

Equity Index Futures Trading Recommendations

9th January 2025

“Move SHORT SPX (on modest strength - if forthcoming)”

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 5,960.0 (SPX March futures).
- Implement a stop loss just above the top of the pennant at 6,055 (also approx. 1.6% above entry price).

Rationale

The market is currently highly focussed on the **back-up in Western sovereign bond yields**, especially those in the US & UK (German yields have also backed up but are not at new multi-year highs). Intraday, yesterday, US 10-year yields spiked to a new high (similar to the levels last reached in April 2024); US 30 yields also spiked intraday – FIG 1 (although both 10 & 30 year yields closed largely unchanged). In the UK, 30-year GILT yields closed 10bps higher, at their highest since 1998; while 10-year yields were up 12bps – and at their highest since the start of the global financial crisis. Given that back-up in yields, those US & UK bonds are now notably oversold (medium term basis, i.e. on price).

Not surprisingly, **that yield back-up has continued to squeeze equities**. Yesterday US equities struggled again – closing broadly flat on the day (with some relief in equity markets once yields backed off from intraday high levels). Intra session, S&P500 futures tested the lower bound of the pennant formation that’s been evolving over the course of 2025 (FIG 1a). At the end of the day, though, the index closed just up (+0.16%); the NDX100 was +0.04%; while the Philly SOX was down 0.96% (worst performer of the major US equity indices). There was better sector performance with 8 out of 11 sectors modestly higher (communication services was the laggard, down 0.74%). The dollar bounced (DXY +0.5%) supported by those higher yields, while volatility (VIX) softened (-12bps).

Despite some initial strength earlier in the day, **S&P500 futures didn’t reach our entry price yesterday** (i.e. of 5,995). So, we remain NEUTRAL (i.e. chasing entry into this SHORT position as the market moves lower).

Models retain a broadly similar message to yesterday. That is, at an index, sector and single stock level US equity markets are at/close to oversold levels (on our short term ‘1 – 2’ week timeframe). In contrast, **risk appetite and put to call models remain on SELL**. That is, market participants are not hedged to the downside and remain greedy (see risk appetite scoring system, combined RAG1 plus RAG2, and the put to call ratios – FIGs 2 to 3b).

We continue, therefore, to look for a good entry point into SHORT positions. This morning S&P futures have weakened and are now trading close to intraday lows of the past 48 hours (approx. 5,933). The bottom end of the consolidation range since early November is 5,800 (i.e. approx. 2% lower). We continue to recommend MOVEing SHORT on strength (if forthcoming) – in particular on a bounce to 5,960 (see trading recommendation above for detail).

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

Kind regards,

The team @ Longview Economics

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: US 30-year bond yields 10-day TICK chart

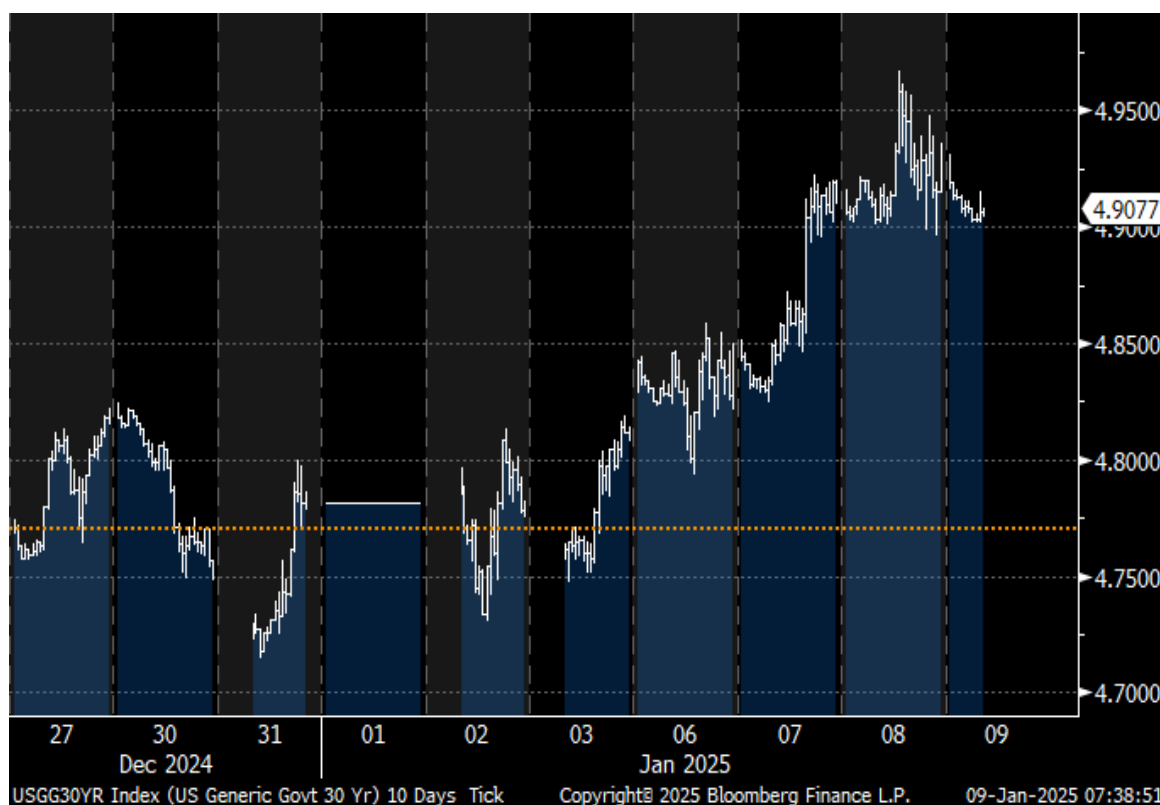


FIG 1a: S&P500 candlestick shown with its 50-day moving average



Source: Longview Economics, Macrobond

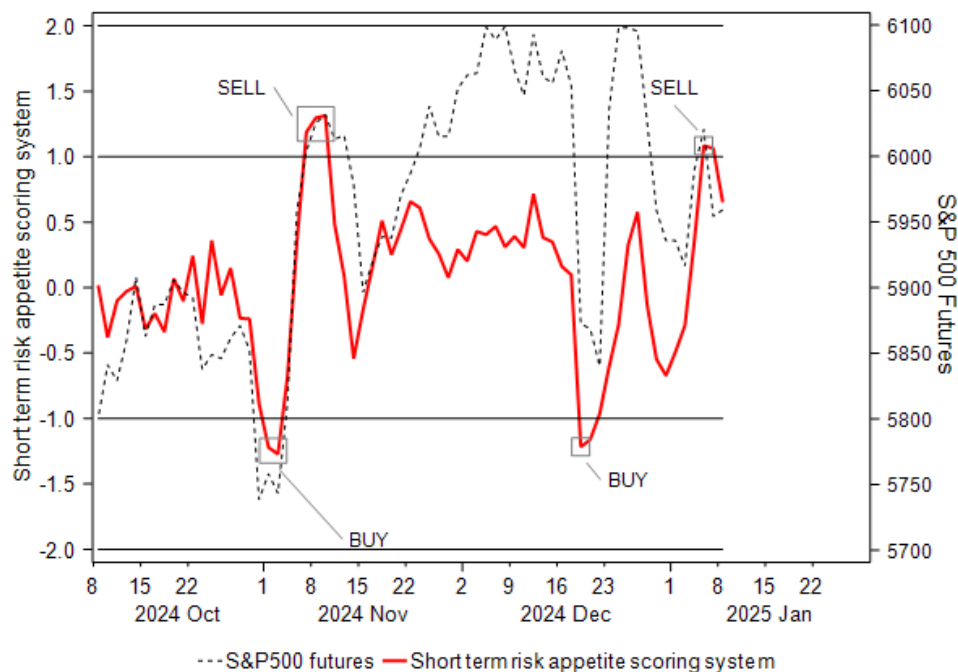
FIG 1b: NASDAQ100 futures candlestick shown with its 50 & 200 day moving average



Source: Longview Economics, Macrobond

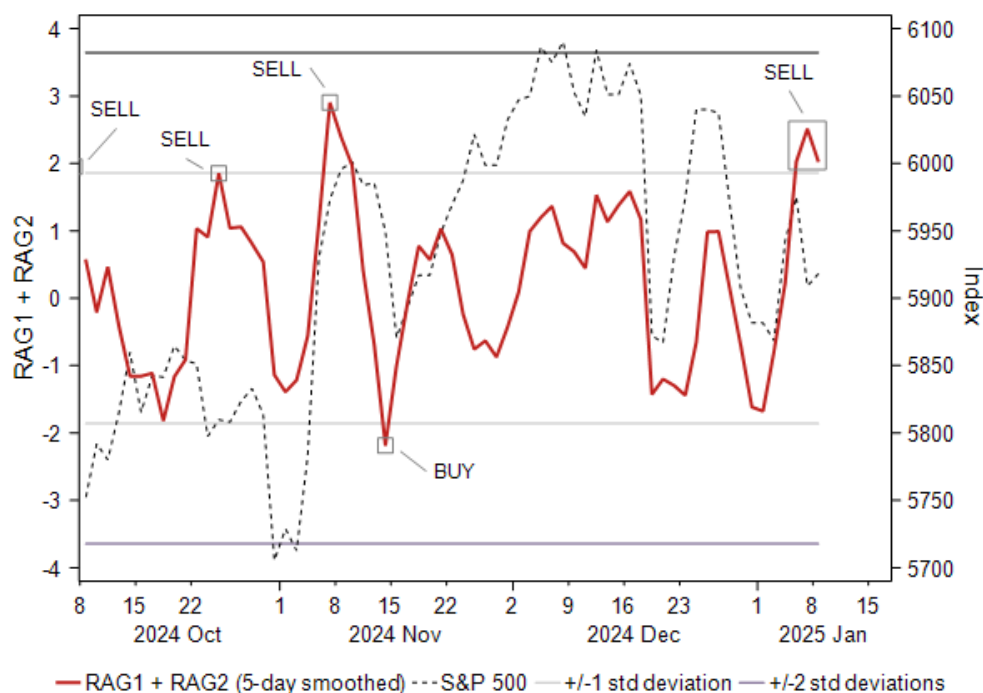
Risk appetite models are on/close to SELL...

