Equity Index Futures Trading Recommendations

11th February 2025

"STAY SHORT SPX - Increase Size on Strength"

Email: info@longvieweconomics.com

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);
- Retain unchanged stop loss at 6,185.

Rationale

US equity markets mostly closed higher yesterday, led by 'growth heavy' indices including the NASDAQ100 (+1.2%); NASDAQ Computer Index (+1.3%); and Philly SOX (+1.7%). With that, the S&P500 closed up (+0.7%), and 'long duration growth' stocks are now almost flat on the year (see FIG 1b). Other parts of the market (defensives and cyclicals) have traded sideways in recent weeks (as shown in FIG 1b).

At an index level, though, and despite yesterday's rally, **the S&P500 continues to trend down**. That is, the index has made lower highs and lower lows in recent weeks (FIG 1), after failing to break above its December highs in late January (see FIG 1a). Price action in other indices also remains poor. High beta indices like the Russell 2000 (small caps), for example, have rolled over, while the DJ global equity index has failed to break above its December highs.

Our view remains unchanged from yesterday. That is, US equities are rolling over, with further downside likely in coming days/weeks. In particular, our SELL-off indicator has crossed above its key +20 threshold and is warning of an imminent wave of risk aversion in global markets (FIG 1c). Other medium term models are also generating SELL signals and, reflecting that, our medium term risk appetite scoring system is (effectively) on SELL (FIG 1d).

Short term models, having recently been on SELL (in late Jan), have rolled over (and are now mostly neutral). That move lower, though, is consistent with weak/deteriorating momentum in US equities in recent days/weeks (e.g. see the downtrend in single stock and sector level breadth/momentum models – FIGs 2 & 2a). Elsewhere our risk appetite models are close to SELL (FIGs 3 & 3a); put to call models are on SELL (e.g. see FIG 4); while our technical scoring system for the S&P500 is mid-range (having been on SELL in late January, see FIG 5).

The risk reward therefore favours staying SHORT the S&P500. We also continue to recommend increasing the position size on strength (if forthcoming, i.e. at 6,100). Yesterday the index came close to that level (6,096). Please see above for detailed recommendation.

Key two way risks to this trade are multiple and include Powell's comments today (in his semi annual testimony before the US Senate Banking Committee, at 3pm London time – which will be followed by Q&A). Key macro data includes the NFIB small business report (today) and CPI (tomorrow).

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

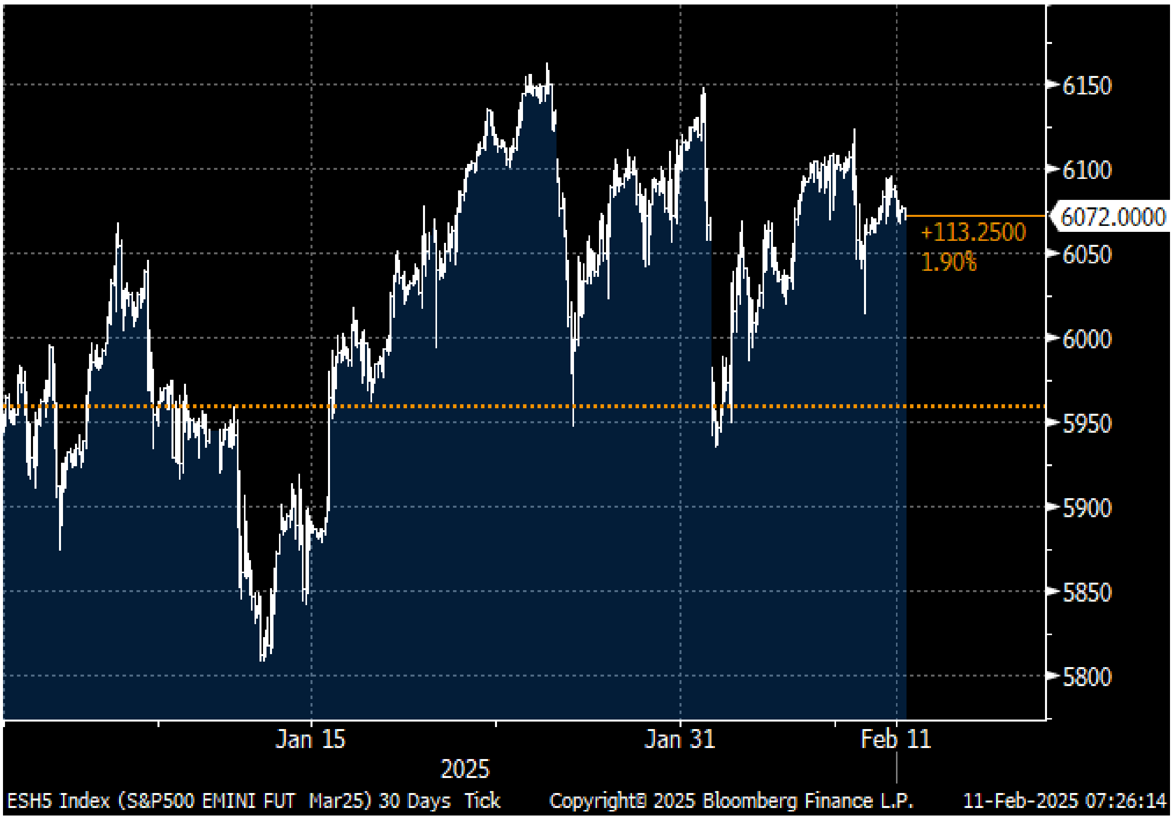
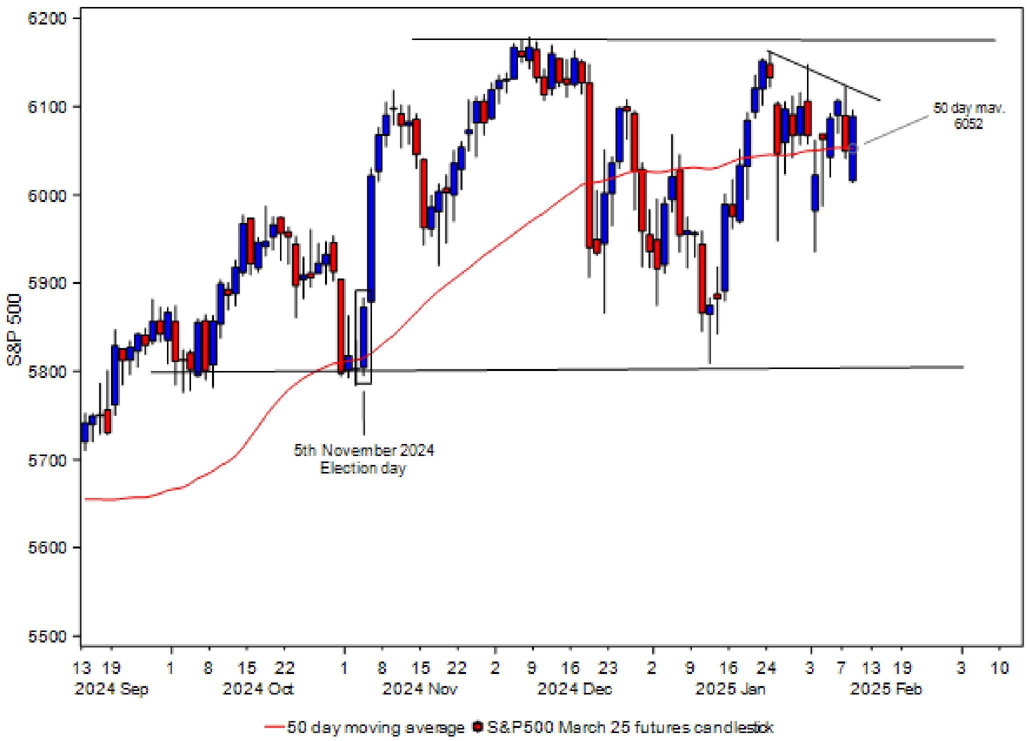
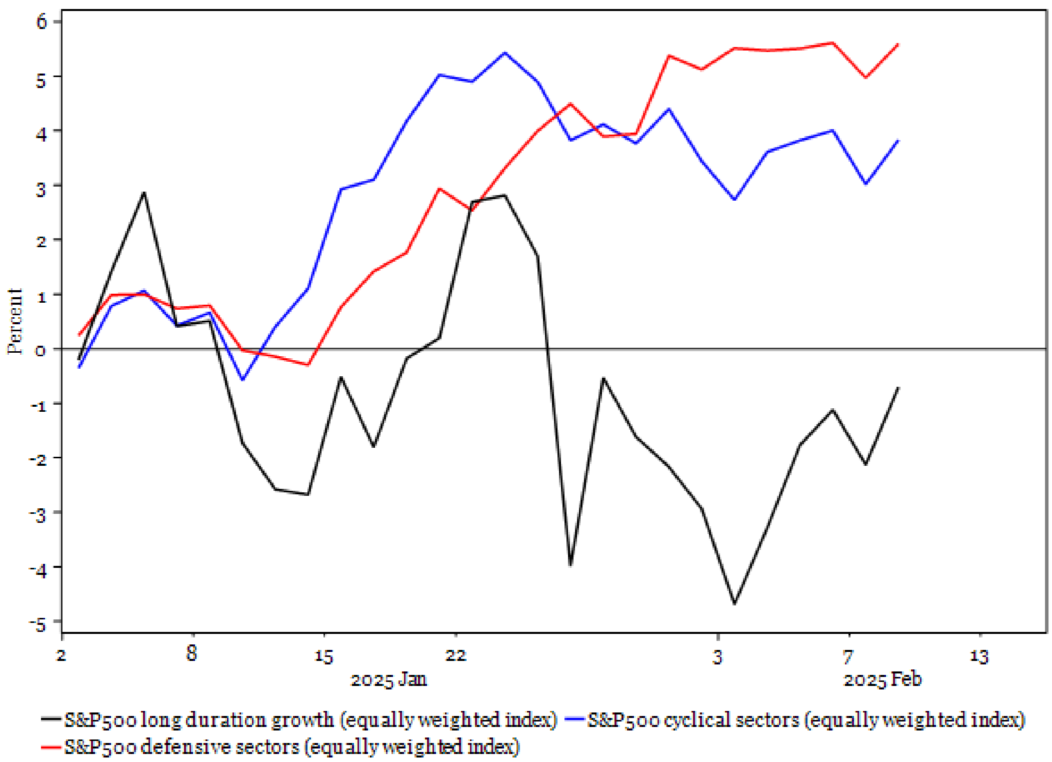


