LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

25th February 2025

"Stay SHORT - Momentum Rolling"

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);
- Modestly tighten stop loss to 6,122 (from 6,150 yesterday).
- STAY ¼ SHORT DAX futures (entry was last week at 22,557).
- Keep stop loss unchanged at 22,828.

*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

Momentum in US/global equity markets continued to roll over yesterday. In particular, most major US equity indices closed down again (after broad based losses on Friday). Of the 28 key indices we track, 24 were lower on the session, led by 'tech heavy markets' like the NDX100 (-1.2%); NASDAQ Computer Index (-1.6%); and the Philly SOX (-2.6%).

With that, various indices have broken below key levels. The NDX and the SPX, for example, both broke below their 50 day moving averages yesterday (recent/key technical support, e.g. see FIG 1a). Others like the Philly SOX and Russell 2000 have broken below their 200 day moving averages. European equity markets were somewhat mixed, with the DAX closing up 0.7%. Price action in the DAX, though, remains poor (i.e. with the index overextended and trending down since last Wednesday, see FIG 1d).

Our view remains unchanged from yesterday. That is, there's a reasonably high likelihood that Friday's weakness marked ***the start* of a meaningful pullback in US and global equities/risk assets**.

Pullbacks are normal/to be expected after phases of excessive enthusiasm for risk. That enthusiasm has been building in recent weeks, as highlighted by frothy and 'near vertical' price action in various global assets, and as measured by our SELL-off indicator (FIG 2), and other medium term models (FIG 2a). Of note those models remain on/close to SELL and highlight the case for further downside in equities.

Short term models have recently been on SELL, albeit their signals are starting to unwind given weakness in equities/risk assets yesterday and on Friday (see FIGs 2b – 2e). Of interest, though, none of them have yet to fully unwind their SELL signals/move back to BUY (although some are close). As such, there's still evidence of complacency in this market and it therefore remains **vulnerable to the downside**.

The risk reward, therefore, favours staying SHORT the DAX and the SPX (with a modestly tighter stop loss on the SPX position, i.e. for risk management purposes, see above for detail).

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

Kind regards,

The team @ Longview Economics

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

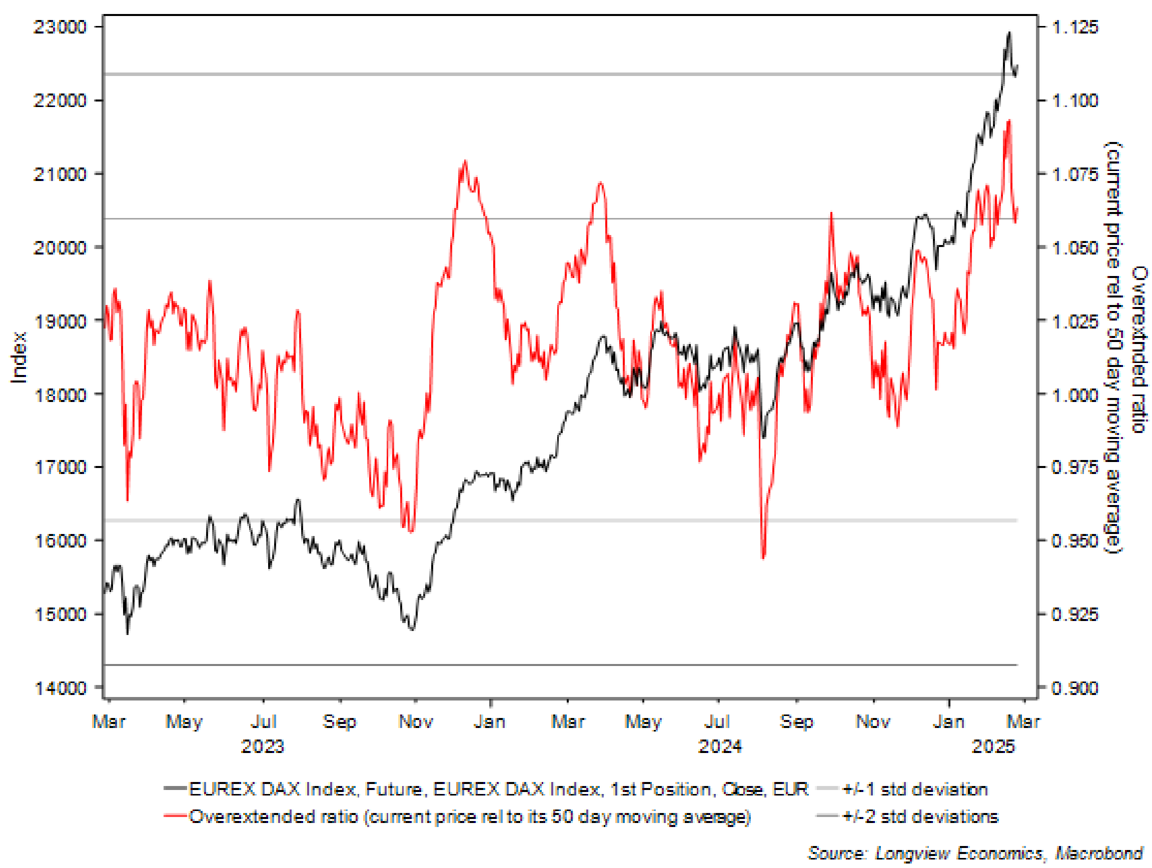
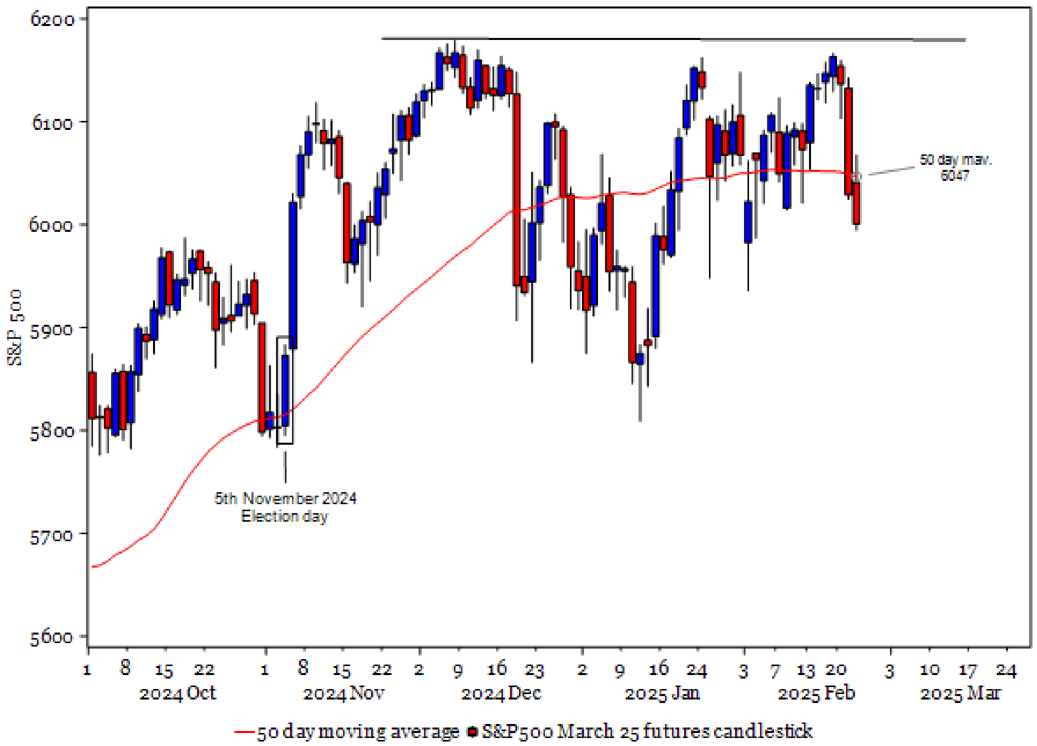
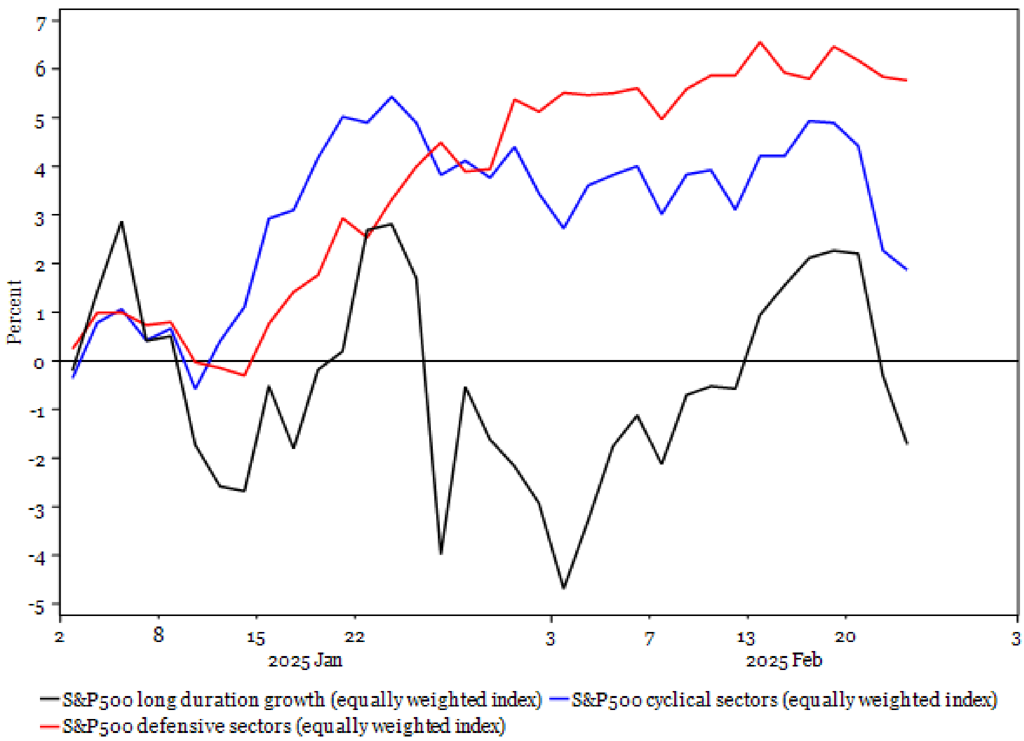


