LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

11th March 2025

"Finely Balanced Argument - But STAY SHORT DAX"

Email: info@longvieweconomics.com

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

- Stay ¼ SHORT DAX March futures (entry was on Friday at 23,133);
- Retain unchanged stop at 23,827 (i.e. 3% above entry).

Rationale

The pullback in US equities accelerated yesterday. In particular the S&P500 closed down 2.7% on the day, broke convincingly below its 200 day moving average (FIG 1c), and is now down 9.6% from its intra-day highs in late February. With that there were marked losses in key 'leadership' indices including the NASDAQ100 (-3.8%); NASDAQ Computer Index (-4.6%) and the Philly SOX (-4.9%). European equity indices were also lower across the board (e.g. with the DAX down 1.7%), while Eurozone banks were down 2.8% (having been one of the key/frothy parts of the European market in recent weeks, see FIG 1).

Given those sharp moves lower, **some signs of fear and panic have returned to markets**. In particular, the VIX spiked to reasonably high levels yesterday (29.56% intra-day, see FIG 1e), as did the VVIX (the volatility of the VIX, see FIG 1f). The inversion of the VIX curve therefore increased further (i.e. with spot VIX trading notably above longer dated VIX futures, see FIG 1d).

Elsewhere, and consistent with concerns in markets about a US recession (see HERE), there was a sharp widening of high yield spreads yesterday (both in the US & Europe), a marked rally in US Treasuries, and further repricing at the front end of the US rates curve (which is now expects ~80bps of Fed cuts this year, see FIG 1h).

As such the key question is: How advanced is this SELL-off? Has 'wave 1' of this pullback* finished? In particular, given those emerging signs of fear/panic (i.e. contrarian BUY signals), is a 'wave 2' relief rally about to start?

The arguments are finely balanced. Usually, though, in these environments of heightened volatility, our short term risk appetite models generate timely signals. Yesterday, in that respect, those models were **on/close to SELL** and, having moved lower overnight, are now NEUTRAL (see FIGs 3 – 3b). They therefore highlight the risk of further near term downside in markets (given that they are not back on BUY).

Added to which, both the DAX and CBOE put to call models are NEUTRAL (FIGs 4 & 4a). Despite some signs of emerging panic, therefore, portfolios are **not currently well protected to the downside**. Elsewhere, the DAX is not technically oversold (see FIG 2), the VDAX (implied DAX volatility) has not spiked to especially high levels (FIG 1g); and the DAX is notably over-extended to the upside (see FIG 1b).

On balance, therefore, **the risk reward favours staying SHORT the DAX**, please see above for detailed recommendation.

Risks are multiple and include the possibility that 'wave 2' of this pullback is about to start. We would note, in that respect, that price action in the DAX has been reasonably resilient (with higher lows and higher highs since late February, see FIG 1a). Other (two way) risks are multiple and include tomorrow's US CPI release for February.

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

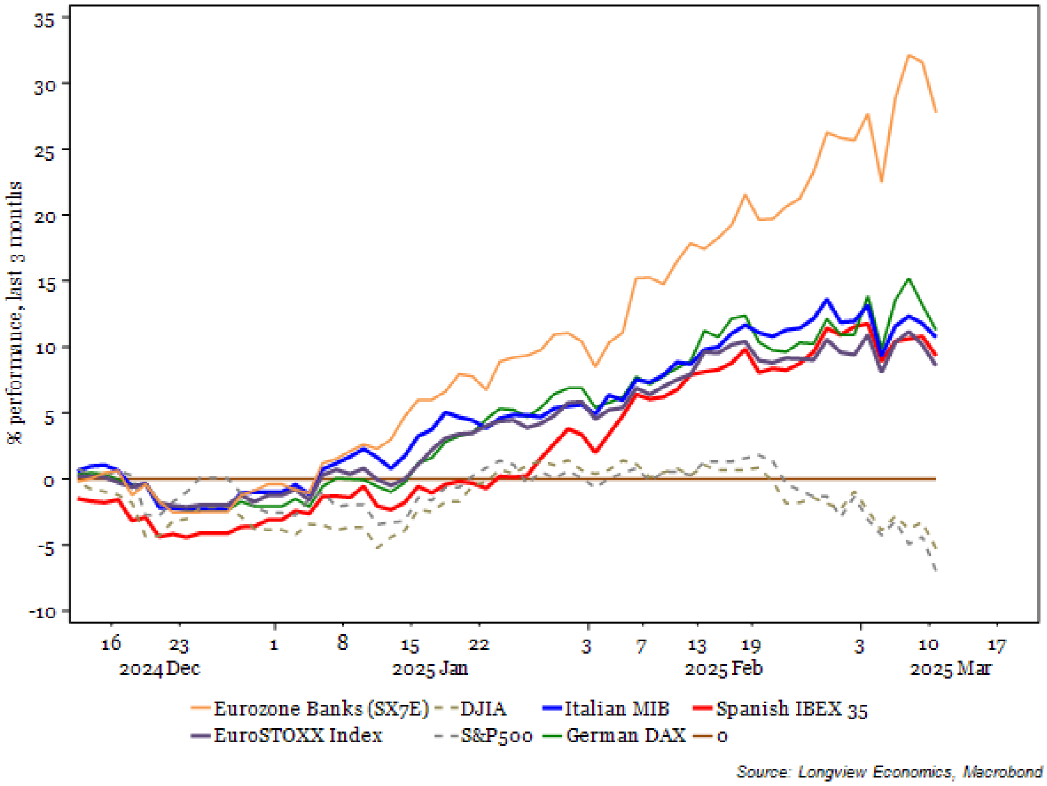
Kind regards,

The team @ Longview Economics

*NB most pullbacks consist of three waves. A three wave SELL-off pattern is comprised of i) an initial pullback (wave 1); ii) a relief rally (wave 2); and then iii) a final leg lower during which the index breaks below the lows from wave 1 (i.e. wave 3). In SELL-offs in bear markets, i.e. when the down trend is dominant, SELL-offs often consist of 5 waves instead of 3.

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: Various US/European equity indices (last 3 months' performance, local currency, %)



Source: Longview Economics, Macrobond

FIG 1a: DAX March 2025 futures 30 day tick chart shown with overnight price action

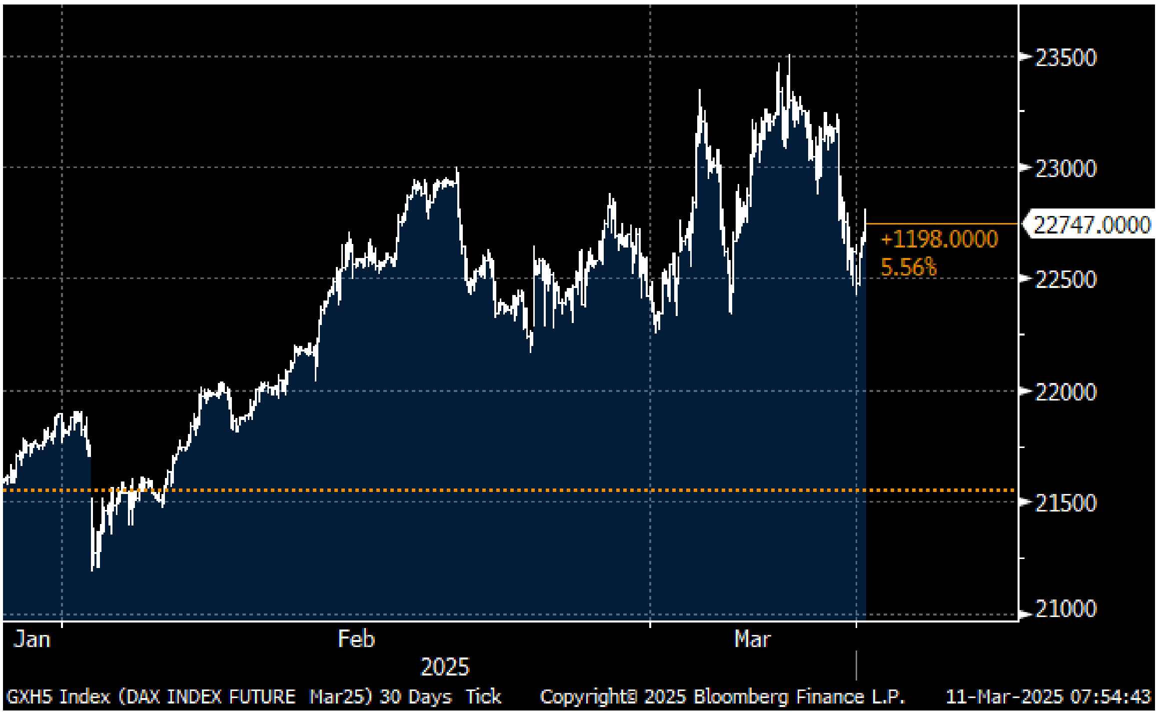


FIG 1b: DAX overextended indicator (50 day moving average relative to underlying index price) vs. DAX index

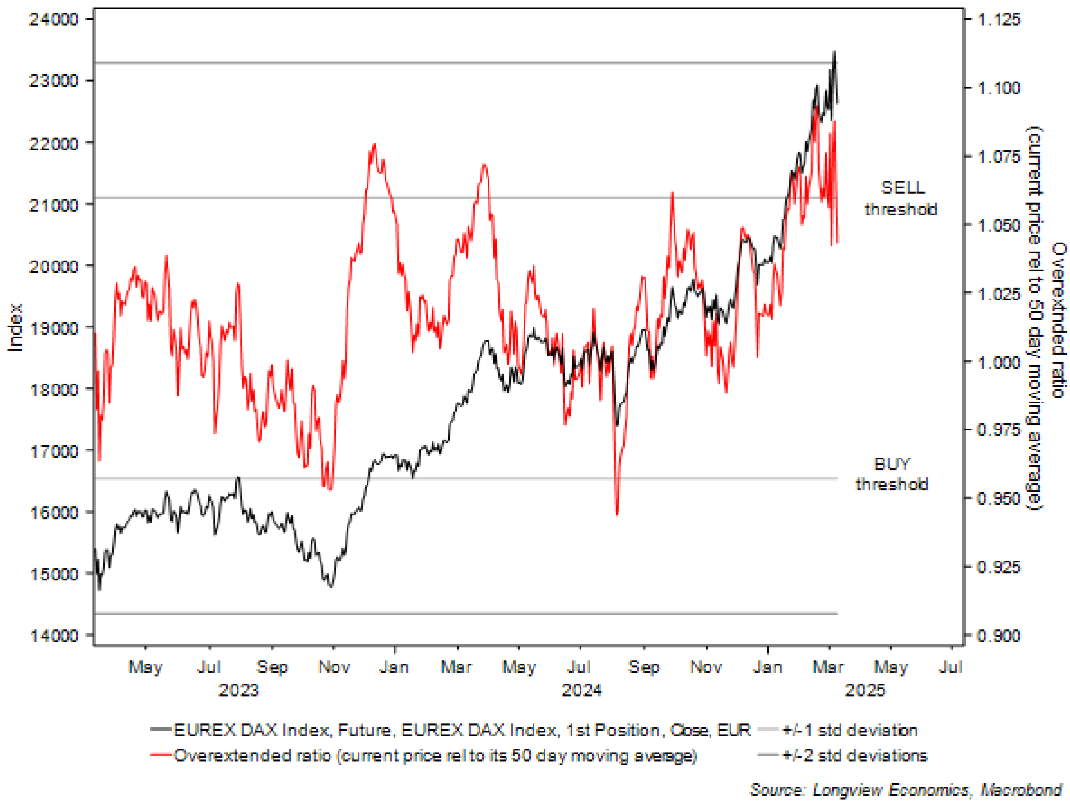


FIG 1c: S&P500 futures candlestick chart, shown with 50 & 200 day moving averages

