

## Equity Index Futures Trading Recommendations

5<sup>th</sup> December 2024

"Continue to WATCH & WAIT - Models at High Levels"

Email: [info@longvieweconomics.com](mailto:info@longvieweconomics.com)

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

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- WATCH & WAIT (for now).

### **Rationale**

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The 'risk on' mode continued in US equity markets yesterday, despite the political challenges in France & South Korea and despite (or more likely, because of) the weak US macro data. ADP employment (early in the US trading session) came in softer than expected (146k vs. 150k consensus for November with October's data revised lower); while the ISM services data surprised notably to the downside (52.1 vs. consensus of 55.5). Bond yields moved lower across the curve (with 10-year yields down by 4bps, closing at 4.19% and now sitting on their 200-day moving average, FIG 1). The Dec 2024 Fed fund futures contract was basically unchanged on the back of that weak data. Both Dec 2025 and Dec 2026 contracts, though, priced in more cuts (i.e. 5bps & 4bps more cuts respectively, yesterday).

That strength in US equity markets was led by the tech/growth areas of the market: The Philly SOX was +1.7%; the NDX100 was +1.2%. Sector leadership came from IT (+1.8%); consumer discretionary (+1.2% with Tesla 1.8%; & Amazon +2.2%); & then communication services (+0.6%). The laggards were energy & materials (with oil down around 1.5% - 2% on the day). Most European equity markets were also higher (despite the 'no confidence' vote which the French PM lost later in the evening). The DAX, MIB and CAC were all higher on the day. French bond spreads over German also narrowed on the session (FIG 1a).

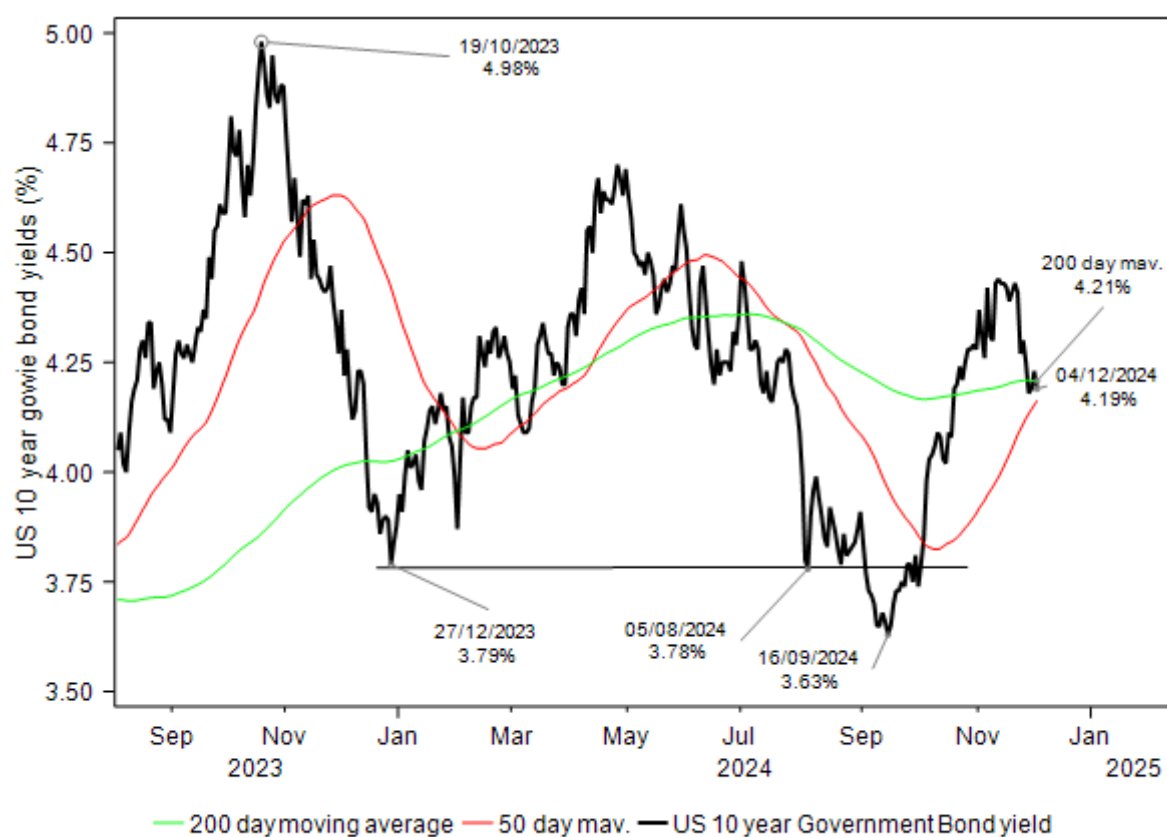
With a day of further strength in equities and other risk assets, many of our short-term models have moved higher. In summary the S&P500 and NDX100 are increasingly overbought (in the short term – with related models starting to generate SELL signals, see FIGs 2 – 2c); downside put protection has been removed, such that put to call ratios are also on SELL (FIGs 3 & 3a); NASDAQ sentiment is on SELL (at a high level, FIG 3b); while the VIX is at low levels, signalling complacency (and the VIX RSI model is on SELL – FIGs 1b & 1c).

As such, the risk reward favours standing back for now (& WATCHing and WAITing). Models are building towards a collective short term SELL signal but not yet generating that set-up. Key events and macro data releases later today are shown below (at bottom of the email). Tomorrow the key non-farm payroll data is published (1:30pm London time).

Kind regards,

The team @ Longview Economics

**FIG 1:** US 10-year bond yields shown with key moving averages



Source: Longview Economics, Macrobond

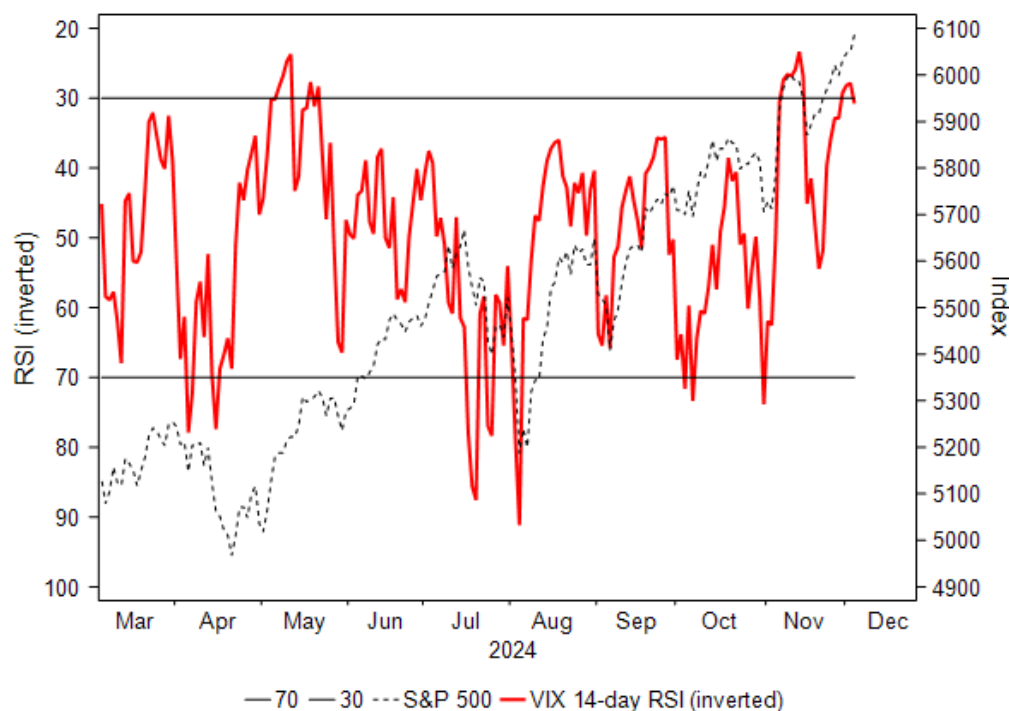
**FIG 1a:** Various key EZ government bond spreads over German bund yields (bps)



