Equity Index Futures Trading Recommendations

1st May 2025

"Markets Moving into Key Technical Resistance Area/Various Drivers of 'Risk-On' Fading"
Email: info@longvieweconomics.com

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

- BUILD SHORT positions in S&P500 June futures (on strength, if forthcoming).

- Implement an initial 1/3rd SHORT at 5,670.0 (just above the 50-day moving average).

- Place stop loss 3% higher (i.e. above key congestion area – see FIG 1e).

Rationale

Whilst the headline index has remained strong, **many of the underlying drivers of this S&P500/risk rally, of the past 3 weeks, are starting to fade**:

i) **US high yield spreads**, for example, which had been narrowing since the equity lows on 7th April, widened notably yesterday (up 11bps to 388bp spread – FIG 1);

ii) the recent downside momentum in **volatility** (both VIX & the VVIX - also drivers of recent equity market strength) has stalled. Both indices have ticked higher in the past few trading sessions (FIG 1b);

iii) while the **dollar** (which had been oversold) has now unwound that oversold set-up, making it vulnerable to a further bout of weakness (NB in the recent pullback, the dollar and S&P500 sold off together* - see FIG 1c).

Other fading drivers include the underperformance, over the past few trading sessions, of **high beta small and mid-cap US equity indices** versus the large cap S&P500. As higher beta indices, those indices typically outperform during bouts of 'risk-on' (FIG 1a).

Despite those factors, though, the main S&P500 closed higher again yesterday (by 0.15%), its 7th consecutive positive daily return – equalling its September 2024 win streak. The daily trading range, though, was wide (3.1%), with the index generating a 'Doji' price pattern (indicative of indecision amongst traders). After hours, strong earnings from MSFT and META pushed the SPX and NDX100 markets higher. Those indices are now both firmly in the midst of their recent congestion ranges and close to our entry point (for SPX SHORT positions).

Our approach remains as per yesterday. Most short term (1 – 2 week) market timing models are at or close to SELL; while the S&P500 is now close to various key resistance levels.

Those include: i) its 50 day moving average (currently at 5,649 – FIG 1e); ii) the Fibonacci 61.8% (golden ratio) retracement level (i.e. at 5,692 – FIG 1f); & iii) the congestion area of 5,570 – 5,970 (FIG 1e).

Our recommendation, therefore, remains as per yesterday (albeit with the entry level lowered by 10 points) – see **trading recommendation** above.

Potential market moving events today and later this week include more key tech earnings releases (i.e. AMZN & AAPL – both after hours). Major macro data releases include ISM manufacturing (today) & US non-farm payrolls (tomorrow). Policy announcements also hold the potential to generate volatility.

Our key risk with this trade is, as highlighted earlier this week:

"that markets have moved back into a persistent 'risk on' phase, that all the bad news is now behind us (and priced in), and therefore that this equity market is emerging from its SELL-off phase into a renewed uptrend. In that environment, our short-term models are often early (given the rush to reinstate LONG/OW equity positions post pullbacks). On this occasion though, we think that's unlikely….."

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

Kind regards,

The team @ Longview Economics

*NB the dollar and S&P500 normal inverted relationship has flipped in recent months such that as equities have sold off, the dollar has been weak. In recent years, a weak dollar would normally occur with a strong S&P500 (& vice versa).

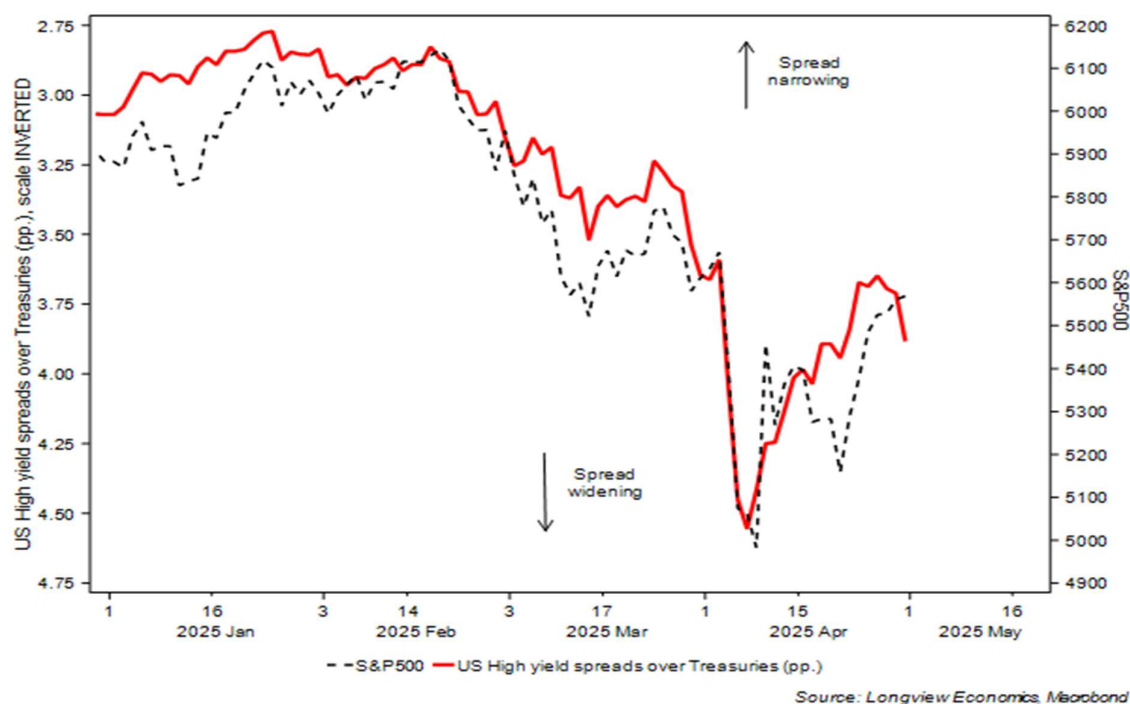**FIG 1:** US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500

Source: Longview Economics, Macrobond

FIG 1a: Relative performance of US small & mid caps (S&P600 & R2K) vs. the S&P500

Source: Longview Economics, Macrobond
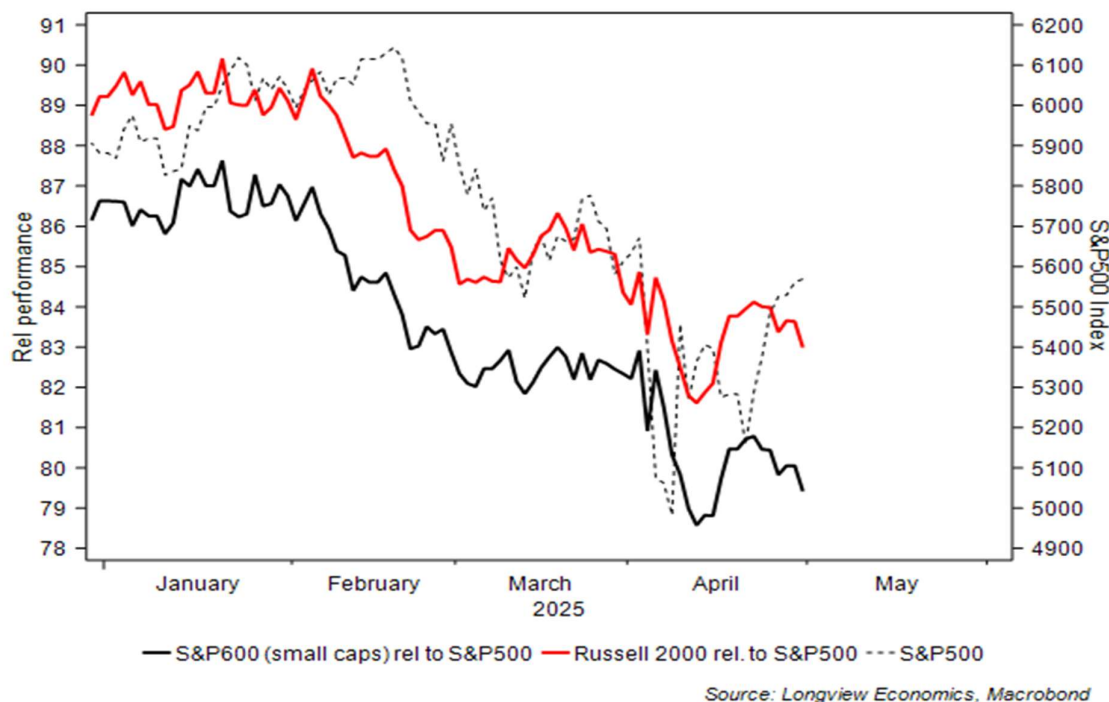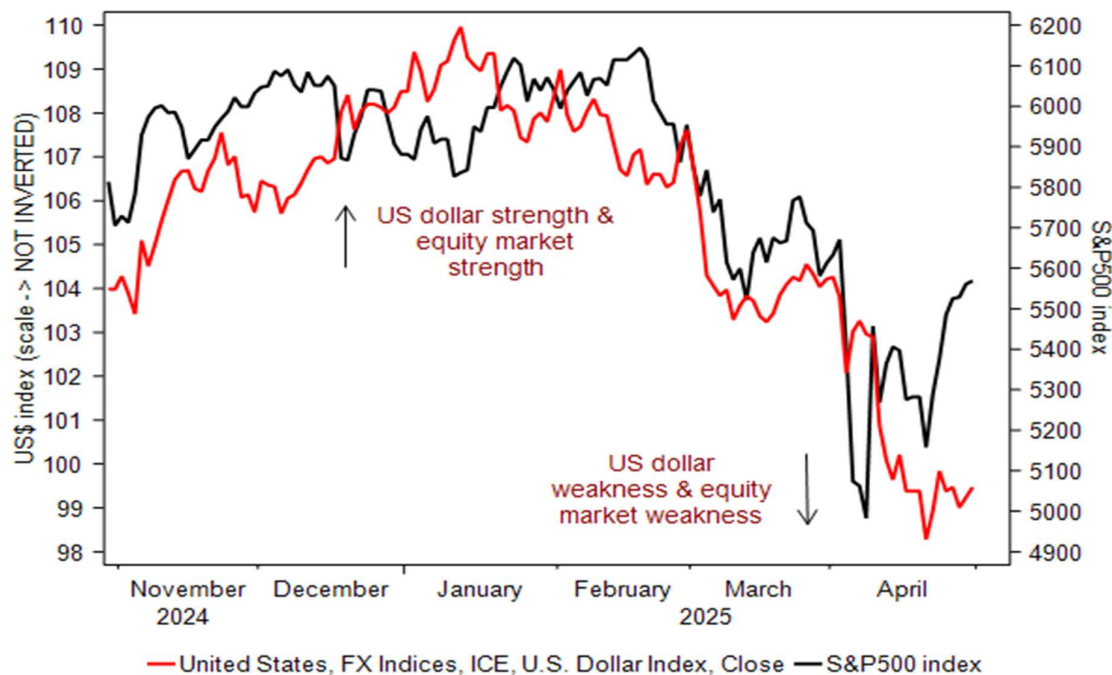
FIG 1b: VVIX candlestick chart shown with key moving averages

