

## Equity Index Futures Trading Recommendations

7<sup>th</sup> January 2025

“Start BUILDing SHORT Positions on Strength (if forthcoming)

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

- Start BUILDing SHORT S&P500 March futures position (on strength if forthcoming).
- Initially MOVE  $\frac{1}{4}$  SHORT at 6,050.0 (SPX March futures).
- Increase to  $\frac{1}{2}$  SHORT at 6,100.0 (if the market retests the top end of its recent consolidation range).
- Implement a stop loss on the combined position at 6,160 (approx. 1% above top end of the range).

### Rationale

Most markets moved higher yesterday. The S&P500 closed up 0.55%; the NDX100 was stronger (+1.1%); while the Philly SOX was the standout performer (+2.8%). Sector leadership came from tech and long duration growth (with comm services +2.1%; IT +1.4%). Mega cap tech stocks led the strength (Meta +4.2%; Nvidia +3.4%; Alphabet +2.6%) while the laggards were the defensive areas of the market (with real estate -1.4%; utilities -1.1%; & consumer staples -1.0%). European markets were also strong (French CAC +2.2%; Italian FTSE index +1.9%; & German Dax +1.6%). Bitcoin has bounced over the past 24 hours (+2.4%); while the dollar was weak (-0.6%, on the back of the Washington Post article although Trump subsequently came out with a rebuttal\*). The VIX closed modestly lower (down 7bps), while US 10-year yields finished up 2bps and at their recent closing highs (4.62%).

With that strength in risk assets (largely across the board), **various short term market timing models are now back on SELL**. The risk appetite models shown below, for example, are both back on SELL (FIGs 2 & 2a). The strength in equity markets and other risk assets pushed those models back above their SELL thresholds – albeit only just. **Put to call models are also mostly on, or close, to SELL**. The underlying 1-day CBOE put to call ratio is above its SELL threshold (& it’s likely that the 3-day version will move onto SELL tomorrow – FIG 3). There’s also been a high level of single stock call option buying in the past few days (no doubt chasing the mega cap tech stocks) – that highlights the near-term frothiness and vulnerability of this market (FIG 3b). The NDX100 ‘put to call’ indicator is also close to SELL (FIG 3a).

Added to that, the S&P500 moved higher yesterday, towards the top end of its recent trading range. That range, as highlighted yesterday, is 5,800/50 to 6,050/6,100 (FIG 1). Currently the index is trading at around 6,018. Yesterday it reached as high as 6,068 (before fading later in the session). From a technical (price action) perspective, there is also potentially a pennant pattern forming in the S&P500 index (as well as in the NDX100).

**Both those factors** above (i.e. certain groups of short-term models and the technical factors) **support the implementation of a SHORT S&P500 futures position.** Against that, and as outlined yesterday, the equity market is oversold on a variety of measures (FIGs 4 & 4a). From a sector and single stock perspective, for example, the US market is clearly oversold. Both the cyclical and defensive areas of the market are oversold (hence why so many single stocks are oversold). In contrast, though, and consistent with high levels of outstanding single stock call options, the **mega cap tech part of the market is now overbought** (see FIG 4b). Rotation, therefore, is also a possibility for this market (i.e. out of MAG7 and into cyclicals/defensives).

Whilst, therefore, there are risks, we **recommend starting to BUILD SHORT positions** (for the next 1 – 2 weeks). In particular we favour moving  $\frac{1}{4}$  SHORT S&P500 futures if the market rallies back to 6,050 (i.e. a test of the upper end of the pennant formation). We then recommend increasing that to  $\frac{1}{2}$  SHORT at 6,100 (i.e. a test of the top of the consolidation range), with a stop loss  $\sim 1\%$  above 6,100 (@ 6,160).

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

Kind regards,

The team @ Longview Economics

\*Trump: "Washington Post story incorrect"; "Trump says his tariff policy won't be pared back" - Source: Bloomberg headlines yesterday.

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). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); OR for longer term investors, with a 6 month to 2 year timeframe, see our 'Strategic Investor' publications (available HERE: <https://www.longvieweconomics.com/the-strategic-investor>)

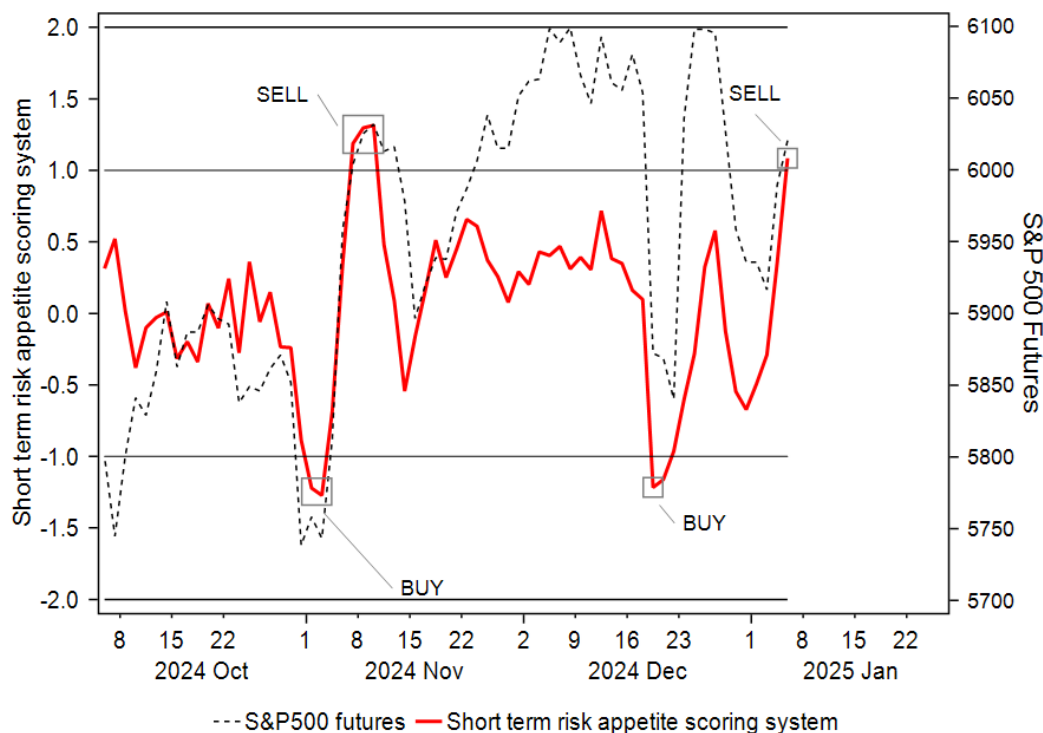
**FIG 1: S&P500 candlestick** shown with its 50-day moving average



Source: Longview Economics, Macrobond

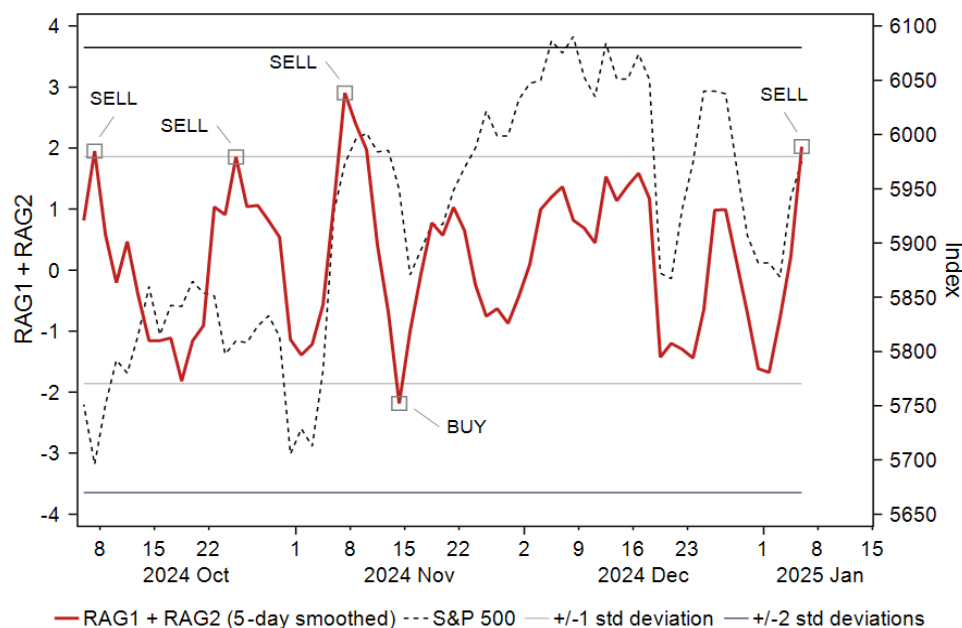
**Risk appetite models are now on SELL...**

