

Equity Index Futures Trading Recommendations

19th February 2025

“Broad based SELL Signals - Stay SHORT SPX & widen stop loss”

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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);
- Widen stop loss to 6,246 (from 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

Signs of froth and complacency in markets continued to BUILD yesterday. That was most marked in European equities, with further gains in the Italian MIB (+0.6%), Spanish IBEX (+1.0%); and Eurozone banks (+1.9%), amongst others. Price action in those indices has become euphoric over recent days/weeks (see FIG 1c), which is the typical set up for a ‘blow-off top’ (i.e. followed by a meaningful correction/pullback). Froth/euphoria has also emerged in other asset prices, including in the Hang Seng equity index, the Eurozone high yield market, and certain commodity prices (e.g. gold), amongst others.

Consistent with those growing signs of complacency, **the SELL message of our models has strengthened overnight.**

Short term models: Our key risk appetite indicators have all pushed higher and crossed above their SELL thresholds. That includes ‘shortest term RAG’ (designed to finesse/time entry points into trades – see FIG 1a); as well as our main ‘RAG1 & RAG2’ models (FIG 2a); and ‘risk appetite scoring system’ (FIG 2). Other models also have a stronger SELL message overnight. Both the CBOE put to call ratio, for example, and ‘volume of outstanding call options’ have turned strong SELL (see FIGs 2b & 2c). As such, and while not all US models are on SELL (officially, see FIGs 3 & 3a), this equity market is clearly vulnerable to the downside in the near term.

Medium term models: The SELL-off indicator continues to warn of an imminent wave of risk aversion in global markets, i.e. **a regime change**, from risk on – to risk off. Currently this model is on a reading of +31. That highlights excessive/persistent risk seeking behaviour in markets for the past 31 trading days. The current ‘risk on’ environment, in that respect, is reasonably advanced and, given the SELL message of the short term models, it’s unlikely to persist much longer. Other medium term models are increasingly generating SELL signals (e.g. see FIG 1e) and, reflecting the overall models’ backdrop, our combined ‘short and medium’ term scoring system has turned SELL overnight (FIG 1).

We therefore **favour staying SHORT** the S&P500.

Risks, as always, are multiple and include the possibility that markets continue to squeeze higher for a few more trading sessions. Reflecting that risk, and given the stronger SELL message from the models, we recommend modestly widening the stop loss (see above for detailed recommendation).

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: Combined short and medium term '**risk appetite**' scoring system vs. S&P500

