Equity Index Futures Trading Recommendations

13th May 2025

"Froth Starting to Build"

Email: info@longvieweconomics.com

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

- WATCH & WAIT

Rationale

After yesterday's strong move (S&P500 +3.3%; NDX100 +4.0%; SOX +7.0%*) on the back of the China-US trade truce, **medium term models are increasingly starting to reach toppy/SELL levels.**

Froth is also starting to build into this market.

In particular i) both the S&P500 and the NDX100 are now **overextended** by +1 standard deviation relative to their 50 day moving averages (as well as against their 10 day moving averages – FIGs 1 & 1a); ii) market participants have become **'greedy'** on a medium term basis, according to our **risk appetite** models (as well as in the short term – see FIGs 1b, 3 & 3a); while iii) downside put protection has been largely removed from portfolios. That is evident from the short-term CBOE (broader market) put to call ratio (FIG 3b), as well as the NDX100 equivalent model, which is now close to signalling SELL (FIG 1c). The R2k put to call model is also moving back towards SELL (FIG 1d).

With yesterday's strength in equity markets, there was also a **resurgence of interest in single stock call buying**. Reflecting that, the model which measures the volume of outstanding single stock call options surged higher (towards SELL – FIG 1e). As the chart shows, this typically happens just prior to mini/maxi pullback phases (e.g. late January 2025, July 2023 & November 2021 – see chart). In that sense, heavy involvement in call option buying is indicative of overexuberance towards equities. Consistent with that, the SELL-off indicator continues to build towards its key +20 level (currently on +13, FIG 1f). When it reaches that level, it warns of the potential for a wave of risk aversion (pullback). The rush to put risk back on is also evident in sector and single stock models which are back at SELL levels (FIGs 1g & 1h), i.e. the advance in equities has been broad based.

Not all models are on SELL, as yet. The medium-term CBOE put to call ratio, for example, is at high levels but not yet on SELL (as is the medium term risk appetite scoring system).

Clearly a lot of good news is now in the price with the announcement of a China-US pause on tariffs for 90 days and a successful conclusion to their initial negotiation round. The EU-US relationship remains a concern given the lack of prominent trade discussions and Trump's comments yesterday:

“U.S. President Donald Trump said Monday that the European Union is worse than China, hours after Washington and Beijing agreed to slash respective punitive tariffs and de-escalate their trade war. "European Union is in many ways nastier than China, okay?" Trump said, as he lashed the bloc.”

Source: Politico article, 12th May 2025 https://www.politico.eu/article/trump-eu-nastier-than-china/

Given we were stopped out (again) yesterday morning, we recommend WATCHing and WAITing (for now). The SELL case, though, is building once again. In particular, key medium-term models are moving to SELL levels, at which they will reinforce the message of the short-term SELL signals. Added to that, the SELL-off indicator is building towards its key +20 level.

Key events today are listed below. Of particular note, US CPI data (released at 1:30pm UK time today) will be watched closely.

Kind regards,

The team @ Longview Economics

*NB ten out of the 11 S&P500 top level sectors closed higher, led by consumer discretionary (+5.7%); all but 5 of the 24 industry groups were also positive on the day (autos and components was the best performer +6.4%); while the VIX fell sharply (down 351bps); and the USD rallied (+1.45%). Fed fund futures priced 11bps of cuts out for 2025 while US 10-year yields backed up by 8bps.

FIG 1: S&P500 overextended indicator (underlying index price relative to its 50 day moving average)

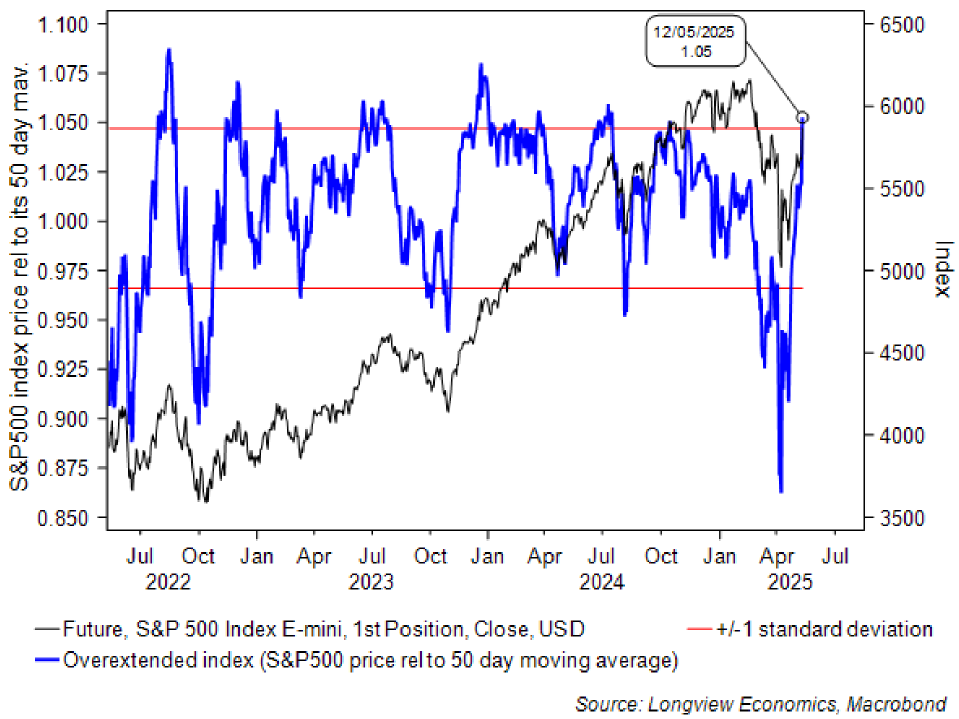
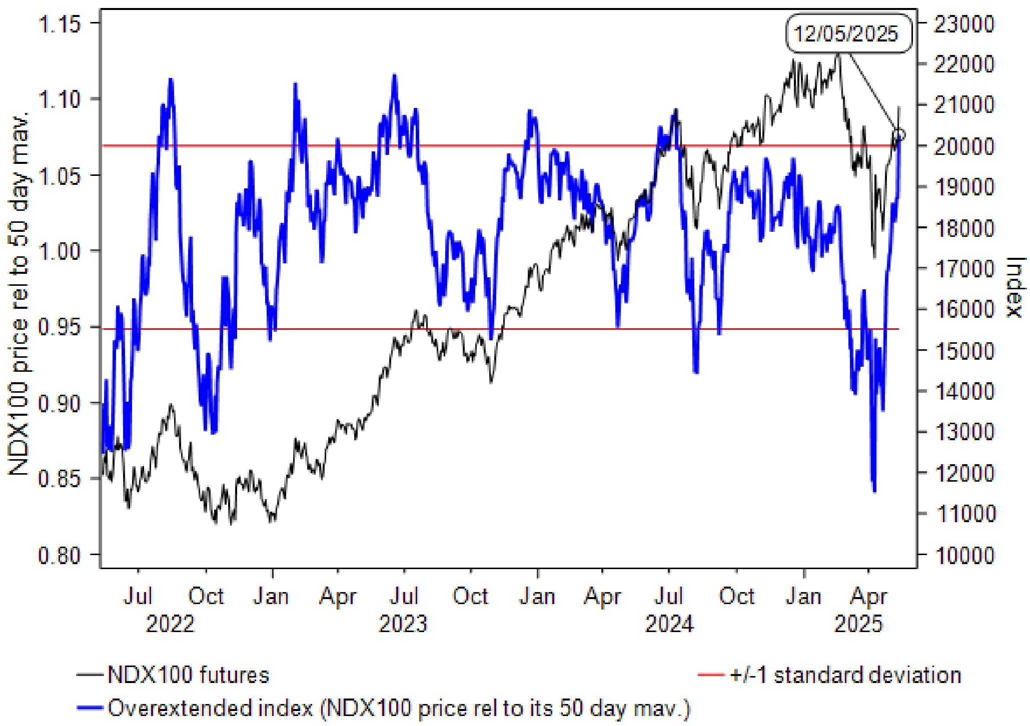
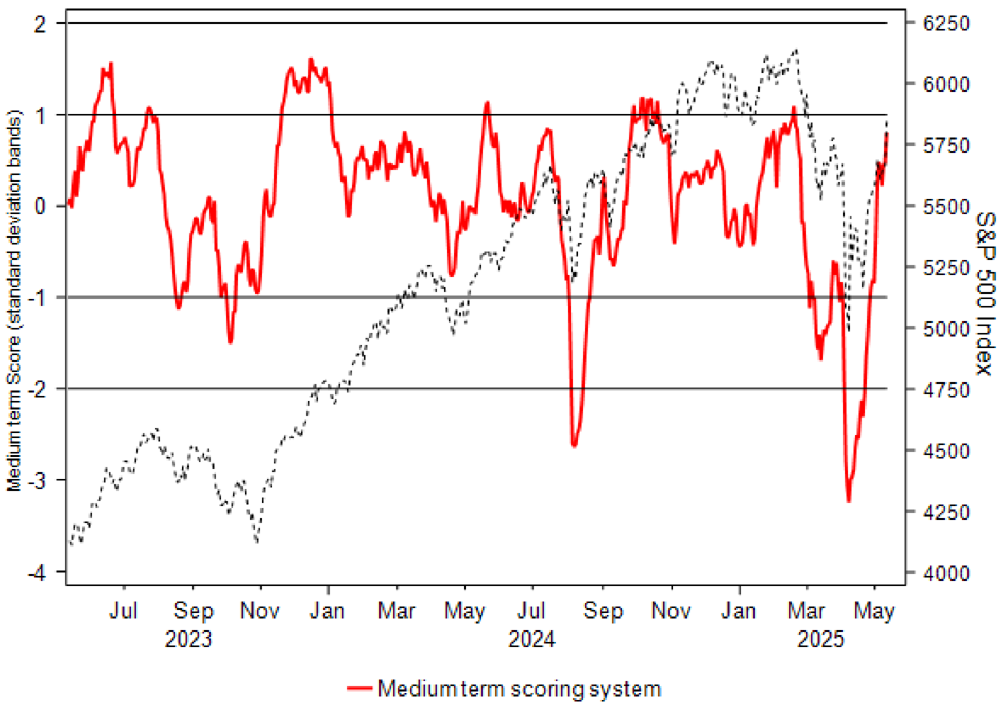


