

Equity Index Futures Trading Recommendations

“Risk Reward Favours Staying SHORT SPX”

Email: info@longvieweconomics.com

21st May 2025

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

- Stay 1/2 SHORT S&P500 June futures (blended entry was on Monday 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 1/4 size positions).

Rationale

US equity markets were relatively quiescent yesterday. In particular, most of the 28 indices we track were broadly unchanged on the day, volatility remained subdued (as measured by the VIX), volumes were low, and sector dispersion fell to its narrowest level since late April (i.e. with a small gap between the best and worst performing sectors, see FIG 1c). With that, both the S&P500 and NASDAQ100 continued to trade within their recent ranges, which have been in place since last Wednesday (see FIGs 1 & 1a).

The key question, therefore, is: **Are US equities consolidating their recent gains** (i.e. whilst SELL signals from our short term models unwind)? Or, **having lost upward momentum this past week, are they about to roll over?**

The evidence is mixed.

The SELL message from some models has started to unwind. Overnight, for example, our SELL-off indicator ‘closed out’ (returned to ZERO), i.e. before reaching its key +20 reading (at which it warns of a wave of risk aversion in global markets). That model is shown in FIG 1b. Consistent with that, our key risk appetite indicators have moved lower and are no longer officially on SELL (FIGs 2 & 2a).

Other models, in contrast, retain a clear SELL message. That includes our short term technical, put to call, and breadth models (see FIGs 2b – 2e), while medium term indicators are also still on SELL (mostly, see FIGs 3 – 3b). Elsewhere key ‘leadership’ stocks are overextended to the upside (e.g. Nvidia, FIG 1c), while some are starting to roll over/giveback recent gains (e.g. see Amazon & Apple).

Our conviction in this trade is therefore being tested, given that some models have started to move lower, and with the S&P500 trading sideways this past week (i.e. consolidating gains, for now).

Having said that, while our models remain *largely* on/close to SELL, the **risk reward favours staying SHORT** (given that the most likely outcomes are probably either further consolidation, or near term weakness). Please see above for detailed recommendation.

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

Kind regards,

The team @ Longview Economics

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



FIG 1a: NASDAQ100 futures 10-day tick chart shown with overnight price action



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

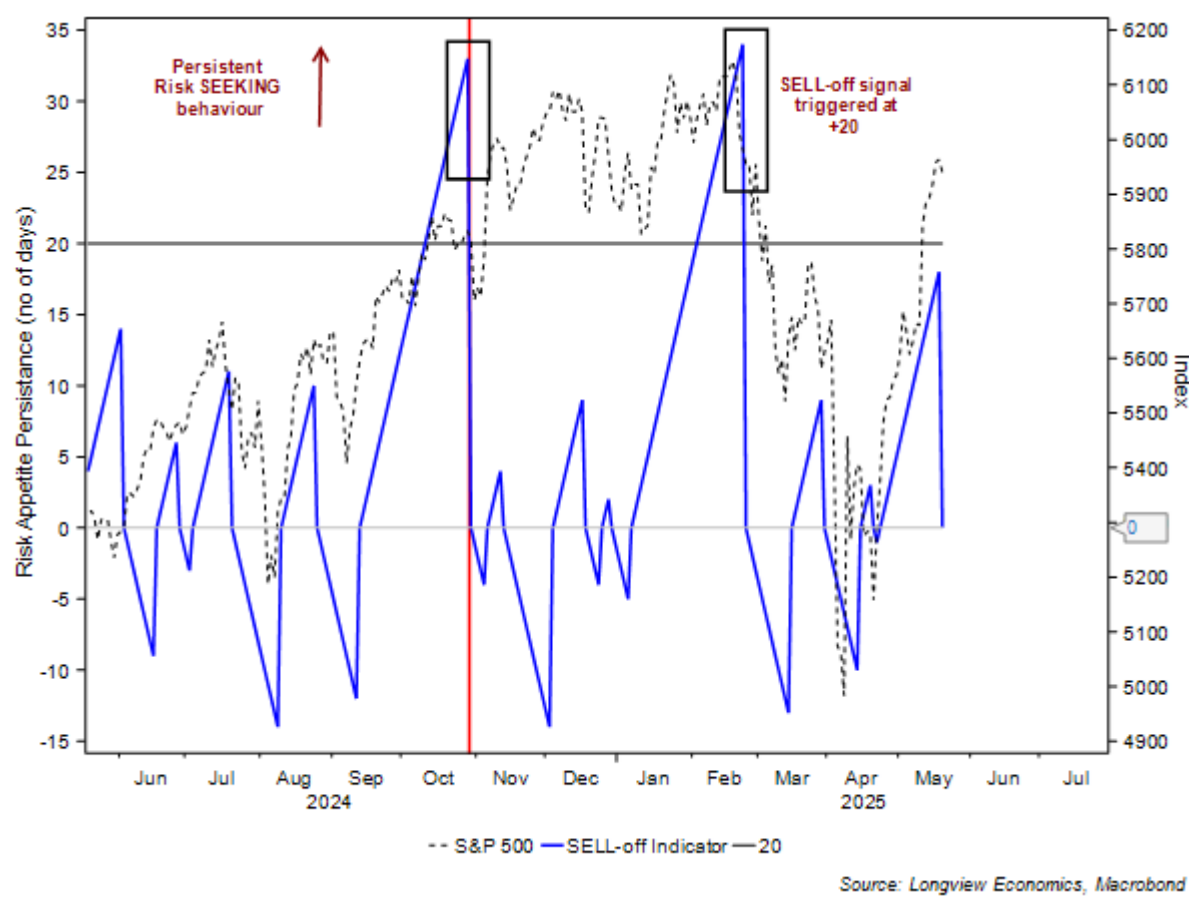


FIG 1c: Nvidia overextended ratio (current price rel. to its 50 day moving average) vs. Nvidia share price (USD/share)

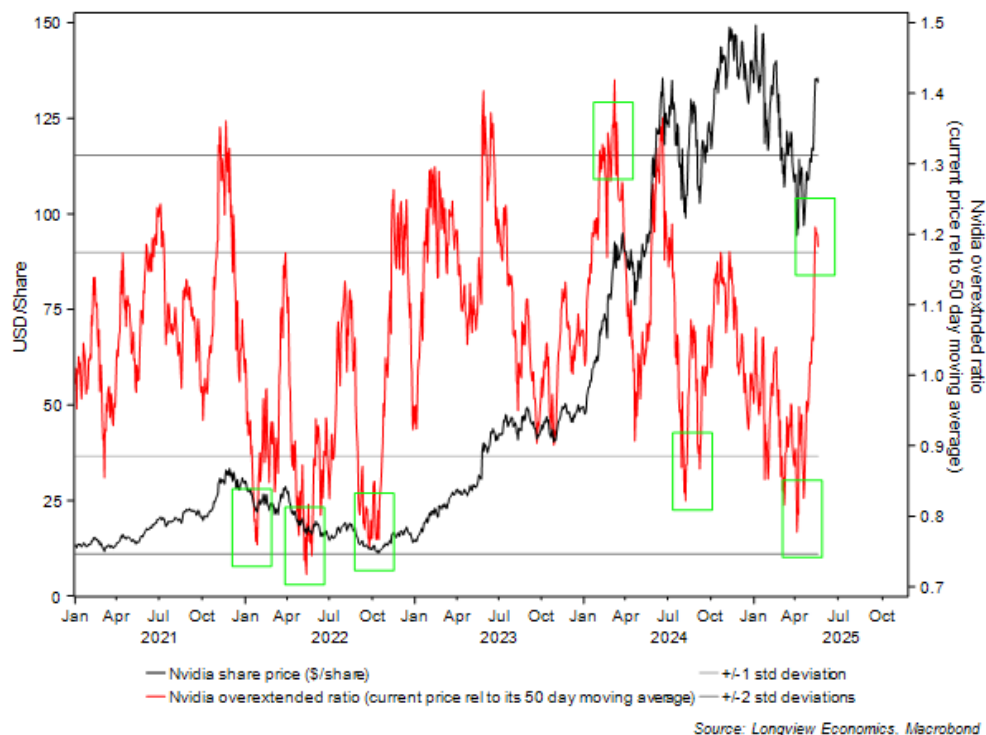
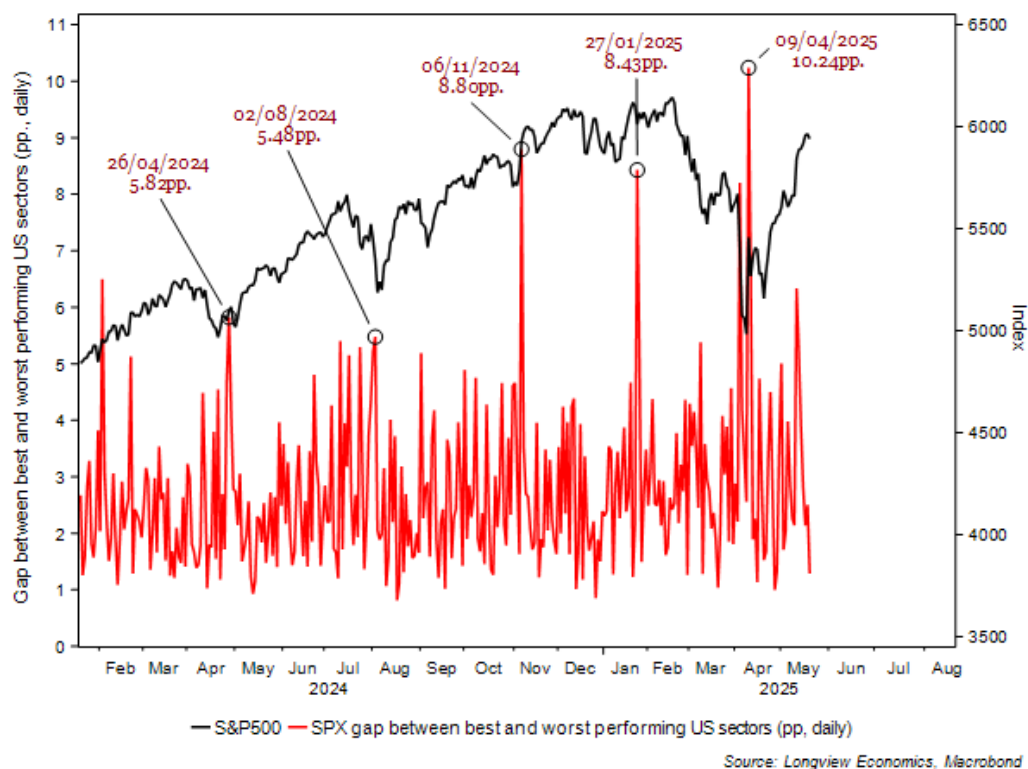


FIG 1d: Gap between best & worst performing sectors each day in S&P500 (pp.) vs. S&P500



Short term models are (mostly) on SELL....

