Equity Index Futures Trading Recommendations

8th January 2025

"Move SHORT SPX futures on (modest) strength"

Email: info@longvieweconomics.com

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

- Attempt again to BUILD SHORT S&P500 March futures position (on modest strength if forthcoming).
- MOVE ¼ SHORT at 5,995.0 (SPX March futures).
- Implement a stop loss just above the top of the pennant at 6,055 (also approx. 1% above entry price).

Rationale

US equities reversed their early strength yesterday after the release of the 'better than expected' macro data (i.e. ISM services & JOLTS*). That data came out at 3pm London time (10am EST) with rapid knock-on effects in the equity and the bond markets. US bond yields jumped higher, with 10-year yields ending the day at 4.67% (up from 4.62% close the prior day). US 2-year yields closed 2bps higher, whilst 3 – 4bps of cuts were priced out of the curve (i.e. Fed funds by year end 2025 and 2026). Most of the key US headline equity indices that we track closed down. The S&P500 was -1.1%; NDX100 was -1.8%; & Philly SOX -1.8%. Key mega cap tech stocks reversed their gains from prior sessions (Nvidia -6.2%; Tesla -4.1%; Amazon -2.4%). Nine of the 11 S&P500 top level sectors closed down (along with most of the industry groups). European equity markets were more mixed (DAX +0.6%; FTSE250 mid caps -1.3%). The dollar rallied modestly, the VIX picked up again (up 178bps, closing at 17.82%), while gold & silver were both modestly higher (even though US yields were higher).

Despite the strength in equities earlier in the US session, S&P500 futures didn't reach our SHORT entry level of 6,050 (peaking at 6,045). As such, we're currently NEUTRAL.

The message of the short term (1 – 2 week) models remains split. Technically, as highlighted in recent emails, the equity market is oversold (or close to oversold) at an index, sector, and single stock level (see FIGs 4 to 4c). The number of single stocks in the US market that are overbought, for example, is currently as low as 9% (and, therefore, consistent with strength in the headline index over coming weeks); the average 14 day RSI reading for the S&P500 industry groups is 39% (i.e. below 1 standard deviation); whilst the S&P500 headline index is close to its -1 standard deviation level (FIG 4). **From a technical perspective, therefore, this market looks as though it's readying itself to rally. Technical models, however, can be early (and often are).** Other key short-term models, like the risk appetite and put to call ratios, have a different message. All of these, despite yesterday's weakness in equities, remain on SELL. Market participants remain greedy (i.e. risk appetite is high), whilst there's an absence of downside put protection in portfolios. Indeed, the single stock call option volumes model is at a high level, which is indicative of the enthusiasm (likely retail) for the (LONG) 'Mega cap' tech trade. That backdrop (of greediness) suggests a further washout of traders positioning is likely in this short-term pullback.

If correct, then the entry level is the key (i.e. for SHORT positions). **Key support levels** include the bottom end of the current pennant formation in the S&P500 futures (i.e. 5,920); then 5,855/75 (recent intraday lows); and then 5,800/5,814 (low end of consolidation range since November). Key resistance levels include 5,980/6,000 (see GIP chart – FIG 1a); then 6,053 (as outlined yesterday/highs from 11th November); and then 6,100 (26th Dec highs) & finally 6,150 (record highs on March futures).

As such, given those support levels and the message of the models, there is an interesting risk reward on offer. That is, the potential downside for the S&P500 is to 5,800 (i.e. the lower end of the consolidation range**). That is approx. 160 S&P points lower from current levels and 200 points below an interesting entry point for SHORT positions (which is at around 6,000, i.e. a key resistance level and just above current prices). In that scenario, a stop loss just above the top of the pennant is sensible. As such we recommend looking again to BUILD SHORT positions in S&P500 futures at 5,995 (with a stop 1% higher at 6,055) – see trading recommendation above for full detail.

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

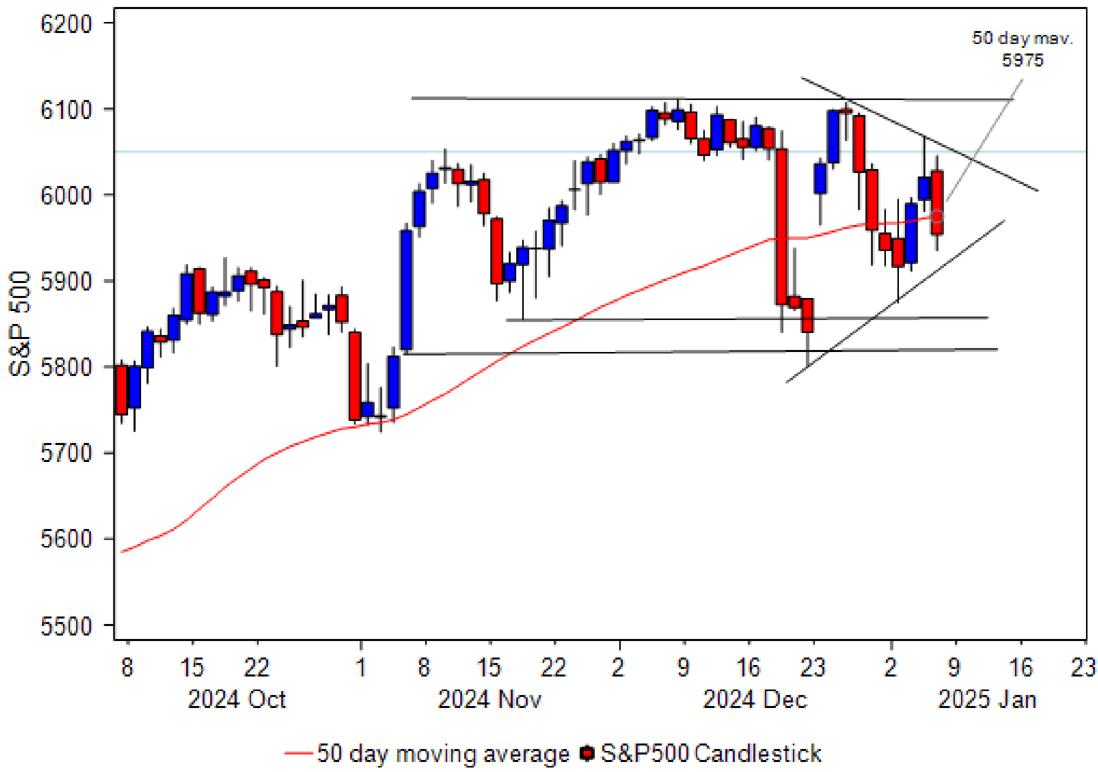
Kind regards,

The team @ Longview Economics

*ISM services headline data beat expectations (54.1 vs. consensus of 53.3). The subcomponent 'prices paid' index was also strong (64.4 after 57.5 last month) and troubled the market. JOLTS job openings (headline data) was also stronger than forecast (8.1mn vs. consensus of 7.7mn).
**and potentially lower if the lower consolidation range support breaks.

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)

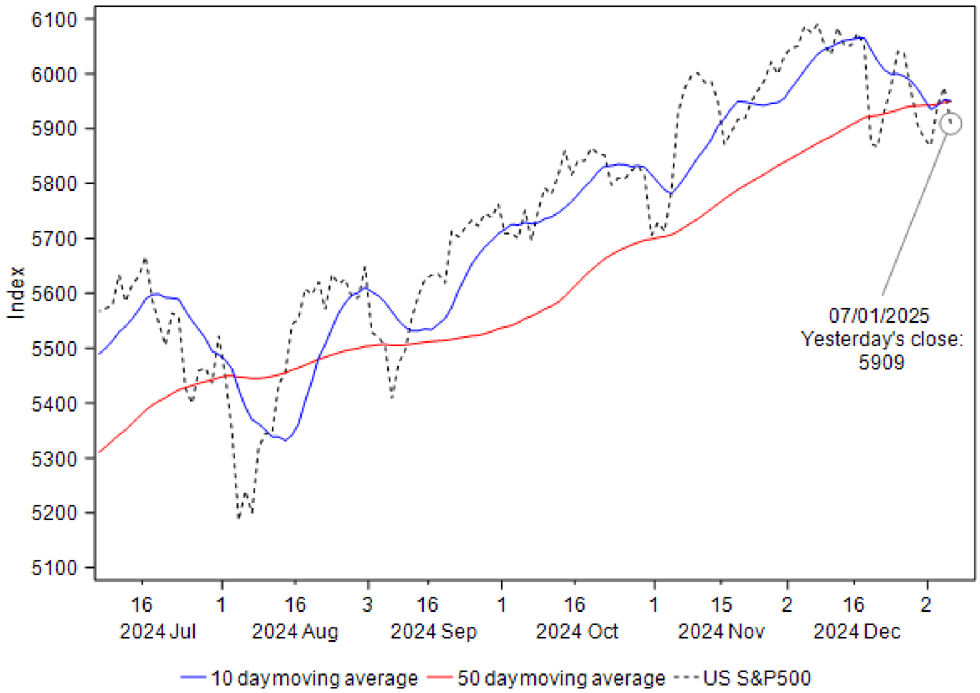
FIG 1: S&P500 candlestick shown with its 50-day moving average



