Equity Index Futures Trading Recommendations

24th February 2025

"Stay SHORT/Models Still Biased Towards SELL"

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 stop loss to 6,150 (from 6,190.0 on Friday).
- STAY ¼ SHORT DAX futures (entry was last week at 22,557).
- Keep the DAX stop loss at 22,828, approx. 1% above current prices.

*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 13th February at 6,100.

Rationale

US **markets sold off sharply on Friday** with that weakness triggered by the softer than expected US S&P services PMI data (and downward revision to the Michigan confidence data). The S&P500 closed down 1.7% (its worst daily pullback since mid-December). The NDX100 was 2.1% lower; the Philly SOX was -3.3%; and the Russell 2000 was 2.9% lower. All top-level US sectors were down (except for consumer staples +1%); all 28 top level US headline indices that we track were lower (with the exception of the DJ Utilities index); while 20 of the 24 S&P500 industry groups were also down. That weakness occurred with a pick-up in volumes on the NYSE stock exchange (which rose to their highest since mid-December), while S&P500 e-mini volumes also moved above seasonal norms.

With that weakness, the S&P500 and NDX100 are both sitting on their 50 day moving averages (FIGs 1c & 1d).

Models (both short and long term) mostly remain closer to SELL than BUY. The medium-term risk appetite scoring system, for example, is just below SELL, the short term one is mid-range (FIGs 2a & 2b); the short-term CBOE put to call ratio shows only a modest amount of put buying on Friday (and remains close to SELL, FIG 2c); while the SELL-off indicator continues to march higher (i.e. it hasn't yet closed out its signal, FIG 2). Technical models have moved lower but are mostly NEUTRAL: The short-term S&P1200 global technical scoring system, for example, is mid-range (FIG 2d); as is our US sector technical model (FIG 2e); while some Russell specific (and tech specific) models are at or close to BUY (e.g. R2K put to call ratio is on BUY; while the NDX100 is close to BUY). Overall, though, most **models continue to lean towards SELL**. Added to which, the DAX is still close to overextended levels on our technical model (FIG 1a), whilst the underlying single stock turbulence model signals remain troubling (as highlighted for Europe on Friday). In FIG 1 below, for example, we show the US single stock turbulence model (which is also at low levels/highlighting the lack of single stock support for this market – FIG 1).

With **Friday's weakness**, and last week's 'across the board' SELL message, there's a reasonably high likelihood that Friday marked the beginning of a more meaningful pullback. That is, the recent positioning of the models highlights the excessive enthusiasm for risk coming into the second half of last week and, therefore, the likelihood of a lasting pullback. Currently the S&P500 and NDX100 are sitting on key support levels; whilst the DAX is benefitting this morning from an election driven bounce*. Our central case expectation, though, is that this pullback persists. As such, we recommend STAYing SHORT and (modestly) tightening the S&P500's stop loss to 6,150, i.e. close to the multi month intraday highs** (see trading recommendation above).

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

Kind regards,

The team @ Longview Economics

*Albeit initial strength has faded somewhat, possibly reflecting strong gains in hard left/right parties, which now have a 'blocking majority' in German parliament, see HERE.
**NB a revisit of the intraday highs by the S&P500 would undermine the case for this being an enduring multi week pullback and suggest (from a price action perspective) that Friday's weakness was simply a one day wobble.
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: US (single stock) **turbulence model** vs. S&P500 index

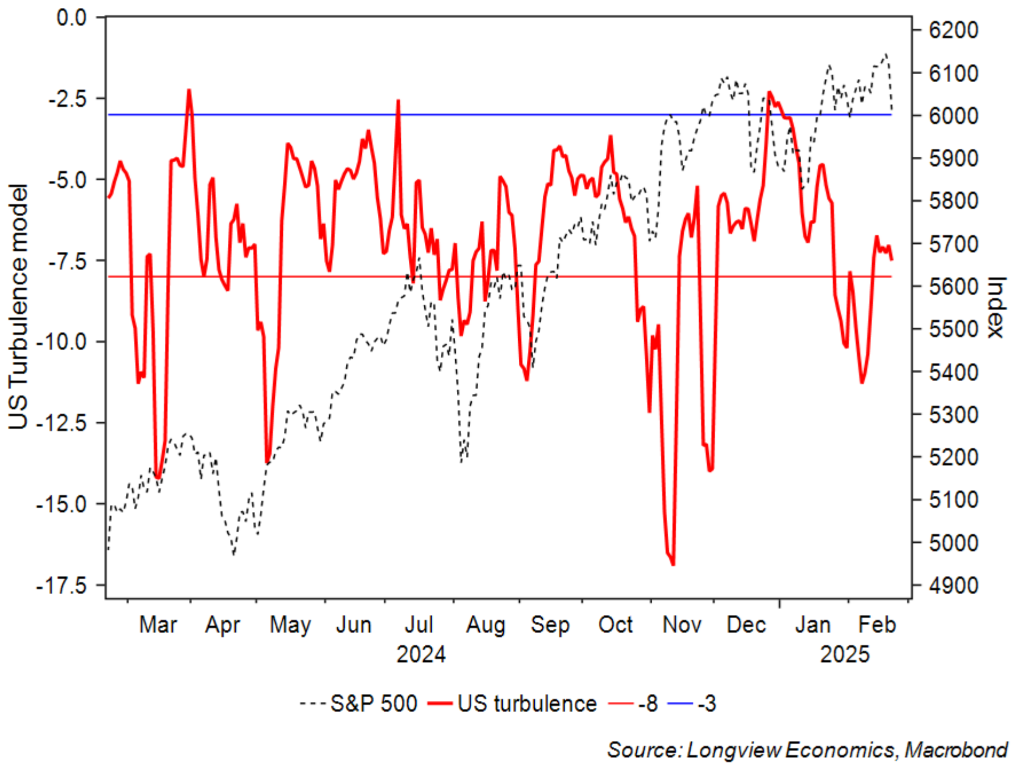


FIG 1a: DAX overextended indicator (50 day moving average relative to underlying index price) vs. DAX index

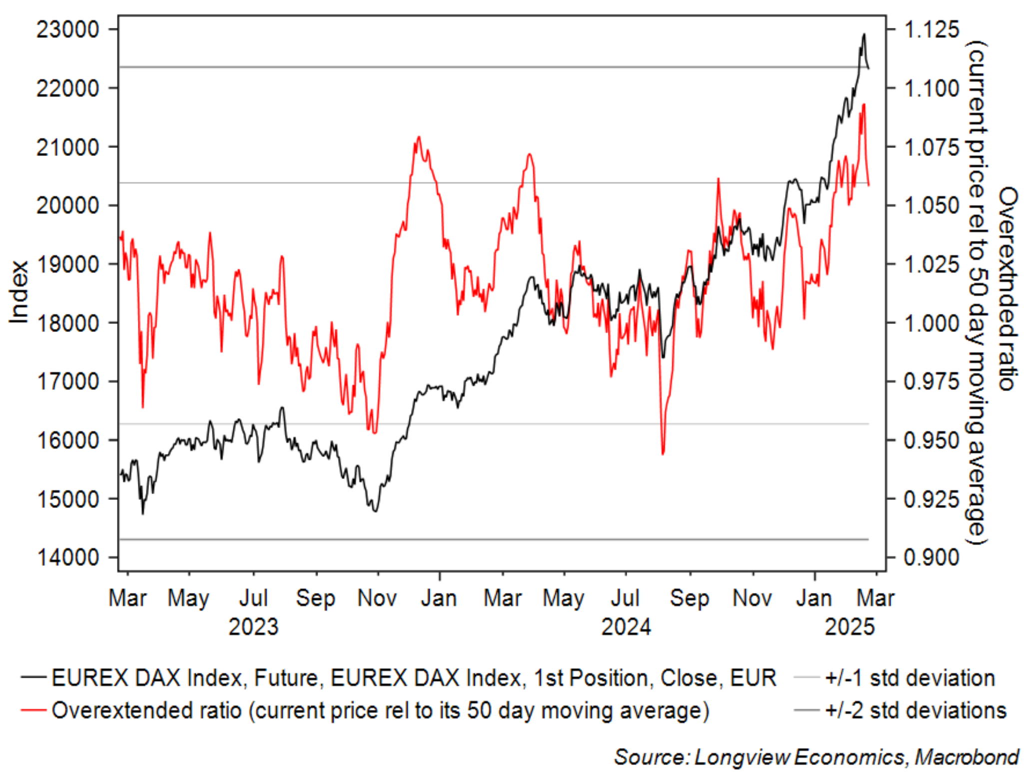


FIG 1b: S&P500 March 2025 futures 60-day tick chart shown with overnight price action