FIG 1a: S&P500 March 25 futures candlestick shown with 50 day moving average



Source: Longview Economics, Macrobond

FIG 1b: S&P500 index – divided into cyclicals, defensives and long duration growth



Source: Longview Economics, Macrobond

FIG 1c: Longview SELL-off indicator vs. S&P500

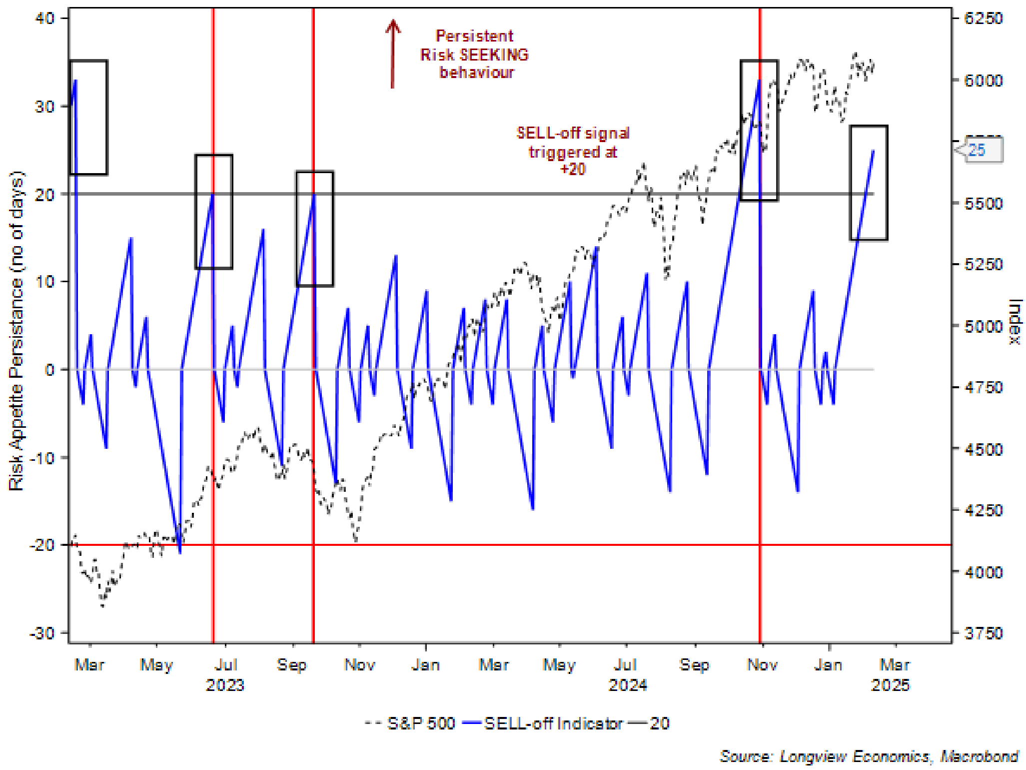
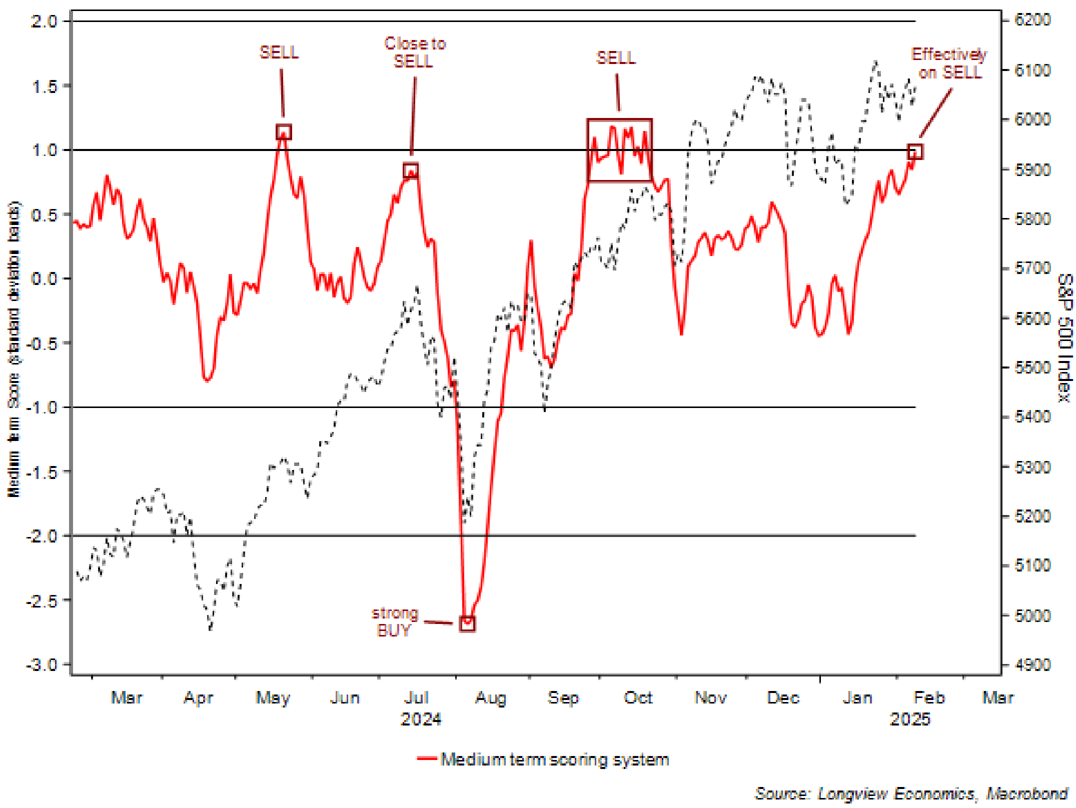
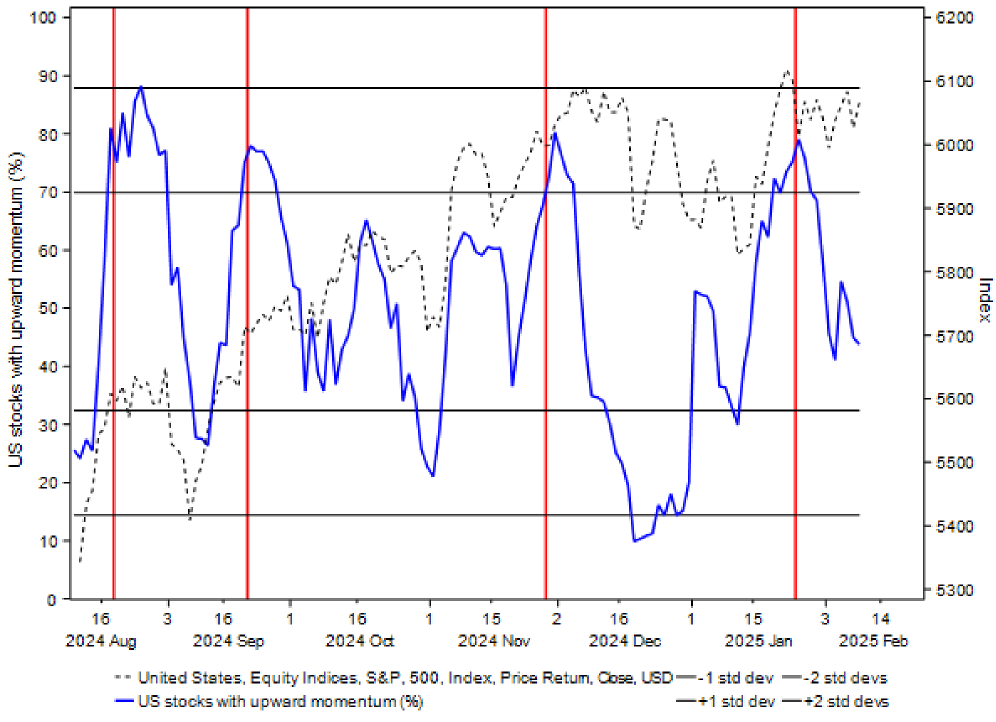