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



Source: Longview Economics, Macrobond

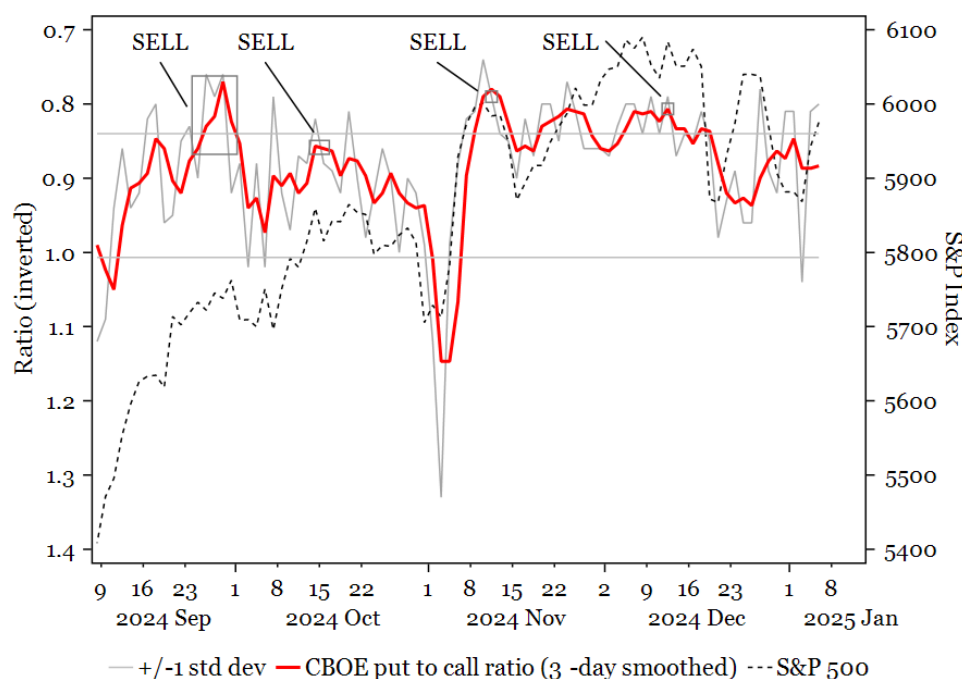
**FIG 2a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

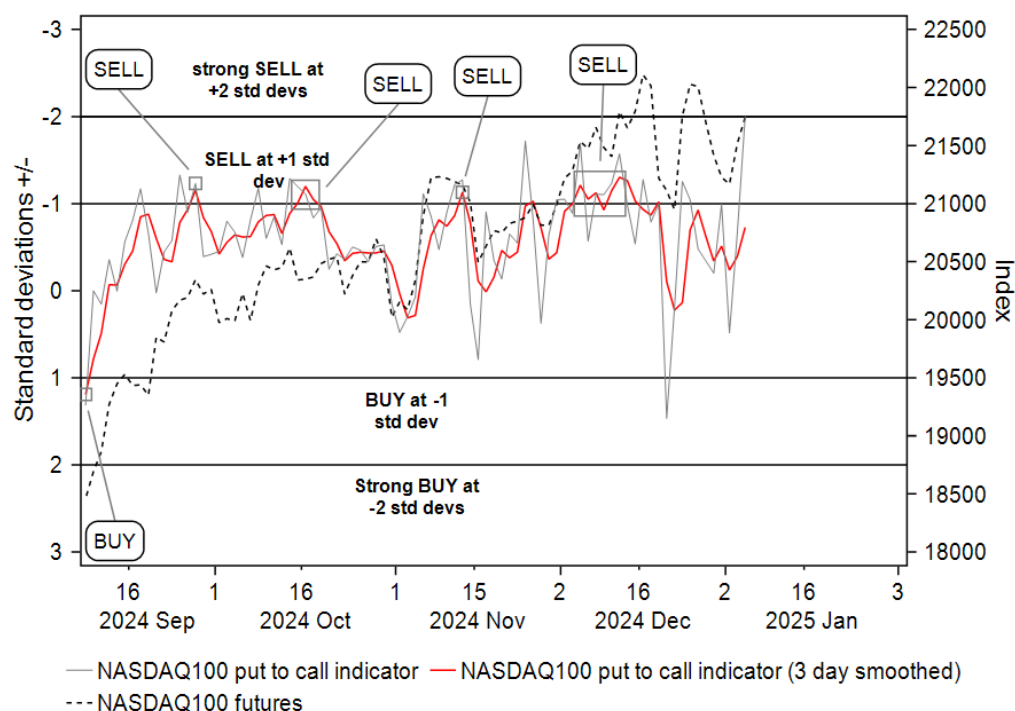
**Downside put protection in portfolios is low (with models on/close to SELL)..**

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



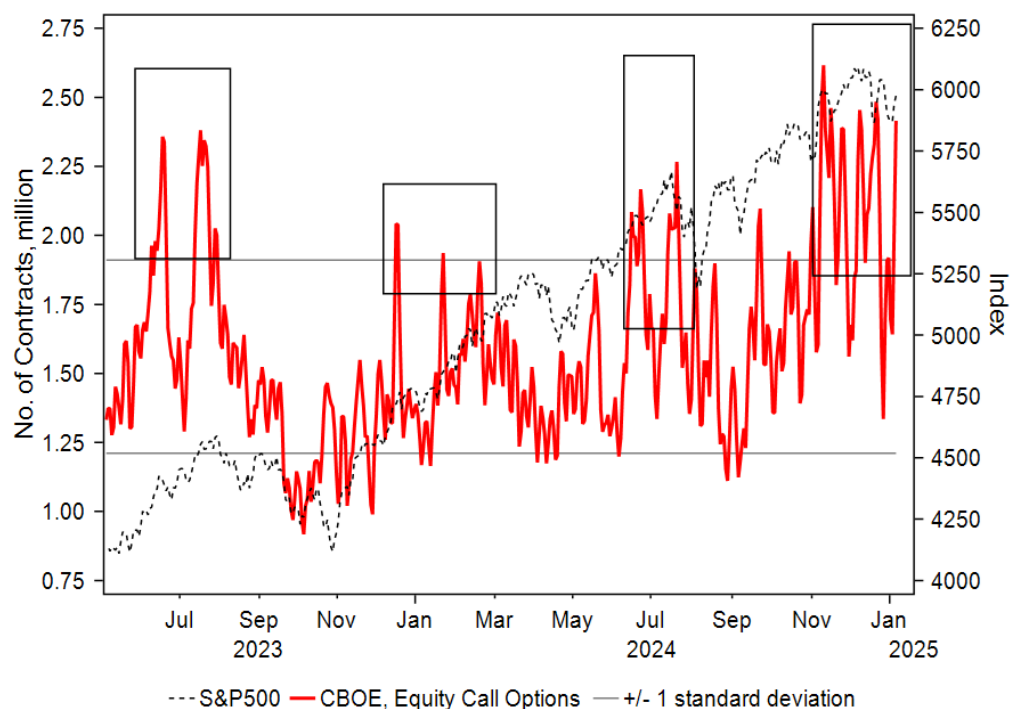
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

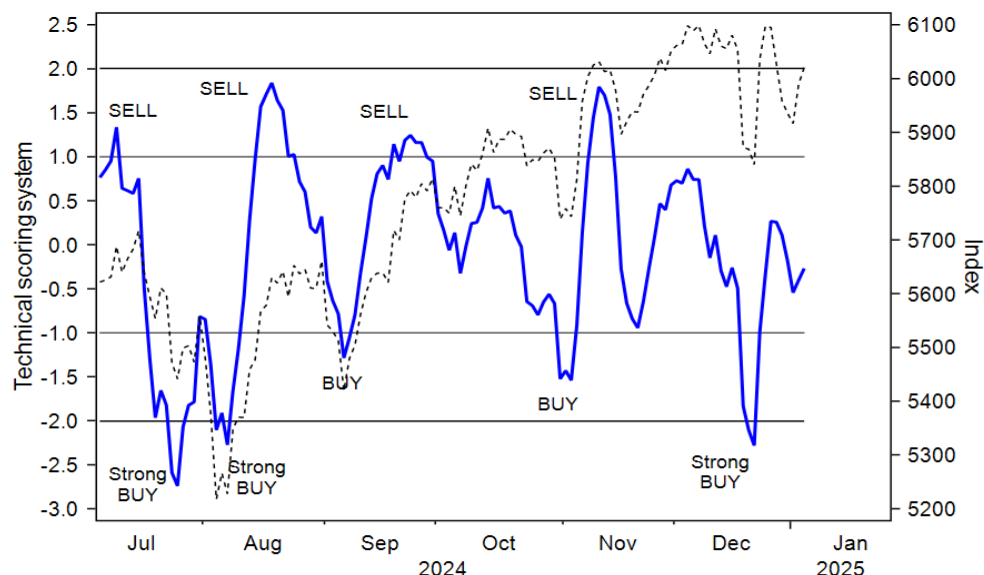
**FIG 3b:** Volume of outstanding CBOE 'single stock' call options (3 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

**Technical models (for indices) are mostly on/leaning towards BUY....**

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

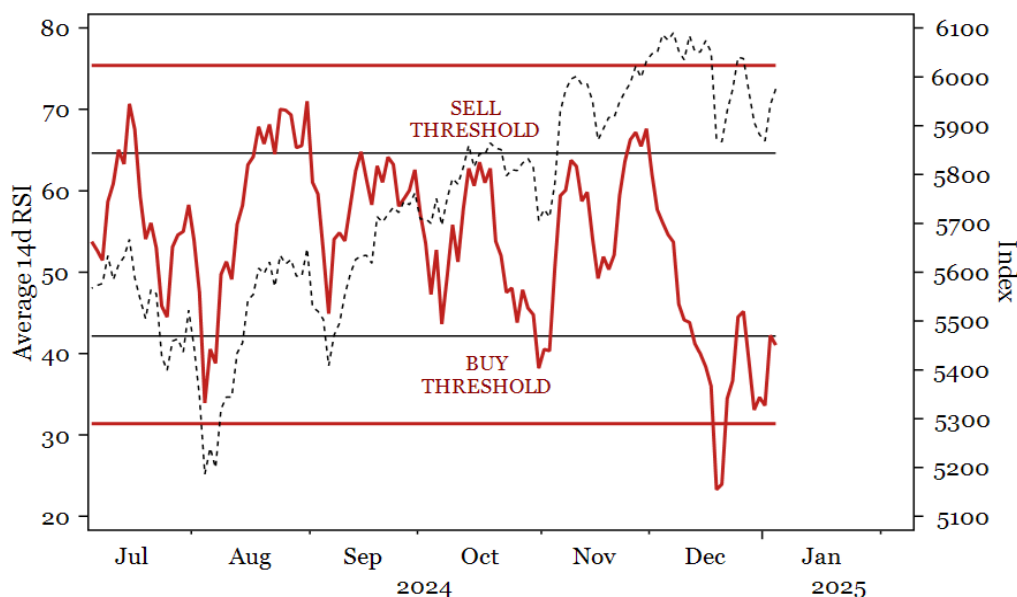


--- S&P500 emini futures — Short term technical scoring system — +/-2 std devs — +/-1 std dev