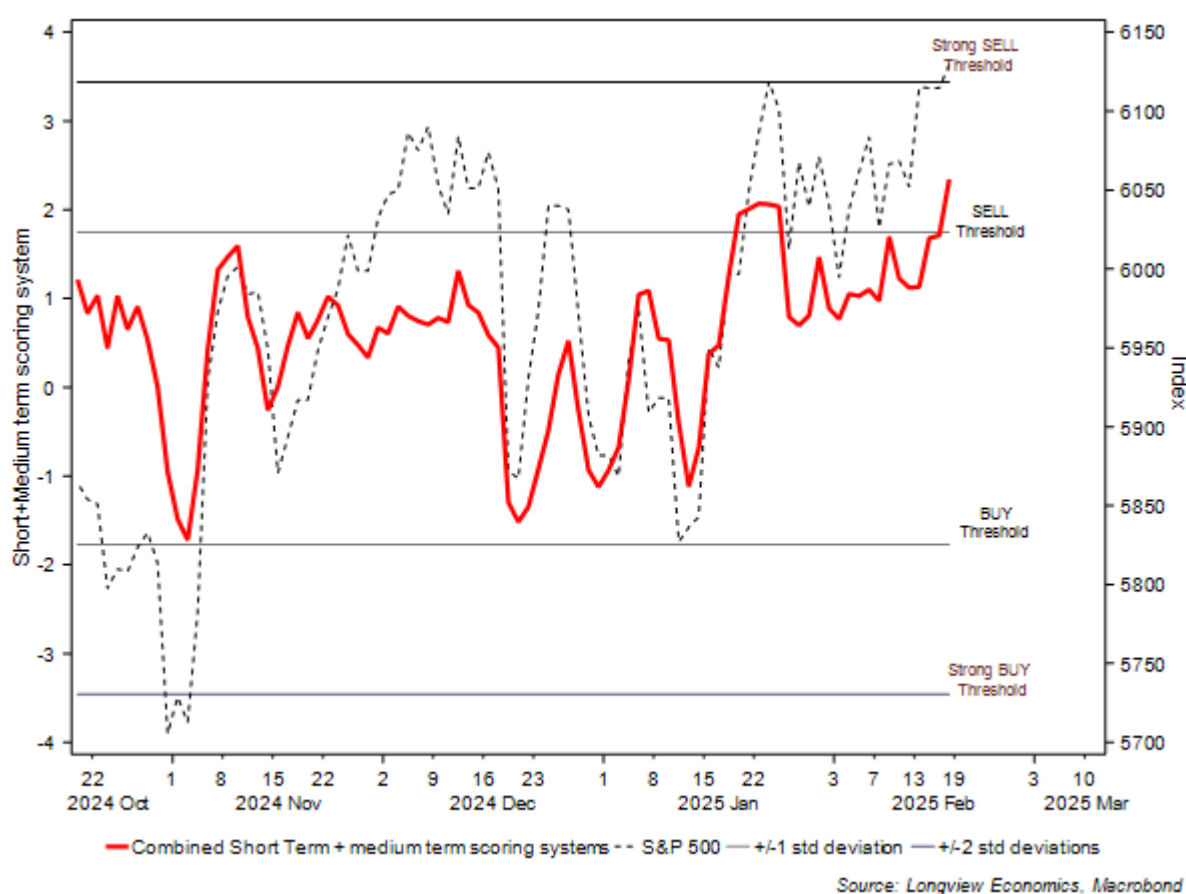


FIG 1a: Shortest term RAG vs. S&P500

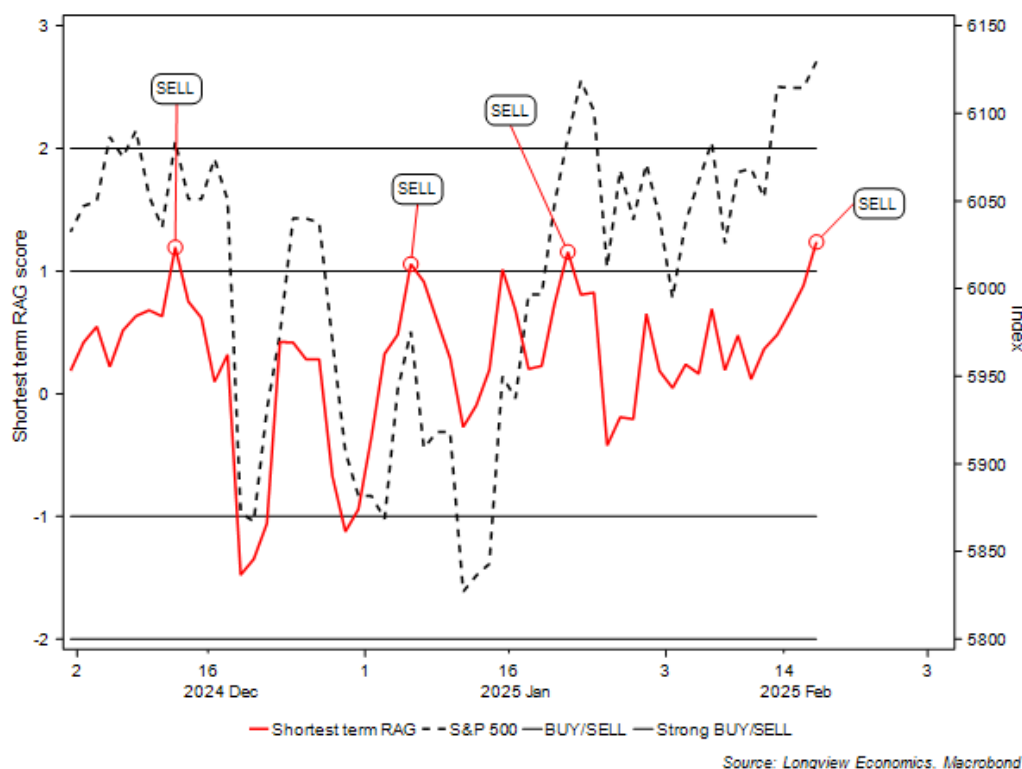


FIG 1b: S&P500 March 2025 futures 30-day tick chart shown with overnight price action