FIG 1a: NDX100 overextended indicator (underlying index price relative to its 50 day moving average)



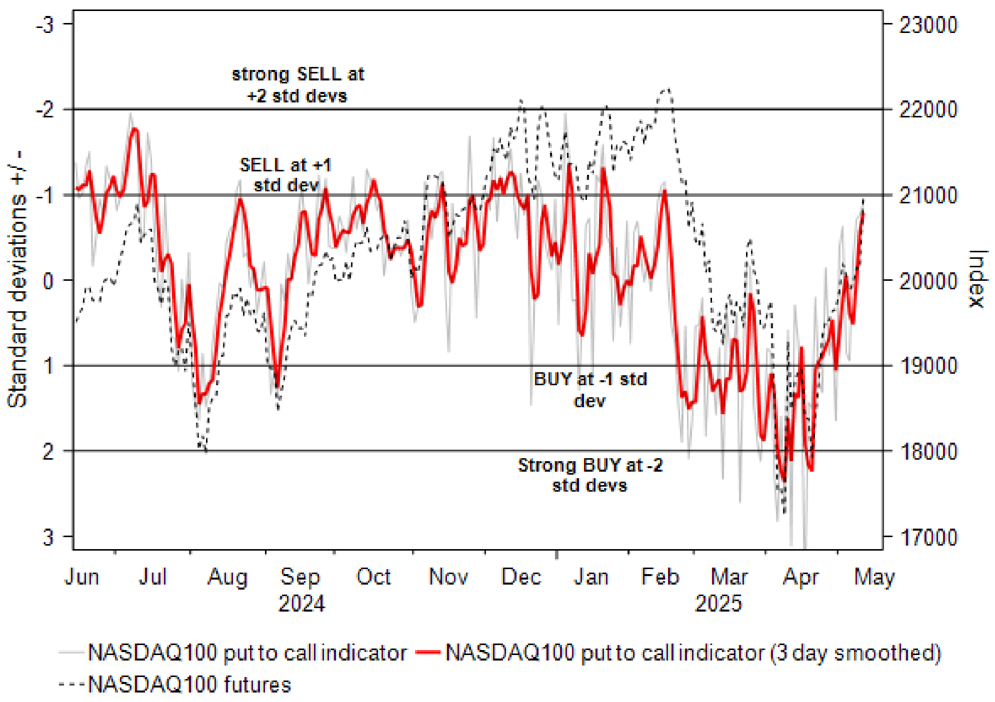
Source: Longview Economics, Macrobond

FIG 1b: Longview medium term **'risk appetite'** scoring system vs. S&P500



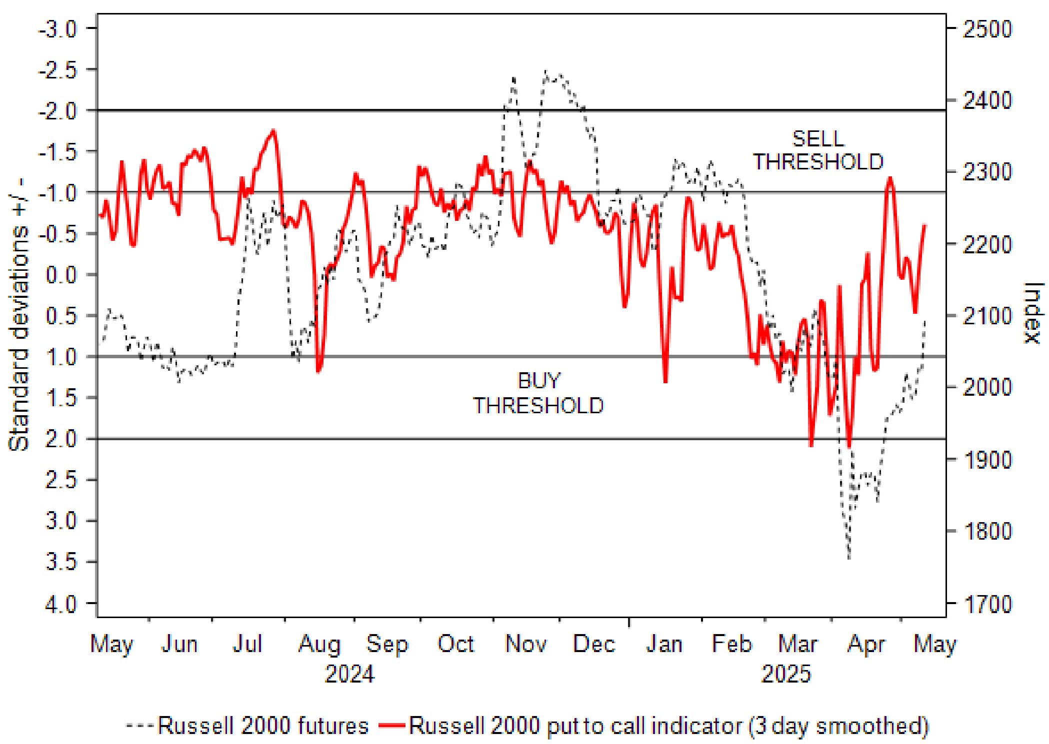
Source: Longview Economics, Macrobond

FIG 1c: NDX100 put to call indicator (medium term model) vs. NDX100



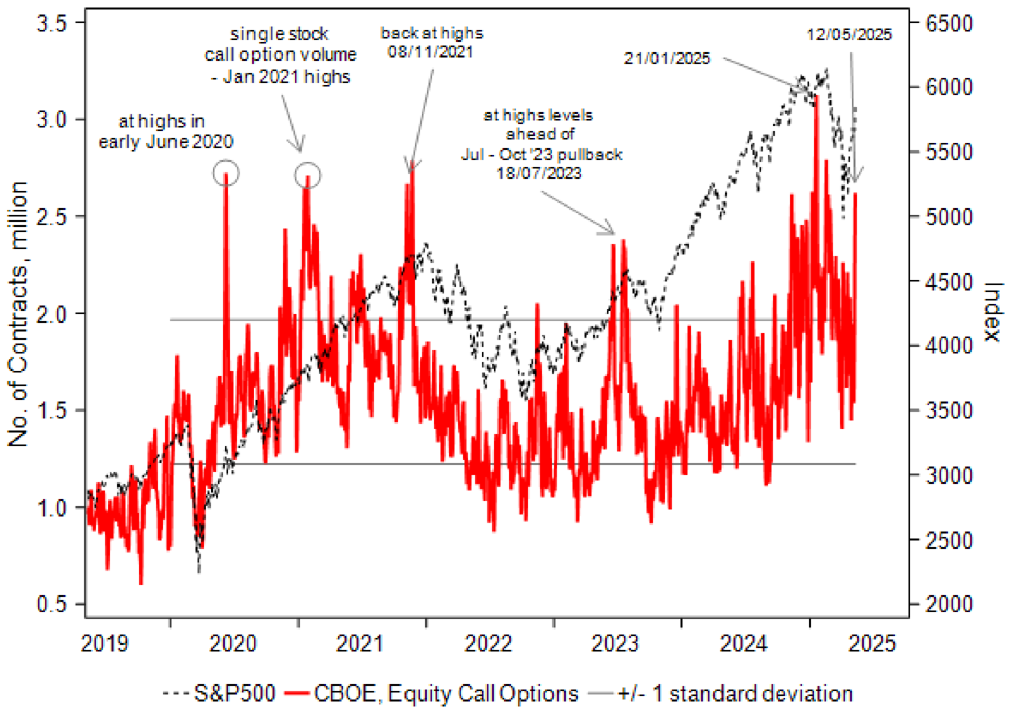
Source: Longview Economics, Macrobond

FIG 1d: Russell 2000 put to call indicator (1 & 3 day smoothed) vs. Russell 2000 futures



