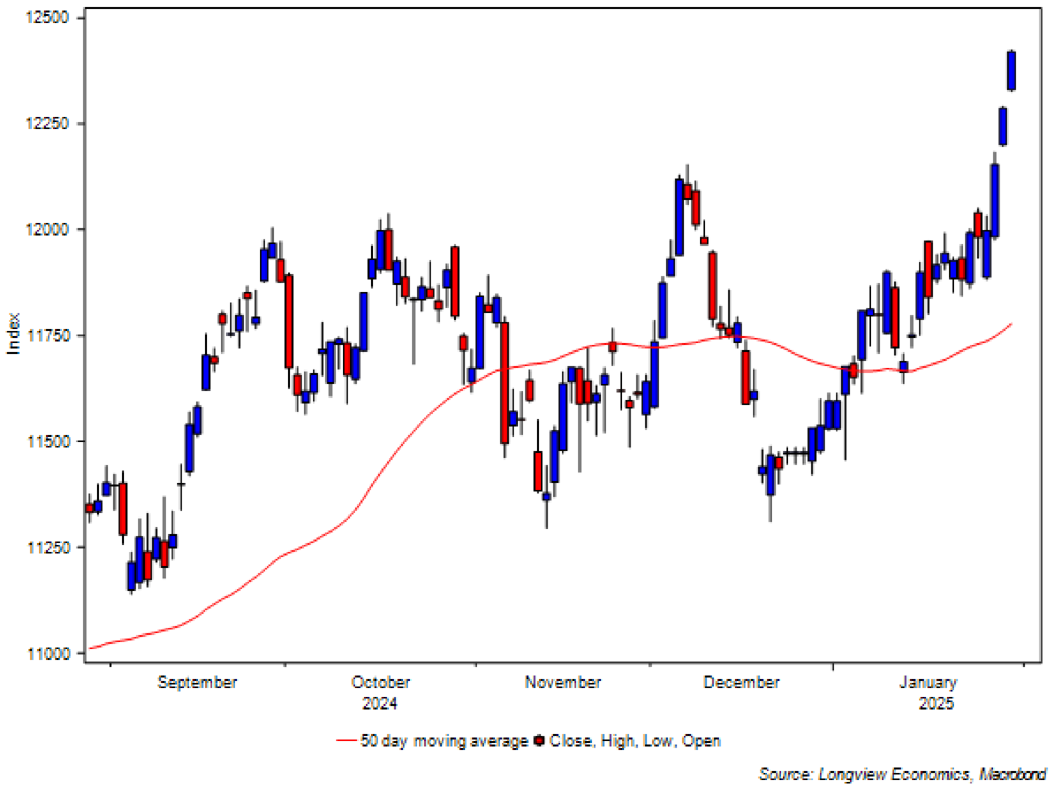


FIG 1d: Longview SELL-off indicator vs. S&P500

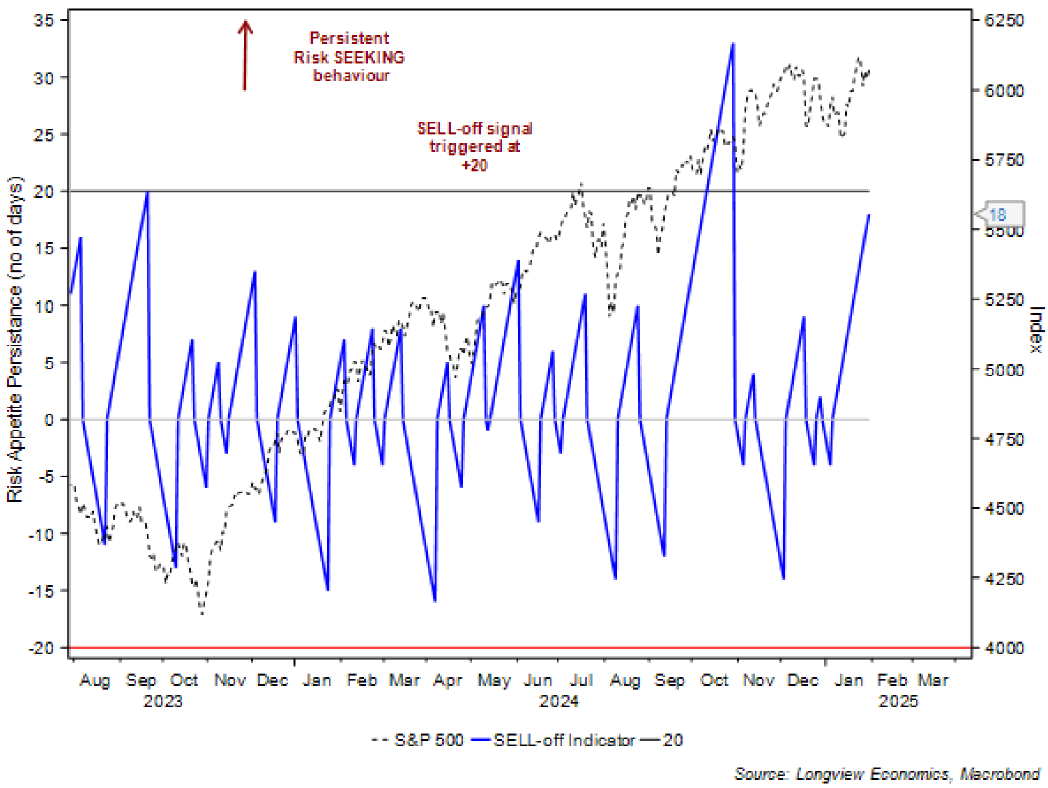


FIG 1e: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages

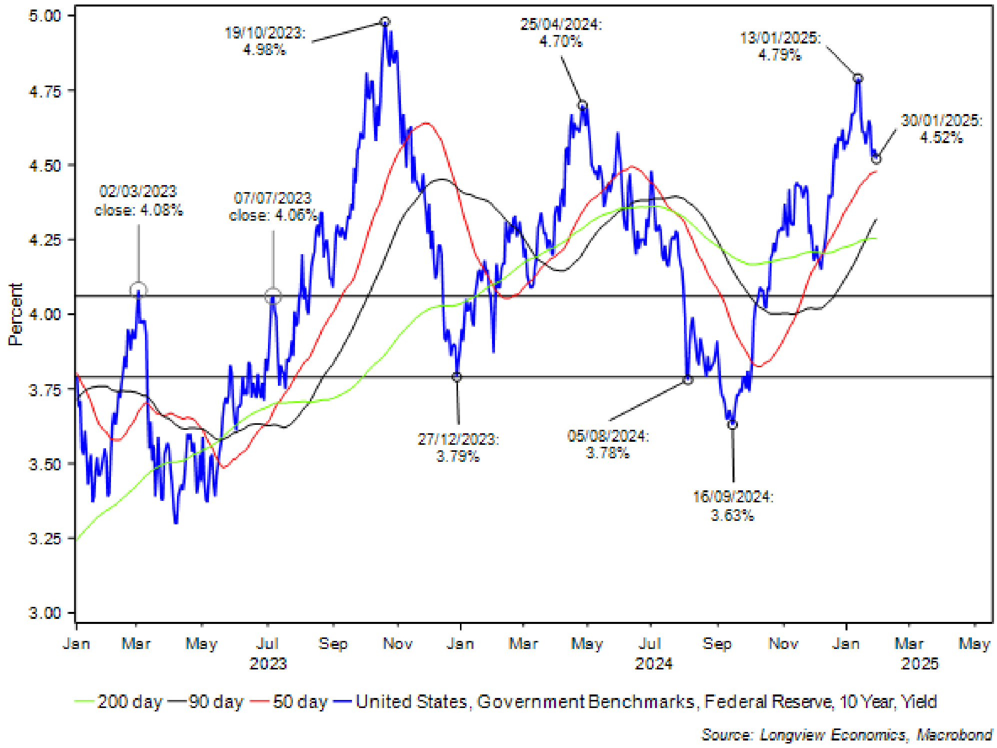
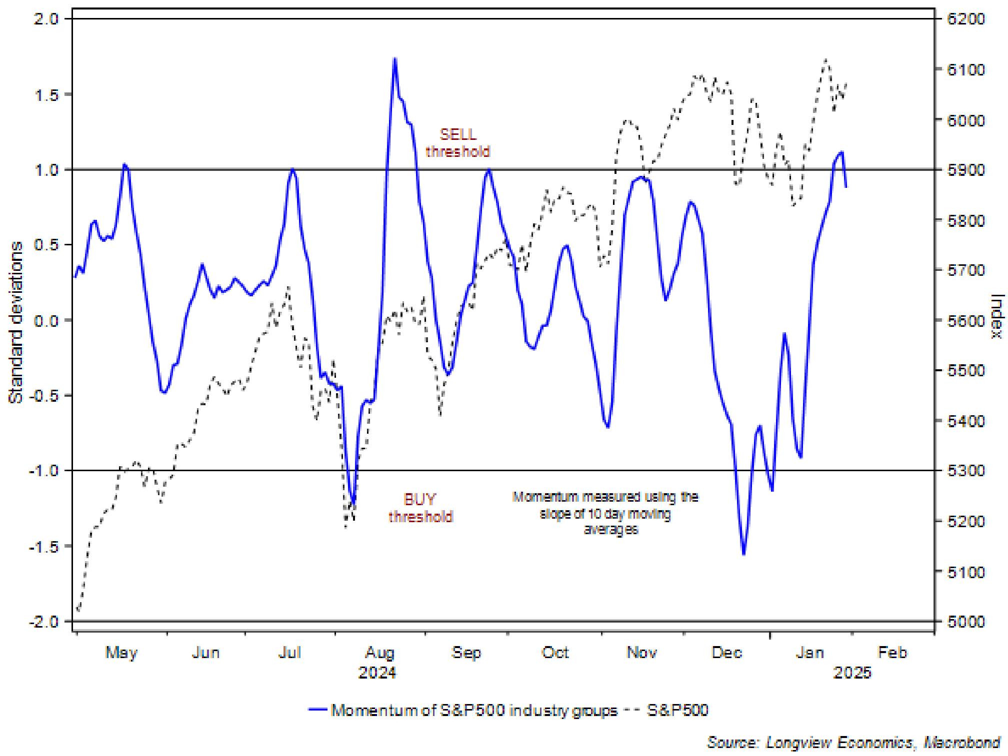


