LVRAG

Daily Risk Appetite Gauge

# Equity Index Futures Trading Recommendations

6th December 2024

"Continue to WATCH & WAIT (for now) - Momentum Stalling"

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

- WATCH & WAIT (for now).

## Rationale

US markets were soft yesterday as the prior 12 days' upward momentum stalled. The S&P500 closed down 0.2%; the NDX100 was down 0.3%, while the Philly SOX gave back all its gains from the prior day and closed below its 200-day moving average. Sector performance was notably mixed with no clear (top level) discernible pattern; US 10-year bond yields edged lower again (FIG 1b), while Europe maintained its recent upward momentum (despite the political challenges in France & Germany). With that, EZ bond spreads tightened further including French spreads over German bund yields (FIG 1c). The Euro bounced again (+0.4%), and the dollar (DXY) weakened by 0.6%.

Our view remains as per yesterday. **That is, this latest rally in the S&P500 futures since mid-November (15th) is due a pause and potentially some giveback of its recent gains.** That's the message of most of our key short term (1 – 2 week) market timing models. Technical scoring systems show that key US equity indices are overbought (overextended) – see FIGs 3a to 3d; European markets are also overextended (e.g. see the broader European index technical scoring system, FIG 3); there's a lack of downside protection in portfolios (see NDX100 & CBOE put to call ratios, FIGs 4 & 4a); while risk appetite models remain NEUTRAL (with a very slight bias towards SELL – FIGs 5 & 5a).

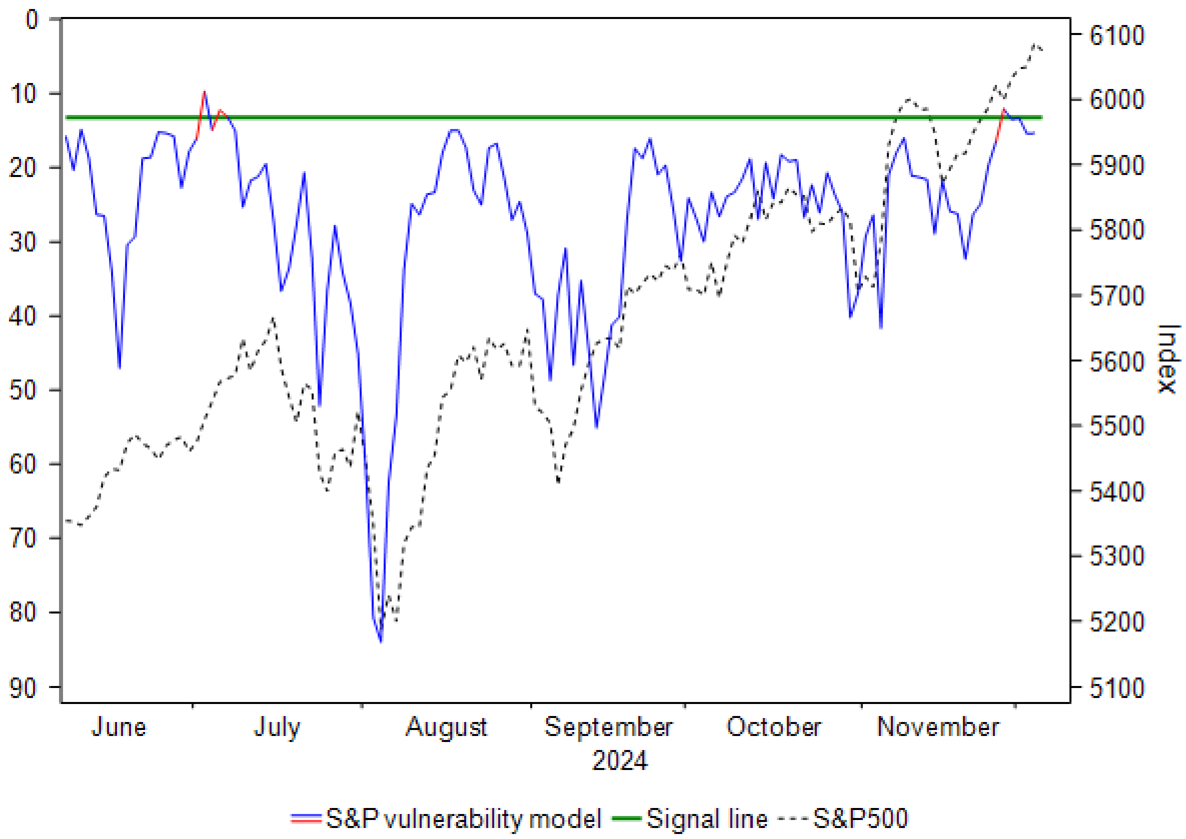
**Added to the above, volatility is at low levels and signalling complacency in markets.** We highlighted the SELL message of the VIX RSI model yesterday (FIG 2c). Other measures of implied equity volatility are also at low levels, including the VDAX (DAX implied equity volatility, FIG 2) and the VXN (Nasdaq implied volatility, FIG 2a). Consistent with that the Longview 'vulnerability' model has recently generated a signal warning of the potential of a 'wobble' in this uptrend (NB this model measures complacency by combining volumes and volatility, FIG 1). Also of note, SKEW (regarded as smart money 'deep out of the money' hedging) is at high levels, which is often consistent with equity market weakness (FIG 1a). Seasonality, meanwhile, continues to point to softness in equity markets, i.e. up to the middle of December - FIG 1d.

As such, we recommend WATCHing and WAITing (for now). Without SELL signals from the risk appetite models, we're not inclined (at this juncture) to move SHORT equity futures. Key data today include the US non-farm payrolls, wage inflation and unemployment rate (due 1:30pm London time). The full list of macro data and events today is listed below.

Kind regards,

The team @ Longview Economics

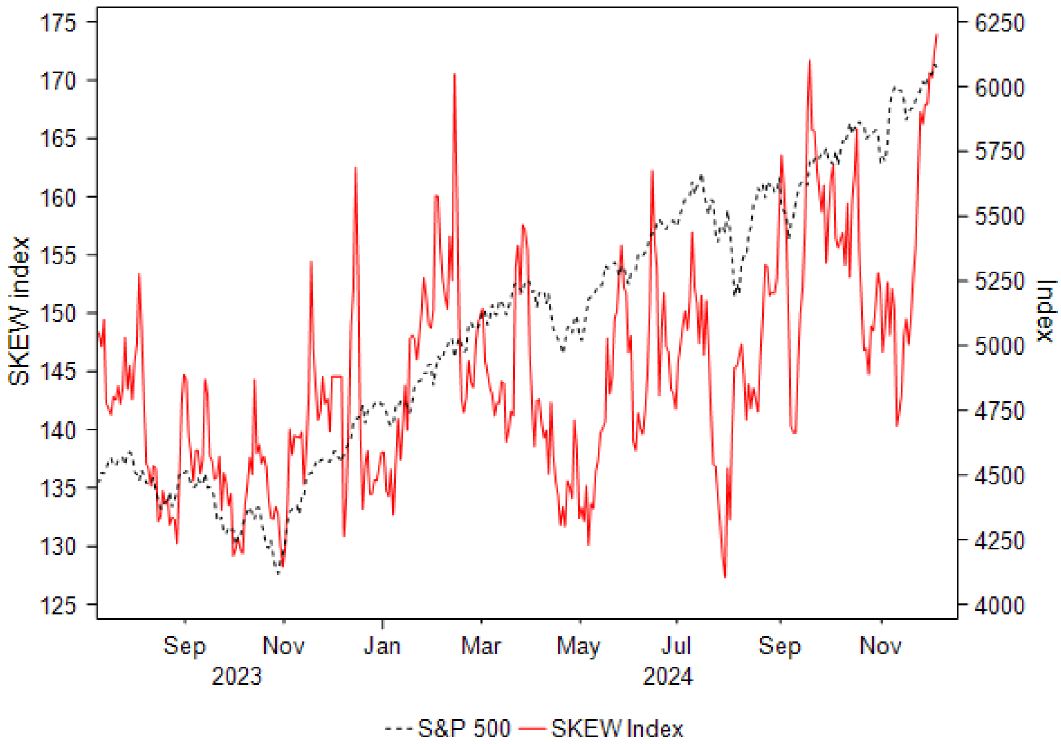
**FIG 1:** Longview 'Vulnerability' model* (NB Green/Red = SELL signal) vs. S&P500 cash index




*Source: Longview Economics, Macrobond*

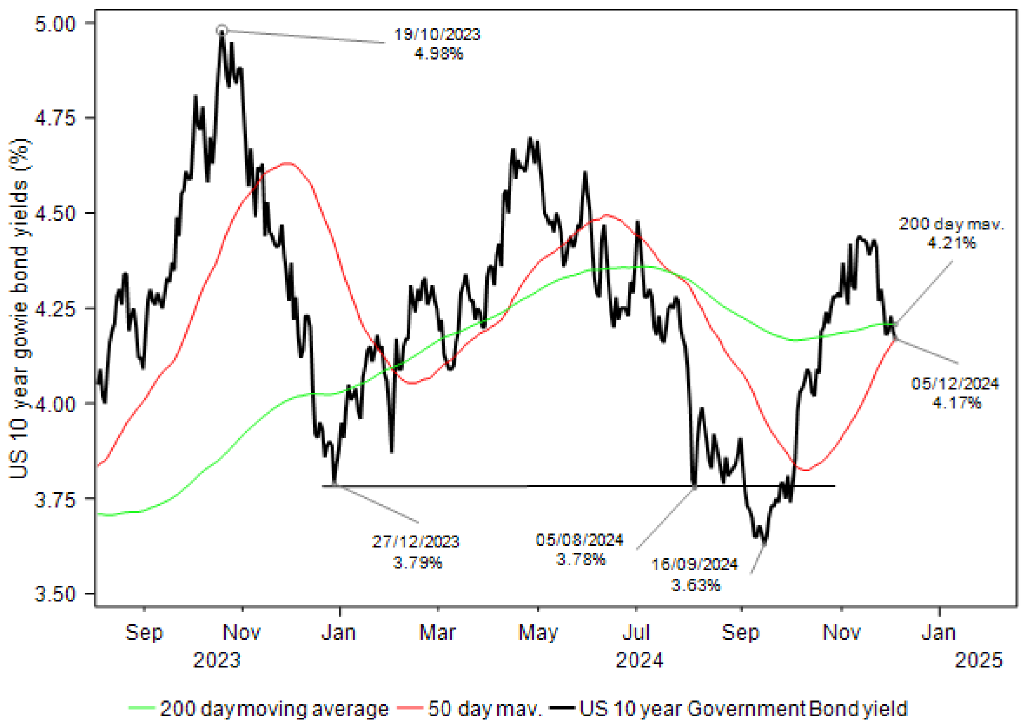
*This model measures complacency using volumes and volatility, and therefore warns of potential 1-3% wobbles in headline equity indices (i.e. when crossing its upper threshold).

