

Equity Index Futures Trading Recommendations

20th May 2025

“Stay SHORT SPX - Models on SELL”

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

- Stay ½ SHORT S&P500 June futures (blended entry was yesterday at 5,929.4*).
- Retain unchanged stop loss 3% above blended entry (at 6,107.25).

*Entry prices were at 5,908.75 and 5,950.00 (i.e. two ¼ size positions).

Rationale

US equity markets were relatively resilient yesterday, with major indices retracing their losses from early in the session. The S&P500, for example, closed broadly unchanged (having been down 1.4%). Given that move higher, we were filled on our order to increase the size of our SHORT position (see above for detail).

Of note, the S&P500 is currently trading at the bottom of a key congestion zone (i.e. a range of potential resistance, from 5930 – 6225, see FIG 1a). With that, various volatility readings have begun to edge higher in the past week, from relatively low levels (e.g. FIG 1c). Other equity indices have lost momentum and have either traded sideways (e.g. the Russell 2000) or have rolled over, e.g. the Philly SOX, which has failed at its 200 day moving average (FIG 1b).

Overnight the PBoC has cut interest rates (i.e. 1 & 5 year Loan Prime Rates by 10bps), as expected. Asian equity markets are trading modestly higher (CSI 300: +0.5%) while US indices are flat/somewhat lower.

Our view remains unchanged from yesterday. That is, both **short and medium term models highlight signs of froth and complacency in markets**. They therefore support the case for equity market giveback/weakness (or, at a minimum, a phase of consolidation – i.e. as SELL signals unwind).

Most notably, our SELL-off indicator continues to BUILD to high levels. Currently it’s on a reading of +18 and is therefore close to its key +20 level (at which it warns of a wave of risk aversion in global markets, i.e. potentially in two trading days’ time, see FIG 1). Other medium term models are generating a clear SELL message (see FIGS 3 – 3c). Similarly, SELL signals from short term models are broad based. That is, risk appetite indicators are on/close to SELL (FIGS 2 & 2a); equities are technically over-extended to the upside (FIG 2b); downside put protection is low (FIG 2c); while various breadth and momentum models are on/close to SELL (e.g. see FIGS 2d & 2e).

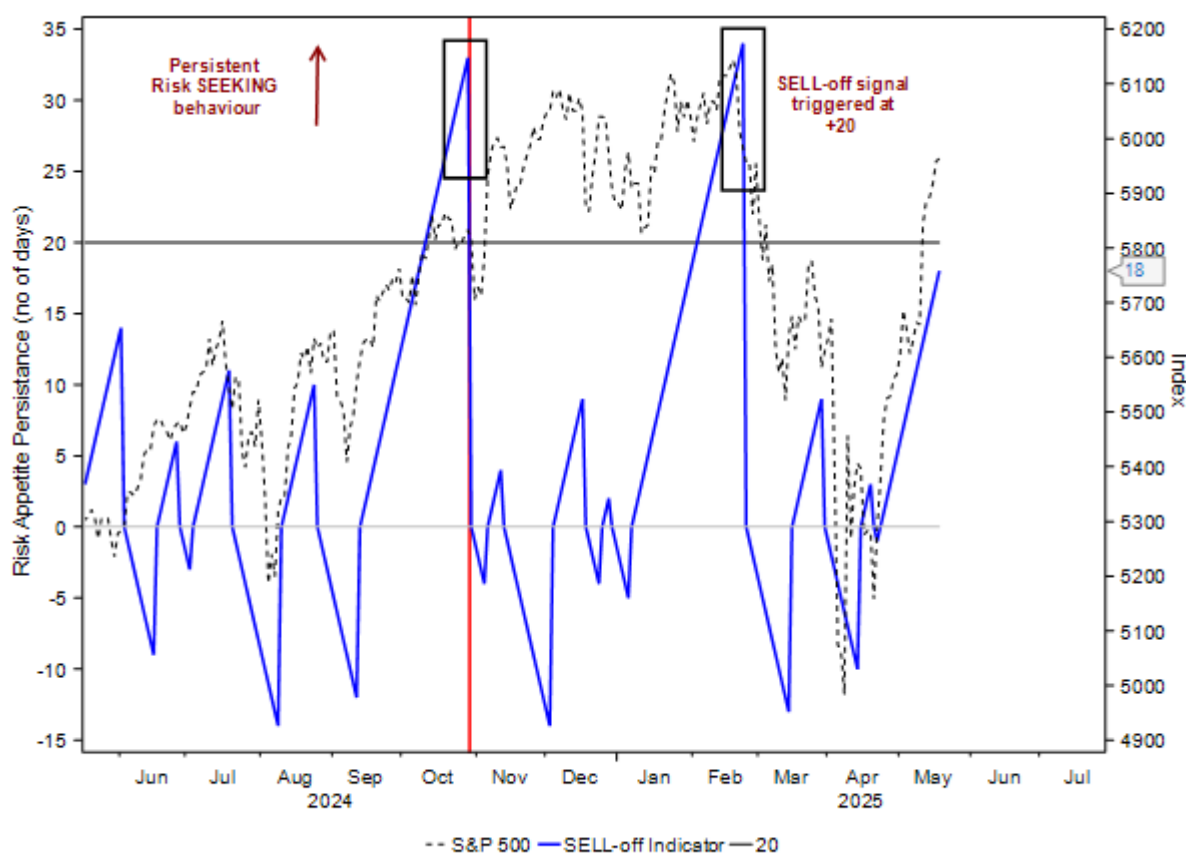
The risk **reward therefore favours staying SHORT**, with an unchanged stop loss (please see above for detailed recommendation). Risks are multiple and include the possibility that US and global equity markets continue to squeeze higher in the near term (i.e. the 'risk on' regime persists, our SELL-off indicator continues to build to higher levels, and short term SELL signals are overwhelmed).

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: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages



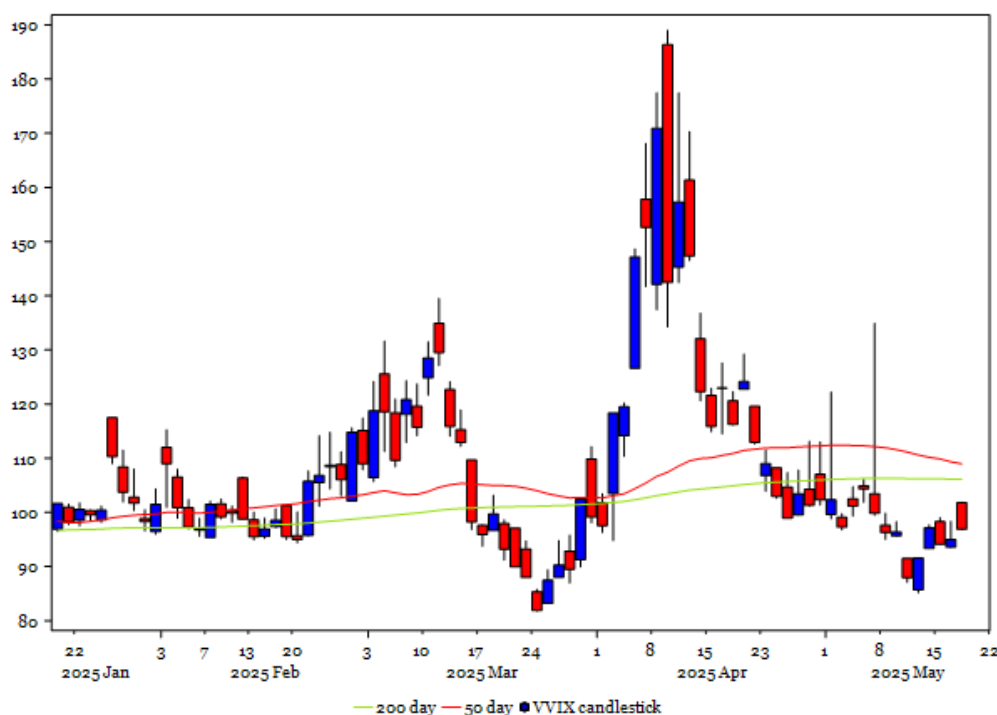
Source: Longview Economics, Macrobond

FIG 1b: Philly SOX cash index candlestick, shown with 50 & 200 day moving average



Source: Longview Economics, Macrobond

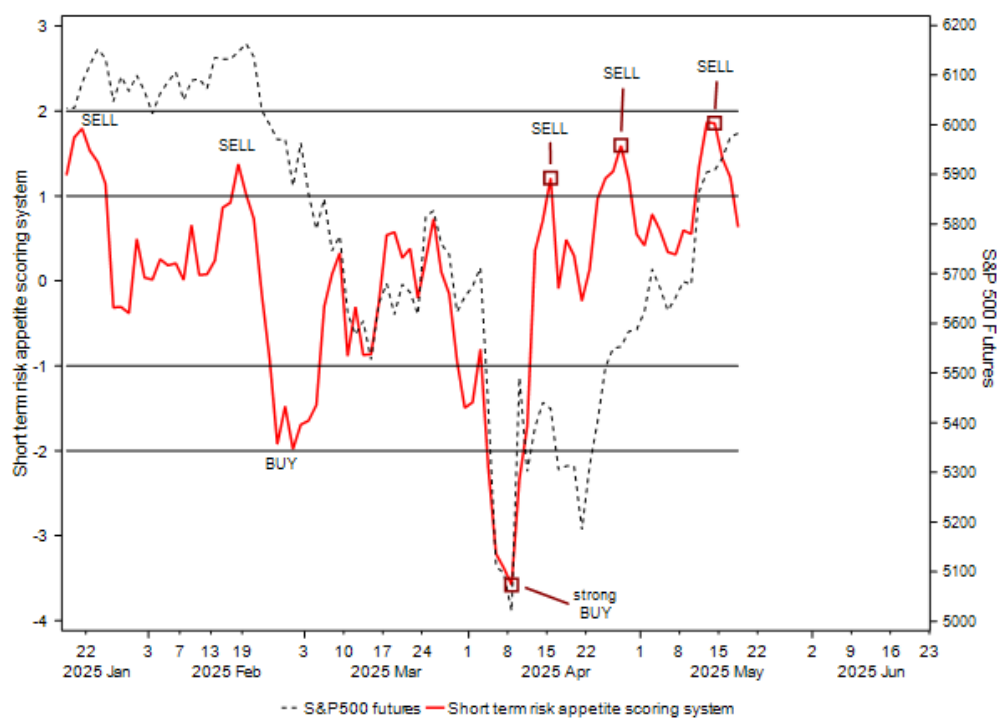
FIG 1c: VVIX candlestick shown with 50 & 200 day moving averages (%)