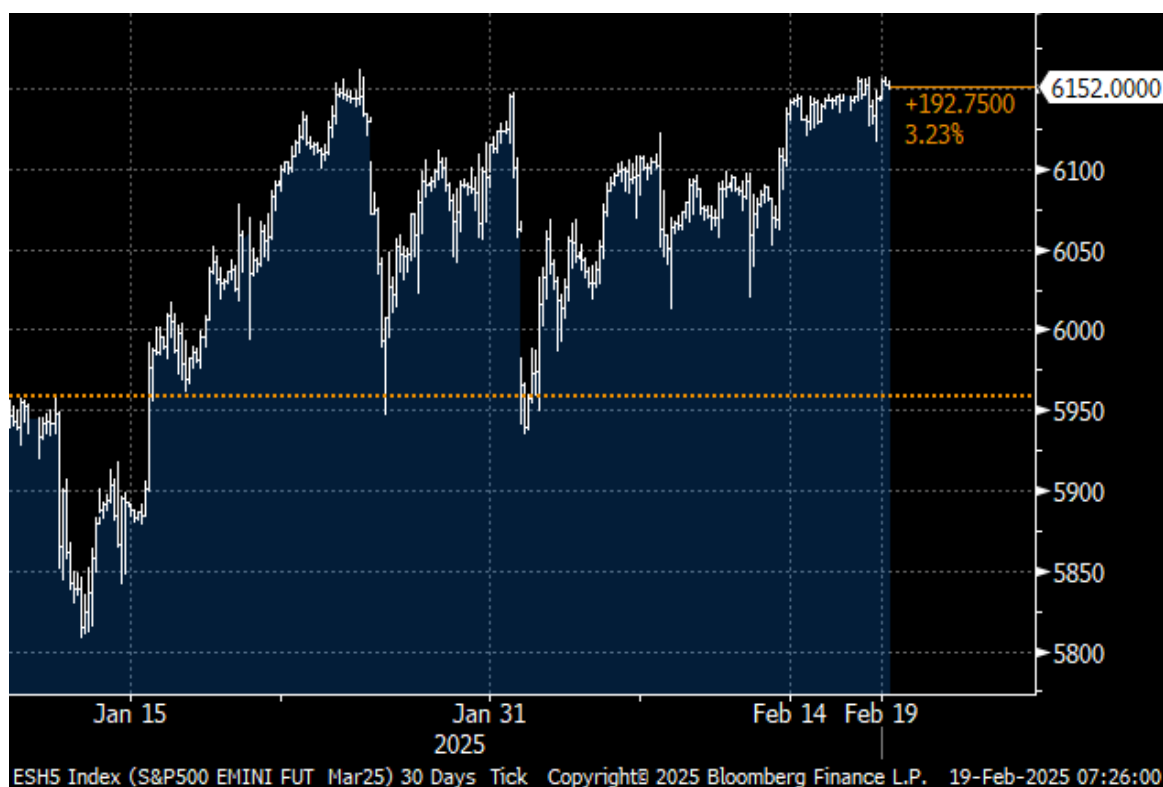
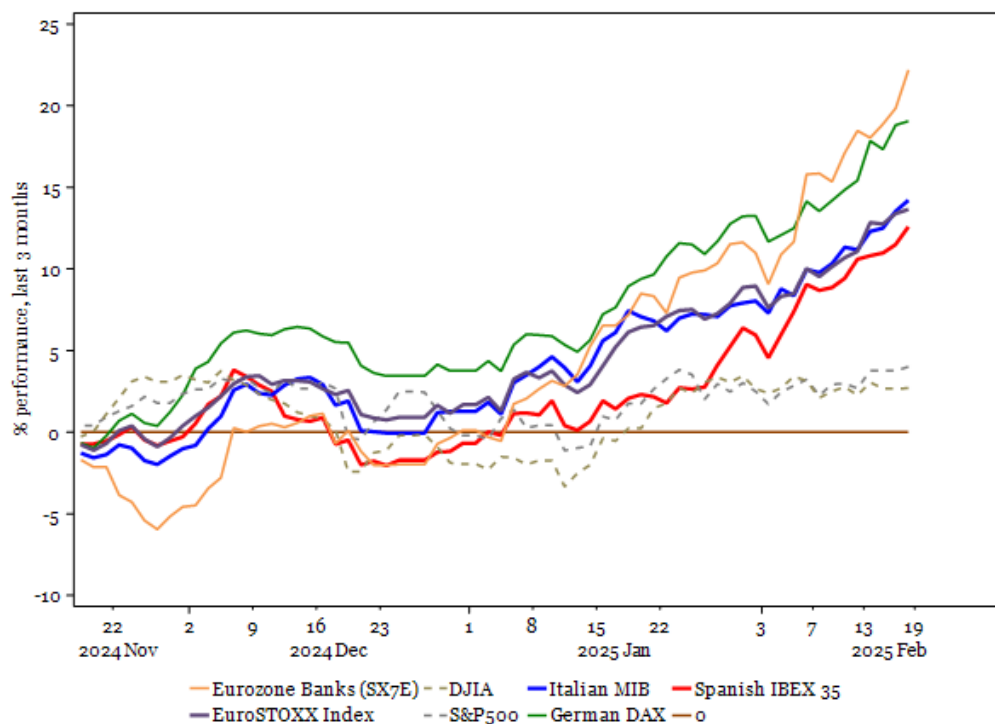
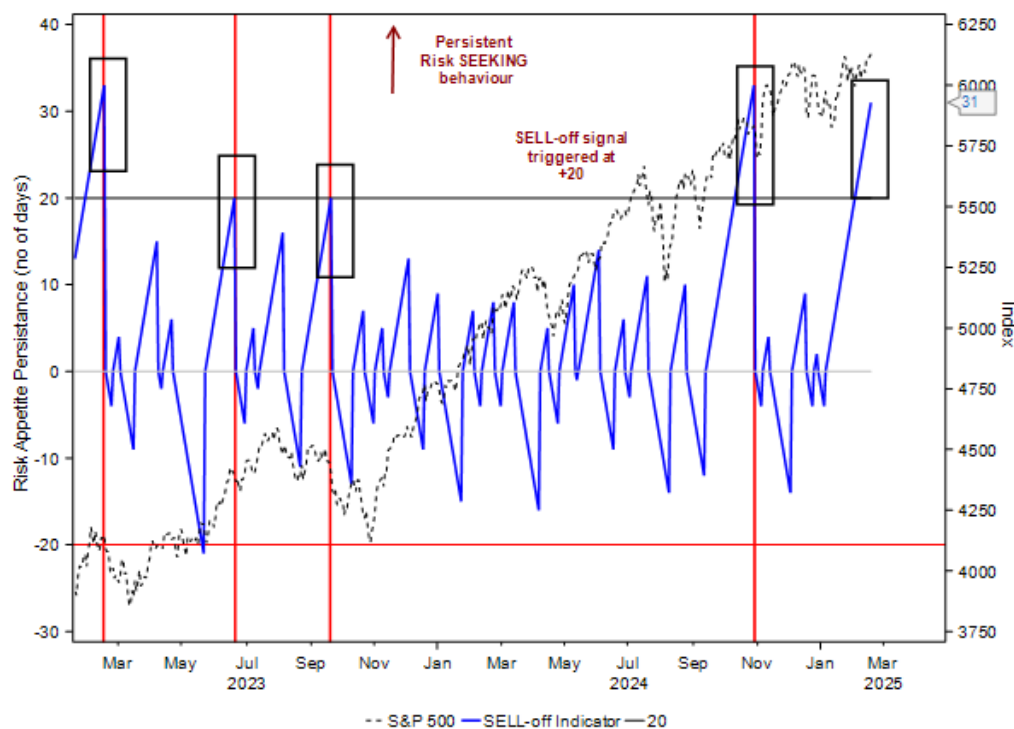


