



Equity Index Futures Trading Recommendations

26th February 2025

“Stay SHORT SPX & DAX (Reduce SPX position size)”

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

- Close half the SHORT S&P500 futures position at current prices (NB blended entry* was at 6,049.75);
- i.e. Move to 1/4 SHORT March S&P500 futures.
- Modestly tighten stop loss to 6,080 (from 6,122 yesterday).
- STAY 1/4 SHORT DAX futures (entry was last week at 22,557).
- Keep stop loss unchanged at 22,828.

*I.e. with the initial 1/4 SHORT S&P500 futures position implemented on 4th Feb at 5,999.25 and increased to 1/2 last week on 13th February at 6,100.

Rationale

A string of consecutive lower closes in key risk assets/equity indices (e.g. S&P500, NDX100 and Russell 2000 amongst others) has pushed a variety of key short-term models onto, or close to, BUY. In particular, the short-term risk appetite scoring system, the combined RAG1 plus RAG2 model (also a ‘risk appetite’ based model) as well as the technical scoring systems for various US equity indices (like the S&P500, NDX100 and Philly SOX) are all on BUY (see FIGs 3, 3a & 3c). There has also been BUYing of downside put protection, such that the CBOE short term put to call ratio has moved towards its BUY levels (FIG 3b). Sector and single stock technical models are lower and moving towards BUY but not yet convincingly at those levels (FIGs 3d & 3e).

Medium term models have also started to move sharply lower (e.g. see the medium term risk appetite scoring system, FIG 2a), while the SELL-off indicator has closed out its warning signal (FIG 2). NB this model is (only) designed to warn of the start of a pullback (once the wave of risk aversion has started, the signal should close out).

Most pullbacks happen in three or five waves. That is, after an initial wave of selling (wave 1), there’s a wave two relief rally, before a final third wave lower (below the wave one lows – and often meaningfully lower). Given the shift in signal from the short-term models, especially the risk appetite ones, there’s a **growing likelihood that wave one is close to completion**. Short term models can, of course, be early. Equally, the market can continue to grind lower until there are clear and across the board strong BUY signals (from the majority of key short-term models).

The near-term path of the market is, therefore, somewhat ambiguous (from a models' perspective). With the sharp and noticeable deterioration in the US macro data (e.g. yesterday's weak Conference Board consumer confidence, following on from weaker than expected data last week), there's an argument that wave one will endure at least until there are stronger BUY signals (on the short term models).

Equally, DAX centric models are not moving onto BUY signals and remain elevated (e.g. see FIG 1a), given the recent strength in the index post the German election last weekend. The DAX put to call indicator, for example, is still close to SELL (in contrast with US put to call models, e.g. see the NDX100 ratio, FIG 1b); the index also remains overextended to the upside (FIG 1).

In order to reflect that evolving risk reward profile (and shifting models' message), we recommend STAYing SHORT but reducing the position size. In particular, with US centric models moving towards BUY, we recommend halving the S&P500 SHORT trade (& modestly tightening the stop), but keeping the DAX position unchanged.

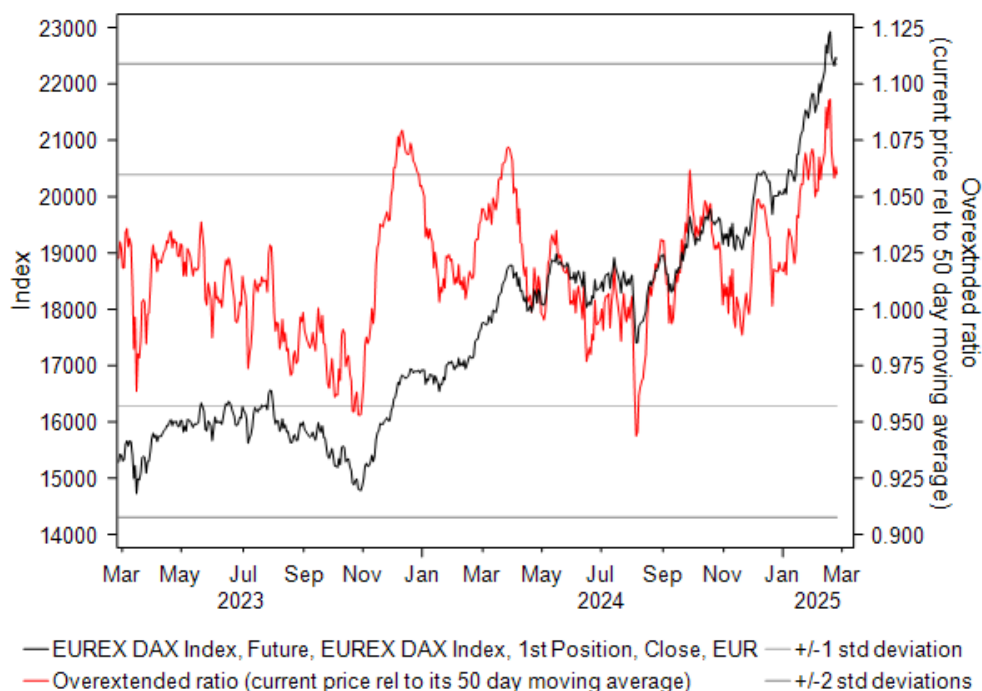
Please see above for detailed recommendation.

