Equity Index Futures Trading Recommendations

18th February 2025

"Euphoric Price Action/SELL-off Indicator continues to BUILD above +20 Signal"

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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 were closed for President's Day yesterday. As such, while some of the models have updated, others are unchanged overnight (e.g. CBOE put to call ratio, S&P500 technical scoring system etc – FIGs 2b & 2c below). European/Asian markets were open as normal with many making new record highs yesterday.

As per recent Daily Risk Appetite publications, we **continue to recommend SHORT S&P500 futures trading positions**. In the past two weeks, the market has moved (modestly) against us. With that, the S&P500 futures are now back at the top of their three-month range – FIG 1. Traded e-mini volumes (FIG 1b), though, have been light of late, suggesting low conviction levels as the futures have moved back towards the top end of their three-month range. Volatility has also fallen back to low(ish) levels, such that our **market vulnerability model** (i.e. which measures 'volumes multiplied by volatility', as a proxy for 'conviction times complacency') is **close to generating a signal warning of the risk of a market wobble** (FIG 1a).

Our key **rationale** for remaining SHORT S&P500 futures, though, **is twofold**.

1. **Key models**, which suggest the market is due a medium-term bout of weakness and potentially a wave of risk aversion, are generating SELL signals. The SELL-off indicator, for example, continues to march above its key +20 level (currently on +30 – FIG 1e); the medium-term risk appetite scoring system is (effectively) on SELL (FIG 1f); while there's an absence of downside put protection on that medium term timeframe. Added to that, short term models are also largely leaning towards SELL including the short-term risk appetite scoring system; shortest-term RAG; and the short term put to call ratio (amongst others), FIGs 2 – 2b. Technically the market isn't currently overbought (albeit that isn't always the case ahead of pullbacks – FIG 2c). Various European markets, in contrast, are notably overbought (not surprisingly given their recent strength – see below).

2. Parts of the global financial market are increasingly generating **euphoric price behaviour**. That is part of the set-up which is typical ahead of a +20 (or higher) signal on the SELL-off indicator. In other words, near vertical price action (excessive risk seeking behaviour) is typical before a wave of risk aversion (as traders are sucked into the momentum trades and short-term positioning becomes one way). Signs of excessive appetite for risk and richly priced assets include the recent strength (and narrowing spreads) in EZ & US high yield corporate bond spreads (e.g. see FIG 1c); as well as the notably strong price action in many parts of the European equity market. FIG 1d below shows the past 3 months price performance of the Italian MIB, Spanish IBEX, German banks, Eurozone banks and Euro STOXX index. Those indices are between 10 – 20% higher over that timeframe (with most of that strength in the past 6 weeks/in 2024). The Hong Kong market has behaved similarly. While much of that price strength reflects the heavy underweight positioning at the end of last year as well as the changing macro and policy landscape, the speed of the move also supports an expectation of some giveback (i.e. hence the +20 signal on the SELL-off model).

As always, risks are multiple. The SELL-off indicator has already built significantly above its initial key +20 threshold. Normally the pullback starts (if it's a correct signal) close to the date of its move above +20. Equally, the S&P500 is already high and close to the top end of its recent trading range (and close to our stop) - hence there's a risk of a (false) breakout. On balance, though, we recommend continuing to stay with the SHORT position.

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: S&P500 March 2025 futures 60-day tick chart shown with overnight price action
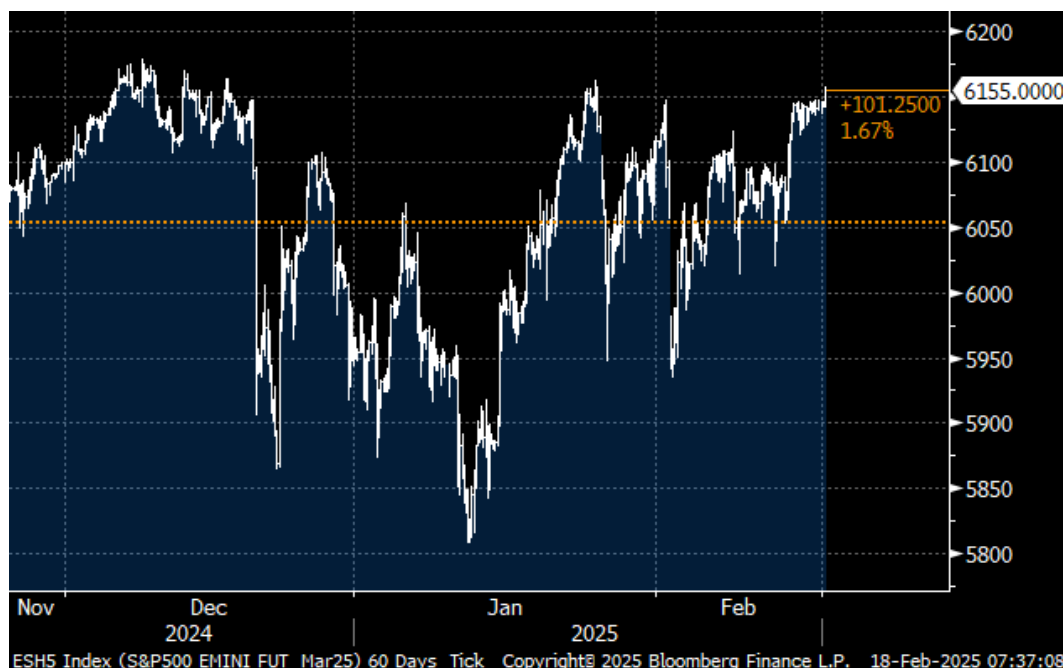
**FIG 1a:** Longview 'Vulnerability' model* (NB red = SELL signal) vs. S&P500 cash index
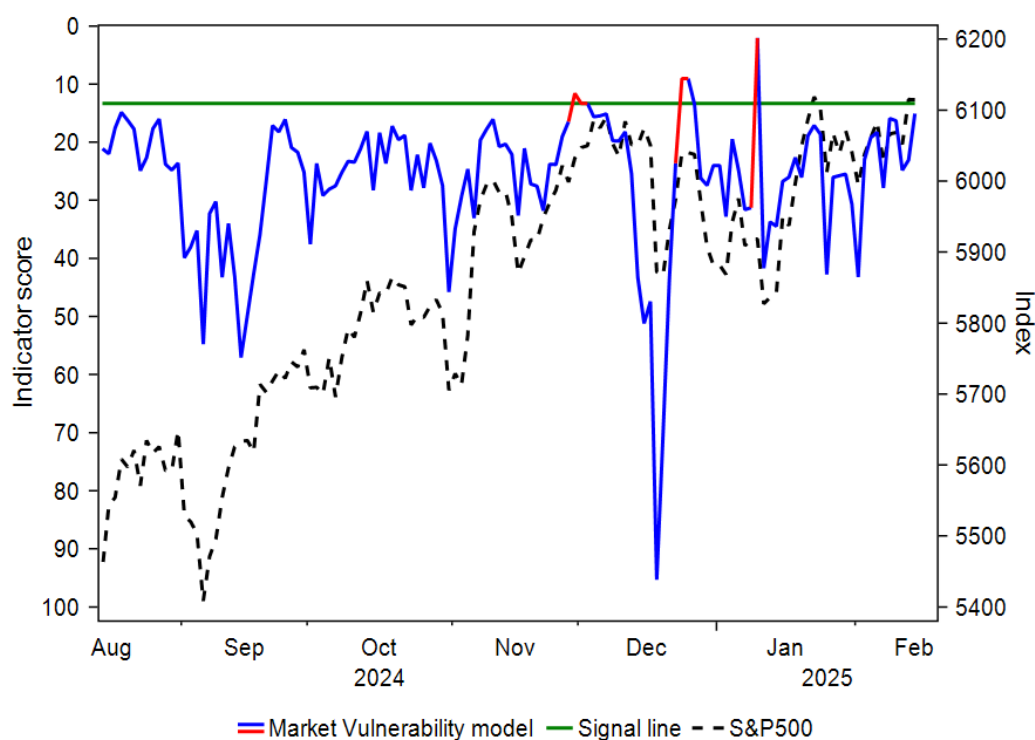
Source: Longview Economics, Macrobond

*This model measures complacency using volumes and volatility, and therefore warns of potential 1-3% wobbles in headline equity indices (i.e. when crossing its upper threshold).

