Equity Index Futures Trading Recommendations

21st March 2025

"Stay LONG SPX - 'Wave 2' Likely Ongoing"
Email: info@longvieweconomics.com

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

- Stay ½ LONG June SPX futures*;

- Modestly widen stop loss to 5,485 (from 5,539 yesterday).

*entry was on Tuesday (¼ position size at 5,731) and yesterday (¼ position size at 5,690).

Rationale

Our view remains unchanged from yesterday: We continue to expect **US equities to remain in a 'wave 2' relief rally***. Encouragingly, in that respect, and while US equities mostly closed modestly lower yesterday, **volatility readings continue to ease**. That's consistent with a 'wave 2' environment for equities.

Implied volatility (the VIX), for example, fell further (and is approaching its 50 day moving average, FIG 1e), while the VVIX (the volatility of the VIX) closed at a multi-month low (FIG 1f). In a similar vein, S&P500 'skewness' fell again (as fear/panic in the options market continued to unwind). Elsewhere, key measures of *realised* volatility eased. The intra-day trading range of the S&P500, for example, narrowed. That is, the gap between the intraday high and low was 1.46%, down from its highs of 3.3% earlier this month (see FIG 1b). Sector dispersion also fell – with the gap between the worst and the best performing sectors reaching a multi-month low (FIG 1c). All of which highlights the ongoing downtrend in implied and realised volatility.

Usually, in a wave 2 rally, equities trend higher until (i) they have retraced between 50% and 61.8% of their initial losses from 'wave 1'; and (ii) our short term models are generating a clear and across the board SELL message.

Regarding (i), the retracement so far has been modest (with the S&P500, for example, having only retraced ~23% of its wave 1 losses, see FIG 1a). Regarding (ii), most of our models were on BUY last week and they have started to unwind those signals. They are not, though, generating a clear SELL message. Sentiment readings, for example, remain bearish (a contrarian BUY signal – see FIG 1g); put to call models are NEUTRAL (but with a BUY bias – see FIGs 2b & 2c); while various technical and momentum models are still mid-range (i.e. not yet back on SELL – see FIGs 2d, 2e, and 2f).

Overall, therefore, and having been filled on our order to increase the position size yesterday, the **risk reward favours staying LONG** the S&P500. With that we also favour a modestly wider stop (such that it's below the March intra-day lows on June futures, please see above for detailed recommendation).

Risks, as always, are multiple and include the possibility that this 'wave 2' relief rally is short lived (with only a modest retracement of the wave 1 losses). 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: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages

Source: Longview Economics, Macrobond

FIG 1a: S&P500 futures shown with key Fibonacci retracement levels

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

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

Source: Longview Economics, Macrobond

LV RAG
Daily Risk Appetite Gauge
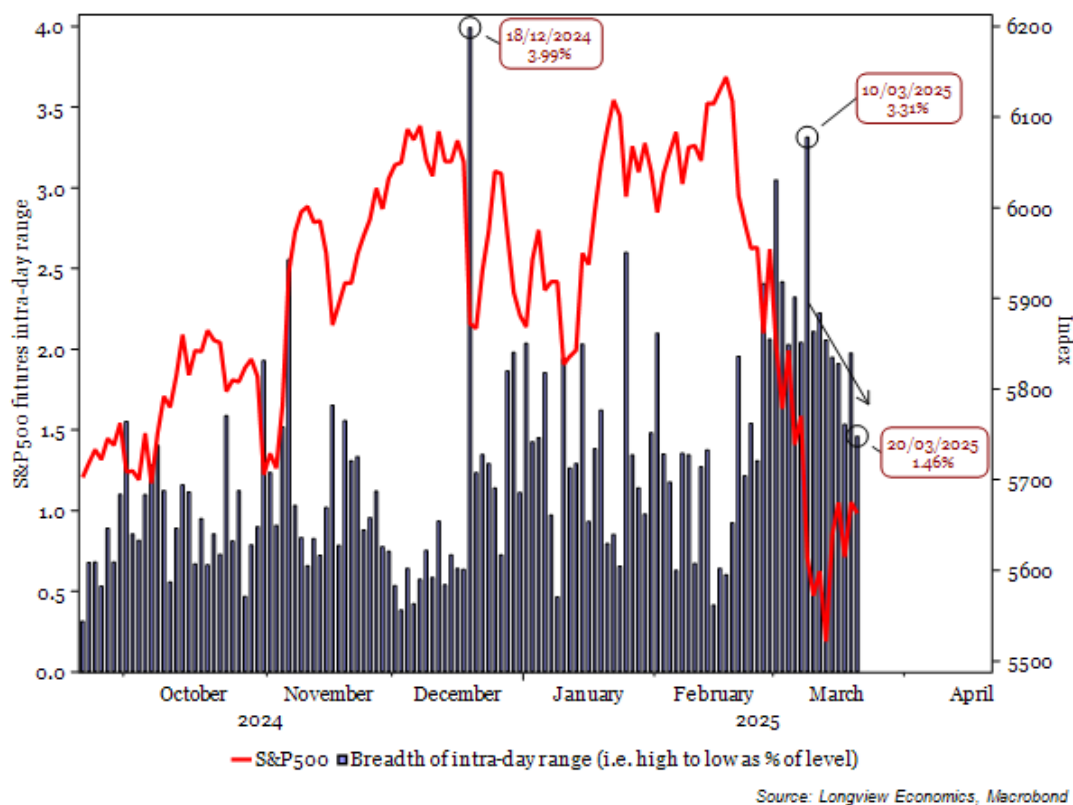
FIG 1c: Gap between best & worst performing sectors each day in S&P500 (pp.) vs. S&P500

Source: Longview Economics, Macrobond
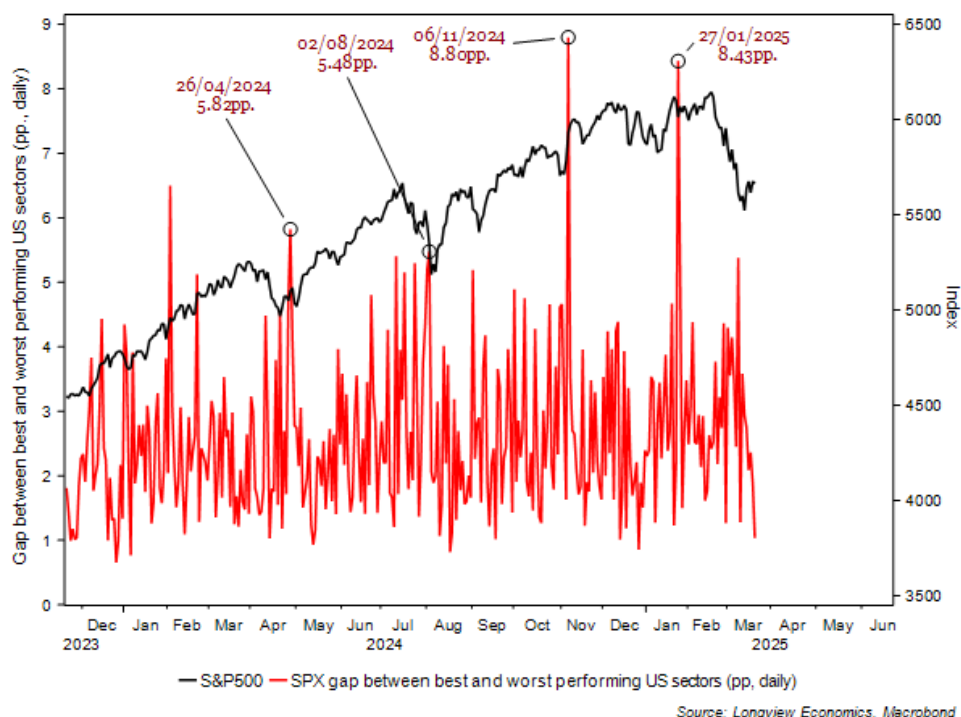
FIG 1d: S&P500 skewness** (risk reversal, 1 month, 0.25 delta), NB scale INVERTED vs. S&P500

Source: Longview Economics, Macrobond
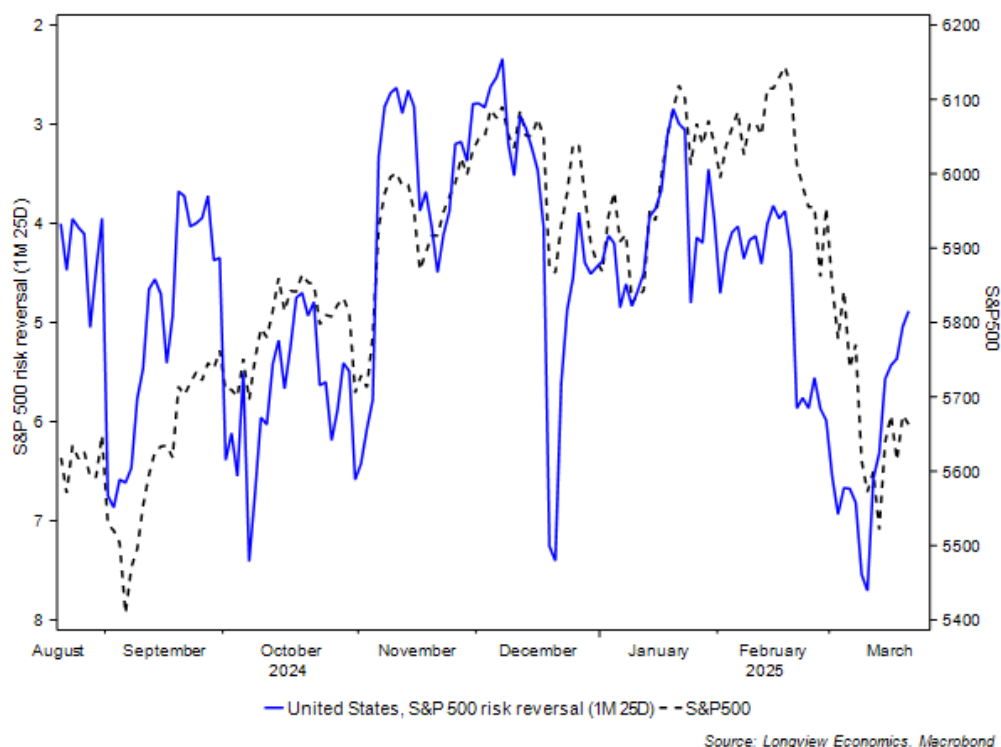
**Which compares the 'strike vol' of calls and puts with the same delta.

