

Equity Index Futures Trading Recommendations

10th February 2025

“ADD to SHORT SPX Position on Strength”

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

- STAY ¼ SHORT March S&P500 futures (entry was at 5,999.25);
- Increase to ½ position on strength, at 6,100 (just below the late January highs);
- Modestly tighten stop loss to 6,185 (from 6,206 on Friday).

Rationale

Price action in US equities was poor on Friday. In particular, despite opening higher, most major indices sold off sharply on the session (reversing much of the gains from earlier in the week). With that, the S&P500 made a third ‘lower high’ on Friday (i.e. below the prior two local highs from early and late January, see FIG 1). It’s also made lower lows since late January. Near term, therefore, the index is trending down.

Elsewhere there were **bearish key day (KDR) reversals** in the NASDAQ100 and Philly SOX, as well as in the DJ global equity index (e.g. see FIG 1a). That is a technical price pattern which signals a ‘change in trend’ in equity markets (and is triggered when the index opens above its prior day’s high and then closes below the low of the prior day). It’s therefore indicative of a loss of momentum/trend exhaustion. While other US indices didn’t generate bearish KDR patterns, many of them are struggling at key levels and have *started* to roll over (e.g. see the Russell 2000, FIG 1b, or the DJIA).

Added to which, the model set-up supports the case for **further downside in US equities**. Most notably, the SELL-off indicator continues to BUILD above its key +20 level (see FIG 1c). It’s therefore warning of a heightened risk of a pullback. These signals are often timely (e.g. see 2023 examples in FIG 1a), and are currently supported by other medium term models (which are mostly on/close to SELL, e.g. see FIG 1e). Short term models have rolled over from SELL levels and are now mostly mid-range. That’s consistent with fading near term momentum in US equities (e.g. see FIGs 2 & 2a). Elsewhere downside protection in portfolios remains low (with the 3 day smoothed CBOE put to call ratio on SELL, see FIG 4).

As such, and with trade war tensions building over the weekend (e.g. see [HERE](#) & [HERE](#)), the **risk reward continues to favour staying SHORT** SPX futures, and ADDing to that SHORT position on strength. In particular, given that US equities have started to roll over, we favour adding to the trade at modestly lower levels (i.e. at 6,100 vs. Friday’s order to add at 6,145). We also favour a somewhat tighter stop loss (see above for detailed recommendations).

Please see below for a list of today's key macro data, earnings, and events.

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: S&P500 March 2025 futures 30-day tick chart shown with overnight price action



FIG 1a: DJ global equity index shown with 50 day moving average

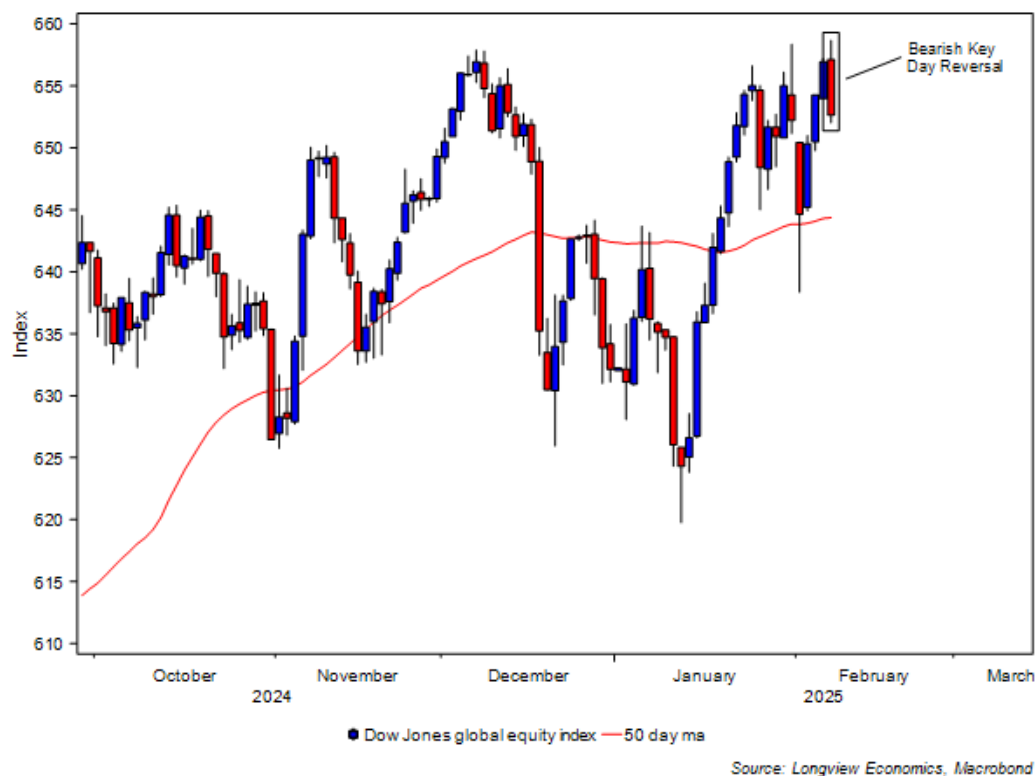


FIG 1b: Russell 2000 futures candlestick shown with 50 & 200 day moving averages



FIG 1c: Longview SELL-off indicator vs. S&P500 – past 2 years

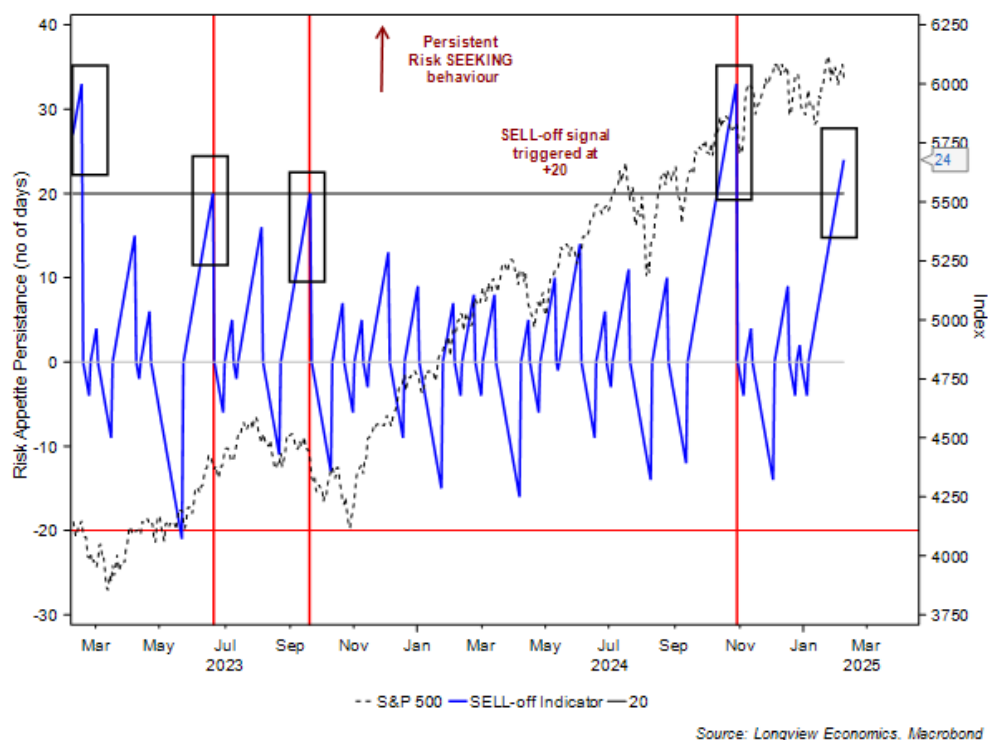


FIG 1d: Longview SELL-off indicator vs. S&P500 – December 2022 through to end 2023

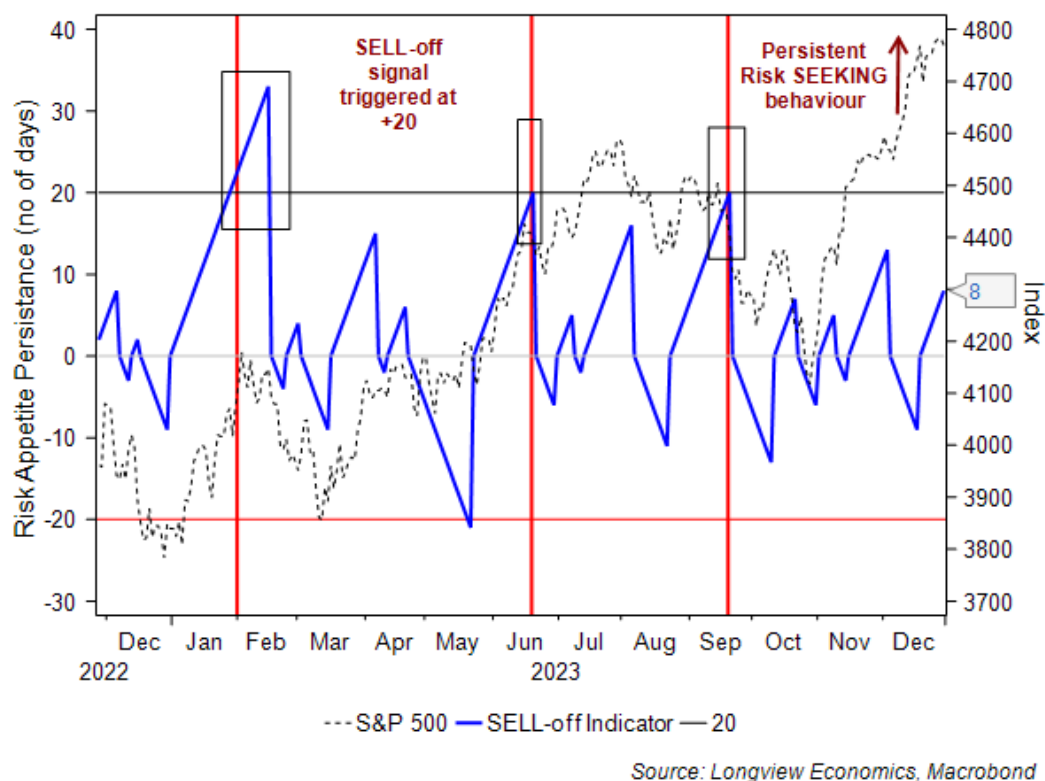
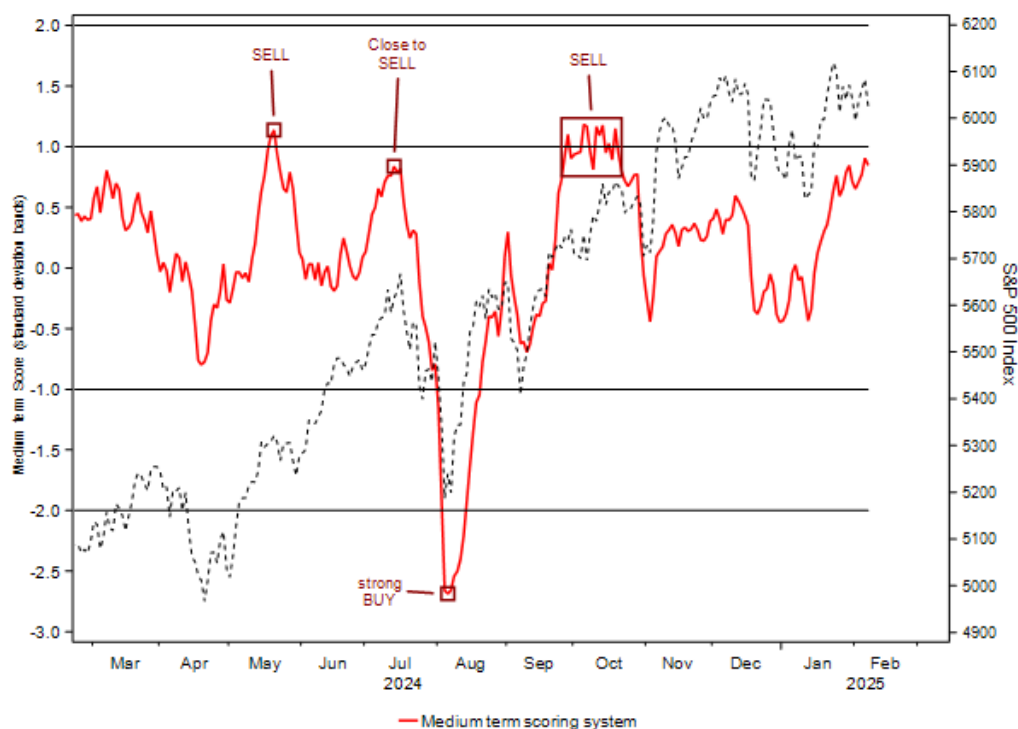