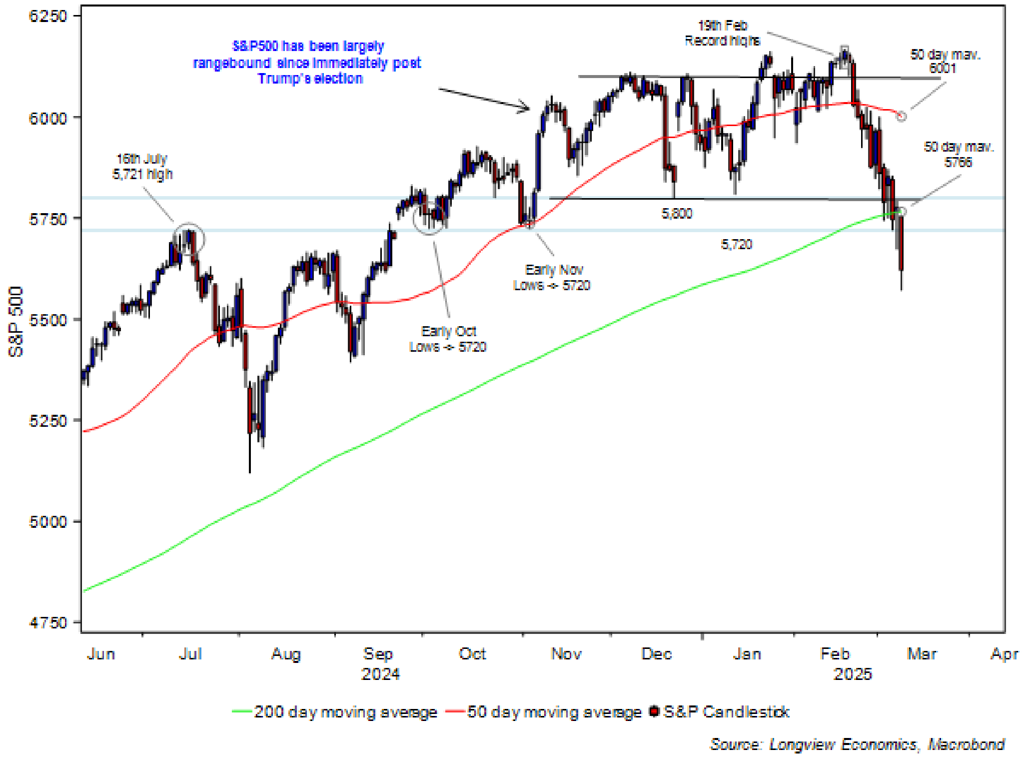


FIG 1d: Steepness of VIX curve (6 month less 1 month VIX futures) vs. S&P500

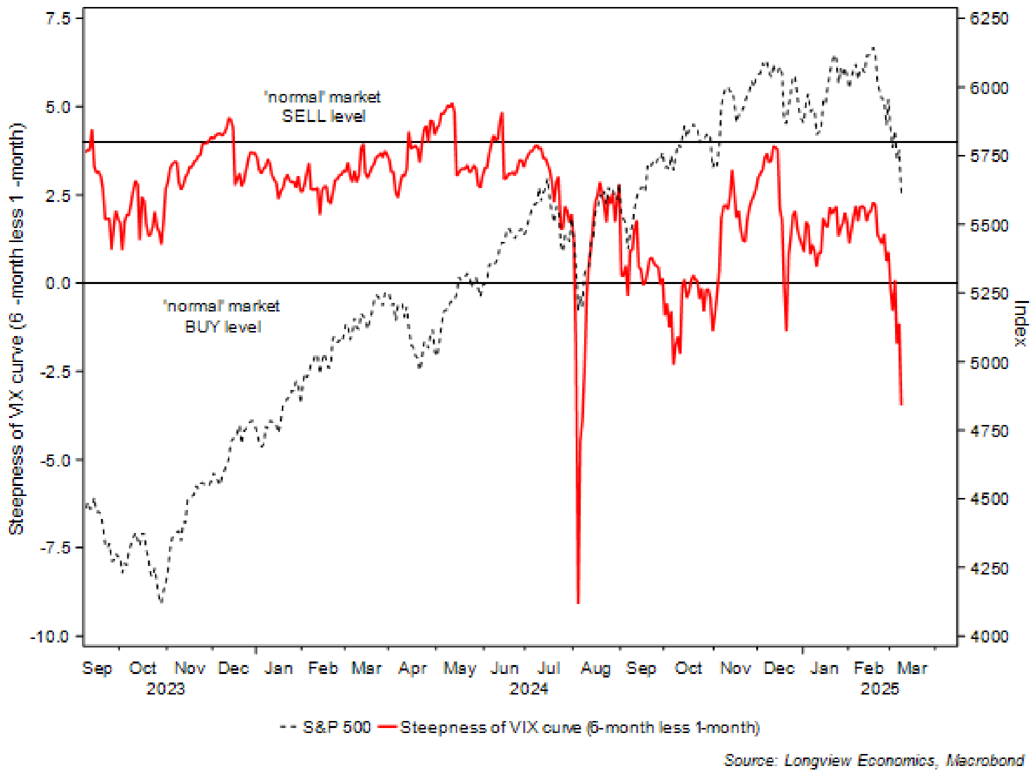


FIG 1e: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

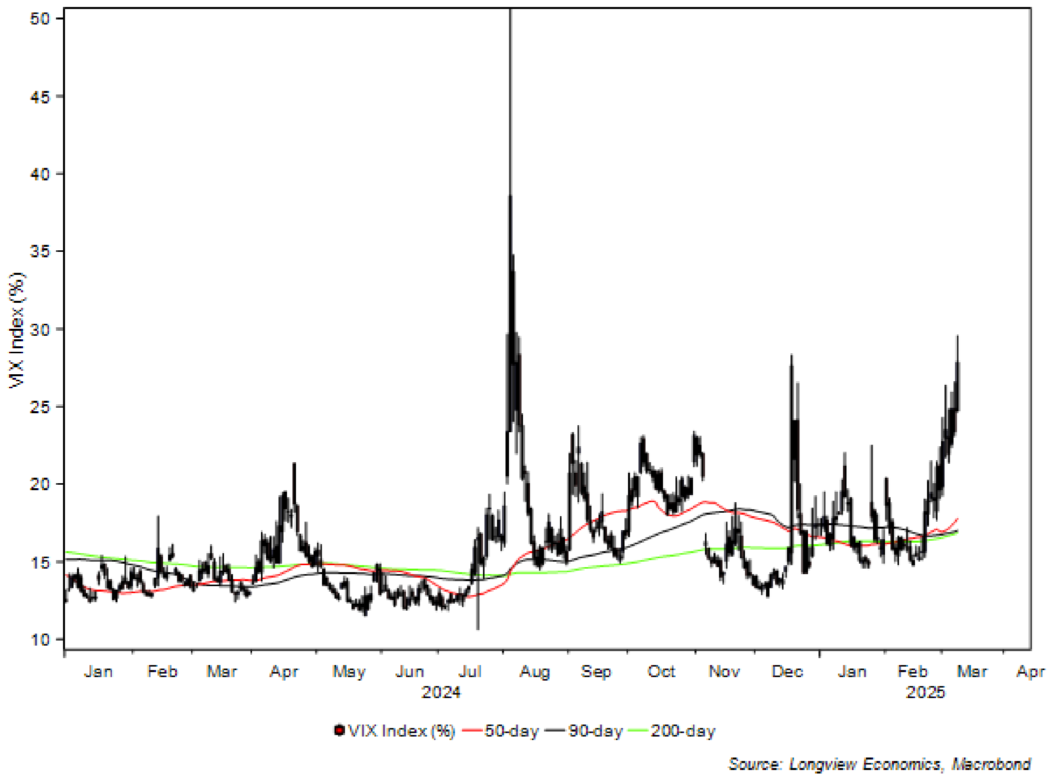


FIG 1f: VVIX candlestick shown with 50 & 200 day moving averages (%)

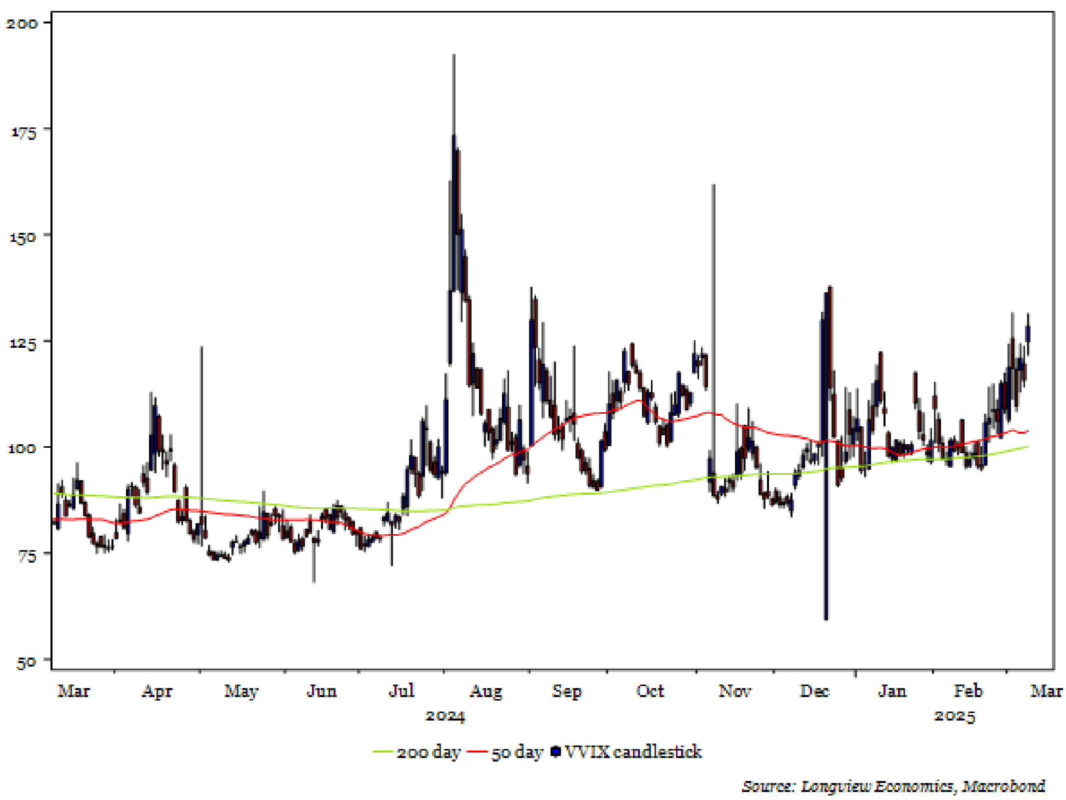


FIG 1g: VDAX (implied volatility of the DAX, %)

