Equity Index Futures Trading Recommendations

10th April 2025

"Relief Rally Underway - WATCH & WAIT For Near Term Giveback"

Email: info@longvieweconomics.com

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

- WATCH & WAIT.

Rationale

Trump shocked markets yesterday by pausing 'reciprocal' tariff rates for 90 days*. That generated extreme moves in US/global equities. In particular the S&P500 closed up 9.5%, with unusually strong gains in the Russell 2000 (+8.7%); DJ Transports (+10.1%) and NASDAQ100 (+12%). The stand out performer was the Philly SOX, which delivered its largest one day rally on record (+18.7%). Moves in a number of key US 'leadership' stocks were also impressive/historic (e.g. Nvidia +18.7% & Tesla +22.7%).

With that, and while all sectors of the S&P500 closed higher, sector dispersion was wide. That is, tech was up 14.1% while defensive sectors like utilities (+3.9%) remained under pressure from higher bond yields. NB US 10 year yields are now up 33bps in the past three days.

With those dramatic moves higher, there were bullish key day reversals in several key equity indices (including the S&P500, NASDAQ100, Russell 2000, amongst others), and some commodity prices (e.g. oil). That happens when an asset price opens below the prior day's low, and then closes above the prior day's intraday high. Key day reversals typically signal a change of near-term trend.

After such a large reversal of recent losses, therefore, the key question is: **How much more upside is there (on a 1 – 2 week view)?**

So far both the S&P500 and NASDAQ100 have retraced about half their losses from this pullback (FIGs 1a & 1b). The 61.8% Fibonacci (golden) retracement level is at 5,692 (approx. 5% above current levels). Above that, the next key resistance levels on the S&P500 are 5,853 (the 50 day moving average) and 5,892 (the 200 day).

On a 1 – 2 week view, it's likely that those levels will be tested. Both short and medium term models, in that respect, support the case for an **ongoing relief rally**. In particular, despite yesterday's strength, the VIX remains reasonably elevated (FIG 2) while the S&P500 risk reversal is still extreme (FIG 2a). Furthermore, our short term risk appetite, technical, put to call, and breadth models mostly retain a clear BUY (if not strong BUY) message, see FIGs 3 – 3f.

After such a strong move yesterday, though, we are reticent to chase this market. In particular that reflects: (i) the troubling move higher in Treasury yields in recent trading sessions; (ii) the risk of some near term profit-taking in equities (which have arguably over-reacted to yesterday's news flow, at least in the near term); and, confirming that point; (iii) the SELL signal from our shortest term RAG model (which has generated timely signals in recent months, see FIG 1c). We therefore recommend watching the price action, with a view to moving LONG this equity market on weakness, probably in coming trading days.

Key two way risks today include the March US CPI report (due 1:30pm London time). Please see below for a full list of today's key macro data and events.

Kind regards,

The team @ Longview Economics

*During which time the tariff rate will be 10%. NB he also raised China's tariff rate to 125%, effective immediately.