FIG 1e: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

Source: Longview Economics, Macrobond
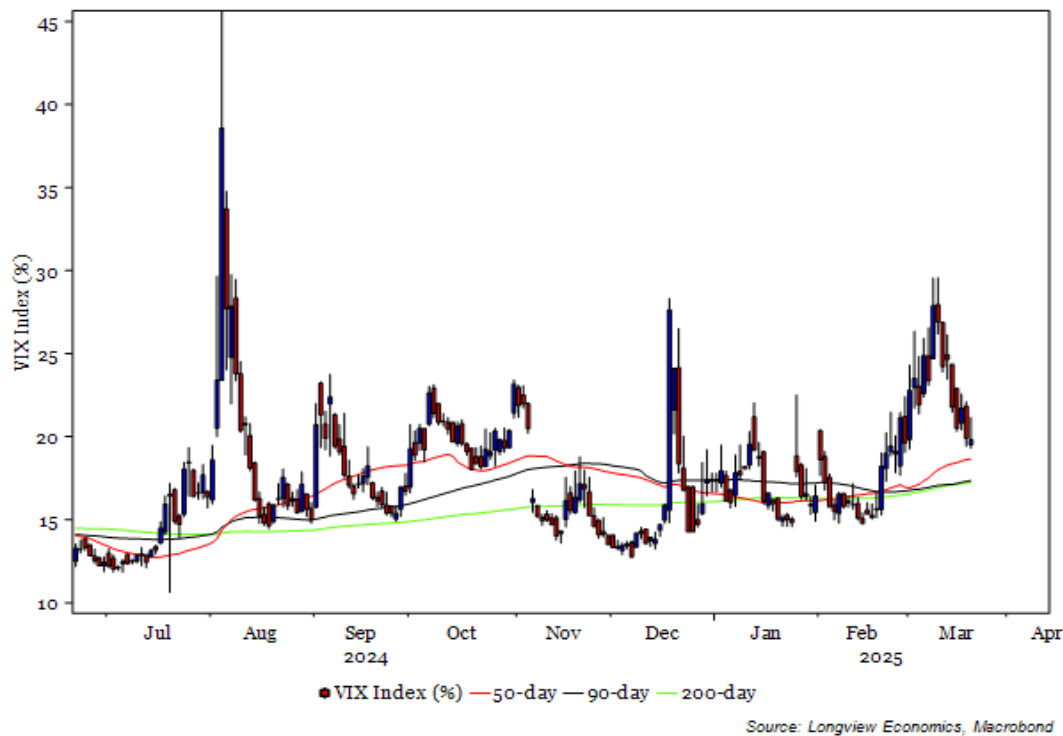
FIG 1f: VVIX candlestick shown with 50 & 200 day moving averages (%)

Source: Longview Economics, Macrobond
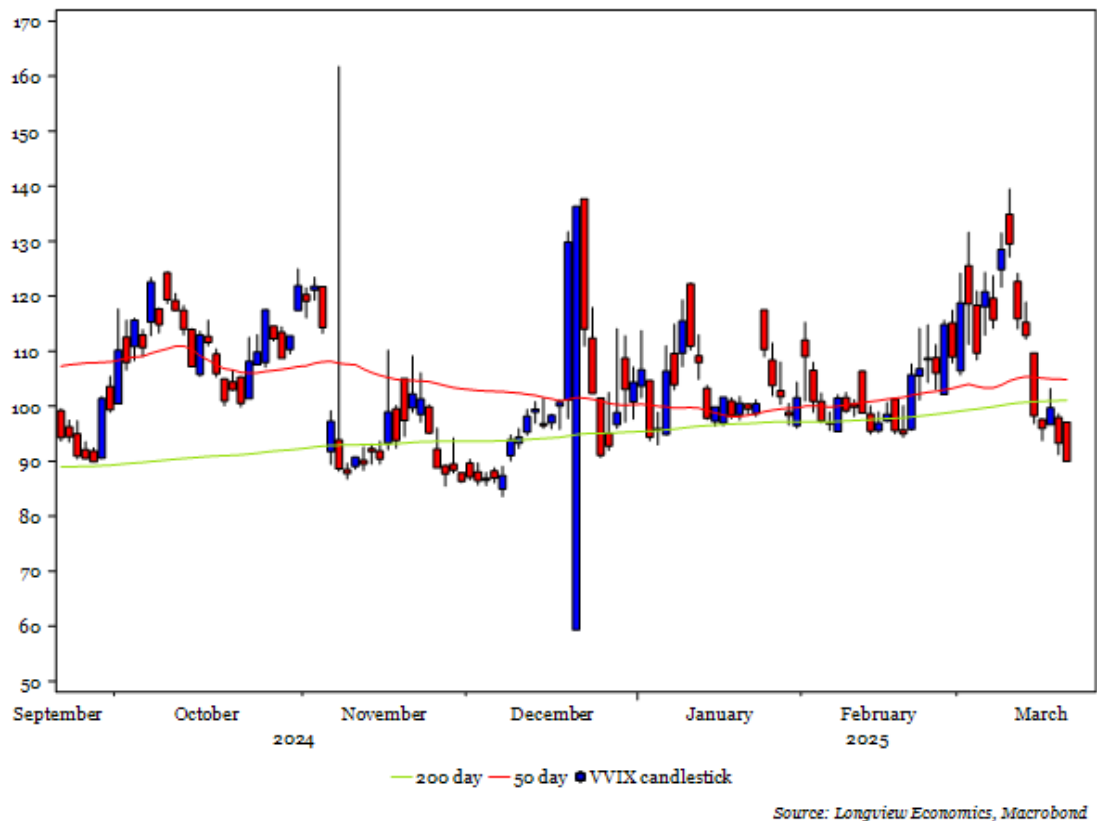
FIG 1g: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

Source: Longview Economics, Macrobond
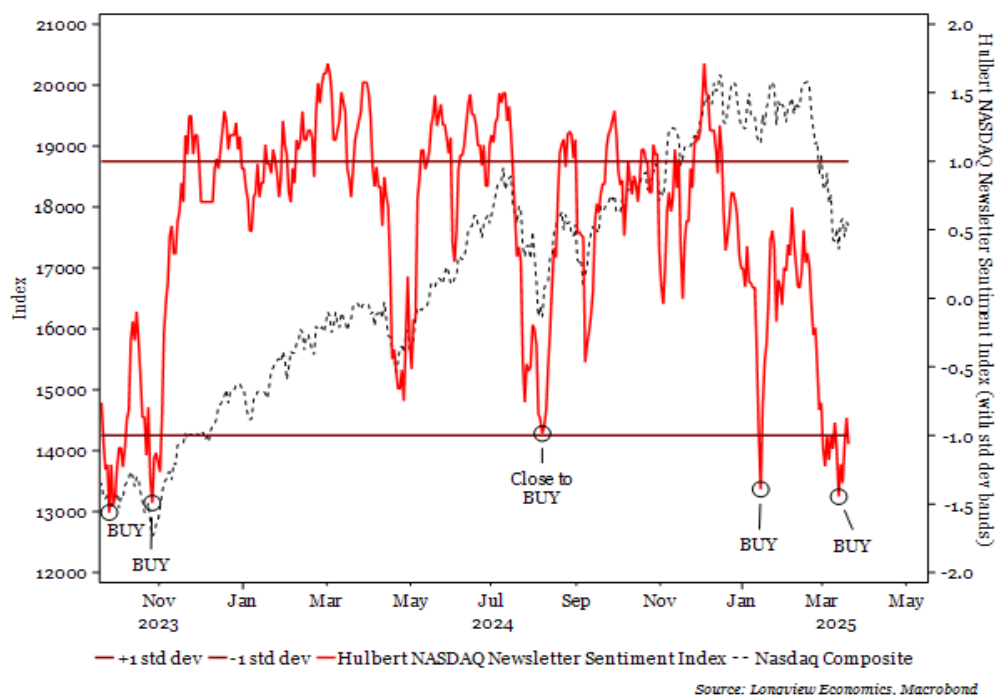
Short term risk appetite models have moved back towards SELL

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

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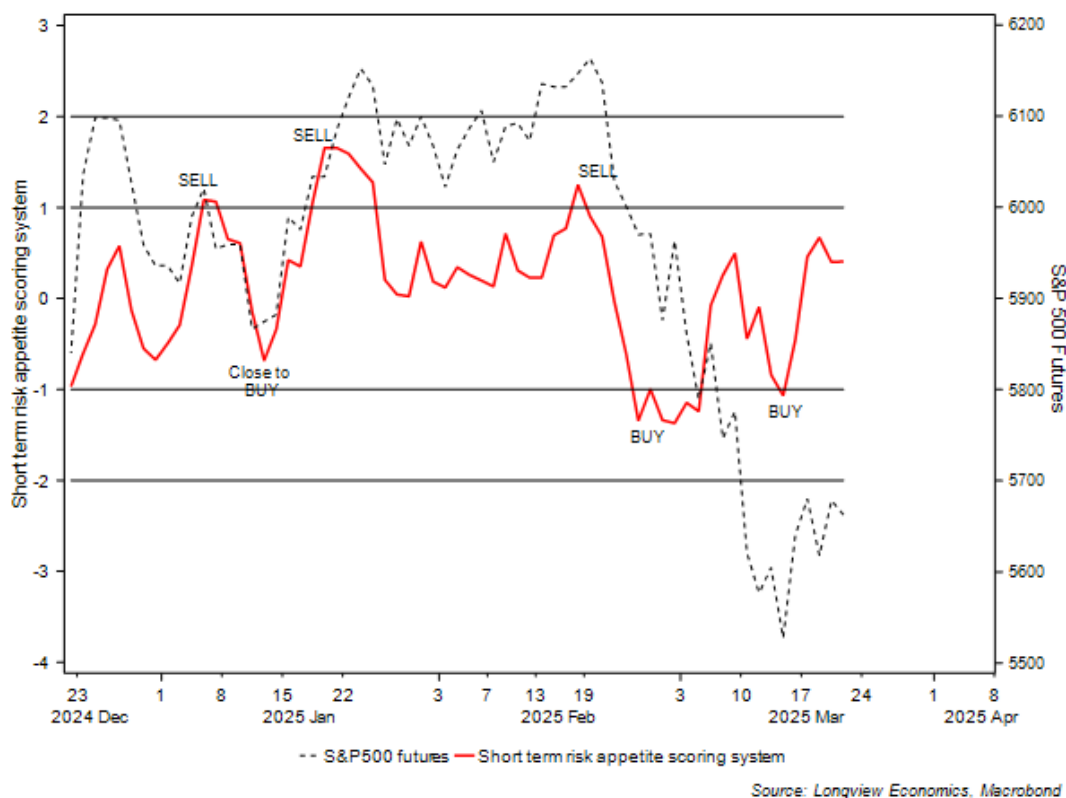
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

