Equity Index Futures Trading Recommendations

27th May 2025

"Stay SHORT/Reduce position size"

Email: info@longvieweconomics.com

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

- Reduce to ¼ SHORT S&P500 June futures at current prices (from ½ SHORT on Friday*).
- Tighten the stop loss on remining position to 5,950.0 (from 5,970 on Friday).

Rationale

As highlighted on Friday, **by the start of last week equities had become notably overbought relative to bonds in the short term** (at 2 standard deviation level). That was evidenced by the relative strength index (overbought/oversold model) of equities relative to bonds (FIG 1). In the past few trading sessions, that overbought nature has started to unwind as bond yields have eased meaningfully (since middle of last week). Japanese 10 and 30-year yields, for example, are down approx. 35bps (from their highs last week – FIG 1b); US 10 & 30-year yields are also down (with 10-year yields back at the 4.45%/50% yield level from earlier this month, FIG 1a).

On Friday US equities sold off sharply intraday but held the key 5,750 level on S&P500 futures (and then recovered later in the session) – FIGs 1c & 1d. Yesterday US markets were closed. The futures, though, rallied earlier in the day (as/when open in Asian/European trading hours on the back of Trump's olive branch to the EU** - FIG 1c). European equity markets were mostly higher yesterday (i.e. those that were open).

With that recent weakness in risk assets (largely across the globe), many of our short term (1 – 2 week) market timing models have been moving lower (FIGs 2 – 2g). Most of them are now mid-range (e.g. see risk appetite models, technical scoring system etc). Some are on/close to BUY, including the percentage of stocks above their 10 day moving averages.

With that movement lower in short term models and given the strength (bounce) in equities in the past 24 – 36 hours of trading, our **conviction in the SHORT is diminished.** As such, we recommend closing half of the outstanding position and running the rest with a tighter stop loss (see trading recommendation above). The S&P500 is currently trying to push through its 200-day moving average (on June futures) and could fail, while medium term models have recently generated a collective SELL signal (e.g. see FIGs 3 & 3a) – hence why we recommend keeping some of the SHORT position.

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

Kind regards,

The team @ Longview Economics

*NB blended entry was at 5,929.4.
**i.e. Trump delaying imposing 50% tariffs on the EU until July 9th.

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

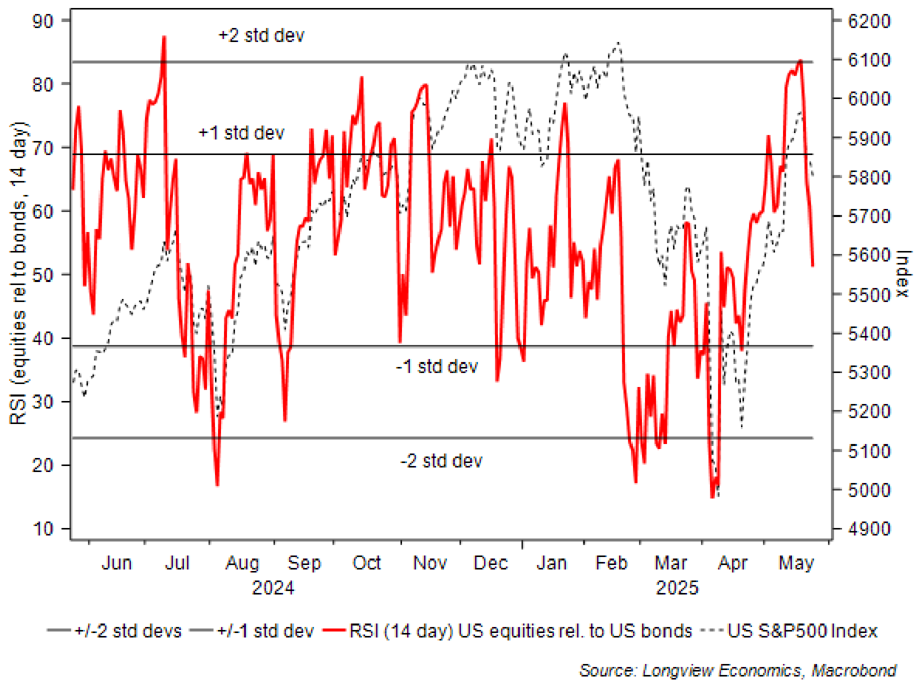


FIG 1a: US 10-year bond yields –> 10-day GIP chart

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

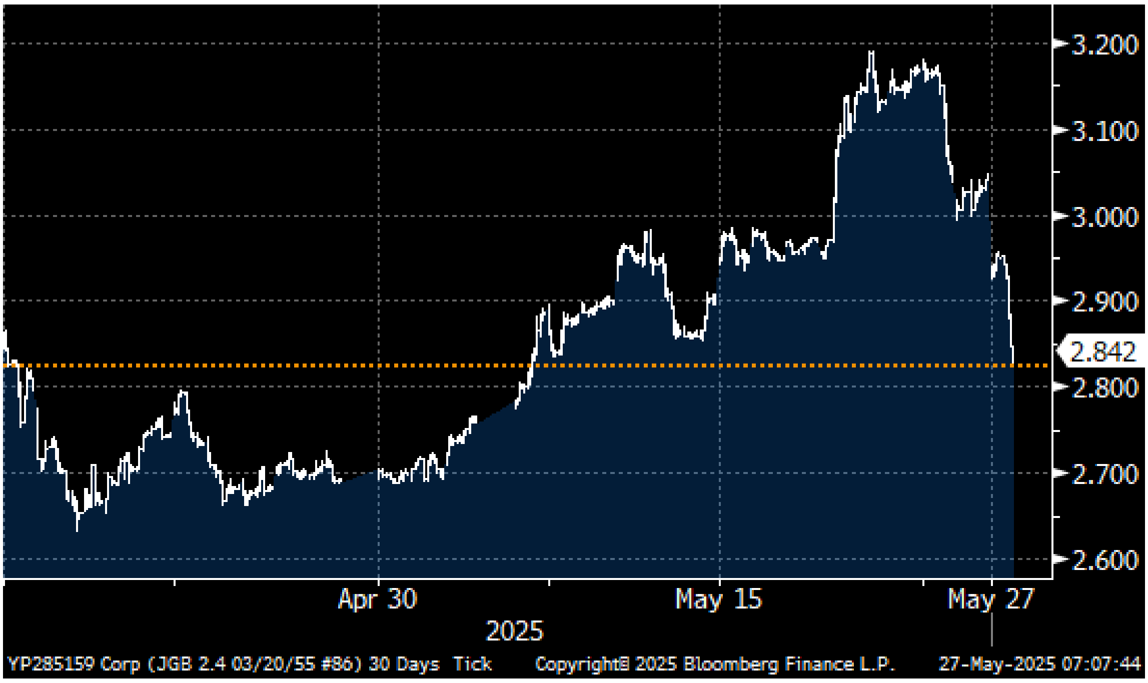
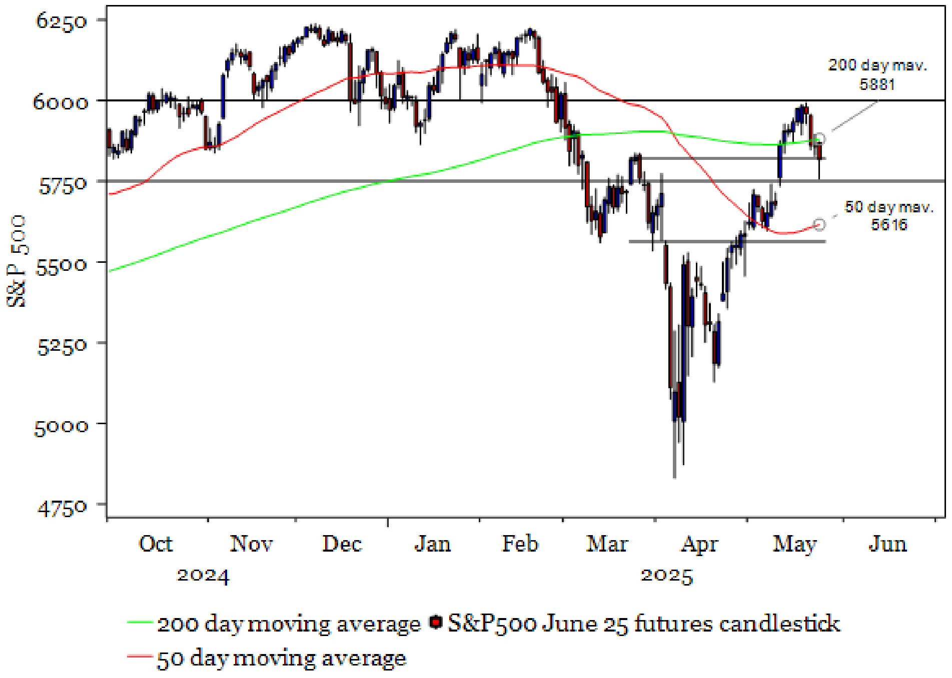


