Equity Index Futures Trading Recommendations

27th February 2025

"Stay SHORT"

Email: info@longvieweconomics.com

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

- Stay ¼ SHORT March S&P500 futures* (having reduced from ½ SHORT yesterday morning).

- Keep the stop loss at 6,080 (having tightened it from 6,122 earlier in the week).

*NB blended entry into this SHORT trade was at 6,049.75, I.e. with the initial ¼ SHORT S&P500 futures position implemented on 4th Feb at 5,999.25 and increased to ½ SHORT on 13th February at 6,100. We subsequently reduced the position size to ¼ SHORT yesterday (26th Feb).

Rationale

Money continued to rotate into European equities yesterday (and away from the US), with various key Eurozone equity markets (& sectors) closing at record highs again (whilst the main US market closed flat). The Italian MIB, the Spanish IBEX, the broader EuroSTOXX index (just) as well as the EZ banks sector all made new record highs (FIG 1). The S&P500, meanwhile, faded its gains after European markets closed and ended the session unchanged. The NDX100 did modestly better (rising 0.2%), while the SOX was the standout US performer (closing up 2.1%). Nvidia, which reported after hours, has traded modestly higher overnight (+0.6%) – despite its strong earnings report. US bonds and rates were another key feature yesterday as US 10-year yields reached another multi week low, closing at 4.25% (and on their 200-day moving average – FIG 1a). Rate futures, meanwhile, have priced in an extra Fed cut by year end over the past fortnight (FIG 1b). That's been driven by the disappointing US newsflow and increasing concerns and expectation of a US growth soft patch (or something worse). Yesterday, in that vein, the US yield curve inverted at the 10 year less 3-month level (a favoured recession indicator of many*, see FIG 1c). Bitcoin has also been notably weak in recent days, with the futures down 11% week to date (yesterday's close – FIG 1d).

With that strength in European markets, we have been stopped out of our ¼ DAX SHORT position. We also closed half of our SHORT S&P500 futures position yesterday morning (and, as such, are currently ¼ SHORT S&P500 futures).

Short term models are shown below (FIGs 2 to 2e). As highlighted yesterday, they are moving onto 1 – 2 week BUY signals. Not all models are yet on BUY, though, while often in pullbacks it pays to wait for these models to reach strong BUY before switching from SHORT to LONG trading positions (i.e. for a potential wave 2 relief rally). In terms of price action, intraday volatility has been picking up (this week). That's indicative of the potential for a 'washout day' of trading before the start of wave two (and to mark the end of wave 1 in this pullback**). Single stock turbulence in the US also remains high (consistent with that 'washout day' risk) – FIG 1e.

Marked weakness (in recent trading sessions) in Bitcoin, and its failure at its 50 day moving average, is also an indication of that increasing 'risk off' mood (with BTC representing the edge of speculative liquidity). The sharp shift in bond yields, and deterioration in US macro data, is a further indication, and driver, of portfolio shifts out of US equities.

Given those factors, amongst others***, we recommend remaining SHORT S&P500 futures, with an unchanged stop loss.

Please see above for detailed recommendation.

Kind regards,

The team @ Longview Economics

*Although other parts of the curve haven't inverted. The '2s-10s' spread, for example, remains positively sloping.

**NB most pullbacks consist of three waves. A three wave SELL-off pattern is comprised of i) an initial pullback (wave 1); ii) a relief rally (wave 2); and then iii) a final leg lower during which the index breaks below the lows from wave 1 (i.e. wave 3). In SELL-offs in bear markets, i.e. when the down trend is dominant, SELL-offs often consist of 5 waves instead of 3.

***NB tariff related newsflow was poor overnight following Trump's first cabinet meeting (e.g. see headlines like "Trump says European Union tariff level to be 25%" & "EU was formed to 'screw the United States'").

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)

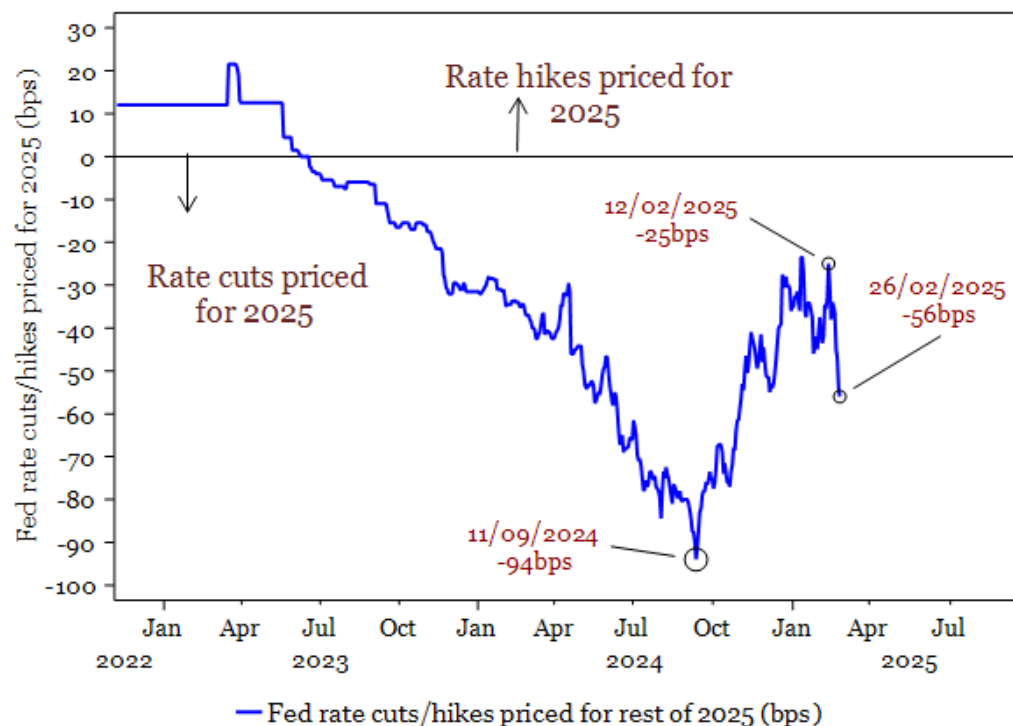**FIG 1:** Performance YTD (%) various key European and US equity markets
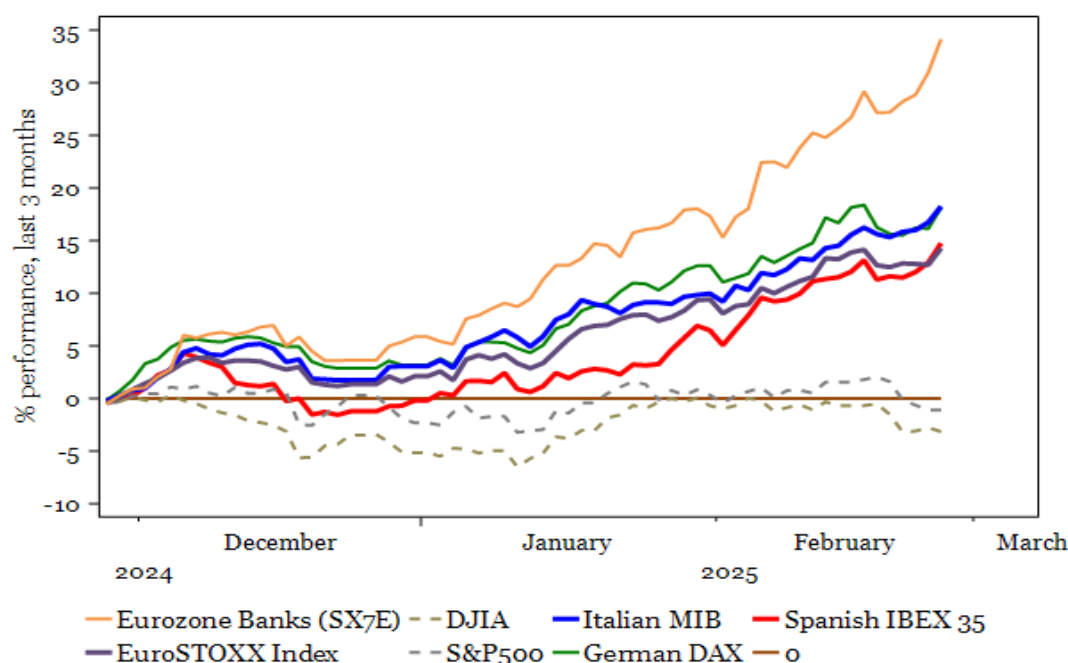
Source: Longview Economics, Macrobond

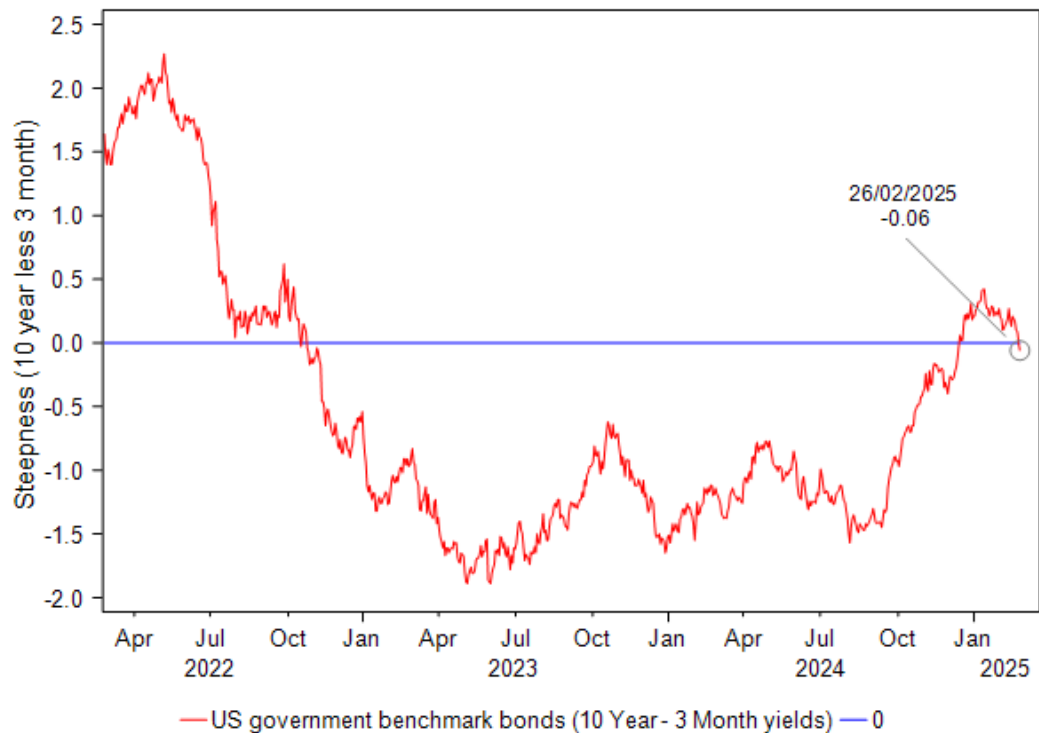**FIG 1a:** US 10-year bond yields shown with key moving averages, %