FIG 1a: S&P500 futures candlestick shown with its 50 day moving average



Source: Longview Economics, Macrobond

FIG 1b: S&P500 index – divided into cyclicals, defensives and long duration growth



Source: Longview Economics, Macrobond

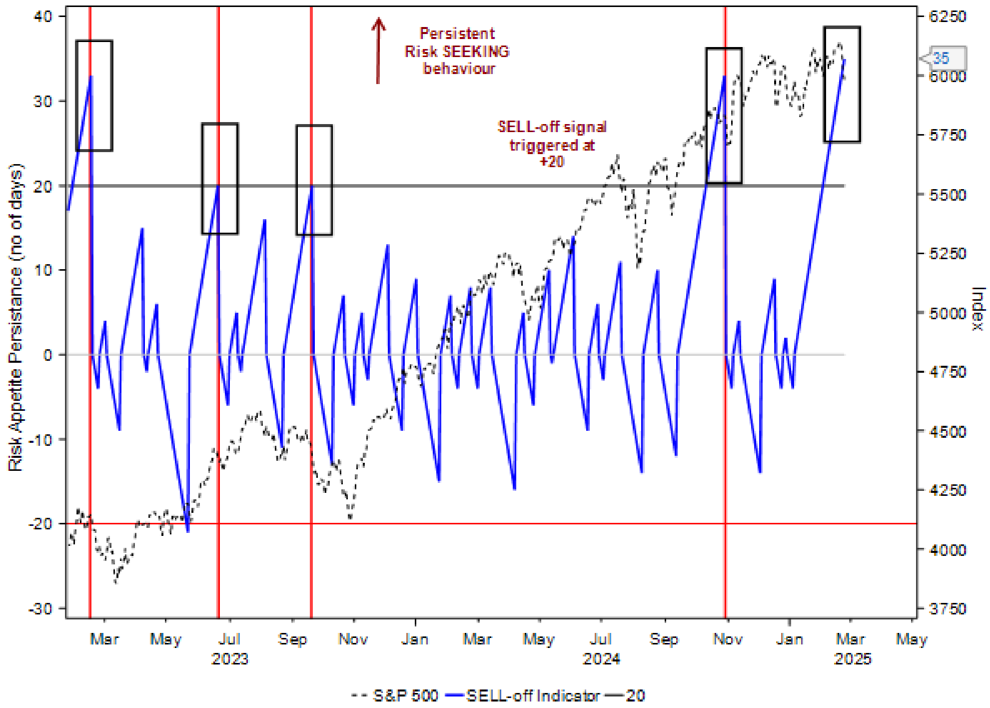
FIG 1c: NASDAQ100 futures candlestick shown with its 50 & 200 day moving average

Source: Longview Economics, Macrobond

FIG 1d: DAX March 2025 futures 30-day tick chart shown with overnight price action

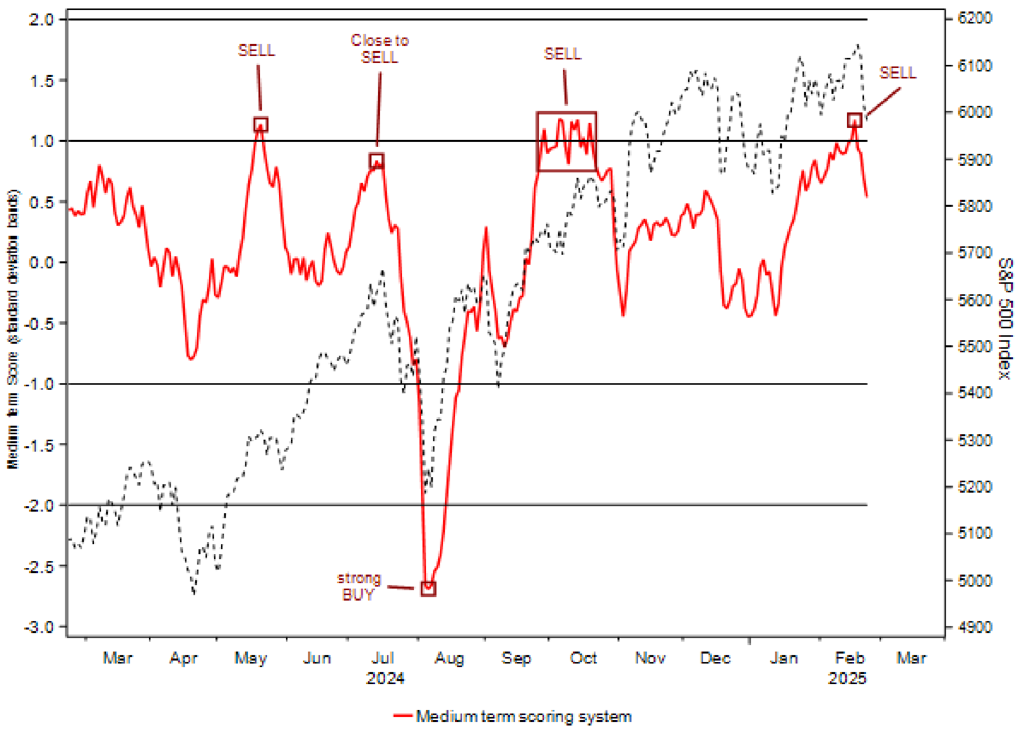
Key models are (or have just been) on SELL….

