LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

19th March 2025

"Increase SPX LONG position on weakness"

Email: info@longvieweconomics.com

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

- Stay ¼ LONG June SPX futures* (entry was yesterday at 5,731).
- 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

In many ways, yesterday's trading was troubling with respect to our view that a 'wave two' relief rally is underway**: i) The S&P500 & NDX100 both sold off despite strength in other parts of the global stock market: Spanish equities, for example, closed +1.6%; the DAX was +1.0% while Italy was +1.3%. In contrast the S&P500 closed 1.1% lower and the NDX100 was -1.7%; ii) our combined short term RAG1 plus RAG2 model is back on SELL (and is usually an effective/timely model during phases of 'risk off' – FIG 2a); while iii) there was put covering yesterday, such that the short term put to call ratio moved back towards its SELL signal (although is still NEUTRAL – FIG 2c). All of those factors diminish conviction in the wave two concept.

However, it's also the case that **overall volatility in the market continued to ease yesterday (on various metrics)**, while the key risk appetite models (in the past 3 weeks) have been making higher lows.

Market Volatility Easing (on some metrics): Despite yesterday's weakness in the S&P futures, the intraday trading range in the S&P500 fell again (FIG 1). That is, the gap between the intraday high and low was 1.54%, down from its highs of 3.3% earlier this month (and continuing its easing trend). Equally the gap between the worst and the best performing sectors was also at a low level (FIG 1a). Both of those indicators highlight a recent trend of falling realised volatility. So, although the VIX and VVIX ticked higher on the day, that fall in underlying volatility (on other measures) suggests that the market is quietening down (at least for now). Indeed, that is consistent with the general recent trend in the VIX and VVIX (i.e. falling since 10th/11th March).

RAG models –> Higher Lows: The behaviour of the risk appetite models is also interesting. In pullbacks, stocks/assets change from weak hands to strong hands. That process of redistribution means that different parts of the market make their 'wave one' lows ahead of other parts. As this process plays out, there are fewer asset prices making new lows in each bout of weakness.

As such, the extent of ‘fear’ in prices eases off. Risk appetite is a measure of fear. Higher lows on the risk appetite models, therefore, are indicative of that ‘redistribution’ process working its way through global financial markets. In that sense the latest model low on 13th March (Thursday last week) occurred at a higher level than the initial BUY signal (in late February) – FIG 2. Hence it’s supportive of the ongoing ‘wave two’ relief rally expectation (at least until it’s reached a clear SELL signal).

Elsewhere other short-term models remain on/close to BUY – especially various technical models. That includes technical scoring systems for the S&P500, NASDAQ100, and Philly SOX, amongst others (e.g. see FIG 2d). Various momentum and single stock/sector models are also on/close to BUY (see FIGs 2e & 2f). Elsewhere most medium-term models, similarly, remain supportive (i.e. continue to generate BUY signals, or are close to BUY).

We recommend, therefore, continuing to BUILD LONG positions. Risks, as always, are multiple and include our concerns articulated in paragraph one above and also the Fed meeting later today (albeit this is a two-way risk).

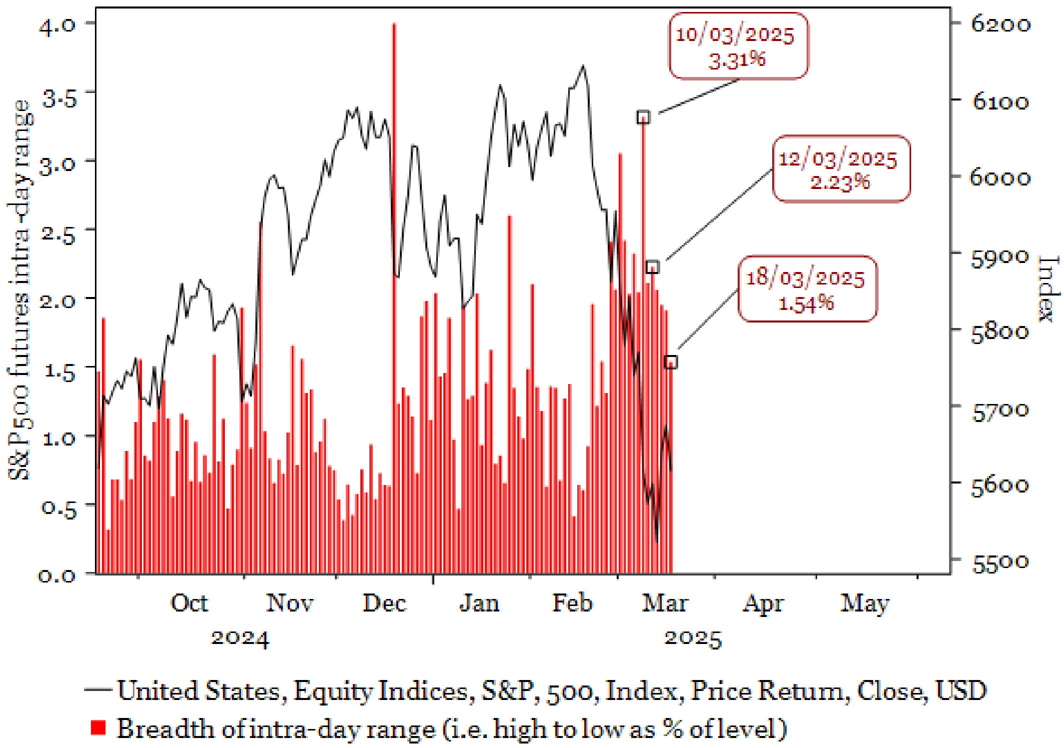
Please see below for a full list of today’s key macro data and events.

Kind regards,

The team @ Longview Economics

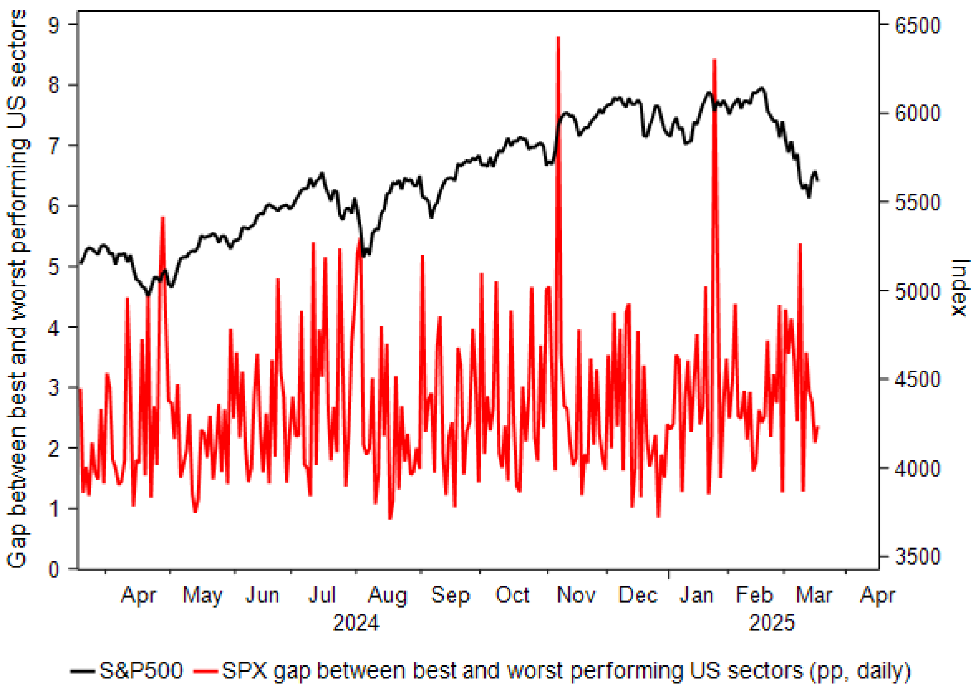
**NB most pullbacks consist of three waves. A three wave SELL-off pattern is comprised of i) an initial pullback (wave 1); ii) a relief rally (wave 2); and then iii) a final leg lower during which the index breaks below the lows from wave 1 (i.e. wave 3). In SELL-offs in bear markets, i.e. when the down trend is dominant, SELL-offs often consist of 5 waves instead of 3.