— 200 day — 50 day ◆ VVIX candlestick
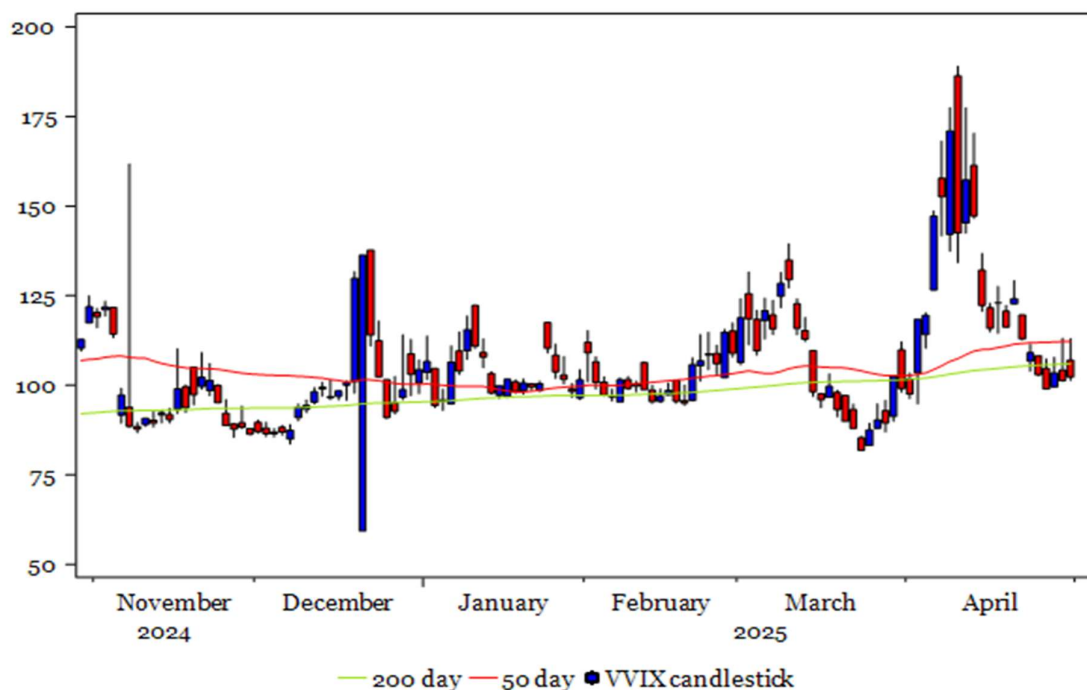
Source: Longview Economics, Macrobond

FIG 1c: US dollar index (scale -> **NOT** INVERTED) vs. S&P500

— United States, FX Indices, ICE, U.S. Dollar Index, Close — S&P500 index

Source: Longview Economics, Macrobond

FIG 1d: Longview US dollar (DXY) short term **'technical'** scoring system vs. DXY index

Source: Longview Economics, Macrobond
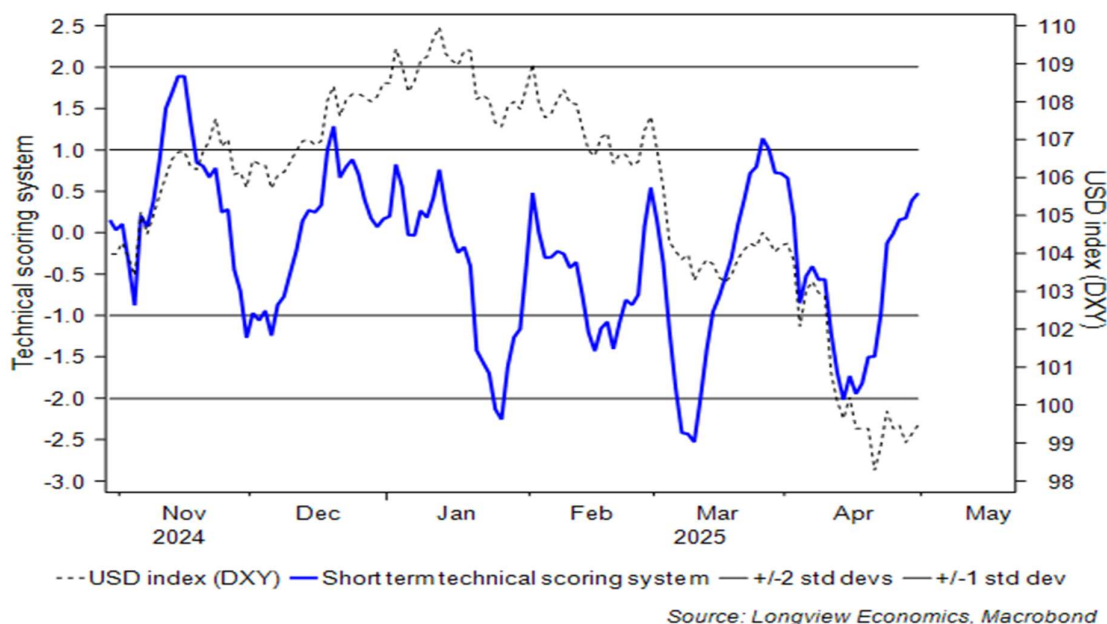
FIG 1e: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages

Source: Longview Economics, Macrobond
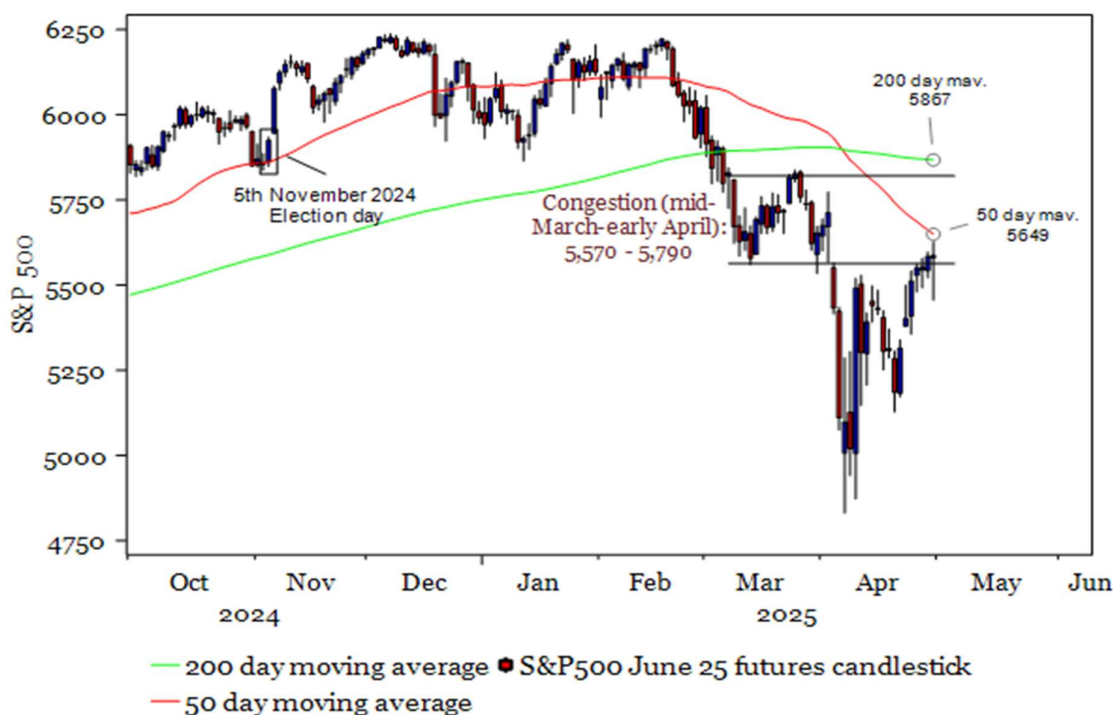
FIG 1f: S&P500 June futures shown with key Fibonacci retracement levels

ESM5 Index (S&P500 EMINI FUT Jun25) 60 Days Tick   Copyright© 2025 Bloomberg Finance L.P.   01-May-2025 07:00:43
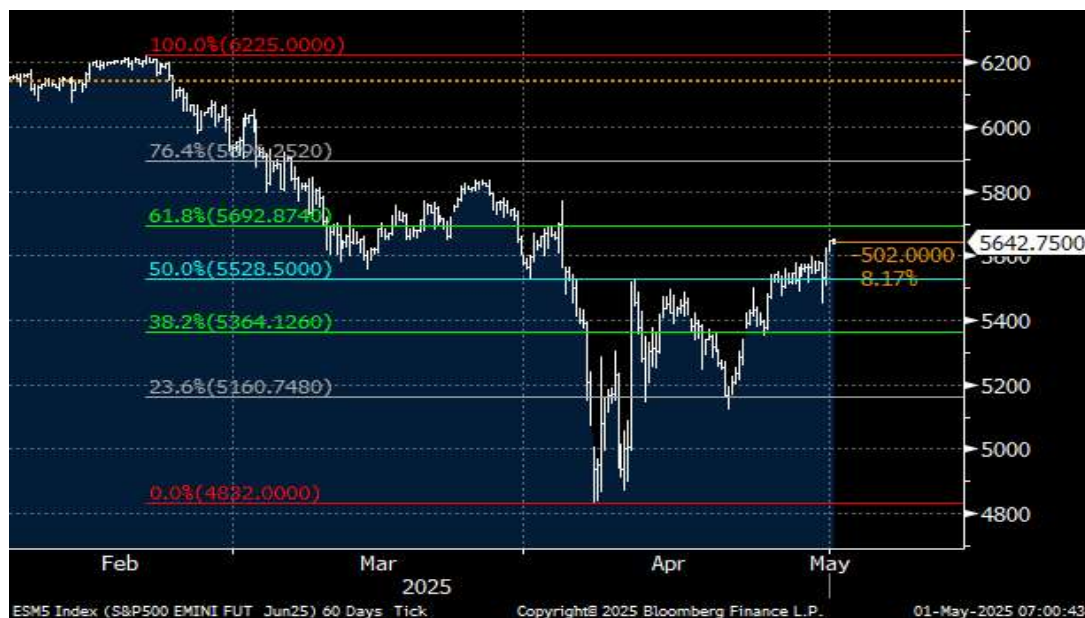
Key short term market timing models:

Risk appetite models are at high levels…

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

--- S&P500 futures —— Short term risk appetite scoring system
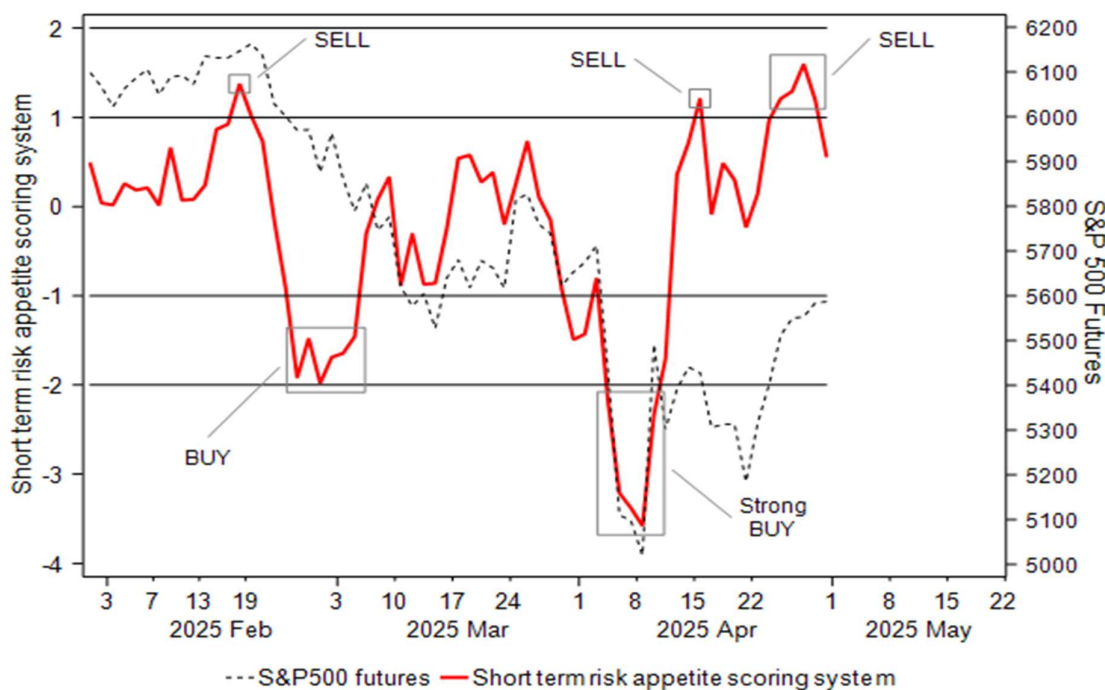
Source: Longview Economics, Macrobond

