Equity Index Futures Trading Recommendations

4th December 2024

"Close LONG futures positions. Risk reward deteriorating/seasonality challenging in 1H Dec"

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

- Close ¼ LONG S&P500 December '24 futures at current prices (entry was at 5,952.75 on 20th November);
- Close ¼ LONG NDX100 December '24 futures at current prices (entry was at 20,957 on 25th November);

Rationale

We **recommend closing our LONG** S&P500 and NDX100 futures position at current prices.

This **equity market is looking increasingly stretched (in the near term).** Indeed, many of the following winds, which have been driving this market higher in the past fortnight, look spent. Volatility, for example, has been falling for the past 8 trading sessions (closing yesterday at 13.3%, down from 17.16% on 20th November – FIG 1a). With that, our VIX RSI model is back on SELL (FIG 1). Various bond spreads/risk premiums (like US HY corporate bond spreads, US CCC spreads and some Asian spreads) have been widening in the past few trading sessions (FIG 1b); while certain other NDX100 specific indicators (like NDX sentiment – FIG 1c) are also back on SELL (and in this instance at a high level).

Other key '1 – 2' week market timing models are at high levels (although not all of them are on SELL). The key overextended indicators (for the S&P500 & NDX100) are both at high levels but not yet on SELL (FIGs 2 & 2a); the risk appetite models have been moving higher (but are also not on SELL – FIGs 3 & 3a); the technical scoring systems are close to SELL (FIGs 4 & 4a); while the put to call ratio is on SELL (and the single stock and sector technical models have been on SELL in the past few days – FIGs 4b, 4c & 5). As such, it's possible this **market may drift higher for a handful of further trading sessions**. However, the **risk reward/attractiveness of staying LONG is diminishing** given the pressures that are building on this market (as outlined above). Added to those widening corporate bond spreads, the French political situation remains a risk (albeit French spreads narrowed modestly yesterday – FIG 1e).

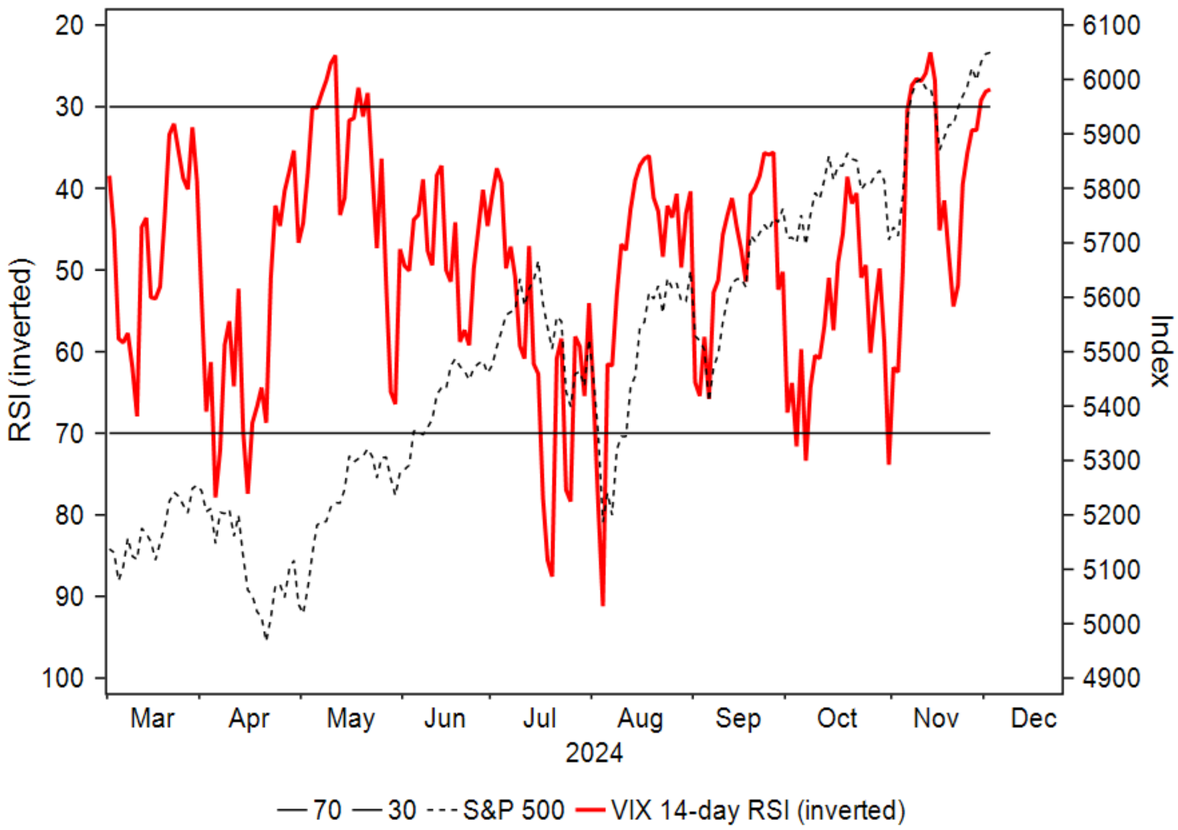
Seasonality is also challenging in the first half of December (probably as traders close down their books for the year). As such, the first half of December typically sees the S&P500 drift lower until mid-month (11th trading session) when it then begins its Santa rally in earnest (FIG 1d). This year there is a Fed monetary policy meeting on 17th/18th December (i.e. 12th/13th trading session) which could potentially disrupt that pattern as traders price in a 25bps cut in the Fed funds rate. The market is currently pricing a 74% chance of a 25bps cut (i.e. pricing in 18bps of that potential 25bps cut).

Of note, this is a key week for macro data with US ISM services today at 3pm, as well as the ADP employment report (at 1:15pm) followed by the non-farm payrolls, wage inflation and the unemployment rate data this Friday. For now, we recommend standing back and WATCHing and WAITing.

Kind regards,

The team @ Longview Economics

FIG 1: Short term RSI (VIX – inverted) vs. S&P500 (**last 9 months**)

