Equity Index Futures Trading Recommendations

19th May 2025

"SELL-off now on +17; start BUILDing SHORT positions"

Email: info@longvieweconomics.com

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

- Start BUILDing SHORT positions, with an initial ¼ SHORT S&P500 June futures at current prices.
- Increase to ½ SHORT at recent highs (i.e. 5,950 on June futures, if strength is forthcoming).
- Implement 3% stop loss on the combined position.

Rationale

US & other key country equity markets were up again on Friday. That completed a strong performance for the week, which was largely across the board. The S&P500 was up on every trading session, European equities behaved similarly (positive 4 out of the 5 trading sessions), whilst Asian equities were also mostly higher on the week (although less emphatically so).

With that clear 'risk on' behaviour across global equity markets, **almost all of our key short and medium-term models are now on SELL.** Risk appetite scoring systems (which measure 'fear and greed') are on SELL on both the short and medium-term timeframe (i.e. 1 – 2 weeks; & 1 – 4 months, FIGs 2 & 2a). Similarly, key headline equity indices are now overbought on both of those timeframes (FIGs 3 & 3a). That overbought nature is also evident at the single stock and sector level (FIGs 4, 4a & 4b); while downside put protection has been removed (both short & medium term – FIGs 5, 5a & 5b). Across the board, therefore, the models are generating a clear and consistent message, reflecting the strength and long-lasting nature of this recent rally from the April 7th lows.

Added to that, and as highlighted on Friday, **'froth' is building in prices**. The SELL-off indicator, for example, is close to its key +20 level (FIG 1); the outstanding volume of single stock call options is also at a high level (FIG 1a); while key leadership stocks (like Nvidia, Microsoft) are now overextended relative to their medium term (50-day moving average) trend line.

Over the weekend, we have also had a **reminder that newsflow is a two-way risk**. That is, Moody's have downgraded the US sovereign debt rating (to Aa1 from Aaa). Reflecting that, US 10 and 30-year yields have backed up. This, though, is a continuation of a trend in yields that has been playing out since the intraday yield lows on 7th April (NB at some stage those higher yields should become a headwind for equity markets). Also of note, some of the Asian currencies have continued their recent strengthening trend.

The HK$, for example, has moved sharply over the past two weeks (i.e. for a pegged currency). The TWD, meanwhile, has been stable since its strong move at the start of the month.

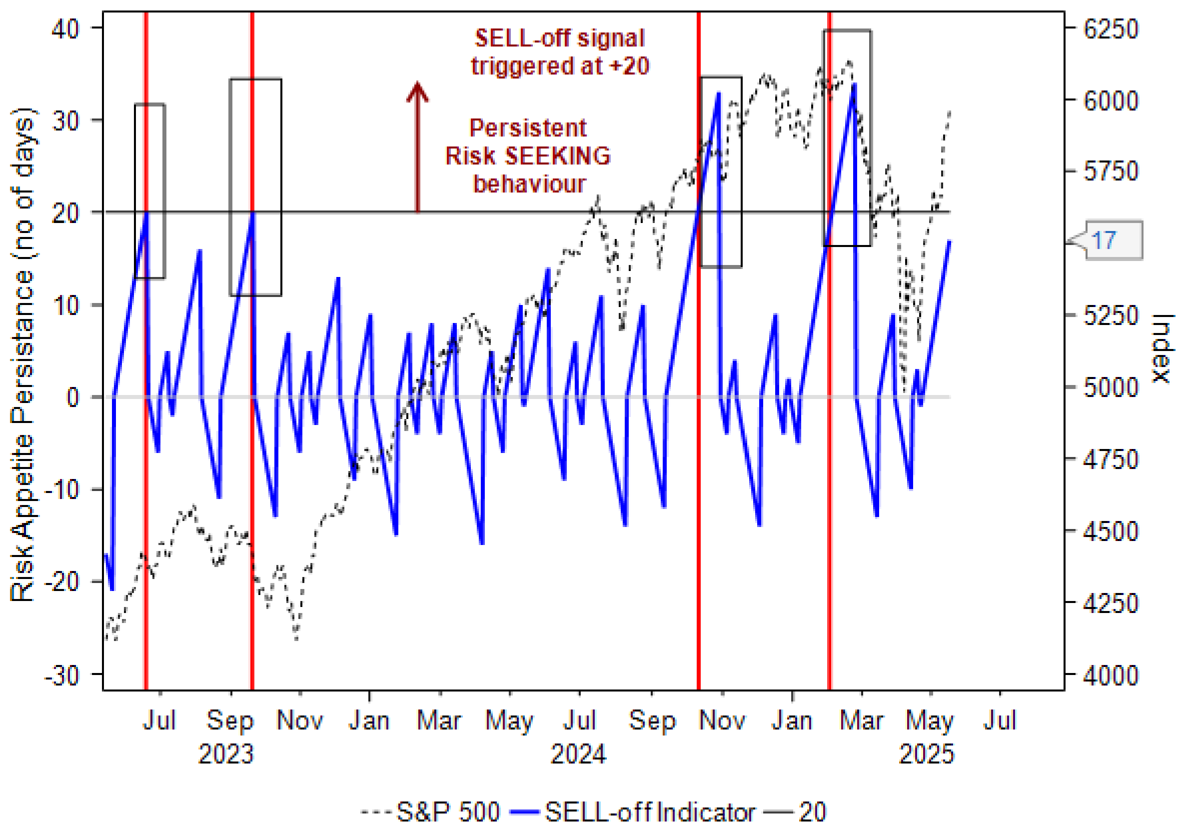
The message of the short and medium-term models, coupled with the build-up in the SELL-off indicator (& other signs of froth), add to the case for **starting to (re)BUILD SHORT positions**. The reminder for markets that newsflow can be two-way adds to that case (given that the narrative has been mostly focussed on positive news surprises in recent weeks). As such, we recommend starting to BUILD SHORT positions with an initial ¼ SHORT at current prices and then a further ¼ SHORT on strength (if forthcoming). See Trading Recommendation above for full detail.

