

## Equity Index Futures Trading Recommendations

3<sup>rd</sup> February 2025

"Uncertainty Heightened. PLUS SELL-off Model/Medium term Models at High/SELL levels"

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

- Continue to WATCH & WAIT (for now).

### Rationale

Trump followed through on his promise to put **tariffs into effect over the weekend**. US imports from Canada and Mexico will be subject to 25% tariffs (although Canadian energy exports to the US will only have a 10% tariff rate imposed), while those from China will have a 10% tariff levy\*. So far, the Canadians have responded with retaliatory tariffs (i.e. they have imposed a 25% levy on C\$155bn of imports from the US); while the Chinese and Mexicans have vowed to respond with retaliatory measures. Not surprisingly, especially given the retaliation and wide-ranging tariffs imposed by Trump, the dollar is stronger, US equity futures are weaker while US 10-year yields have ticked up modestly. Gold is down 0.3%, while key Asian equity markets (which are open) are mostly down sharply (e.g. see Nikkei & South Korea).

**Coming into the weekend, many of our medium-term models were at high/SELL levels.** Most importantly, as we highlighted in Friday's '[Daily Risk Appetite](#)' publication, our '[SELL-off indicator continues to BUILD towards its key +20 level](#)'. On Friday it was on +18, today it has reached +19. Whilst not at +20, (which it may or may not reach tomorrow morning), it's highlighting that a period of excessive 'greediness' has occurred in global financial markets in January. That was illustrated, for example, by the strength, and near vertical trading, of various European equity markets over the course of last month (up until Friday).

In addition to the SELL-off indicator, **medium term risk appetite models** (both the scoring system and the combined 'RAG1 plus RAG2') have been on/close to SELL (FIGs 1a & 1b); while the medium term put to call indicator is also on SELL (FIG 1c). These models highlight the potential for this initial pullback (which began in the late part of Friday's US session) to evolve into something more meaningful.

**Short term models**, meanwhile, as of Friday's close, **are mostly mid-range**. The risk appetite models, technical scoring systems and the sector and single stock technical models are all broadly mid-range (see FIGs 2 – 5a). The short term put to call ratio, as of Friday's close, was still on SELL. With markets down sharply, though, many of these short-term models (most obviously the price based technical ones) will be much lower. In FIG 1f we have updated our short-term S&P500 technical scoring system to reflect the overnight moves in S&P500 futures (which has pushed it close to BUY).

Whilst some short-term models are likely to be now (effectively) on/close to BUY (given the overnight weakness), we recommend continuing to WATCH & WAIT. **Medium term models are (have been) at high SELL levels; exuberance was evident in global markets in January (which therefore needs to unwind); while the S&P500 isn't yet at the lower end of its recent multi month range** (which is the 5,800 level – FIG d). Plus, further retaliation and an escalation of the tariff war is plausible (even likely). So, even if this is only a consolidation phase, there is potential for further weakness in S&P500 futures, while the message of the medium-term models highlights the risk of a break below that range.

Key macro data and events happening today are shown below.

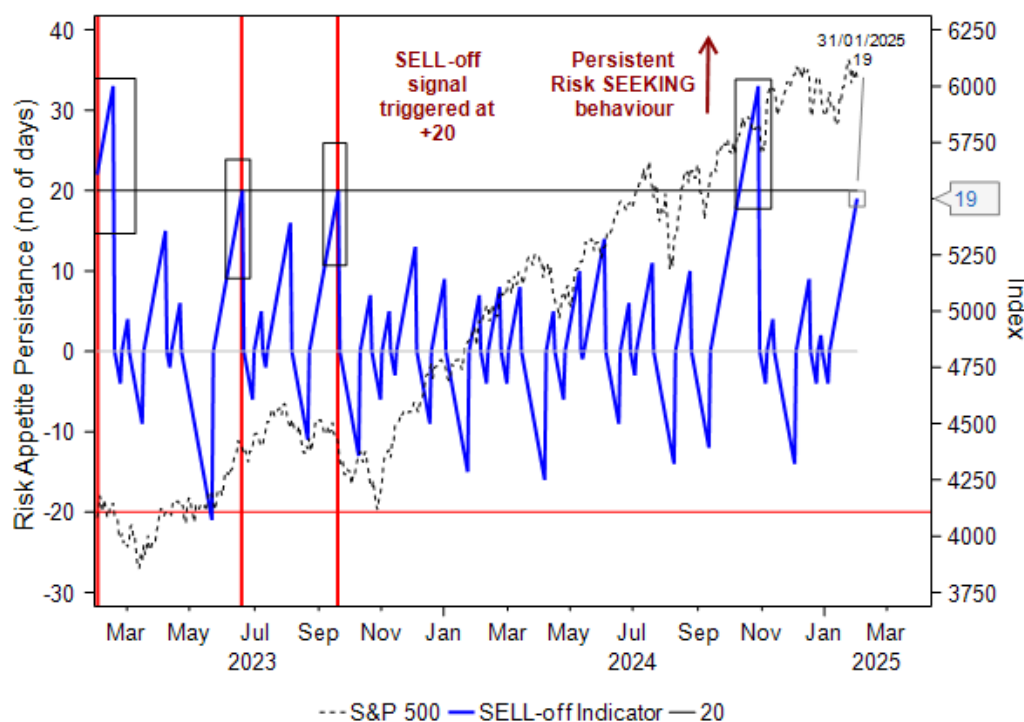
Kind regards,

The team @ Longview Economics

\*In addition, Trump, in comments to the press over the weekend, reiterated that he will hit the EU with tariffs.

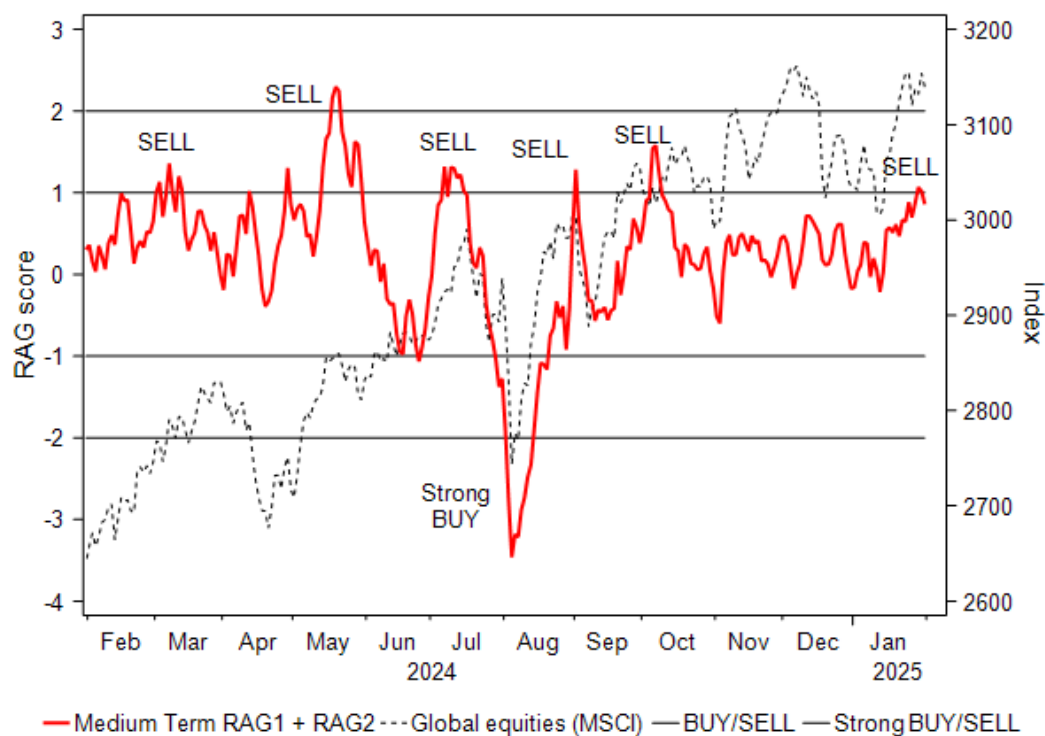
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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: Longview SELL-off indicator vs. S&P500**



