LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

3rd March 2025

"SPX 'Wave 2' Relief Rally Likely Brewing/Underway"

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

- Keep looking to BUILD LONG positions on weakness, with an initial ¼ LONG March S&P500 futures position at 5,850 (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 5,626).

Rationale

US equity markets rallied sharply on Friday. Financials (+2.1%), consumer discretionary (+1.8%) and IT (+1.7%) led the rally as the best performing top level sectors. All 11 sectors, though, closed higher (real estate was the laggard). The Philly SOX was up 1.7%, while the NDX100 and the S&P500 were 1.6% higher. US 10-year bond yields edged lower and closed on their 200-day moving average (i.e. 4.24% yield); the dollar rallied for its third consecutive trading session (+0.35%), volatility eased (with the VIX down 150bps), while European equities were also mostly higher on Friday (albeit modestly so). Over the weekend, Bitcoin has been in 'risk on' mode, following on from Trump's further comments about building a broad based crypto/BTC reserve.

Most likely that sharp rally in US equities on Friday represented the start of a 'wave 2' relief rally. As highlighted in the 'Daily Risk Appetite' emails last week, most pullbacks happen in 3 or 5 waves*. That is, there's an initial wave of selling ('wave 1'), which is then followed by a 'wave 2' relief rally, before a third wave to new lows ('wave 3'). Wave one, given the positioning of our short-term models, is likely largely played out. Hence why we closed our SHORT position towards the end of last week (culminating with the closing of the final ¼ SHORT S&P500 futures position on Friday morning London time).

Our **short-term models** are shown below (FIGs 2 to 2g). The risk appetite models are on BUY/strong BUY; technically key US equity indices are all oversold; while some downside put protection is in place in the broader market (i.e. see the CBOE put to call ratio). The NASDAQ calls less puts ratio, meanwhile, is already on BUY (along with the R2K put to call ratio). Running against the overall short term models' message, single stock and sector technical models haven't yet generated BUY signals, although they have been close to BUY (FIGs 2f & 2g). Overall, though, short-term models are increasingly generating a BUY/strong BUY message. Interestingly as well, in that respect, the combined 'short and medium term' risk appetite scoring system is also now on BUY (FIG 1b).

As such, and after Friday's strong move, the key consideration is **how to trade the 'wave 2' relief rally**.

Obvious resistance levels include: i) 6,000 on S&P500 futures (see intraday highs on 25th, 26th and 27th Feb – FIG 1 & 1a); & ii) the 50-day moving average at 6,024 (FIG 1).

Obvious support levels include: i) 5,850 (intraday lows on Friday); ii) 5,800 – intraday lows in December and January (FIG 1a); iii) 5,752 (200 day moving average – FIG 1); iv) 5,720, which was various intraday highs and lows over past 9 months (FIG 1).

Often after 'wave one' pullbacks and as the 'wave 2' relief rally is getting underway, the equity market repeatedly revisits its initial wave one intraday lows (in this instance 5,850). Whilst there aren't any guarantees of a repeat of that type of price action, if it occurred it would mark a good entry point into LONG positions (for the wave 2). As such, we recommend looking to BUILD LONG positions at that level.