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

Kind regards,

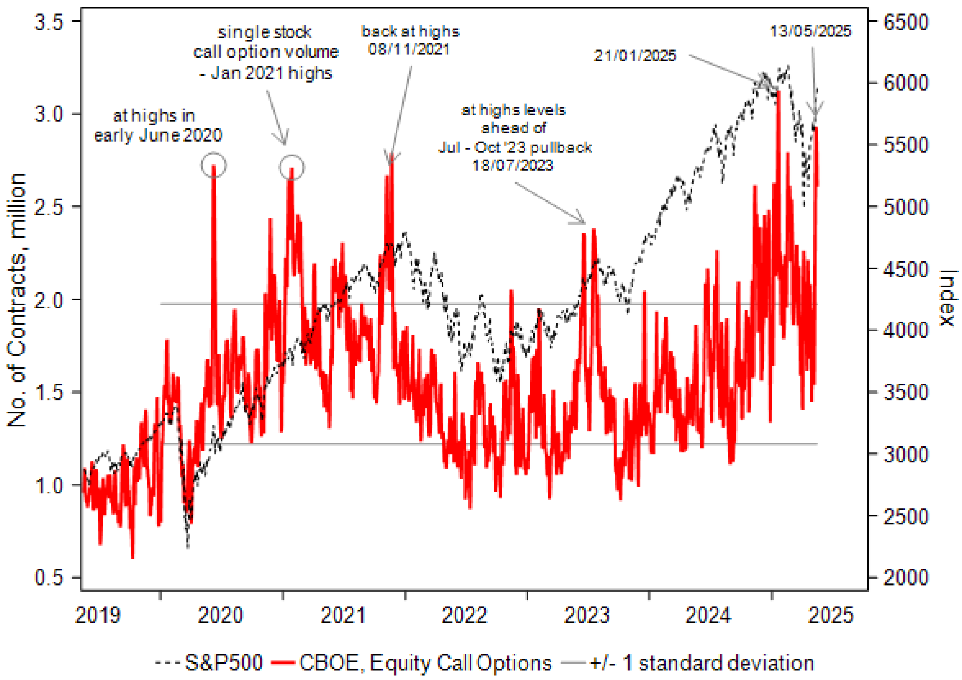
The team @ Longview Economics

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



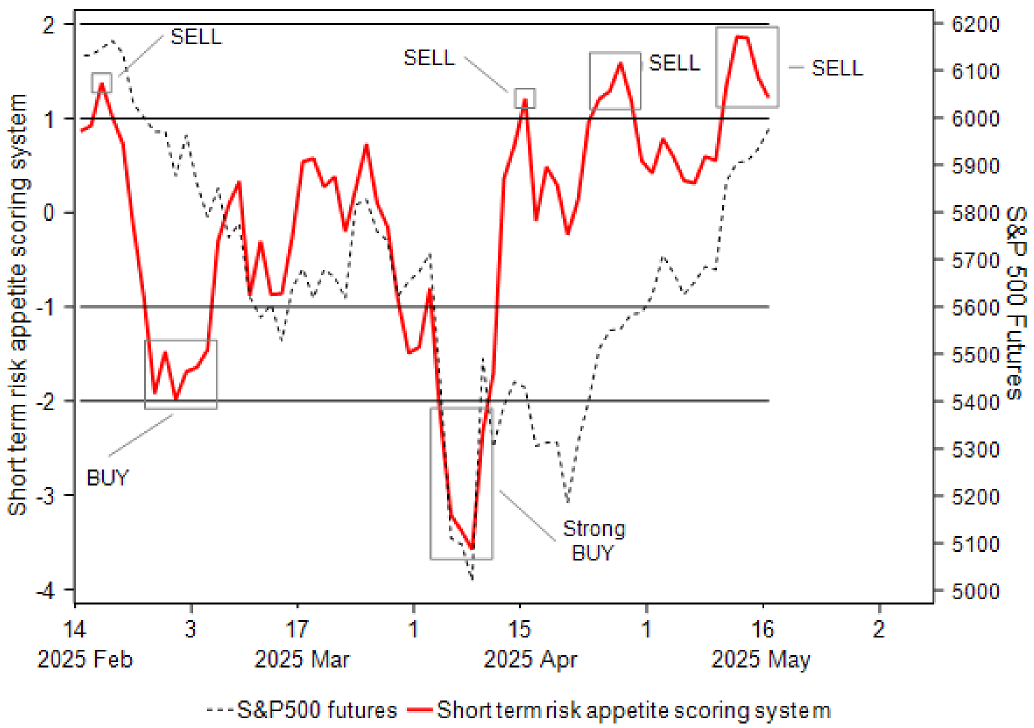
Source: Longview Economics, Macrobond

FIG 1a: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500



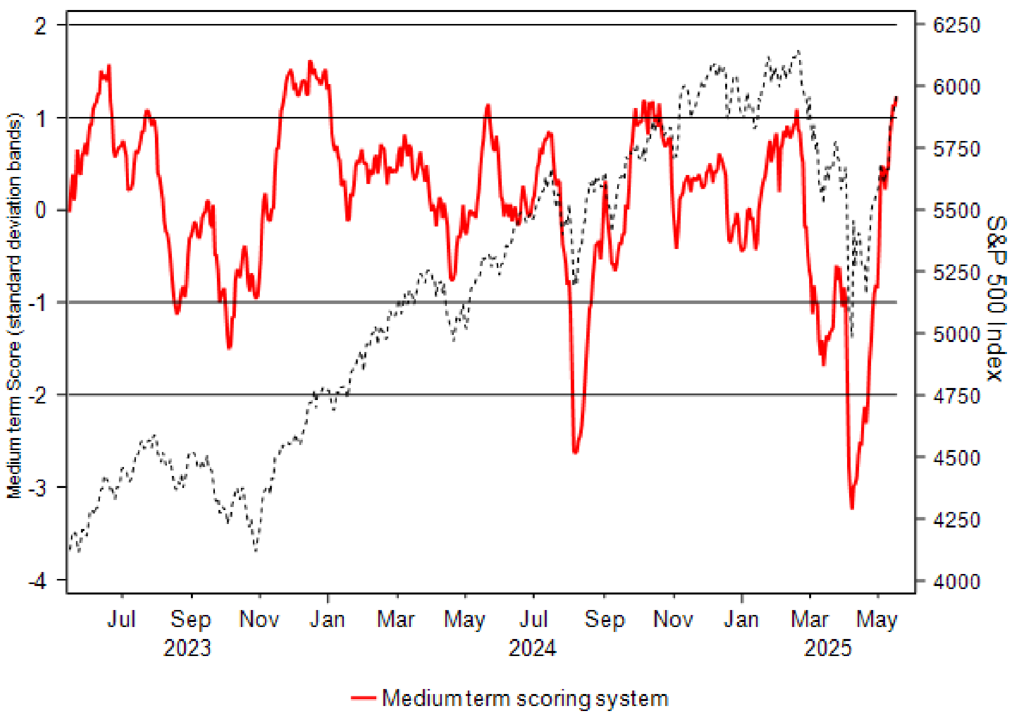
Source: Longview Economics, Macrobond

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



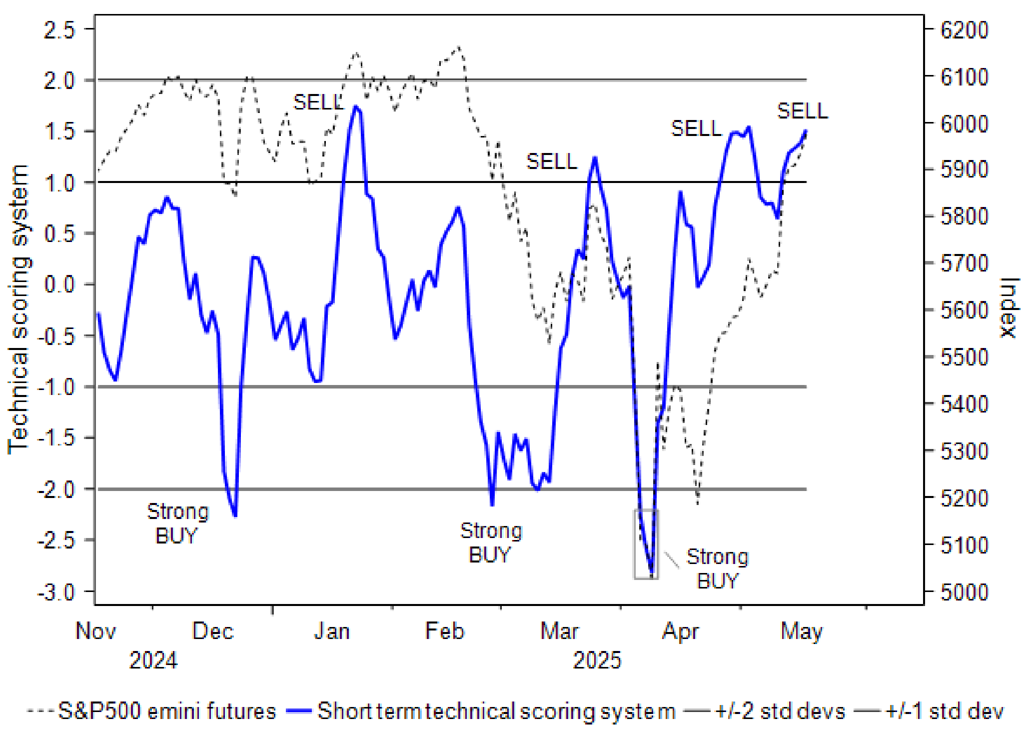
Source: Longview Economics, Macrobond

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



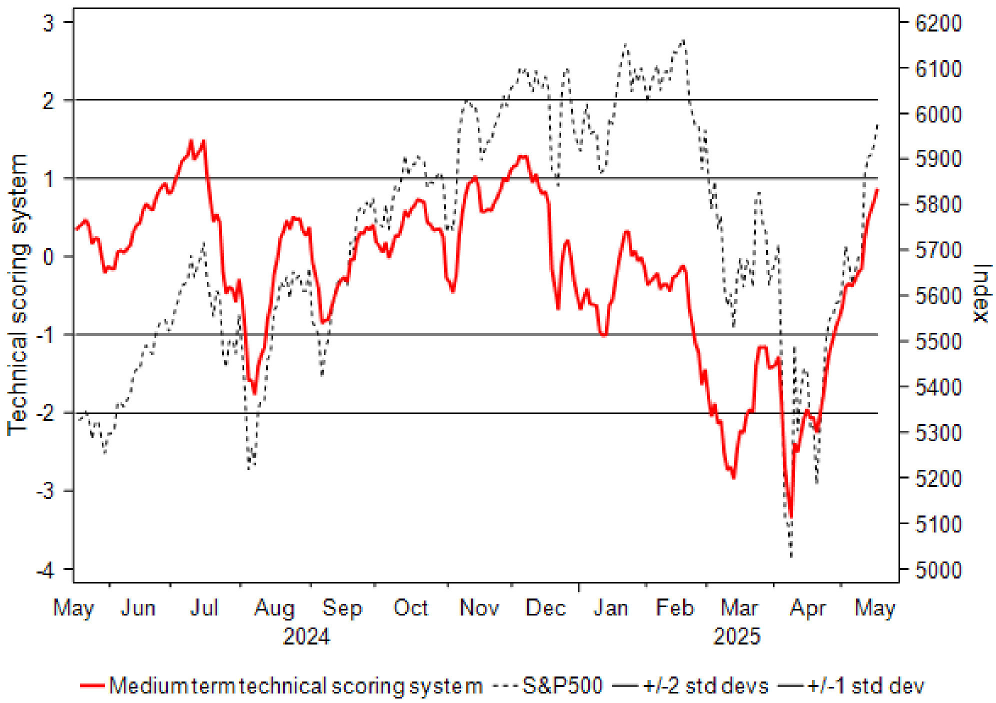
Source: Longview Economics, Macrobond

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



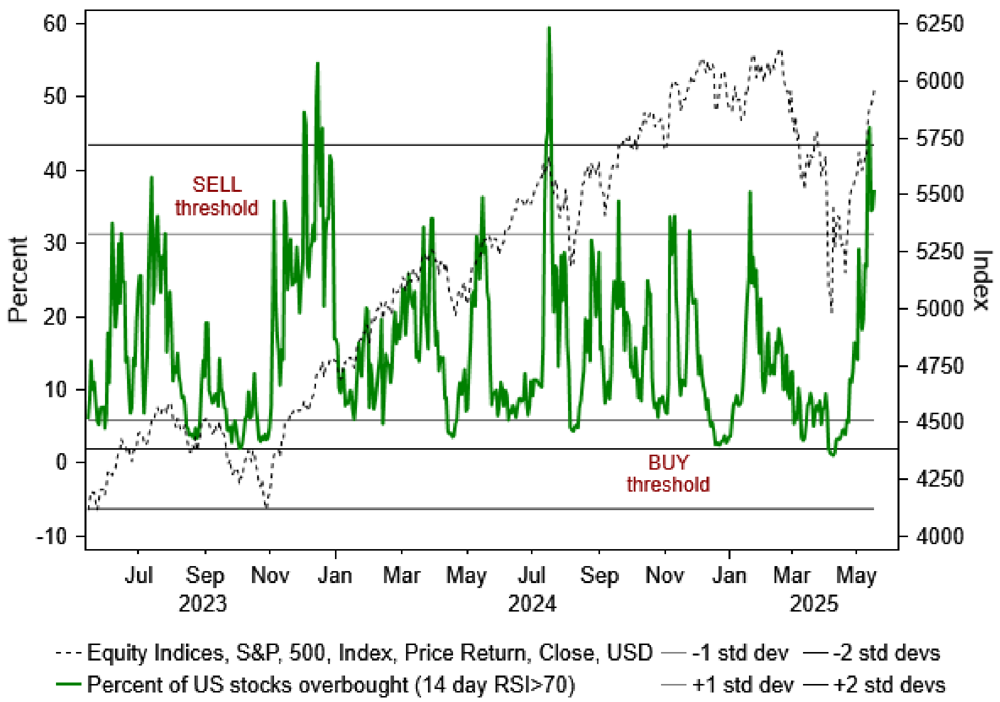
Source: Longview Economics, Macrobond

<u>FIG 3a:</u> <u>Longview S&P500 **medium term** **'technical'** scoring system vs. S&P500 futures</u>



