LVRAG

Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

17th April 2025

"Stay SHORT SPX"

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Given UK/European bank holidays on Monday next week, the Daily RAG models will be updated and published but commentary will be limited. Happy Easter to all.

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

- Stay ¼ SHORT June S&P500 futures (entry was yesterday at 5,353.50);
- Retain unchanged stop loss at 5,540 (i.e. just above 10th April highs, and ~3.5% above entry).

Rationale

"People were expecting Powell to be neutral and he was hawkish instead. When asked if there's such a thing as a Fed put for the stock market, his answer was 'no'."

Source: Reuters article, 16th April 2025

Powell's comments yesterday were viewed as hawkish by markets. In particular, his focus was on the upside risks to inflation from tariffs (albeit he also highlighted downside growth risks). With that, he signalled caution on loosening policy, and ruled out the idea of a 'Fed put' for the stock market (e.g. see quote above).

US equities mostly closed lower, with the largest losses in the higher beta ('leadership') parts of the market, e.g. in the NASDAQ100 (-3.0%) and Philly SOX (-4.1%). The S&P500 closed down 2.2% (and at around its 10 day moving average, see FIG 1a). As such, and despite some strength overnight (SPX: +1%), price action remains poor, with lower intra-day highs in recent trading sessions (FIG 1b). With that the 50 day moving average continues to fall below the 200 day. That's a technically bearish signal (the 'death cross'), and often points to ongoing downside momentum.

Short term models, in that respect, support the case for further near term weakness in equities. Most notably, our risk appetite models have recently generated a clear SELL/strong SELL message. Those models include our risk appetite scoring system (FIG 2); combined 'RAG1 plus RAG2' indicator (FIG 2a), as well as shortest term RAG (FIG 1). While the SELL signals have started to unwind, they remain valid until they reverse (turn BUY). Elsewhere our technical scoring systems for US indices are close to SELL (e.g. see FIGs 2c & 2d), while our momentum models are on SELL/strong SELL (e.g. see FIG 2e).

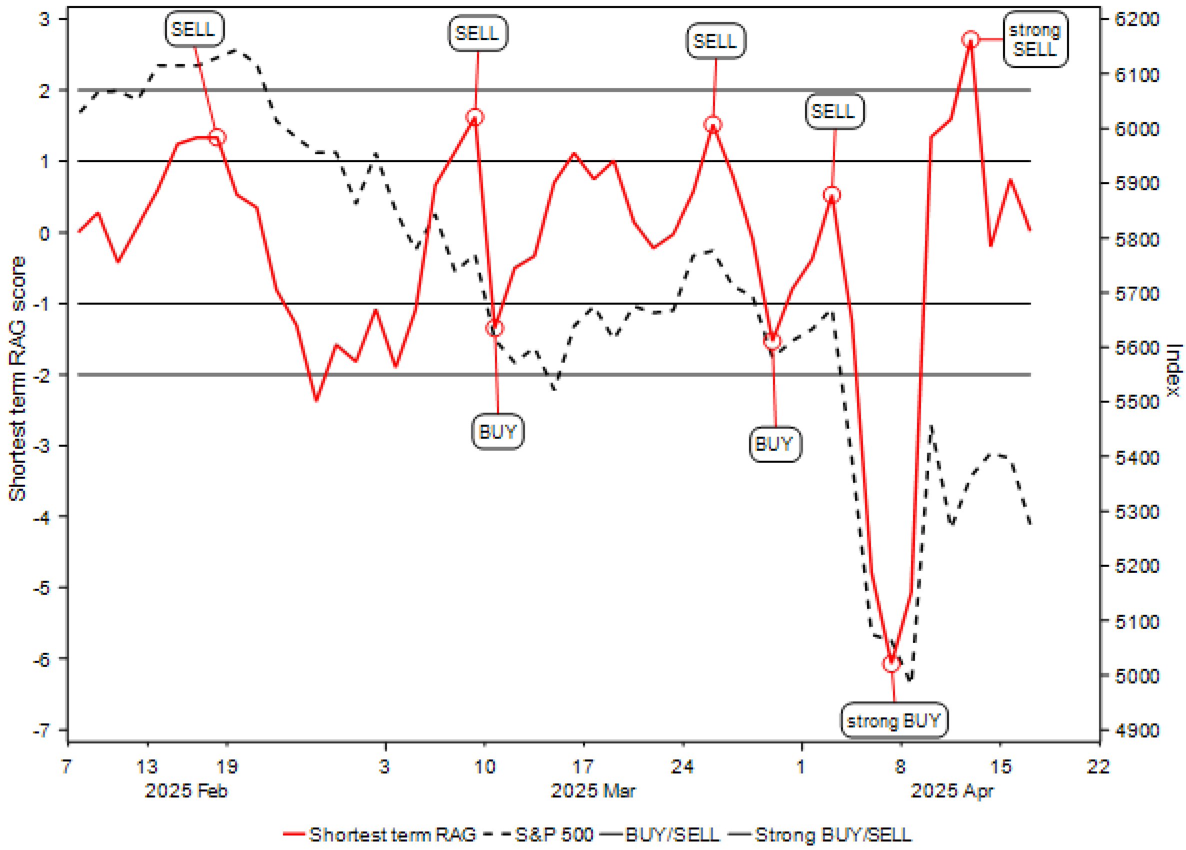
The **risk reward therefore favours staying SHORT S&P500 futures** (please see above recommendation for detail).

Risks, as always, are multiple and include the lack of a clear and across the board SELL message from our short term indicators. That is, some short term models are still close to BUY, including the CBOE put to call ratio (FIG 2b), while others are NEUTRAL (FIGs 2f & 2g). Other (two way) risks today include the ECB policy decision (25bps cut is expected), as well as various macro data and earnings reports. Please see below for a full list of key events.

Kind regards,

The team @ Longview Economics

FIG 1: Shortest term RAG vs. S&P500



Source: Longview Economics, Macrobond

FIG 1a: S&P500 futures shown with 10 & 50 day moving averages

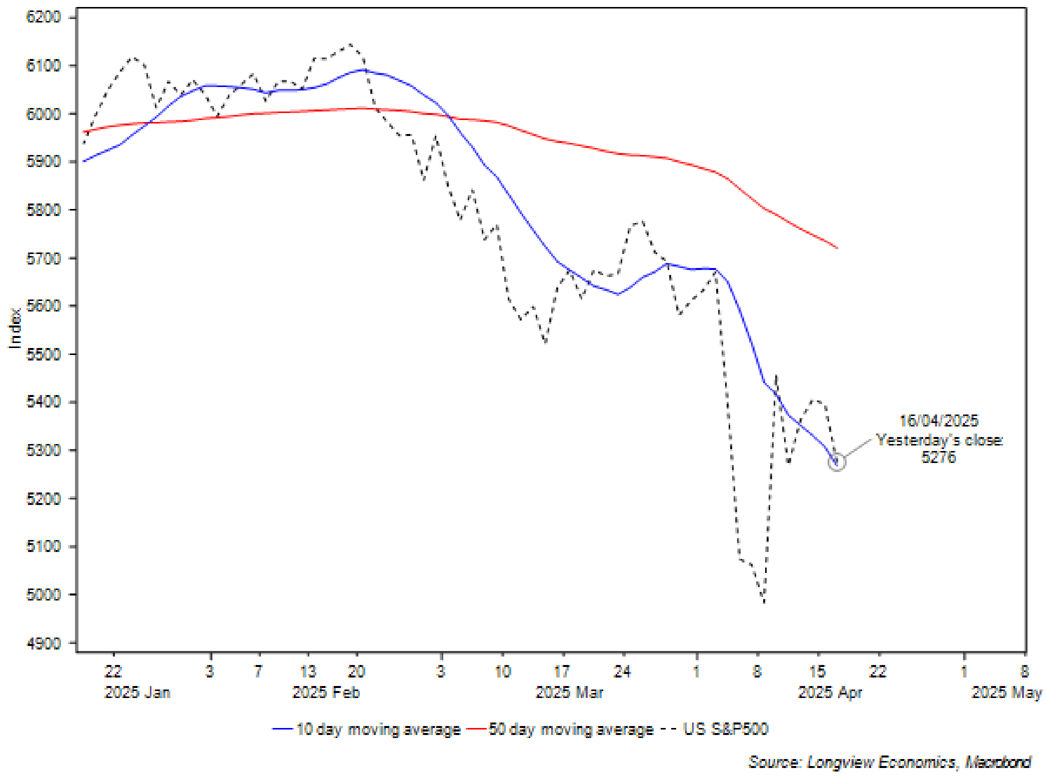
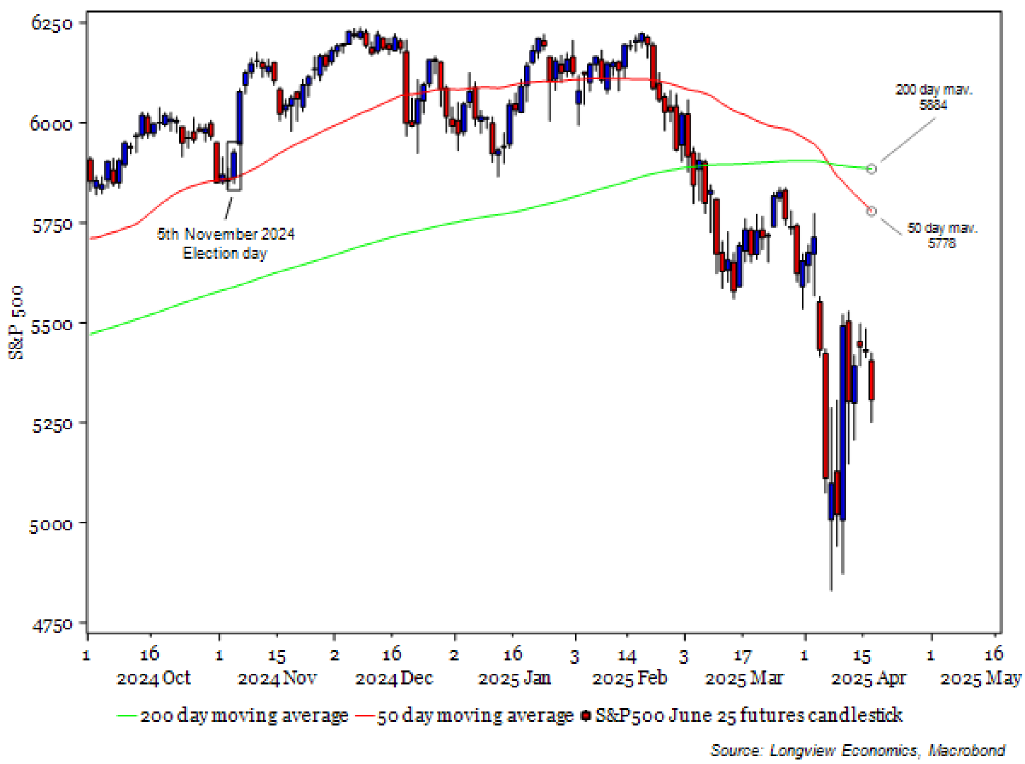