FIG 1: Breadth of S&P500 futures intraday trading range vs. S&P500



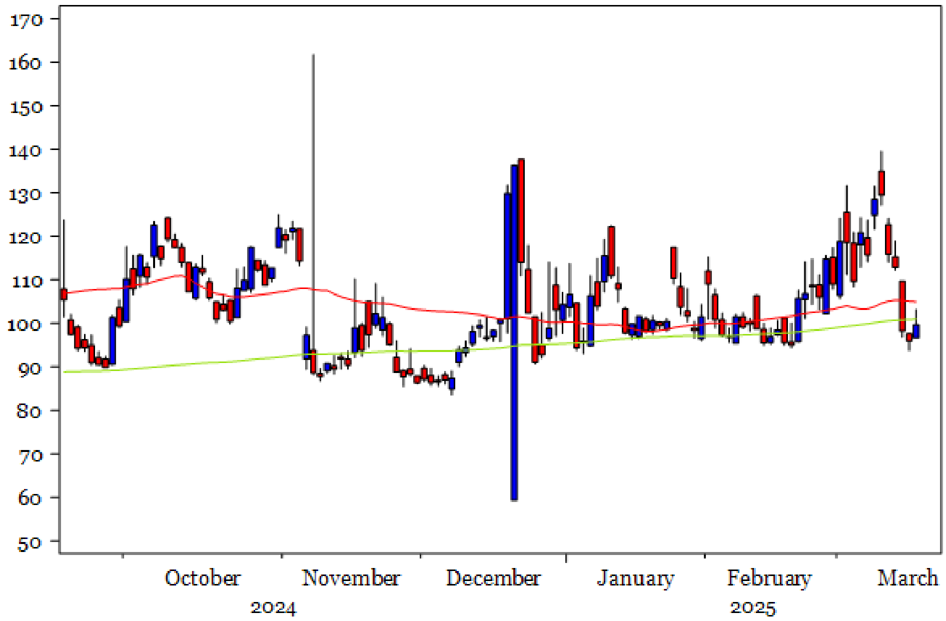
Source: Longview Economics, Macrobond

FIG 1a: Gap between best & worst performing sectors each day in S&P500 (pp.) vs. S&P500



Source: Longview Economics, Macrobond

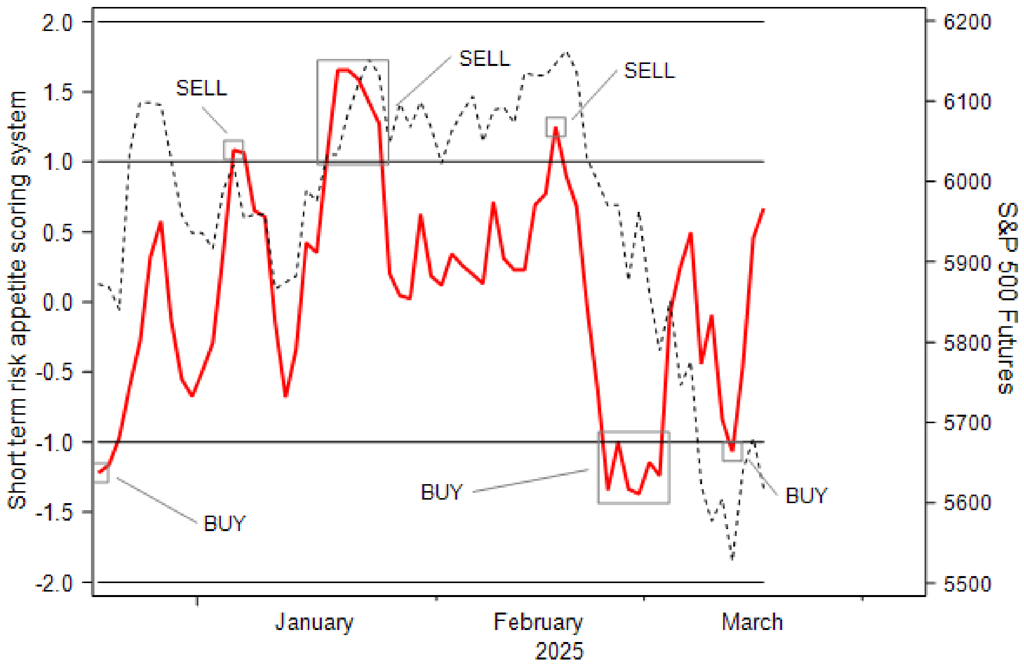
FIG 1b: VVIX candlestick shown with 50 & 200 day moving averages (%)



Source: Longview Economics, Macrobond

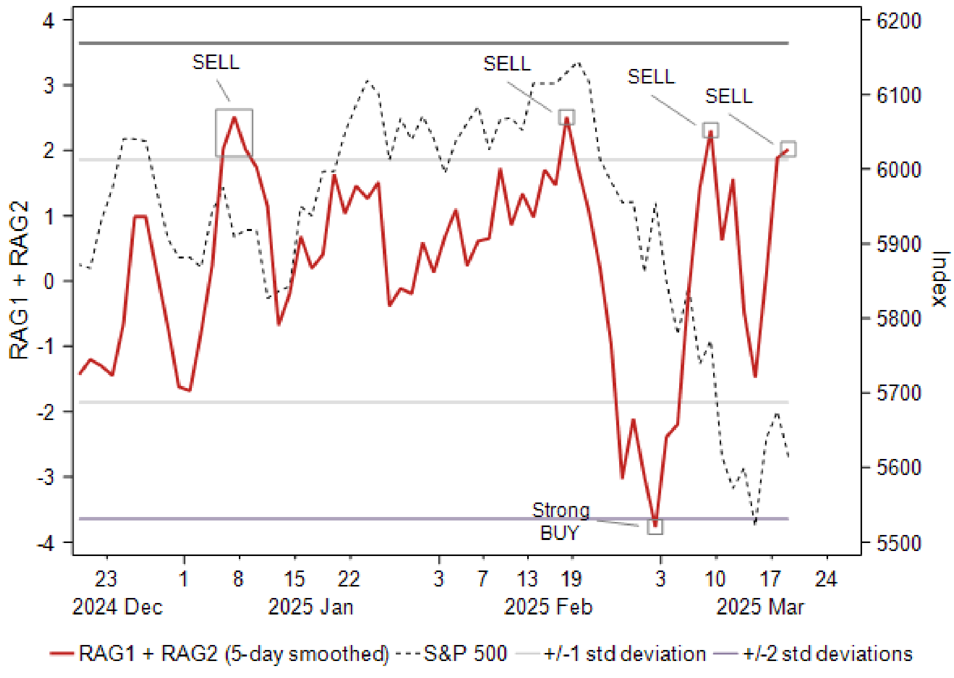
Short term risk appetite models have moved back towards SELL

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



Source: Longview Economics, Macrobond

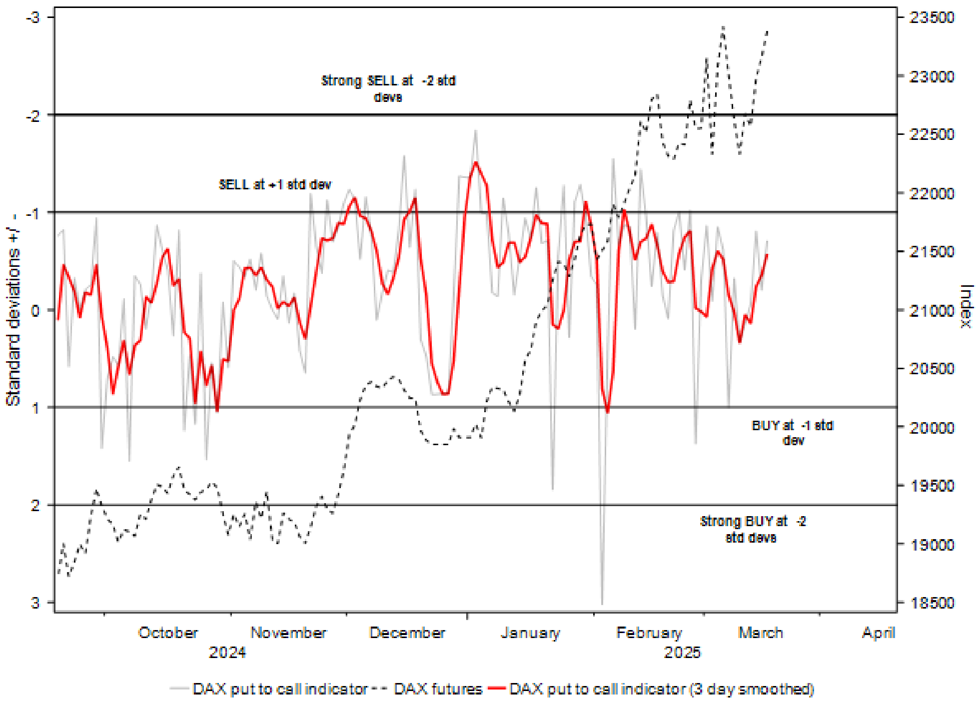
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

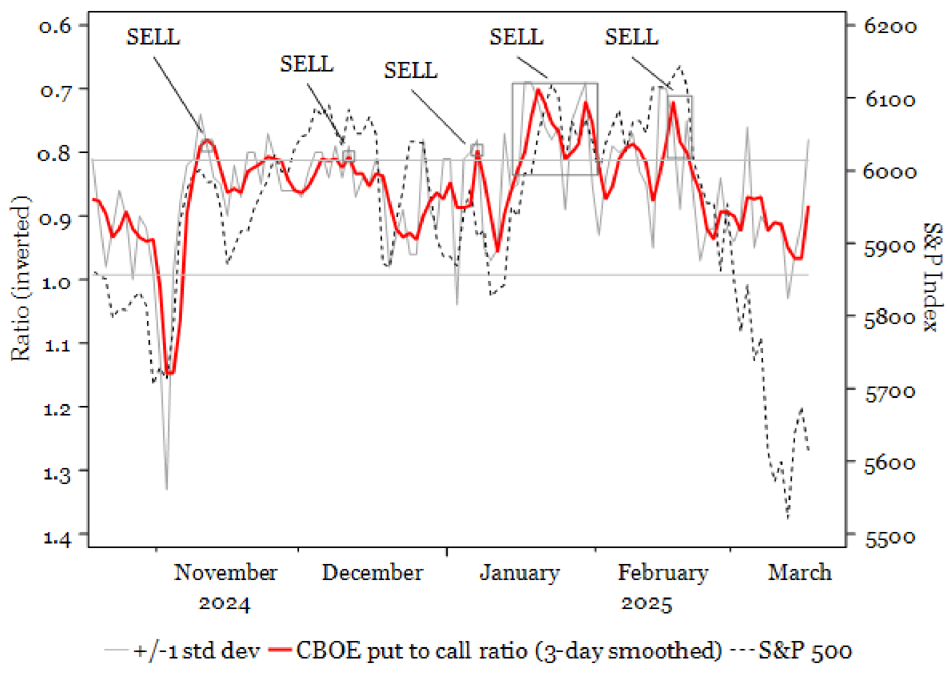
Put to call ratio indicators are mostly NEUTRAL