Source: Longview Economics, Macrobond

FIG 1a: S&P500 March futures tick chart shown with overnight price action

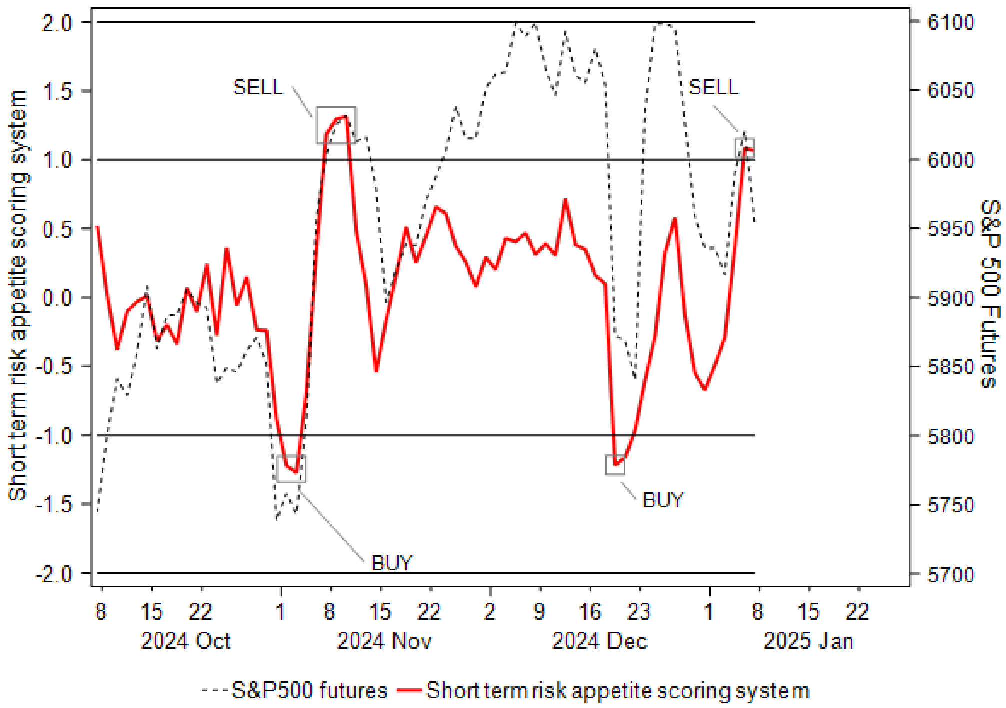
FIG 1b: S&P500 futures shown with 10 & 50 day moving averages



Source: Longview Economics, Macrobond

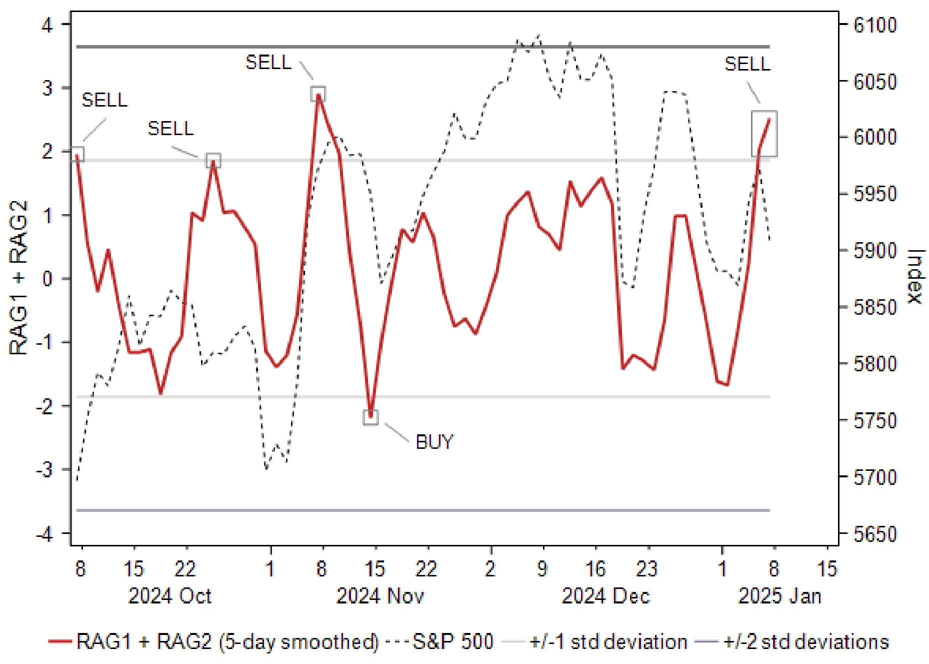
Risk appetite models are on SELL…

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



Source: Longview Economics, Macrobond

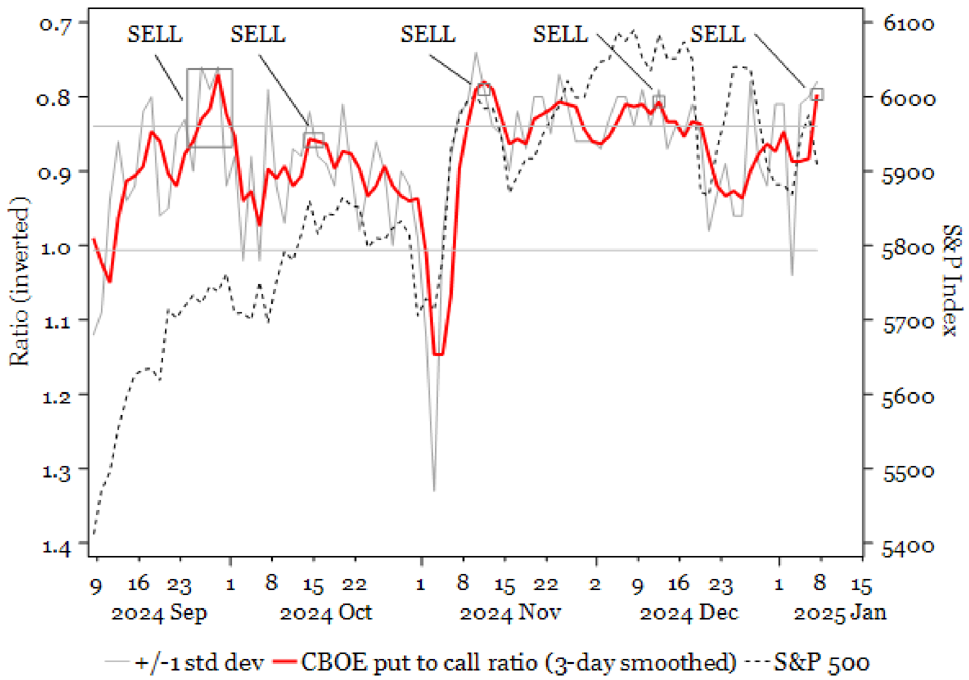
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection in portfolios is low (with models on 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