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

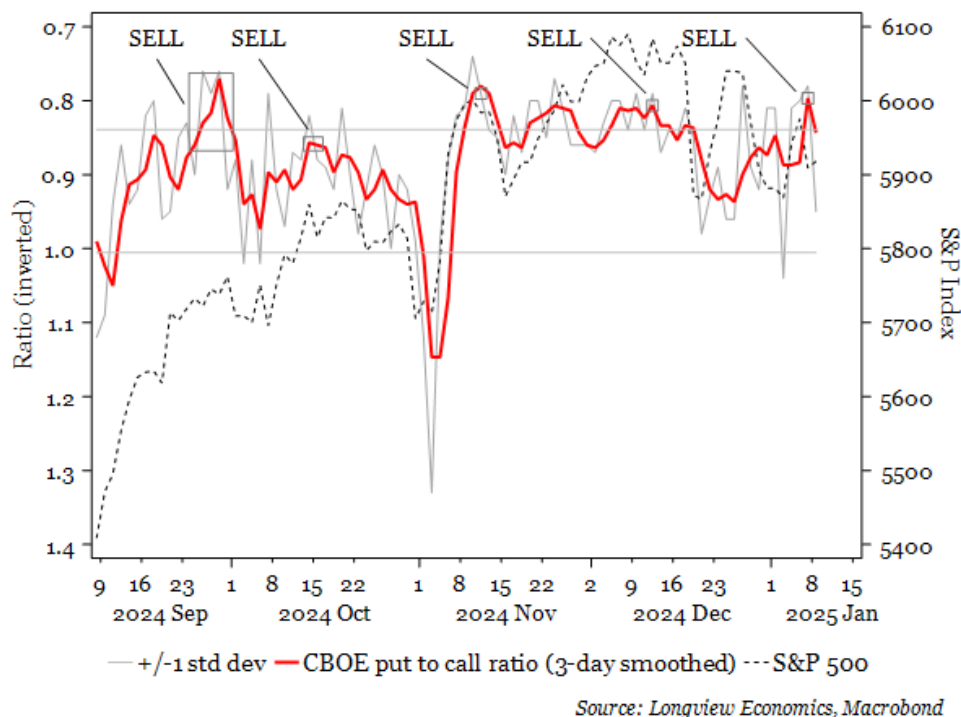


FIG 3a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

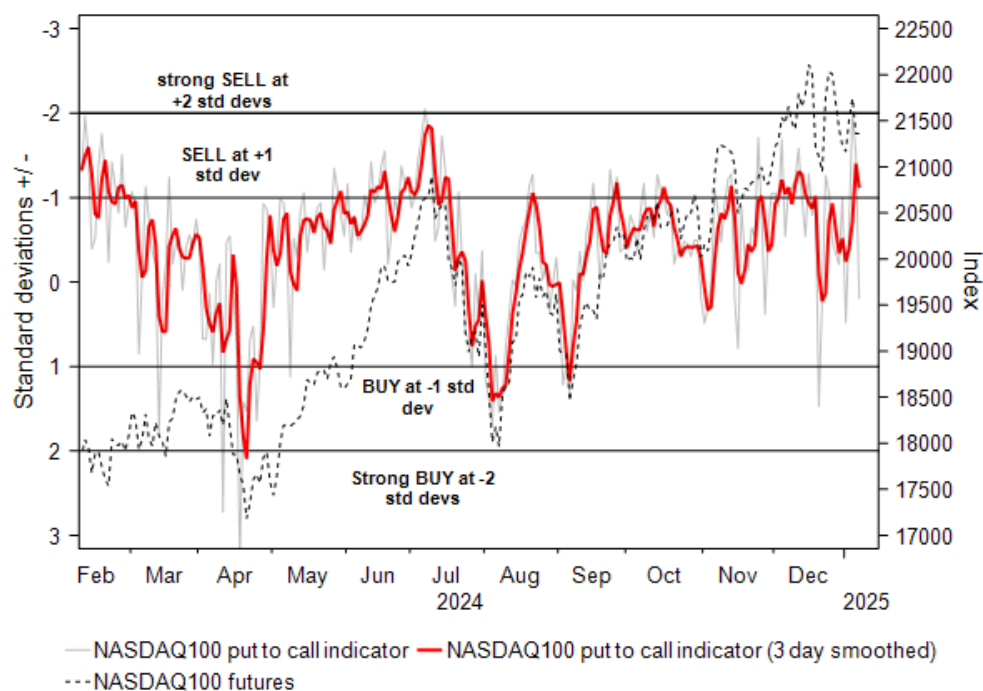
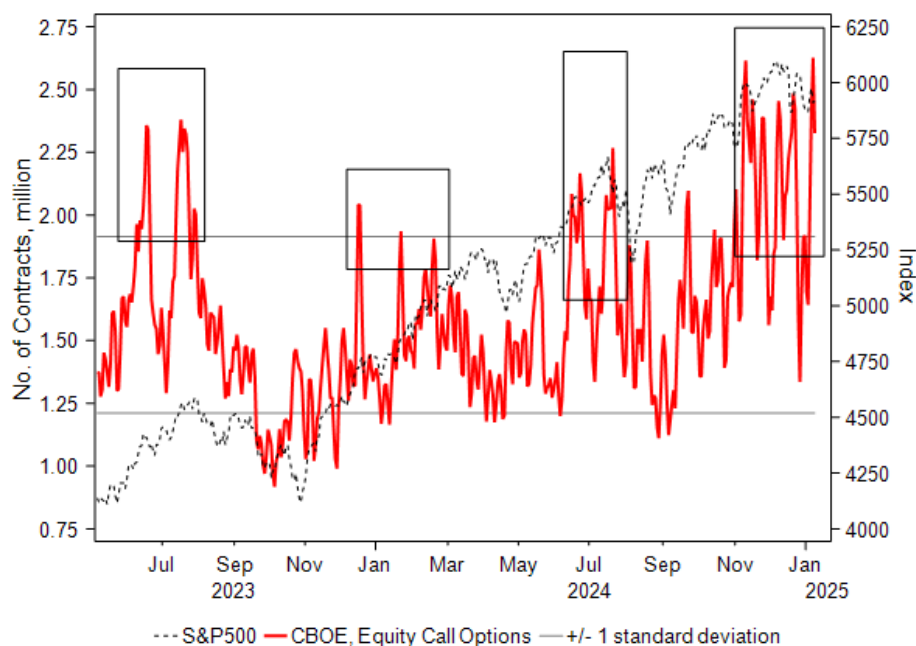


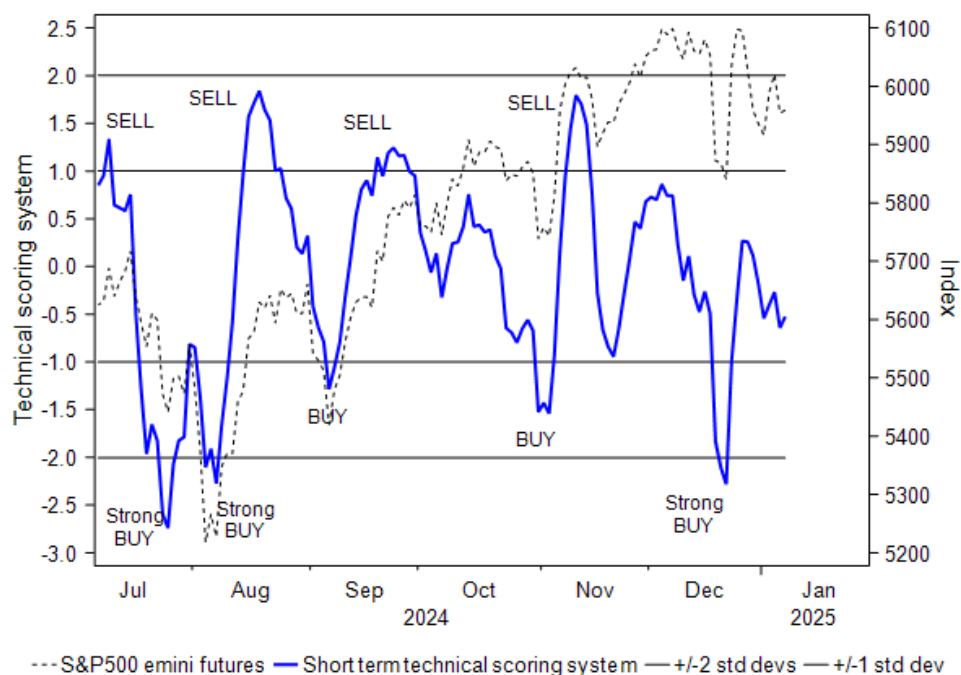
FIG 3b: Volume of outstanding CBOE ‘single stock’ call options (3 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

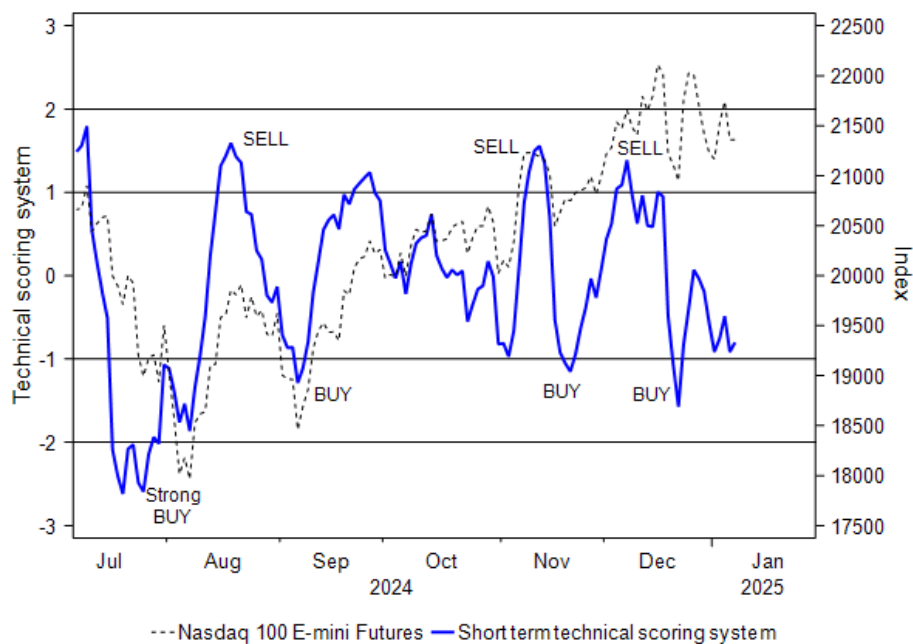
Technical models (for indices) are leaning towards BUY....