FIG 1f: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500



Risk appetite models are broadly mid-range…

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

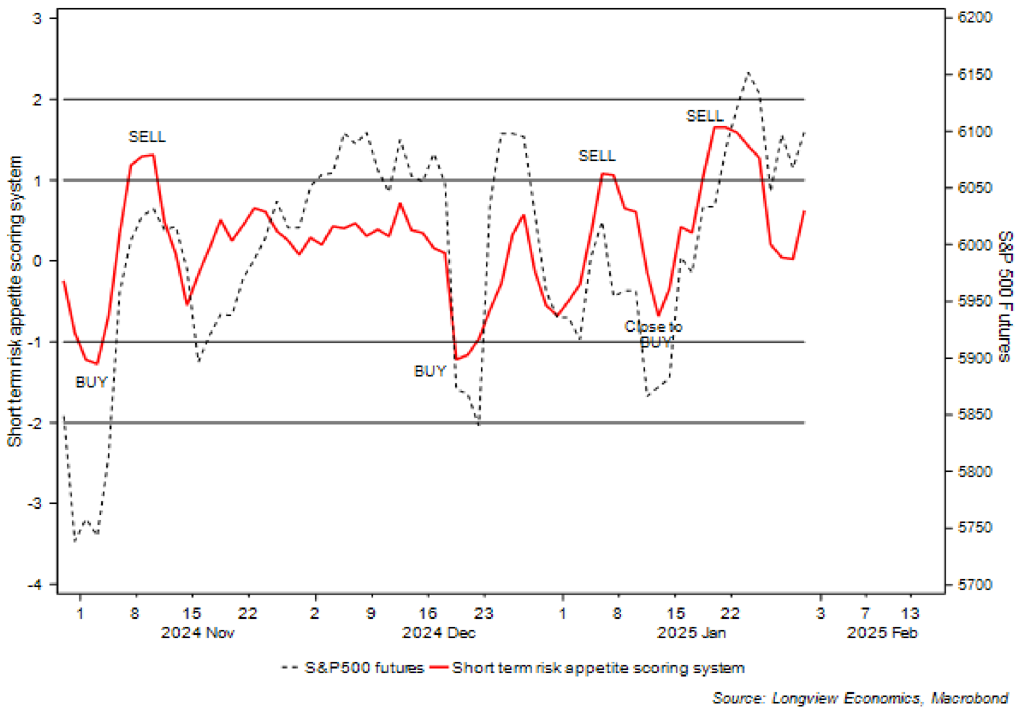
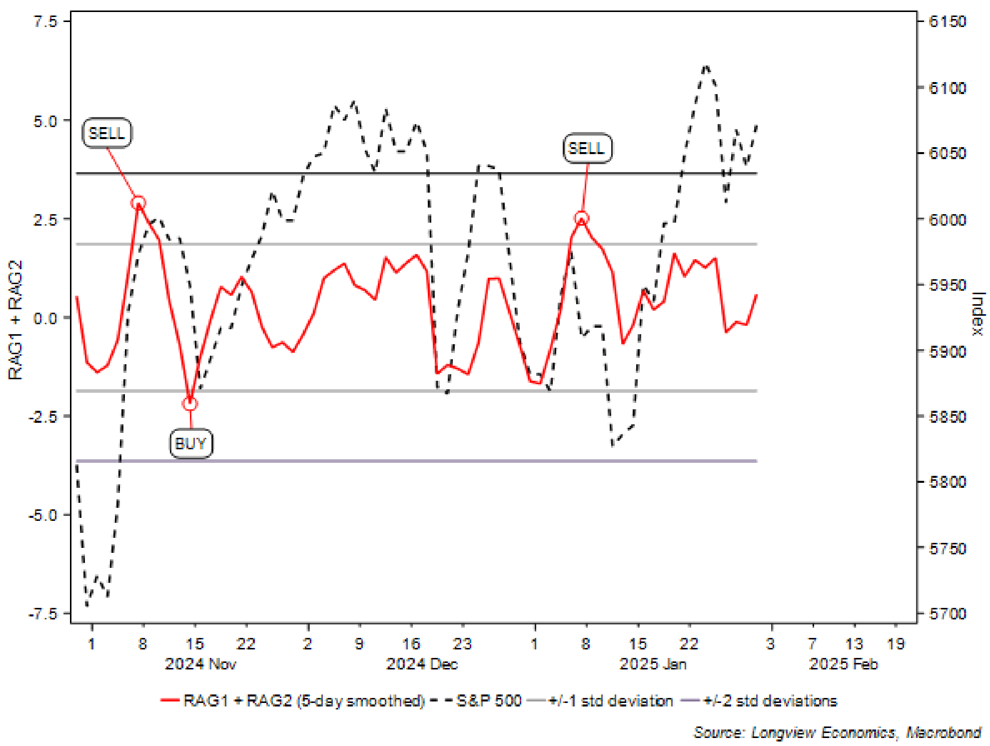
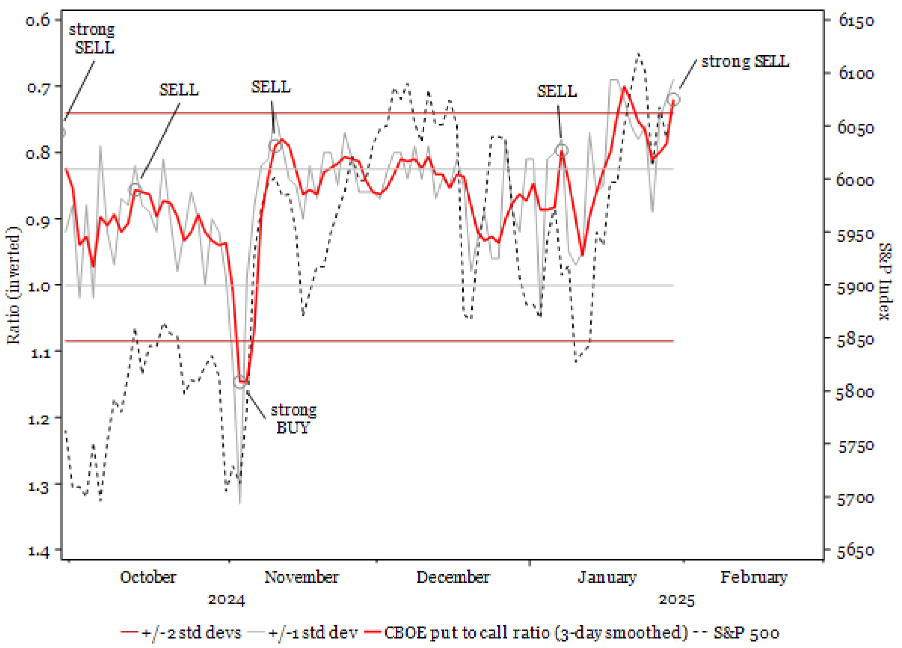


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



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

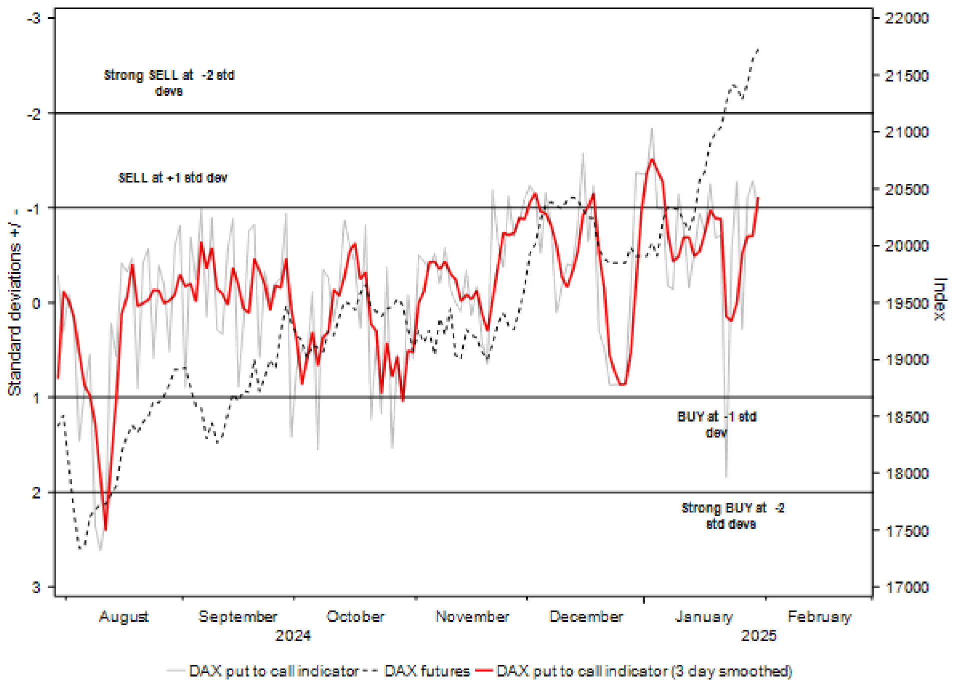
FIG 3: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

The DAX put to call model is on SELL.....

