Equity Index Futures Trading Recommendations

14th April 2025

"Relief Rally Ongoing"

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

- Move ¼ LONG June S&P500 futures at current prices (i.e. approx. 5,466);

- Place stop loss 4% below entry.

Rationale

Given the strength in US equities on Friday (with the S&P500 closing +1.8%; NDX +1.9% & SOX +2.5%), we weren't filled on our order to go LONG at lower levels (i.e. at 5,006). As such, we are currently NEUTRAL (no position). That strength in equities on Friday was across the board with almost all key 28 headline indices we track closing higher (i.e. with one exception); and with all 11 top level S&P500 sectors up on the day; and 23 of the 24 industry groups also better. This follows on from Wednesday's bullish key day reversals* across a range of key developed market equity indices (including S&P500 futures, R2K futures, NDX futures as well as the Japanese Nikkei 225).

Going forward, from a variety of angles it looks like this relief rally can continue. Those angles are as follows:

i) **Newsflow:** Trump keeps backing down from the full implementation of his tariffs. That is, his Administration keeps extending deadlines (as we saw last week with the 90 day pause) and exempting various parts/types of imports (as occurred over the weekend with electronics, semiconductors etc.).

ii) **Models:** Key short-term models highlight the likelihood of continued gains in this relief rally. That is, most models have further upside until they reach SELL, while some are still close to BUY/strong BUY. For example, risk appetite models, technical models and put to call ratios are all below their SELL thresholds, pointing to the potential for further upside in risk assets (see FIGs 2 to 2f). Medium term models are also still on/close to BUY (or even strong BUY – e.g. see the medium term risk appetite scoring system – FIG A).

iii) **Volatility remains elevated.** Both the VIX and VVIX are still elevated. The VIX, for example, is notably above its 50 and 200 day moving averages (FIG 1f). The VVIX is just off its highs (FIG 1g). Both of those should moderate meaningfully in a typical relief rally (e.g. potentially back to key moving averages/or around that level). Consistent with that, the volatility futures curve remains inverted (i.e. with short dated vol above longer dated measures).

iv) **Fibonacci charts** (as a rule of thumb guide to the likely extent of relief rallies) suggest that there is room for further upside in this rally. Key Fibonacci levels for the S&P500, for example, are 5,528 (50% Fibonacci level); 5,692 (61.8% retracement of losses); & 5,896 (76%). Key NDX100 and DAX Fibonacci levels are shown in FIGs 1a & 1b.

From a models, newsflow, volatility and Fibonacci levels perspective, therefore, the relief rally should persist. Volatility is still high, though, which means that wide stop losses and small position sizes are appropriate.

Key risks to moving LONG, however, are multiple. Other than Trump's policy volatility, the current key risk (to being LONG) is the back-up in bond yields and associated dollar weakness. The market is debating the drivers of the back up in yields. Theories include: i) foreign selling of USTs; ii) an increasing likelihood of a stimulative US fiscal package passing through Congress; ii) forced liquidation (perhaps related to the basis point trade or to an unwinding of risk parity); and/or iv) a steepening of the curve to either price recovery (or price recession). No clear consensus exists at this point in time. The weakness in the dollar supports the view that it's foreign selling; the relatively modest widening of US HY spreads (i.e. currently 445bps vs. the usual 800 to 1000+bps spread in recessions/mid-cycle slowdowns) is more consistent with an expected acceleration of the economy. Added to which, over the past 24 hours the dollar weakness and back-up in yields has eased off (e.g. US 10-year yields are currently at 4.46% from over 4.55% on Friday).

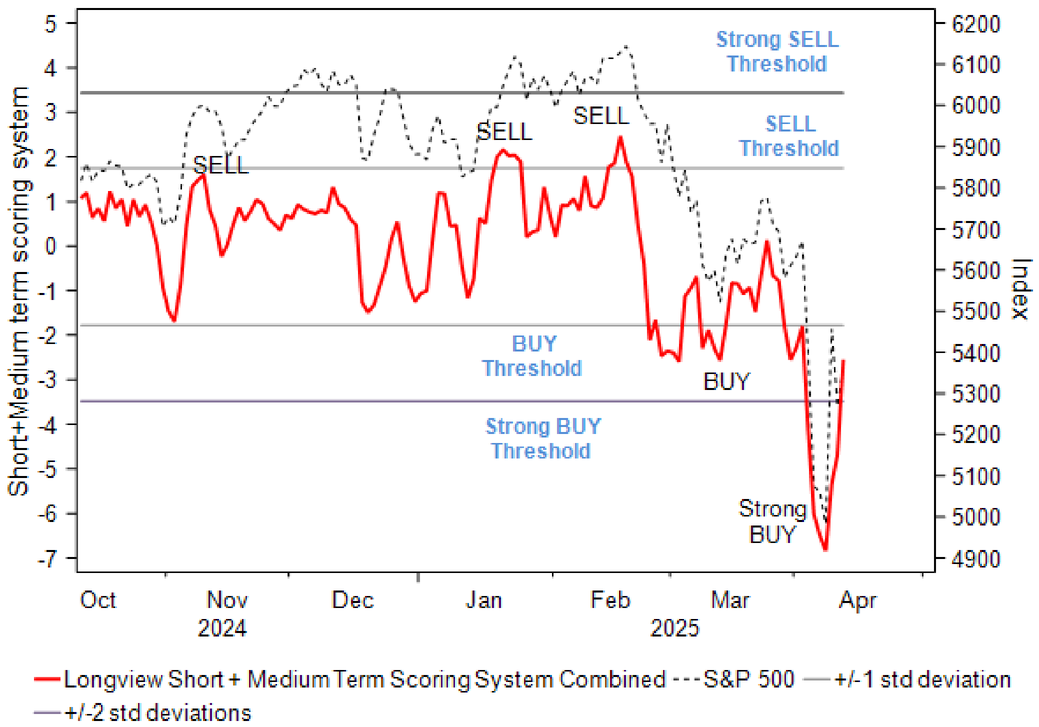
As such, we recommend MOVEing ¼ LONG S&P500 futures at current prices (with a 4% stop loss). Key events today are listed below and include continued US earnings (with Goldmans reporting later).

Kind regards,

The team @ Longview Economics

*NB Bullish key day reversals occur when an index opens lower, makes a new intraday low, and then closes higher than the previous day's intraday high. They typically signal a change of trend (from bearish to bullish) and usually occur at the end of an enduring trend. In this instance, therefore, a purist might argue that the intraday low was on Monday (not Wednesday). In that sense, the signal is good but not necessarily complete.

FIG 1: Combined short and medium term **'risk appetite'** scoring system vs. S&P500



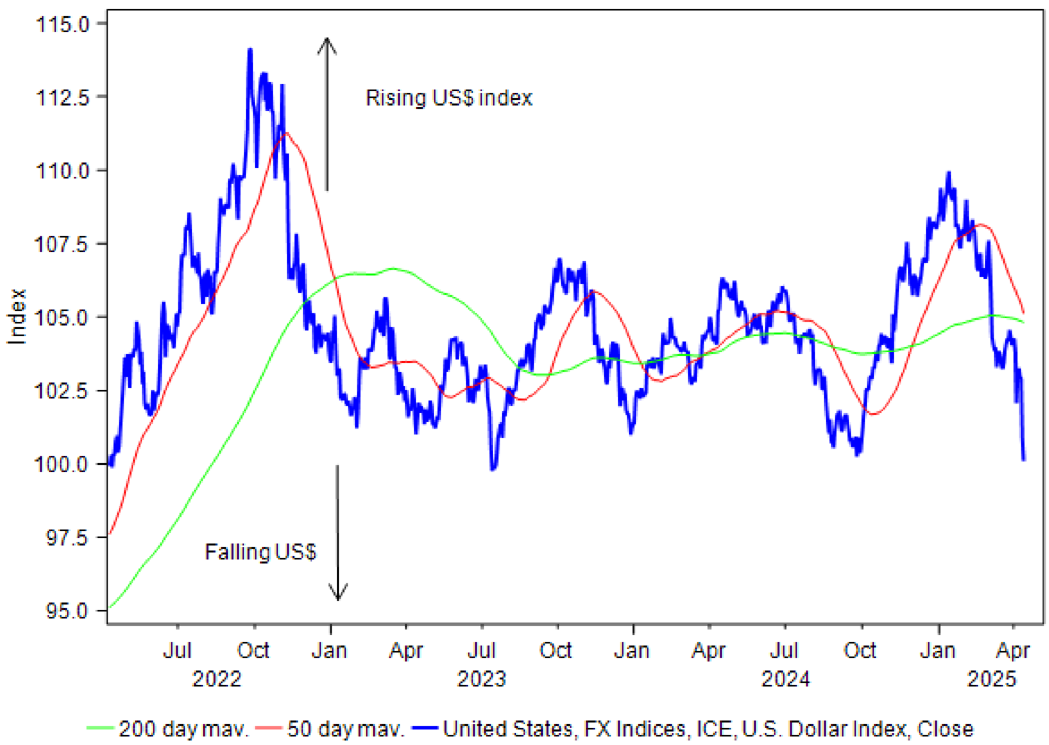
Source: Longview Economics, Macrobond

FIG 1a: S&P500 futures 10-day tick chart shown with overnight price action

FIG 1b: US 10-year Treasury yield (%), shown with 50, 90, & 200 day moving averages