Source: Longview Economics, Macrobond

**Sector and single stock technical models are mostly on/close to BUY....**

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

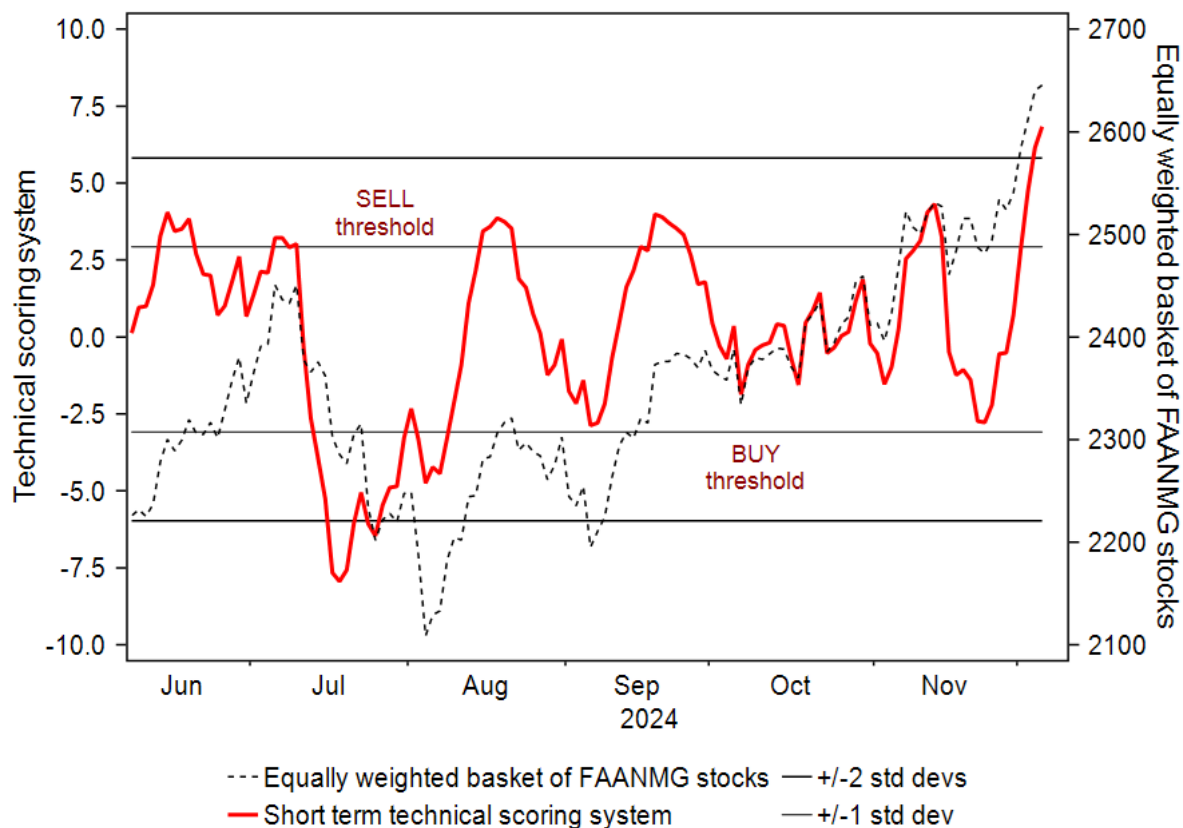


--- S&P 500 — United States, Average 14d RSI of S&P500's 24 industry groups — +/-2 std devs — +/-1 std dev

Source: Longview Economics, Macrobond

**FAANMG stocks are, though, overbought...**

**FIG 4b:** Longview FAANMG short term **‘technical’** scoring system vs. FAANMG index



Source: Longview Economics, Macrobond

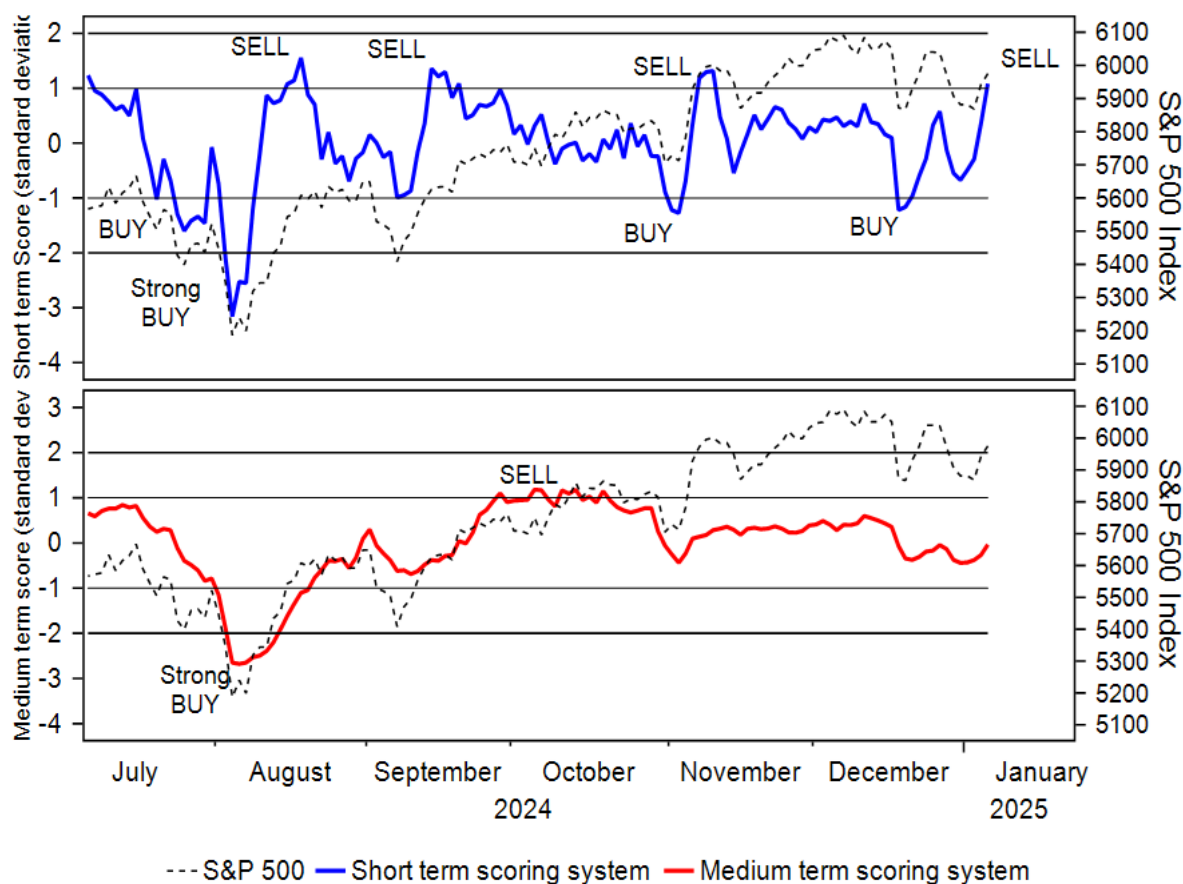


## Key Longview Scoring Systems (chart below):

**Short term** (1 – 2 week) scoring system: **SELL**

**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: UK BRC retail sales (Dec, 12:01am); Australian building approvals (Nov, 12:30am); UK Halifax house prices (Dec, 7am); **French headline CPI** (December first estimate, 7:45am); ECB 1 & 3 year inflation expectations (Nov, 9am); Italian unemployment rate (Nov, 9am); **Eurozone headline & core CPI** (December first estimate, 10am); Italian headline & core CPI (December first estimate, 10am); Eurozone unemployment rate (Nov, 10am); US trade balance (Nov, 1:30pm); **US JOLTS job openings** (Nov, 3pm); **US ISM services** (Dec, 3pm).

