

Equity Index Futures Trading Recommendations

22nd May 2025

“Stay SHORT/Tighten Stop”

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

- Stay 1/2 SHORT S&P500 June futures (blended entry was 5,929.4*).
- Tighten the stop loss to 5,970.0 (from 6,107.25).

*Entry prices were at 5,908.75 and 5,950.00 (i.e. two 1/4 size positions).

Rationale

US stocks came under pressure yesterday as the back up in government bond yields finally started to squeeze equity markets. US 10-year government yields moved up again by a further 10bps (with a closing yield of 4.58%). Yields are now over 50bps higher (in just over a month, FIG 1). US 30-year yields have been behaving similarly, although remain within their range of the past 2 years (i.e. having initially hit 5.11% in October 2023, FIG 1a). Various theories have been put forward (by market participants) as to the drivers of higher yields. The passage of the fiscal stimulus bill through Congress, the poor recent bond auction, and the aggressive back-up in Japanese yields are all considered potential explanations. Added to which, there’s also an argument that this is simply normalisation of the curve (with ongoing steepening) and the building-in of a typical, historical term premium.

Arguably of most concern, in that respect, 30-year JGB yields have backed up aggressively in the past month (FIG 1b - & have remained at high levels overnight). Some regard those yields as the key reason that US yields are higher* (i.e. pulled up by Japanese yields).

With that pressure from bonds, US equities pulled back yesterday (SPX -1.6%; NDX100 -1.3%; SOX -1.8%). All S&P500 top level sectors (except for ‘communication services’) were lower, while all but two of the industry groups were down on the day. In that sense, it was a **clear ‘risk off’ day** in US markets.

Reflecting that, short term models have moved lower. Having generated SELL signals in mid-May, most models have now rolled over and are currently just below that level, i.e. they are officially NEUTRAL but leaning towards SELL (see FIGs 2 to 2d). The model which measures ‘stocks above their 10 day moving averages’ is the one exception (and has moved rapidly back towards BUY – FIG 2d). Medium term models, by their very nature, are slower moving and therefore still on/close to SELL (although the SELL-off indicator did close out yesterday without reaching its key +20 level).

Yesterday, we laid out what we considered the **key current question for the US equity market**. That 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?”

Source: Yesterday’s Daily Risk Appetite publication, 21st May 2025

With the price action over the past 24 hours, the ‘rolling over’ case looks more convincing (albeit the debate is undecided given that S&P500 & NDX100 futures are now at the bottom end of their range of the past 6 – 7 trading sessions, FIGs 1c & 1d). Risk reward, though, favours sticking with the SHORT position but tightening the stop loss (see trading recommendation above).

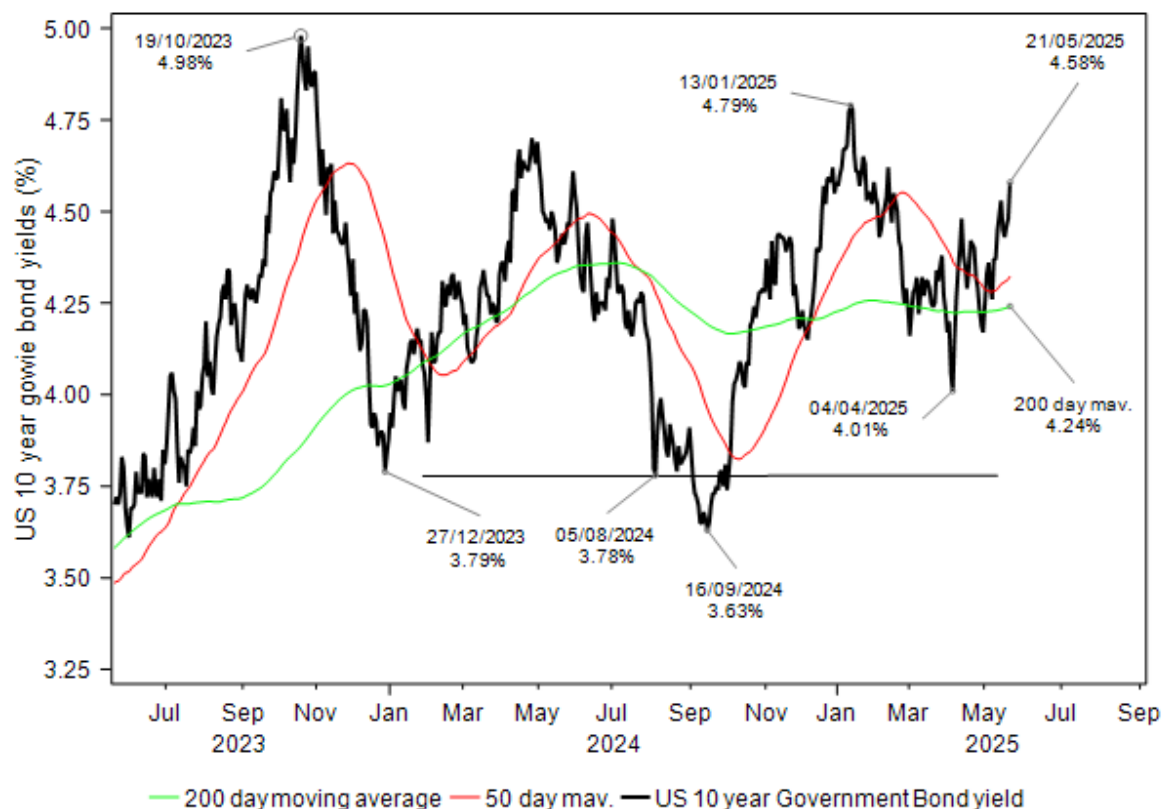
Please see below for a list of today’s key events and macro data.

Kind regards,

The team @ Longview Economics

*NB Pls see tomorrow’s Longview on Friday for detailed analysis.

FIG 1: US 10-year bond yields shown with key moving averages



Source: Longview Economics, Macrobond

FIG 1a: US 30-year bond yields shown with their 200 day moving average

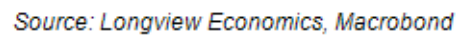


FIG 1b: Japanese 30-year bond yields -> 90-day GIP chart

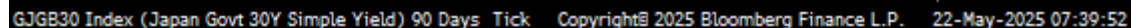


FIG 1c: S&P500 futures 10-day tick chart shown with overnight price action

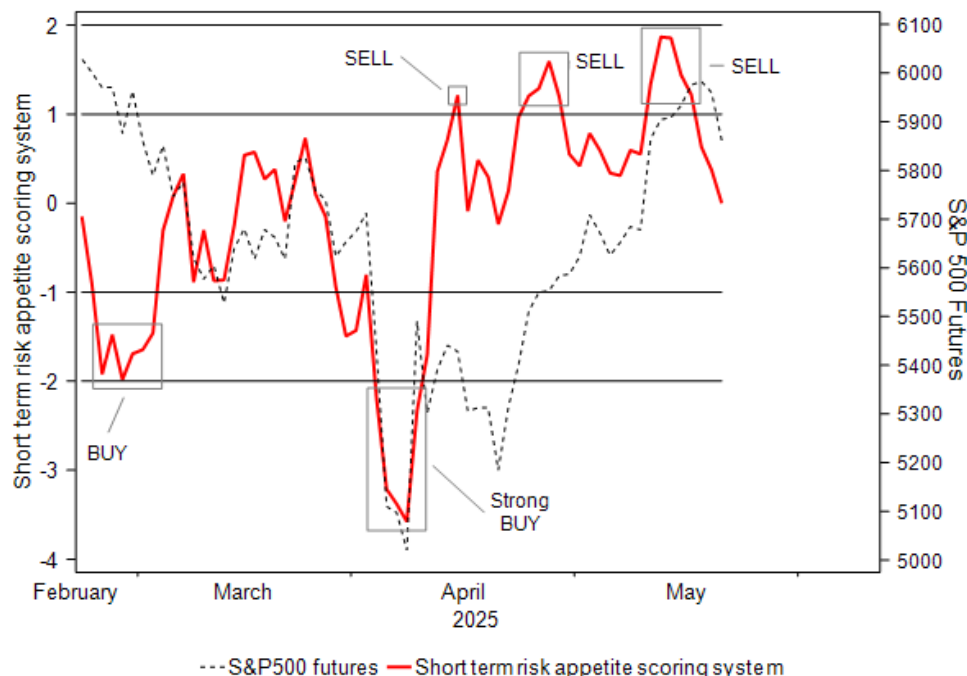


FIG 1d: NASDAQ100 futures 10-day tick chart shown with overnight price action



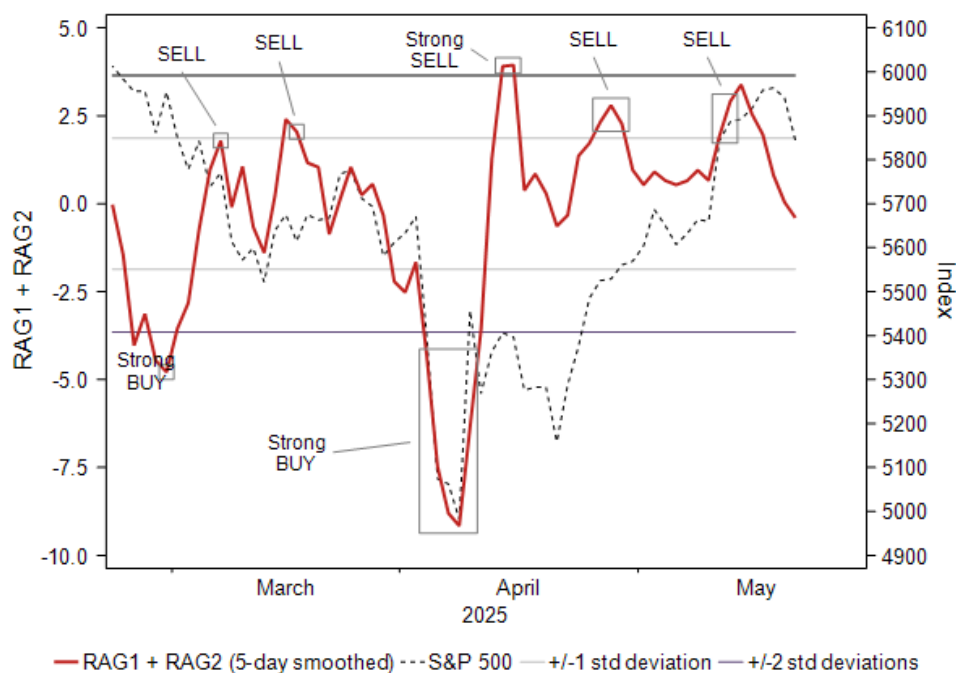
Short term models have been rolling over from SELL....