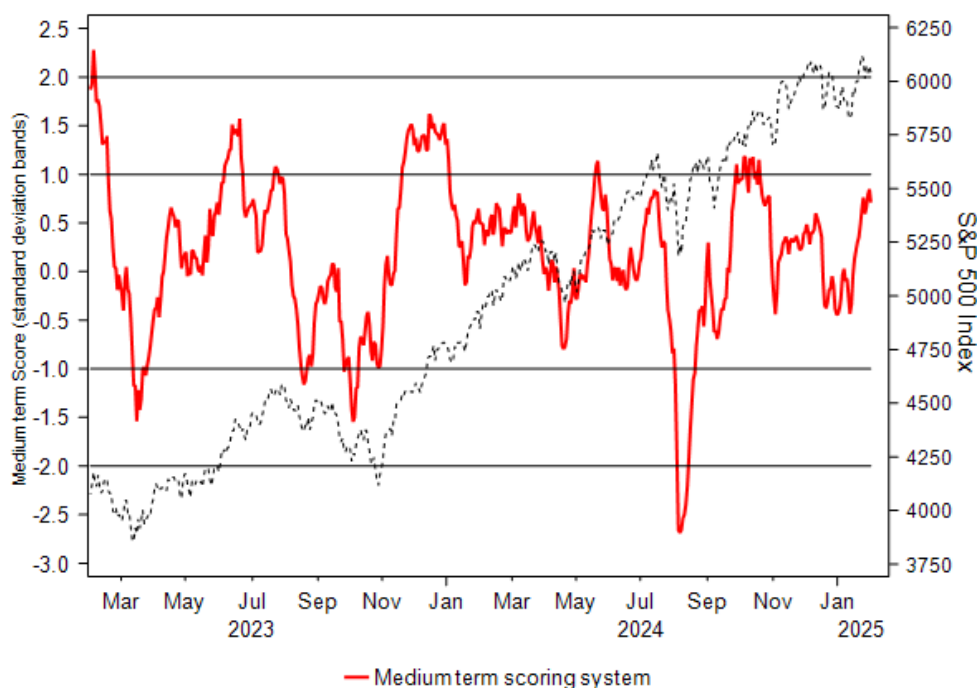
Source: Longview Economics, Macrobond

**FIG 1a:** Longview combined key **medium term** ‘**risk appetite**’ models (RAG1 + RAG2) vs. S&P500



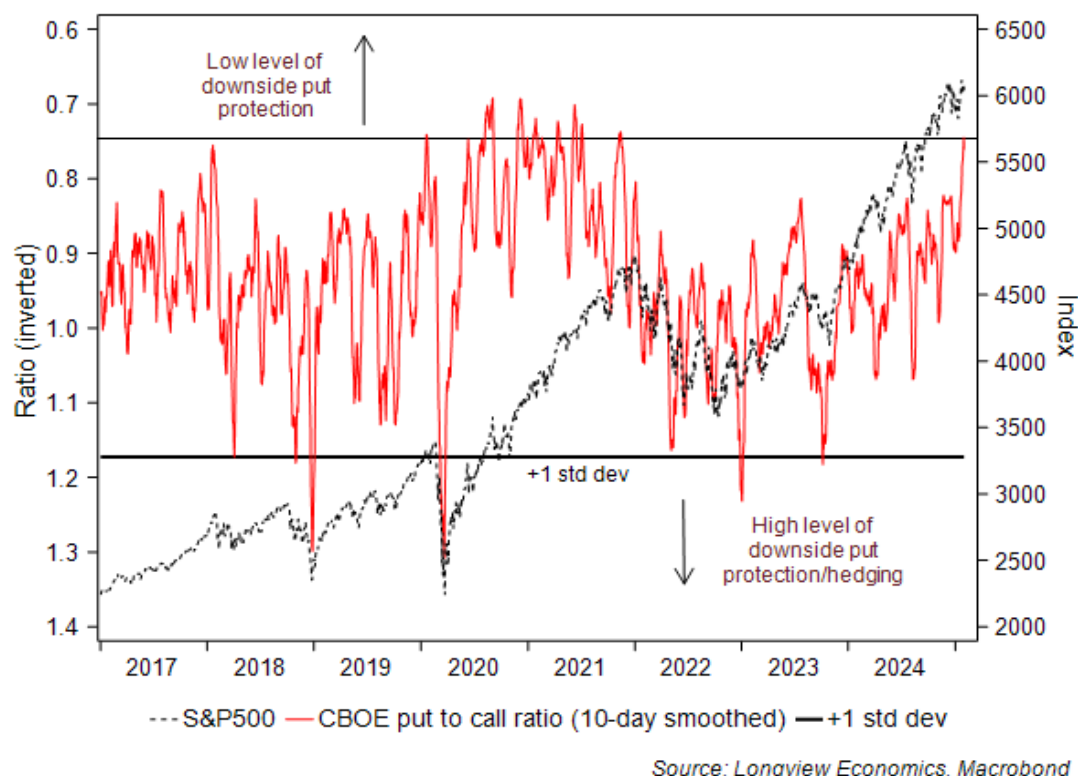
Source: Longview Economics, Macrobond

**FIG 1b:** Longview medium term ‘**risk appetite**’ scoring system vs. S&P500



Source: Longview Economics, Macrobond

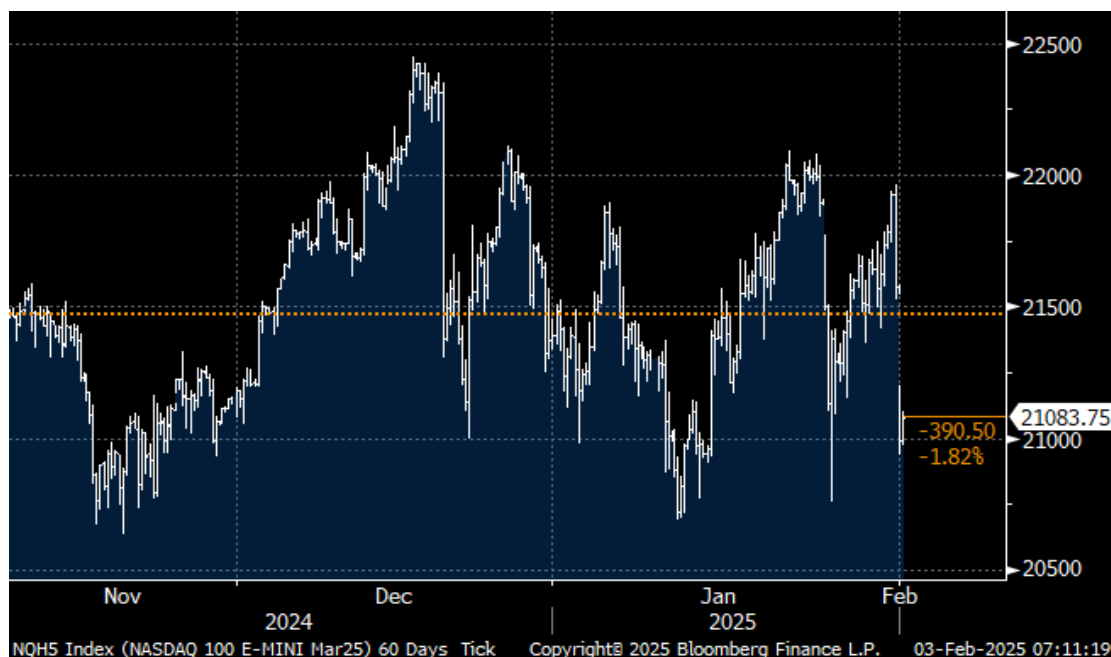
**FIG 1c:** Medium term CBOE put to call ratio vs. S&P500



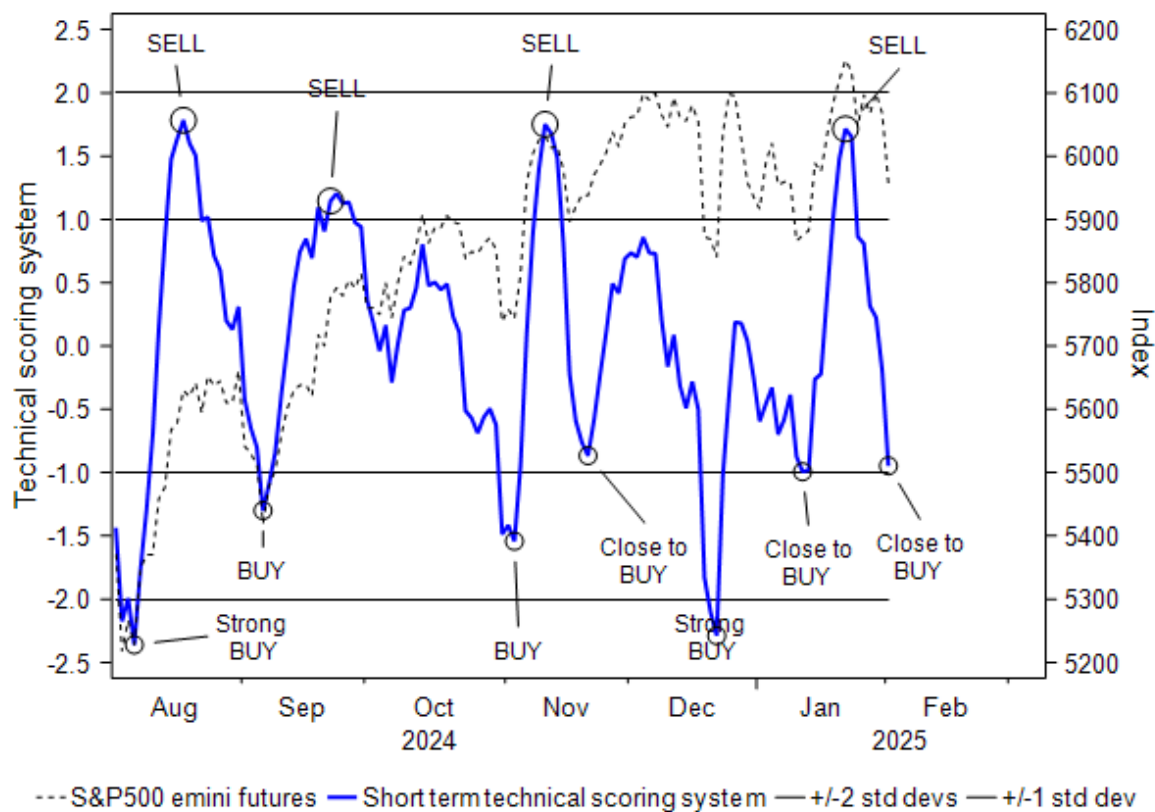
**FIG 1d:** S&P500 March 2025 futures 100-day tick chart shown with overnight price action



**FIG 1e:** NASDAQ100 March 2025 futures 60-day tick chart shown with overnight price action



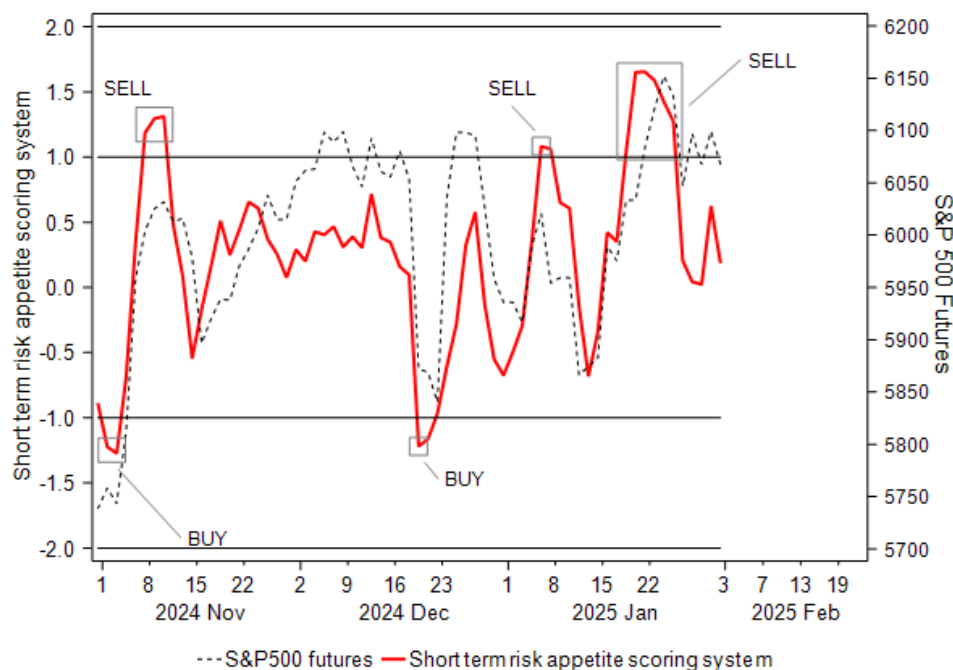
**FIG 1f:** Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures (updated using the current/live S&P500 futures price)



Source: Longview Economics, Macrobond

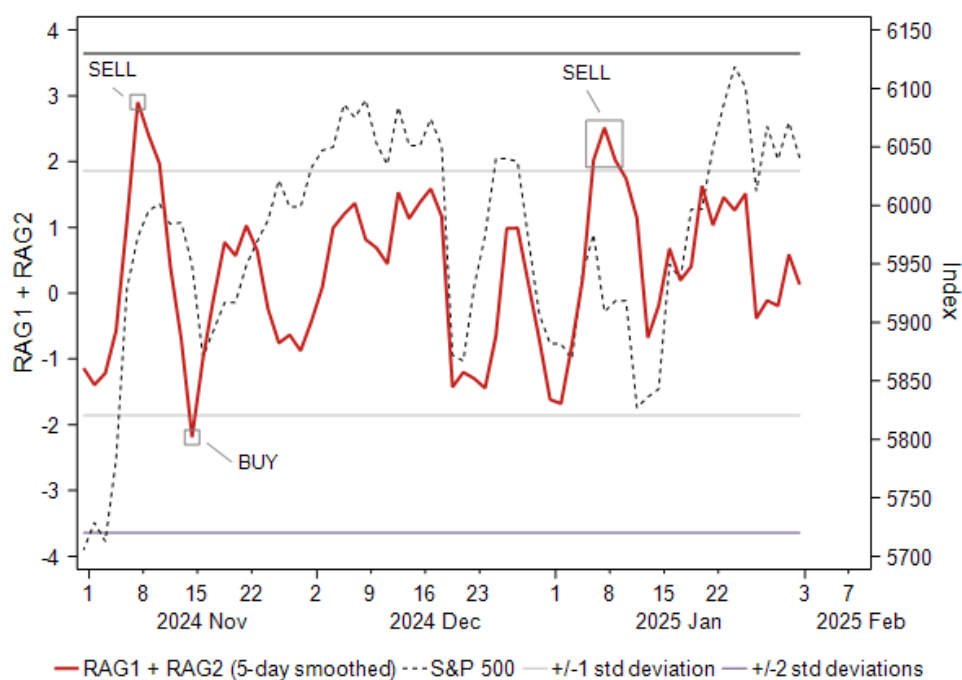
## Risk appetite models are broadly mid-range...