FIG 1b: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages



Short term risk appetite models have recently been on SELL/strong SELL…

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

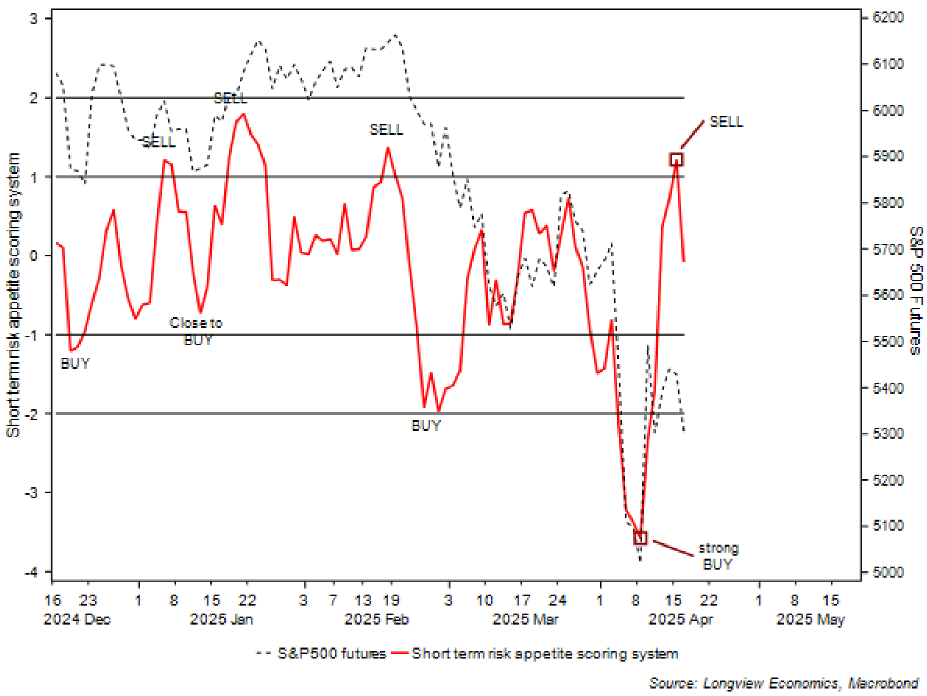
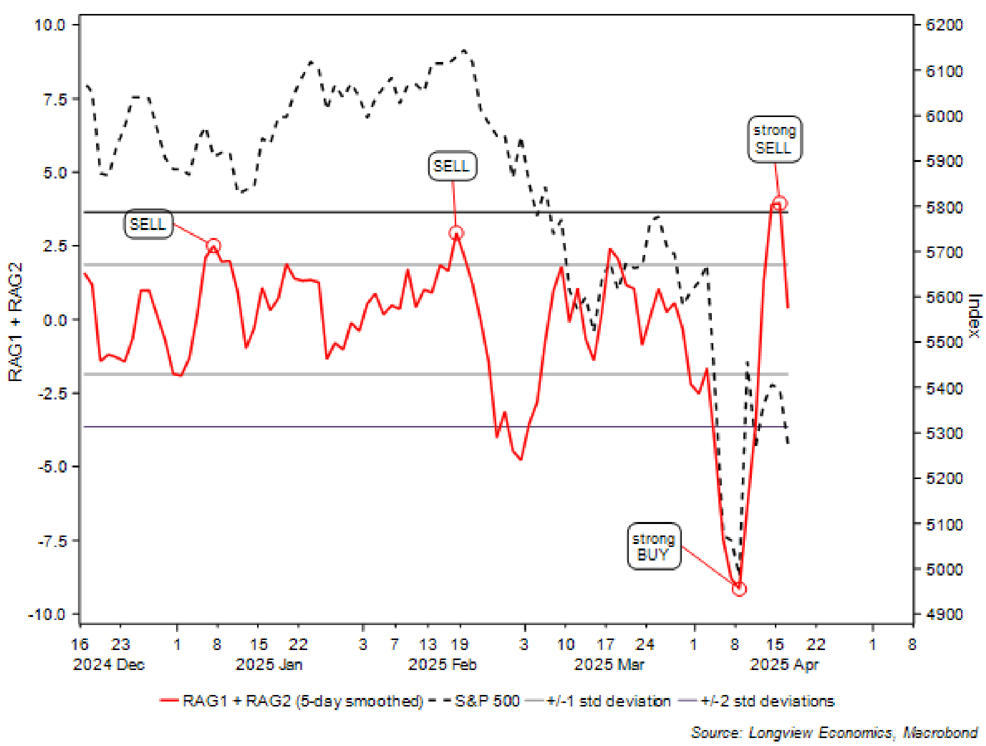
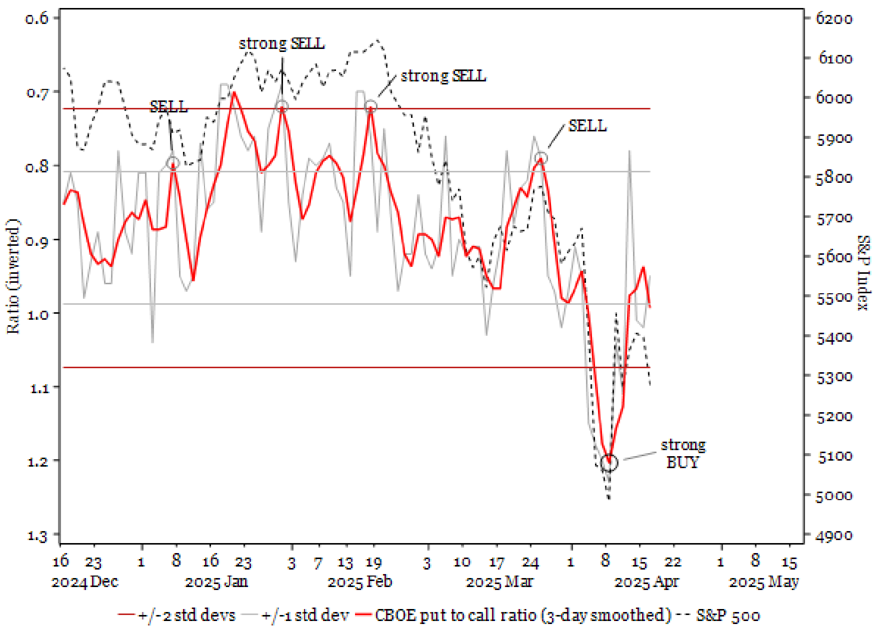


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



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

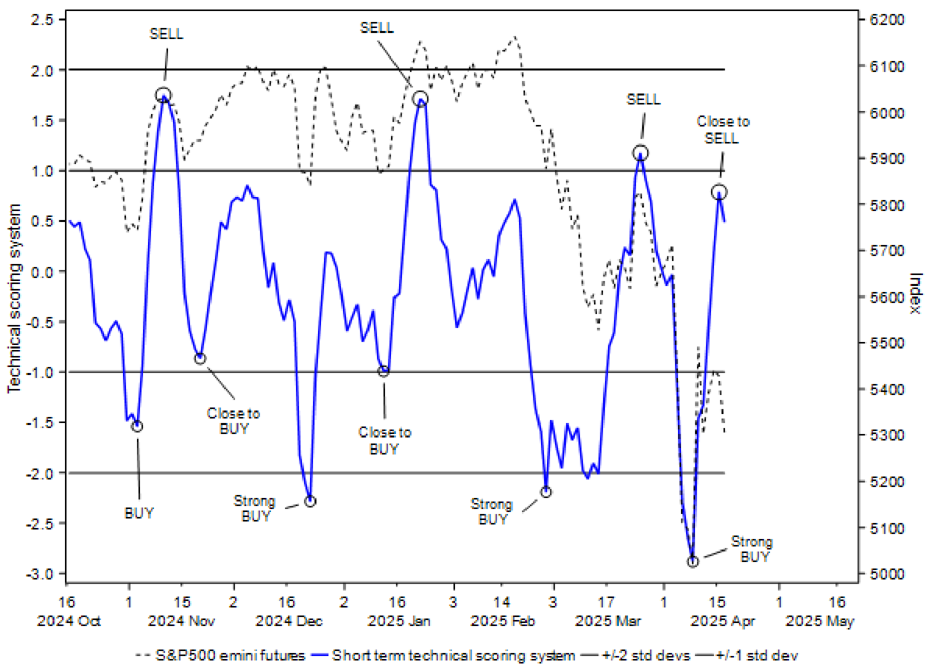
FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

