LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

18th March 2025

"Relief Rally Likely Underway - Start BUILDing LONG positions"

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

- Start BUILDing LONG S&P500 positions in June futures*.
- Start with initial ¼ LONG June SPX futures at current prices.
- Increase to ½ LONG at 5,650.
- Implement 3% stop loss on combined entry.

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

Rationale

The case for the 'wave two' relief rally continues to build**. That case is threefold.

Firstly, price action: That is, on Thursday last week, the NDX100 (the centre of the wave one weakness) held its Tuesday intraday lows and started to rally. Friday's strength then continued into yesterday's session. With that, the NDX100 looks as though it is breaking above that 'base building' range from last week (that is, breaking above the 19,365 – 19,992/20,000 range, FIG 1). For S&P500 futures, the situation is similar (although not as clear cut, with Thursday's lows below the lows on Tuesday, see FIG 1a).

Secondly, models: The models remain largely onside (with one or two exceptions). That is, the majority of key models remain either on or close to BUY. The NDX centric models, highlighted yesterday, have mostly picked up but are still at/close to BUY levels. The NDX100, for example, remains well protected to the downside, oversold with widespread bearish sentiment (NB all these charts have updated overnight – see FIGs 1f, 1g & 1h). Whilst the VIX and VVIX have been easing in the past two days, as the market has rallied, the steepness of the VIX curve is also still onside for LONG positions (FIG 1d). Added to which, the proportion of US stocks which are trading below their 50 day moving averages remains high (i.e. the model is still at a low level, FIG 1e). In 'wave two' relief rallies, a sharp and significant bounce across a wide breadth of single stocks is normal (before 'wave three' commences). Finally, short term models remain at low levels (with the exception of risk appetite models). That is, at an index, sector and single stock level, the S&P500 (& NDX100) are oversold (FIGs 2d – 2f). Equally downside put protection is high in the broader market (see CBOE put to call ratio, FIG 2c).

Third, key levels: With the NDX100 & SPX (potentially) breaking above an initial key level, the scope for further upside is considerable. There are various useful ways to think about that potential. Fibonacci retracements is one approach. Typically in a 'wave two' relief rally, the index will retrace between 50.0% and 61.8% of its initial losses. Those retracement levels are shown in FIGs 1b & 1c. Occasionally, in bear markets/major pullbacks, the retracement is only 38% of the initial losses. In all instances, though (with only around 23% retraced so far, there is further upside). Market volume profile is another approach to finding key levels. That approach highlights 5,780 as an initial key resistance (i.e. approx. 100 points higher).

Key risks are, as always, multiple. There hasn't been any clear signs of capitulation (although price action is looking V shaped). Equally, a small number of short term models are already back on SELL (e.g. combined RAG1 & RAG2, risk appetite models) which highlights a need for some caution. Equally, and encouragingly, the narrative in markets has been changing – with various major strategists, for example, downgrading their expectations for the S&P500 in 2025 (an interesting anecdotal signal that bearishness has become more widespread, e.g. see HERE). Also of note, the S&P500 is currently at a key resistance level (i.e. 5,720 – as highlighted in prior weeks).

Given our view that a 'wave two' relief rally has likely started, and given that the market didn't reach our entry price yesterday, we recommend starting to BUILD LONG positions with a ¼ LONG at current prices. We then recommend ADDing to the position size (i.e. increasing to ½ LONG at lower levels, if the market pulls back, i.e. at 5,650 on SPX June futures). We also recommend a 3% stop loss on combined entry.

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 60 day tick chart shown with overnight price action

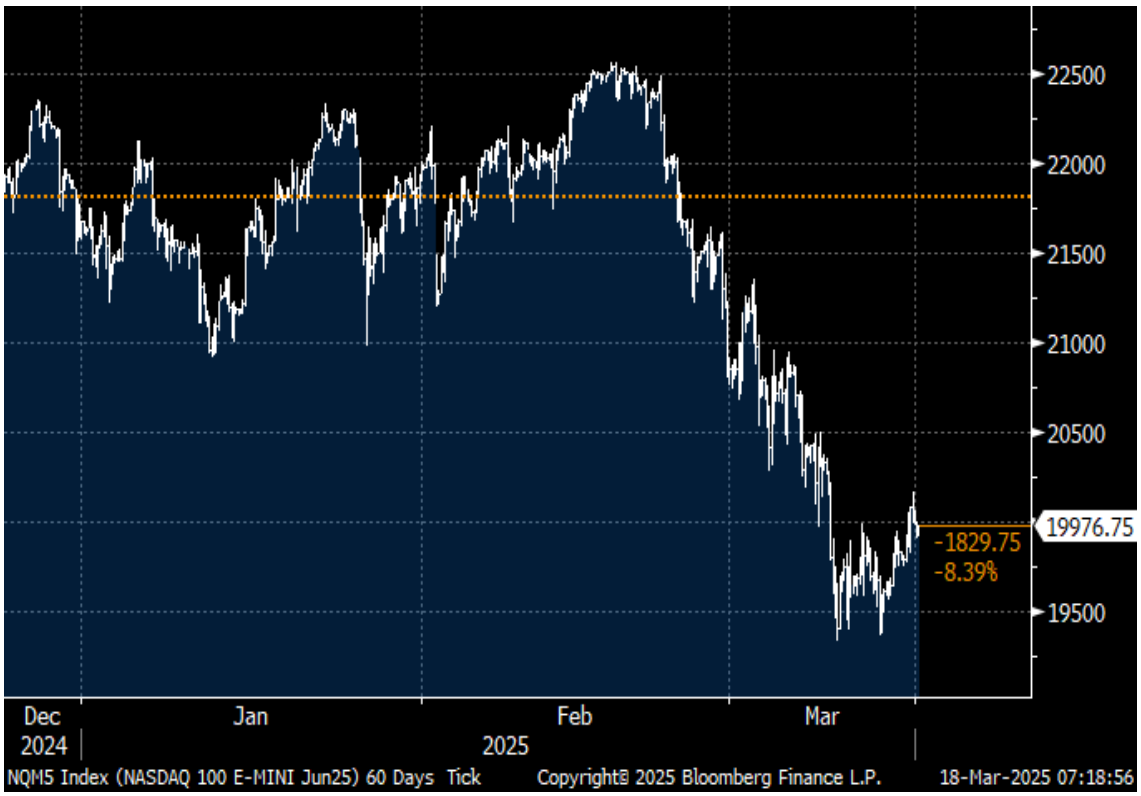


FIG 1a: S&P500 June 2025 futures 10 day tick chart shown with overnight price action

