

Equity Index Futures Trading Recommendations

23rd May 2025

“Stay SHORT (Bonds oversold rel. to Equities)”

Email: info@longvieweconomics.com

US markets are closed on Monday for Memorial Day. RAG commentary will resume on Tuesday.

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

“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: Wednesday’s Daily Risk Appetite publication, 21st May 2025

US equity markets closed largely unchanged yesterday (SPX500 -0.04%; NDX100 +0.15%; R2K -0.05%). The intraday trading range, though, was reasonably wide (i.e. 1.13% from highs to lows). The index rallied throughout most of the cash trading session before selling off sharply into the US close (down over 1% in last half hour of trading). The equity market was again squeezed by higher US (& other) bond yields earlier in the day. At their highest, US 10-year yields reached 4.62% intraday before then pulling back sharply (now trading at 4.51%).

With a flat US equity market, most of the short-term models continued to move lower. Some of the key ones are shown below in FIGs 2 to 2d. Most of them are now mid-range (down from SELL earlier this week/last week). The model measuring ‘[stocks above their 10 day moving averages](#)’ is now back on BUY; there was also some put BUYing yesterday such that the underlying put to call ratio (1 day) is close to its BUY threshold (as the market has started BUYing downside hedges).

The **key question**, therefore, remains as outlined yesterday (and, as laid out in the quote/extract above). Is this market rolling over? Or is it simply consolidating? Put another way, given that bonds have become notably oversold relative to equities (in the past few weeks – FIG 1), **is a short-term asset allocation switch likely** in coming weeks– i.e. out of equities and into bonds (i.e. if bond yields peaked in yesterday’s session). NB The short-term RSI model (of equities rel to bonds) has been signalling that switch (i.e. since mid-May, FIG 1).

Our **view remains as per yesterday**. Risk reward still favours STAYing SHORT. The S&P500 is poised at a key near term support level (FIG 1c); short term models have been rolling over from SELL signals (but are mostly not yet on BUY/still NEUTRAL); medium term models, meanwhile, remain mostly on SELL. At some stage in this rally (since 7th April), a meaningful wobble (or potentially even a retest of the 7th April lows) is likely. Given the recent short & medium term SELL message of the models, there's a reasonable likelihood that the wobble (or retest*) is currently evolving.

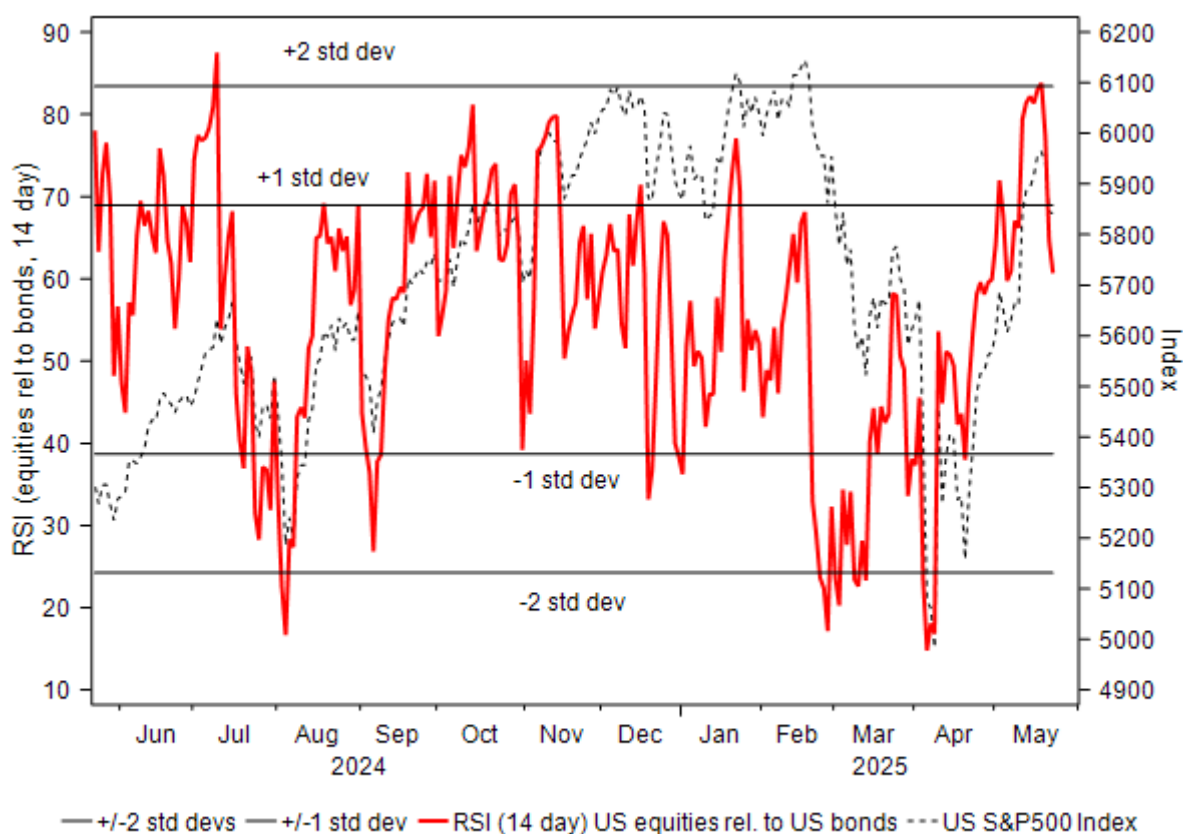
Please see below for a list of today's key events and macro data.

Kind regards,

The team @ Longview Economics

*NB For our full assessment of the likelihood of a 'retest' pls see Monday's 'Tactical Longview Alert'.

FIG 1: Short term RSI (equities rel. to bonds) vs S&P500



Source: Longview Economics, Macrobond

FIG 1a: US 10-year bond yields -> 10-day GIP chart



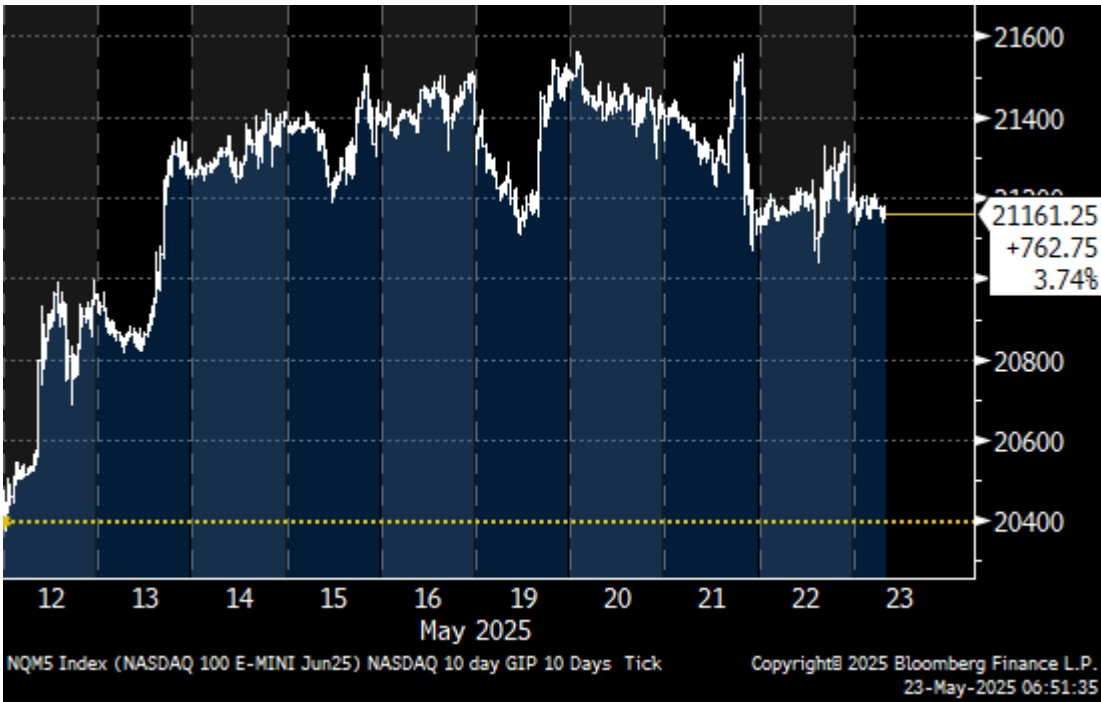
FIG 1b: Japanese 30-year bond yields -> 10-day GIP chart



