Equity Index Futures Trading Recommendations

16th May 2025

"WATCH & WAIT for now - SELL case Brewing"
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Trading Recommendation ('1 – 2' week equity index trading recommendation)

- WATCH & WAIT (for now).

Rationale

Key US equity markets continued to push higher again yesterday (despite a wobble early on in the session). The DJ Utilities index was one of the stronger headline indices (i.e. of the 28 we watch) rising +2.7% (SPX +0.4%; NDX100 +0.1%; SOX -0.6%). That strength in utilities (which was mirrored in the top-level S&P500 sector performance) was driven by the 8bps fall in US 10-year bond yields (i.e. as utilities typically trade as a bond proxy). The market also priced lower expected policy rates by year end (i.e. adding back 5bps of cuts and reversing the trend of the past fortnight - which has been one of pricing out cuts).

Models, as alluded to yesterday, are now **generating a clear SELL message** on a short-term timeframe (FIGs 3 to 3b). That message is also increasingly replicated in the medium term, while evidence for 'froth' continues to BUILD in these equity markets.

That evidence includes:

i) The **BUILD-up in the SELL-off indicator** (FIG 1). This model is now on +16. When (if) it reaches +20, it signals a high likelihood of an imminent pullback (wave of risk aversion). It **measures excessive and persistent 'greediness' in global markets** and generates a signal before most pullbacks. If it reaches +20, it will do so in the latter part of next week.

ii) The **volume of outstanding call options**, which remains at a high level. At around 2.75 million contracts, it's consistent with the level reached just before prior pullbacks in the S&P500 (e.g. see FIG 1a). Those pullbacks (in the S&P500/global equities) have historically ranged in size from a few percent to double digit percentages.

iii) **Medium term single stock and sector technical models** are highlighting that this market is overextended to the upside at many different levels. Those models have moved rapidly in recent weeks (from BUY to SELL), see FIGs 2a – 2c.

iv) Various other medium-term models are also at high levels. Medium term risk appetite, for example, is back on SELL (FIG 2).

     v)   **Downside put protection has been removed in portfolios**. The short-term CBOE put to call ratio is on SELL (FIG 3a); the NDX100 (medium term) equivalent is also showing low levels of downside hedging (i.e. put protection) – FIG 1c; while the R2K equivalent ratio is now close to SELL (FIG 1d). The (SPX) risk reversal model has also returned to normal levels (i.e. no longer supporting the BUY case – FIG 1b).

A few models point to the possibility of further limited near term upside. Those include: i) the potential for NDX & CBOE volatility measures to move to lower levels (e.g. see FIG 2e); ii) a continued march to the key +20 level (on the SELL-off indicator); as well as iii) the low levels of participation in this rally by various types of money managers (e.g. the AAII retail segment; purportedly many of the HFs, including systematic and LS, as well as institutional money managers, e.g. see low level of bullishness in the AAII retail sentiment index/last BAML FMS).

Whilst we wait for the SELL-off indicator to build closer to +20, though, we continue to WATCH & WAIT.

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

Kind regards,

The team @ Longview Economics

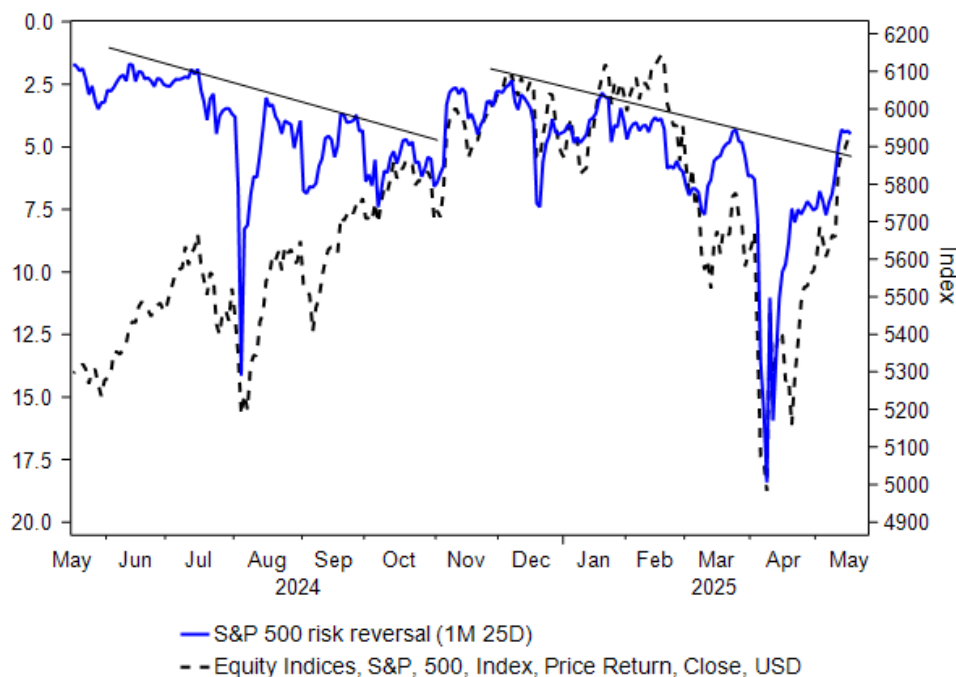**FIG 1:** Longview SELL-off indicator (vs. S&P500)
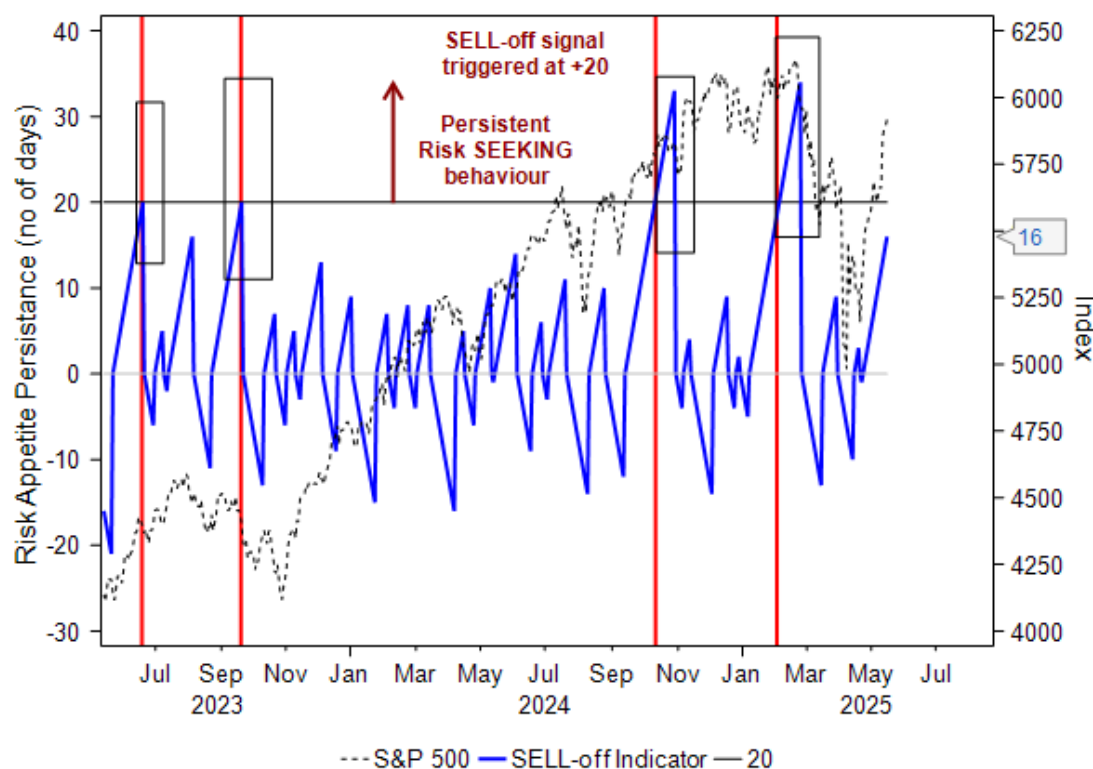
Source: Longview Economics, Macrobond

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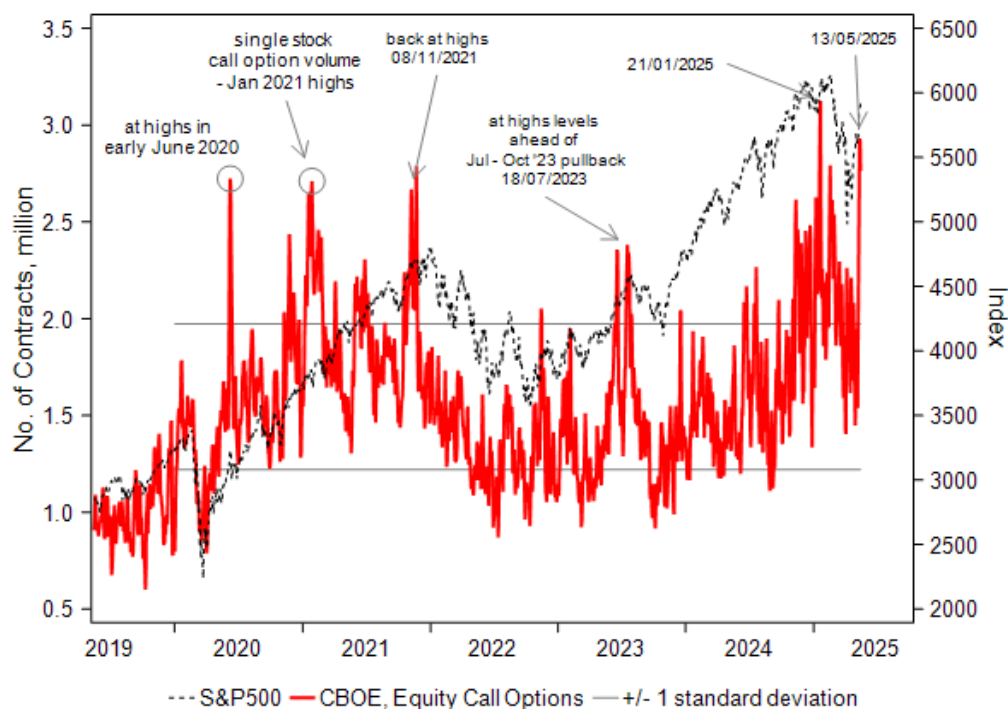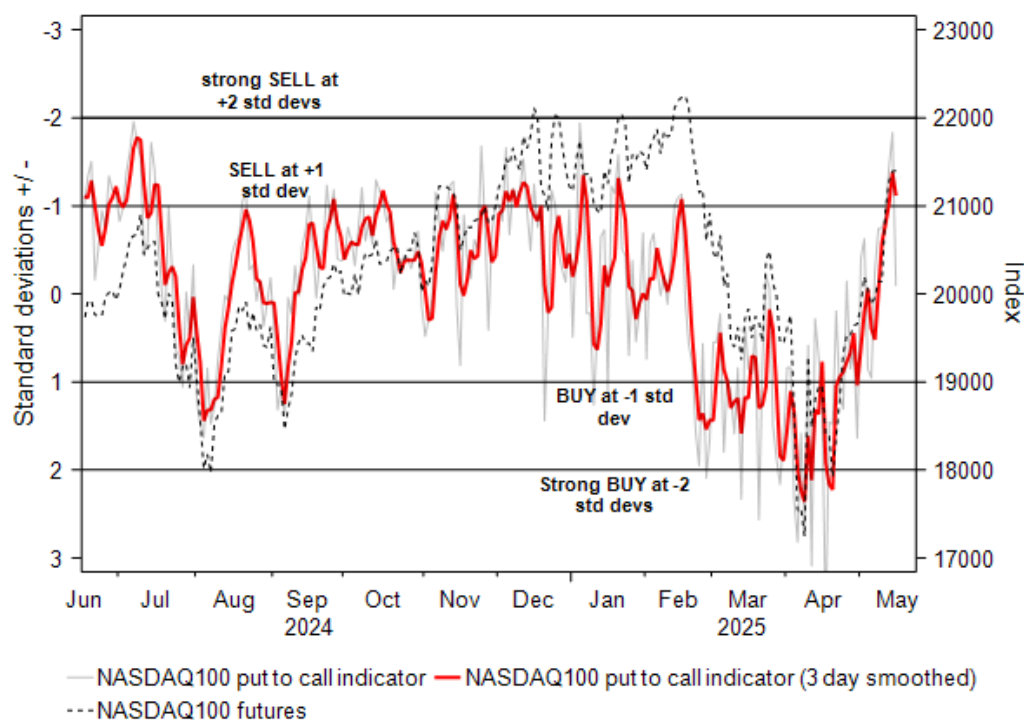