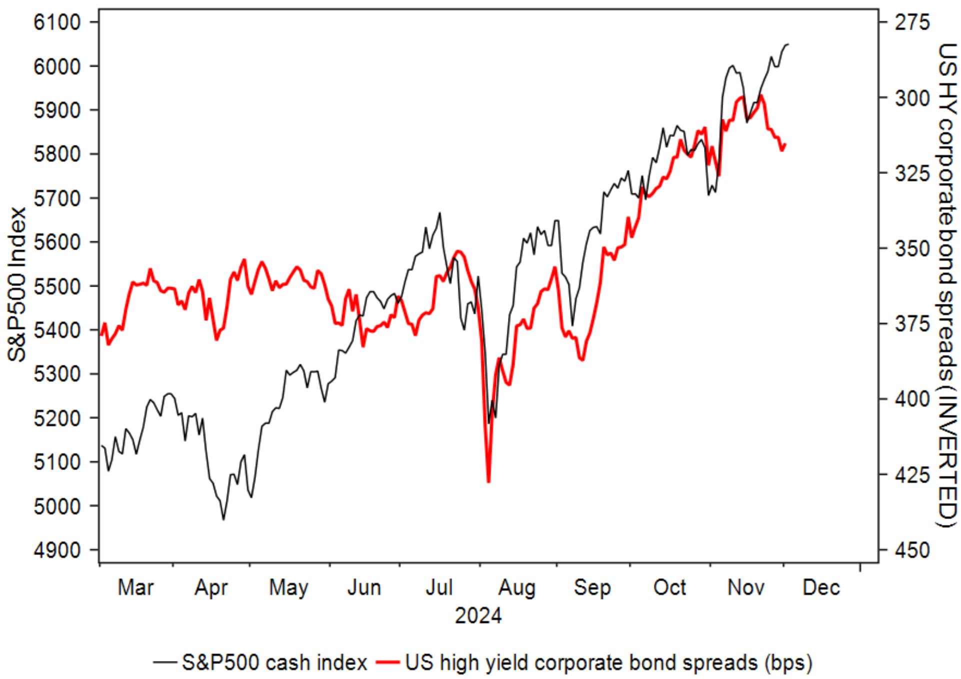


Source: Longview Economics, Macrobond

FIG 1a: VIX candlestick chart shown with key moving averages

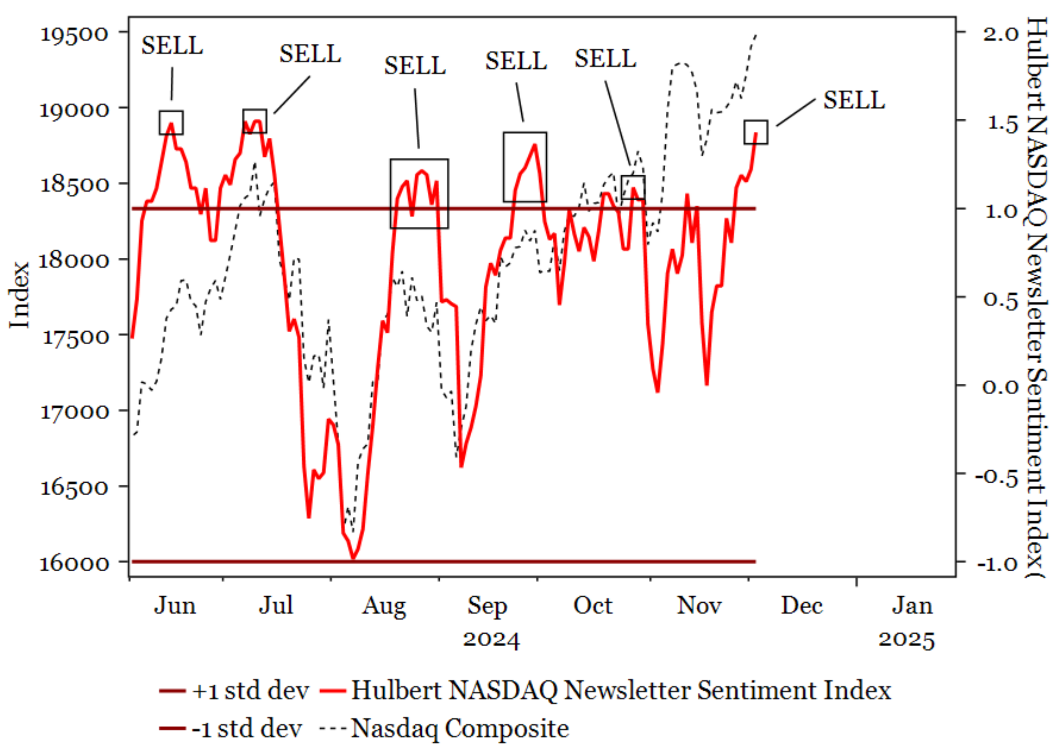
Source: Longview Economics, Macrobond

FIG 1b: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500



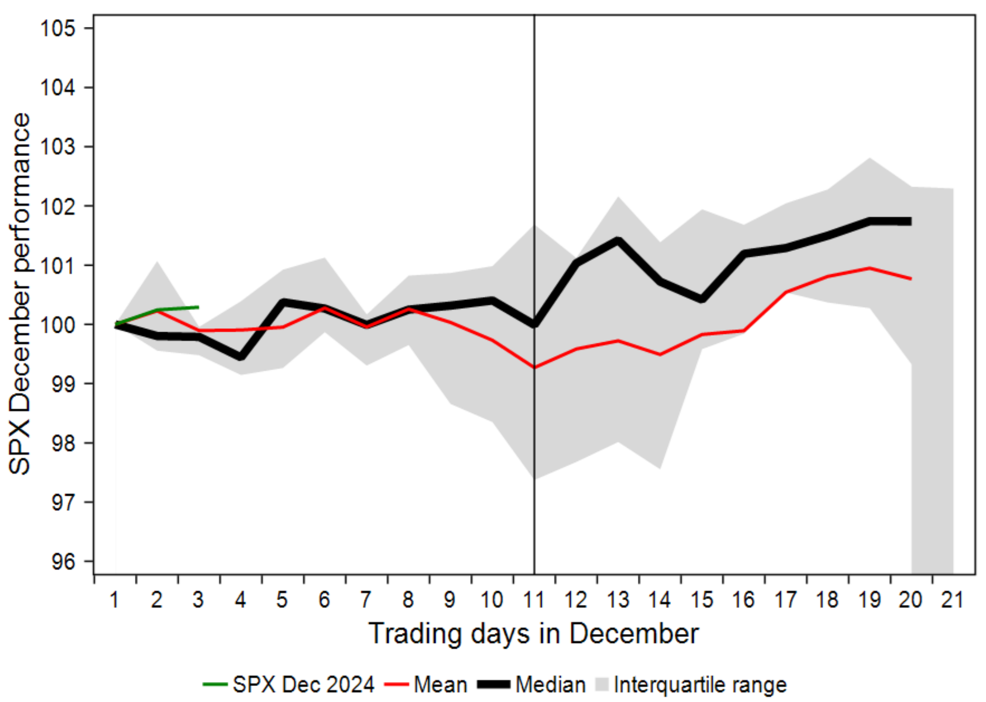
Source: Longview Economics, Macrobond

FIG 1c: Hulbert NASDAQ sentiment index shown with NASDAQ composite index



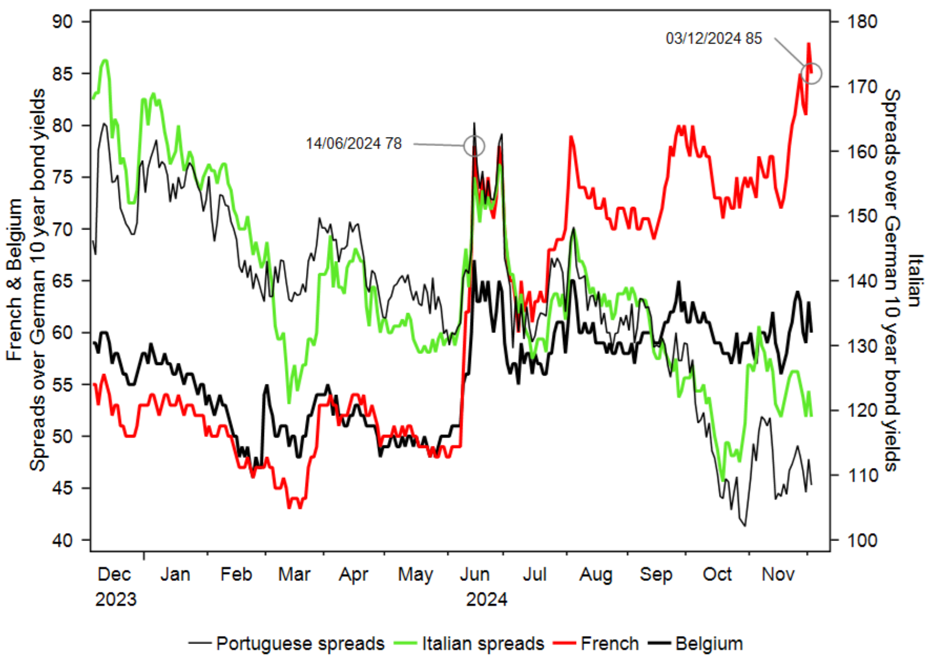
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

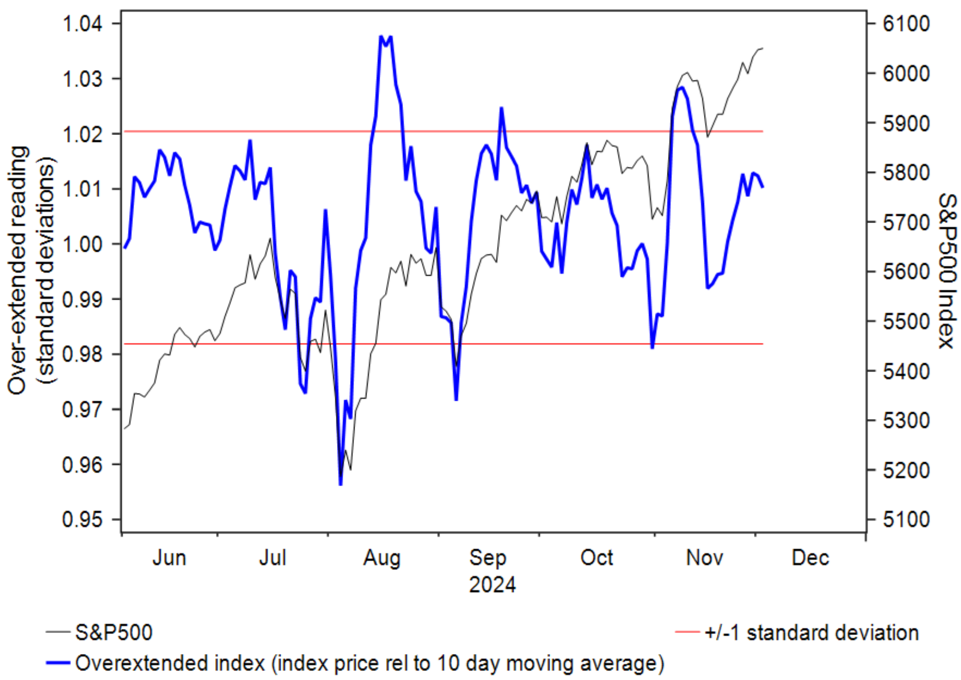
FIG 1e: Various key EZ government bond spreads over German bund yields (bps)



Source: Longview Economics, Macrobond

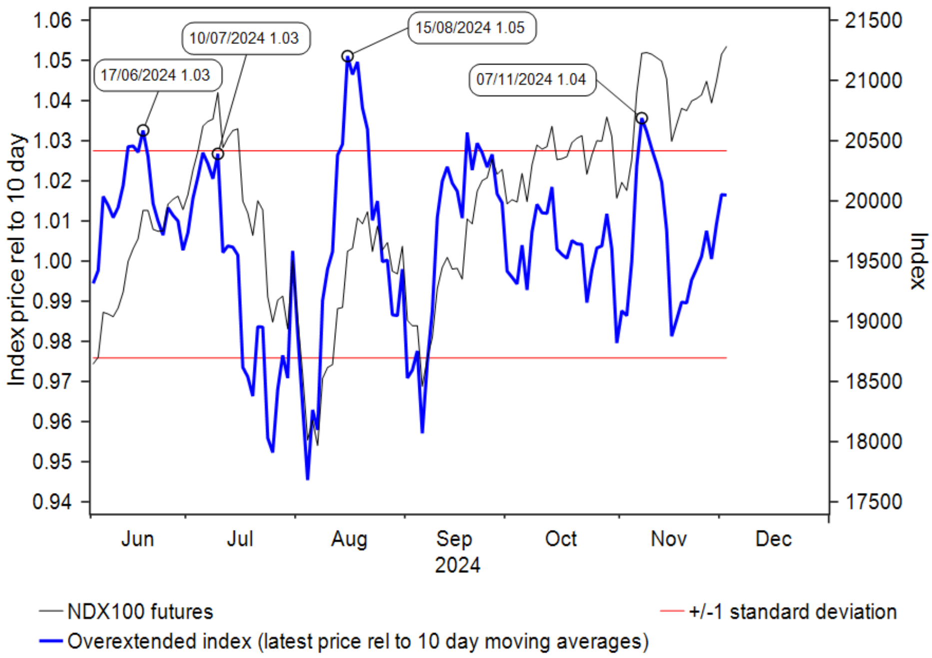
The S&P500 and the NDX100 are close to, but not currently, overextended relative to their 10-day moving averages…