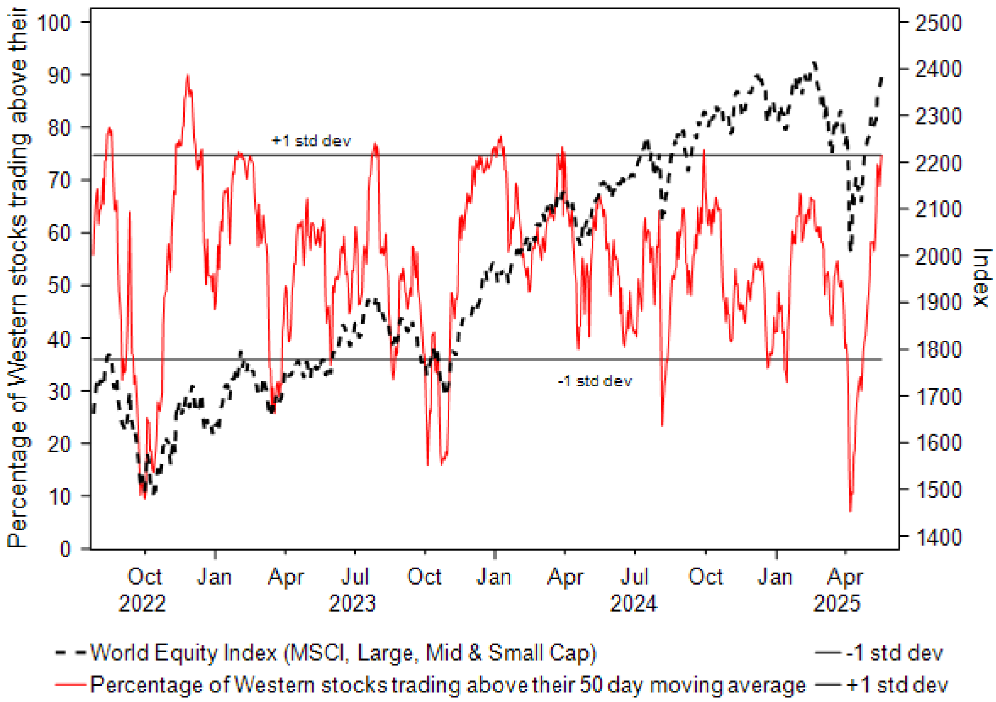
Source: Longview Economics, Macrobond

<u>FIG 4:</u> <u>Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500</u>



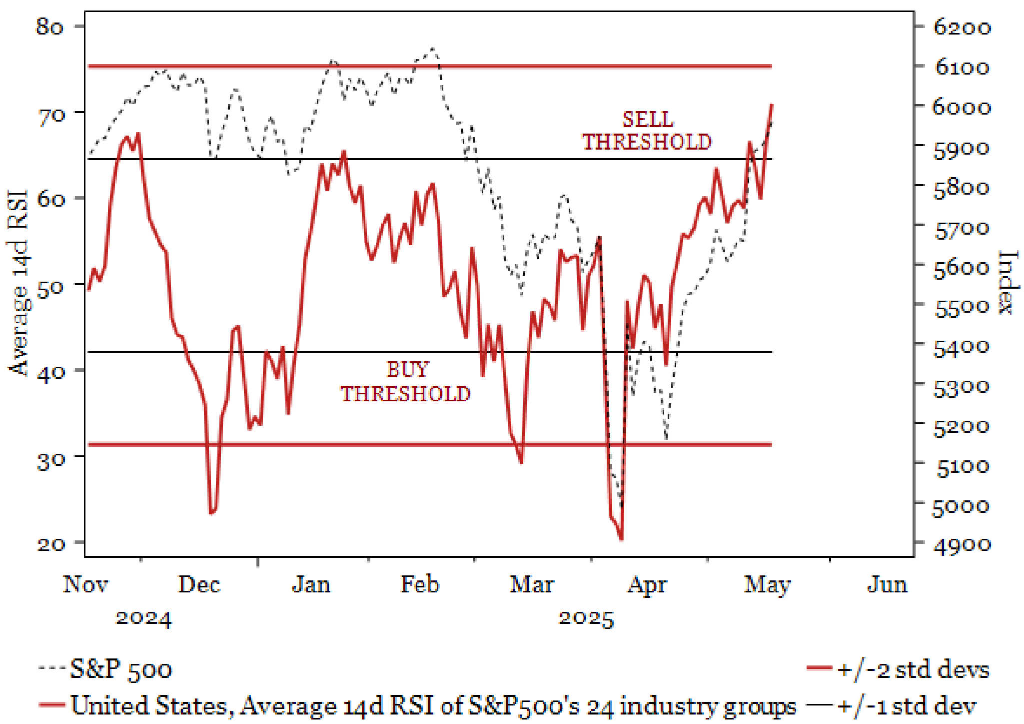
Source: Longview Economics, Macrobond

FIG 4a: Percentage of Western stocks trading above their 50 day moving average vs. MSCI global equity index



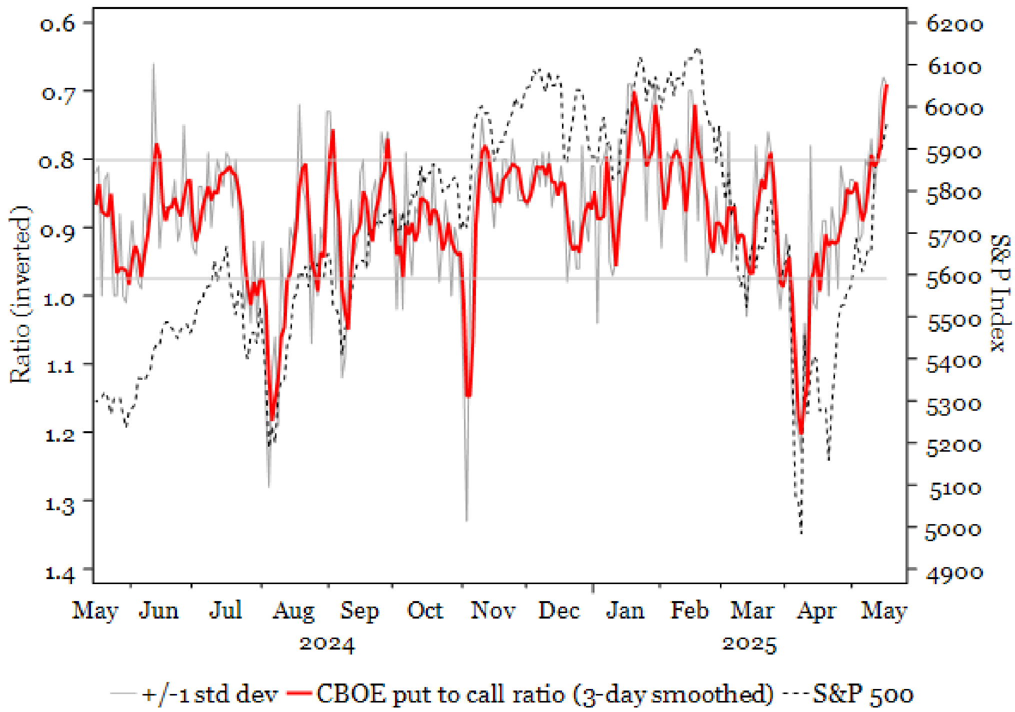
Source: Longview Economics, Macrobond

FIG 4b: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



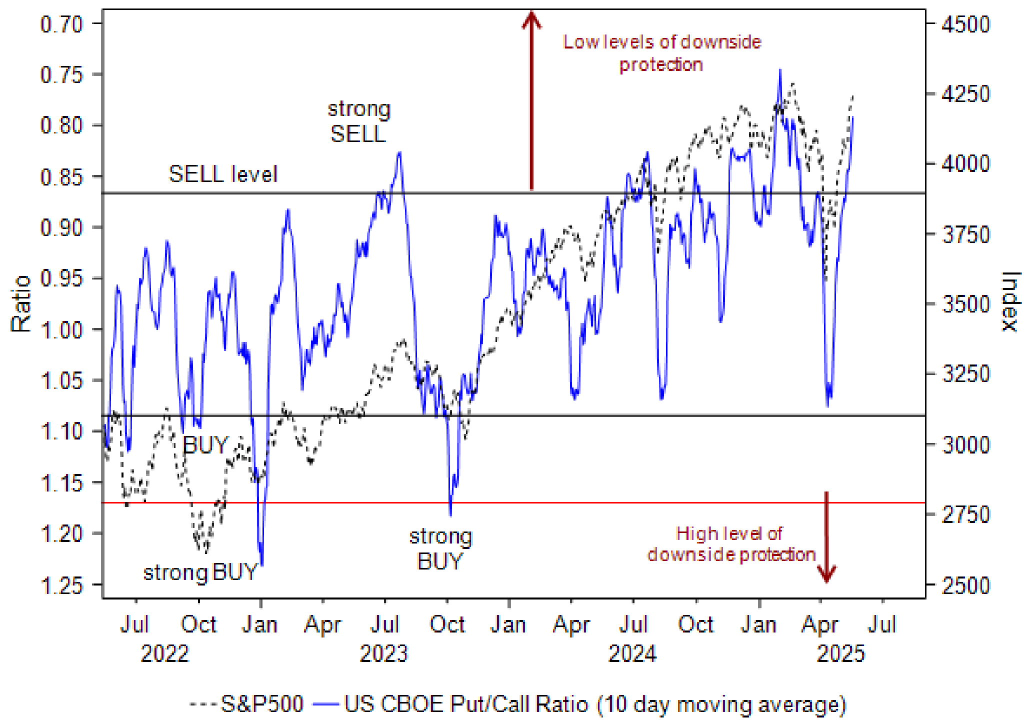
Source: Longview Economics, Macrobond

FIG 5: CBOE **short term** put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