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

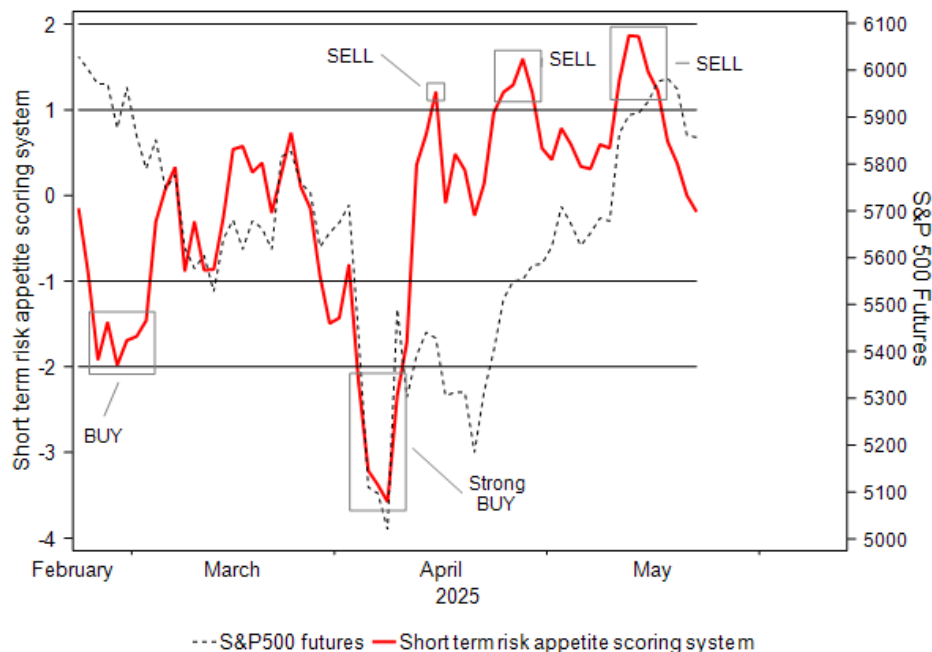


FIG 1d: NASDAQ100 futures 10-day tick chart shown with overnight price action



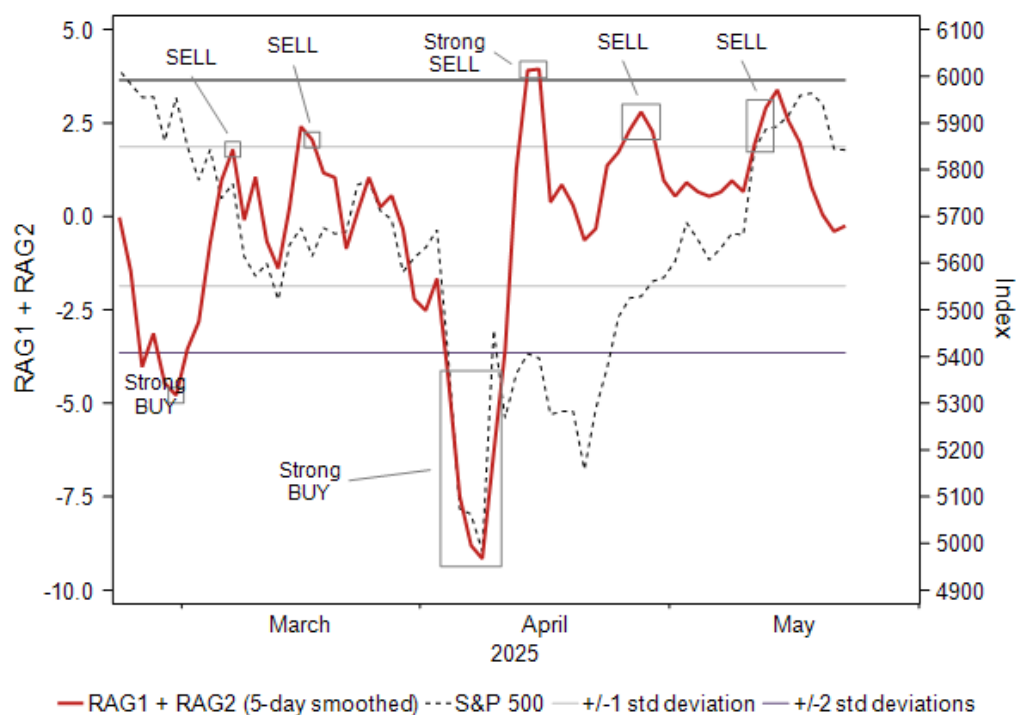
Short term models have been rolling over from SELL....