FIG 1c: S&P500 futures 10-day tick chart shown with overnight price action

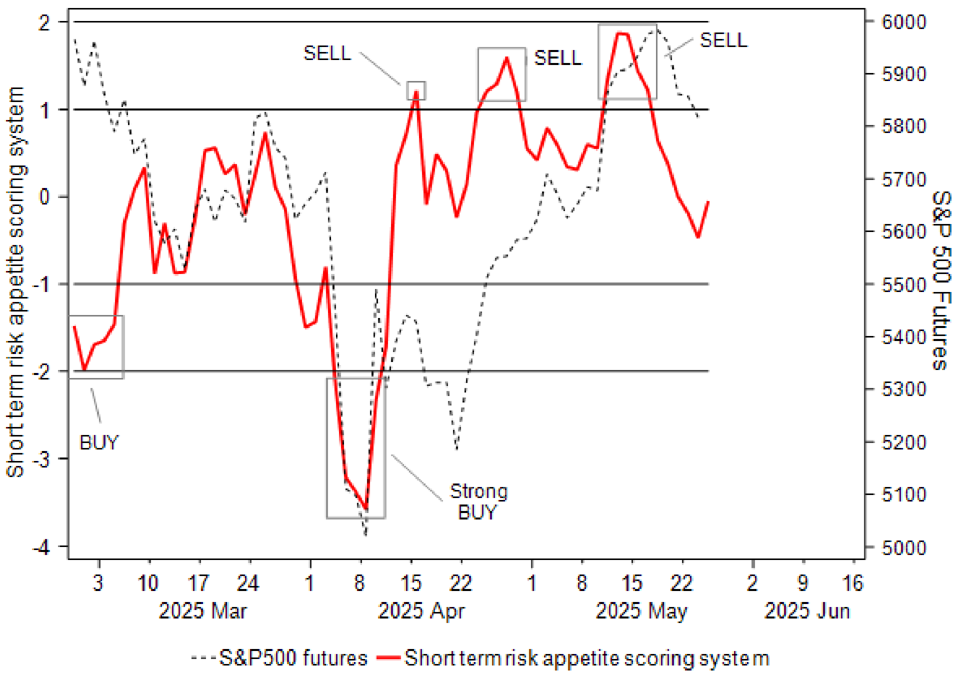
FIG 1d: S&P500 futures candlestick shown with its 50 & 200 day moving average



Source: Longview Economics, Macrobond

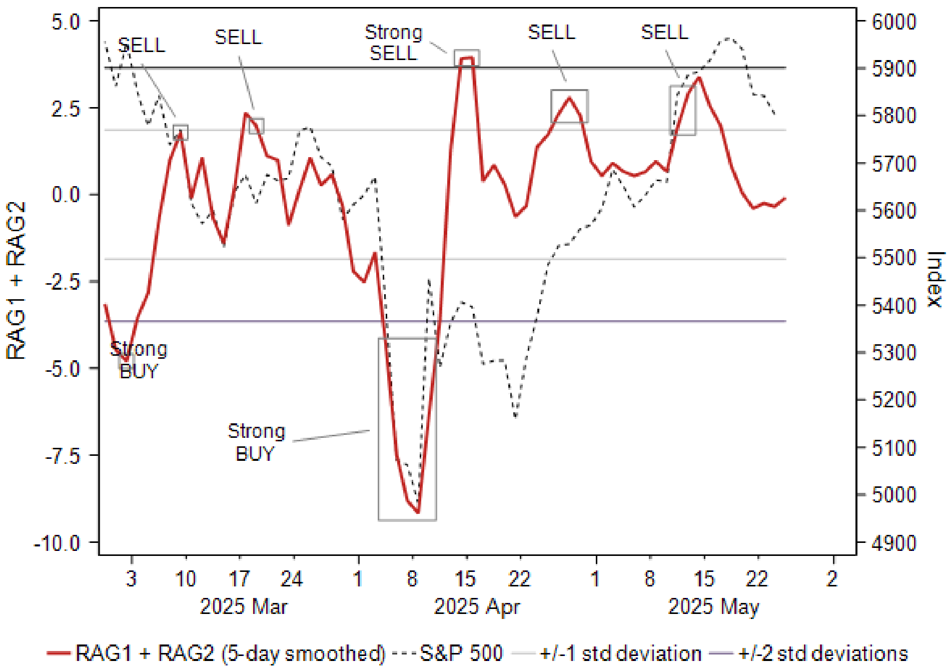
Short term models have been rolling over from SELL....most are NEUTRAL, while some are on/close to BUY....

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



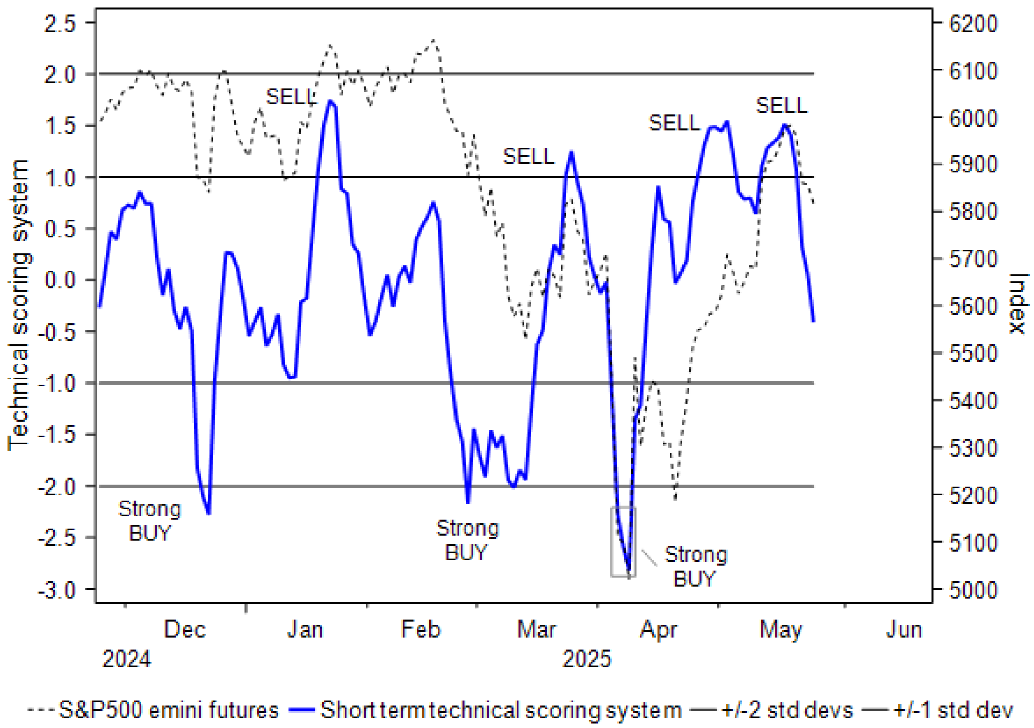
Source: Longview Economics, Macrobond

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



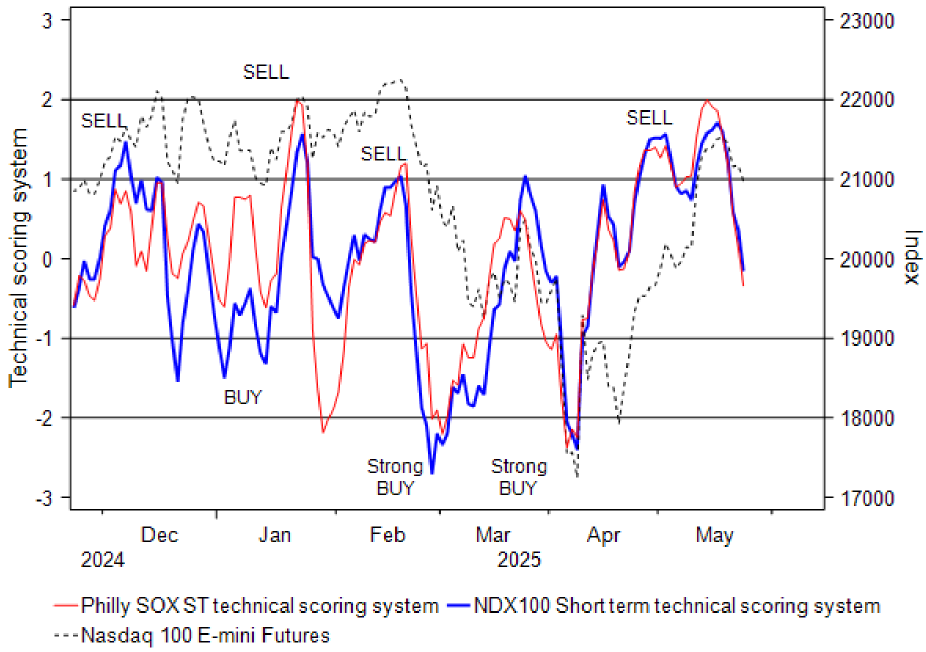
Source: Longview Economics, Macrobond

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



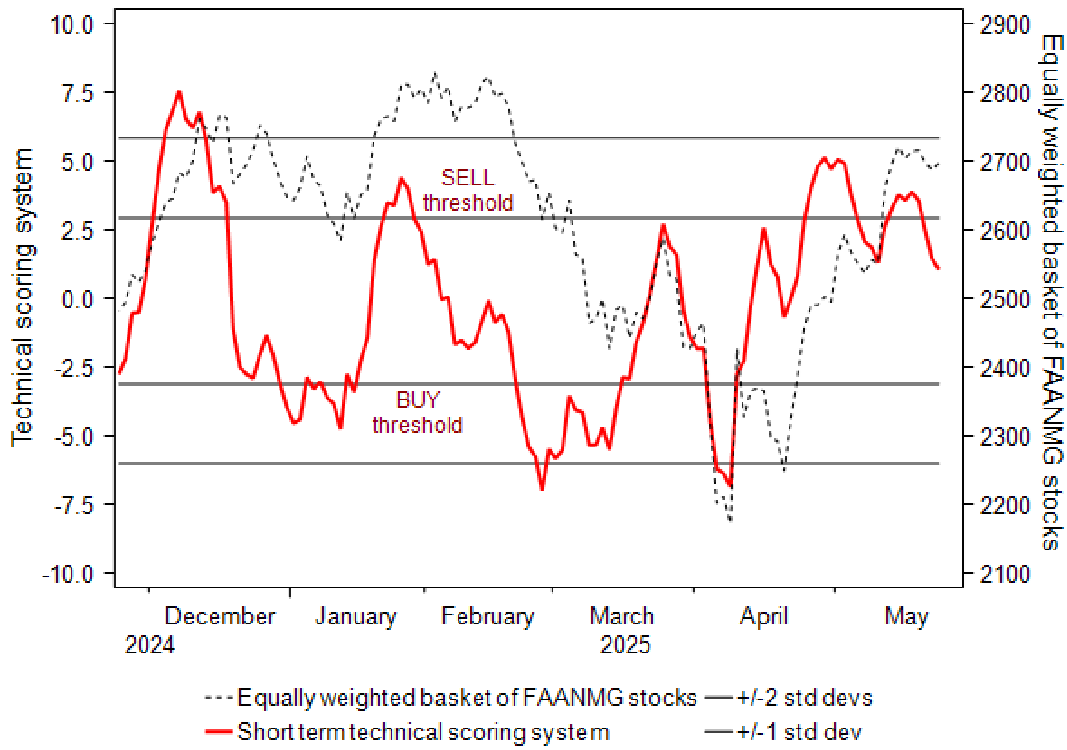
Source: Longview Economics, Macrobond

FIG 2c: Longview NDX100 & Philly SOX short term **'technical'** scoring system vs. NDX100 futures