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



Source: Longview Economics, Macrobond

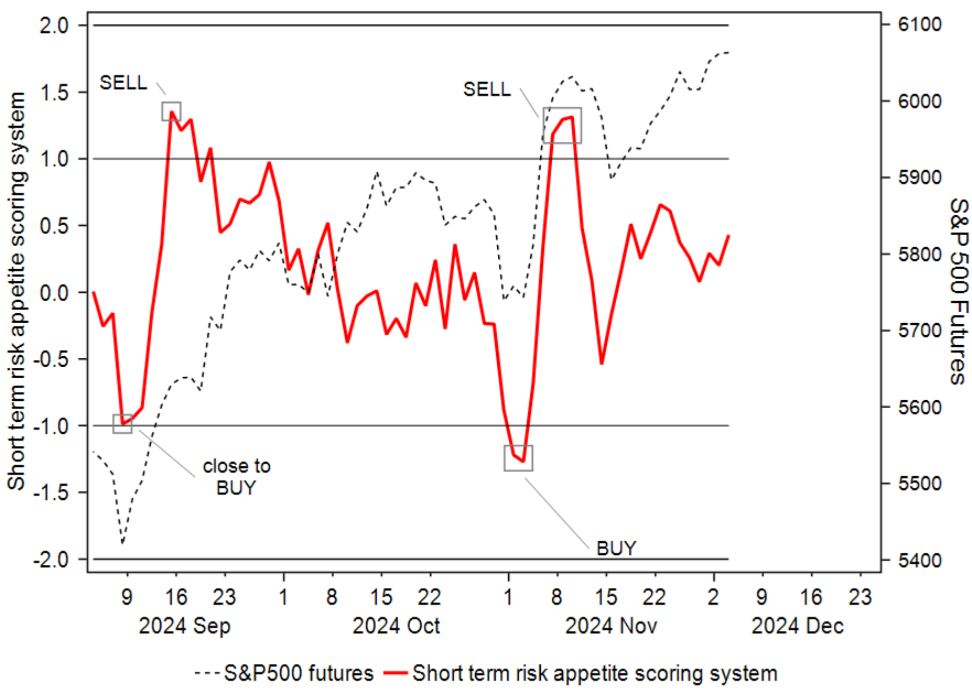
FIG 2a: NASDAQ100 overextended index (index price relative to 10-day moving average) vs. NASDAQ100



Source: Longview Economics, Macrobond

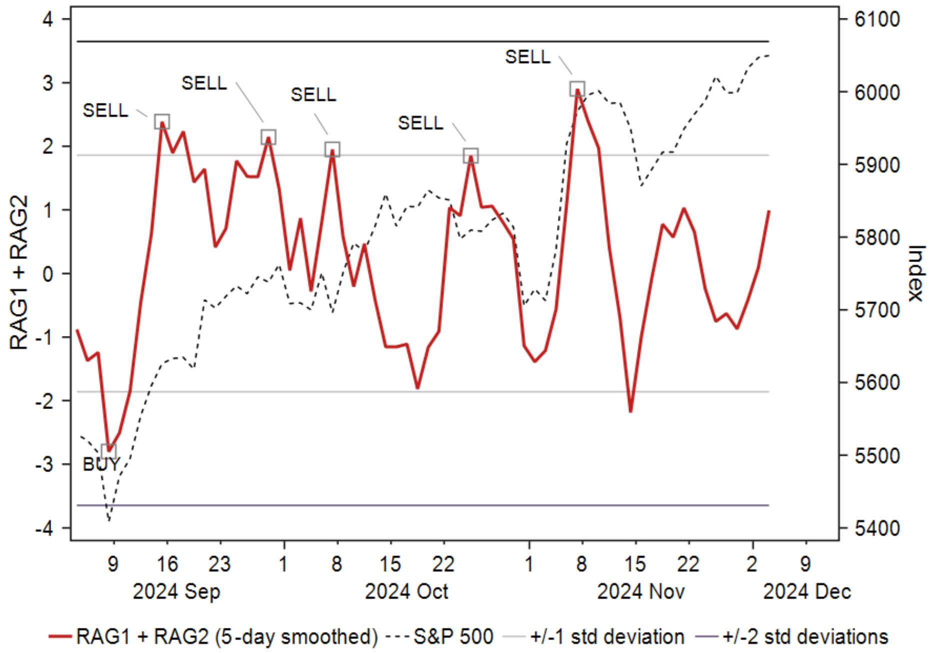
Risk appetite models have been moving higher (but remain NEUTRAL)…

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



Source: Longview Economics, Macrobond

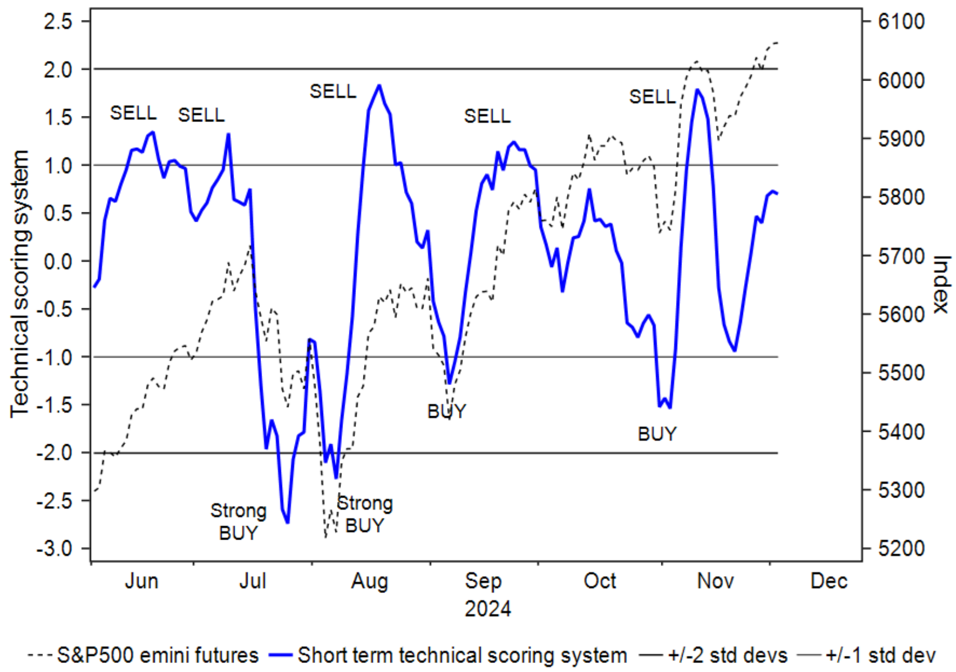
FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

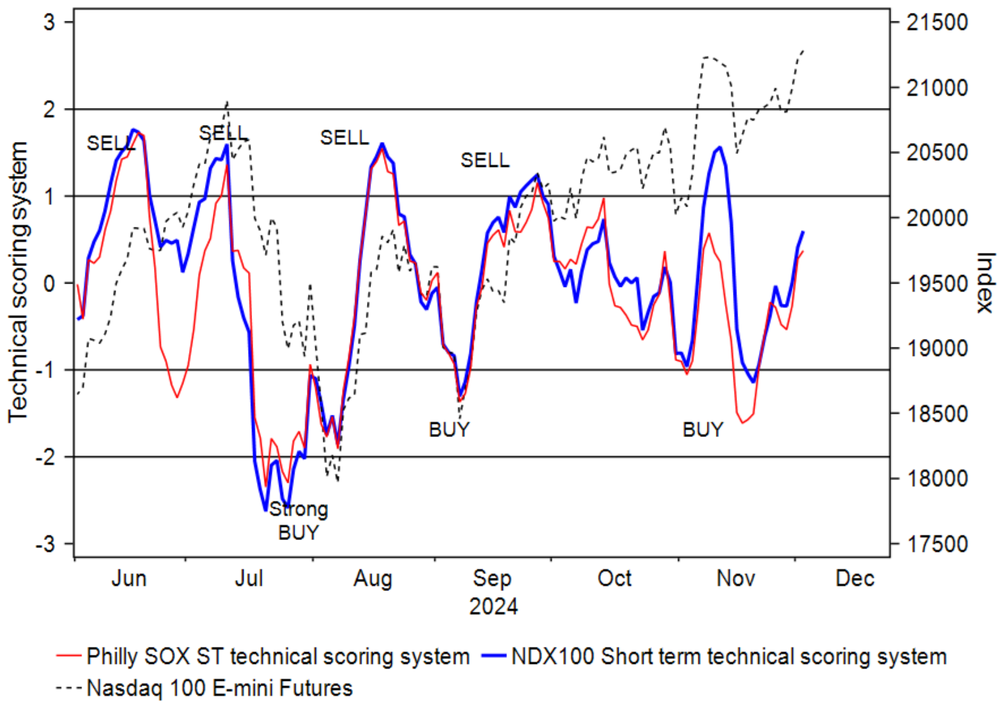
Key US equity indices are close to short term overbought levels.....