Source: Longview Economics, Macrobond

FIG 1b: S&P500 skewness* (risk reversal, 1 month, 0.25 delta) vs. S&P500
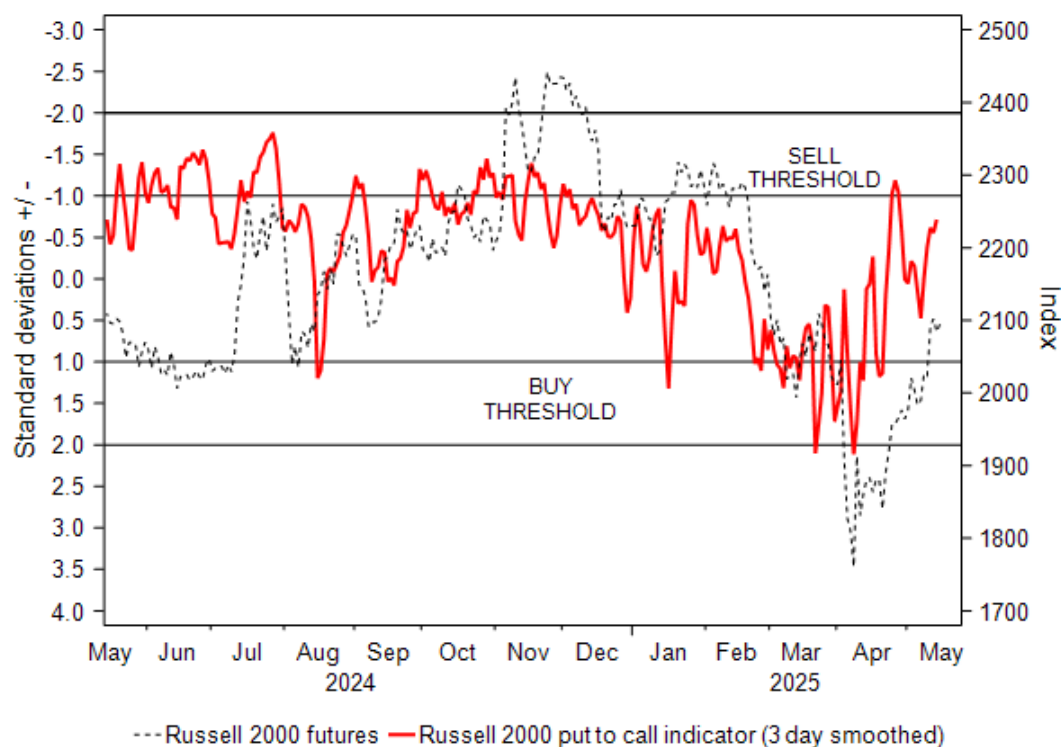

Source: Longview Economics, Macrobond

*Which compares the 'strike vol' of calls and puts with the same delta.

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

NASDAQ100 put to call indicator — NASDAQ100 put to call indicator (3 day smoothed)
--- NASDAQ100 futures

Source: Longview Economics, Macrobond

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

--- Russell 2000 futures — Russell 2000 put to call indicator (3 day smoothed)

Source: Longview Economics, Macrobond

Medium term models....

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

Medium term scoring system
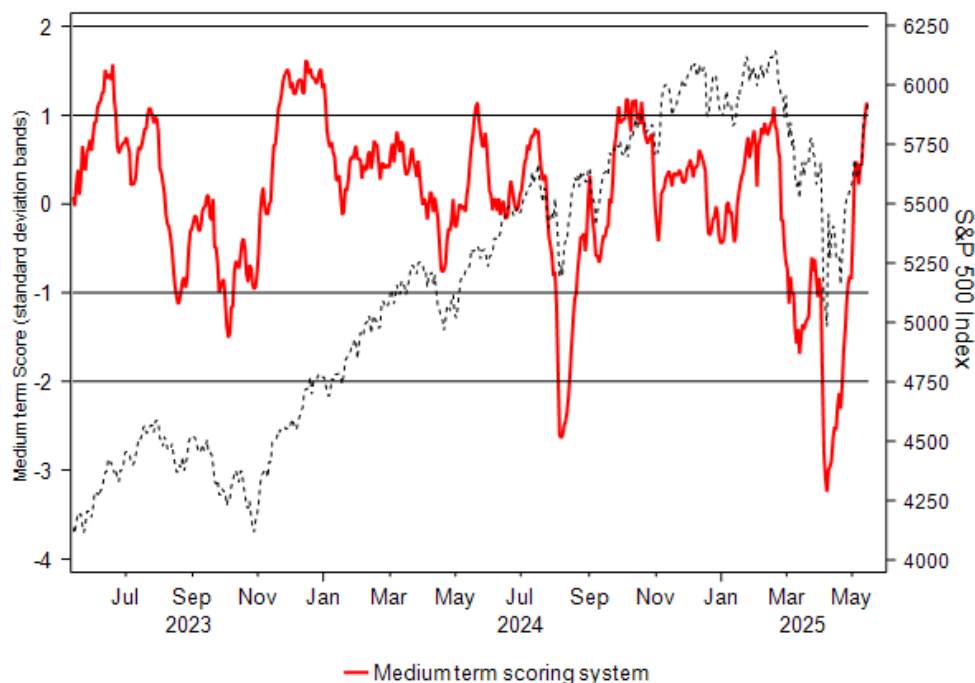
Source: Longview Economics, Macrobond

FIG 2a: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500

--- Equity Indices, S&P, 500, Index, Price Return, Close, USD   — -1 std dev   — -2 std devs
— Percent of US stocks overbought (14 day RSI>70)   — +1 std dev   — +2 std devs
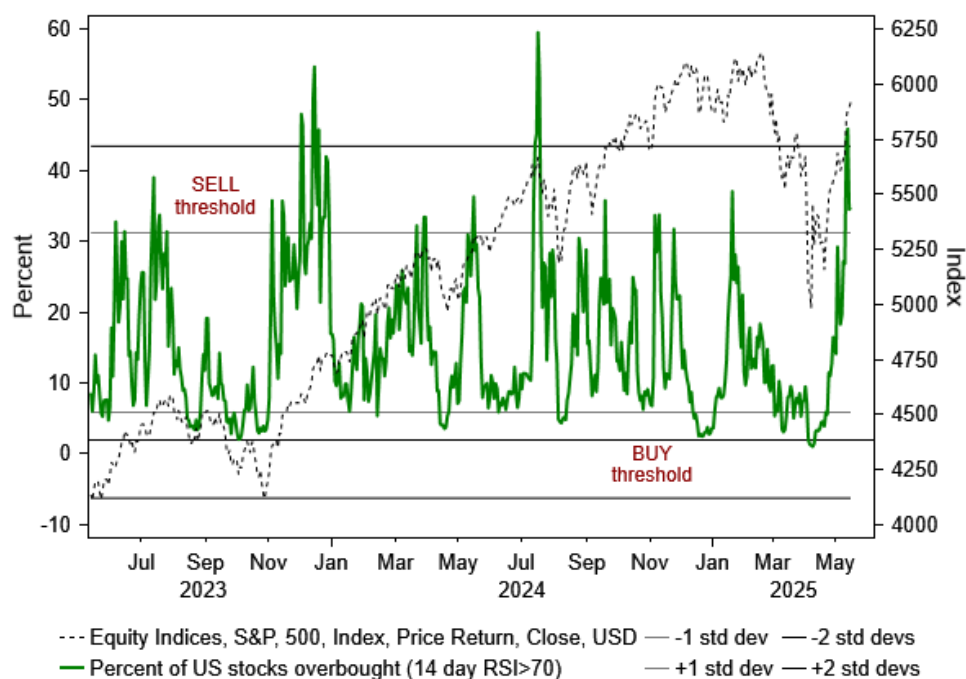
Source: Longview Economics, Macrobond

FIG 2b: Percentage of Western stocks trading above their 50 day moving average vs. MSCI global equity index

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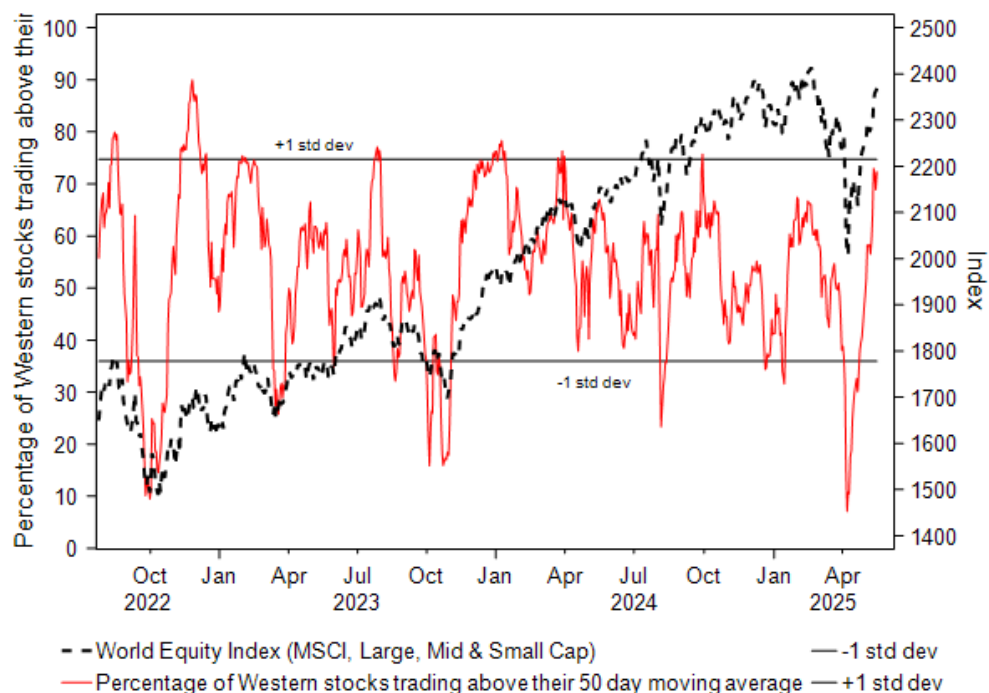
FIG 2c: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