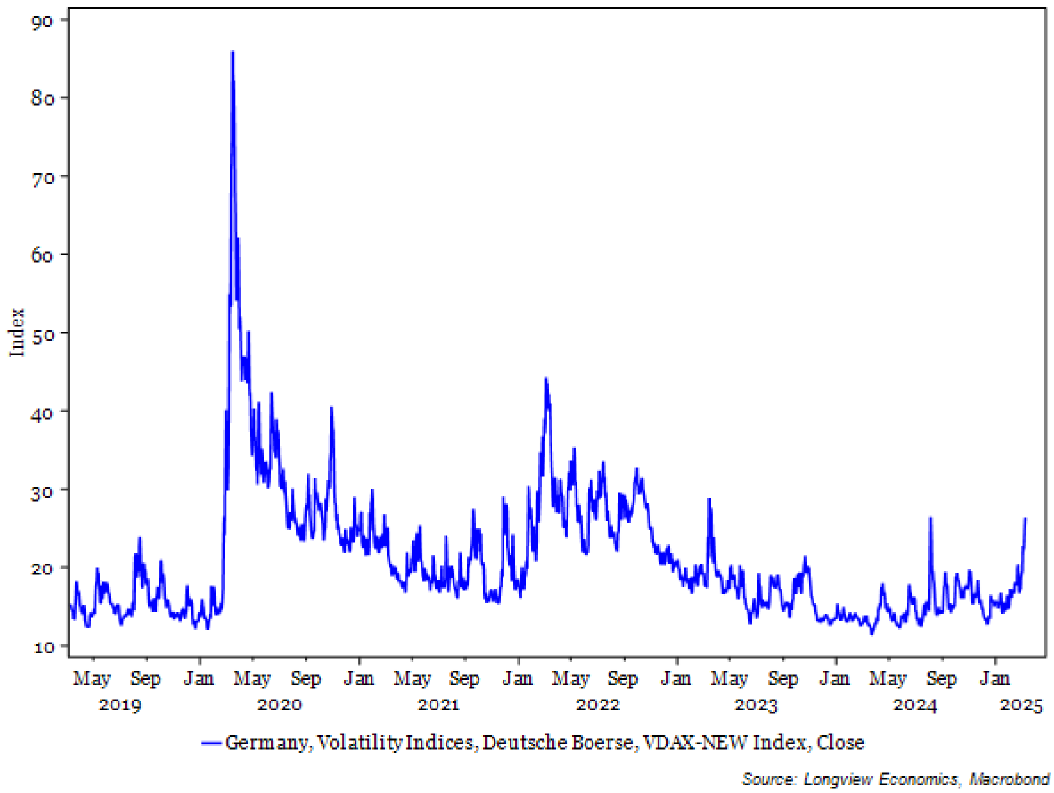
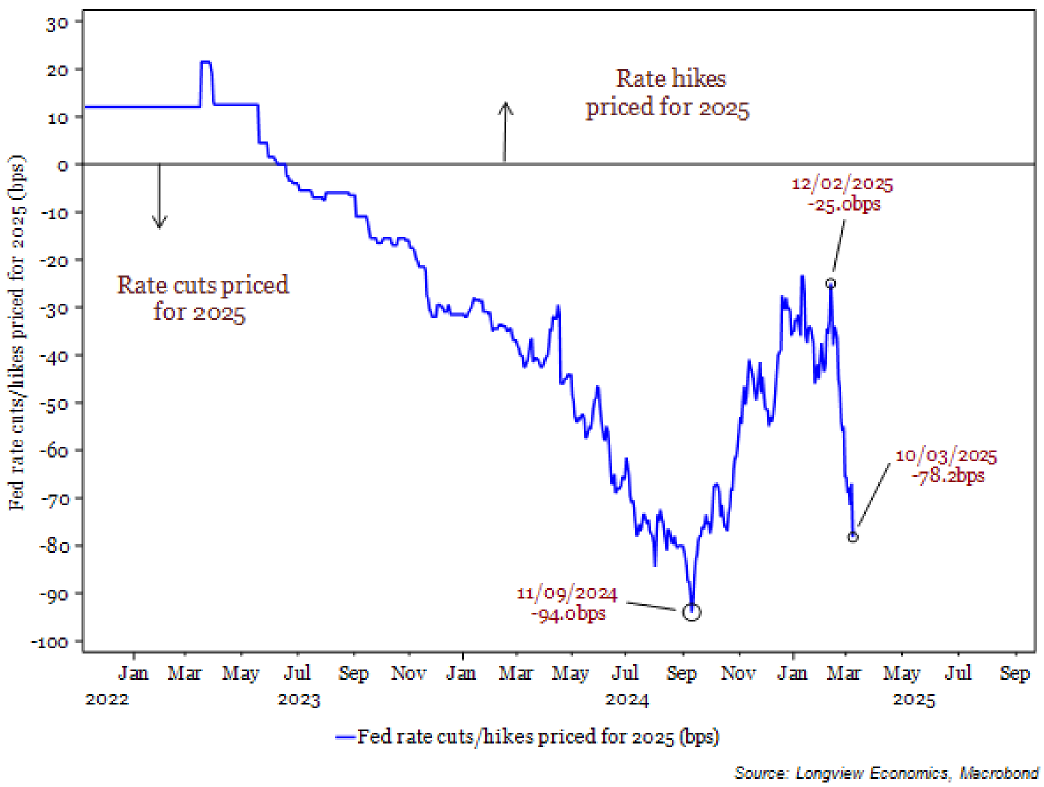
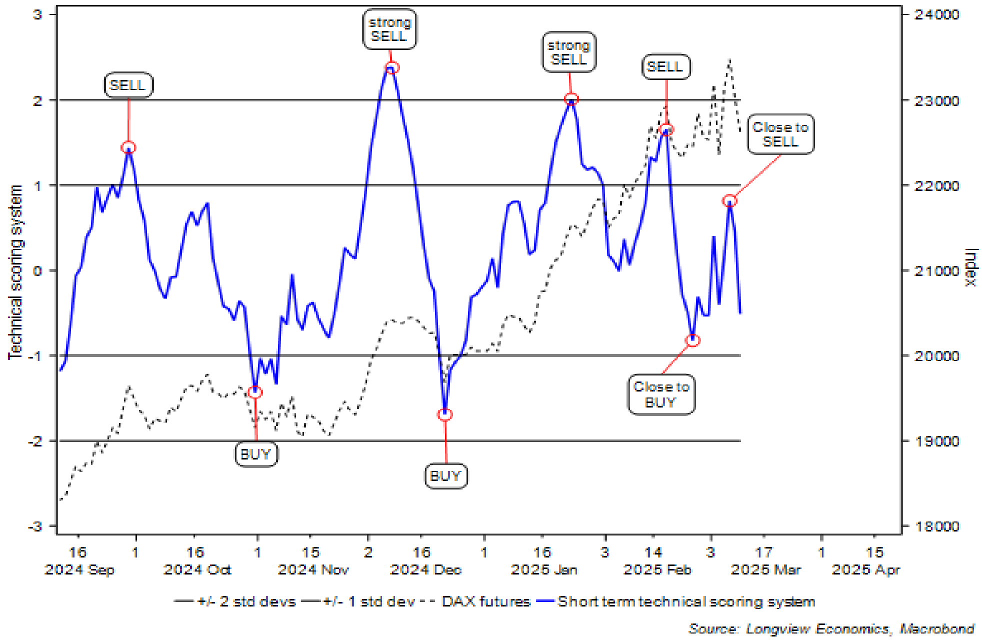


FIG 1h: Fed rate cuts/hikes priced for 2025 (bps)



Short term DAX specific models are on/close to SELL….

FIG 2: Longview DAX short term **'technical'** scoring system vs. DAX futures



Short term risk appetite models are NEUTRAL (having been on SELL yesterday)