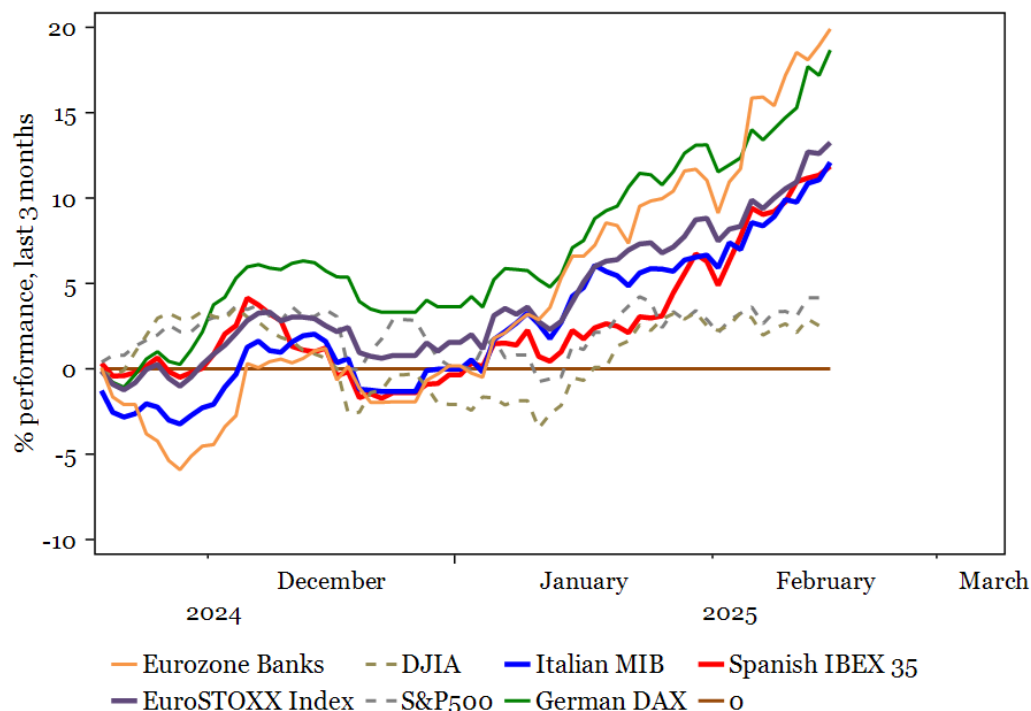**FIG 1b:** S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages
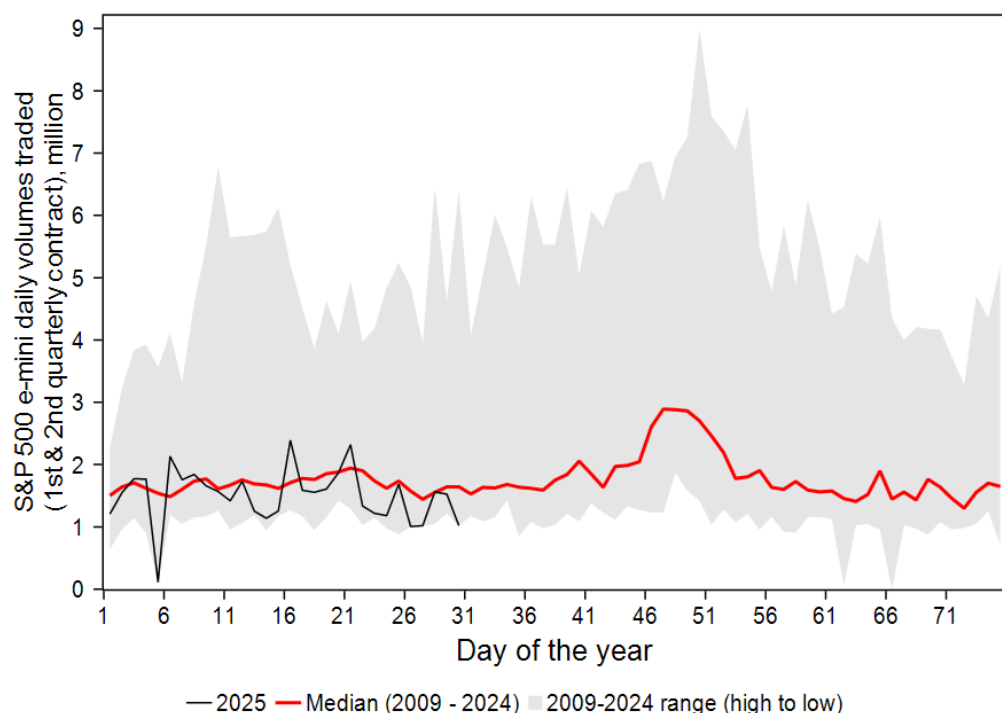
Source: Longview Economics, Macrobond

FIG 1c: EZ high yield corporate bond spreads (bps)

Source: Longview Economics, Macrobond

FIG 1d: Various US & European key equity price indices (past 3 months performance)

Source: Longview Economics, Macrobond

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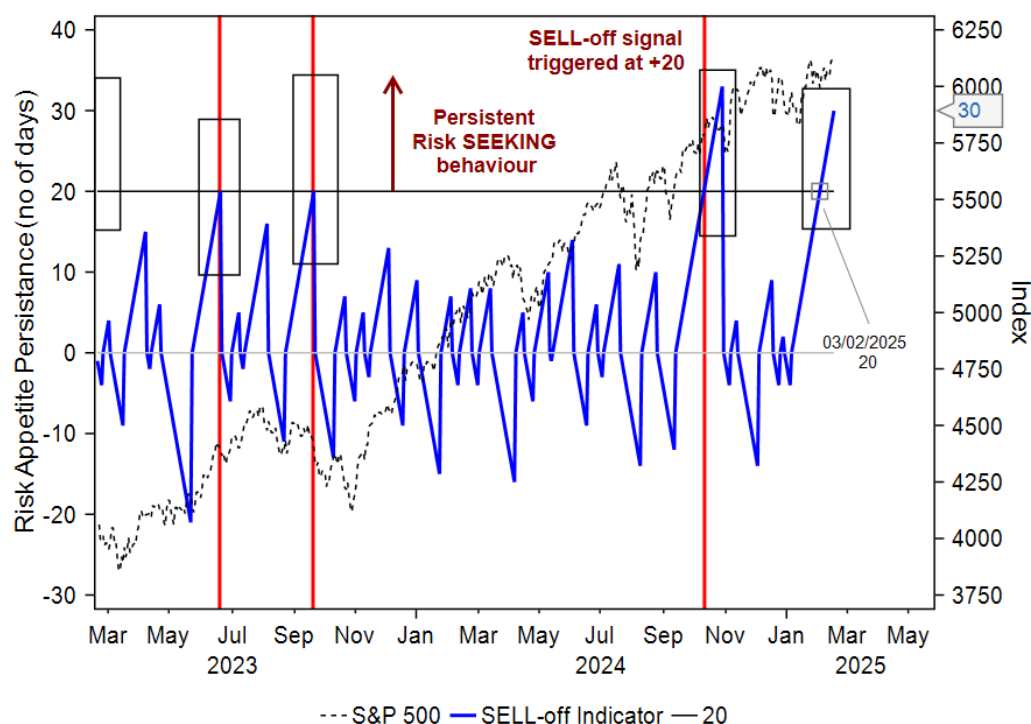
Source: Longview Economics, Macrobond

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

— Medium term scoring system
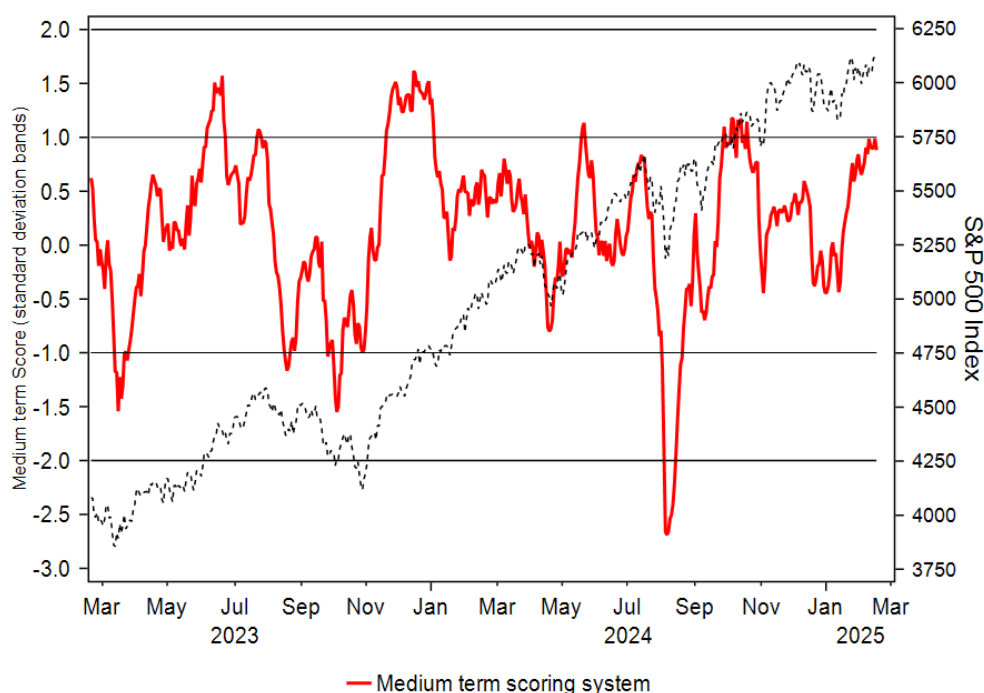
Short term models are leaning towards SELL…

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

--- S&P500 futures — Short term risk appetite scoring system
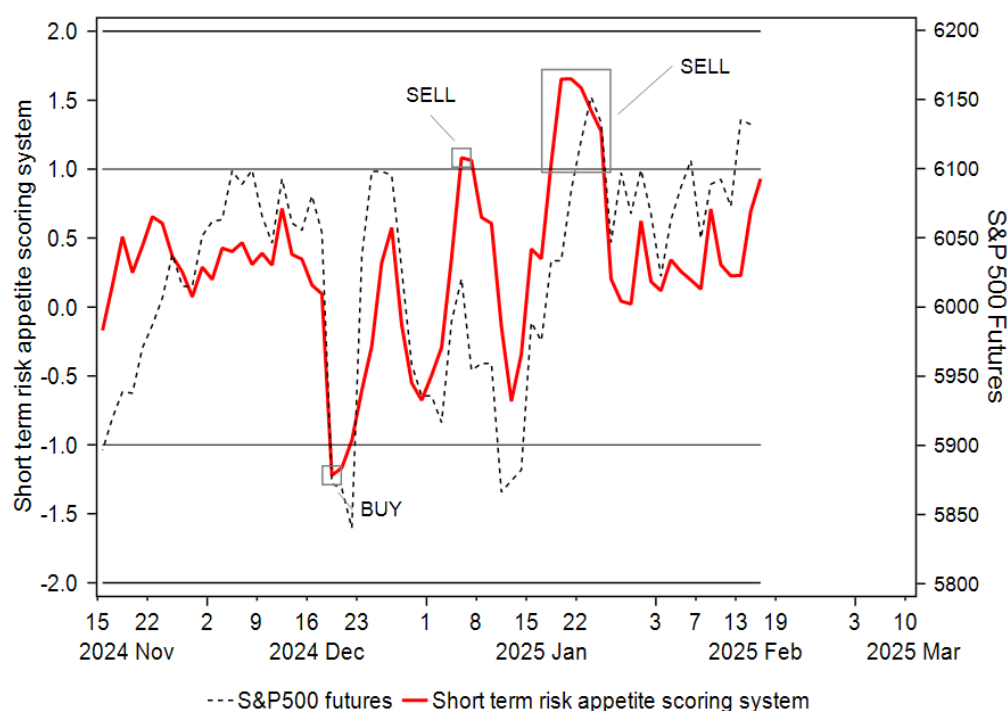
FIG 2a: Longview **shortest term 'risk appetite'** model vs. S&P500
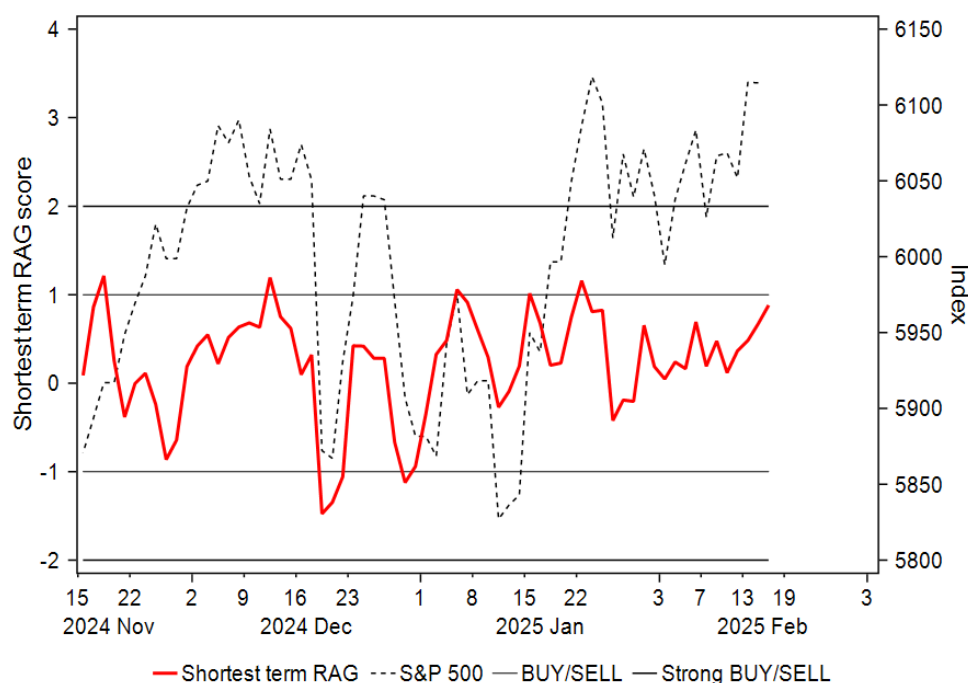
Source: Longview Economics, Macrobond

