Equity Index Futures Trading Recommendations

12th February 2025

"Stay SHORT SPX - All eyes on CPI"

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

"...policy is "significantly less restrictive"... [and policymakers] "do not need to be in a hurry to adjust" rates further at this point.

Source: J Powell, 11th February 2025 in semi annual testimony to Congress

Yesterday Powell reiterated his key message from the late January press conference. That is, the Fed is in no hurry to cut rates further. With that, US Treasury yields and implied Fed funds rates edged higher again on the session (albeit only modestly). As FIG 1c shows, the market has now priced out ~15bps of cuts for 2025 (since late January). In that time, US equities have struggled to make gains/trended sideways. Yesterday, in that respect, equity market performance was mixed across major indices, with the S&P500 closing flat on the day. Intra-day the index reached 6,098.75 (and as such just missed our order to increase the size of the SHORT SPX position, i.e. at 6,100).

Our view remains unchanged from yesterday. That is, the S&P500 remains in a **near term downtrend**, having made lower lows and lower highs since mid/late January (FIG 1a), and having failed in late January to test/break above its December highs (FIG 1b). Price action is therefore poor/bearish, despite a better than expected earnings season. Indeed, of the 332 S&P500 companies that have reported earnings so far, 255 have surprised to the upside (77%), on average by 6.6% (compared to the average earnings beat of ~4%). That therefore highlights buyer exhaustion in this equity market.

Added to which, our SELL-off indicator continues to build to high levels and **warn of a wave of risk aversion in global markets** (FIG 1d). That signal is supported by other medium term models, which are either on or close to SELL levels (e.g. see FIG 1e). Short term models are mostly NEUTRAL, but with many either on, or leaning towards, SELL. That includes, for example, our risk appetite indicators (close to SELL, see FIGs 3 & 3a), and the CBOE put to call ratio (on SELL, see FIG 4). Elsewhere our key sector and single stock breadth models have rolled over, which is **consistent with fading upside momentum in this equity market** (see FIGs 2 & 2a).

Summarising the overall message from our short and medium term models, our 'combined' risk appetite scoring system remains close to SELL (i.e. having generated a clear SELL signal in late January – see FIG 1).

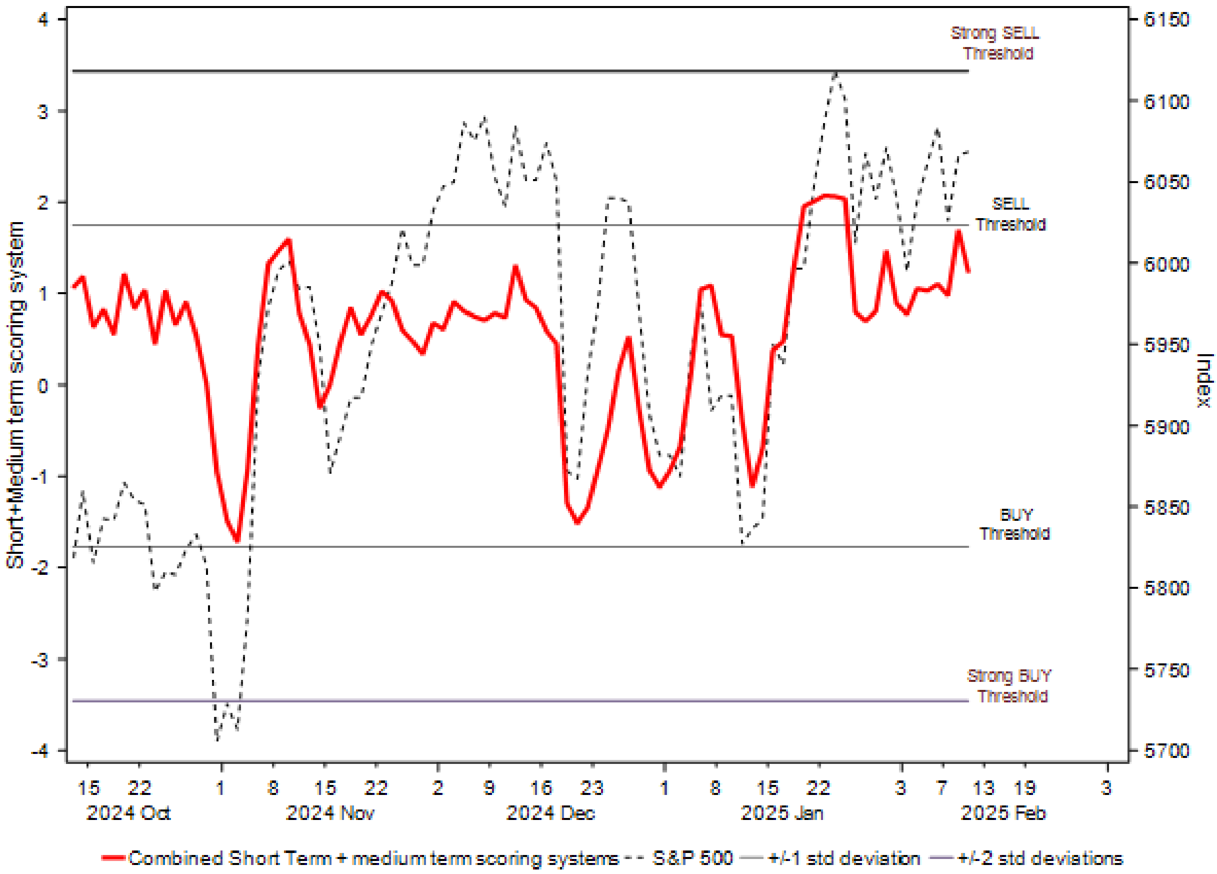
The **risk reward therefore favours staying SHORT**, with an order to increase position size on modest strength (if forthcoming). Please see above for detailed recommendation. Key two way risks to this trade remain multiple and include today's US CPI release (due at 1.30pm London time). Please see below 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: Combined short and medium term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

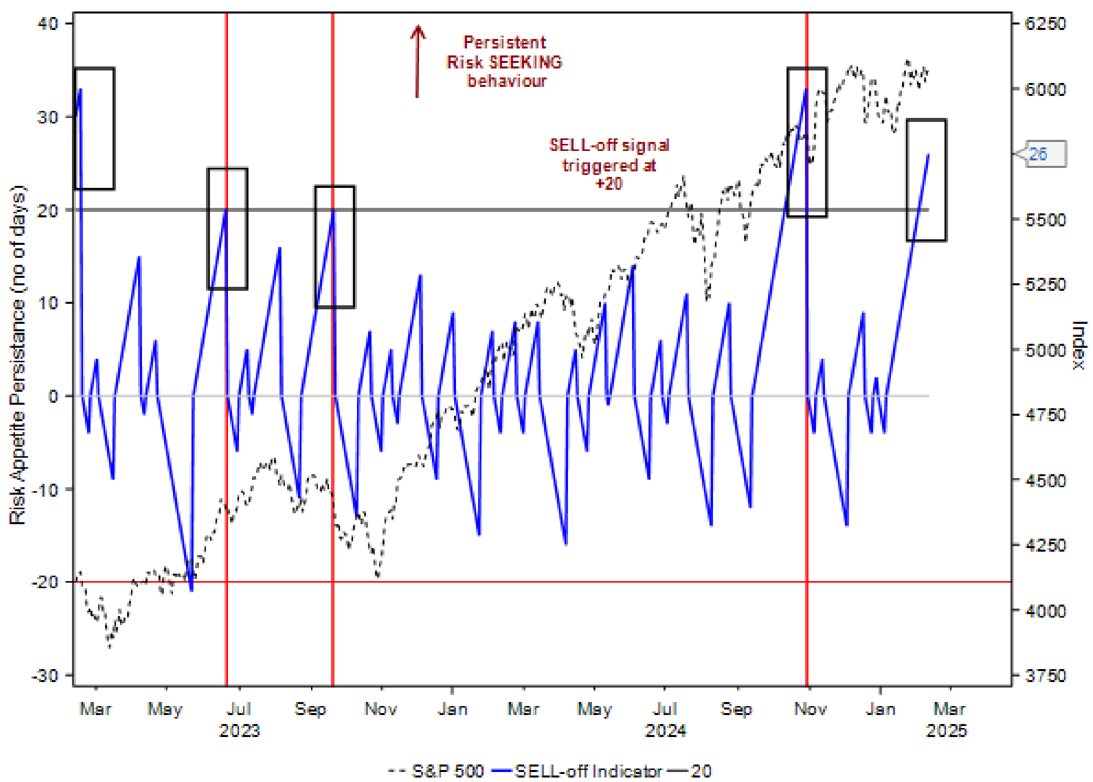
FIG 1a: S&P500 March 2025 futures 30-day tick chart shown with overnight price action

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

FIG 1c: Implied Fed funds rates (December 2025 & 2026, %)