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

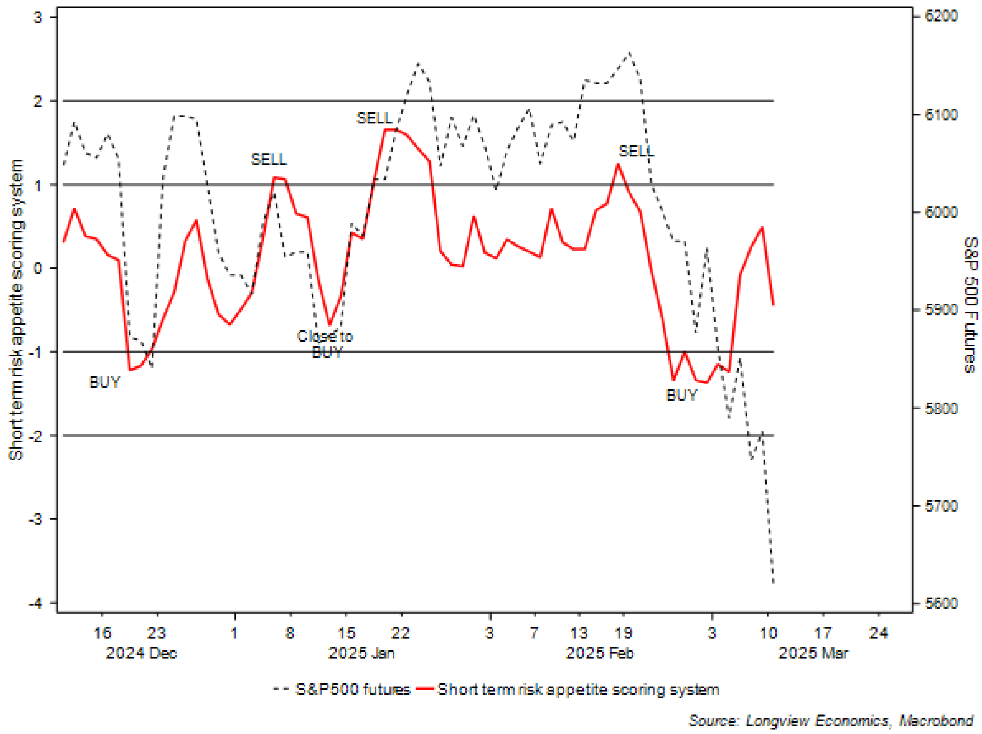
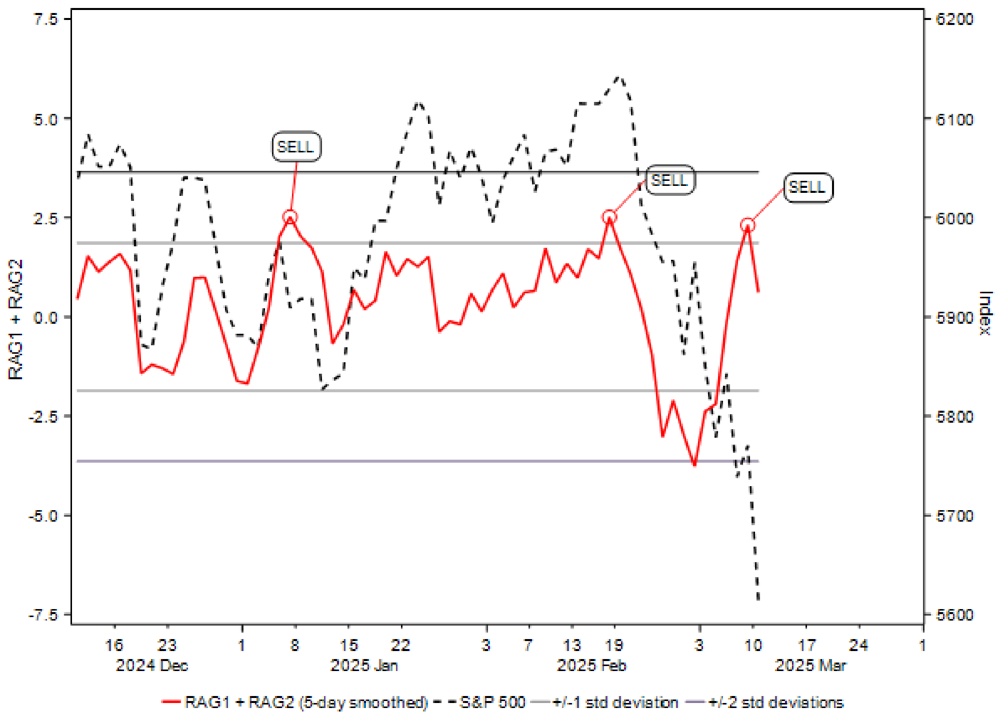
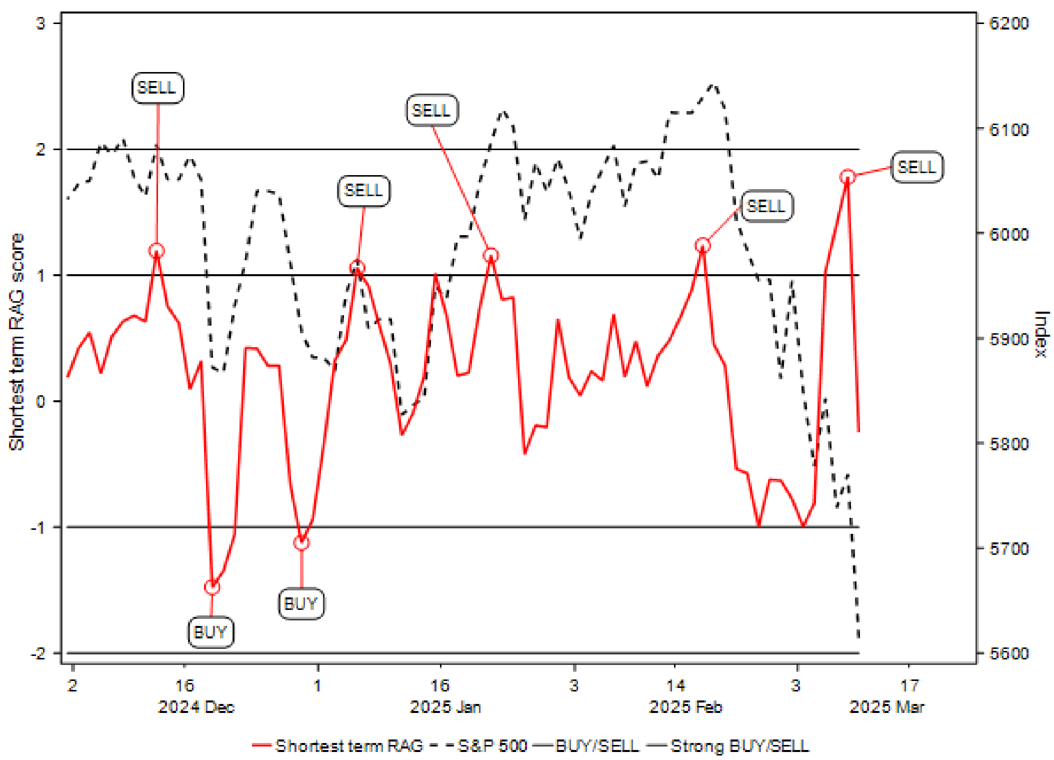


FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

FIG 3b: Shortest term RAG vs. S&P500



Source: Longview Economics, Macrobond

Put to call ratio indicators are NEUTRAL

FIG 4: DAX30 calls less puts indicator (3 day smoothed) vs. DAX30 index

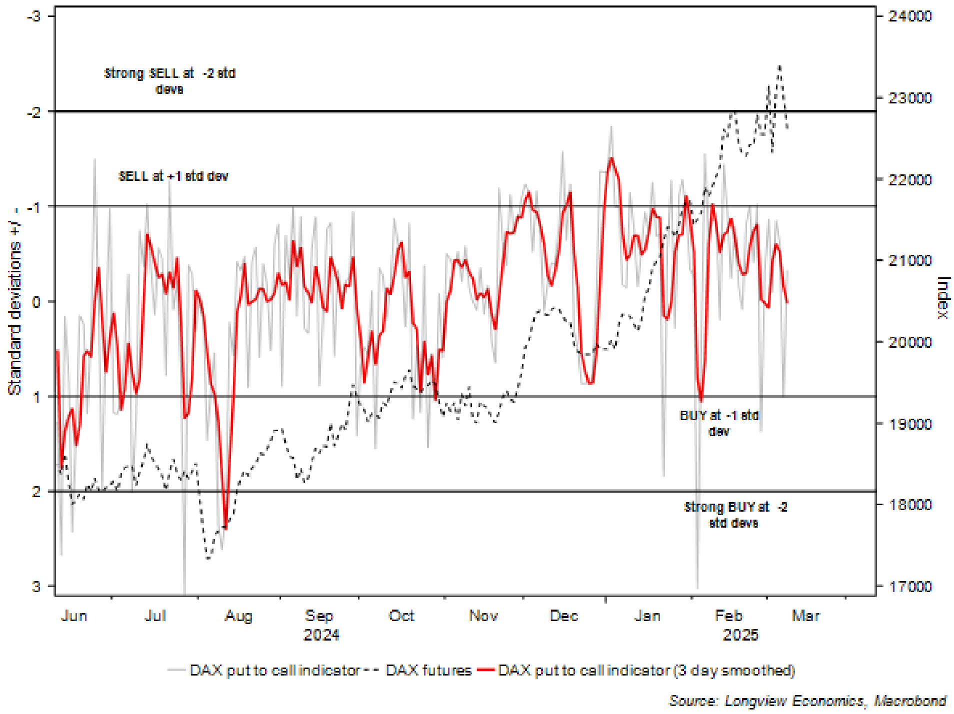
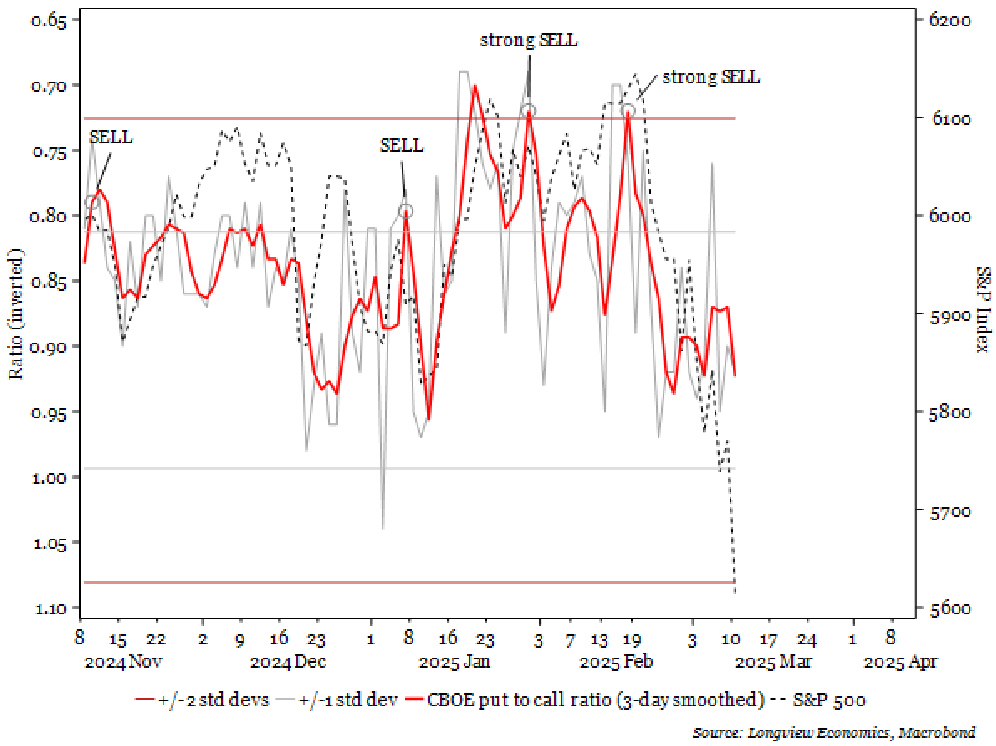


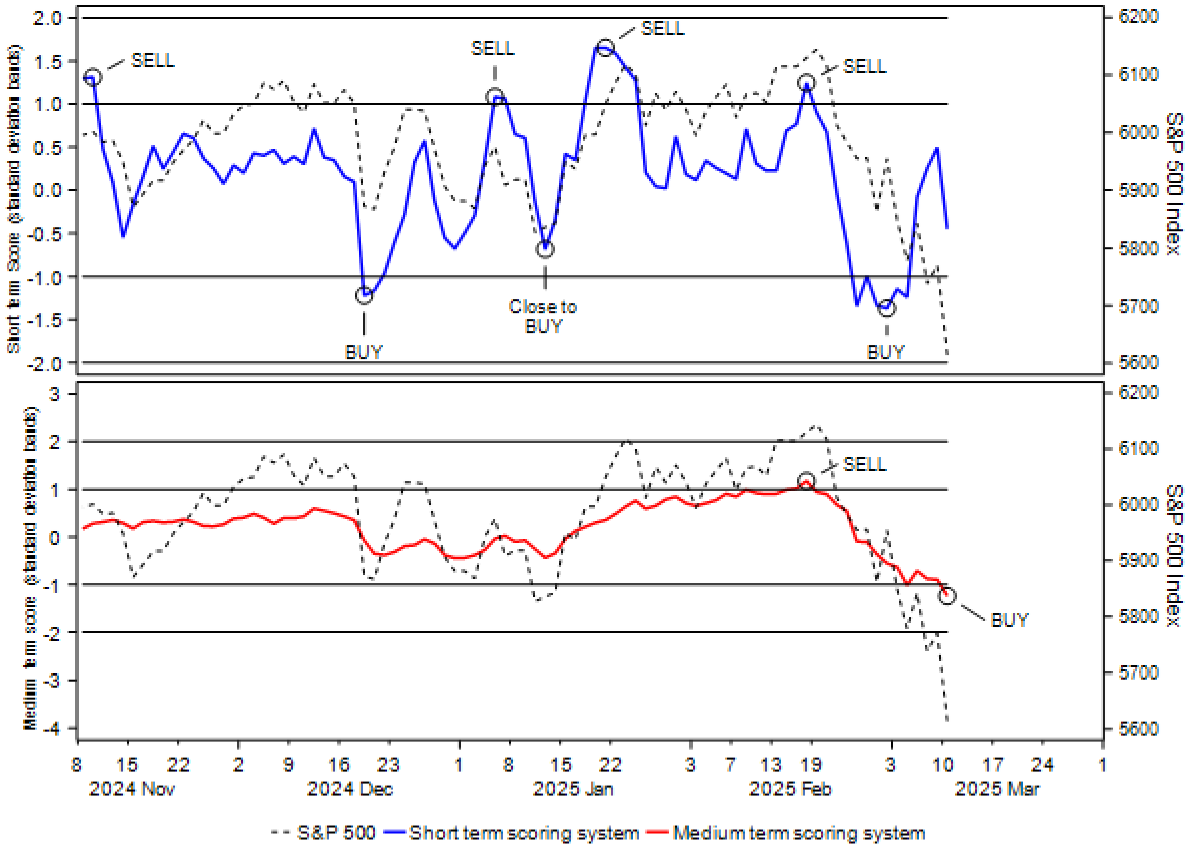
FIG 4a: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