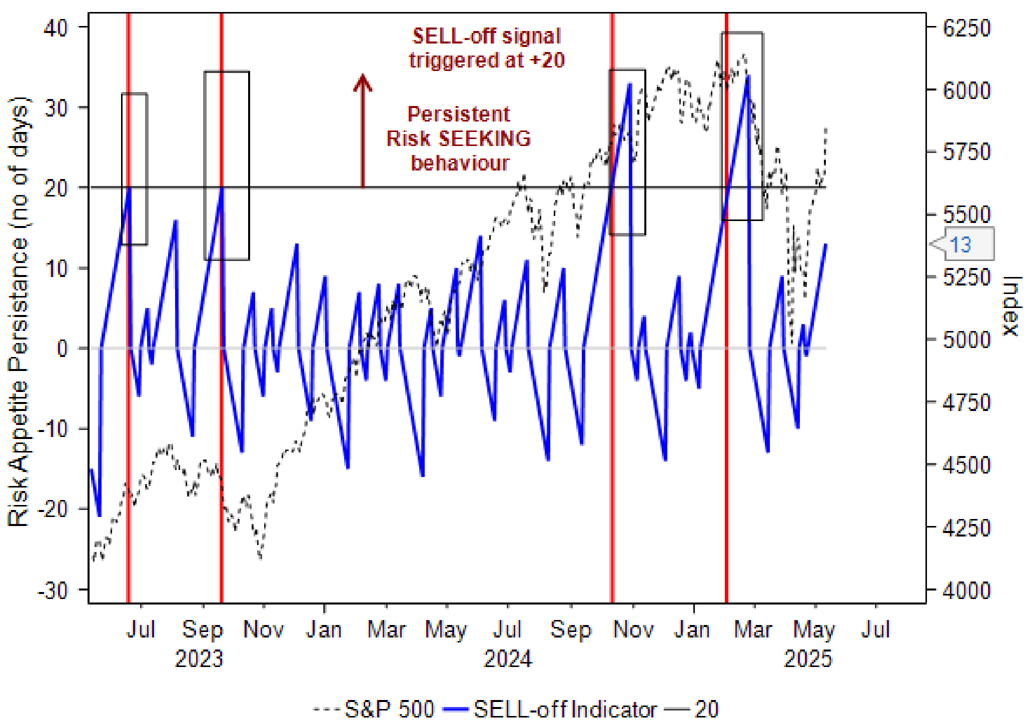
Source: Longview Economics, Macrobond

FIG 1e: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500



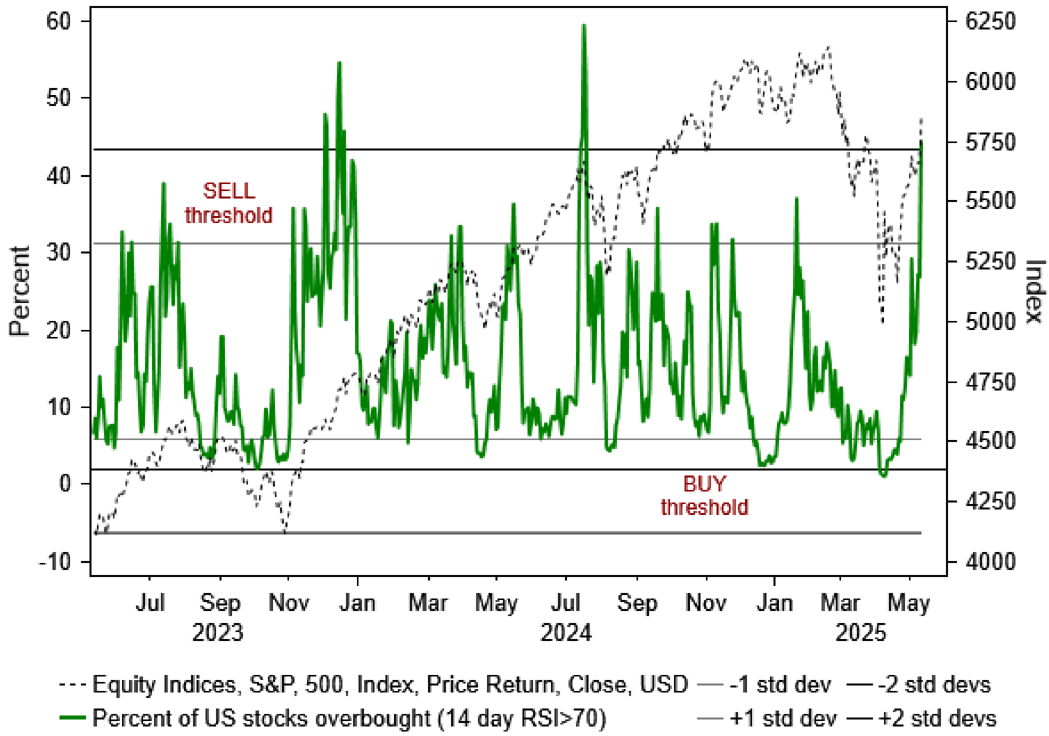
Source: Longview Economics, Macrobond

FIG 1f: Longview SELL-off indicator (vs. S&P500)



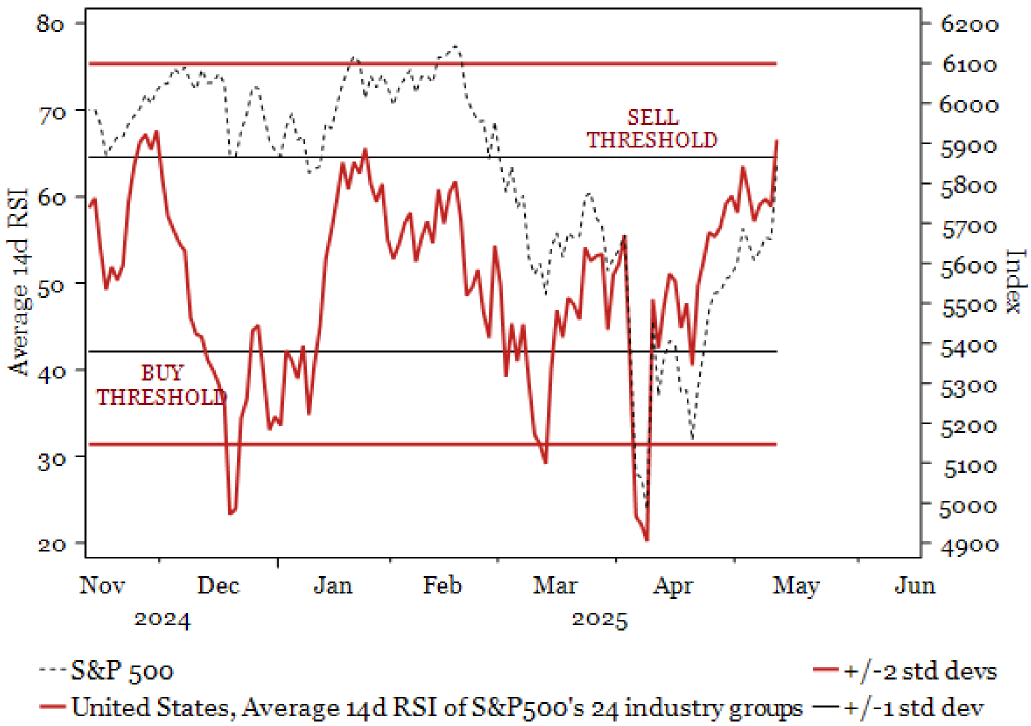
Source: Longview Economics, Macrobond

FIG 1g: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



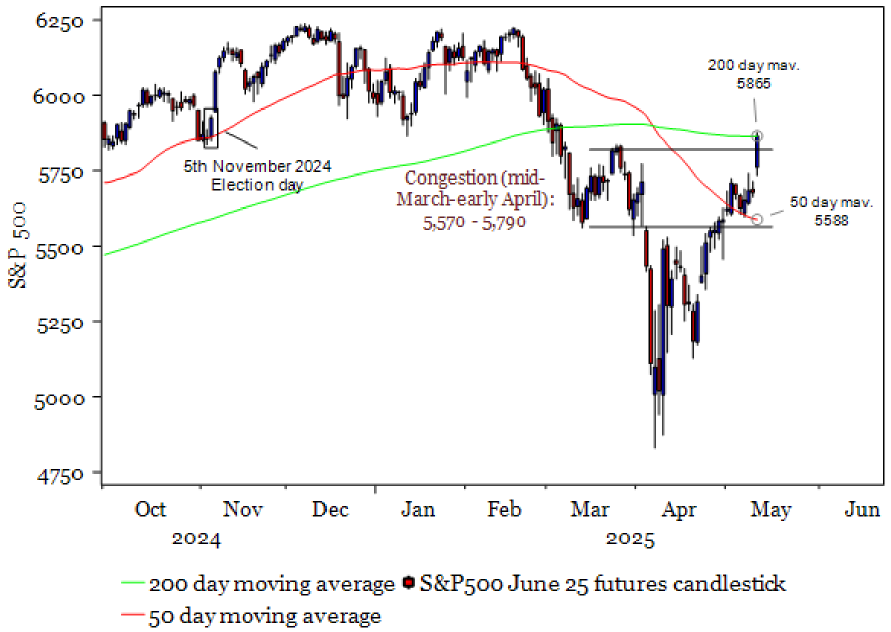
Source: Longview Economics, Macrobond

FIG 1h: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

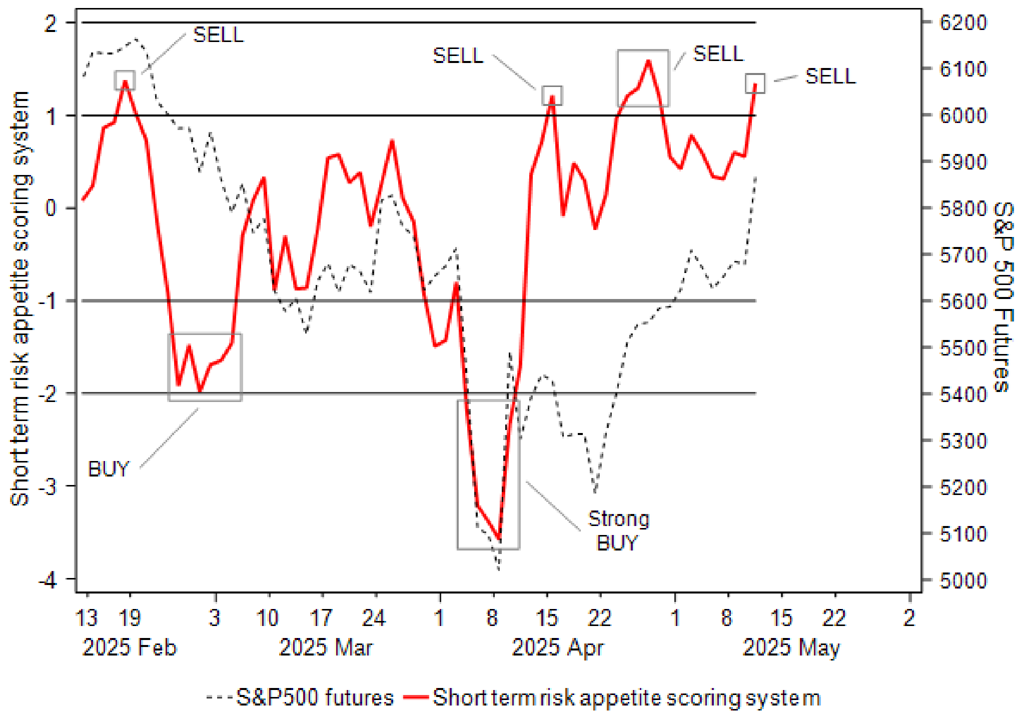
FIG 2: S&P500 June futures candlestick shown with its 50 & 200 day moving average



