Equity Index Futures Trading Recommendations

21st February 2025

"Stay SHORT/Tighten Stop loss"

Email: info@longvieweconomics.com

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

- STAY ½ SHORT March S&P500 futures (blended entry* was at 6,049.75);
- Tighten the S&P500 trade's stop loss to 6,190.0, i.e. just above recent intraday highs (from 6,246 yesterday).
- STAY ¼ SHORT DAX futures (entry was yesterday at 22,557).
- Tighten the DAX stop loss to 22,828, approx. 2% above current prices (from 23,008 yesterday).

*I.e. with the initial ¼ SHORT S&P500 futures position implemented on 4th Feb at 5,999.25 and increased to ½ last week on Thursday at 6,100.

Rationale

Wednesday's initial weakness (and reversal of this year's uptrend) continued yesterday in Europe. Most key equity indices were down for a second day. The DAX, for example, closed 0.5% lower (after falling 1.8% on Wednesday); the UK's FTSE100 was also lower (3rd day in a row); while the broader EuroSTOXX closed down a more modest 0.2%. That weakness in European equity markets came after bearish key day reversal price patterns on Wednesday in the DAX and Italian MIB indices (as well as overextended SELL signals on various key EZ equity indices – as highlighted in yesterday's Daily publication/see FIG 1a).

Risk-off in Europe was picked up in US markets, with the key equity indices weak on the day. Those US markets now appear (from a price action perspective) to be rolling over. The S&P500 futures, for example, having tracked sideways from 14th to 19th February, have started making lower highs and lower lows (i.e. since the 19th Feb – FIG 1c). The price action in the NDX100 futures is similar (FIG 1d). Across the 28 headline US equity indices that we track, 24 of them were lower (or unchanged); furthermore, top level sector outperformance came from the defensive areas of the market (& energy). The other cyclical and growth sectors were down on the day, while the VIX and VDAX were both higher, and EZ/US high yield spreads ticked (modestly) higher.

Models – both long and short term – have moved lower. In most cases, though, **they remain close to SELL** (i.e. just below SELL thresholds). The short and medium-term risk appetite scoring systems, for example, are just below SELL (FIGs 2a & 2b); the SELL-off indicator continues to build above its key +20 level (FIG 2); whilst the US put to call ratio remains on/close to SELL (FIG 2c). Added to that, the **underlying single stock condition of western equity markets is not healthy**.

That's illustrated, for example, by our EZ turbulence model (FIG 1). This chart measures the five worst performing single stocks each trading session in the EZ equity index. It then smooths the data and plots it against the headline equity index. In a normal market, the two lines move together. The **recent divergence is unusual** and highlights the unhealthy underlying condition of the equity market.

Given all of the above, therefore, we recommend STAYing SHORT US & German equity index futures. Given that price action suggests these markets are rolling over, we recommend modestly tightening stop losses (see trading recommendations above).

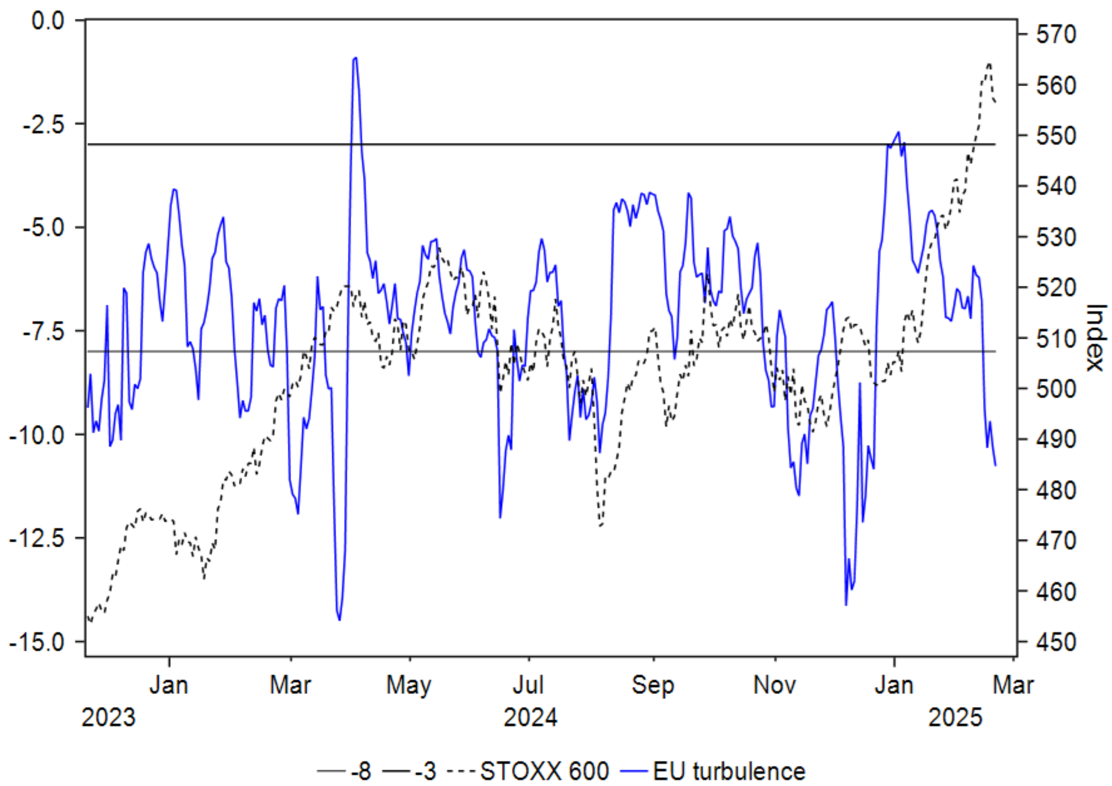
Please see below for a list of today's key macro data, earnings, and events.

Kind regards,

The team @ Longview Economics

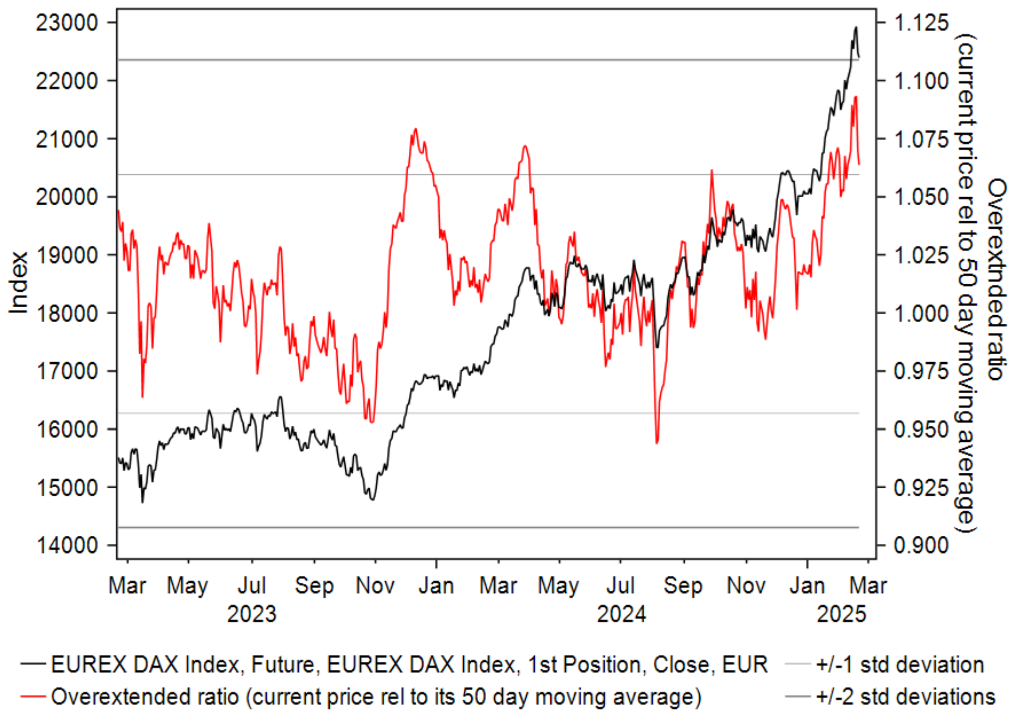
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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: EZ (single stock) **turbulence model** vs. STOXX 600 index