Source: Longview Economics, Macrobond
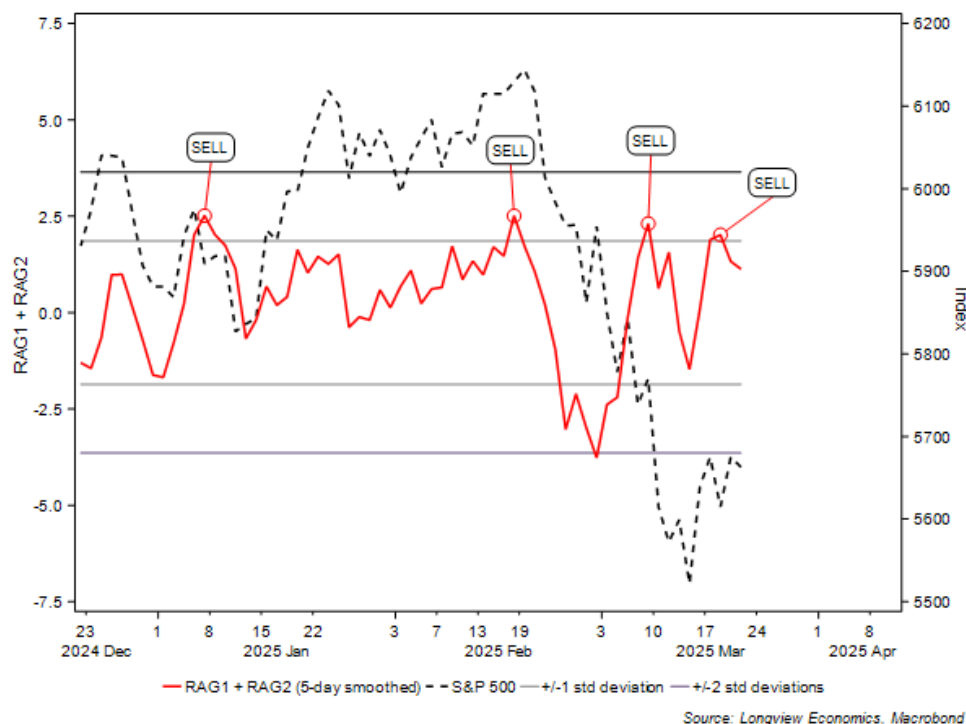
Put to call ratio indicators are mixed

FIG 2b: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

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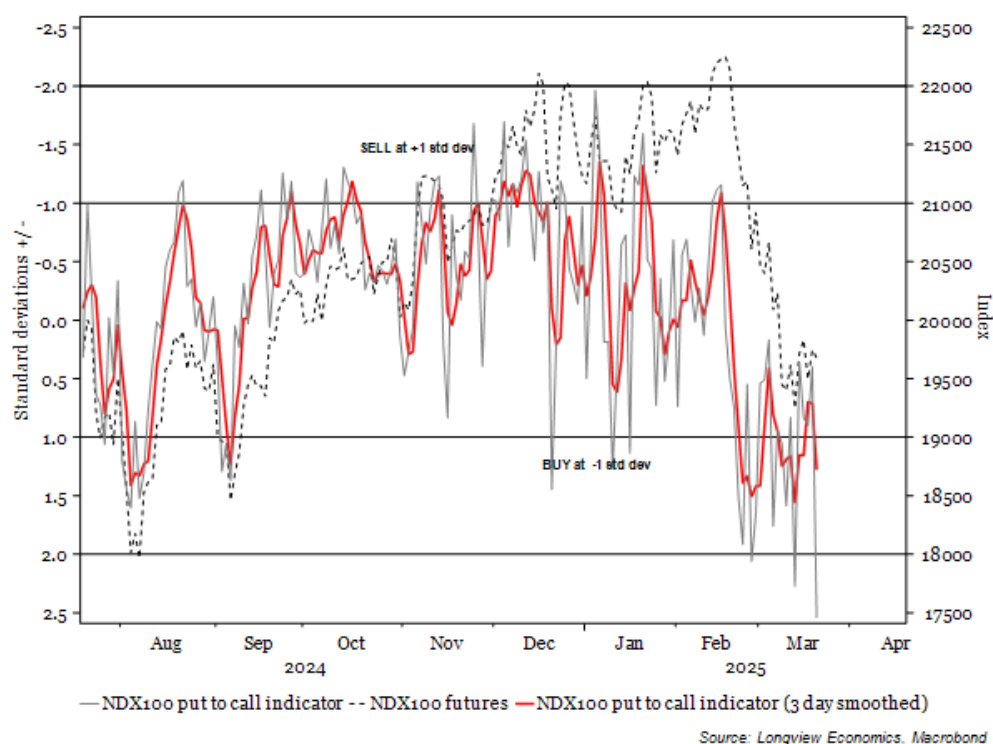
FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

Source: Longview Economics, Macrobond
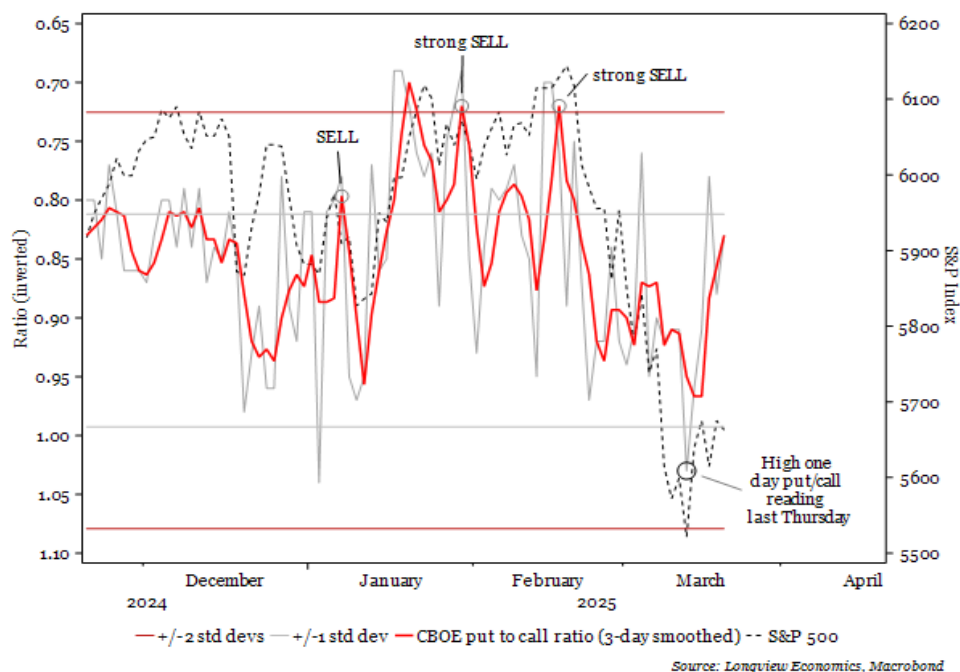
Technical/price based models are NEUTRAL (having recently generated BUY signals)

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

Source: Longview Economics, Macrobond
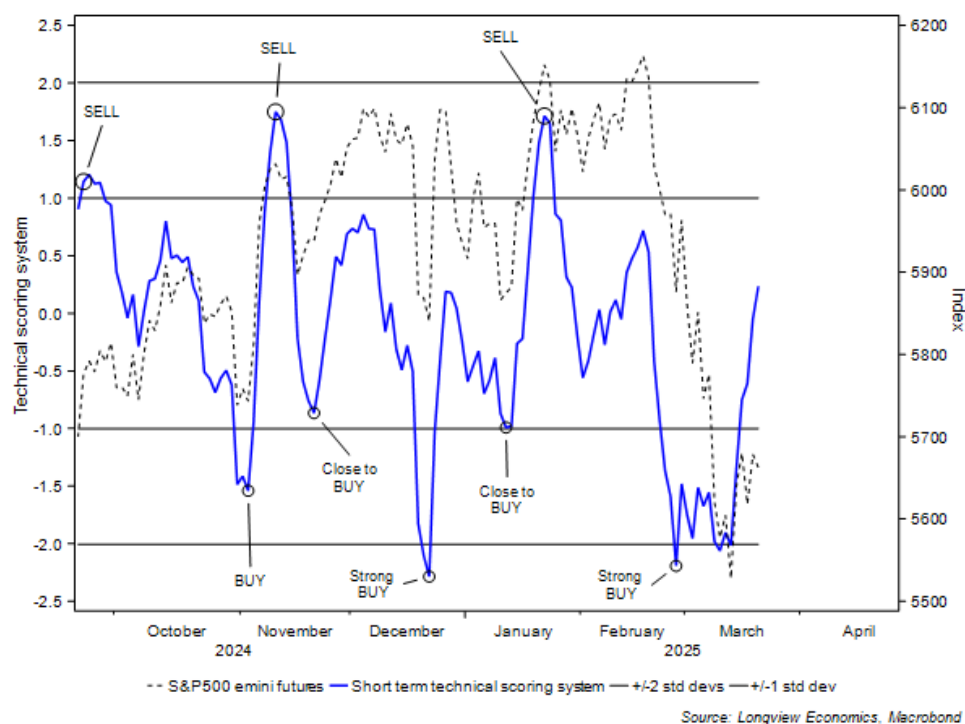
FIG 2e: Momentum of S&P500 industry groups vs. S&P500 cash index