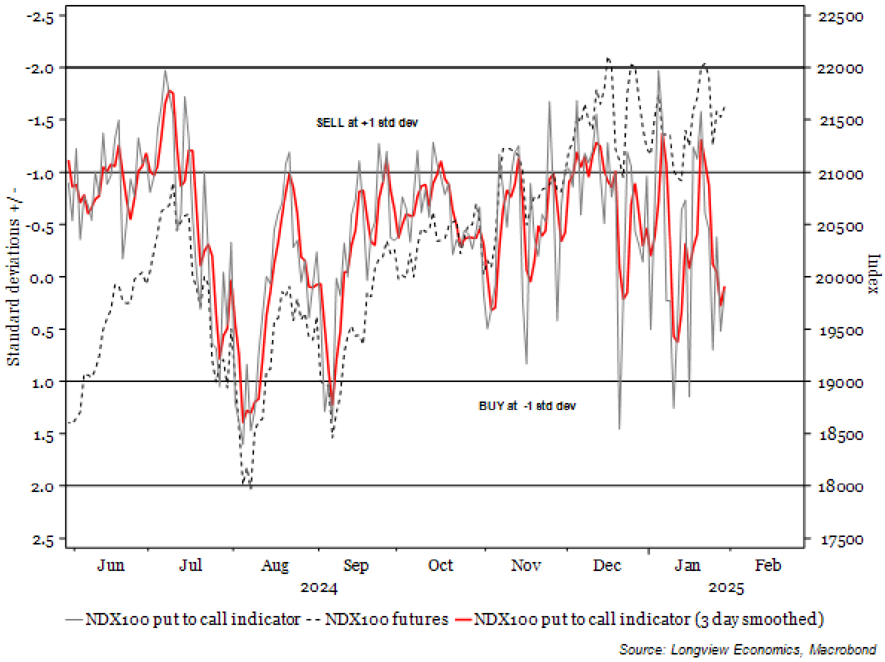
FIG 3a: DAX 'calls less puts' model vs. DAX Index



Source: Longview Economics, Macrobond

…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

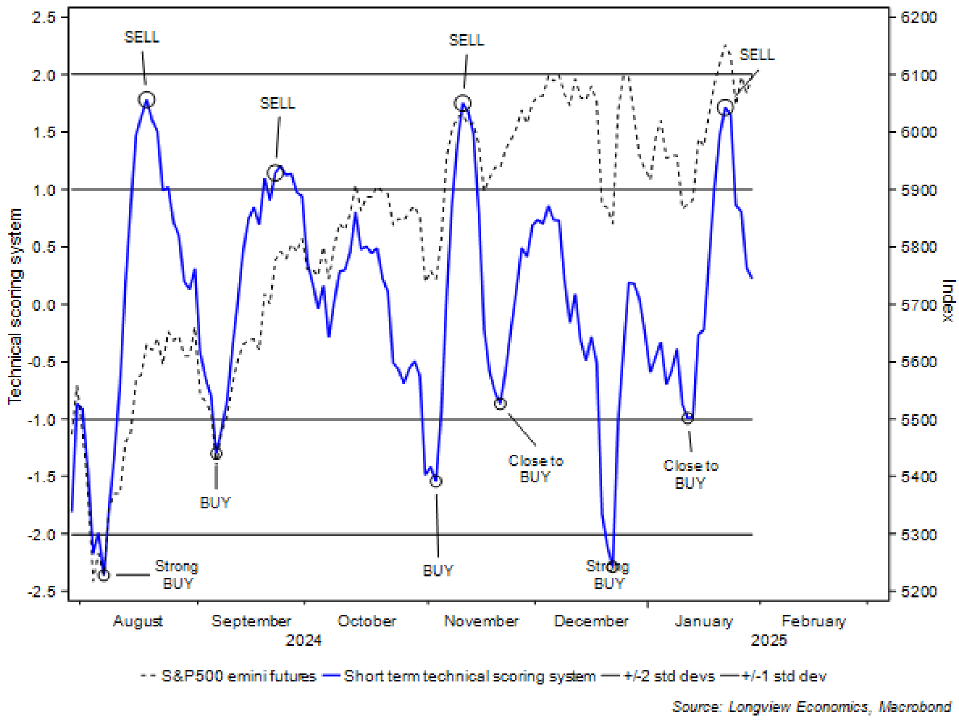
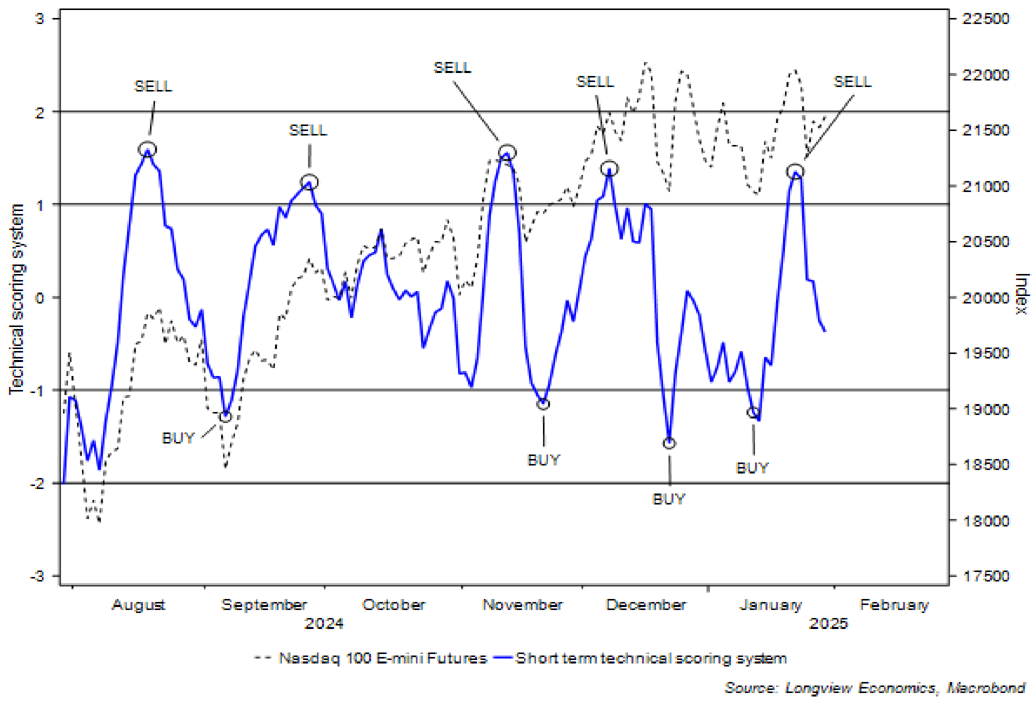


FIG 4a: Longview **NASDAQ100** short term **'technical'** scoring system vs. NASDAQ100 futures



Sector and single stock technical models are leaning towards SELL....

FIG 5: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

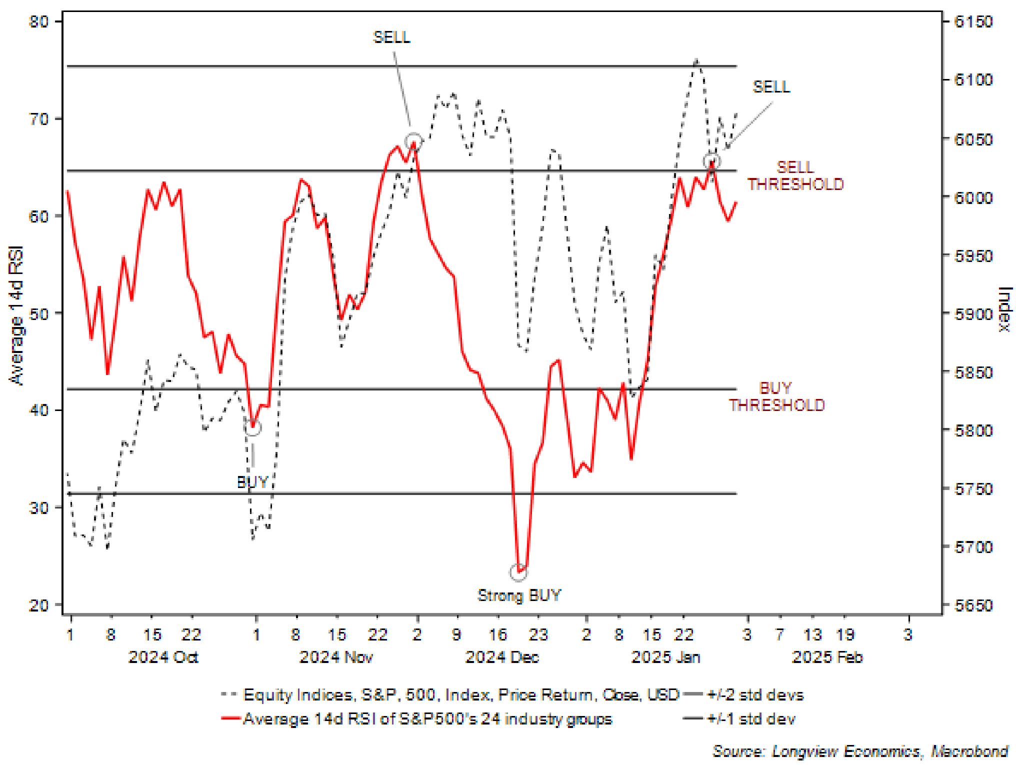
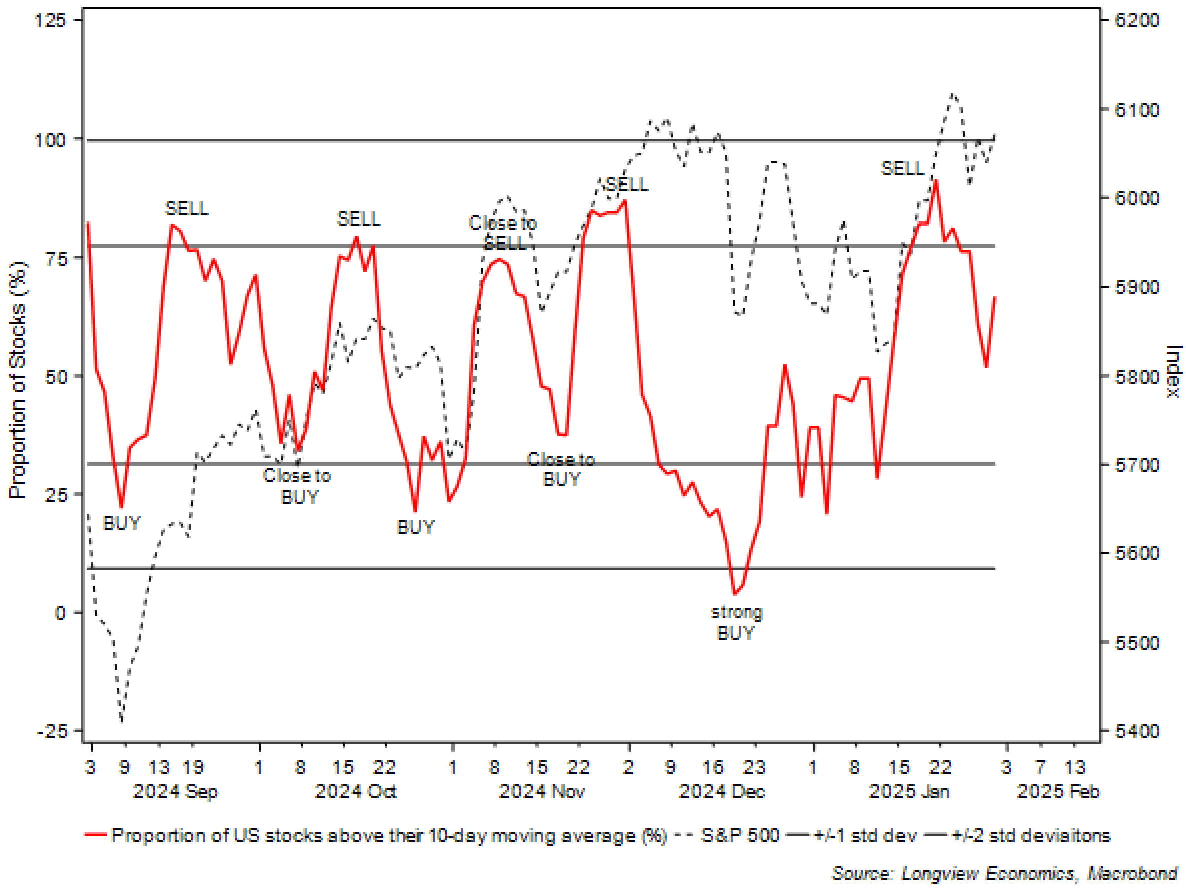