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

Source: Longview Economics, Macrobond
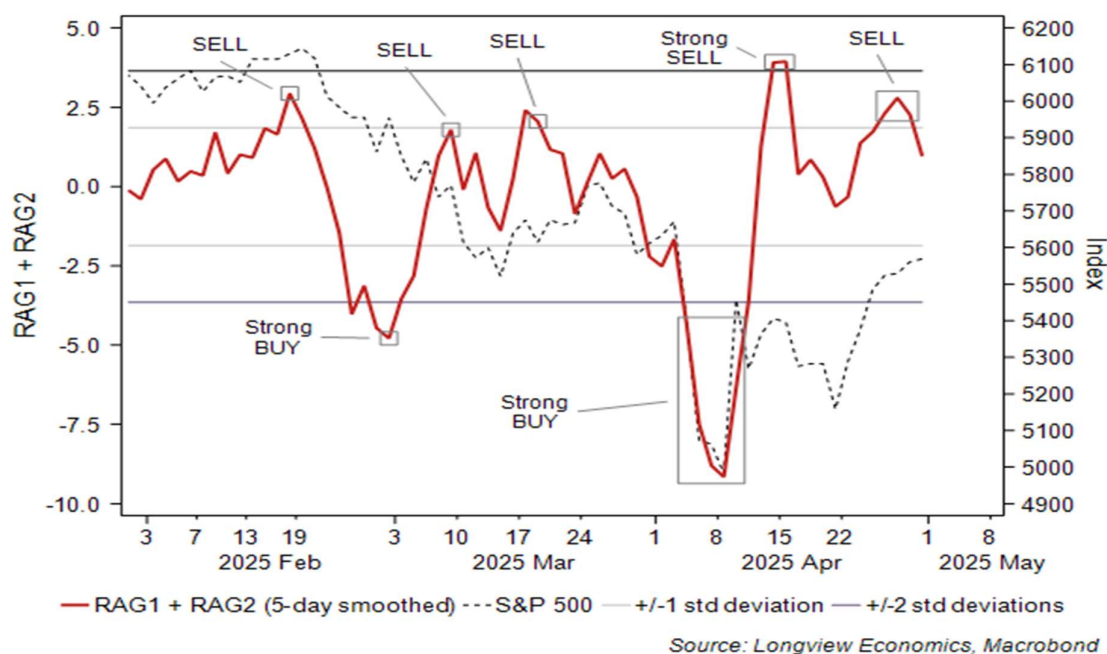
Downside put protection has been removed (sold) from portfolios, such that these models are on, or close to, SELL….

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

Source: Longview Economics, Macrobond
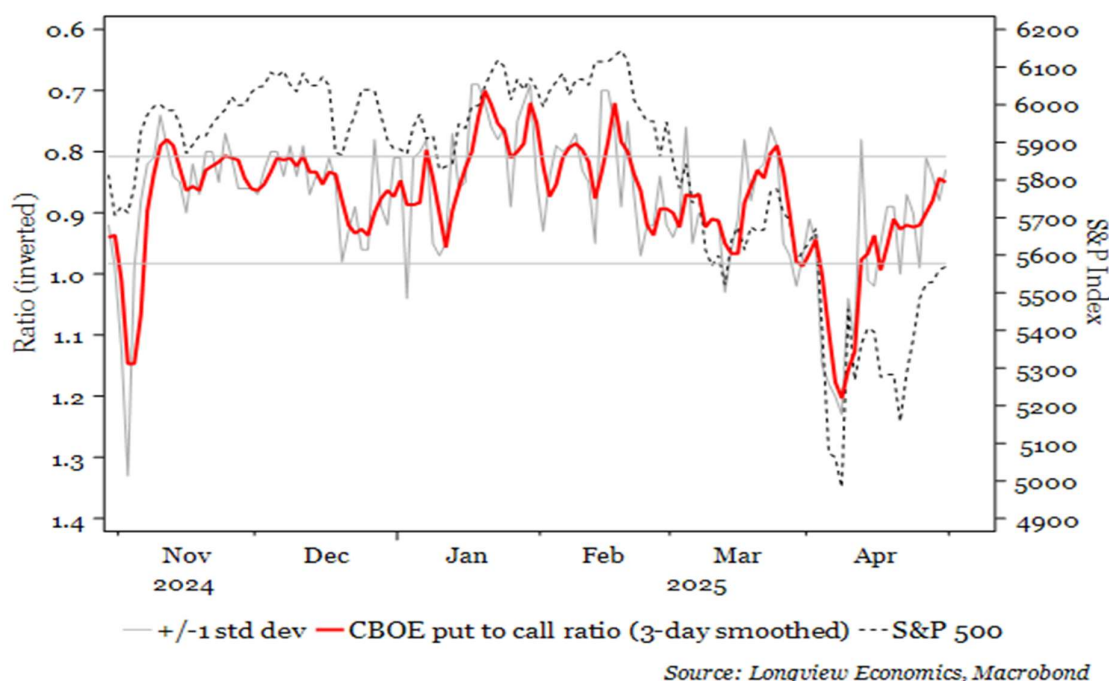
Technical & price-based (index) models are mostly now on SELL...

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

Source: Longview Economics, Macrobond
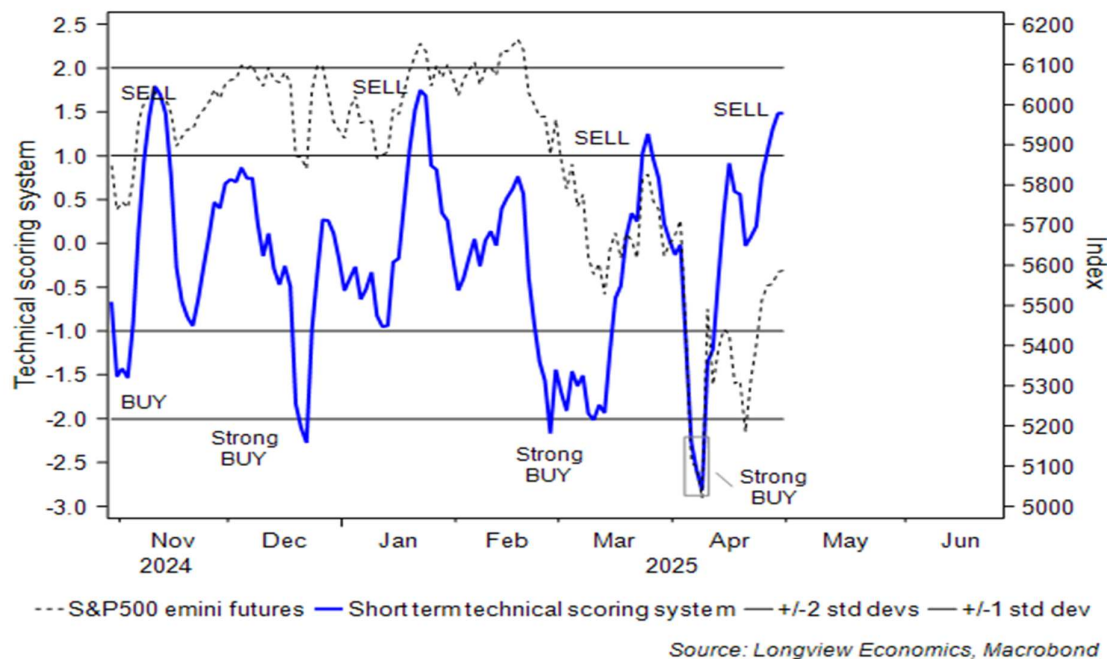
US sector momentum is also overbought (to the upside)...

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

Source: Longview Economics, Macrobond
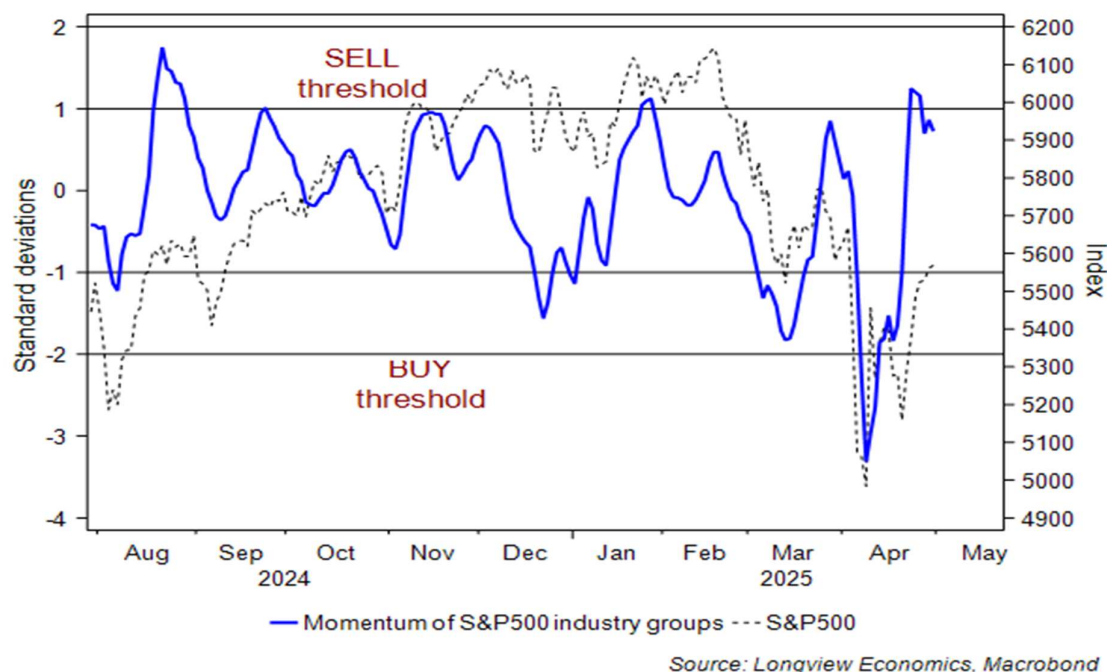
Single stock models are typically on SELL/close to SELL....