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



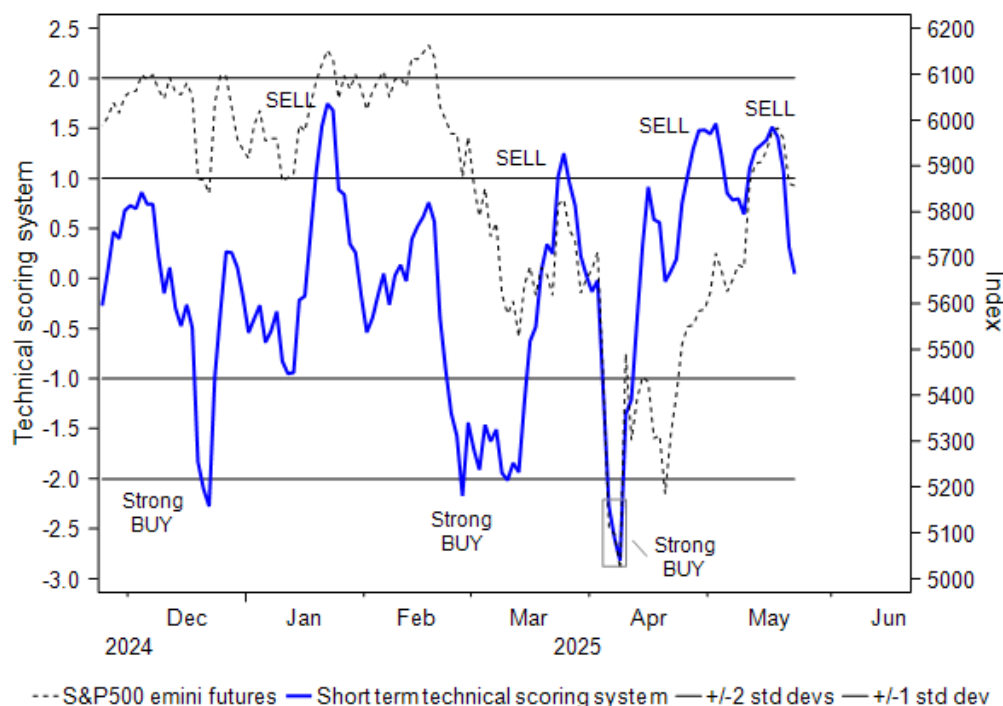
Source: Longview Economics, Macrobond

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



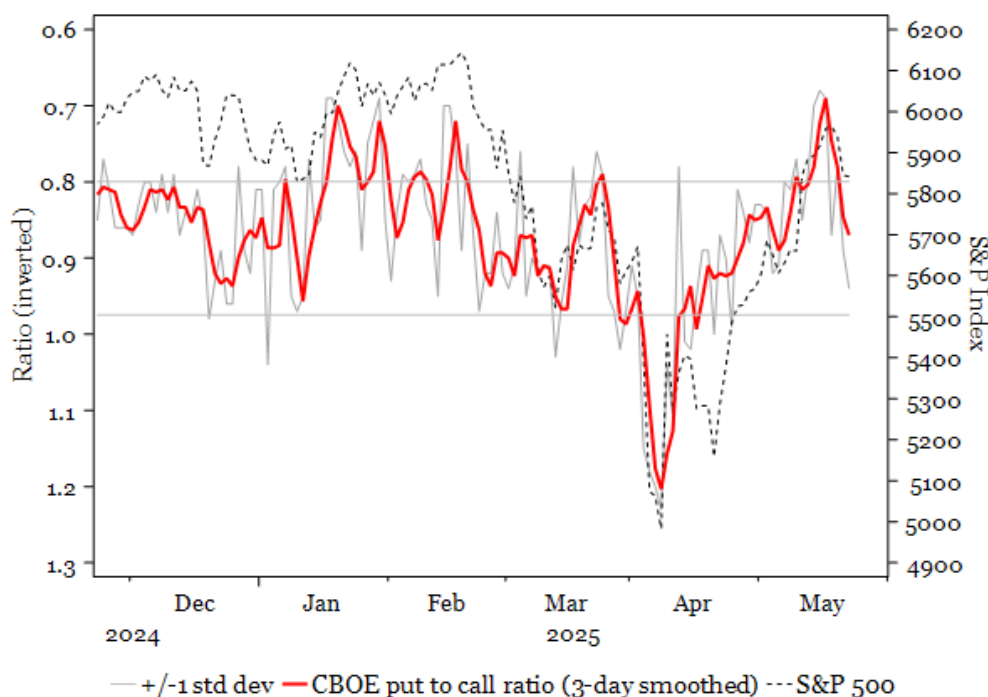
Source: Longview Economics, Macrobond

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



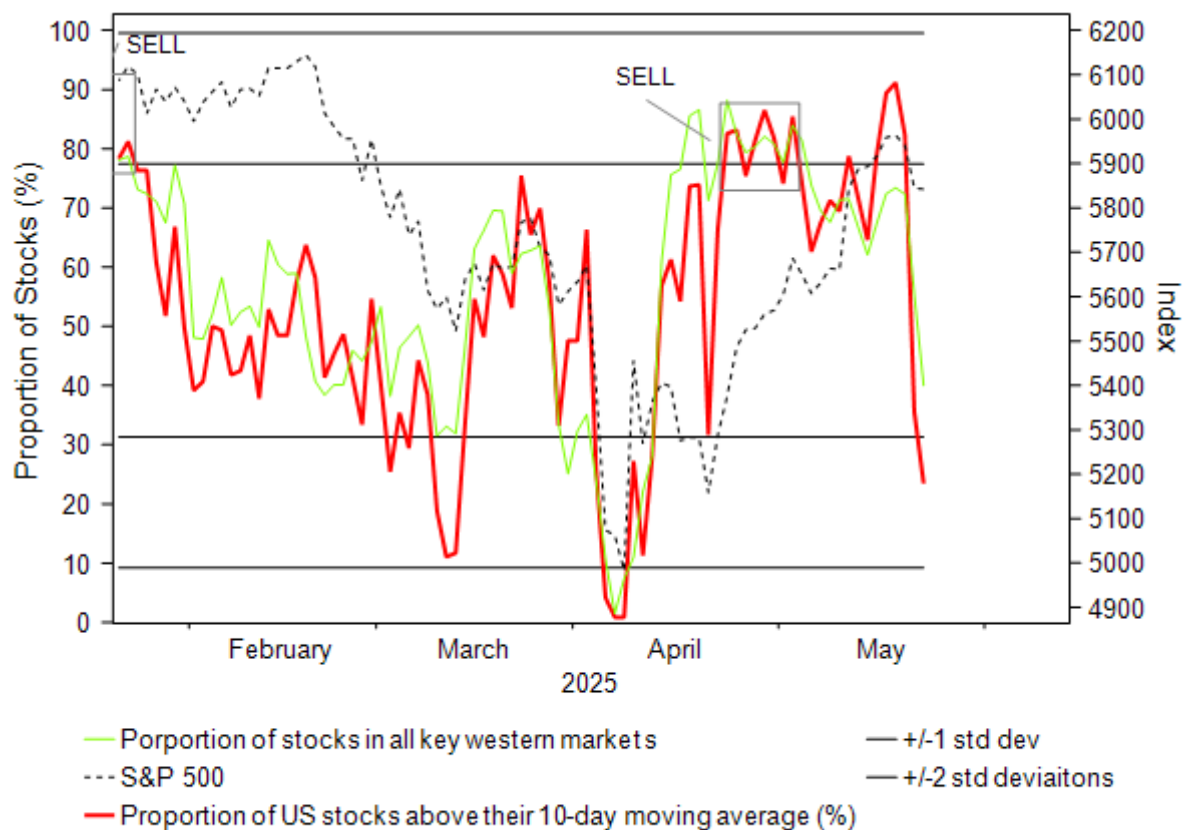
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



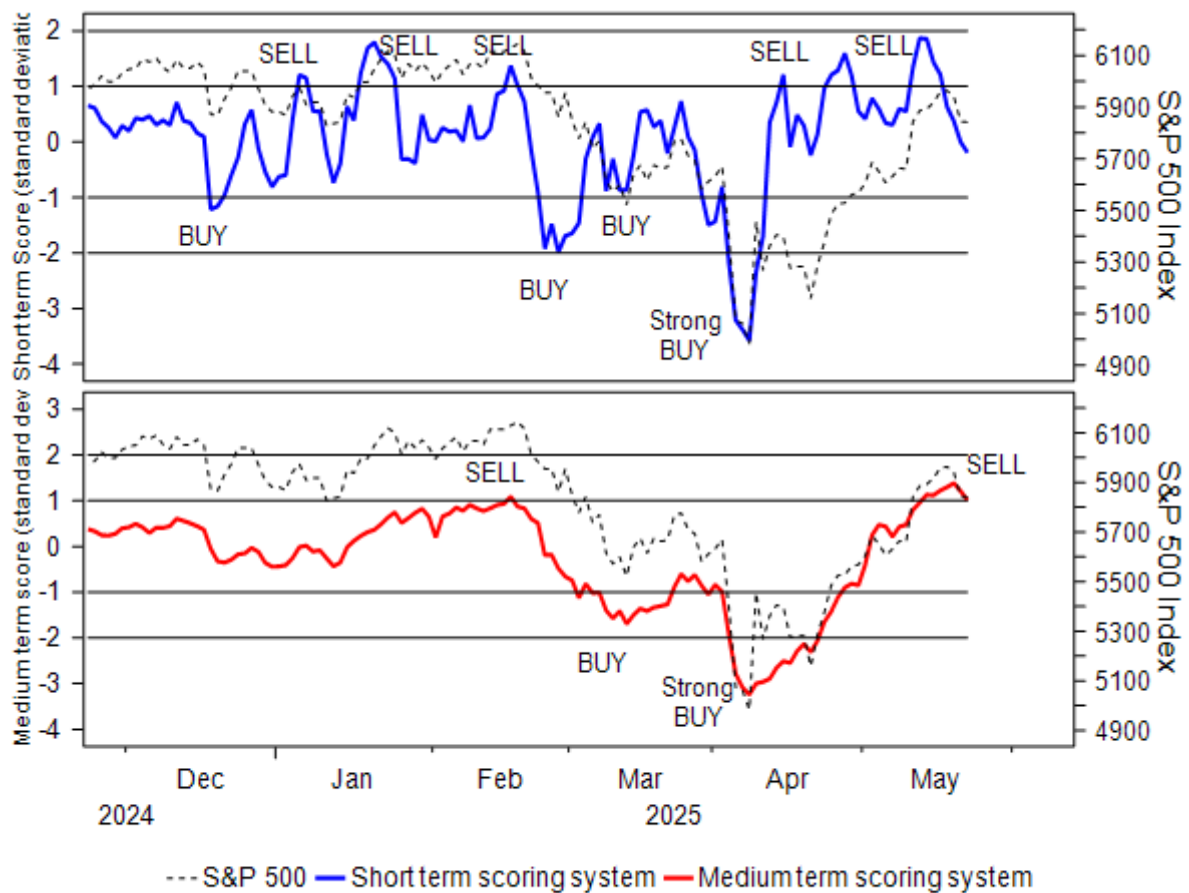
Source: Longview Economics, Macrobond

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: UK Gfk consumer confidence (May, 12:01am); **Japanese headline & core CPI** (Apr, 12:30am); **UK Retail sales** (Apr, 7am); German GDP (Q1 final estimate, 7am); **French INSEE consumer confidence** (May, 7:45am); Canadian retail sales (Mar, 1:30pm); **US new home sales** (Apr, 3pm); US Kansas City Fed service sector activity (May, 4pm).

Key events today include: Speech by the ECB's Lane in Florence (9:30am); speeches by the Fed's Goolsbee on CNBC (1:30pm), Musalem & Schmid in a fireside chat (2:35pm) & Cook on financial stability (5pm).

Key earnings today include: N/A

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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-  @chriswatling
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1 – 2 Week View on Risk

