

Equity Index Futures Trading Recommendations

13th March 2025

“Stay SHORT DAX - Risk Off Regime Ongoing (for now)”

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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);
- Retain unchanged stop loss at 23,400.

Rationale

Price action in markets was reasonably poor yesterday. In particular, US equities/risk assets initially responded well to the better than expected CPI reading (with both core and headline CPI printing at +0.2% M-o-M, vs. consensus of +0.3%). That was accompanied by a 1 – 2% rally in major US indices. The rally, though, then faded/reversed and, with that, the S&P500 remains in a near term downtrend (see FIG 1a). The price pattern was similar in Europe, with the Spanish IBEX, for example, breaking below its recent trading range (FIG 1e), while the DAX has been testing the lower end of its range (in place from late February to early March, see FIG 1b).

Usually, in ‘wave 1’ of a pullback*, **the ‘risk off’ regime persists until there are signs of capitulation** (i.e. fear/panic and washout selling). That then creates the set up for a ‘wave 2’ relief rally.

As highlighted yesterday, though, there’s no evidence of near term capitulation in markets. Most notably, there’s a lack of downside put protection in portfolios (for both US/European markets – see FIGs 4 & 4a); the move higher in volatility has been orderly (and has not reached especially high levels, e.g. see FIG 1d); volumes haven’t broken above their ‘normal’ range (e.g. see FIG 1f); and our risk appetite models are broadly NEUTRAL, see FIGs 3 – 3b. Typically, the end of waves 1 & 3 (the SELLing phases of a pullback) are both marked by clear BUY/strong BUY signals from those models. In a similar vein, there are currently no signs of broad based/indiscriminate SELLing. That’s illustrated, for example, by the low percentage of US stocks trading within 3% of a 52 week low (see FIG 1).

The **risk reward therefore favours staying SHORT the DAX**, which is starting to roll over from technically over-extended levels (see FIG 1c). If we’re correct, and ‘wave 1’ is ongoing, then the over-extended nature of the DAX should unwind (reverse) over coming days/weeks. In that environment, our short term scoring system for the DAX would move much lower (i.e. probably onto strong BUY, from BUY currently – see FIG 2).

We therefore recommend SHORT DAX positions, with an unchanged stop loss. Please see above for detailed recommendation.

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

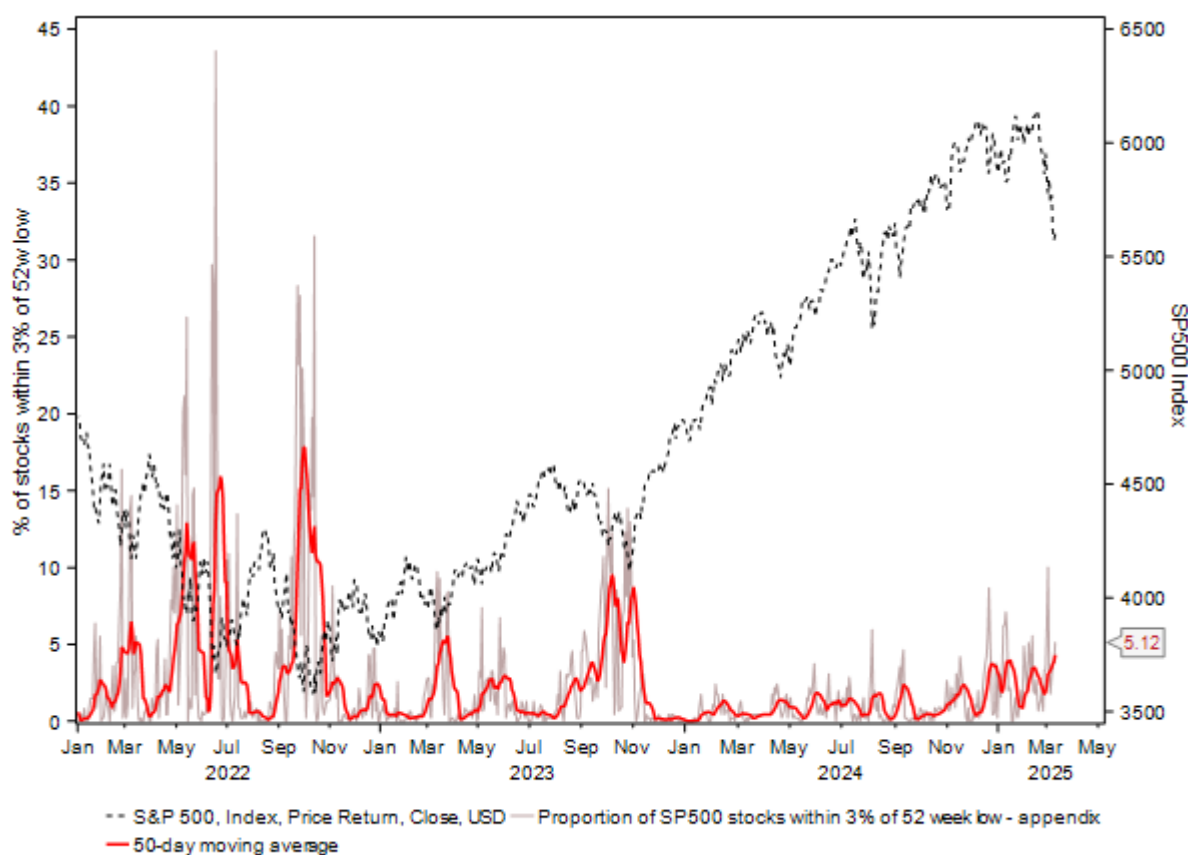
Kind regards,

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: Percentage of US stocks within 3% of their 52-week lows 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: DAX March 2025 futures 30 day tick chart shown with overnight price action



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

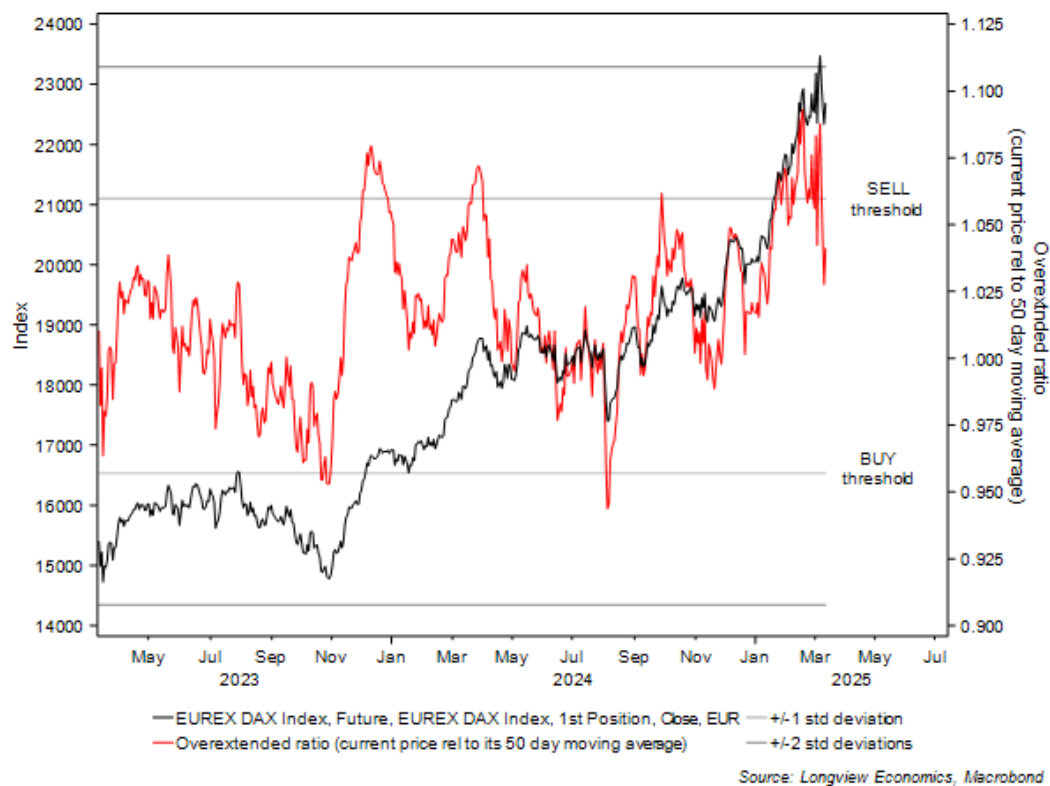


FIG 1d: VDAX (implied volatility of the DAX, %)

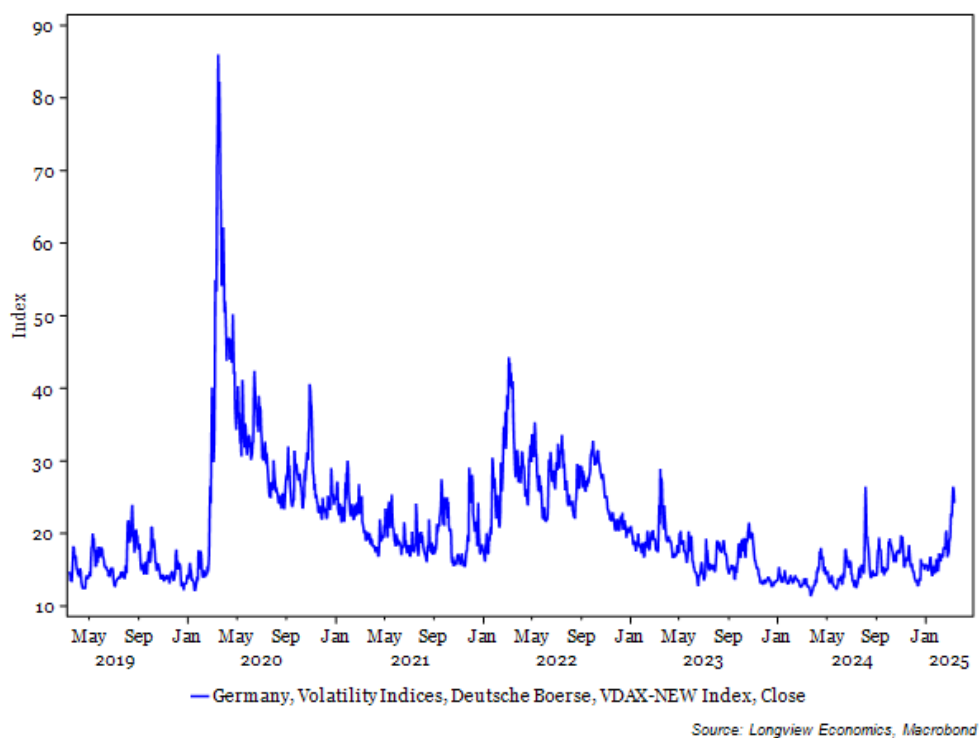


FIG 1e: Various US/European equity indices (YTD performance, local currency, %)