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



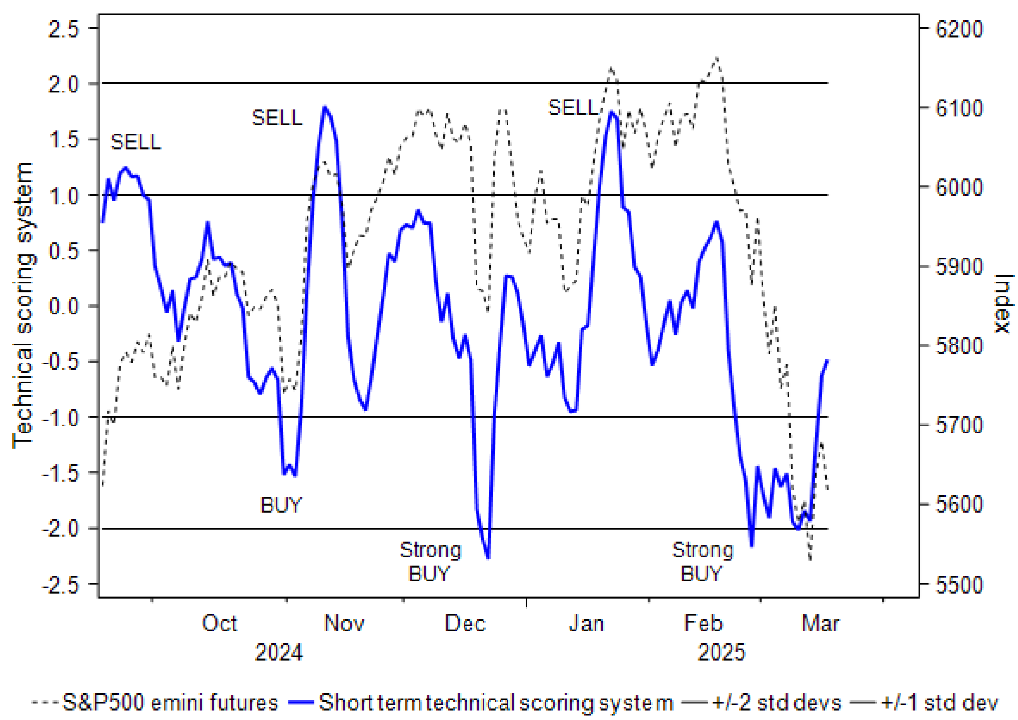
Source: Longview Economics, Macrobond

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

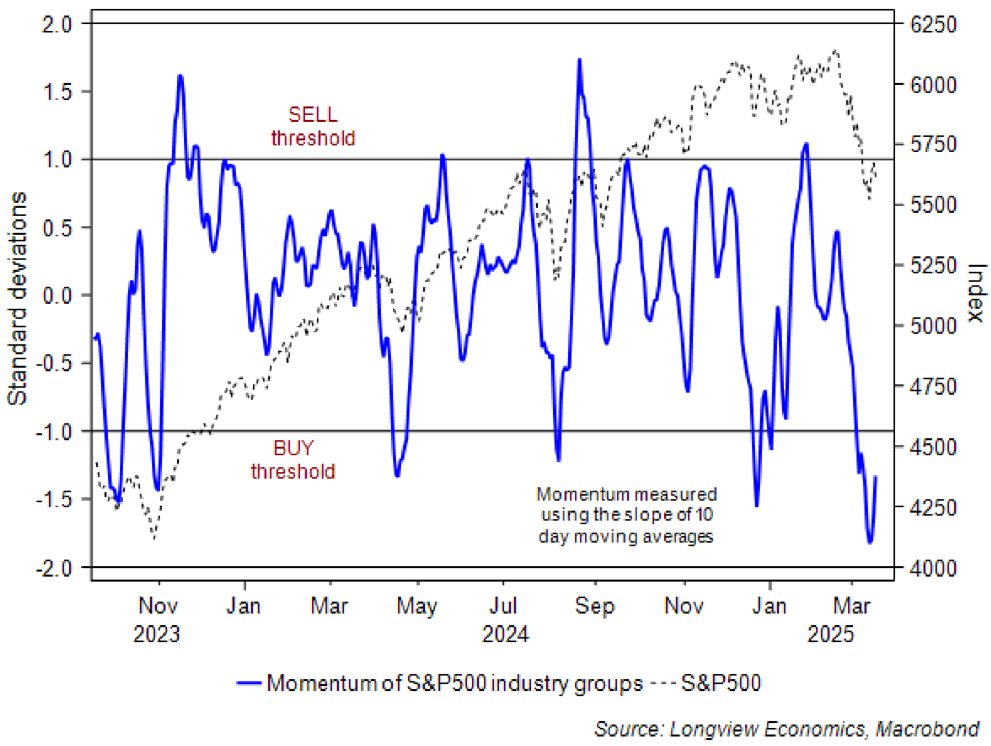
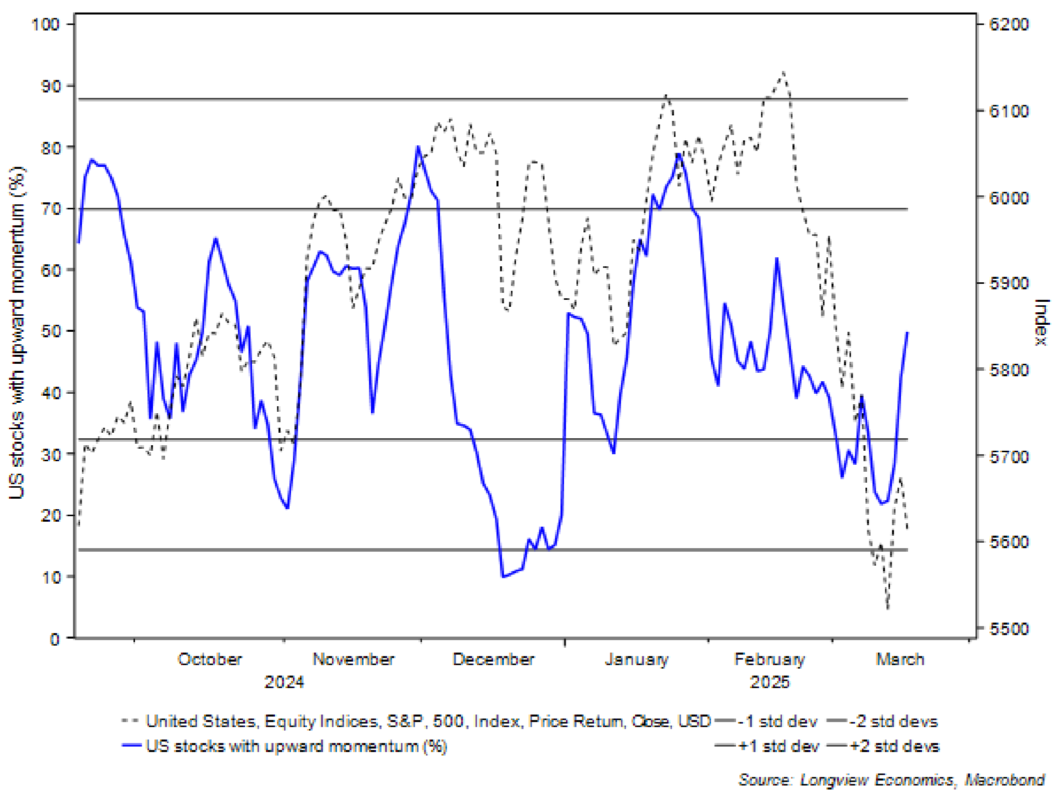