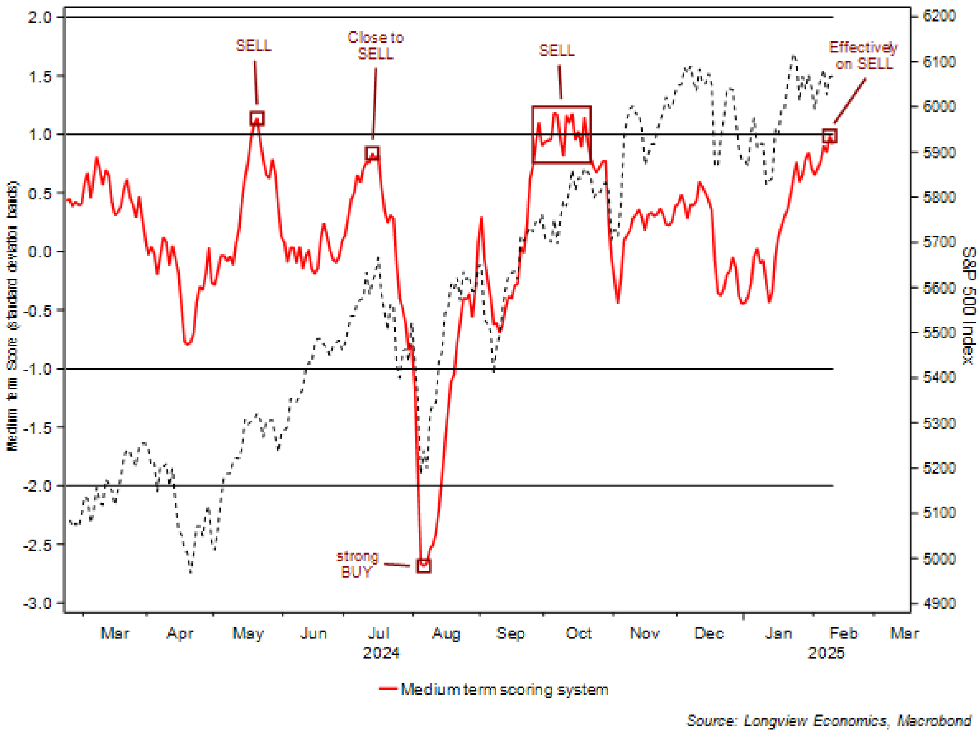
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



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

FIG 2: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500

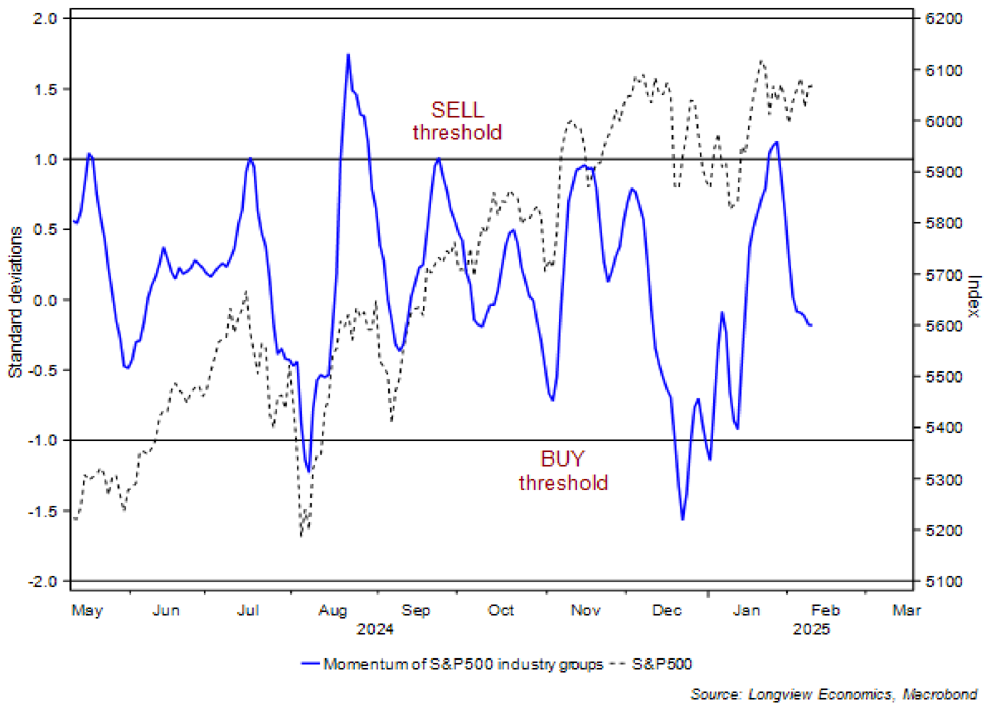
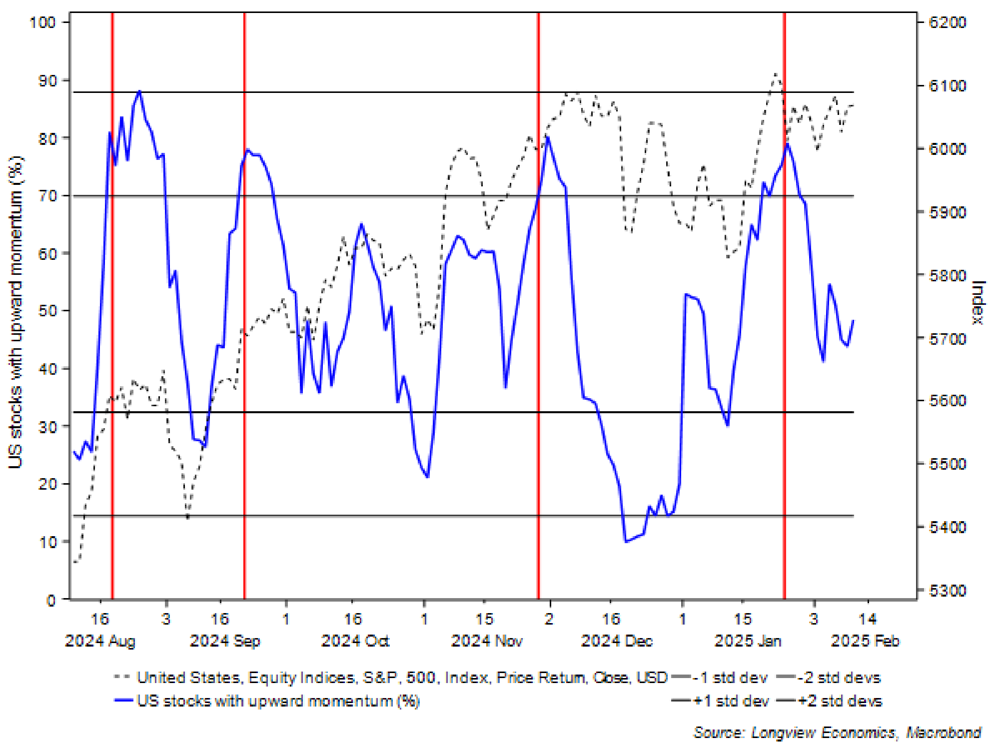


FIG 2a: US S&P500 stocks with upward momentum shown vs. S&P500



Risk appetite models are close to SELL…

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

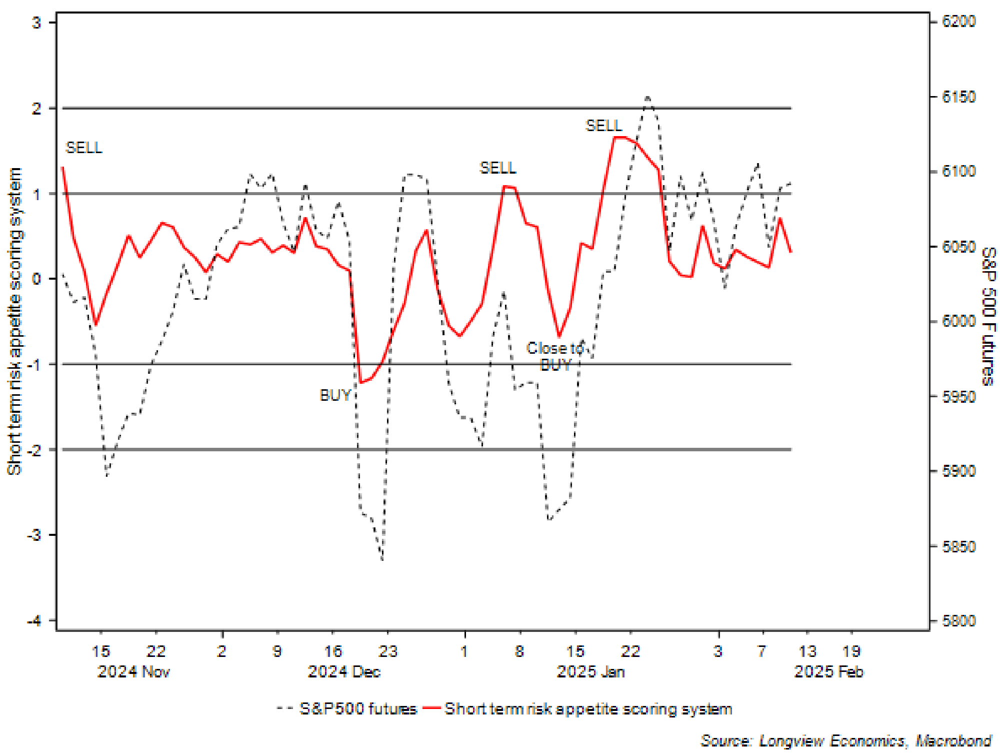
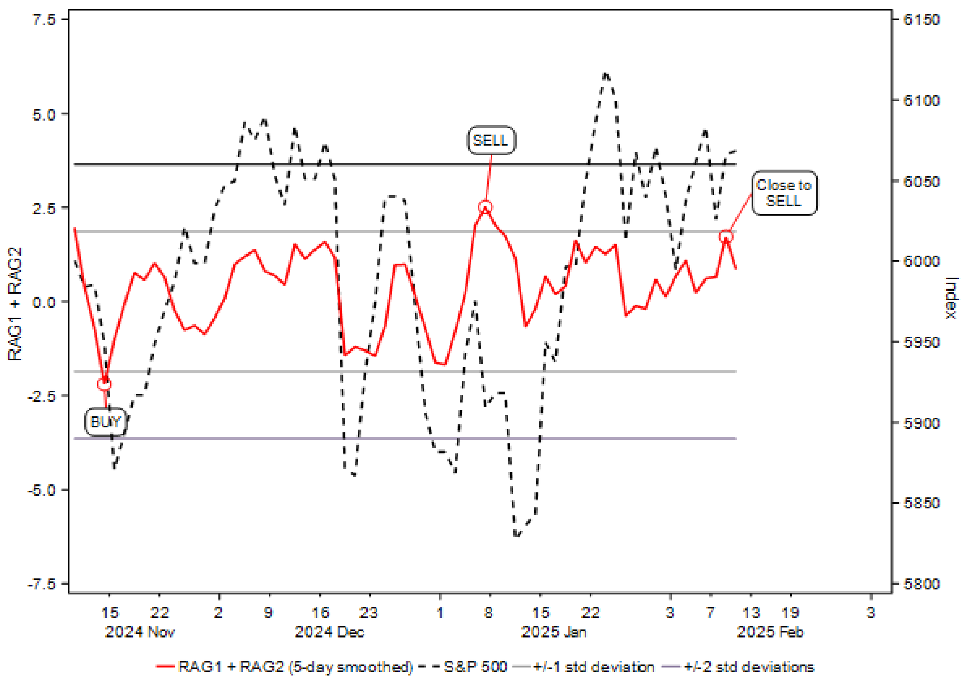


