Equity Index Futures Trading Recommendations

6th January 2025

"Consolidation ongoing (since Nov)"

Email: info@longvieweconomics.com

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

- WATCH & WAIT (for now)

Rationale

With the absence of the traditional Santa Claus rally, and with a pick-up in equity volatility over the last two weeks of December, it's now clear that the main US equity market has been in a phase of consolidation since the post-election surge in markets. That surge in the S&P500 on election day (5th Nov) and in its immediate aftermath, pushed the index up to an intraday high of 6,053 (11th November). Since then, the market has been rangebound between 5,800/5,850 (lower bound) and 6,050/6,100 (upper bound). On Friday, the futures closed in the middle of that range (5,989) and are currently sitting on their 50-day moving average (FIG 1). Other markets have behaved similarly: The NDX100, for example, has been consolidating since early December (see FIG 1c); Bitcoin – a highly speculative instrument and therefore a good gauge of liquidity – is flat since mid-November (FIG 1b); while the global equity index (S&P1200) is unchanged since early October (FIG 3).

As those markets have consolidated, **various short & medium-term models have been unwinding their SELL signals**. Later today/tomorrow, we'll publish our full assessment of the medium term (1 – 4 month) models, and the outlook for equity markets on that time horizon (see our forthcoming January 'Tactical Equity Asset Allocation' publication – to take a free trial, click here: https://www.longvieweconomics.com/the-tactical-investor).

In terms of the short term (next 1 – 2 weeks), though, various key models are shown below. **Collectively, they have been unwinding SELL signals over recent weeks but are not currently generating an across the board BUY signal.** That is: i) Equity indices are leaning towards oversold levels in the short term, but are not yet clearly at their BUY thresholds (see FIGs 3, 3a & 3b); ii) at a sector and single stock level, though, markets are notably oversold (see FIGs 3c – 3f); iii) risk appetite is mid-range – that is market participants are neither demonstrably greedy nor fearful (FIGs 2 & 2a); while iv) there is limited downside put protection in portfolios (FIGs 4 & 4a).

Overall, therefore, and consistent with the market being in the midst of its recent consolidation range, the **short-term market timing models are mixed** (with no strong message). Added to that, the upwards near-term momentum in the S&P500 is starting to be questioned. That is, the S&P500's 10 day moving average is currently sitting just below its 50-day moving average (which highlights the need for near term caution – FIG 1a). Equally, Bitcoin's momentum is also stalling (with its 10d moving average also below its 50 day – FIG 1b), albeit the momentum in tech and the MAG7 (on this metric) remains upwards (FIG 1c).

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Given, therefore, the S&P500 is sitting in the middle of its recent range and given mixed short-term signals, at this juncture, we recommend WATCHing and WAITing.

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

NB the goal of this publication is to implement '1 – 2' week LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month).

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 **candlestick** shown with its 50-day moving average

Source: Longview Economics, Macrobond

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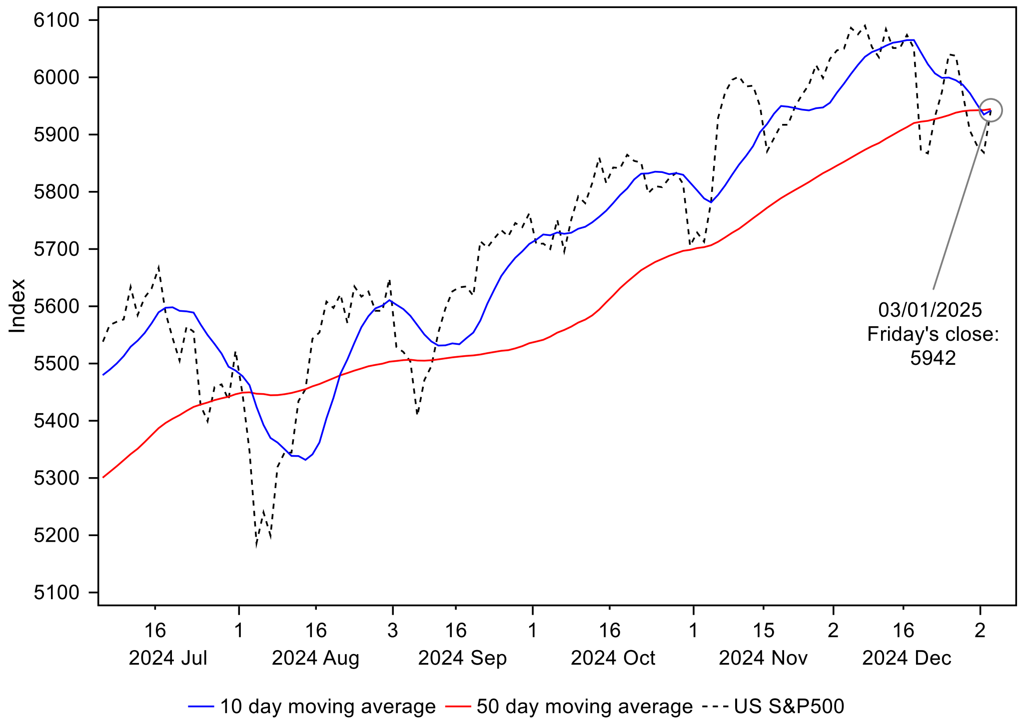
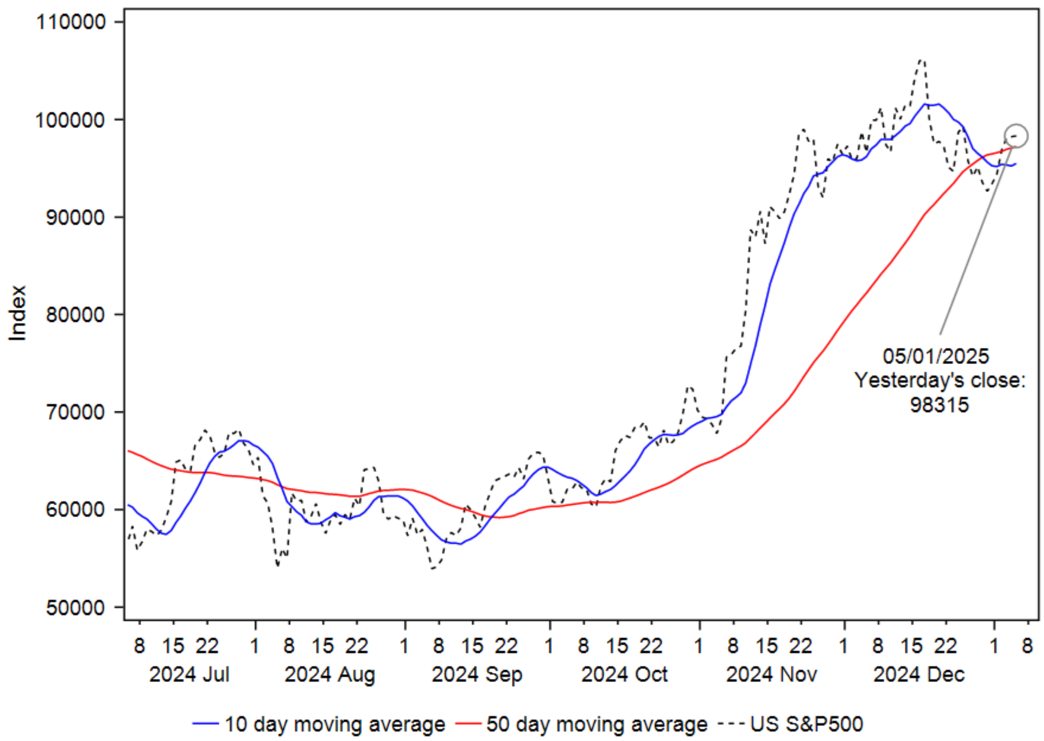
FIG 1a: S&P500 futures shown with its 10 & 50-day moving averages



