LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

28th April 2025

"BUILD SHORT positions on strength"

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

- Start BUILDing SHORT positions in S&P500 June futures.
- Implement an initial ¼ SHORT at 5,600 (i.e. close to 61.8% Fibonacci level).
- Place stop loss 4% higher (i.e. 5,824/above key congestion area).

Rationale

With further gains in the S&P500 on Friday, the index edged up towards its **key congestion area**. That area is 5,570 – 5,790 and was established in mid-March through to early April (i.e. just ahead of Liberation Day – FIG 1). It represents the trading zone in the month just prior to the post tariffs' announcement SELL-off. The 50-day moving average also sits in the middle of it (at 5,687 –> using June S&P500 futures), whilst the 200-day moving average is a further ~200 points higher. Key Fibonacci levels are also sitting at/in that congestion area. For the S&P500, the 61.8% Fibonacci retracement level is 5,603 (on June futures), while the 76.4% retracement level is at 5,786.0. As such, the S&P500 is starting to reach various key resistance levels. The technical set-up for the NDX100 is similar (FIG 1a). The range of those congestion areas, though, is obviously wide (as much as 220 points in the S&P500, i.e. 3.8%).

Short term models are also now starting to generate SELL signals (FIGs 2 – 2j). Risk appetite models, for example, are back on SELL (reiterating SELL signals from mid-April). That's a sign that the market has become 'greedy' in recent trading sessions (i.e. on a short term 1 – 2 week timeframe). Consistent with that, a significant portion of the downside put protection has been removed from trading portfolios. That's evident from the underlying 1-day CBOE put to call ratio which is now at its SELL threshold (as such, the 3 day smoothed model is likely to follow in the next 1 – 2 trading sessions – FIG 2b). Similarly, the R2K put to call ratio has also moved swiftly and is back on SELL (FIG 2c); while the NDX100 (which tends to be slower moving/more medium term for timing) remains closer to BUY. Finally, from a technical perspective, the index is overbought in the short term (e.g. see our technical scoring system as well as our SPX overextended indicator – FIGs 2d & 2e); while momentum in both US sectors and single stocks is also overbought (FIGs 2g & 2h).

Across the board, therefore, there's **growing evidence that this market is due a setback** (i.e. on a 1 – 2 weeks timeframe): i) Models are increasingly on SELL; & ii) the S&P500 (and other indices) are close to key resistance areas. Added to which, the newsflow has been more positive in the past 1 – 2 weeks with an easing of some of the harsher tariffs, and a 90 day pause on reciprocals, as well as Trump denying he was intending to fire Powell and some softening of the US's stance towards China. US earnings reports have also significantly surprised to the upside. As such, whilst newsflow could continue to improve, there's now plenty of 'good news' in the price and therefore, given the sell message from the models, a growing risk of a reversal of the recent rally.

As such we **recommend starting to BUILD SHORT positions (again) on strength**. We also recommend using the breadth of that wide trading range to build that position.

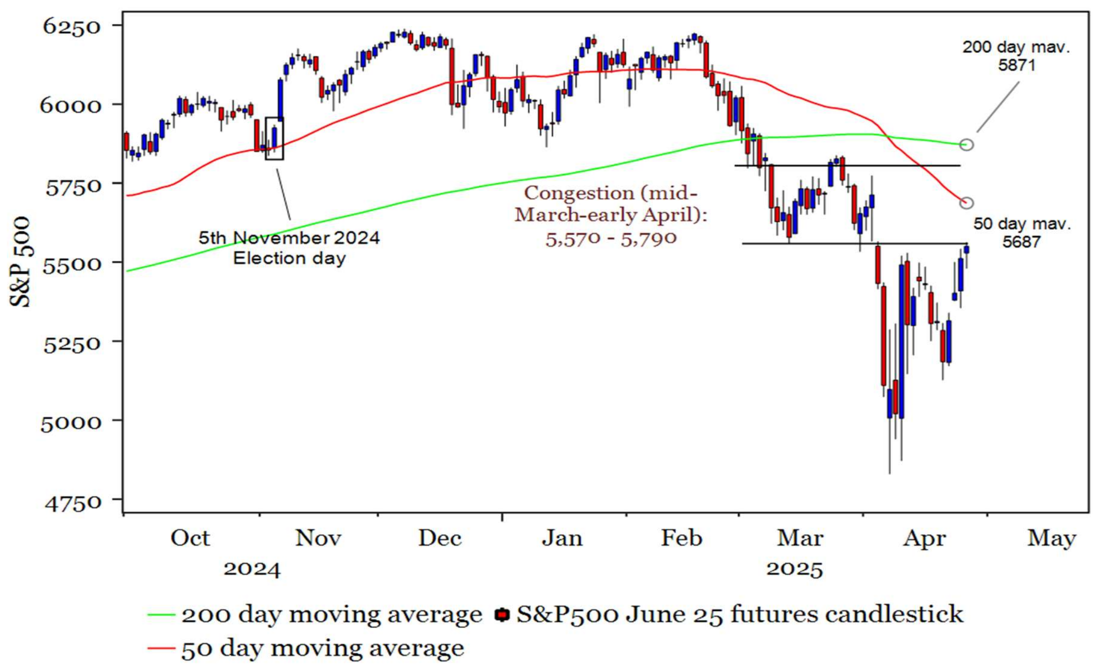
Risks, as always, remain multiple. One key risk is that markets have moved back into a persistent 'risk on' phase, that all the bad news is now behind us (and priced in), and therefore that this equity market is emerging from its SELL-off phase into a renewed uptrend. In that environment, our short-term models are often early (given the rush to reinstate LONG/OW equity positions post pullbacks). On this occasion though, we think that's unlikely. A retest remains a distinct possibility. The macro backdrop remains uncertain and troubling; the Fed/Powell is being cautious and, as such, further volatility is likely. That is, it's not clear to us that the market has yet fully settled on the macro-outlook/environment. As such, we view the risk reward of moving SHORT as attractive (at this juncture) – and expect the signals to have a valid short-term message.

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

Kind regards,

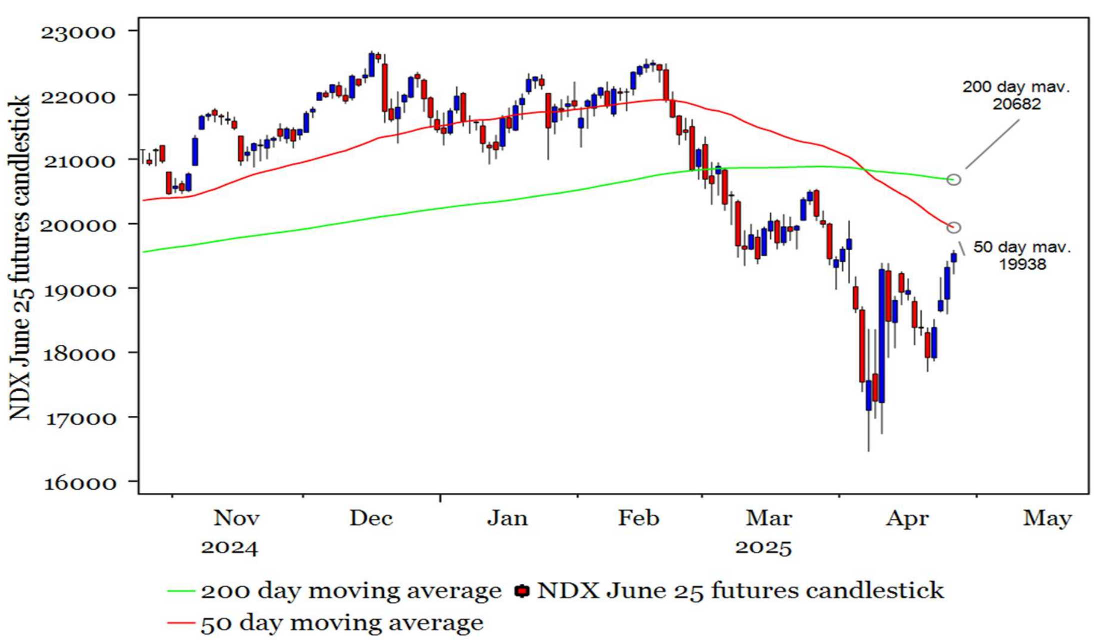
The team @ Longview Economics

FIG 1: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

FIG 1a: NDX100 June 25 futures candlestick shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

Risk appetite is back at high levels – market participants have become 'greedy' on a short term (1 – 2 week) time perspective…(models are back on SELL)…