Source: Longview Economics, Macrobond
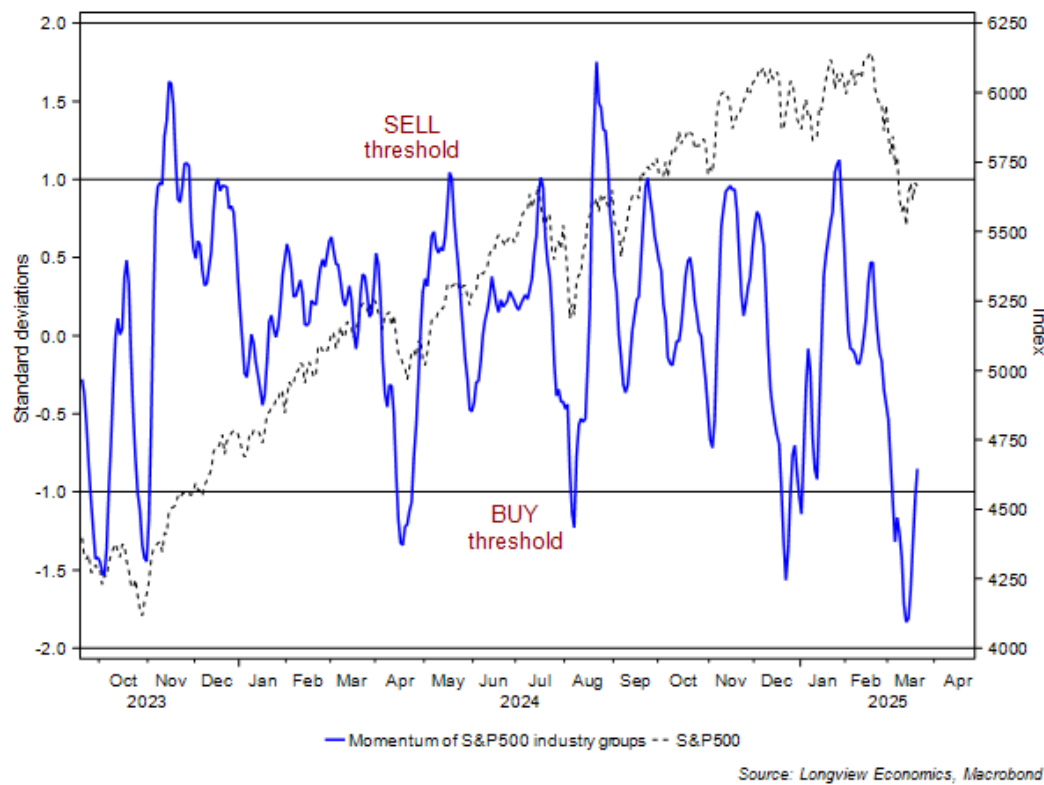
FIG 2f: S&P500 single stocks with upward momentum vs. S&P500

Source: Longview Economics, Macrobond
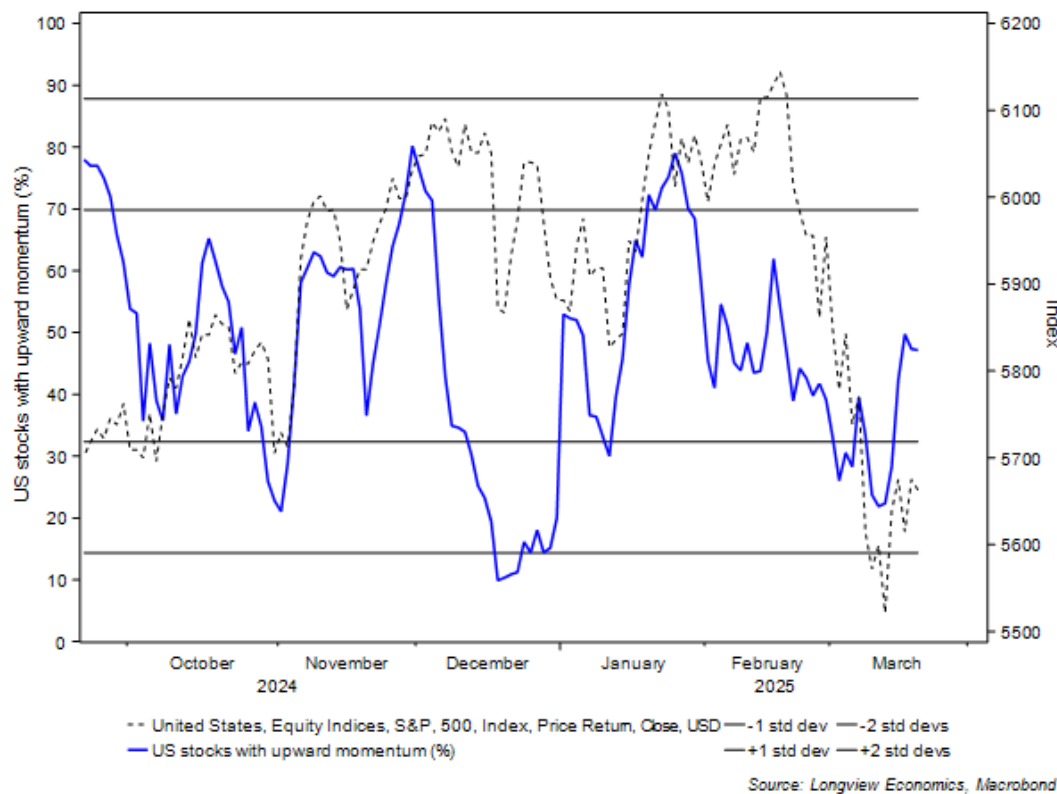
Key Longview Scoring Systems (chart below):

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
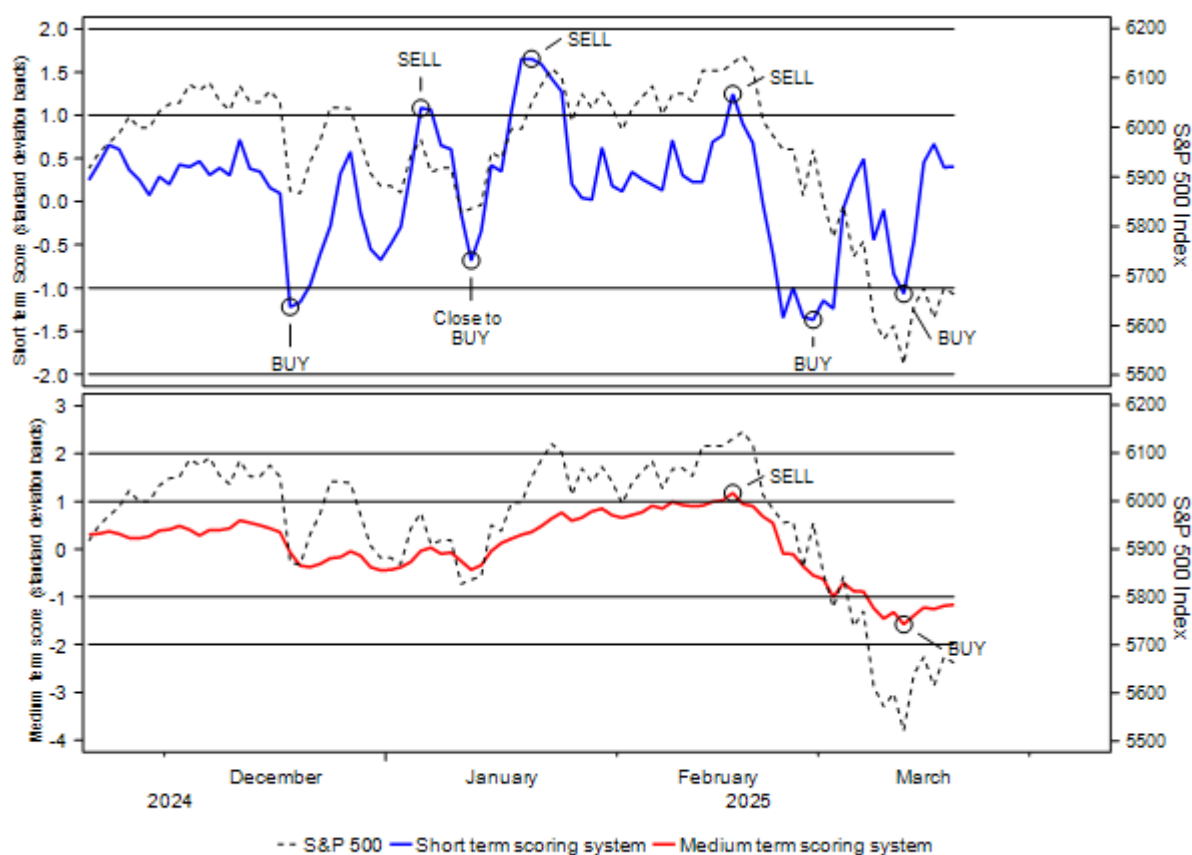
Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: UK Gfk consumer confidence (Mar, 12:01am); UK public sector finances (Feb, 7am); French INSEE business & manufacturing confidence (Mar, 7:45am); ECB current account (Jan, 9am); Italian current account balance (Jan, 9:30am); Canadian retail sales (Jan, 12:30pm); **Eurozone consumer confidence** (March first estimate, 3pm).

Key events today include: Speech by the ECB's Escriva at IESE banking event in Barcelona (8:15am); speech by the Fed's Williams in the Bahamas (1:05pm).

Key earnings today include: China Shenhua Energy, China Petrol, Bank of Communications.

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.