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



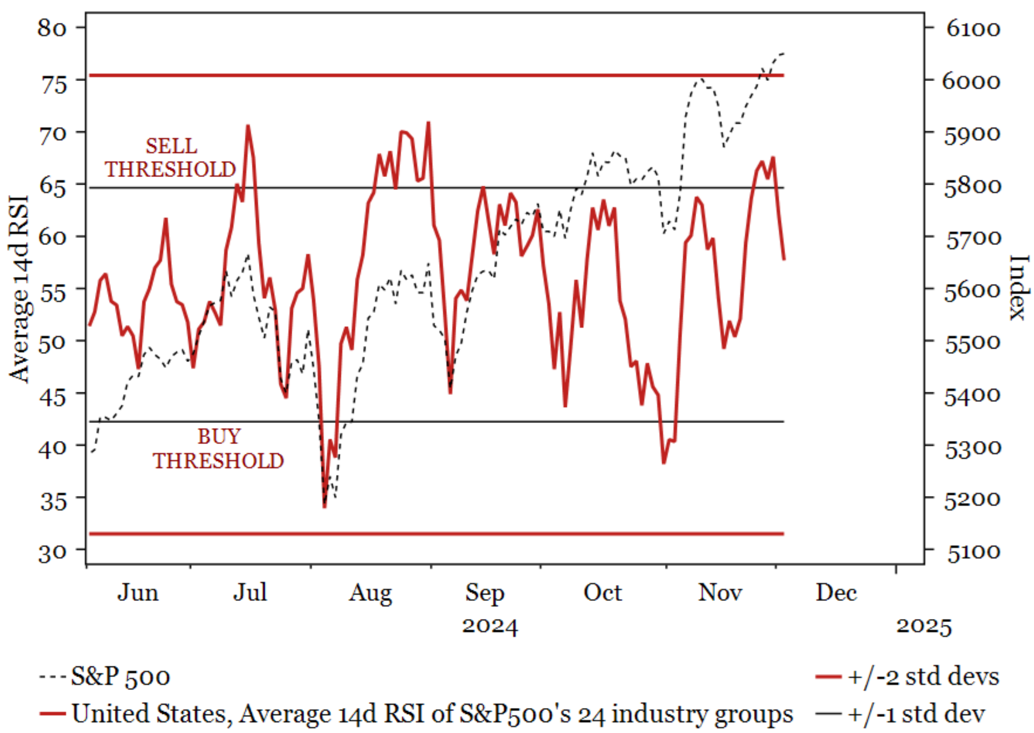
Source: Longview Economics, Macrobond

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



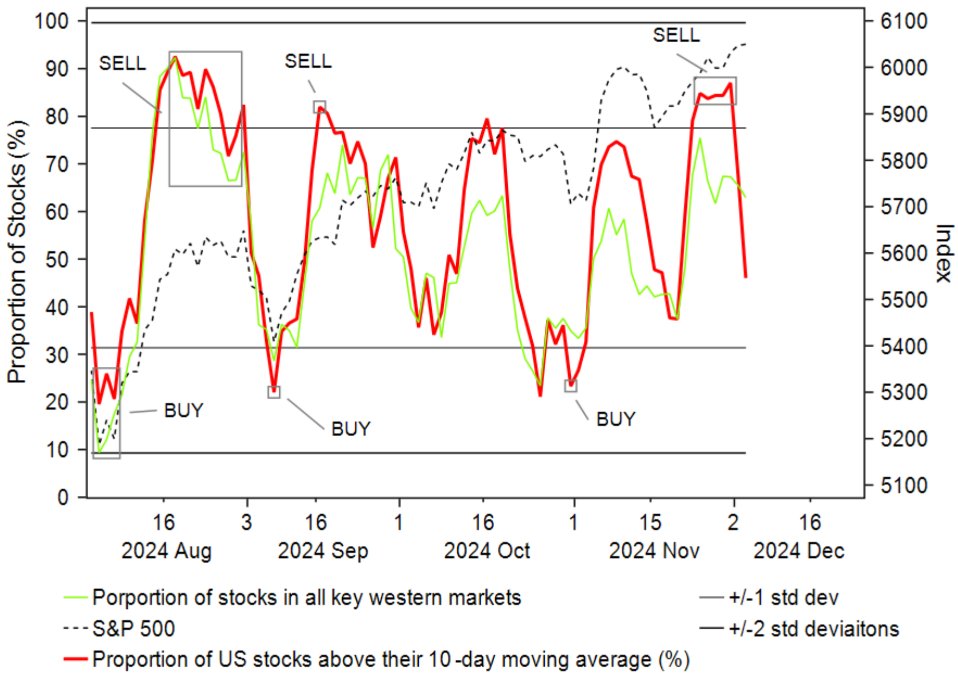
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

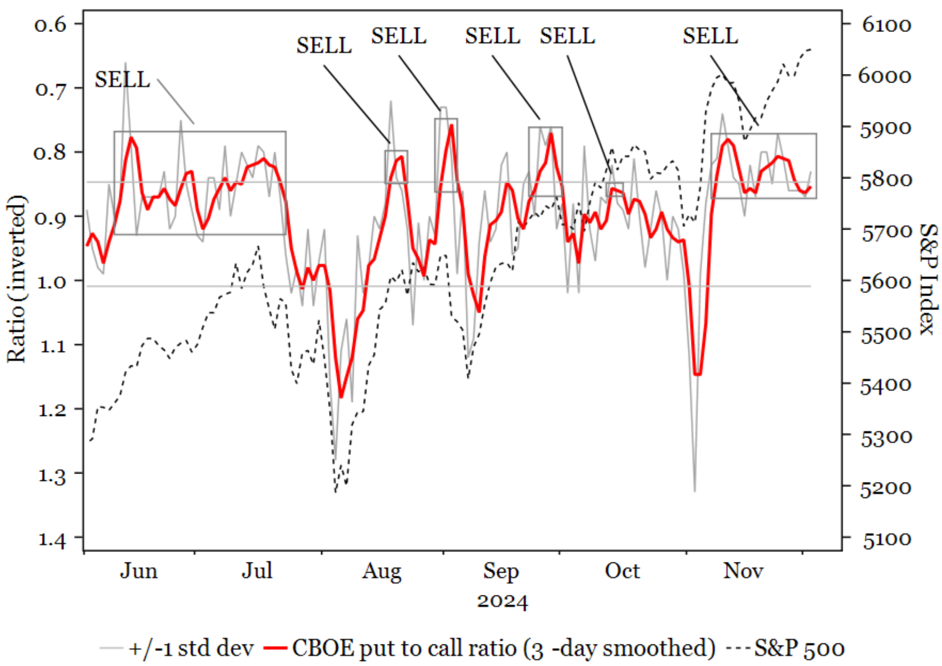
FIG 4c: Proportion of Western stocks above their 10-day moving average vs. S&P500



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

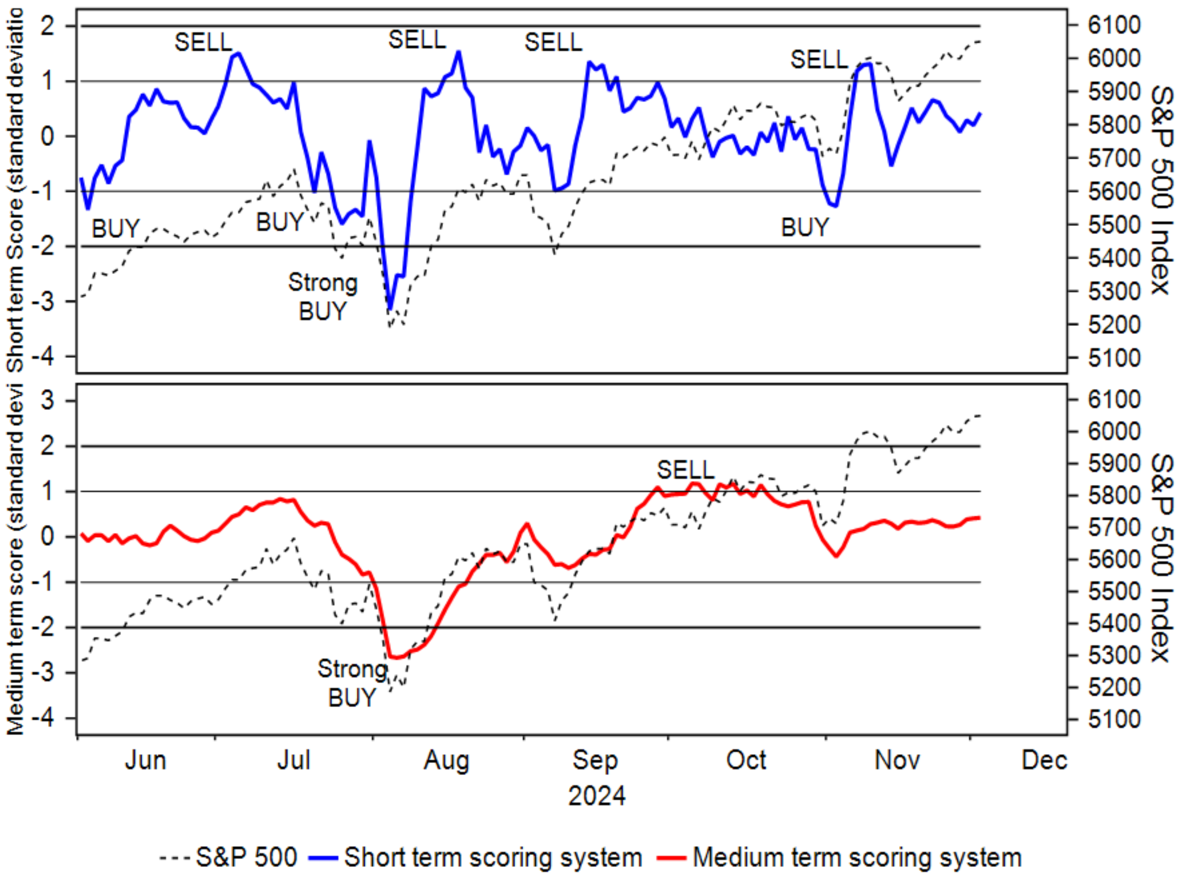


Source: Longview Economics, Macrobond

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: Japanese Jibun Bank service sector PMI (November final estimate, 12:30am); Australian GDP (Q3, 12:30am); Chinese Caixin service sector PMI (Nov, 1:45am); HCOB service 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; UK S&P service sector PMI (November final estimate, 9:30am); Eurozone PPI (Oct, 10am); **US ADP employment change** (Nov, 1:15pm); Canadian labour productivity (Q3, 1:30pm); Canadian S&P service sector PMI (Nov, 2:30pm); US S&P service sector PMI (November final estimate, 2:45pm); US durable goods orders (October final estimate, 3pm); **ISM services** (Nov, 3pm).

Key events today include: Speeches by the ECB's Cipollone in Milan (9am), **Lagarde in EU Parliament** (1:30pm) & Nagel at ESM (5:10pm); speeches by the Fed's Musalem on the US economy (1:45pm) & **Powell** in moderated discussion (6:45pm); Fed publishes Beige Book (7pm).

Key earnings today include: Synopsys, National Bank of Canada.

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.