FIG 1b: S&P500 futures shown with key Fibonacci retracement levels

FIG 1c: NDX100 futures shown with key Fibonacci retracement levels

FIG 1d: Steepness of VIX curve (6 month less 1 month VIX futures) vs. S&P500

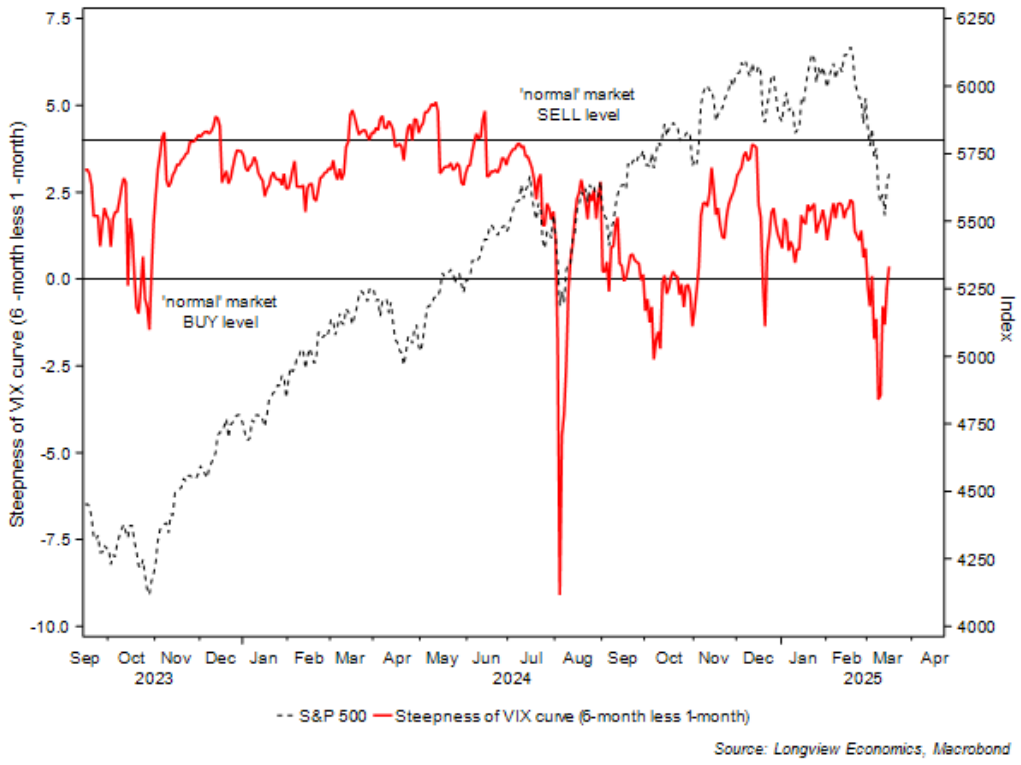


FIG 1e: Proportion of US stocks above their 50 day moving average vs. S&P500

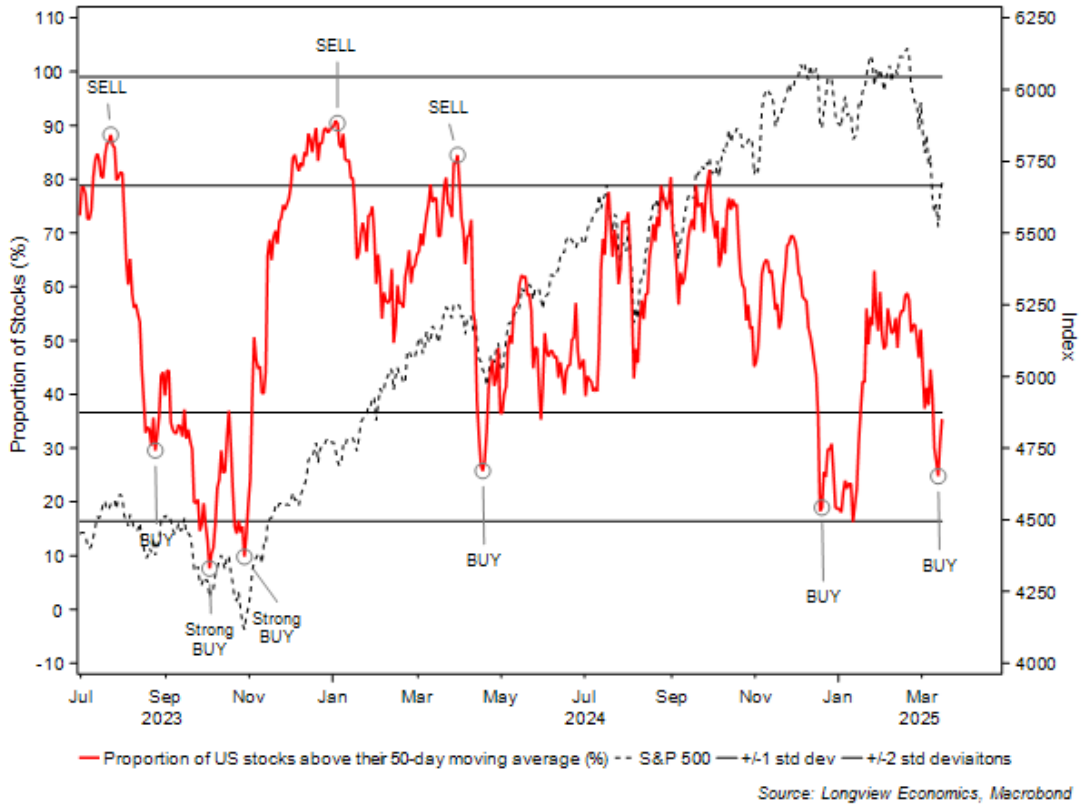


FIG 1f: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

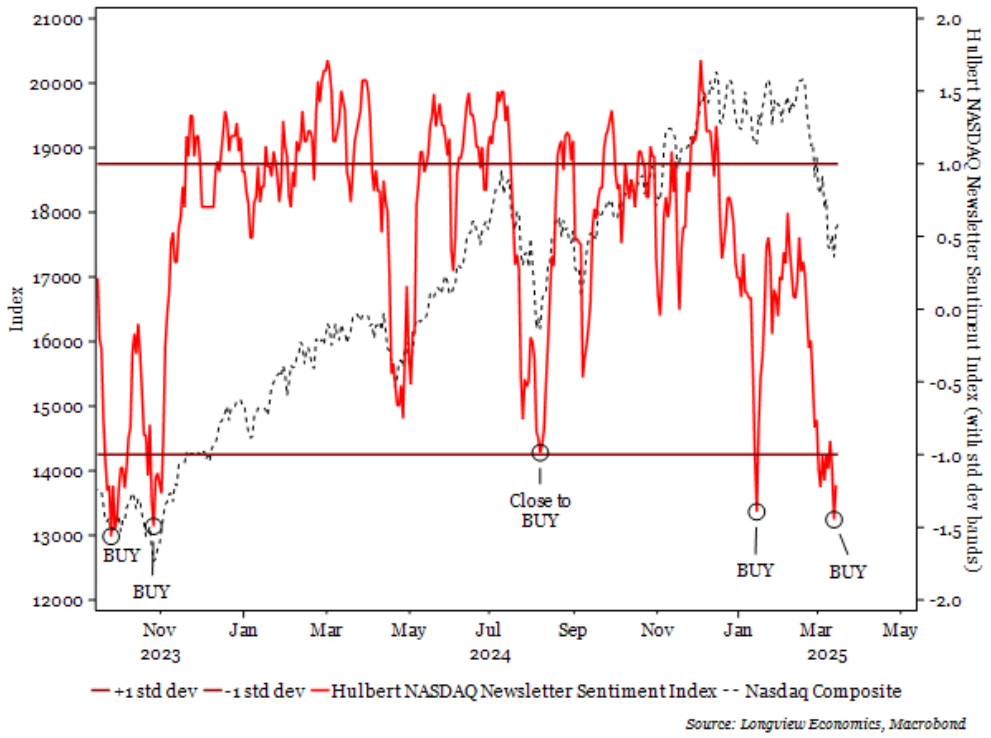


FIG 1g: NDX100 overextended indicator (index price relative to its 50-day moving average)

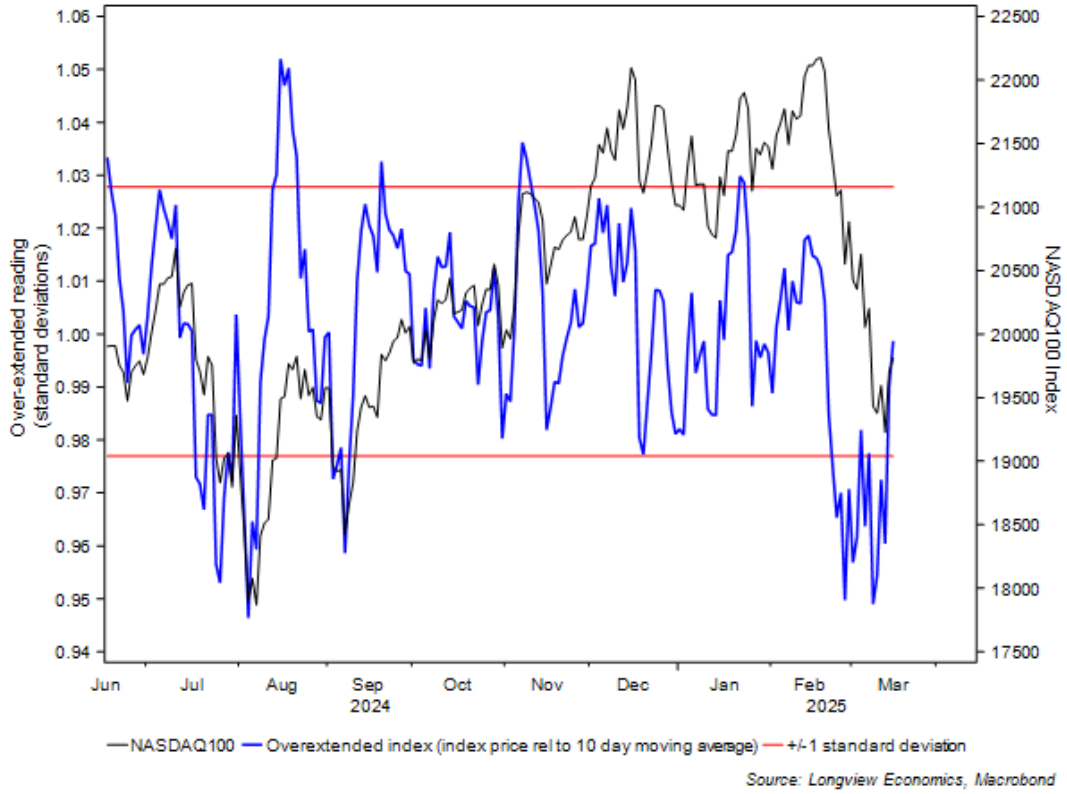
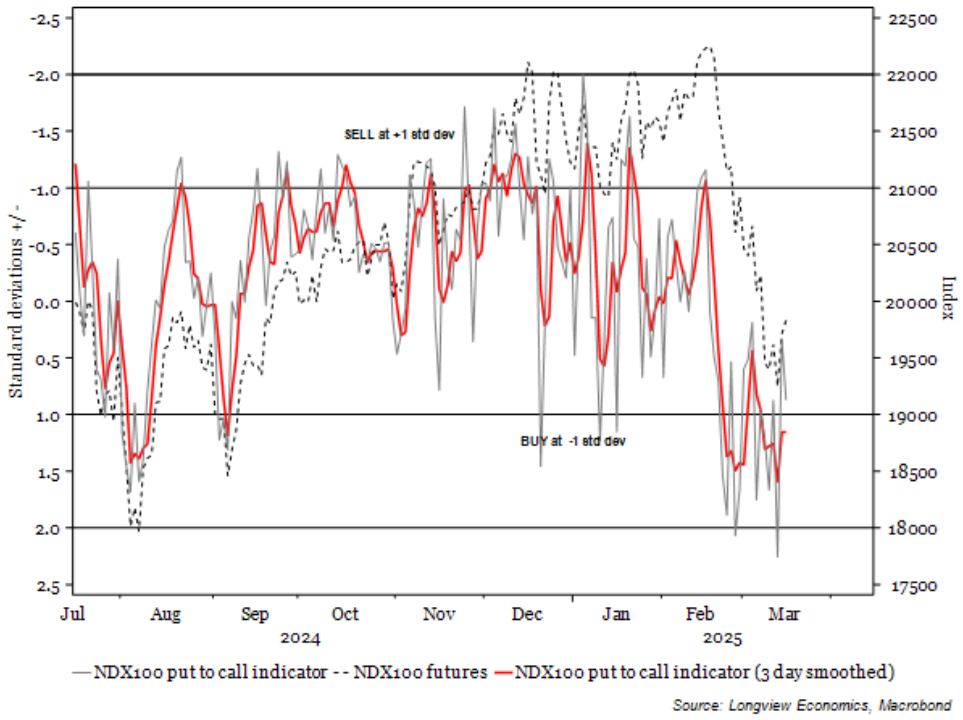


FIG 1h: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Short term risk appetite models have moved back towards SELL