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 on BUY

--- S&P 500 — Short term scoring system — Medium term scoring system
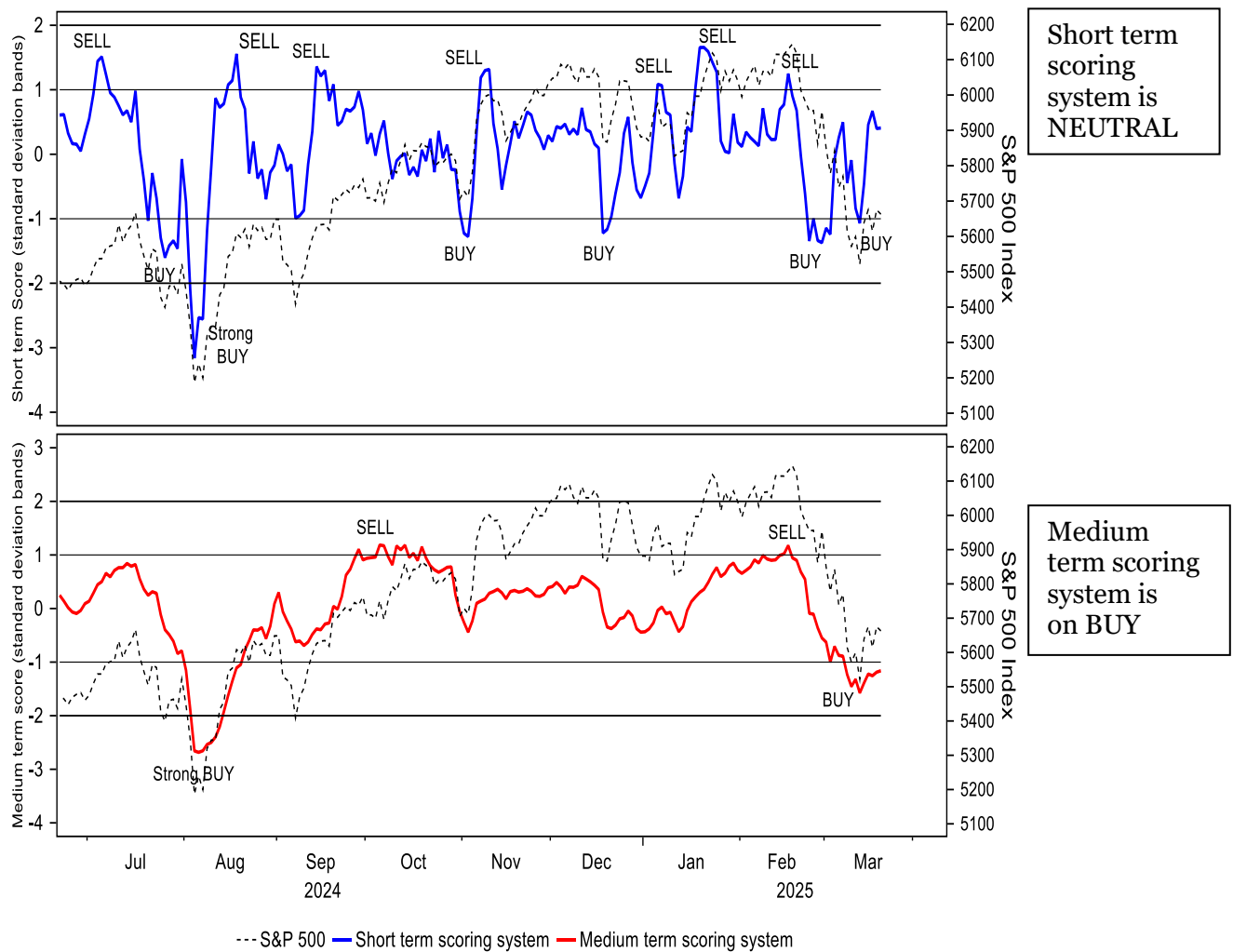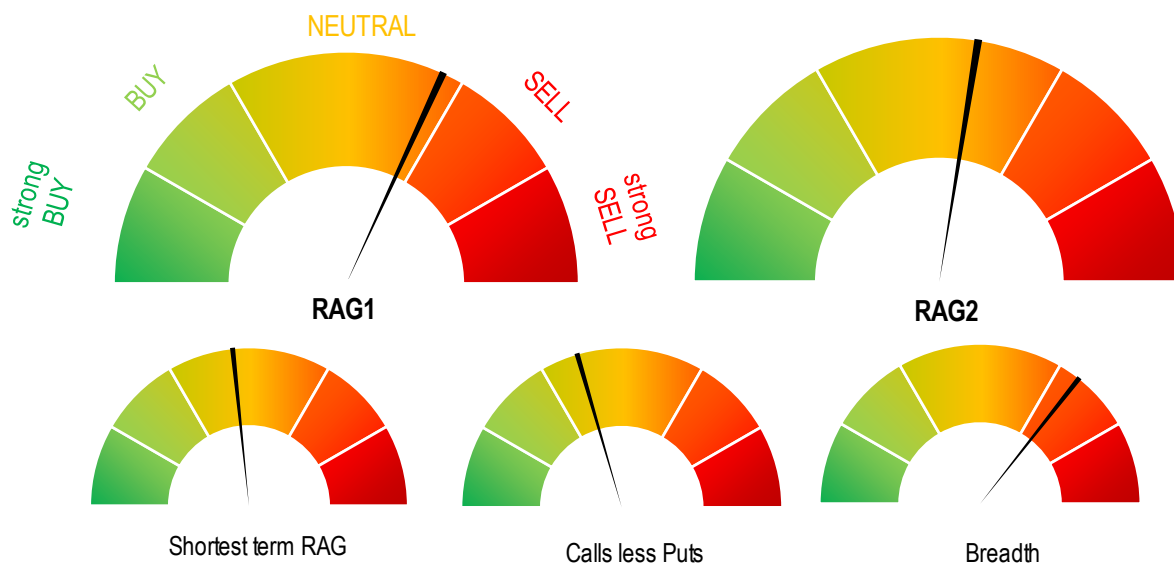
Source: Longview Economics, Macrobond

*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

Important disclosures are included at the end of this report
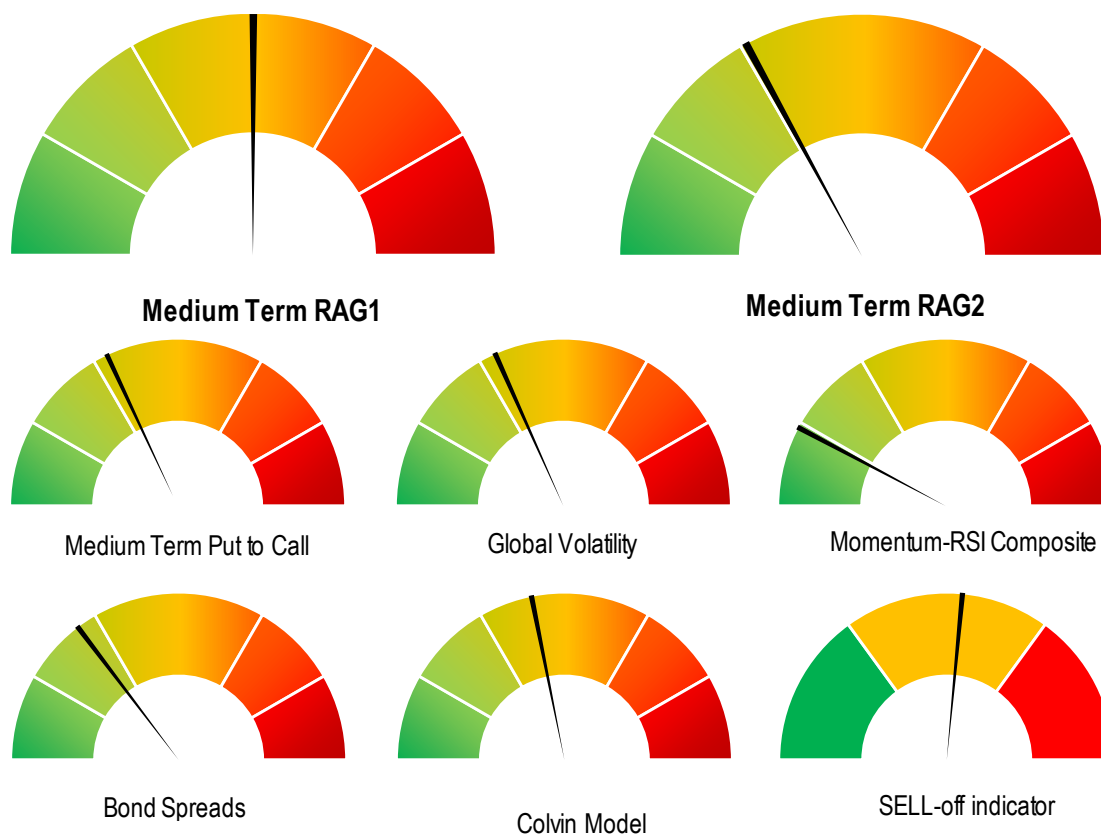***For explanations of indicators please see page 10***

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

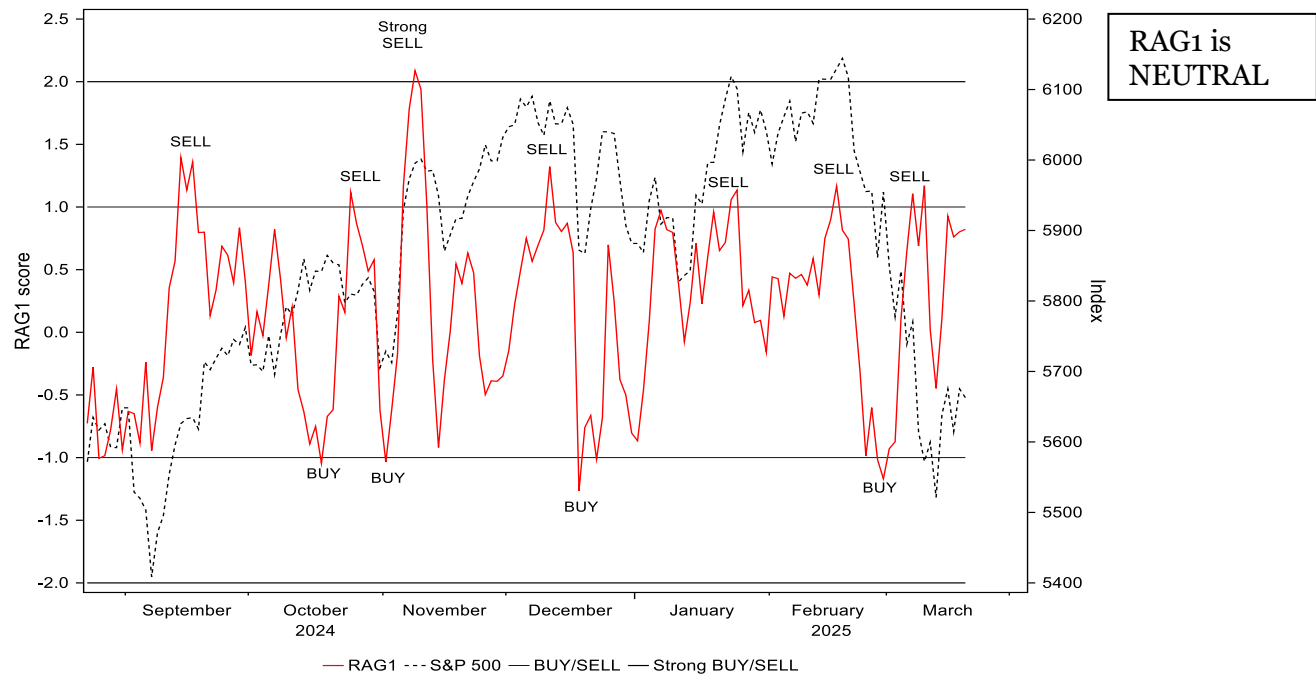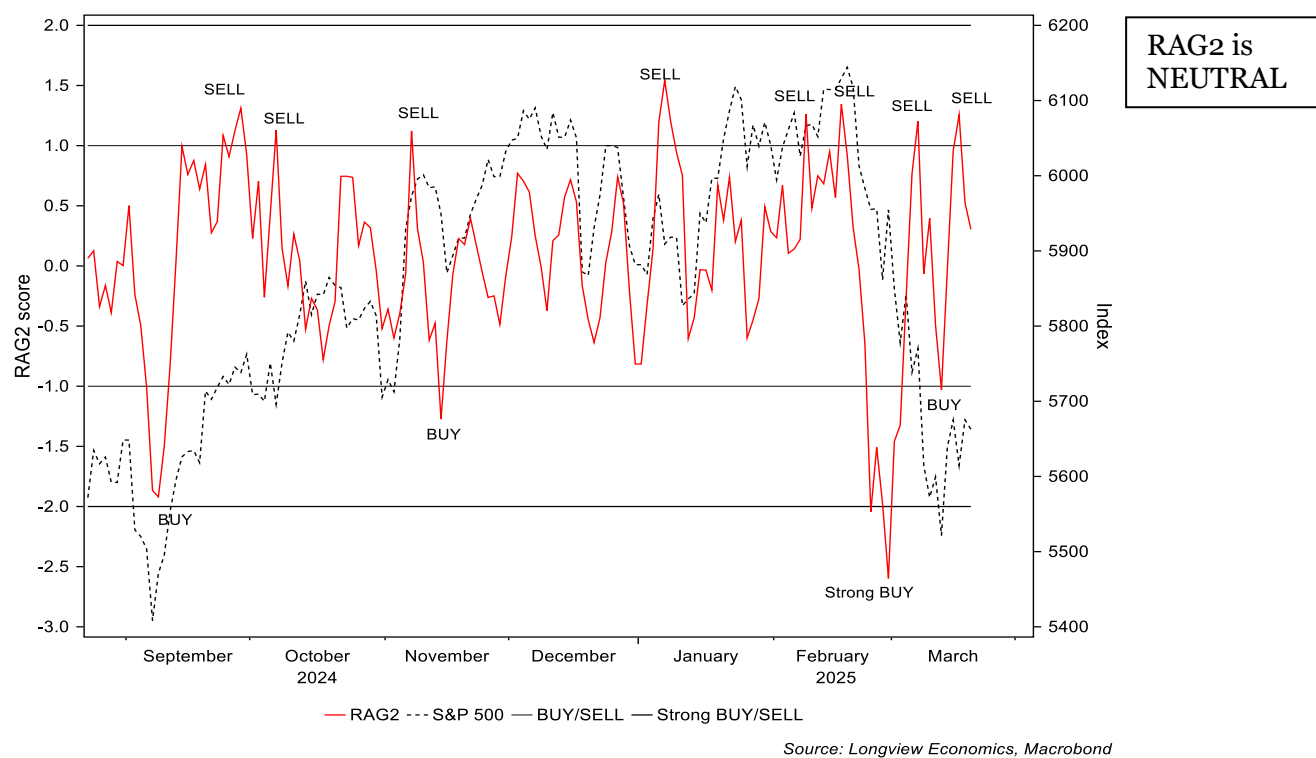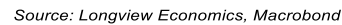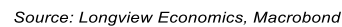## Section 2: Short term (1 – 2 week) trading models