Source: Longview Economics, Macrobond

FIG 1b: Bitcoin shown with its 10 & 50-day moving averages



Source: Longview Economics, Macrobond

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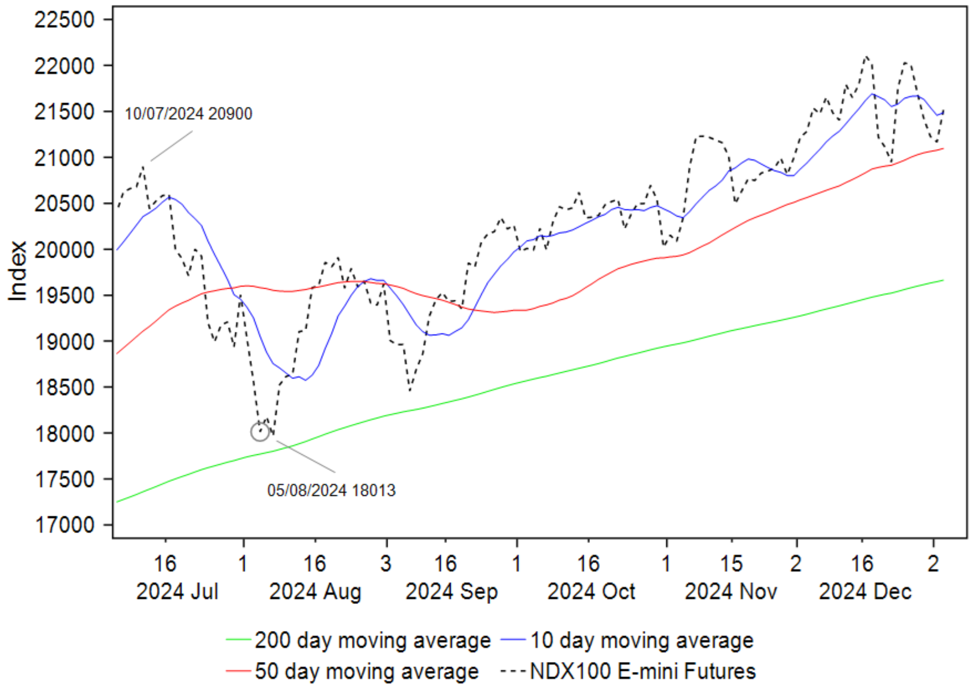
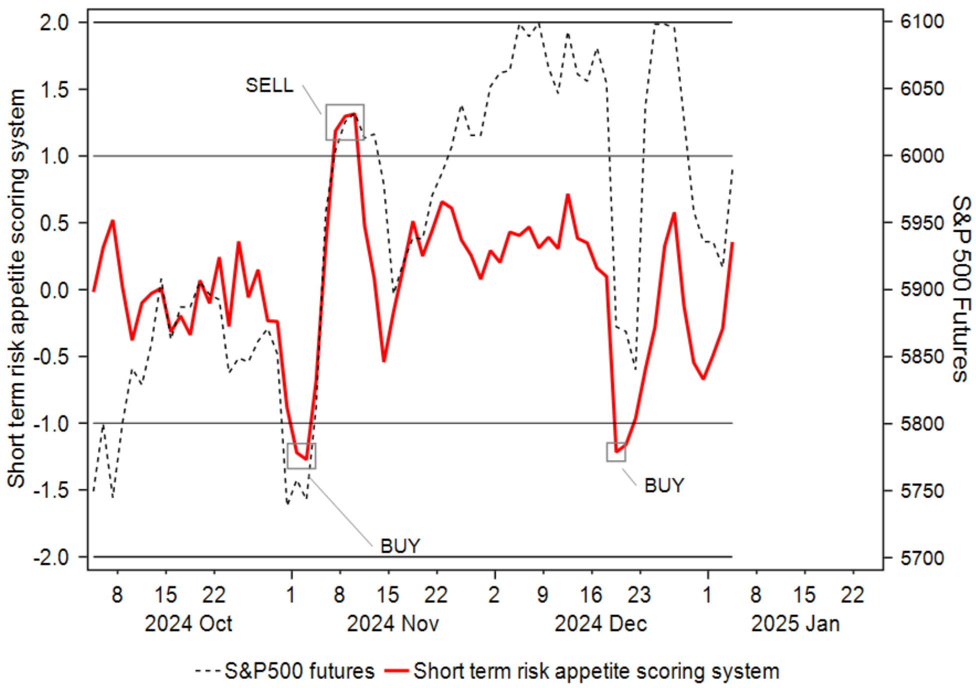
FIG 1c: NDX100 shown with its 10 & 50-day moving averages



Source: Longview Economics, Macrobond

Risk appetite models are mixed…

FIG 2: Longview short term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

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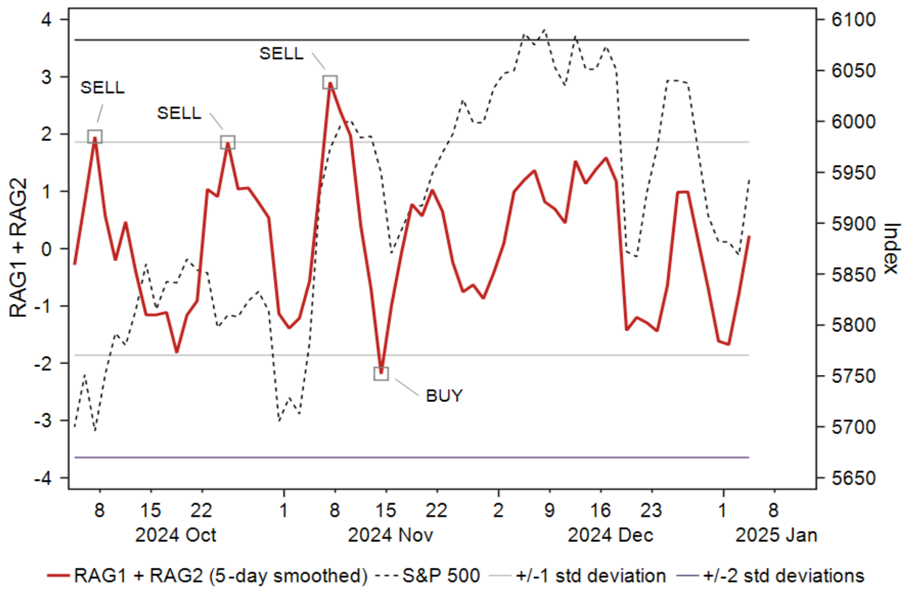
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

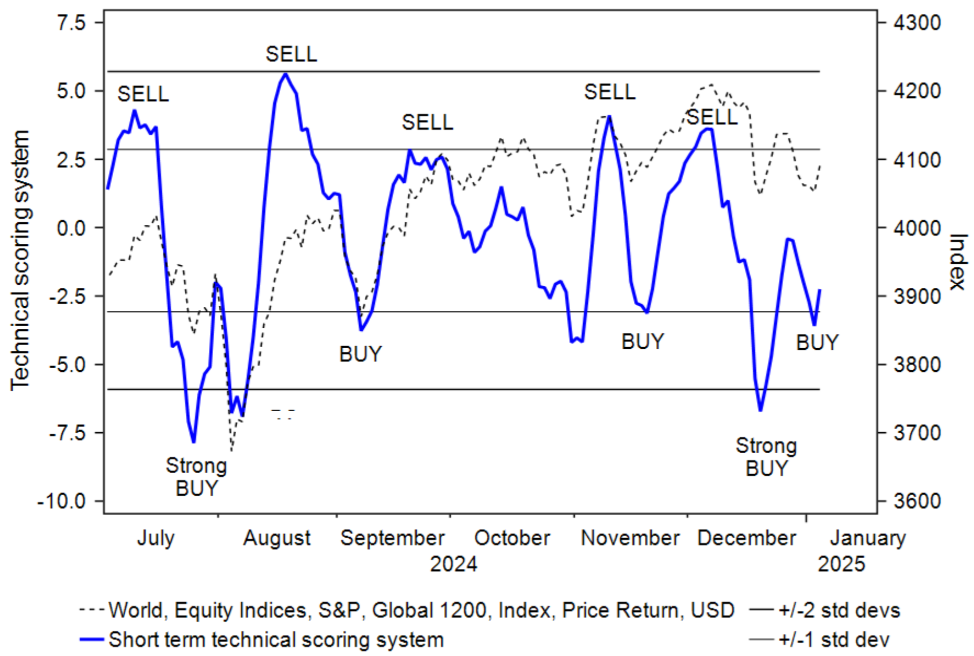


Source: Longview Economics, Macrobond

Technical models are mostly on/leaning towards BUY….

Global equity index

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



Source: Longview Economics, Macrobond

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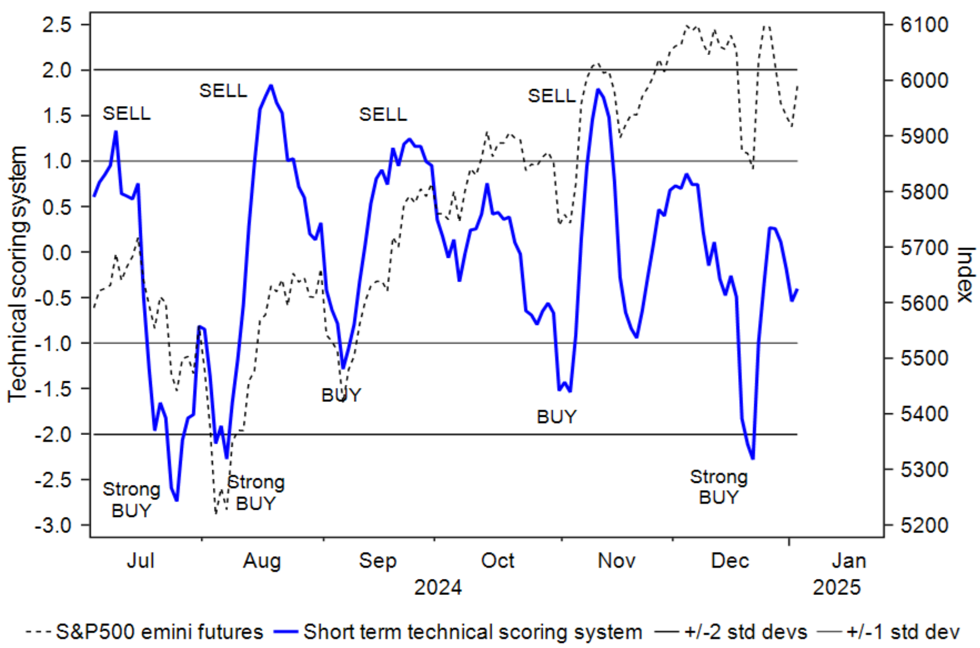
S&P500 index

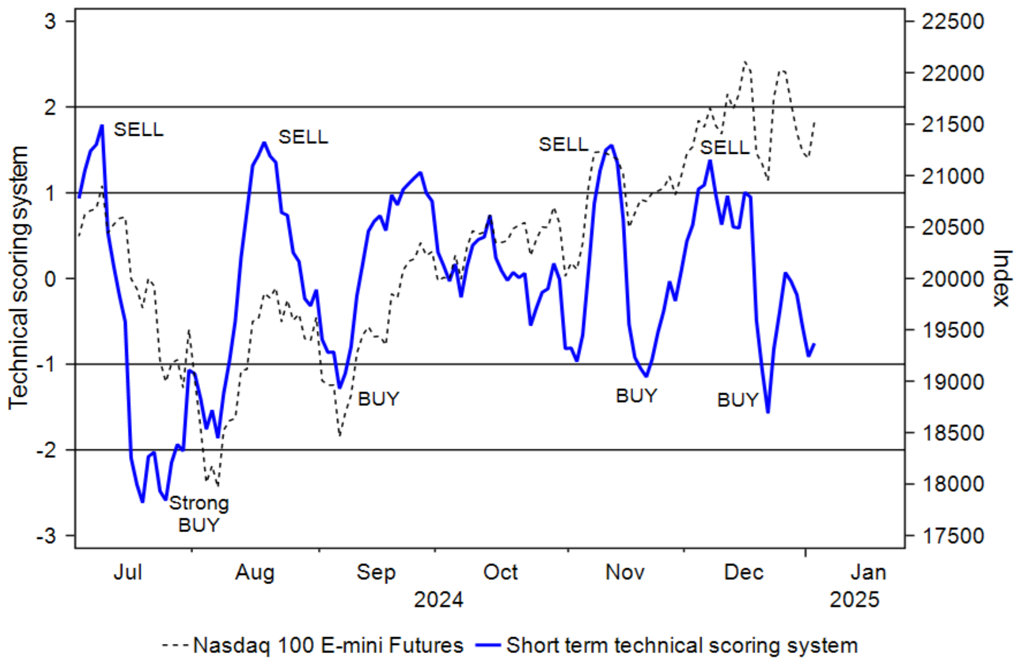
FIG 3a: Longview S&P500 short term 'technical' scoring system vs. S&P500 futures