Kind regards,

The team @ Longview Economics

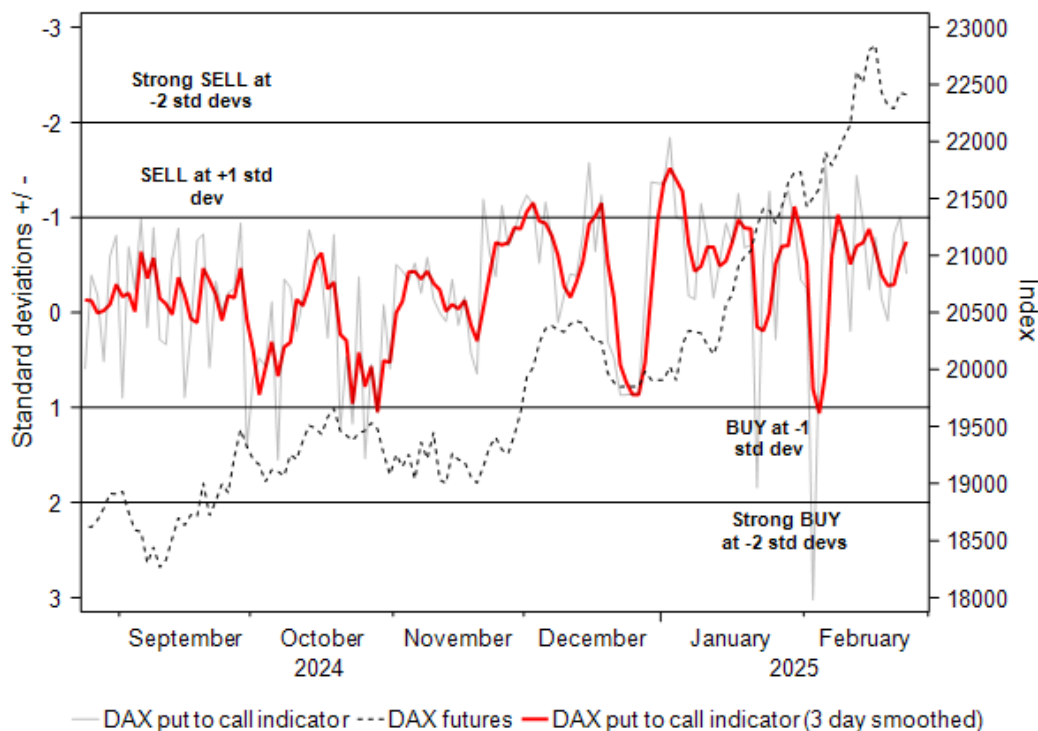
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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



