

Equity Index Futures Trading Recommendations

17th March 2025

“Case BUILDing for 'Wave Two' Relief Rally”

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

- Close 1/4 SHORT DAX March futures at current prices (entry was 10 days ago at 23,133);
- Start BUILDing LONG NDX100 positions in June futures*.
- Start with initial 1/4 LONG June NDX100 futures on weakness (at 19,600 if forthcoming).
- Increase to 1/2 LONG at 19,400 (around lows of last week’s range).
- Implement 3% stop loss on combined entry.

*i.e. as March futures expire at end of this week.

Rationale

With the US market meaningfully lower in the past month and with various models generating BUY/strong BUY messages, **the case is building for a ‘wave two’ relief rally***. Indeed, arguably it began on Friday with US equity markets bouncing sharply (SOX +3.3%; NDX100 +2.5%; & SPX +2.1%). All sectors were also higher, led by IT (+3.0%) & energy (+2.8%) as key MAG7 stocks were the main drivers of the S&P500’s gains (i.e. Nvidia +5.3%; Microsoft +2.3%). As highlighted last week, the tech area of the market has become oversold, is well protected to the downside, while sentiment is bearish. That is, the NDX100 put to call ratio is on BUY (FIG 1c); tech sentiment is at one of its lowest levels in the past two years (FIG 1a), and the index is overextended to the downside (relative to its 50-day moving average – FIG 1b).

Added to which, after Monday’s weakness last week, the NDX100 then spent the rest of the week ‘base-building’ (i.e. testing Tuesday’s intraday lows on Thursday - see GIP chart, FIG 1).

Most other short & medium-term models are consistent with that message. That is, most are on BUY/strong BUY (e.g. see FIGs 2 to 2f). There are exceptions, though, including the broad index CBOE put to call ratio (FIG 2c), as well as the equivalent DAX model (FIG 2d). Equally, there’s also still no clear evidence of capitulation (that is sharp ‘V shaped’ price action with high volumes and panic put buying). Not all ‘wave one’ pullbacks, though, end with capitulation. Some simply peter out.

An opportunity is building, therefore, to start to move LONG NDX100 futures. Last week's range (on the March contract) was approx. 19,400 to 20,000 (i.e. a 3% range). A good entry level, therefore, would be 19,600 (if weakness is forthcoming) and then at the lows of that range (19,400 – FIG 1). We recommend a 3% stop loss relative to combined entry. Our risks are primarily twofold: i) the market doesn't pullback and we don't get into the position; & ii) wave one isn't yet finished. In that sense, there are parallels with the Q4 2018 pullback when equity markets ground lower in December reflecting policy makers ongoing overly tight money (& QT program). In a similar vein, this current Administration continues to persist with squeezing the economy via fiscal policy. Over the weekend, that sentiment was again reinforced by further comments from Treasury secretary Bessent:

“Bessent told NBC News Meet the Press on Sunday that market corrections, the term used when an index is down 10% from its recent peak, are "normal."

"What's not healthy is straight up, that you get these euphoric markets. That's how you get a financial crisis," Bessent told NBC. "So, I'm not worried about the markets. Over the long term, if we put good tax policy in place, deregulation and energy security, the markets will do great."

Bessent told NBC News on Sunday that one week does not the market make. "We are going to have a transition, and we are not going to have a crisis." But asked if he could guarantee there would be no recession, Bessent responded "there are no guarantees."

Source: Barrons, 16th March 2025 - <https://www.barrons.com/articles/treasury-bessent-market-sunday-shows-03d8c636>

We therefore recommend closing the 1/4 DAX SHORT position at current prices (given it's inconsistent with moving LONG NDX100 futures). We also recommend starting to BUILD LONG NDX100 futures positions. See trading recommendation above for detail.

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

Kind regards,

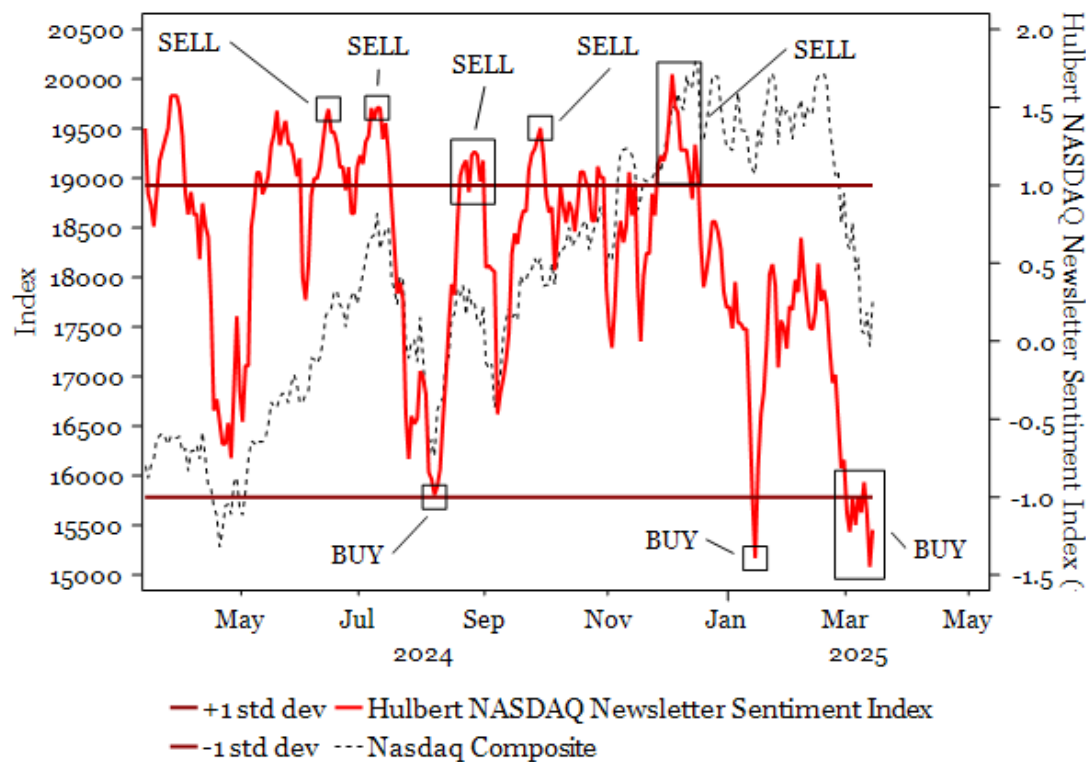
The team @ Longview Economics

*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.

FIG 1: NDX100 June 2025 futures 30 day tick chart shown with overnight price action

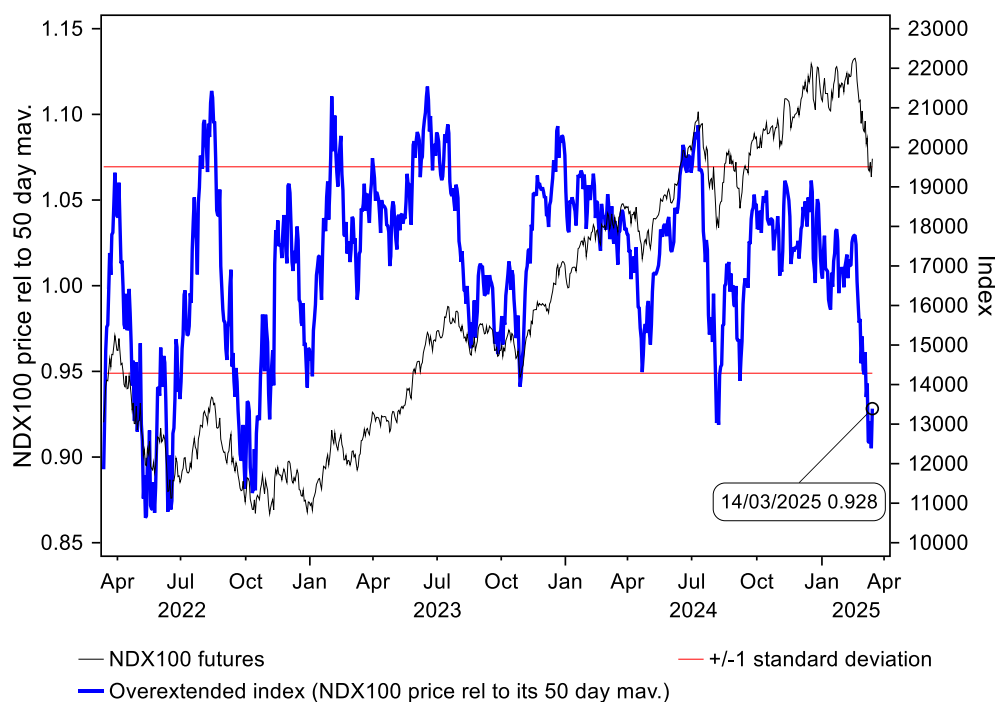


FIG 1a: Hulbert NASDAQ sentiment index shown with NASDAQ composite index



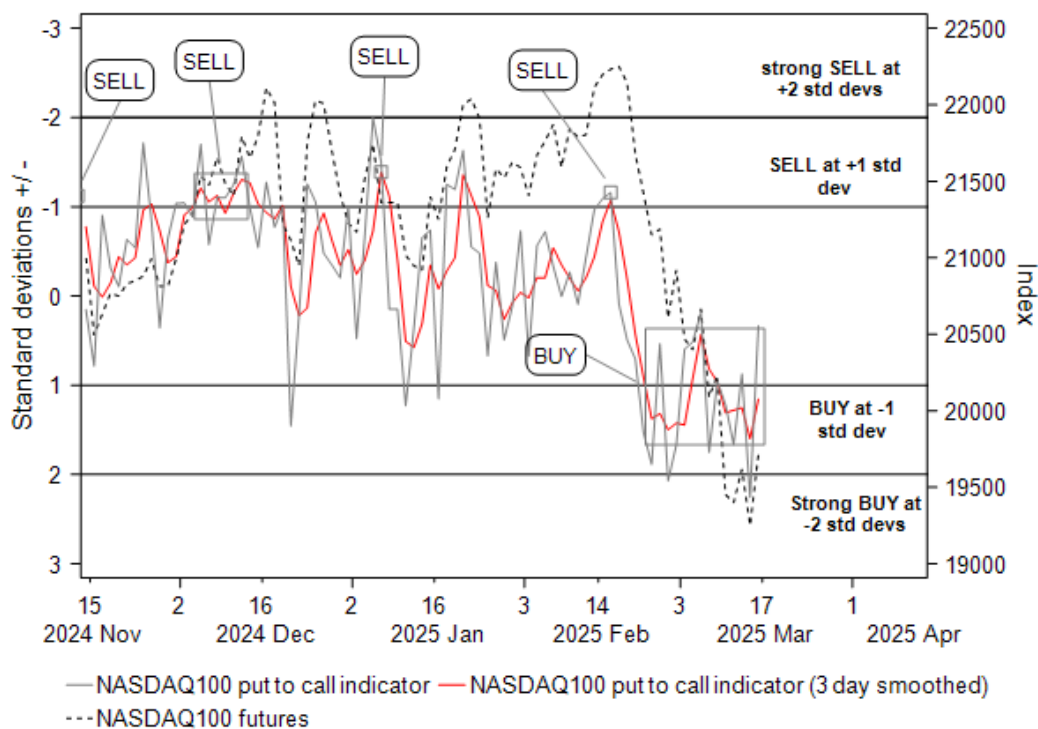
Source: Longview Economics, Macrobond

FIG 1b: NDX100 overextended indicator (Index price relative to its 50-day moving average)