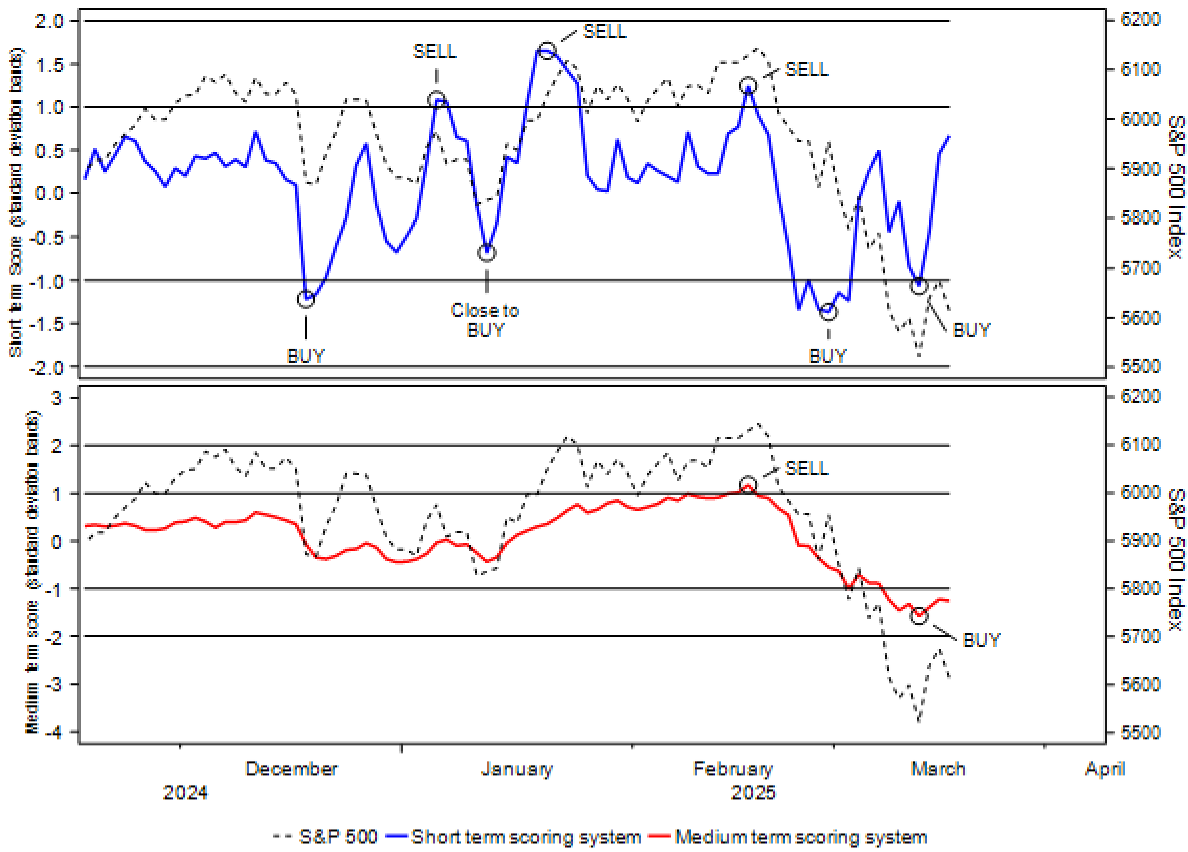
FIG 2f: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



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 industrial production & capacity utilisation (January final estimate, 4:30am); **Japanese machine tool orders** (February first estimate, 6am); **Eurozone unit labour costs** (Q4, 10am); EZ headline & core CPI (February final estimate, 10am); US total TIC flows (Jan, 8pm).

Key events today include: speeches by the ECB's Guindos in Madrid (12pm), Villeroy in Paris (1pm) & Elderson in London (1pm); **Fed policy decision** (6pm) followed by press conference (6:30pm); **BOJ policy decision** (time tentative).

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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Daily Risk Appetite Gauge