FIG 4: Longview S&P500 short term ‘technical’ scoring system vs. S&P500 futures



Source: Longview Economics, Macrobond

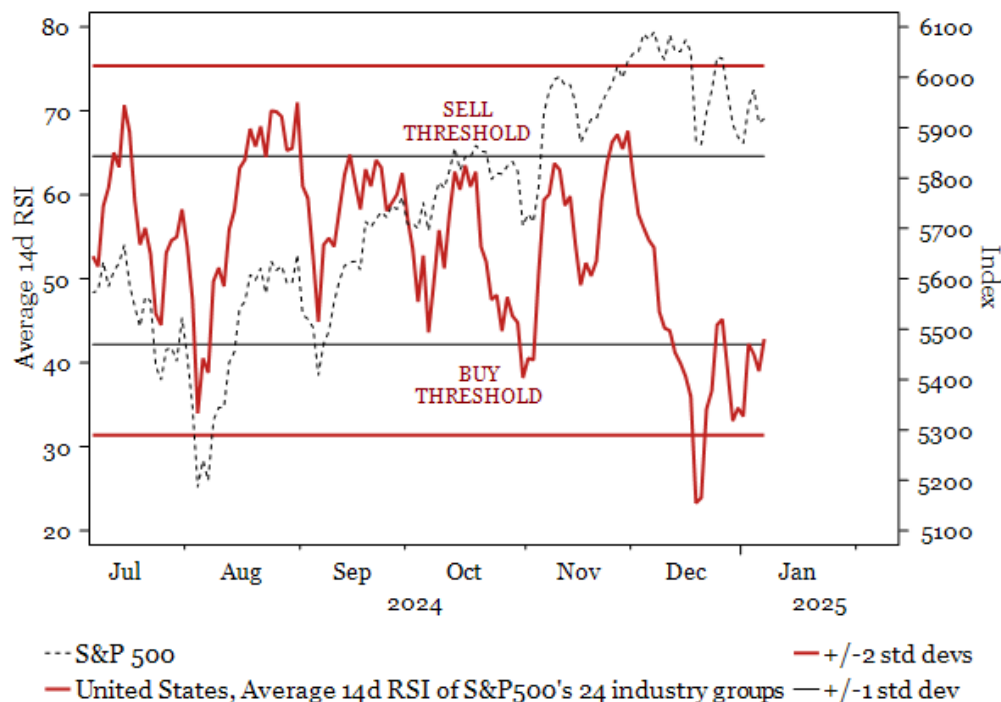
FIG 4a: Longview NDX100 short term **‘technical’** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

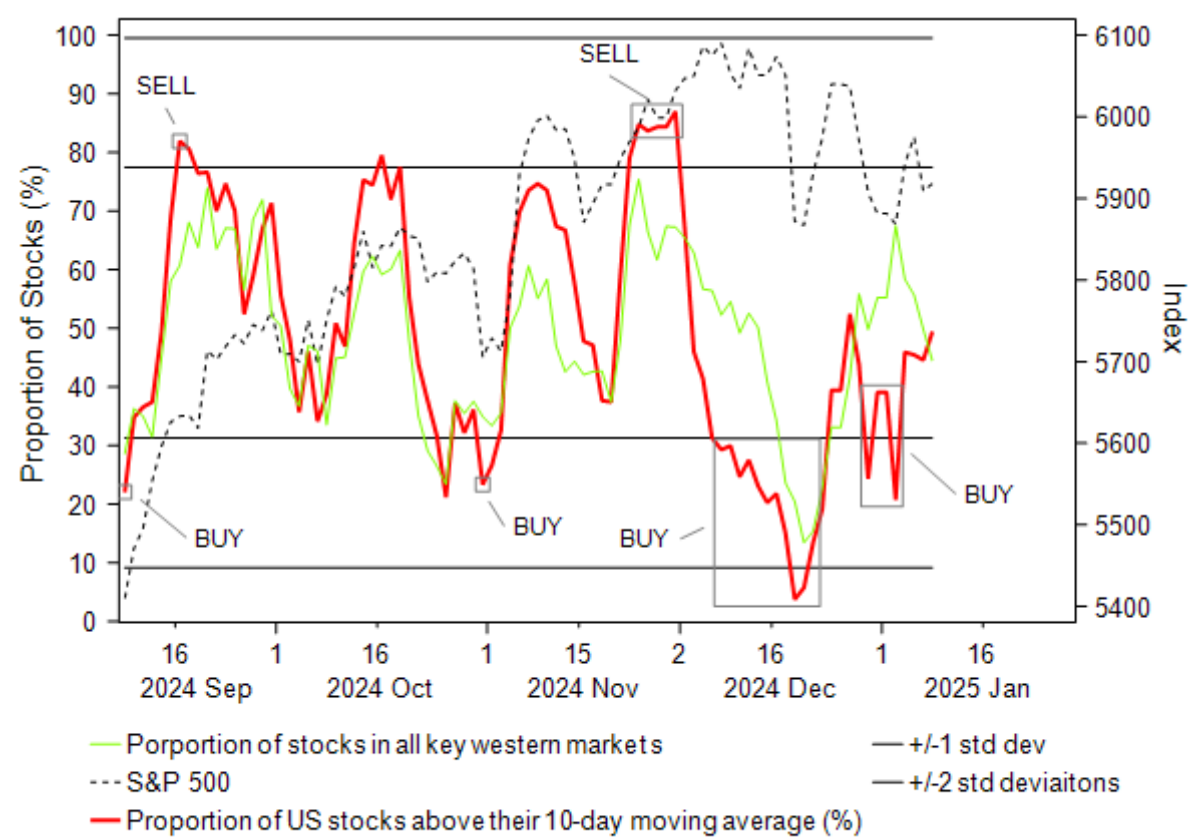
Sector and single stock technical models are mostly on/close to BUY....

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)



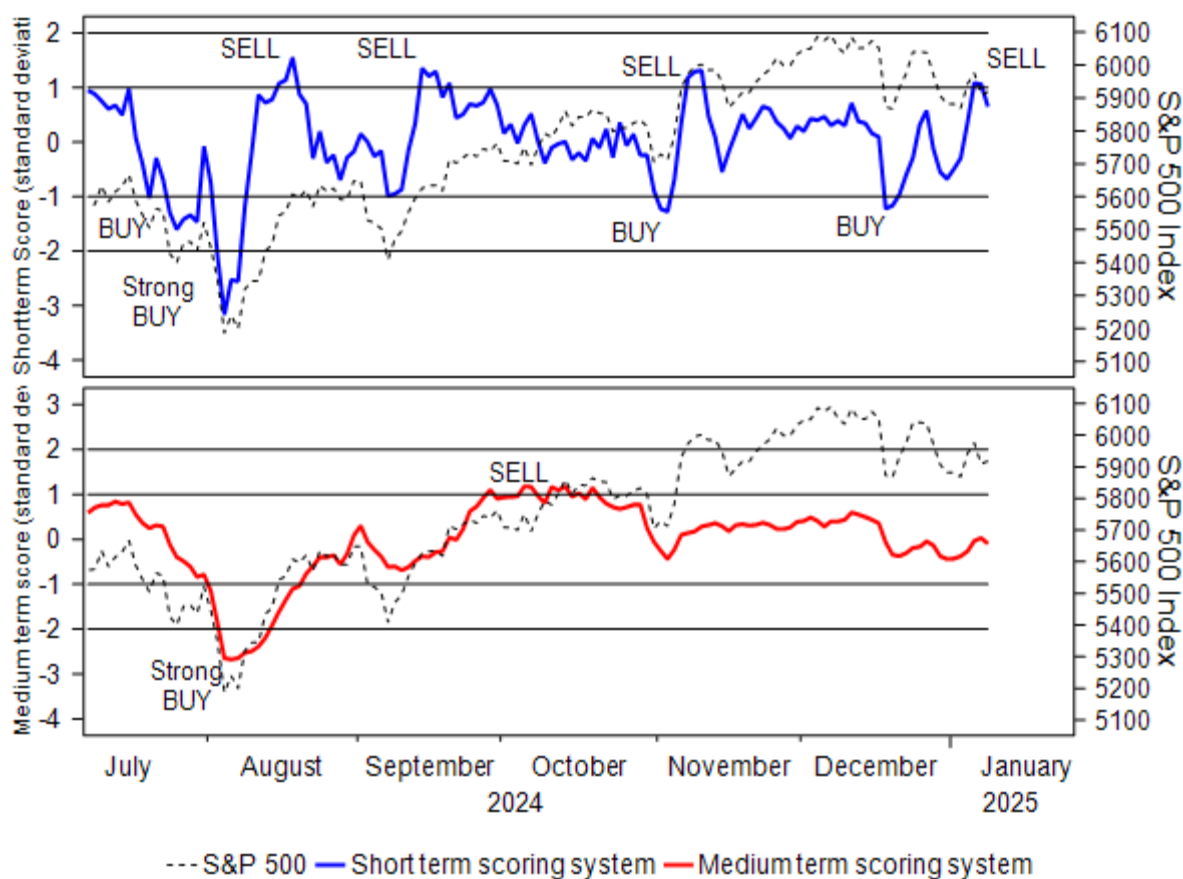
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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 shop price index (Dec, 12:01am); Australian retail sales (Nov, 12:30am); Australian imports/exports, & trade balance (Nov, 12:30am); **Chinese headline CPI & PPI** (Dec, 1:30am); German industrial production (Nov, 7am); German imports/exports, & trade balance (Nov, 7am); Eurozone retail sales (Nov, 10am); **NFIB small business optimism** (Dec, 11am); **US Challenger job cuts** (Dec, 12:30pm); US weekly jobless claims (1:30pm); US wholesale inventories (November final estimate, 3pm); Japanese household spending (Nov, 11:30pm).