**FIG 1b:** VIX candlestick chart shown with key moving averages and against the S&P500 (inverted)

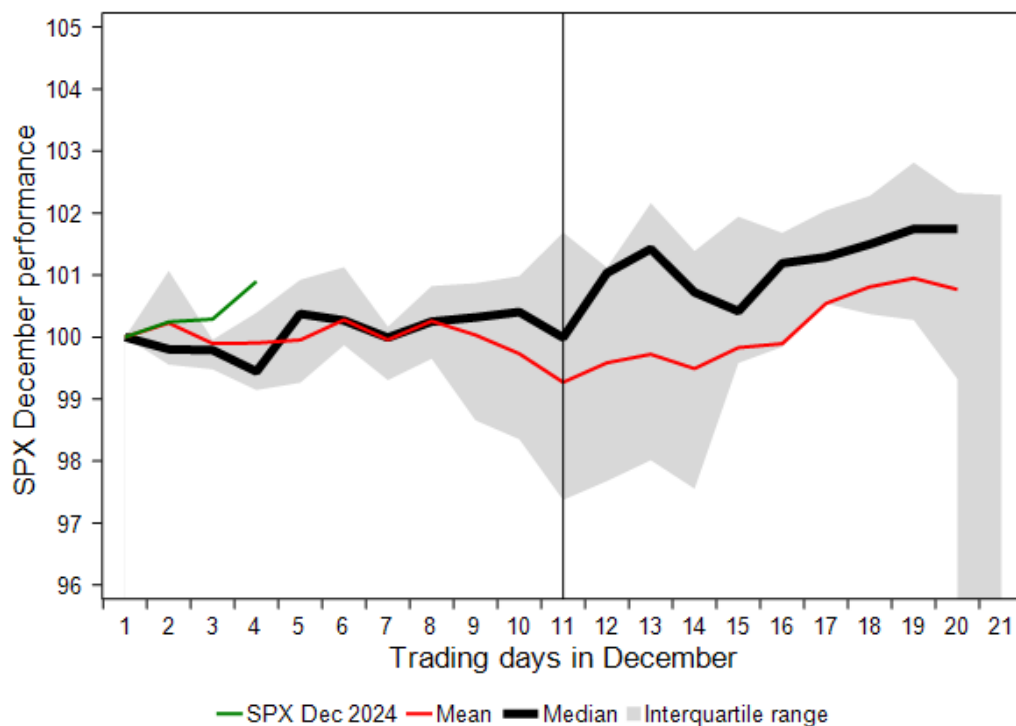


**FIG 1c:** Short term RSI (VIX – inverted) vs. S&P500 (last 9 months)



Source: Longview Economics, Macrobond

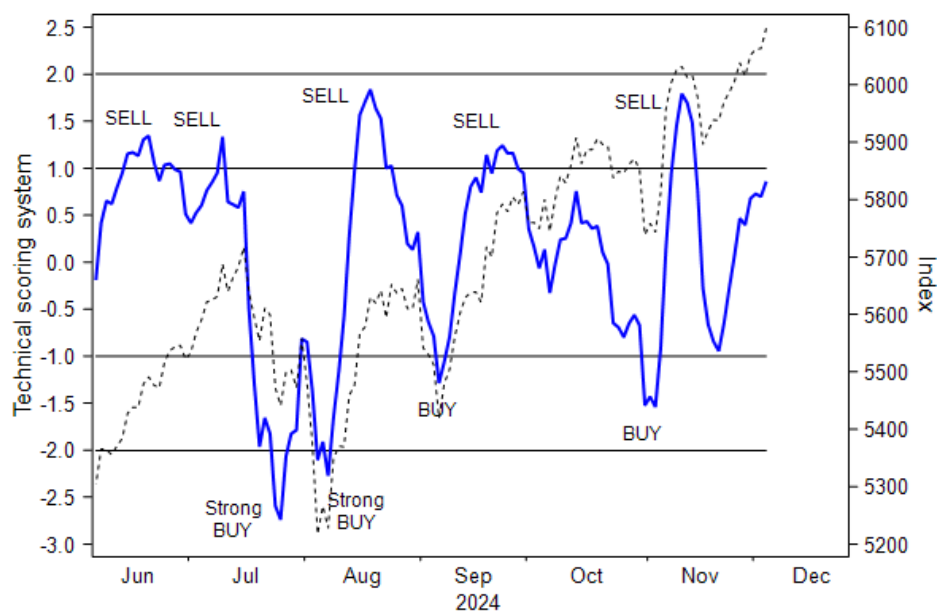
**FIG 1d:** S&P500 → December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)



Source: Longview Economics, Macrobond

**Technical models are either at, or close to, overbought levels.....**

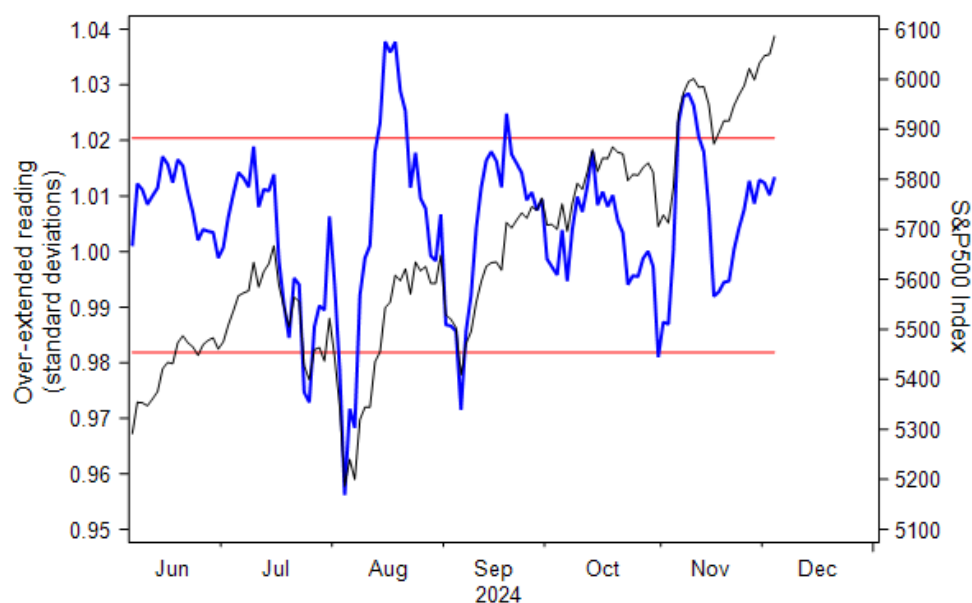
**FIG 2:** Longview S&P500 short term **‘technical’** scoring system vs. S&P500 futures



--- S&P500 emini futures — Short term technical scoring system — +/2 std devs — +/1 std dev

Source: Longview Economics, Macrobond

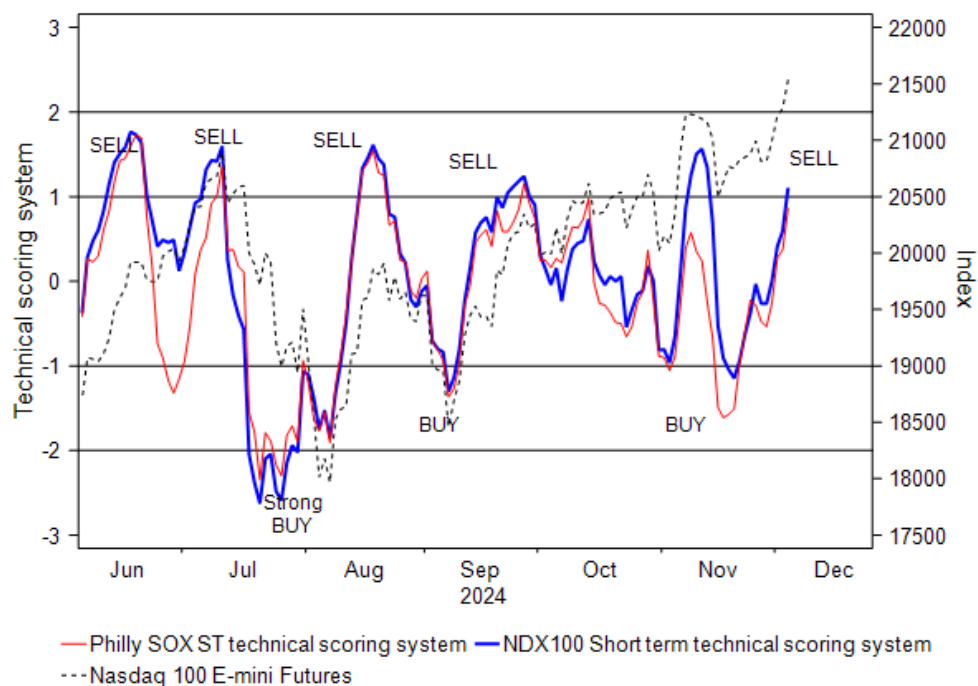
**FIG 2a:** S&P500 overextended indicator (index price relative to its 10-day moving average) vs. S&P500



— S&P500 — Overextended index (index price rel to 10 day moving average) — +/1 standard deviation

