LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

28th February 2025

"Close SHORT - BUILD LONGs on weakness (Case for a Wave 2 Relief Rally Brewing)"

Email: info@longvieweconomics.com

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

- Close ¼ SHORT March S&P500 futures at current prices (having reduced from ½ SHORT earlier this week).
- Start BUILDing LONG positions on weakness, with an initial ¼ LONG March S&P500 futures position at 5,810 (if weakness forthcoming).
- Increase to ½ LONG on further weakness (if forthcoming), i.e. at 5,750.
- Implement a 3% stop loss on the combined position (i.e. at 5,606).

Rationale

With the sharp fall in the US market yesterday (S&P500 -1.6%; NDX100 -2.7%; & SOX -6.1%), the 'wave one' of this pullback is increasingly likely to be close to completion. The S&P500, for example, has now closed lower in five* of the last six trading sessions (and is down 287 points/4.7% on closing prices from its highs). Reflecting that, the models, the mood, and the condition of this market have changed notably (in the past 1 - 2 weeks).

As such, the case for a 'wave 2' relief rally** is brewing.

Models: Reflecting that recent weakness, volatility (VIX) has spiked, and a variety of short-term models have moved more convincingly onto BUY (and strong BUY). The short-term technical scoring system, for example, is now on strong BUY (FIG 2c); the medium-term technical scoring system has also reached BUY (FIG 1d); while both the S&P500 and NDX100 are overextended to the downside on our 10 day overextended indicators (see FIGs 1a & 1b). BUY signals on both of those indicators tend to be reasonably timely (i.e. within a day or two of local lows). Risk appetite models are also on BUY (FIGs 2 & 2a) while the CBOE short term put to call ratio has moved higher (i.e. lower on the chart, as it's inverted, FIG 2b). That model, though, is not yet on BUY. Similarly, the single stock and sector models are also not yet on BUY (albeit they are at low levels, FIGs 2d & 2e). As such, a **further 1 – 2 days of downside is possible** until the start of the 'wave 2' relief rally, but the case for it is clearly brewing.

Consistent with the models, **S&P500 futures are close to the bottom end of their multi month consolidation range** at which they are likely to find some support (at least temporarily, see FIG 1). That level (at 5,800) is also close to the 200-day moving average (another key support level, which is currently at 5,749 – albeit that will trend higher over the next few trading sessions).

Tariffs and Trump policy announcements clearly added to the volatility of the market yesterday. As has been the case in recent weeks, this remains a two-way risk (i.e. tariff deals can be seen as a positive, whilst the announcement of tariffs is often a negative).

Given the extent of this move and the positioning of the models we **recommend closing our SHORT position at current prices**. We also recommend BUILDing LONG positions on weakness, looking to play the relief rally. In particular, we recommend an initial ¼ LONG S&P500 futures at 5,810; and then a further ¼ LONG at 5,750. We then recommend a 3% stop loss relative to the combined entry price (i.e. given that volatility is heightened – hence a wide stop).

Please see above for detailed recommendation. Key macro and other events are shown below.

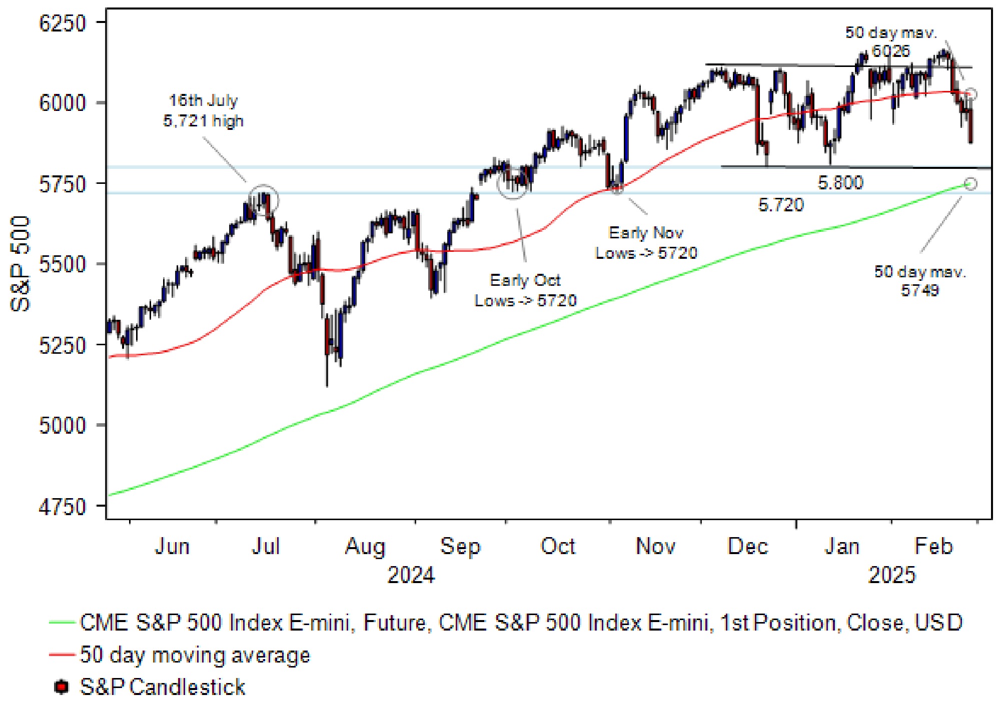
Kind regards,

The team @ Longview Economics

*NB whilst it was flat on the other of those six days.
**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.

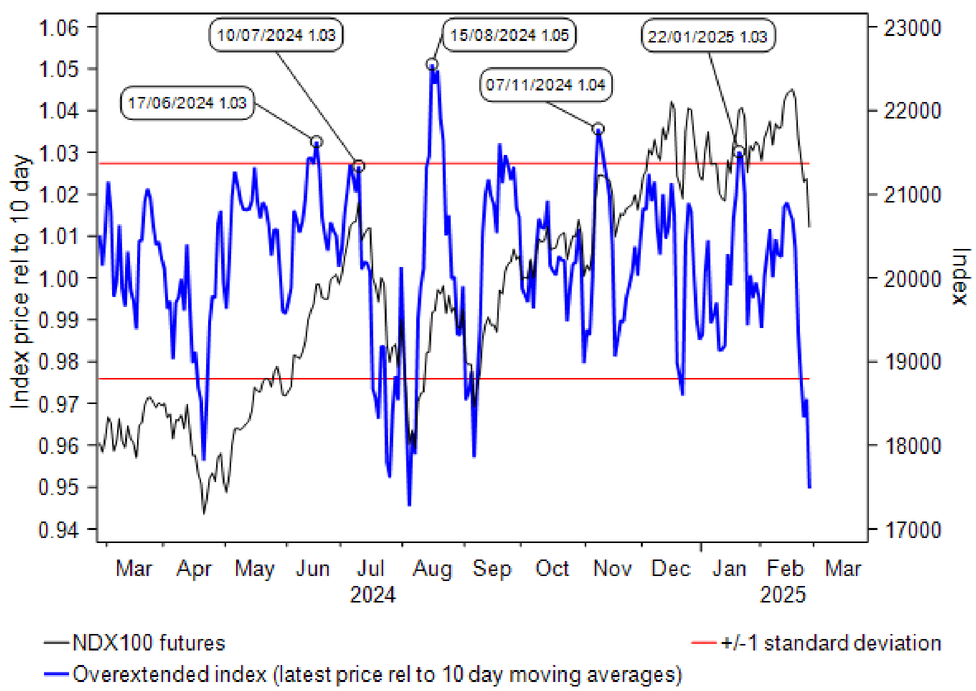
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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: S&P500 futures candlestick chart, shown with 50 & 200 day moving averages



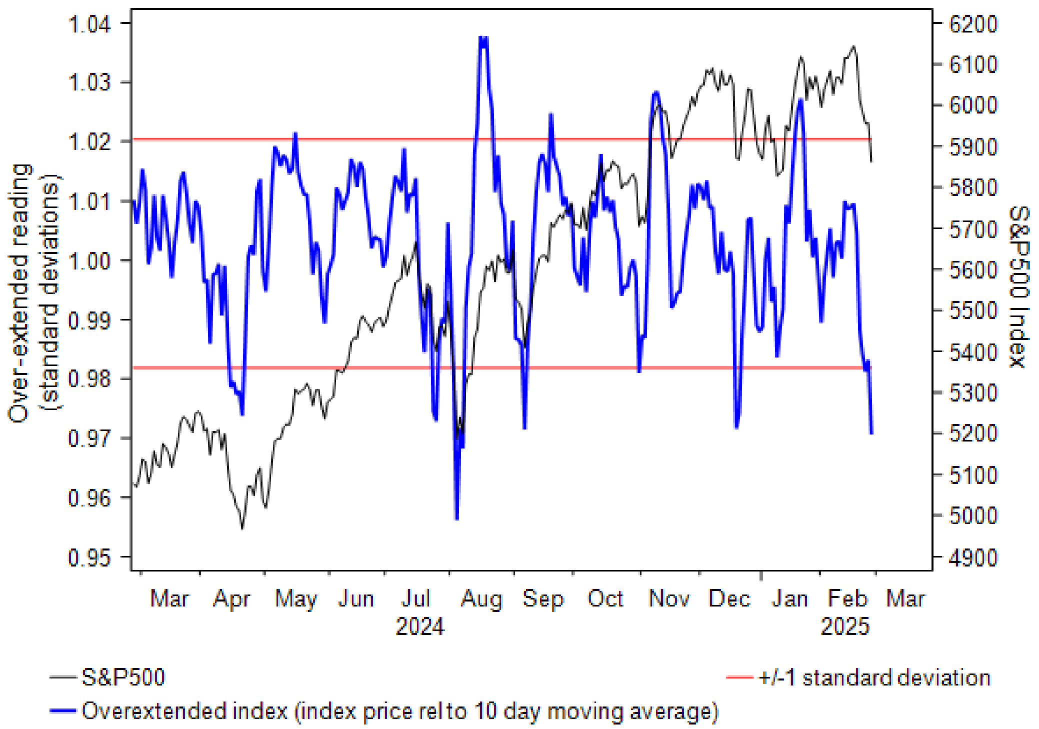
Source: Longview Economics, Macrobond

FIG 1a: NASDAQ100 overextended index (index price relative to 10 day moving average) vs. NASDAQ100