FIG 1e: Medium term risk appetite scoring system vs. S&P500



Sector & single stock momentum models have been trending lower....

FIG 2: US S&P500 stocks with upward momentum shown vs. S&P500

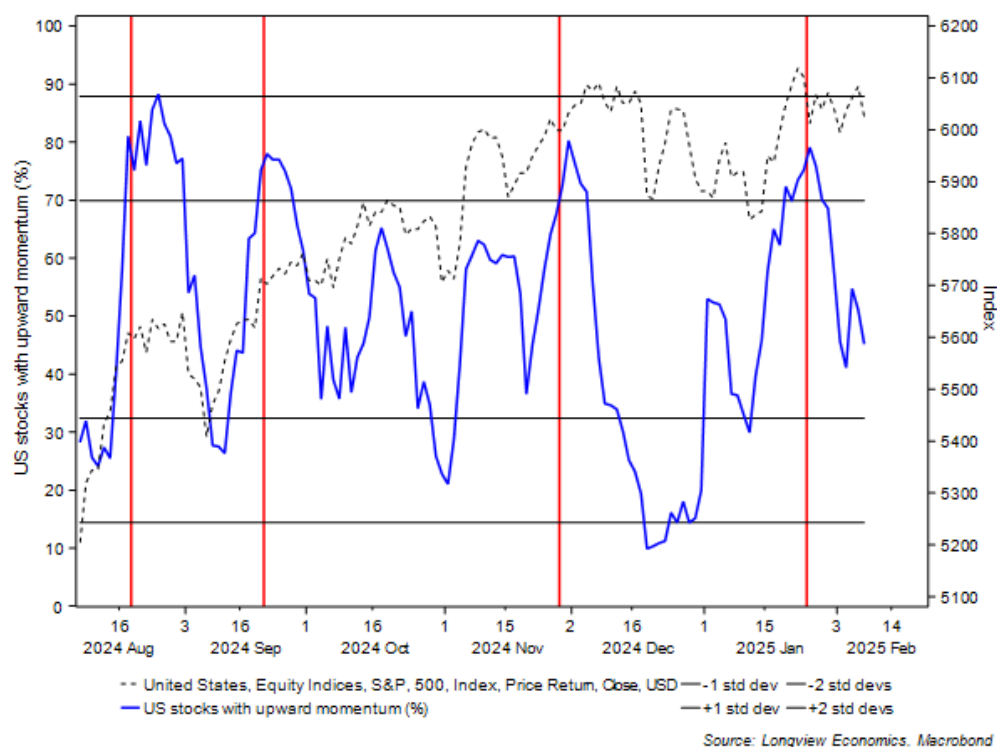
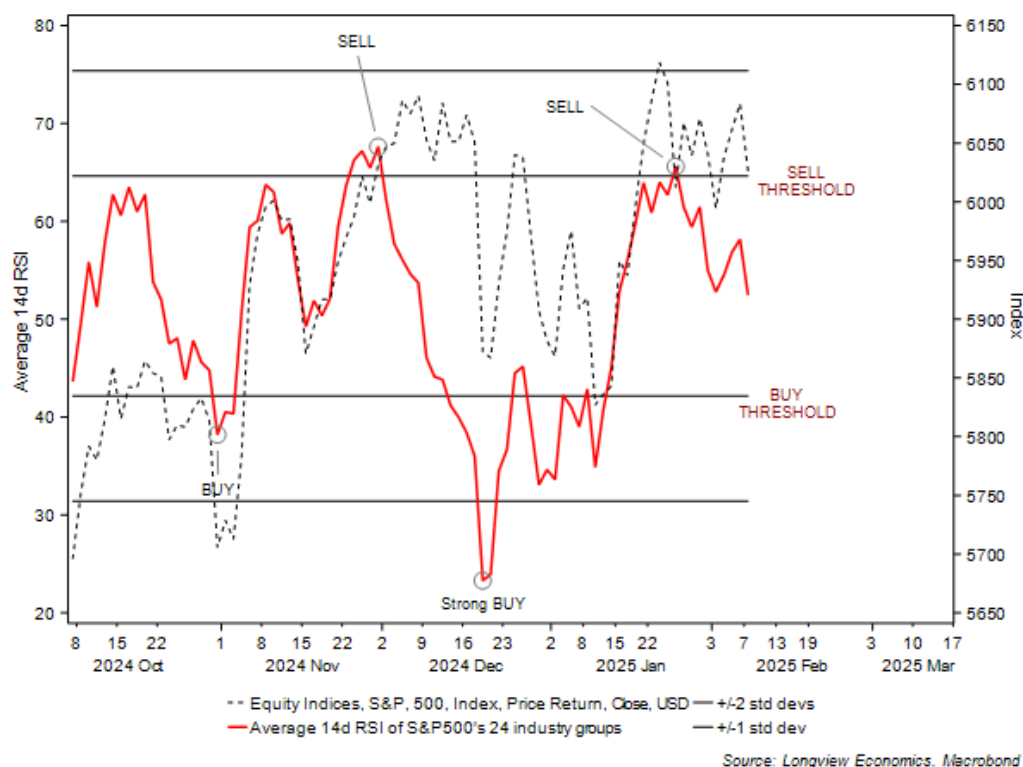


FIG 2a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Risk appetite models are broadly mid-range...