Source: Longview Economics, Macrobond

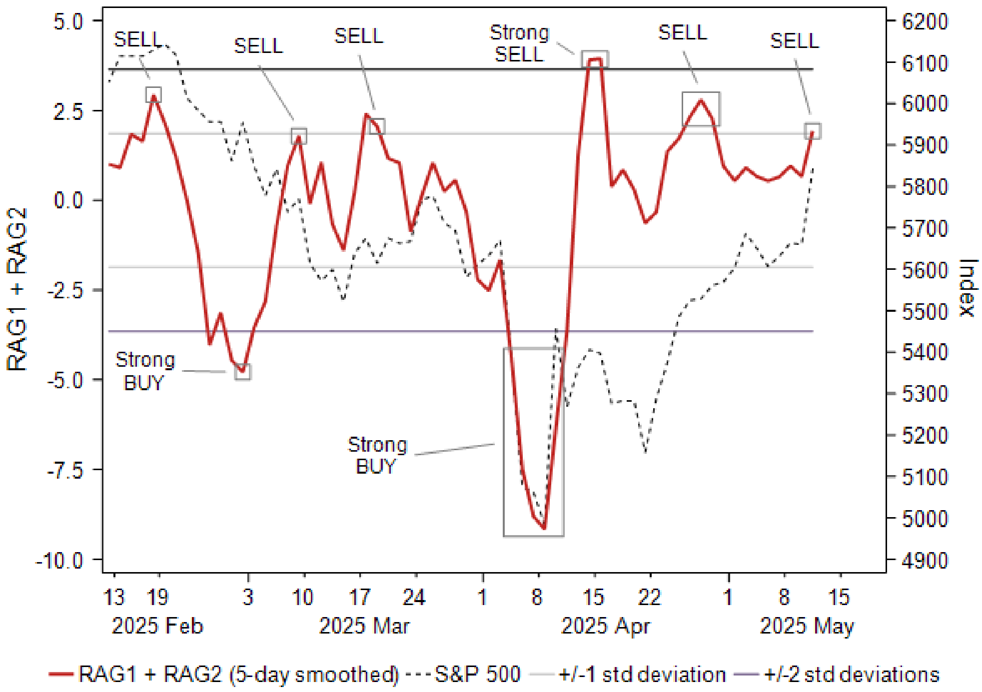
Short term models are mostly now on SELL…

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



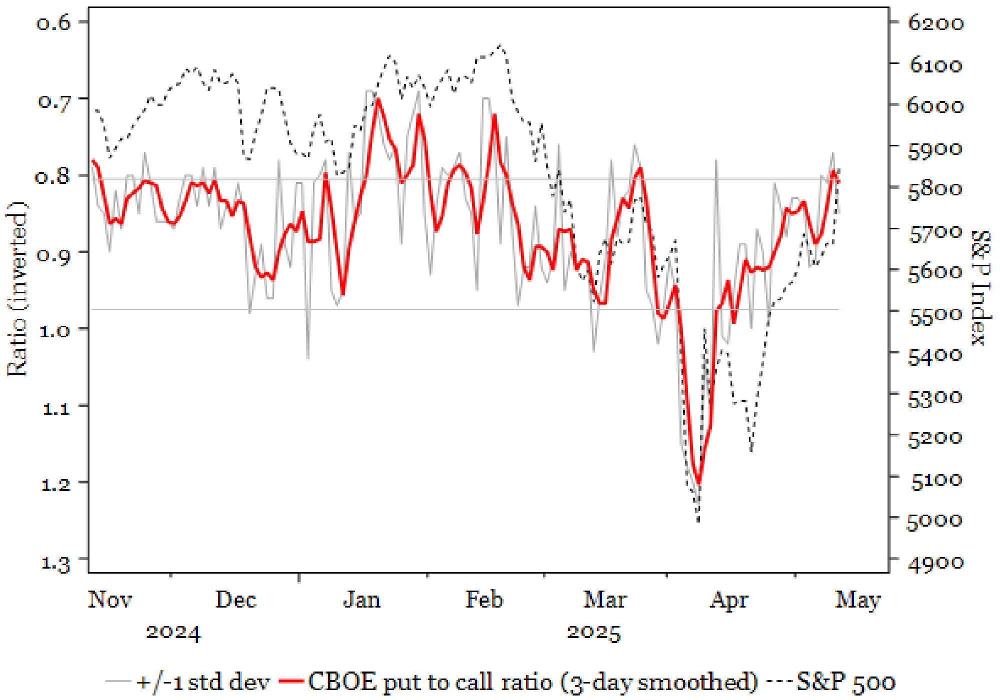
Source: Longview Economics, Macrobond

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



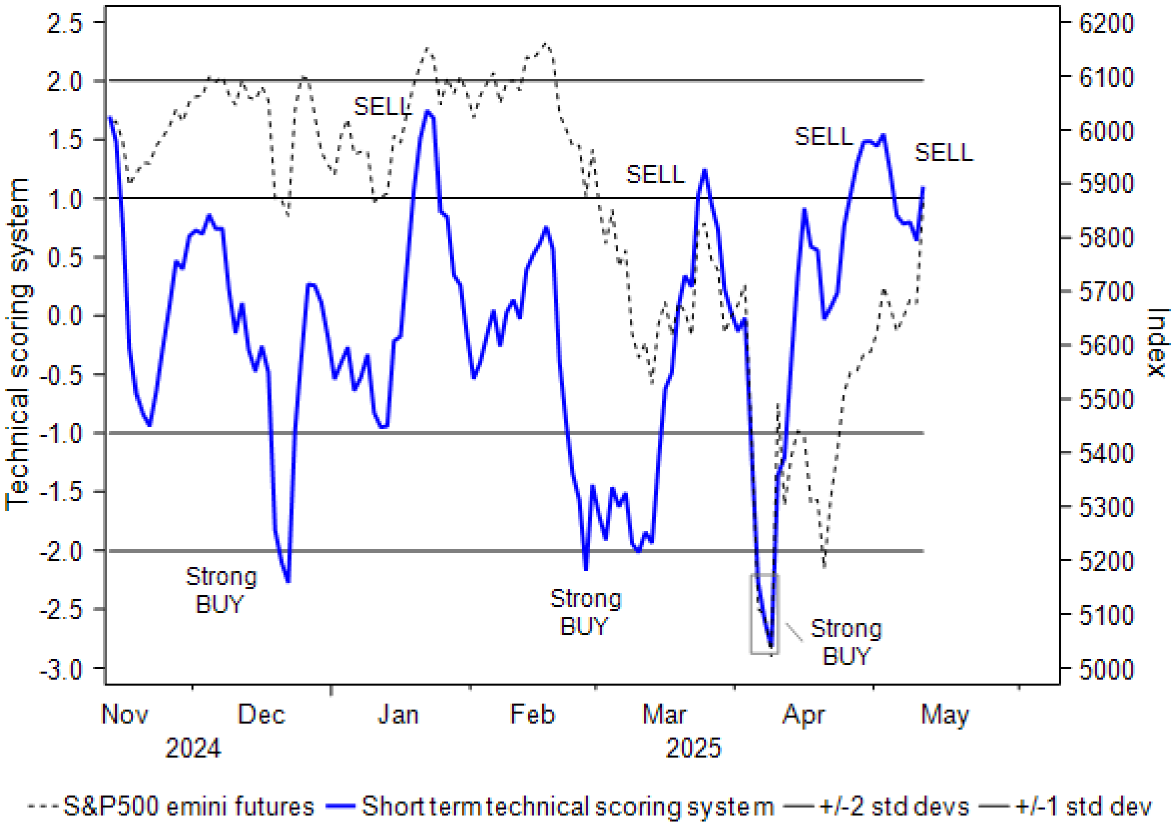
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 3c: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



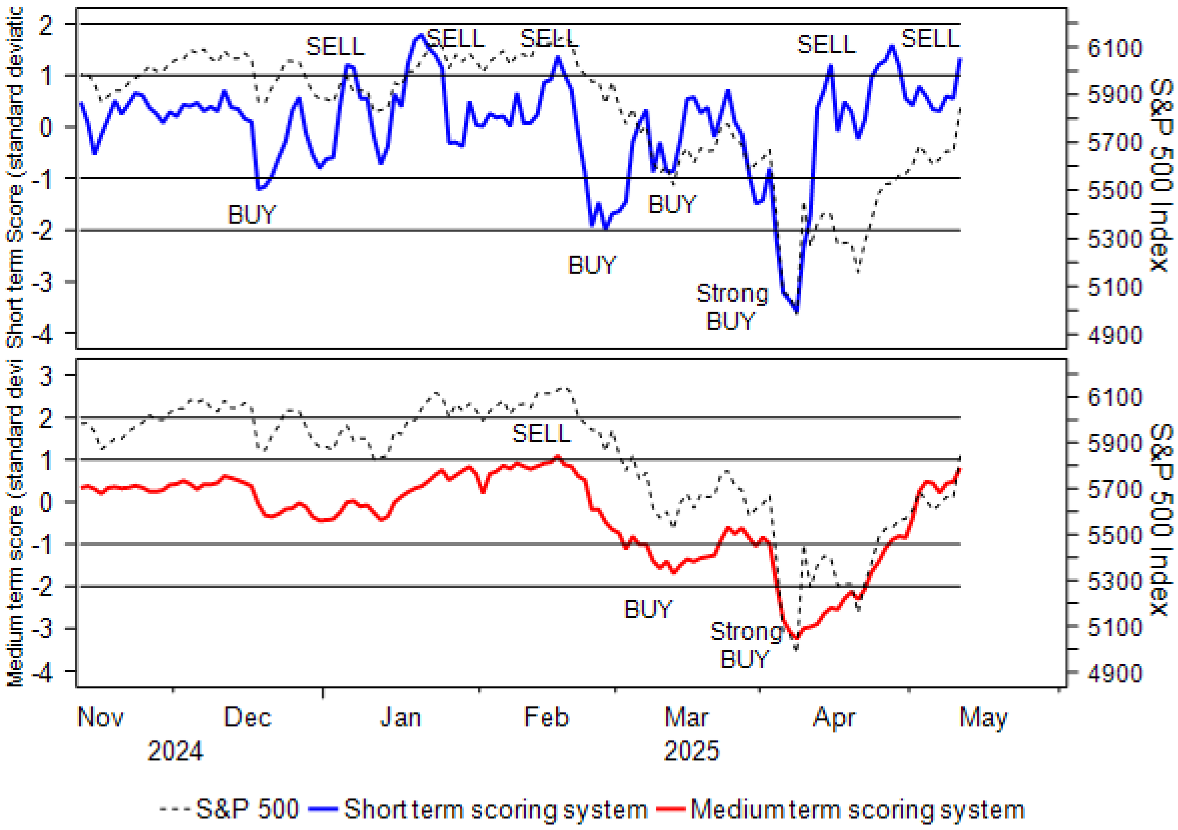
Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **SELL**
Medium term (1 – 4 month) scoring system: **NEUTRAL** (close to 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: **UK BRC retail sales** (Apr, 12:01am); **Japanese M2 & M3 money supply** (Apr, 12:50am); Australian Westpac consumer confidence (May, 1:30am); Australian NAB business confidence (Apr, 2:30am); **UK employment, jobless claims & average weekly earnings** (Apr/Mar, 7am); German current account balance (Feb, 8:45am); **German & Eurozone ZEW survey – expectations & current situation** (May, 10am); **US NFIB small business optimism** (Apr, 11am); **US headline & core CPI** (Apr, 1:30pm).