FIG 2e: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500
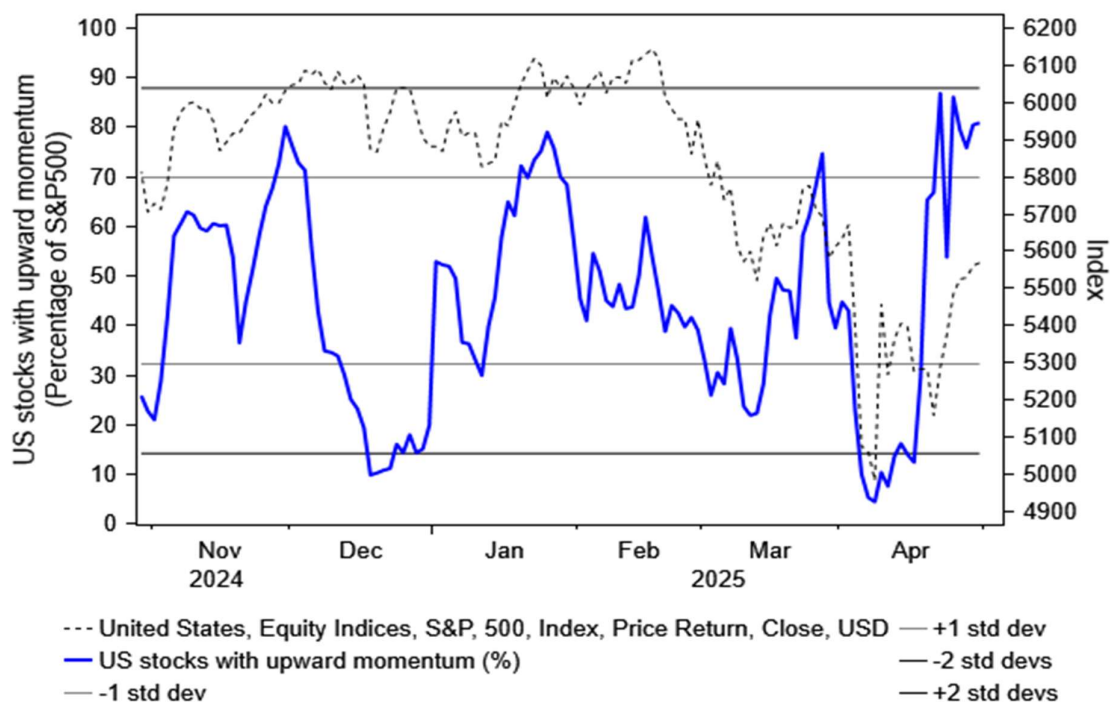
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL yesterday)
Medium term (1 – 4 month) scoring system: **NEUTRAL**

FIG A: Longview short and medium term scoring systems vs. S&P500
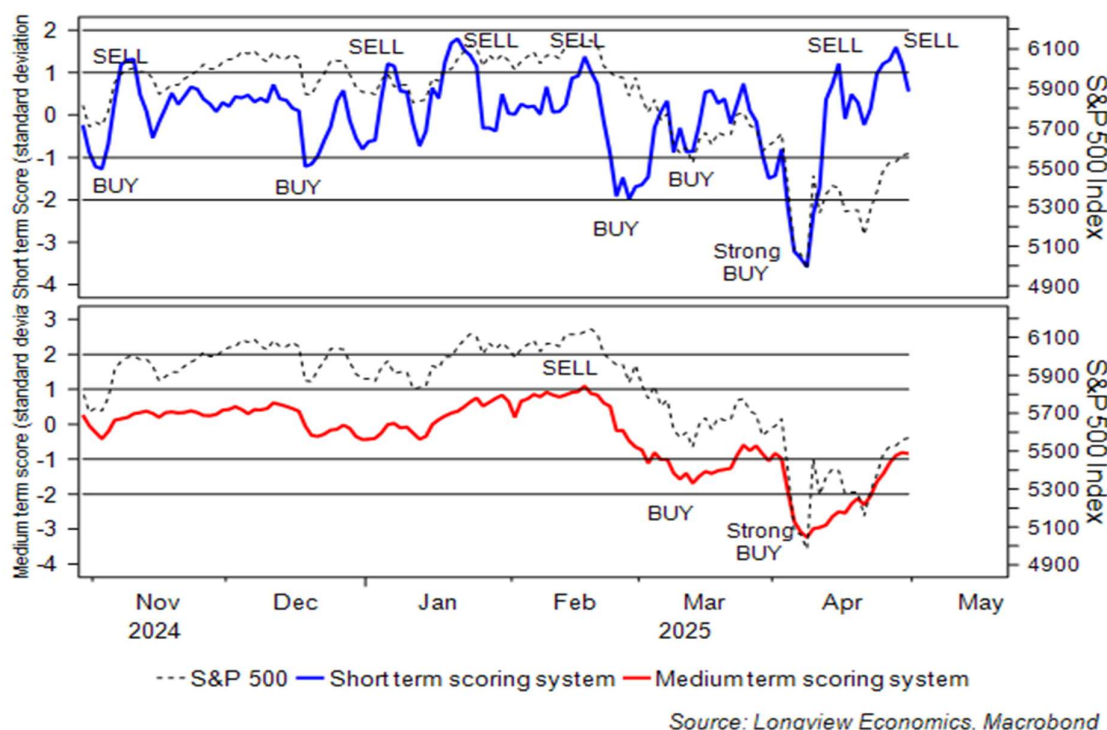
Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Australian S&P manufacturing PMI (April final estimate, 12am); Australian imports/exports, & trade balance (Mar, 1:30am); **Japanese ESRI consumer confidence** (Apr, 6am); **UK Nationwide house prices** (Apr, 7am); **UK Net consumer credit, mortgage approvals & M4 money supply** (Mar, 9:30am); UK S&P manufacturing sector PMI (April final estimate, 9:30am); US weekly jobless claims (1:30pm); **US Challenger job cuts** (Apr, 12:30pm); Canadian S&P Global manufacturing sector PMI (Apr, 2:30pm); US S&P manufacturing sector PMIs (April final estimate, 2:45pm); **US ISM manufacturing PMI** (Apr, 3pm); US vehicle sales (Apr, 3pm); US construction spending (Mar, 3pm).

Key events today include: Market holiday in various European countries on account of Labor Day; **BOJ policy decision** (3am).

Key earnings today include: **Apple**, **Amazon.com**, **Eli Lilly**, **Mastercard**, Mcdonald's, Linde PLC, Amgen, Stryker, KKR & Co, Southern, ICE, Microstrategy, CVS Health Corp, Airbnb, **Lloyds Banking, Mitsui**, Hoya Cor.

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 on 8th April 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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1 – 2 Week View on Risk   1st May 2025

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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 NEUTRAL

Medium term scoring system is NEUTRAL
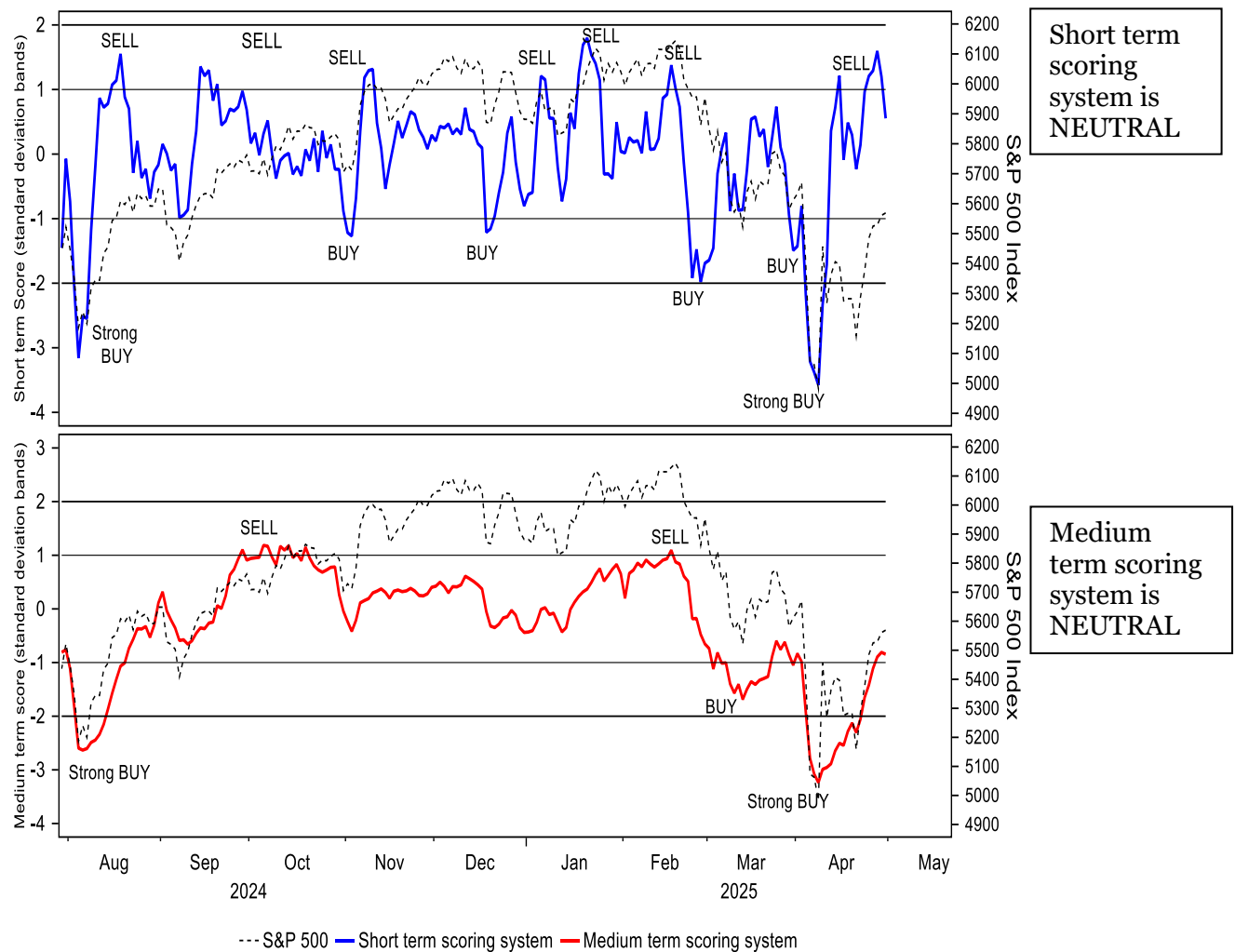
Source: Longview Economics, Macrobond

*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

Section 1a: Summary of indicator signals**

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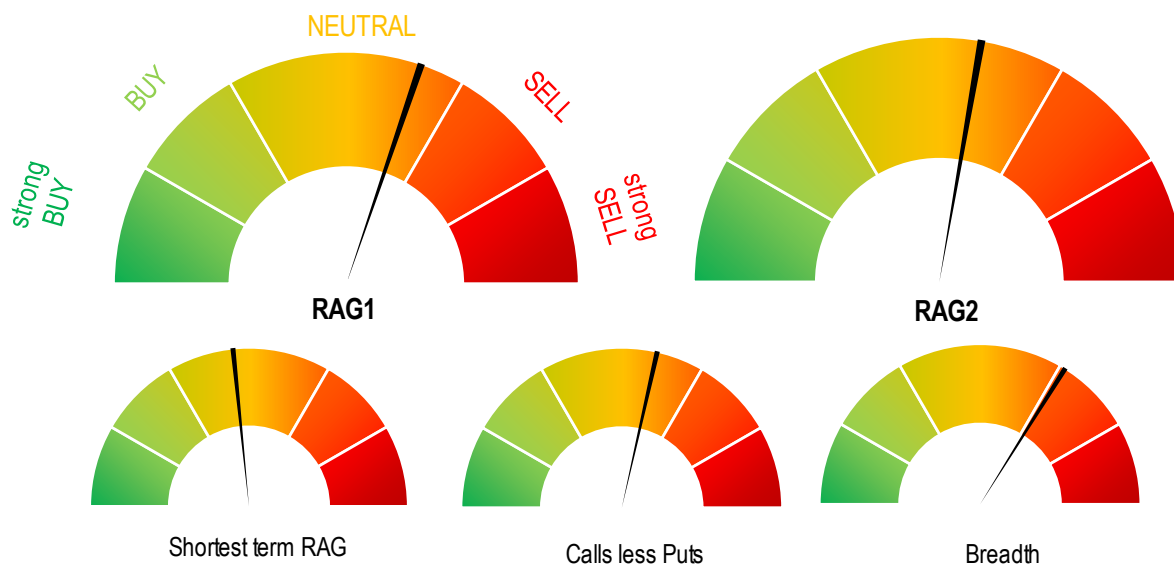
Source: Longview Economics