Source: Longview Economics, Macrobond

NASDAQ 100 index

FIG 3b: Longview NDX100 short term 'technical' scoring system vs. NDX100



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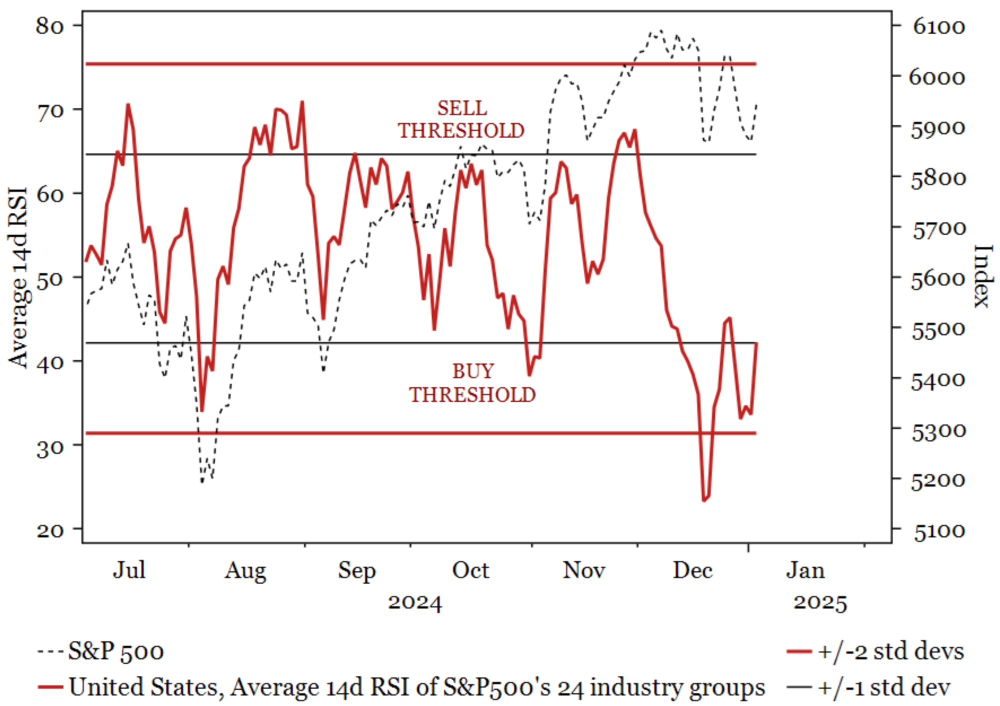
Various sector and single stock technical models are on/close to BUY….

FIG 3c: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

FIG 3d: Momentum of S&P500 industry groups vs. S&P500 cash index

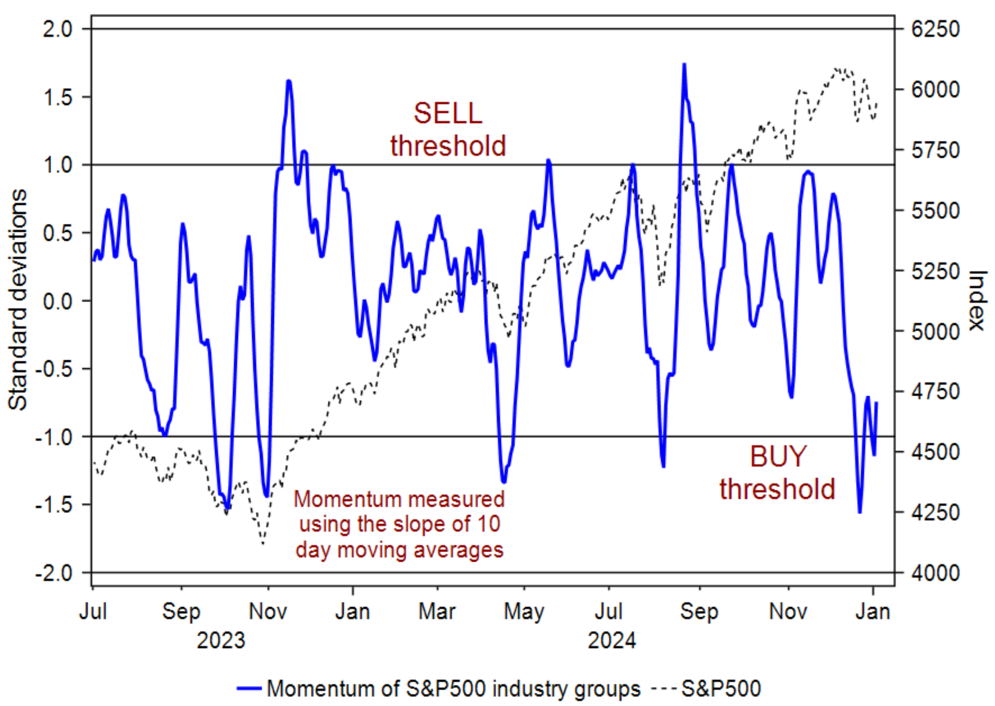


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FIG 3e: Proportion of US/Western stocks above their 10-day moving average vs. S&P500

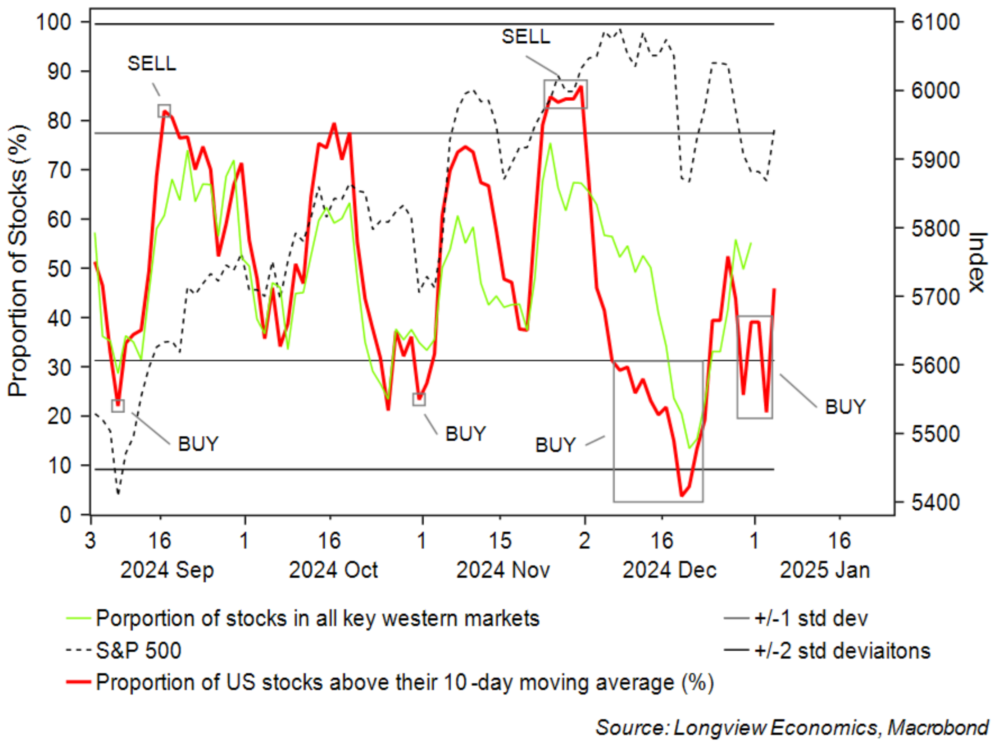
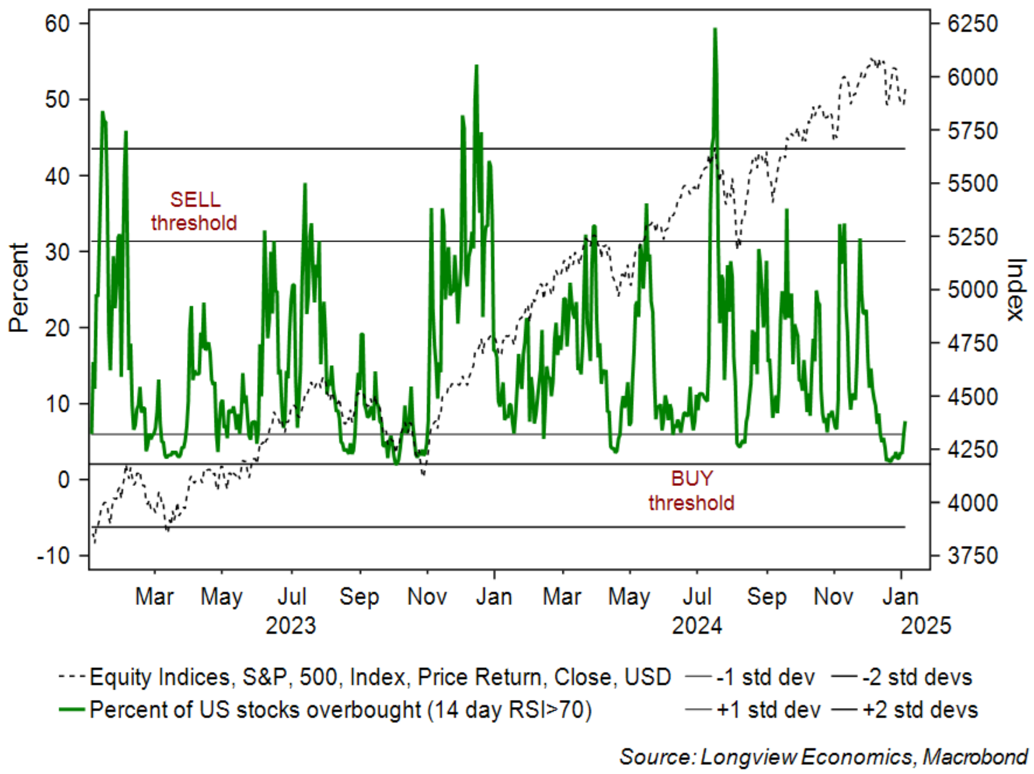