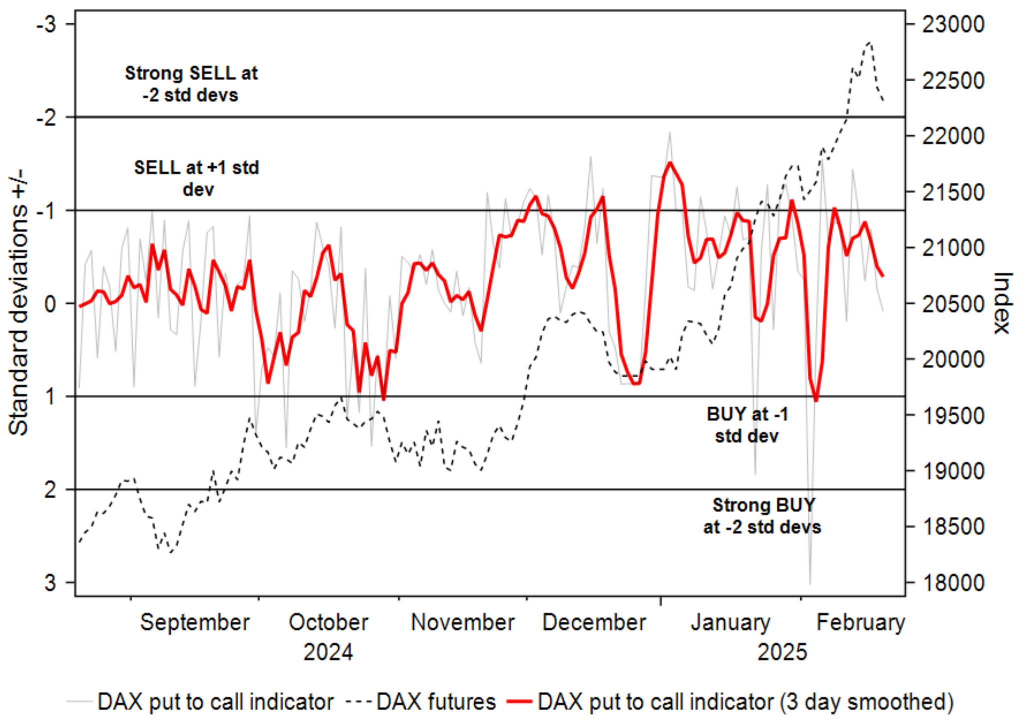
Source: Longview Economics, Macrobond

FIG 1a: DAX overextended indicator (50 day moving average relative to underlying index price) vs. DAX index



Source: Longview Economics, Macrobond

FIG 1b: DAX calls less puts indicator (5 day smoothed) vs. DAX40 index



Source: Longview Economics, Macrobond

FIG 1c: S&P500 March 2025 futures 10-day tick chart shown with overnight price action

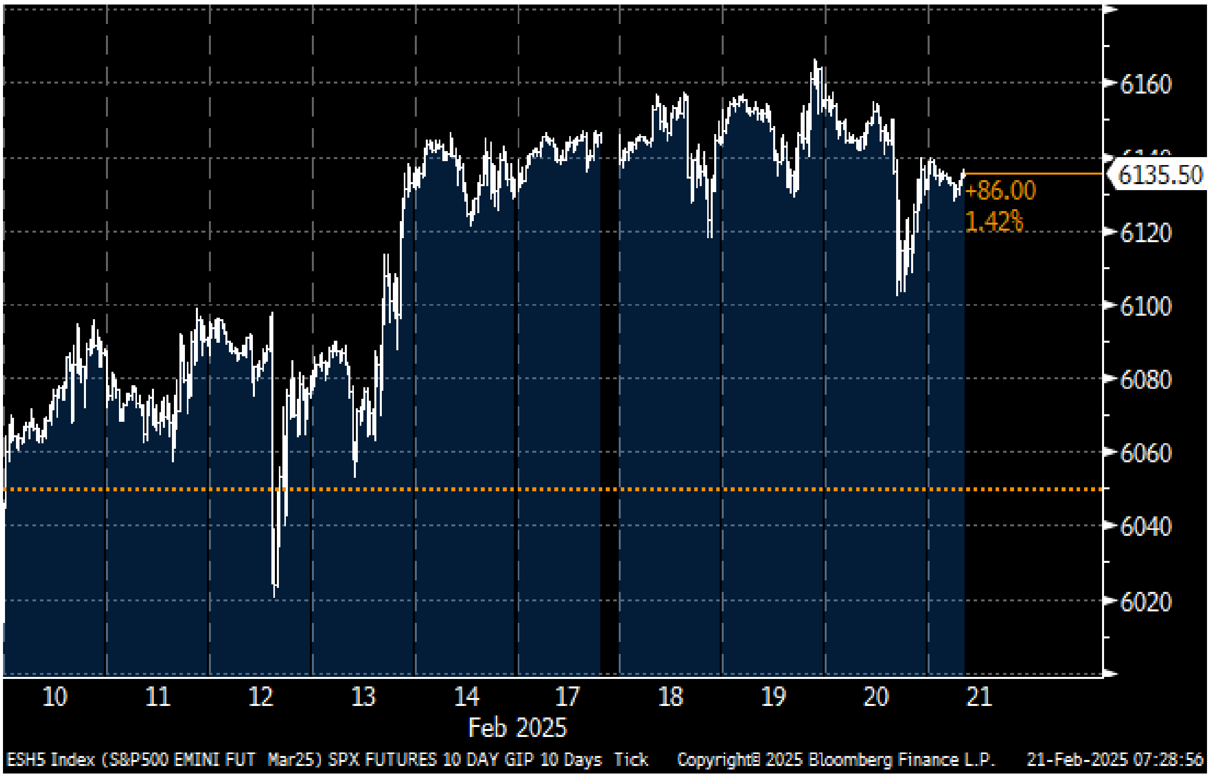


FIG 1d: NDX100 March 2025 futures 10-day tick chart shown with overnight price action

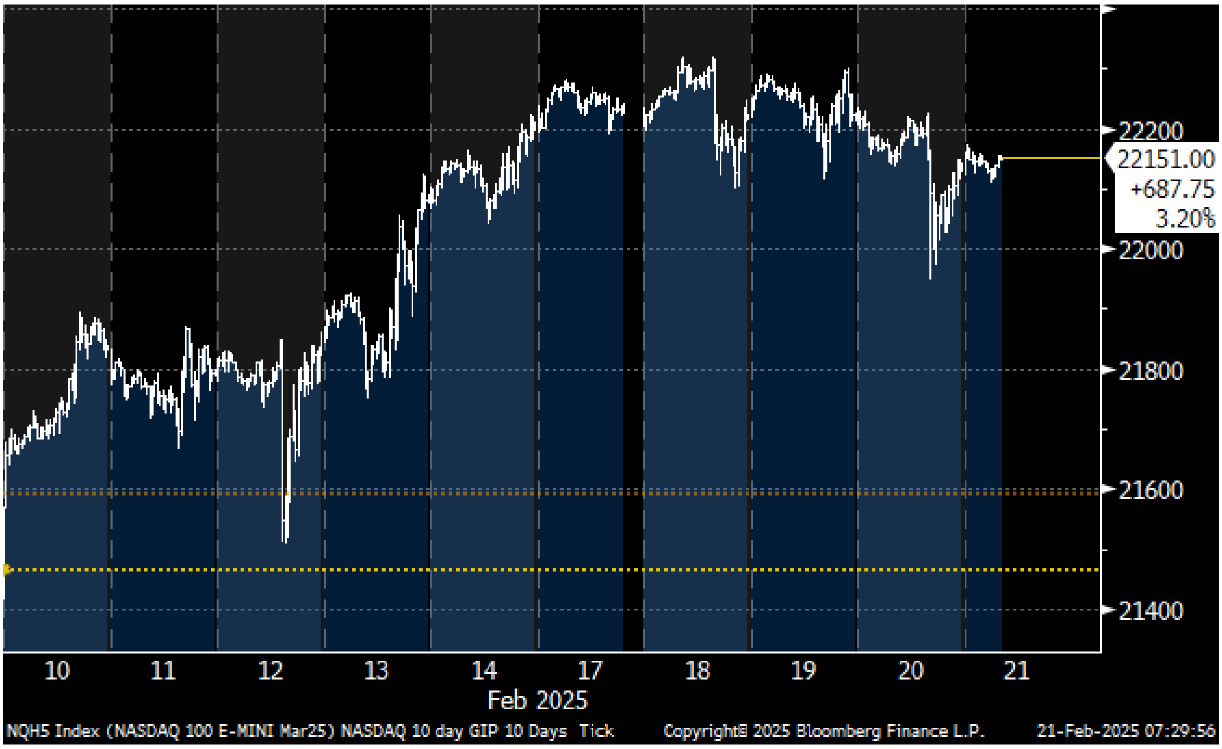
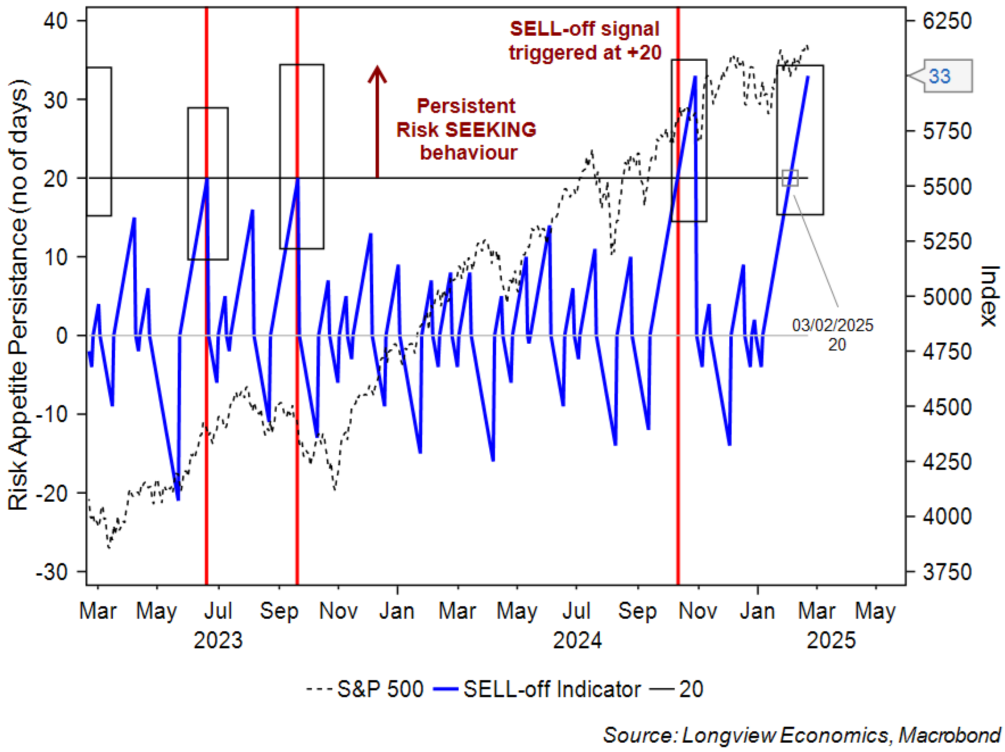


FIG 1e: DAX March 2025 futures 10-day tick chart shown with overnight price action

Key models are (or have just been) on SELL….