Source: Longview Economics, Macrobond
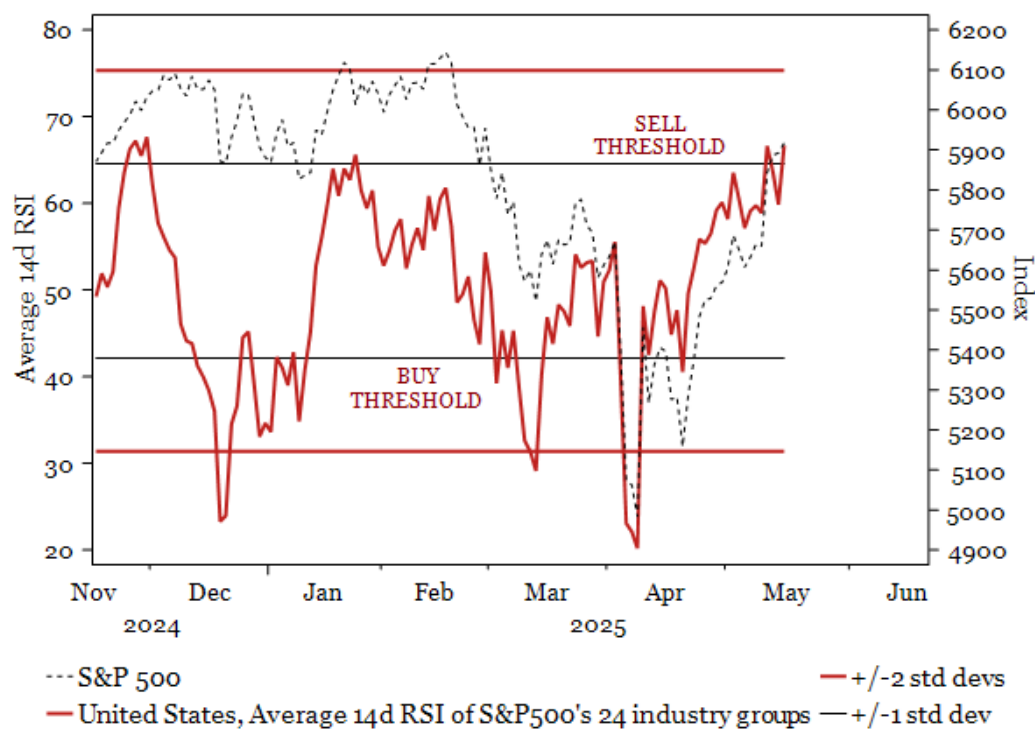
FIG 2d: Nvidia overextended ratio (current price rel. to its 50 day moving average) vs. Nvidia share price (USD/share)

- Nvidia share price ($/share)
- Nvidia overextended ratio (current price rel to its 50 day moving average)
- +/-1 std deviation
- +/-2 std deviations
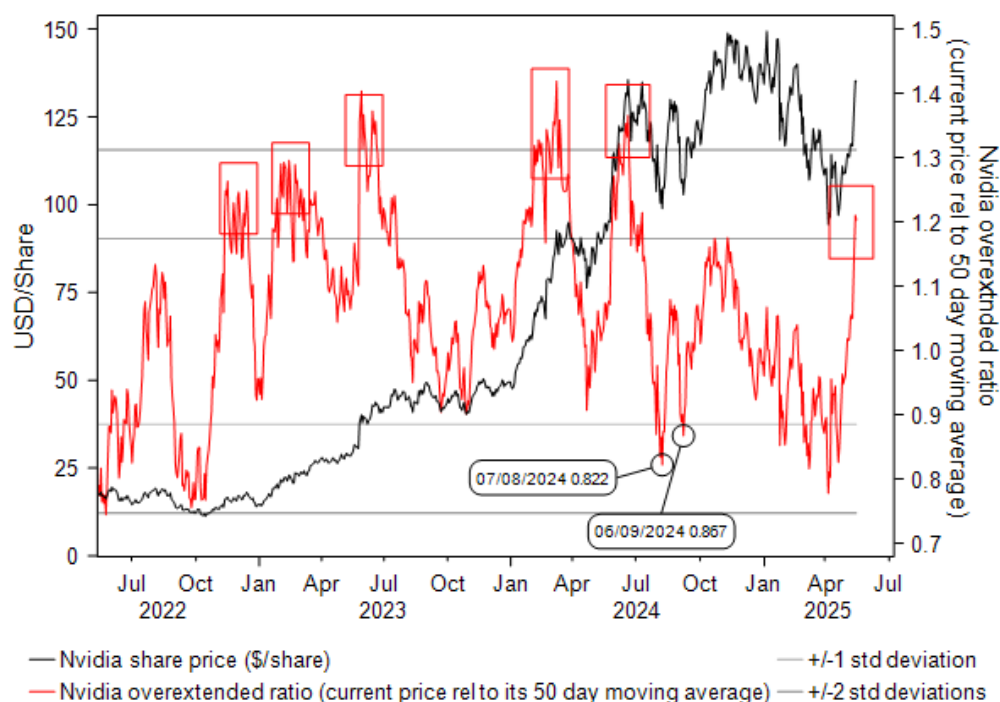
Source: Longview Economics, Macrobond

FIG 2e: NASDAQ100 volatility index (VXN)

- United States, Volatility Indices, CBOE, NASDAQ Volatility Index (VXN), Close
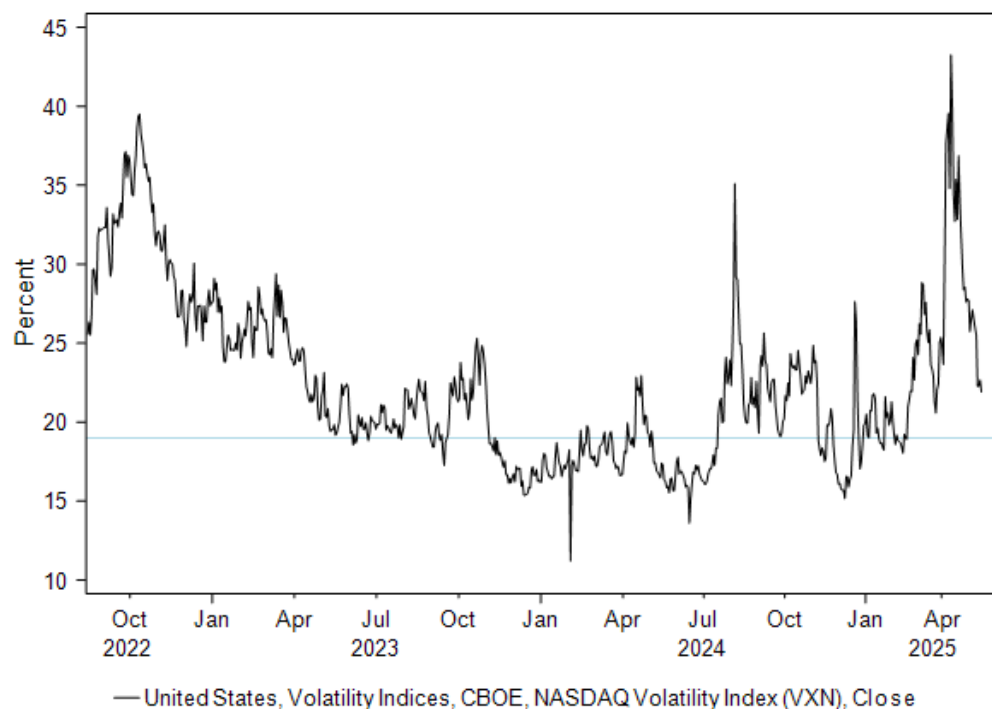
Source: Longview Economics, Macrobond

Short term models are on SELL...

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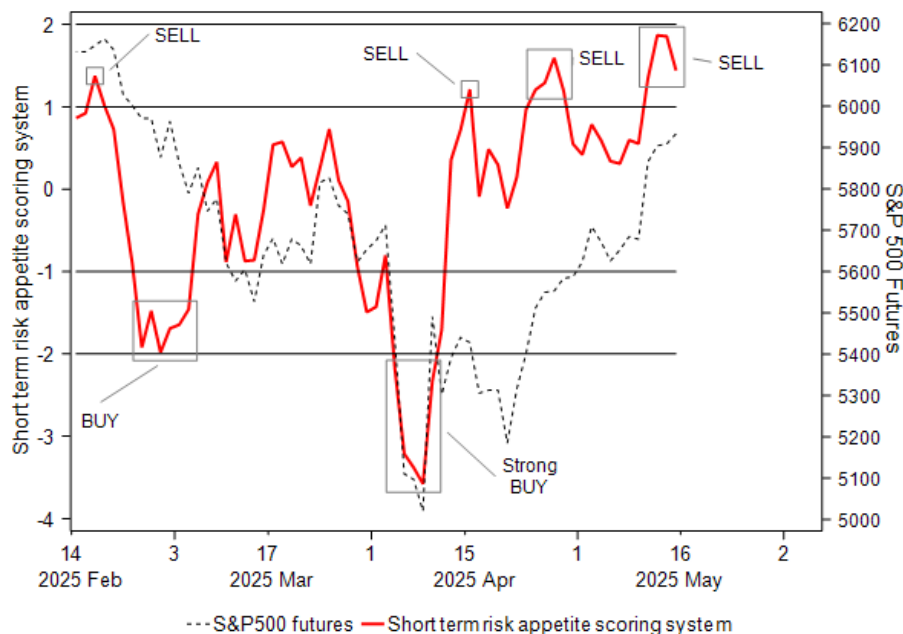
Source: Longview Economics, Macrobond

FIG 3a: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500
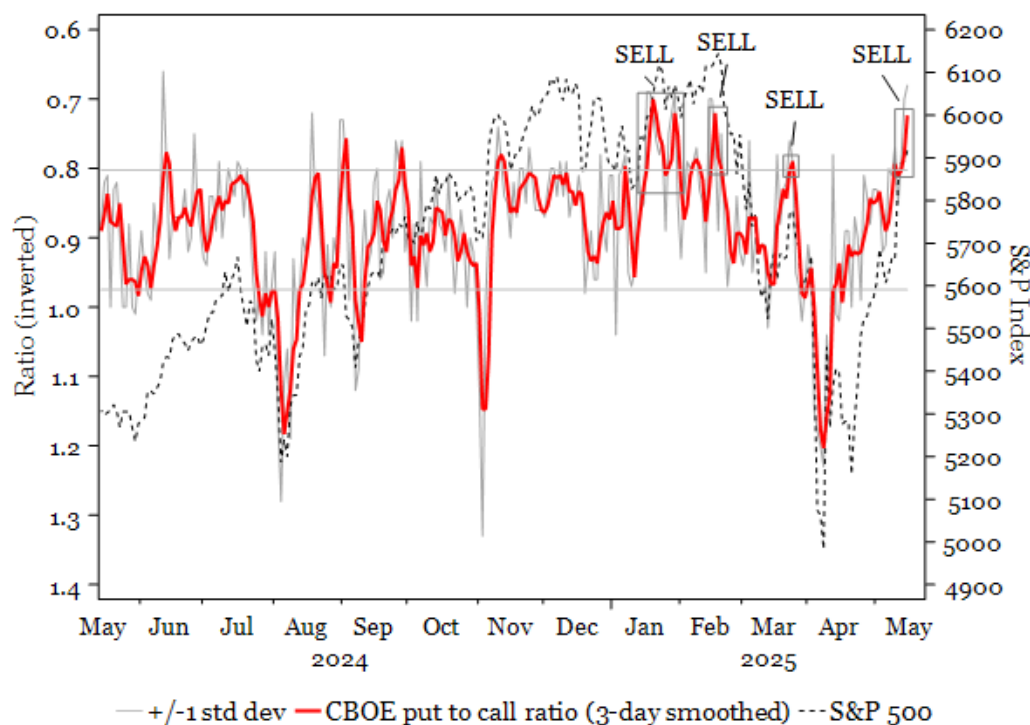
Source: Longview Economics, Macrobond