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

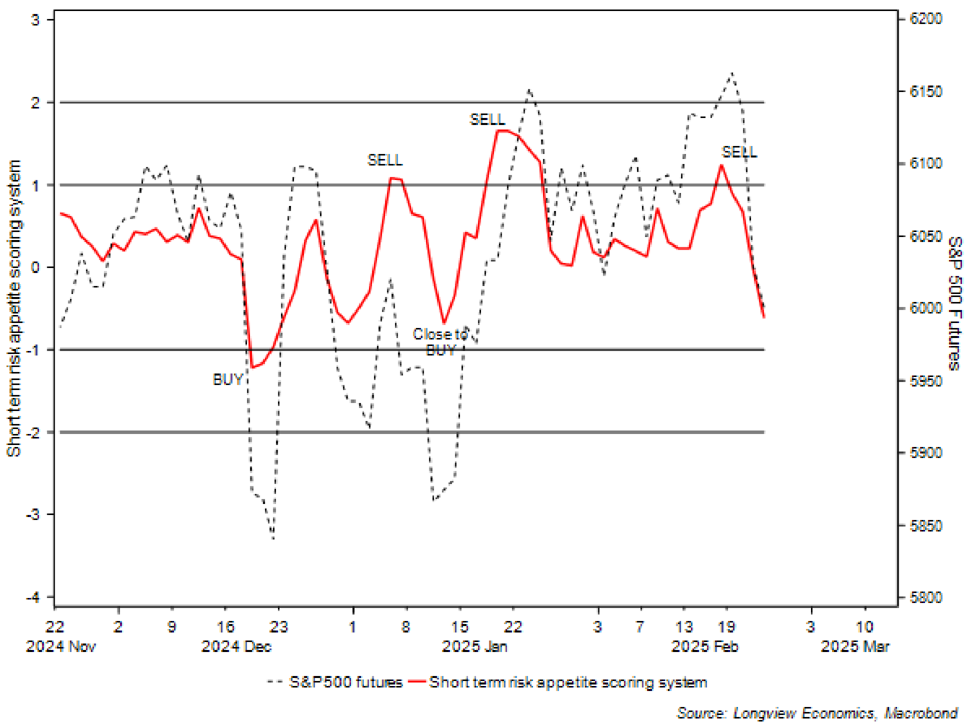


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

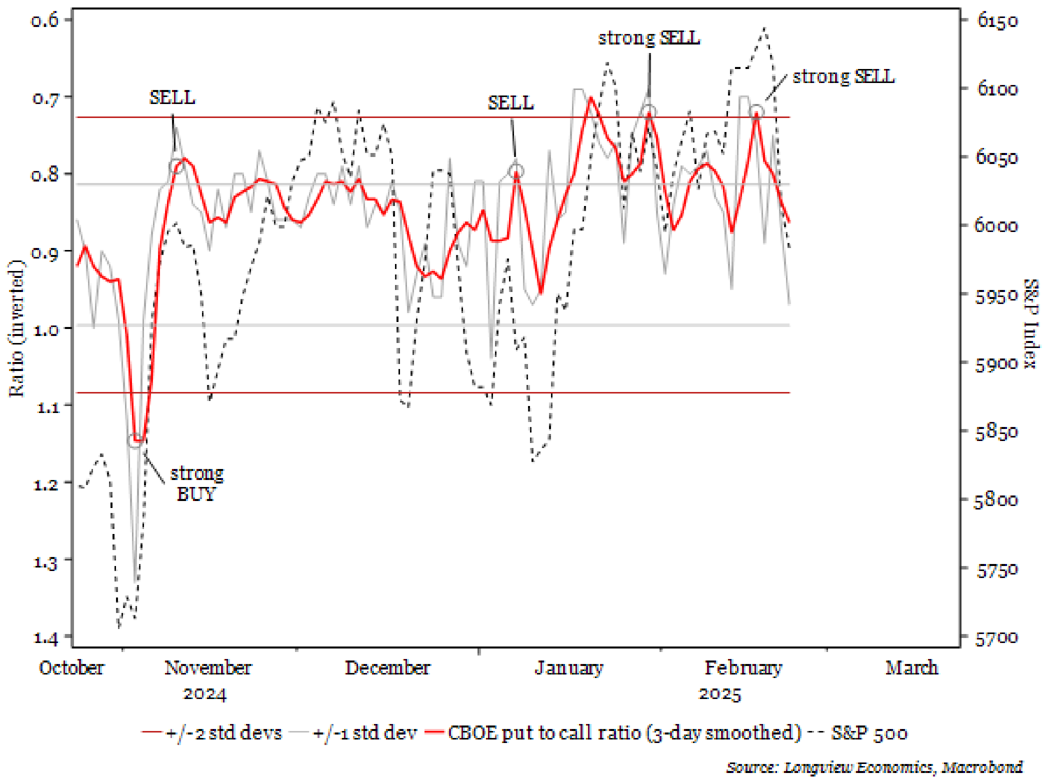
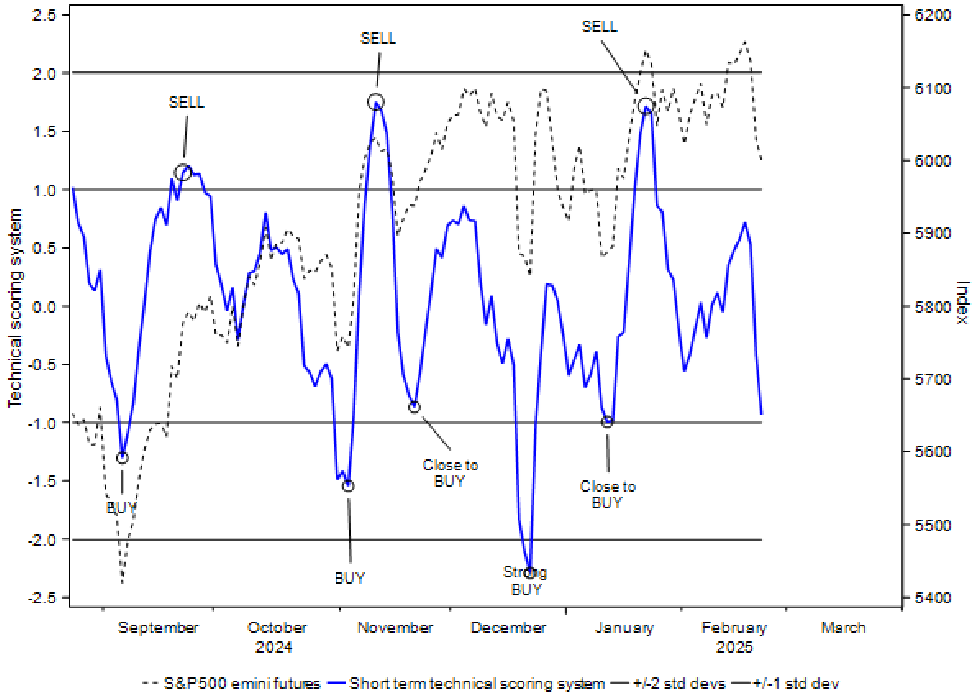
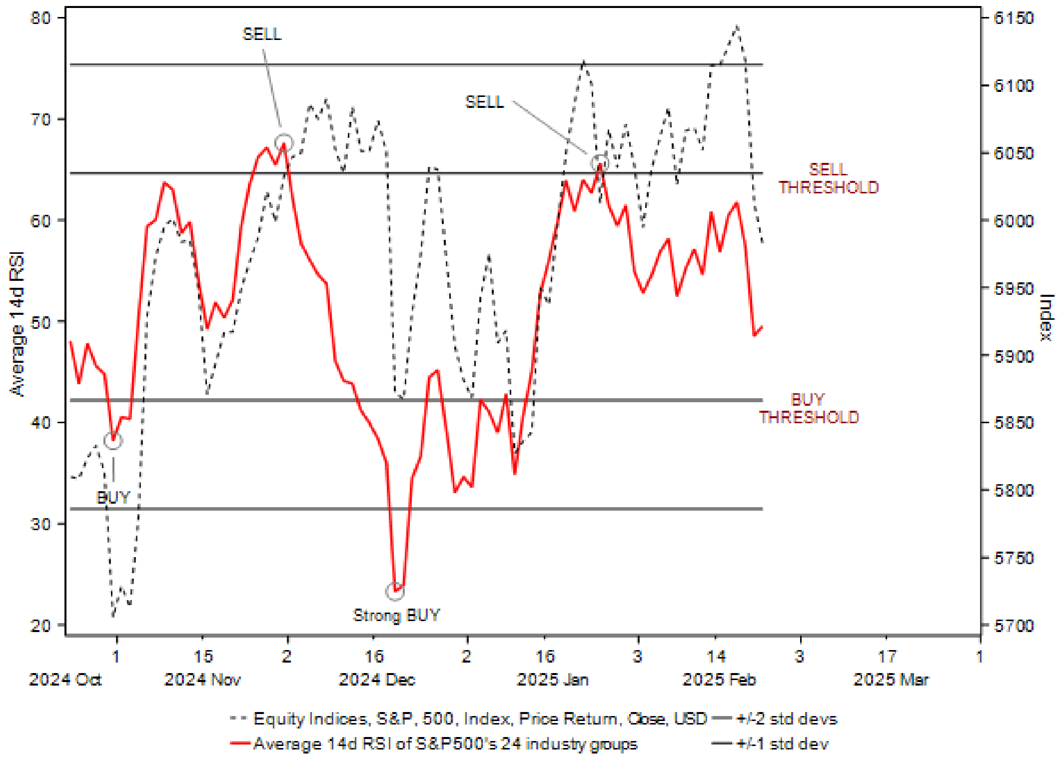


FIG 2d: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



Source: Longview Economics, Macrobond

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

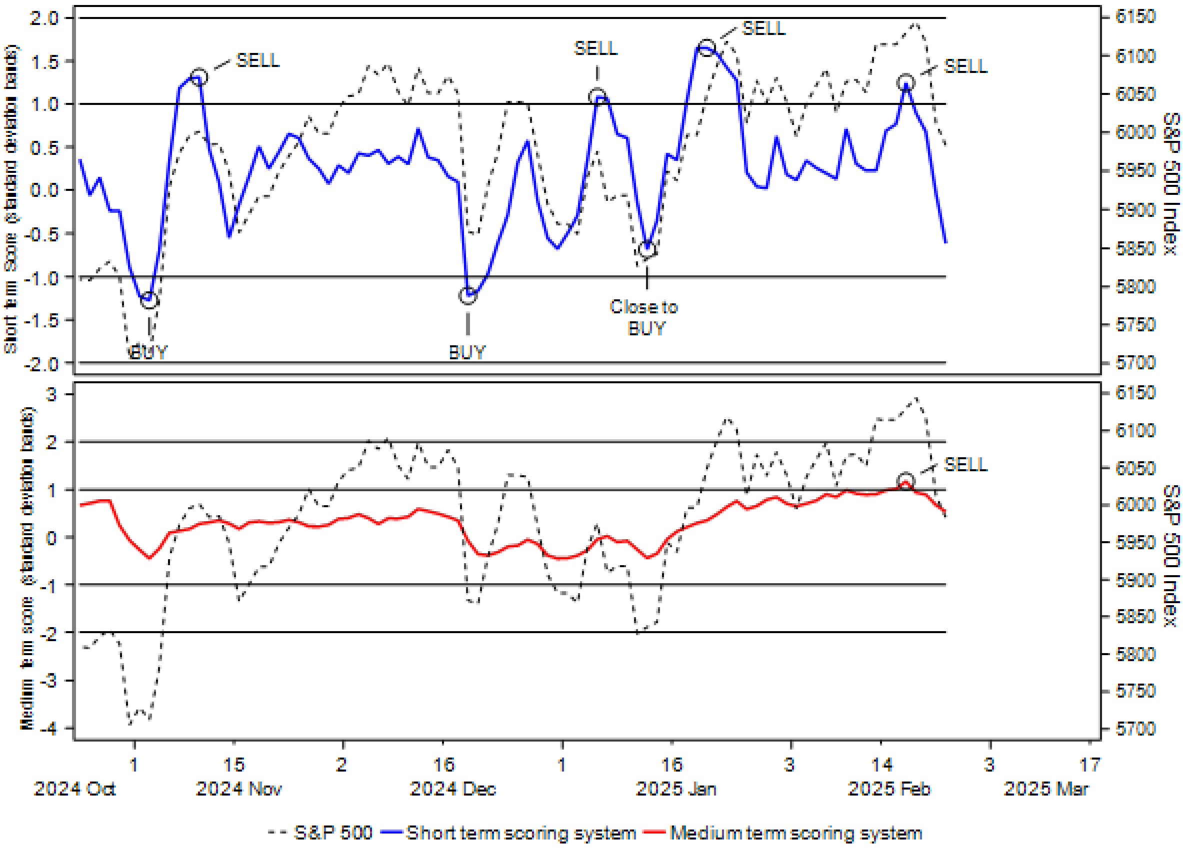


Source: Longview Economics, Macrobond

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)