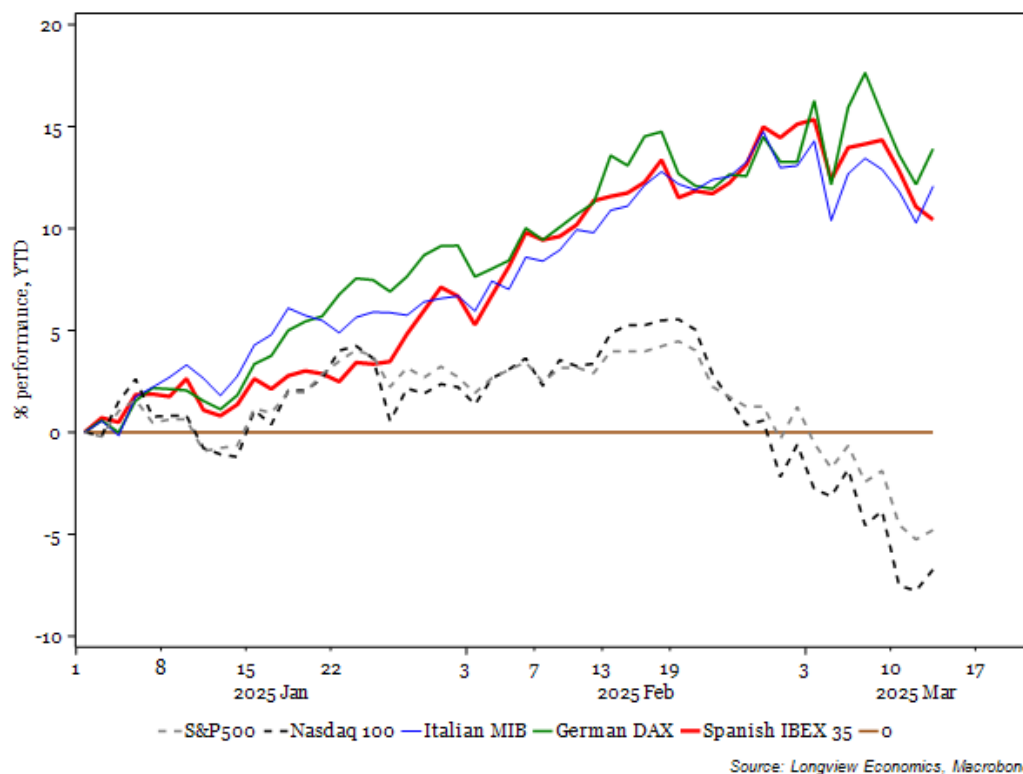
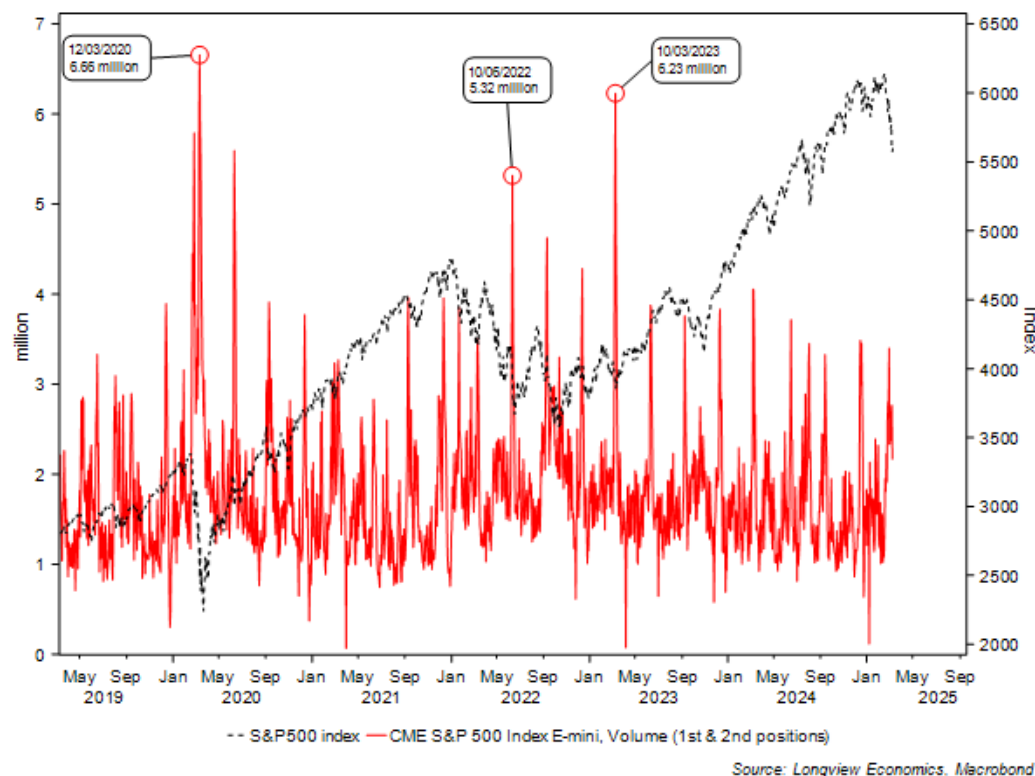
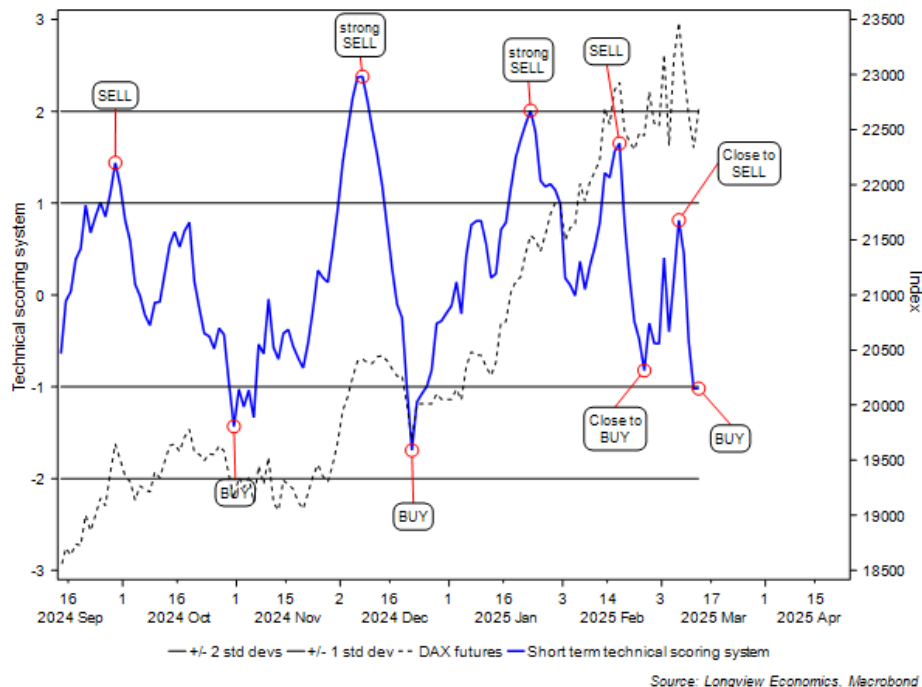


FIG 1f: S&P500 e-mini futures volumes (1st & 2nd positions)



The DAX short term scoring system is on BUY (just)....

