Equity Index Futures Trading Recommendations

3rd December 2024

"Stay LONG - Tighten Stops"

Email: info@longvieweconomics.com

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);
- Tighten the stop to 6,010 (approx. 1% below current prices, from stop of 5,915 yesterday);
- Stay ¼ LONG NDX100 December '24 futures (entry was on Monday last week at 20,957);
- Tighten the stop loss to 20,804 -> approx. 2% below current prices (from 20,540, yesterday).

Rationale

Our rationale for staying LONG SPX & NDX100 futures remains as per yesterday. That is, the primary trend in these markets is upwards (i.e. it's a bull market), as confirmed by the 10-day moving averages of the S&P500 & other key indices trending above their 50 day moving averages (indicative of upwards momentum). Added to which, short-term models are not currently signalling that it's time for a pause (or even giveback) in this rally.

In particular, neither the S&P500 nor the NASDAQ100 futures are overextended relative to their 10 day moving averages. As models 2 & 2a show, in this type of market (in the past year), the upside typically persists until the **overextended indicator** reaches +1 standard deviation (i.e. indicating that the price has moved meaningfully above its 10-day moving average/its trend). At that juncture, the indices typically consolidate, or give back (some of), their gains. Similarly, our **short-term technical scoring systems** (FIGs 4 & 4a) are also not currently on SELL, albeit the S&P500 version is close to SELL. Coupled with that, **risk appetite models** are mid-range (without a clear BUY or SELL signal in the past 2 – 3 weeks – FIGs 3 & 3a). These models are calculated using risk asset prices from across the globe. The NEUTRAL/sideways drift in the models in recent weeks, in that sense, is picking up the absence of a clear trend in various parts of the global financial landscape (e.g. the challenges in France; the recent multi day sideways price action in BTC amongst others).

Yesterday, US equity markets were led higher by the Philly SOX, NDX100 and from a sector perspective tech/growth dominated top level S&P500 sector performance (i.e. communication services +1.45%; consumer discretionary 1.0%; & IT +1.0% - all dominated by large cap tech/MAG7 stocks). Some of the more cyclical areas of the market did poorly, as markets rotated/reversed the sector pattern of Friday's gains. With that, the NDX100 rallied 1.1%. As such, we recommend tightening the stop loss by approx. 1%. The gains in the S&P500 were more modest (+0.2%).

Risks remain multiple and include: i) the seasonal sideways drift/weakness in the first half of December (FIG 1); ii) the French political challenges with spreads widening notably yesterday (after the National Rally Chief Bardella (le Pen's No 2) "vowed to sink French government unless there is a 'miracle'"; followed by Le Pen comments backing a 'no confidence' vote in the government); iii) various macro data releases (i.e. with a busy US macro data week); iv) the recent strengthening of the Yen. On the plus side, various Fed Governors gave speeches yesterday which leaned towards supporting a December Fed rate cut (albeit Dec 24 Fed fund futures were broadly unchanged).

Kind regards,

The team @ Longview Economics

<u>**FIG 1:** S&P500 –> December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)</u>

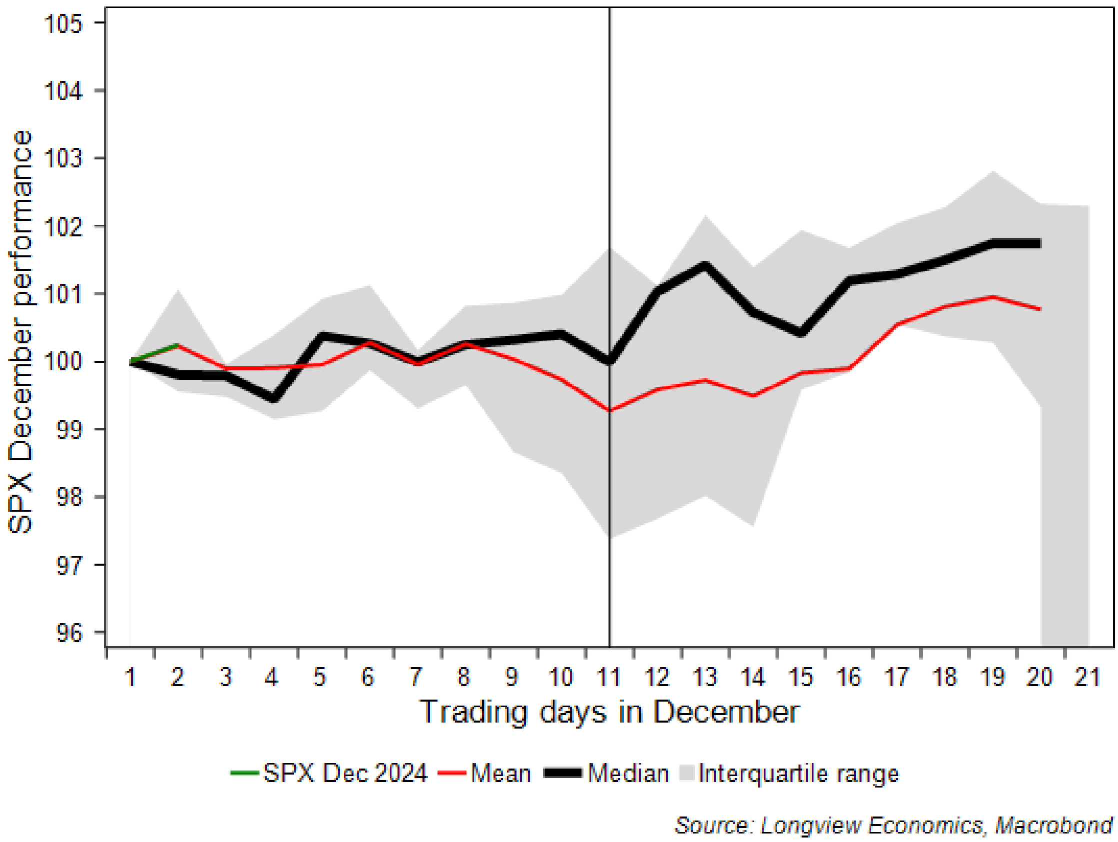
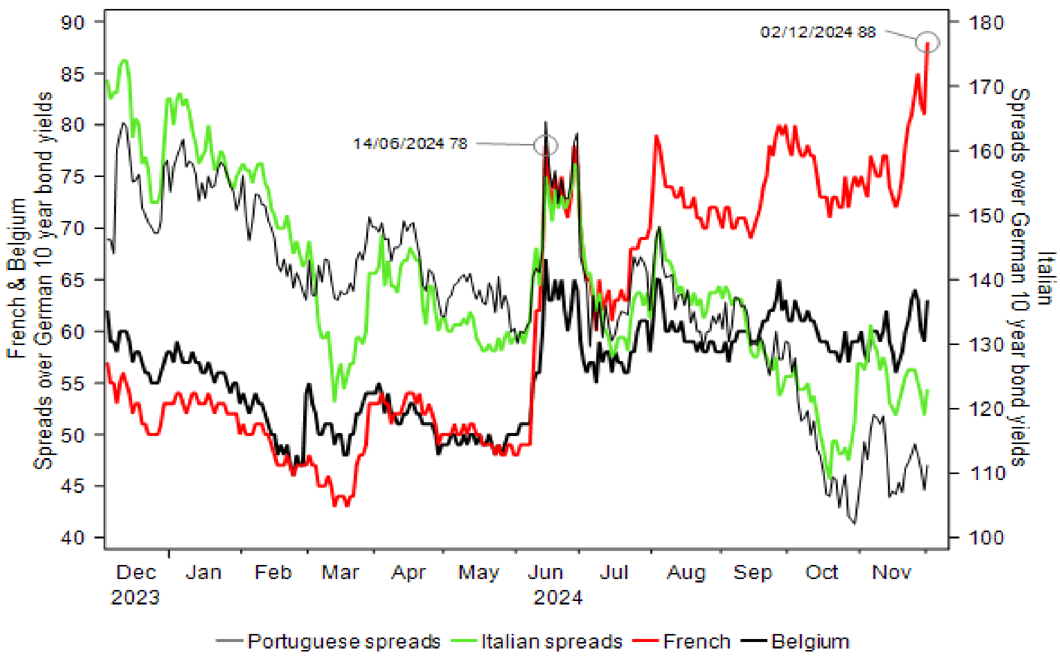