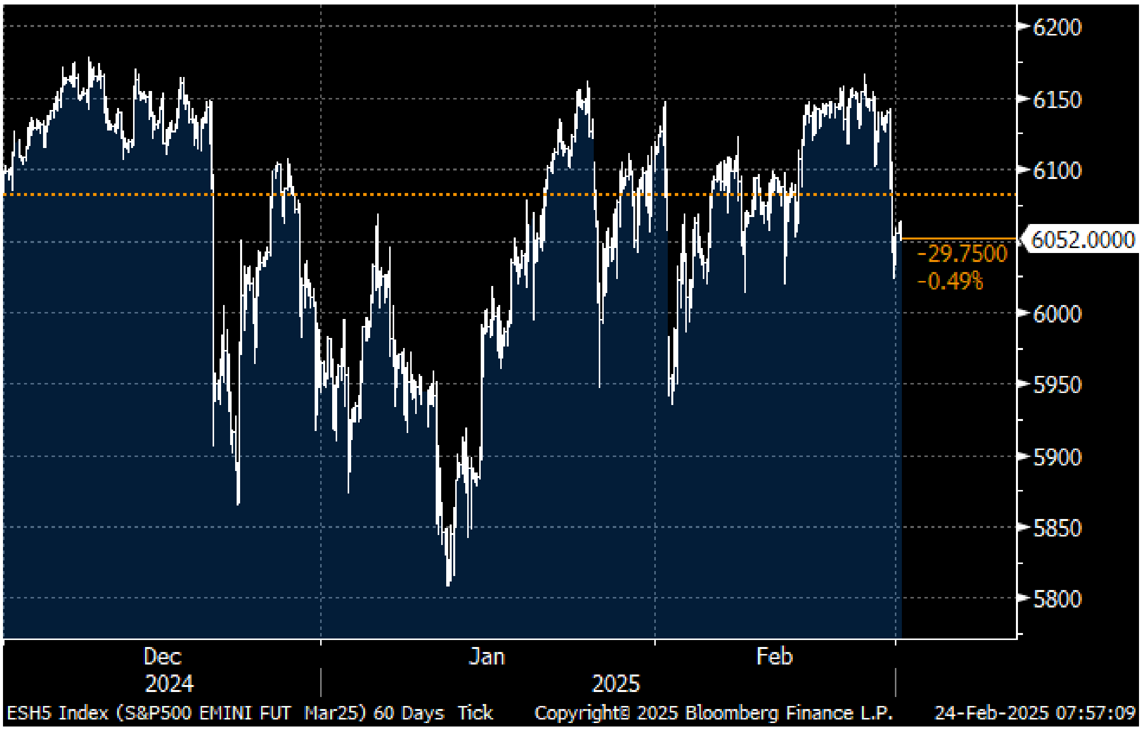
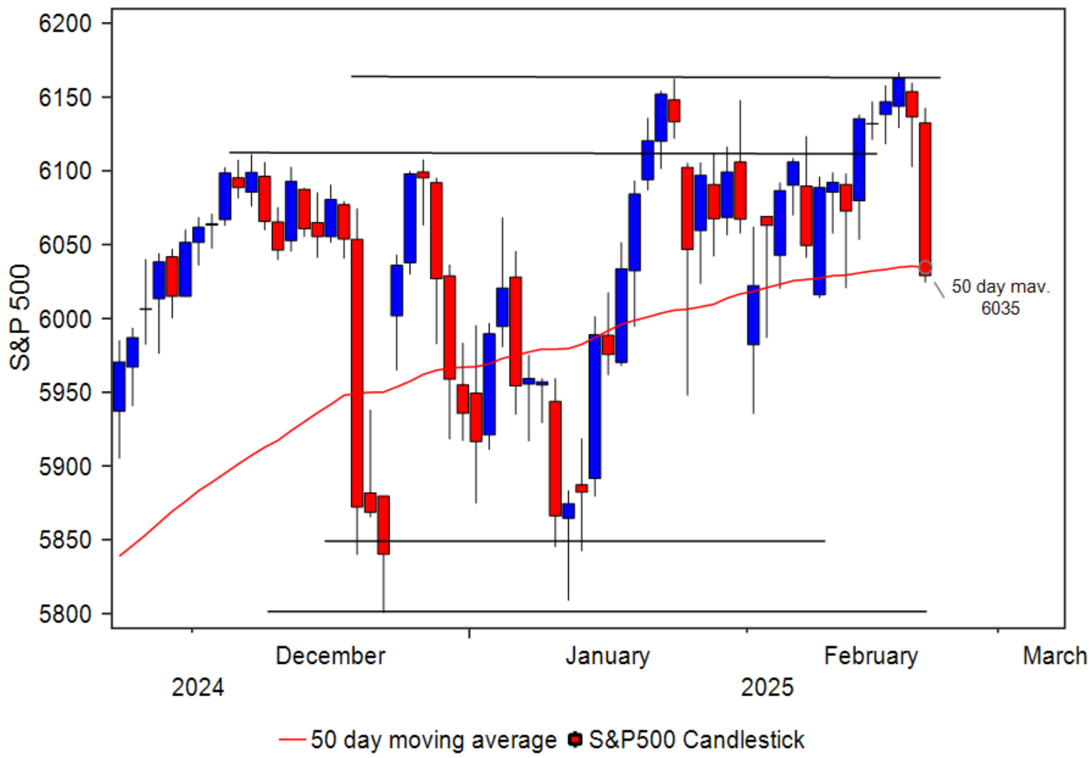
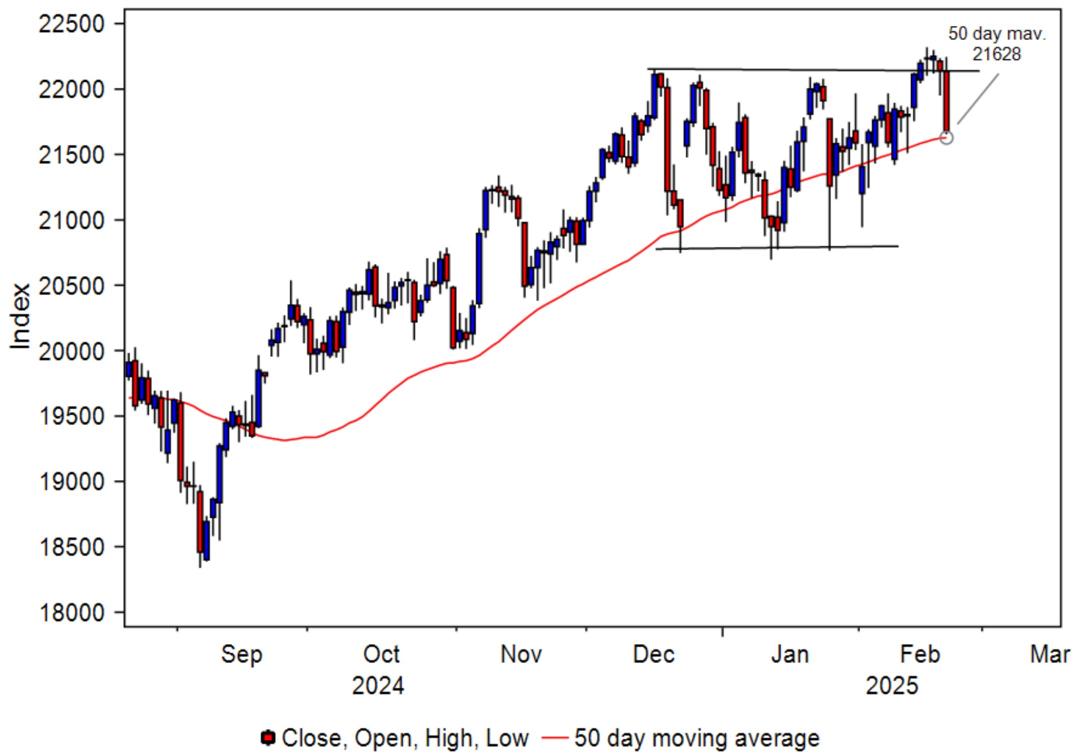