Source: Longview Economics, Macrobond

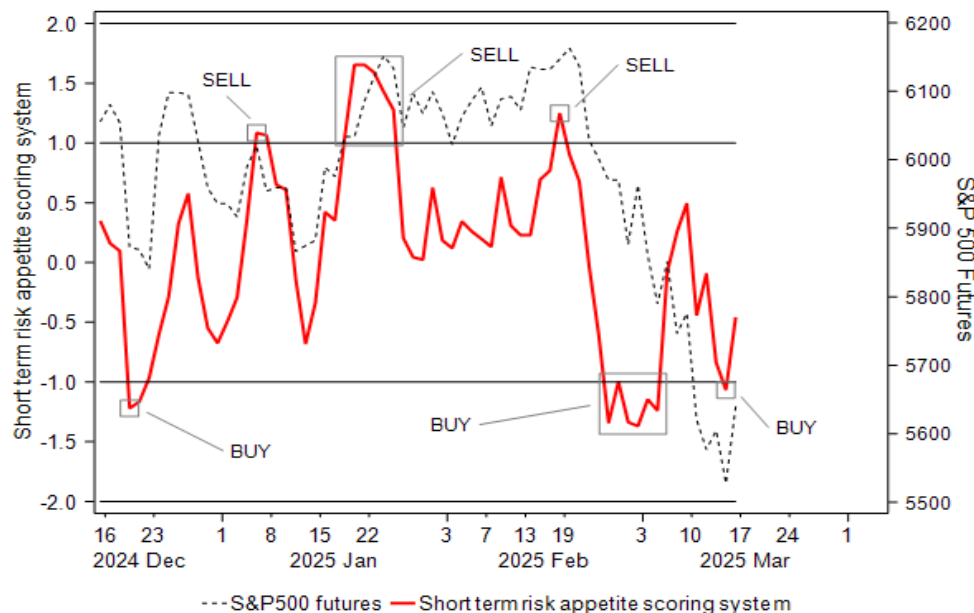
FIG 1c: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

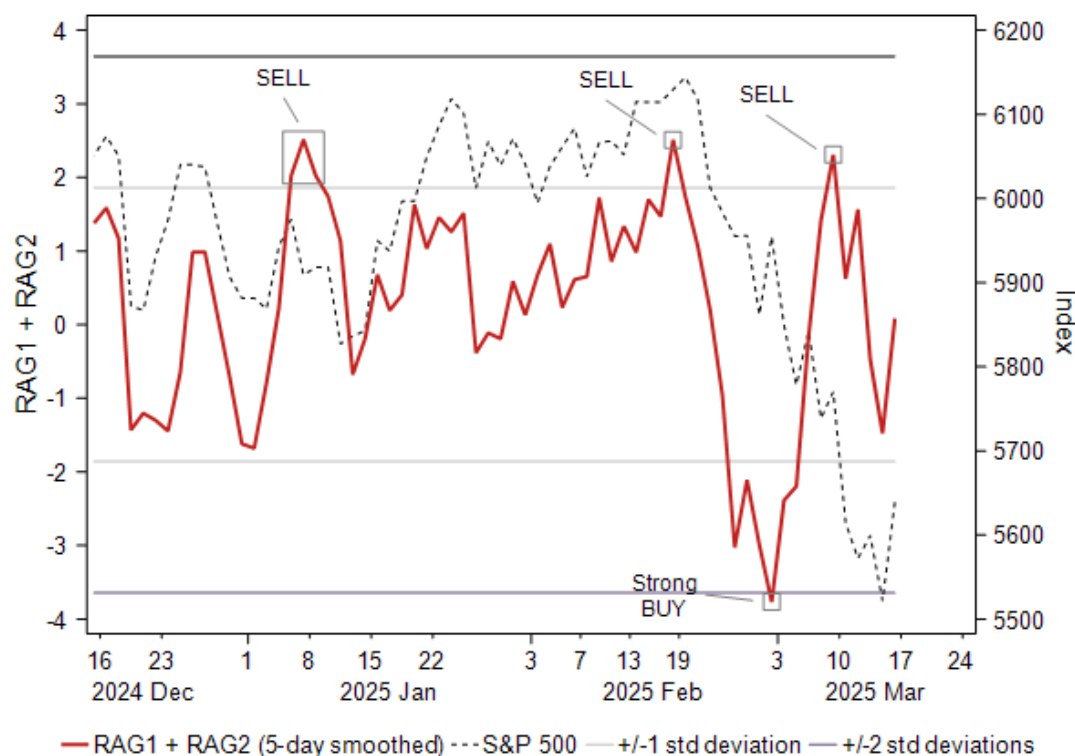
Short term risk appetite models have been on/close to BUY.....

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



Source: Longview Economics, Macrobond

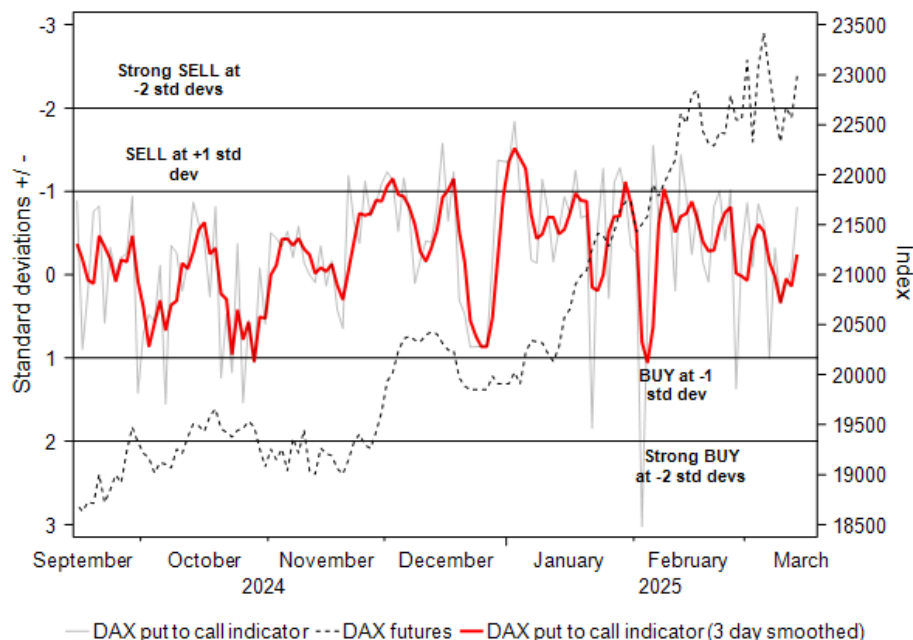
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

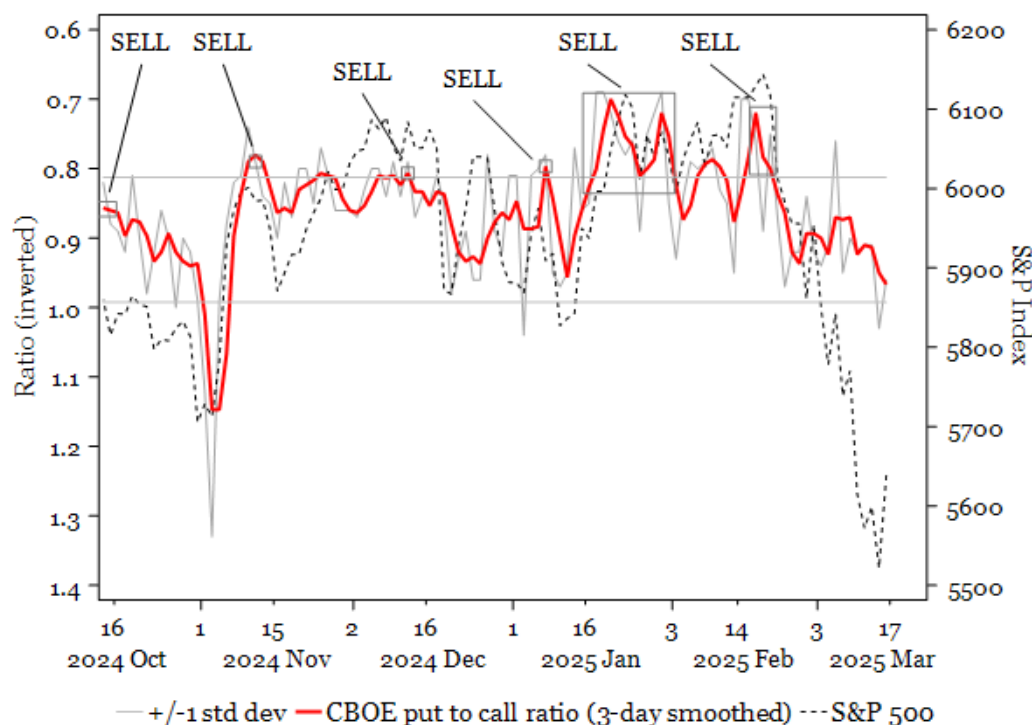
Put to call ratio indicators are mostly NEUTRAL