Key events today include: Speeches by the ECB's Escriva in Zurich (8am) & Makhlouf in Dublin (9am); speeches by the Bank of England's Bailey & Knot in Amsterdam (3:10pm).

Key earnings today include: Sea Ltd, SoftBank Group, Honda Motor.

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 earlier this month on 1st May 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

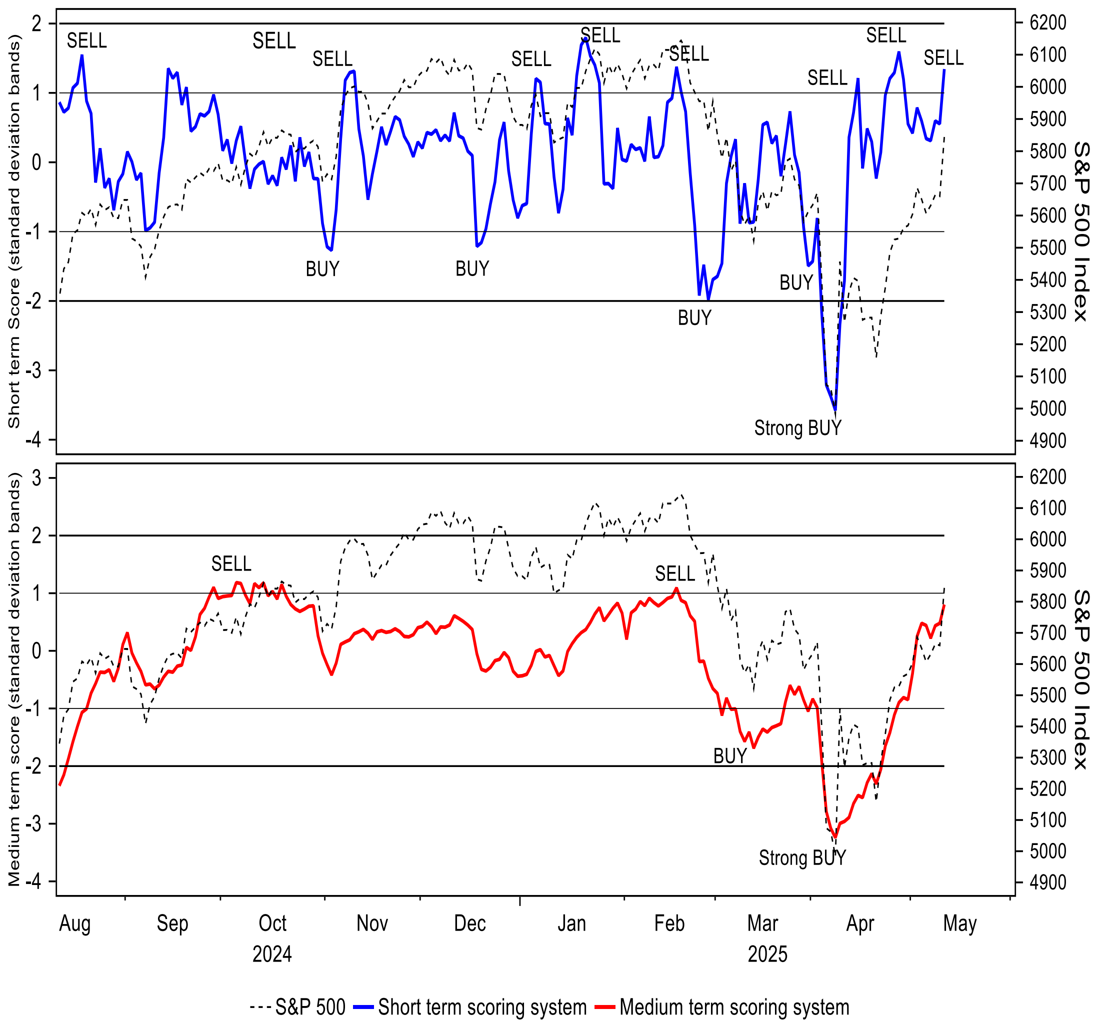
1 – 2 Week View on Risk

13th May 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 on SELL

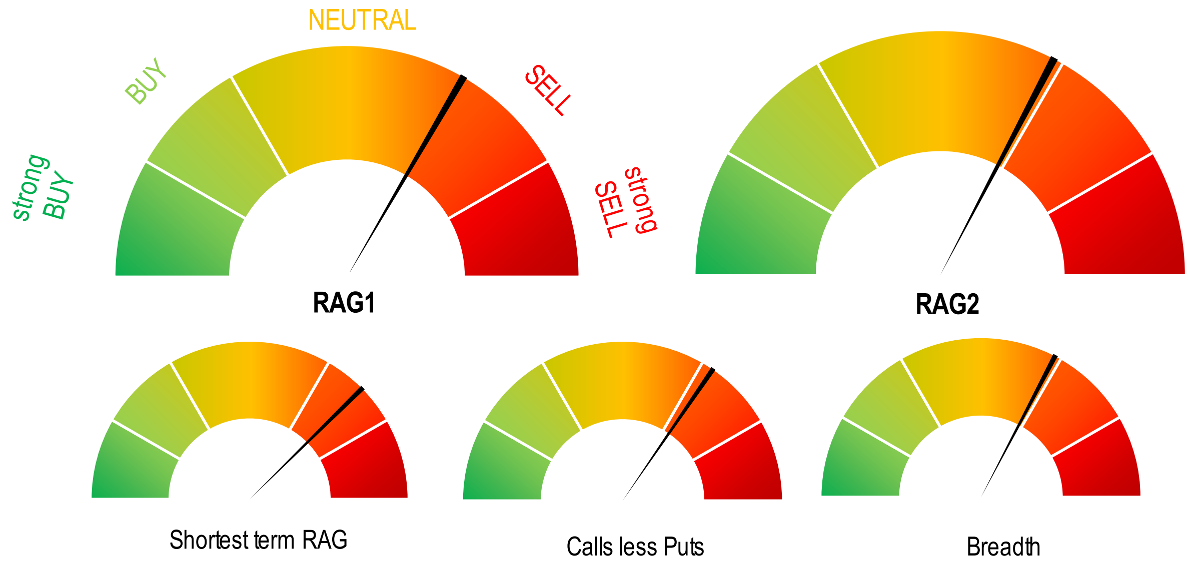
Medium term scoring system is NEUTRAL

*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

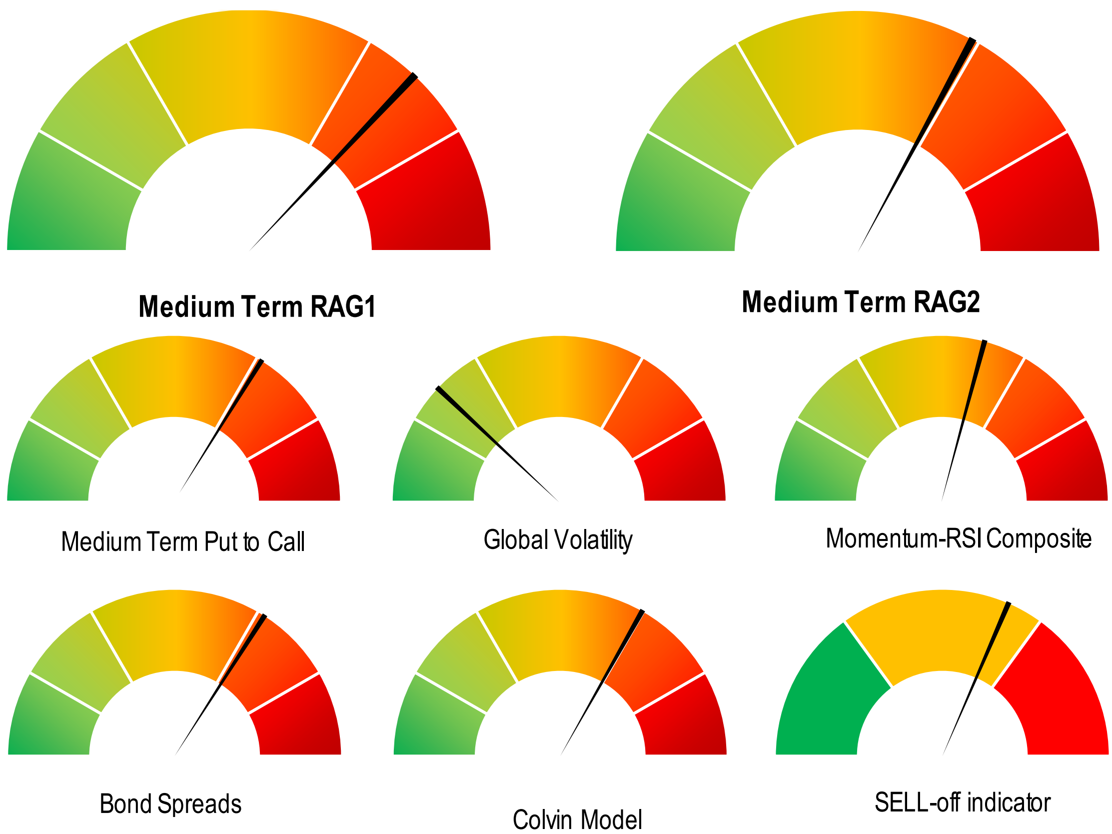
Section 1a: Summary of indicator signals**