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

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

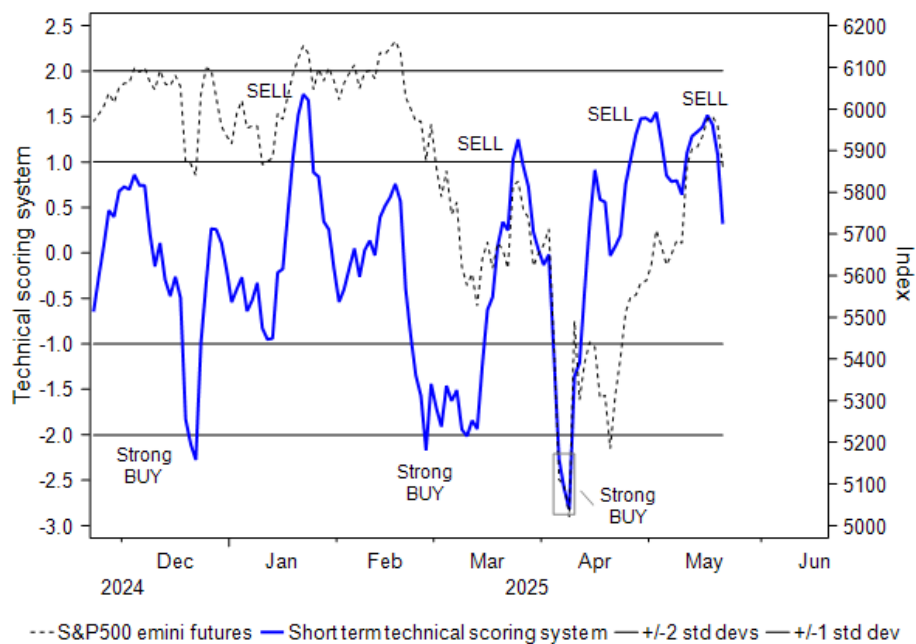


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

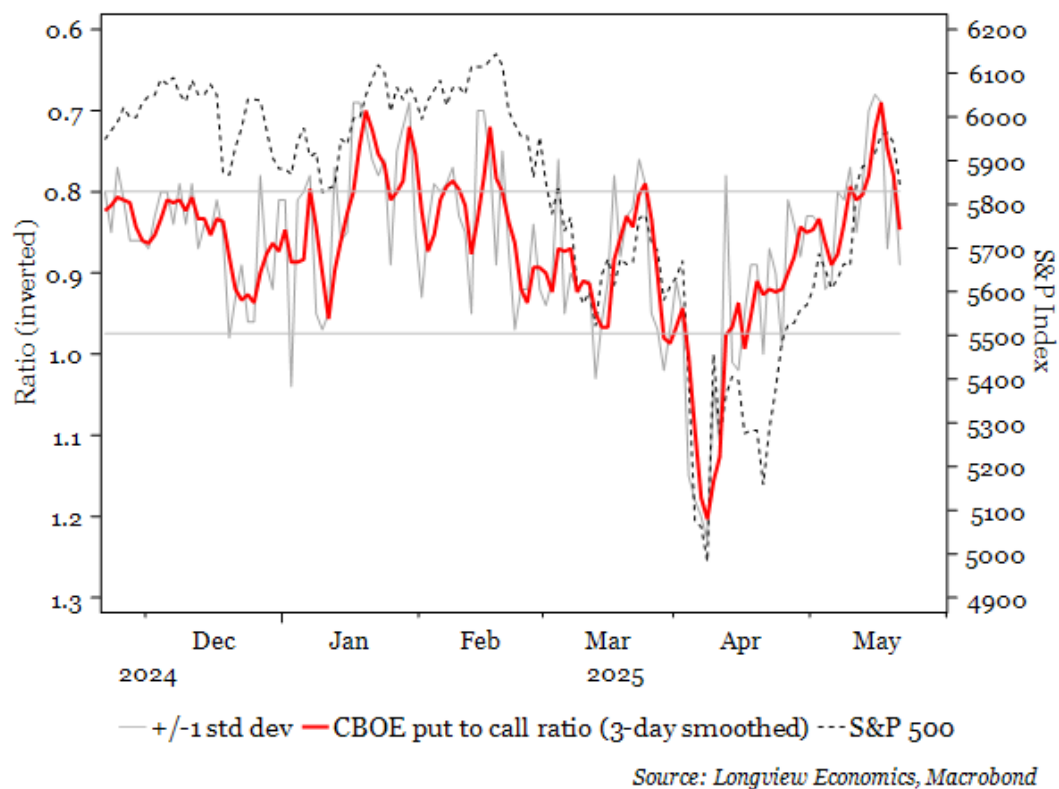
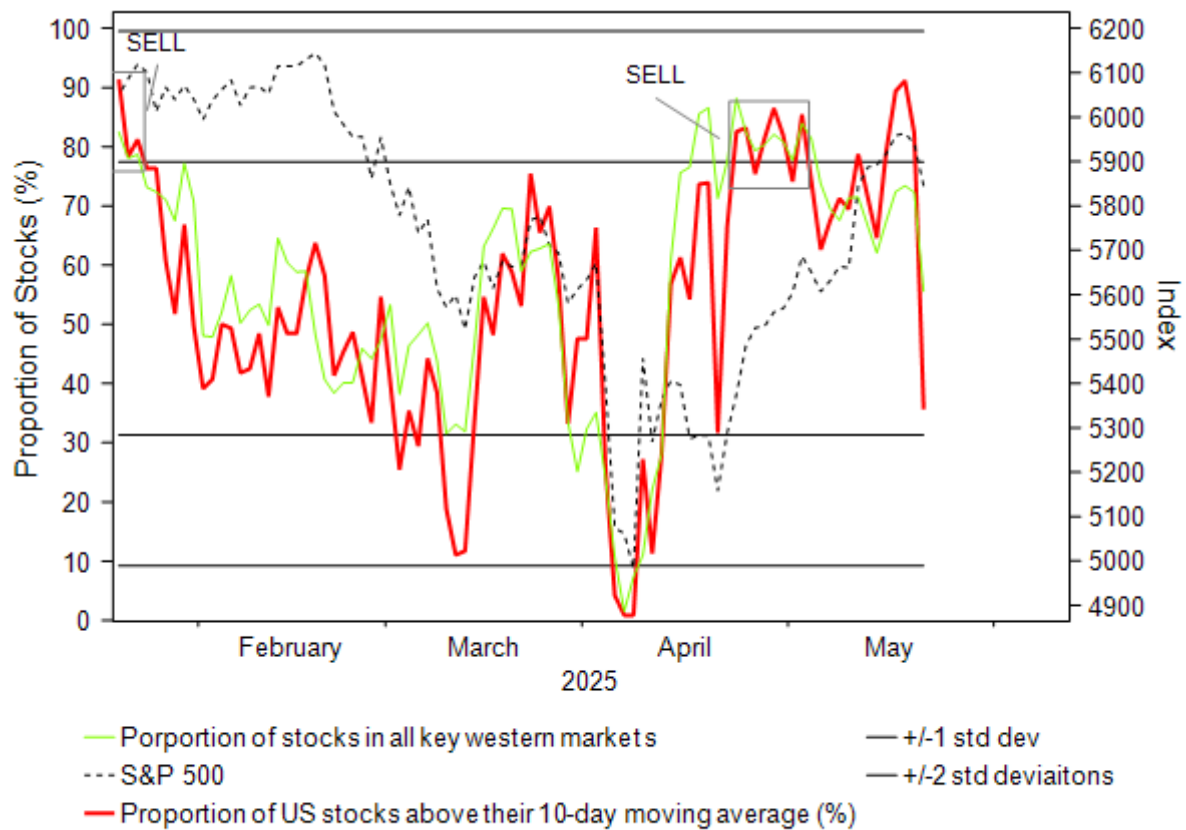