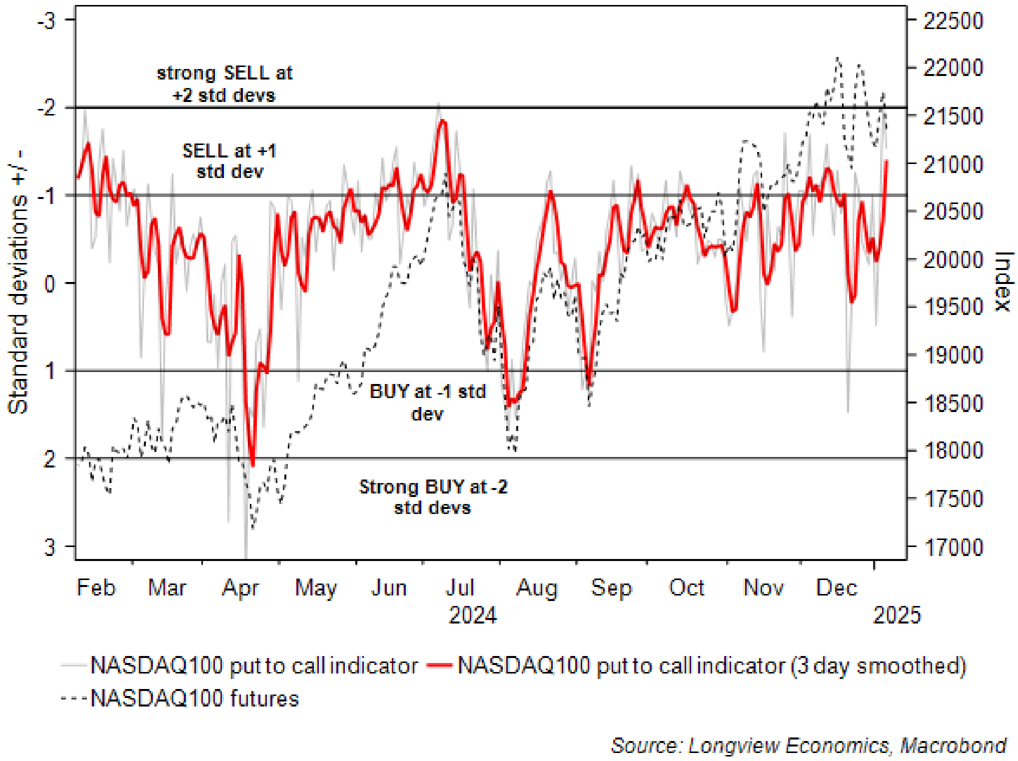
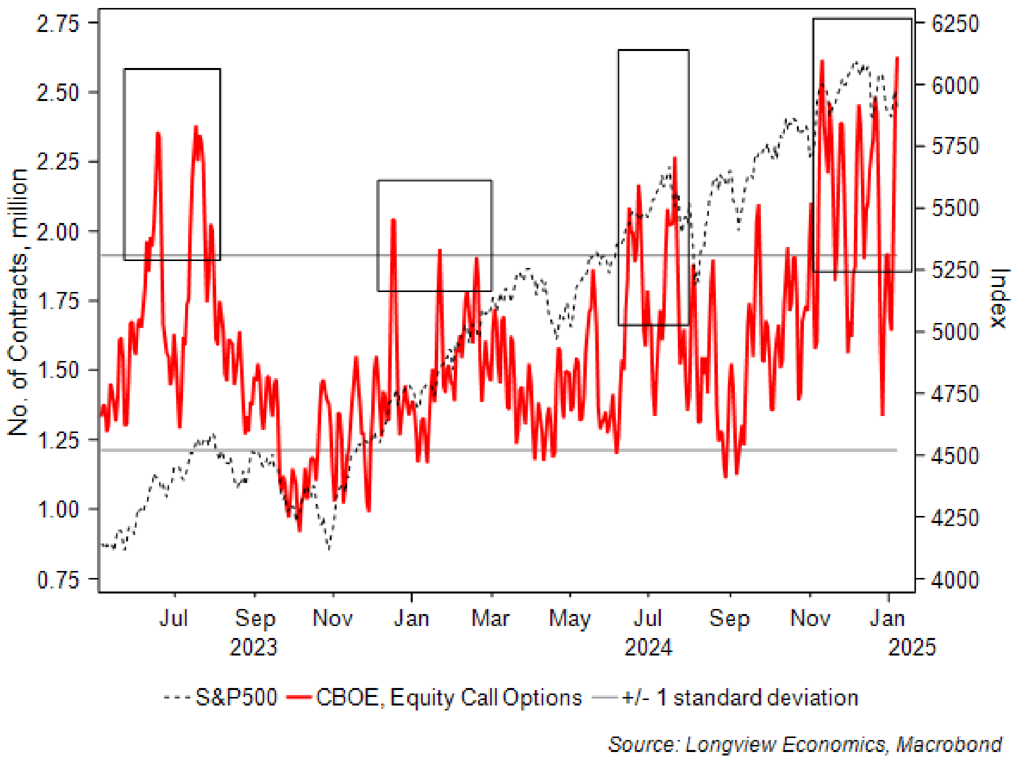
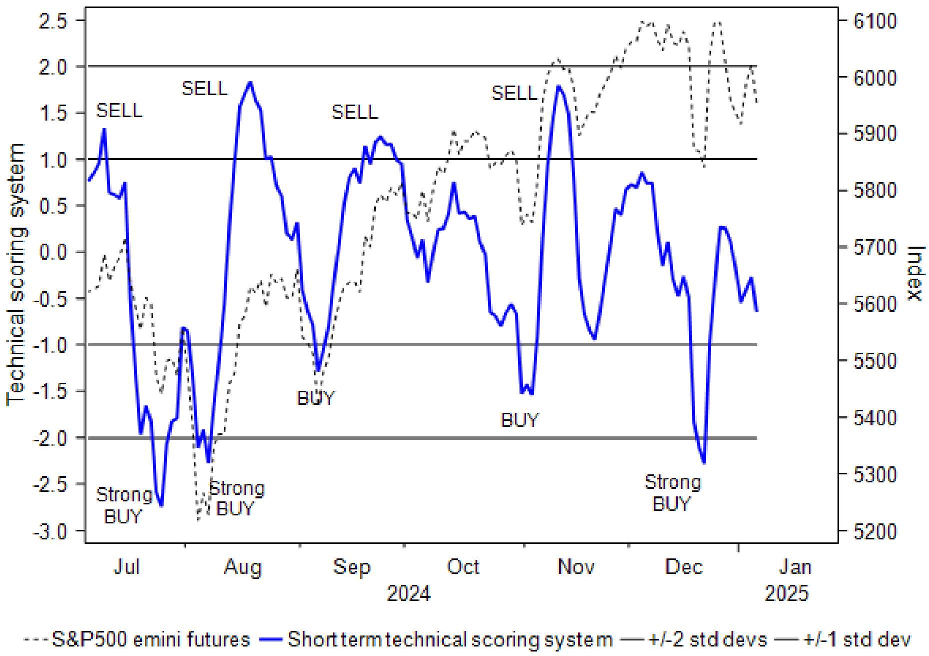


FIG 3b: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500



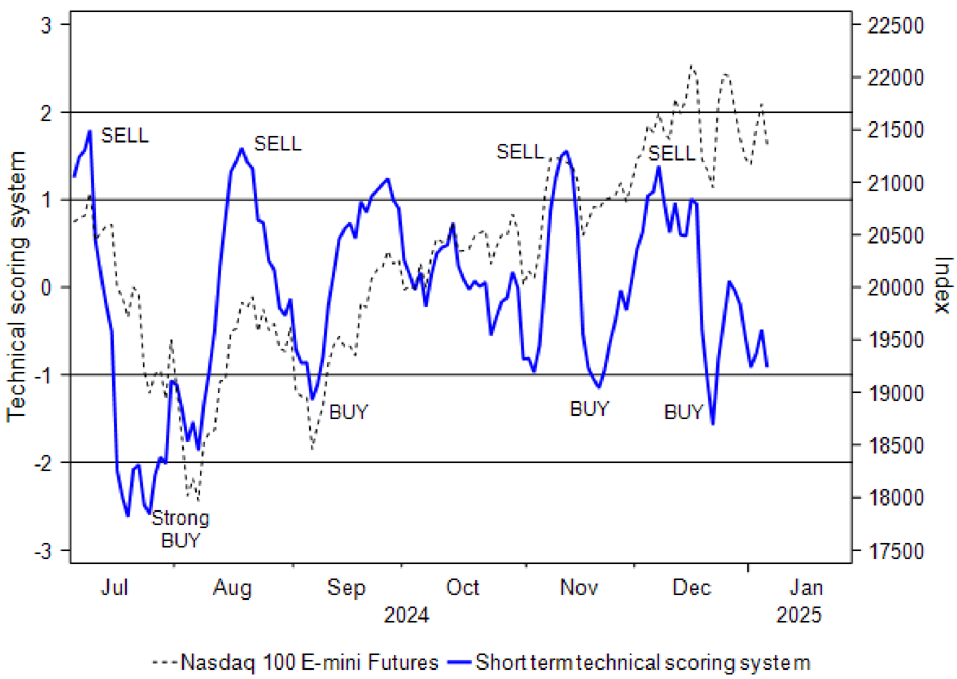
Technical models (for indices) are mostly on/leaning towards BUY….

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



Source: Longview Economics, Macrobond

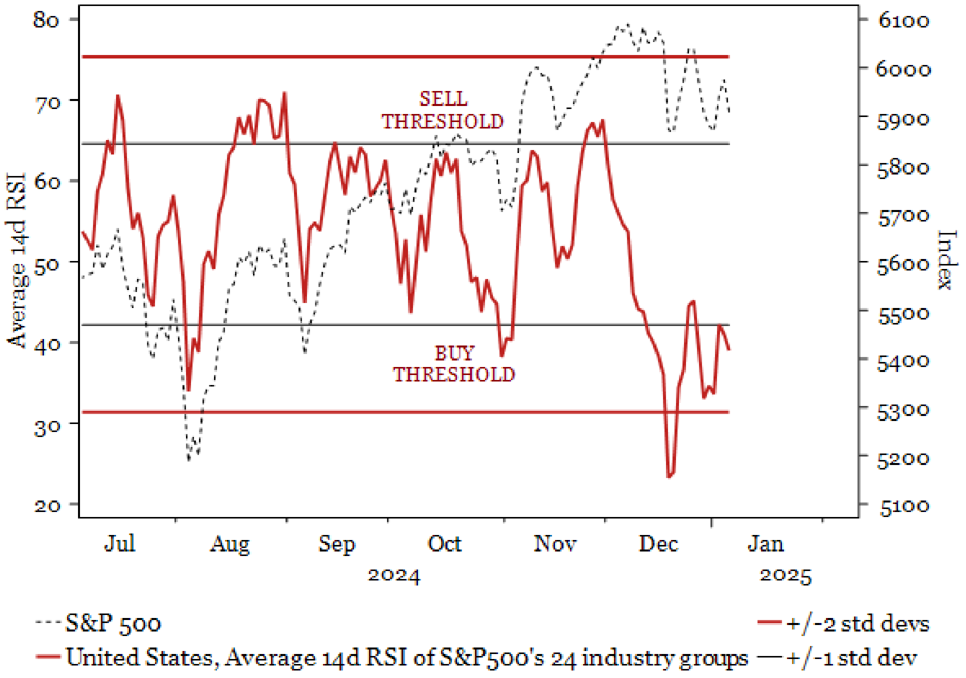
FIG 4a: Longview NDX100 short term **'technical'** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

