

## Equity Index Futures Trading Recommendations

"Continue to WATCH & WAIT (for now)"

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3<sup>rd</sup> January 2025

New Year publication schedule for Daily Risk Appetite Gauge emails: We will publish updated models with limited commentary through to 6<sup>th</sup> January (on London business days).

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

- Continue to WATCH & WAIT (for now).

### Rationale

Commentary will be limited until the 6<sup>th</sup> January (given the holiday season).

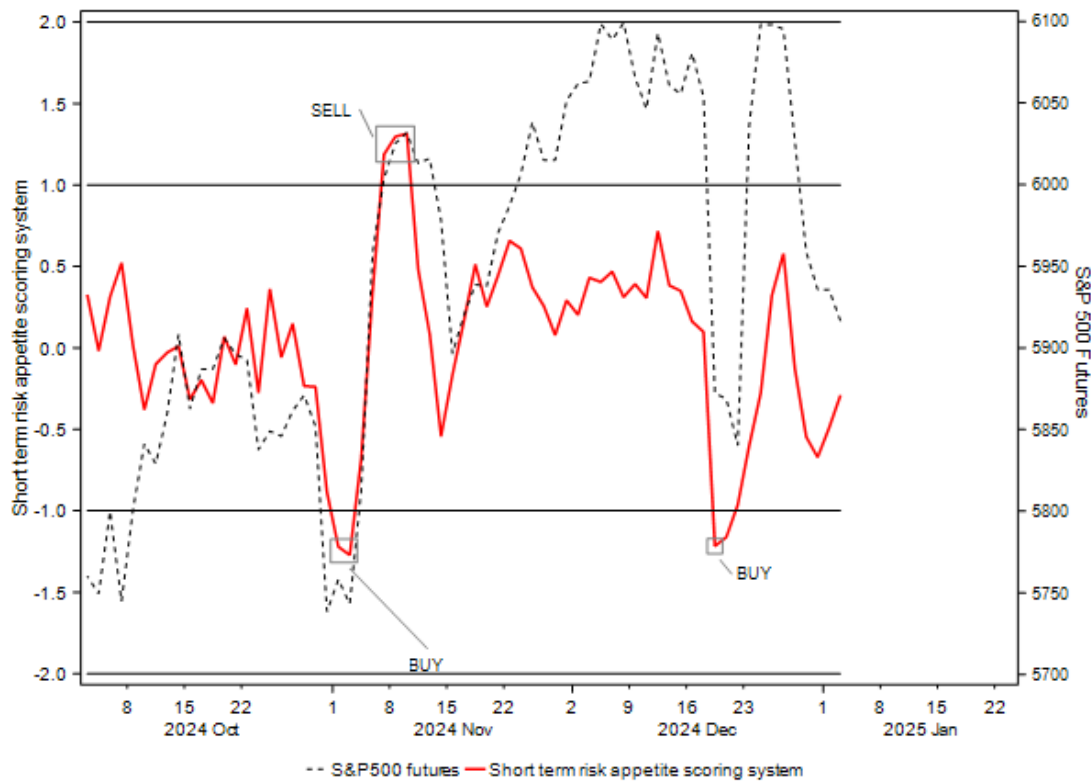
We recommend to WATCH & WAIT for now.

A full list of today's key macro data & events is outlined below.