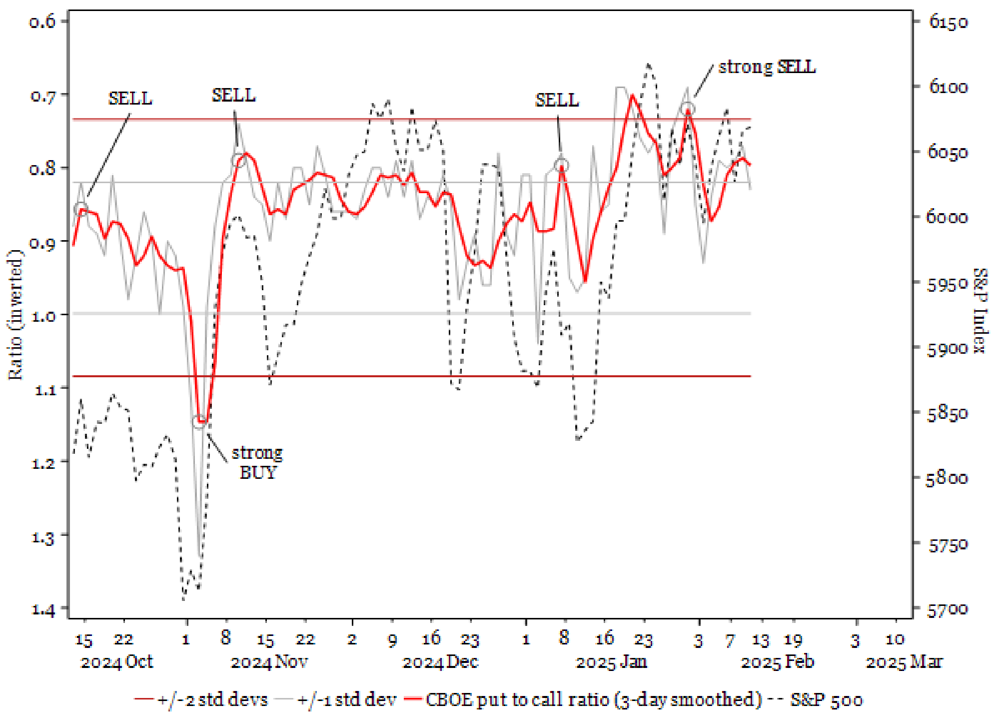
FIG 3a: Longview **shortest term** **'risk appetite'** model vs. S&P500



Source: Longview Economics, Macrobond

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

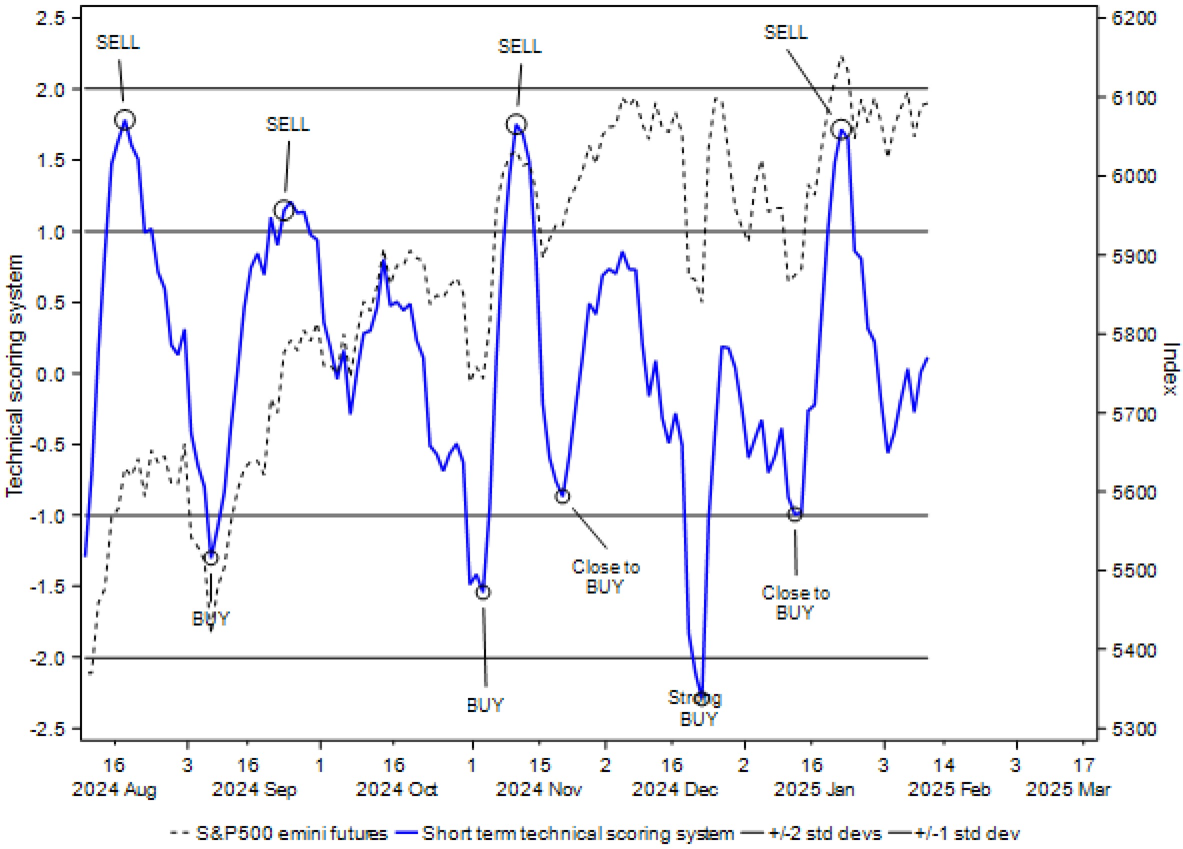
FIG 4: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

Technical models (for indices) are mid-range/NEUTRAL…..