<u>**FIG 1:** S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages</u>

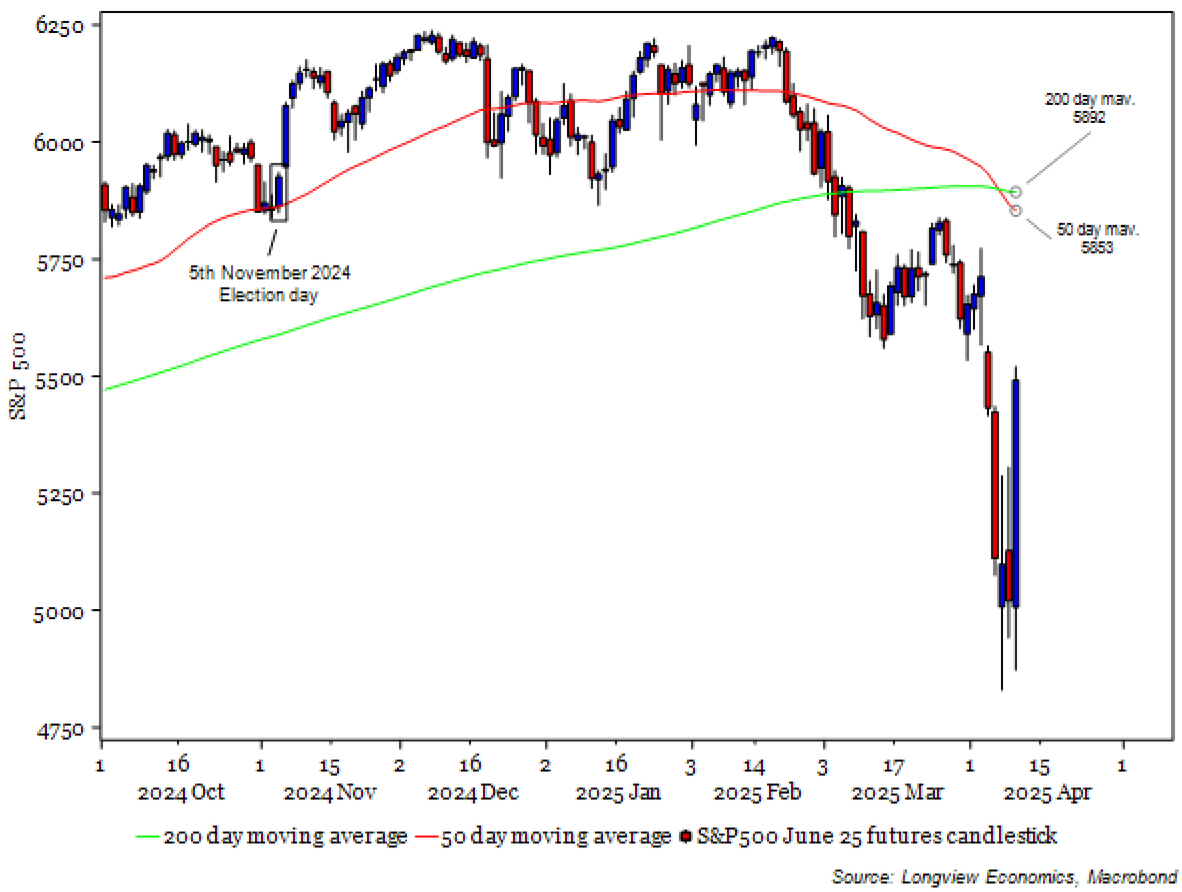


FIG 1a: S&P500 June futures shown with key Fibonacci retracement levels

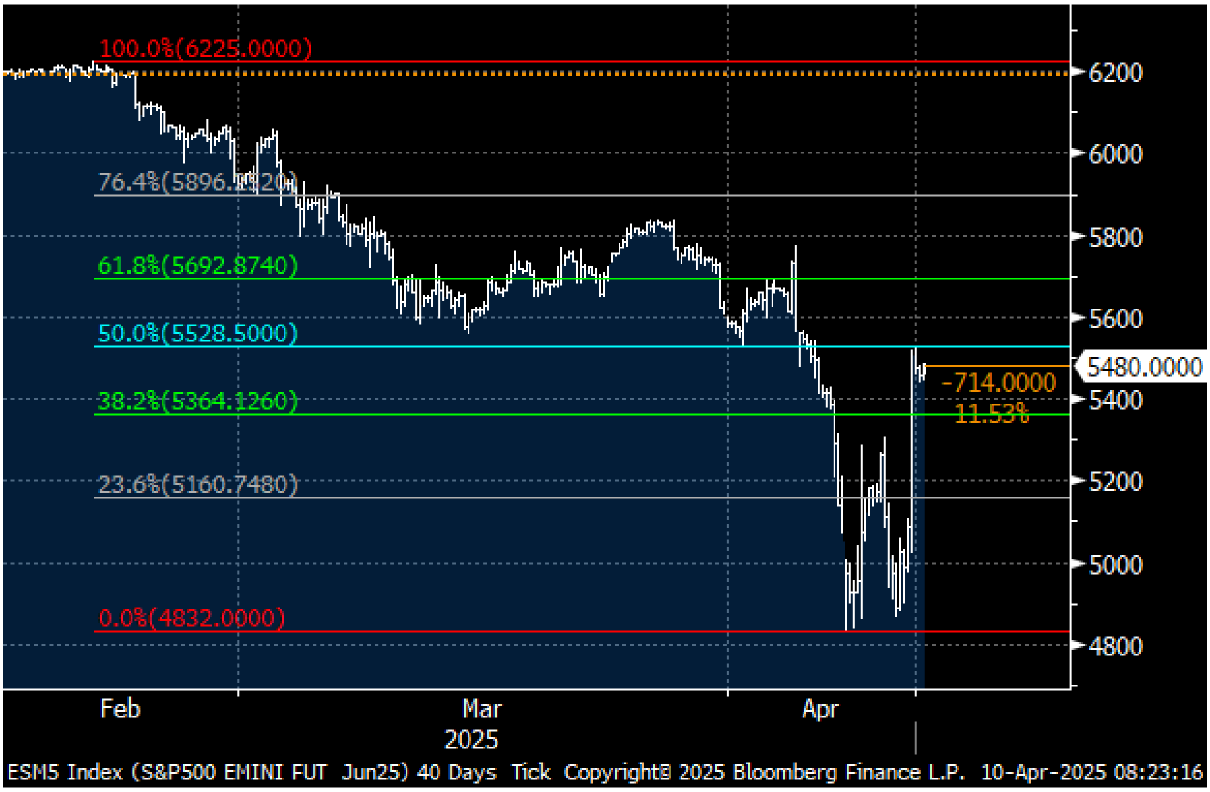


FIG 1b: NDX100 June futures shown with key Fibonacci retracement levels

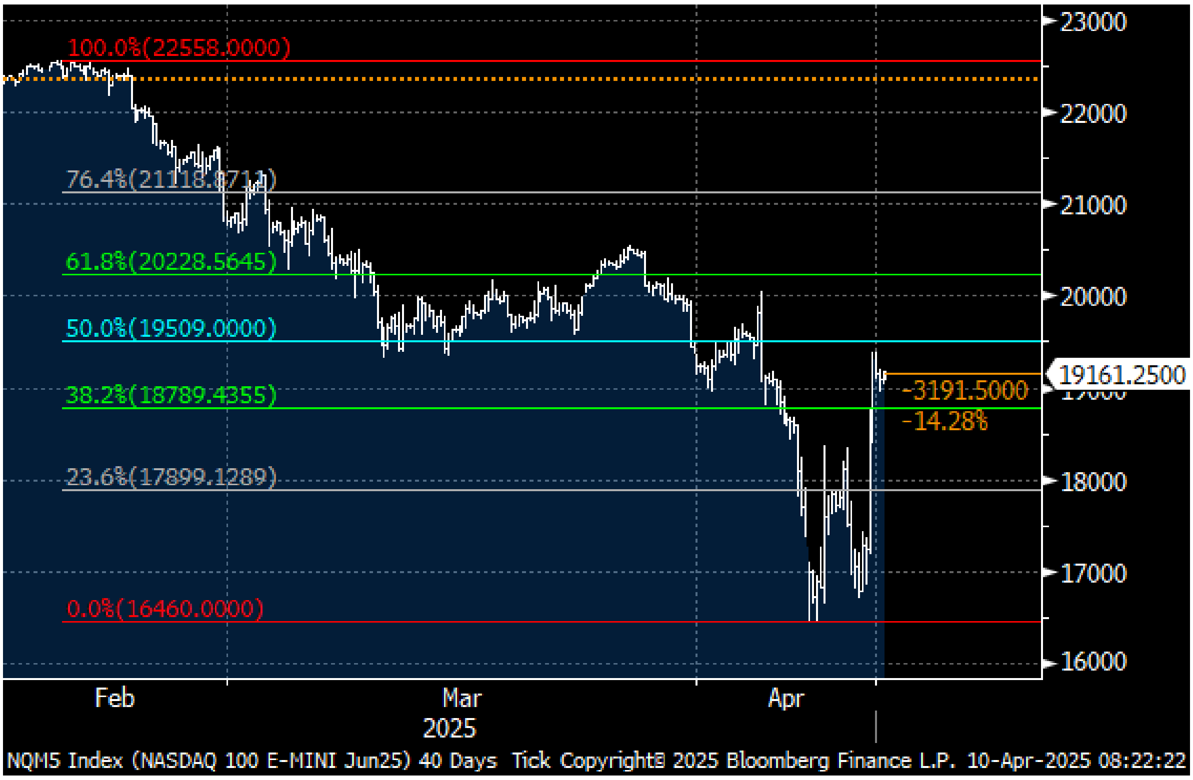
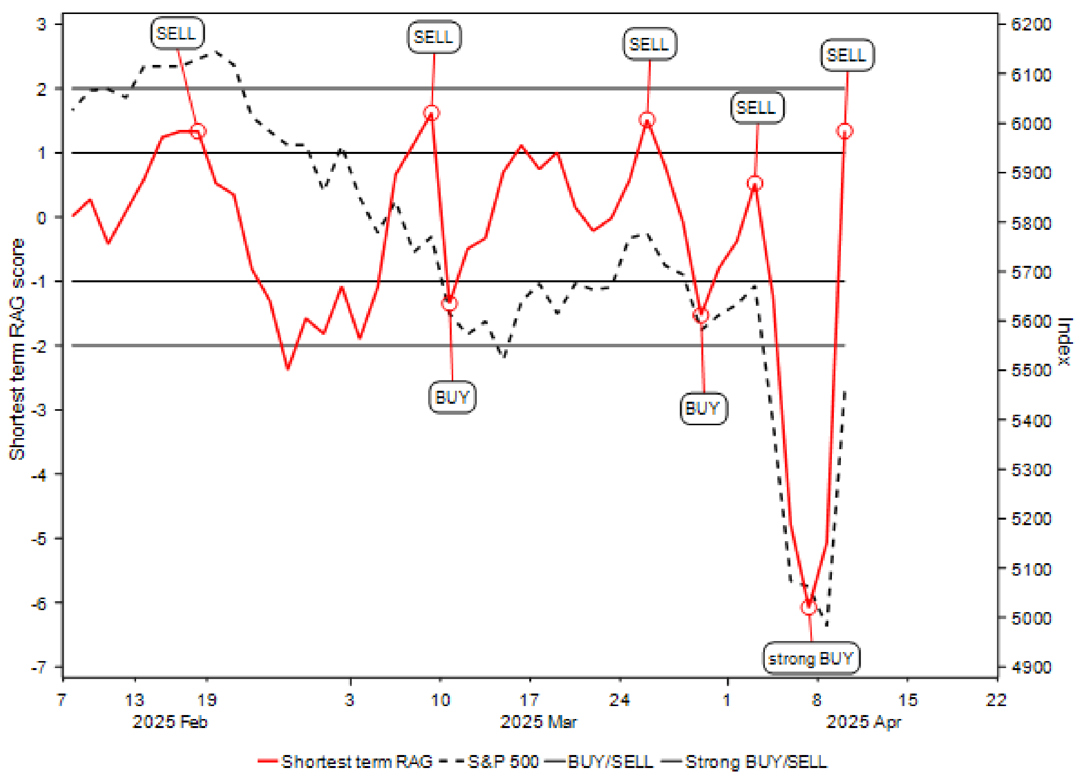
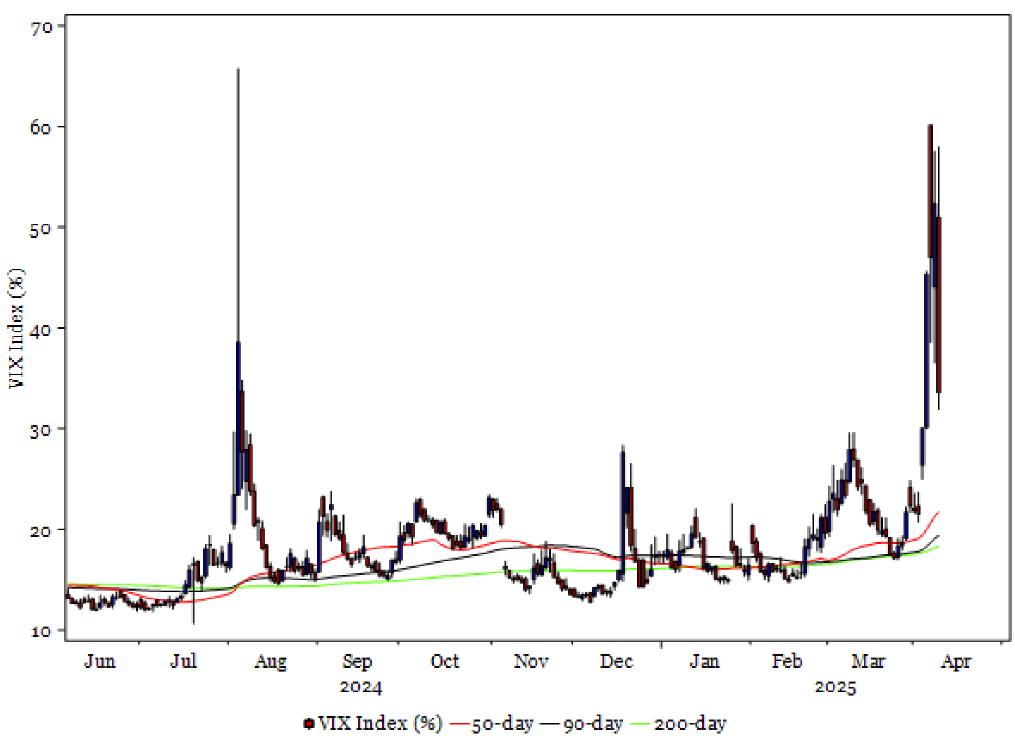


FIG 1c: Shortest term RAG vs. S&P500



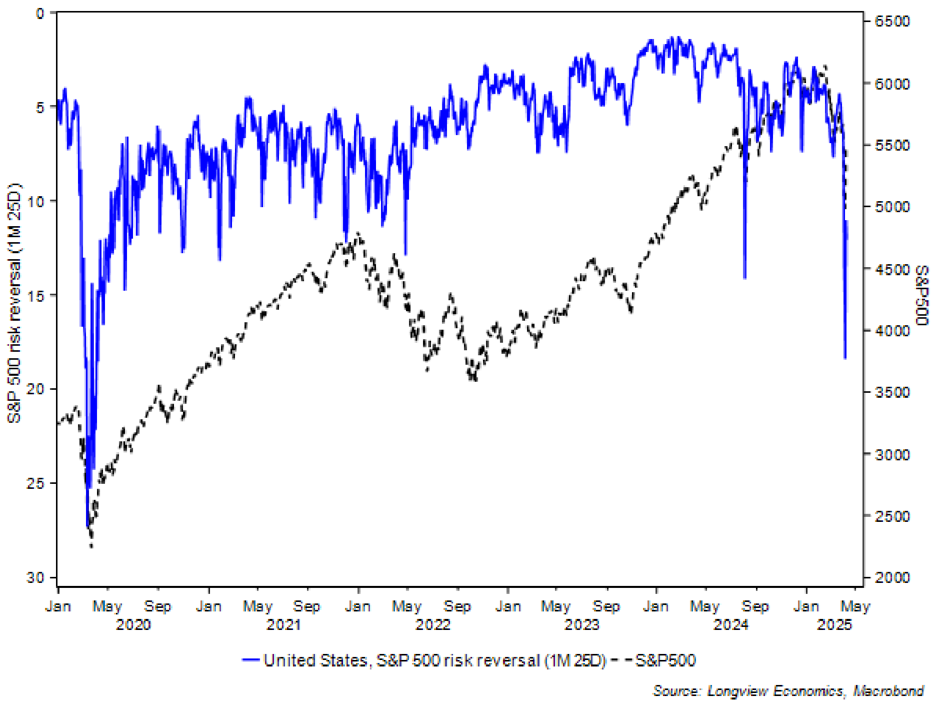
Source: Longview Economics, Macrobond

FIG 2: VIX candlestick shown with 50, 90 & 200 day moving averages (%)



Source: Longview Economics, Macrobond

FIG 2a: S&P500 skewness* (risk reversal, 1 month, 0.25 delta) vs. S&P500



*Which compares the 'strike vol' of calls and puts with the same delta.