Source: Longview Economics, Macrobond

FIG 1c: US dollar index (DXY) shown with key moving averages

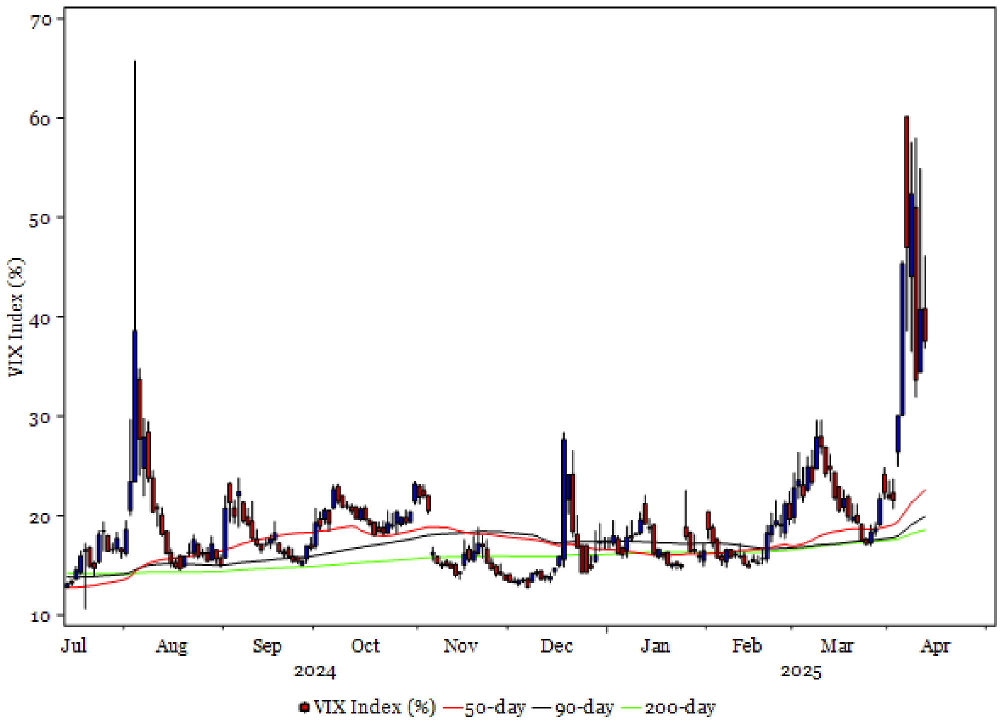


Source: Longview Economics, Macrobond

FIG 1d: S&P500 futures shown with key Fibonacci retracement levels

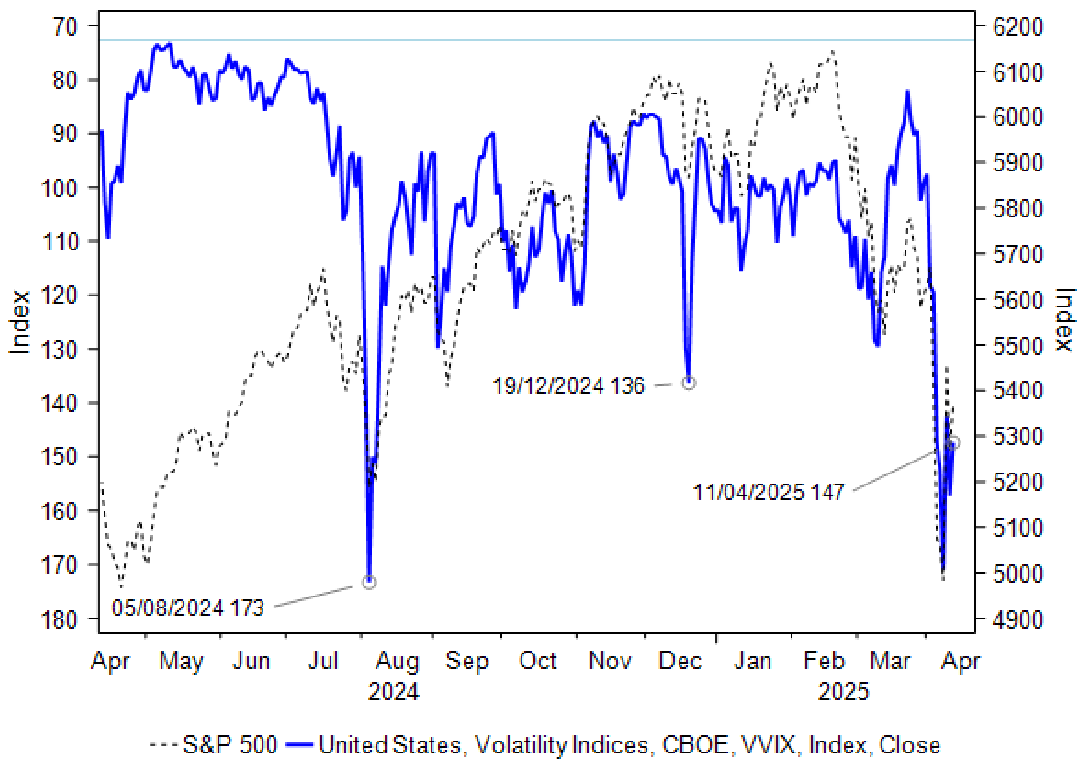
FIG 1e: NASDAQ100 futures shown with key Fibonacci retracement levels

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



Source: Longview Economics, Macrobond

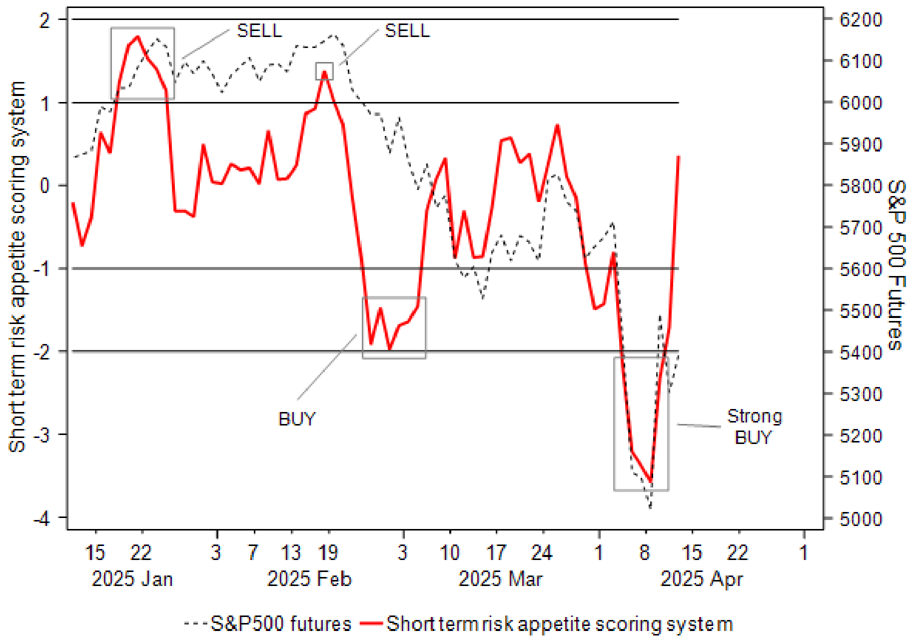
FIG 1g: VVIX closing prices (INVERTED) vs. S&P500



Source: Longview Economics, Macrobond

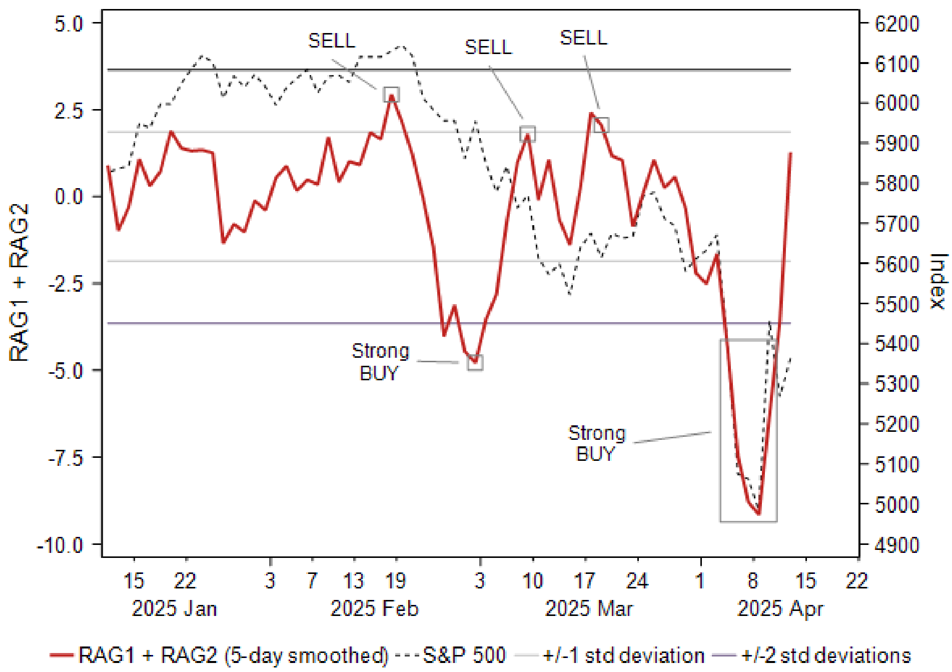
Short term risk appetite models are mostly NEUTRAL, having recently been on BUY…

