Equity Index Futures Trading Recommendations

14th February 2025

"Stay with SHORT Trade - Keep Stop Loss Unchanged/Reasonably Tight"

Email: info@longvieweconomics.com

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

- STAY ½ SHORT March S&P500 futures (blended entry* was at 6,049.75);
- Retain unchanged stop loss at 6,185.

*I.e. with ¼ position last week at 5,999.25, which was increased to ½ yesterday at 6,100.

Rationale

Newsflow was positive for risk assets yesterday. In particular, Trump once again delayed imposing tariffs (at least until early April). That is, he's asked Howard Lutnick (nominee to lead the Department of Commerce) to propose reciprocal tariffs on a country by country basis (which will take time to investigate/implement, see HERE). With that US Treasury yields moved sharply lower (e.g. see FIG 1e); the US dollar closed down (e.g. DXY: -0.6%); and equities rallied across the board.

Of note the S&P500 closed up 1.0%, with all of the 11 'top level' sectors higher on the day. The March S&P500 futures are therefore back at the top of their recent trading range (see FIGs 1b & 1c). Elsewhere European equities responded well to the tariff news (with an acceleration in the recent uptrend in the DAX, see FIG 1); various sovereign spreads narrowed sharply (e.g. across Europe, see FIG 1a); while key liquidity barometers have performed well (e.g. with silver up 3.8% this morning).

Given that strength in US equities, we were filled on our order to increase the position size (i.e. at 6,100). With the market trading close to our stop loss (at 6,185), our conviction in this SHORT trade is clearly being tested (NB our stop is just above the early December intra day highs on March futures, of 6,175.50).

The key question, therefore, is: Will US equities will break out to the upside in the near term (above their December highs)? Or will they fail at around those levels/roll over?

Of note, in that respect, our SELL-off indicator continues to march higher and **warn of an imminent wave of risk aversion in global markets** (see FIG 1e). Often, before SELL-offs, price action in risk assets becomes euphoric/frothy. That's currently happening in European indices (e.g. see FIG 1), as well as in certain other assets (e.g. see copper & gold). Elsewhere other medium term models are on SELL (e.g. see FIG 1f) while short term models are, in many cases, leaning towards SELL (albeit they are mostly officially NEUTRAL, see FIGs 3 – 5). Overall, therefore, there's a strong case that US/global equity markets are close to putting in a local top. As such the risk reward favours staying with SHORT positions for now (see above for detailed recommendation).

The key risk is that upside momentum persists in the near term (and we are stopped out of the trade). In that at scenario, given the warning signal from our SELL-off indicator, we'd anticipate looking to reinstate SHORT positions (i.e. at higher/better levels).

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: DAX candlestick chart shown with 50 day moving average

Source: Longview Economics, Macrobond

FIG 1a: French, Italian & Belgium spreads over 10 year bunds (bps)

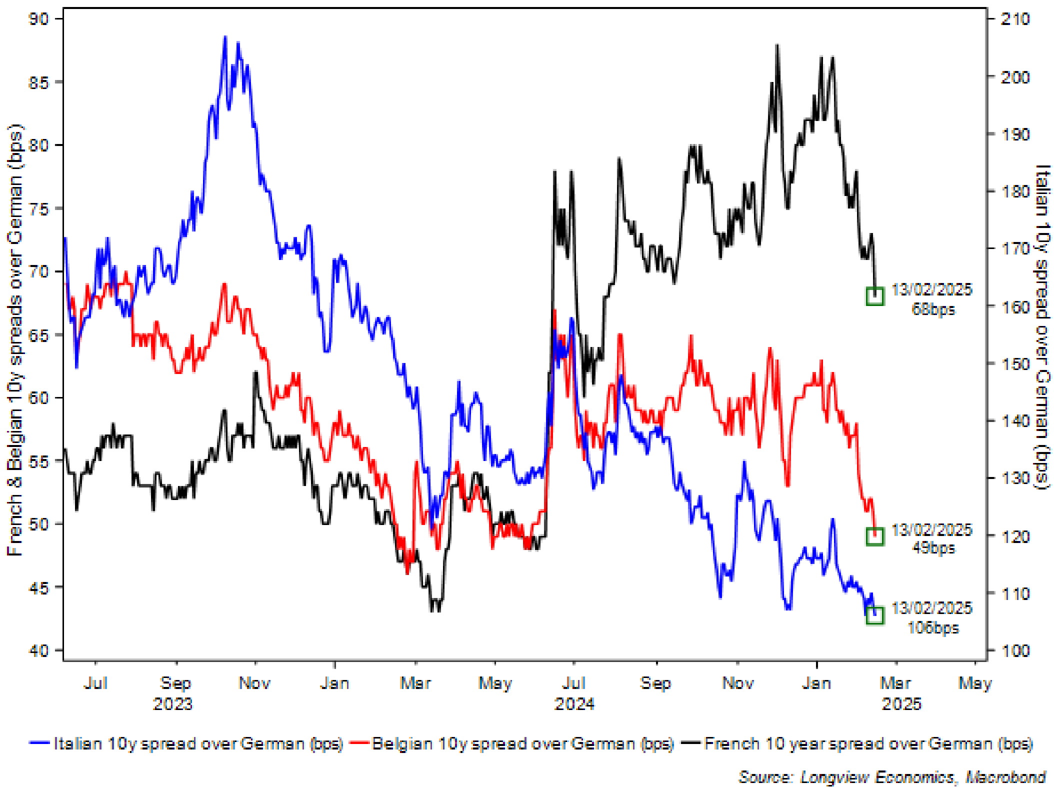


FIG 1b: S&P500 March 25 futures candlestick shown with 50 day moving average

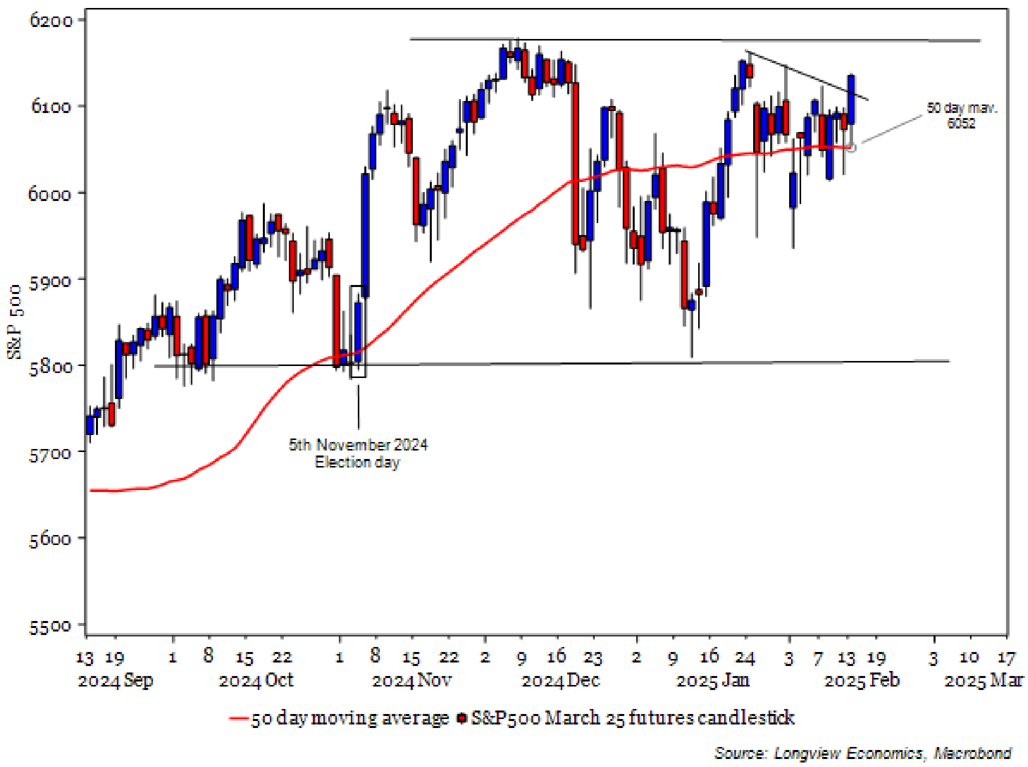


FIG 1c: S&P500 March 2025 futures 30-day tick chart shown with overnight price action