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

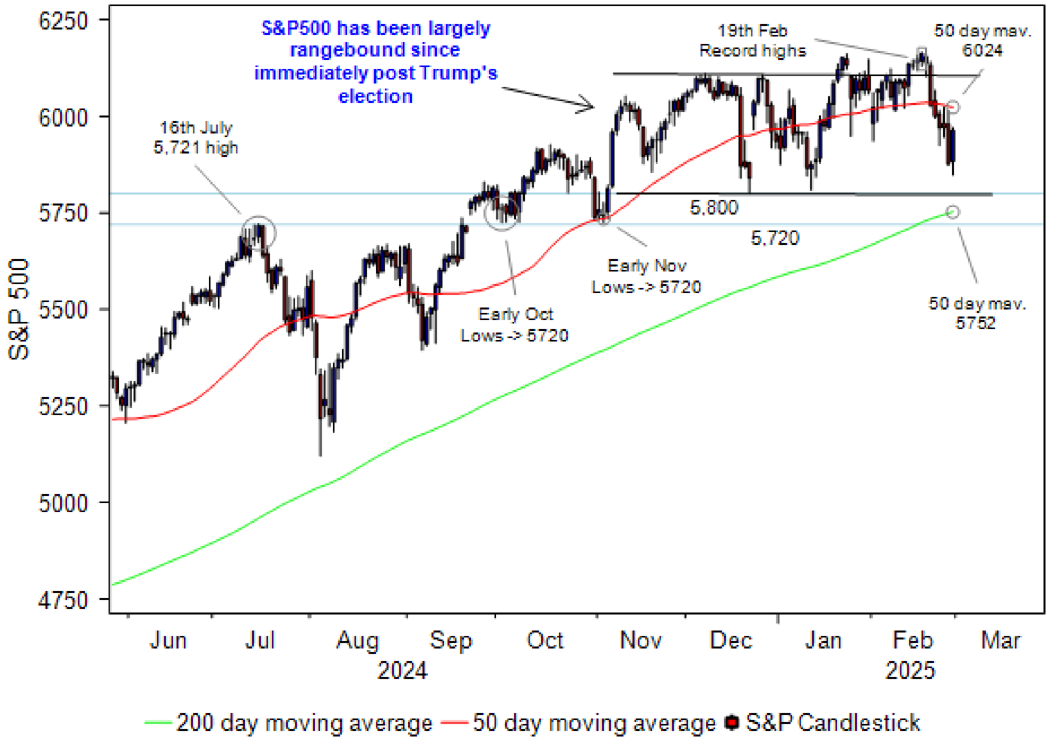
Kind regards,

The team @ Longview Economics

*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: S&P500 futures 60-day tick chart shown with overnight price action

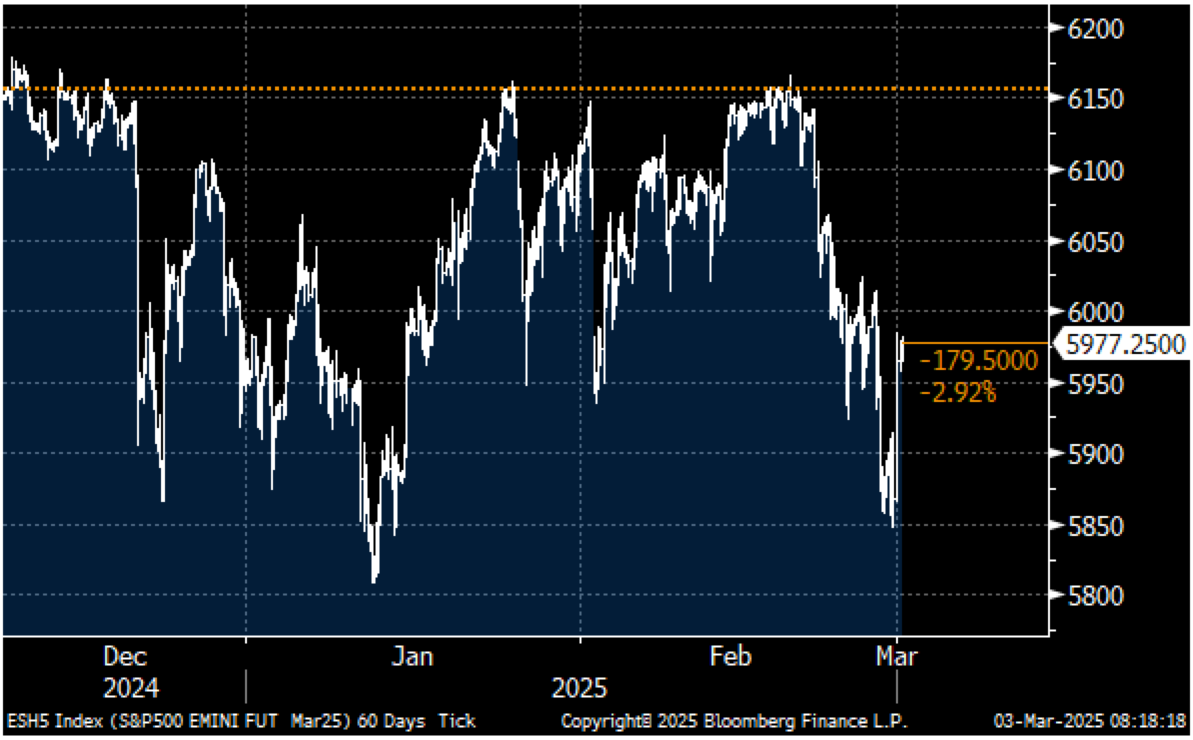
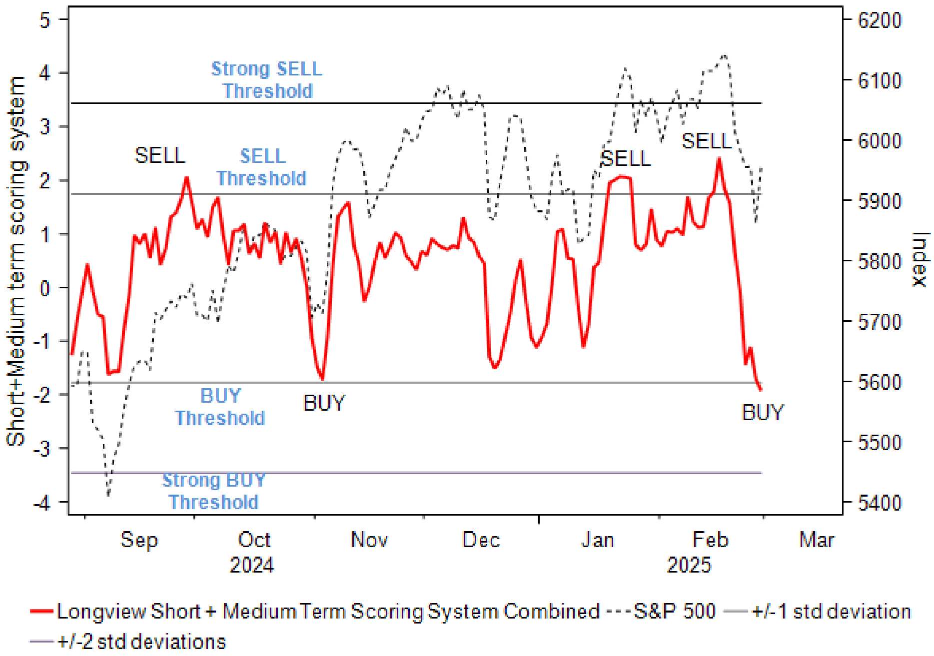