Technical & price-based models are mostly on/close to SELL…

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



Source: Longview Economics, Macrobond

FIG 2d: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures

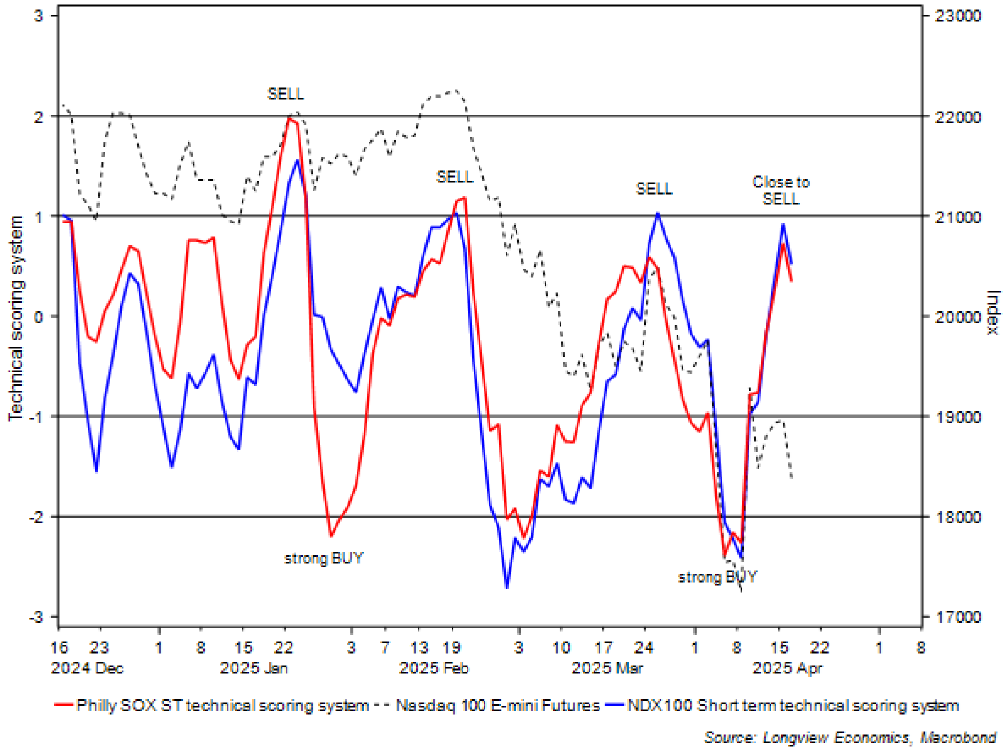


FIG 2e: NDX100 momentum model shown vs. NDX100

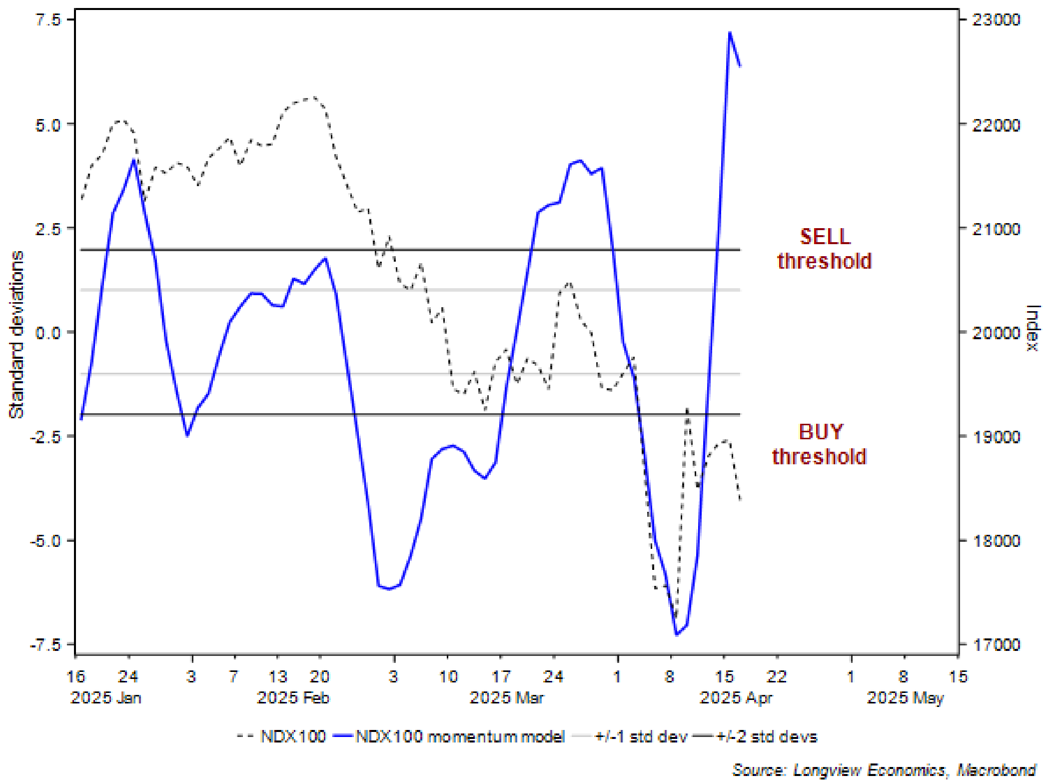


FIG 2f: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

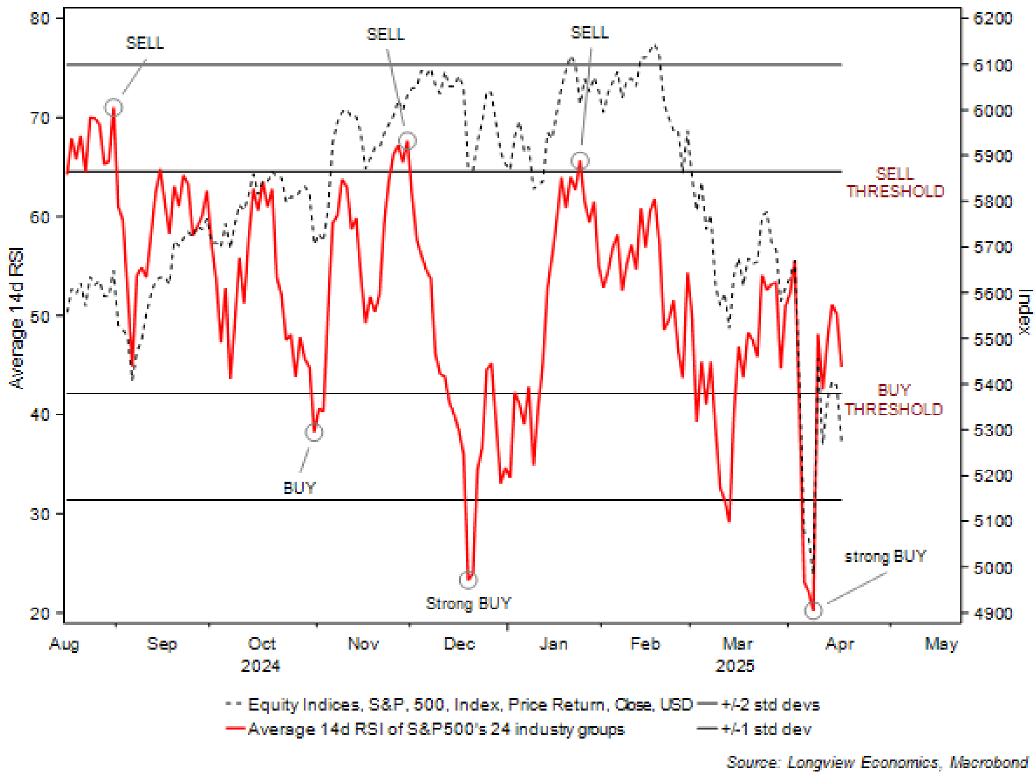
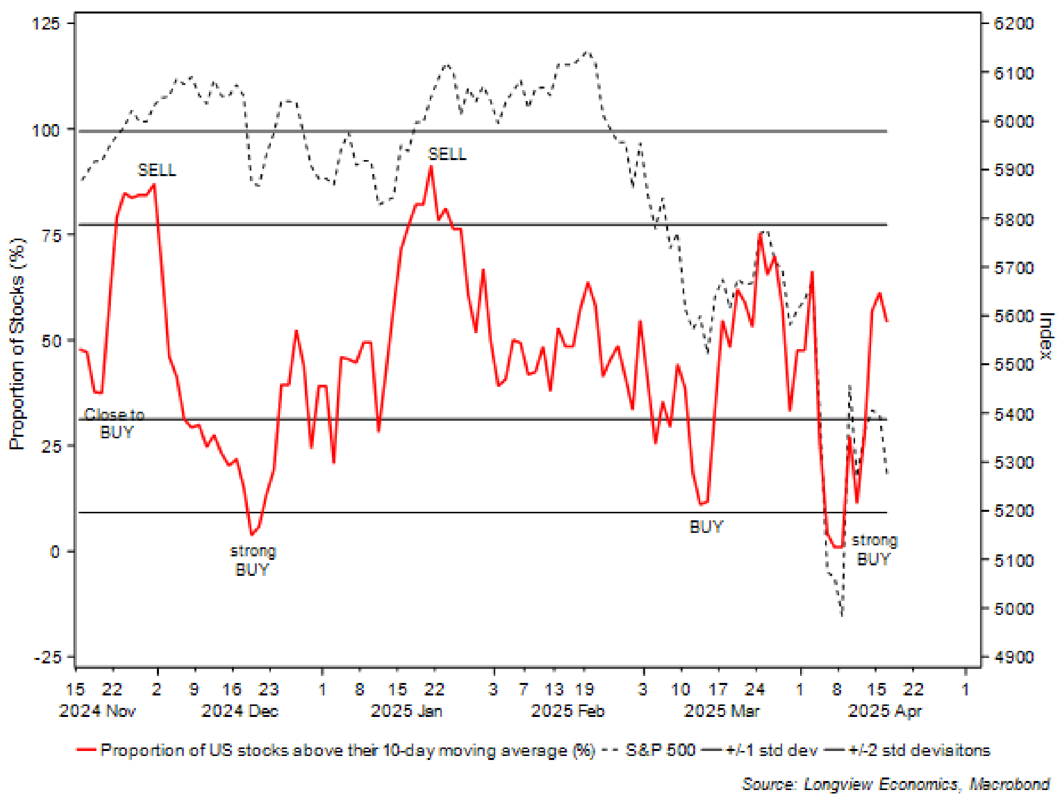