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



Short term risk appetite models are NEUTRAL

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

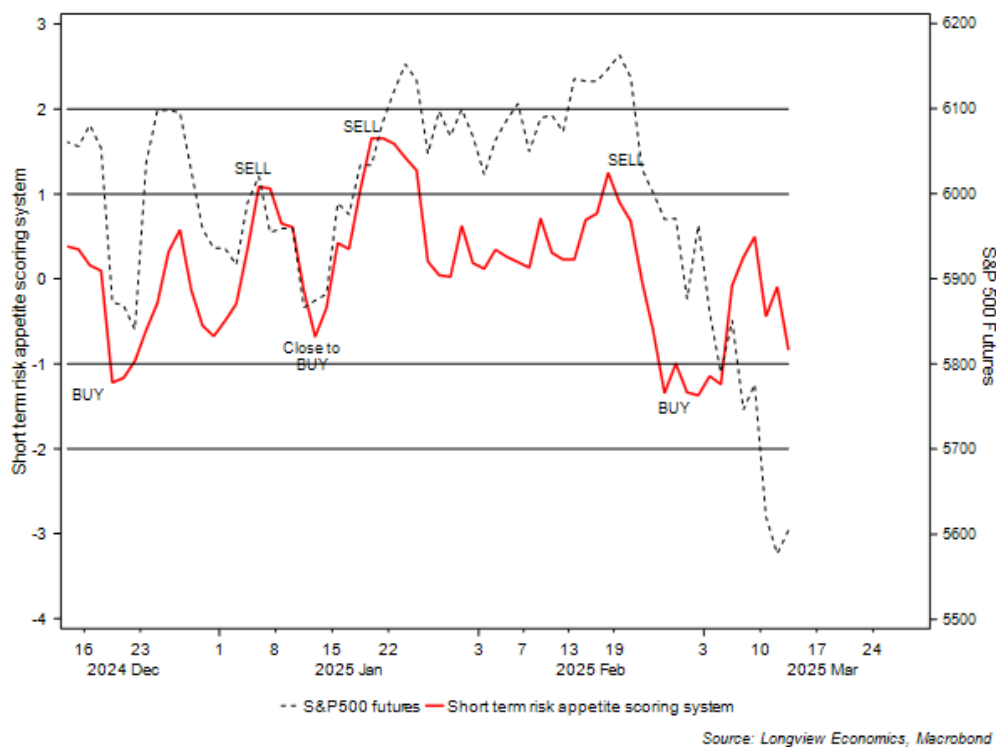


FIG 3a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500

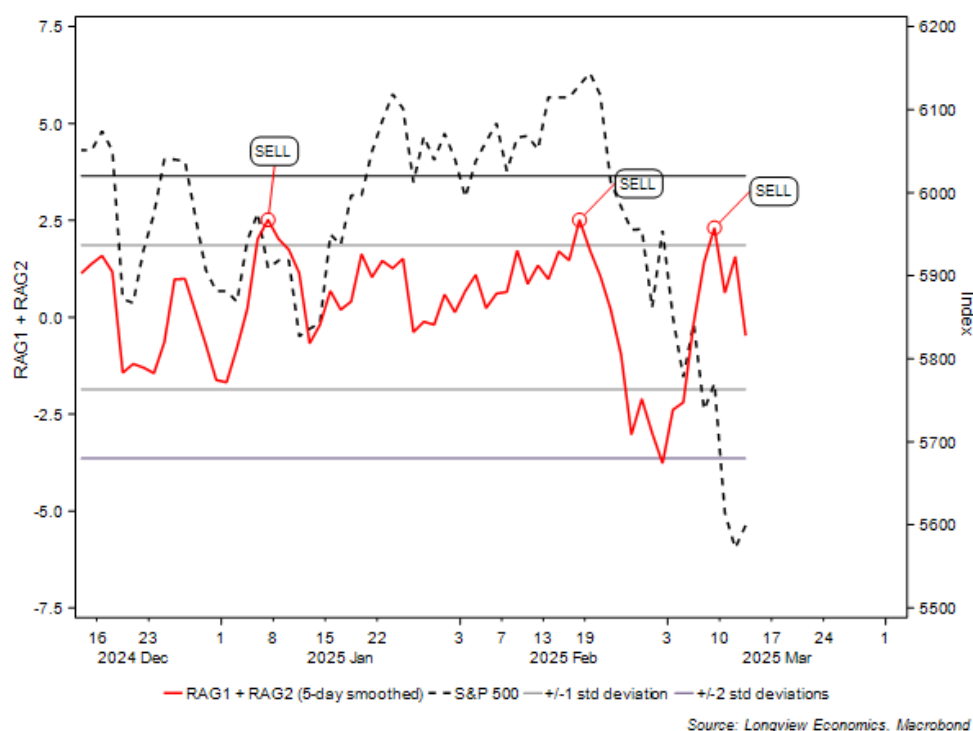
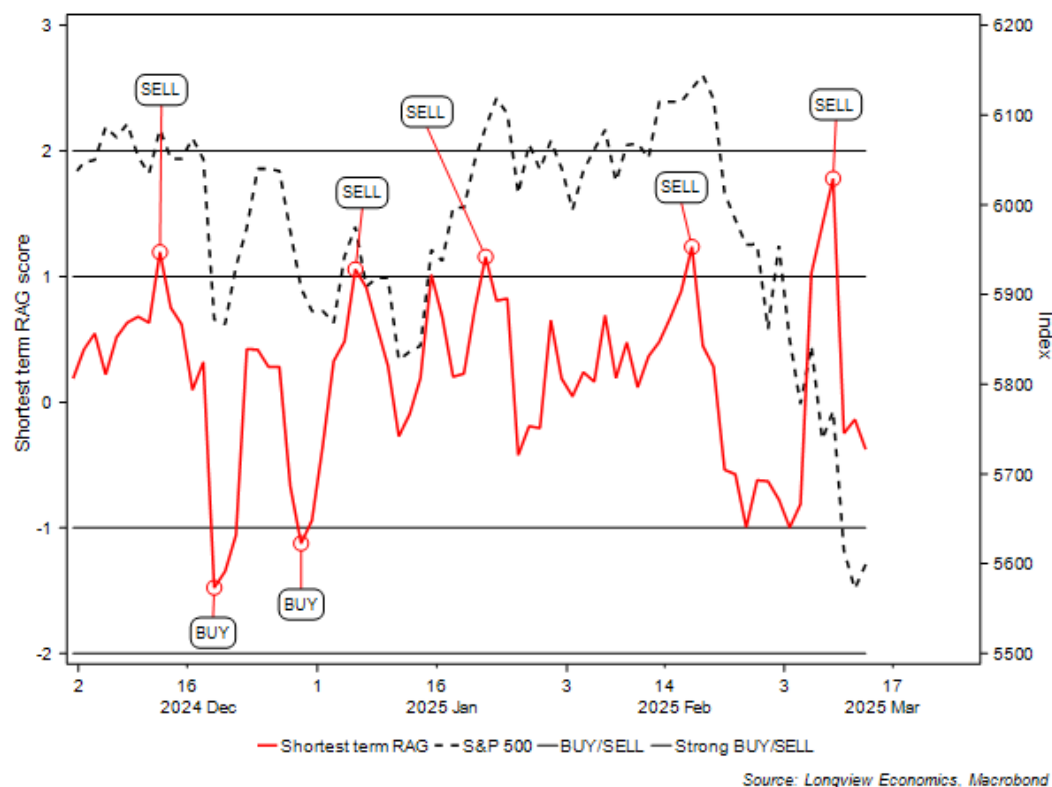


FIG 3b: Shortest term RAG vs. S&P500



Put to call ratio indicators are NEUTRAL

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

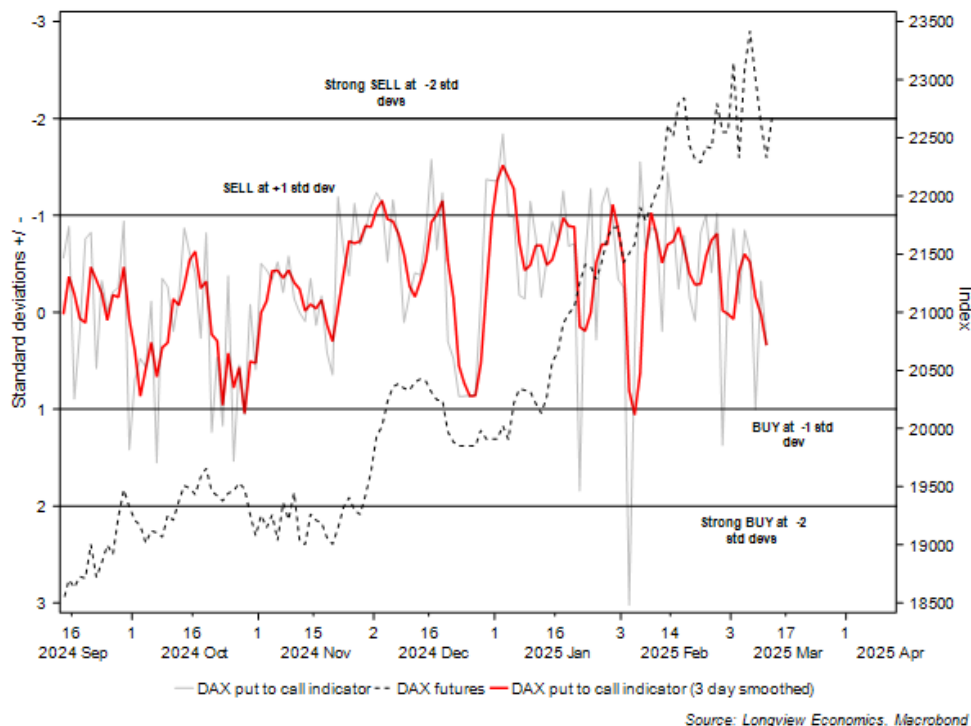
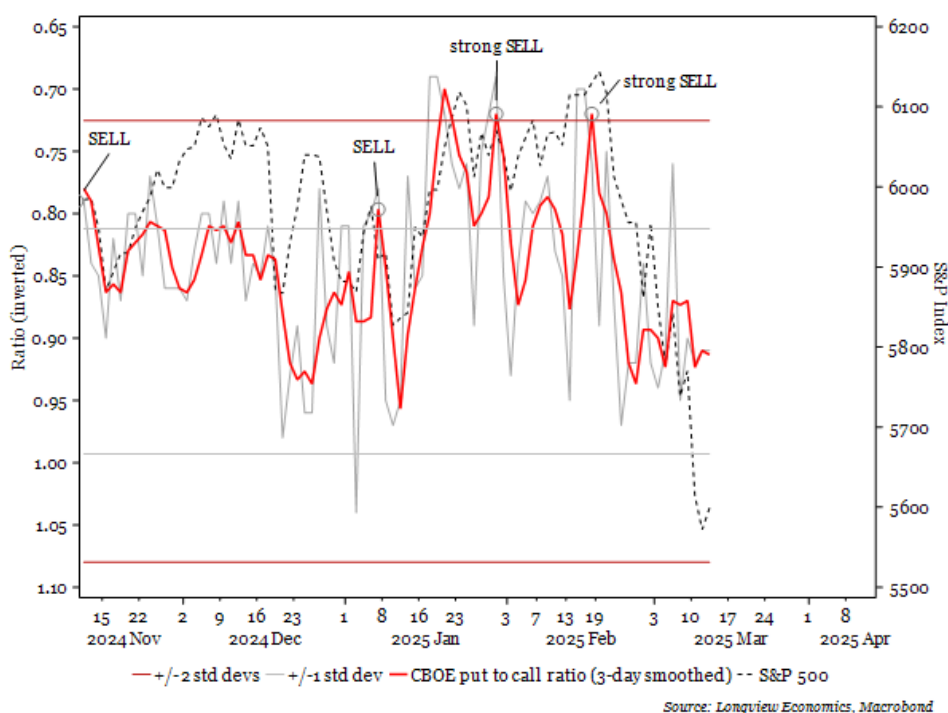