Source: Longview Economics, Macrobond

FIG 1b: US rate cut expectations for the remainder of 2025 (i.e. March onwards, derived from Dec 25 Fed fund futures)

Source: Longview Economics, Macrobond

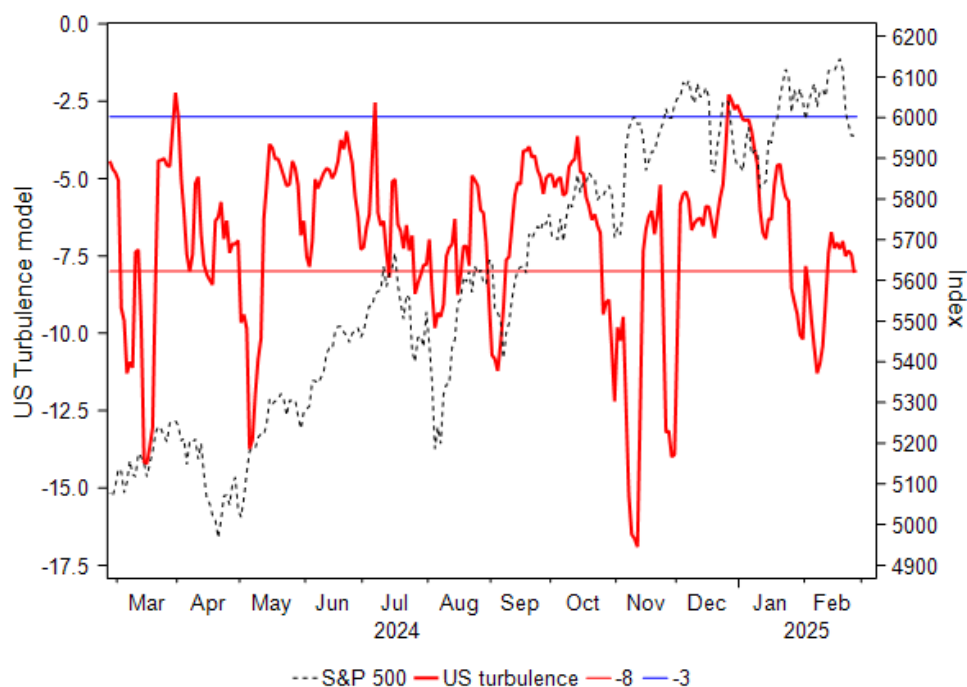**FIG 1c:** US yield curve steepness (10 year less 3-month yields)

FIG 1d: Bitcoin (US$) shown with key moving averages

FIG 1e: US single stock turbulence model vs. S&P500

Source: Longview Economics, Macrobond

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

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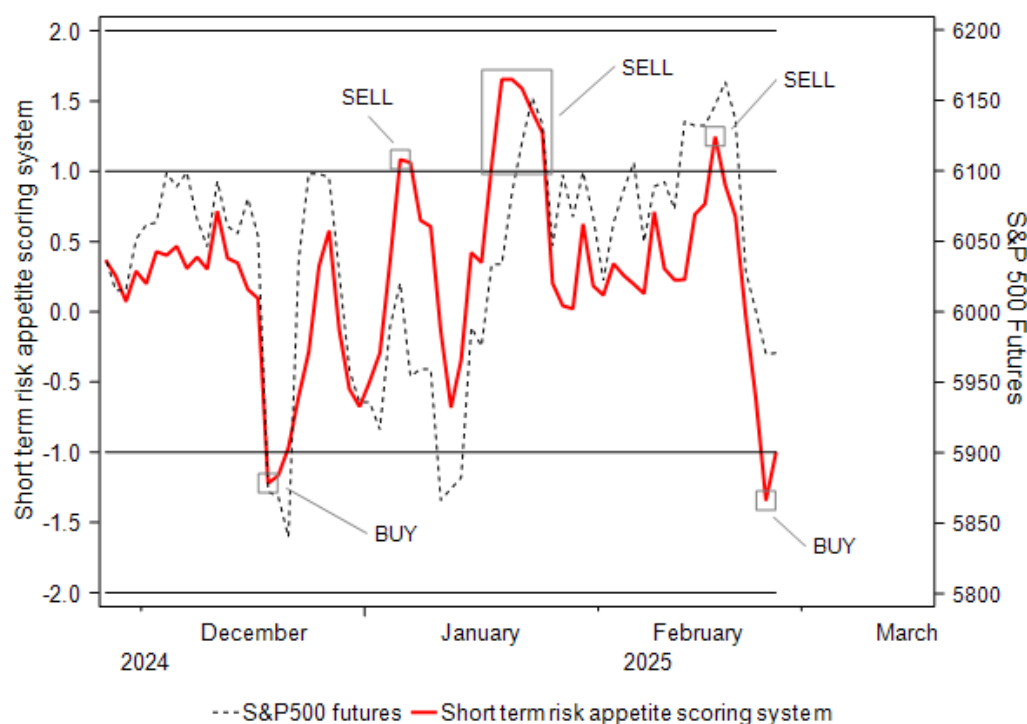
Source: Longview Economics, Macrobond

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

Source: Longview Economics, Macrobond
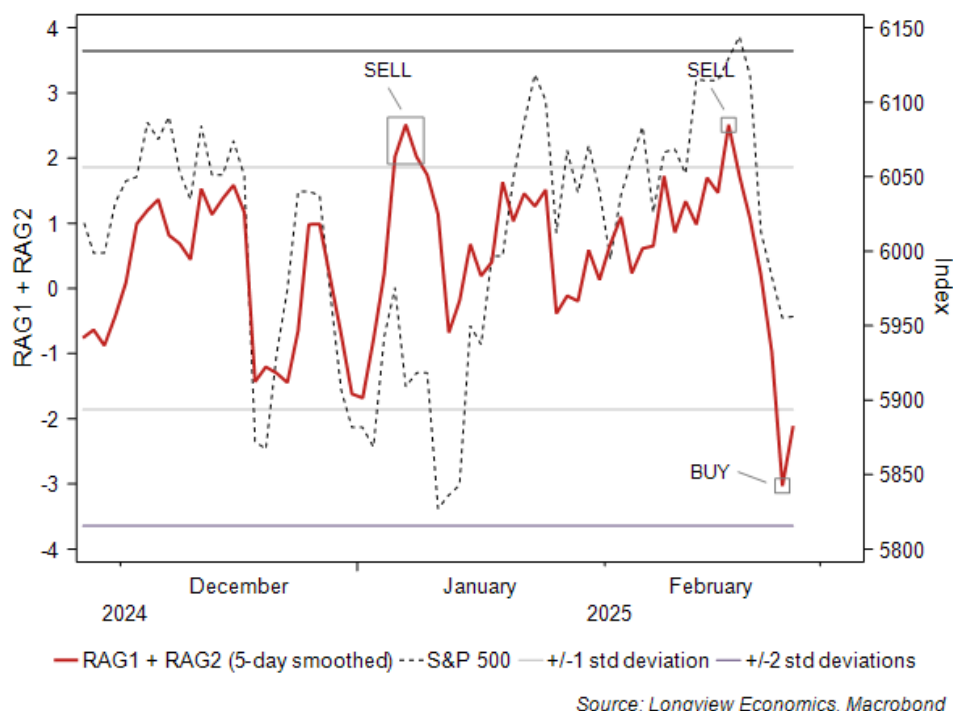
FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

Source: Longview Economics, Macrobond
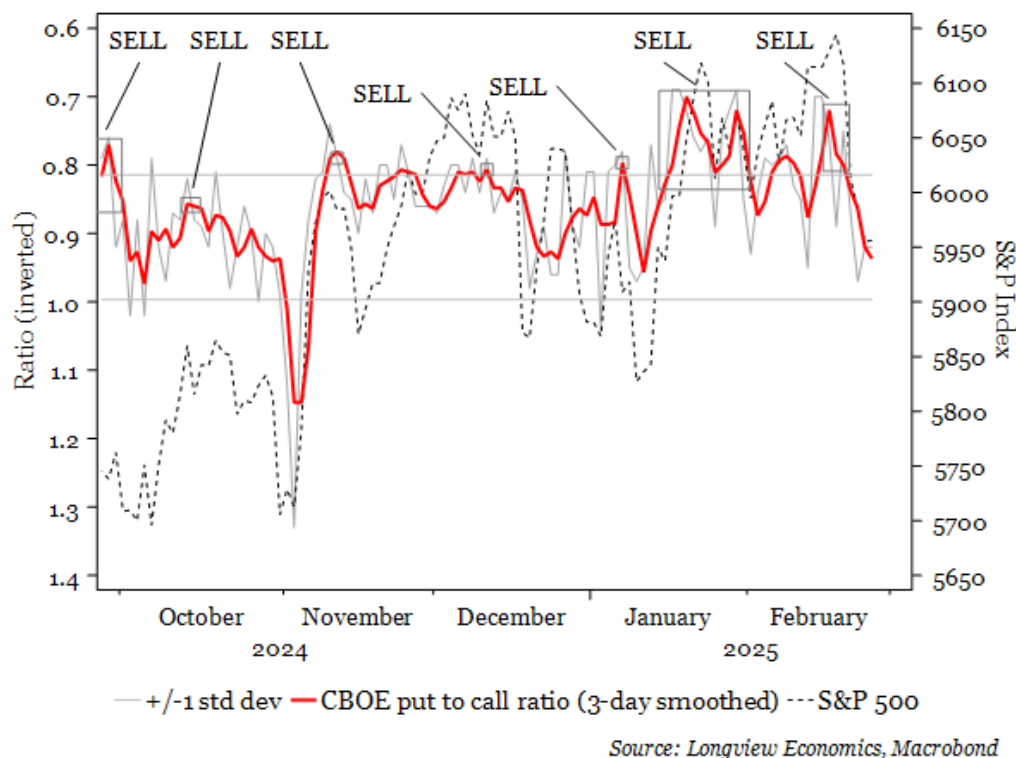
FIG 2c: Longview S&P500 short term 'technical' scoring system vs. S&P500 futures
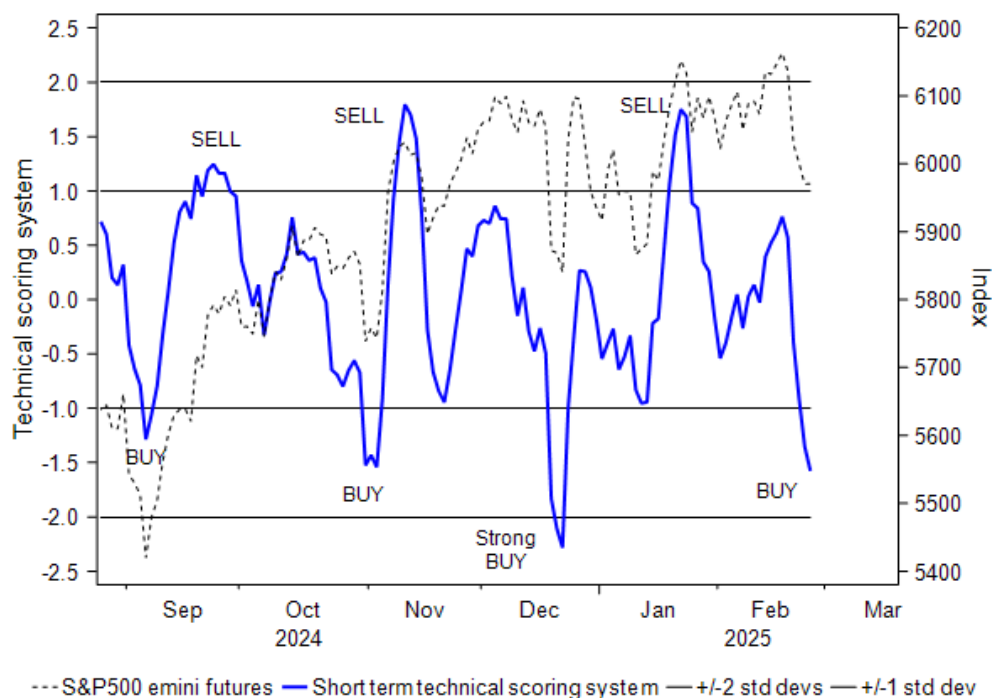
Source: Longview Economics, Macrobond