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

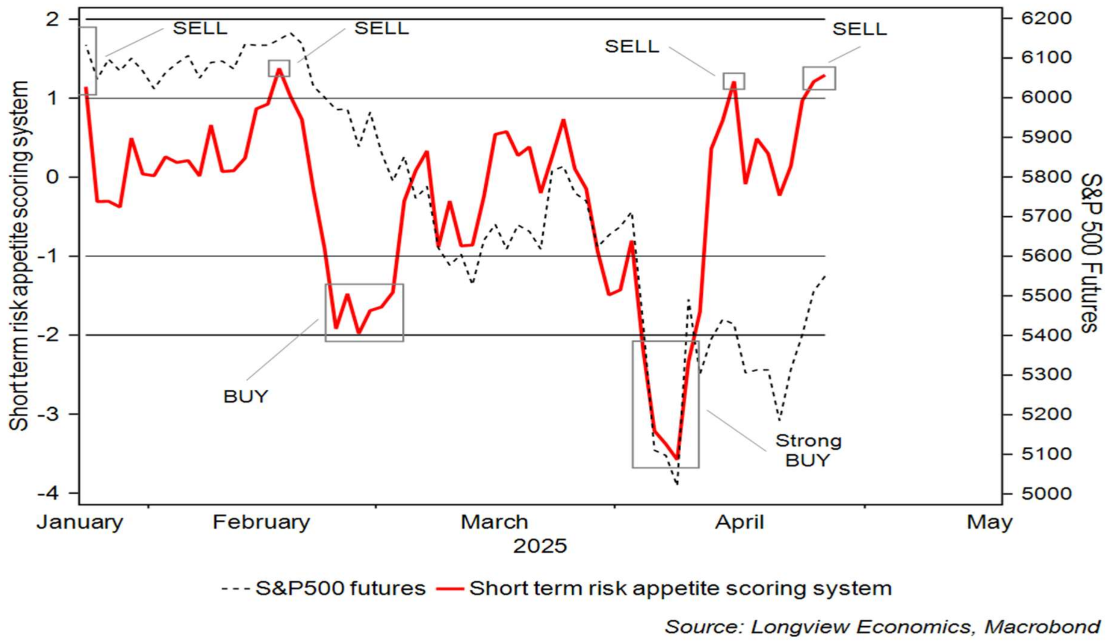
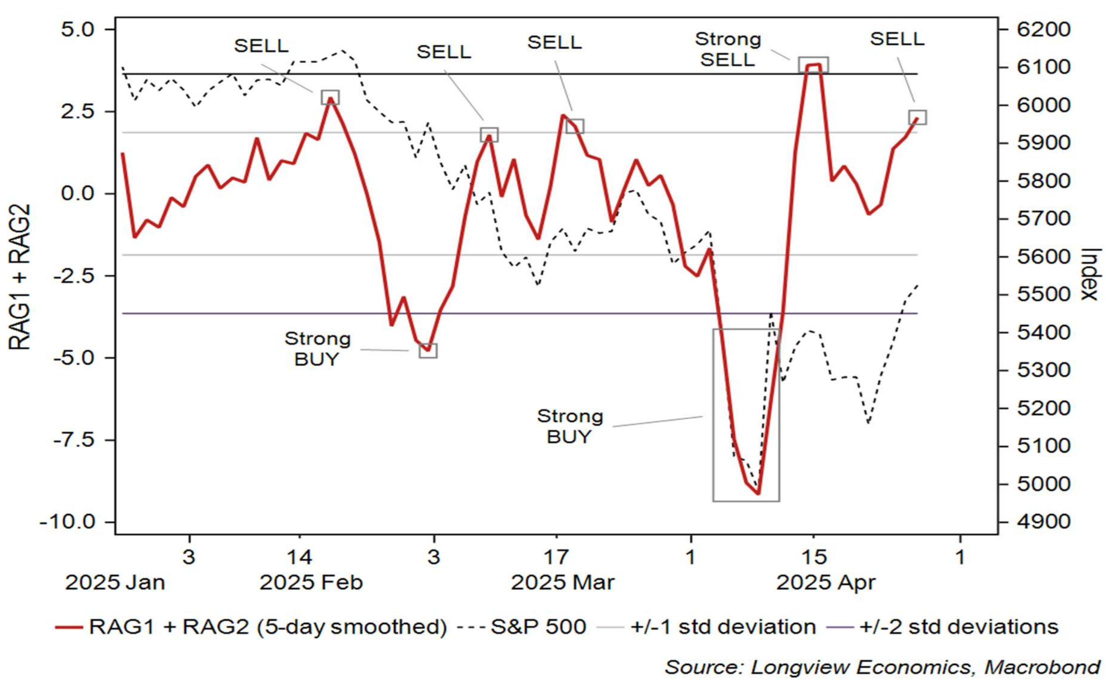


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Downside put protection has been removed (sold) from portfolios, such that these models are on, or moving onto, SELL….The underlying 1-day CBOE put to call ratio is at its SELL threshold (the 3 day is likely to follow in the next 1 - 2 trading sessions)…

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

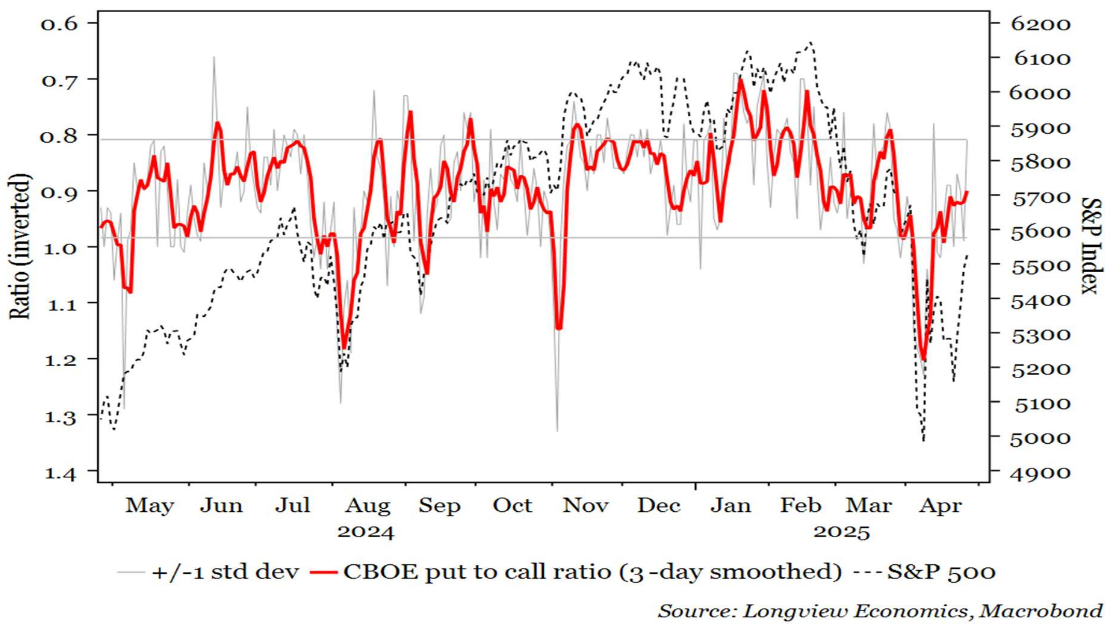
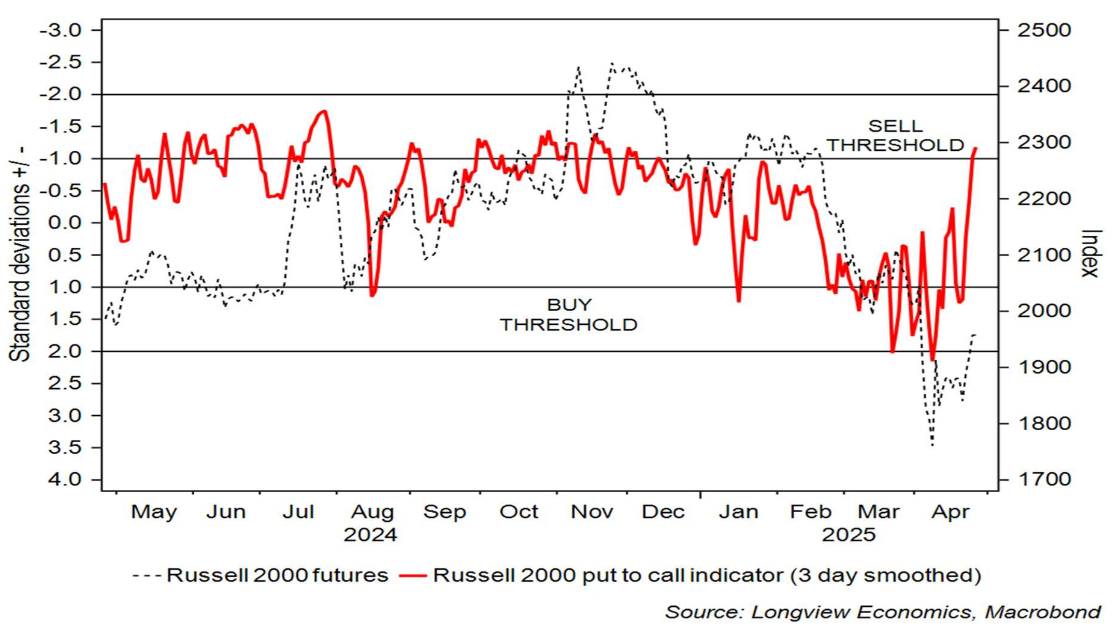
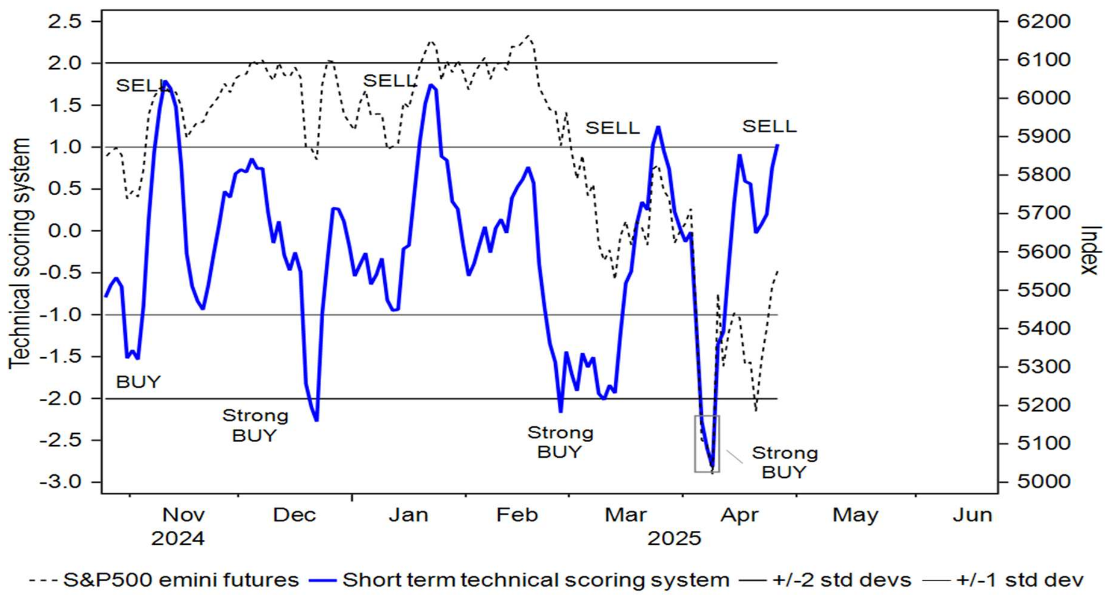