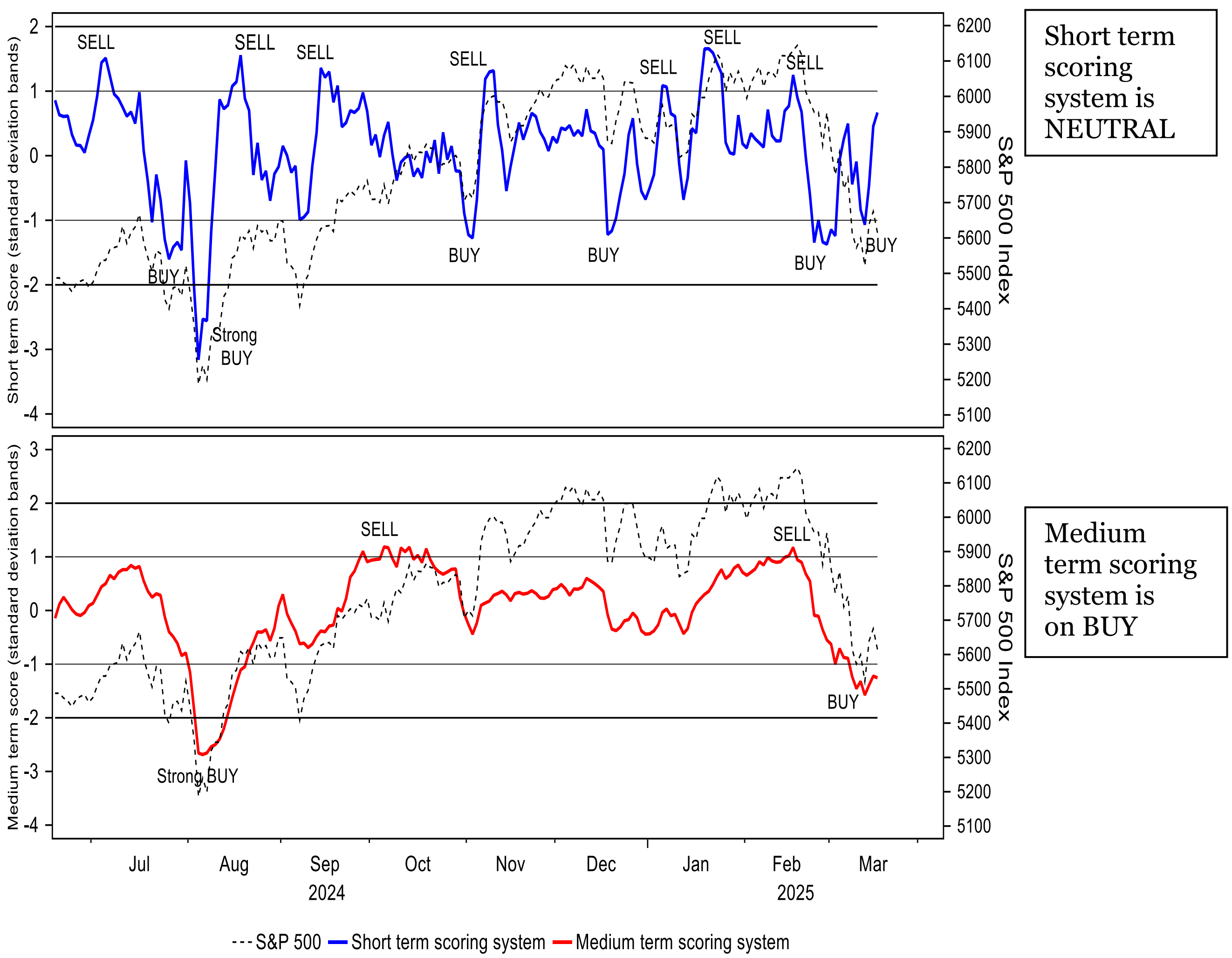
1 – 2 Week View on Risk

19th 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



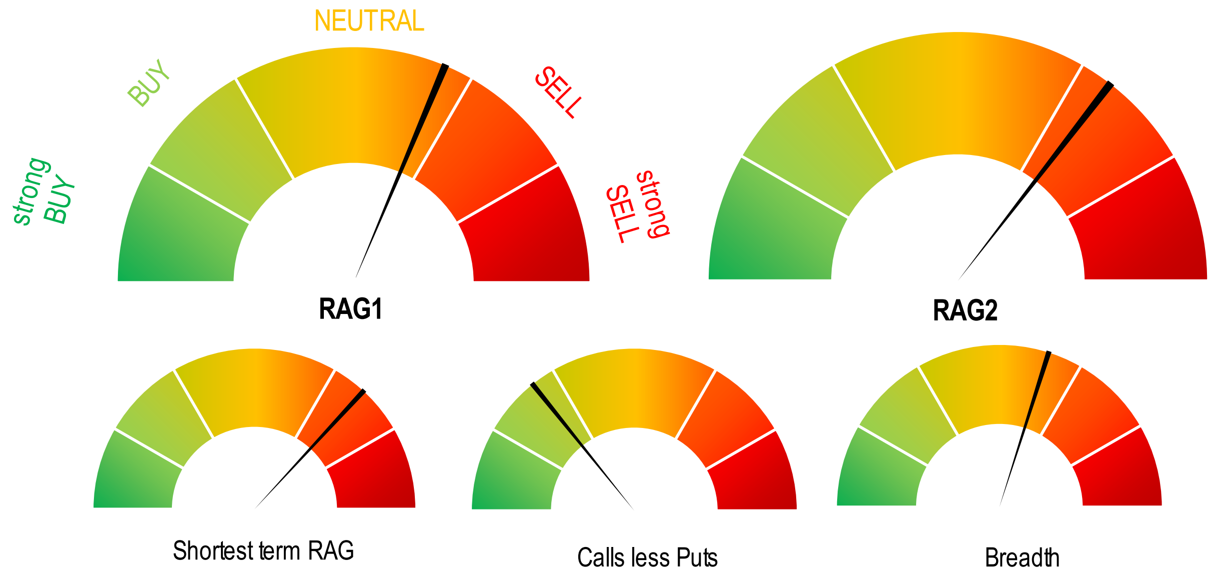
Source: Longview Economics, Macrobond

*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

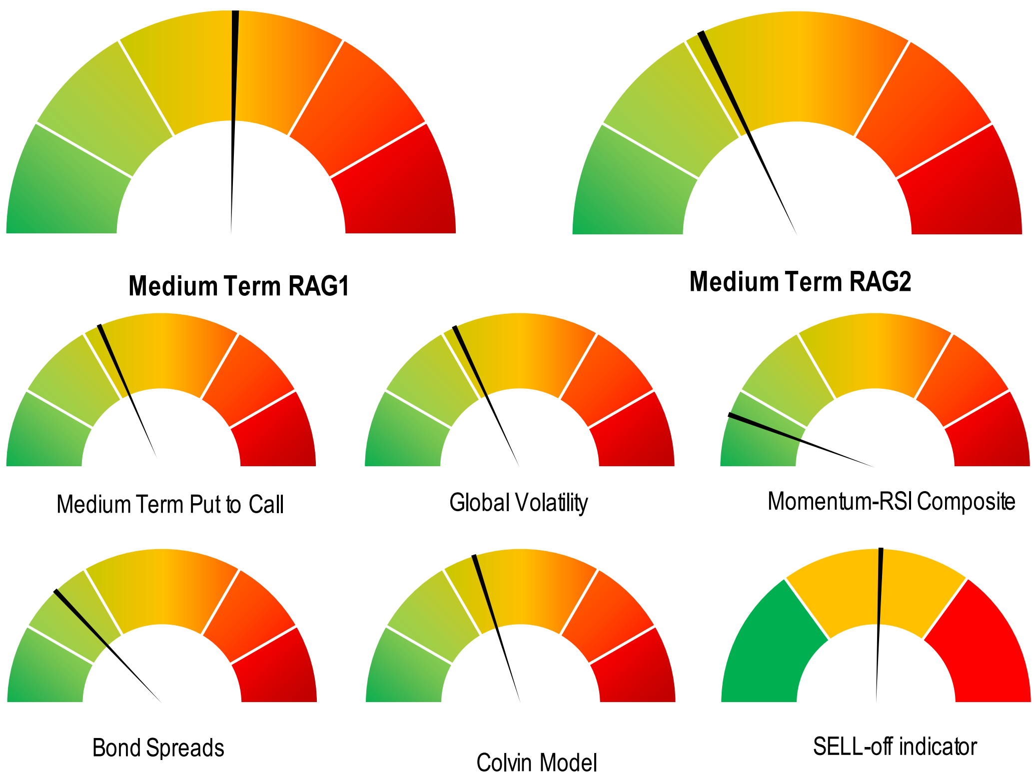
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

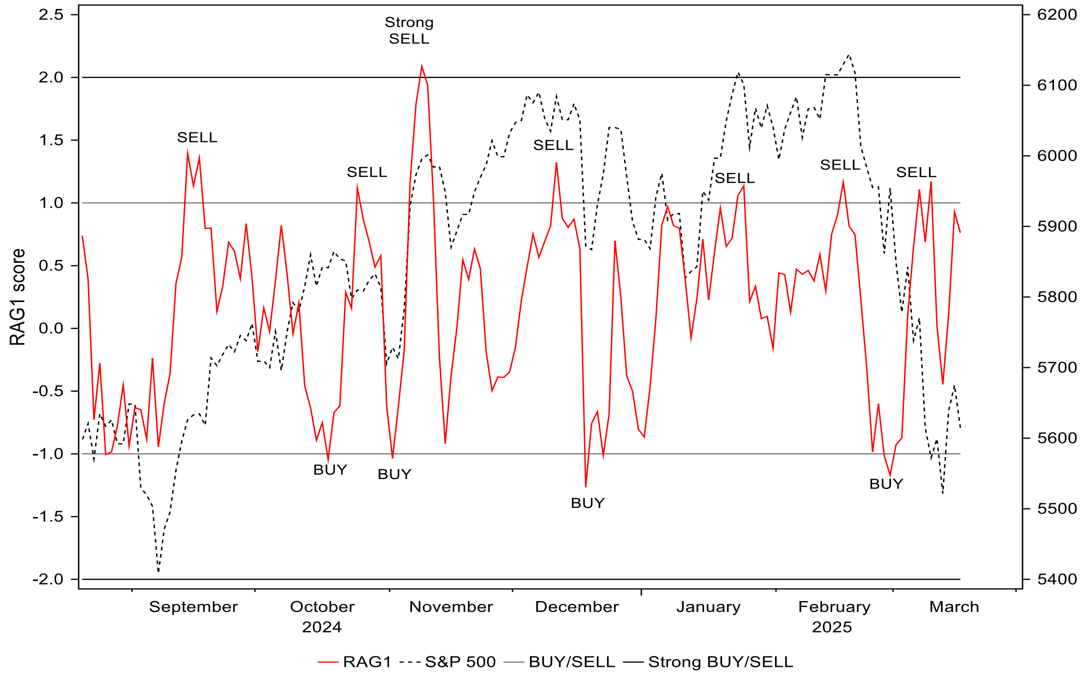
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

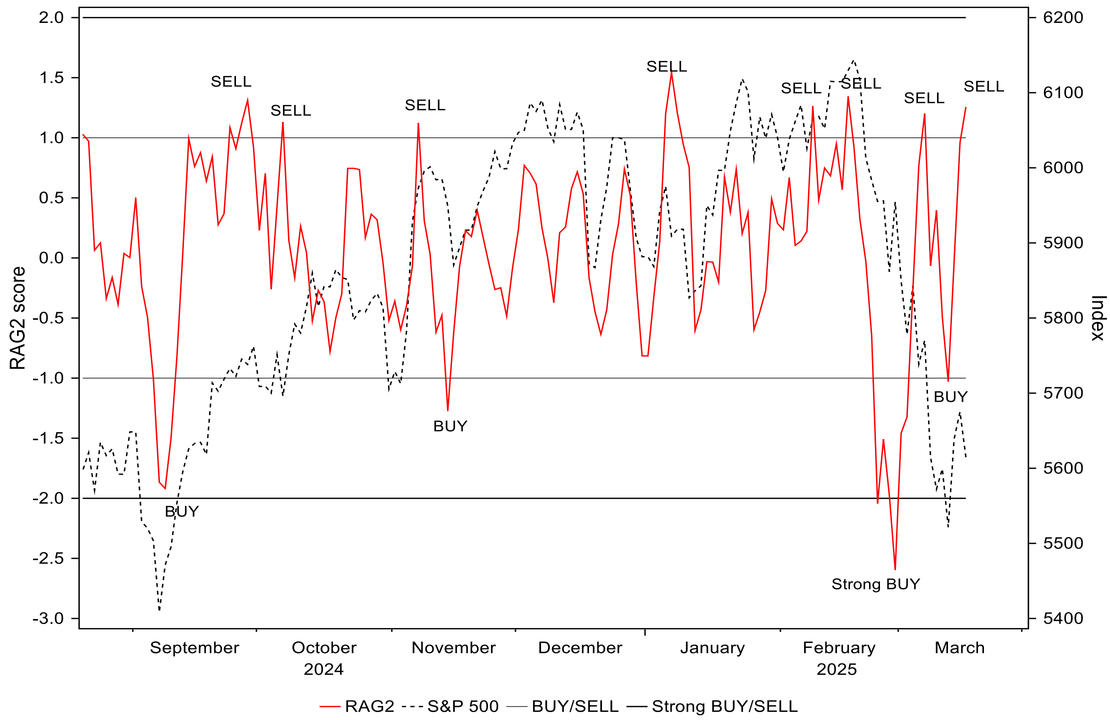
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