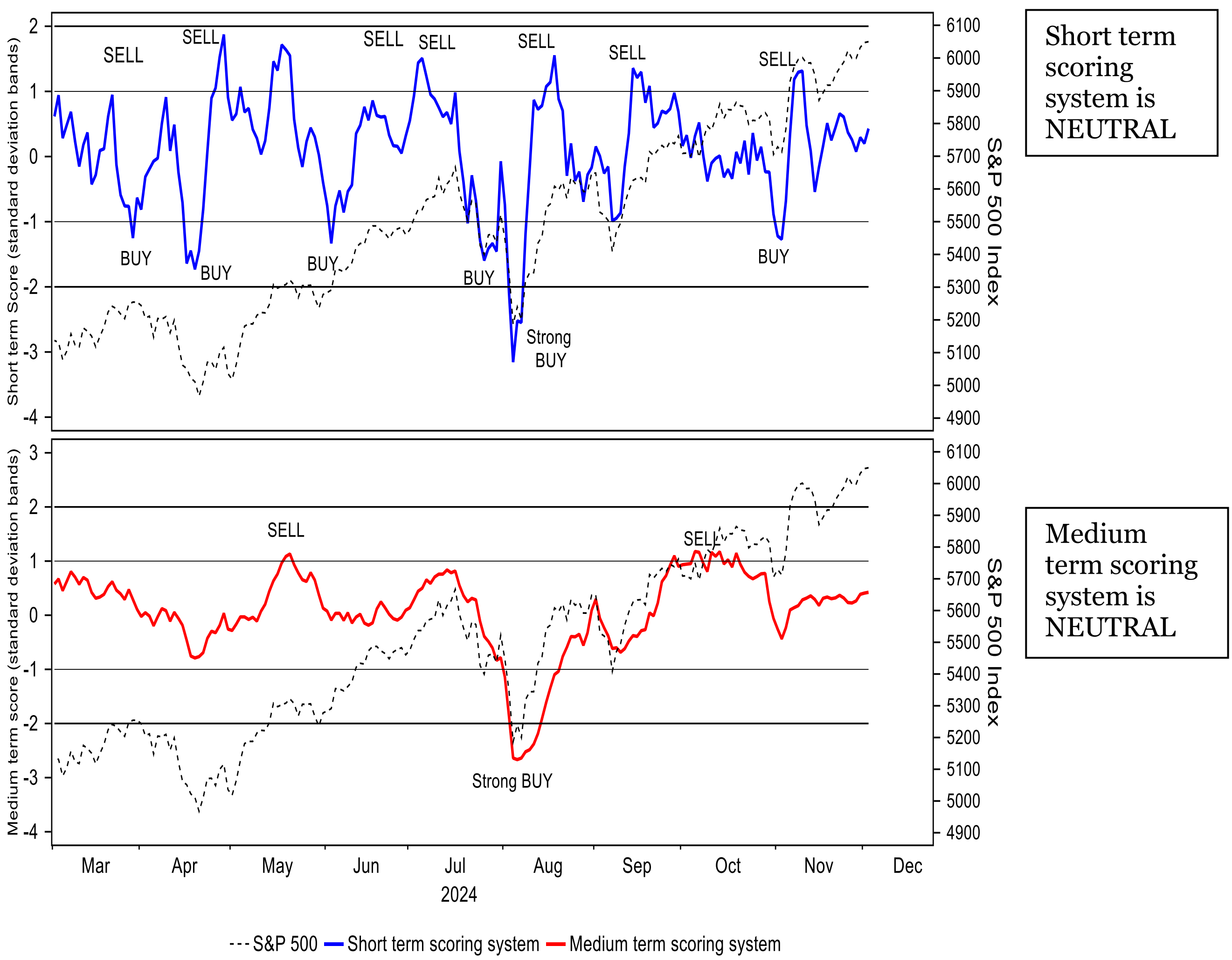
1 – 2 Week View on Risk

4th 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



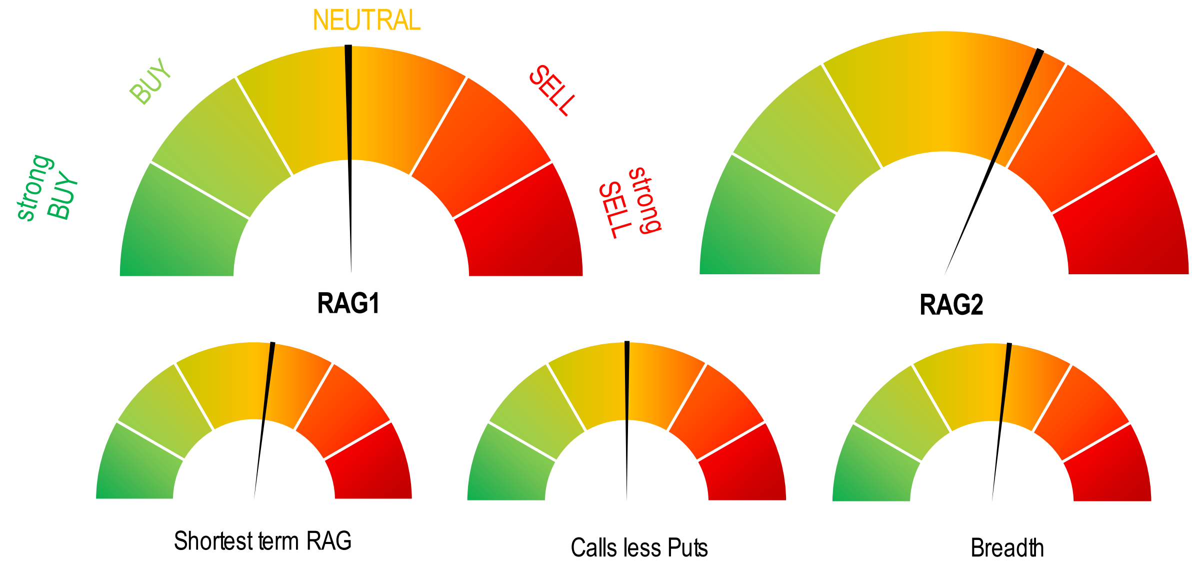
Source: Longview Economics, Macrobond

*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

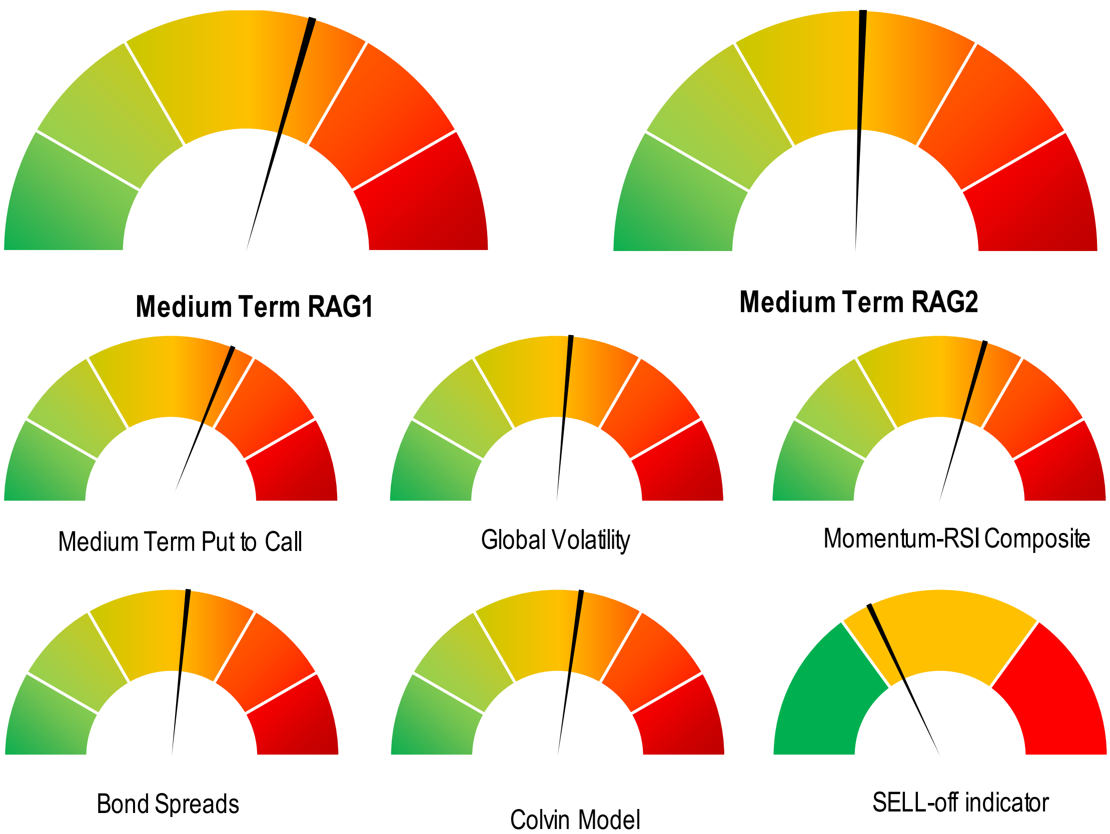
Section 1a: Summary of indicator signals**