FIG 4a: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

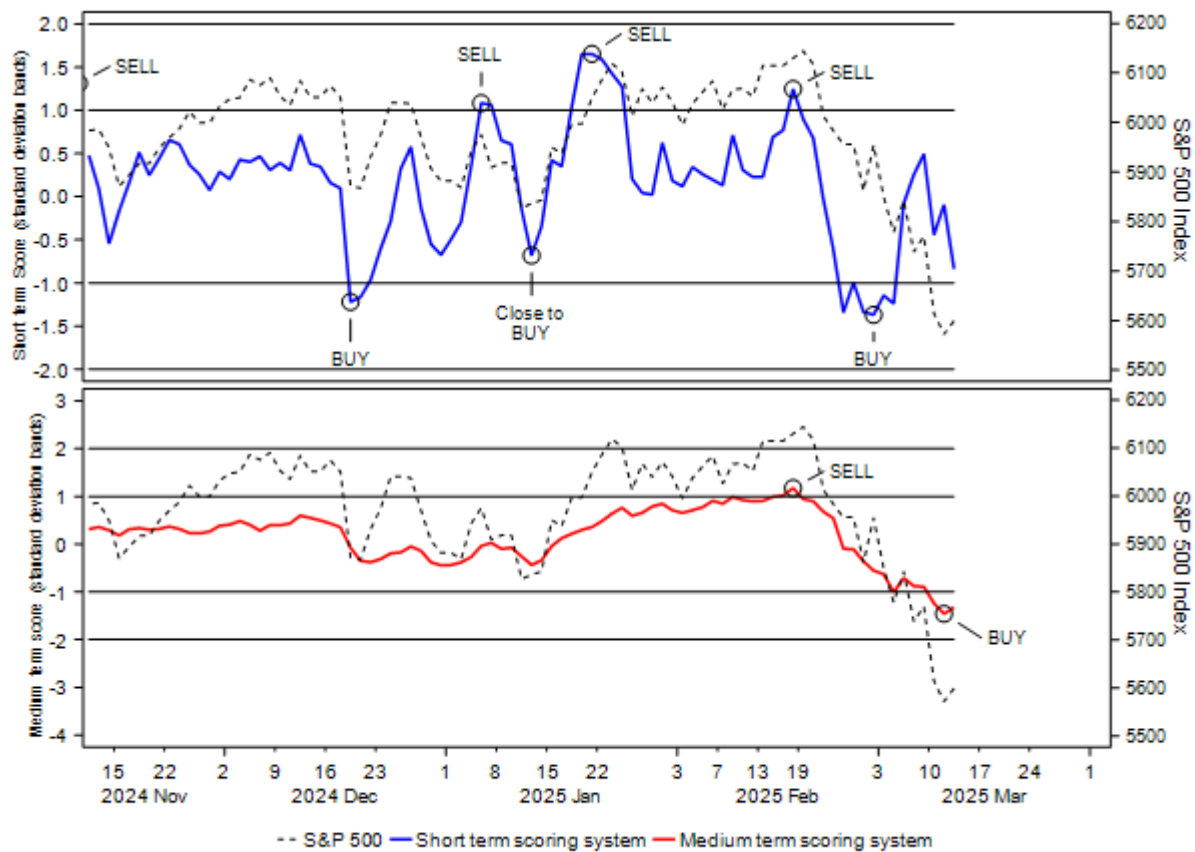


Key Longview Scoring Systems (chart below):

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: Australian consumer inflation expectations (Mar, 12am); **UK RICS house price balance** (Feb, 12:01am); **US headline & core PPI** (Feb, 12:30pm); US weekly jobless claims (12:30pm); Canadian building permits (Jan, 12:30pm).

Key events today include: The RBA's Jones speaks in a panel (2:30am); speeches by the ECB's Rehn at kiel-CEPR conference in Berlin (9am), Guindos at Sustainable Finance conference (9:15am), Vujcic & Makhoulouf in Zagreb (10am) & Villeroy & Nagel in Paris (5:30pm).

Key earnings today include: Enel.

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

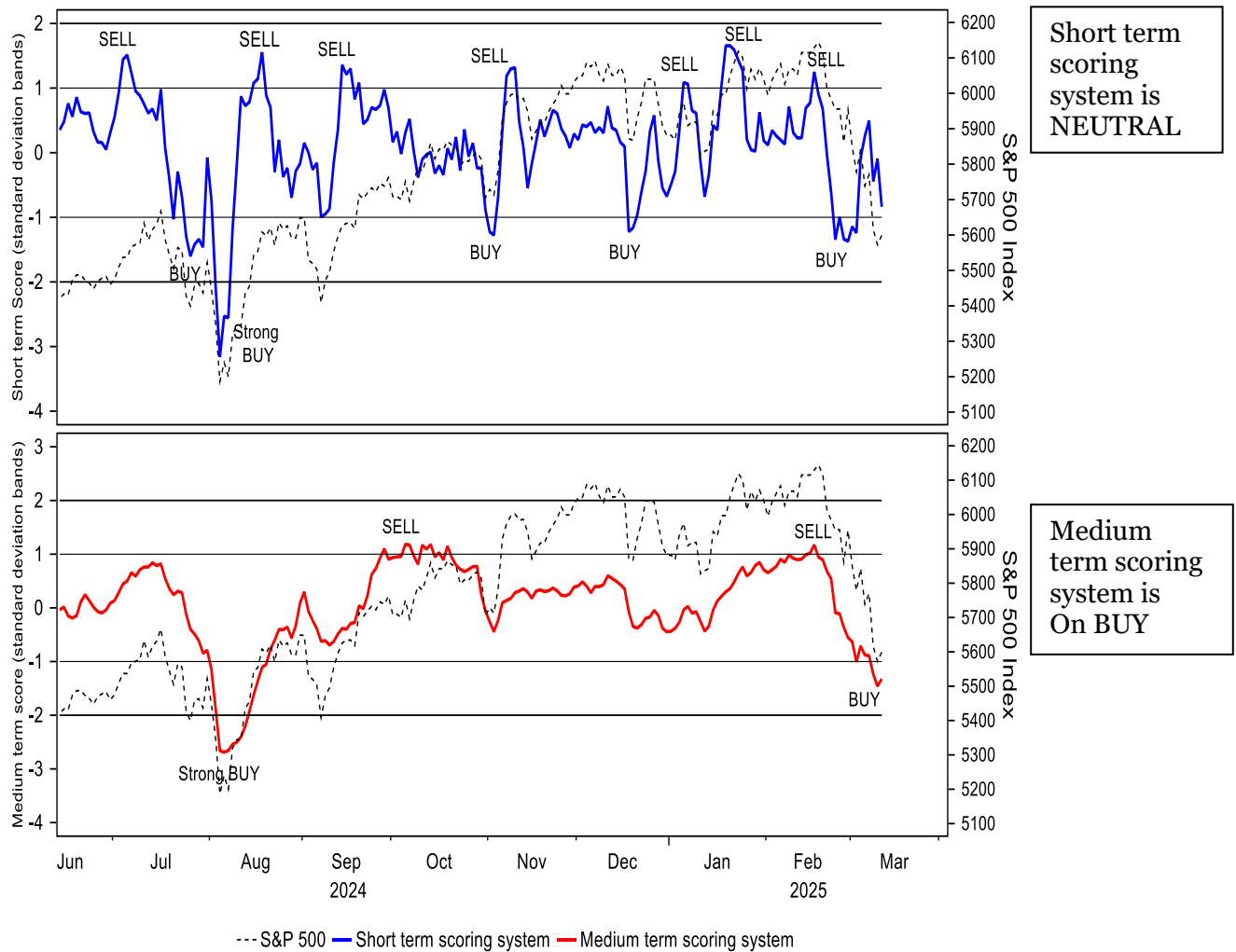
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13th March 2025