FIG 2: Longview short term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

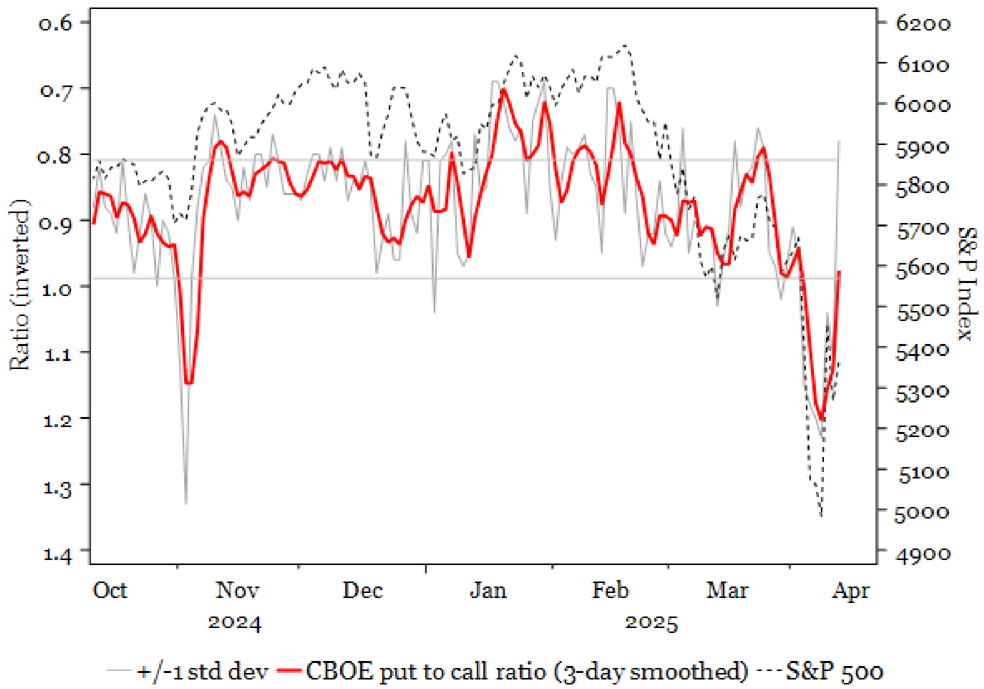
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

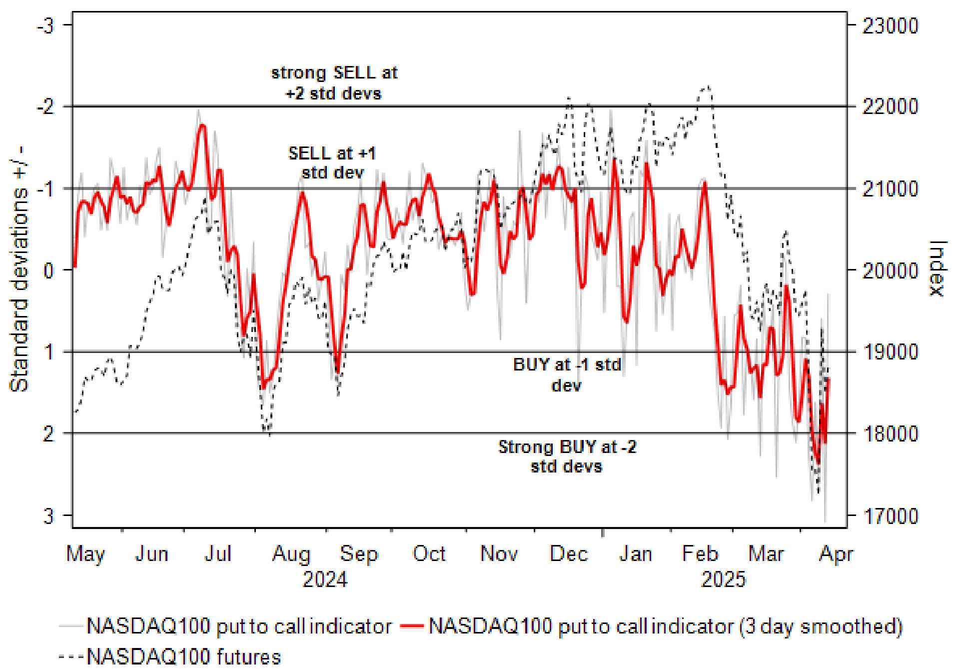
Put to call ratio models are on/close to BUY…

FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

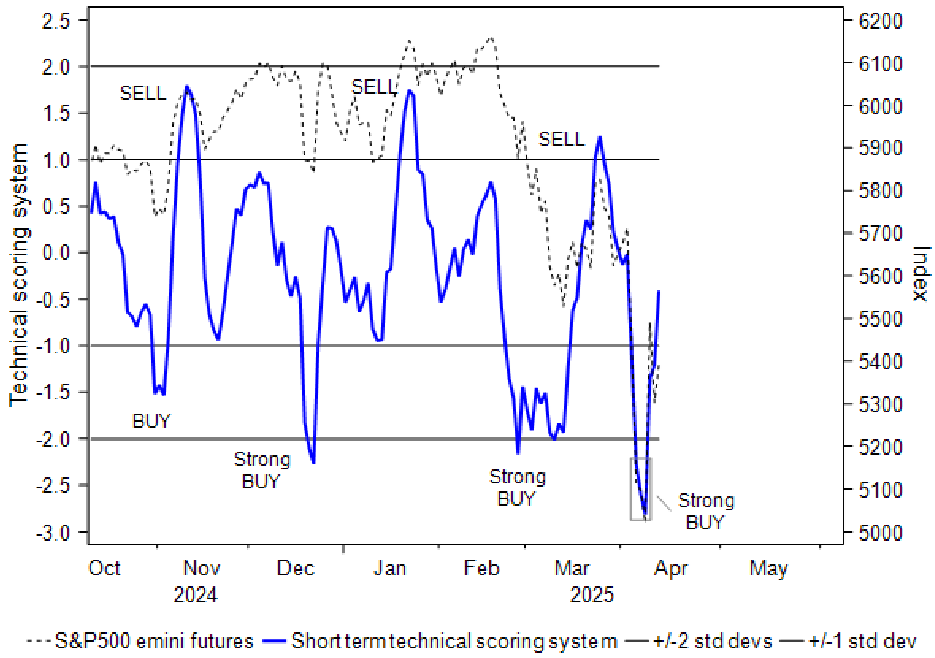
FIG 2c: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

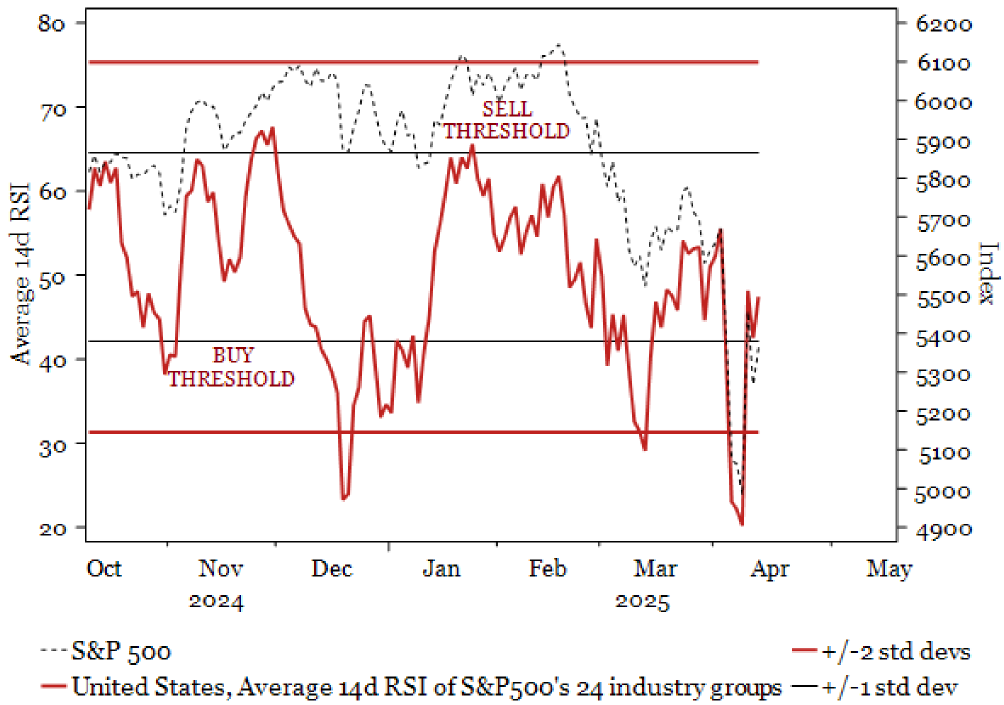
Technical & price-based models are on/close to BUY….