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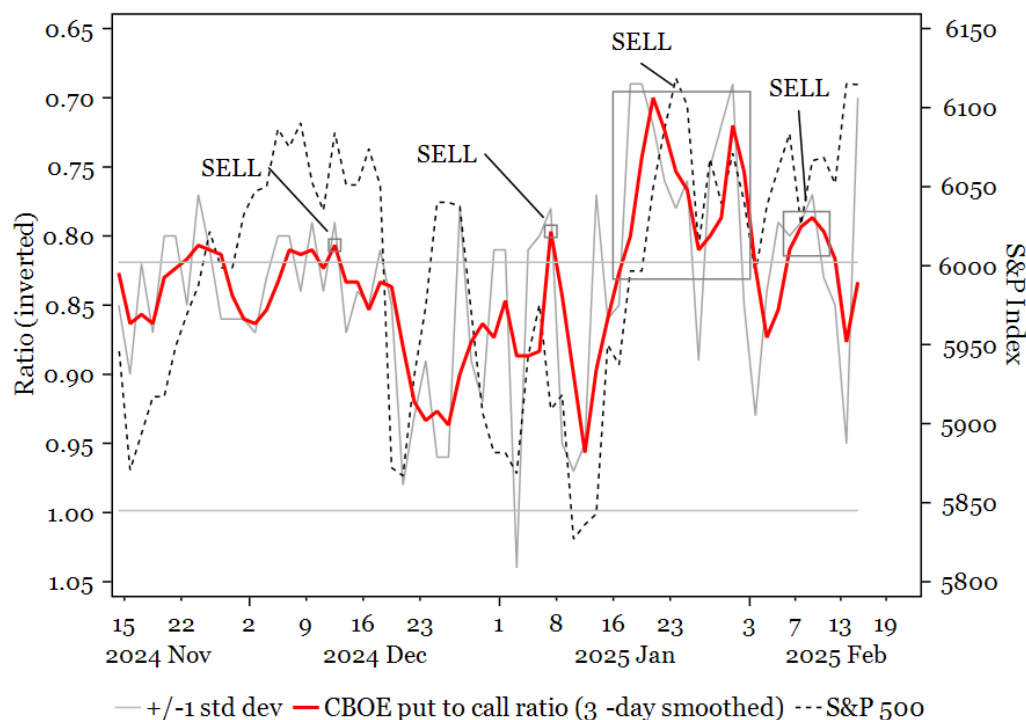
Source: Longview Economics, Macrobond

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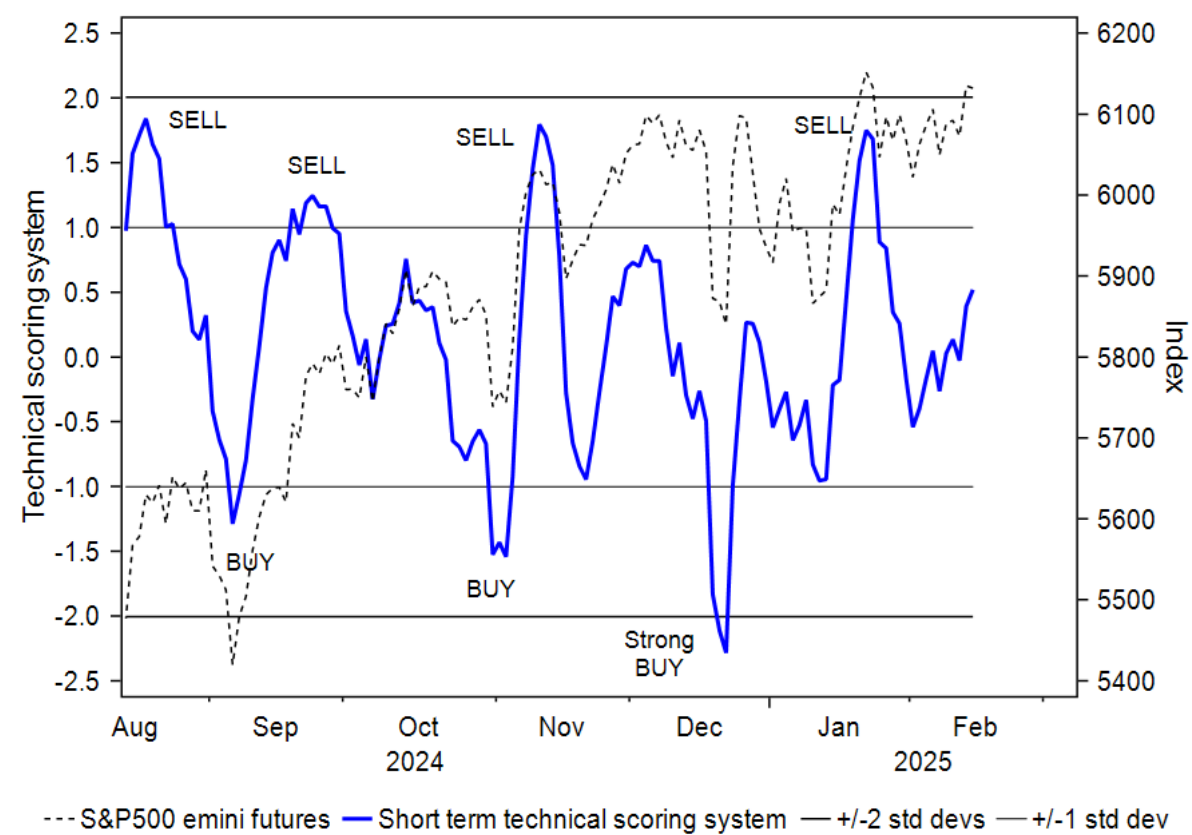
Source: Longview Economics, Macrobond

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
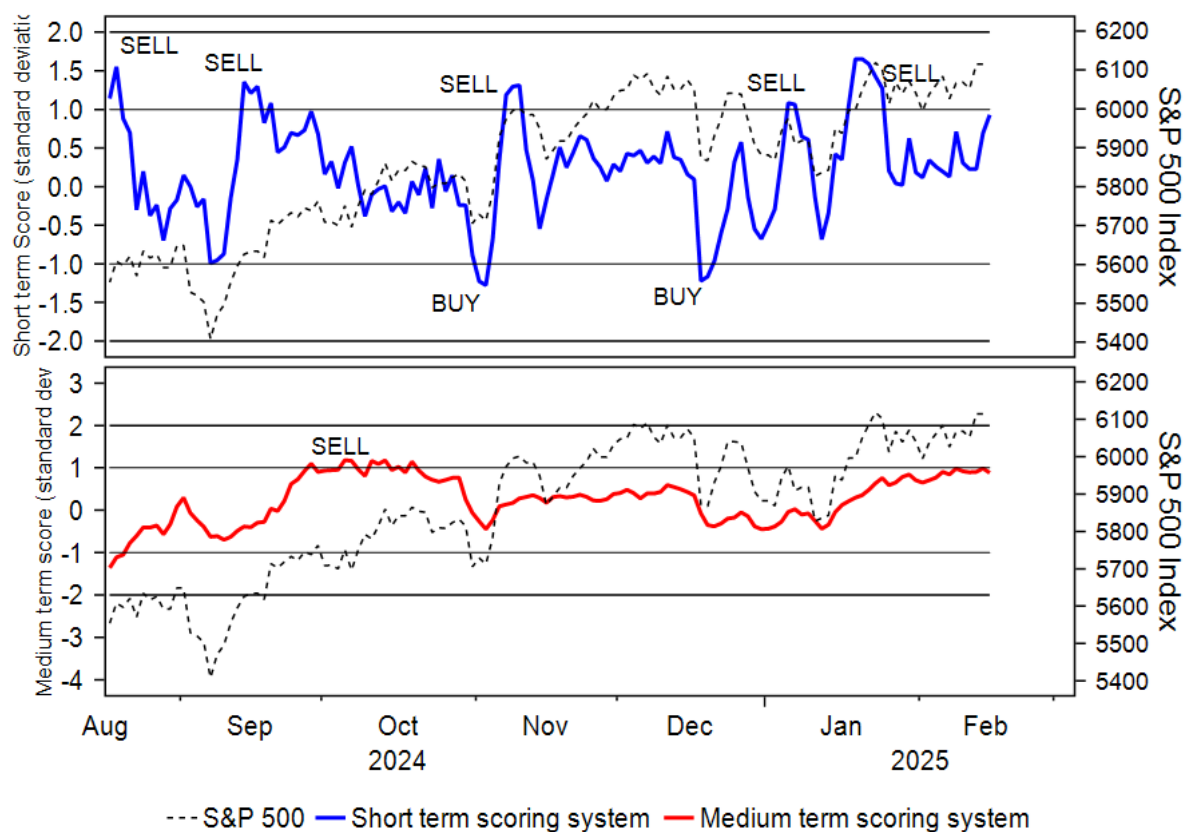
Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Japanese machinery orders (Dec, 12:50am); **UK Employment, jobless claims & average weekly earnings** (Jan/Dec, 7am); French headline & core CPI (January first estimate, 7:45am); **German & Eurozone ZEW survey – expectations & current situation** (Feb, 10am); US Empire manufacturing (Jan, 1:30pm); Canadian core CPI (Jan, 1:30pm); Canadian existing home sales (Jan, 2pm); **US NAHB housing market index** (Feb, 3pm); US total TIC flows (Dec, 9pm); Australian Westpac leading index (Jan, 11:30pm); Japanese imports/exports, & trade balance (Jan, 11:50pm).