Short term risk appetite models are on strong BUY…

FIG 3: Longview short term **'risk appetite'** scoring system vs. S&P500

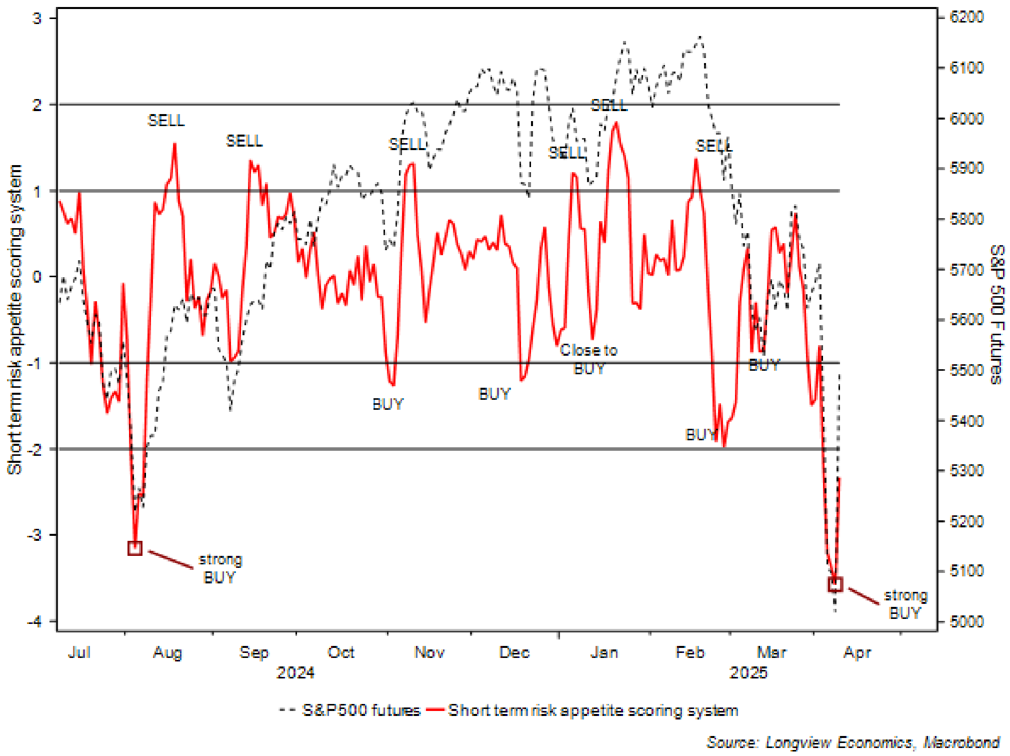
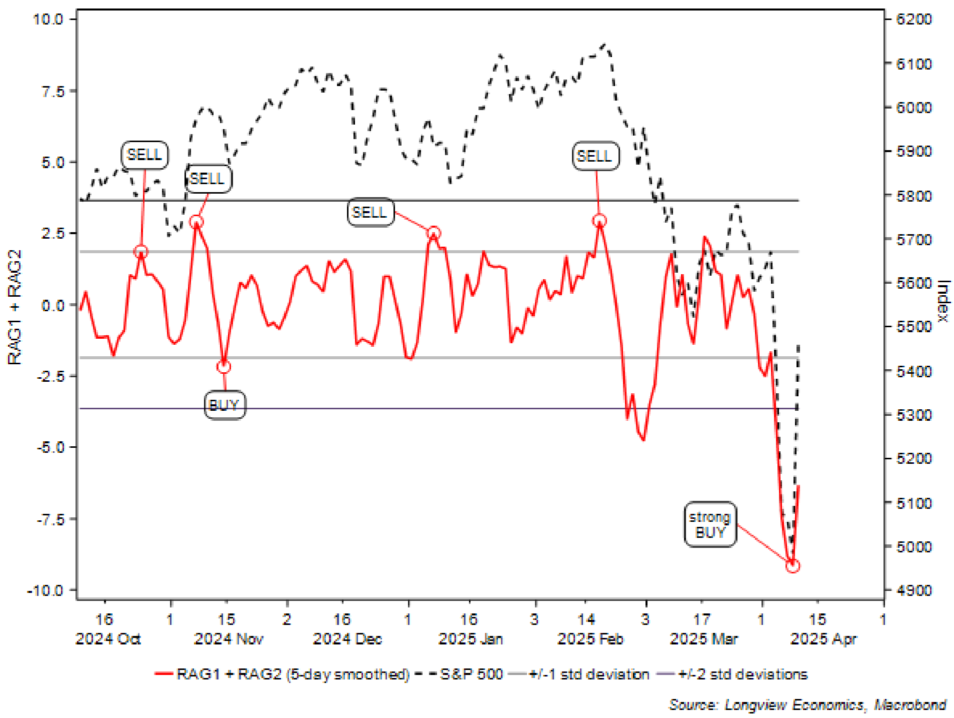


FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Put to call ratio models are on strong BUY…

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

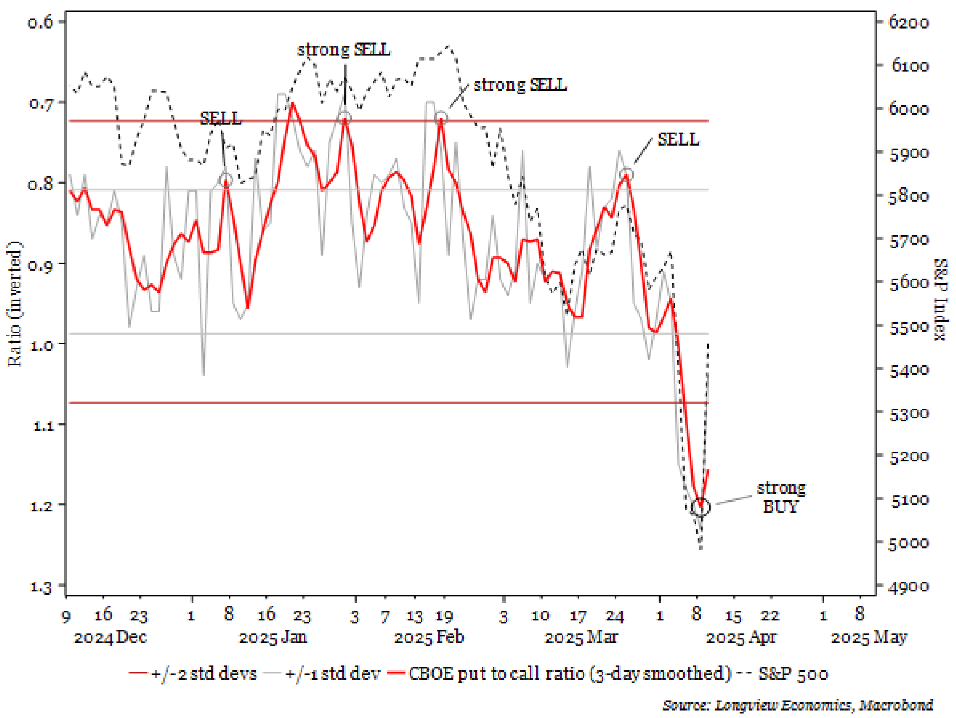
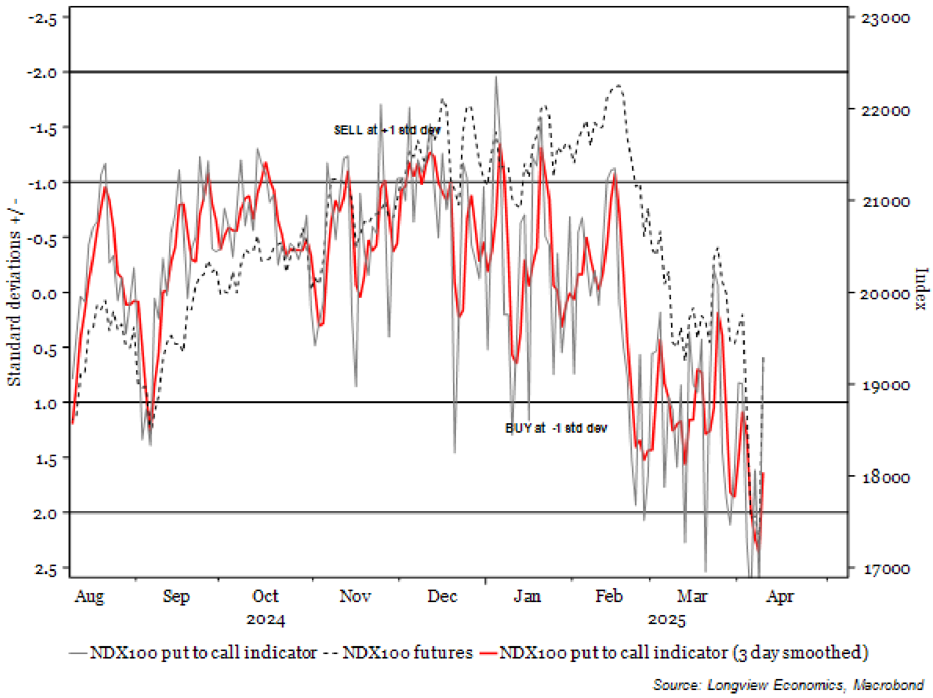


FIG 3c: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Technical/price-based models are on strong BUY....