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

Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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

Source: Longview Economics, Macrobond

RAG2 is NEUTRAL

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 NEUTRAL

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
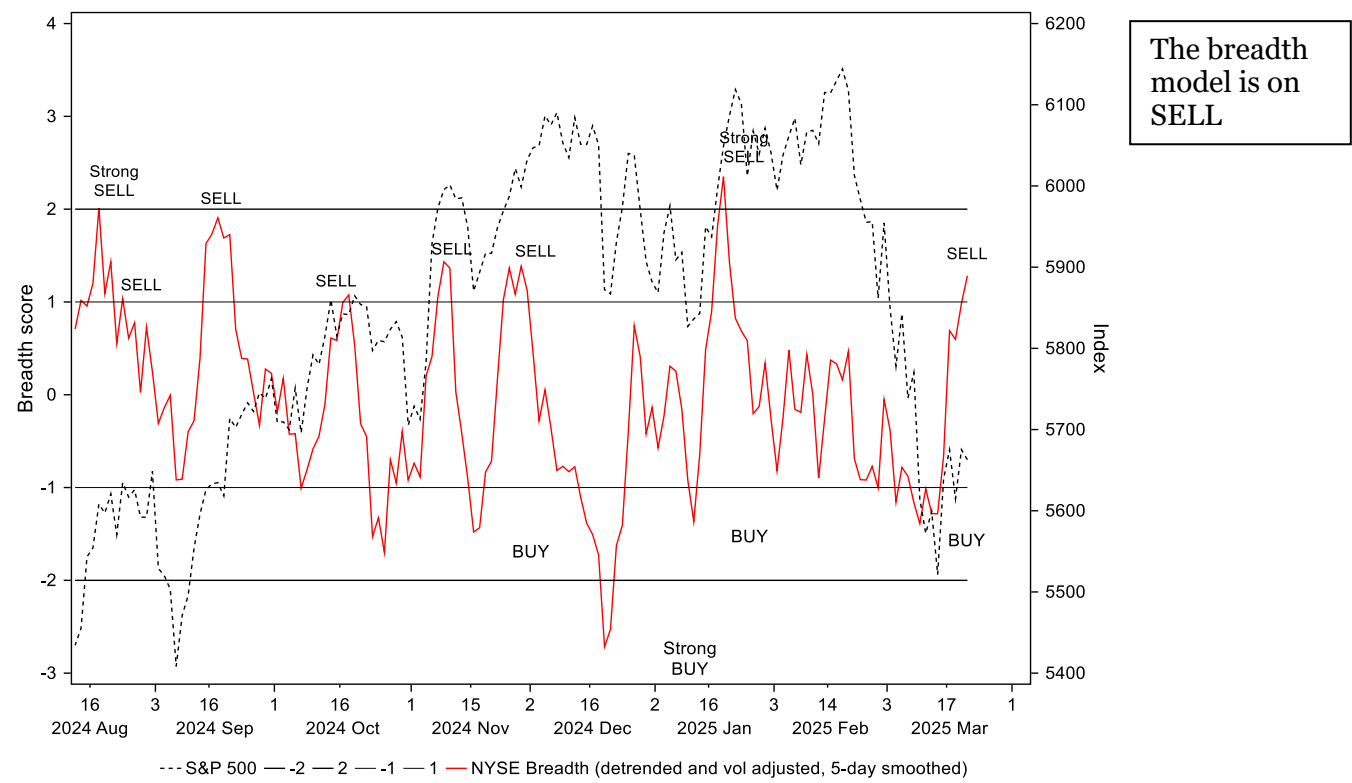
The breadth model is on SELL

--- S&P 500 — -2 — 2 — -1 — 1 — NYSE Breadth (detrended and vol adjusted, 5-day smoothed)

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

Medium
term RAG1
is
NEUTRAL

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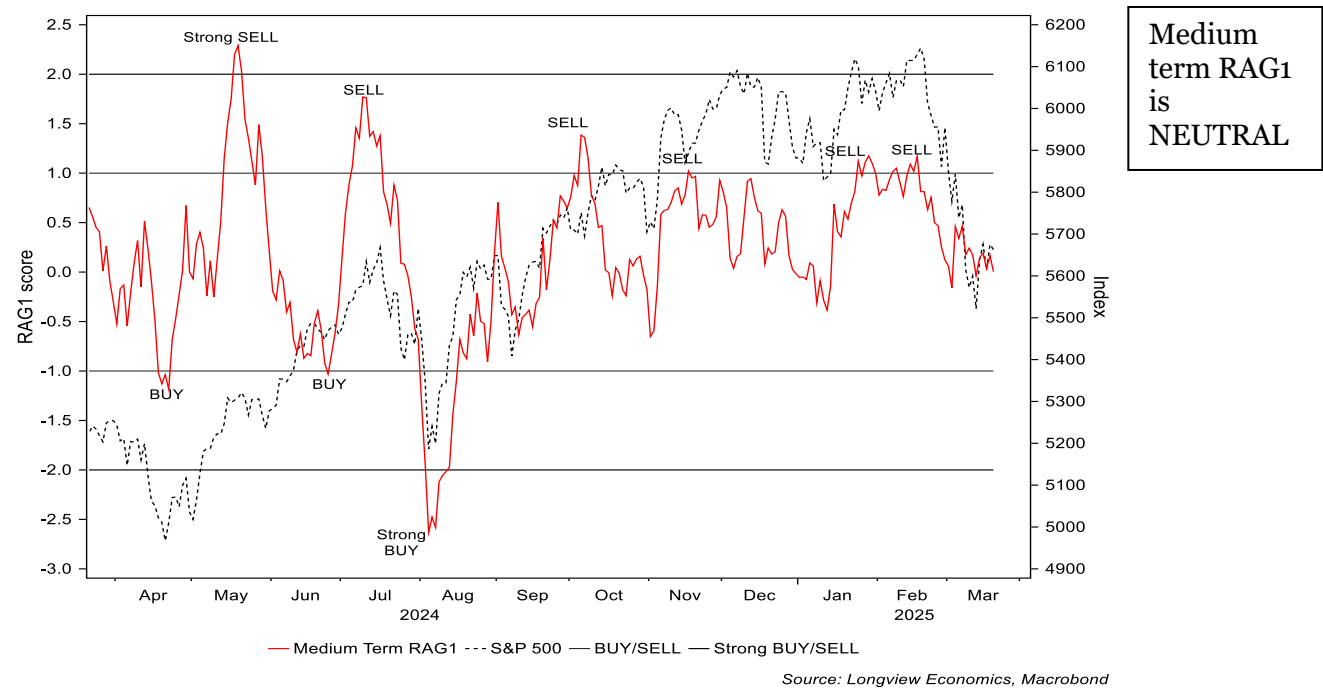
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