Happy New Year,

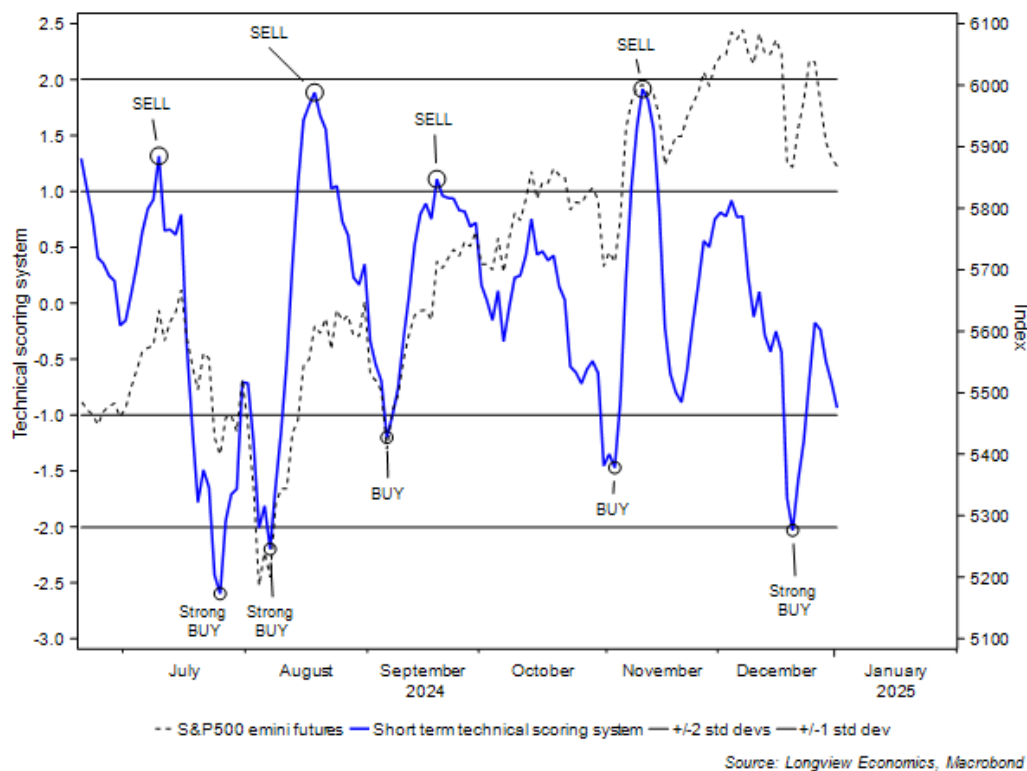
The team @ Longview Economics

**FIG 1:** Longview short term 'risk appetite' scoring system vs. S&P500

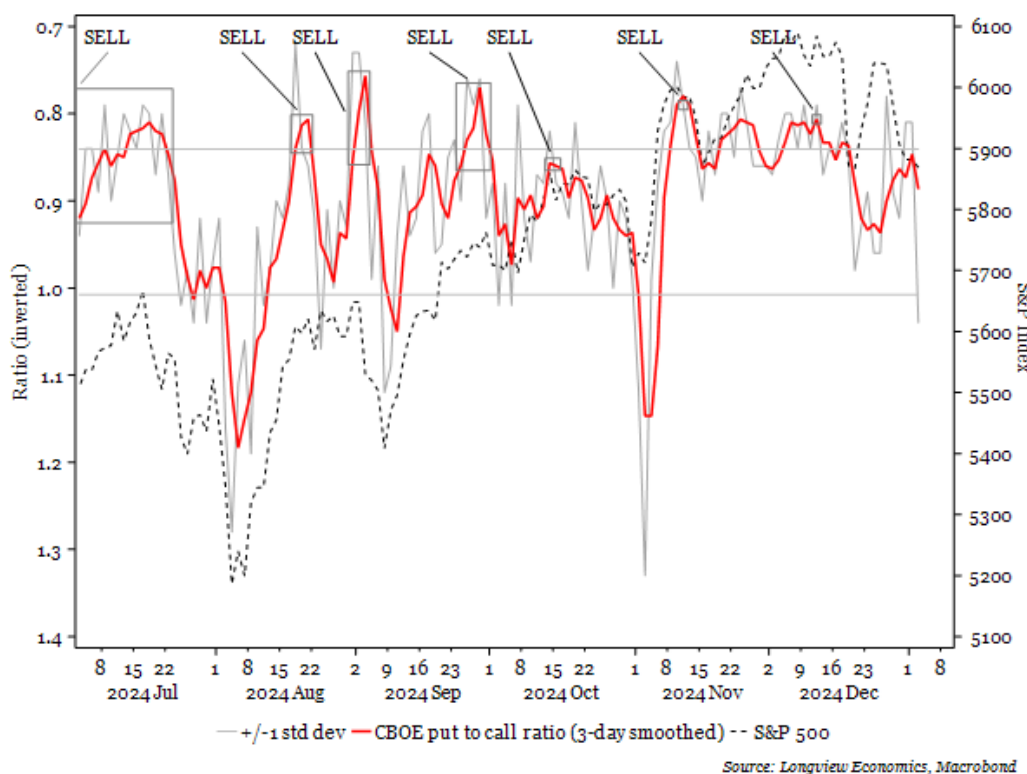


Source: Longview Economics, Macrobond

**FIG 2:** Longview S&P500 short term **‘technical’** scoring system vs. S&P500



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

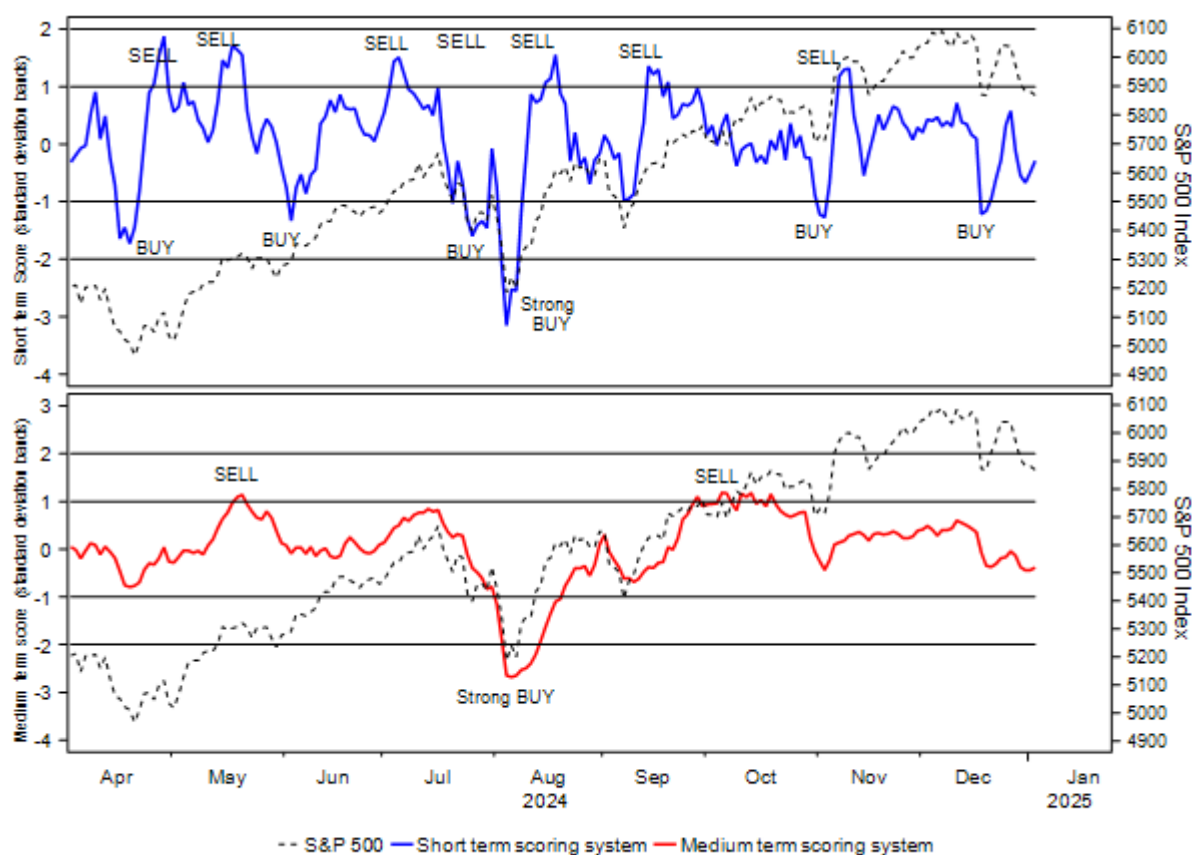


**Key Longview Scoring Systems** (chart below):

**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

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**Key data** today include: Spanish unemployment change (Dec, 8am); **UK Net consumer credit, mortgage approvals, mortgage lending & M4 money supply** (Nov, 9:30am); **US ISM manufacturing** (Dec, 3pm).

**Key events** today include: Speech by the Fed's Barkin at an event hosted by the Maryland Bankers Association (4pm); speech by the ECB's Lane in San Francisco (4pm).

**Key earnings** today include: N/A

## Definitions & other matters:

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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 earlier this month on 5<sup>th</sup> December 2024. 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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## 1 – 2 Week View on Risk