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

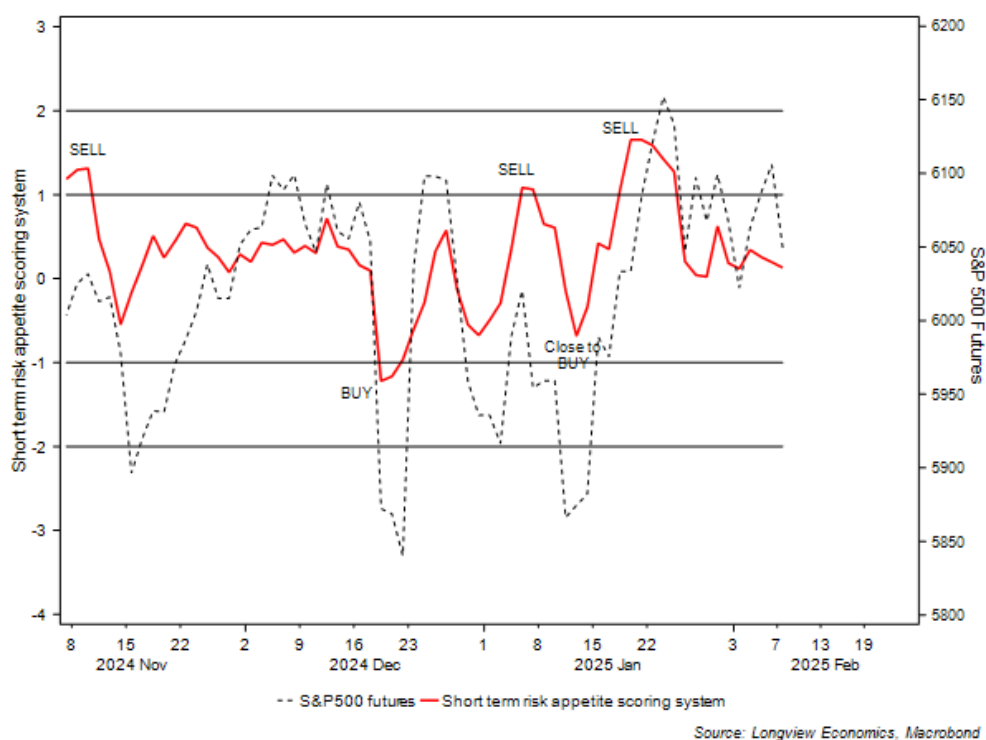
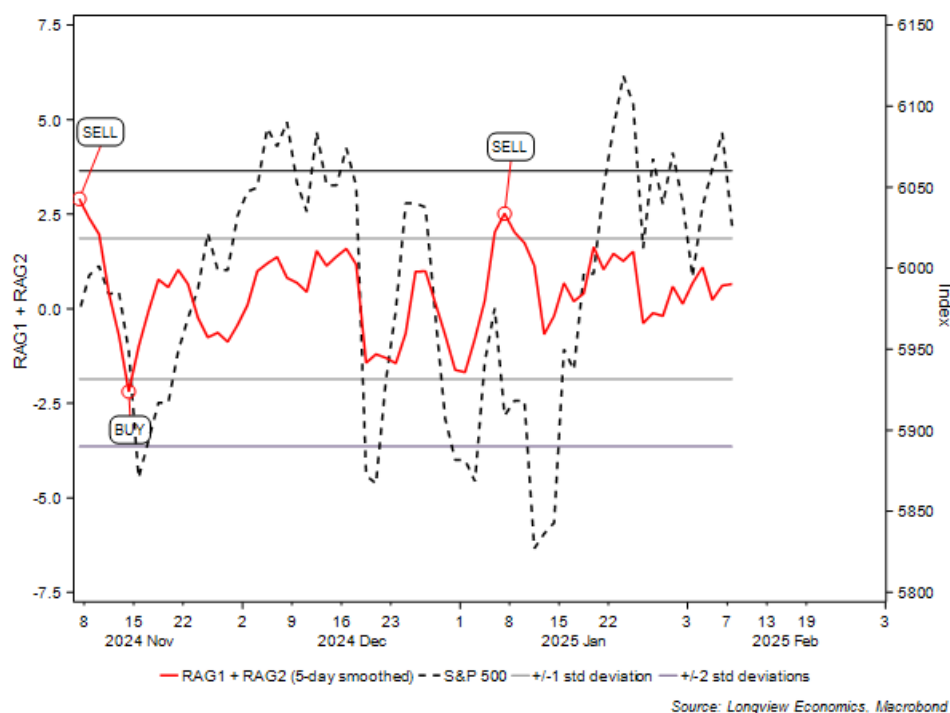
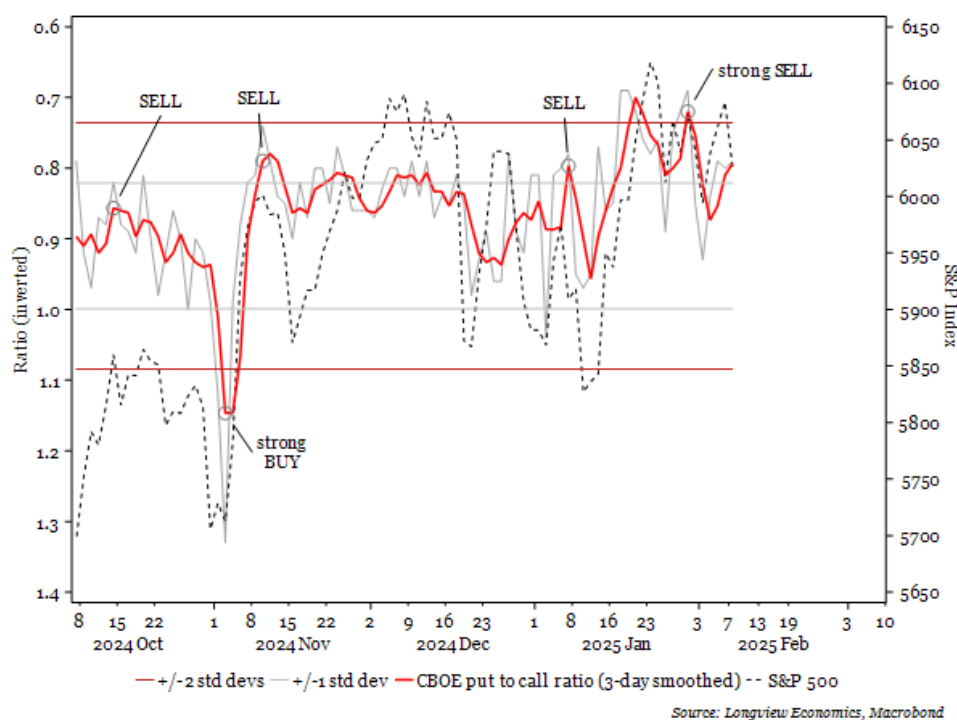


FIG 3a: Longview shortest term 'risk appetite' model vs. S&P500



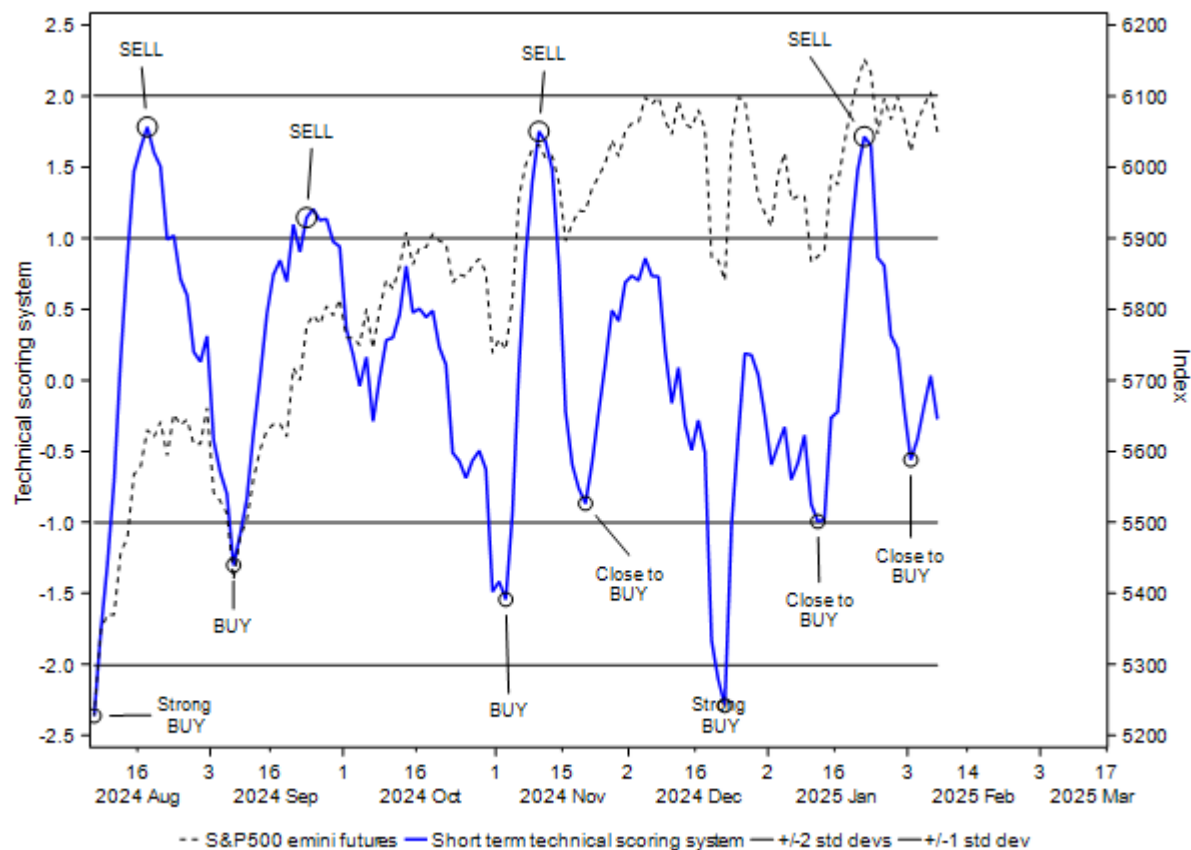
The short-term CBOE put to call model is on SELL.....

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



Technical models (for indices) are mid-range.....

FIG 5: Longview **S&P500** short term **‘technical’** scoring system vs. S&P500 futures



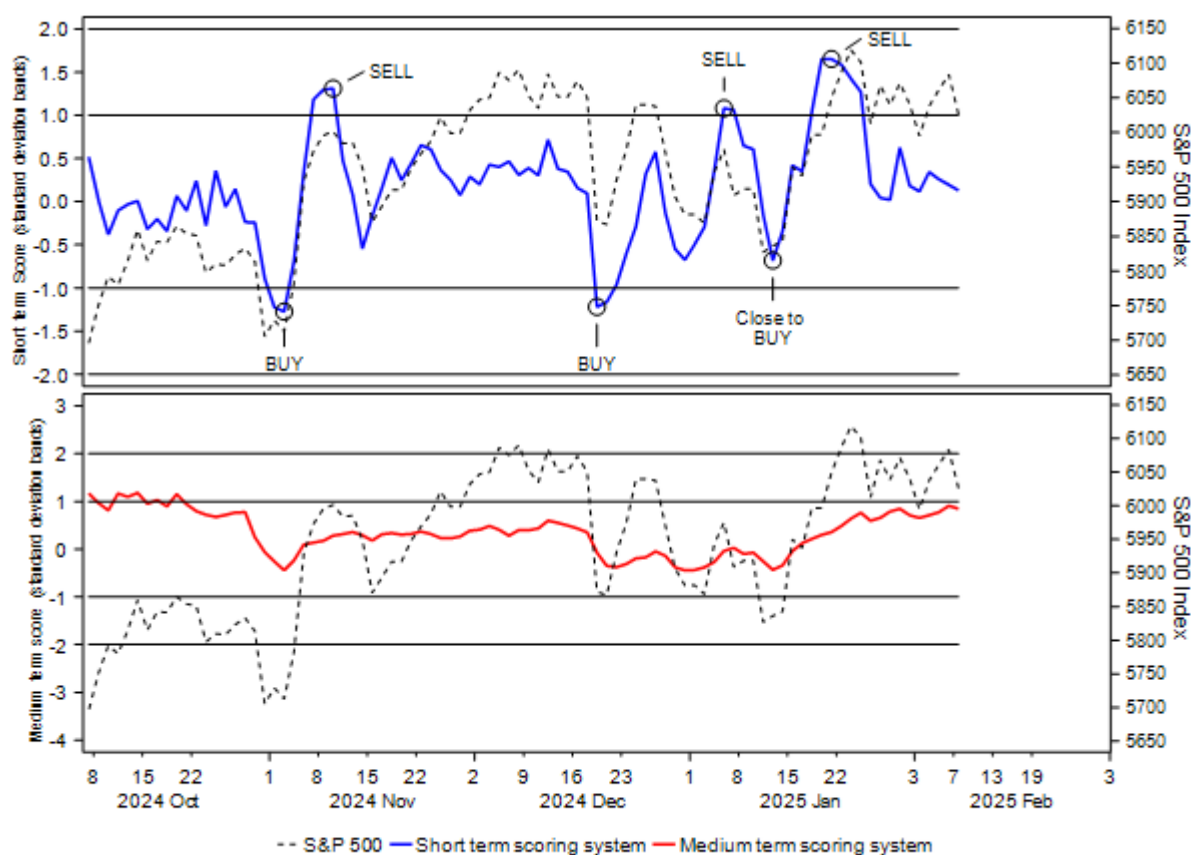
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

Medium term (1 – 4 month) scoring system: **NEUTRAL** (close to SELL)

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Eurozone Sentix investor confidence (Feb, 9:30am); New York Fed 1 year inflation expectations (Jan, 4pm); Australian Westpac consumer confidence (Feb, 11:30pm).

