

Equity Index Futures Trading Recommendations

17th February 2025

“Limited Commentary/US Market Holiday Today - Updated Models Attached”

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Today is a US holiday (President’s Day). All key US equity markets are closed during the US session/normal trading hours. As such, commentary below is limited (brief).

All the models shown are updated for Friday’s close (NB GIP charts also include overnight prices). Full commentary will resume tomorrow morning.

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 the initial ¼ SHORT position implemented on 4th Feb at 5,999.25 and increased to ½ last week on Thursday at 6,100.

Rationale

US markets are **closed today** during normal US trading hours in observance of US President’s Day. They will open as normal again tomorrow. Overnight in Asian trading hours, though, US equity futures have been trading (& are currently modestly higher).

Key features last week included the price action in US 10-year bond yields and the dollar. Bond yields initially spiked higher mid-week on the worse than expected US CPI data (FIG 1). They then moderated later in the week on the back of: i) Thursday’s US PPI data; & ii) Trump’s comments about delaying the implementation of tariffs. With that, the dollar also continued its weakening phase last week (which started on 13th Jan – FIG 1a), falling sharply on Thursday and Friday. That dollar weakness added to equity strength, as global equity markets rallied to new record closing highs. Euphoric price action continued in various global equity markets (especially European but also some Chinese markets). The EuroSTOXX 600, for example, closed at a new record high on Thursday last week (up approx. 9% YTD); the DAX remained notably strong (+12% YTD); while the Hang Seng is also +12% YTD. That euphoric price action is consistent with the build higher in the SELL-off indicator (FIG 1d) and a heightened likelihood of a reversal of that price action (i.e. a wave of risk aversion). S&P500 futures remain within their range of the past 3 months (albeit they are currently close to the top end of that range).

The models shown below have been updated (FIGs 1d, 1e, 2, 2a & 2b). Our view on the direction of the S&P500 remains as per Friday (i.e. we are SHORT/see trading recommendation above). Full commentary will resume tomorrow.

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

Kind regards,

The team @ Longview Economics

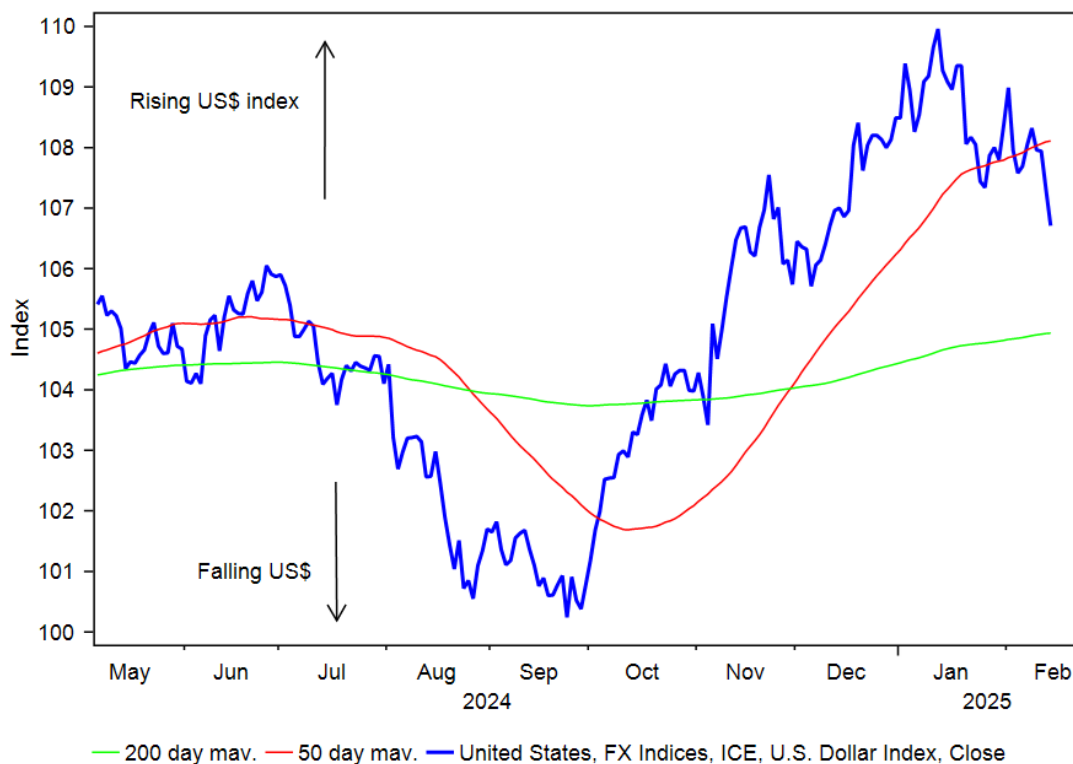
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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: US 10-year Treasury yield (%), shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

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

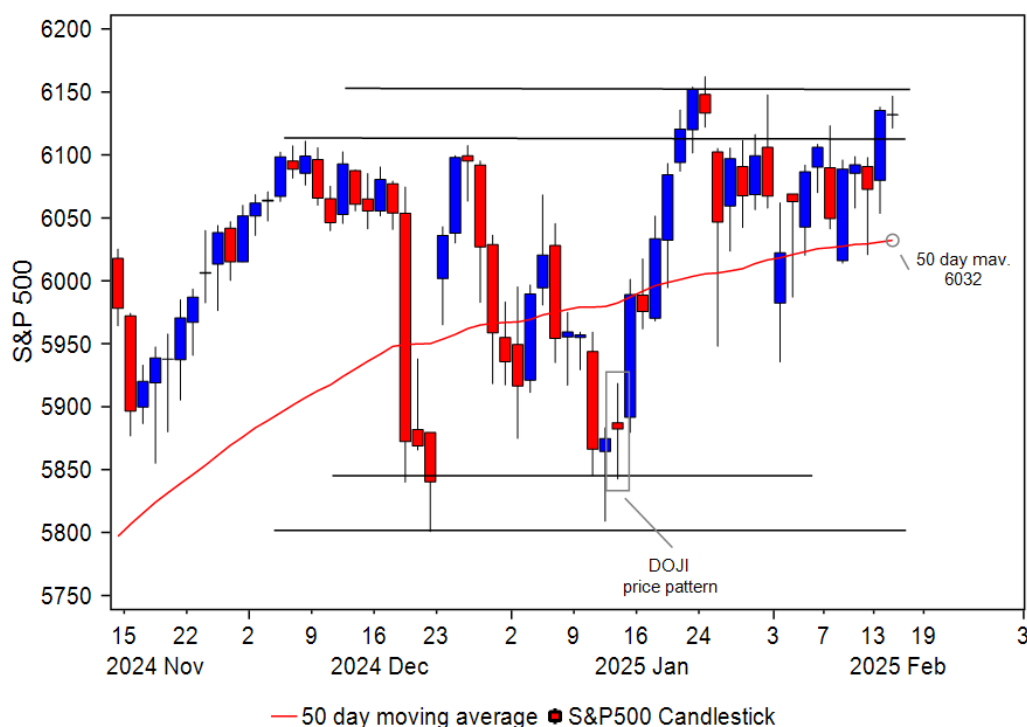


Source: Longview Economics, Macrobond

FIG 1b: S&P500 March 2025 futures 60-day tick chart shown with overnight price action