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

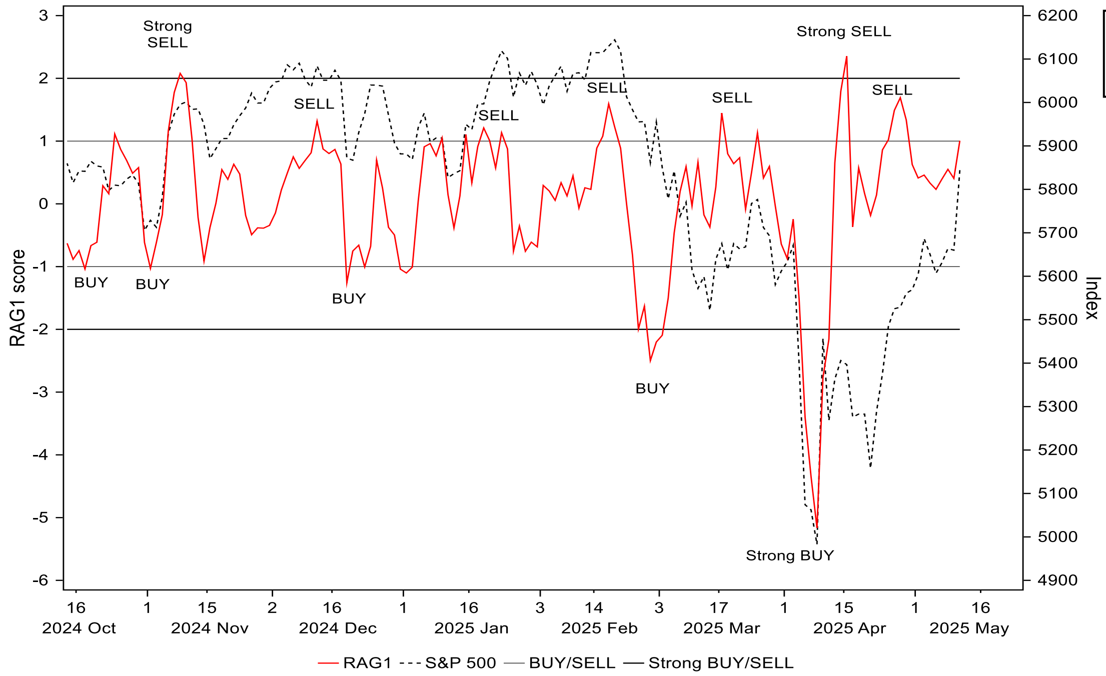


Source: *Longview Economics*

**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

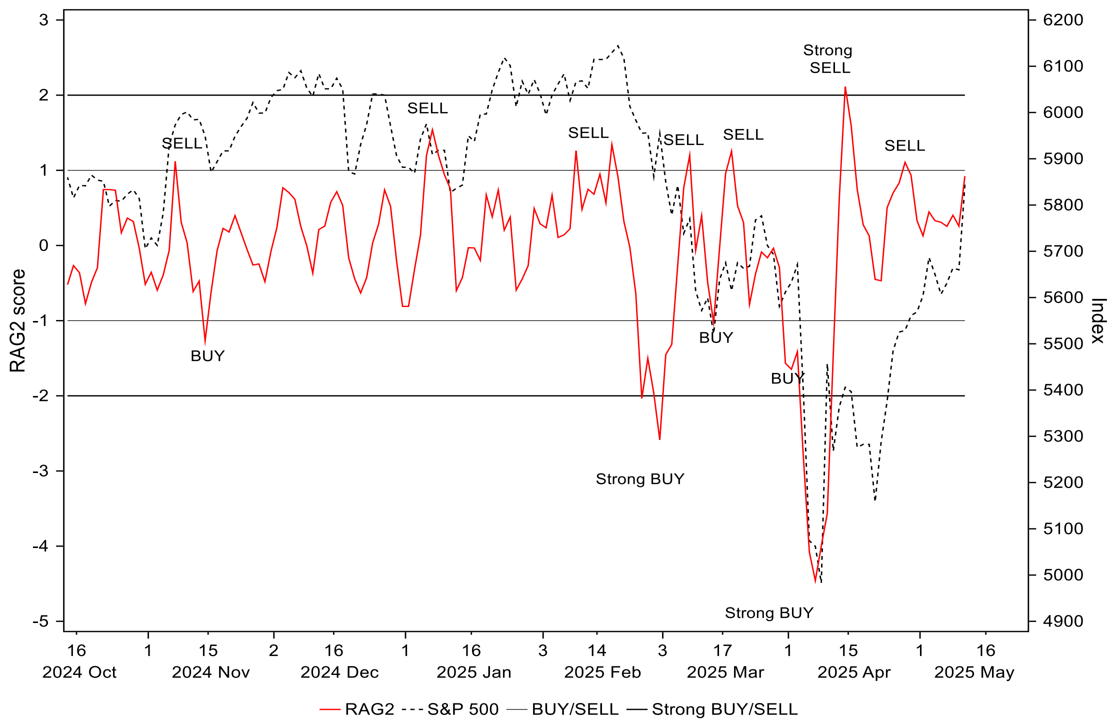
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

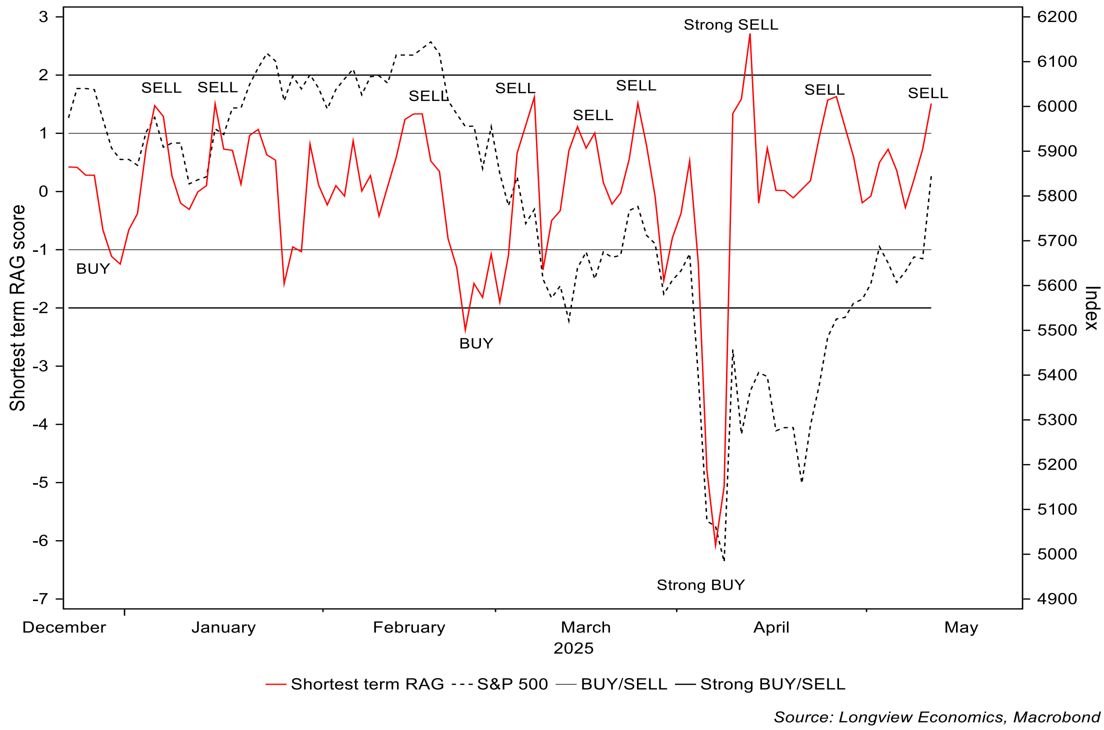


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

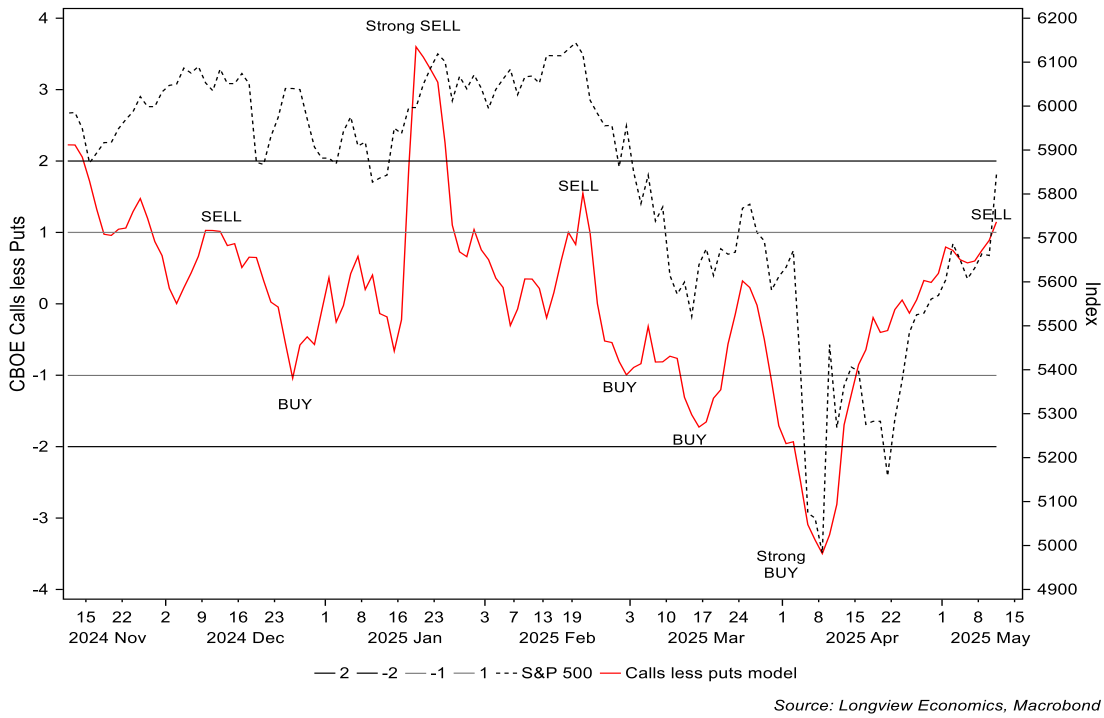
For explanations of indicators please see page 10