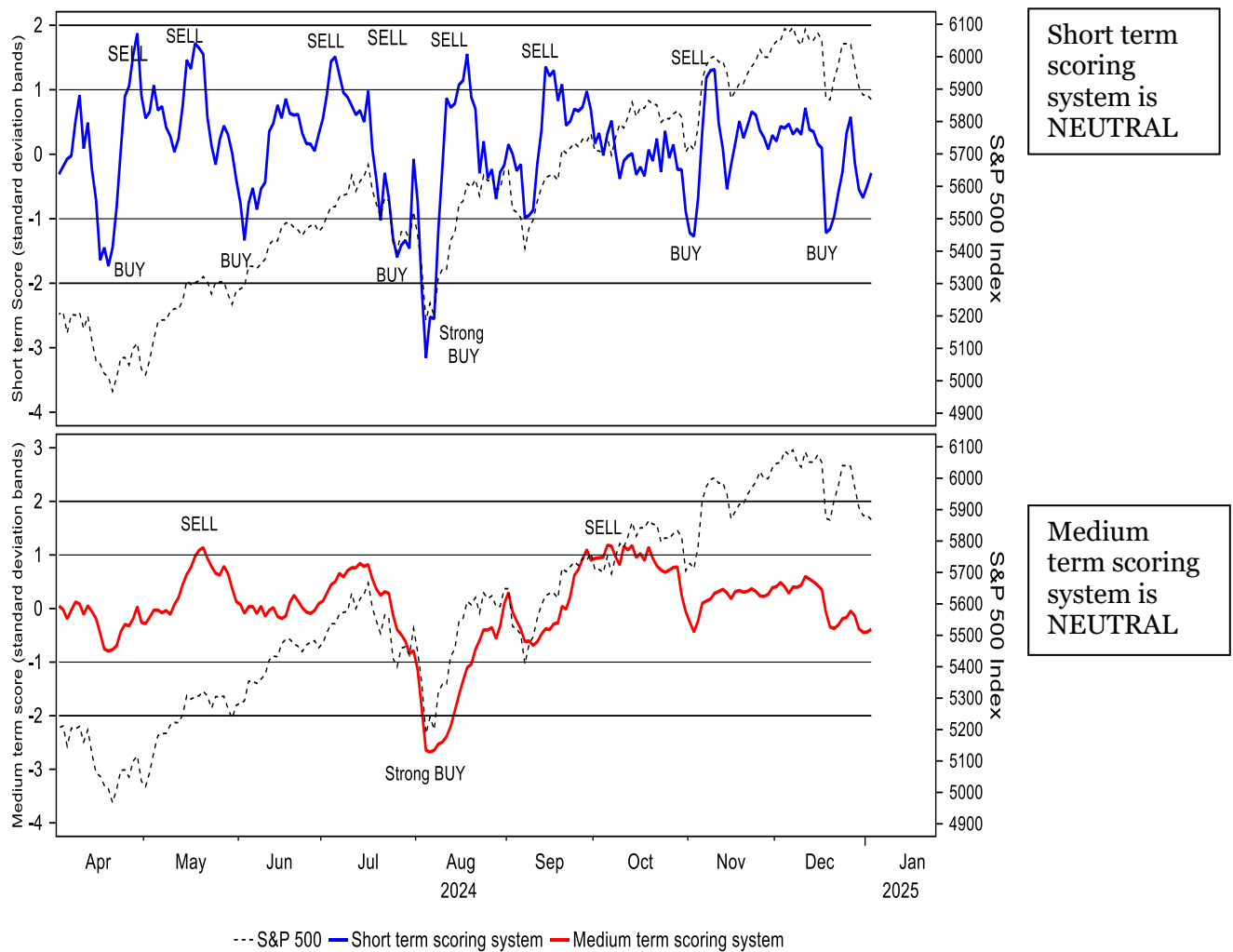
Longview Economics

Email: ragtrader@dailyragtrader.com

3<sup>rd</sup> January 2025

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

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



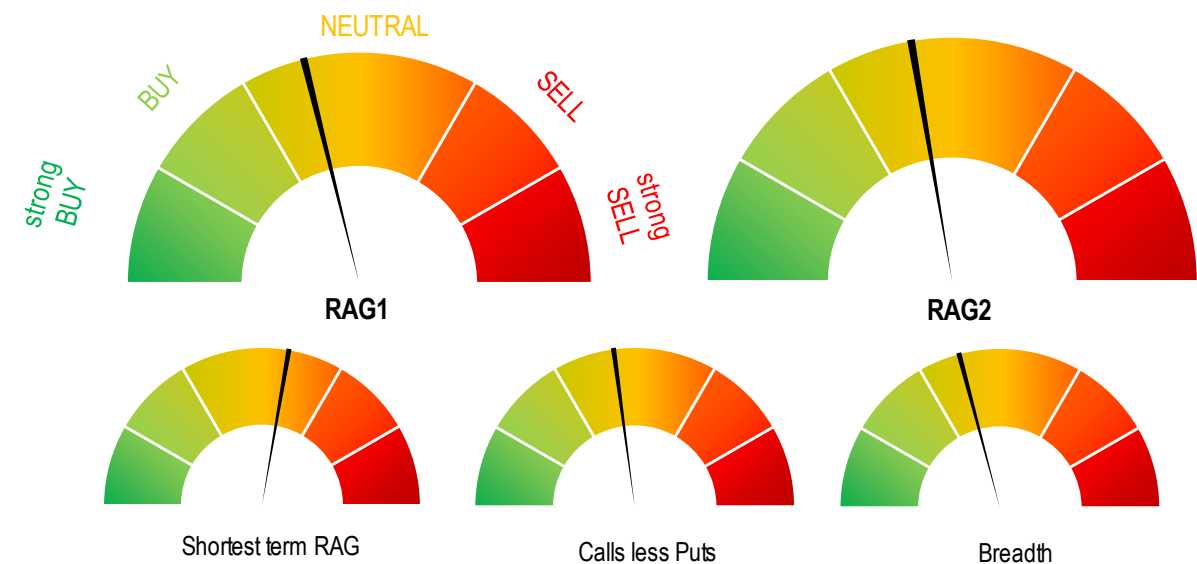
Source: Longview Economics, Macrobond

\*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**

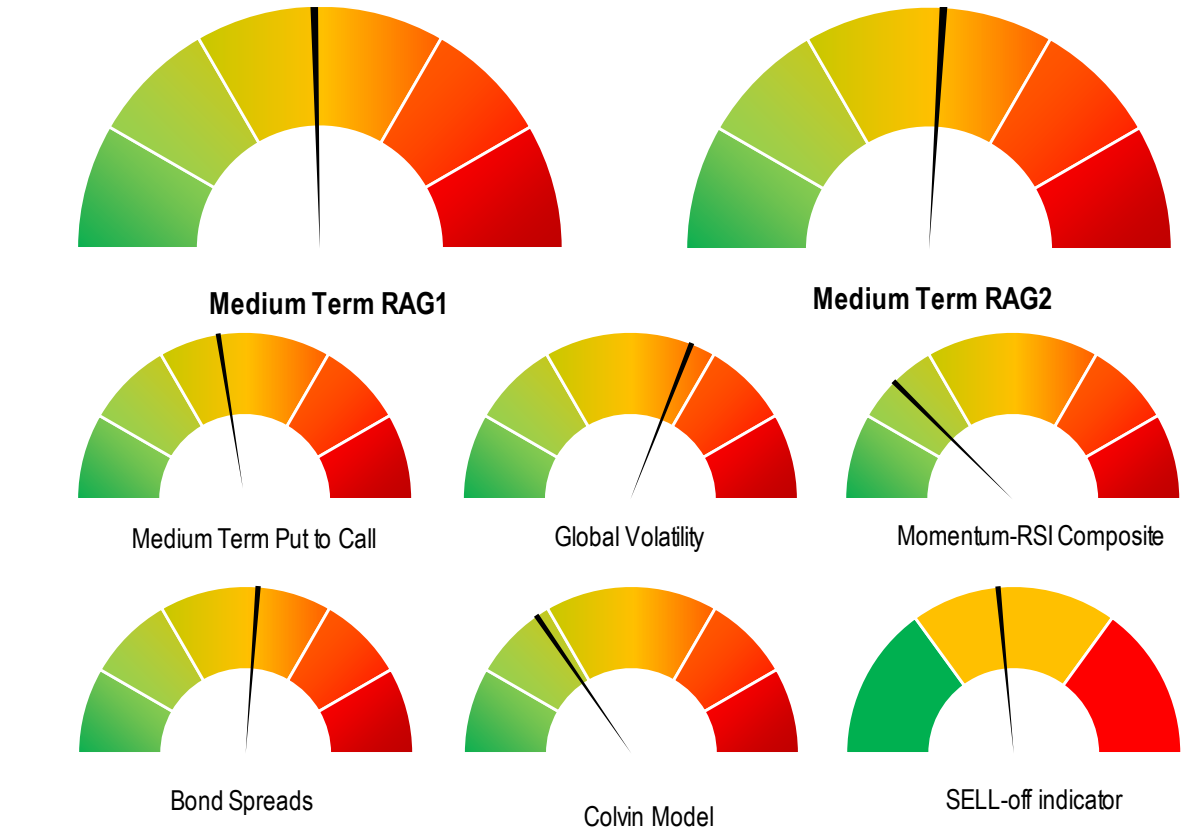
**Section 1a: Summary of indicator signals\*\***