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

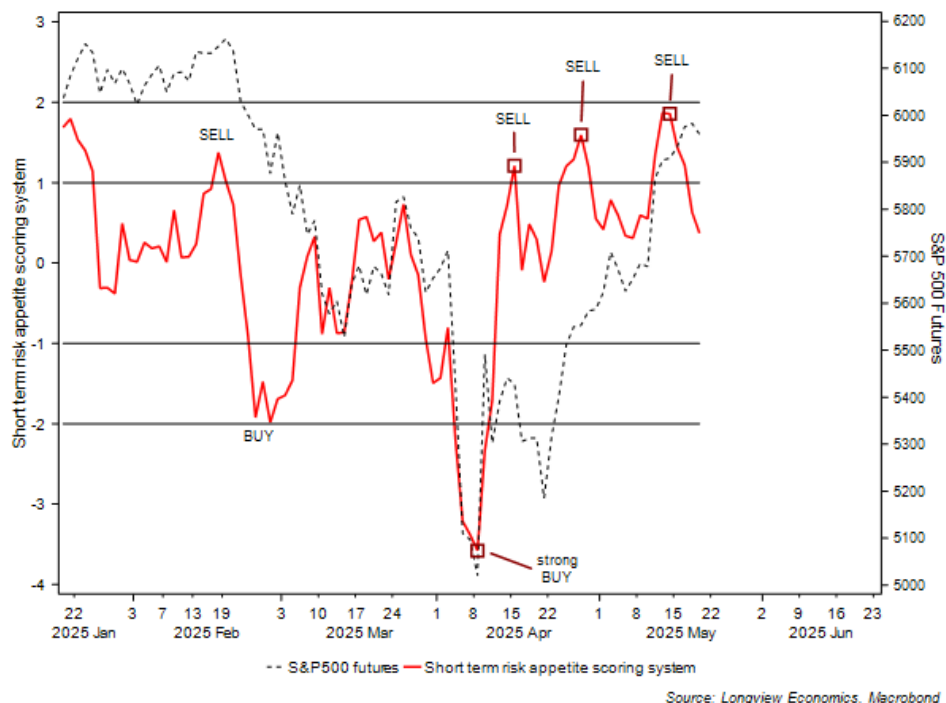


FIG 2a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500

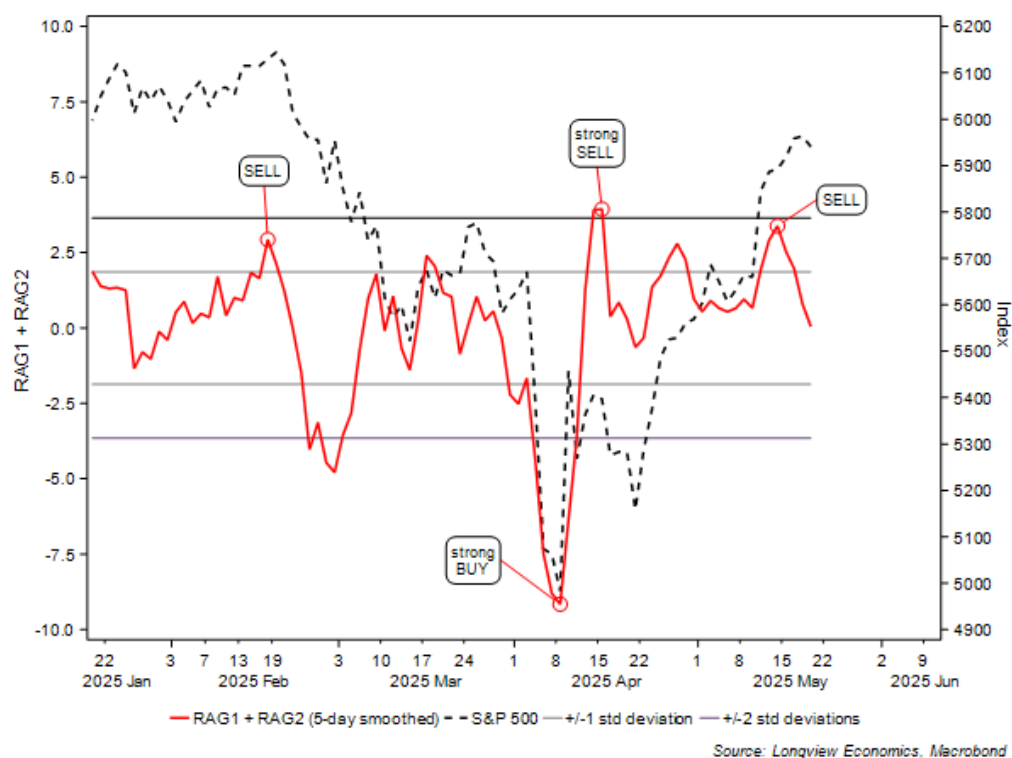


FIG 2b: Longview S&P500 short term ‘technical’ scoring system vs. S&P500 futures

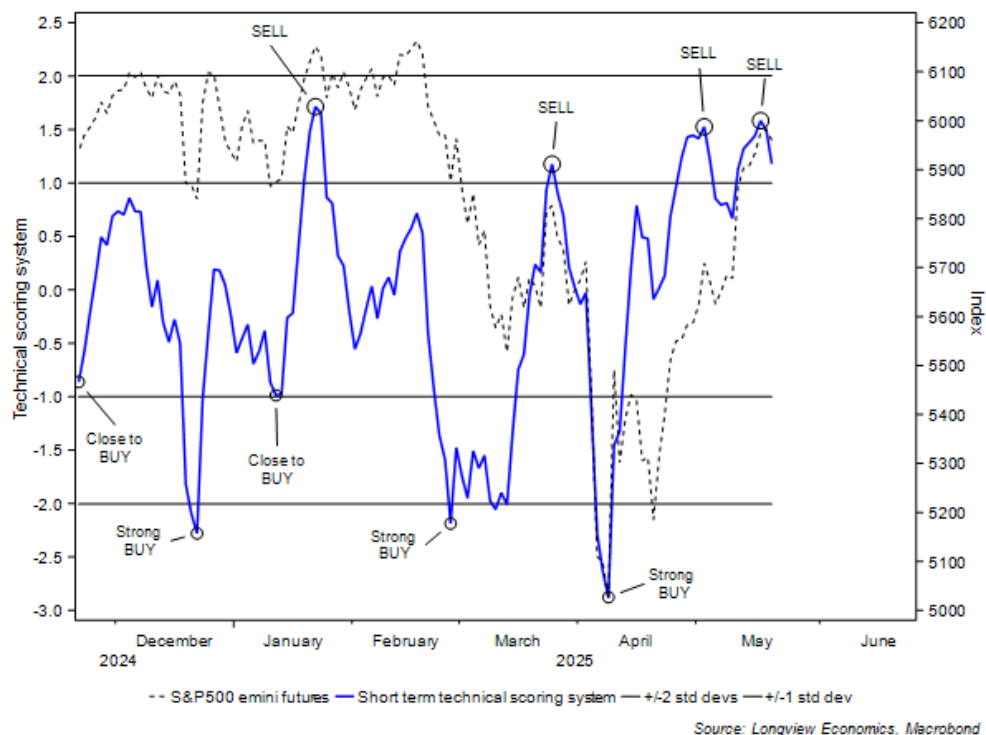


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

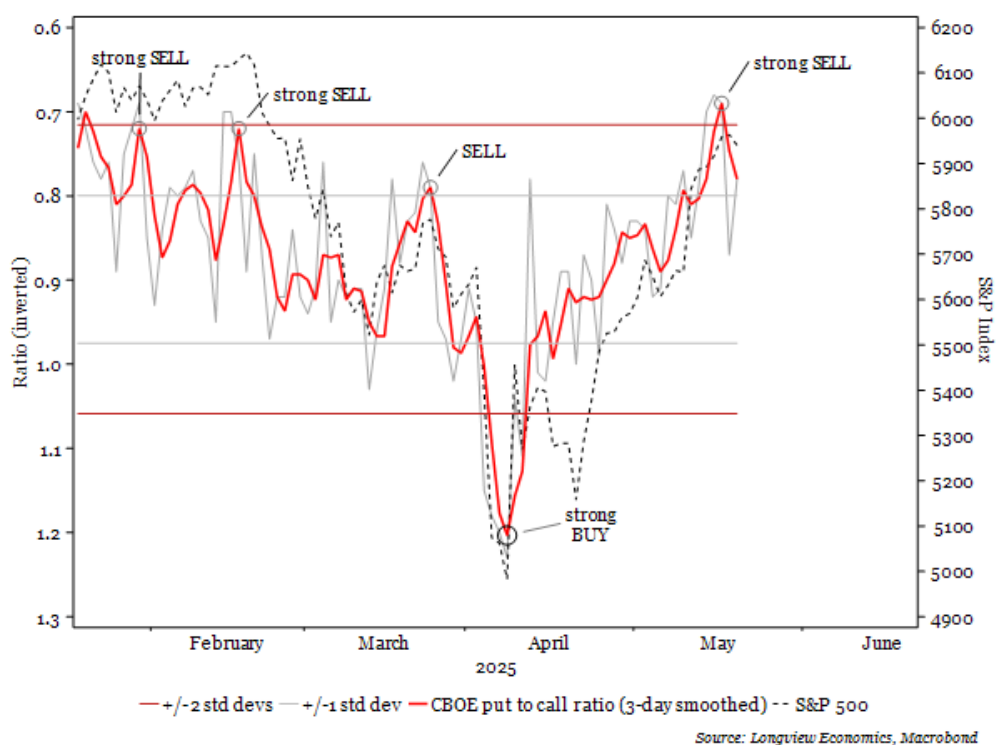


FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500

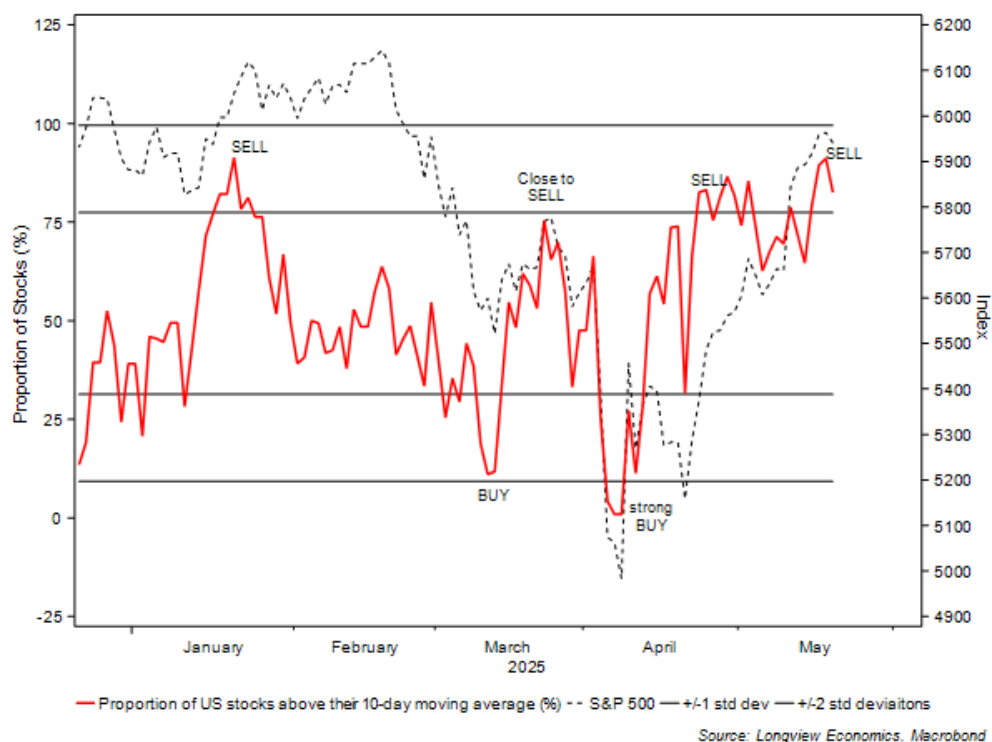
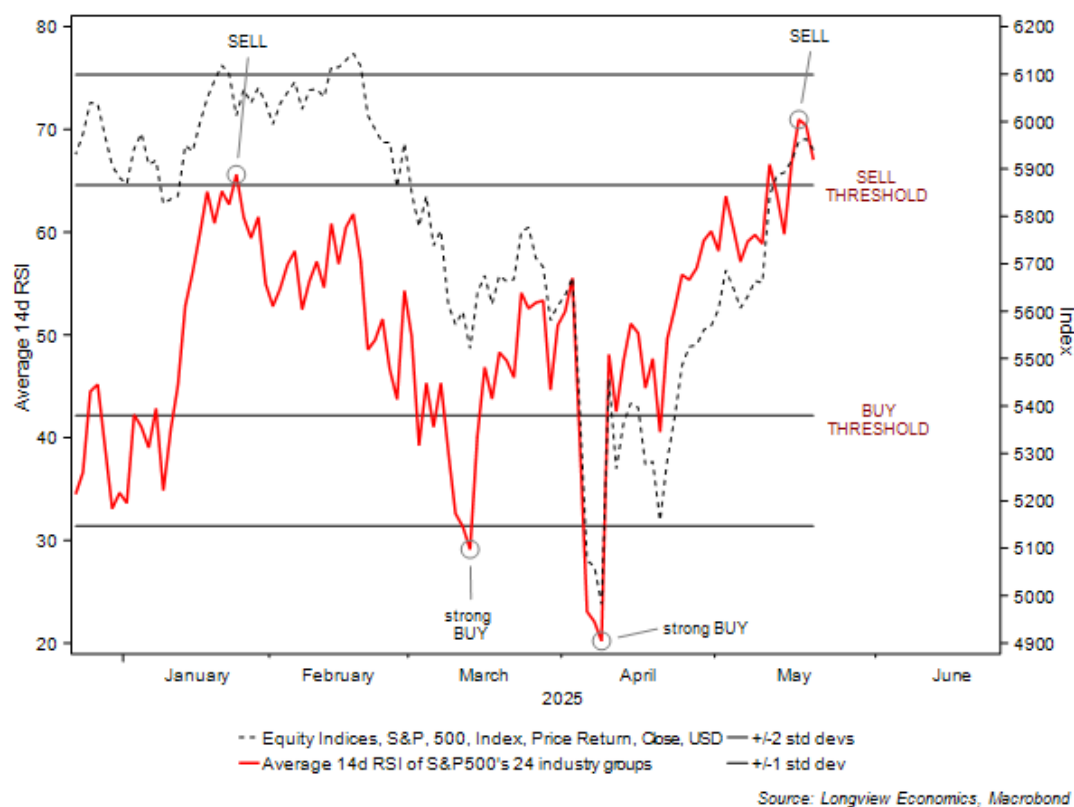


FIG 2e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Medium term models are on SELL....

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

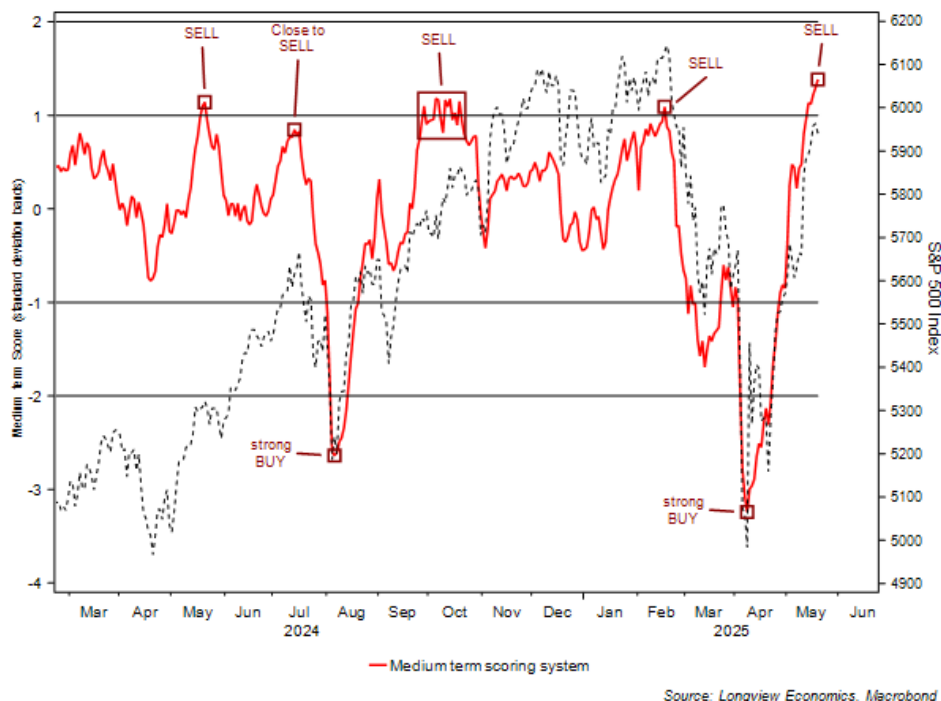


FIG 3a: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500

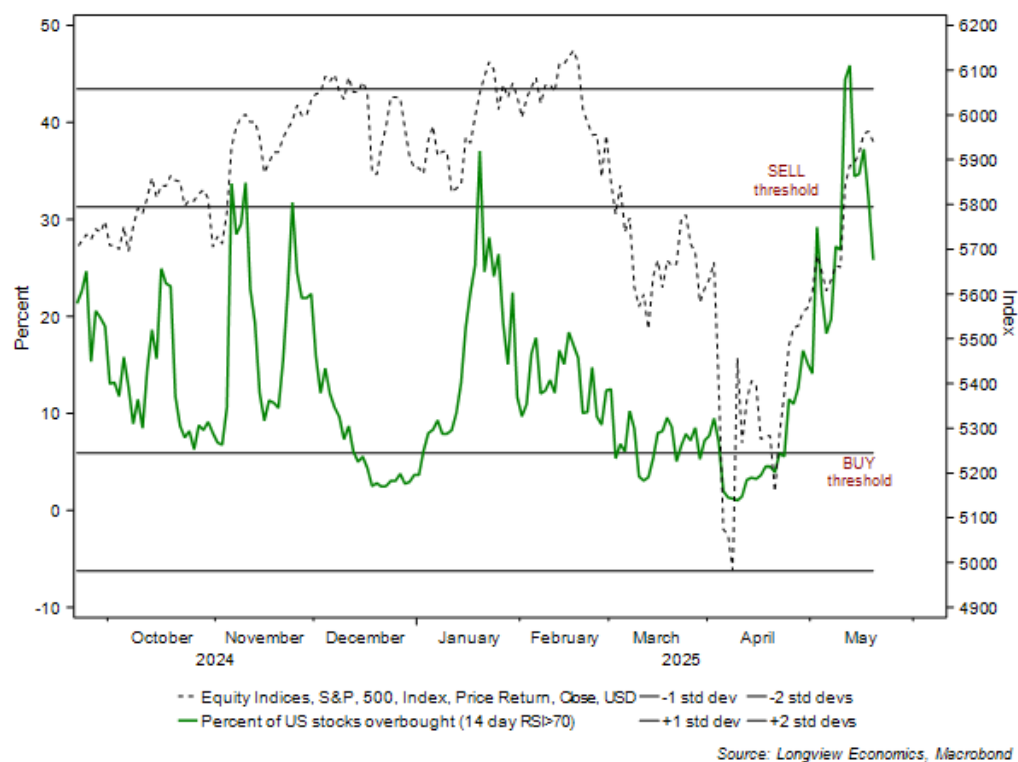
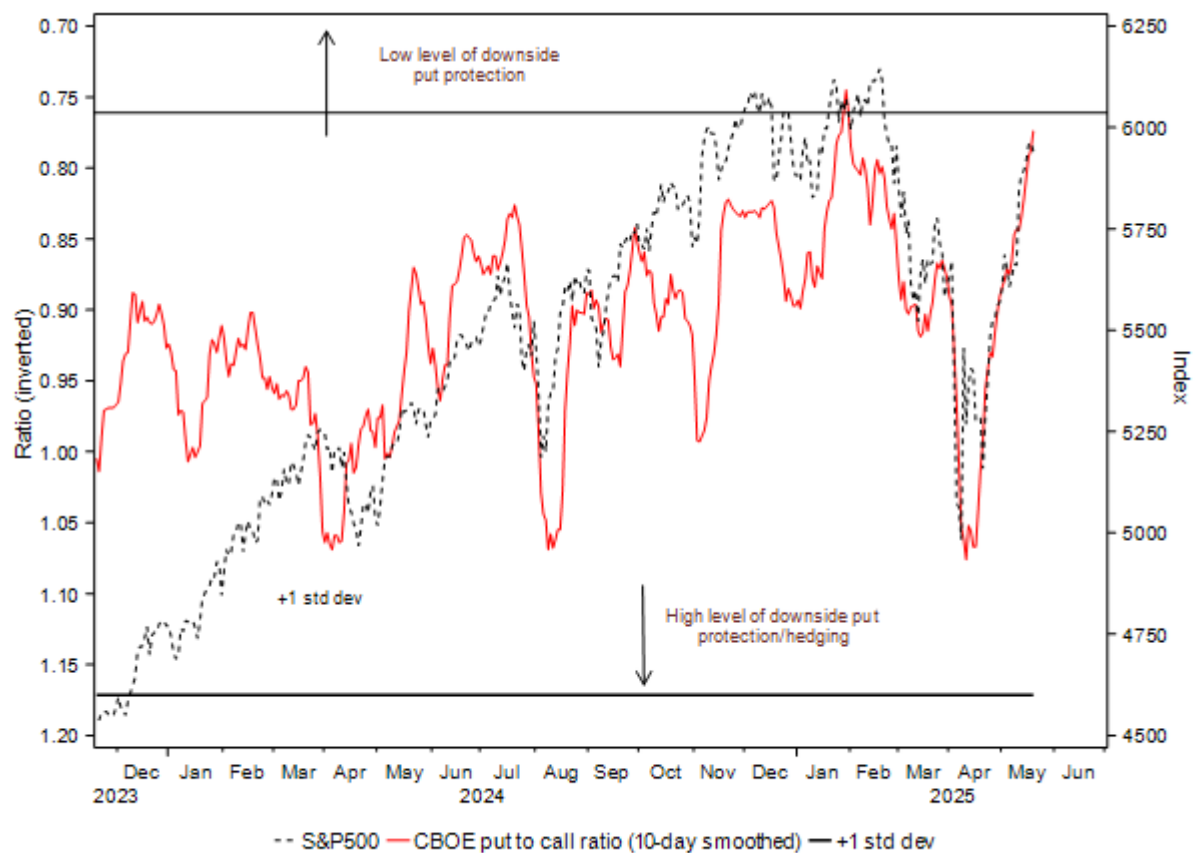