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

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



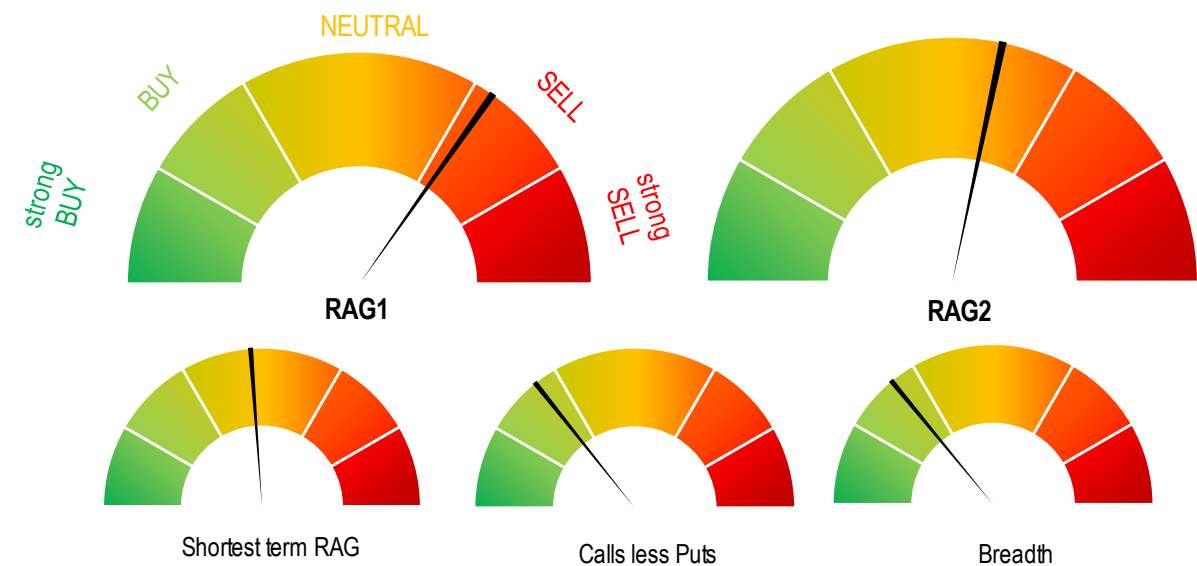
Source: Longview Economics, Macrobond

*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**

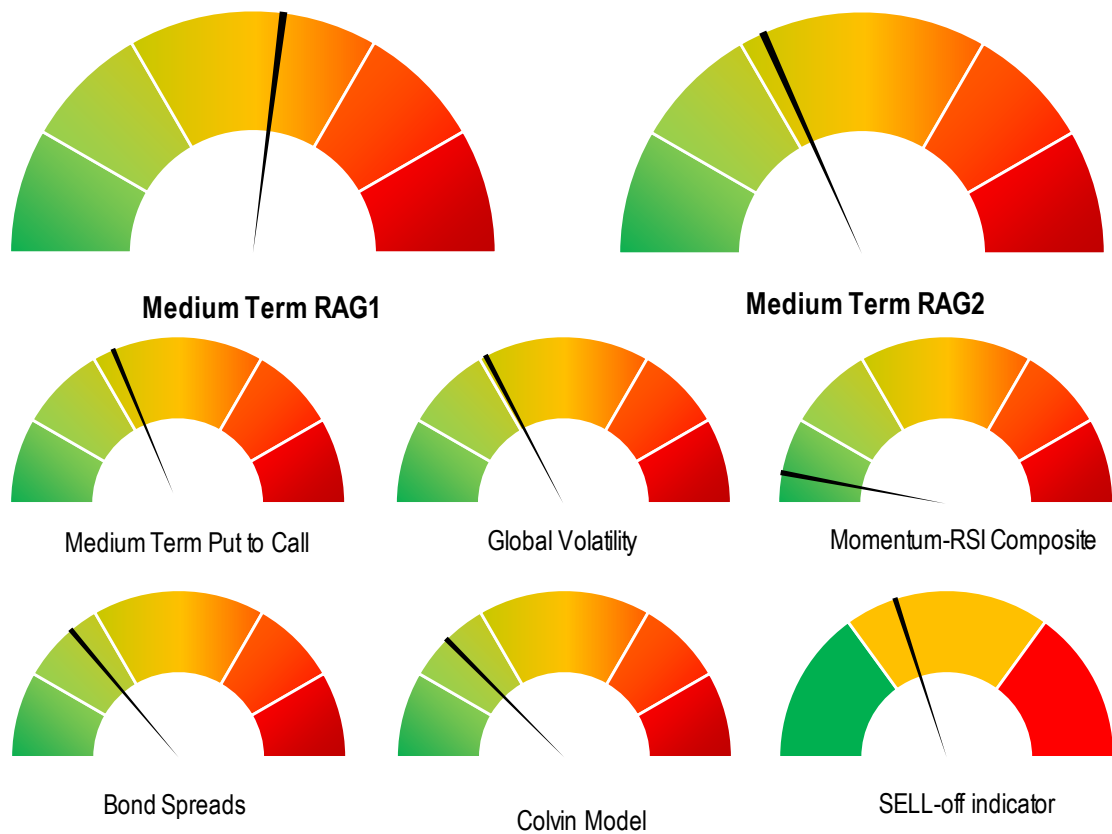
Section 1a: Summary of indicator signals**

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

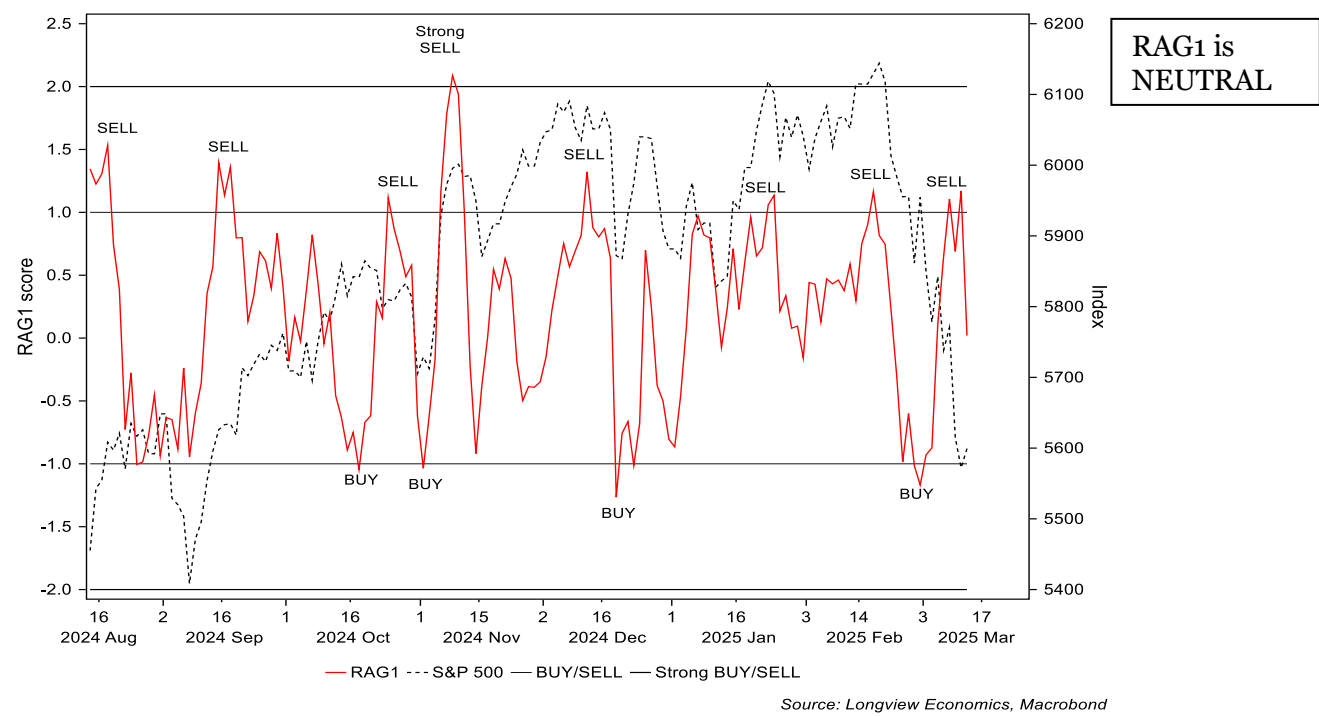
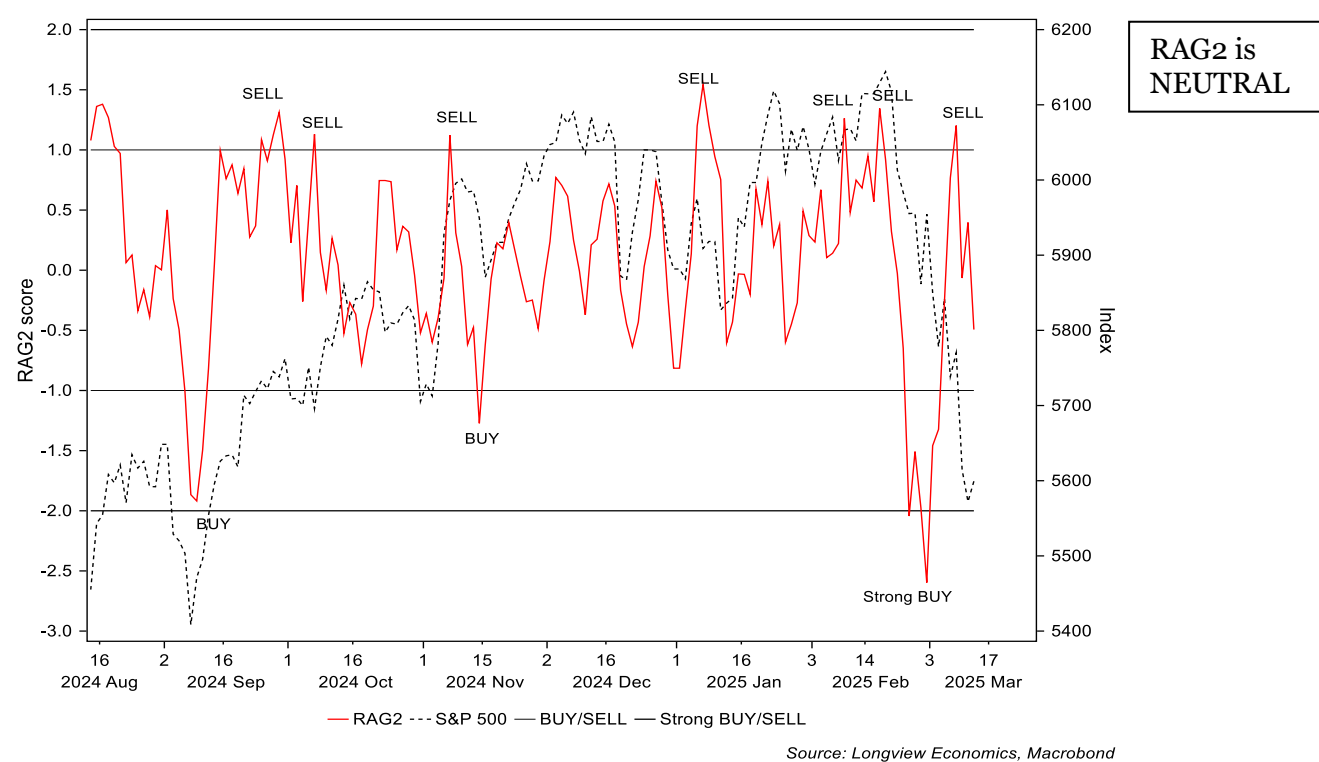
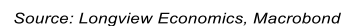
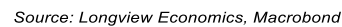