**Key events** today include: The Fed's Barkin speaks to Raleigh Chamber (1pm).

**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 last 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).



LV RAG  
Daily Risk Appetite Gauge

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## 1 – 2 Week View on Risk

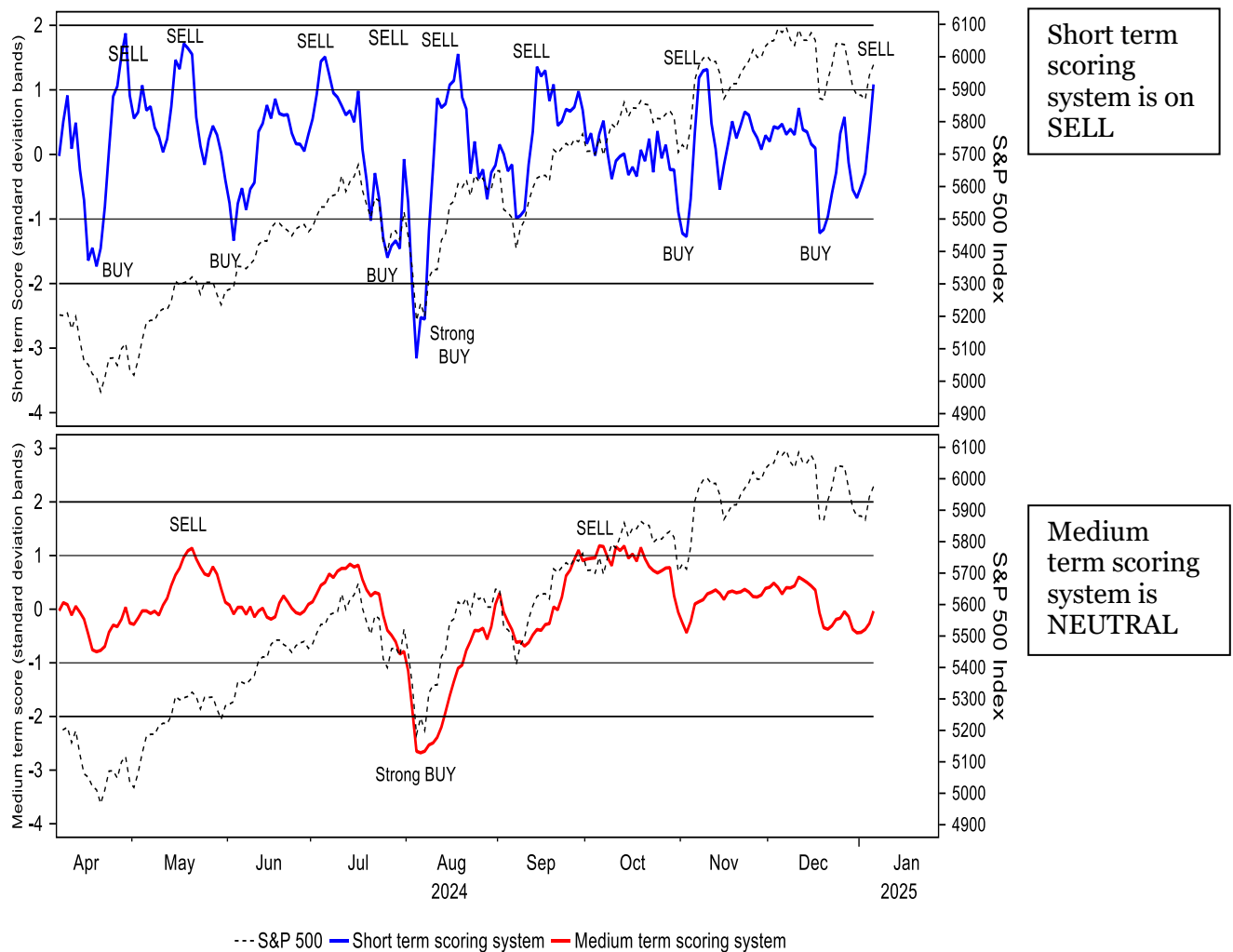
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7<sup>th</sup> January 2025

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

**Fig 1:** Longview ‘short term’ and ‘medium term’ scoring systems



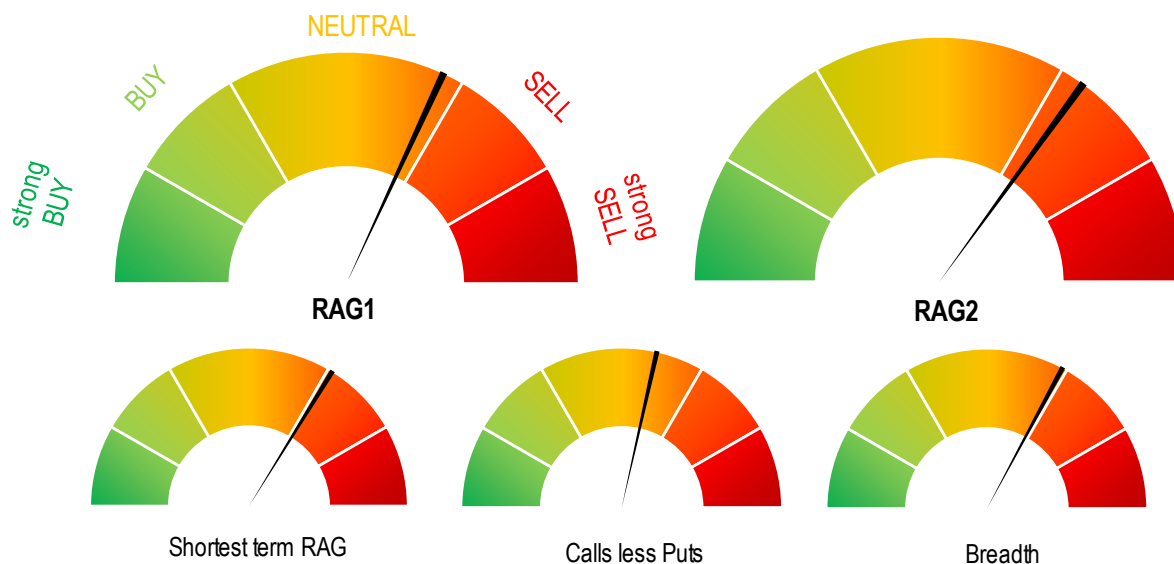
Source: Longview Economics, Macrobond

\*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**

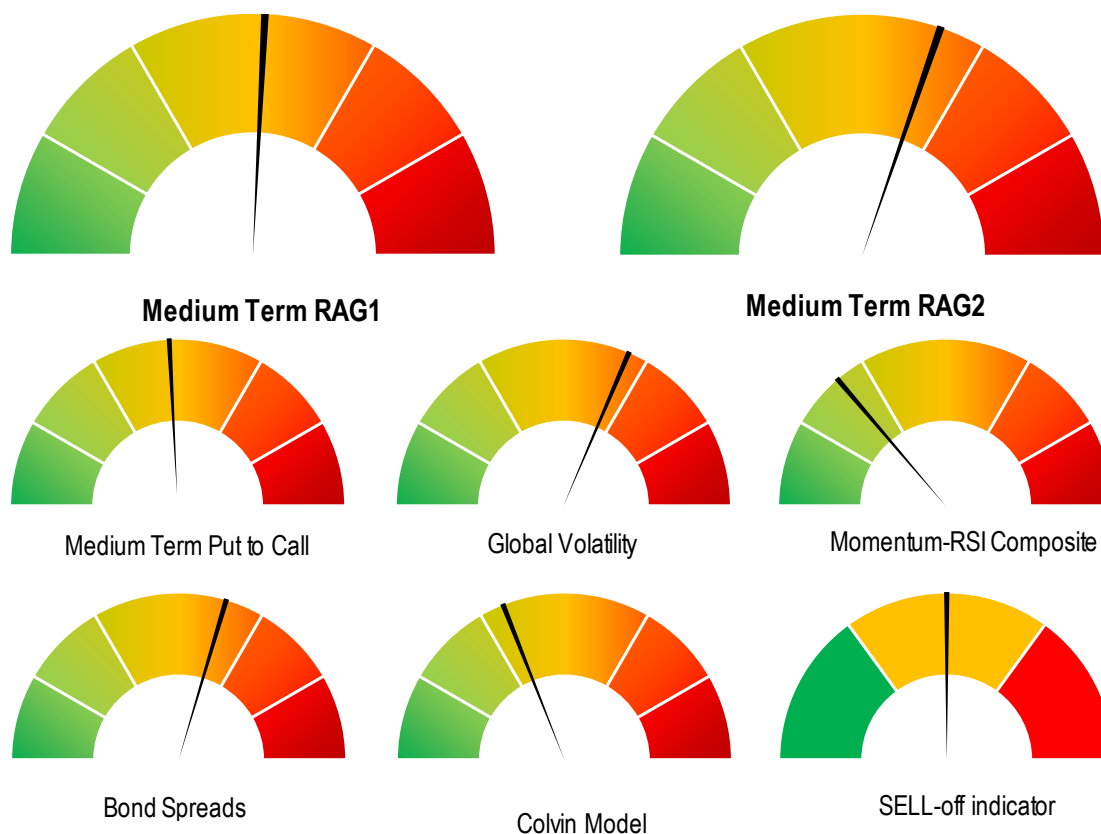
## Section 1a: Summary of indicator signals\*\*