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

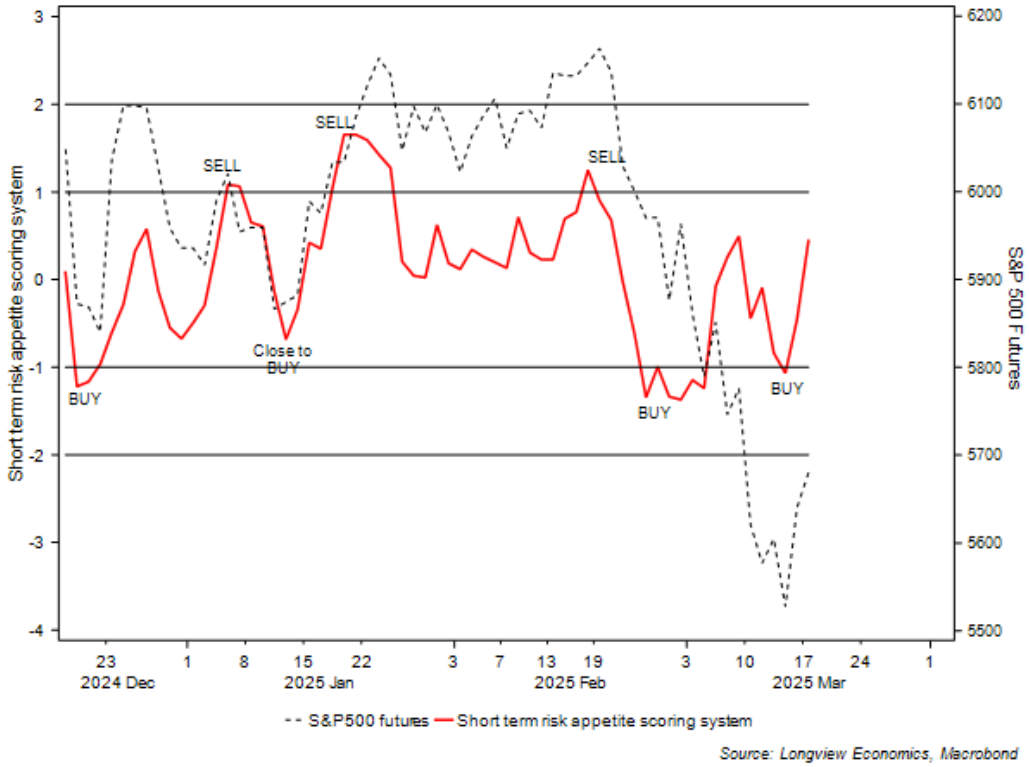
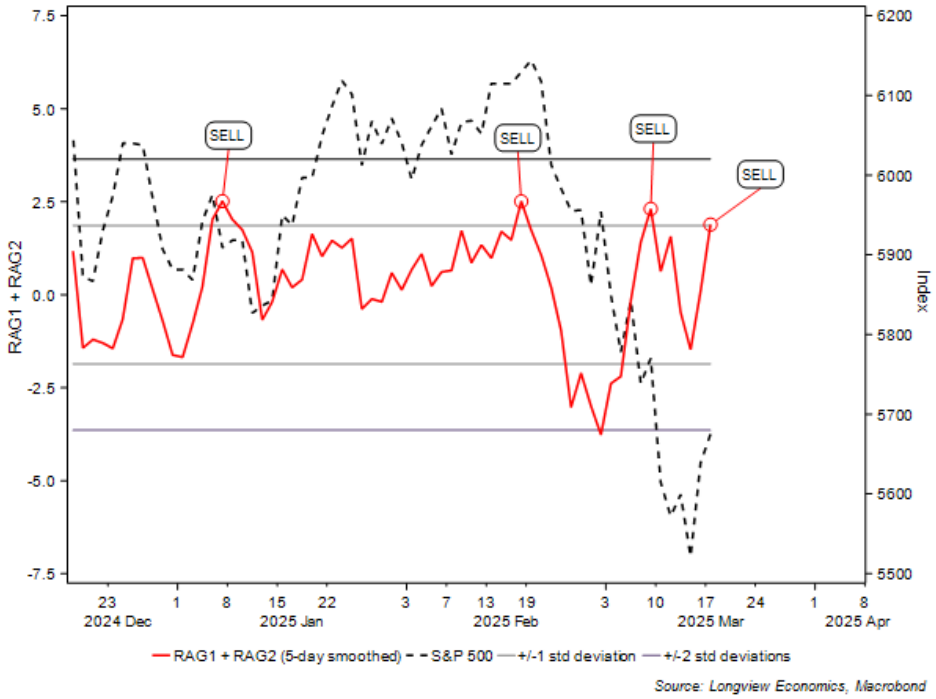


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Put to call ratio indicators are mostly NEUTRAL