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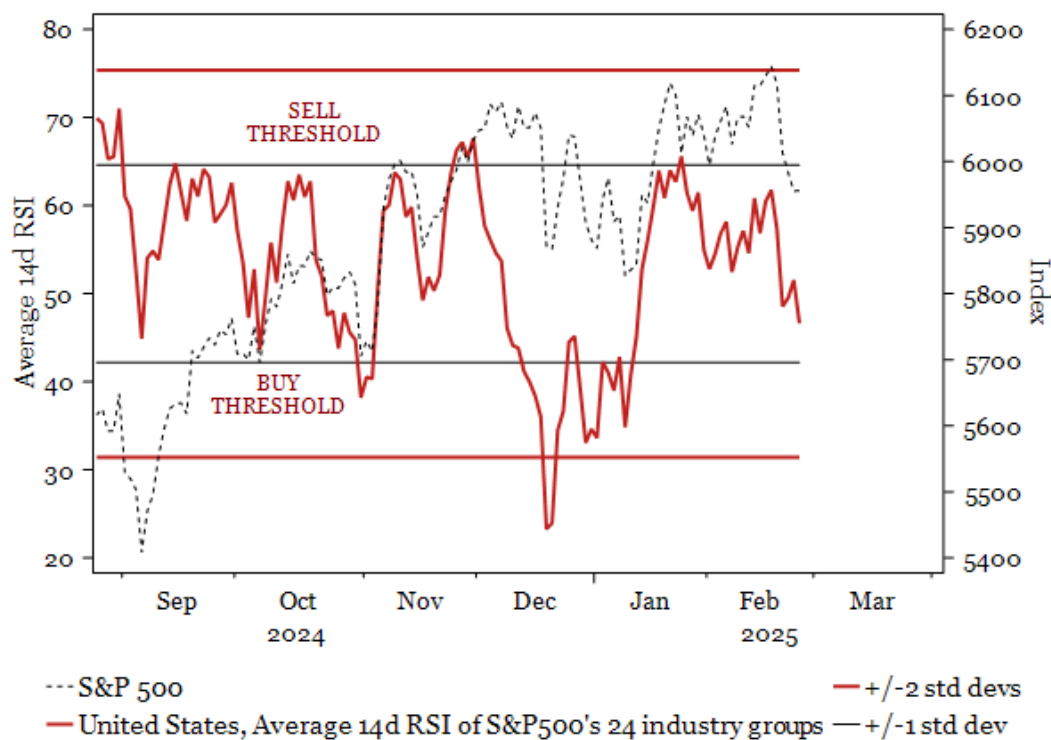
Source: Longview Economics, Macrobond

FIG 2e: Proportion of Western stocks above their 10 day moving average vs. S&P500
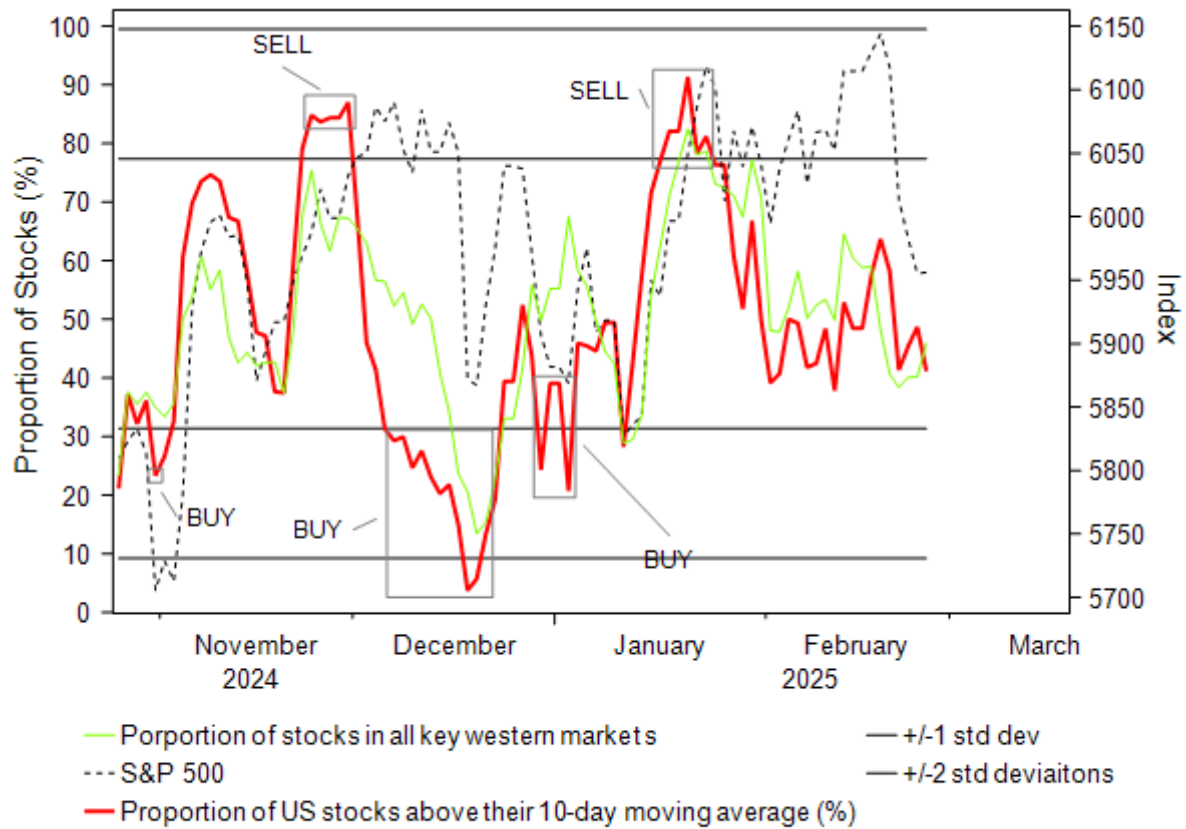
Source: Longview Economics, Macrobond

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
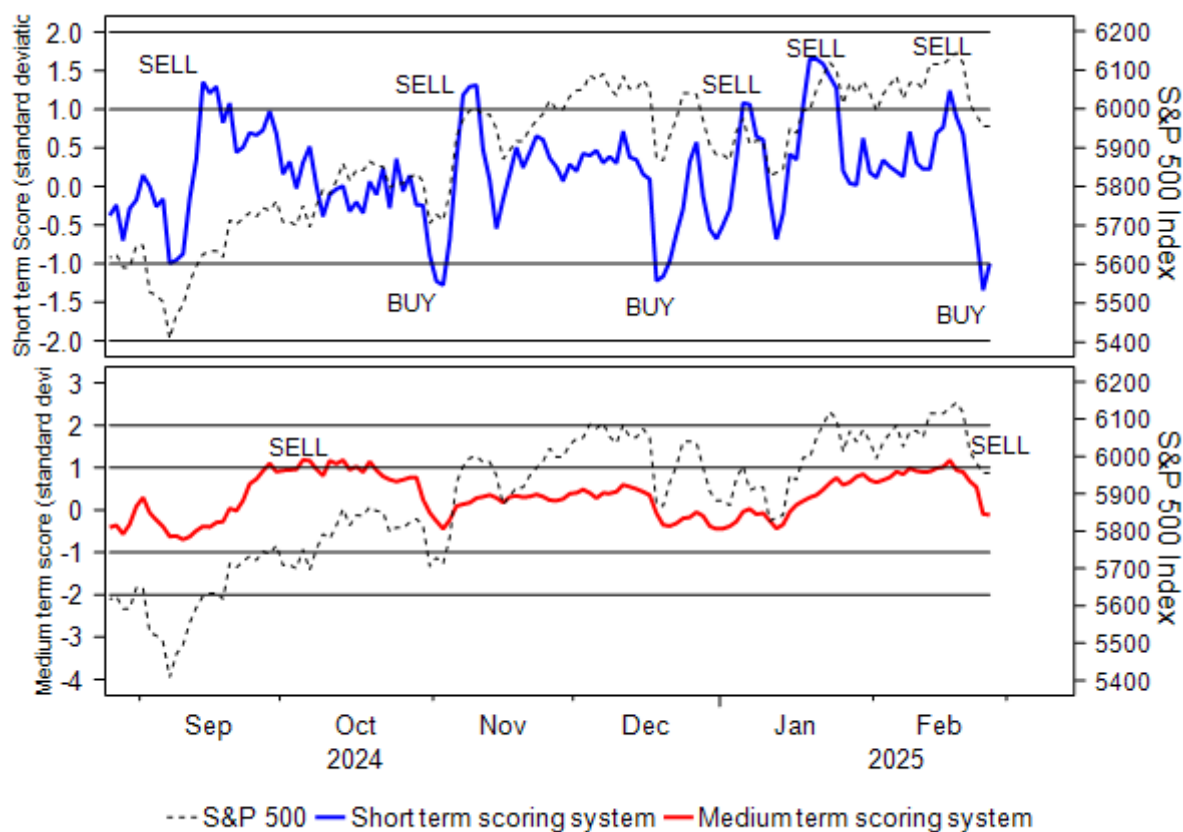
Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: French PPI (Feb, 7:45am); Spanish CPI (February first estimates, 8am); **German retail sales** (Jan, 8am); **Eurozone M3 money supply** (Jan, 9am); Eurozone consumer confidence (February final estimate, 10am); Italian industrial sales (Dec, 10am); Canadian CFIB business barometer (Feb, 11am); Canadian employment change (Dec, 1:30pm); US weekly jobless claims (1:30pm); **US GDP** (Q4 second estimate, 1:30pm); **US durable goods orders** (January first estimate, 3pm); US pending home sales (Jan, 3pm); US Kansas City Fed manufacturing sector activity (Feb, 4pm); **Japanese retail sales** (Jan, 11:50pm); **Japanese industrial production** (January first estimate, 11:50pm).