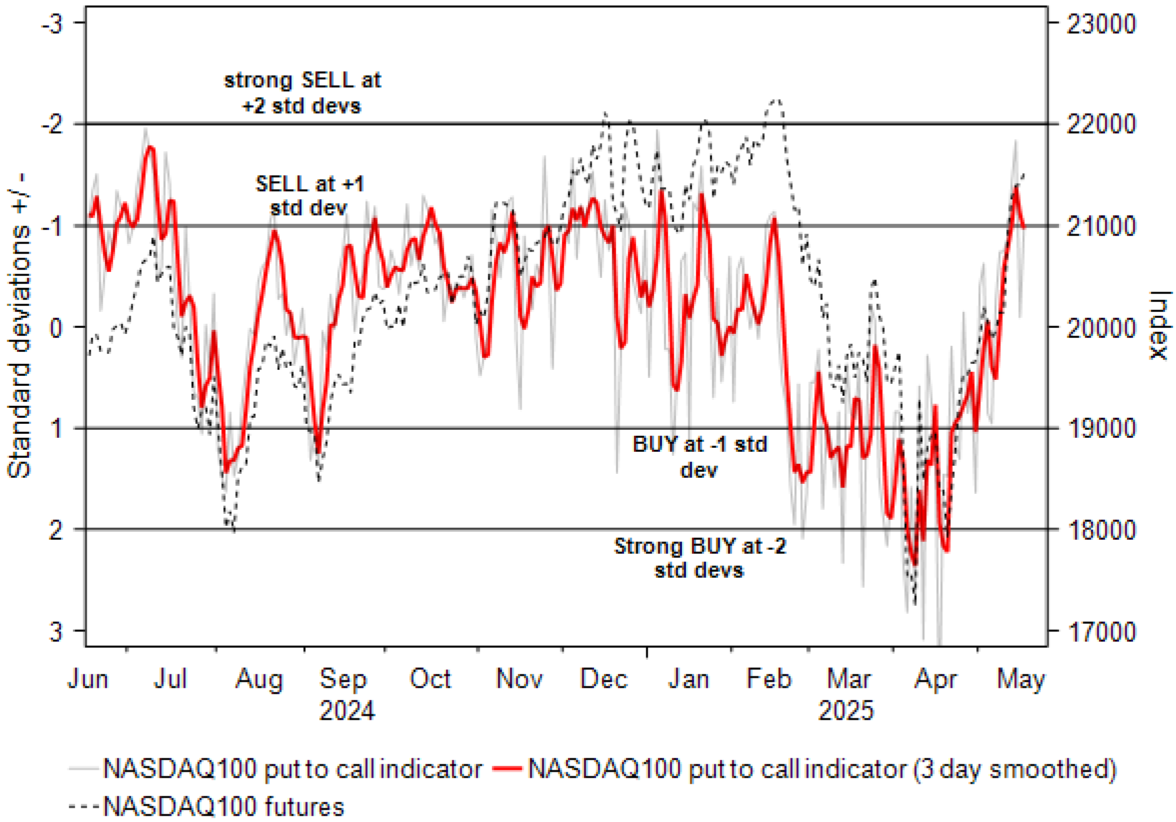
Source: Longview Economics, Macrobond

FIG 5a: CBOE **medium term** put to call ratio vs. S&P500



Source: Longview Economics, Macrobond

FIG 5b: NDX100 put to call indicator (medium term model) vs. NDX100

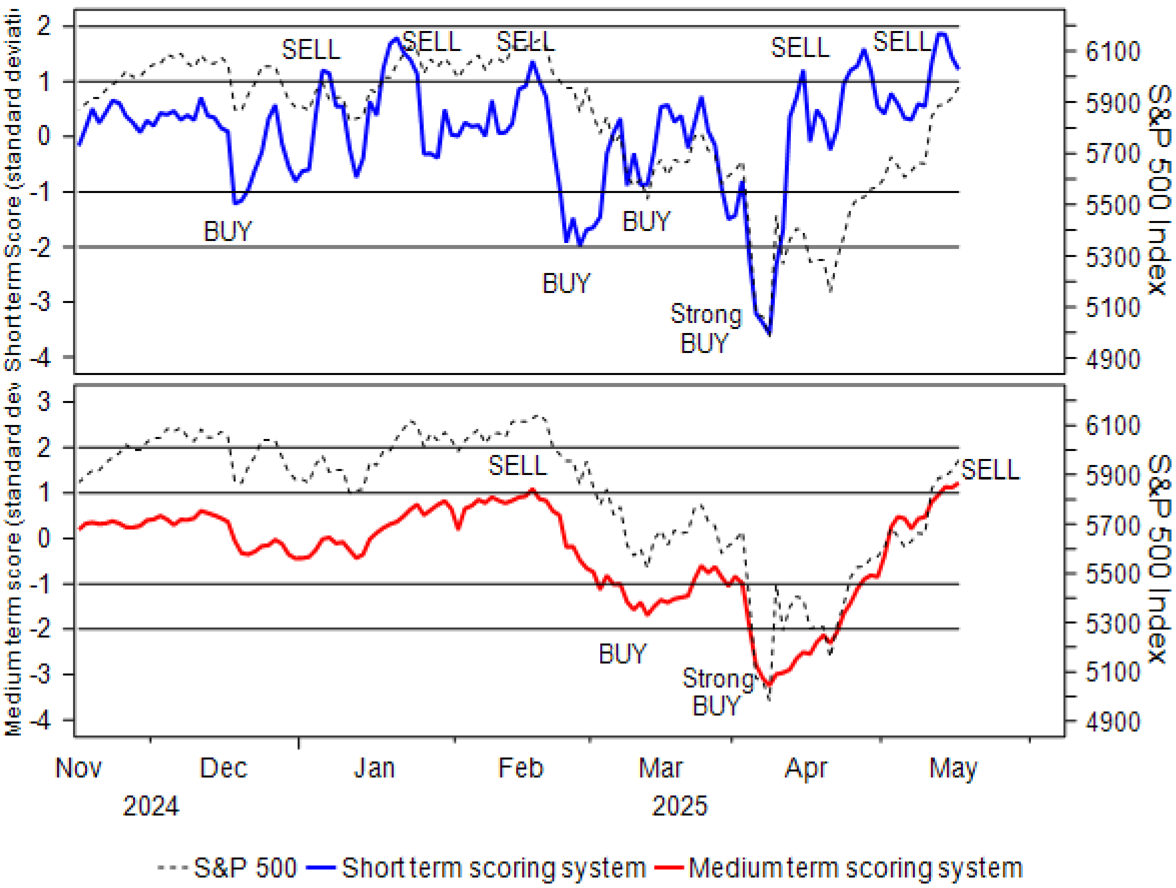


Source: Longview Economics, Macrobond

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: UK Rightmove house prices (May, 12:01am); **Chinese new & used home prices** (Apr, 2:30am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Apr, 3am); Japanese Tertiary industry index (Mar, 5:30am); Eurozone headline & core CPI (April final estimate, 10am); **US Conference Board leading index** (Apr, 3pm).

Key events today include: Speech by the ECB's Muller in Tallinn (10:30am); speeches by the Fed's Bostic & Jefferson (1:30pm), Williams in moderated discussion (1:45pm) & Logan at a financial markets conference (6:15pm); market holiday in Canada on account of Victoria Day.

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 1st May 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

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Daily Risk Appetite Gauge

1 – 2 Week View on Risk

19th May 2025

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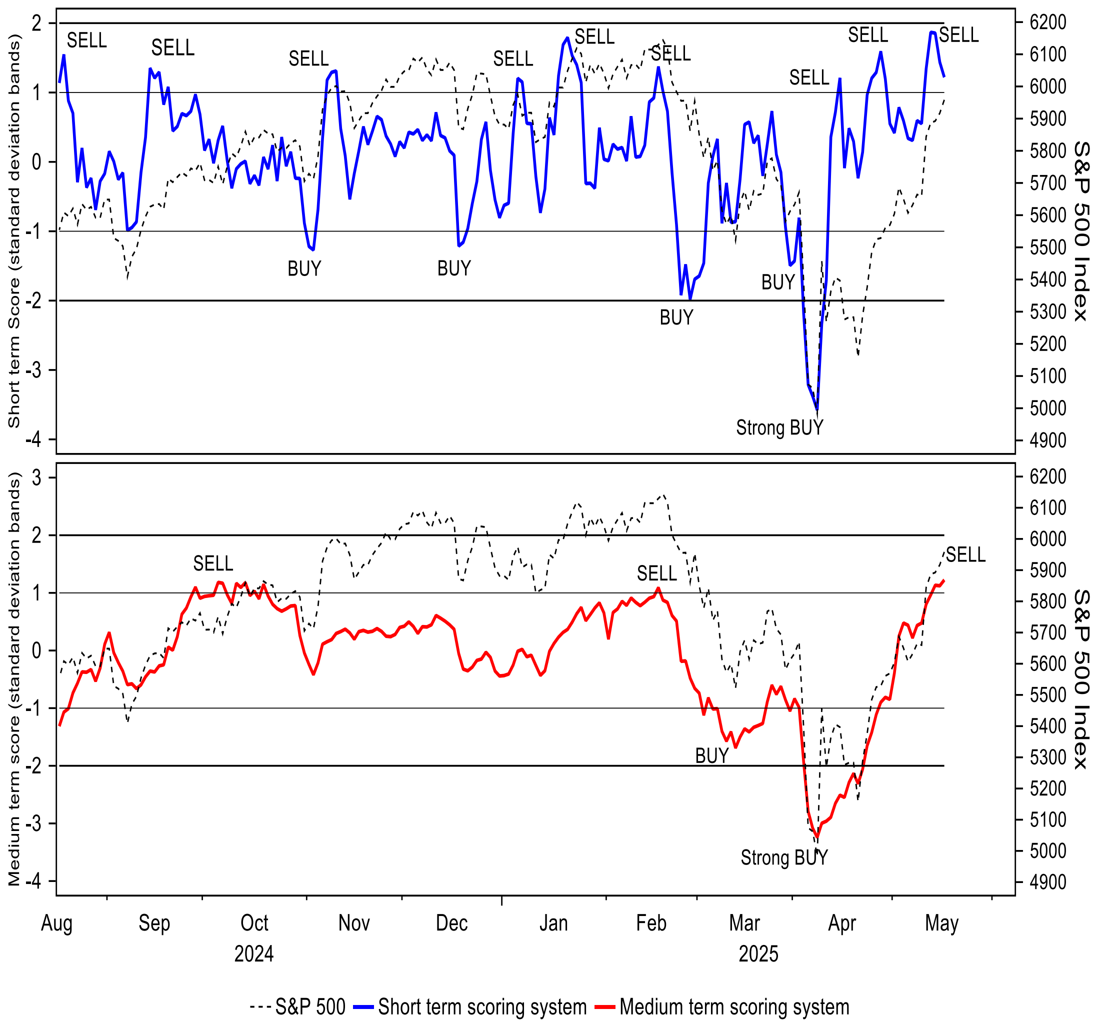
Section 1: Longview Scoring Systems (short & medium term*)