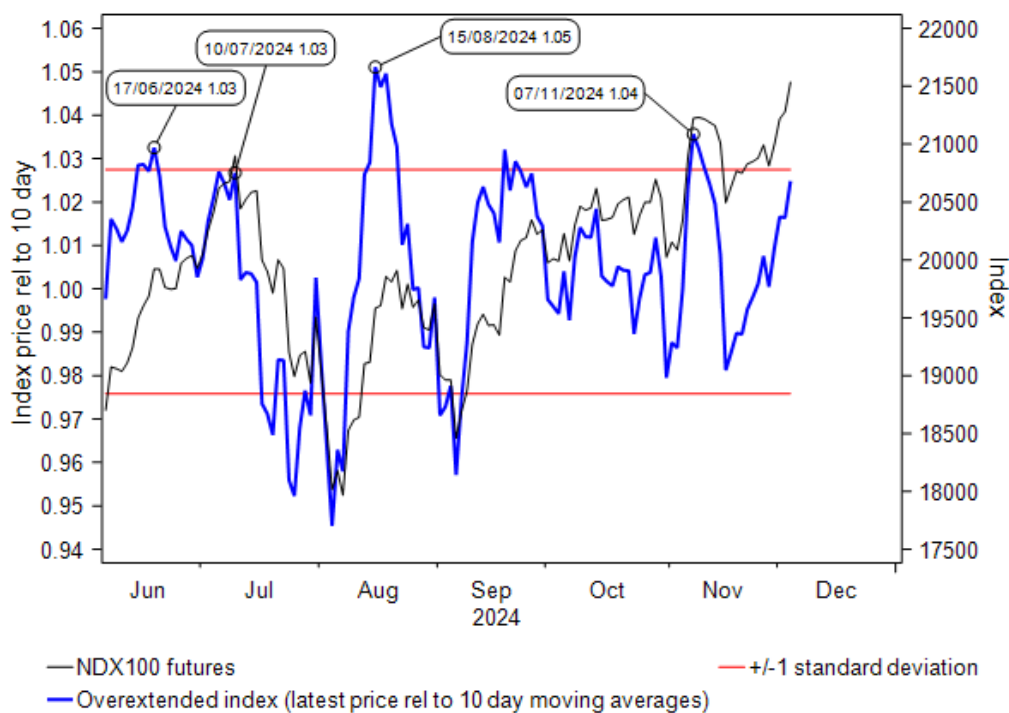
Source: Longview Economics, Macrobond

**FIG 2b:** Longview NASDAQ100 & Philly SOX short term **‘technical’** scoring system vs. NASDAQ100 futures



Source: Longview Economics, Macrobond

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

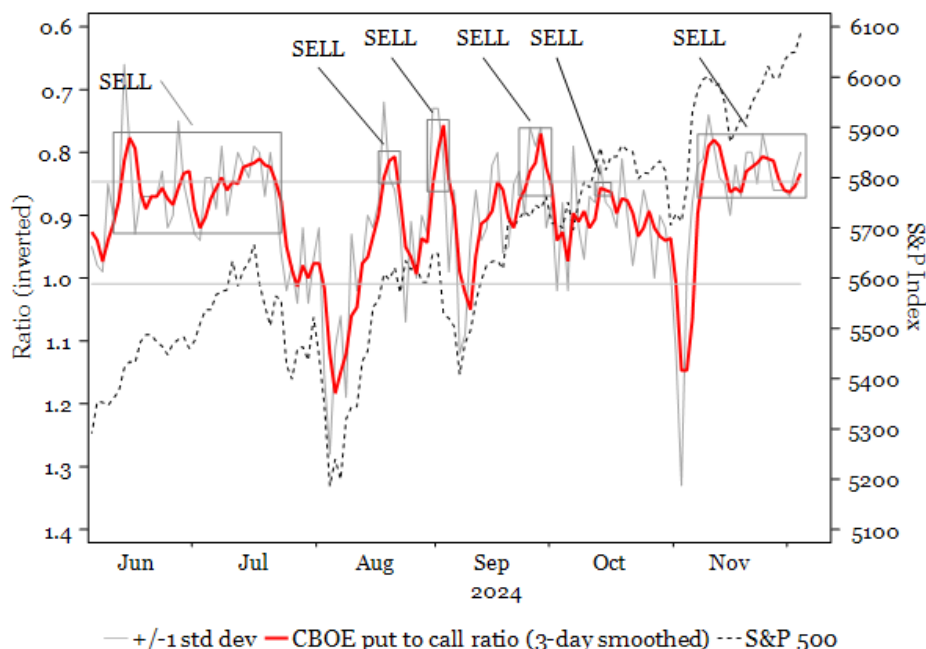


Source: Longview Economics, Macrobond



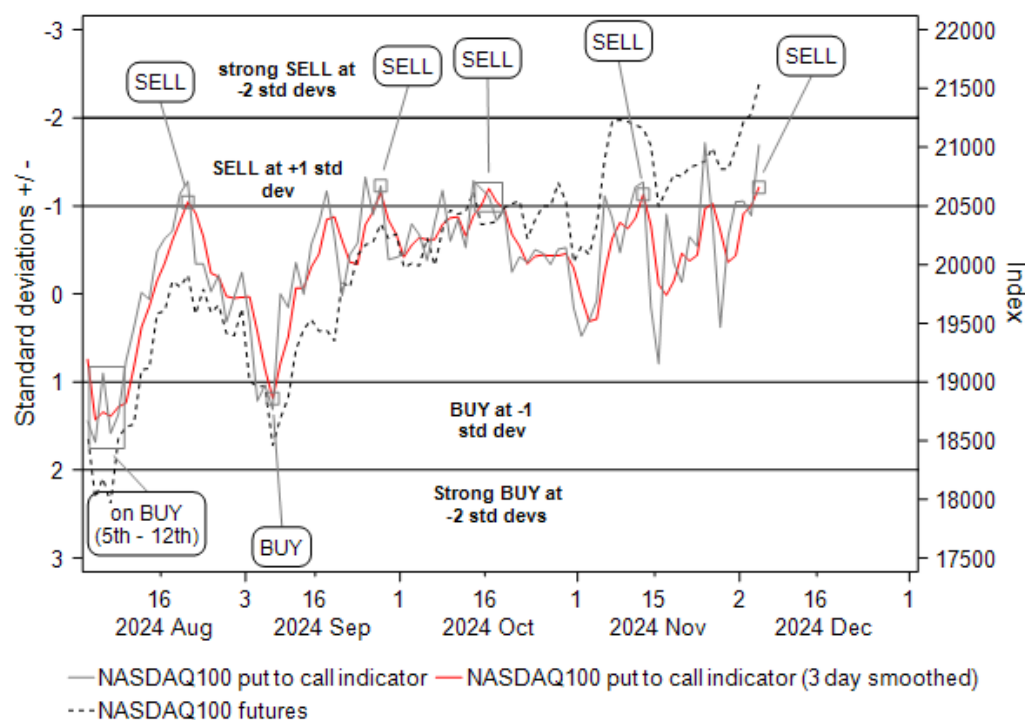
## Downside put protection in portfolios remains at low levels...

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



Source: Longview Economics, Macrobond

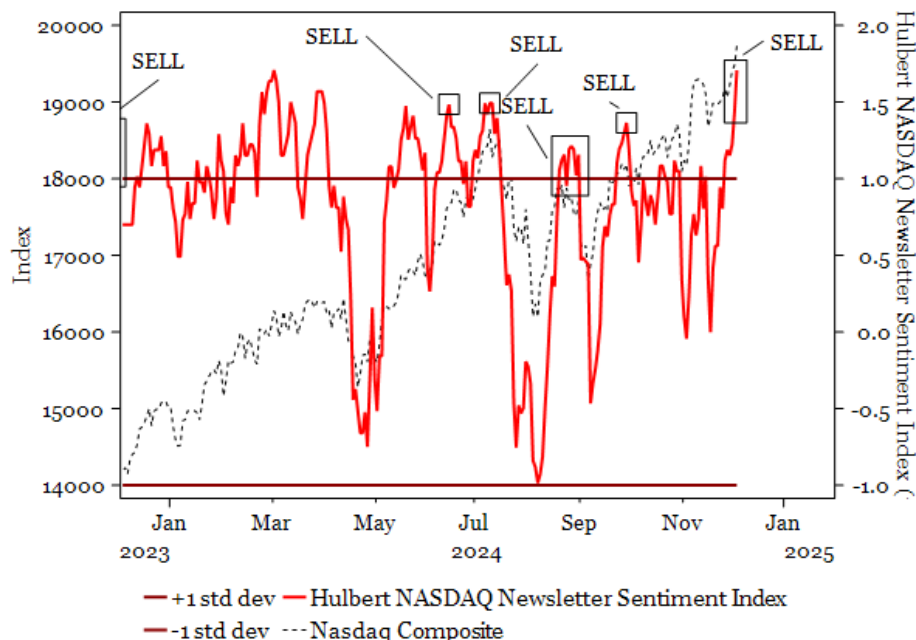
**FIG 3a:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

**Investor sentiment (re: NASDAQ) is at high/SELL levels...**

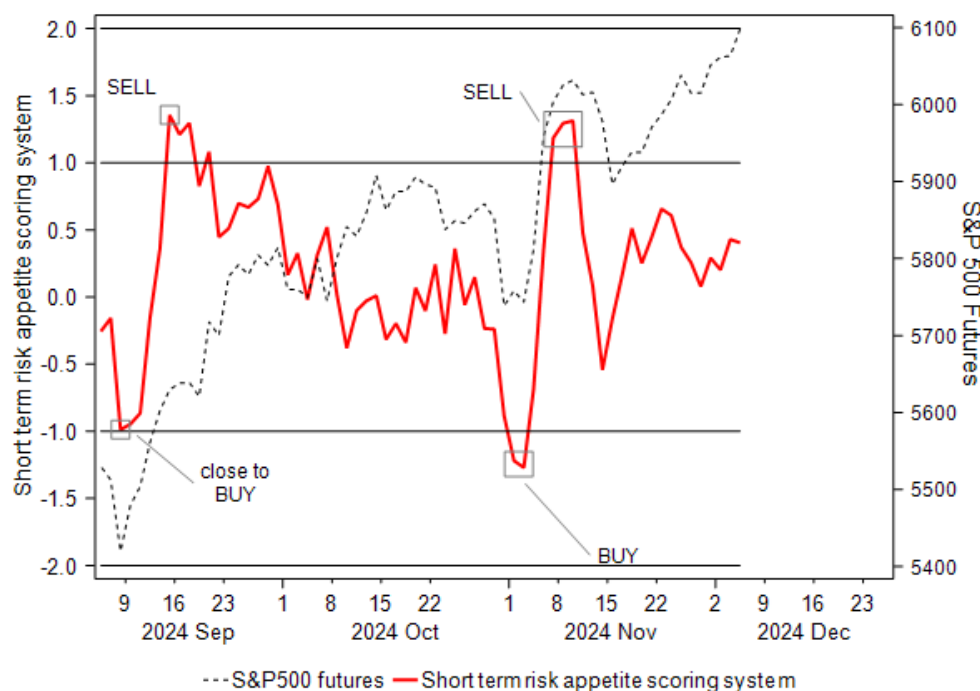
**FIG 3b:** Hulbert NASDAQ sentiment index shown with NASDAQ composite index



Source: Longview Economics, Macrobond

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

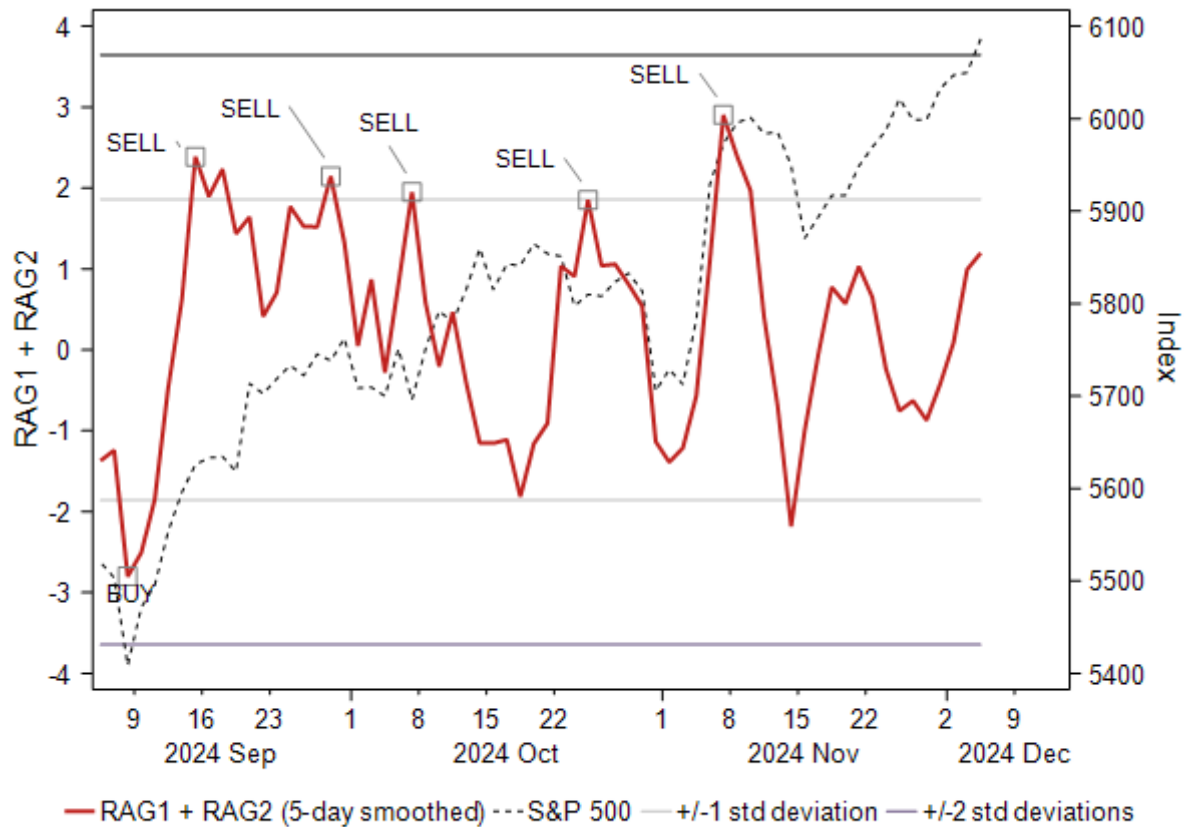
**FIG 4:** Longview short term 'risk appetite' scoring system vs. S&P500