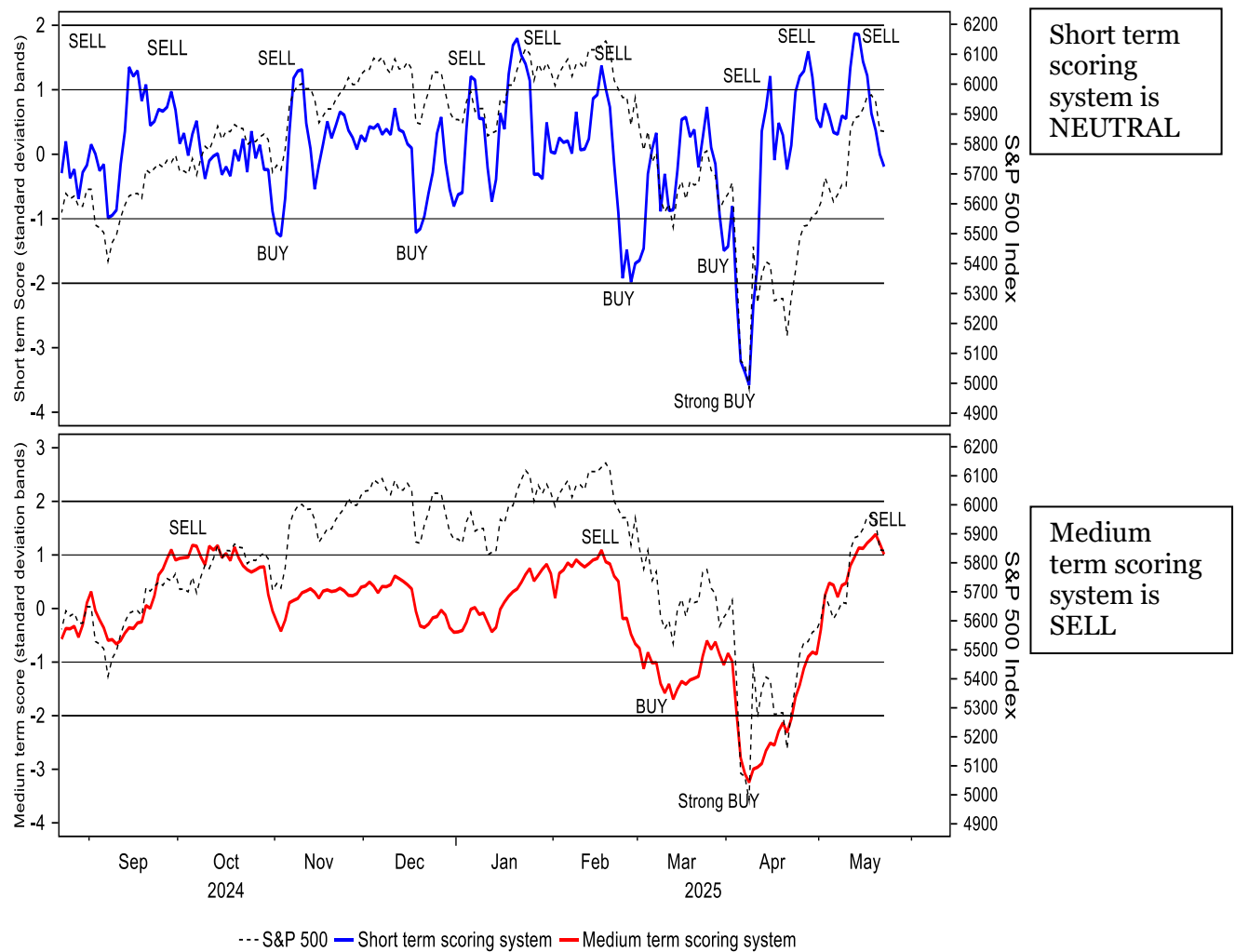
Longview Economics

Email: research@longvieweconomics.com

23rd May 2025

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

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



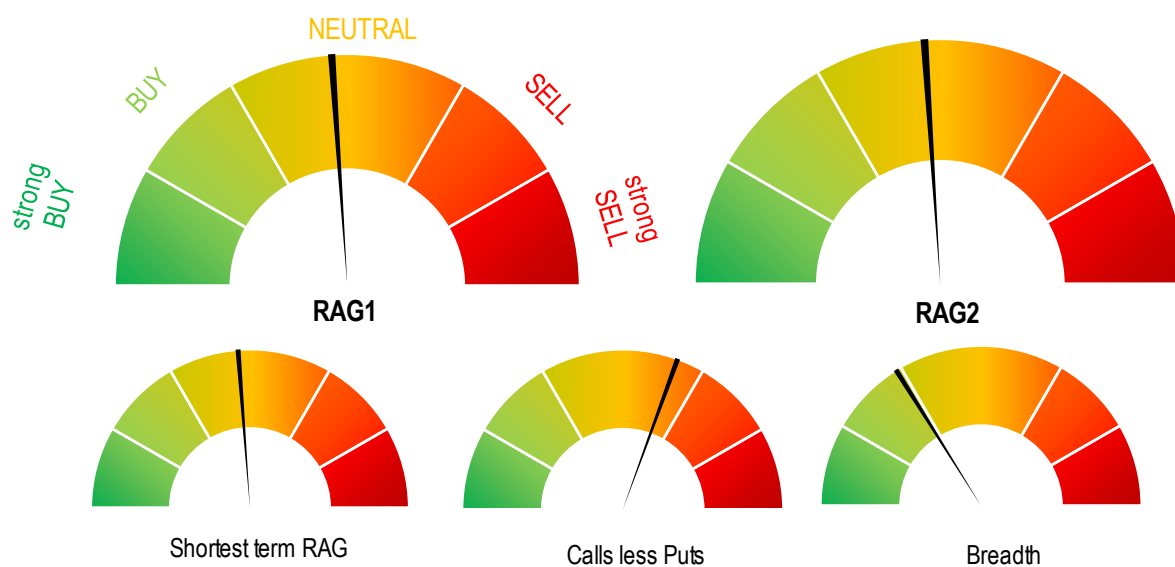
Source: Longview Economics, Macrobond

*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**

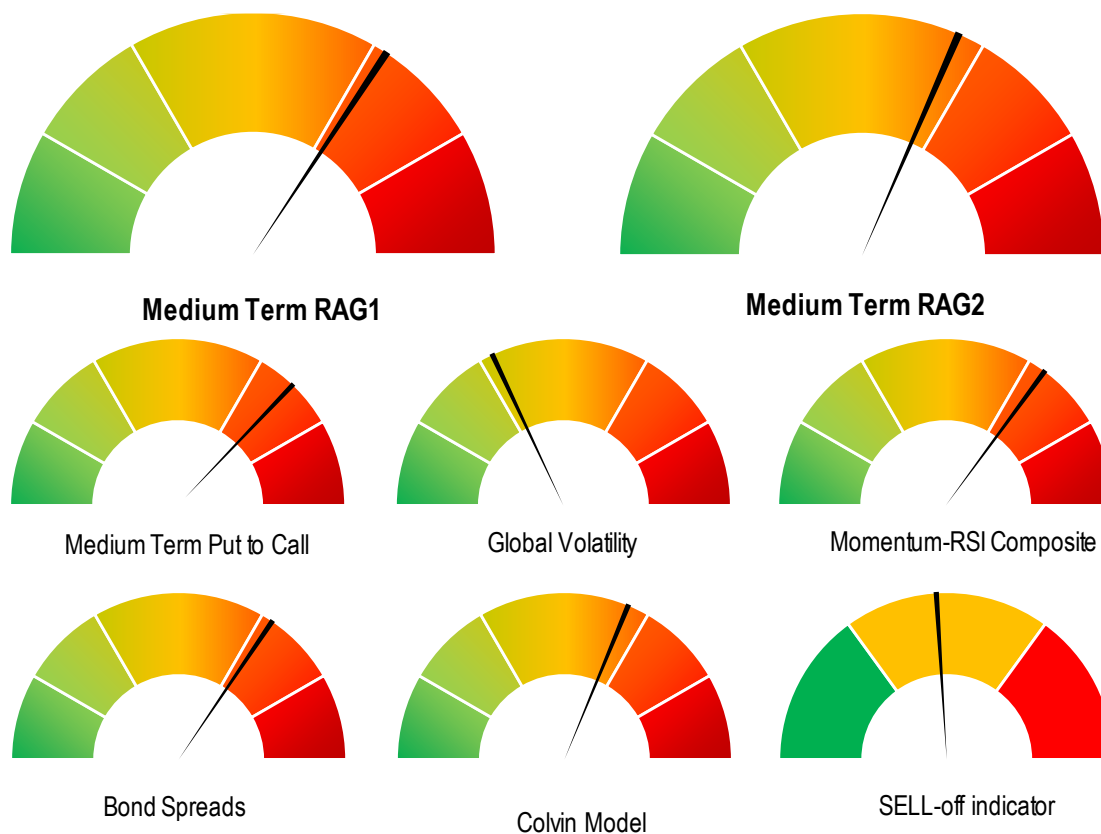
Section 1a: Summary of indicator signals**

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

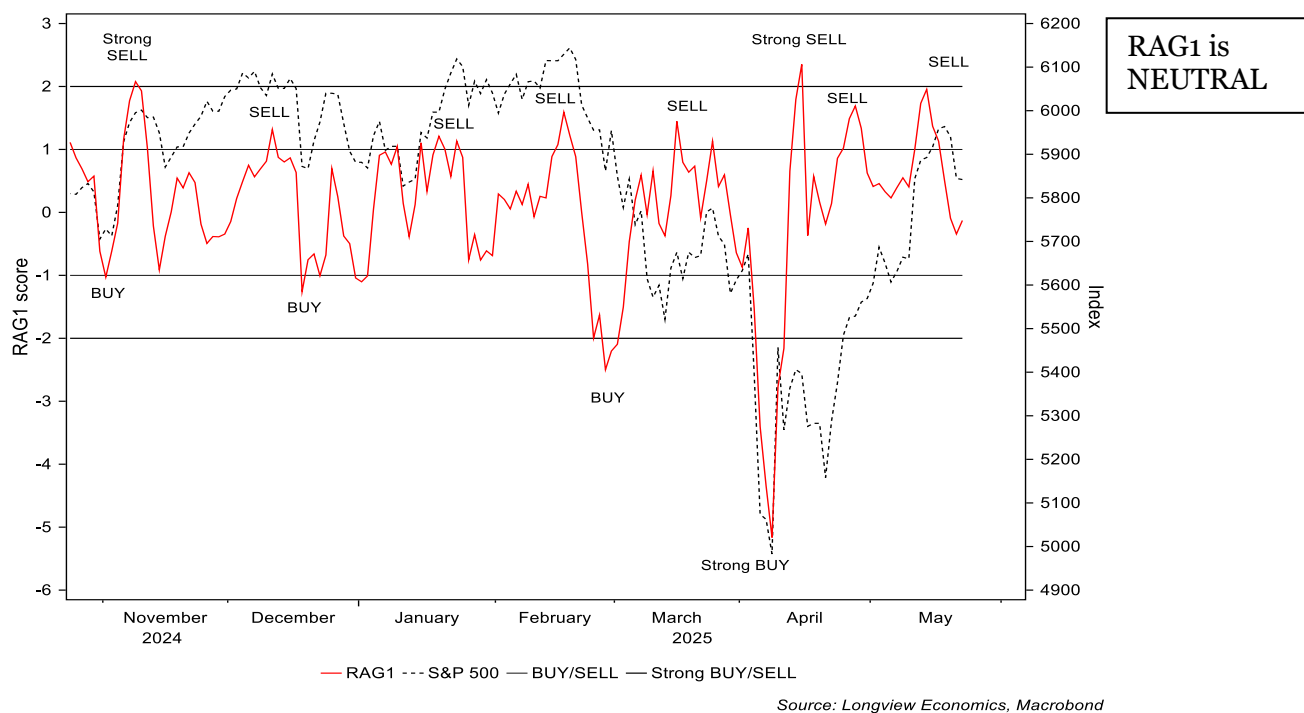
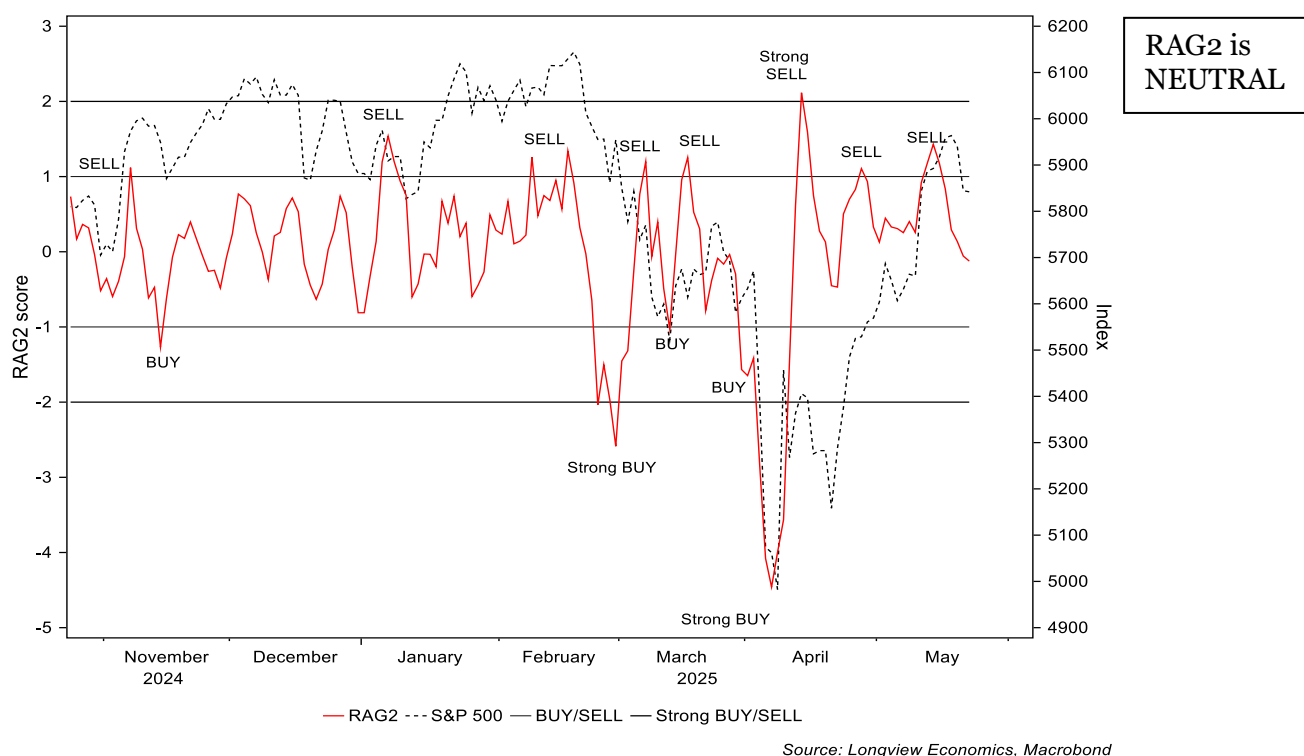