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

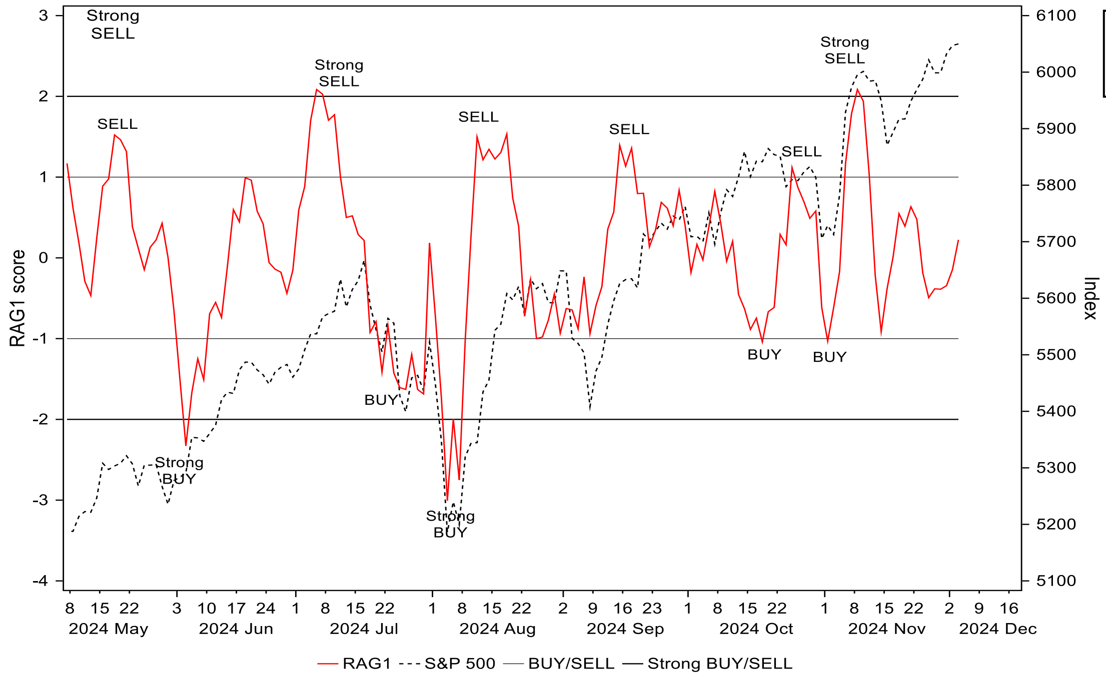


Source: *Longview Economics*

**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

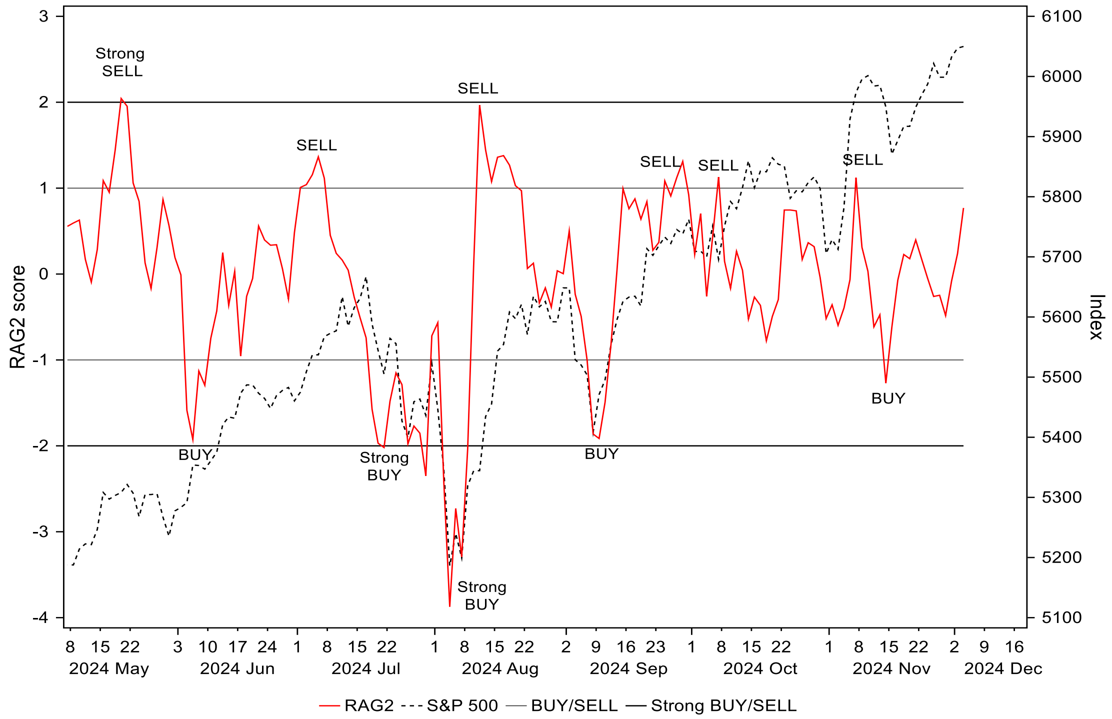
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

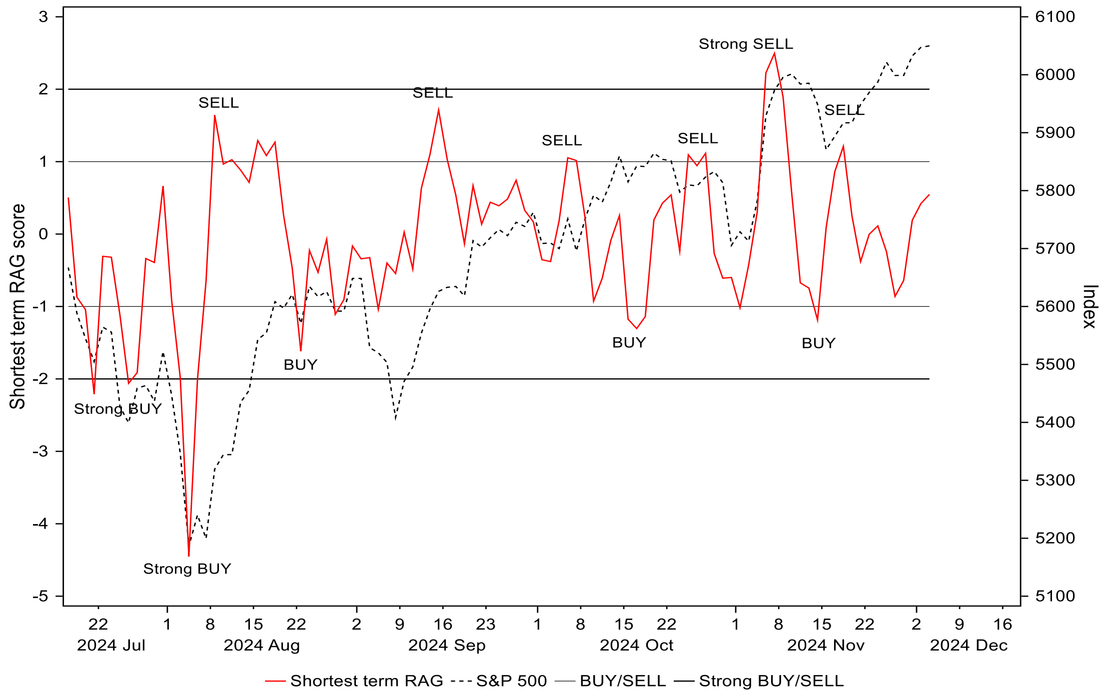


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

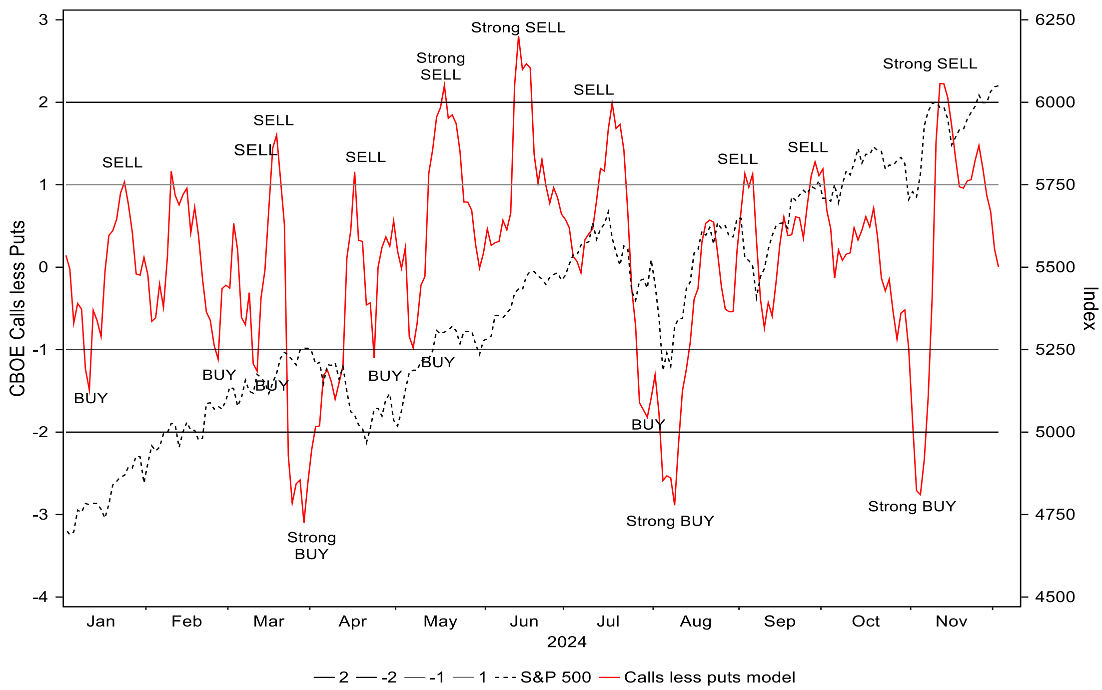
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