Medium
term RAG2
is
NEUTRAL

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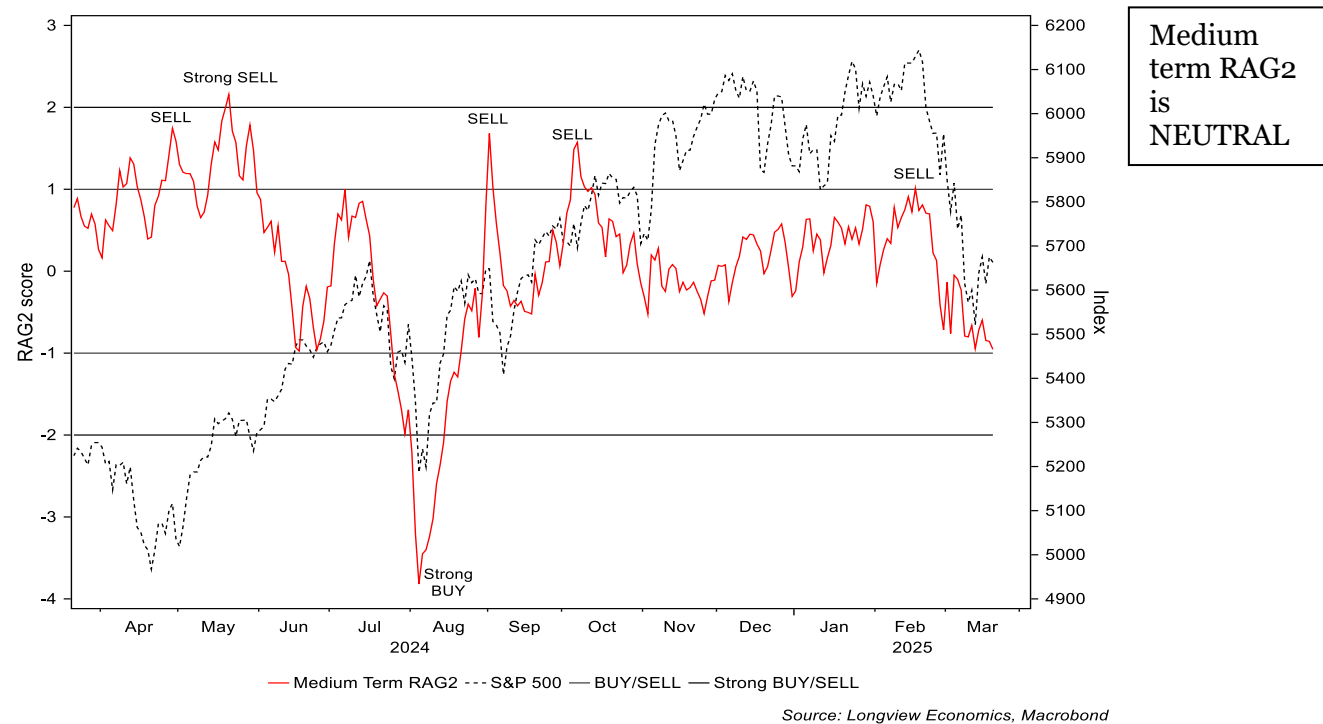
For explanations of indicators please see page 10

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

The SELL-off indicator is NEUTRAL

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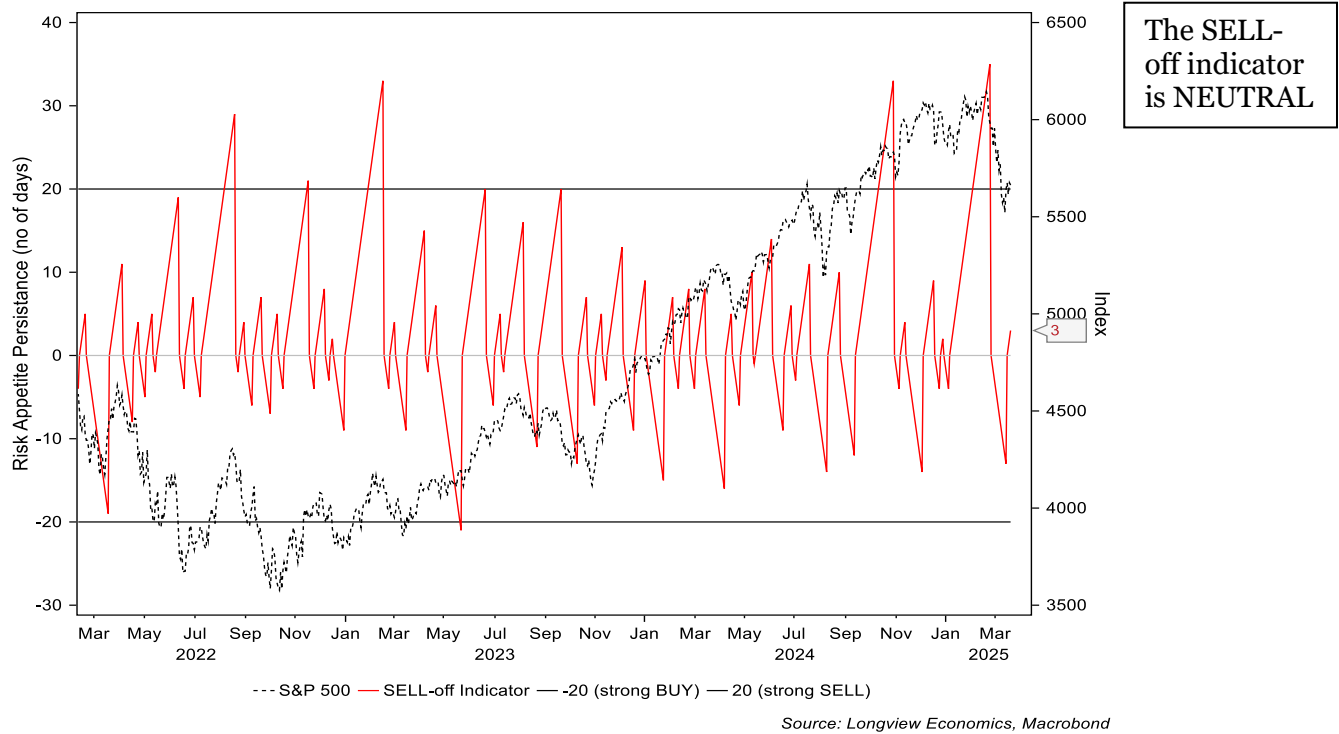
Fig 3d: CBOE put to call trend deviation model vs. S&P500

Medium term put to call model is NEUTRAL

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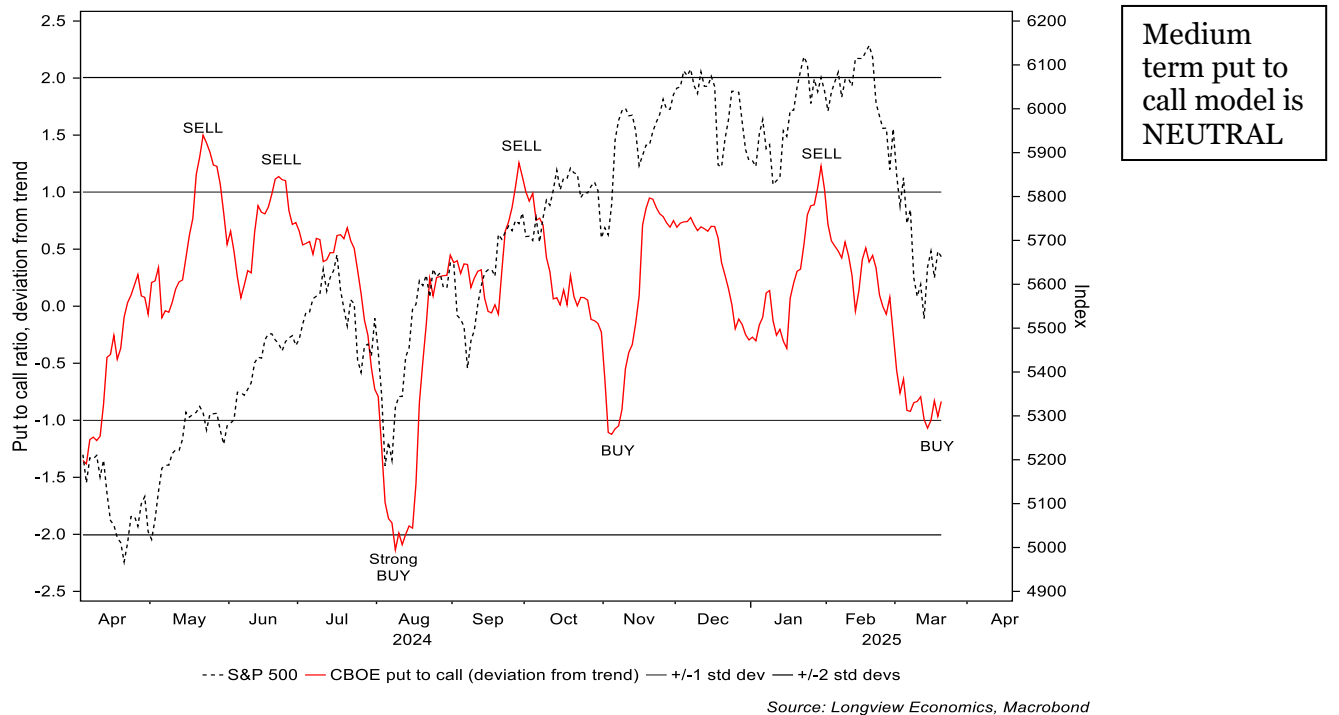
For explanations of indicators please see page 10

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

Global volatility indicator is NEUTRAL

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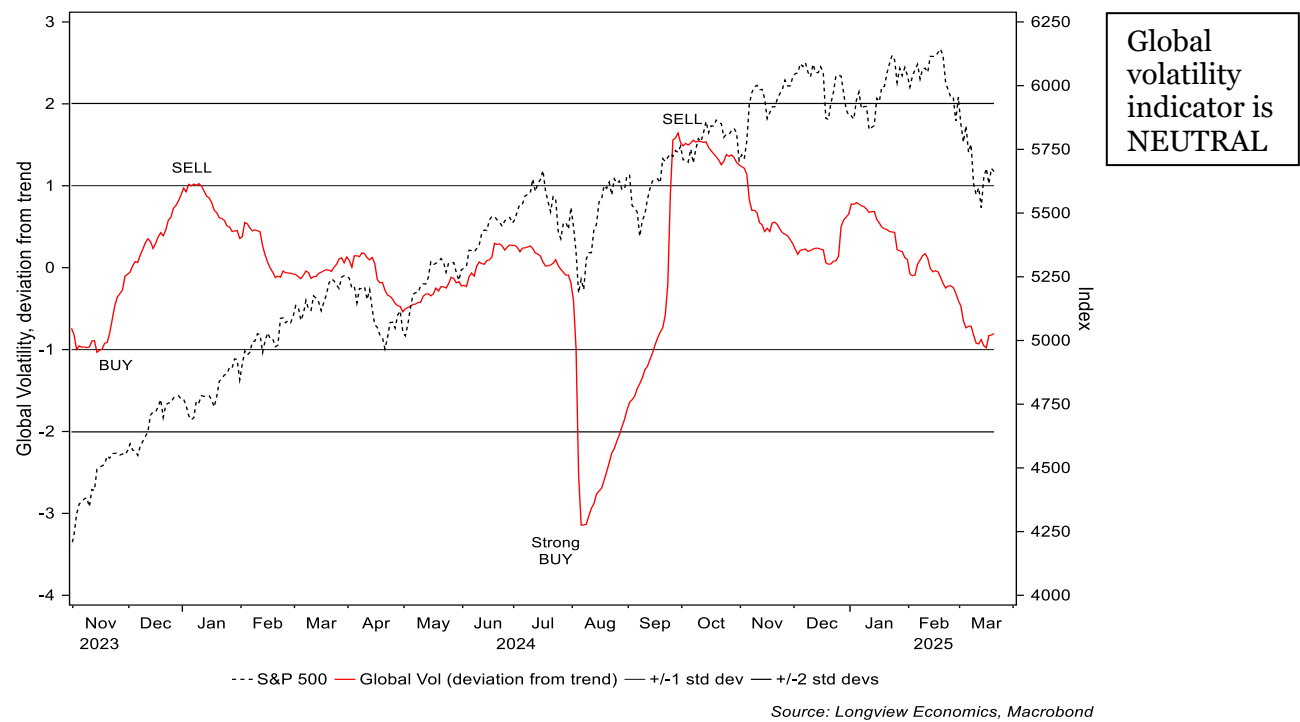
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