FIG 1c: Various US & European key equity price indices (past 3 months performance)



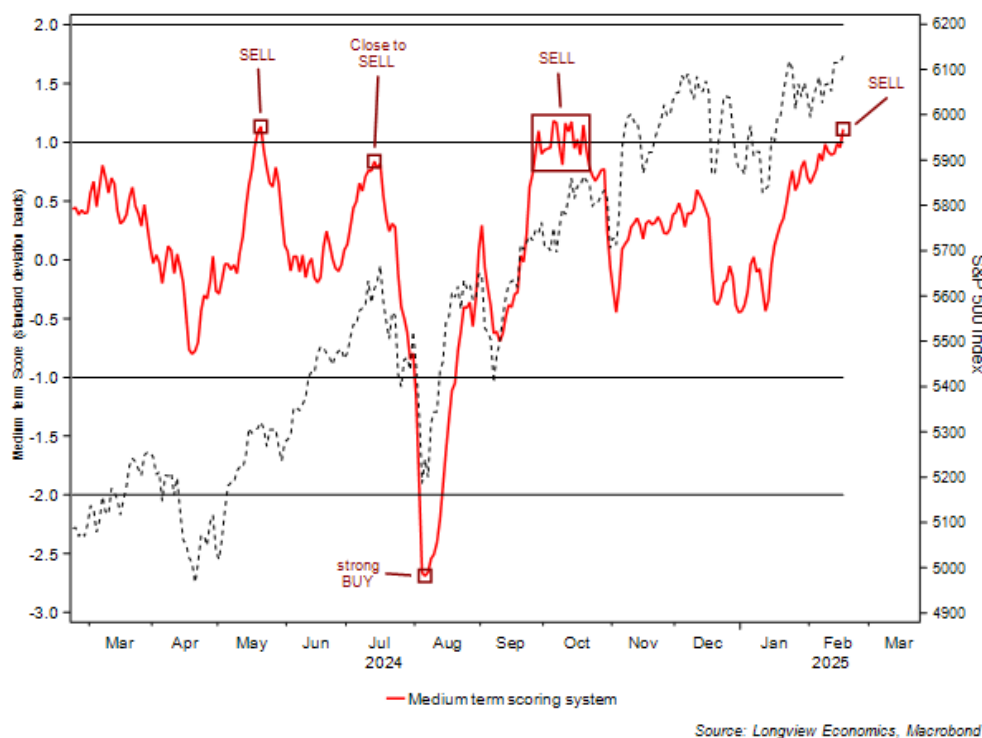
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Short term models are on SELL...