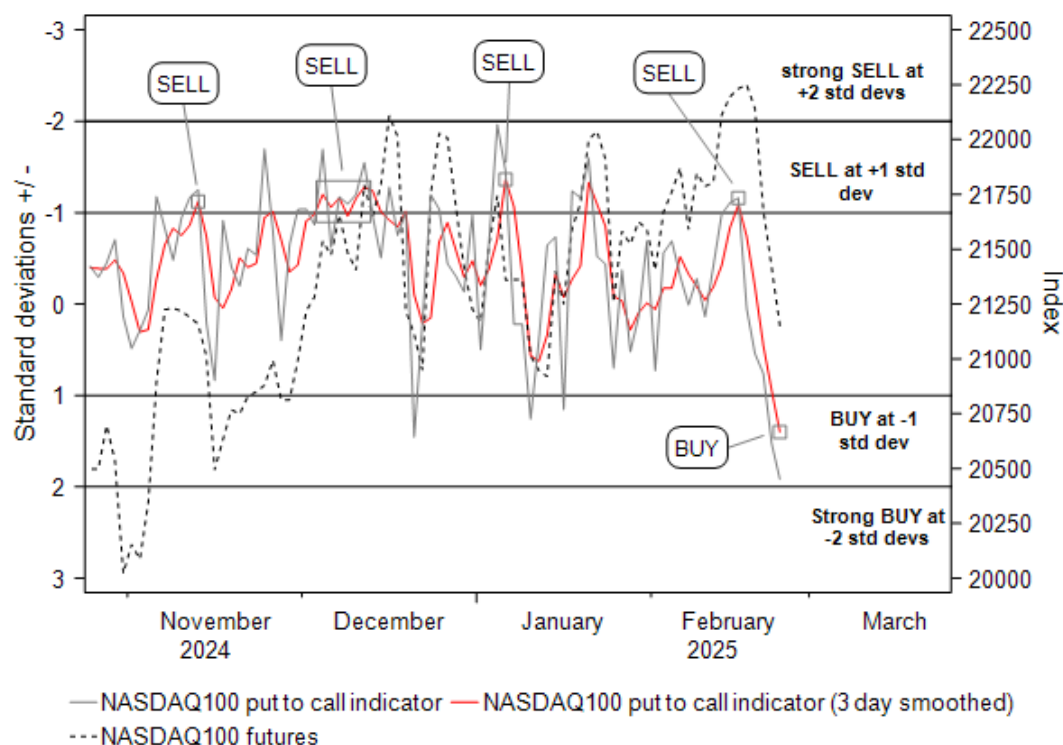
Source: Longview Economics, Macrobond

FIG 1a: DAX put to call indicator (1 & 3 day smoothed) vs. DAX Index



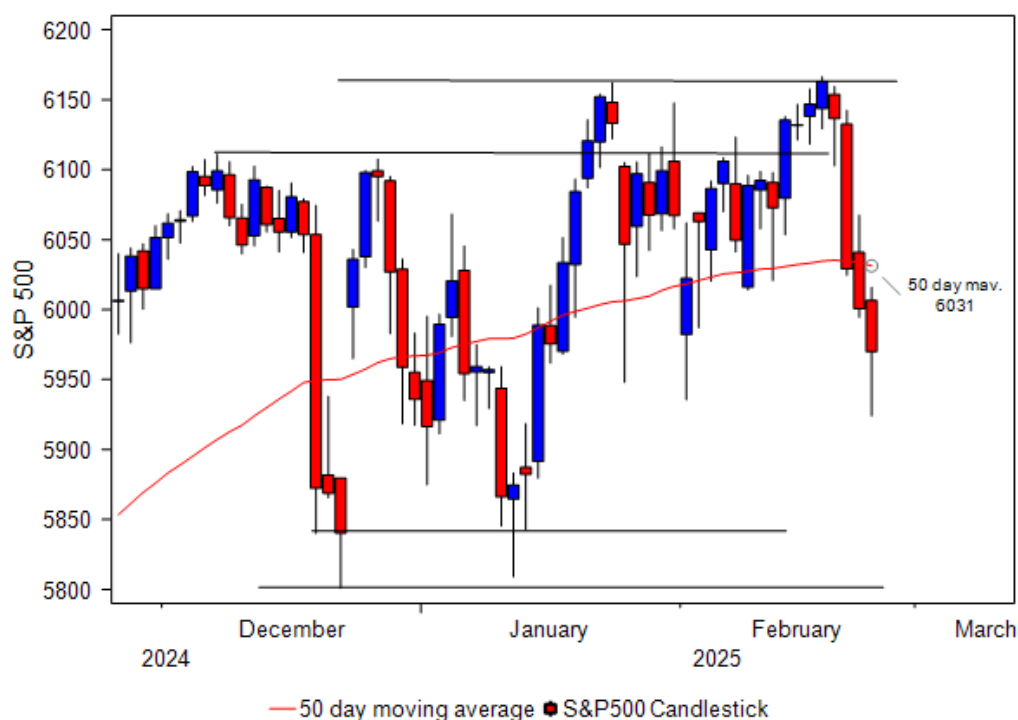
Source: Longview Economics, Macrobond

FIG 1b: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