FIG 3b: CBOE medium term put to call ratio vs. S&P500



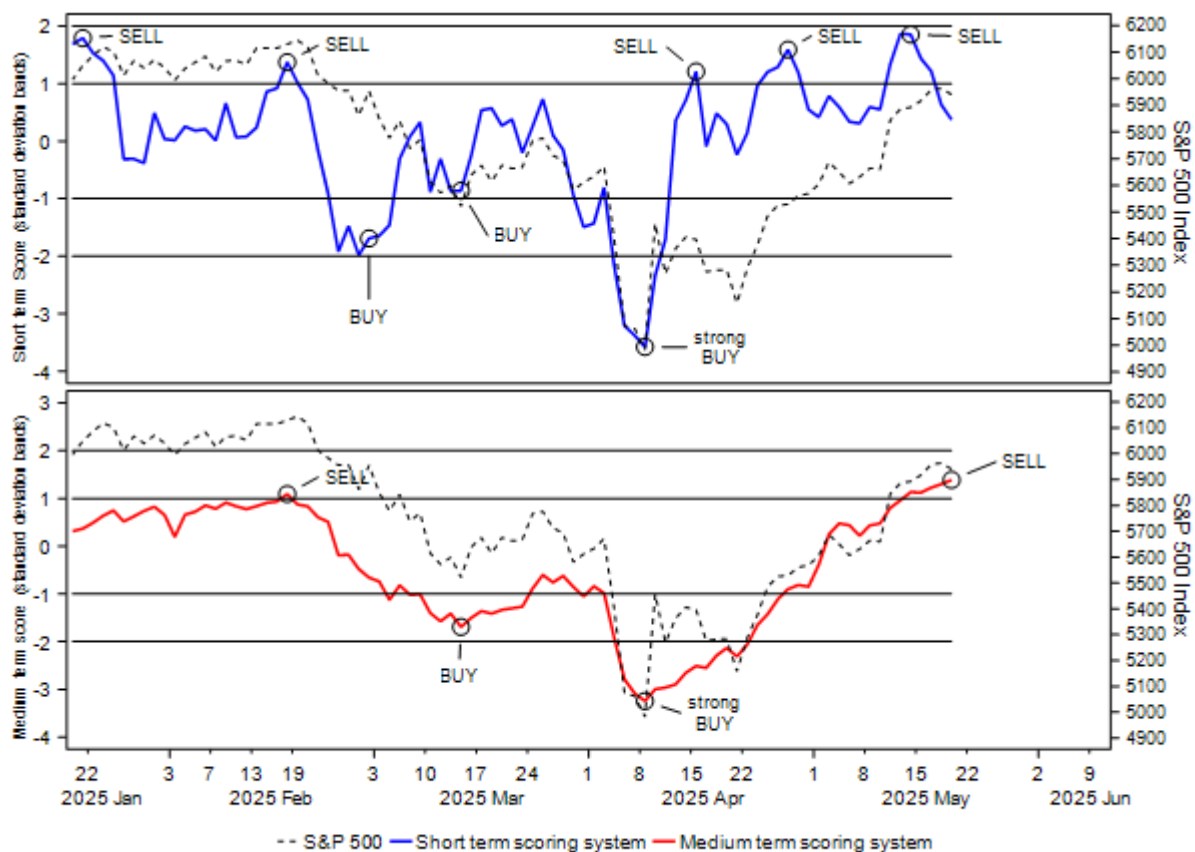
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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: Japanese imports/exports, & trade balance (Apr, 12:50am); Australian Westpac leading index (Apr, 1:30am); **UK Headline & core CPI, RPI & PPI** (Apr, 7am); Land Registry house price index (Apr, 9:30am).

Key events today include: Speeches by the Fed's Hammack & Daly (12am); speech by the ECB's Centeno in Lisbon (11am), Lane on NIRP in Madrid (5pm) & Escriva (6:30pm).

Key earnings today include: TJX, Lowe's, Medtronic, SSE.

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 week on 19th 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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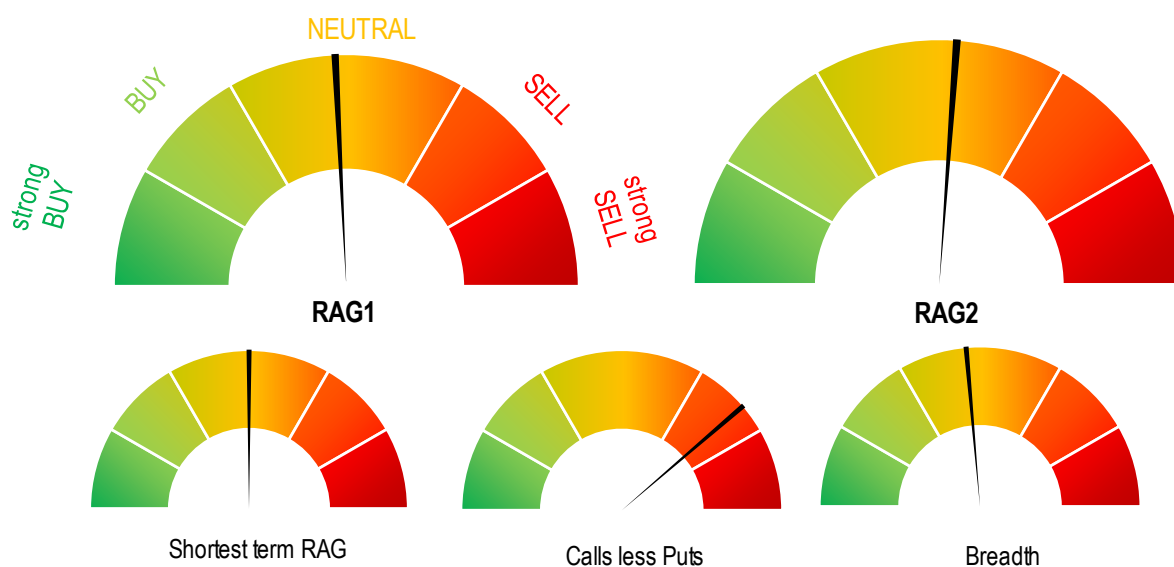
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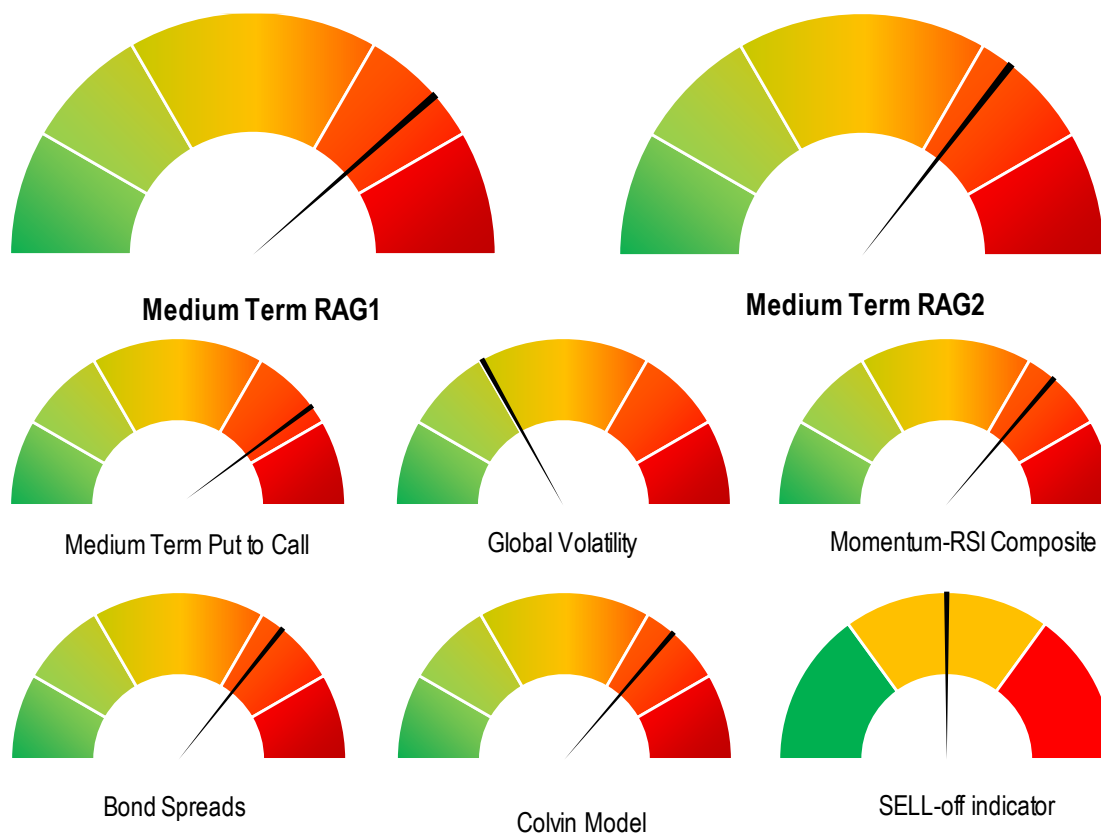
Section 1a: Summary of indicator signals**