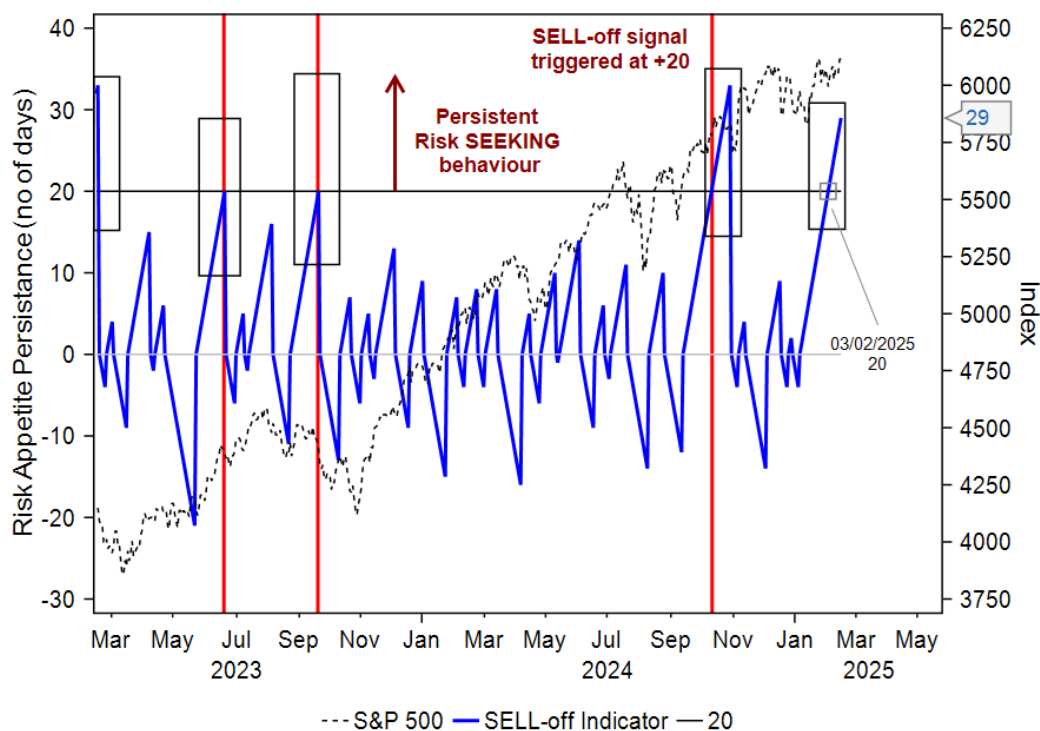


FIG 1c: S&P500 futures candlestick shown with its 50 & 200 day moving average



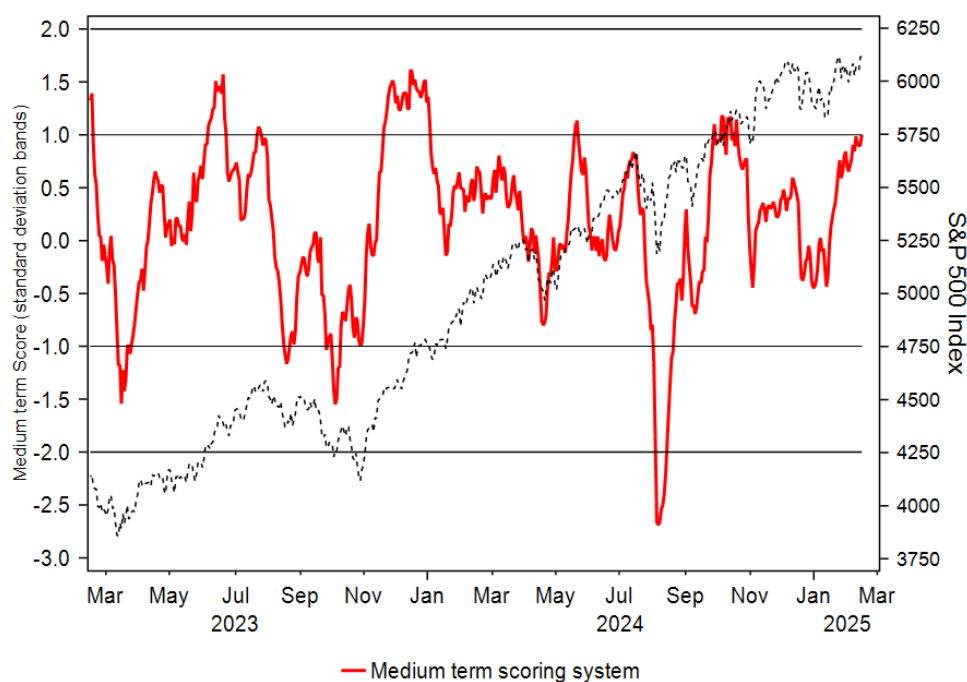
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

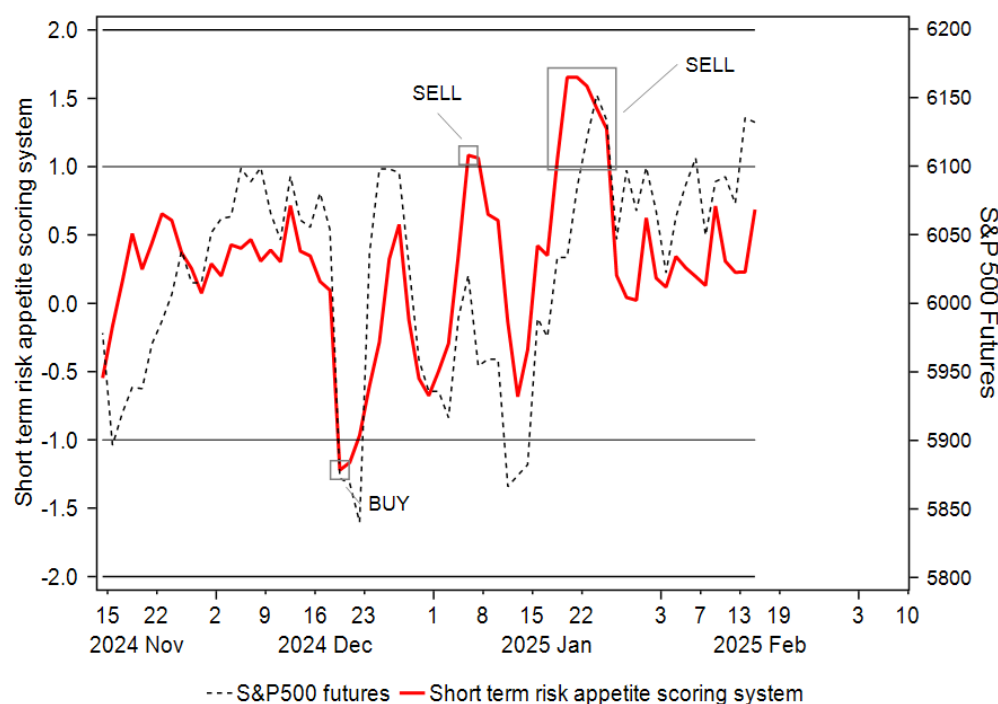
FIG 1e: Medium term risk appetite scoring system vs. S&P500



Source: Longview Economics, Macrobond

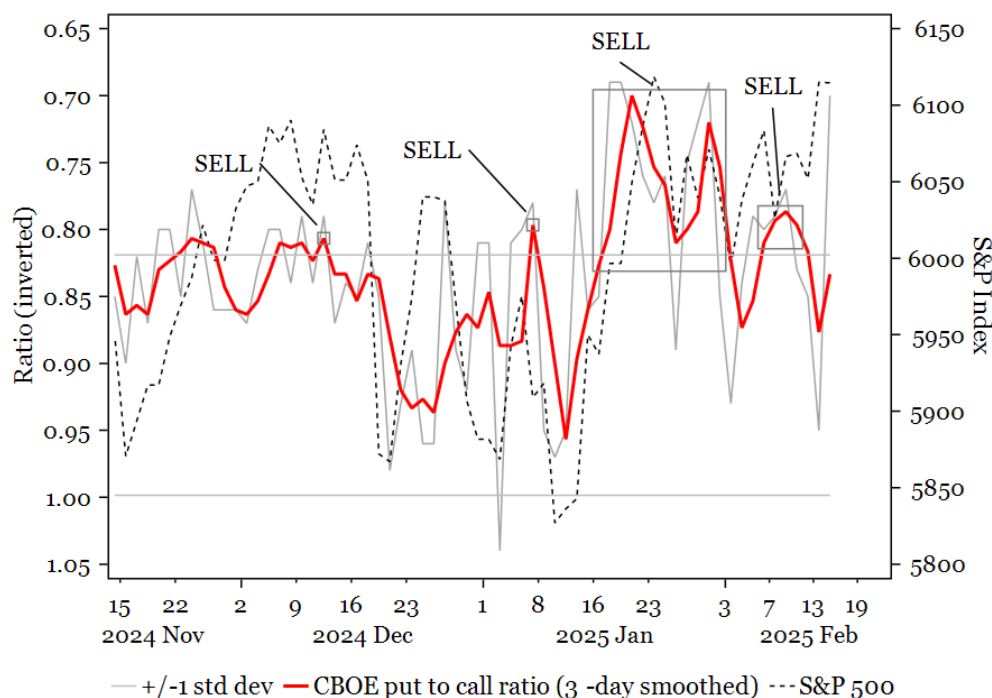
Short term models are leaning towards SELL...

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



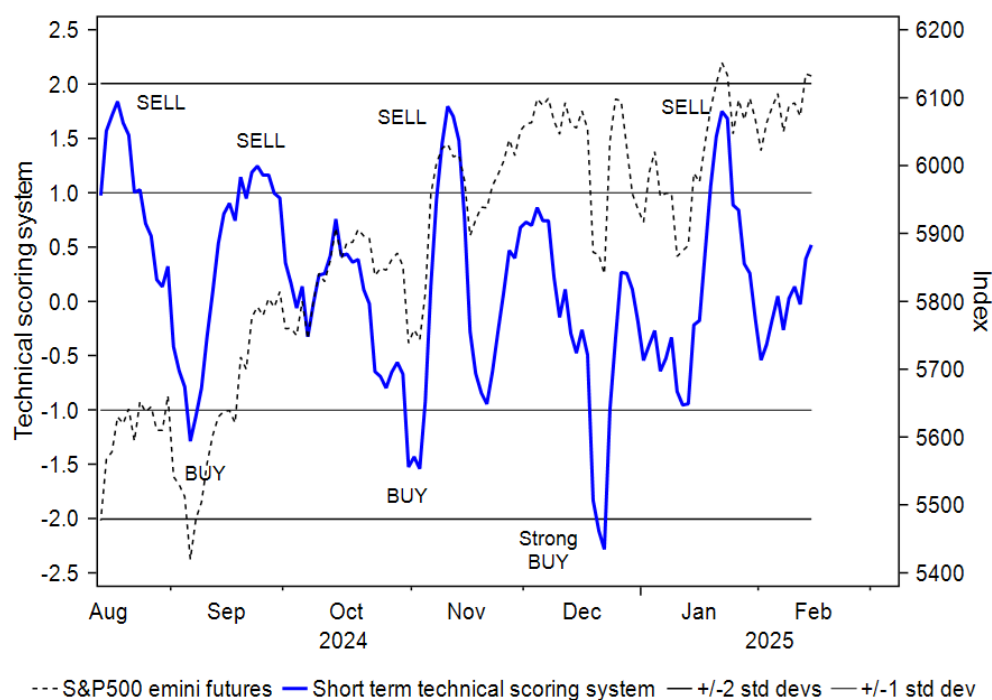
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