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

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

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: **Japanese ESRI leading index** (Jan first estimate, 5am); **German industrial production** (Jan, 7am); German imports/exports, & trade balance (Jan, 7am); Italian PPI (Jan, 9am); Eurozone Sentix investor confidence (March, 9:30am); New York Fed 1 year inflation expectations (Feb, 4pm); Australian Westpac consumer confidence (Mar, 11:30pm); Japanese household spending (Jan, 11:30pm); **Japanese M2 & M3 money supply** (Feb, 11:50pm); Japanese GDP (Q4 final estimate, 11:50pm).

Key events today include: N/A

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 on 5th March 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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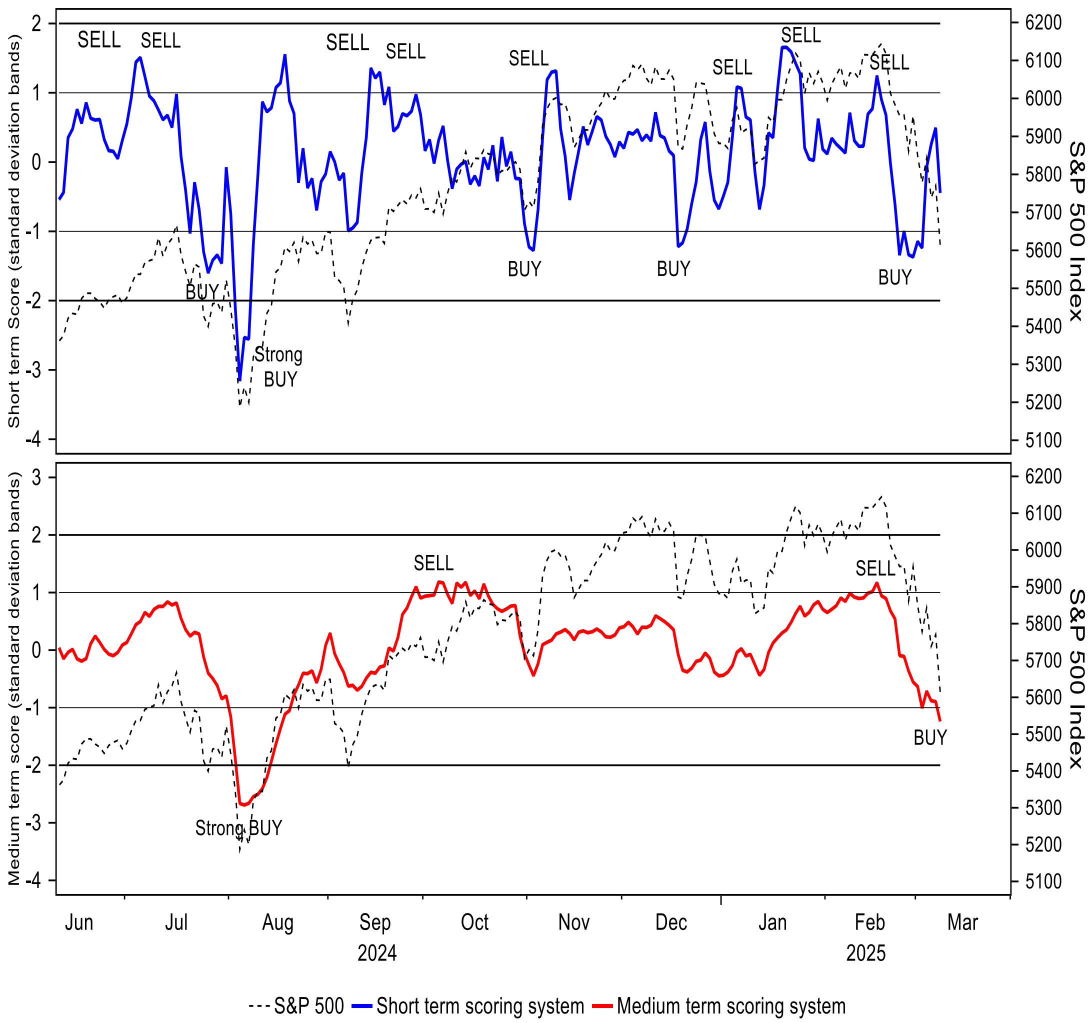
1 – 2 Week View on Risk

11th March 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

Short term scoring system is NEUTRAL

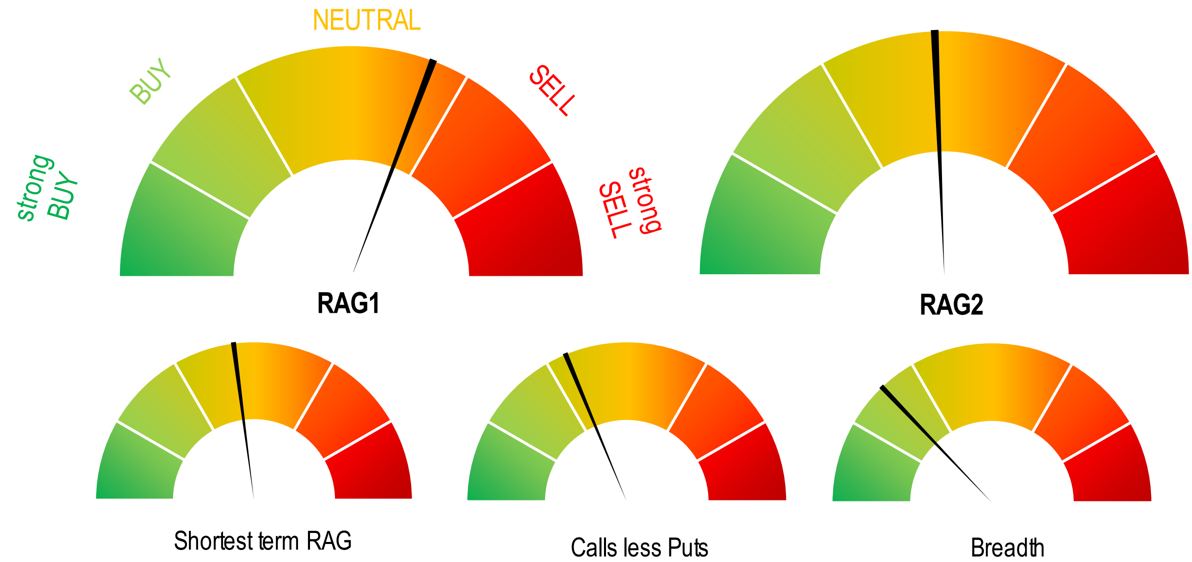
Medium term scoring system is On BUY

*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

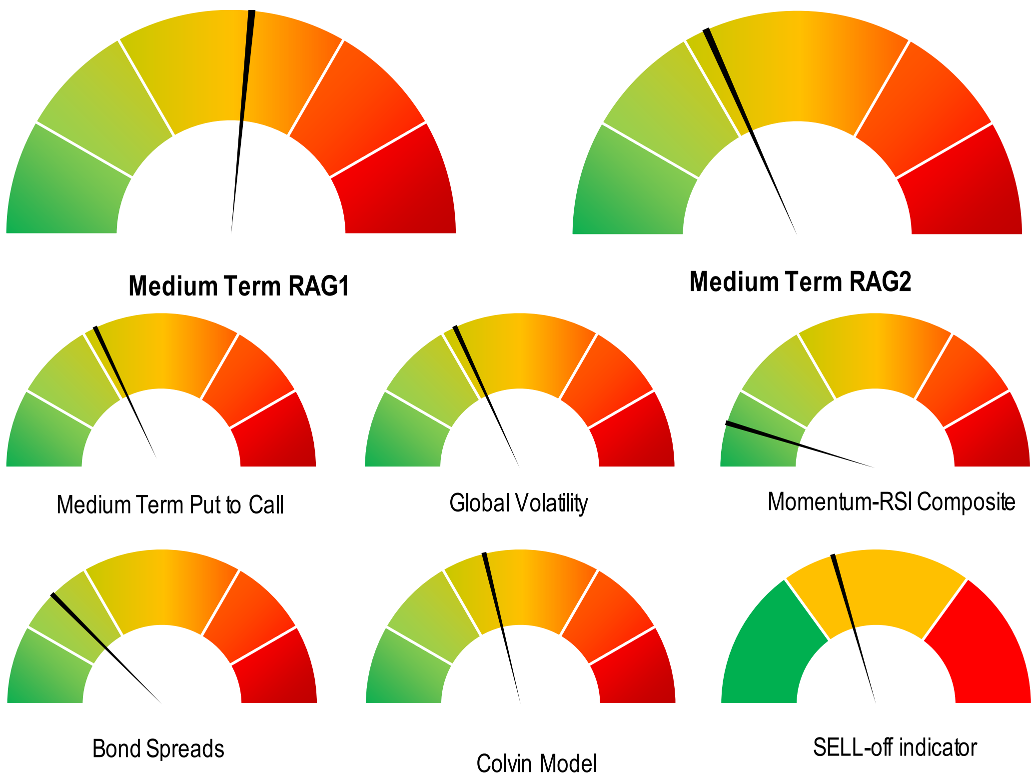
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