Key events today include: Speech by the ECB's Lagarde in the EU Parliament.

Key earnings today include: McDonald's, Vertex, ANZ Holdings, SoftBank Corp.

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 3rd February 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.



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1 – 2 Week View on Risk

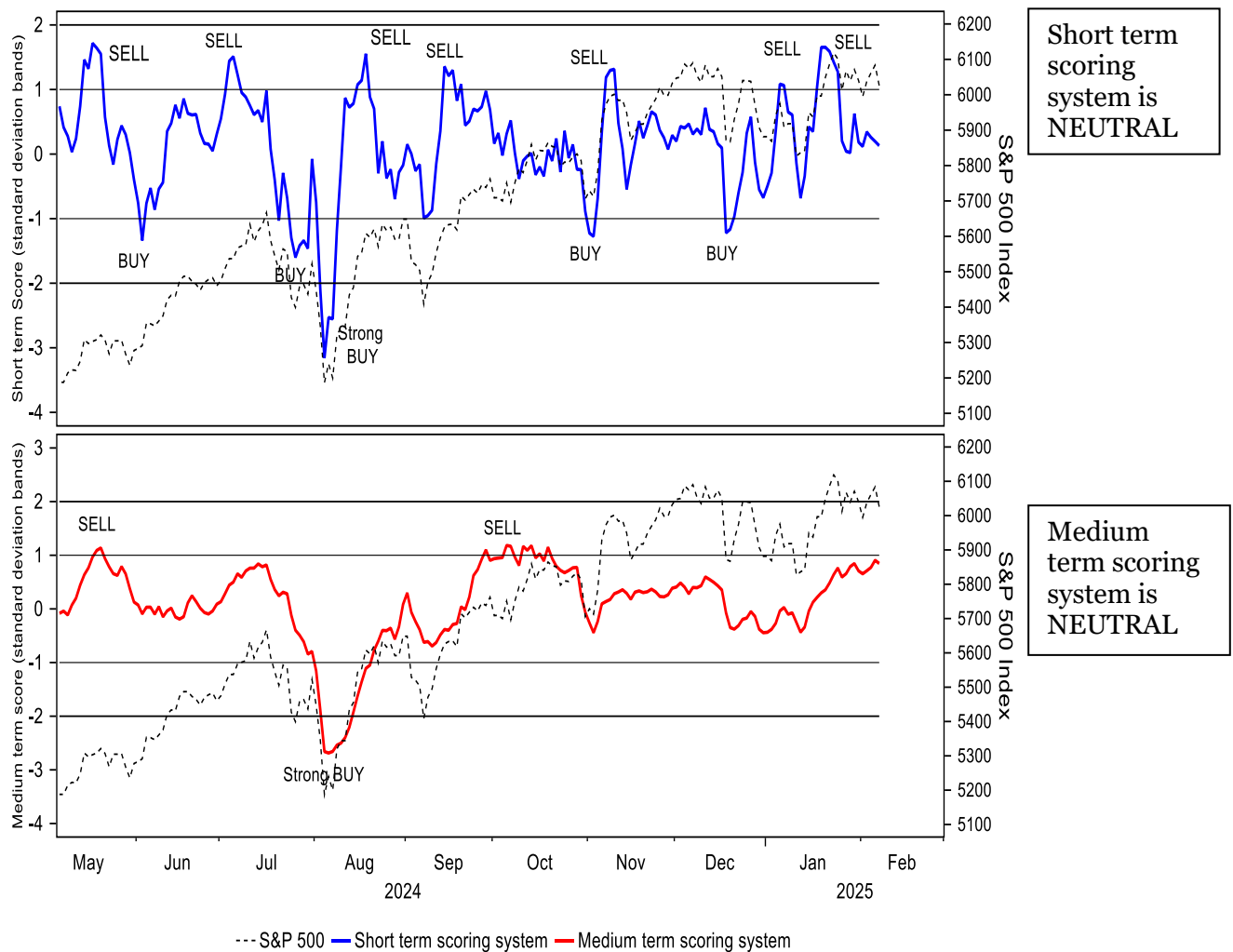
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10th February 2025

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

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



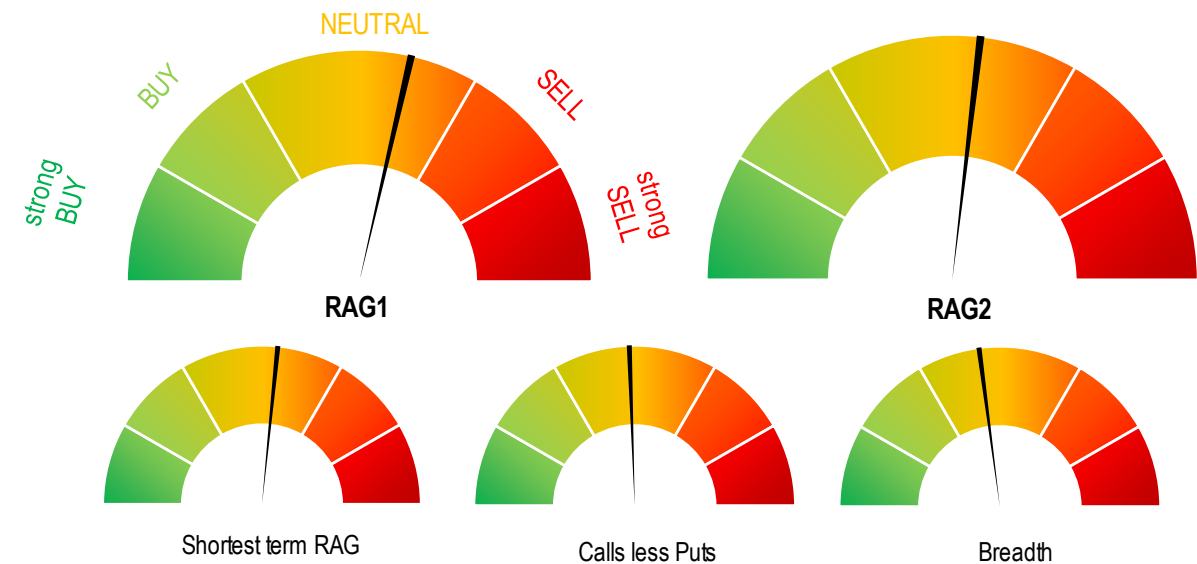
Source: Longview Economics, Macrobond

*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

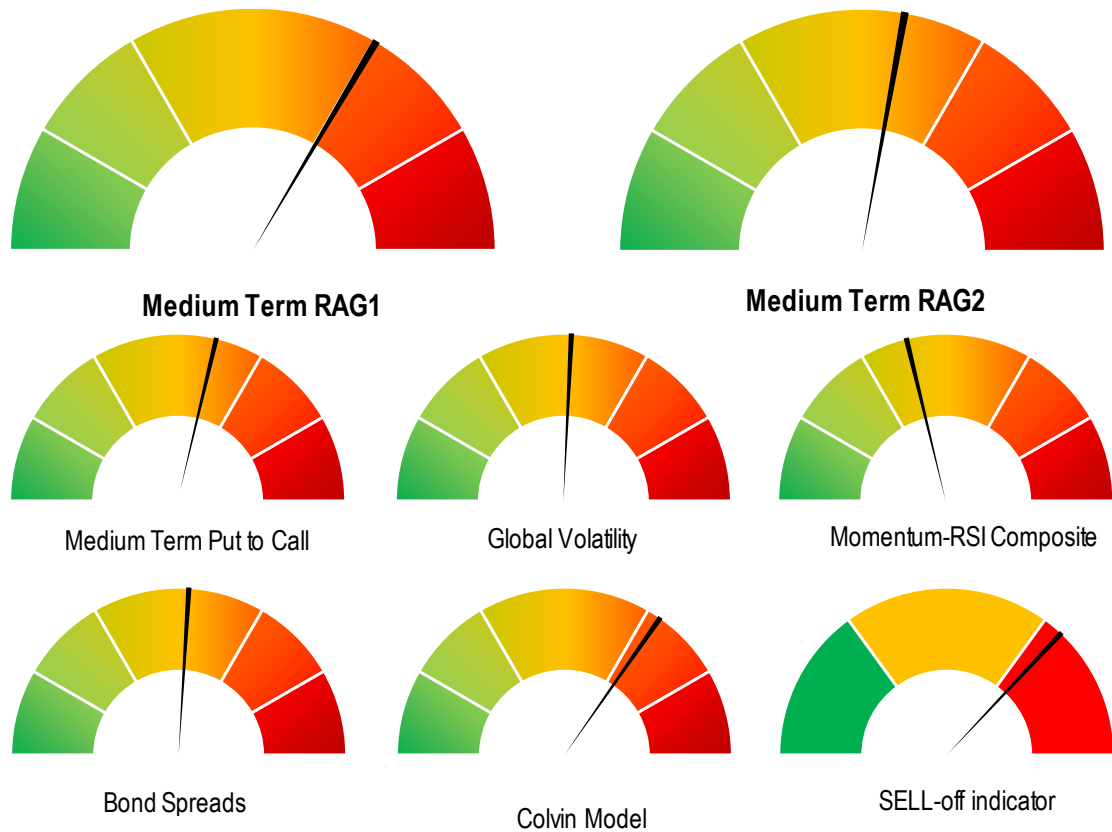
Section 1a: Summary of indicator signals**