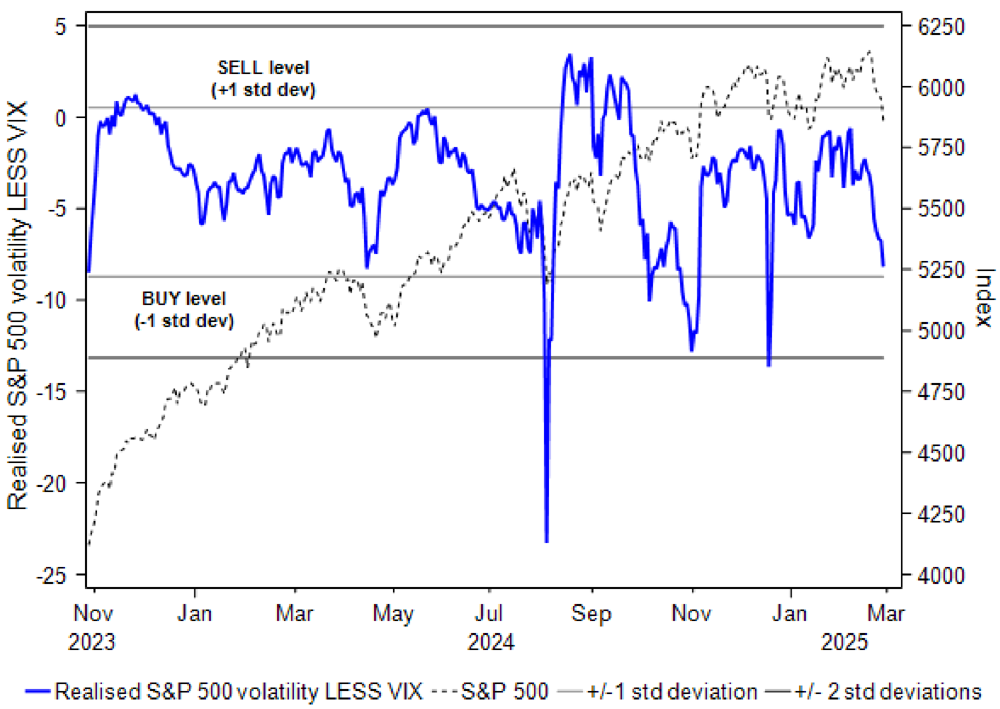
Source: Longview Economics, Macrobond

FIG 1b: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500



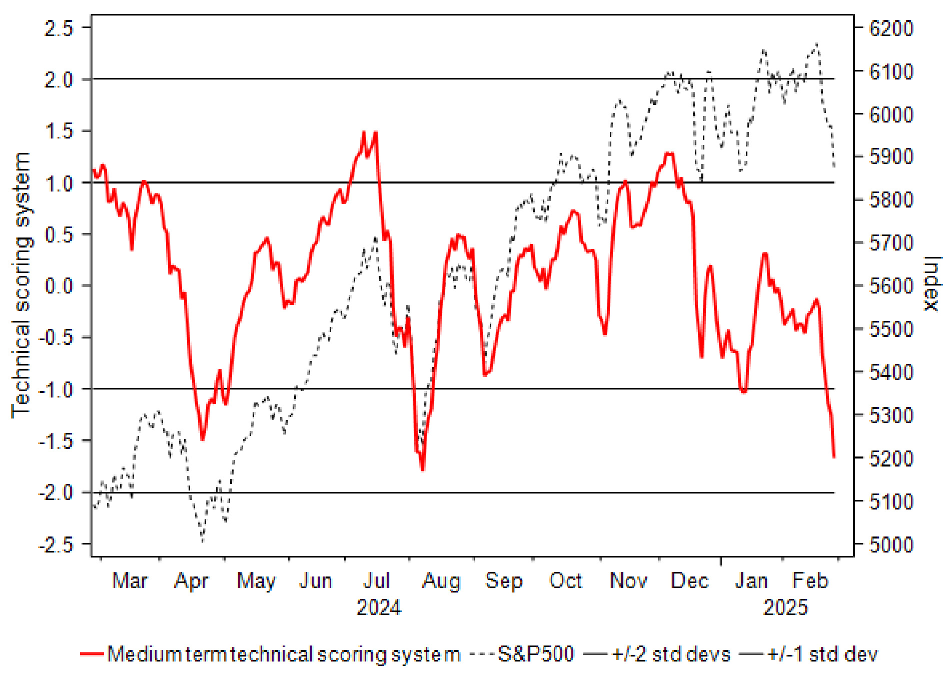
Source: Longview Economics, Macrobond

FIG 1c: Realised S&P500 volatility LESS implied equity volatility (VIX) vs. S&P500



Source: Longview Economics, Macrobond

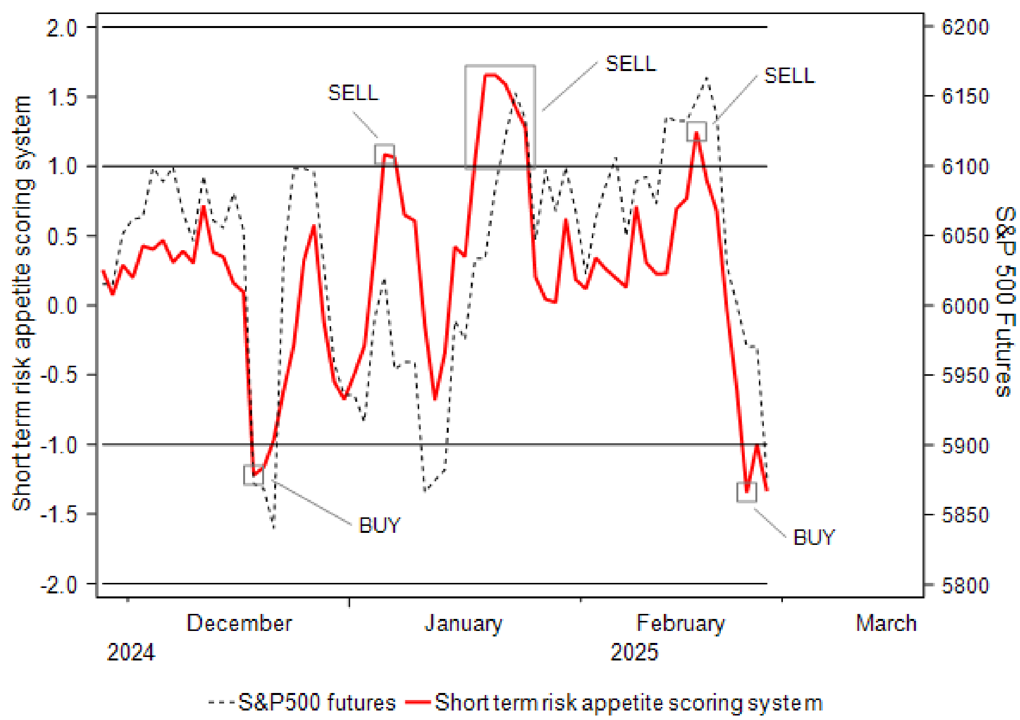
FIG 1d: Medium term technical scoring system vs. S&P500



Source: Longview Economics, Macrobond

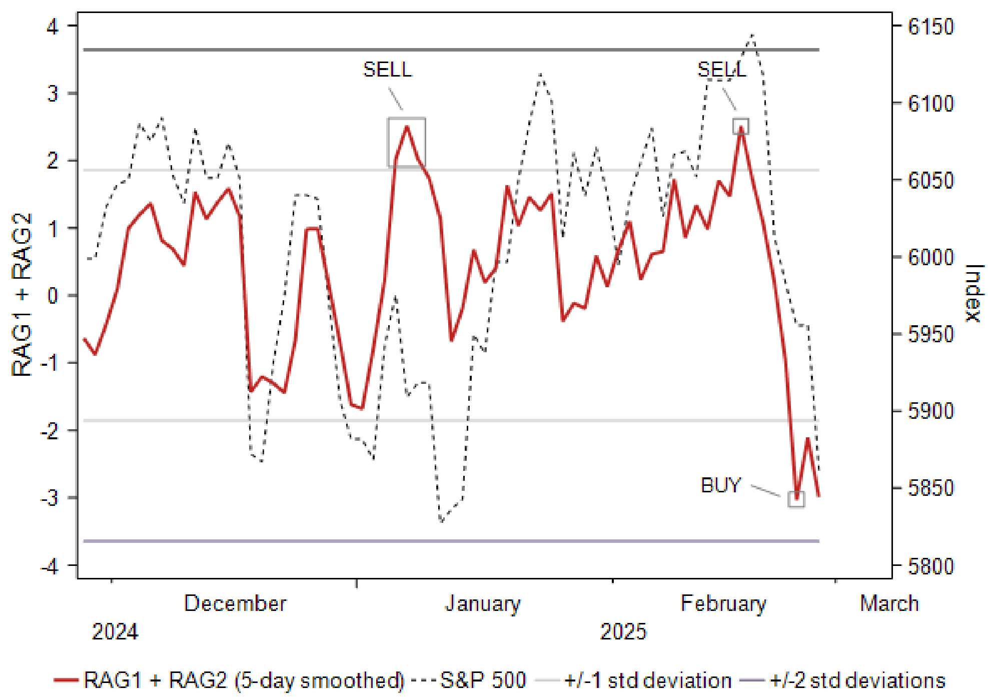
Short term models are mostly on BUY/strong BUY....