FIG 2b: DAX30 calls less puts indicator (3 day smoothed) vs. DAX30 index



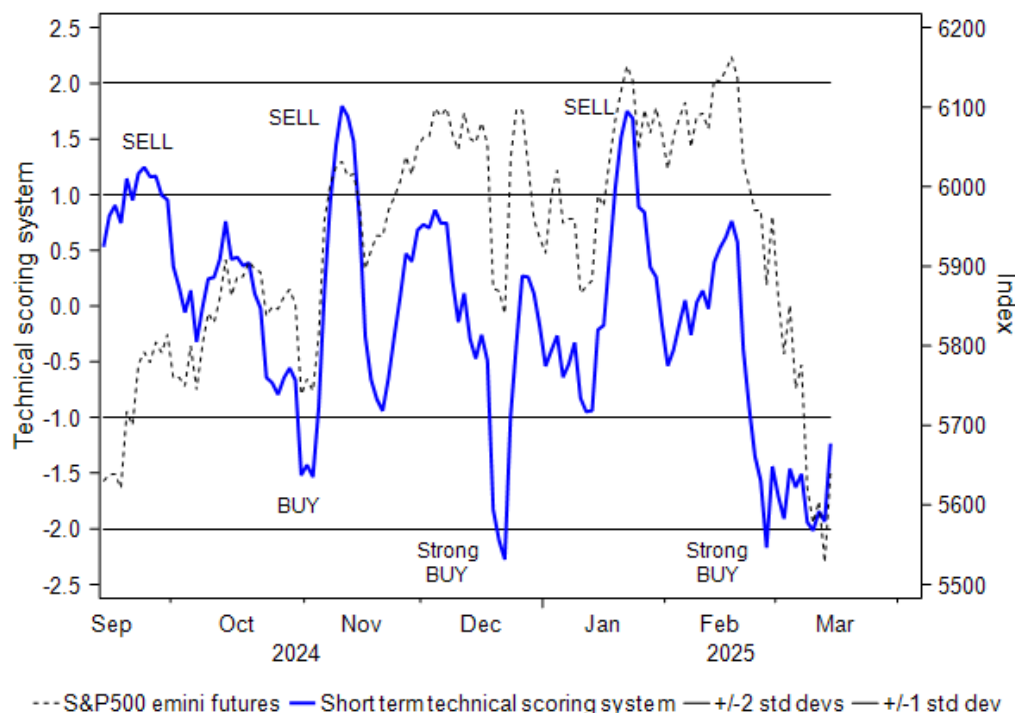
Source: Longview Economics, Macrobond

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



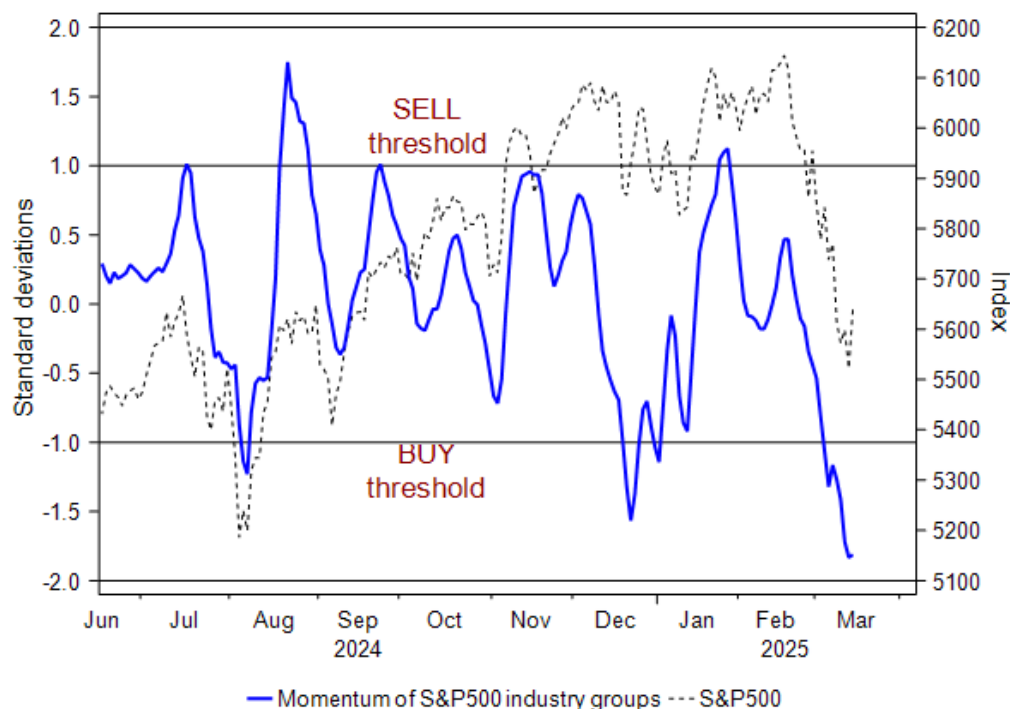
Source: Longview Economics, Macrobond

FIG 2d: Longview S&P500 short term **‘technical’** scoring system vs. S&P500 futures



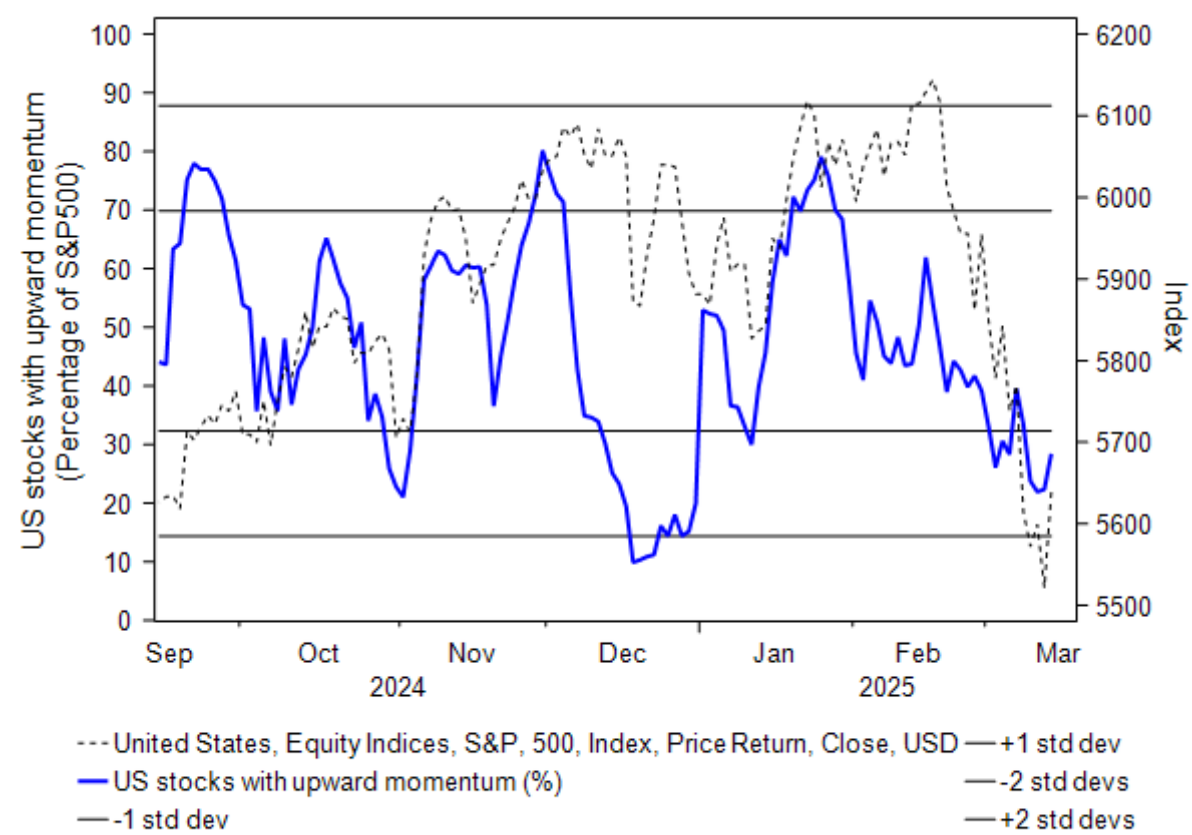
Source: Longview Economics, Macrobond

FIG 2e: Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

FIG 2f: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



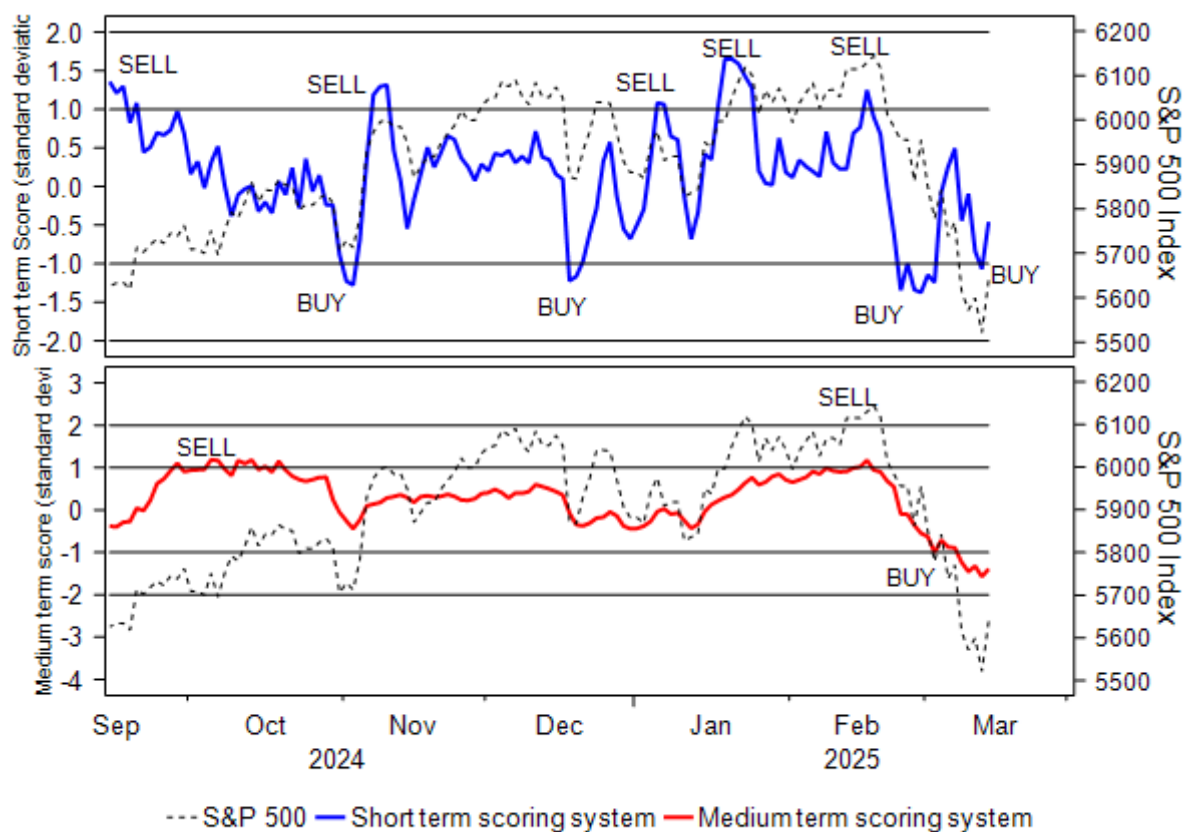
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from BUY last week)