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

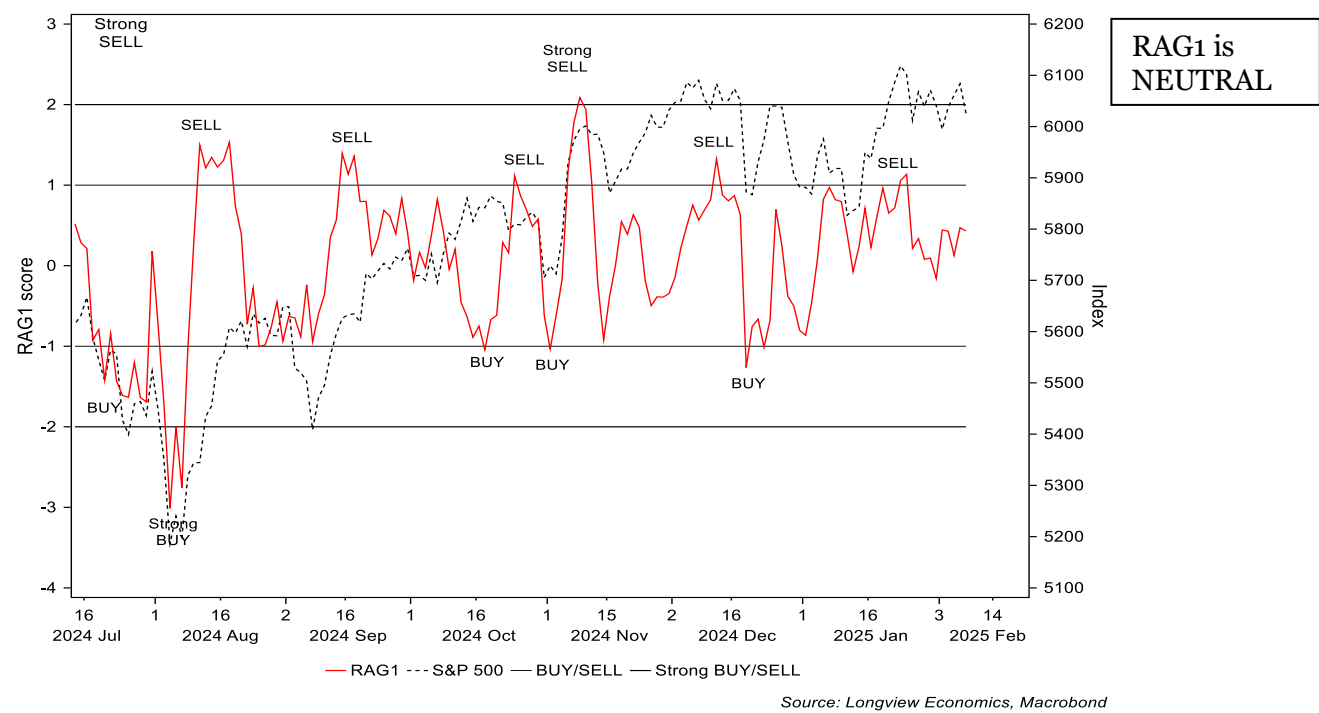
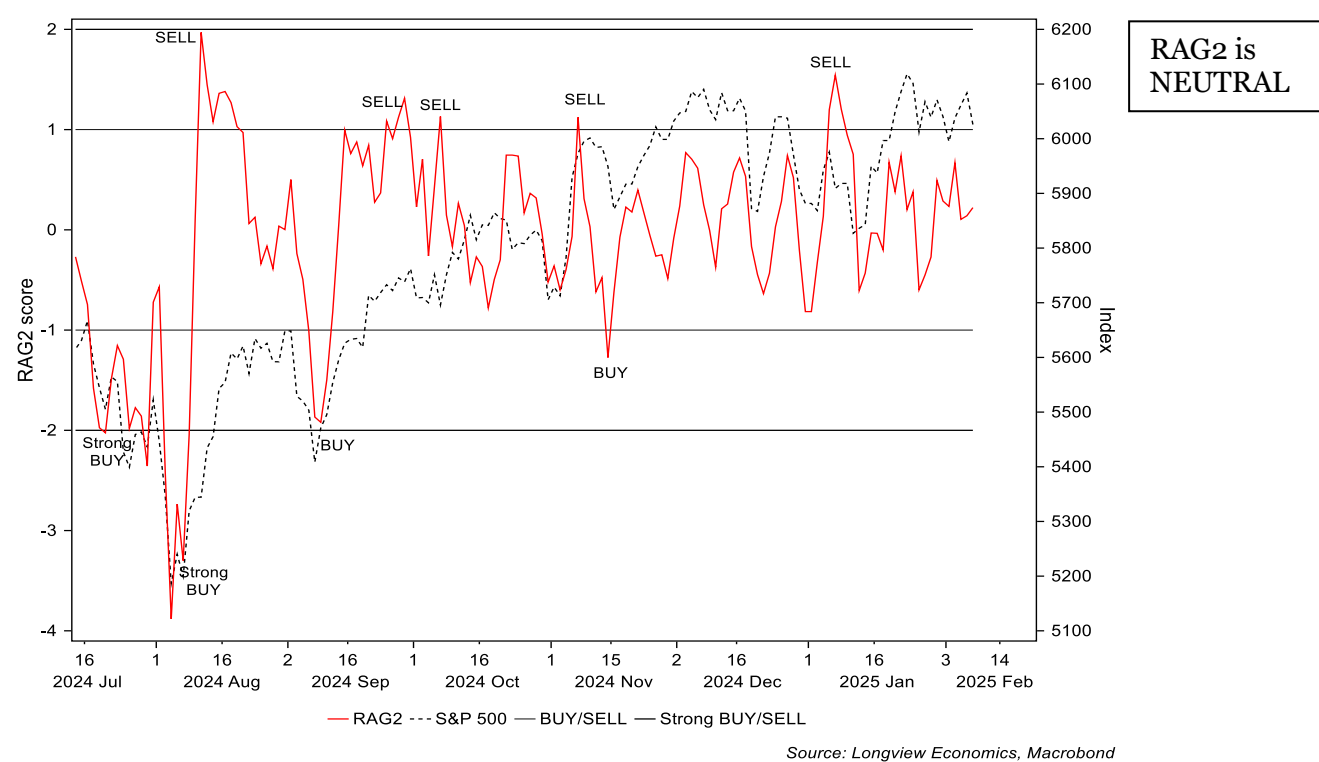