FIG 3f: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



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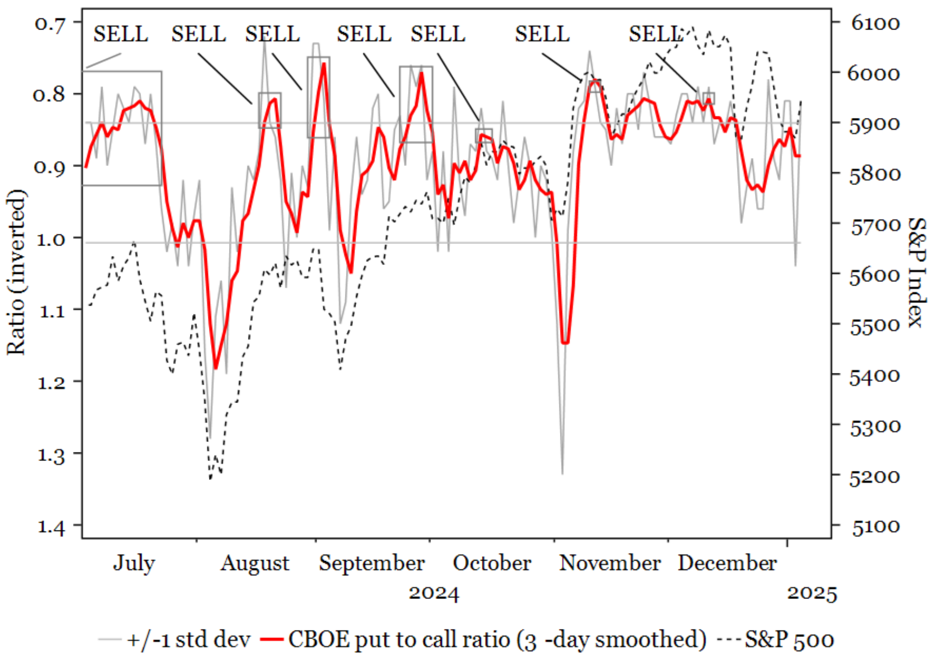
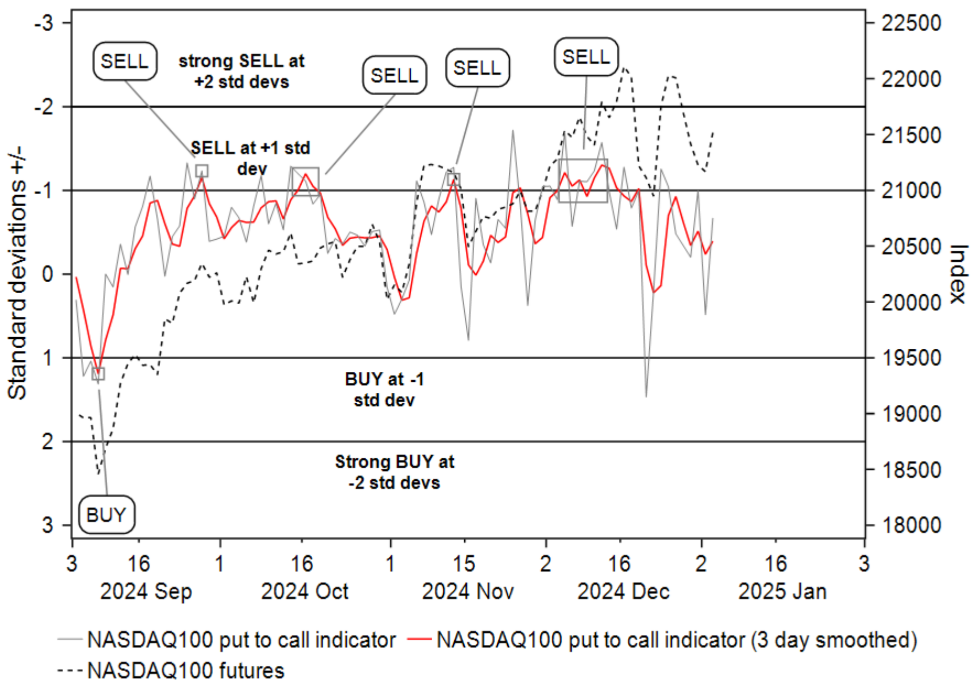
Downside put protection in portfolios remains low (with models on/close to SELL)..

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



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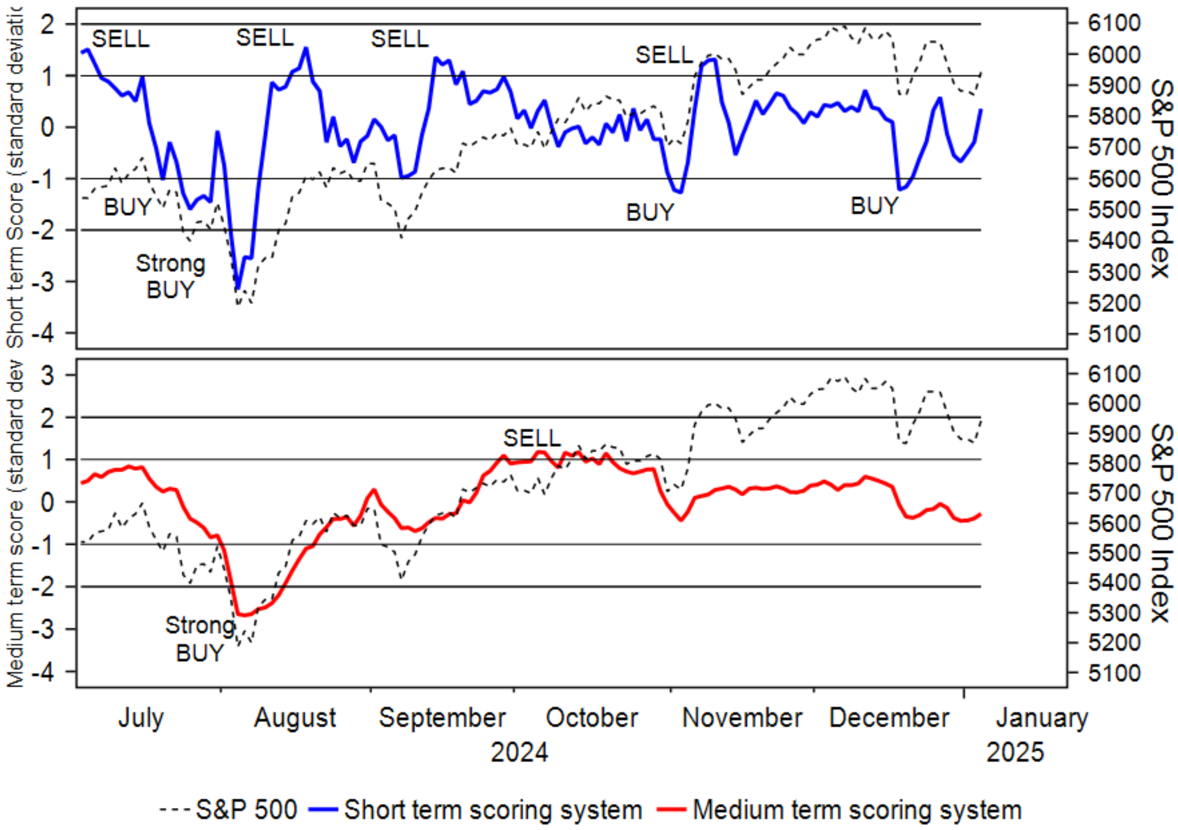
Key Longview Scoring Systems (chart below)**:**

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



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Key macro data/events

Key data today include: Japanese Jibun Bank service sector PMI (December final estimate, 12:30am); **Chinese Caixin service sector PMI** (Dec, 1:45am); HCOB services sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all December final estimates apart from Spain & Italy; UK new car sales (Dec, 9am); UK S&P service sector PMI (December final estimate, 9:30am); Eurozone Sentix investor confidence (Jan, 9:30am); **German headline CPI** (December first estimate, 1pm); Canadian S&P service sector PMI (Dec, 2:30pm); US S&P service sector PMI (December final estimate, 2:45pm); US durable goods orders (November final estimate, 3pm); Japanese money supply (Dec, 11:50pm).

Key events today include: Speech by the Fed's Cook on the Economic outlook and financial stability (2:15pm).