Source: Longview Economics, Macrobond

Short term models are on 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

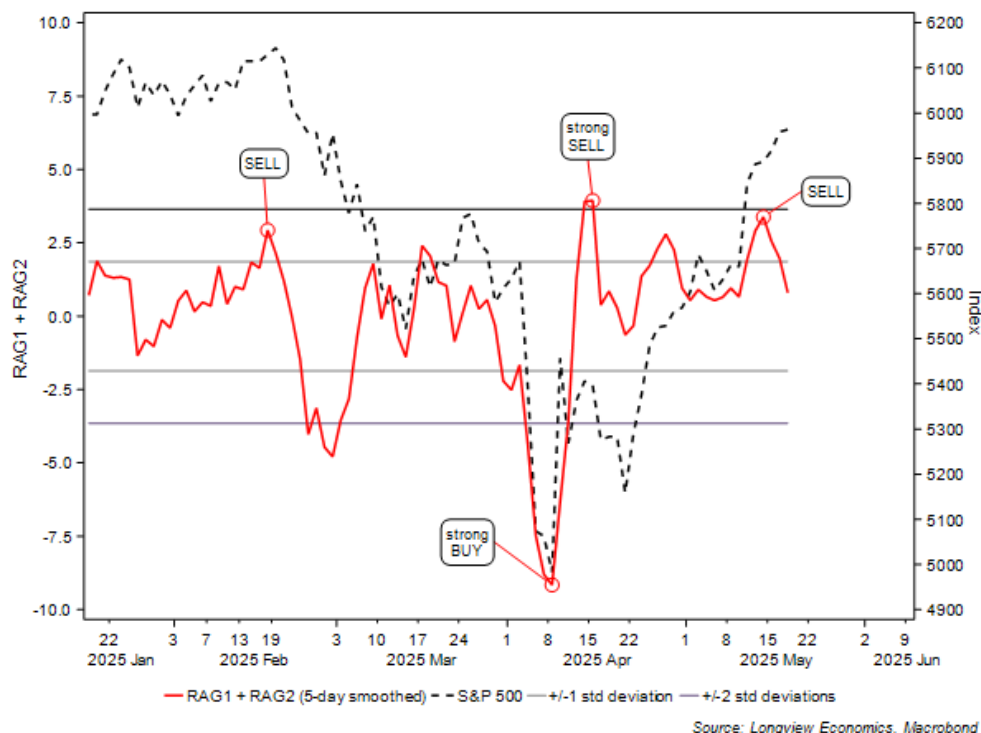


FIG 2b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

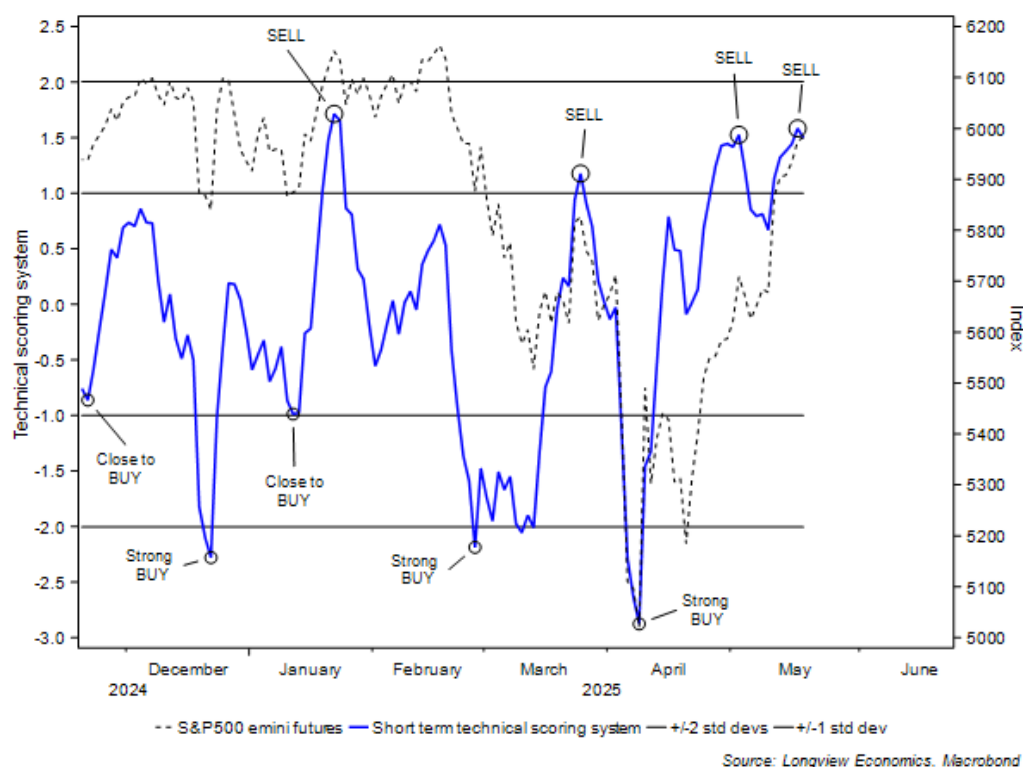


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

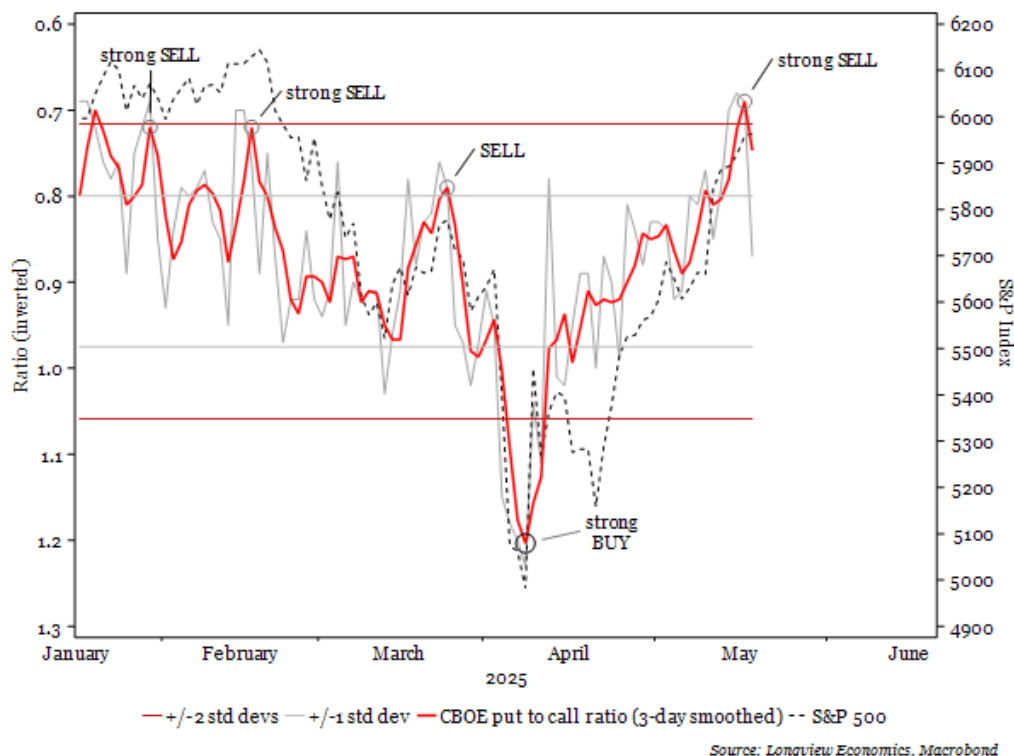


FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500

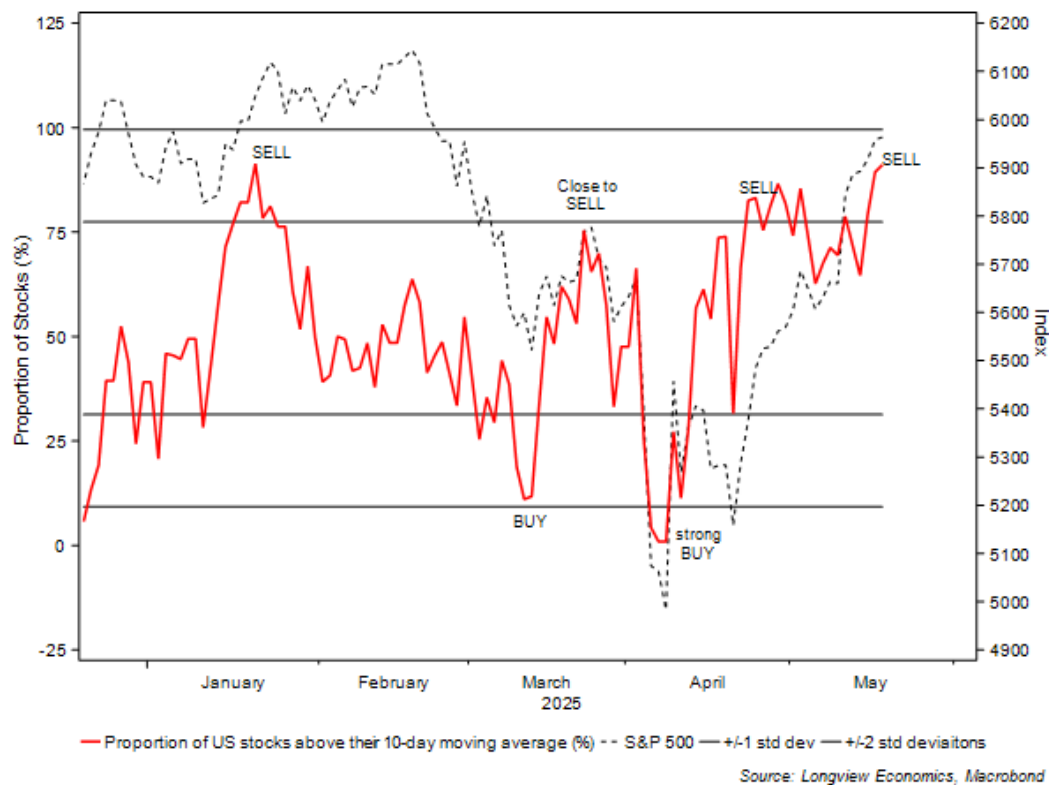
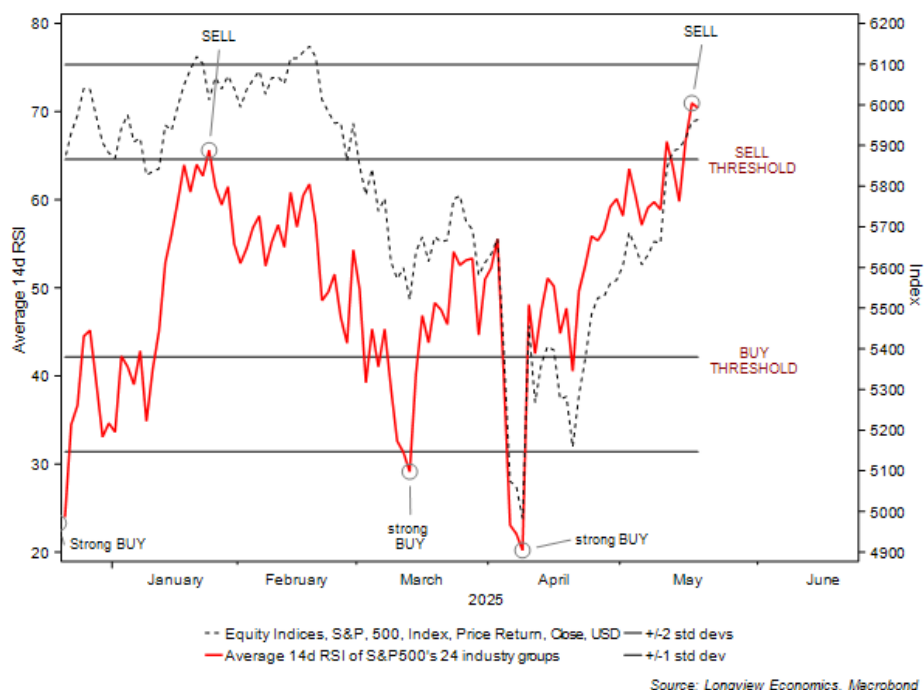


FIG 2e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Medium term models are on SELL....