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

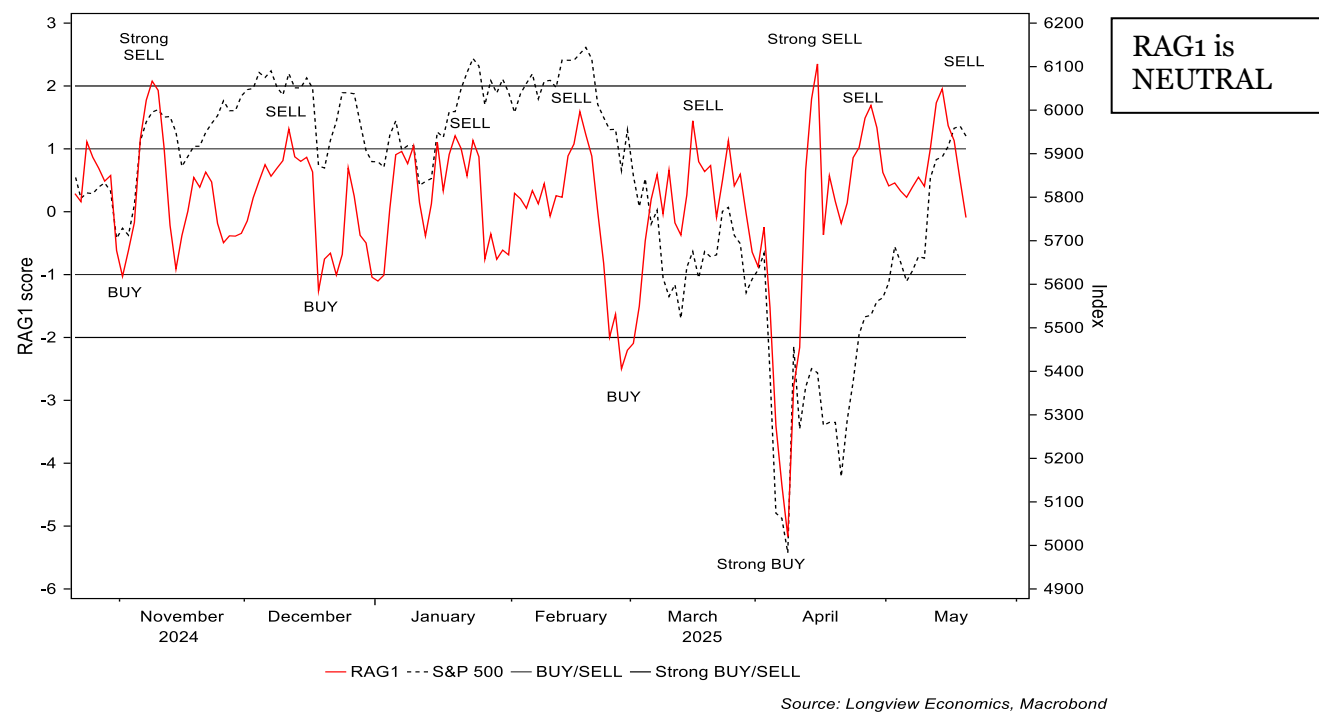
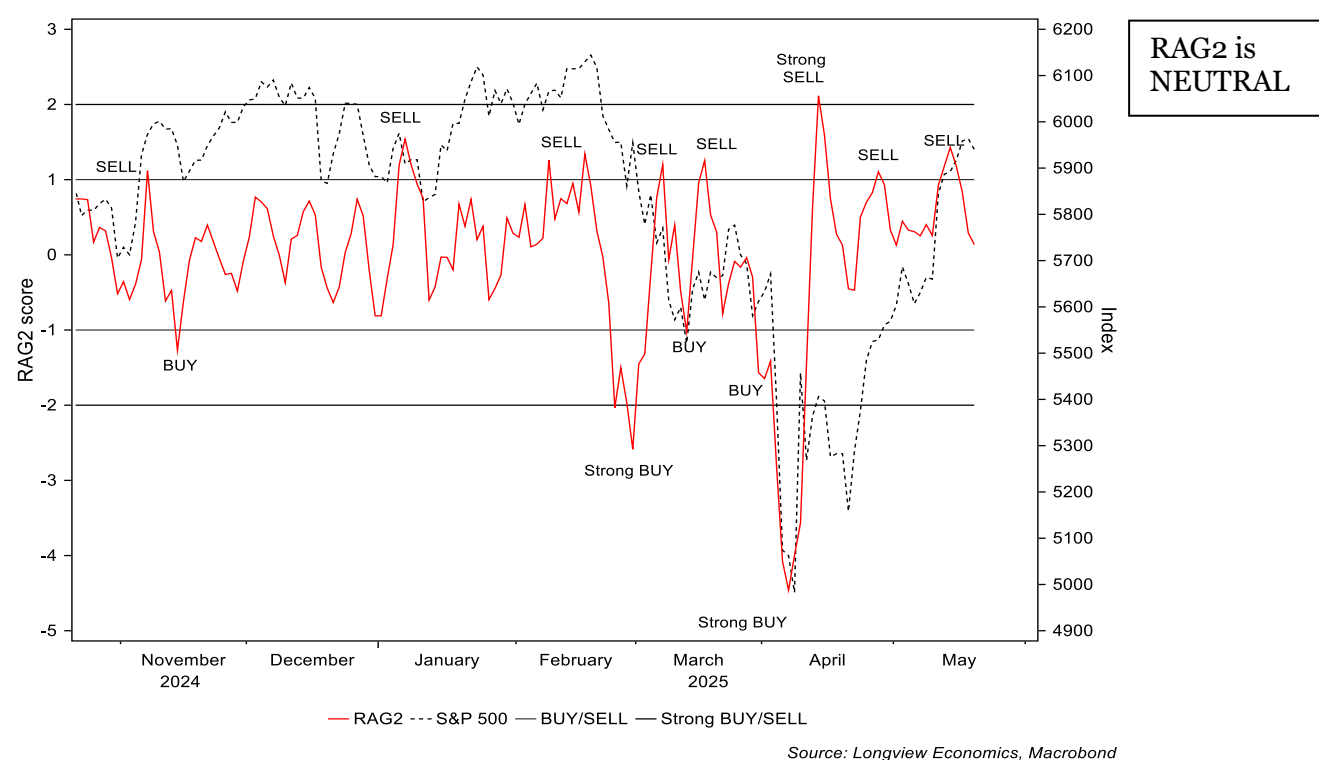