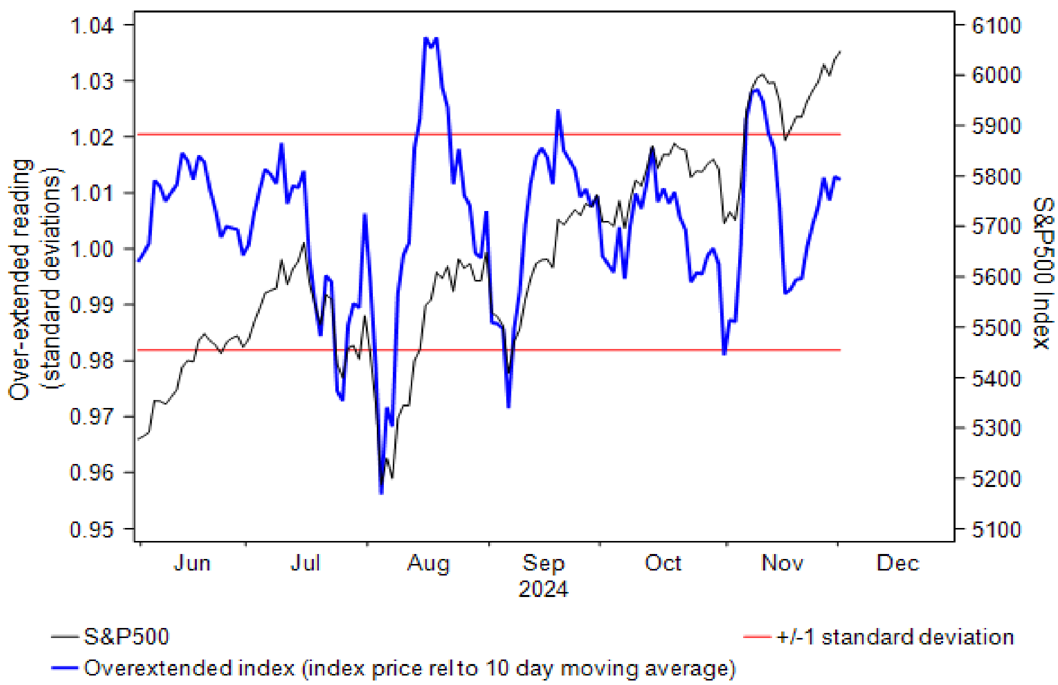
FIG 1a: Various key EZ government bond spreads over German bund yields (bps)



Source: Longview Economics, Macrobond

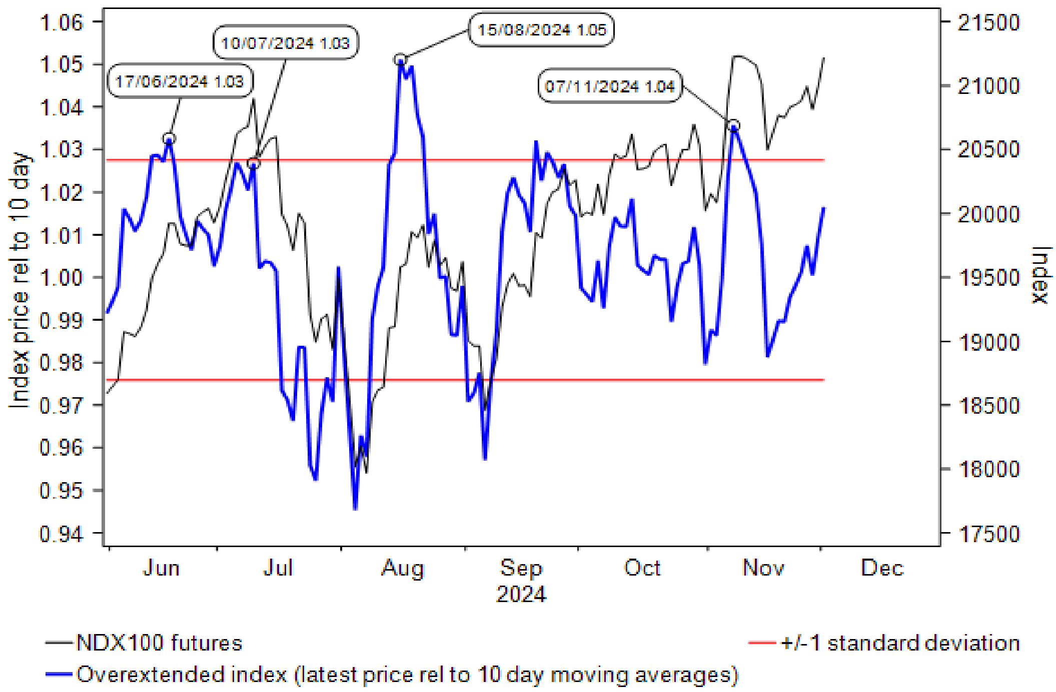
Neither the S&P500 nor the NDX100 is currently overextended relative to its 10-day moving average…

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



Source: Longview Economics, Macrobond

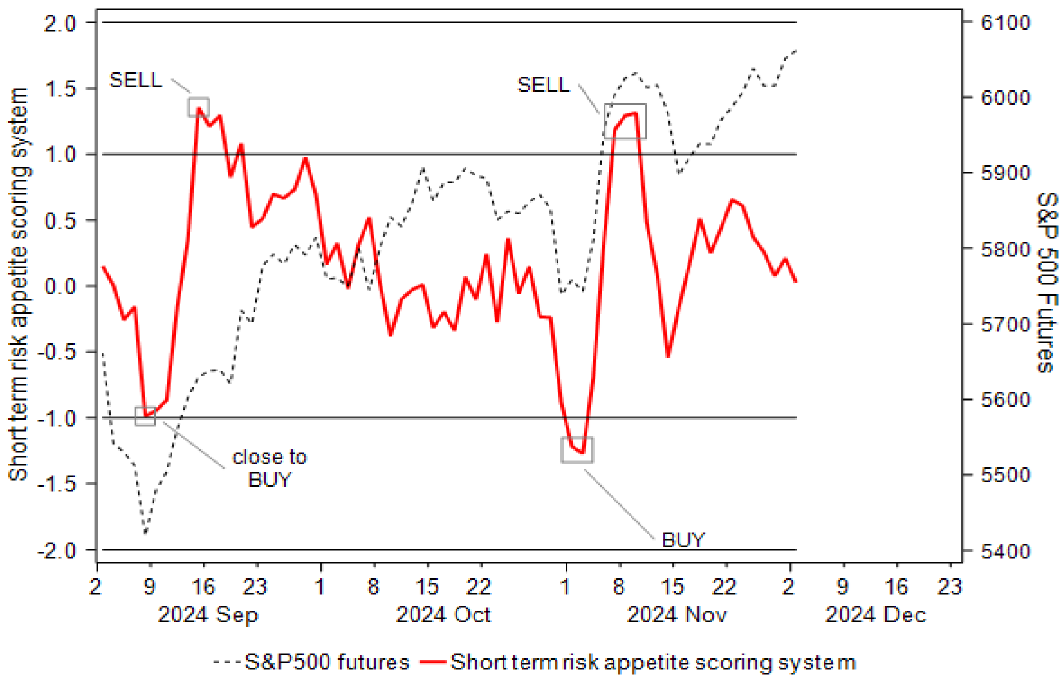
FIG 2a: NASDAQ100 overextended index (index price relative to 10-day moving average) vs. NASDAQ100



Source: Longview Economics, Macrobond

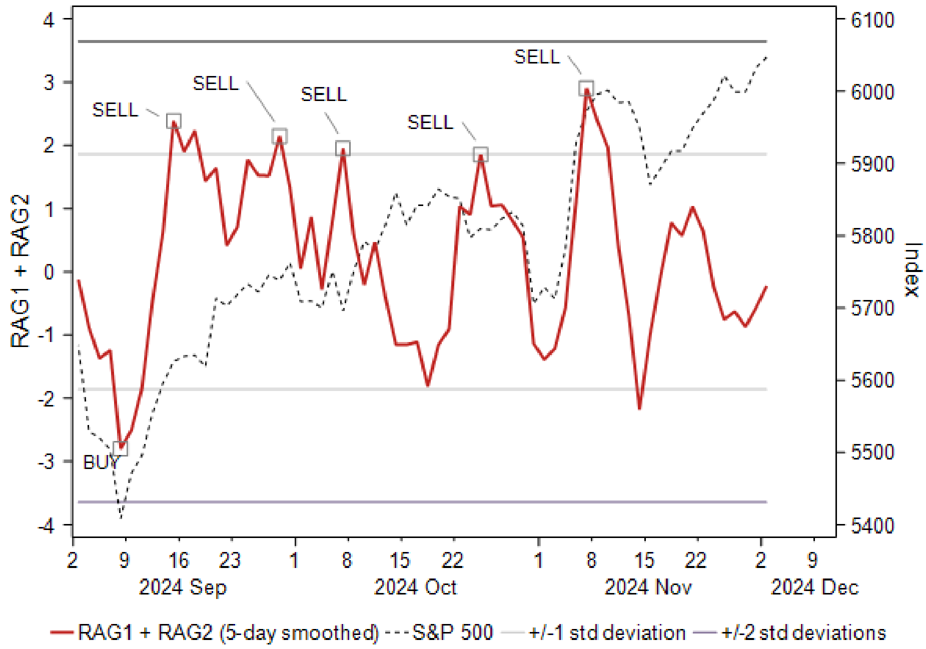
Risk appetite models are NEUTRAL…

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



Source: Longview Economics, Macrobond

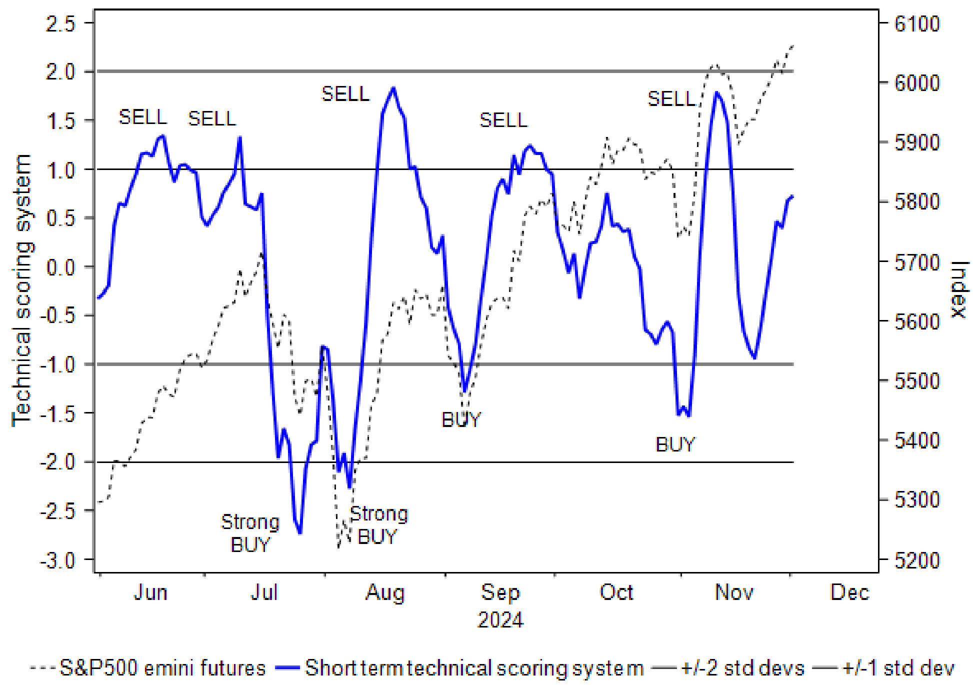
FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