FIG 1c: S&P500 futures candlestick shown with its 50 & 200 day moving average



Source: Longview Economics, Macrobond

FIG 1d: NASDAQ100 futures candlestick shown with its 50 & 200 day moving average

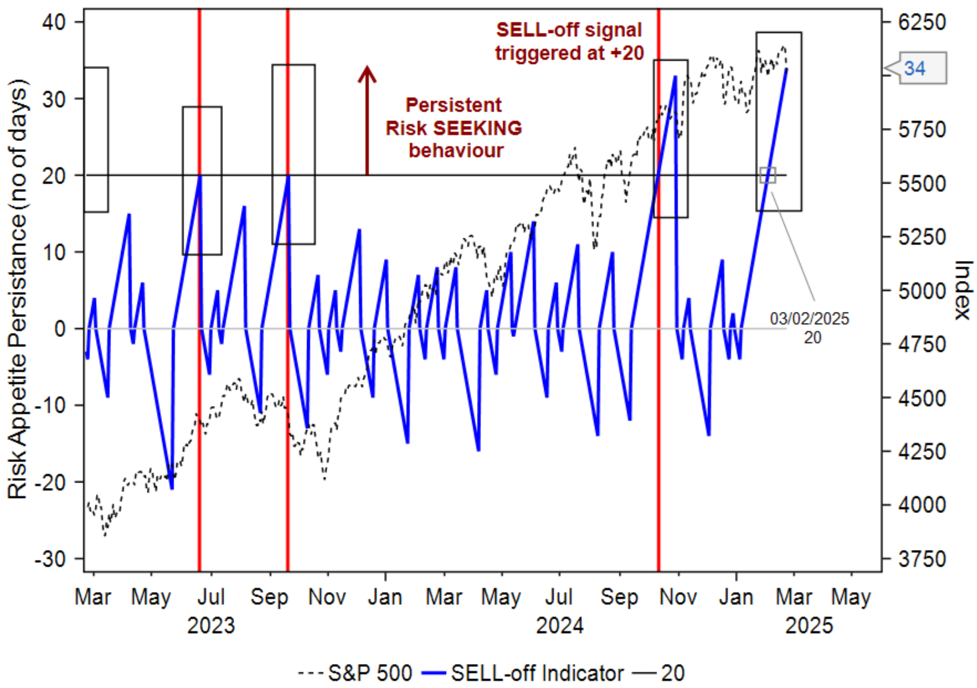


Source: Longview Economics, Macrobond

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

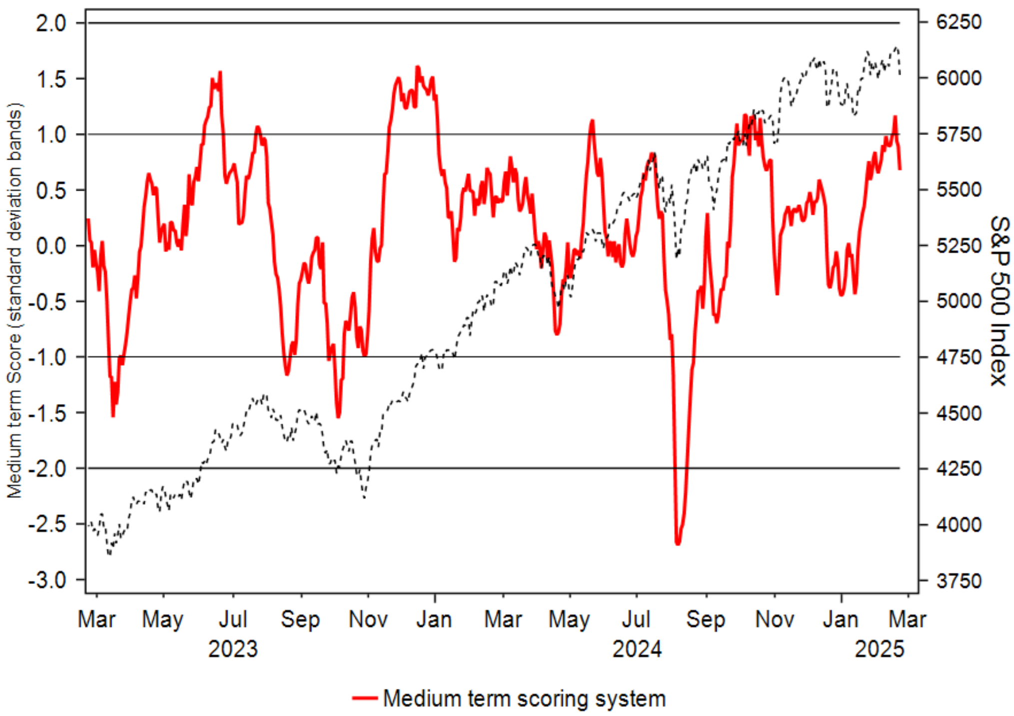
Key models are (or have just been) on SELL....