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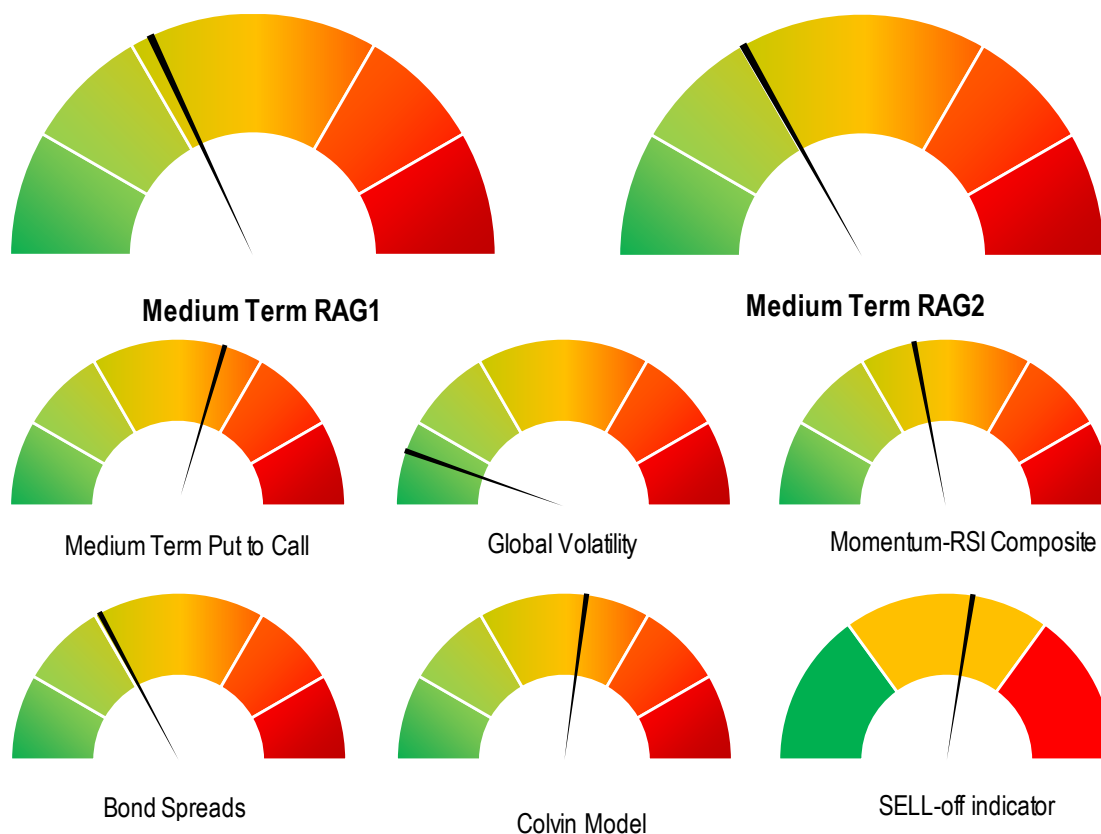
Source: Longview Economics

**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
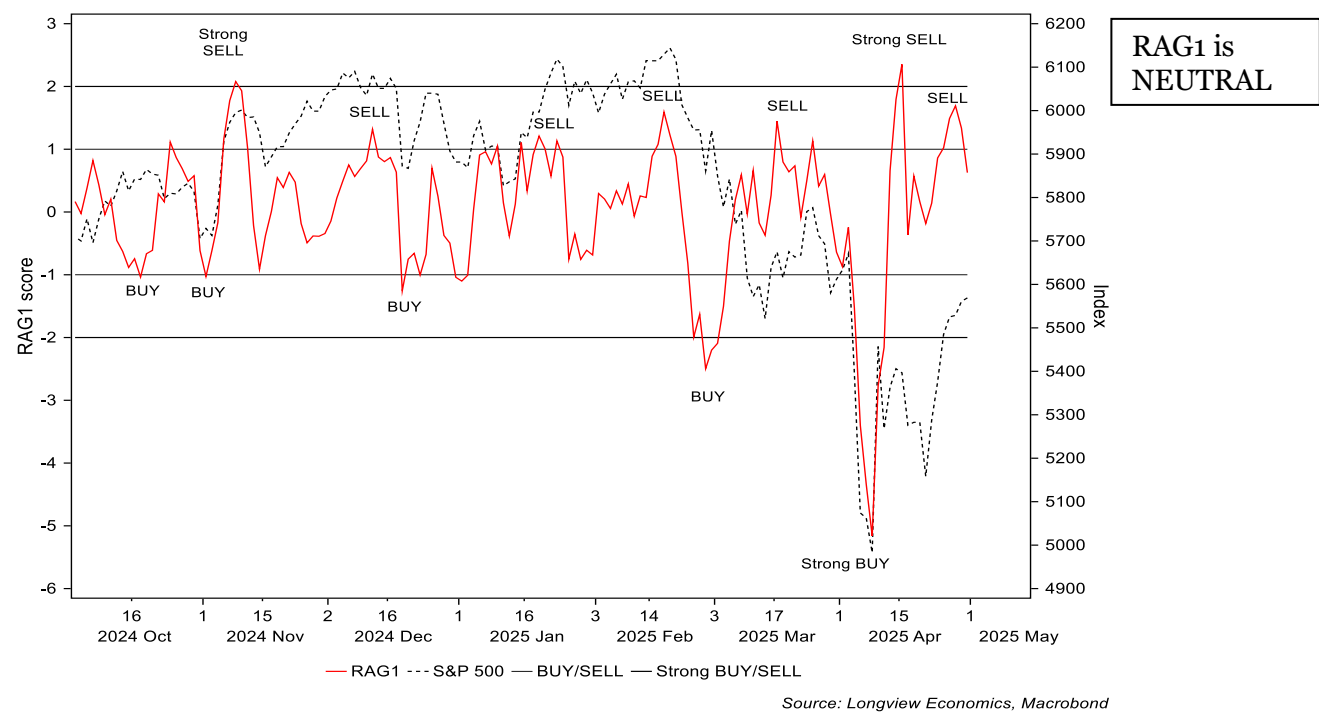
Fig 2b: RAG 2 vs. S&P 500
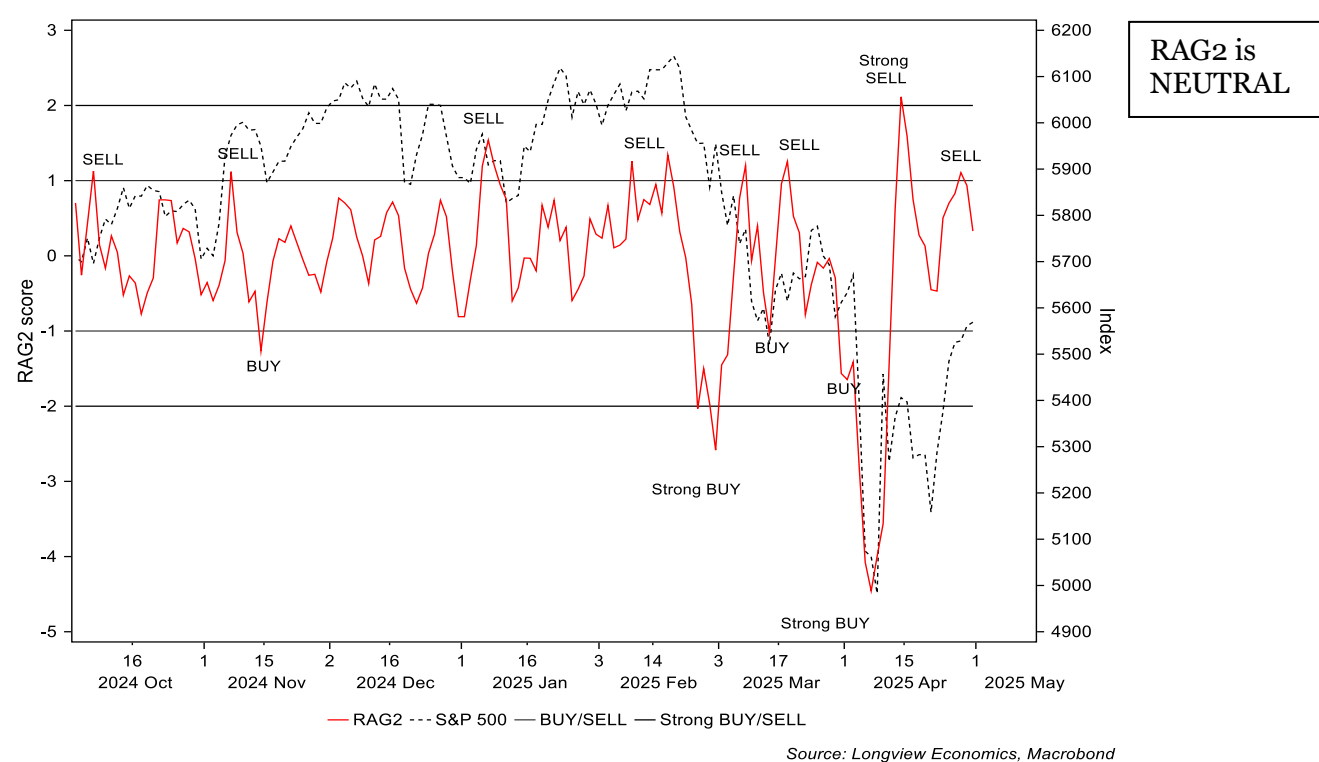
For explanations of indicators please see page 10