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

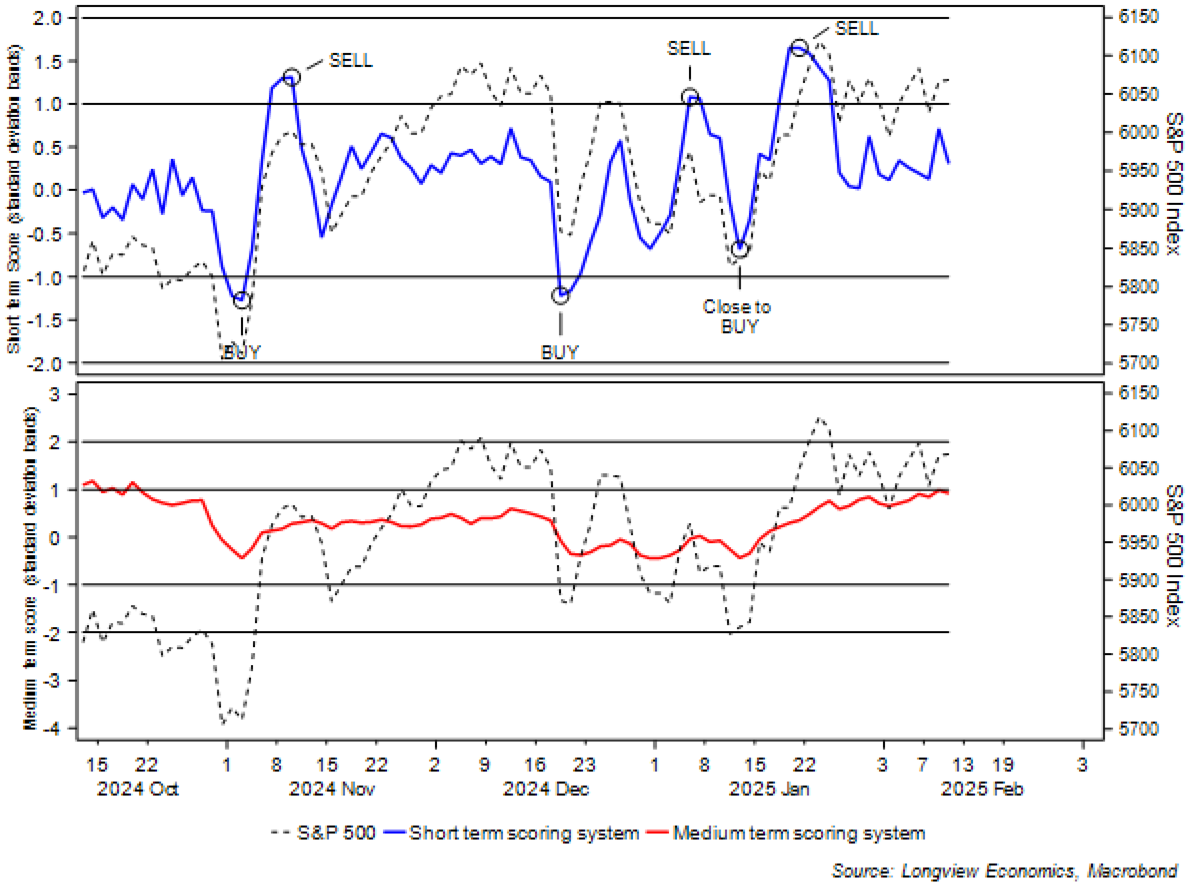


Source: Longview Economics, Macrobond

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

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

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



Key macro data/events

Key data today include: **RICS house price balance** (Jan, 12:01am); **Japanese machine tool orders** (January first estimate, 6am); Italian industrial production (Dec, 9am); **US headline & core CPI** (Jan, 1:30pm); US Federal budget balance (Jan, 7pm); Japanese PPI (Dec, 11:50pm).

Key events today include: Speeches by the ECB's Elderson in MNI webcast on climate (10am) & Nagel at OMFIF event in London (5pm); speech by the Bank pf England's Greene at the Institute of Directors (3pm); the Fed's **Powell** testifies before the US House Committee on Financial Services (3pm), i.e. his Semi-Annual Monetary Policy Report & Bostic speaks on the economic outlook (5pm); Bank of Canada releases summary of deliberations (6:30pm).

Key earnings today include: **Cisco**, Applovin, Equinix, CME Group, Williams, CVS Health Corp, The Trade Desk, Dominion Energy, **EssilorLuxottica**, **Heineken, Commonwealth Bank of Australia**, Recruit Holdings.