Fig 2b: RAG 2 vs. S&P 500



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

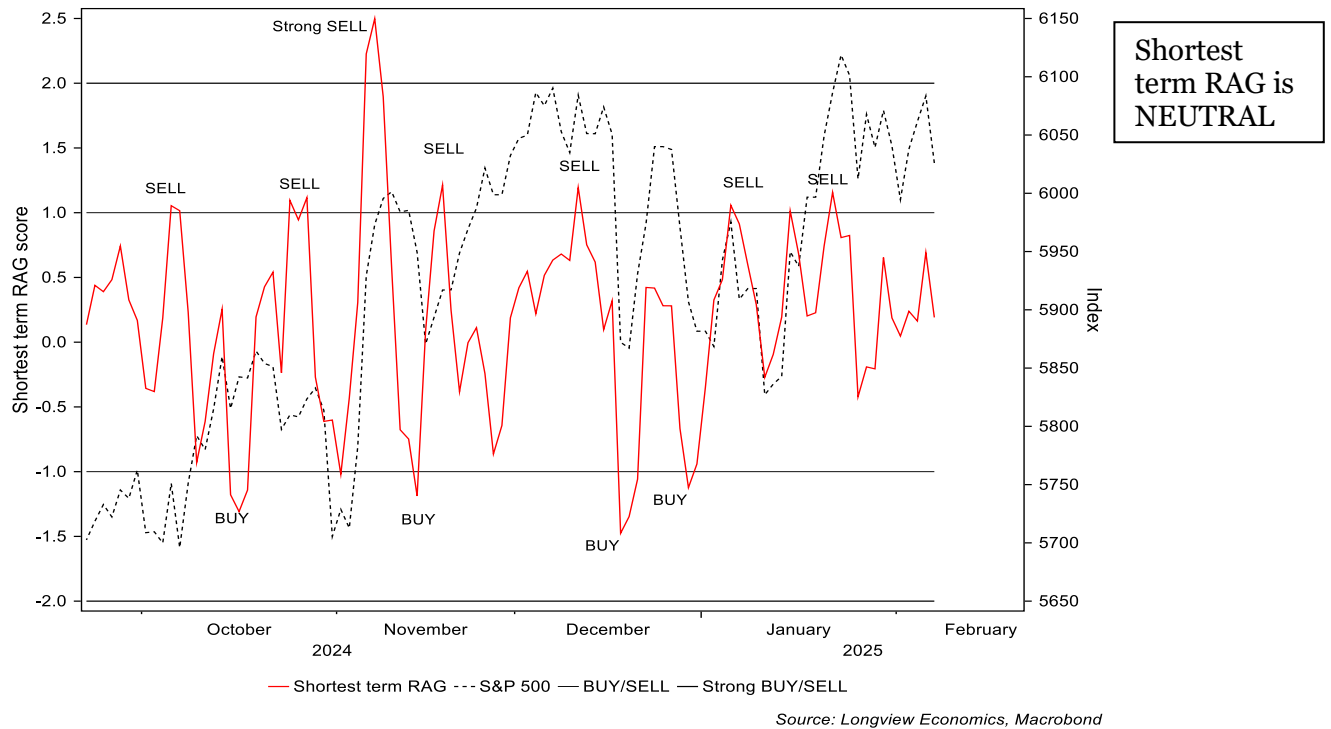
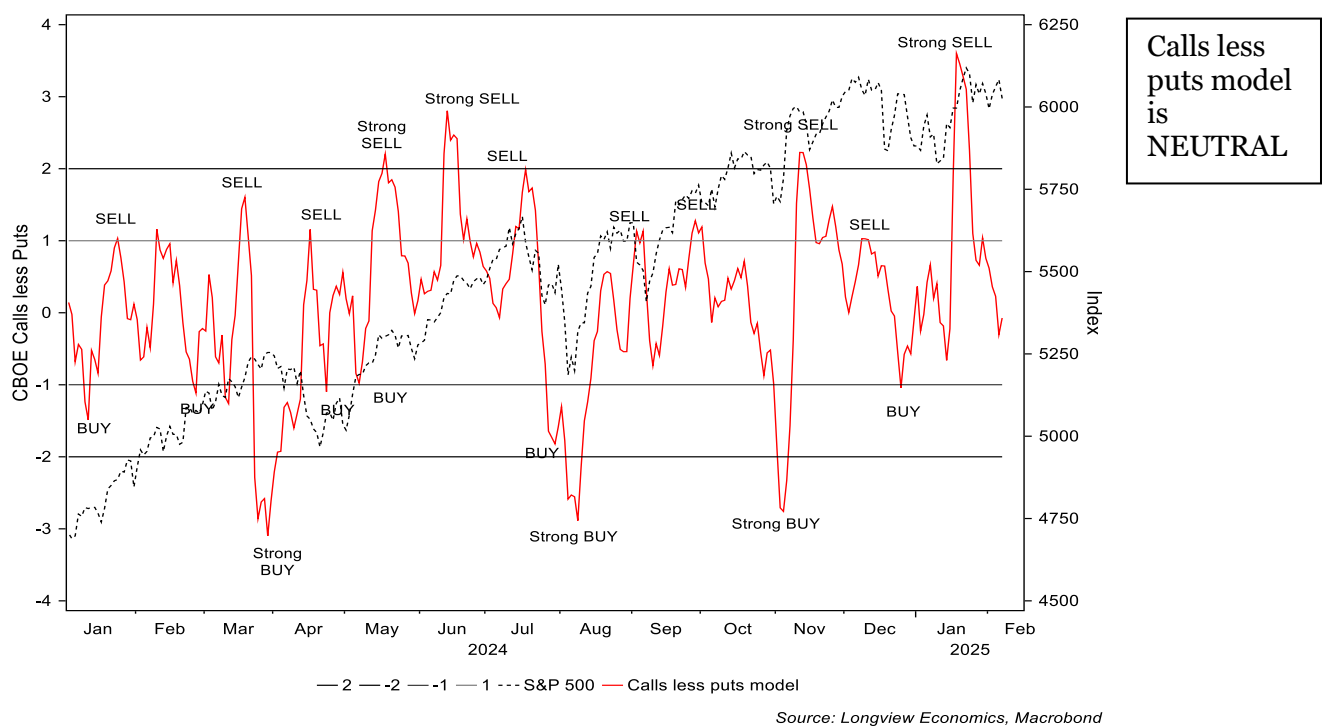
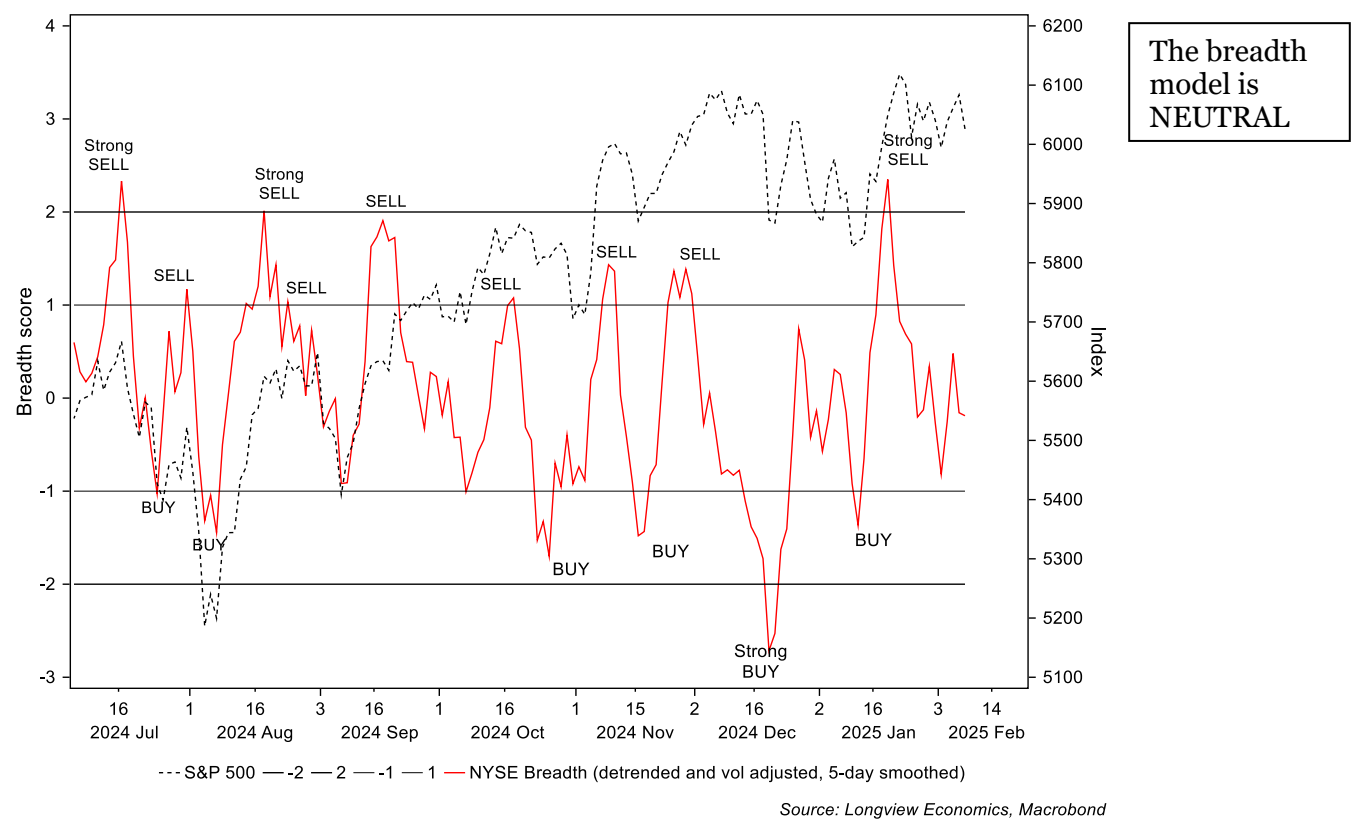


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

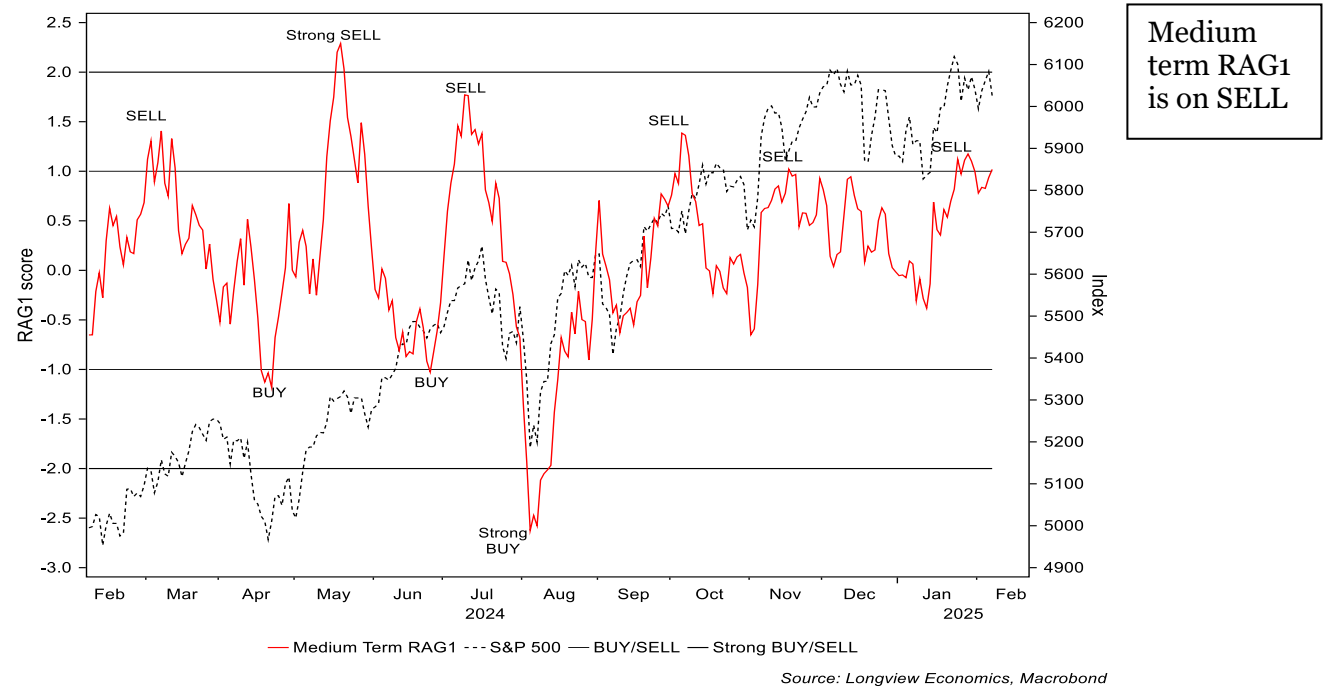
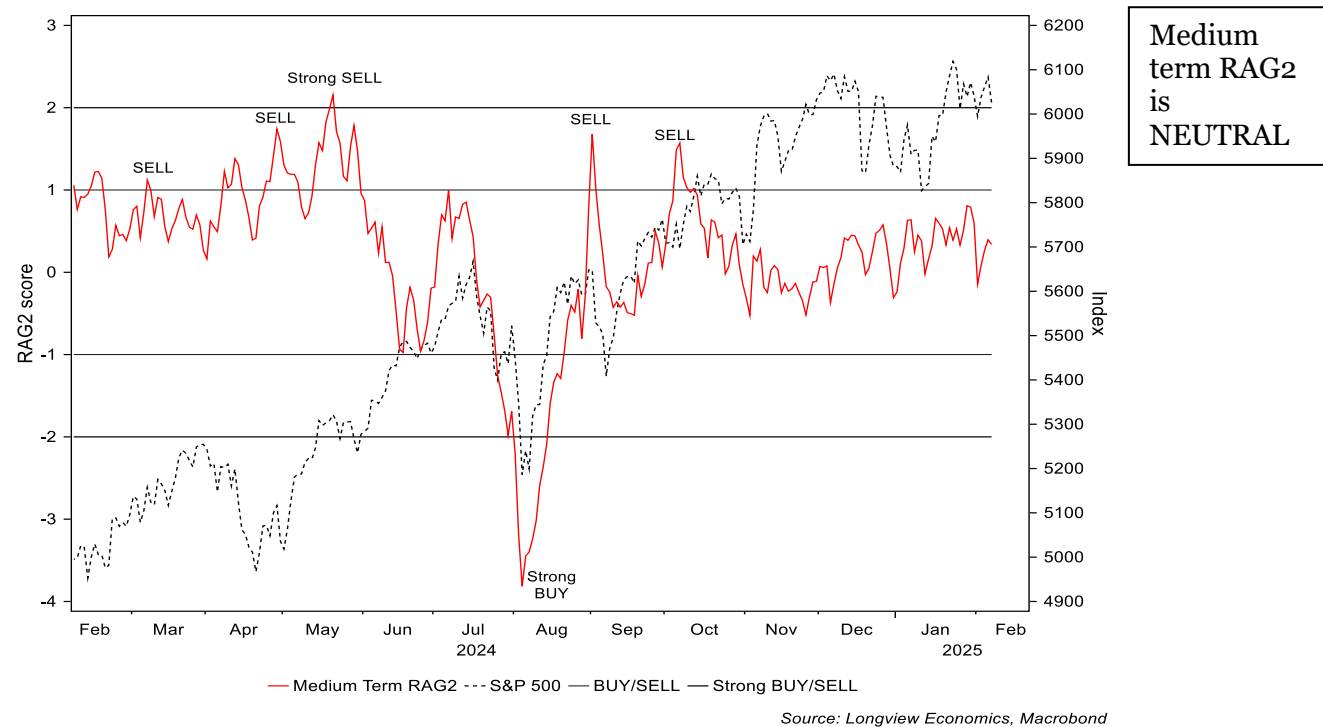