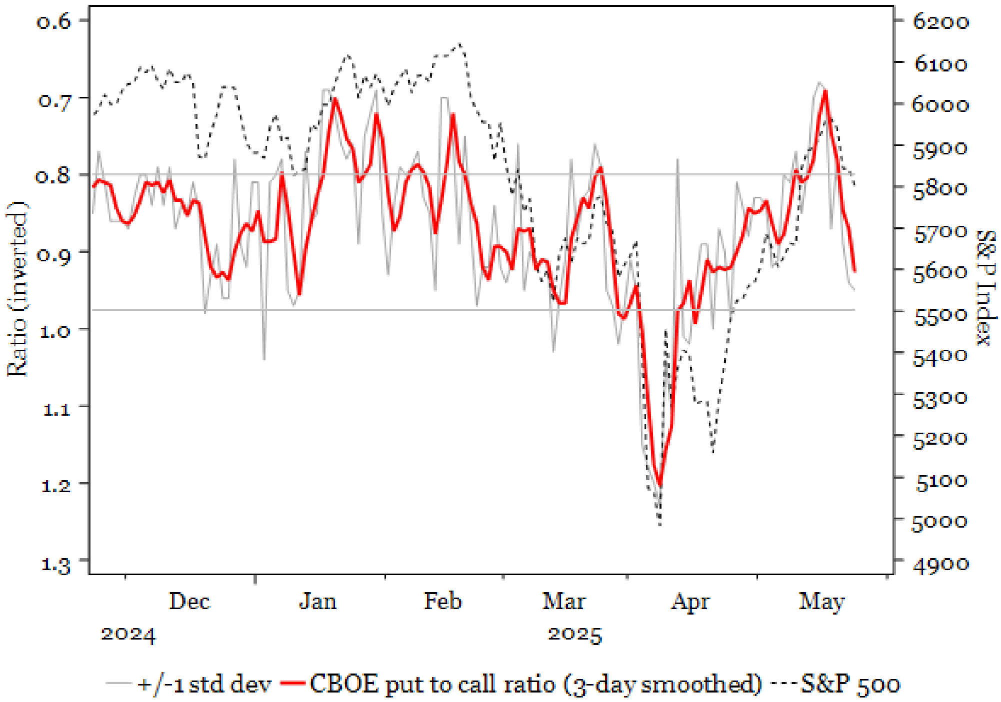
Source: Longview Economics, Macrobond

FIG 2d: Short term **'technical'** scoring system for an equally weighted basket of FAANMG stocks (vs. FAANMG stocks, equally weighted)



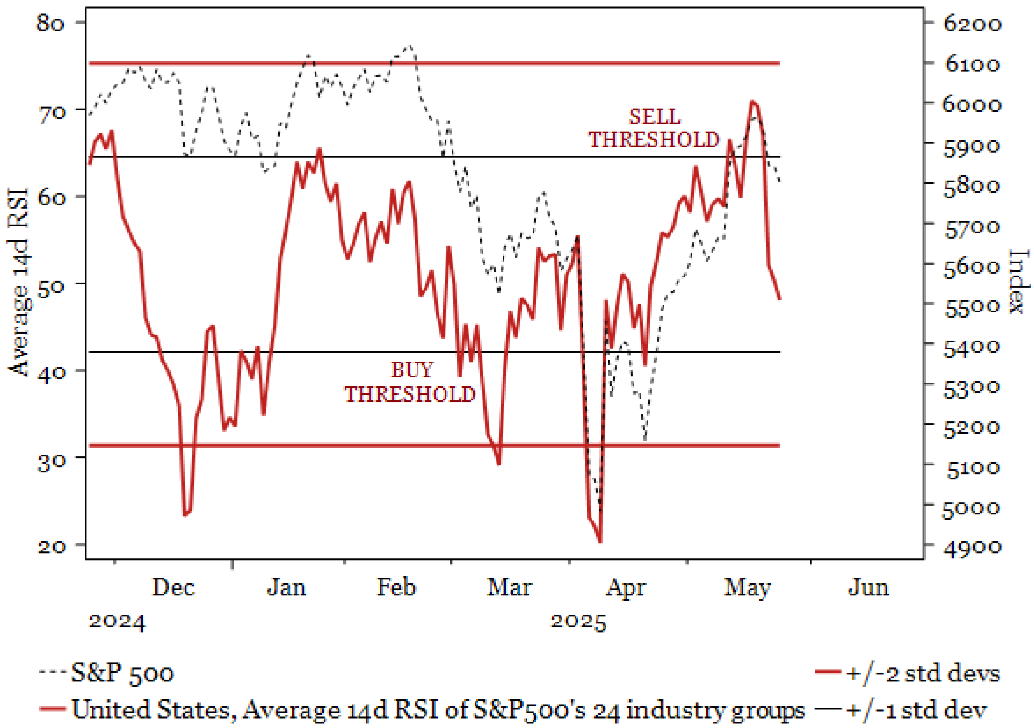
Source: Longview Economics, Macrobond

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



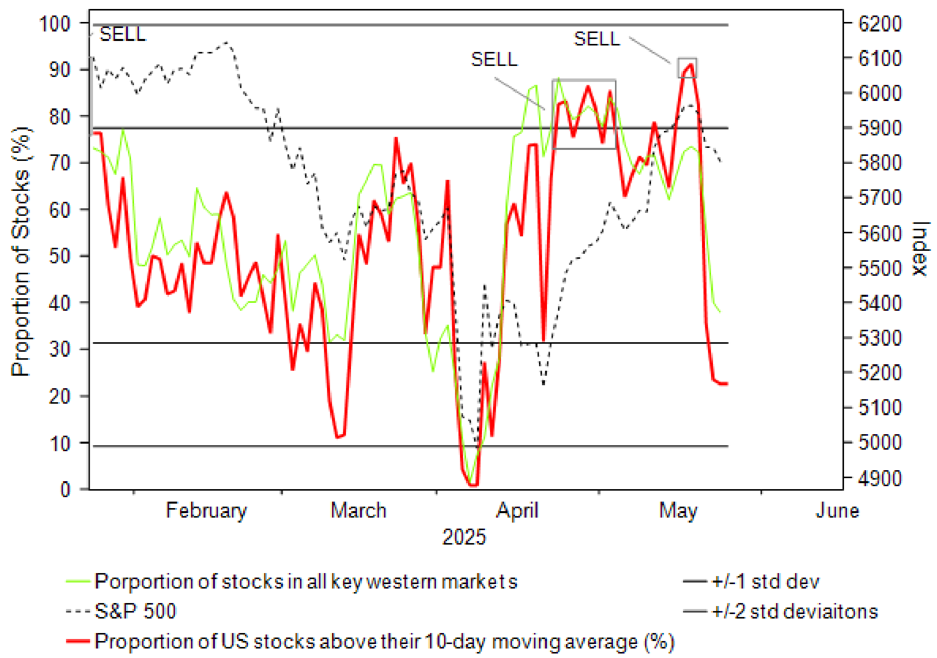
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

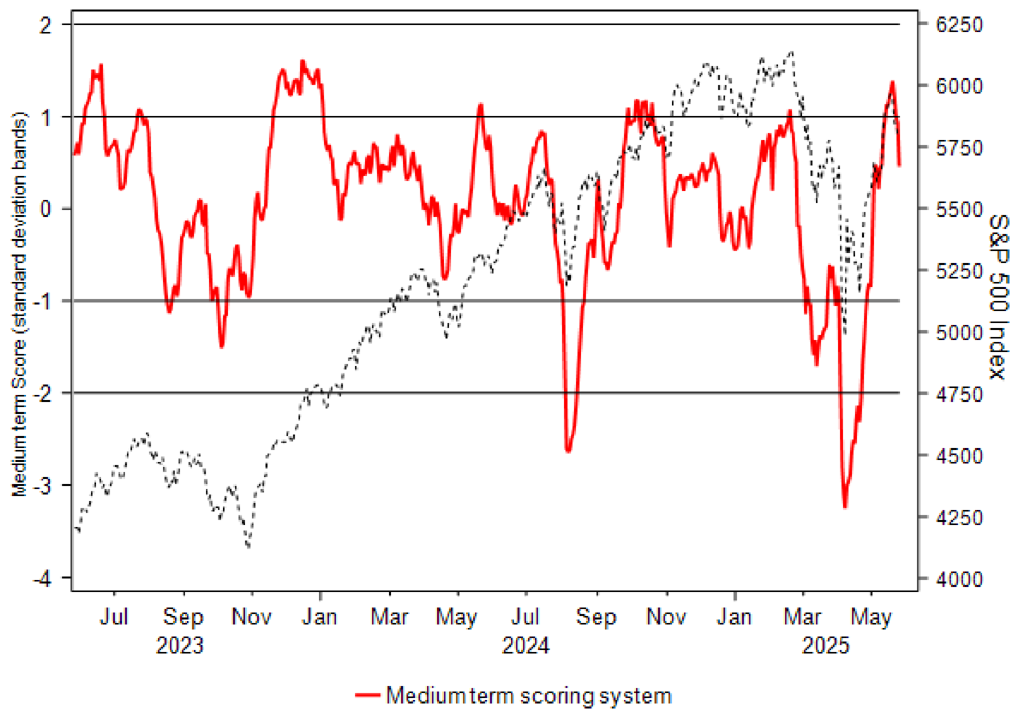
FIG 2g: Proportion of US stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