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

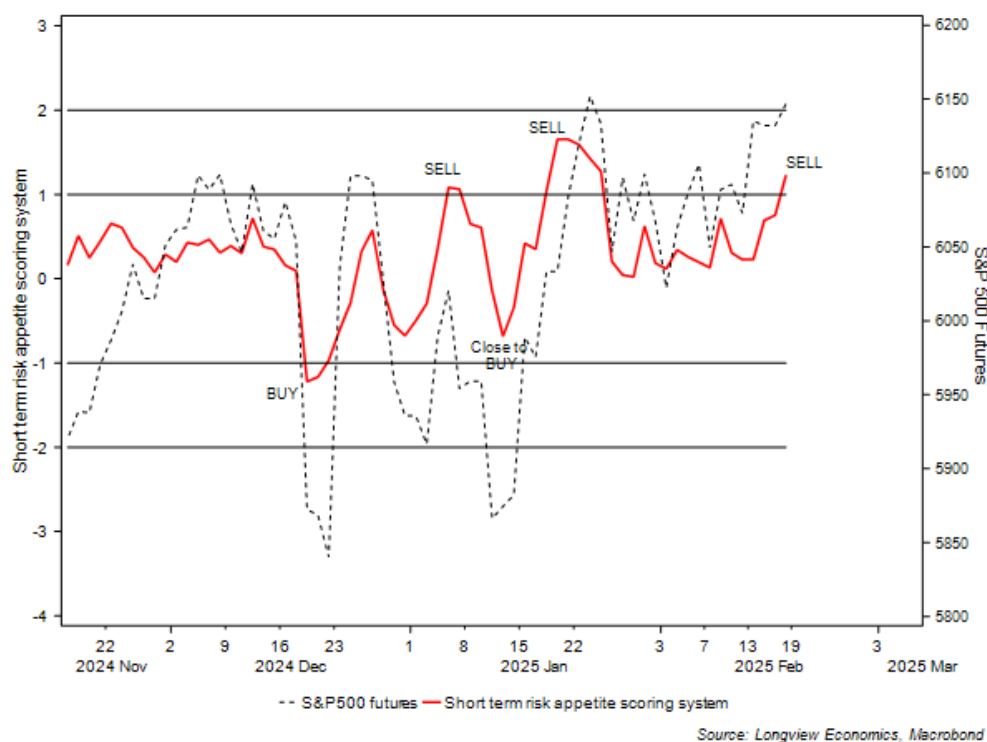


FIG 2a: Longview combined key ‘risk appetite’ models (RAG1 + RAG2) vs. S&P500