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

Shortest term RAG is NEUTRAL
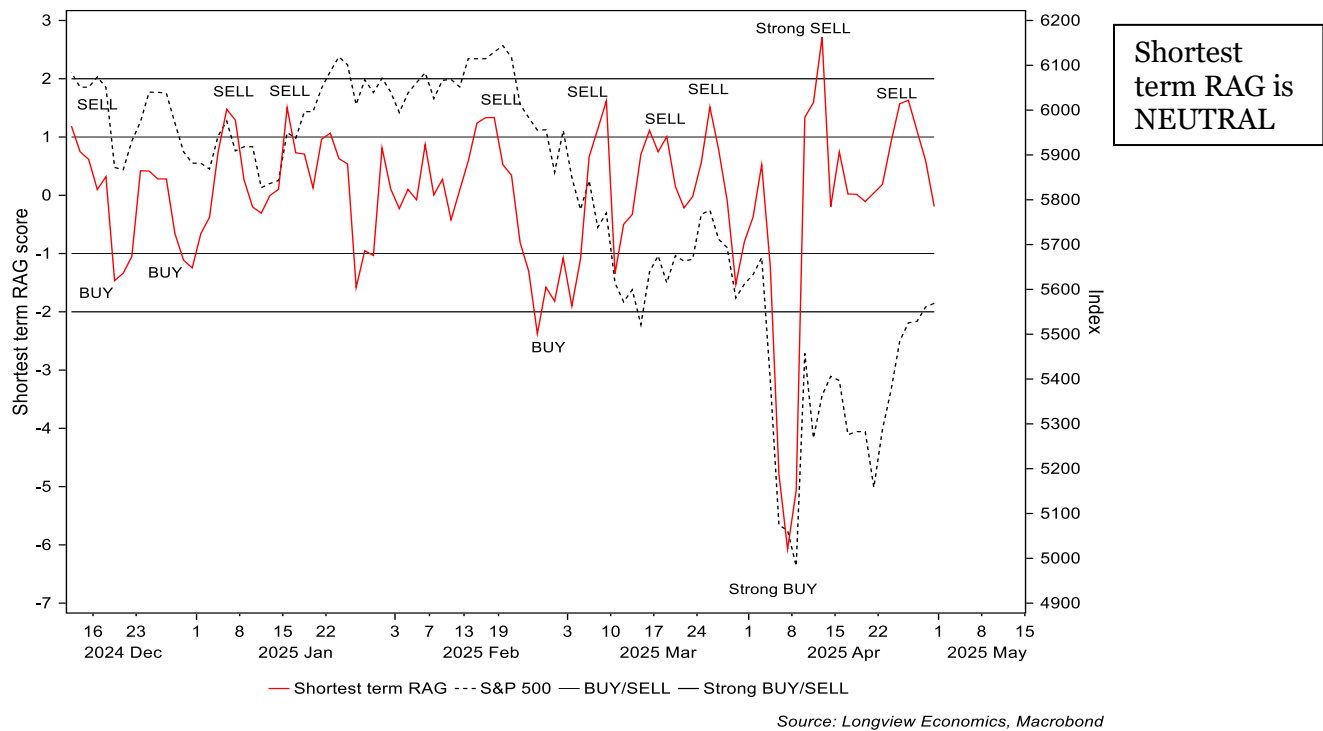
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500

Calls less puts model is NEUTRAL
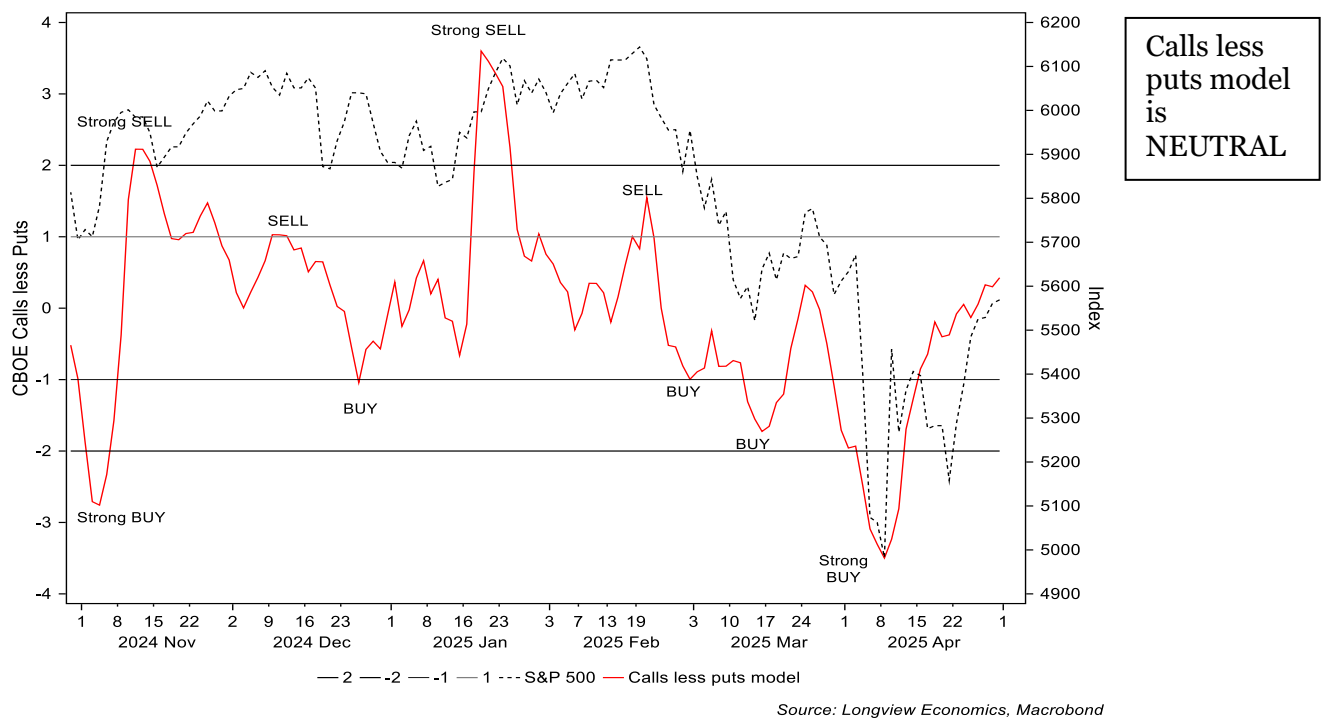
For explanations of indicators please see page 10

Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500
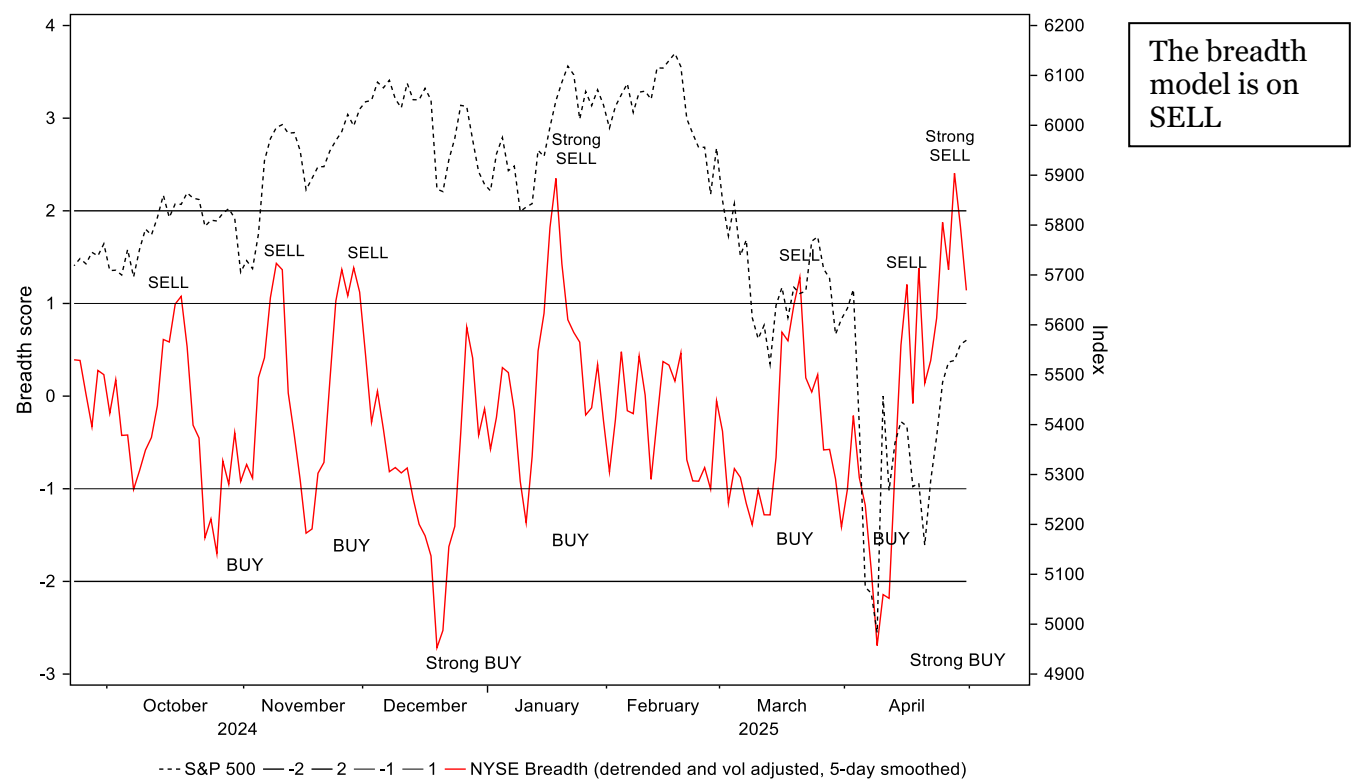
The breadth model is on SELL