**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

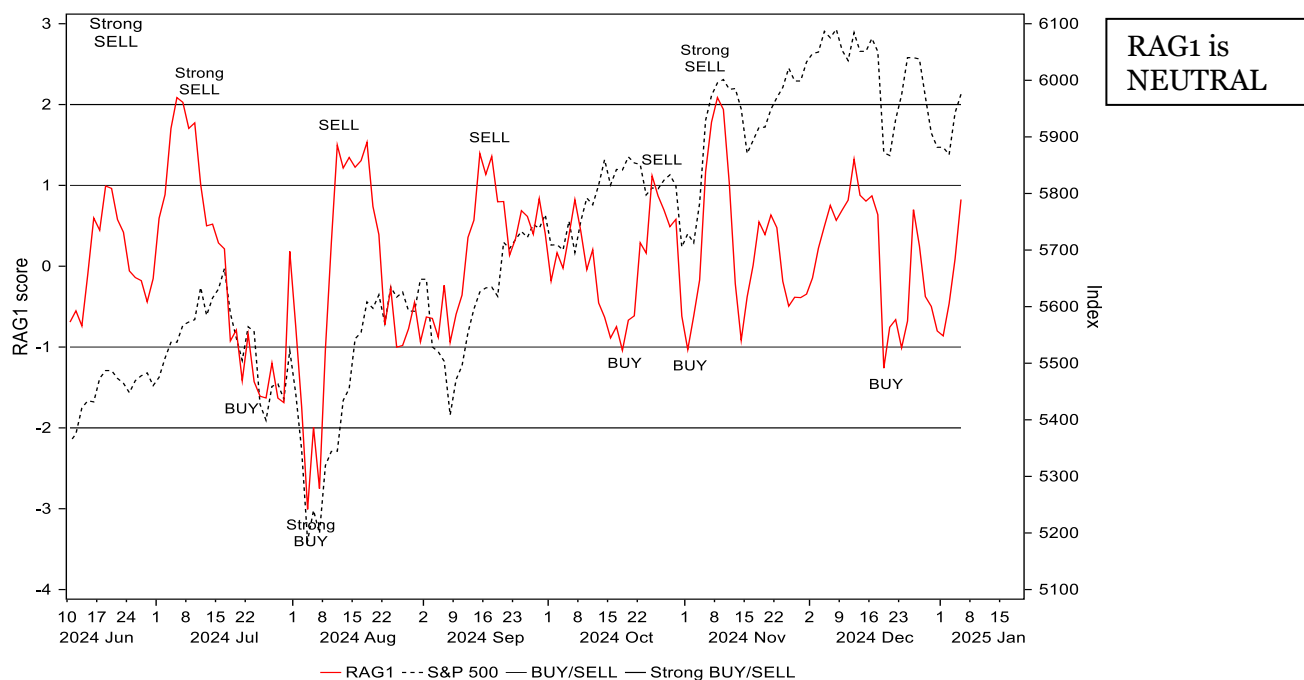


**Source:** Longview Economics

\*\*The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

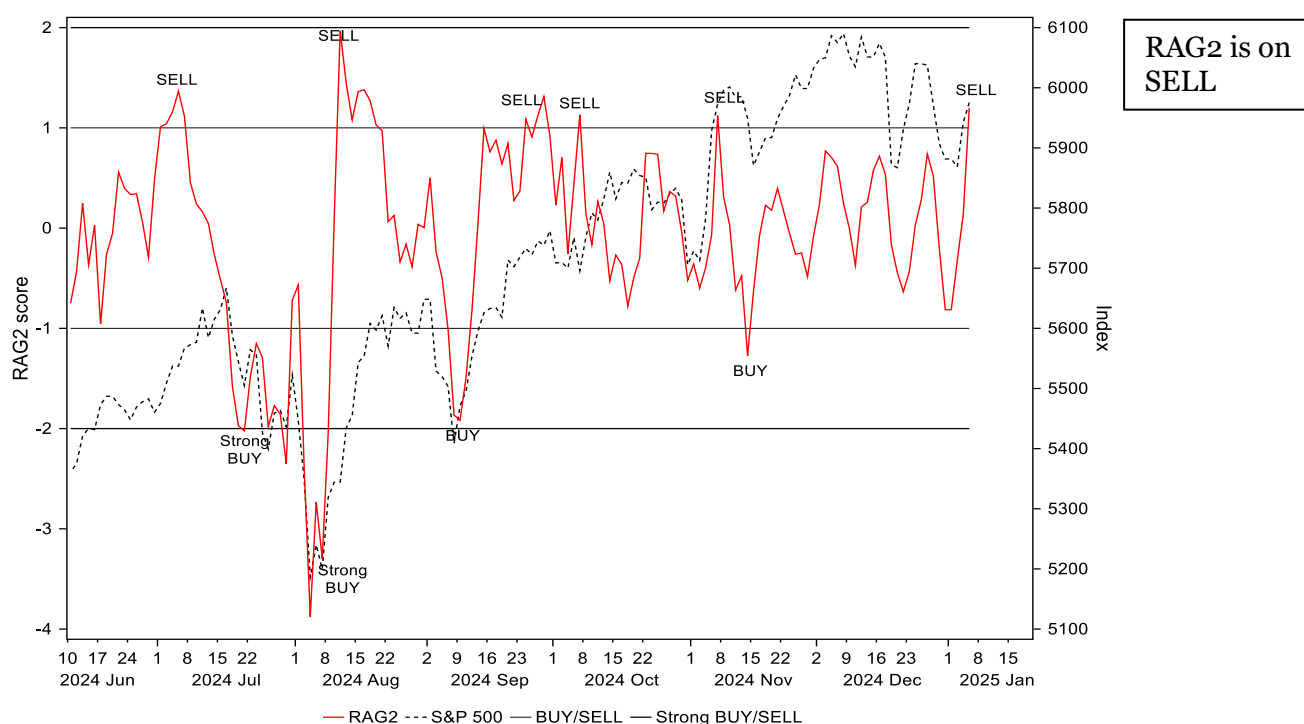
## Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