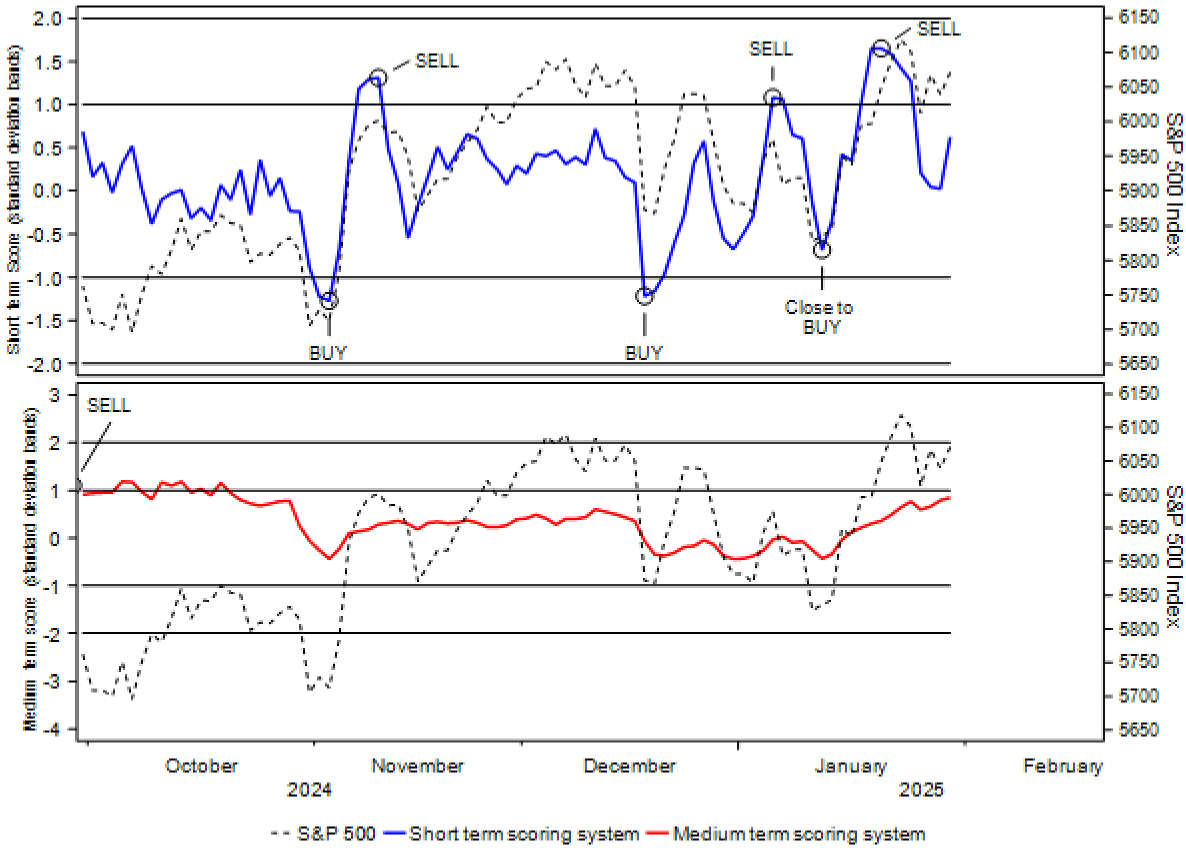
FIG 5a: Proportion of US stocks above their 10-day moving average vs. S&P500



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

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **NEUTRAL** (close to SELL)

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: UK Lloyds business barometer (Jan, 12:01am); Australian PPI (Q4, 12:30am); Australian private sector credit (Dec, 12:30am); Japanese housing starts (Dec, 5am); German retail sales (Dec, 7am); French headline CPI & PPI (January & December first estimates, 7:45am); Spanish retail sales (Dec, 8am); German unemployment (Jan, 8:55am); ECB 1 & 3 year CPI expectations (Dec, 9am); Italian PPI (Dec, 10am); **German headline CPI** (January first estimate, 1pm); Canadian GDP (Nov, 1:30pm); **US personal income & spending including headline & core PCE** (Dec, 1:30pm); **US Chicago PMI** (Jan, 2:45pm).

Key events today include: Speech by the ECB's Villeroy at OMFIF event (2:30pm); market holidays in various Asian countries e.g. China on account of Chinese New Year (Tues – Fri).

Key earnings today include: **Exxon Mobil**, AbbVie, Chevron, Eaton, Aon, Colgate-Palmolive, **Samsung Electronics Co.**, Hitachi, Keyence, Daiichi Sankyo, Denso Corp., Fujitsu.

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 15th January 2025. 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

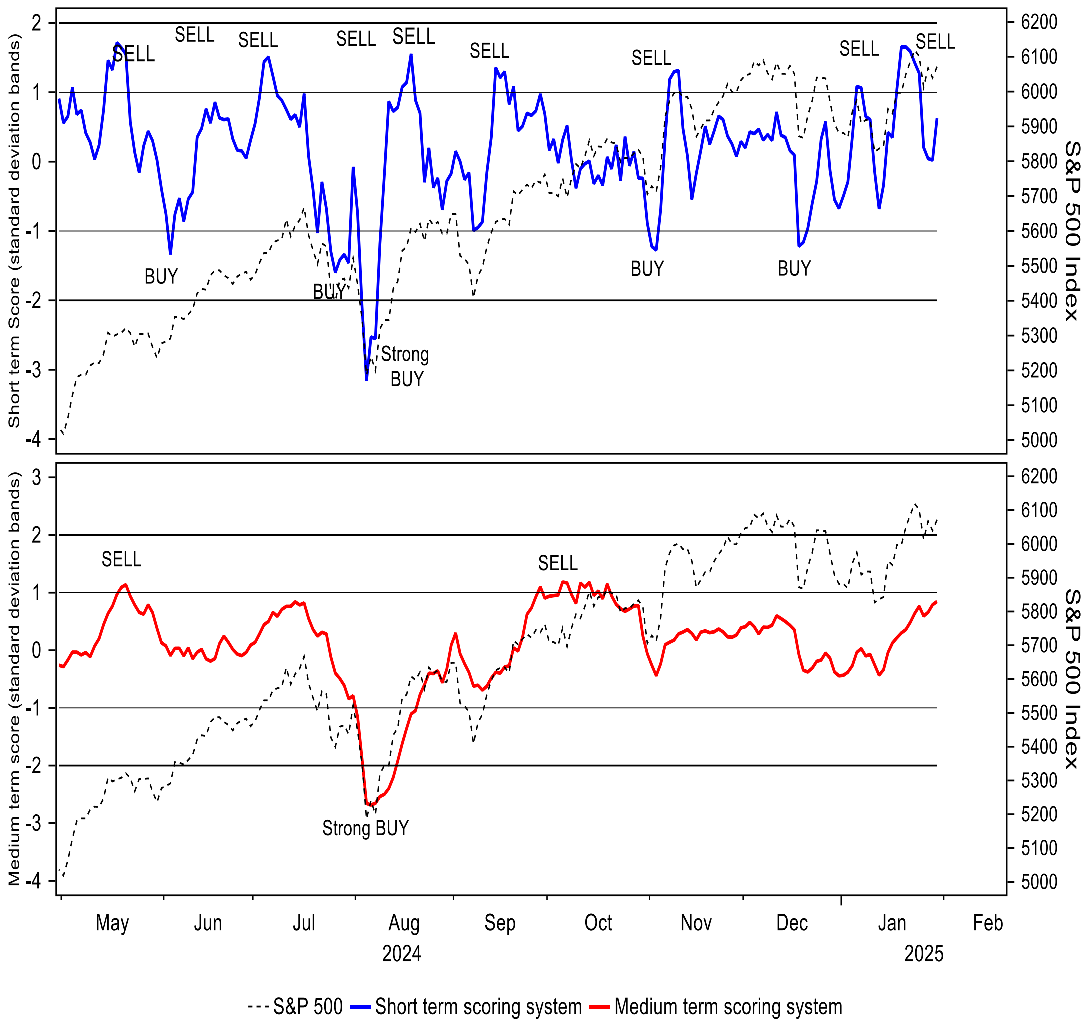
1 – 2 Week View on Risk

31st January 2025

Longview Economics
Email: research@longvieweconomics.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