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



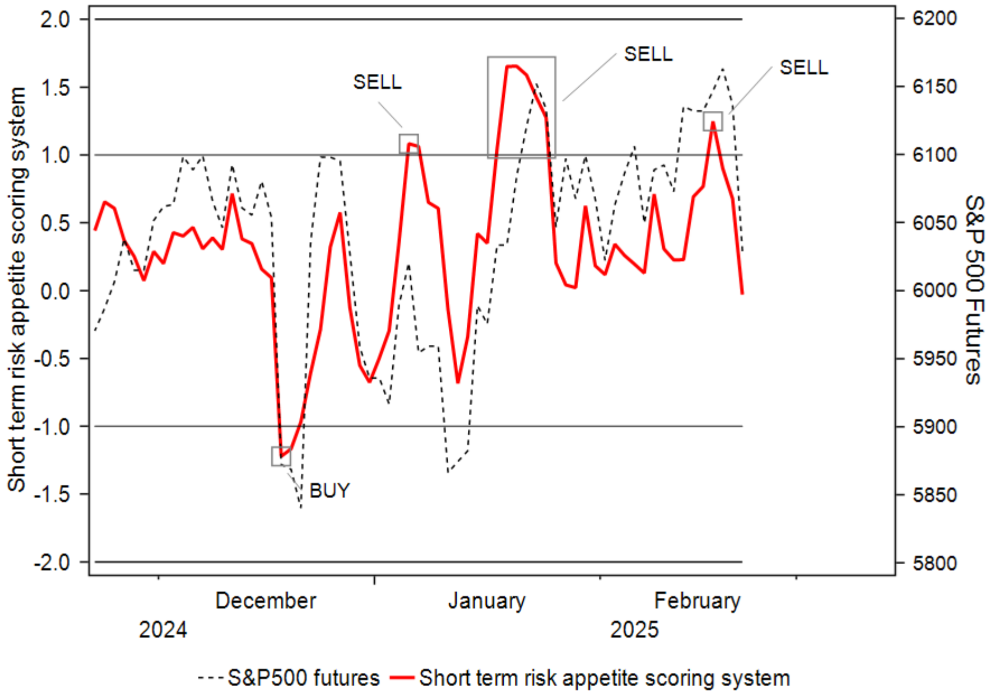
Source: Longview Economics, Macrobond

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



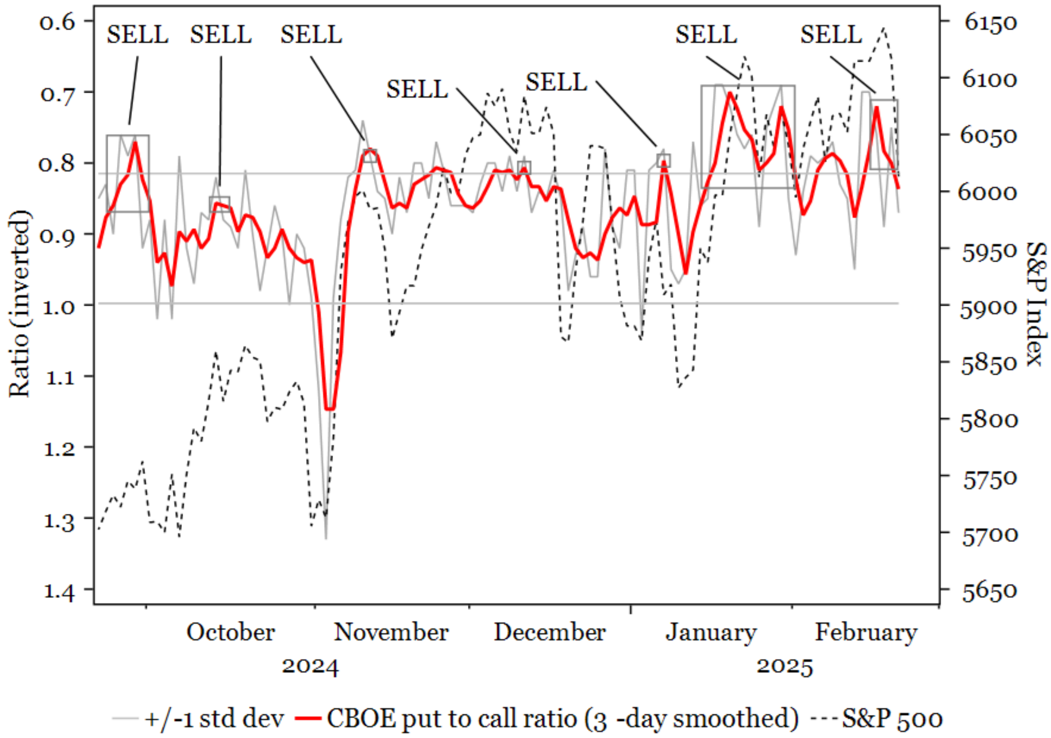
Source: Longview Economics, Macrobond

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



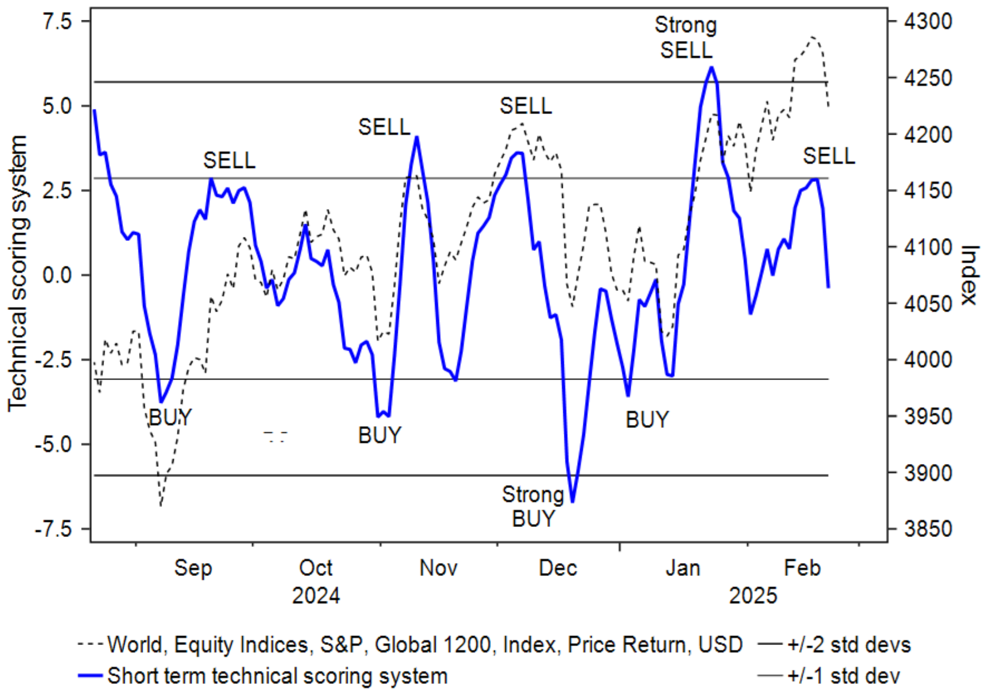
Source: Longview Economics, Macrobond

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



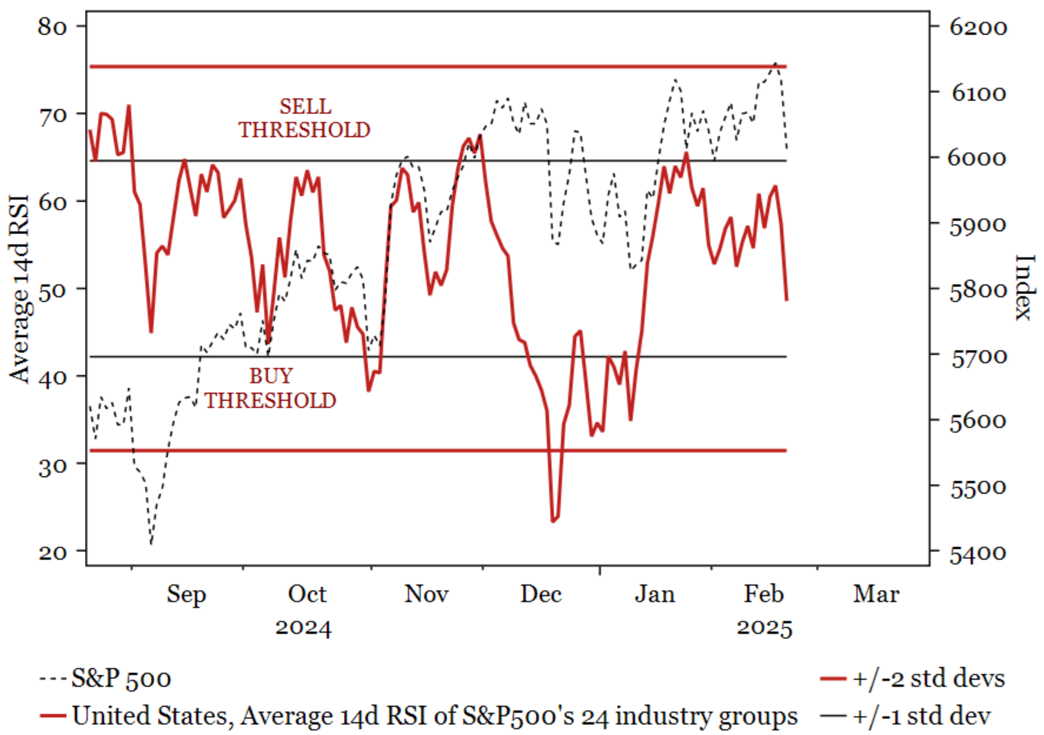
Source: Longview Economics, Macrobond

FIG 2d: Longview global **S&P1200** short term **'technical'** scoring system vs. S&P1200 index



Source: Longview Economics, Macrobond

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

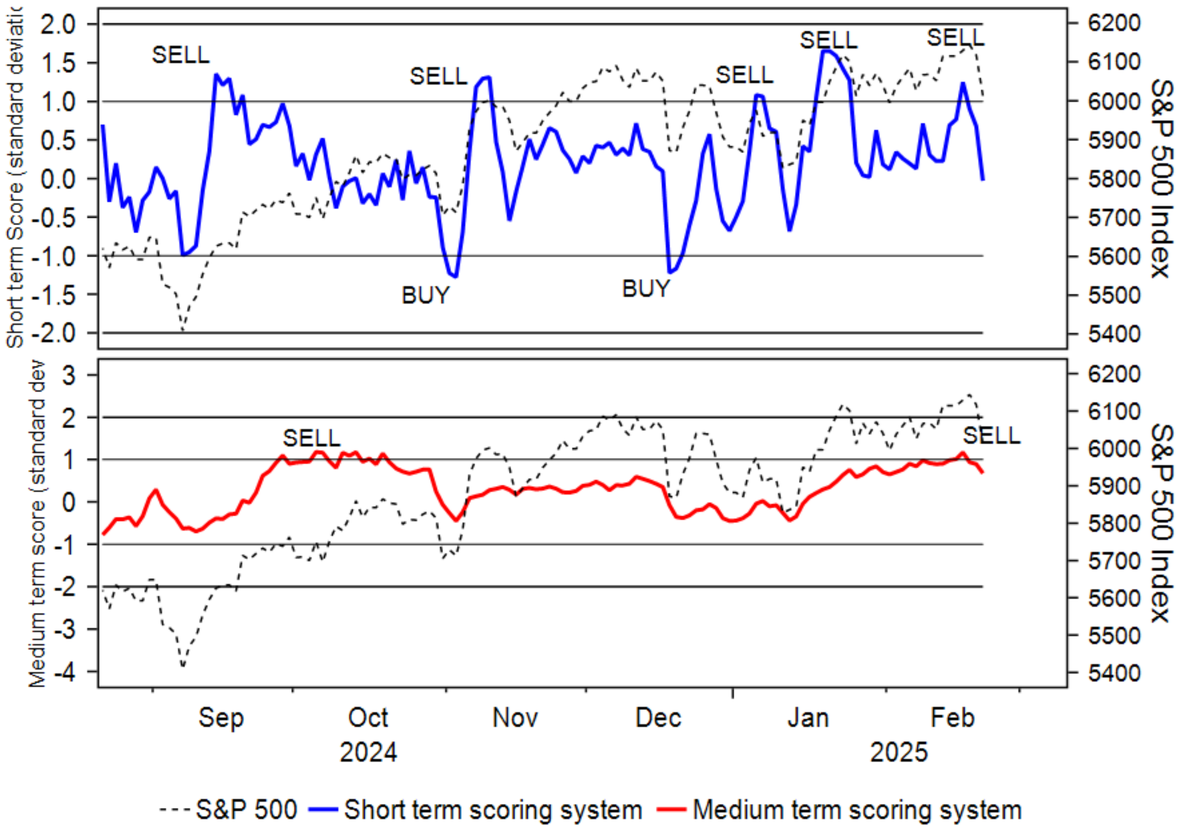


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL last week)
Medium term (1 – 4 month) scoring system: **NEUTRAL** (from SELL last 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: Japanese PPI services (Jan, 12:50am); **German IFO business climate** (Feb, 9am); Eurozone headline & core CPI (January final estimate, 10am); US Chicago Fed national activity (Jan, 1:30pm); US Dallas Fed manufacturing sector activity (Feb, 3:30m).

Key events today include: Speeches by the Bank of England's Lombardelli & Ramsden at the 2025 Bank of England Agenda for Research Conference (9am & 1:15pm) & Dhingra at the Birkbeck Centre for Applied Macroeconomics on the state of UK monetary policy (6pm); market holiday in Japan on account of Emperor's Birthday.

Key earnings today include: ONEOK, Public Storage.

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.

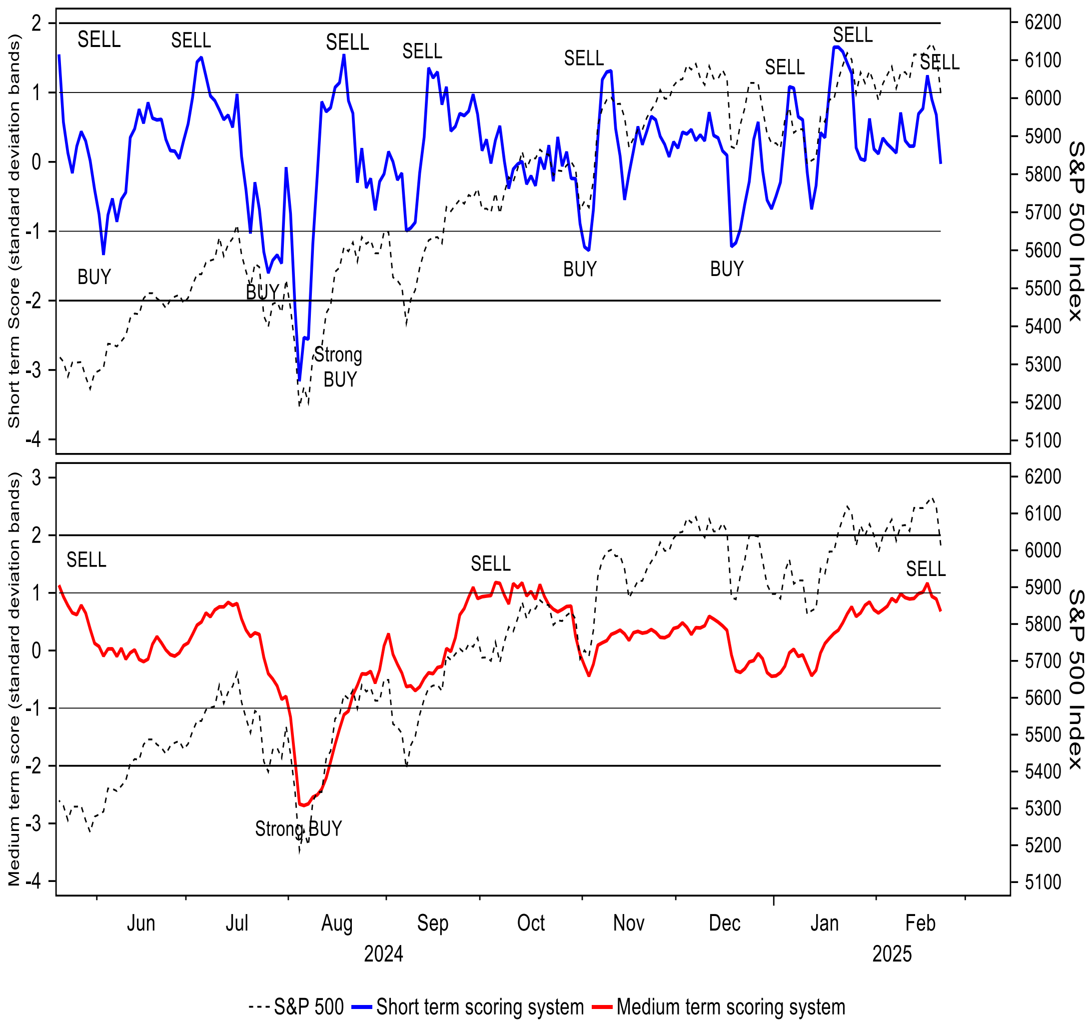
1 – 2 Week View on Risk

24th February 2025

Longview Economics
Email: research@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 NEUTRAL