FIG 2c: Russell 2000 put to call indicator (1 & 3 day smoothed) vs. Russell 2000 futures



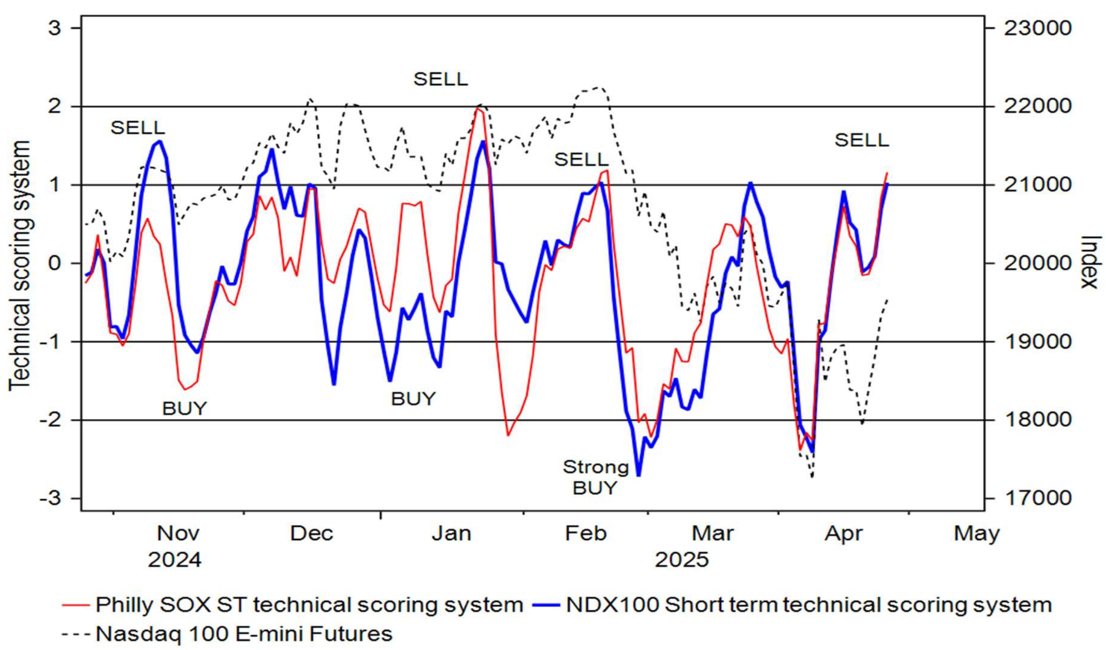
Technical & price-based (index) models are mostly now on SELL…

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



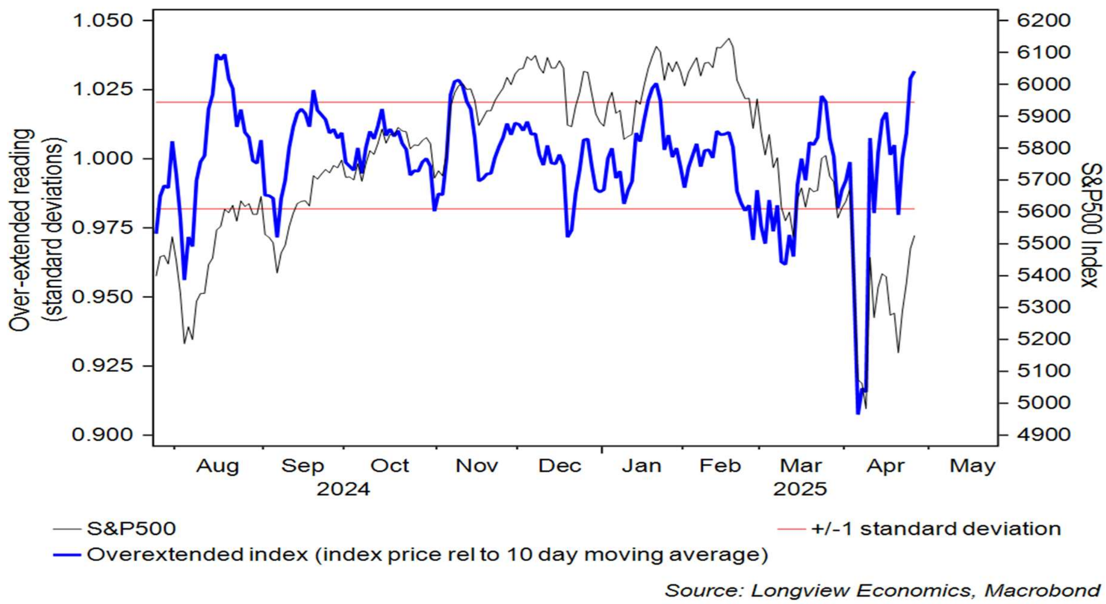
Source: Longview Economics, Macrobond

FIG 2e: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures



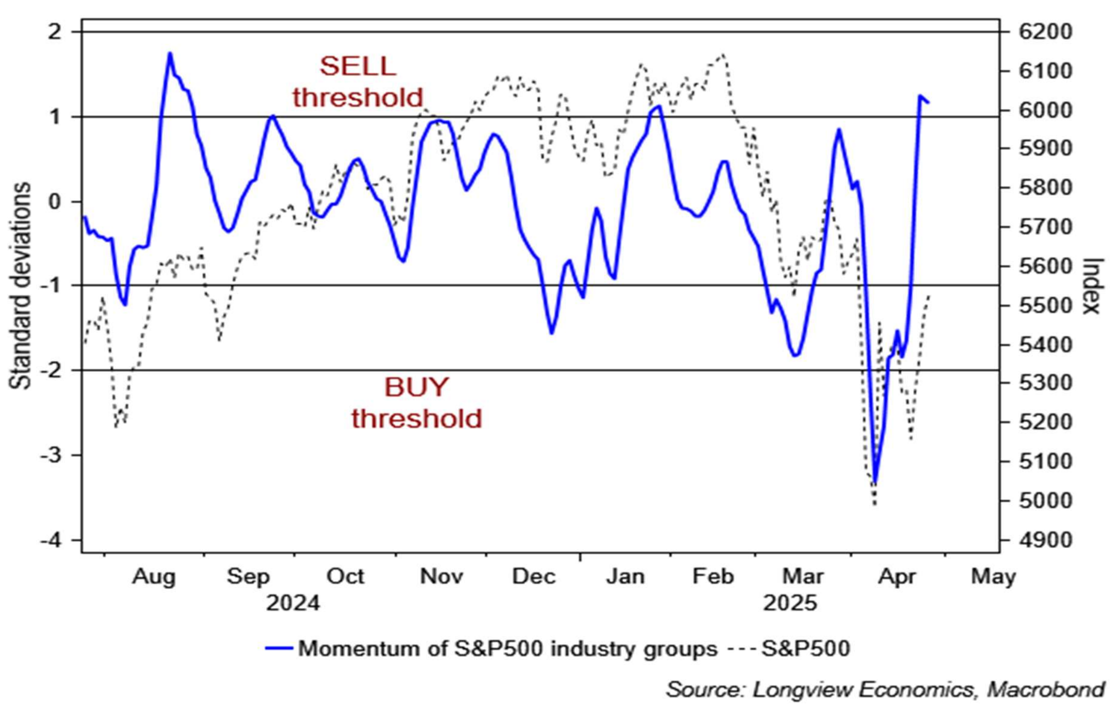
Source: Longview Economics, Macrobond

FIG 2f: S&P500 overextended index (index price relative to its 10 day moving average) vs. S&P500



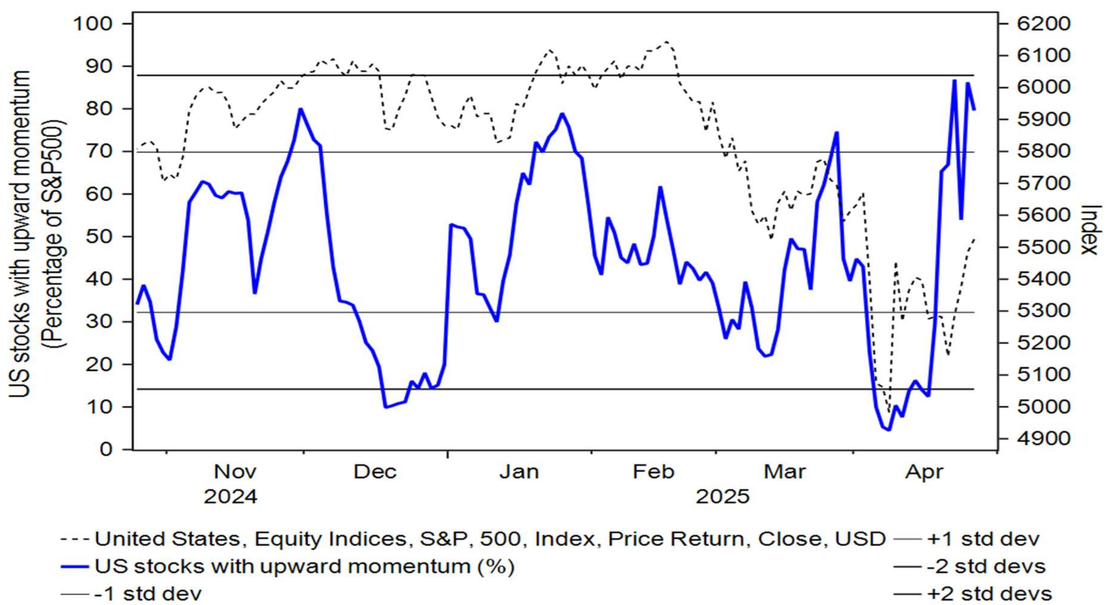
US sector momentum is also overbought (to the upside) – with the model now on SELL…

