LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

14th March 2025

"Stay SHORT DAX - Tighten Stop Given Rising Risk of Relief Rally"

Email: info@longvieweconomics.com

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 23,255 (from 23,400 yesterday).

Rationale

US equities continued their slow grind lower yesterday, with new local intra-day lows in the S&P500 (-1.4%); Russell 2000 (-1.6%); DJIA (-1.3%); and DJ Transports (-1.9%), amongst others. Of the 28 major US indices we track, 25 closed lower on the session (with 10 out of the 11 S&P500 sectors down on the day). With that the S&P500 is down 10.7% in the past 16 trading days. European indices once again outperformed/only closed modestly lower. As such the DAX (-0.5%) has continued to trade within its recent range (see FIG 1b); while other indices have rolled over (including the IBEX and the MIB, e.g. see FIG 1c).

The key question, therefore, is: **How advanced is 'wave 1' of this pullback*?** And, will the DAX (and other European indices) begin to meaningfully participate in this SELL-off? And, linked to that, is near term capitulation necessary for markets find a floor? Or, is a relief rally/short squeeze imminent (i.e. in the absence of capitulation/washout selling)?

The arguments are finely balanced.

As we've highlighted this week, the SELL-off phases in pullbacks (waves 1, 3 & 5 etc) typically persist until there are clear signs of fear and panic in markets. That's usually characterised by a spike in volumes, significant buying of downside put protection, V-shaped price action, and BUY/strong BUY signals from our risk appetite models. Some of those factors are emerging, but overall there's no evidence for near term capitulation in markets. That therefore points to further near term downside in global equities, with the DAX likely to roll over (and unwind its over-extended nature, as highlighted by key technical indicators, e.g. see FIG 1c).

Risks to staying SHORT, though, are rising. In particular, US equity volatility (the VIX) has moved lower in recent trading days (since its intra-day peak at 29.57% this Tuesday, see FIG 1d). The volatility of the VIX (VVIX) has also fallen, and often leads the VIX (FIG 1e). DAX volatility has also eased (i.e. the VDAX). Furthermore, our short term risk appetite models have started to move back to BUY (with our risk appetite scoring system turning BUY overnight – see FIGs 3, 3a, & 3b). There was also some put BUYing yesterday (on the CBOE measure, albeit the DAX put to call model is still NEUTRAL, see FIGs 4 & 4a).

On balance, we continue to favour staying SHORT the DAX. Given those rising risks, though, our conviction is somewhat diminished. Reflecting that we recommend a modestly tighter 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: S&P500 March 2025 futures 30 day tick chart shown with overnight price action

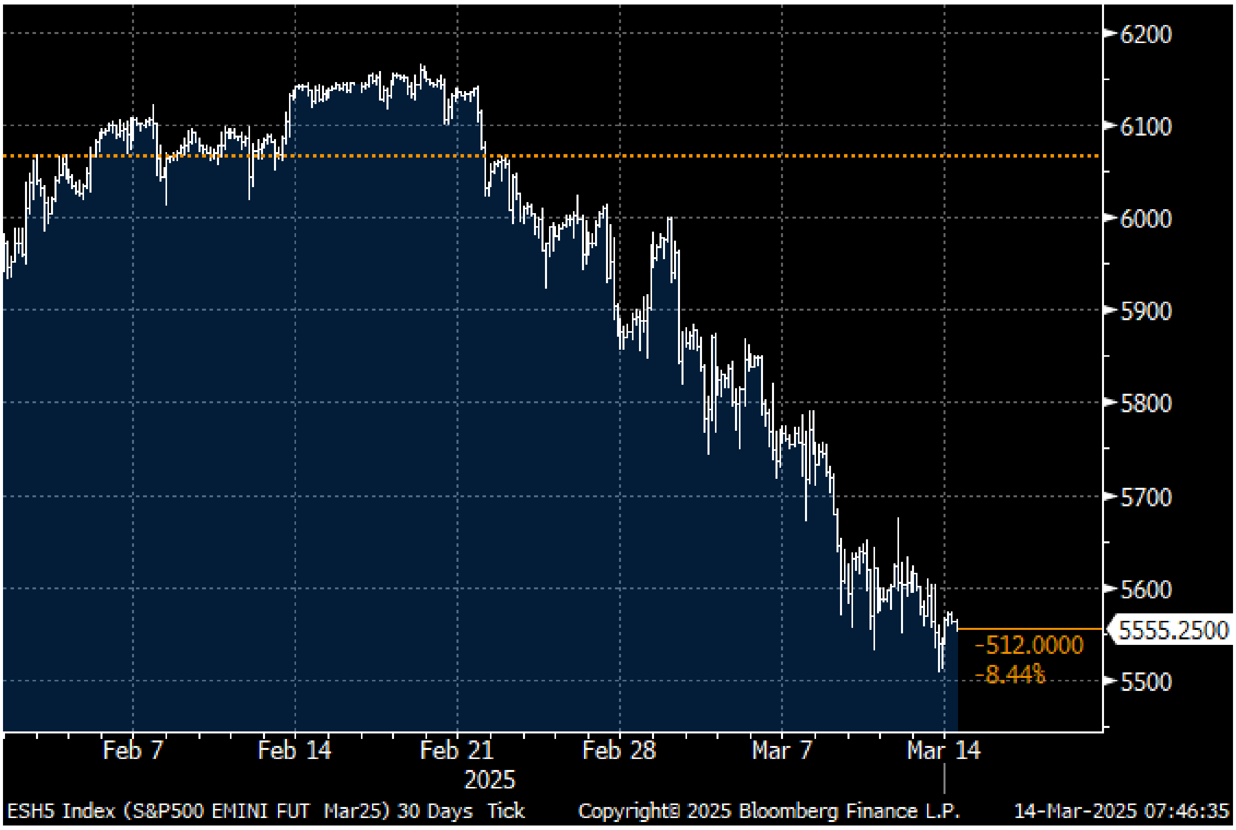


FIG 1a: DAX March 2025 futures 30 day tick chart shown with overnight price action

FIG 1b: IBEX March 2025 futures 30 day tick chart shown with overnight price action

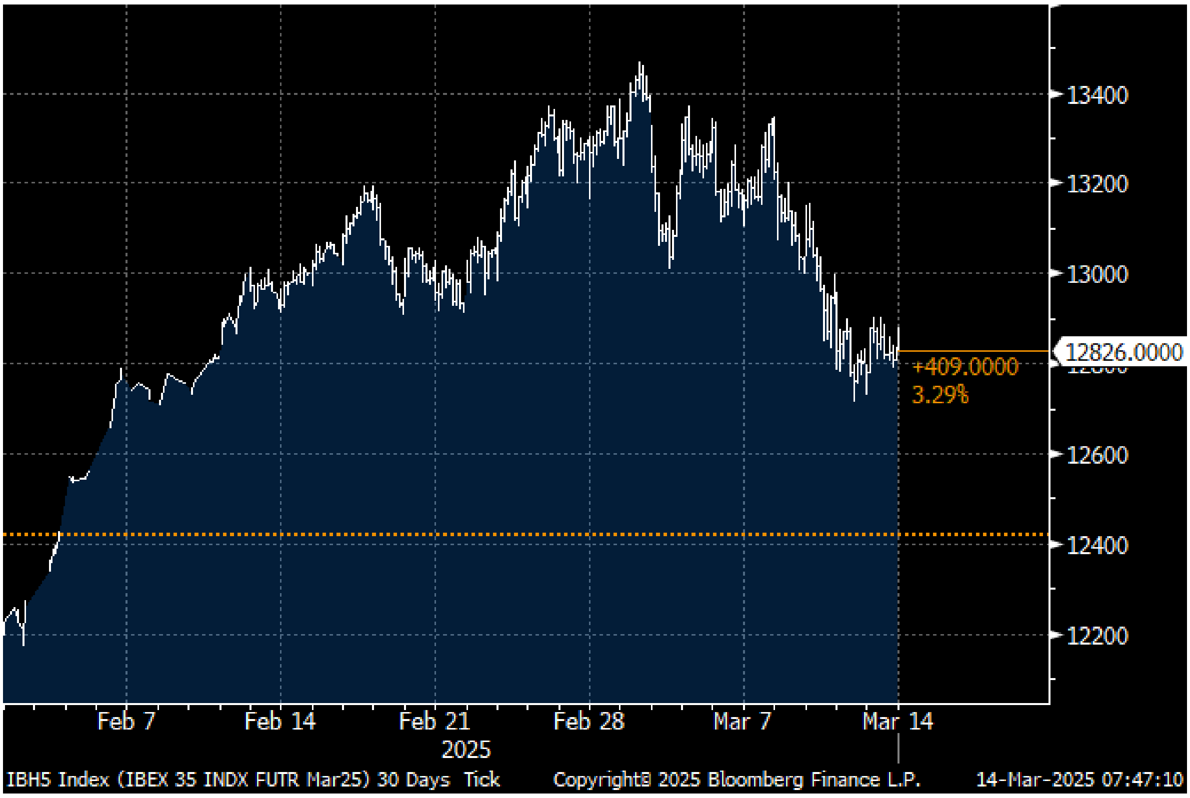


FIG 1c: DAX overextended indicator (50 day moving average relative to underlying index price) vs. DAX index