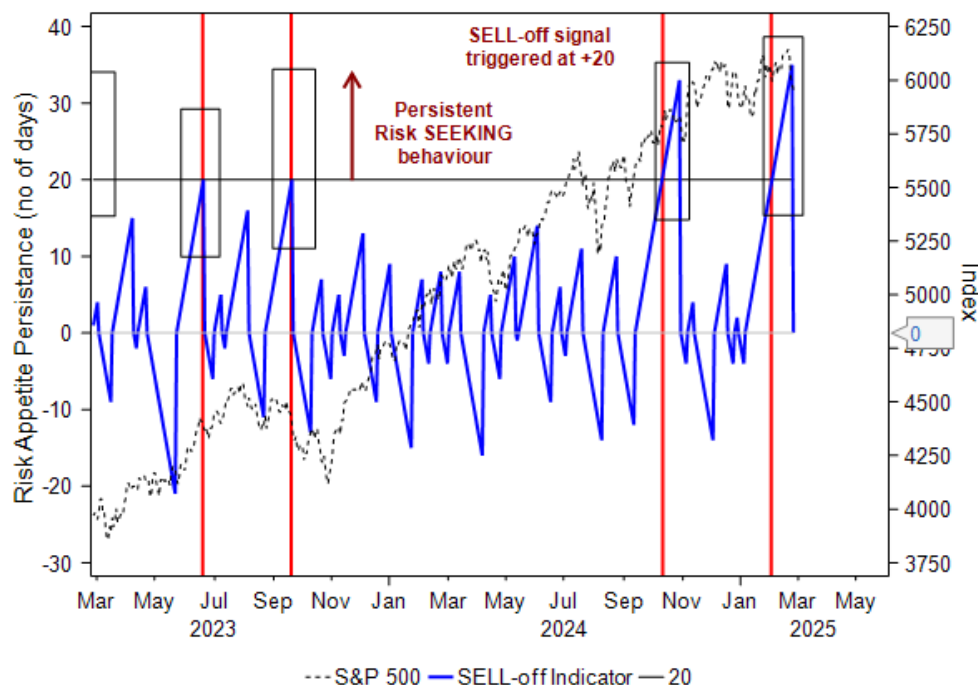
FIG 1c: S&P500 futures candlestick shown with its 50 day moving average



Source: Longview Economics, Macrobond

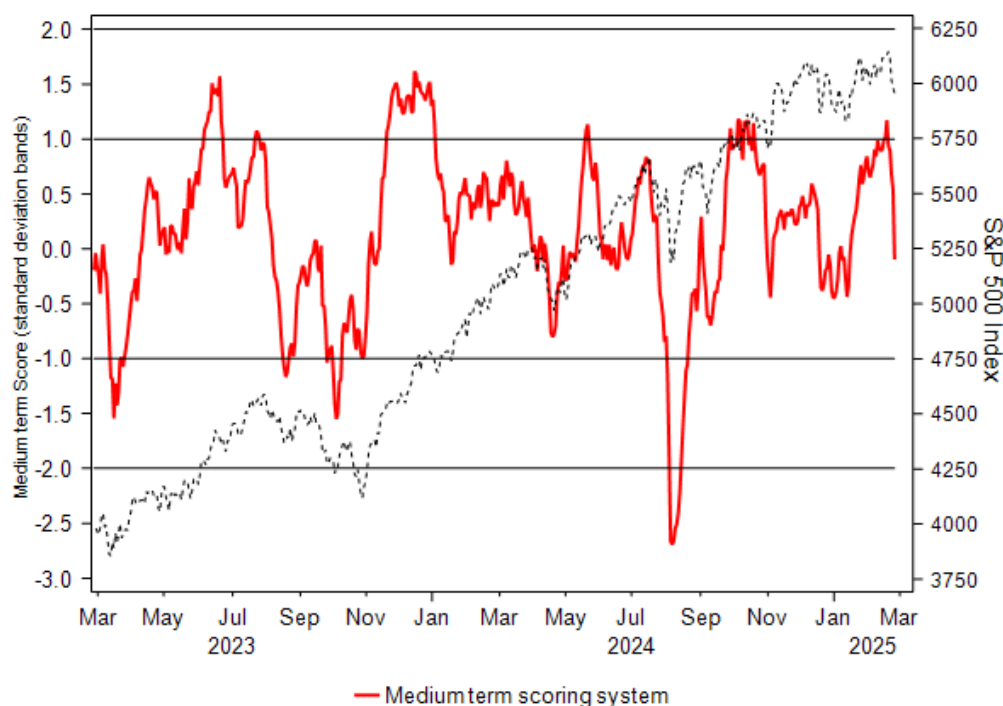
Medium term models have recently generated SELL/warning signals