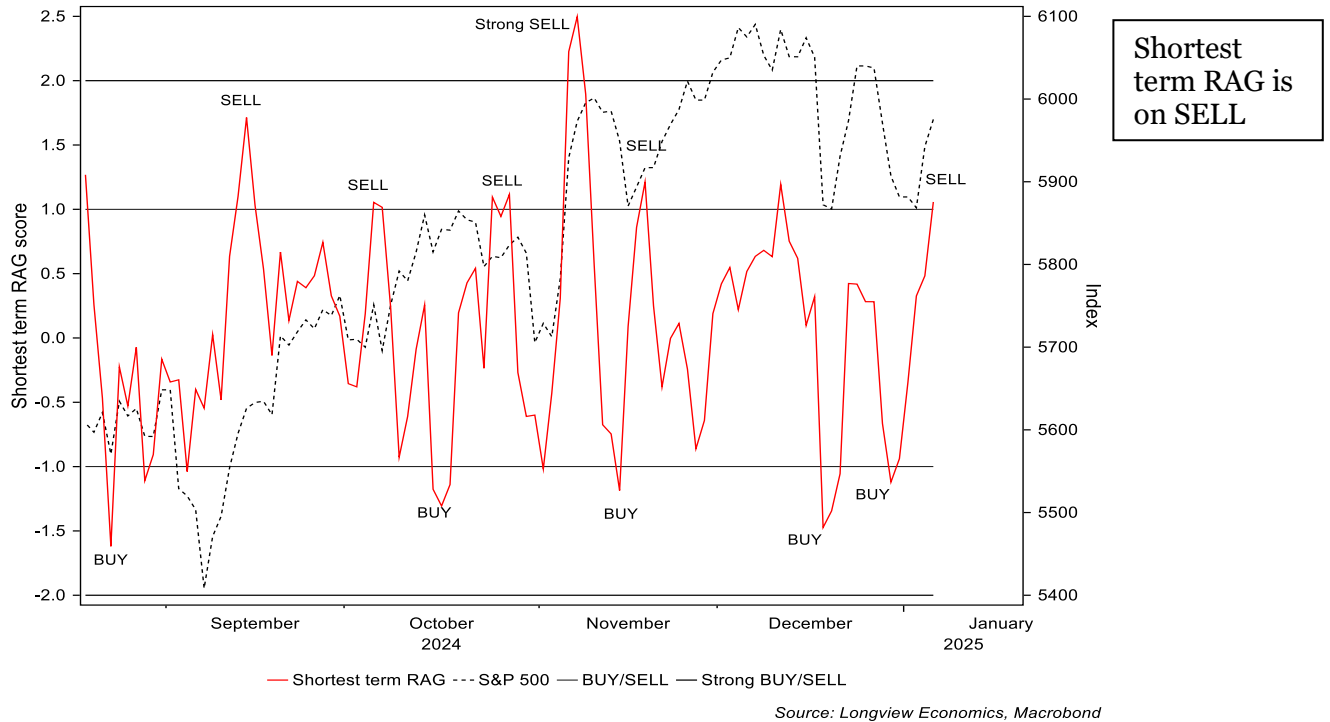
**Fig 2b: RAG 2 vs. S&P 500**



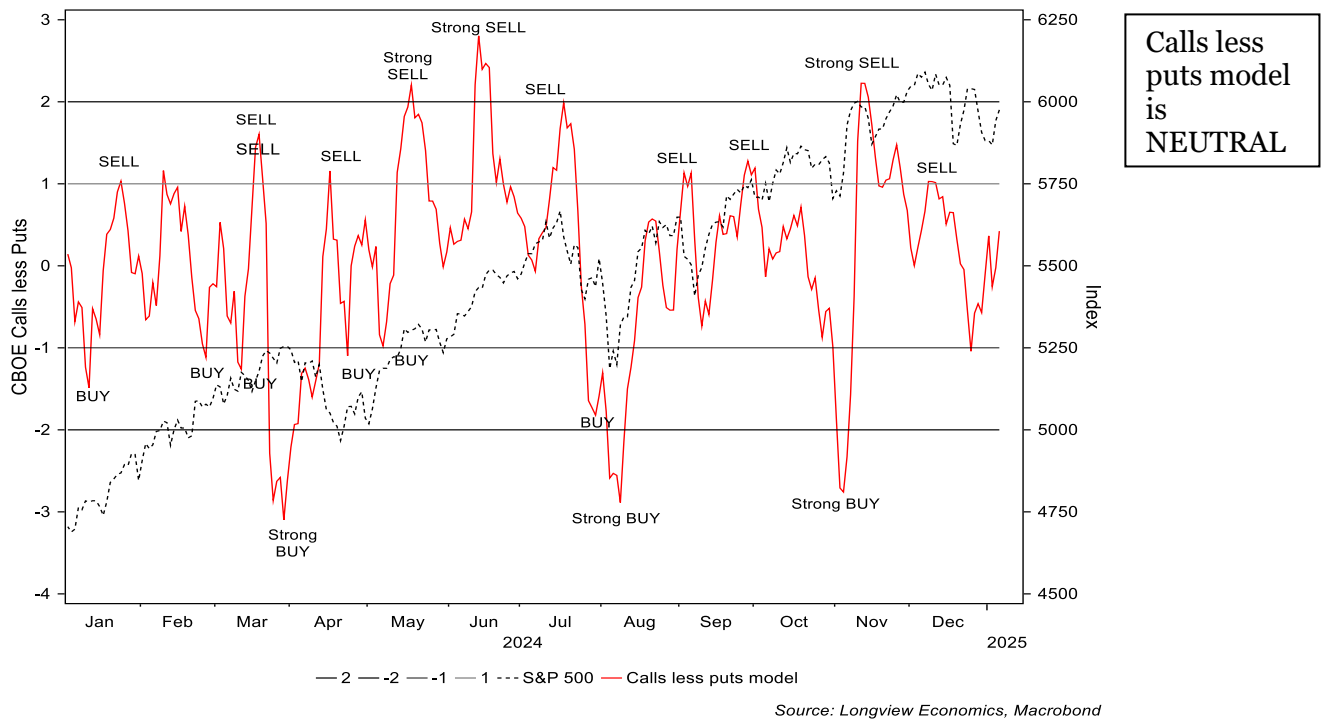
Source: Longview Economics, Macrobond

**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

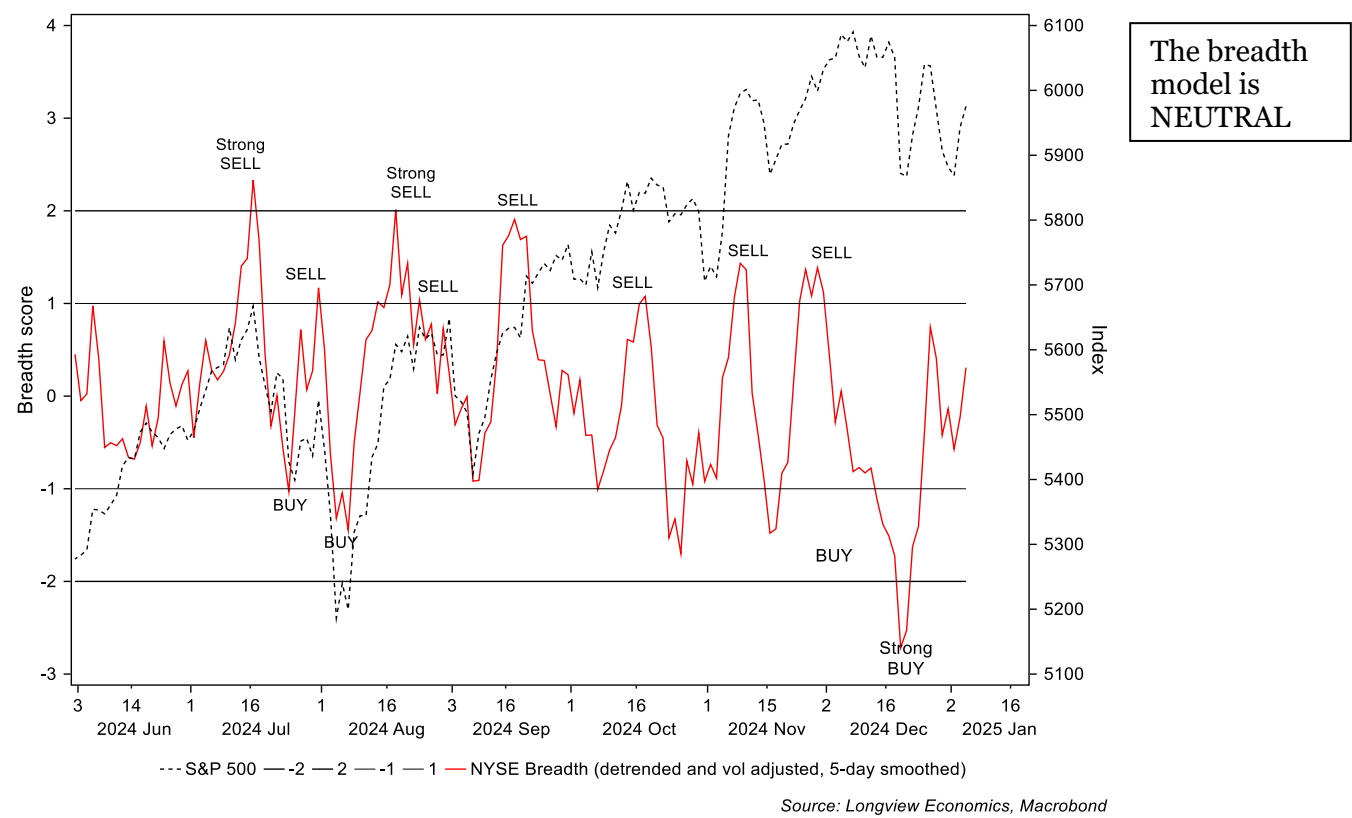


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

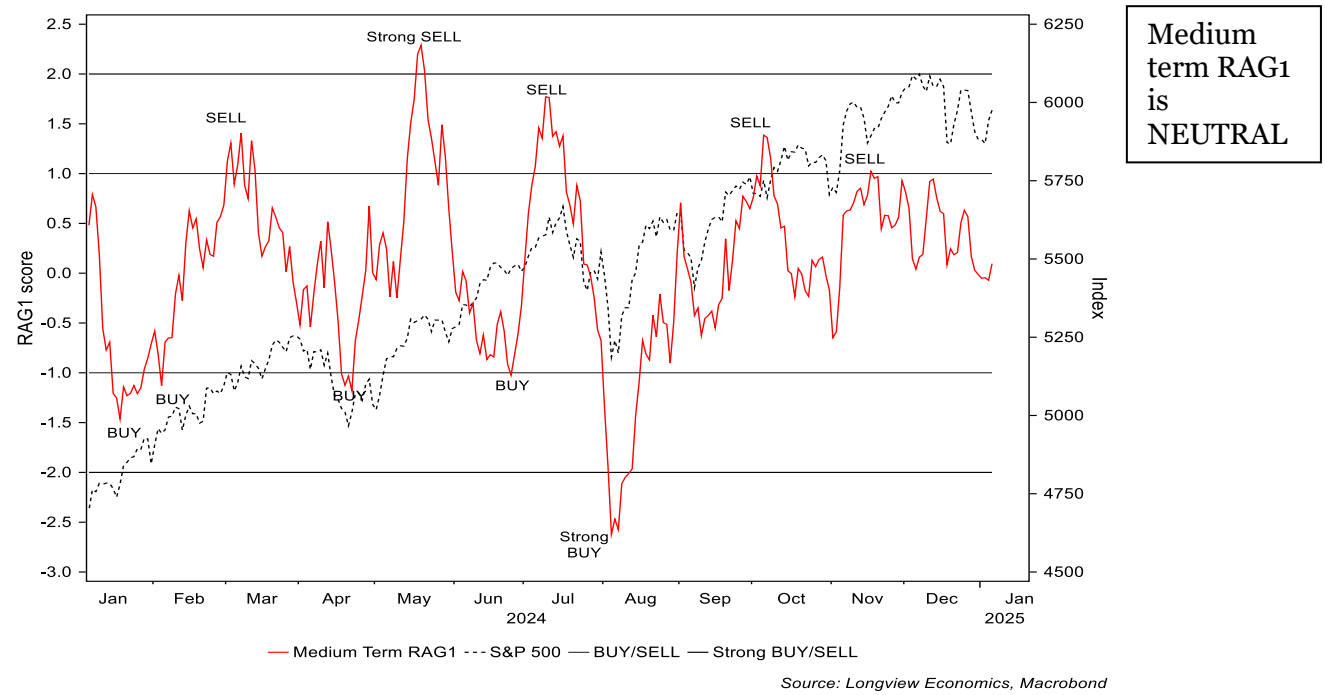
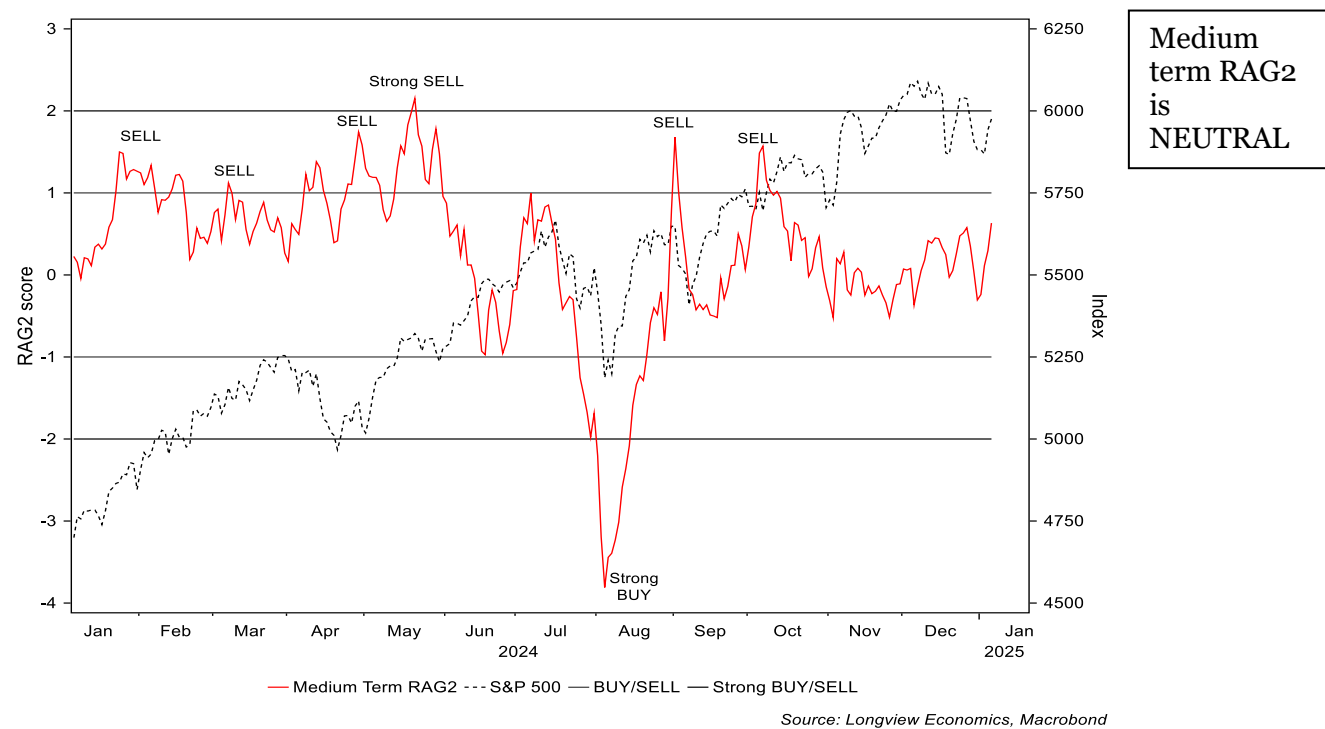


