

Equity Index Futures Trading Recommendations

12th March 2025

“Stay SHORT DAX - Tighten Stop Loss”

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

- Stay ¼ SHORT DAX March futures (entry was last Friday at 23,133);
- Modestly tighten stop loss to 23,400, from 23,827 yesterday.

Rationale

Weakness in equities, having been mainly centred on US tech stocks, broadened out yesterday to other parts of the market. In the US, for example, the weakness spread to cyclically sensitive indices (e.g. with notable losses in the NASDAQ Telecoms: -2.4% and NASDAQ Transports: -3.2%). At a sector level, the worst performers were Health Care (-1.1%); Staples (-1.2%); and Industrials (-1.5%), while IT was only modestly lower (-0.4%). Risk aversion also spread to Europe (see FIG 1c). In particular the DAX (-1.3%) sold off to the bottom of its recent trading range (FIG 1), while the Spanish IBEX (-1.6%) and Italian MIB (-1.4%) broke below their recent trading ranges (on both a closing and intra-day basis). Consistent with that broader weakness in markets, **the global equity index broke further/more convincingly below its 200 day moving average** yesterday (FIG 1e).

The key question, therefore, remains unchanged from yesterday. That is: How long will the current ‘risk off’ regime last? Will the pullback in equities continue to deepen and broaden out to other sectors/risk assets? Or is a ‘wave 2’ relief rally* about to commence?

Usually, in pullbacks, ‘risk off’ phases (i.e. waves 1 & 3*) persist at least until **(i)** our risk appetite models are back on BUY (or more likely strong BUY); and **(ii)** there are signs of capitulation (i.e. washout selling). Neither of those conditions, though, are currently in place. That is, our risk appetite indicators are NEUTRAL, with some still leaning towards SELL (see FIGs 3, 3a, & 3b). Equally, regarding (ii), the evidence of fear/panic and washout selling is unconvincing. In particular, while volatility is elevated, it hasn’t spiked meaningfully higher (e.g. see FIG 1b), and there’s also a **lack of downside put protection in portfolios** (with both CBOE and DAX indicators broadly mid-range, see FIGs 4 & 4a).

The risk reward therefore favours staying SHORT the DAX, which remains technically over-extended to the upside (see FIG 1a). Elsewhere our technical scoring system for the DAX is not yet on BUY (albeit it’s close, FIG 2). Usually in risk off regimes, though, BUY signals from our short term technical scoring systems are early.

Risks as always are multiple and include the possibility that ‘wave 1’ is advanced/complete (and a ‘wave 2’ relief rally is about to start). Today’s US CPI report (12.30pm London time) will be watched closely in that respect, and has the potential to trigger some near term strength in markets. Given those risks we favour modestly tightening the stop on this trade (see above for detailed recommendation).

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



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

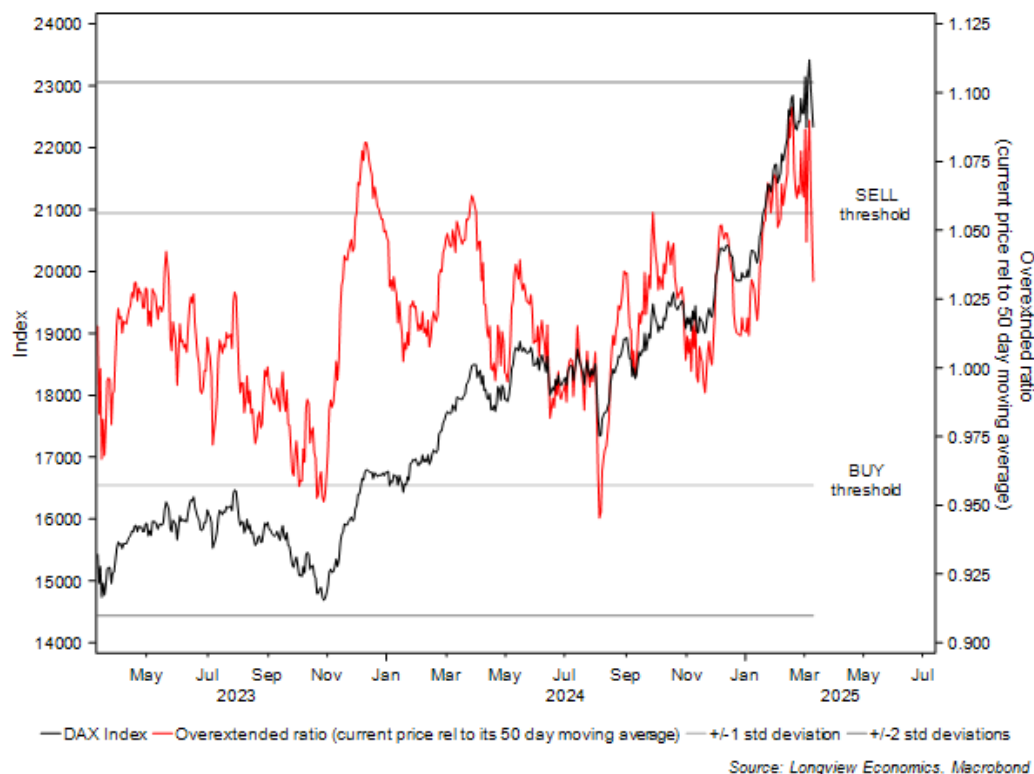


FIG 1b: VDAX (implied volatility of the DAX, %)

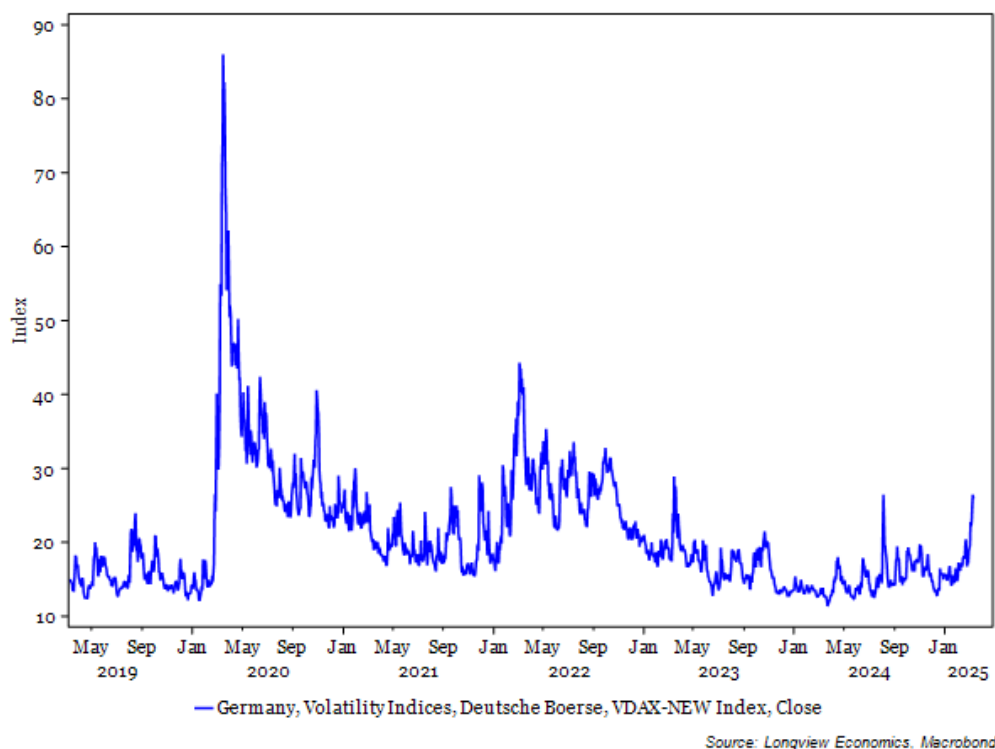


FIG 1c: Various US/European equity indices (YTD performance, local currency, %)

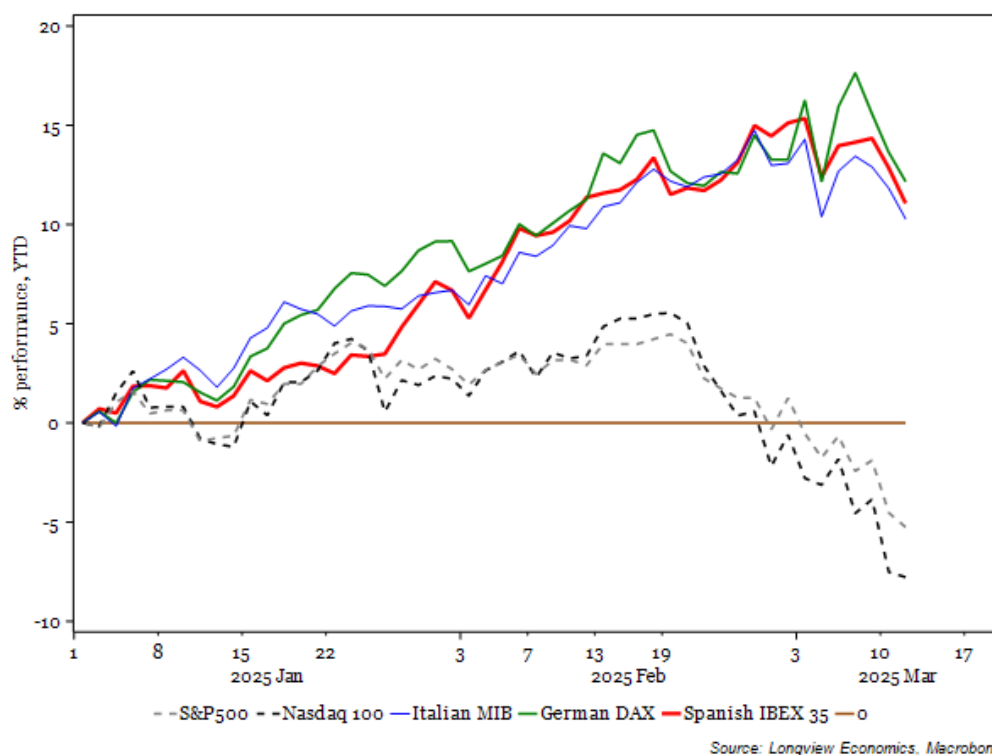


FIG 1d: S&P500 index – divided into cyclicals, defensives and long duration growth