FIG 2d: Proportion of US stocks above their 10 day moving average vs. S&P500



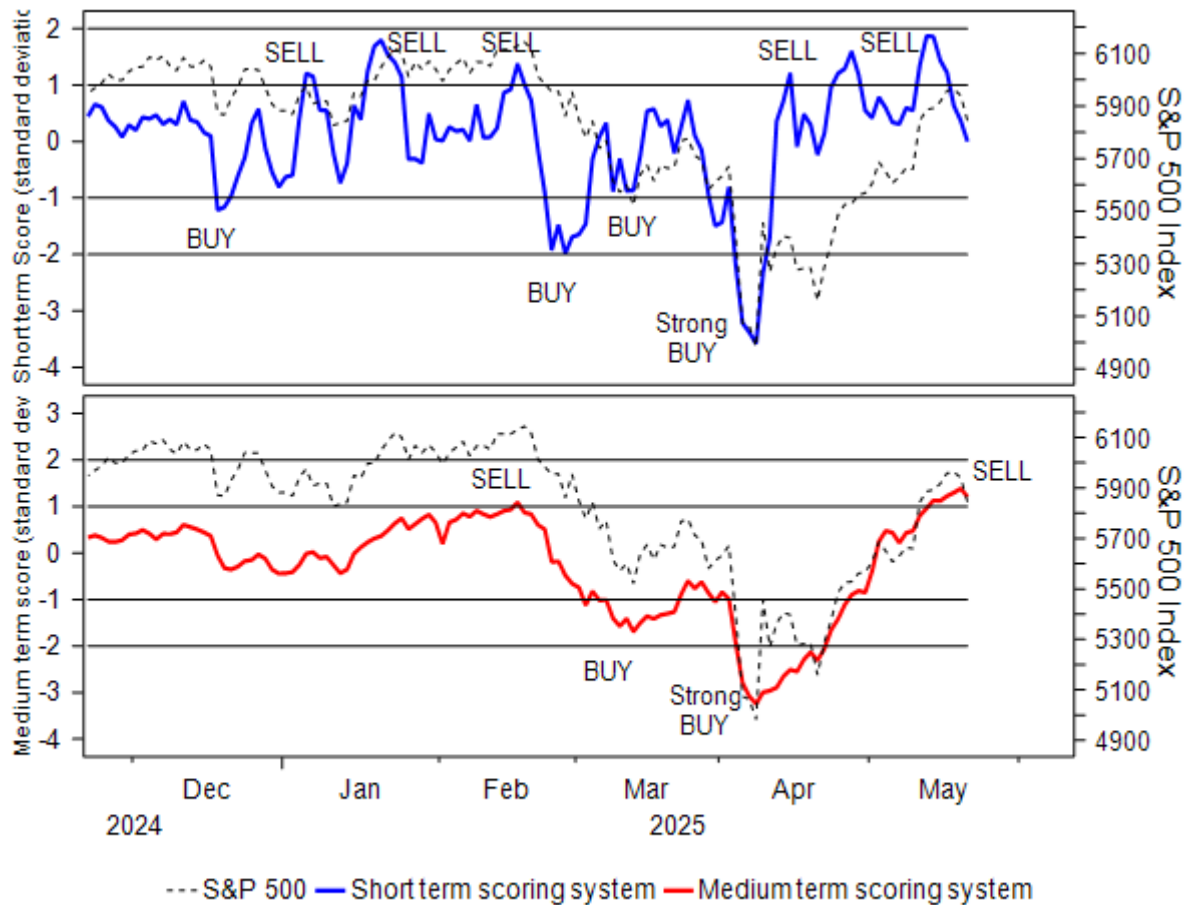
Source: Longview Economics, Macrobond

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: Australian S&P manufacturing & services sector PMIs (May first estimates, 12am); Japanese machinery orders (Mar, 12:50am); **Japanese Jibun Bank manufacturing & services sector PMIs** (May first estimate, 1:30am); Japanese machine tool orders (April final estimate, 7am); UK Public sector finances (Apr, 7am); French INSEE business & manufacturing confidence (May, 7:45am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all May first estimates; **German IFO business climate** (May, 9am); French retail sales (Apr); **UK S&P manufacturing & service sector PMIs** (May first estimates, 9:30am); CBI industrial trends survey (May, 11am); Canadian CFIB business barometer (May, 12pm); US Chicago Fed national activity (Apr, 1:30pm); Canadian industrial product & raw material price index (Apr, 1:30pm); US weekly jobless claims (1:30pm); **US S&P manufacturing & service sector PMIs** (May first estimates, 2:45pm); **US existing home sales** (Apr, 3pm); US Kansas City Fed manufacturing sector activity (May, 4pm).

Key events today include: Speech by the RBA's Hauser (9:30am); speeches by the ECB's Holzmann in Vienna (8am) & Vujcic in Croatia (9:20am); ECB publishes account of April 16-17 policy meeting; speech by the Fed's Barkin in a fireside chat (1pm) & Williams gives keynote remarks (7pm).

Key earnings today include: Intuit, Analog Devices, Workday, Autodesk, Assicurazioni Generali, BT.

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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1 – 2 Week View on Risk