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

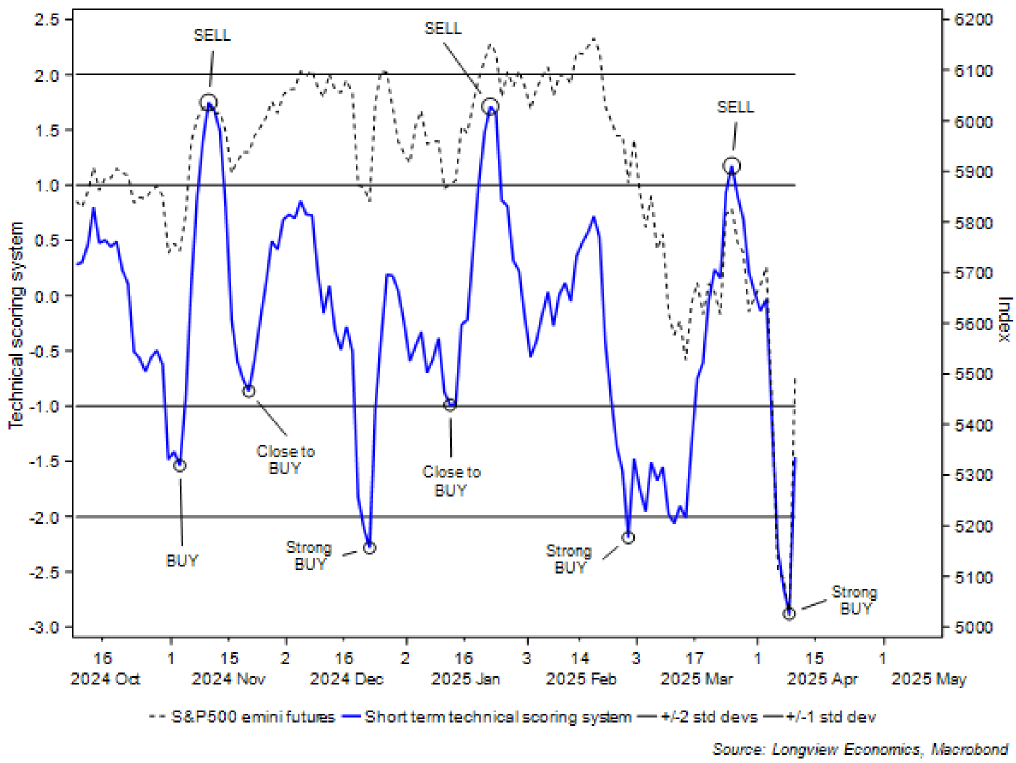


FIG 3e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

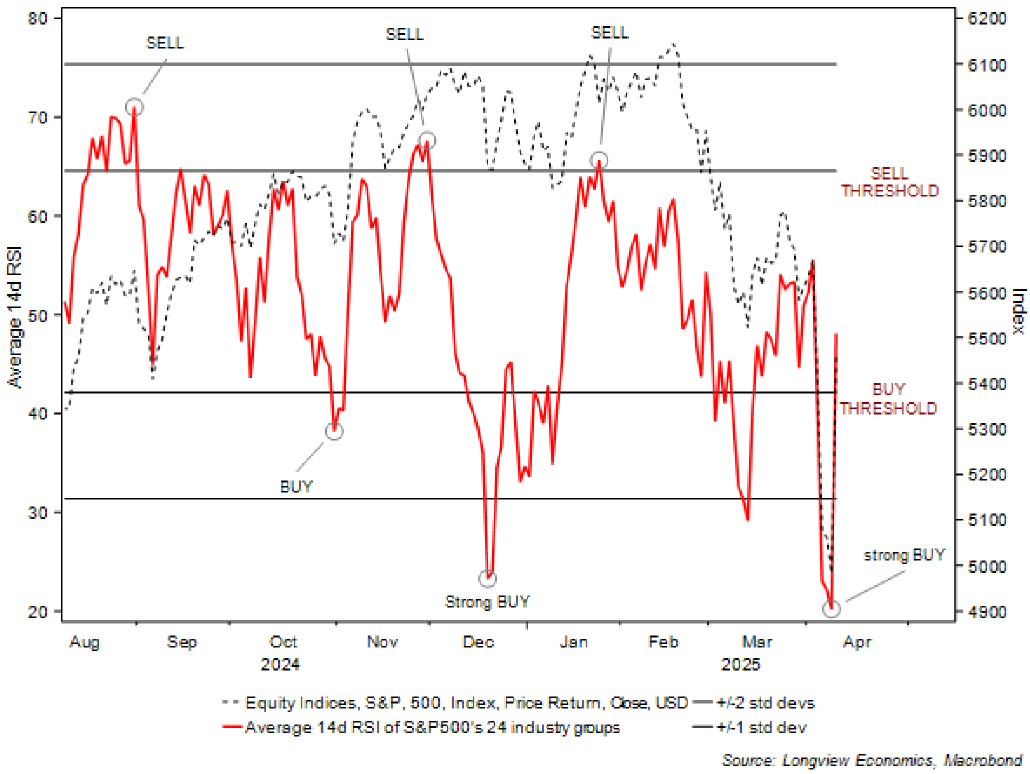
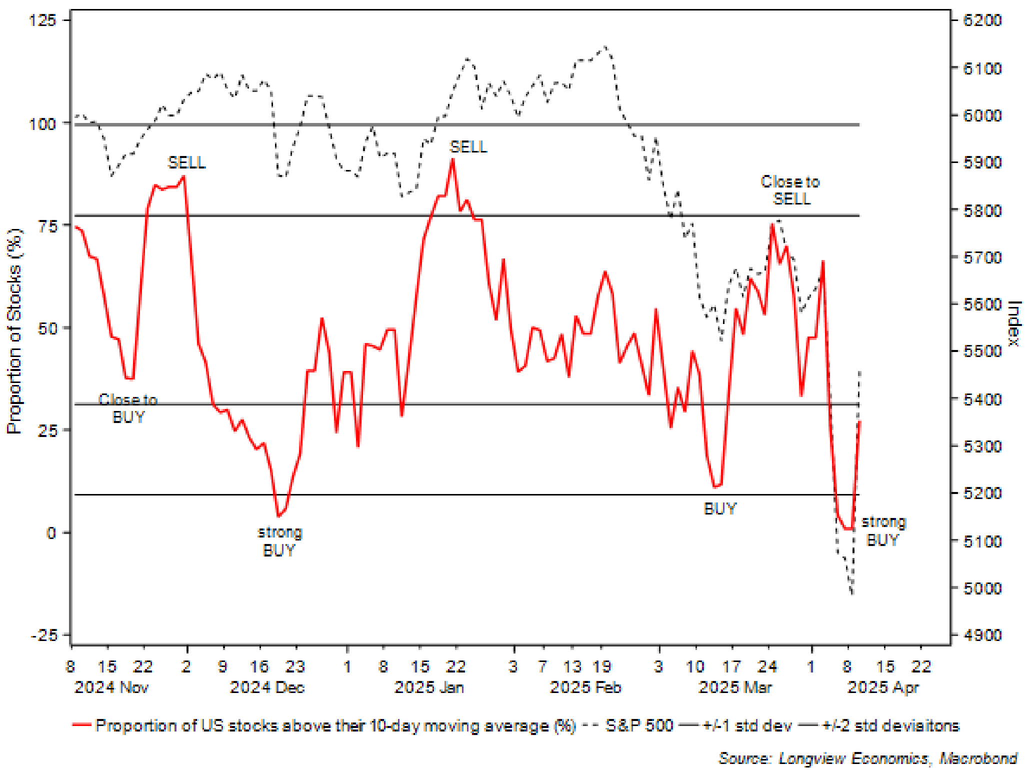


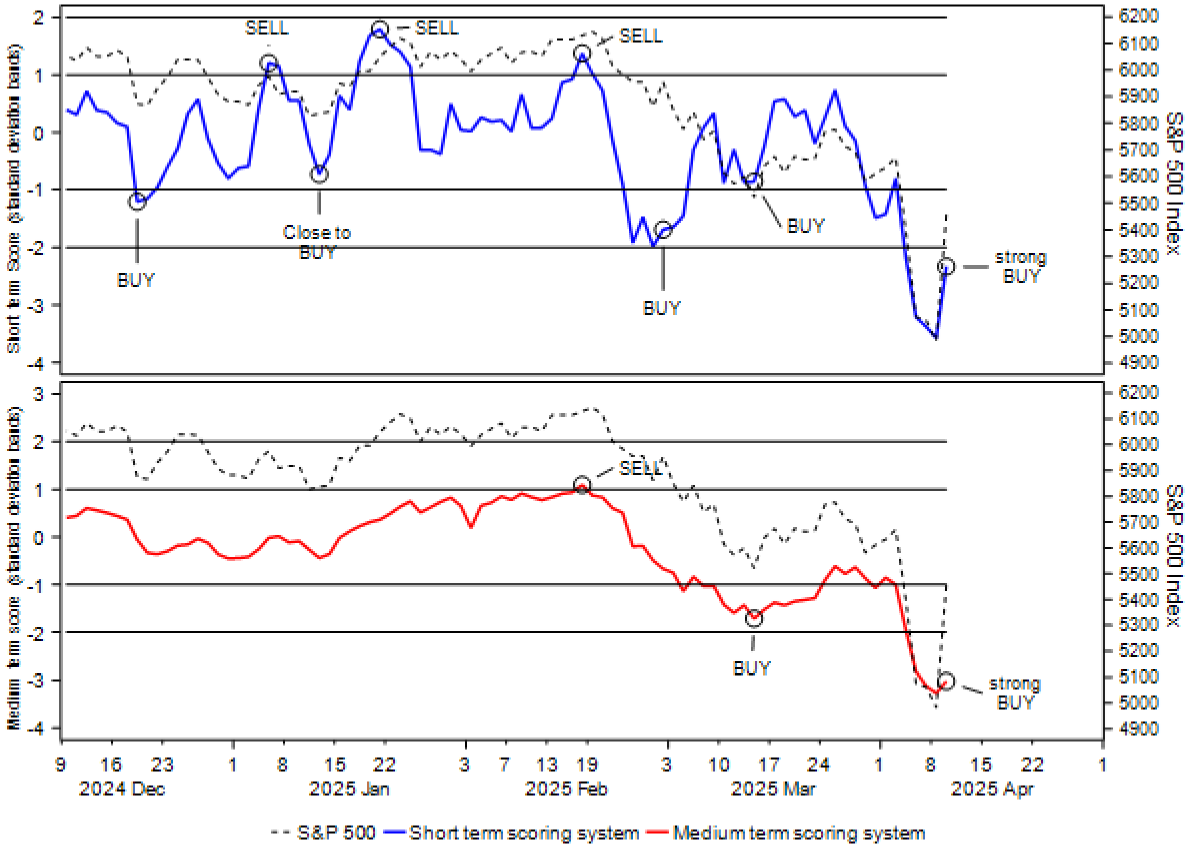
FIG 3f: Proportion of US stocks above their 10 day moving average vs. S&P500



Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **Strong BUY**
Medium term (1 – 4 month) scoring system: **Strong BUY**

FIG A: Longview short and medium term scoring systems vs. S&P500



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Key macro data/events

Key data today include: **UK RICS house price balance** (Mar, 12:01am); Japanese PPI (Mar, 12:50am); Australian consumer inflation expectations (Apr, 2am); **Chinese headline CPI & PPI** (Mar, 2:30am); Italian industrial production (Feb, 9am); **US headline & core CPI** (Mar, 1:30pm); US weekly jobless claims (1:30pm); Canadian building permits (Feb, 1:30pm); US Federal budget balance (Mar, 7pm).

Key events today include: speech by the RBA's Bullock (11am); speech by the Bank of England's Breeden at a Market News Internation connect event (2pm); speeches by the Fed's Logan gives welcome remarks (2:30pm), Goolsbee at the Economic Club of New York (5pm), Harker on fintech (5:30pm).

Key earnings today include: **Progressive, Tesco, Fast Retailing**.