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



Source: Longview Economics, Macrobond

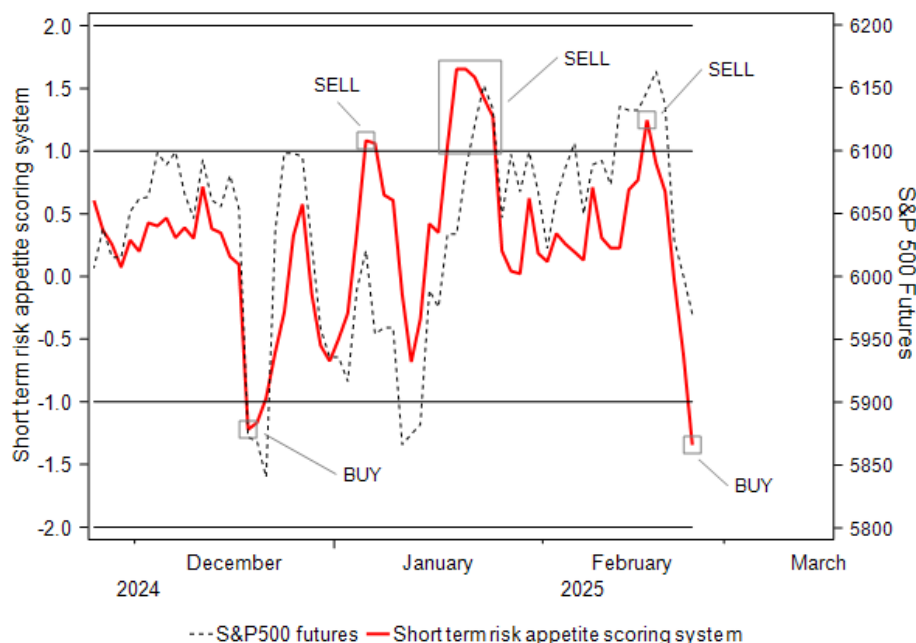
FIG 2a: Medium term 'risk appetite' scoring system vs. S&P500



Source: Longview Economics, Macrobond

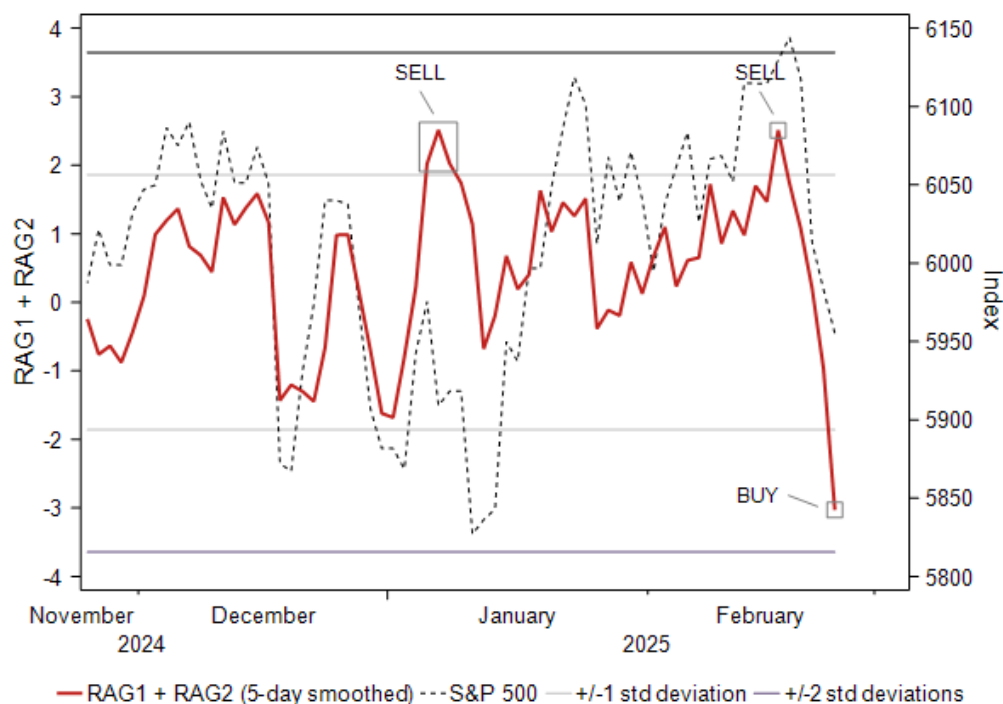
Short term models are increasingly moving onto BUY....