FIG 3: Medium term 'risk appetite' scoring system vs. S&P500

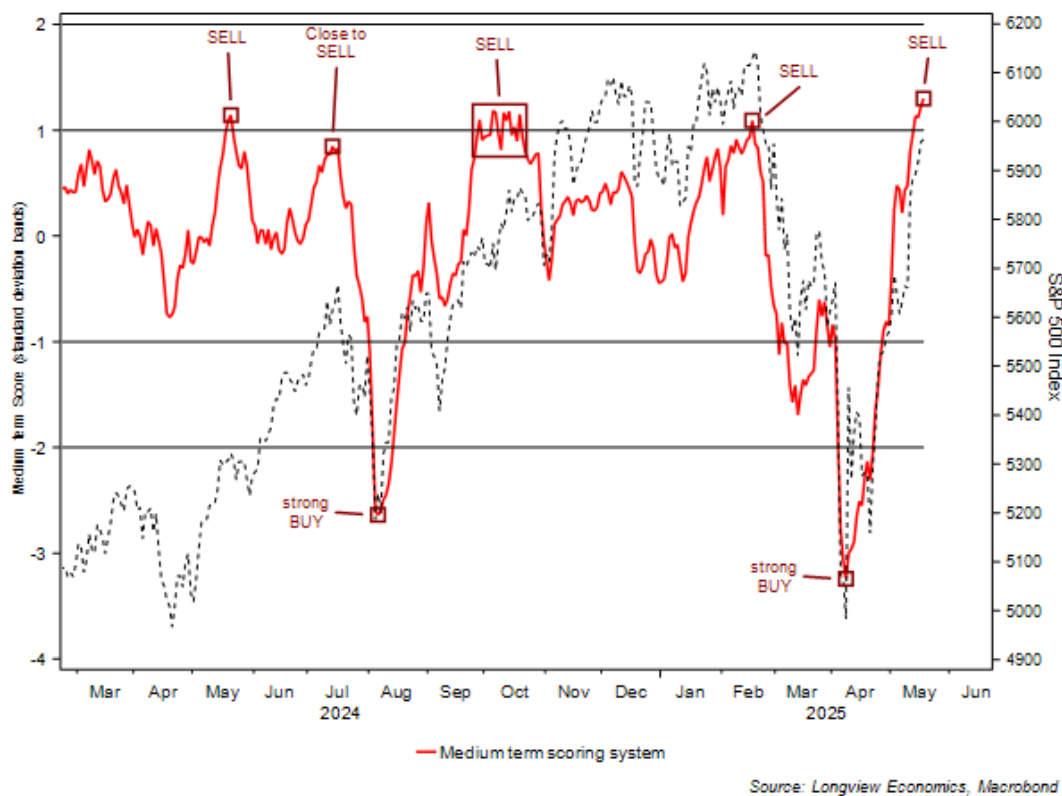


FIG 3a: Medium term RAG1 & RAG2 vs. S&P500

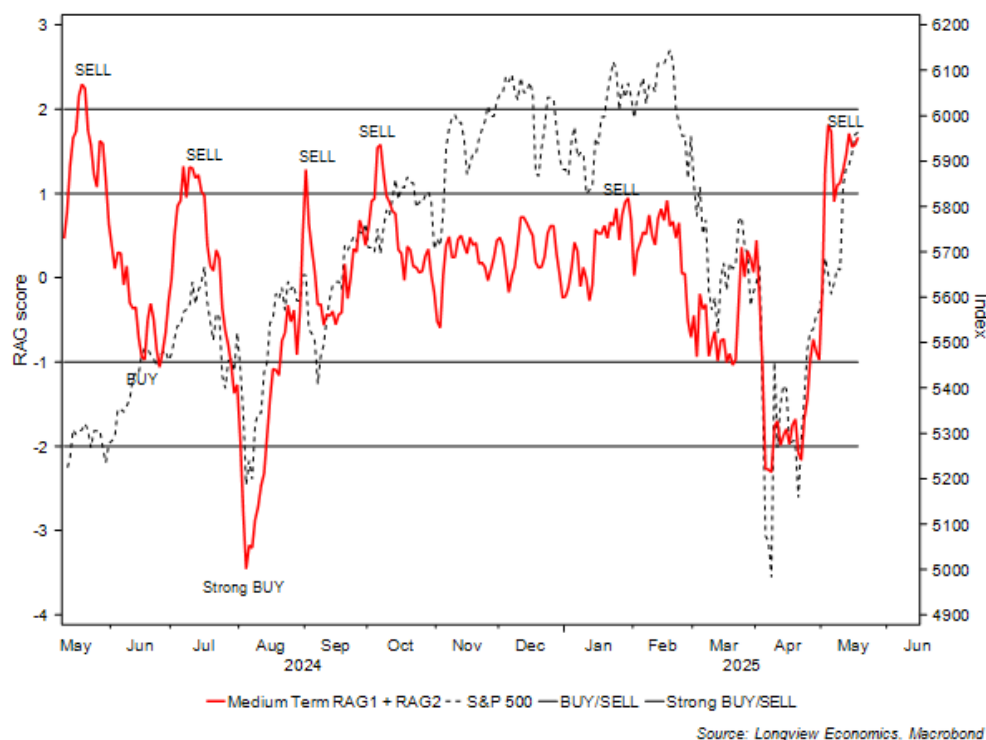


FIG 3b: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500

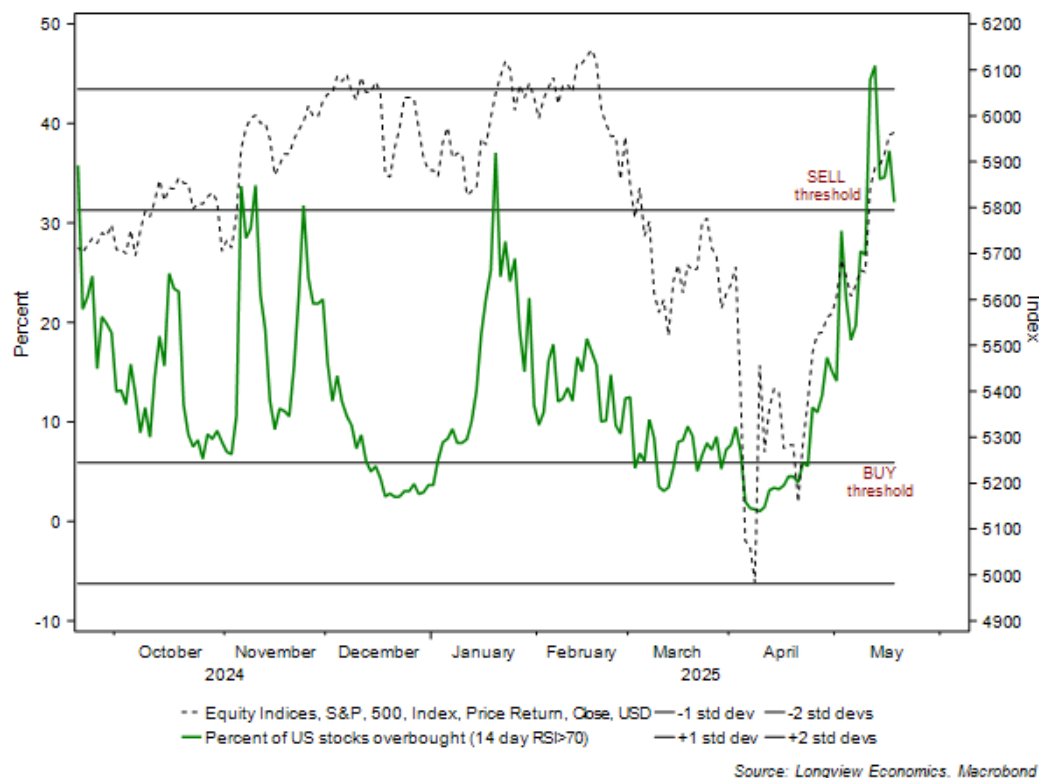
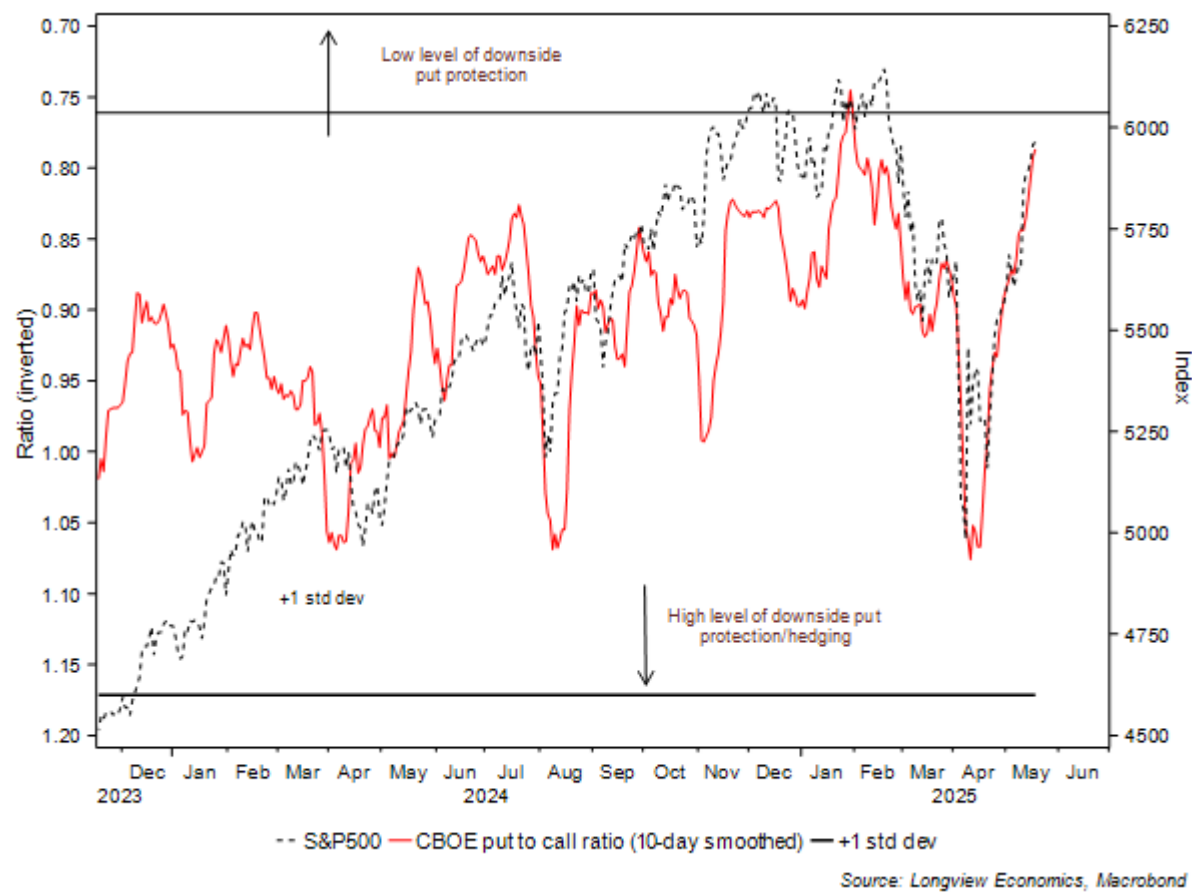