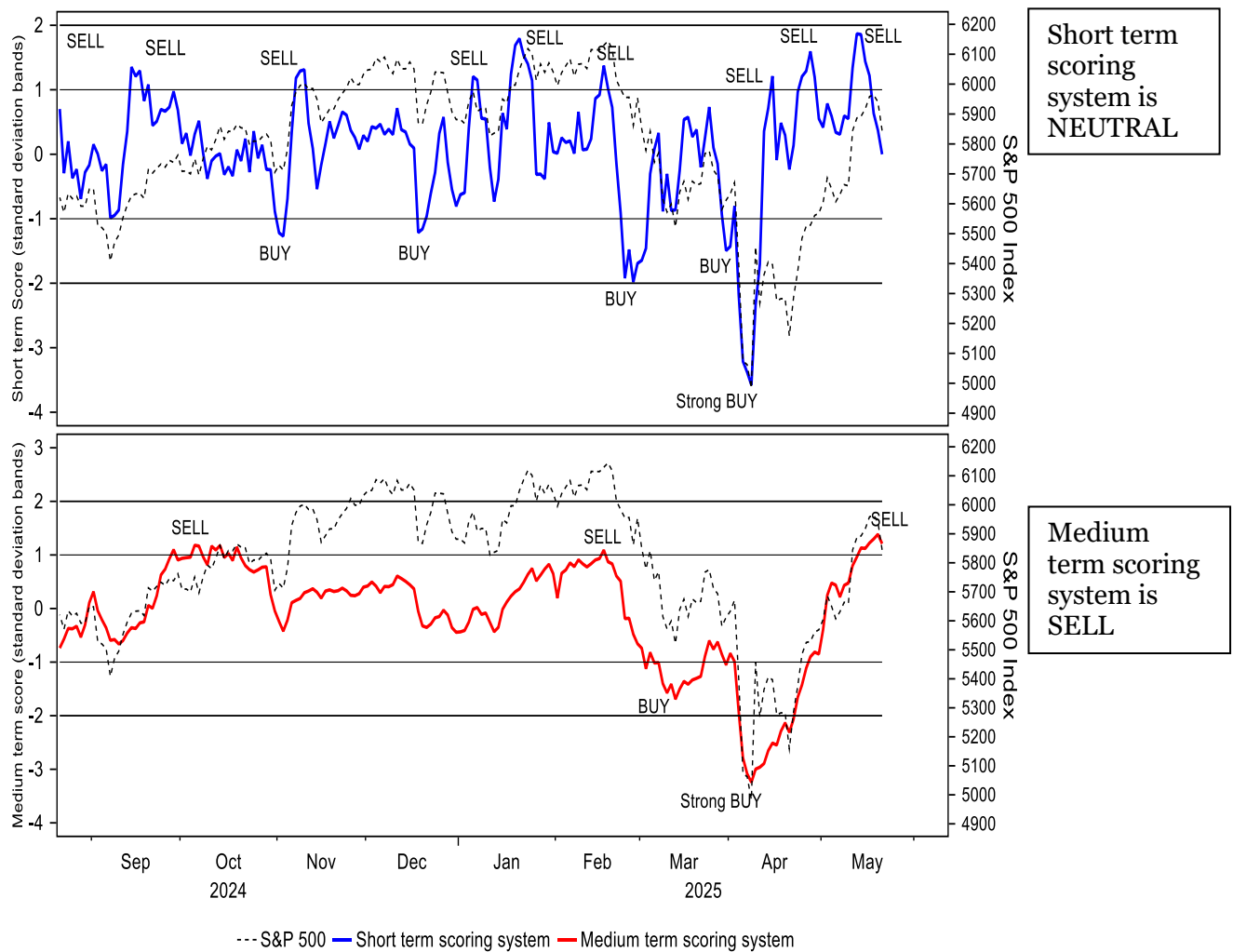
Longview Economics

Email: research@longvieweconomics.com

22nd May 2025

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

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



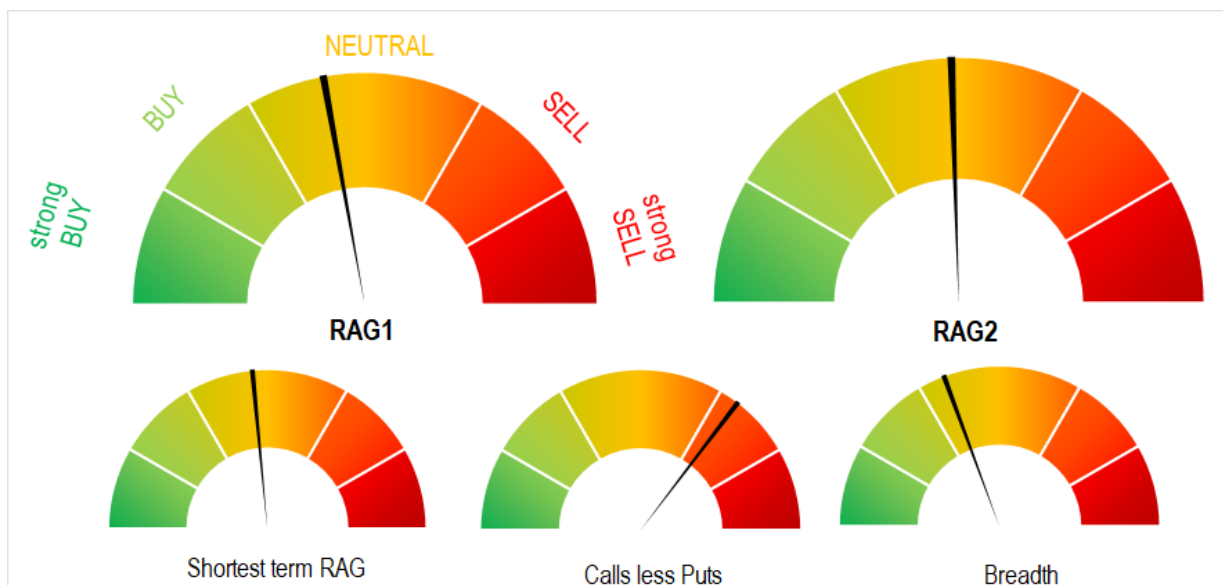
Source: Longview Economics, Macrobond

*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**

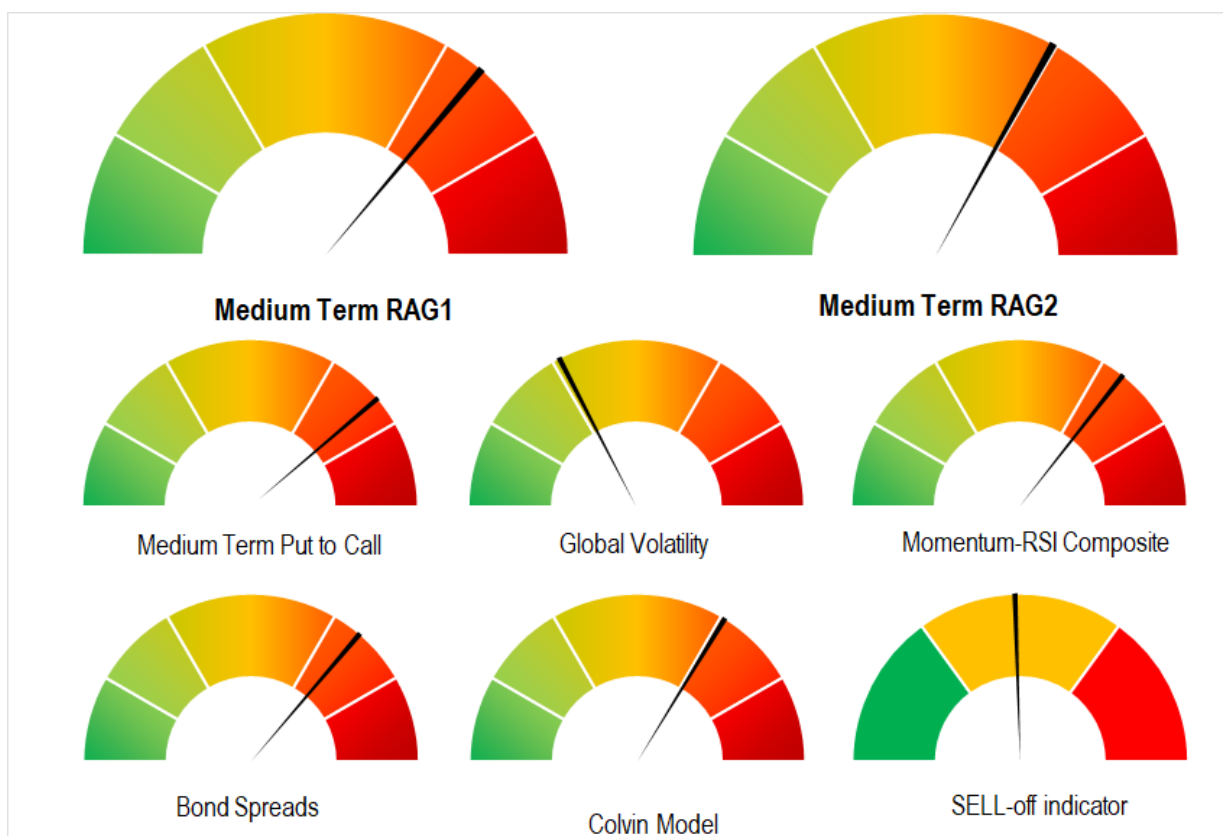
Section 1a: Summary of indicator signals**

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

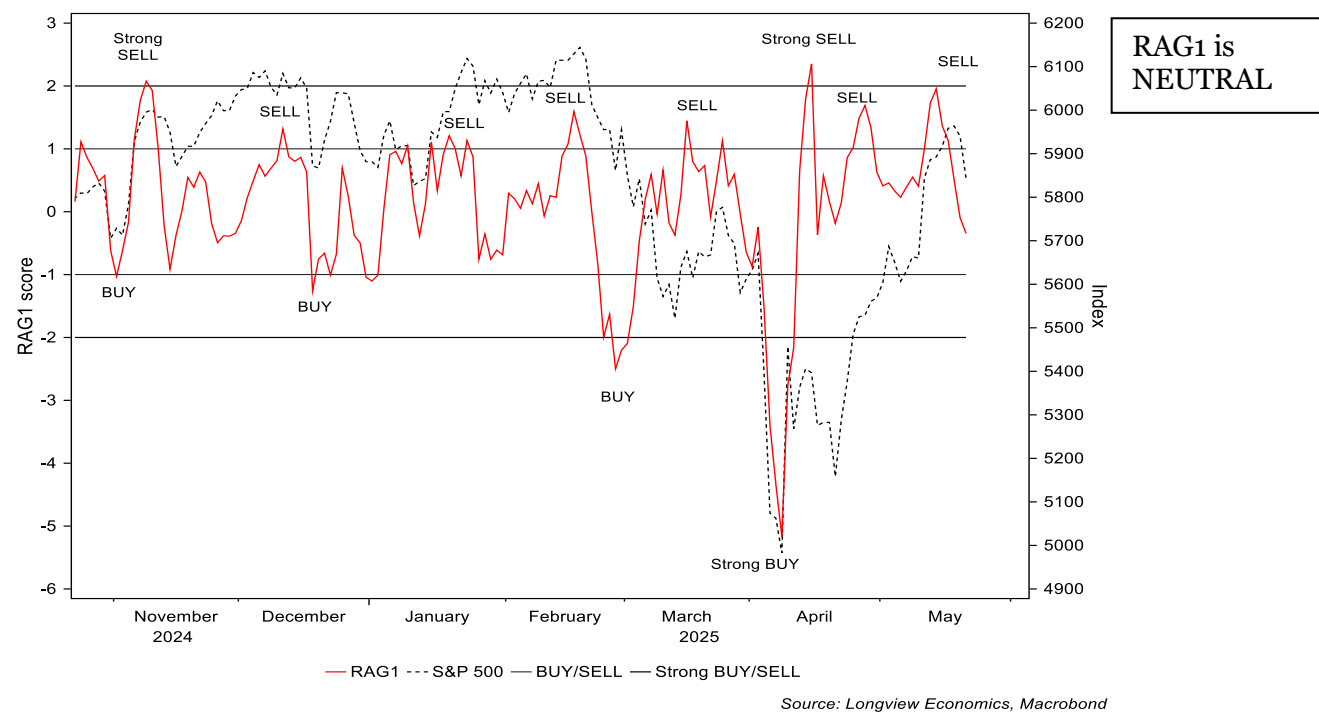
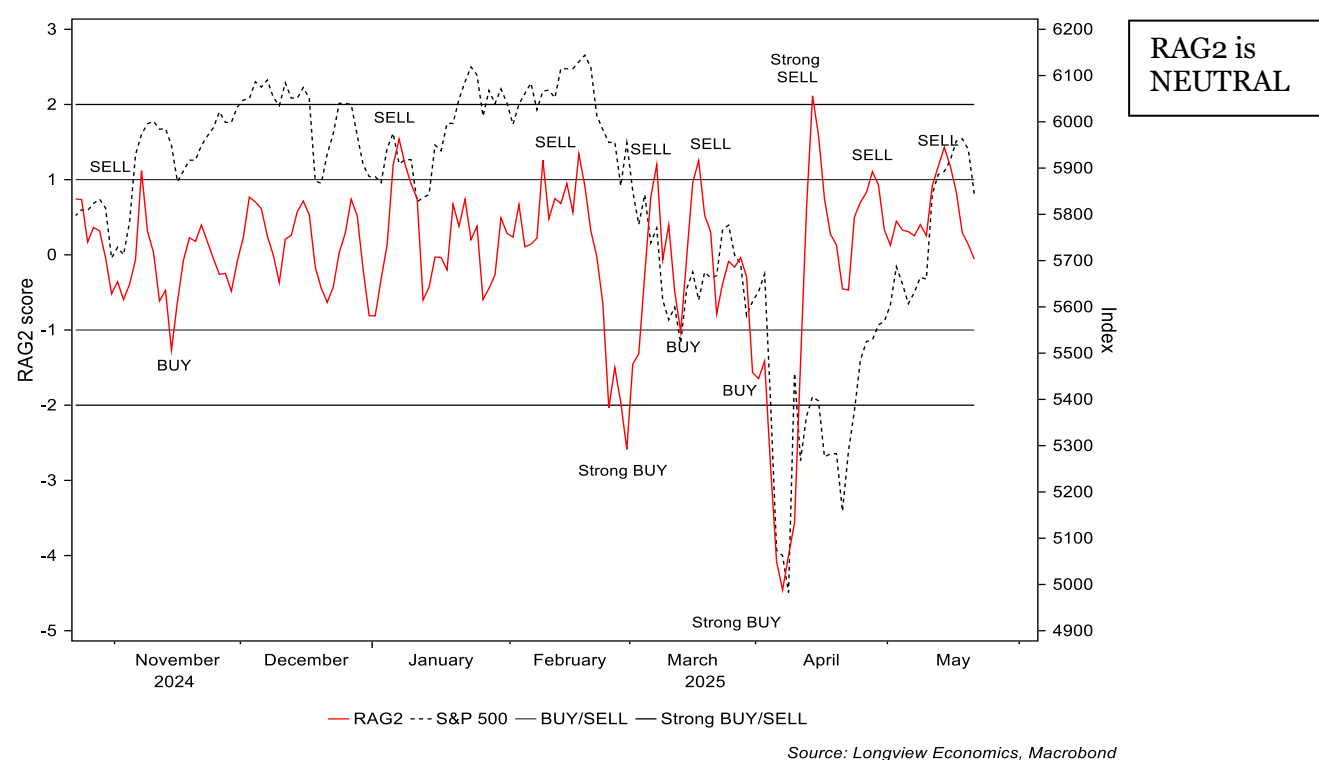