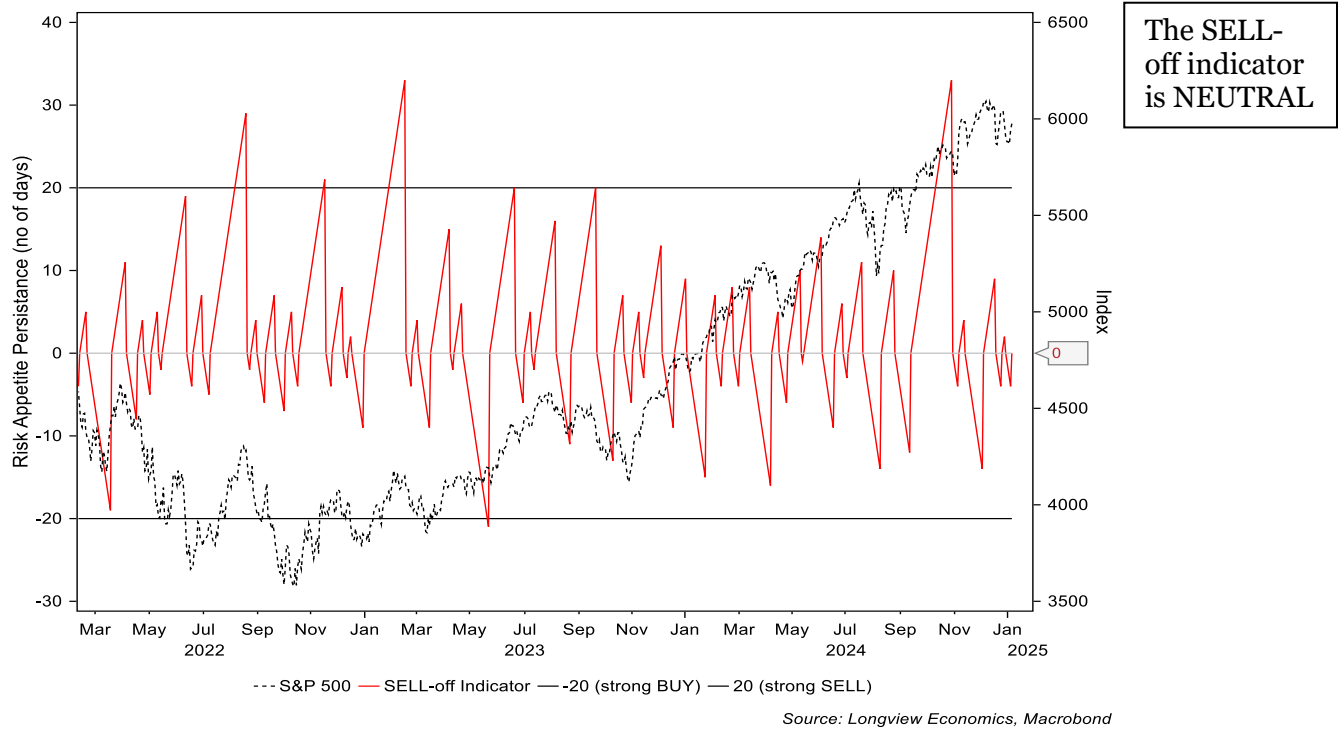
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



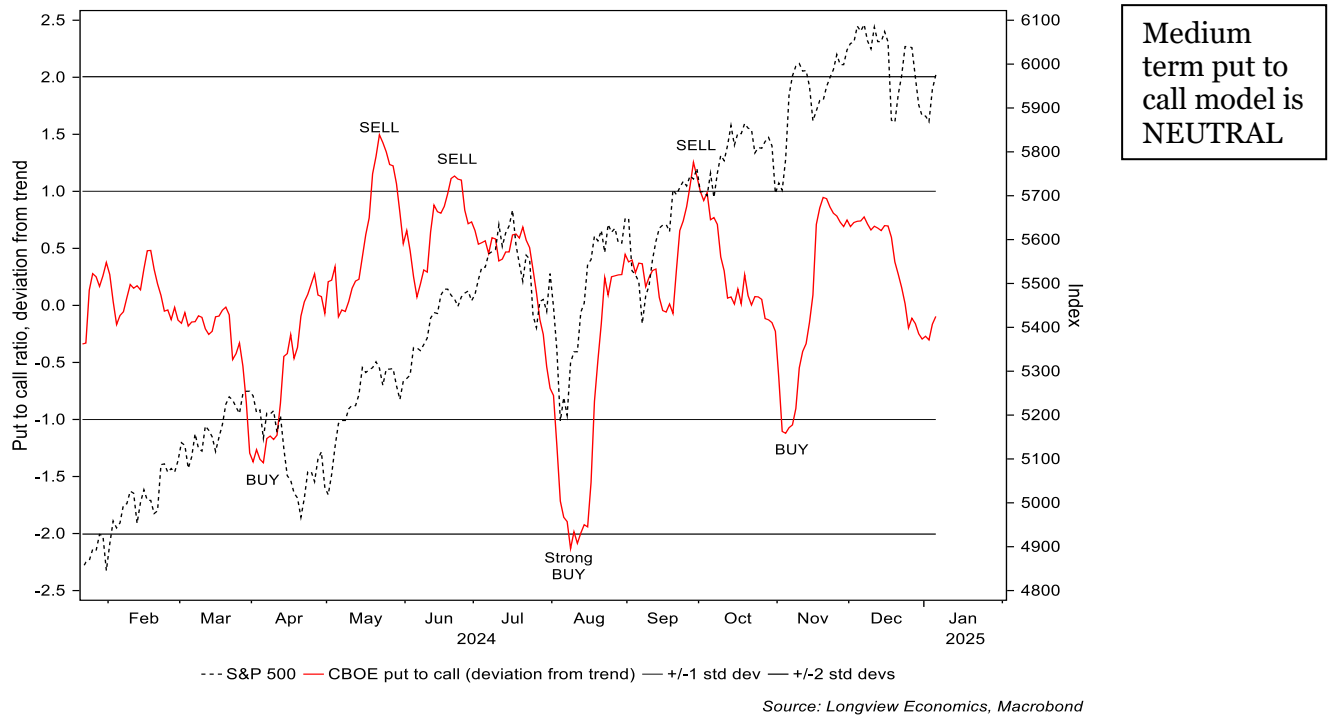
For explanations of indicators please see page 10