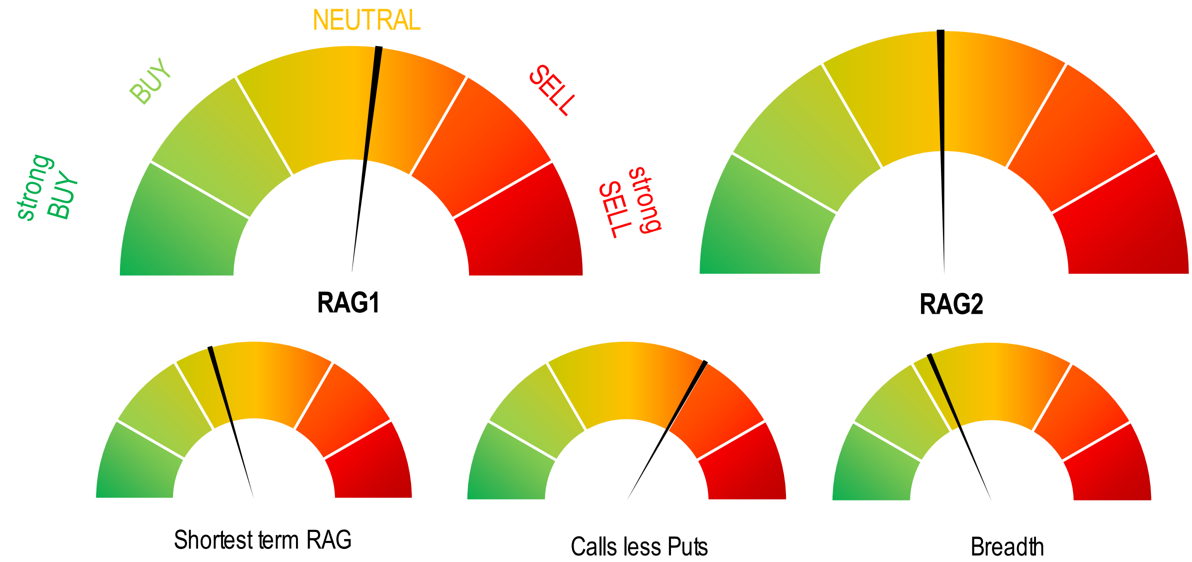
Source: Longview Economics, Macrobond

*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

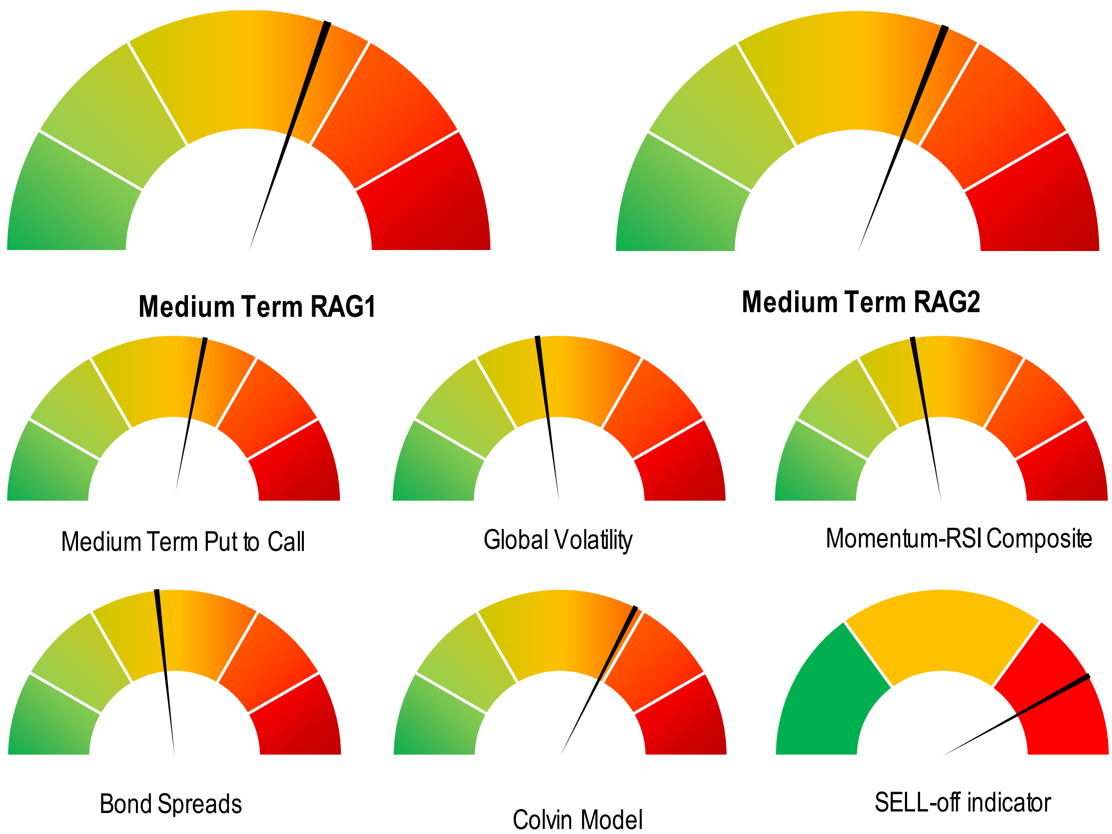
Section 1a: Summary of indicator signals**

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

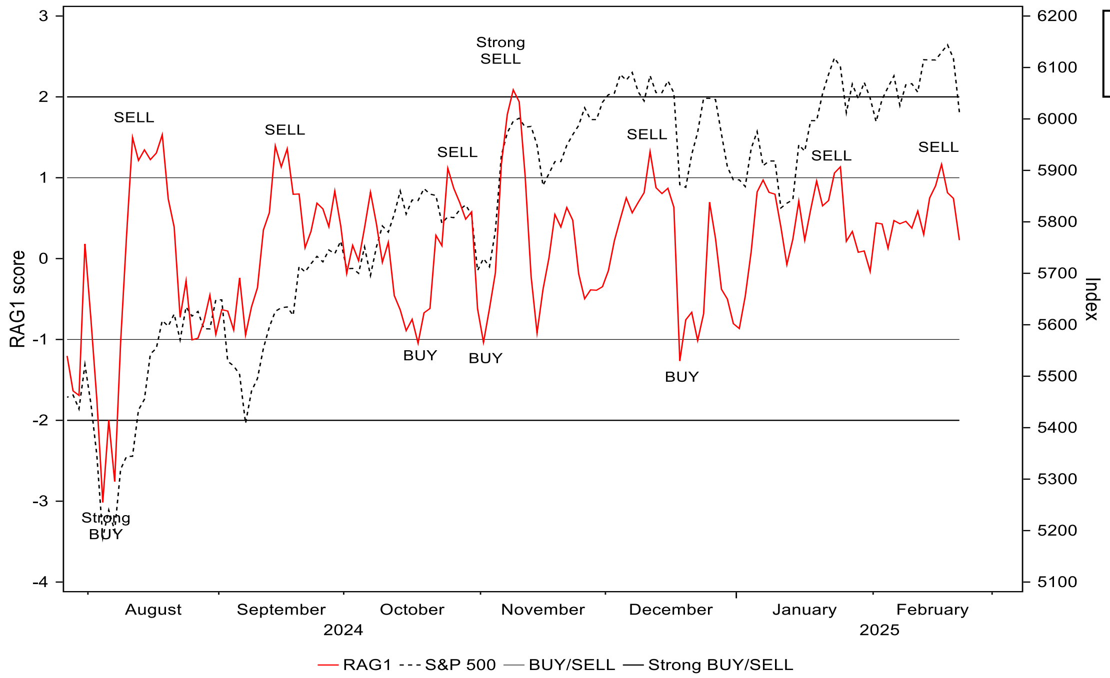


Source: *Longview Economics*

**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

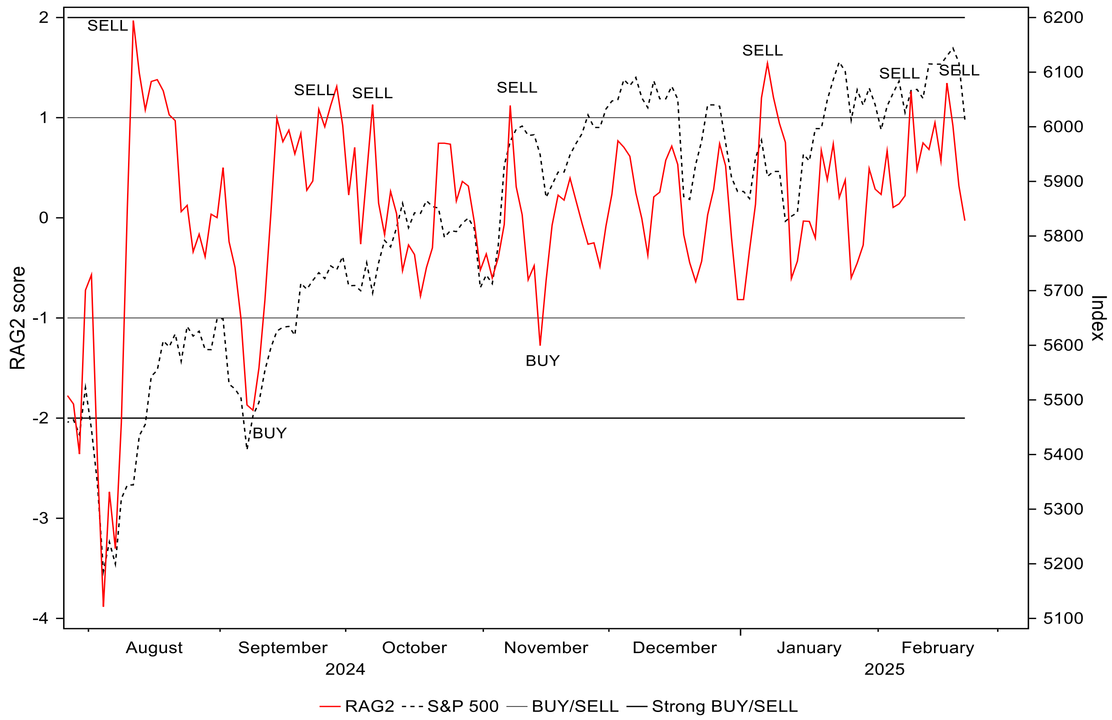
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