FIG 2d: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



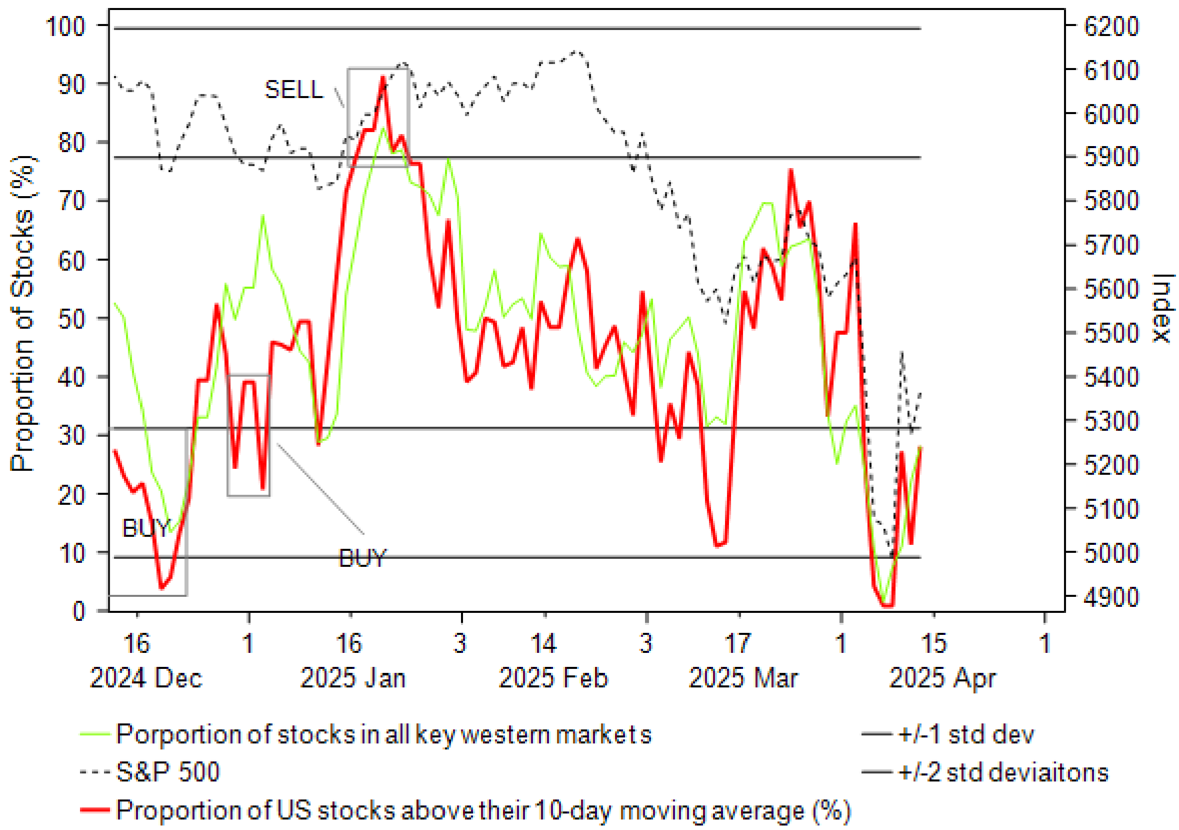
Source: Longview Economics, Macrobond

FIG 2e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

FIG 2f: Proportion of US stocks above their 10-day moving average vs. S&P500

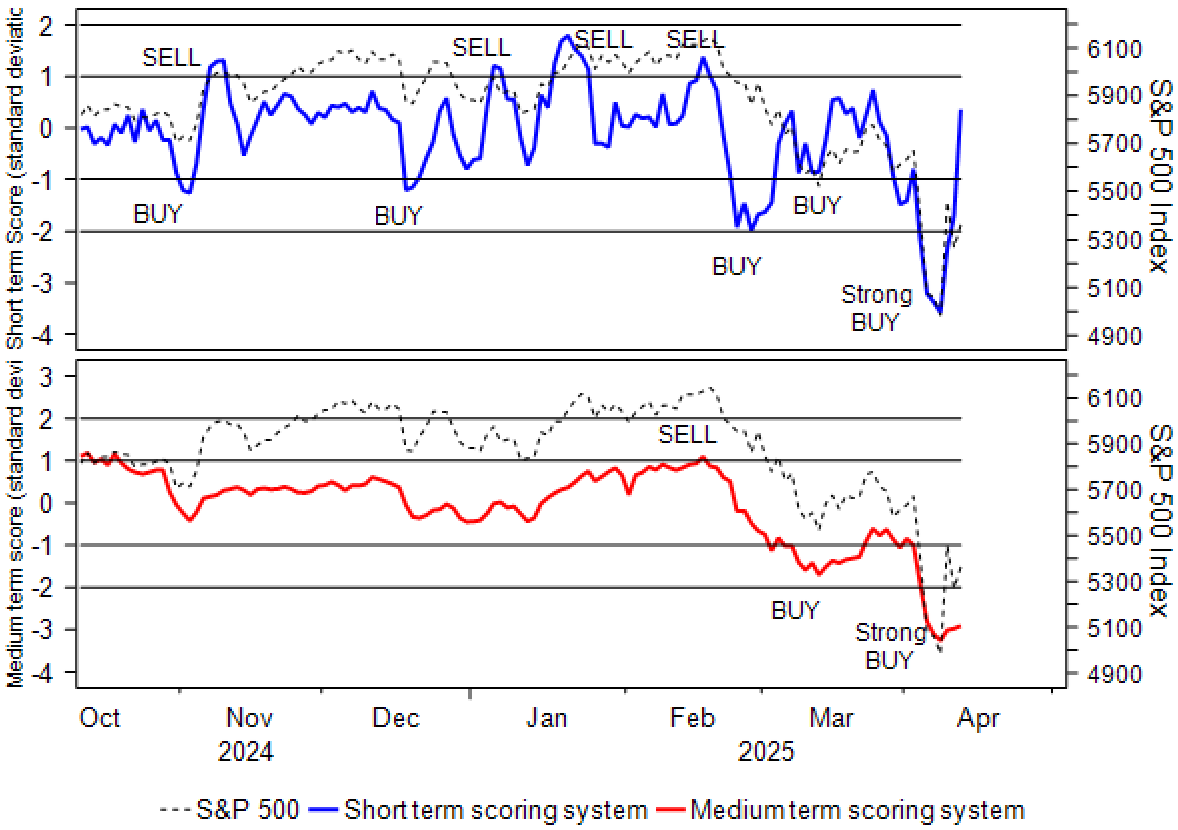


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from strong BUY/BUY last week)
Medium term (1 – 4 month) scoring system: **Strong 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: UK Rightmove house prices (Apr, 12:01am); Chinese imports/exports, & trade balance (Mar, 3am); Japanese industrial production & capacity utilisation (February final estimate, 5:30am); US New York Fed 1 year inflation expectations (Mar, 4pm).

Key events today include: RBNZ chief economist speaks about forecasting (Mon, 10:30pm); speech by the Fed's Harker on the role of the Fed (11pm).

Key earnings today include: **Goldman Sachs.**

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 8th April 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