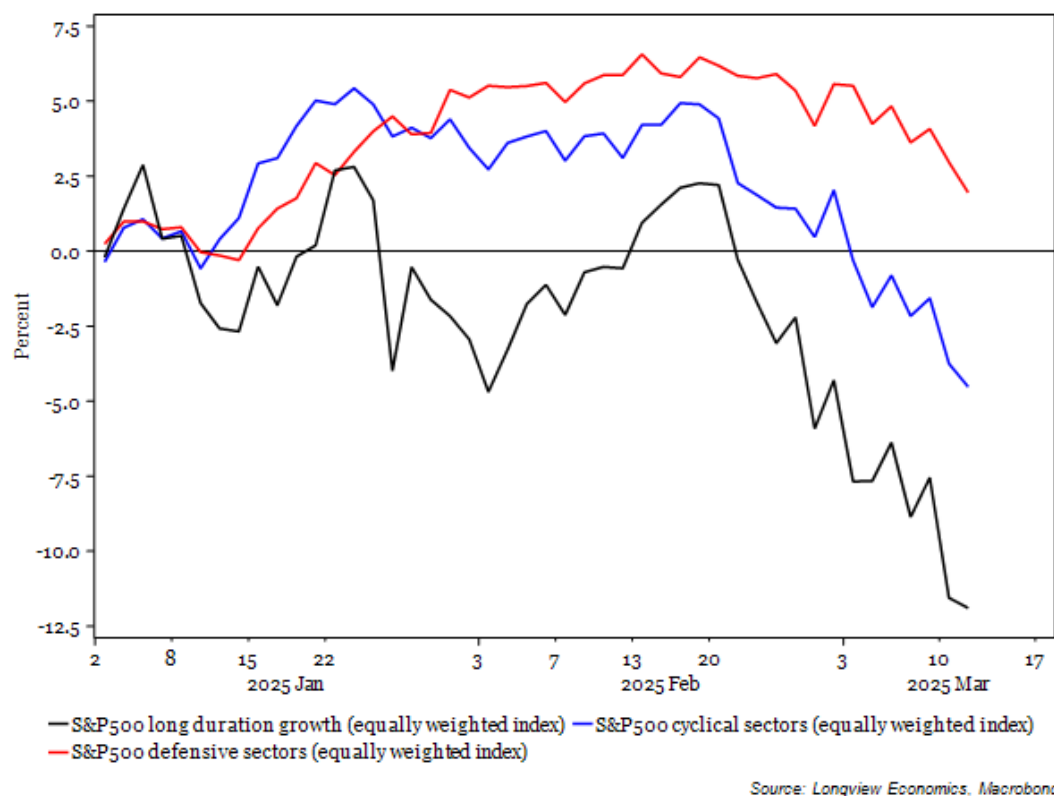
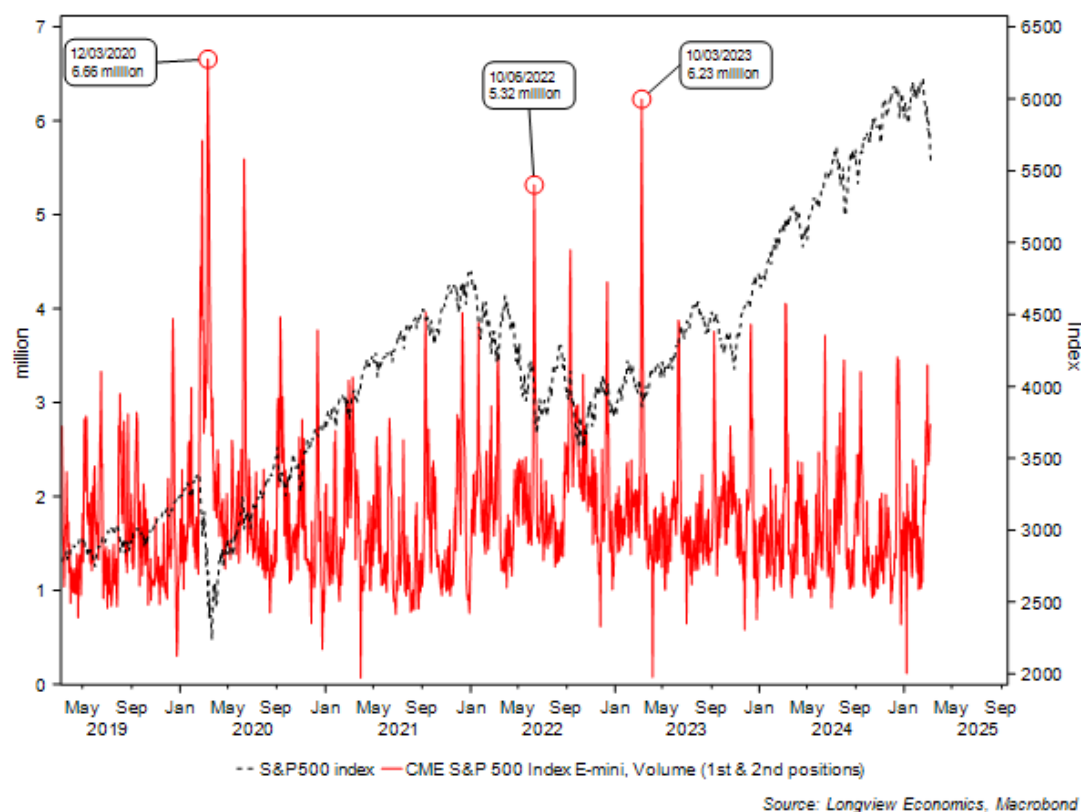


FIG 1e: DJ global equity index shown with 200 & 50 day moving averages

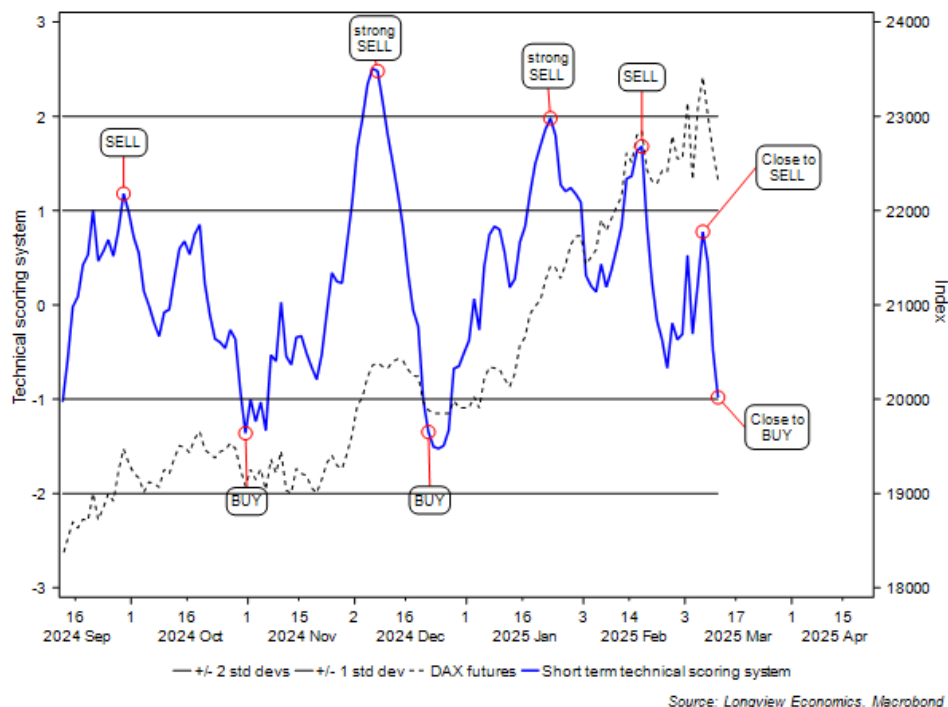


FIG 1f: S&P500 e-mini futures volumes (1st & 2nd positions)