FIG 3c: CBOE medium term put to call ratio vs. S&P500

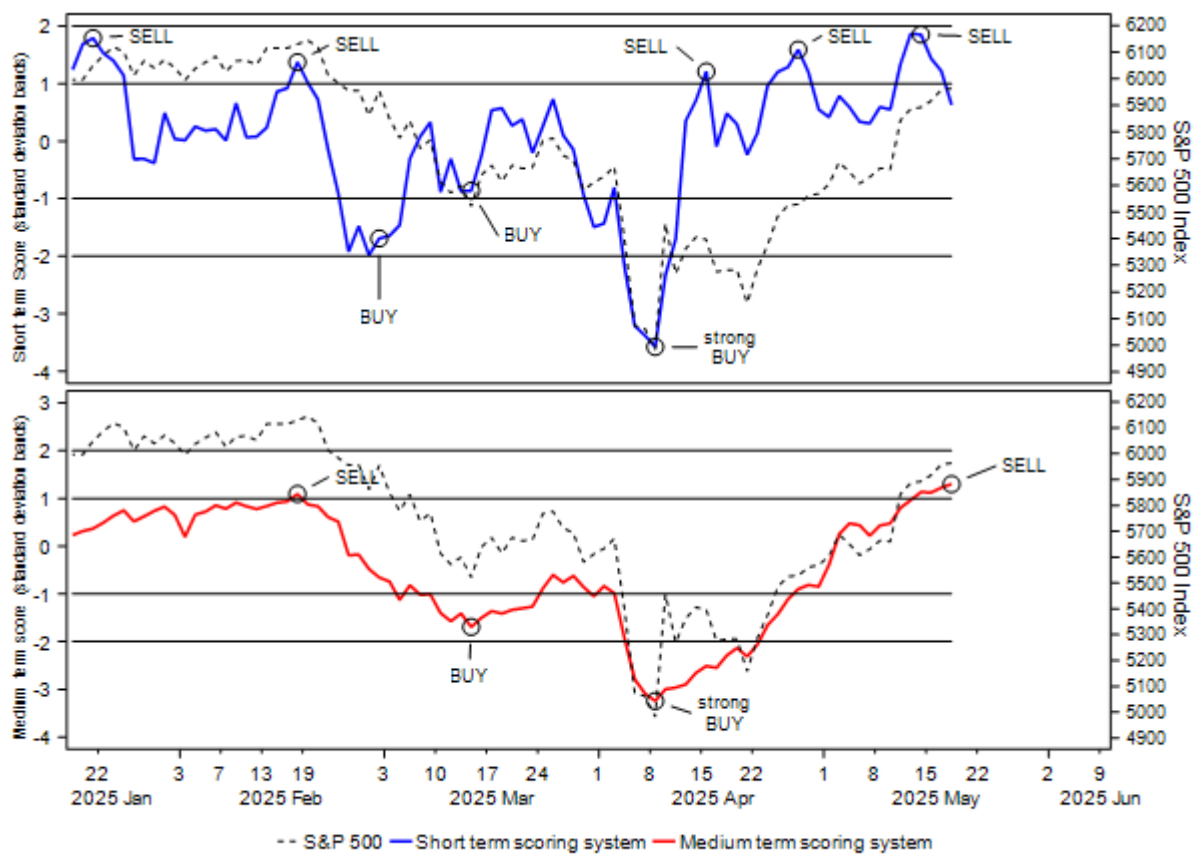


Key Longview Scoring Systems (chart below):

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

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: German PPI (Apr, 7am); Eurozone ECB current account (Mar, 9am); Italian current account balance (Mar, 9:30am); Eurozone construction output (Mar, 10am); US Philadelphia Fed service sector activity (May, 1:30pm); Canadian headline & core CPI (Apr, 1:30pm); **Eurozone consumer confidence** (May first estimate, 3pm).

Key events today include: **PBOC policy decision** (2am); **RBA policy decision** (5:30am); speeches by the ECB's Wunsch at AFME event in Frankfurt (7:55am) & Knot on DNB's financial stability overview (11am); Speech by the Bank of England's Pill at the Barclays briefing (9am); speeches by the Fed's Barkin & Bostic (2pm), Musalem on the economy (6pm) & Kugler gives commencement address (10pm).

Key earnings today include: Home Depot, Palo Alto Networks, Vodaphone, Tokio Marine Holdings.

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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1 – 2 Week View on Risk

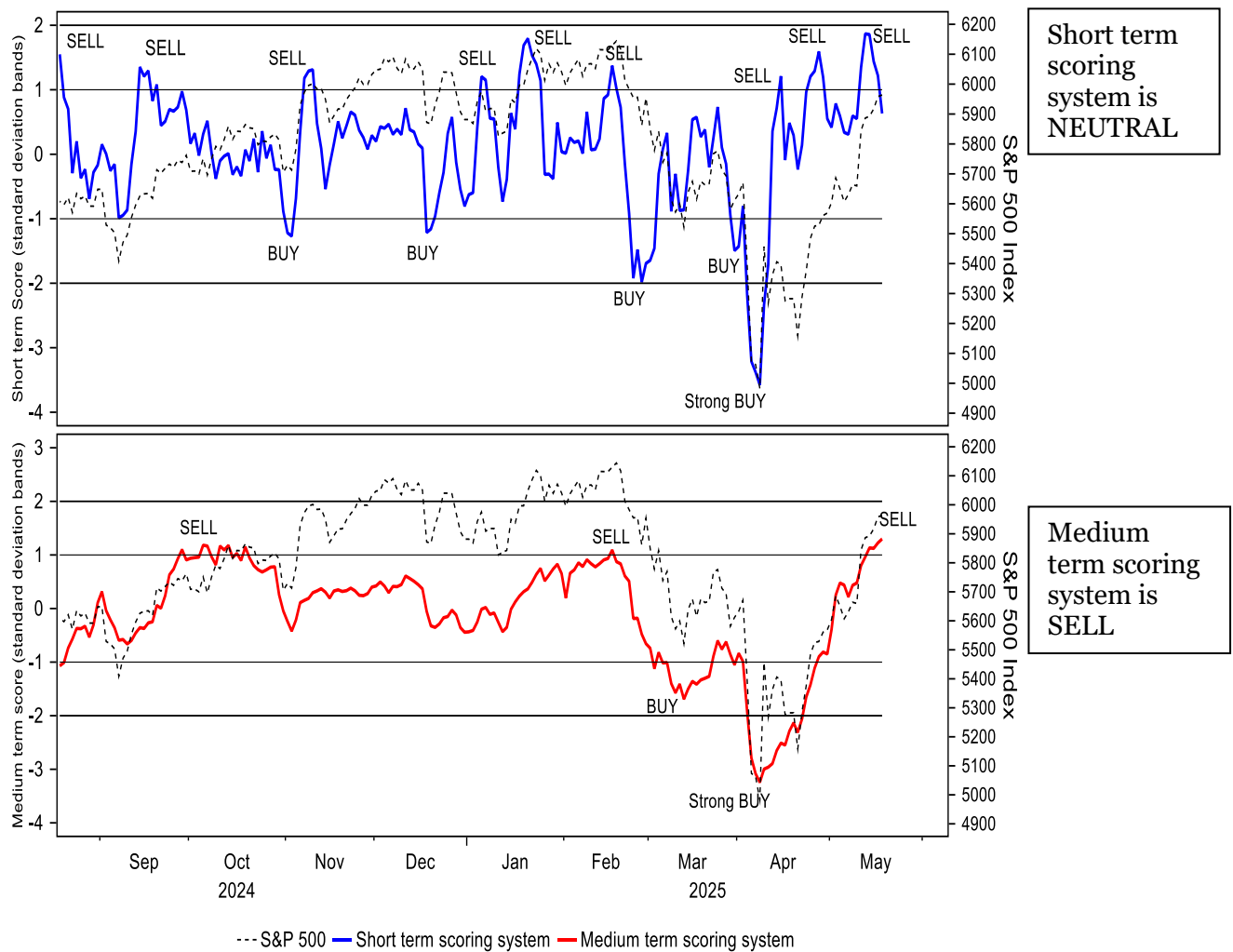
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20th May 2025