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



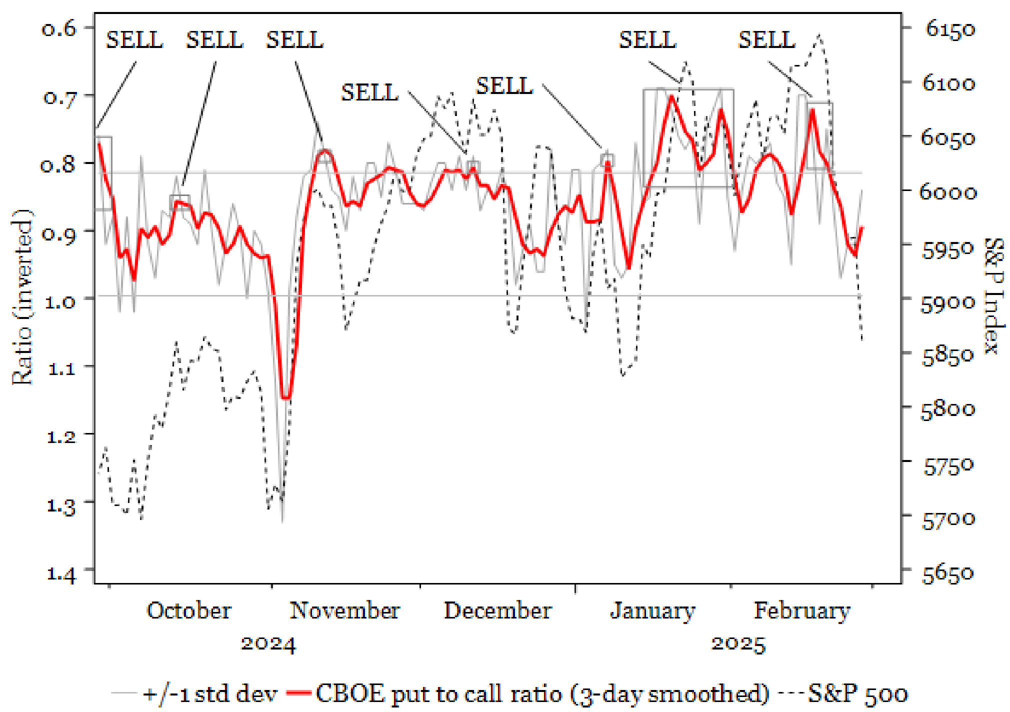
Source: Longview Economics, Macrobond

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

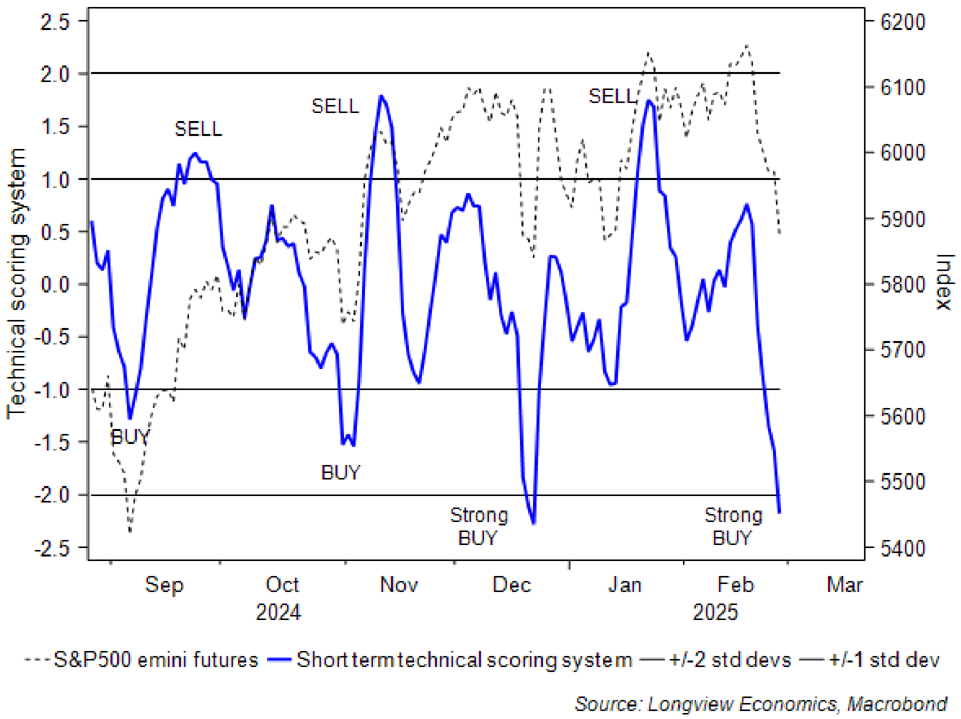


FIG 2d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

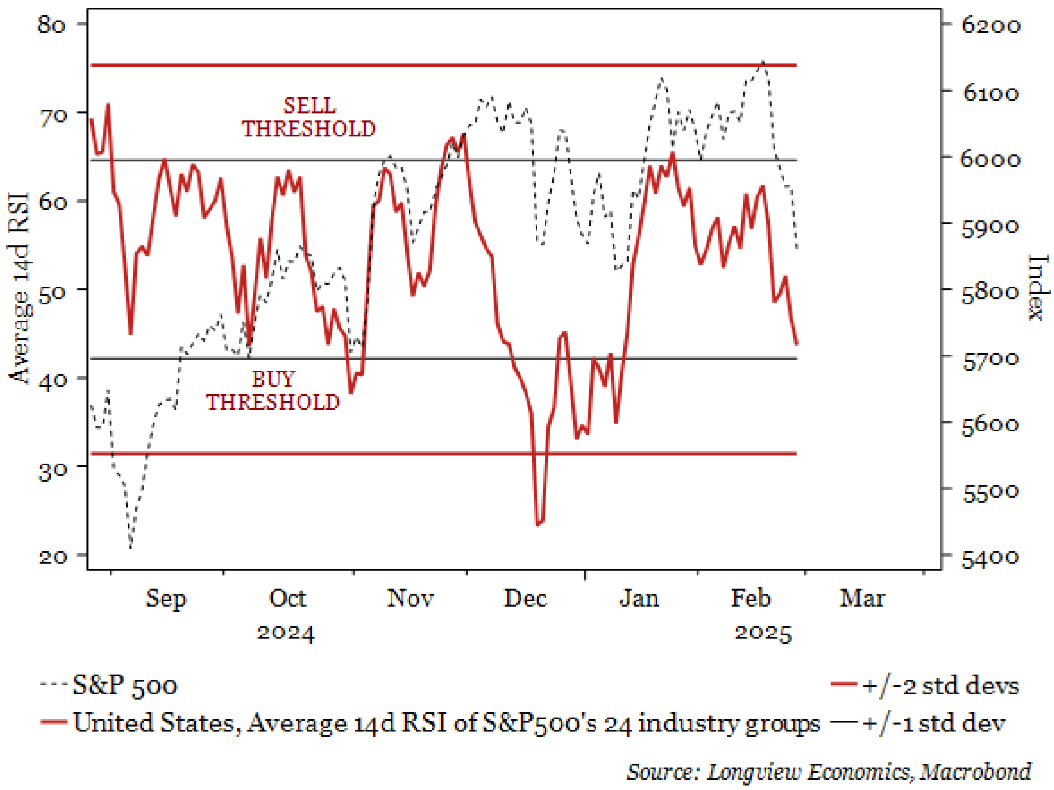
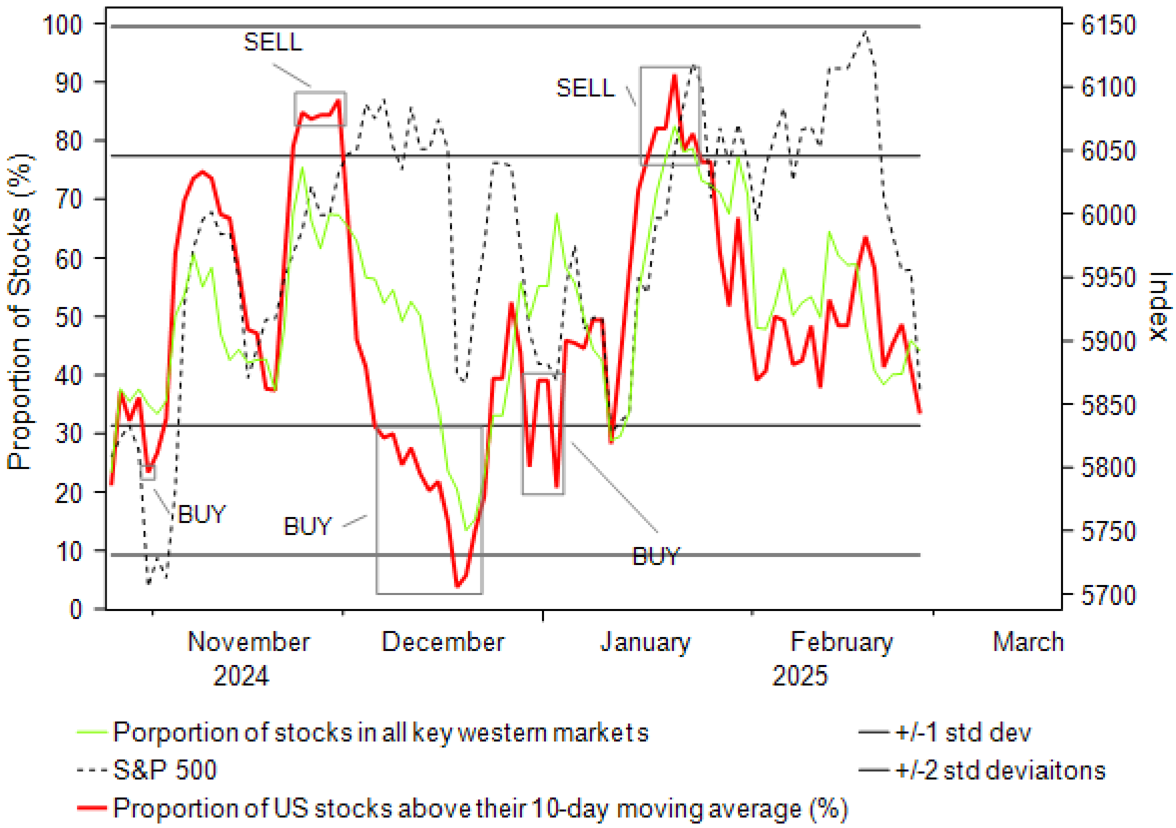