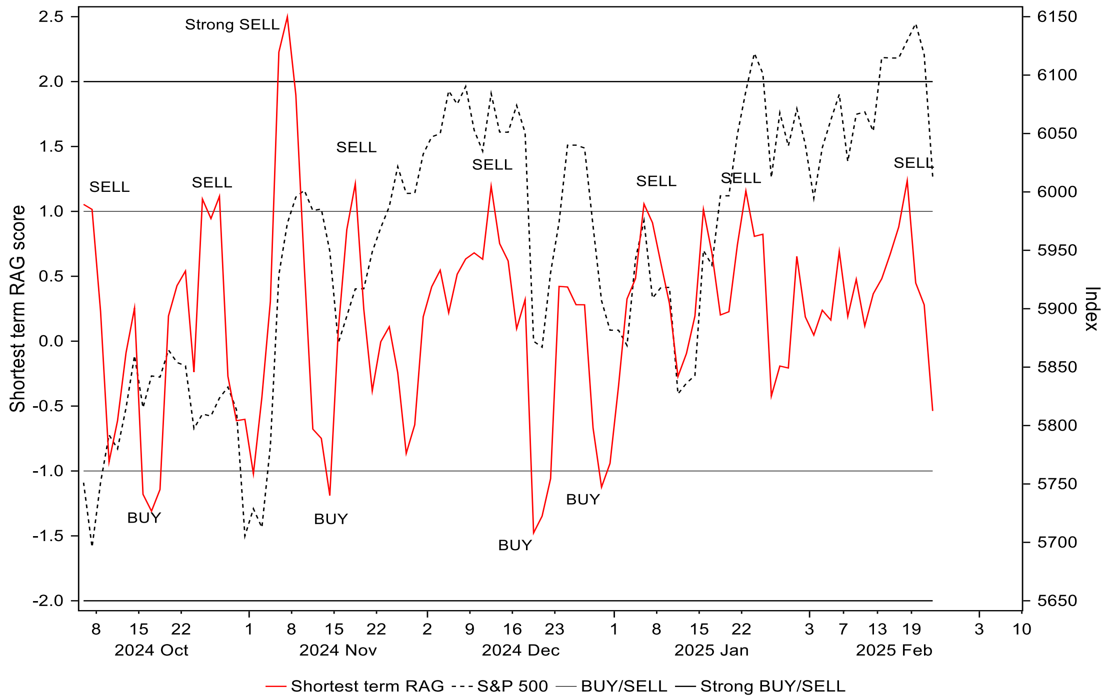


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

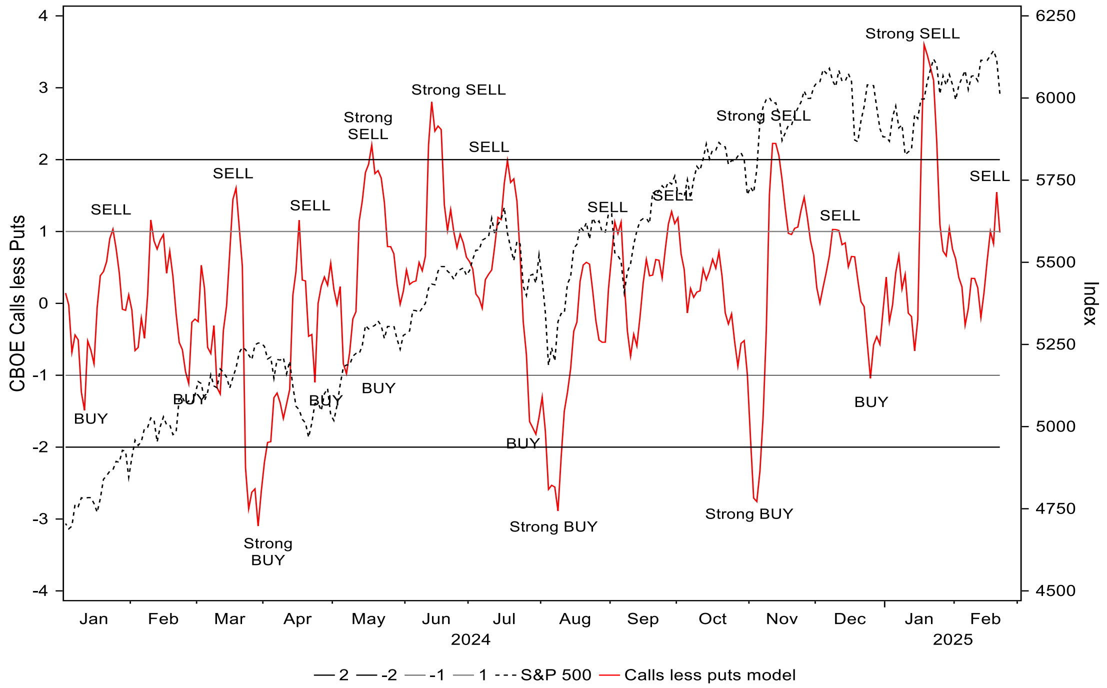
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