Key events today include: **RBA policy decision** (3:30am); speeches by the ECB's Holzmann in Vienna (9am) & Cipollone in MNI livestreamed event (2pm); speech by the Fed's Daly to American Bankers Association (3:20pm).

Key earnings today include: **Arista Networks**, **Medtronic**, Cadence Design.

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.

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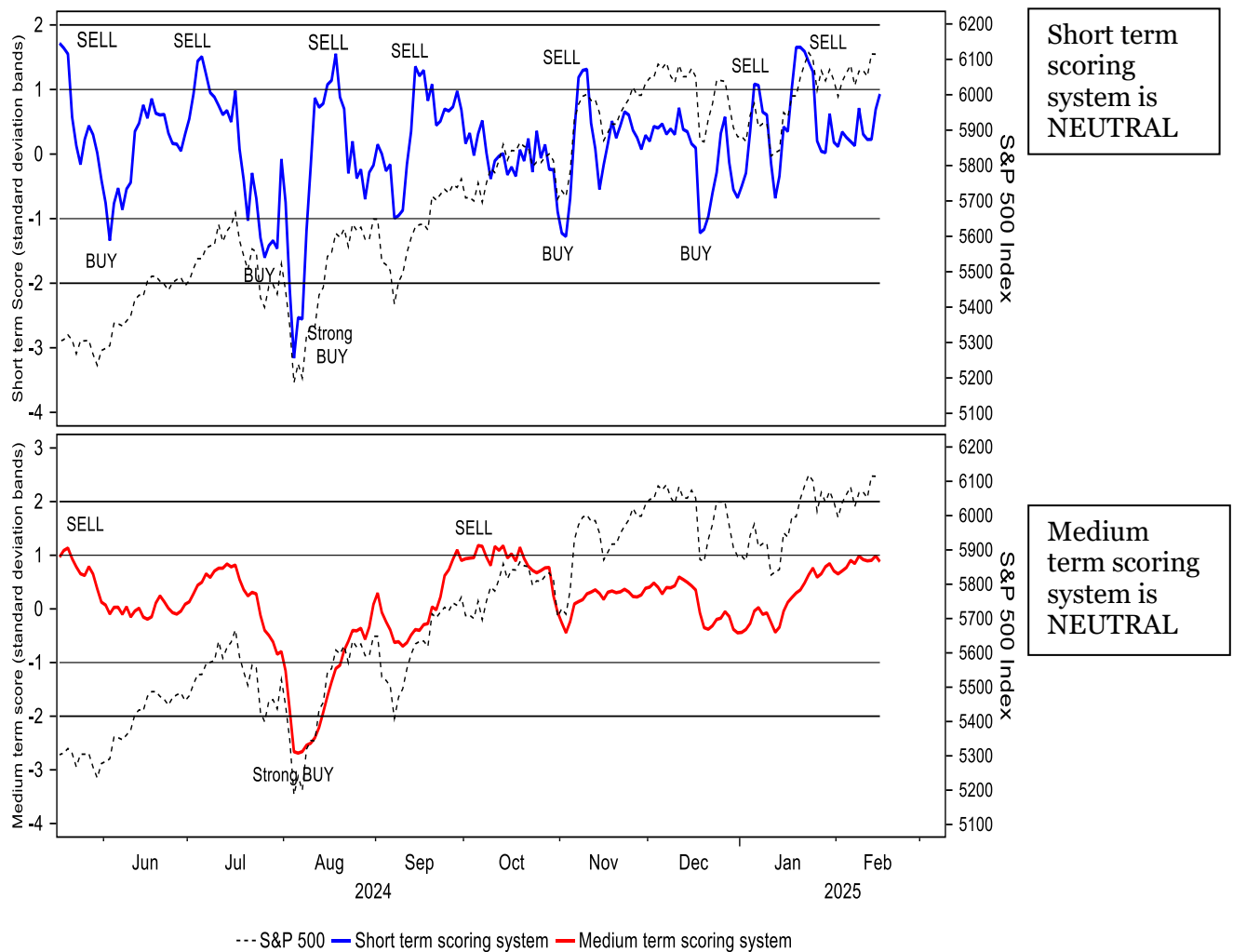Longview Economics
Longview Economics

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 NEUTRAL

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
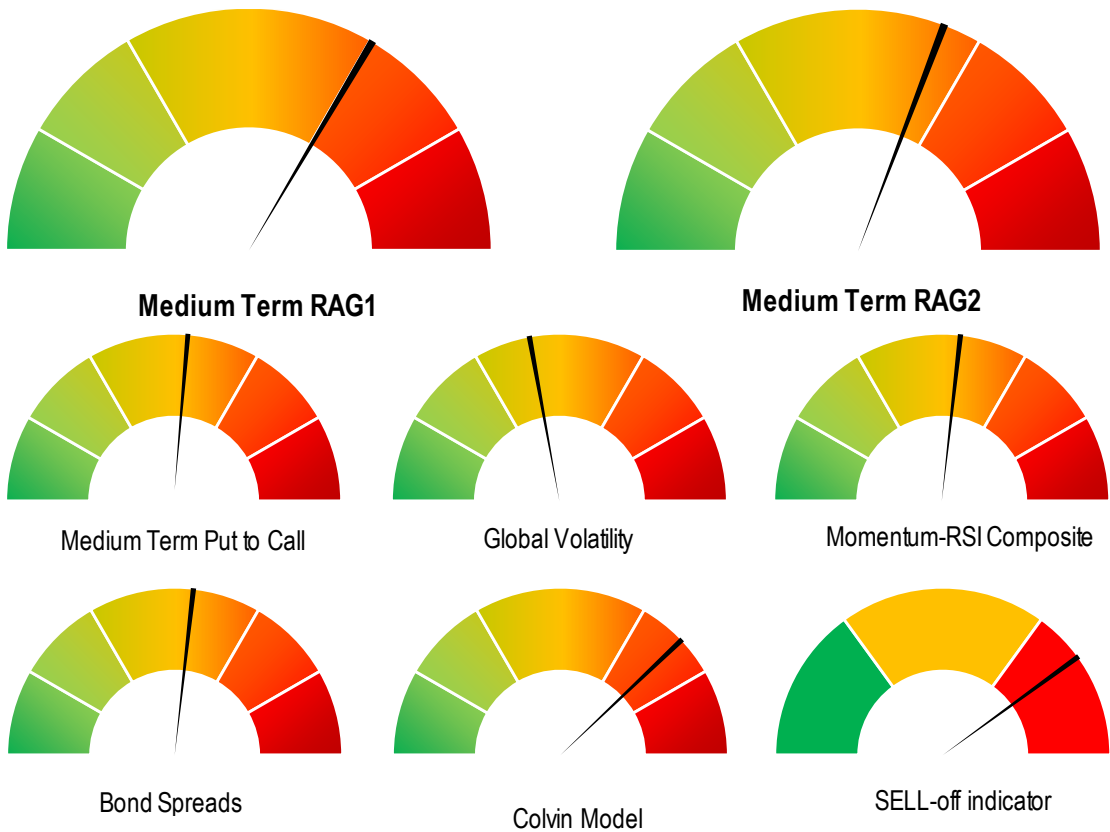***For explanations of indicators please see page 10***

LV RAG
Daily Risk Appetite Gauge

Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands
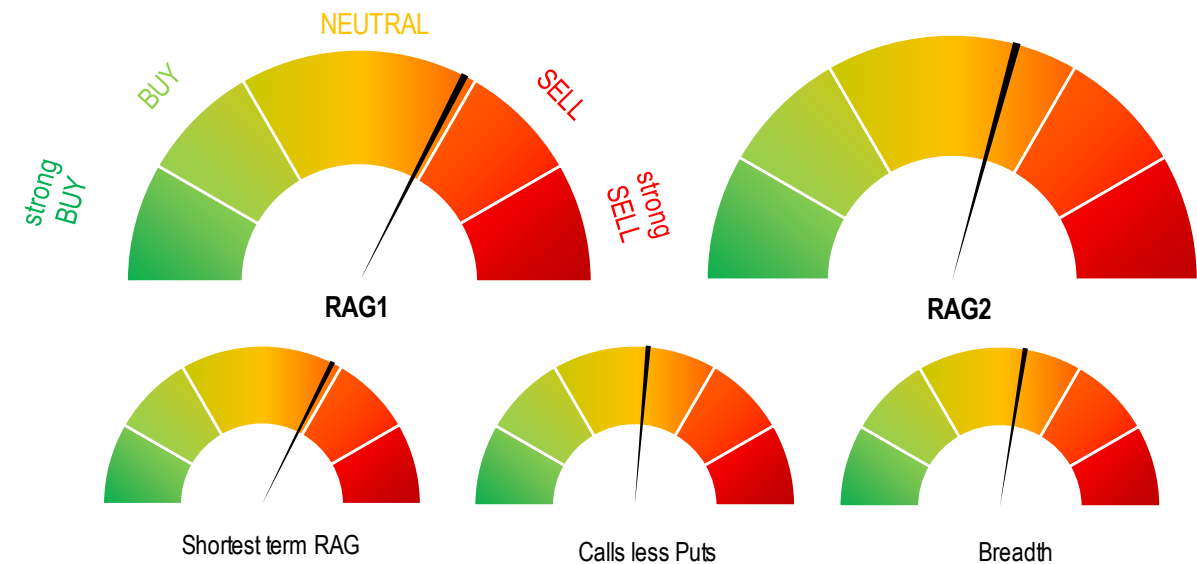
Source: Longview Economics