FIG 2e: Proportion of Western stocks above their 10 day moving average vs. S&P500

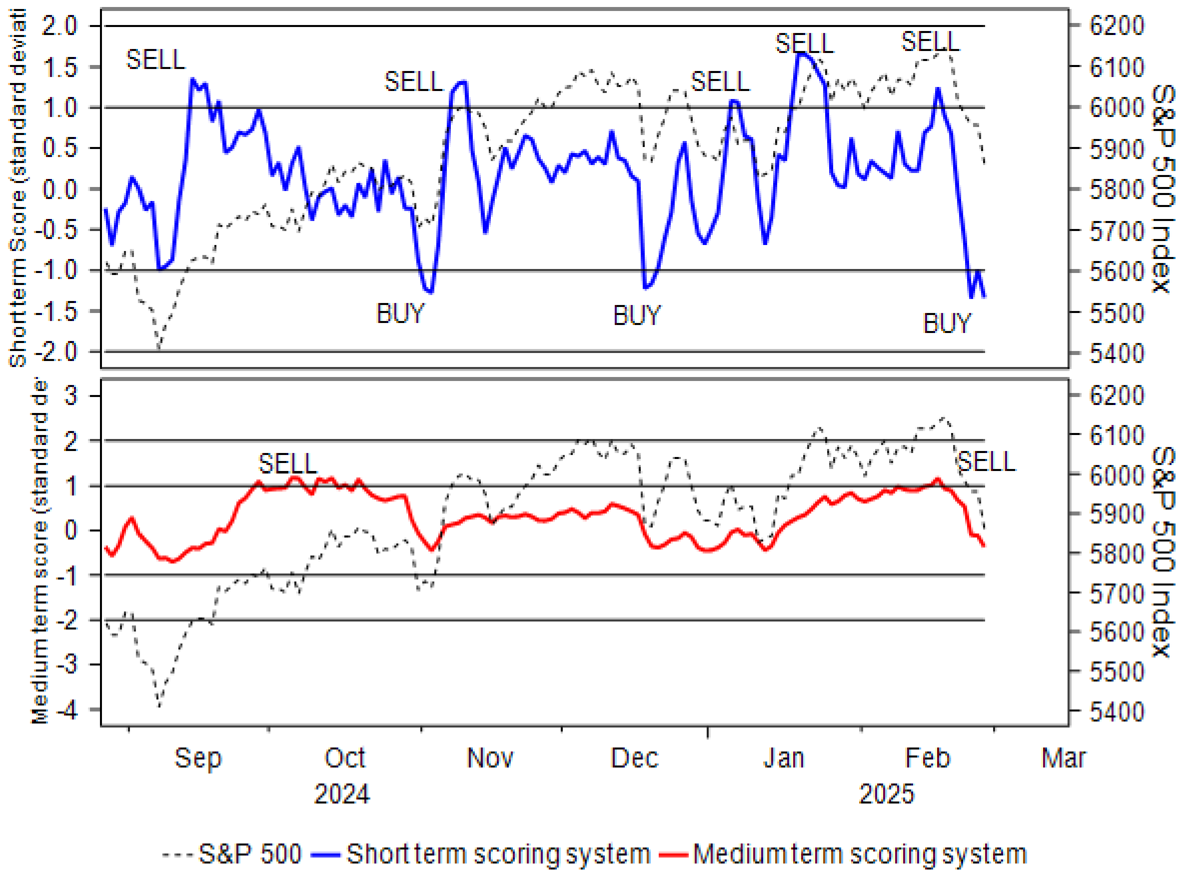


Source: Longview Economics, Macrobond

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: UK Lloyds business barometer (Feb, 12:01am); Australian private sector credit (Jan, 12:30am); Japanese housing starts (Jan, 5am); **UK Nationwide house prices** (Feb, 7am); **French headline CPI** (February first estimate, 7:45am); French GDP & consumer spending (Q4 final estimate, 7:45am); French private sector payrolls (Q4 final estimate, 7:45am); German unemployment (Oct, 8:55am); ECB 1 & 3 year CPI expectations (Jan, 9am); Italian core CPI (February first estimate, 10am); **German headline CPI** (February first estimate, 1pm); **US personal income & spending including headline & core PCE** (Jan, 1:30pm); US wholesale & retail inventories (December first estimate, 1:30pm); Canadian GDP (Dec, 1:30pm); US trade balance (Jan, 1:30pm); **US Chicago PMI** (Feb, 2:45pm); US Kansas City Fed service sector activity (Jan, 4pm).

Key events today include: Speech by the Bank of England's Ramsden in South Africa on monetary policy in a world of geopolitical fragmentation (7am).

Key earnings today include: N/A

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.