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 last month on 5th December 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

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1 – 2 Week View on Risk

6th January 2025

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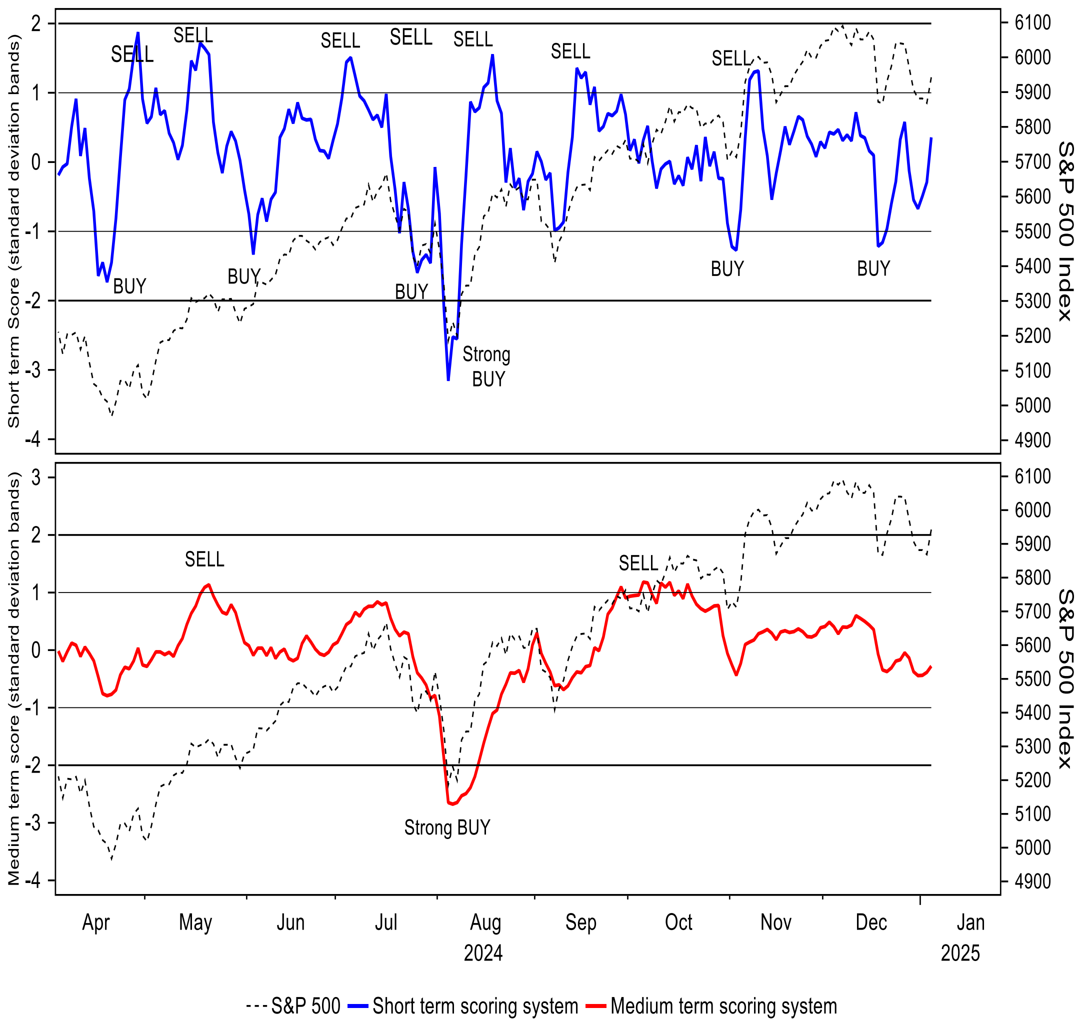
Email: ragtrader@dailyragtrader.com

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

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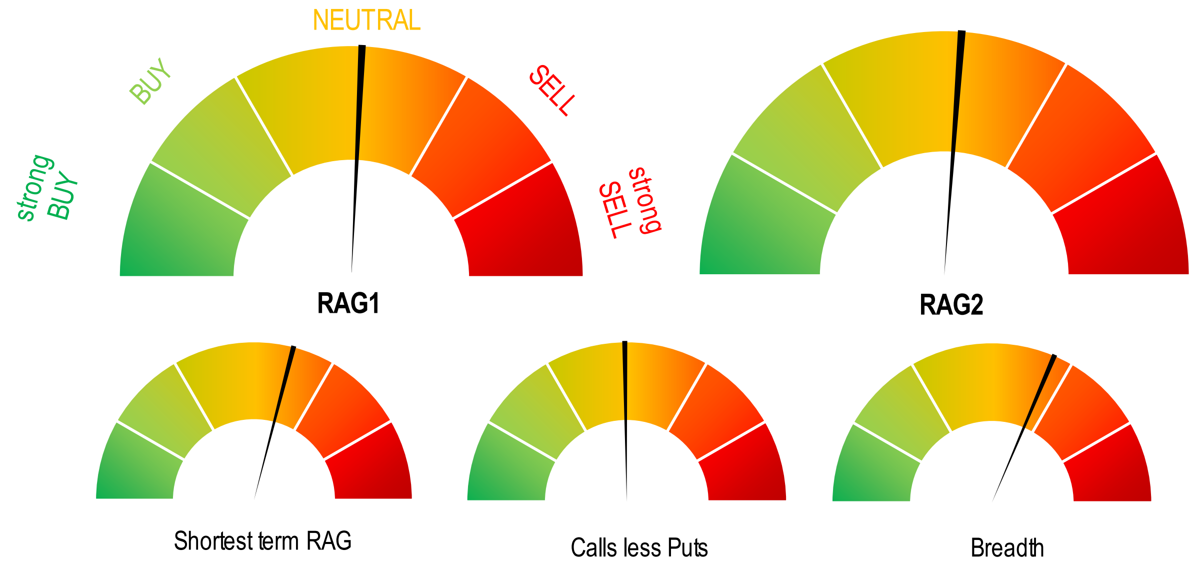
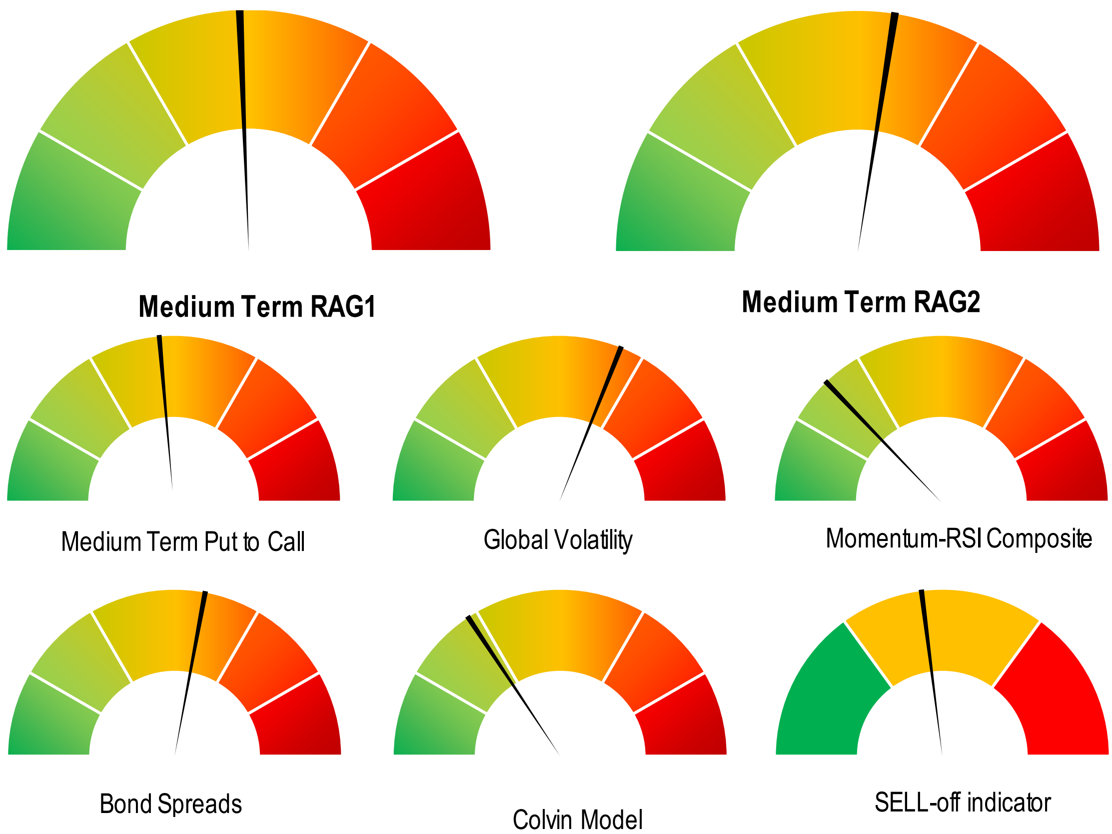
Section 1a: Summary of indicator signals**

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

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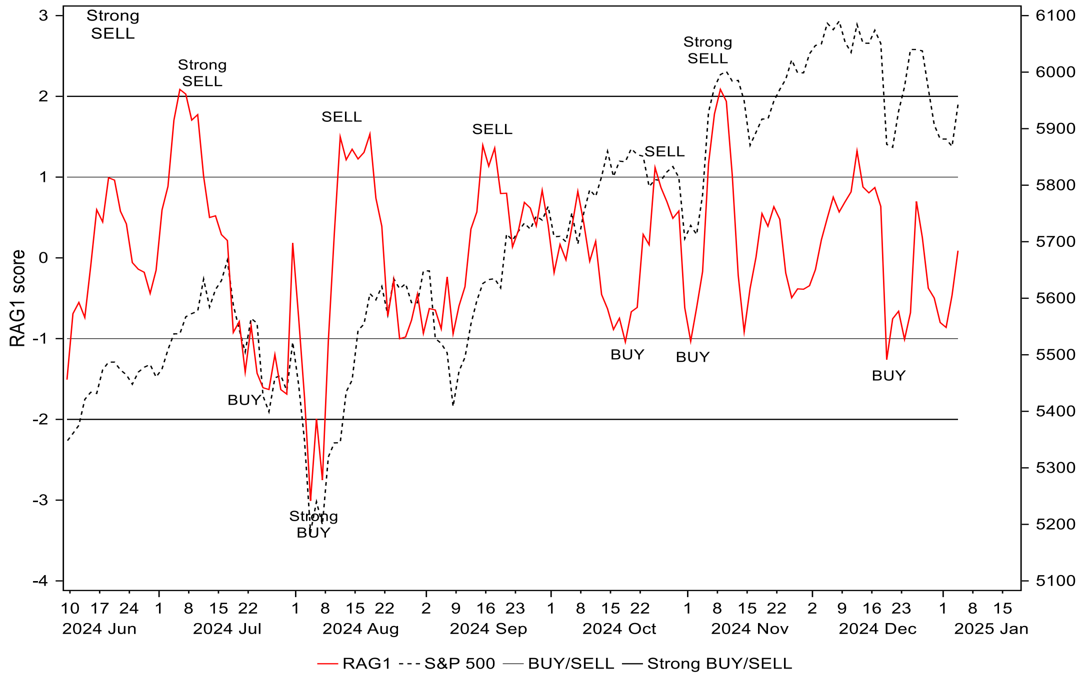
Section 2: Short term (1 – 2 week) trading models