FIG 1d: Medium term risk appetite scoring system vs. S&P500



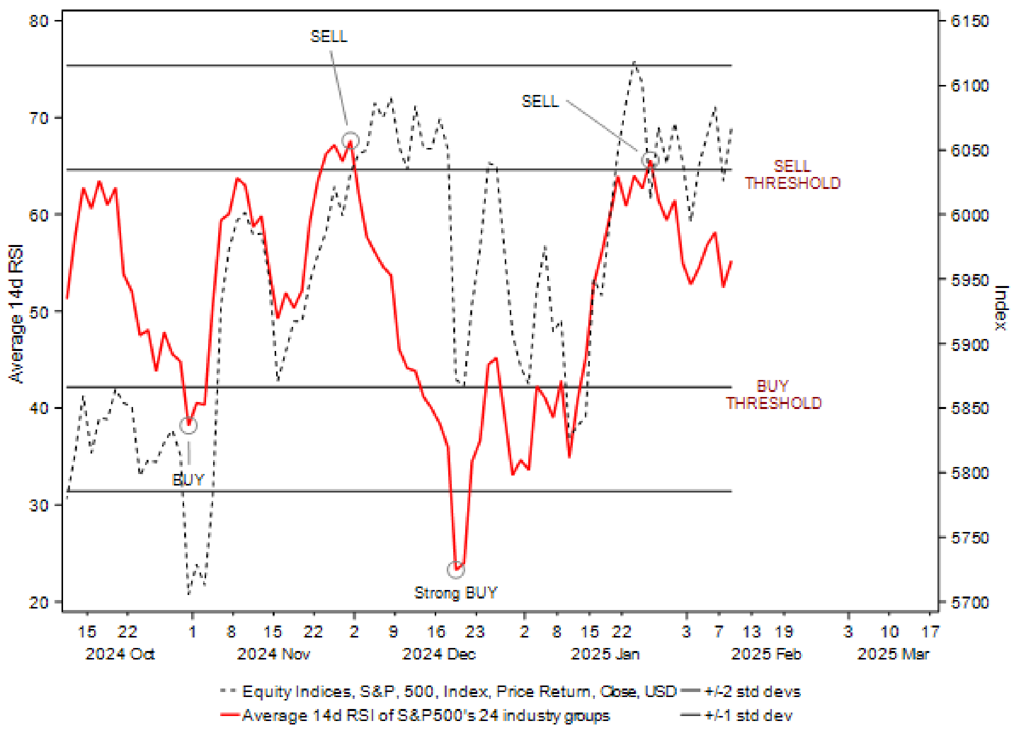
Sector & single stock momentum models have been trending lower....

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



Source: Longview Economics, Macrobond

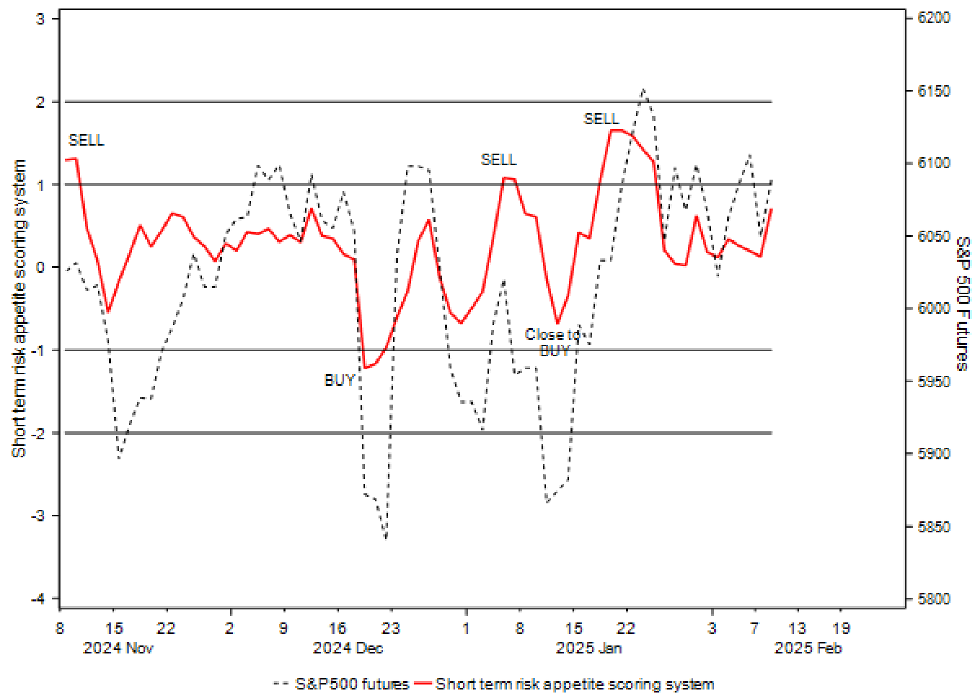
FIG 2a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

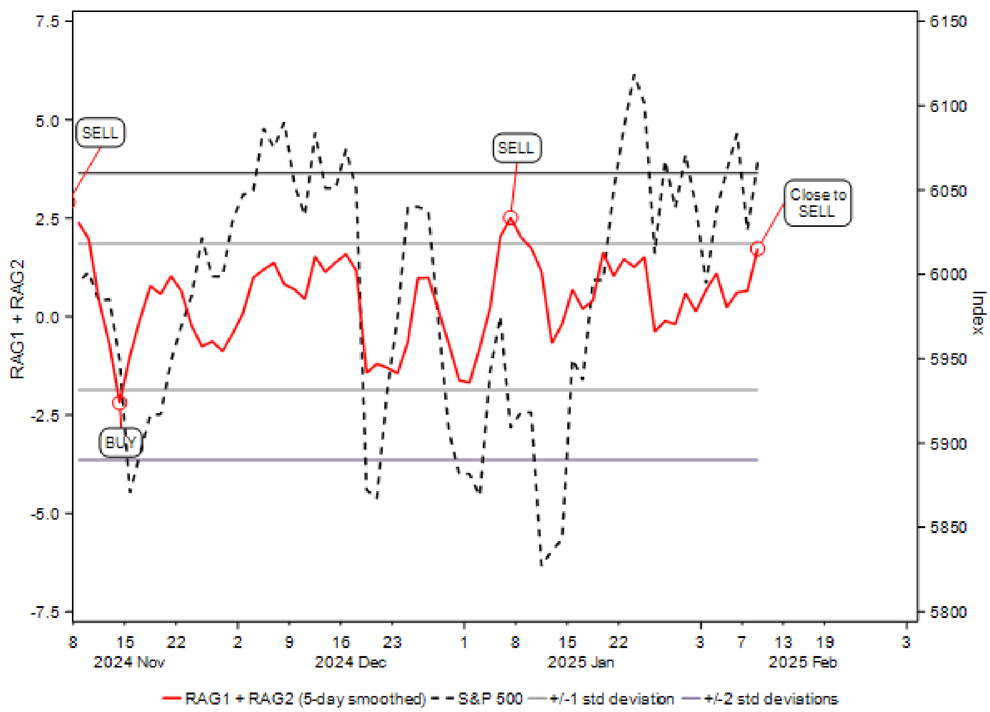
Risk appetite models are close to SELL…

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



Source: Longview Economics, Macrobond

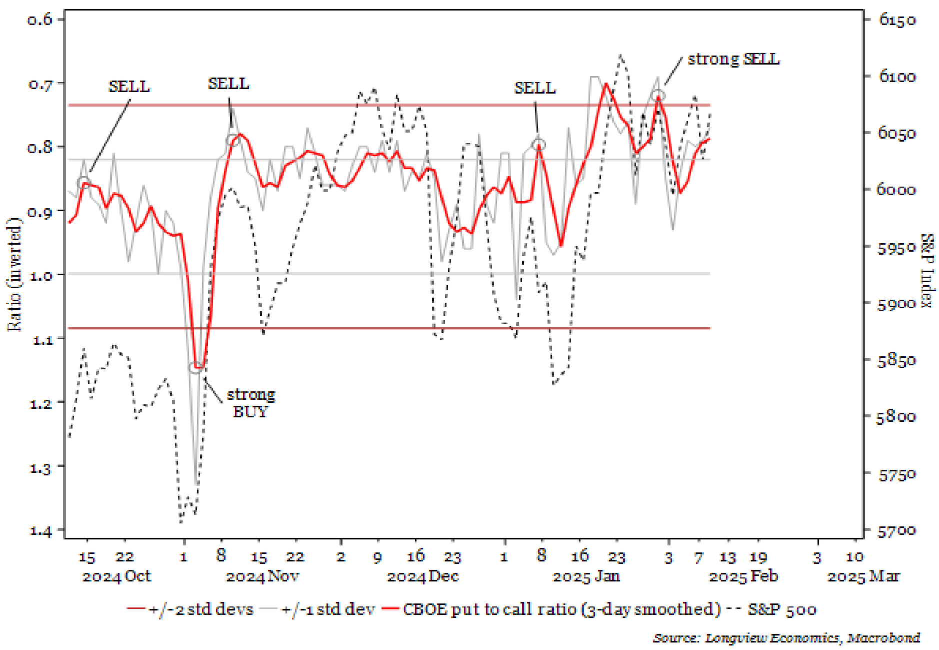
FIG 3a: Longview **shortest term 'risk appetite'** model vs. S&P500



Source: Longview Economics, Macrobond

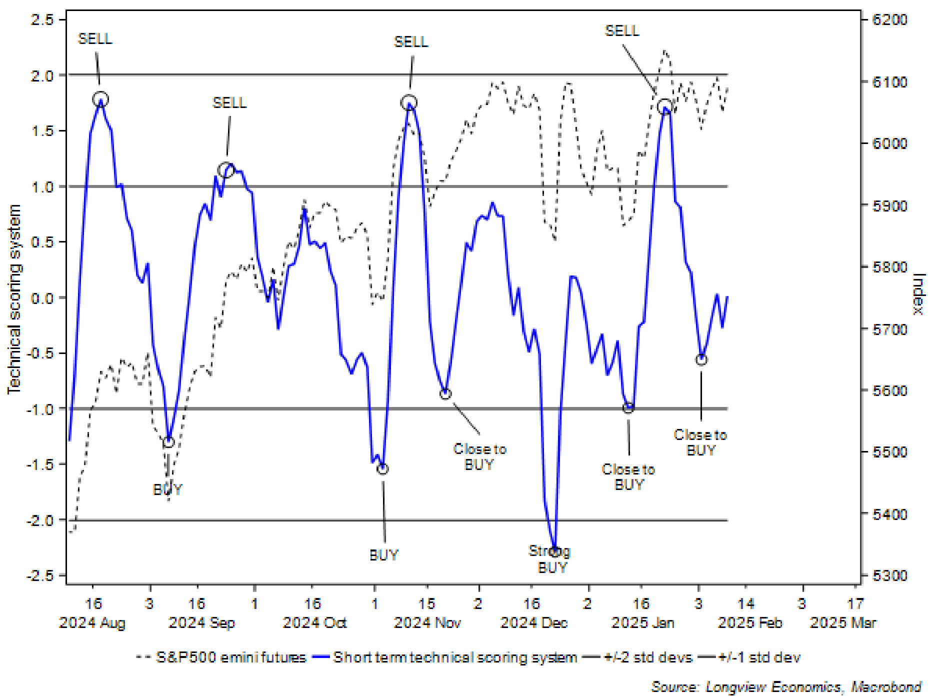
The short-term CBOE put to call model is on SELL.....