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

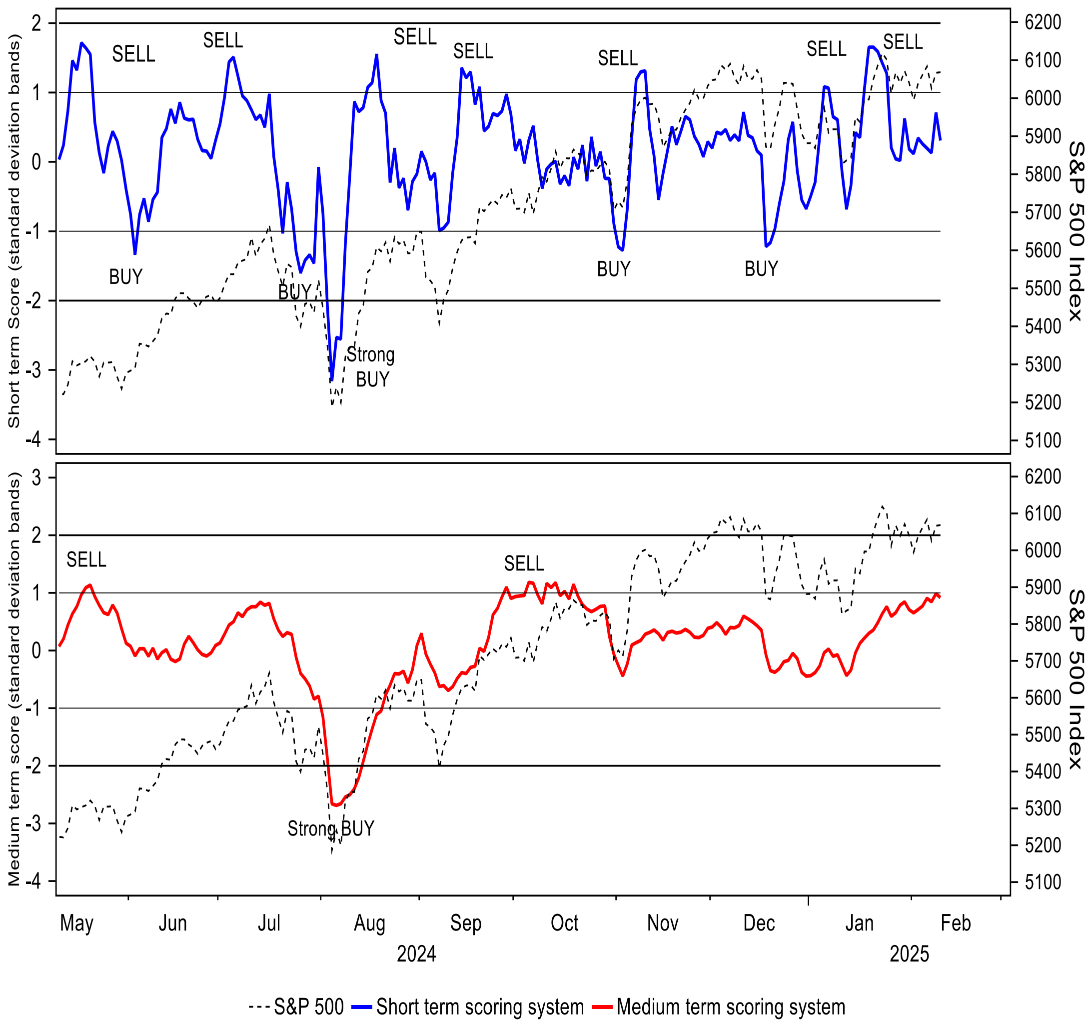
1 – 2 Week View on Risk

12th 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

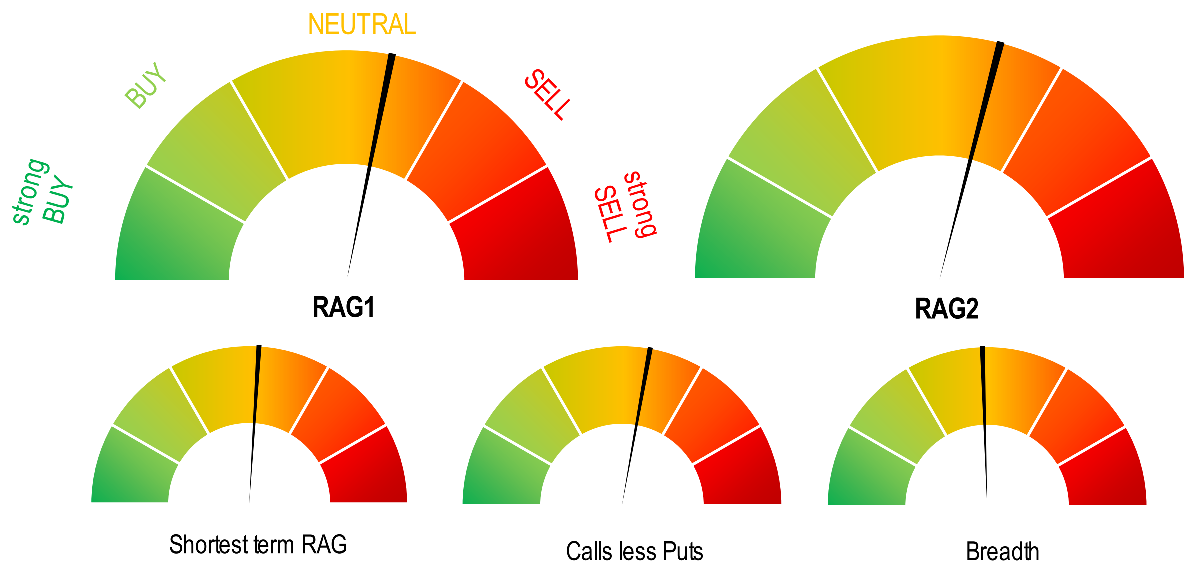
Source: Longview Economics, Macrobond

*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

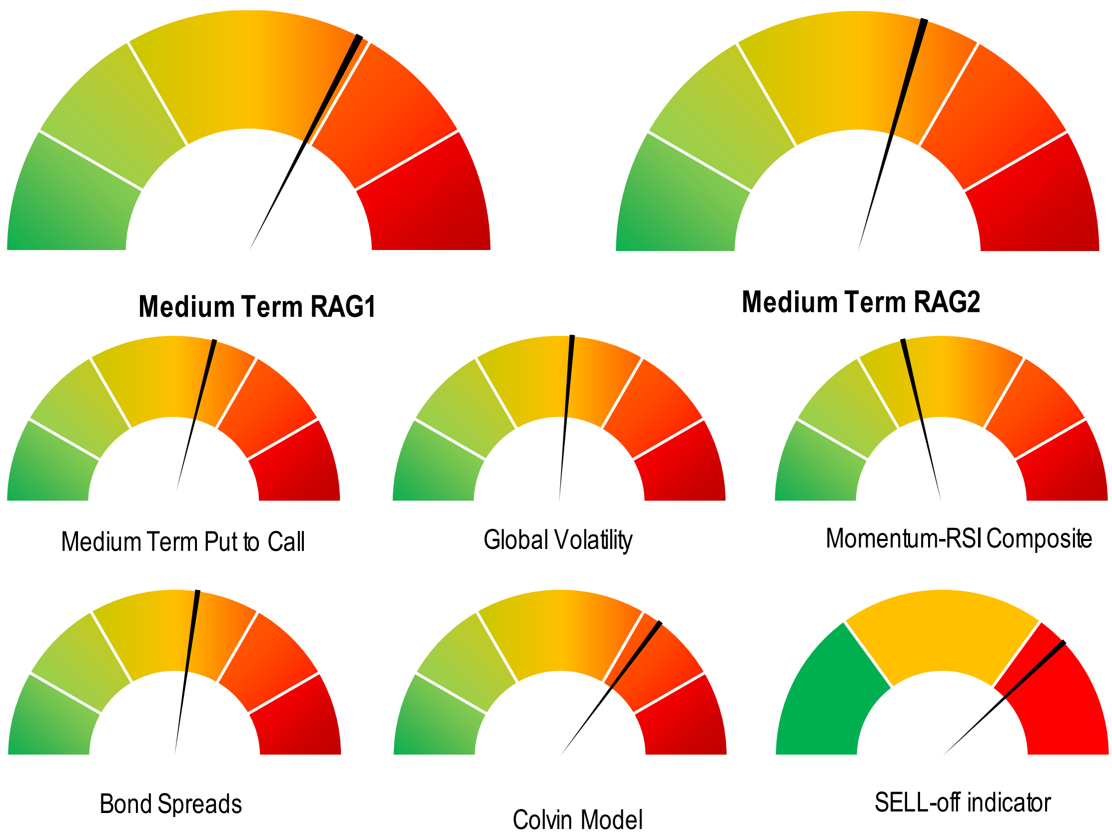
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

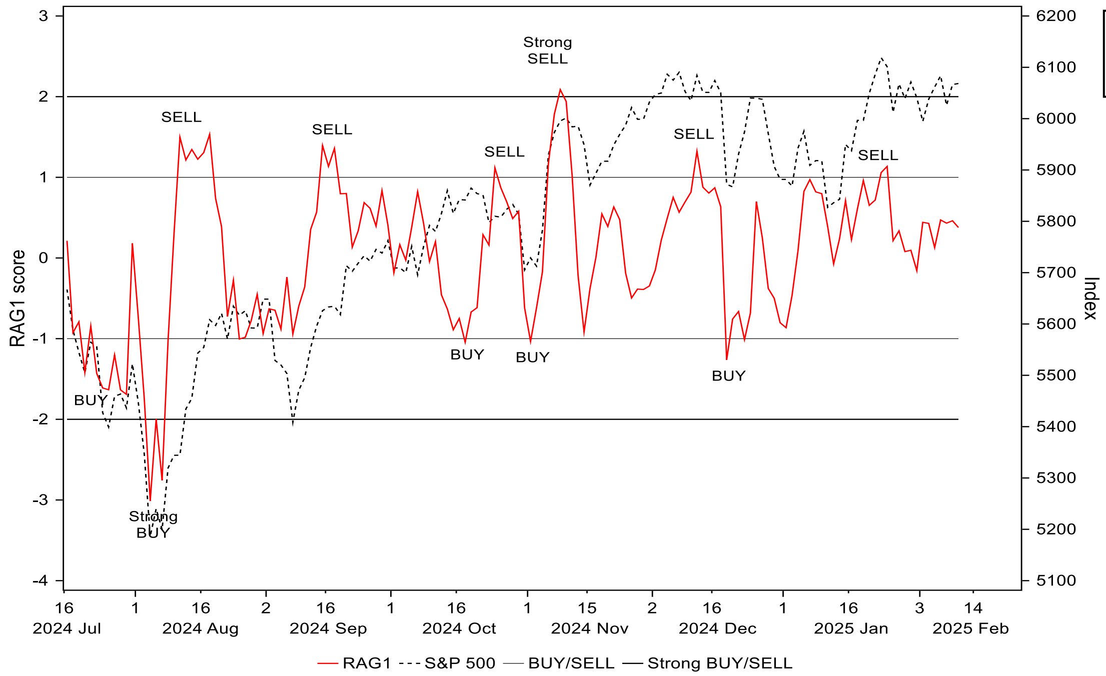
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

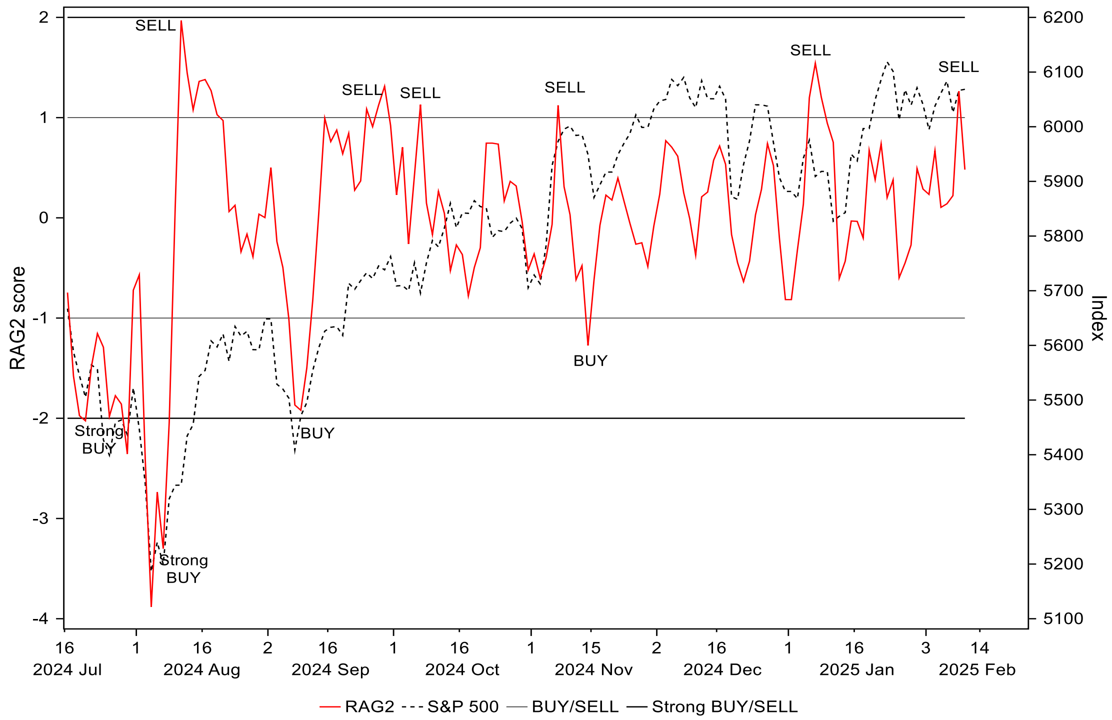
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