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

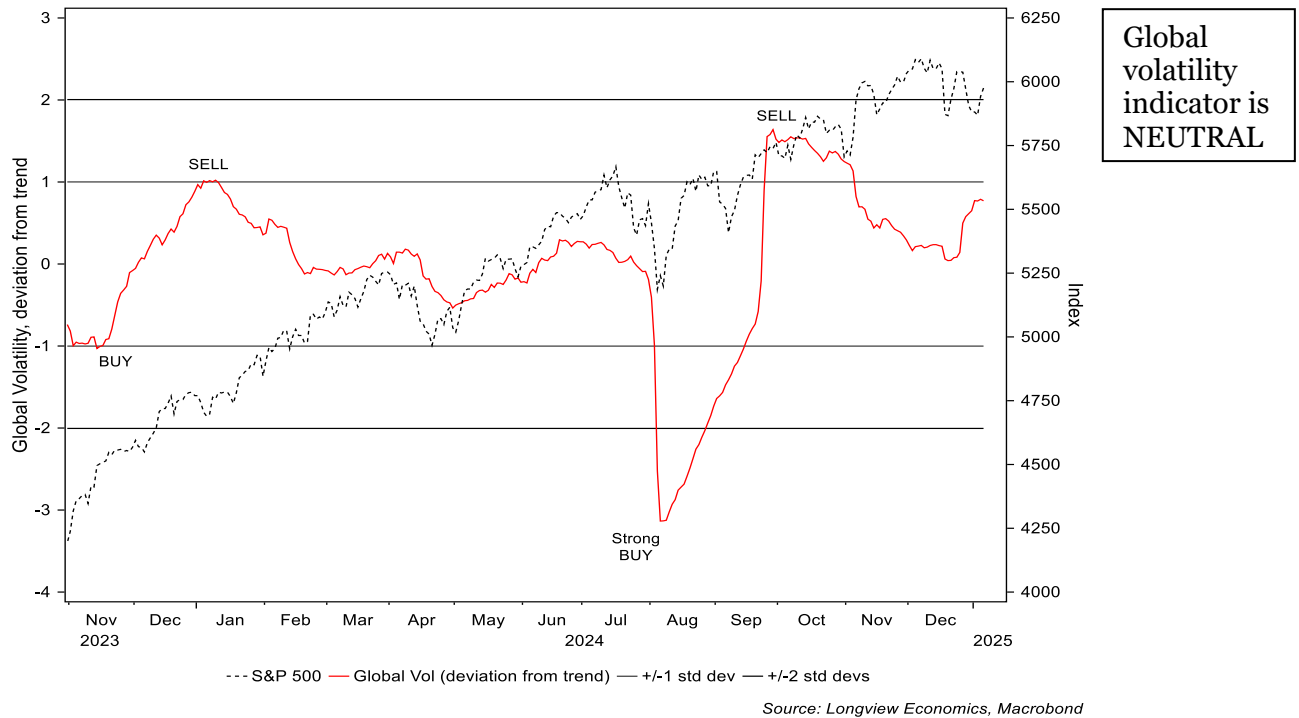


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

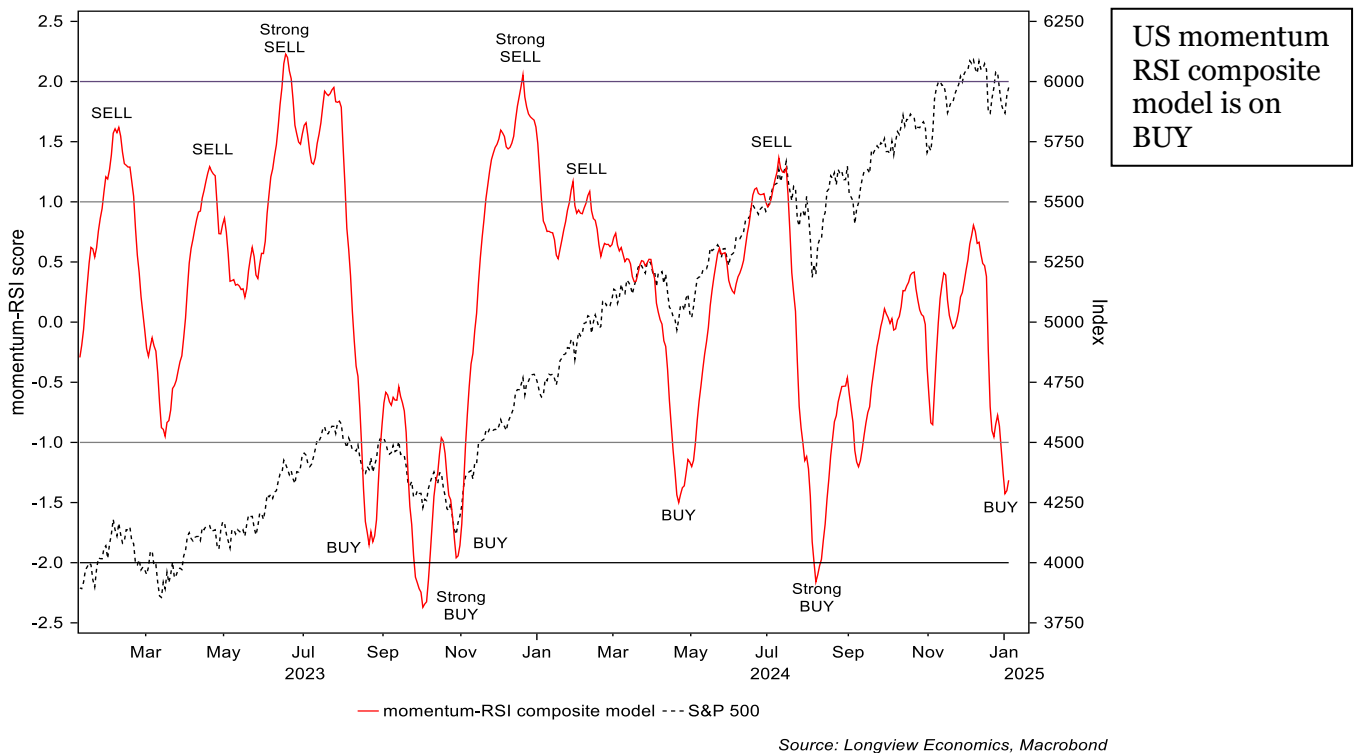


**For explanations of indicators please see page 10**

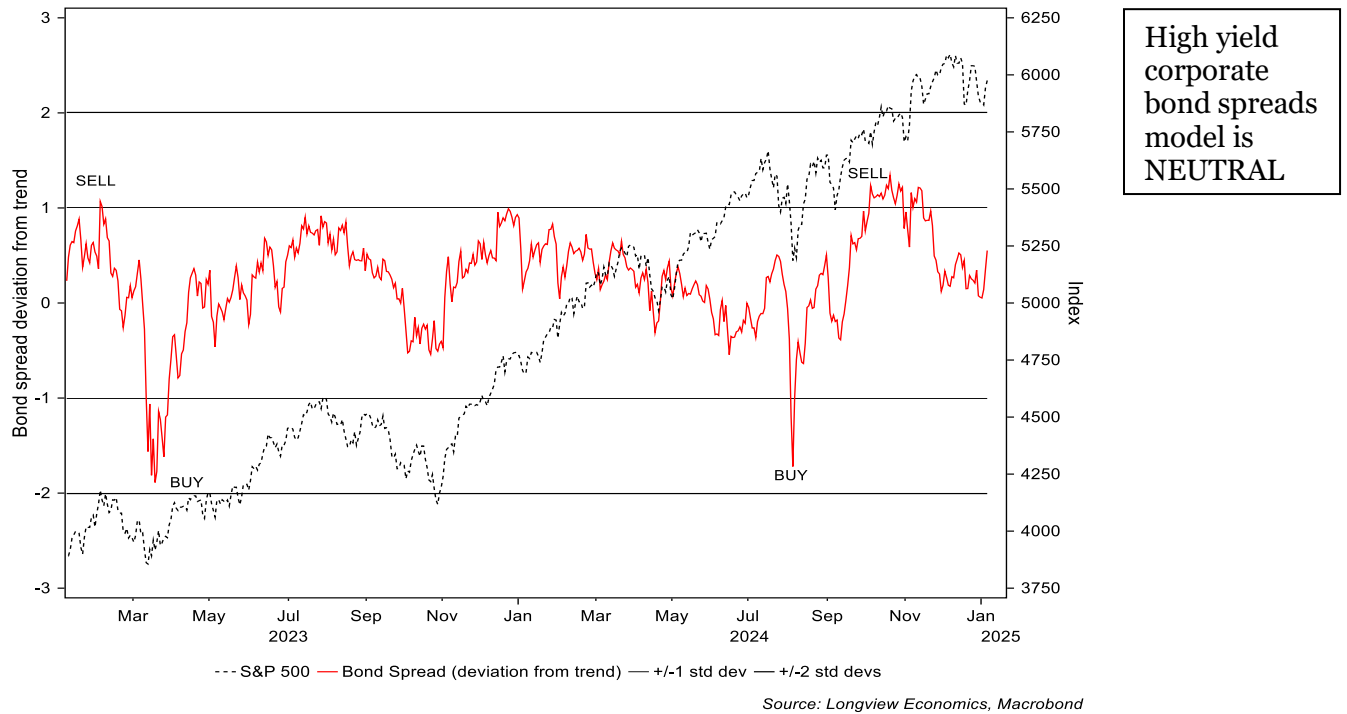
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



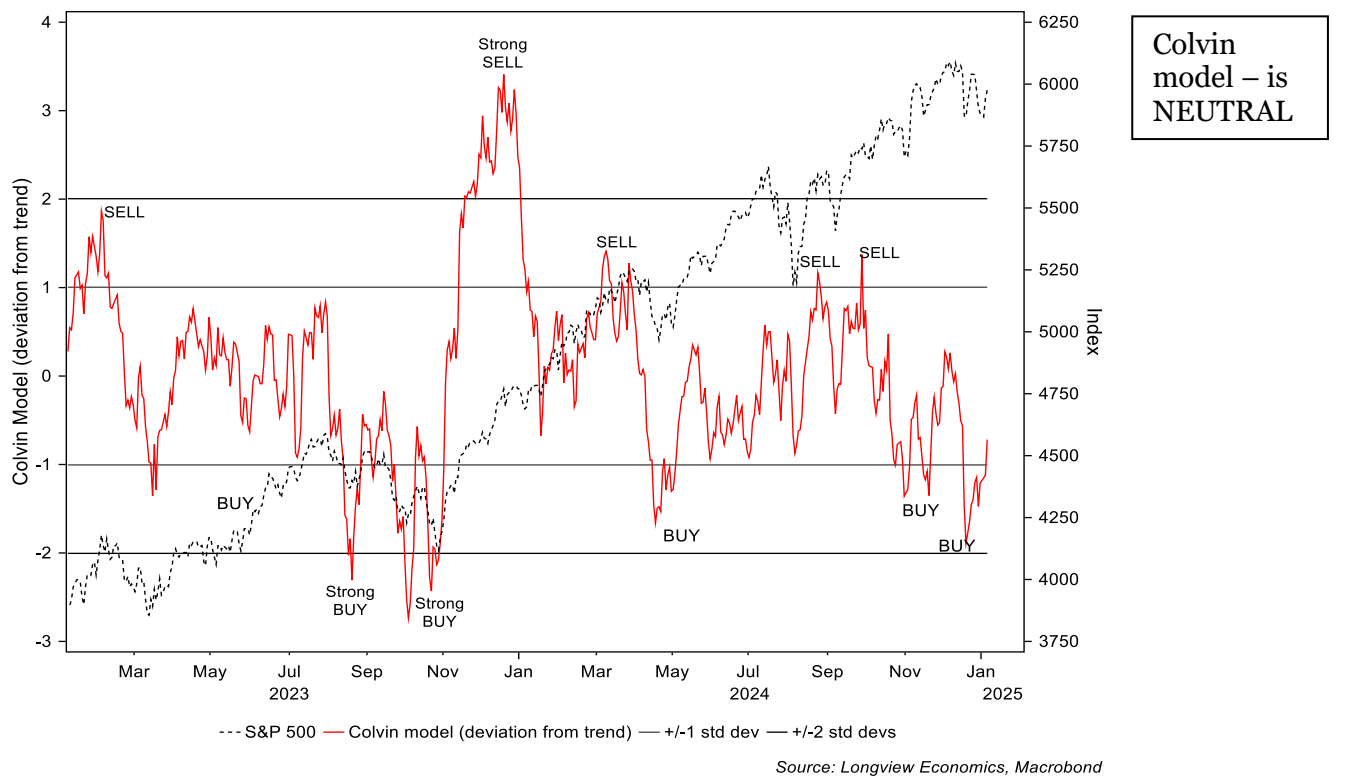
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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