Fig 1: Longview ‘short term’ and ‘medium term’ scoring systems



Short term scoring system is on SELL

Medium term scoring system is SELL

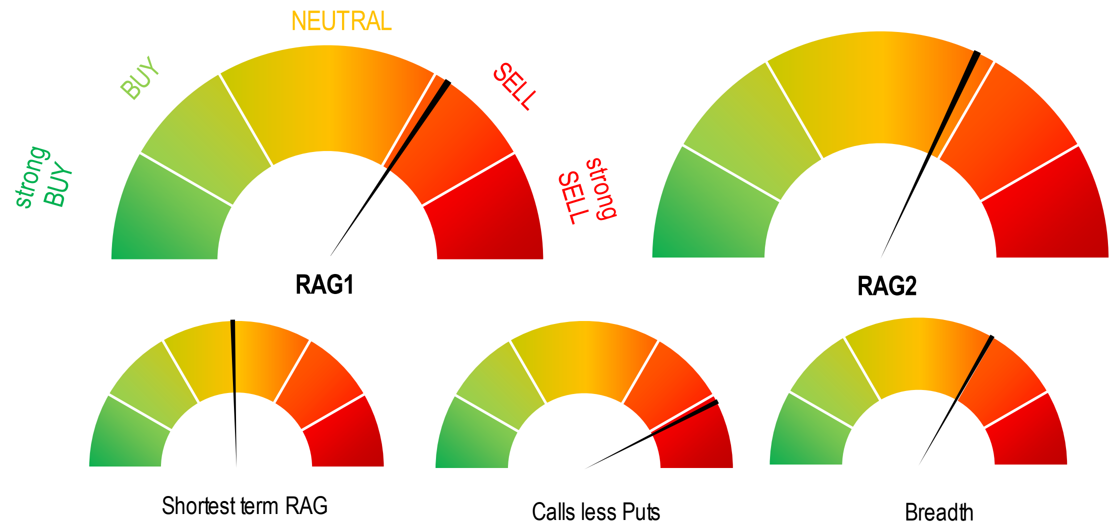
Source: Longview Economics, Macrobond

*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

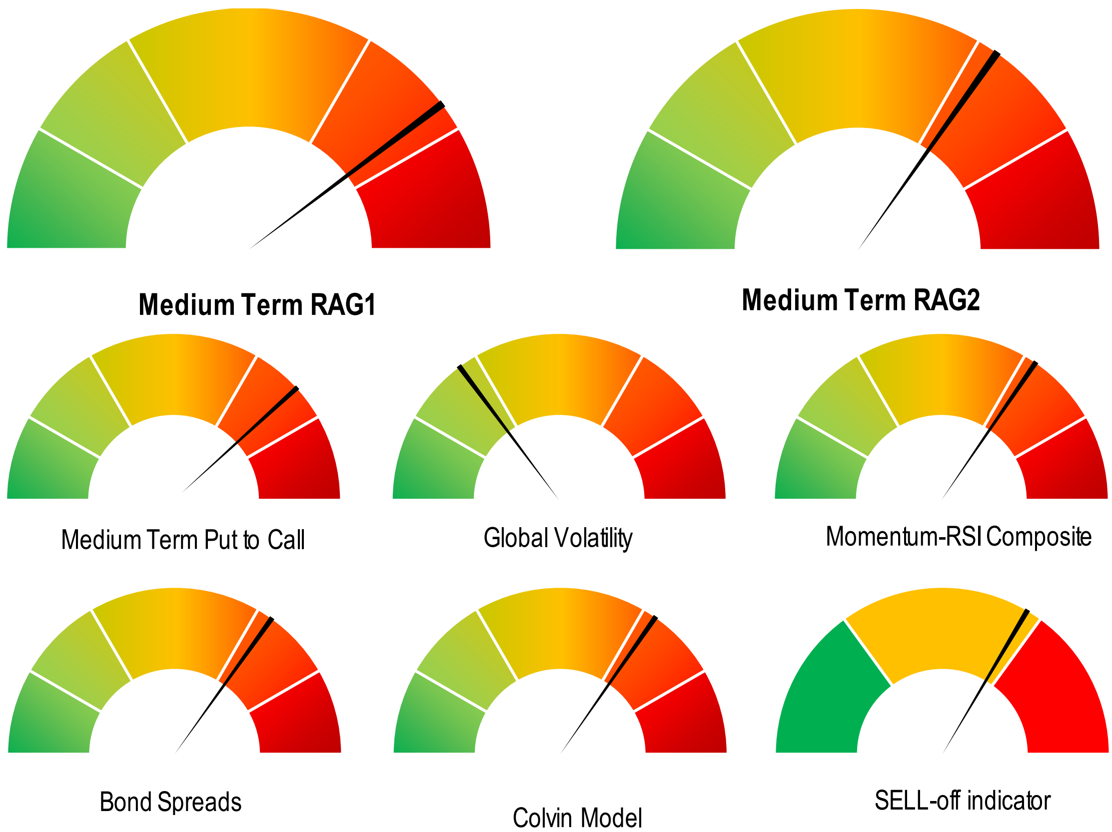
Section 1a: Summary of indicator signals**