FIG 2: Longview SELL-off indicator vs. S&P500



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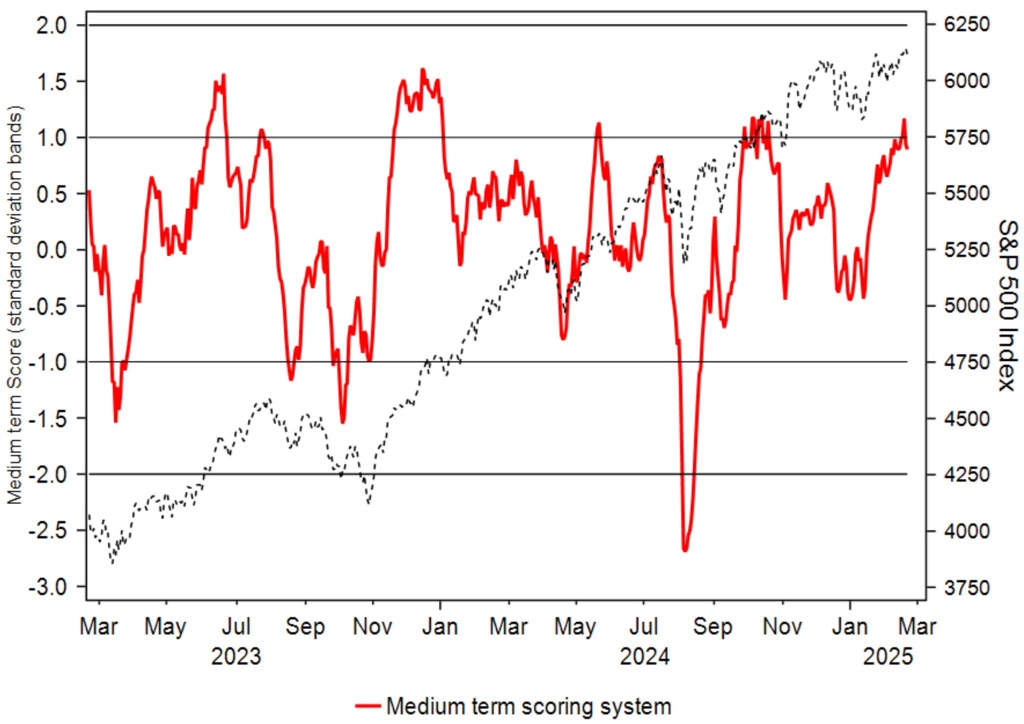
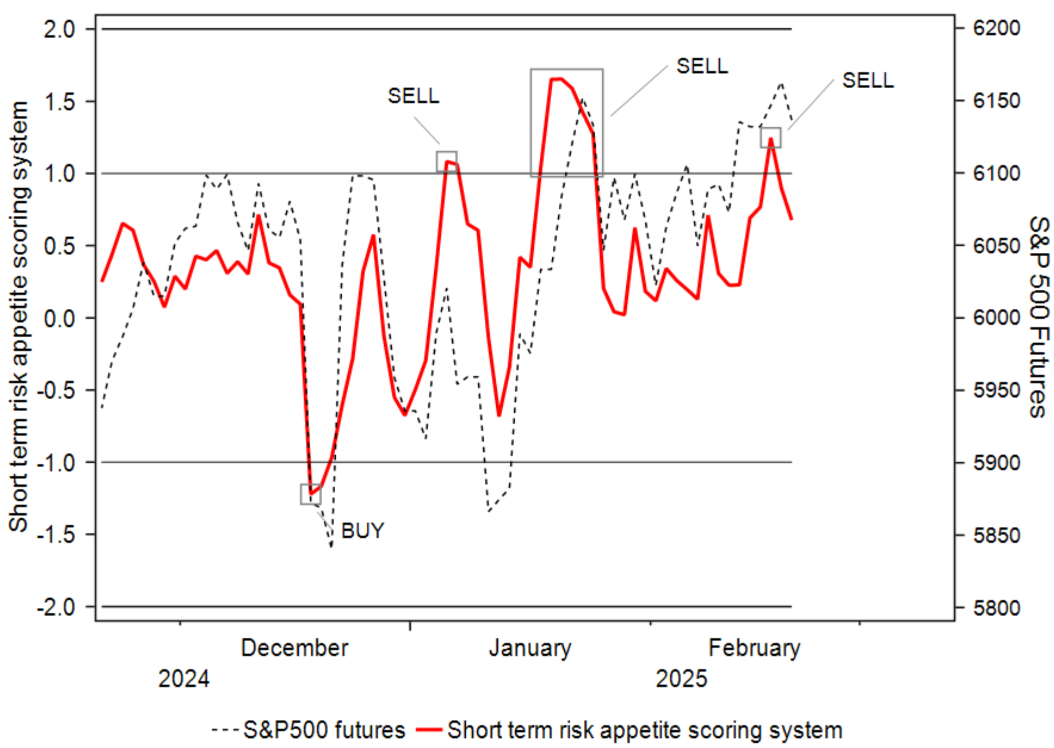
Daily Risk Appetite Gauge

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



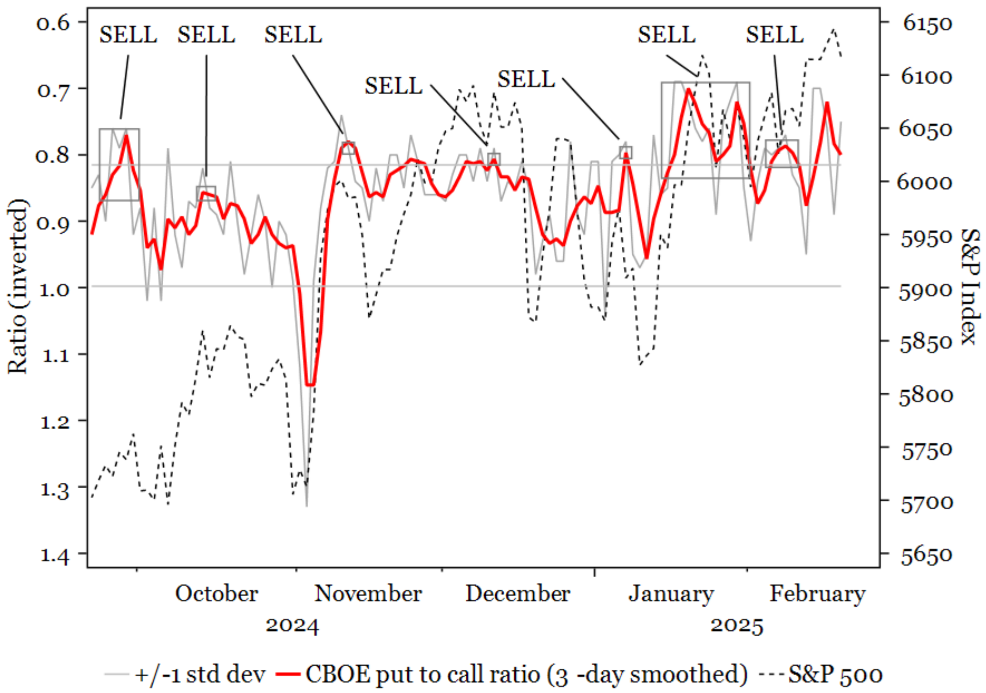
Source: Longview Economics, Macrobond

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



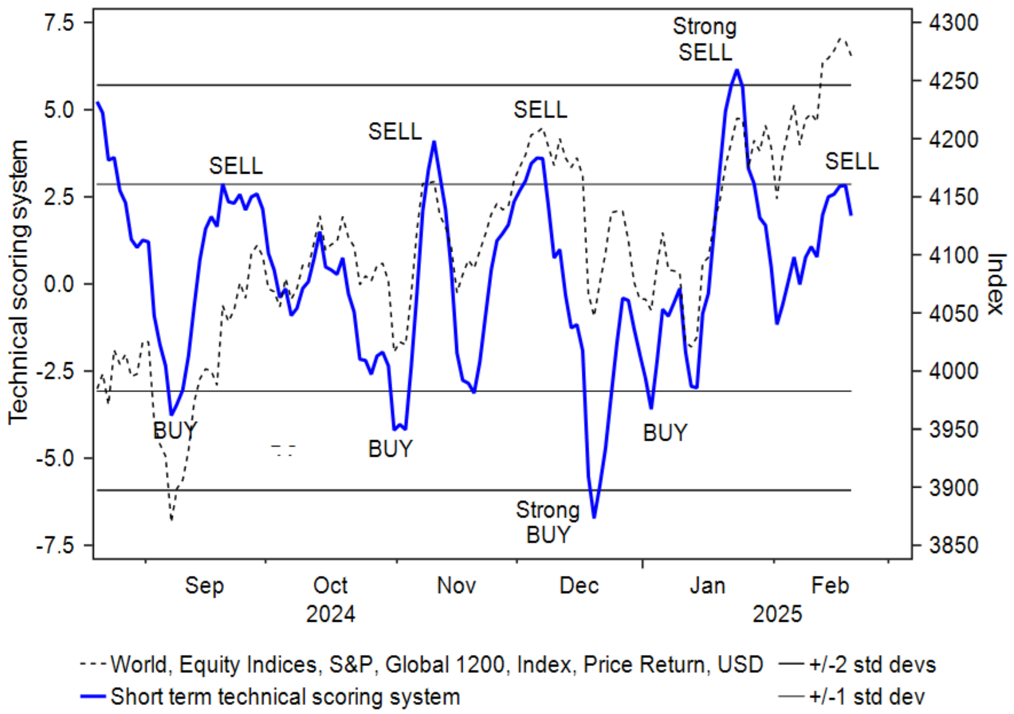
Source: Longview Economics, Macrobond

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 global **S&P1200** short term **'technical'** scoring system vs. S&P1200 index