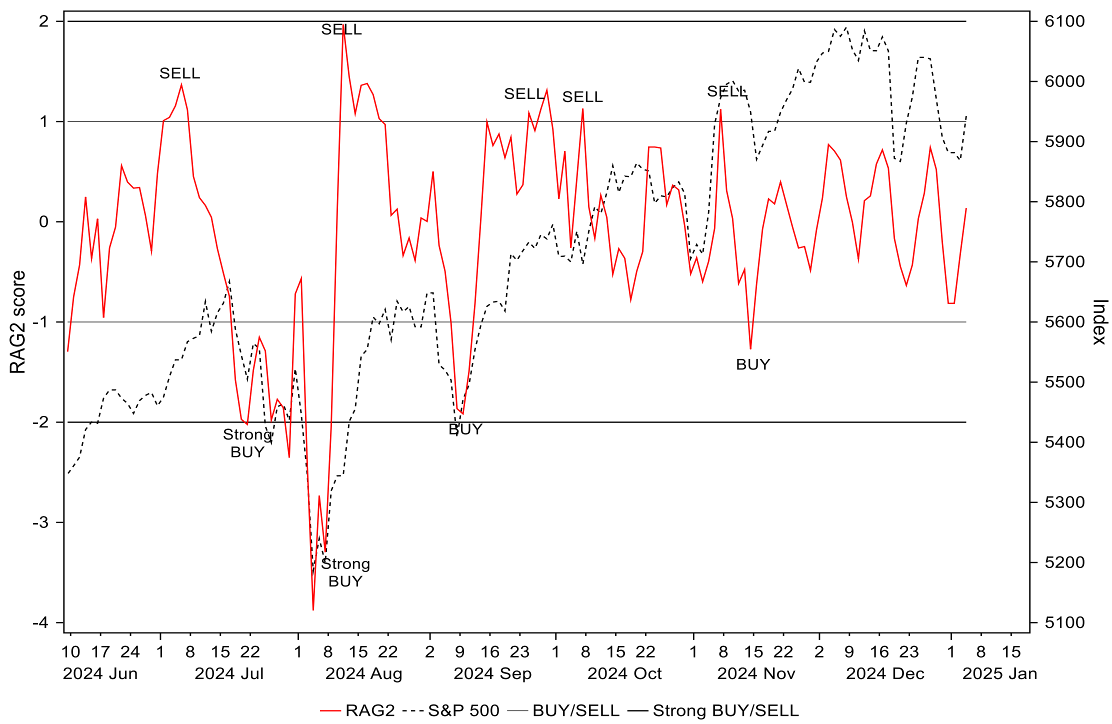
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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



RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

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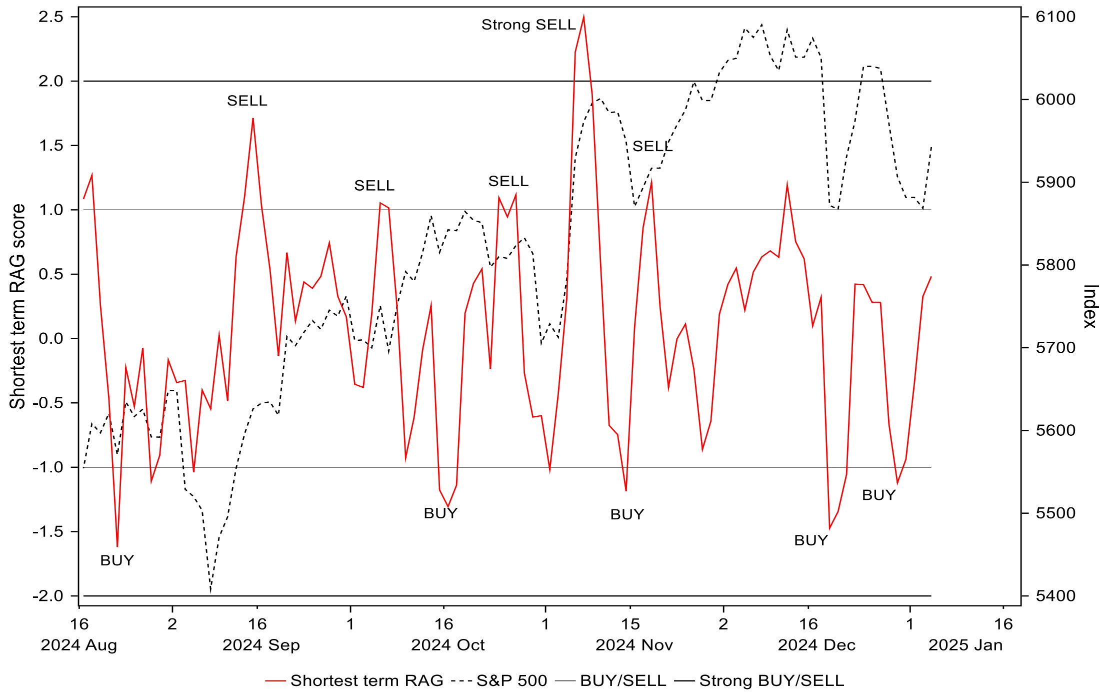
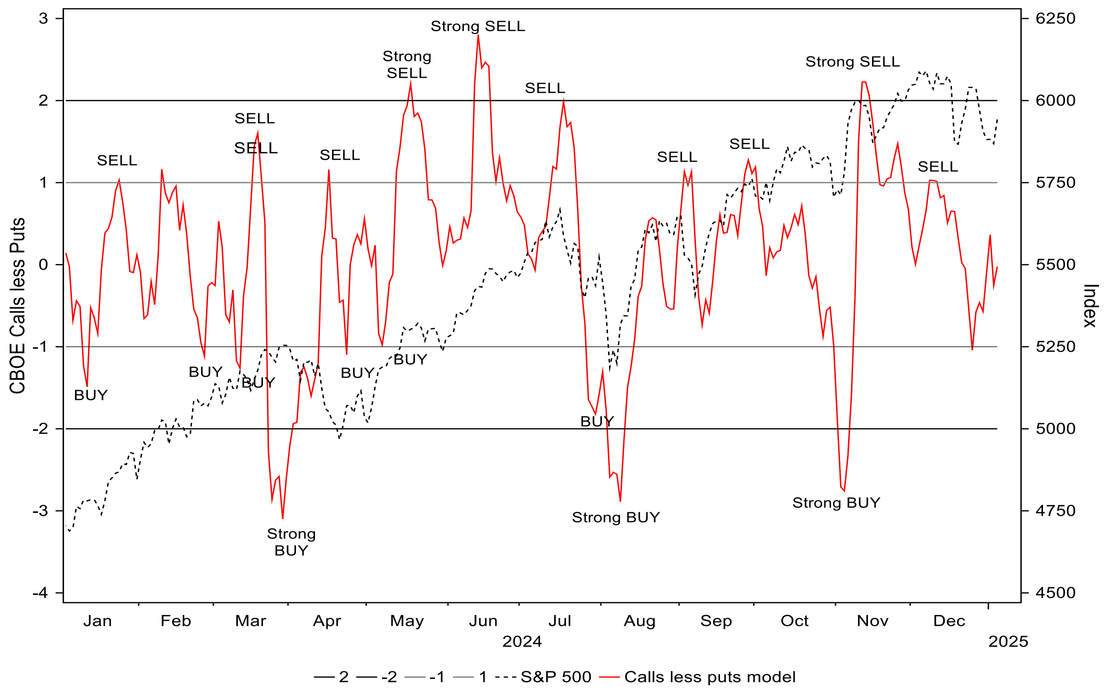
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



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

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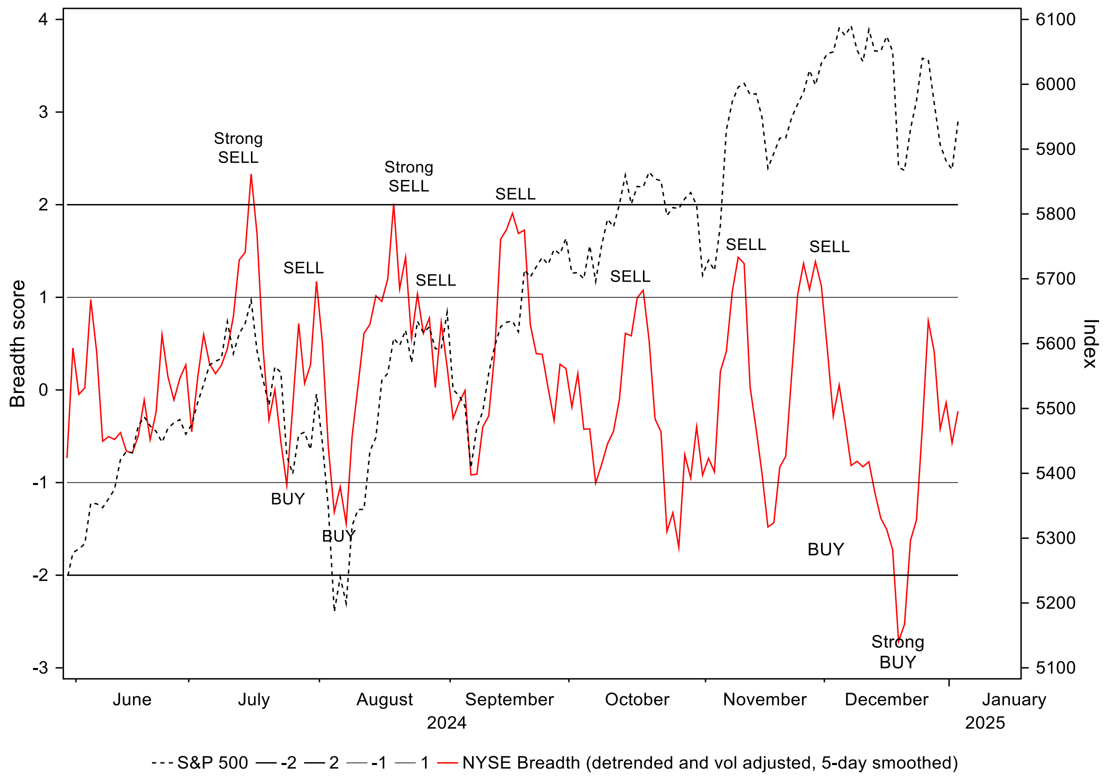
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