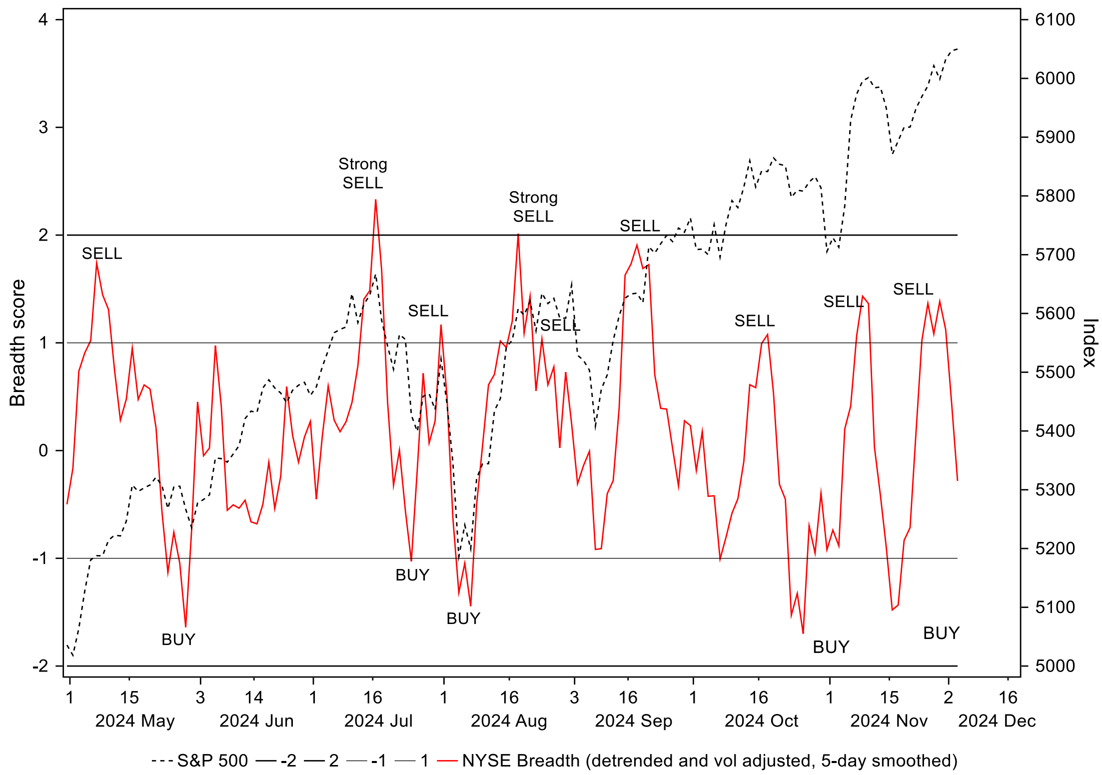


Source: Longview Economics, Macrobond

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



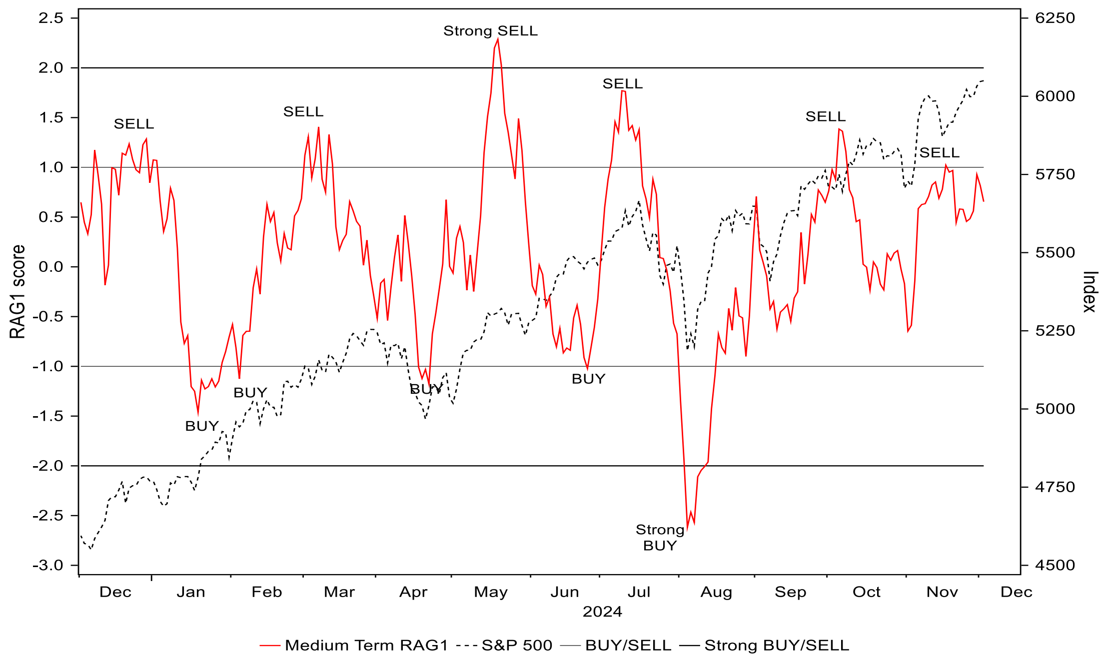
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

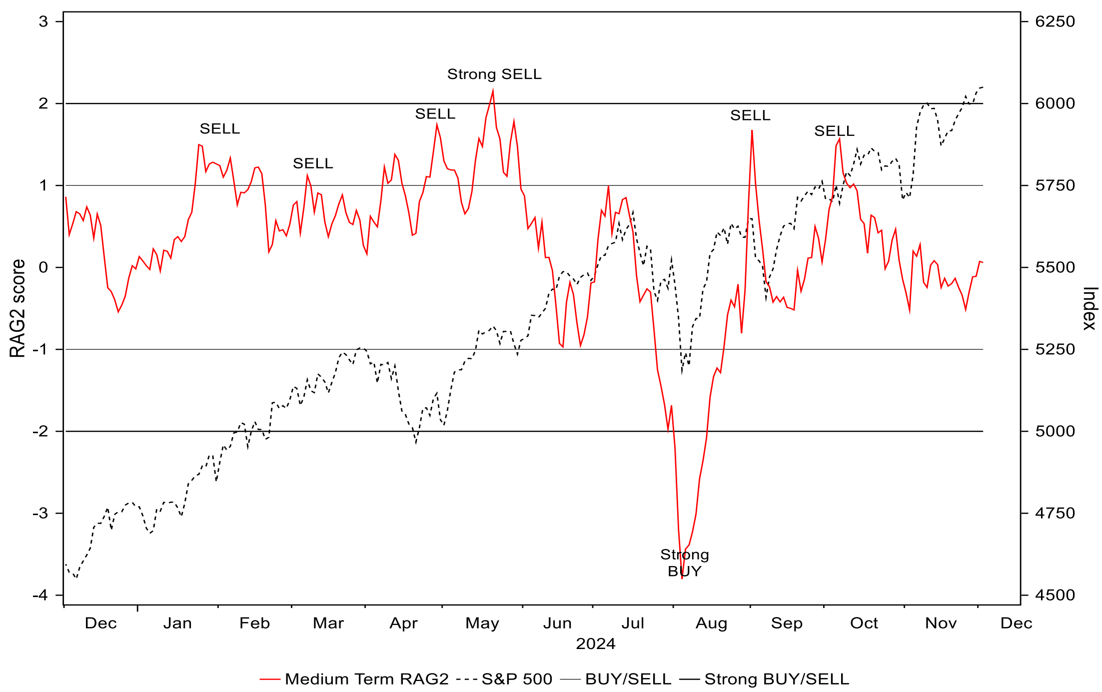
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

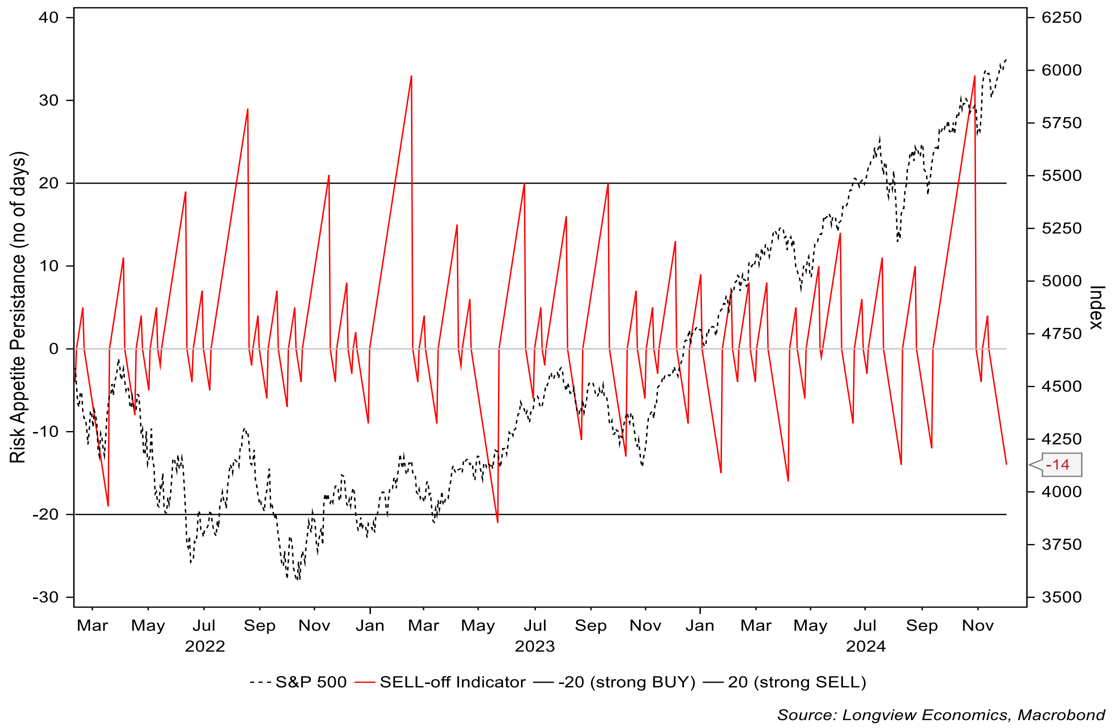


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

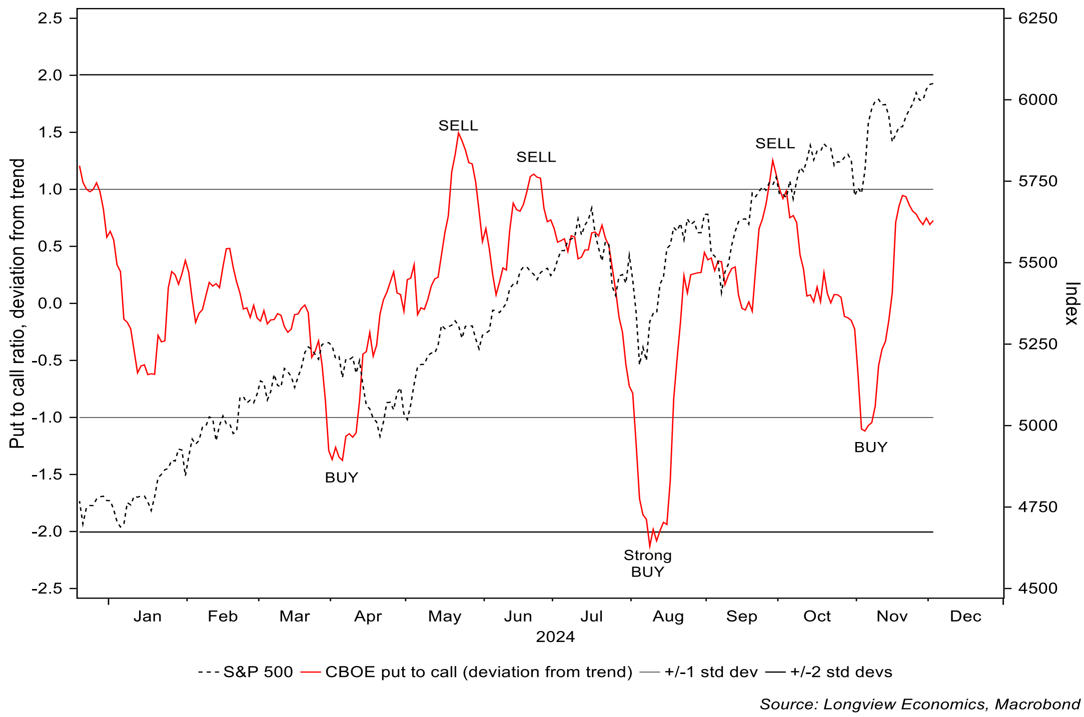
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