**FIG 1a:** US CBOE SKEW index vs. S&P500



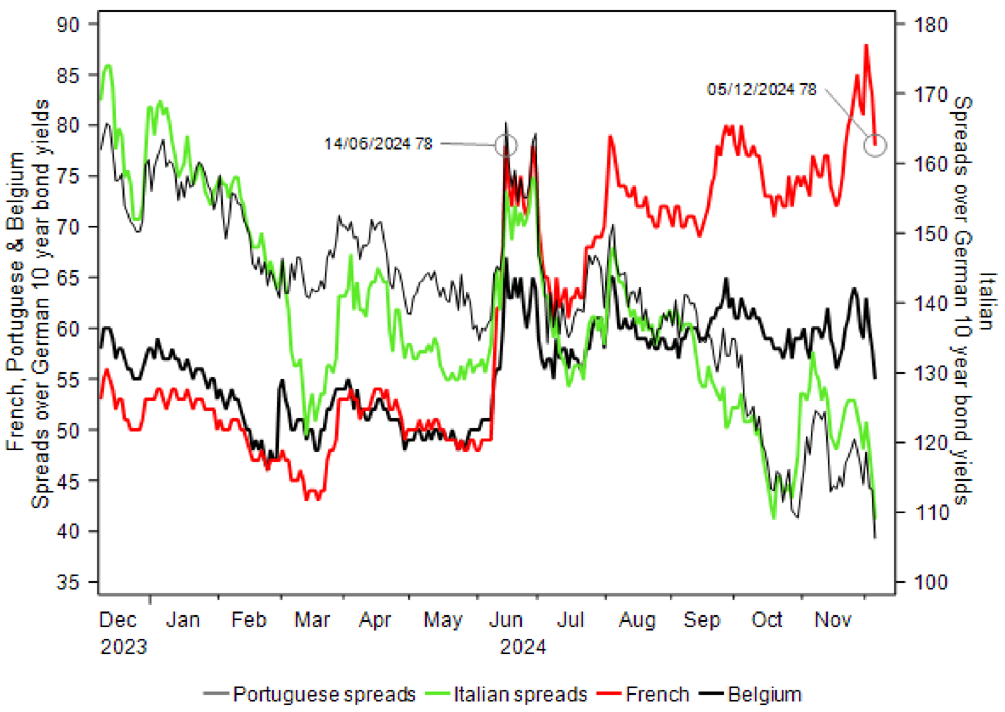

Source: Longview Economics, Macrobond

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



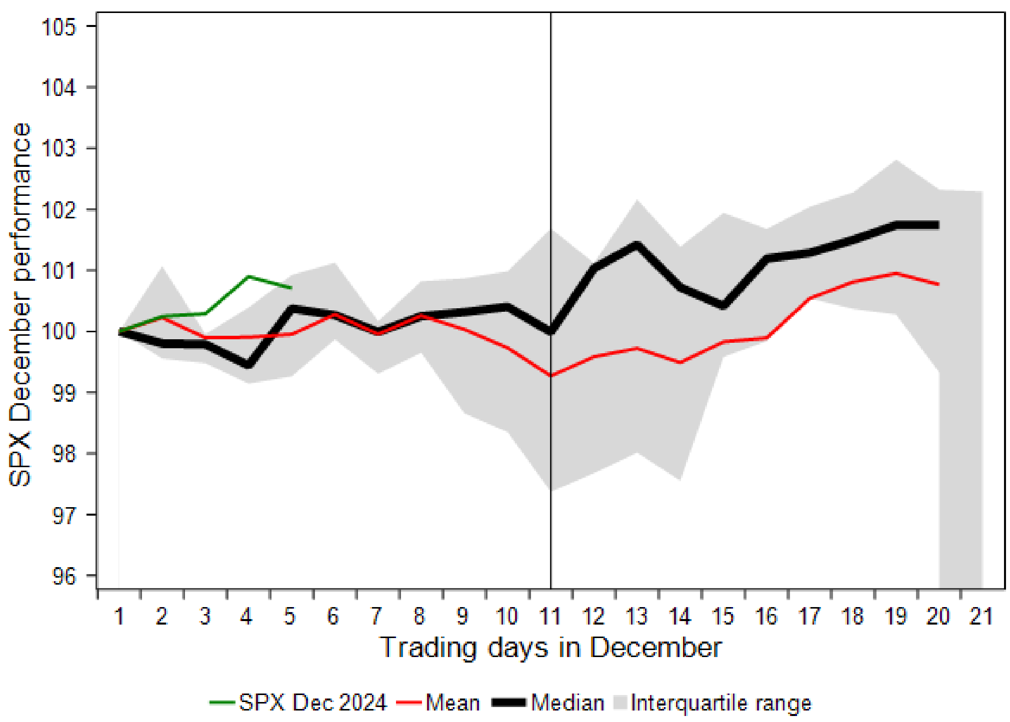

Source: Longview Economics, Macrobond

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




*Source: Longview Economics, Macrobond*

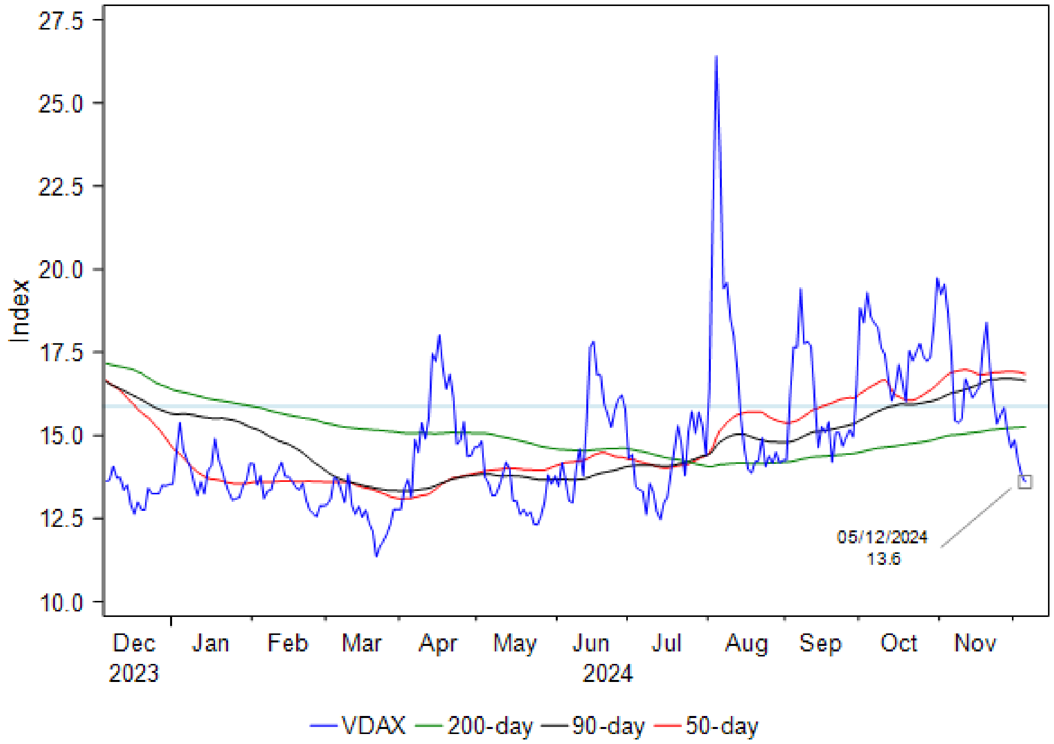
**FIG 1d:** S&P500 –> December seasonality (drawing upon December 2009 – 2023 data) shown with this month's performance (so far)




*Source: Longview Economics, Macrobond*

## Volatility indices are signalling complacency….

**FIG 2:** VDAX candlestick chart shown with key moving averages




*Source: Longview Economics, Macrobond*

**FIG 2a:** VXN - Nasdaq implied equity volatility (2019 to present)

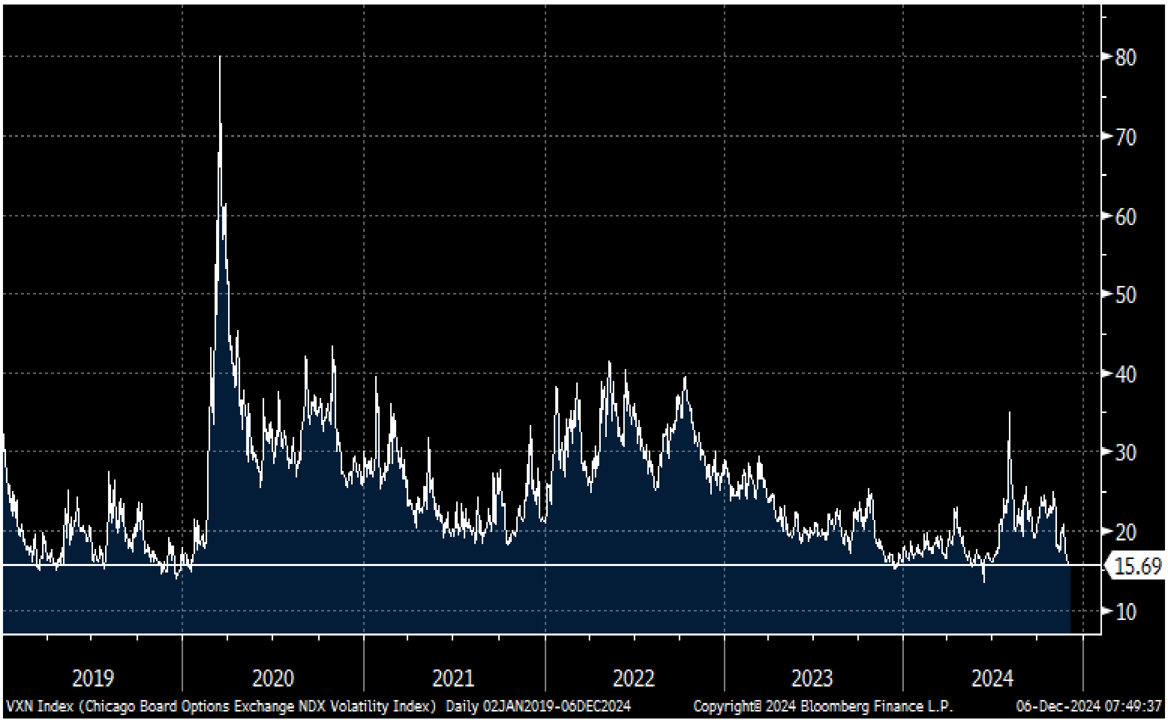
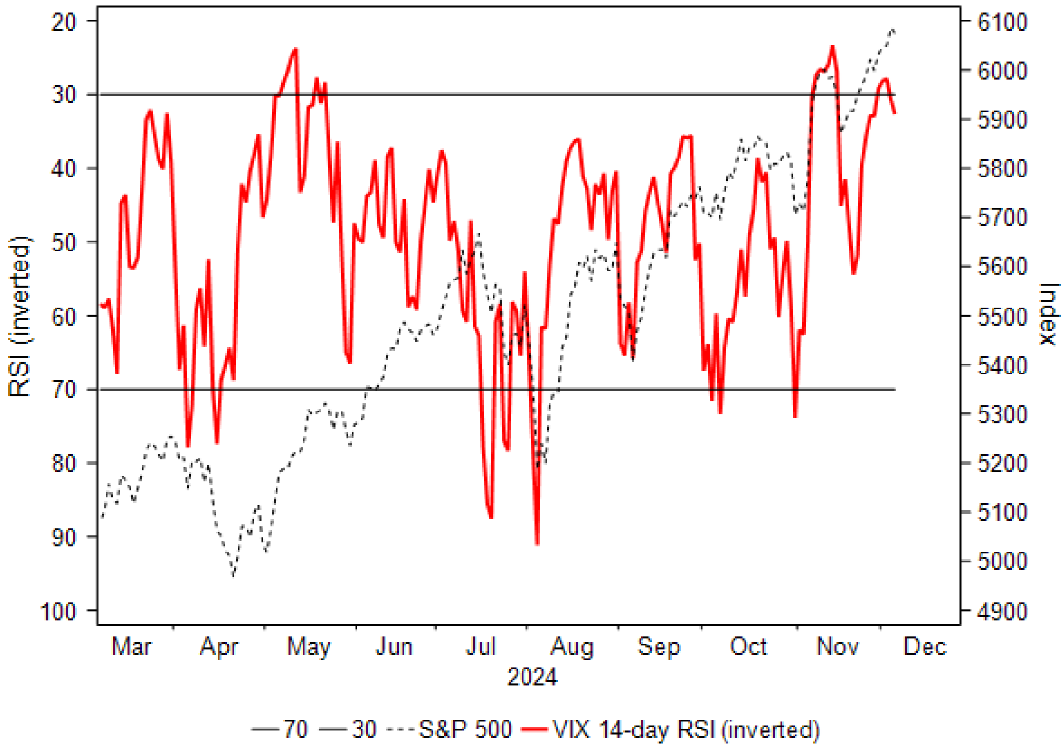