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/leaning towards SELL

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

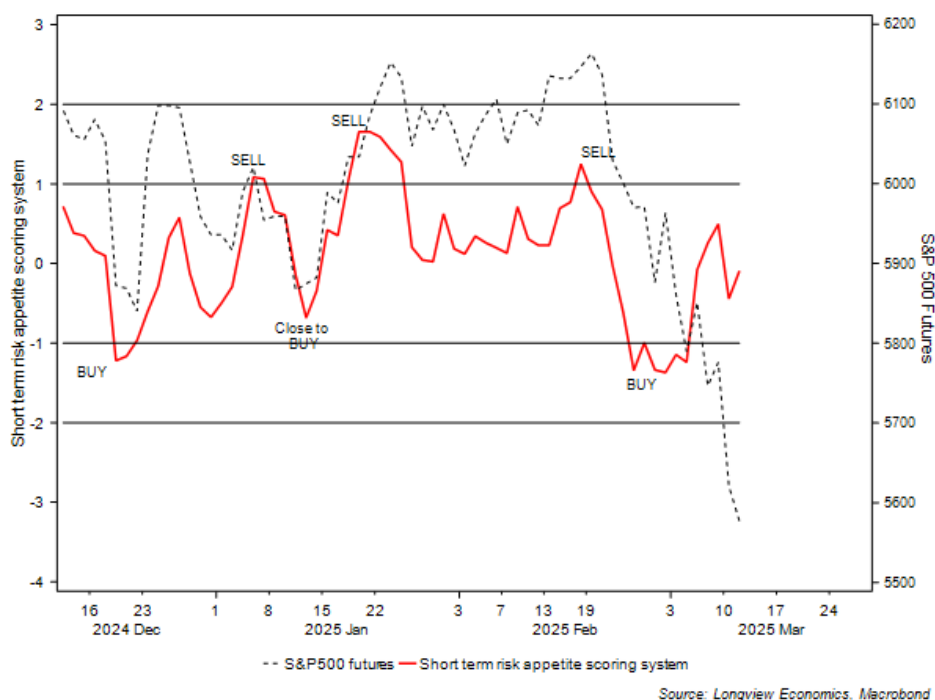


FIG 3a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500

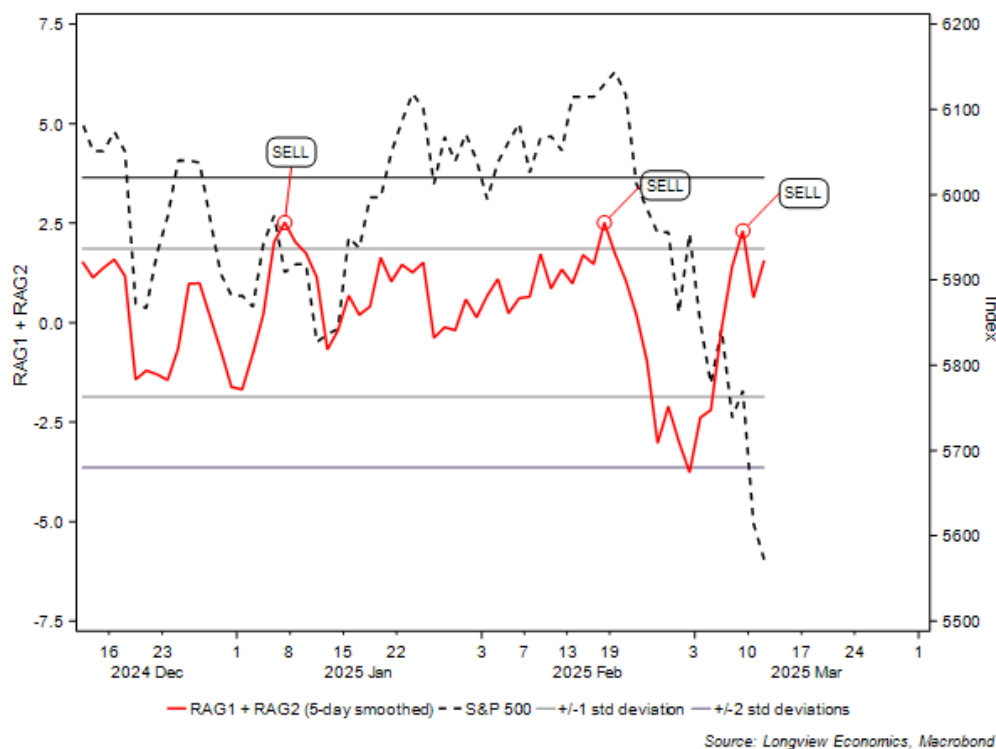
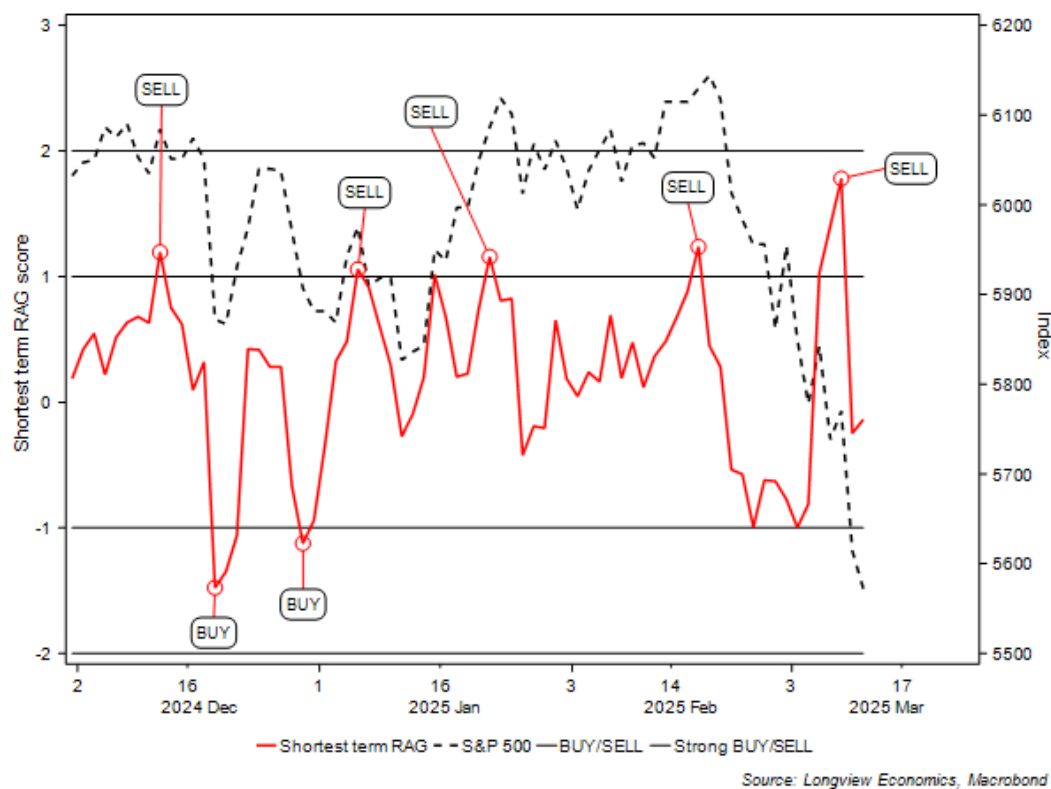


FIG 3b: Shortest term RAG vs. S&P500



Put to call ratio indicators are NEUTRAL

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

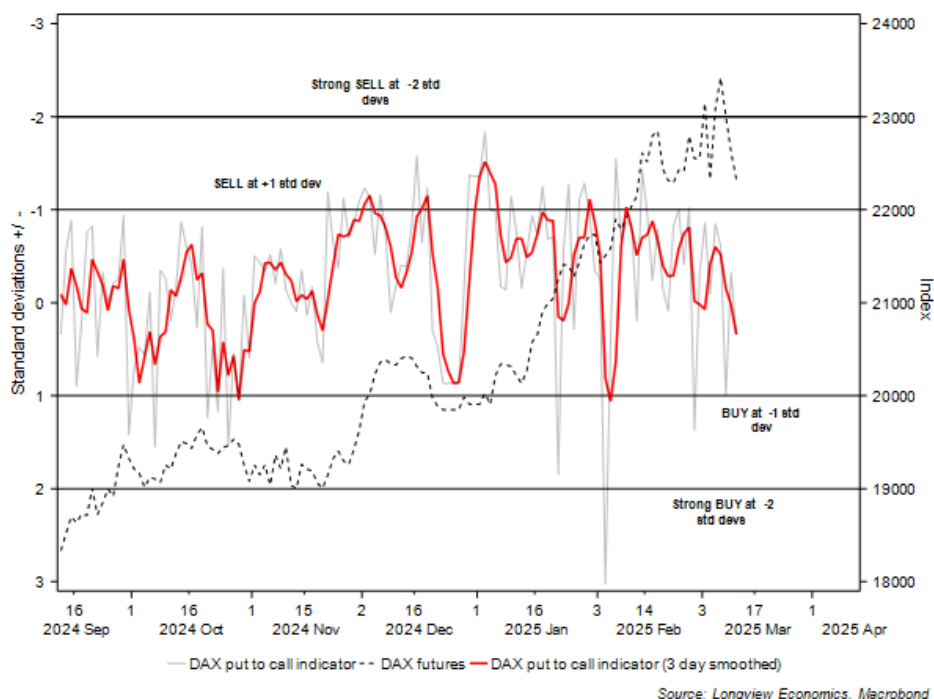
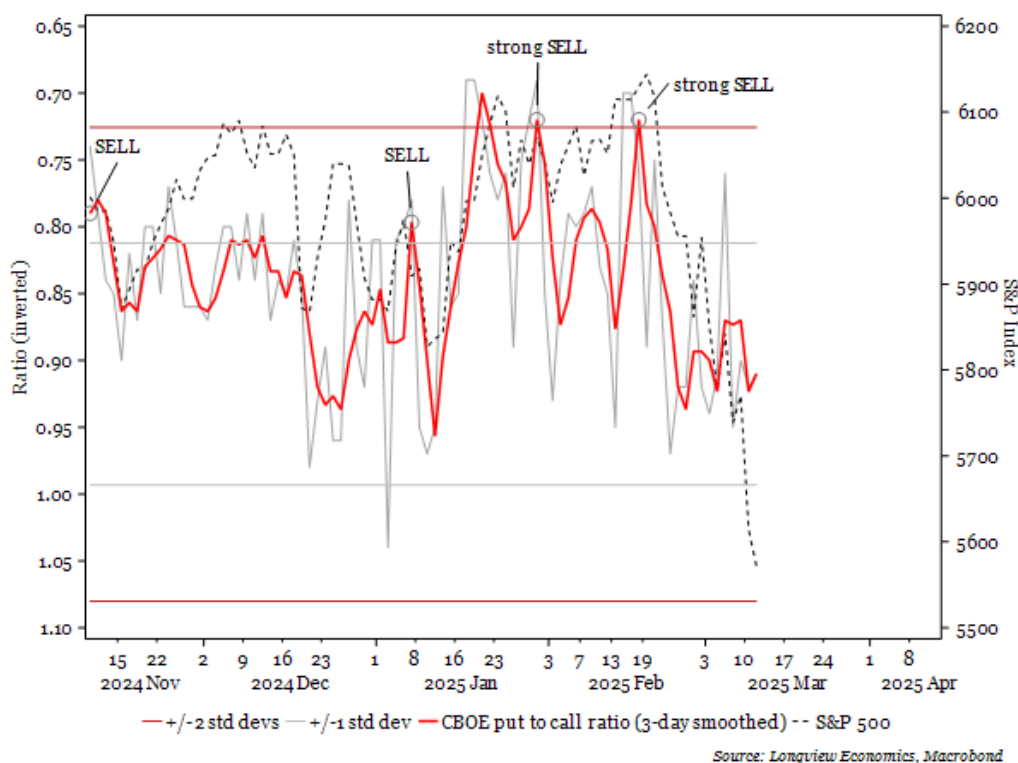