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

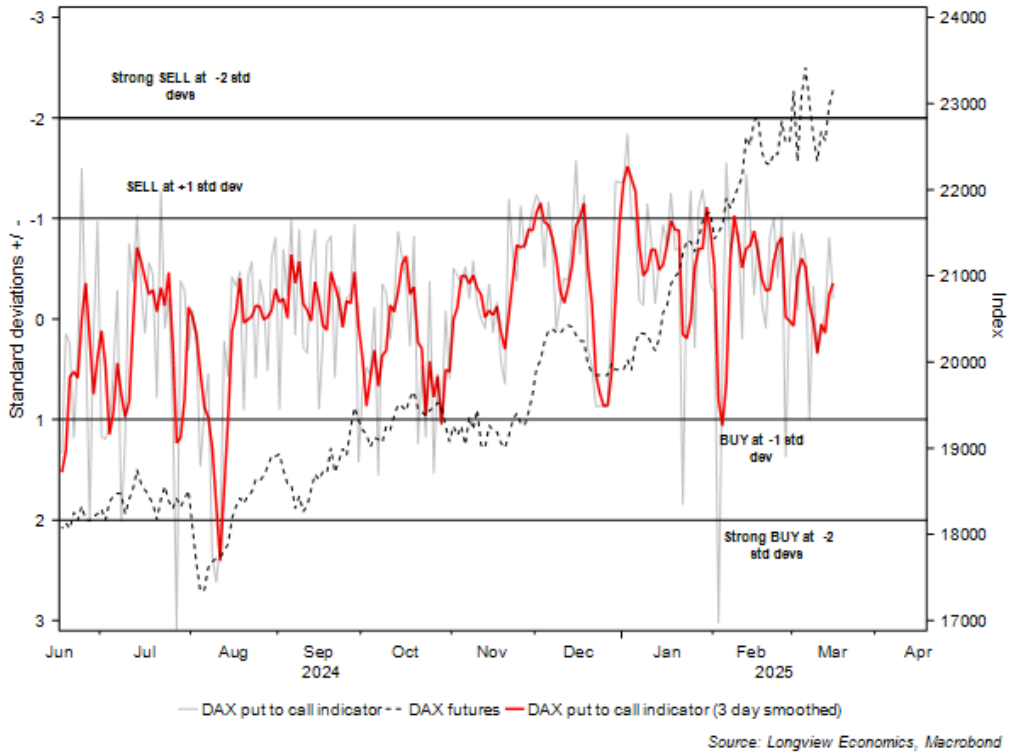


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

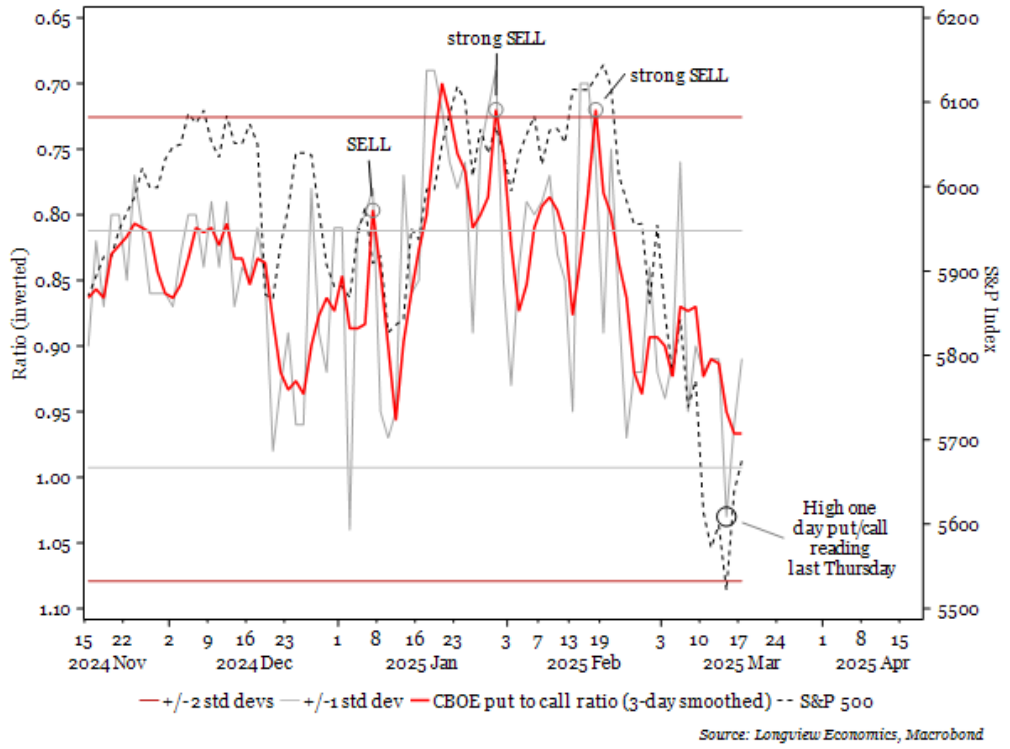


FIG 2d: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

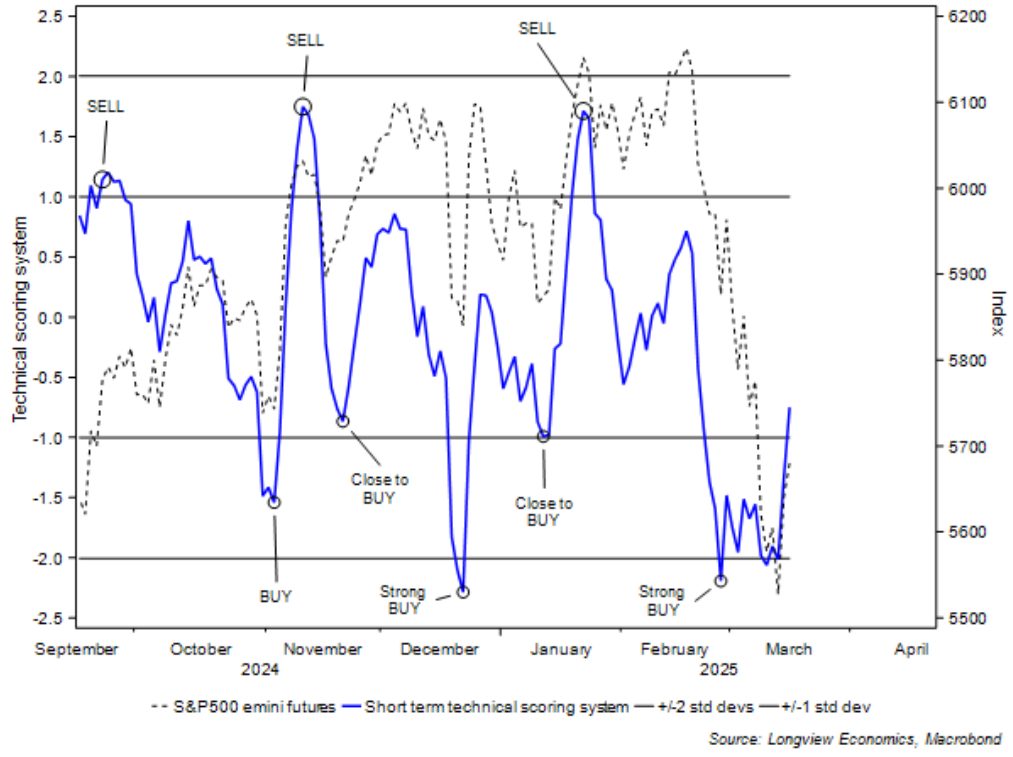


FIG 2e: Momentum of S&P500 industry groups vs. S&P500 cash index

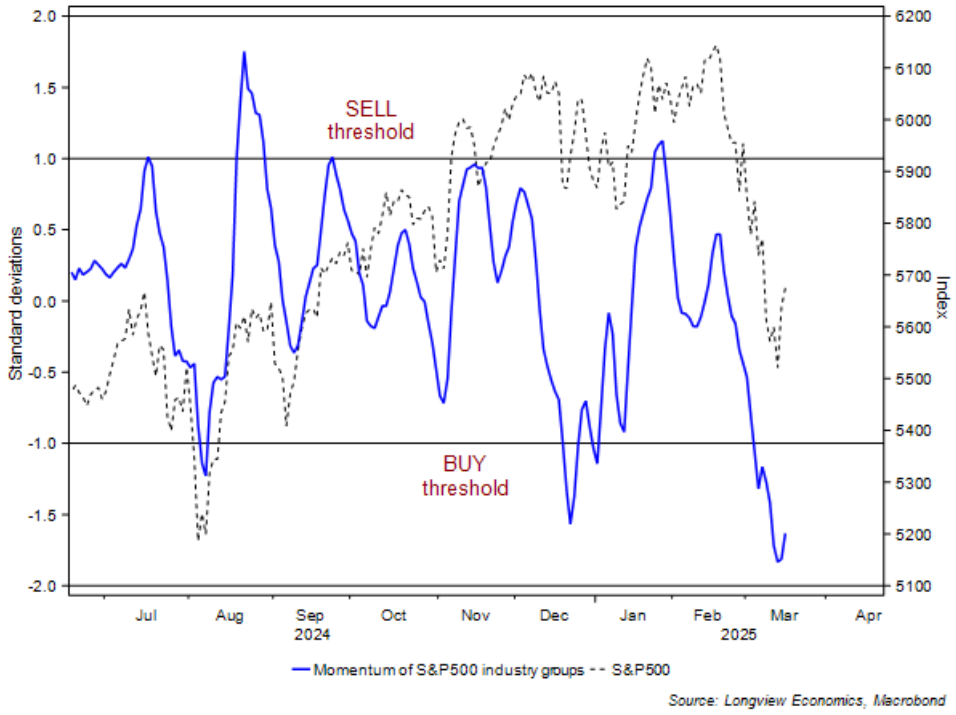
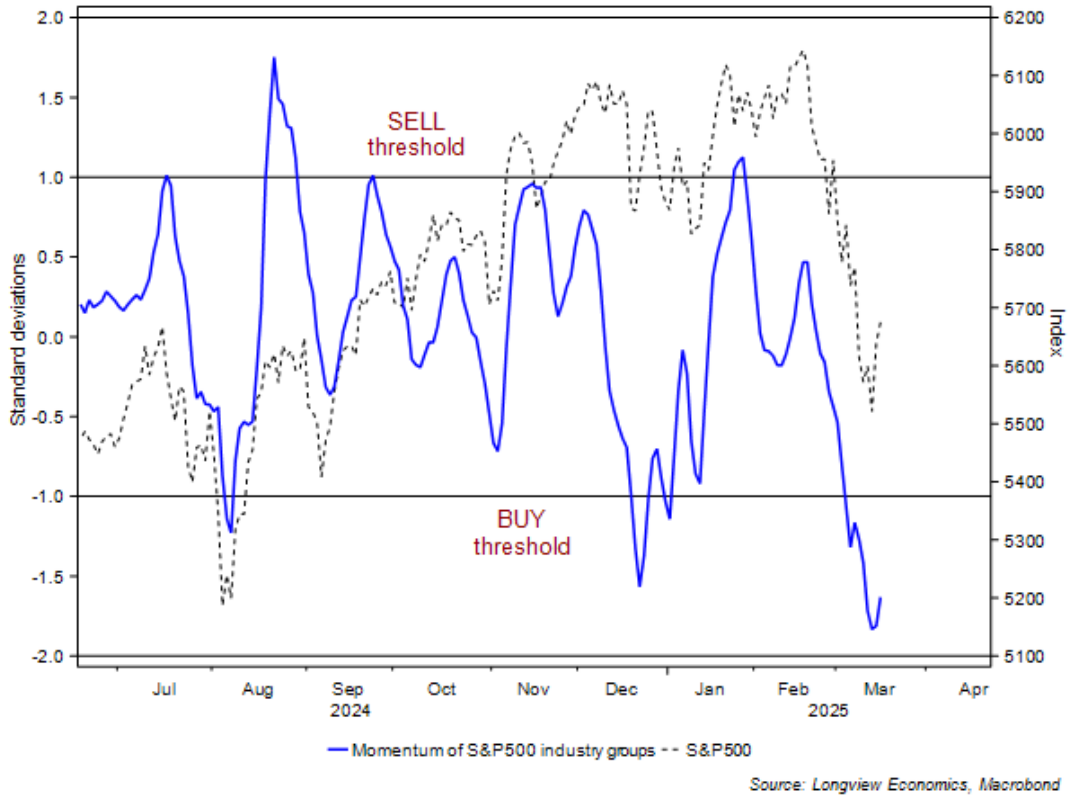


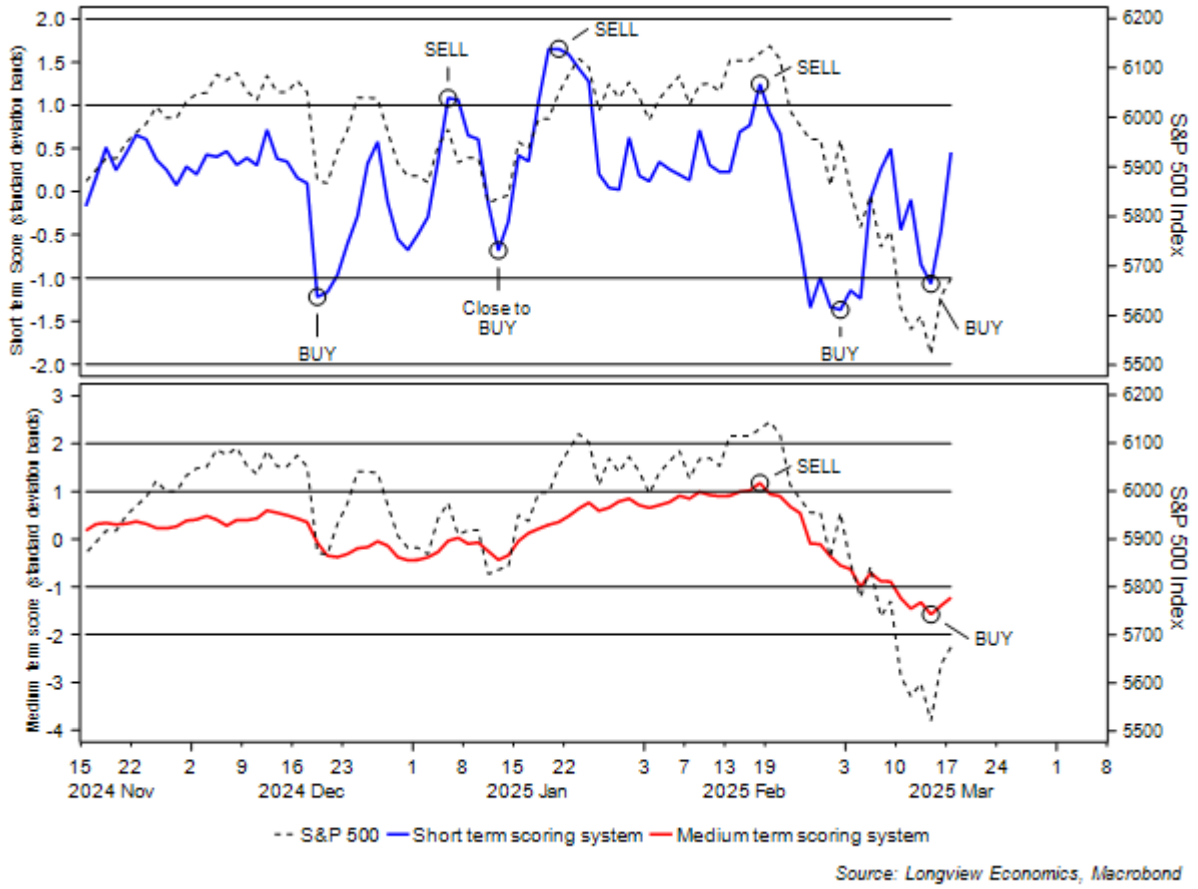
FIG 2f: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



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: Japanese Tertiary industry index (Jan, 4:30am); **German & Eurozone ZEW survey – expectations & current situation** (Mar, 10am); Eurozone trade balance (Jan, 10am); **US housing starts & building permits** (Feb, 12:30pm); US New York Fed service sector business activity (March, 12:30pm); Canadian core CPI (Feb, 12:30pm); US imports and exports price index (Feb, 12:30pm); US industrial & manufacturing production & capacity utilisation (Feb, 1:15pm); Australian Westpac leading index (Feb, 11:30pm); Japanese imports/exports, & trade balance (Feb 11:50pm); Japanese machinery orders (Jan, 11:50pm).