Fig 2b: RAG 2 vs. S&P 500



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

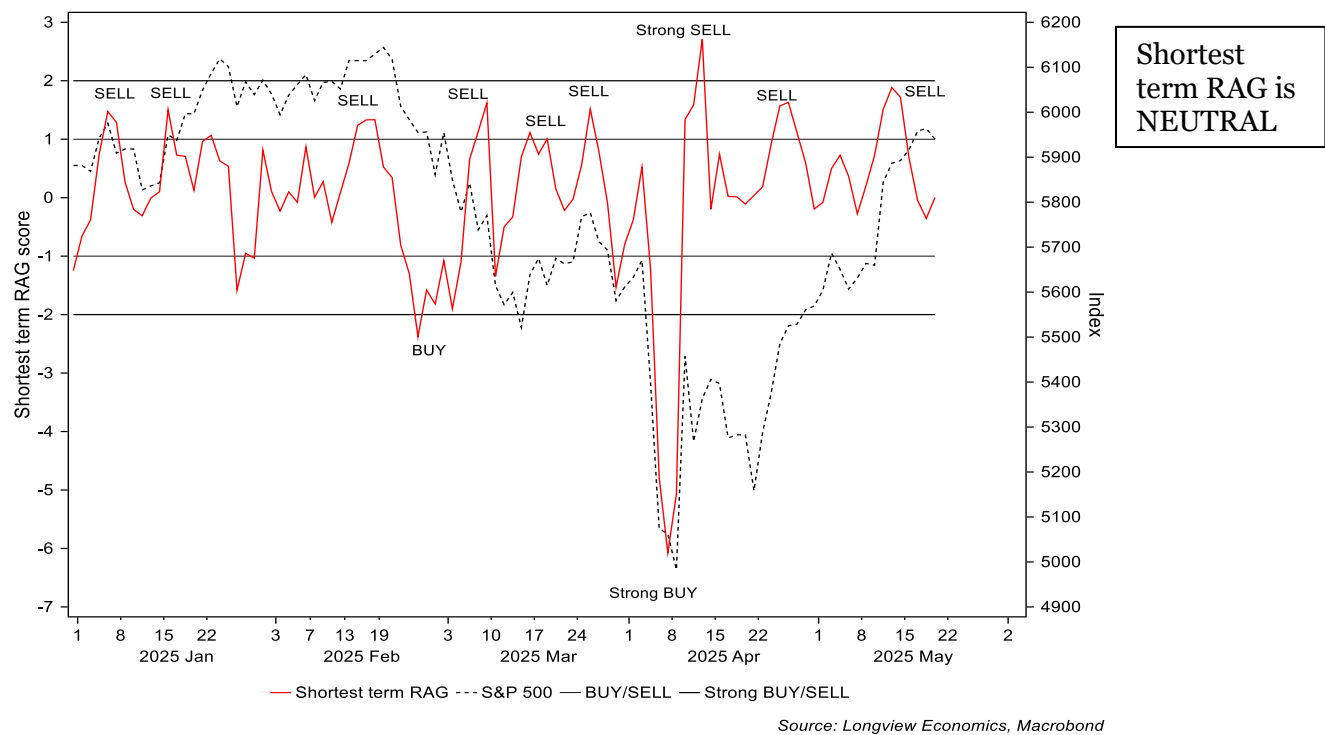
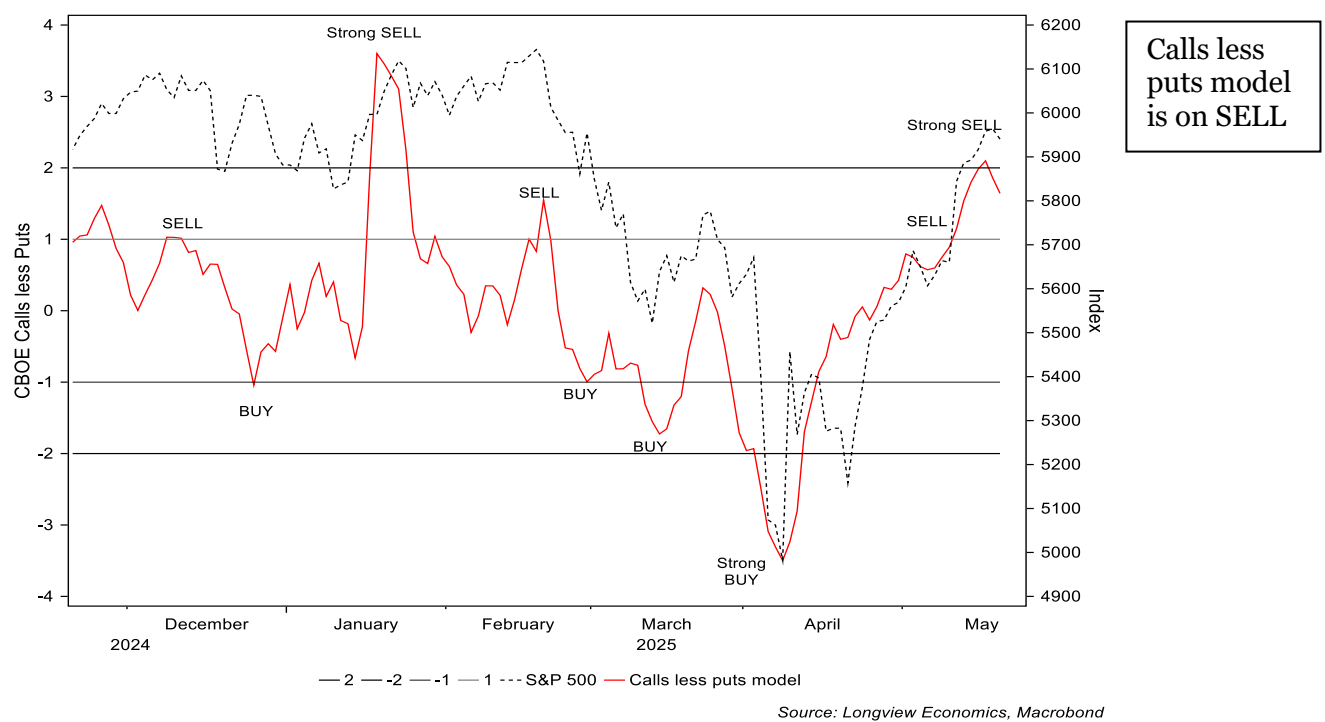
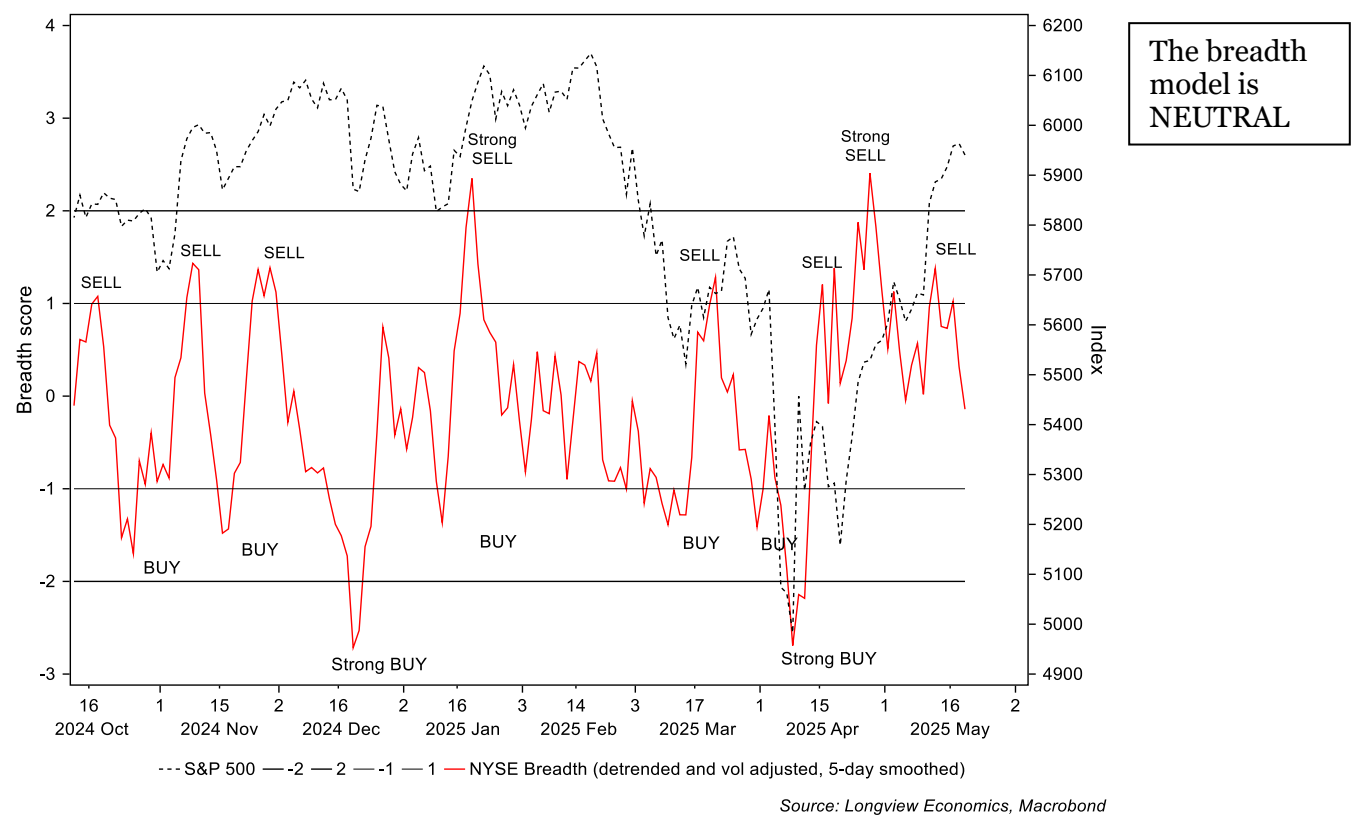


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

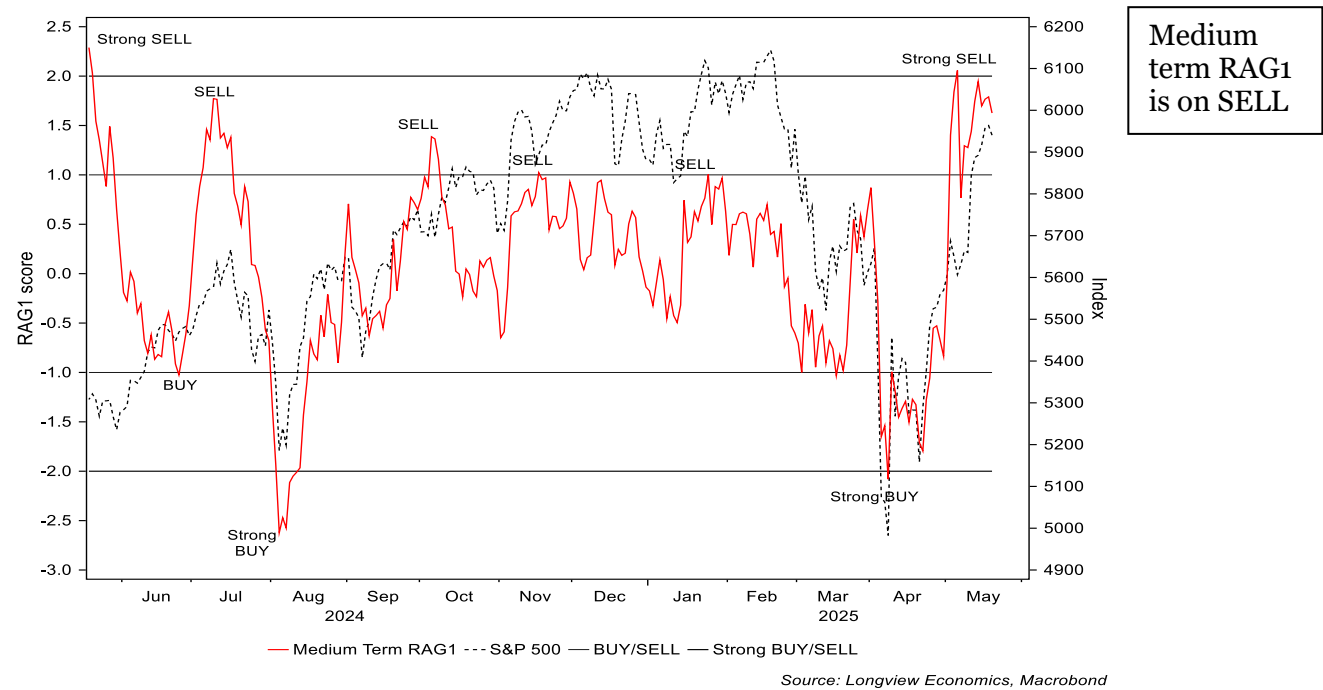
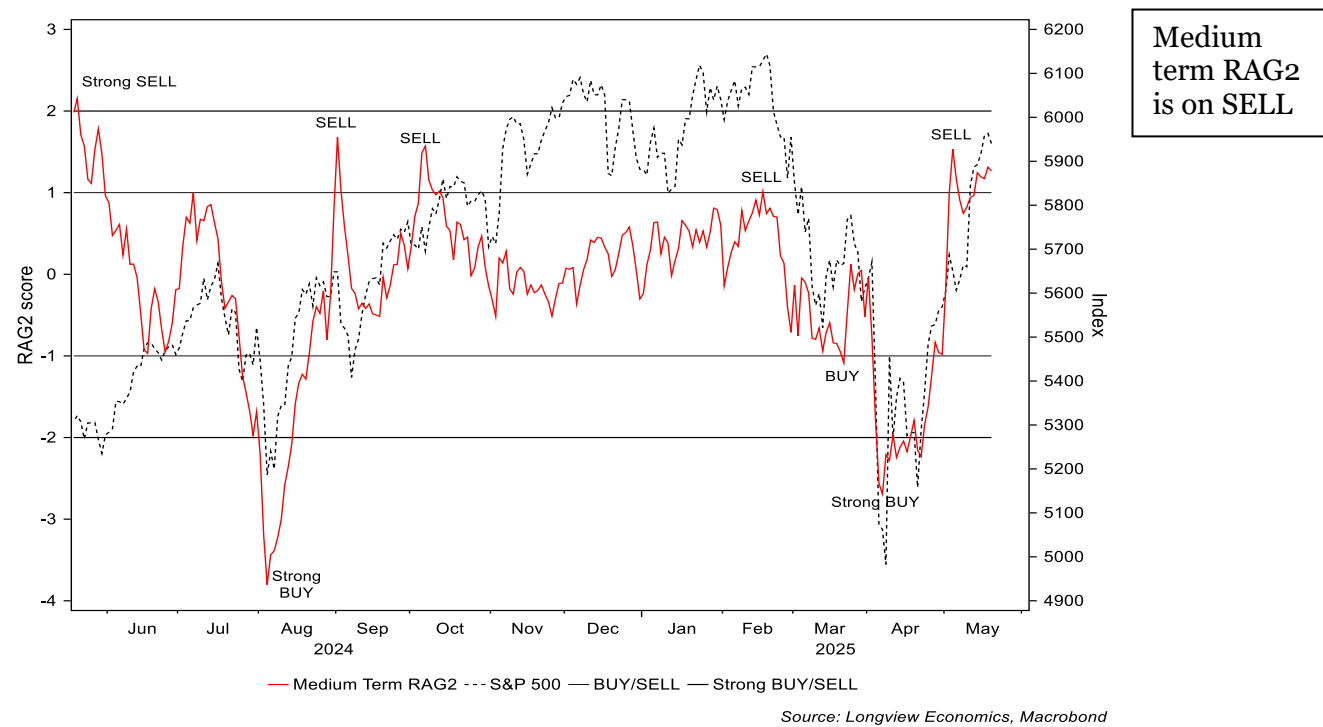