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

Fig 1: Longview 'short term' and 'medium term' scoring systems



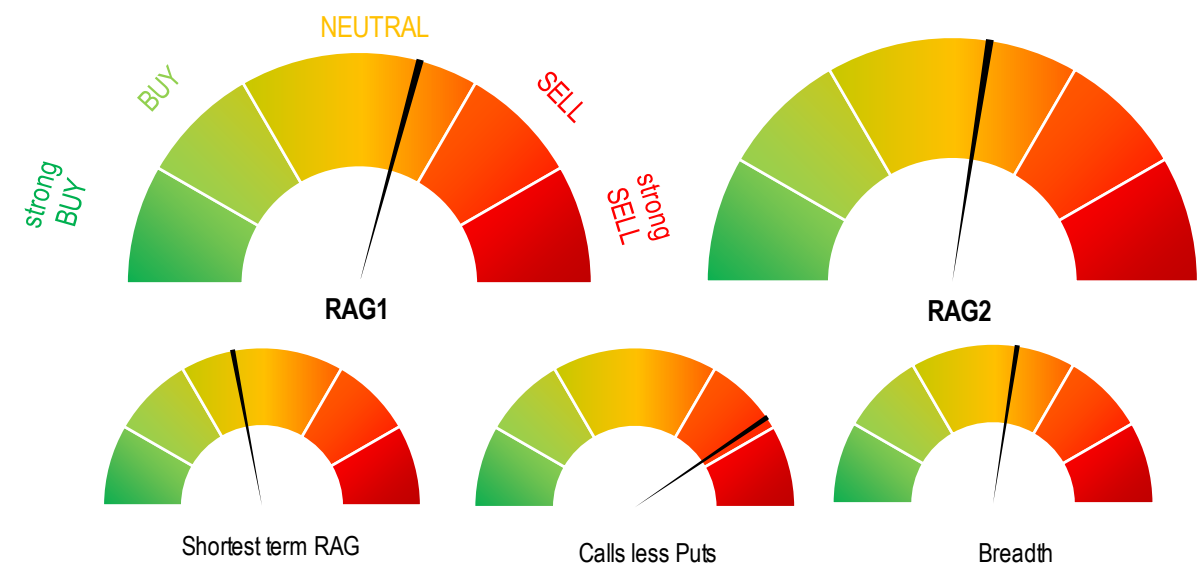
Source: Longview Economics, Macrobond

*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**

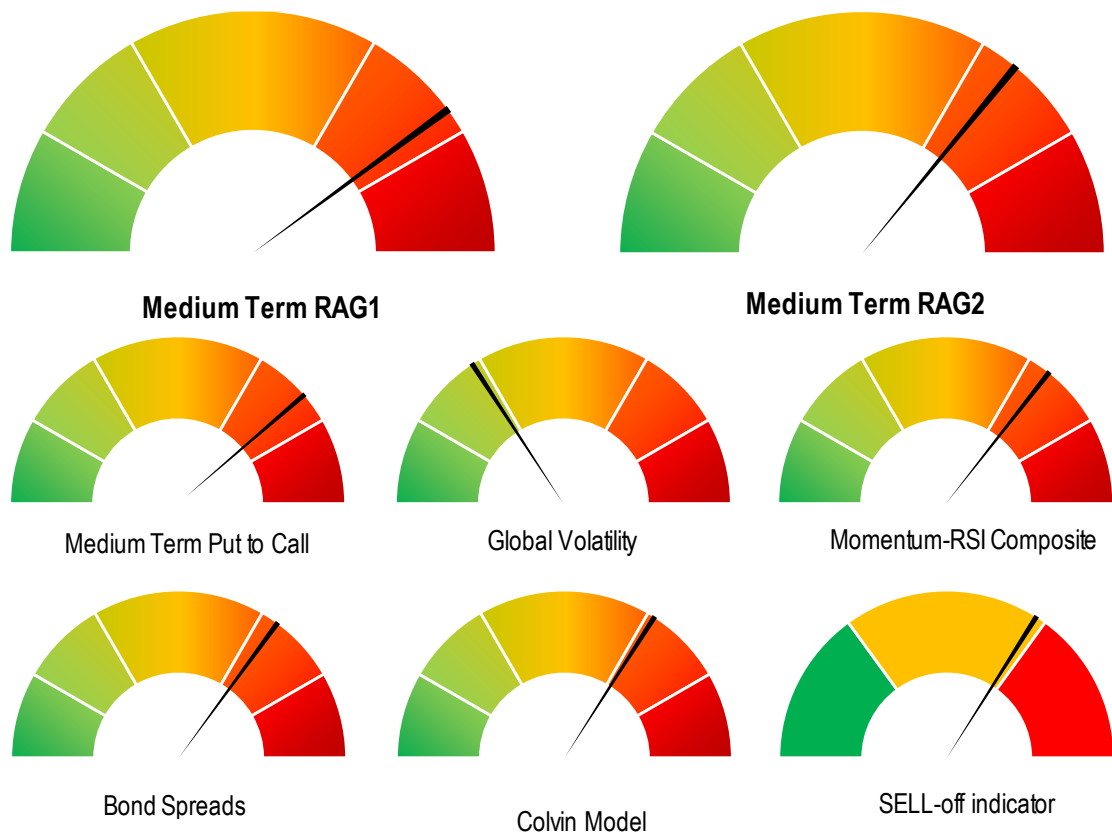
Section 1a: Summary of indicator signals**

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

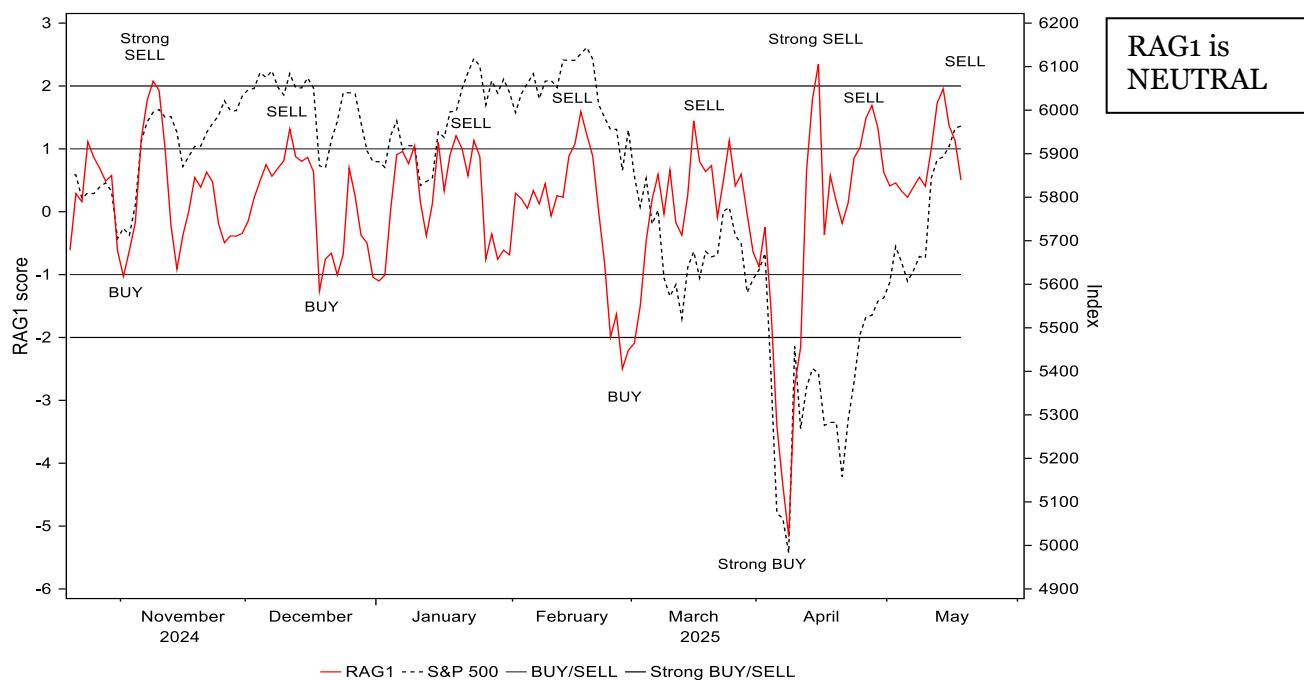
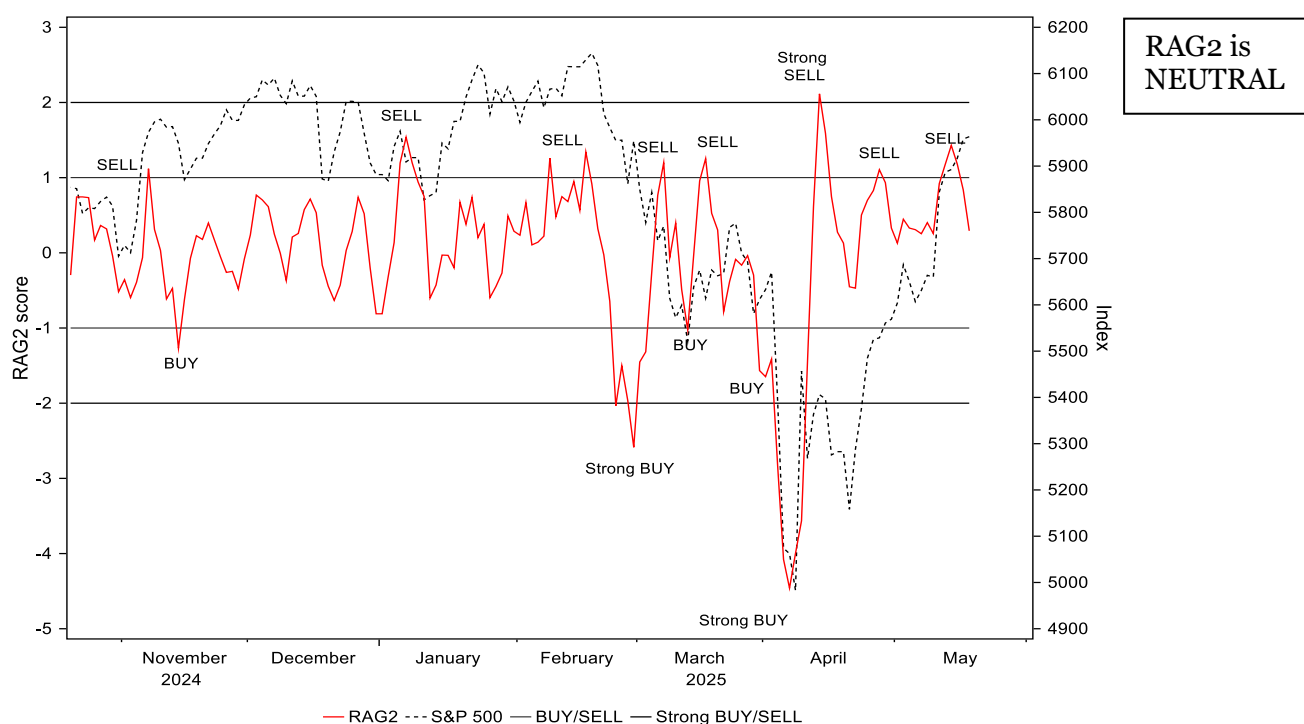