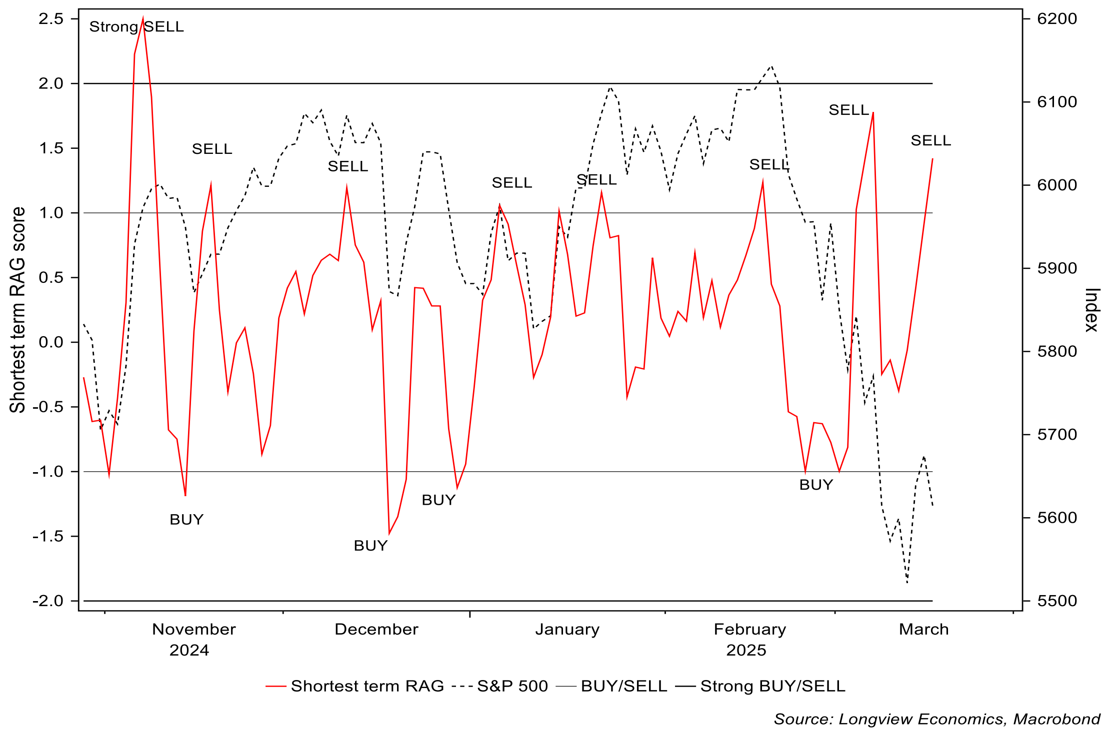


RAG2 is on SELL

Source: Longview Economics, Macrobond

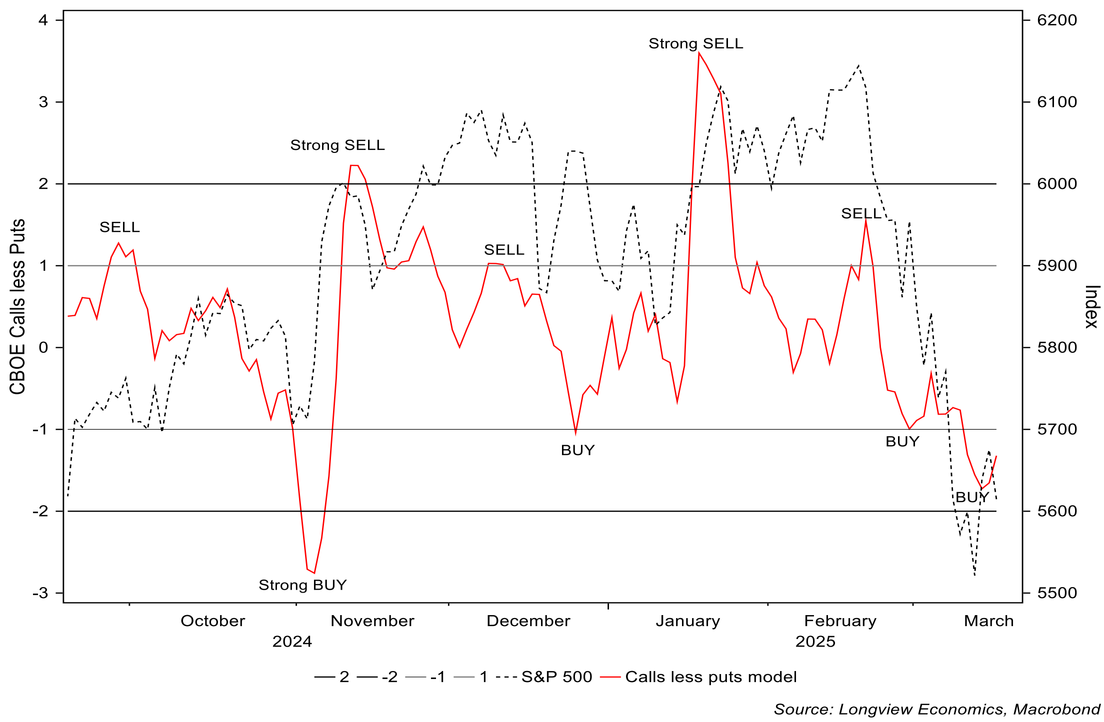
For explanations of indicators please see page 10

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



Shortest term RAG is on SELL

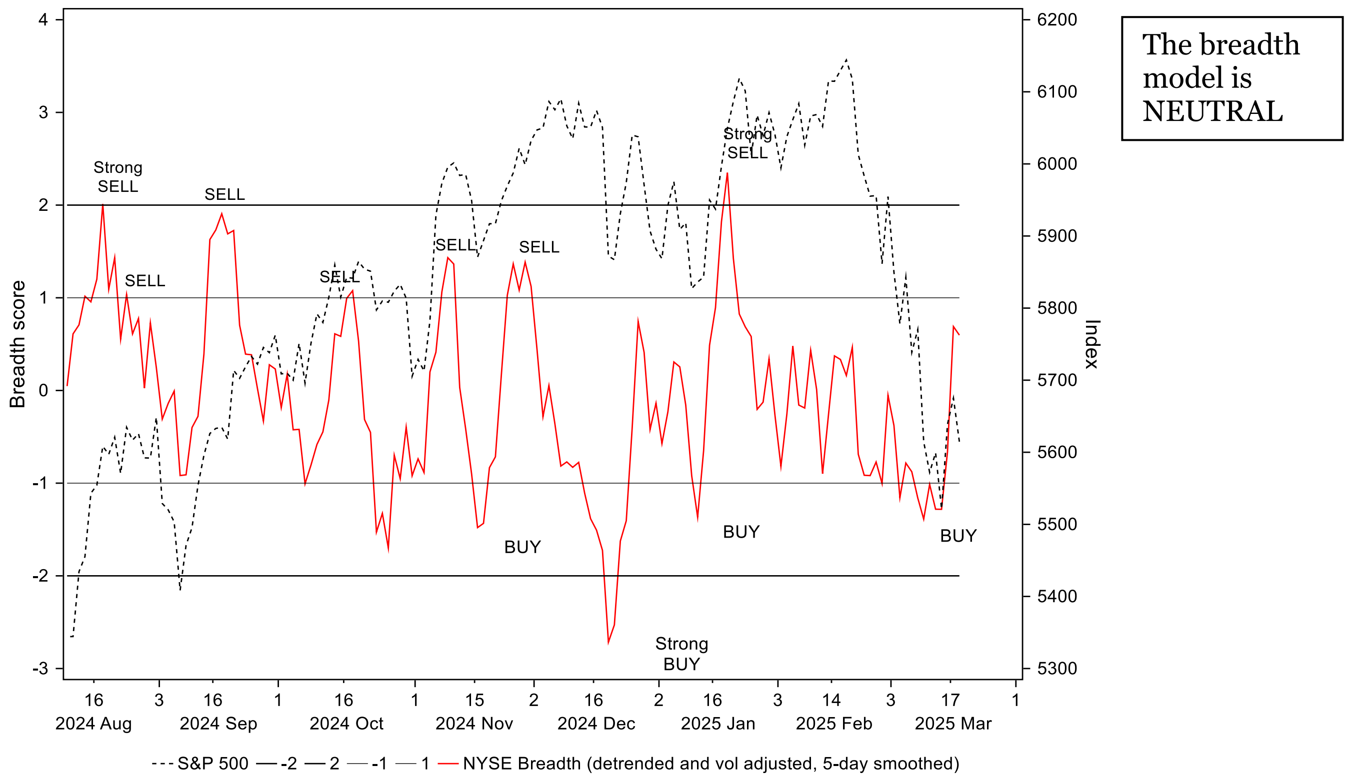
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