US momentum RSI composite model is on Strong BUY

Source: Longview Economics, Macrobond
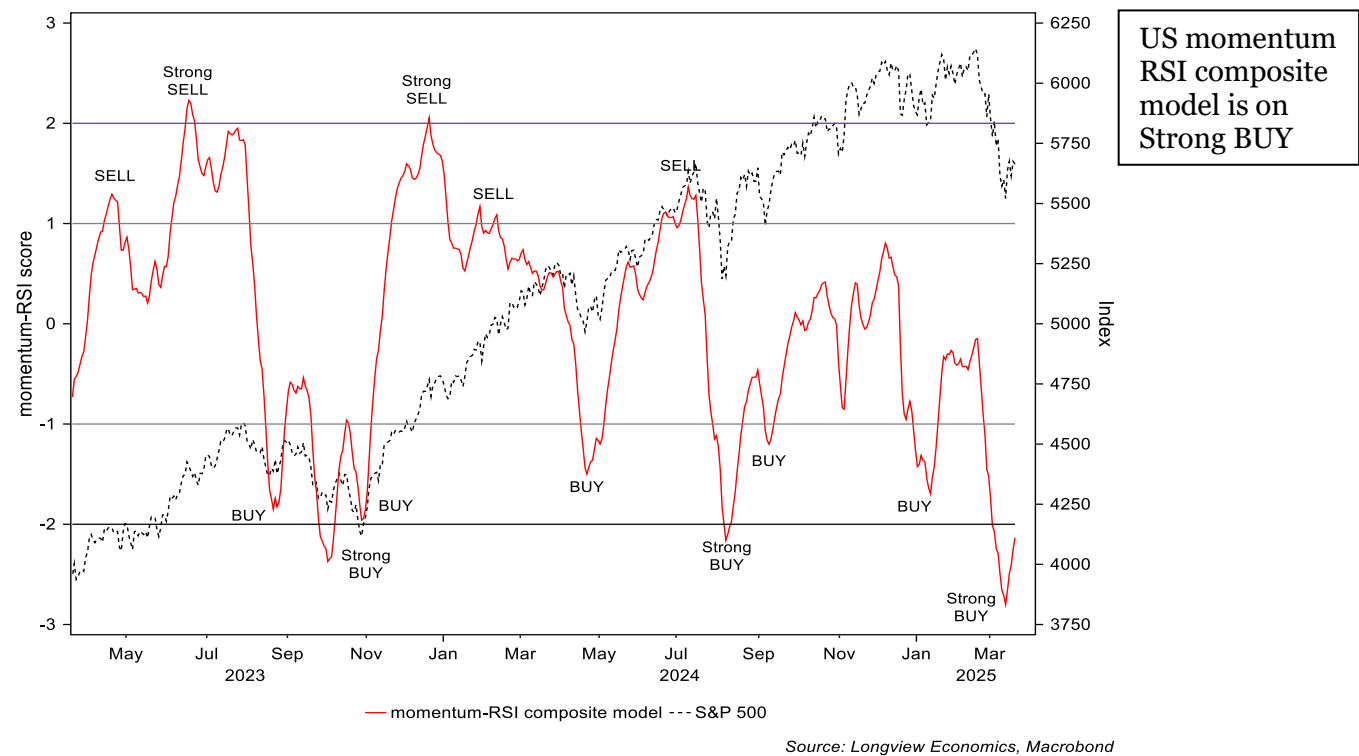
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500
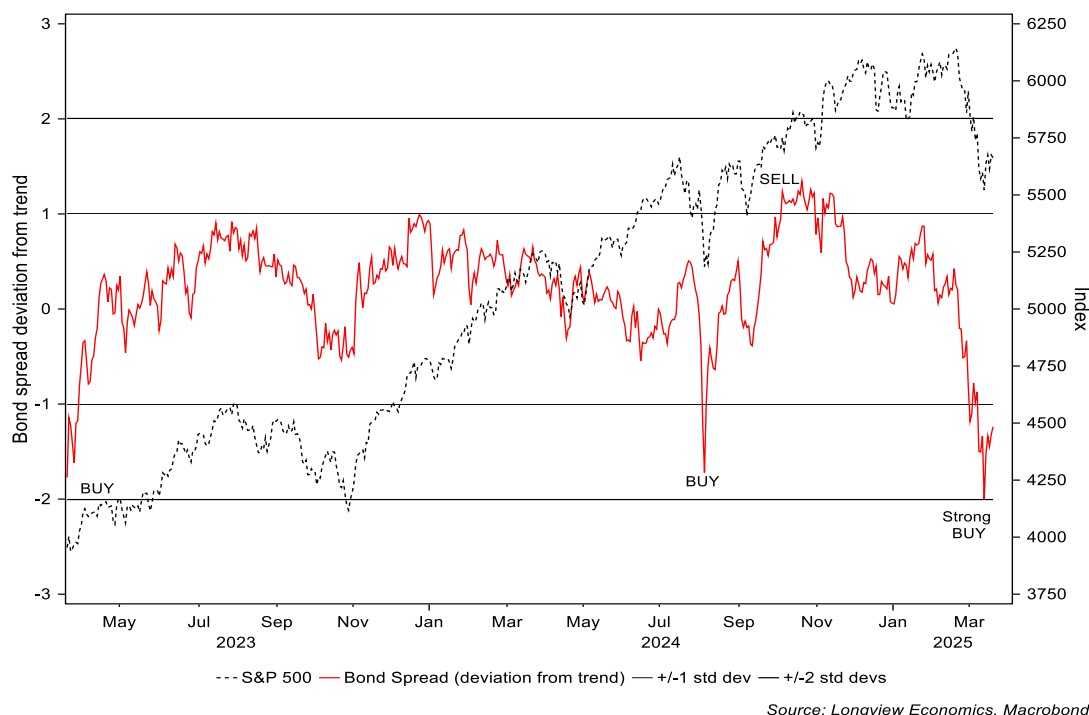
High yield corporate bond spreads model is on BUY

S&P 500 --- Bond Spread (deviation from trend) — +/-1 std dev — +/-2 std devs

Source: Longview Economics, Macrobond

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

Colvin model – is NEUTRAL

S&P 500 — Colvin model (deviation from trend) — +/-1 std dev — +/-2 std devs

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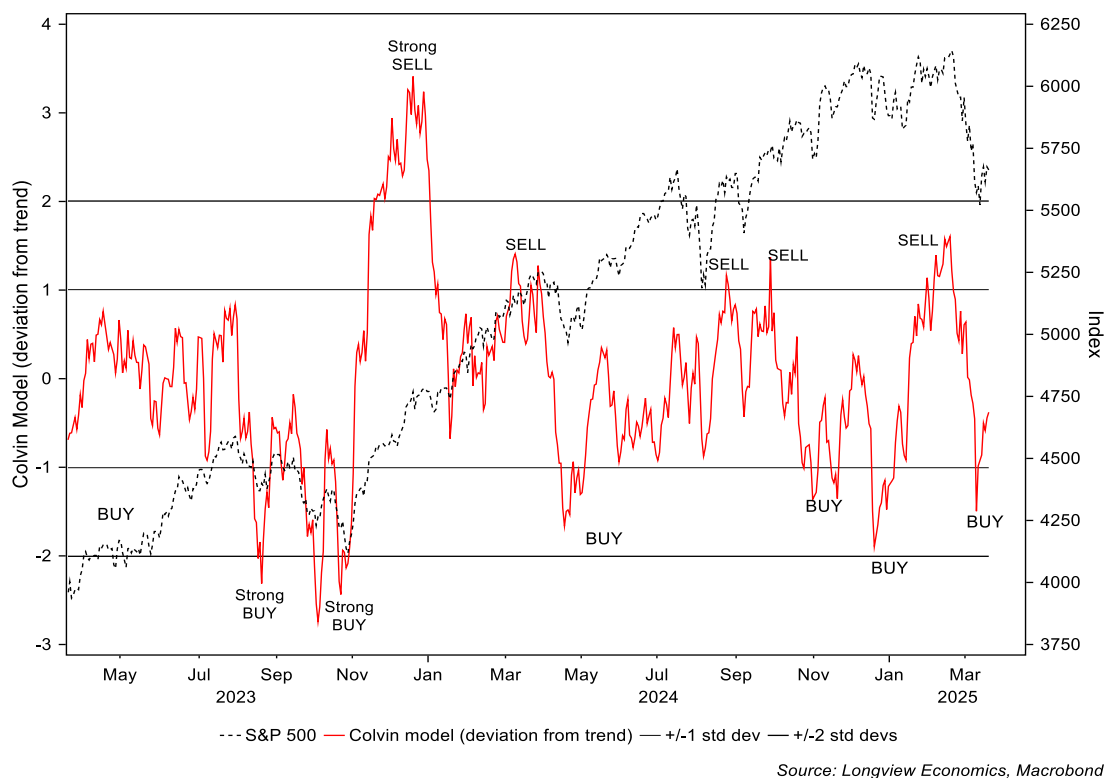
For explanations of indicators please see page 10

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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