Key events today include: Speeches by the Fed's Harker on the Economic outlook (2pm), Barkin at the Virginia Bankers Association (5:40pm), Schmid at the Economic Club of Kansas City (6:30pm) & Bowman reflects on 2024 (6:35pm); speech by the Bank of England's Breeden at the University of Edinburgh (4pm).

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



Notice: This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

-  Longview Economics
-  @chriswatling
-  @LviewEconomics
-  Longview Economics
-  Longview Economics
-  Longview Economics

1 – 2 Week View on Risk

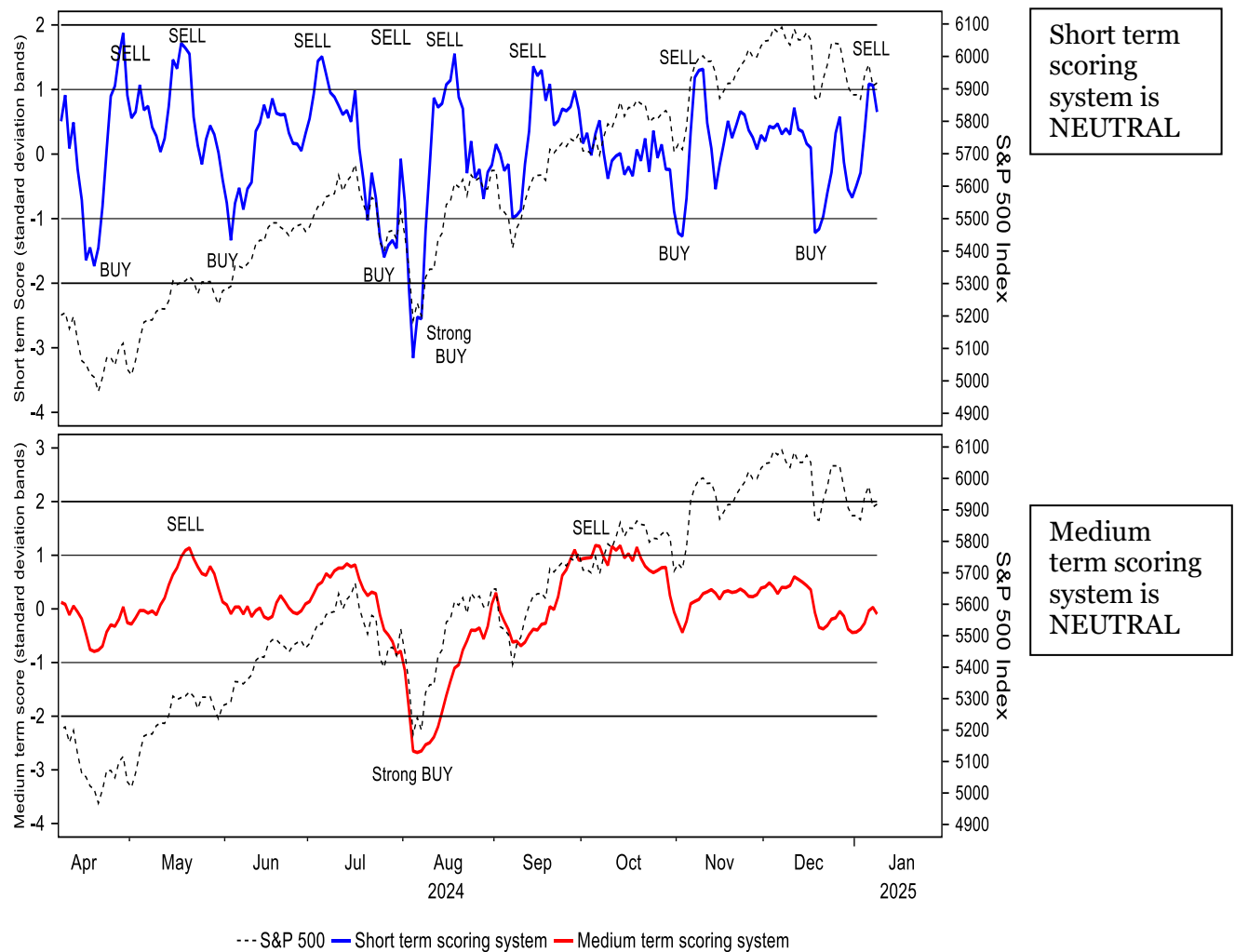
Longview Economics

Email: research@longvieweconomics.com

9th January 2025

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

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



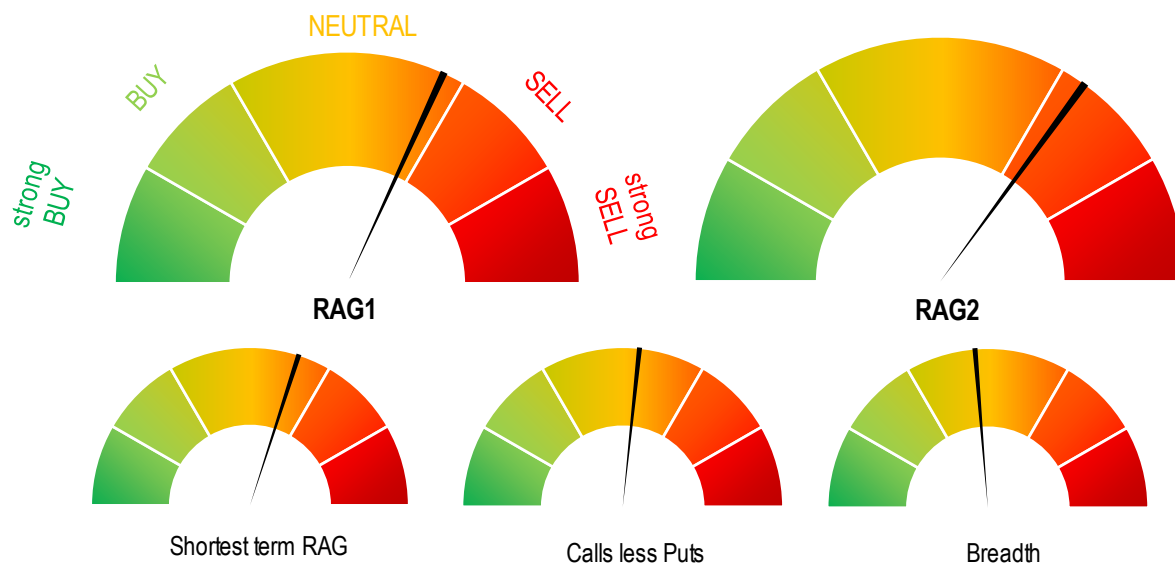
Source: Longview Economics, Macrobond

*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**

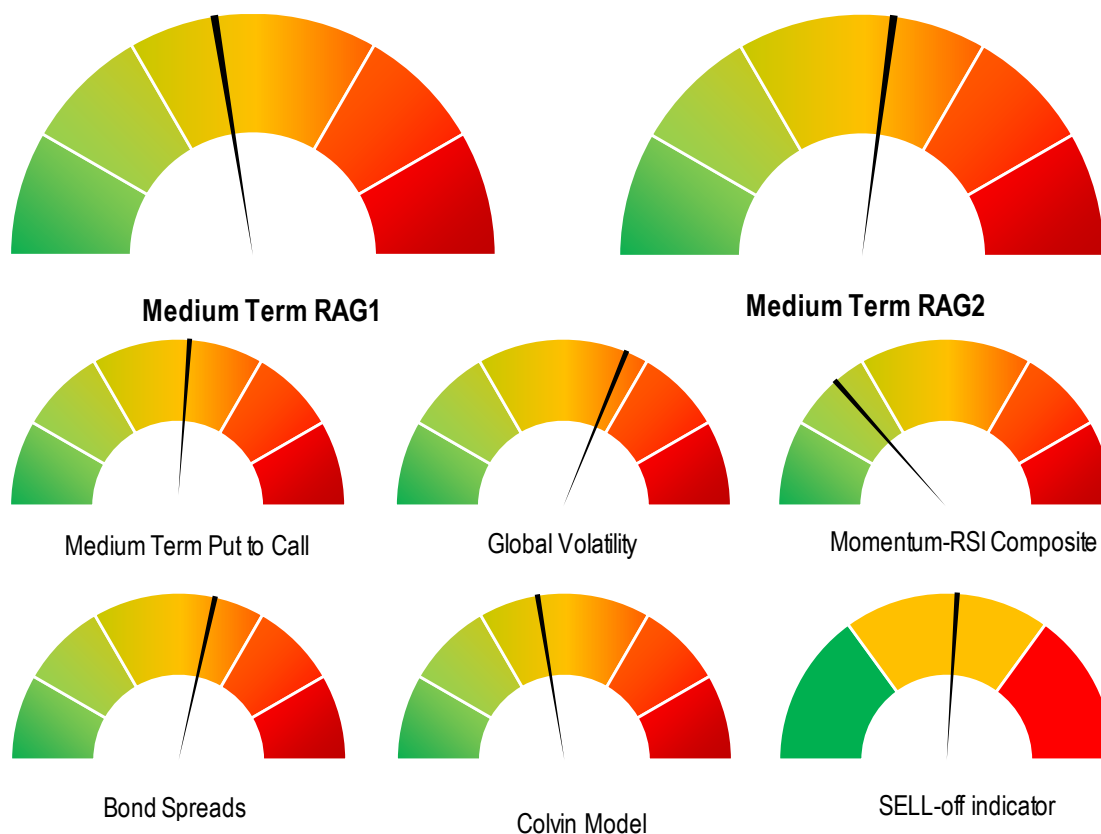
Section 1a: Summary of indicator signals**