FIG 4a: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

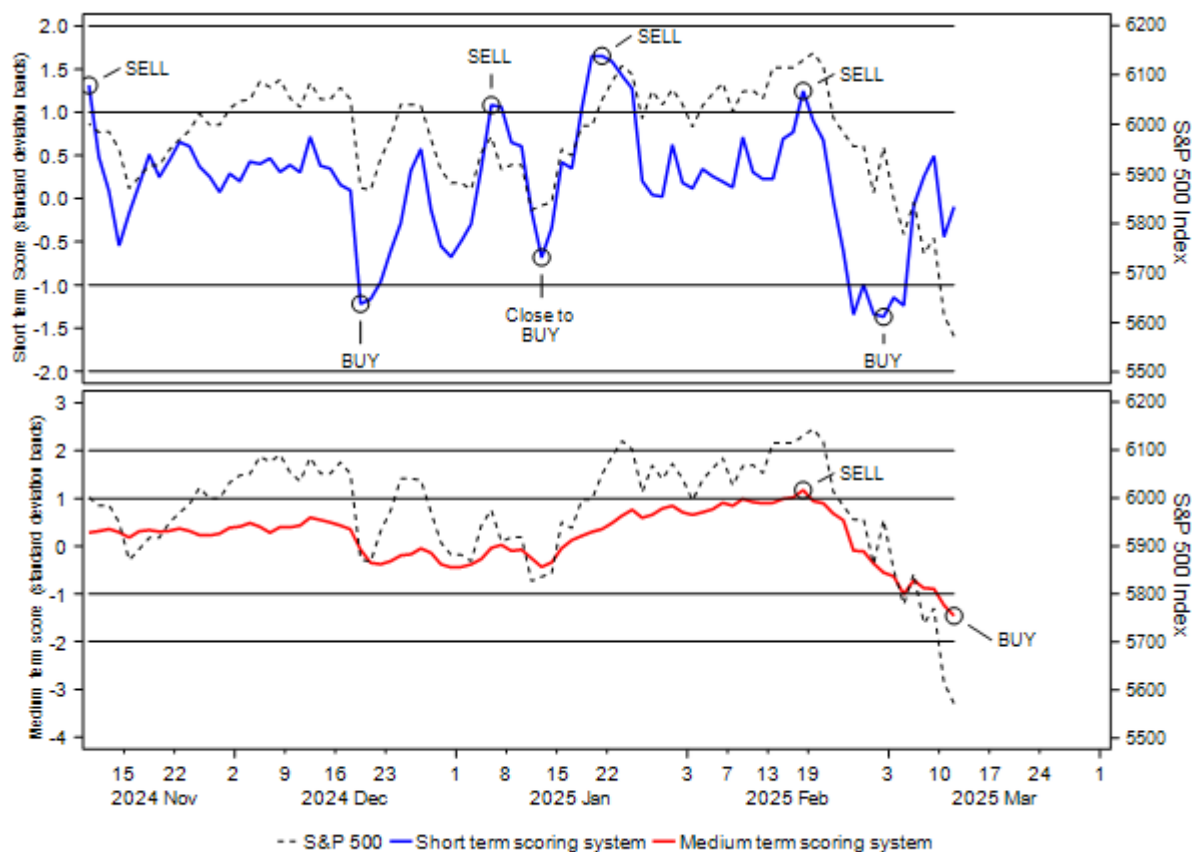


Key Longview Scoring Systems (chart below):

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: Spanish retail sales (Jan, 8am); **US headline & core CPI** (Feb, 12:30pm); US Federal budget balance (Jan, 6pm).

Key events today include: **Bank of Canada policy decision** (1:45pm); Speeches by the ECB's Lagarde, Villeroy, Escriva, Nagel & Lane at 'The ECB and Its Watchers' conference in Frankfurt (8:45am – 3:15pm).

Key earnings today include: Adobe, PDD Holdings DRC, Inditex.

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

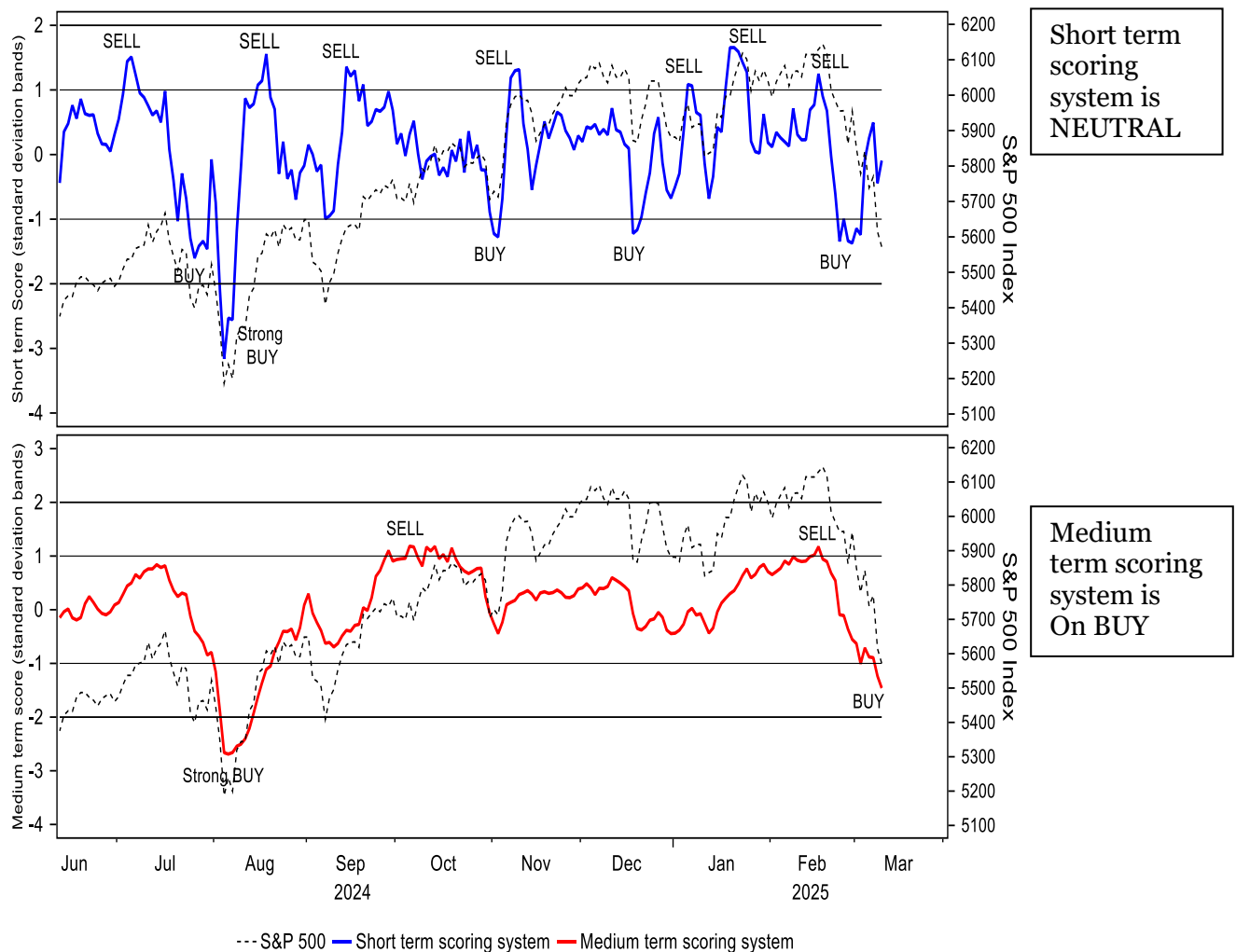
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12th March 2025

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

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



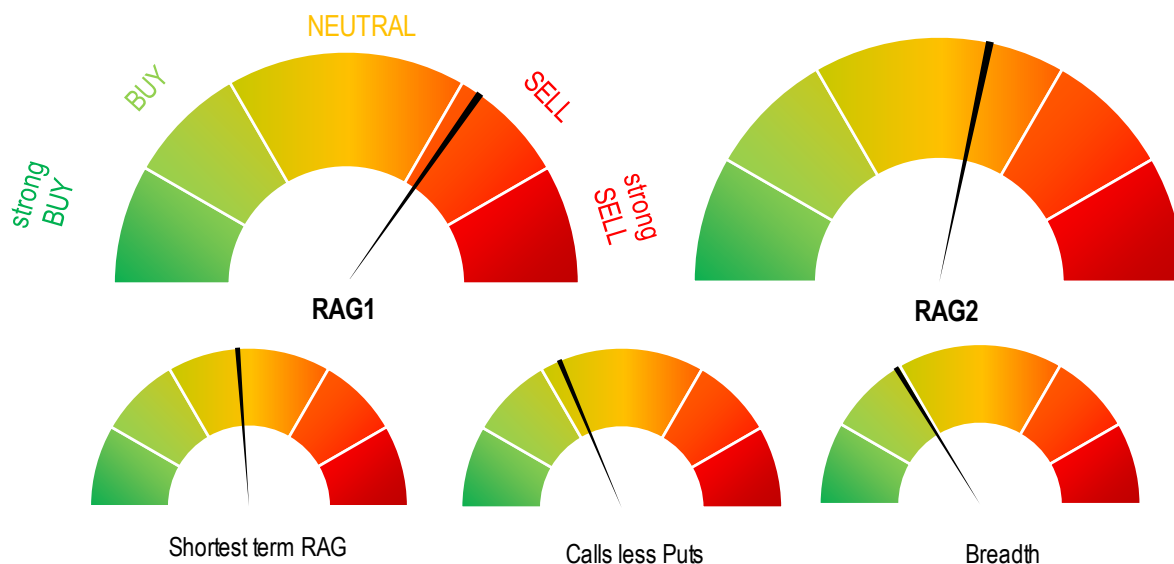
Source: Longview Economics, Macrobond

*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**

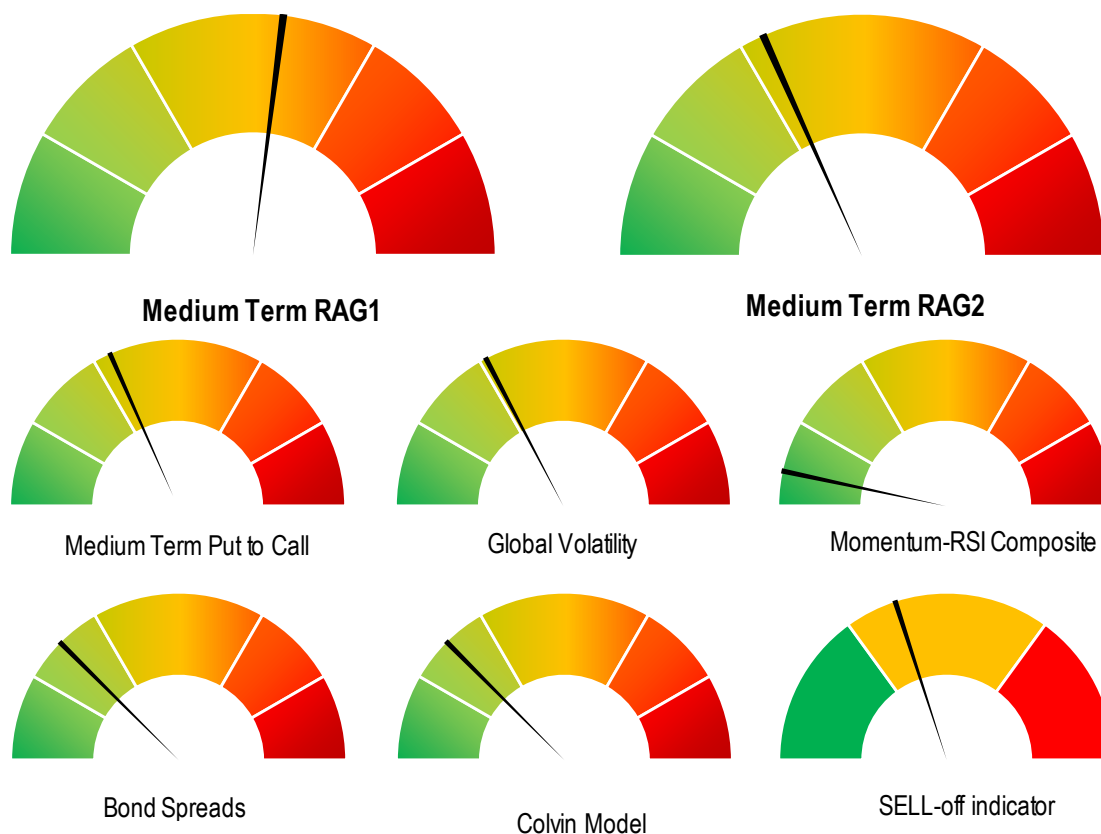
Section 1a: Summary of indicator signals**