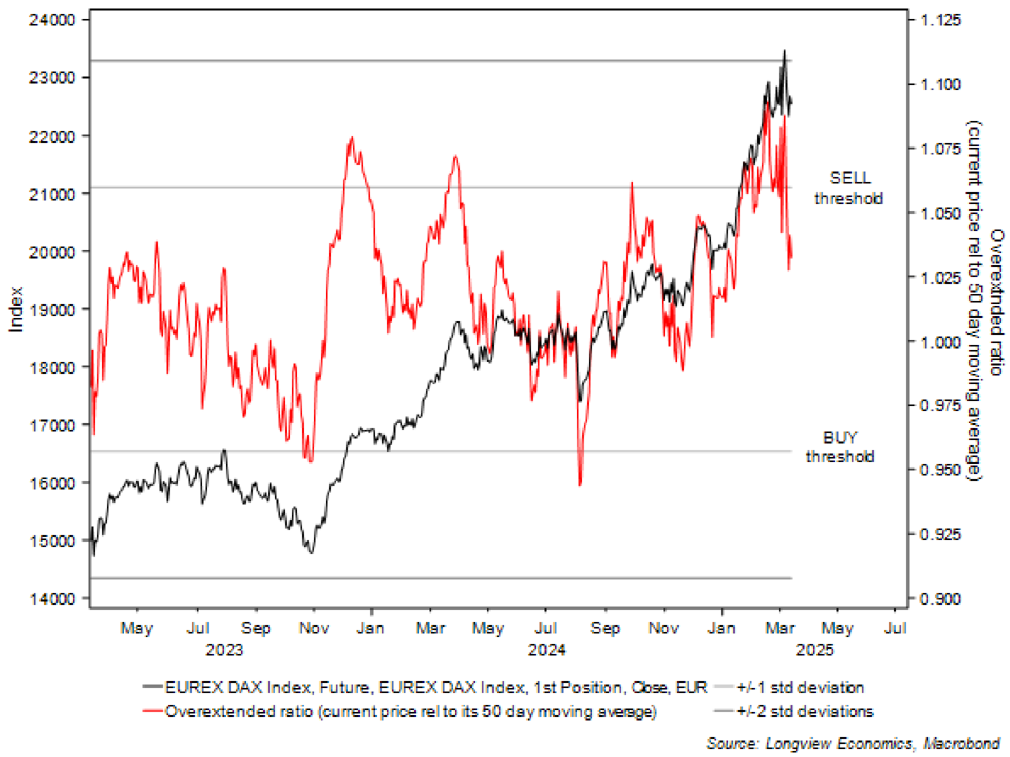


FIG 1d: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

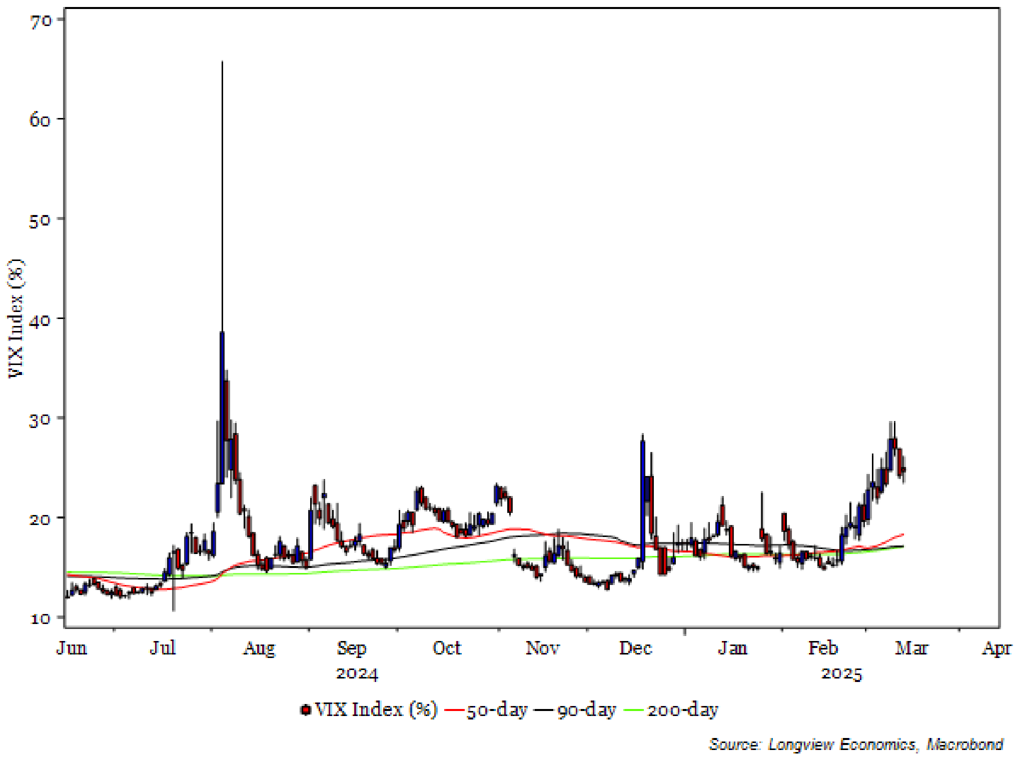


FIG 1e: VVIX candlestick shown with 50 & 200 day moving averages (%)

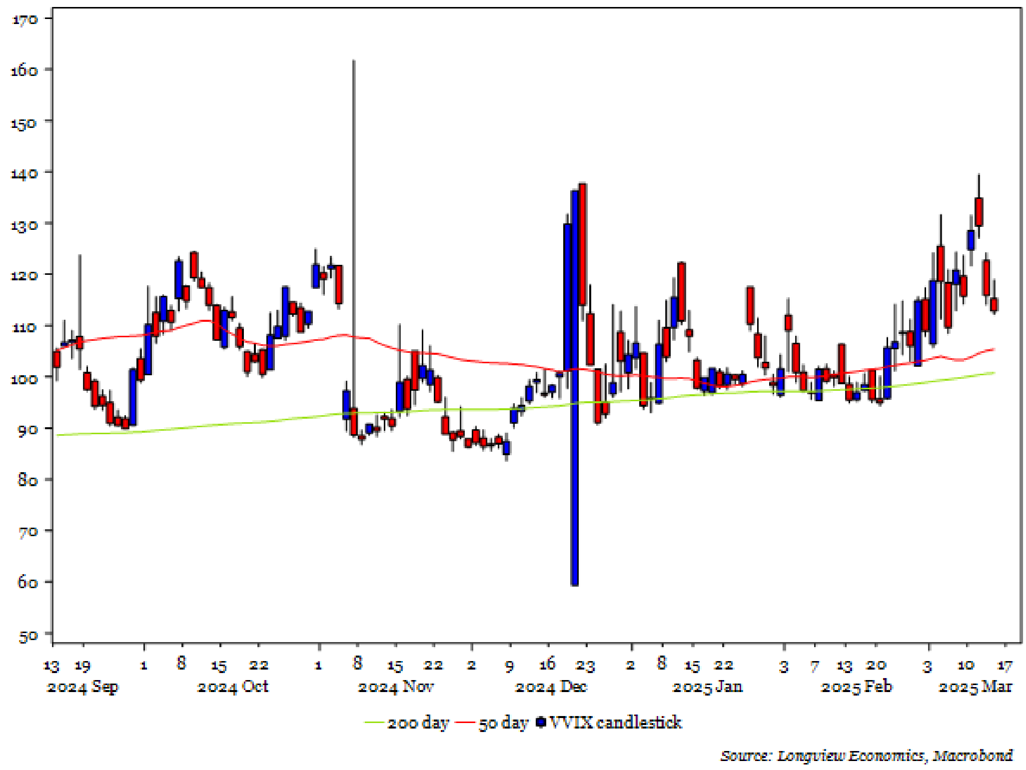
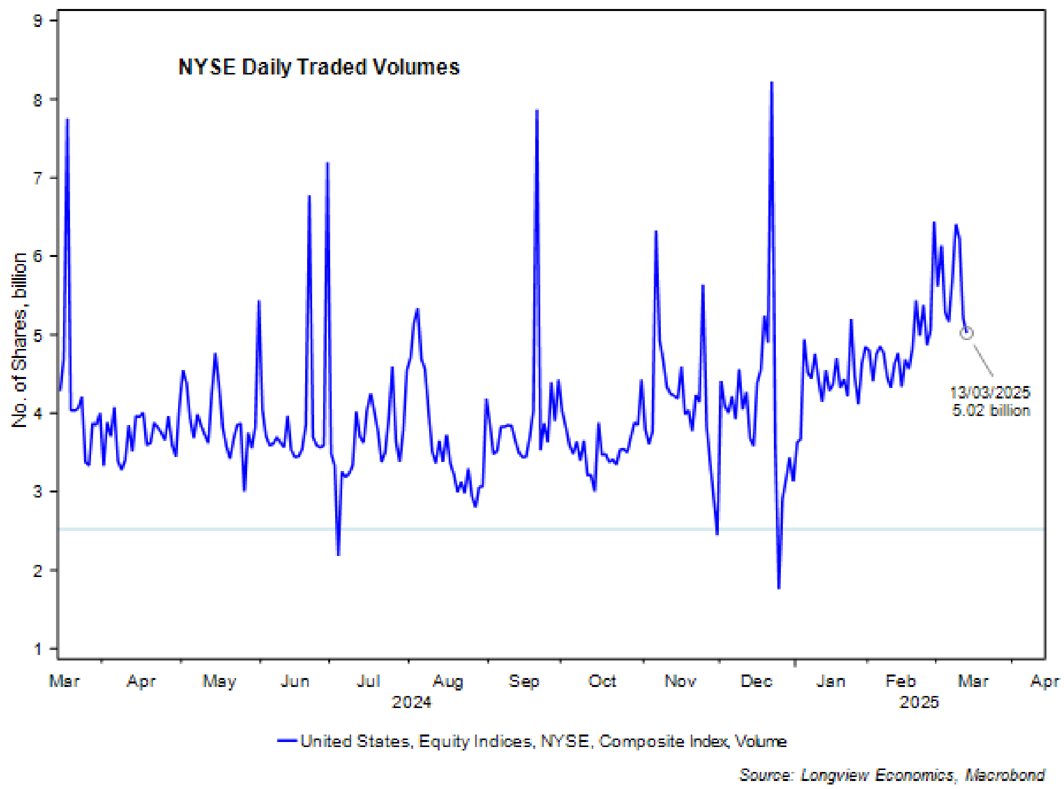
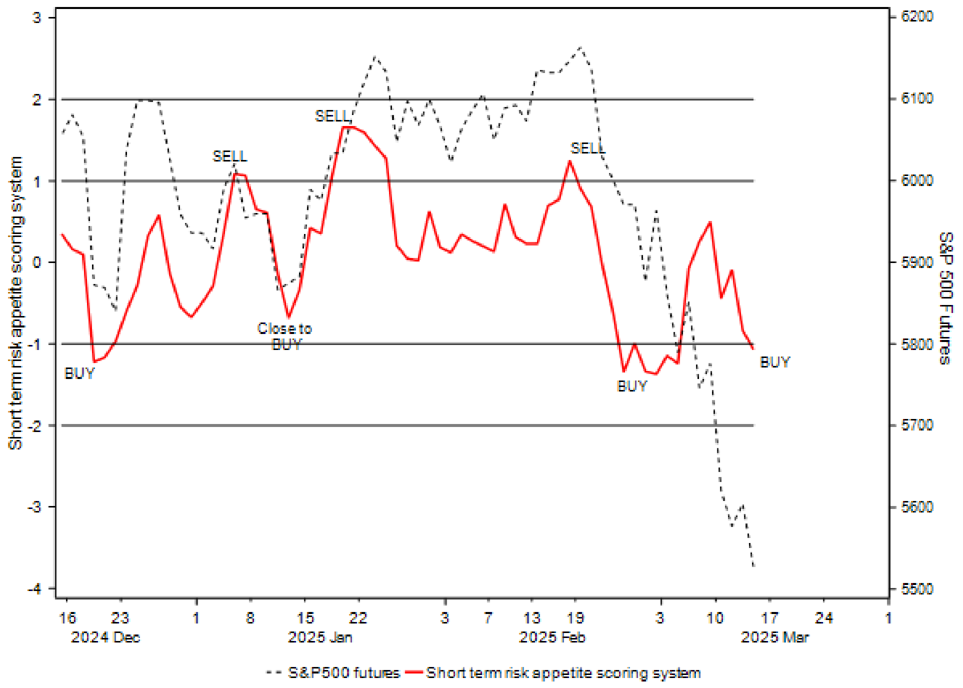