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

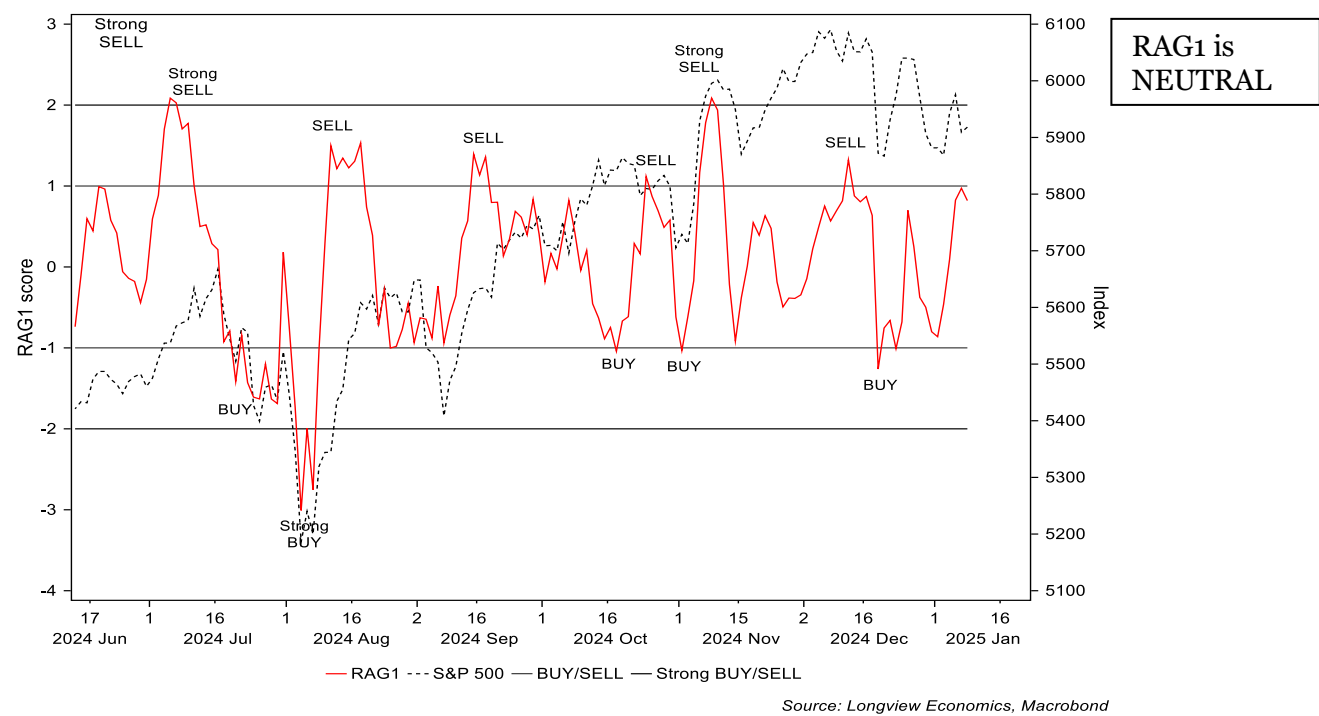
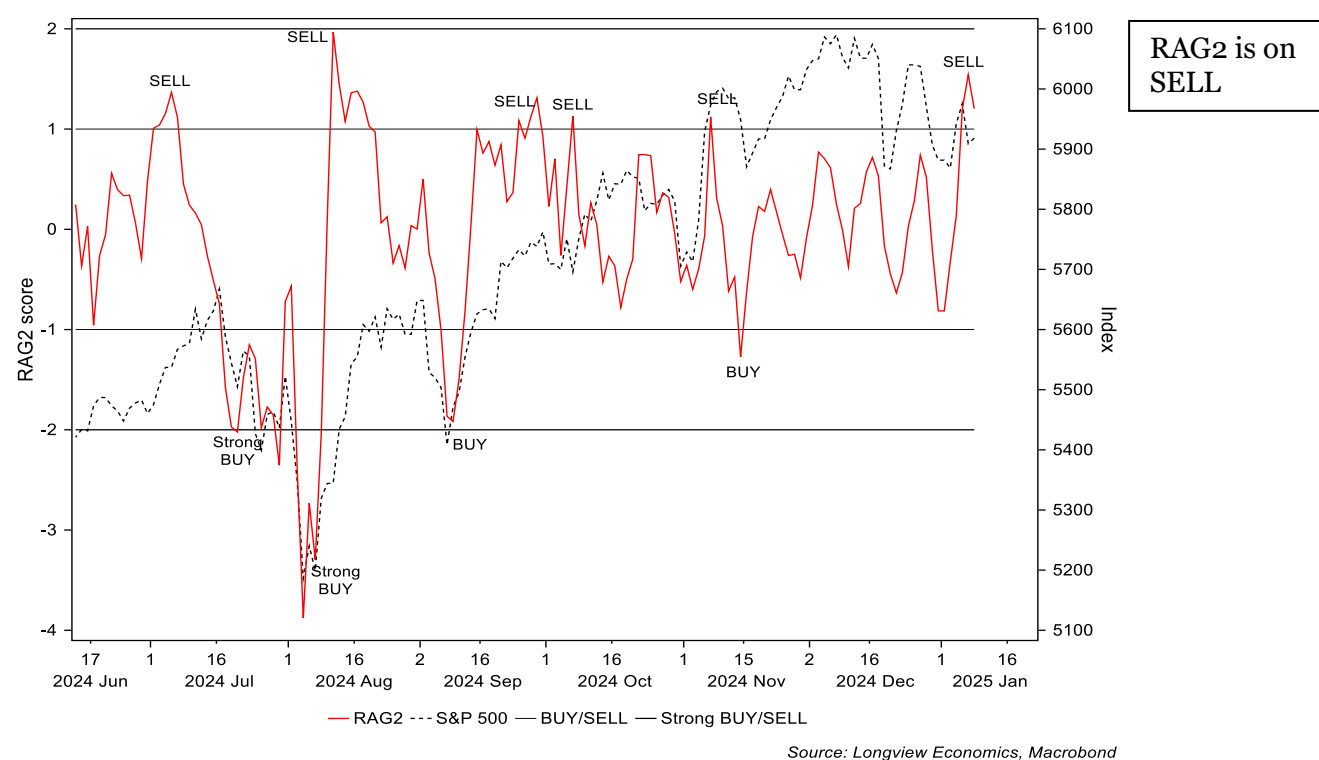