Fig 2b: RAG 2 vs. S&P 500



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

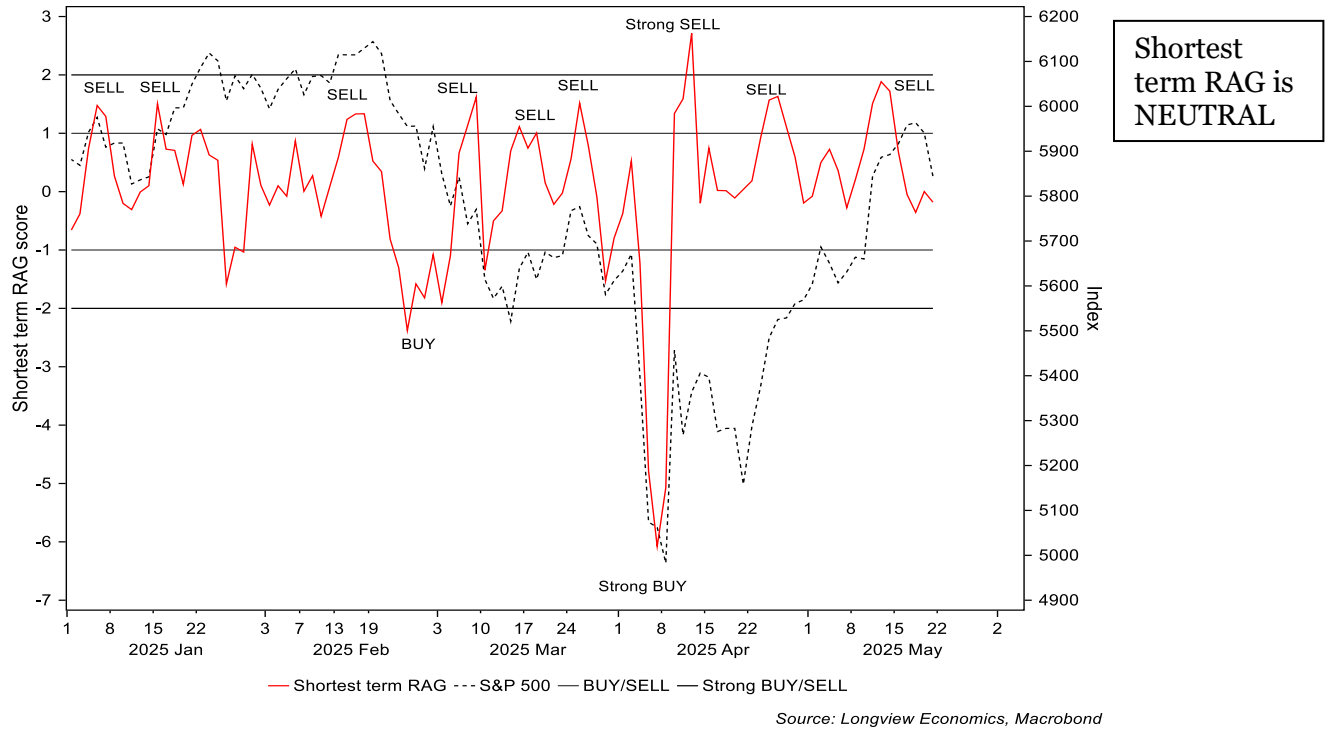
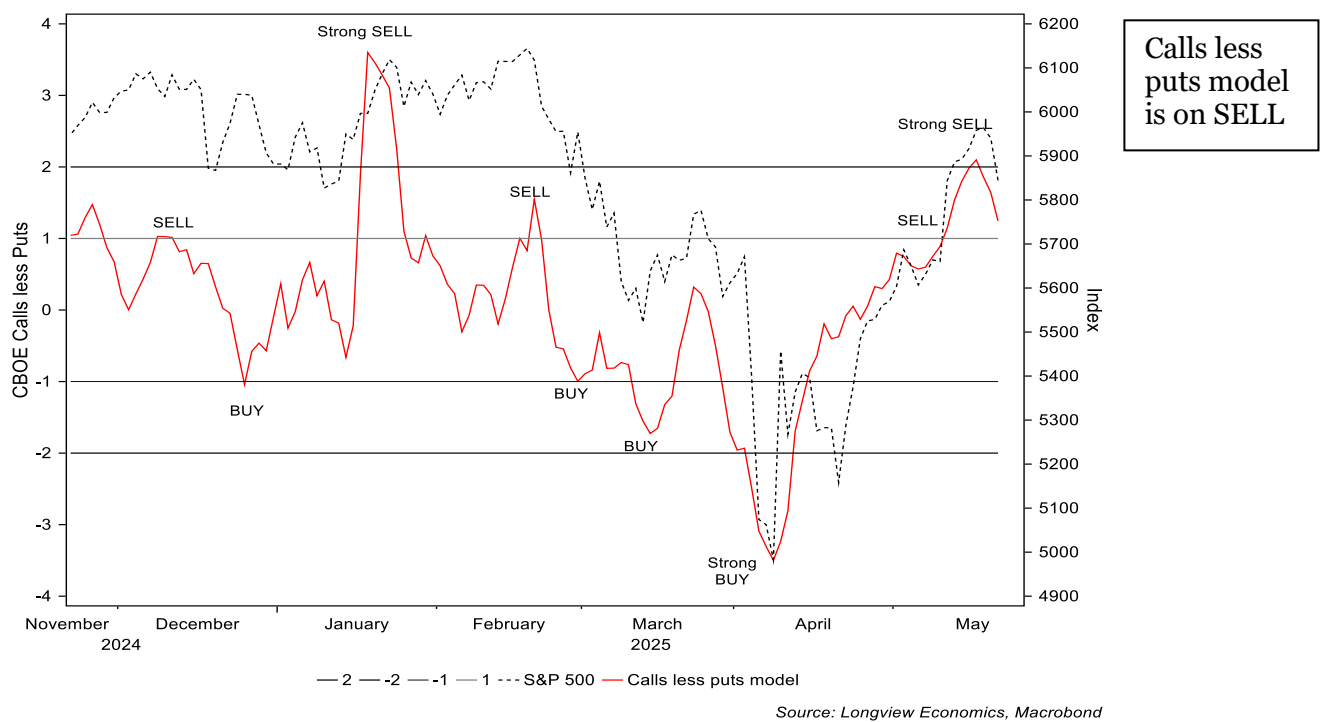
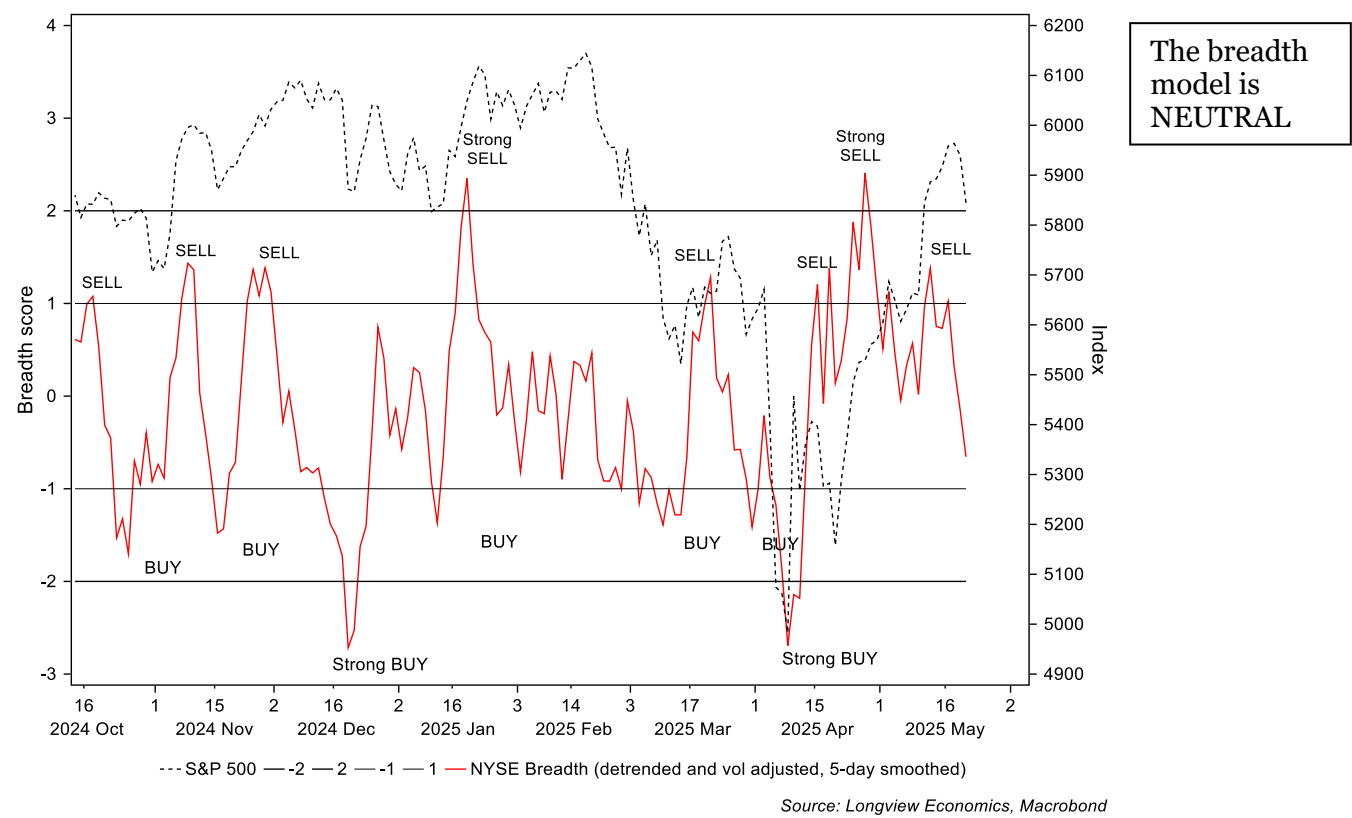