Key events today include: Speeches by the ECB's Rehn at MNI event (9am), Escriva in Madrid (9am) & Villeroy in Paris (4:40pm).

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.

LVRAG

Daily Risk Appetite Gauge

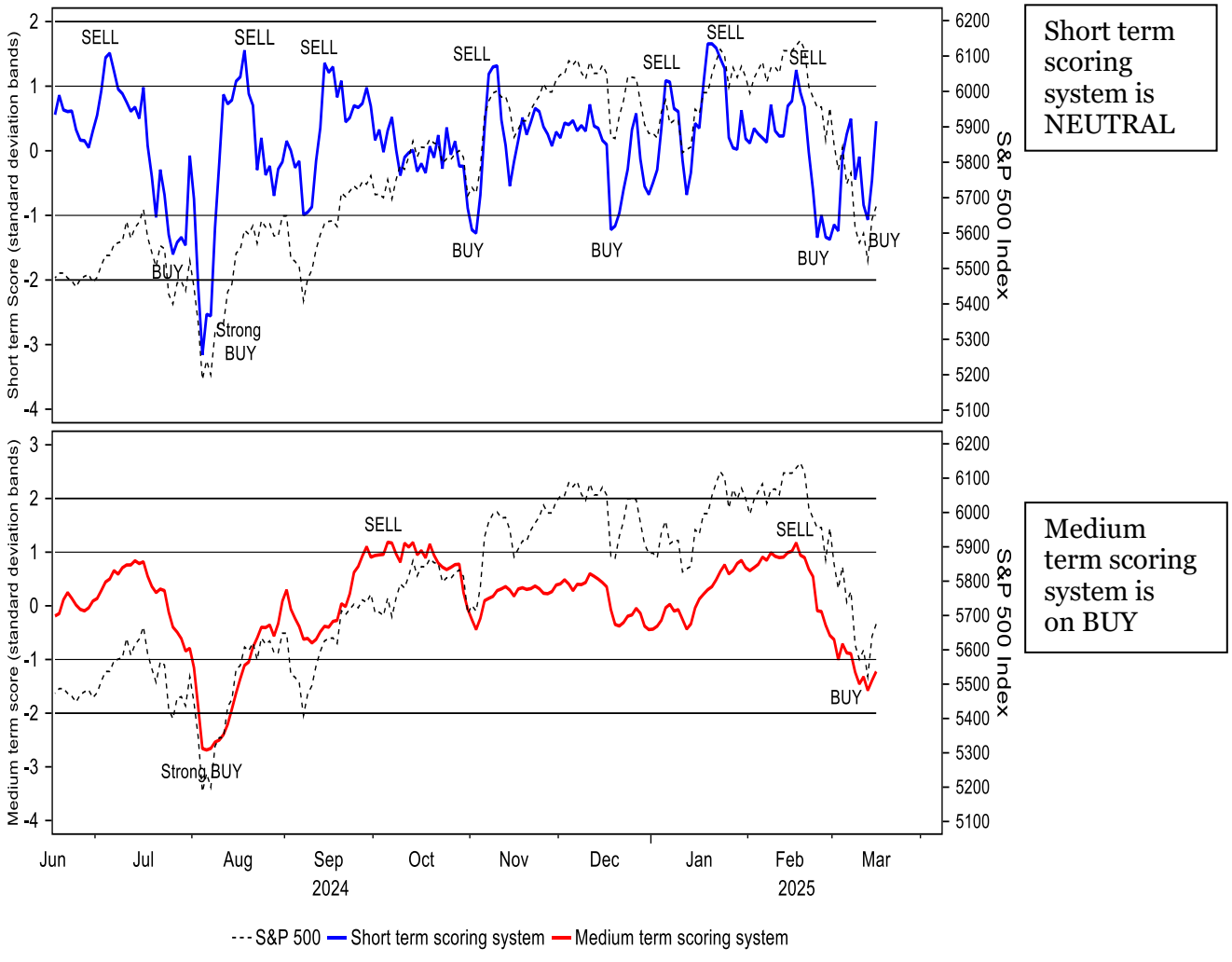
1 – 2 Week View on Risk

18th March 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



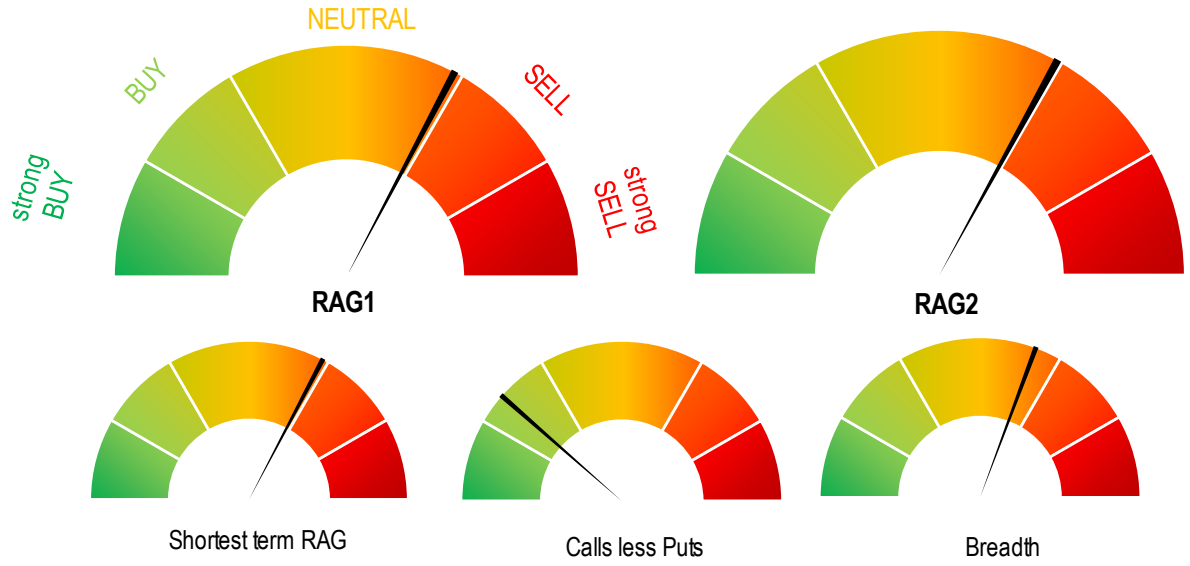
Source: Longview Economics, Macrobond

*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

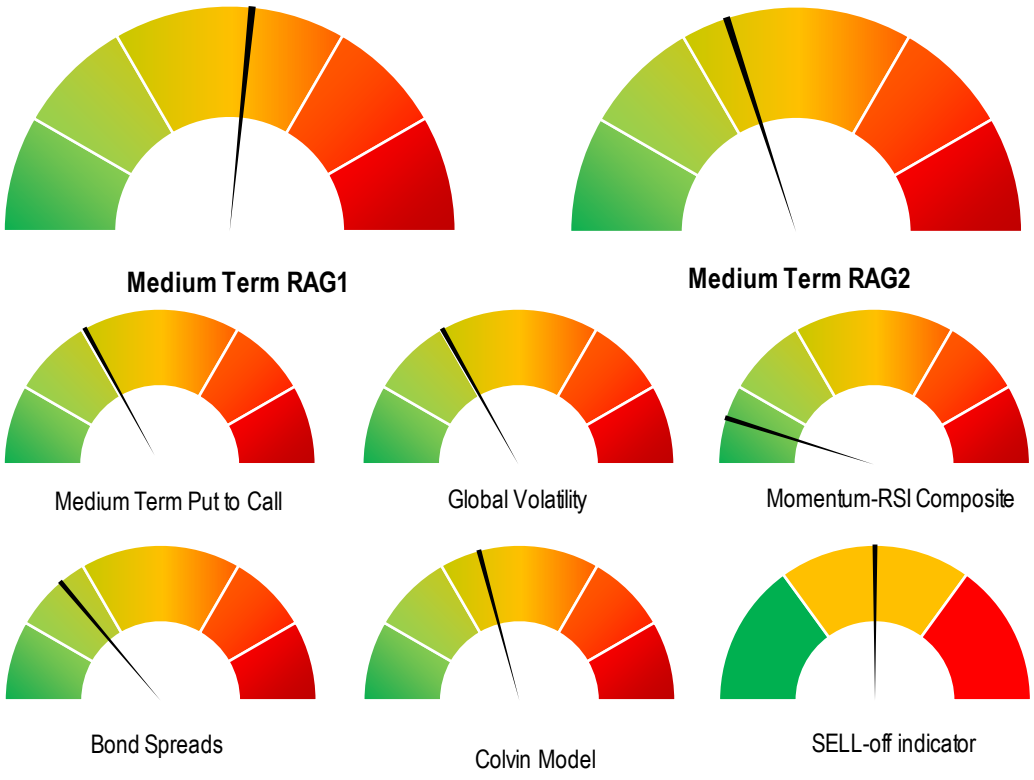
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