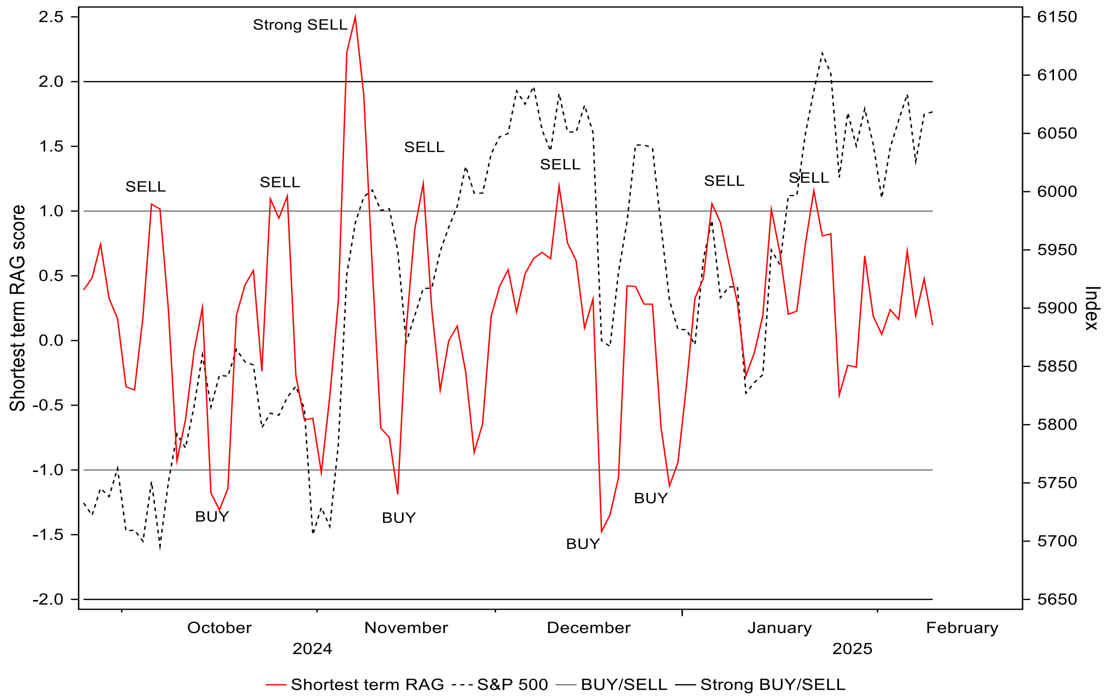


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

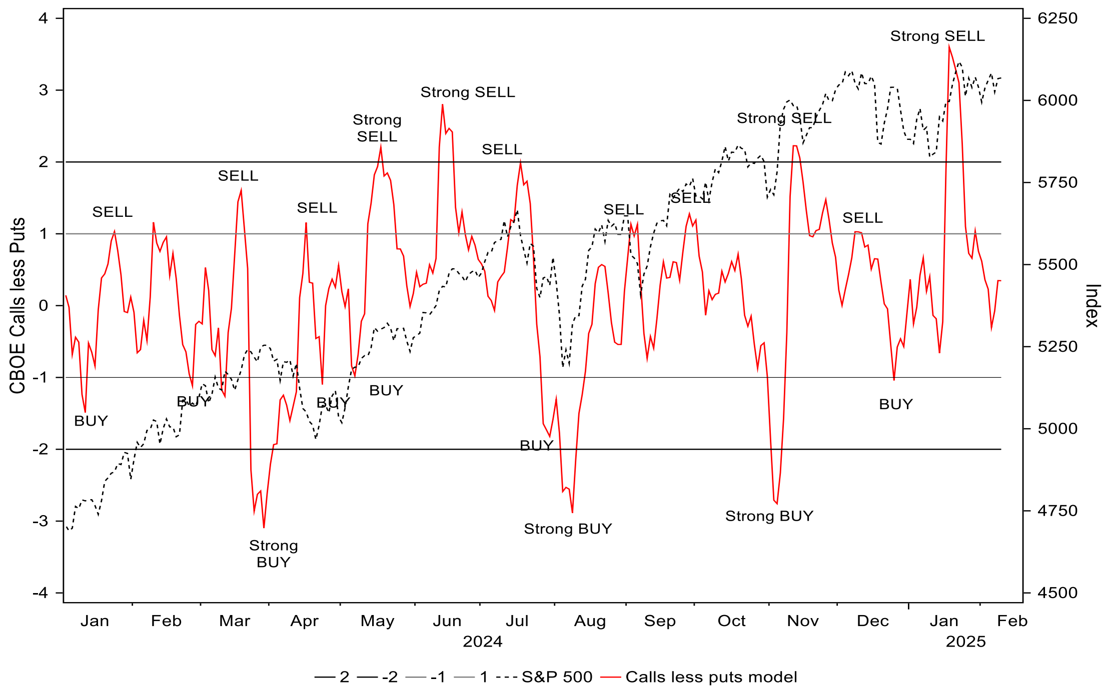
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

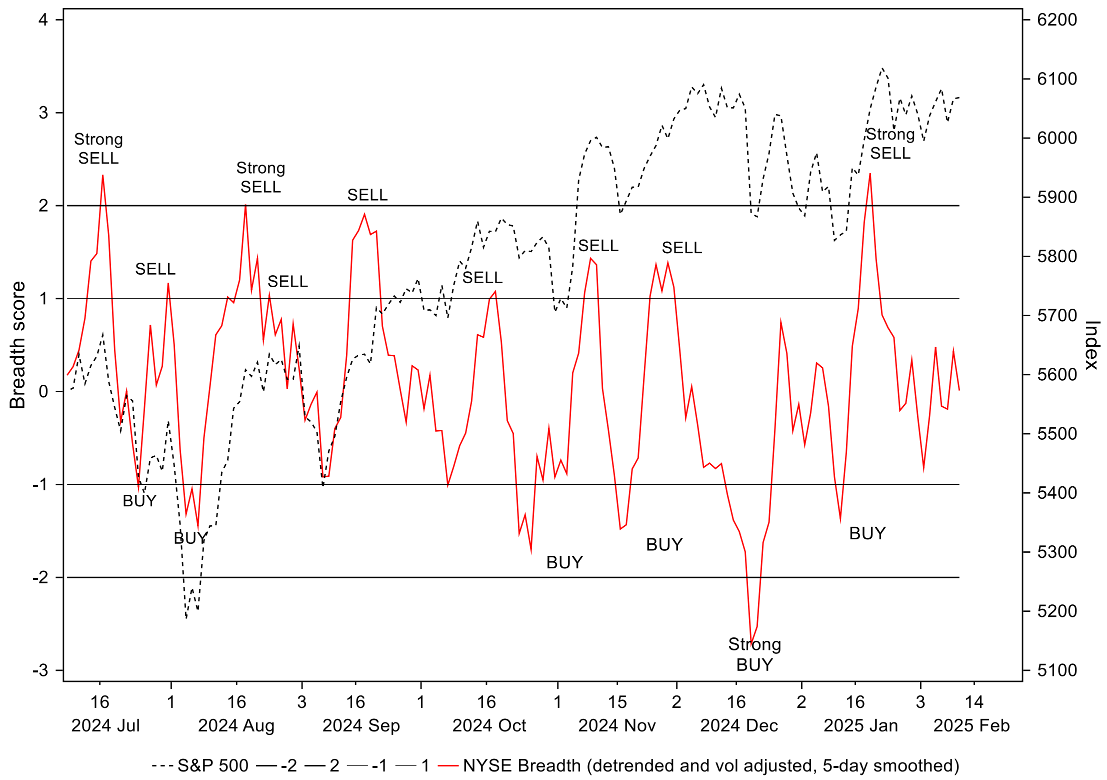


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



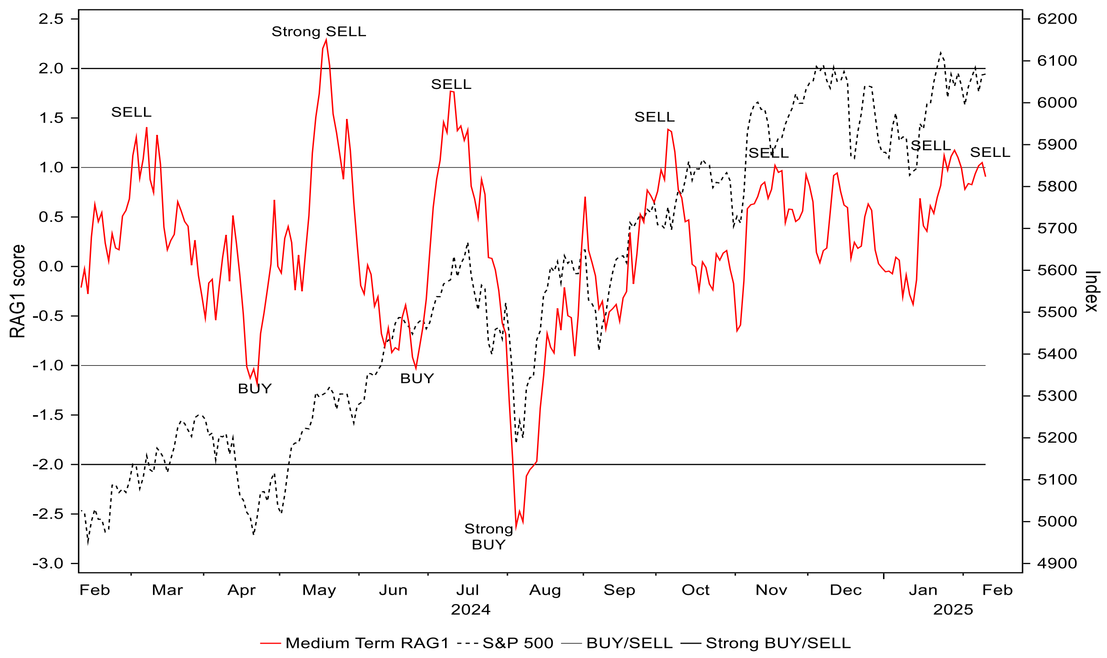
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

