Equity Index Futures Trading Recommendations

9th December 2024

"Watch & Wait"

Email: info@longvieweconomics.com

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

- continue to WATCH & WAIT (for now).

Rationale

Last week ended with another day of gains in the S&P500 and NDX100 equity indices (and record closing highs on both markets). For the week, the S&P500 was +1.0%, the NDX100 +3.1% and the Philly SOX +2.7% (although, despite Friday's strength, the SOX remains just below its 200-day moving average trend line –> underlining the switch in sector leadership which has been ongoing in recent months, FIG 1e). That strength, though, wasn't replicated across all the main US equity indices, as leadership rotated. With that, the DJ Transportation index, the DJ Industrial Average, and the small & mid cap US indices were all down on the week (mostly by 0.5% to 1.5%; NB the transportation index was the exception falling by 4.2% last week – FIG 1).

European markets were key outperformers with the Italian, French, German and Swedish markets all +2.5% – 4% higher last week. After peaking on Monday, EZ bond spreads over German yields (i.e. country specific political risk) eased throughout the rest of the week (driving equities higher). French spreads, for example, closed at 88bps on Monday, then eased off to close on Friday at 77bps (FIG 1f). Portuguese spreads closed the week at 39bps (their lowest since 2008).

Despite those record closing highs on the S&P500, the index has tracked sideways since its intraday highs on Wednesday last week, as it has (arguably) started to consolidate its recent gains (FIG 1d). Volumes have also been unusually low for this time of year (with S&P500 e-mini volumes significantly below seasonal norms – see FIG 1b). With that, the index has broken seasonal norms for the first half of December. That is at this time of year, the index usually trends sideways to down (ahead of the start of the typical Santa rally starting on the 11th trading session of the month – FIG 1c). Those two factors are potentially related (i.e. low volumes and a break with normal seasonal patterns).

Short term market timing models, as outlined on Friday, retain a SELL bias (although are not on an 'across the board' SELL message – see FIGs 3 – 5a). Volatility also remains at low levels, thereby continuing to signal near term complacency in prices (FIGs 2 & 2a).

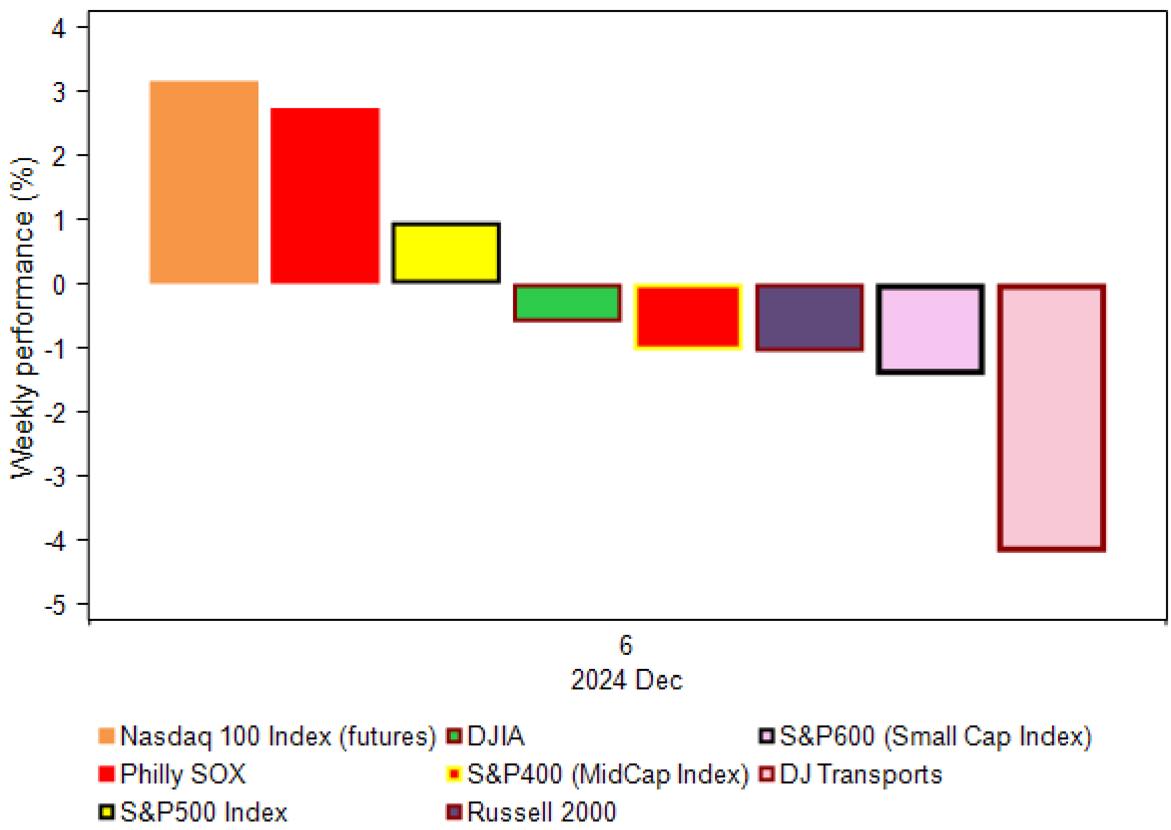
We continue to recommend WATCHing and WAITing (i.e. staying on the sidelines). Without SELL signals from the risk appetite models (i.e. an across the board SELL message), we're not inclined to move SHORT equity futures. Equally some of the models are already on SELL – hence our NEUTRAL/stand back (for now) recommendation.

Key data today is limited. The full list, though, is laid out below.

Kind regards,

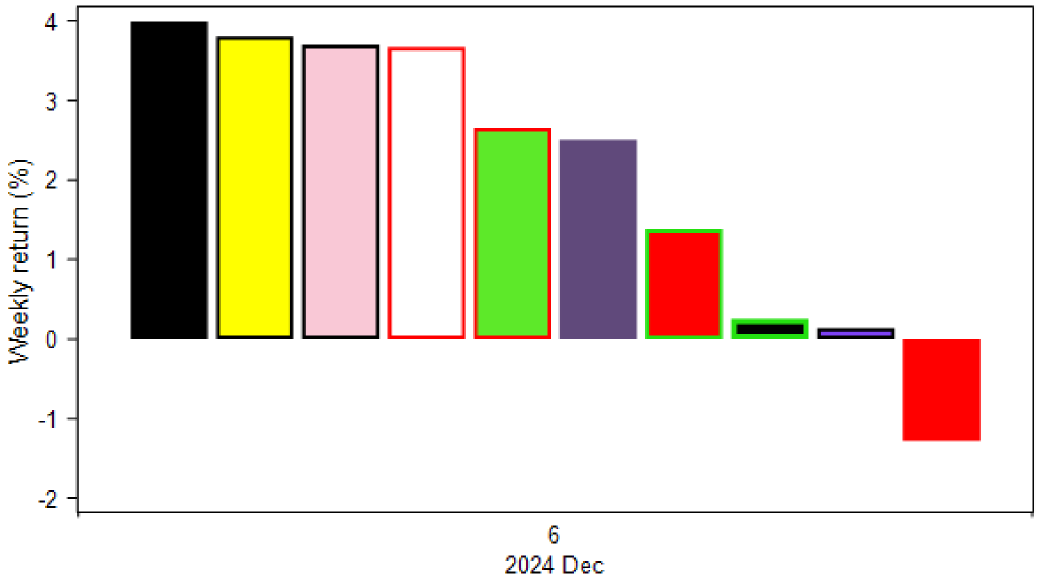
The team @ Longview Economics

FIG 1: US equity indices weekly performance (last week, % return)



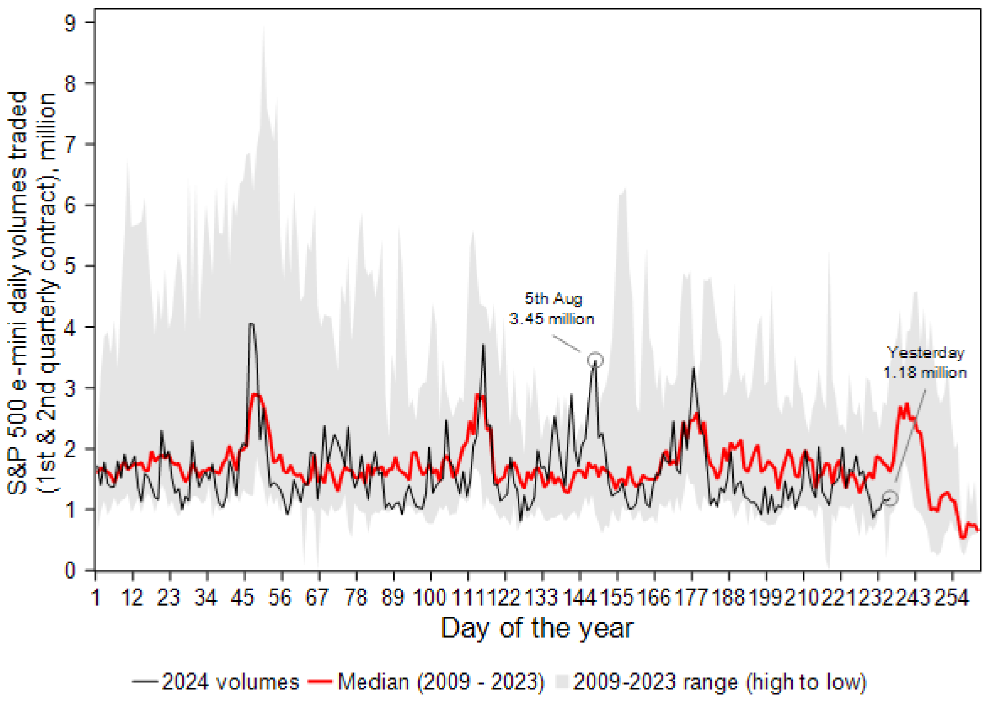
Source: Longview Economics, Macrobond

FIG 1a: European equity indices weekly performance (last week, % return)