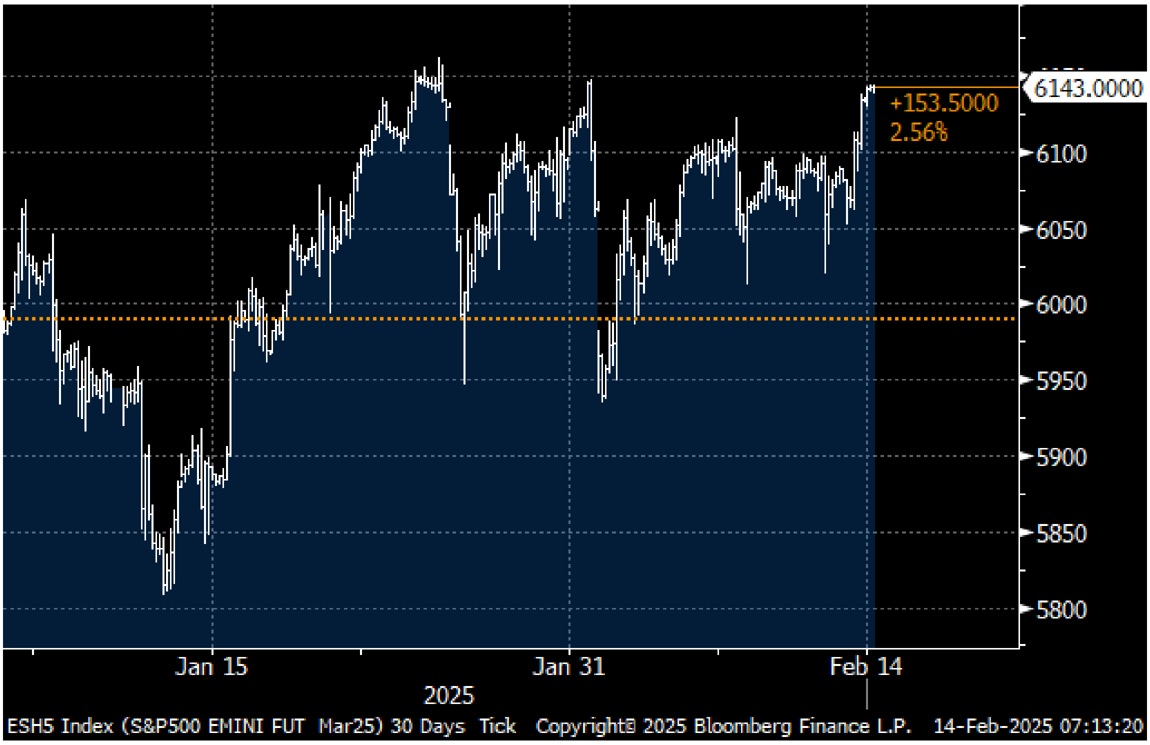


FIG 1d: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages

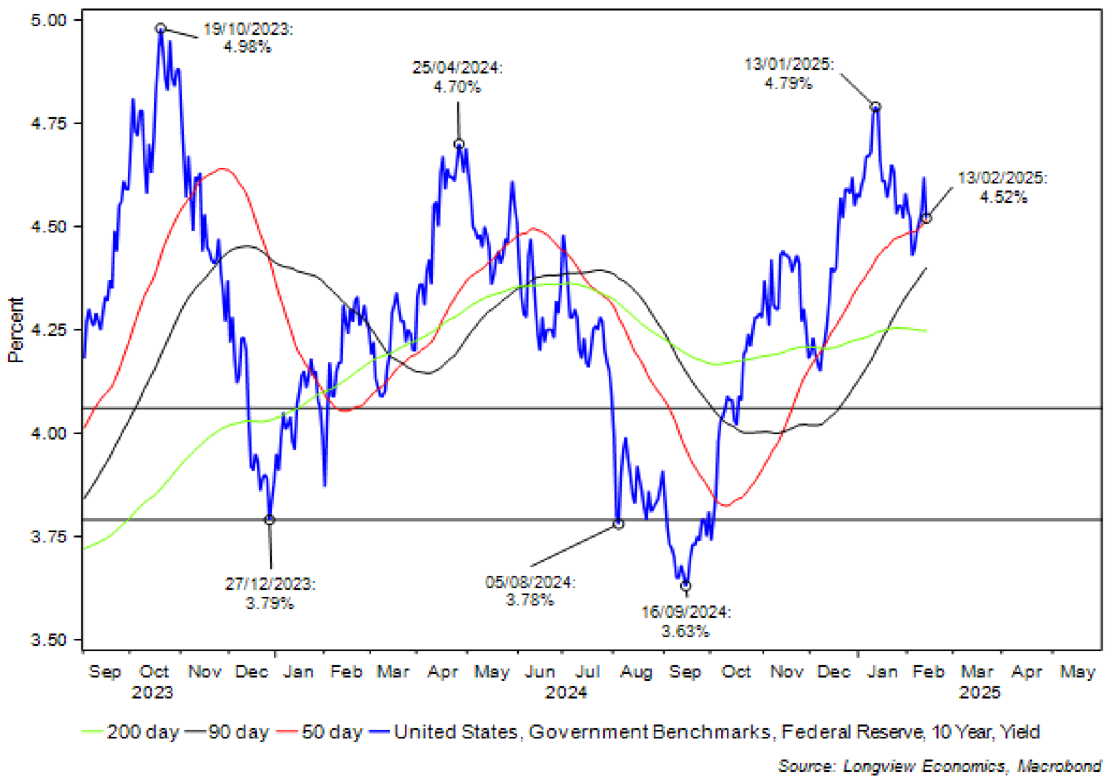
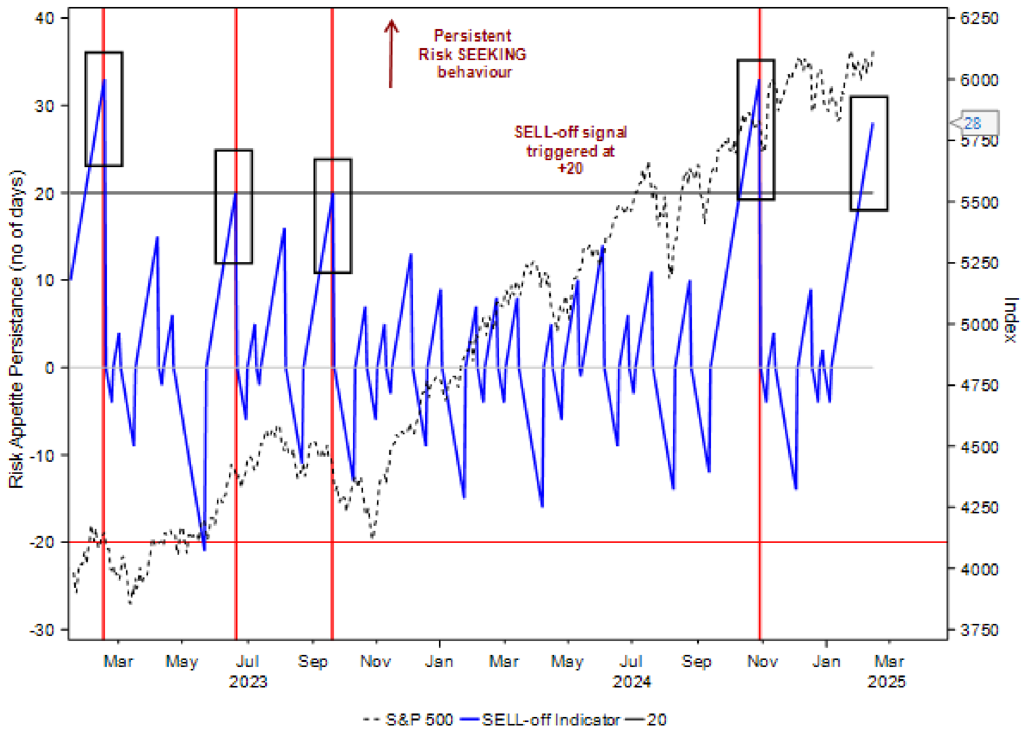
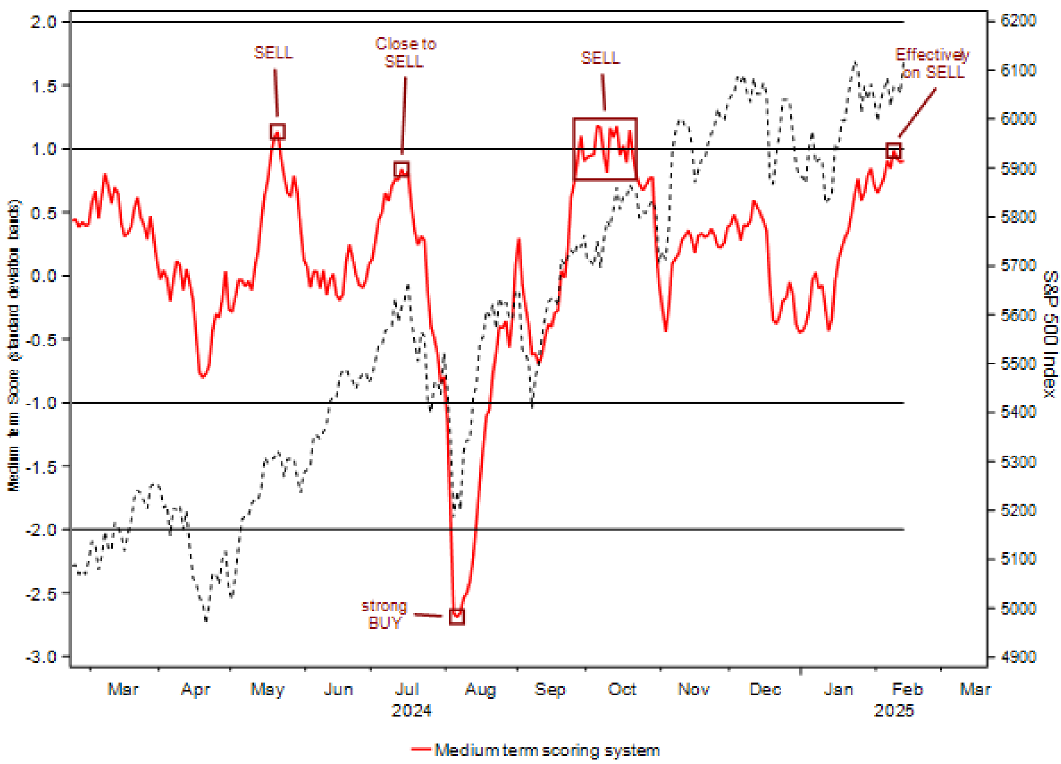