LVRAG
Daily Risk Appetite Gauge

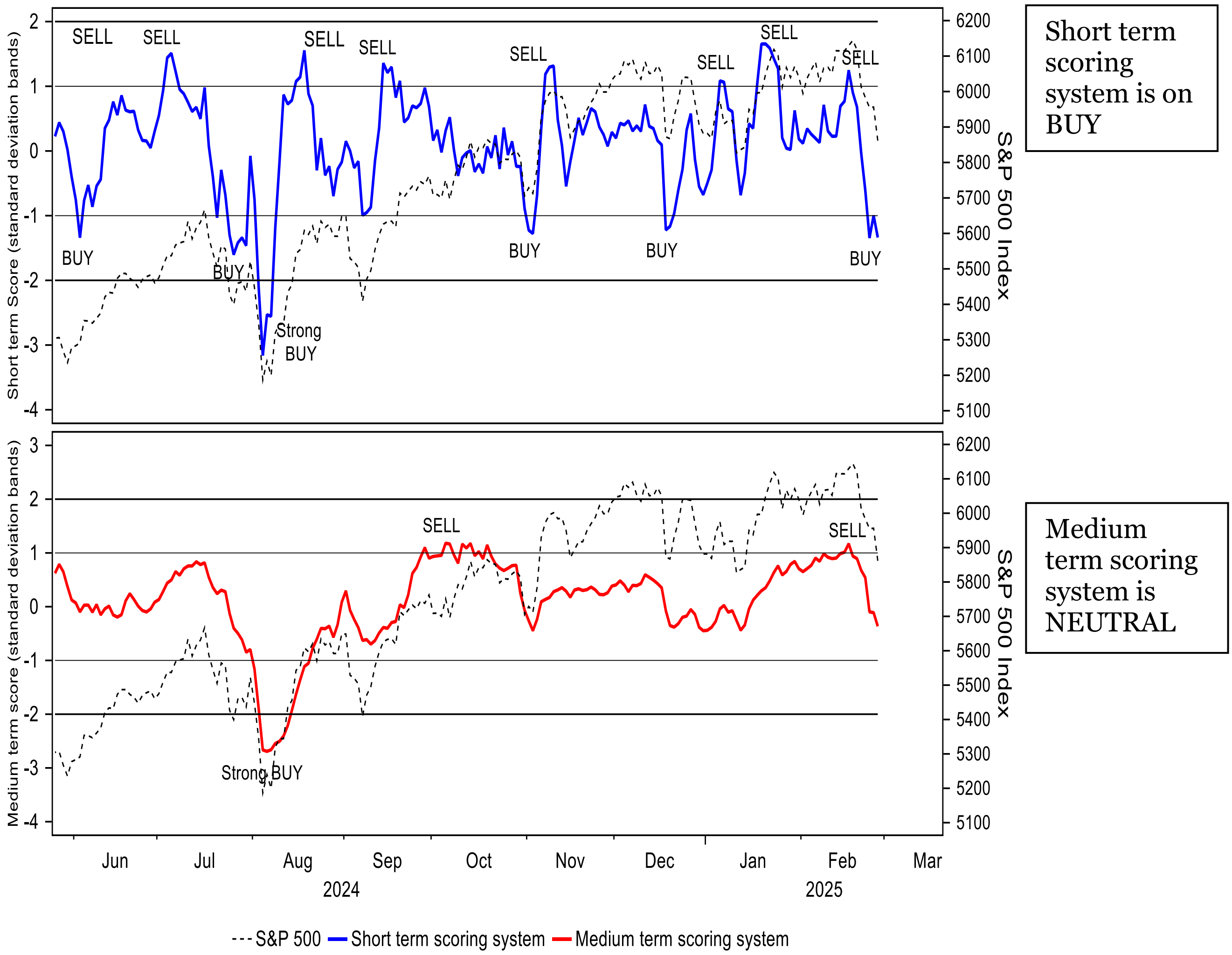
1 – 2 Week View on Risk

28th 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



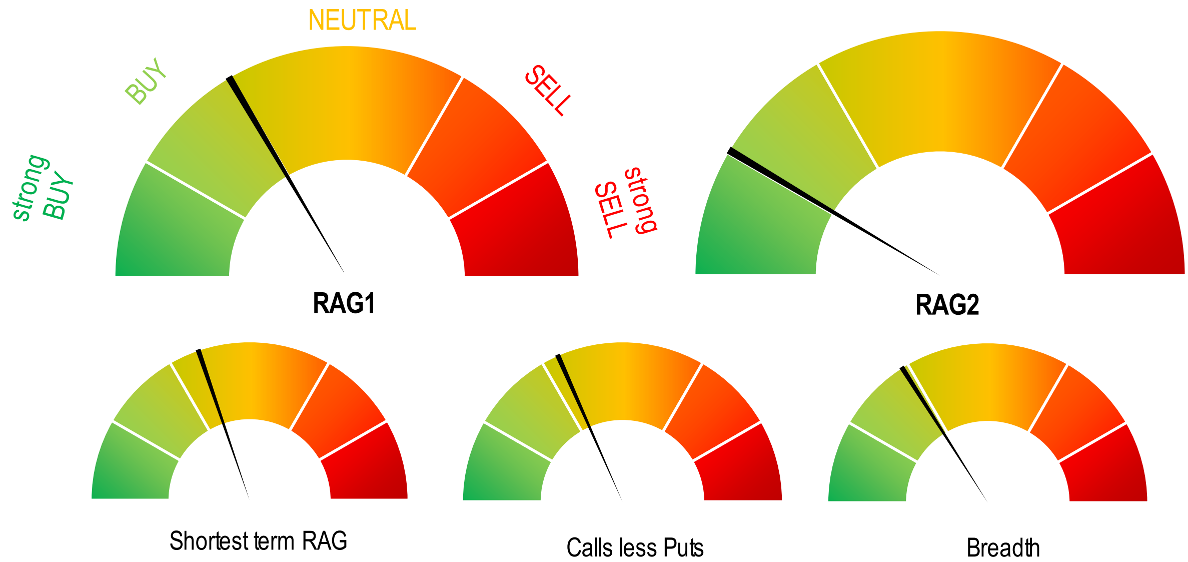
Source: Longview Economics, Macrobond

*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

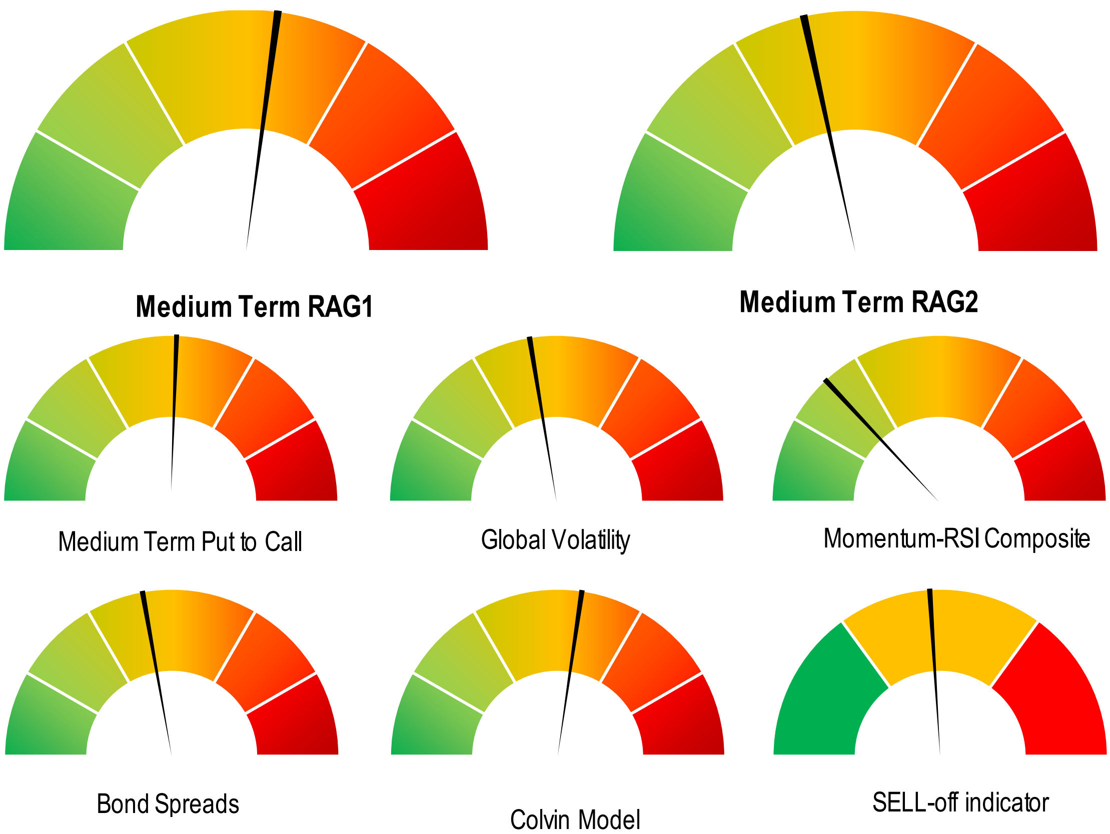
Section 1a: Summary of indicator signals**

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

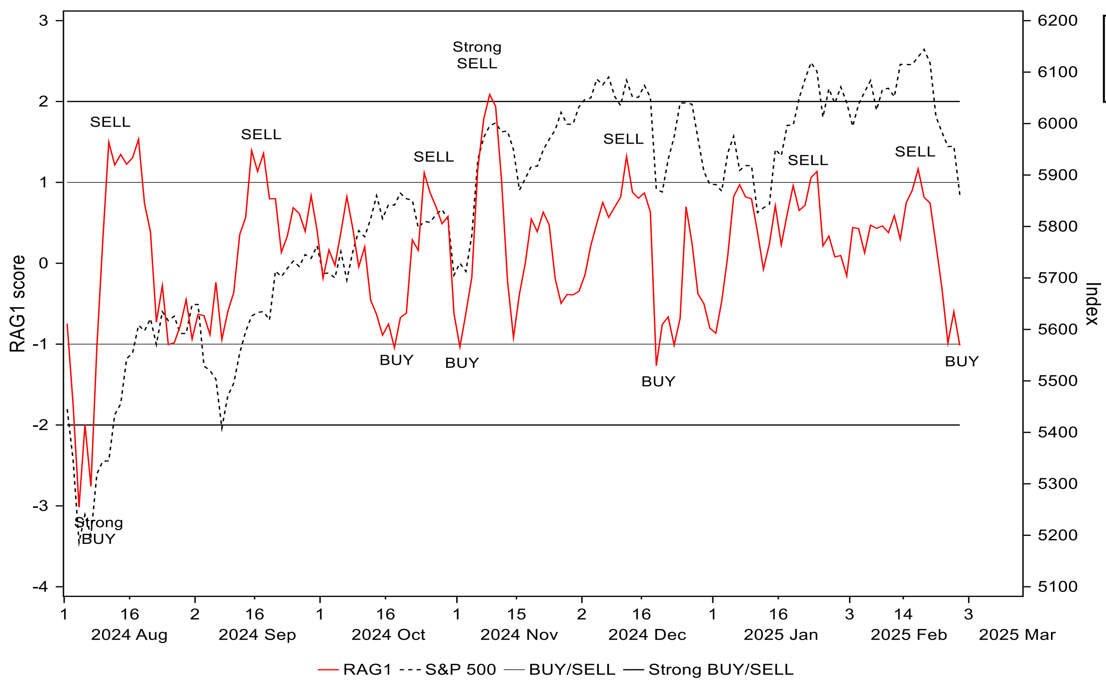


Source: *Longview Economics*

**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

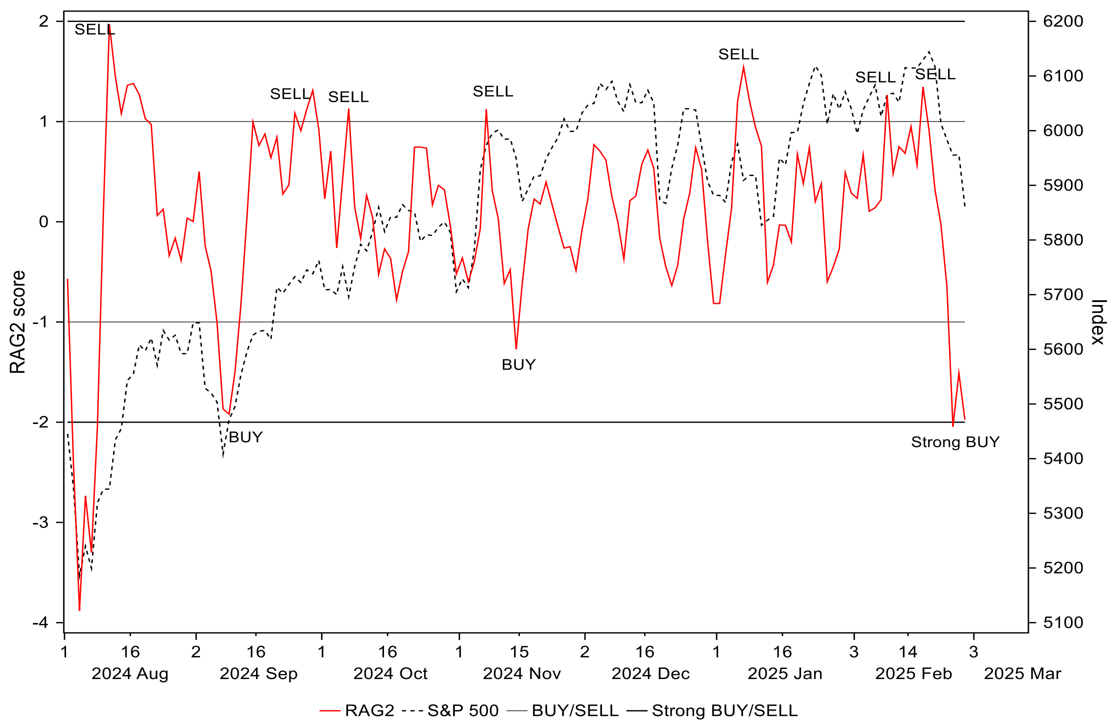
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on BUY