**FIG 2b:** VIX candlestick chart shown with key moving averages


Source: Longview Economics, Macrobond

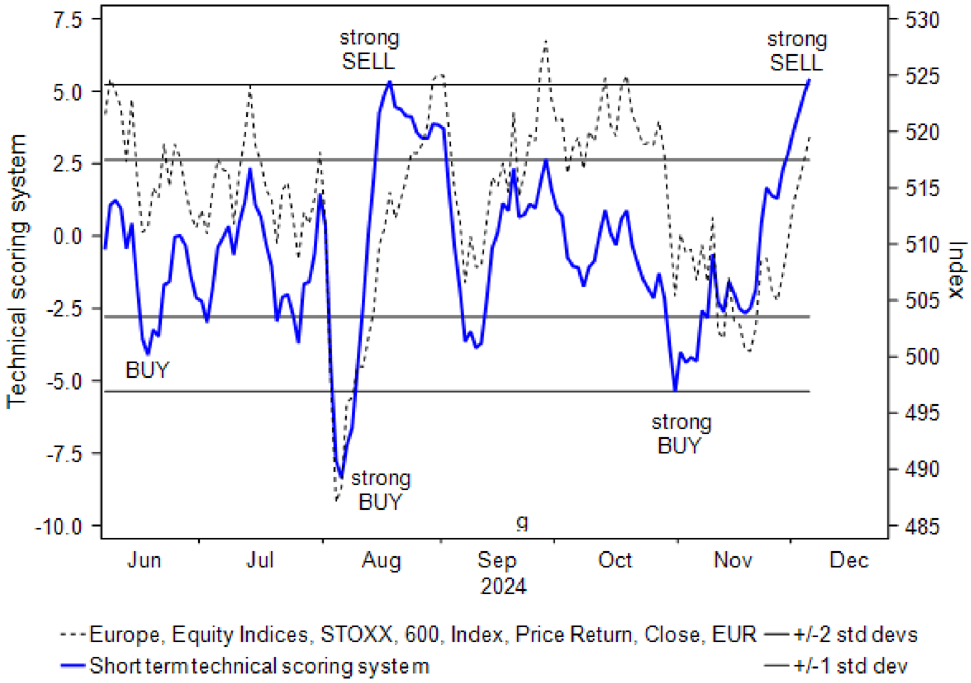
**FIG 2c:** Short term RSI (VIX – inverted) vs. S&P500 (**last 9 months**)




Source: Longview Economics, Macrobond

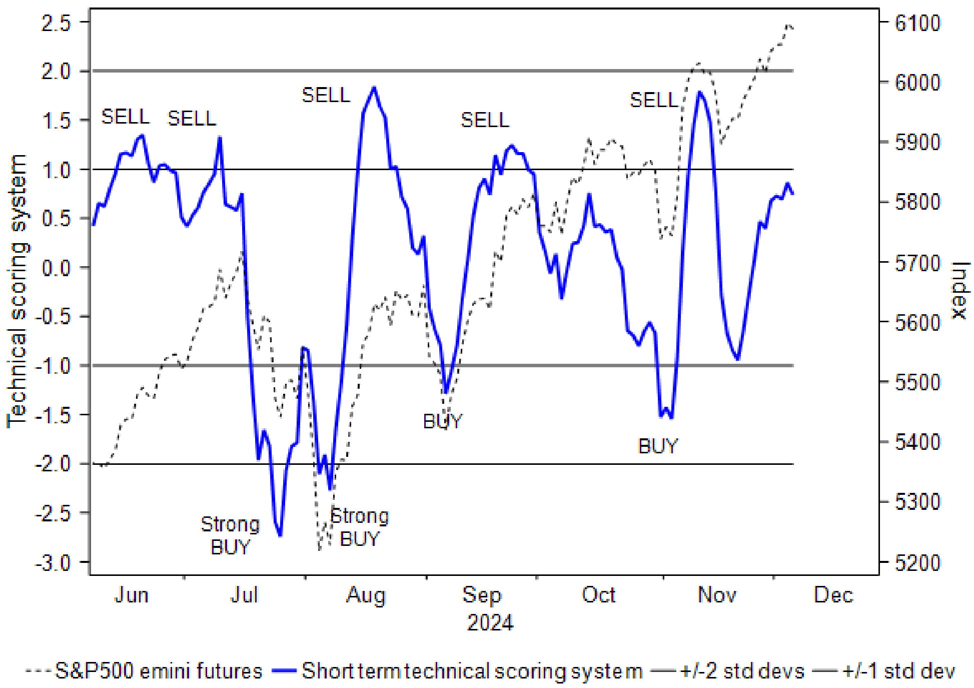
## Technical models are either at, or close to, overbought levels…..