FIG 1e: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

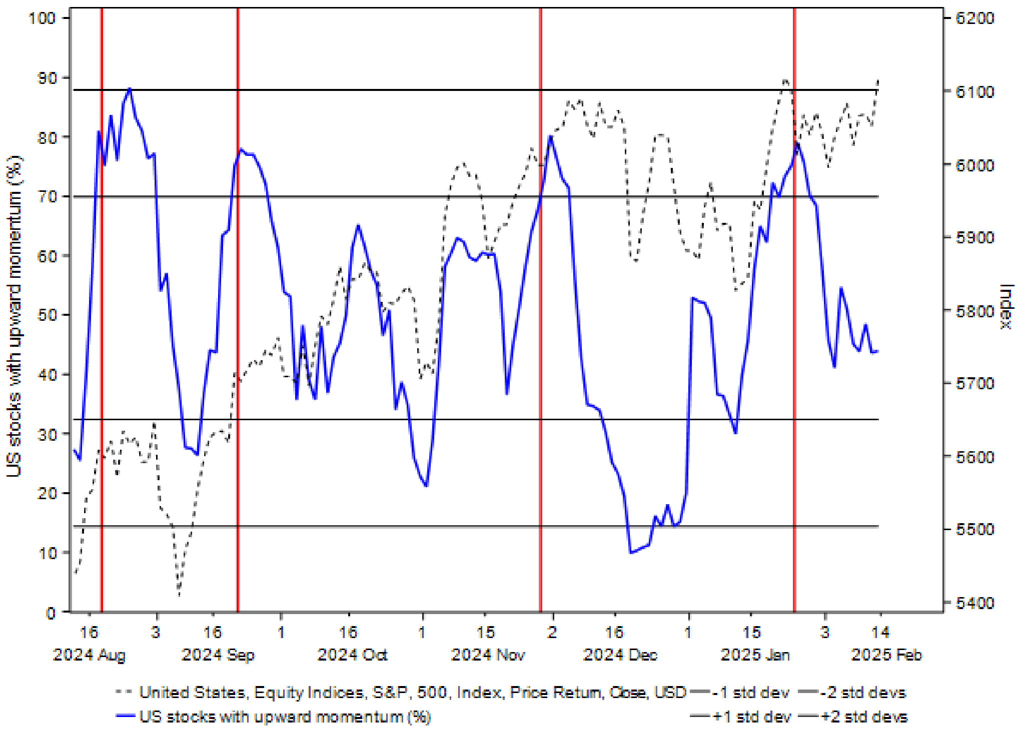
FIG 1f: Medium term risk appetite scoring system vs. S&P500



Source: Longview Economics, Macrobond

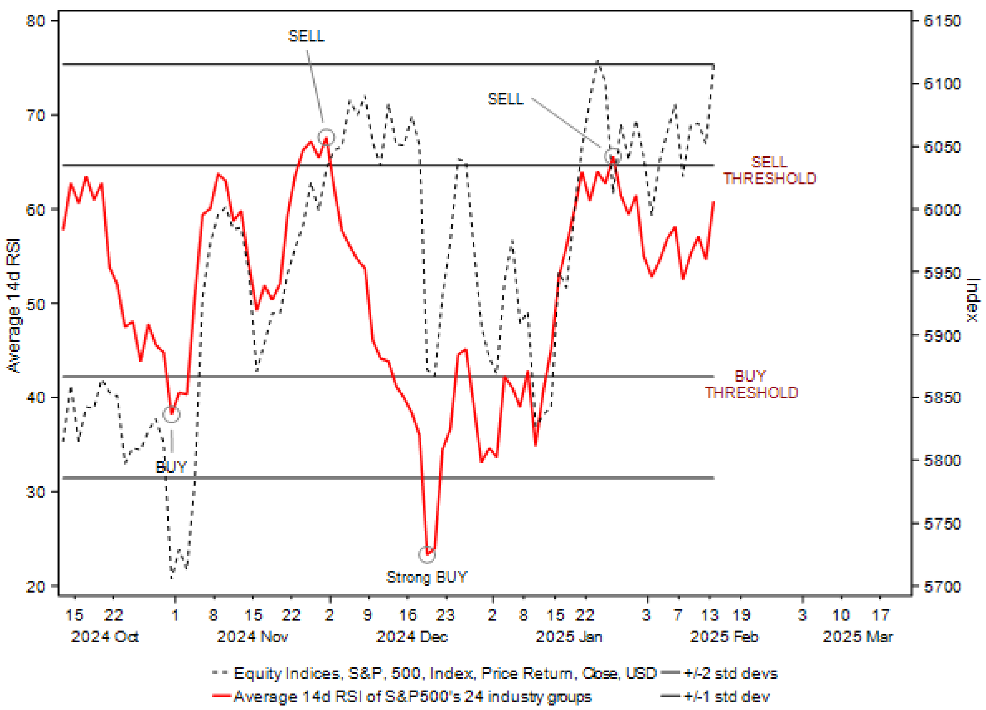
Sector & single stock momentum models have been trending lower….

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



Source: Longview Economics, Macrobond

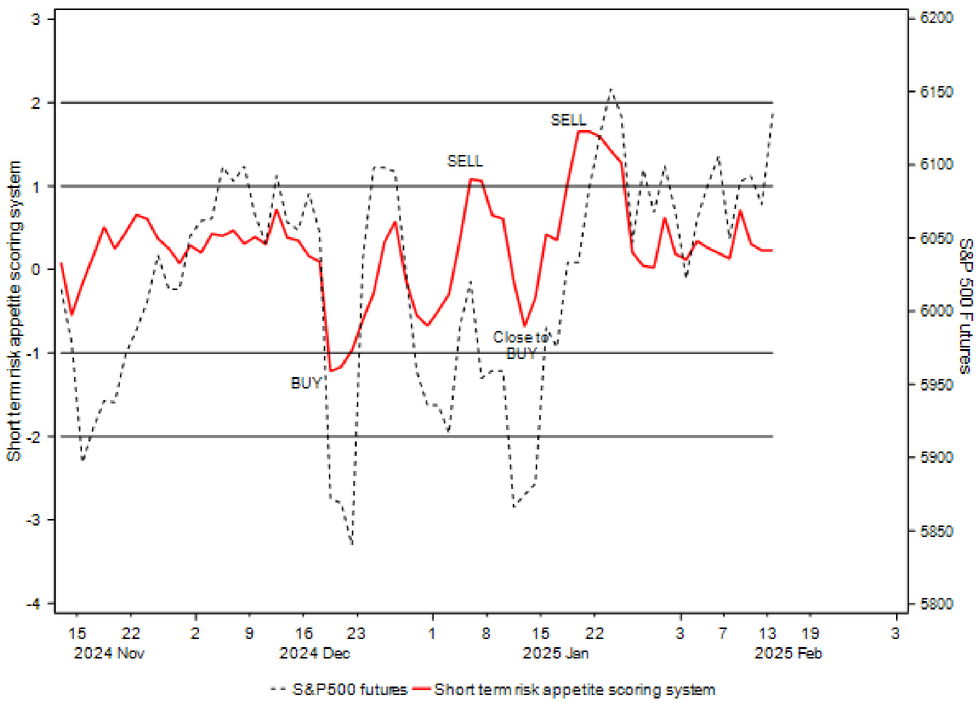
FIG 2a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

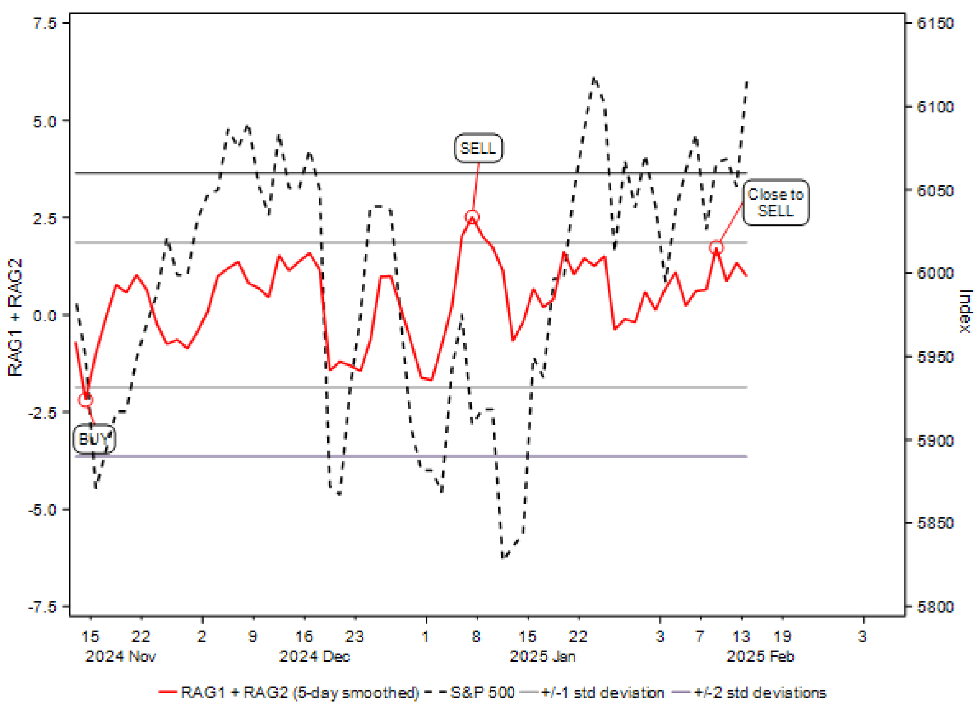
Risk appetite models are NEUTRAL…

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



Source: Longview Economics, Macrobond

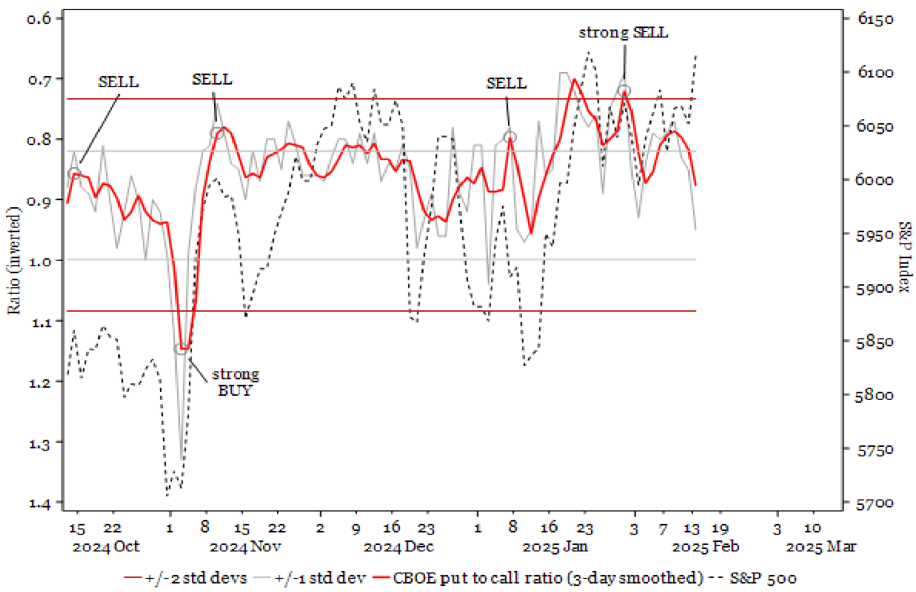
FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

The short-term CBOE put to call model is NEUTRAL.....