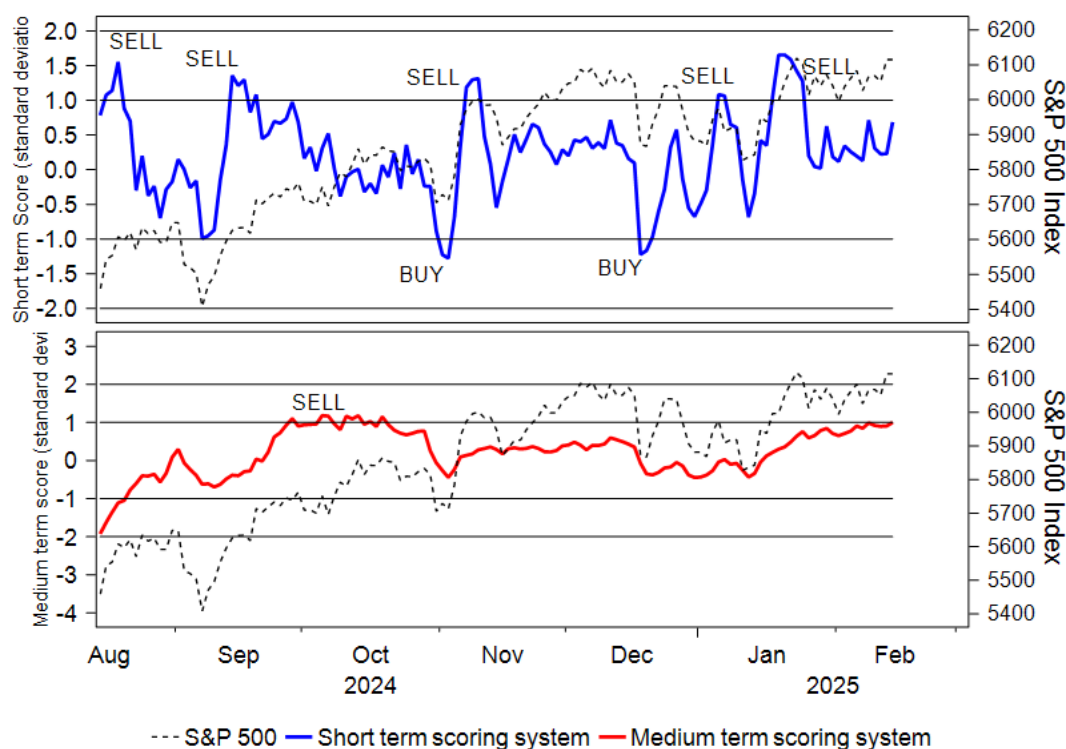
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: UK Rightmove house prices (Feb, 12:01am); Japanese industrial production & capacity utilisation (December final estimate, 4:30am); Eurozone trade balance (Dec, 10am); Canadian housing starts (Jan, 1:15pm).

Key events today include: Speech by the ECB's Nagel on the German Economy (11am); speeches by the Fed's Harker on the economic outlook (2:30pm) & Bowman to American Bankers Association (3:20pm); **market holiday in the US** on account of Presidents' Day & in Canada on account of Family Day.

Key earnings today include: BHP Group Ltd, Westpac Banking.

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 3rd February 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.



LV RAG
Daily Risk Appetite Gauge

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1 – 2 Week View on Risk

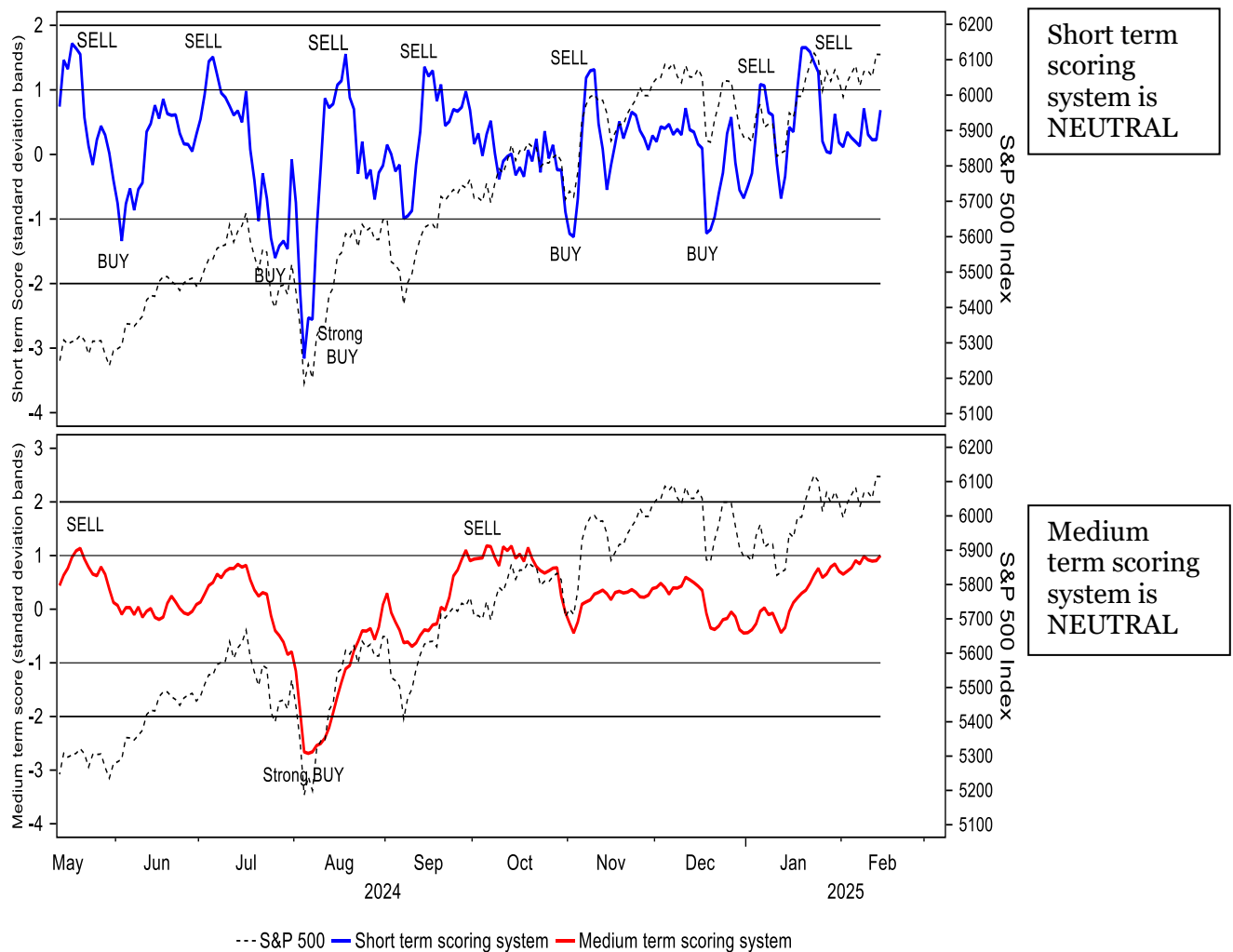
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17th February 2025