**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

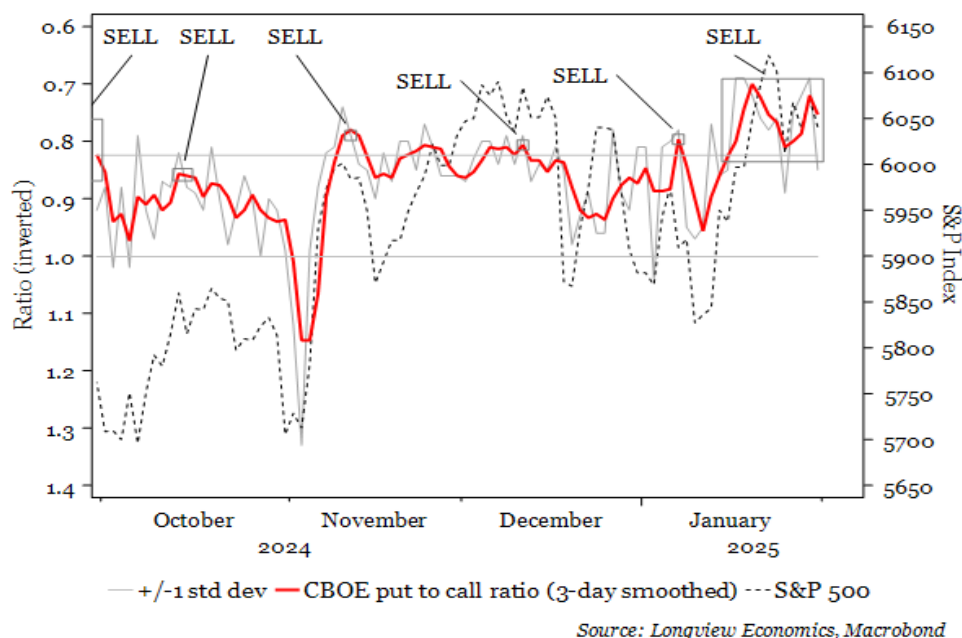


Source: Longview Economics, Macrobond



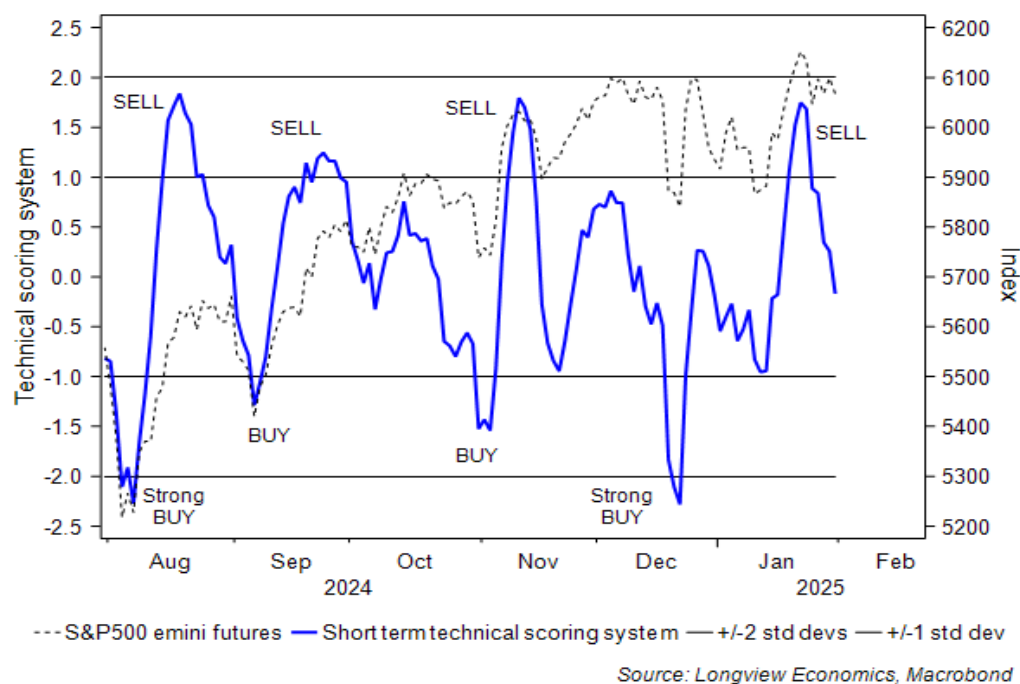
**The short-term CBOE put to call model, at Friday's close, was on strong SELL.....**

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

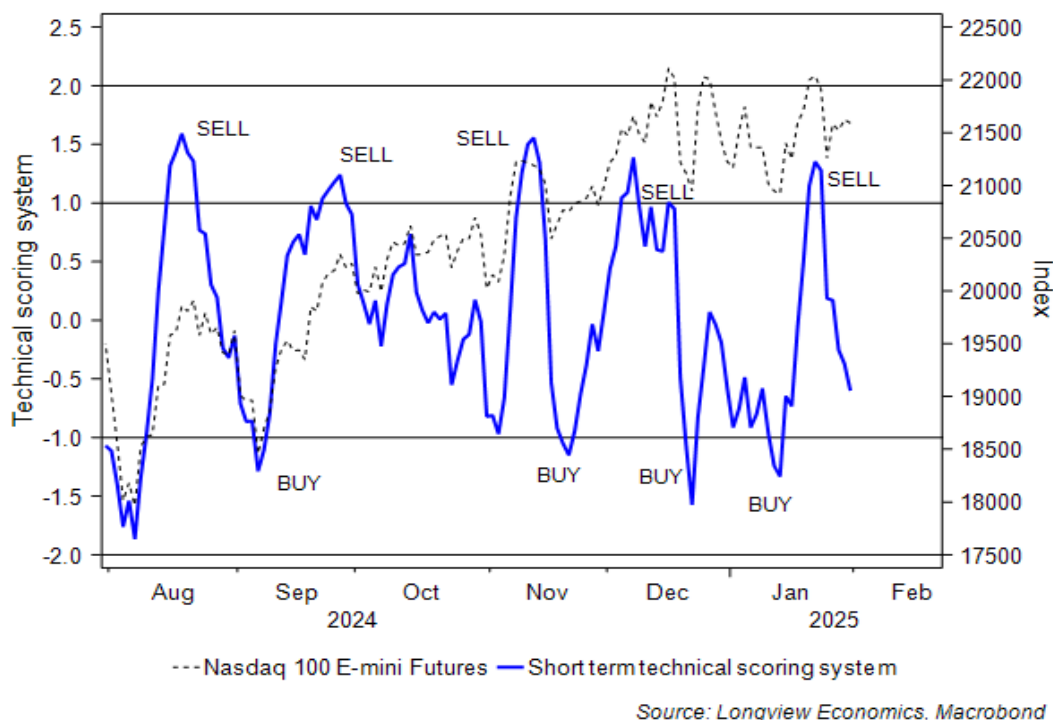


**Technical models (for indices) are NEUTRAL....(as of Friday's close)**

**FIG 4:** Longview S&P500 short term 'technical' scoring system vs. S&P500 futures (based on Friday's closing price)

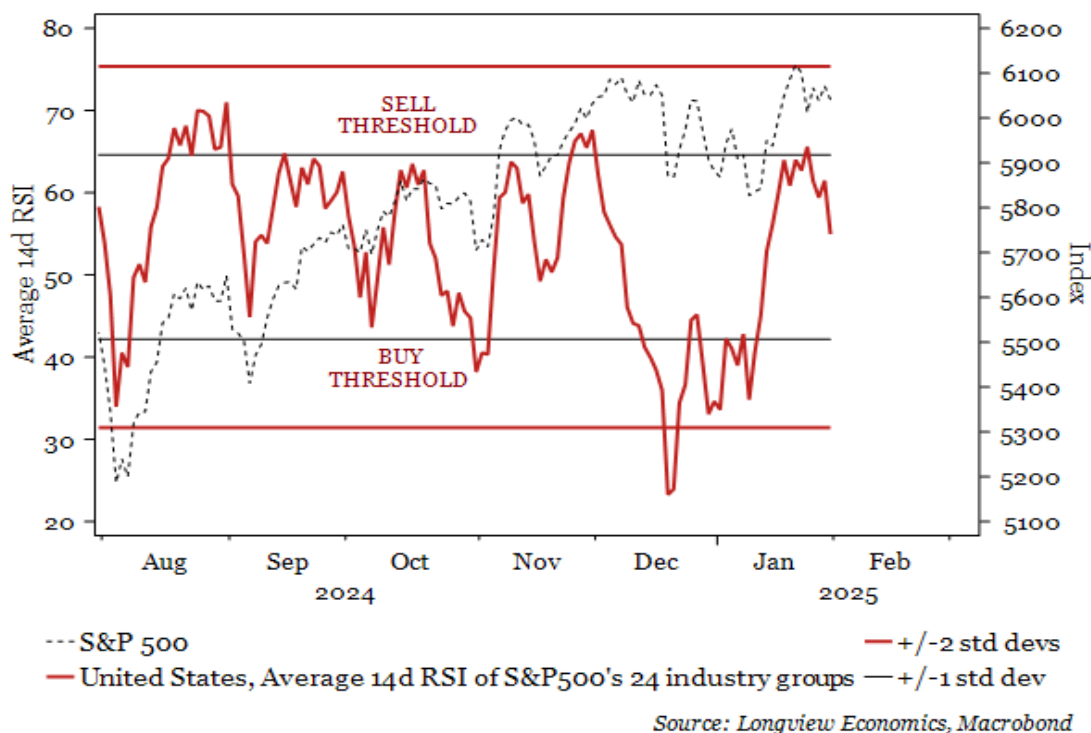


**FIG 4a:** Longview NASDAQ100 short term **‘technical’** scoring system vs. NASDAQ100 futures



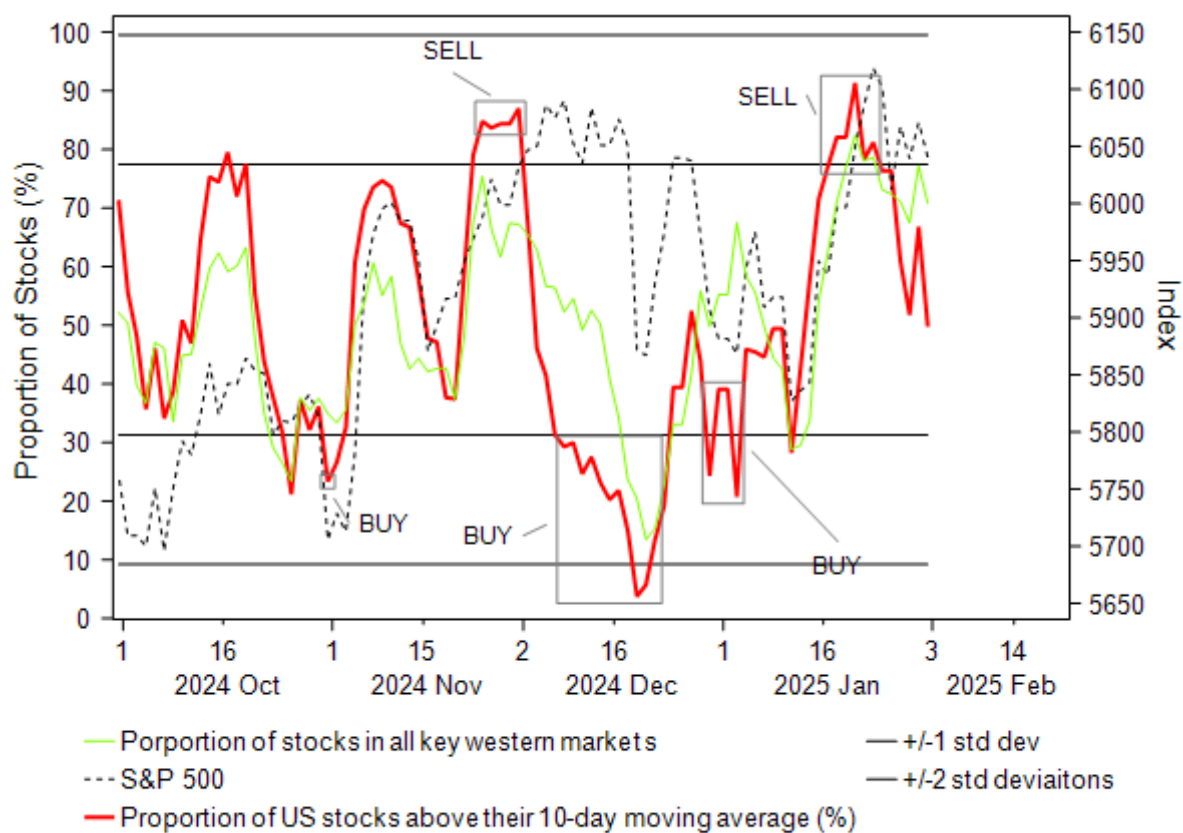
**Sector and single stock technical models are mostly mid-range....**