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

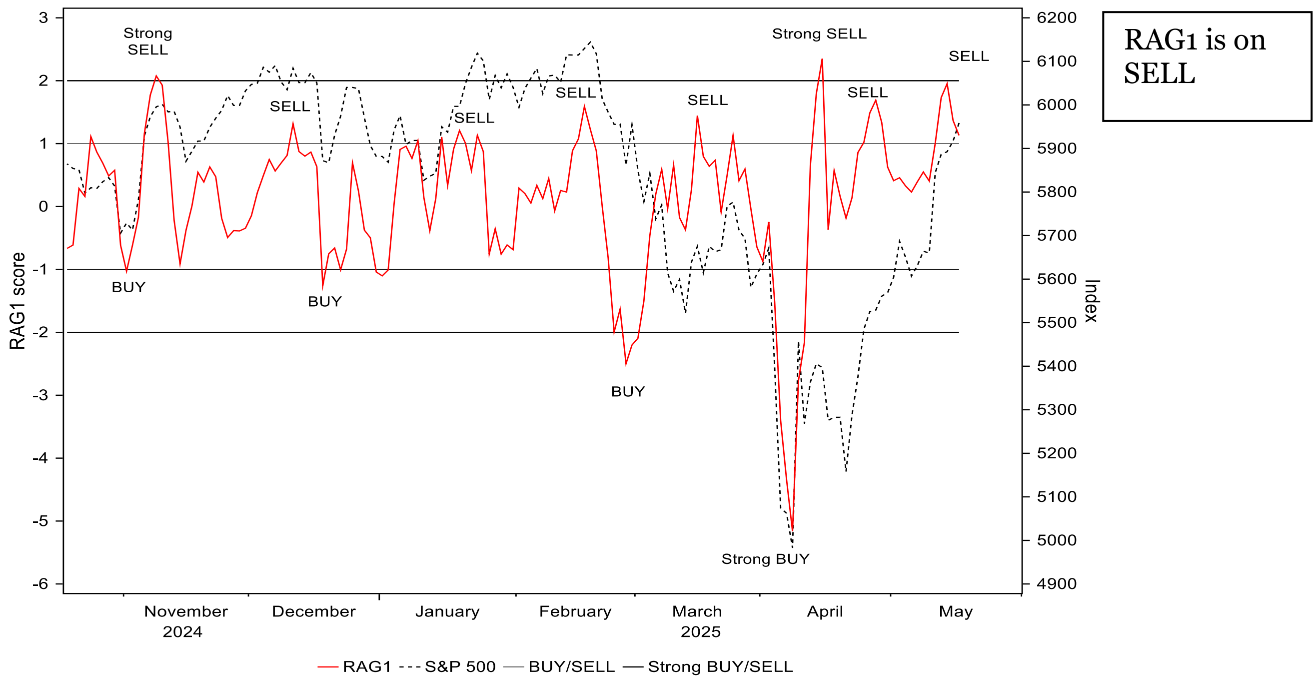


Source: *Longview Economics*

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

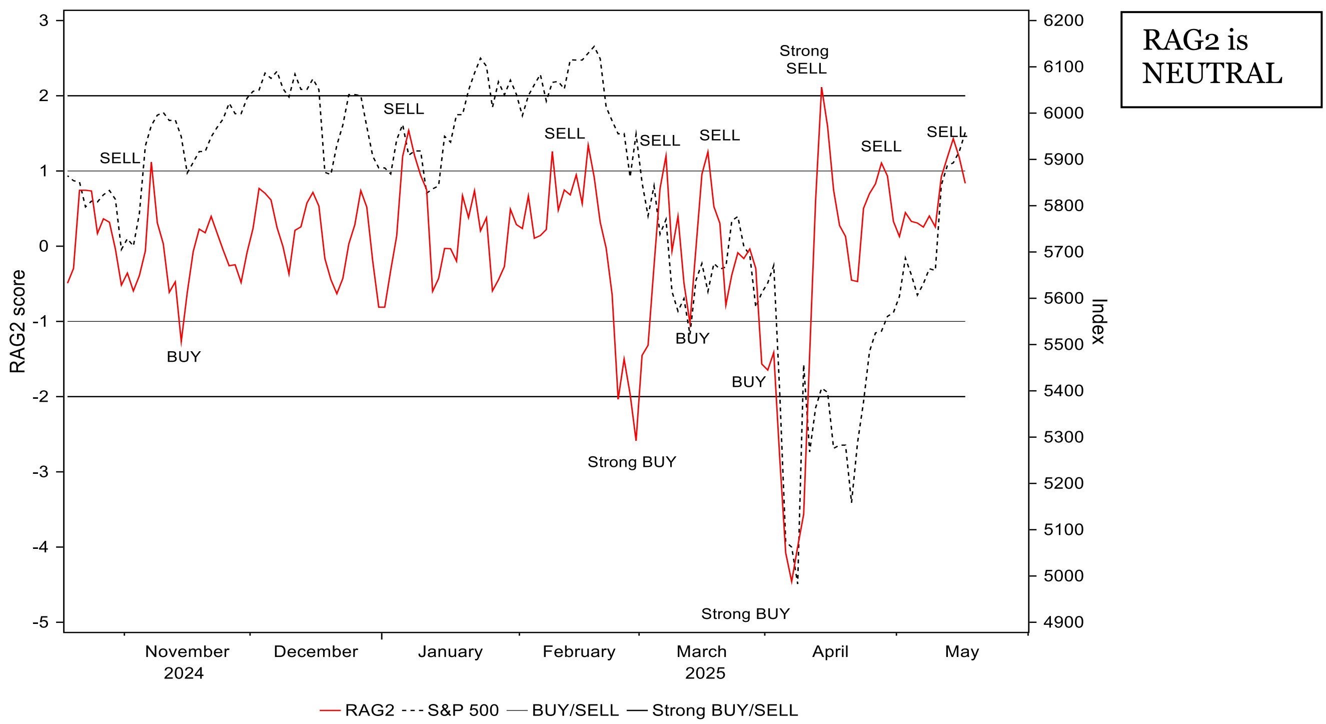
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

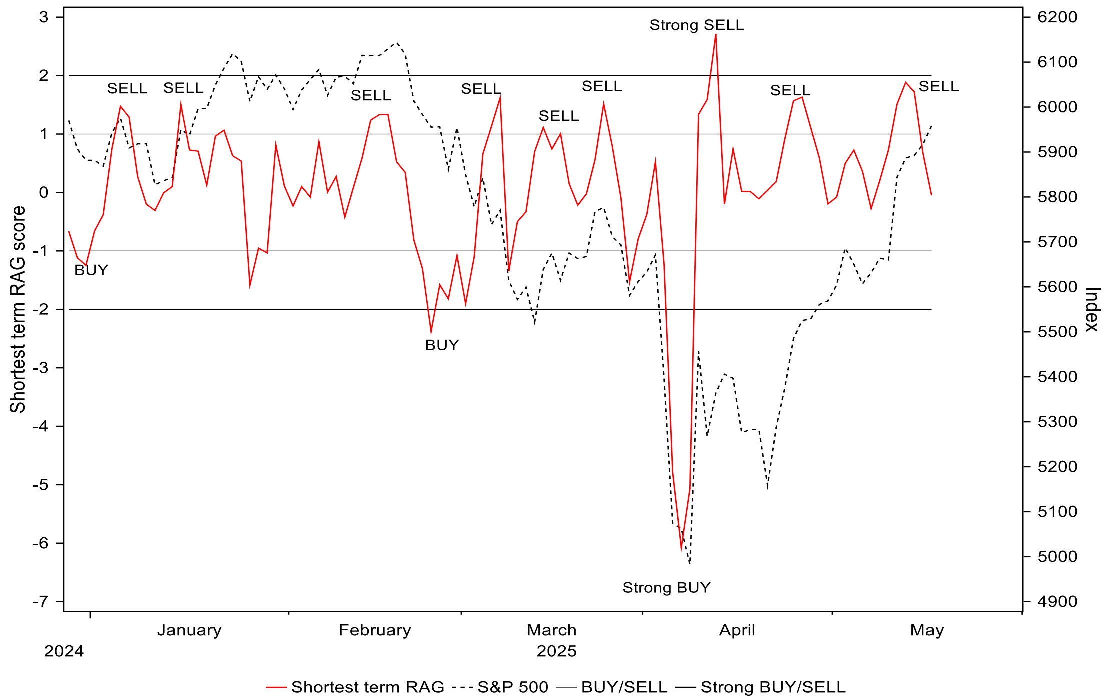
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

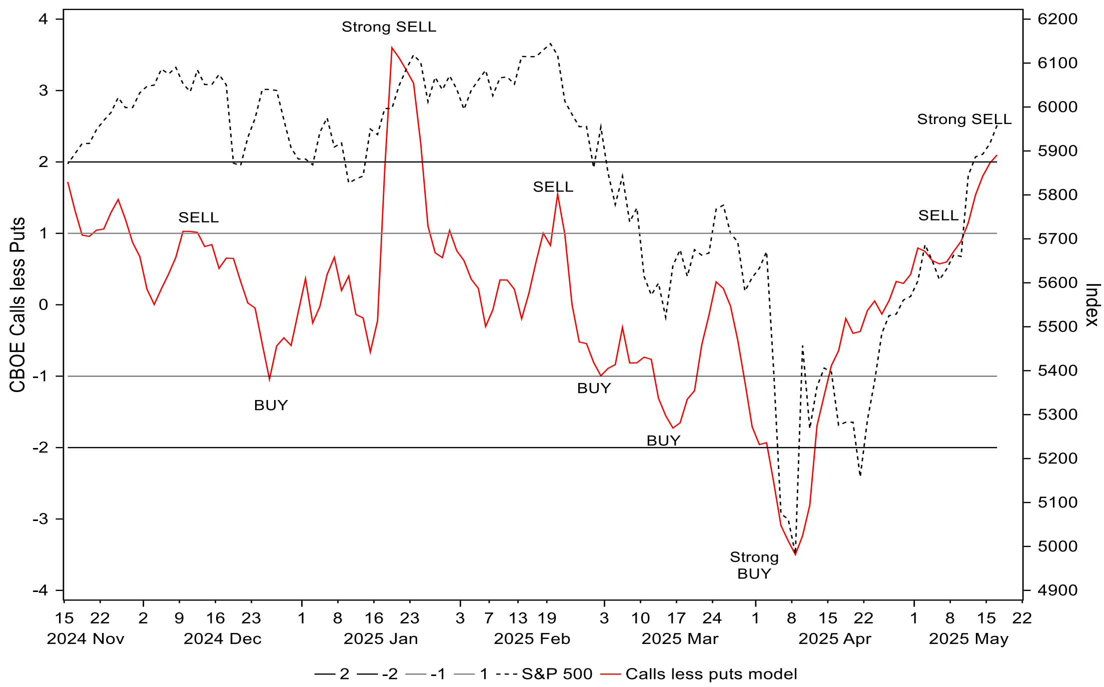
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