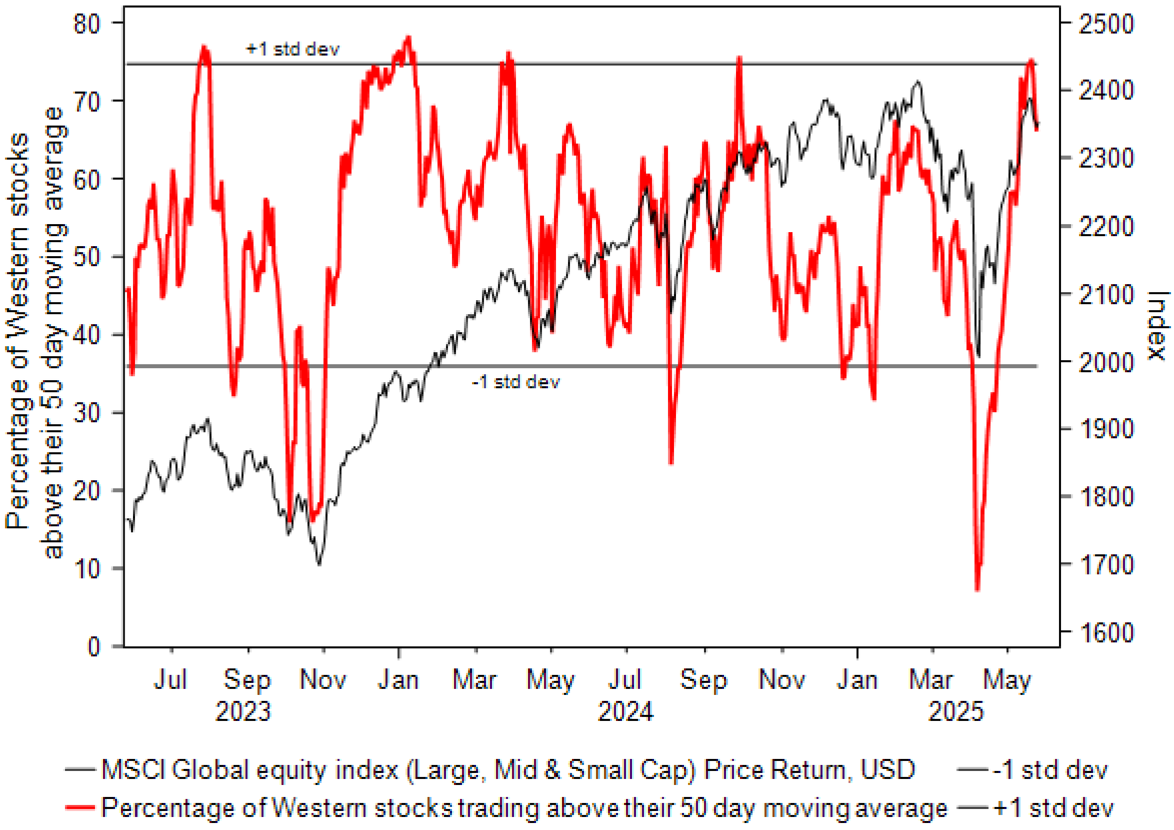
Medium term models are rolling over from SELL signals (still at high levels)…

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



Source: Longview Economics, Macrobond

FIG 3a: Proportion of Western stocks above their 50 day moving average vs. S&P500

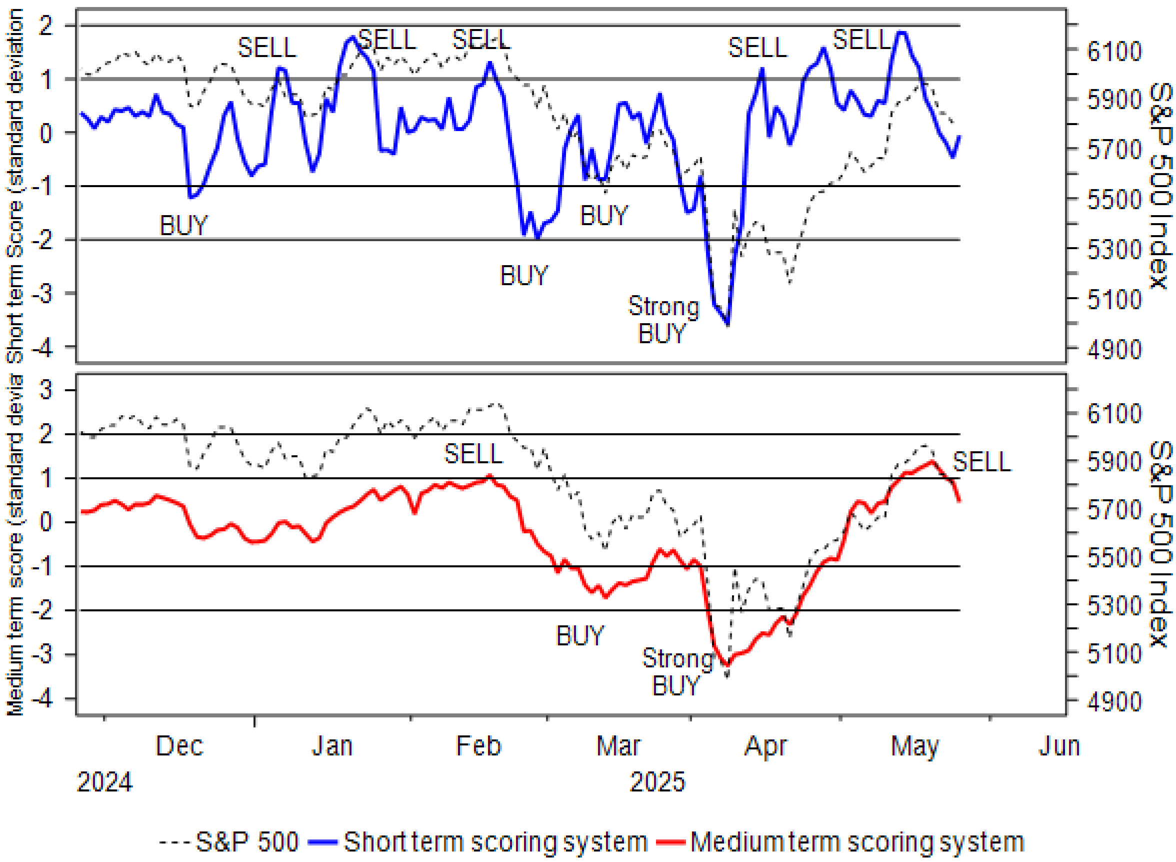


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **NEUTRAL** (from SELL last week)

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

Key macro data/events

Key data today include: UK BRC shop price index (May, 12:01am); Japanese PPI services (Feb, 12:50am); Chinese industrial profits (Apr, 2:30am); Eurozone new car sales (Apr, 5am); German GfK consumer confidence (June, 7am); **French headline CPI** (May first estimate, 7:45am); Eurozone consumer confidence (May final estimate, 10am); CBI distributive trade survey (May, 11am); **US durable goods orders** (April first estimate, 1:30pm); US FHFA house price index (Mar, 2pm); **US Conference Board consumer confidence** (May, 3pm).

Key events today include: Speech by the Fed's Kashkari at BoJ event (9am); speeches by the ECB's Villeroy in Paris (8am) & Nagel in Mannheim (5pm).

Key earnings today include: PDD Holdings.

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 last 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.