**FIG 5:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500





**FIG 5a:** Proportion of US stocks above their 10-day moving average vs. S&P500



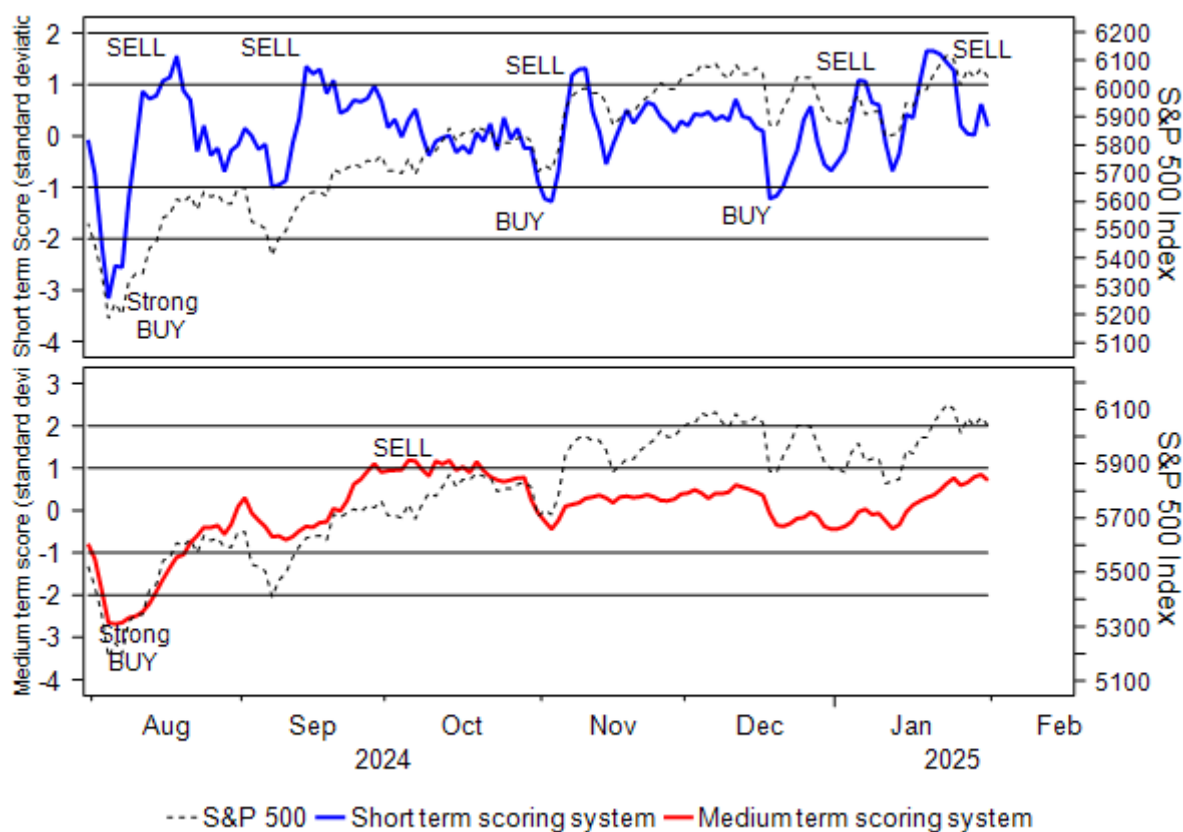
Source: Longview Economics, Macrobond

**Key Longview Scoring Systems** (chart below):

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

**Medium term** (1 – 4 month) scoring system: **NEUTRAL** (close to SELL)

**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 headline CPI (Jan, 12am); Japanese Jibun Bank manufacturing sector PMI (January final estimate, 12:30am); Australian ANZ-Indeed job advertisements (Jan, 12:30am); Australian retail sales (Dec, 12:30am); Australian building approvals & private sector houses (Dec, 12:30am); **Chinese Caixin manufacturing sector PMI** (Jan, 1:45am); HCOB manufacturing sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & EZ (9am) - all January final estimates apart from Spain & Italy; Italian ISTAT consumer & manufacturing confidence (Jan, 9am); UK S&P manufacturing sector PMI (January final estimate, 9:30am); **EZ headline & core CPI** (January first estimate, 10am); Italian headline CPI (January first estimate, 10am); Canadian S&P Global manufacturing sector PMI (Jan, 2:30pm); US S&P manufacturing sector PMI (January final estimate, 2:45pm); **US ISM manufacturing** (Jan, 3pm); US construction spending (3pm); **US Senior Loan Officer Opinions survey** (7pm); Japanese monetary base (Jan, 11:50pm).

**Key events** today include: Speeches by the Fed's Bostic on the Economic outlook (5:30pm) & Musalmen at an event at the St. Louis Fed (11:30pm); speech by the ECB's Simkus in Vilnius (8am); market holiday in China on account of Chinese New Year.

**Key earnings** today include: **Palantir Technologies, NXP, Mizuho Financial.**

## 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 15<sup>th</sup> January 2025. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).