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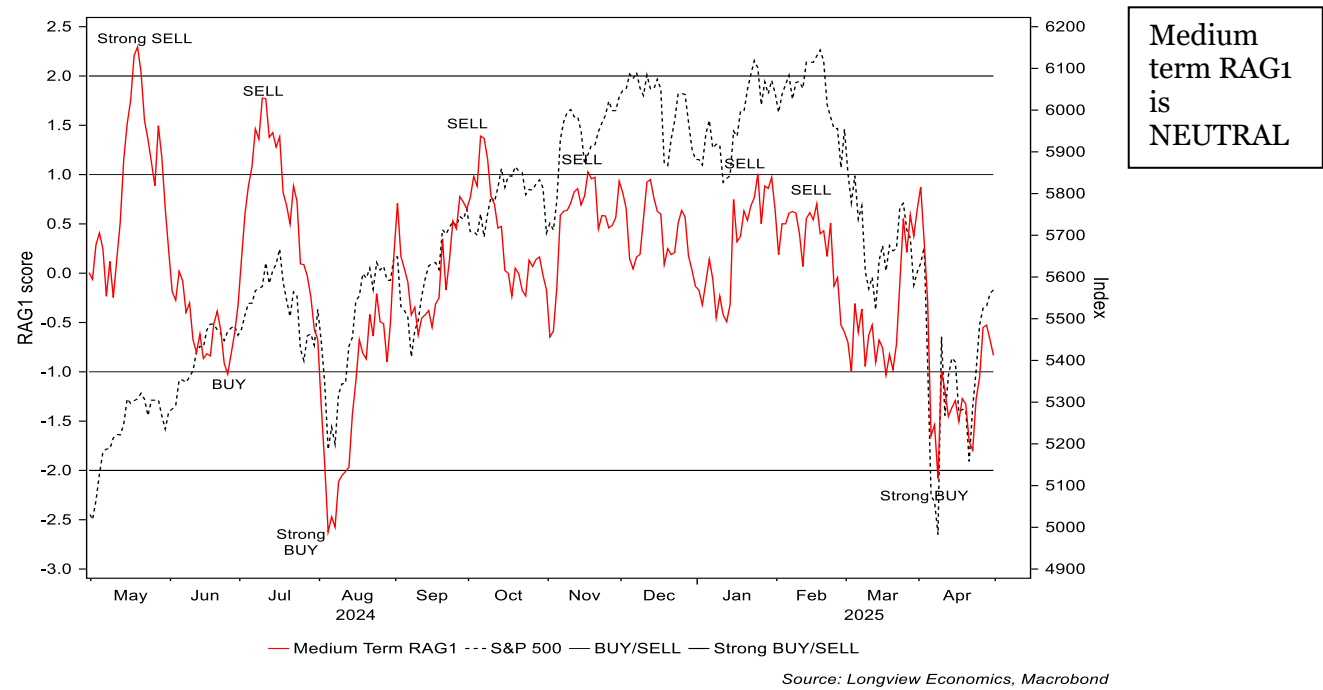
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL
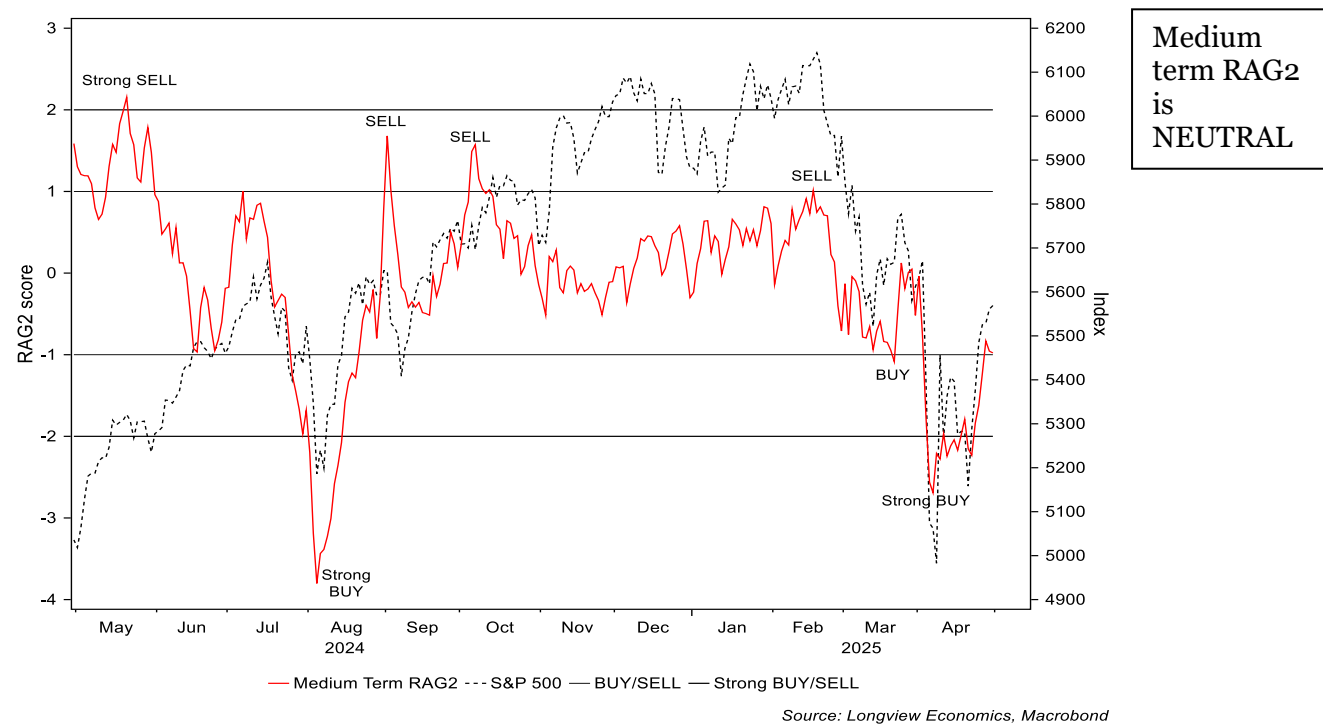
For explanations of indicators please see page 10

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

The SELL-off indicator is NEUTRAL

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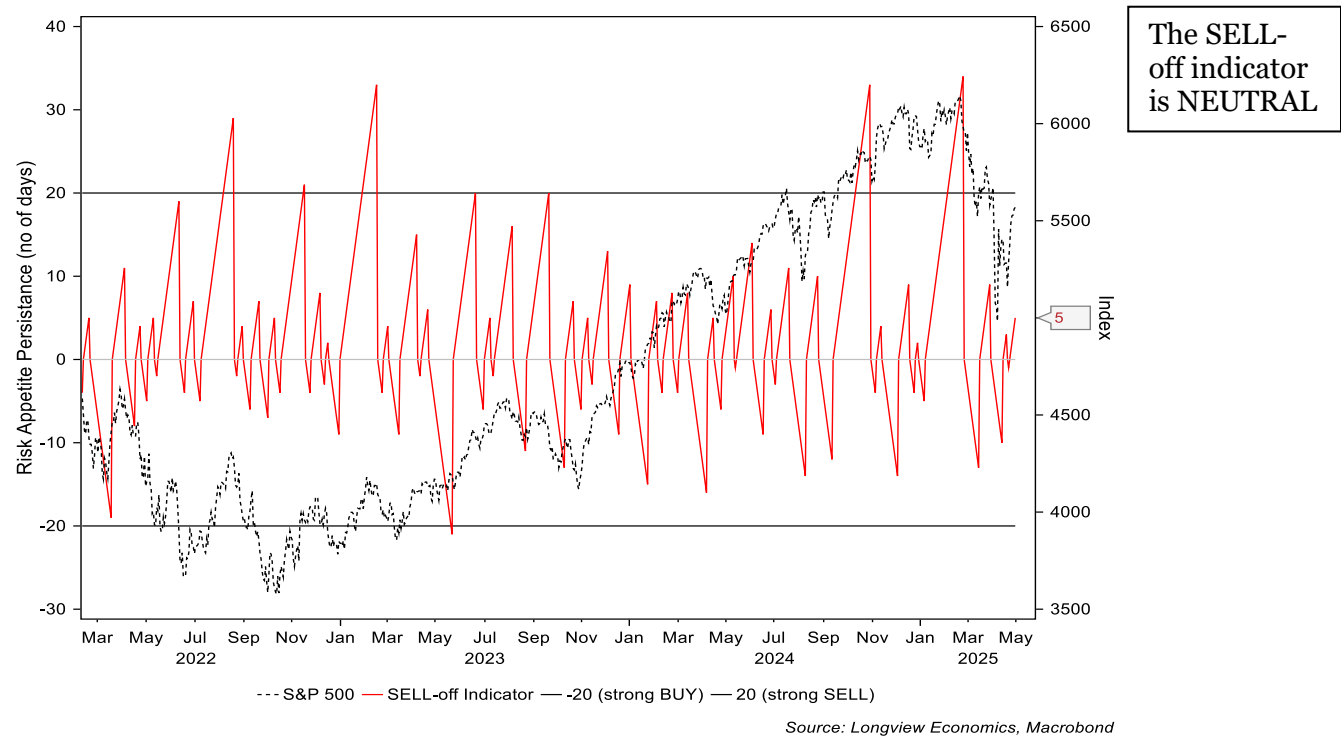
Fig 3d: CBOE put to call trend deviation model vs. S&P500

Medium term put to call model is NEUTRAL

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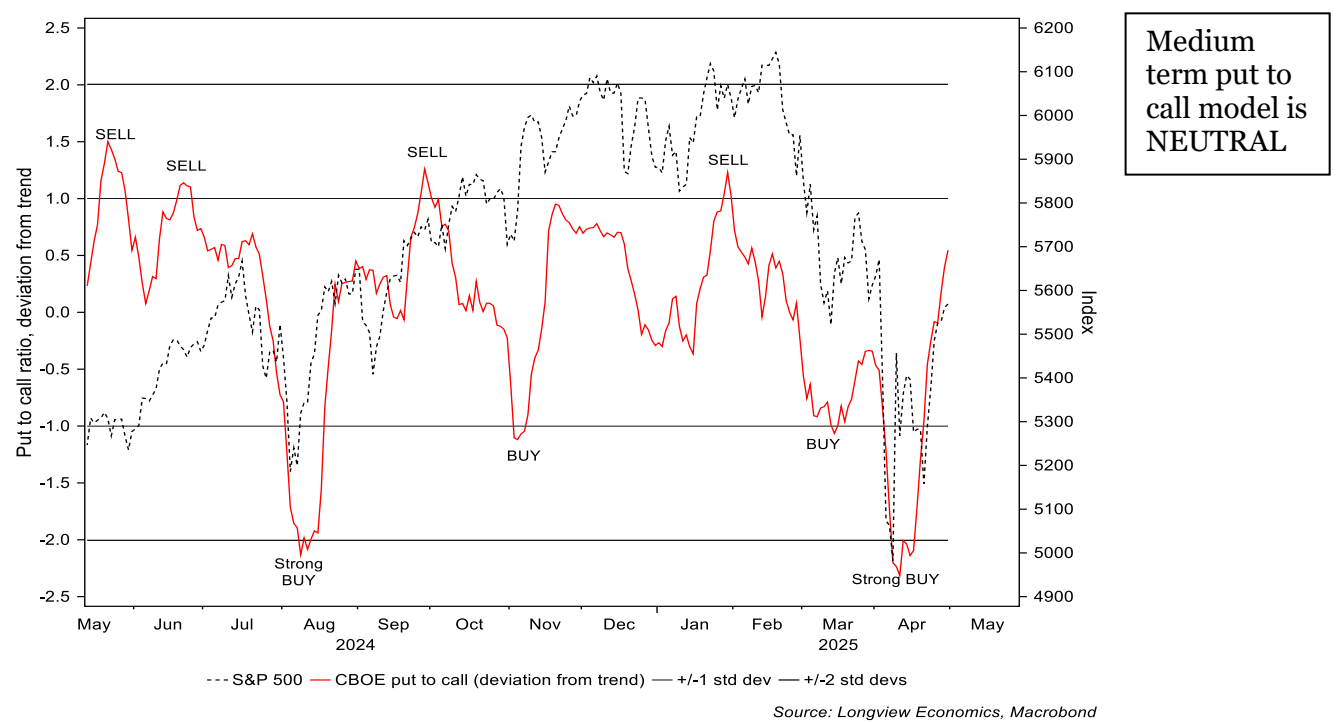
For explanations of indicators please see page 10