Calls less puts model is on BUY

For explanations of indicators please see page 10

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

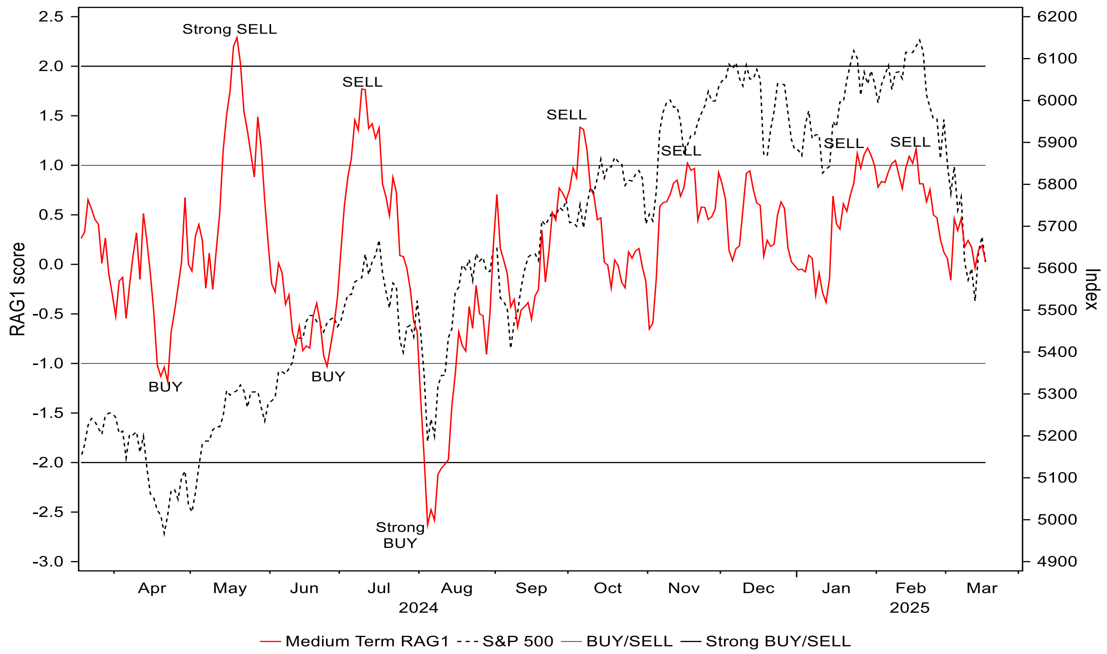


Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

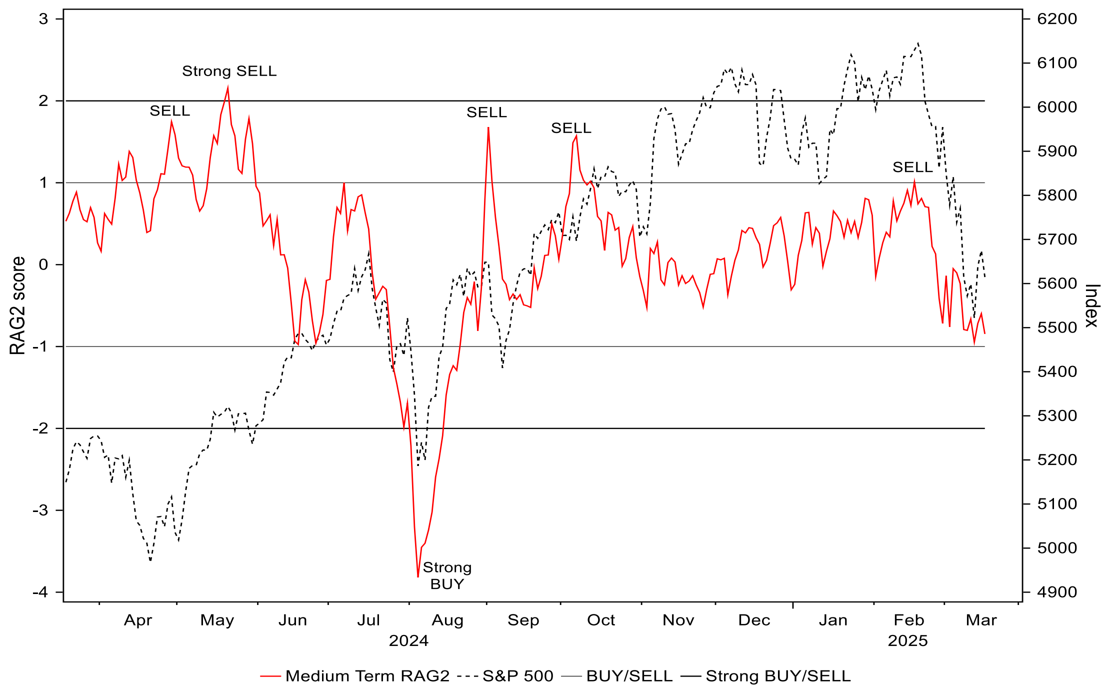
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



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

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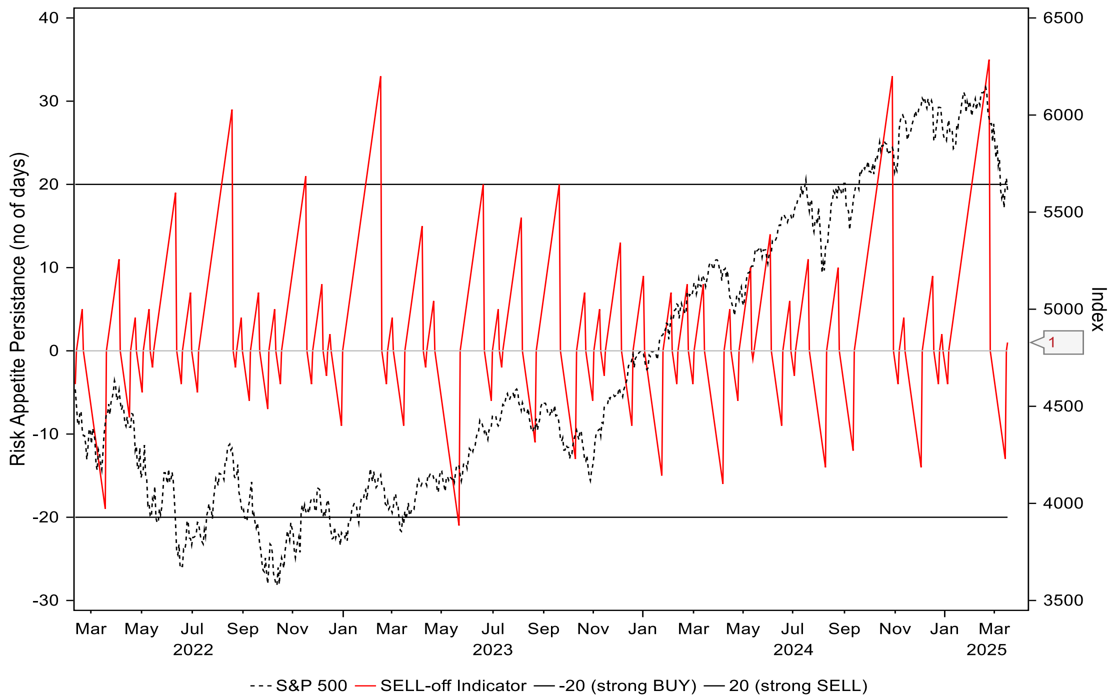
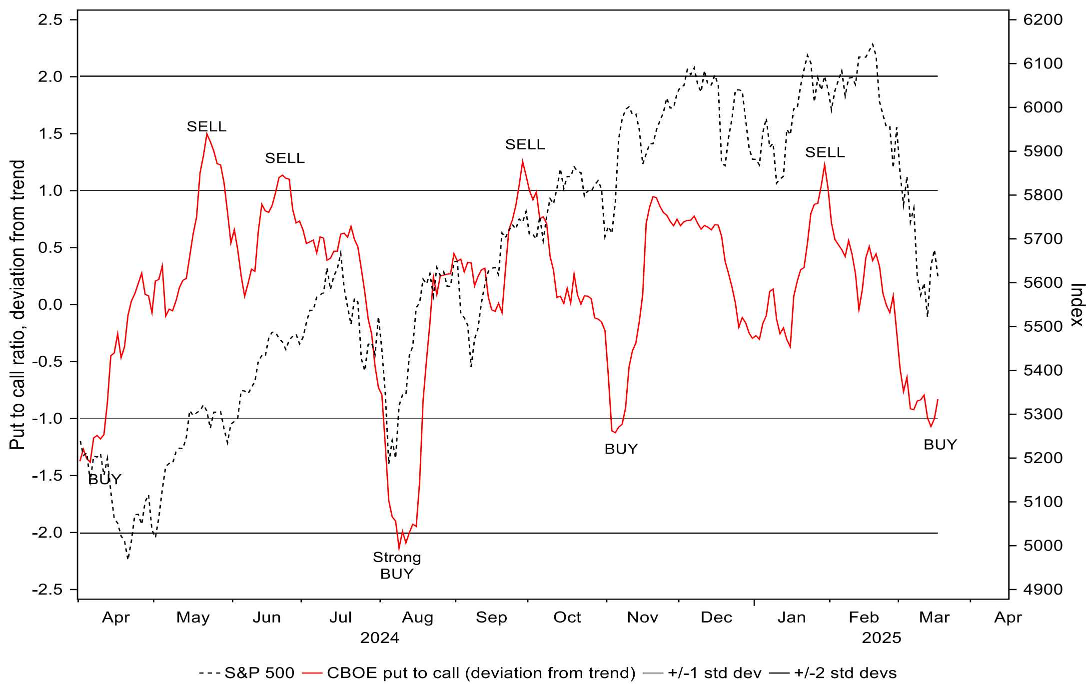
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