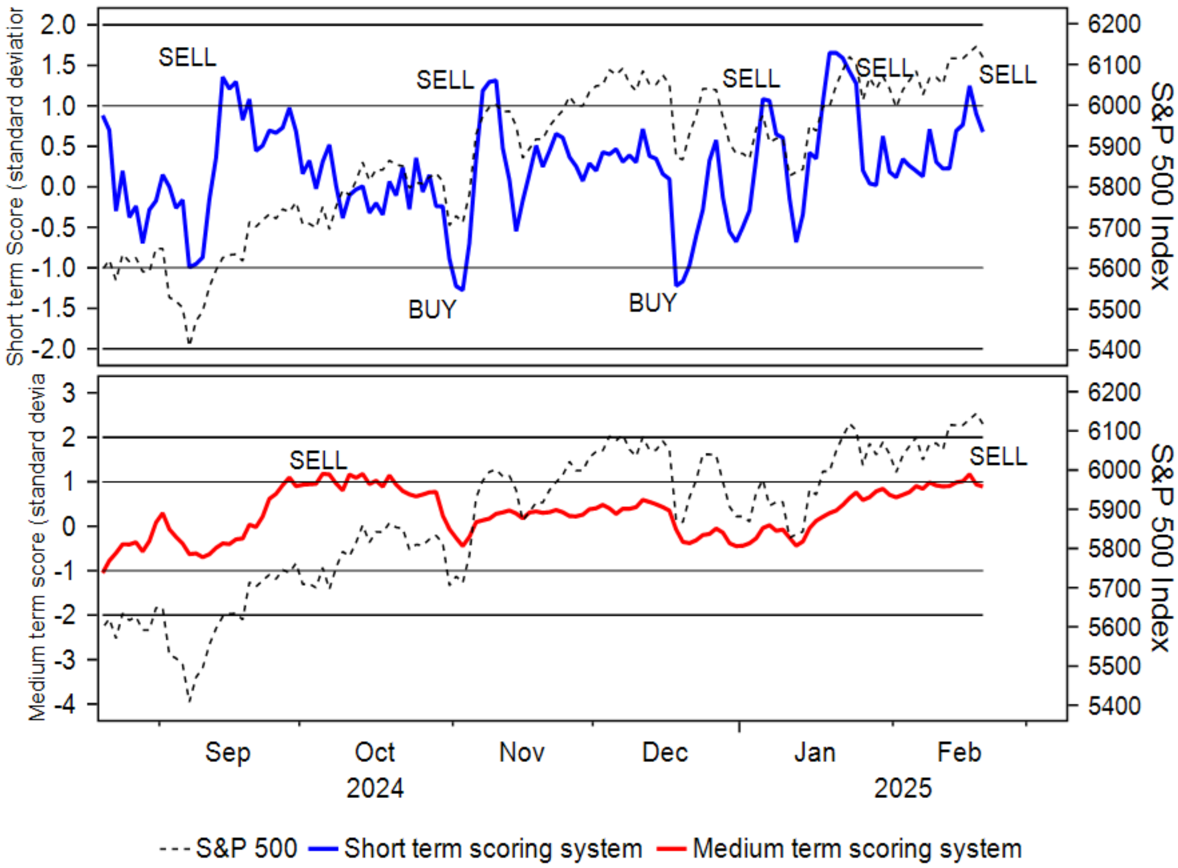


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below)**:**

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

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 Gfk consumer confidence (Feb, 12:01am); **Japanese Jibun Bank manufacturing & services sector PMI** (February first estimate, 12:30am); UK public sector finances (Jan, 7am); **UK retail sales** (Jan, 7am); French INSEE business & manufacturing confidence (Feb, 7:45am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all February first estimates; Italian core CPI (Jan, 9am); **UK S&P manufacturing & service sector PMIs** (February first estimates, 9:30am); Canadian retail sales (Dec, 1:30pm); **US S&P manufacturing & service sector PMIs** (February first estimate, 2:45pm); US Michigan sentiment (February final estimate, 3pm); **US existing home sales** (Jan, 3pm).

Key events today include: Speech by the ECB's Lane in Vienna (2:30pm); **German federal election** (Sunday)**.**

Key earnings today include: Constellation Energy, Air Liquide, Standard Chartered.

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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1 – 2 Week View on Risk

21st February 2025

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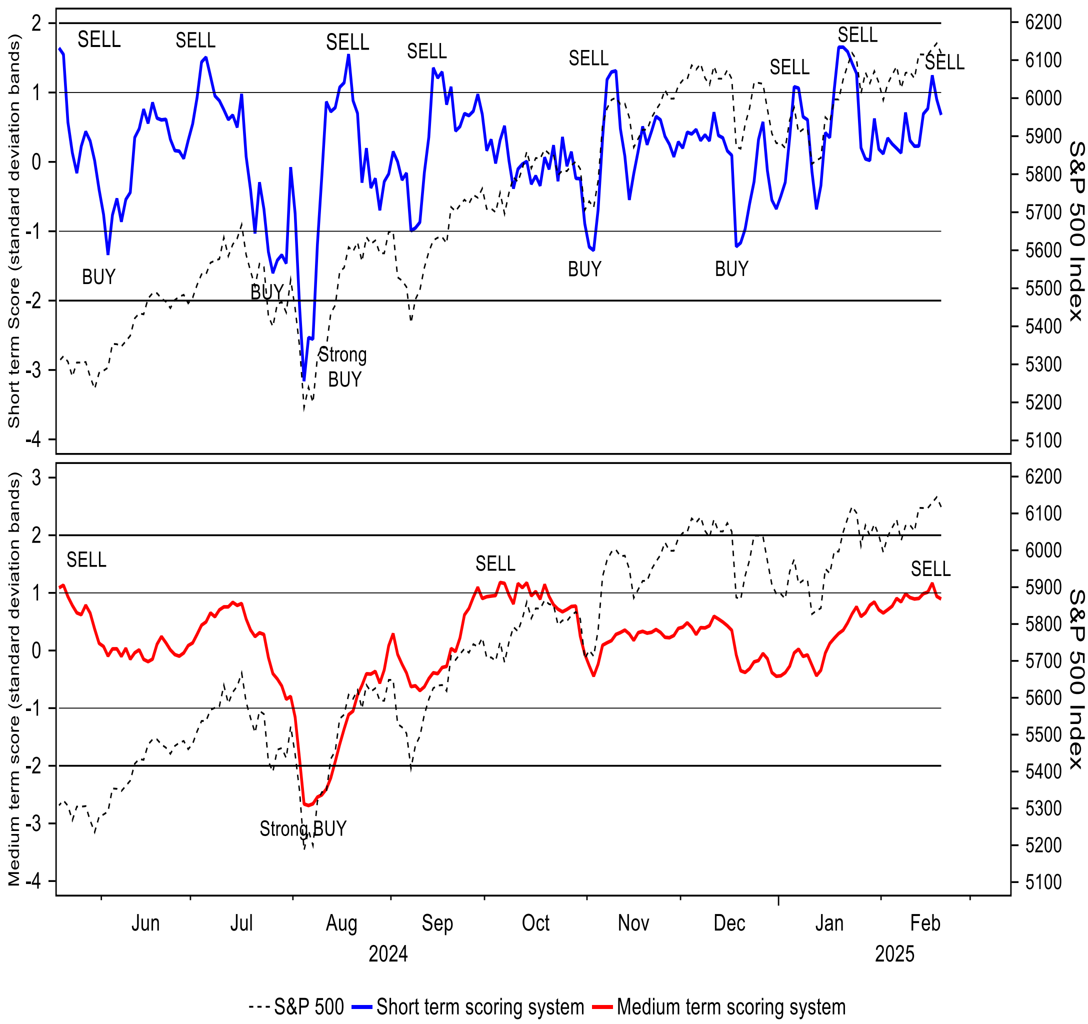
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