Fig 2b: RAG 2 vs. S&P 500

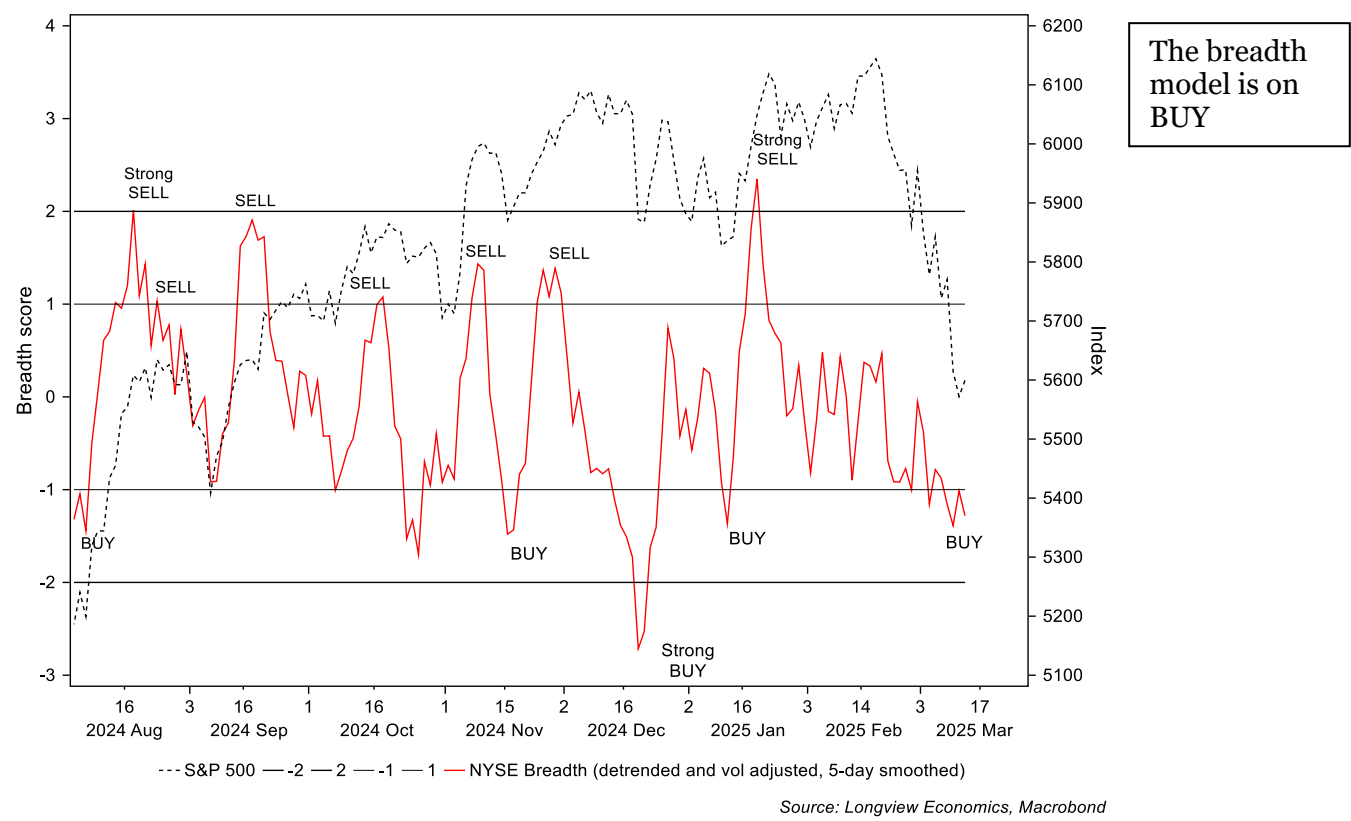


For explanations of indicators please see page 10



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

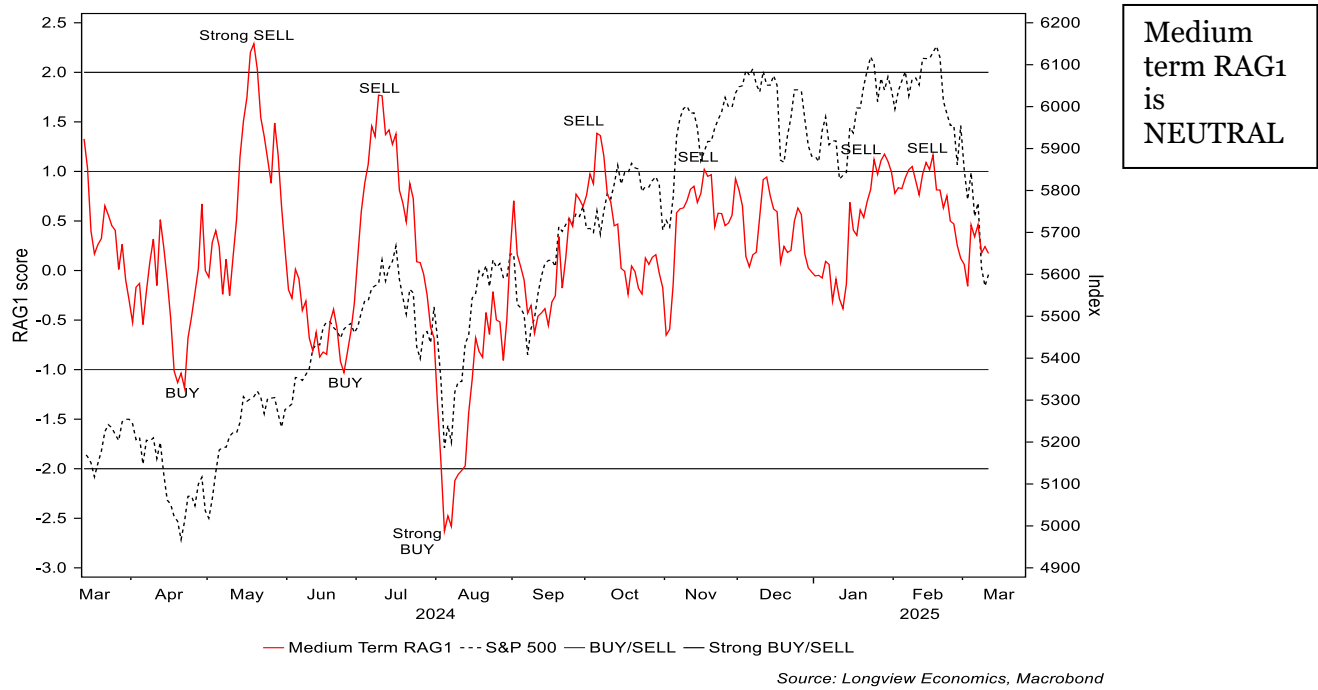
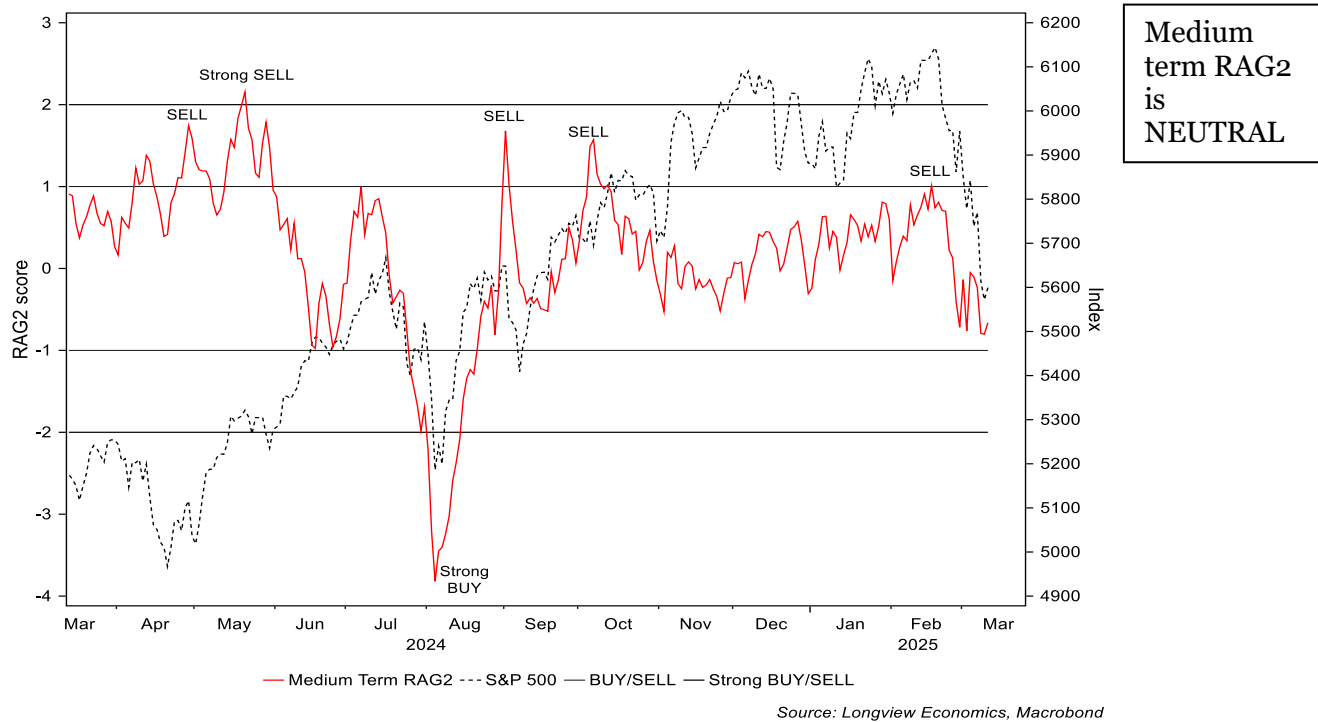