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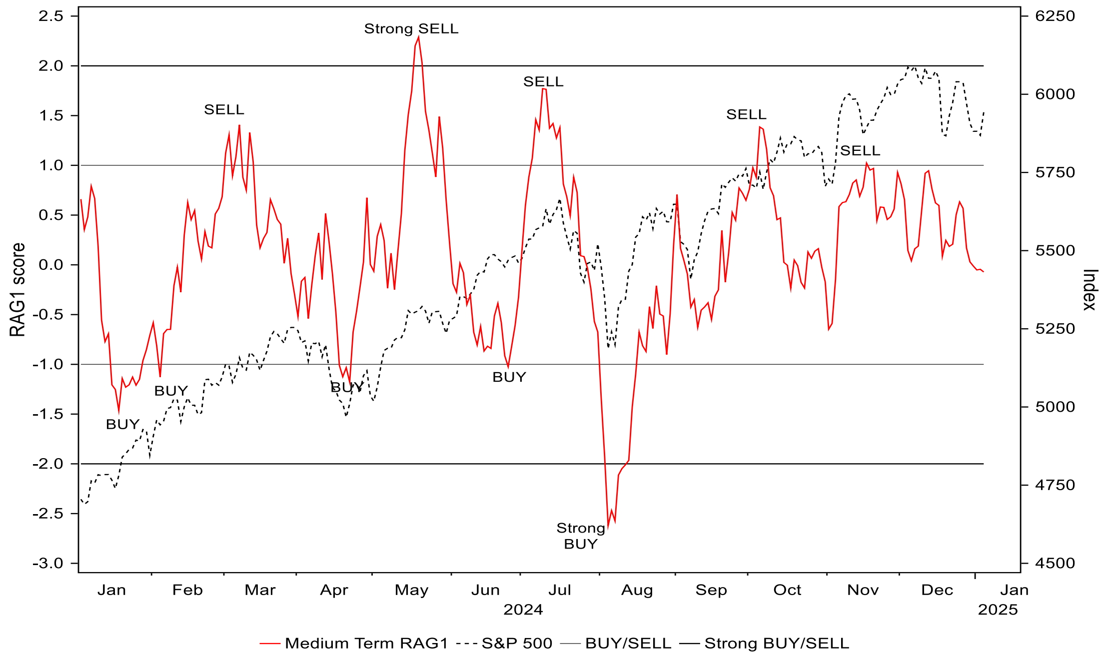
Section 3: Medium term (1 – 4 month) outlook

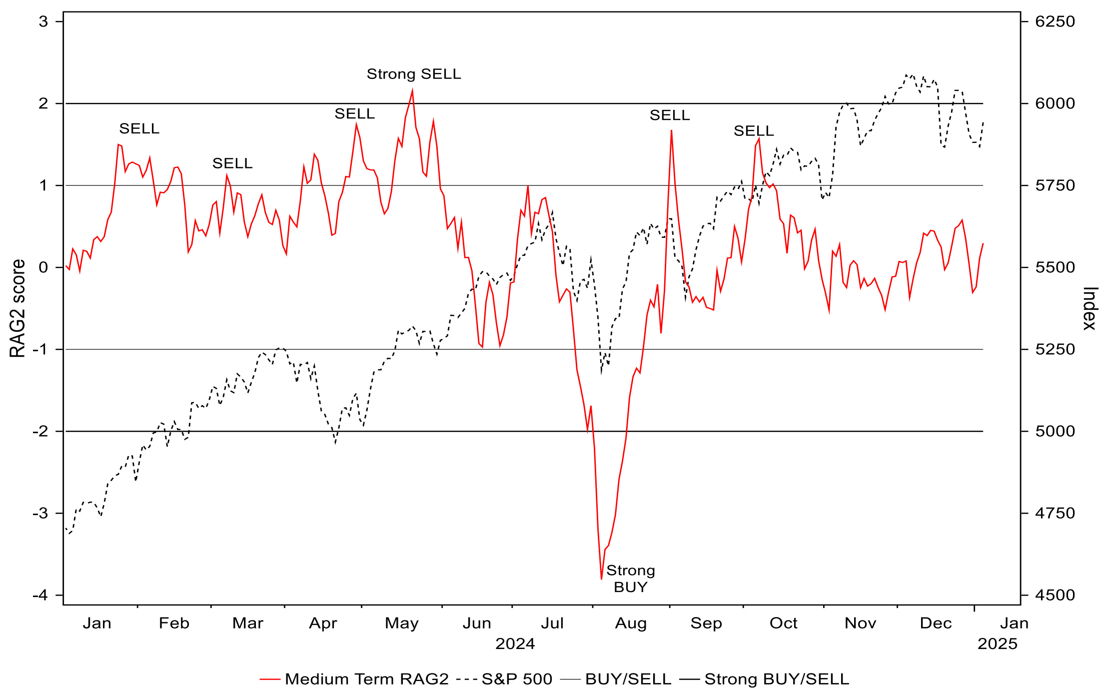
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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



Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

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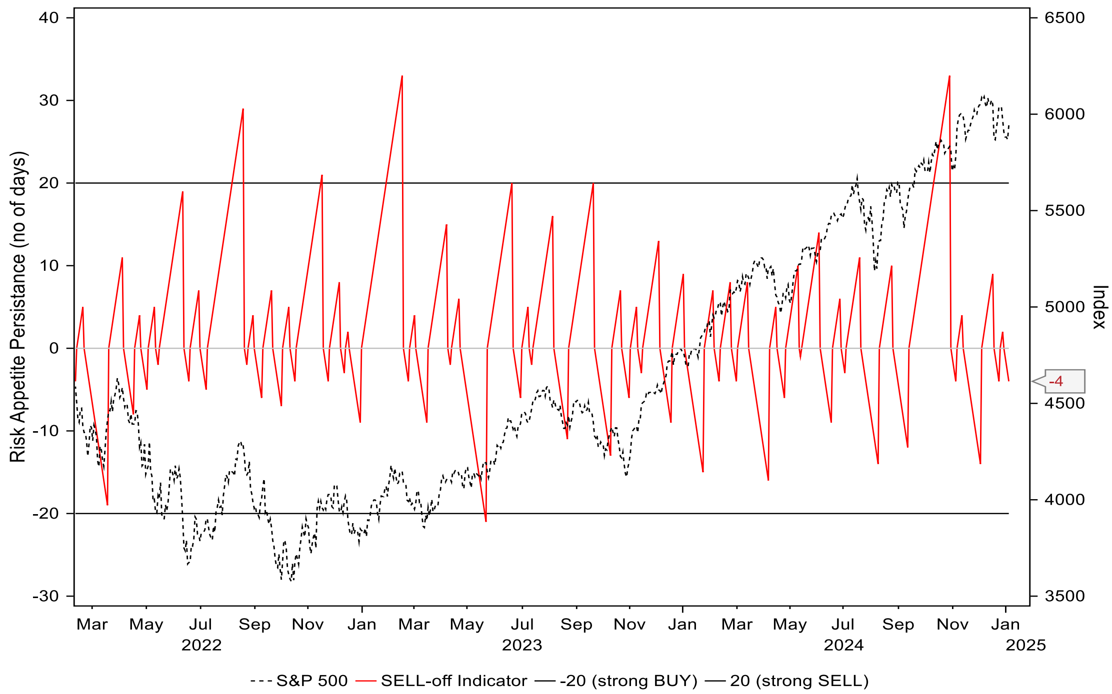
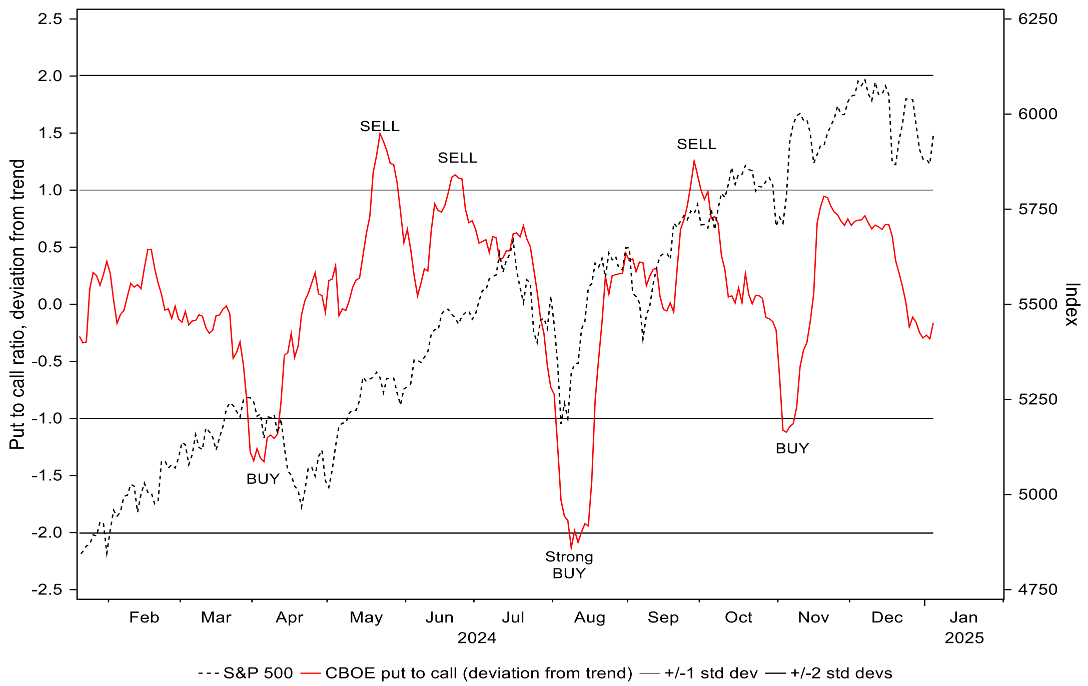
Fig 3c: SELL-off indicator (shown vs. S&P500)