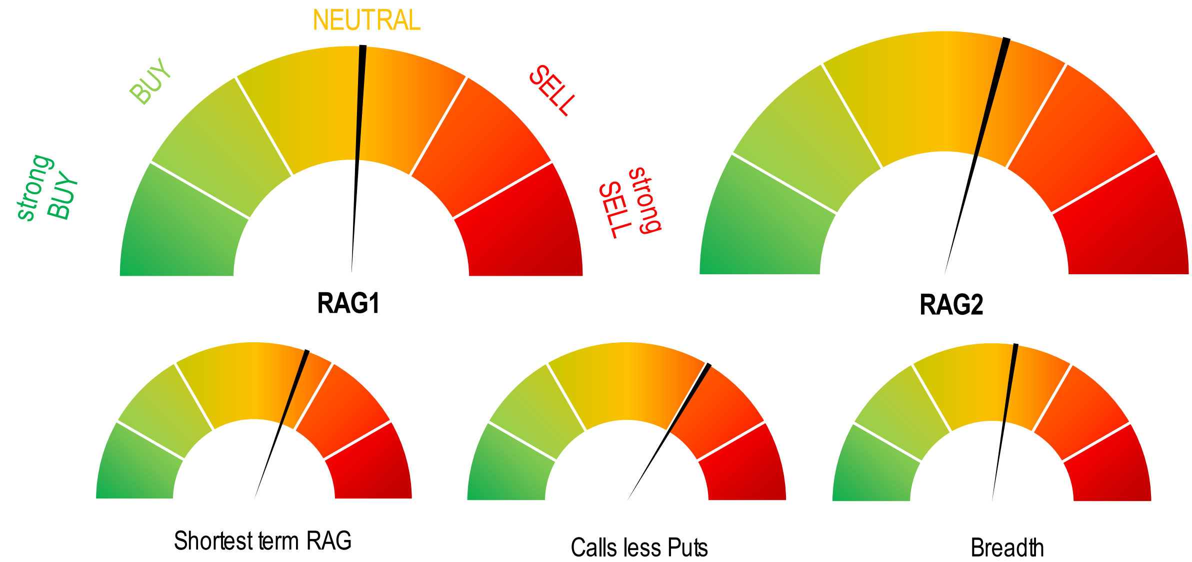
Source: Longview Economics, Macrobond

*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

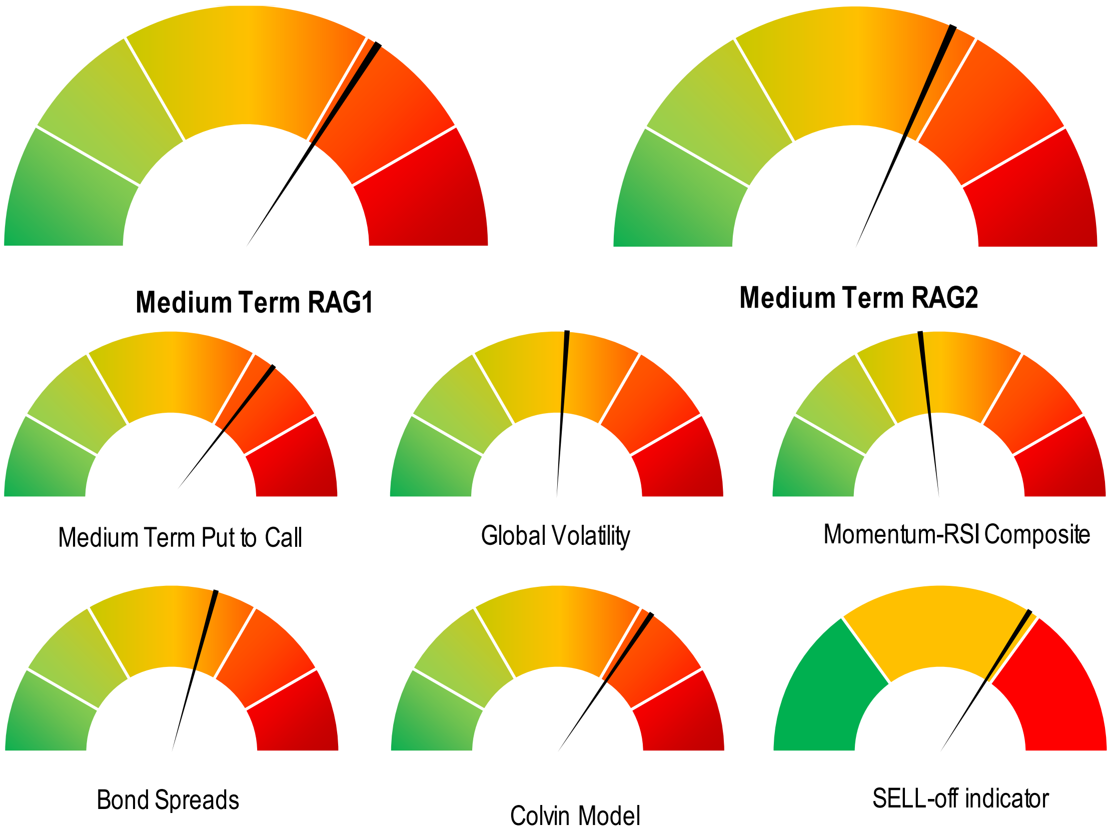
Section 1a: Summary of indicator signals**