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

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



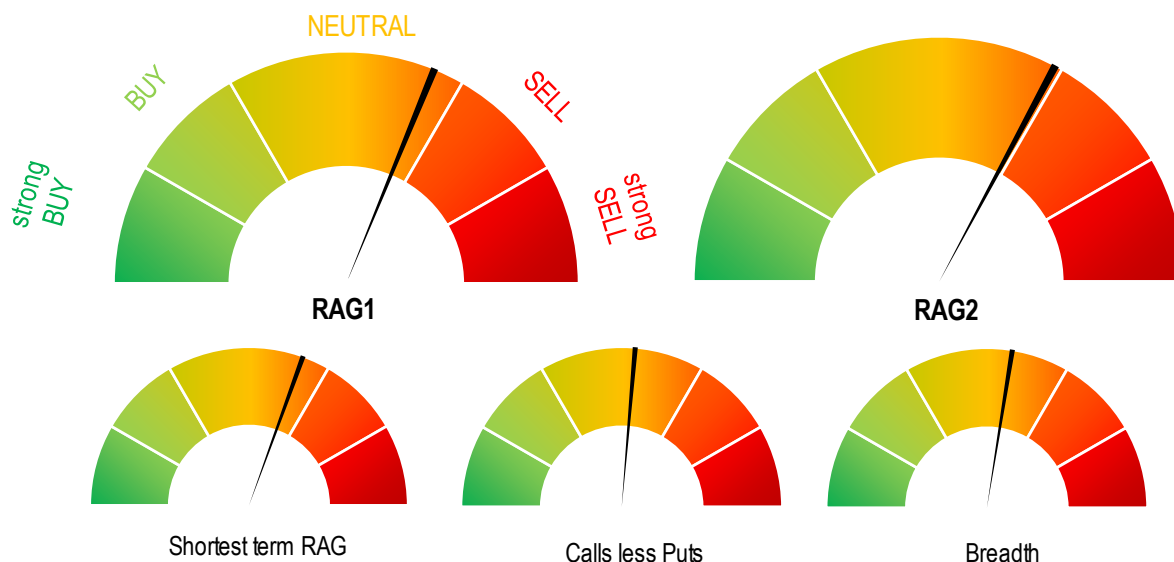
Source: Longview Economics, Macrobond

*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**

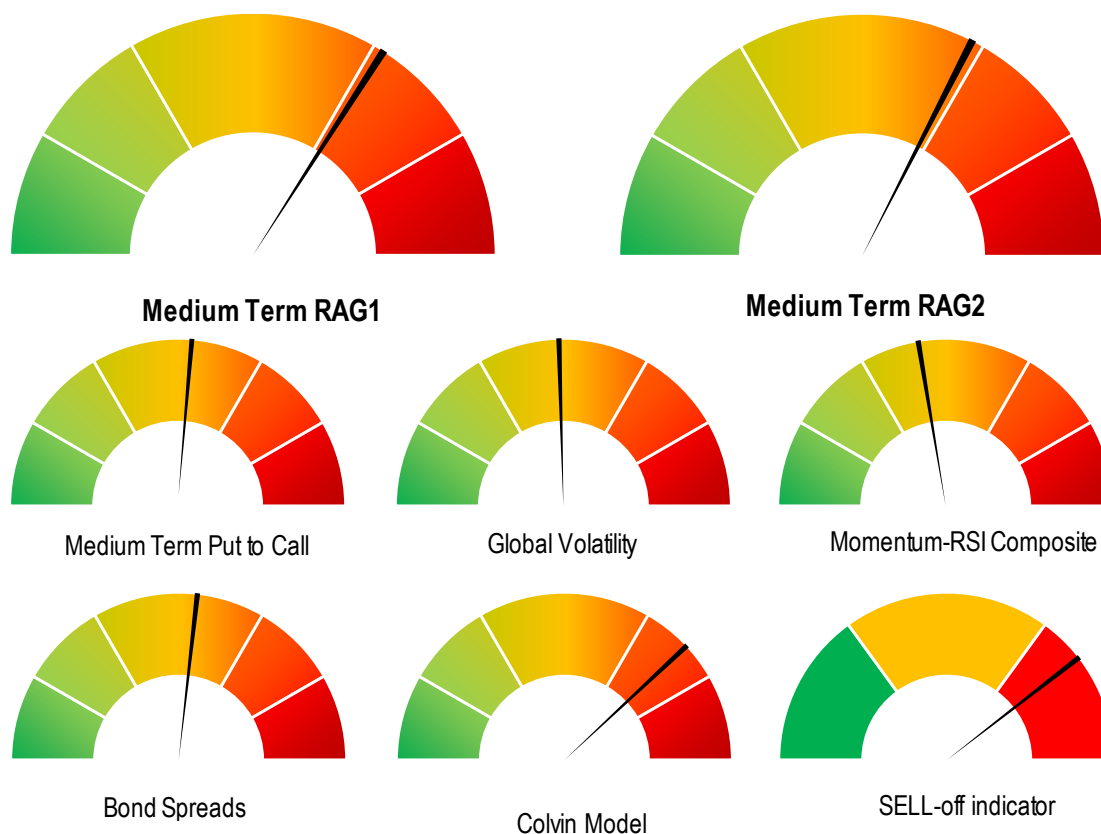
Section 1a: Summary of indicator signals**

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

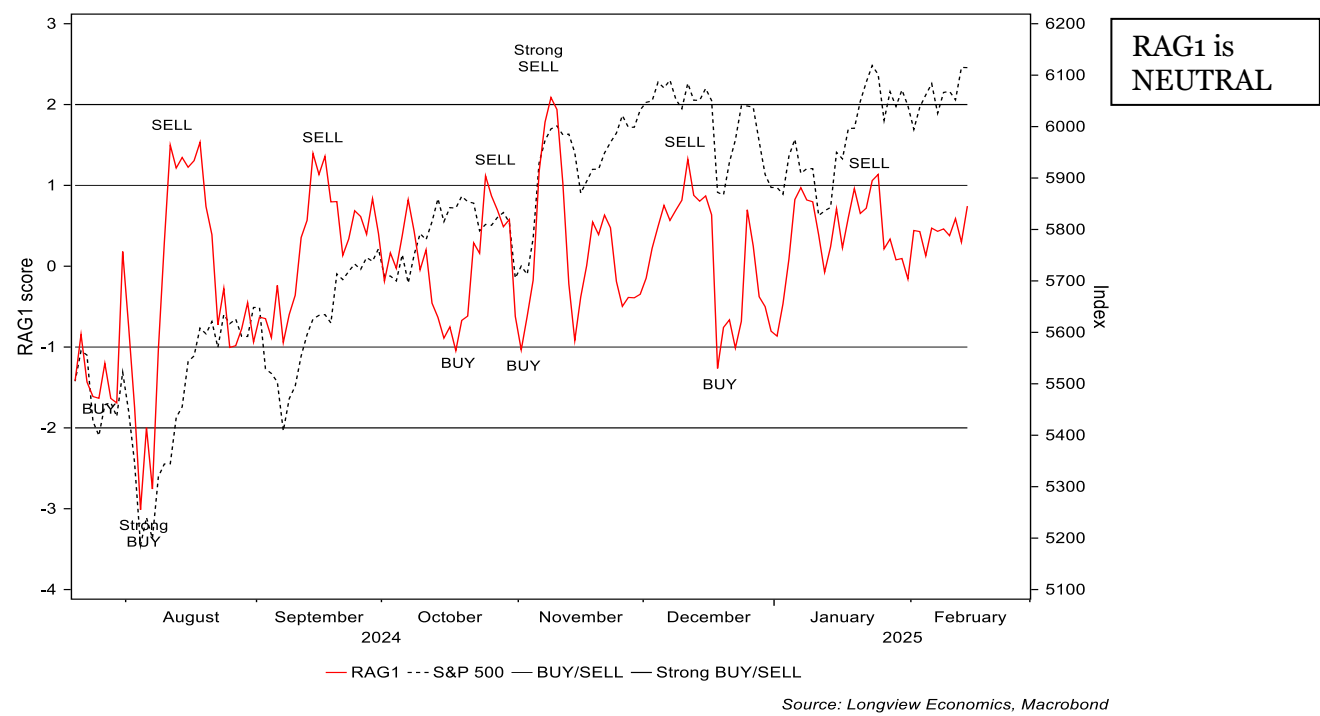
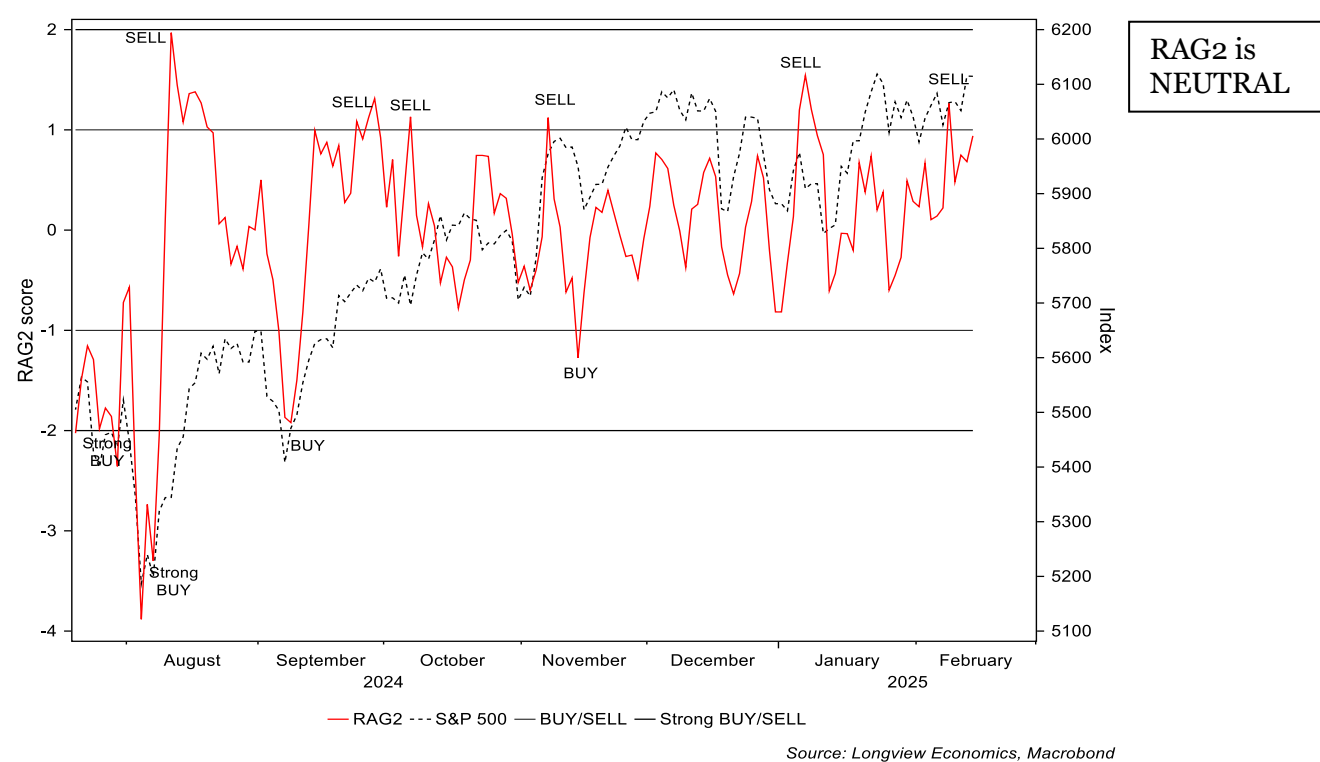