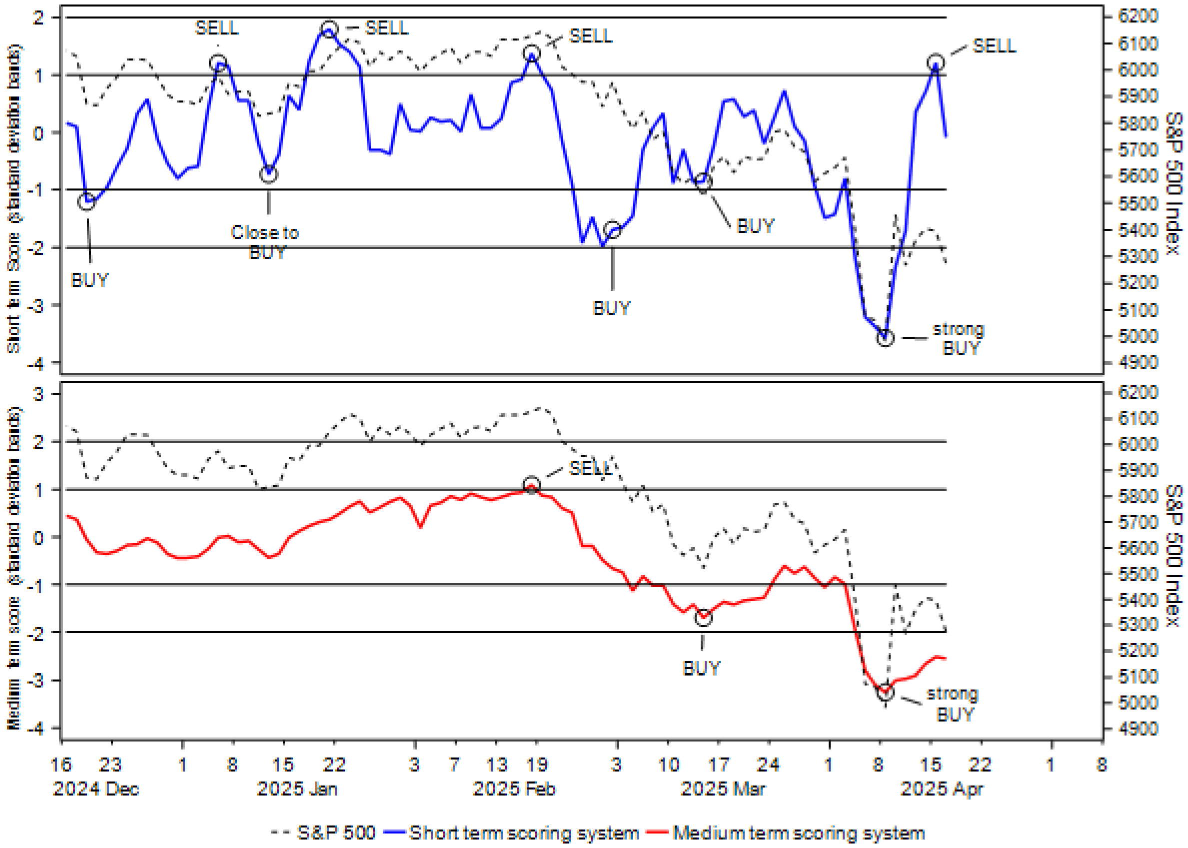
FIG 2g: Proportion of US stocks above their 10-day moving average vs. S&P500



Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL yesterday)
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

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Key macro data/events

Key data today include: Japanese imports/exports, & trade balance (Mar, 12:50am); Australian employment data (Mar, 2:30am); **German PPI** (Mar, 7am); **US housing starts & building permits** (Mar, 12:30pm); US Philadelphia Fed business outlook (Apr, 1:30pm); US weekly jobless claims (1:30pm).

Key events today include: Speeches by the Fed's Schmid & Logan on banking (12am); BOJ's Nakagawa speaks in Gunma (Thurs, 2:30am); **ECB policy decision** (1:15pm) followed by Lagarde press conference (1:45pm).

Key earnings today include: **UnitedHealth, Taiwan Semiconductor, Netflix,** Blackstone, Charles Schwab, Marsh McLennan, Truist Financial Corp, **Hermes International, L'Oreal.**

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.