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.....

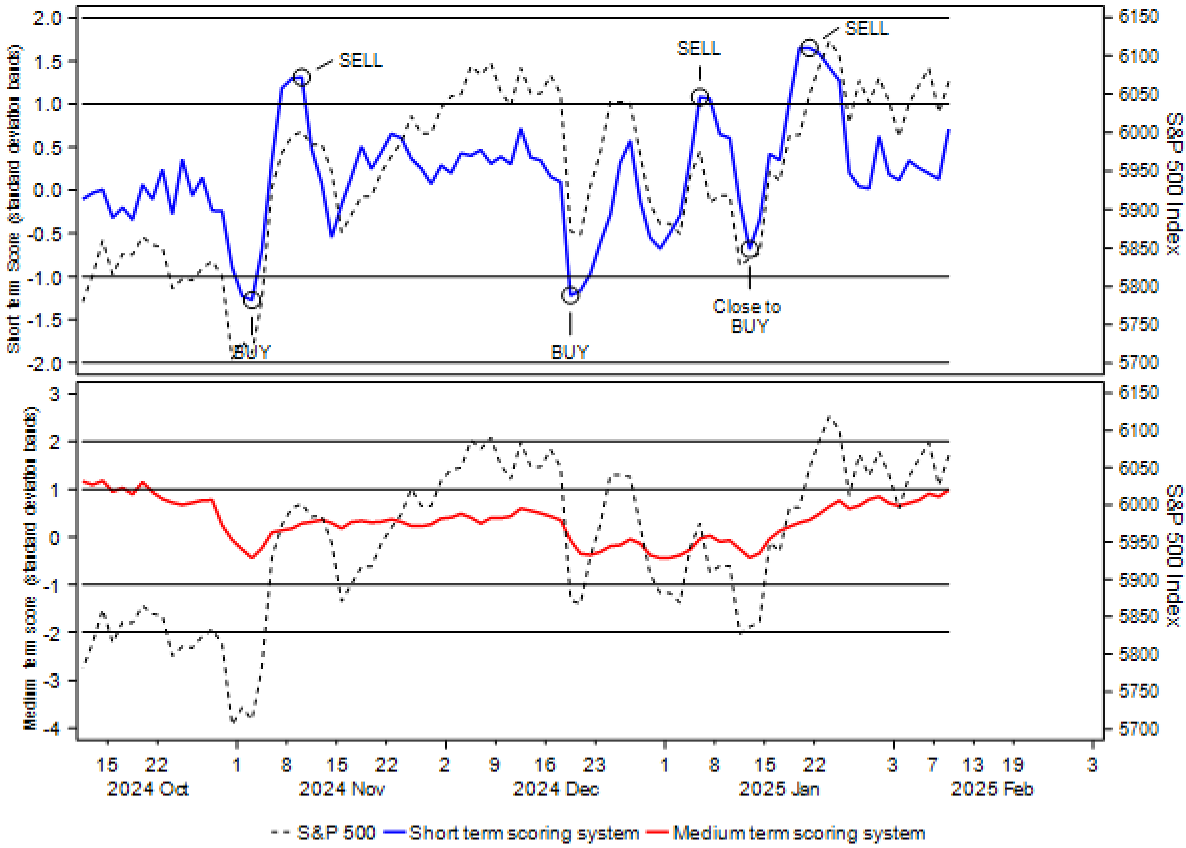
FIG 5: Longview **S&P500** short term **'technical'** scoring system vs. S&P500 futures



Key Longview Scoring Systems (chart below)**:**

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **NEUTRAL** (effectively on 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: BRC retail sales (Nov, 12:01am); Australian NAB business confidence (Jan, 12:30am); French unemployment rate (Q4, 6:30am); **US NFIB small business optimism** (Jan, 11am); **Japanese M2 & M3 money supply** (Jan, 11:50pm).

Key events today include: The Fed's **Powell** testifies before the US Senate Banking Committee (3pm) & speeches by Hammack on Economic Outlook (1:50pm) & Williams gives keynote remarks (8:30pm); speeches by the Bank of England's Mann in on "economic prospects" at Leeds Beckett University (8:45am) & Bailey on if we are underestimating changes in financial markets (12:15pm); Riksbank's Seim discusses the economy (5pm).

Key earnings today include: **Coca-Cola,** S&P Global, Gilead, Welltower, Marriott Int, DoorDash, Ecolab, Carrier Global, **UniCredit, BP, Macquarie.**

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.