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

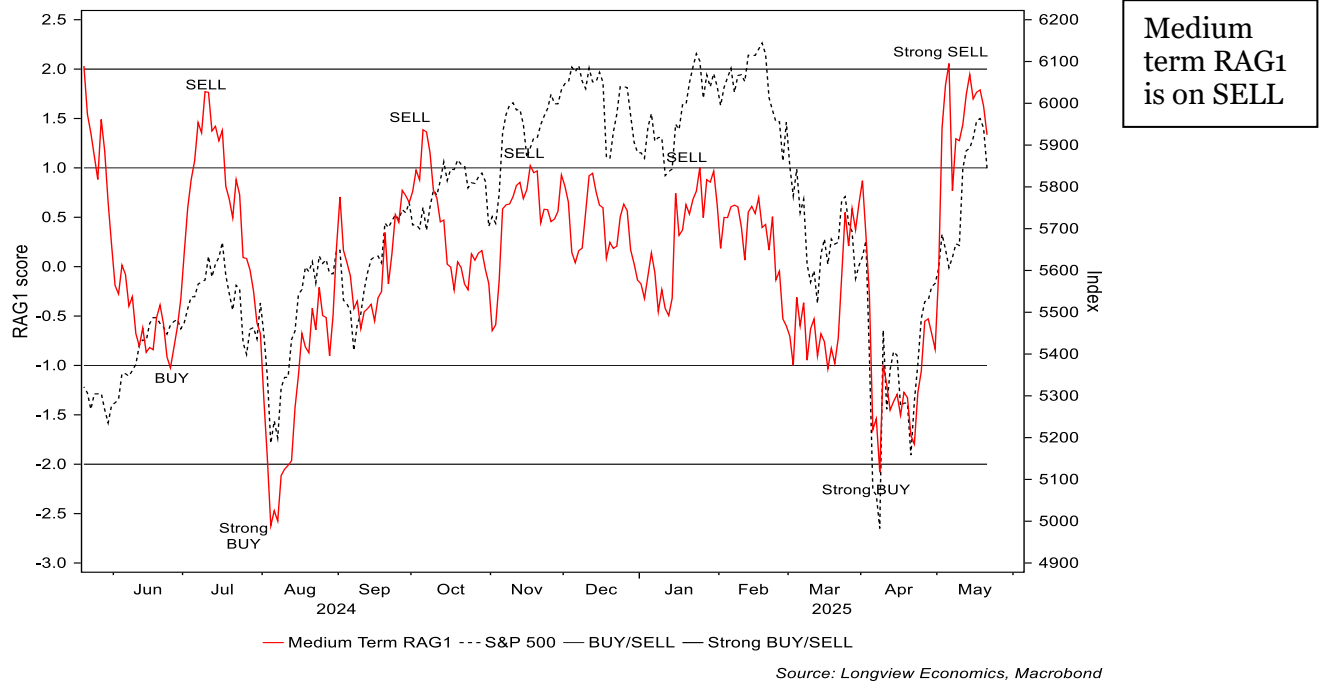
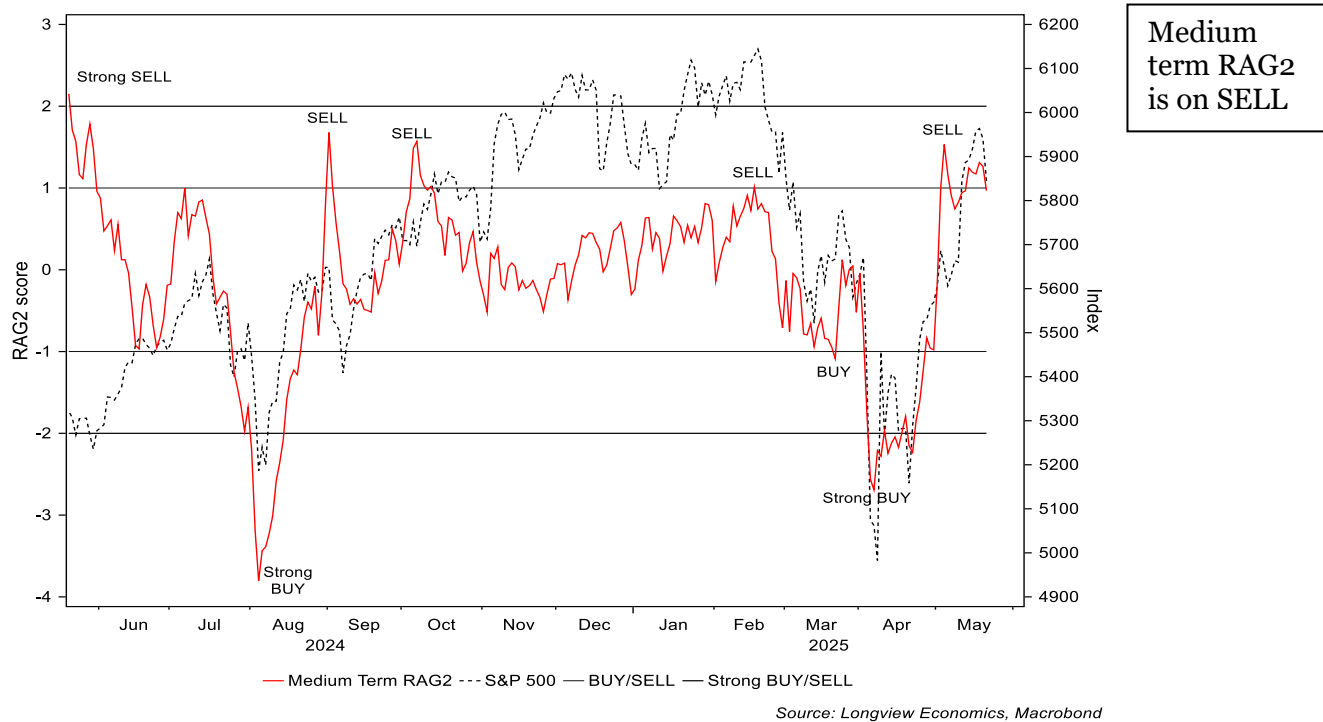