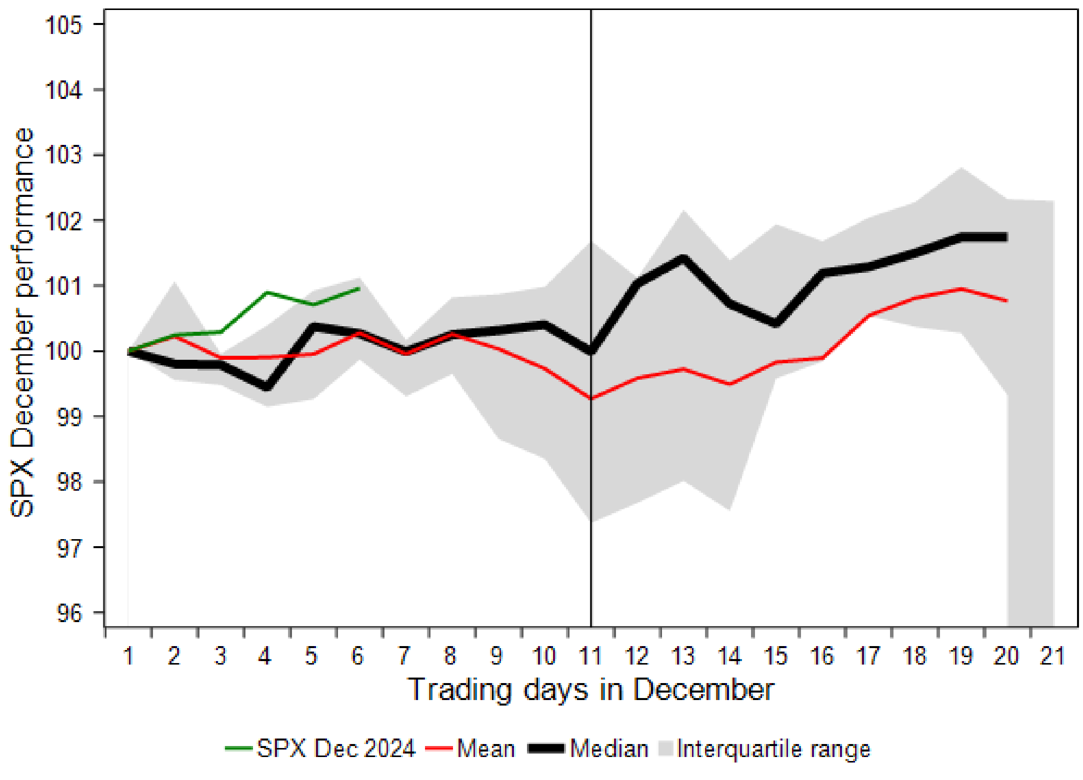
Source: Longview Economics, Macrobond

FIG 1b: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1d: S&P500 futures 10-day tick chart shown with overnight price action

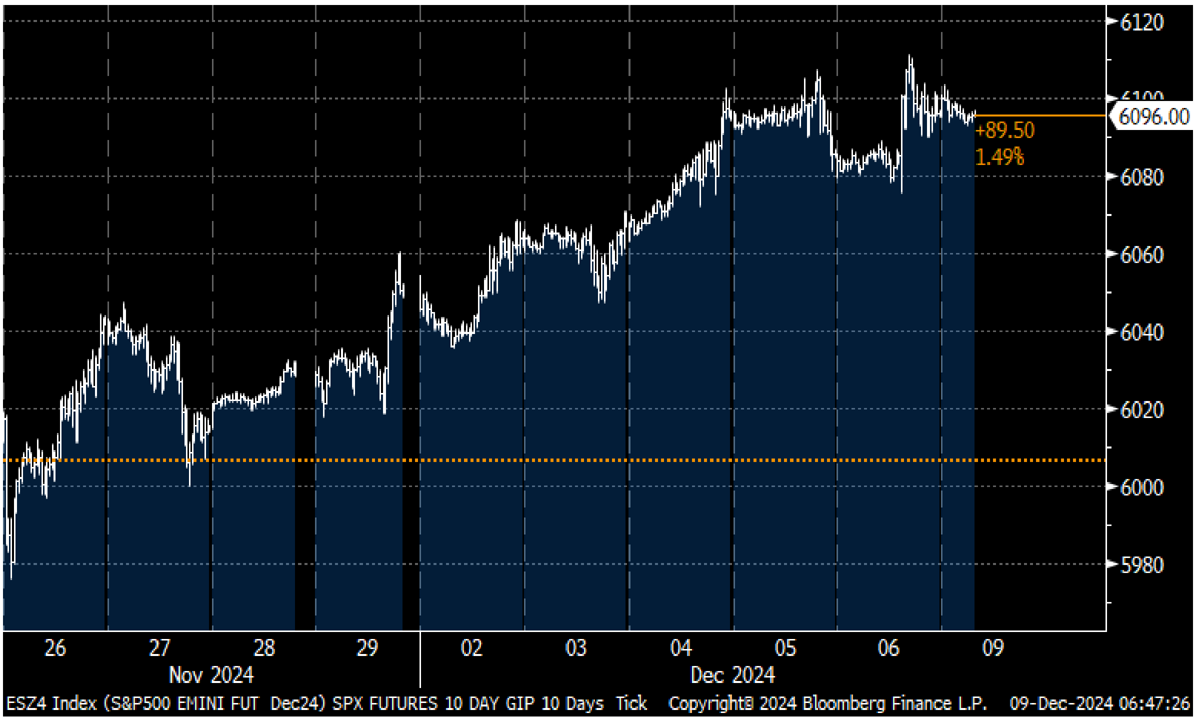
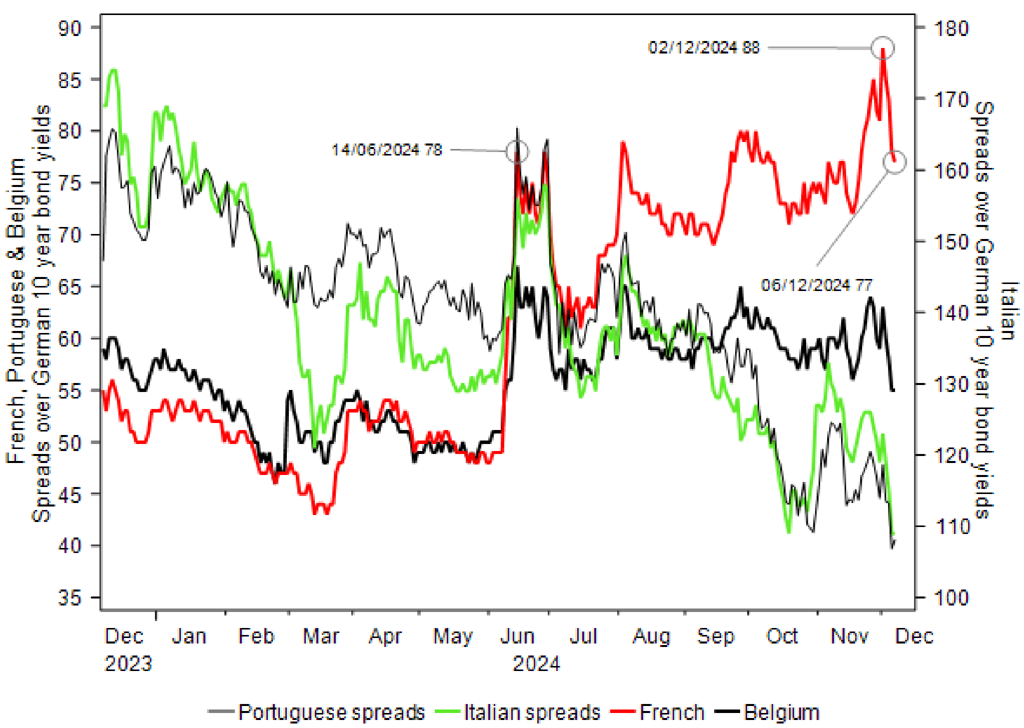


FIG 1e: Philly SOX candlestick shown with key moving averages

Source: Longview Economics, Macrobond

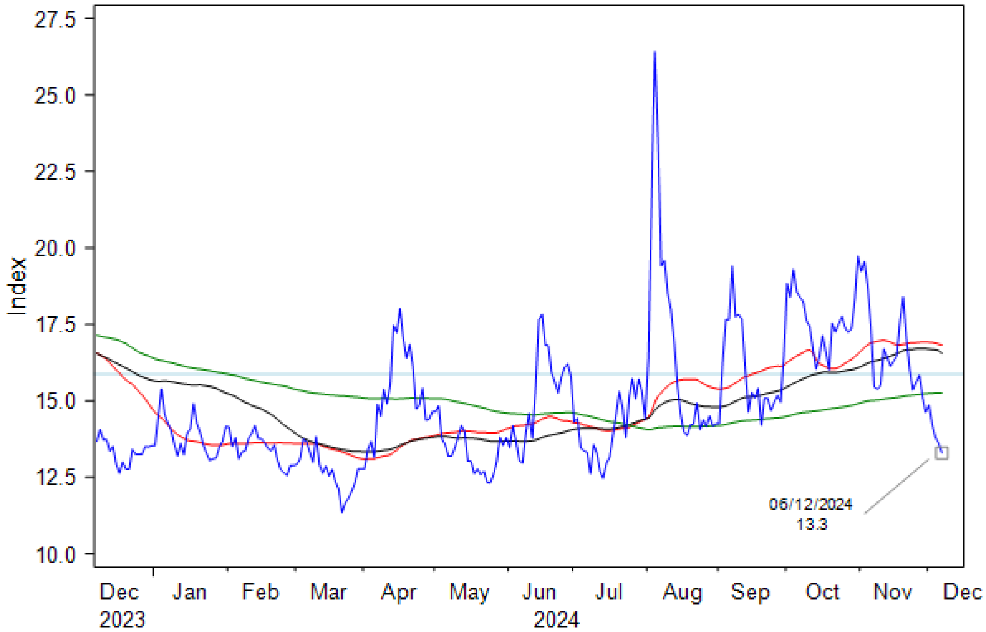
FIG 1f: Various key EZ government bond spreads over German bund yields (bps)



Source: Longview Economics, Macrobond

Volatility indices continue to signal complacency….