Fig 2b: RAG 2 vs. S&P 500



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

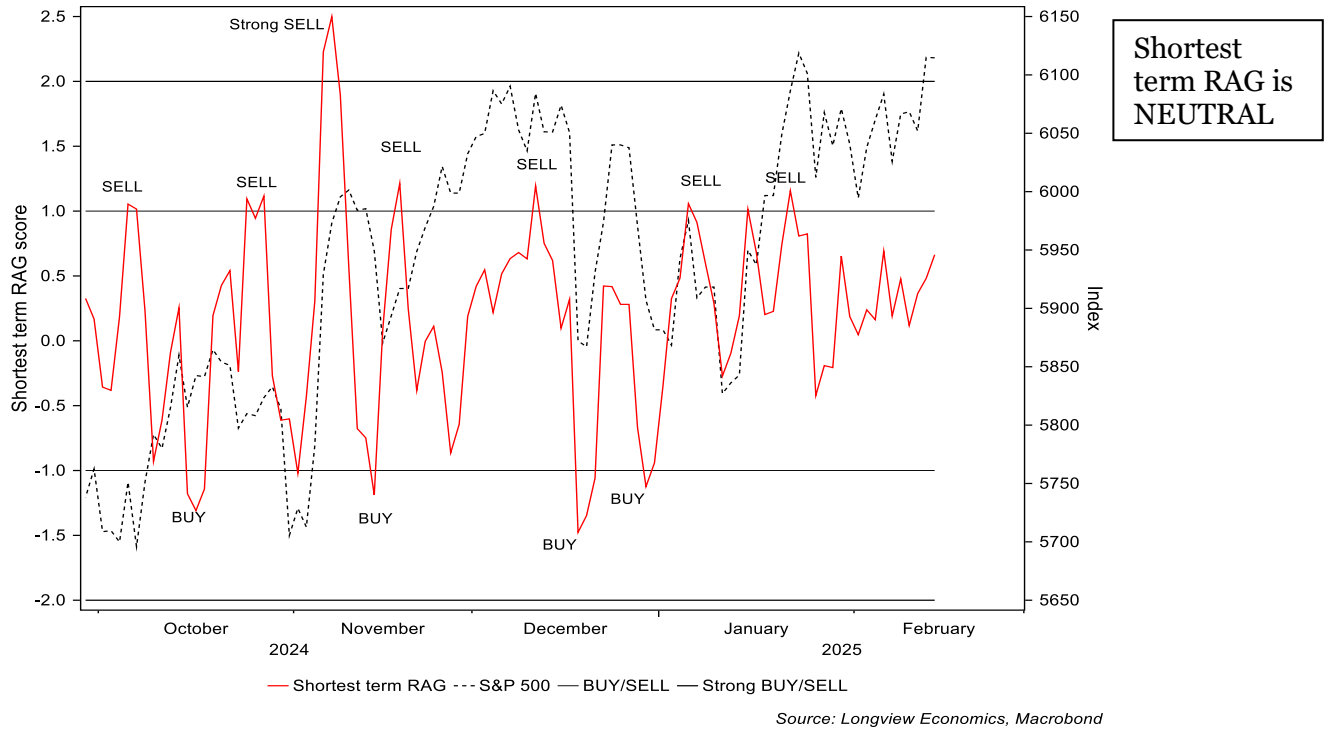
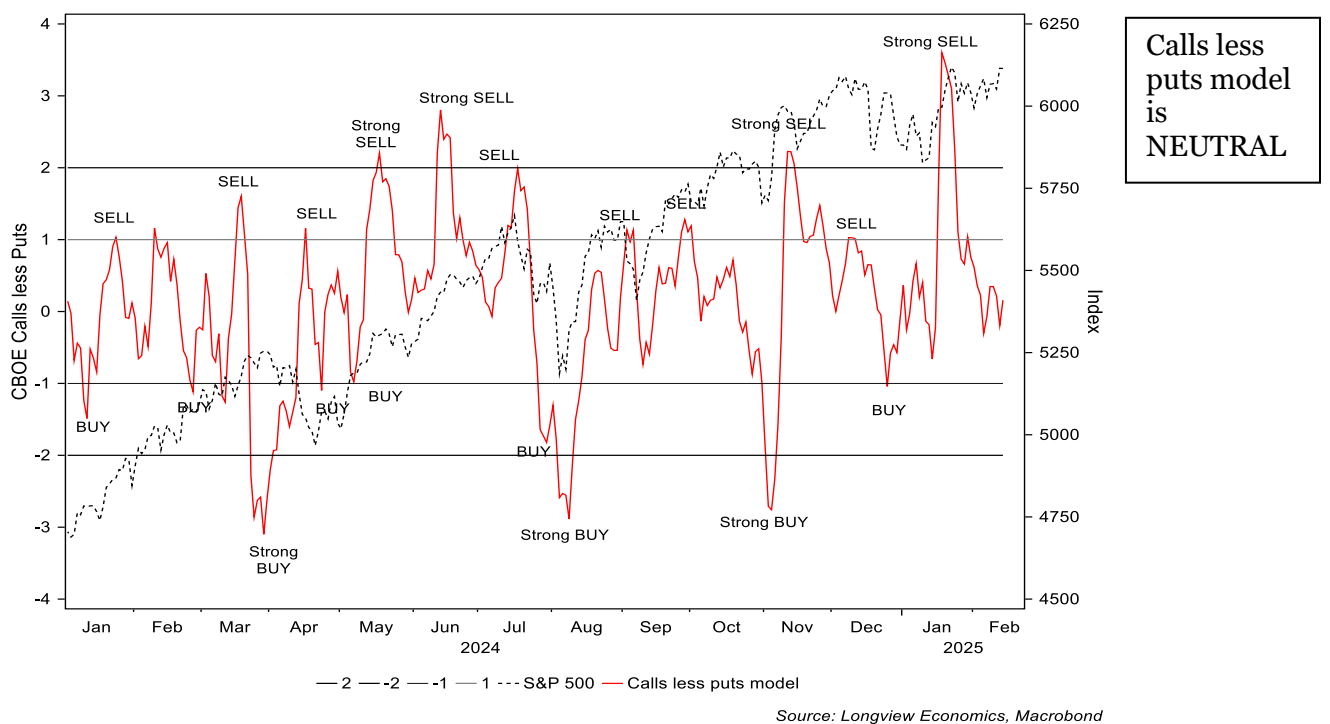
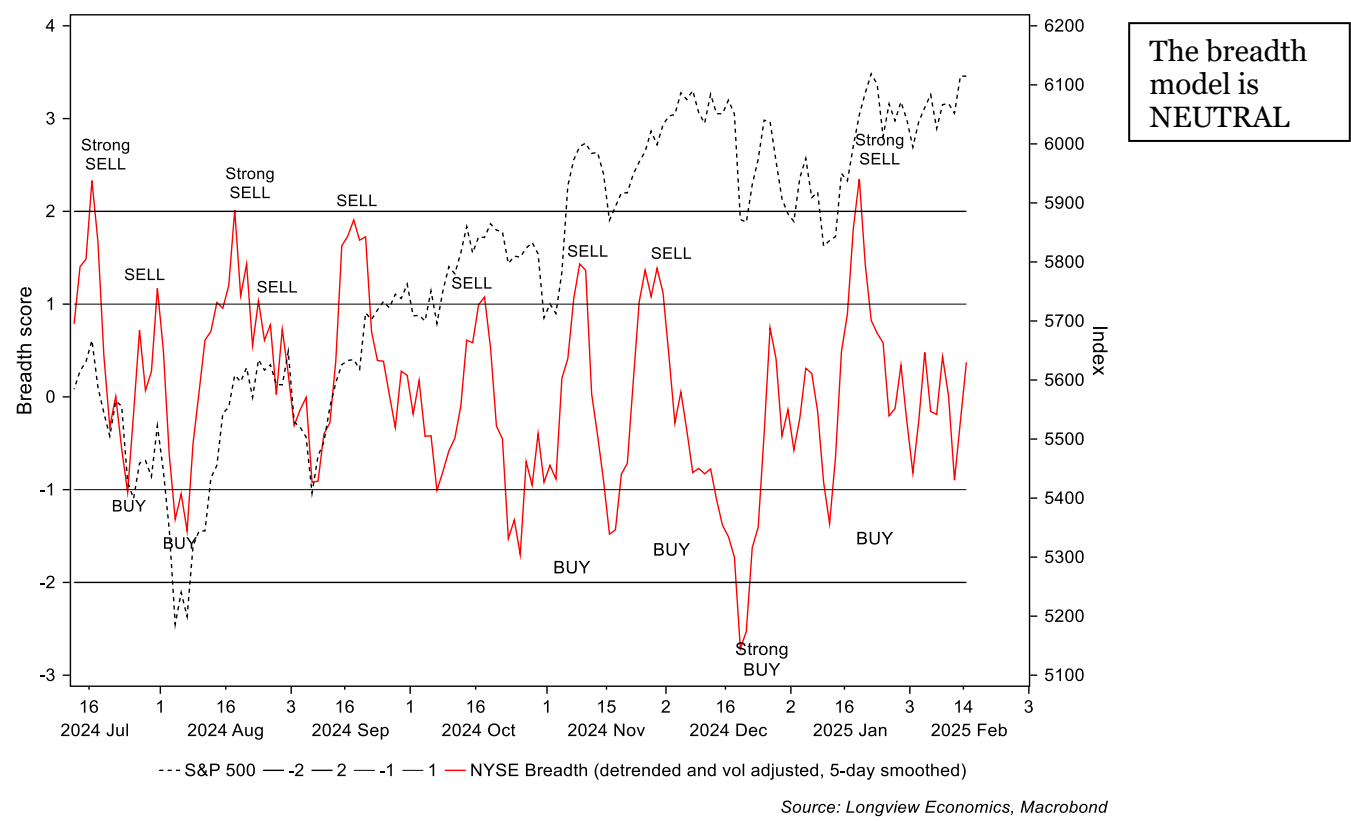