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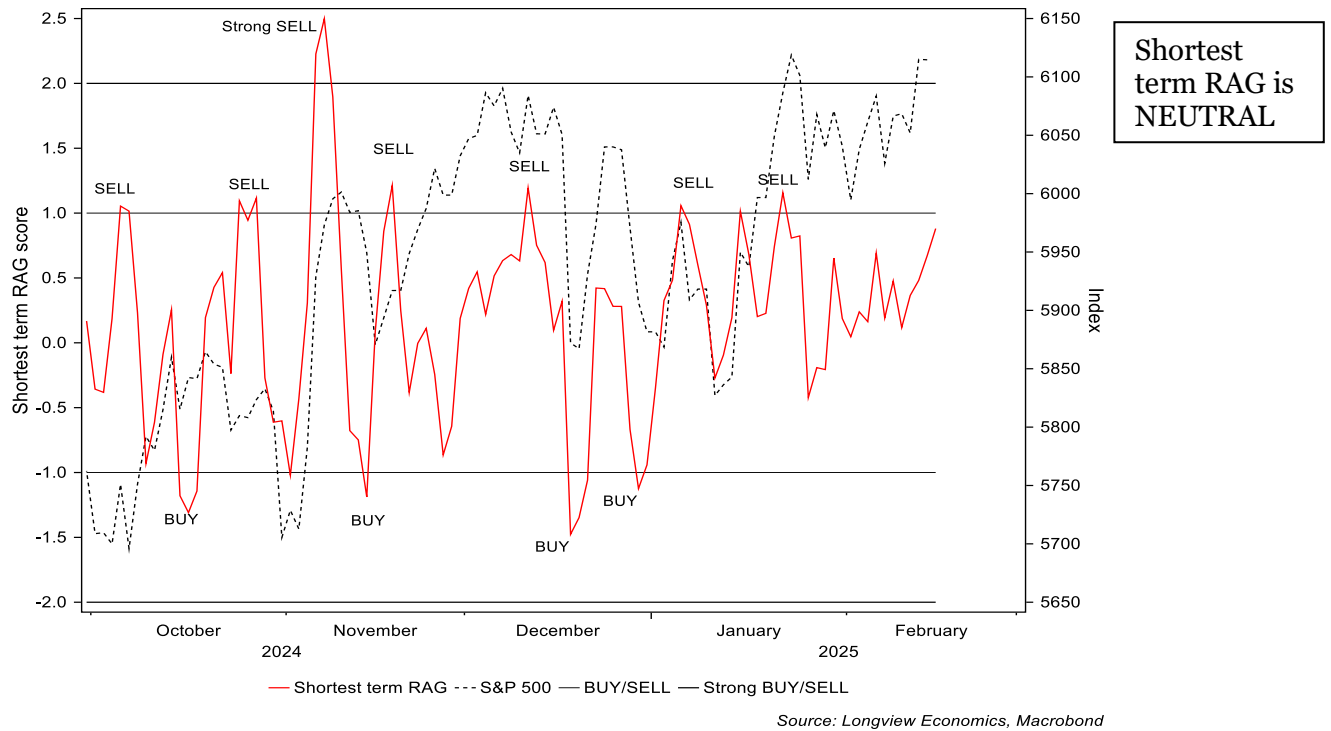
Section 2: Short term (1 – 2 week) trading models

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
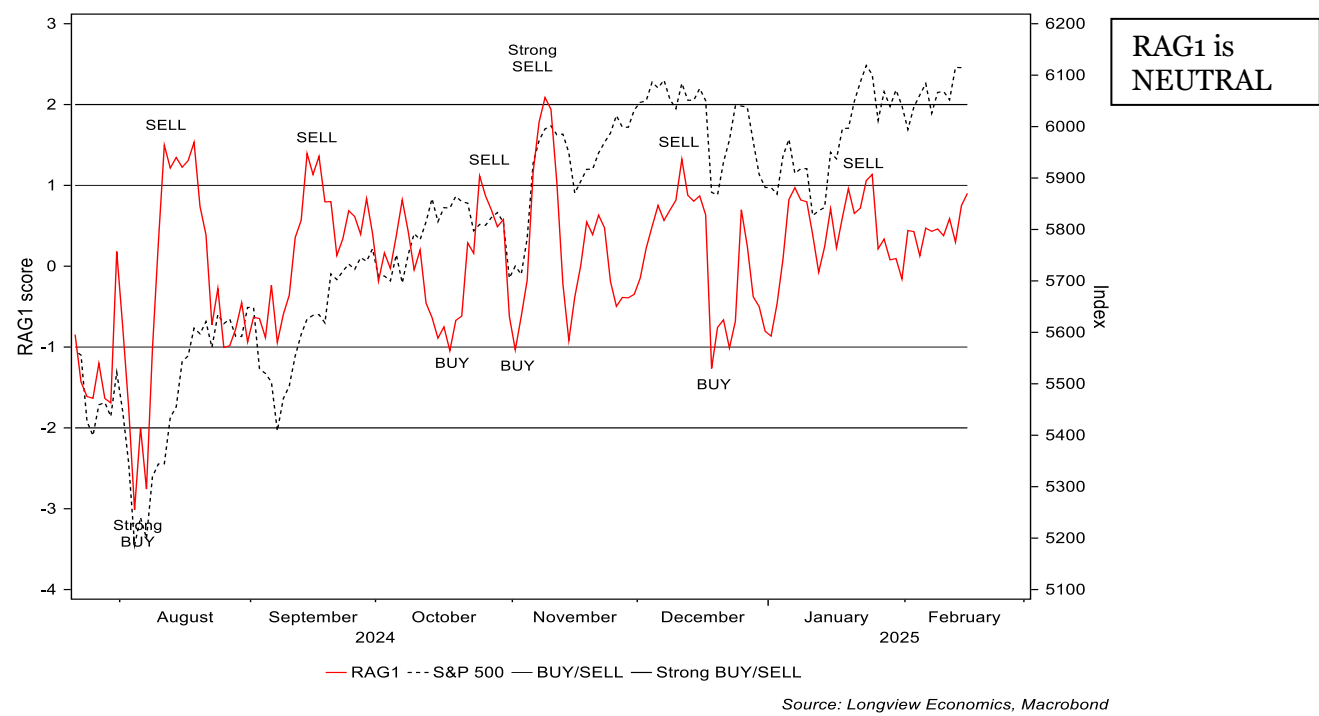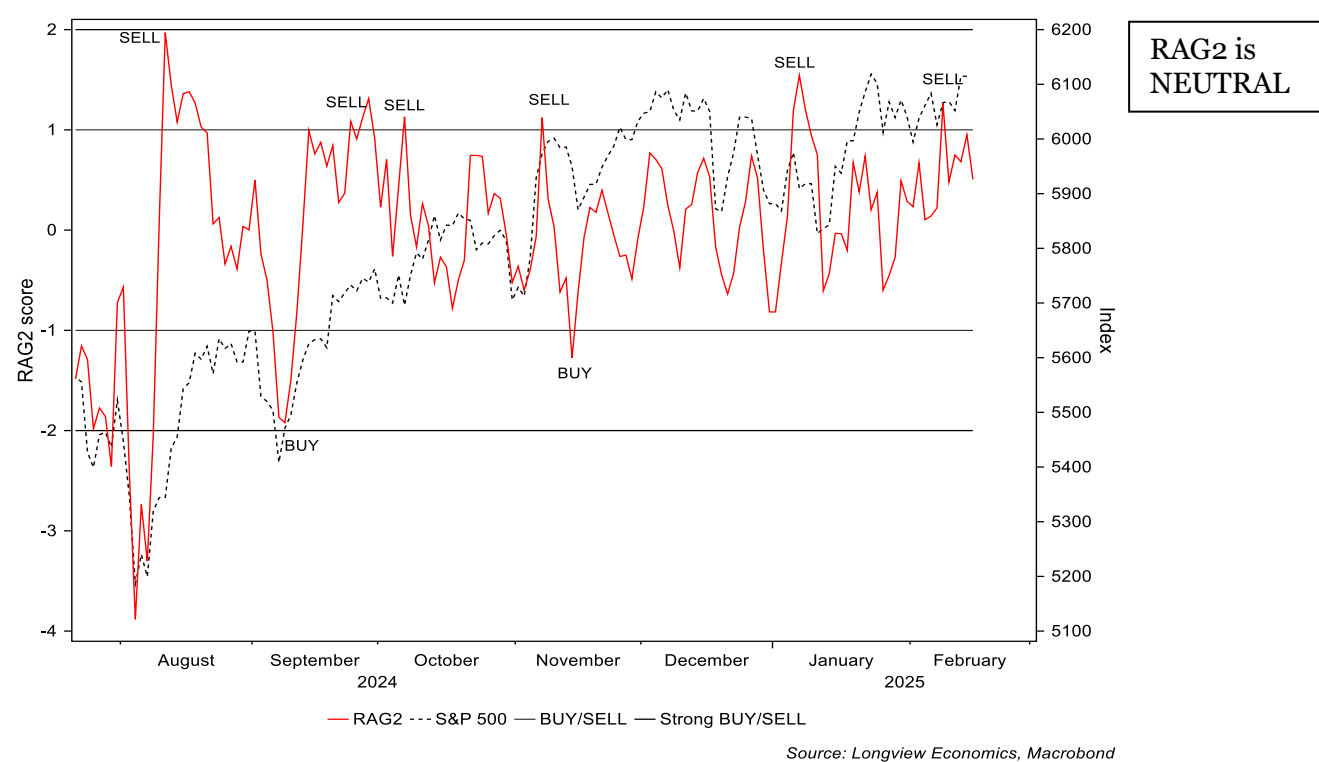
For explanations of indicators please see page 10