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Daily Risk Appetite Gauge

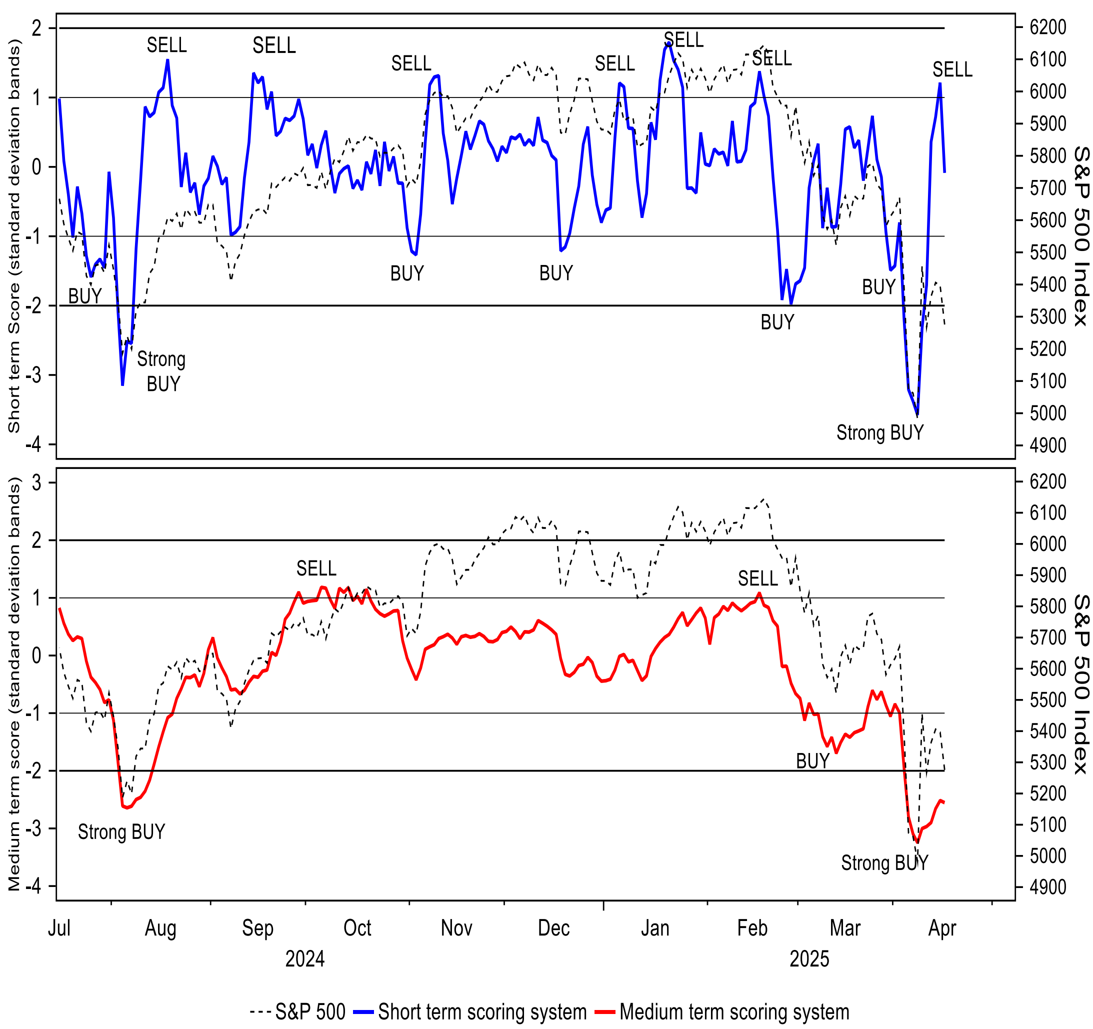
1 – 2 Week View on Risk

17th 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

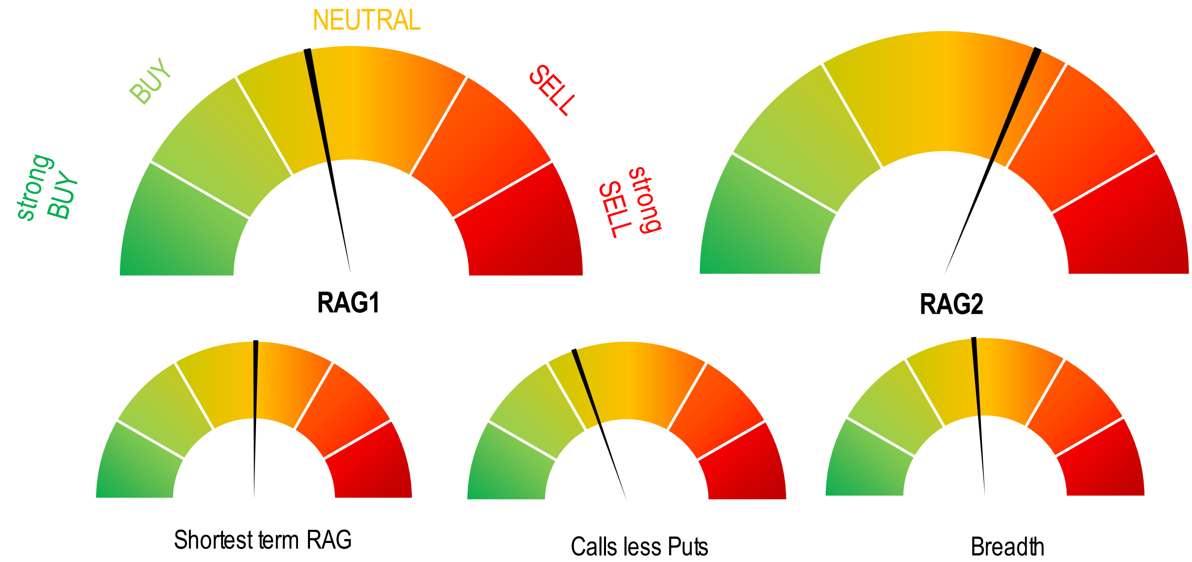
Source: Longview Economics, Macrobond

*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

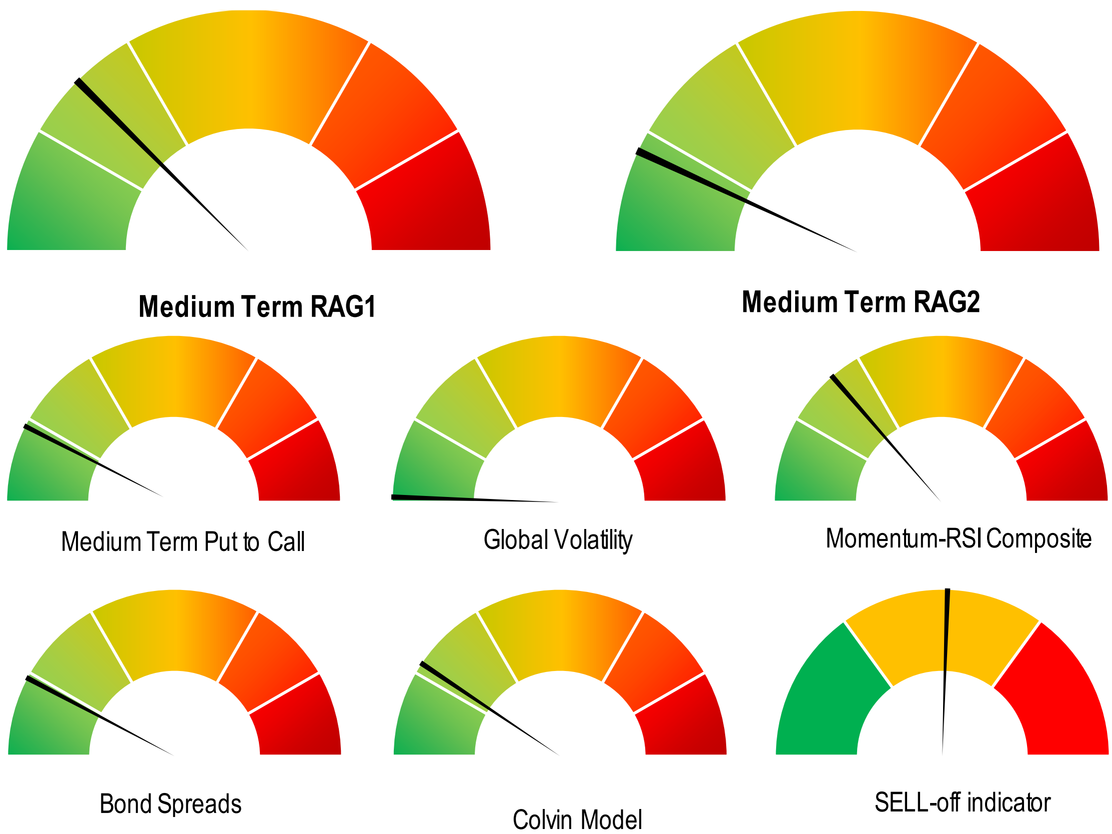
Section 1a: Summary of indicator signals**

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

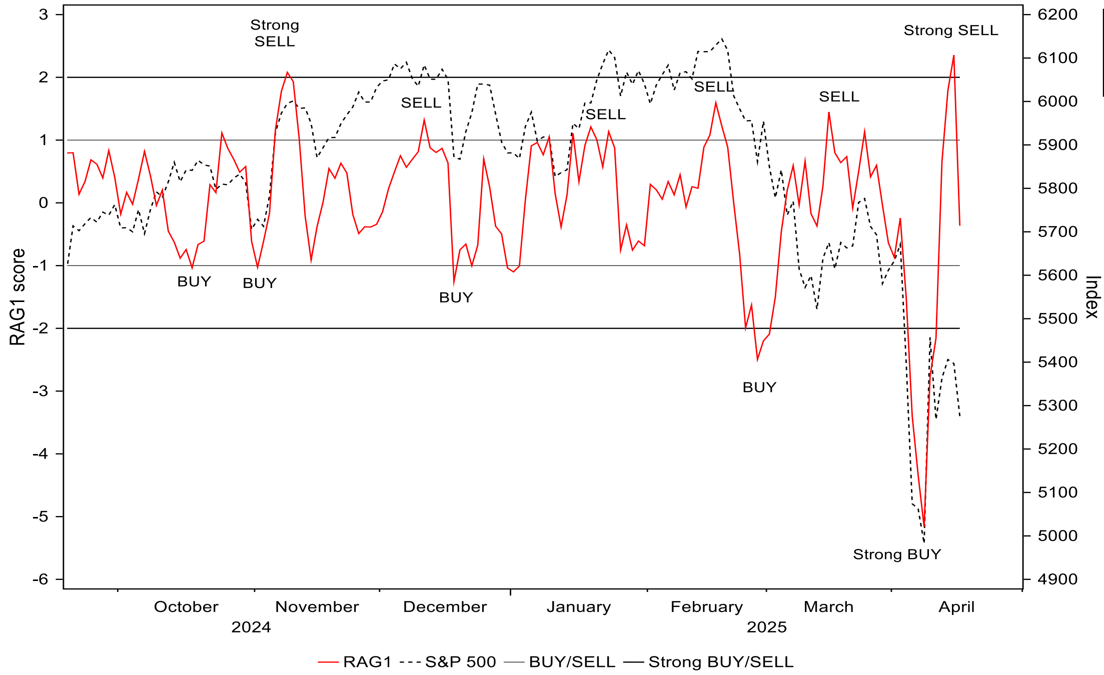


Source: *Longview Economics*

**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

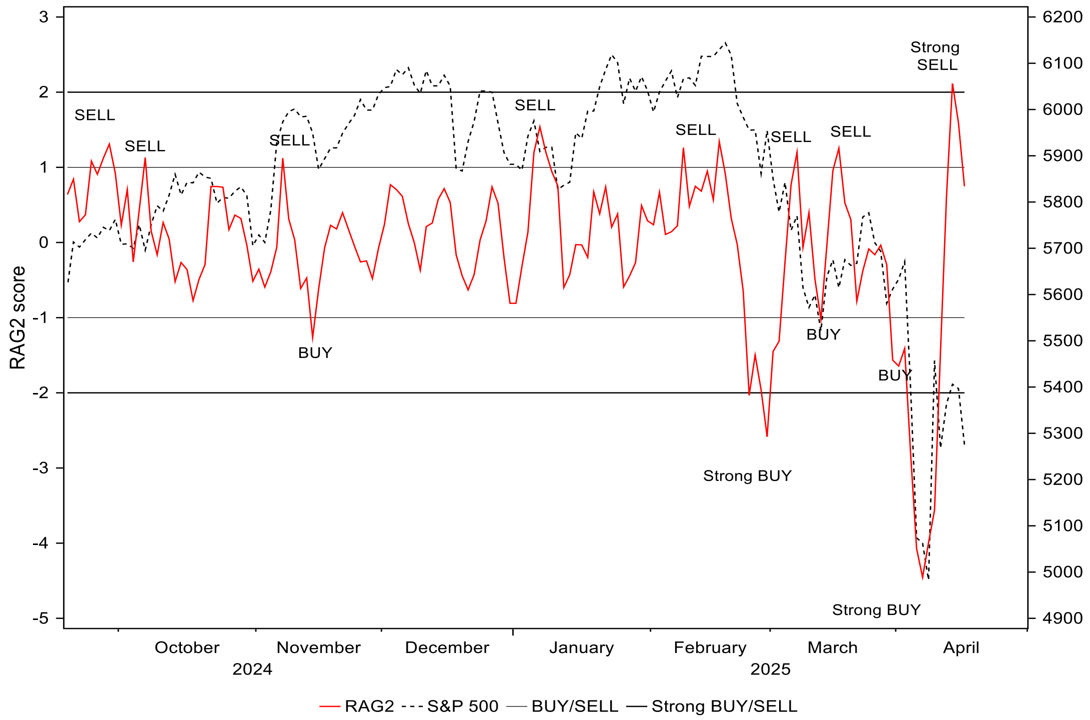
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