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 on 8th April 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

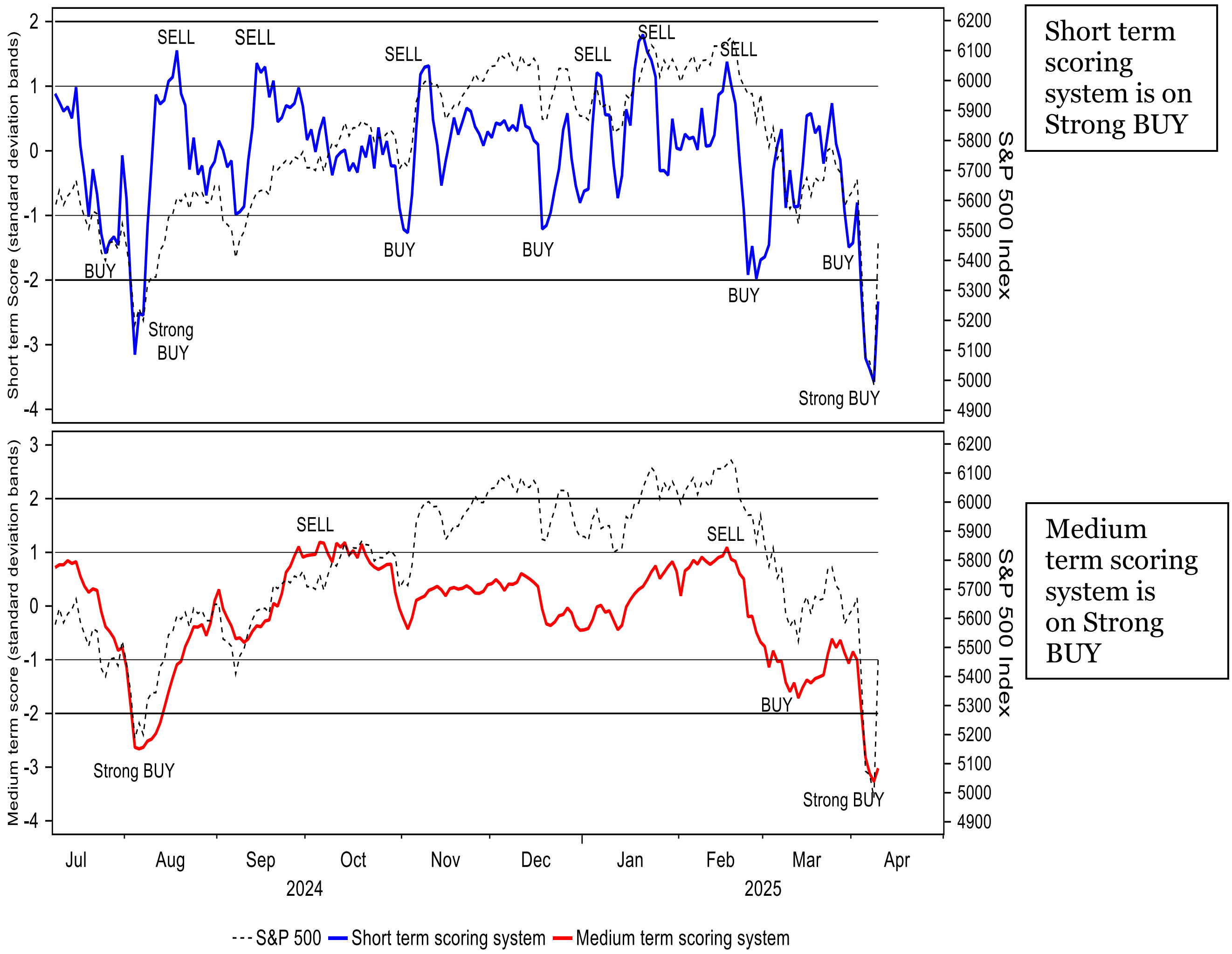
1 – 2 Week View on Risk

10th April 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



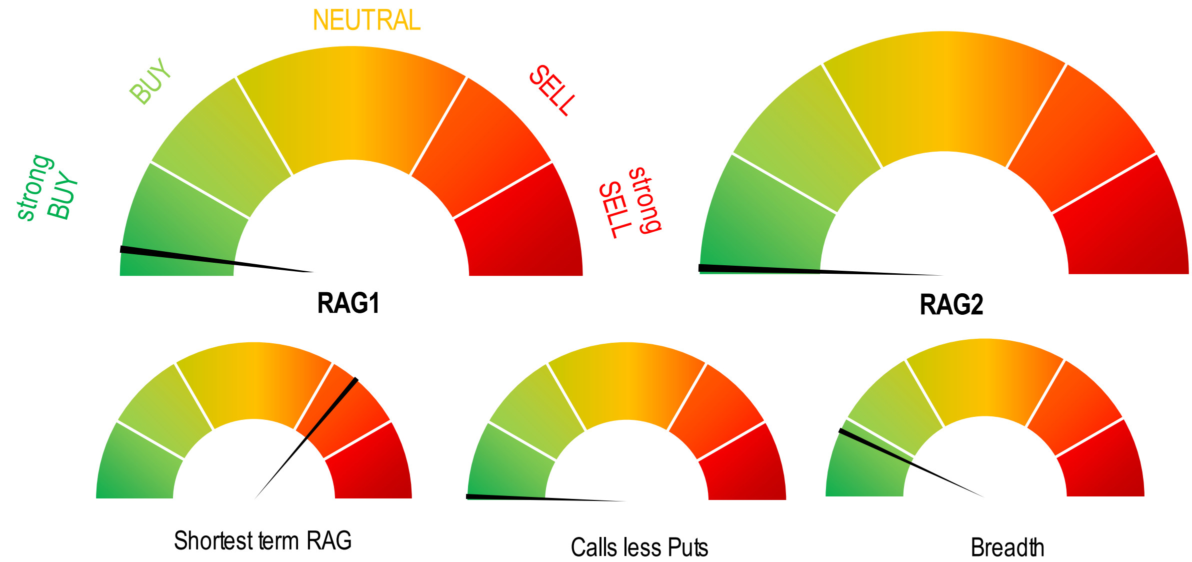
Source: Longview Economics, Macrobond

*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

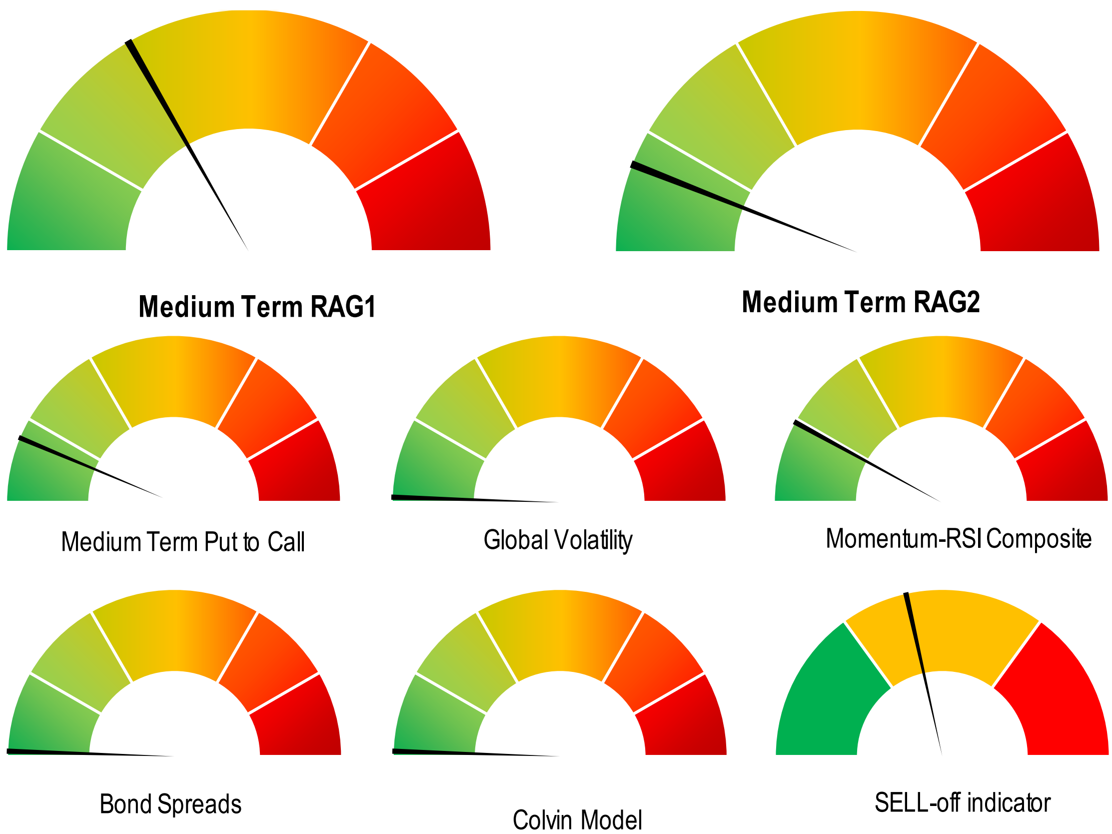
Section 1a: Summary of indicator signals**