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

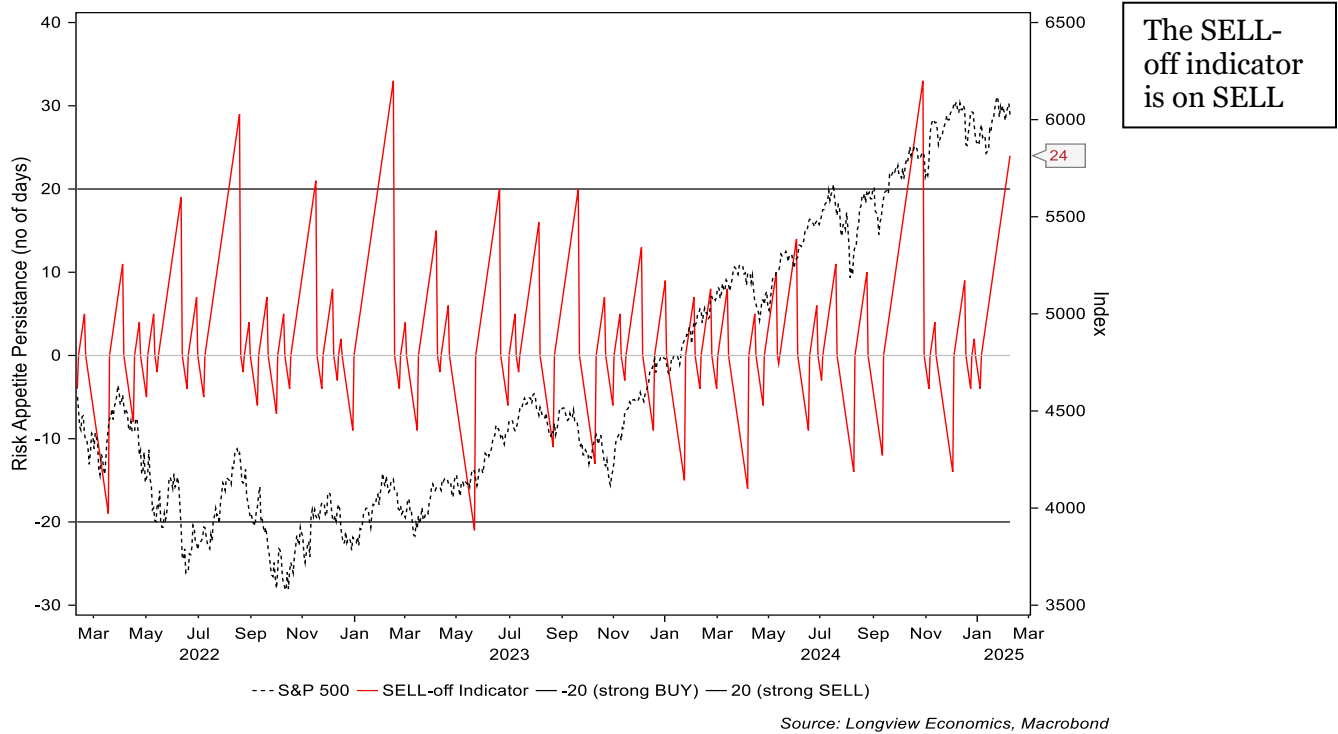
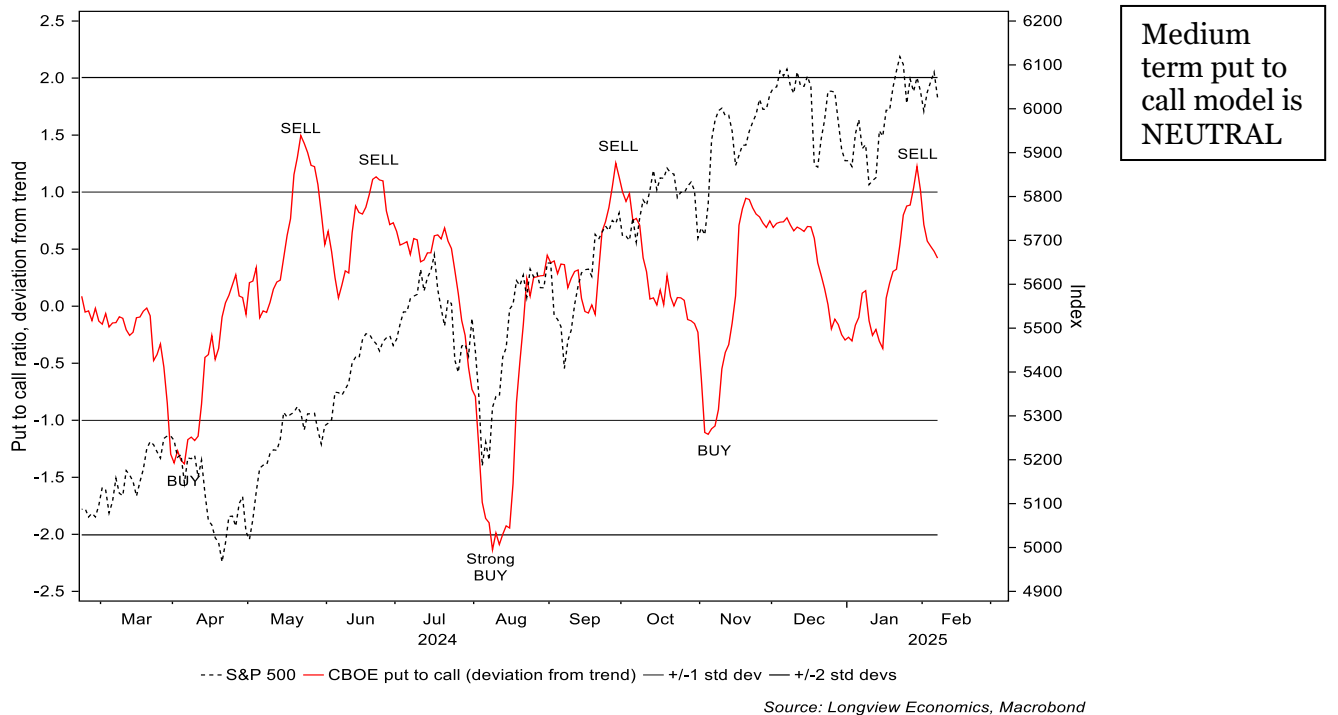