LVRAG

Daily Risk Appetite Gauge

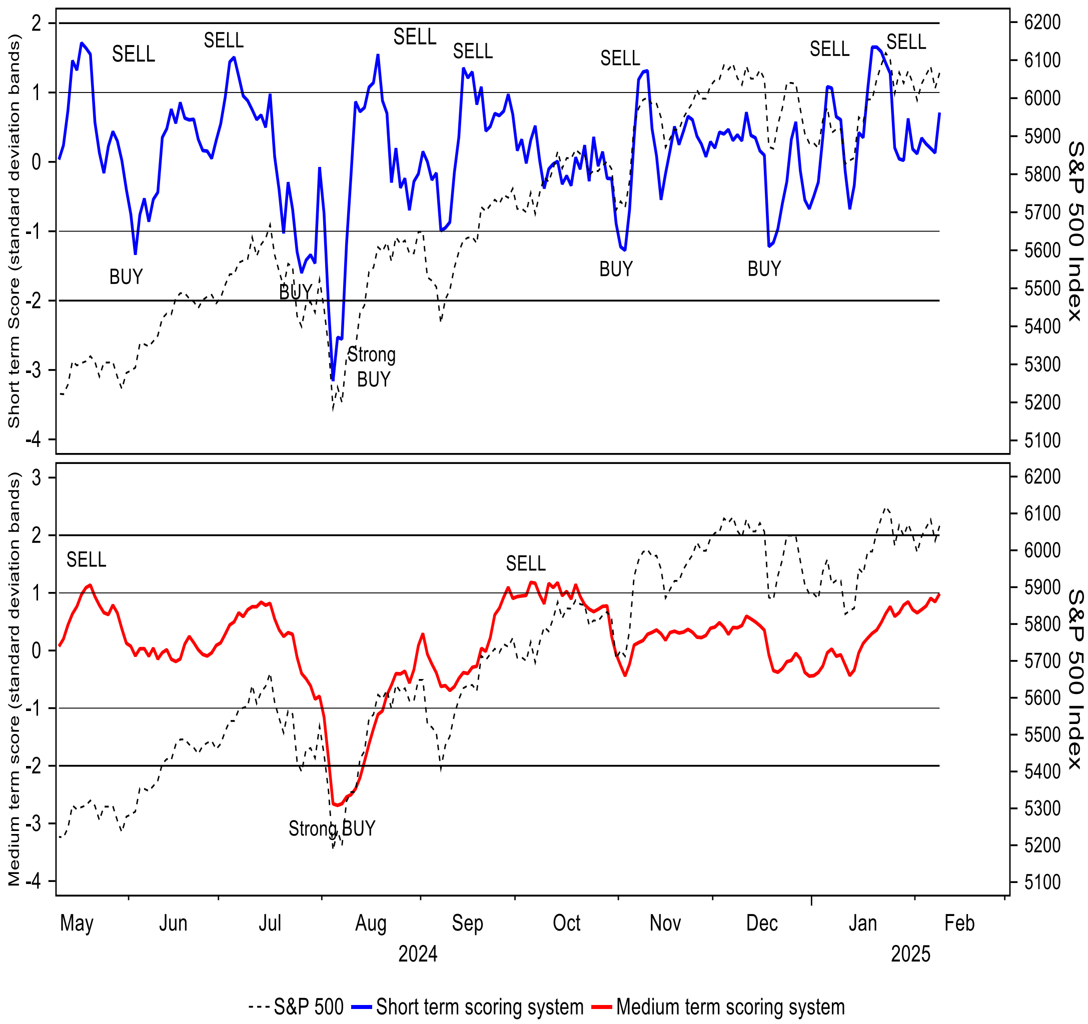
1 – 2 Week View on Risk

11th February 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 NEUTRAL

Medium term scoring system is NEUTRAL

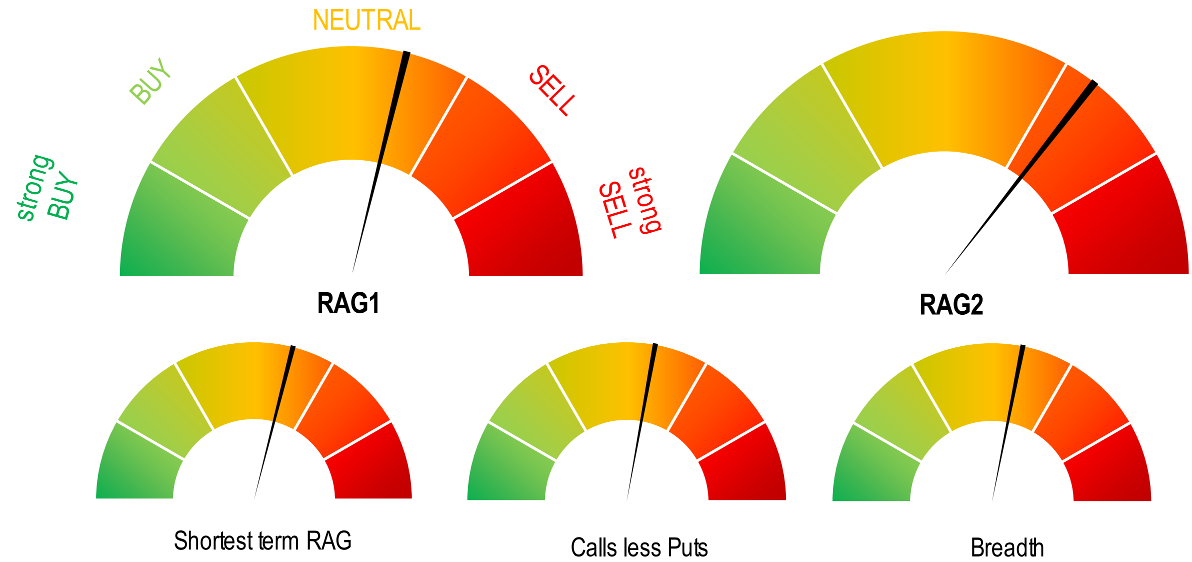
Source: Longview Economics, Macrobond

*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

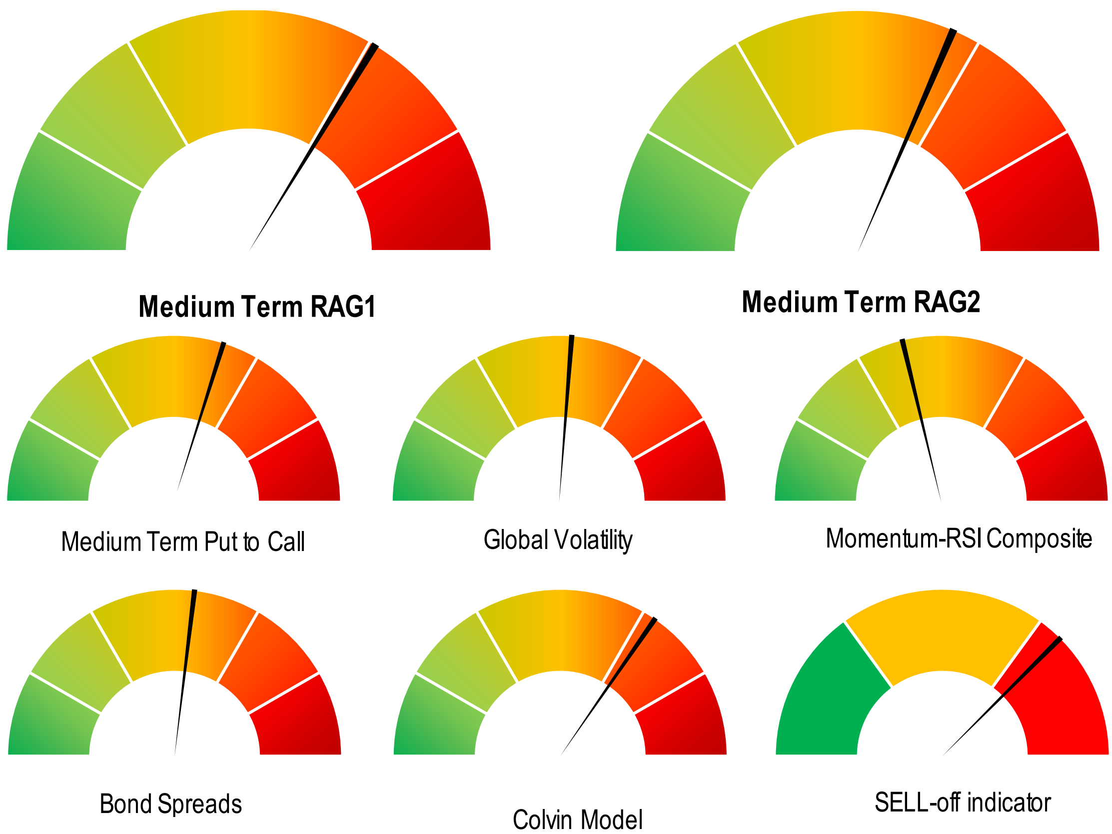
Section 1a: Summary of indicator signals**

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

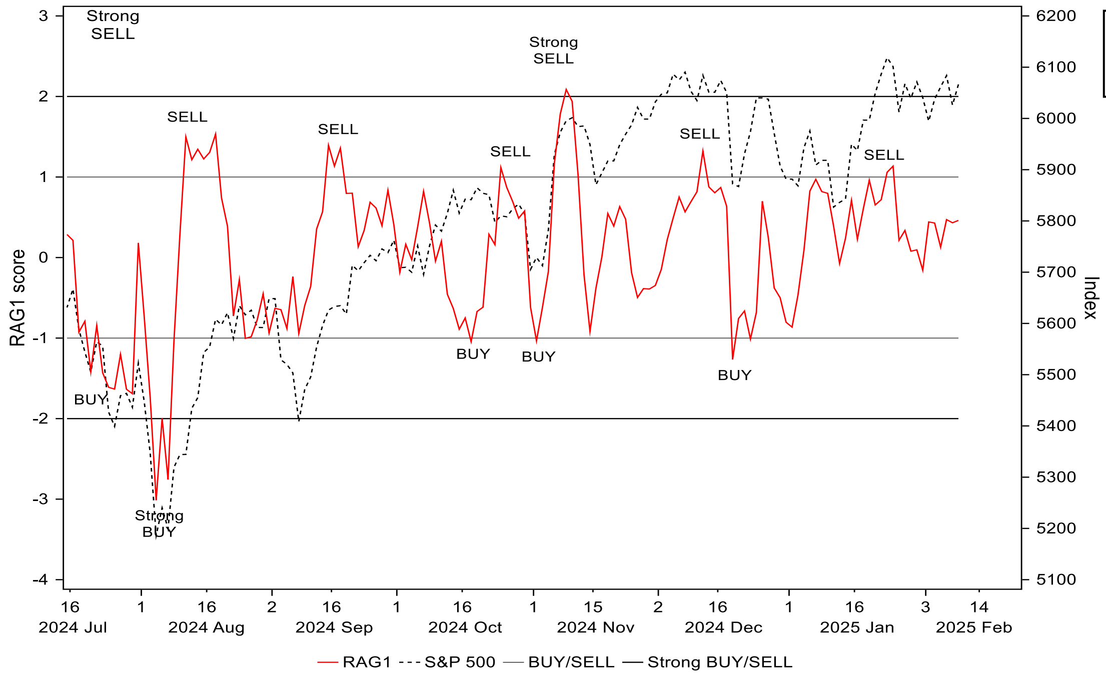


Source: *Longview Economics*

**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

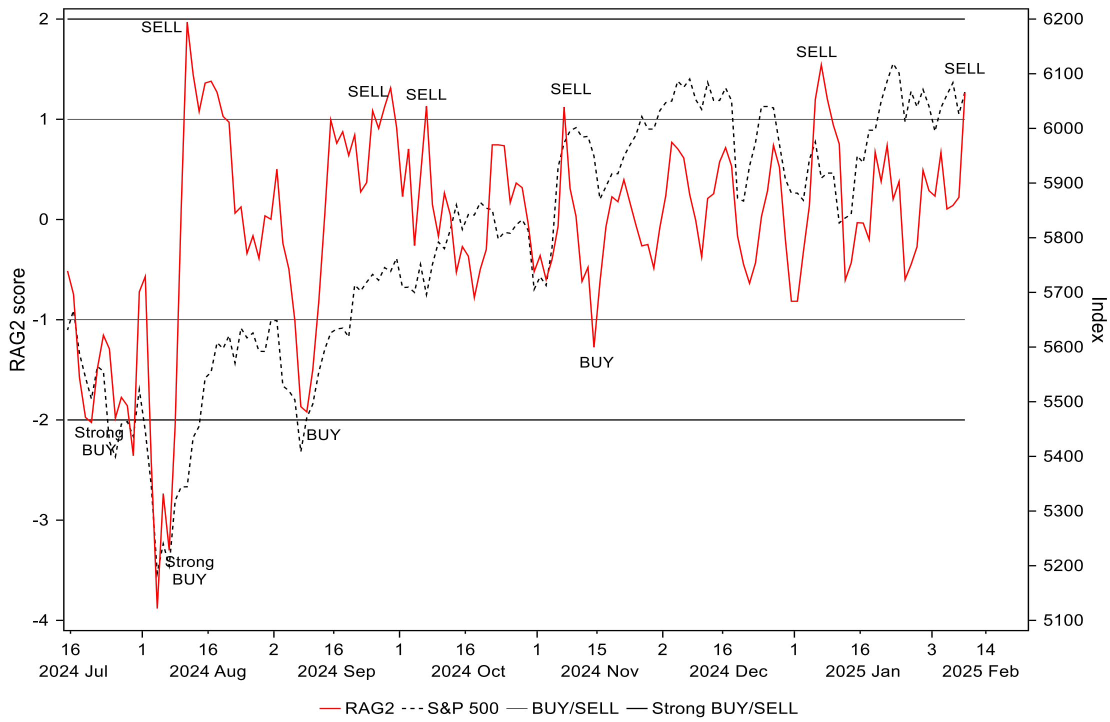
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