LVRAG

Daily Risk Appetite Gauge

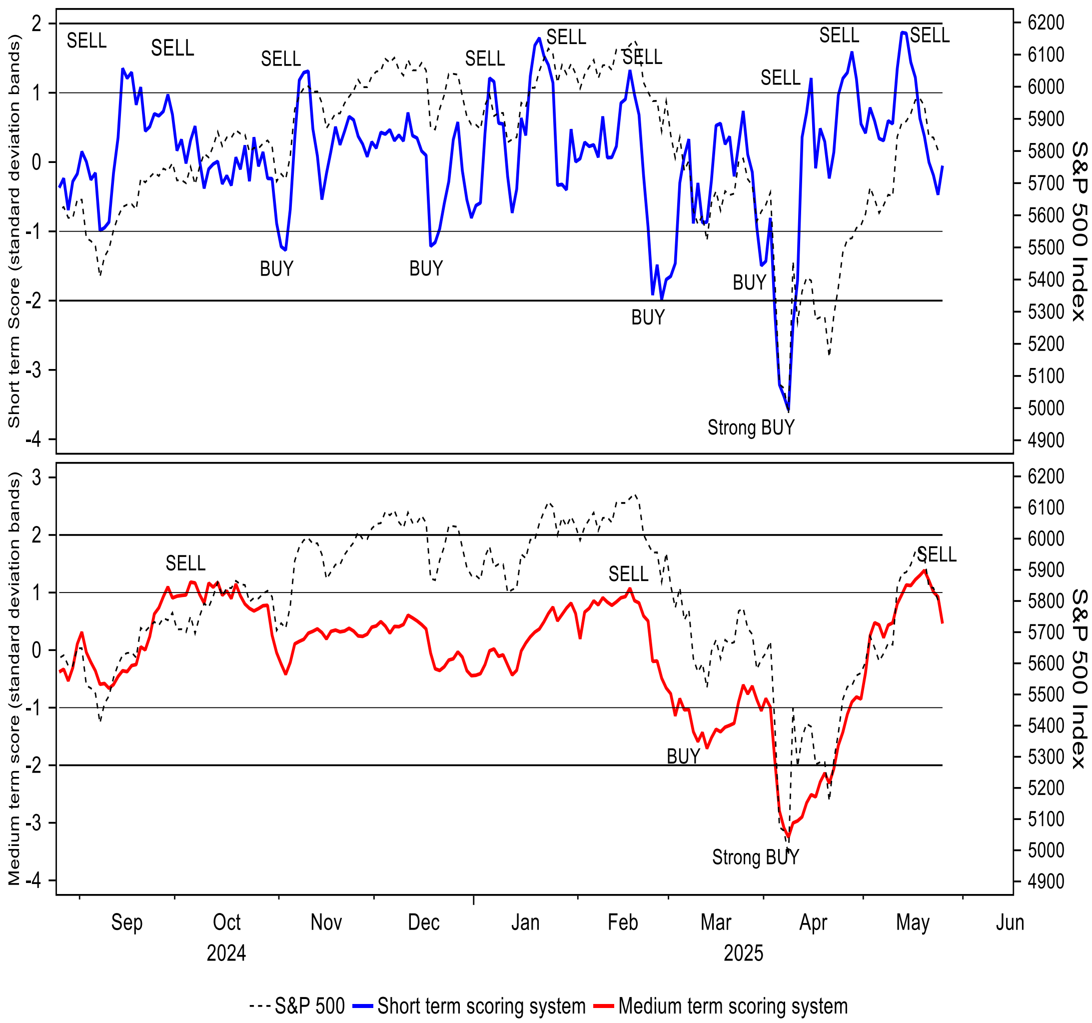
1 – 2 Week View on Risk

27th May 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

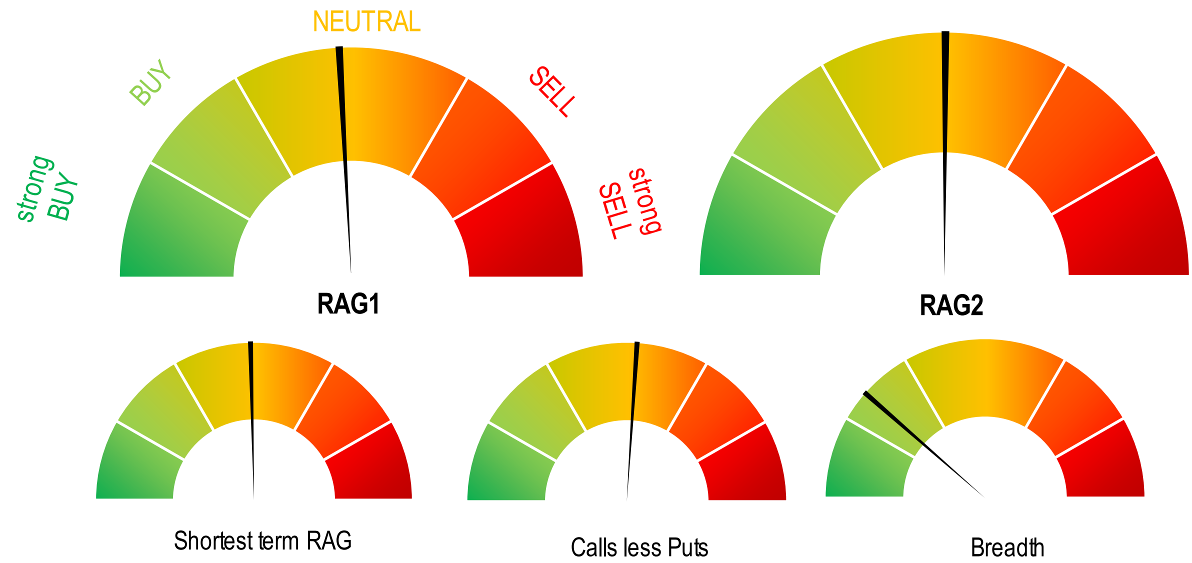
Source: Longview Economics, Macrobond

*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

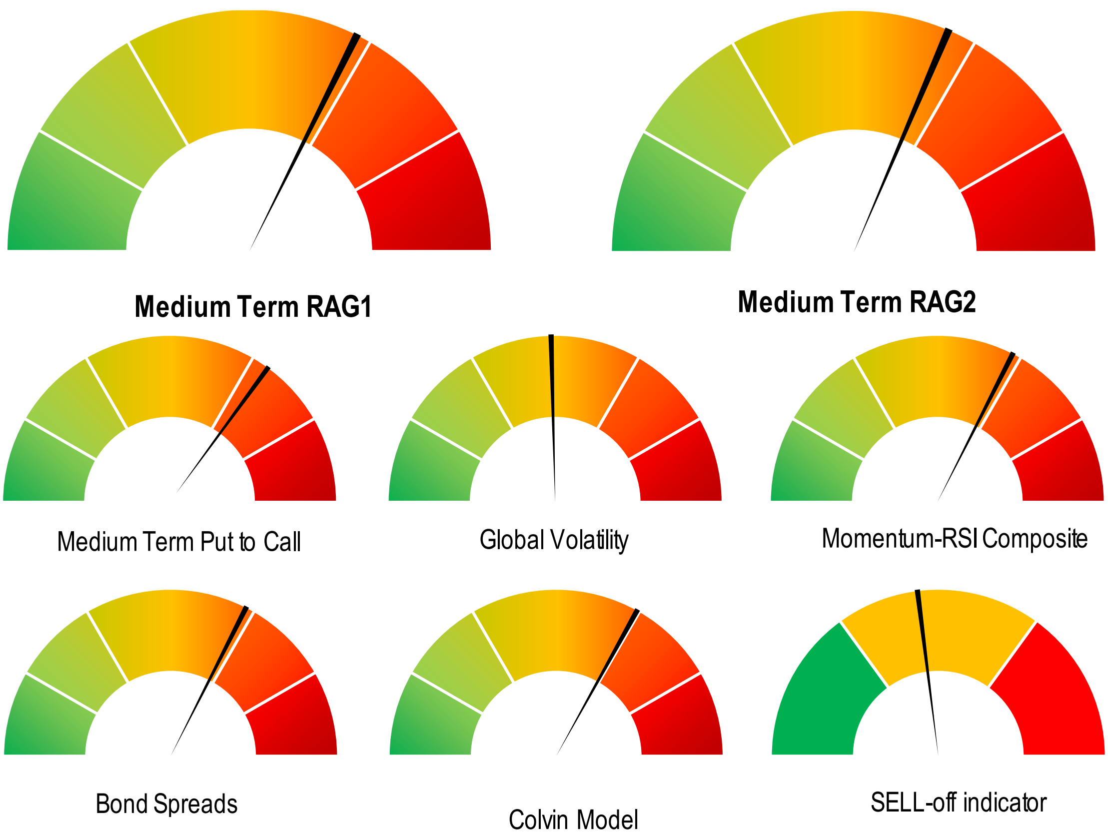
Section 1a: Summary of indicator signals**

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

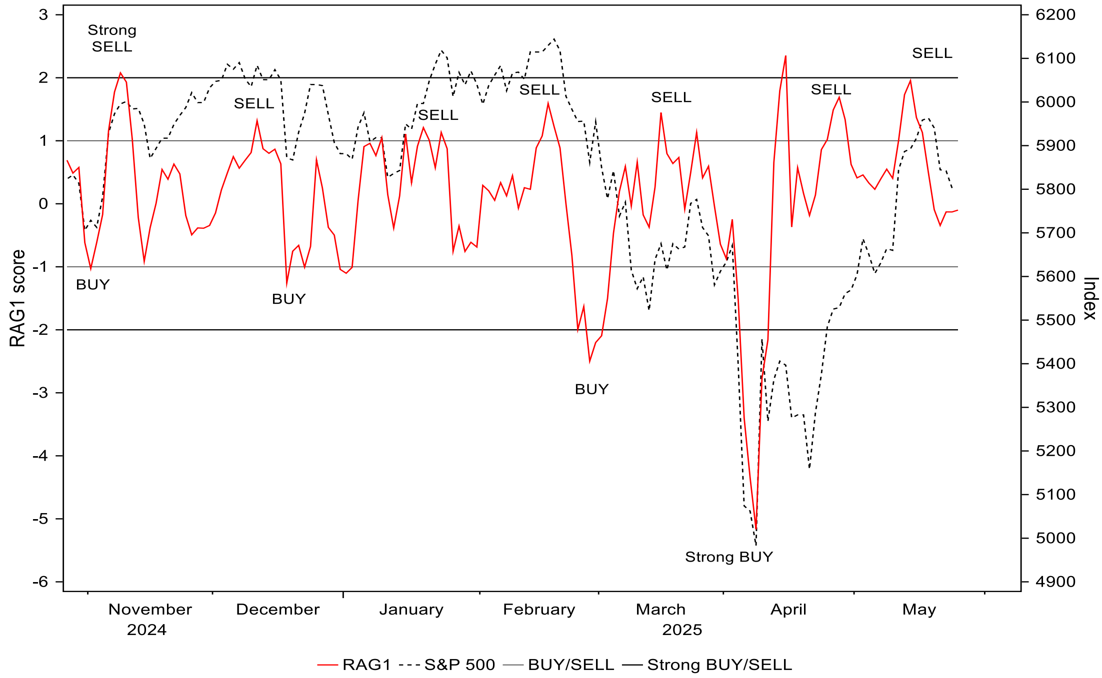


Source: *Longview Economics*

**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

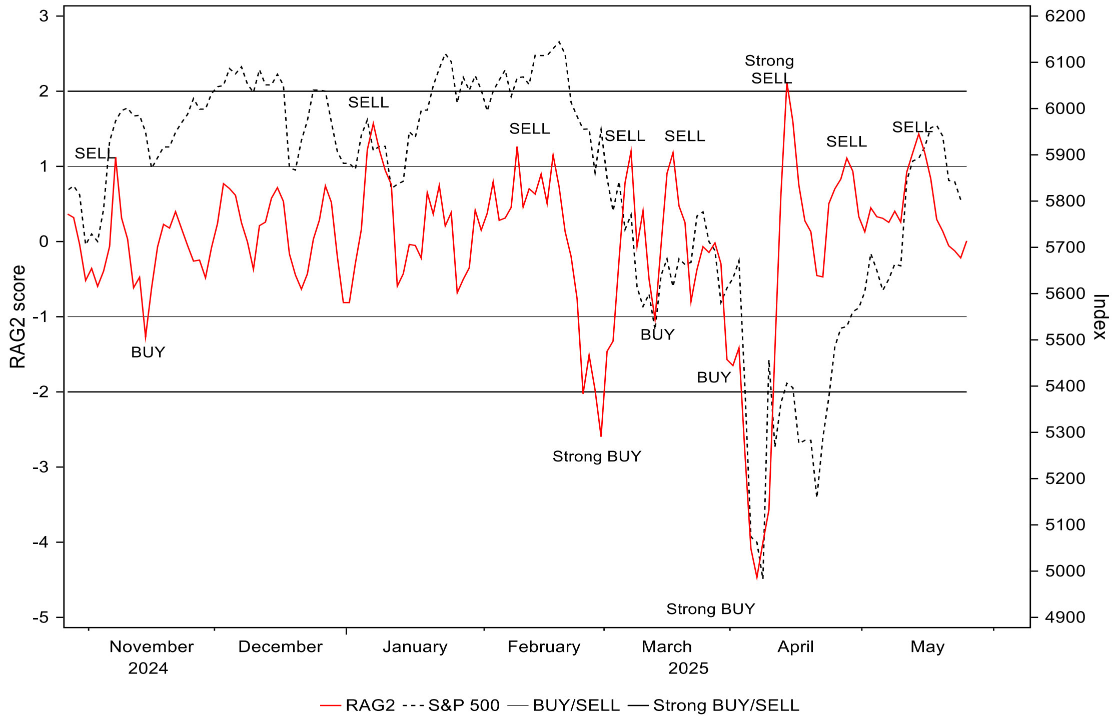
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