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 Rightmove house prices (Mar, 12:01am); **Chinese new & used home prices** (Feb, 1:30am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Feb, 2am); Spanish labour costs (Q4, 8am); Italian headline CPI (February final estimate, 9am); Canadian housing starts (Feb, 12:15pm); **US retail sales** (Feb, 12:30pm); US Empire manufacturing (March, 12:30pm); Canadian existing home sales (Feb, 1pm); **US NAHB housing market index** (March, 2pm); US business inventories (Jan, 2pm).

Key events today include: Speech by the RBA's Hunter (11:15pm).

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 earlier this month on 5th March 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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1 – 2 Week View on Risk

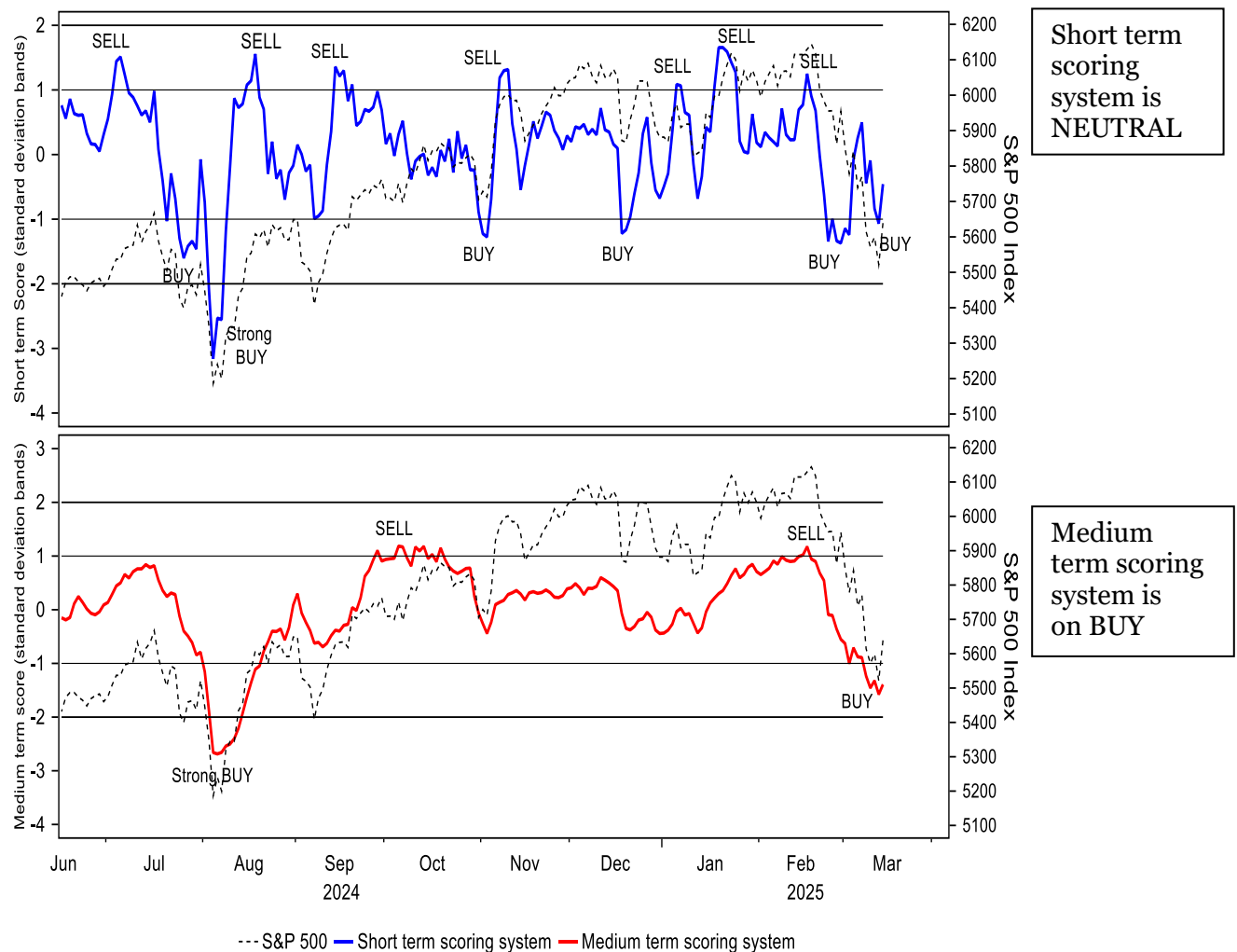
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17th March 2025

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

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



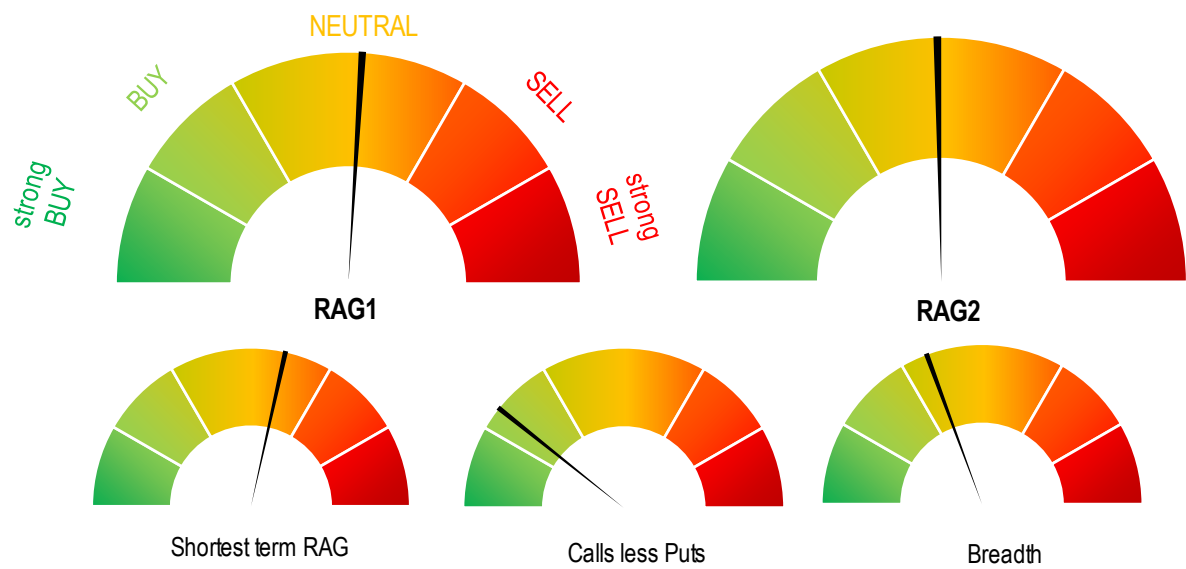
Source: Longview Economics, Macrobond

*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**

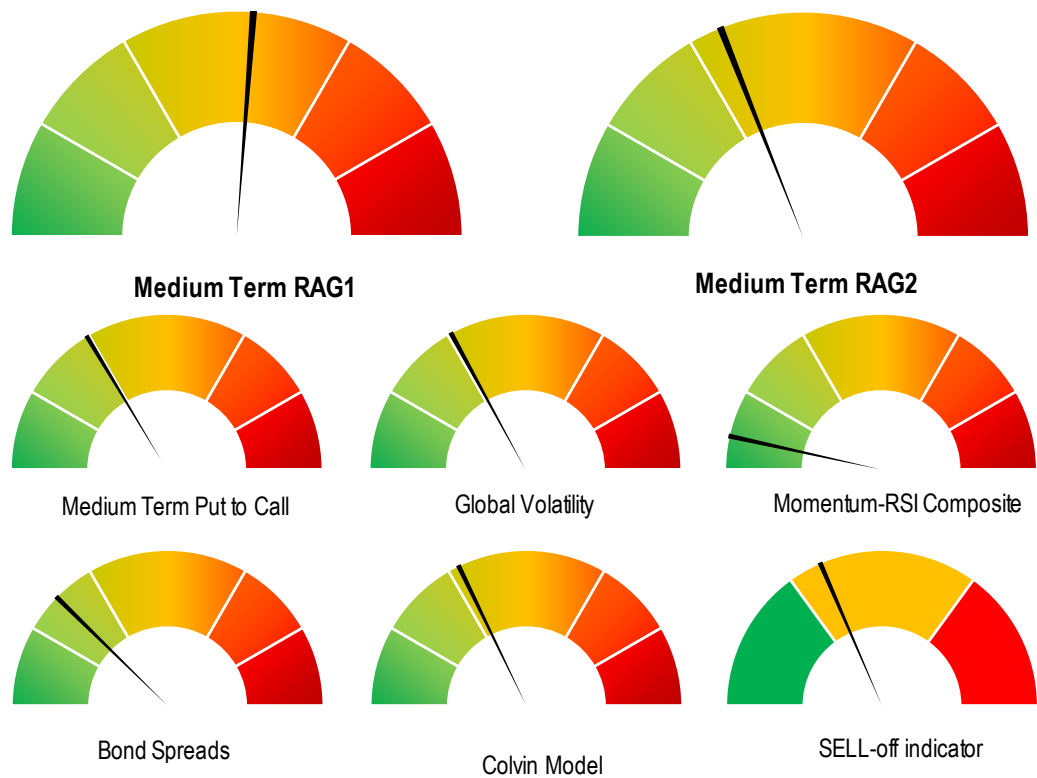
Section 1a: Summary of indicator signals**