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

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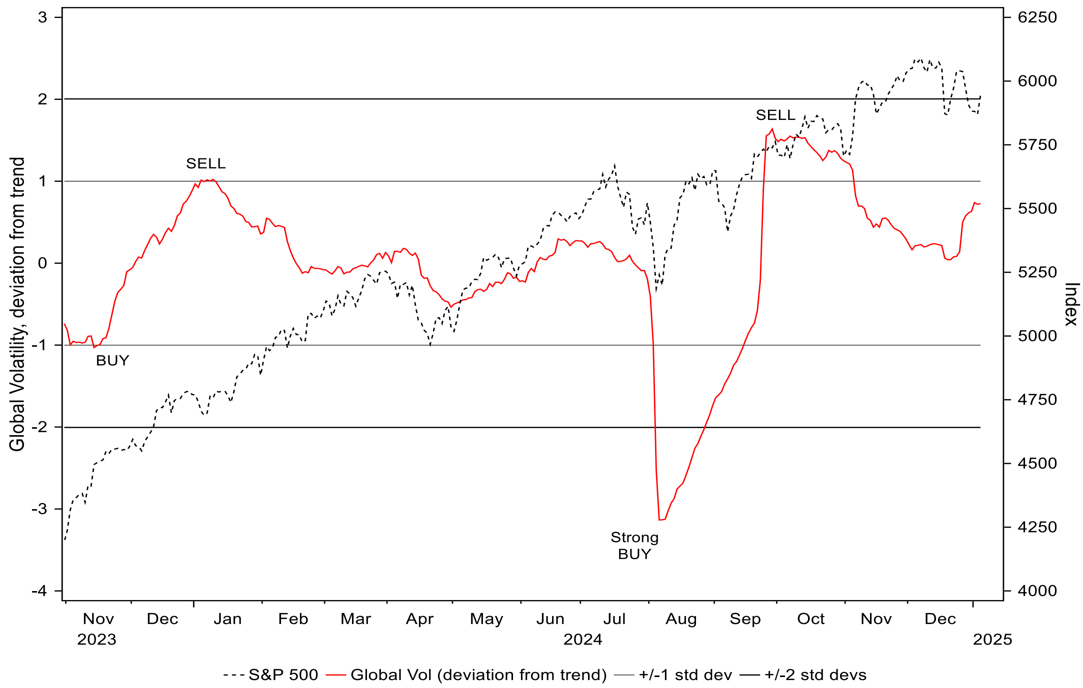
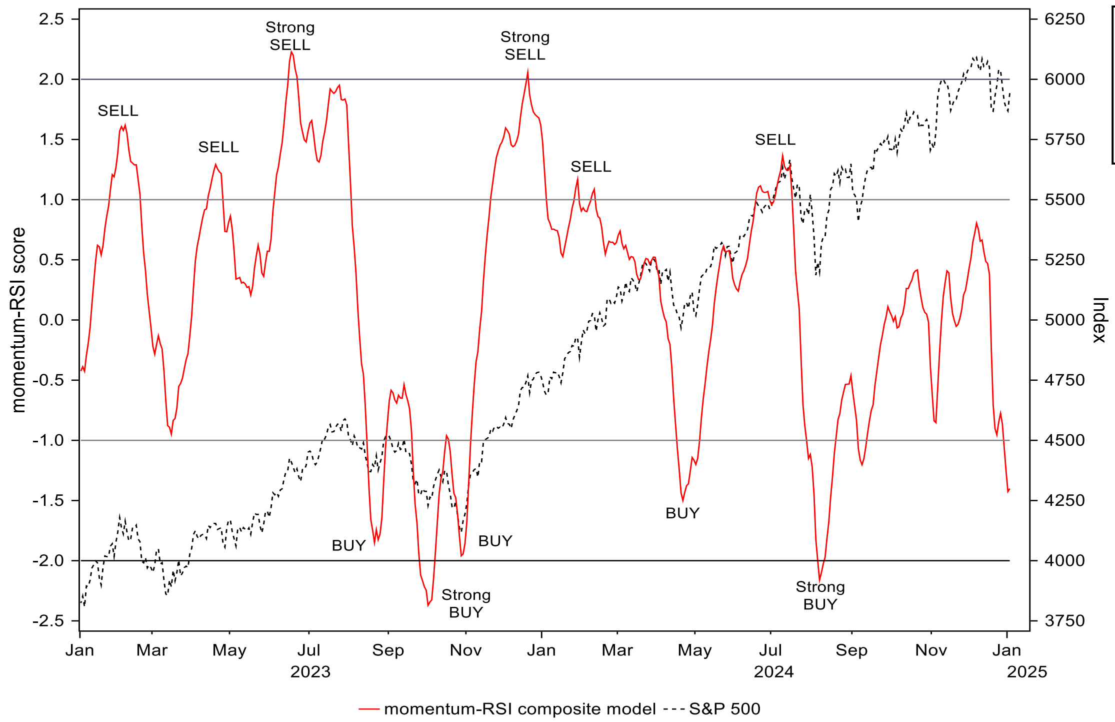
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



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 on BUY

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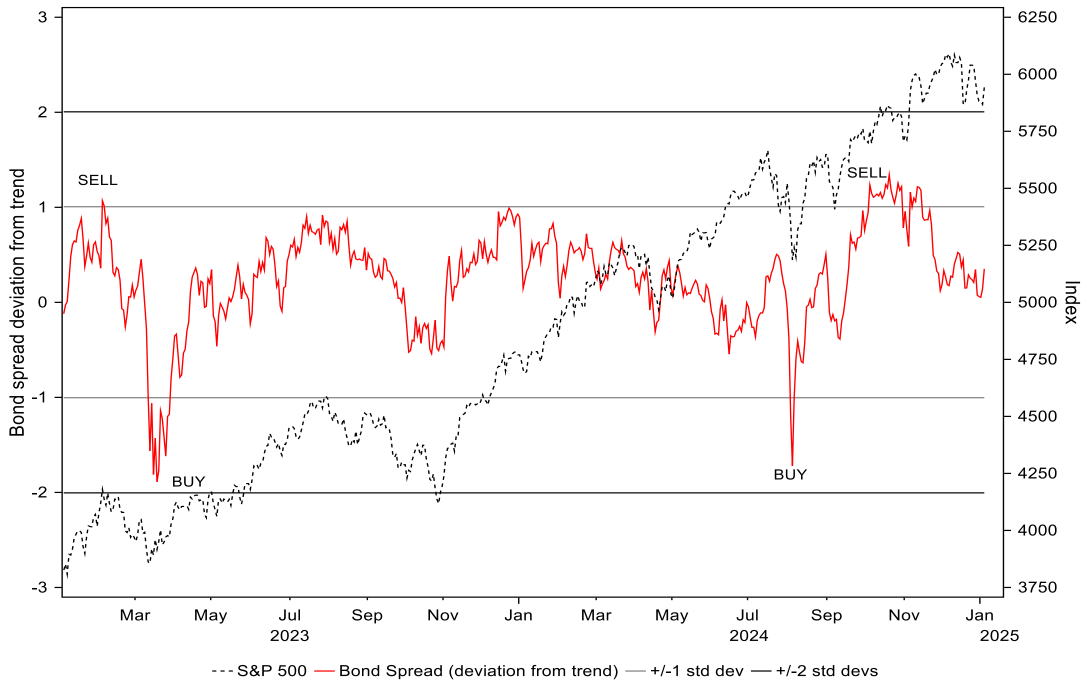
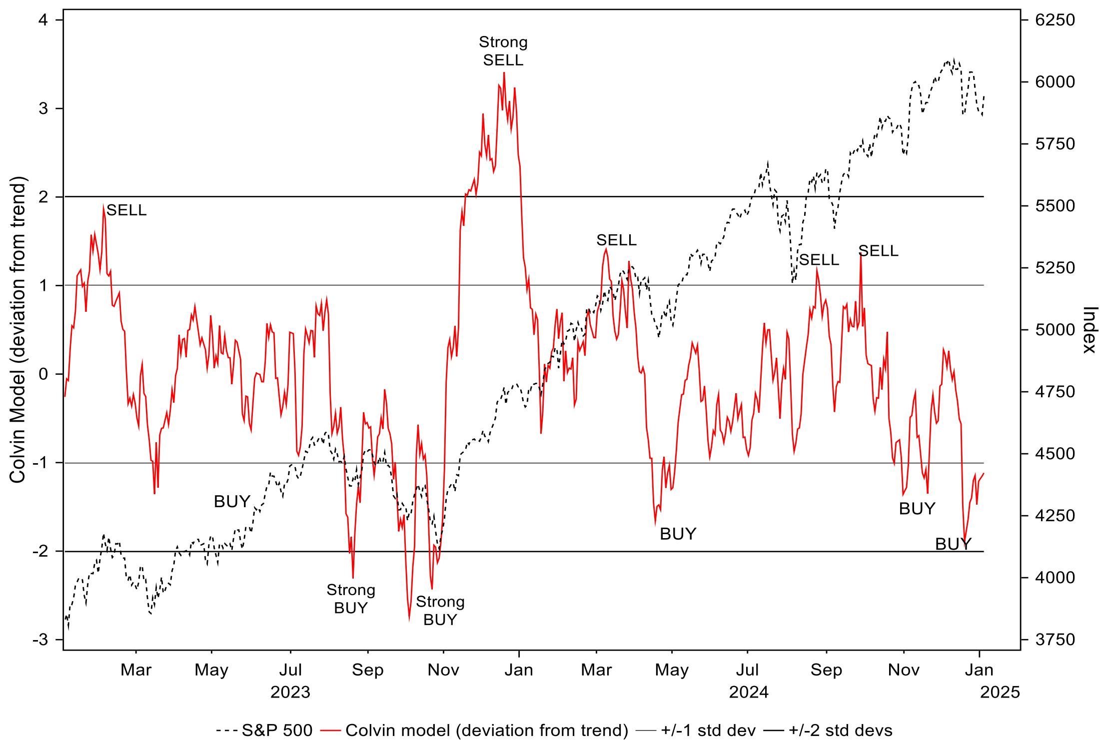
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 on BUY

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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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