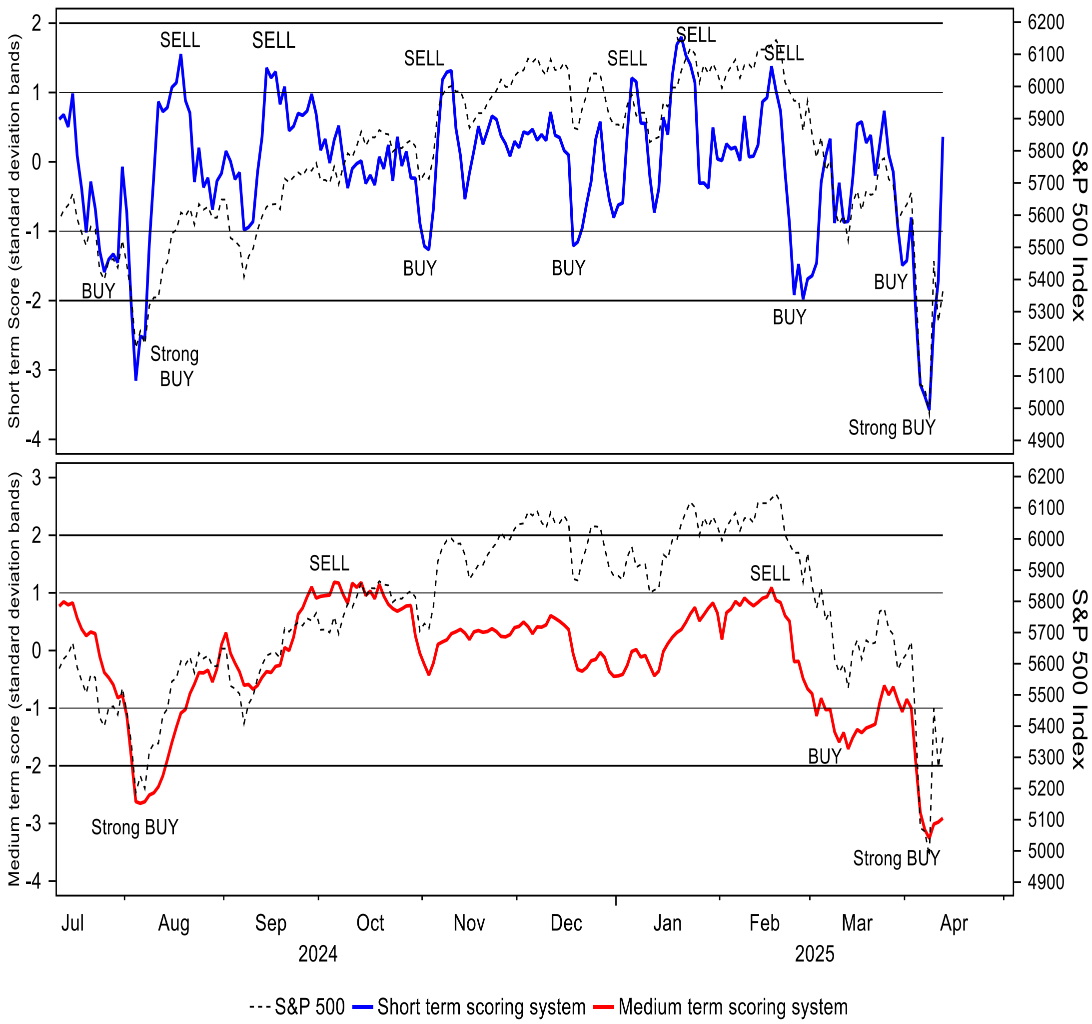
1 – 2 Week View on Risk

14th April 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 on Strong BUY

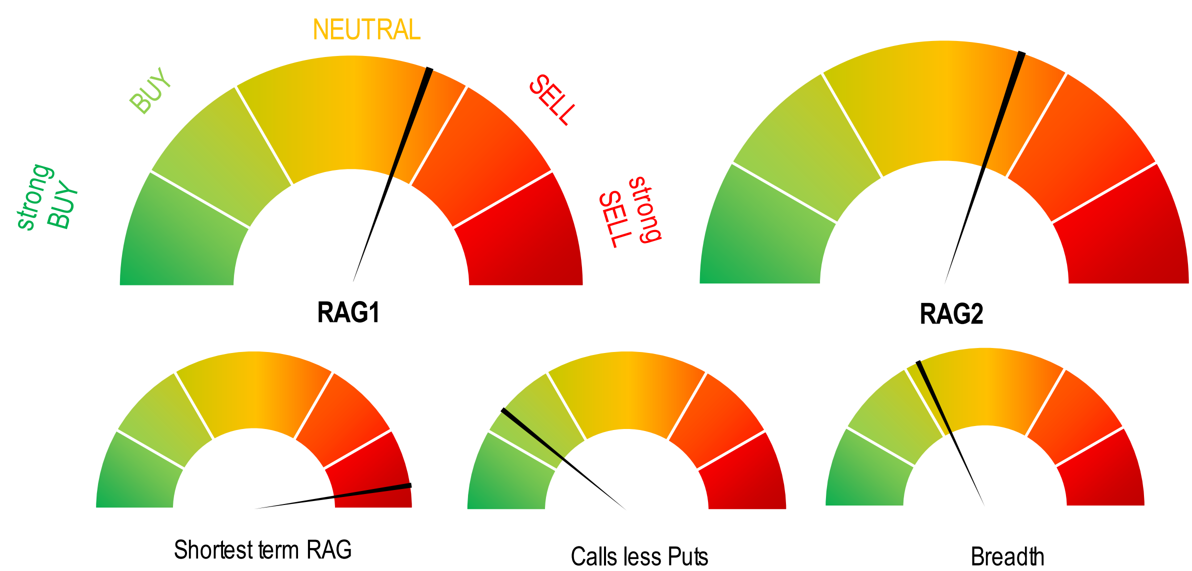
Source: Longview Economics, Macrobond

*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

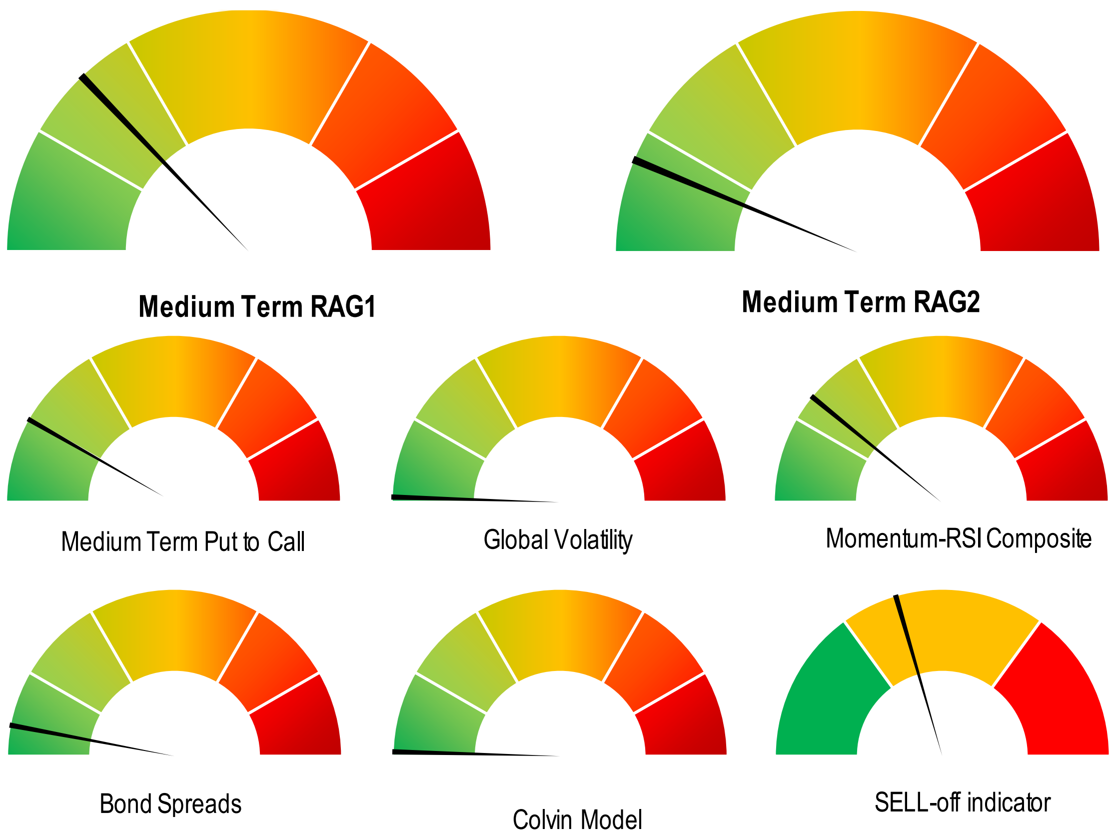
Section 1a: Summary of indicator signals**

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

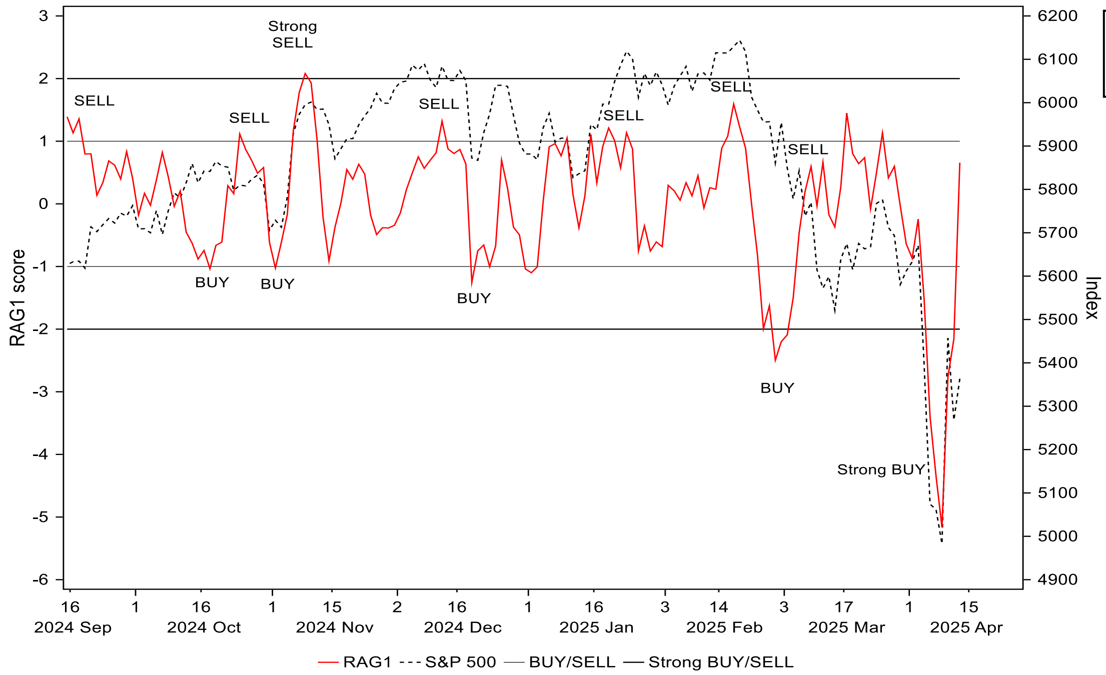


Source: *Longview Economics*

**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

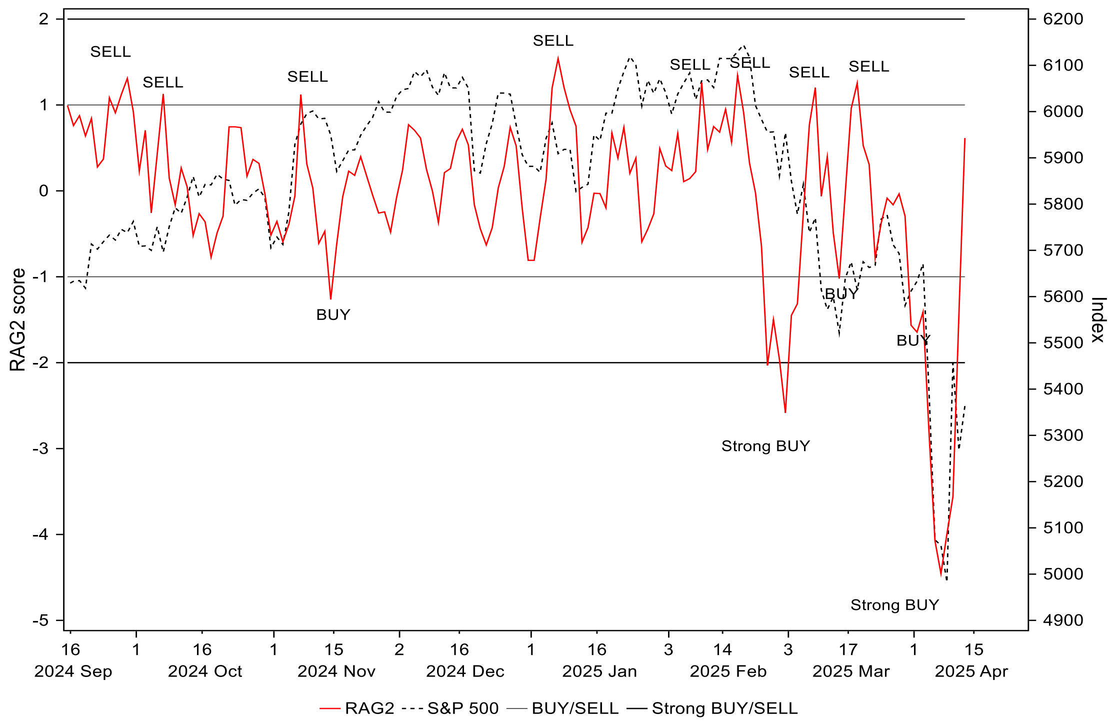
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