<u>**FIG A:** Longview short and medium term scoring systems vs. S&P500</u>



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Eurozone new car sales (Jan, 5am); Japanese machine tool orders (January final estimate, 6am); German GDP (Q4 final estimate, 7am); UK CBI distributive trade survey (Feb, 11am); US Philadelphia Fed service sector activity (Feb, 1:30pm); US FHFA house price index (Dec, 2pm); US S&P/Case-Shiller 20-city & national house prices (Dec, 2pm); **US Conference Board consumer confidence** (Feb, 3pm); US Richmond Fed manufacturing index (Feb, 3pm); US Dallas Fed service sector activity (Feb, 3:30m).

Key events today include: Speech by the RBA's Jones in a fireside chat (2:45am); Bundesbank chief Nagel presents annual report (10am); speech by the ECB's Schnabel in London (1pm); the Bank of England's Pill gives closing remarks at the 2025 Bank of England Agenda for Research Conference (Tues, 2pm); speech by the Fed's Logan at Balance Sheet Conference (9:20am), Barr gives Remarks with a Q&A (4:45pm) & speech by Barkin on Inflation (6pm).

Key earnings today include: **Home Depot**, Intuit, Bank of Montreal, Bank of Nova Scotia, American Tower, Workday, Sempra Energy.

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.