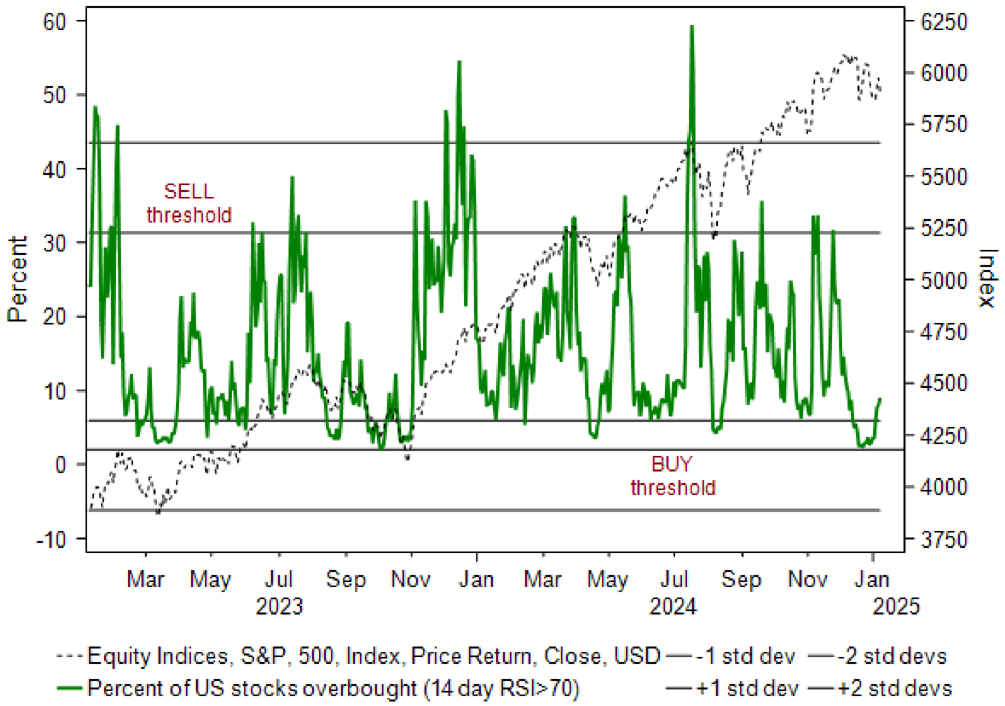
Sector and single stock technical models are mostly on/close to BUY….

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



Source: Longview Economics, Macrobond

FIG 4c: Percentage of US single stocks which are overbought (i.e. with RSIs>70)

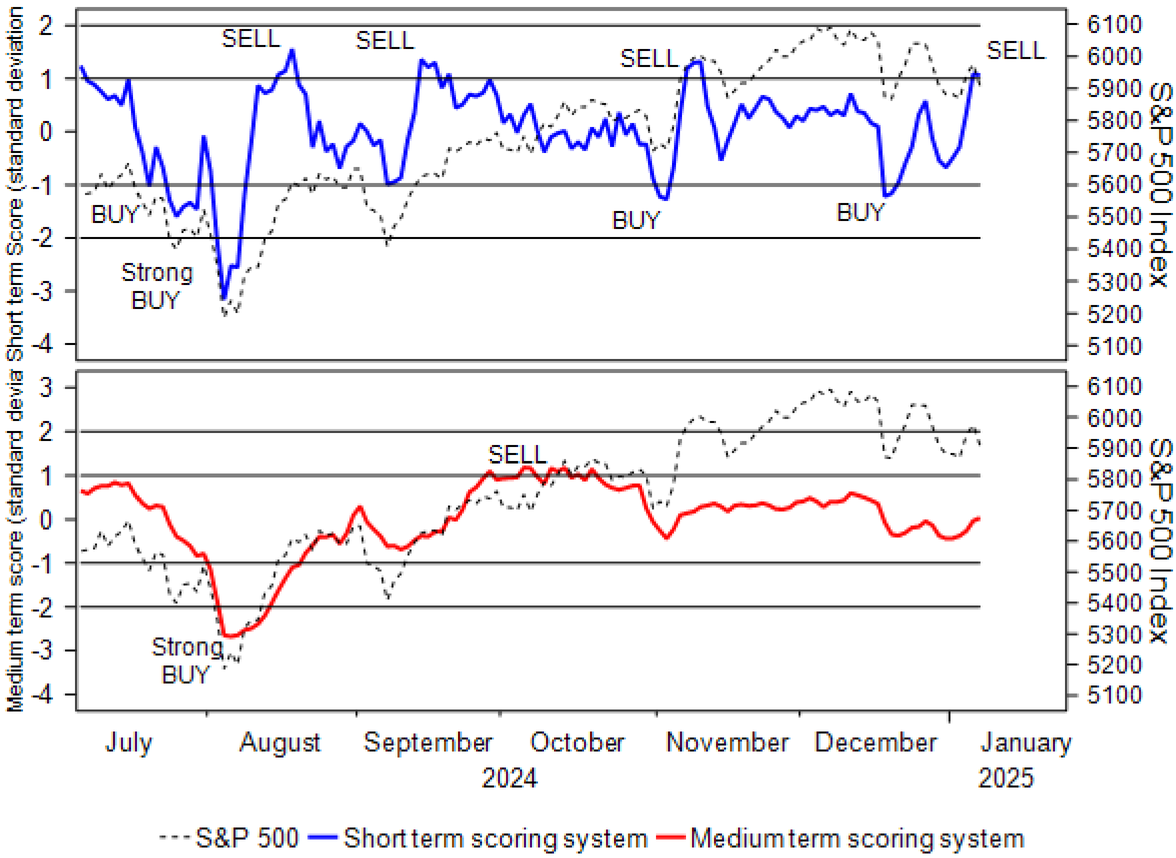


Source: Longview Economics, Macrobond

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: Australian headline CPI (Nov, 12:30am); Australian job vacancies (Nov, 12:30am); **Japanese ESRI consumer confidence** (Dec, 5am); **German retail sales** (Nov, 7am); **German factory orders** (Nov, 7am); French INSEE consumer confidence (Dec, 7:45am); Eurozone consumer confidence (December final estimate, 10am); **Eurozone PPI** (Nov, 10am). **US ADP employment change** (Dec, 1:15pm); US consumer credit (Nov, 8pm); Japanese cash earnings (Nov, 11:30pm).

Key events today include: Speech by the Fed's Waller on the Economic outlook (1:30pm); speech by the ECB's Villeroy in Paris (5:30pm); **Fed minutes from December meeting** (7pm).

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 yesterday, 7th January 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