FIG 2: VDAX candlestick chart shown with key moving averages



Source: Longview Economics, Macrobond

FIG 2a: VIX candlestick chart shown with key moving averages

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

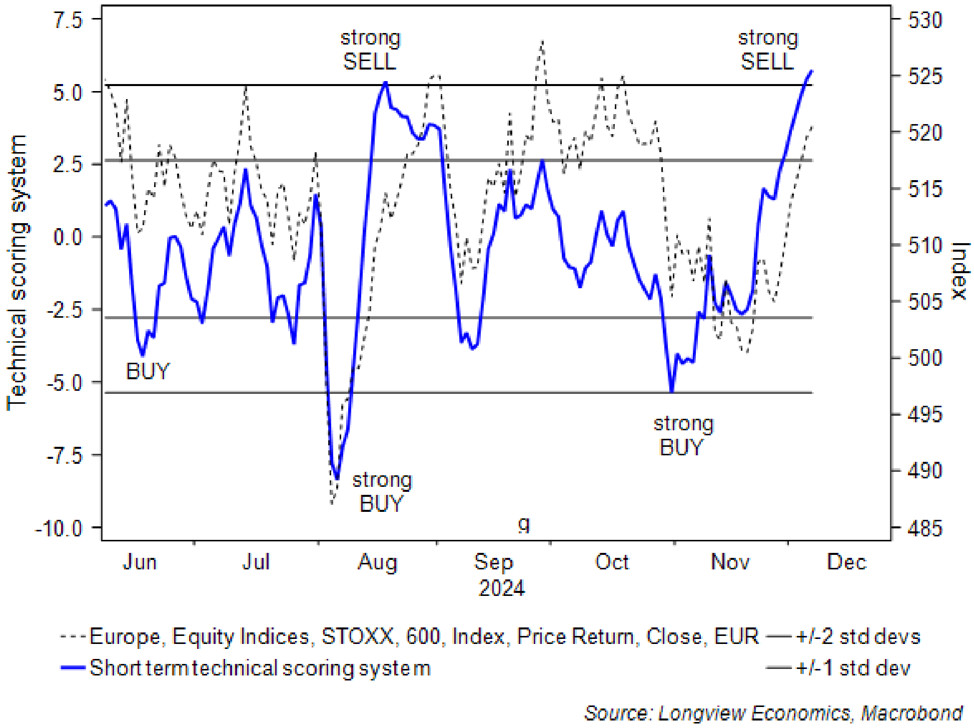


FIG 3a: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

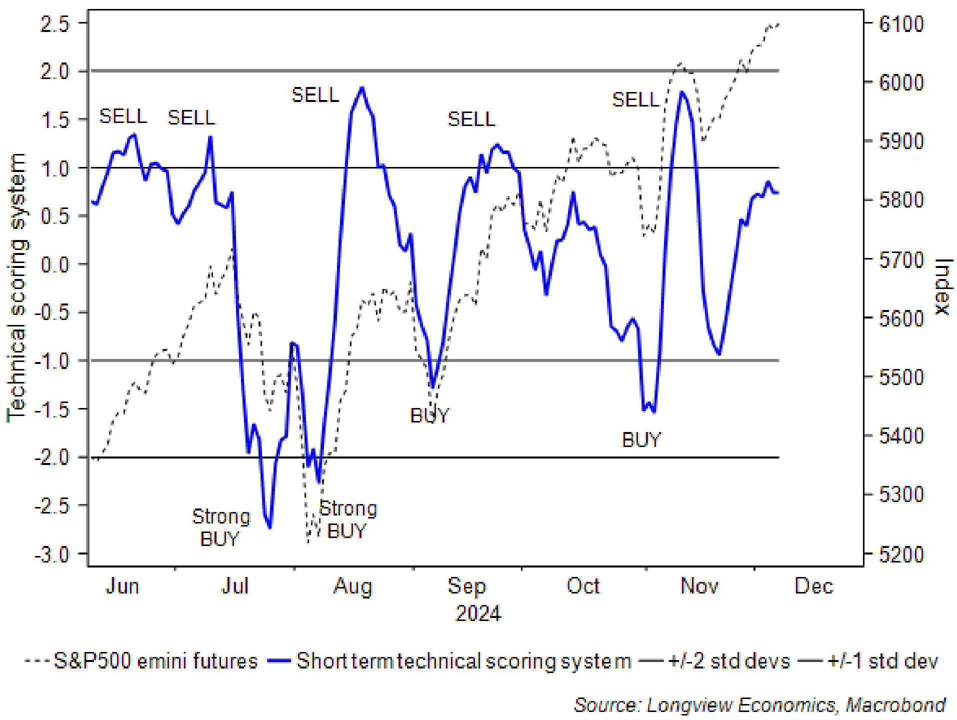


FIG 3b: S&P500 overextended indicator (index price relative to its 10-day moving average) vs. S&P500

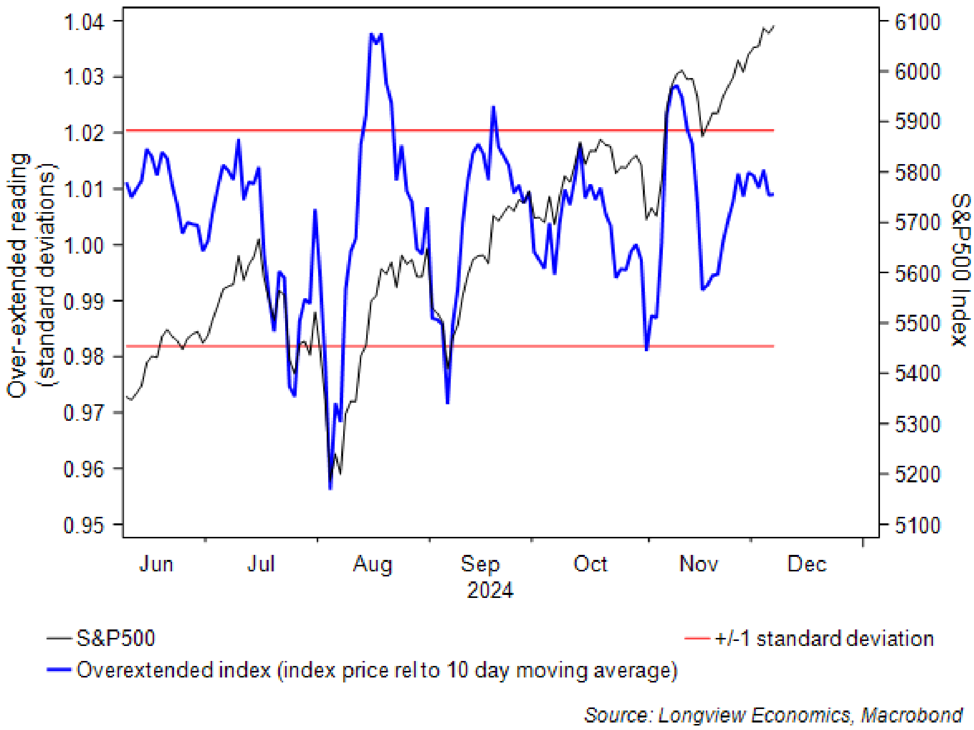


FIG 3c: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures

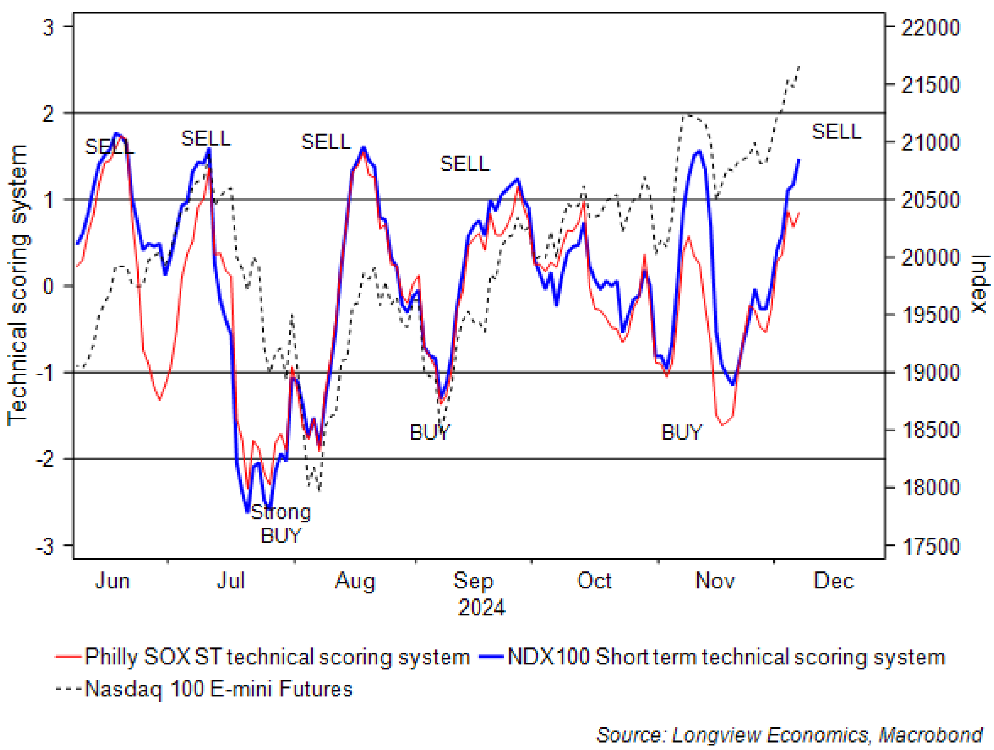
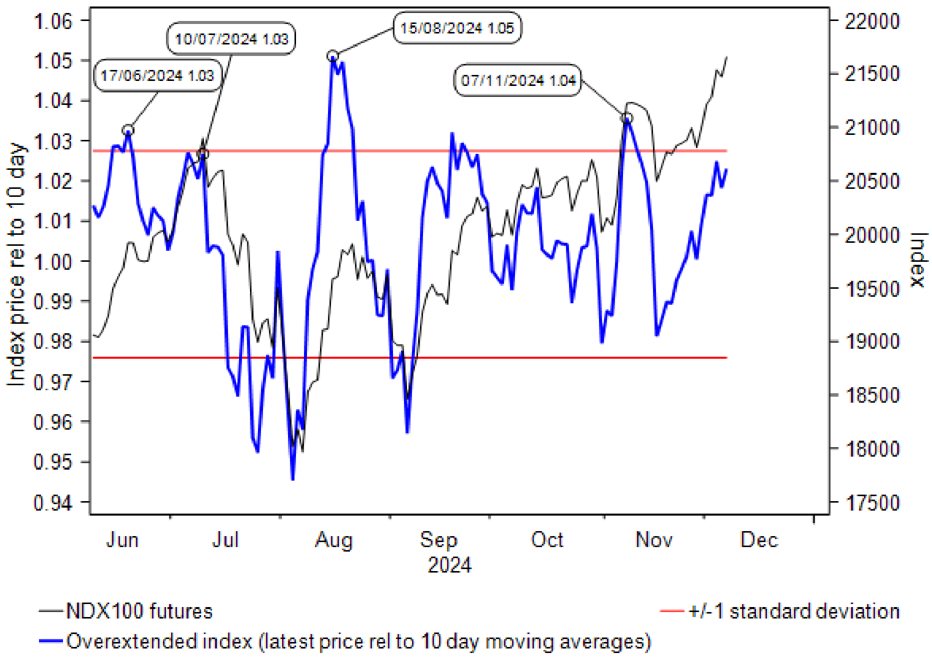


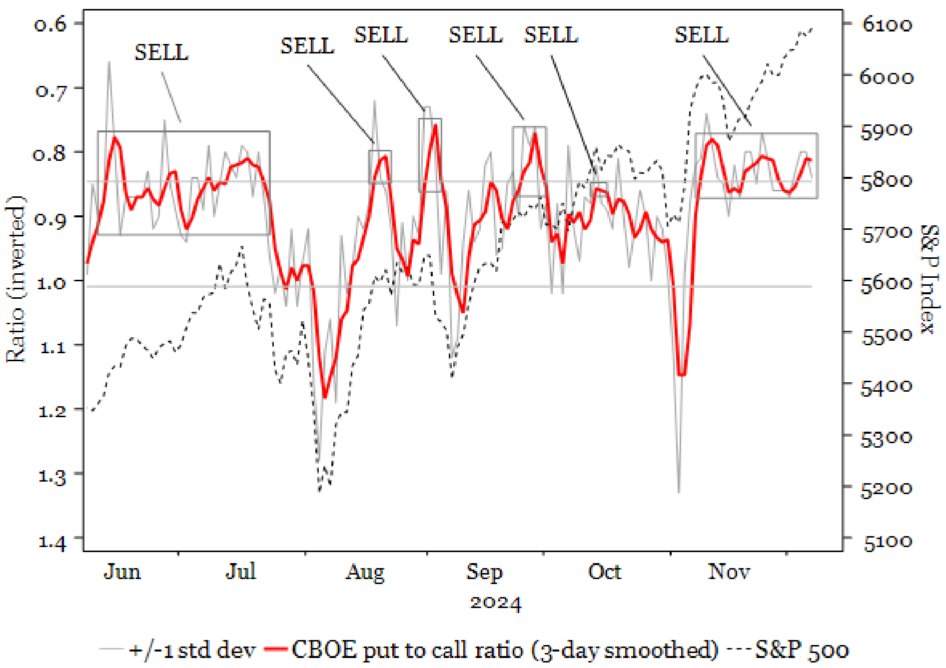
FIG 3d: NASDAQ100 overextended index (index price relative to 10-day moving average) vs. NASDAQ100