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

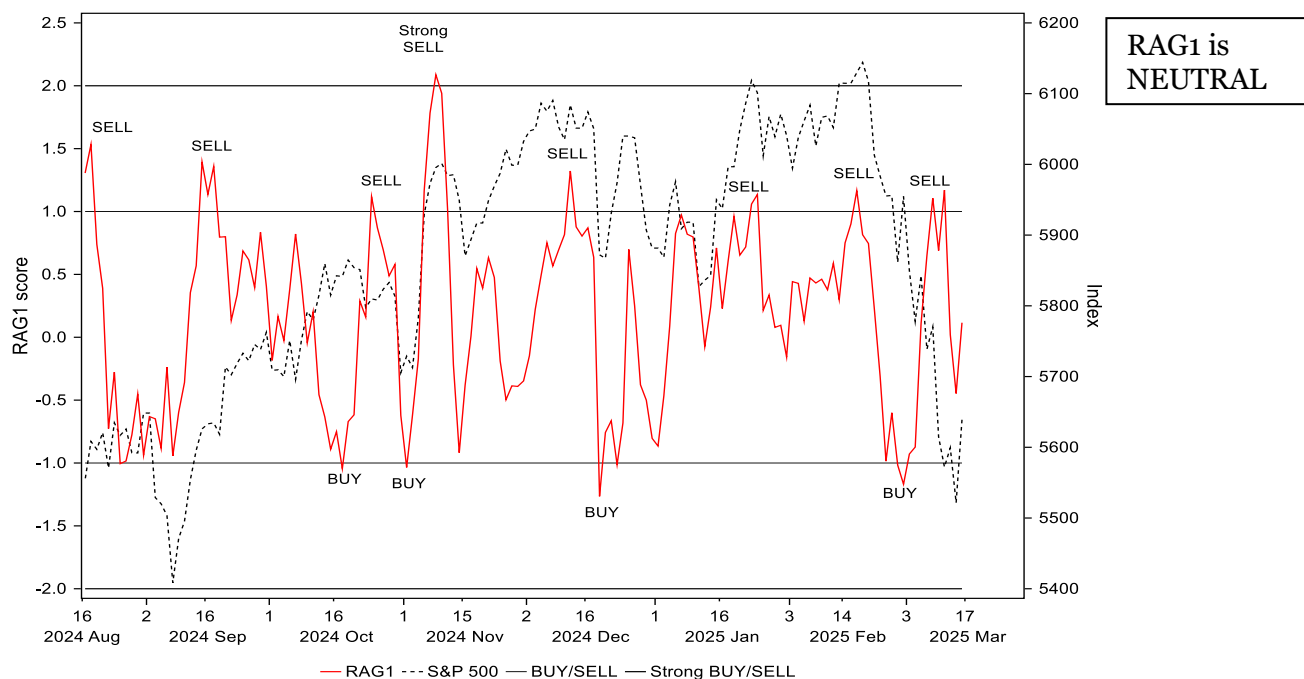


Source: Longview Economics

**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

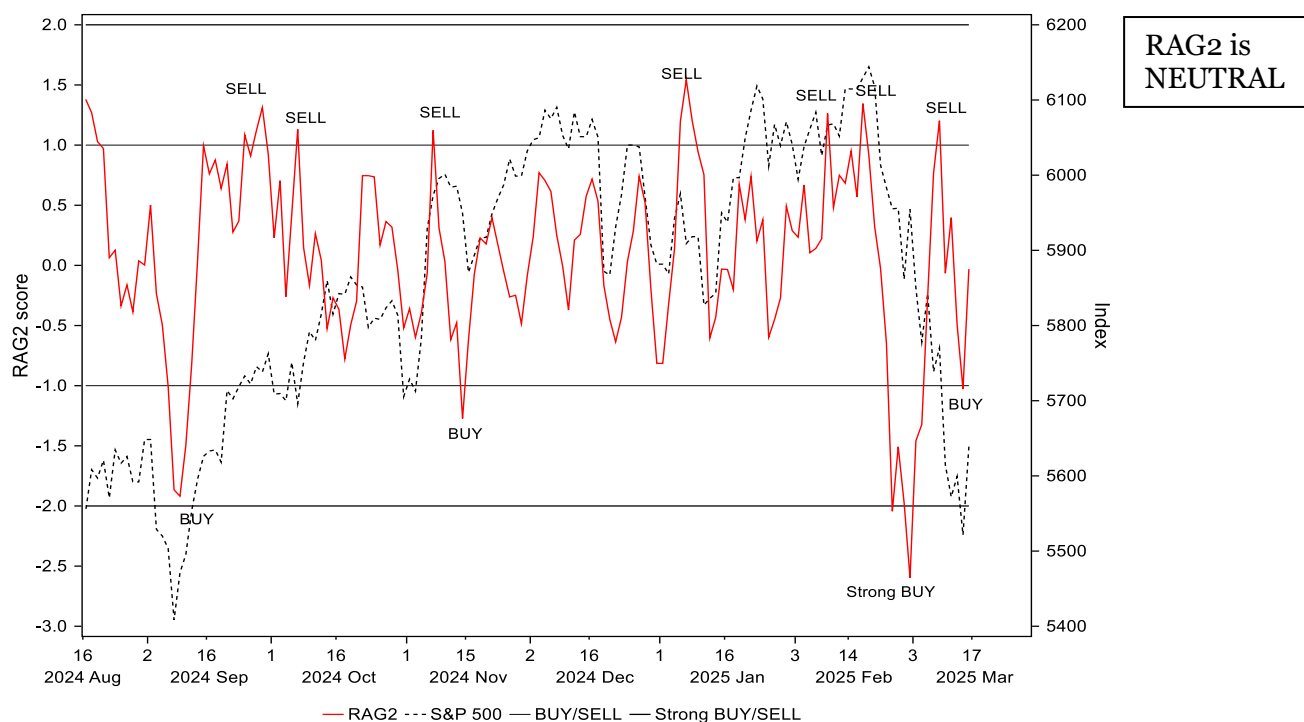
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