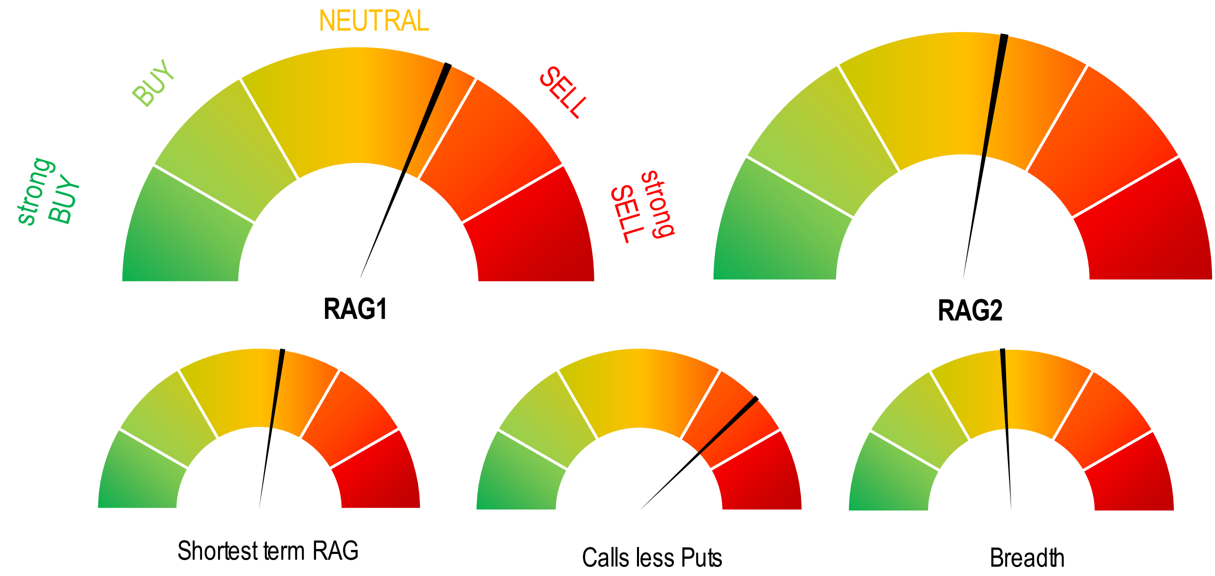
Source: Longview Economics, Macrobond

*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

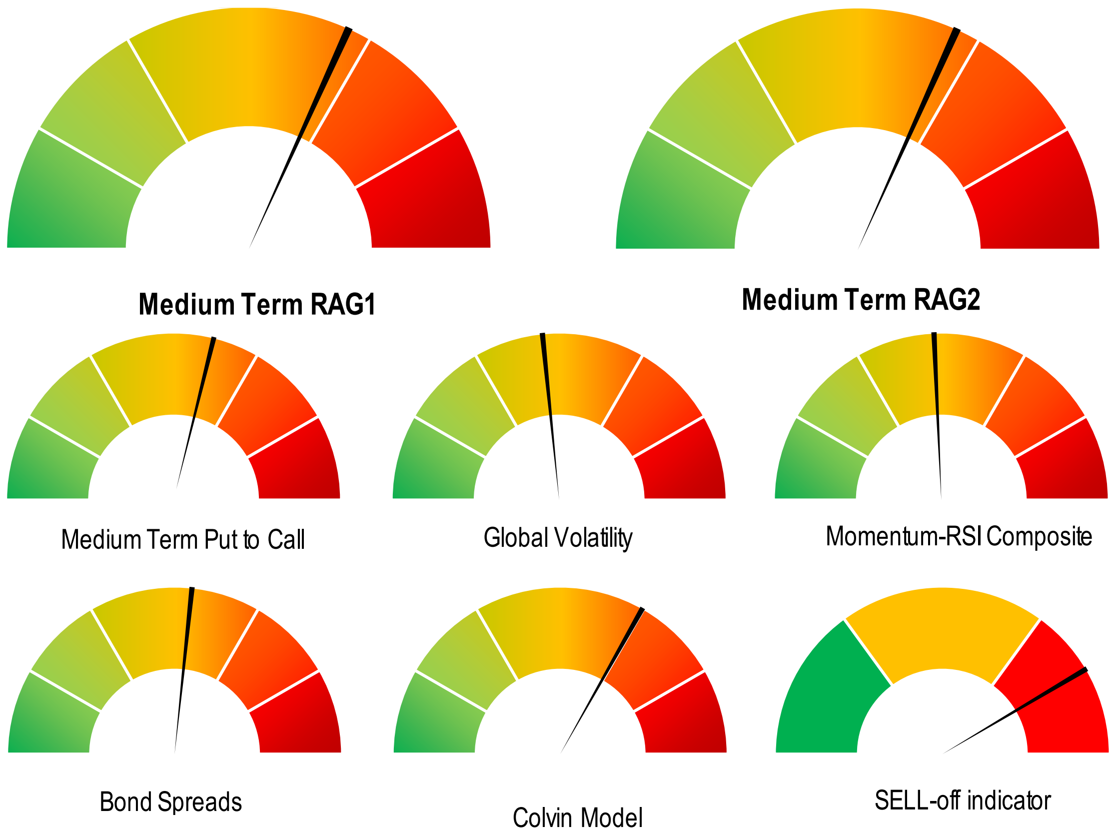
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

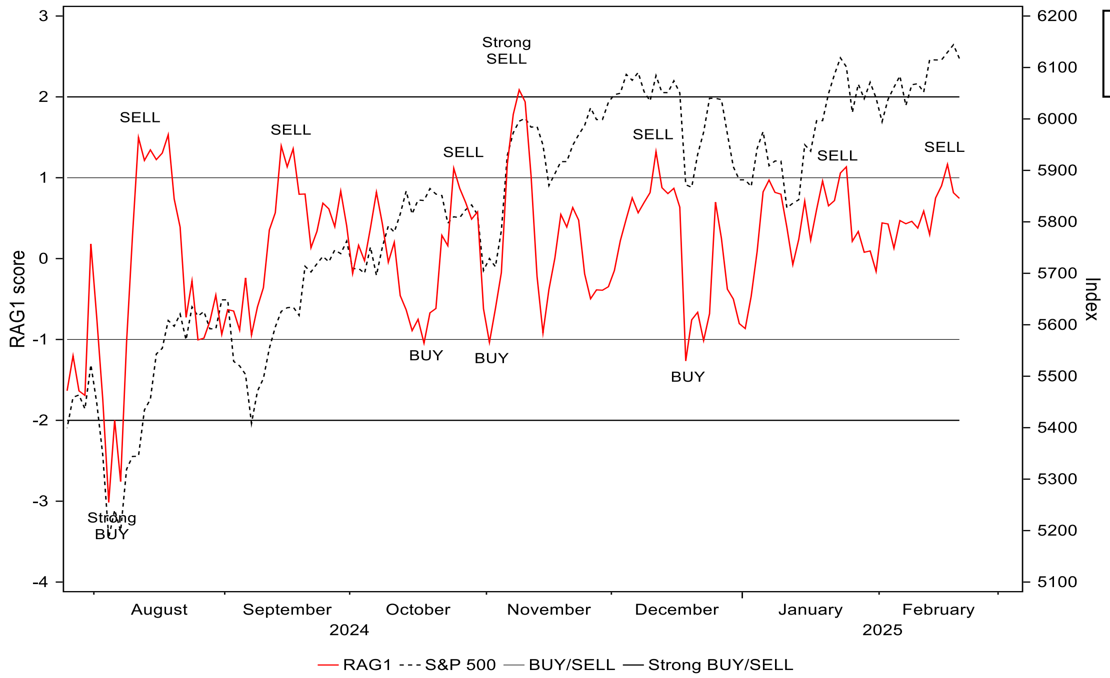
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

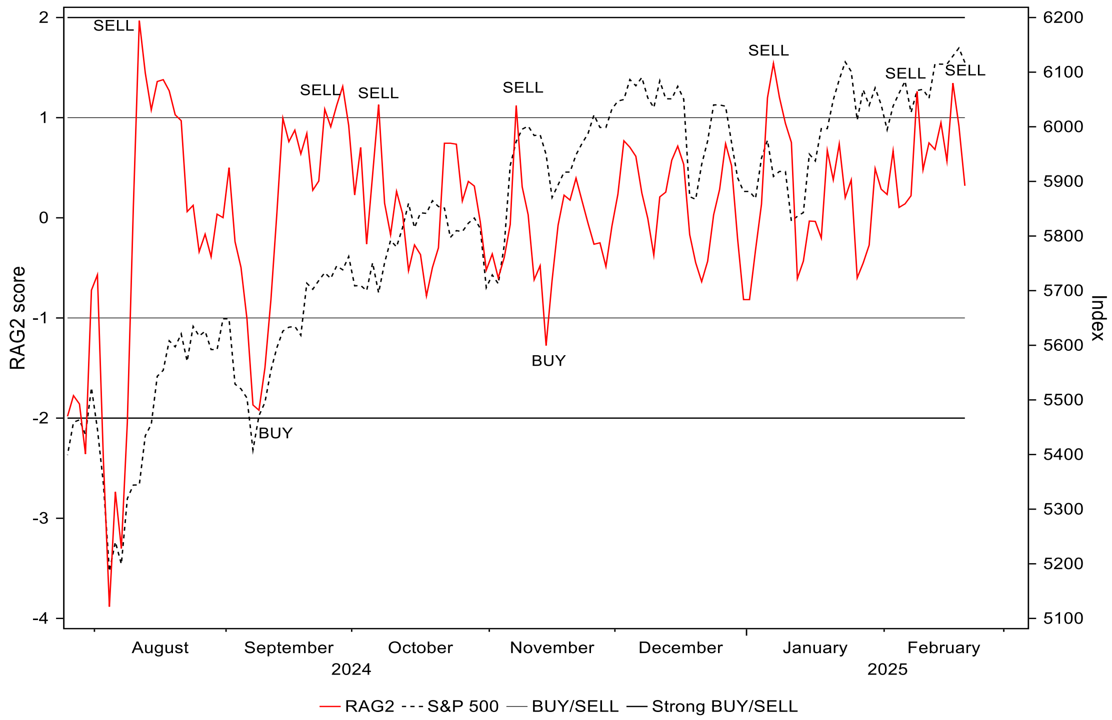
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