Source: Longview Economics, Macrobond



**FIG 4a:** Longview combined key ‘risk appetite’ models (RAG1 + RAG2) vs. S&P500



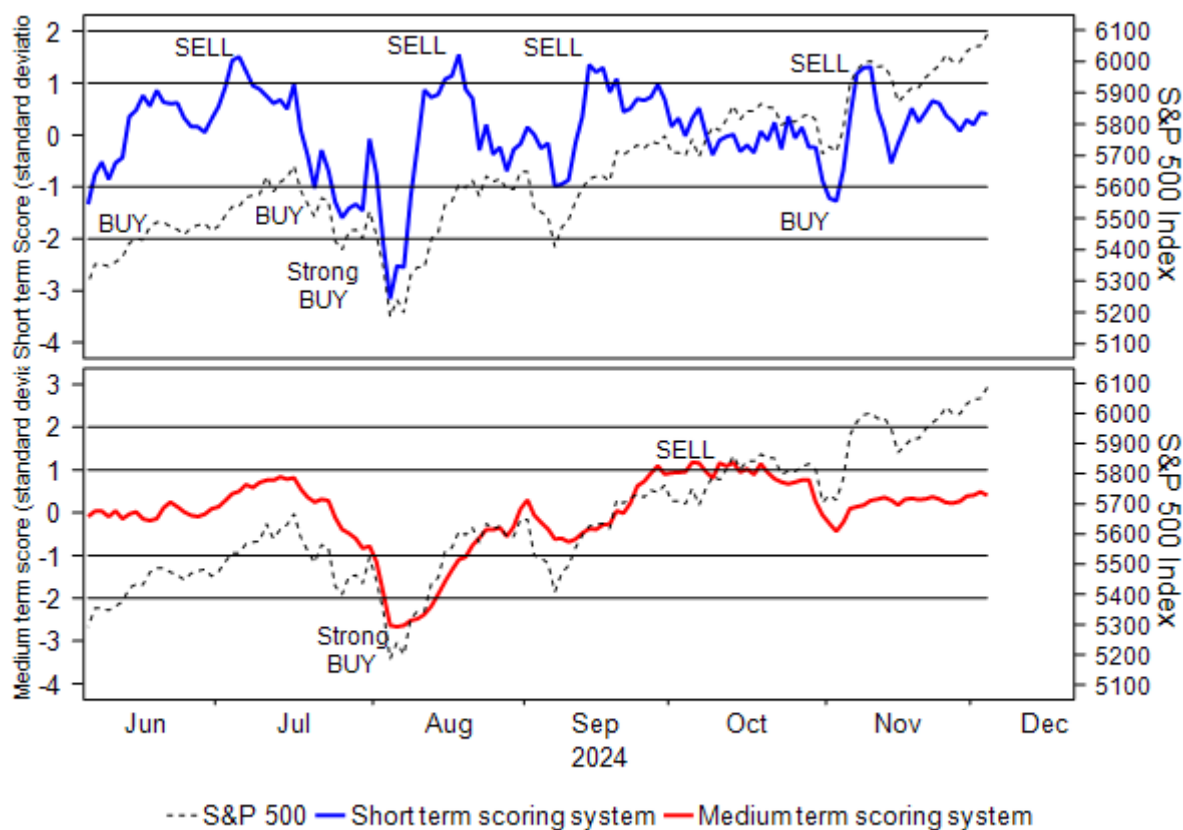
Source: Longview Economics, Macrobond

**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

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**Key data** today include: Australian household spending (Oct, 12:30am); Australian imports/exports, and trade balance (Oct, 12:30am); **German factory orders** (Oct, 7am); French industrial & manufacturing production (Oct, 7:45am); UK new car sales (Nov, 9am); **Eurozone retail sales** (Oct, 10am); **US Challenger job cuts** (Nov, 12:30pm); US trade balance (Oct, 1:30pm); **US weekly jobless claims (1:30pm)**; Japanese cash earnings (Oct, 11:30pm).

**Key events** today include: Speech by the BOJ's Nakamura in Hiroshima (1:30am); ISTAT publishes economic forecasts (10am); speech by the ECB's Vujcic in Belgrade (10am); speech by the Bank of England's Greene at a Financial Times event (5pm); speech by the Fed's Barkin on the Economic outlook (5:15pm).

**Key earnings** today include: Kroger, Lululemon Athletica, Toronto Dominion Bank, Bank of Montreal, Canadian Imperial Bank.

## 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 yesterday, 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

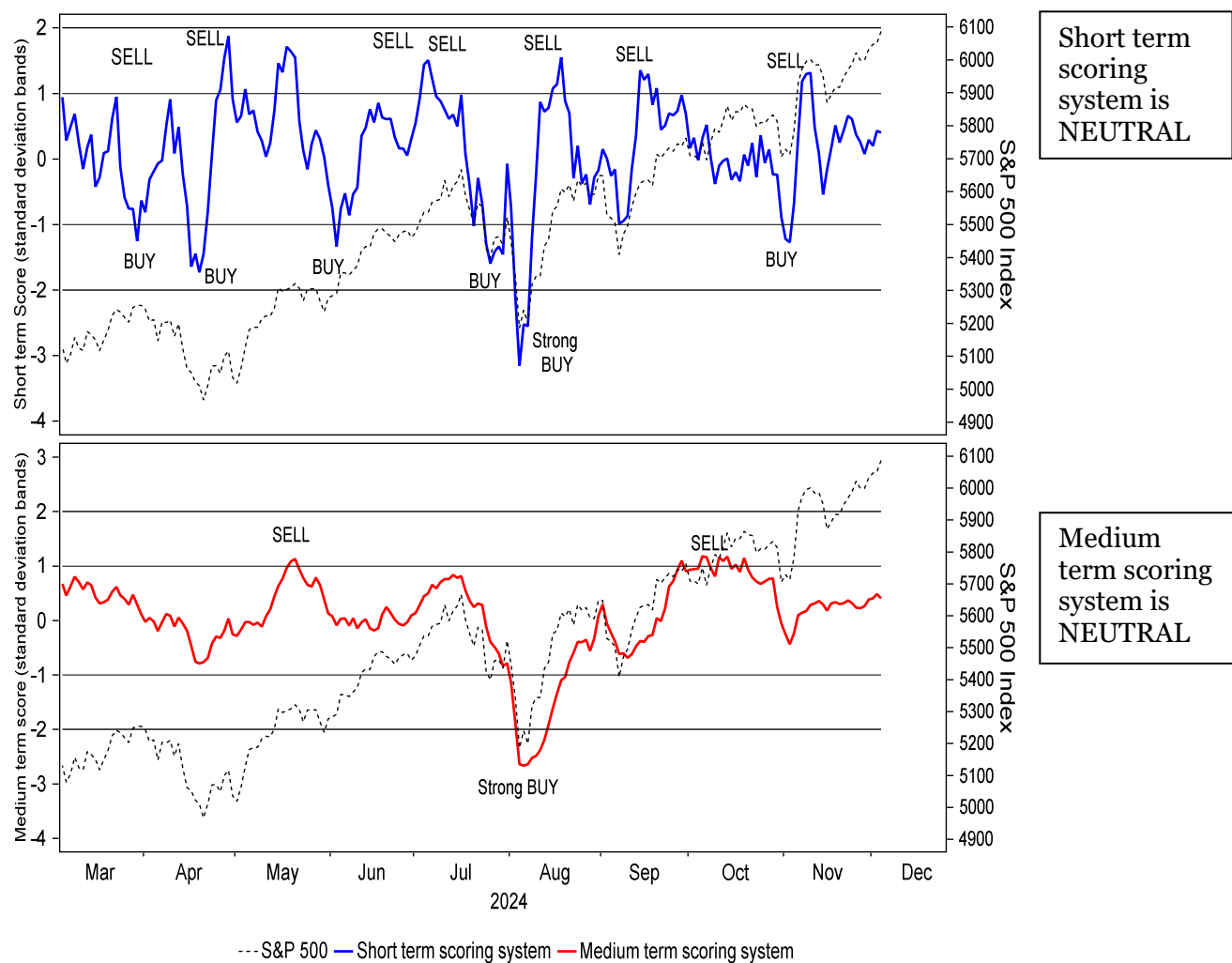
Longview Economics

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5<sup>th</sup> December 2024