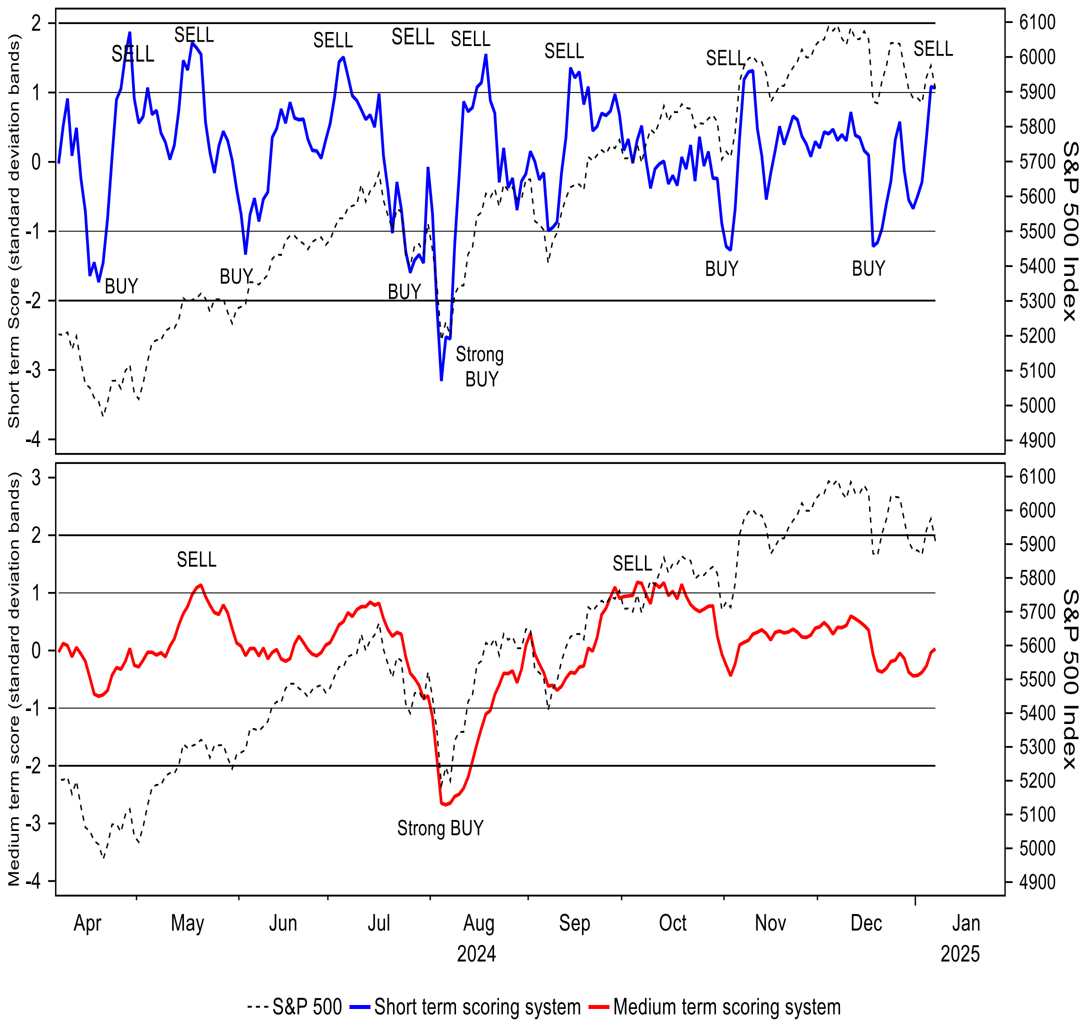
1 – 2 Week View on Risk

8th January 2025

Longview Economics
Email: research@longvieweconomics.com

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

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



Short term scoring system is on SELL

Medium term scoring system is NEUTRAL

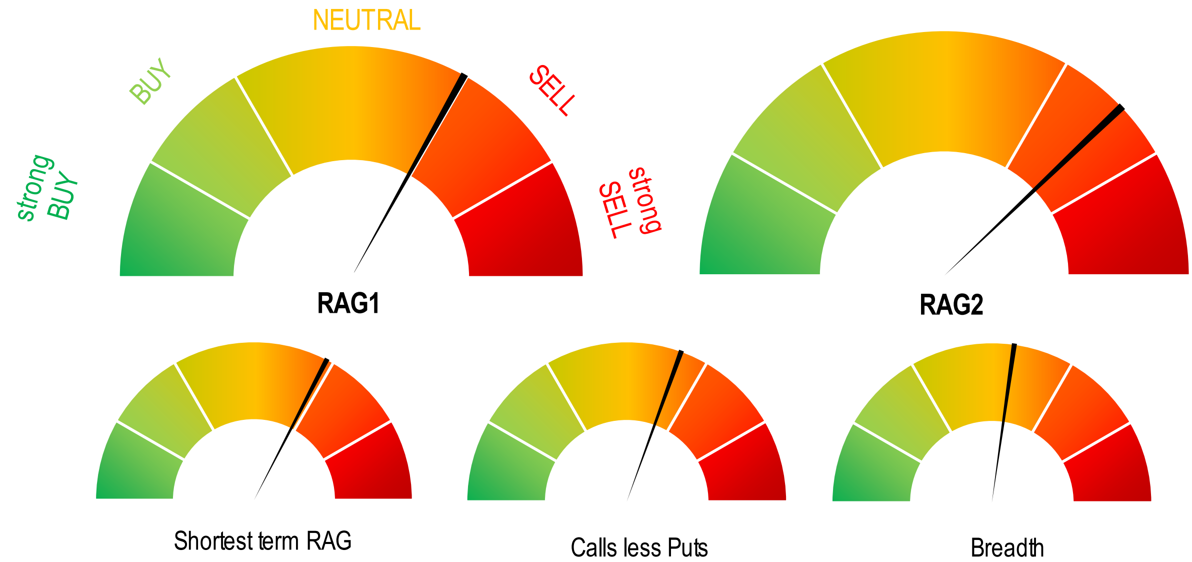
Source: Longview Economics, Macrobond

*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

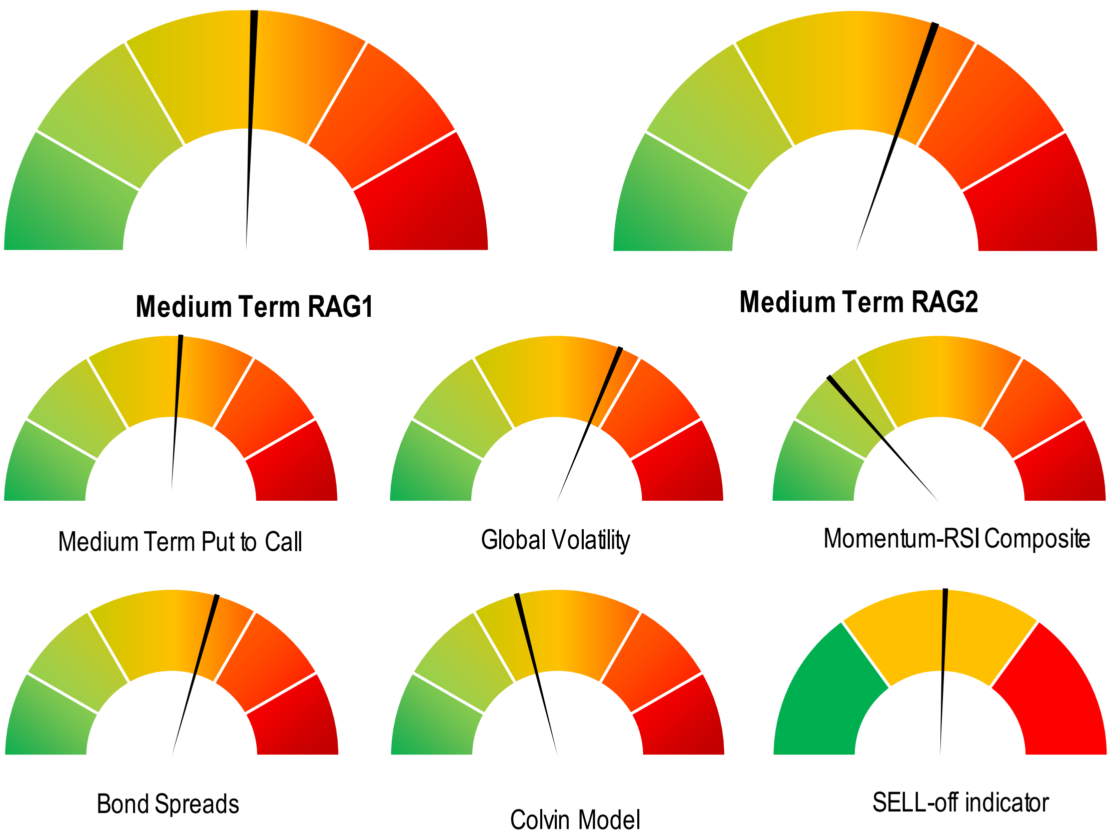
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

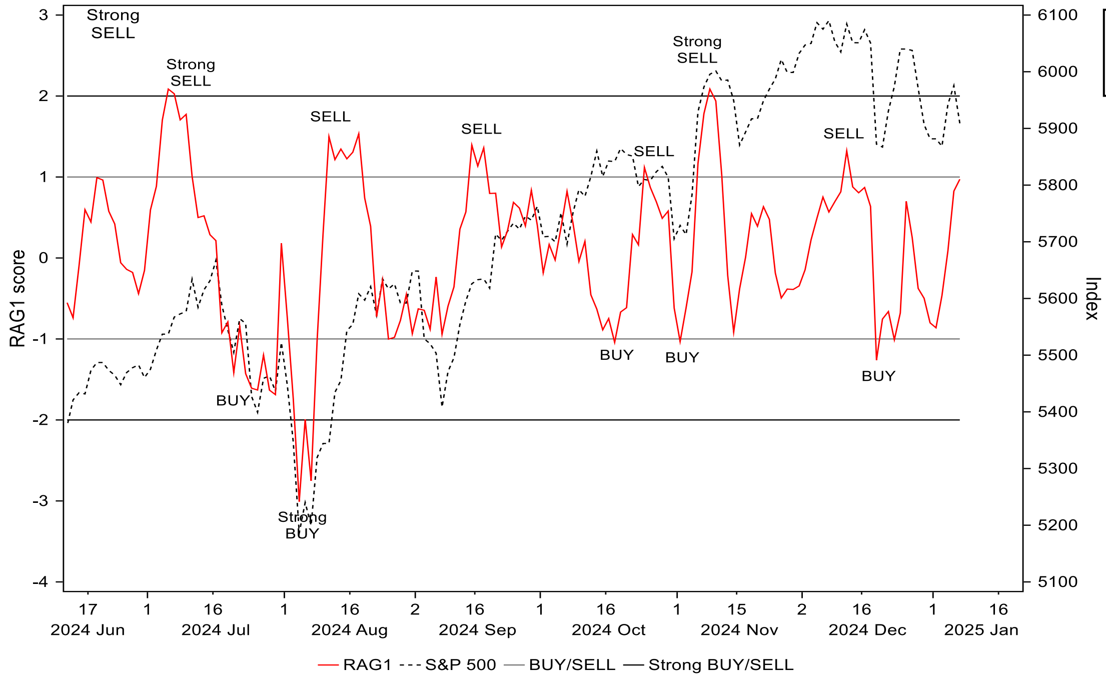
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

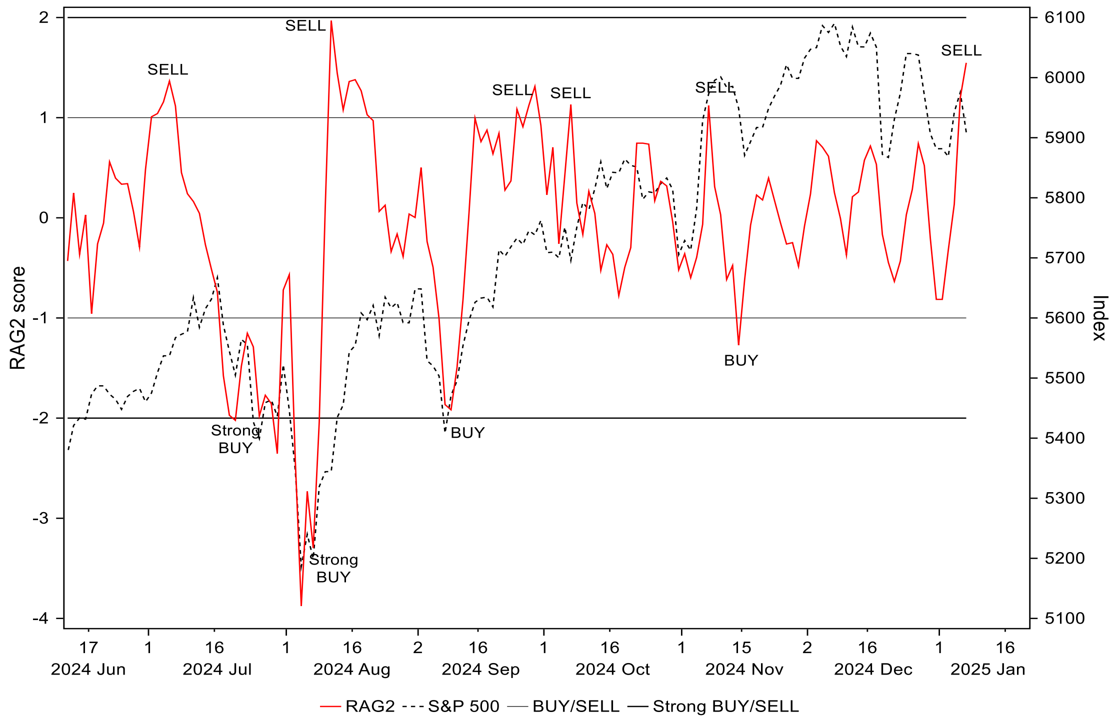
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