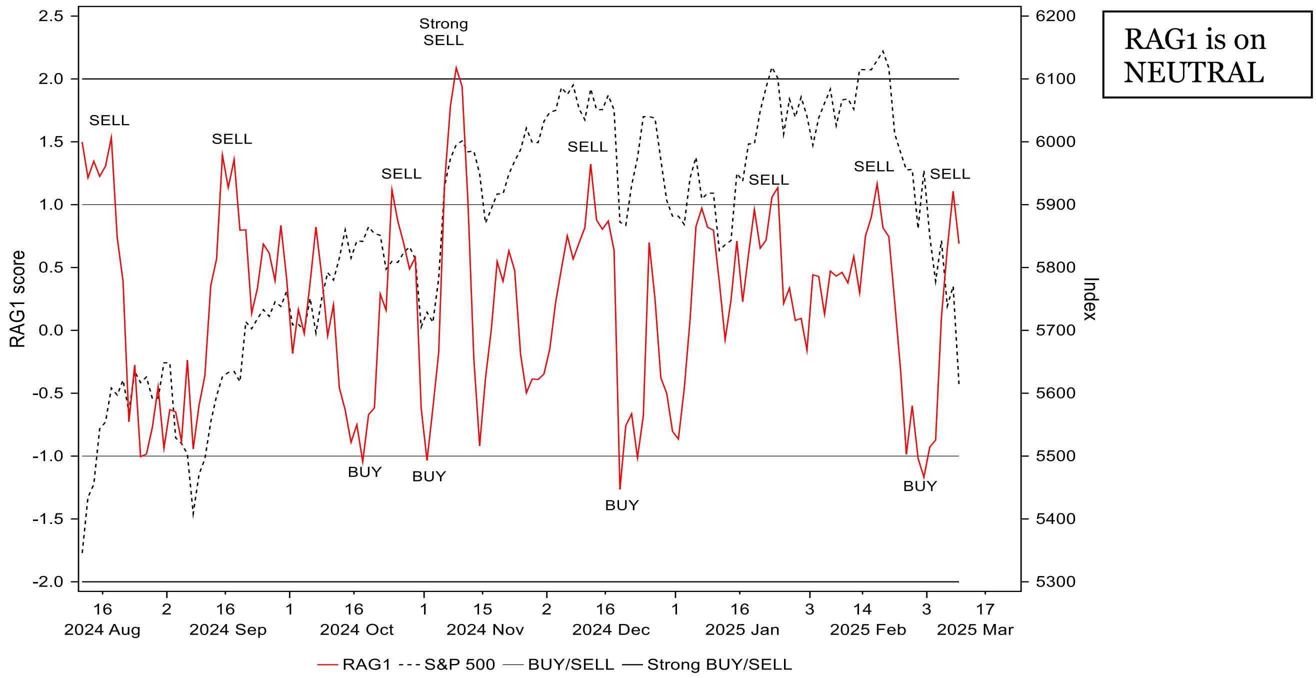
Fig 1b: Medium term models – shown as gauges using standard deviation bands



Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

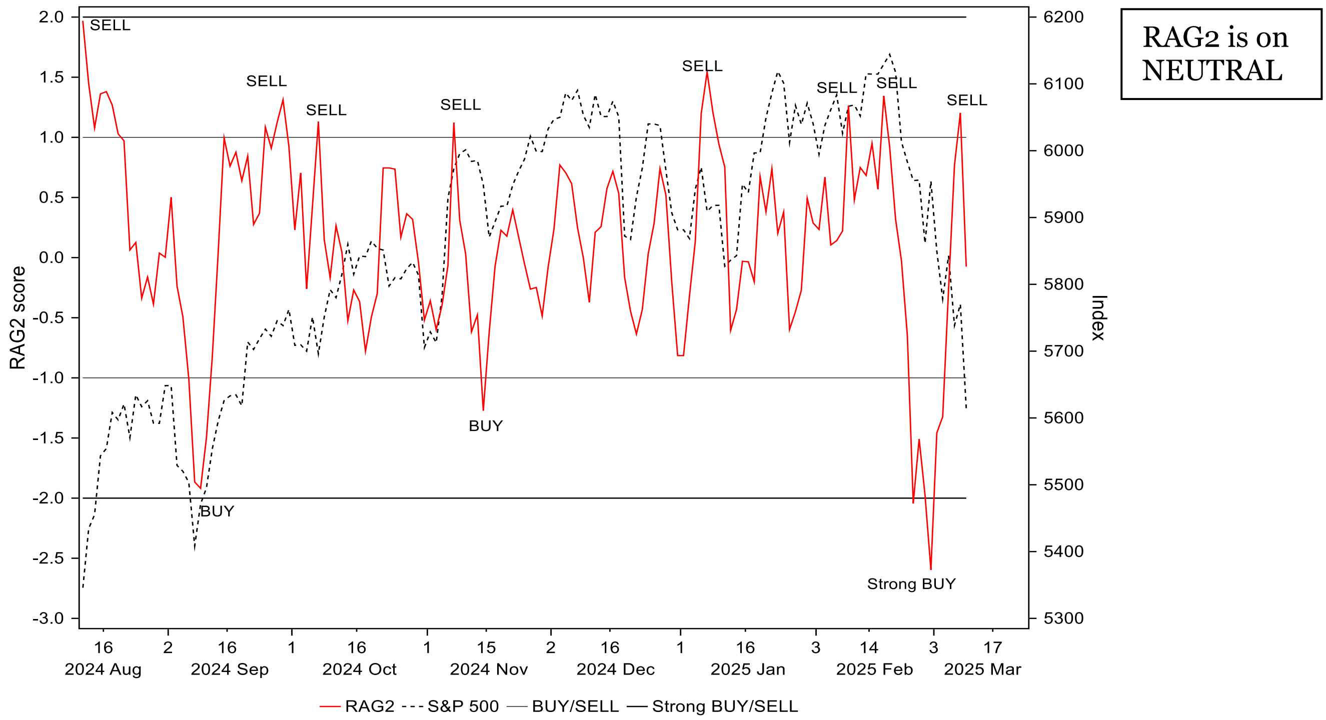
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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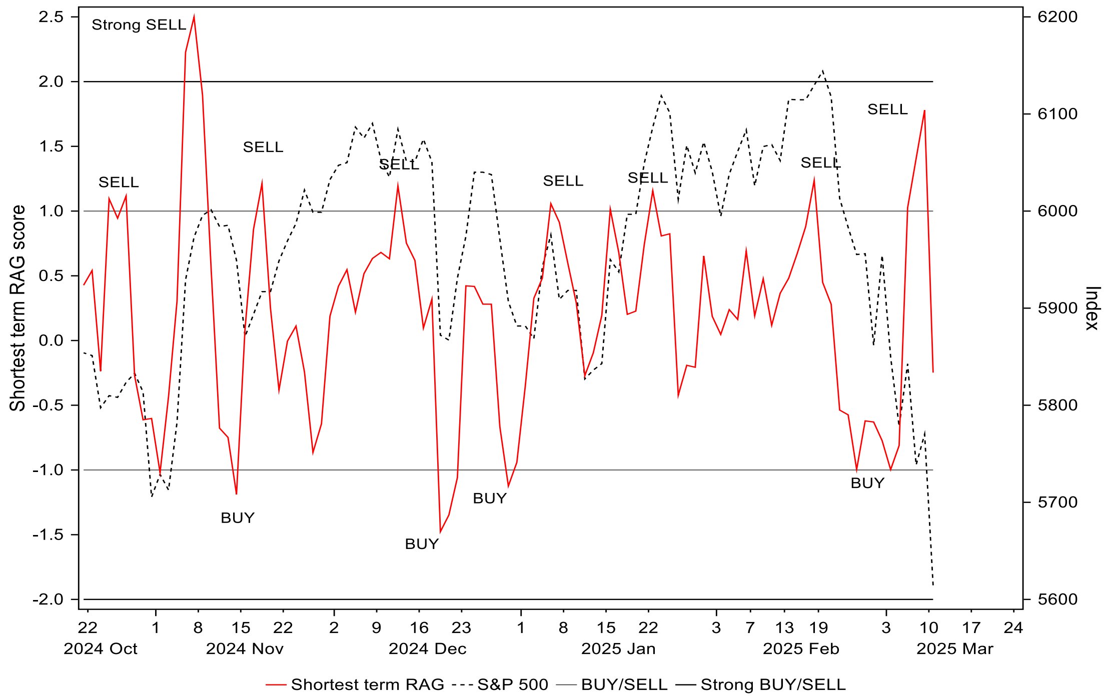
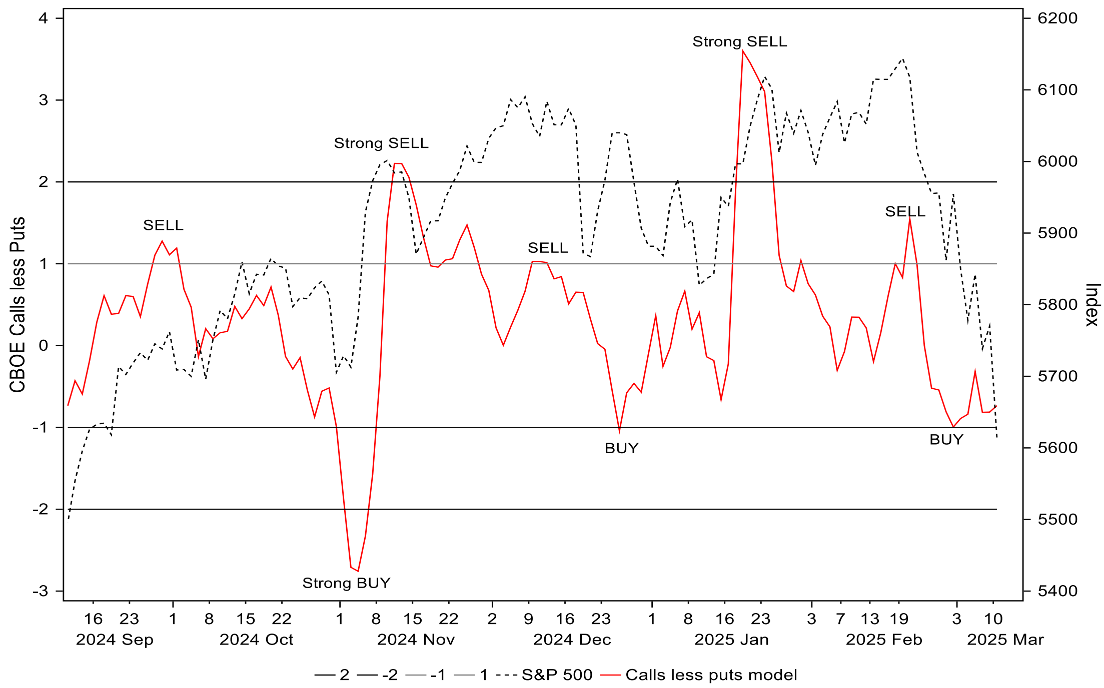
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is on NEUTRAL