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

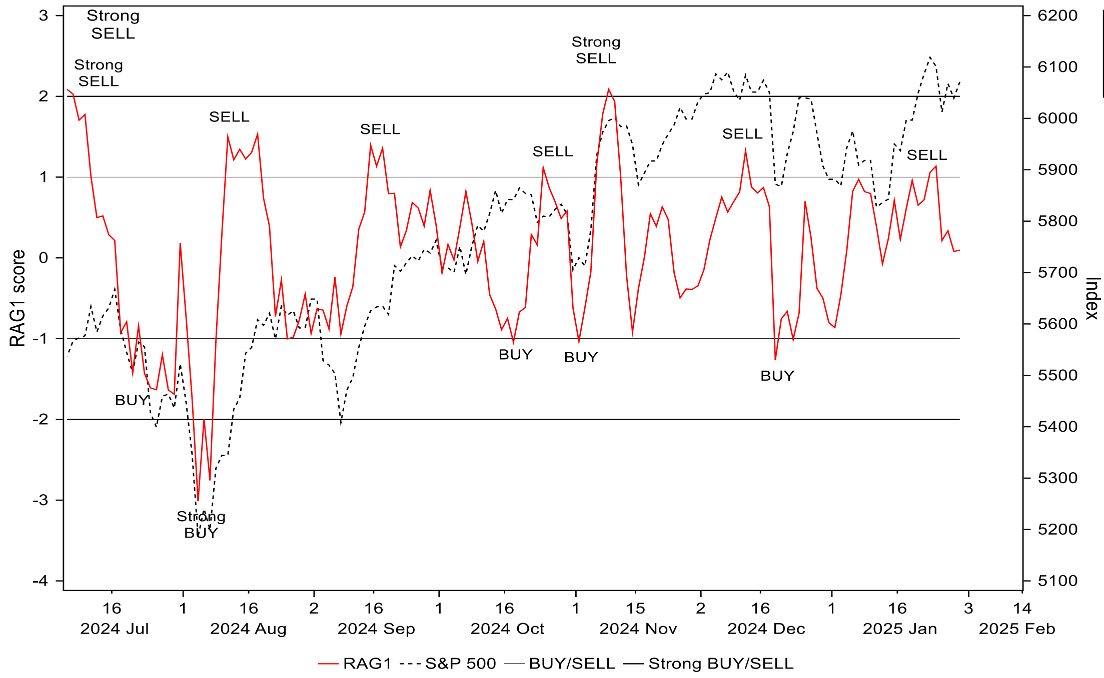


Source: *Longview Economics*

**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

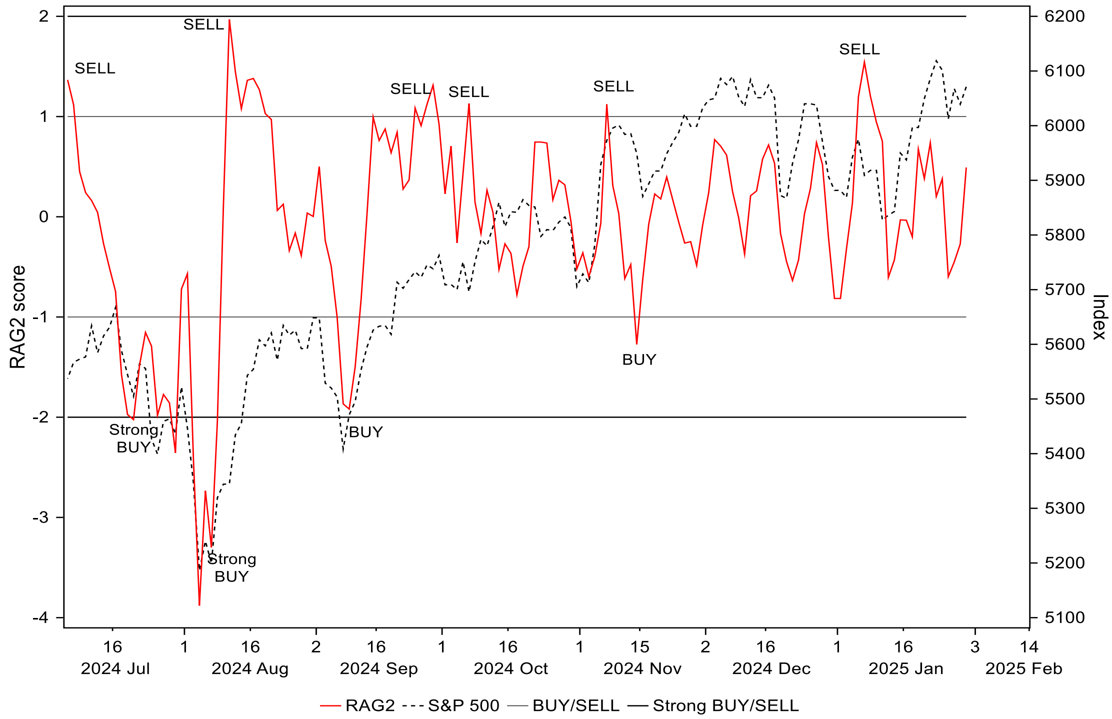
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

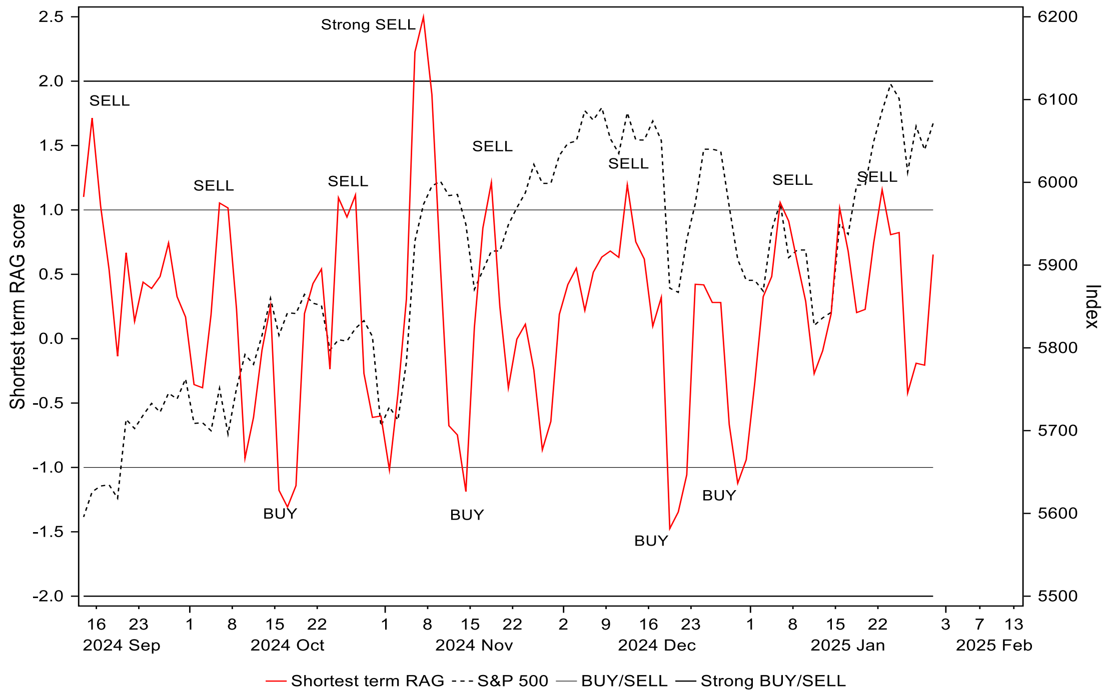


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

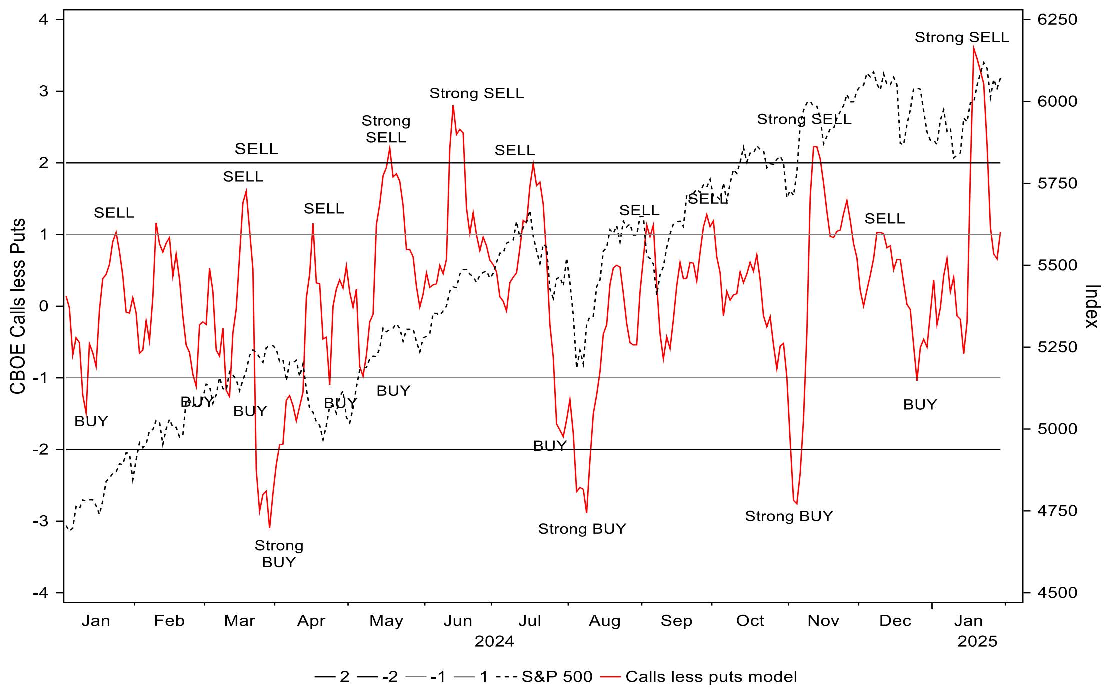
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