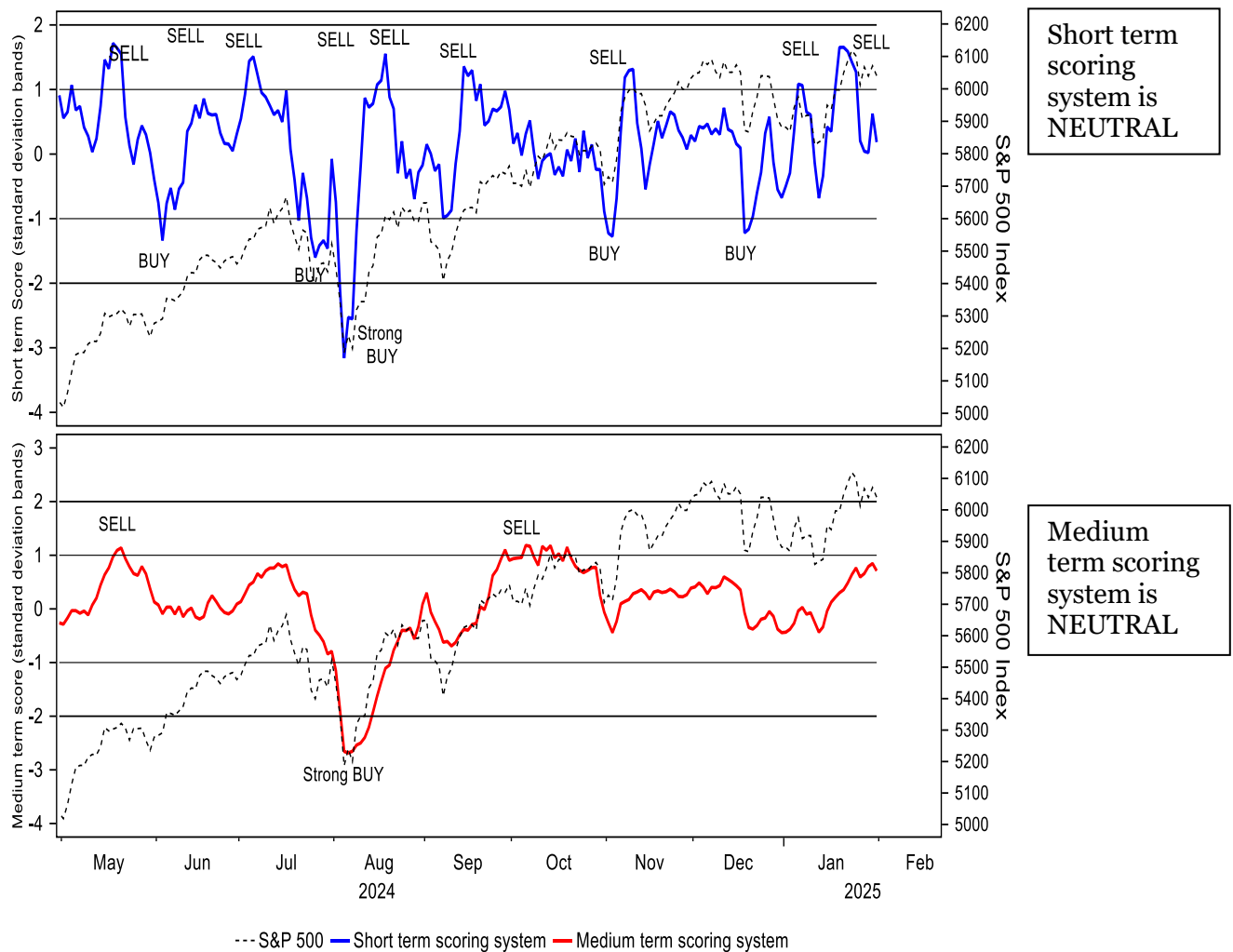
**LV RAG**  
Daily Risk Appetite Gauge

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

**Fig 1:** Longview ‘short term’ and ‘medium term’ scoring systems



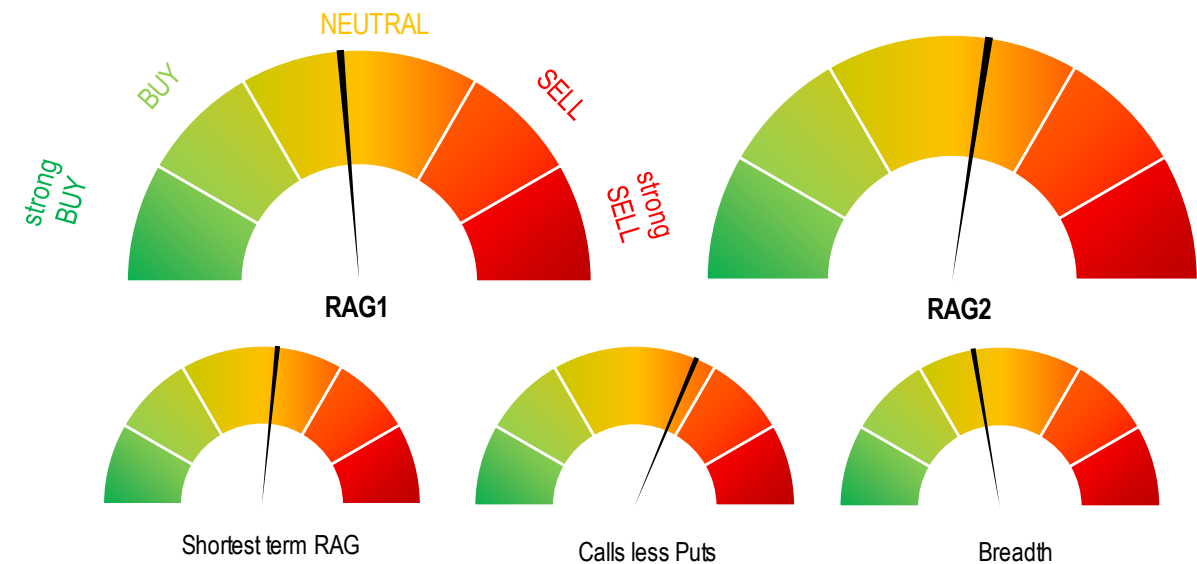
Source: Longview Economics, Macrobond

\*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**

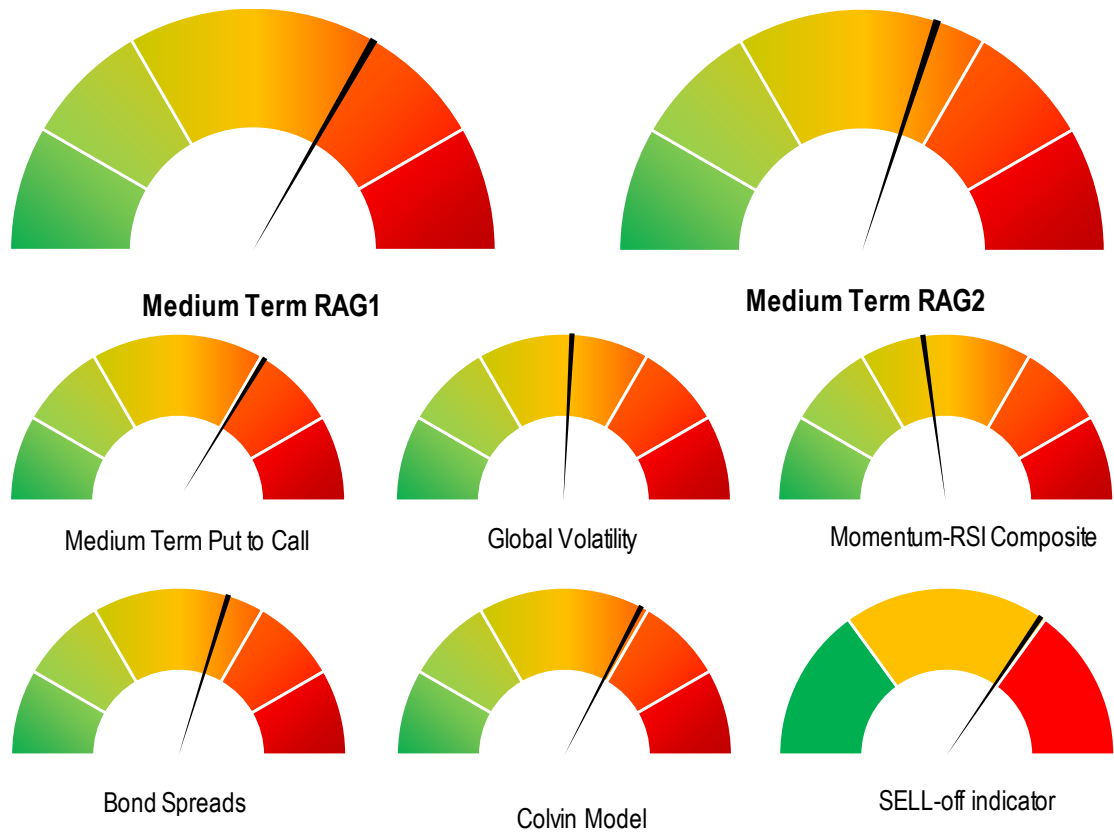
**Section 1a: Summary of indicator signals\*\***

**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

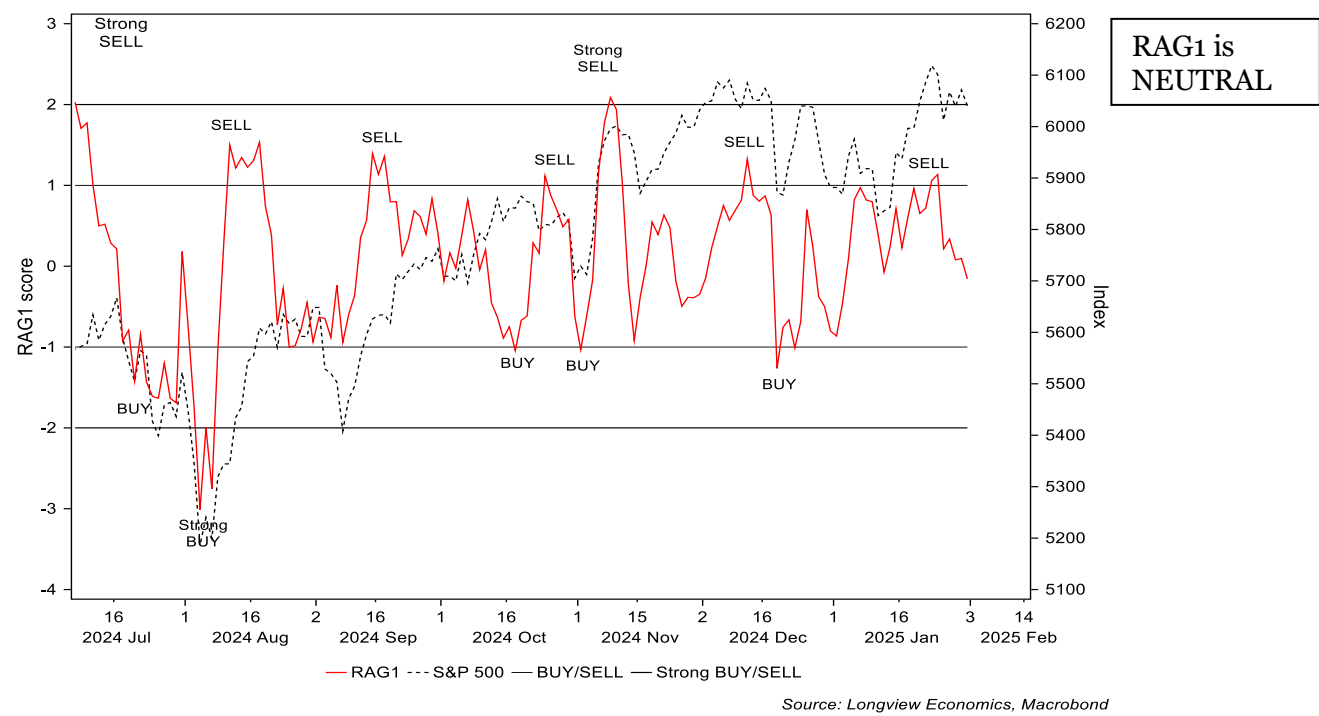
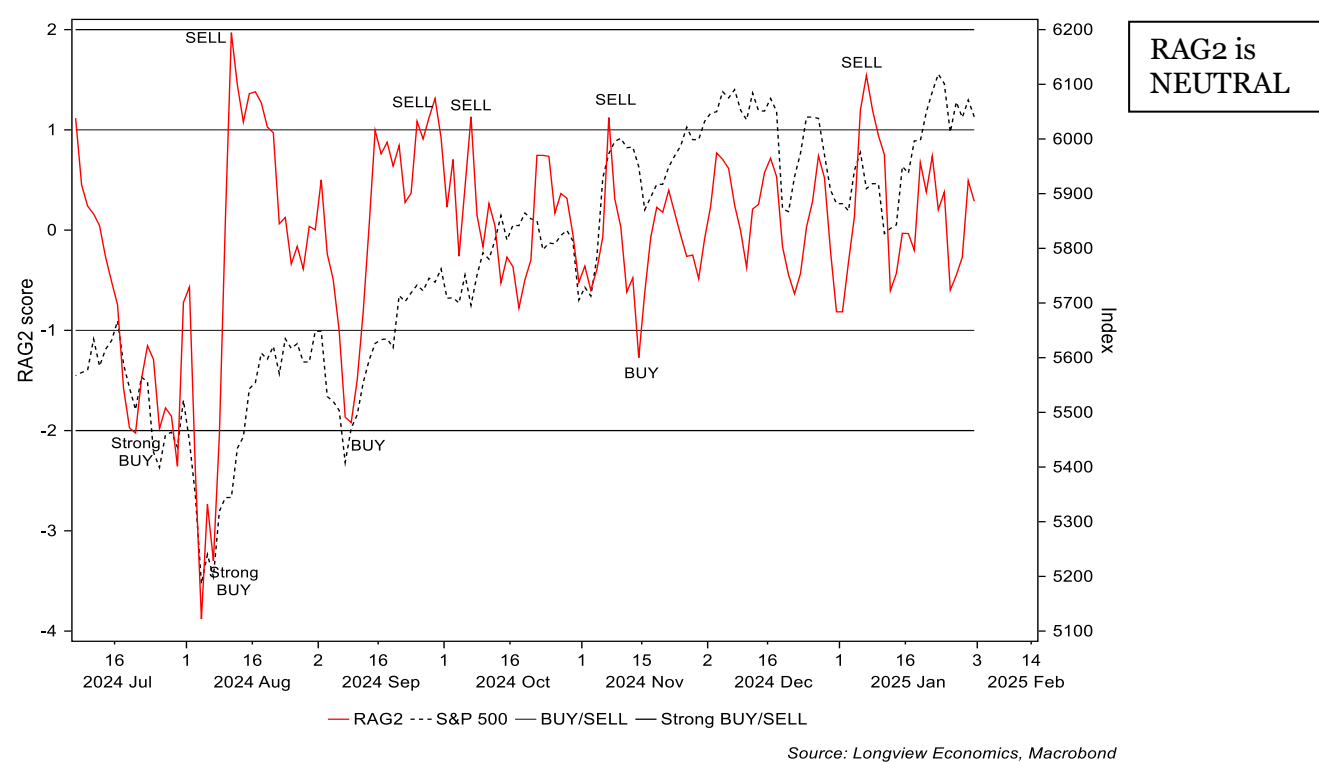