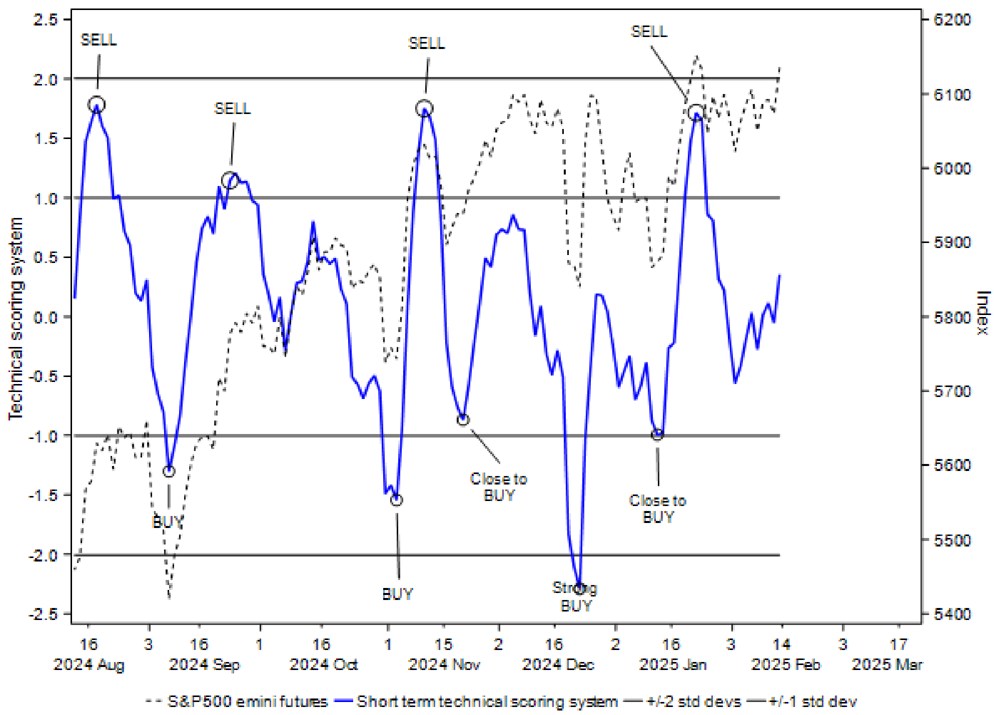
FIG 4: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

Technical models (for indices) are mid-range.....

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

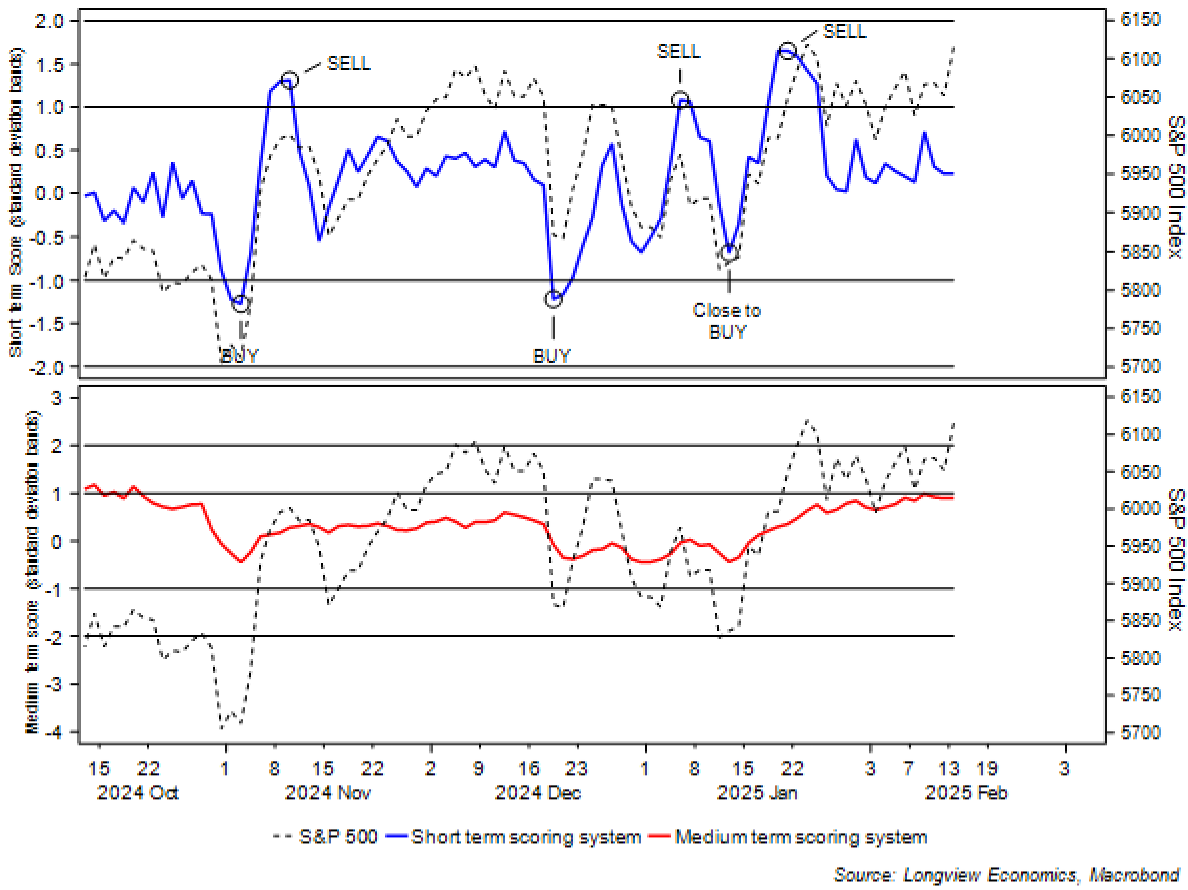


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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



Key macro data/events

Key data today include: Spanish headline & core CPI (January final estimate, 8am); Eurozone GDP & employment (Q4 second estimate, 10am); **US retail sales** (Jan, 1:30pm); US imports and exports price index (Jan, 1:30pm); US industrial & manufacturing production & capacity utilisation (Jan, 2:15pm); US business inventories (Dec, 3pm).

Key events today include: N/A

Key earnings today include: **Hermes International**, Safran, **Natwest,** Tokio Marine 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