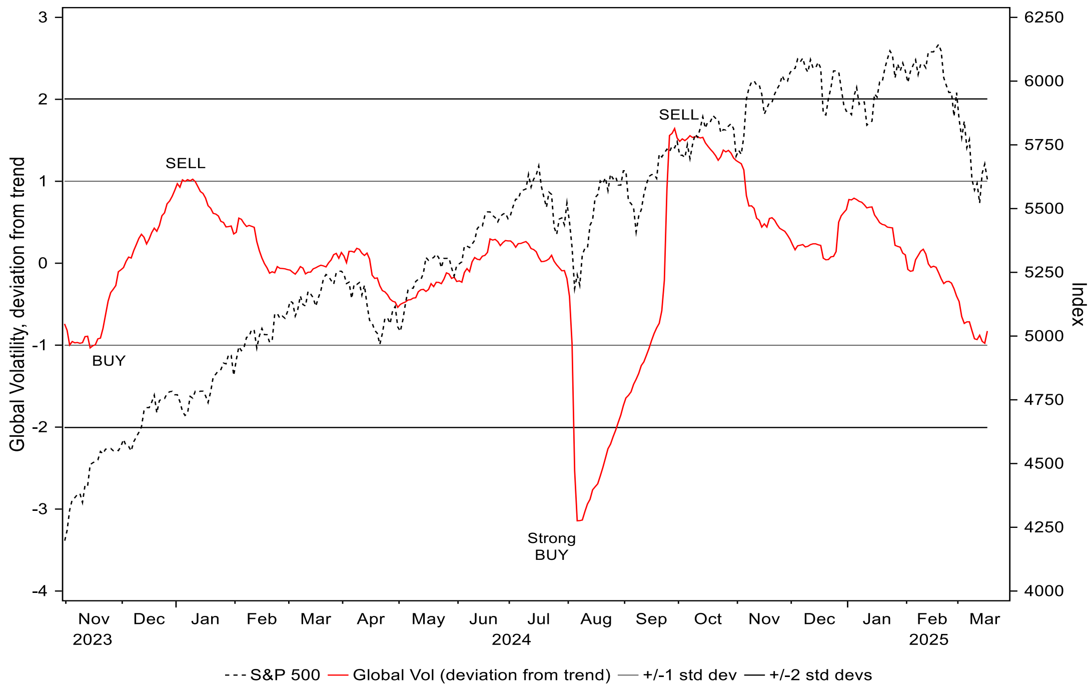


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

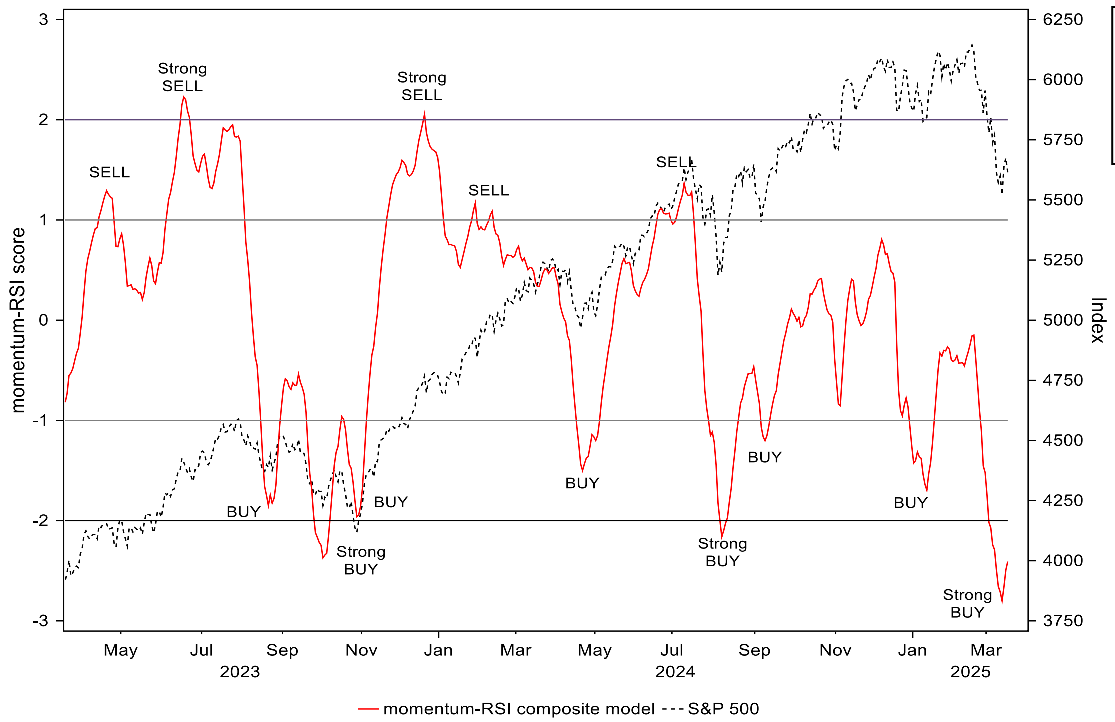
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

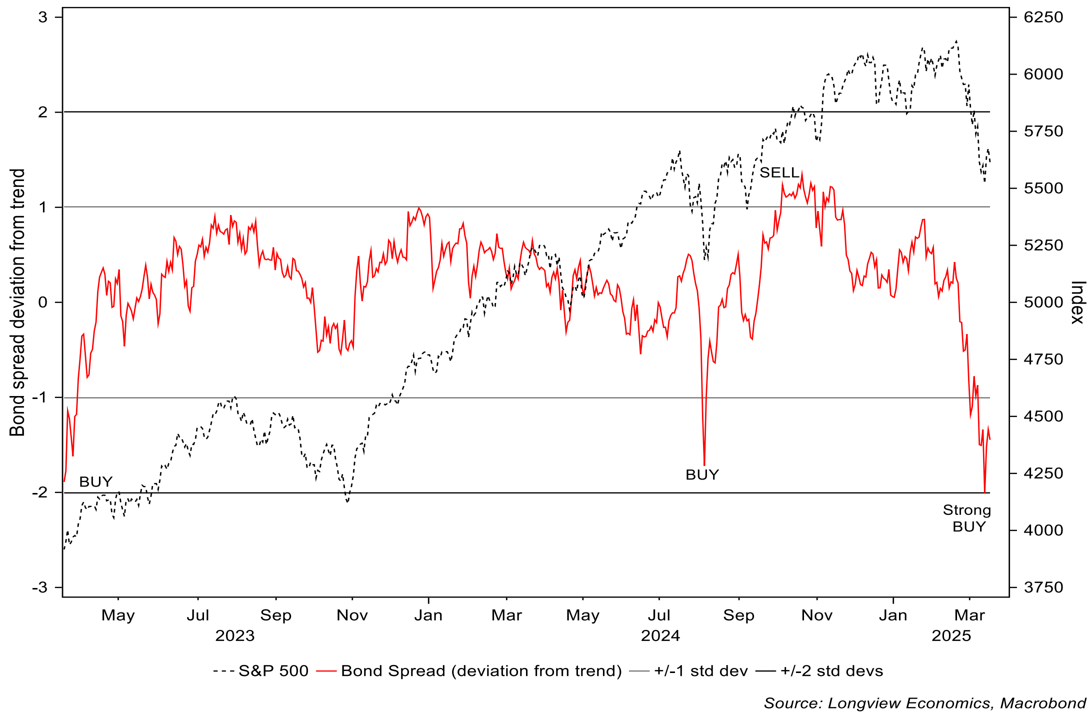
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

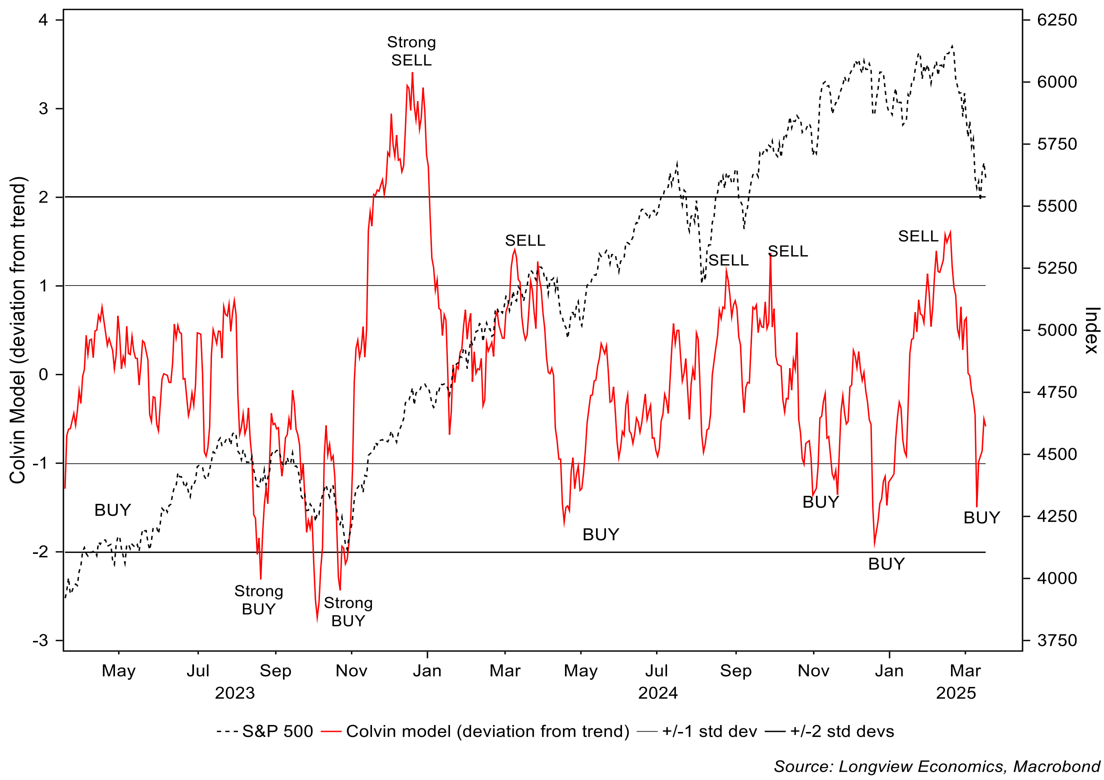
US momentum RSI composite model is on Strong BUY

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



High yield corporate bond spreads model is on BUY

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



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.

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