FIG 2: NYSE volumes (number of shares)



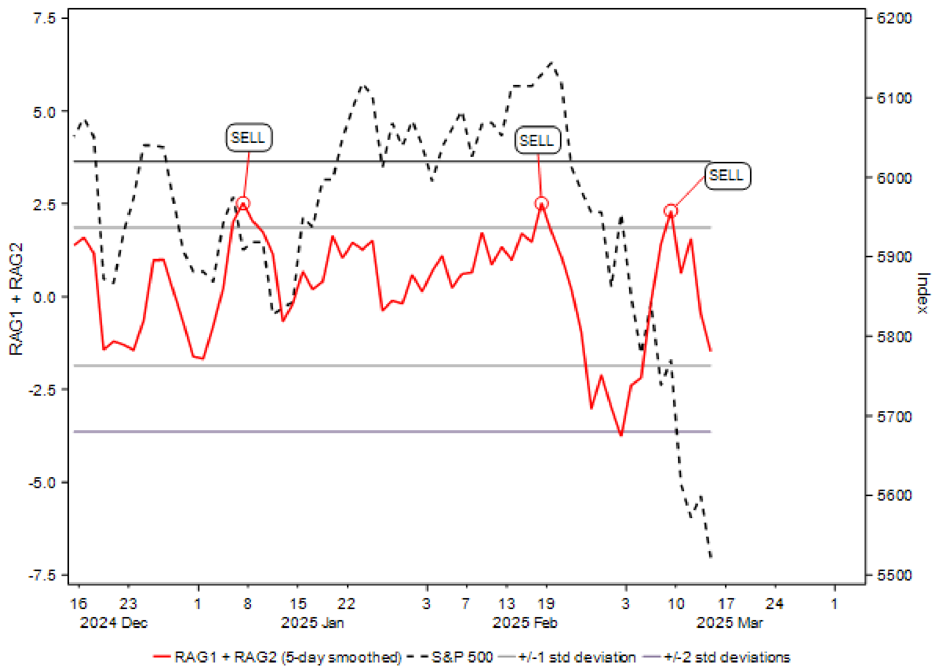
Short term risk appetite models are moving lower/starting to generate BUY signals

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



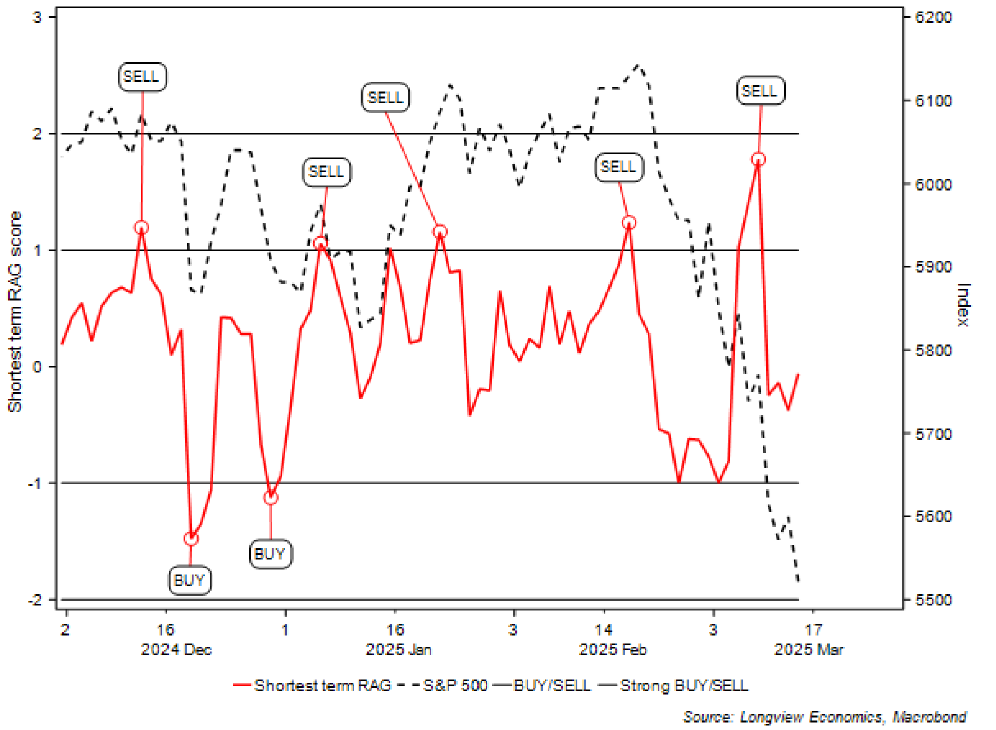
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 3b: 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

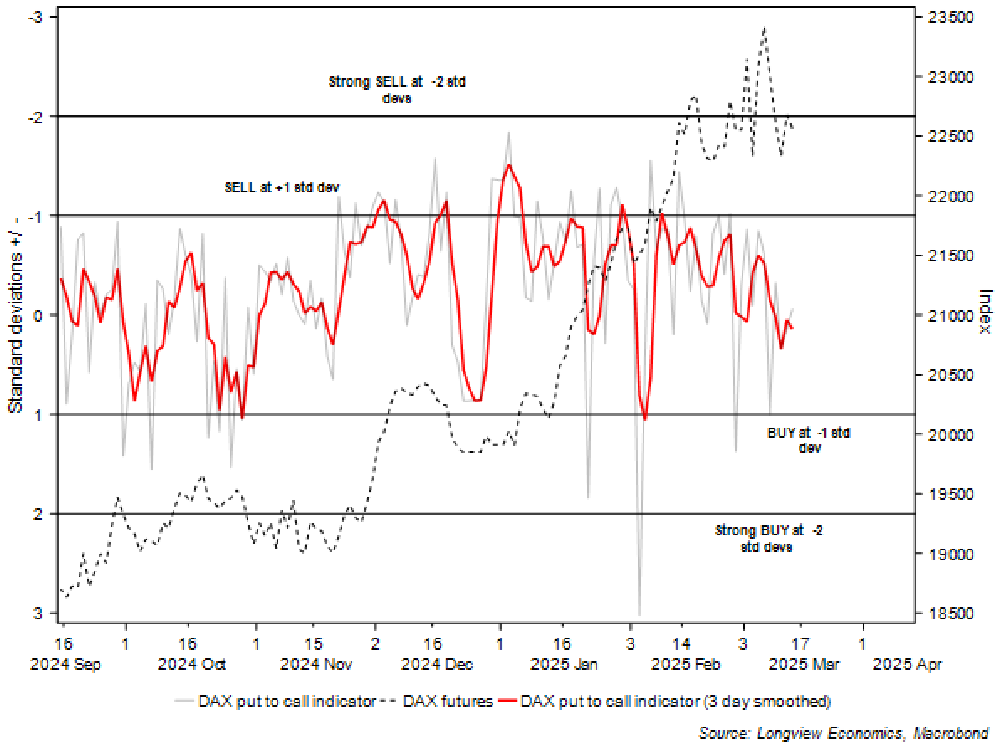
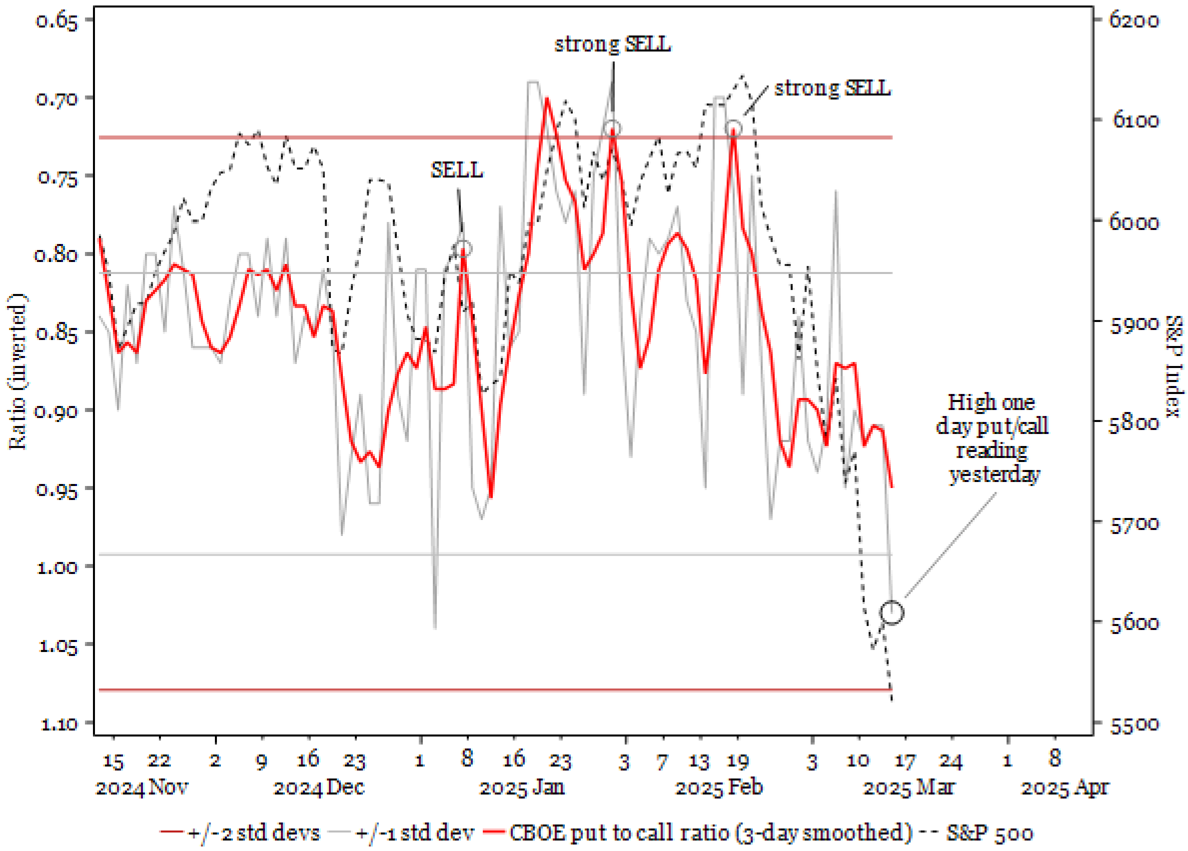