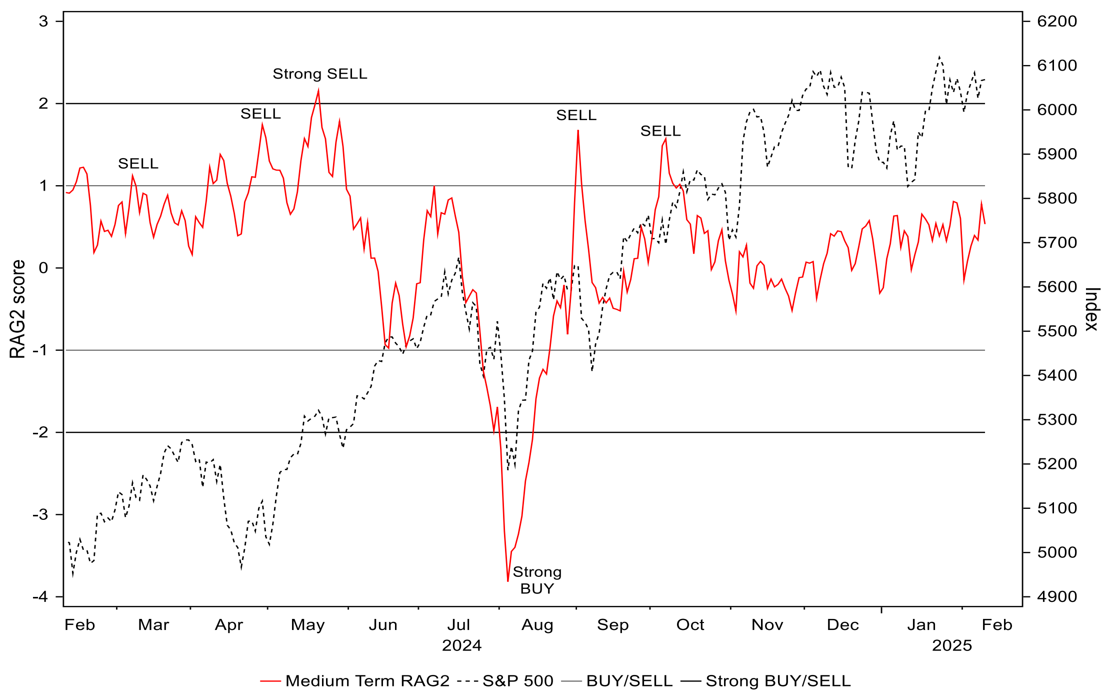
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

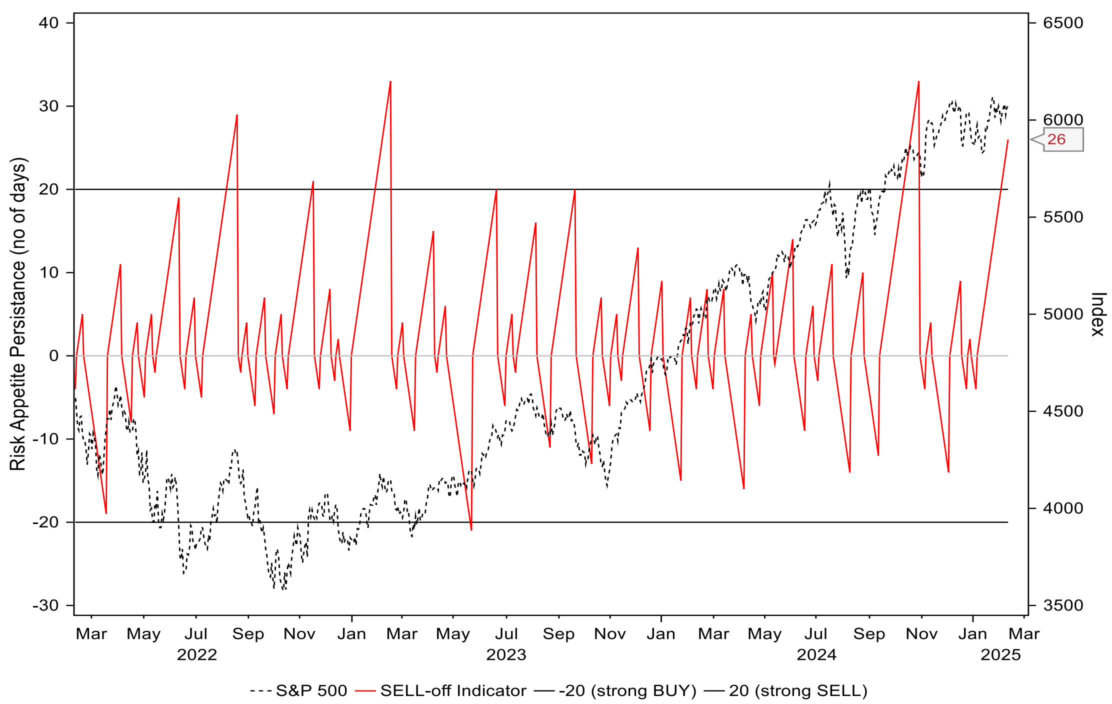


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

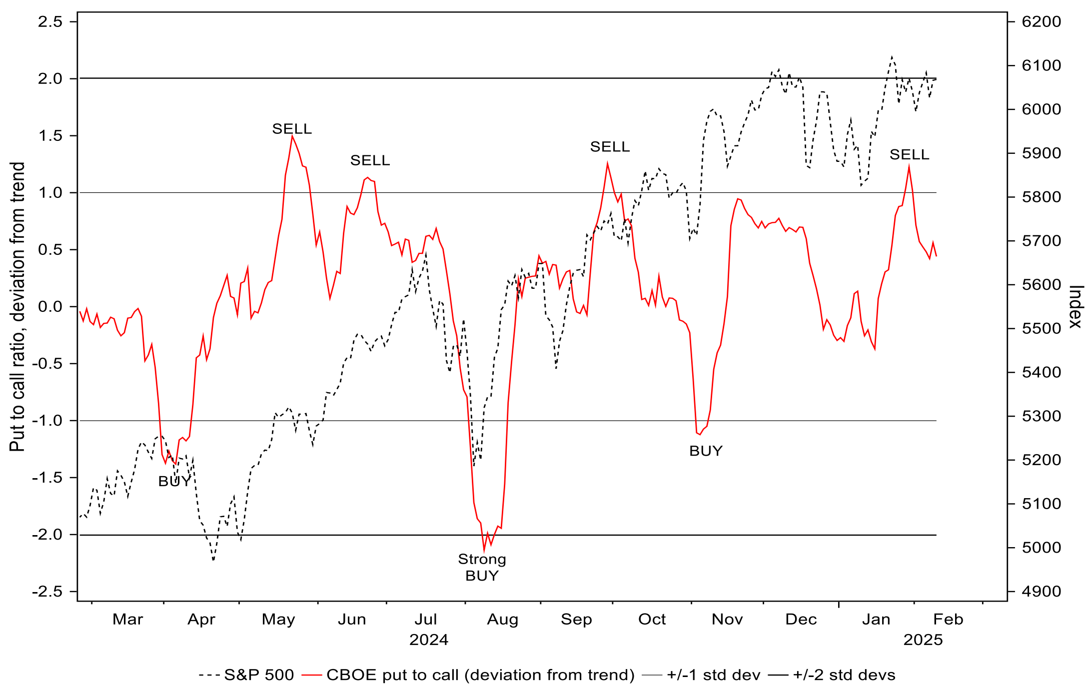
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