Fig 2b: RAG 2 vs. S&P 500



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

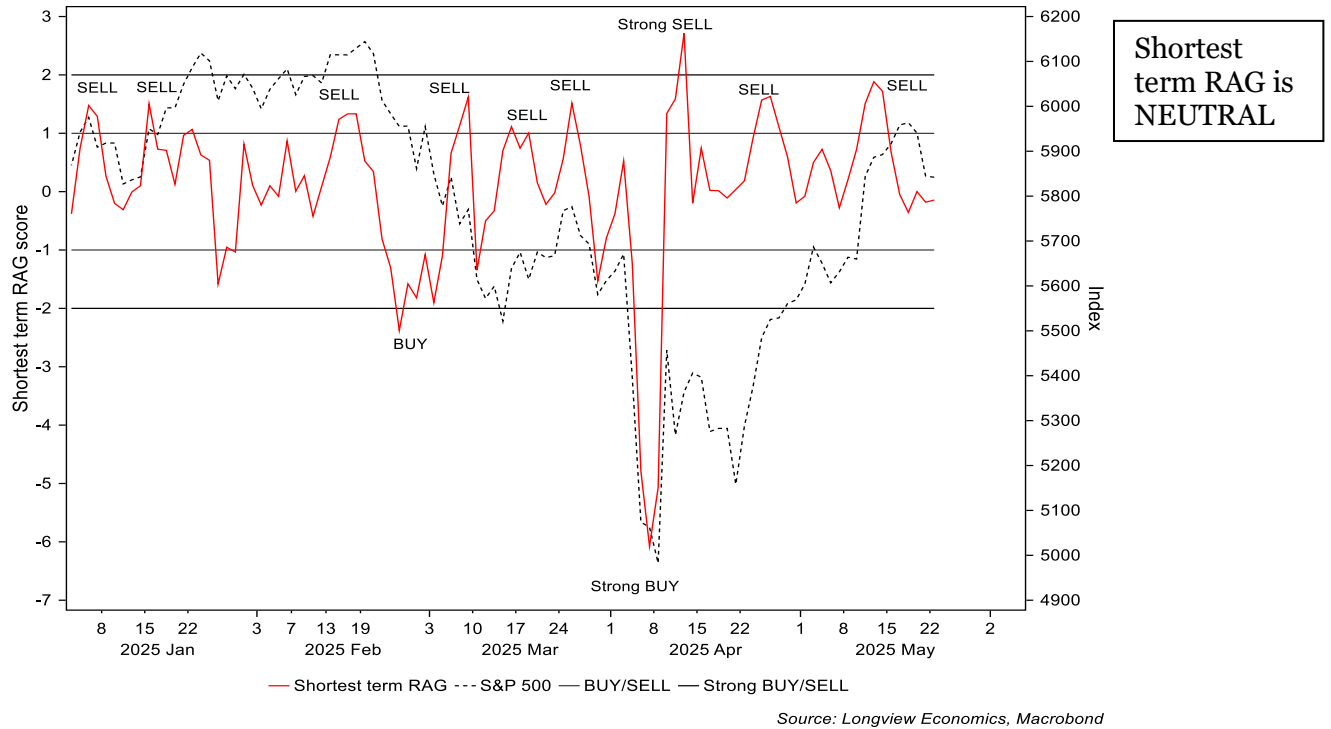
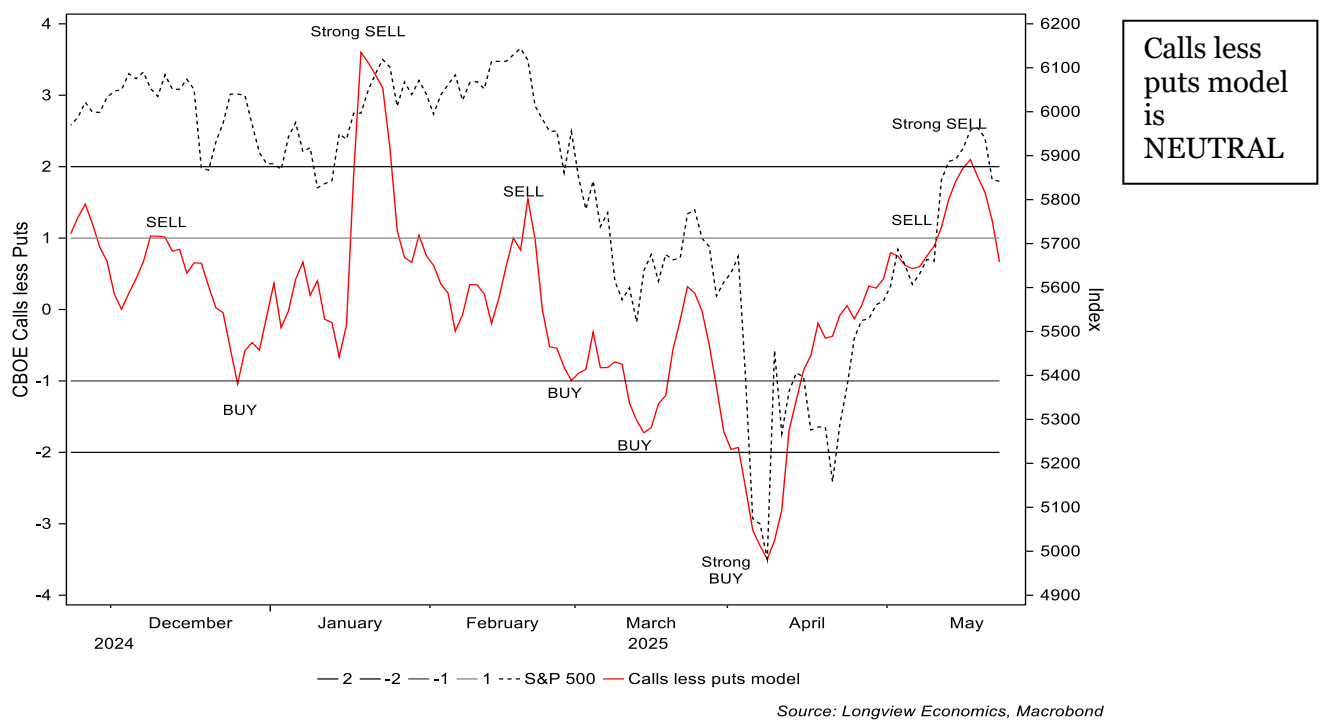
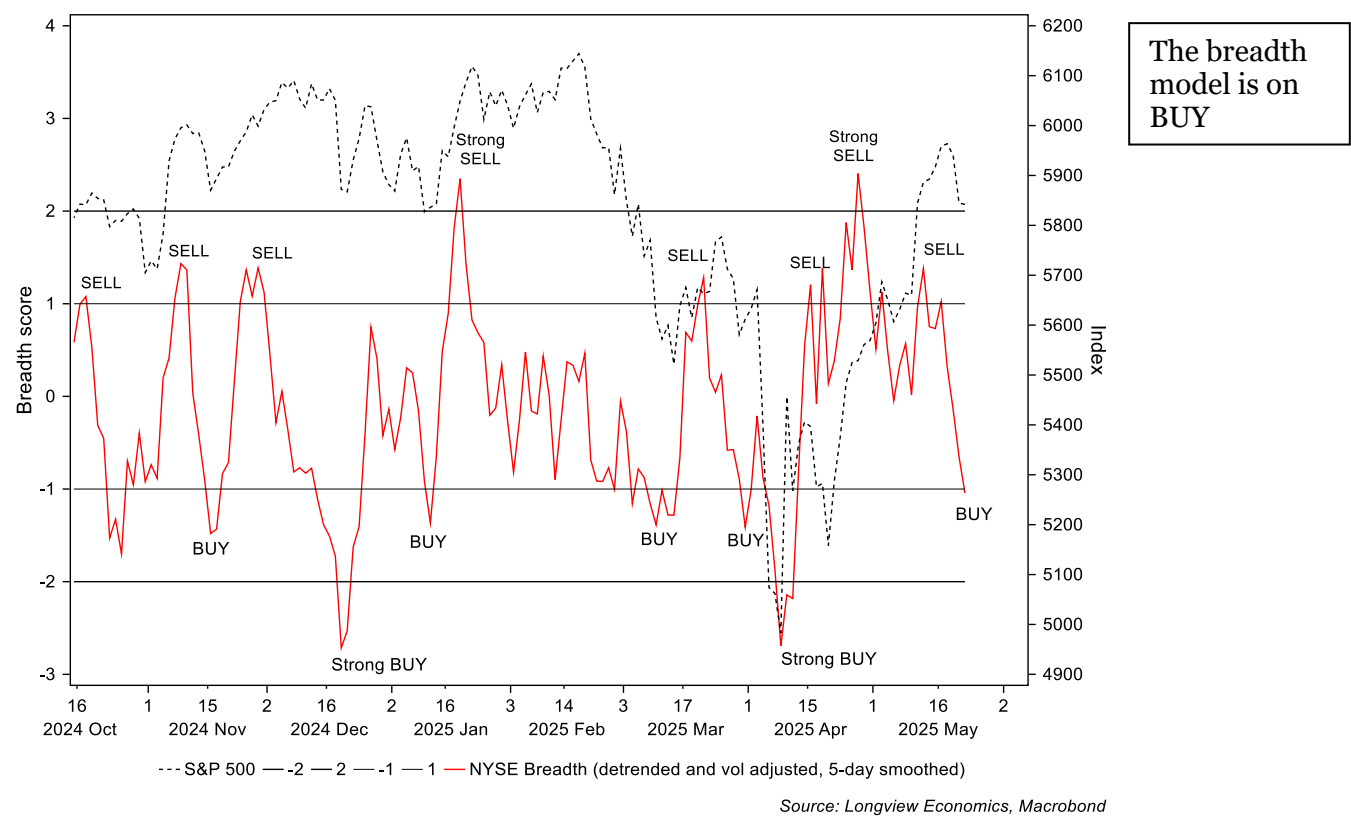