LVRAG
Daily Risk Appetite Gauge

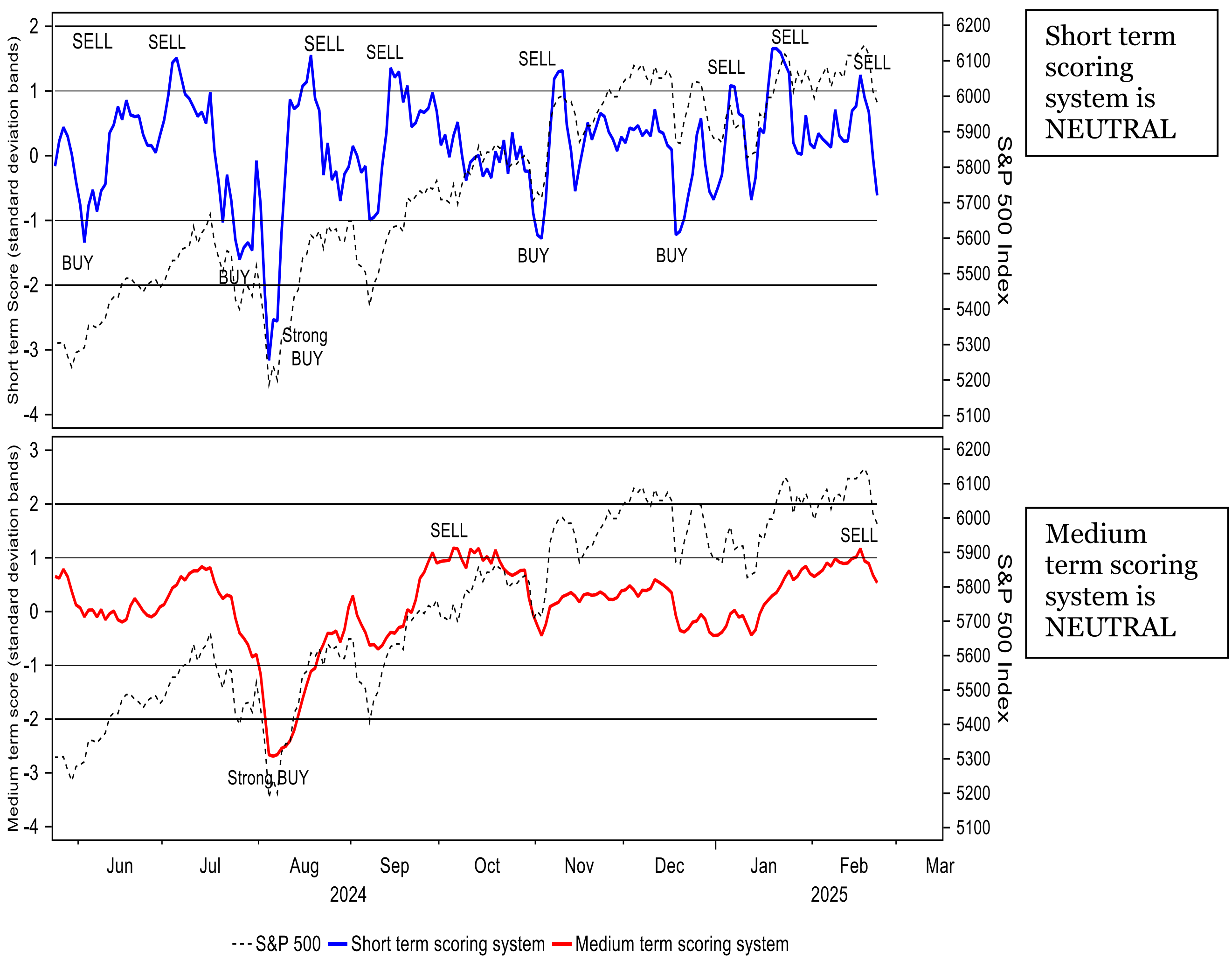
1 – 2 Week View on Risk

25th 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



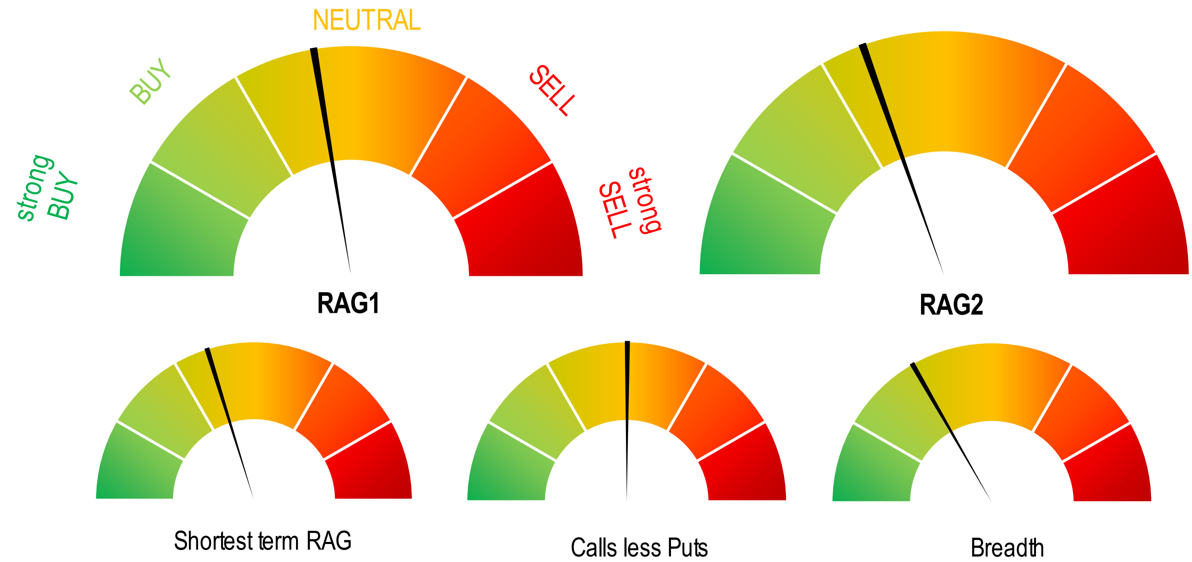
Source: Longview Economics, Macrobond

*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

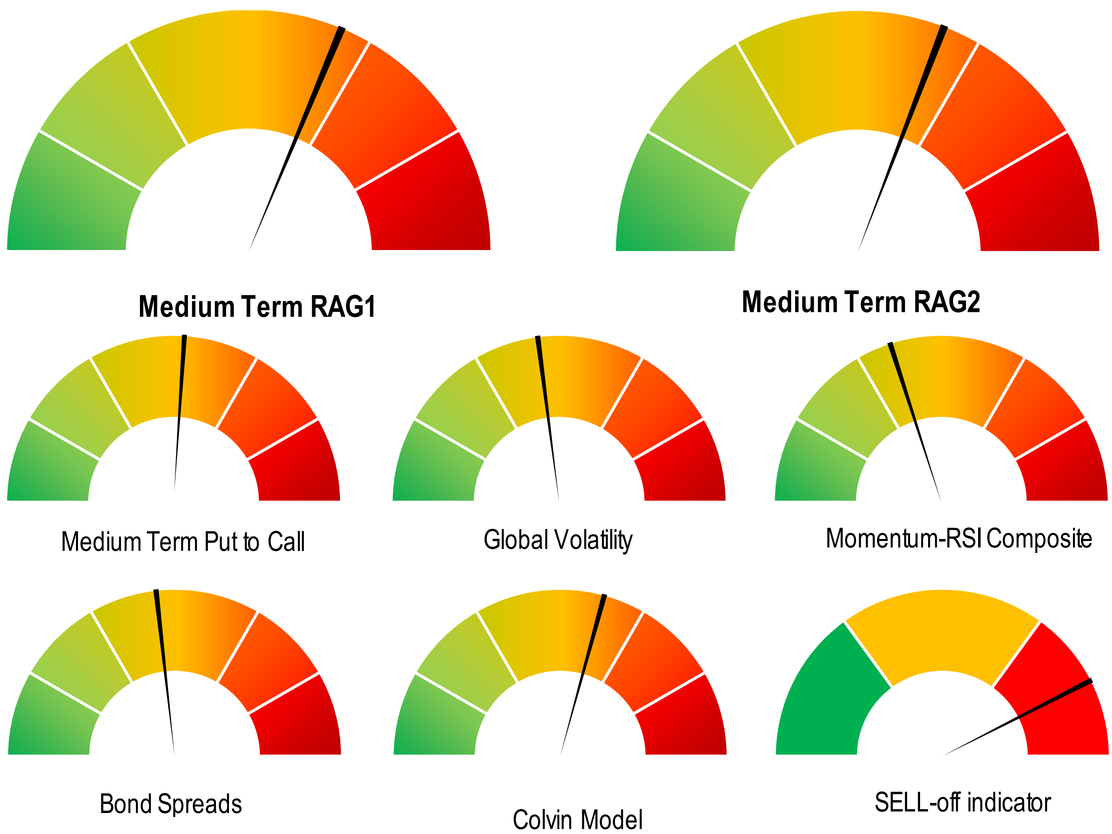
Section 1a: Summary of indicator signals**

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

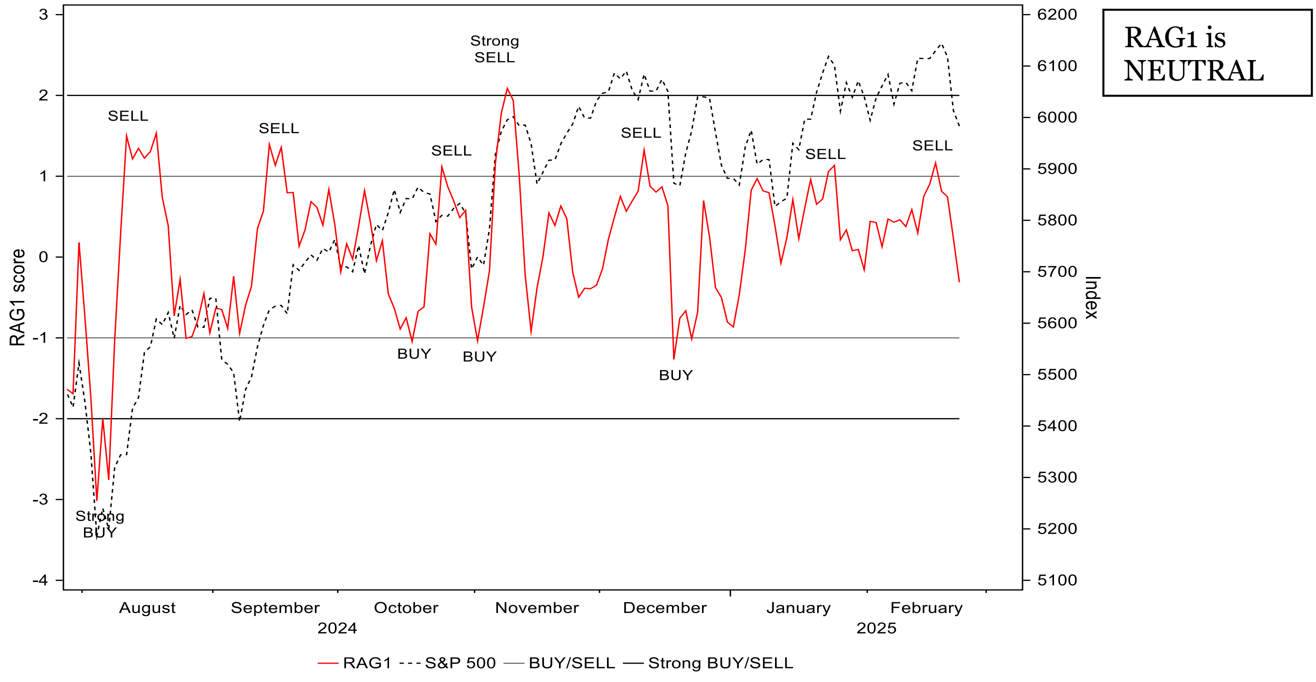


Source: *Longview Economics*

**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

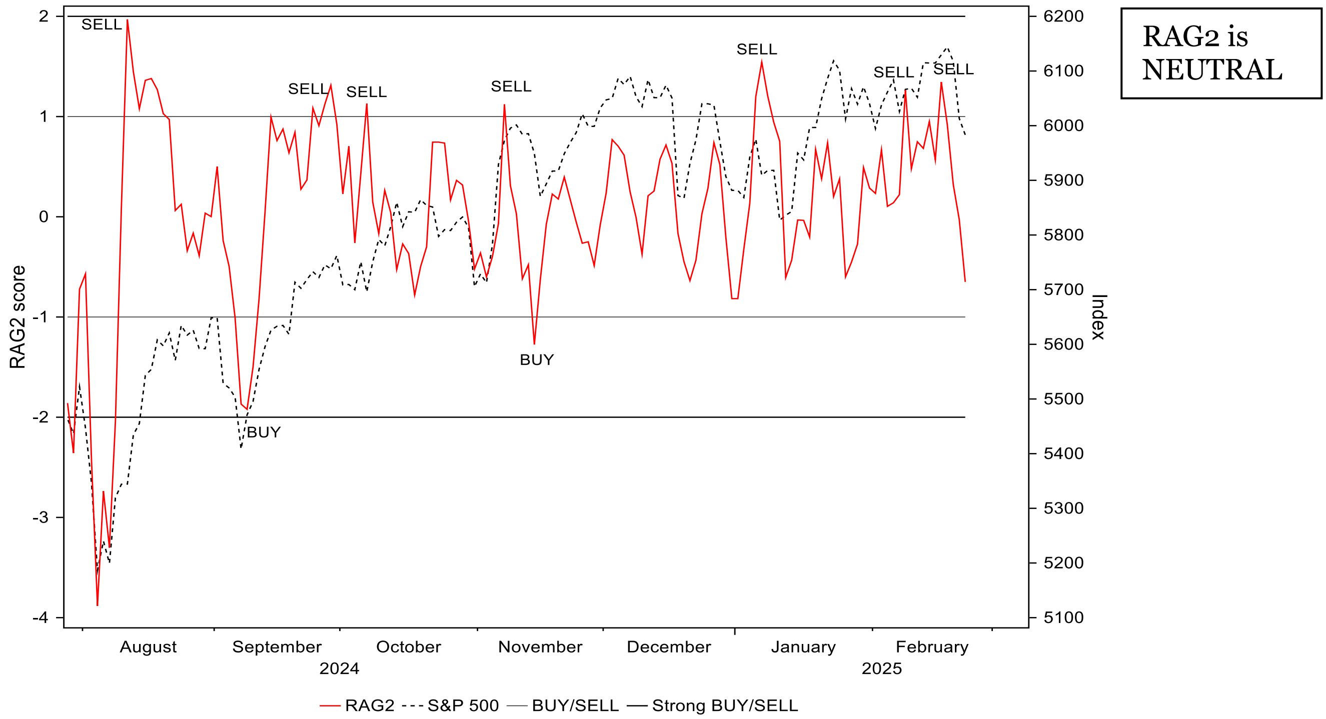
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