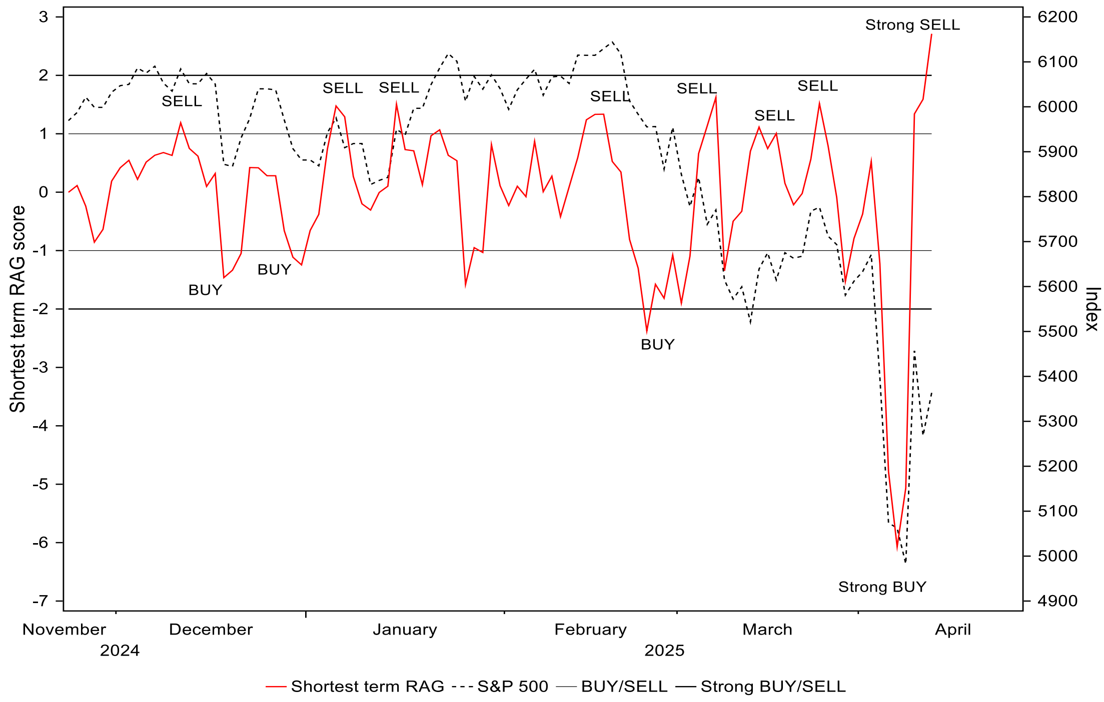


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

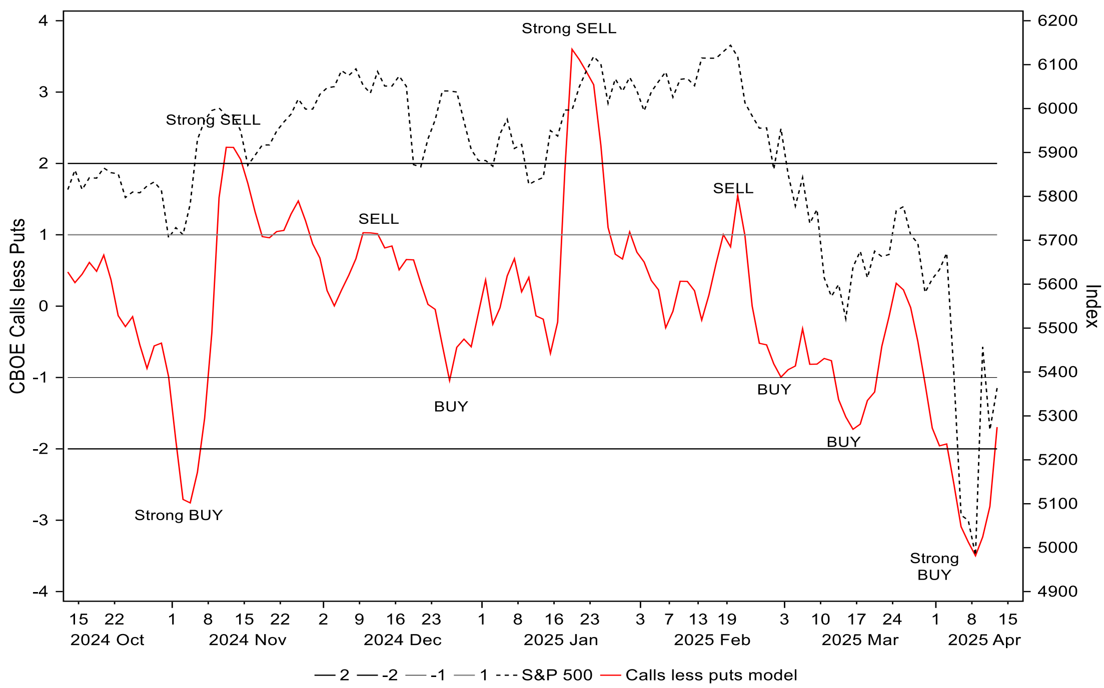
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is on Strong SELL

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

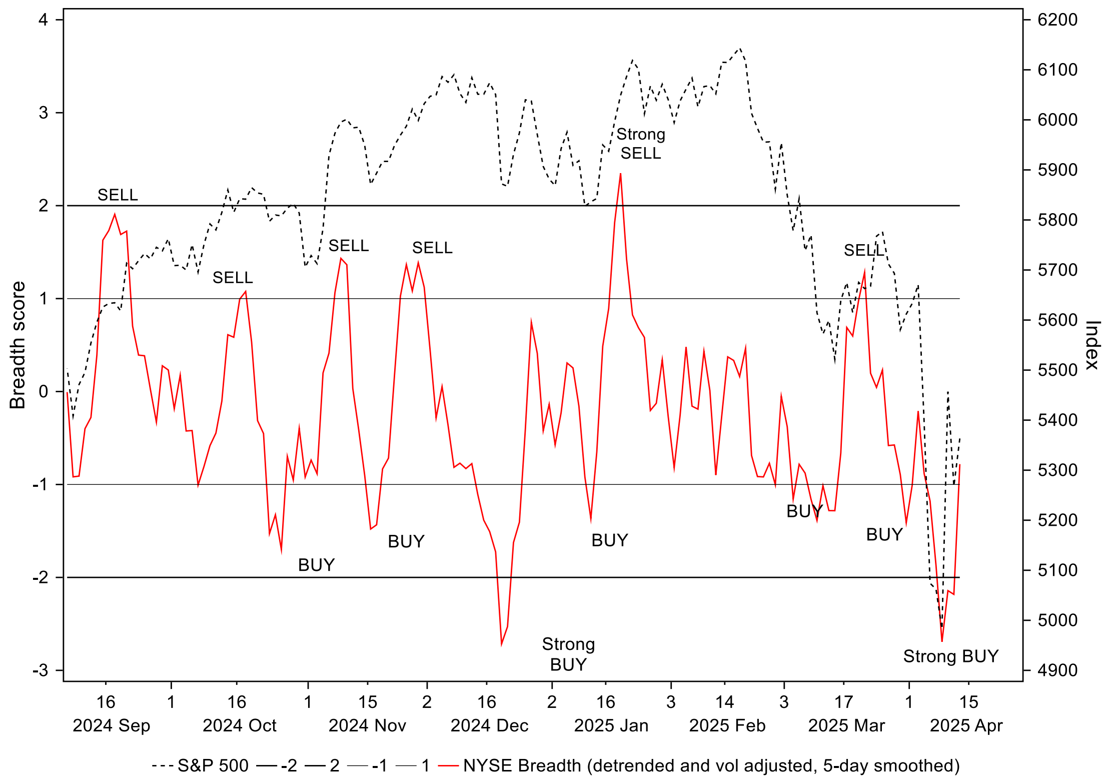


Source: Longview Economics, Macrobond

Calls less puts model is on BUY

For explanations of indicators please see page 10

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



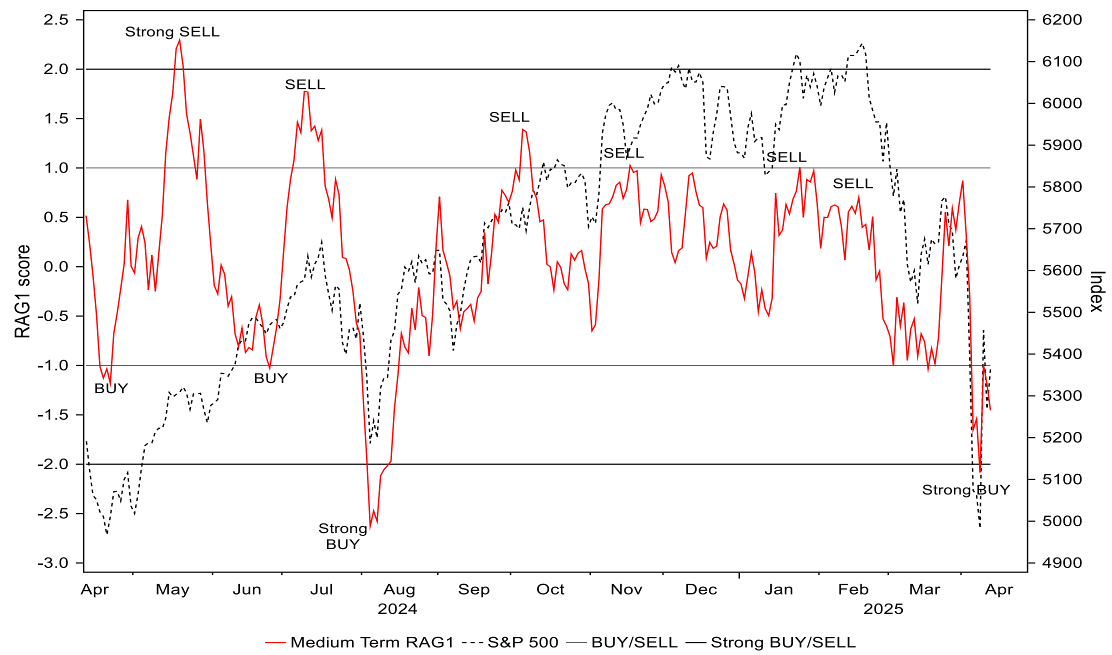
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