**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

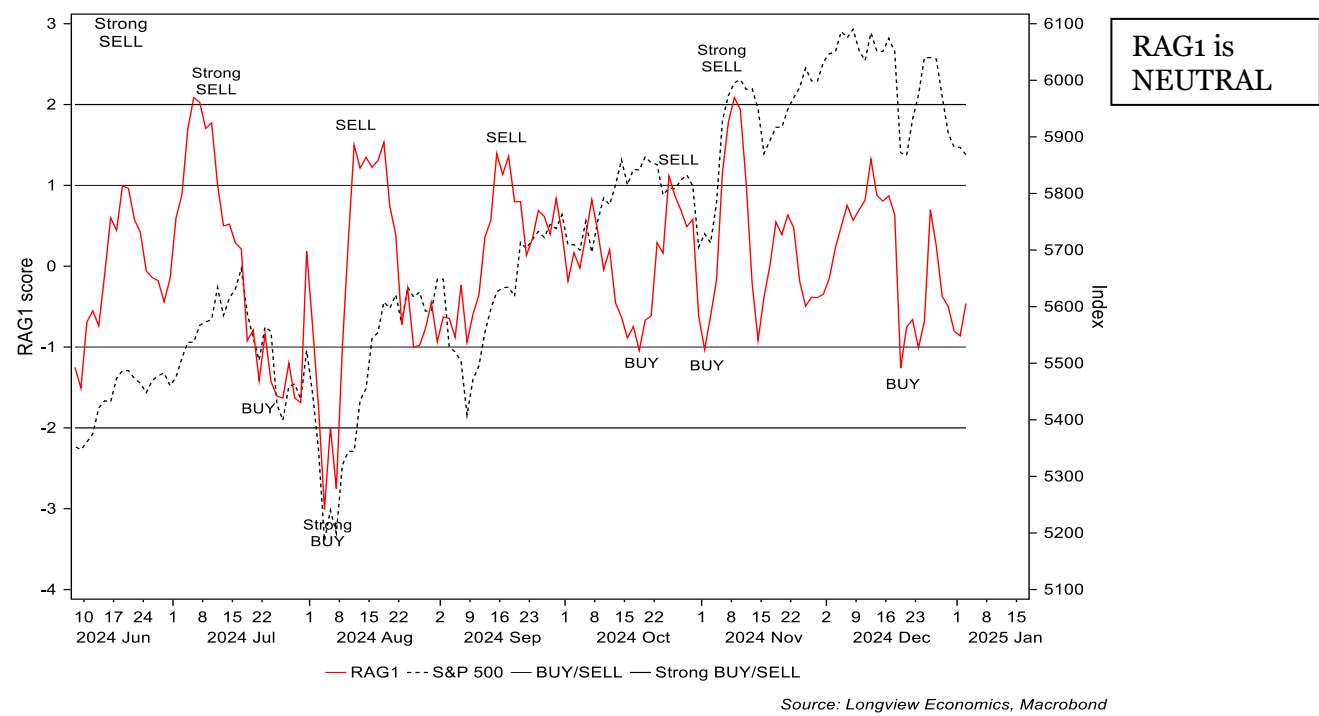
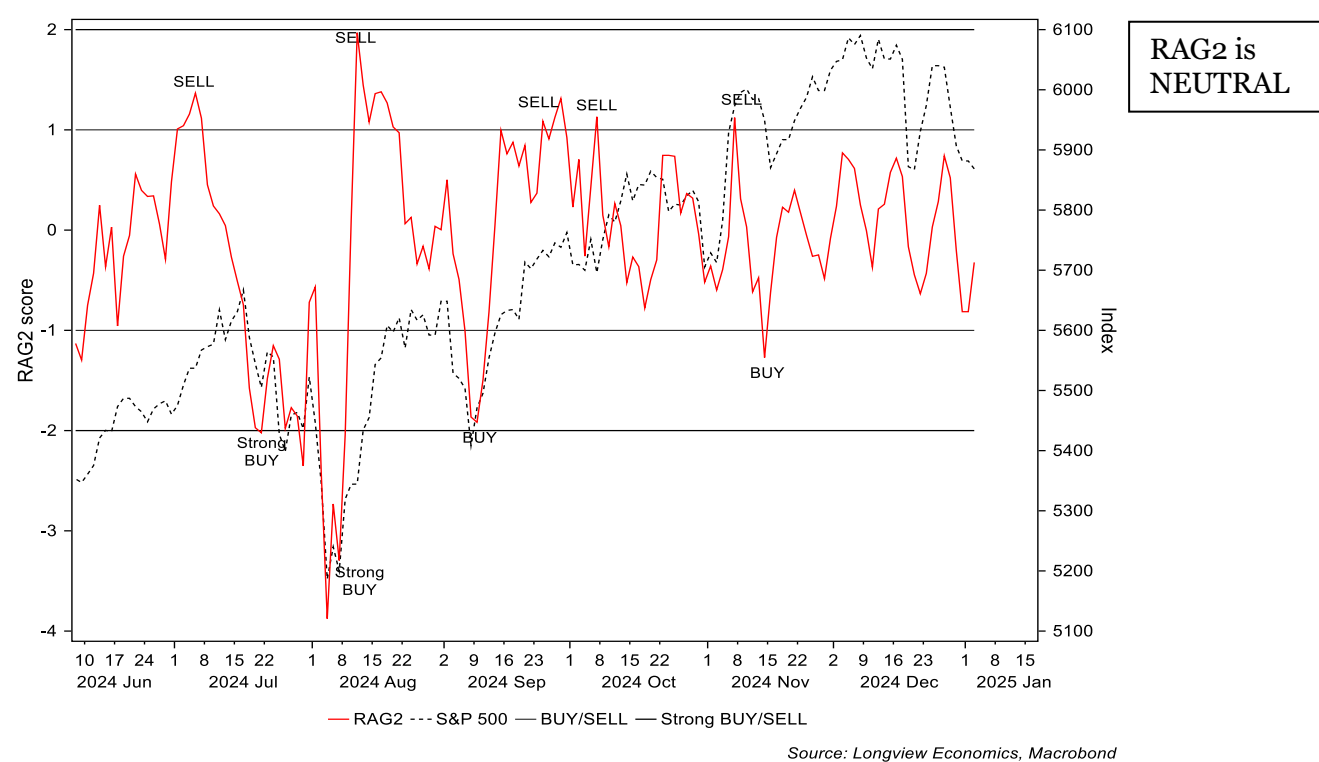