**FIG 3:** Longview STOXX short term **'technical'** scoring system vs. STOXX index



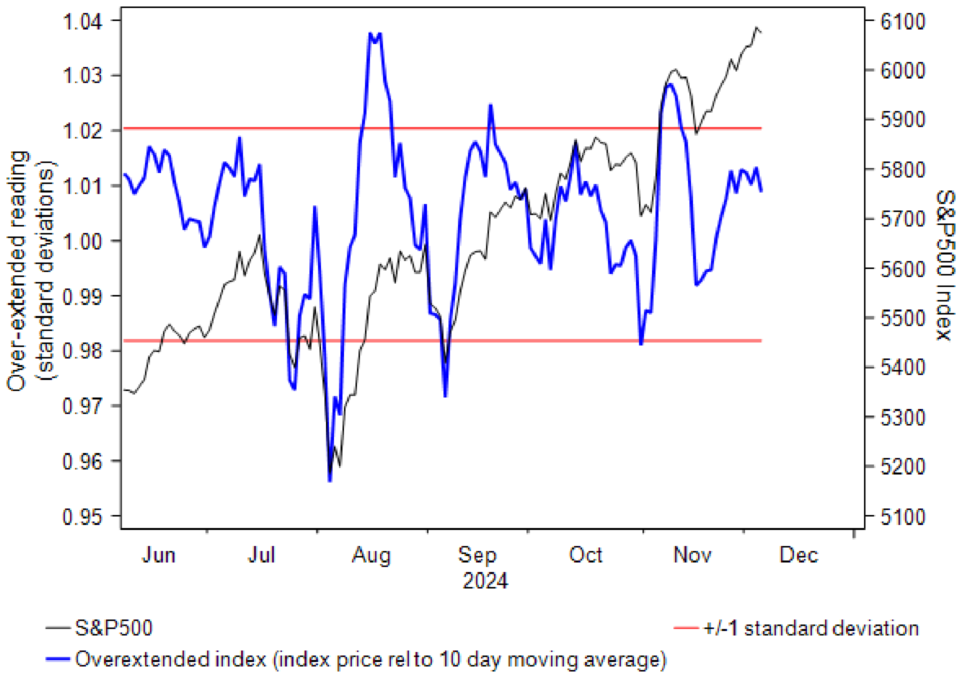

Source: Longview Economics, Macrobond

**FIG 3a:** Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



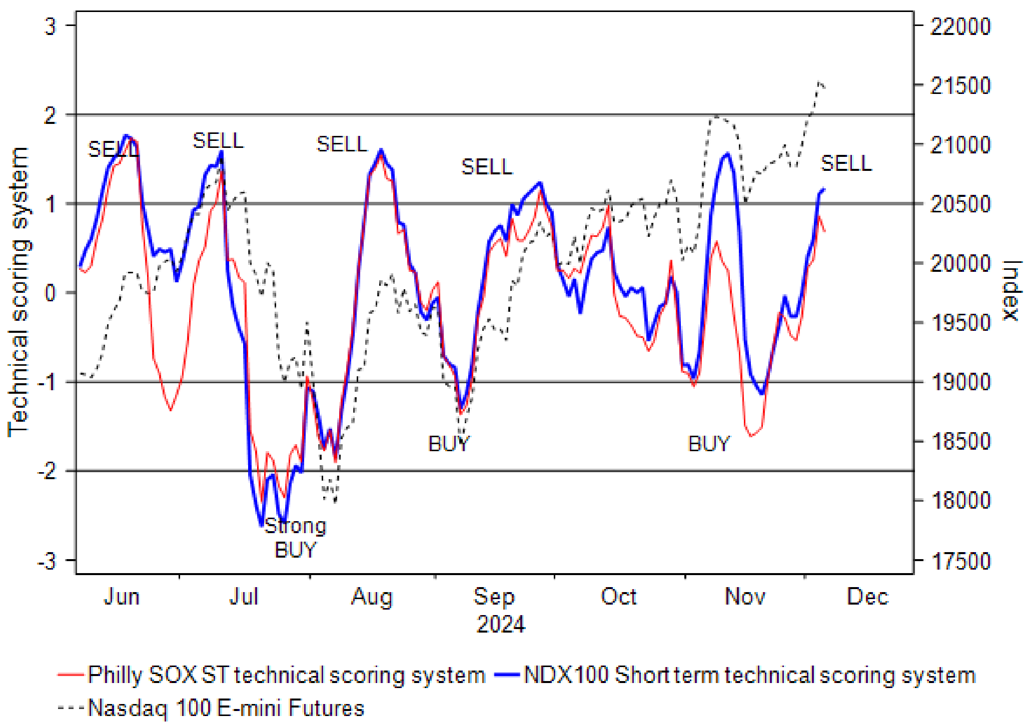

Source: Longview Economics, Macrobond

**FIG 3b:** S&P500 overextended indicator (index price relative to its 10-day moving average) vs. S&P500



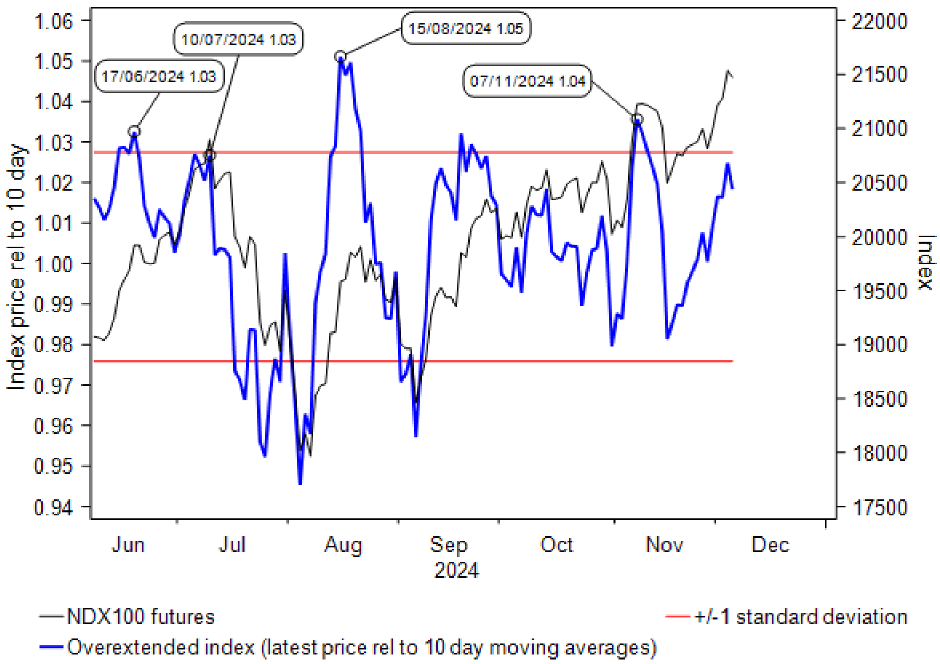

Source: Longview Economics, Macrobond

**FIG 3c:** Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures




Source: Longview Economics, Macrobond

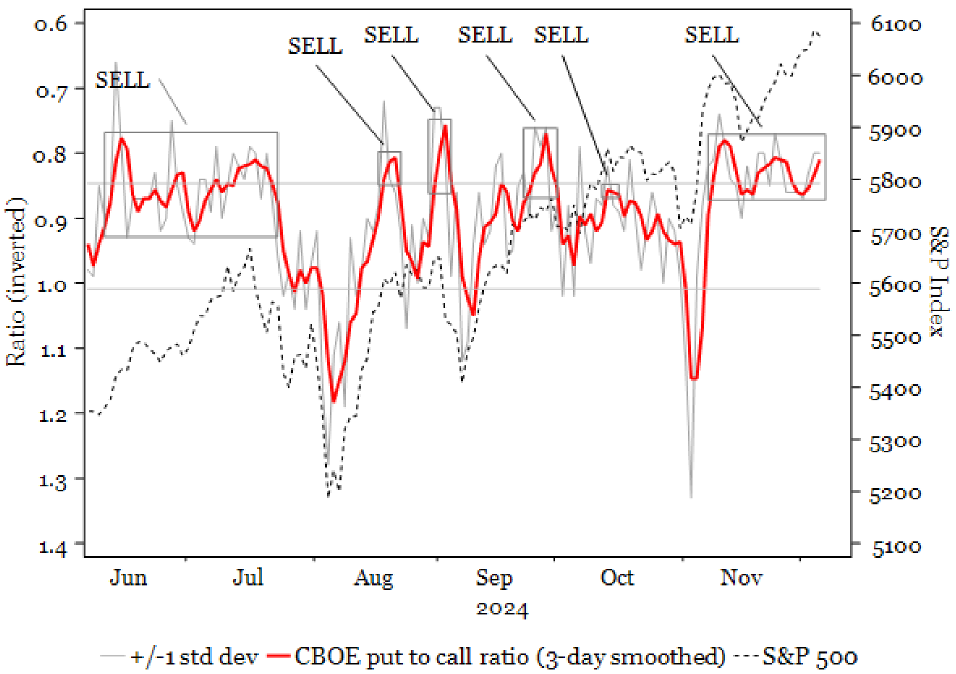
**FIG 3d:** NASDAQ100 overextended index (index price relative to 10-day moving average) vs. NASDAQ100




Source: Longview Economics, Macrobond

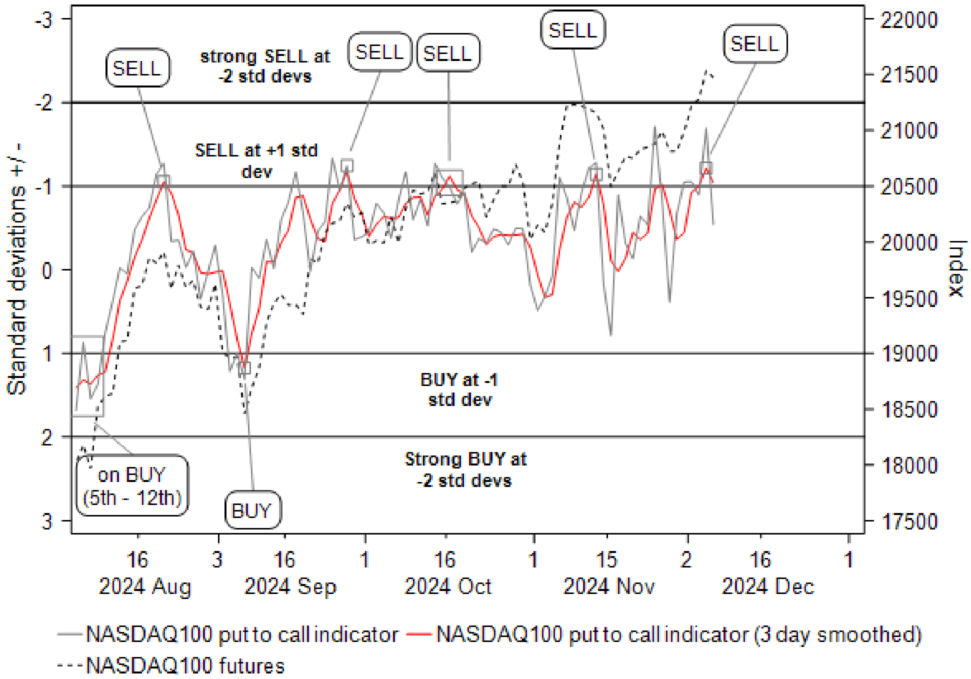
## Downside put protection in portfolios remains at low levels…

**FIG 4:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500




Source: Longview Economics, Macrobond

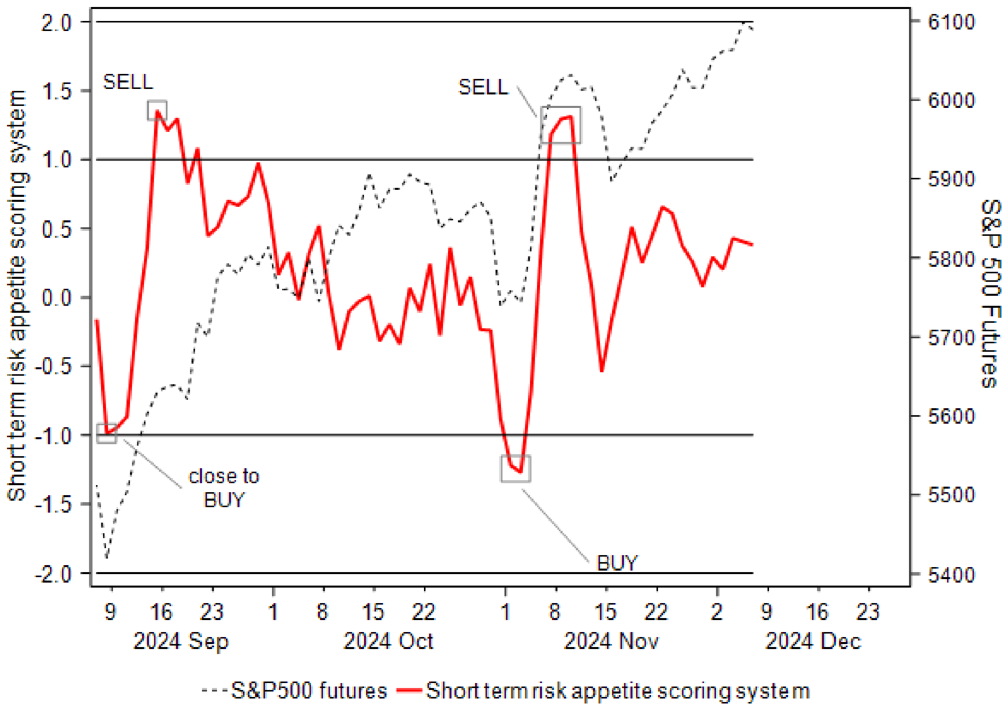
**FIG 4a:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100




*Source: Longview Economics, Macrobond*

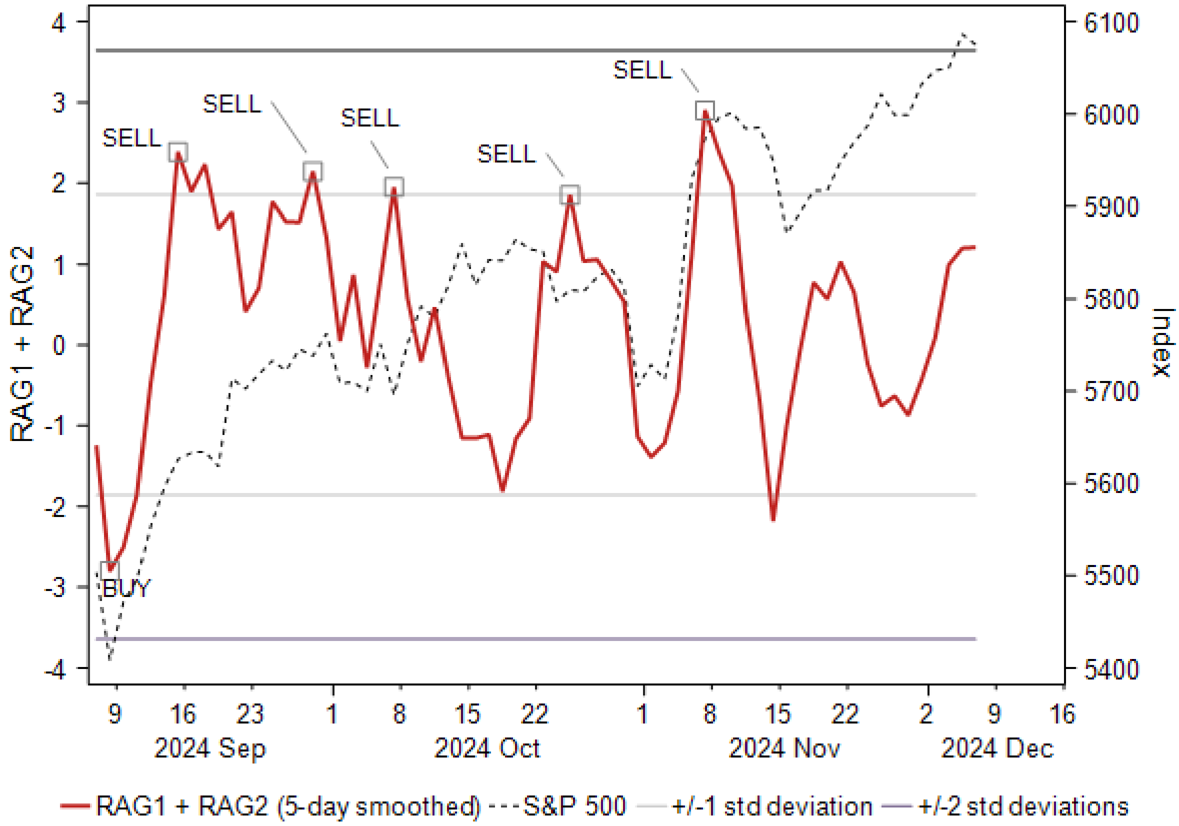
## Risk appetite models have been moving higher (but remain NEUTRAL)…