Source: Longview Economics, Macrobond

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

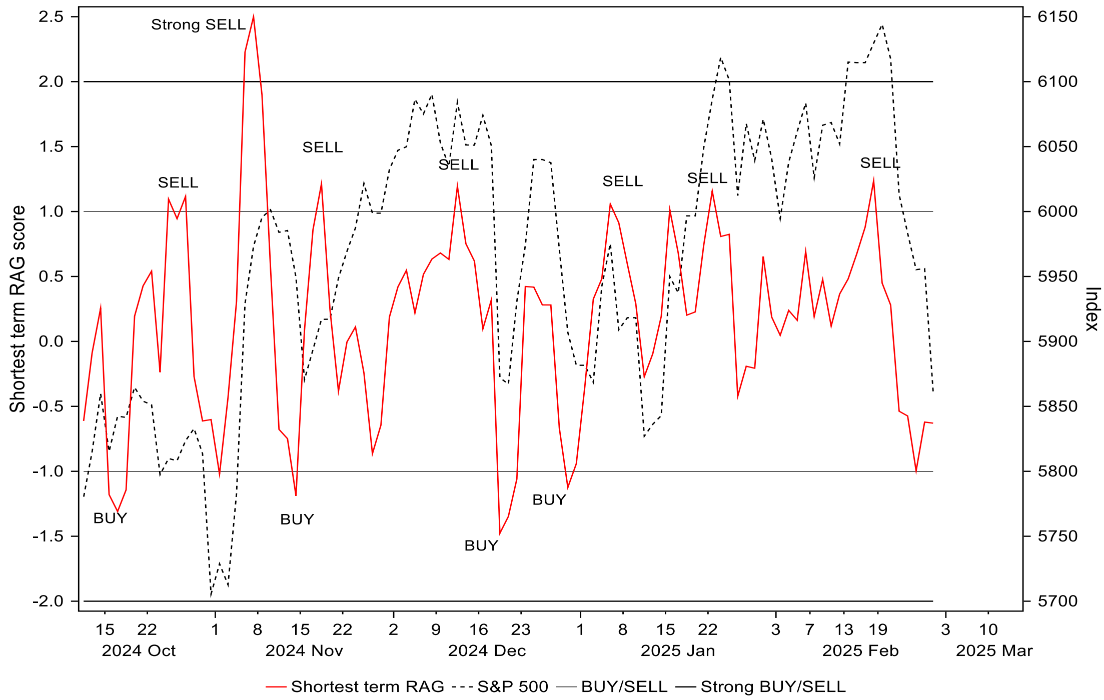


RAG2 is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

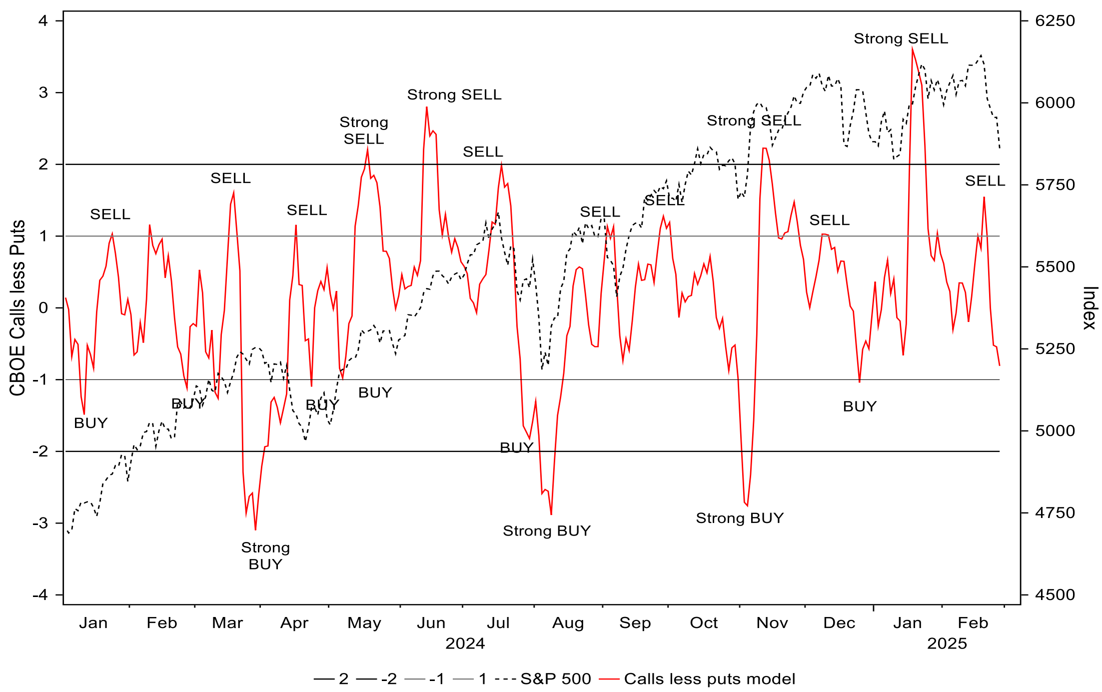
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

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

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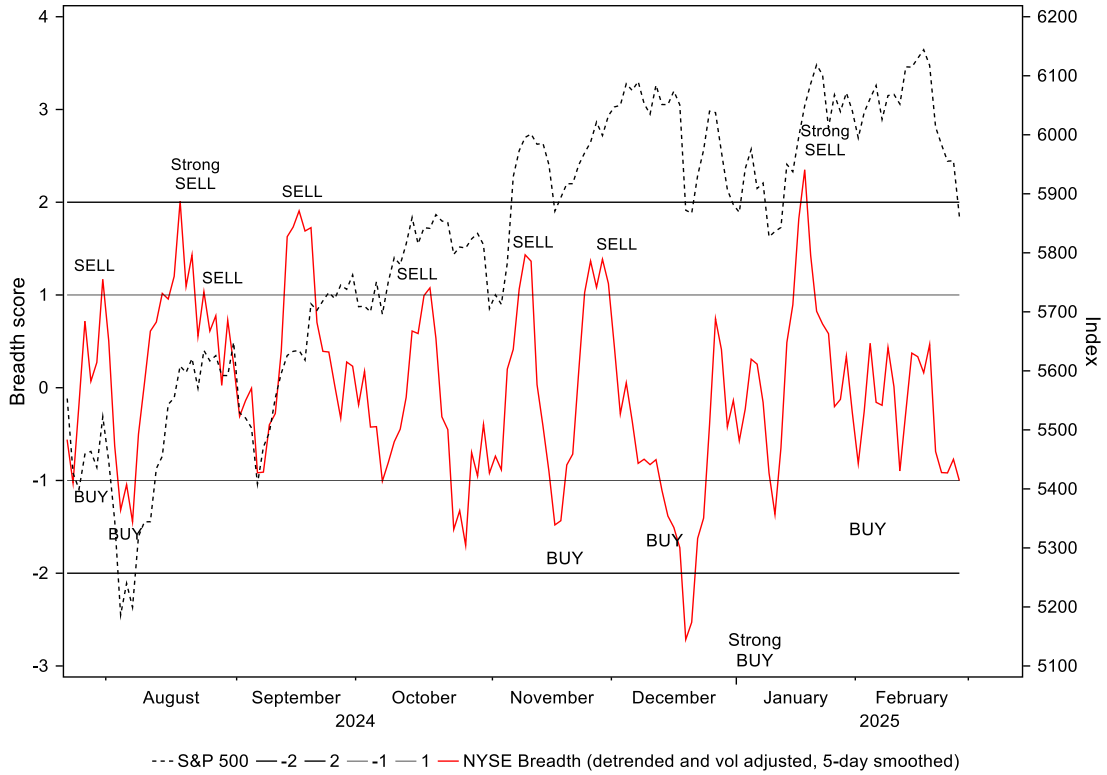
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