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

Shortest term RAG --- S&P 500 — BUY/SELL — Strong BUY/SELL

Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

— 2 — -2 — -1 — 1 --- S&P 500 — Calls less puts model

Calls less puts model is NEUTRAL

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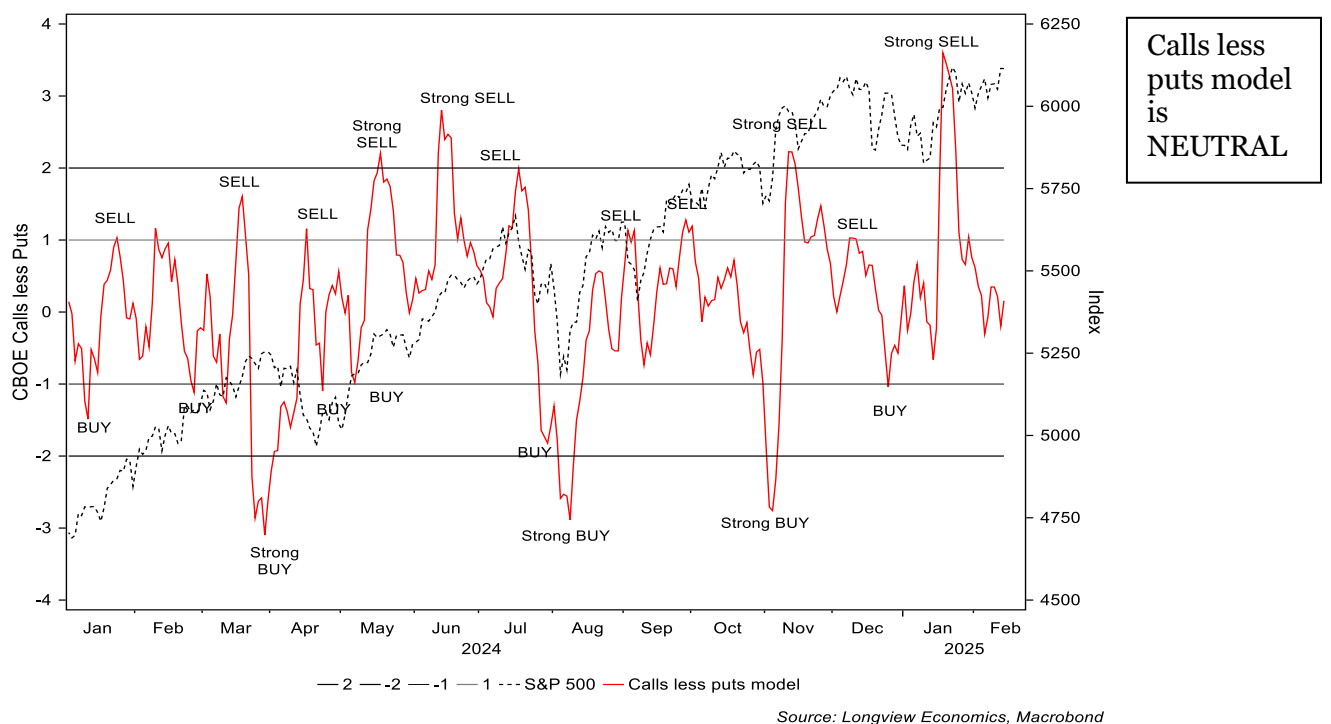
For explanations of indicators please see page 10

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

The breadth model is NEUTRAL

--- S&P 500 —-2 — 2 — -1 — 1 — NYSE Breadth (detrended and vol adjusted, 5-day smoothed)

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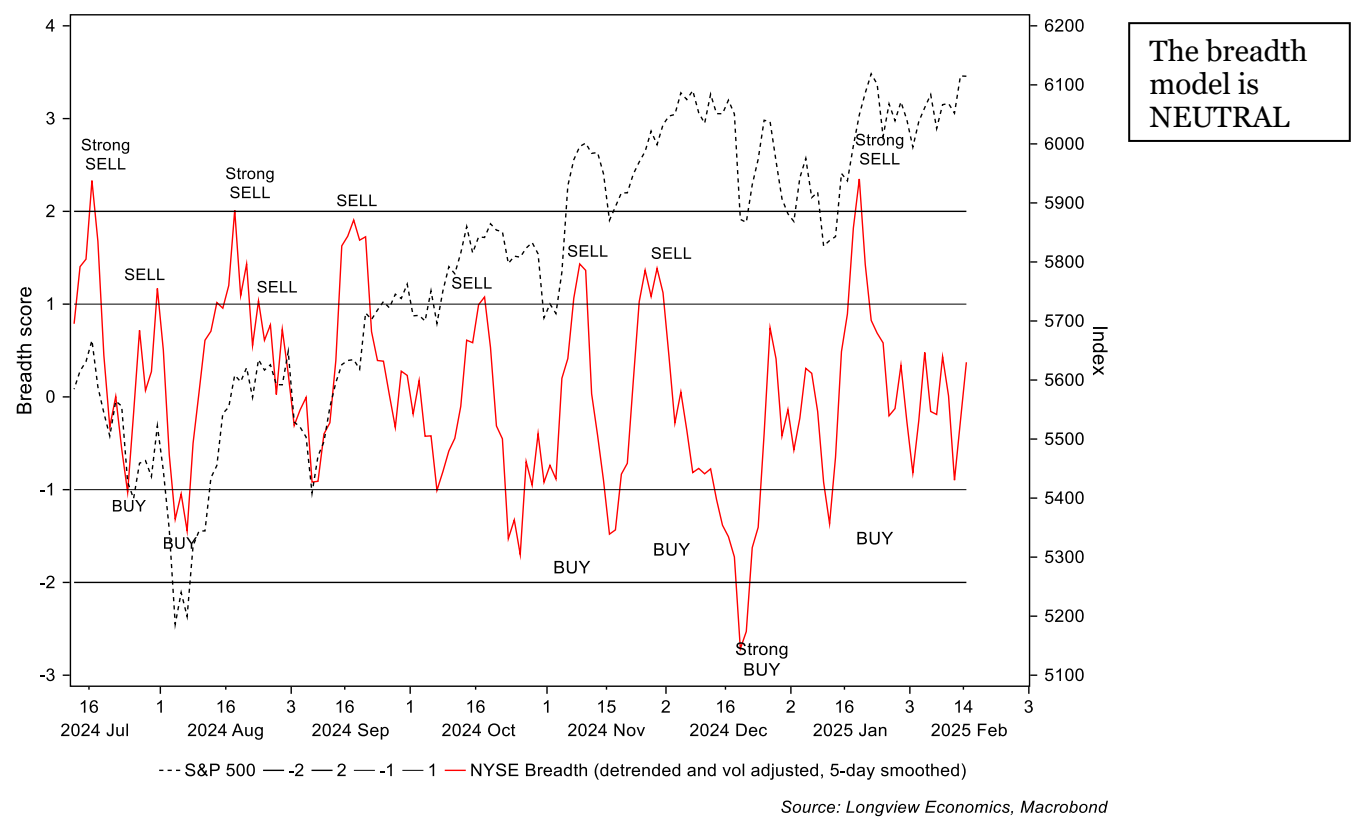
For explanations of indicators please see page 10

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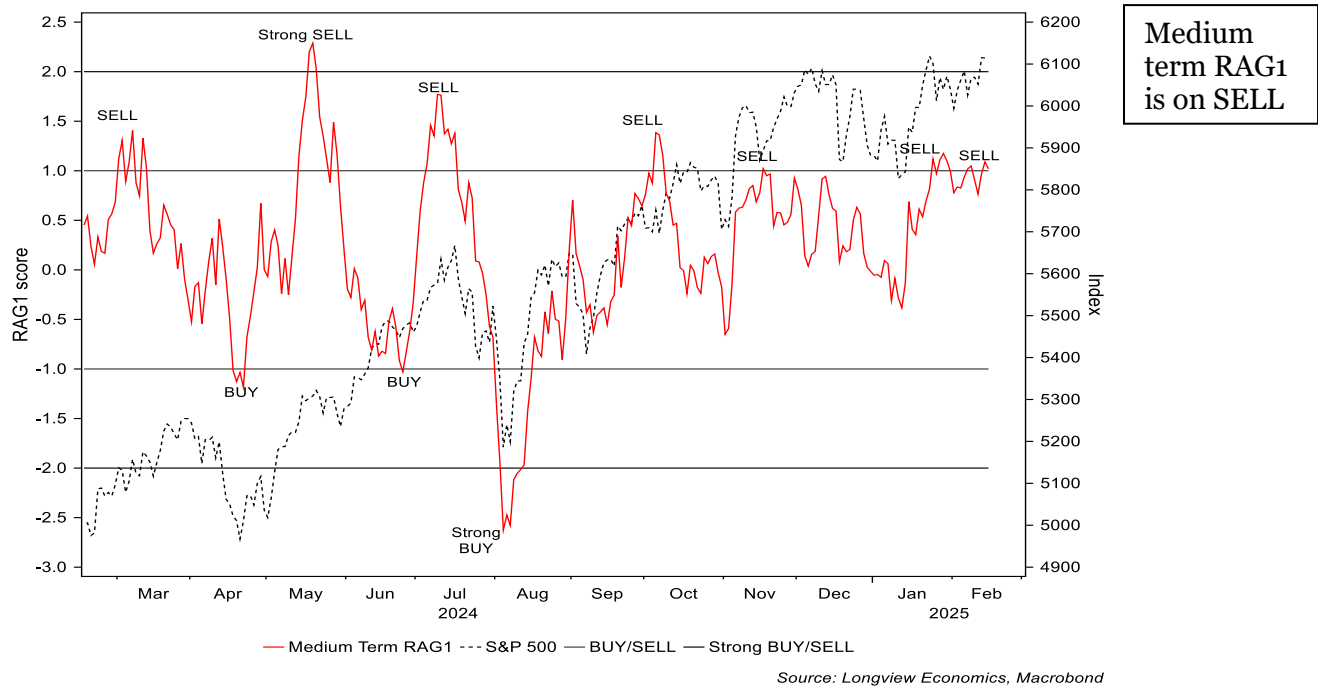
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

Medium term RAG2 is NEUTRAL

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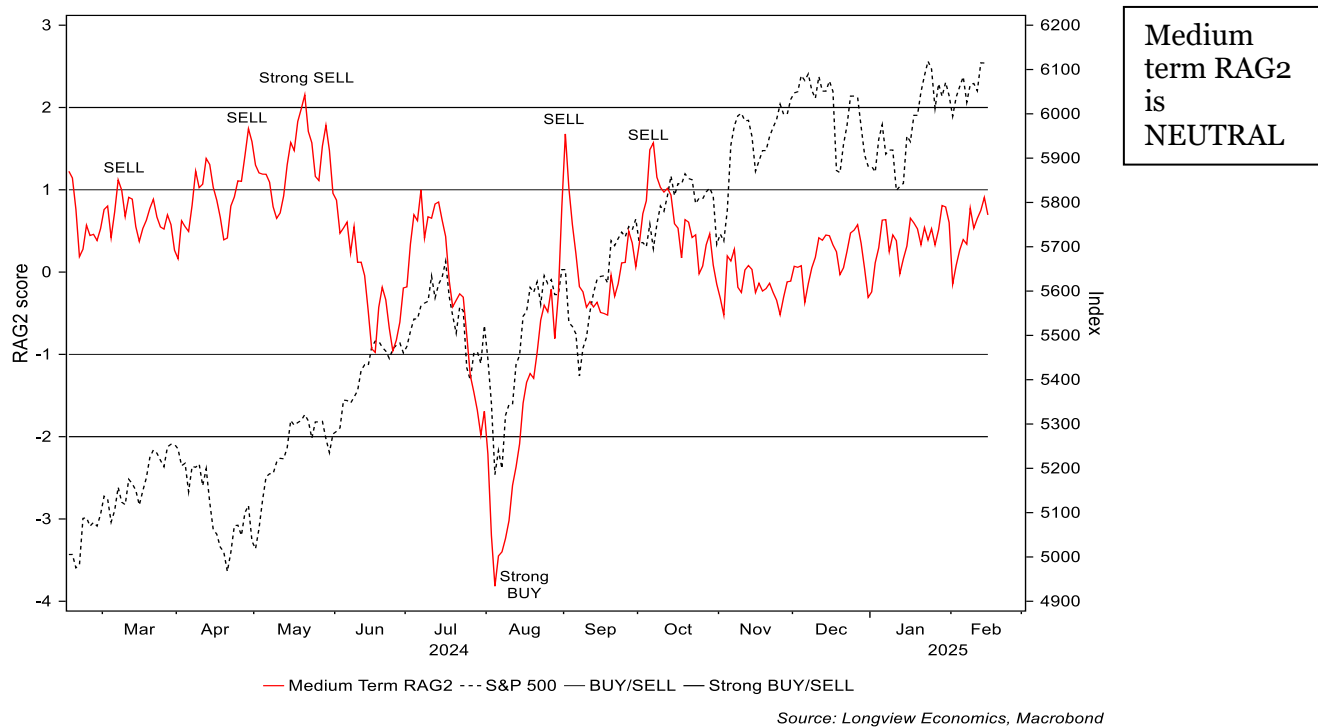
For explanations of indicators please see page 10