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

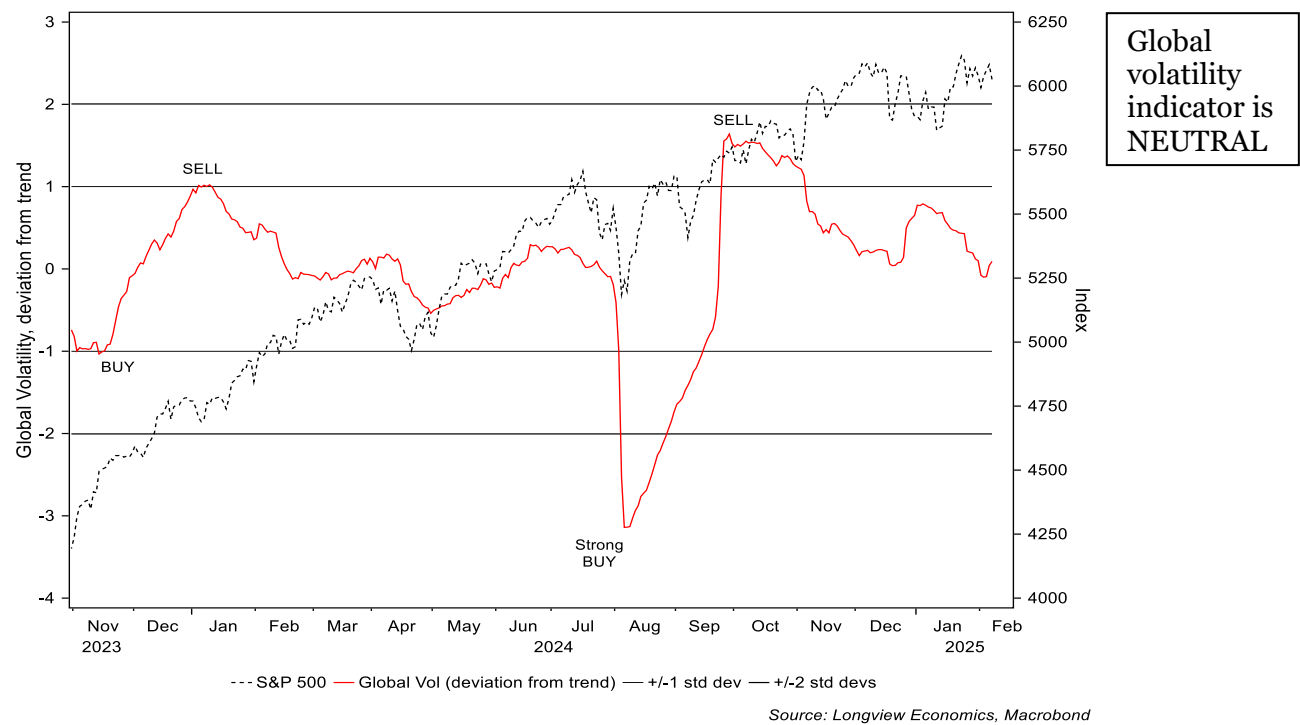


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

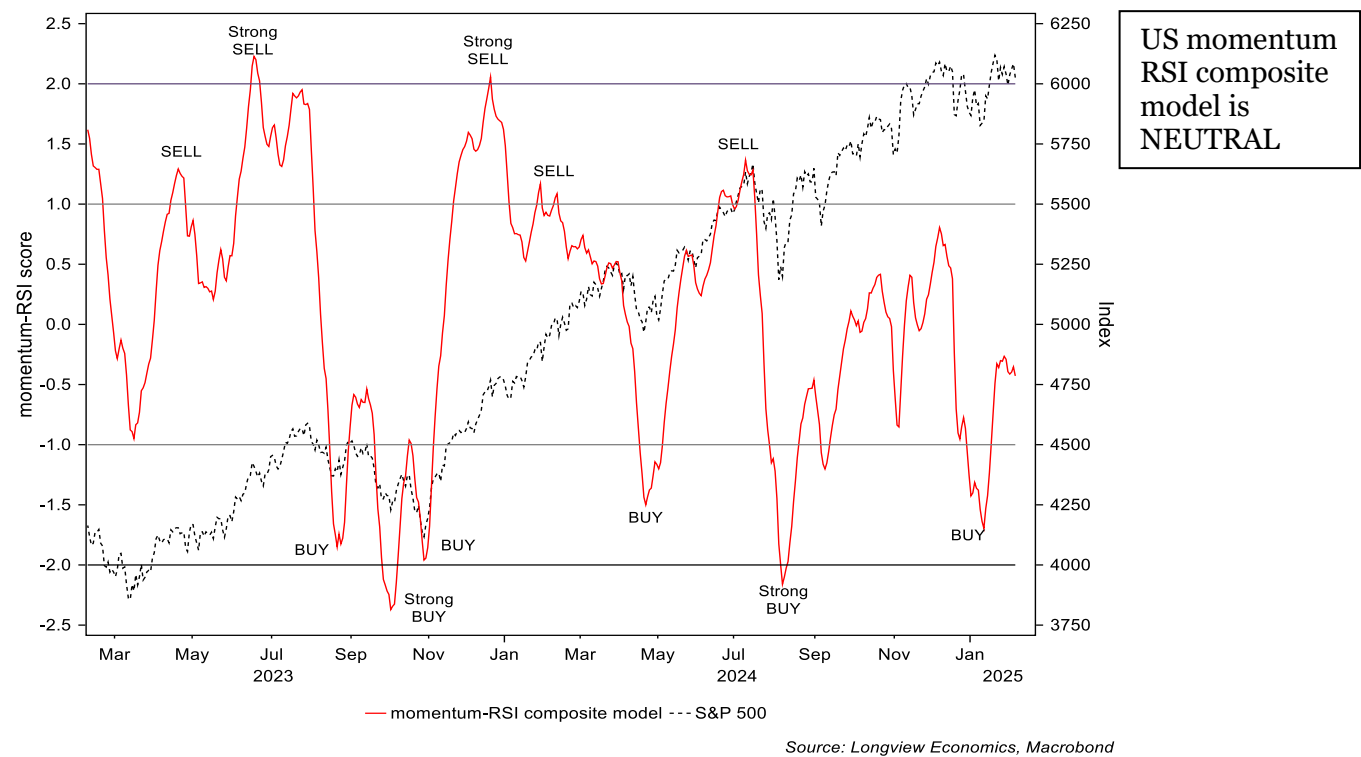


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

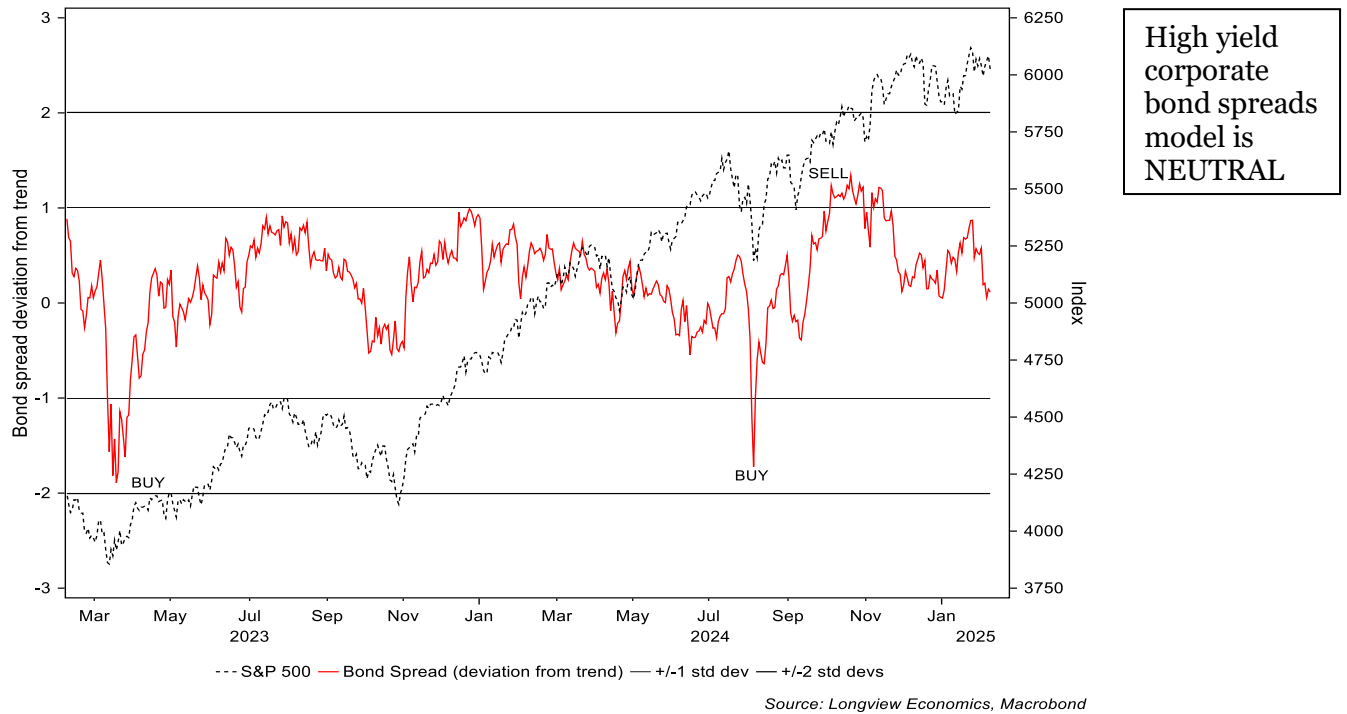
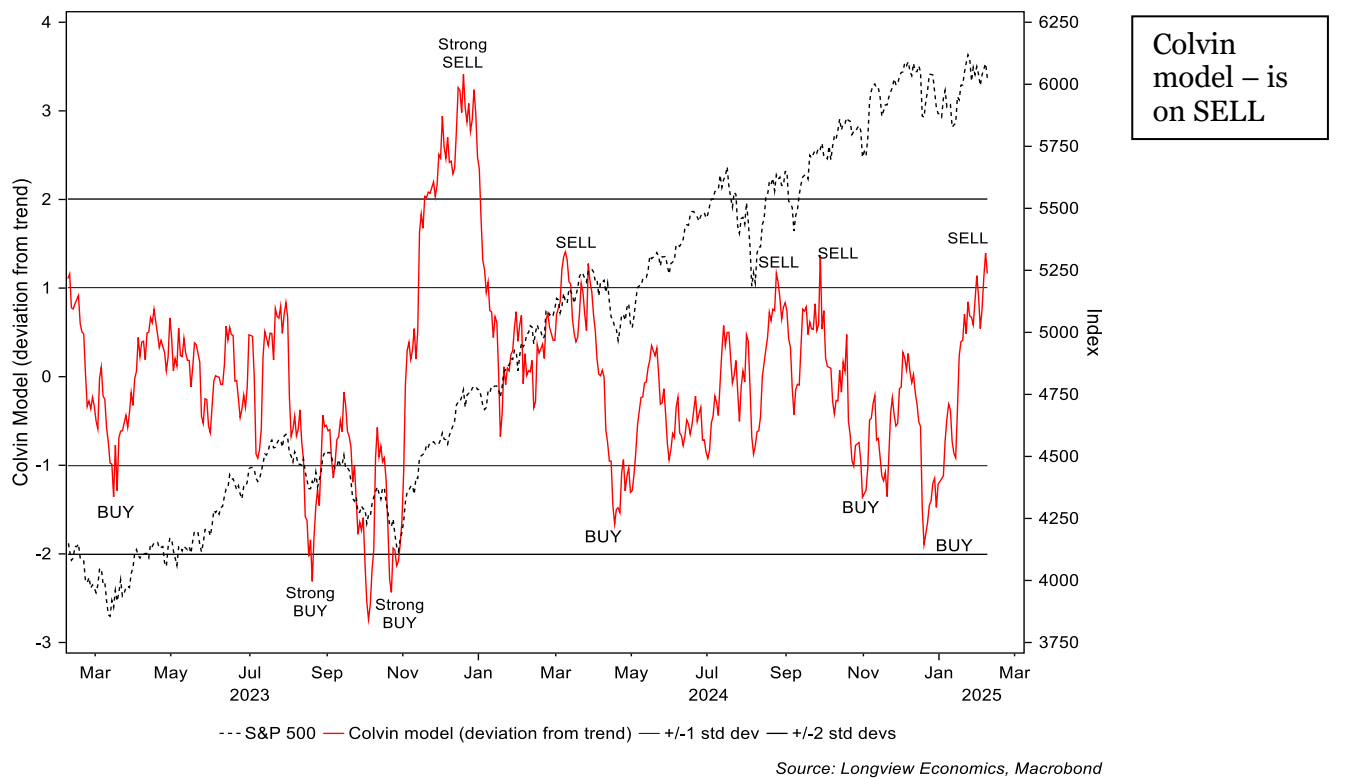


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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.

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