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

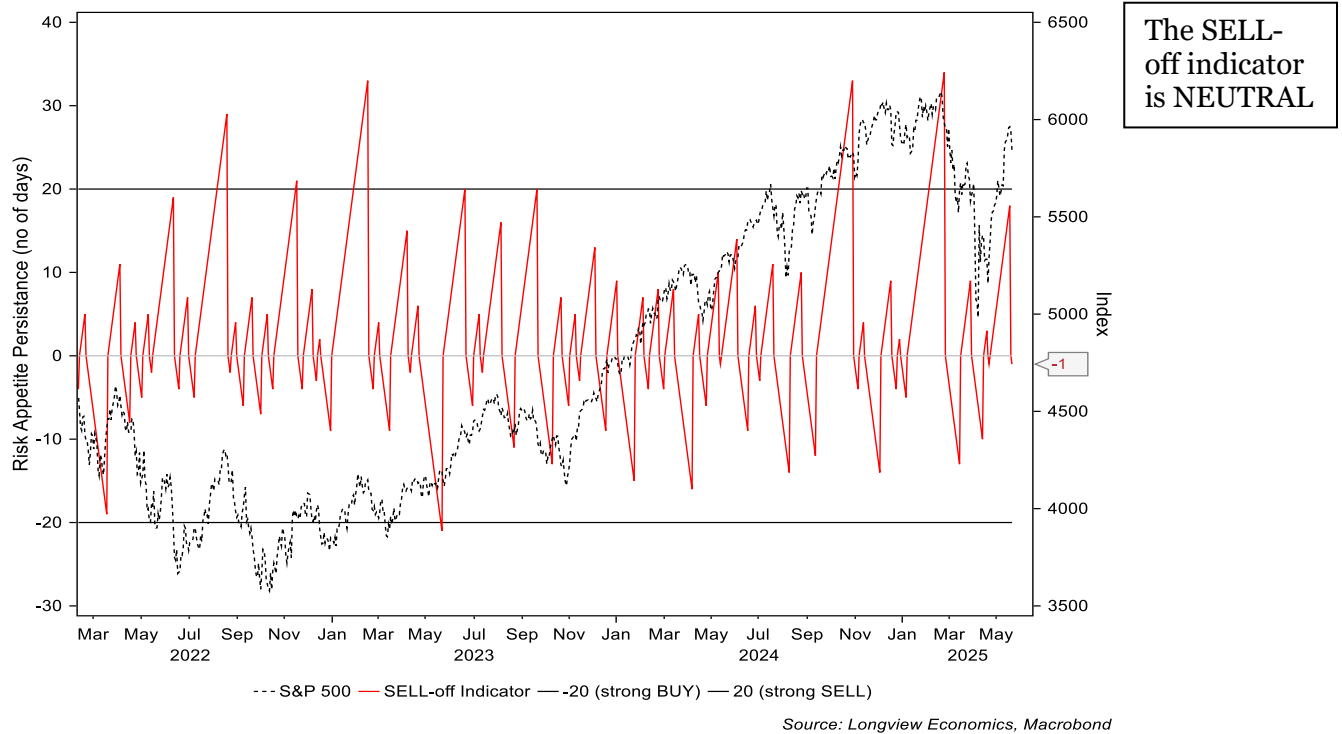
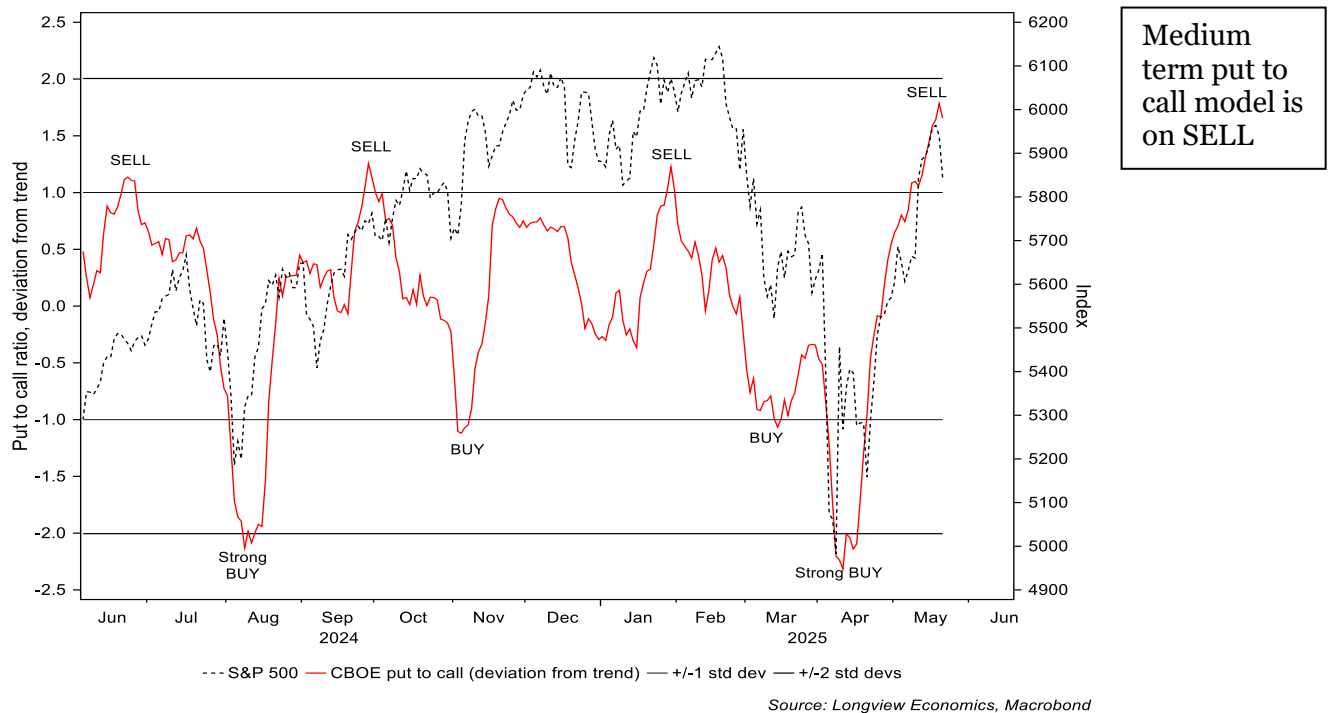