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

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



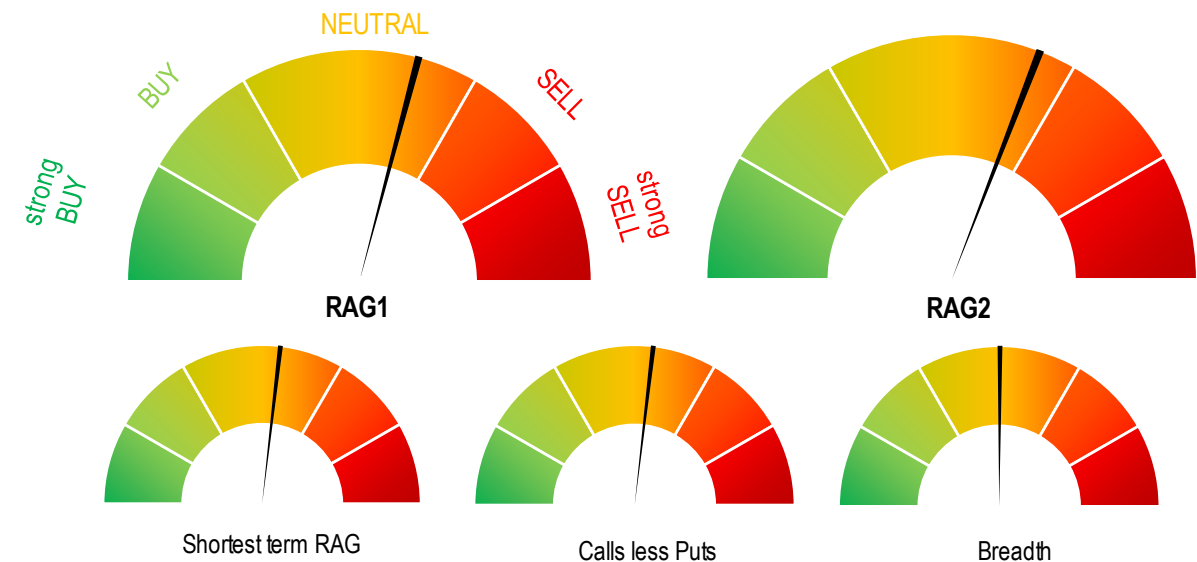
Source: Longview Economics, Macrobond

\*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**

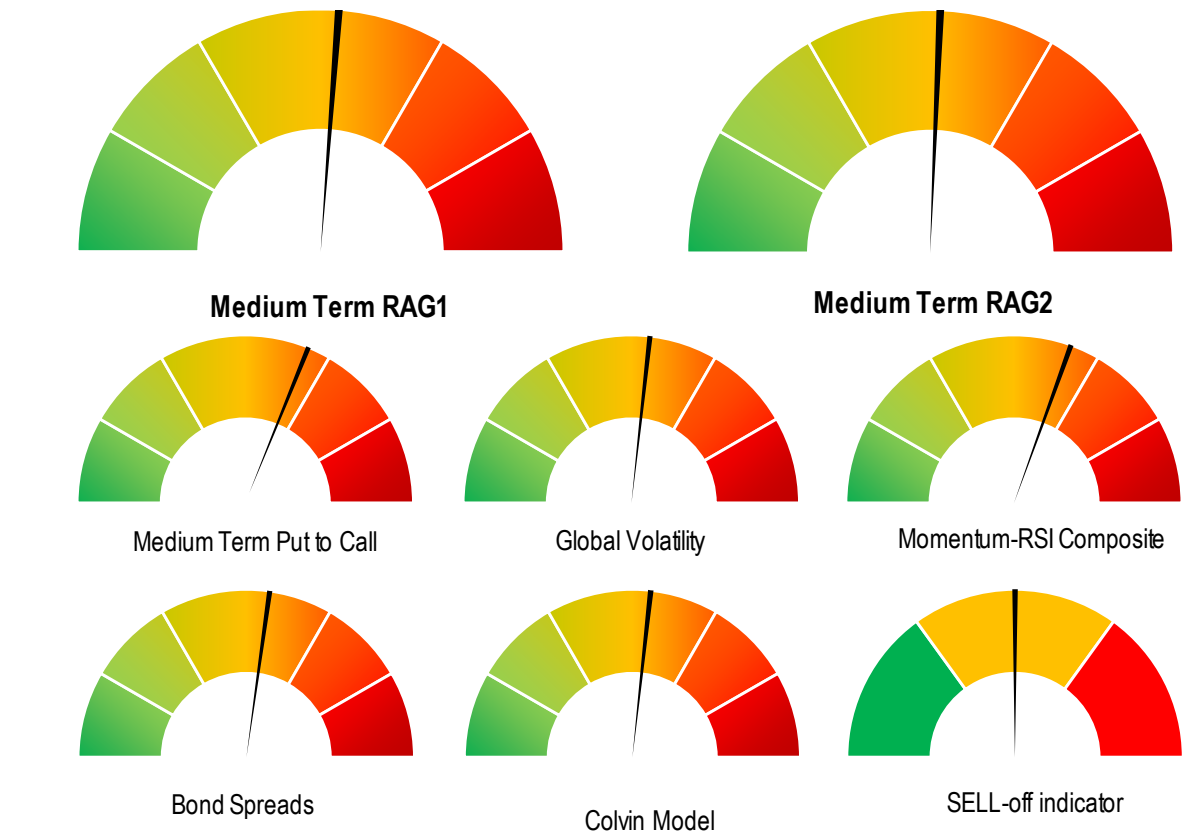
**Section 1a: Summary of indicator signals\*\***

**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

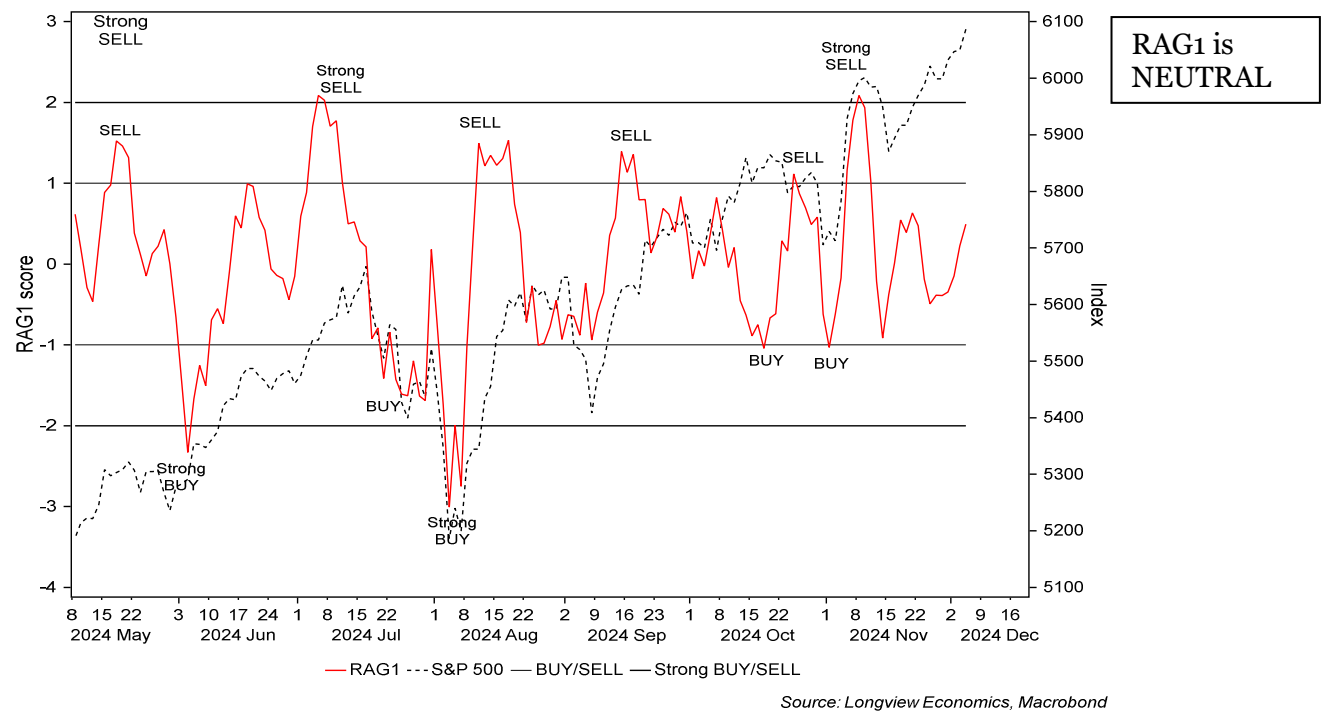
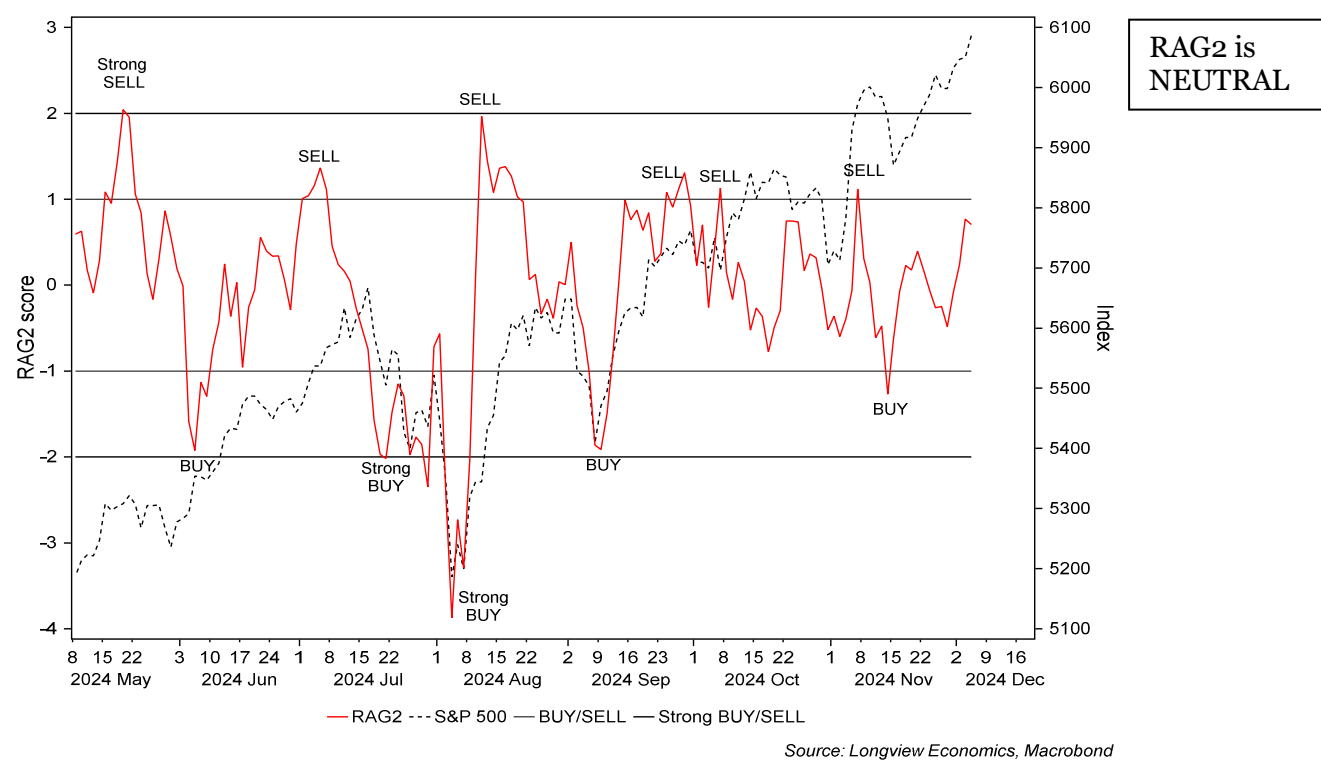