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

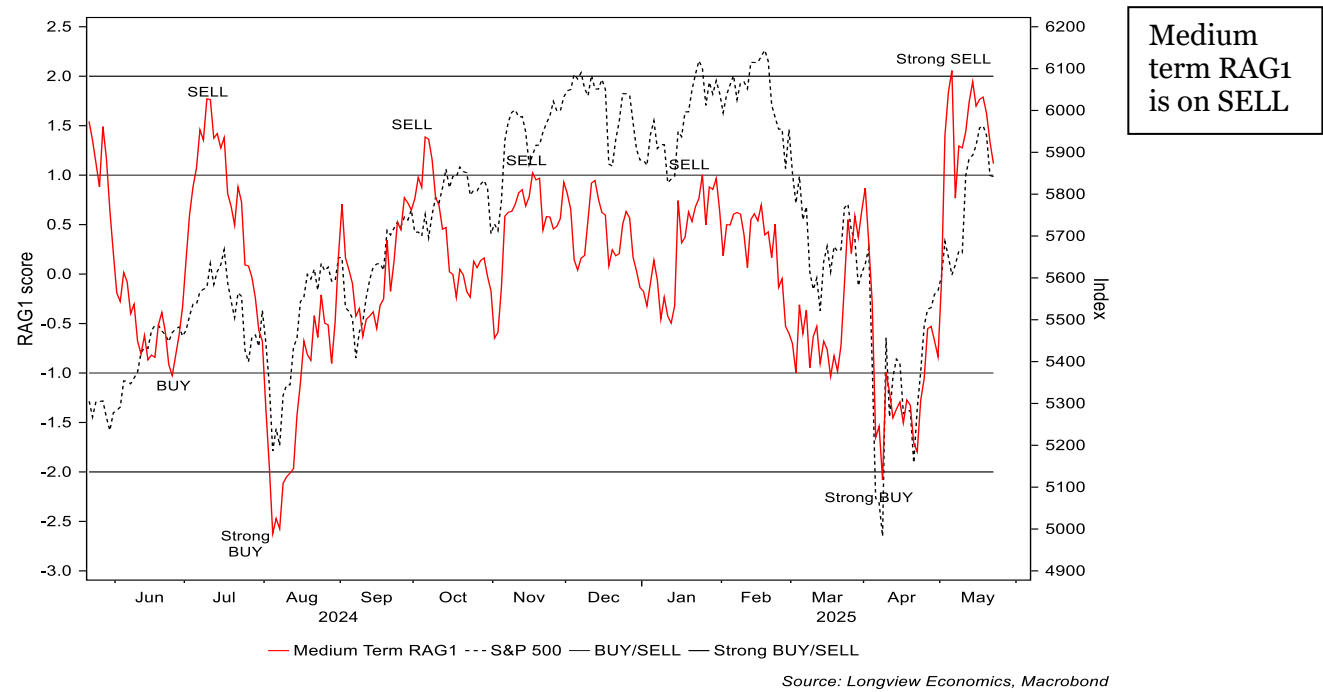
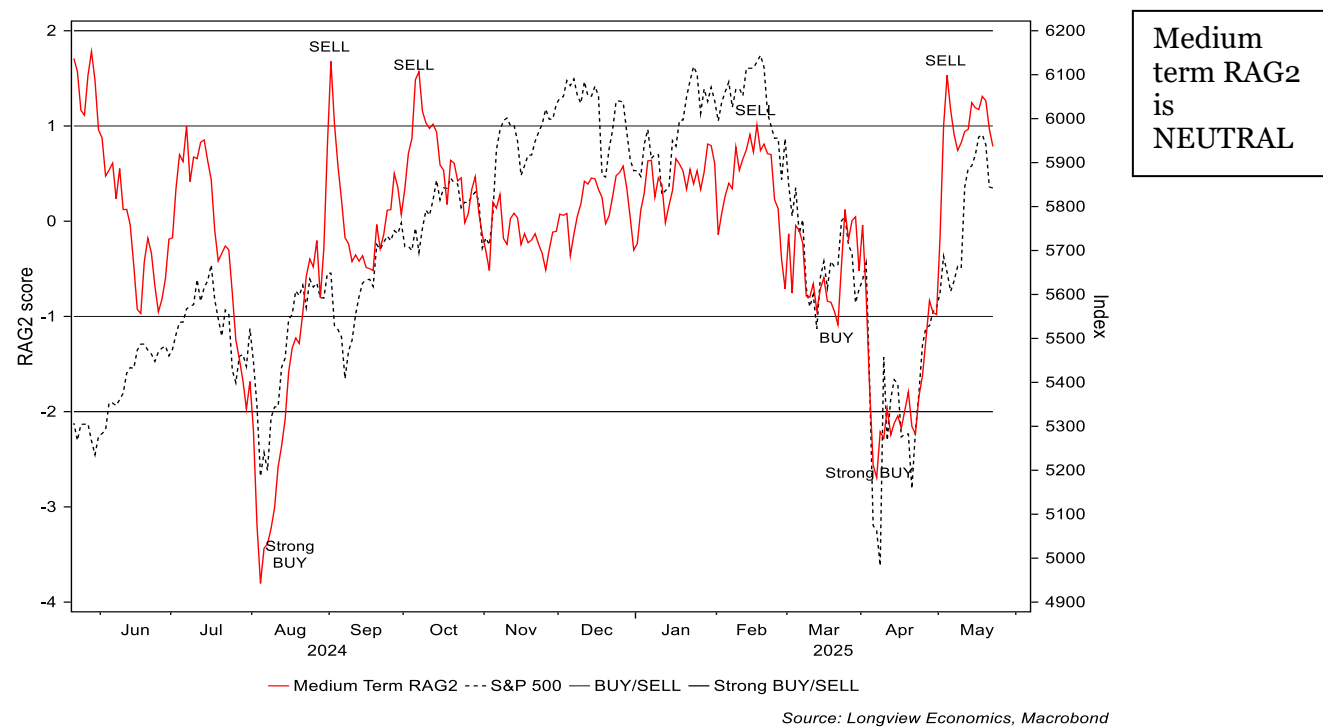