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

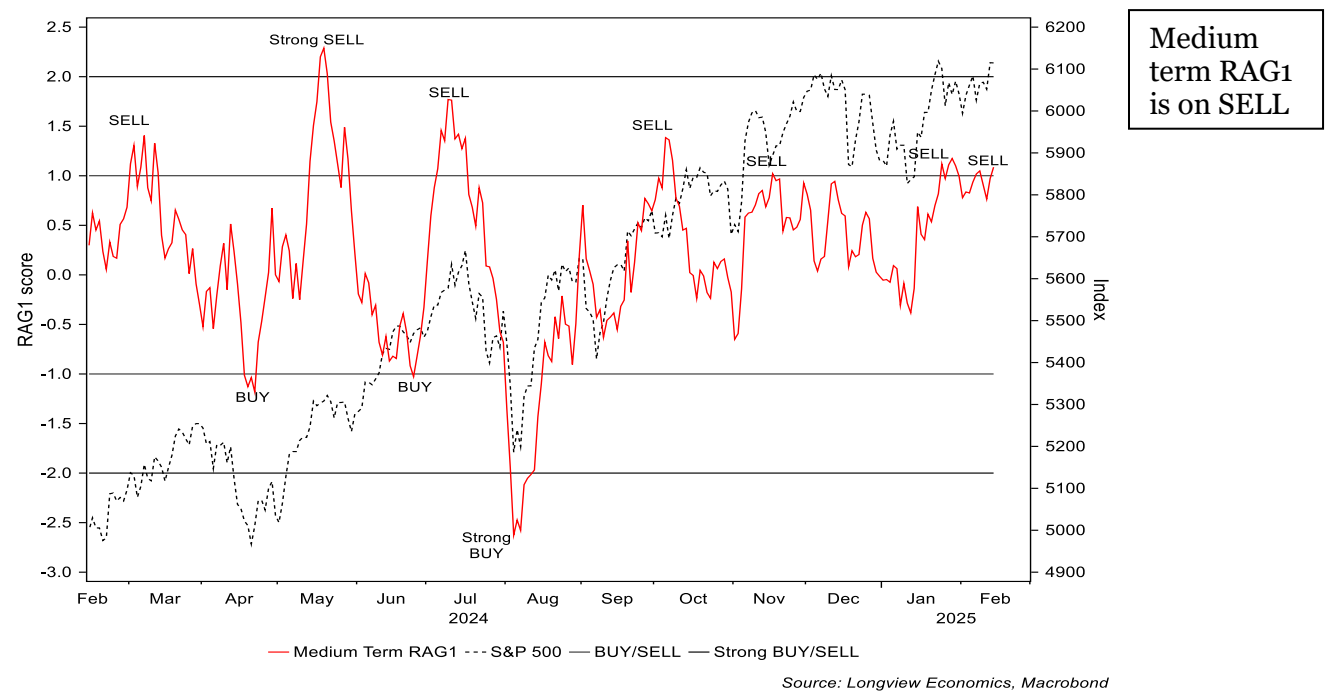
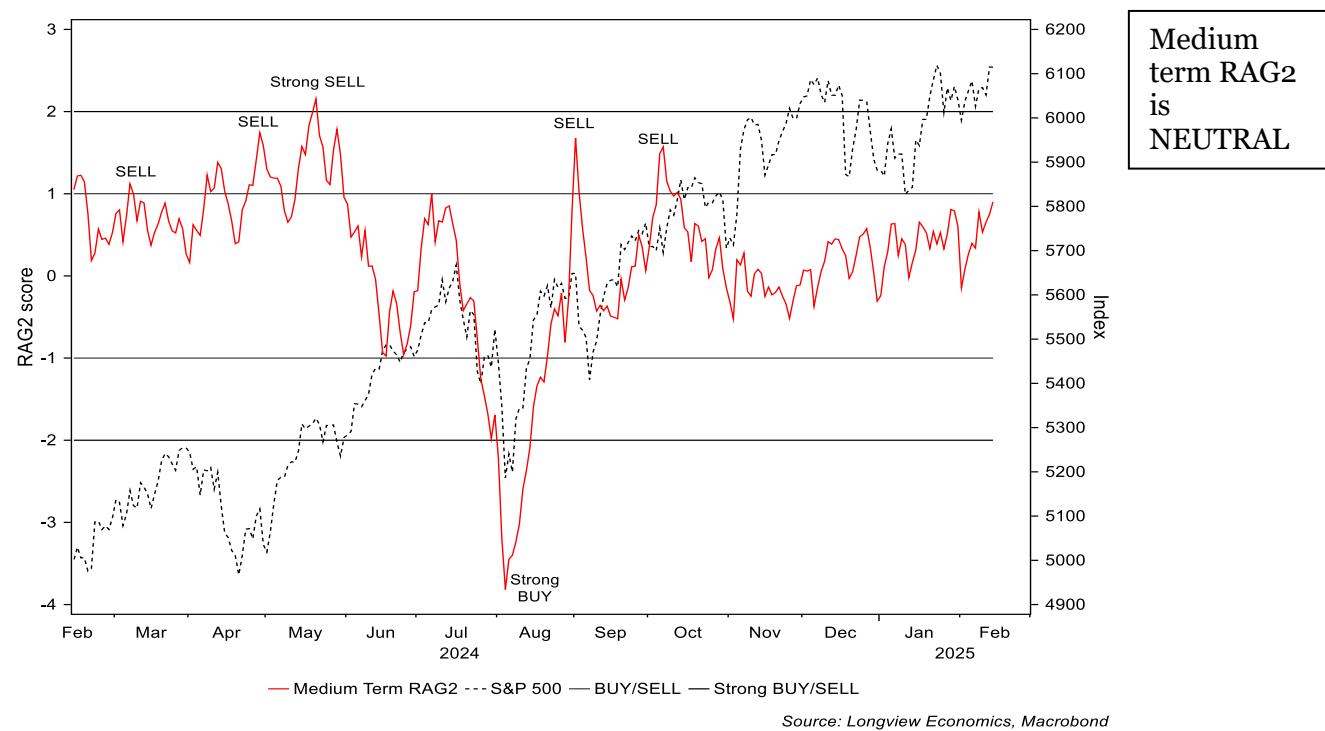