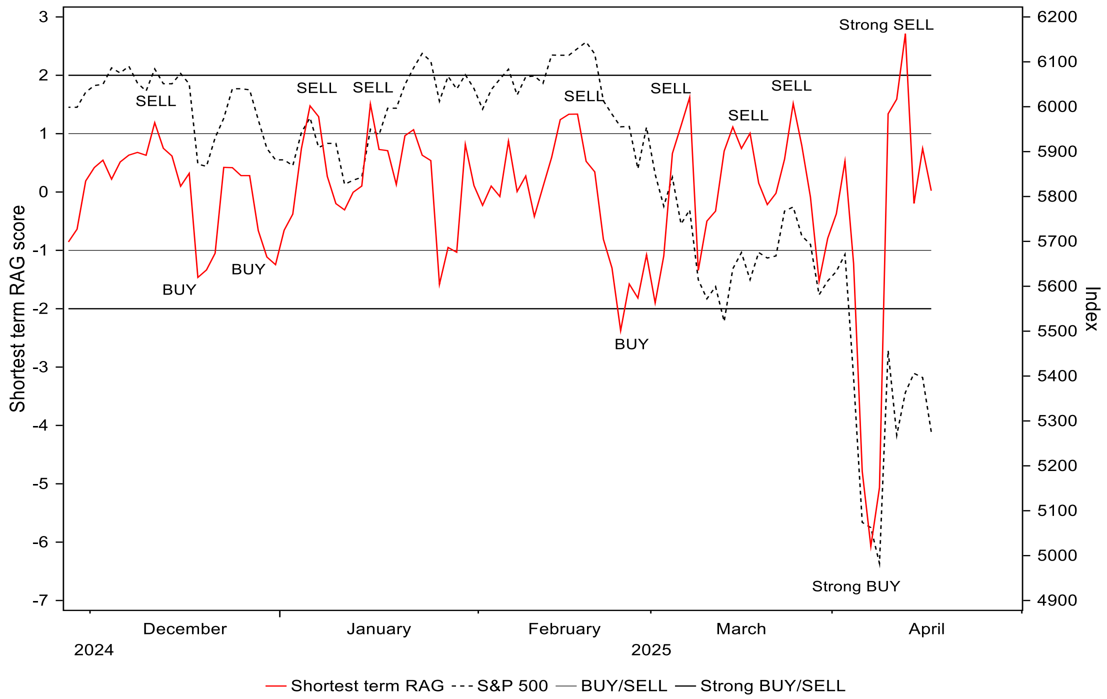


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

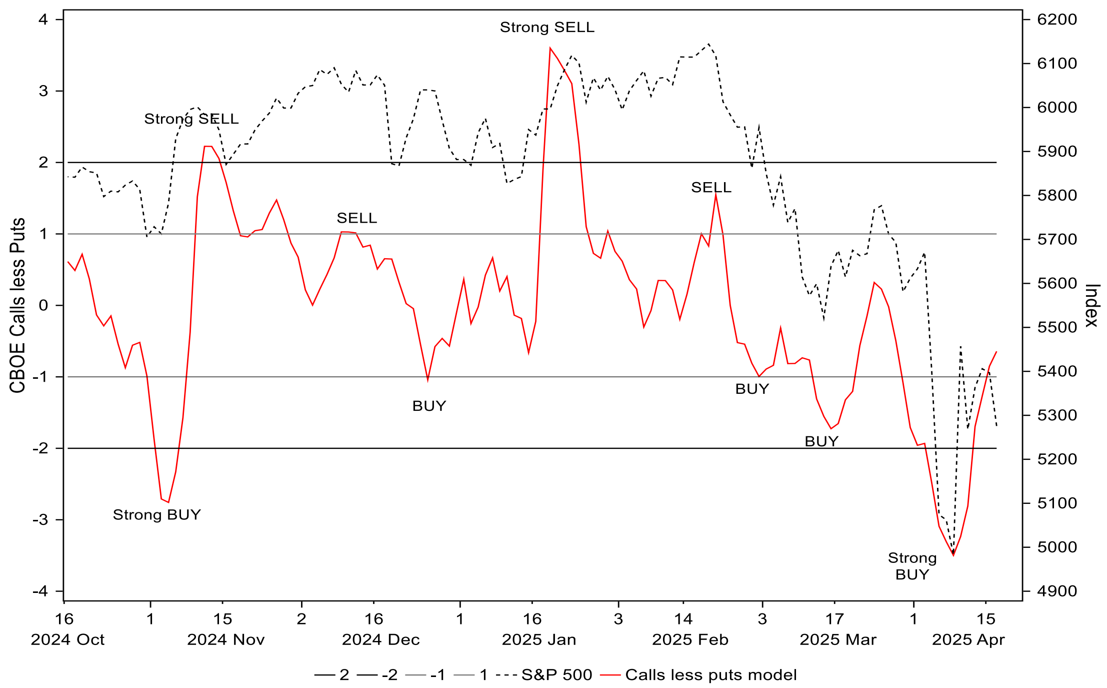
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

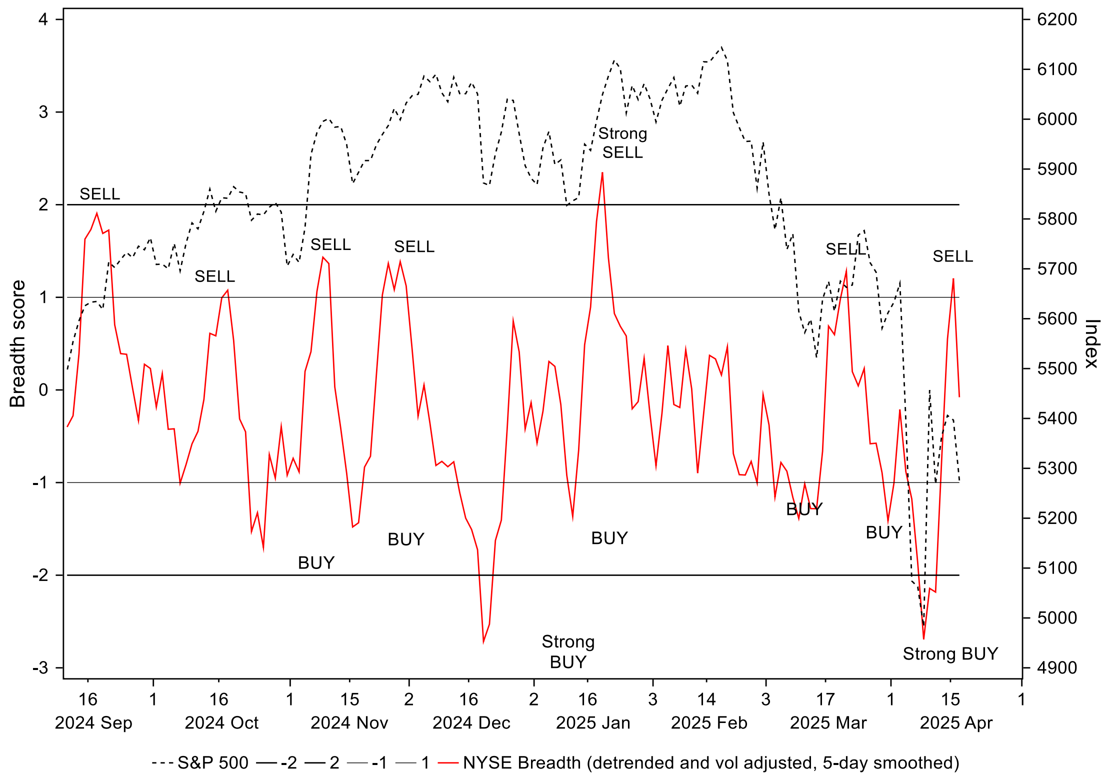


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



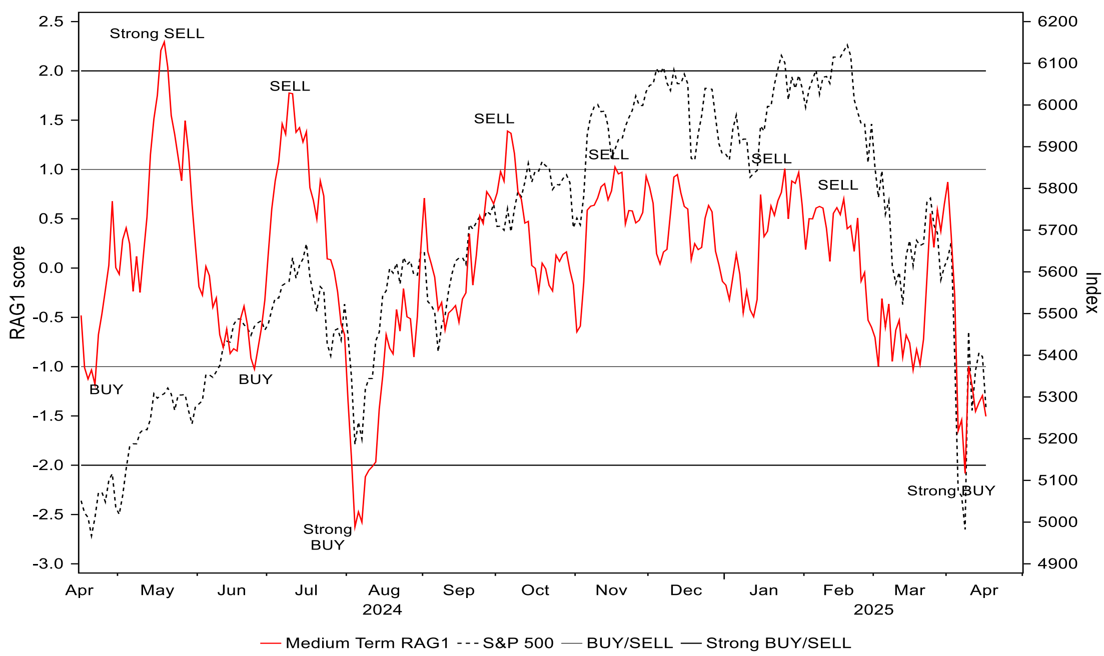
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