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



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

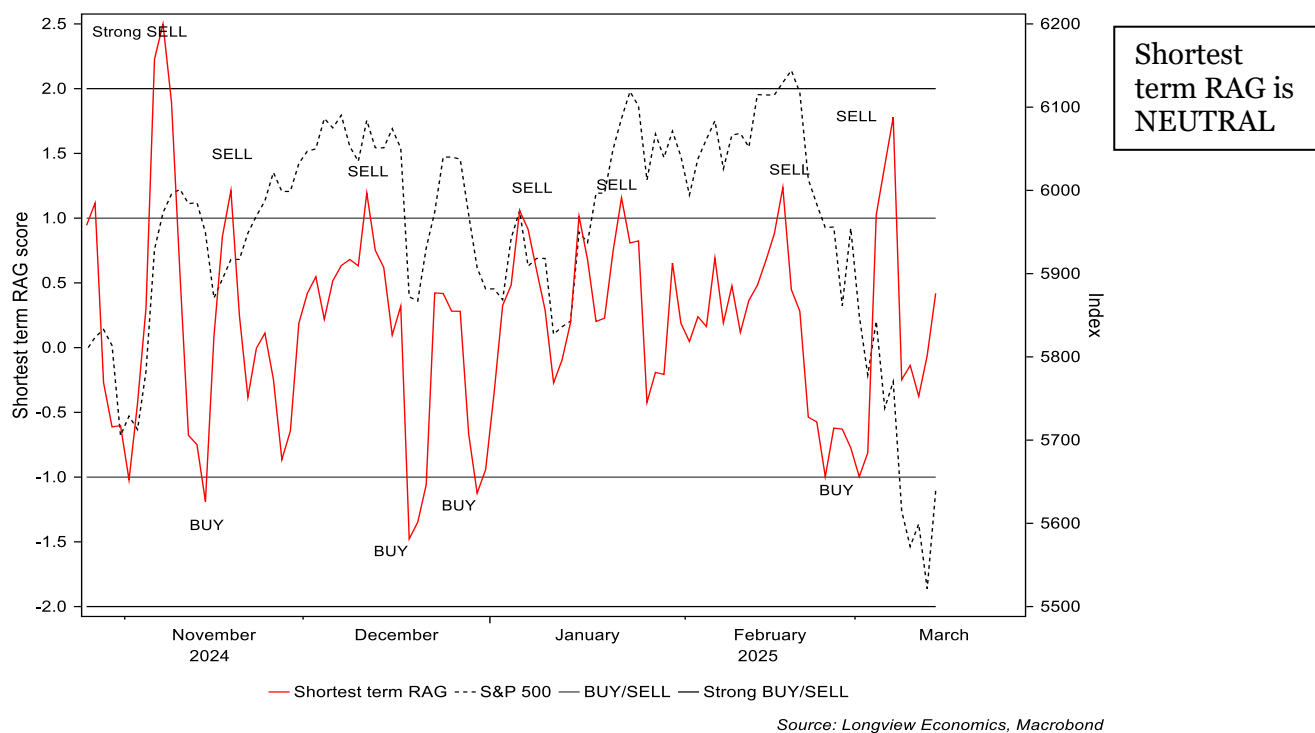
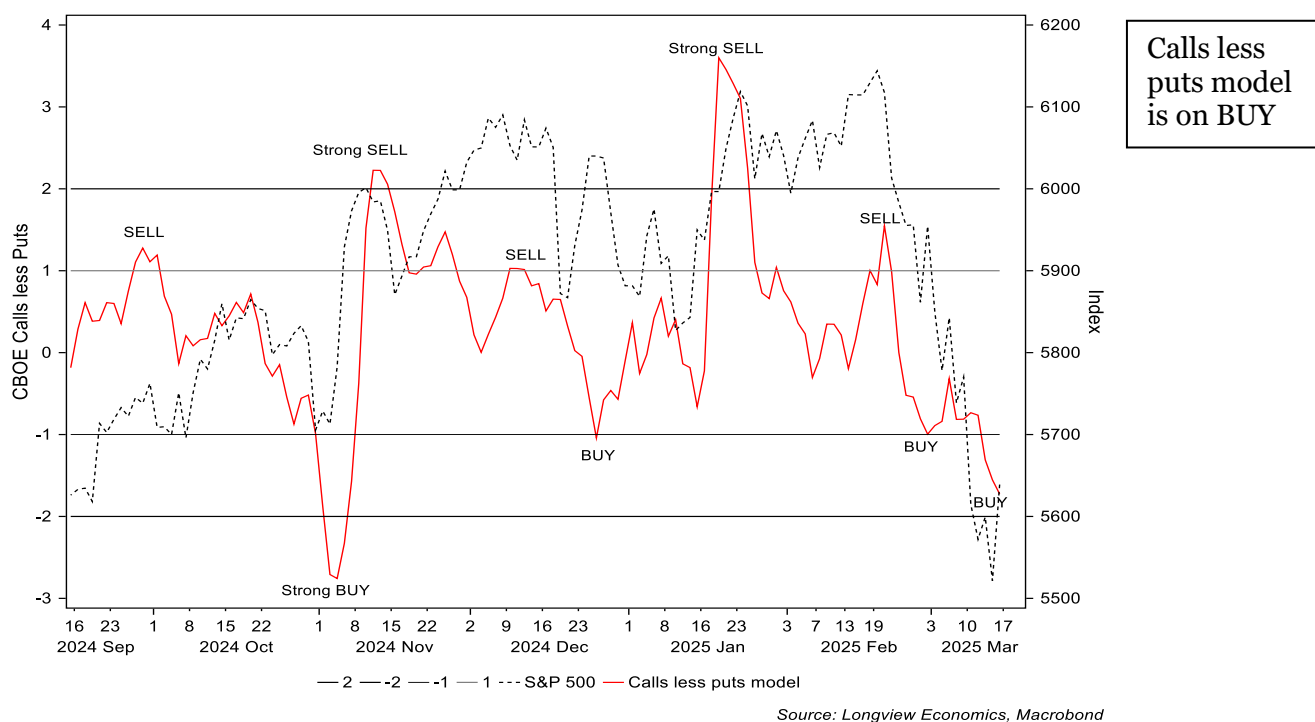
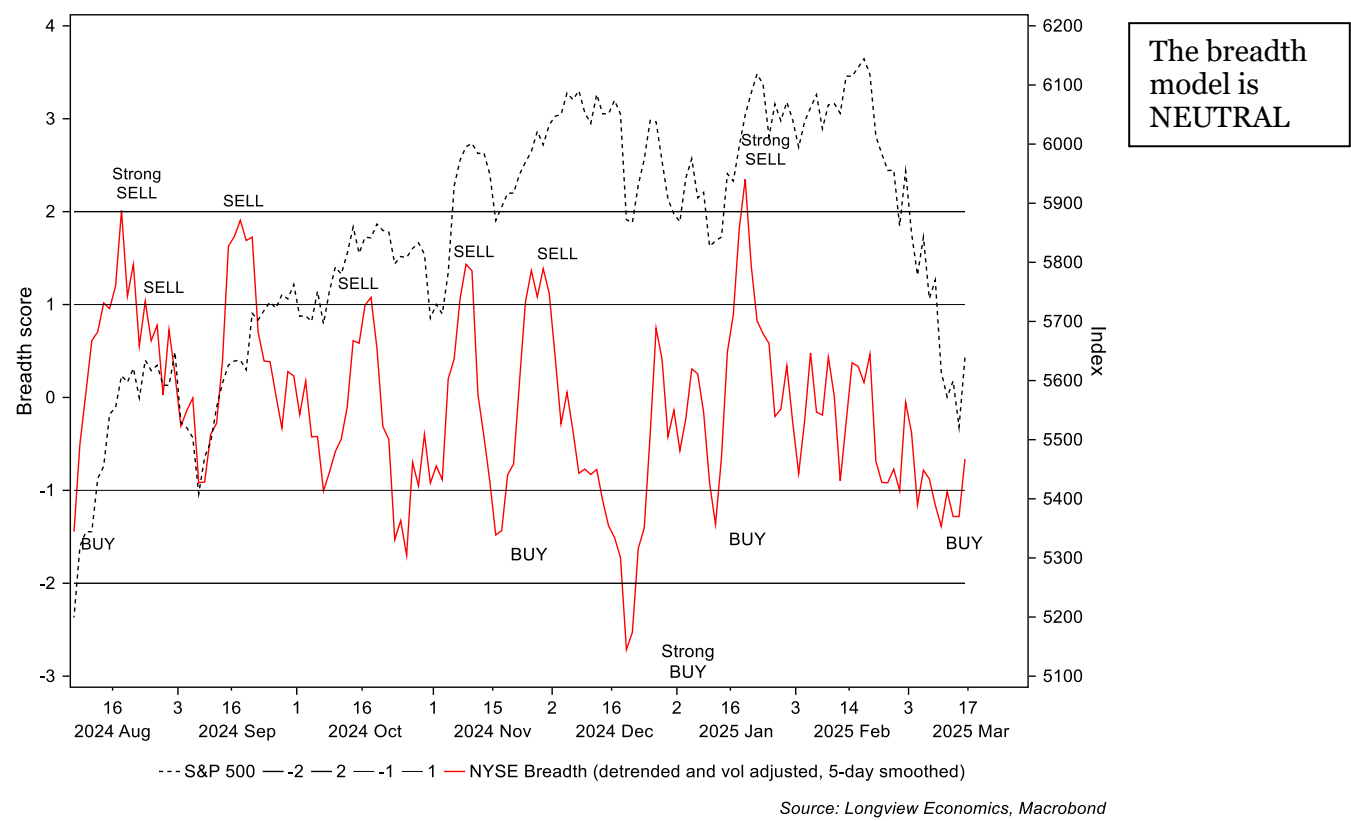


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

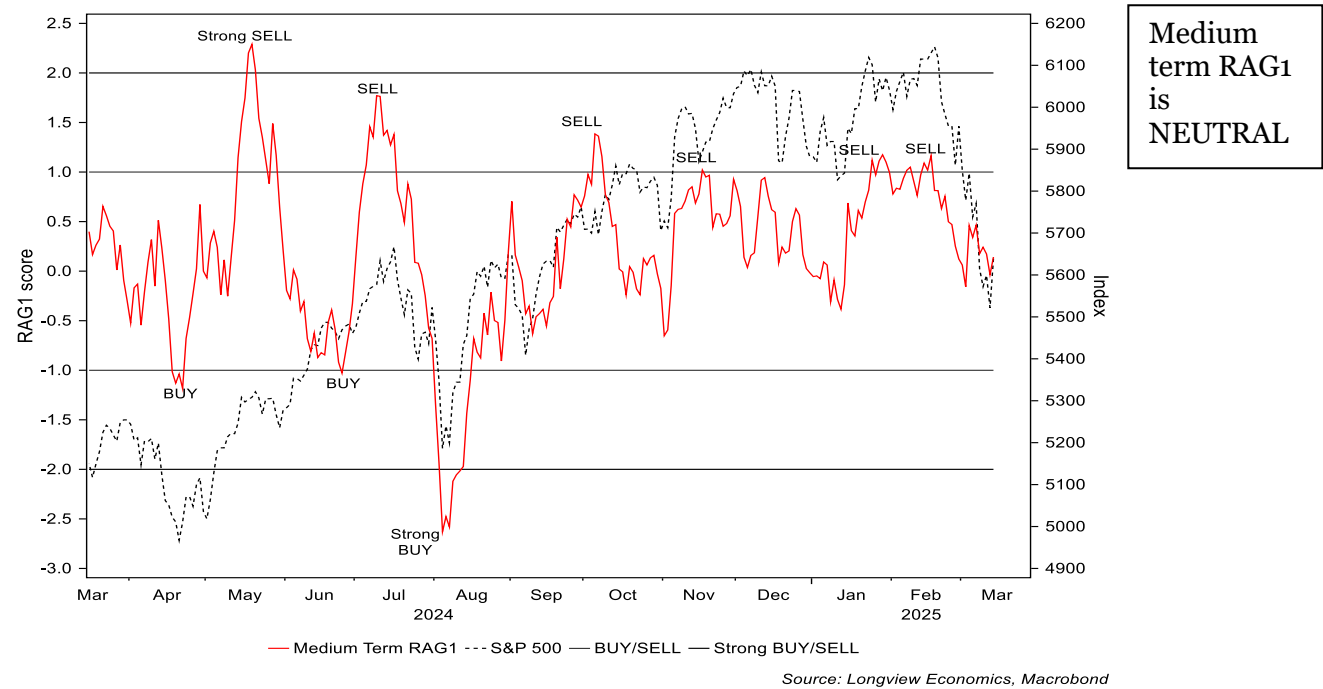
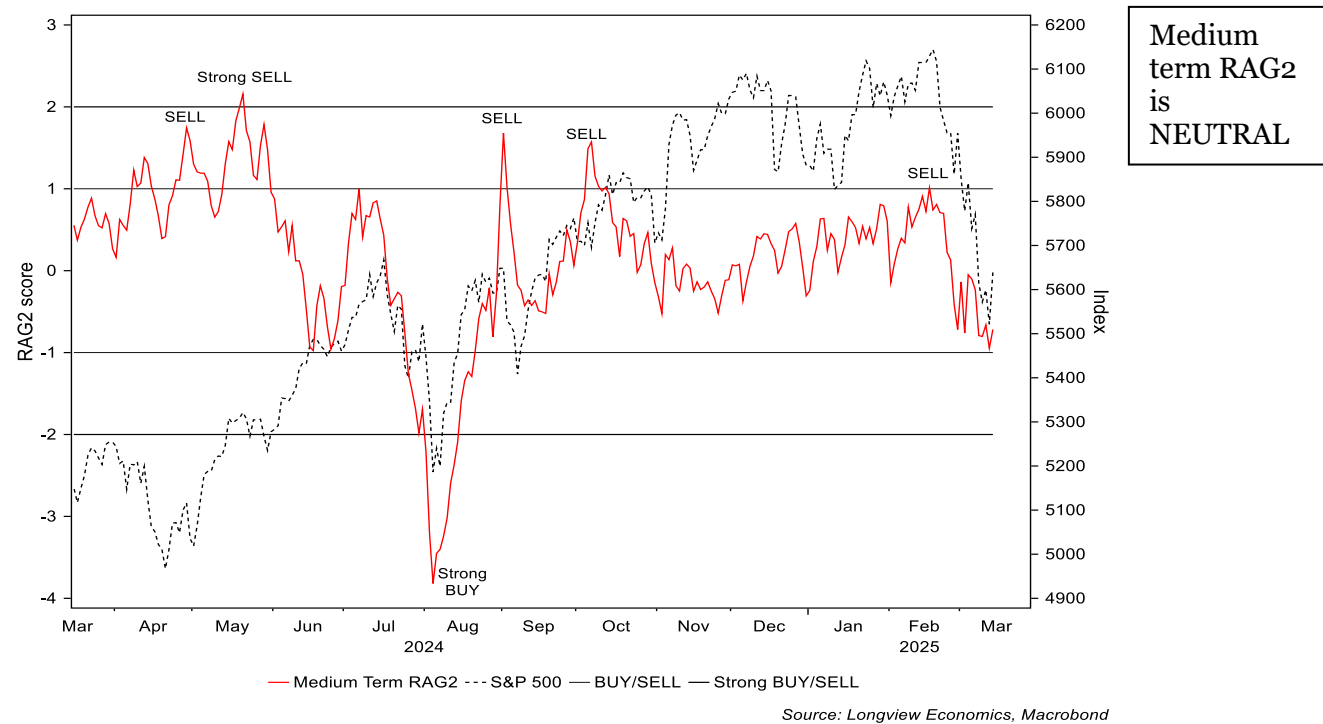