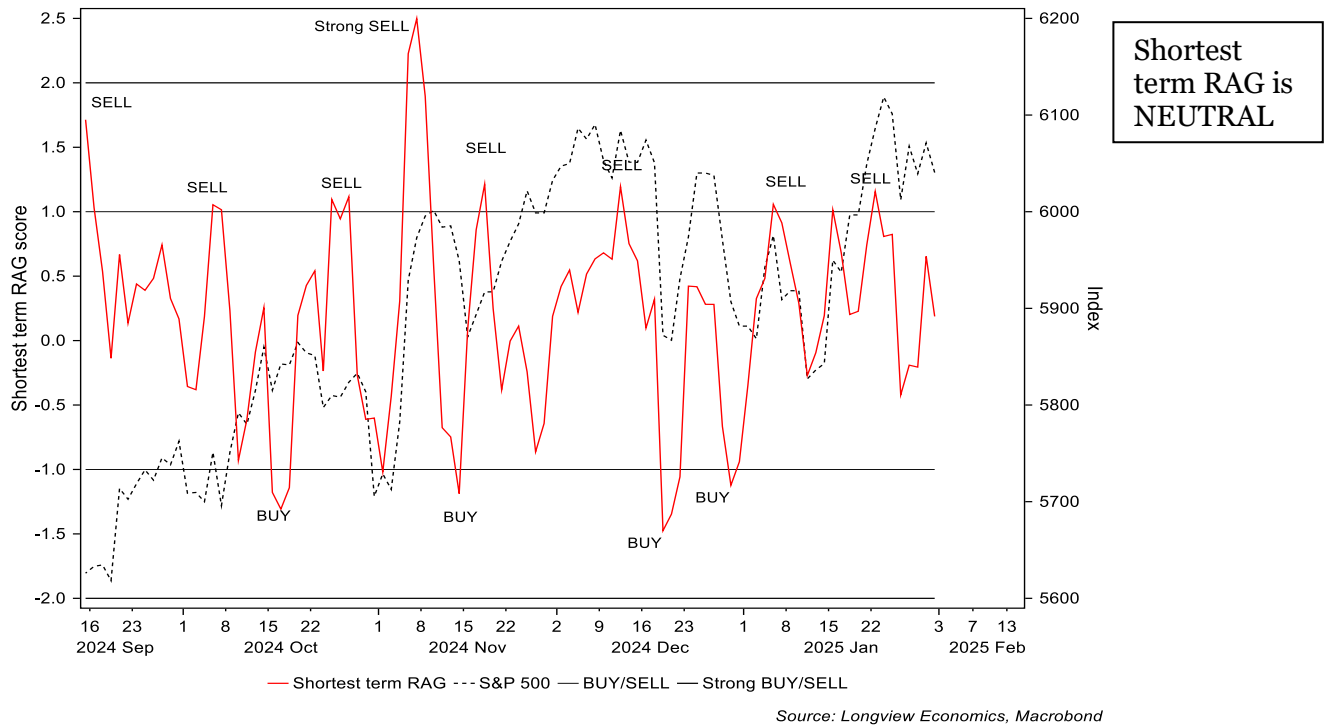
Fig 2b: RAG 2 vs. S&P 500



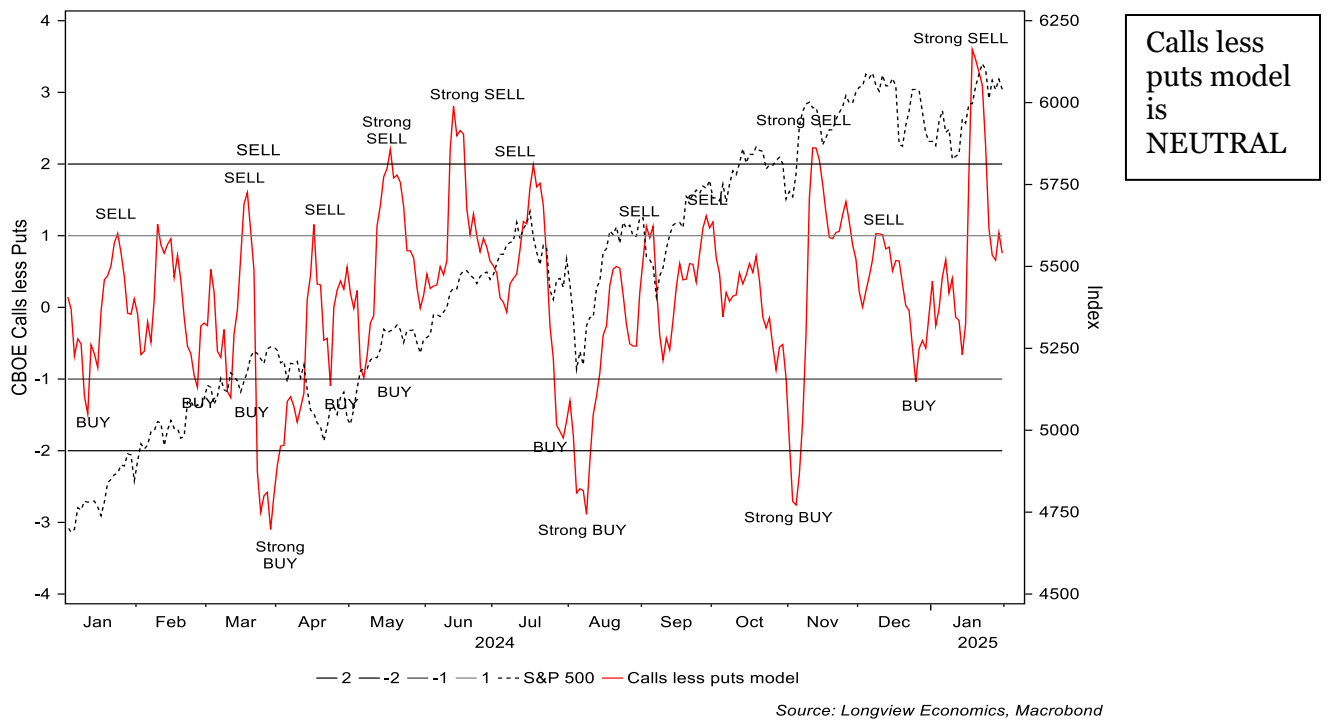
For explanations of indicators please see page 10



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

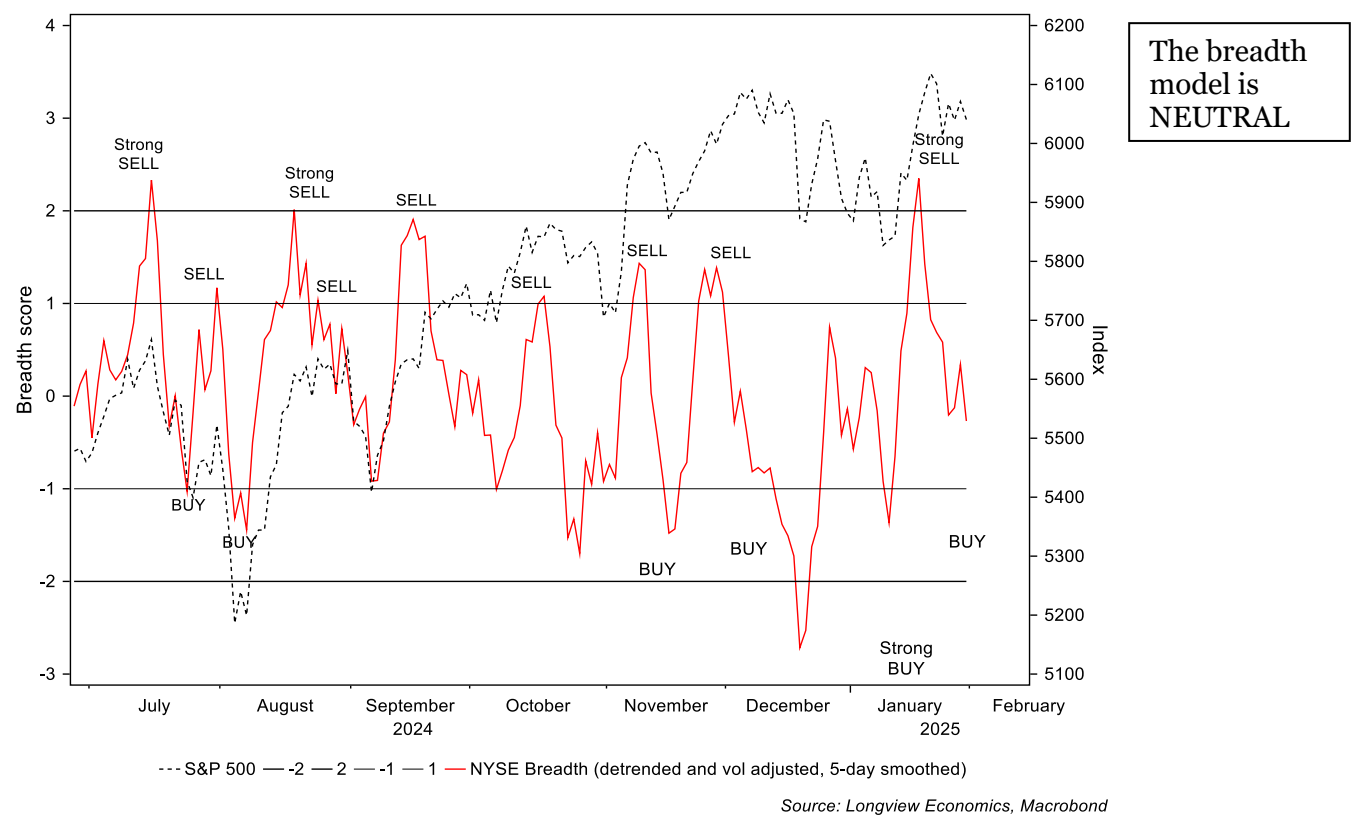


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**For explanations of indicators please see page 10**

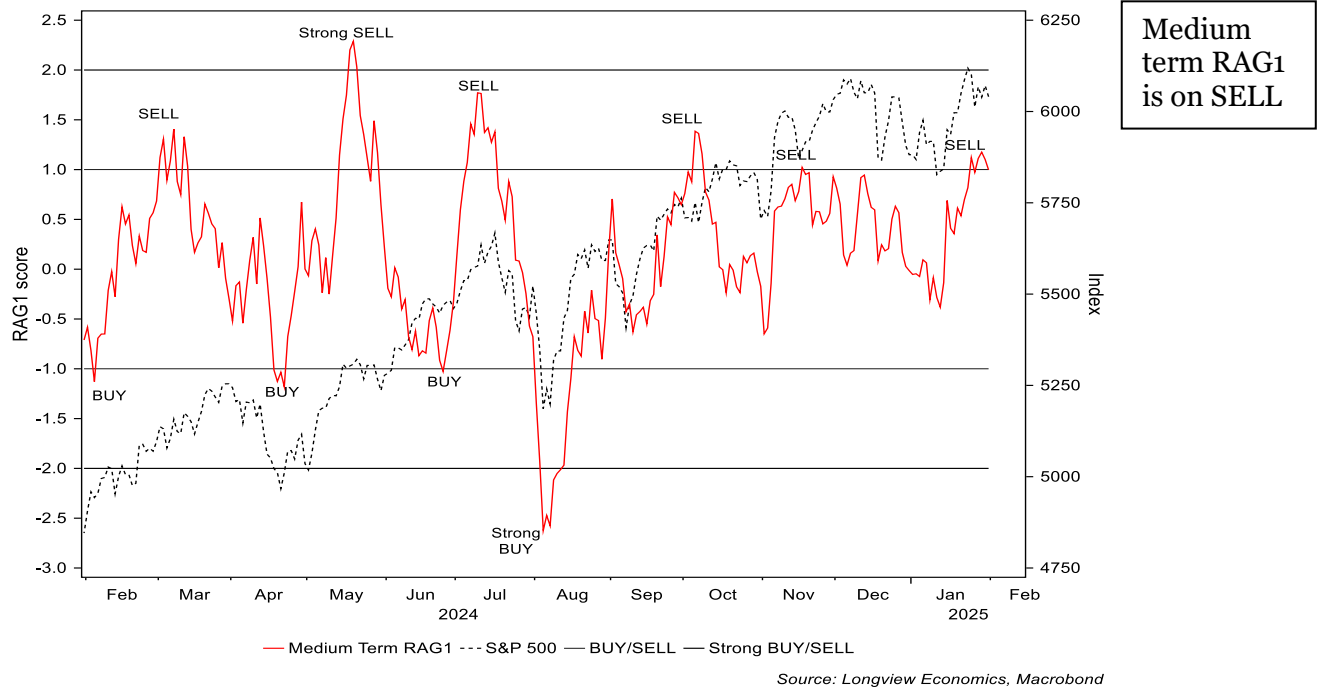
**Fig 2e:** Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