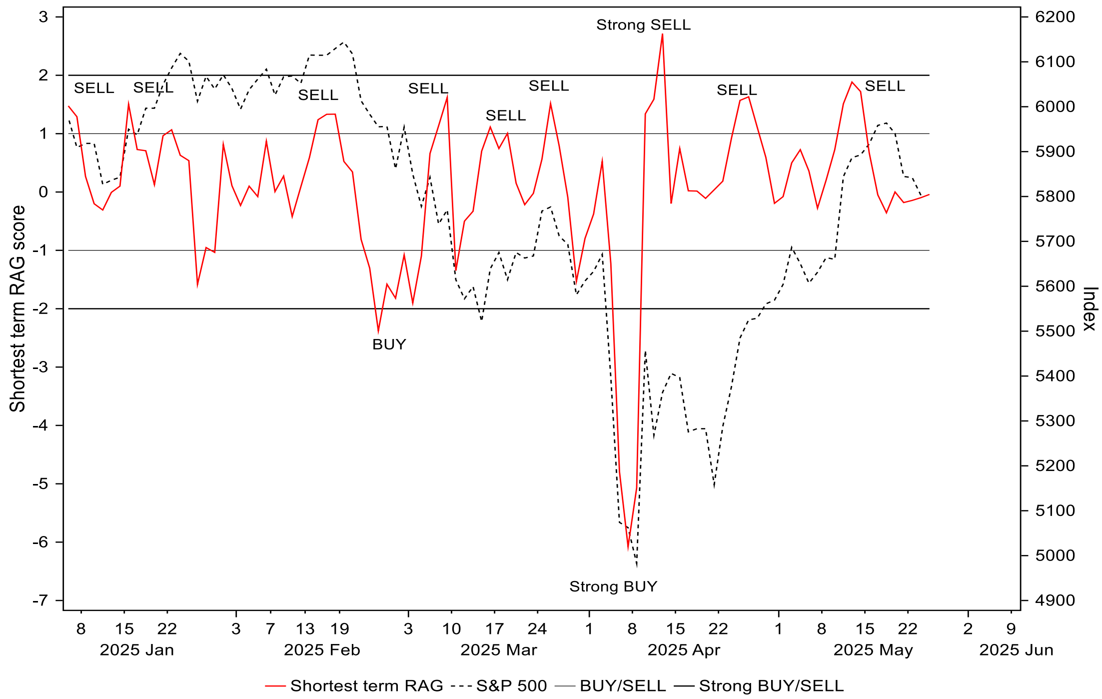


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

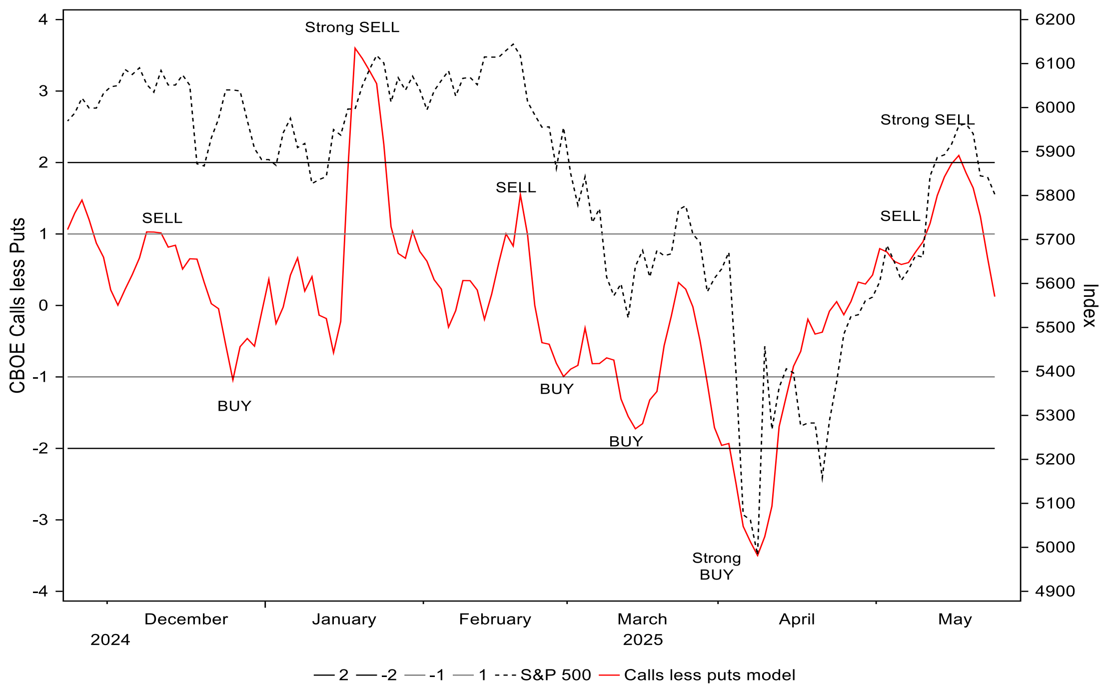
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

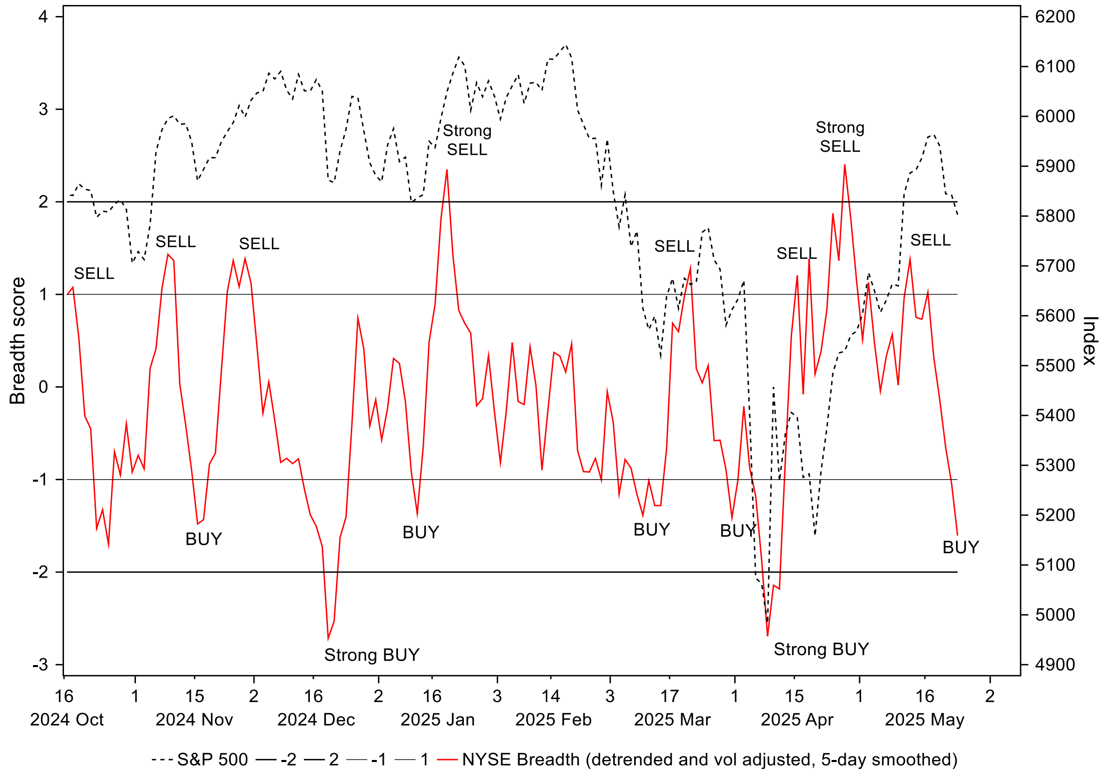


Source: Longview Economics, Macrobond

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



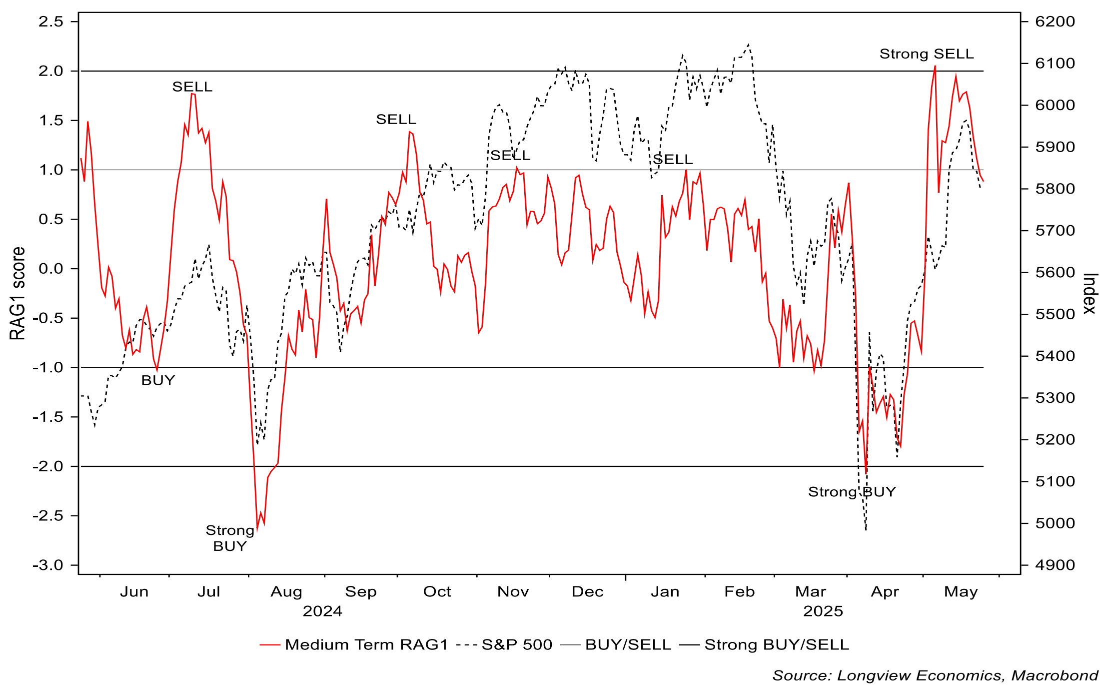
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