Key events today include: ECB publishes account of Jan. 29-30 policy meeting (12:30pm); speeches by the Fed's Hammack on financial stability at the Research Conference on Bank Regulation in New York (6:15pm) & Harker on the economic outlook (8:15pm).

Key earnings today include: Toronto Dominion bank, **Dell Tech**, Canadian Imperial Bank, EOG Resources, Autodesk, Vistra Energy, Iberdrola, AXA, **London Stock Exchange Group**, **Rolls-Royce.**

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.

LV RAG
Daily Risk Appetite Gauge

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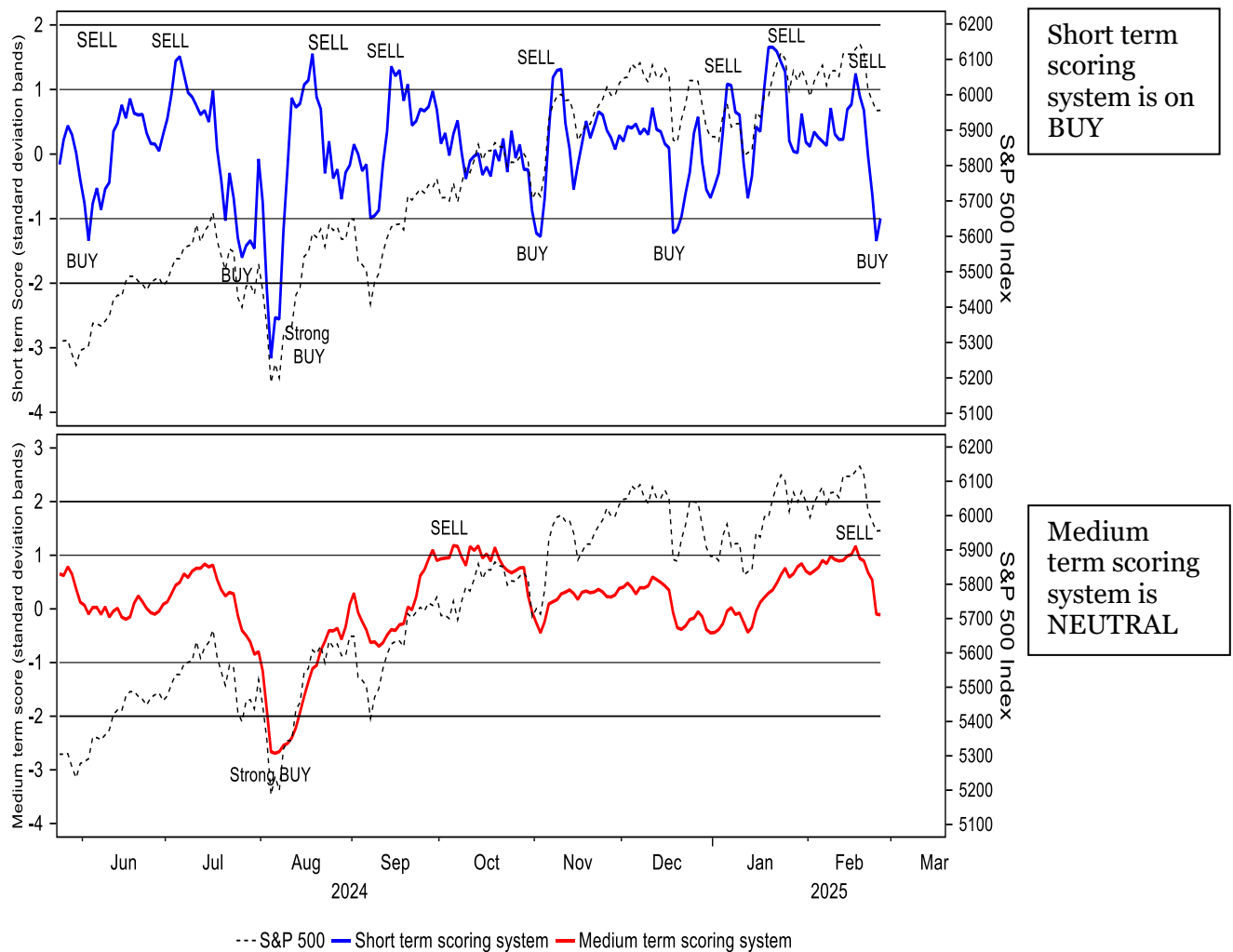- Longview Economics

1 – 2 Week View on Risk 27th February 2025

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

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

Short term scoring system is on BUY

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
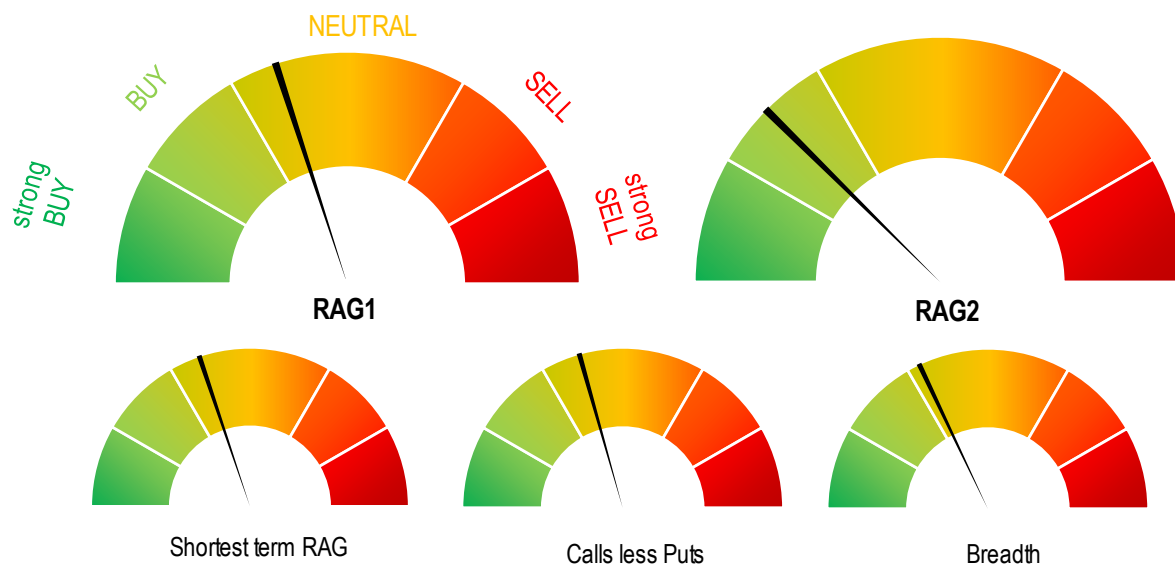
Source: Longview Economics

Fig 1b: Medium term models – shown as gauges using standard deviation bands
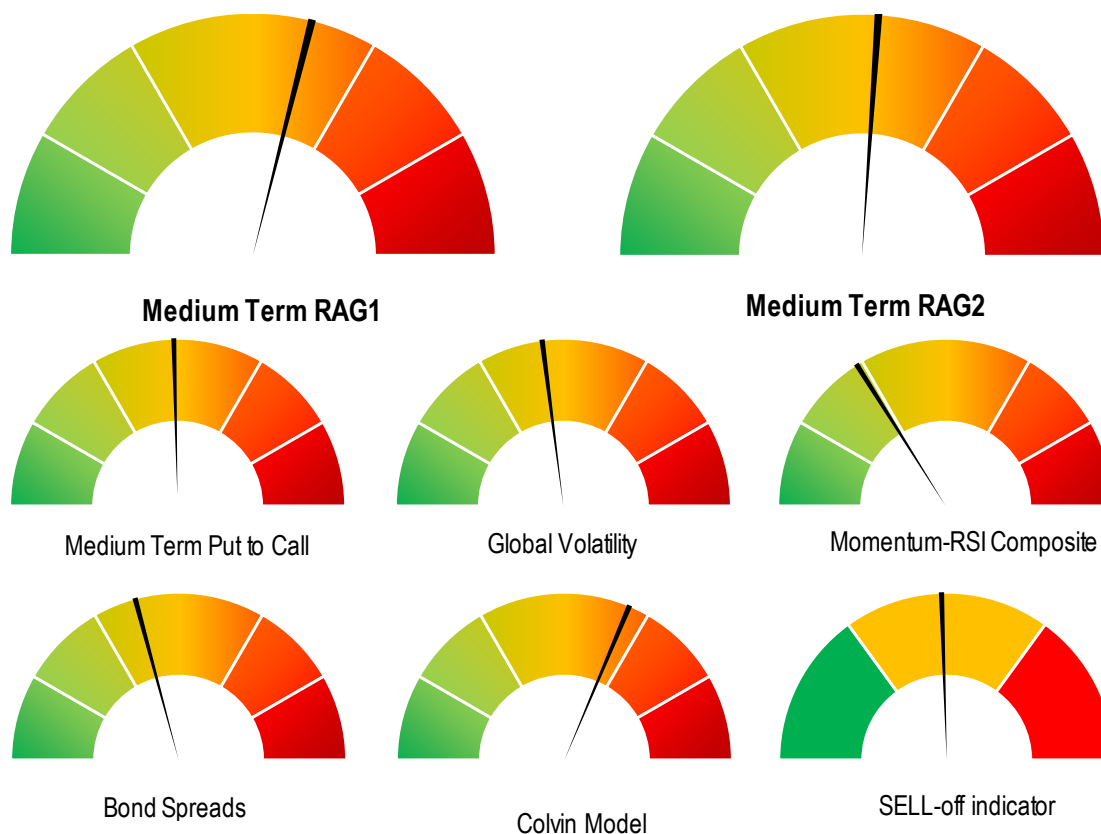
Source: Longview Economics
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