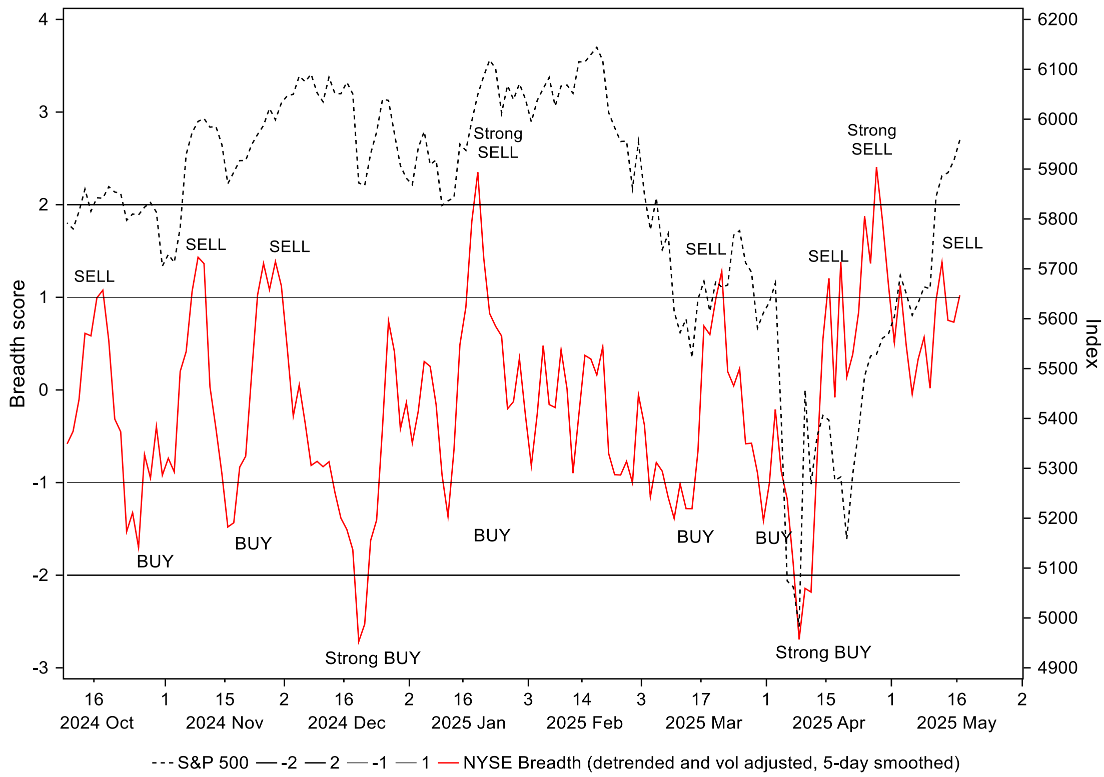


Calls less puts model is on Strong SELL

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



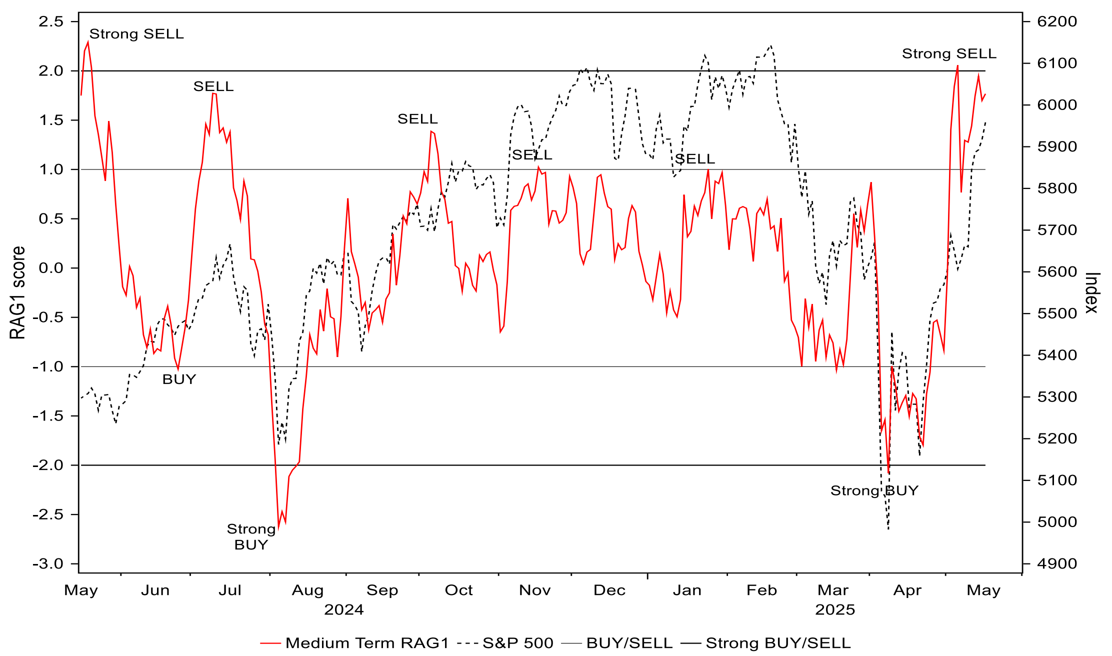
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

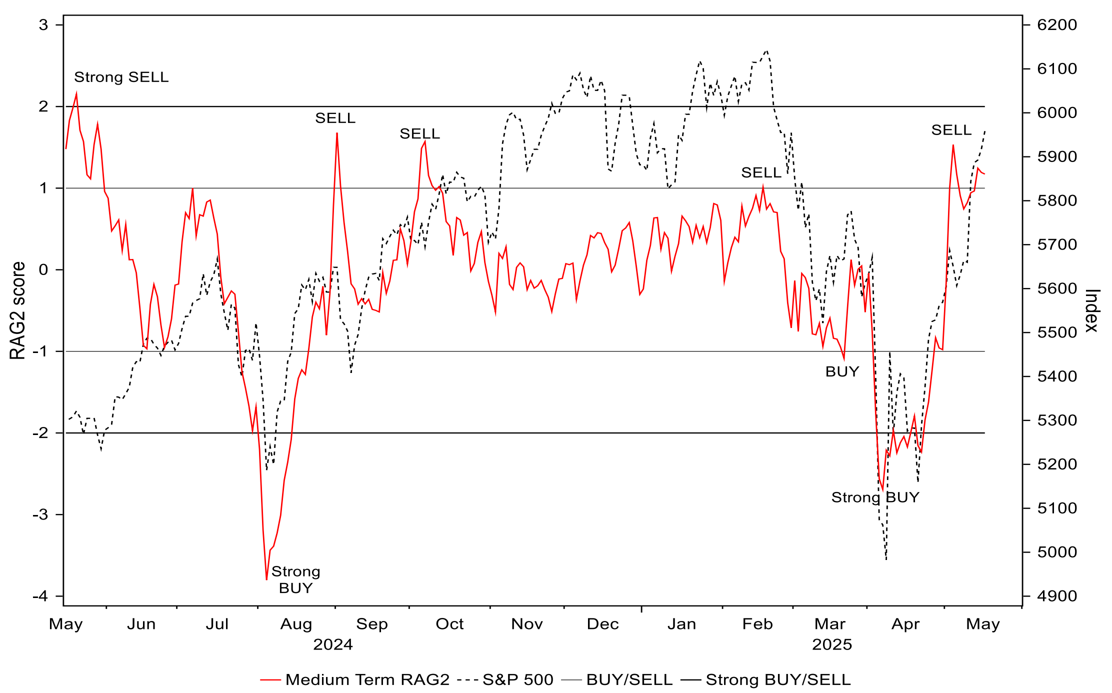
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

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



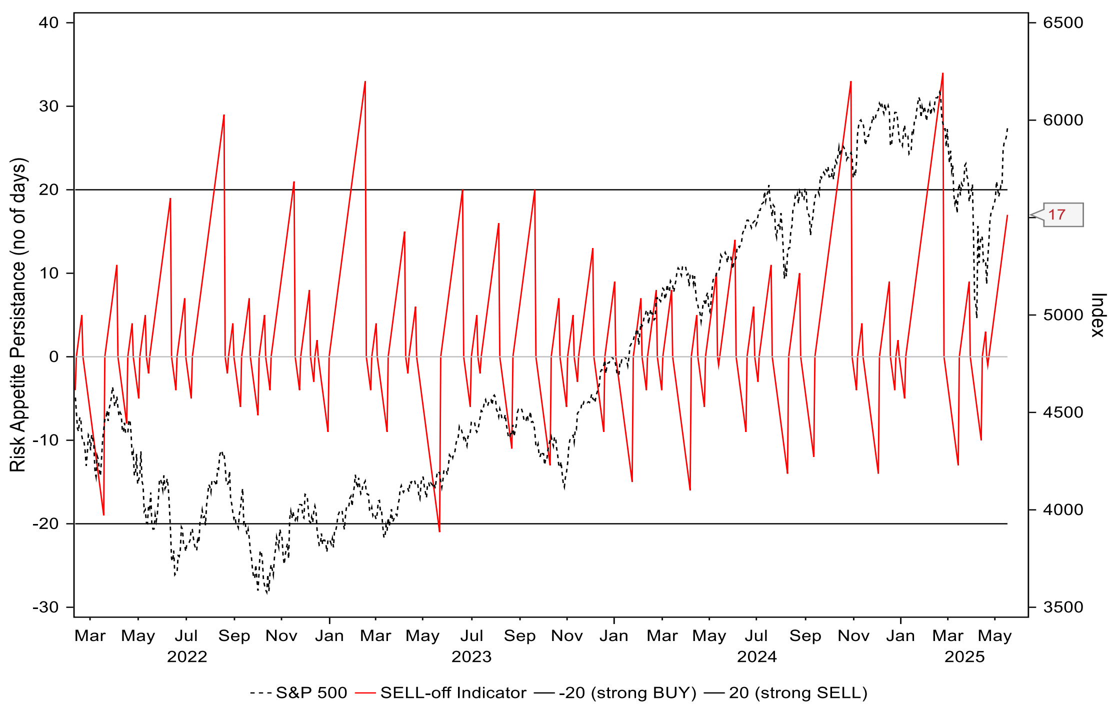
Source: Longview Economics, Macrobond

Medium term RAG2 is on SELL

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

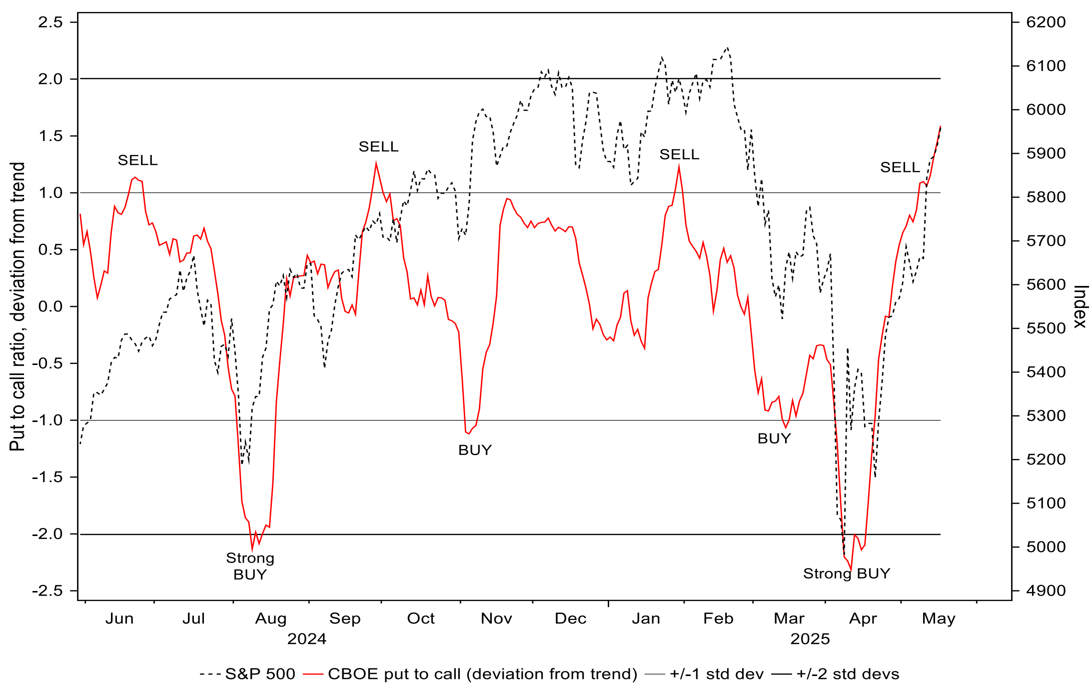
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