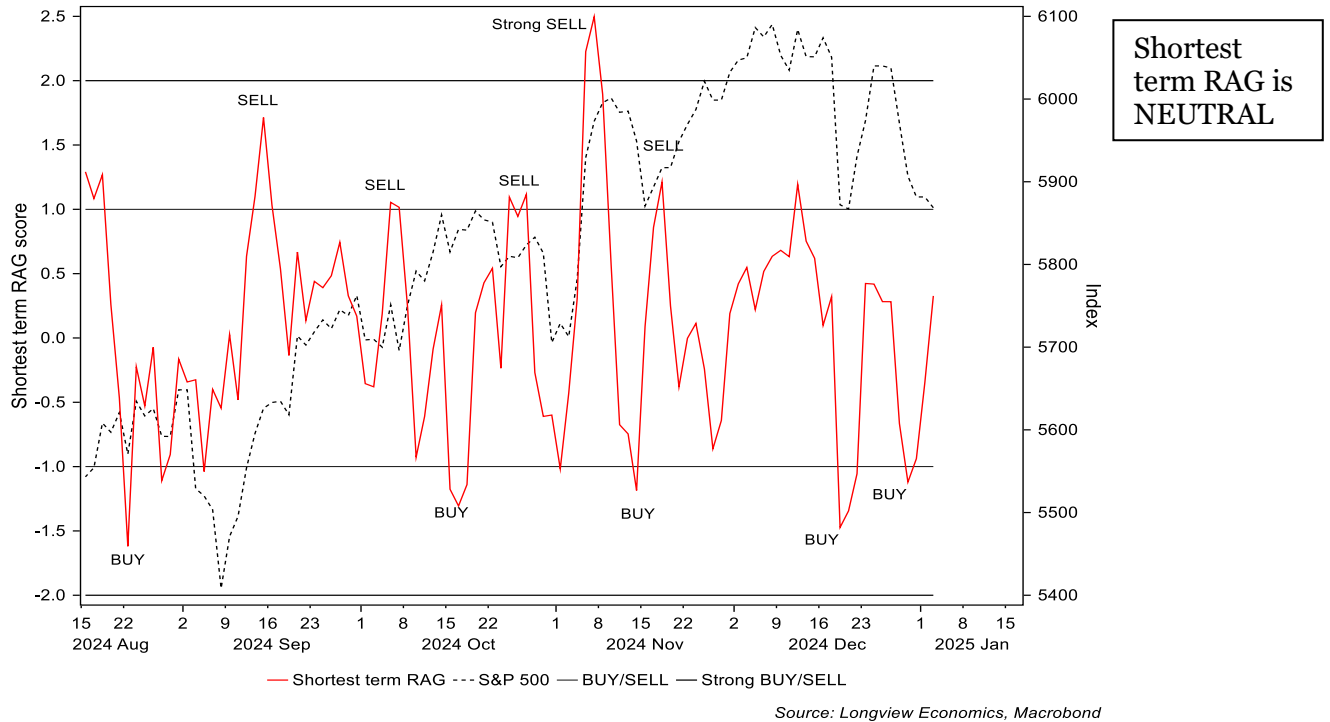
Fig 2b: RAG 2 vs. S&P 500



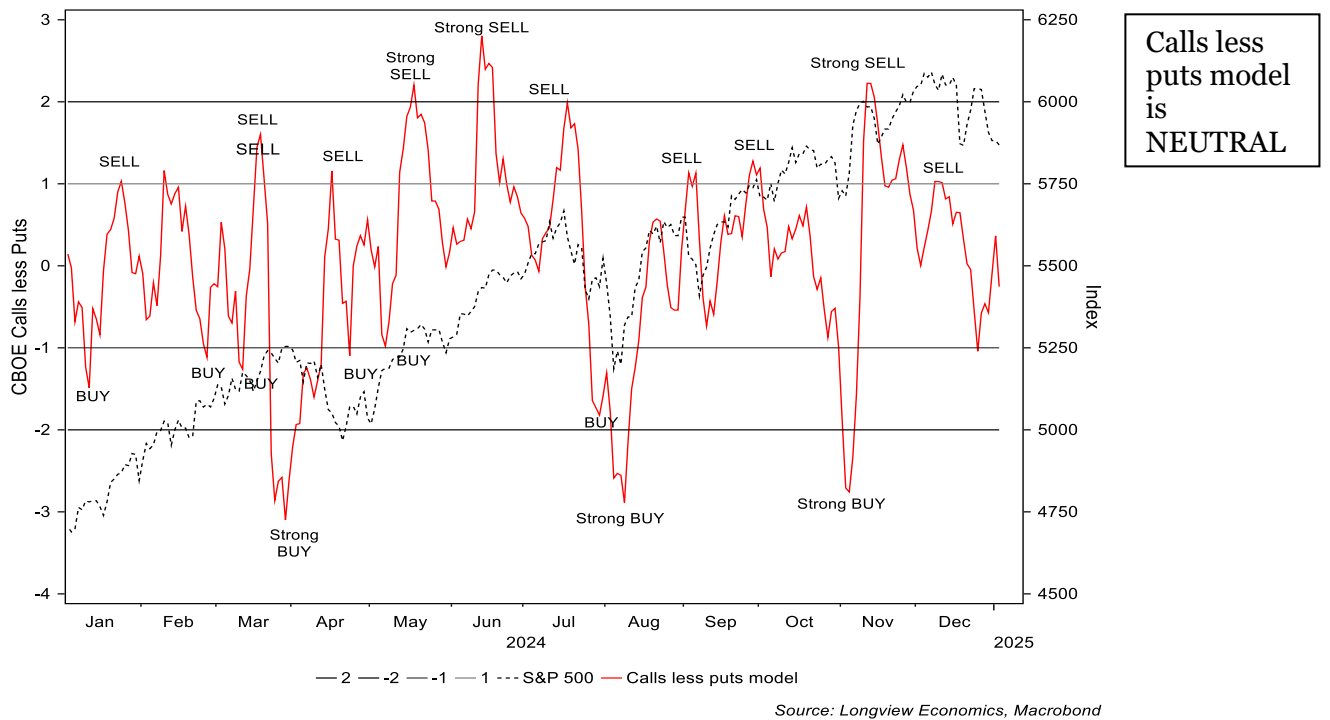
For explanations of indicators please see page 10



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



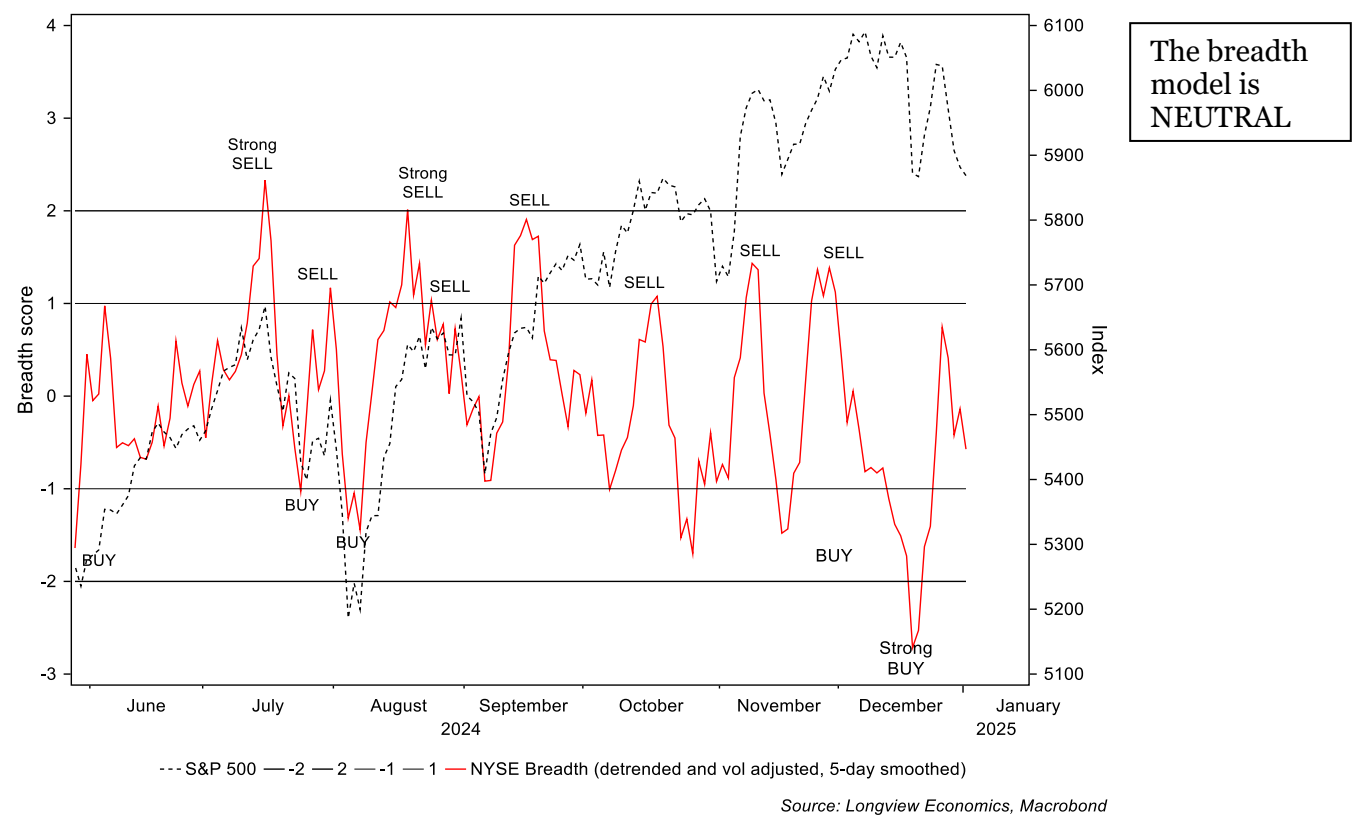
**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