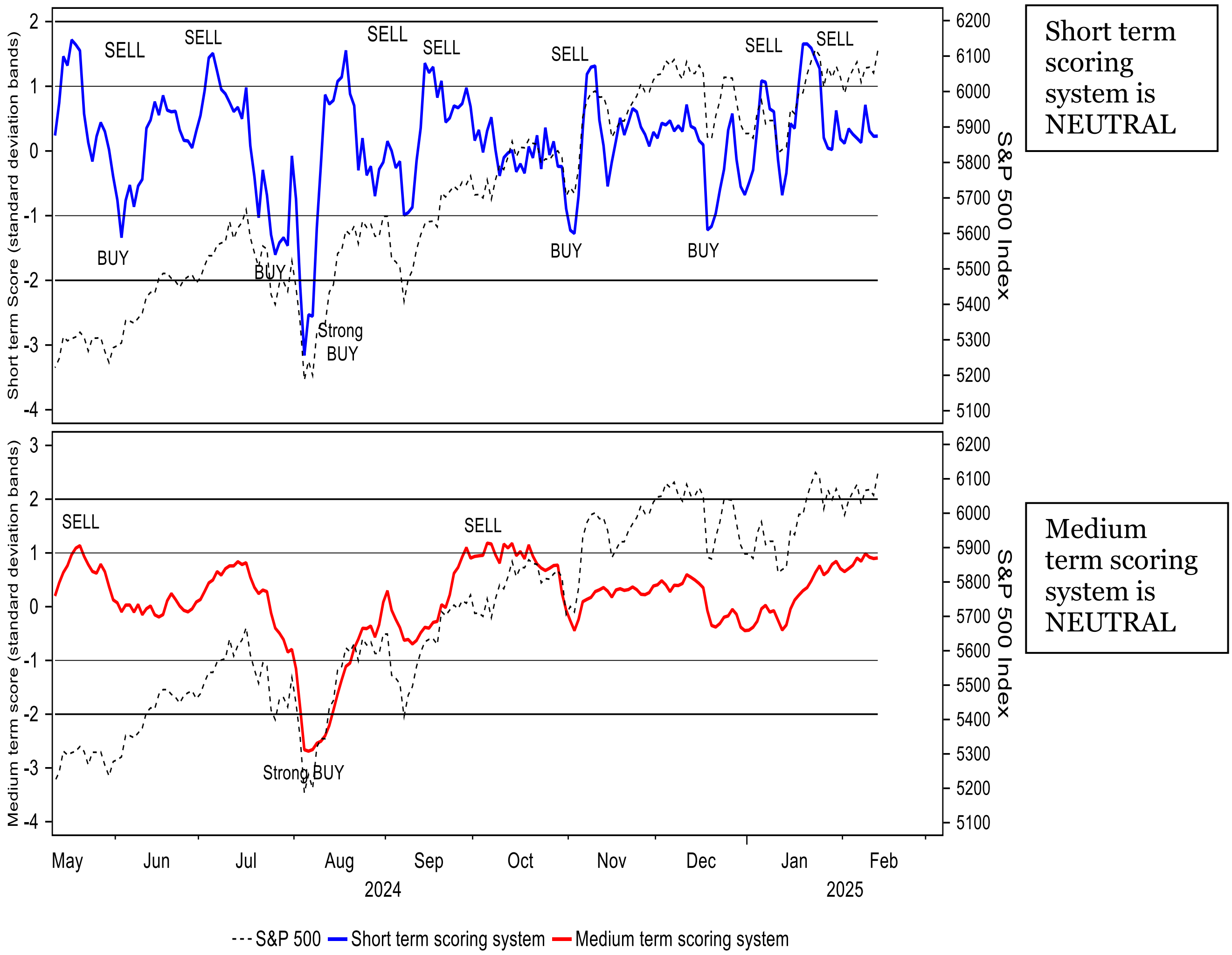
1 – 2 Week View on Risk

14th 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



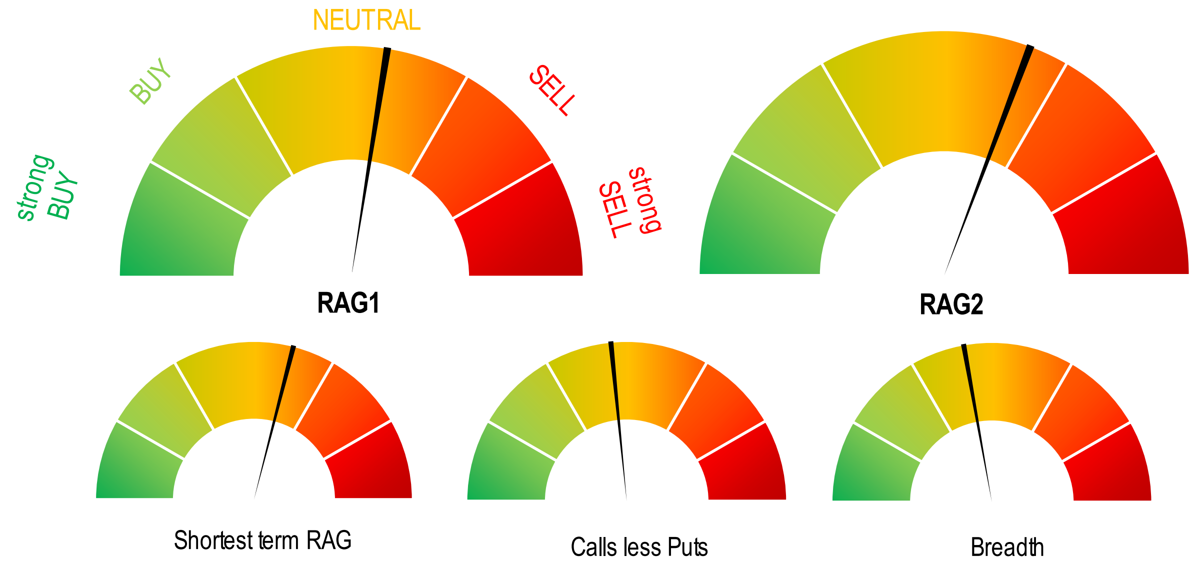
Source: Longview Economics, Macrobond

*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

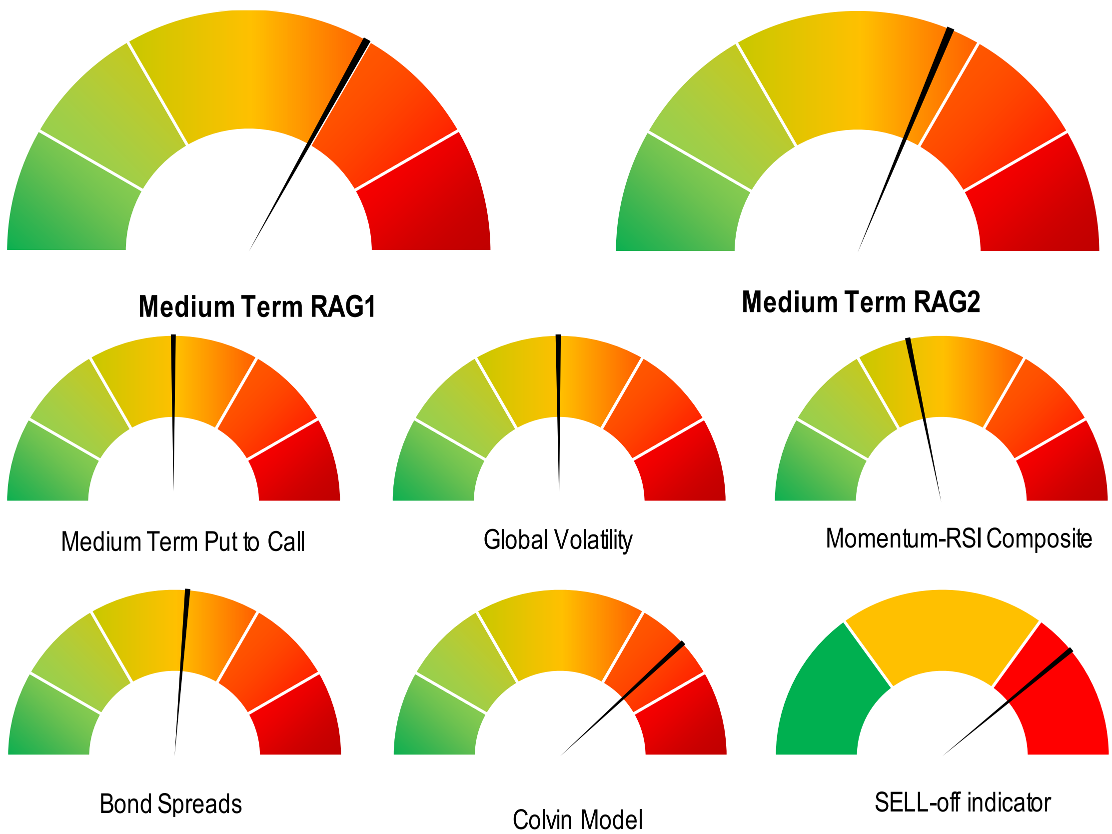
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

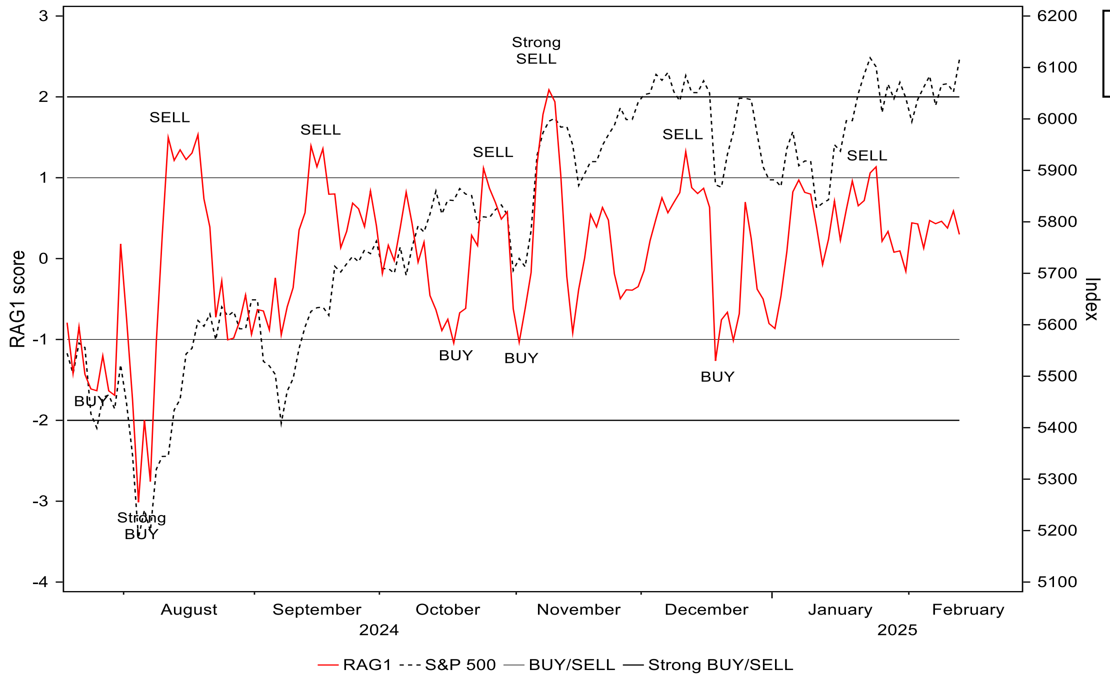
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

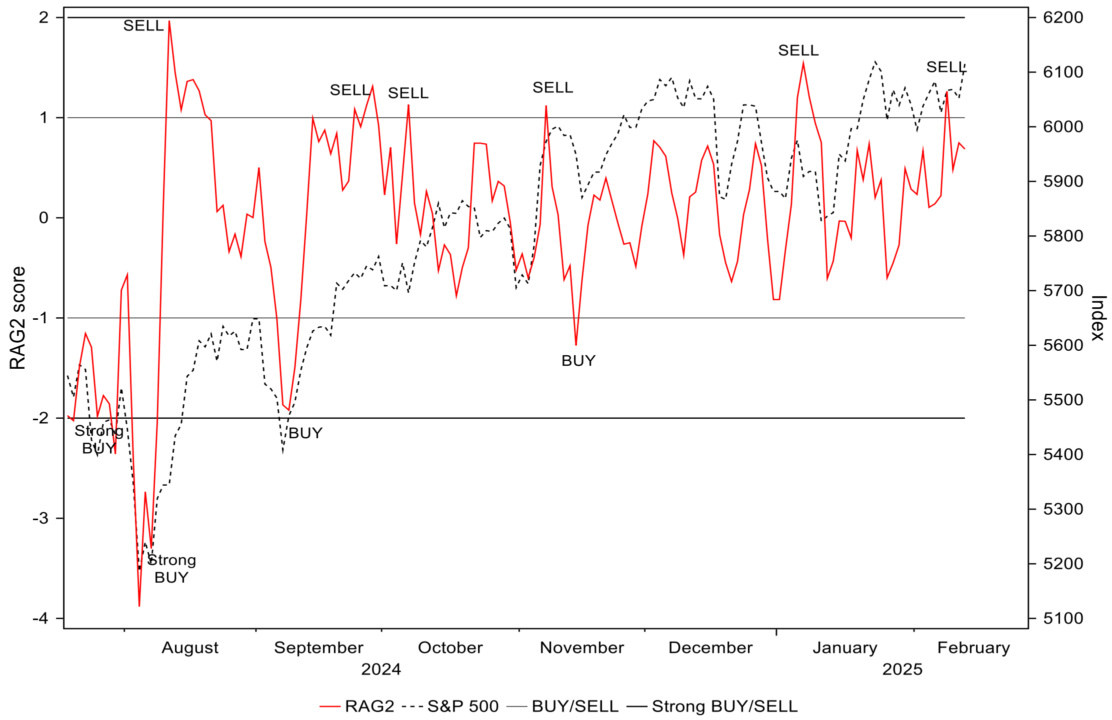
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