FIG 3b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures
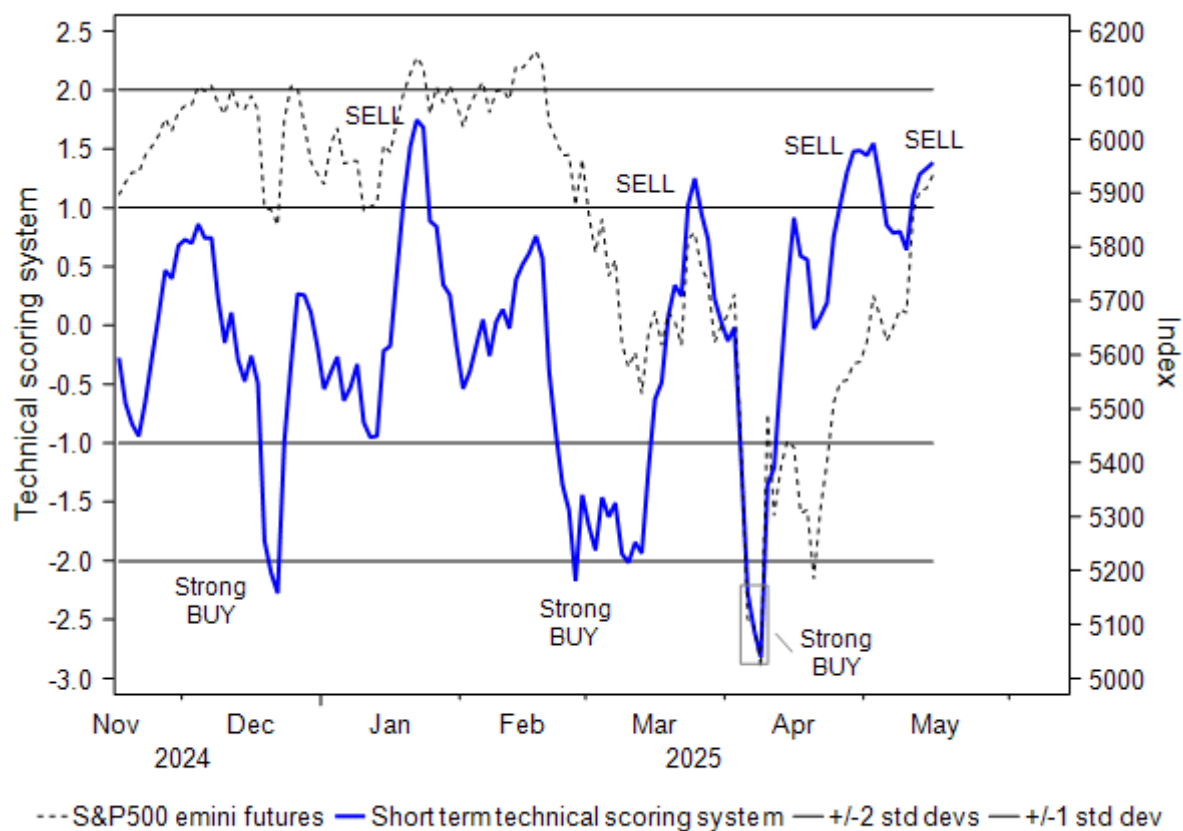
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

FIG A: Longview short and medium term scoring systems vs. S&P500
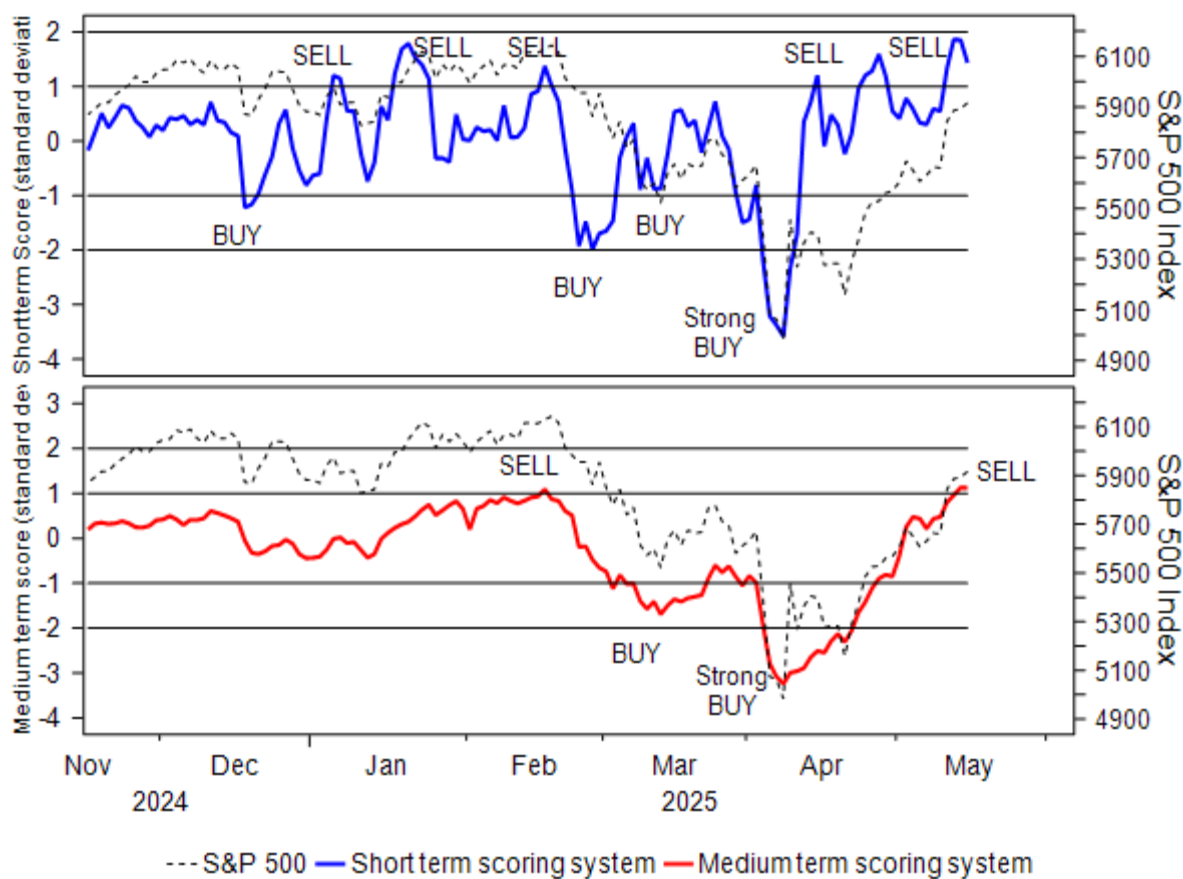
Key macro data/events

Key data today include: **Japanese GDP** (Q1 first estimate, 12:50am); Japanese industrial production & capacity utilisation (March final estimate, 5:30am); French ILO unemployment rate (Q1, 6:30am); Spanish home sales (Mar, 8am); Italian headline CPI (April final estimate, 9am); Eurozone trade balance (Mar, 10am); **US housing starts & building permits** (Apr, 12:30pm); US imports and exports price index (Apr, 1:30pm); US New York Fed service sector business activity (May, 1:30pm); **US Michigan sentiment** (May first estimate, 3pm); US total TIC flows (Mar, 8pm).

Key events today include: Speech by the BOJ's Nakamura at a conference (Fri, 5am).

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 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.

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

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

Short term scoring system is on SELL

Medium term scoring system is SELL

Legend: --- S&P 500 — Short term scoring system — Medium term scoring system
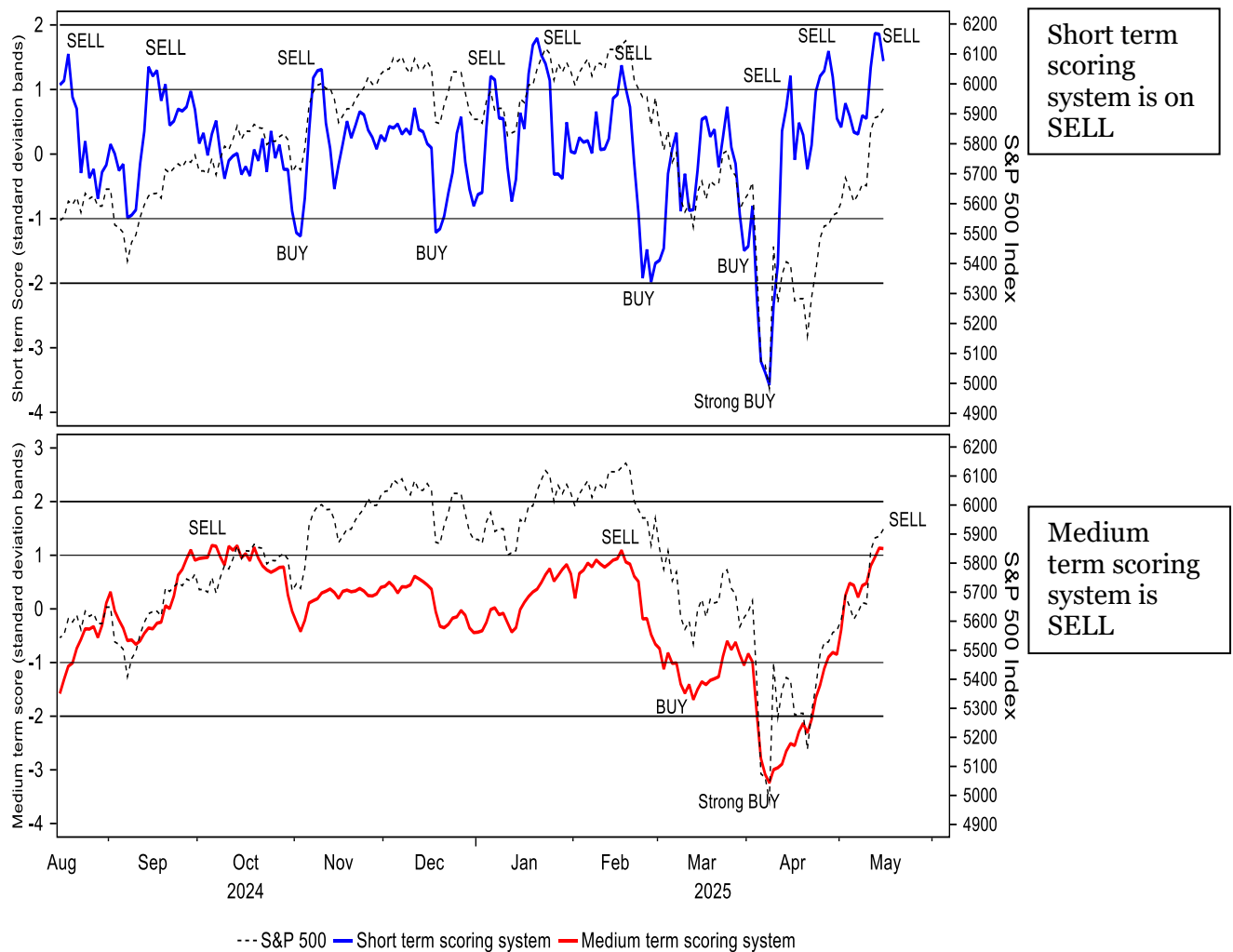
Source: Longview Economics, Macrobond