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

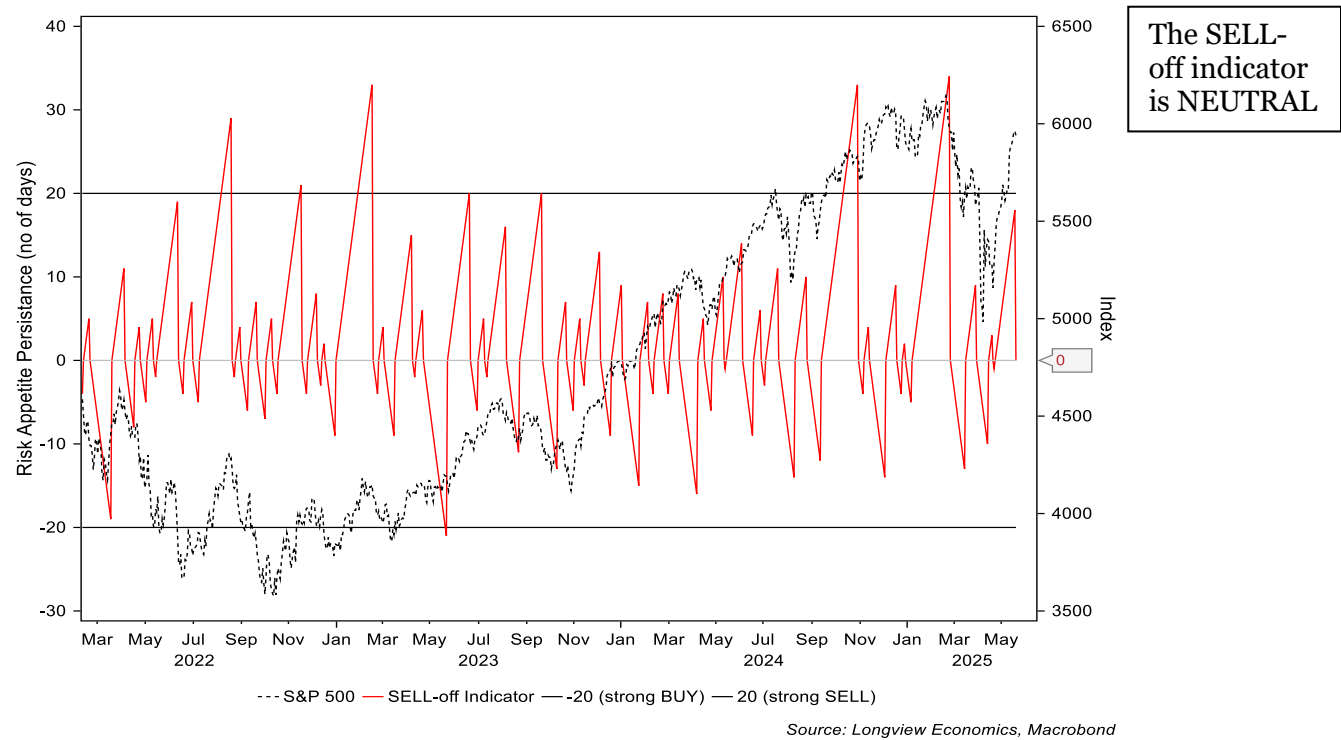
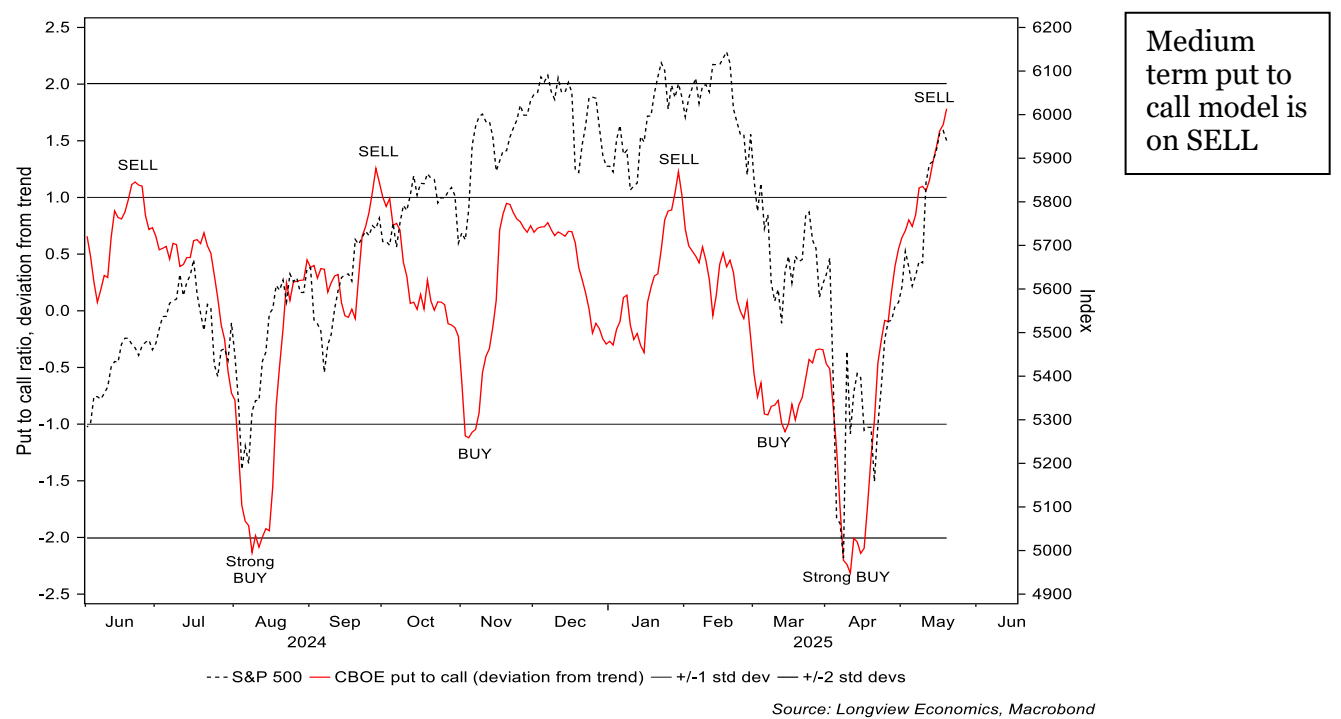