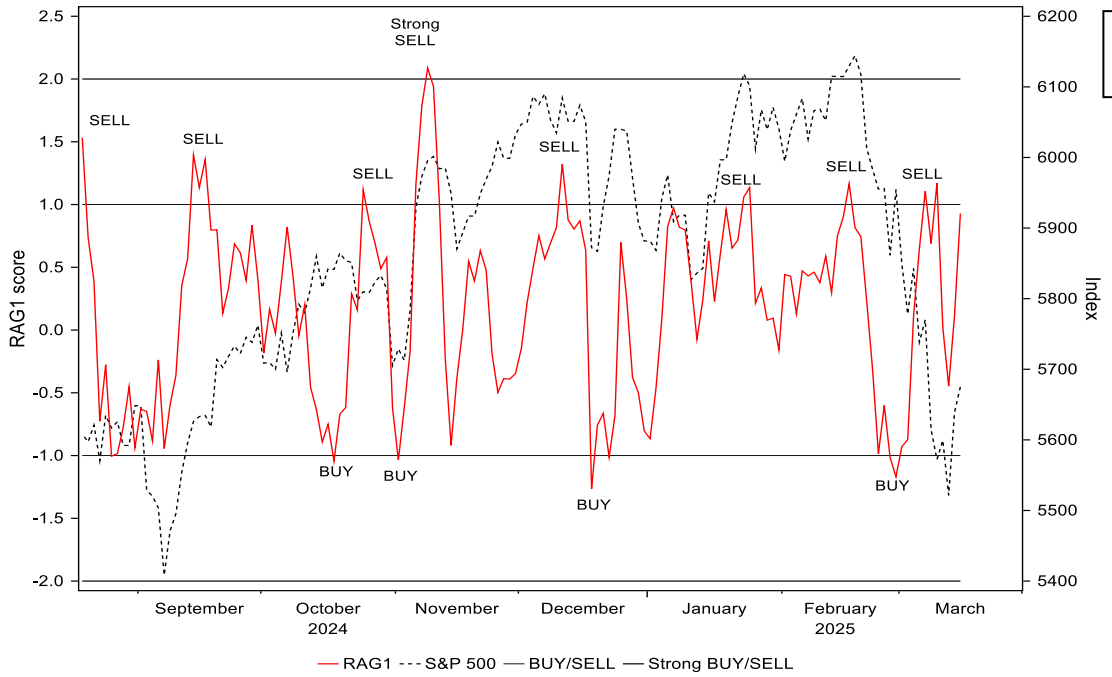
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

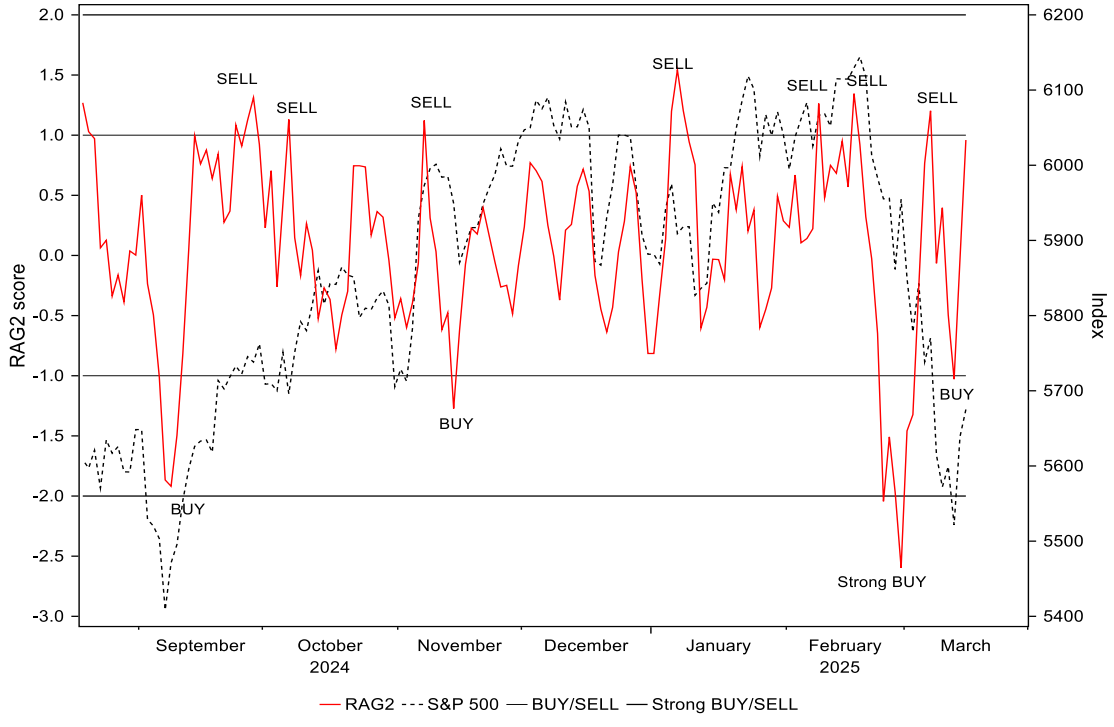
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

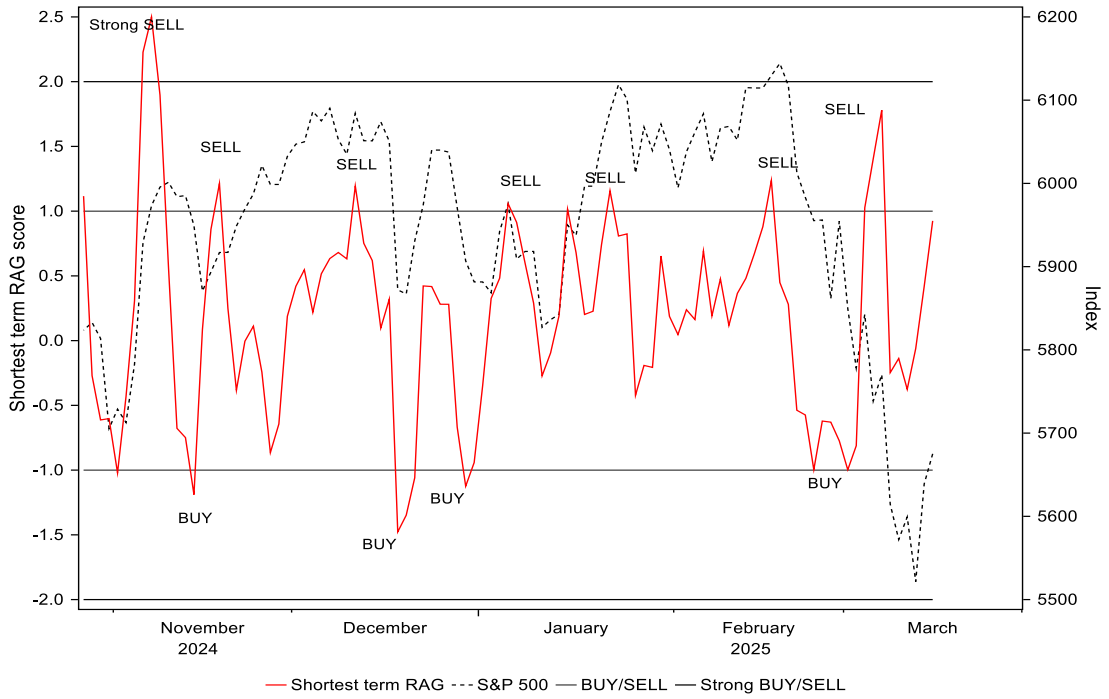


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

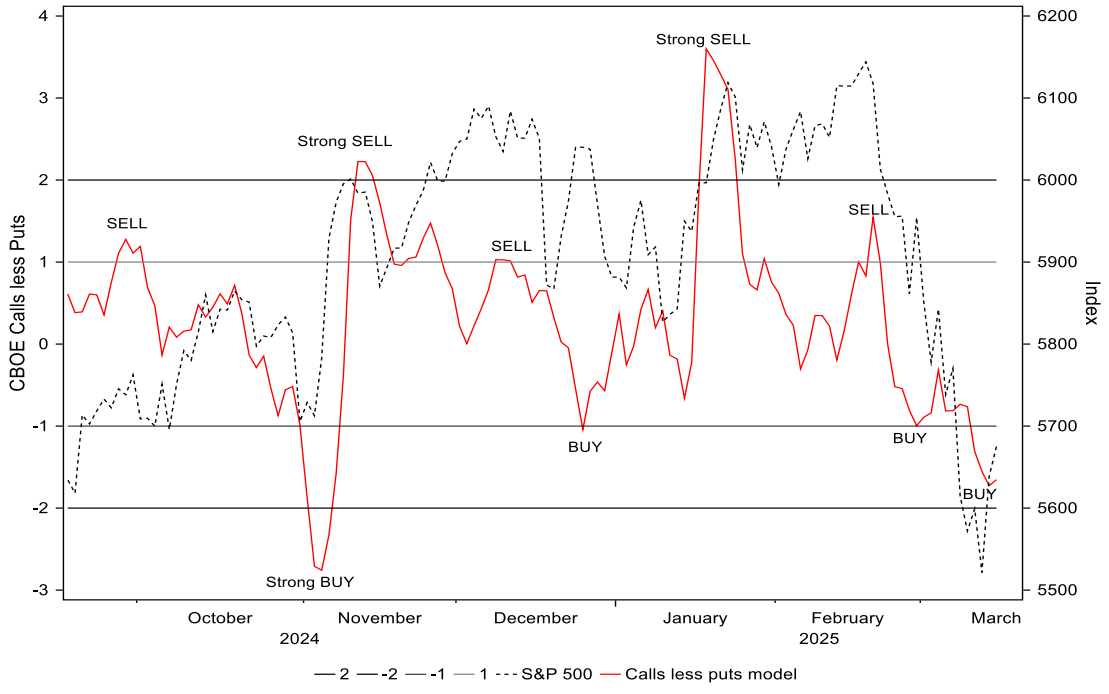
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