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

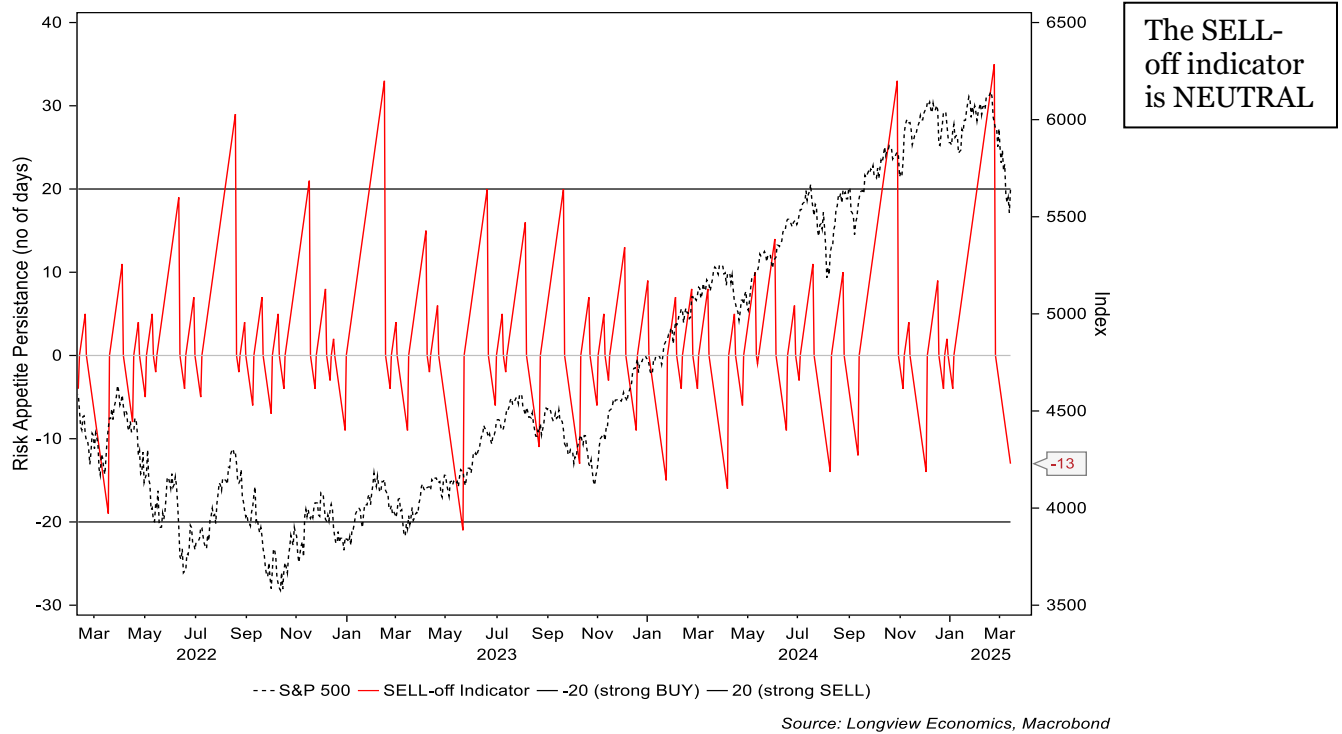
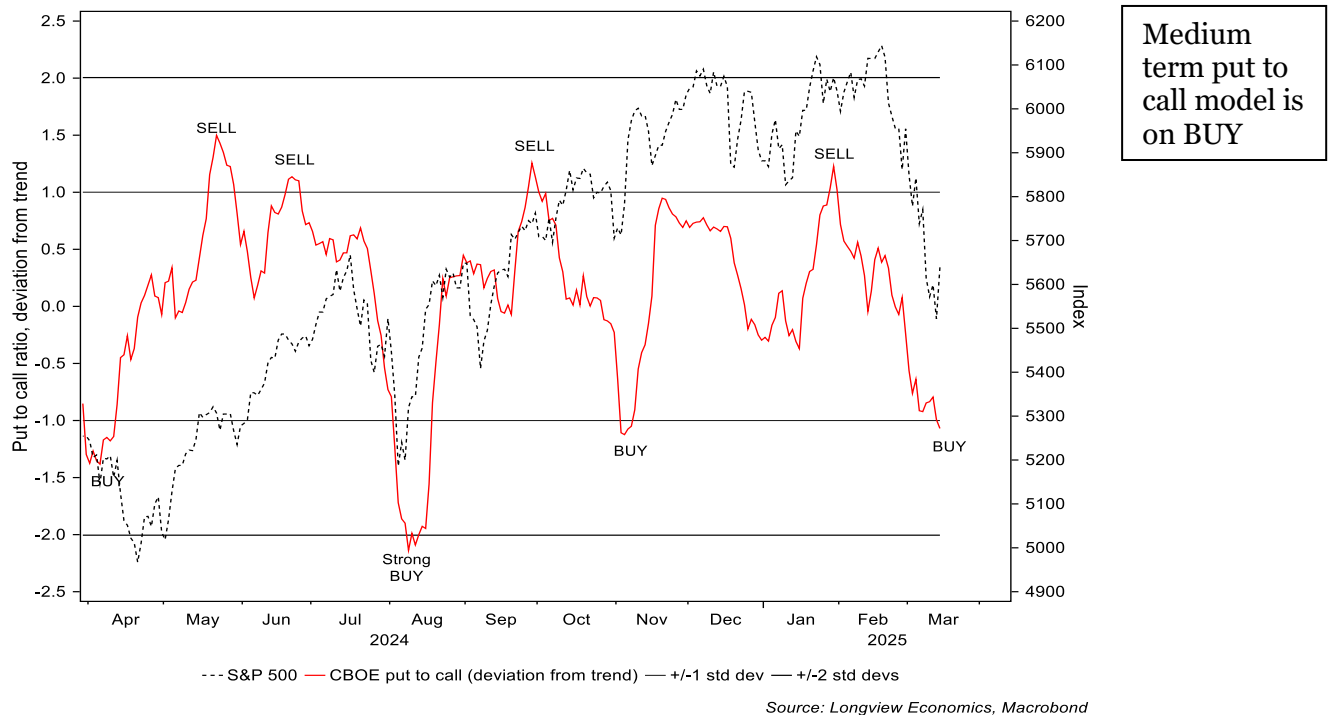