FIG 2g: Momentum of S&P500 industry groups vs. S&P500 cash index



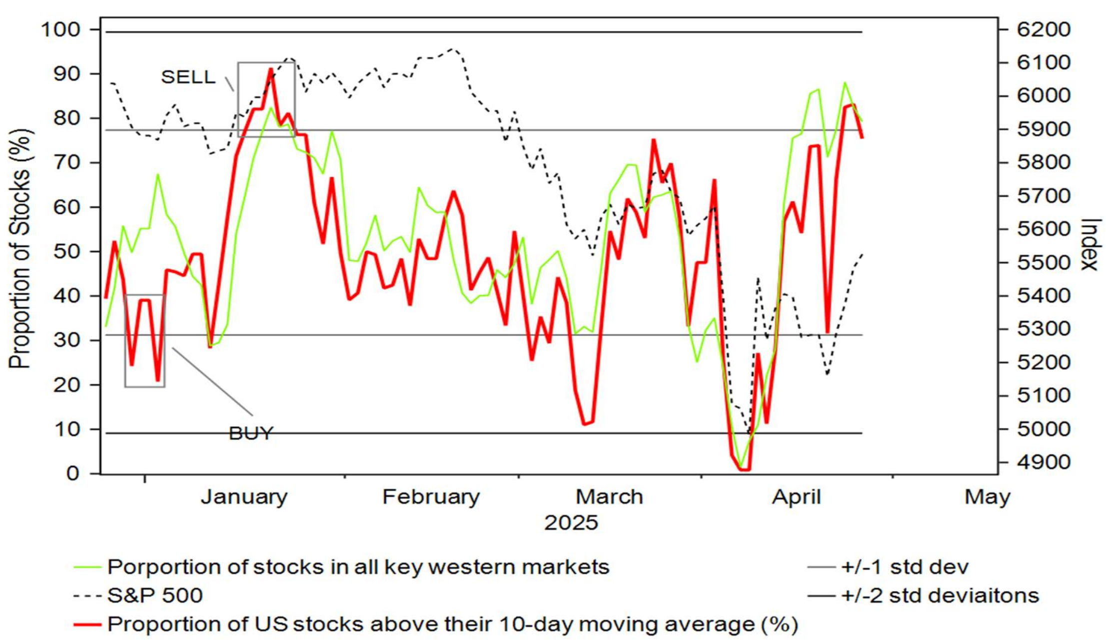
Single stocks in both the S&P500 and NDX100 indices are overbought/models are on SELL….

FIG 2h: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



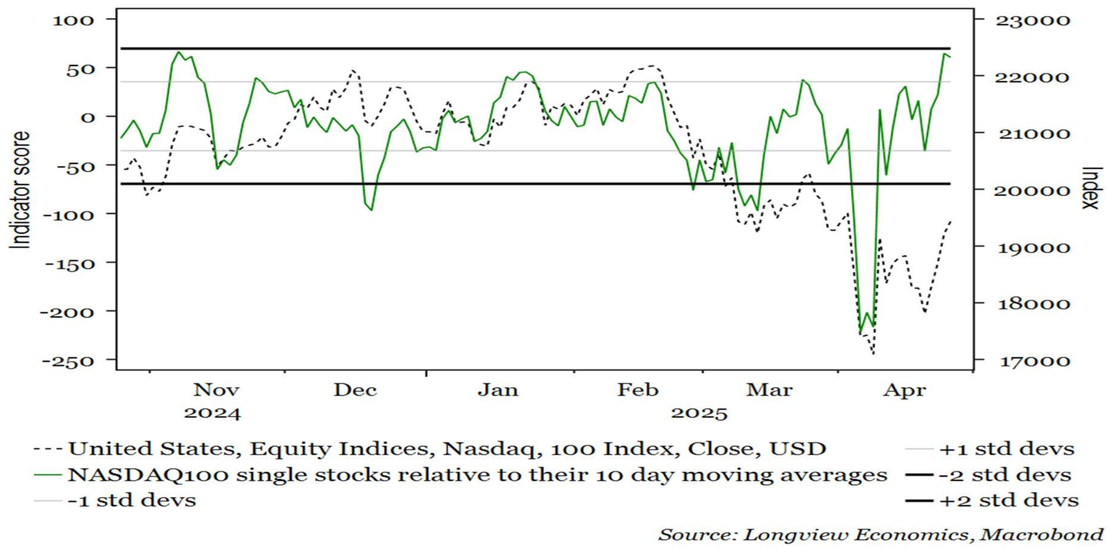
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

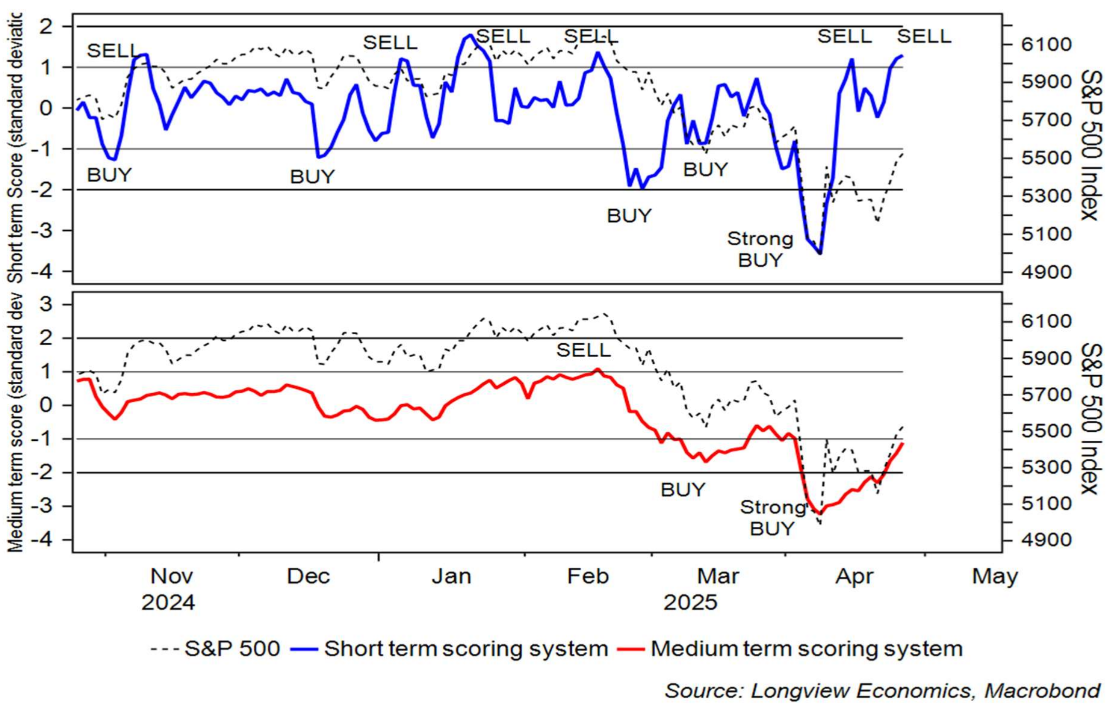
FIG 2j: NASDAQ100 single stocks relative to their 10 day moving averages vs. NASDAQ100 index



Key Longview Scoring Systems (chart below):

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

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



Key macro data/events

Key data today include: Spanish retail sales (Mar, 8am); Spanish unemployment rate (Q1, 8am); French total jobseekers (Q1, 11am); UK CBI distributive trade survey (Apr, 11am); US Dallas Fed manufacturing sector activity (Apr, 3:30m).

Key events today include: Fed's blackout period begins; speeches by the ECB's Rehn in an online event (2pm) & Guindos in the EU Parliament (2pm).

Key earnings today include: Welltower, Waste Management, Cadence Design, Roper Technologies, Schneider Electric, **Hitachi**, Mitsubishi Electric, Oriental Land Co Ltd.

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 on 8th April 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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Daily Risk Appetite Gauge

1 – 2 Week View on Risk

28th April 2025

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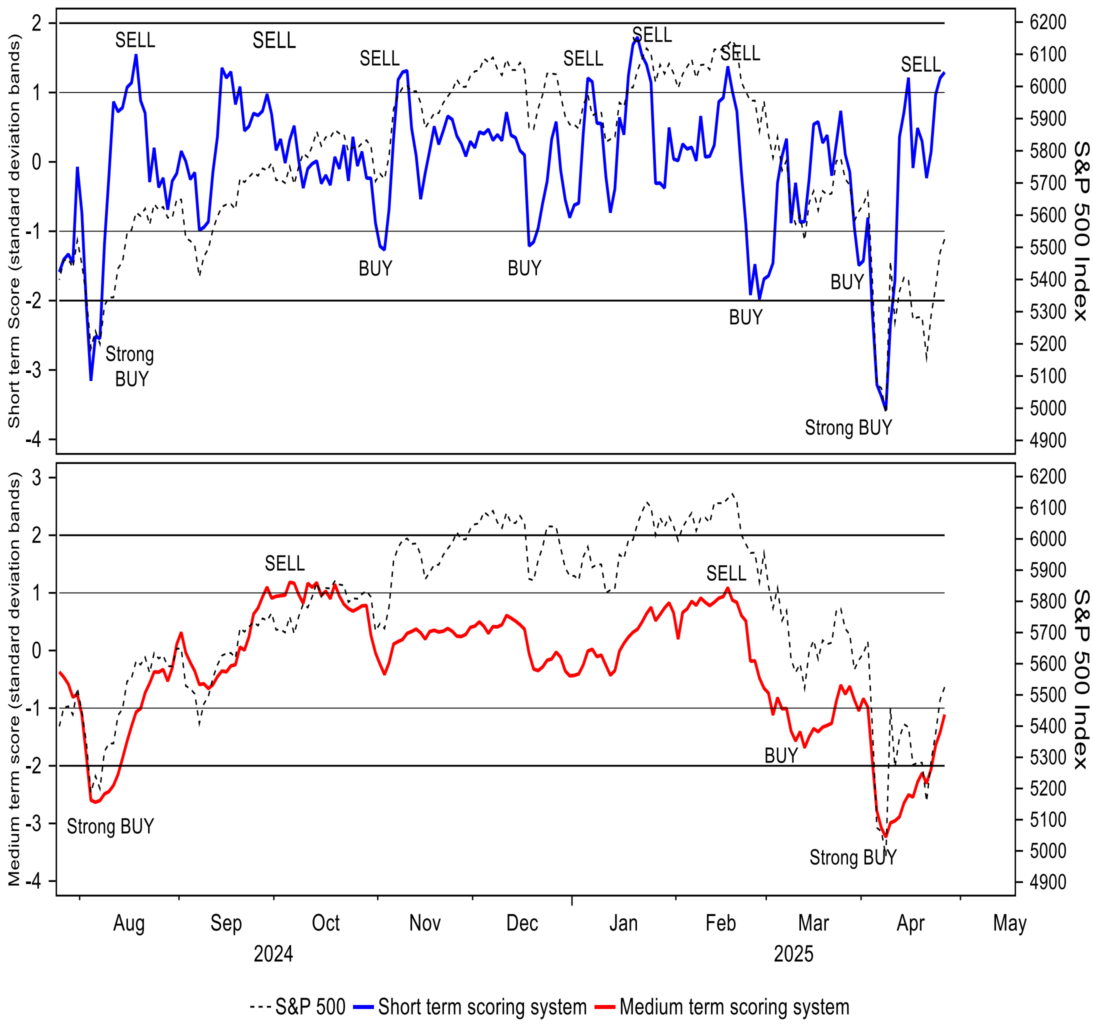
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is on SELL