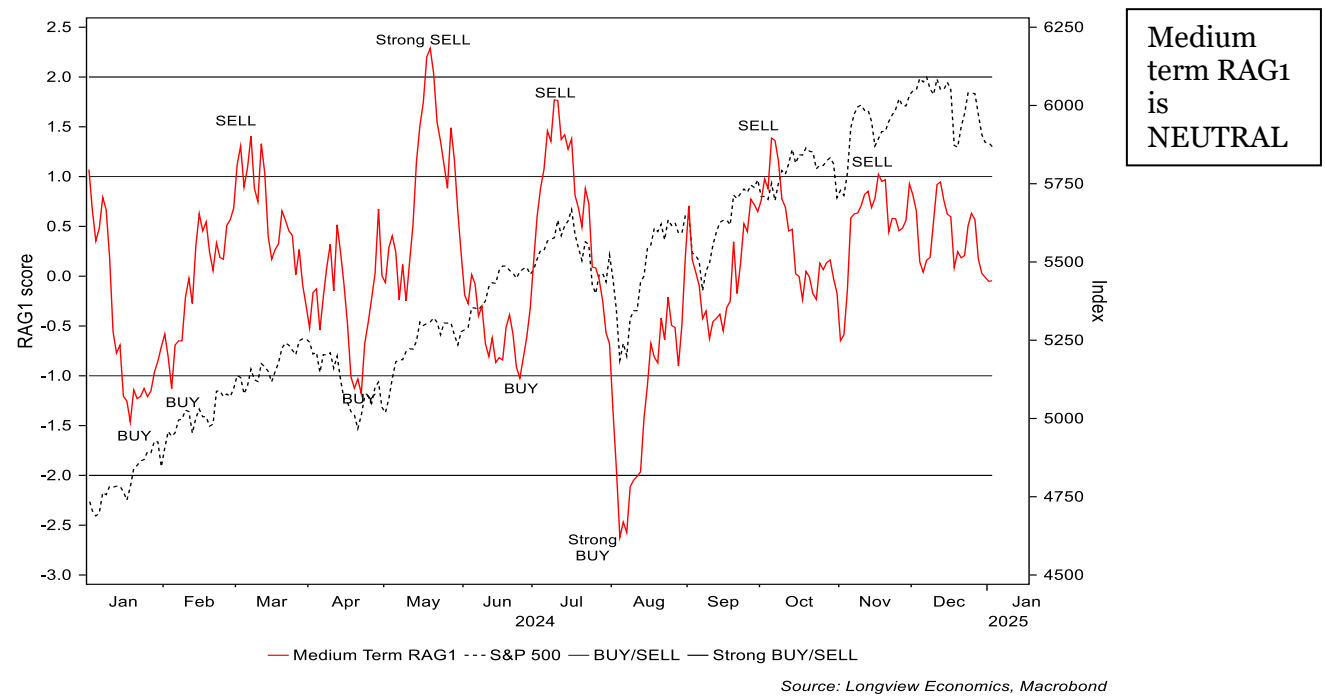
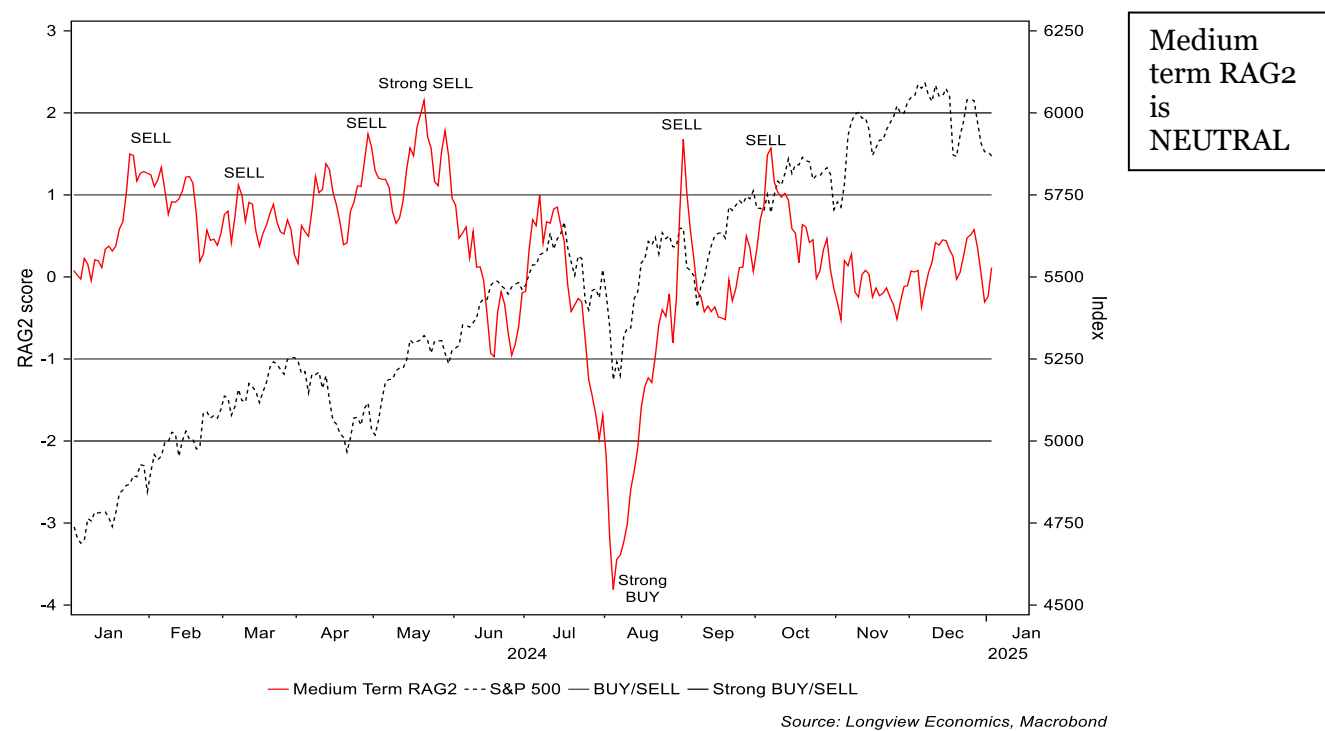
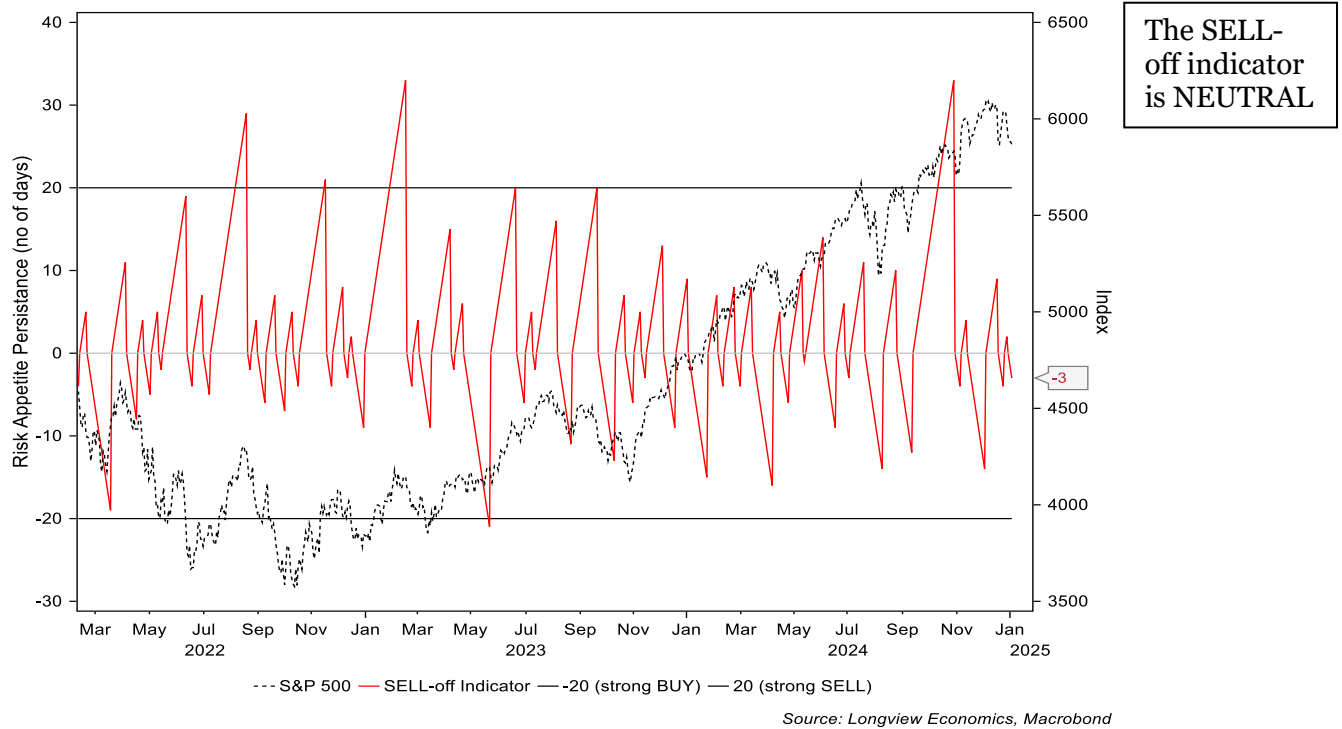