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

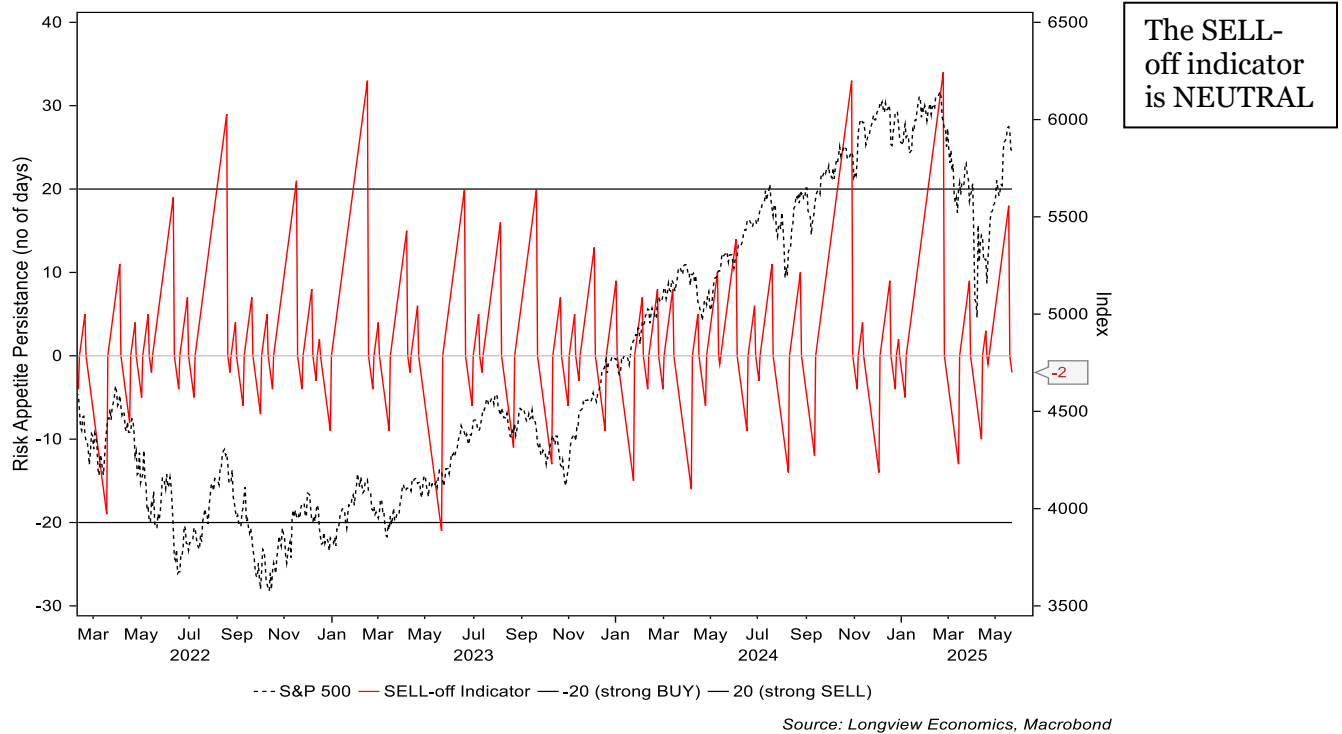
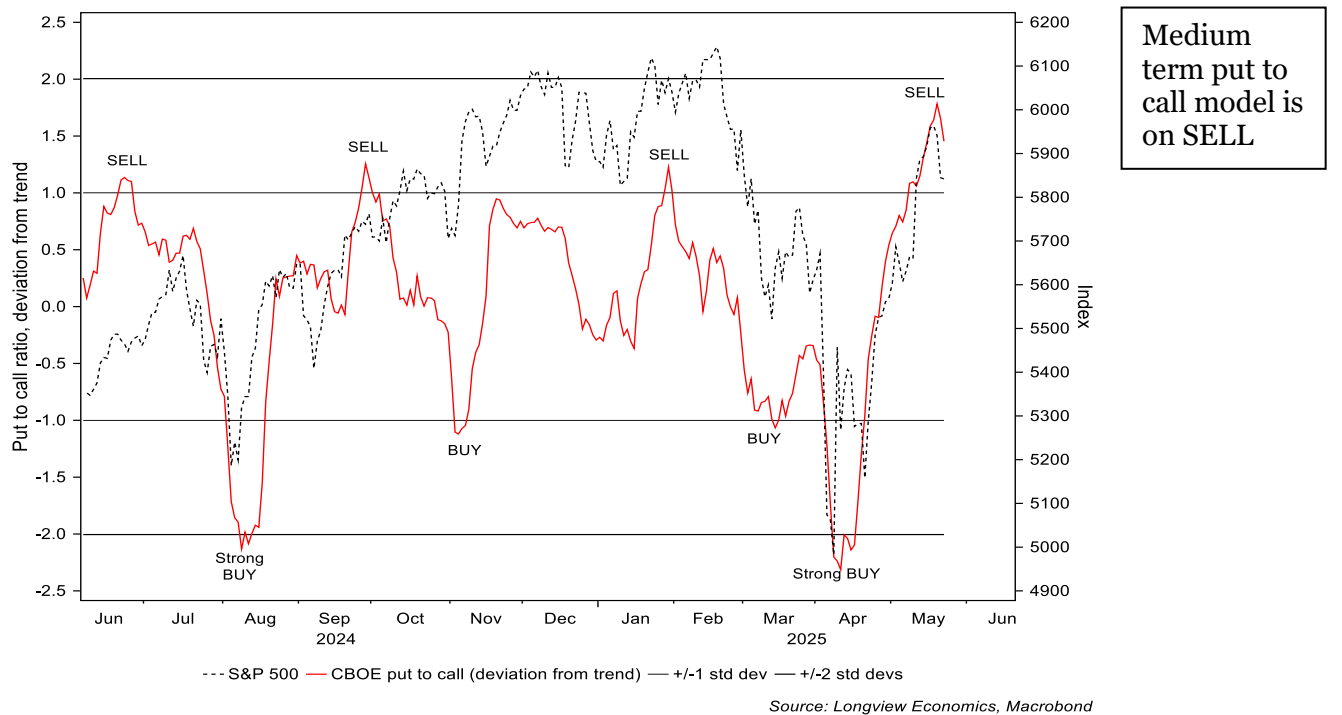