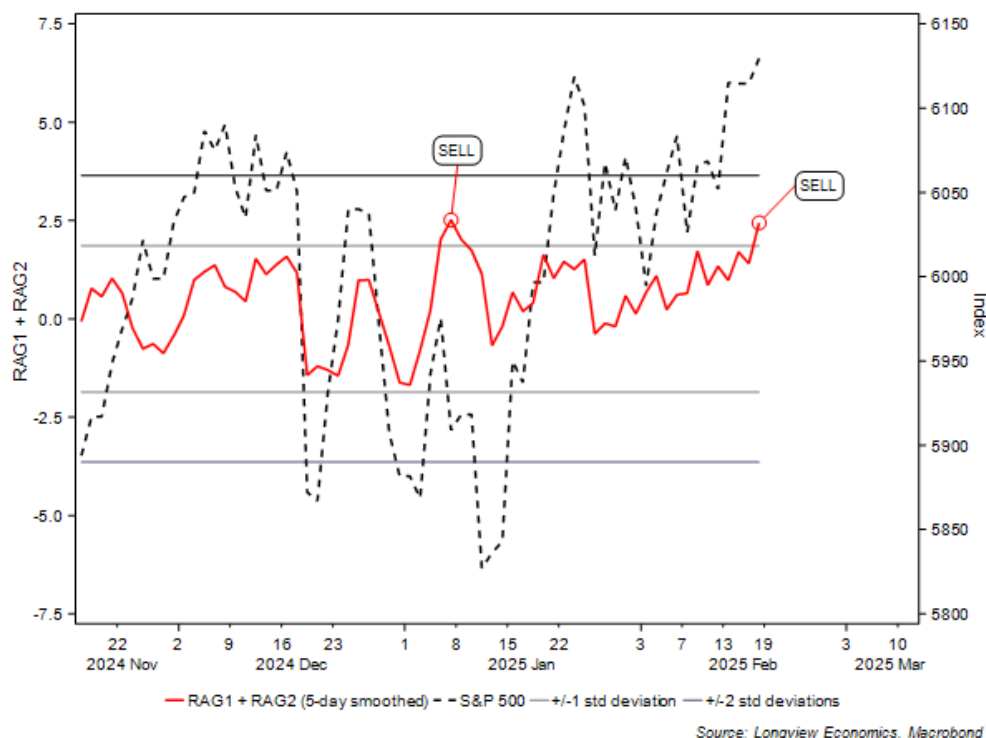


FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

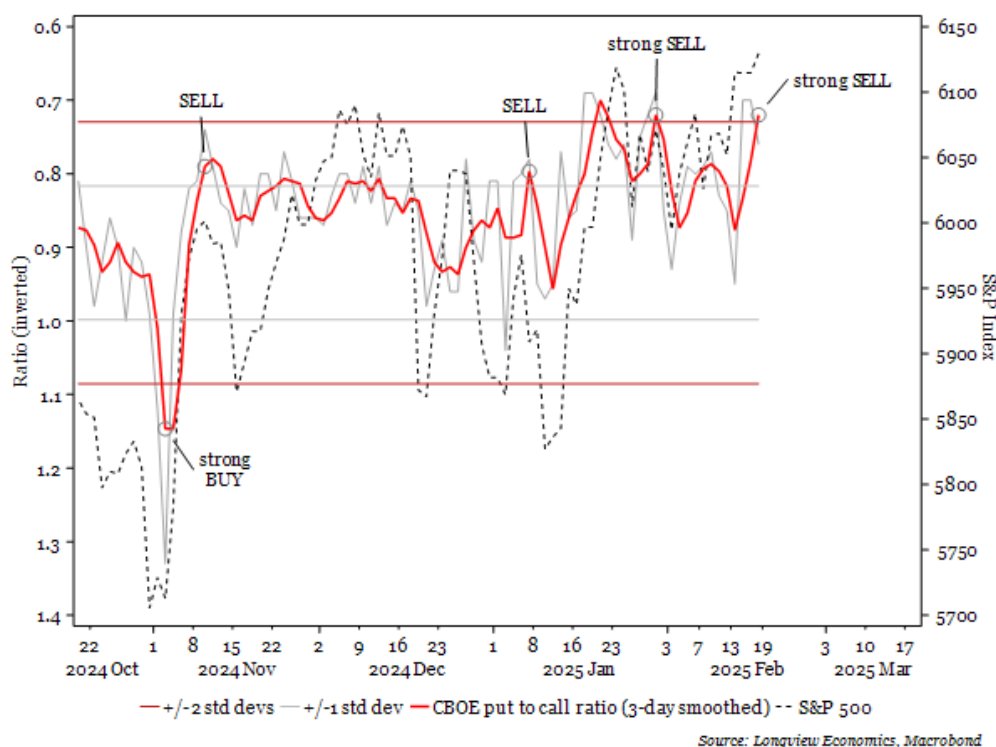


FIG 2c: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