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

Global volatility indicator is on Strong BUY

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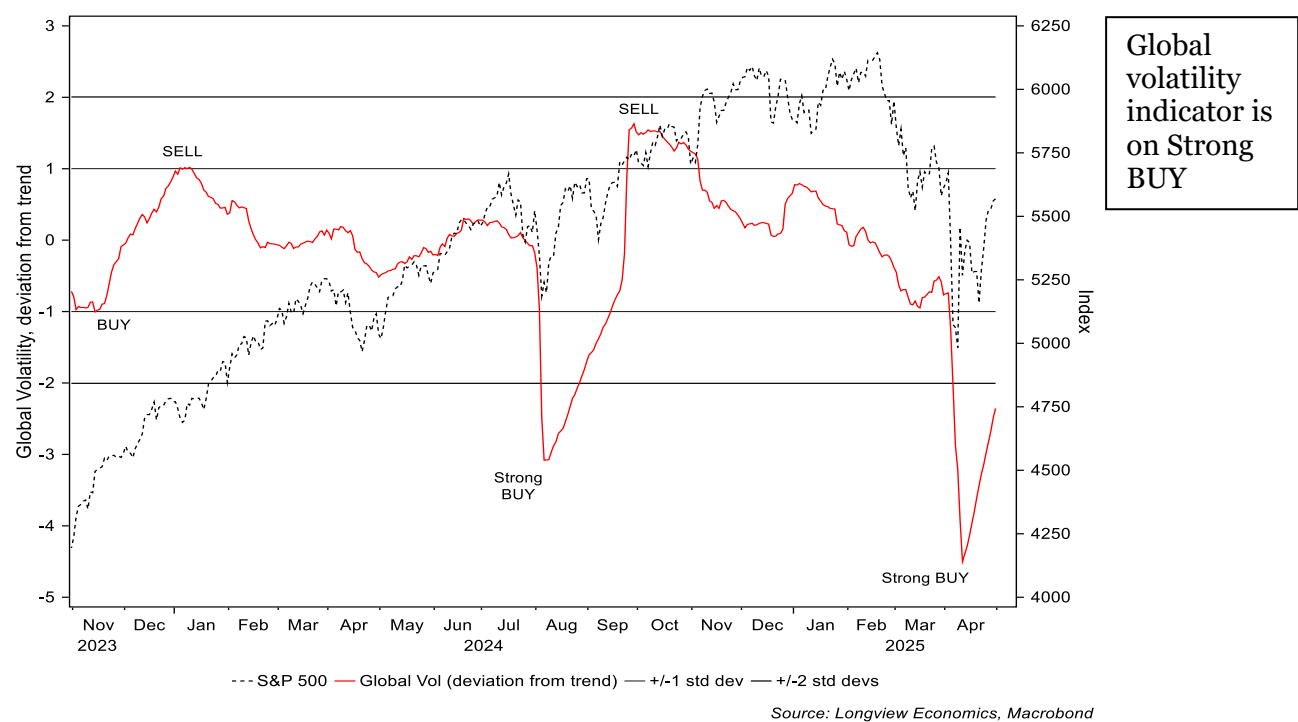
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500
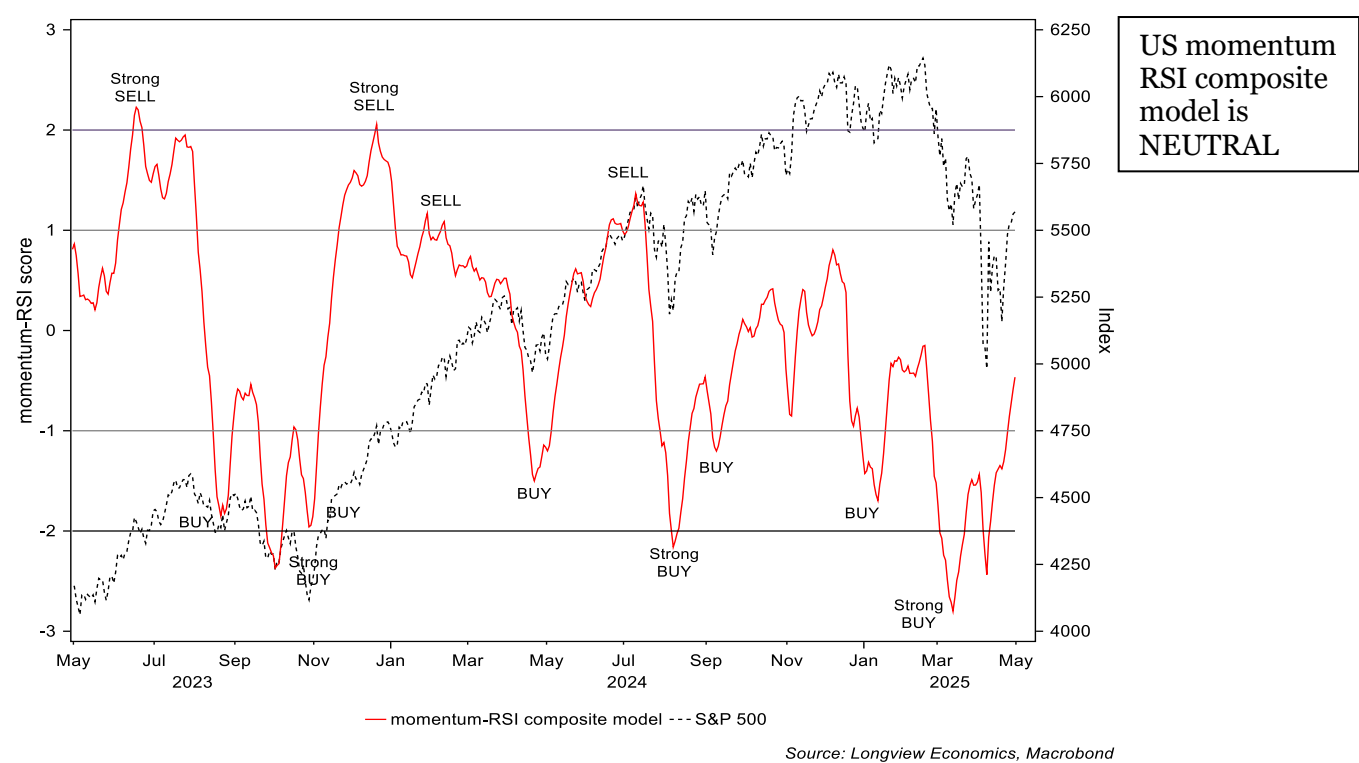
US momentum RSI composite model is NEUTRAL

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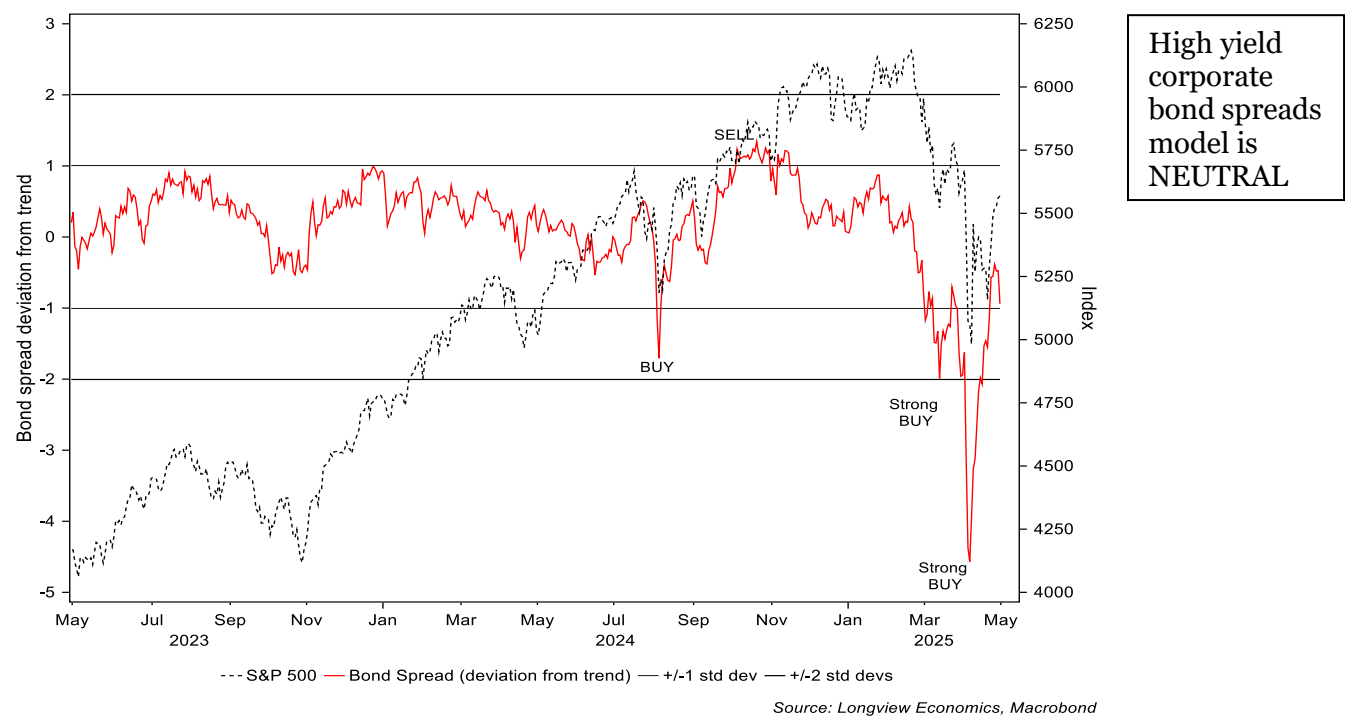
Fig 3h: Colvin model (deviation from trend) vs. S&P500

Colvin model – is NEUTRAL

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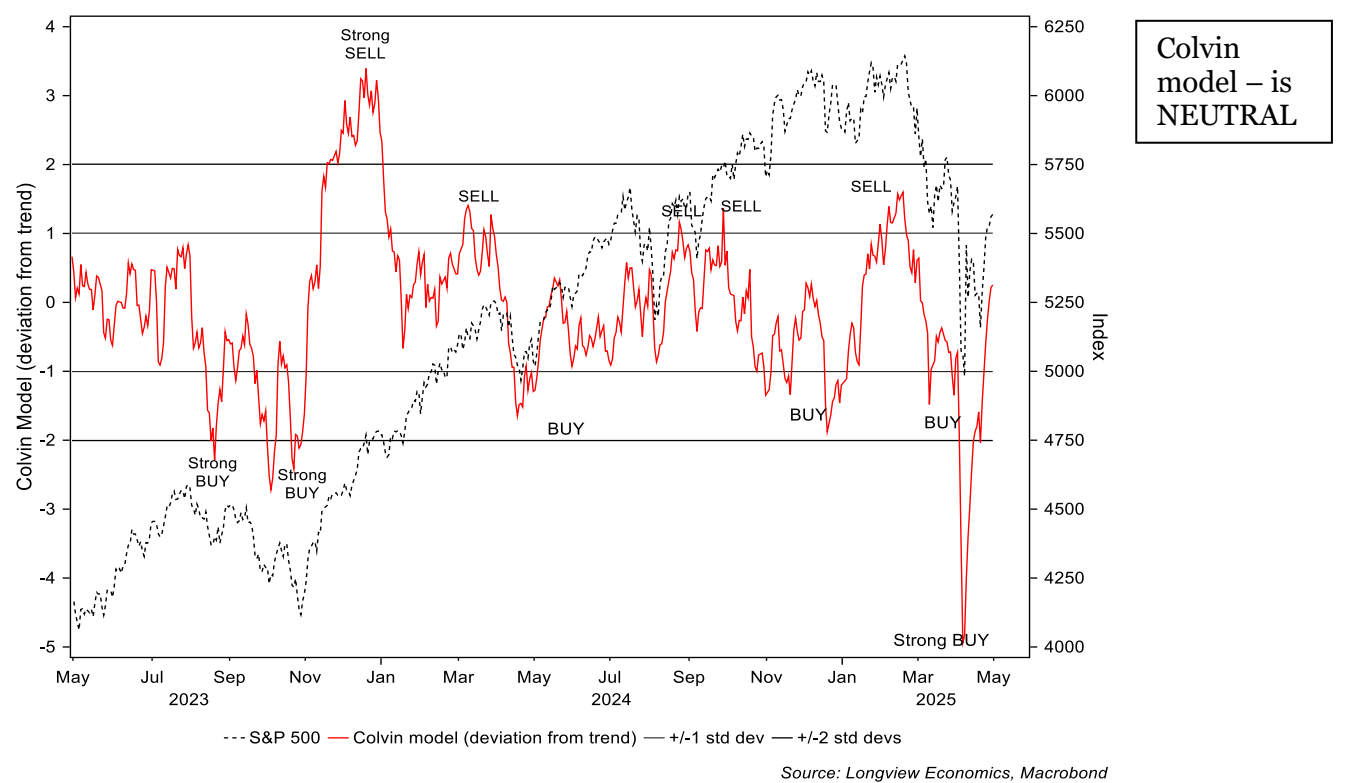
For explanations of indicators please see page 10

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.

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