Medium term scoring system is on BUY

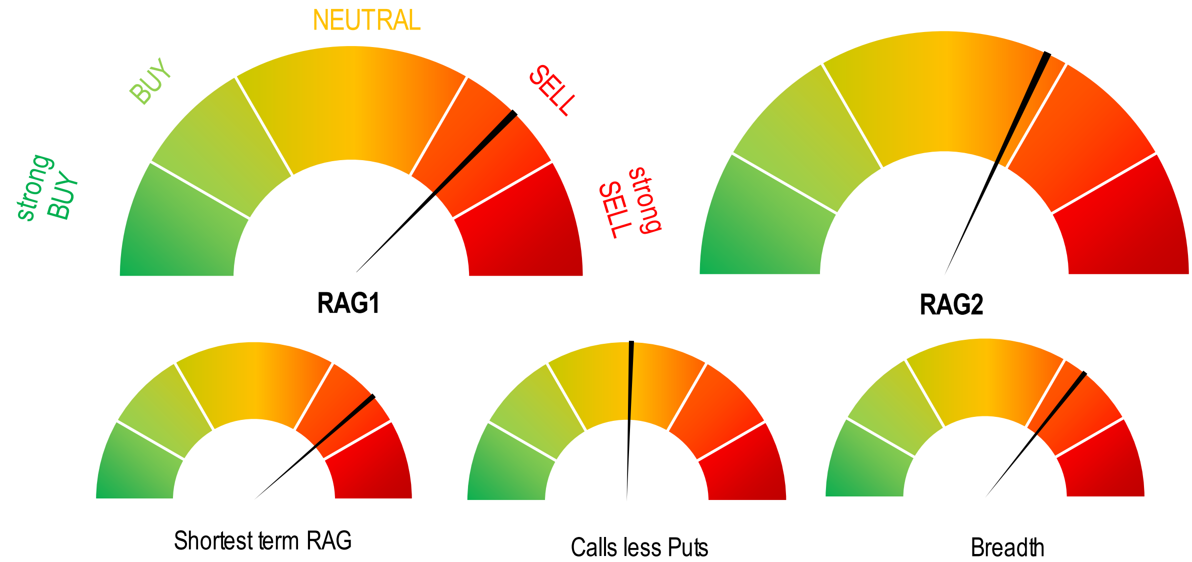
Source: Longview Economics, Macrobond

*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

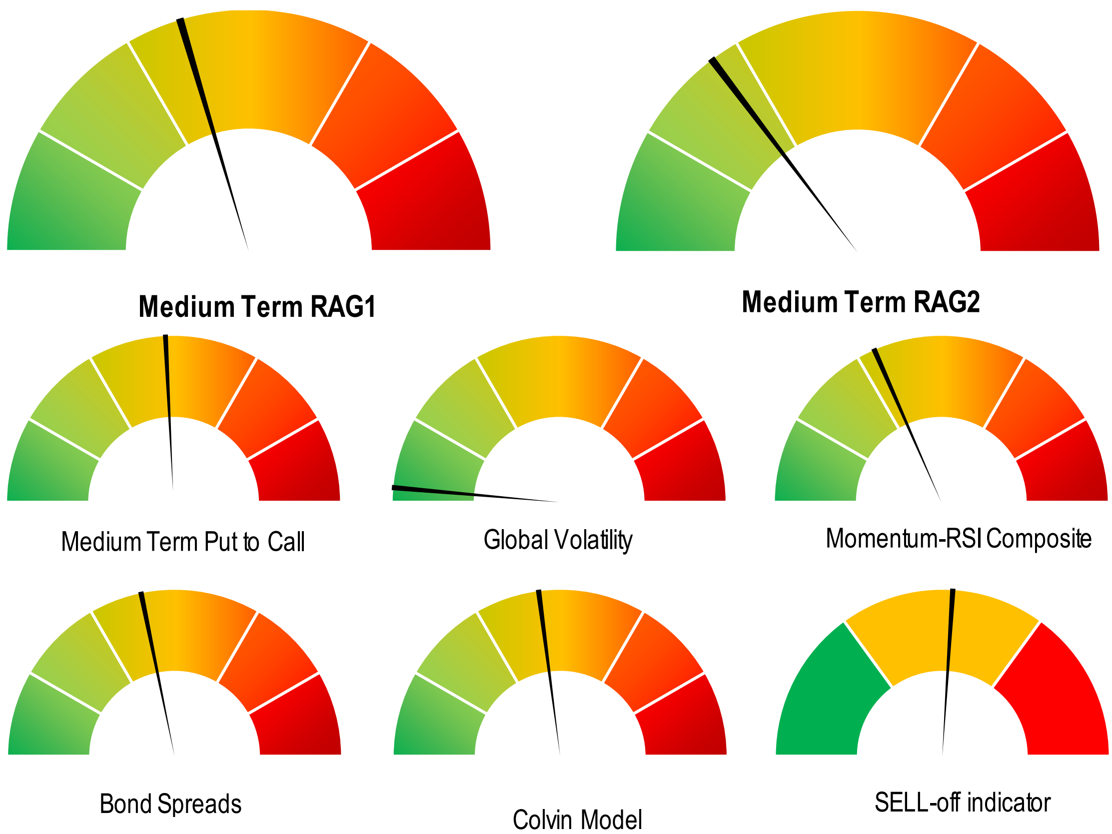
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

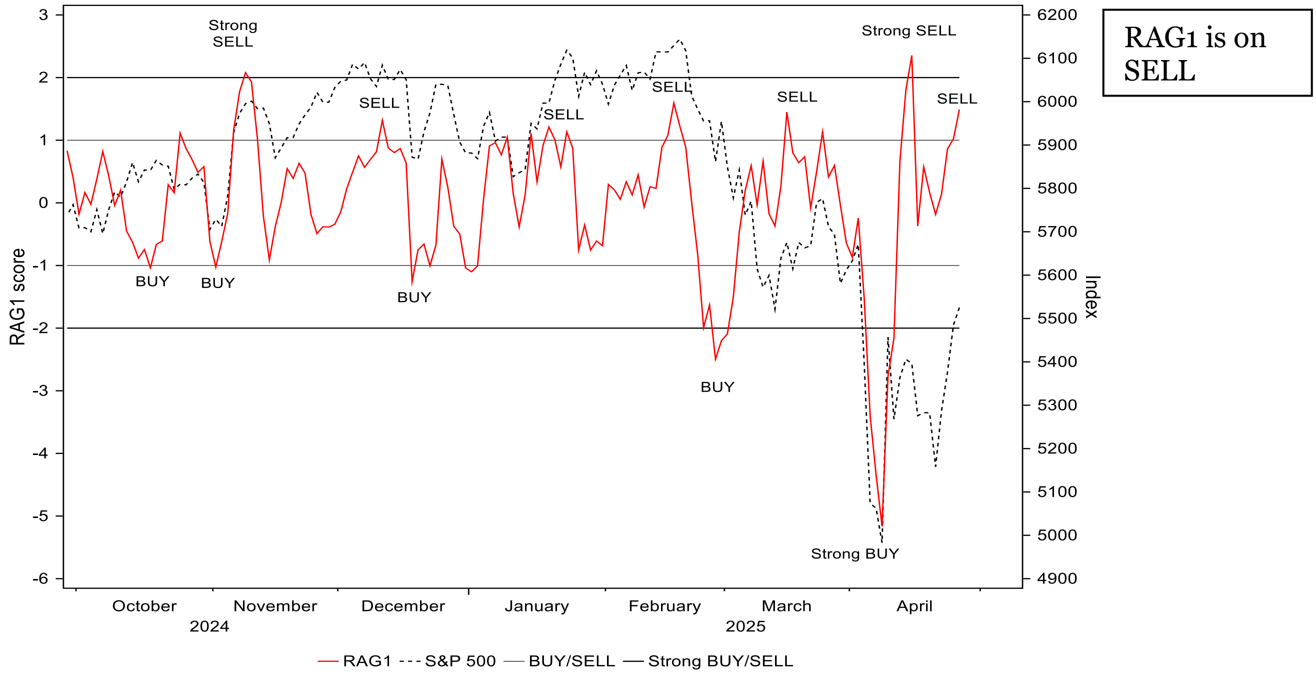
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