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

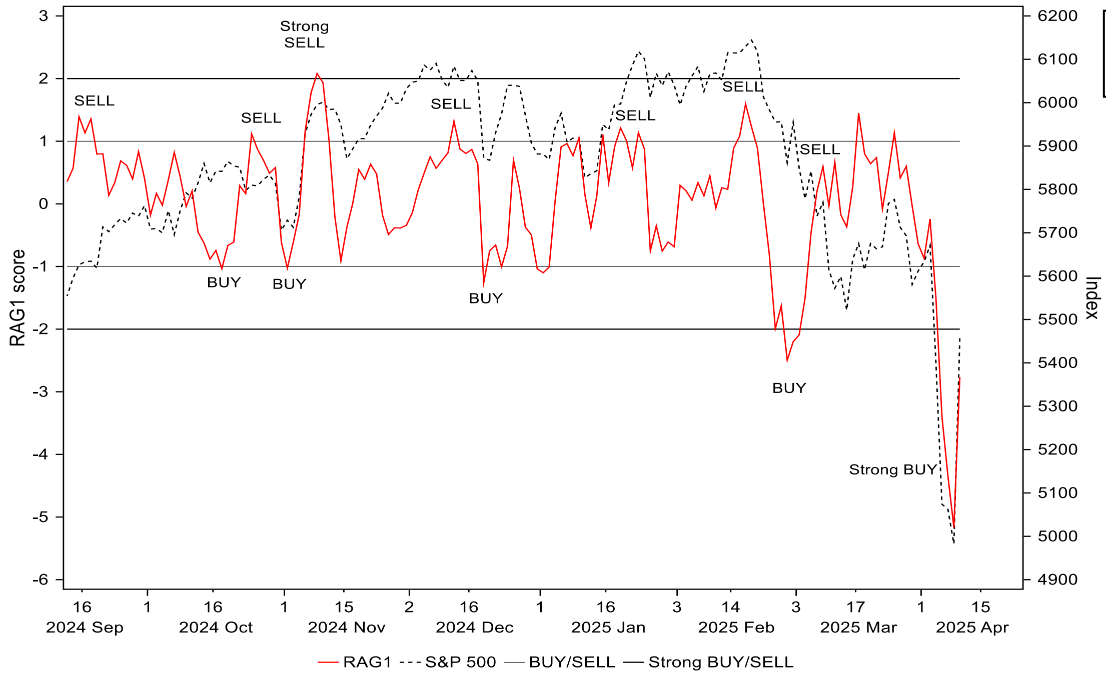


Source: *Longview Economics*

**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

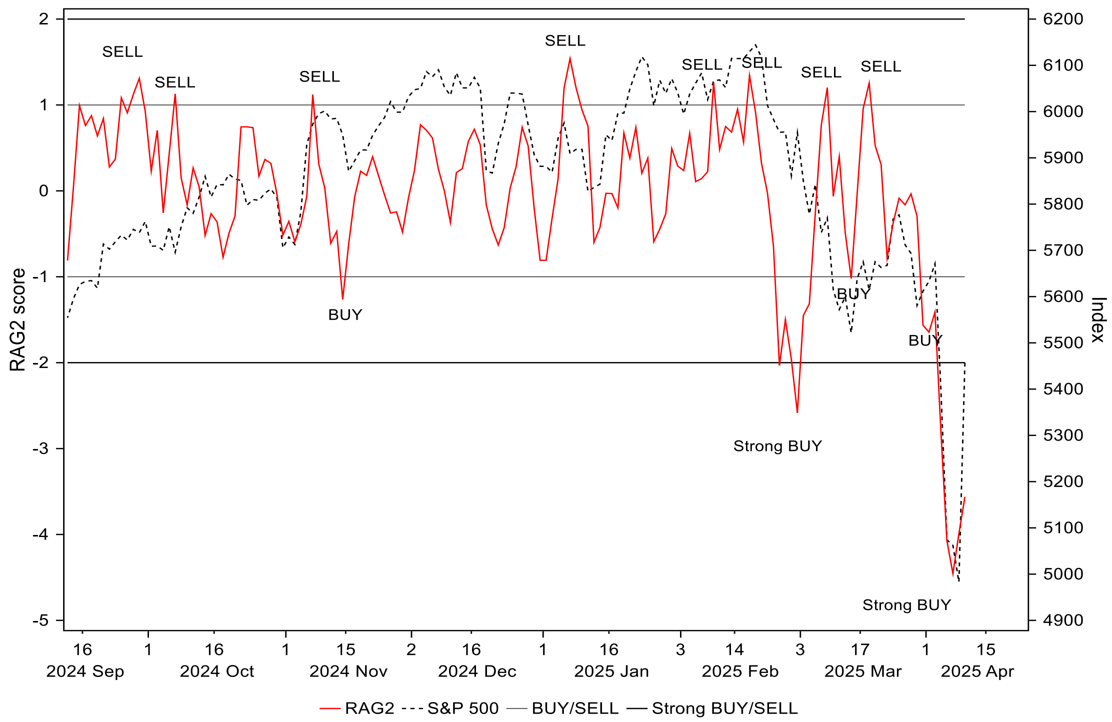
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on Strong BUY

Source: Longview Economics, Macrobond

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

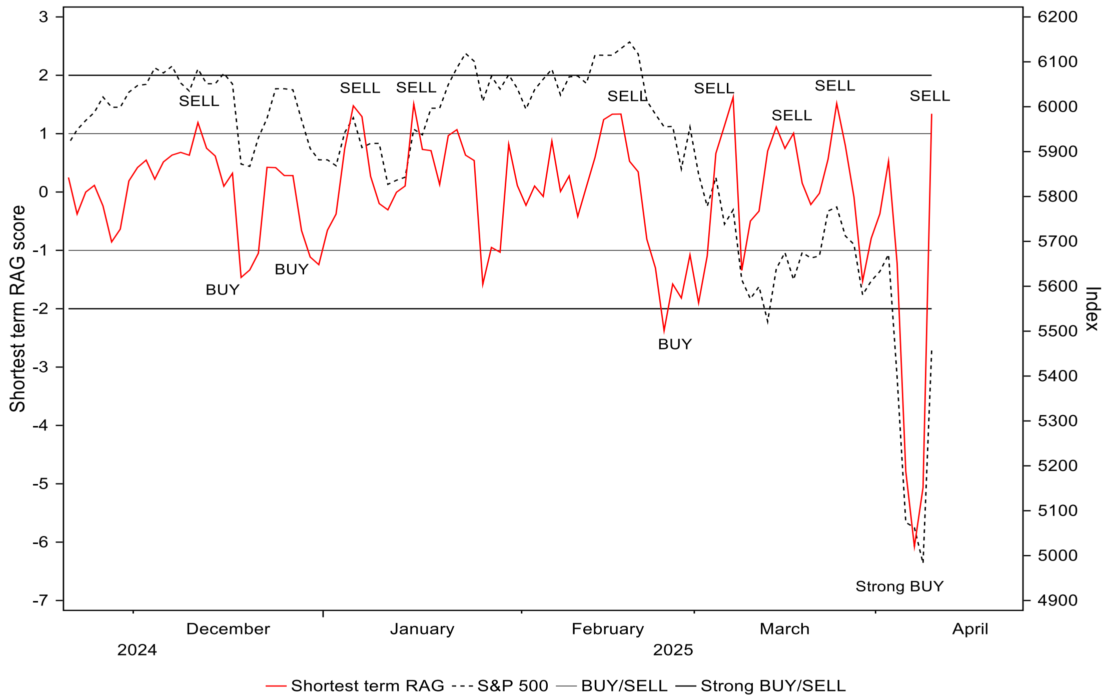


RAG2 is on Strong BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

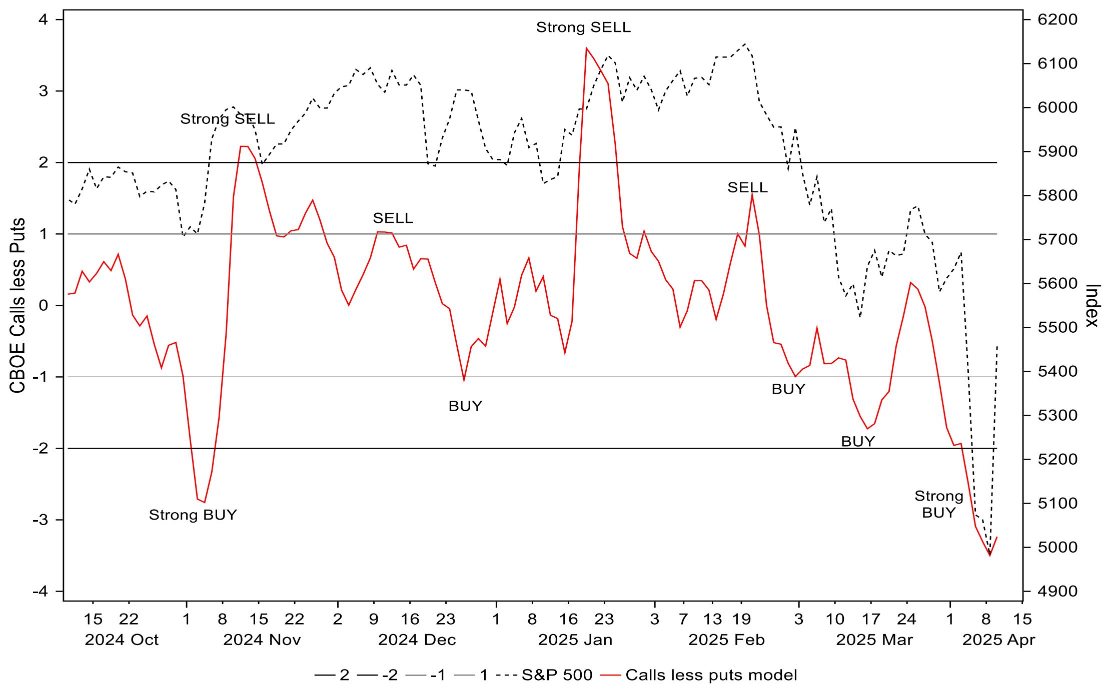
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on Sell