Source: Longview Economics, Macrobond

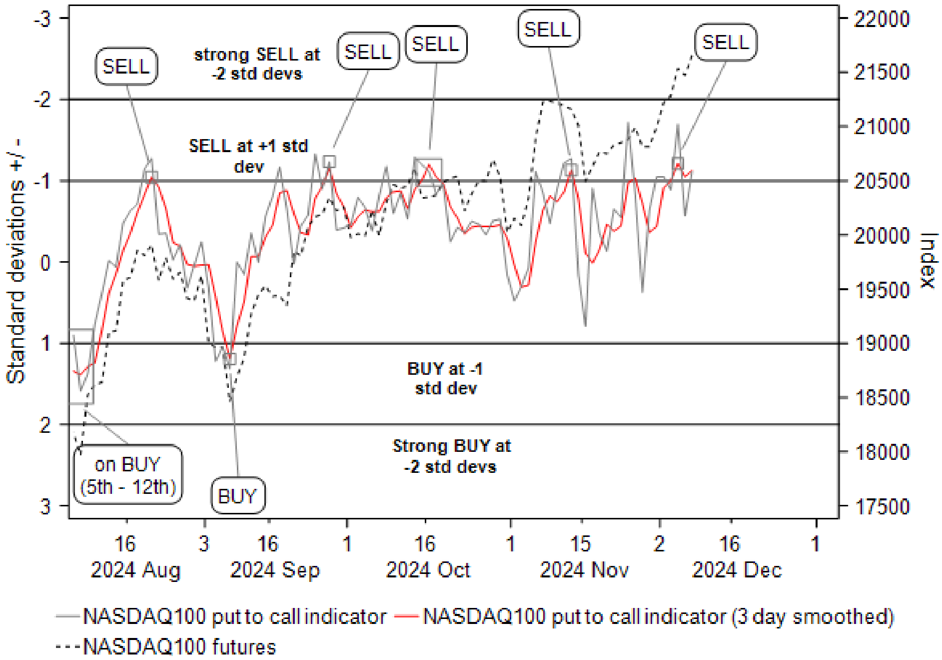
Downside put protection in portfolios remains at low levels...

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



Source: Longview Economics, Macrobond

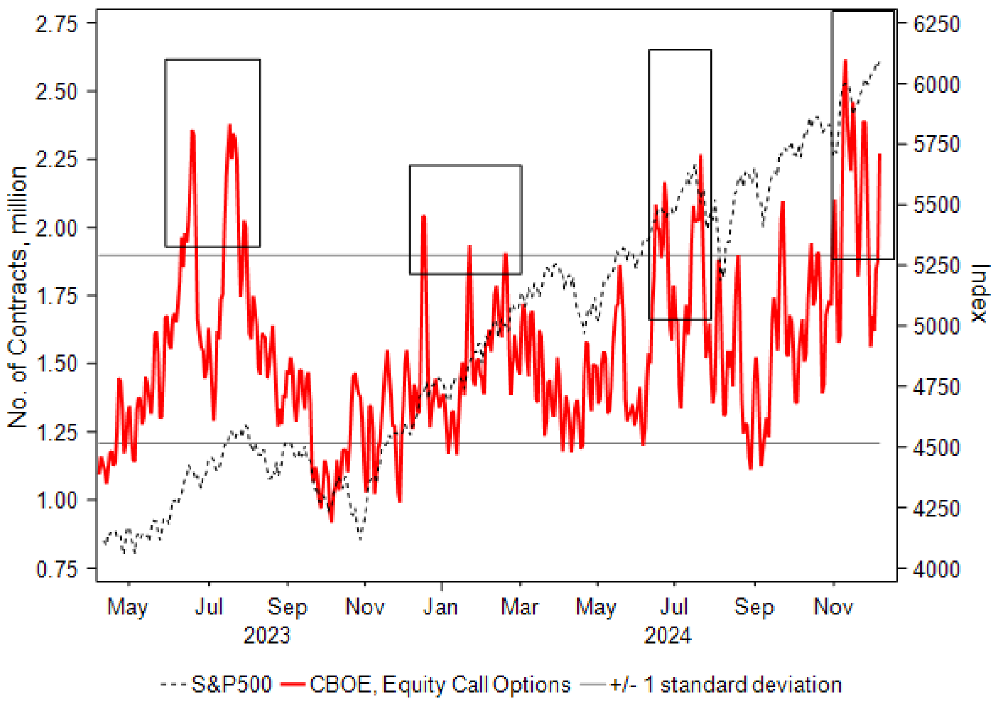
FIG 4a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

Single stock call option BUYing is at high levels again….

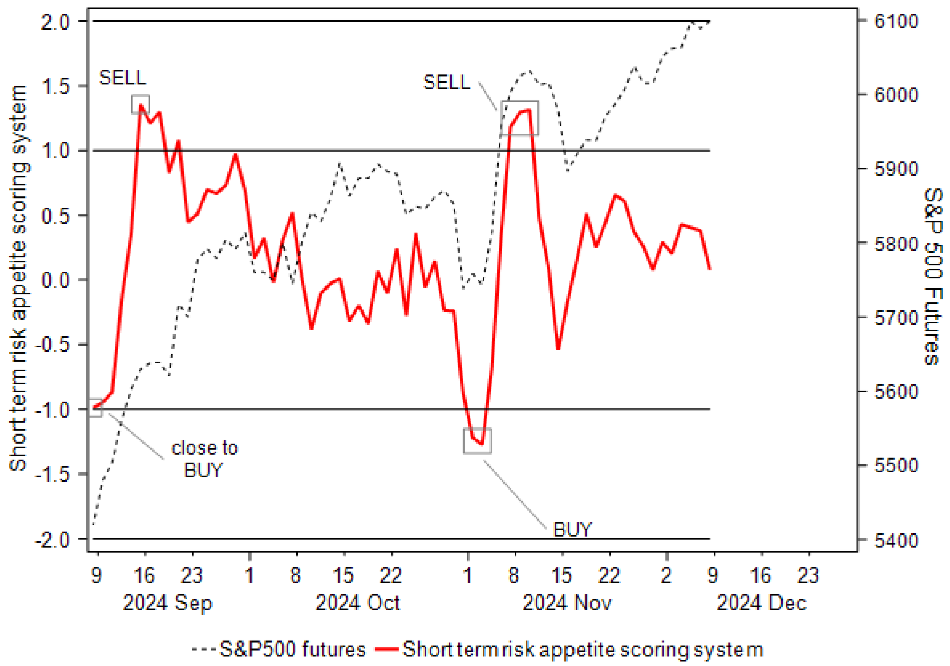
FIG 4b: Volume of outstanding CBOE '**single stock**' call options (3 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