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



Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

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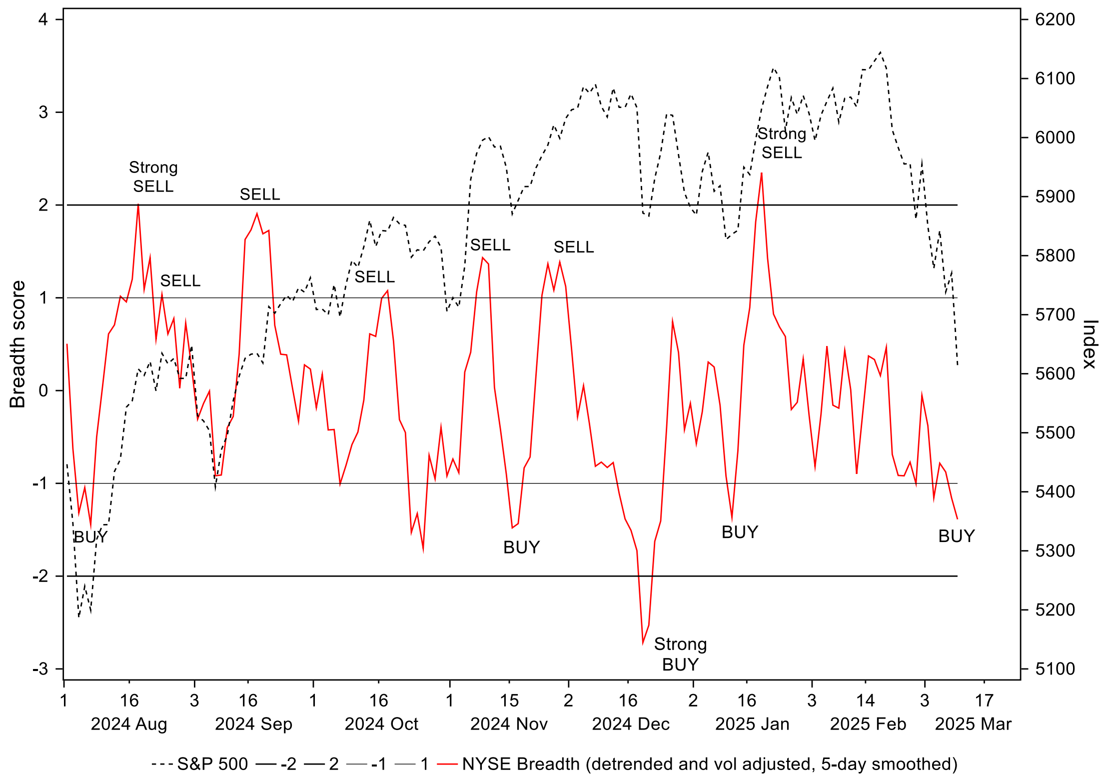
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



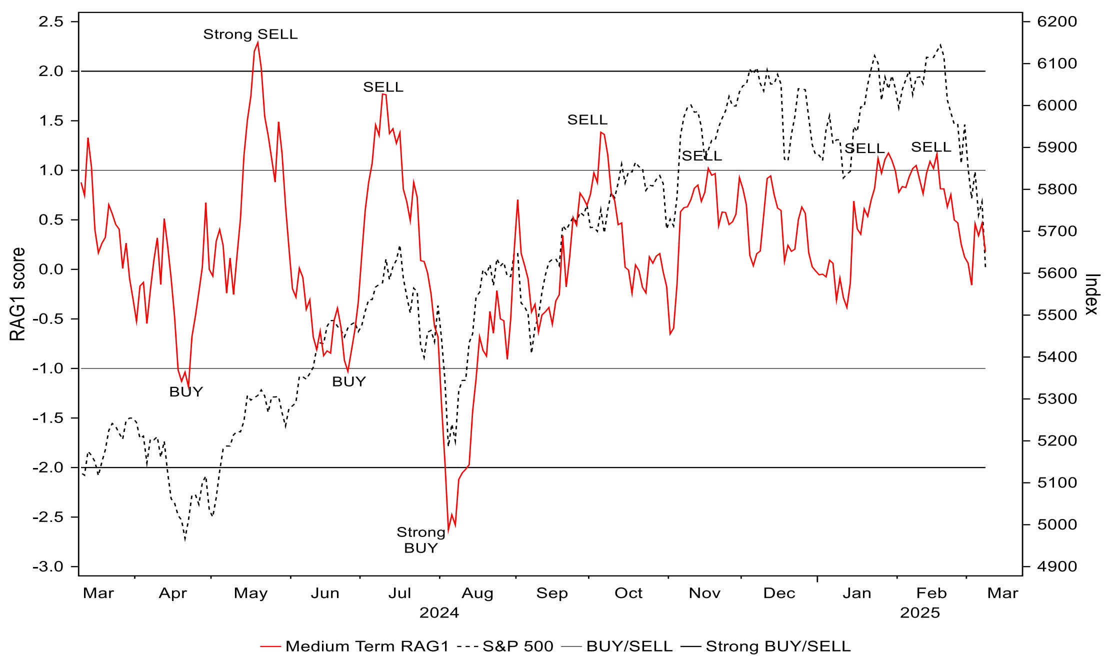
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

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

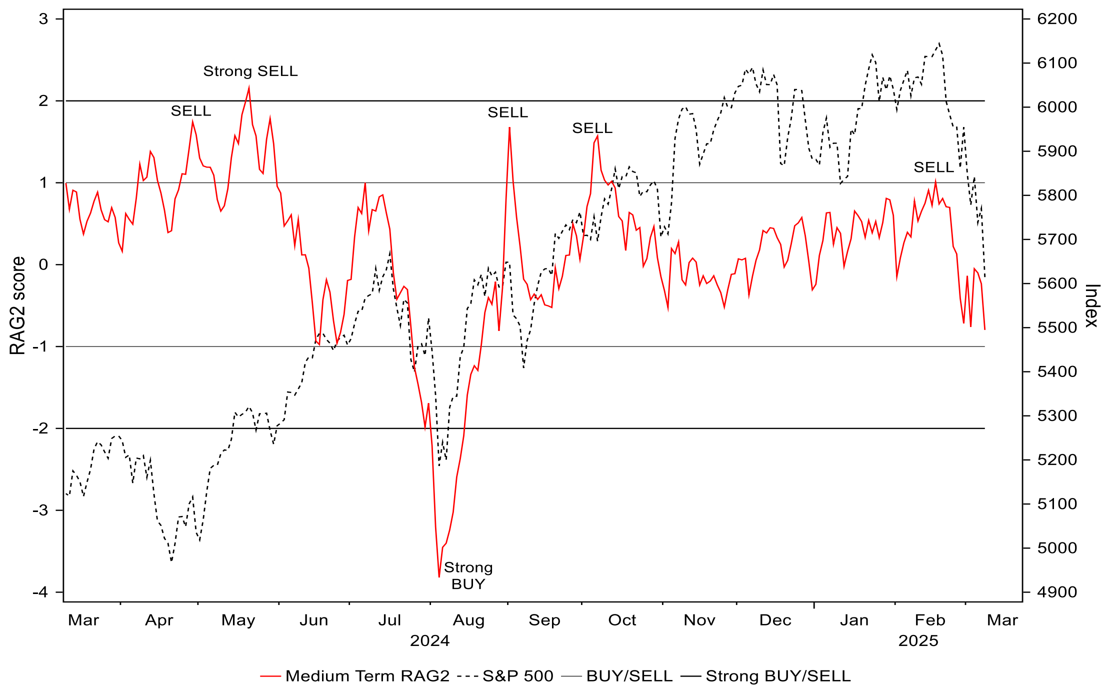
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

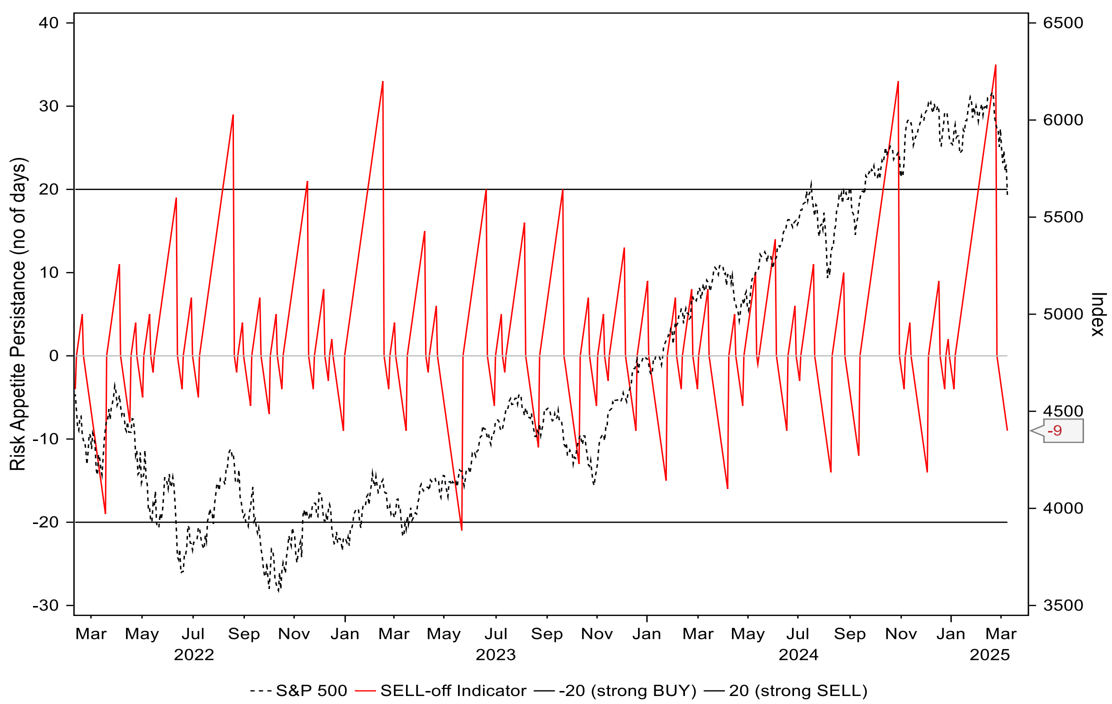


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

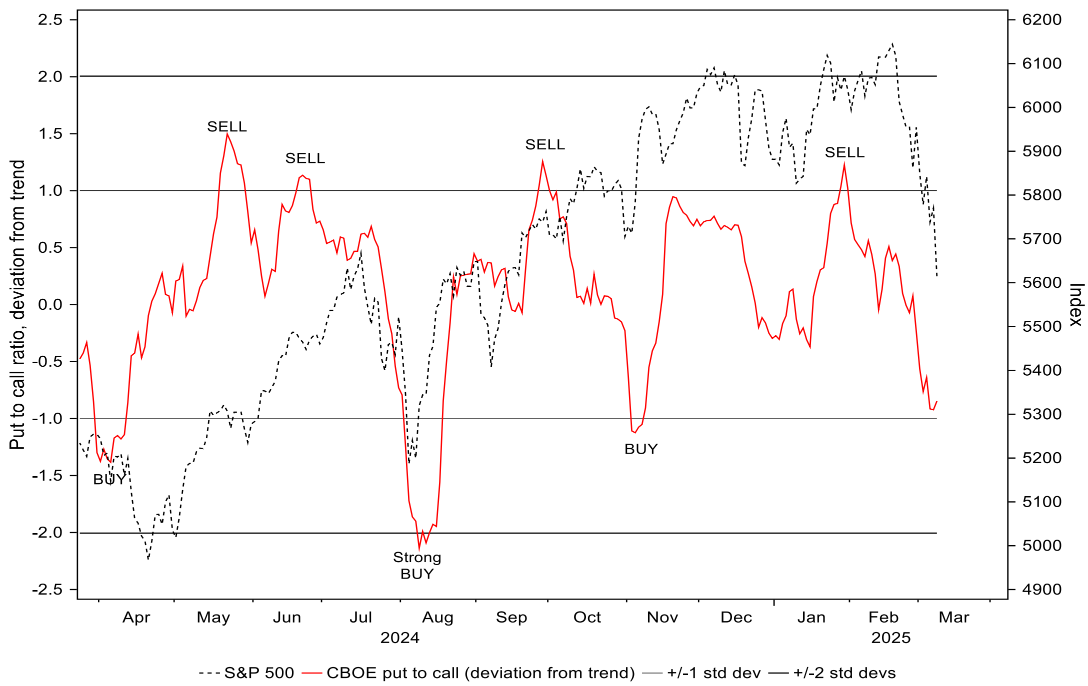
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