Fig 2b: RAG 2 vs. S&P 500



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

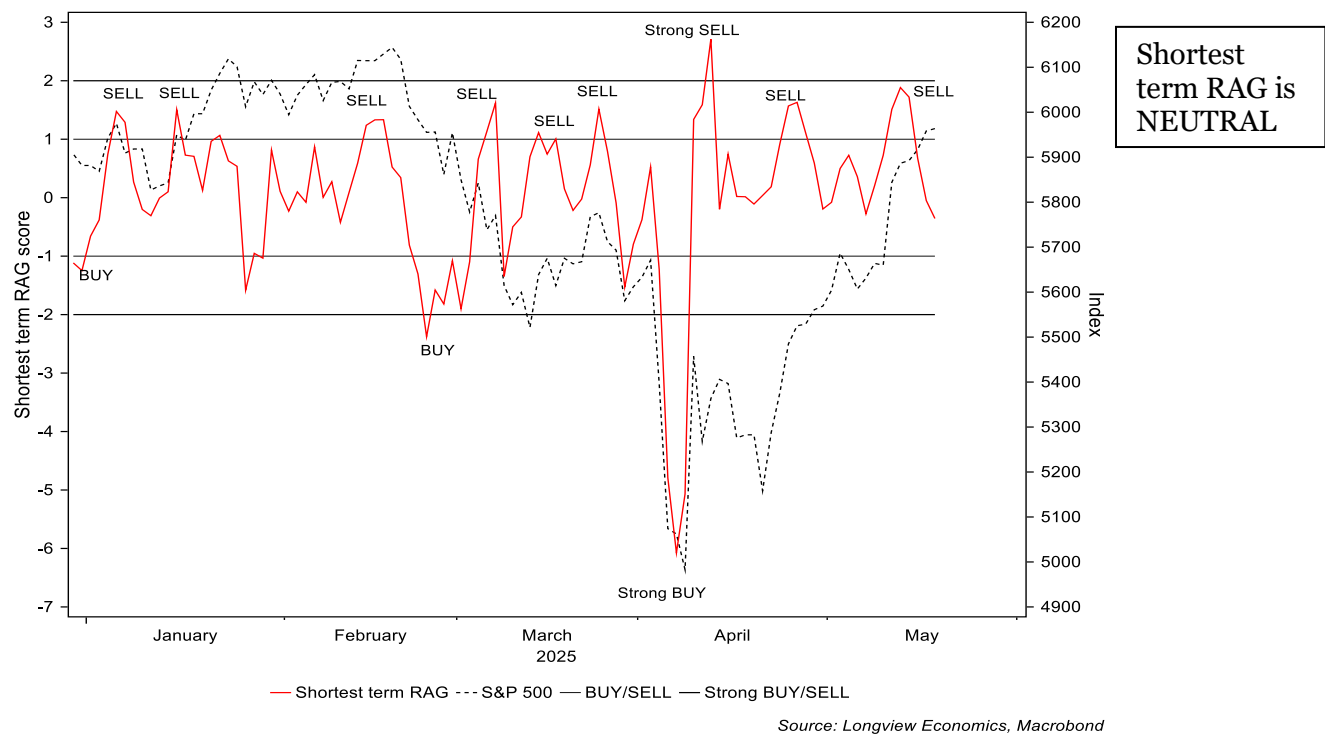
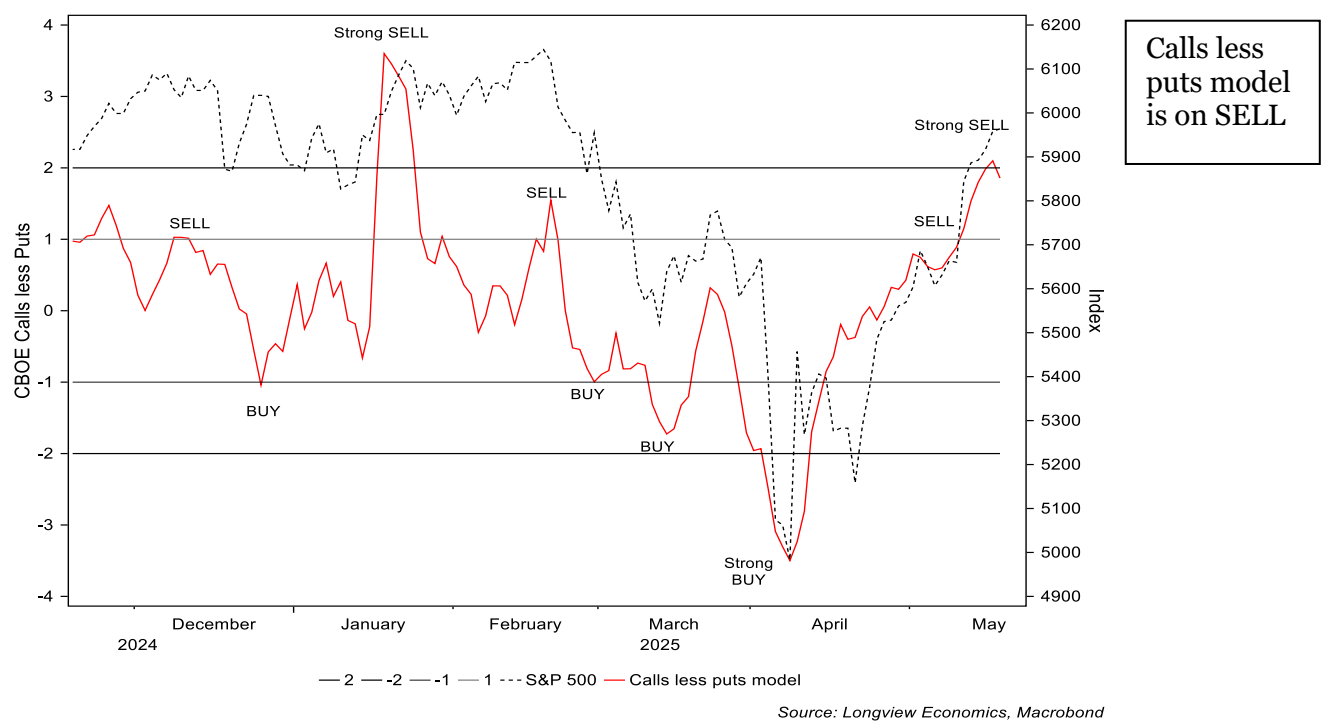
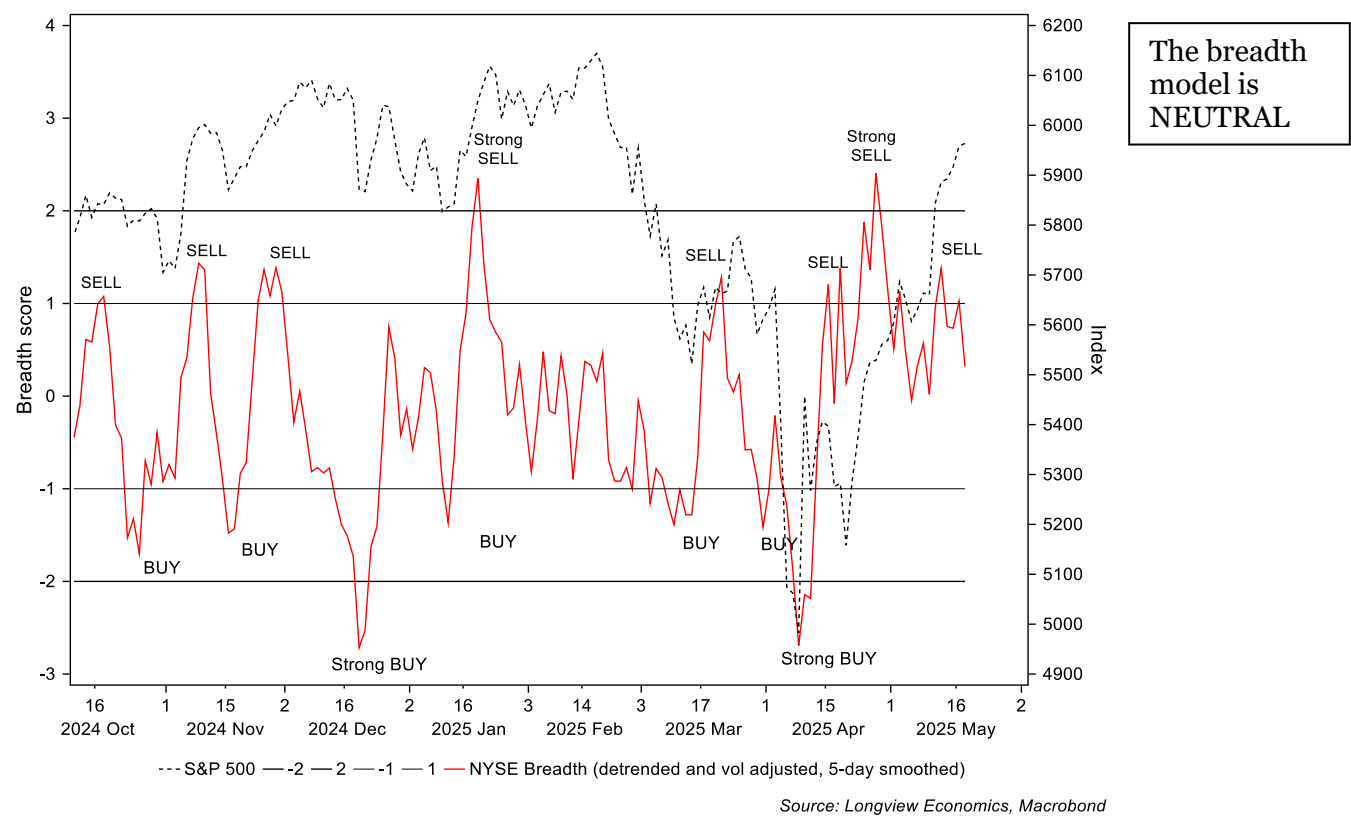