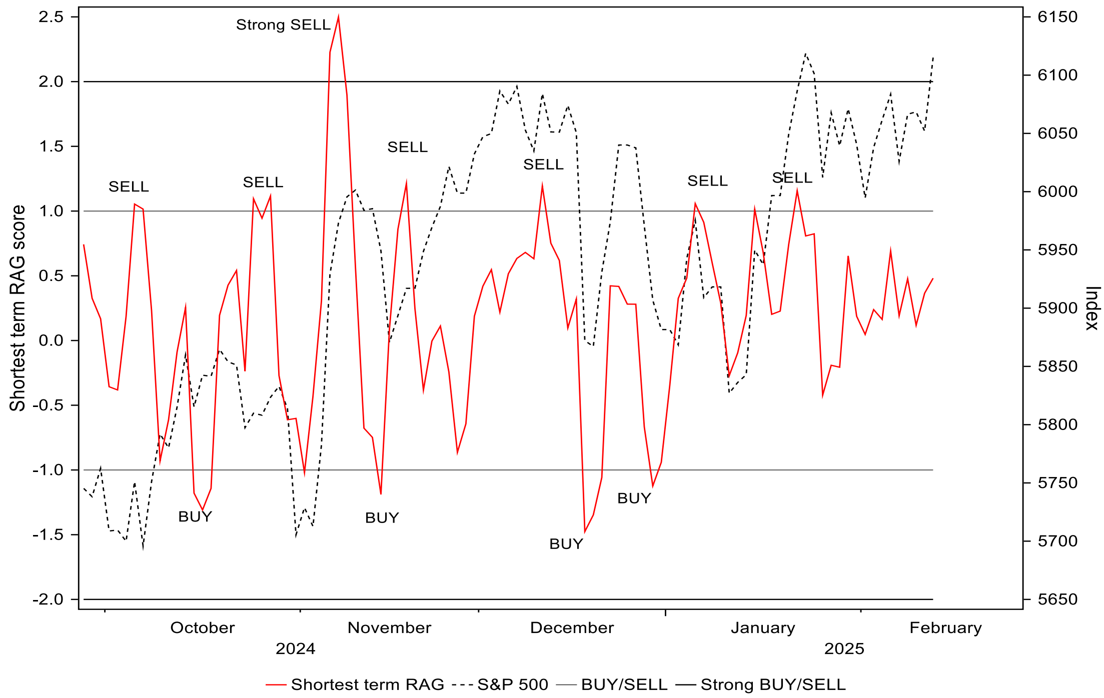


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

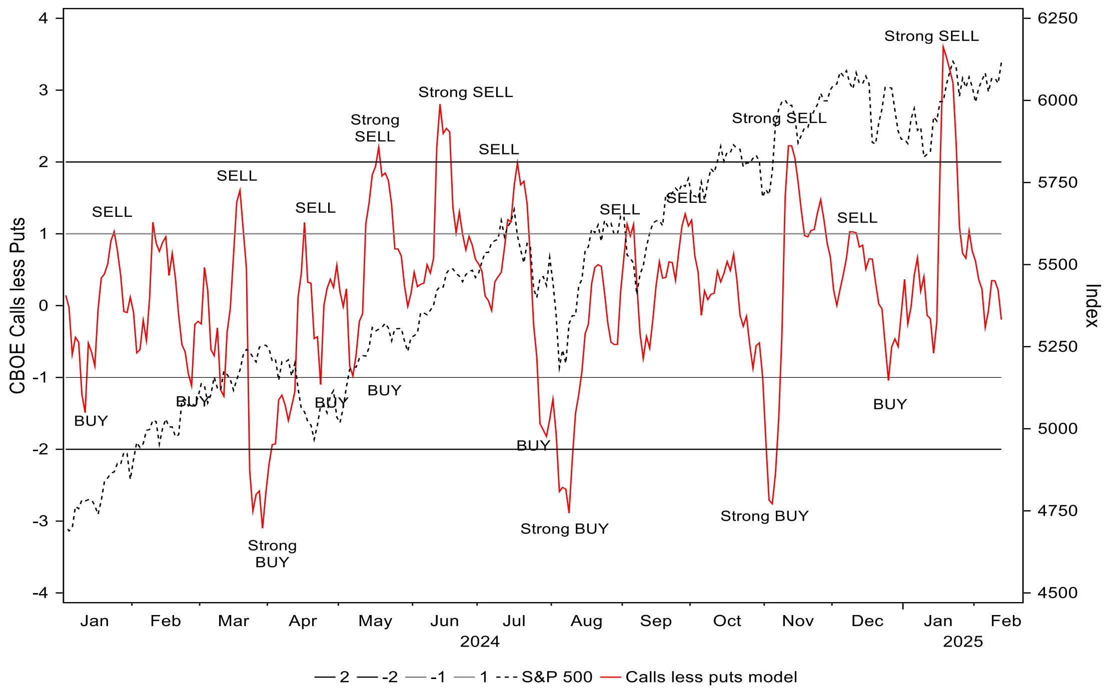
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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



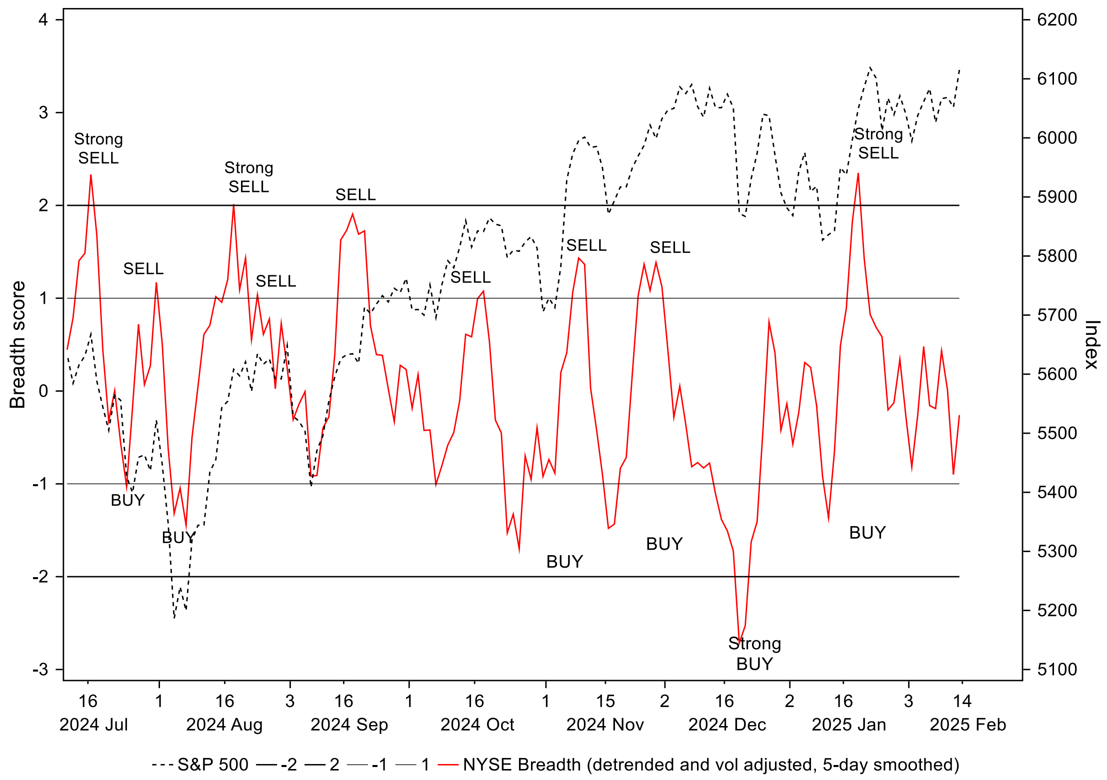
Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