FIG 4a: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

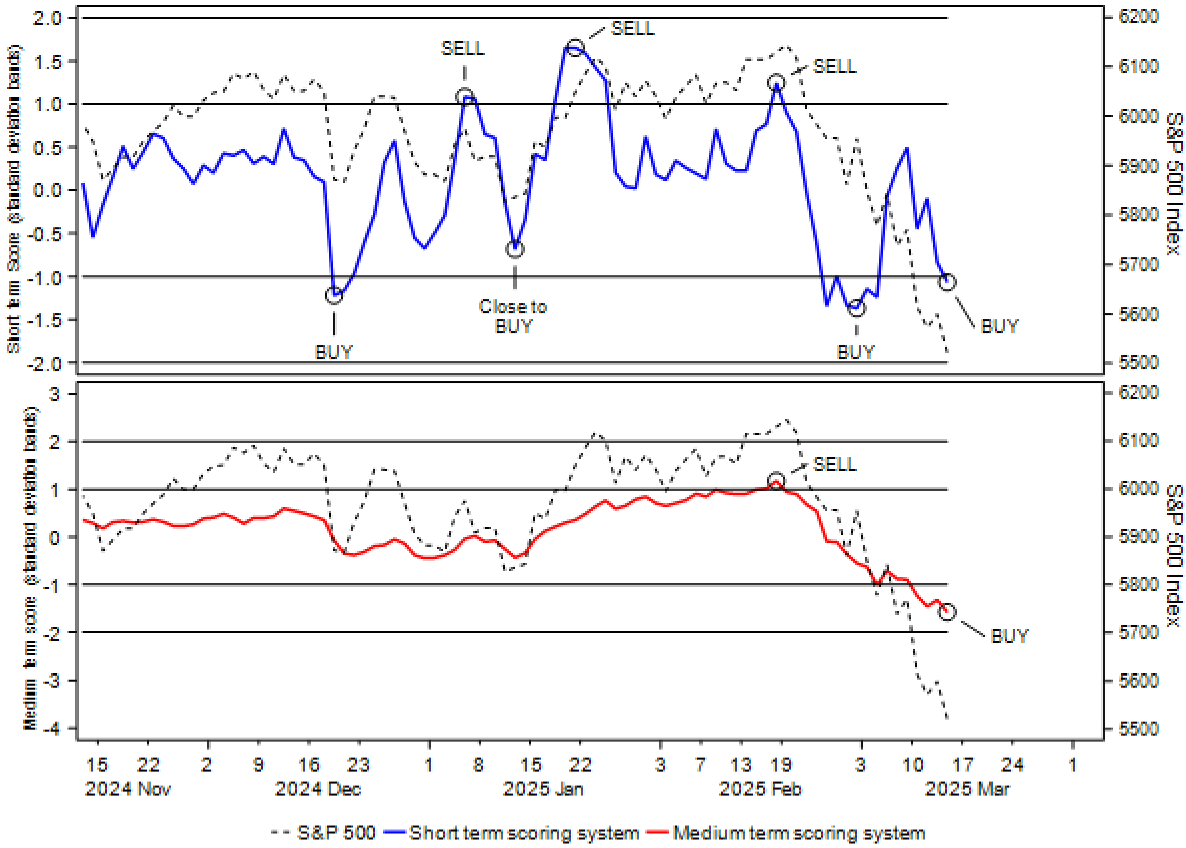


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **BUY**
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: UK Monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (Jan, 7am); **German headline & core CPI** (February final estimate, 7am); French headline & core CPI (February final estimate, 7:45am); Spanish headline & core CPI (February final estimate, 8am); German current account balance (Jan, 8:45am); Italian industrial production (Jan, 9am); **Chinese total social financing, new yuan loans, and M0, M1 & M2 money supply** (Feb, 9am); Canadian manufacturing & wholesale sales (Jan, 12:30pm); **US Michigan sentiment** (March first estimate, 2pm).

Key events today include: Speeches by the ECB's Escriva at a banking event in Madrid (8:30am) & Cipollone at Bocconi University (1:15pm).

Key earnings today include: N/A

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.