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

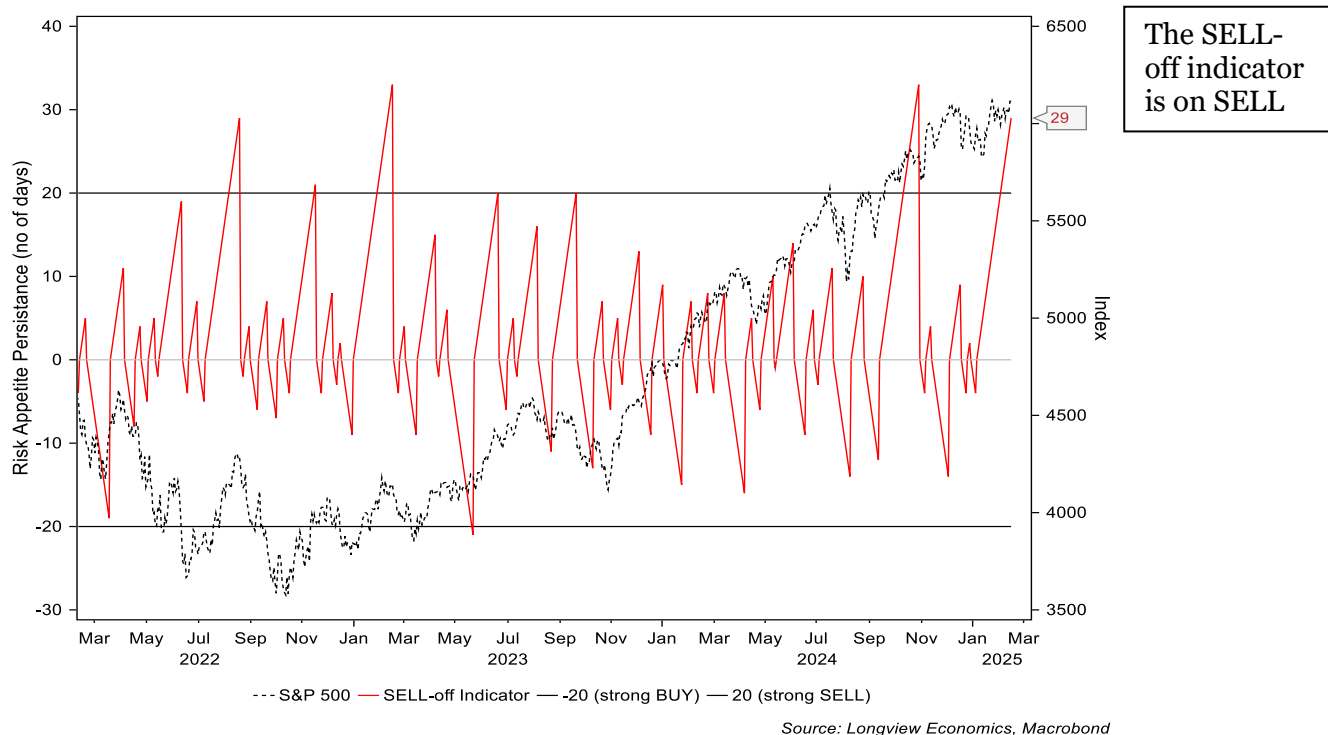
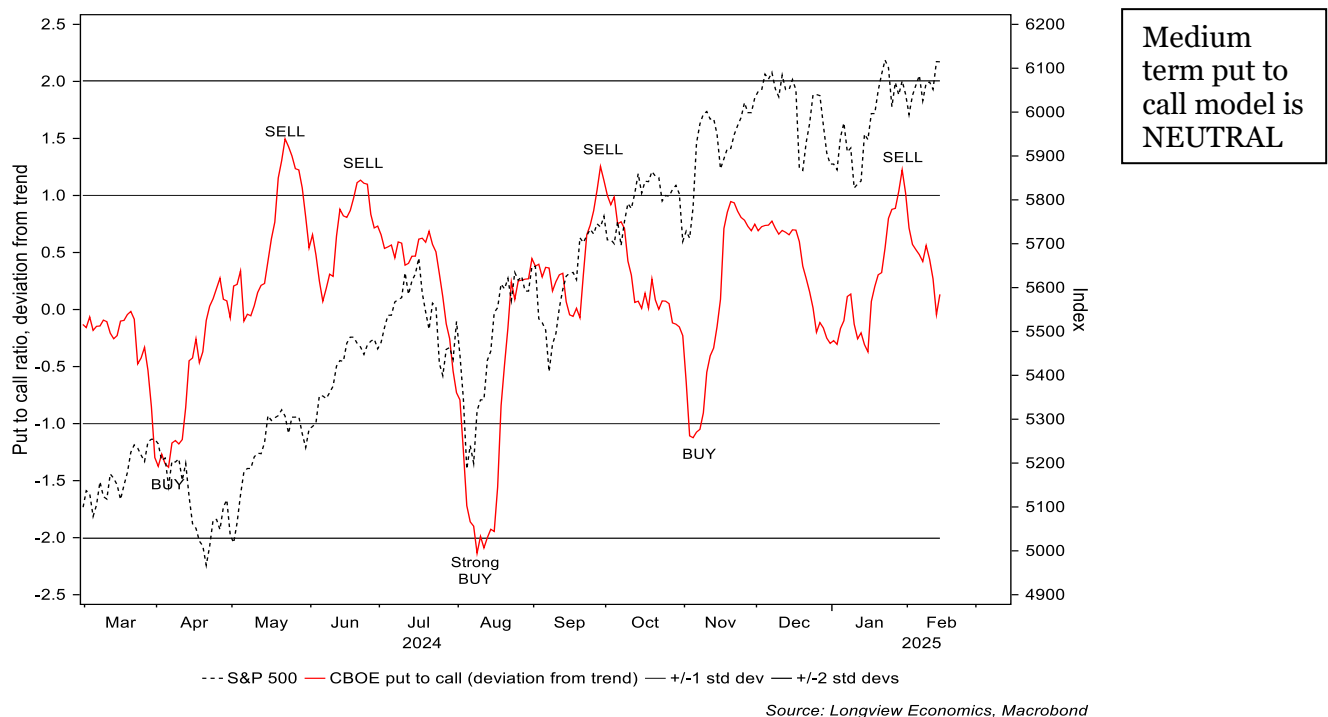