The breadth model is NEUTRAL

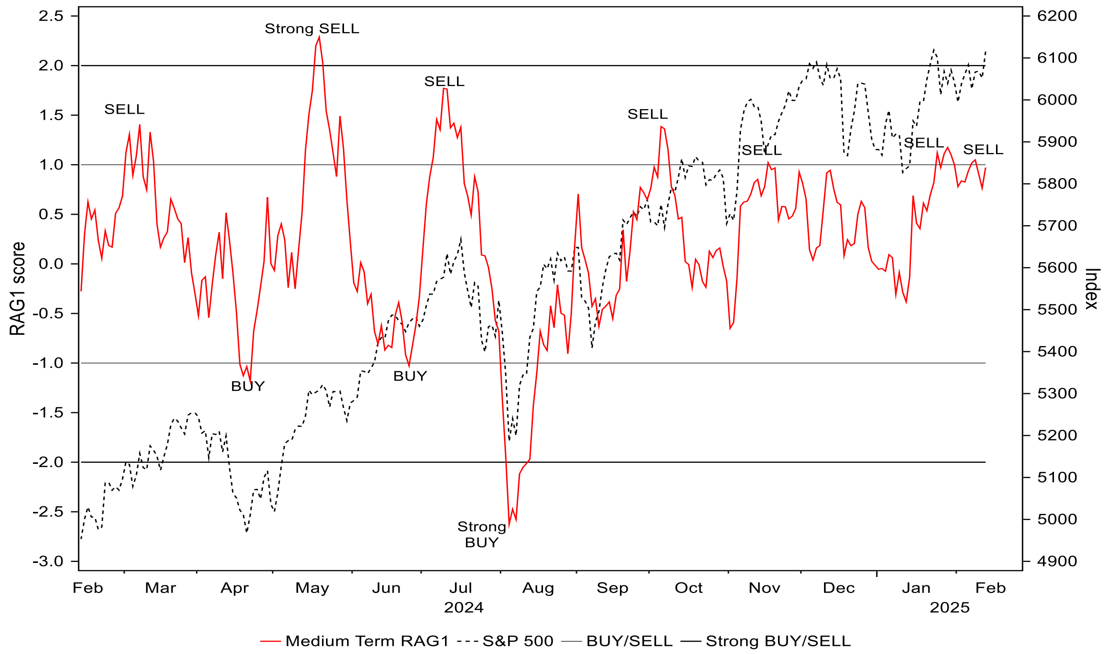


Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

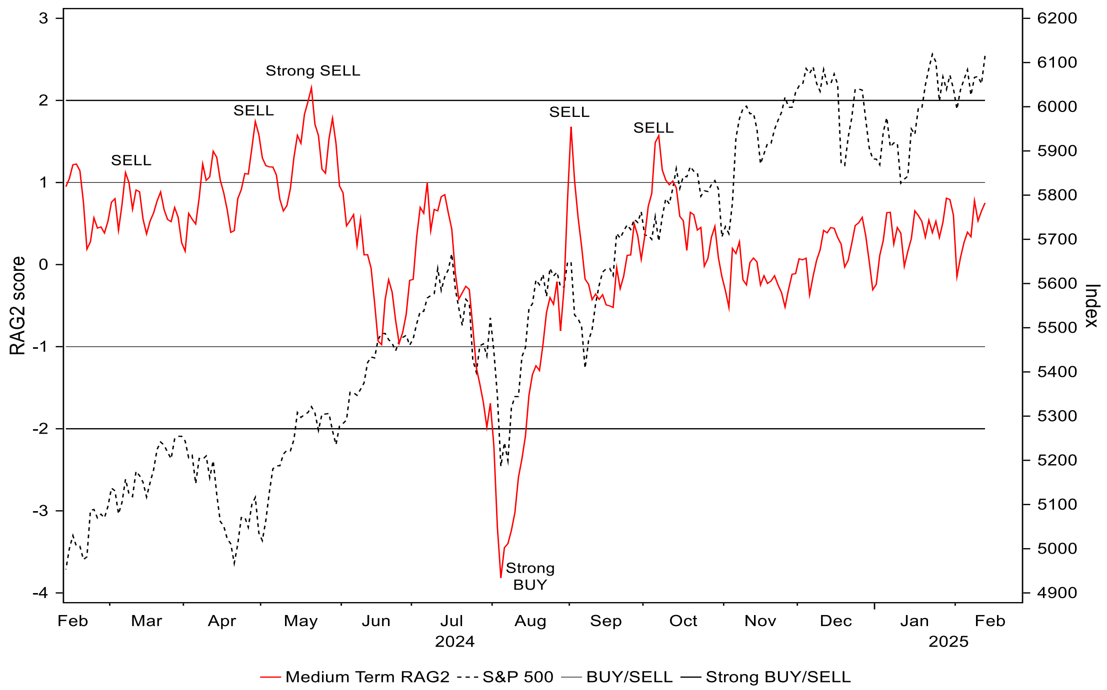
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

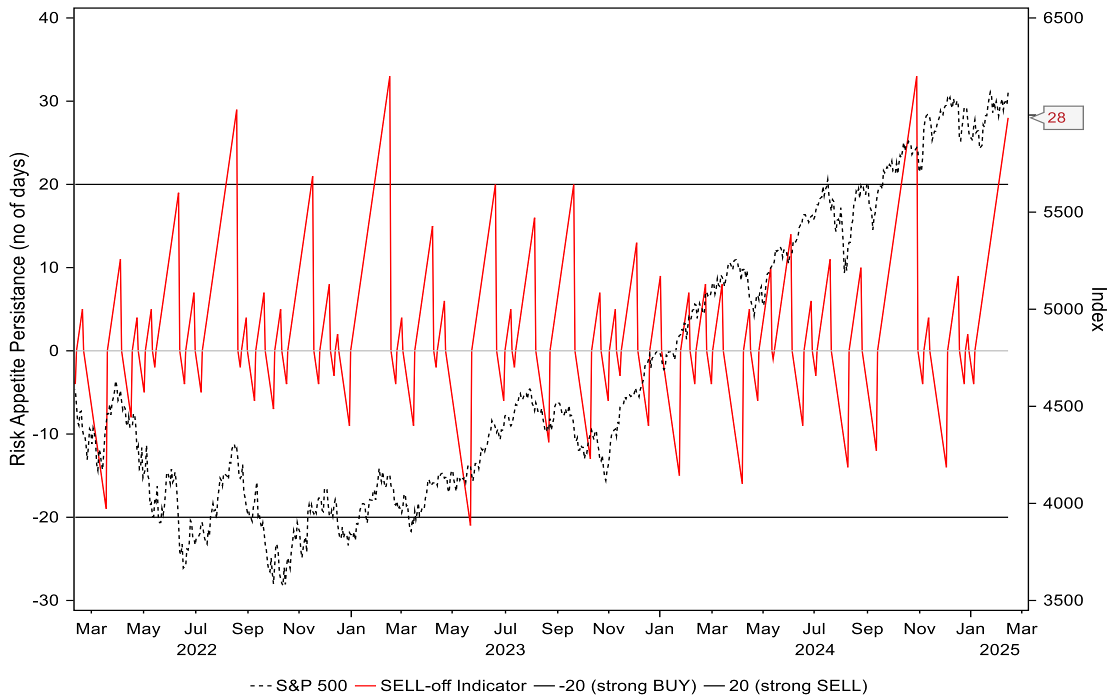


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

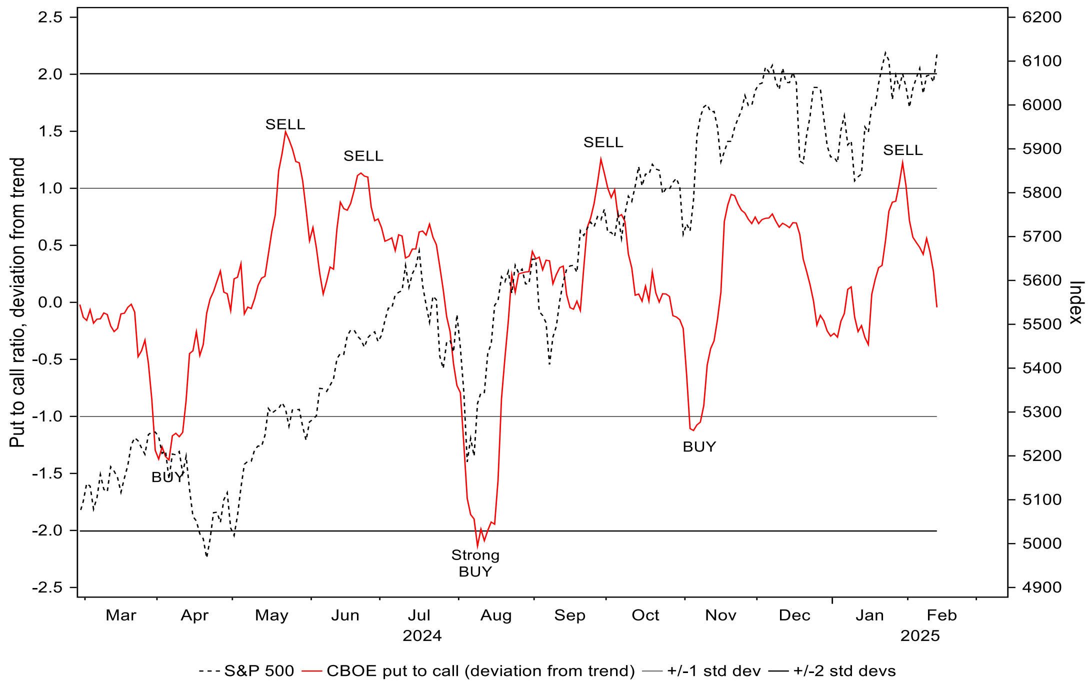
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