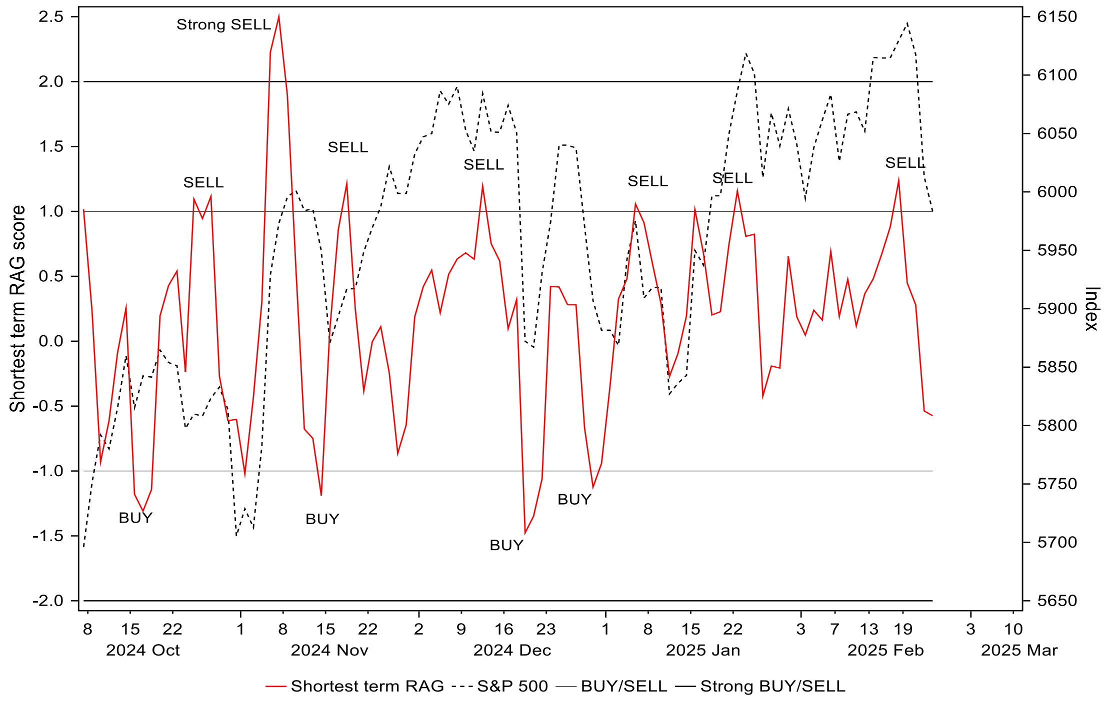
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

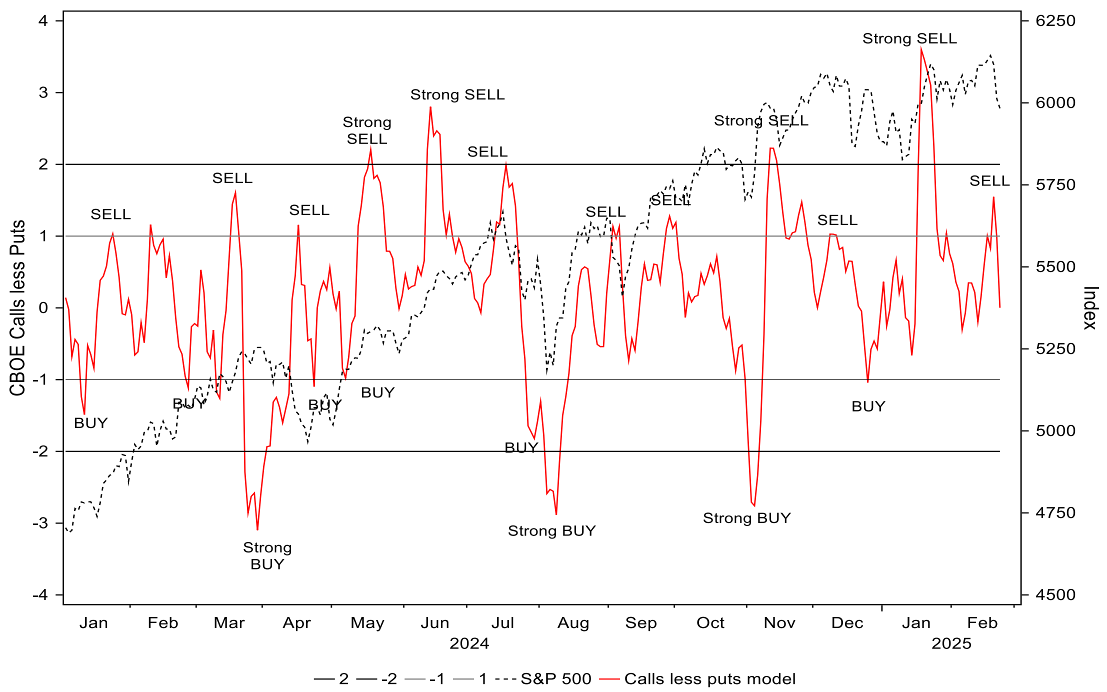
For explanations of indicators please see page 10

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



Shortest term RAG is NEUTRAL

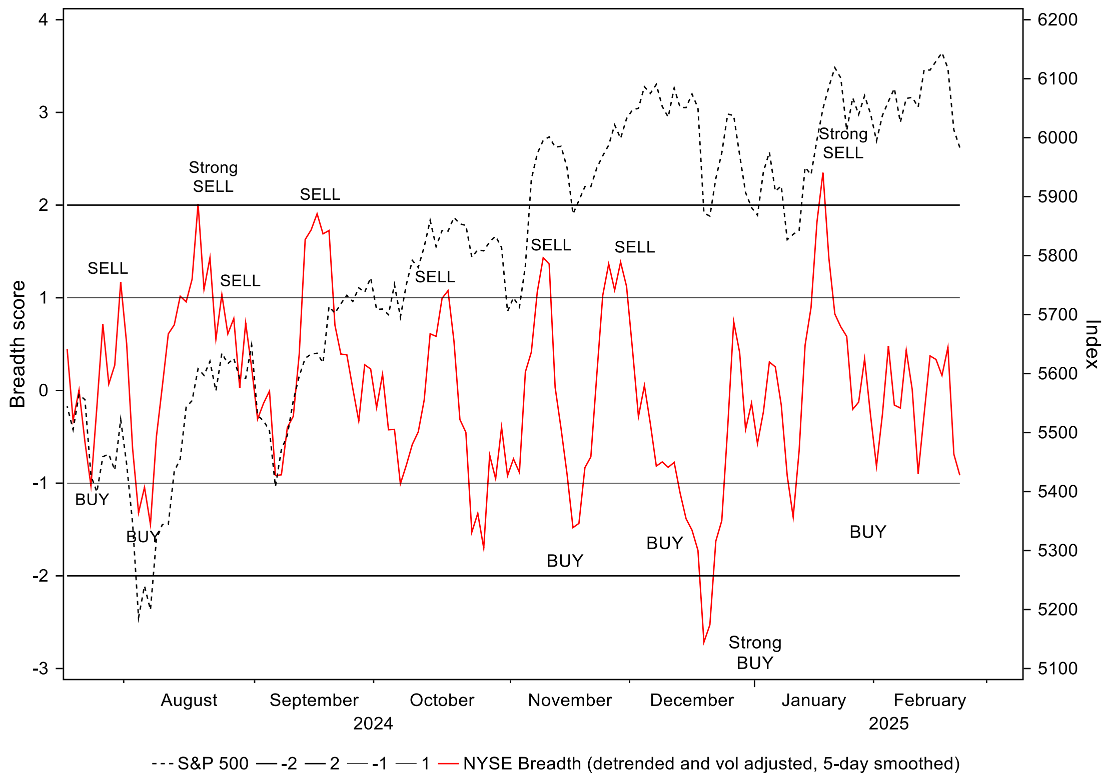
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



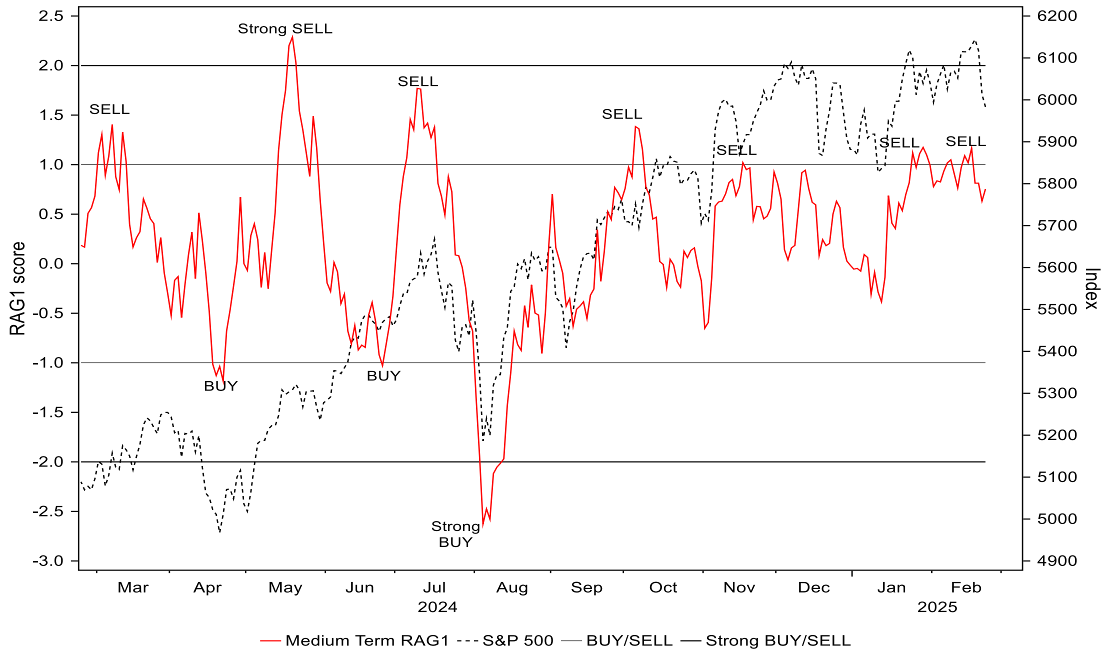
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