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

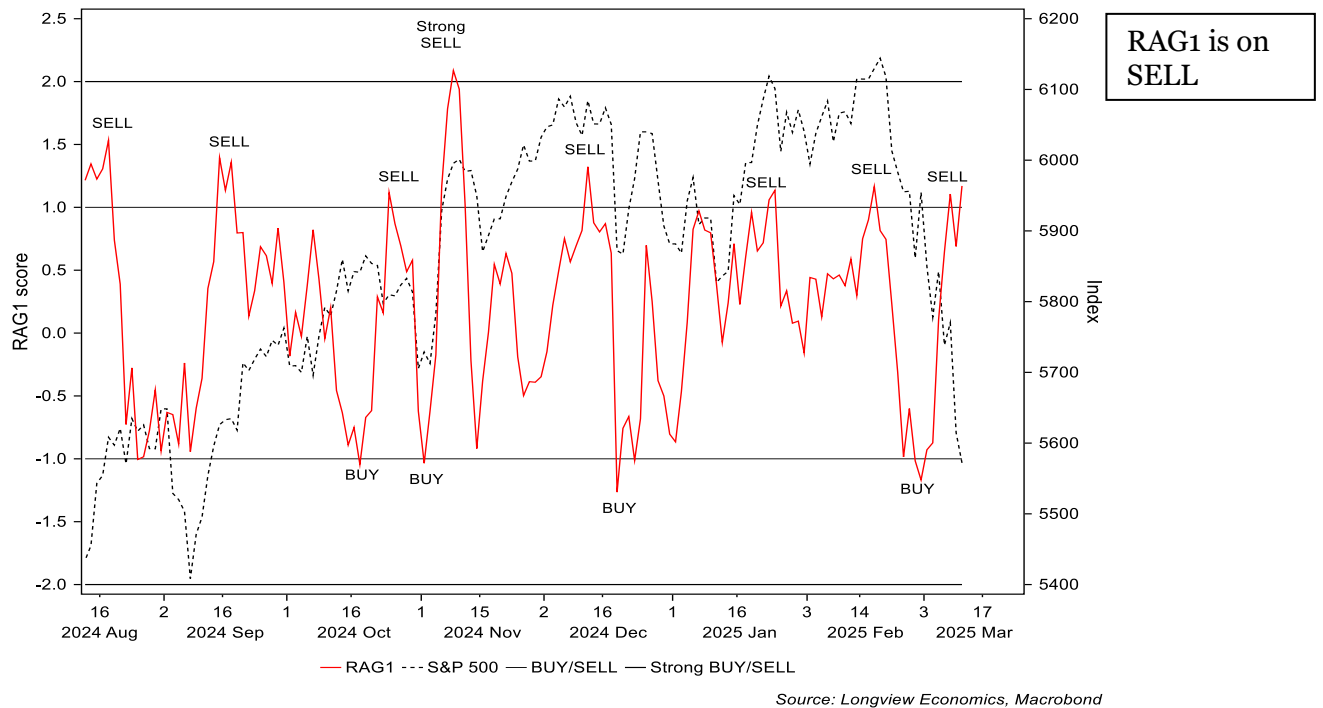
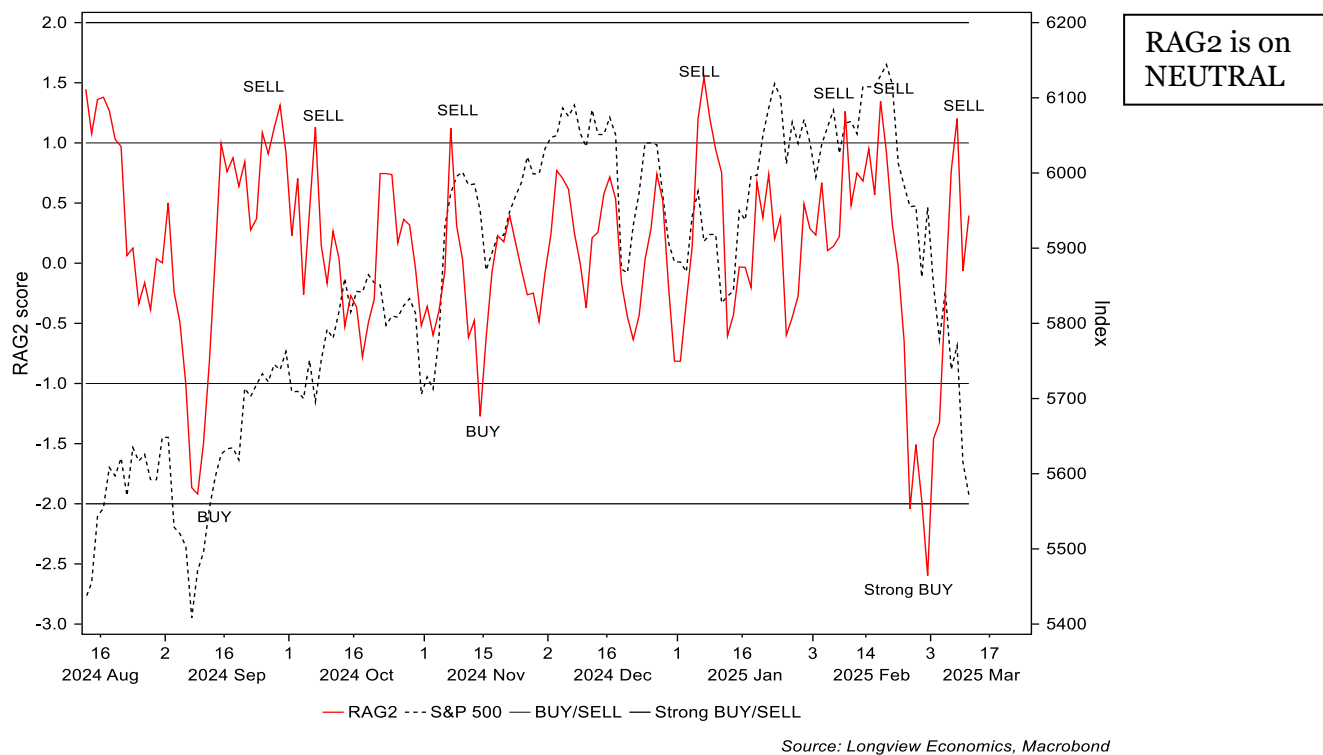