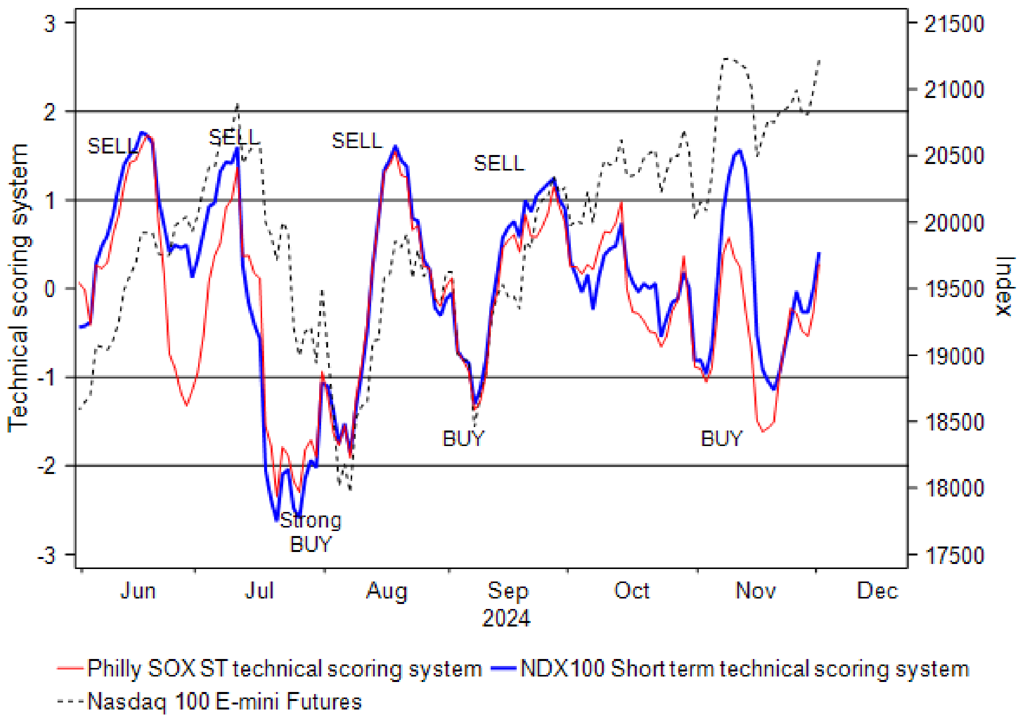
Key US equity indices are not currently overbought (in the short term).....

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



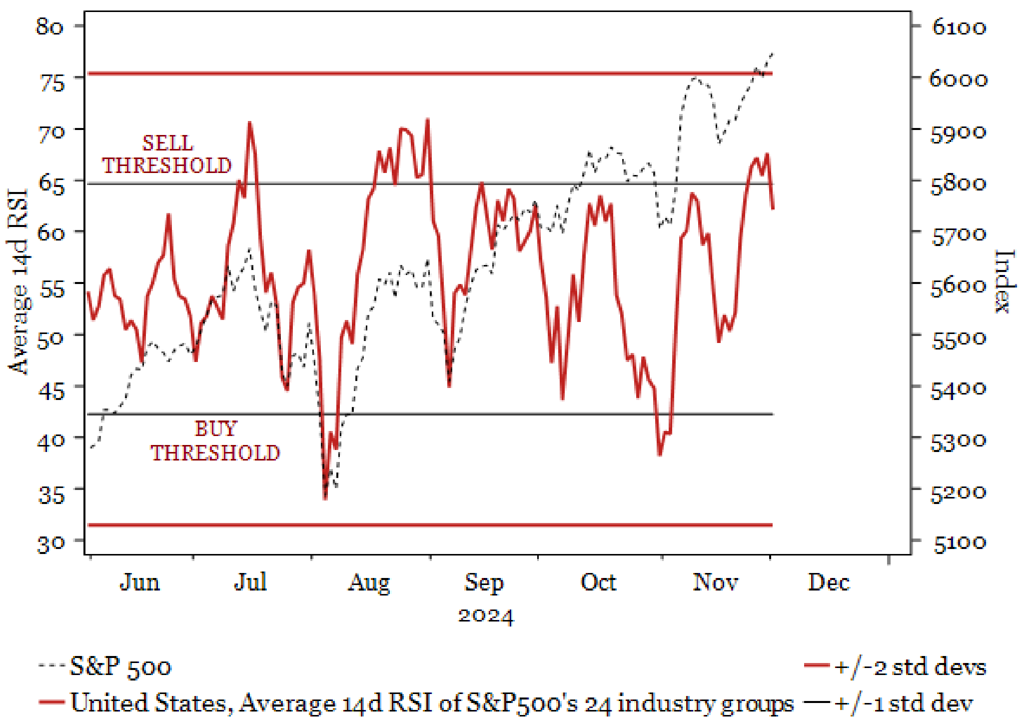
Source: Longview Economics, Macrobond

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



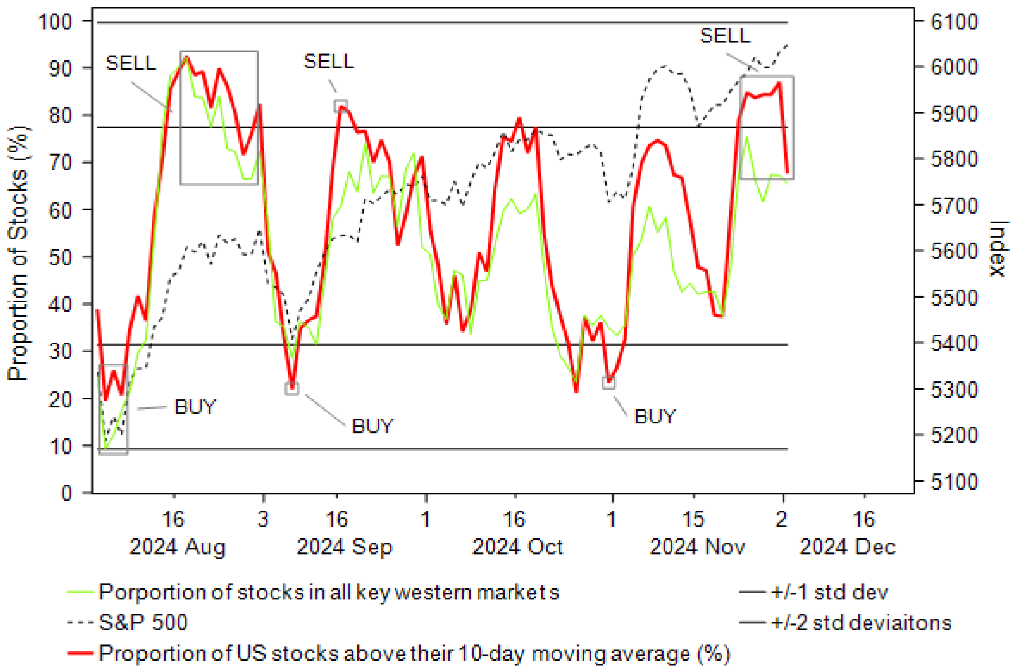
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

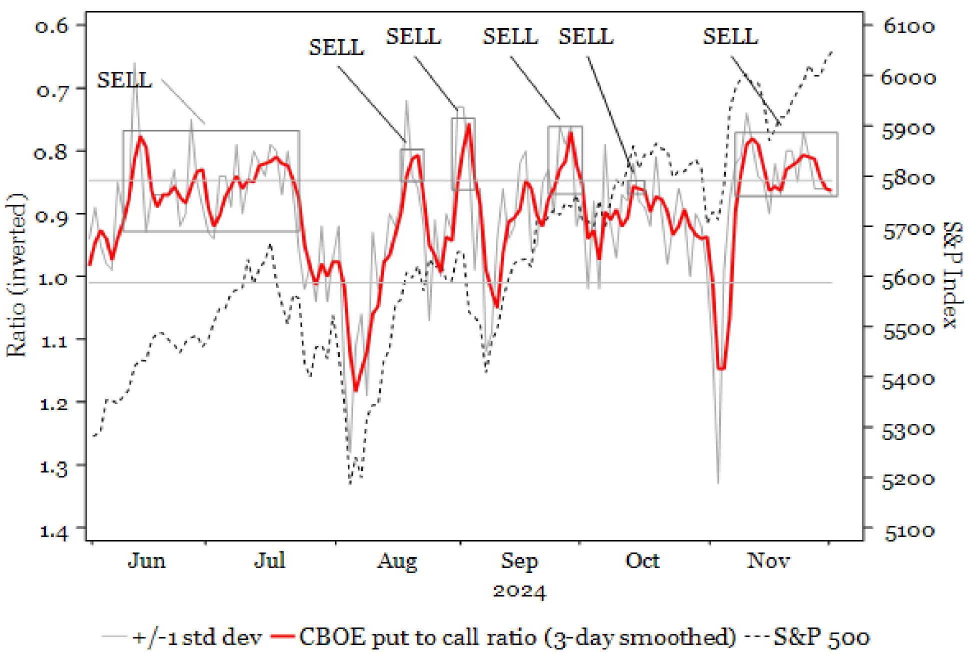
FIG 4c: Proportion of Western stocks above their 10-day moving average vs. S&P500