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

The SELL-off indicator is on SELL

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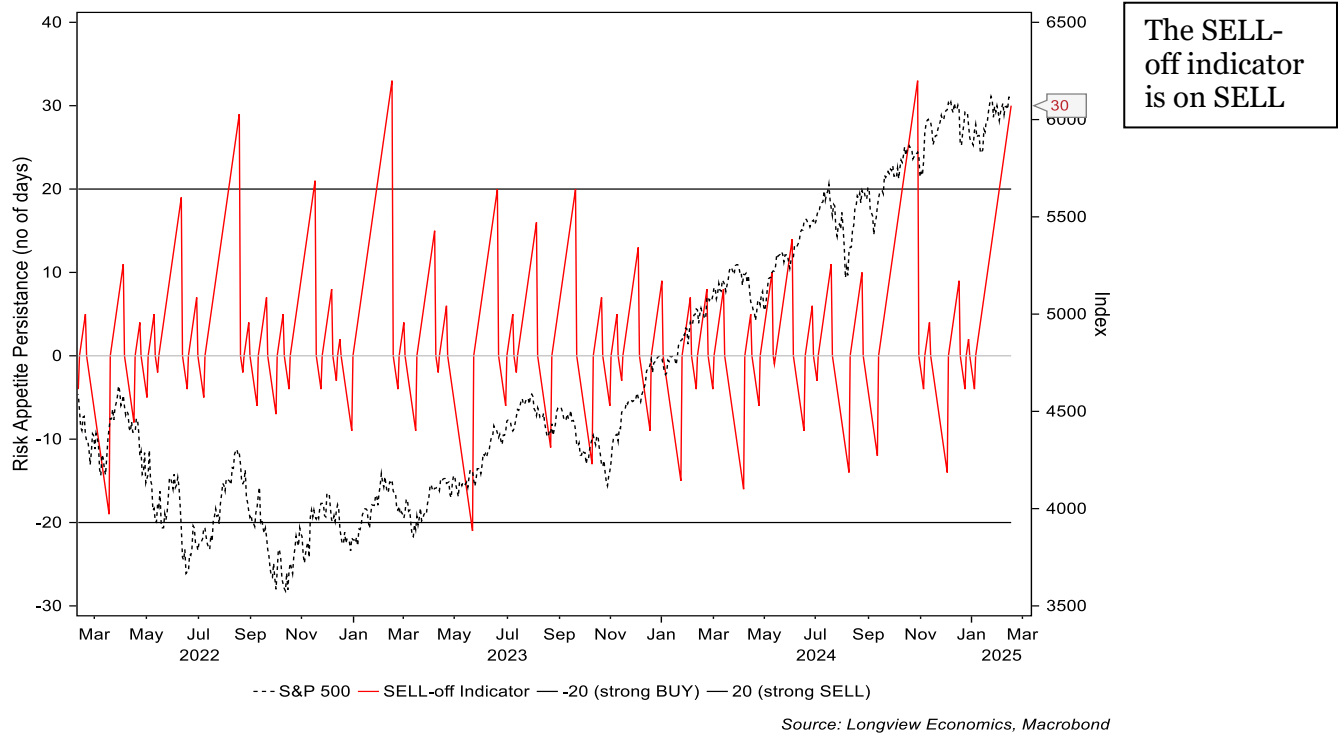
Fig 3d: CBOE put to call trend deviation model vs. S&P500

Medium term put to call model is NEUTRAL

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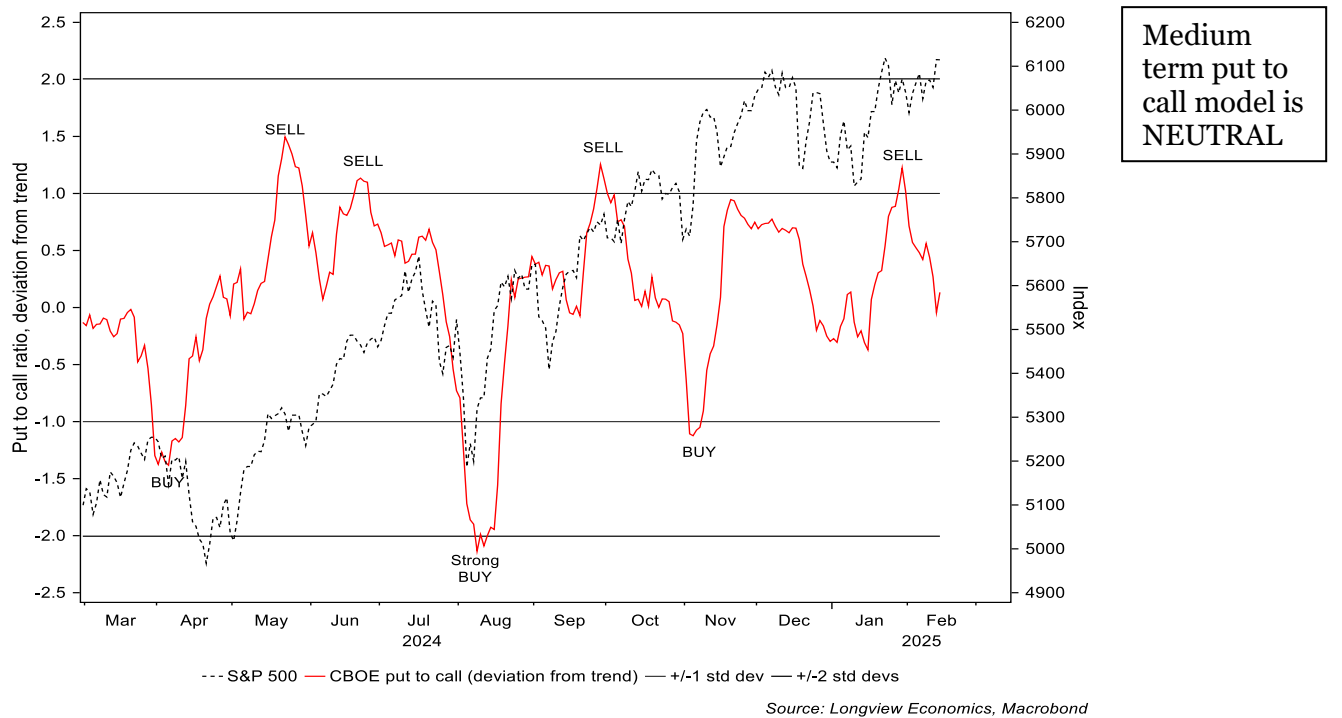
For explanations of indicators please see page 10