Fig 2b: RAG 2 vs. S&P 500



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

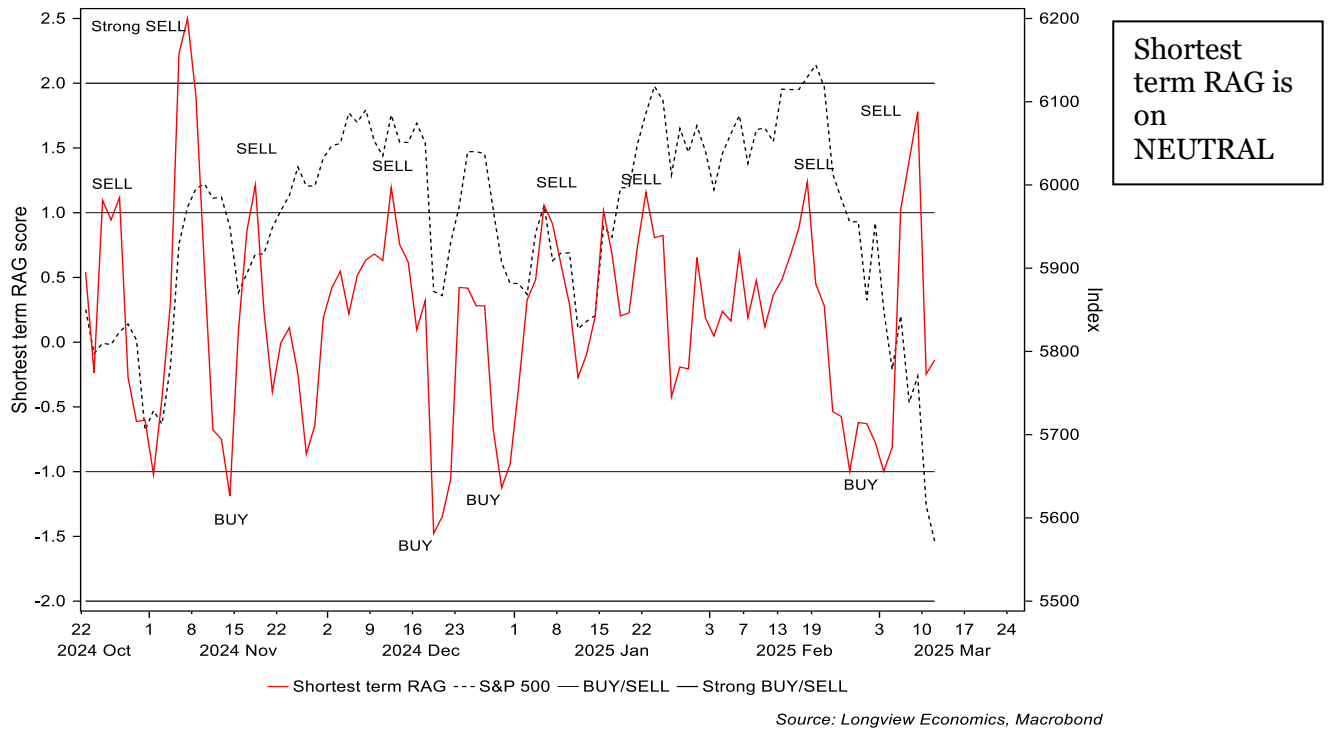
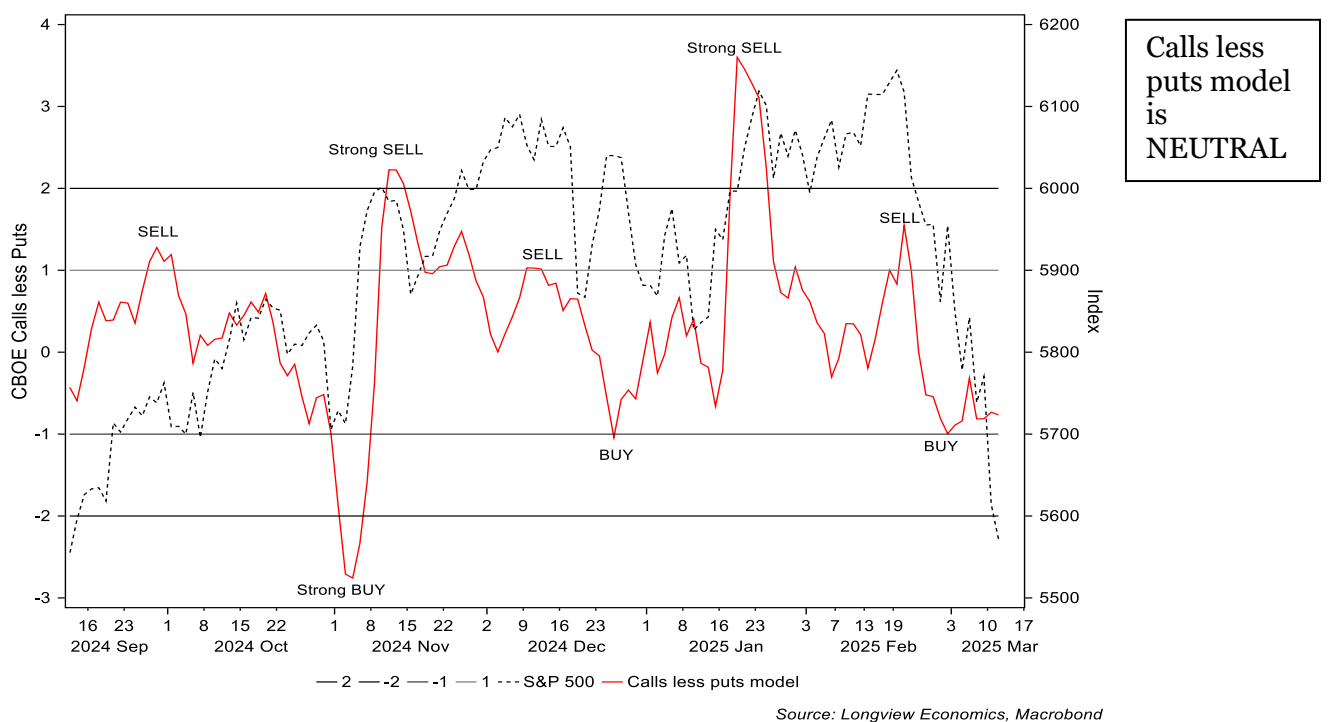
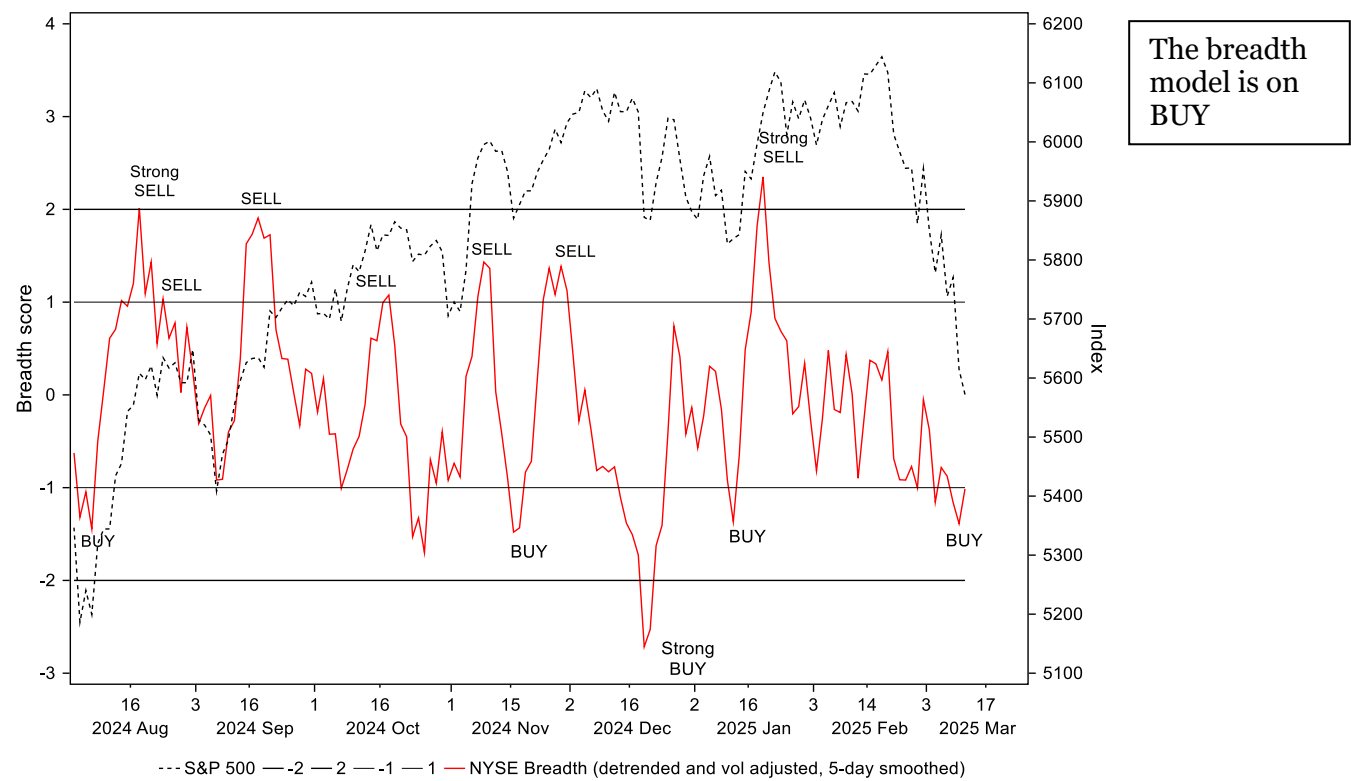


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



Source: Longview Economics, Macrobond

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

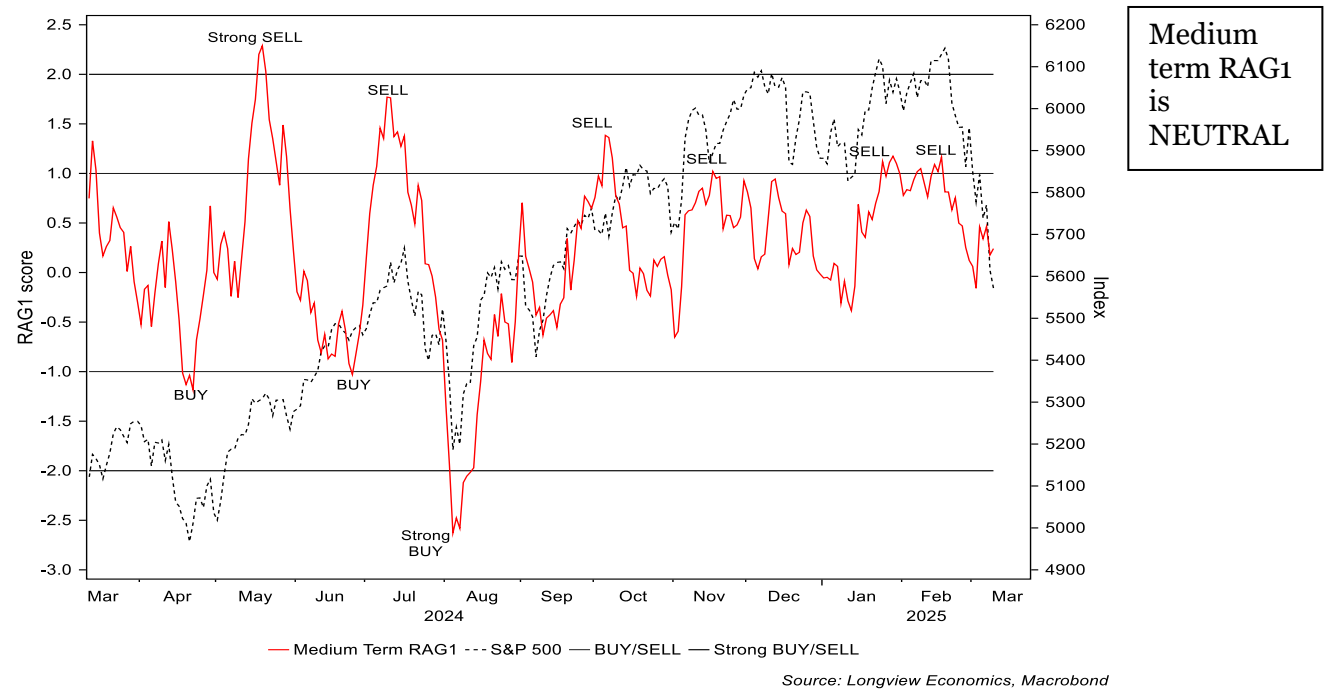
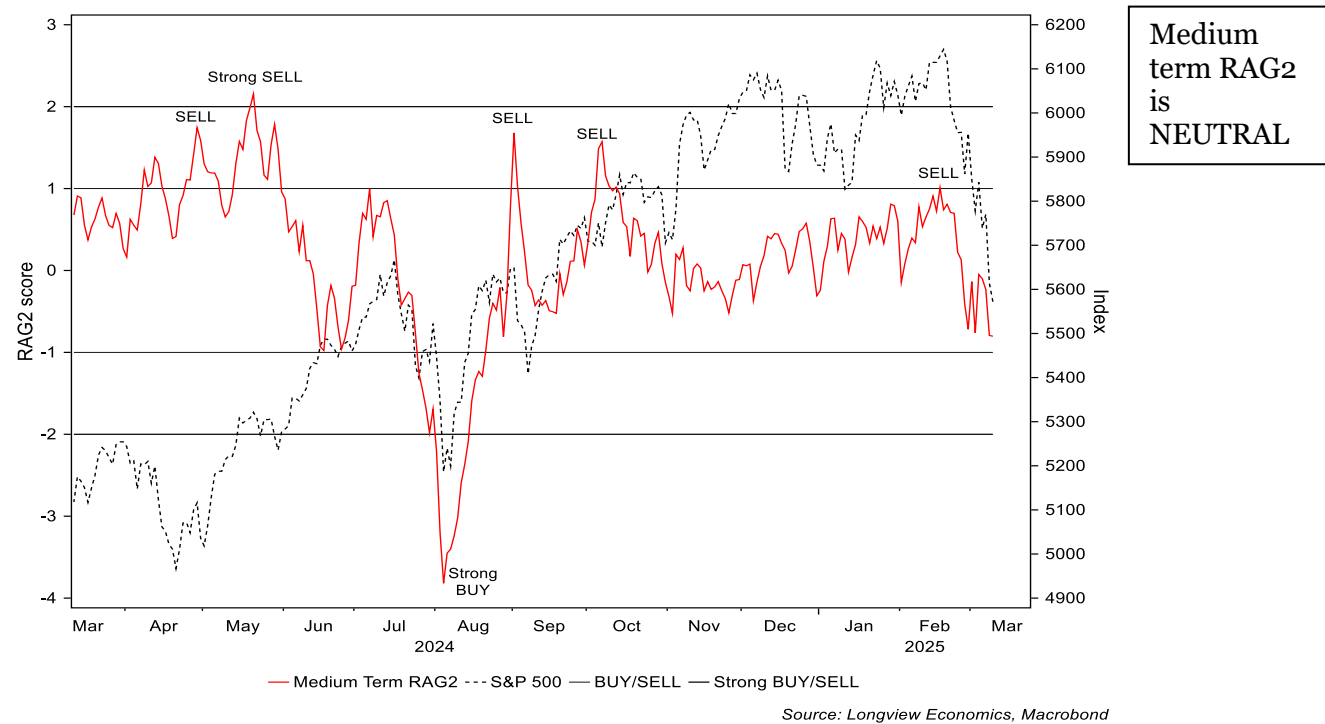