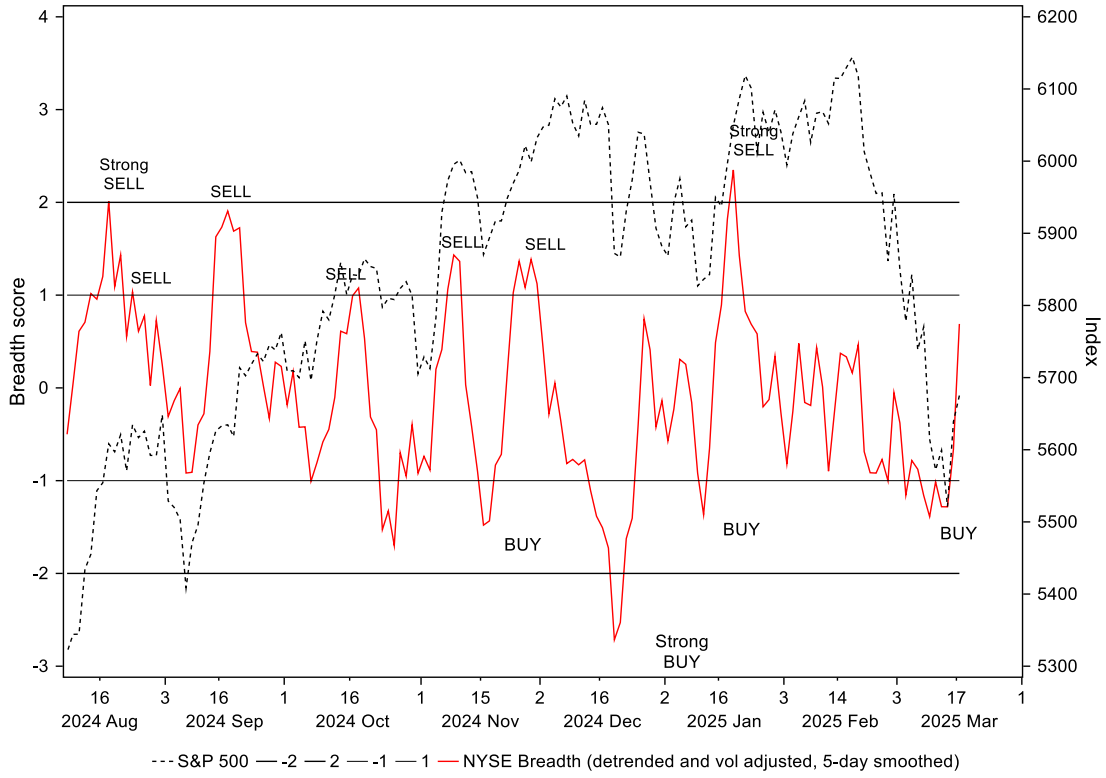


Calls less puts model is on BUY

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



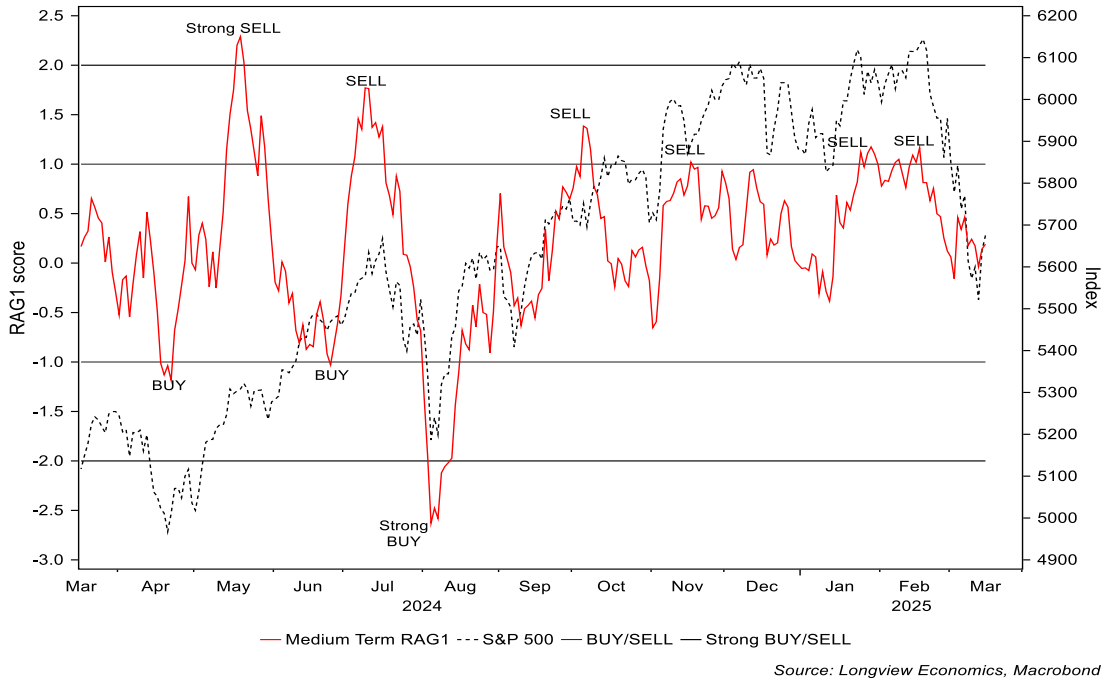
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

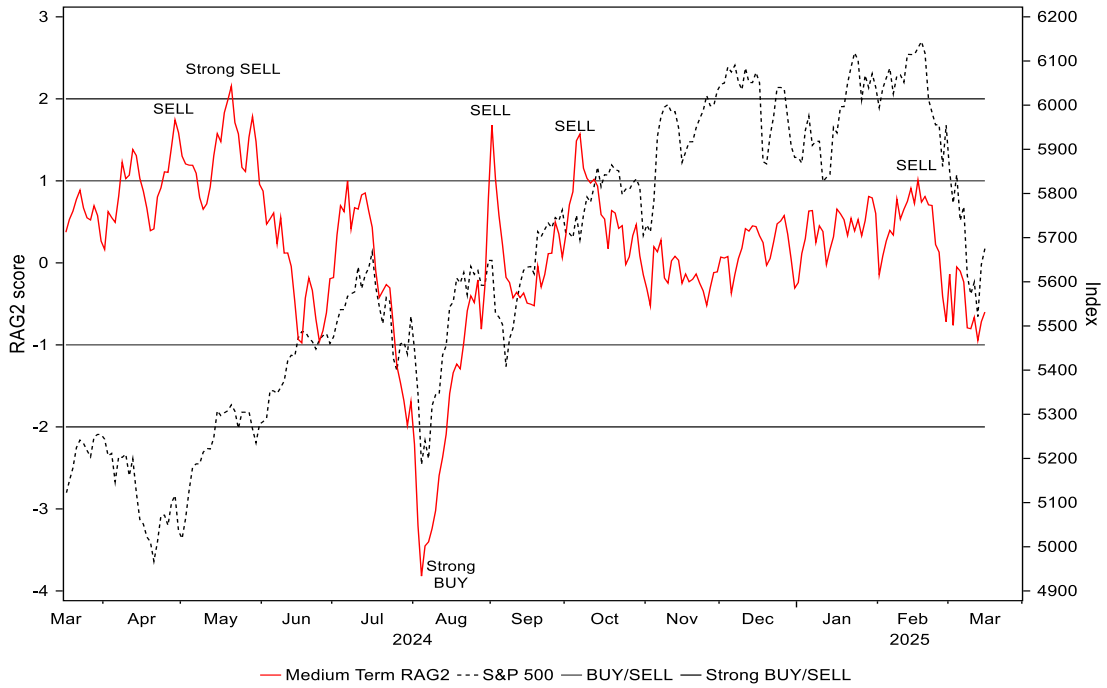
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