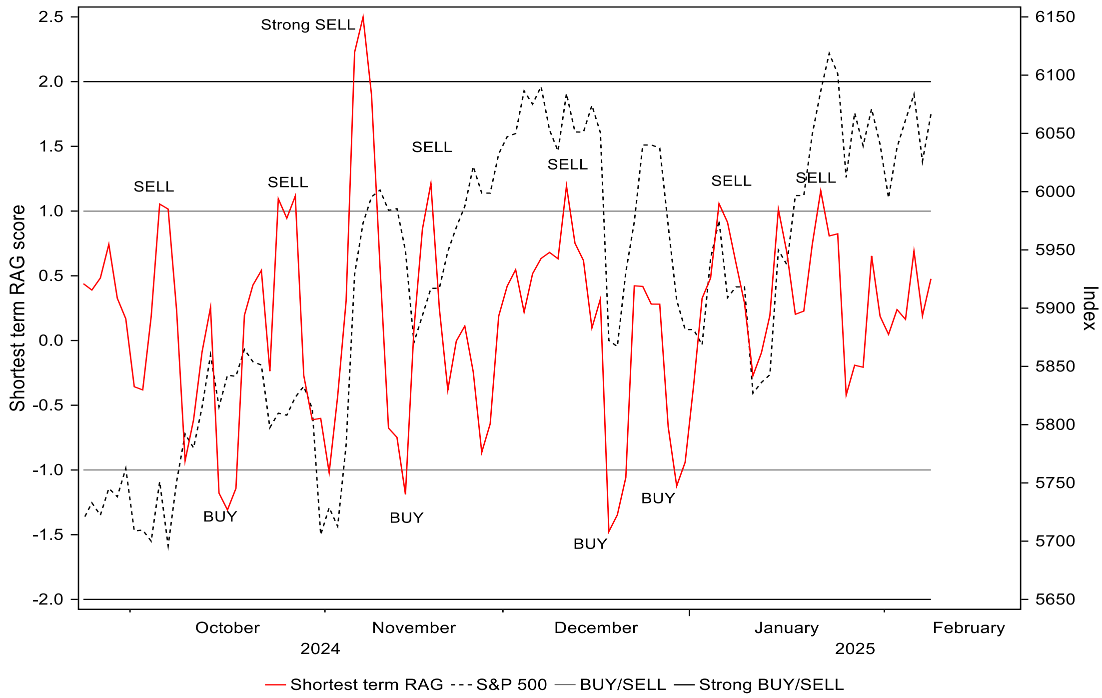


RAG2 is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

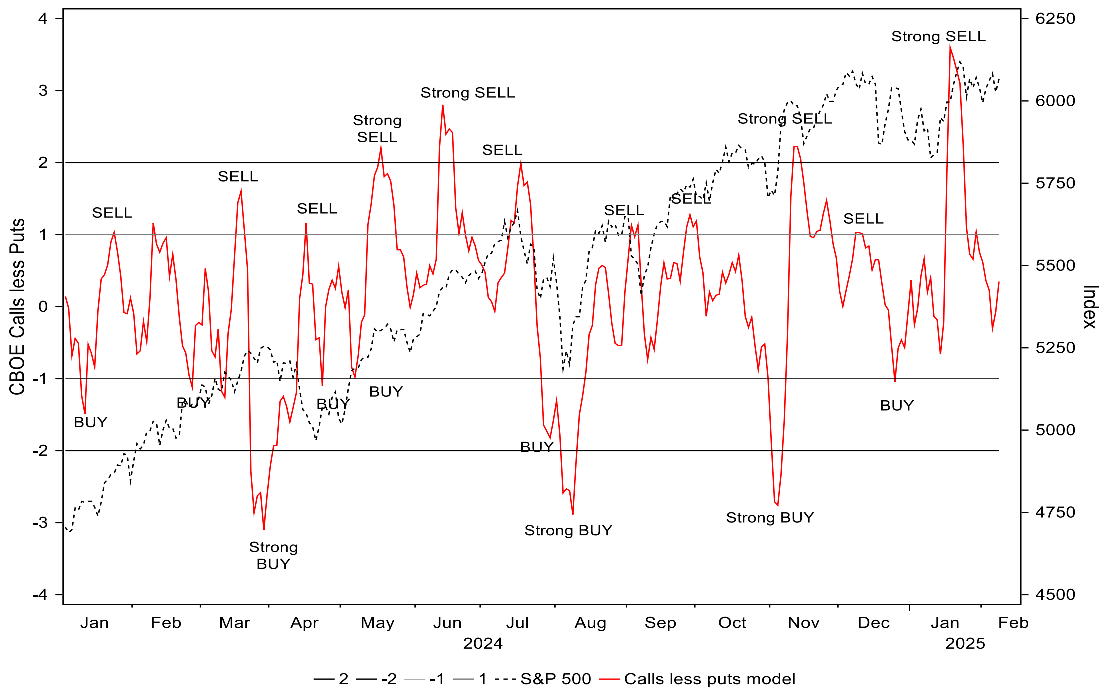
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