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



Shortest term RAG is on SELL

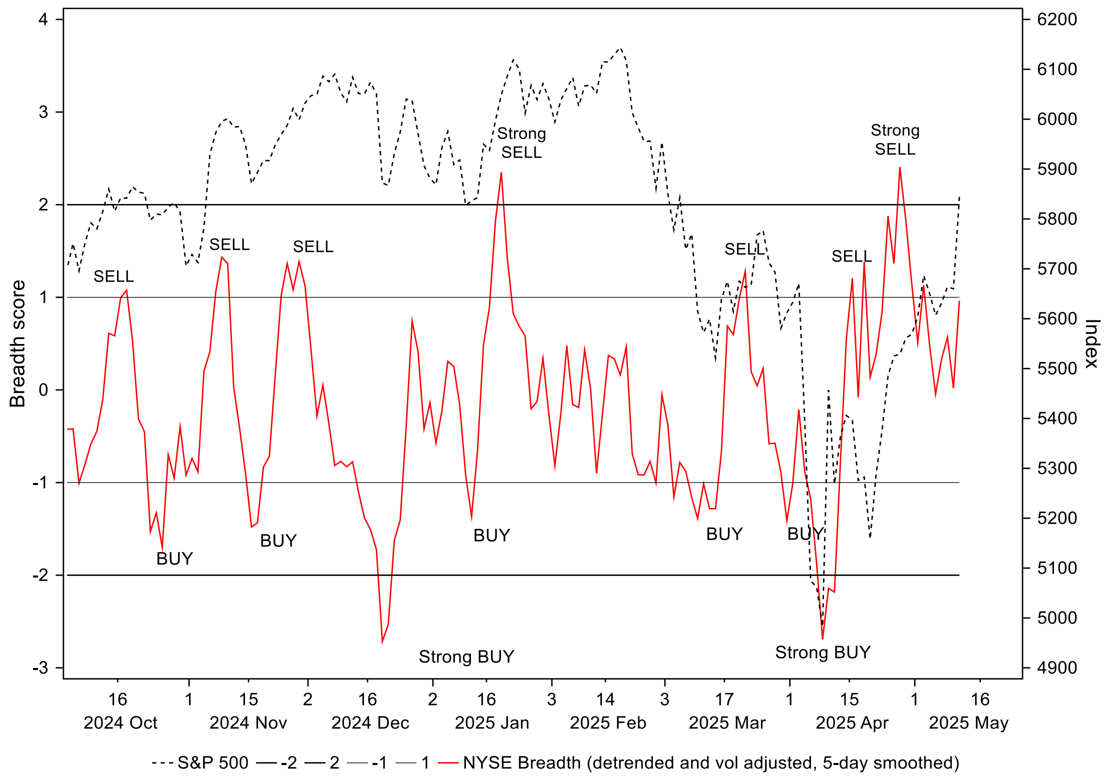
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



Calls less puts model is on SELL

For explanations of indicators please see page 10

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



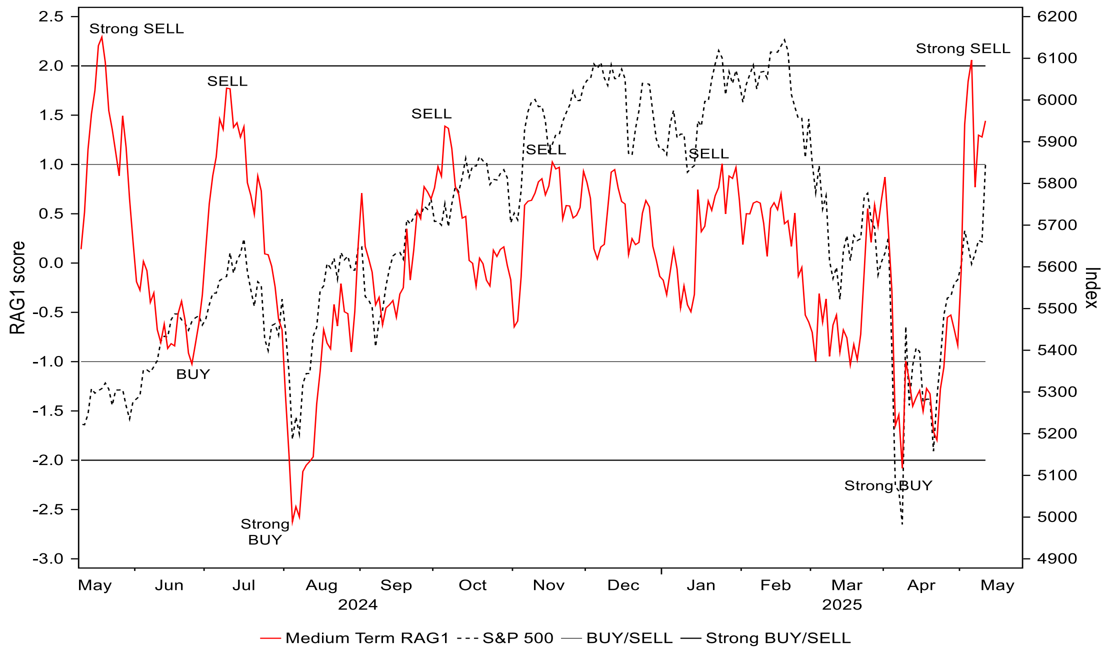
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

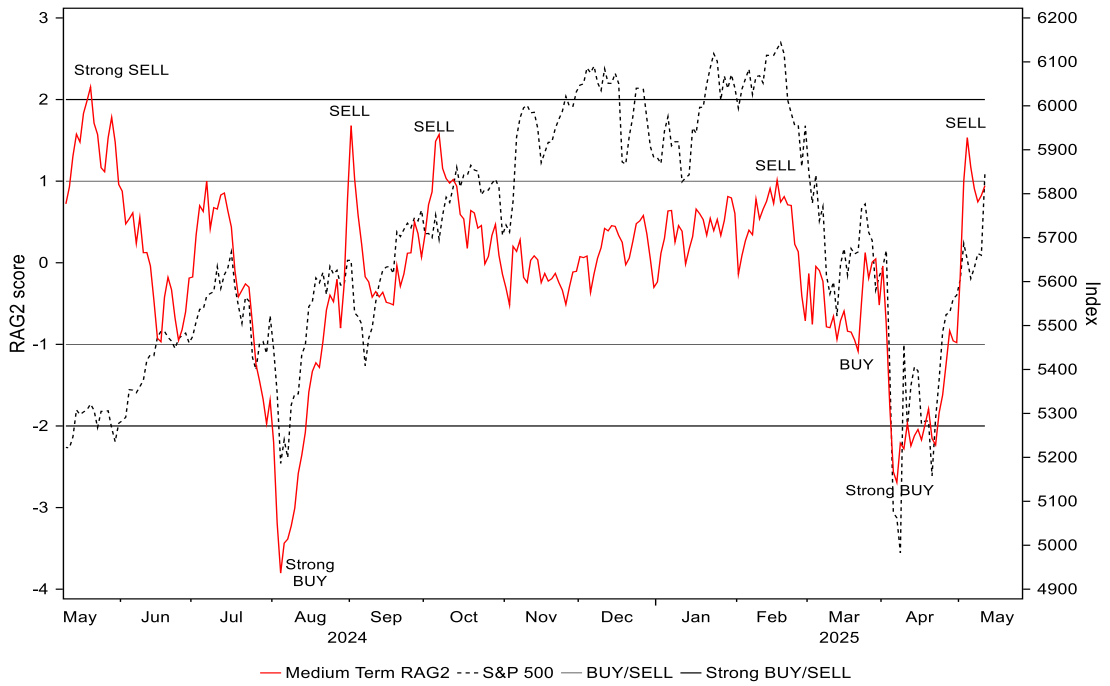
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is on SELL