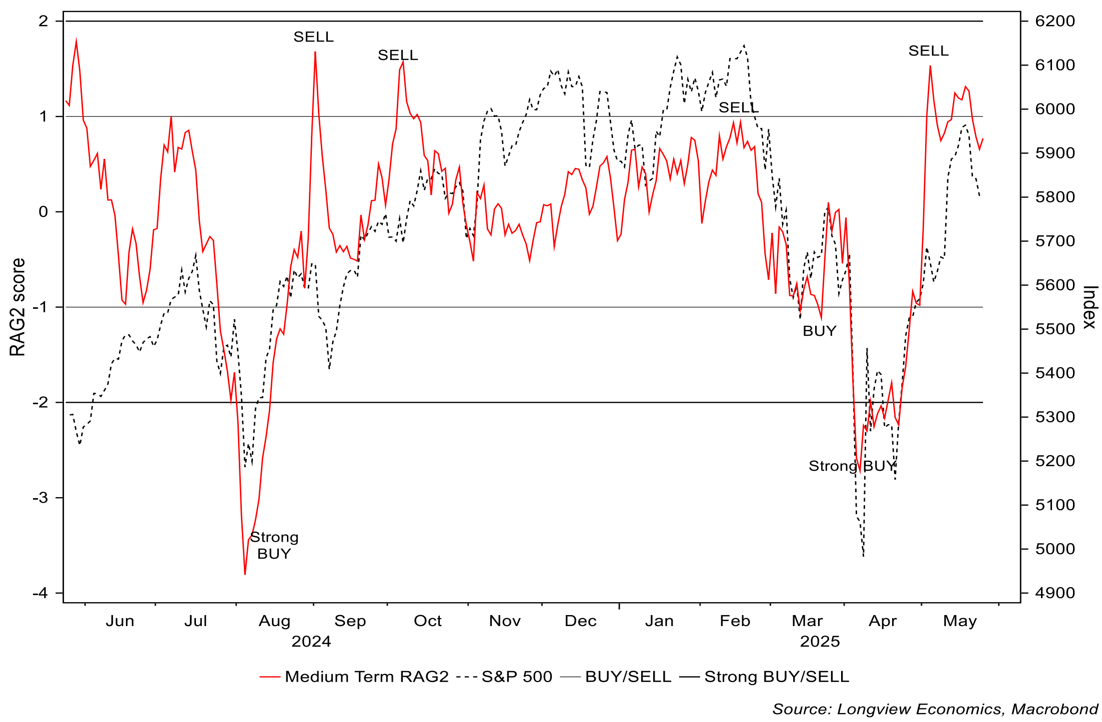
Section 3: Medium term (1 – 4 month) outlook

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



Medium term RAG1 is NEUTRAL

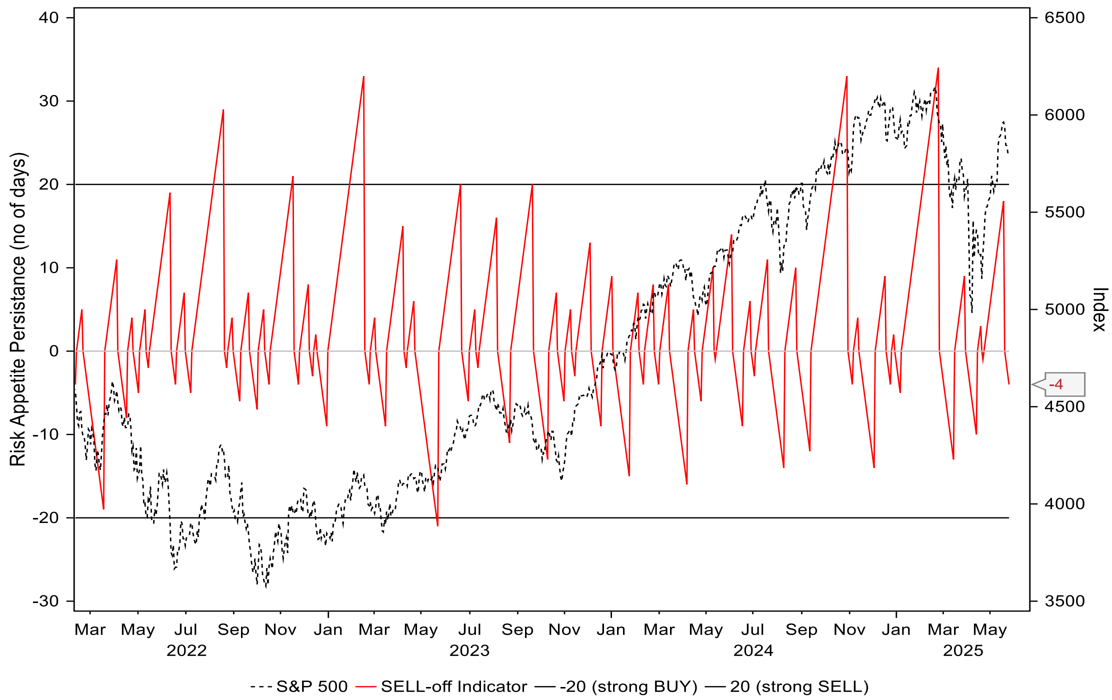
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

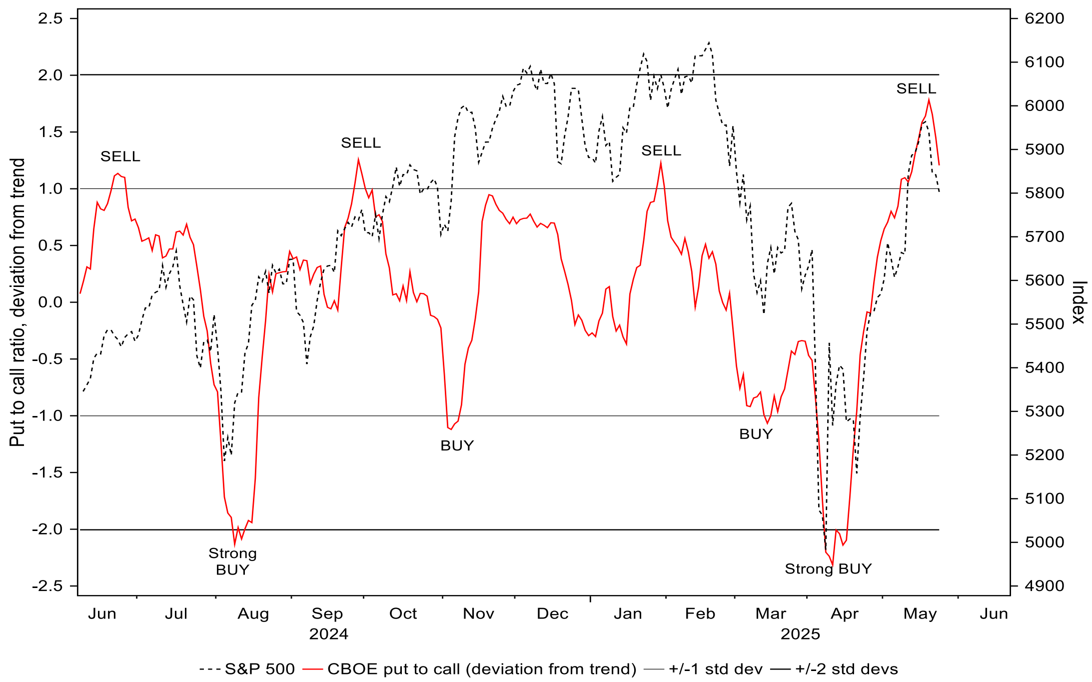
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