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

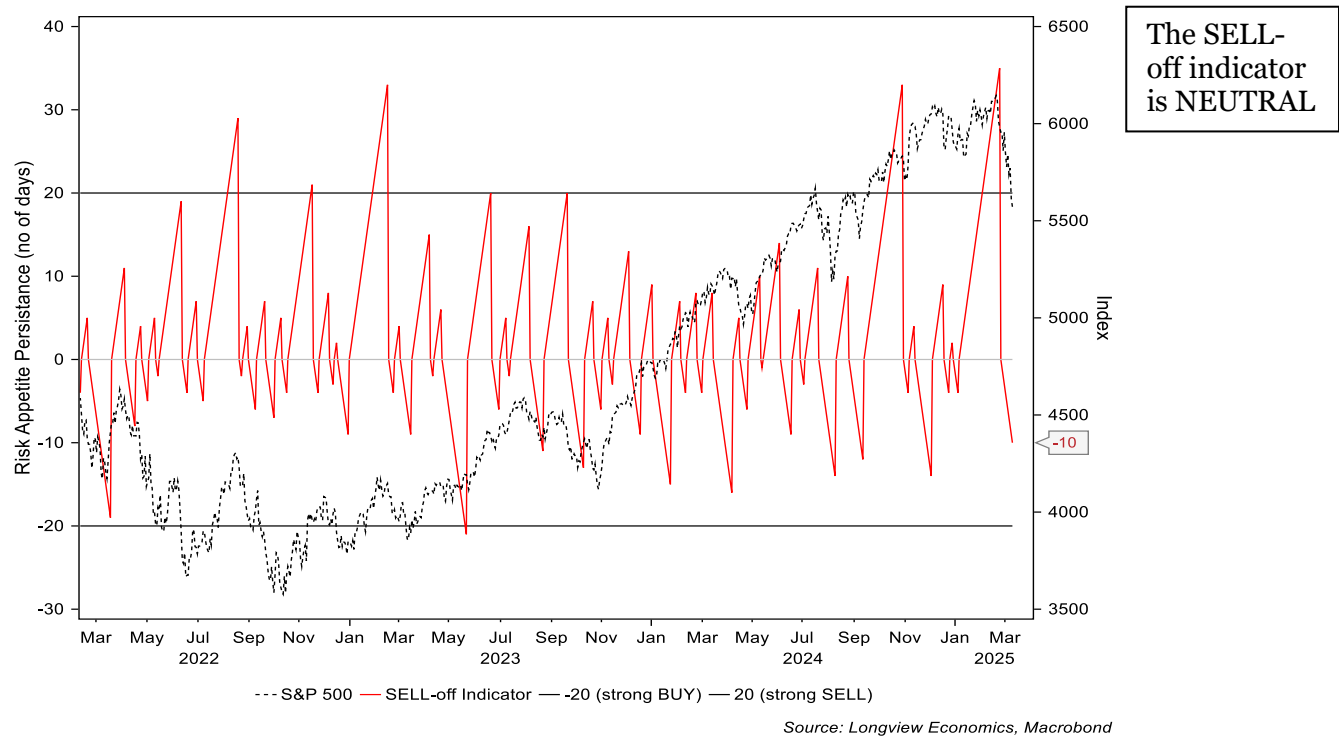
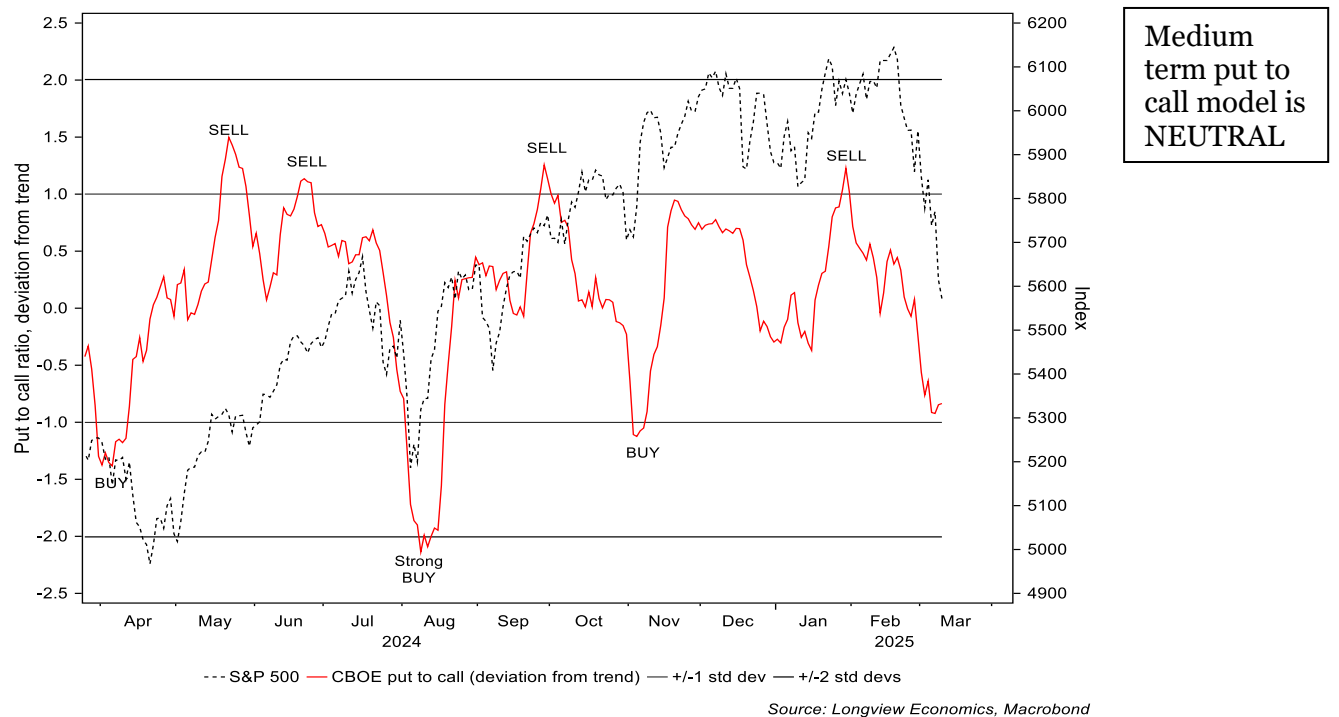