**FIG 5:** Longview short term **'risk appetite'** scoring system vs. S&P500




*Source: Longview Economics, Macrobond*

**FIG 5a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

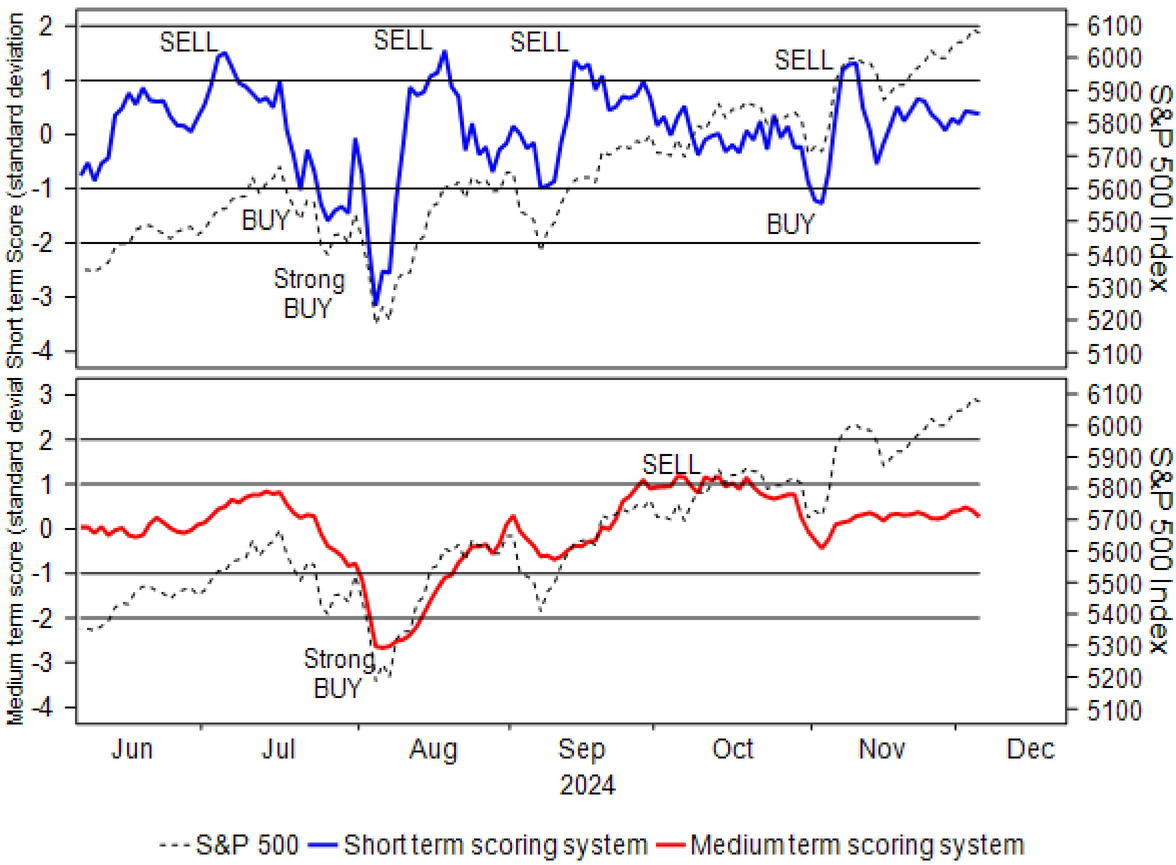



*Source: Longview Economics, Macrobond*

**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*

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## Key macro data/events

**Key data** today include: **Japanese ESRI leading index** (October first estimate, 5am); UK Halifax house prices (Nov, 7am); **German industrial production** (Oct, 7am); German imports/exports, and trade balance (Oct, 7am); Eurozone GDP (Q3 final estimate, 10am); Italian retail sales (Oct, 10am); Canadian employment change (Nov, 1:30pm); **US nonfarm payrolls, hourly earnings & unemployment** (Nov, 1:30pm); **US Michigan sentiment** (December first estimate, 3pm); US total vehicle sales (Nov, 3pm); US consumer credit (Oct, 8pm).

**Key events** today include: Speeches by the Fed's Bowman to Missouri Bankers Association (2:15pm), Goolsbee in Fireside chat (3:30pm), Hammack on the US economy (5pm) & Daly in moderated conversation (6pm).

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

## 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 earlier this week on 5th 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).*

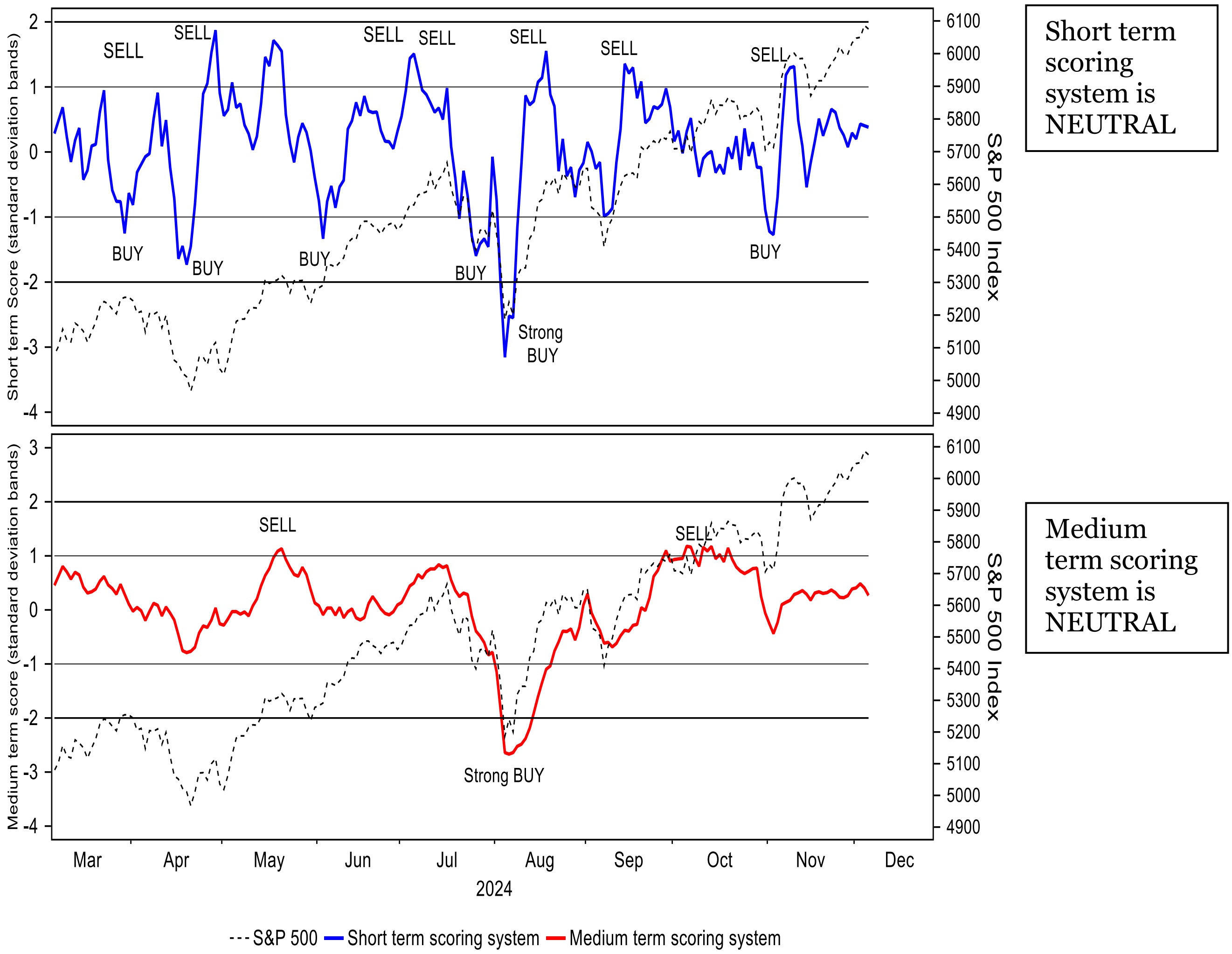
# 1 – 2 Week View on Risk

6th 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*

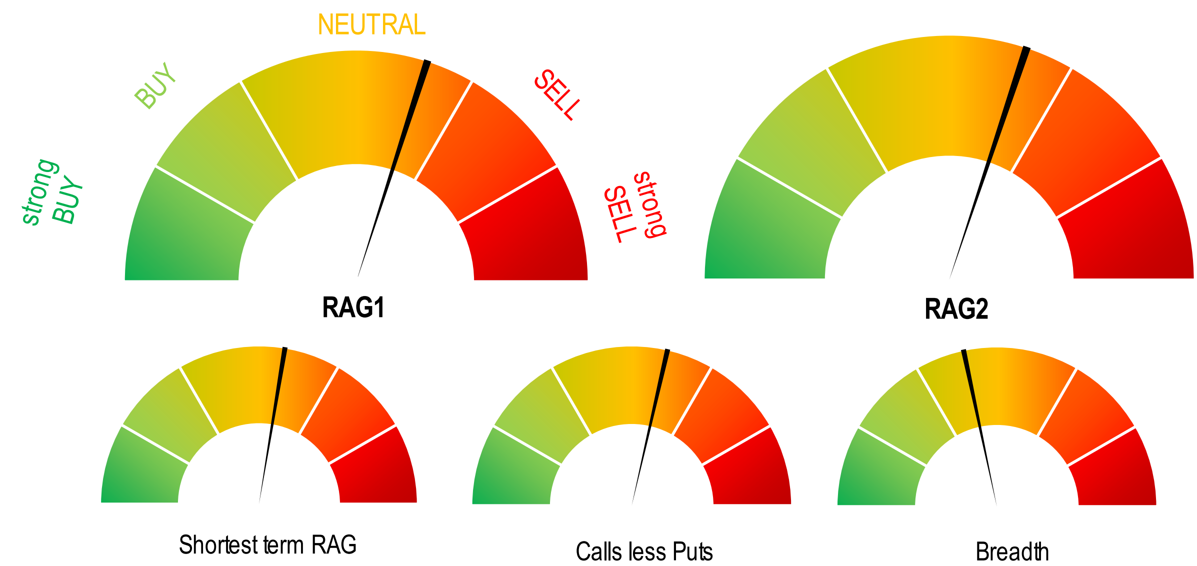
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

***Important disclosures are included at the end of this report***
***For explanations of indicators please see page 10***

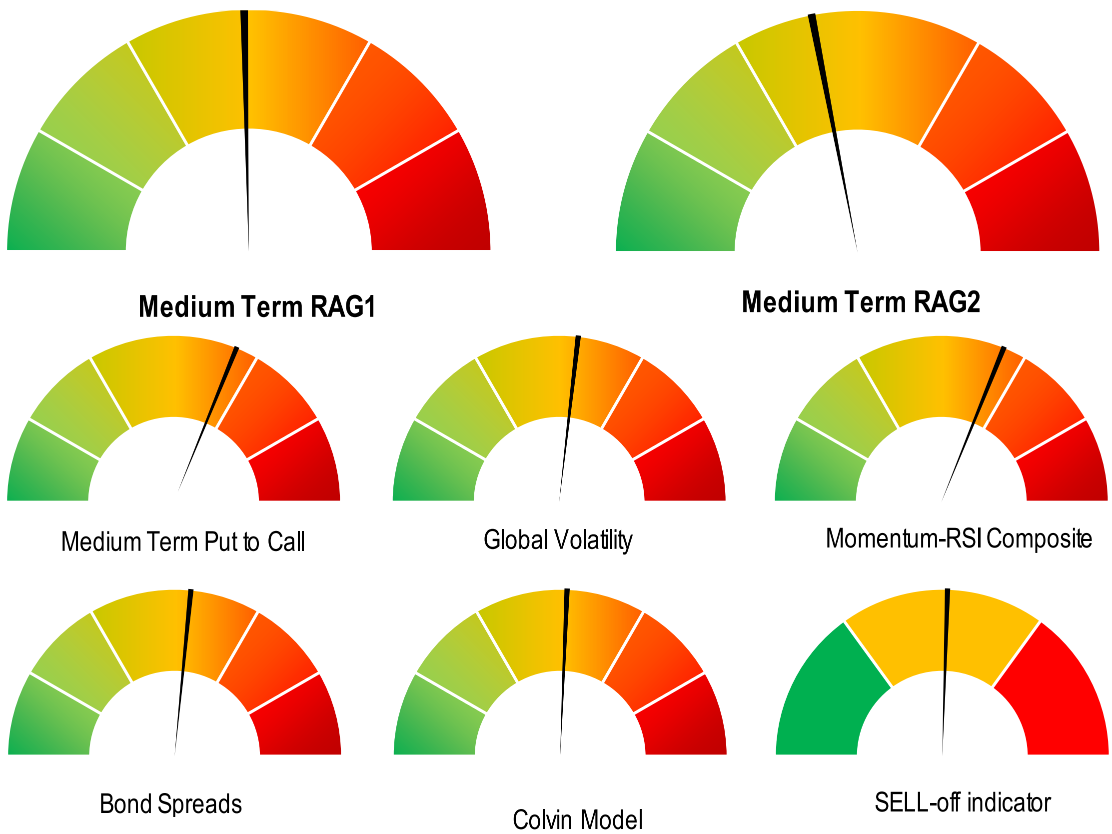
## **Section 1a:** Summary of indicator signals**