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

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

Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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

Source: Longview Economics, Macrobond

RAG2 is on BUY
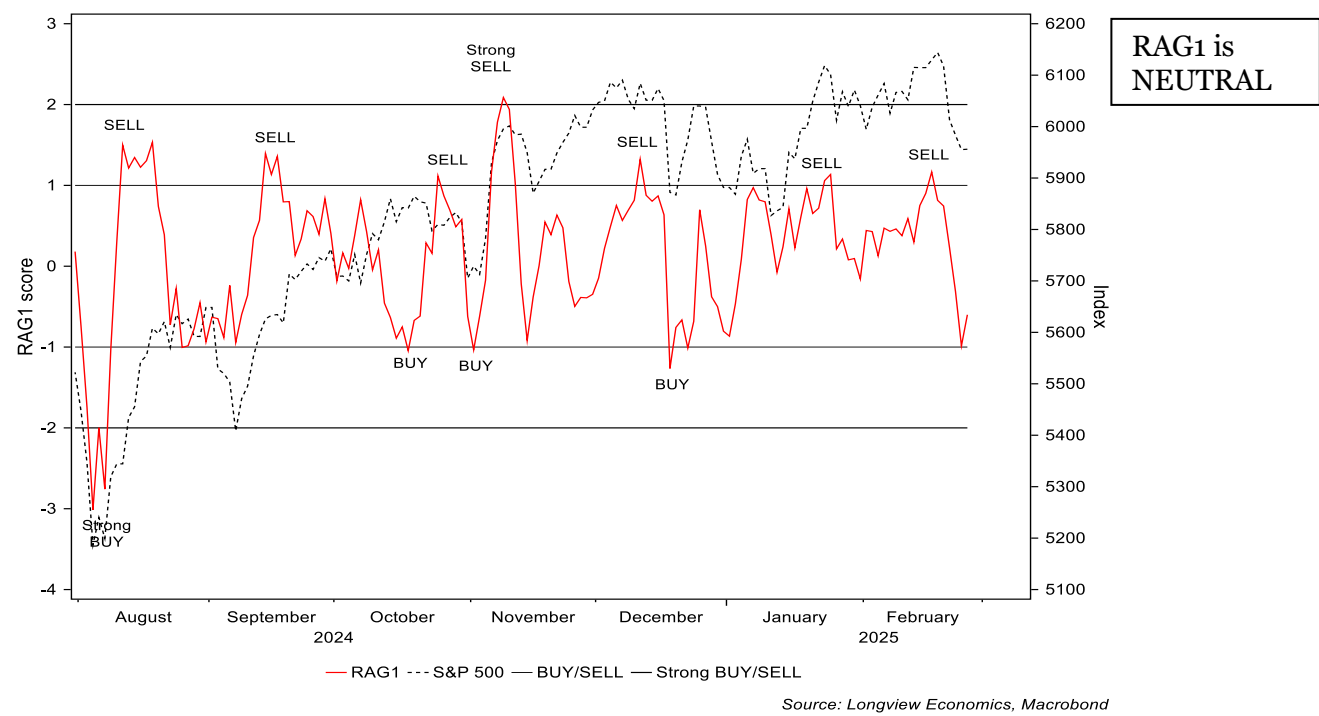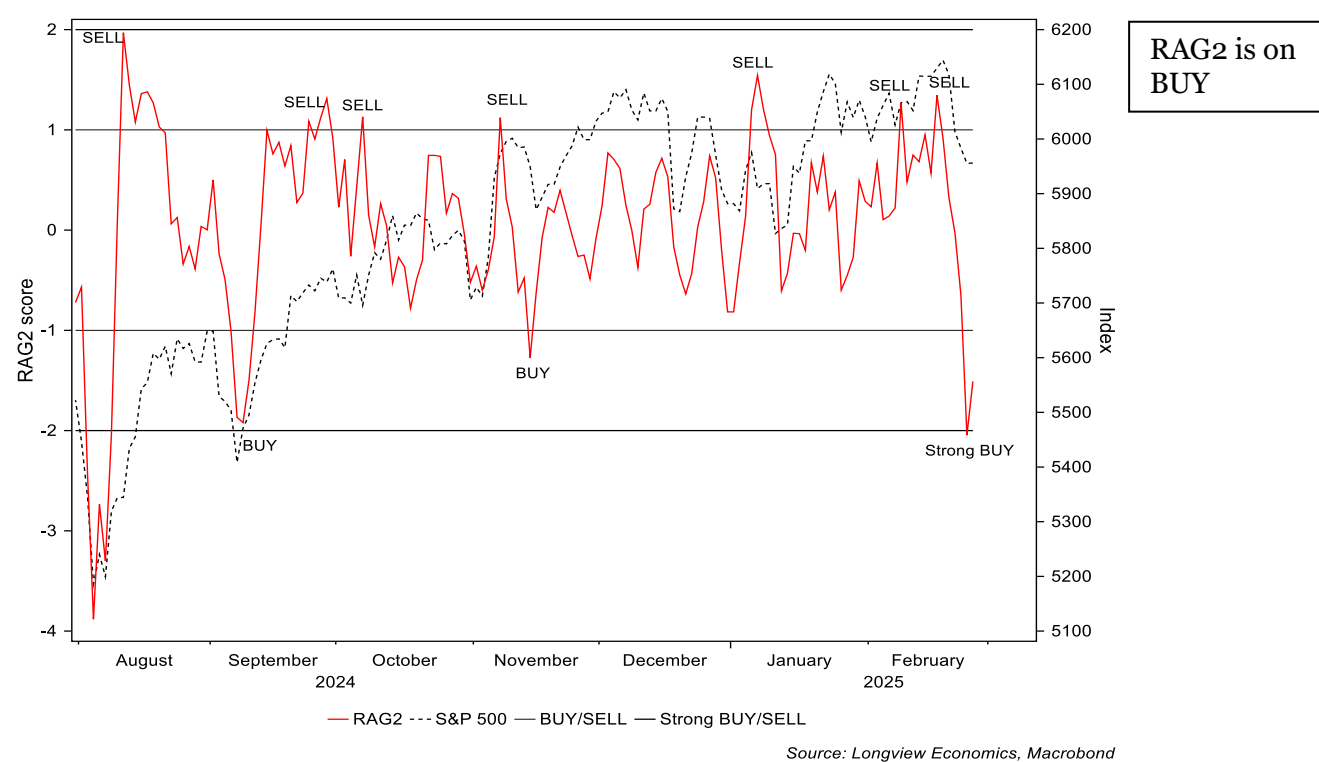
For explanations of indicators please see page 10

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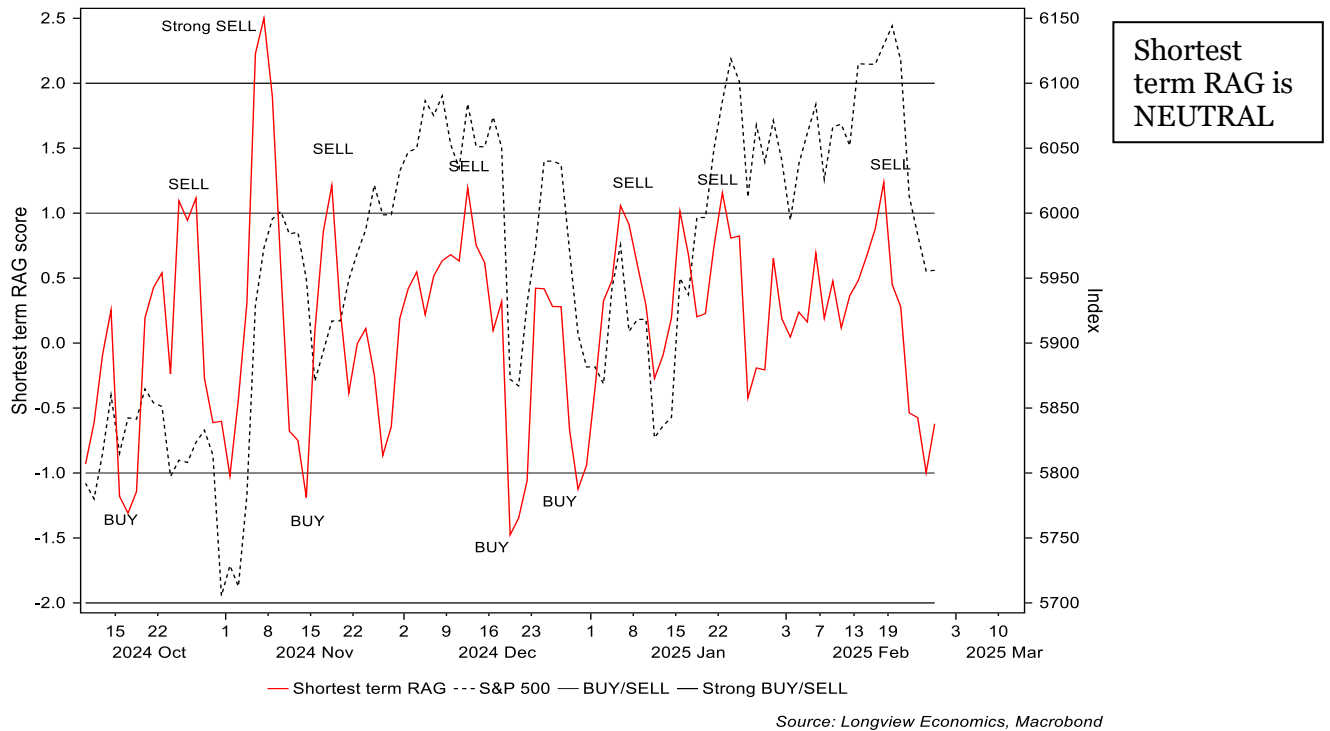
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500

Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond
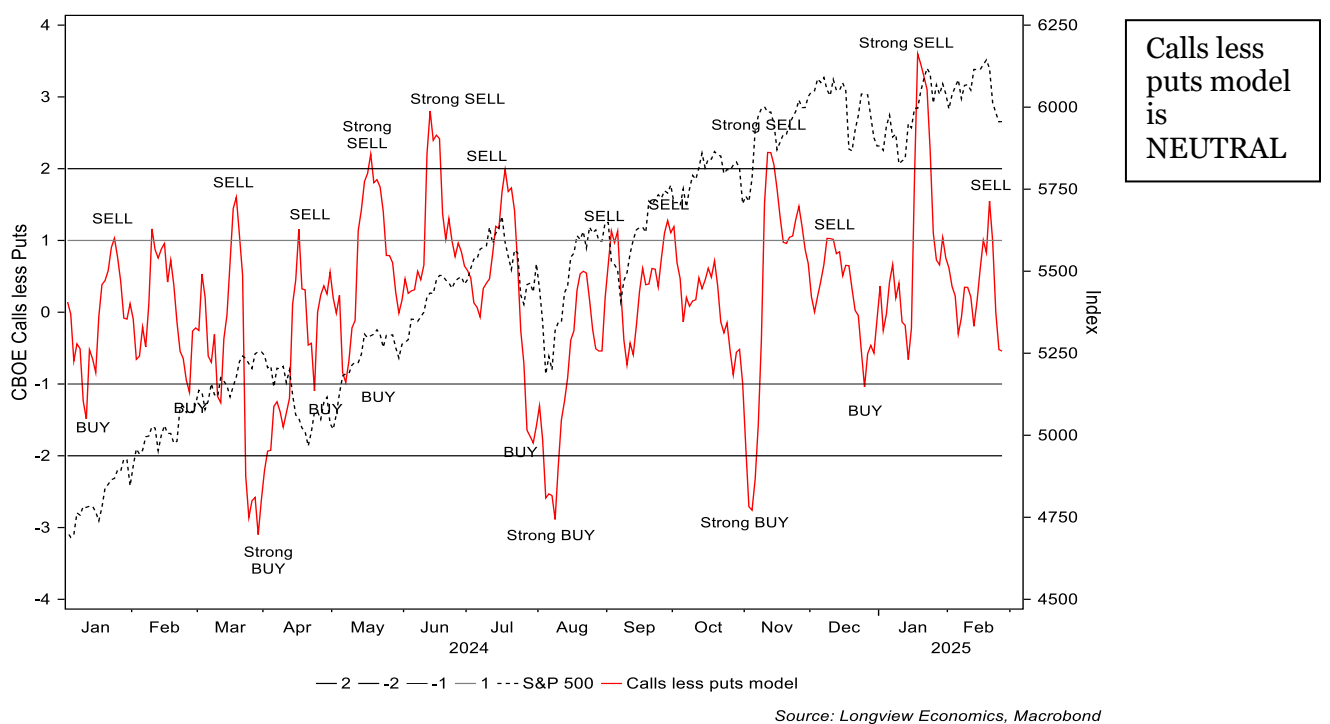
For explanations of indicators please see page 10

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

The breadth model is NEUTRAL

Source: Longview Economics, Macrobond
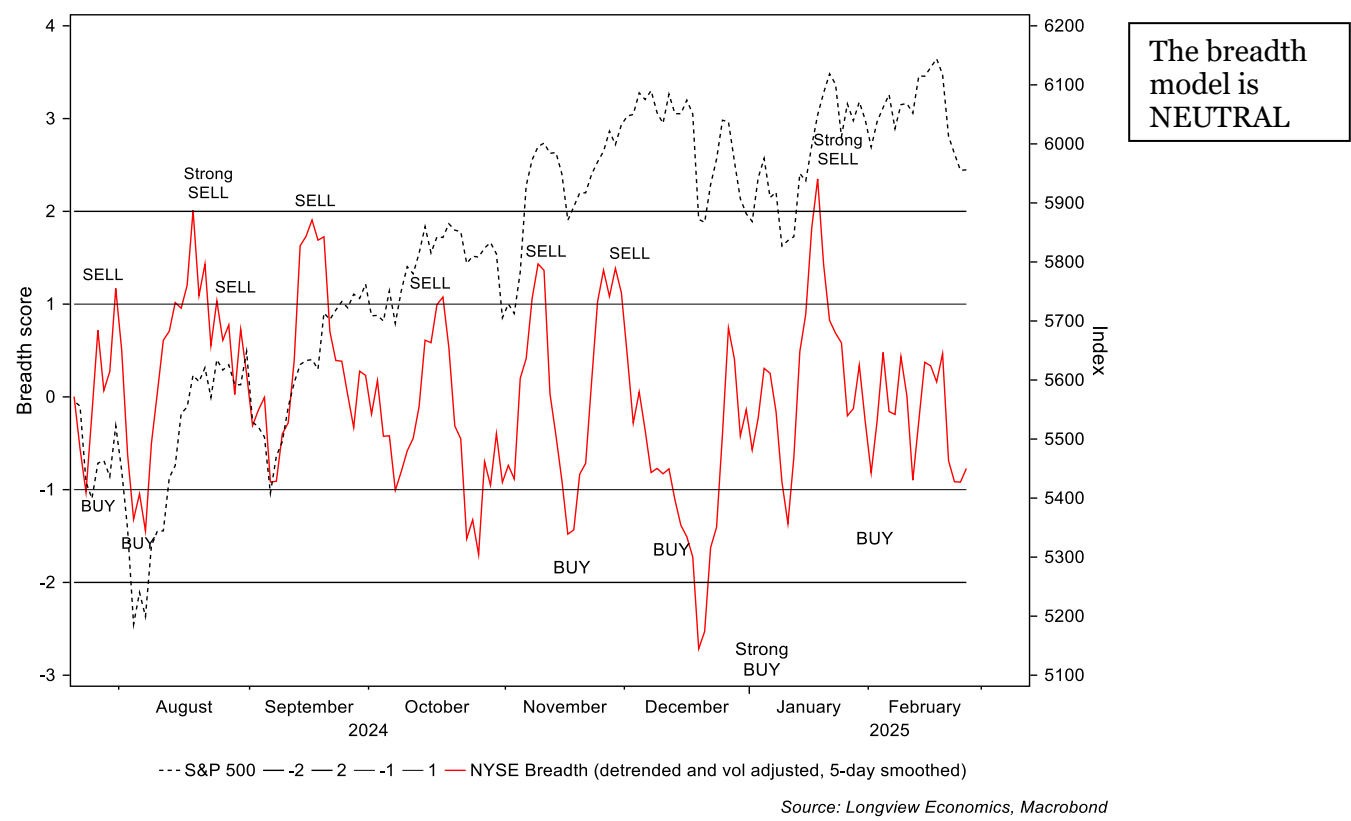
For explanations of indicators please see page 10

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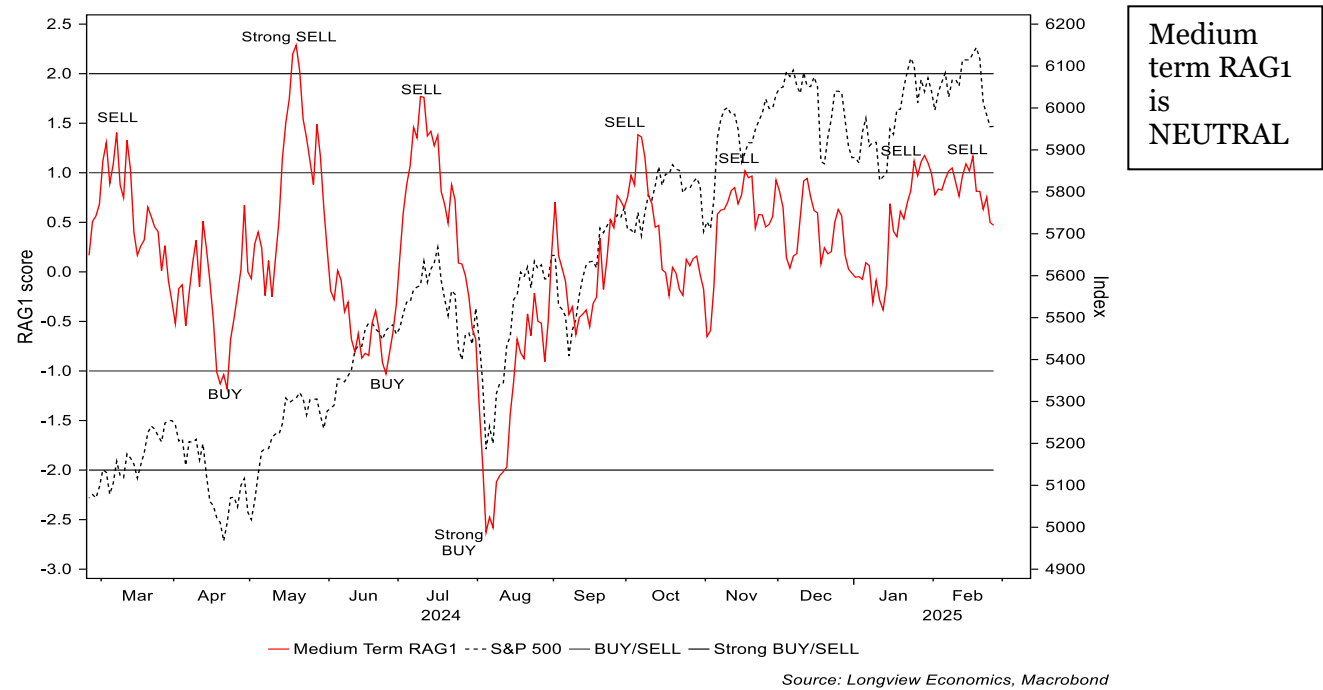
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond
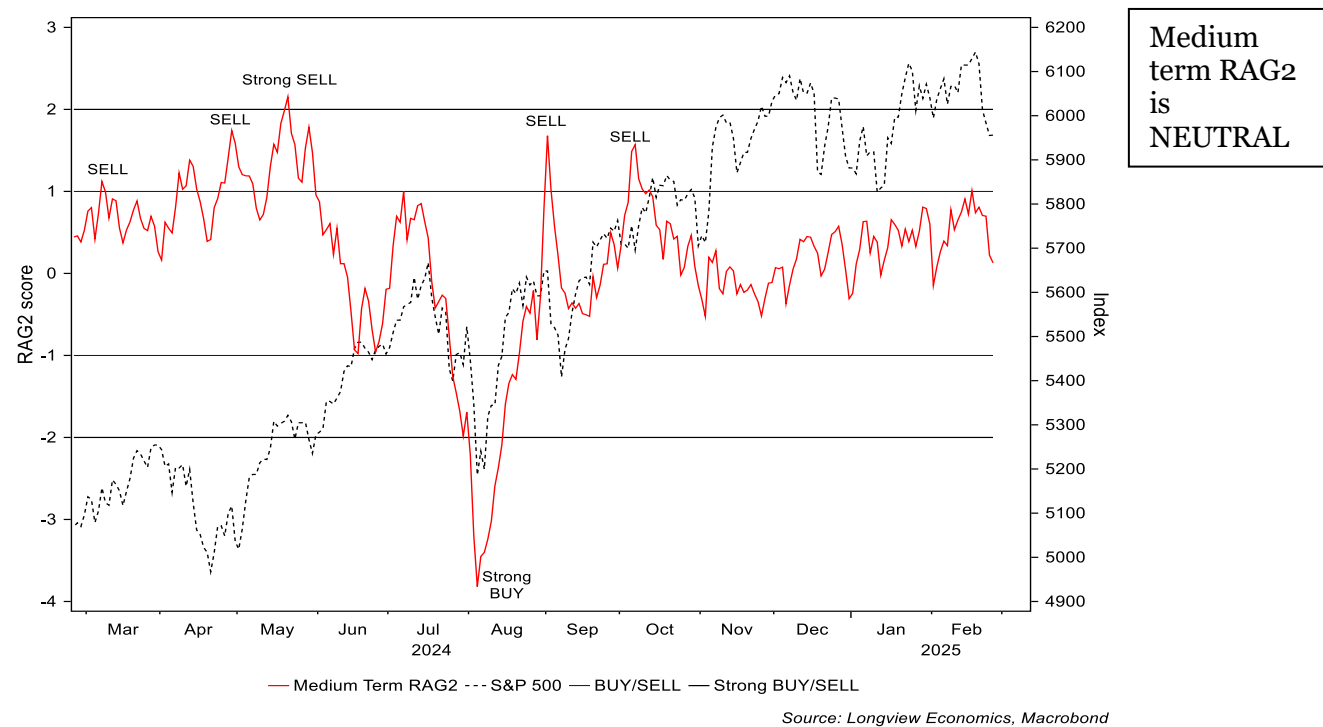
For explanations of indicators please see page 10