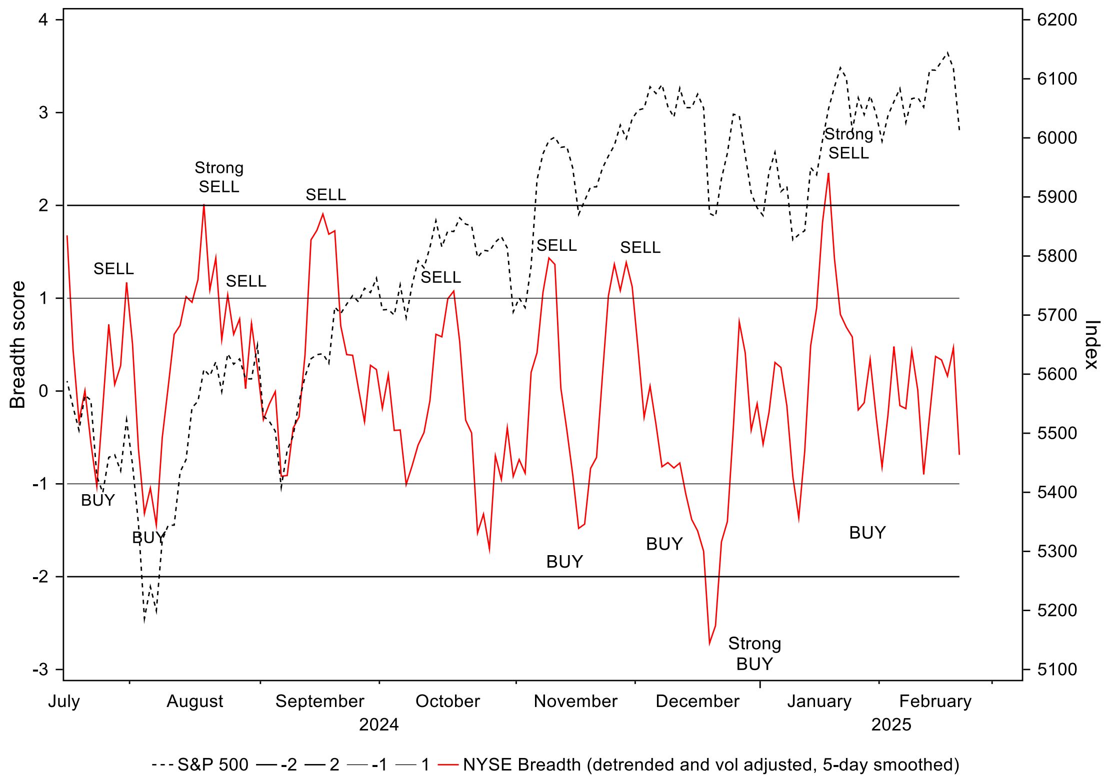


Calls less puts model is on SELL

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



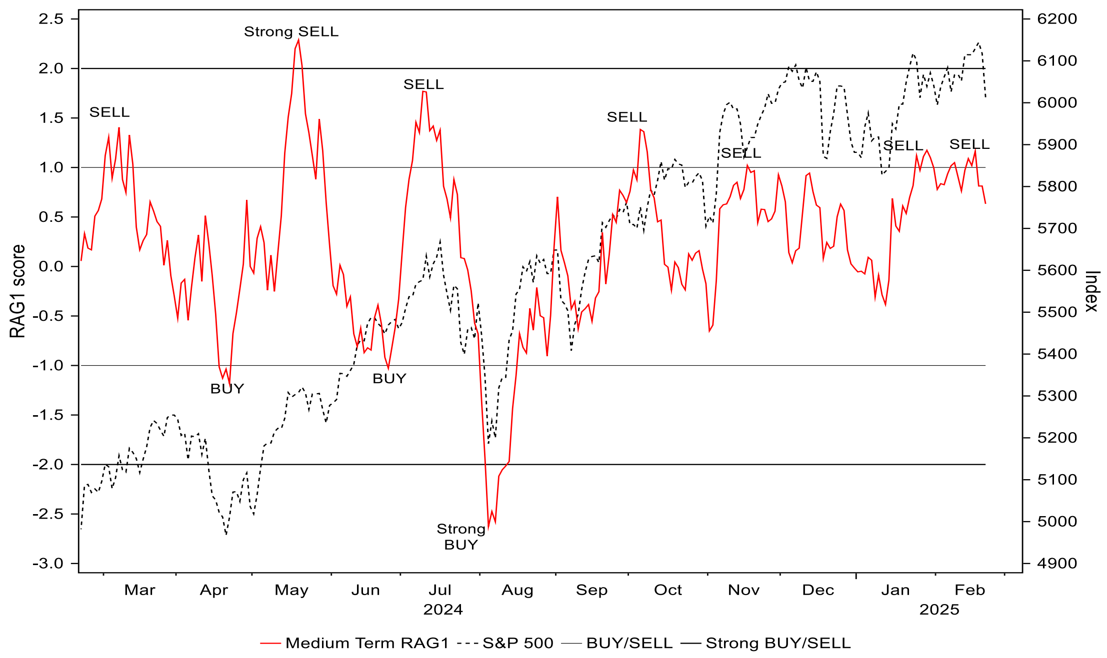
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

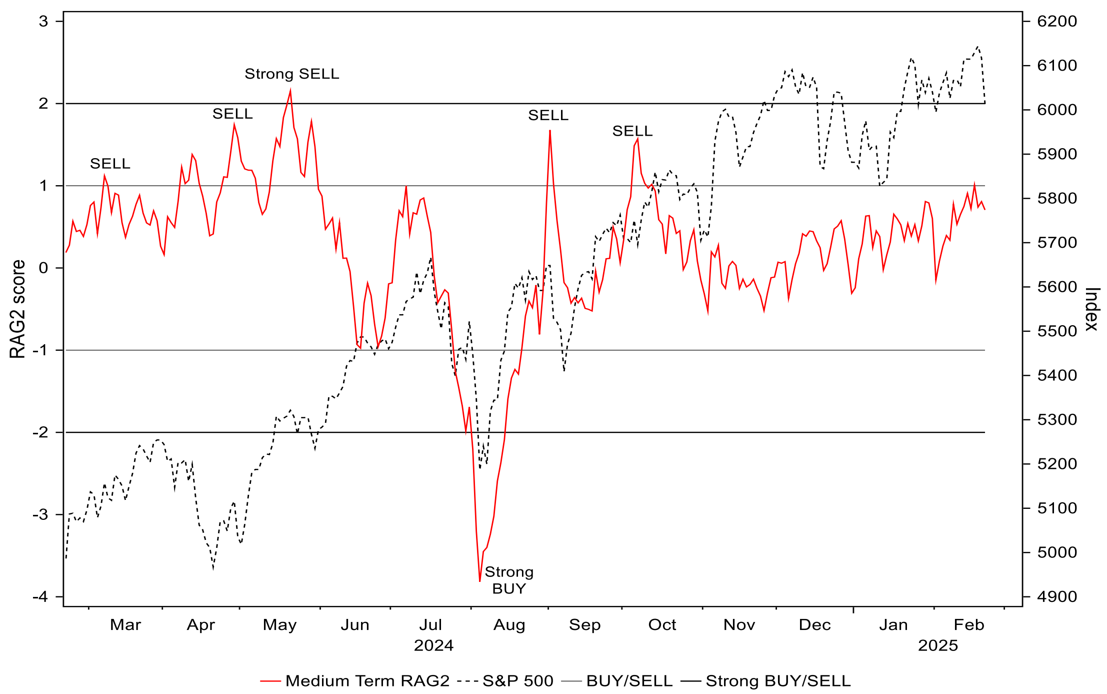
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

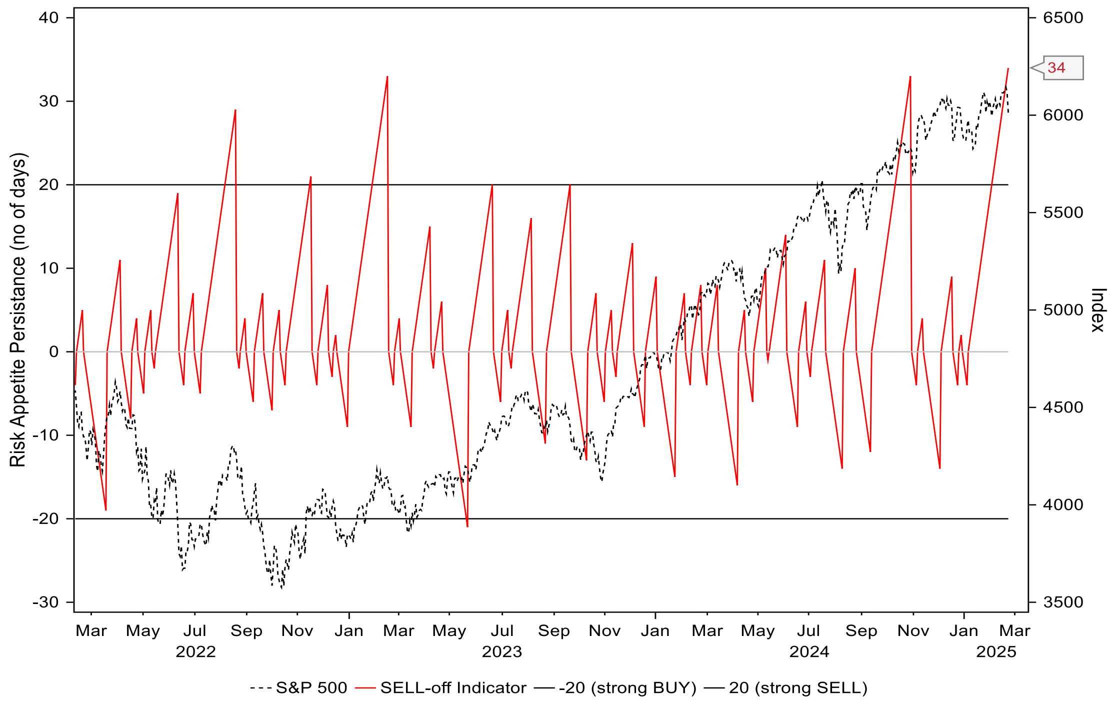


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

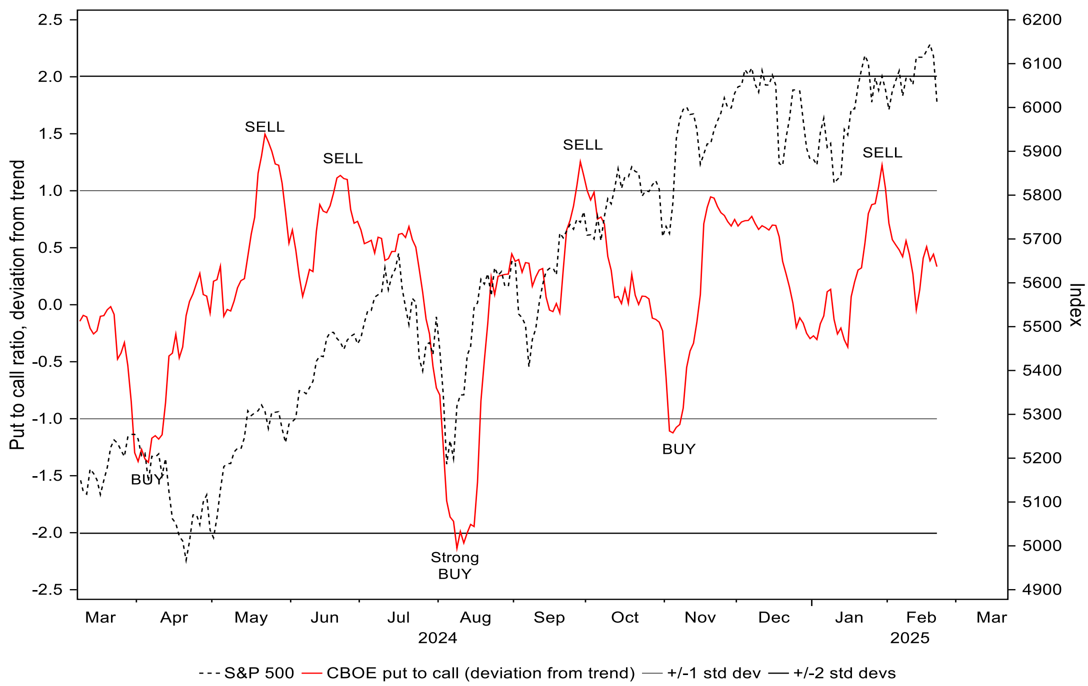
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