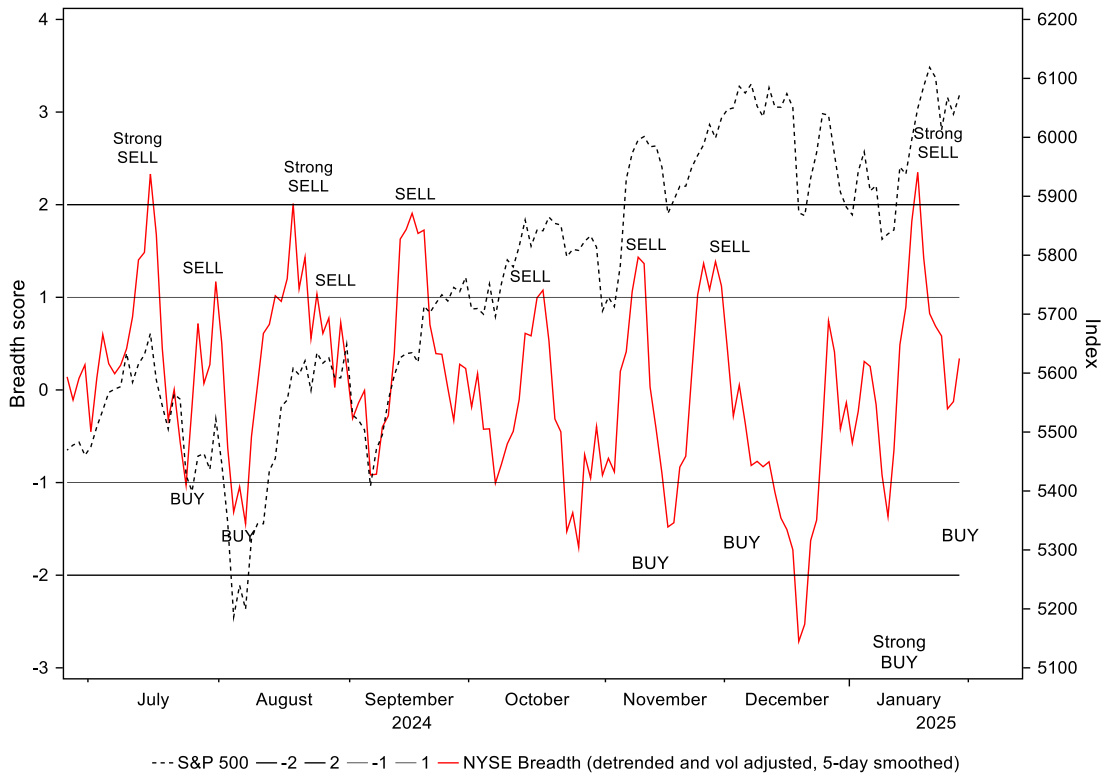


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



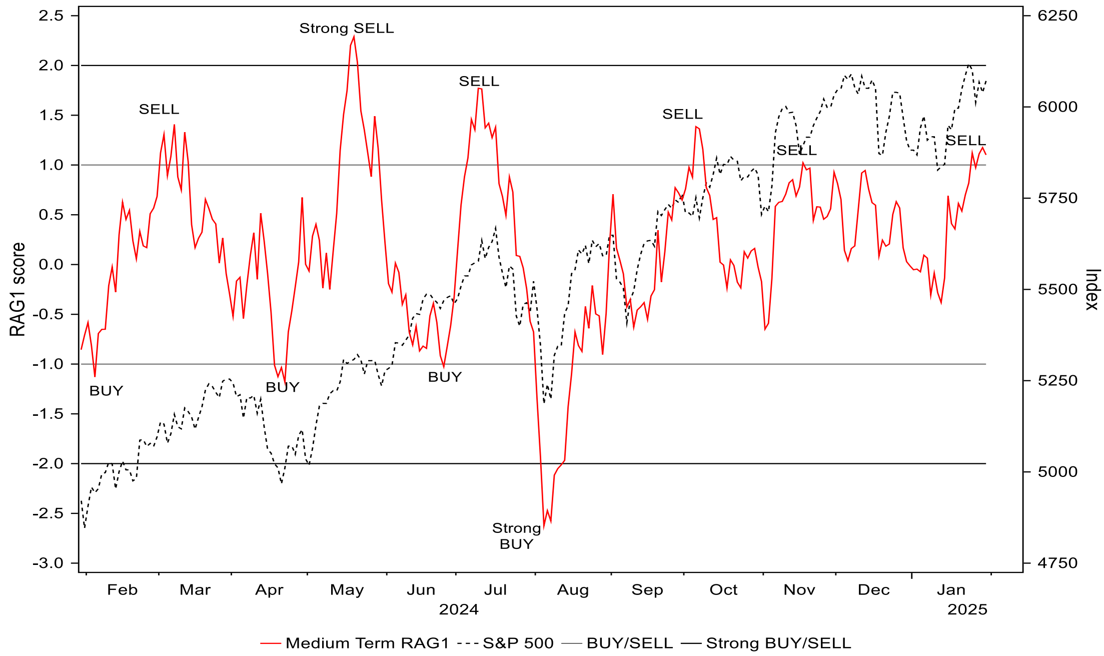
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

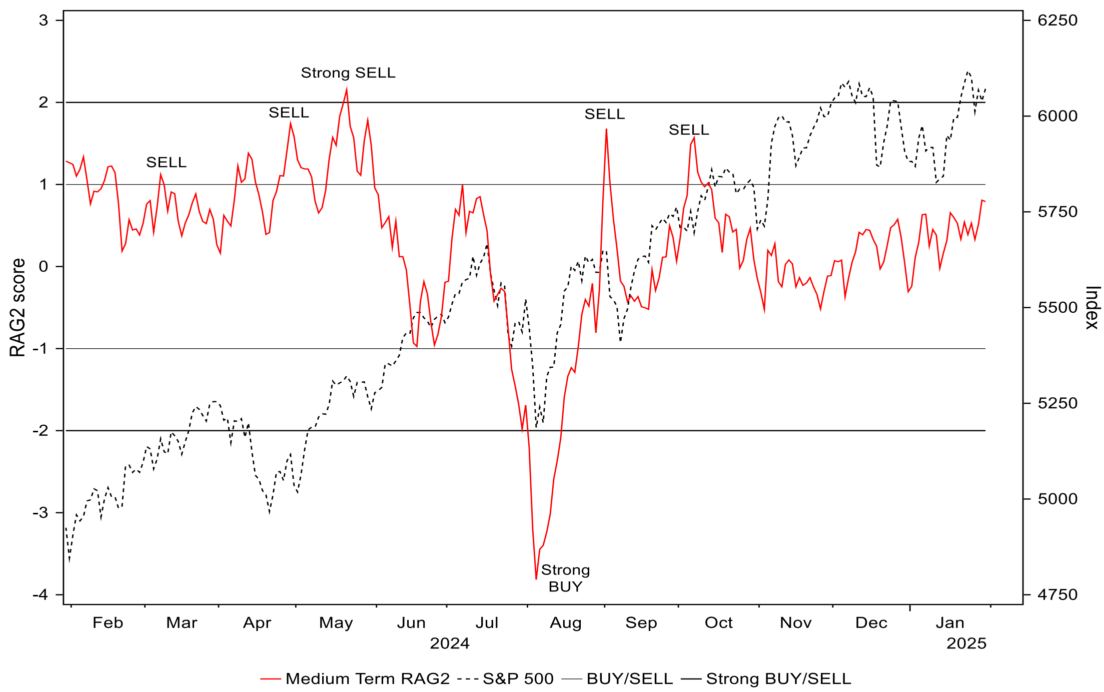
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is on SELL

Source: Longview Economics, Macrobond

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

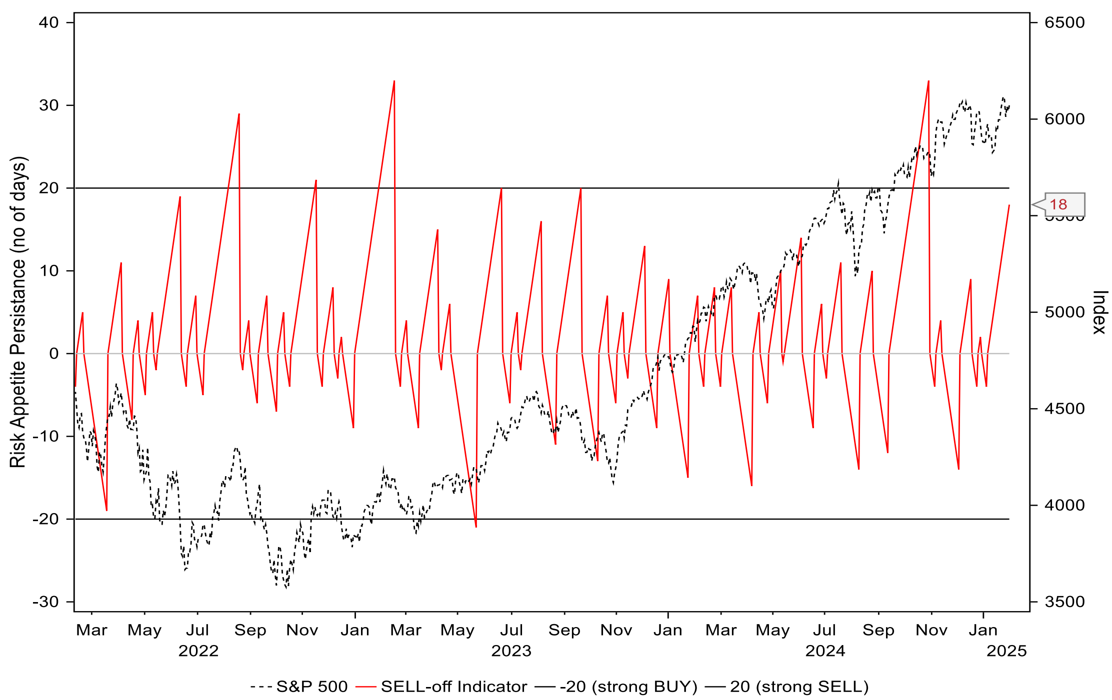


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

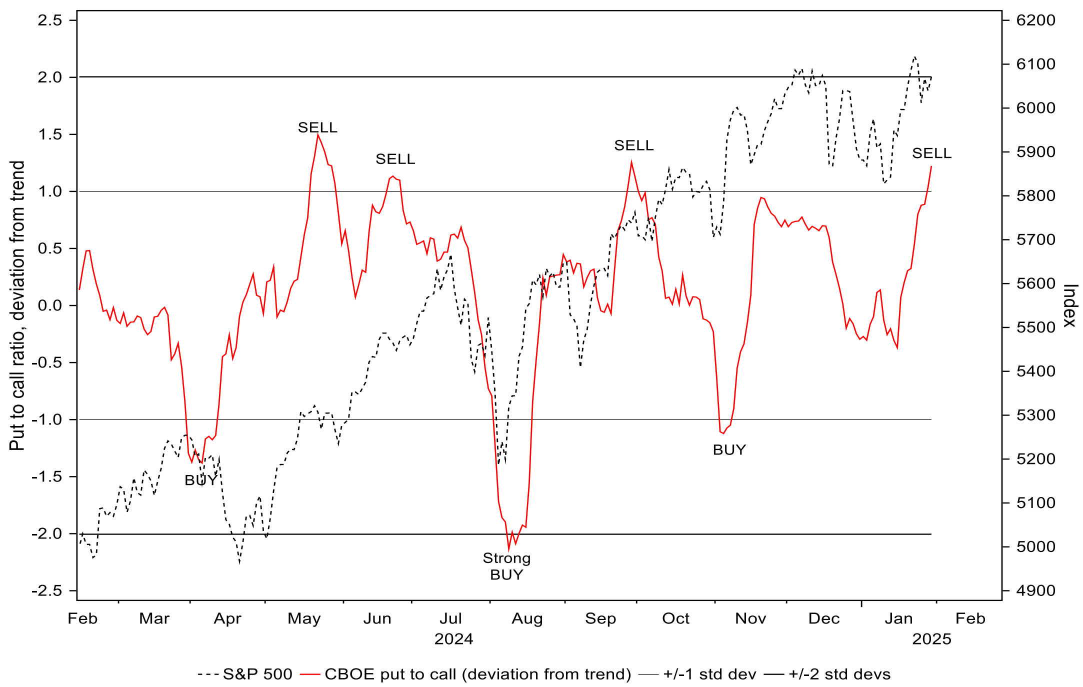
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