Fig 2b: RAG 2 vs. S&P 500



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

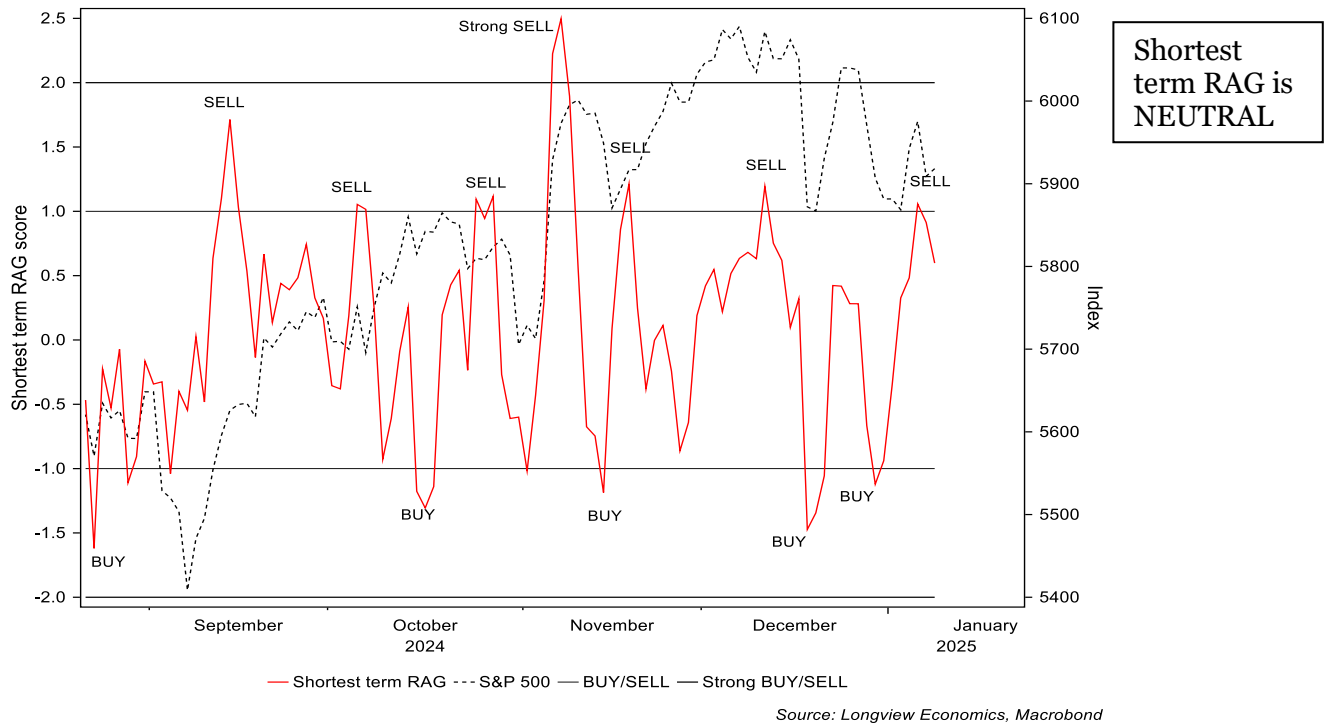
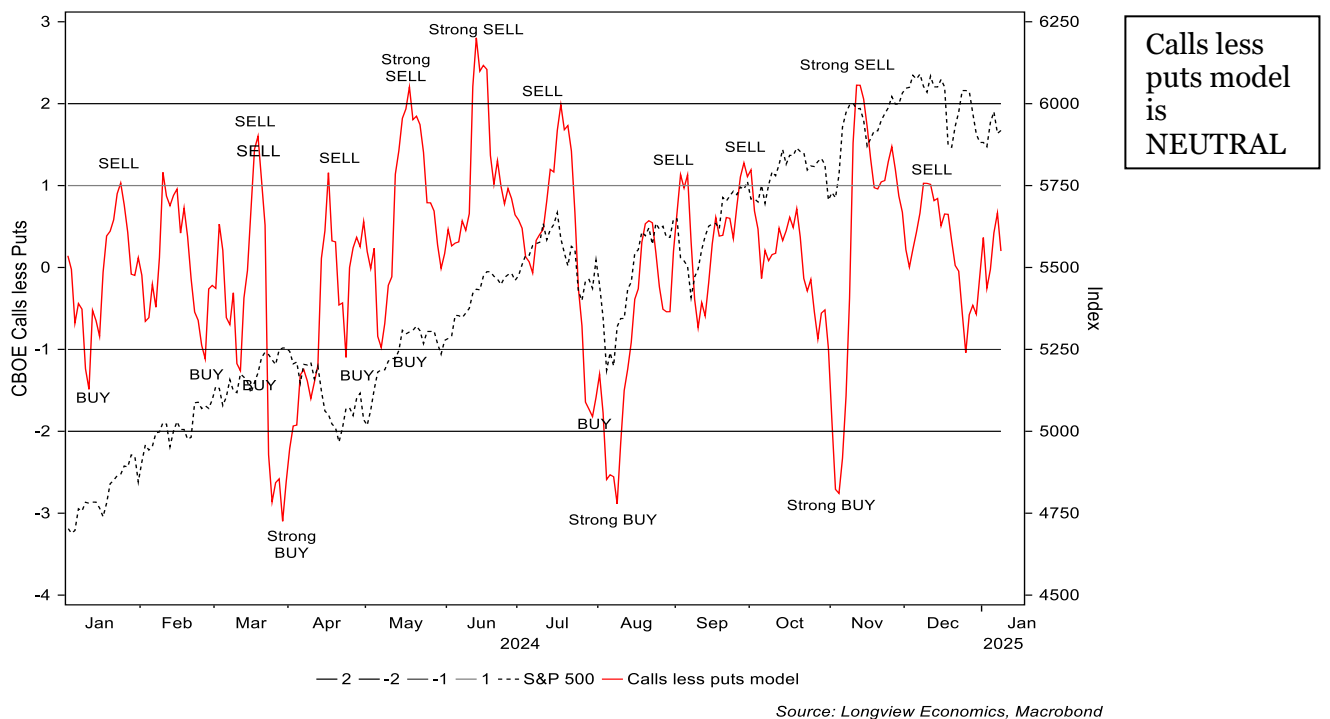
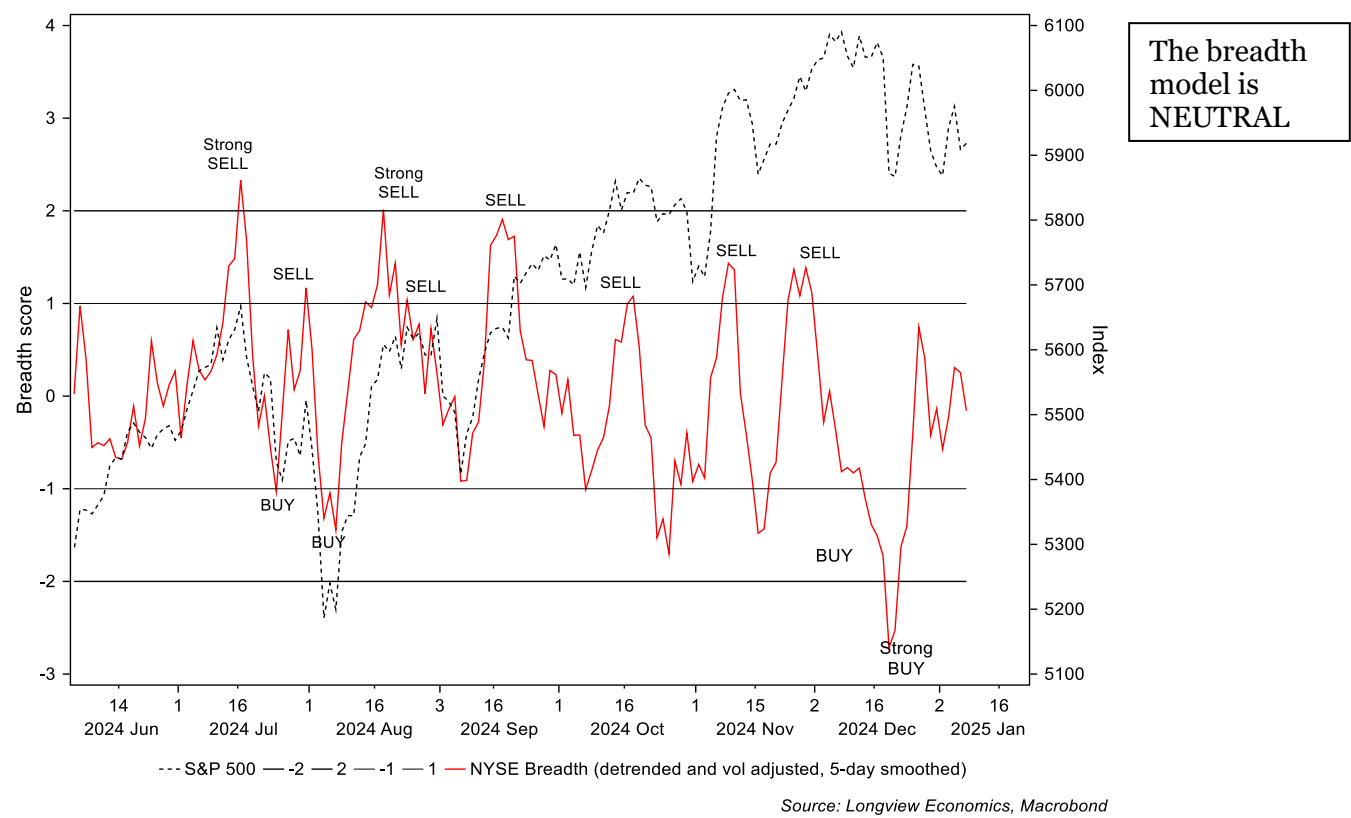


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

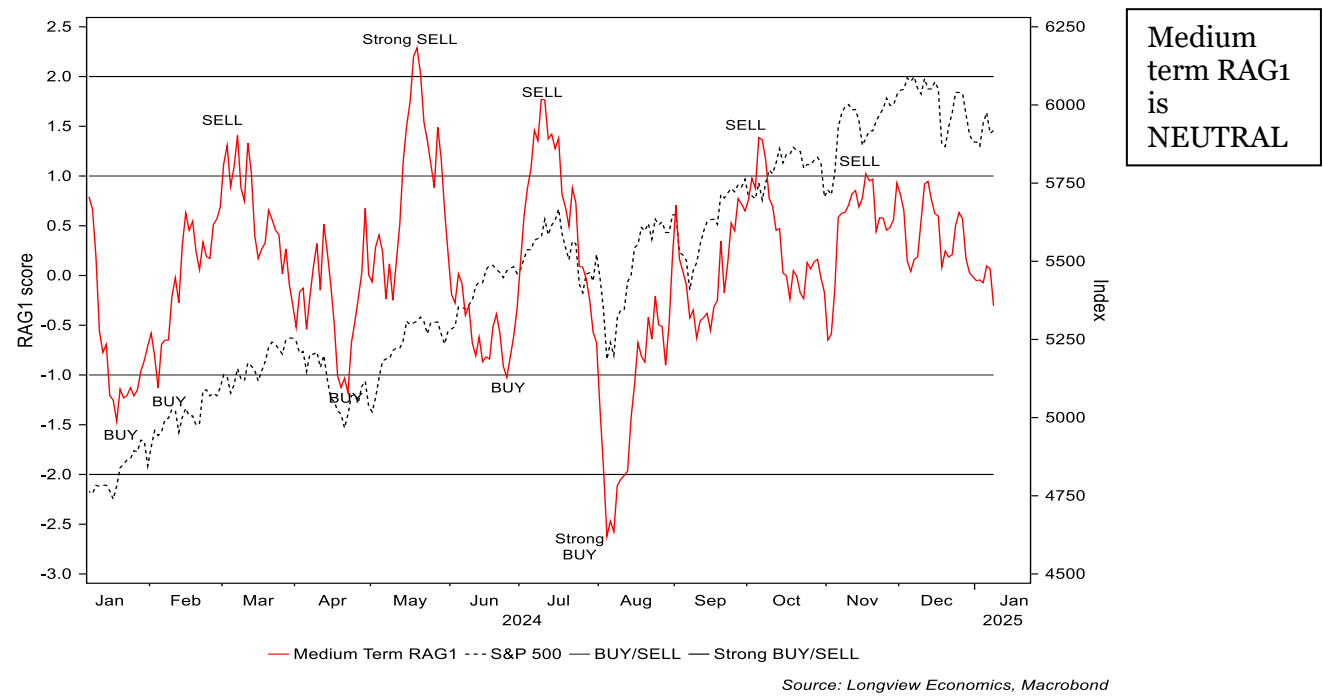
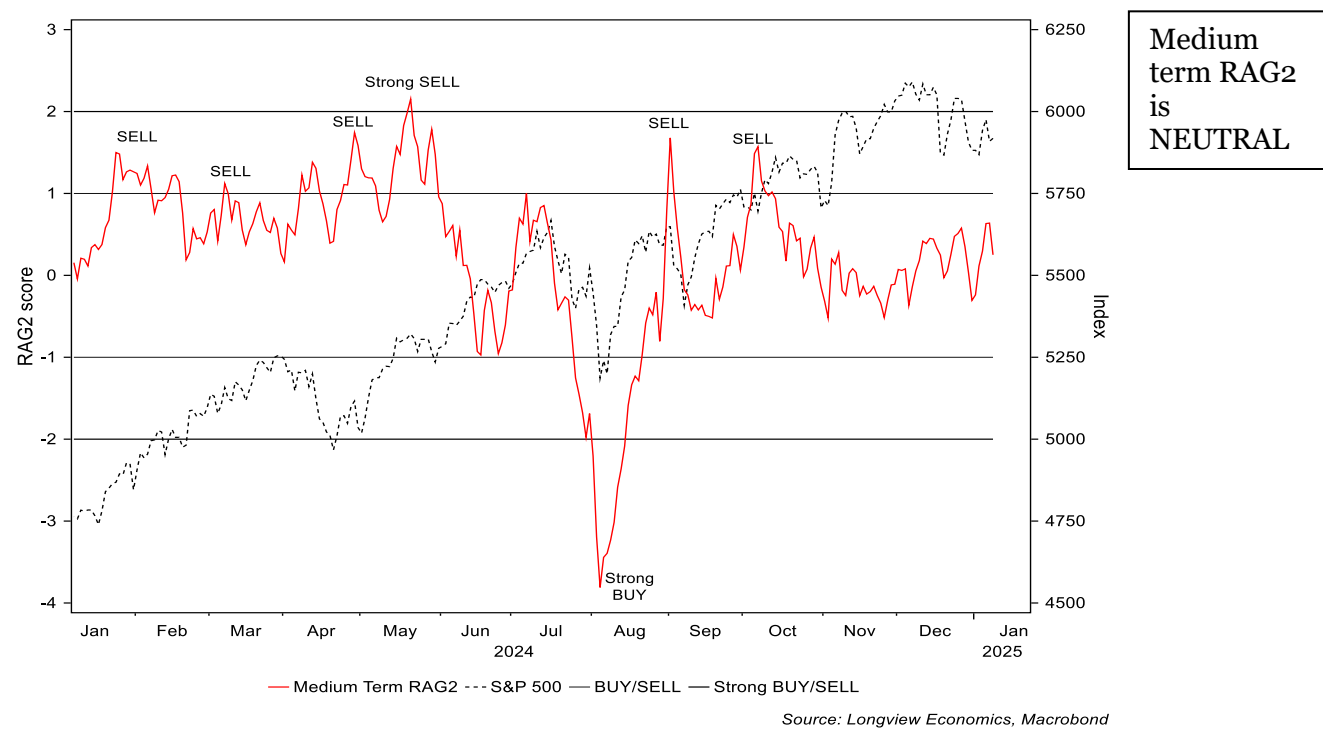