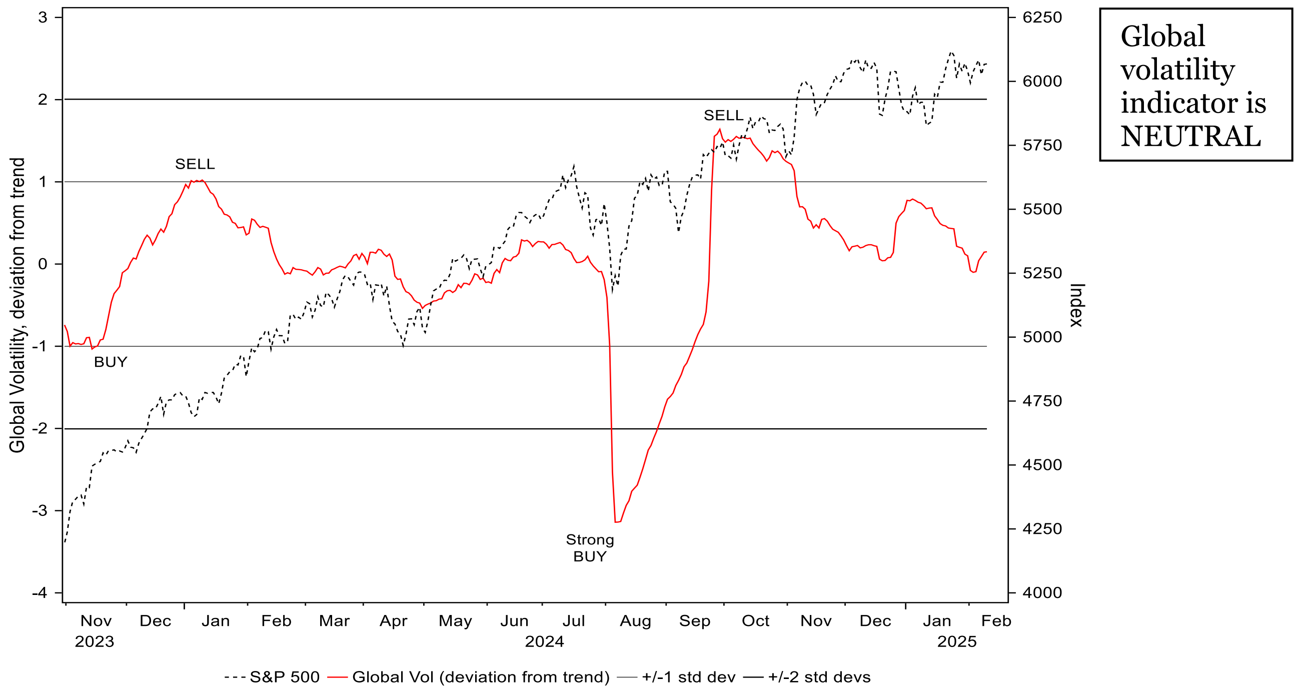


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

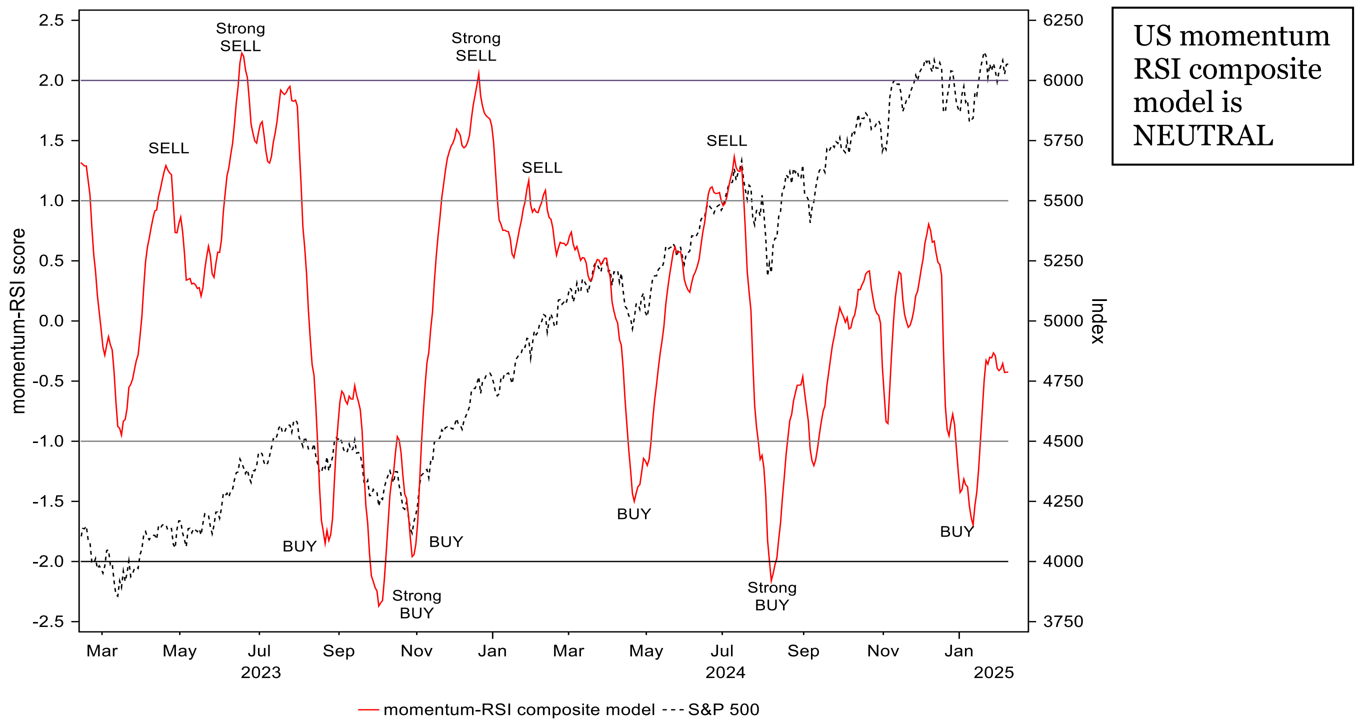
For explanations of indicators please see page 10

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



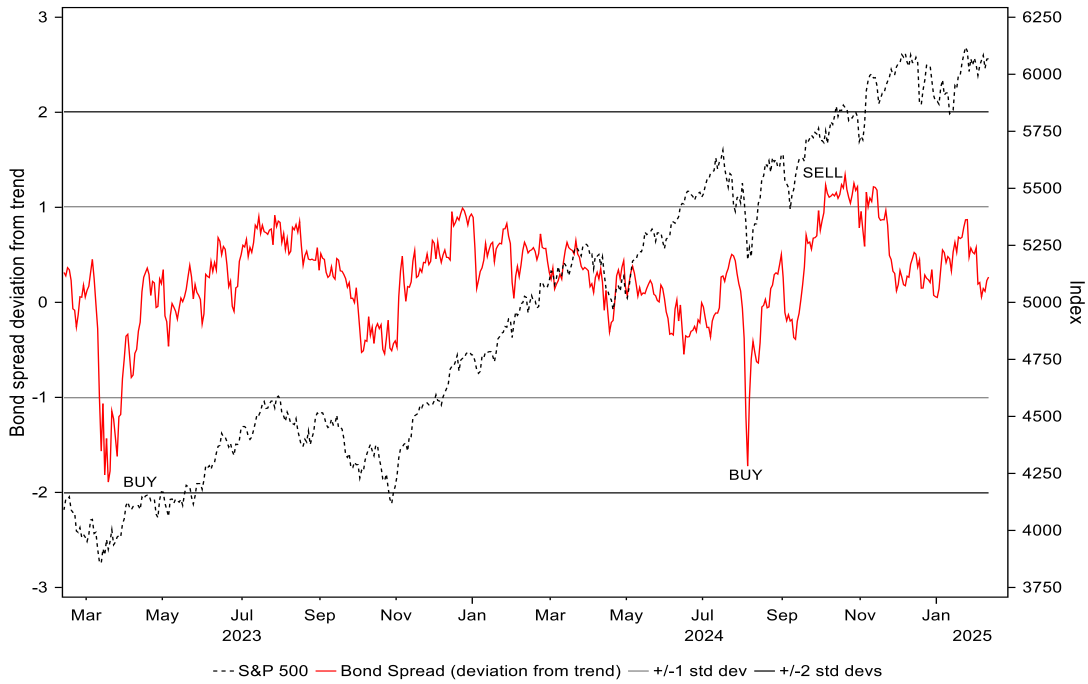
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

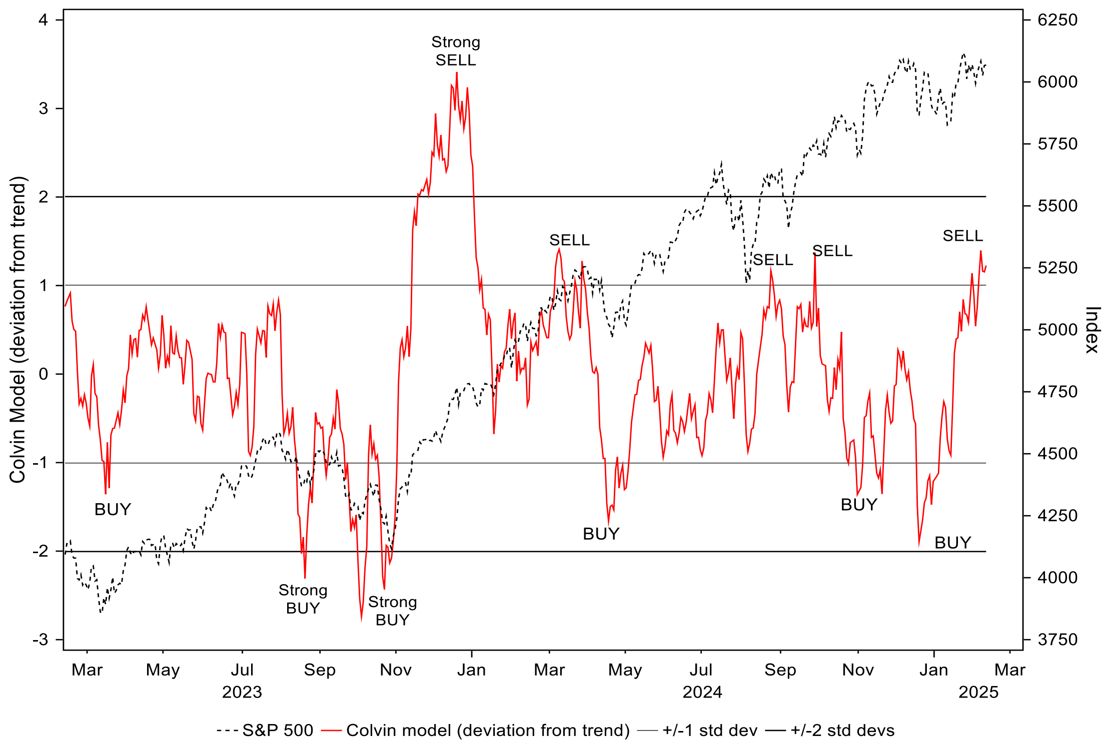
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

Disclaimer

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.