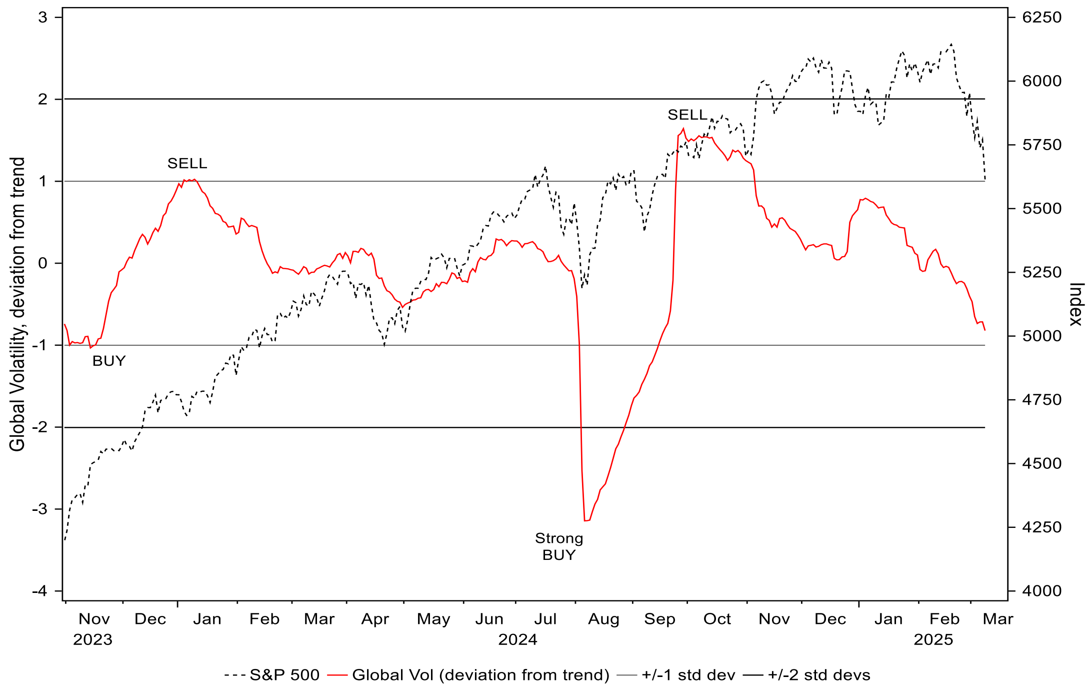
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

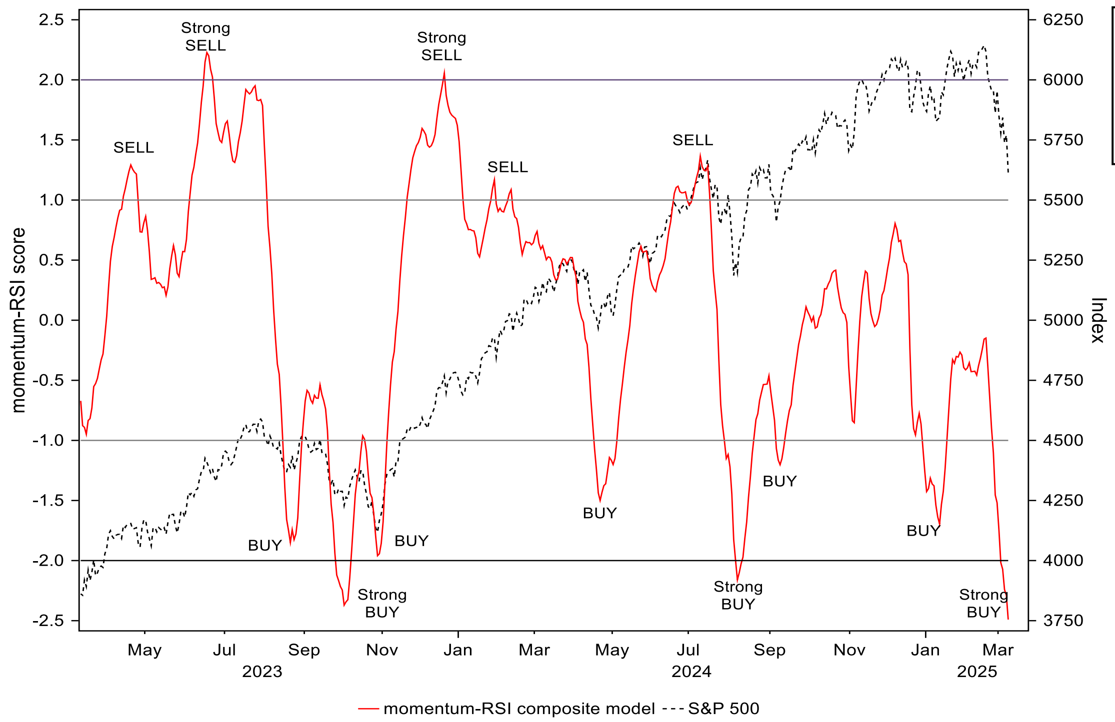
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

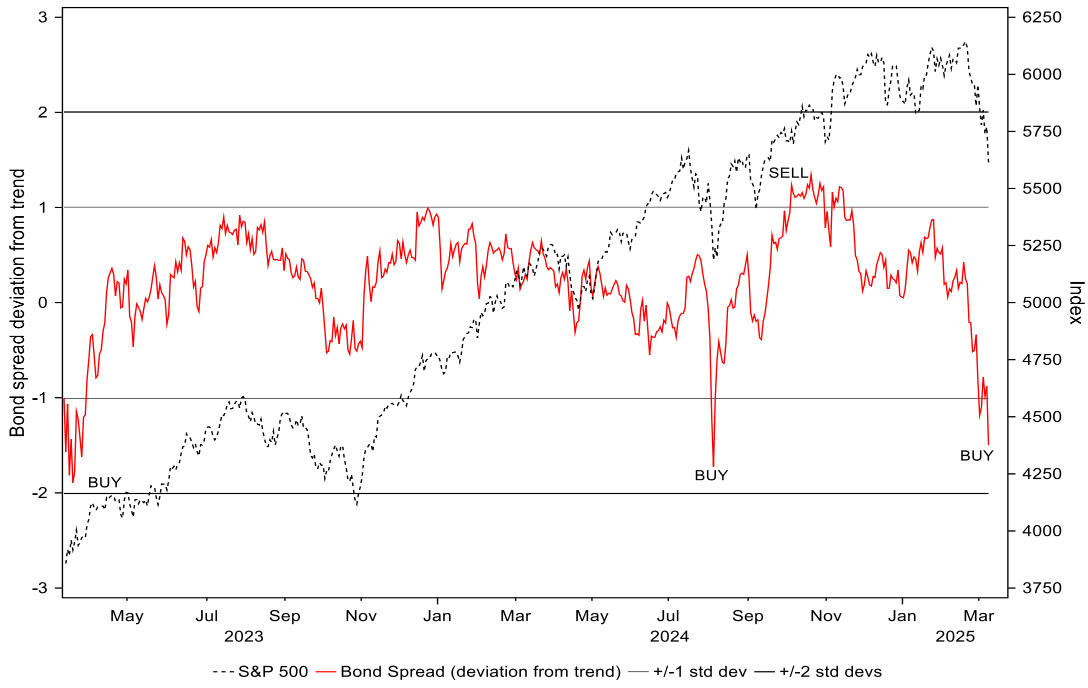
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on Strong BUY

Source: Longview Economics, Macrobond

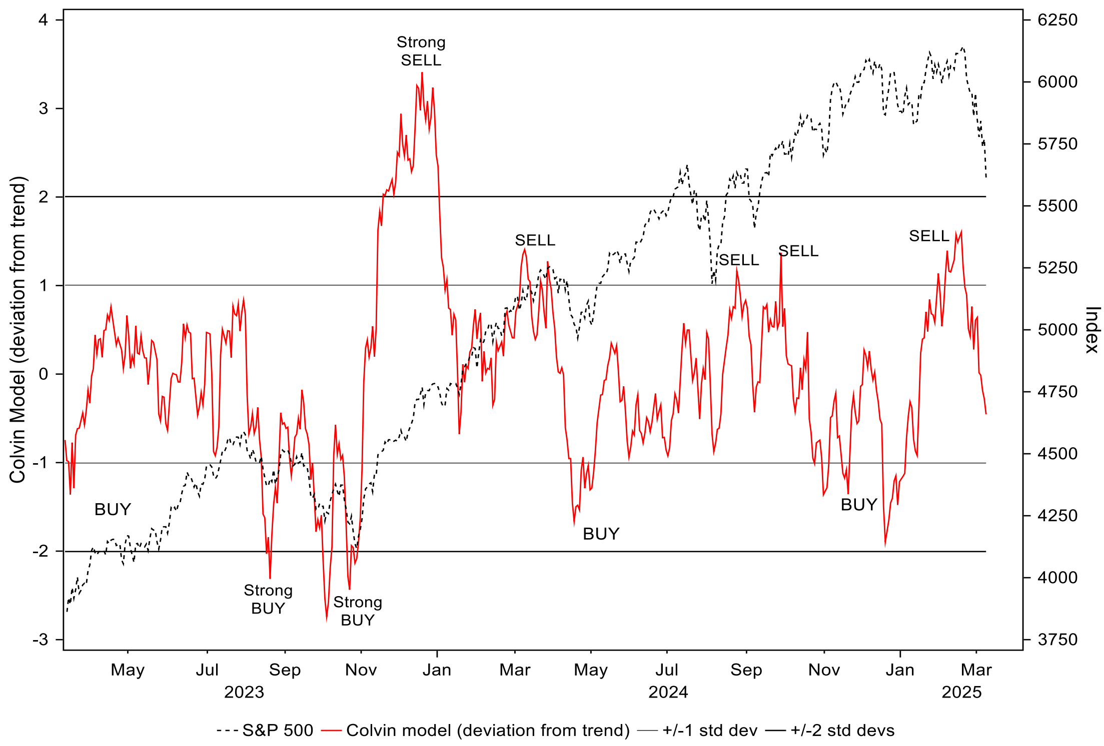
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on BUY

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

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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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