LVRAG

Daily Risk Appetite Gauge

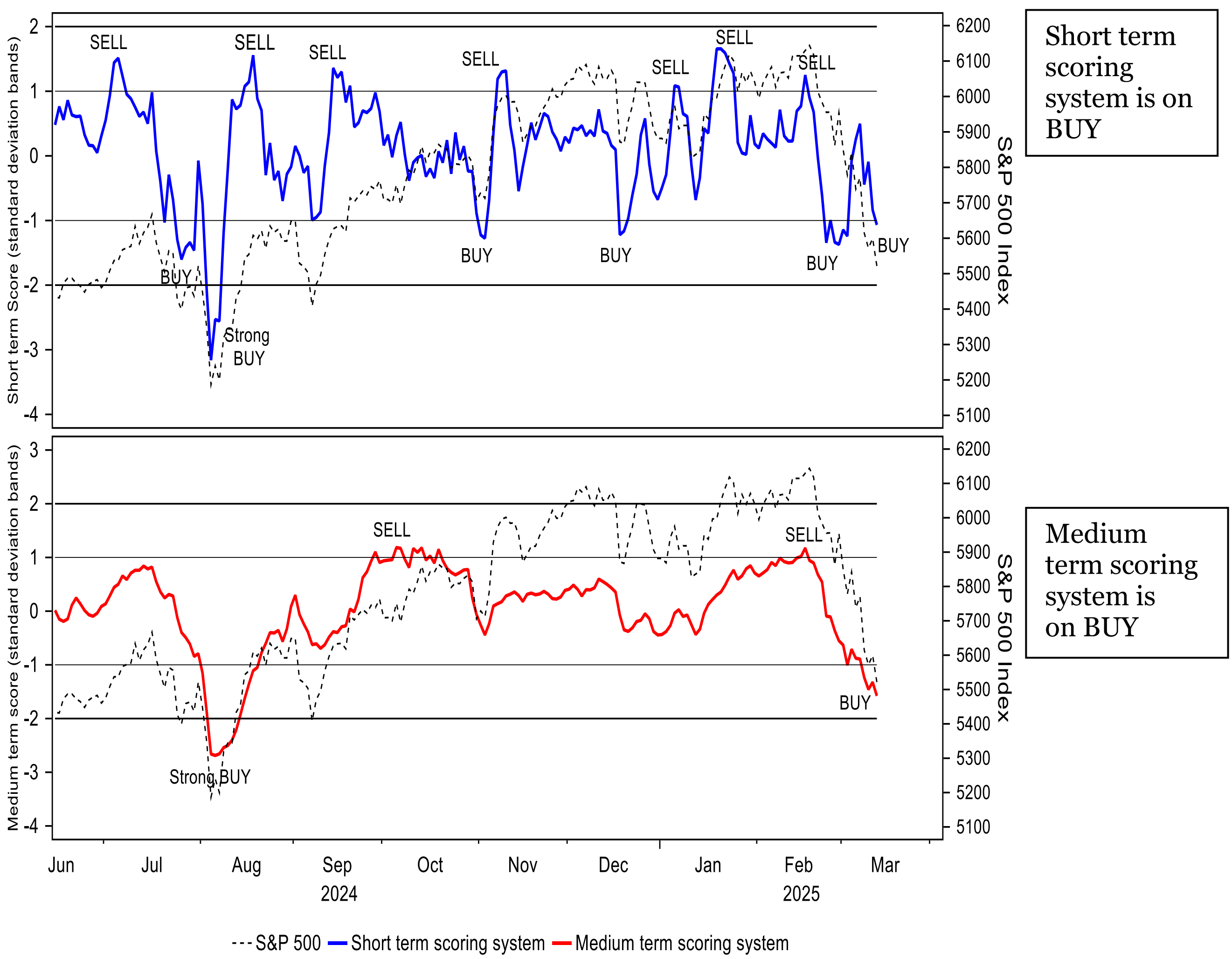
1 – 2 Week View on Risk

14th March 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



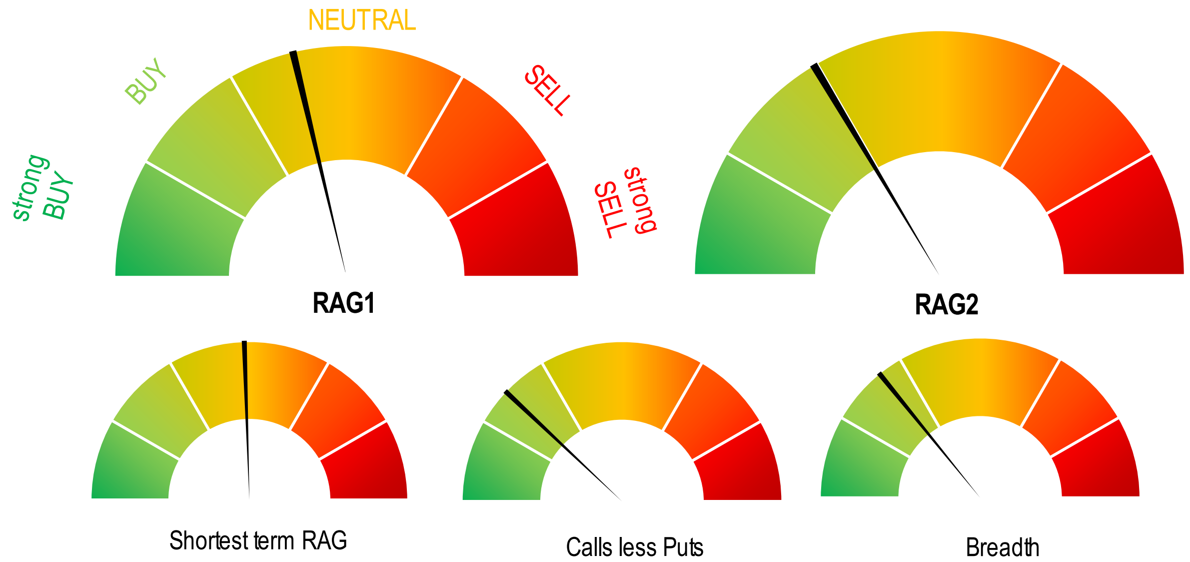
Source: Longview Economics, Macrobond

*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

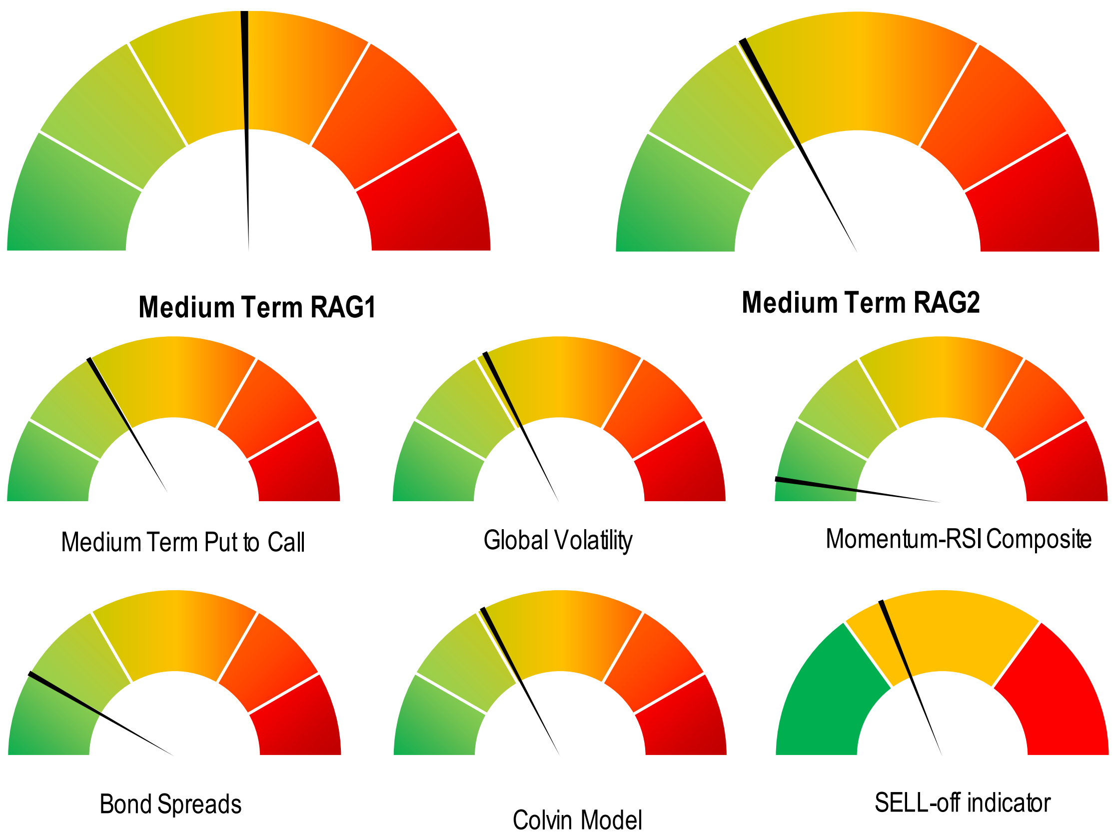
Section 1a: Summary of indicator signals**

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

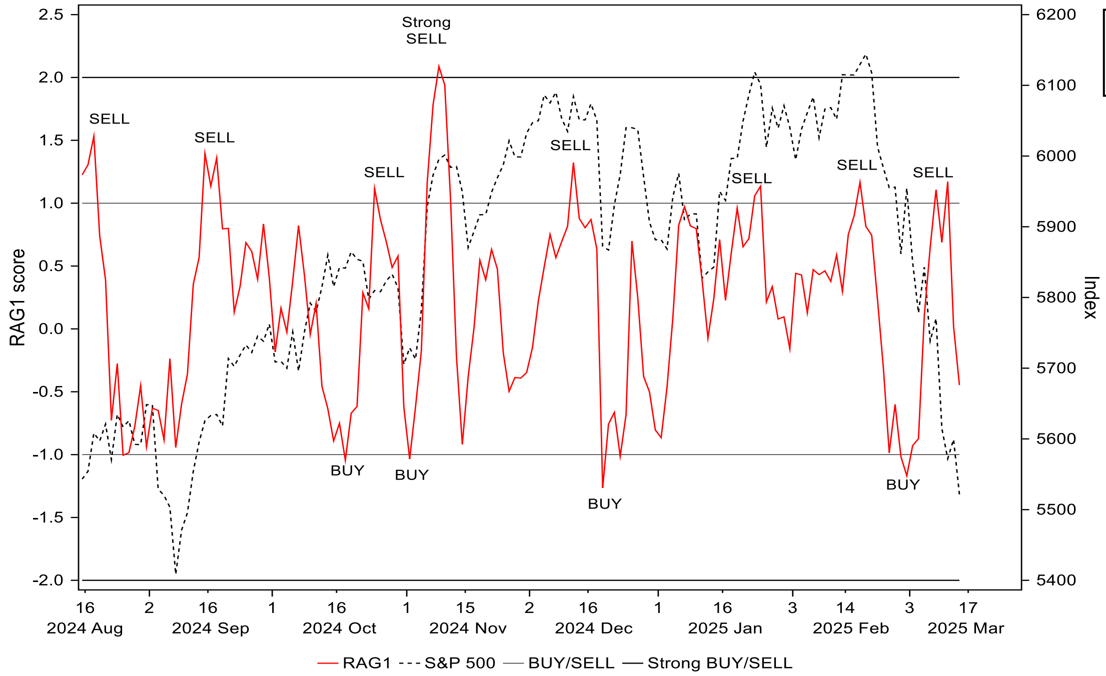


Source: *Longview Economics*

**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

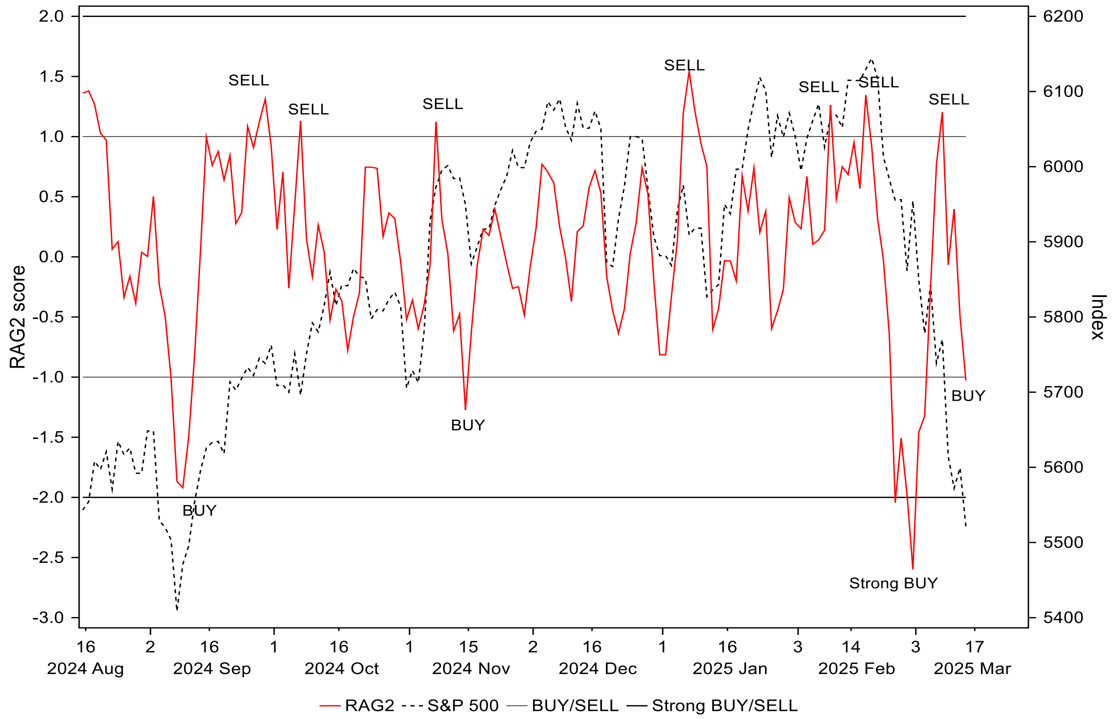
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