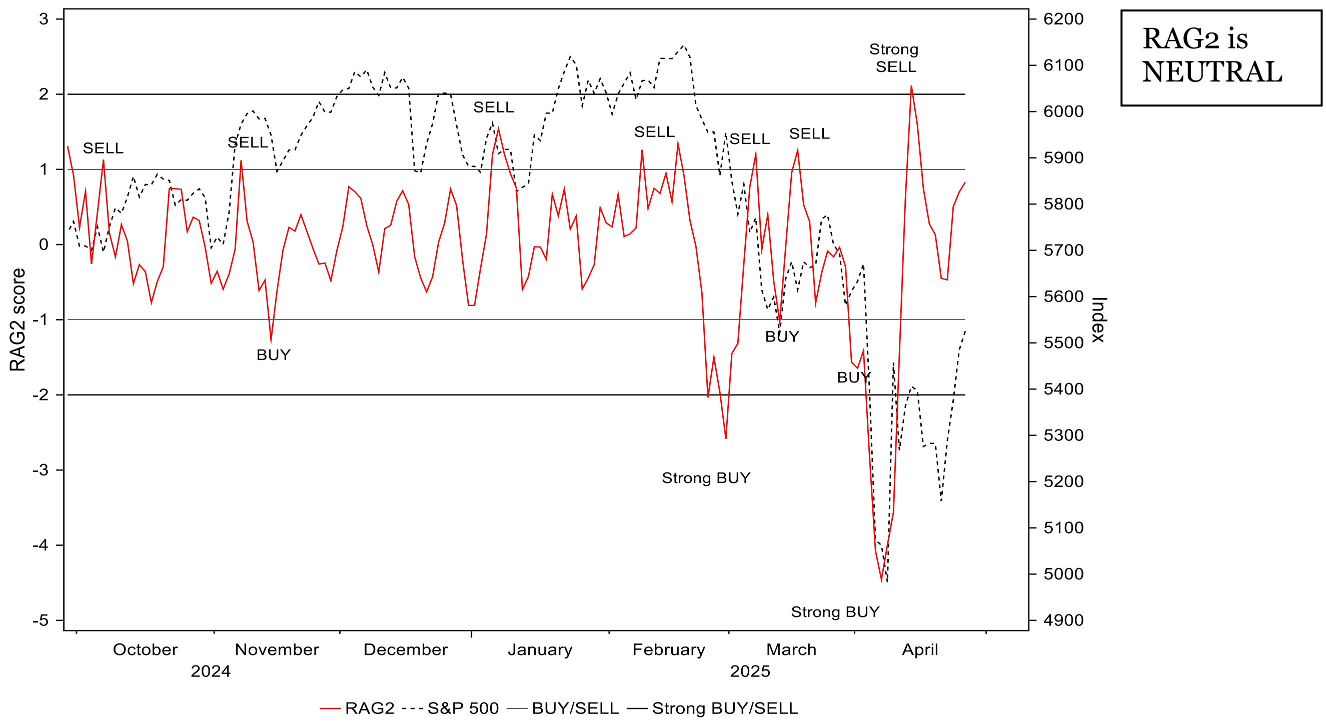
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

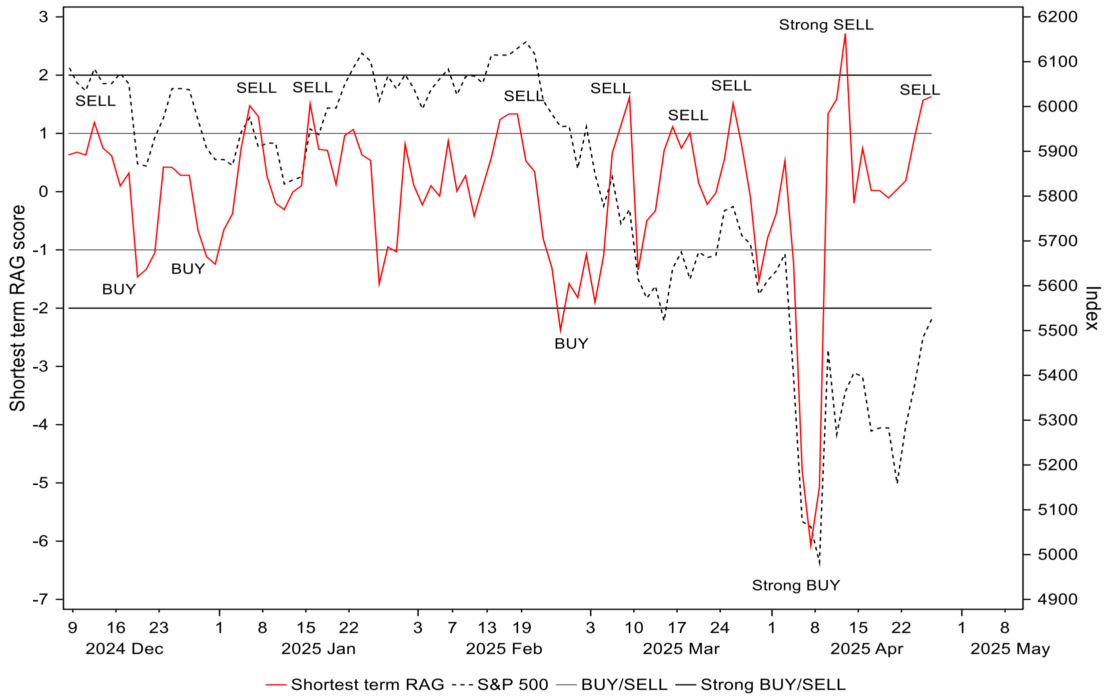
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

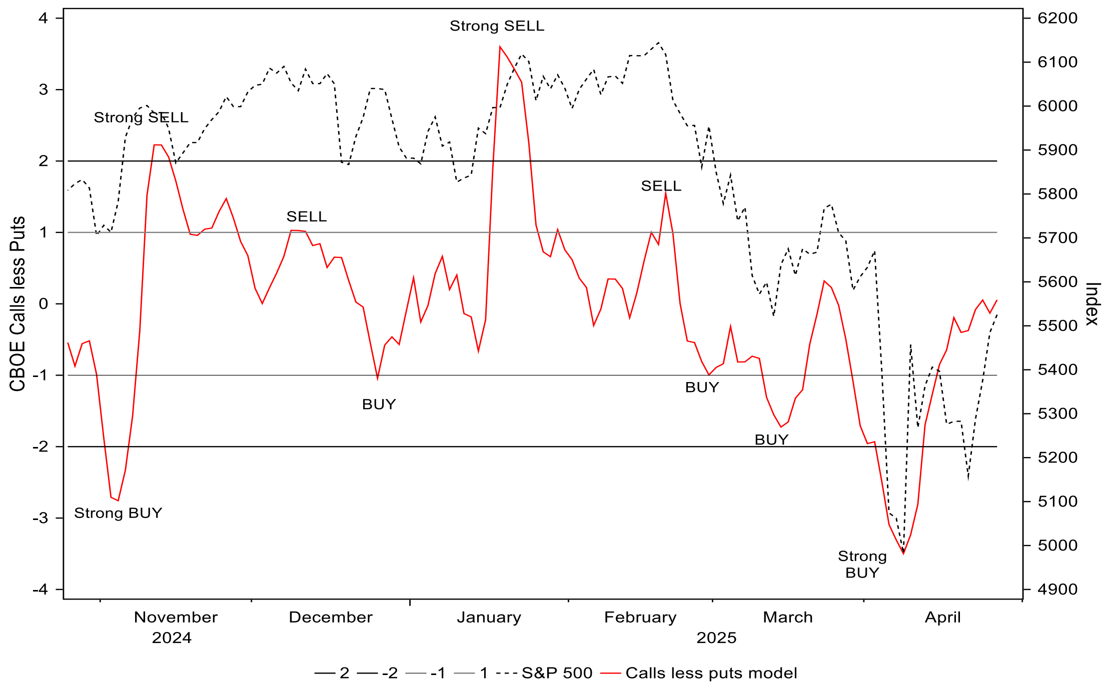
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is on SELL