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

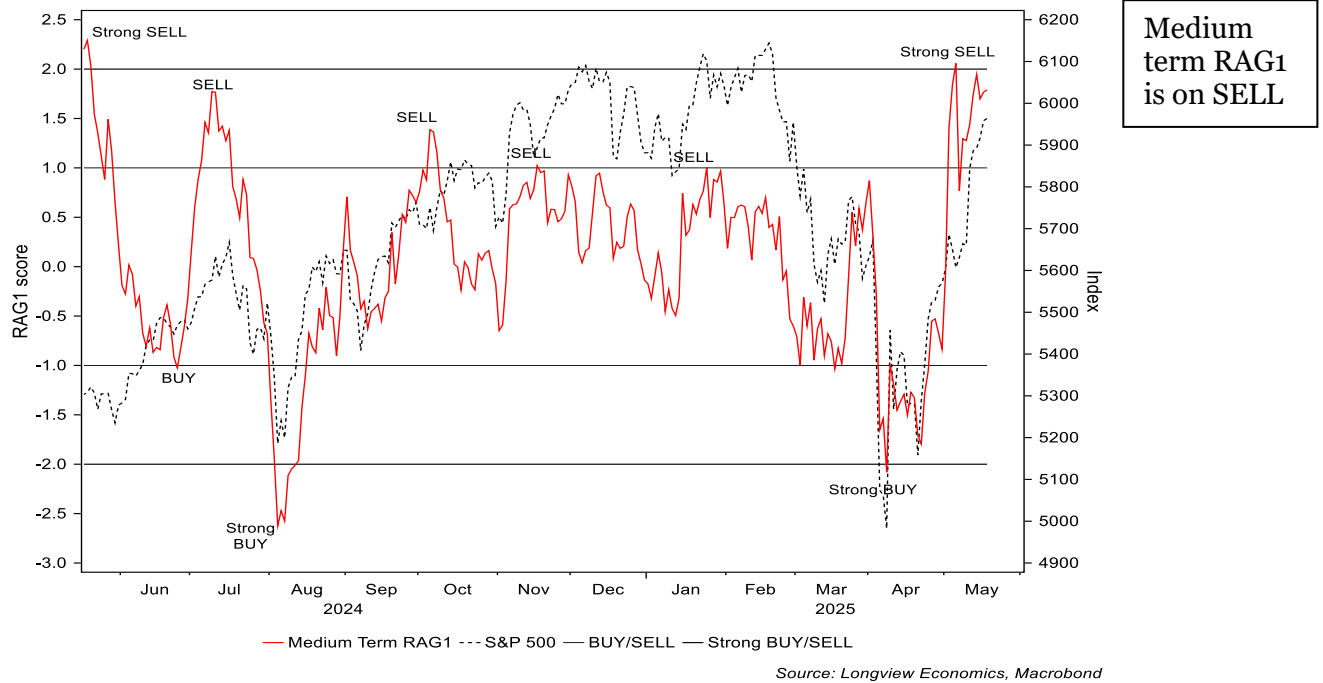
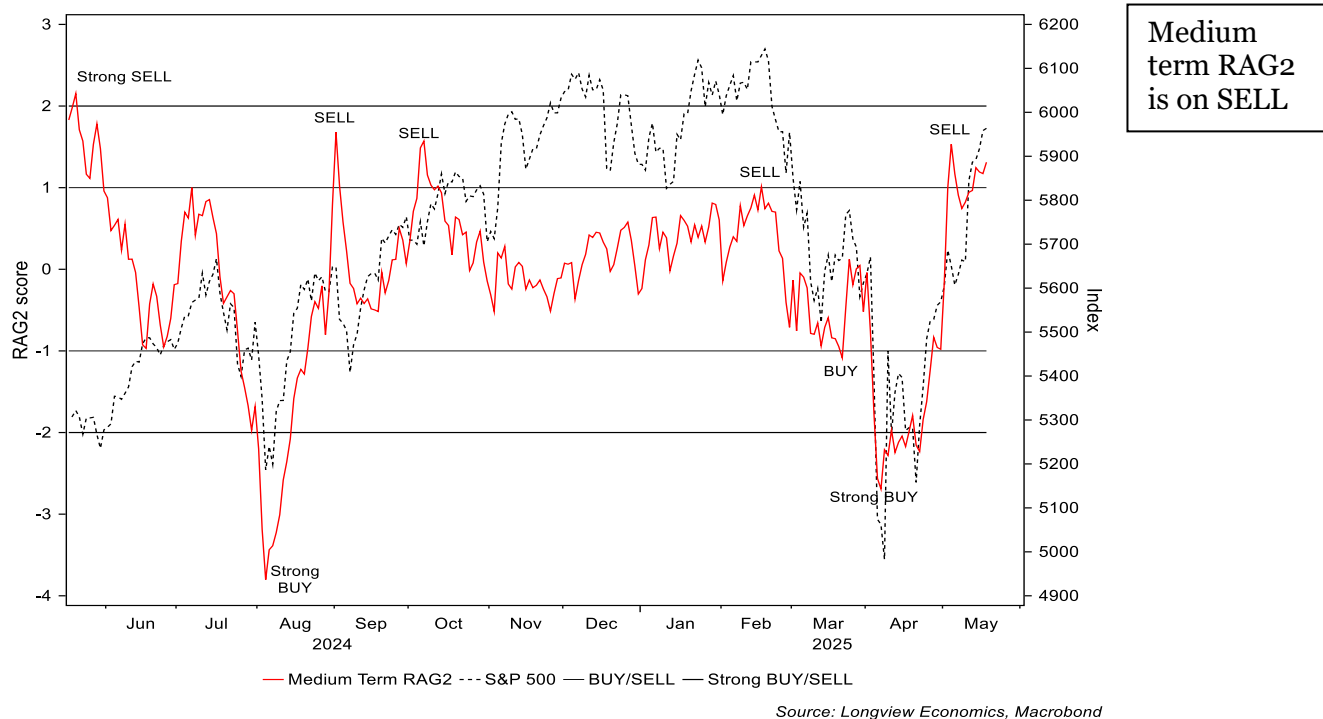


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

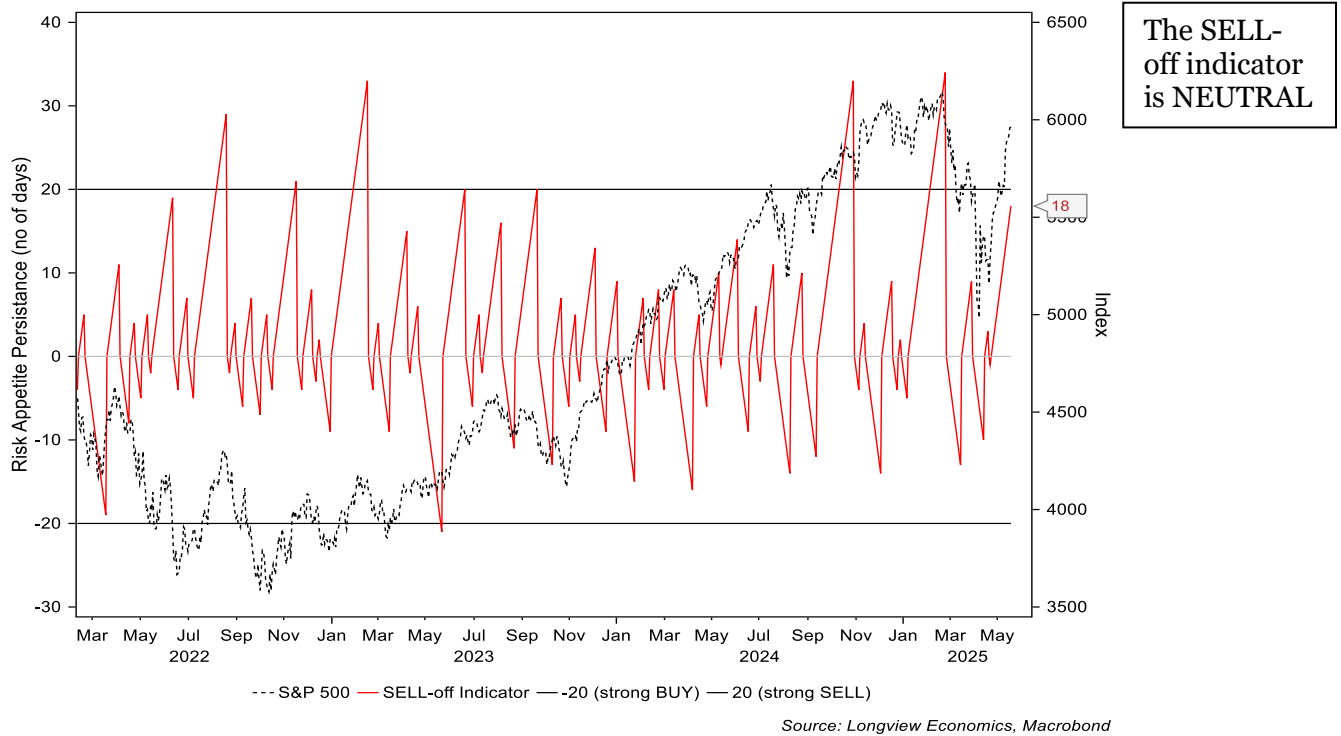
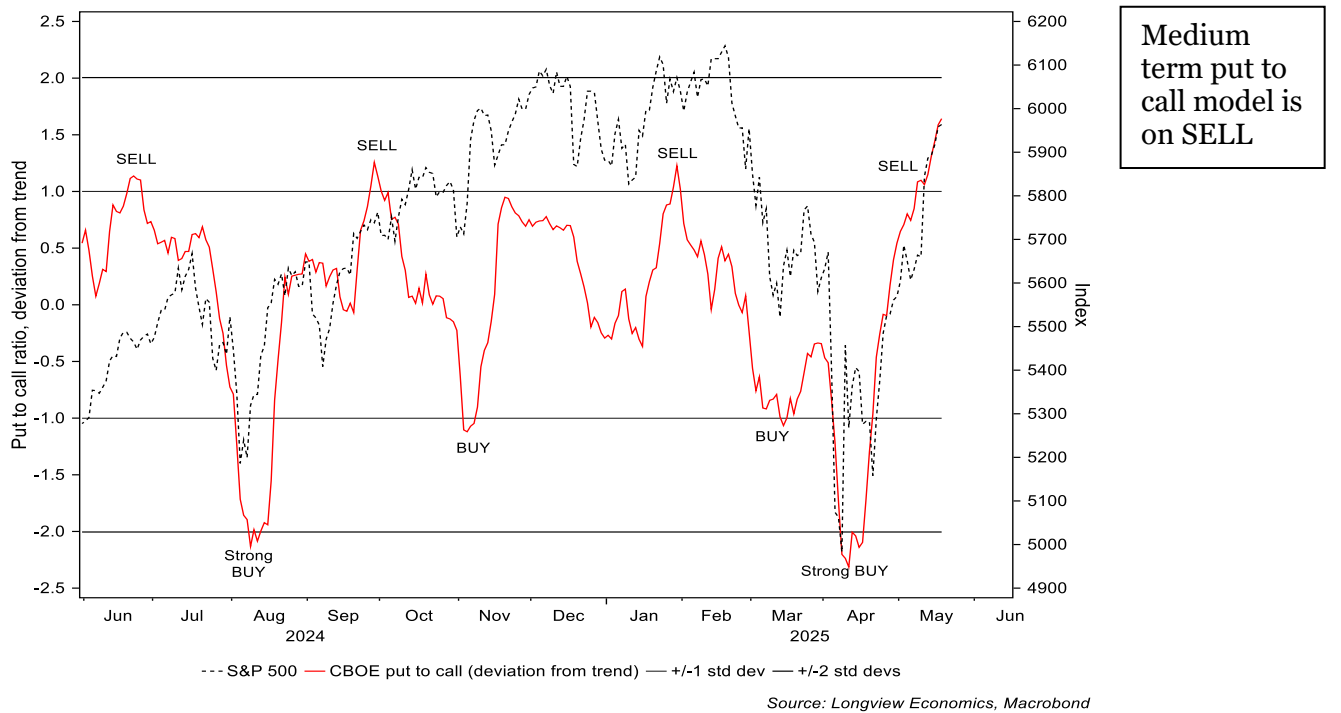