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

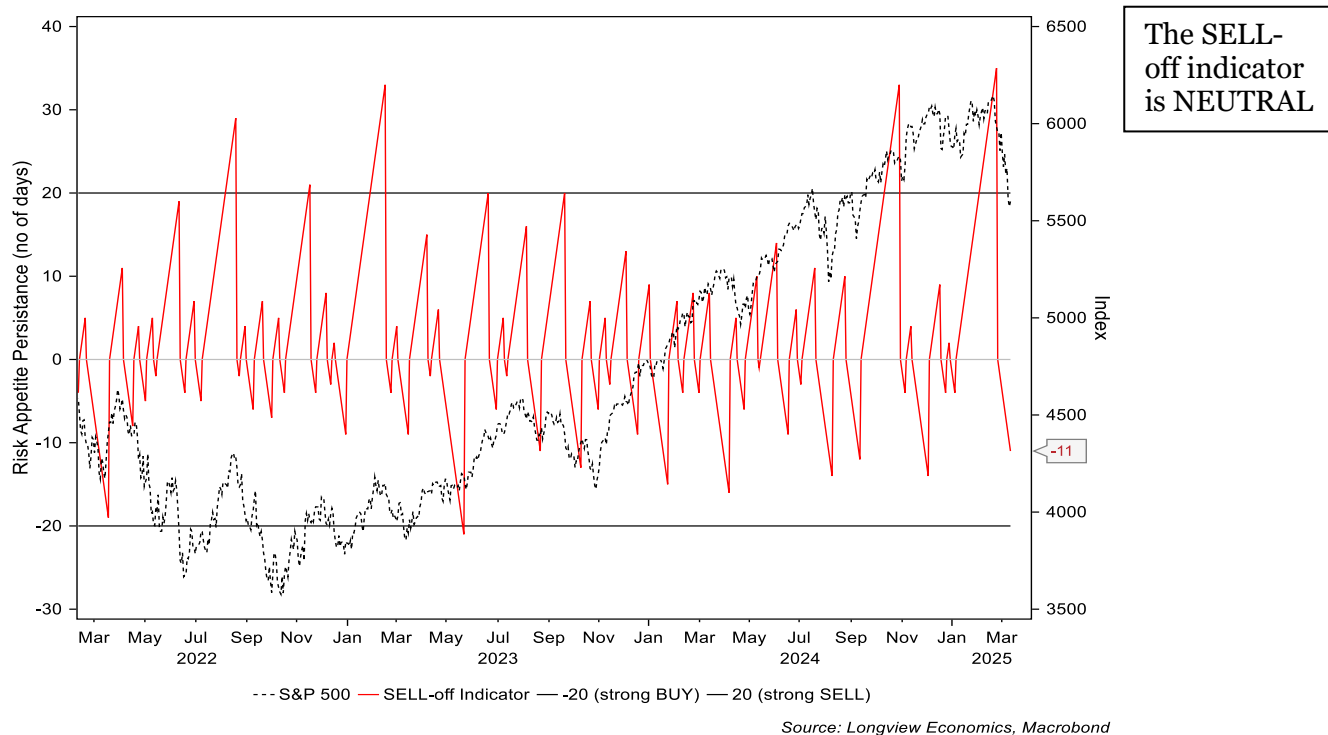
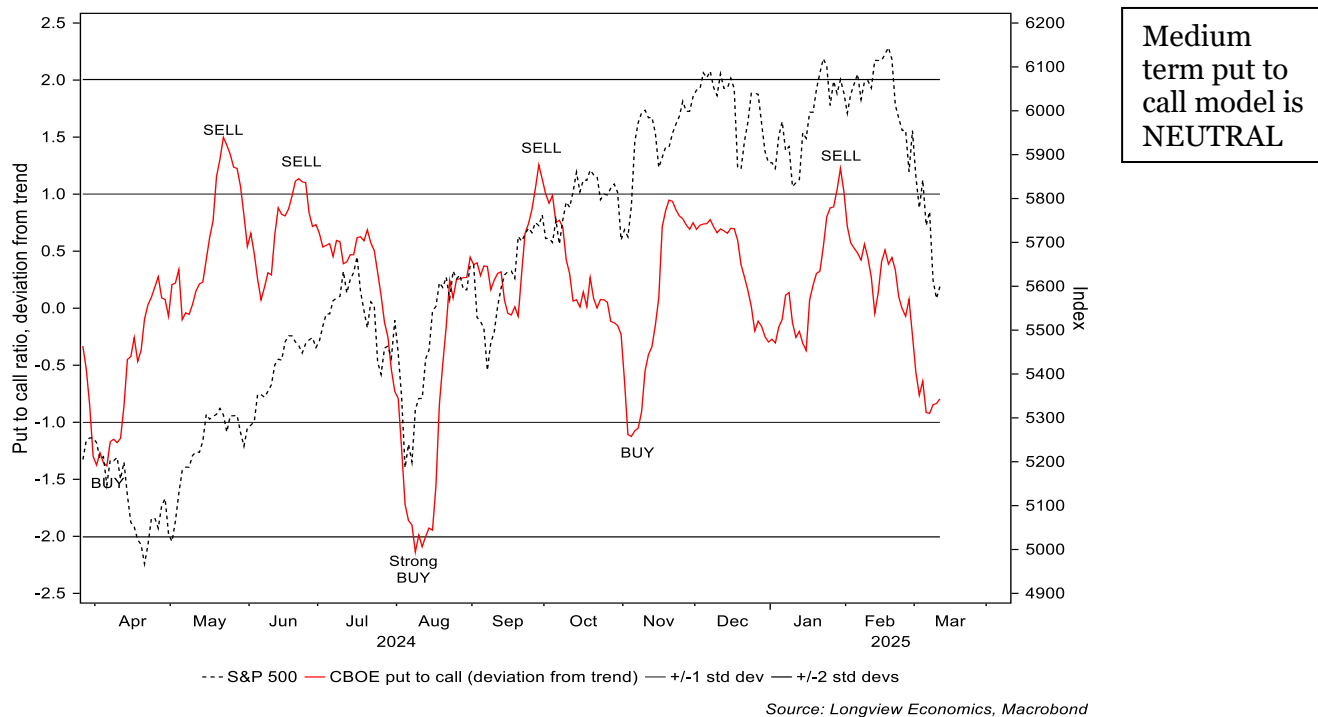