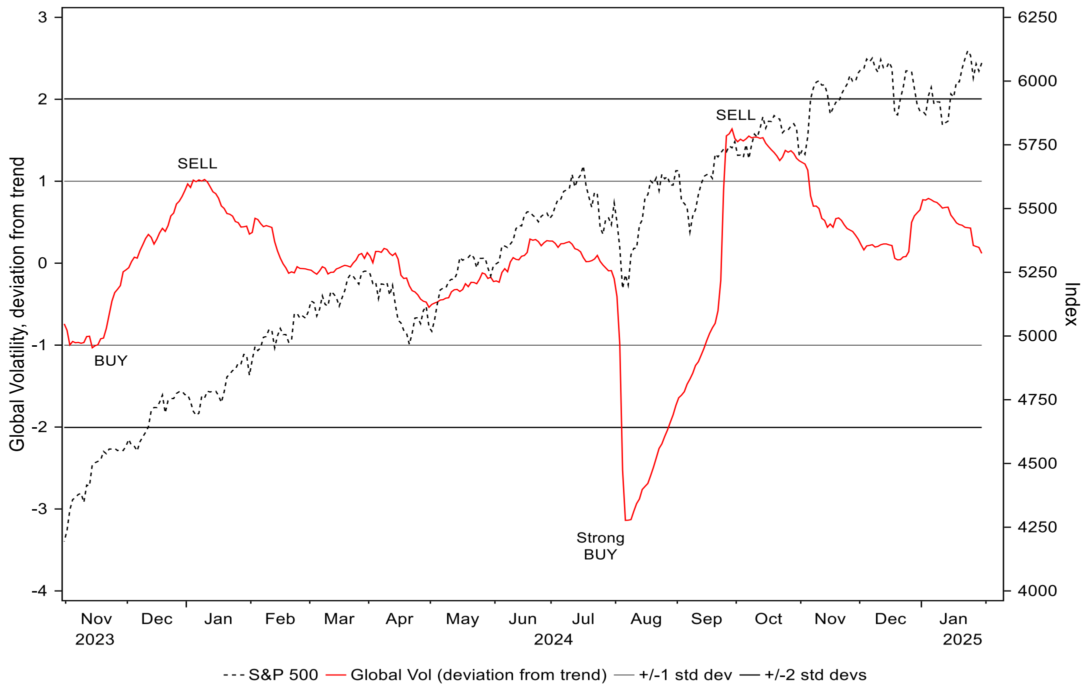


Medium term put to call model is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

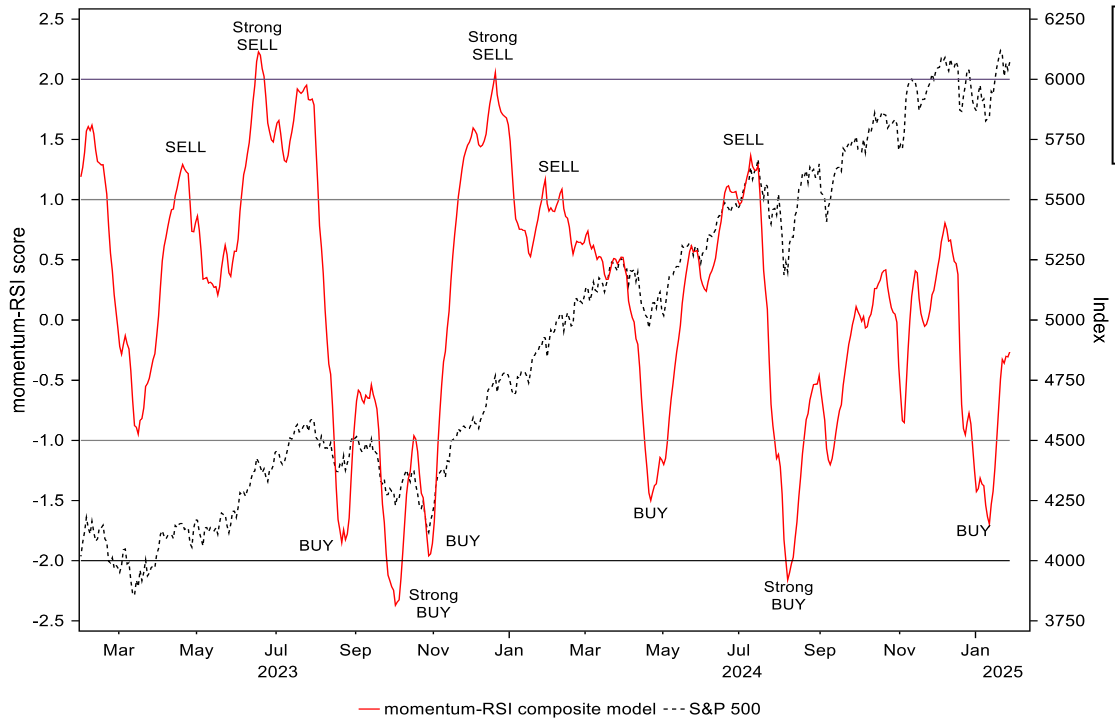
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

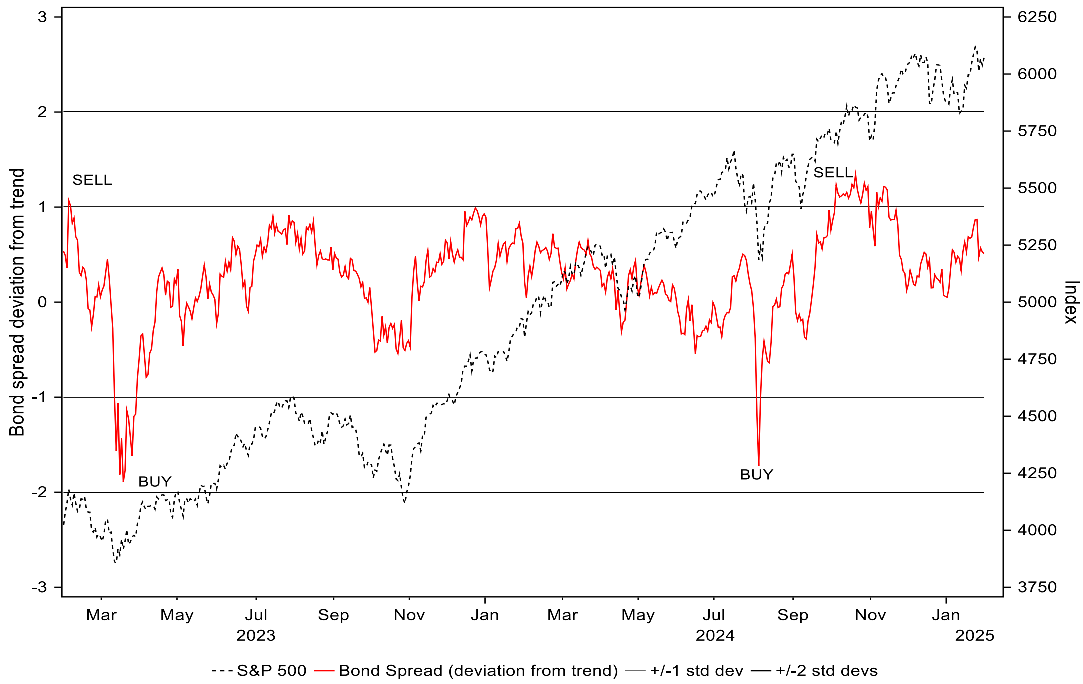
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

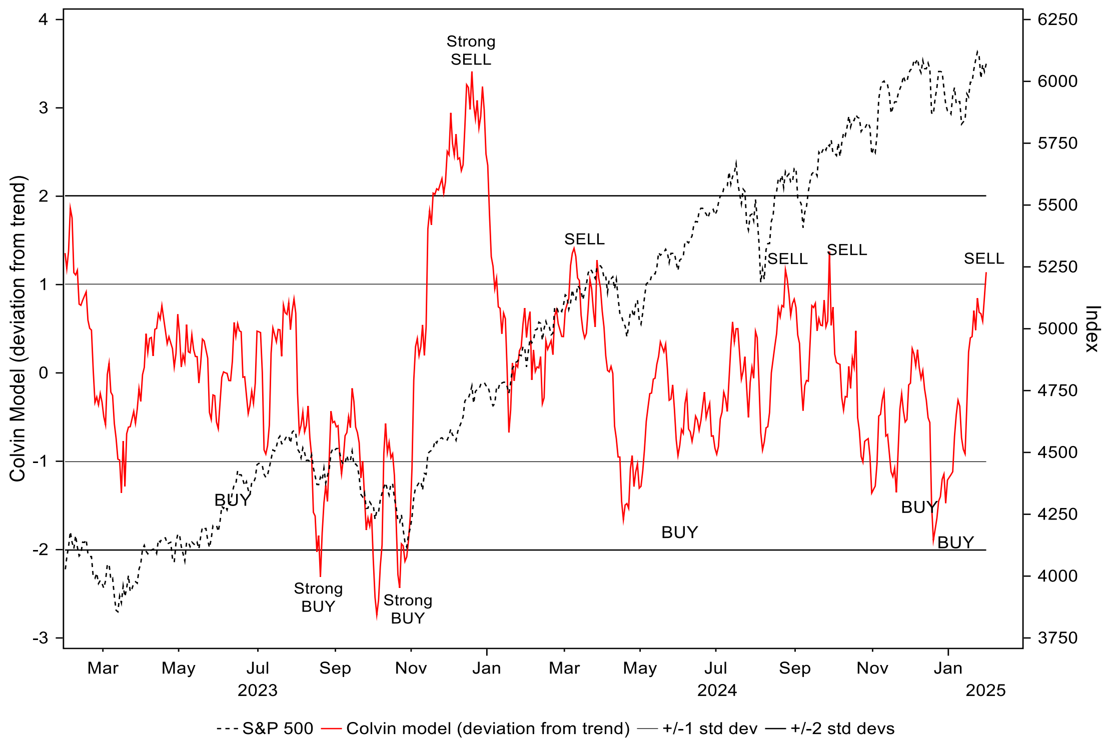
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

Source: Longview Economics, Macrobond

Fig 3h: Colvin model (deviation from trend) vs. S&P500



Colvin model – is NEUTRAL

Source: Longview Economics, Macrobond

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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