*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

RAG1

RAG2

Shortest term RAG

Calls less Puts

Breadth
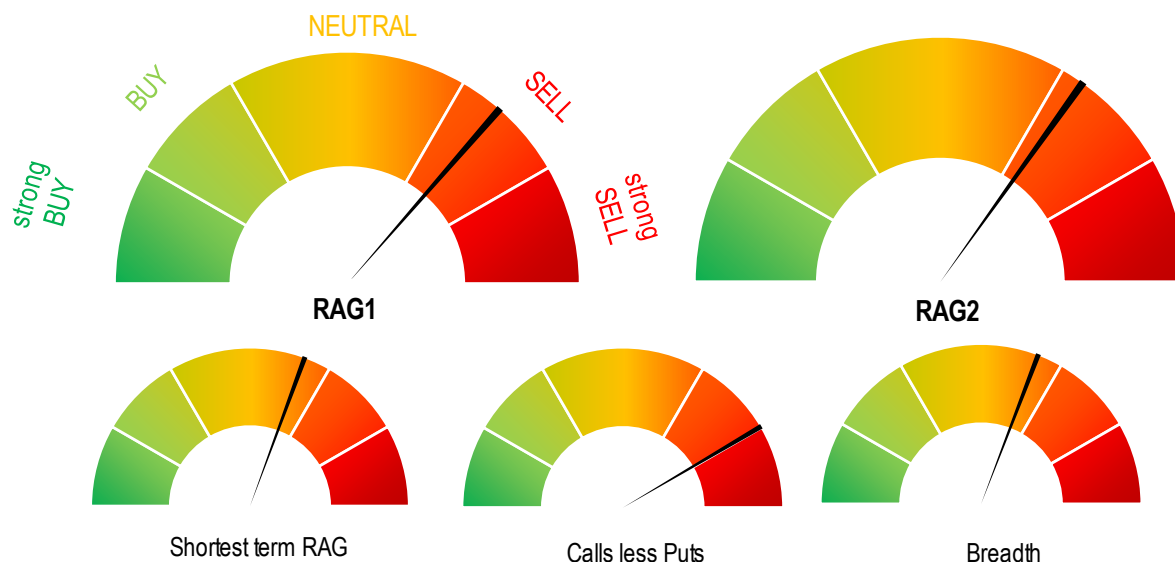
Source: Longview Economics

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

Medium Term RAG1

**Medium Term RAG2**

Medium Term Put to Call

Global Volatility

Momentum-RSI Composite

Bond Spreads

Colvin Model
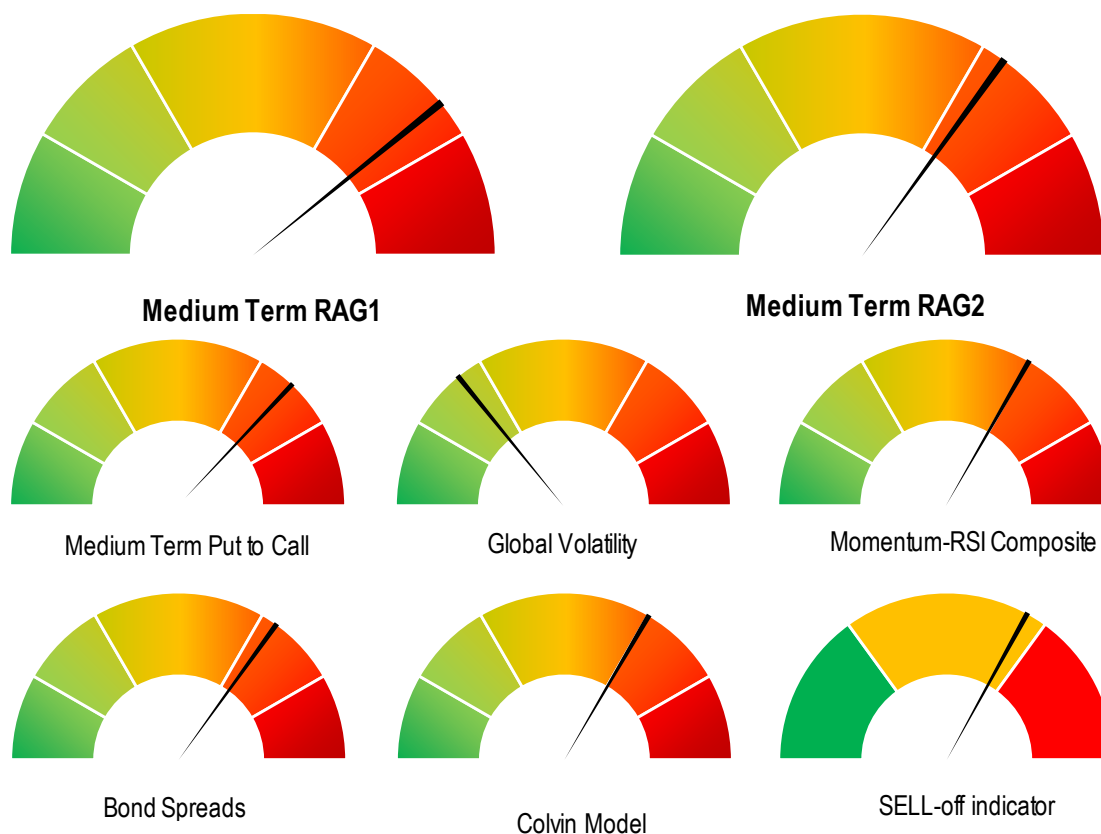
SELL-off indicator

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 on SELL

Source: Longview Economics, Macrobond

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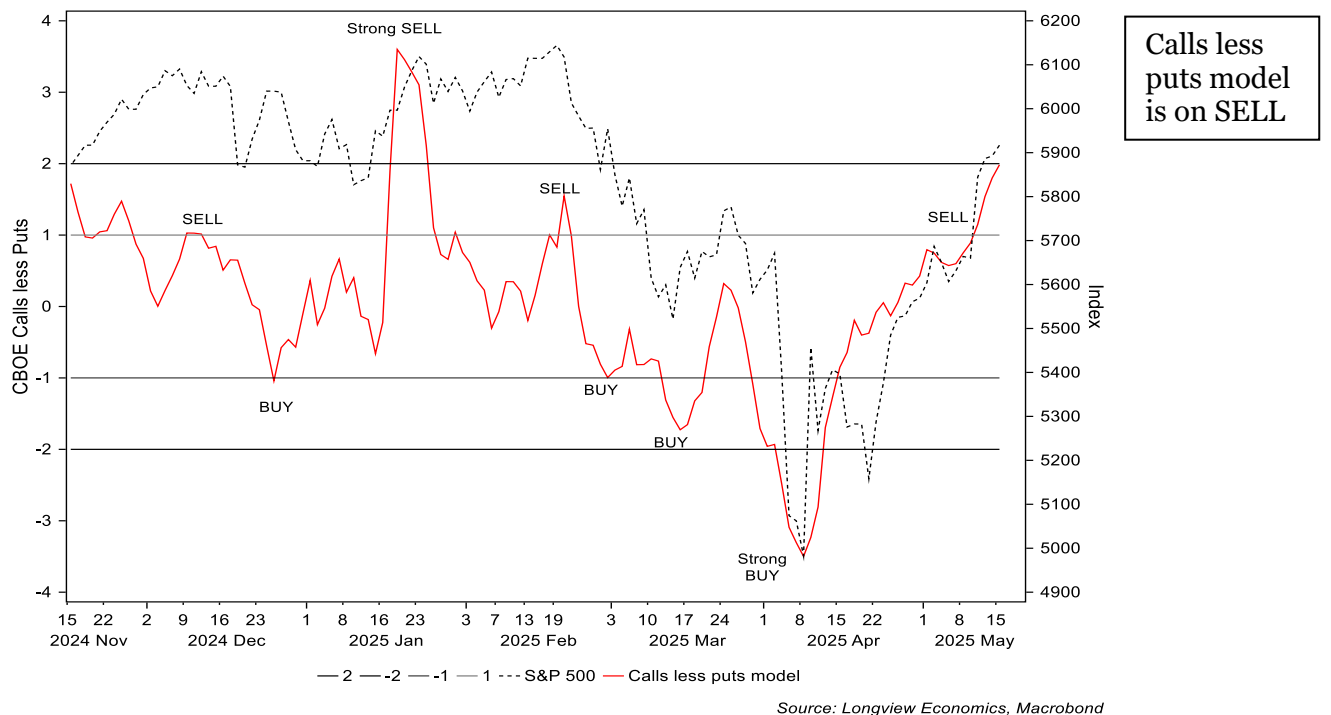

RAG2 is on SELL

Source: Longview Economics, Macrobond
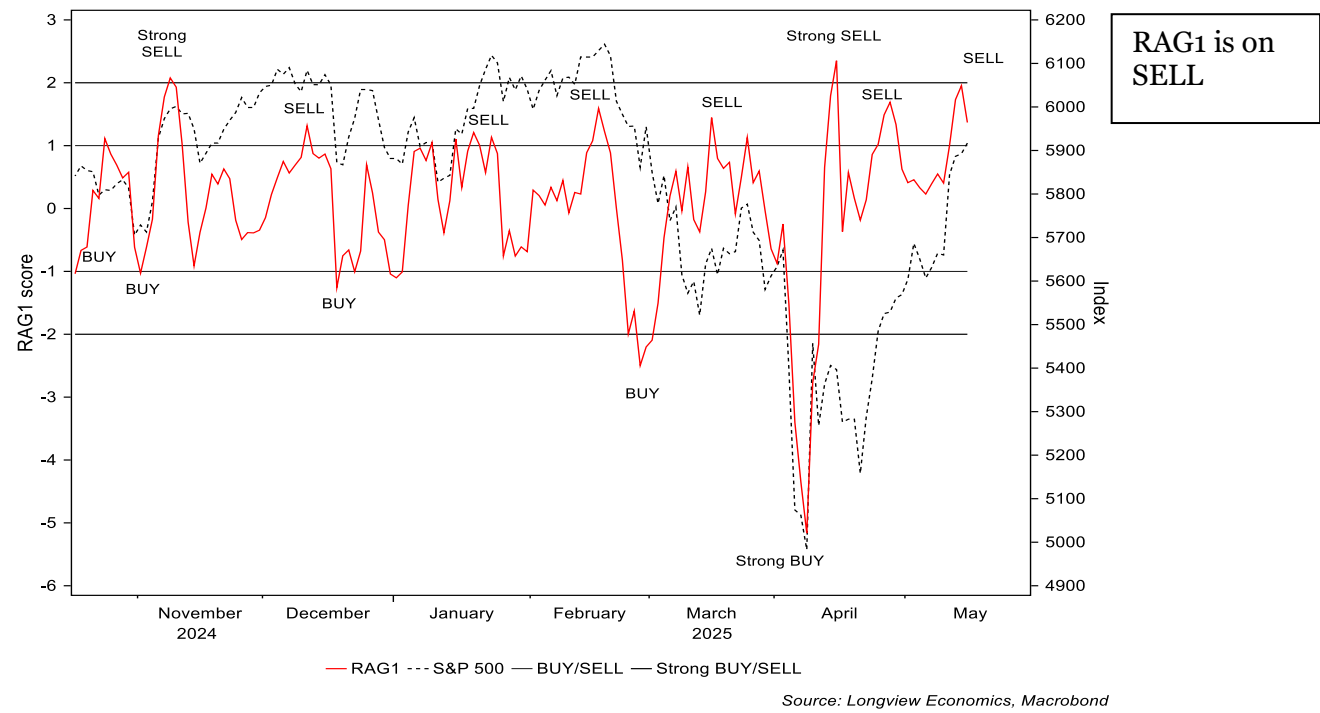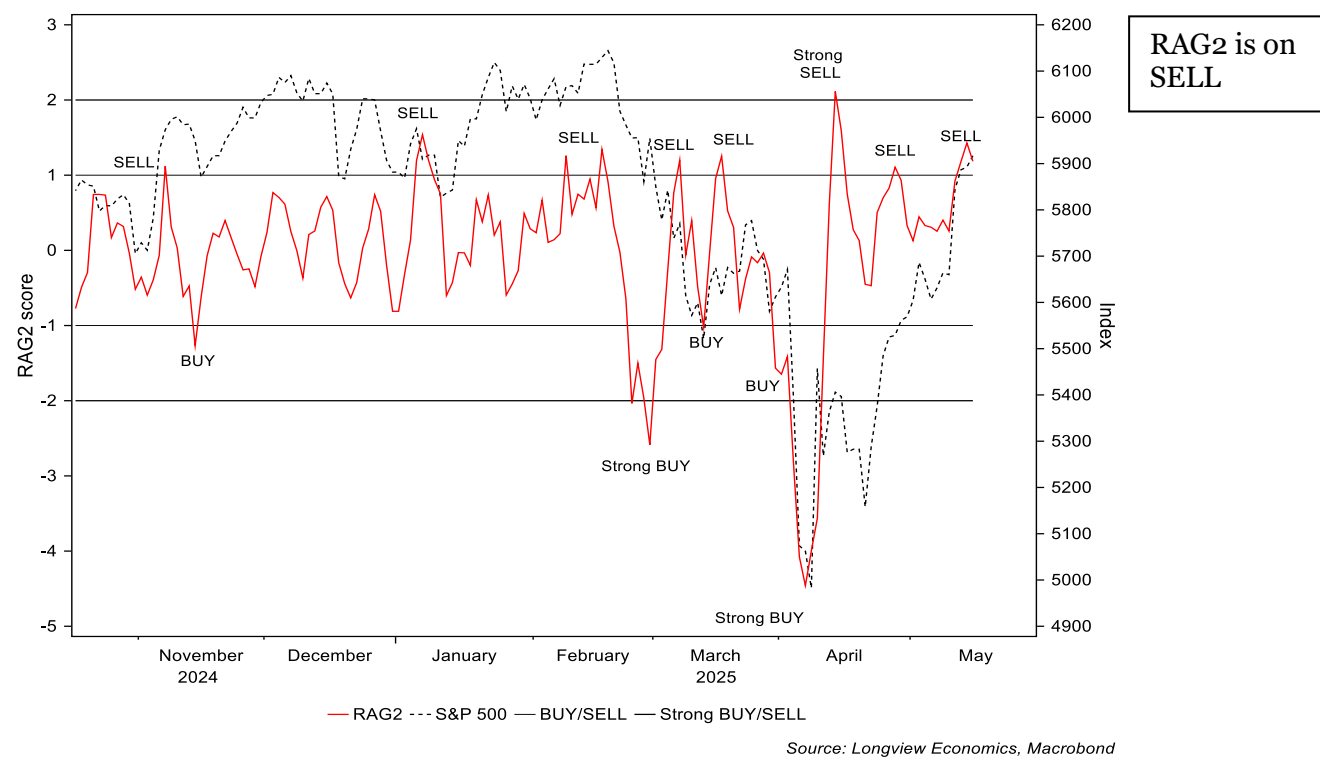
For explanations of indicators please see page 10