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

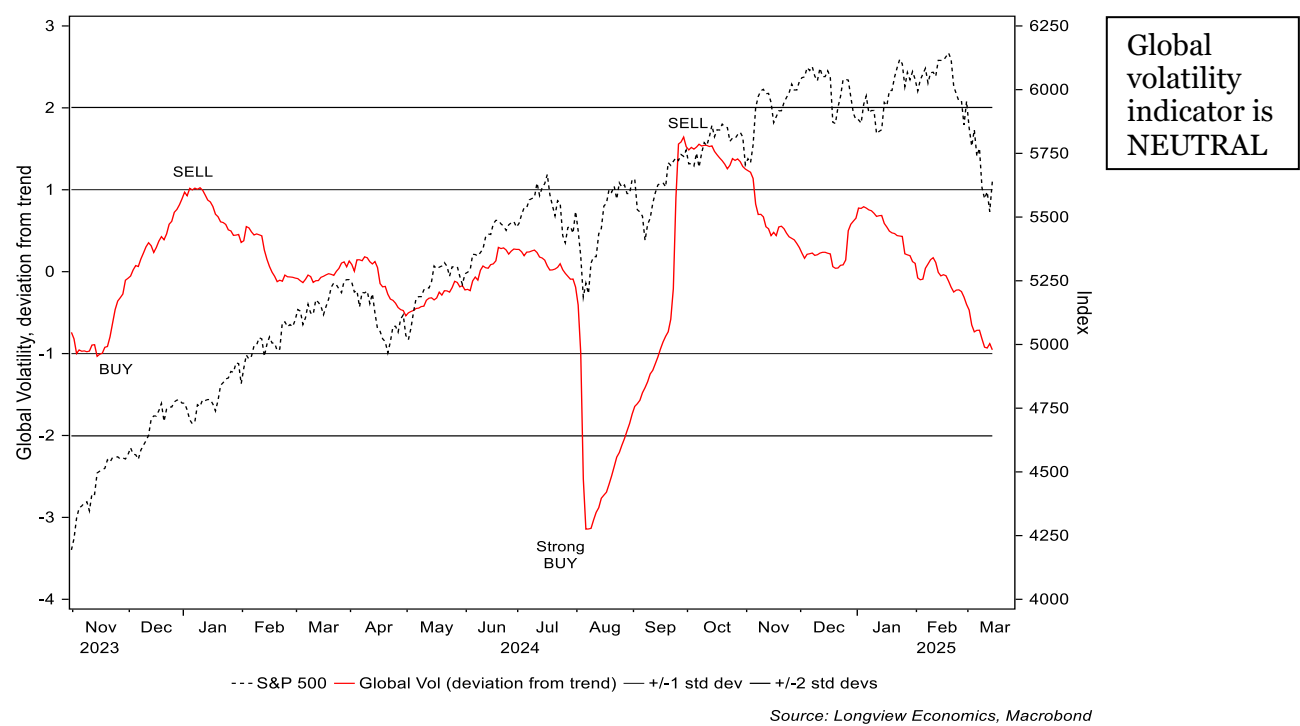


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

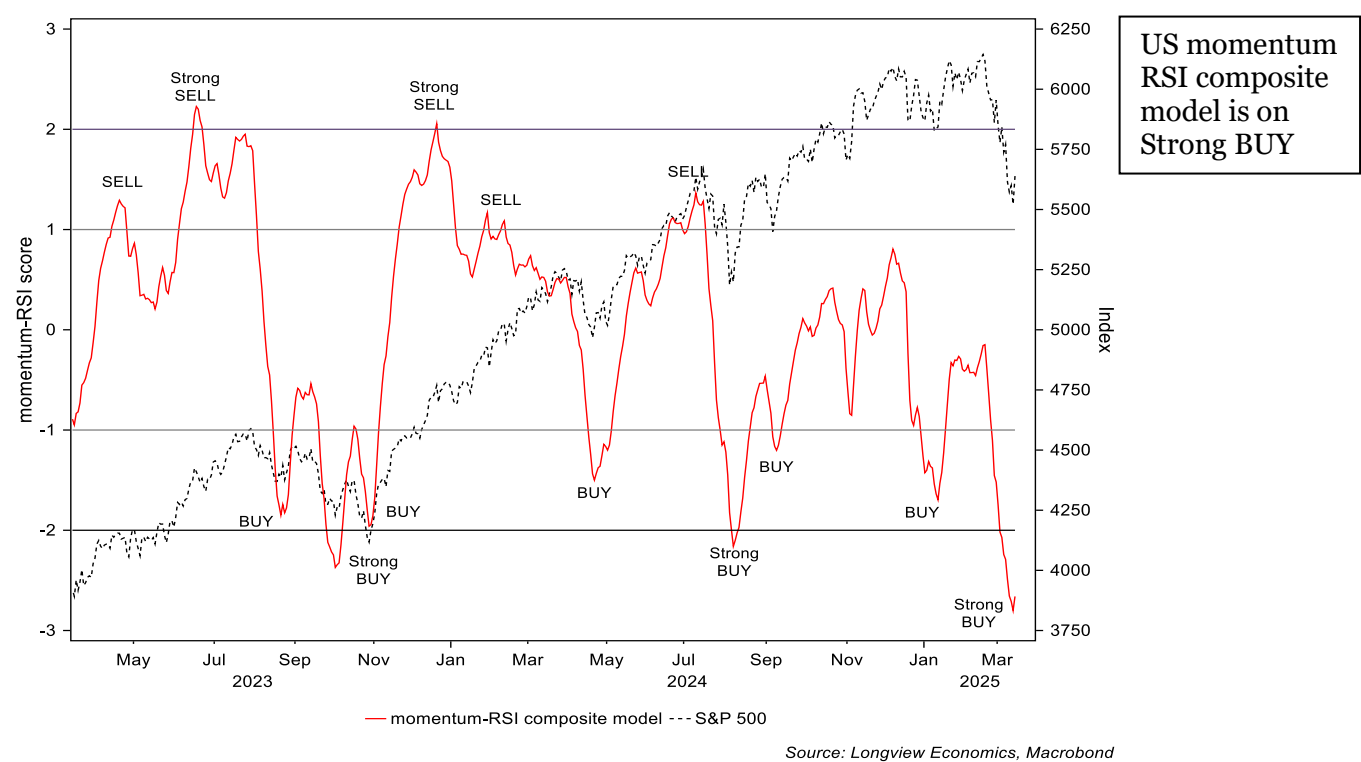


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

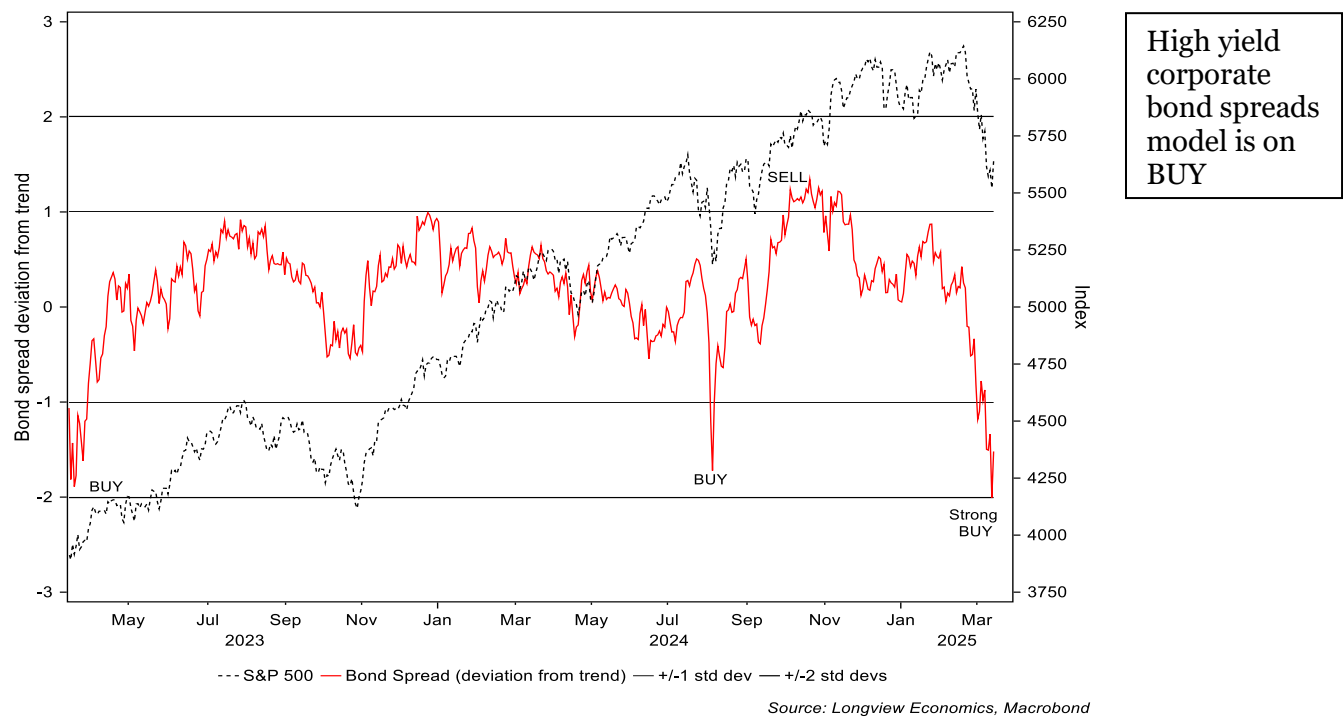
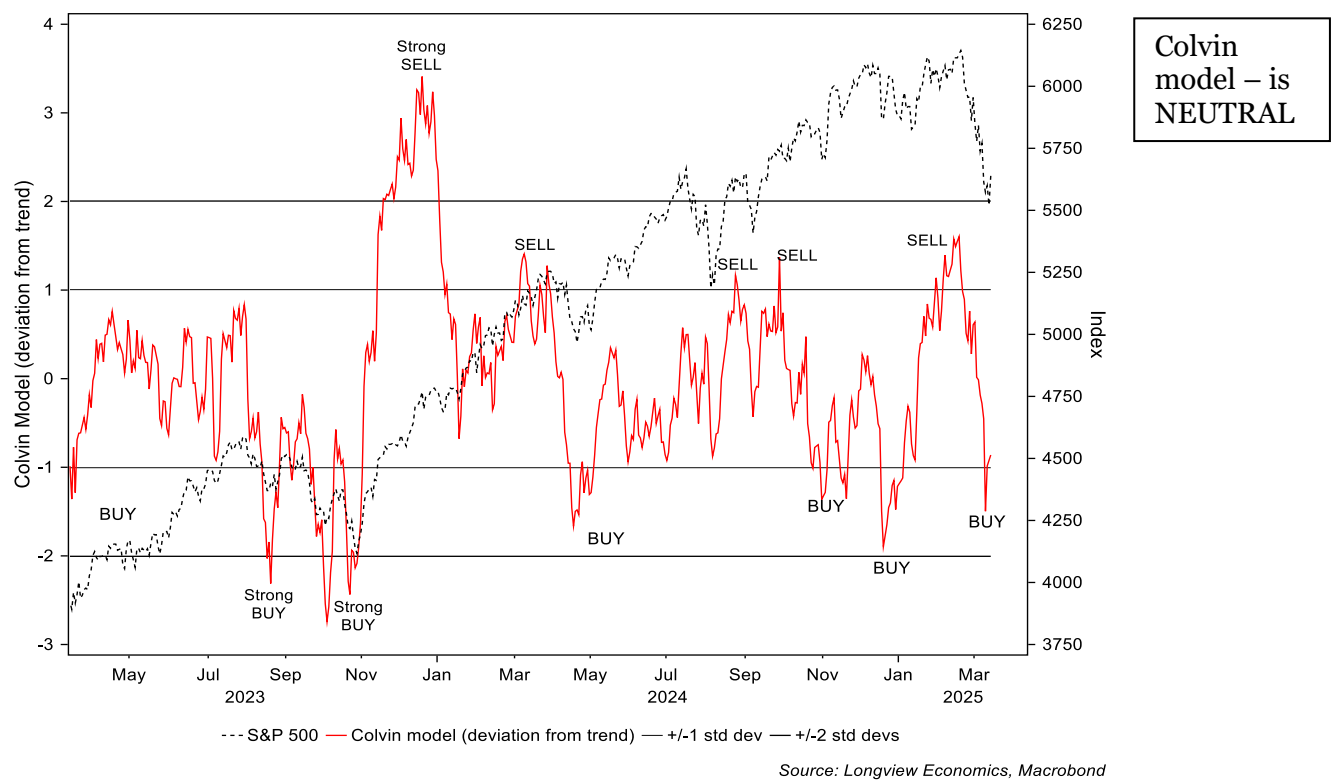


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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