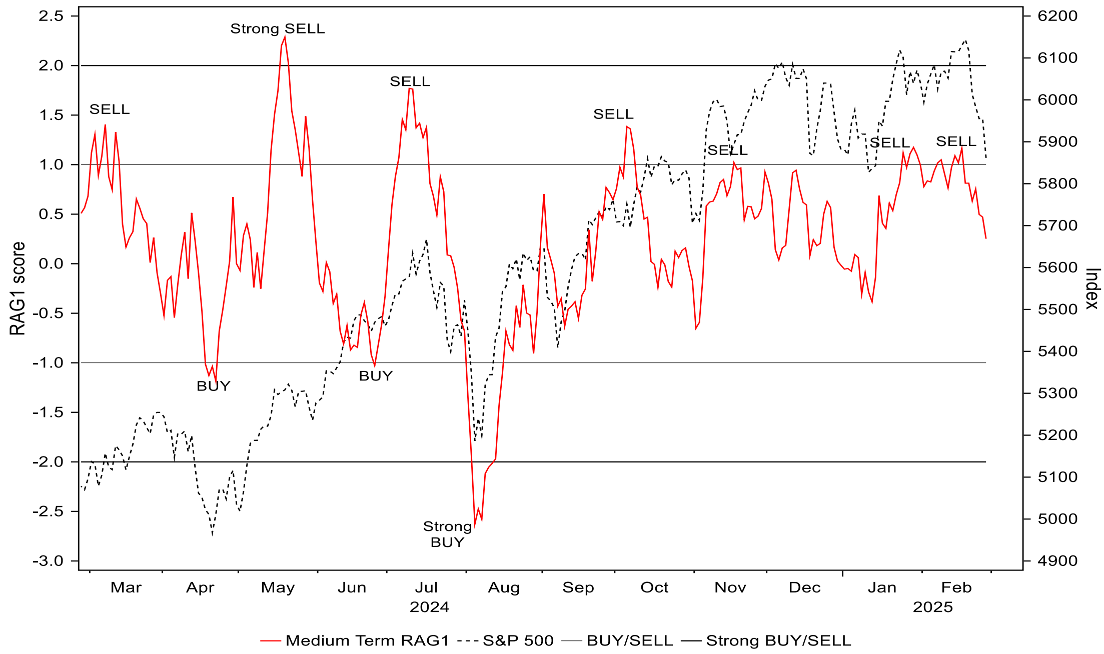
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

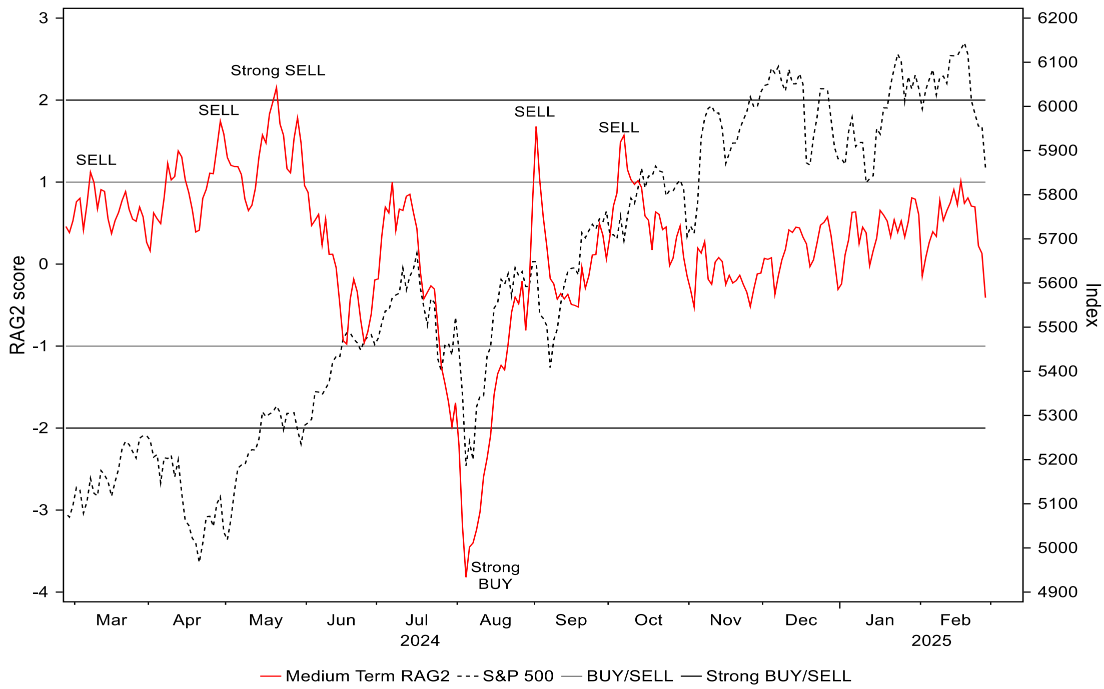
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

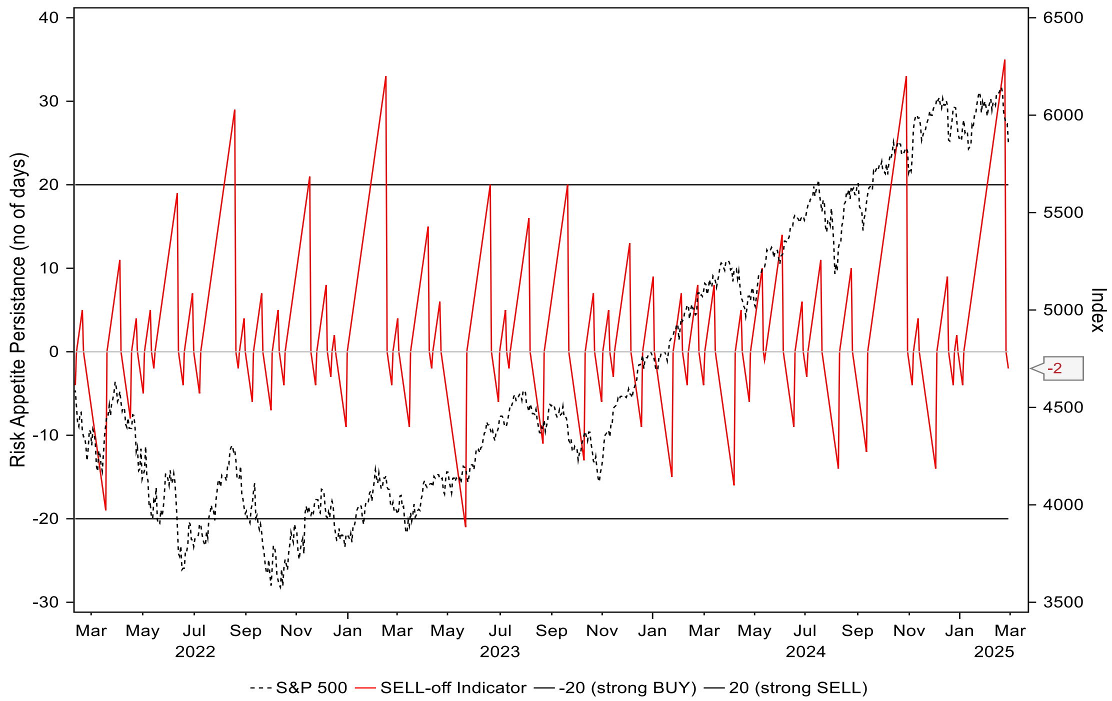


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

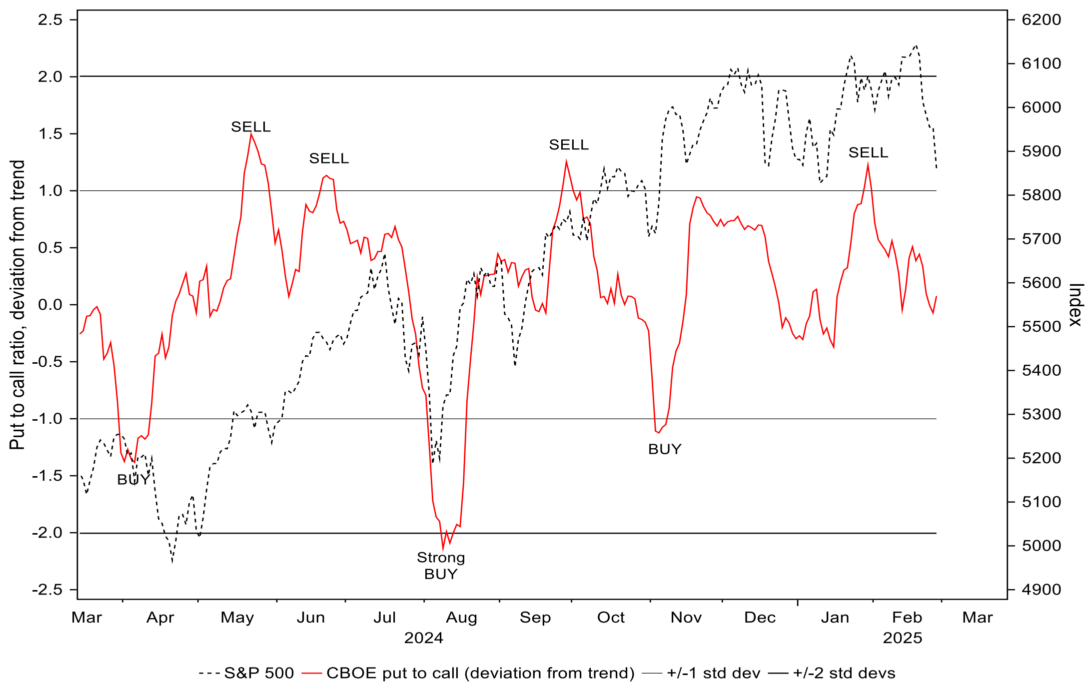
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