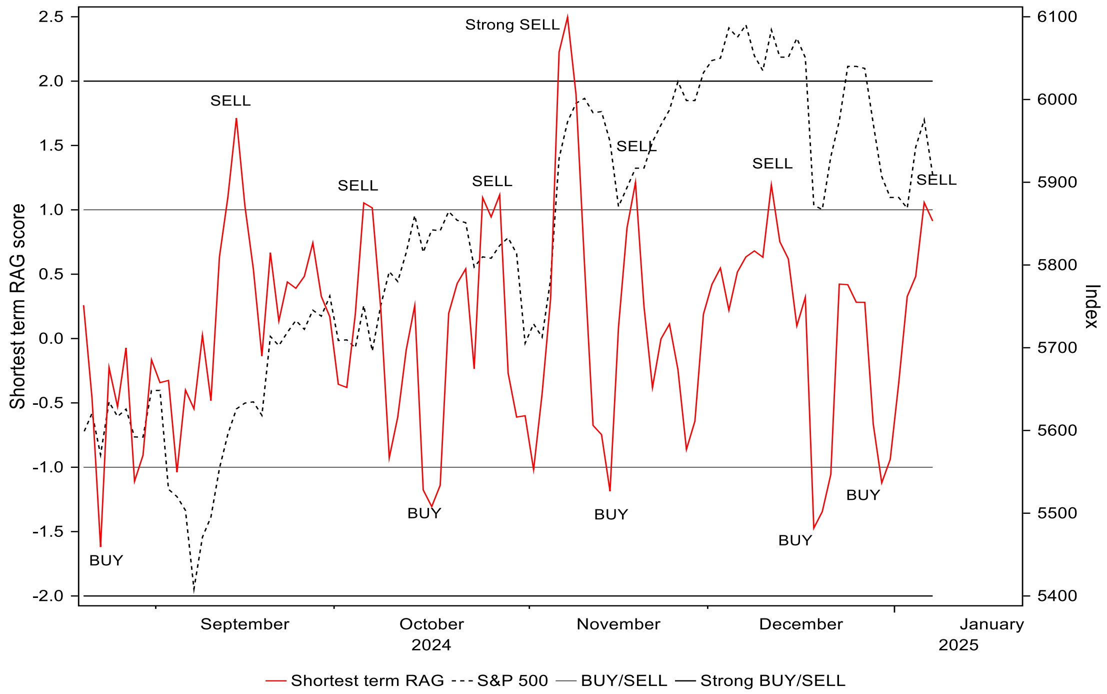


RAG2 is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

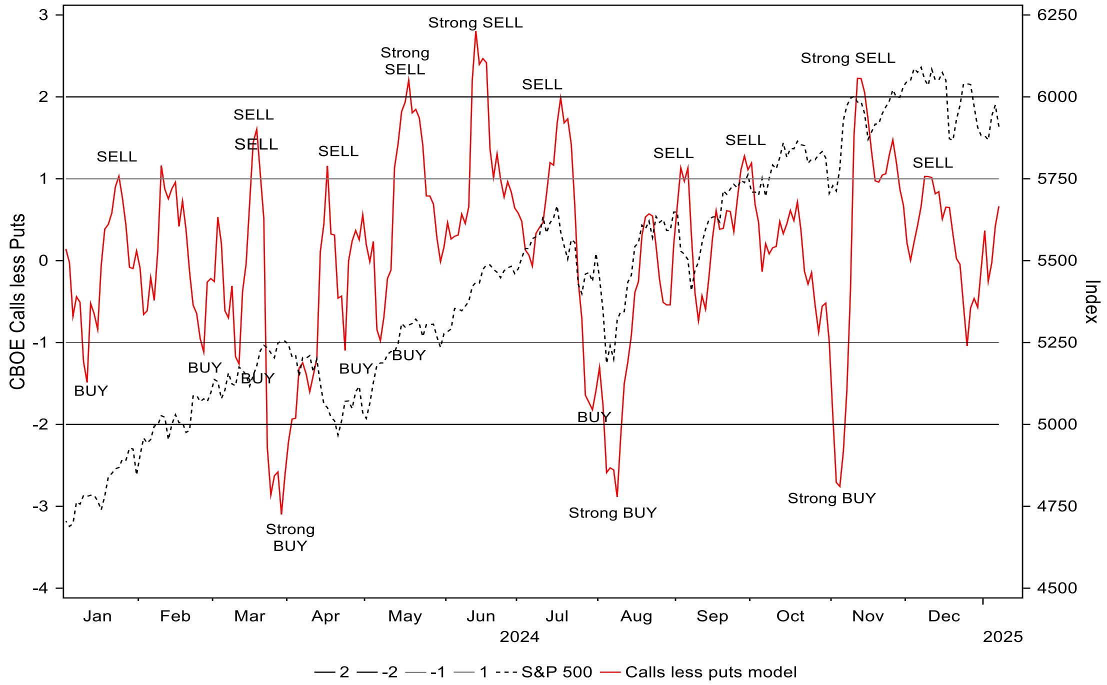
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