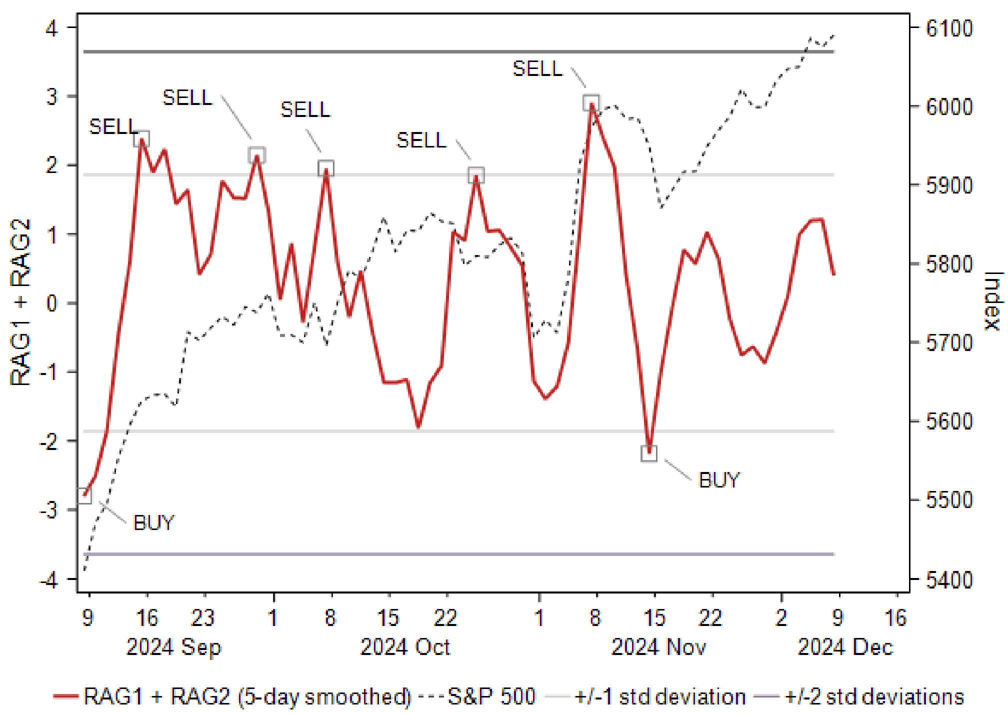
Risk appetite models are NEUTRAL…

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

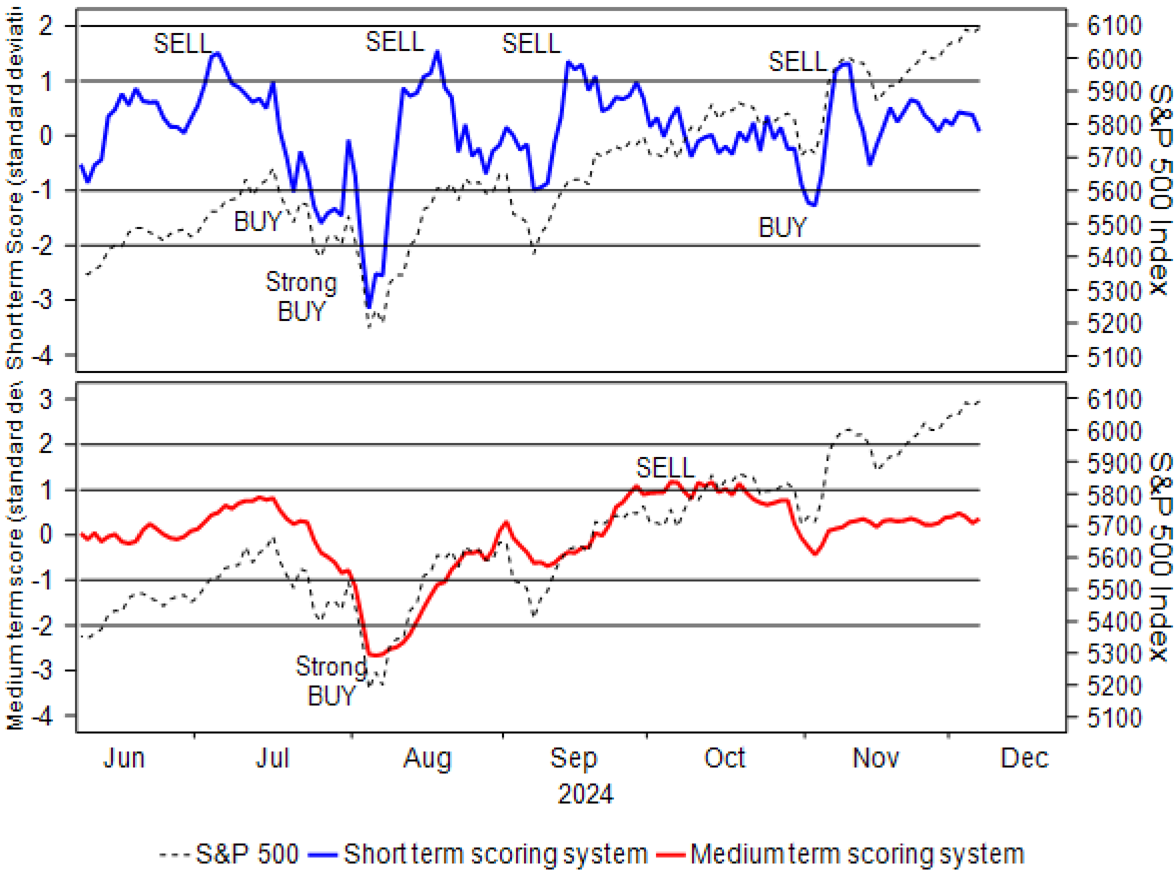


Source: Longview Economics, Macrobond

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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Daily Risk Appetite Gauge

Key macro data/events

Key data today include: **Chinese headline CPI & PPI** (Nov, 1:30am); Eurozone Sentix investor confidence (Dec, 9:30am); US wholesale inventories (October final estimate, 3pm); US New York Fed 1 year inflation expectations (Nov, 4pm); Japanese M2 & M3 money supply (Nov, 11:50pm).

Key events today include: Speech by the Bank of England's Ramsden on financial stability and the central bank's toolbox (1pm).

Key earnings today include: **Oracle.**

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 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.

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Daily Risk Appetite Gauge

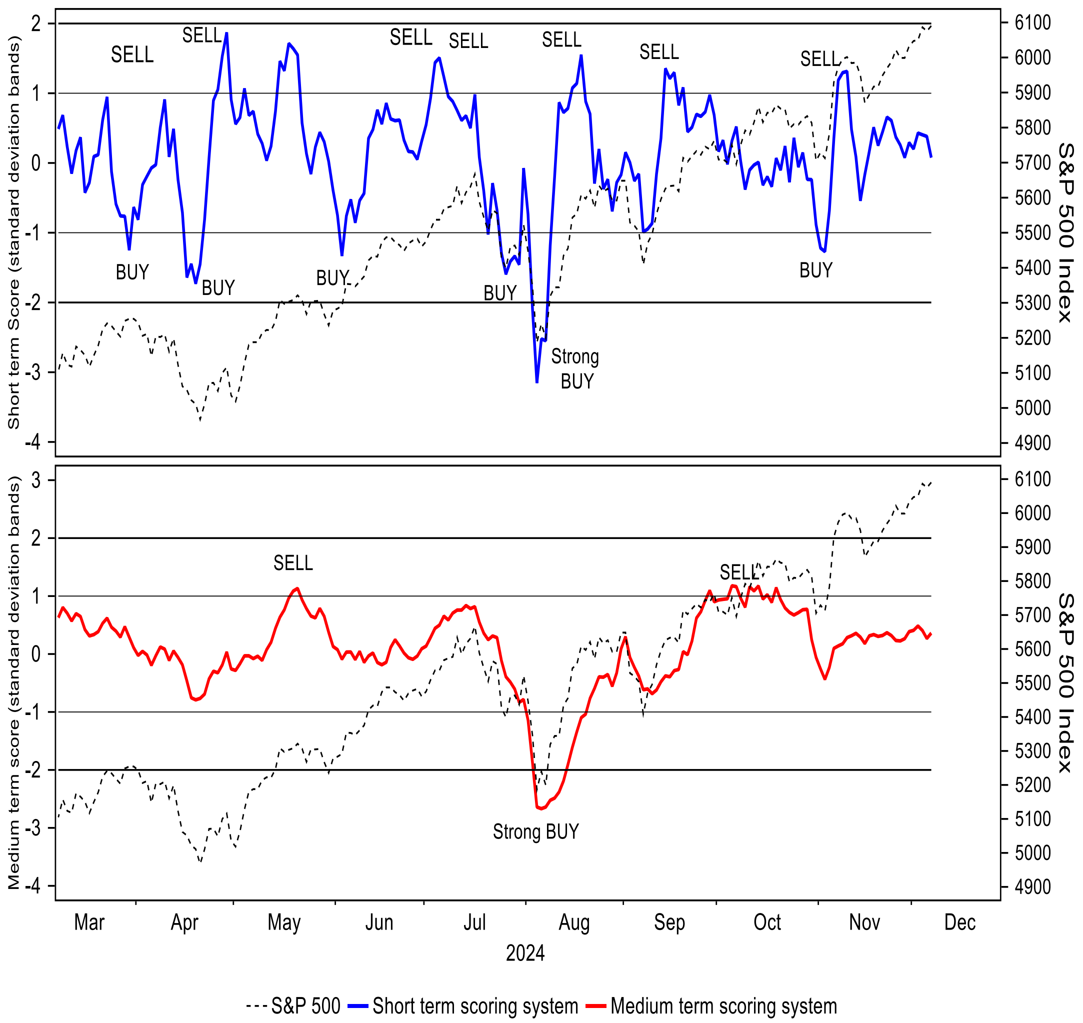
1 – 2 Week View on Risk

9th 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

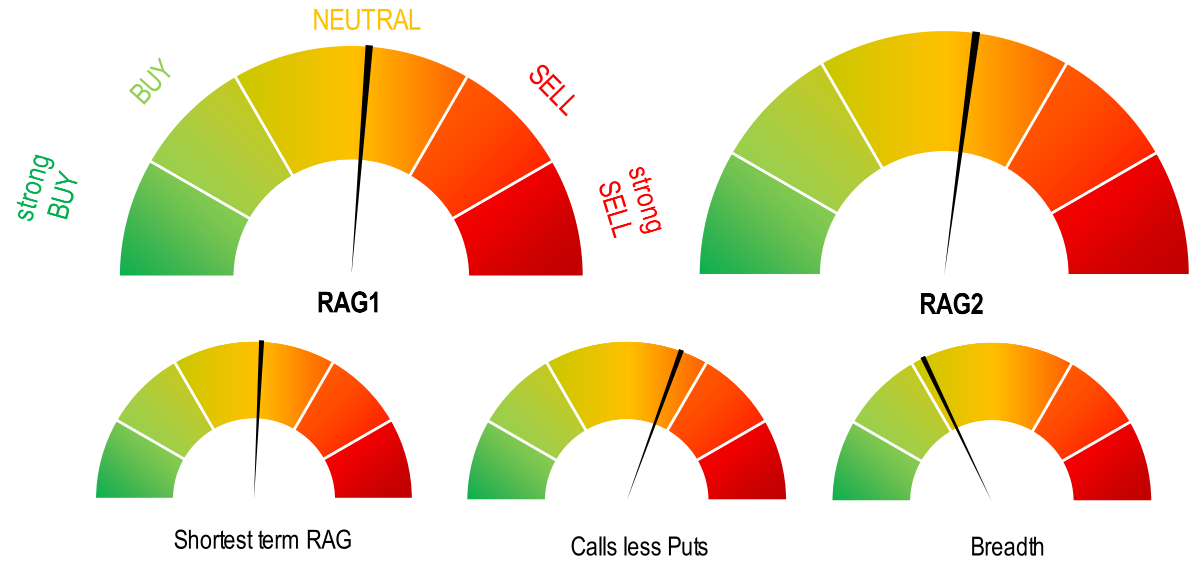
Source: Longview Economics, Macrobond

*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

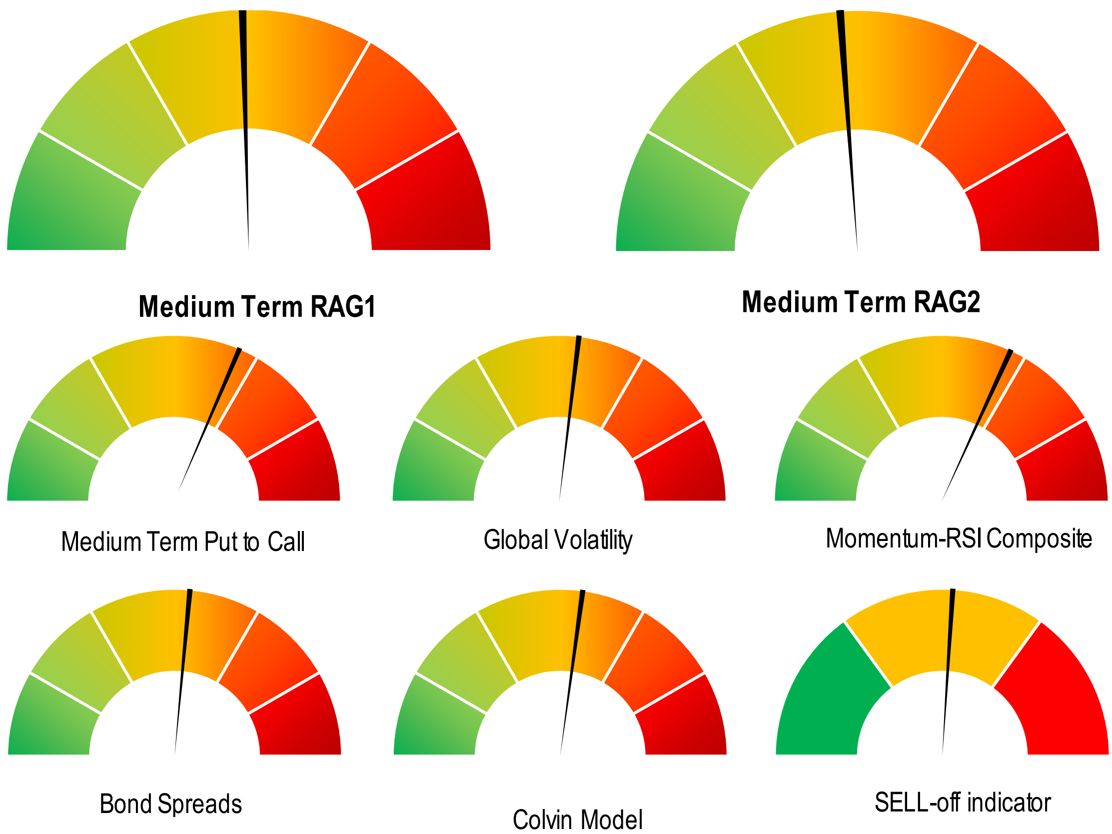
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