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

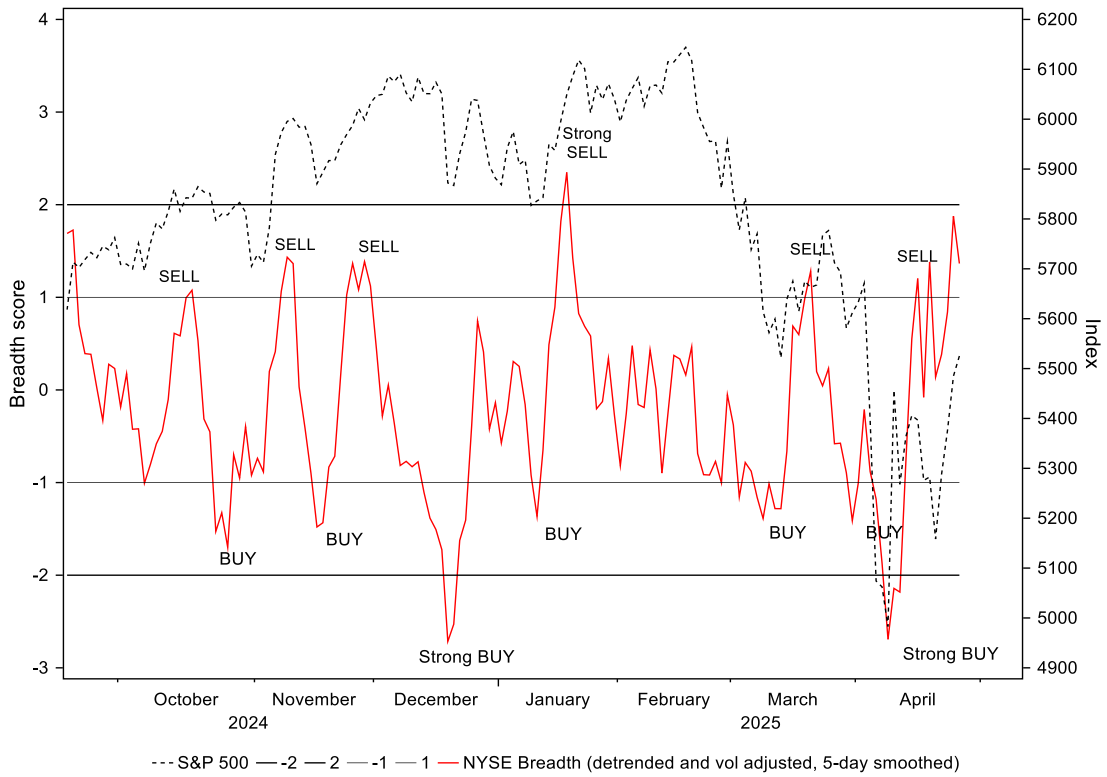


Source: Longview Economics, Macrobond

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



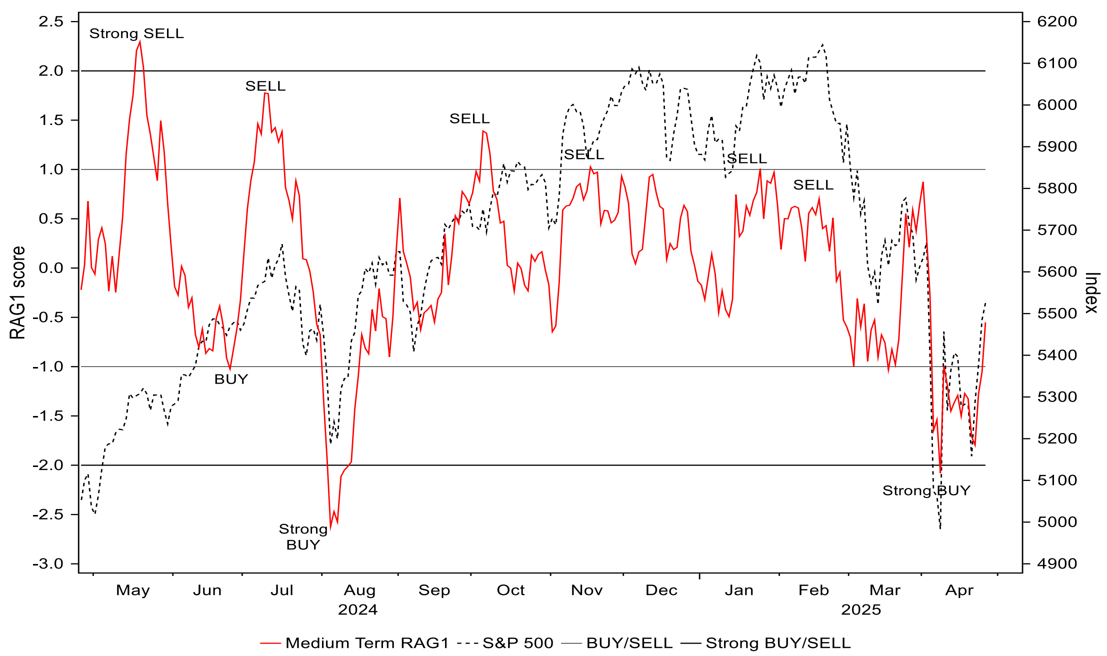
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

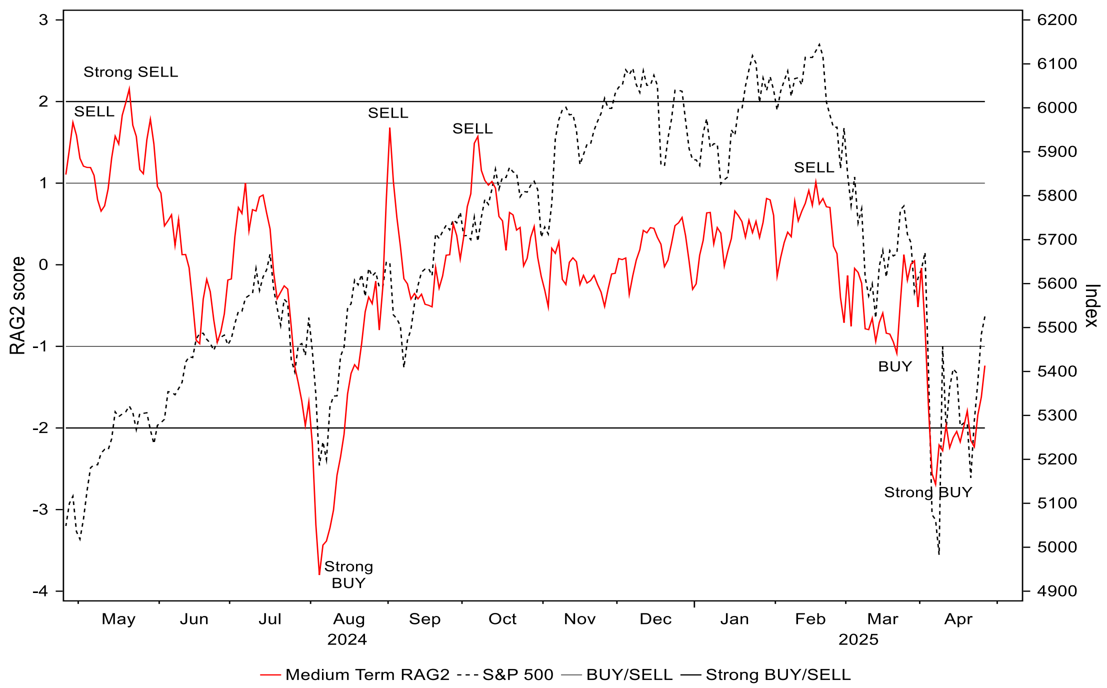
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

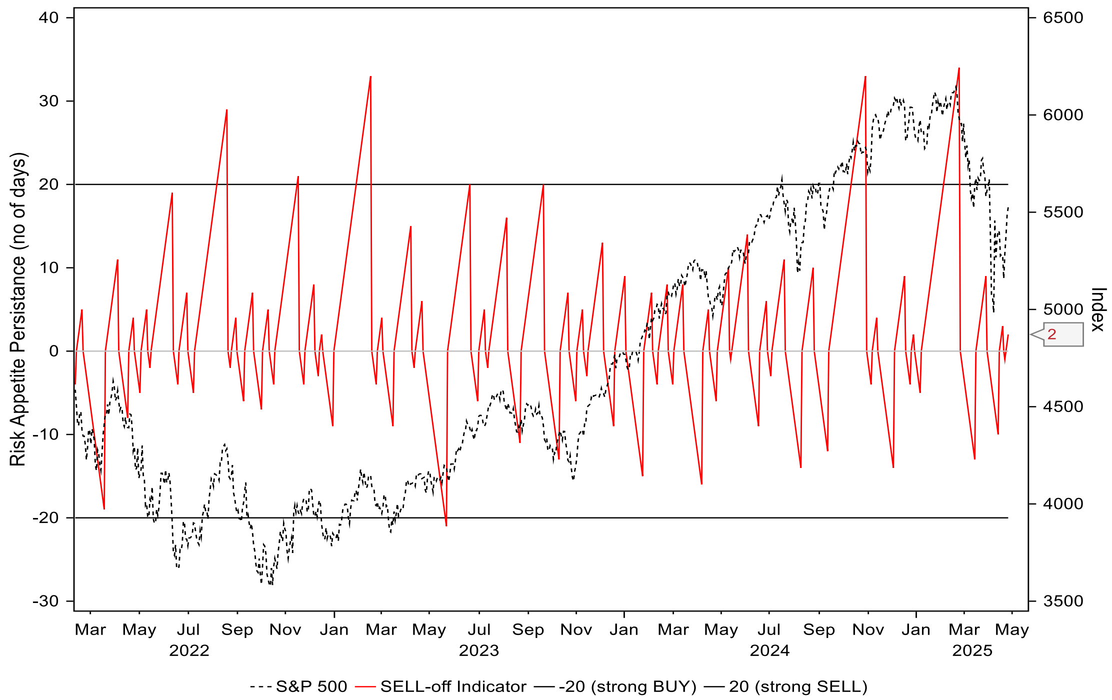


Medium term RAG2 is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

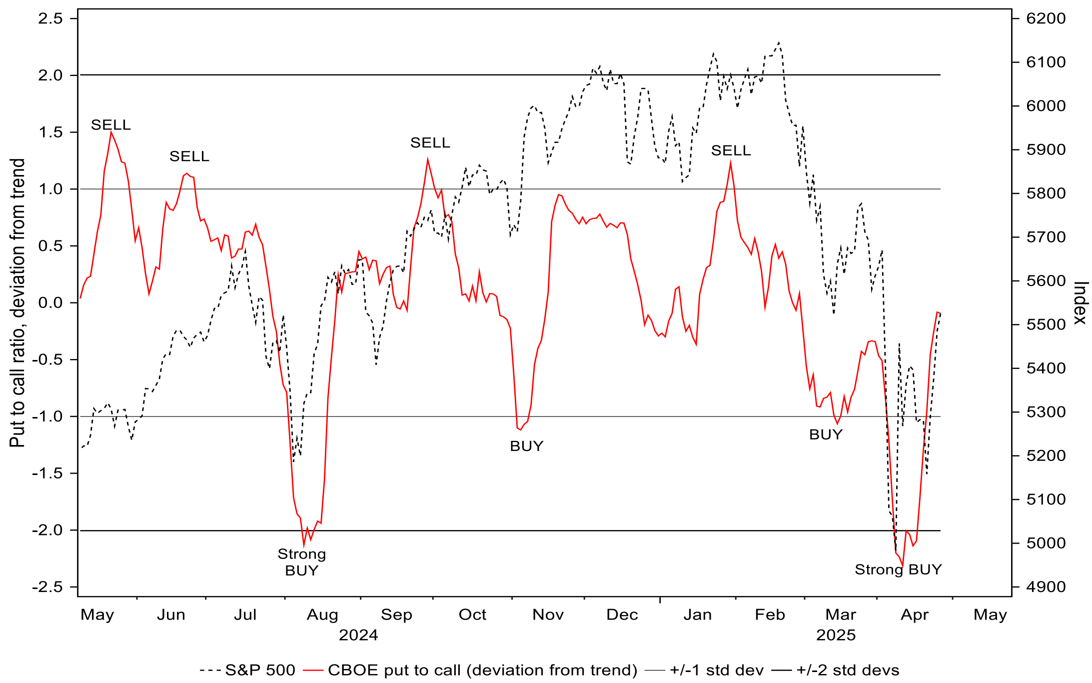
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