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

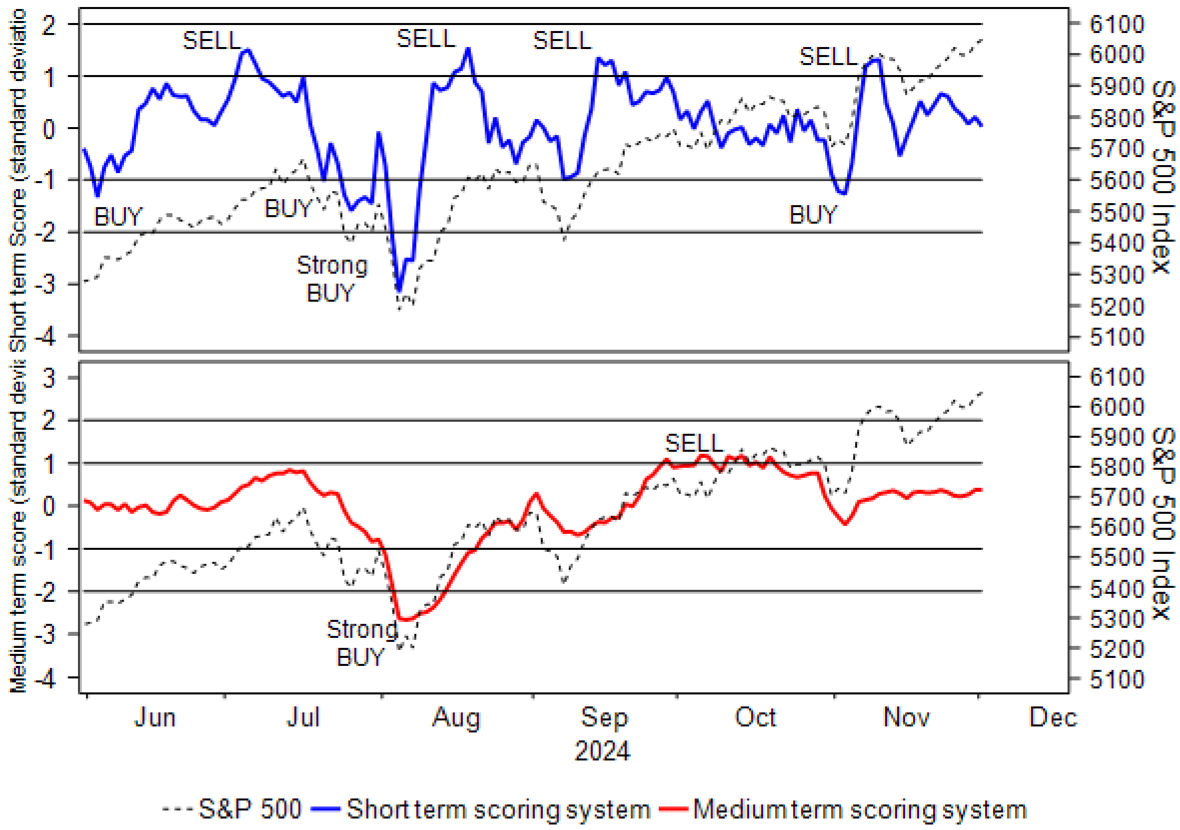


Source: Longview Economics, Macrobond

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 current account balance (Q3, 12:30am); UK BRC retail sales (Nov, 12:01am); Spanish unemployment change (Nov, 8am); **US JOLTS job openings** (Oct, 3pm); Australian S&P service sector PMI (November final estimate, 10pm).

Key events today include: Speech by the ECB's Cipollone in Milan (8am); speeches by the Fed's Kugler on the labour market (5:35pm) & Goolsbee at the Midwest Agriculture Conference (8:45pm).

Key earnings today include: **Salesforce Inc**, Marvell, Bank of Nova Scotia.