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

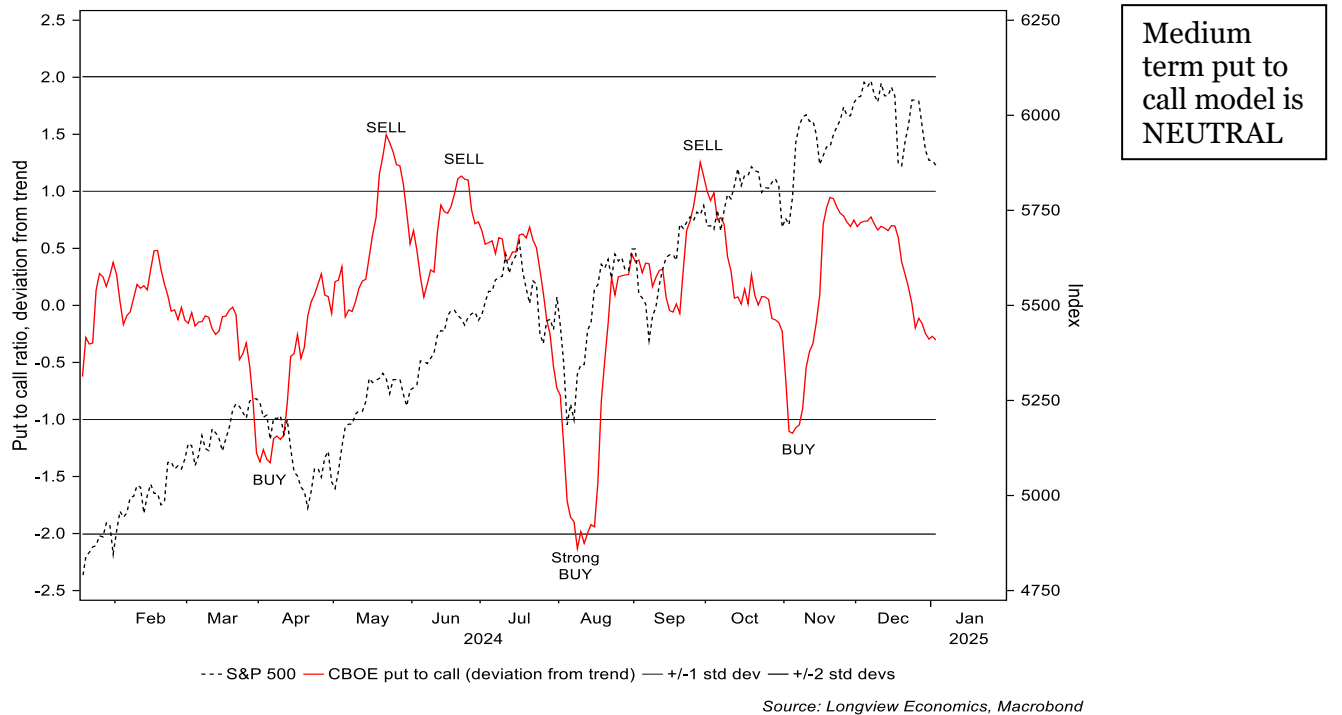


For explanations of indicators please see page 10

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

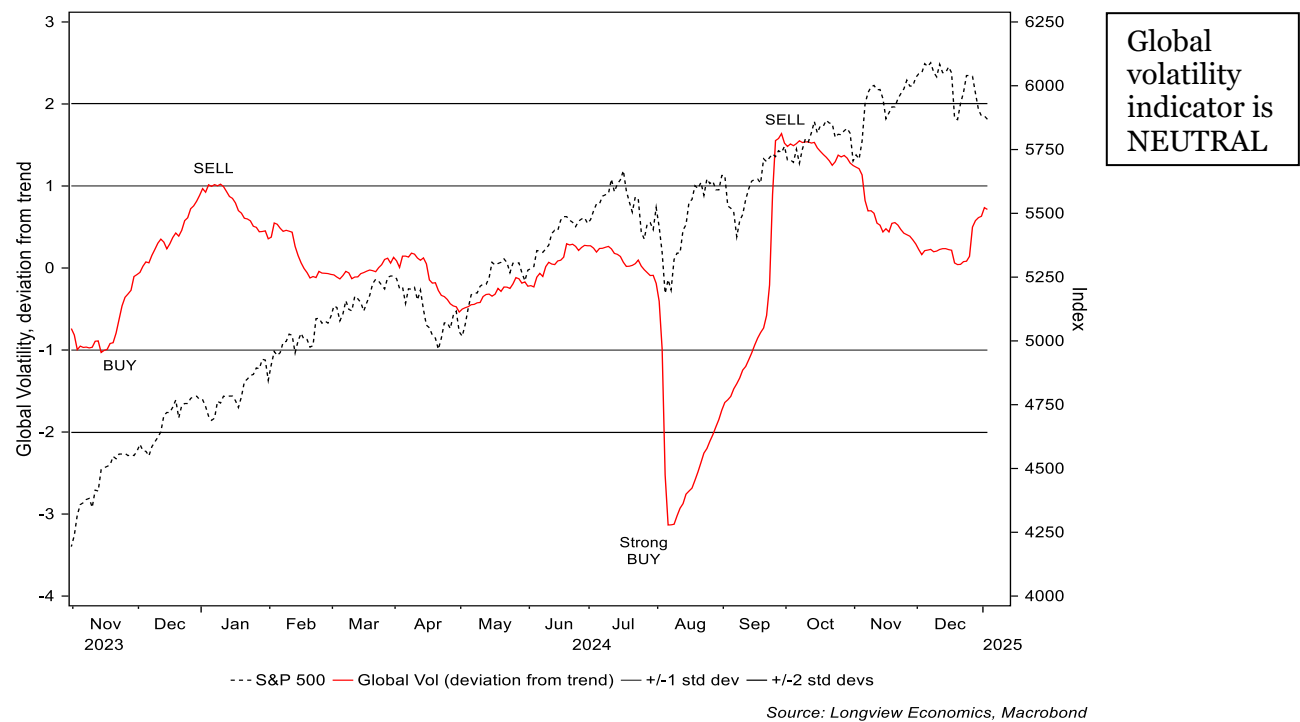


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