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

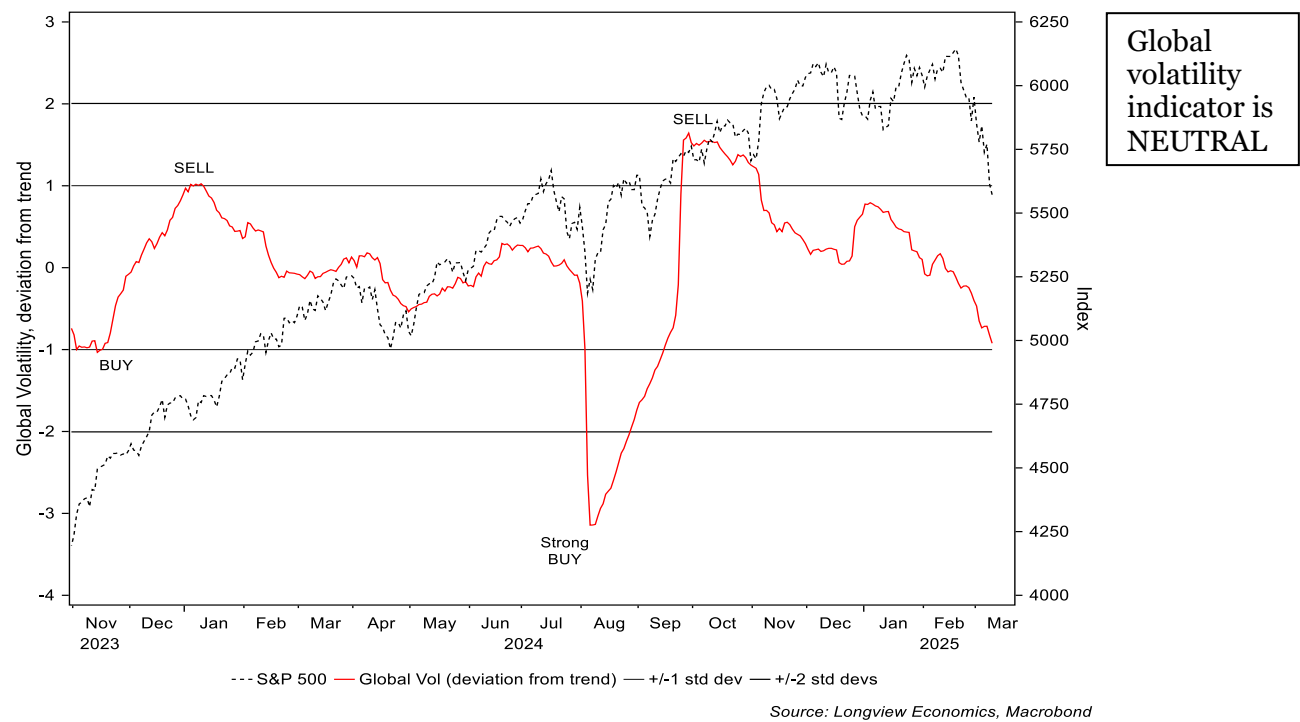


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

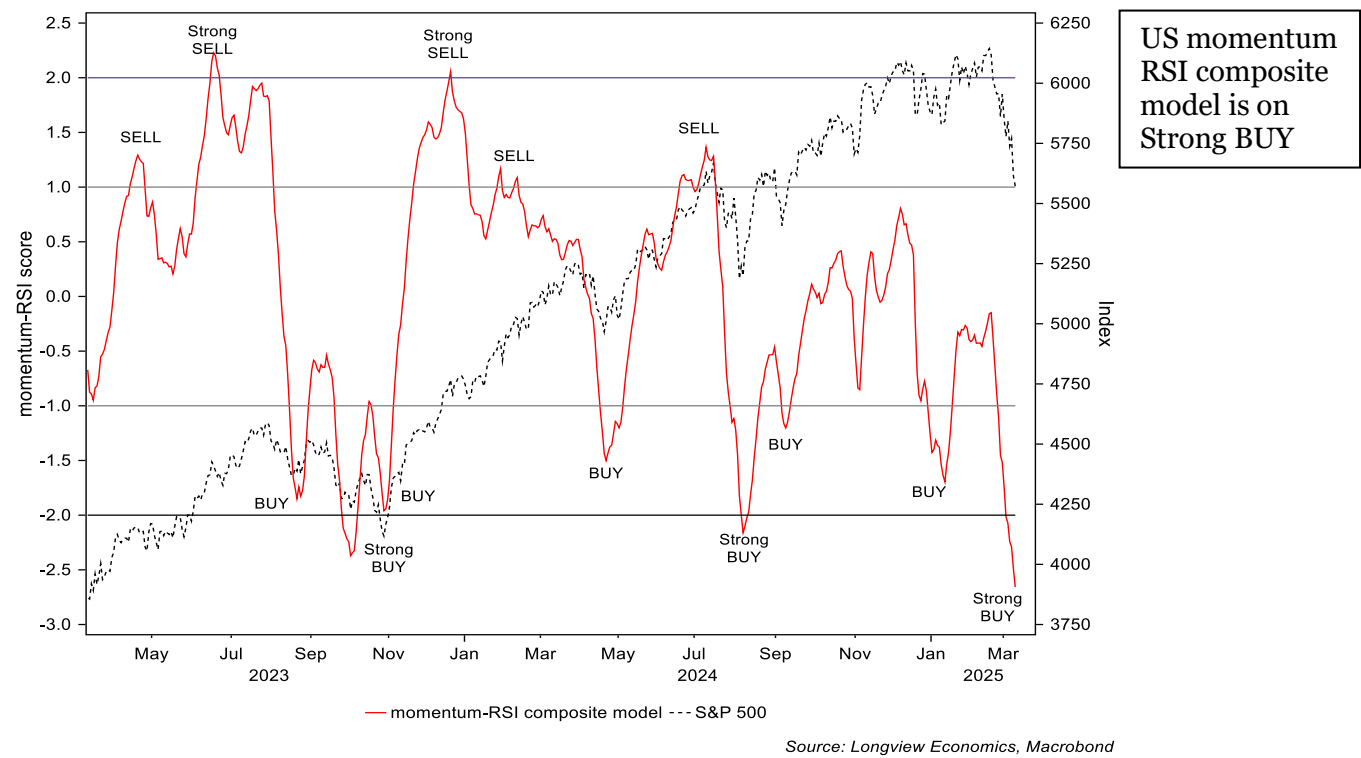


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

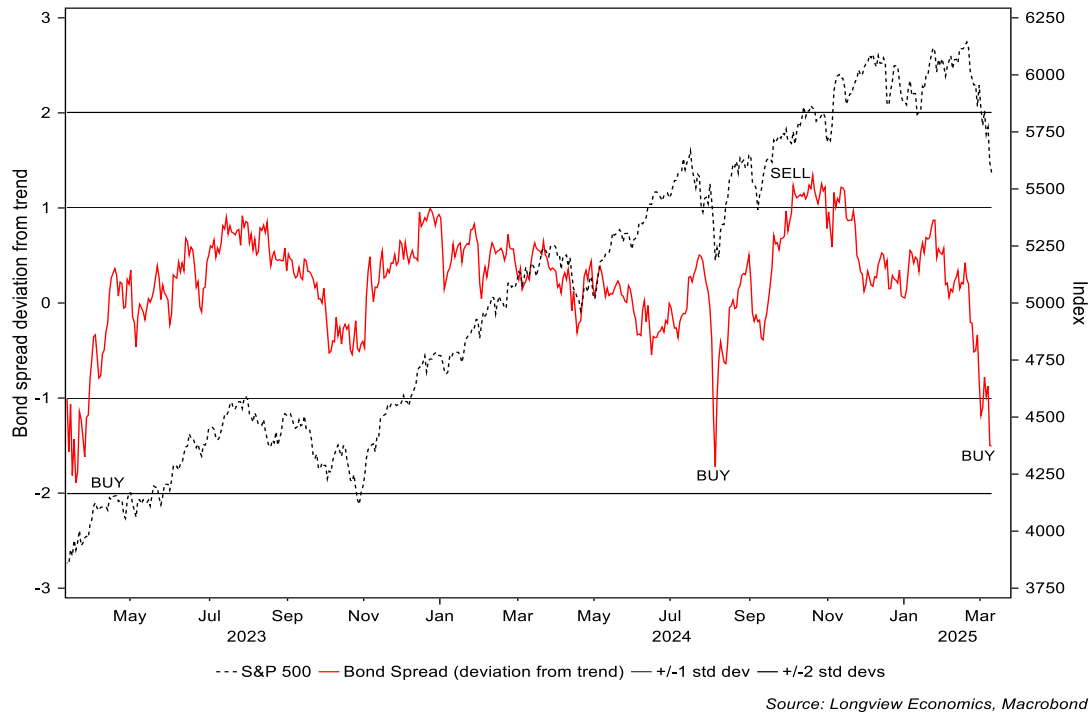
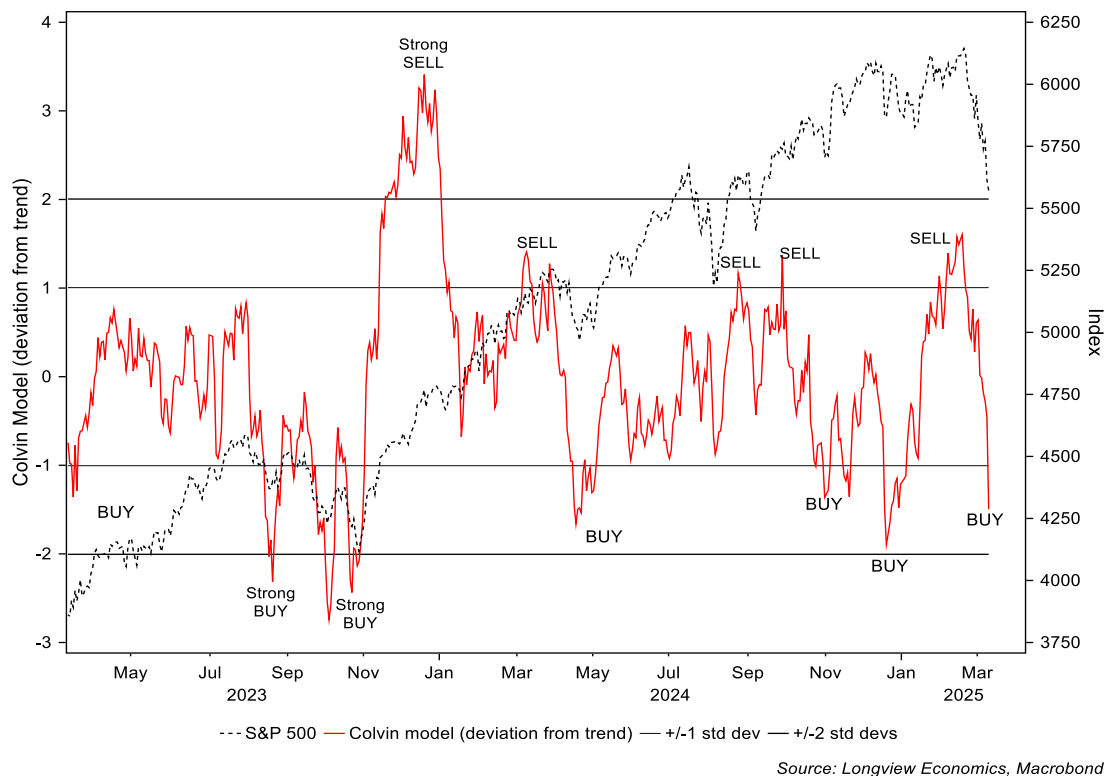


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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