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

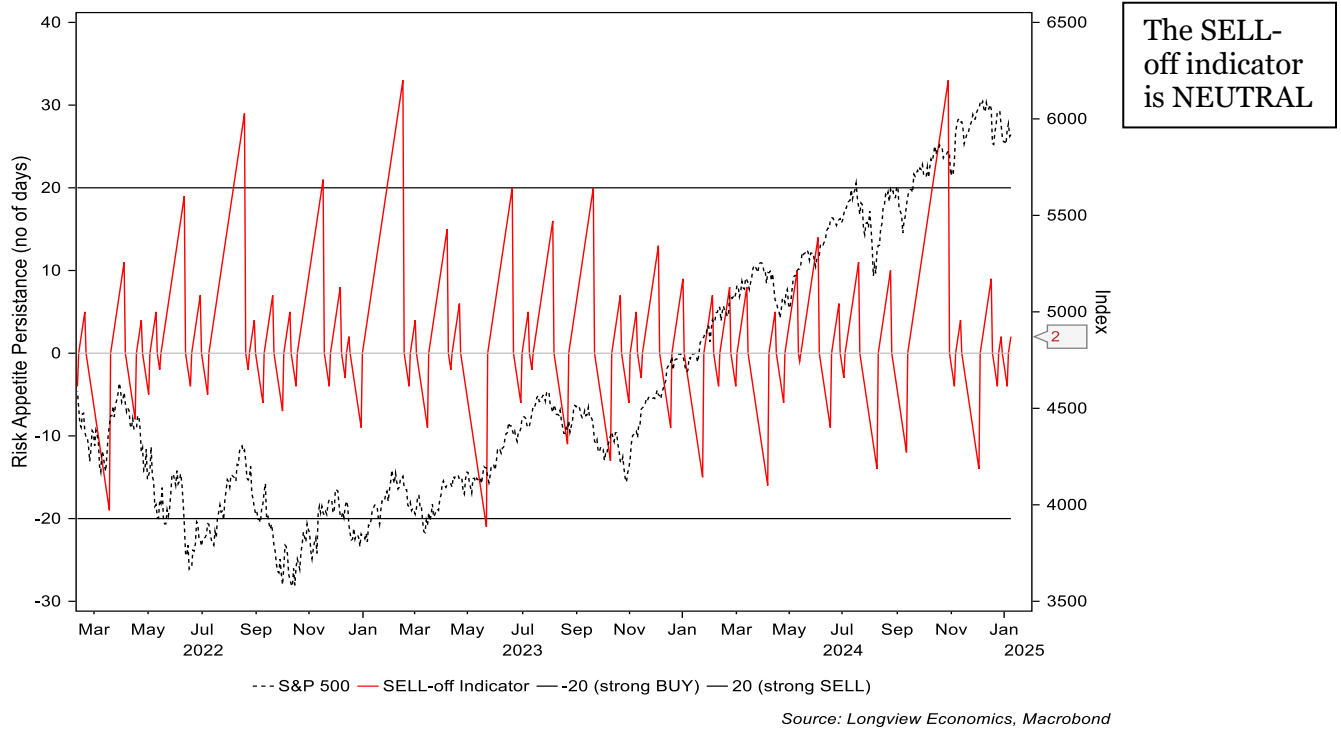
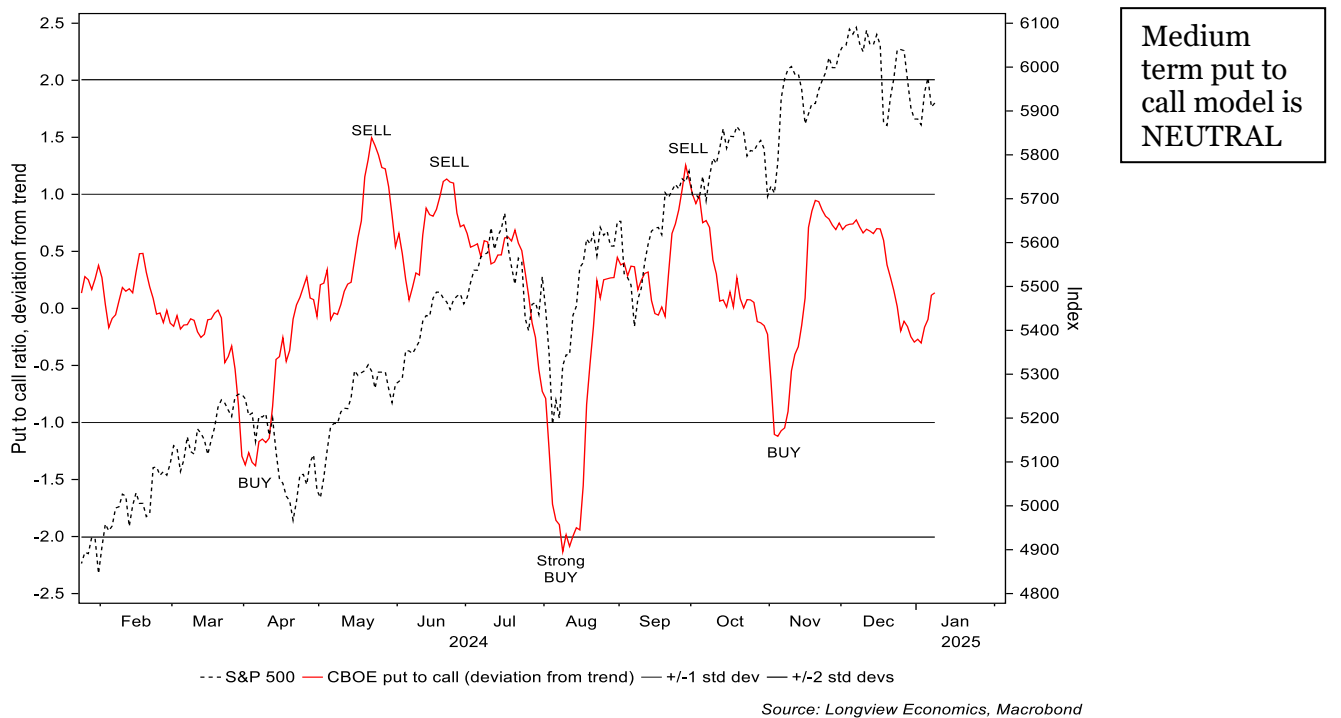