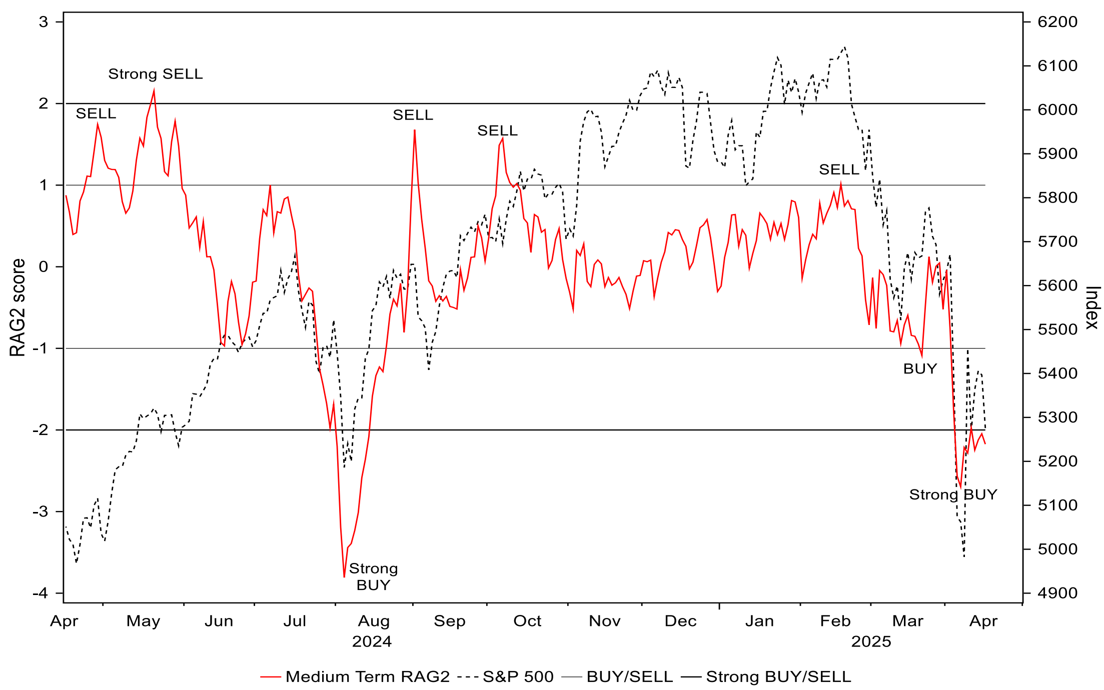
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is on BUY

Source: Longview Economics, Macrobond

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

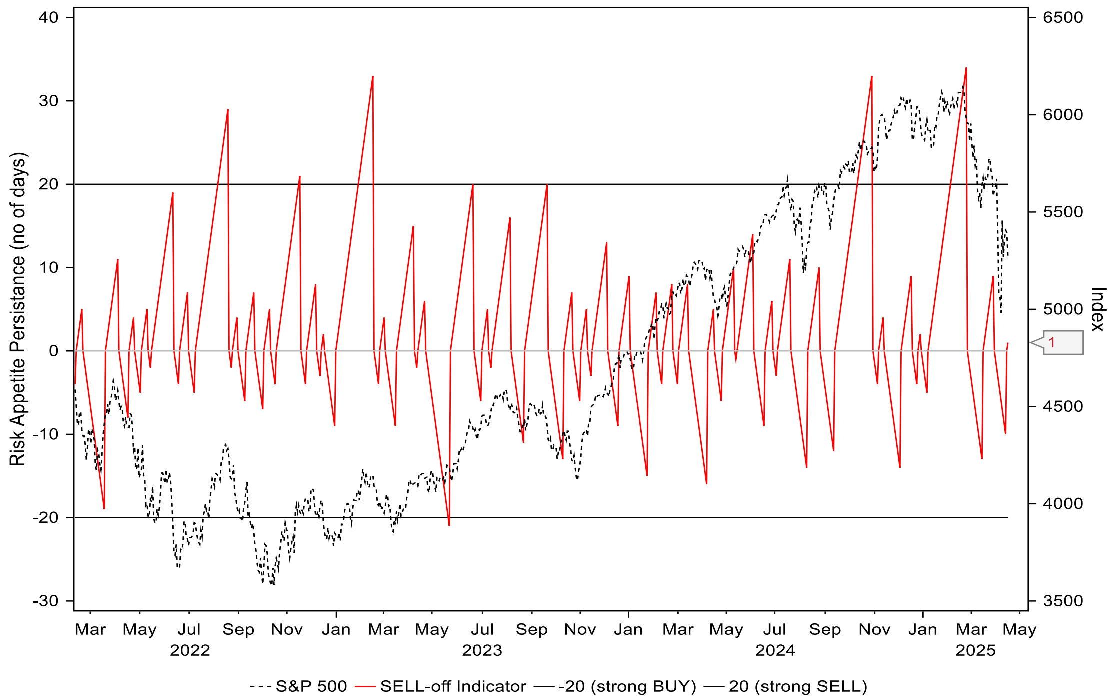


Medium term RAG2 is on Strong BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

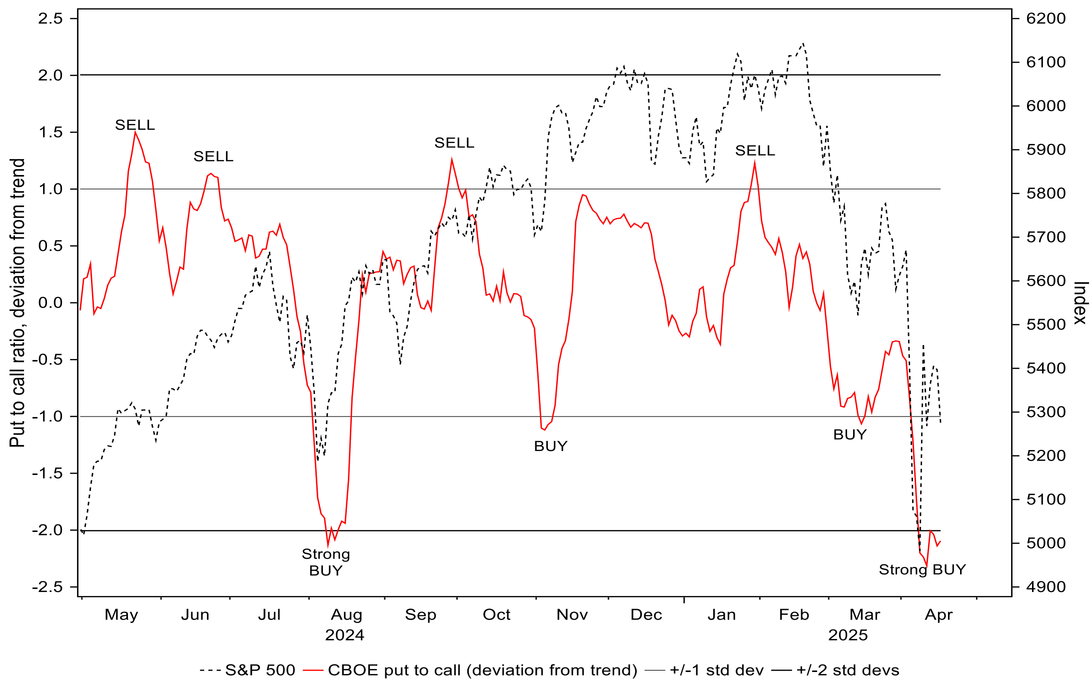
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