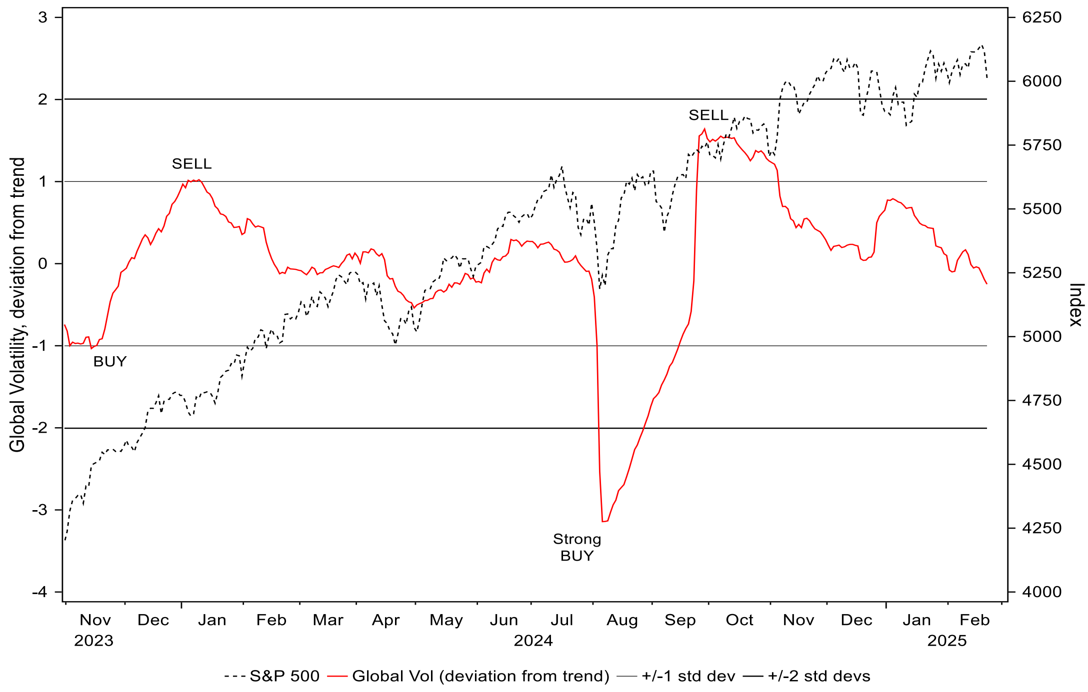


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

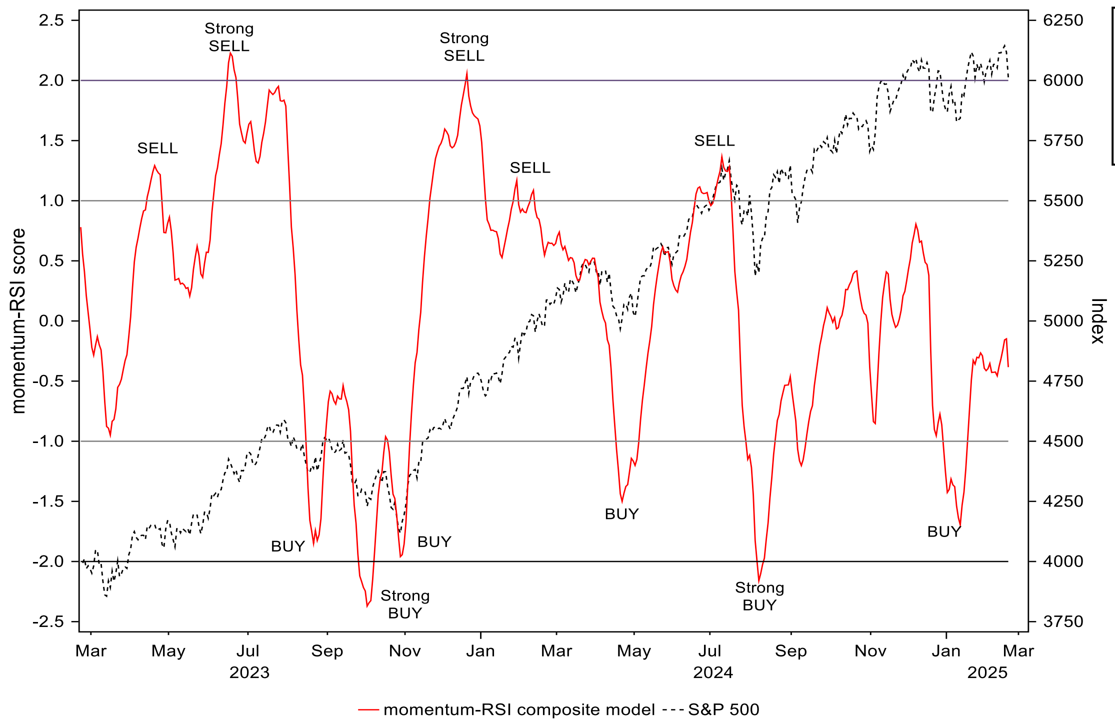
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

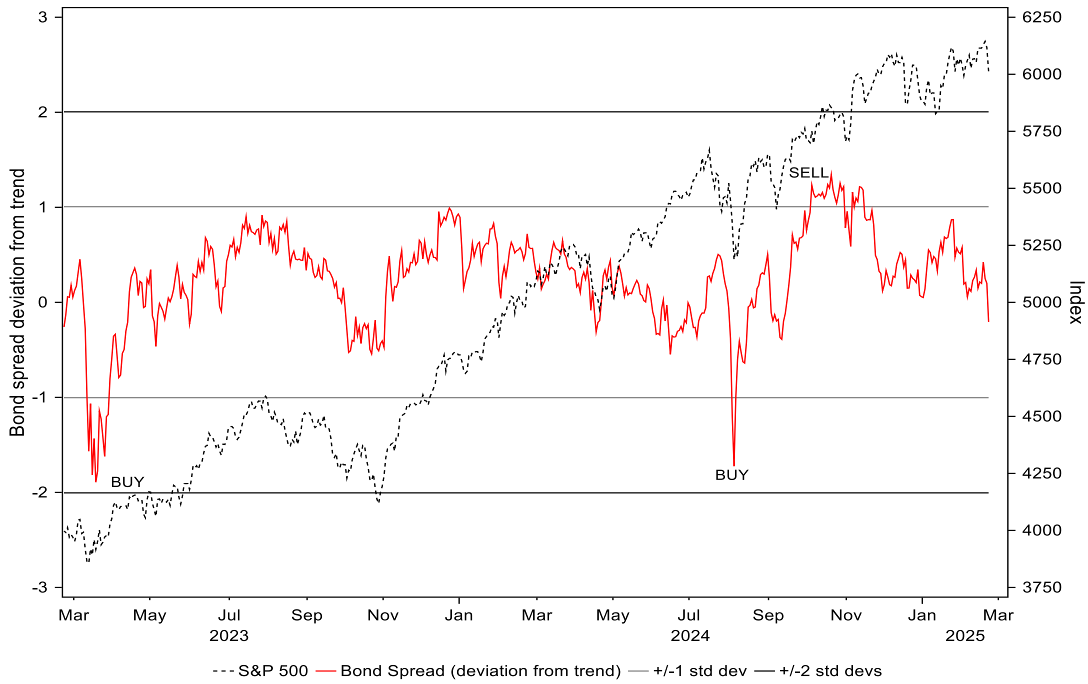
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

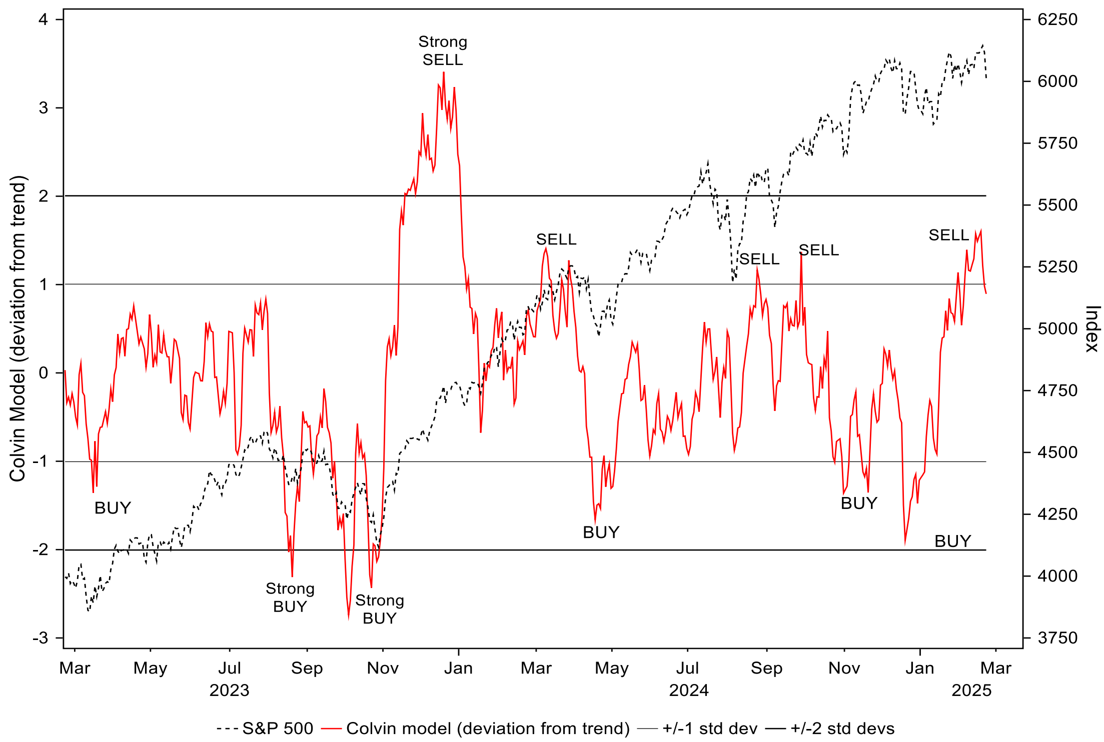
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is NEUTRAL

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



Source: Longview Economics, Macrobond

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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