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

The SELL-off indicator is on SELL

Source: Longview Economics, Macrobond
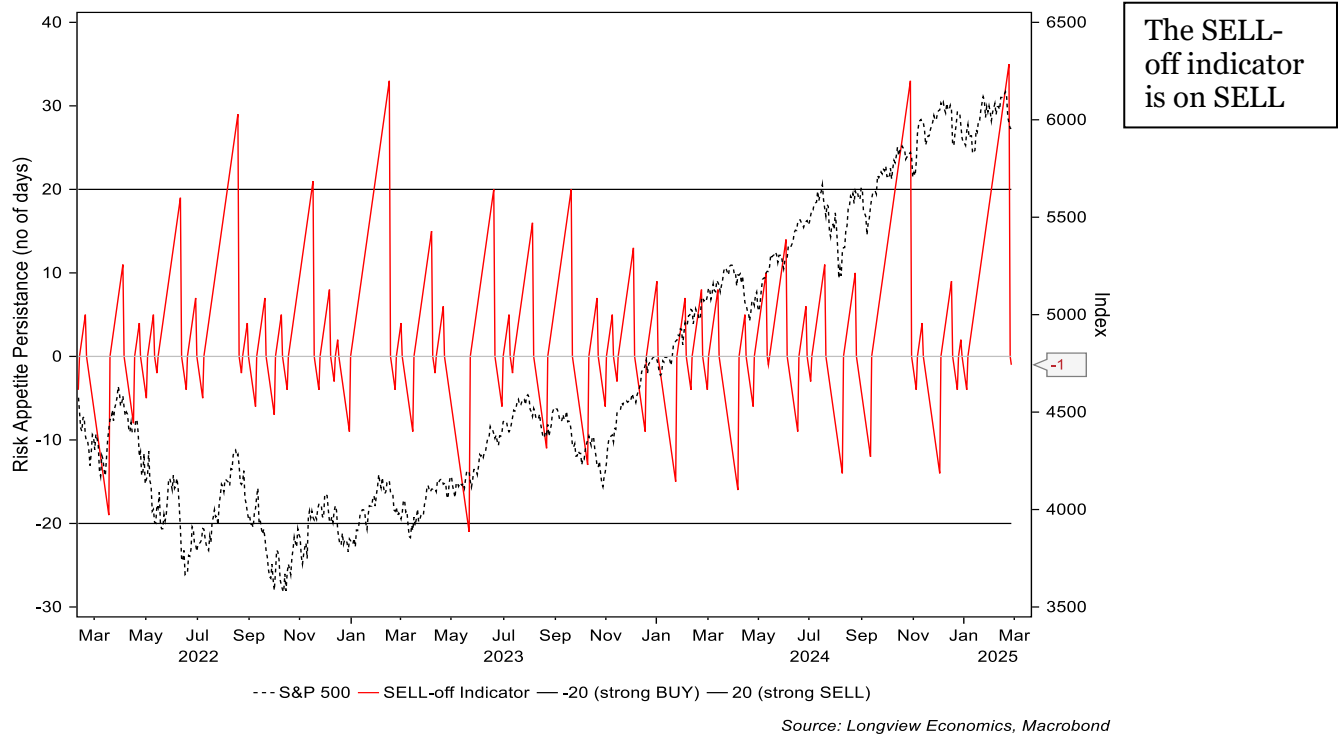
Fig 3d: CBOE put to call trend deviation model vs. S&P500

Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond
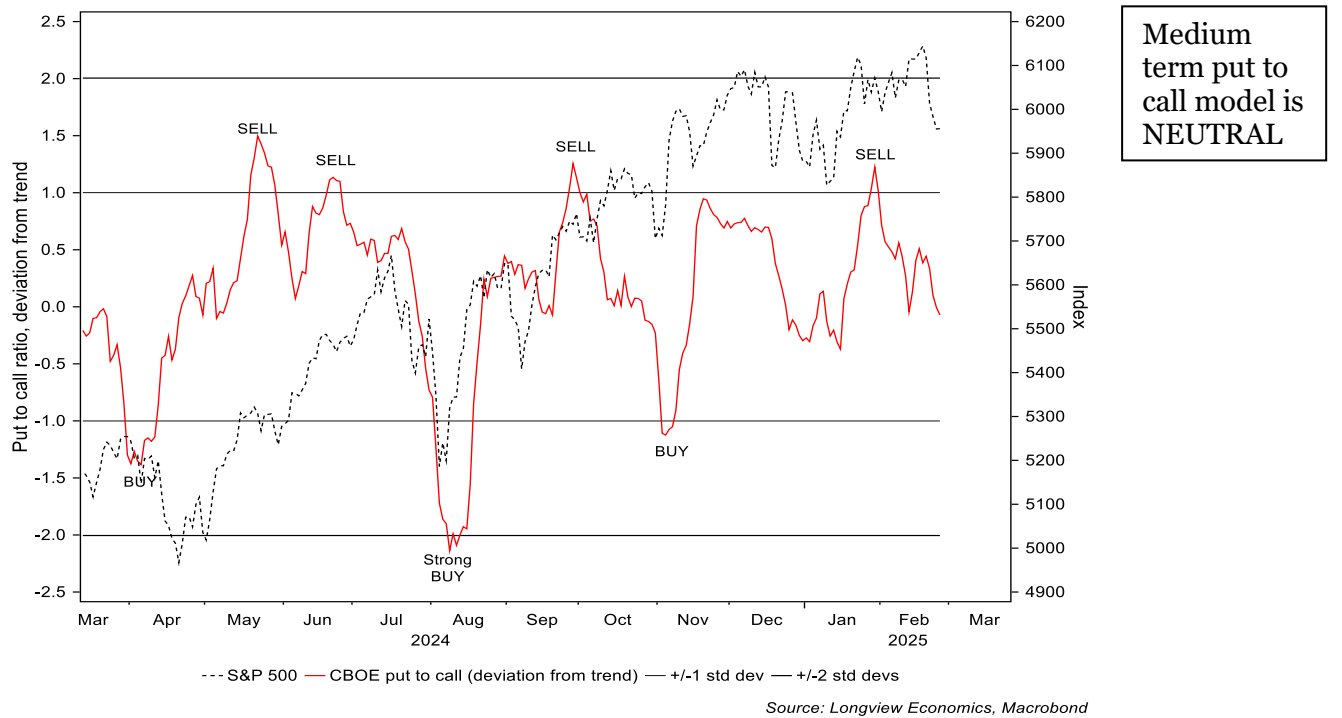
For explanations of indicators please see page 10