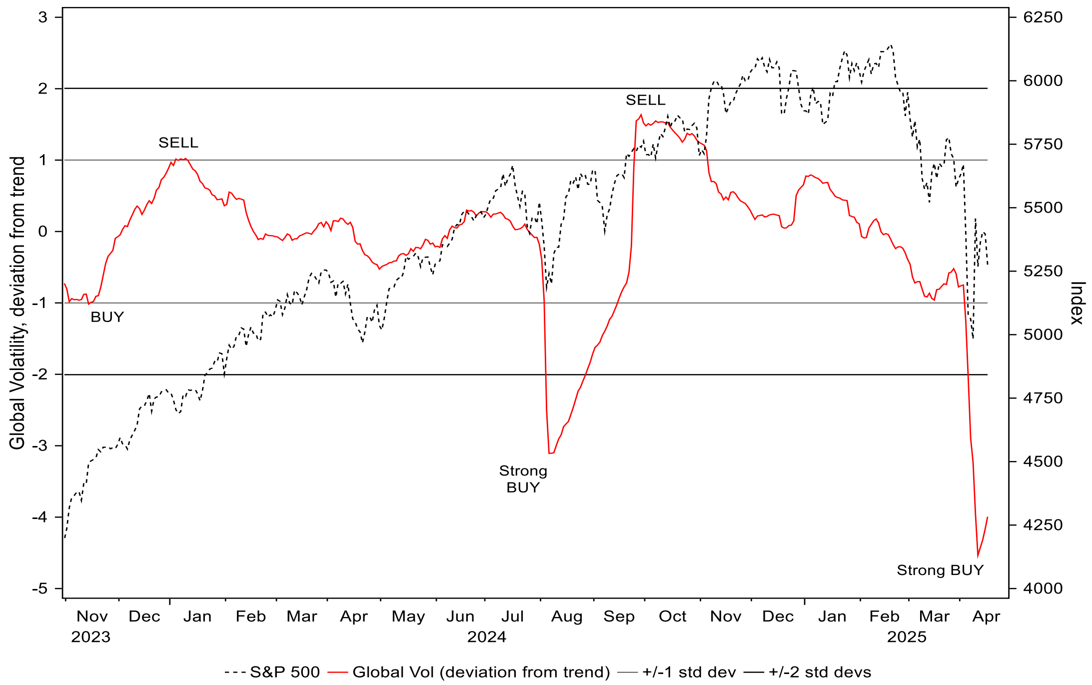


Source: Longview Economics, Macrobond

Medium term put to call model is on Strong BUY

For explanations of indicators please see page 10

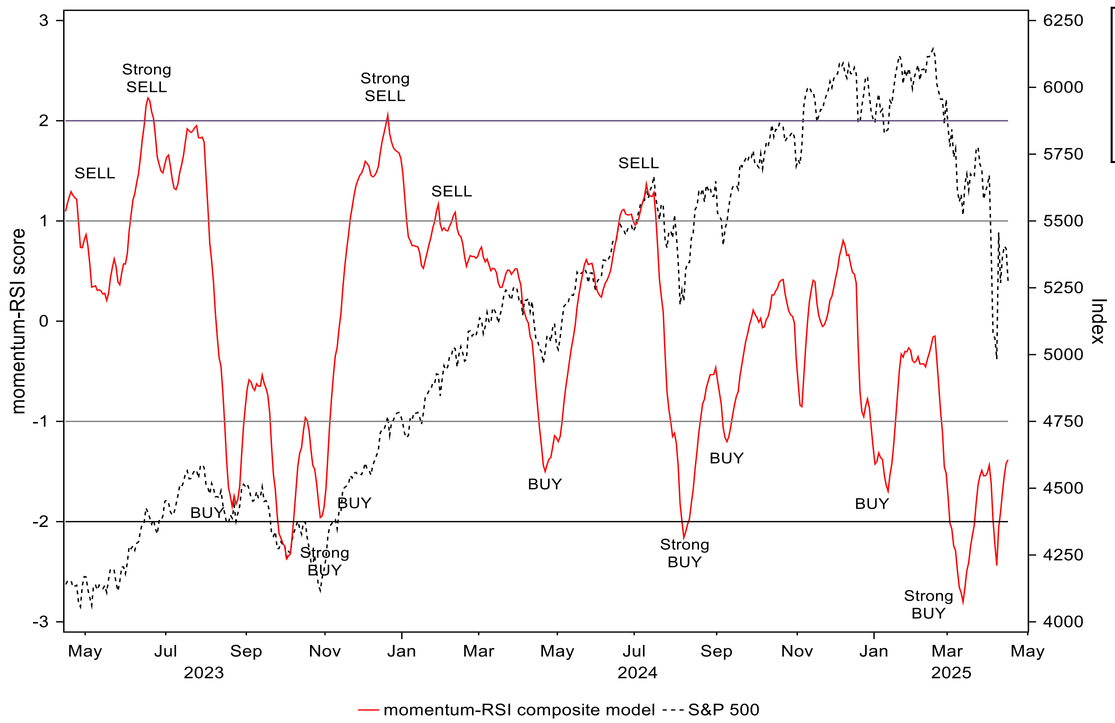
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on Strong BUY

Source: Longview Economics, Macrobond

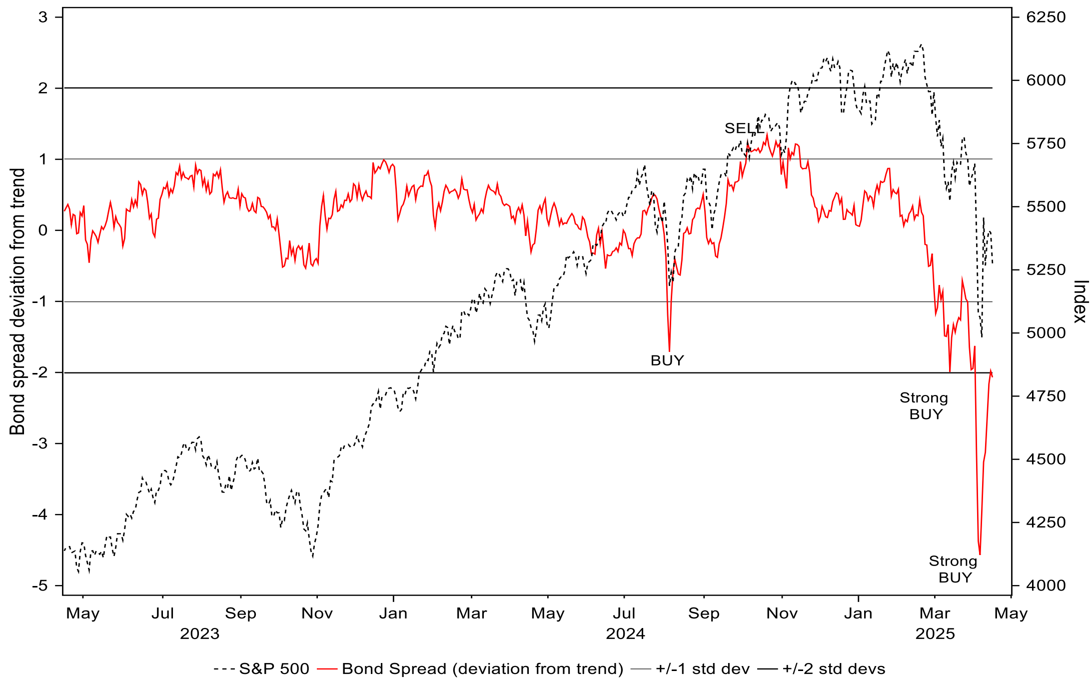
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

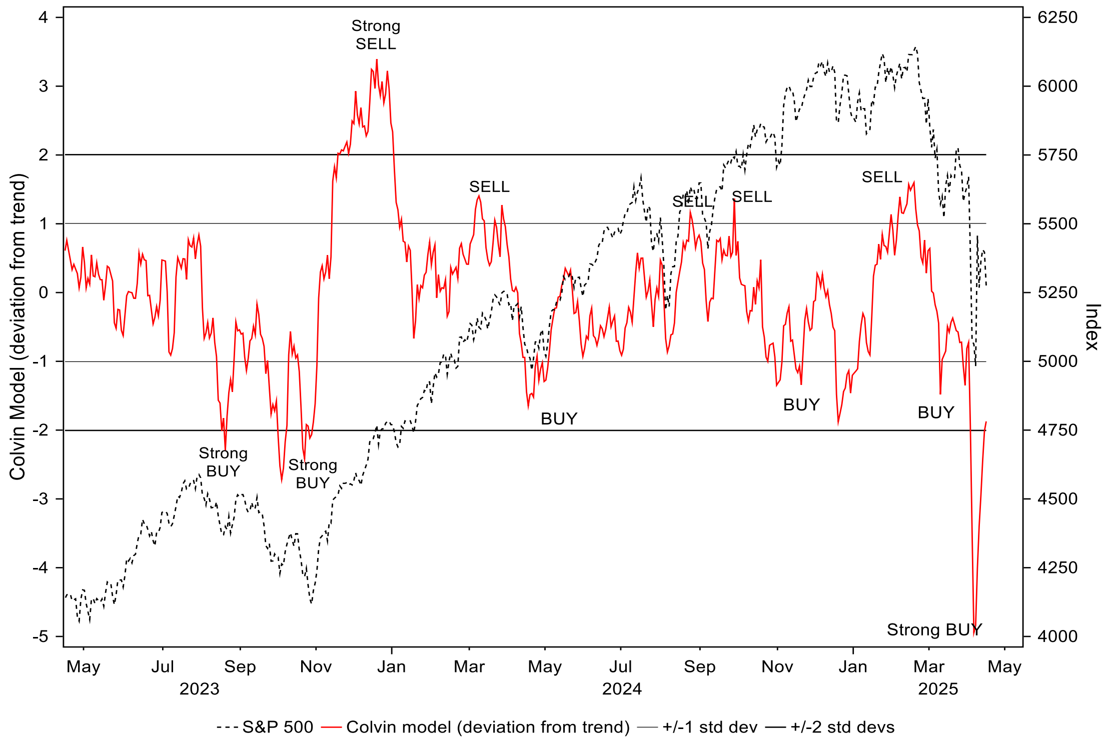
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on BUY

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



Source: Longview Economics, Macrobond

Colvin model – is on 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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