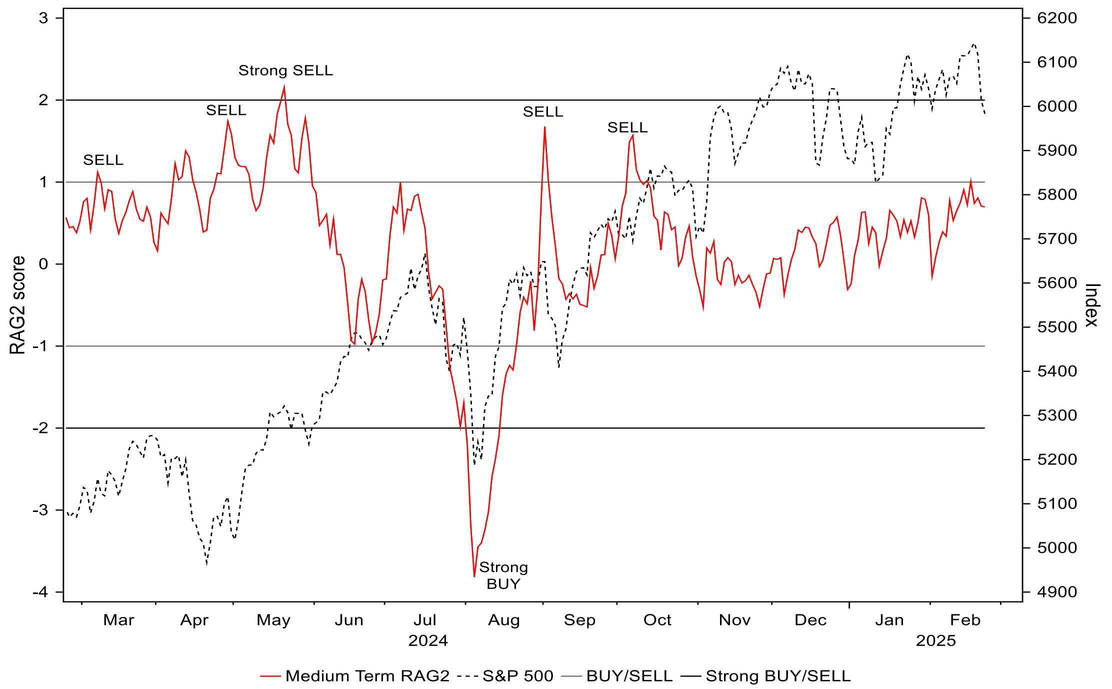
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

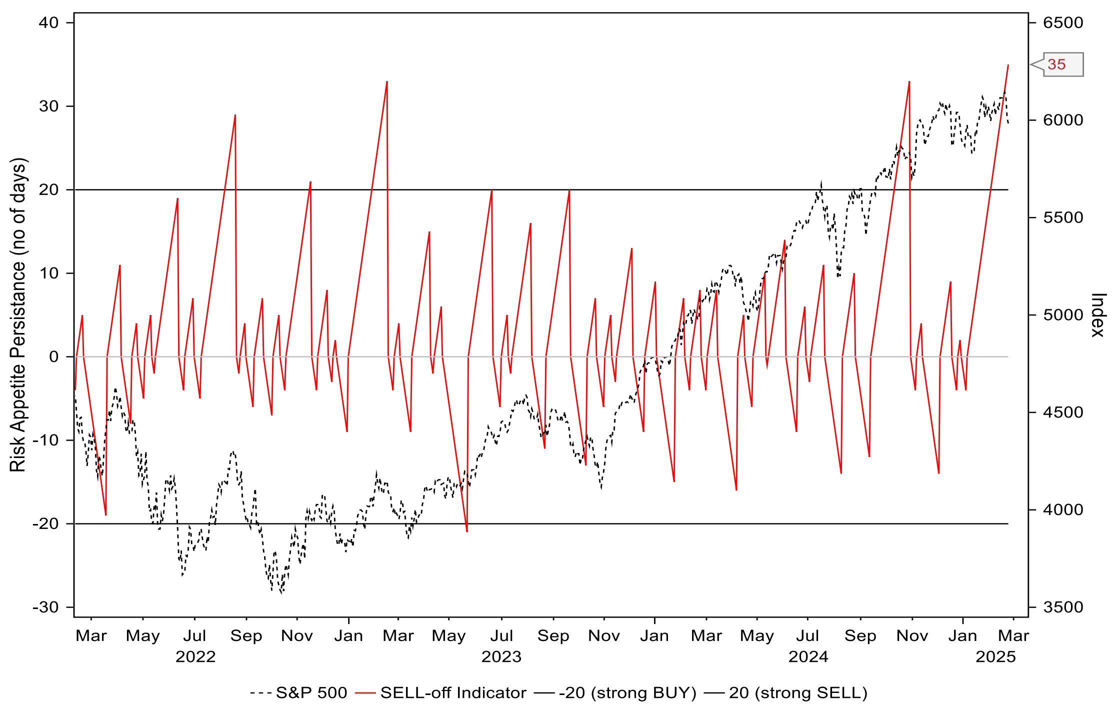


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

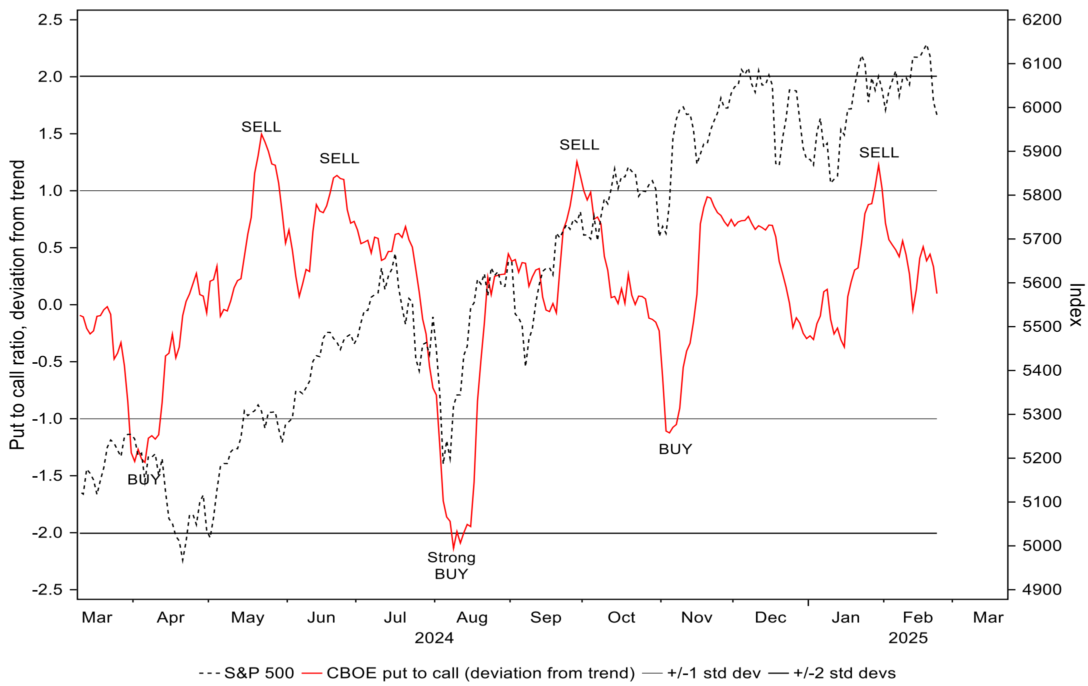
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