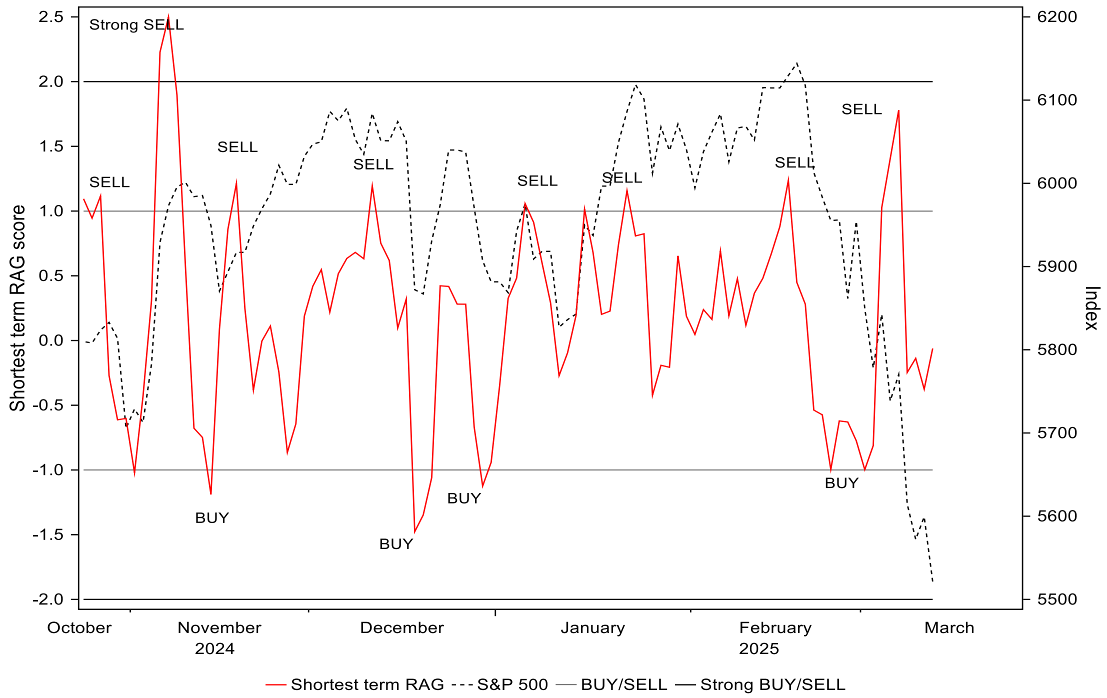


RAG2 is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

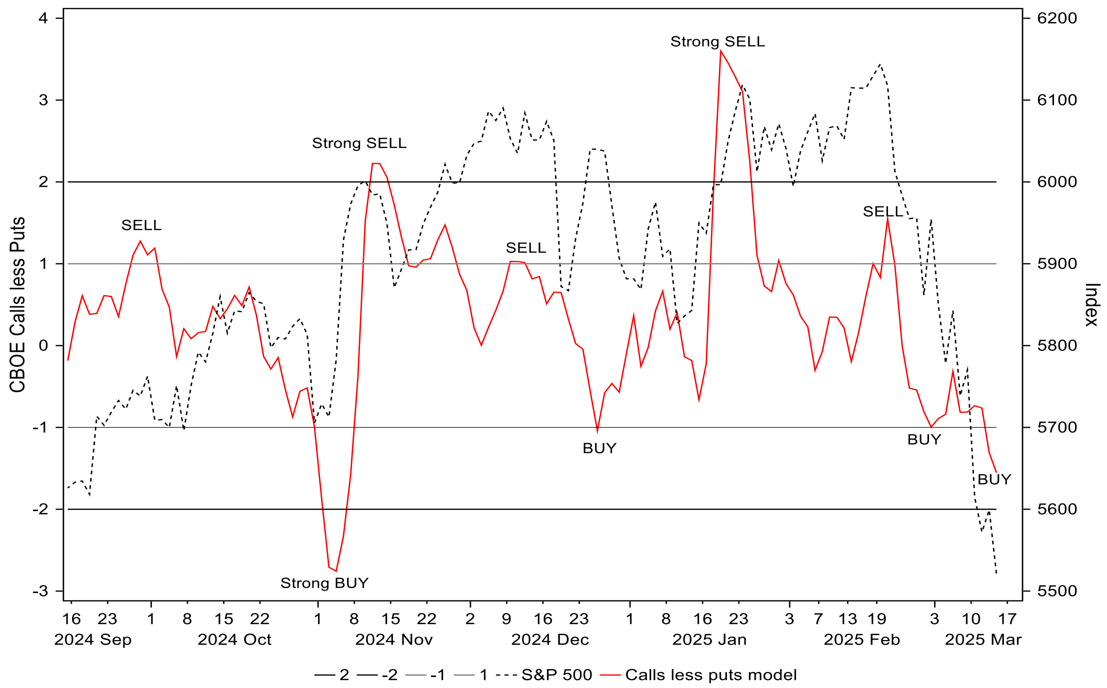
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