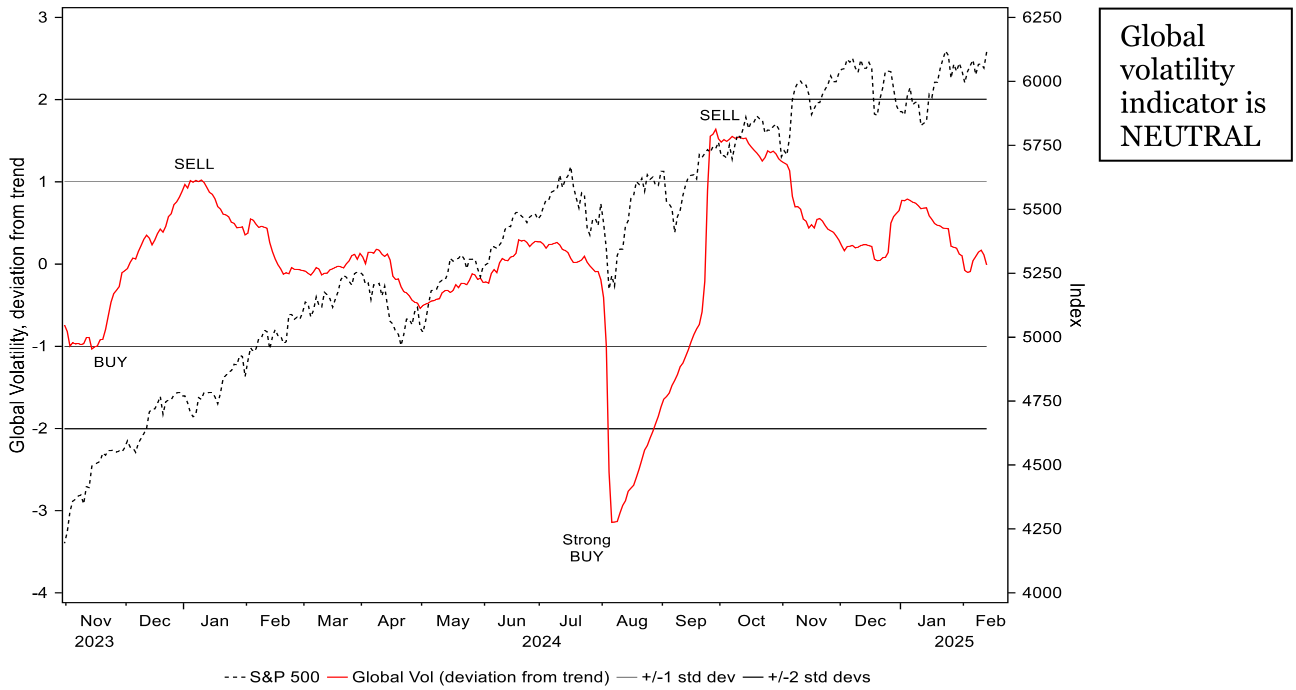


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

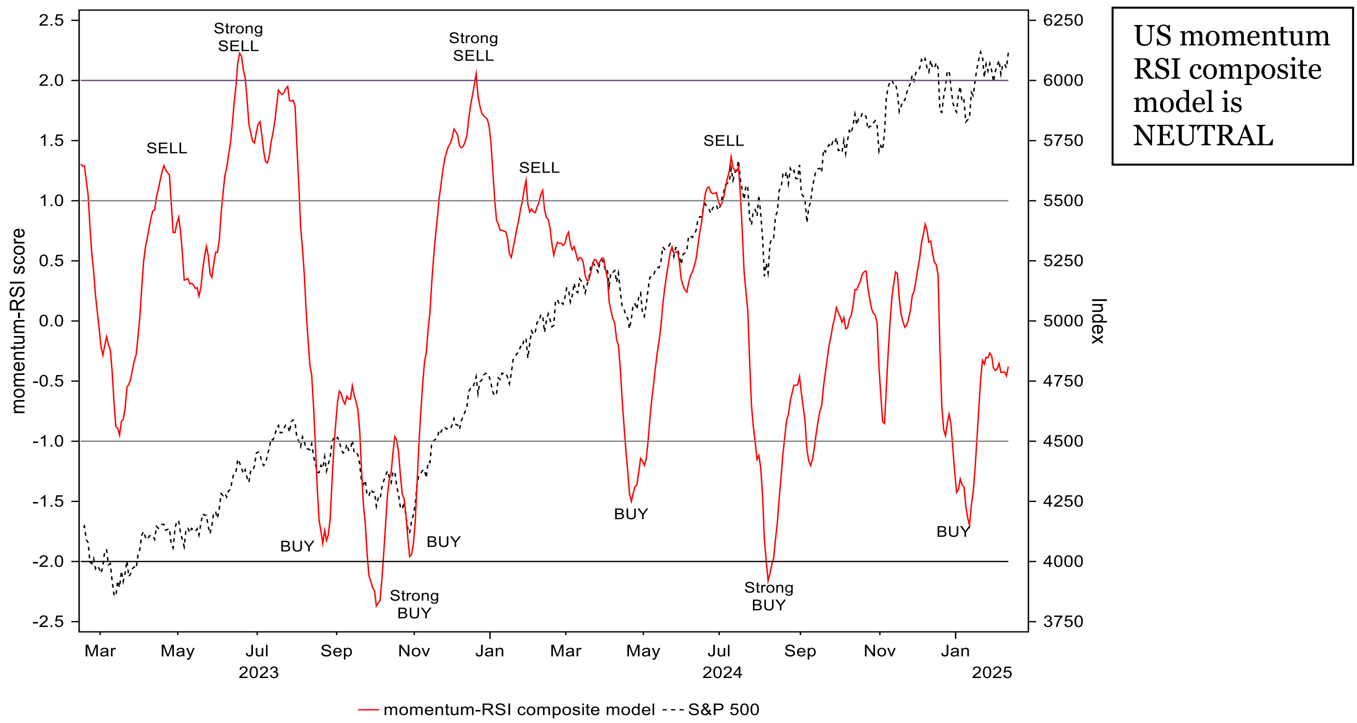
For explanations of indicators please see page 10

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



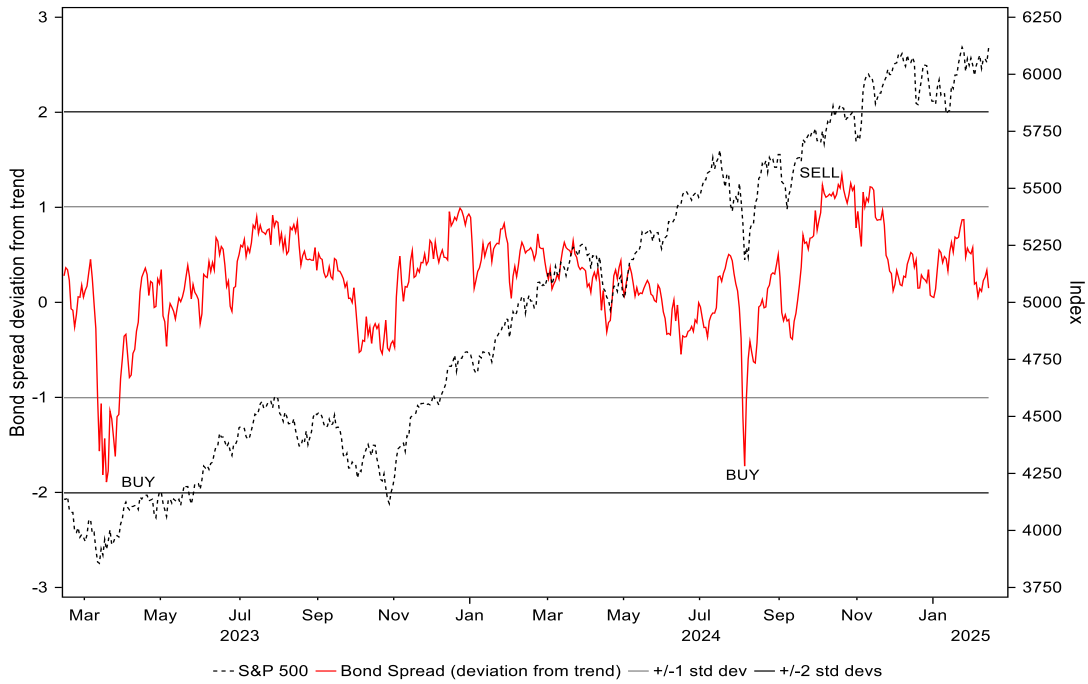
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

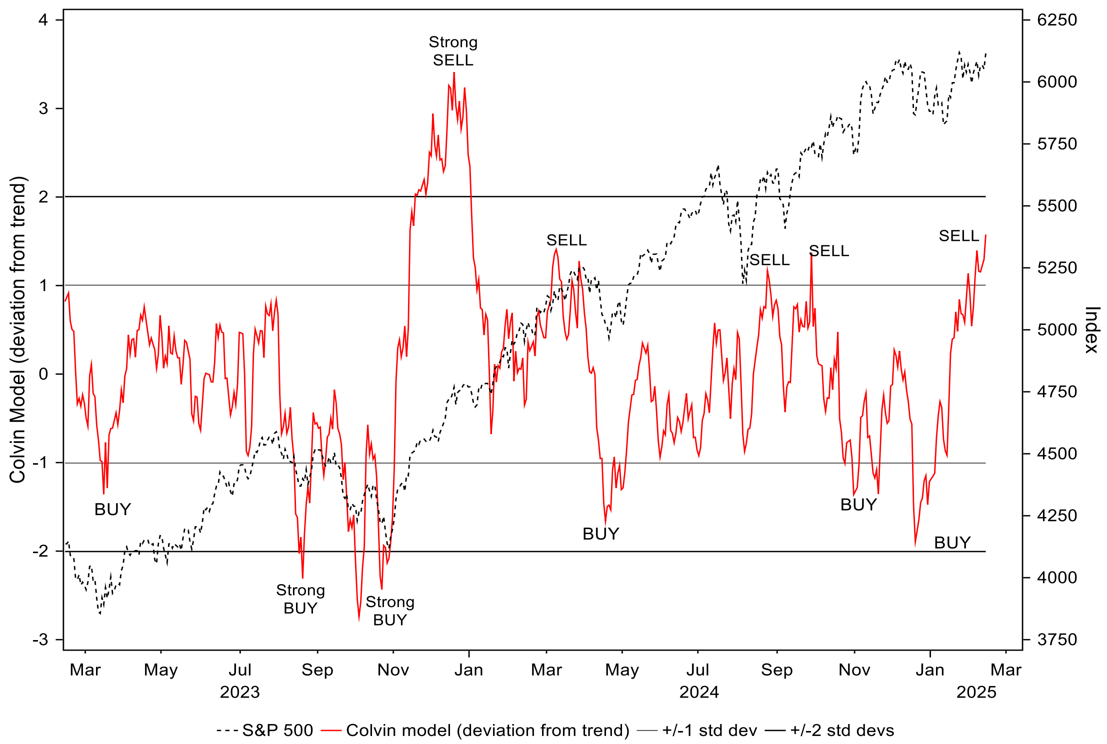
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

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