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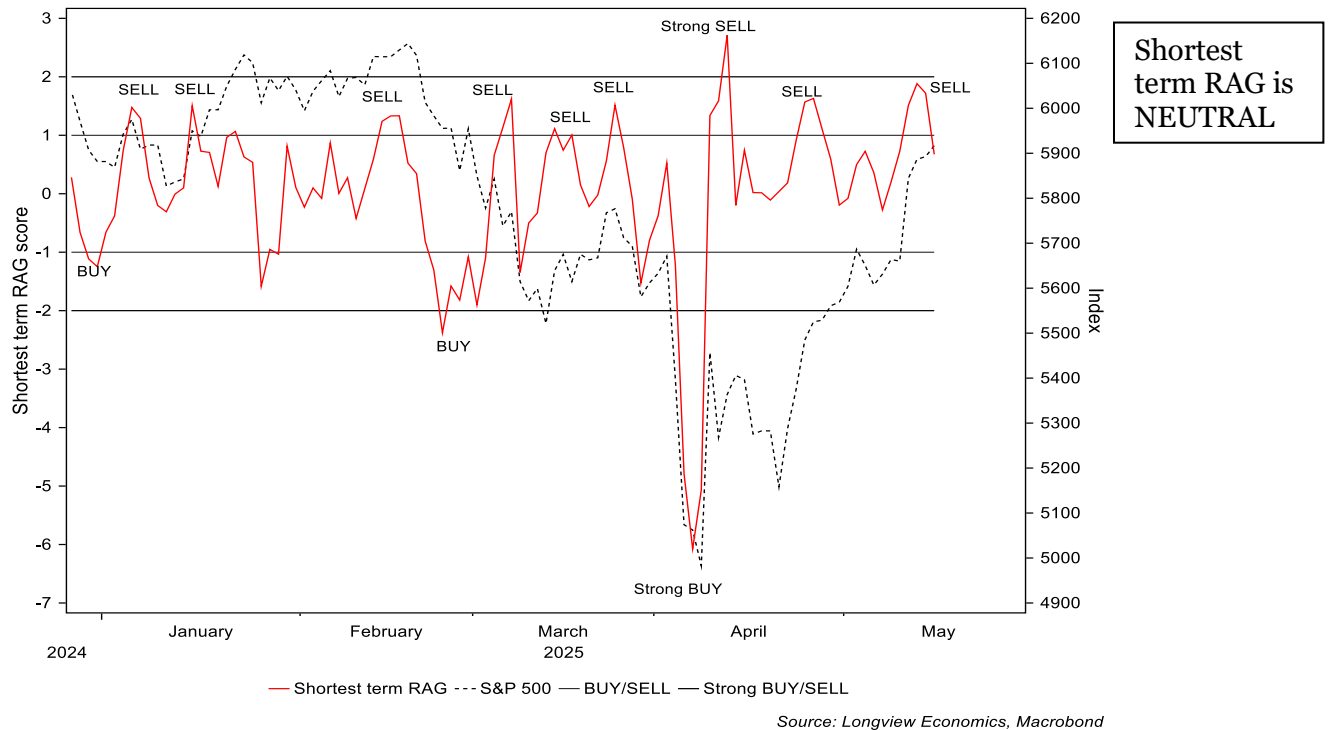
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500

Calls less puts model is on SELL

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
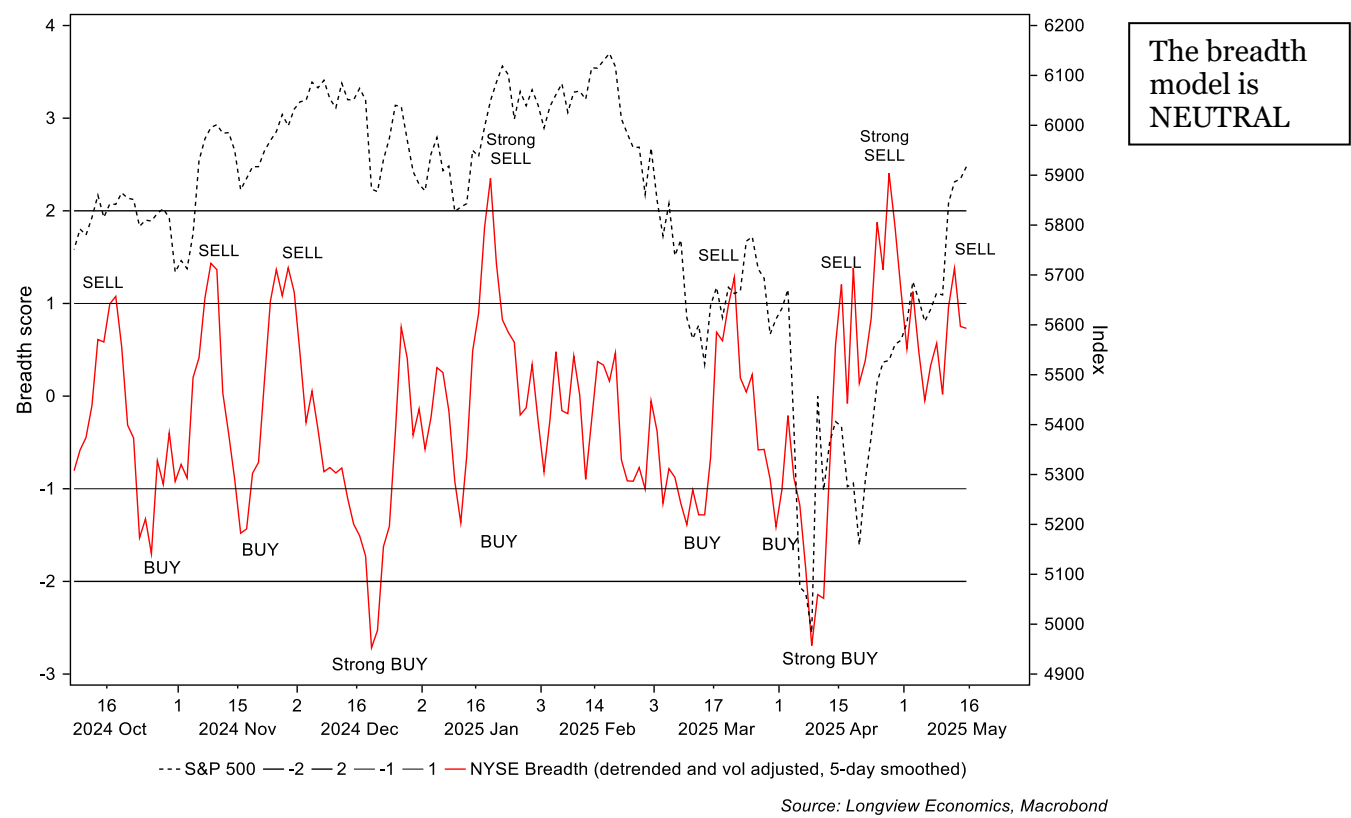
For explanations of indicators please see page 10

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 on SELL

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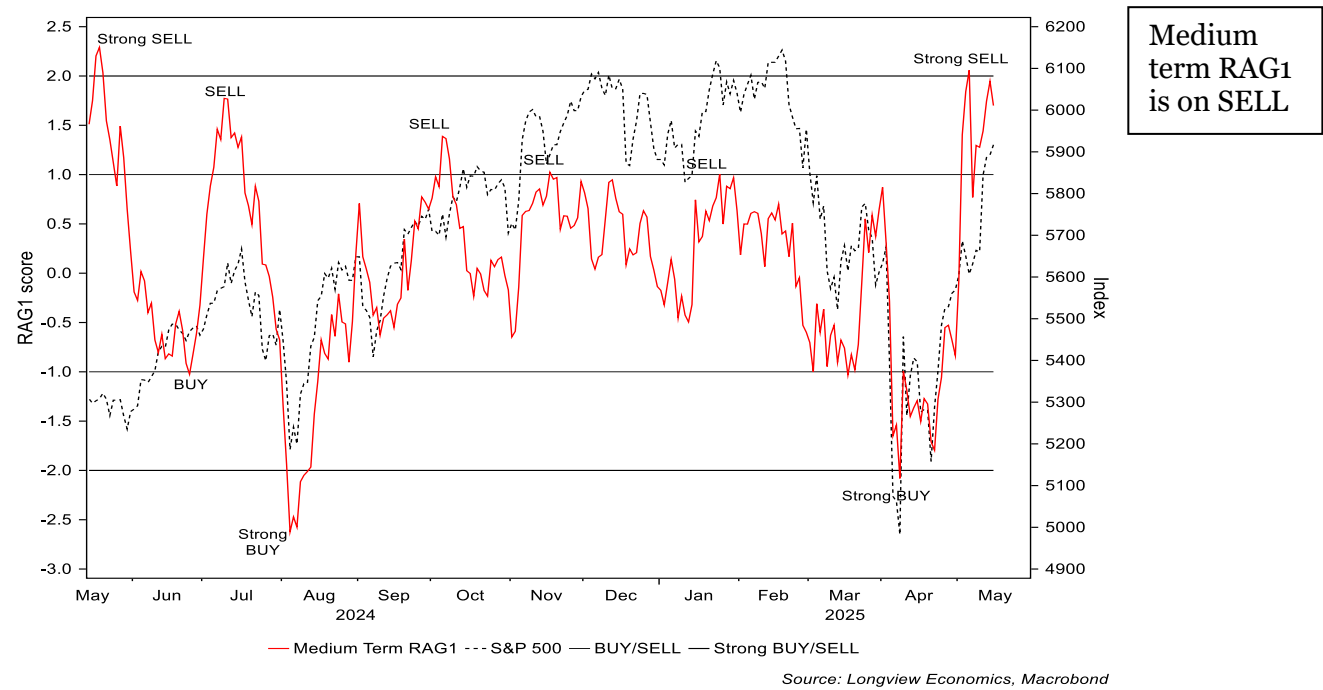
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