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

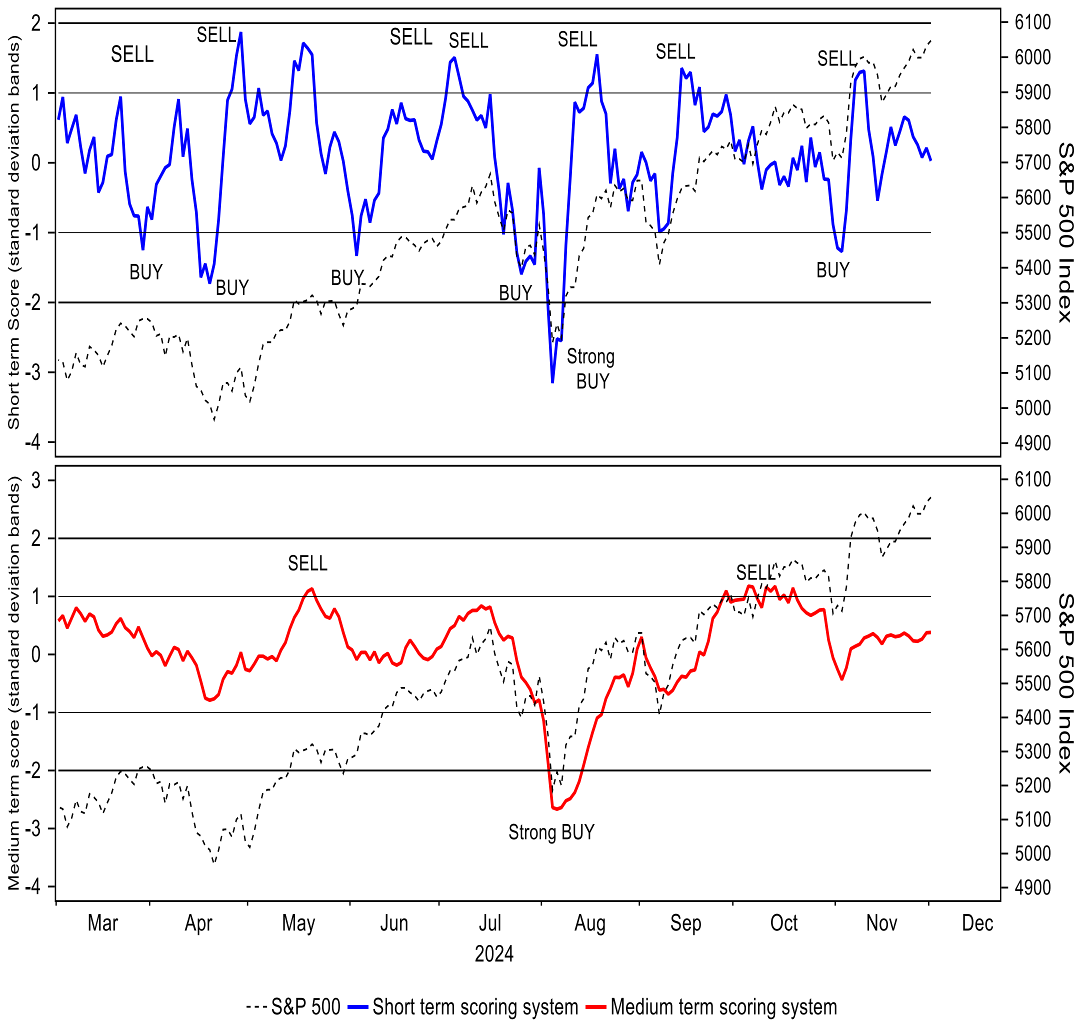
1 – 2 Week View on Risk

3rd 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

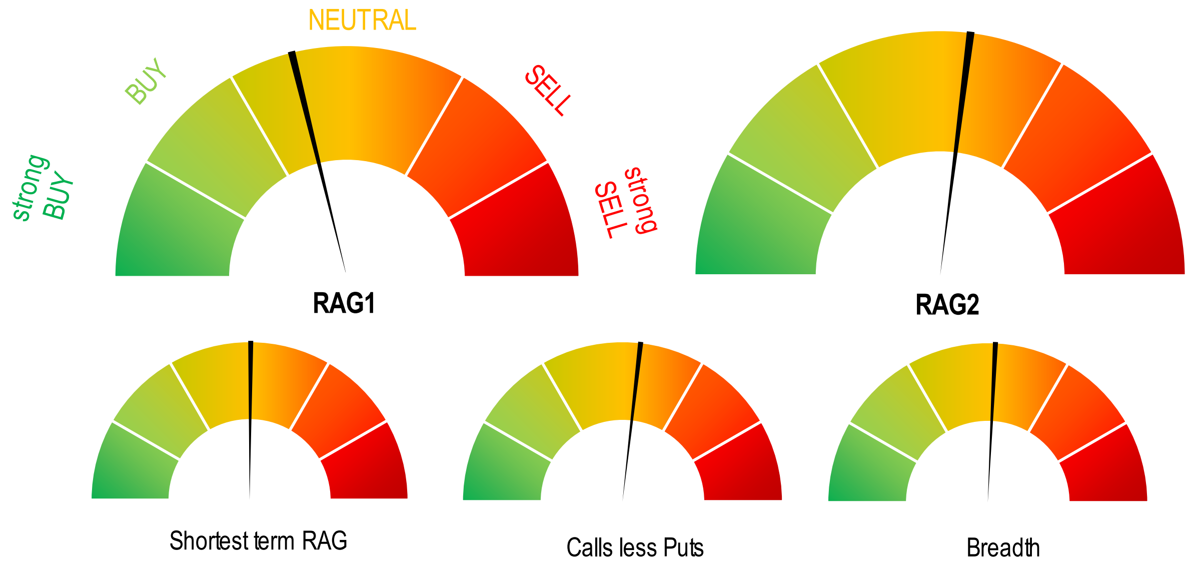
Source: Longview Economics, Macrobond

*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

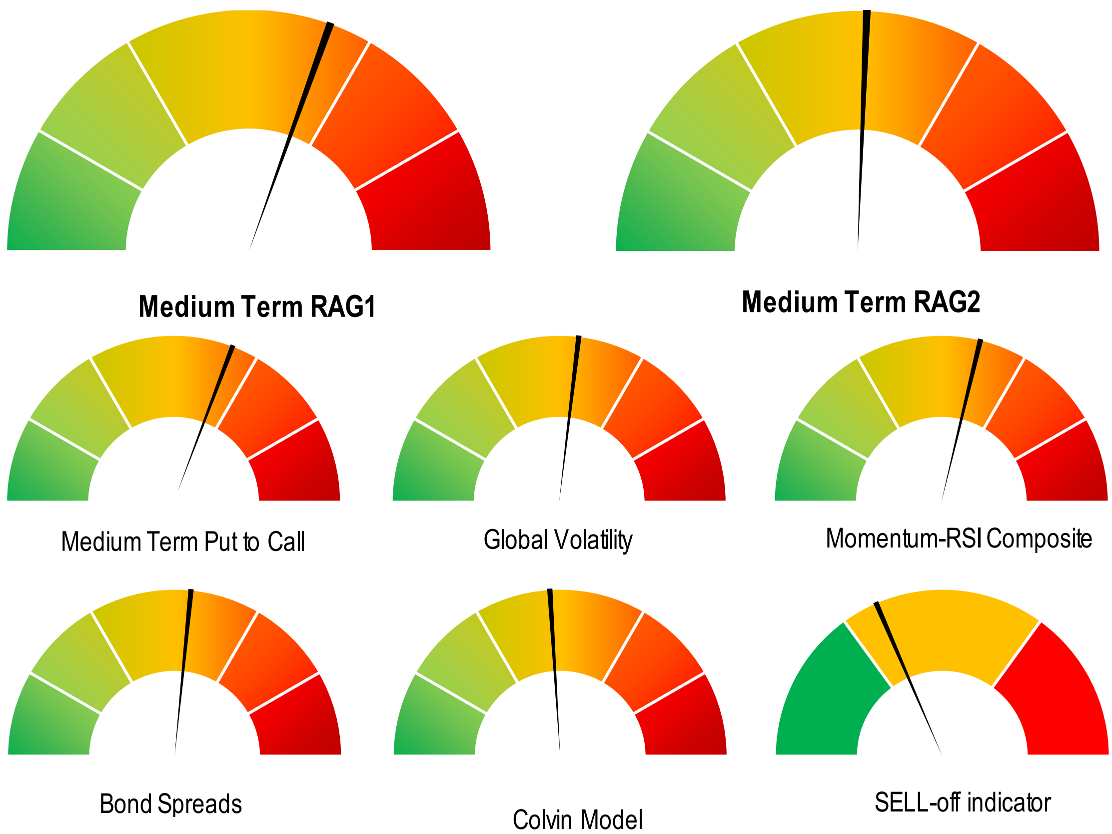
Section 1a: Summary of indicator signals**

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

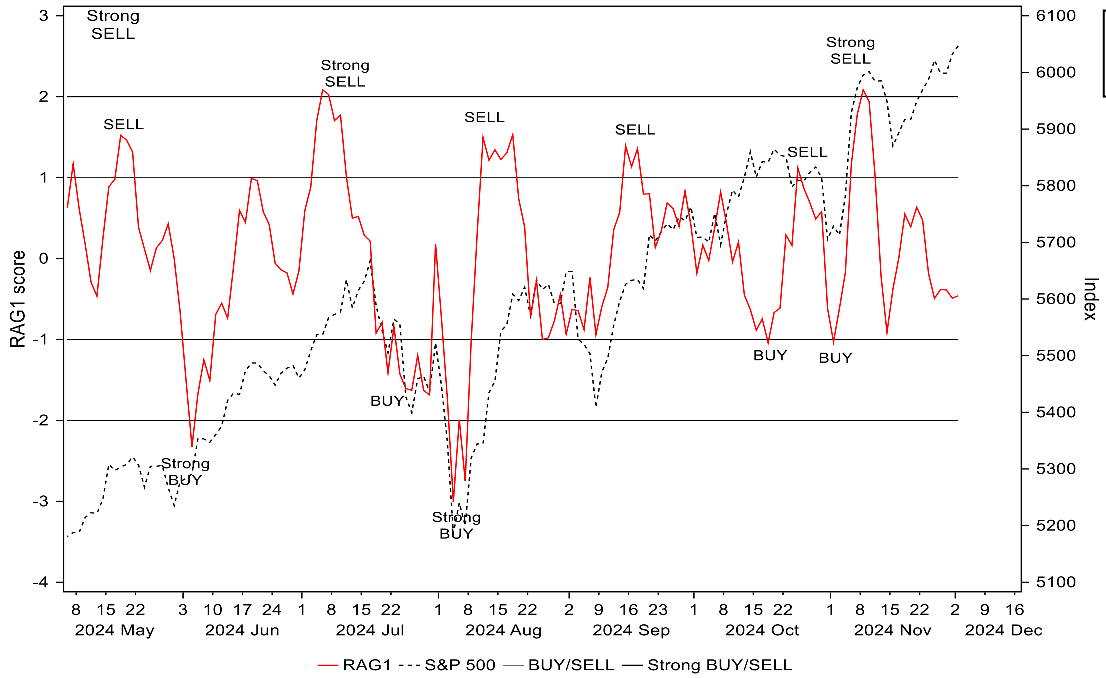


Source: *Longview Economics*

**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

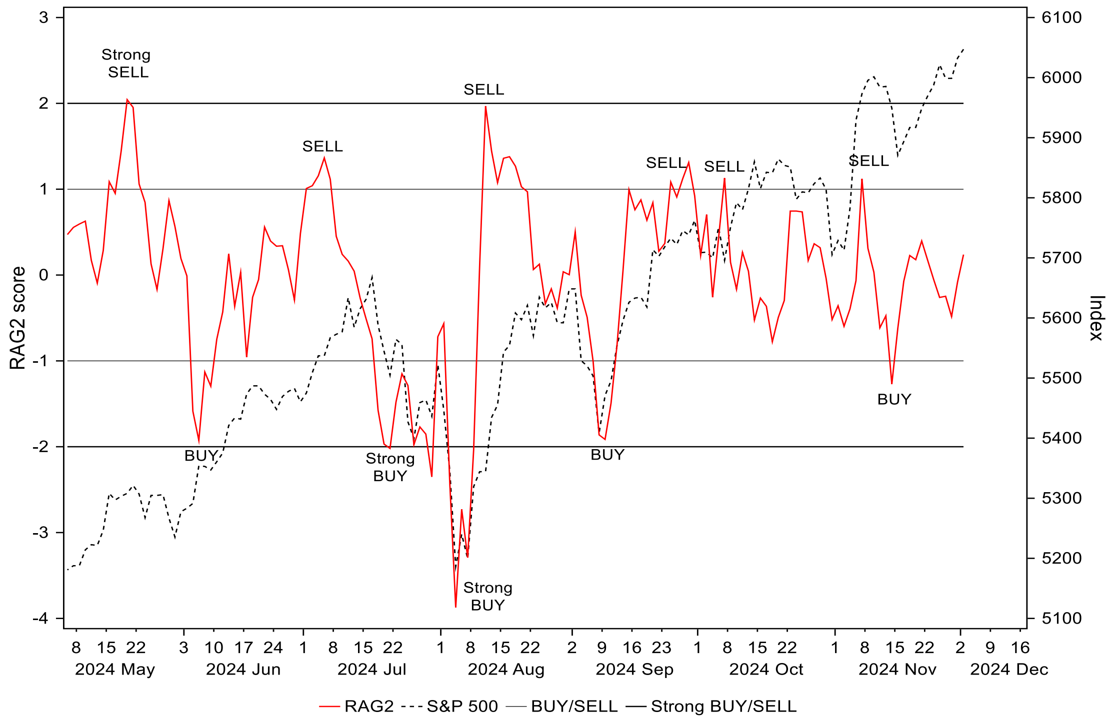
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