Source: Longview Economics, Macrobond

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

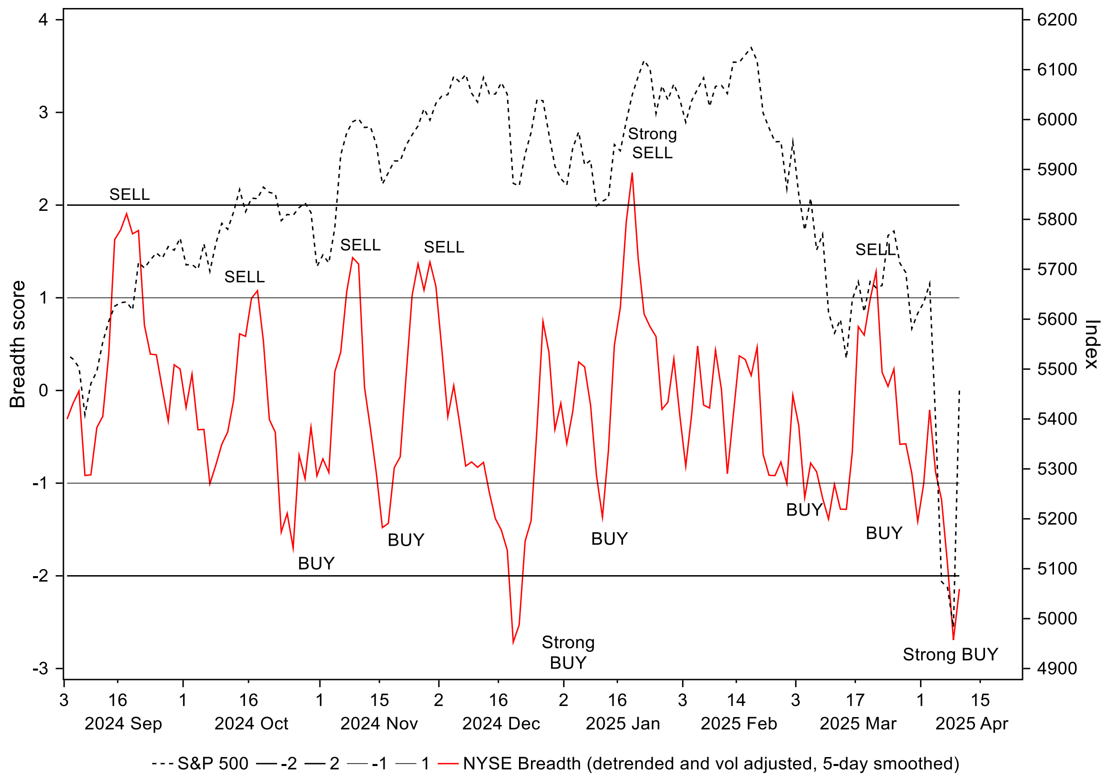


Calls less puts model is on Strong BUY

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



Source: Longview Economics, Macrobond

The breadth model is on Strong BUY

For explanations of indicators please see page 10

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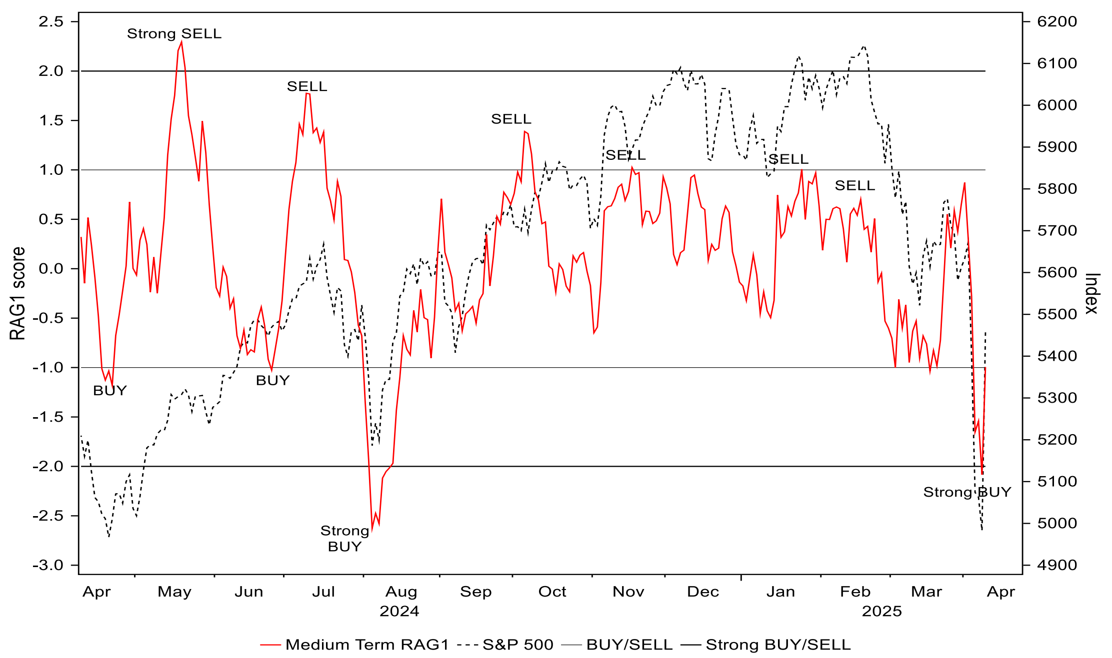
Section 3: Medium term (1 – 4 month) outlook

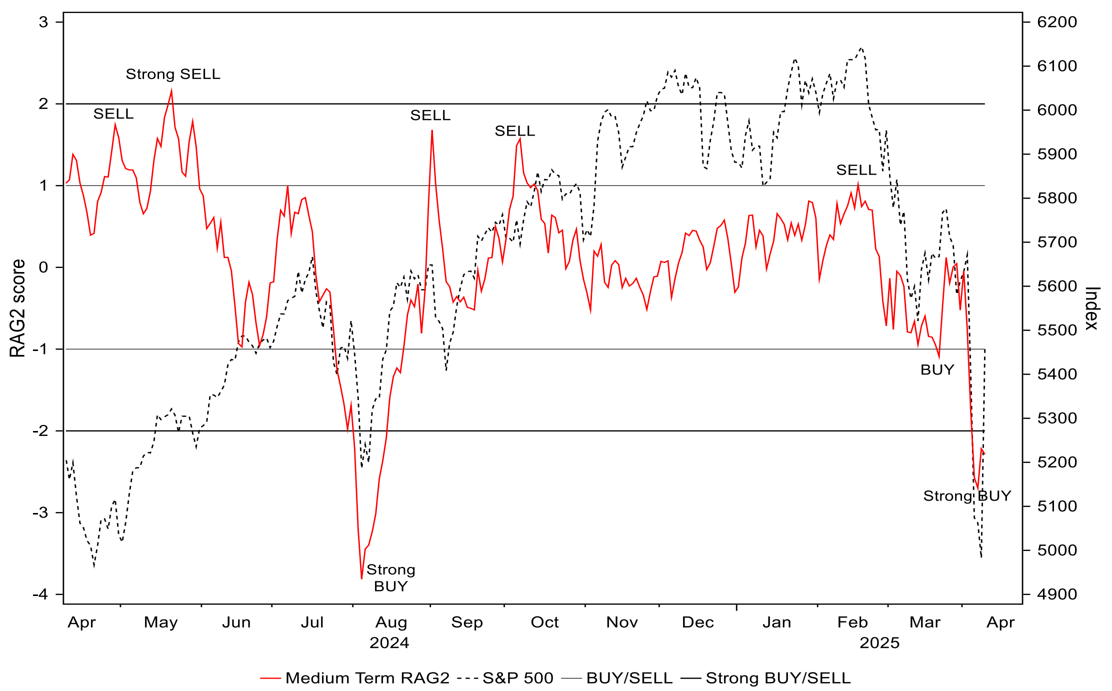
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on NEUTRAL

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

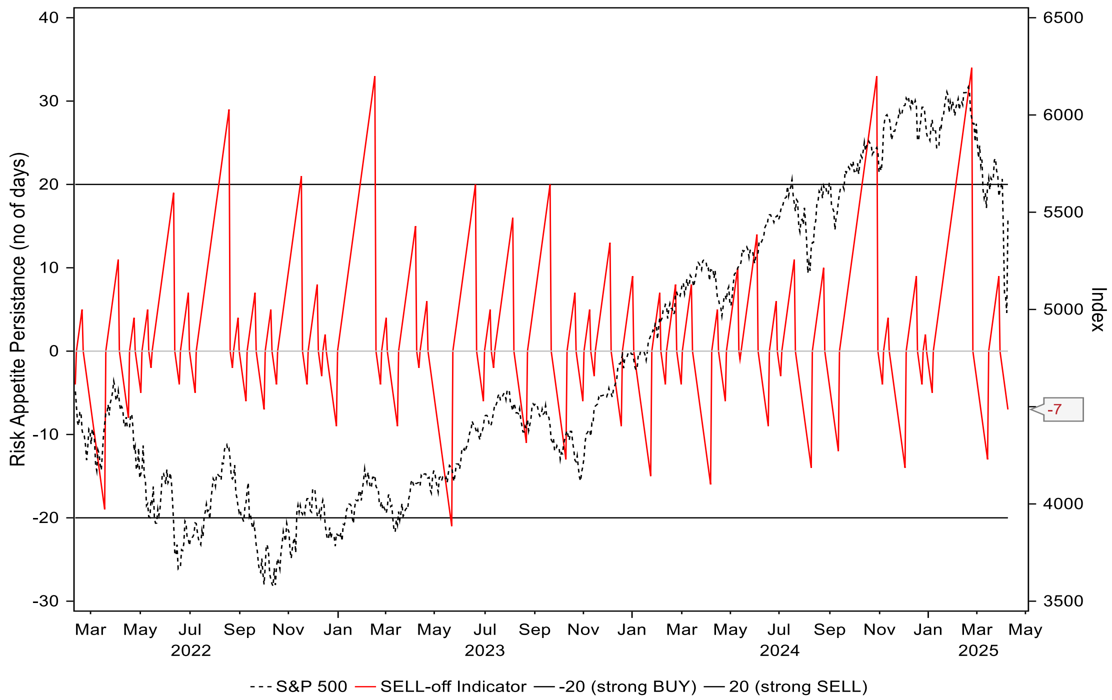


Source: Longview Economics, Macrobond

Medium term RAG2 is on Strong BUY

For explanations of indicators please see page 10

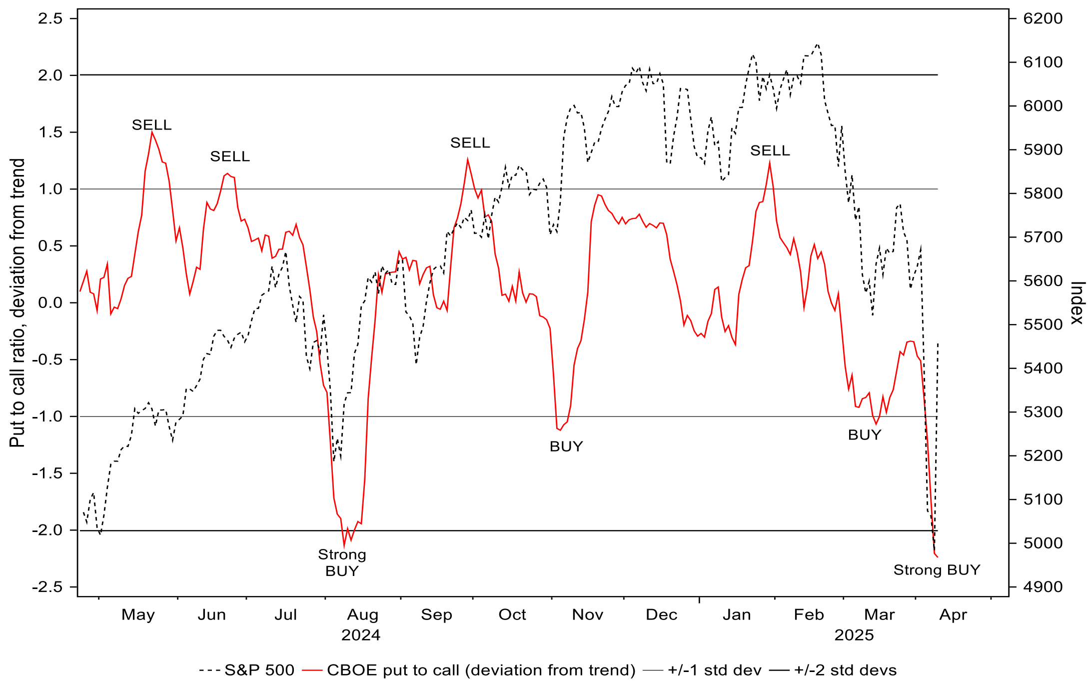
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