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

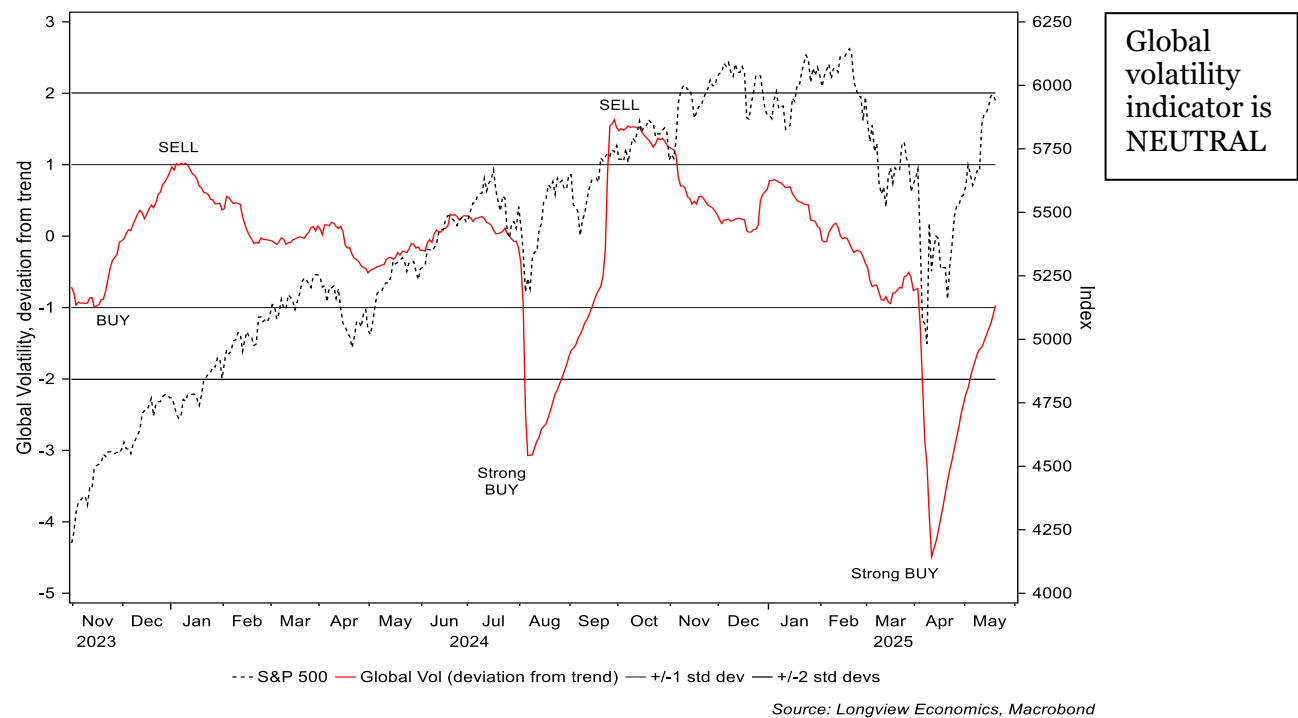


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

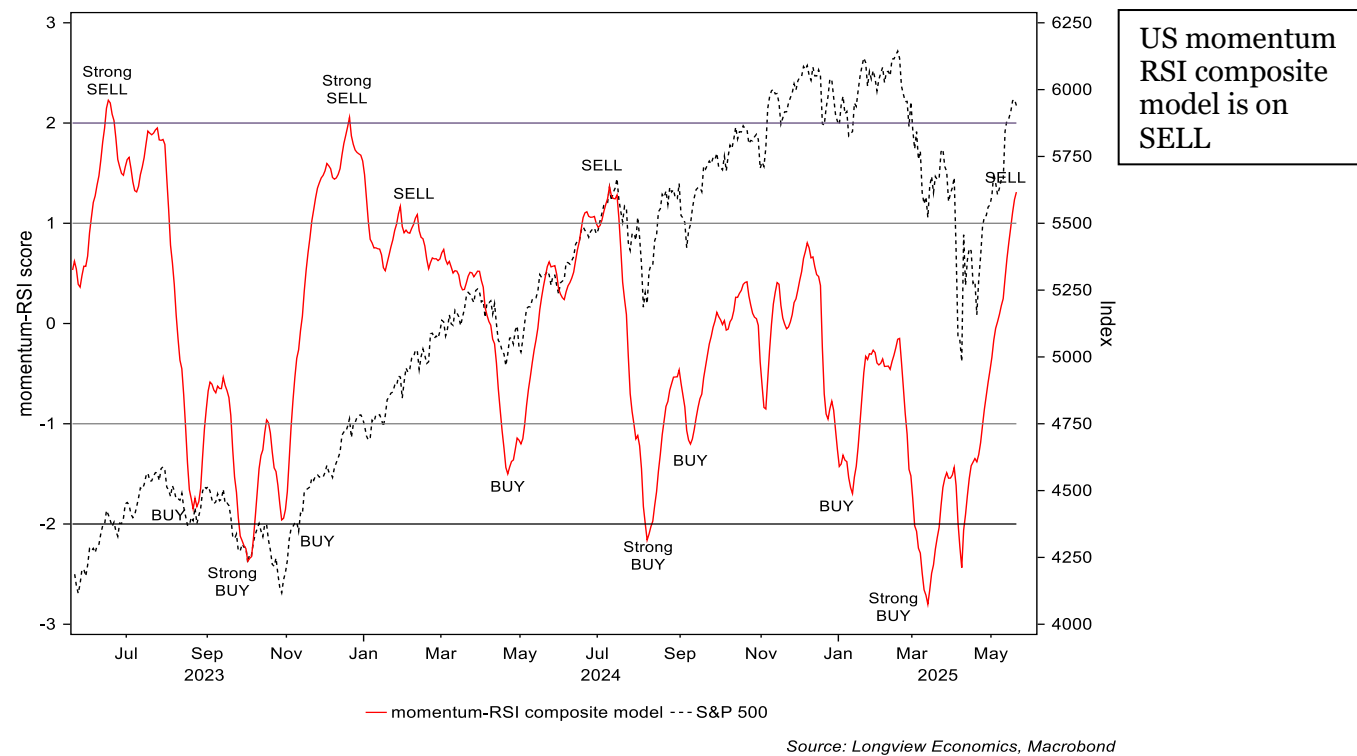


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

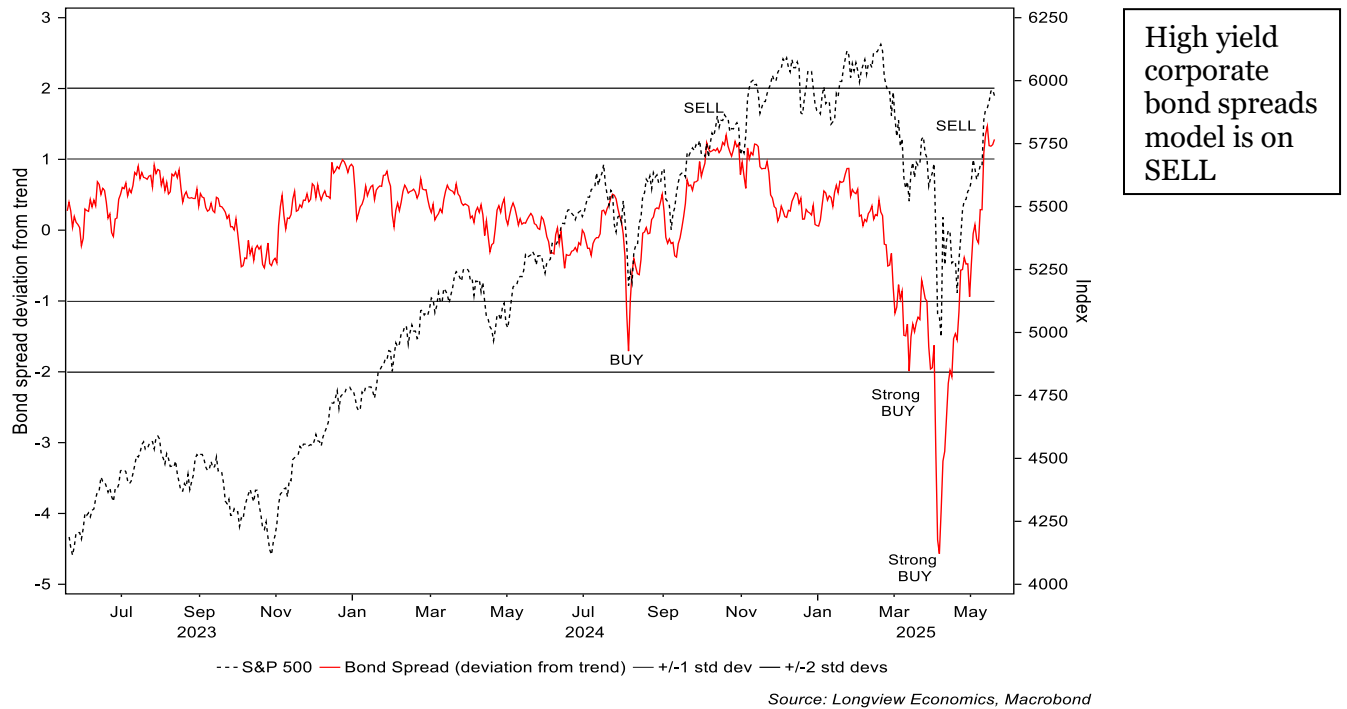
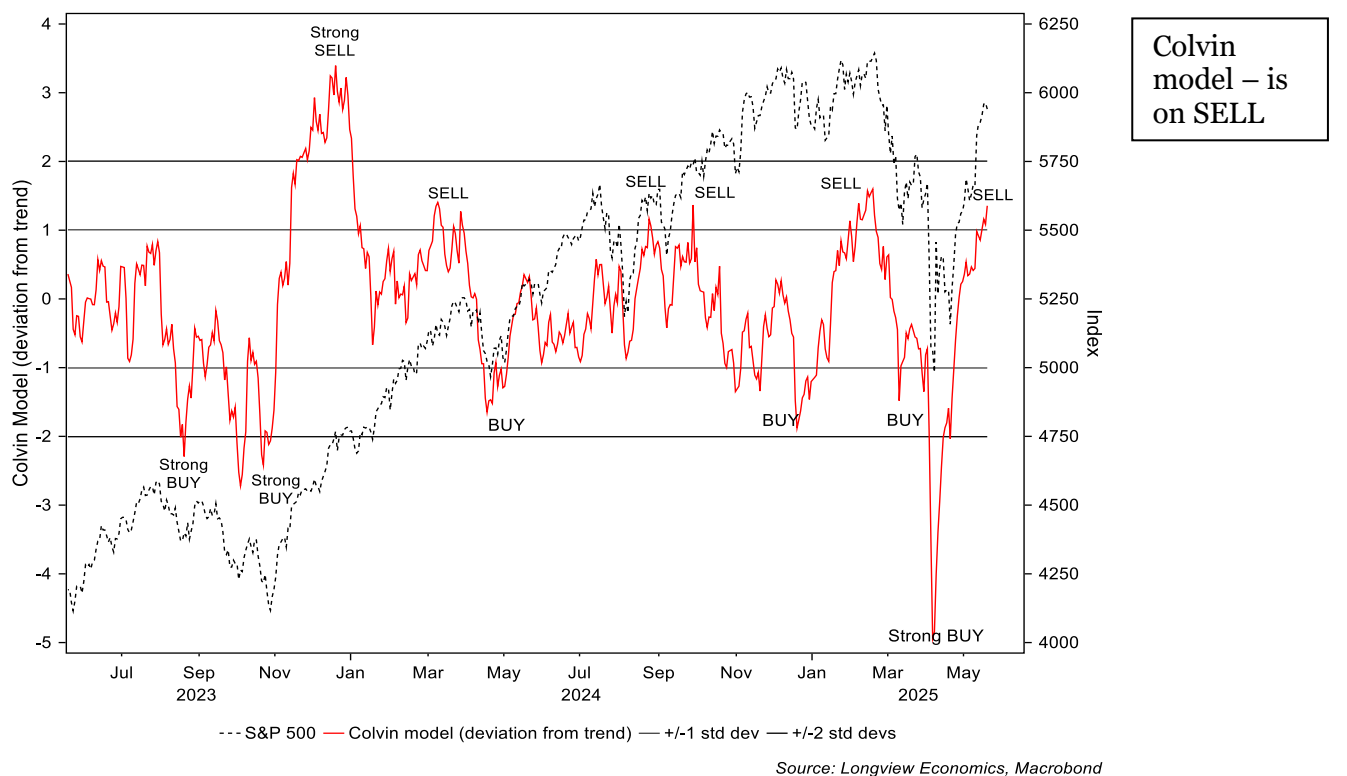


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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