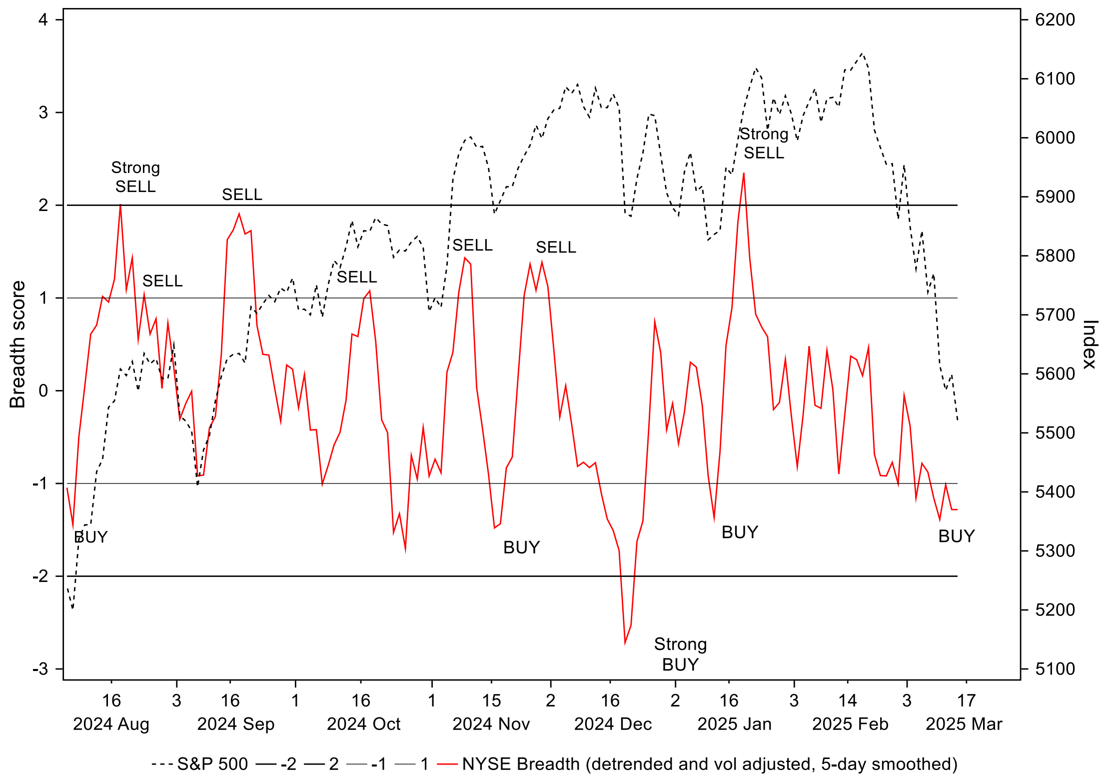


Source: Longview Economics, Macrobond

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



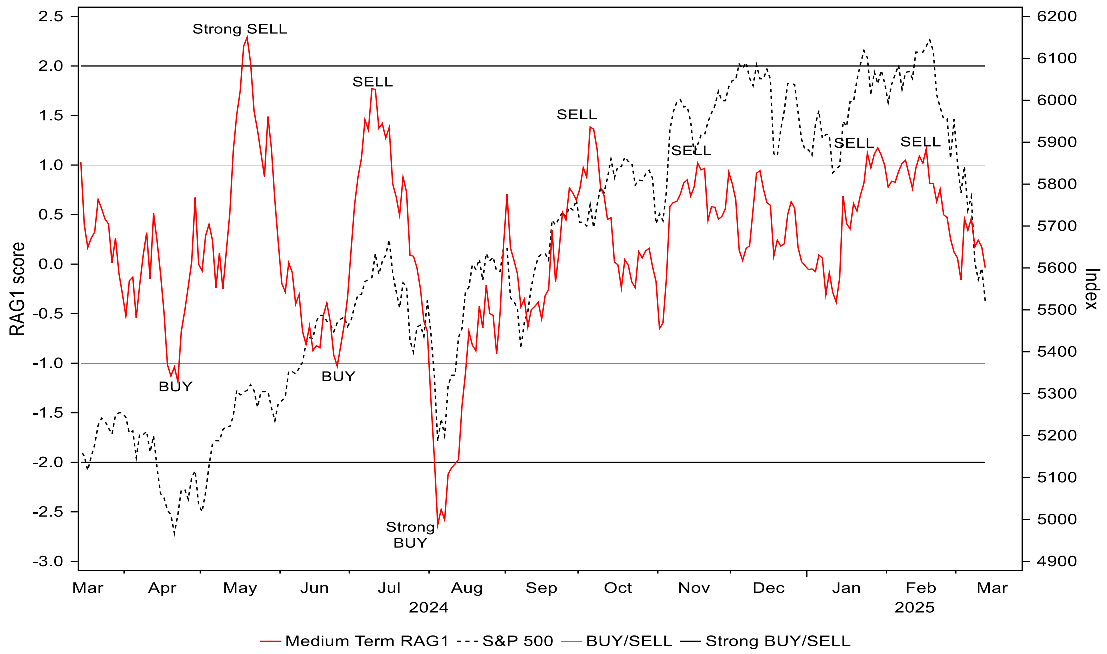
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

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

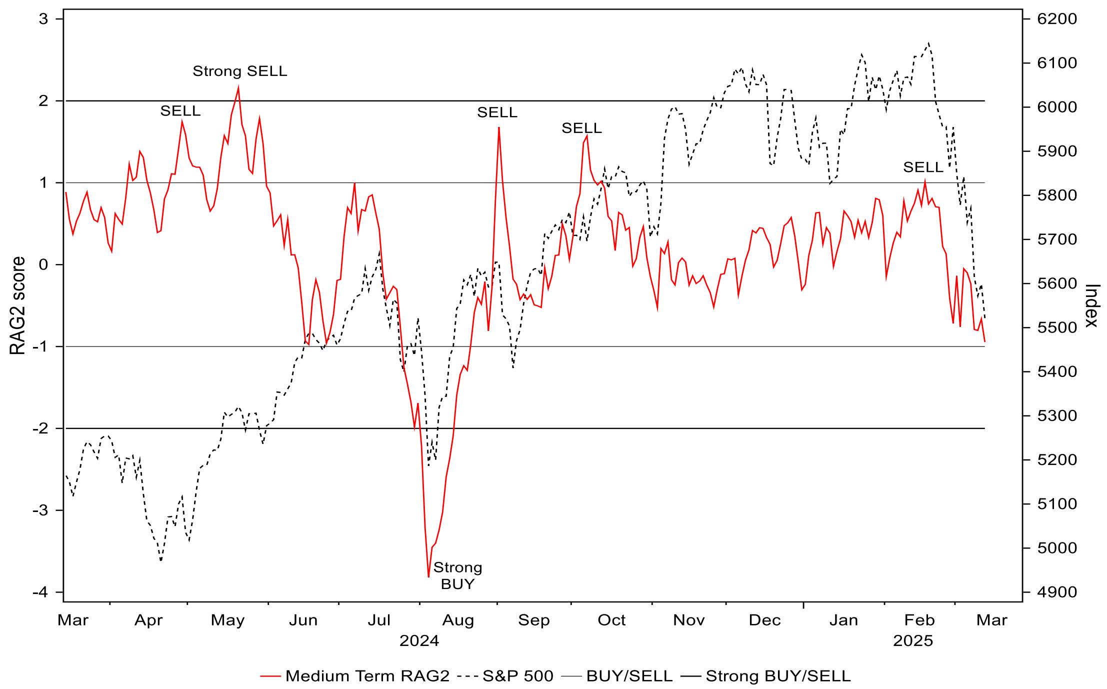
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

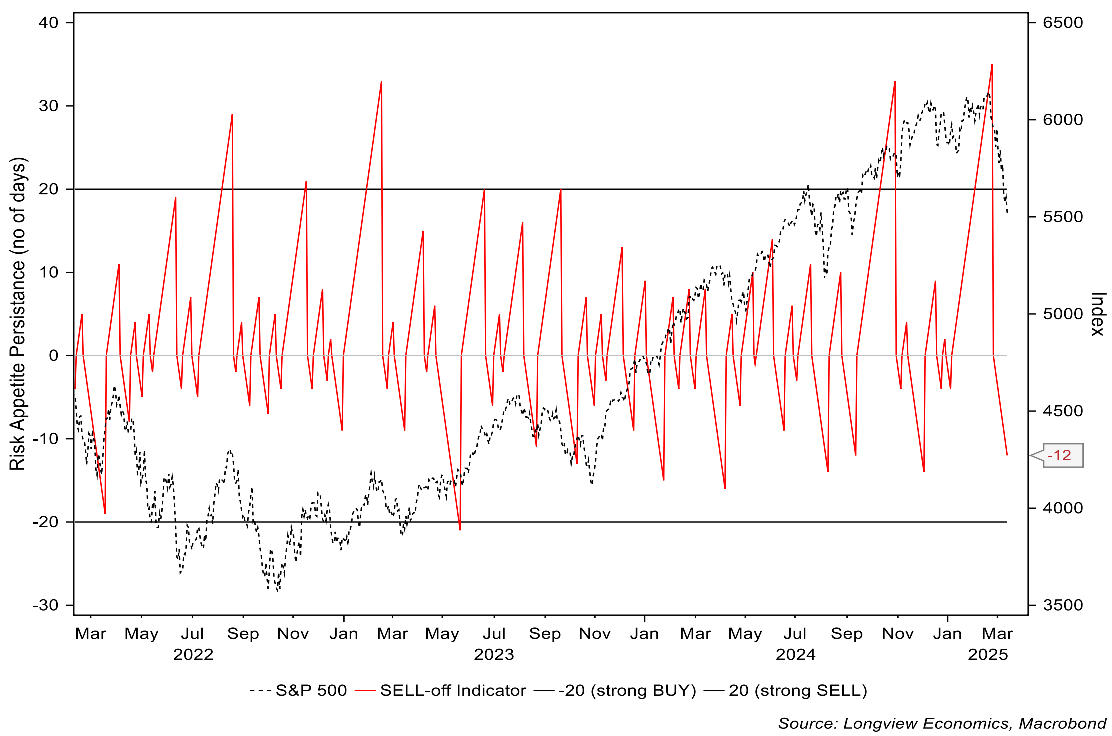


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

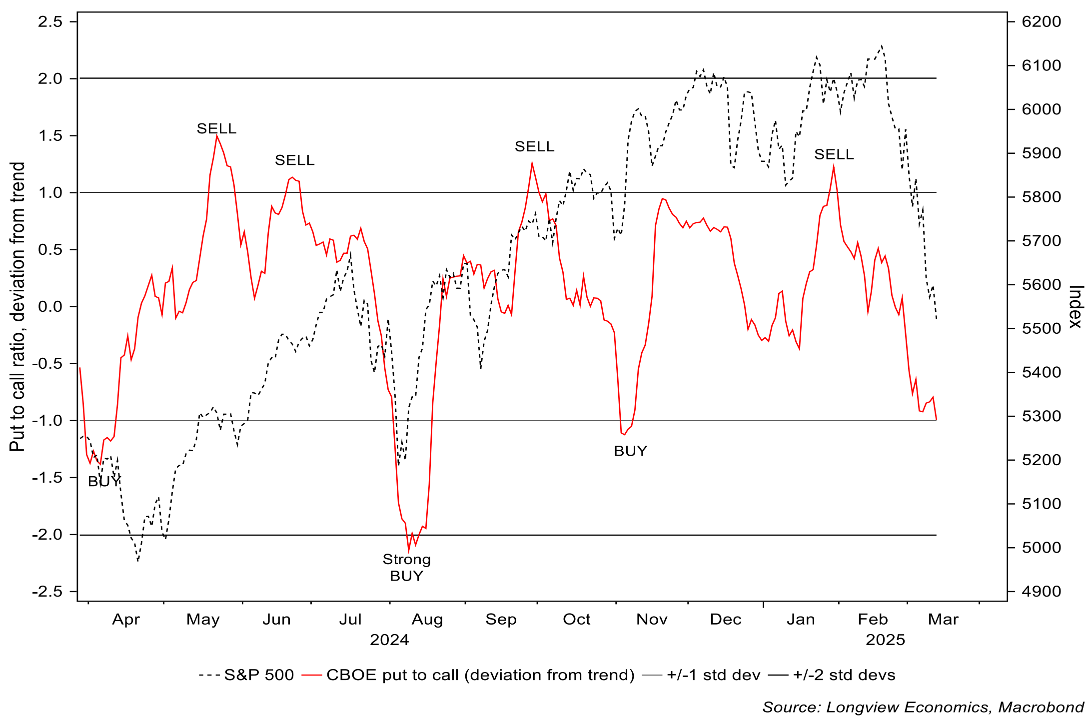
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