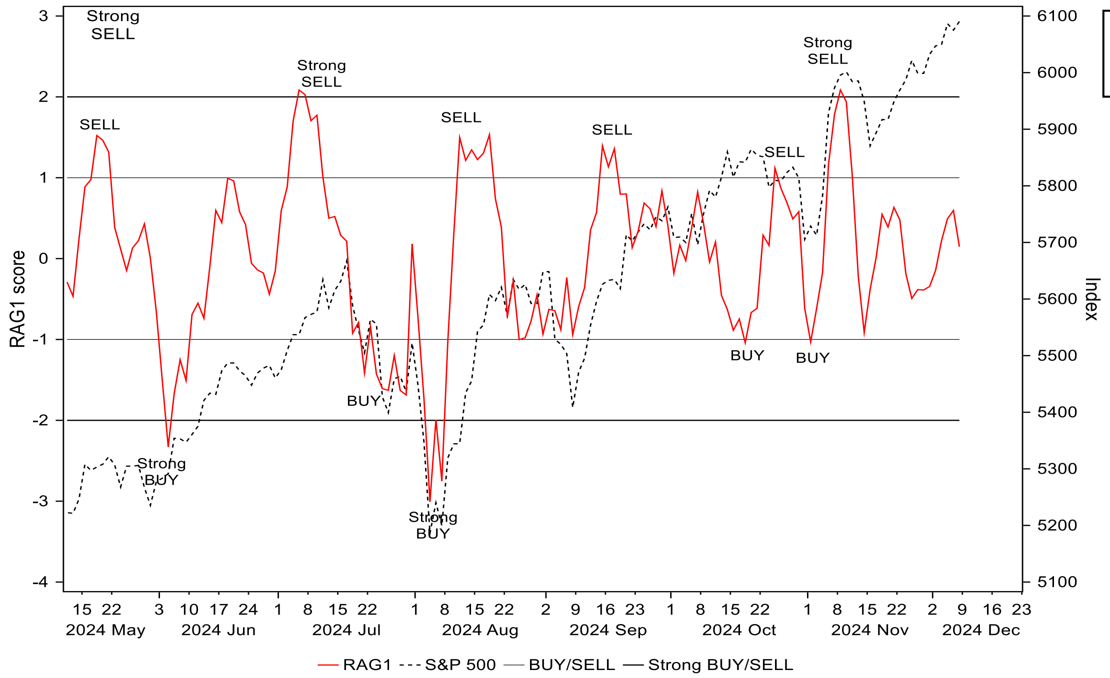
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

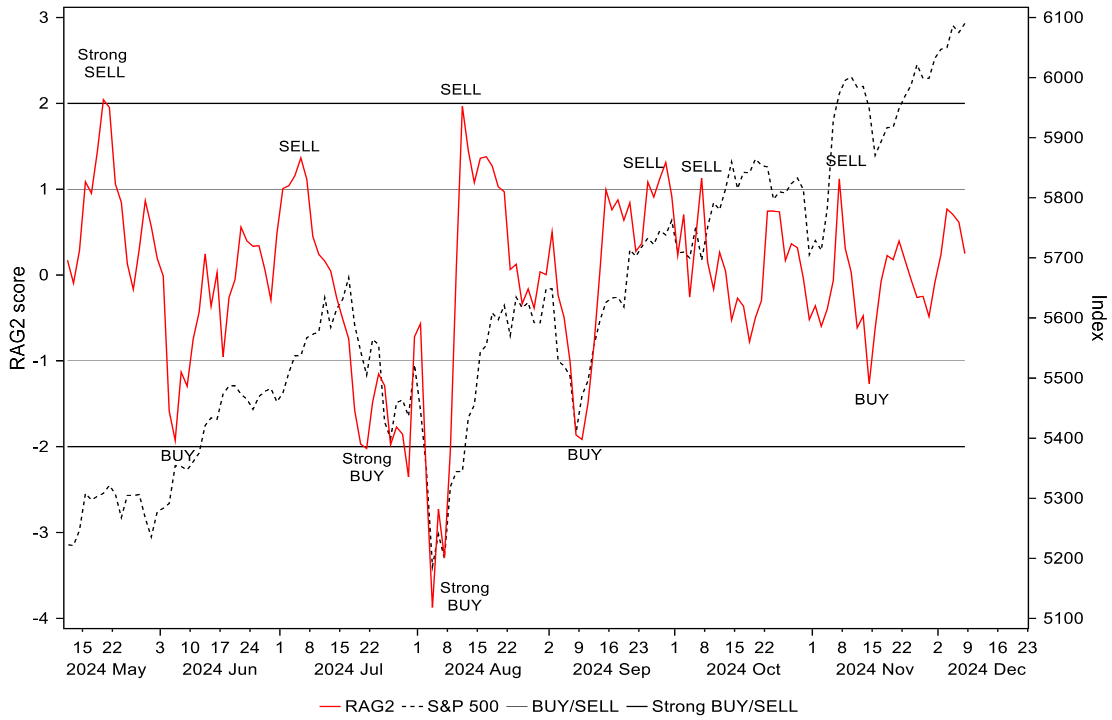
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

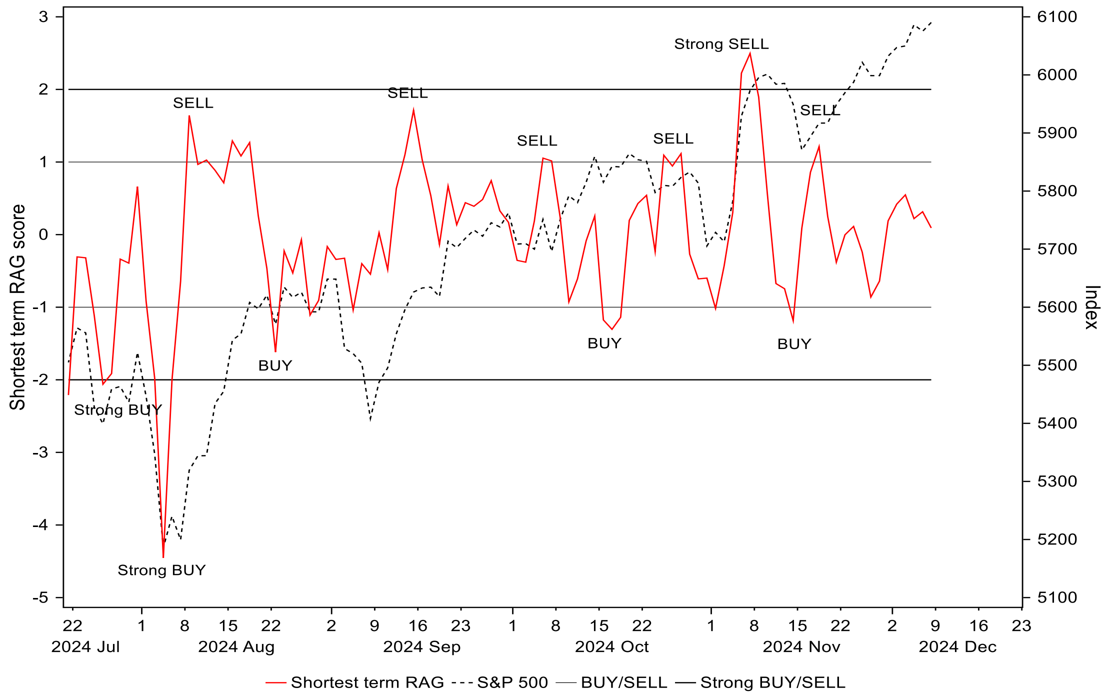


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

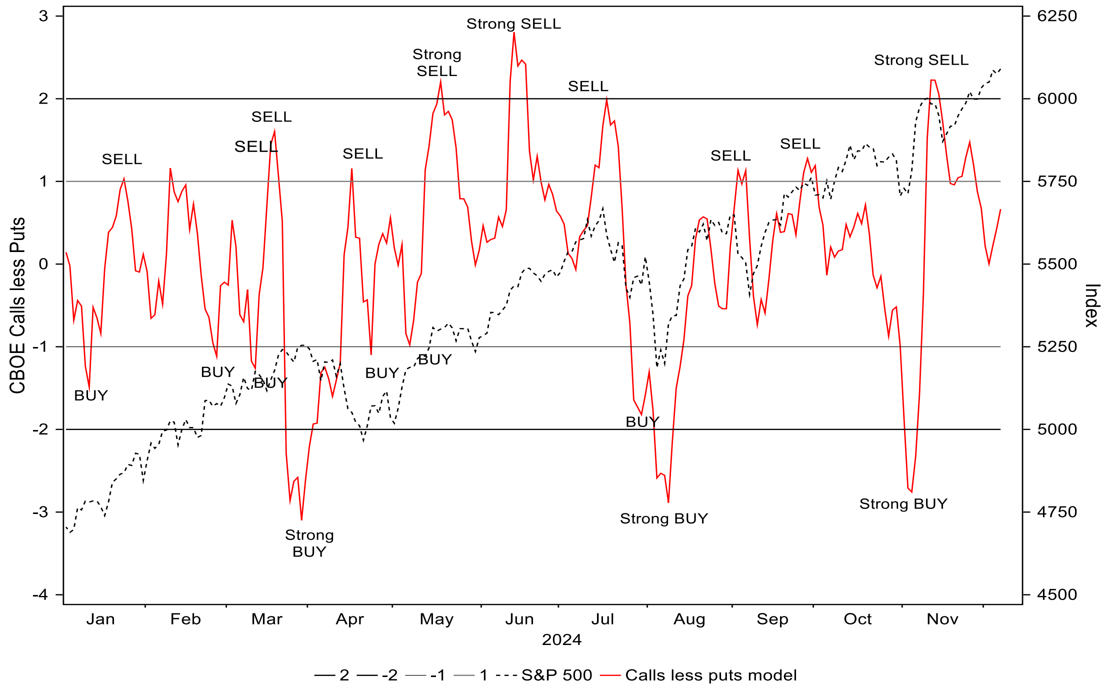
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