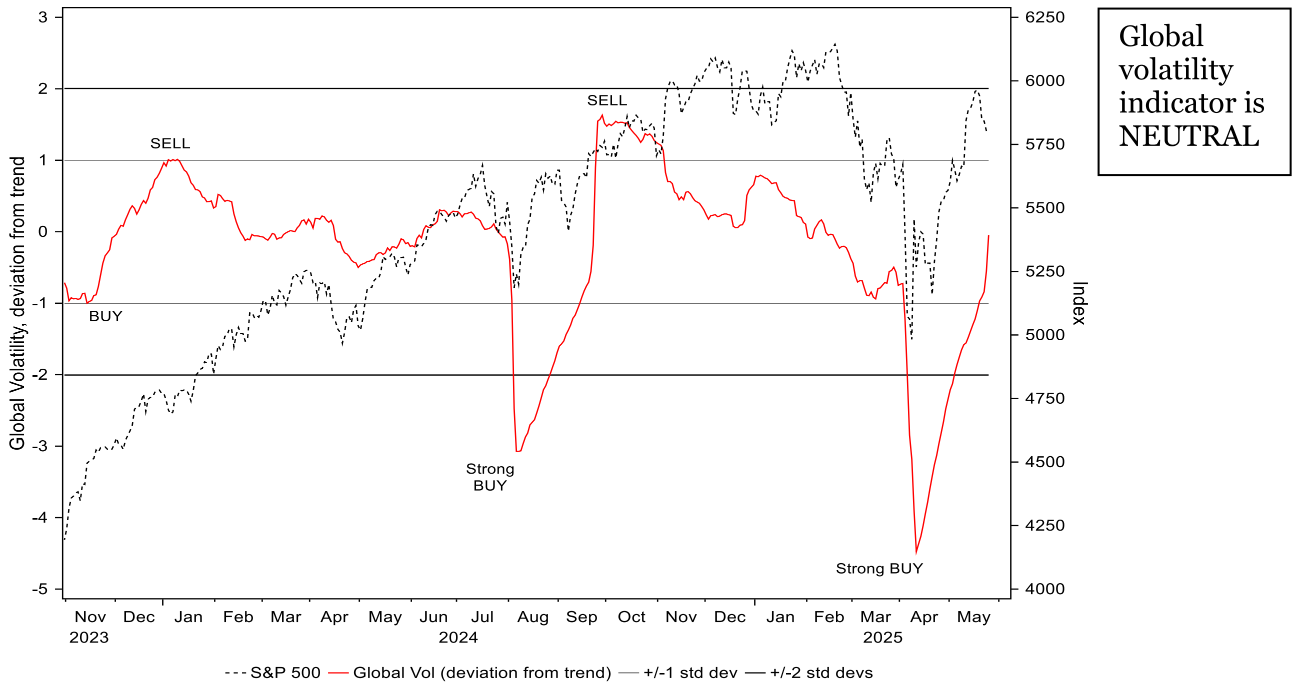


Medium term put to call model is on SELL

Source: Longview Economics, Macrobond

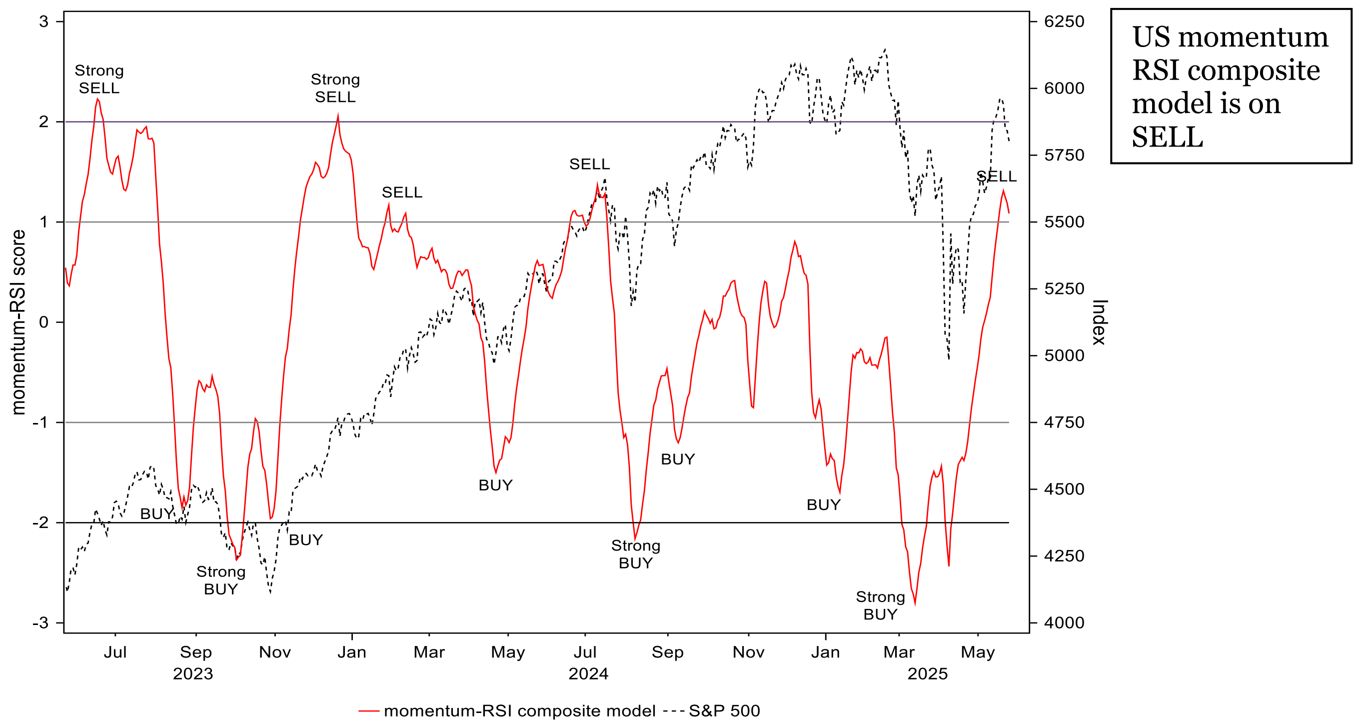
For explanations of indicators please see page 10

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



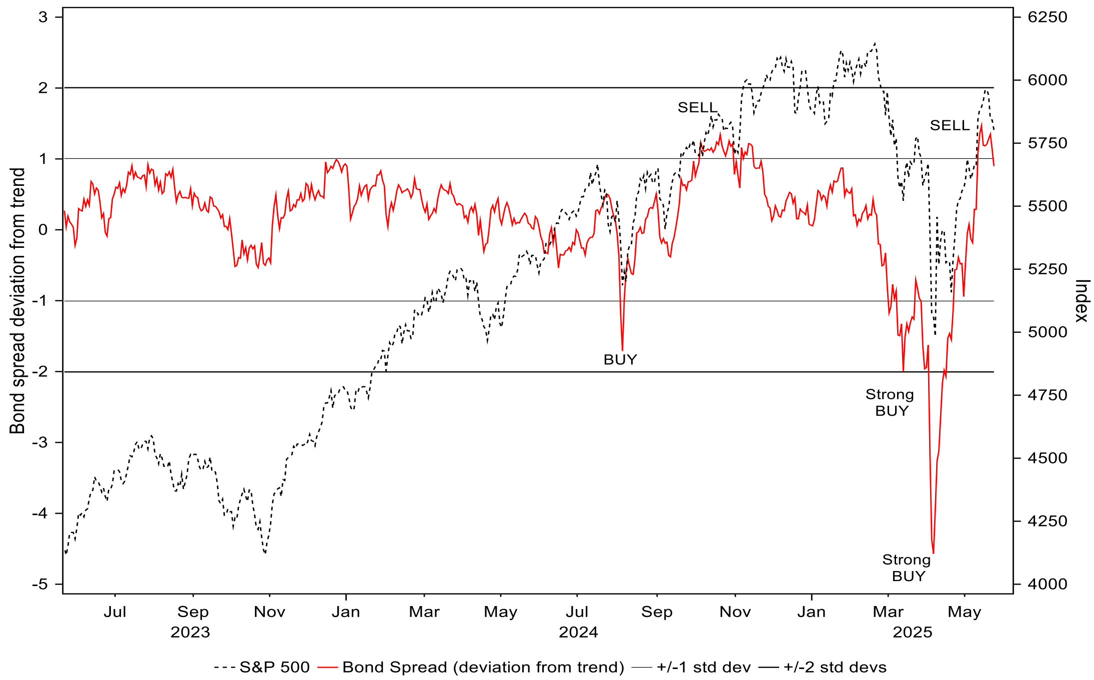
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

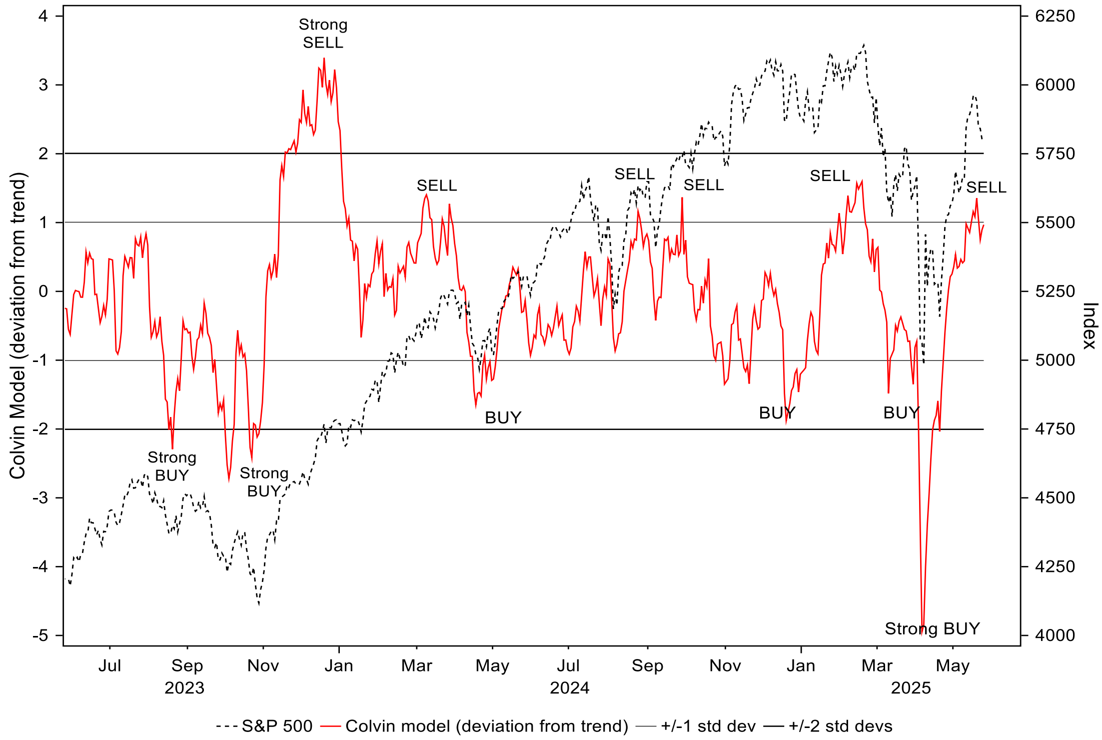
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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