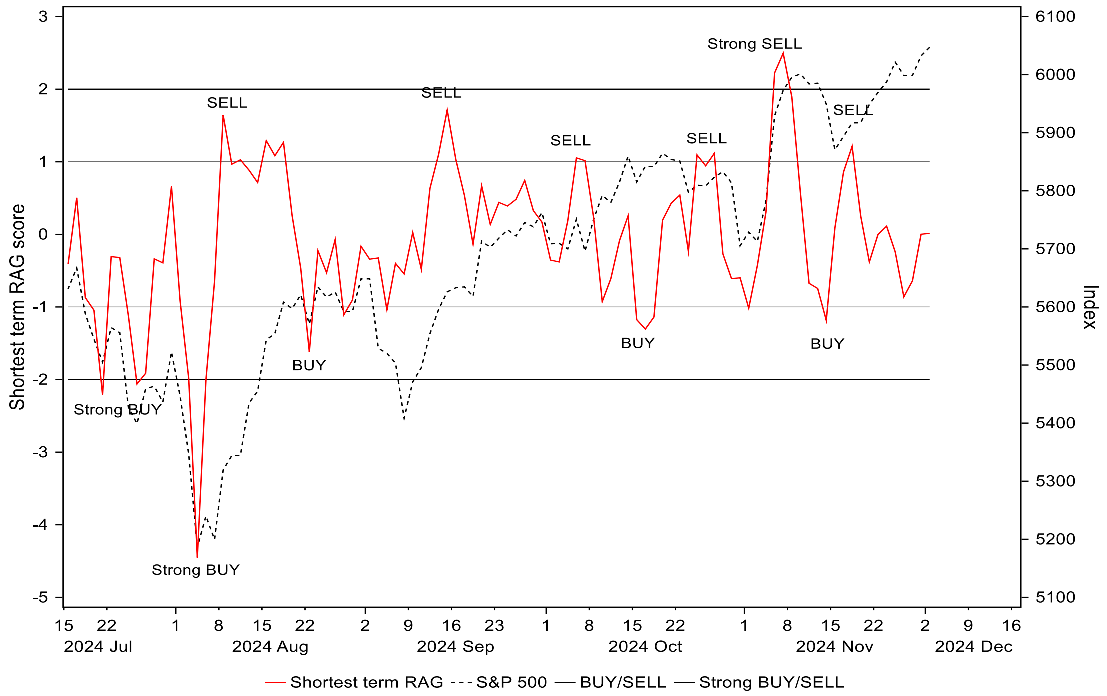


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

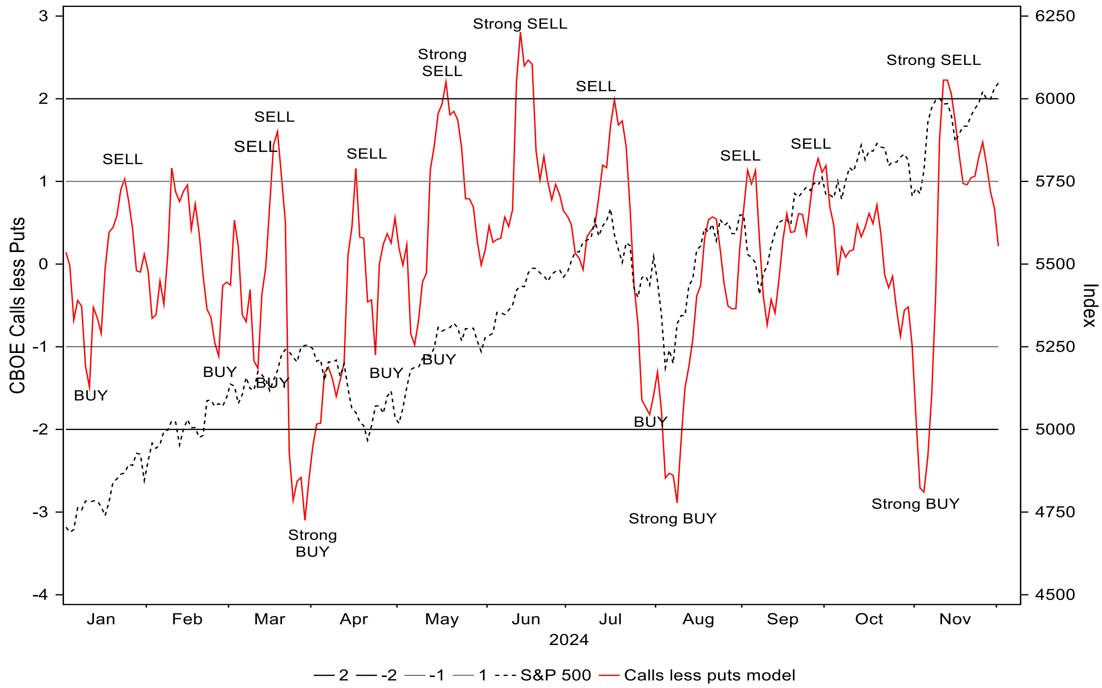
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

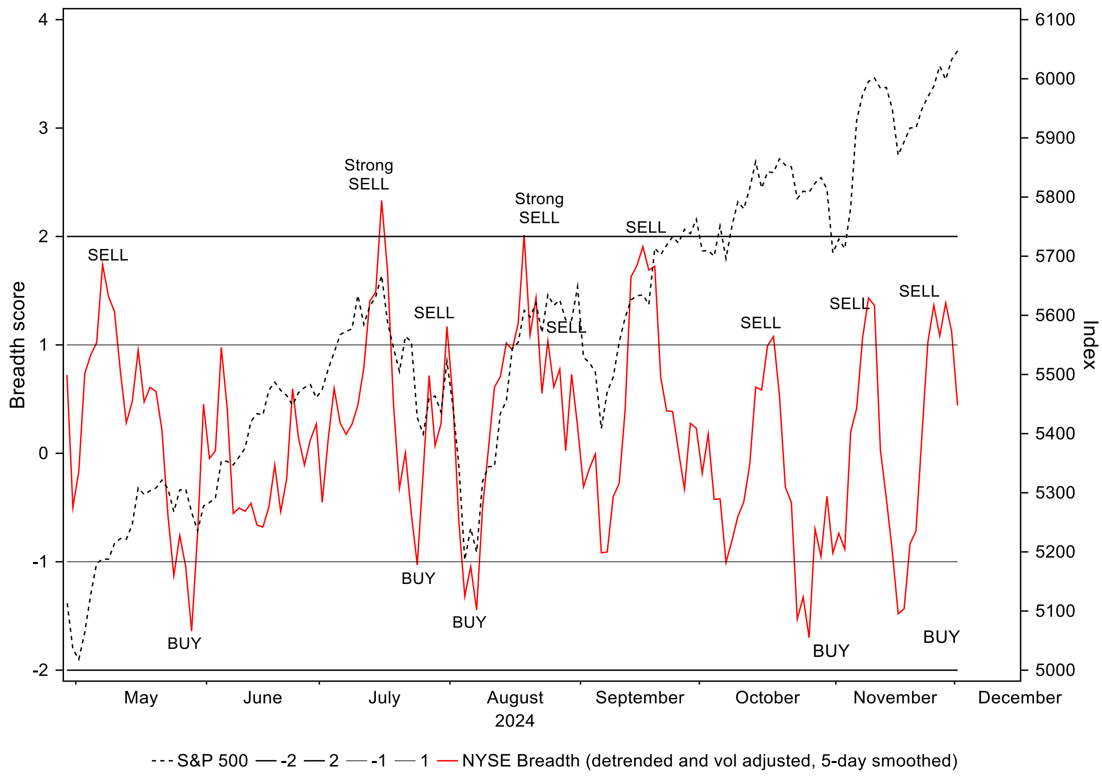


Source: Longview Economics, Macrobond

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



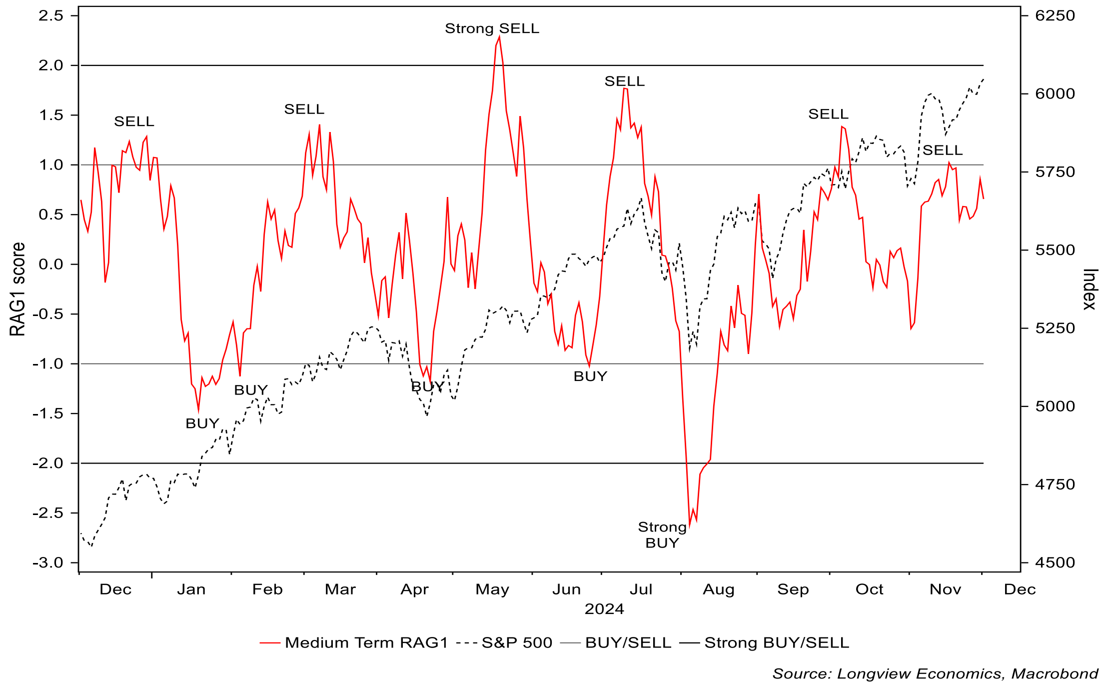
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