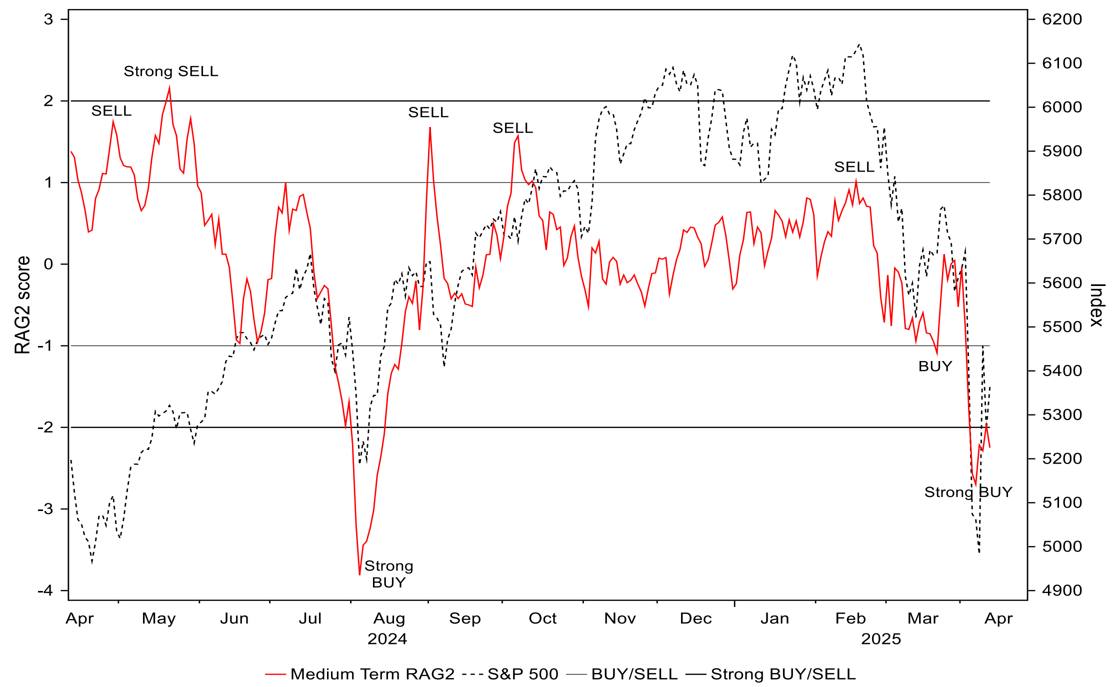
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is on BUY

Source: Longview Economics, Macrobond

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



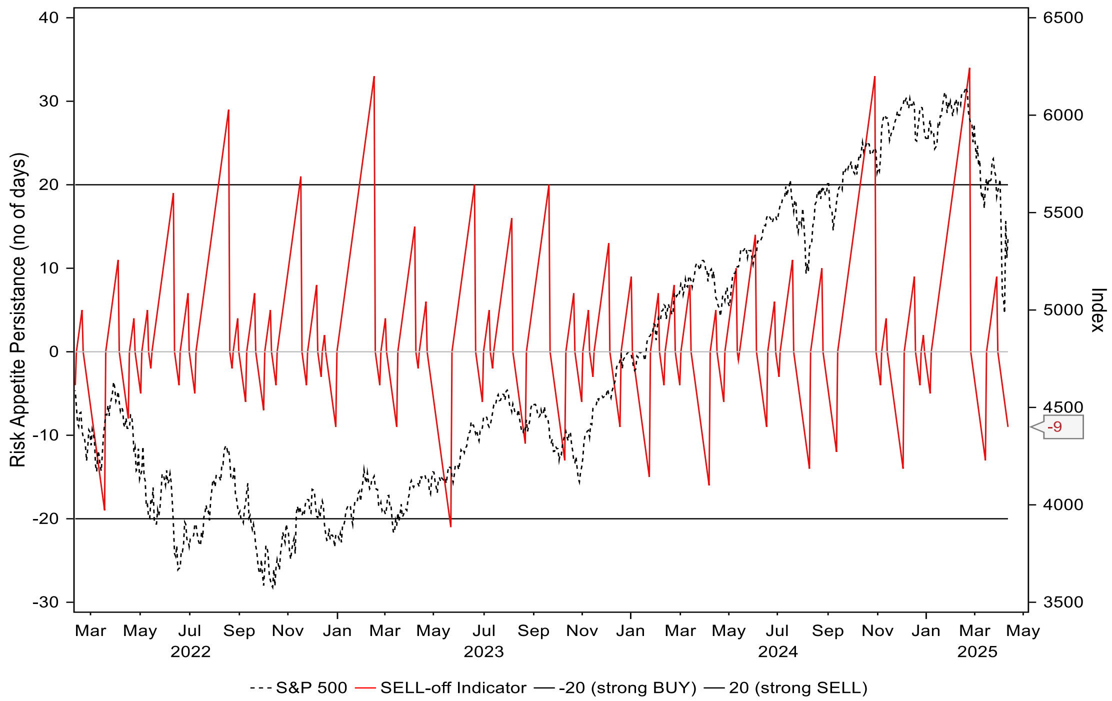
Medium term RAG2 is on Strong BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

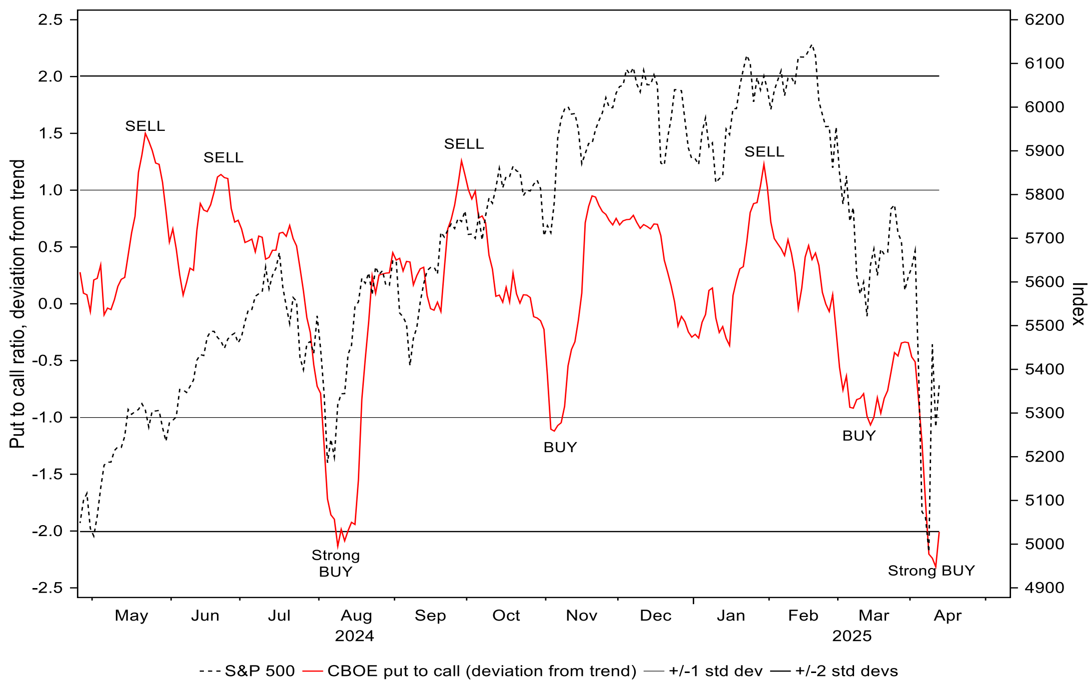
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