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

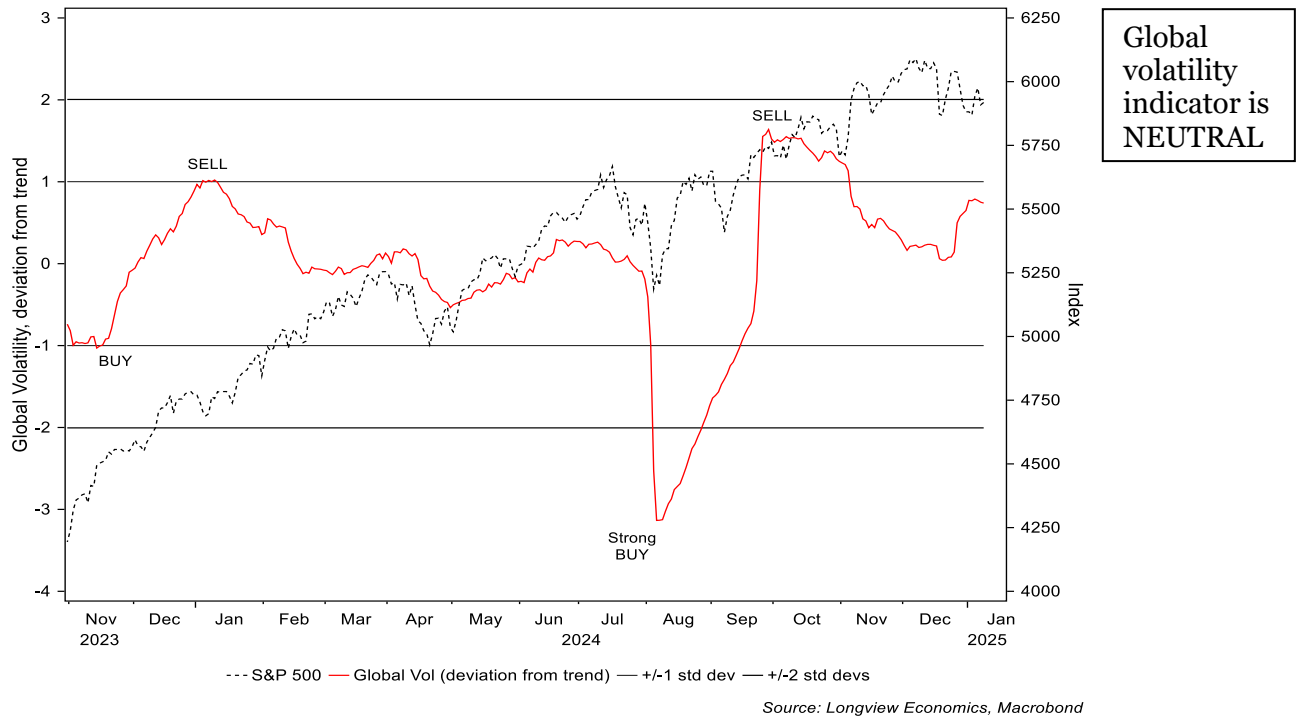


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

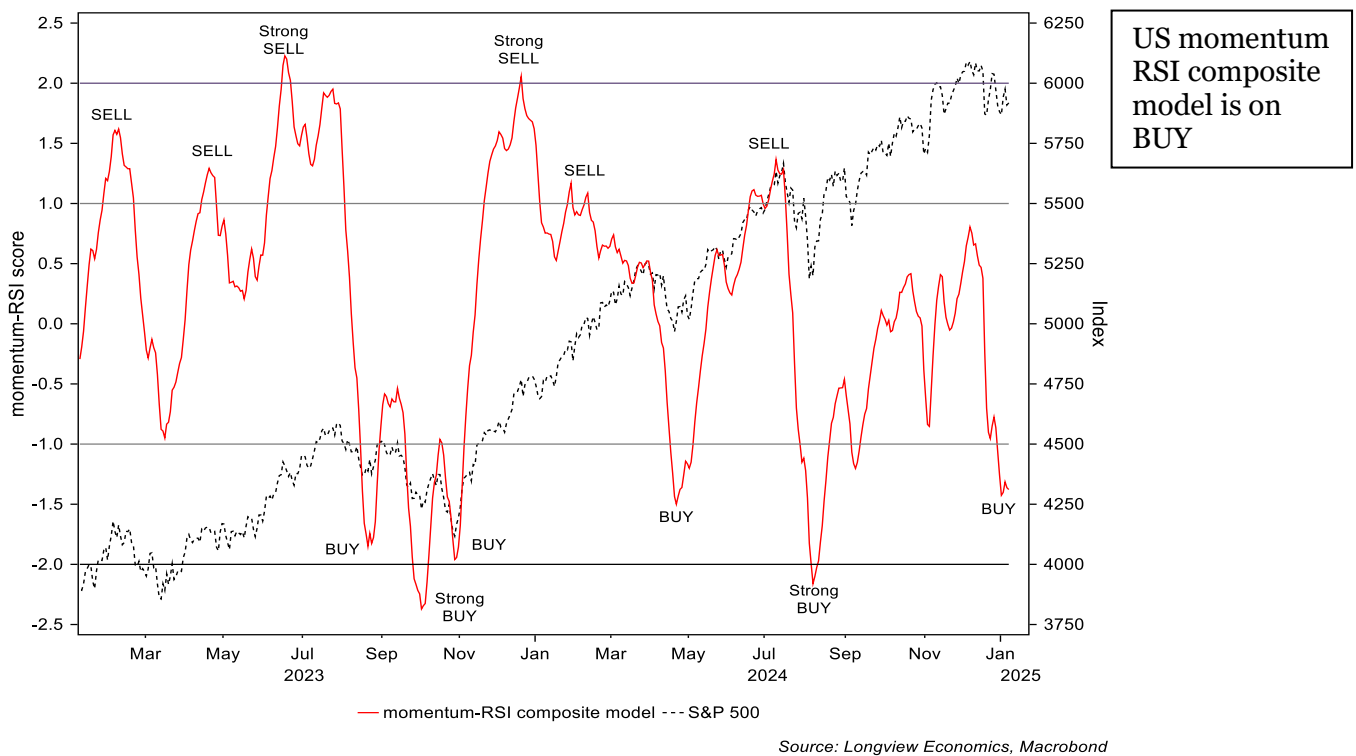


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

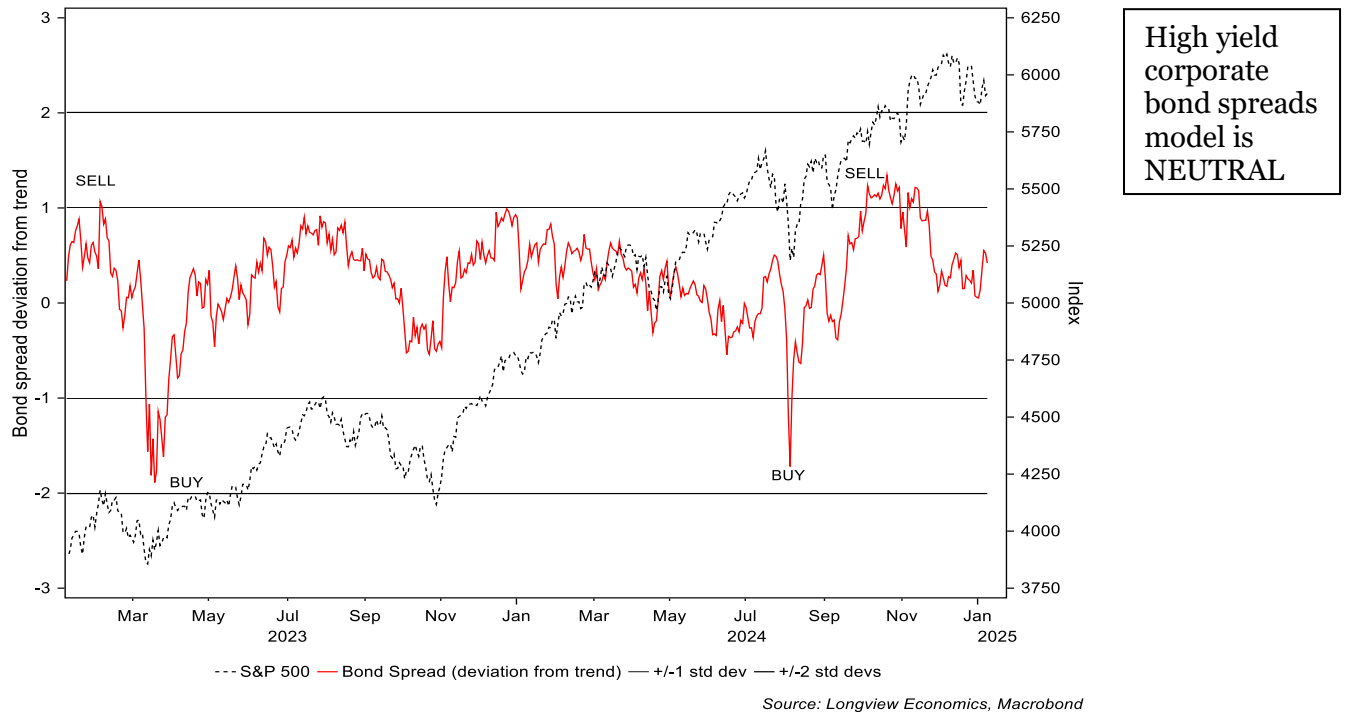
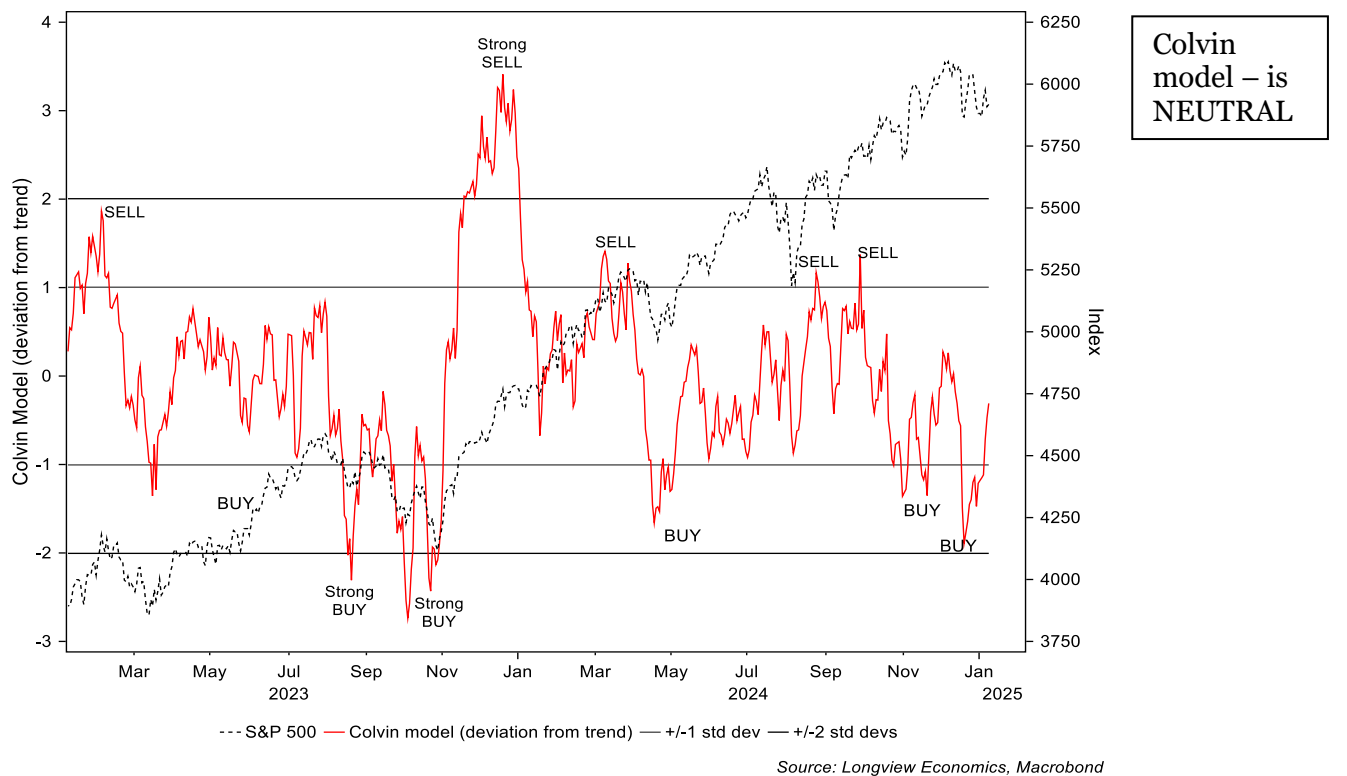


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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.

Disclaimer

This Publication is protected by U.K. and International Copyright laws.

All rights are reserved. No license is granted to the user except for the user's personal use. No part of this publication or its contents may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means, except as permitted under agreement with Longview Economics Ltd.

This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.