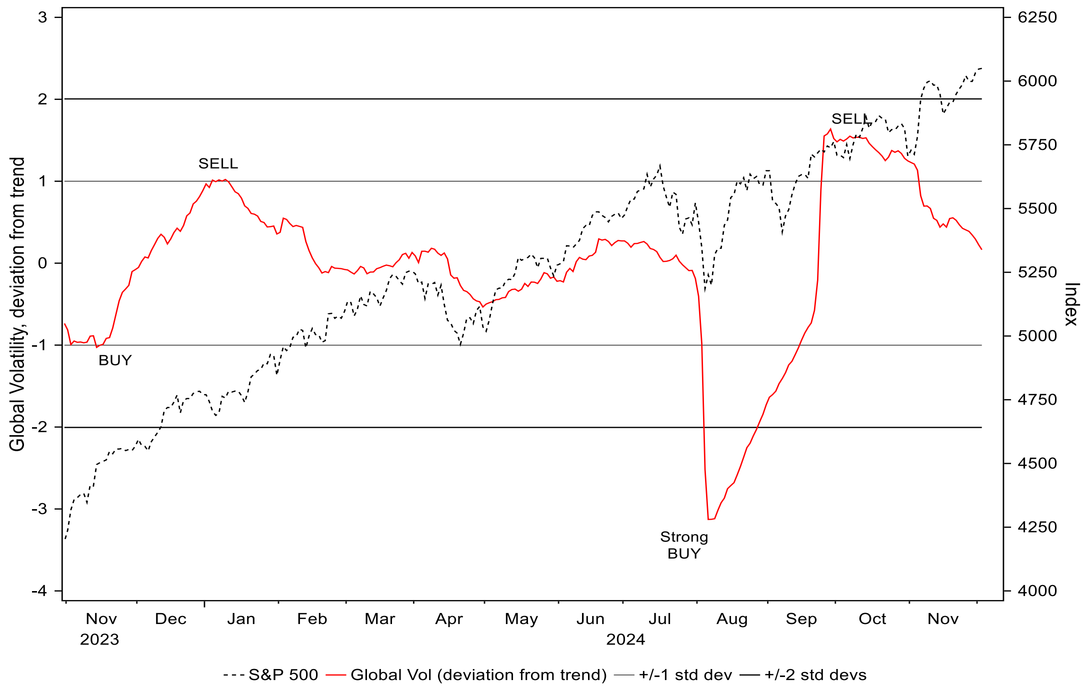
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

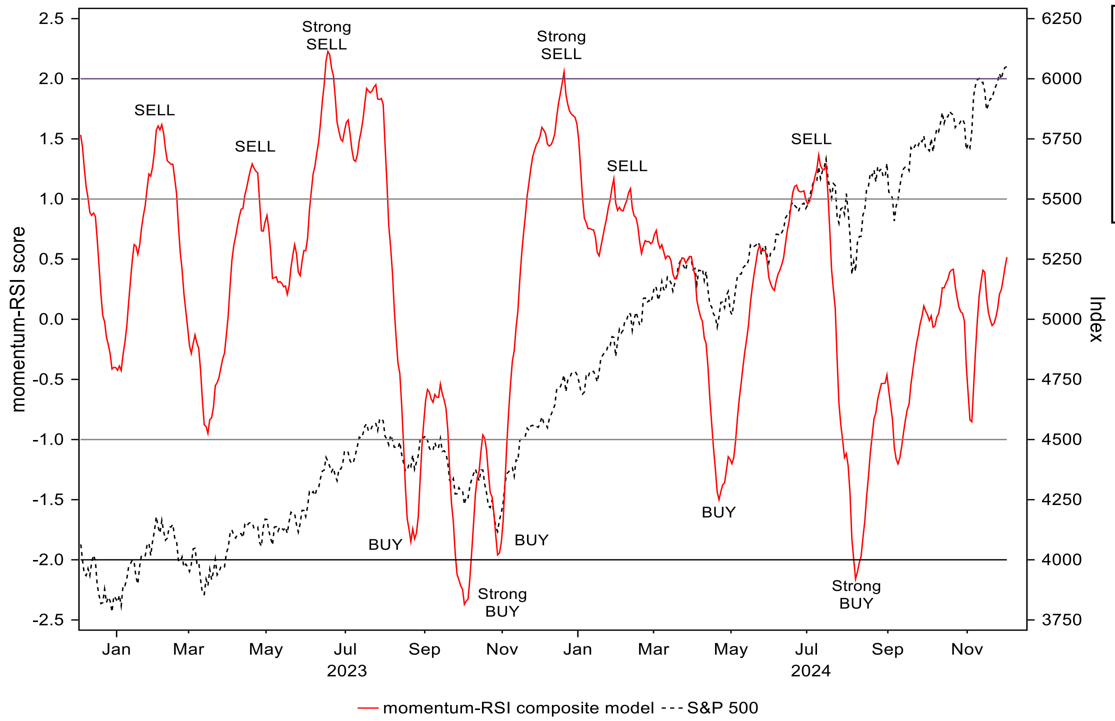
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

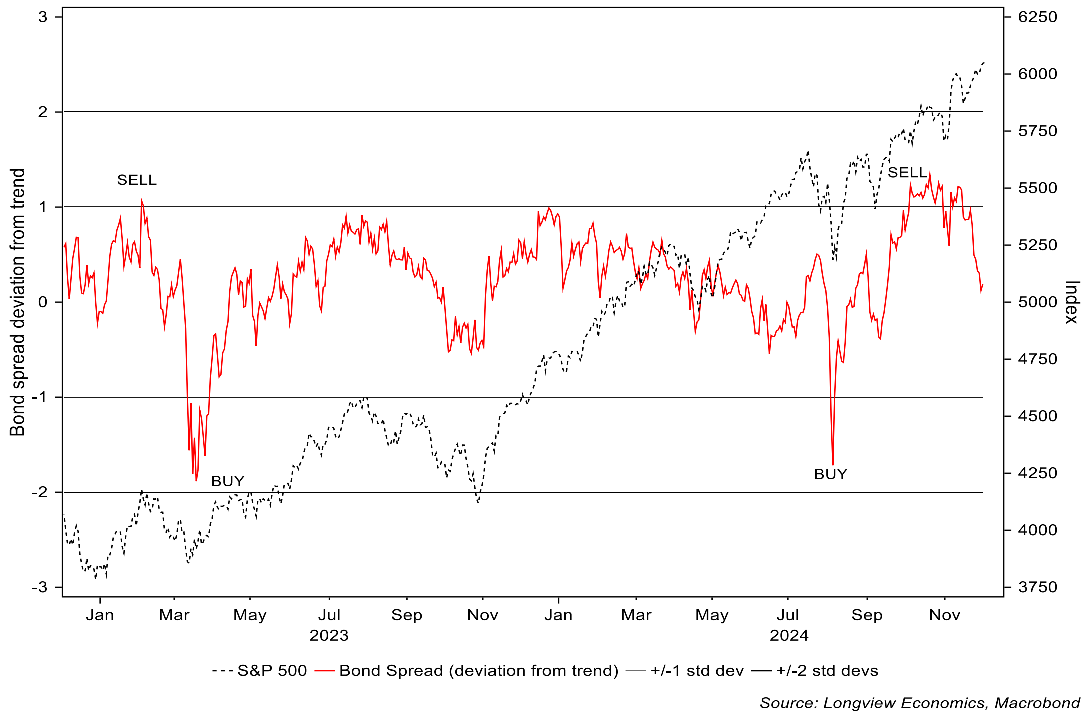
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

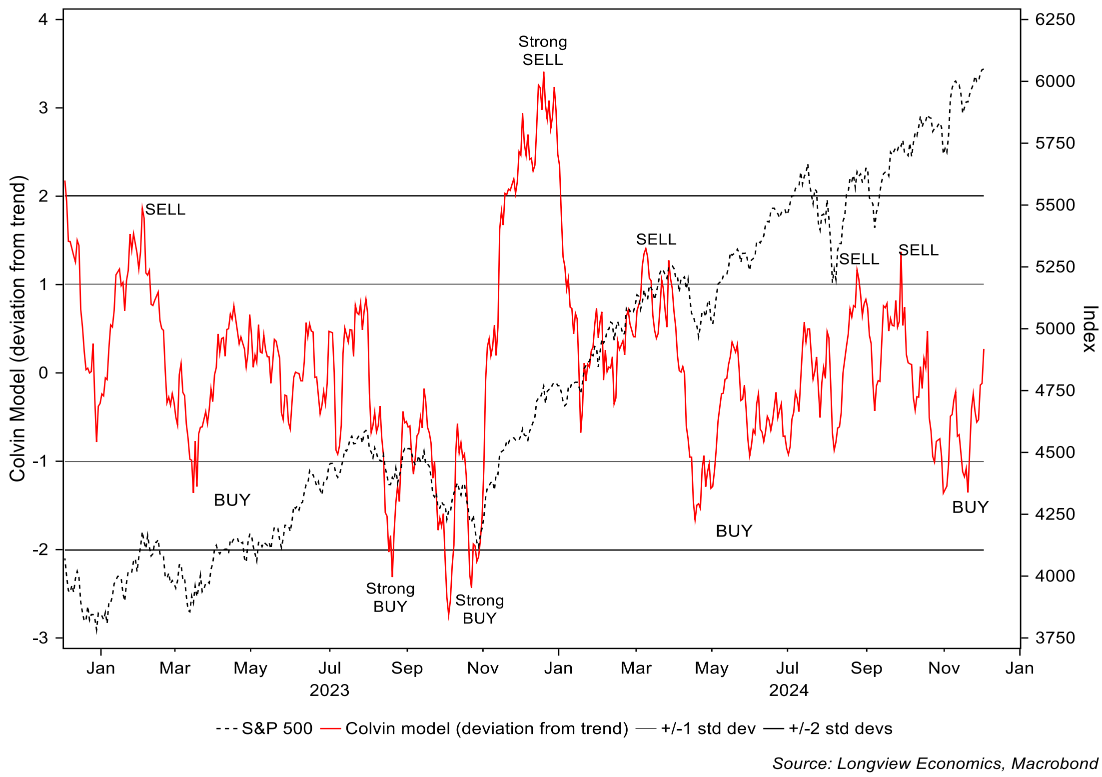
Source: Longview Economics, Macrobond

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



High yield corporate bond spreads model is NEUTRAL

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.

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