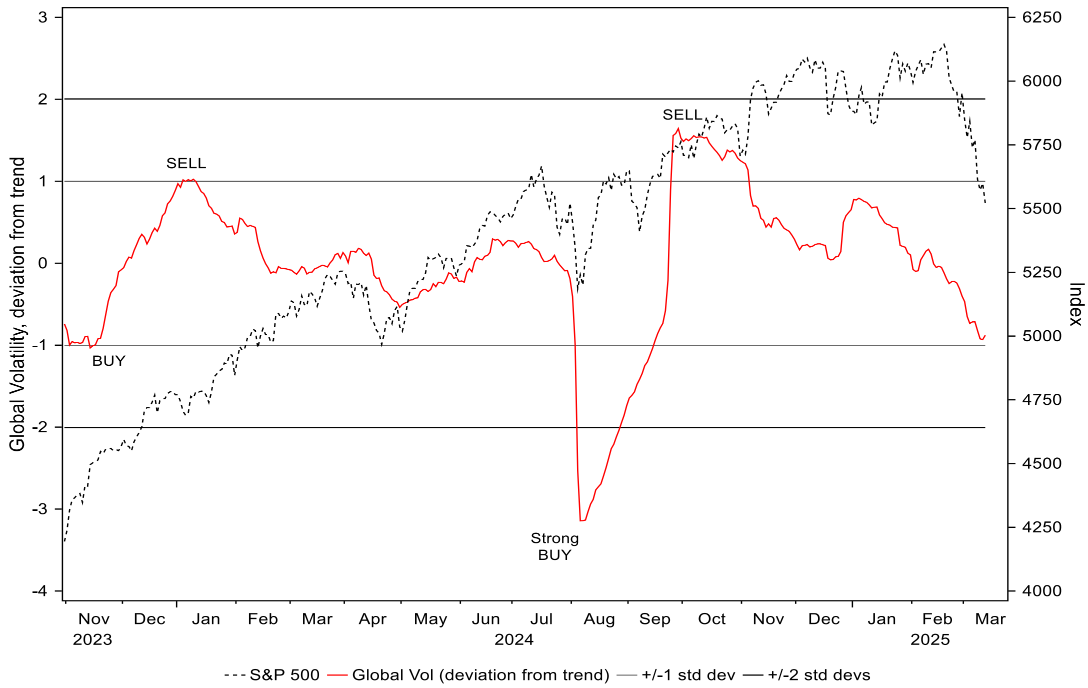
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

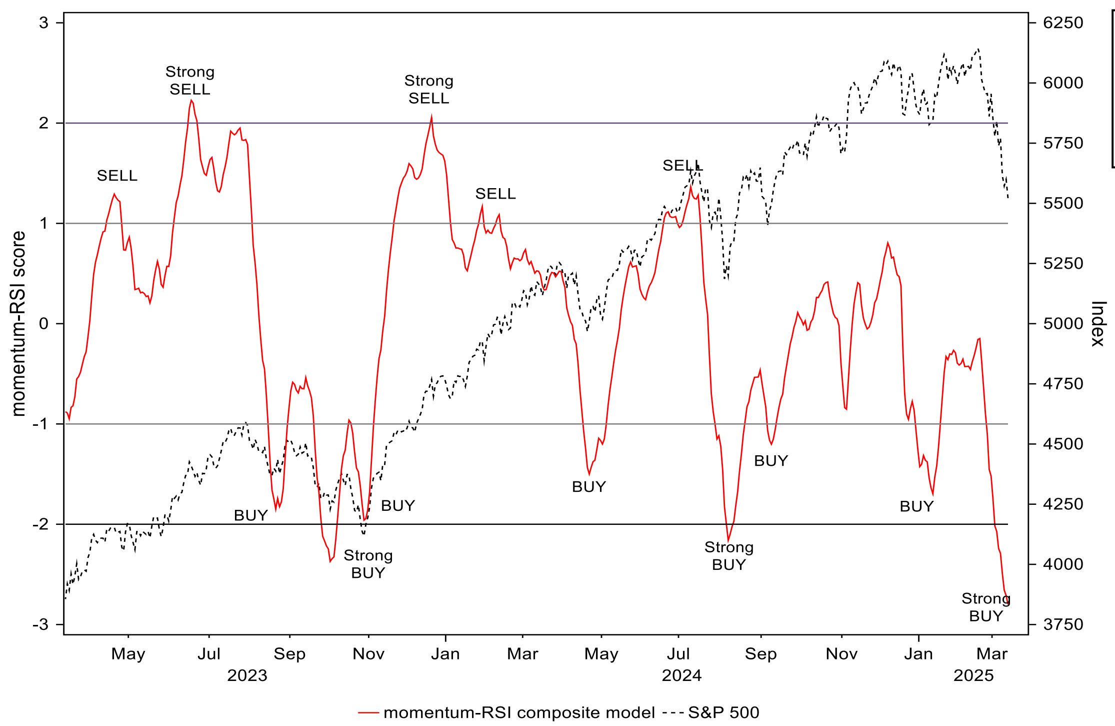
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

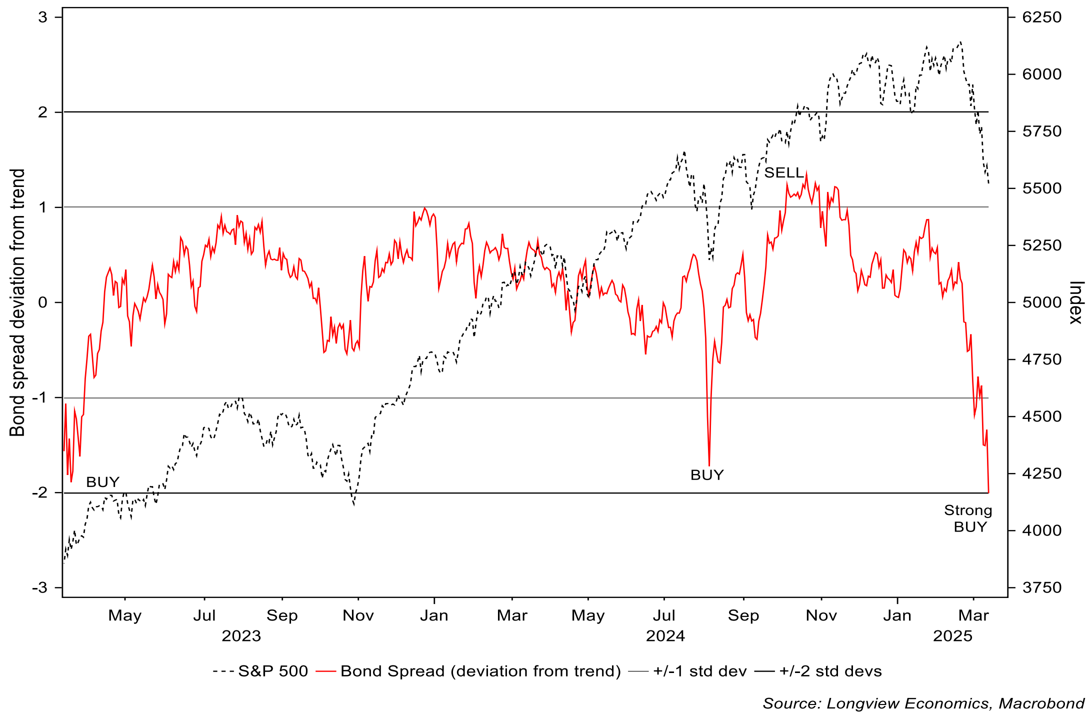
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

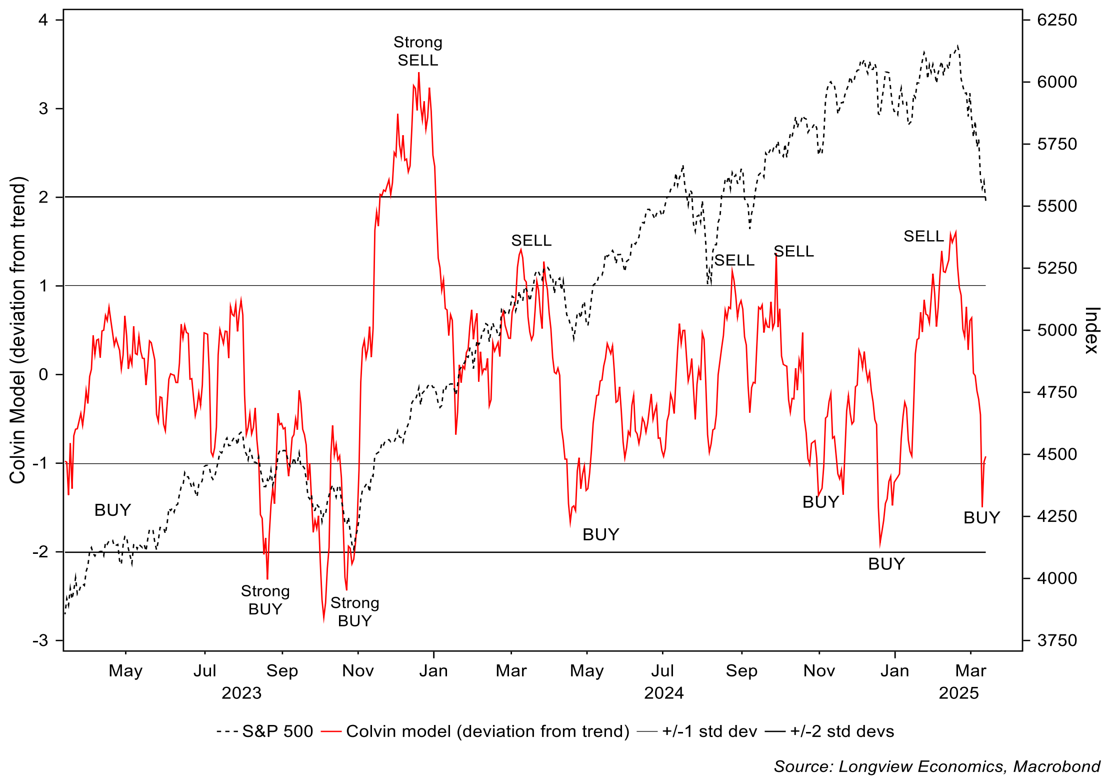
US momentum RSI composite model is on Strong BUY

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



High yield corporate bond spreads model is on Strong BUY

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



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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