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

Global volatility indicator is NEUTRAL

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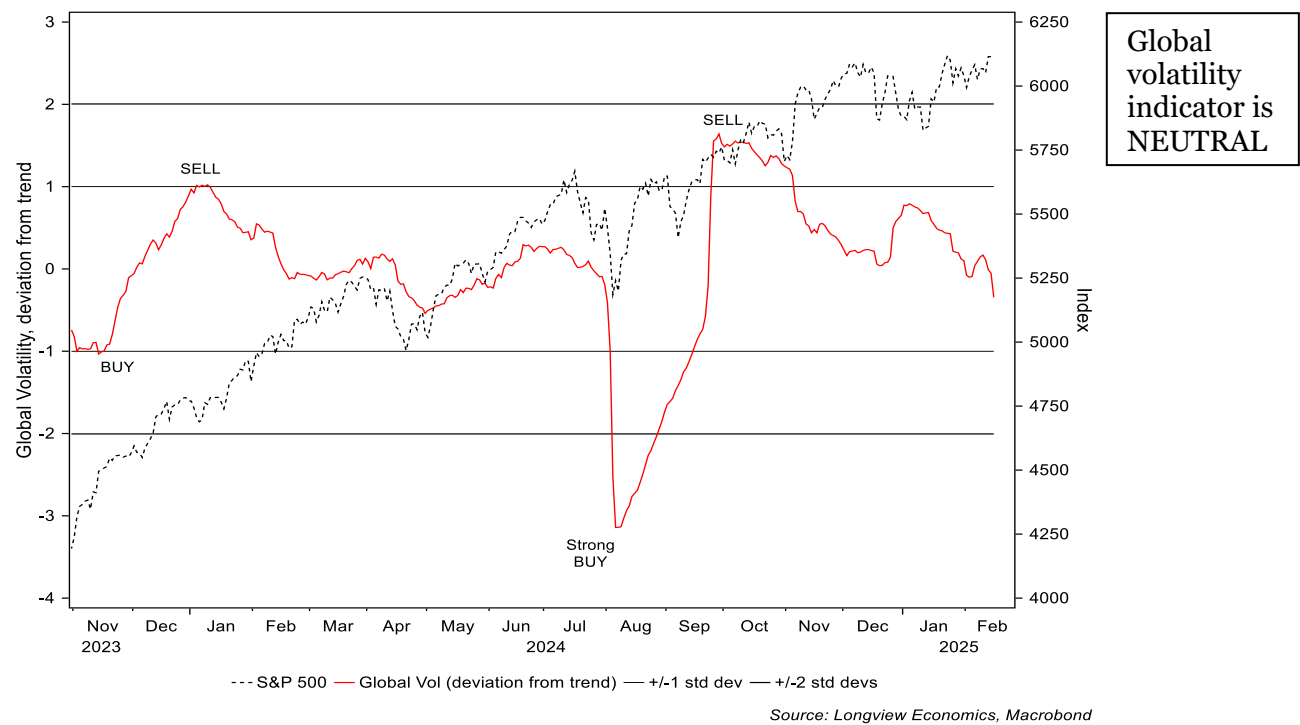
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500
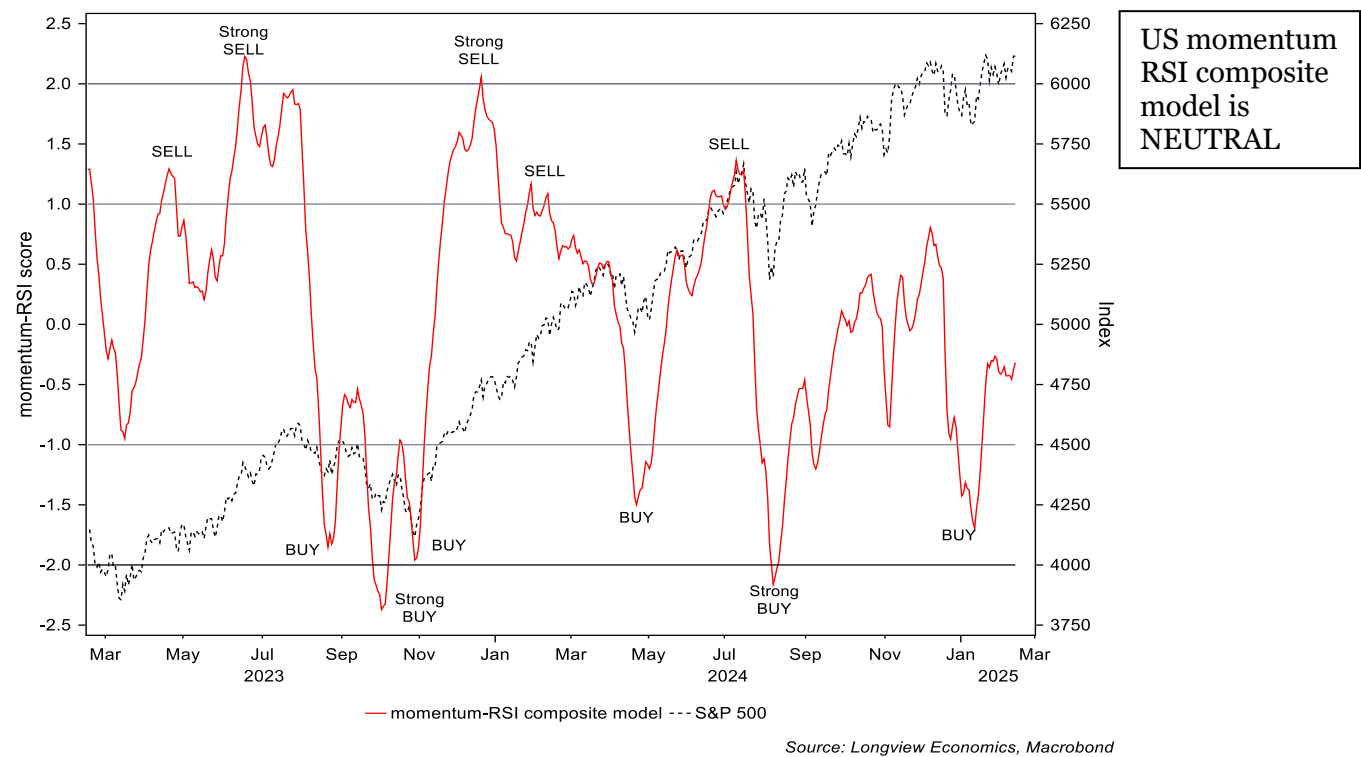
US momentum RSI composite model is NEUTRAL

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 NEUTRAL

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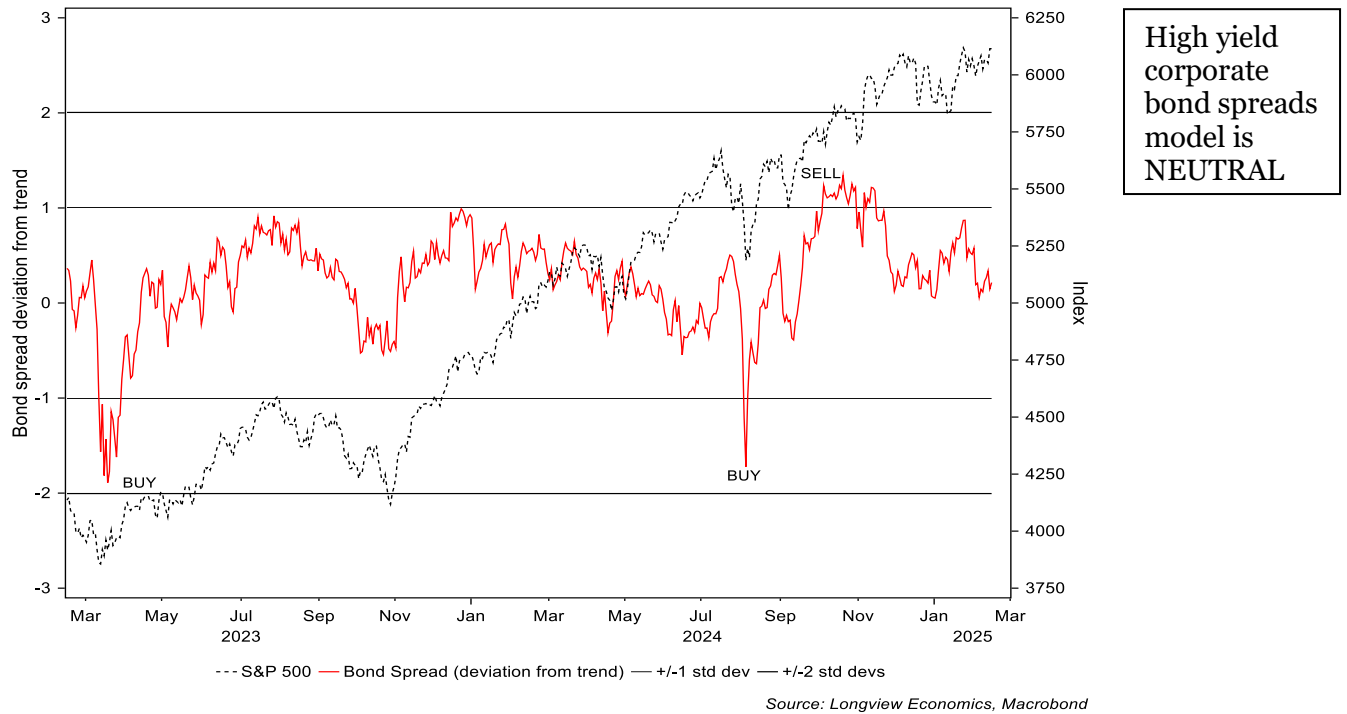
Fig 3h: Colvin model (deviation from trend) vs. S&P500

Colvin model – is on SELL

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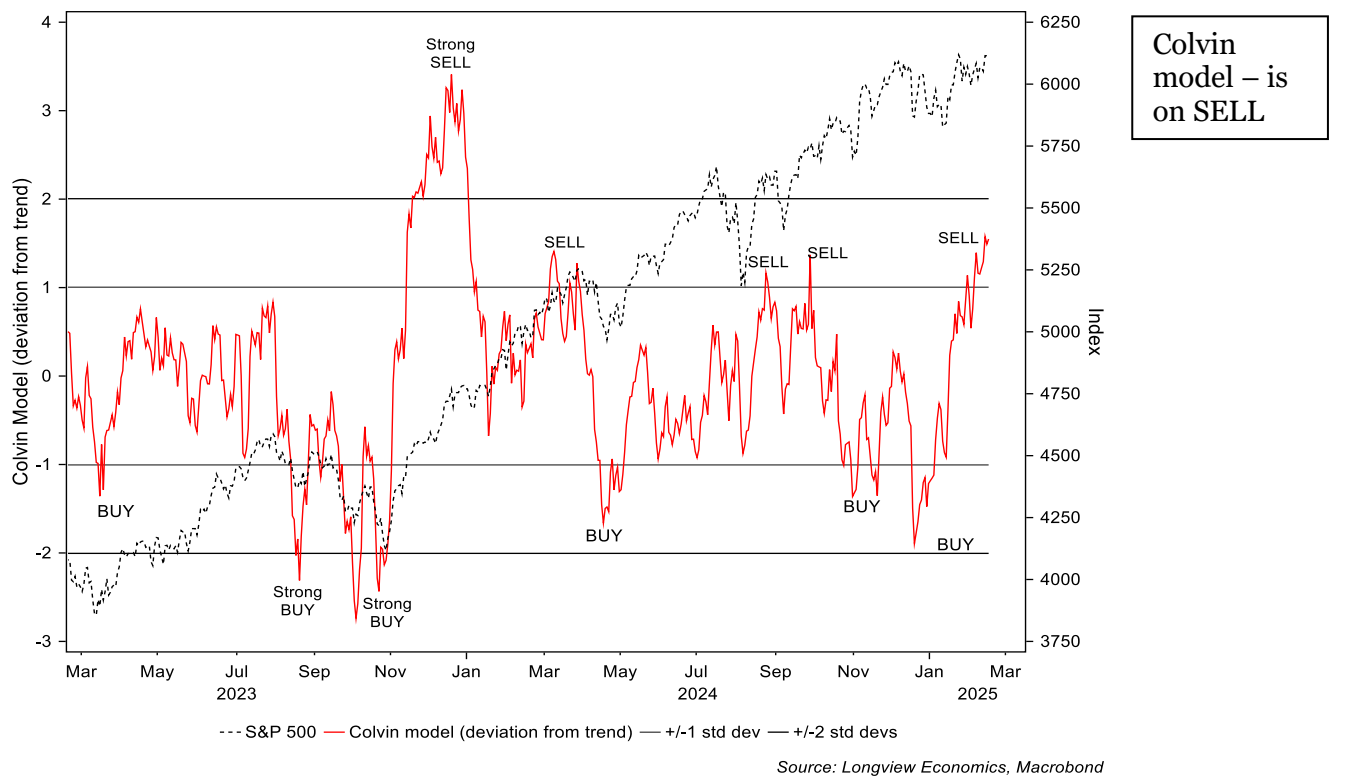
For explanations of indicators please see page 10

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.

Disclaimer