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

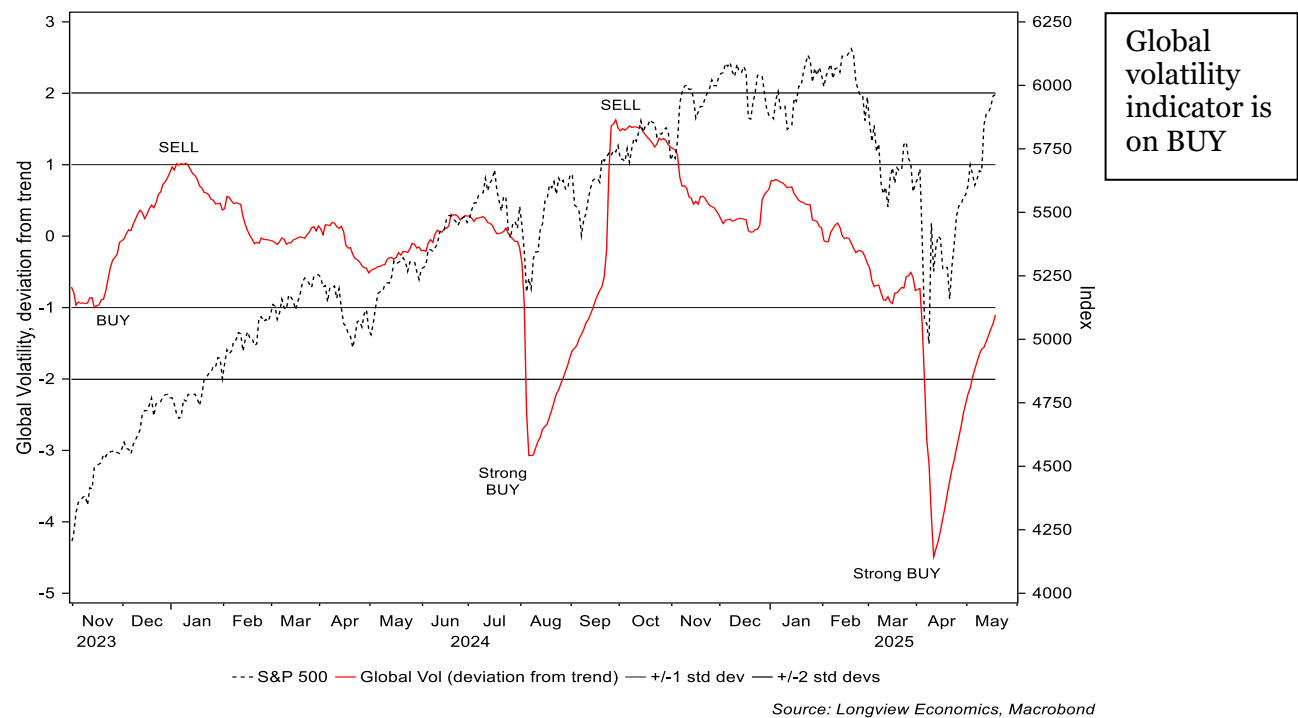


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

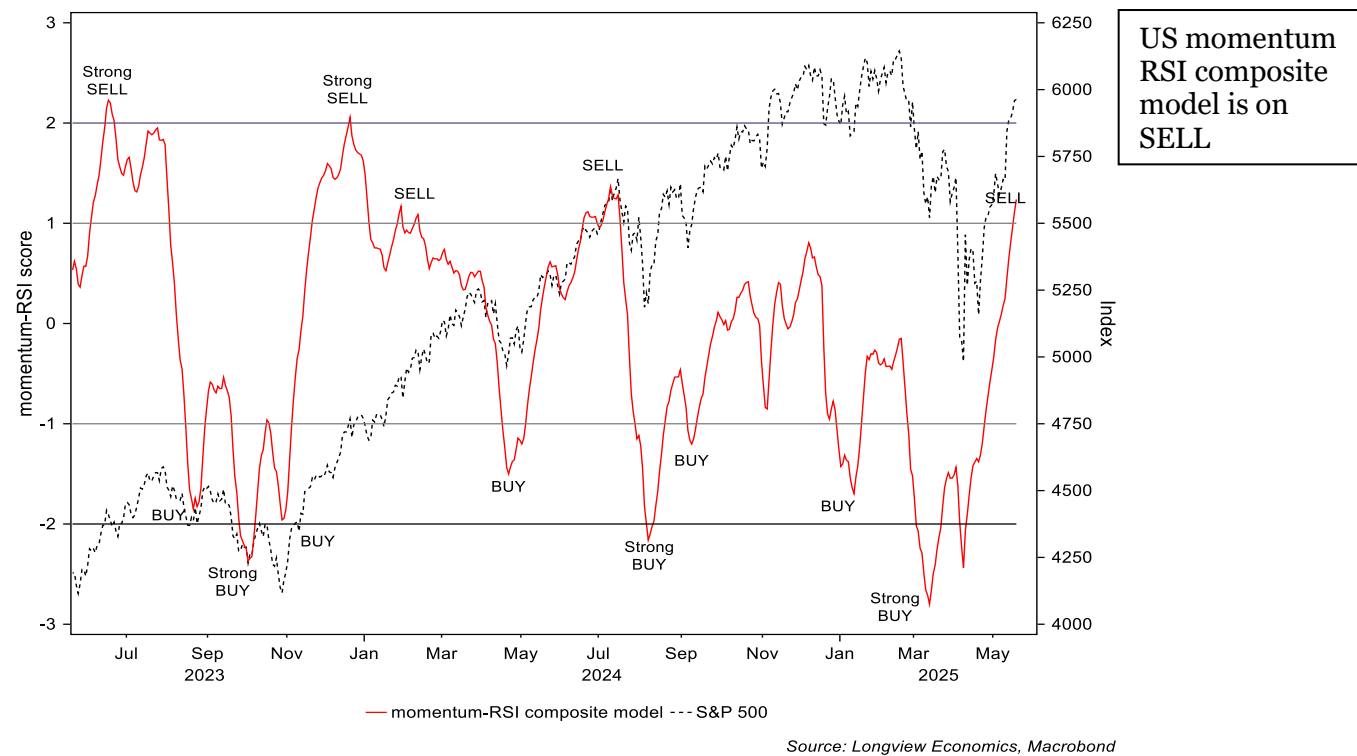


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

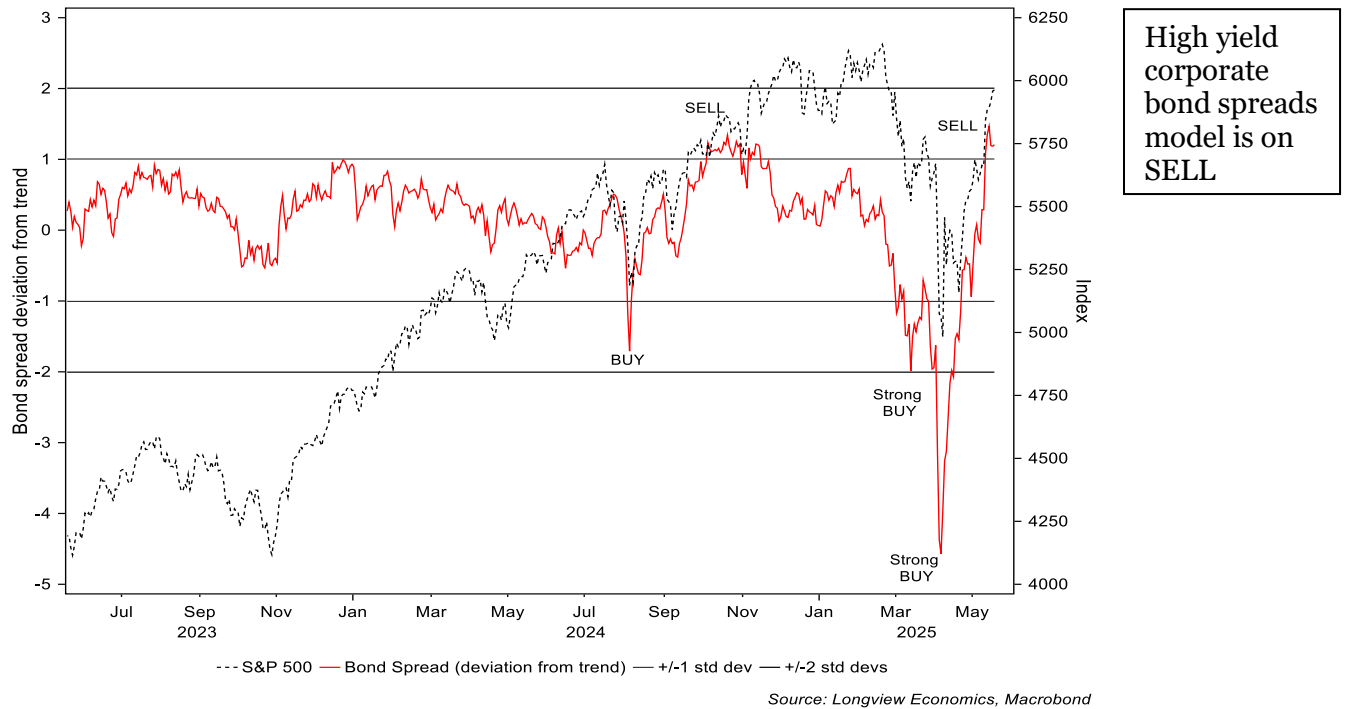
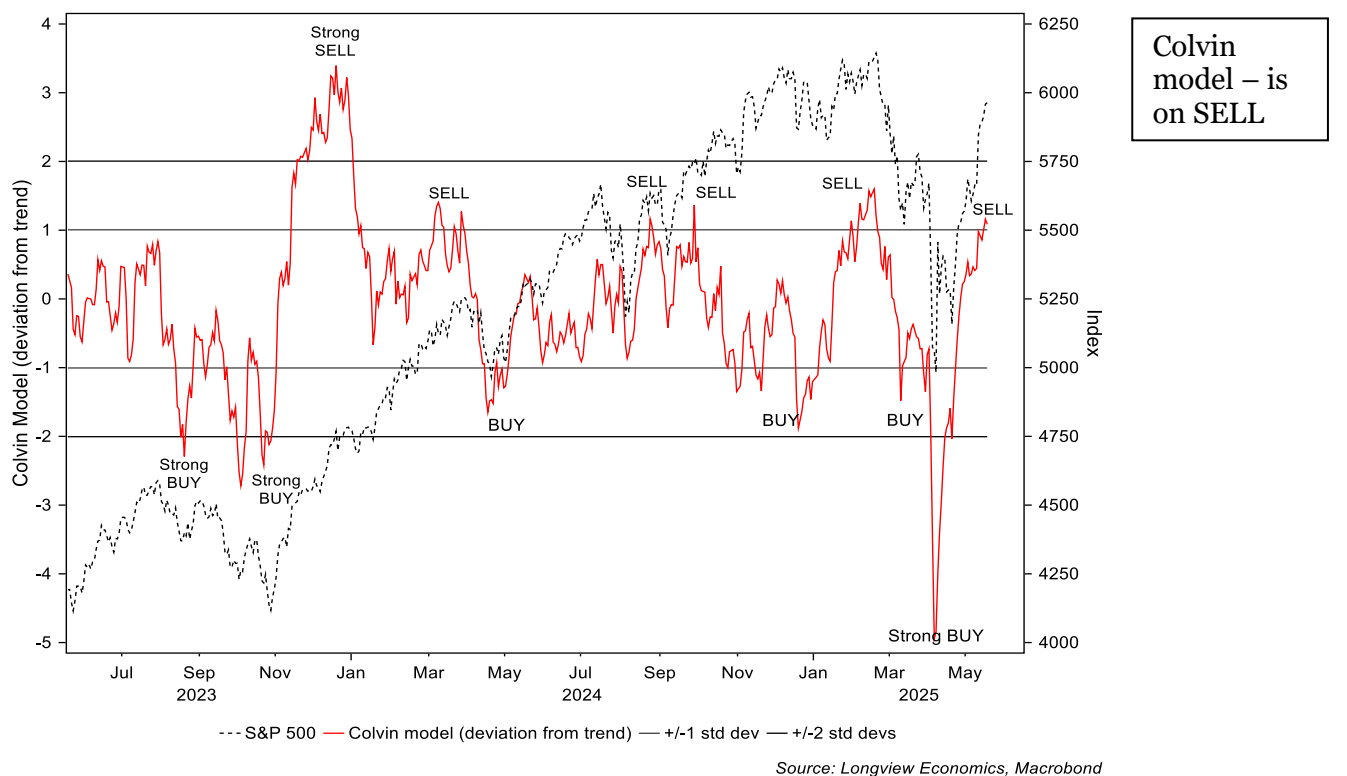


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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