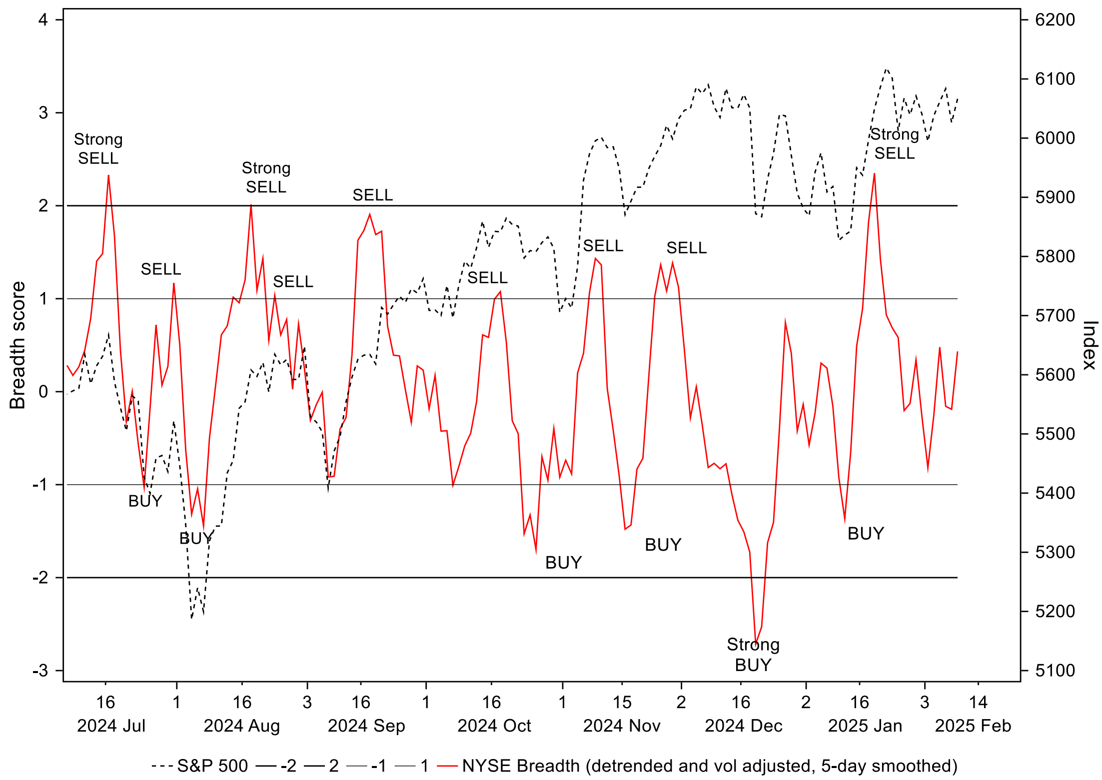


Calls less puts model is NEUTRAL

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



Source: Longview Economics, Macrobond

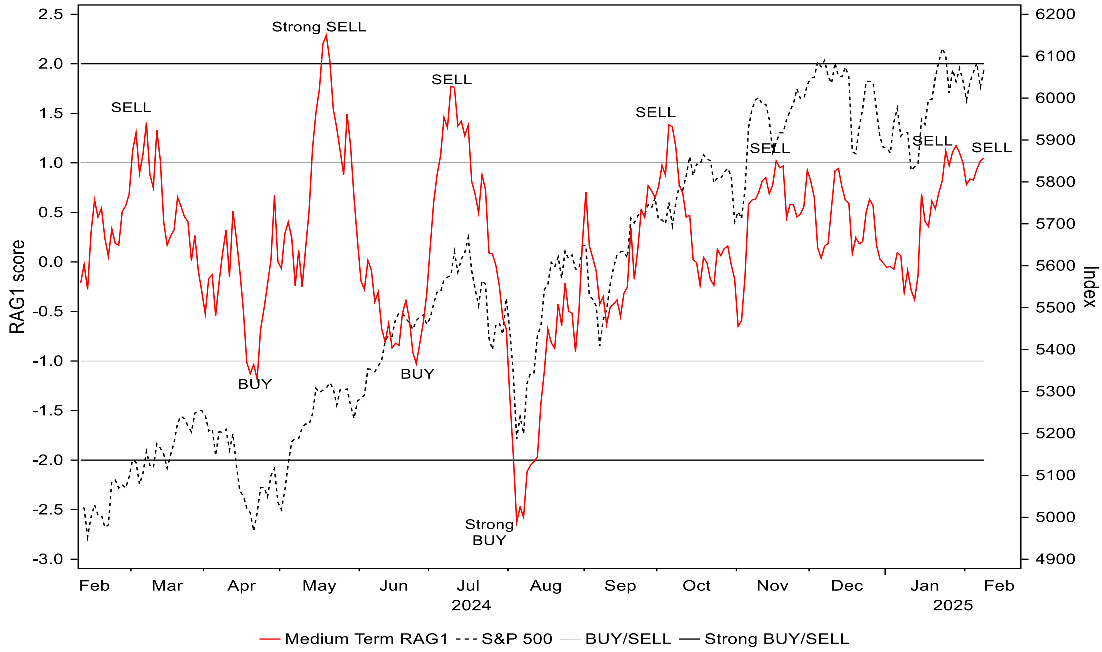
The breadth model is NEUTRAL

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

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

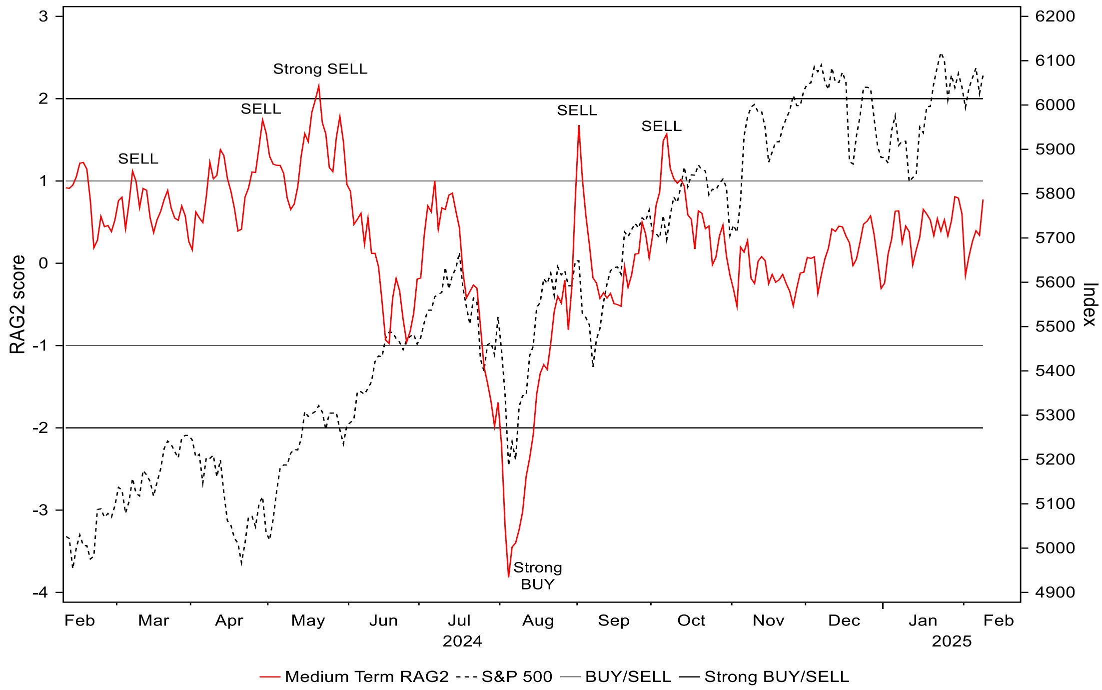
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

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

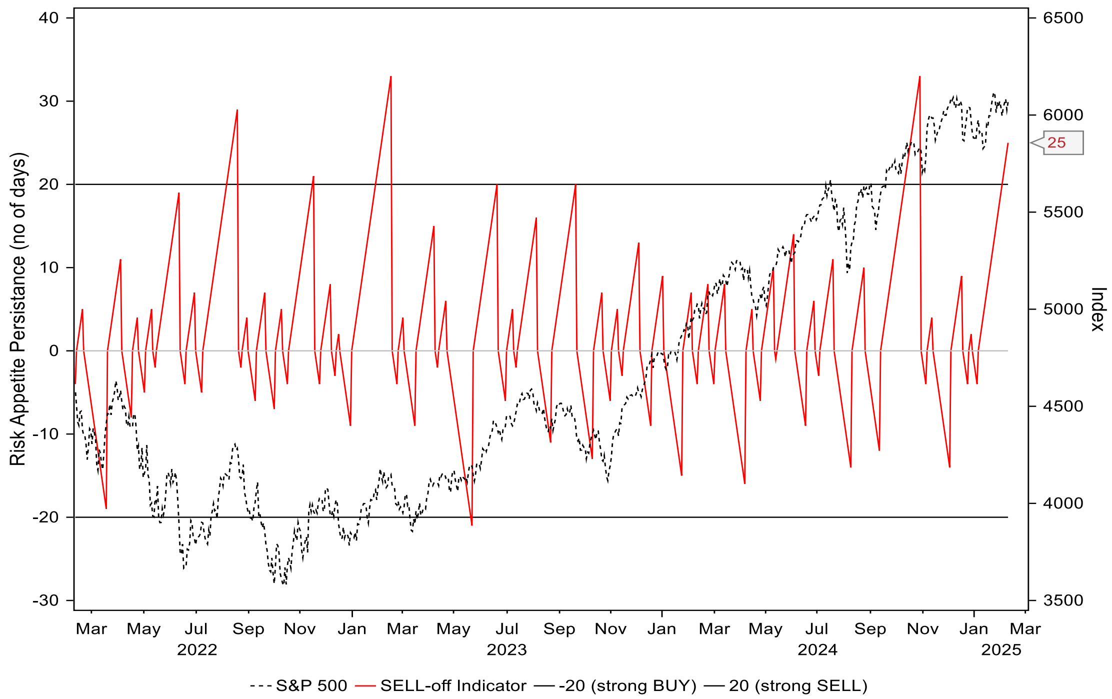


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

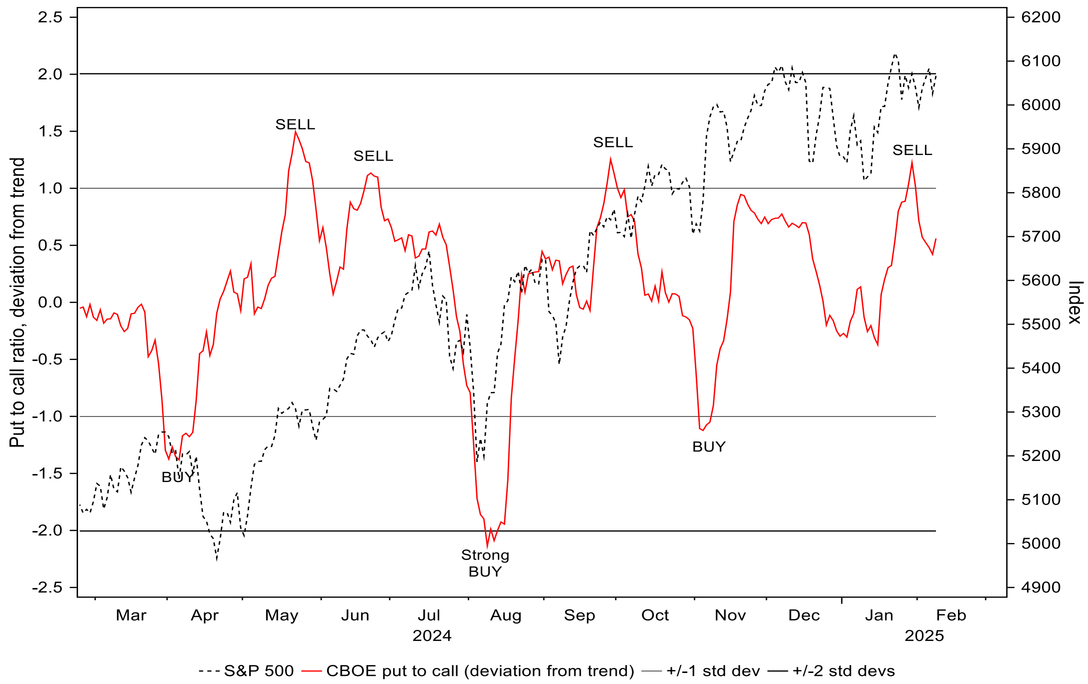
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is on SELL