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

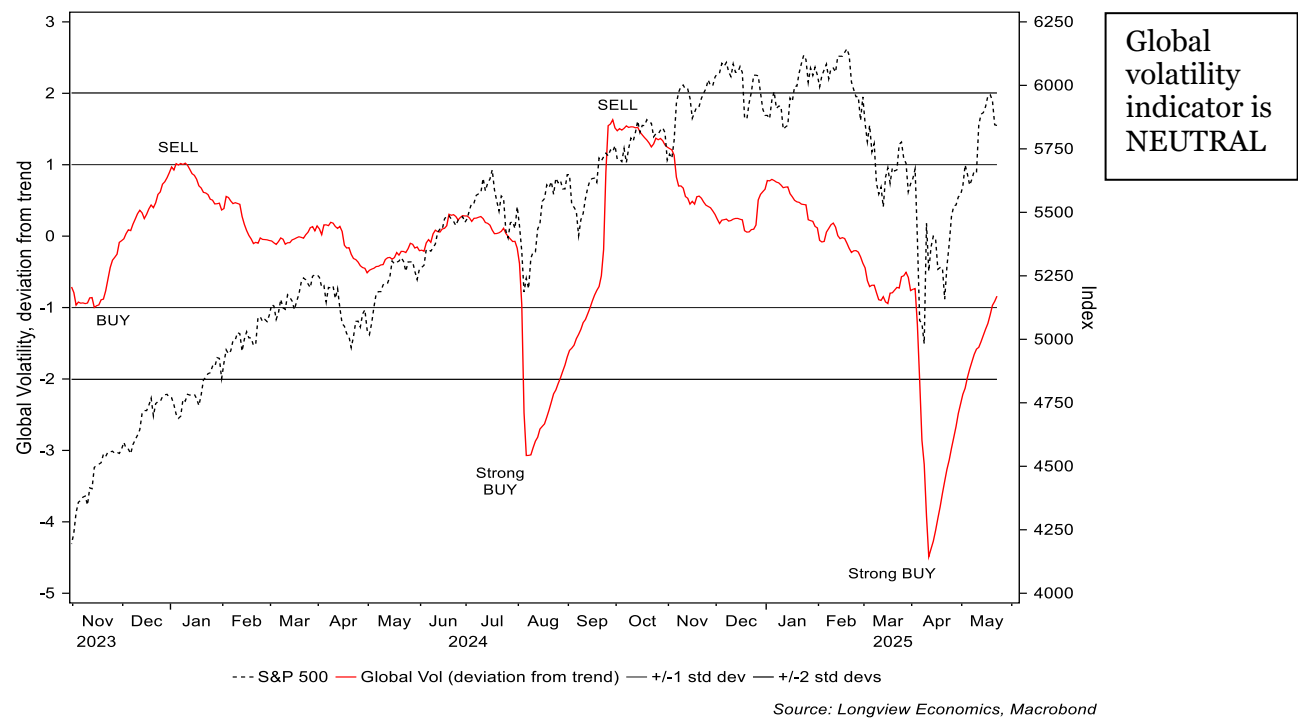


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

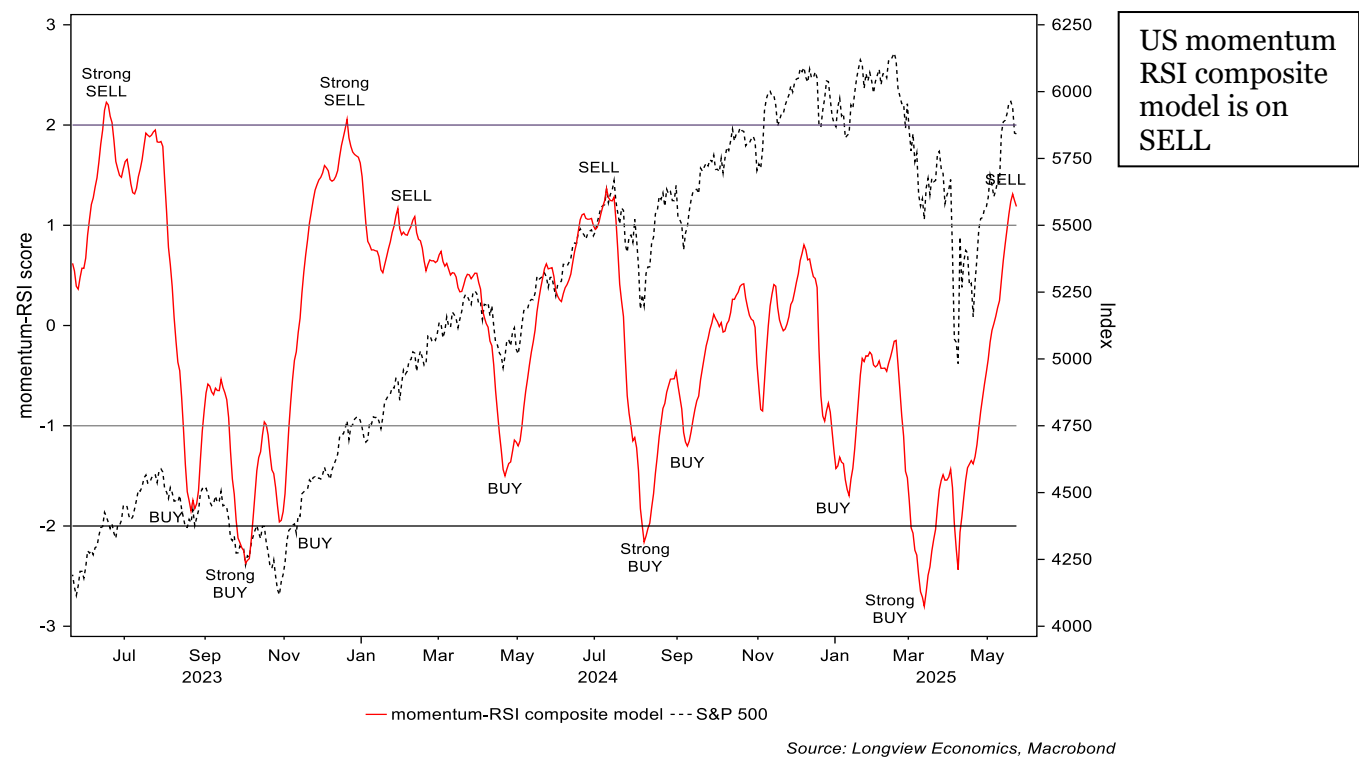


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

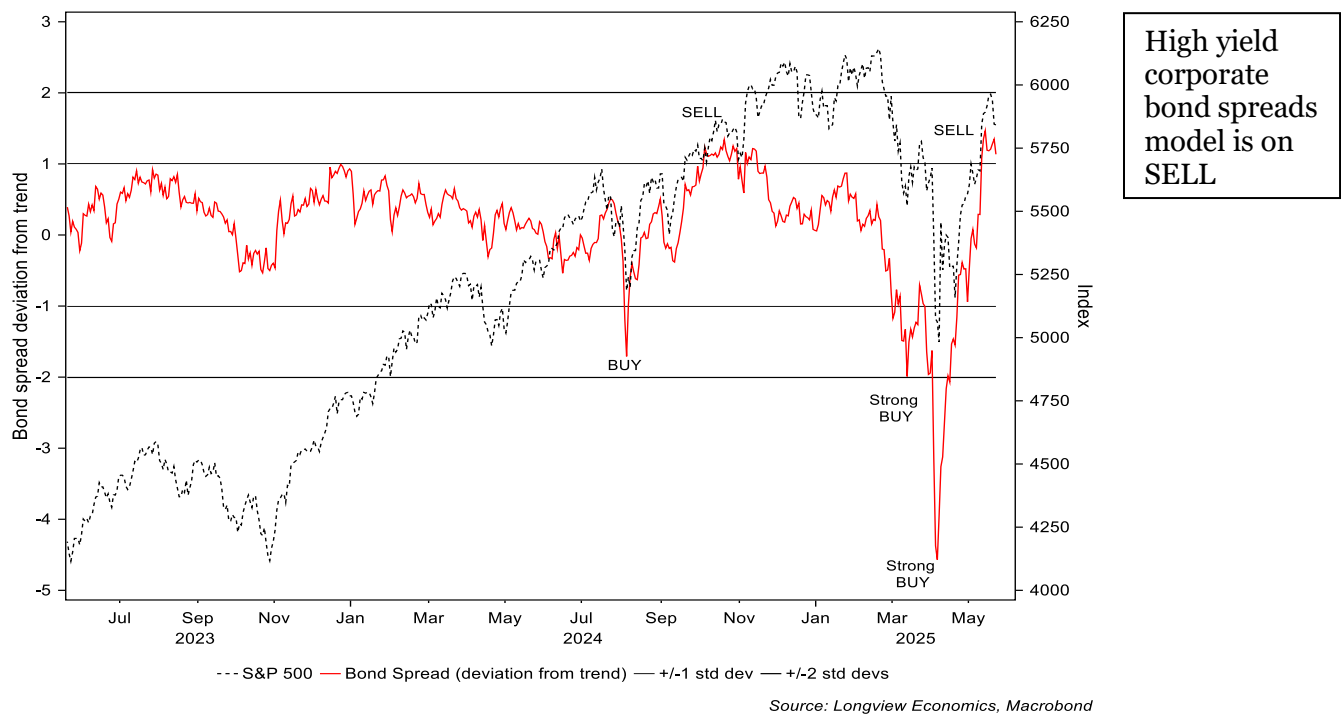
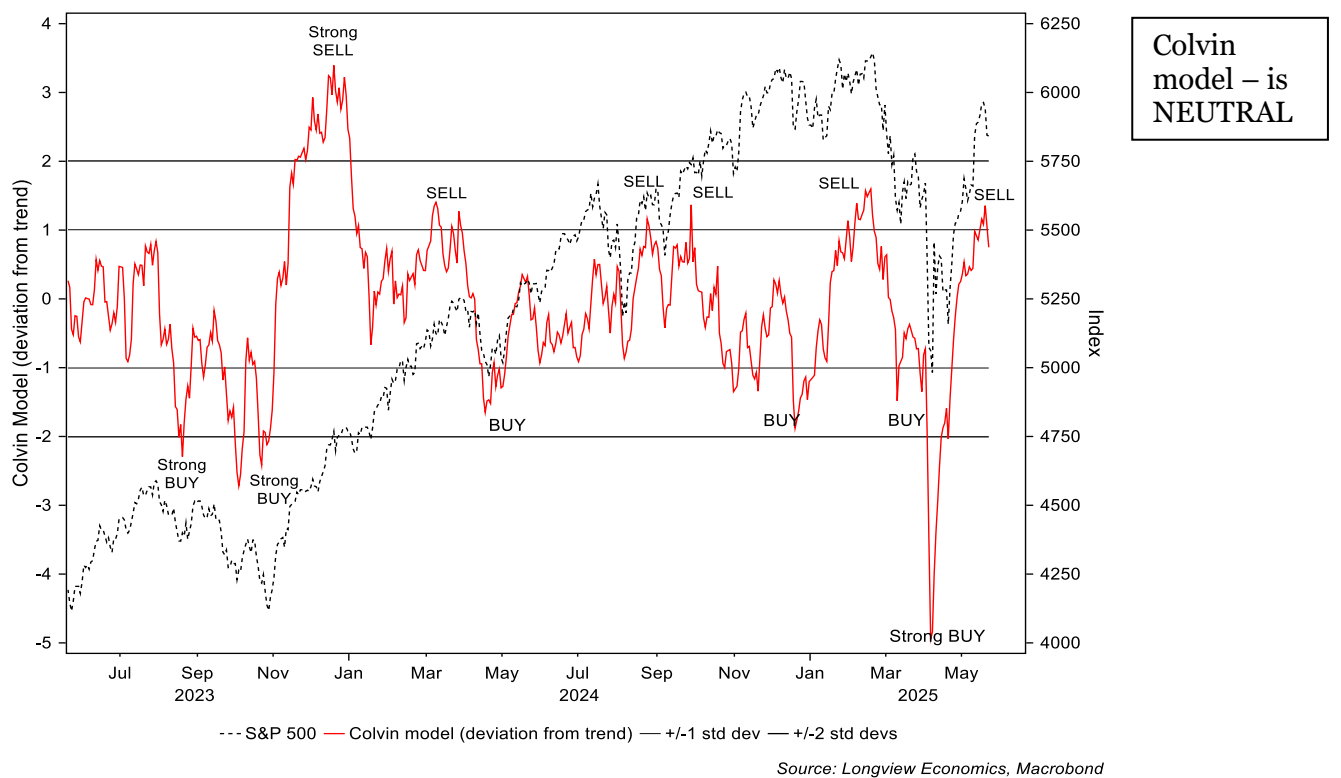


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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