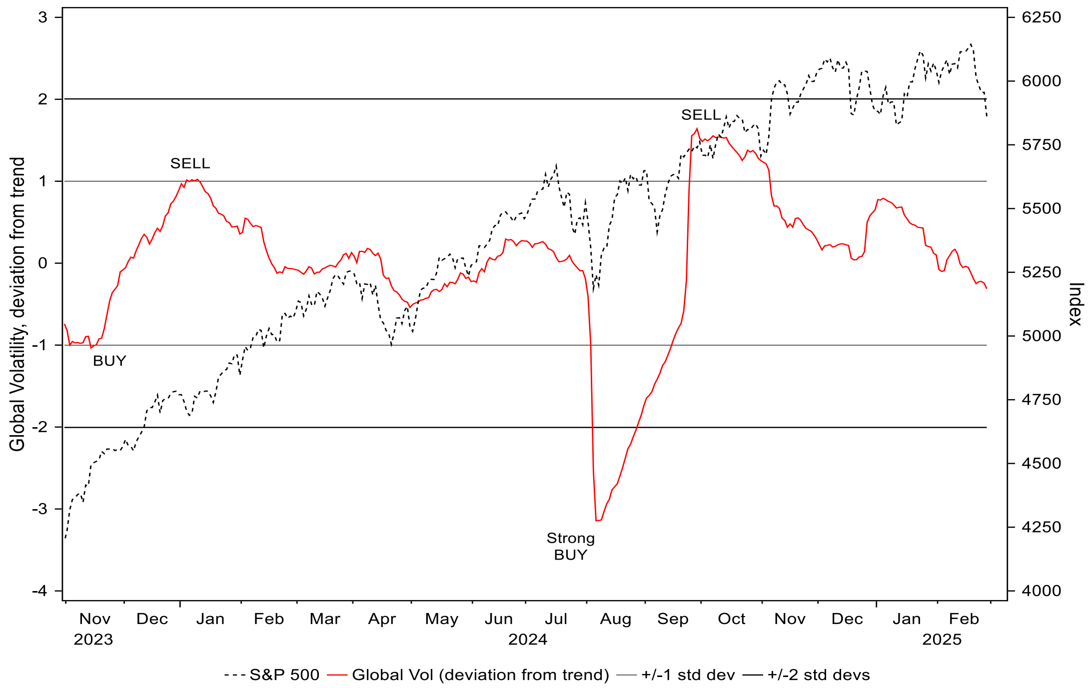


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

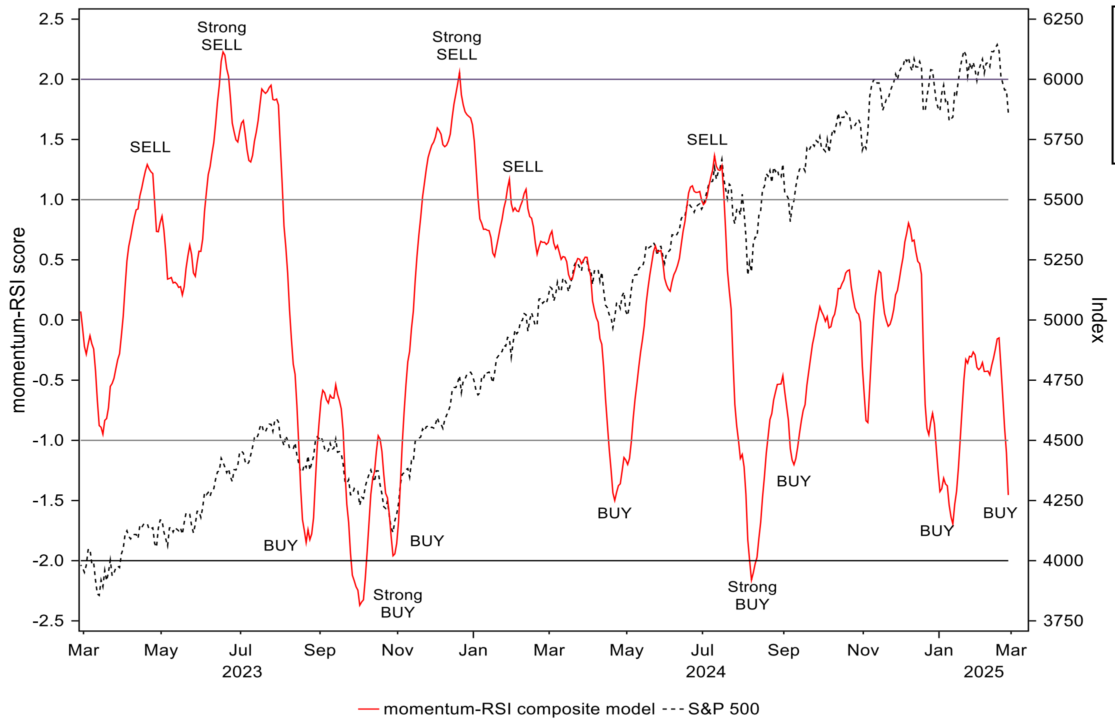
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

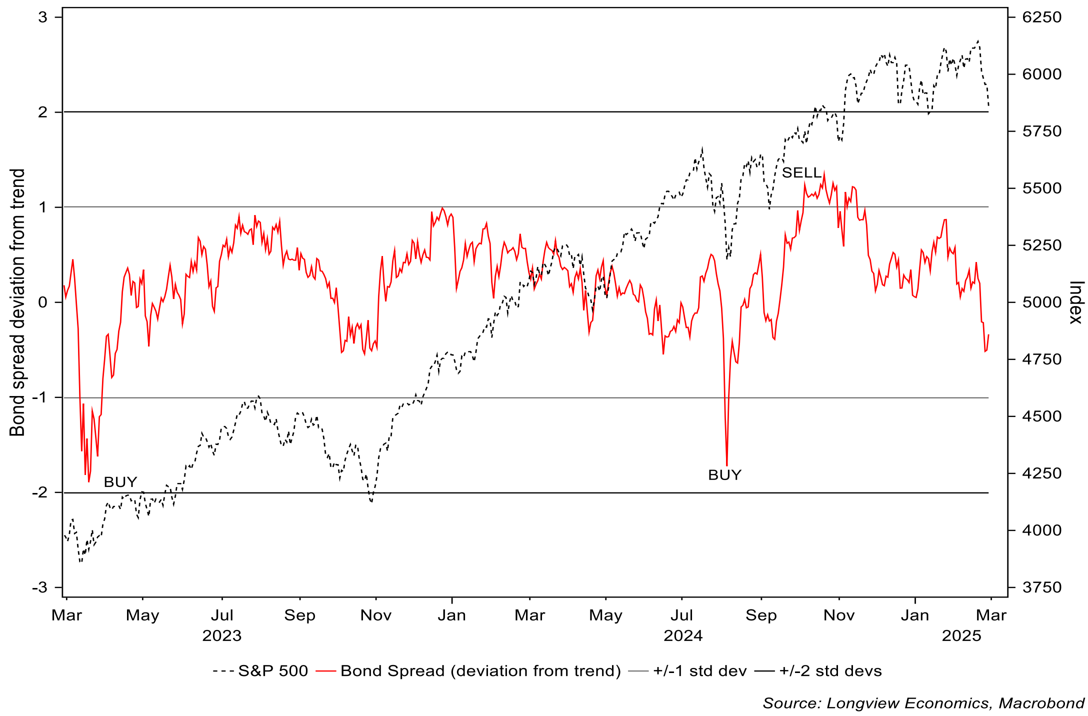
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on BUY

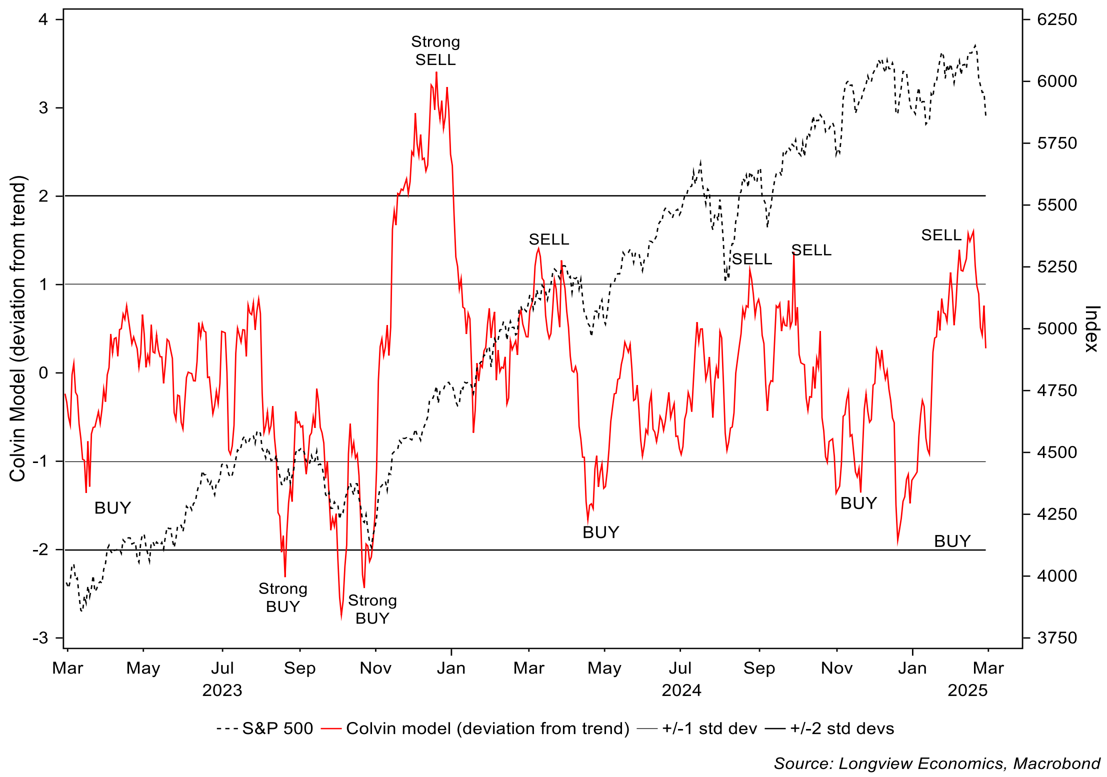
Source: Longview Economics, Macrobond

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



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.

Disclaimer