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



Source: Longview Economics, Macrobond

FIG 3a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

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

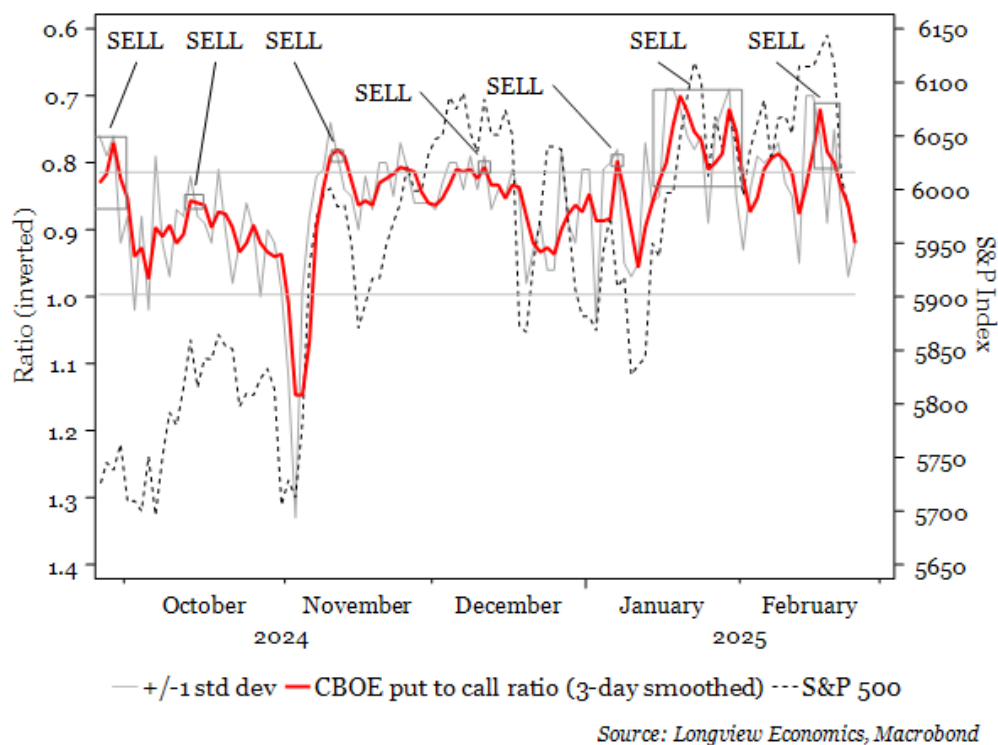


FIG 3c: Longview S&P500 short term 'technical' scoring system vs. S&P500 futures

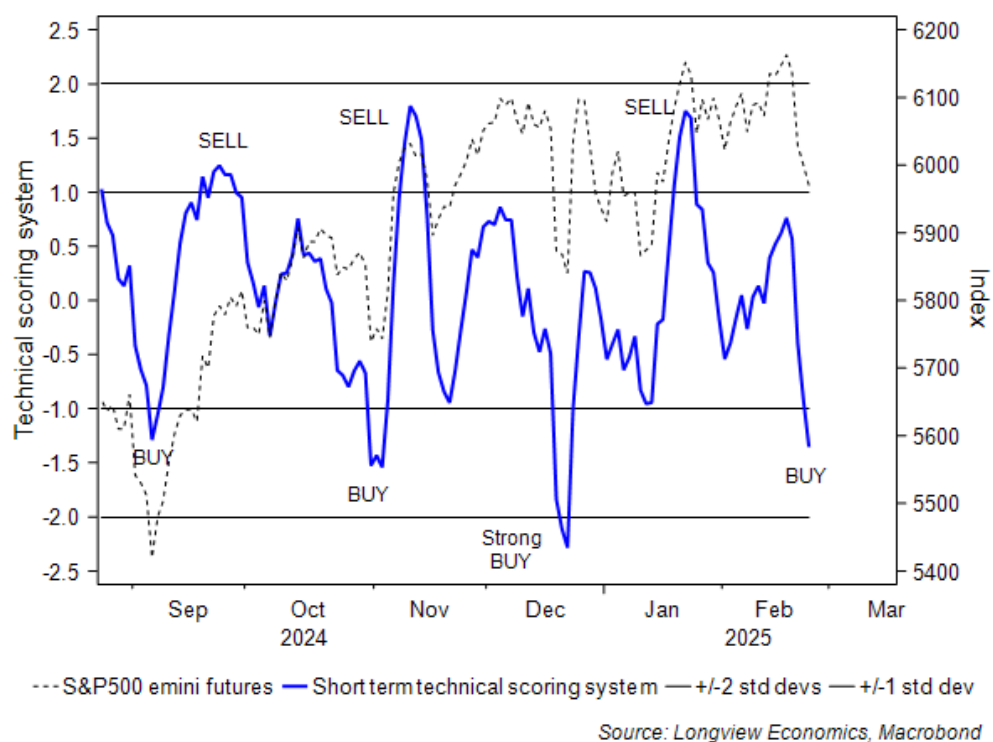
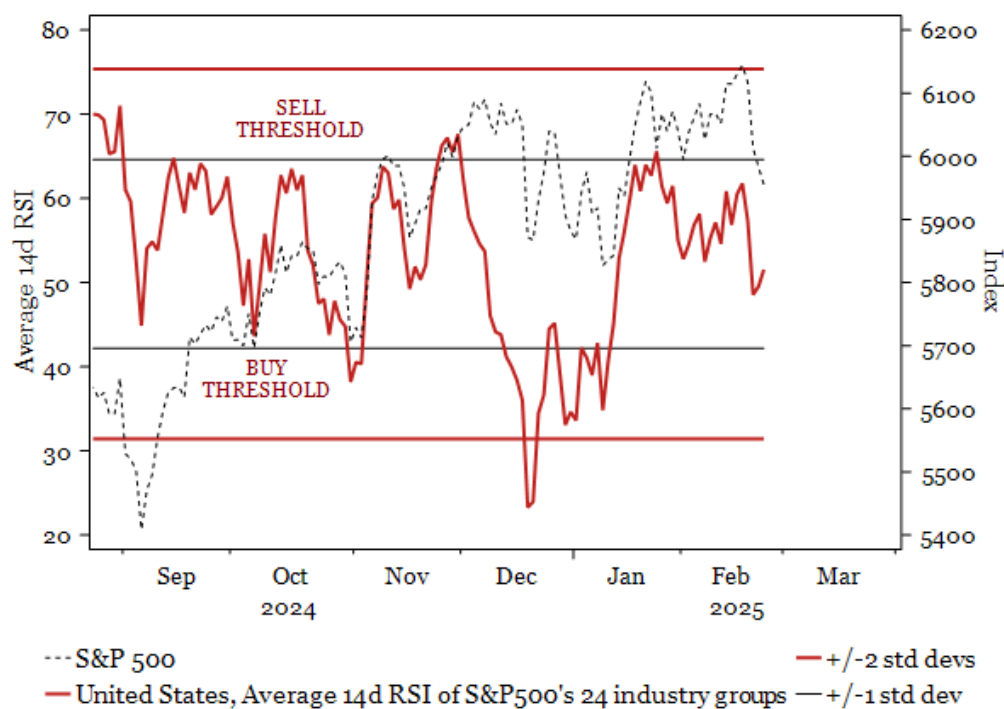
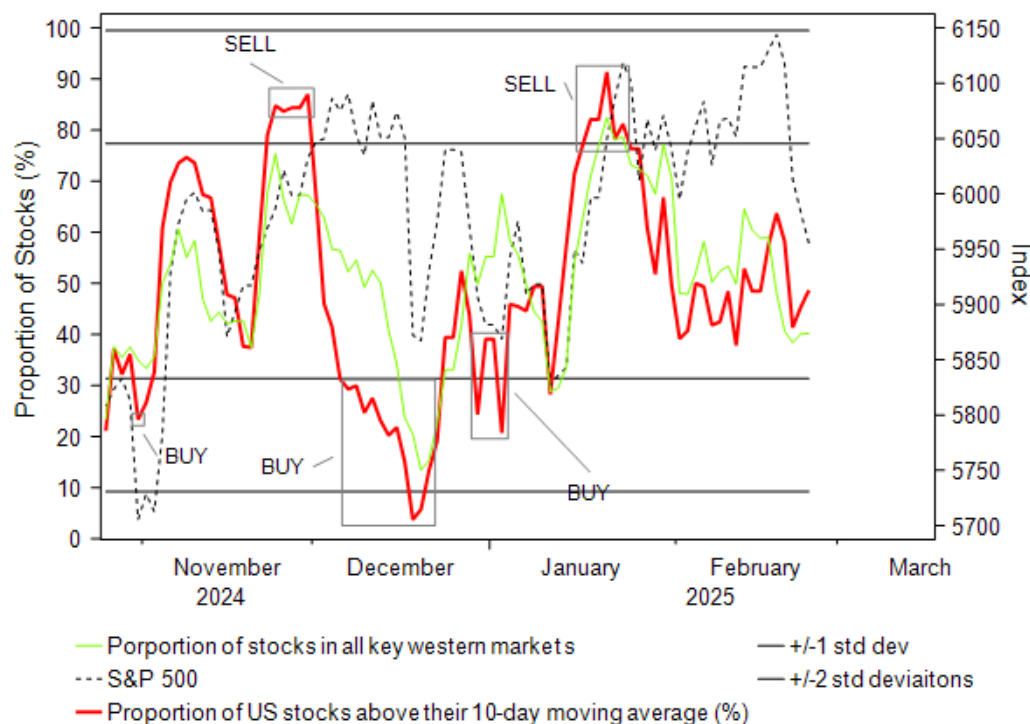