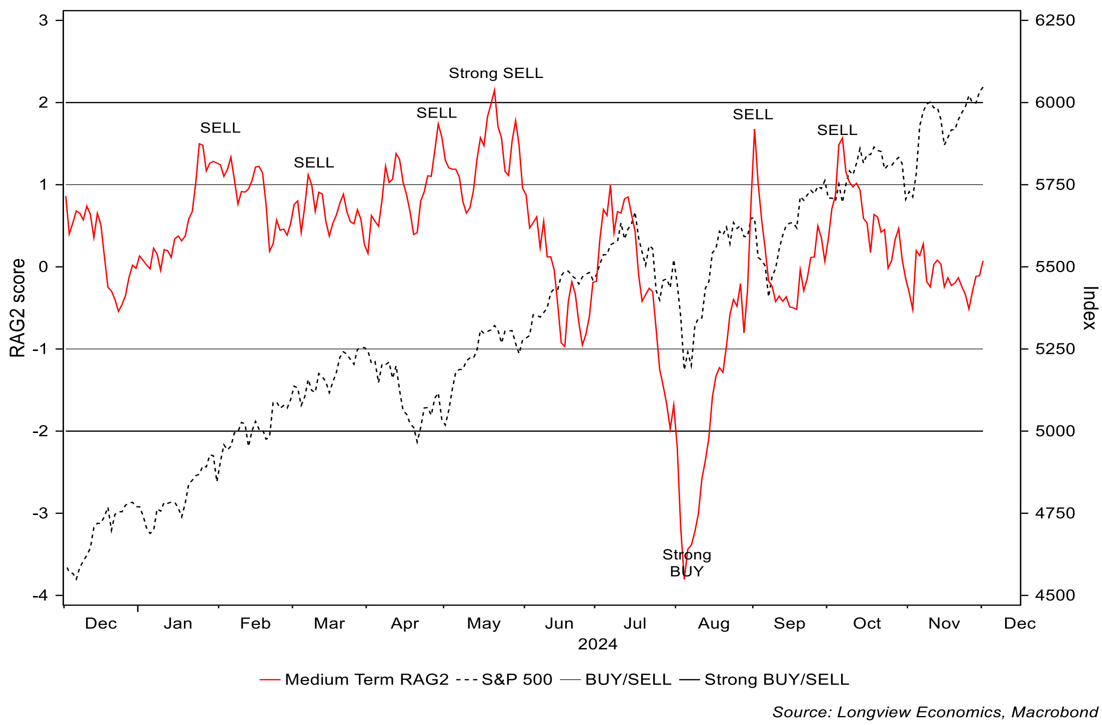
Section 3: Medium term (1 – 2 month) outlook

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



Medium term RAG1 is NEUTRAL

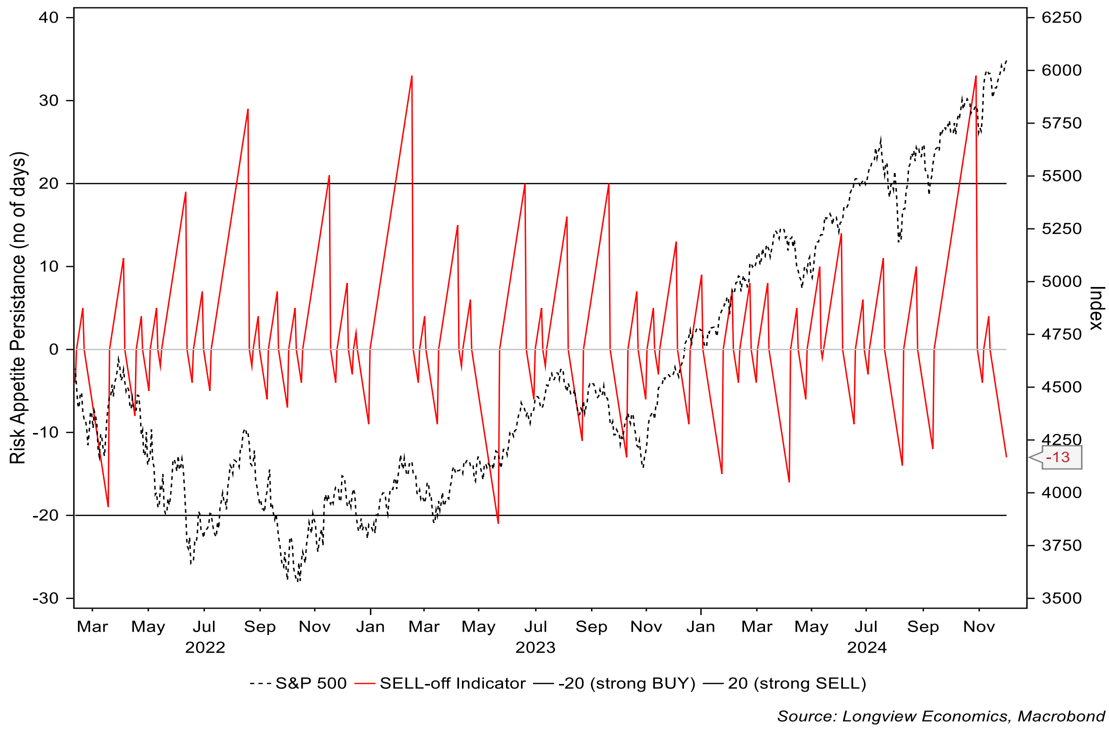
Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



Medium term RAG2 is NEUTRAL

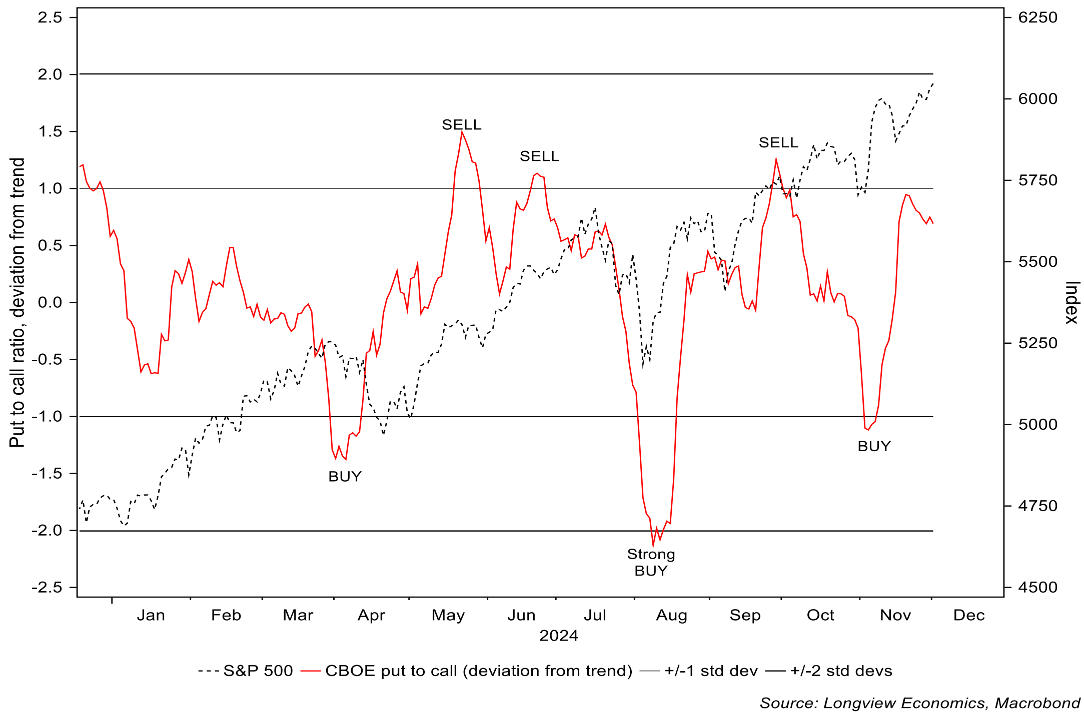
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