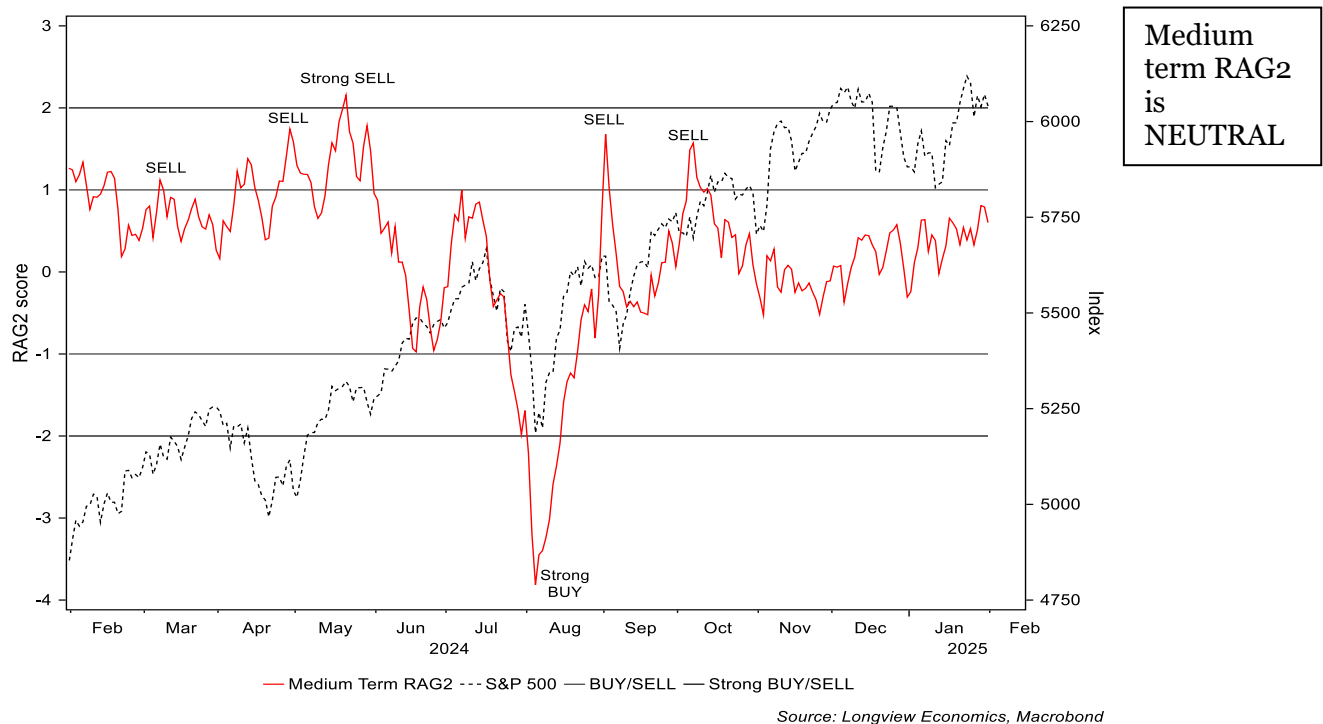
*For explanations of indicators please see page 10*