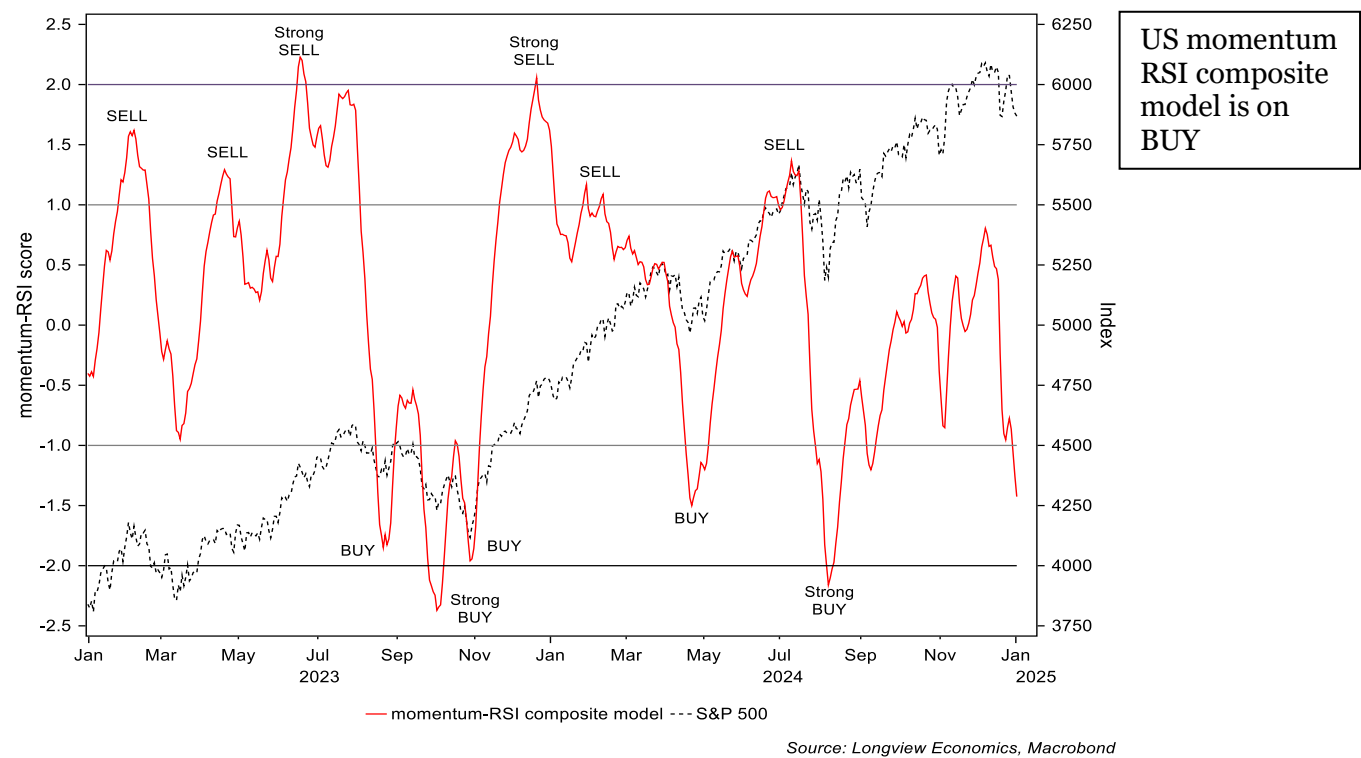


**For explanations of indicators please see page 10**

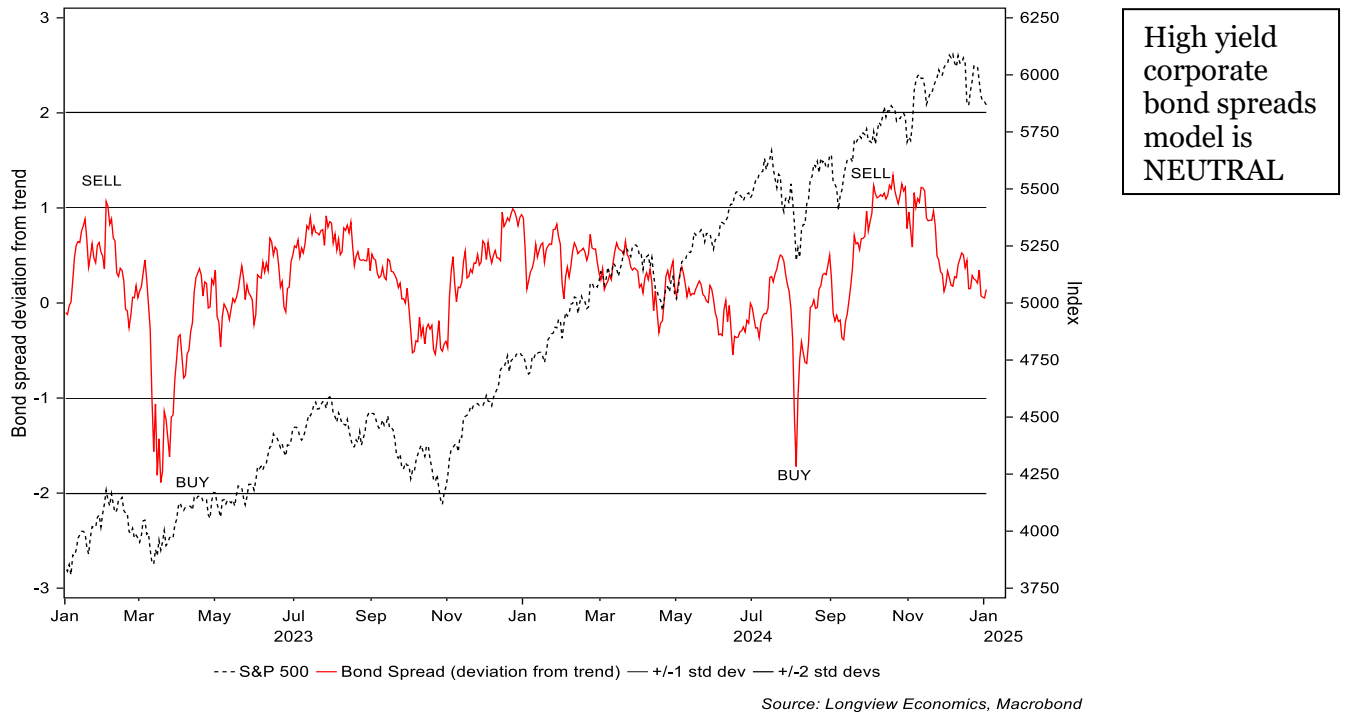
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



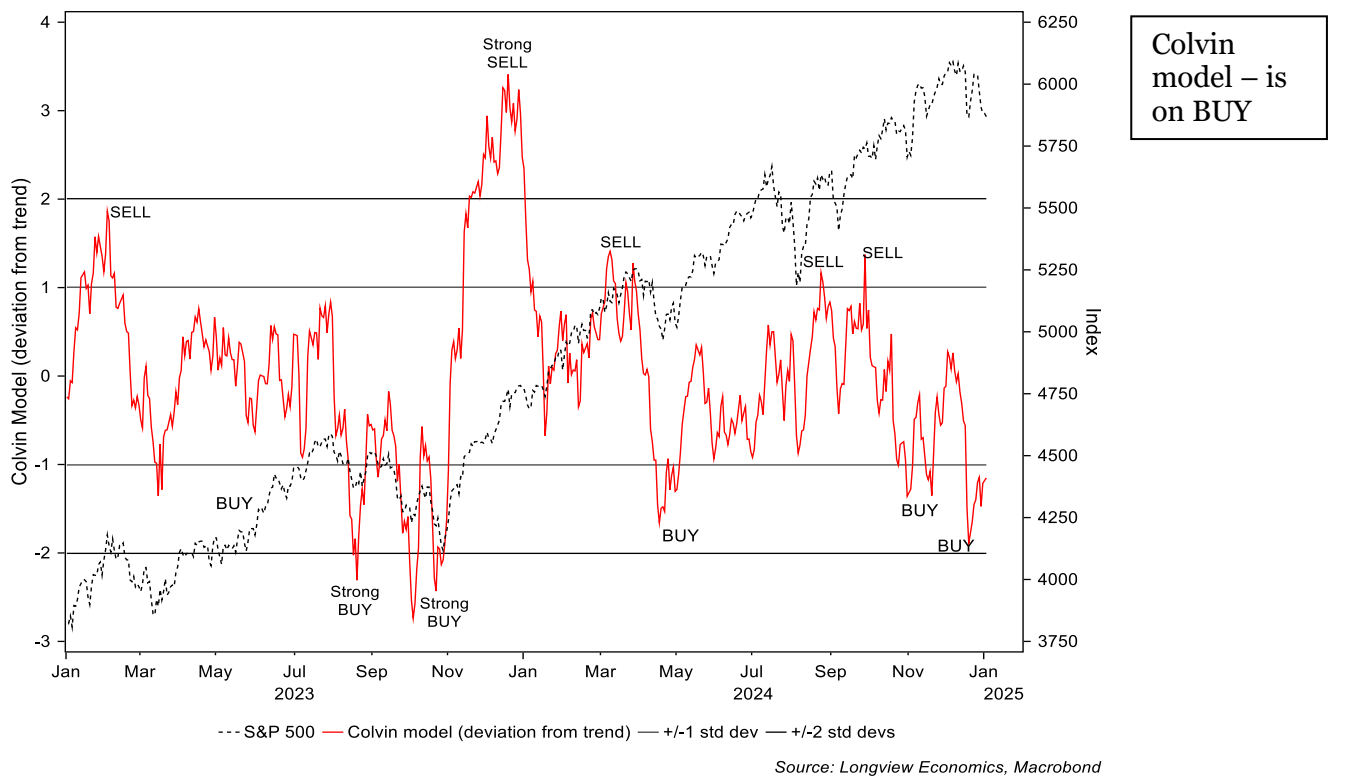
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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