Medium term RAG2 is on SELL

Source: Longview Economics, Macrobond
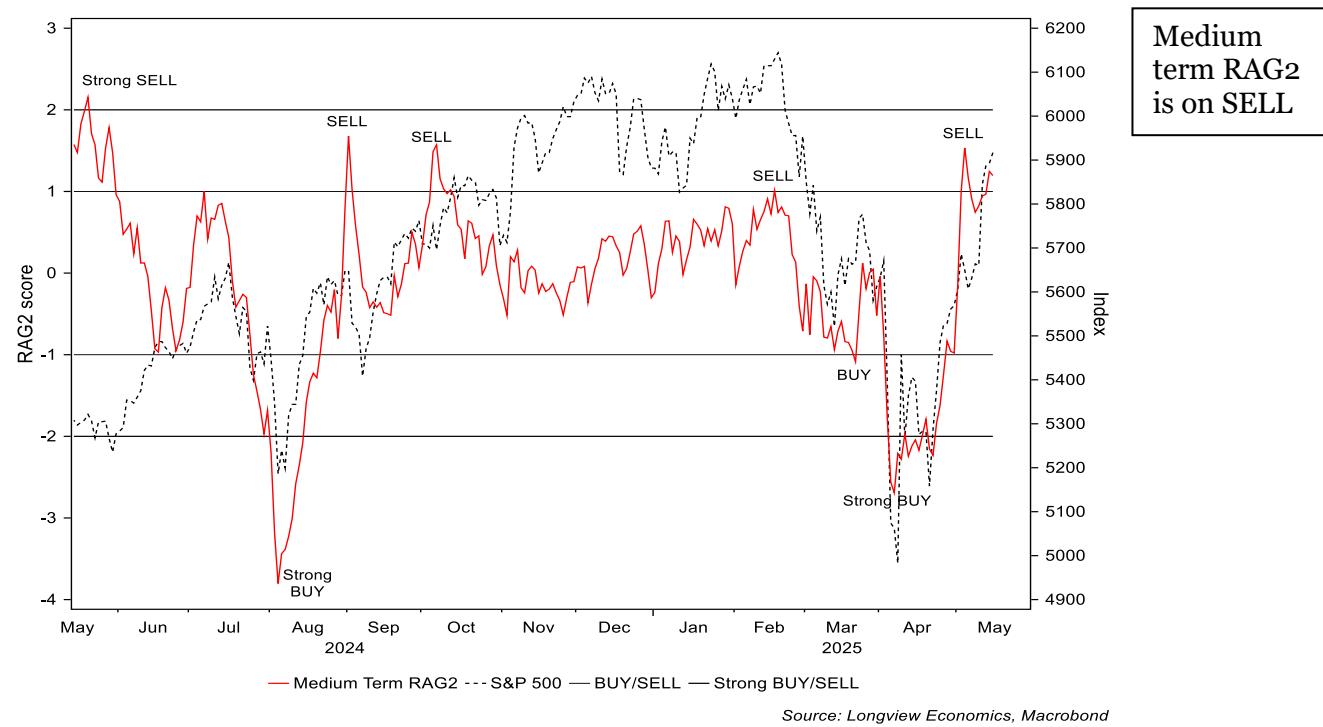
For explanations of indicators please see page 10

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

The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond
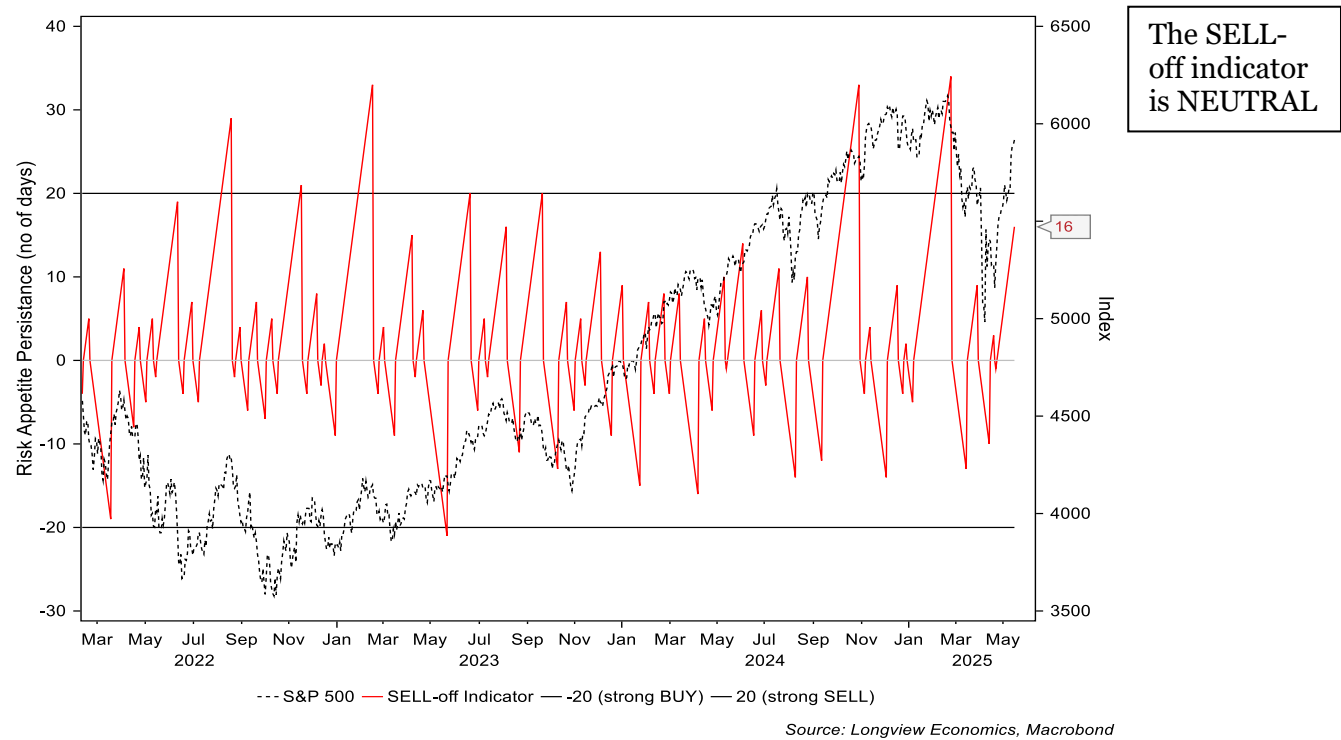
Fig 3d: CBOE put to call trend deviation model vs. S&P500

Medium term put to call model is on SELL

Source: Longview Economics, Macrobond
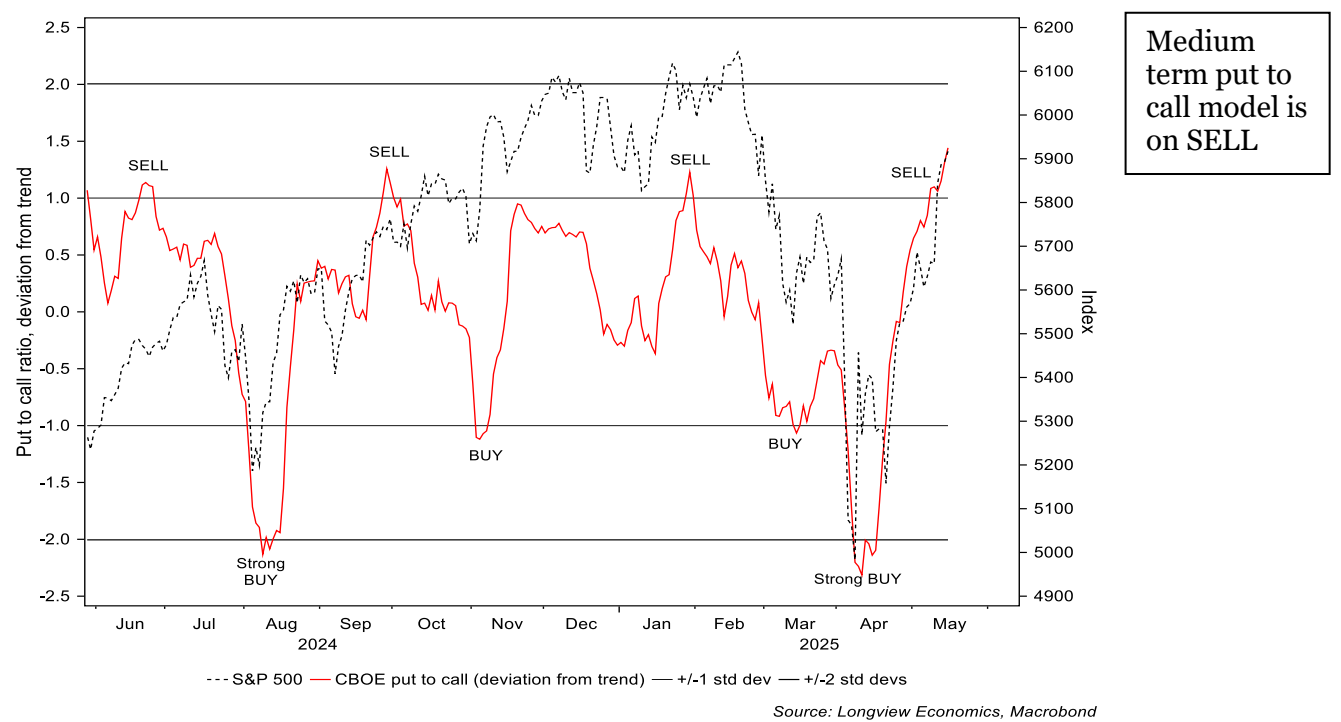
For explanations of indicators please see page 10