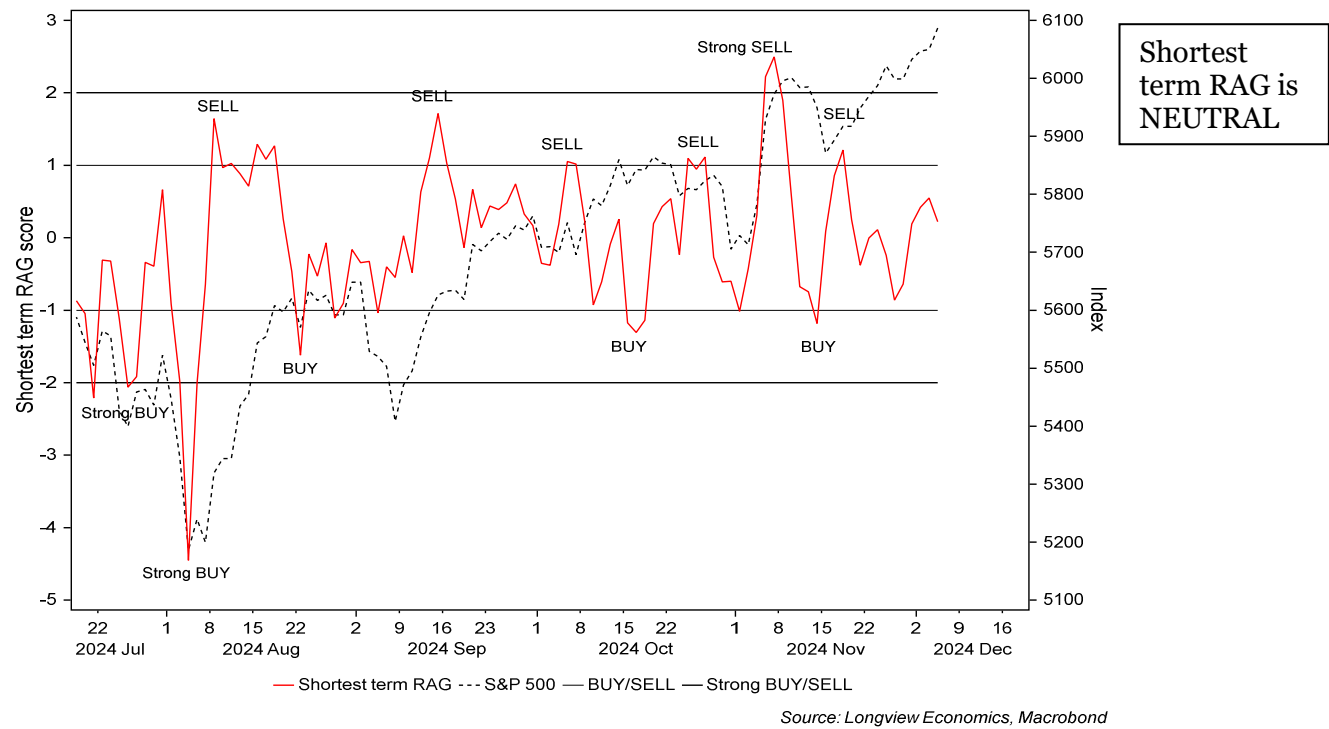
Fig 2b: RAG 2 vs. S&P 500



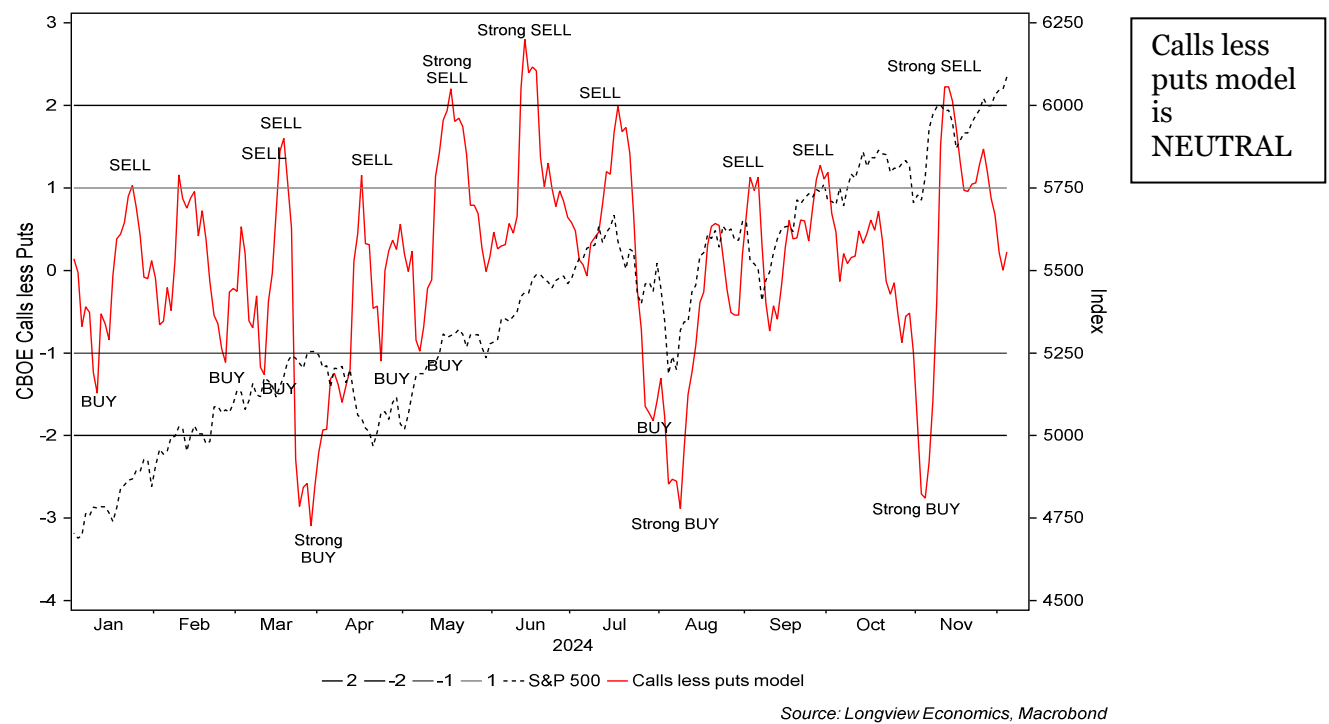
For explanations of indicators please see page 10