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

Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond
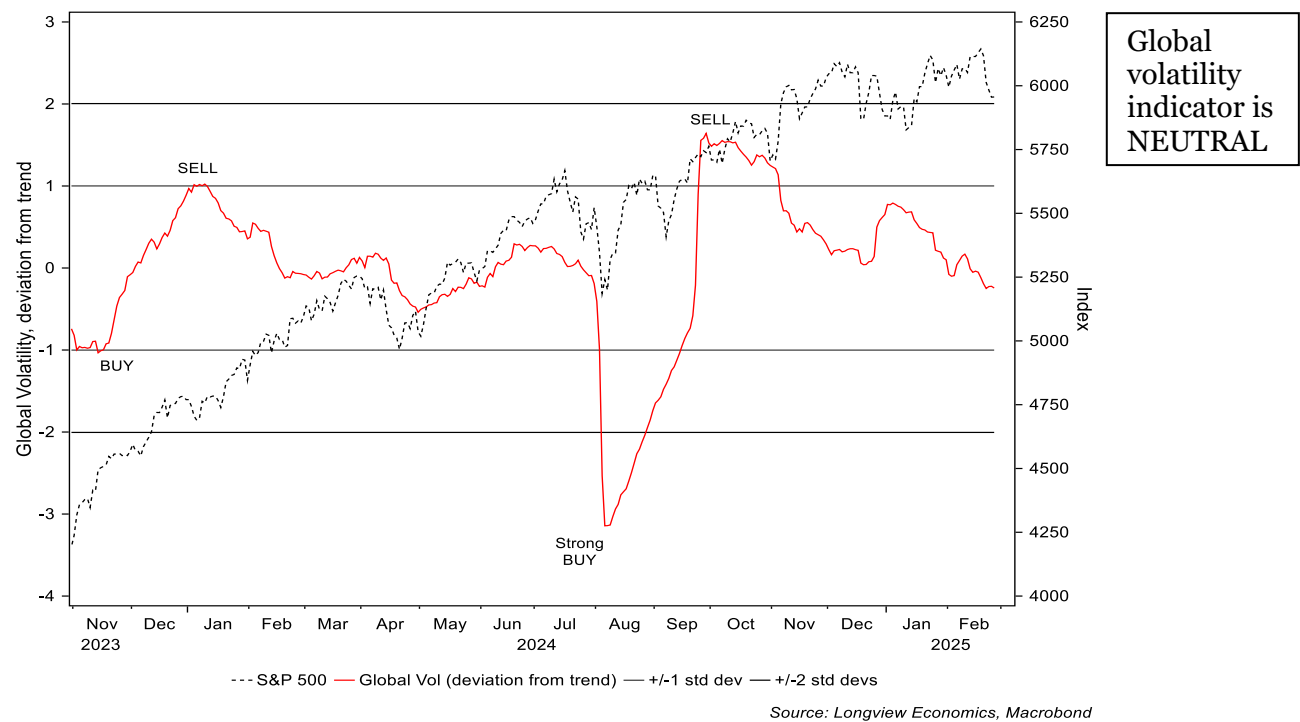
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500
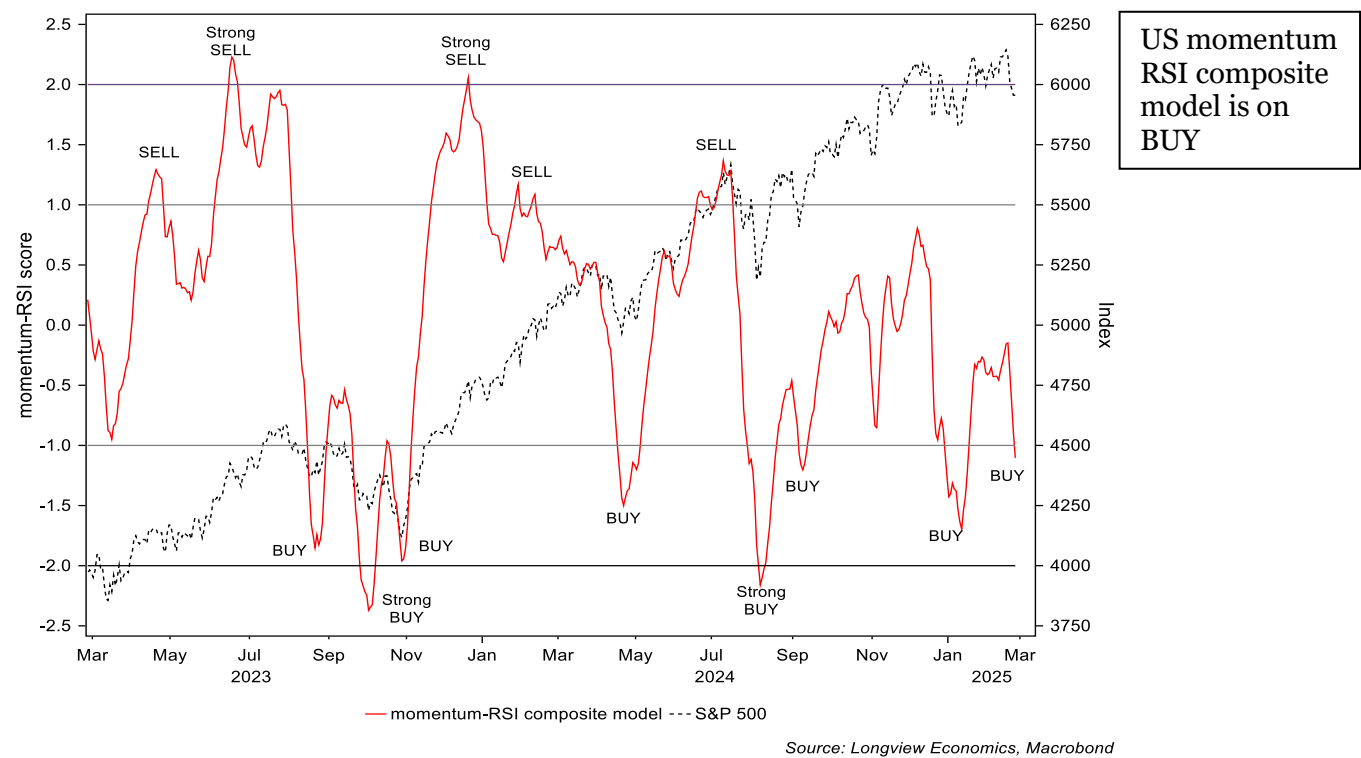
US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

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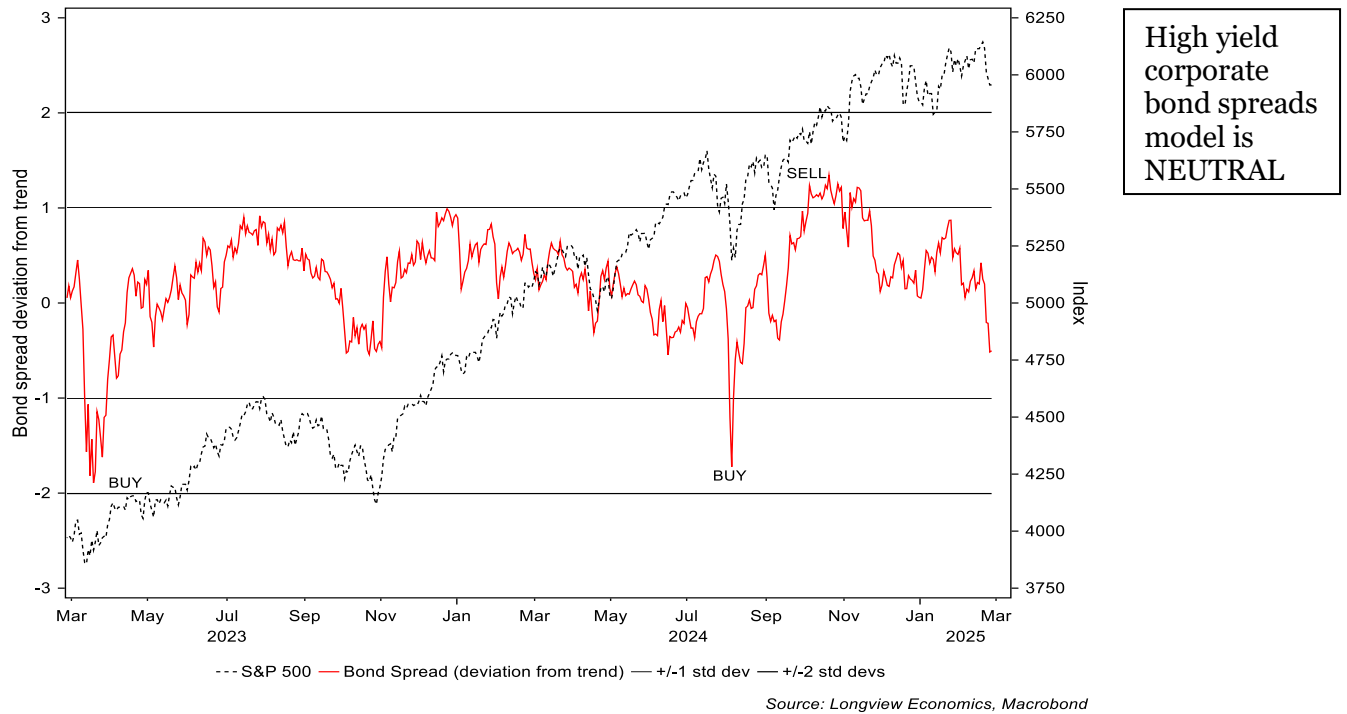
Fig 3h: Colvin model (deviation from trend) vs. S&P500

Source: Longview Economics, Macrobond

Colvin model – is NEUTRAL
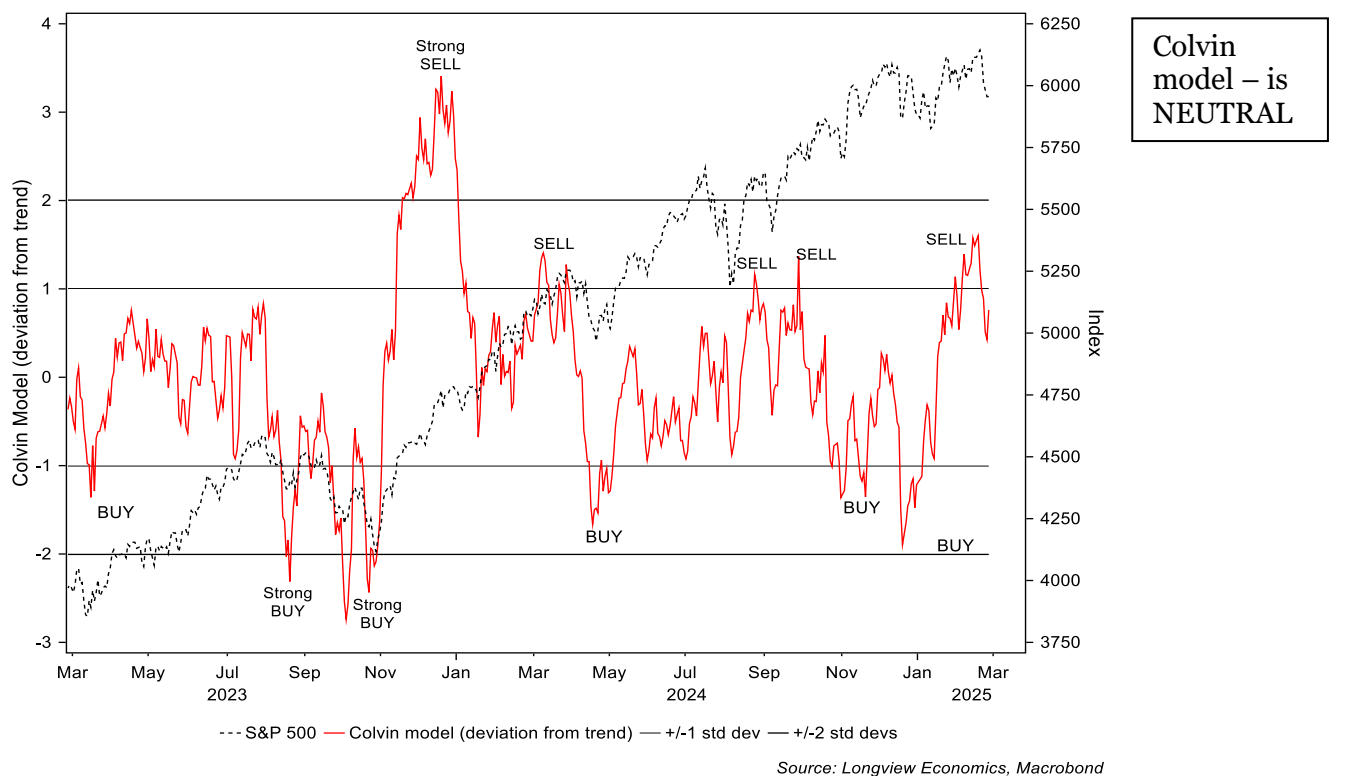
For explanations of indicators please see page 10

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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