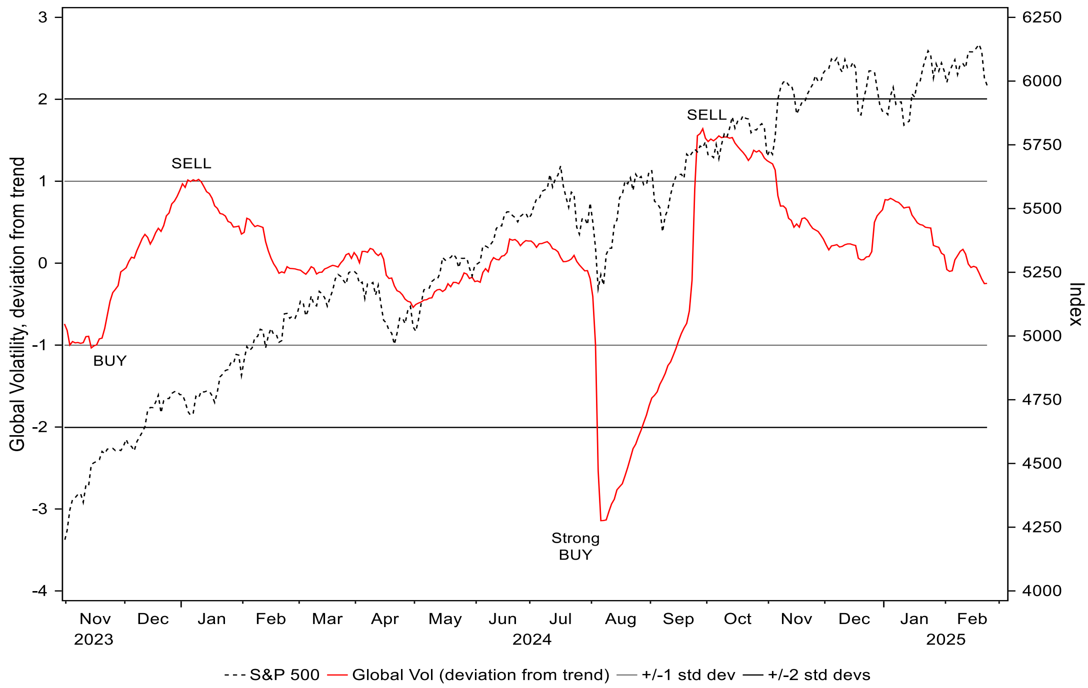


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

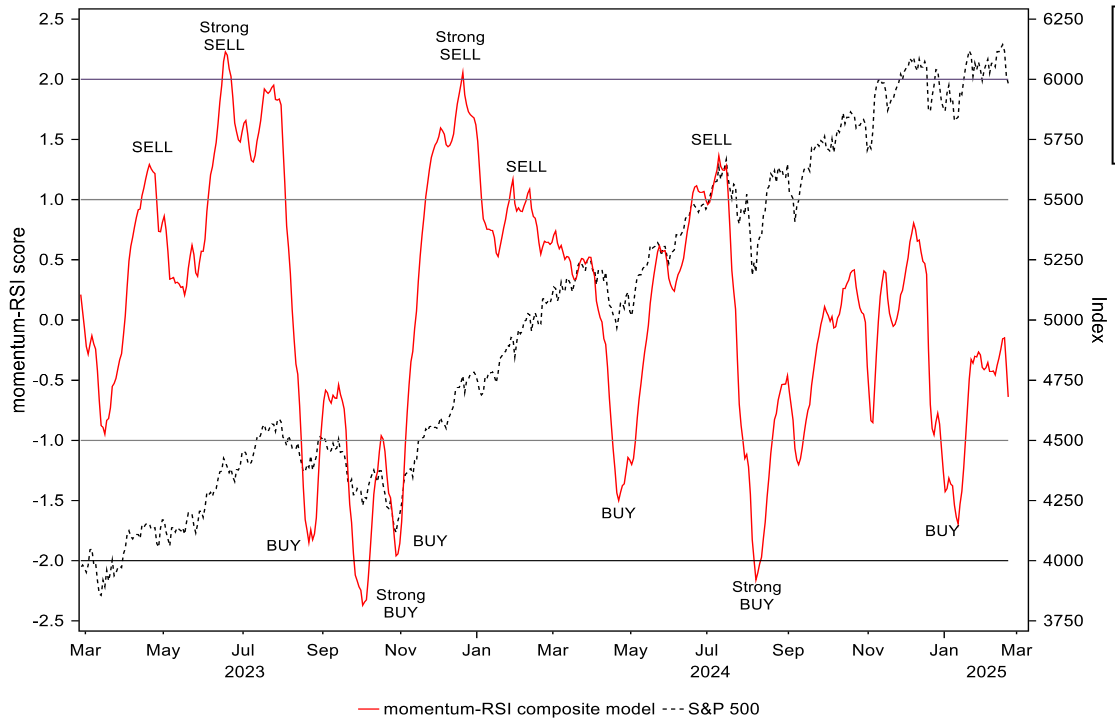
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

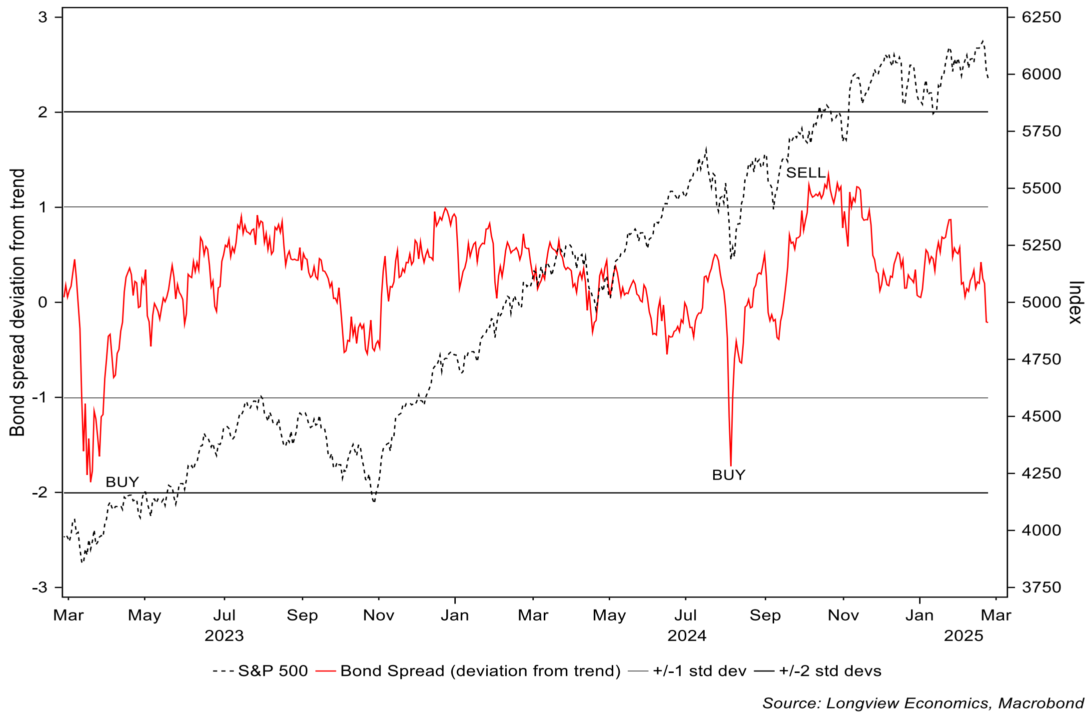
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

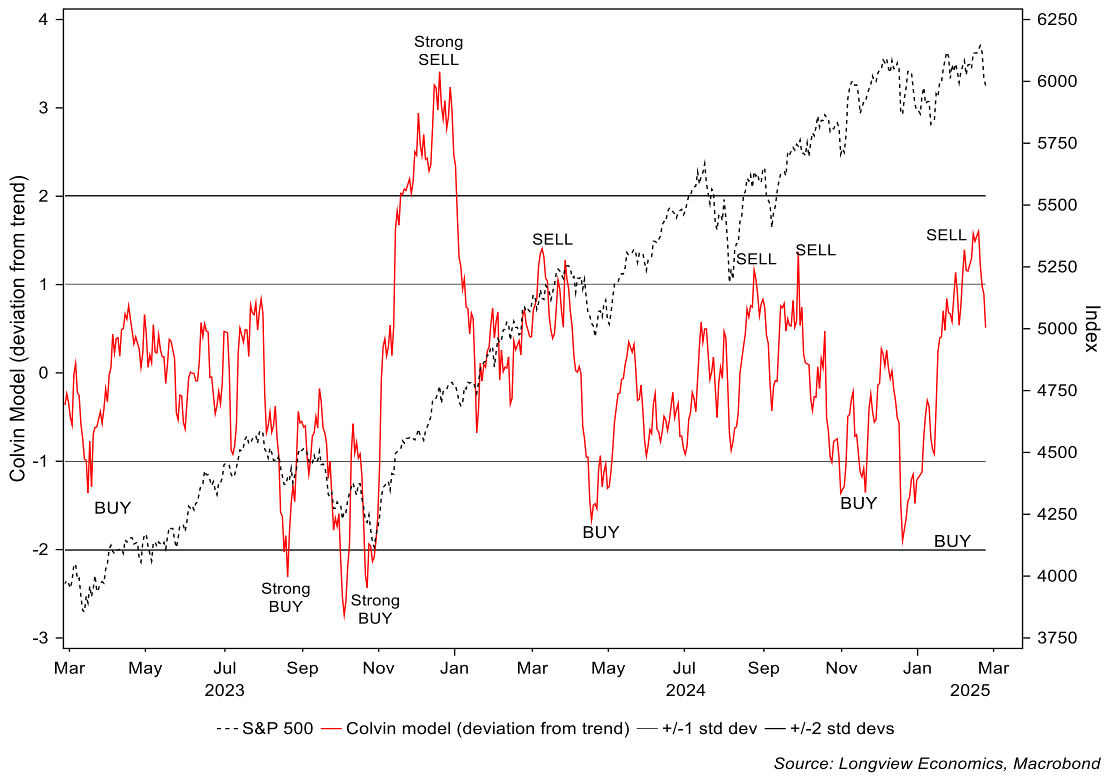
US momentum RSI composite model is NEUTRAL

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



High yield corporate bond spreads model is NEUTRAL

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



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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