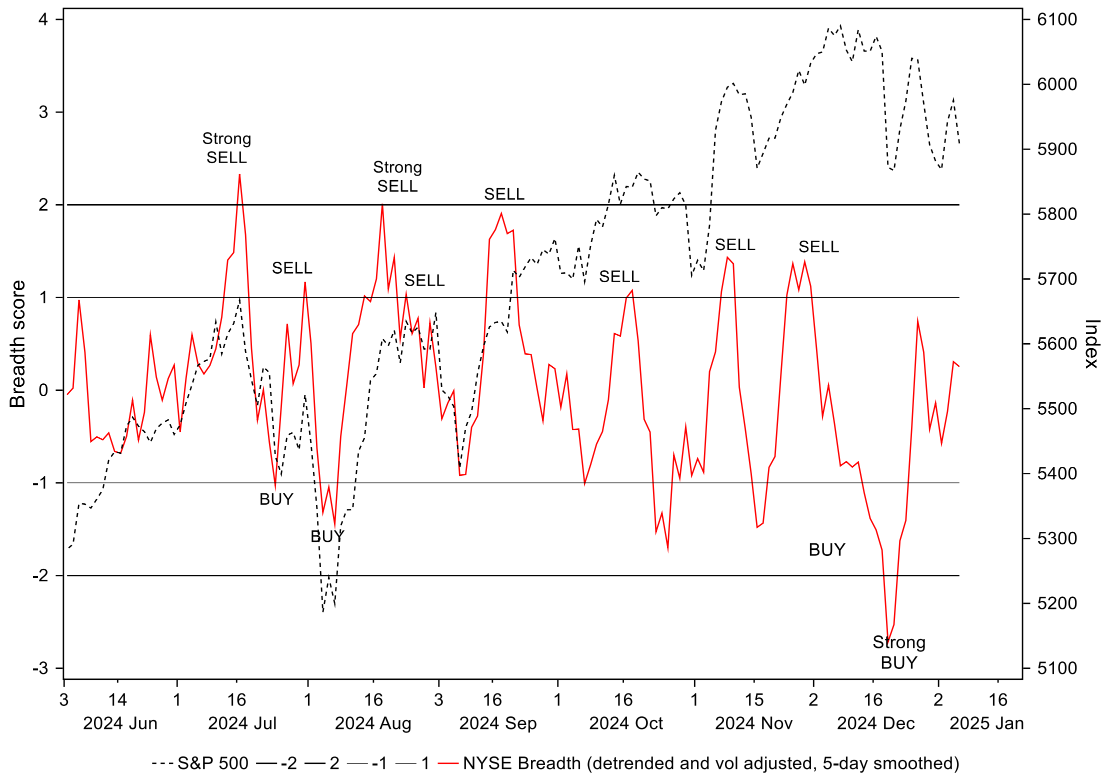


Source: Longview Economics, Macrobond

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

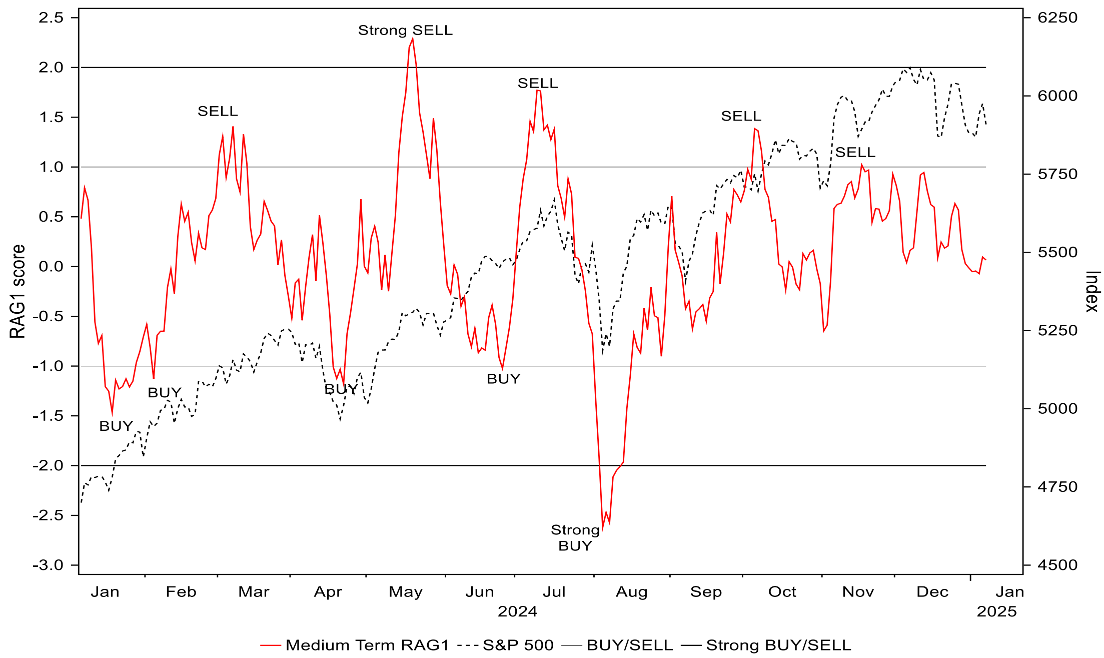
The breadth model is NEUTRAL

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

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

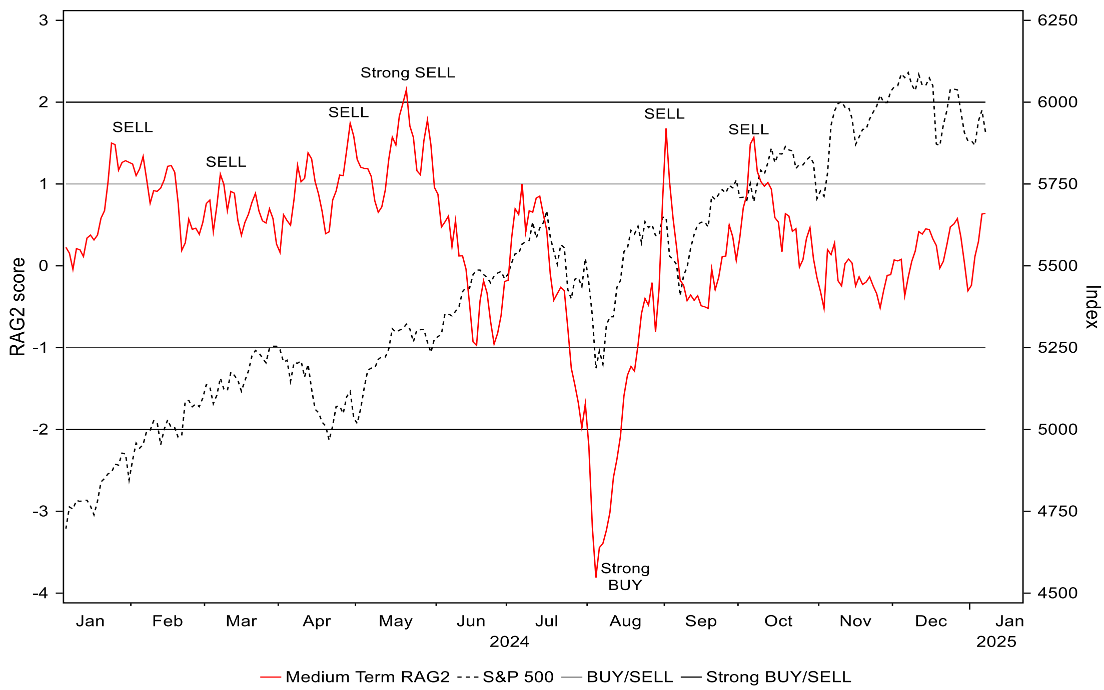
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

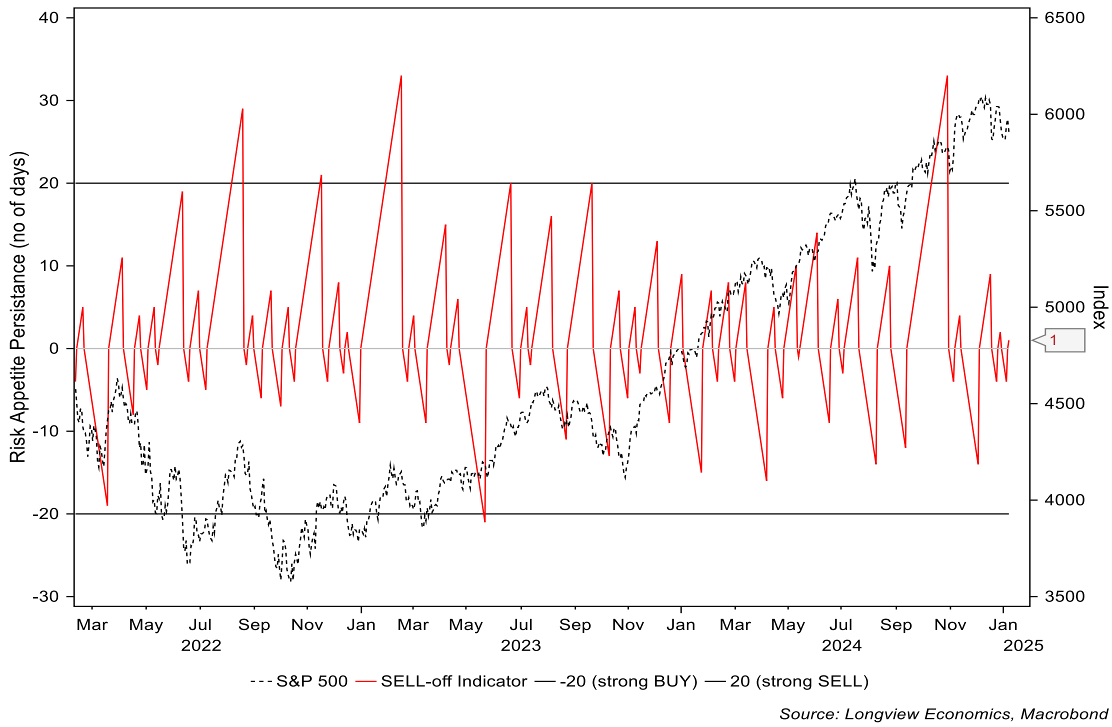


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

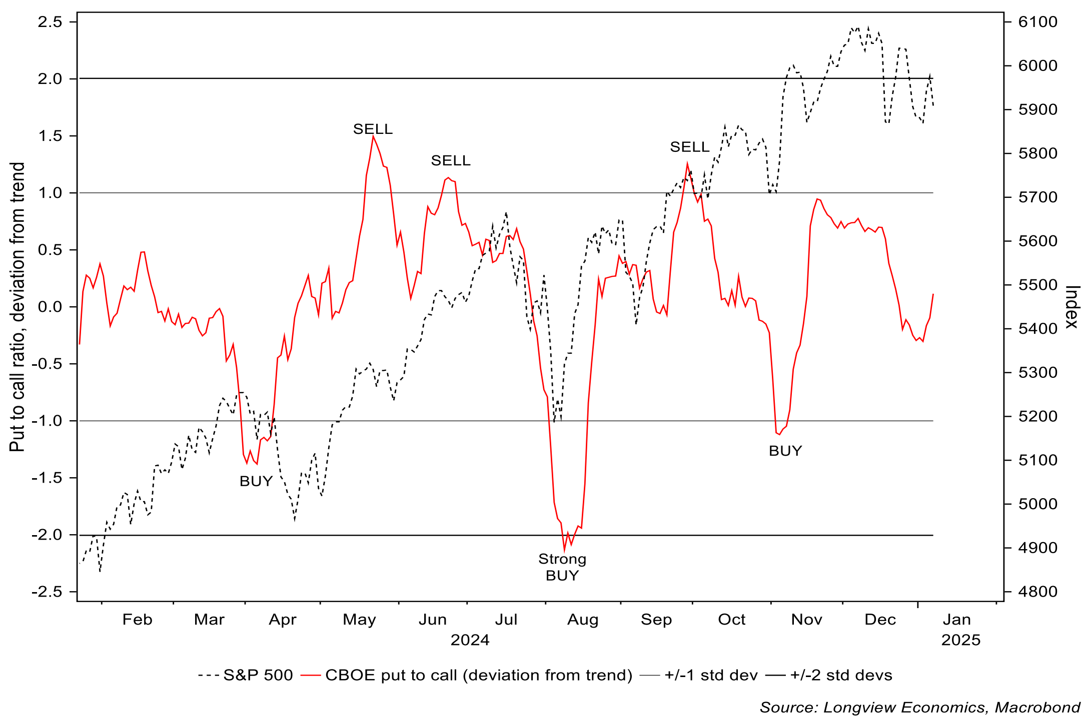
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