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

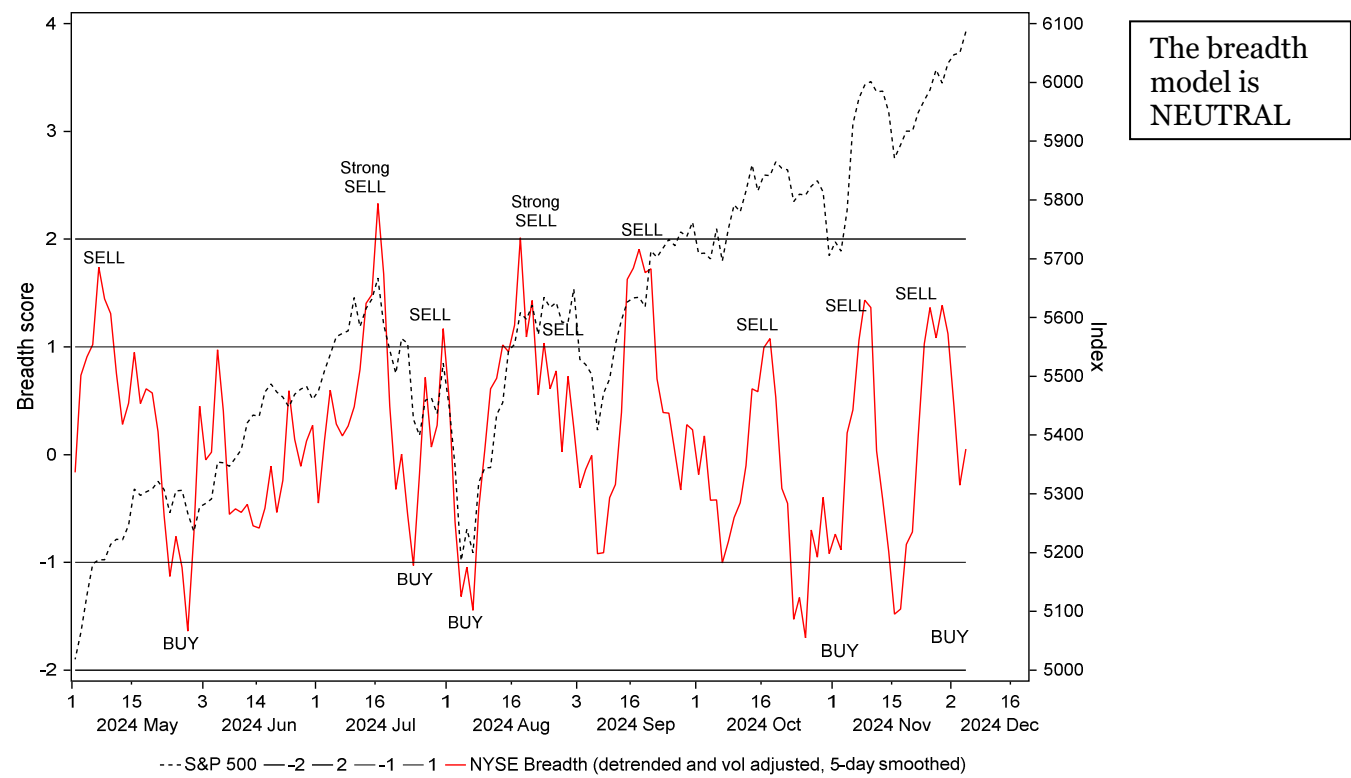


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



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

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



Source: Longview Economics, Macrobond

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

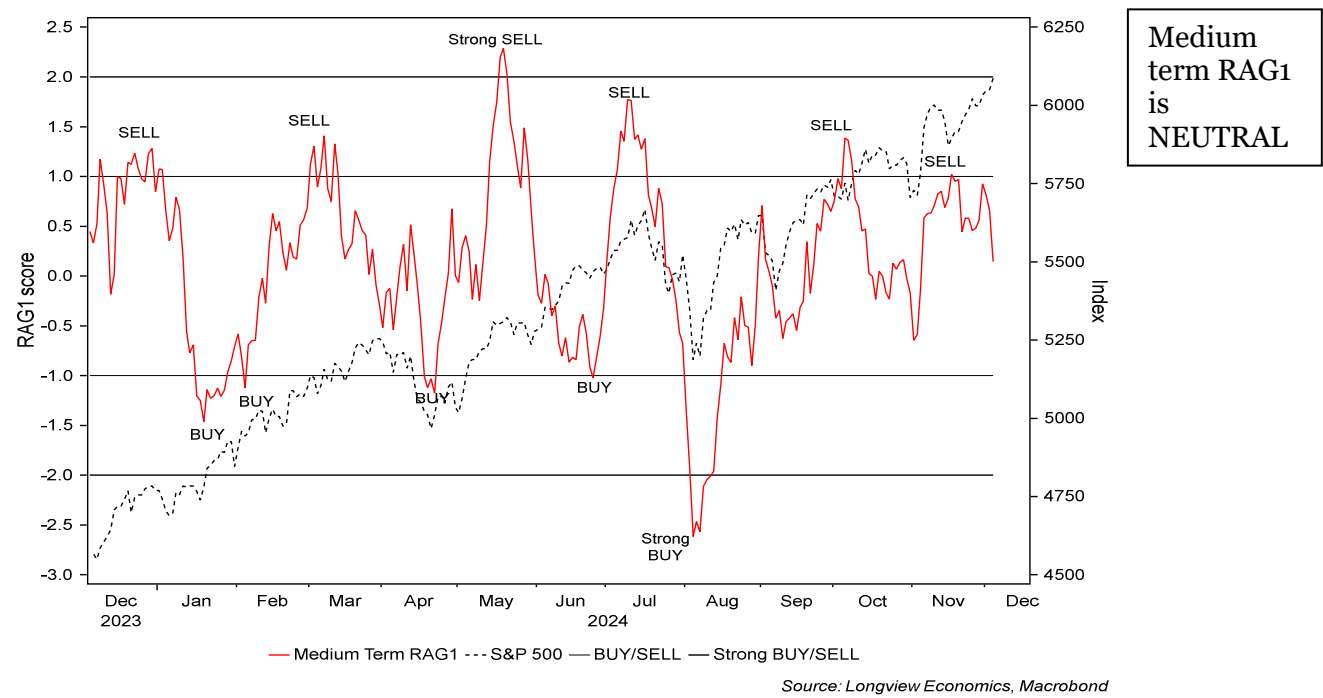
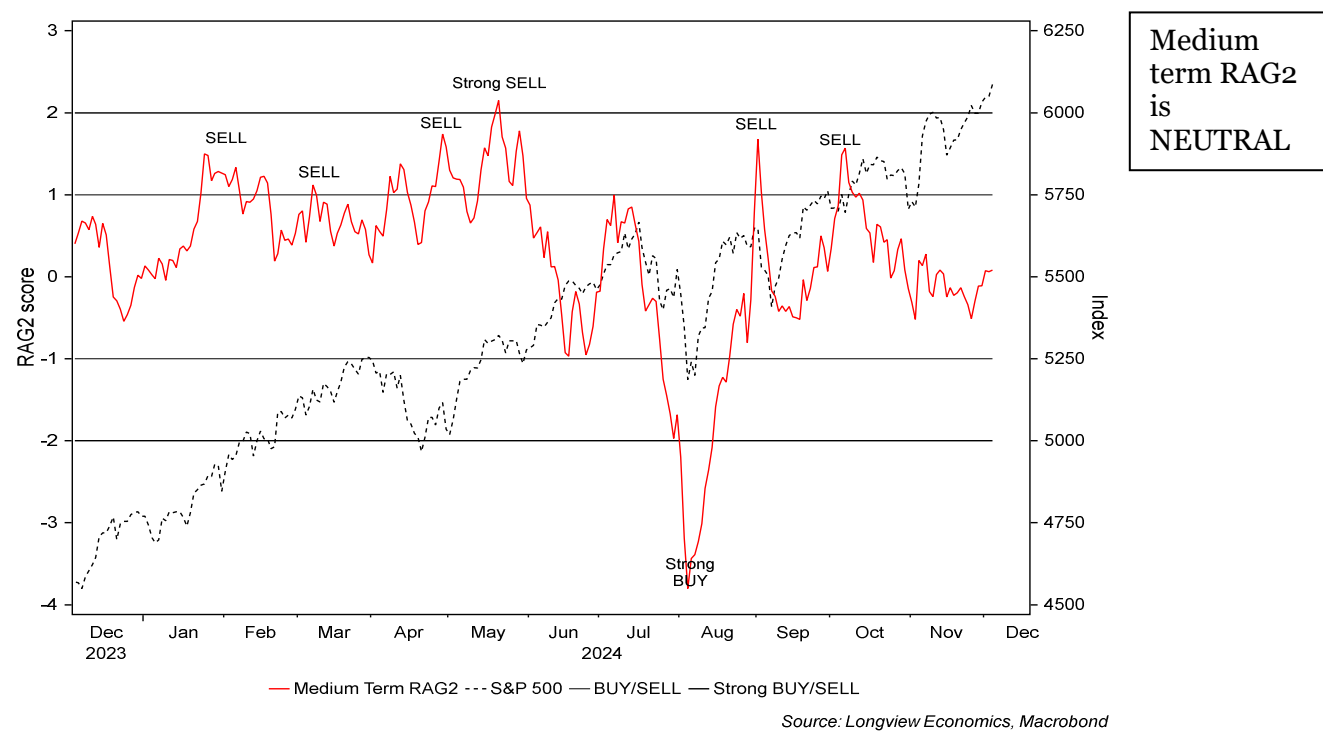
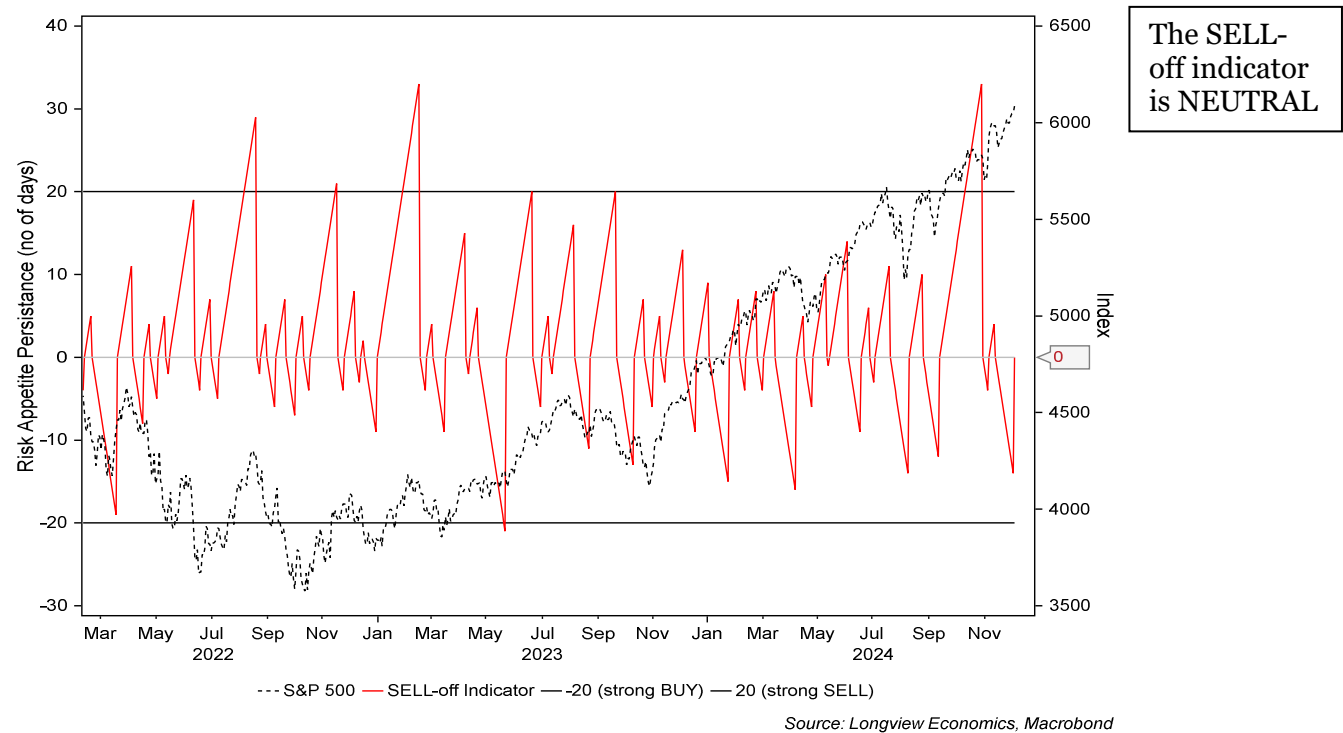