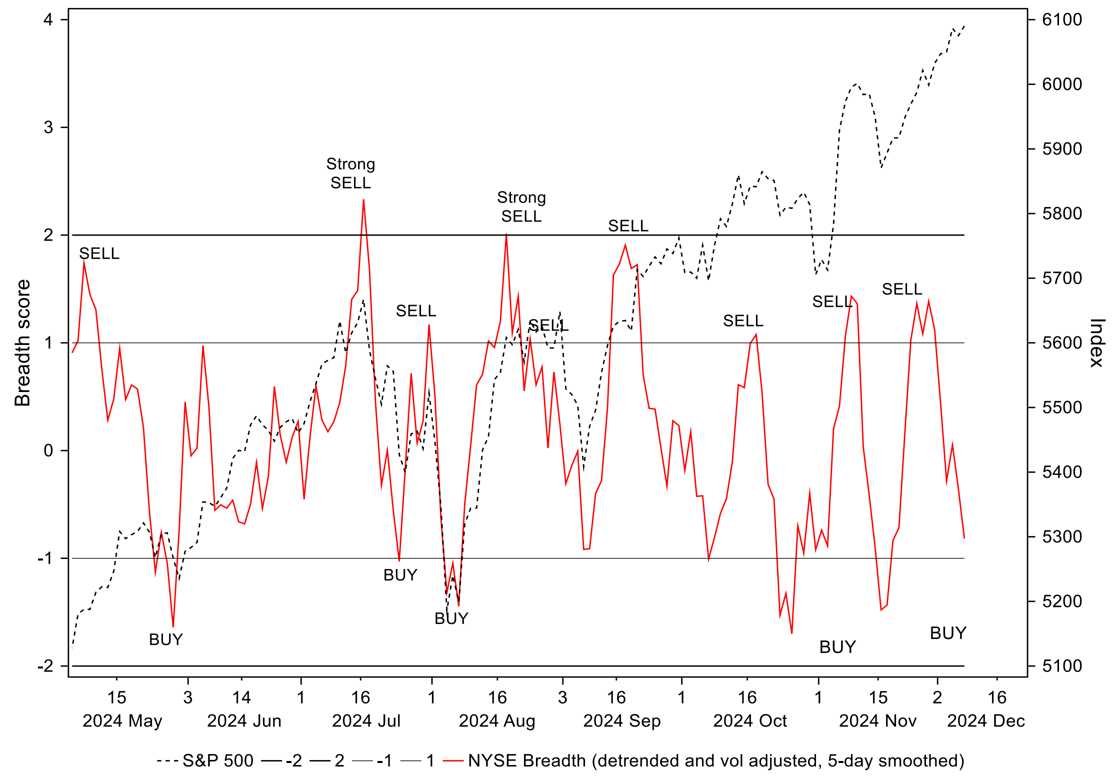


Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



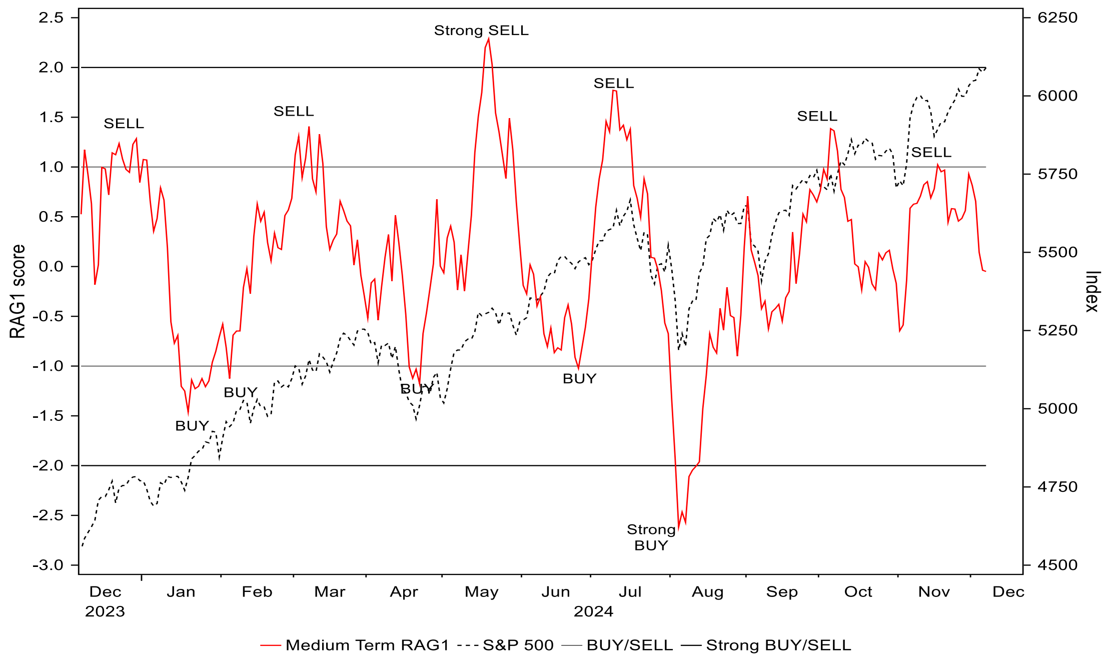
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

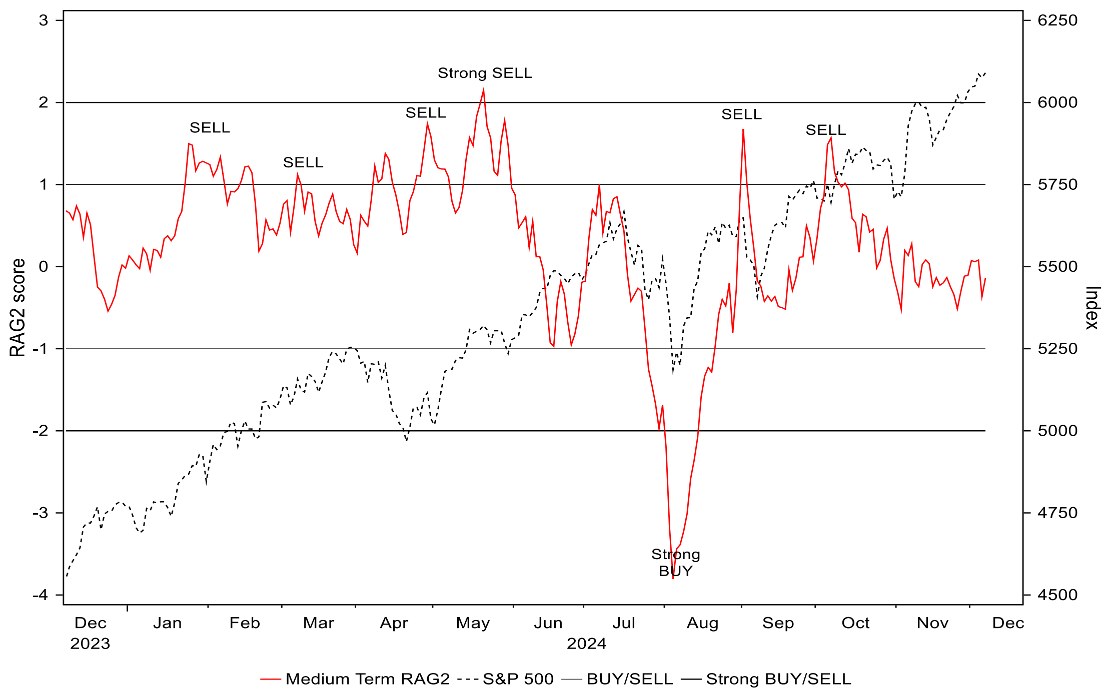
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

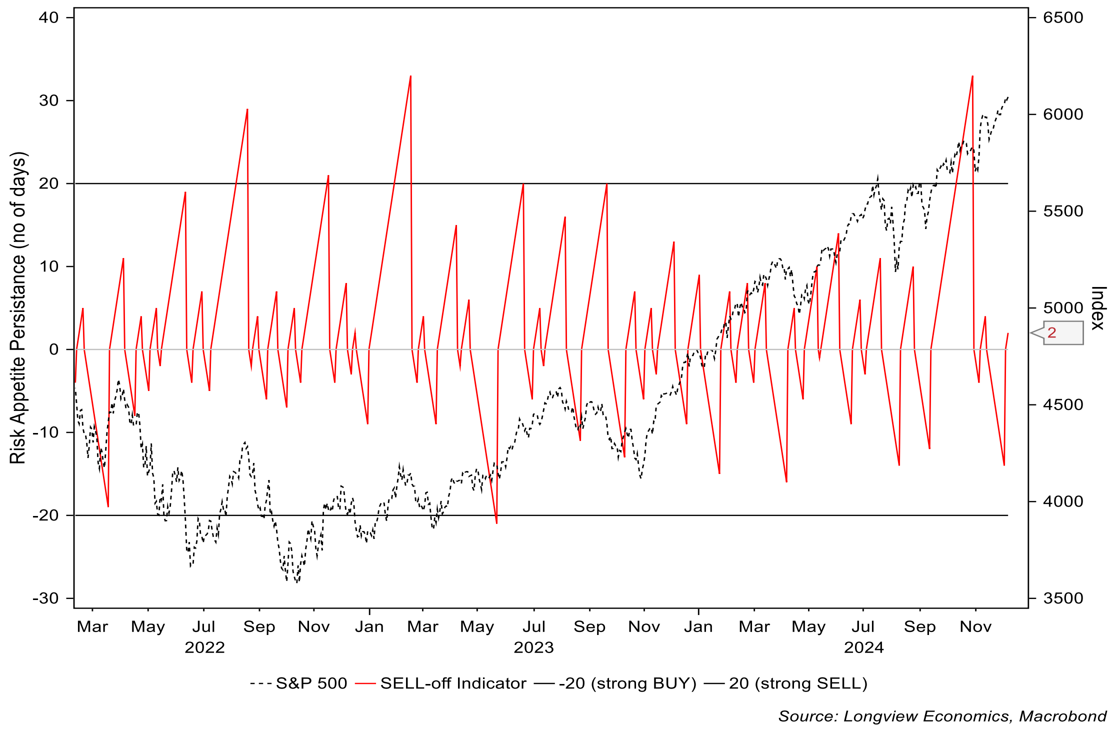


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

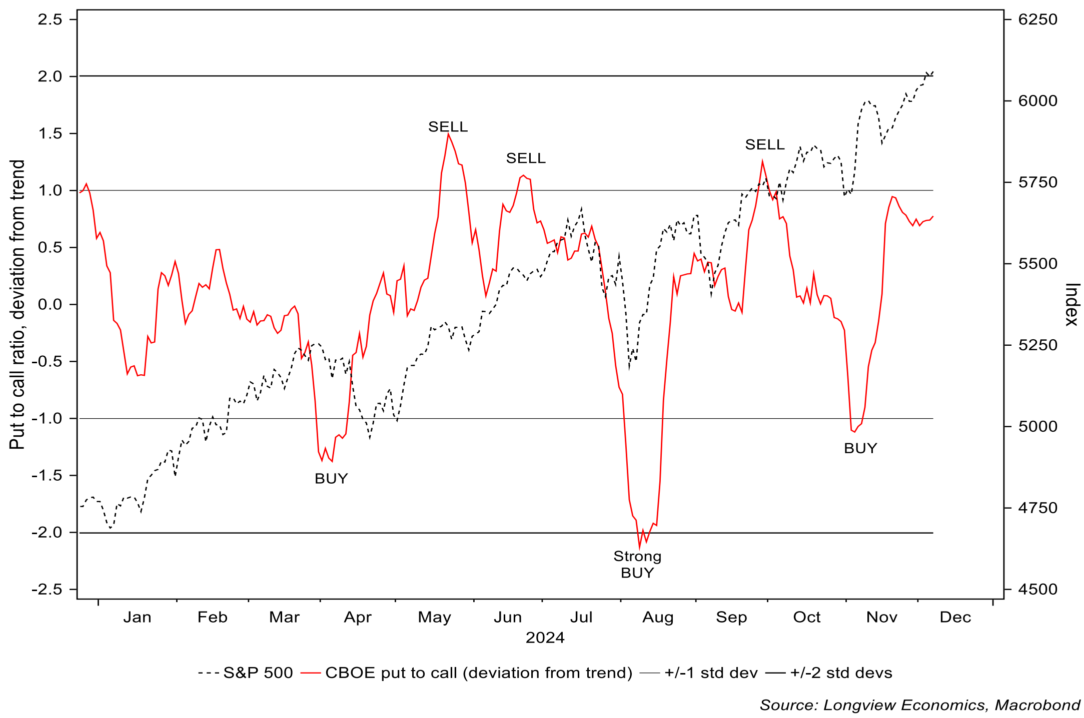
For explanations of indicators please see page 10