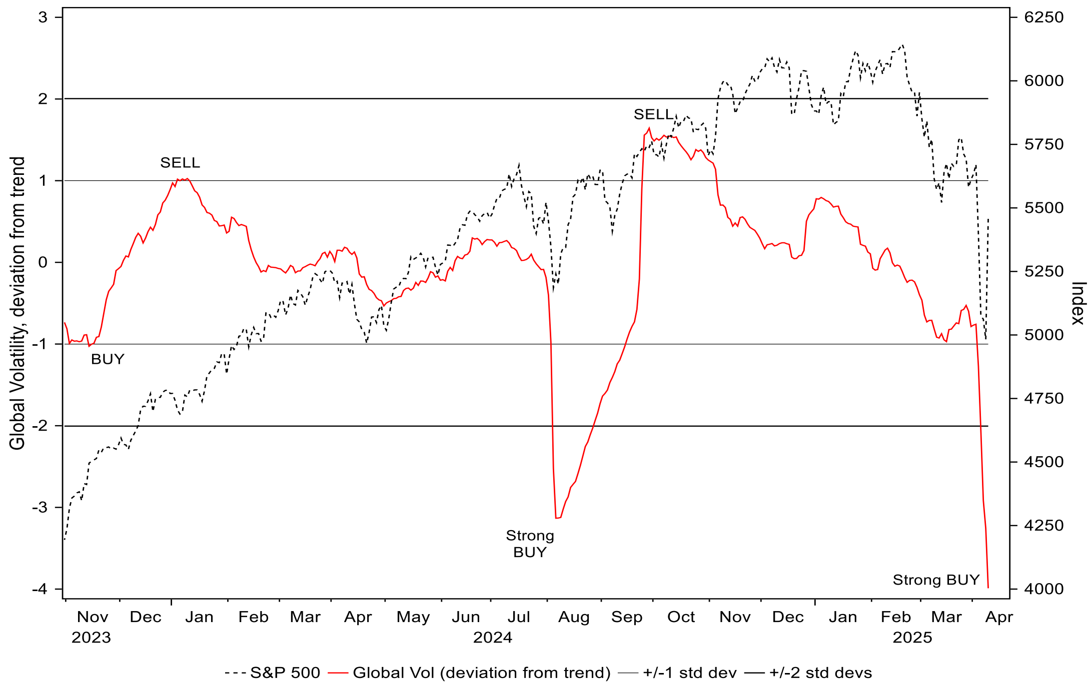


Source: Longview Economics, Macrobond

Medium term put to call model is on Strong BUY

For explanations of indicators please see page 10

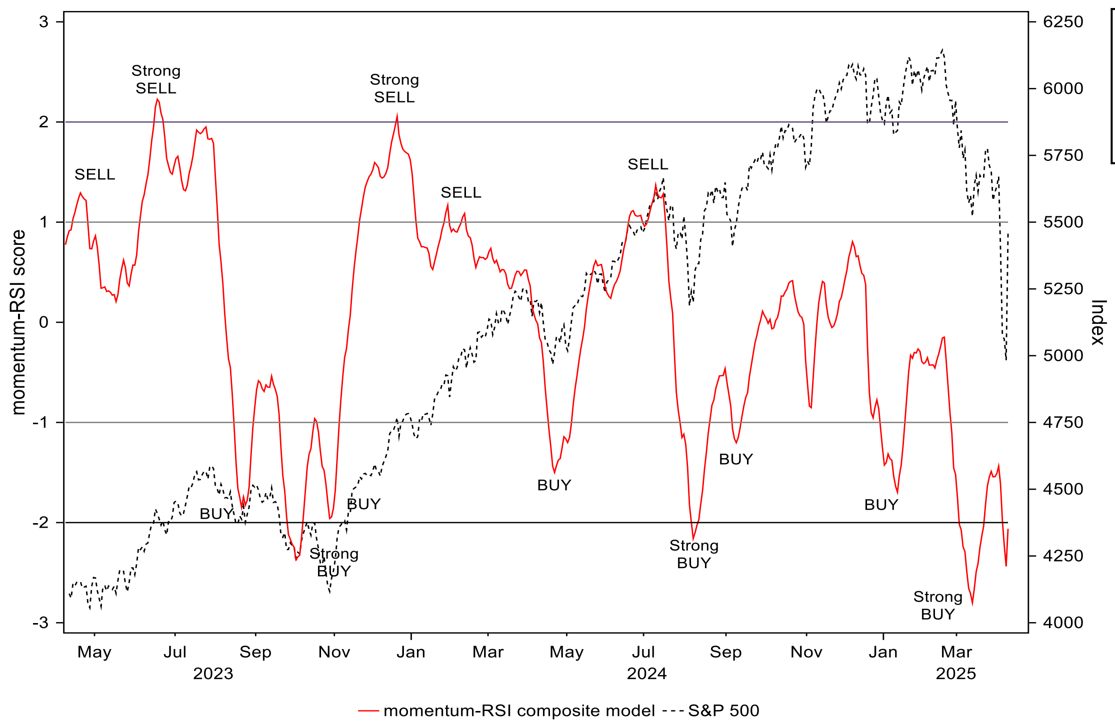
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on Strong BUY

Source: Longview Economics, Macrobond

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



US momentum RSI composite model is on Strong BUY

Source: Longview Economics, Macrobond

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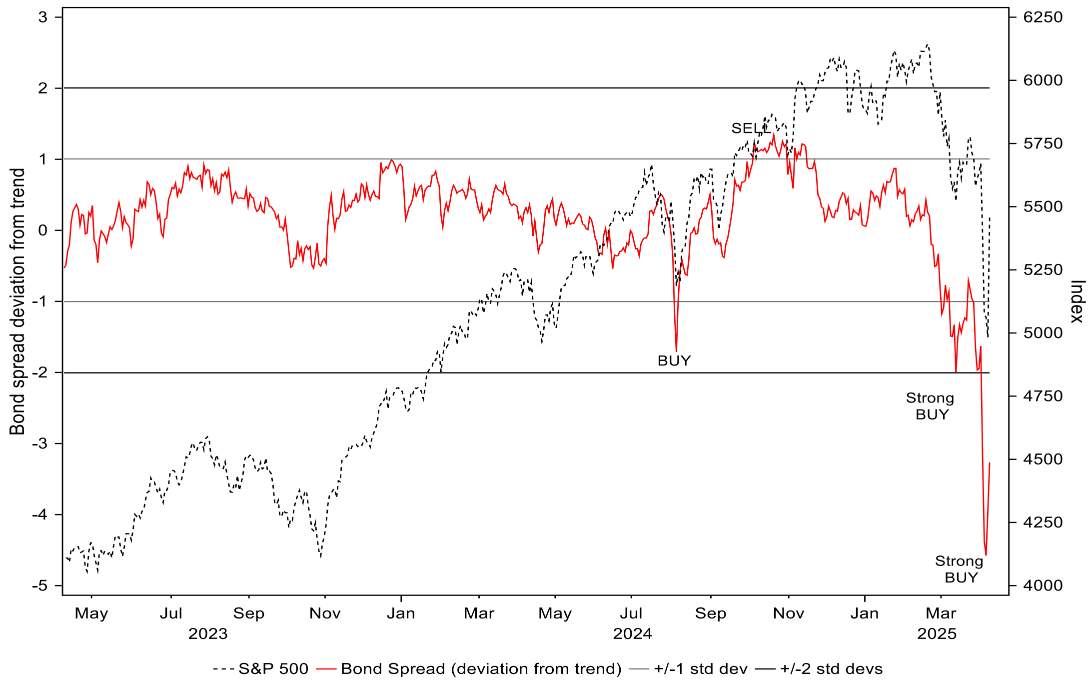
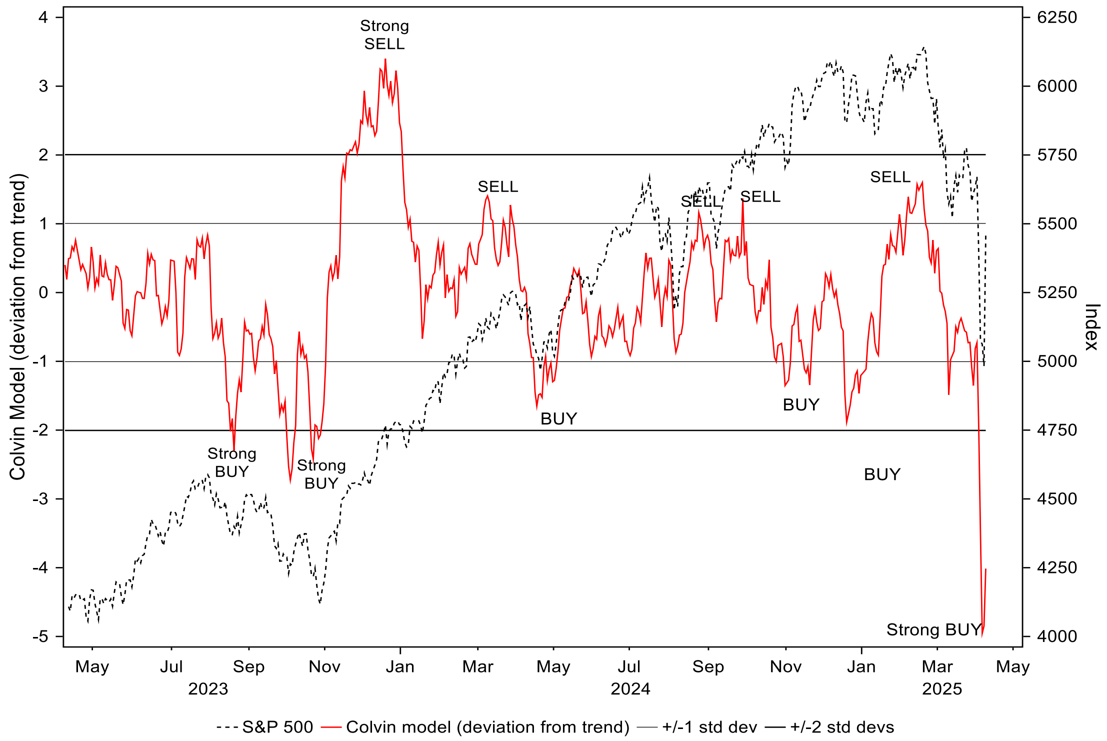
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on Strong BUY

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



Source: Longview Economics, Macrobond

Colvin model – is on Strong BUY

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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