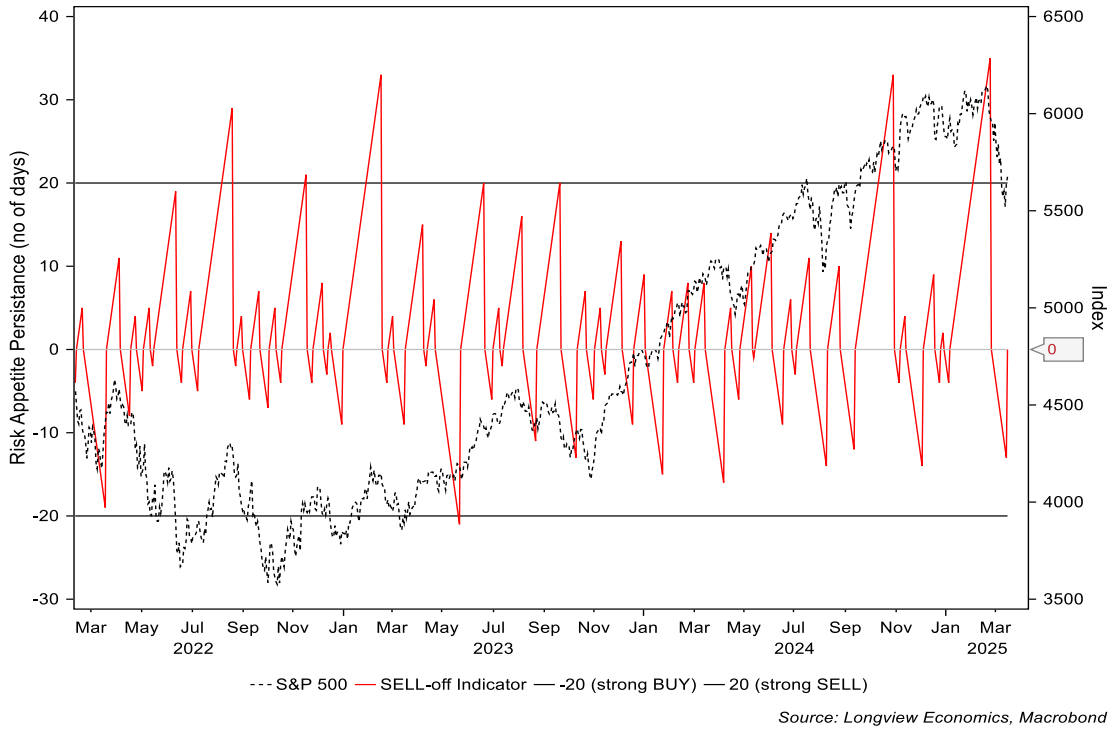


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

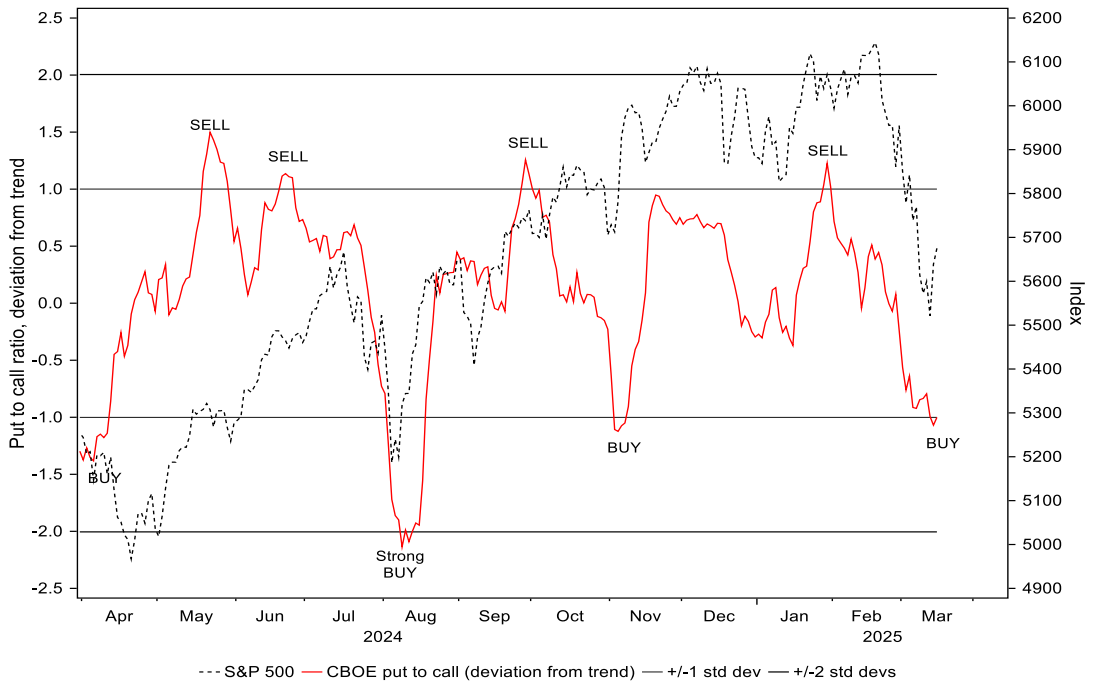
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

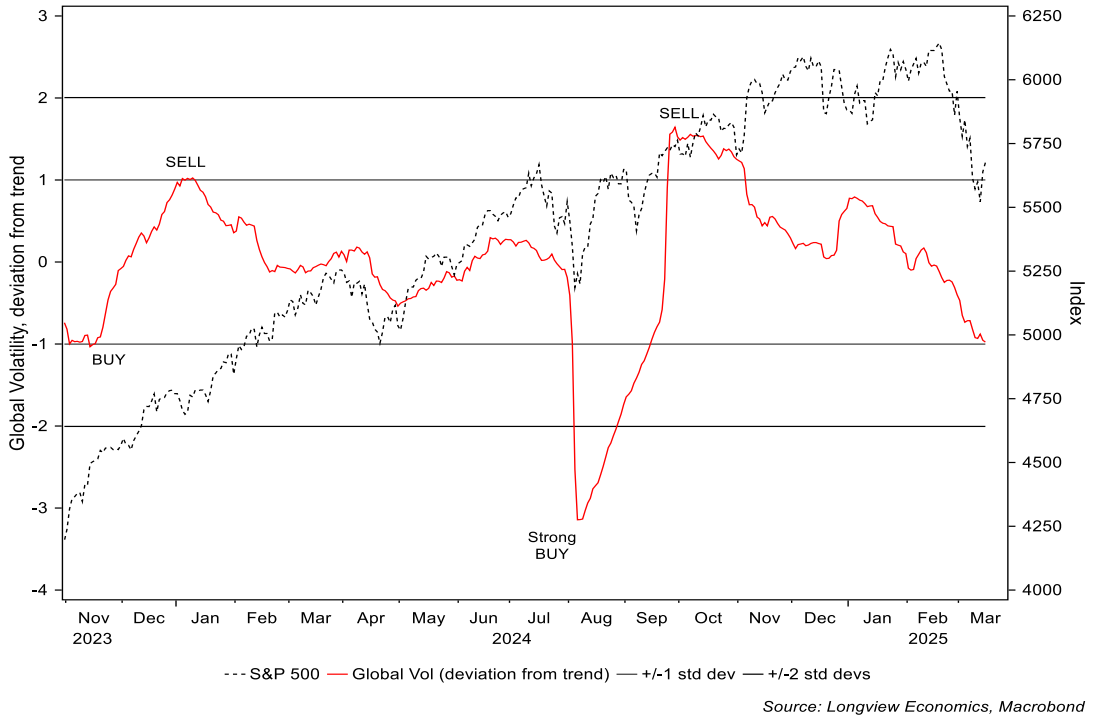


Medium term put to call model is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

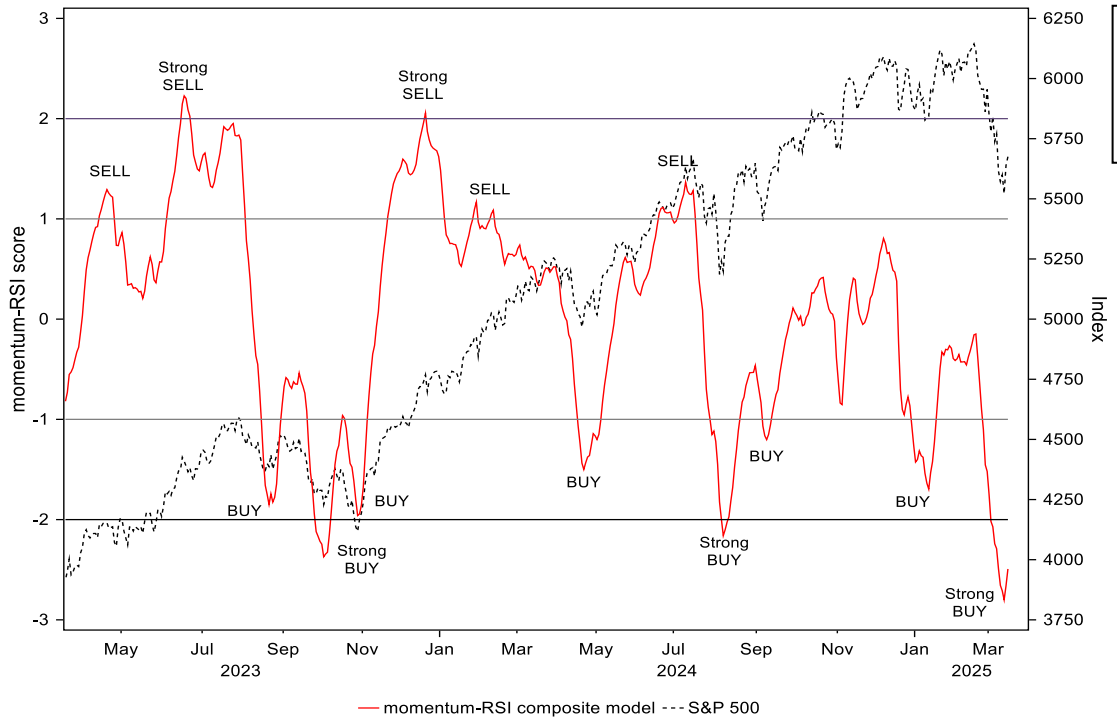
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

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



Source: Longview Economics, Macrobond

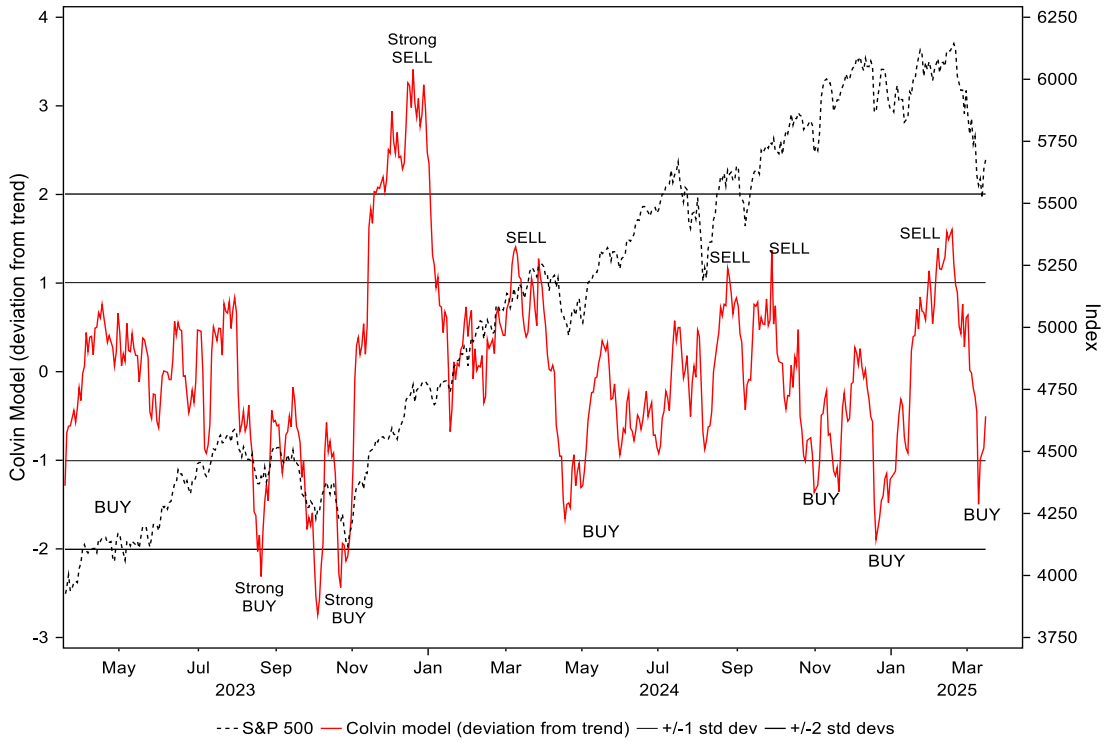
US momentum RSI composite model is on Strong BUY

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 NEUTRAL

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