**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

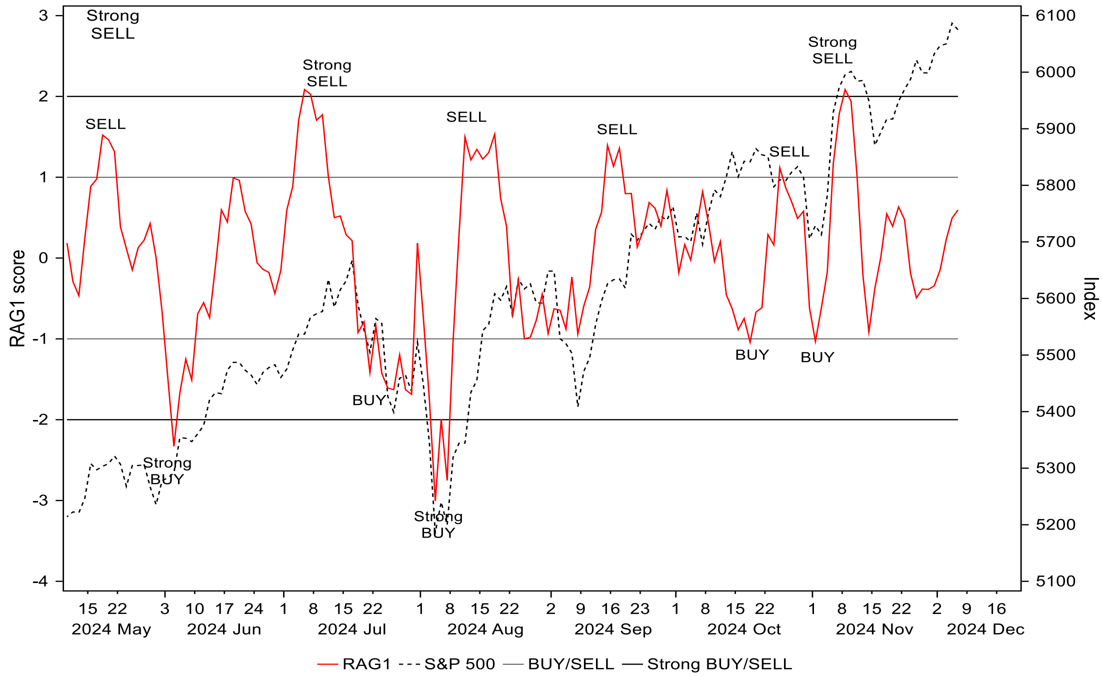



***Source:*** *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

## **Section 2:** Short term (1 – 2 week) trading models

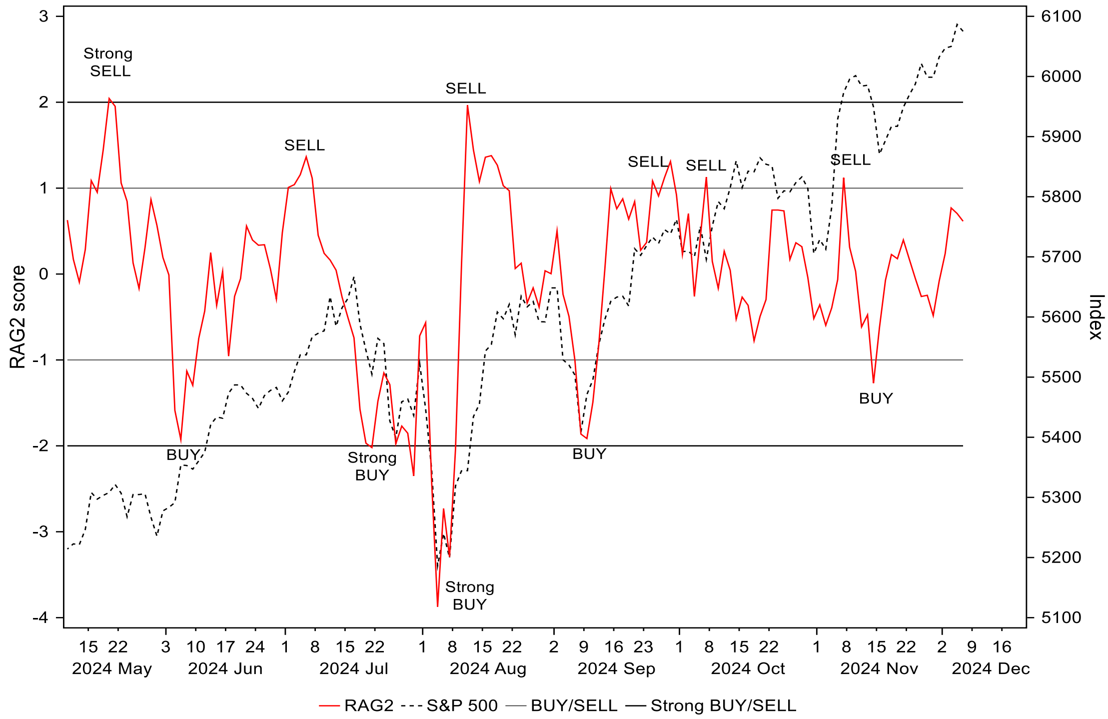
### **Fig 2a**: RAG 1 vs. S&P 500




RAG1 is NEUTRAL

*Source: Longview Economics, Macrobond*

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



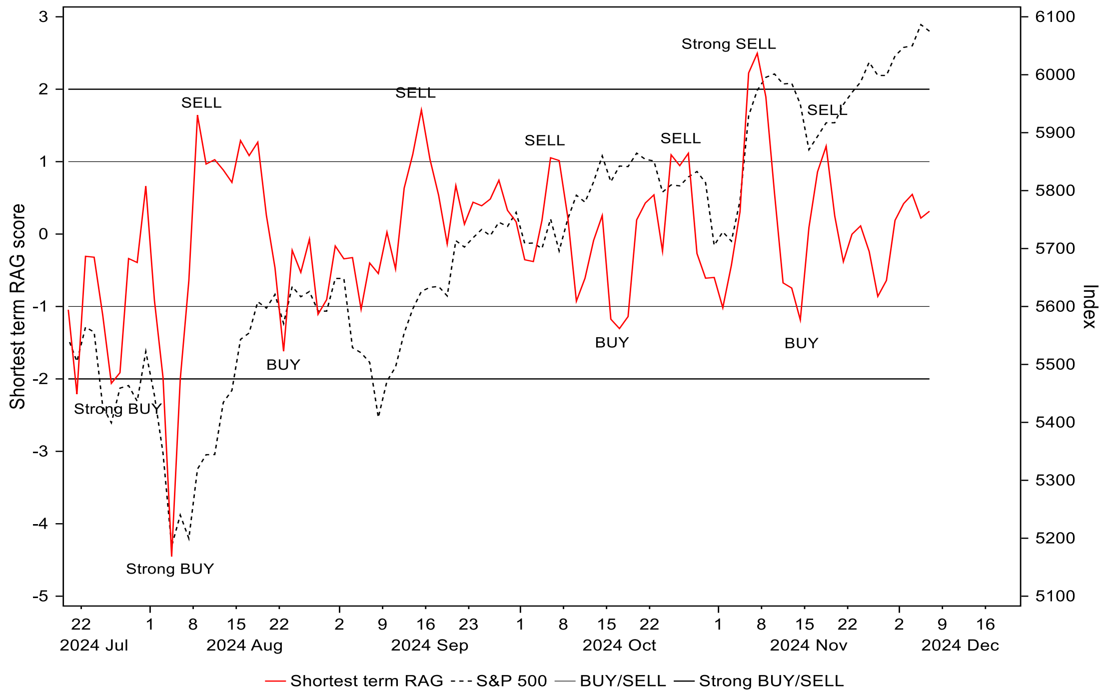

RAG2 is NEUTRAL

*Source: Longview Economics, Macrobond*

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

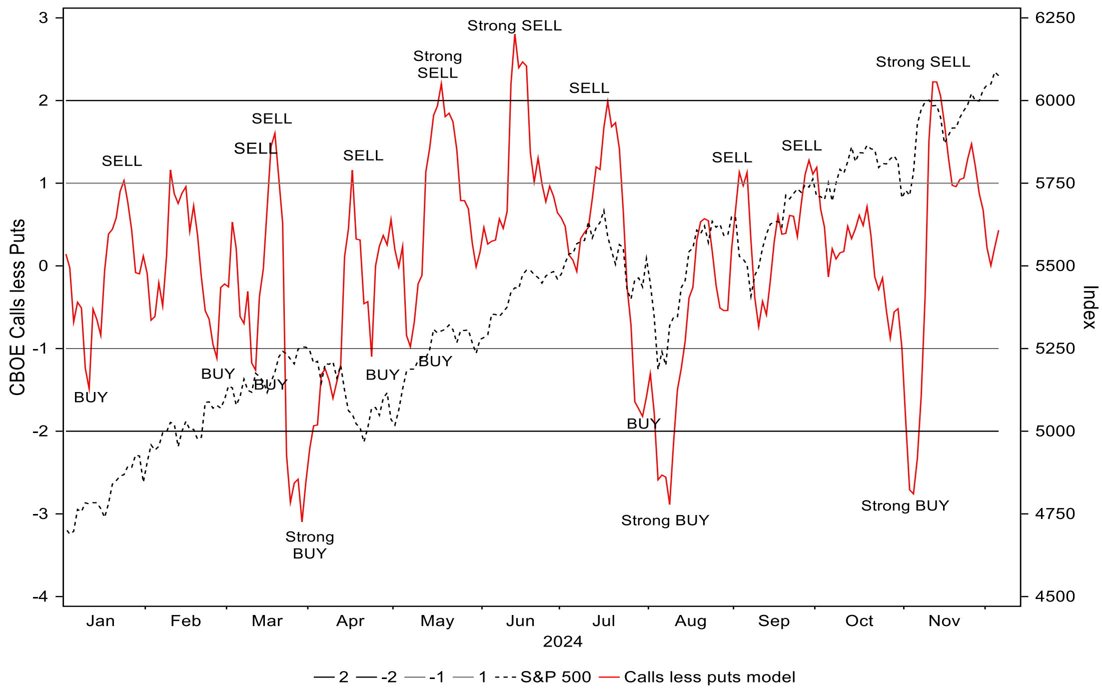
## **Fig 2c:** Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500




Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

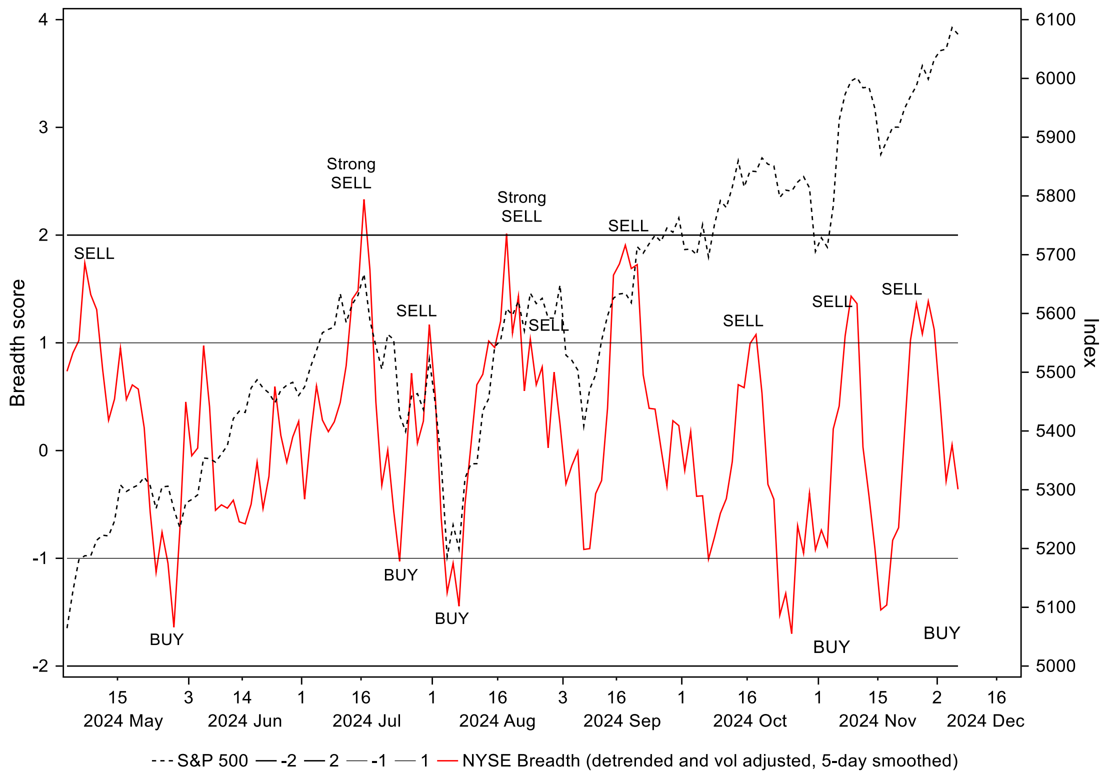



Source: Longview Economics, Macrobond

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

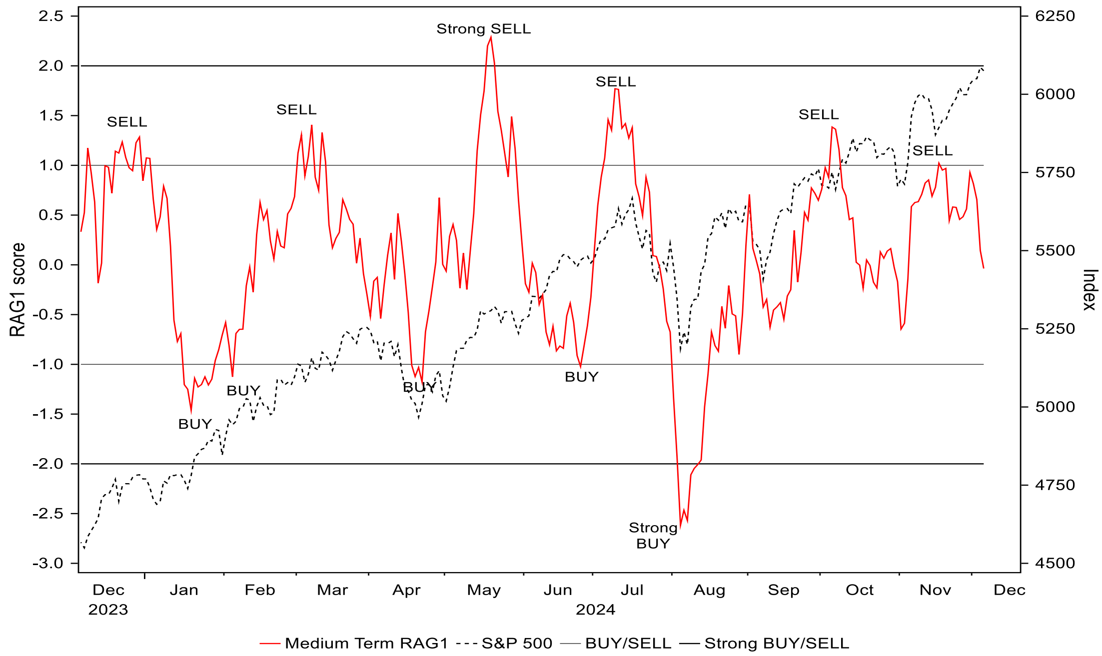
The breadth model is NEUTRAL

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

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

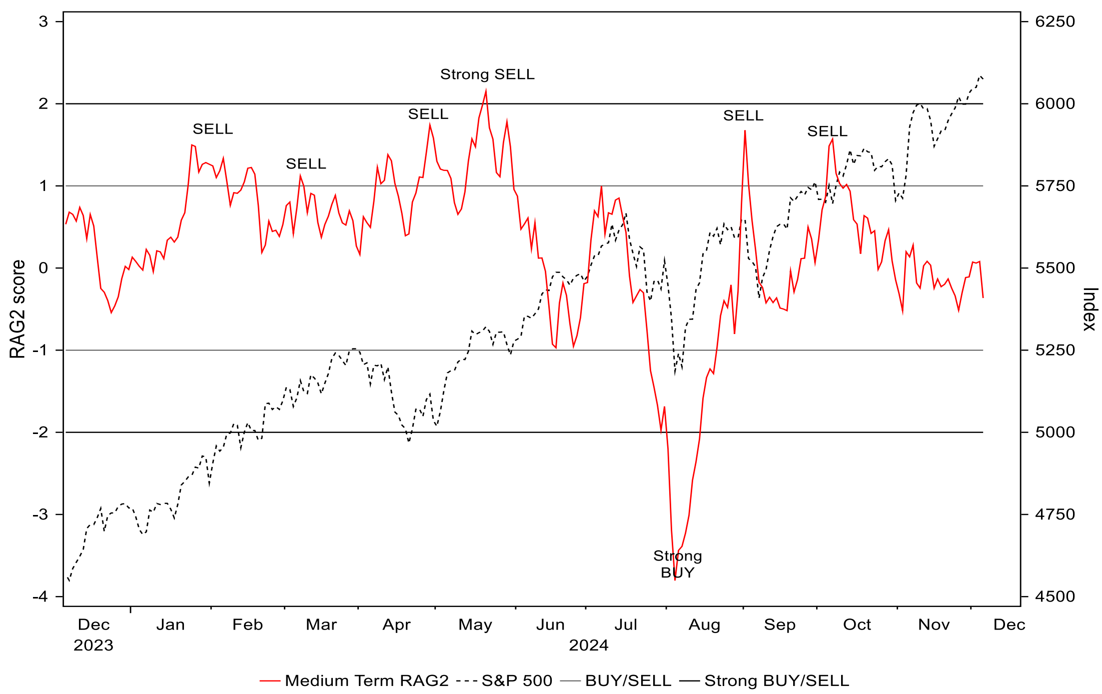
## **Fig 3a:** Medium term RAG1 (1 – 2 month view) vs. S&P 500




Medium term RAG1 is NEUTRAL

*Source: Longview Economics, Macrobond*

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



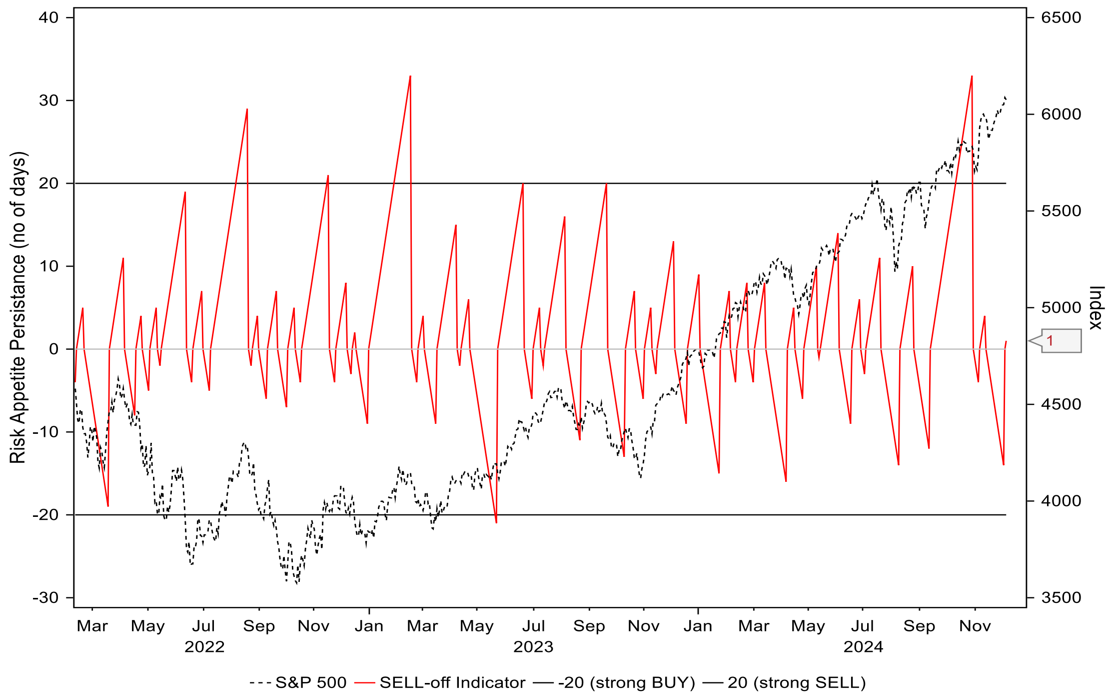

Medium term RAG2 is NEUTRAL

*Source: Longview Economics, Macrobond*

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

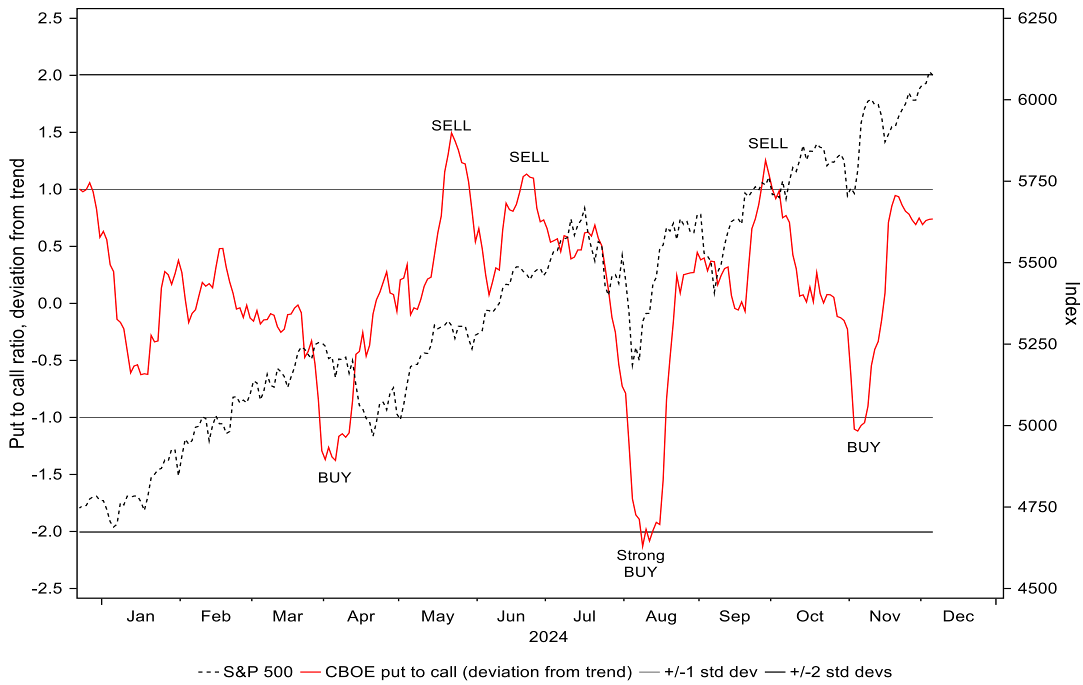
**Fig 3c:** SELL-off indicator (shown vs. S&P500)