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

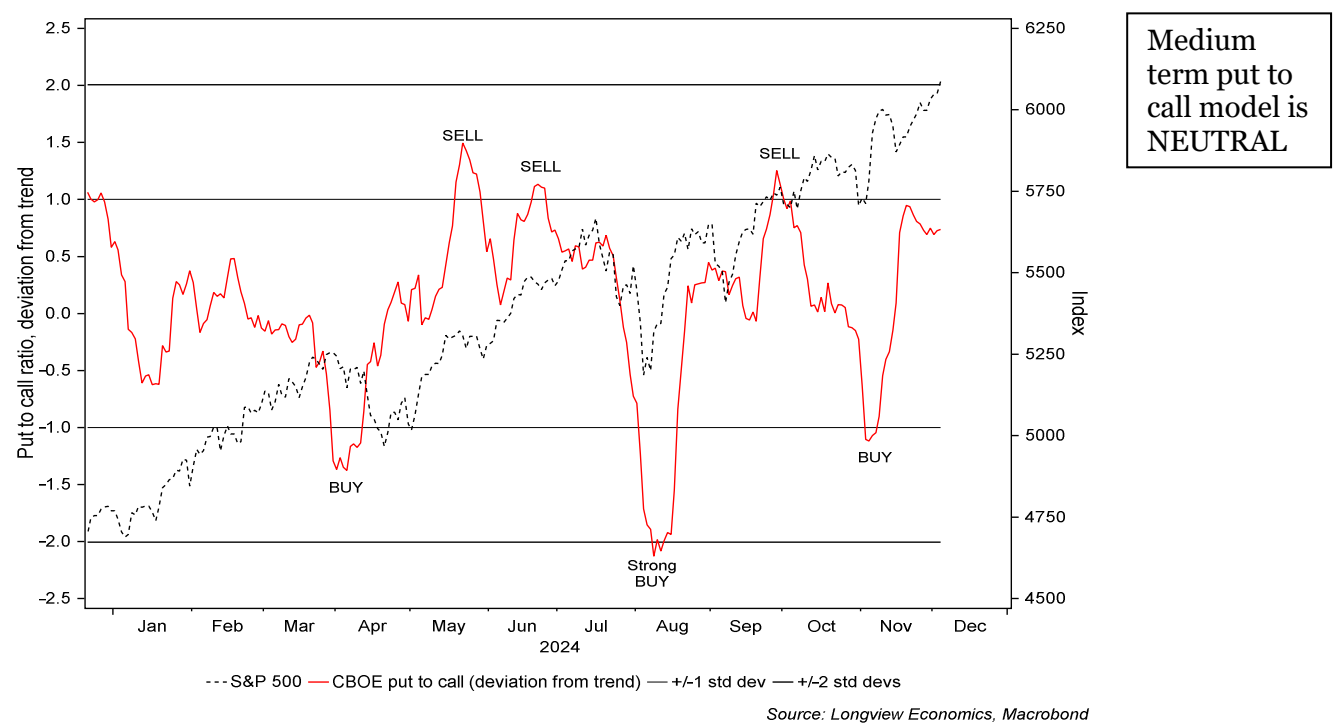


For explanations of indicators please see page 10

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

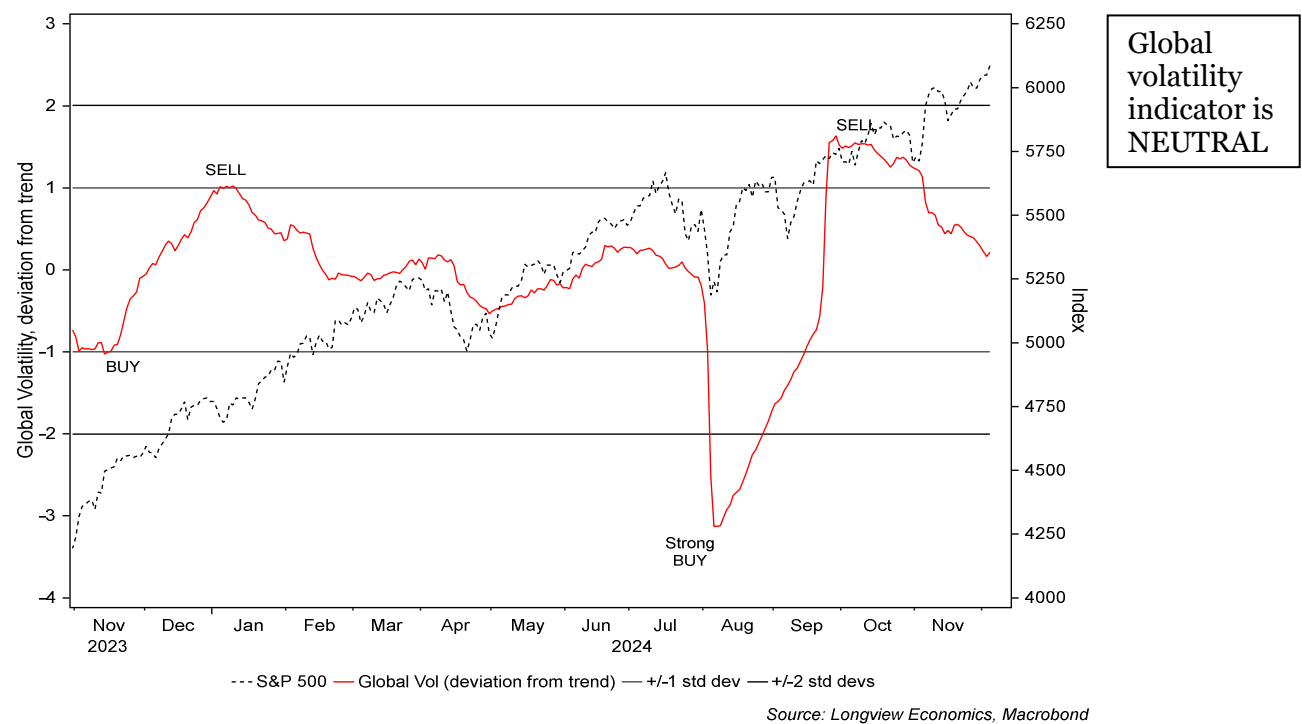


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

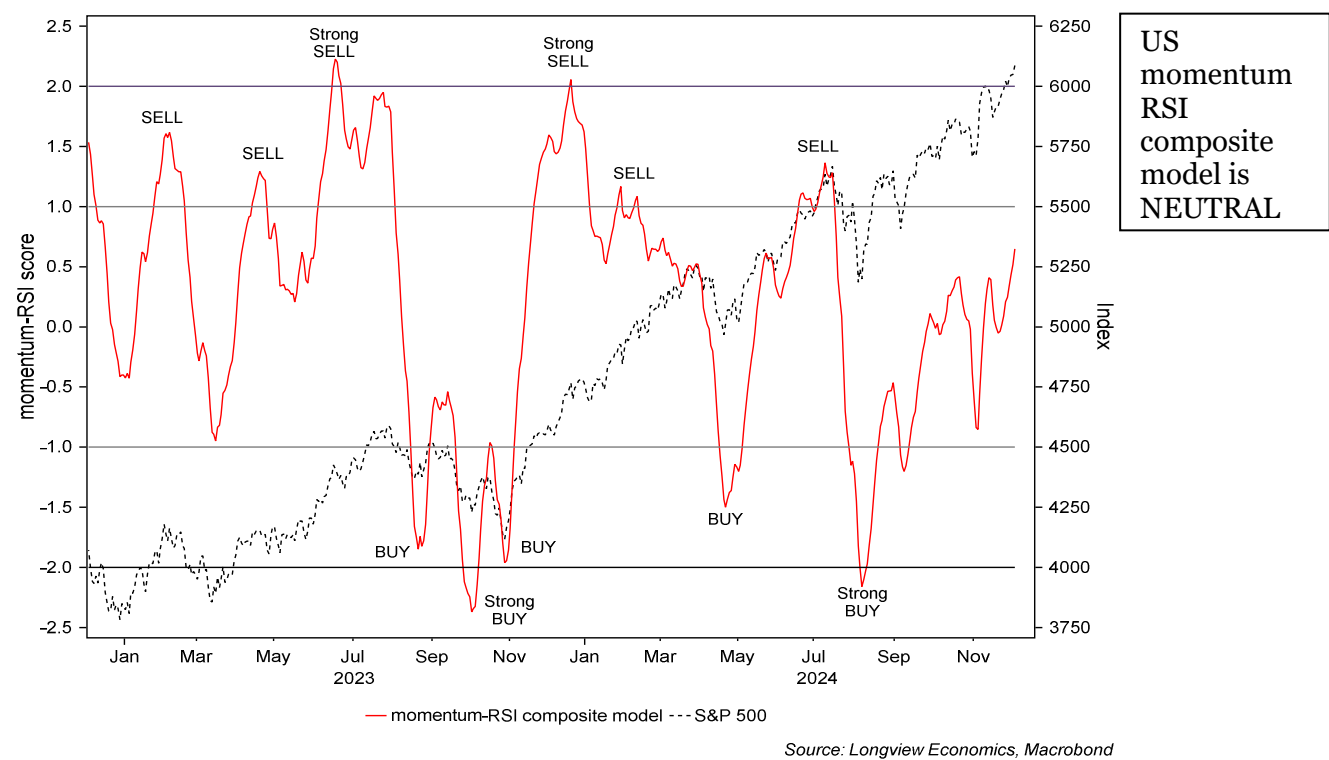


**For explanations of indicators please see page 10**

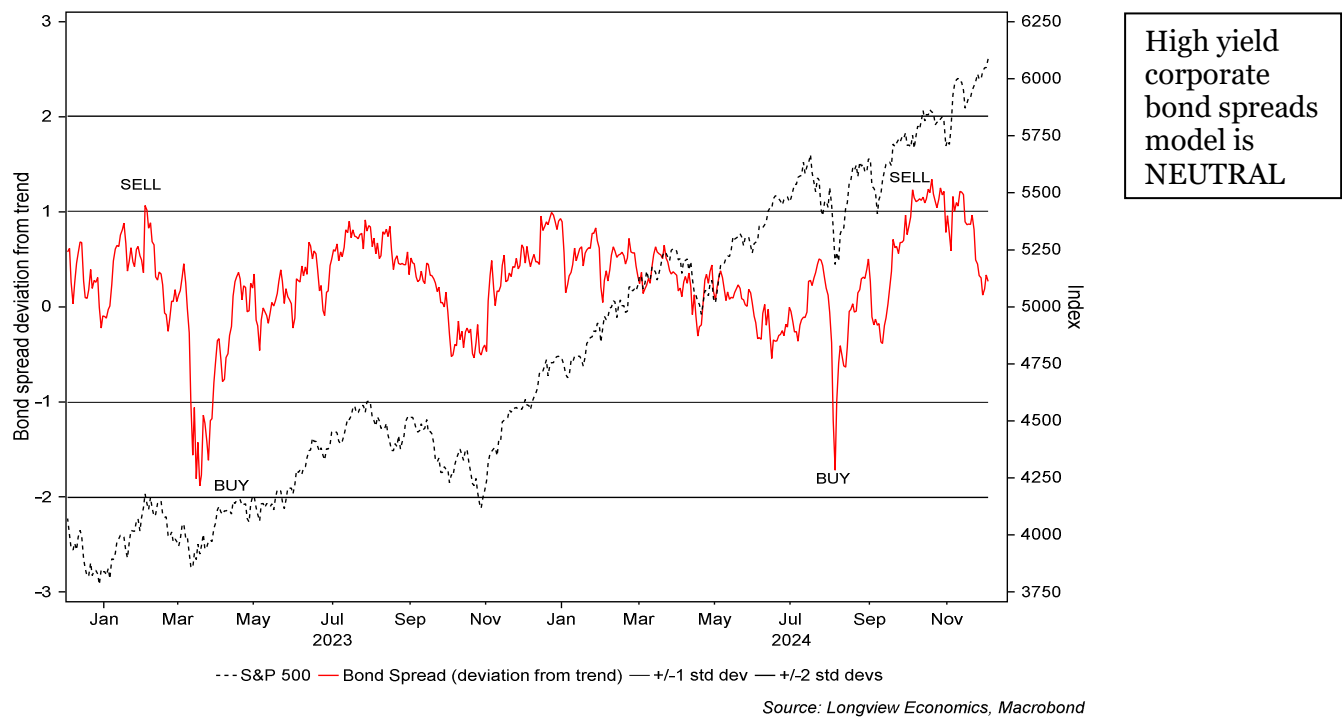
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



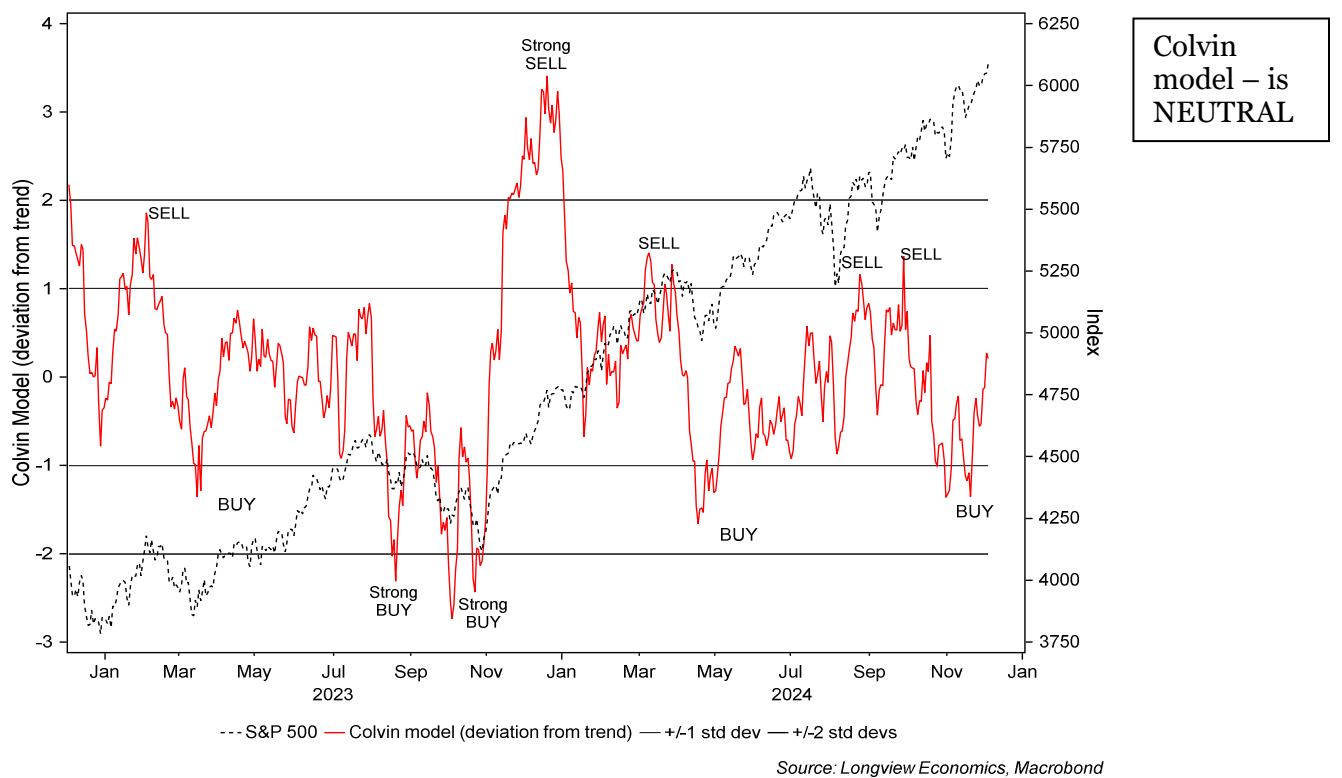
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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