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

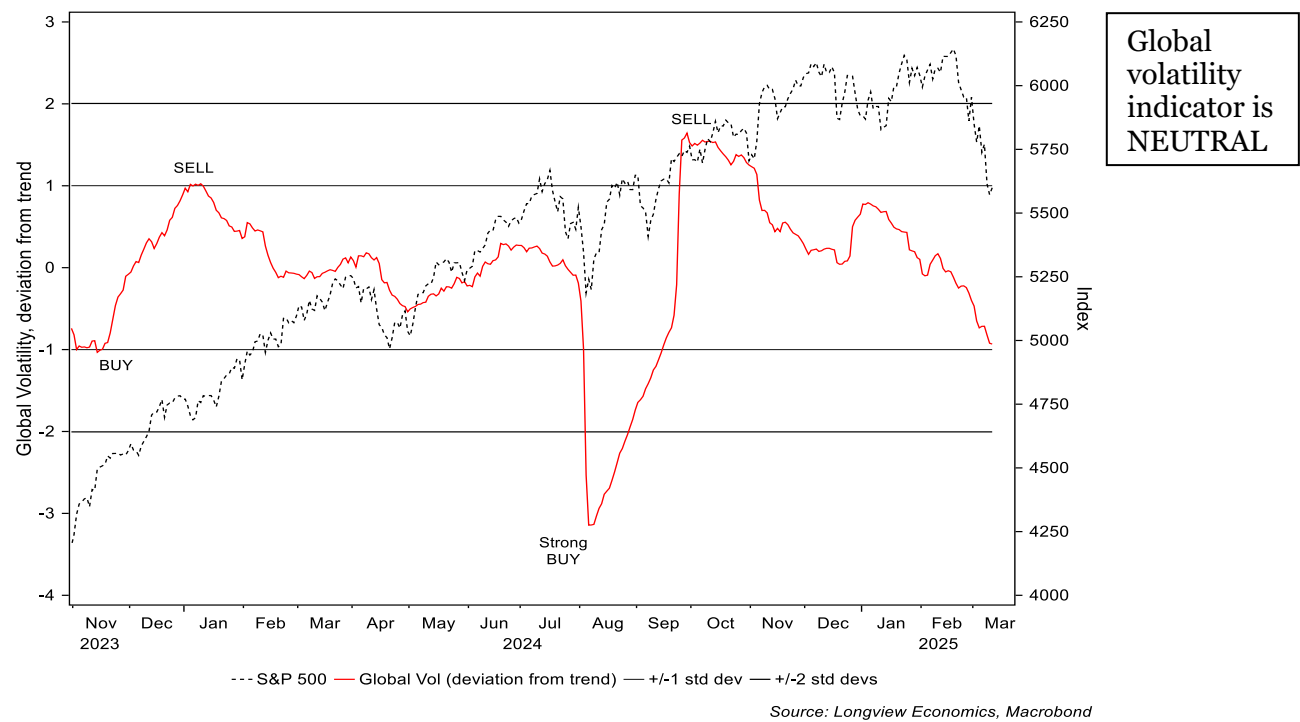


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

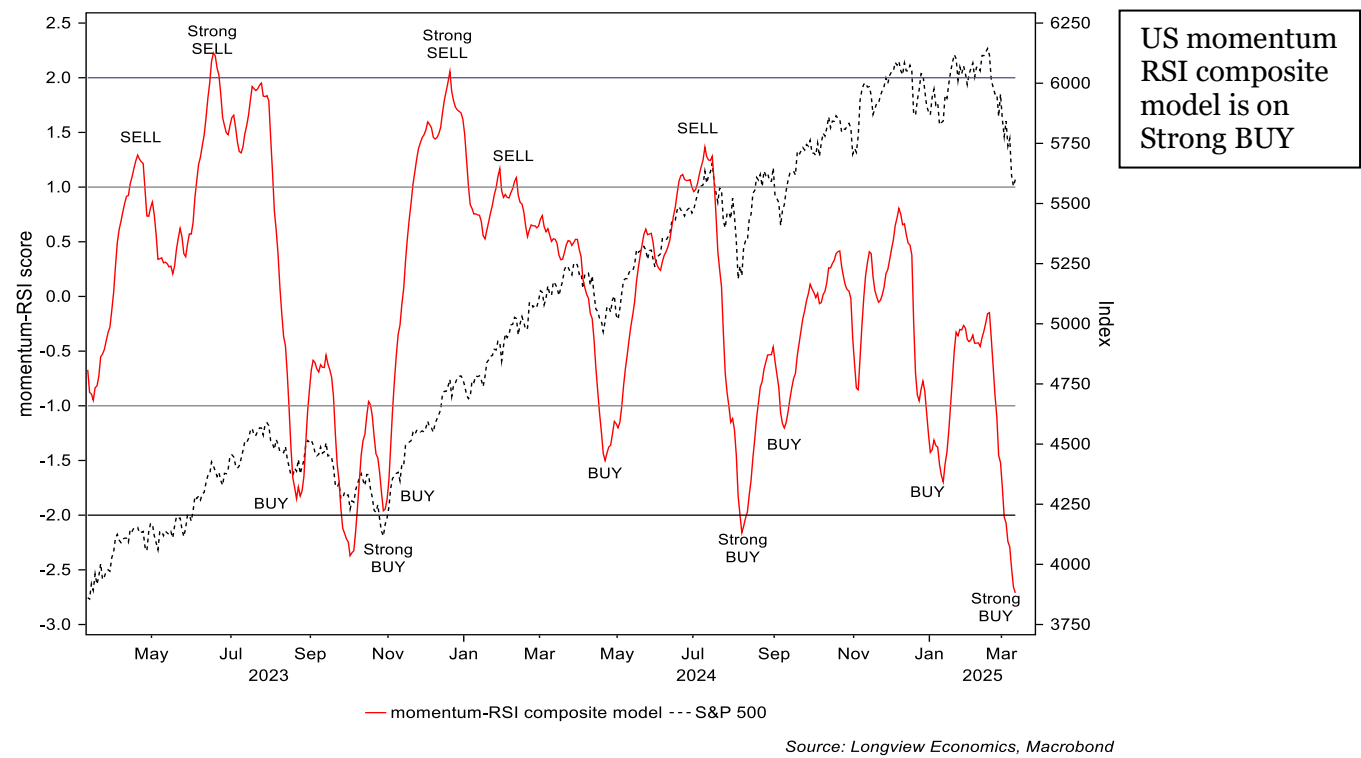


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

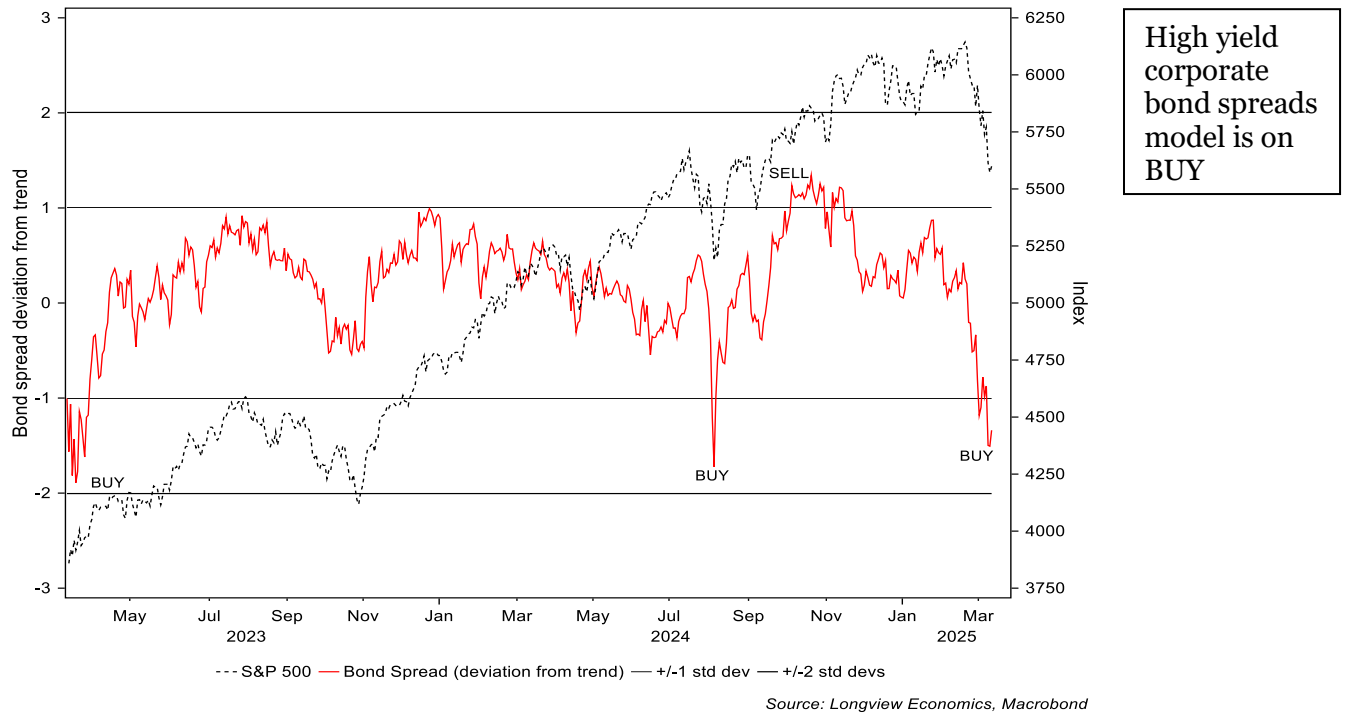
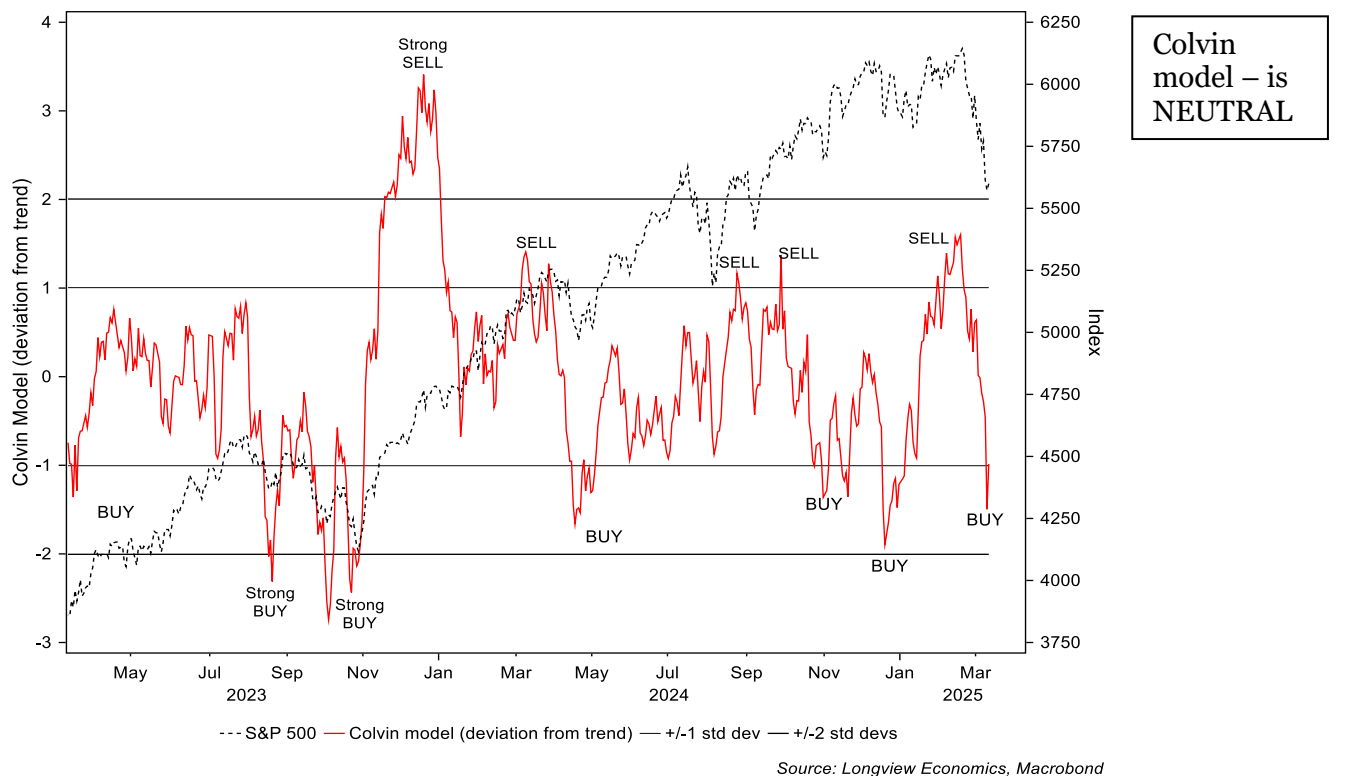


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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