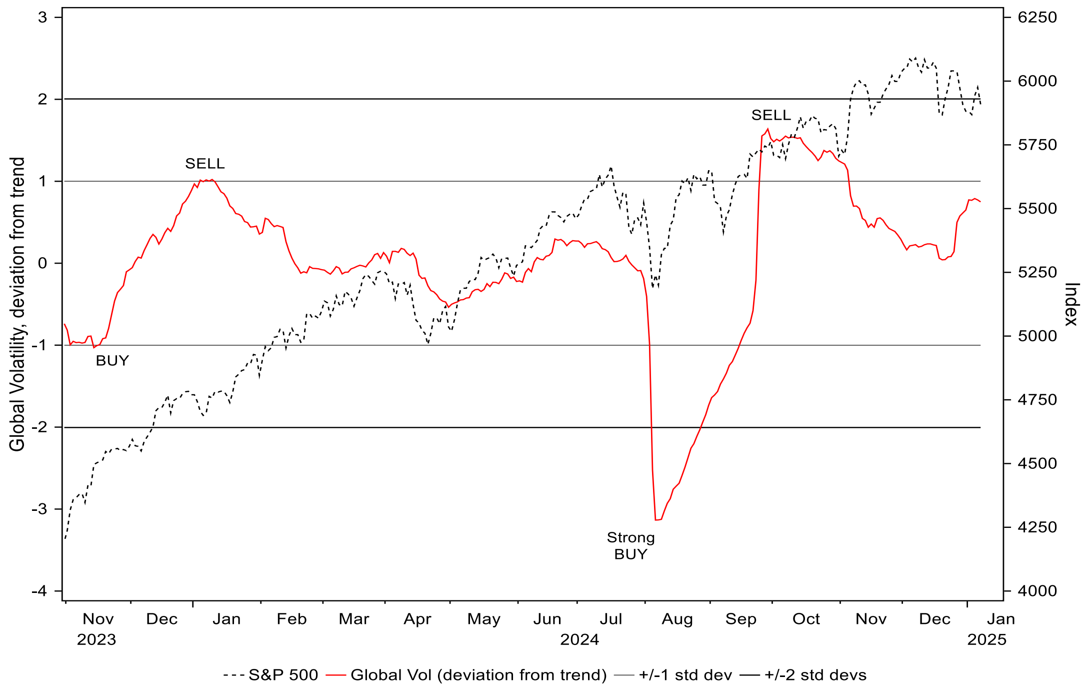
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

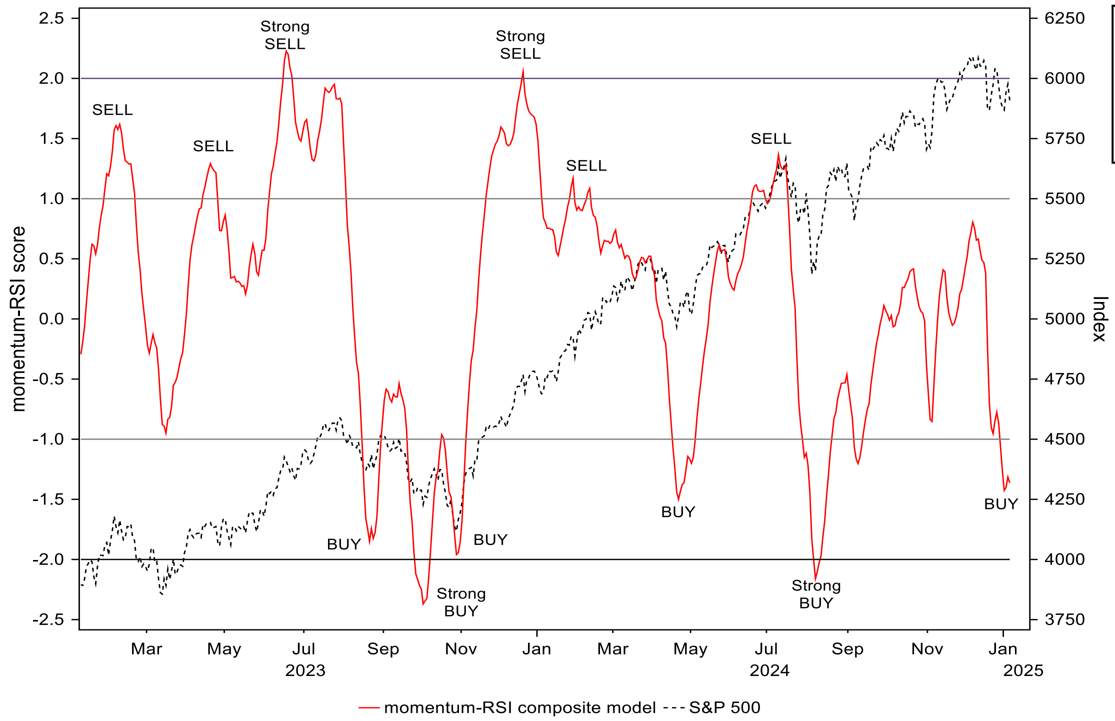
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



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 on BUY

Source: Longview Economics, Macrobond

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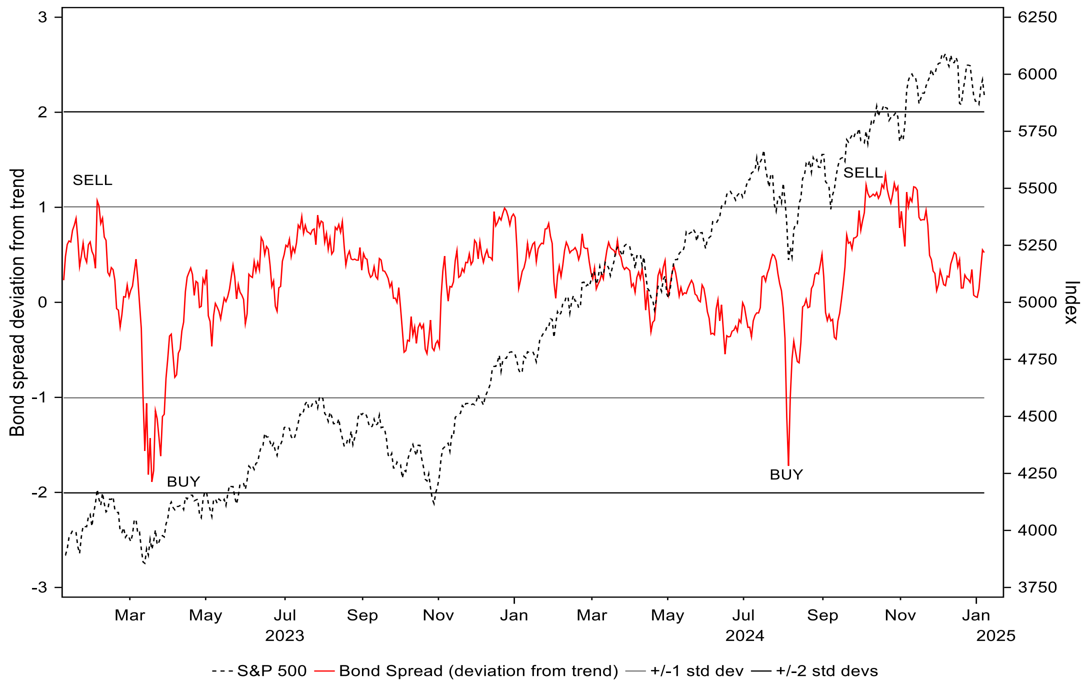
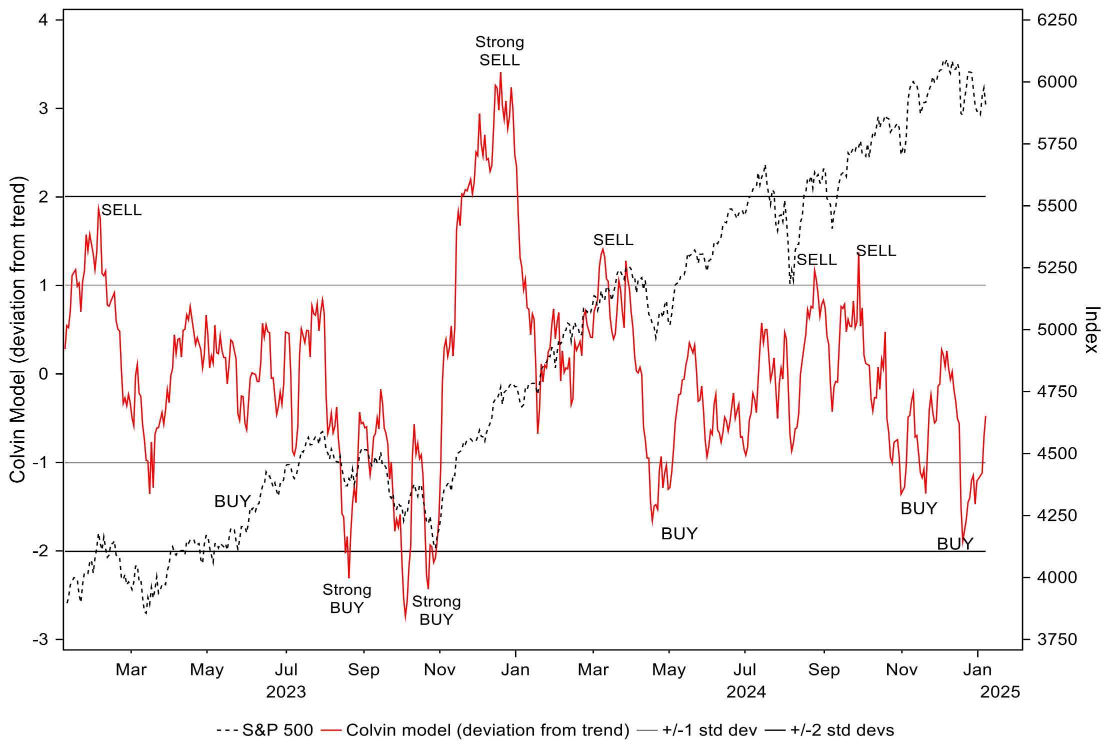
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 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.

LVRAG
Daily Risk Appetite Gauge

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