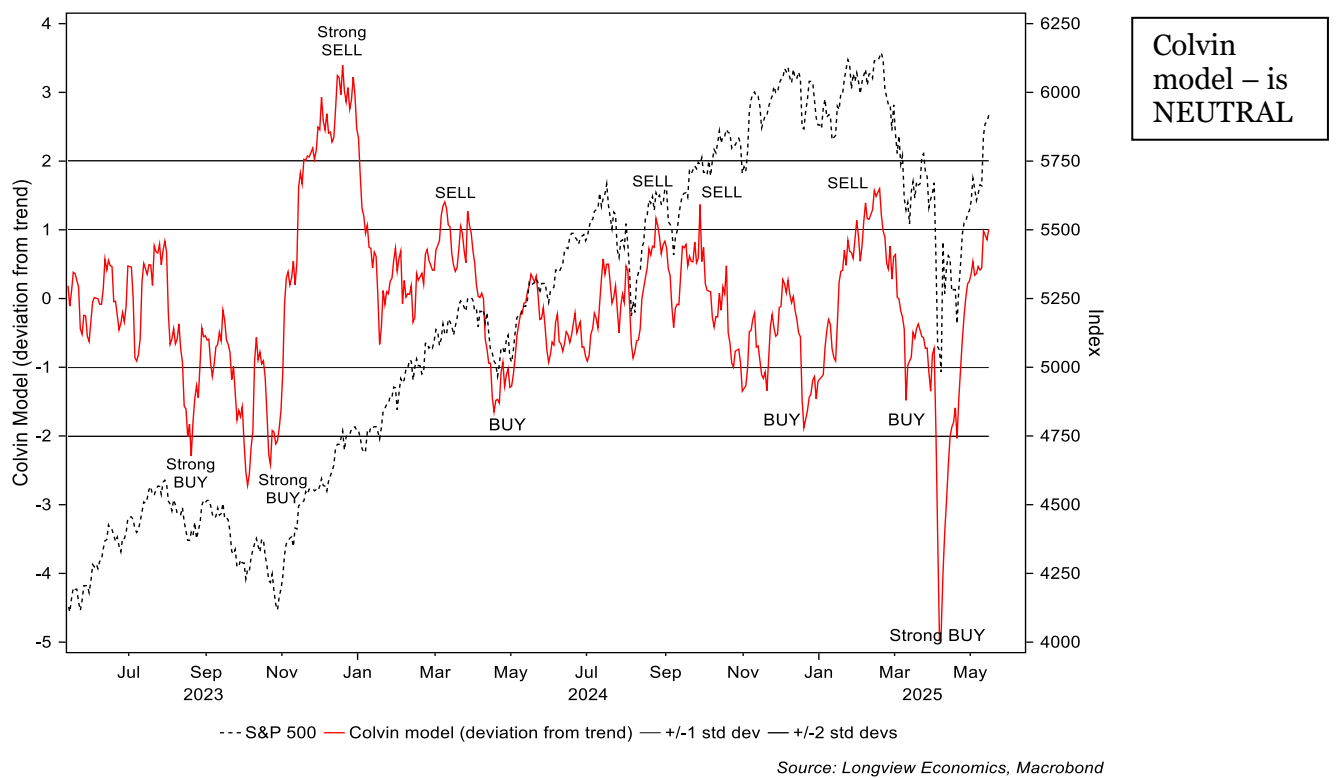**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500

Global volatility indicator is on BUY

Source: Longview Economics, Macrobond
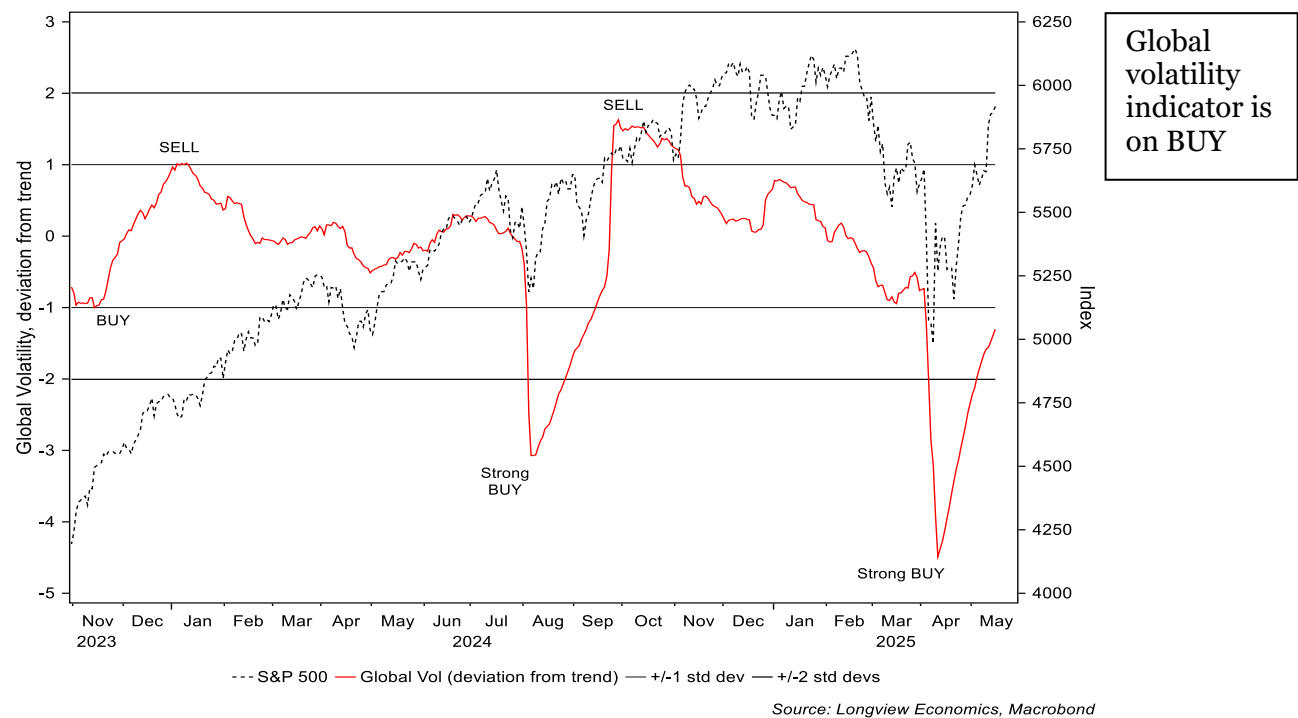
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500
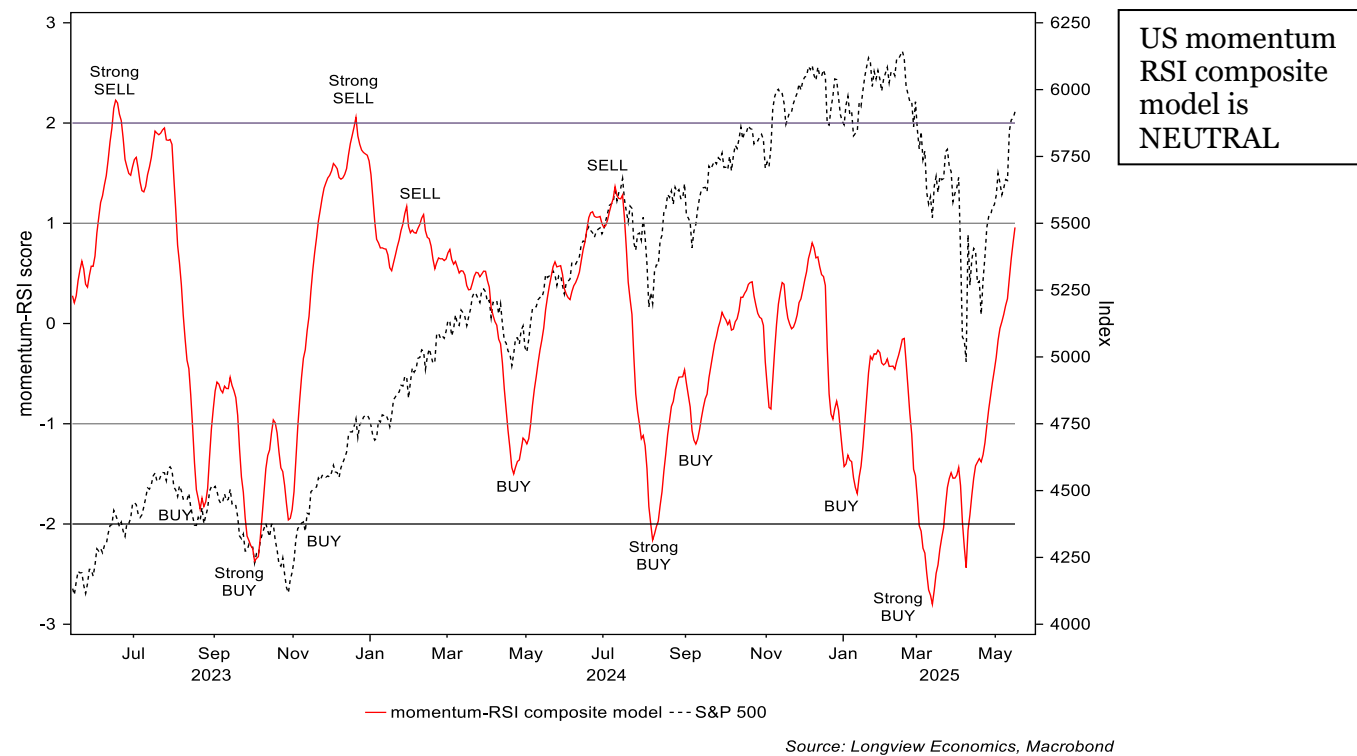
US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

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

High yield corporate bond spreads model is on SELL

Source: Longview Economics, Macrobond
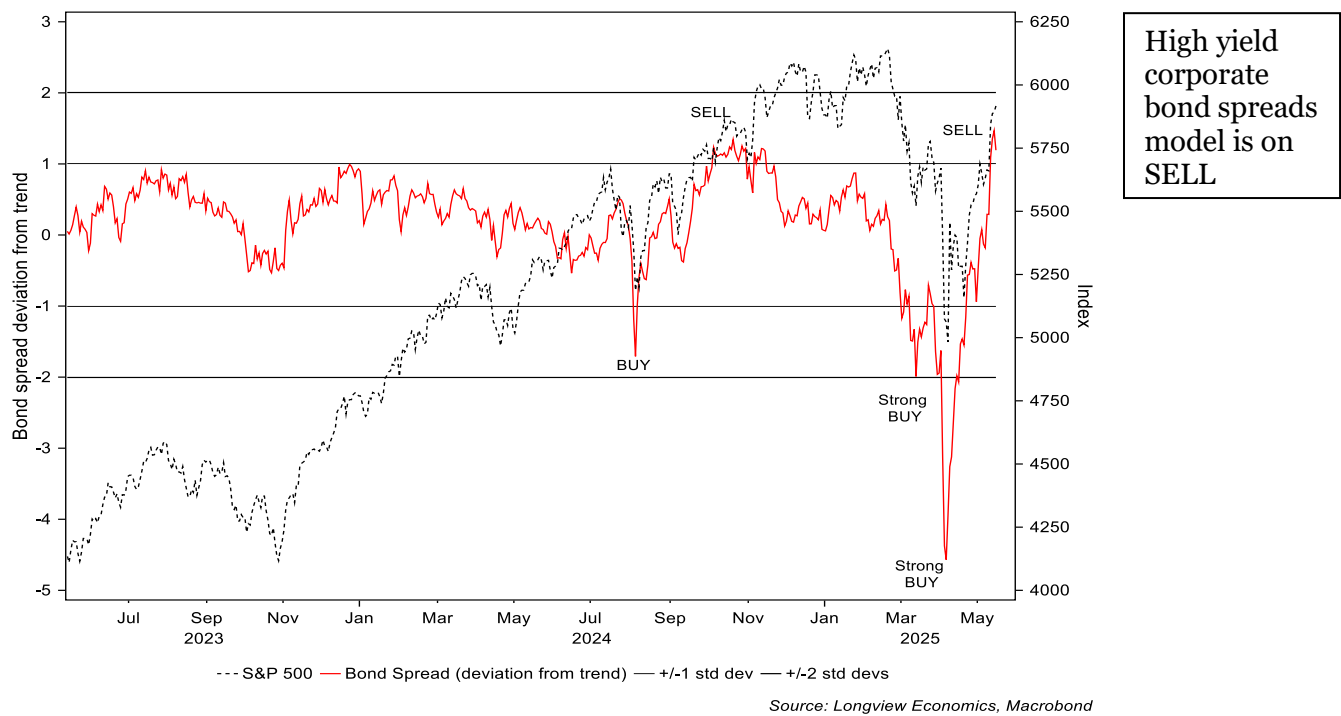
Fig 3h: Colvin model (deviation from trend) vs. S&P500

Colvin model – is NEUTRAL

Source: Longview Economics, Macrobond

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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