FIG 3d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

FIG 3e: Proportion of Western stocks above their 10 day moving average vs. S&P500



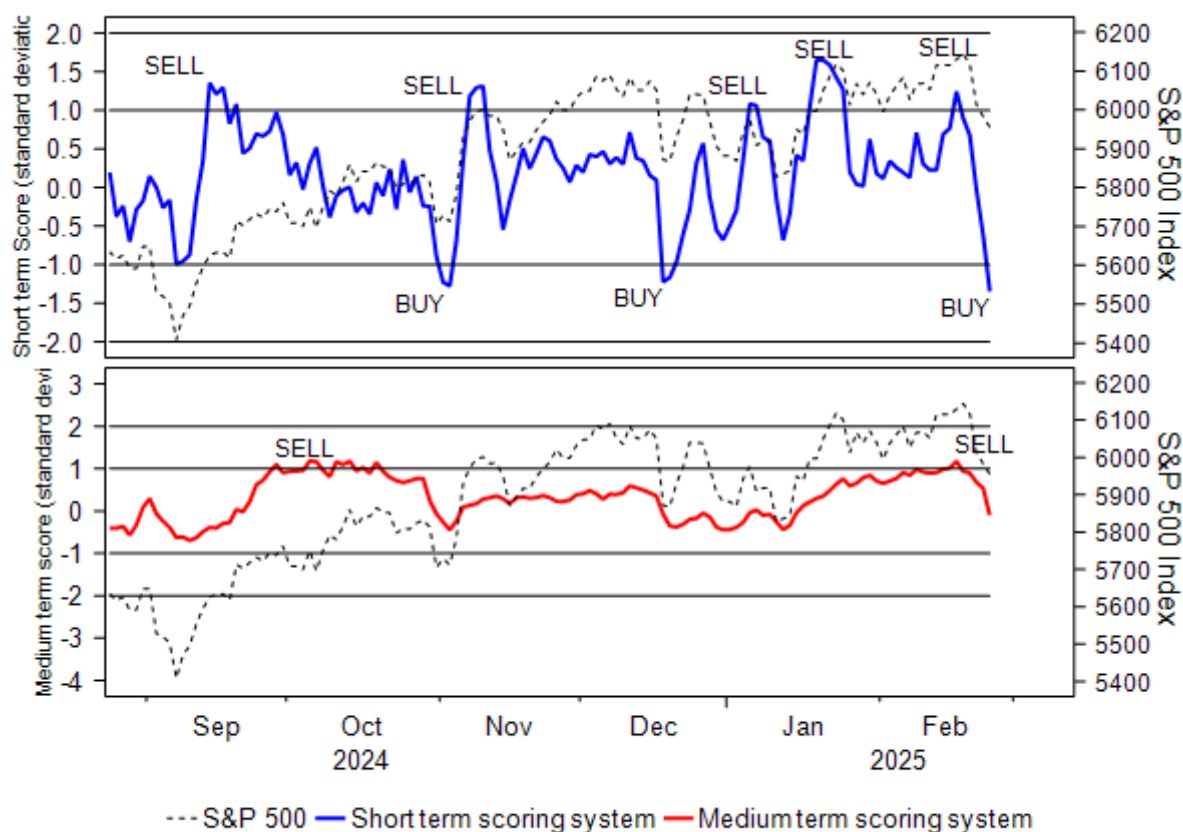
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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: Australian CPI (Jan, 12:30am); Japanese ESRI leading index (December final estimate, 5am); German GfK consumer confidence (Mar, 7am); **French INSEE consumer confidence** (Feb, 7:45am); Spanish CPI & PPI (February first estimates/Jan, 8am); US building permits (January final estimate, 1pm); **US new home sales** (Dec, 3pm).

Key events today include: Speeches by the Bank of England's Dhingra at the National Institute of Economic and Social Research (4:30pm); speech by the Fed's Bostic on the economic outlook & housing (5pm); speech by the RBA's Plumb (9pm).

Key earnings today include: **NVIDIA, Salesforce Inc, Lowe's**, TJX, Synopsys, George Weston, Monster Beverage, National Grid.

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 25th February 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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