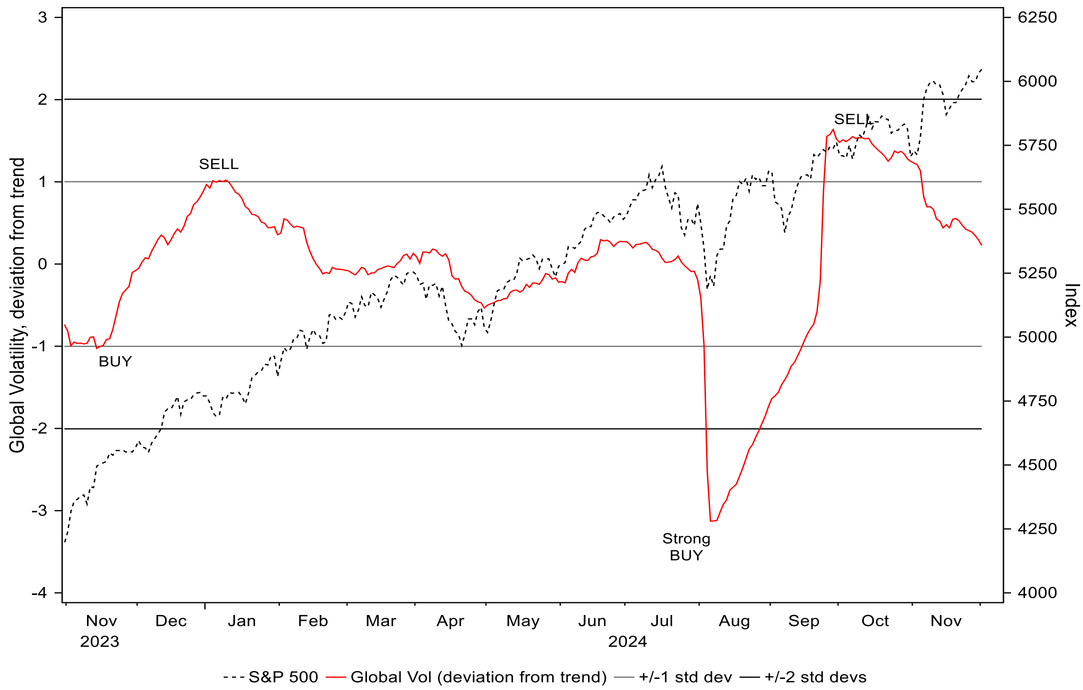
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

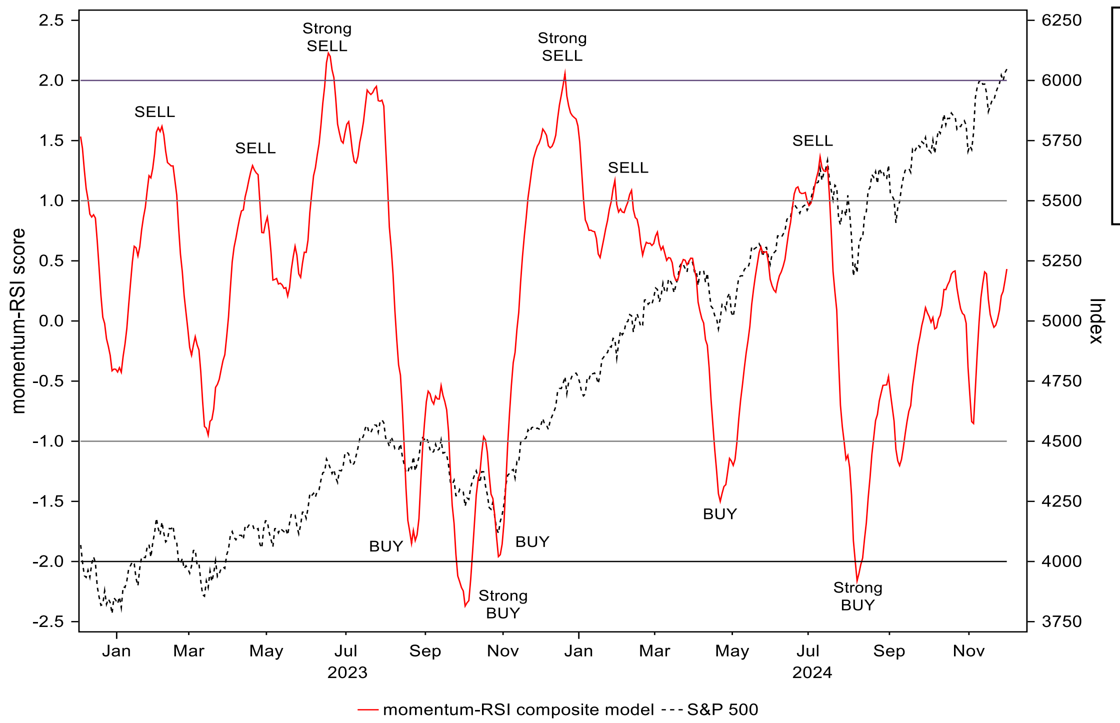
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

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



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

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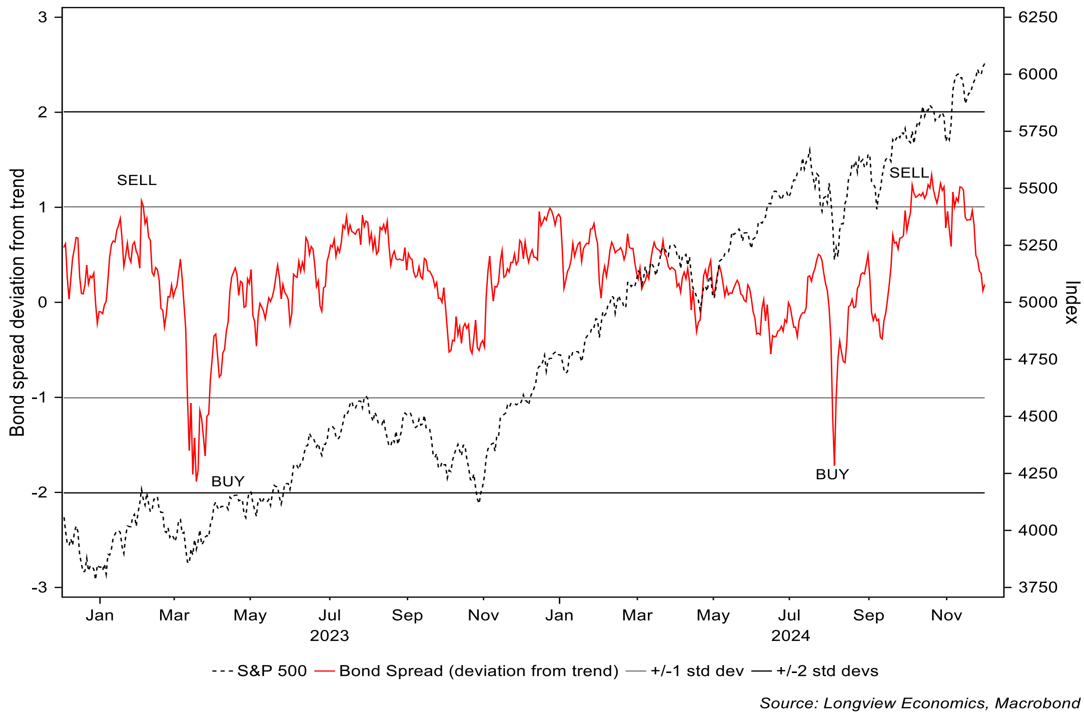
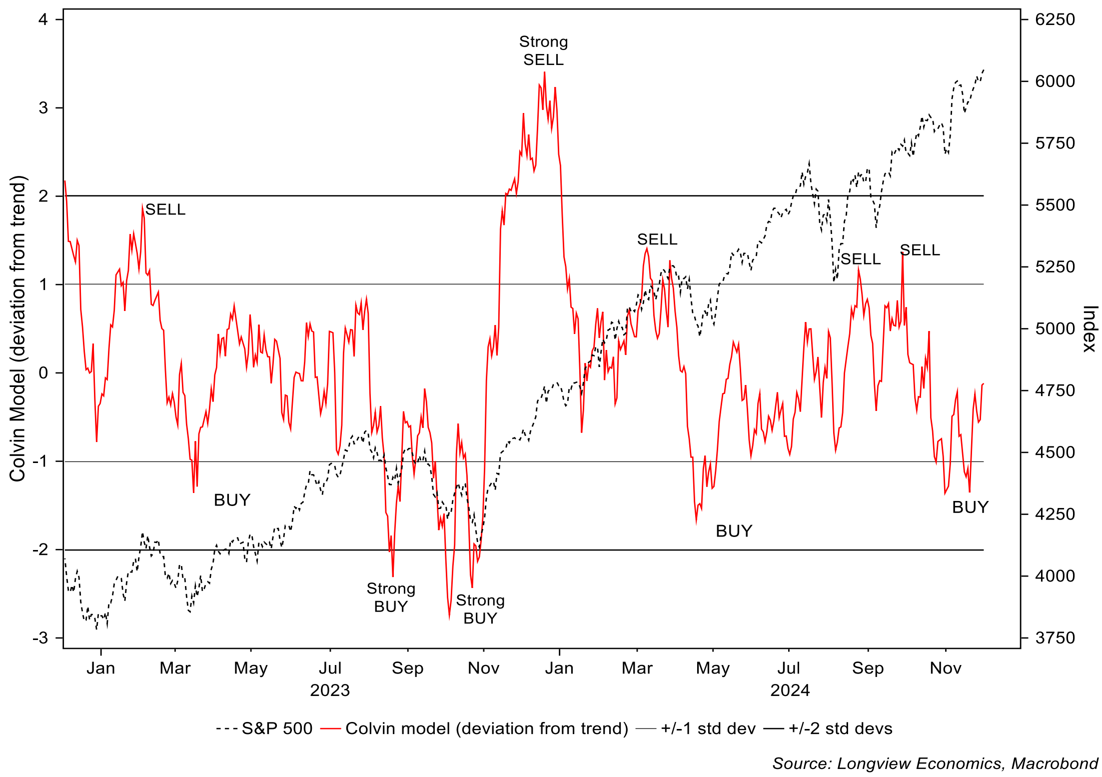
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

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



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.

LVRAG
Daily Risk Appetite Gauge

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