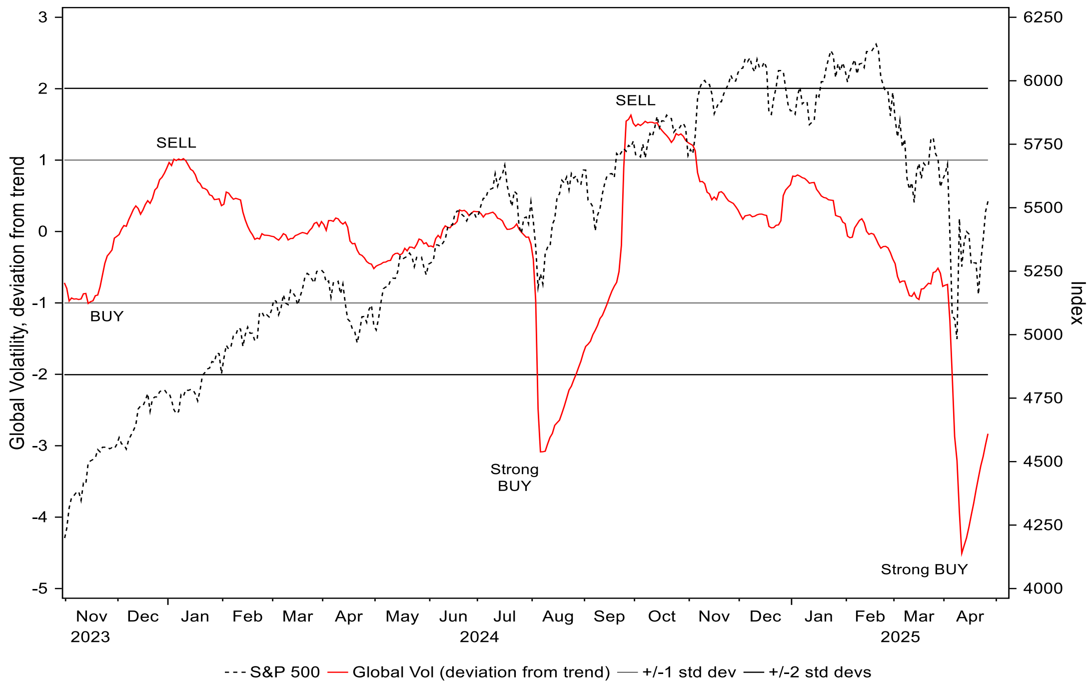


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

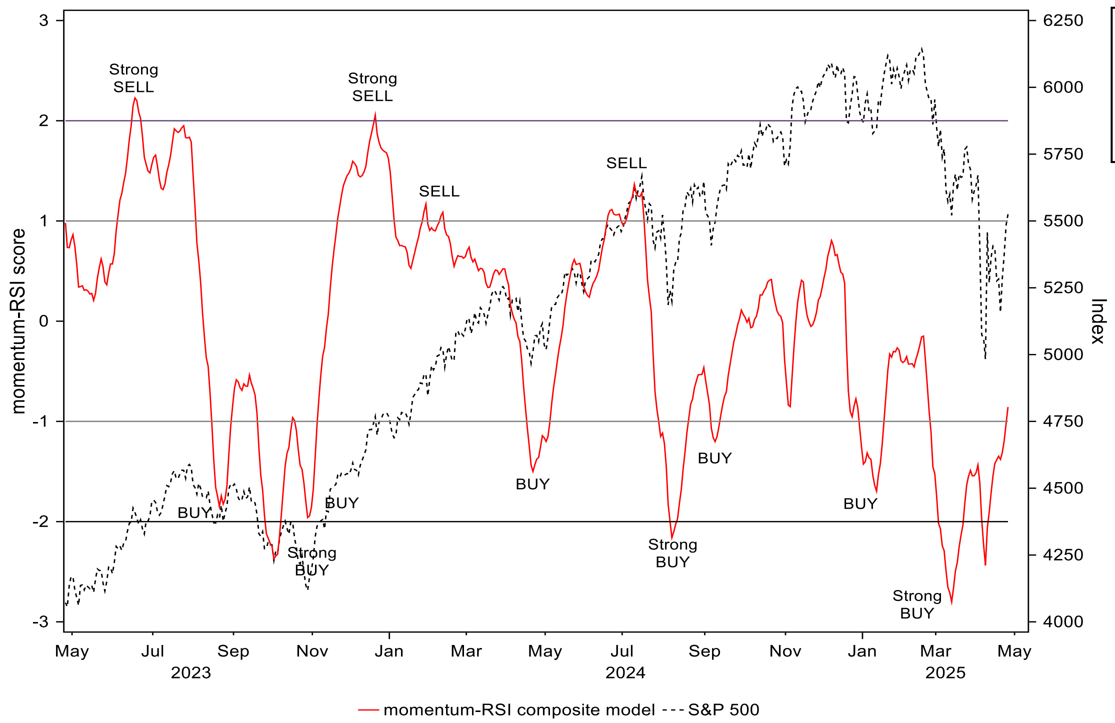
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on Strong BUY

Source: Longview Economics, Macrobond

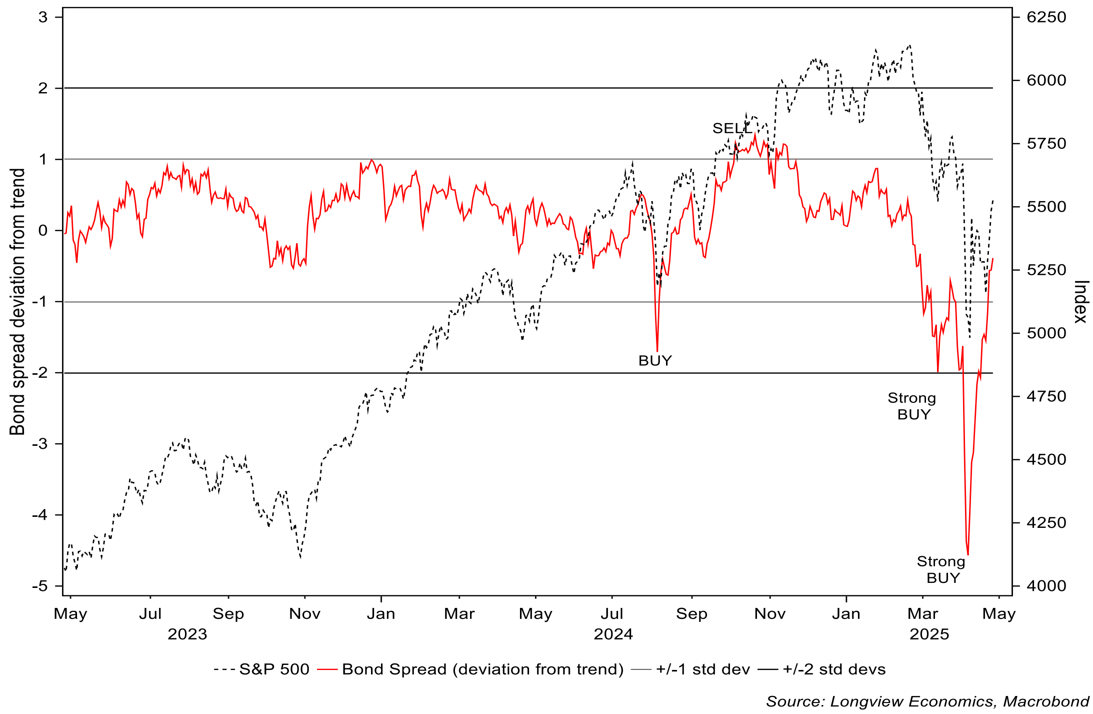
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

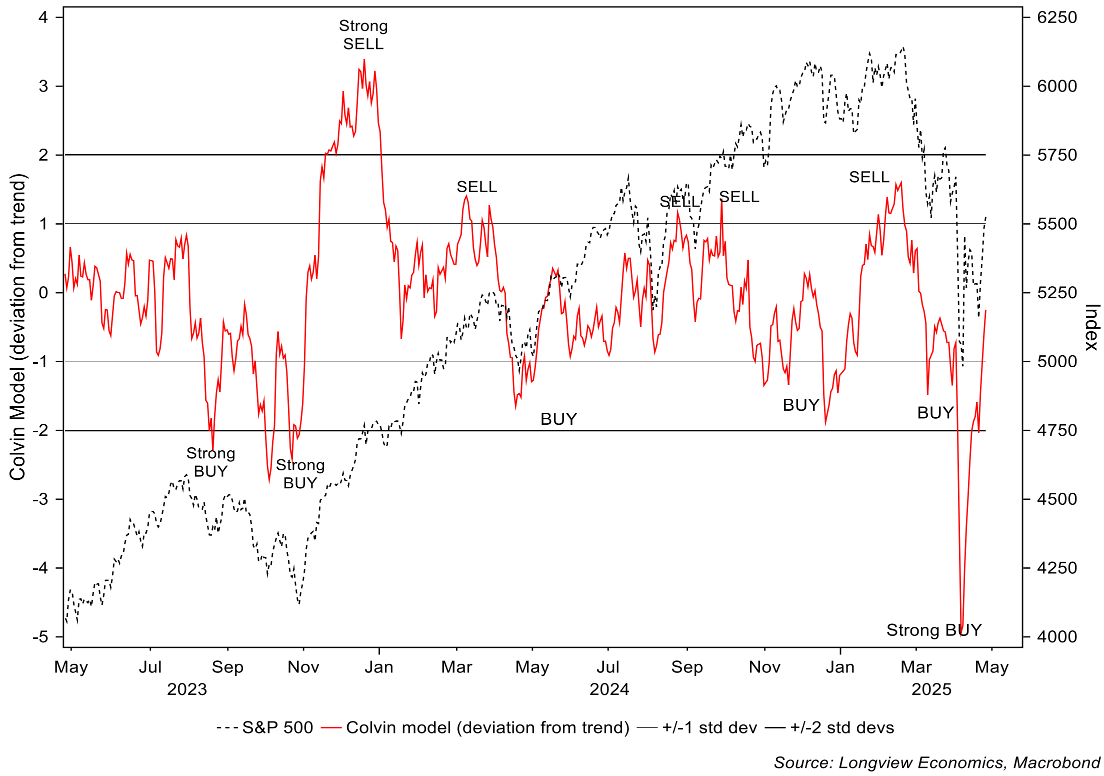
Source: Longview Economics, Macrobond

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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