Source: Longview Economics, Macrobond

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

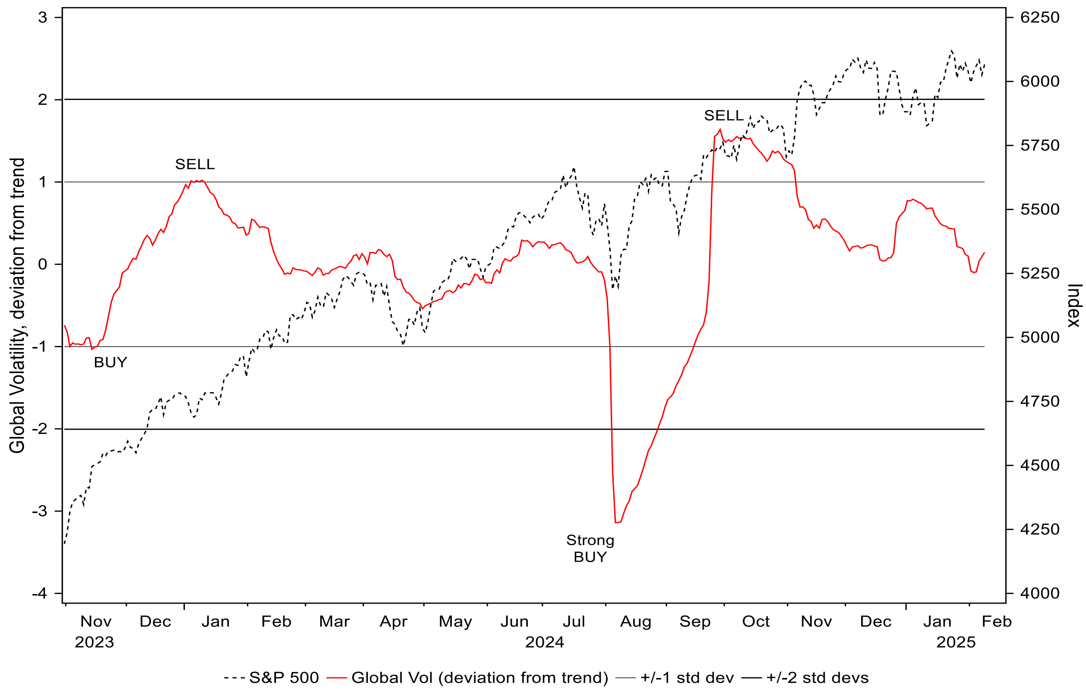


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

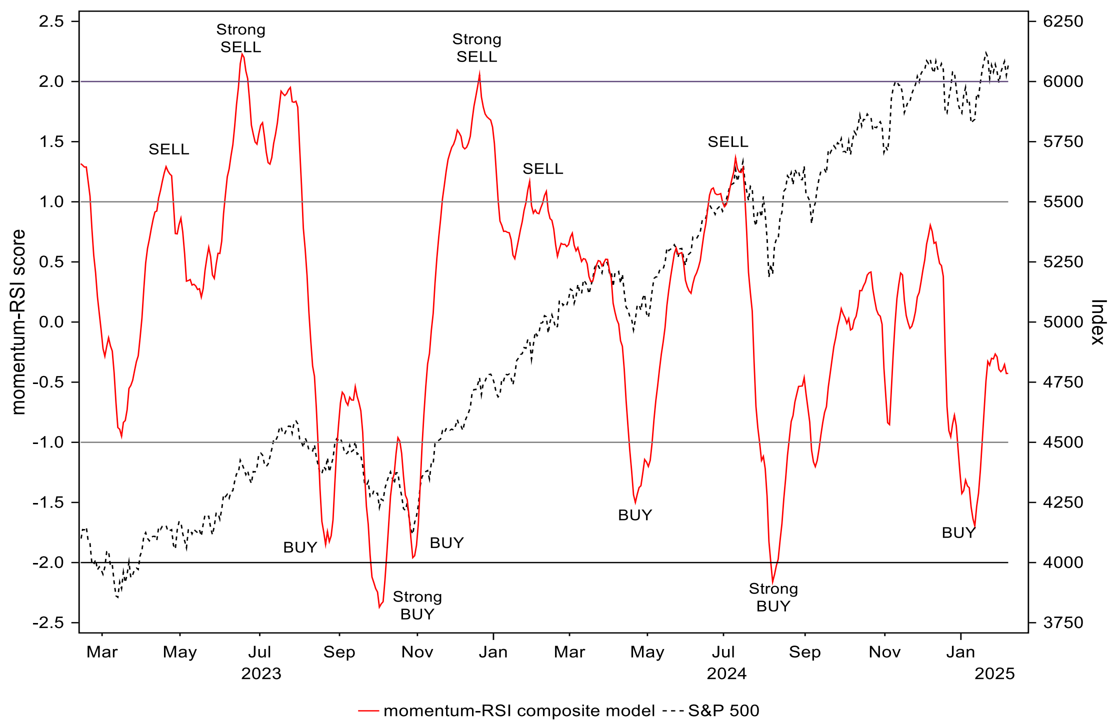
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

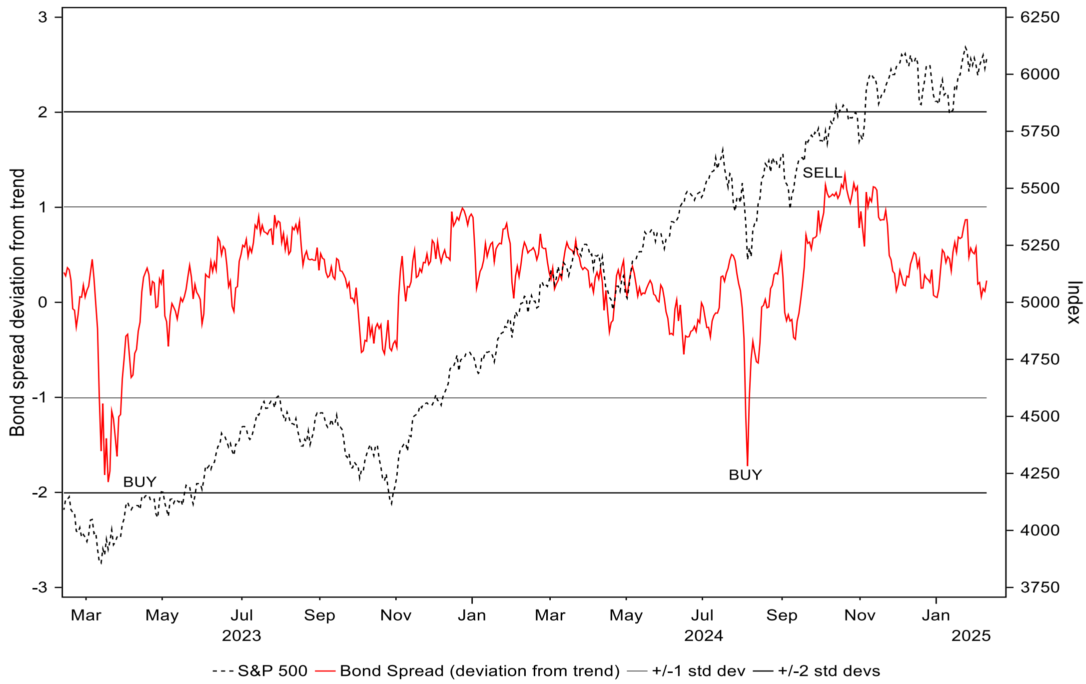
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

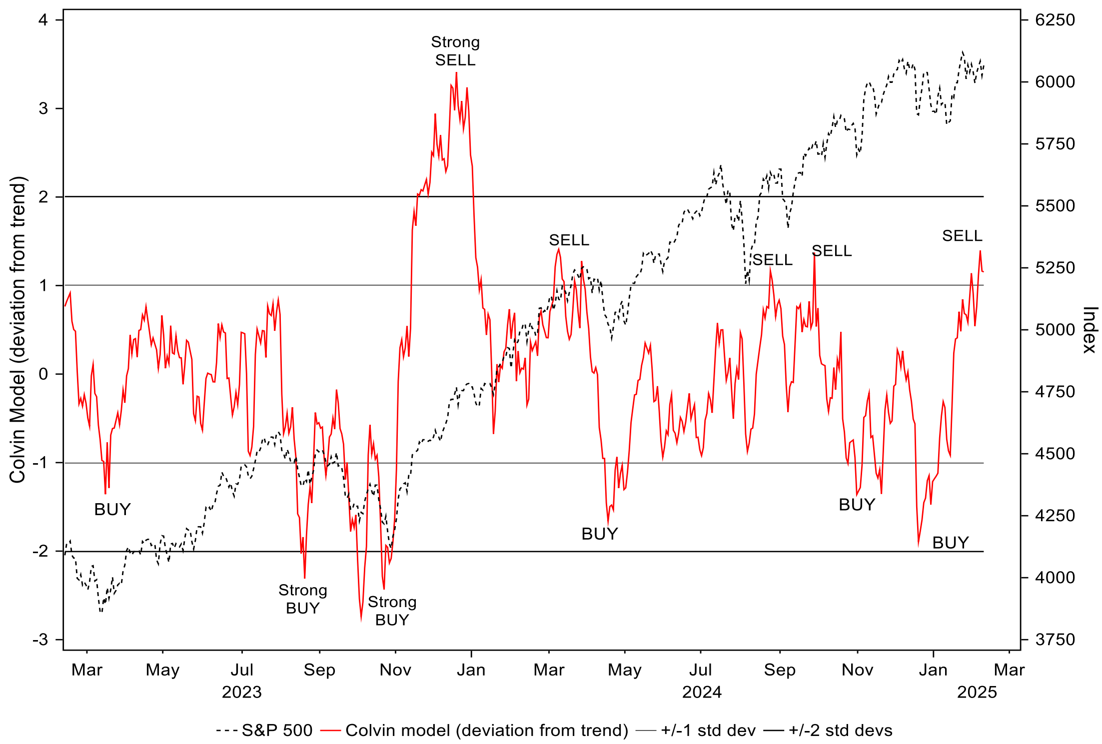
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 on SELL

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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