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

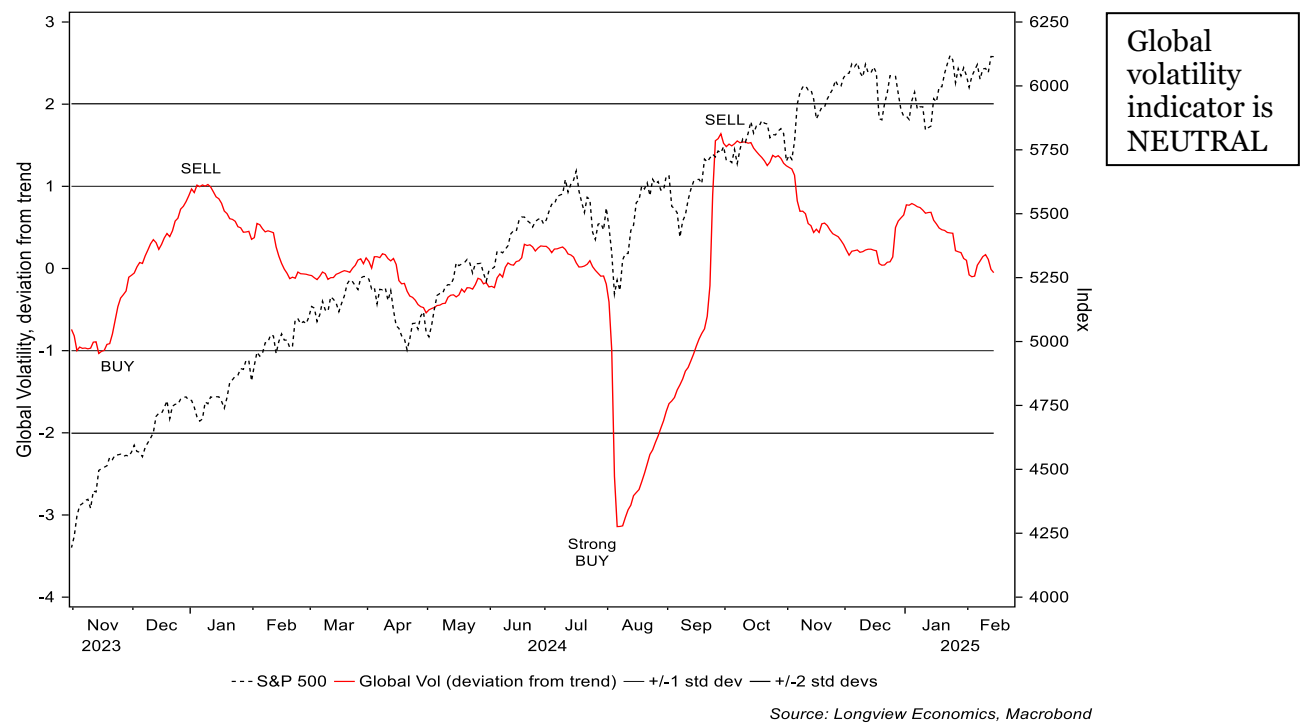


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

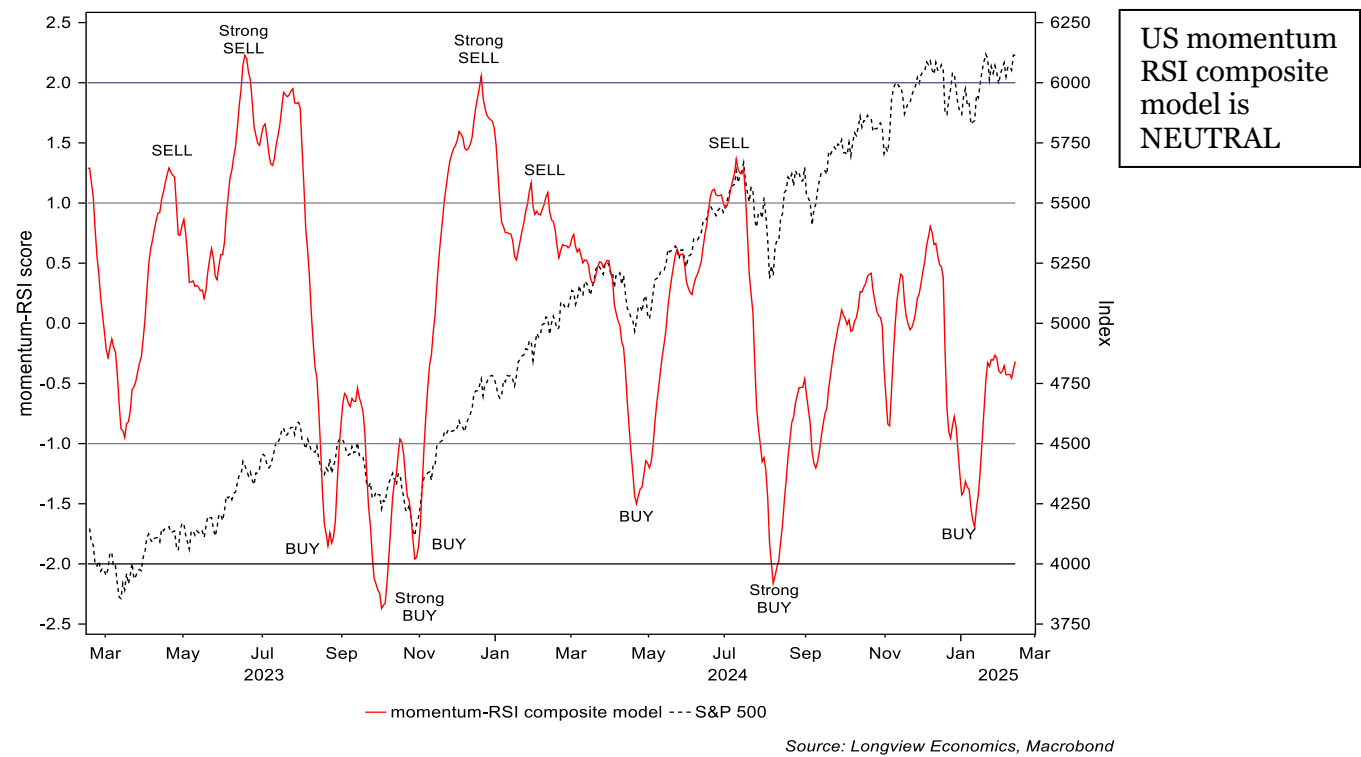


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

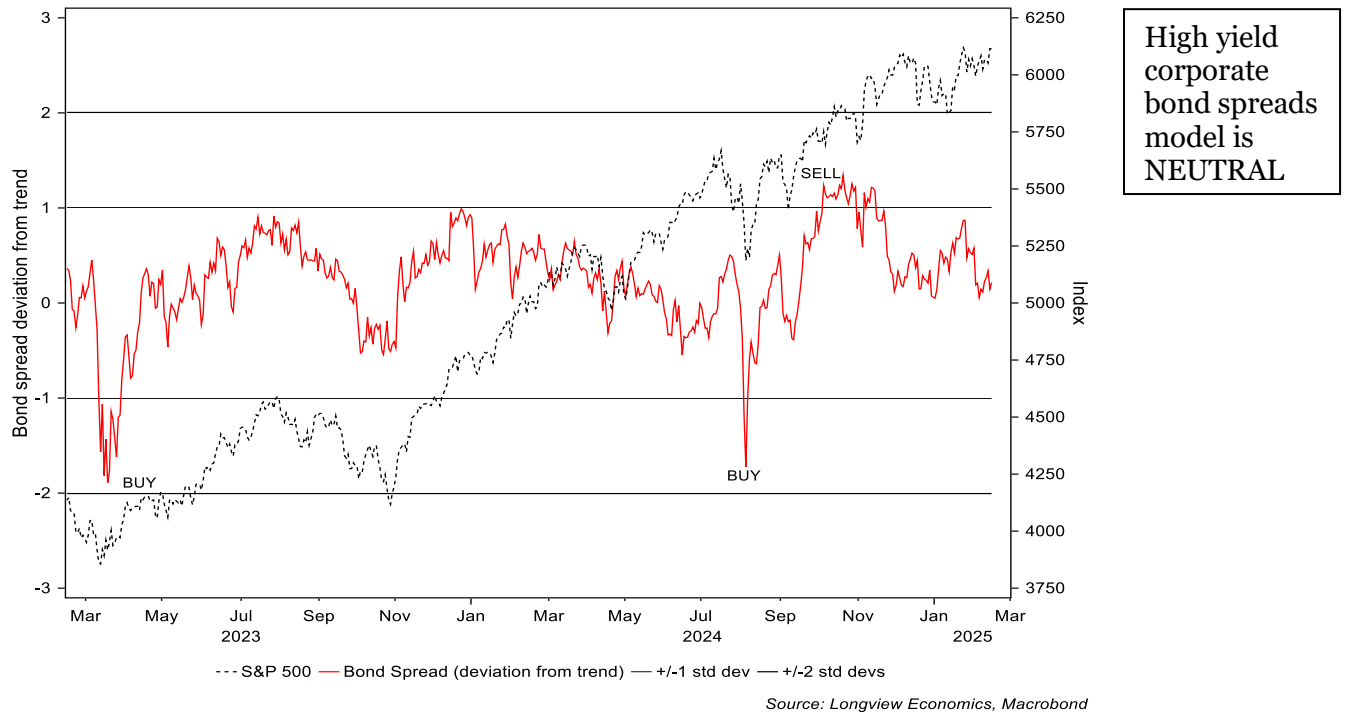
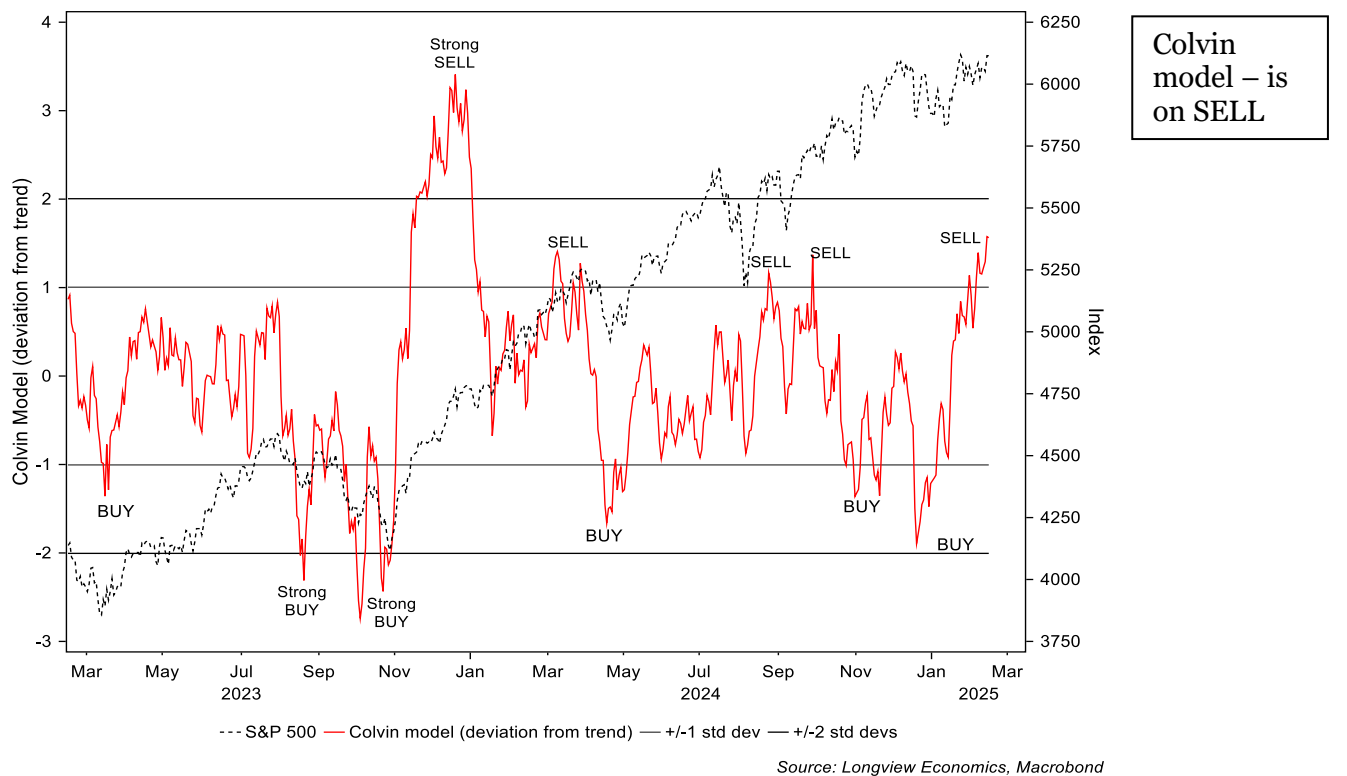


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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