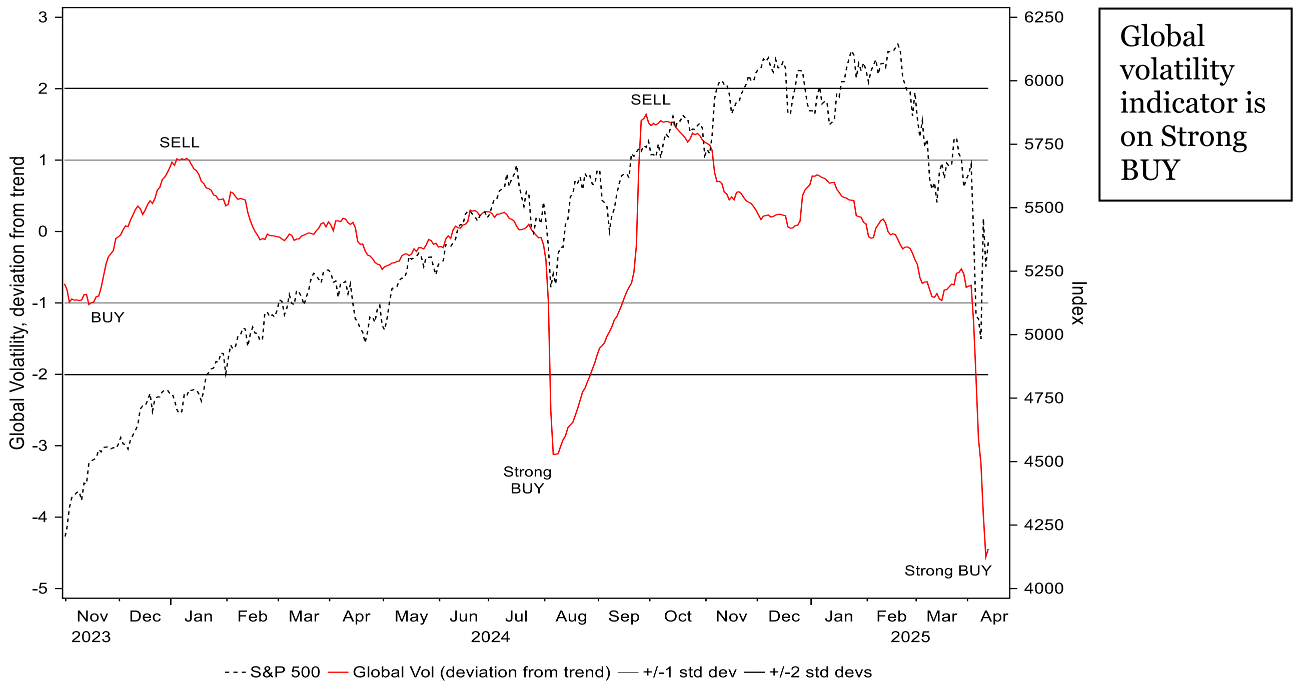


Source: Longview Economics, Macrobond

Medium term put to call model is on Strong BUY

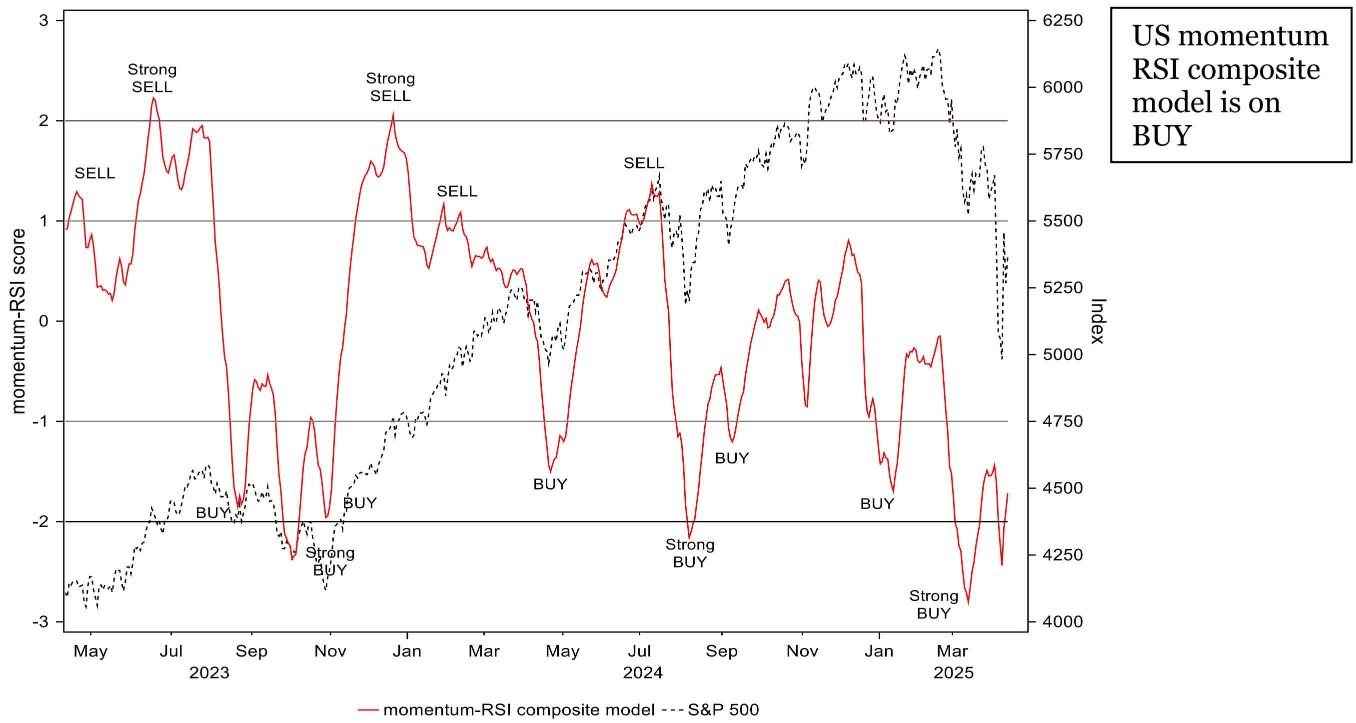
For explanations of indicators please see page 10

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



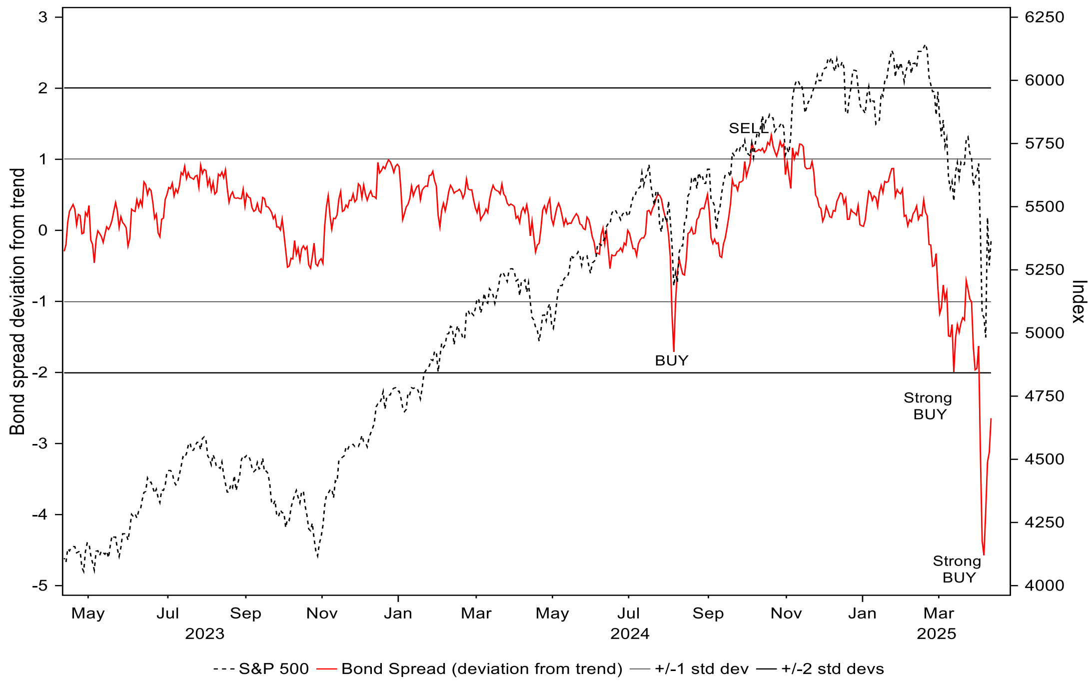
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

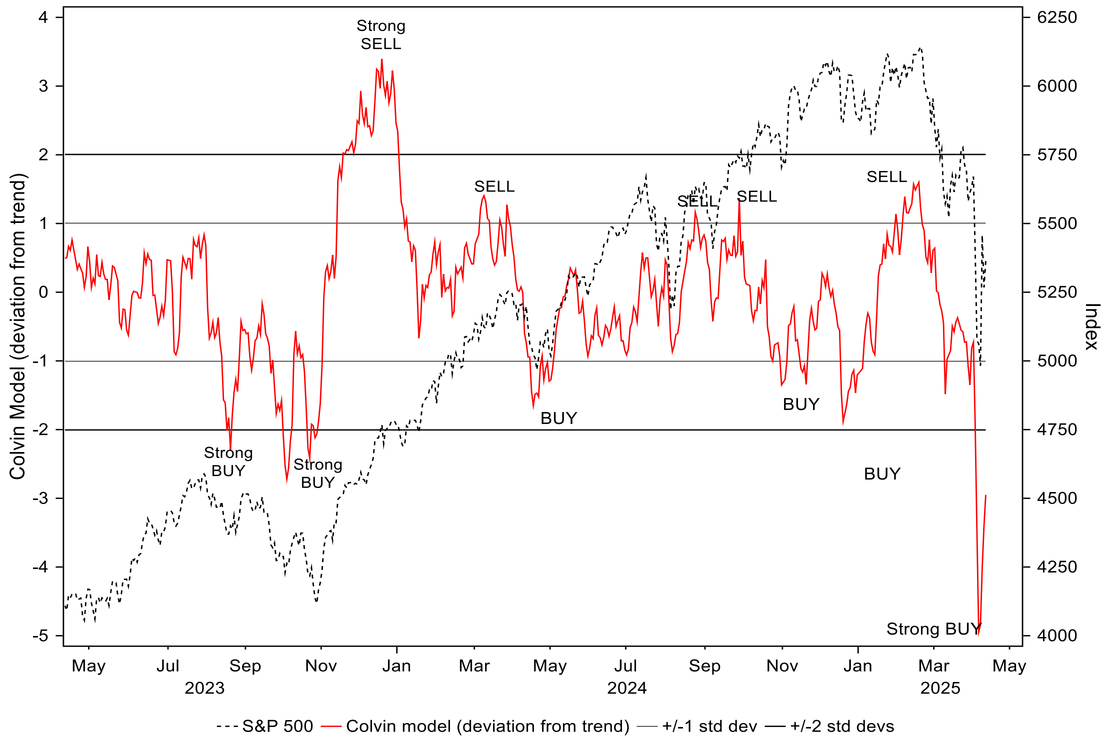
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on Strong BUY

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



Source: Longview Economics, Macrobond

Colvin model – is on Strong BUY

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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