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

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

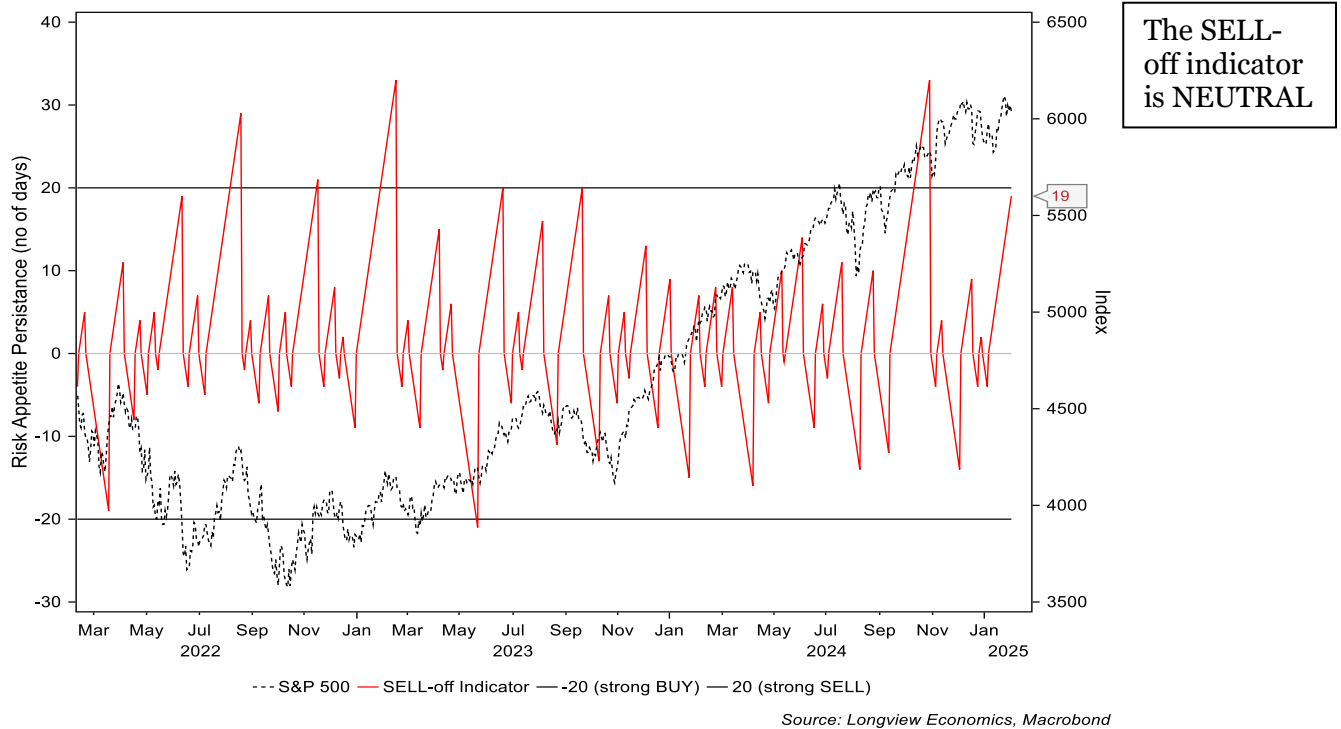


**Fig 3b:** Medium term RAG2 (1 – 4 month view) vs. S&P 500

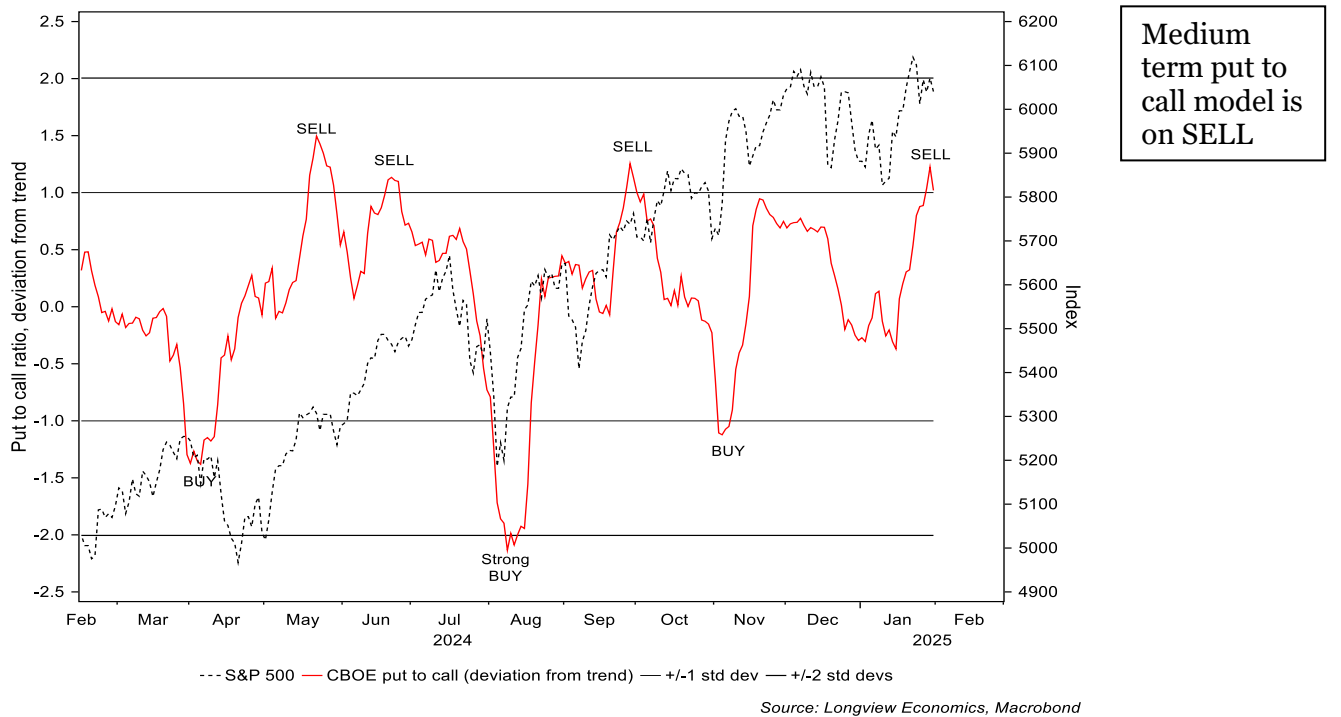


*For explanations of indicators please see page 10*

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

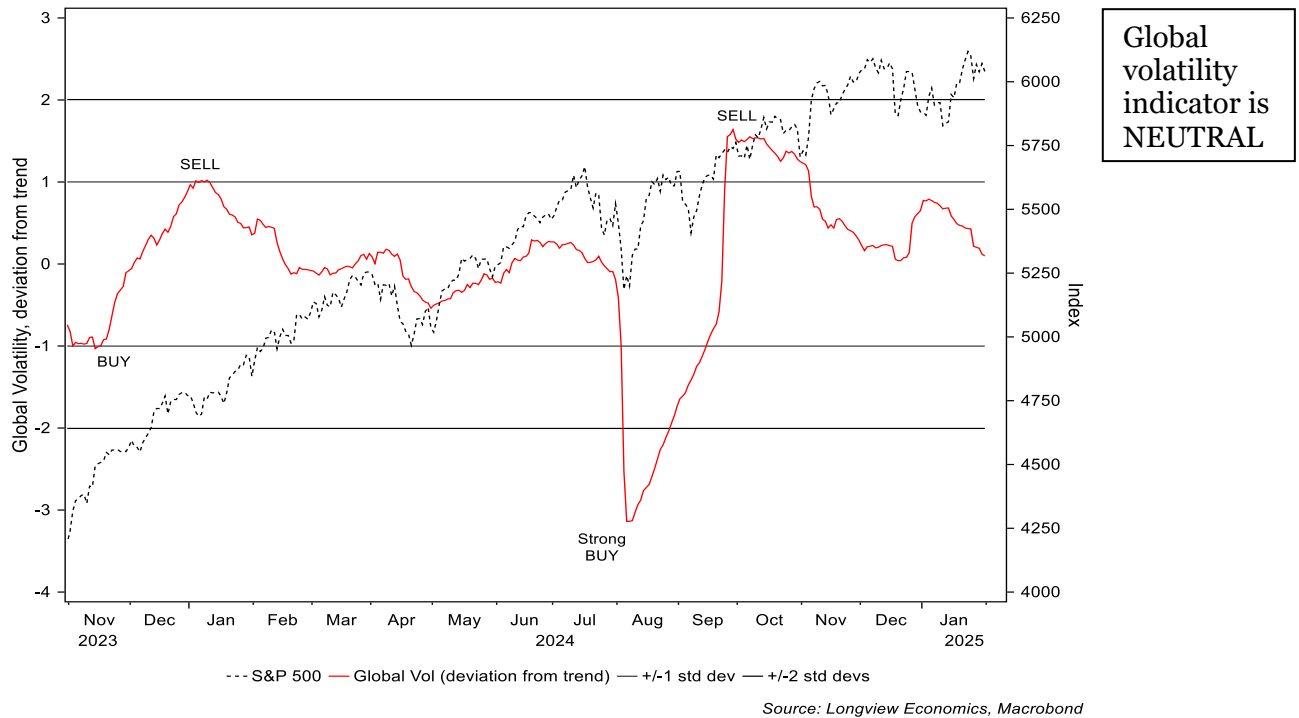


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

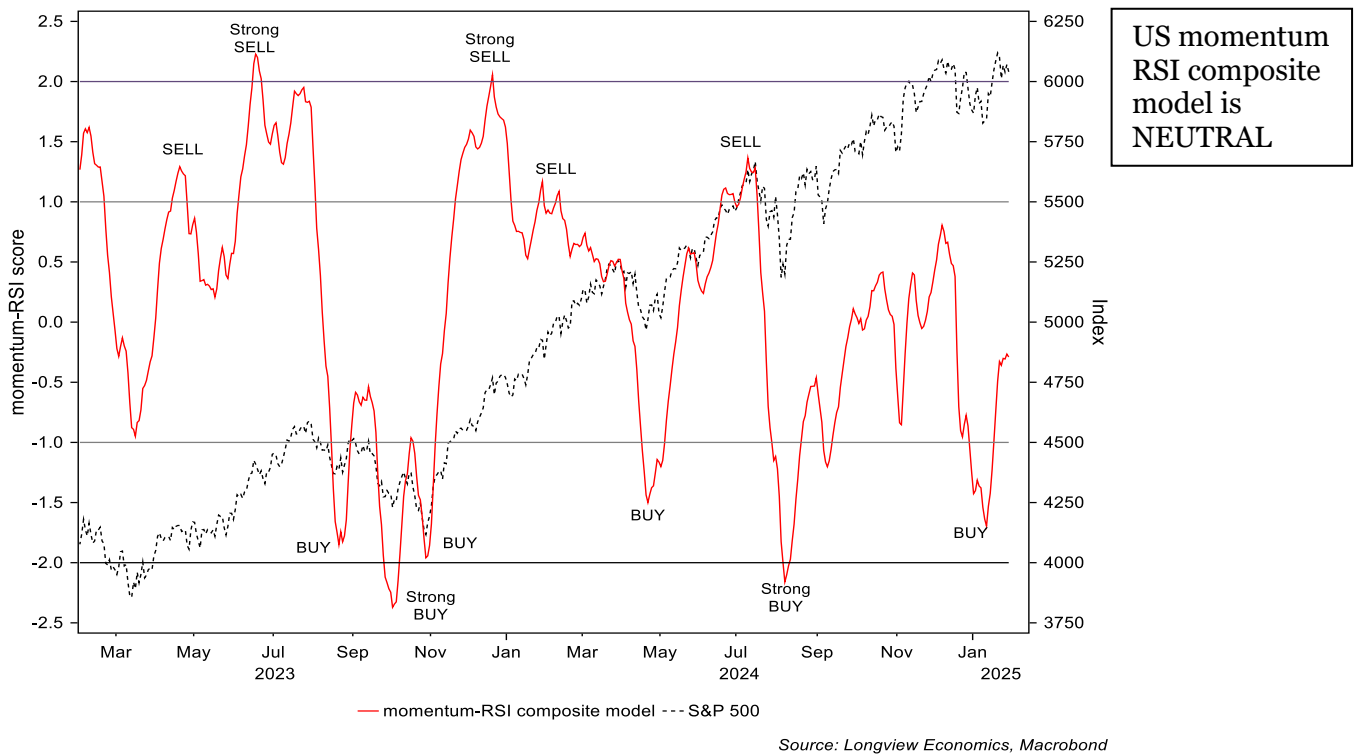


**For explanations of indicators please see page 10**

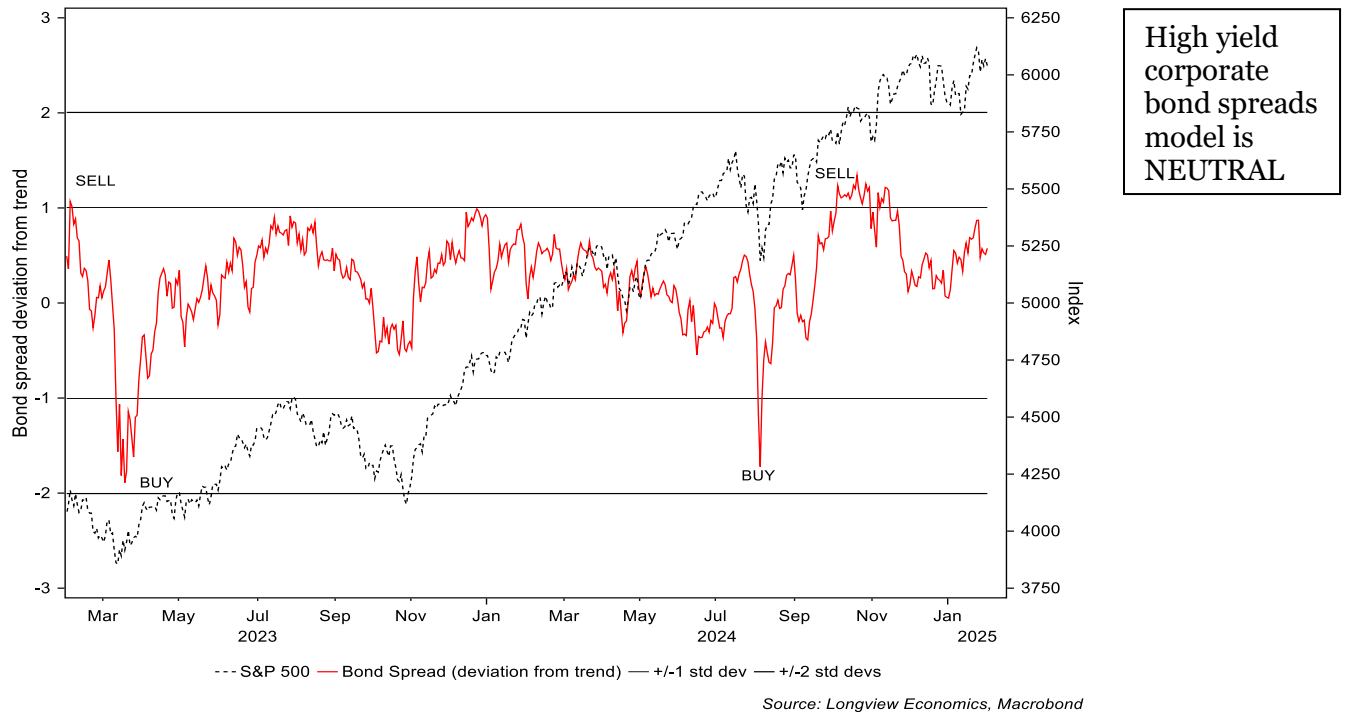
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



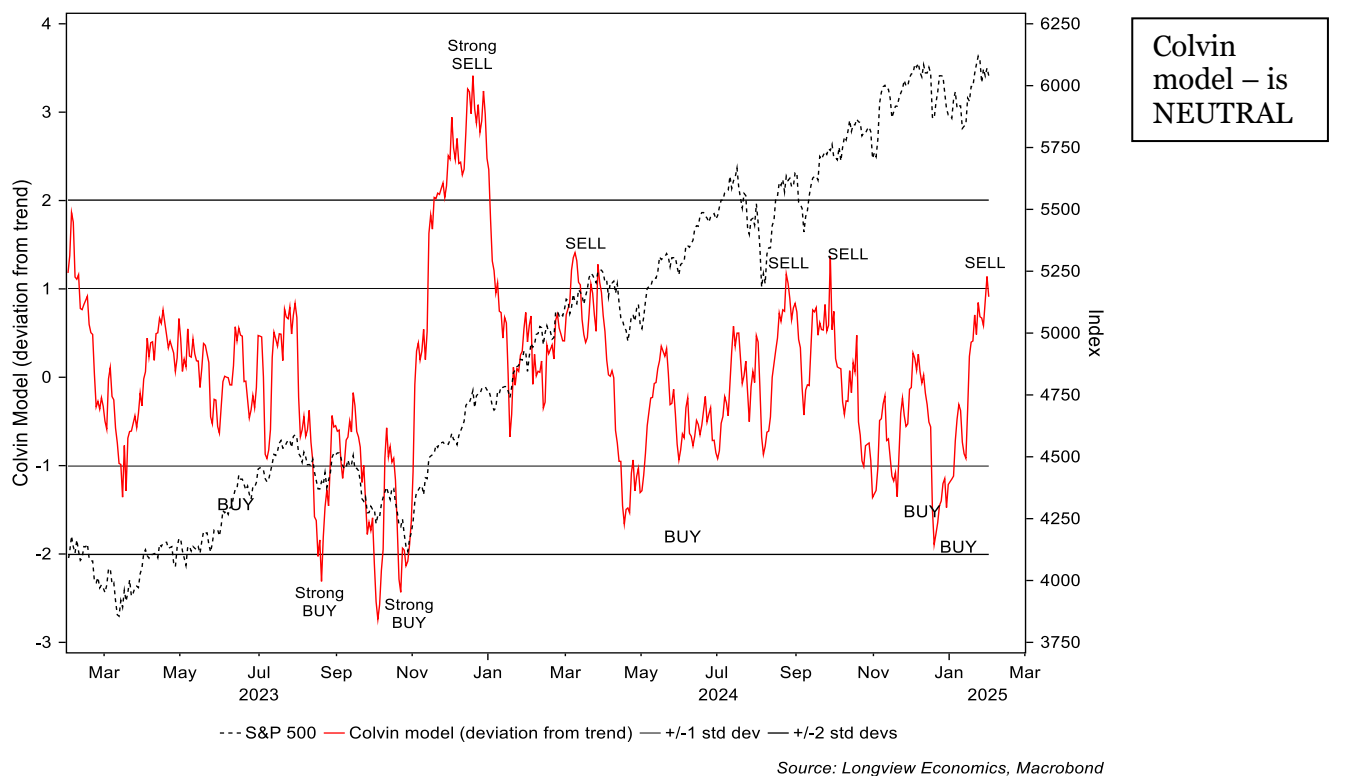
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



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



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



*For explanations of indicators please see page 10*



## Appendix: Model Explanations

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### **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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