*Source: Longview Economics, Macrobond*

The SELL-off indicator is NEUTRAL

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

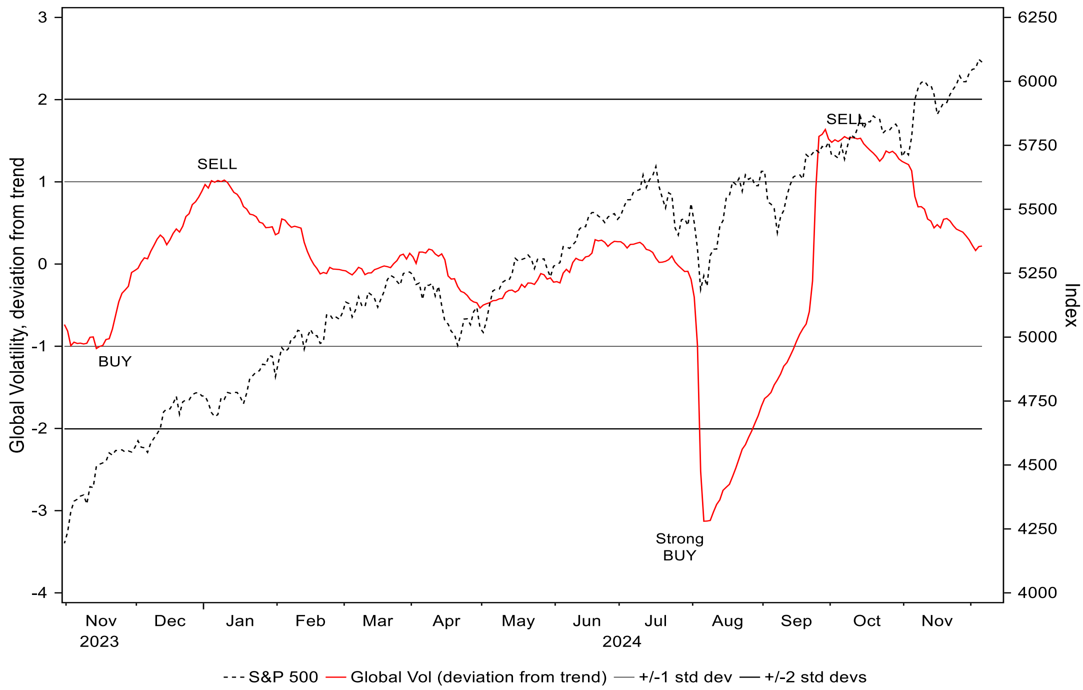



*Source: Longview Economics, Macrobond*

Medium term put to call model is NEUTRAL

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

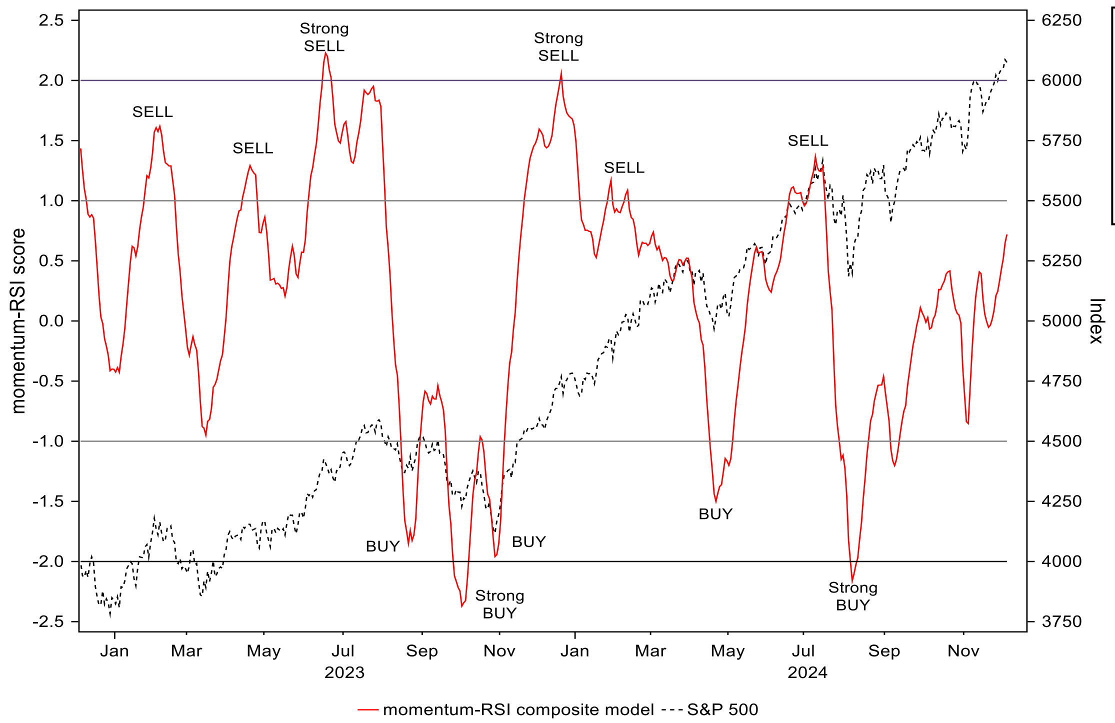
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500




Global volatility indicator is NEUTRAL

*Source: Longview Economics, Macrobond*

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

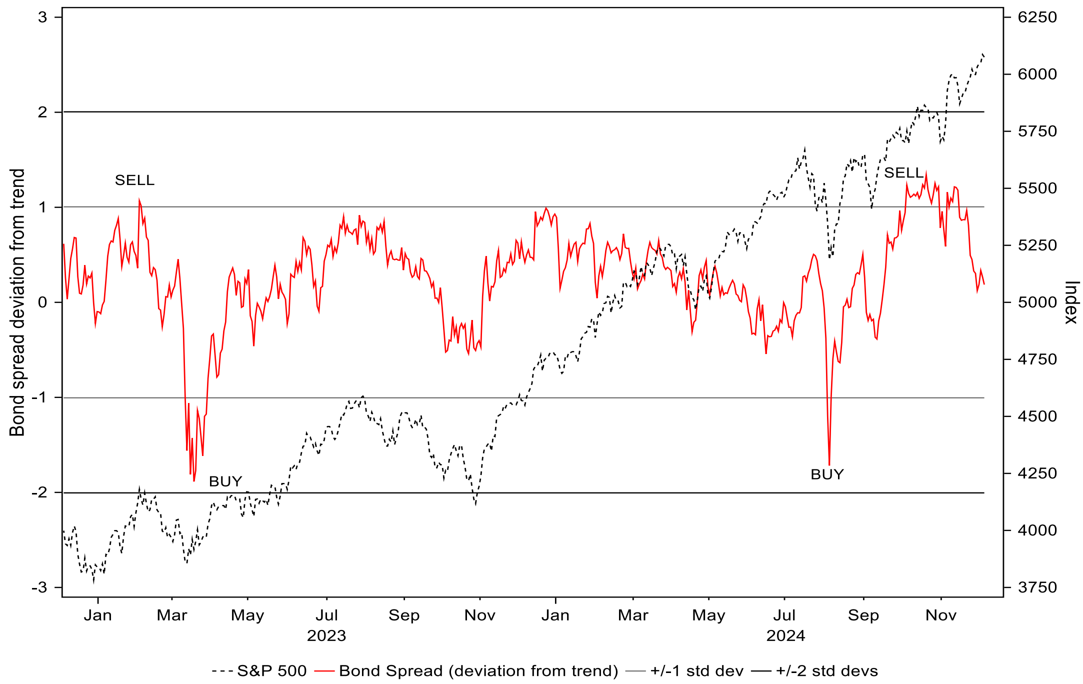



US momentum RSI composite model is NEUTRAL

*Source: Longview Economics, Macrobond*

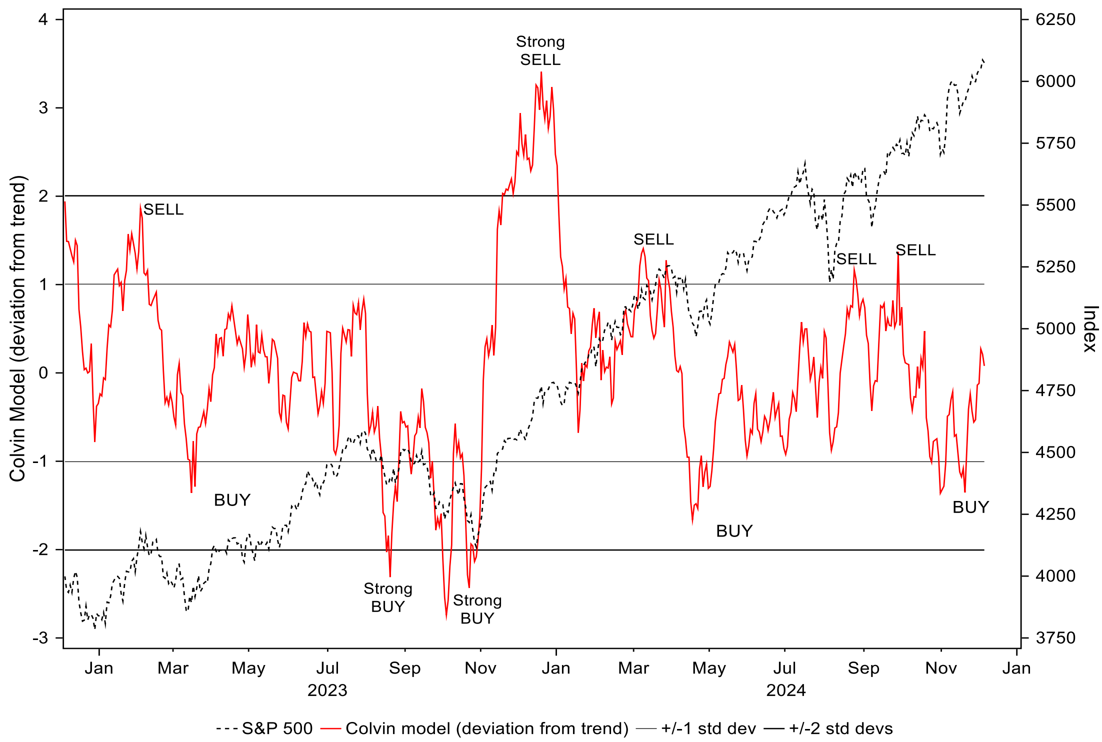
**Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500




Source: Longview Economics, Macrobond

High yield corporate bond spreads model is NEUTRAL

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




Source: Longview Economics, Macrobond

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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