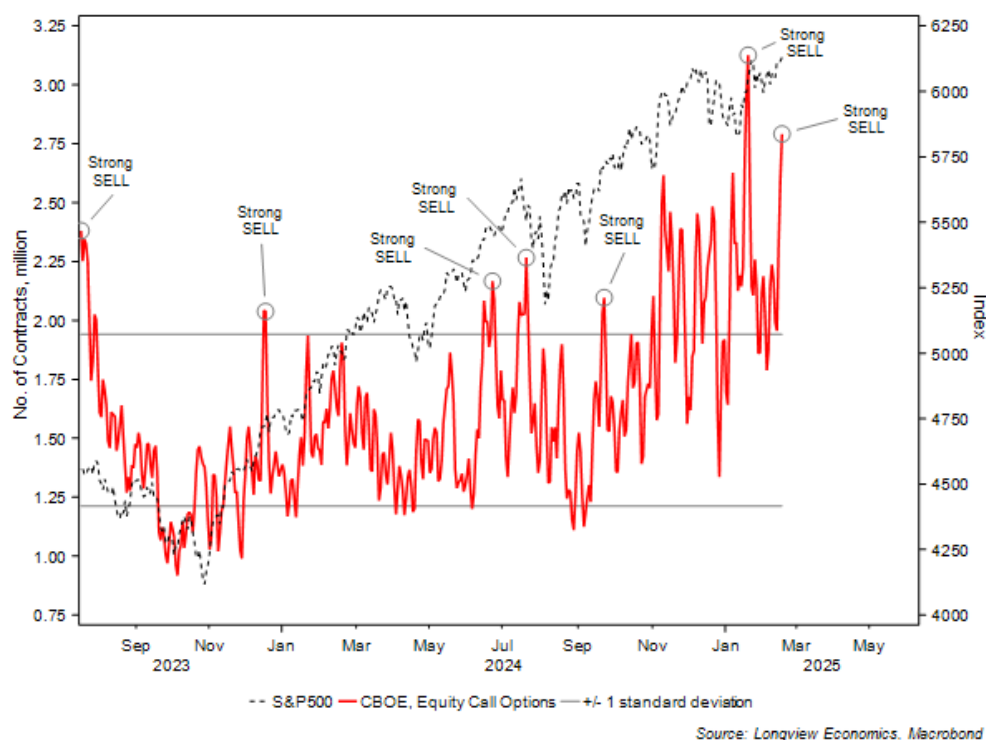


FIG 3: Longview S&P500 short term 'technical' scoring system vs. S&P500 futures

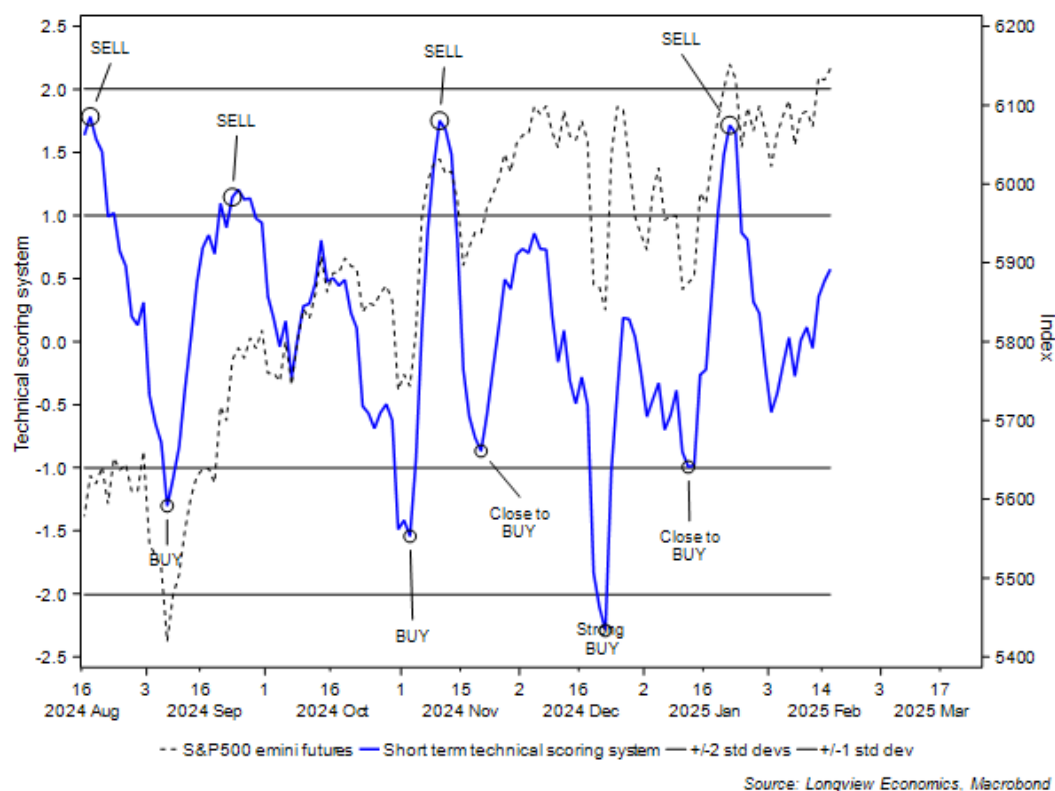
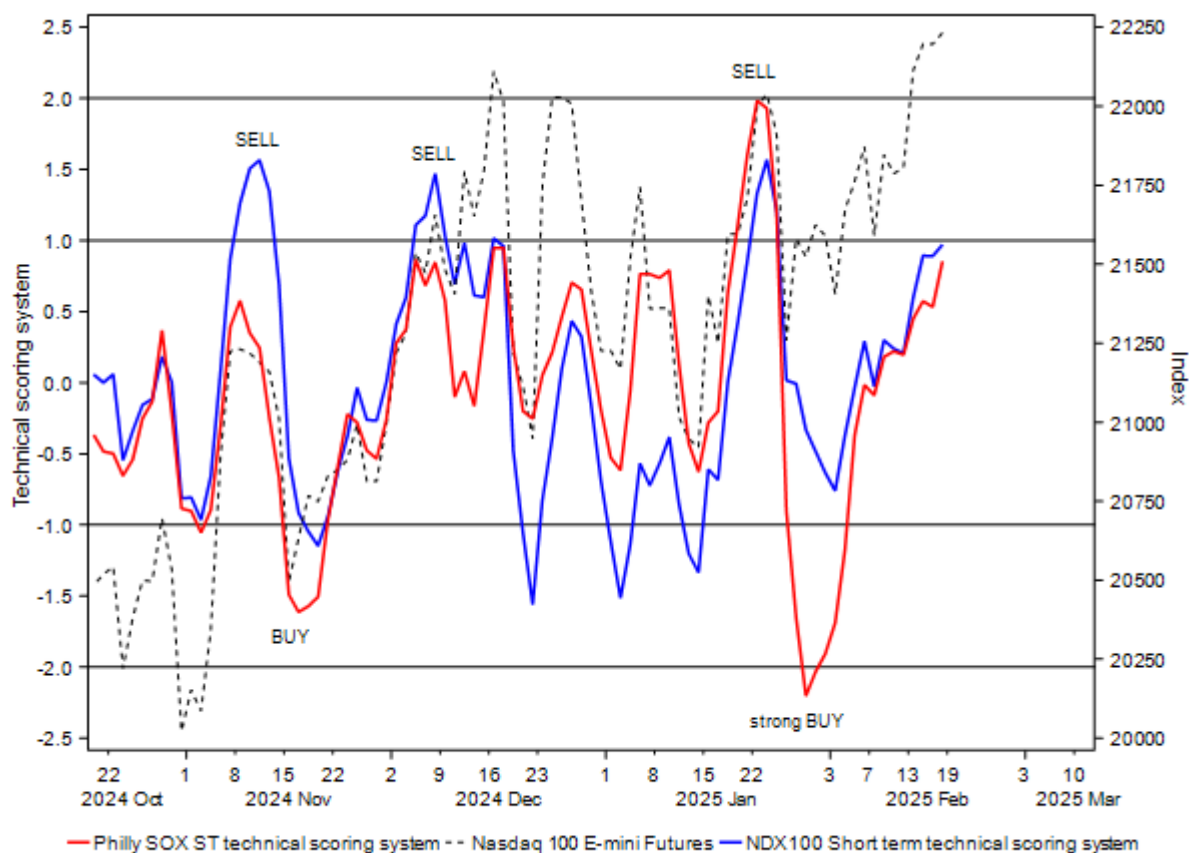