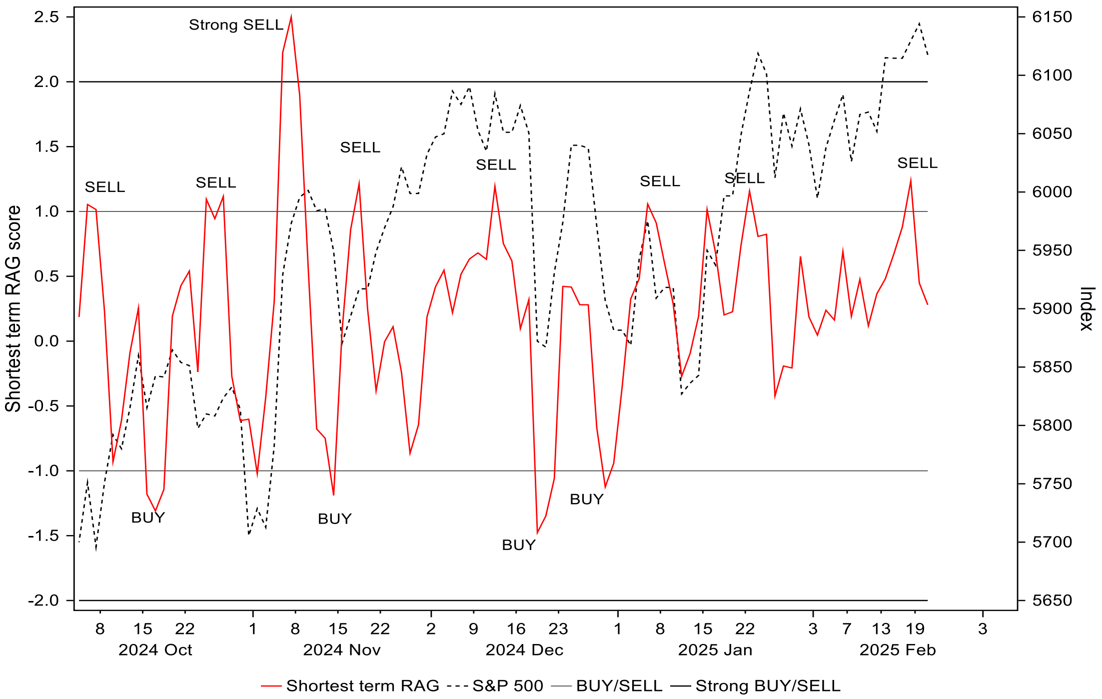


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

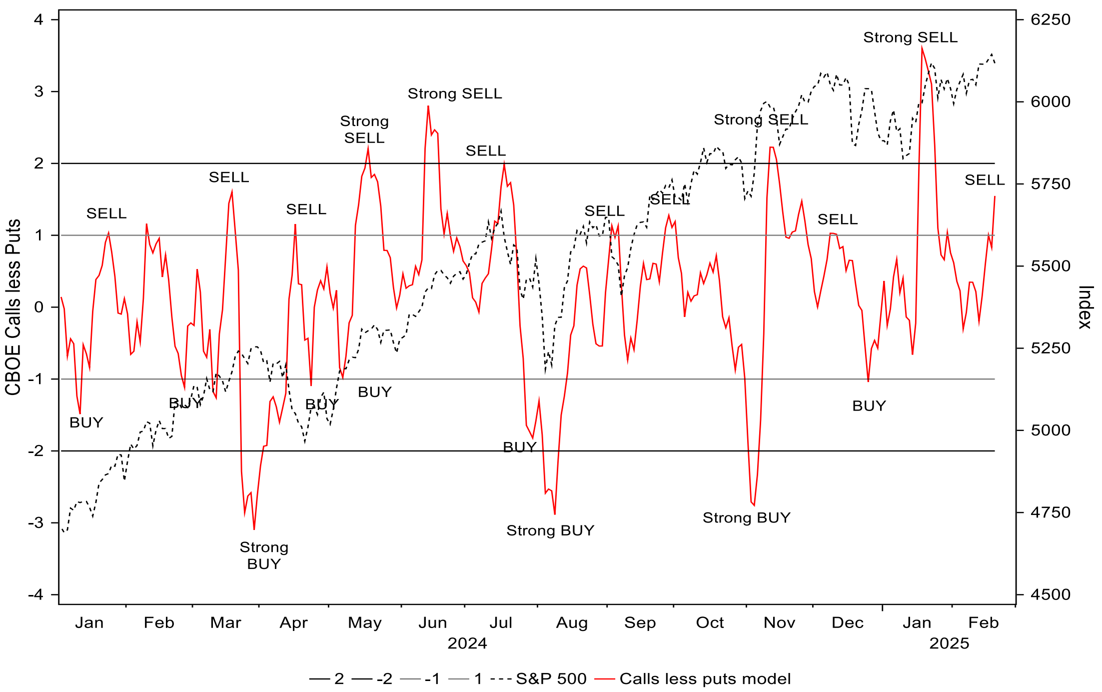
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

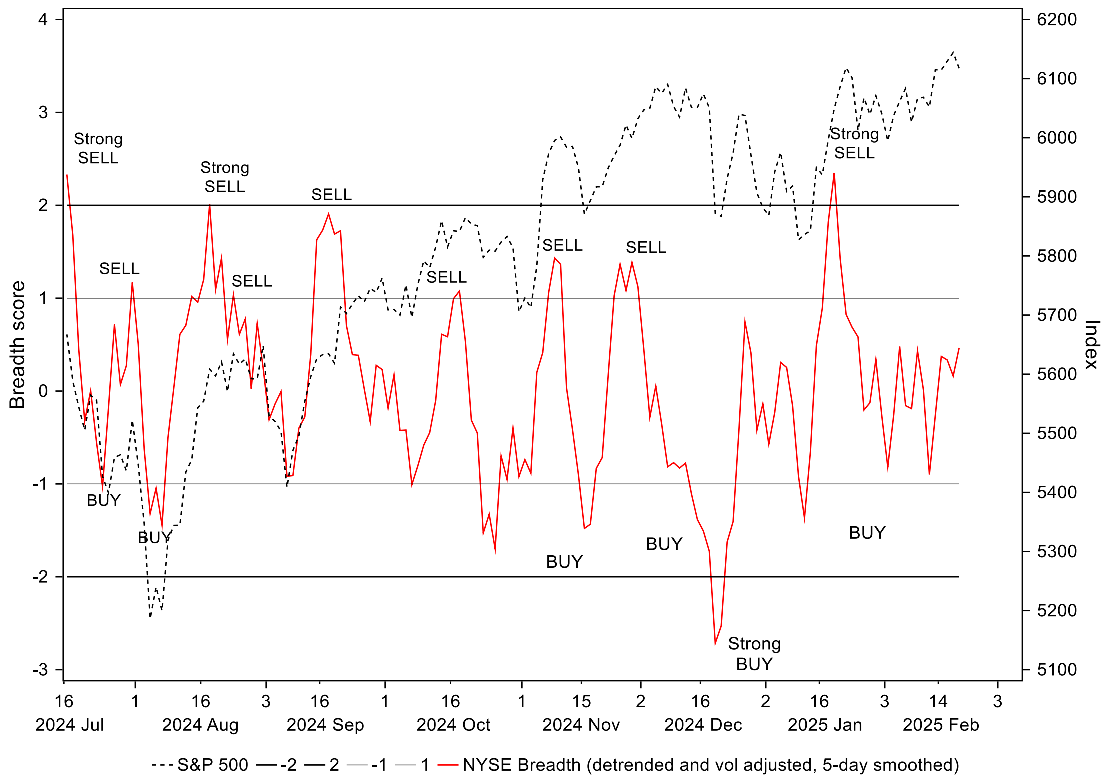


Calls less puts model is on SELL

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



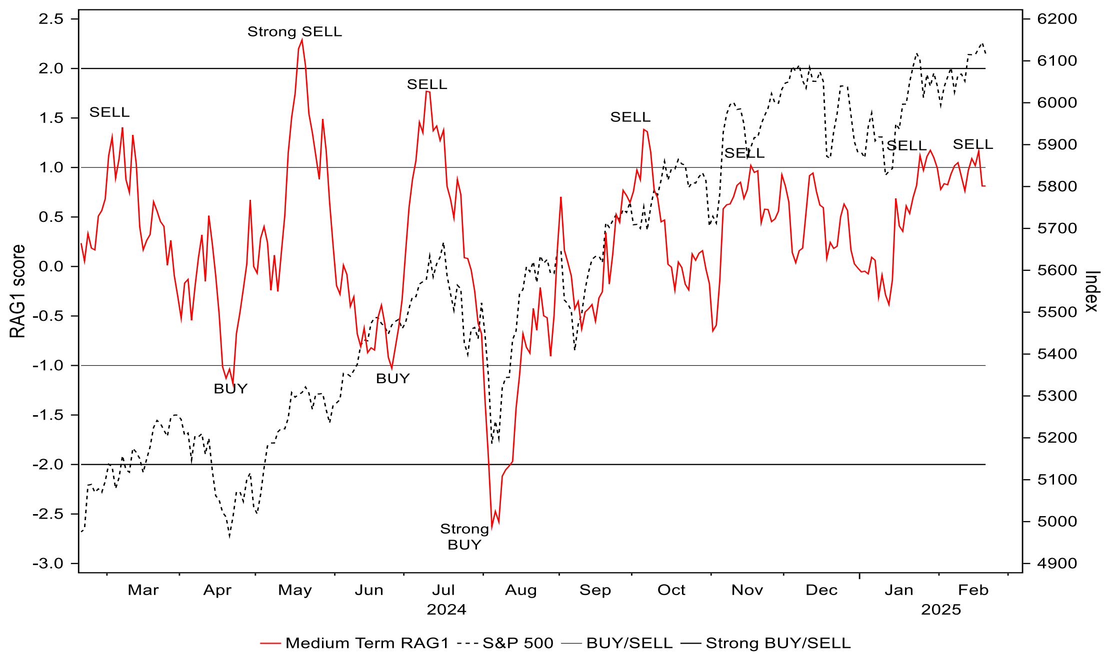
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