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



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

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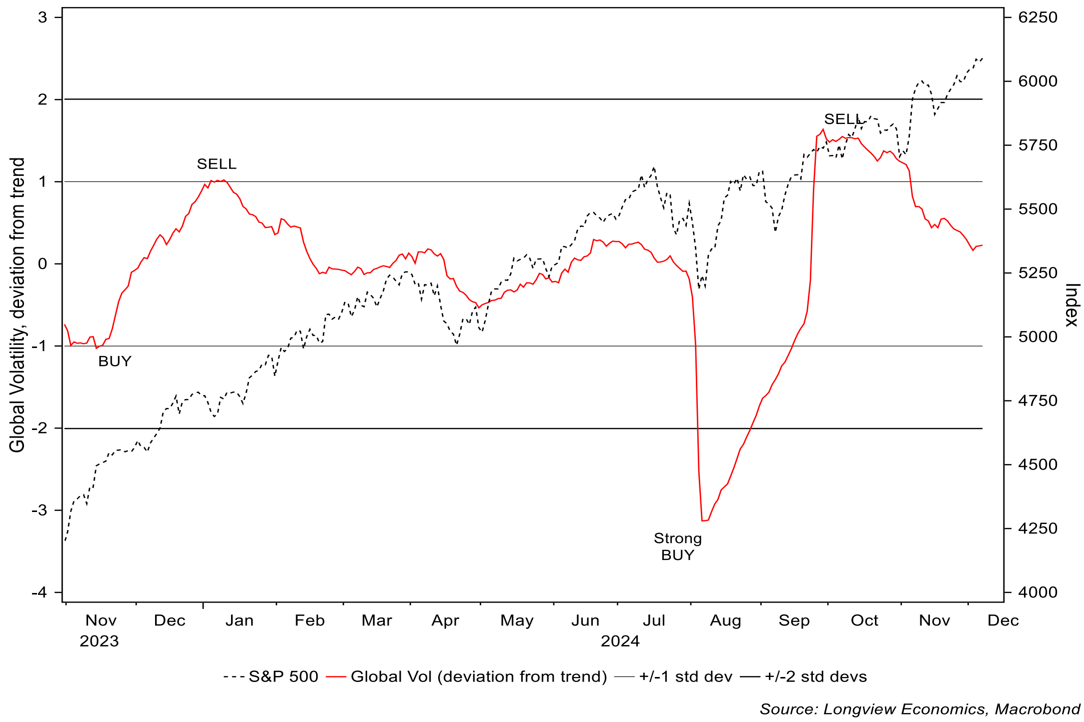
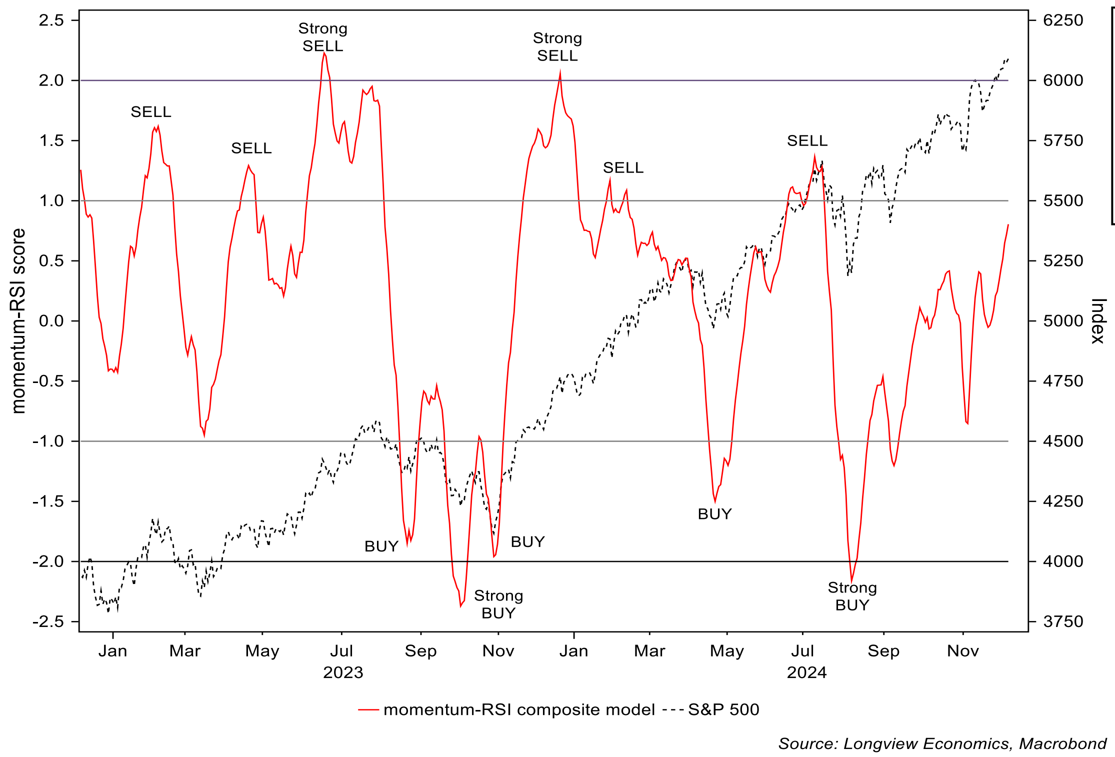
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



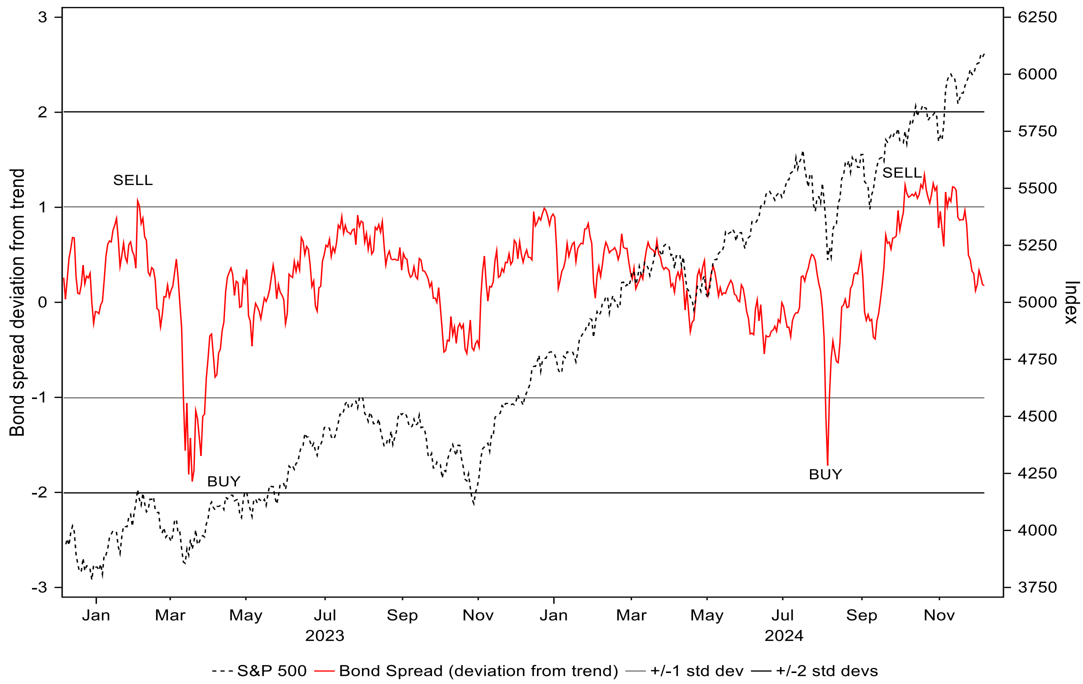
Global volatility indicator is NEUTRAL

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



US momentum RSI composite model is NEUTRAL

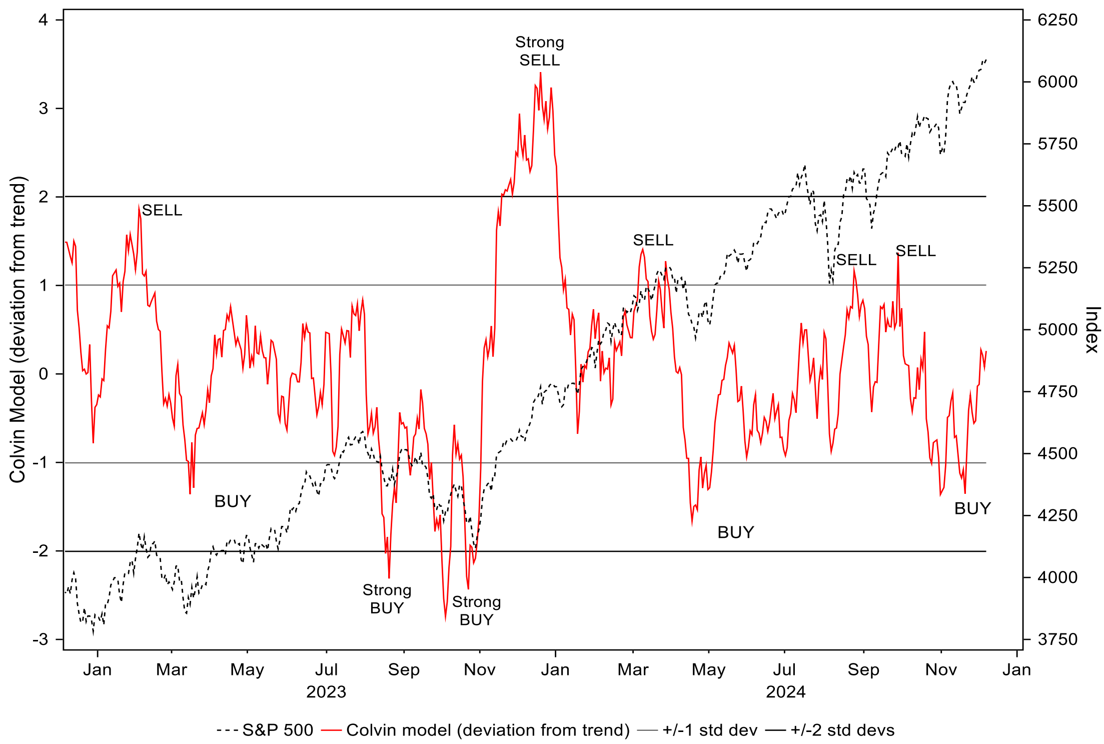
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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