FIG 3a: Longview NASDAQ100 & Philly SOX short term **‘technical’** scoring system vs. NASDAQ100 futures



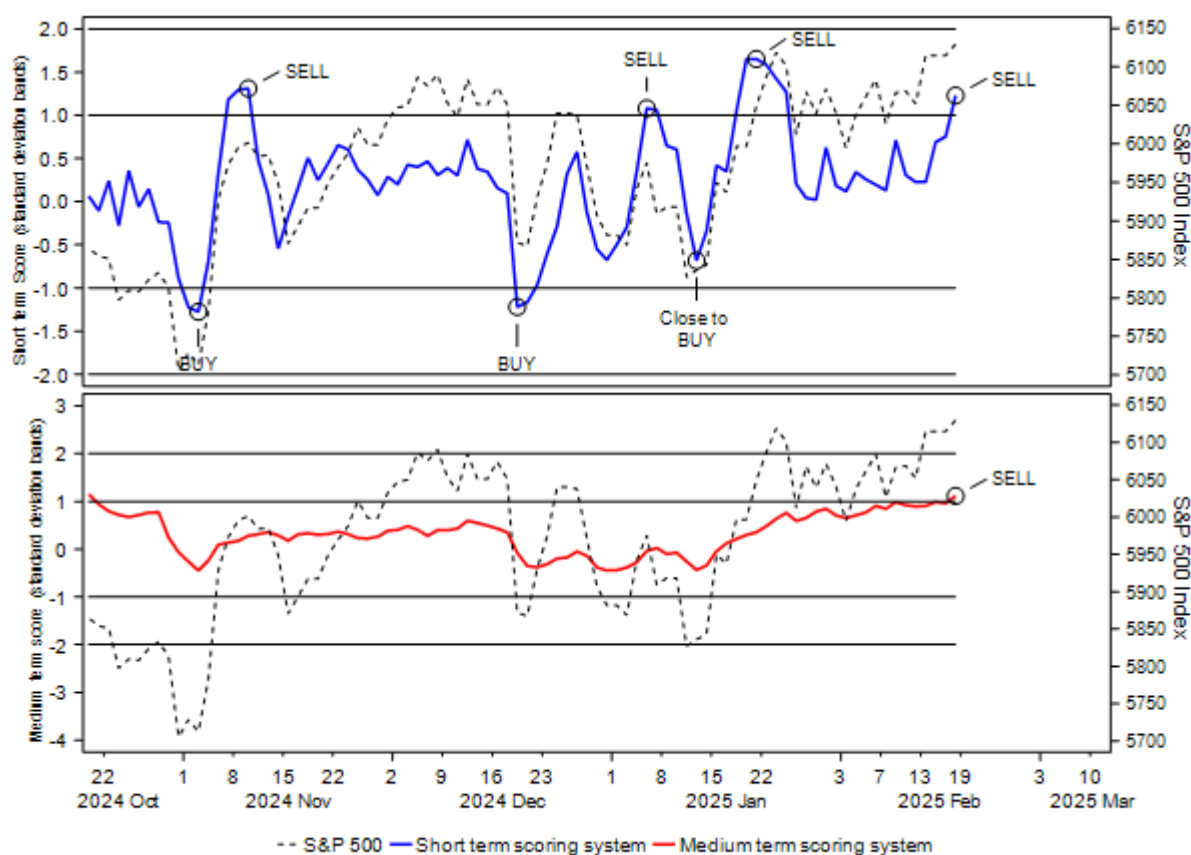
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

Medium term (1 – 4 month) scoring system: **SELL**

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Australian wage price index (Q4, 12:30am); **Chinese new & used home prices** (Jan, 1:30am); **UK Headline & core CPI, RPI & PPI** (Jan, 7am); Spanish mortgage approvals (Dec, 8am); ECB current account (Dec, 9am); UK Land Registry house price index (Dec, 9:30am); Italian current account balance (Dec, 9:30am); **US housing starts & building permits** (Jan, 1:30pm); US New York Fed service sector business activity (Feb, 1:30pm).

Key events today include: **RBNZ policy decision** (1am); ECB publishes financial statements for 2024 (11am); QCEW publishes its County Employment and Wages release for Q3 2024 (3pm); **Fed minutes from January meeting** (7pm).

Key earnings today include: **Analog Devices**, Copart, Garmin, **HSBC**, Rio Tinto PLC, Glencore, National Australia Bank.

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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