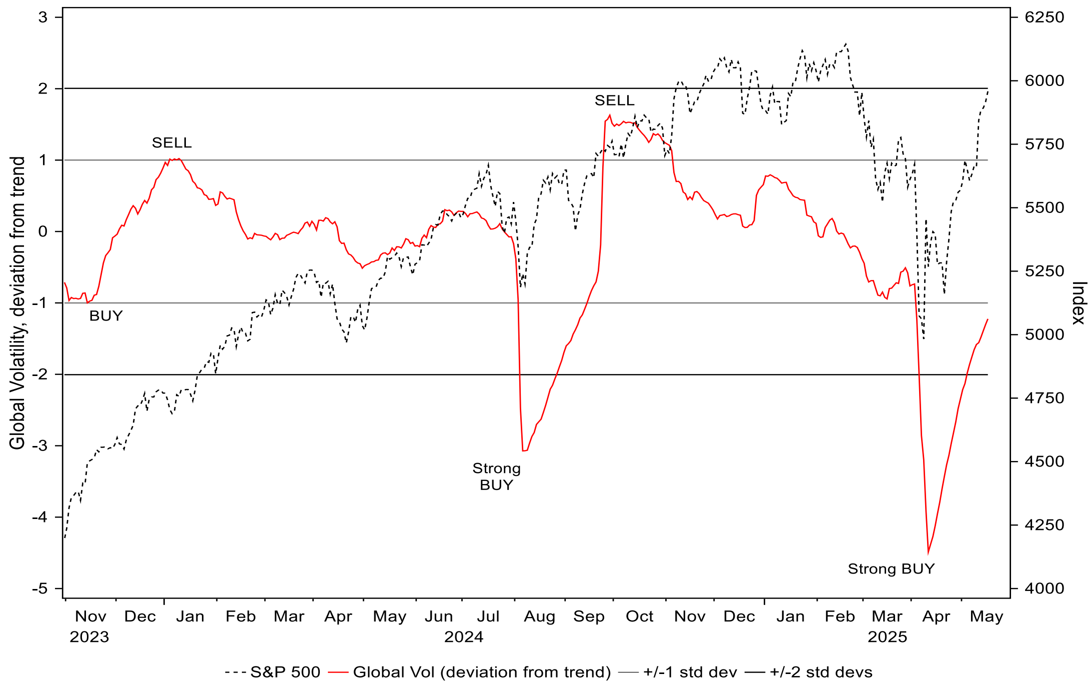


Source: Longview Economics, Macrobond

Medium term put to call model is on SELL

For explanations of indicators please see page 10

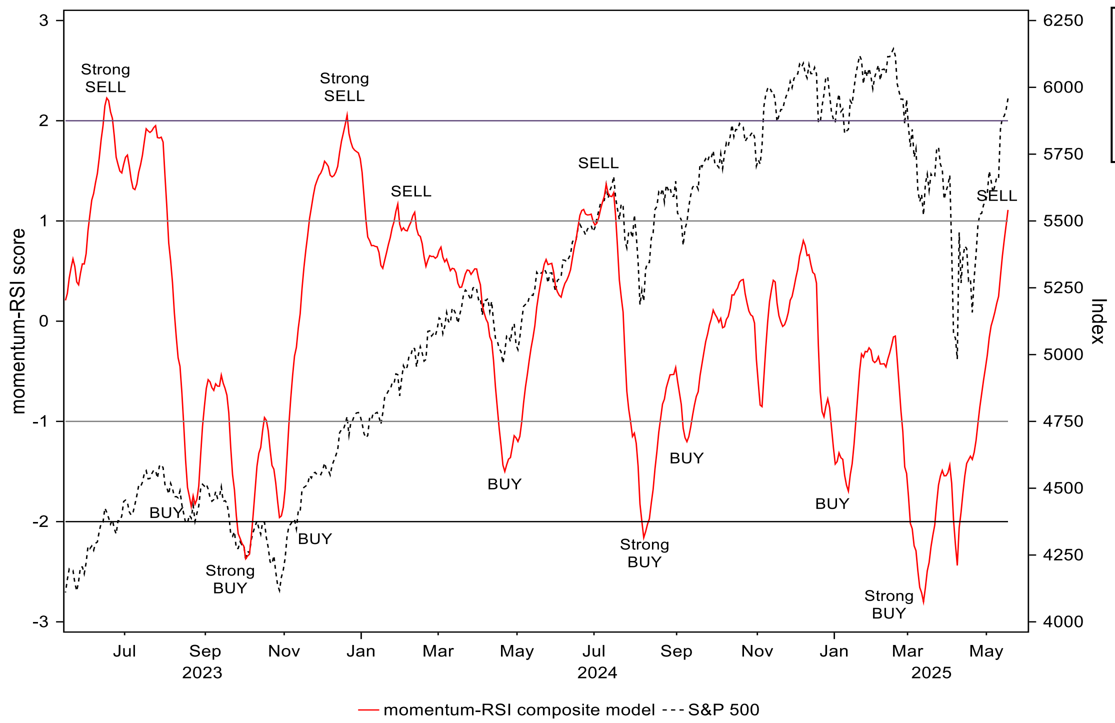
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on BUY

Source: Longview Economics, Macrobond

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

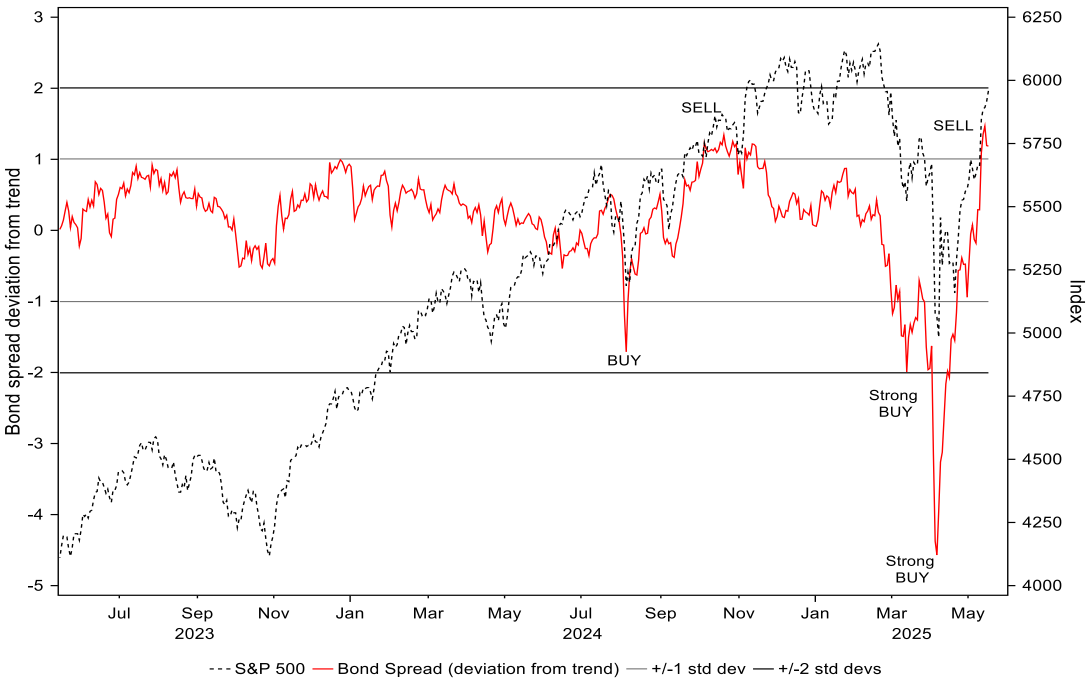


US momentum RSI composite model is on SELL

Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

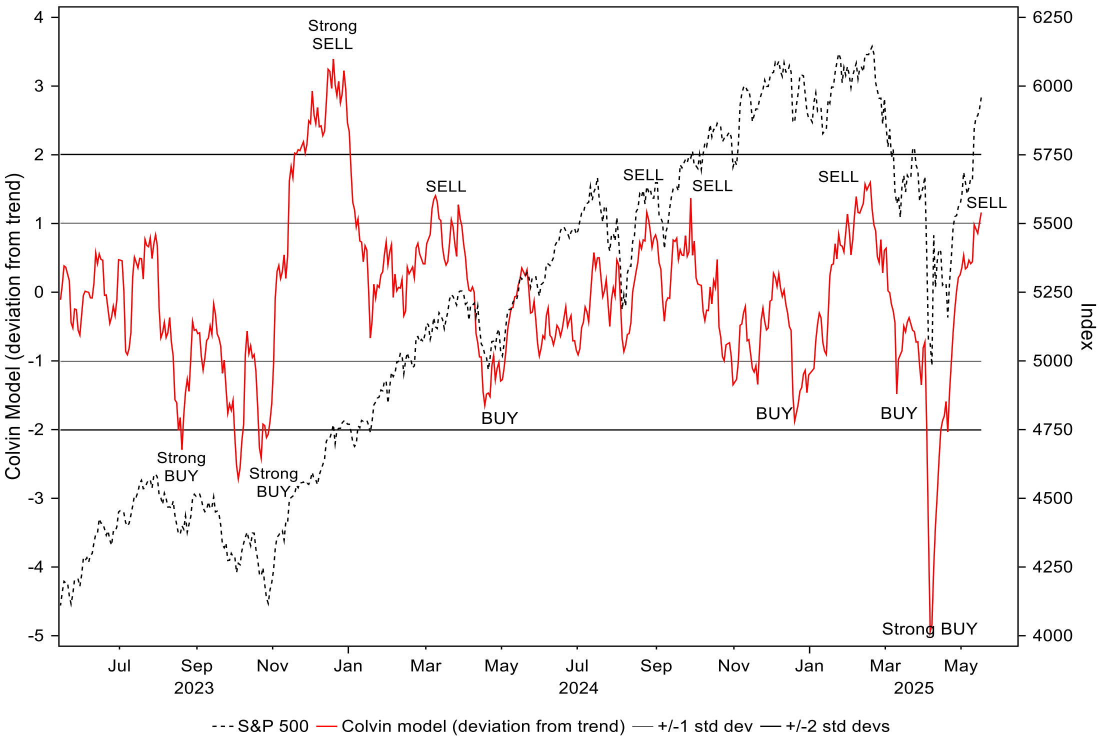
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on SELL

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



Source: Longview Economics, Macrobond

Colvin model – is on SELL

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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