Source: Longview Economics, Macrobond

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

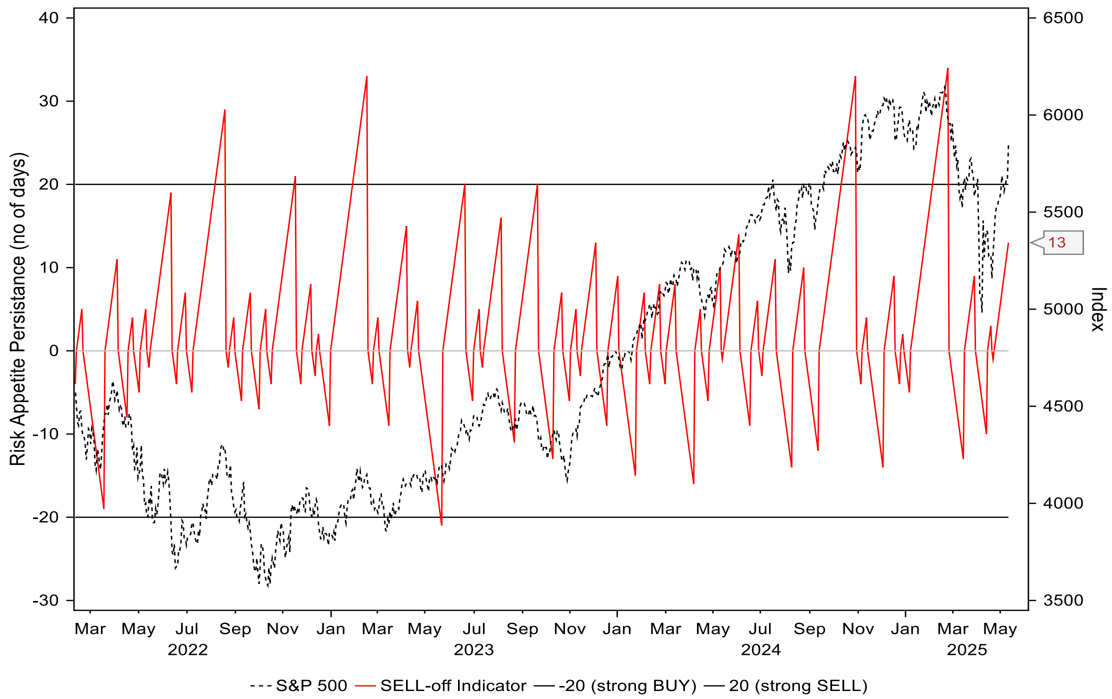


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

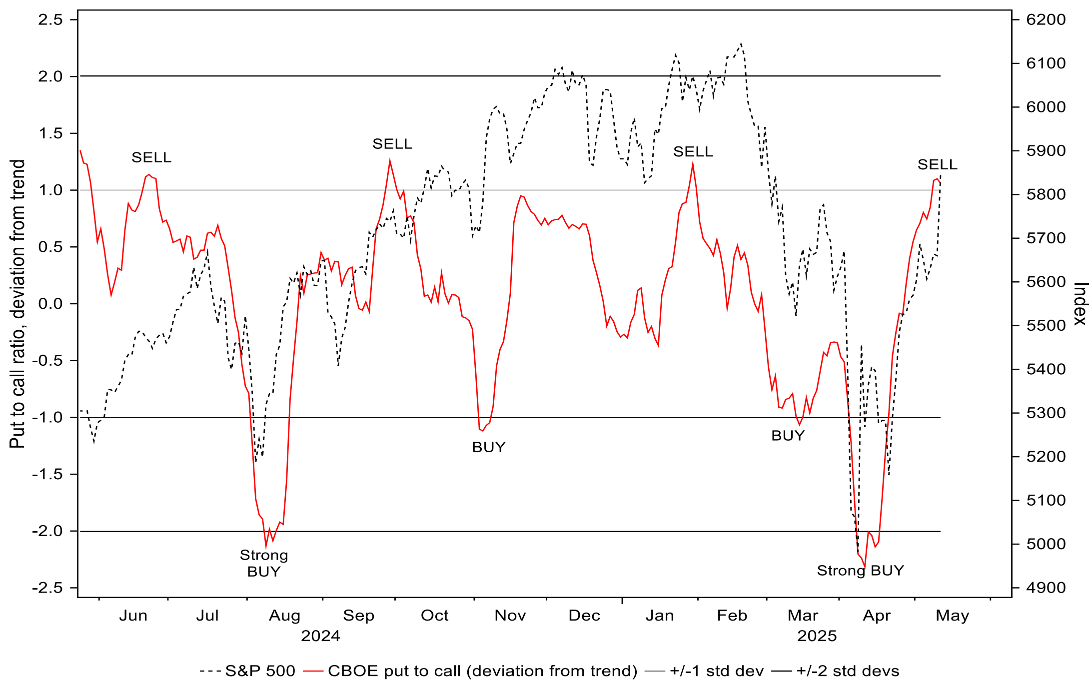
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

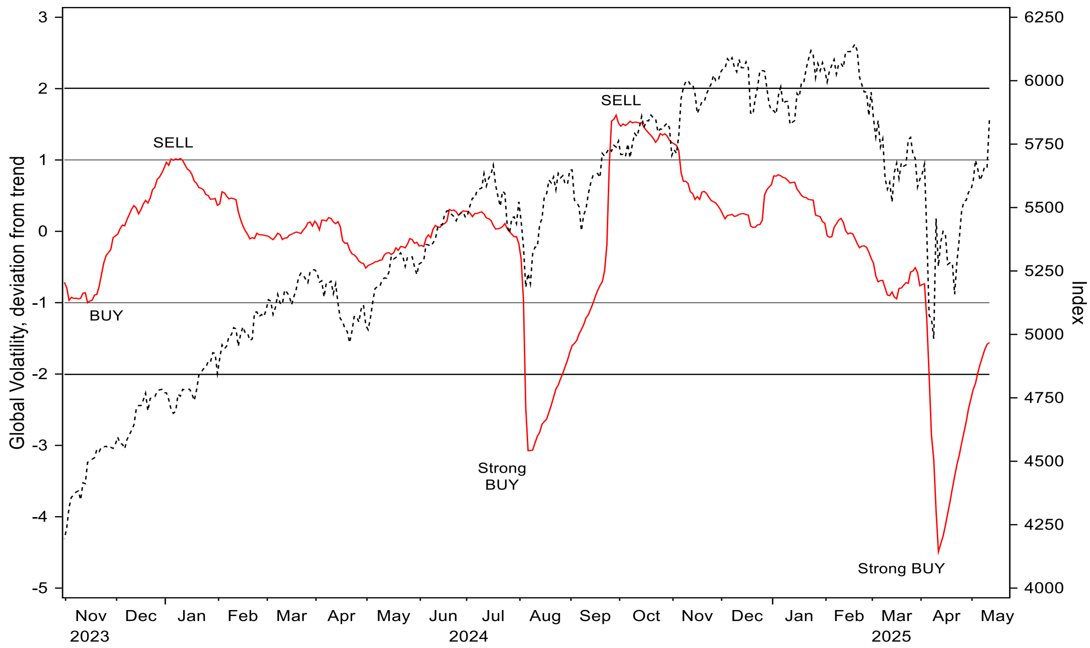


Source: Longview Economics, Macrobond

Medium term put to call model is on SELL

For explanations of indicators please see page 10

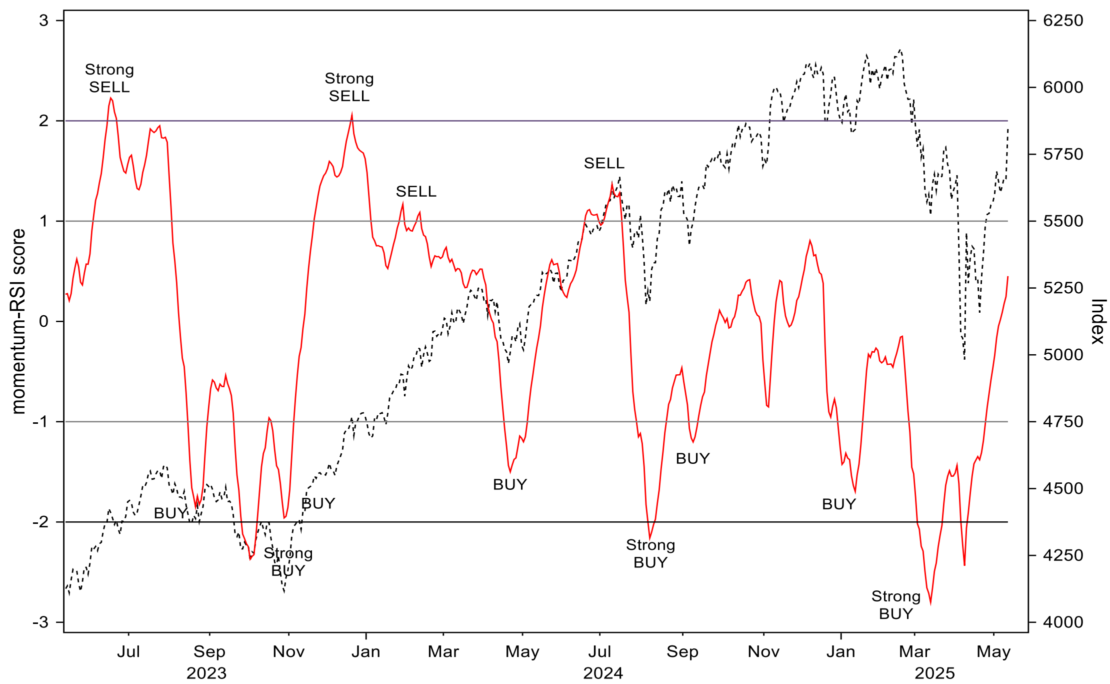
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on BUY

Source: Longview Economics, Macrobond

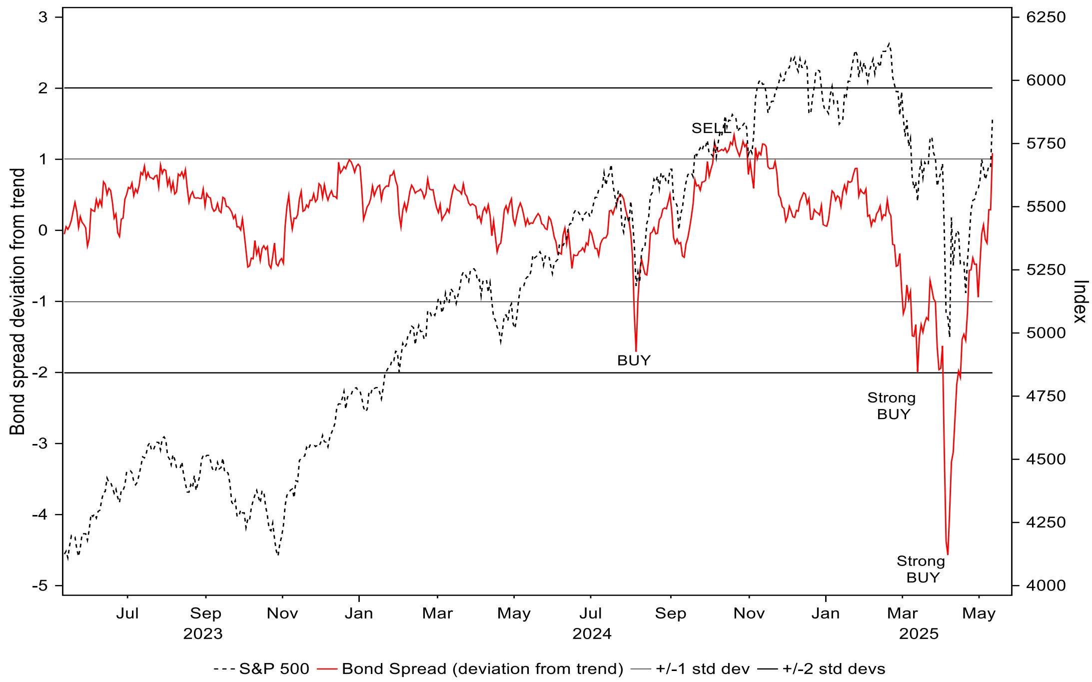
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



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 NEUTRAL

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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Daily Risk Appetite Gauge

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