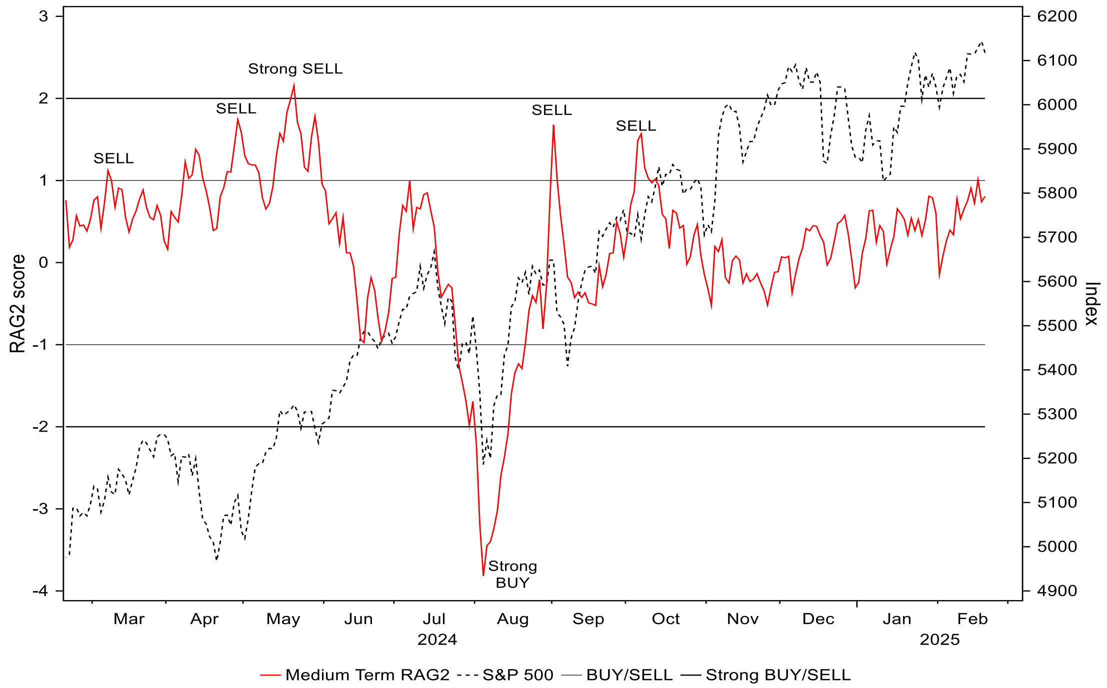
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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



Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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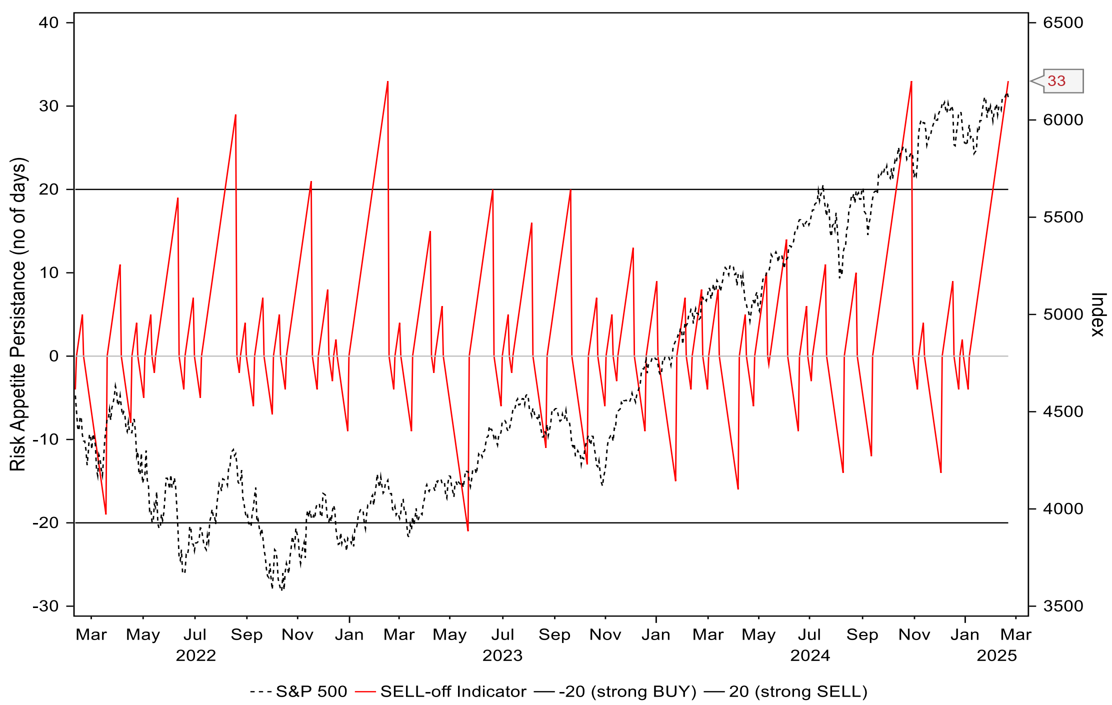
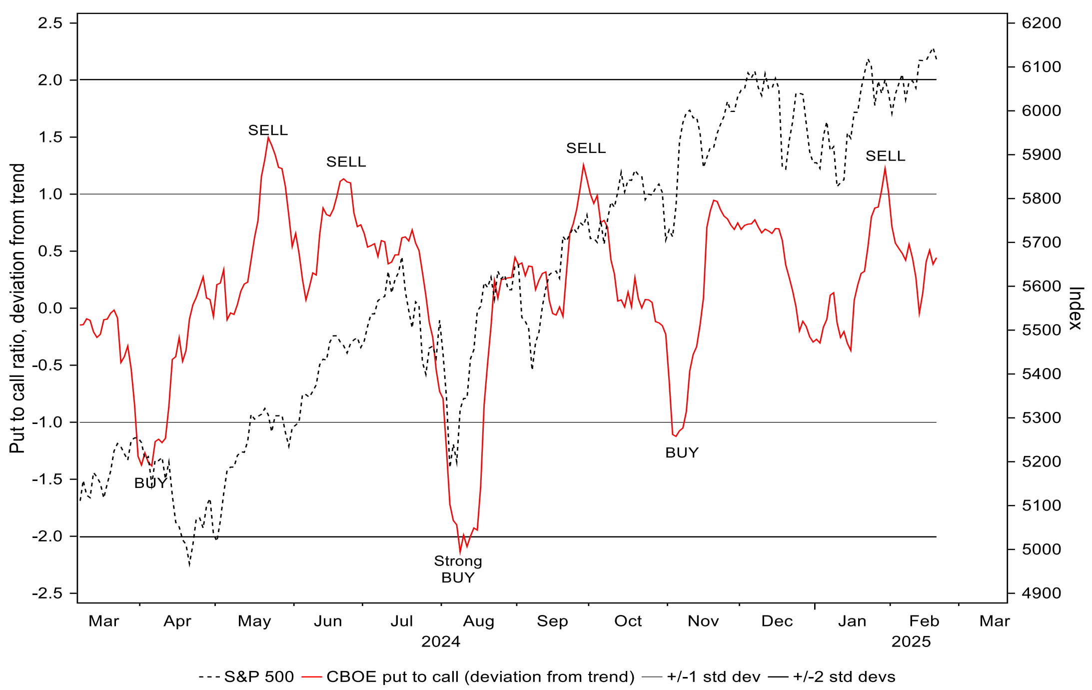
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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



Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

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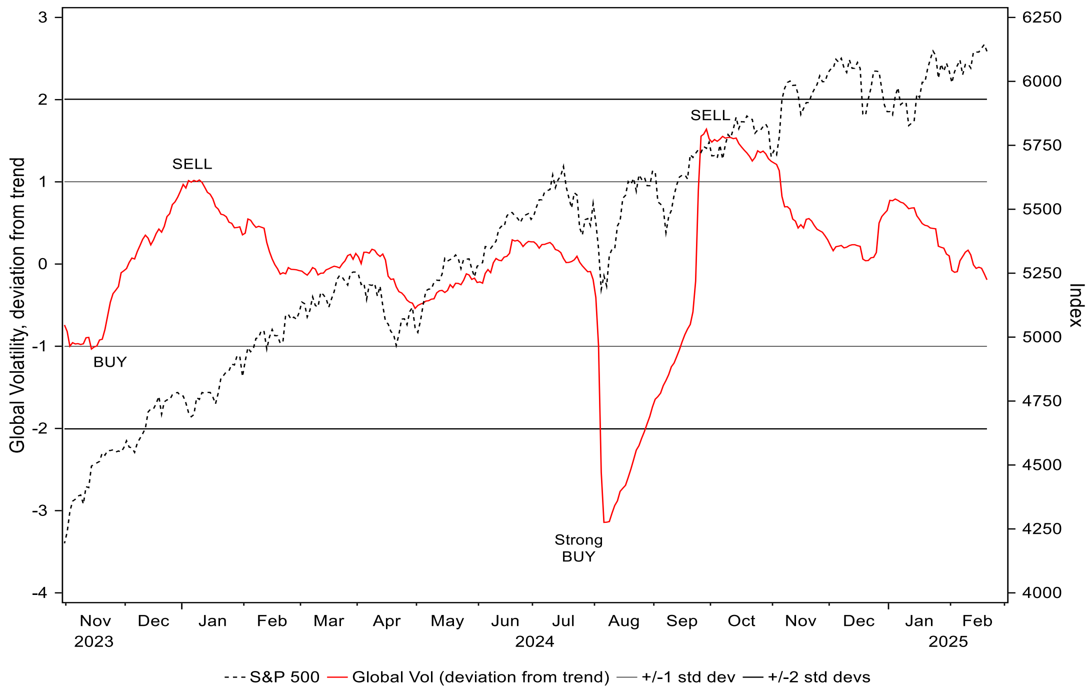
Daily Risk Appetite Gauge

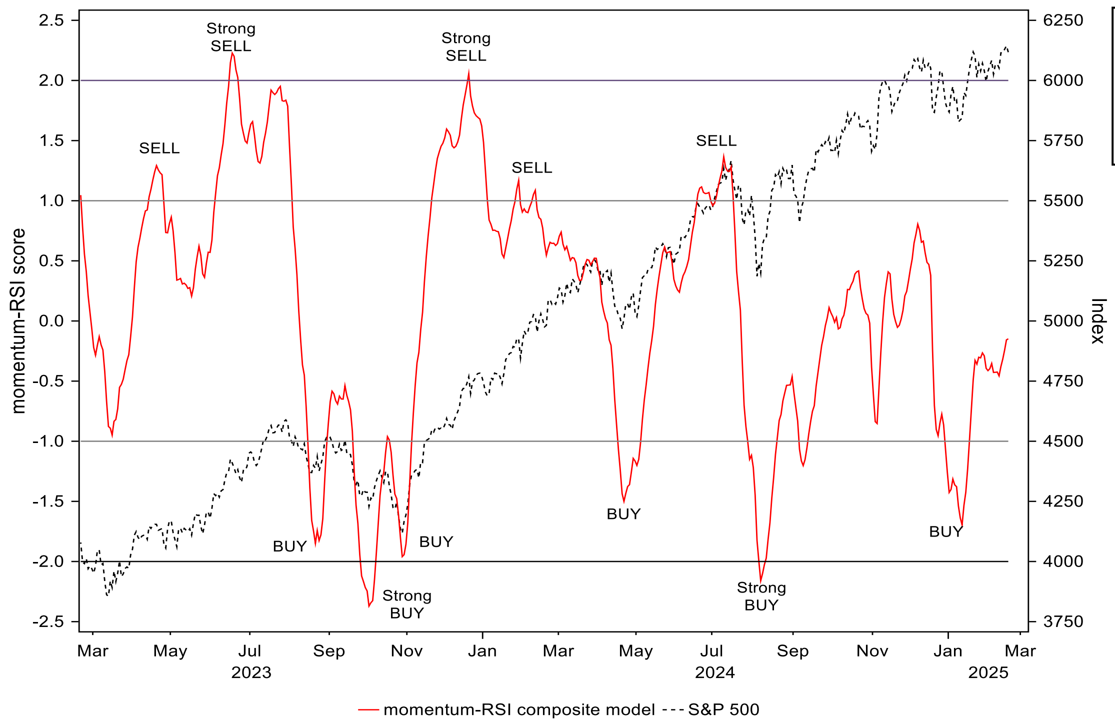
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

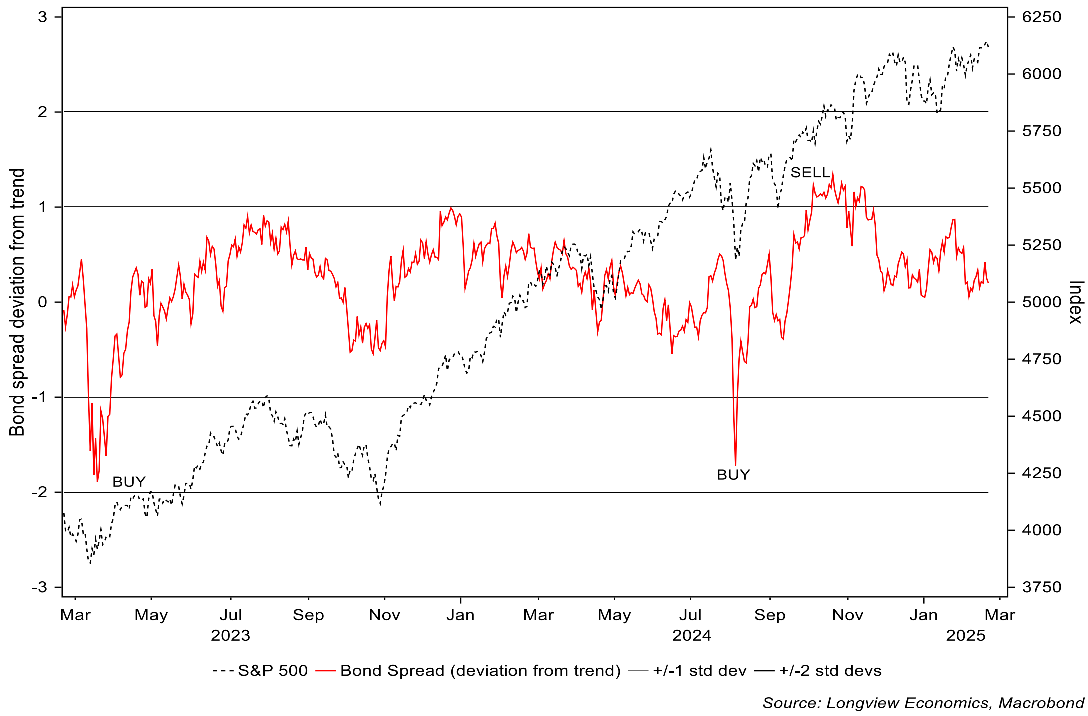
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

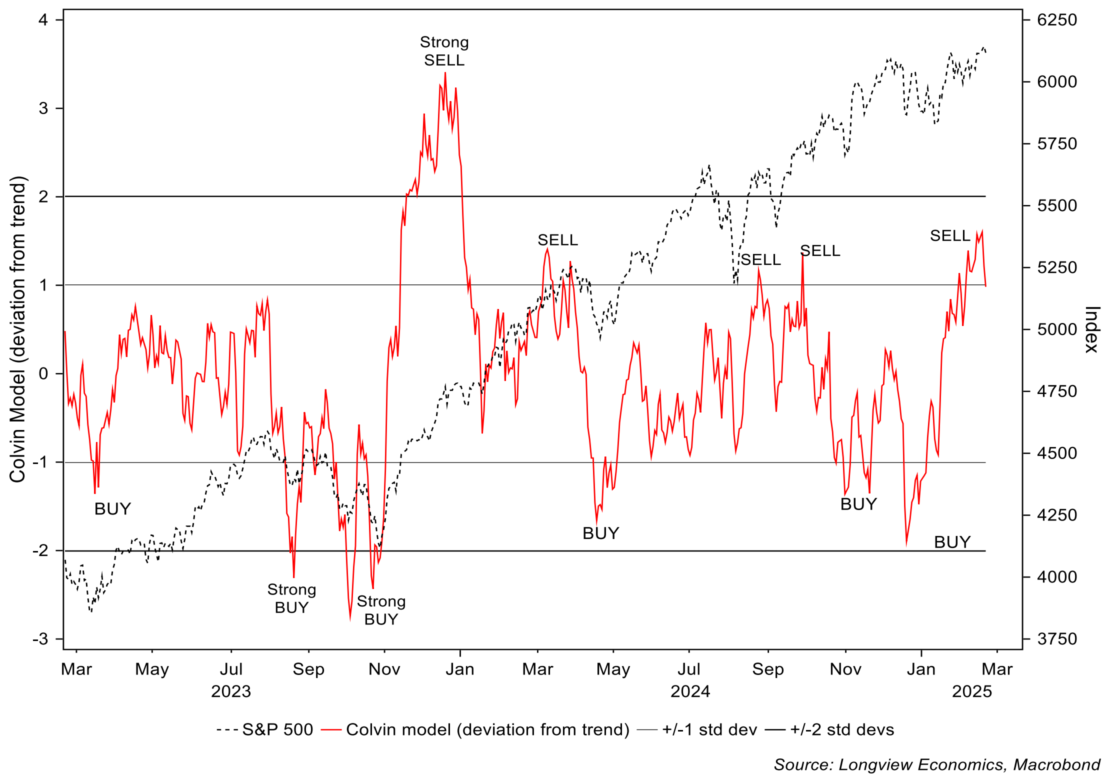
US momentum RSI composite model is NEUTRAL

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



High yield corporate bond spreads model is NEUTRAL

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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