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

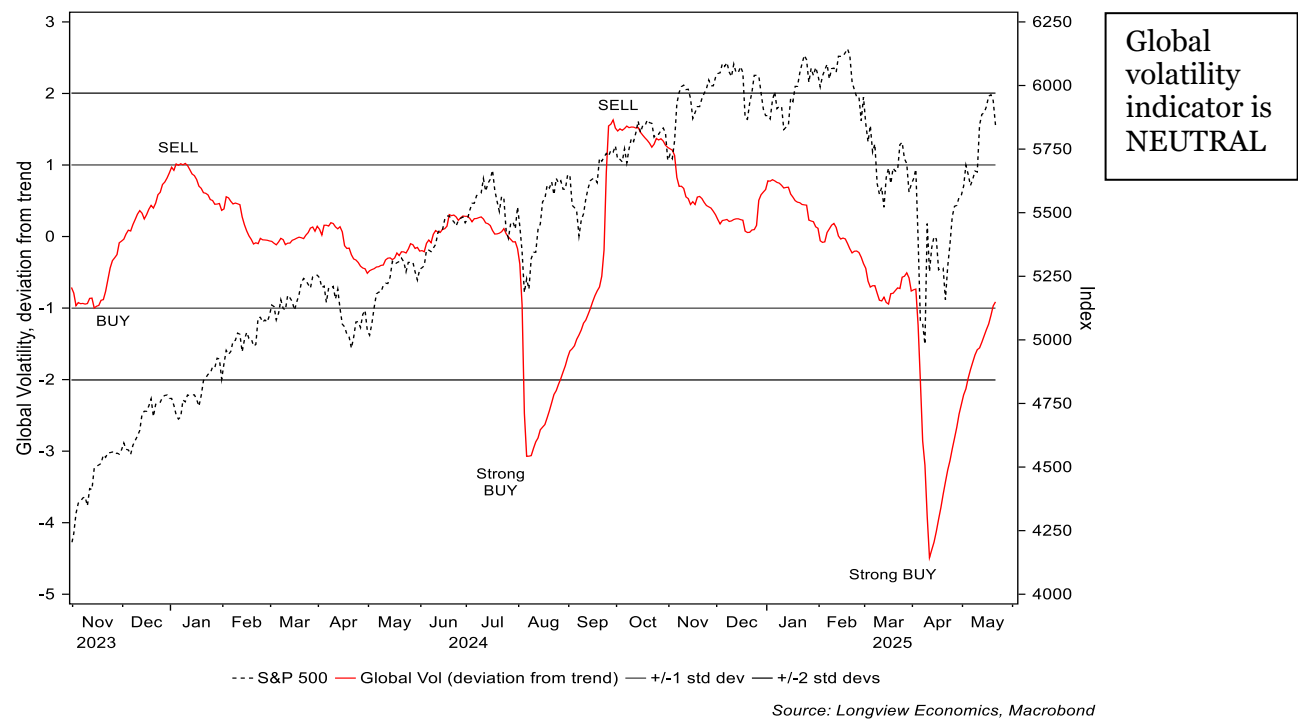


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

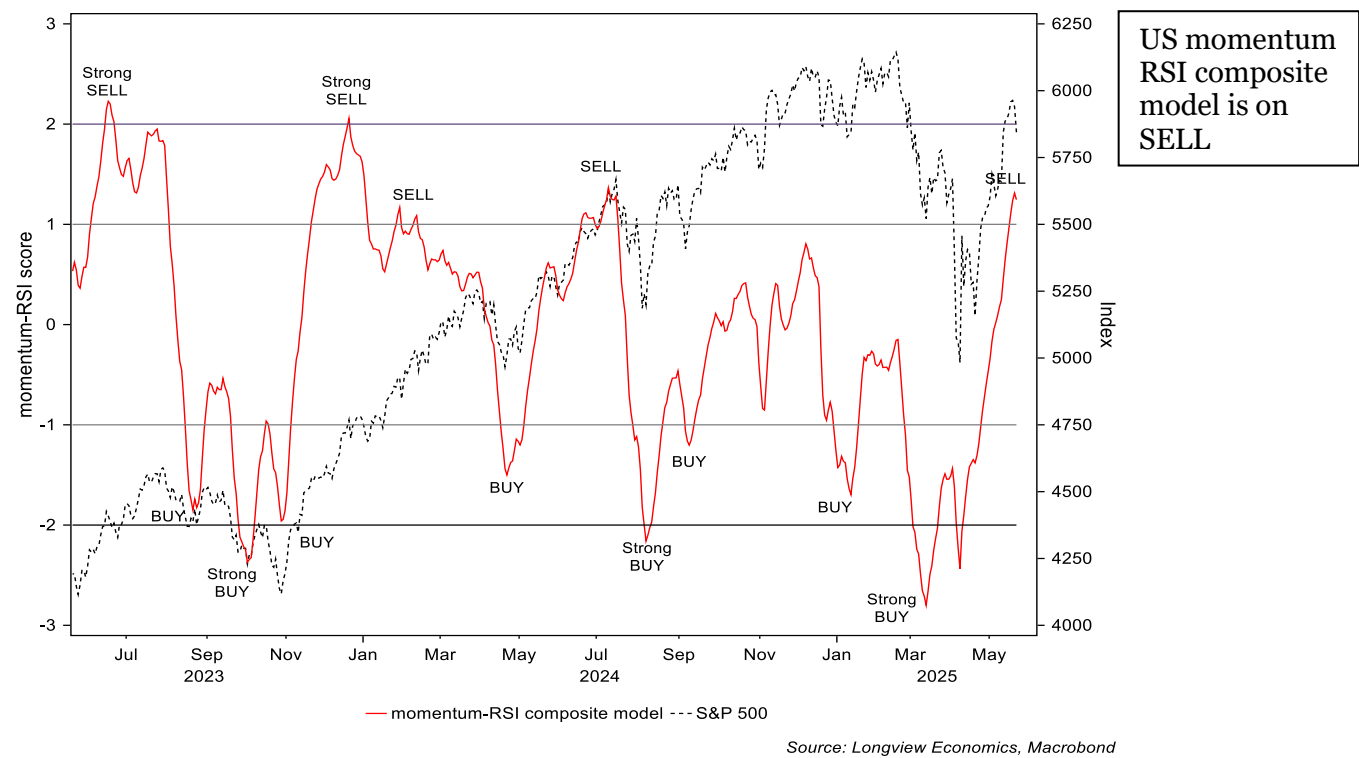


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

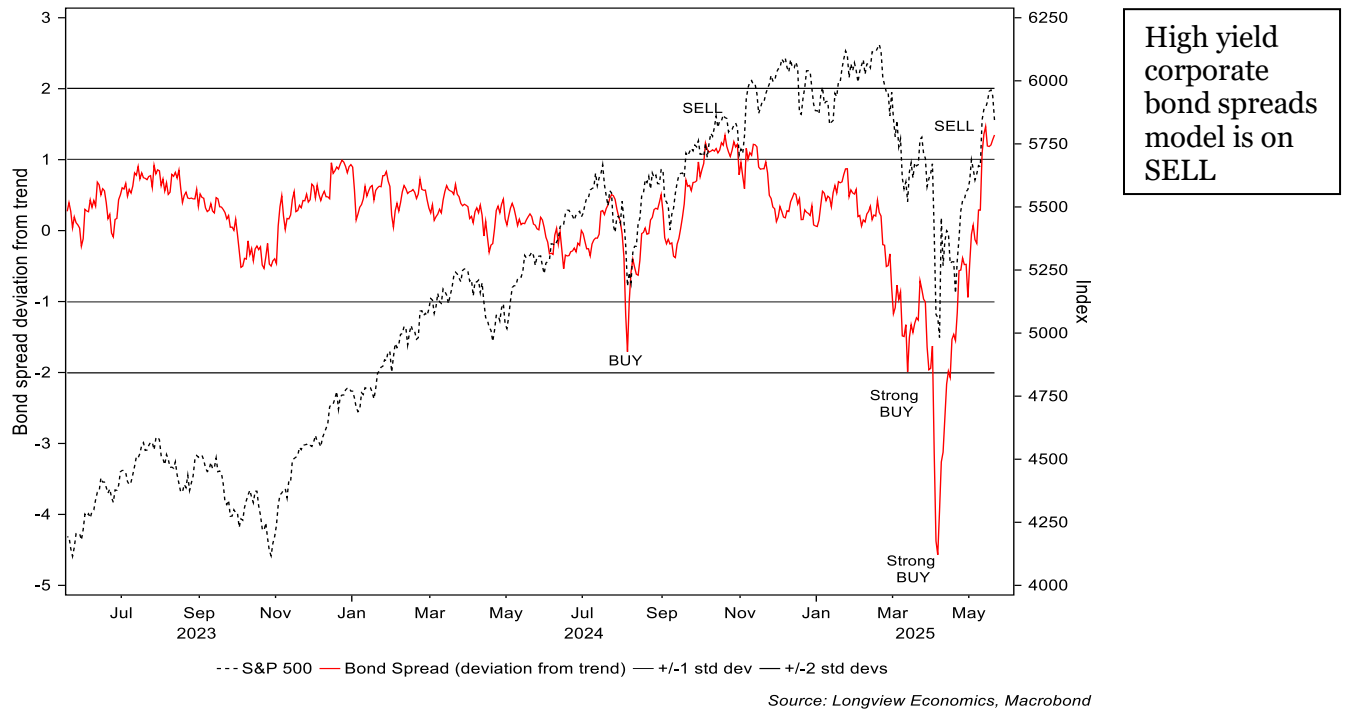
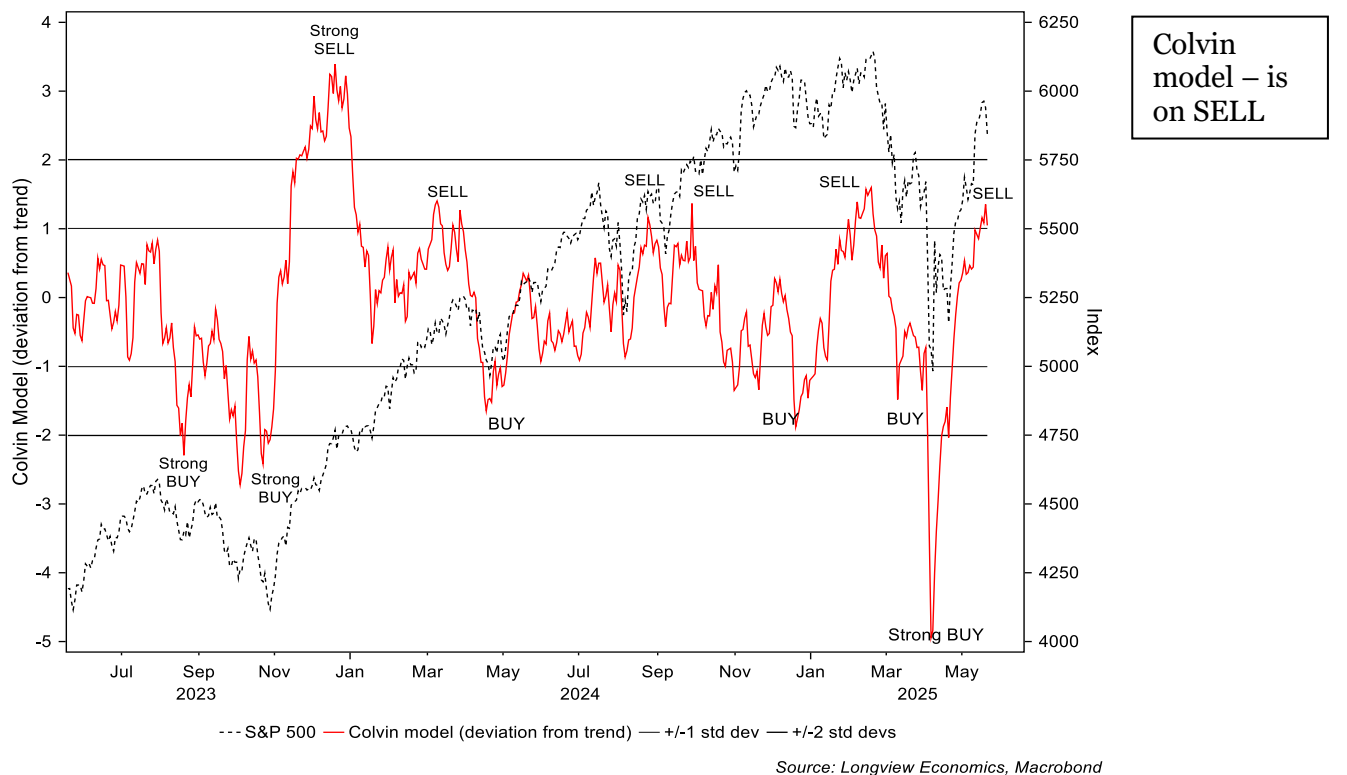


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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