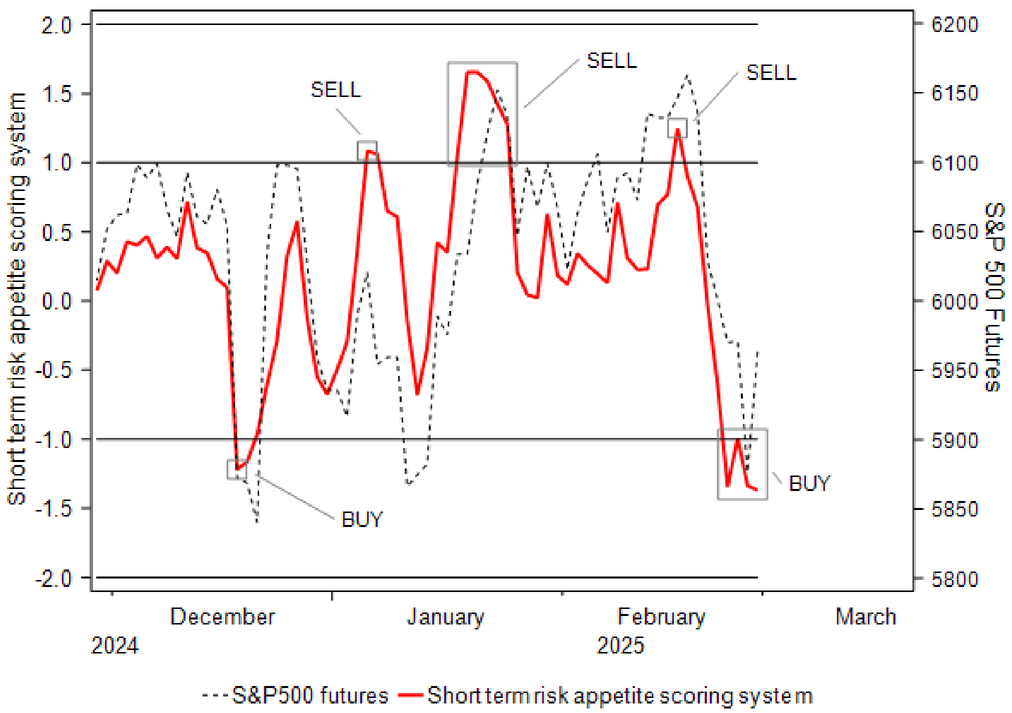
FIG 1b: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



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

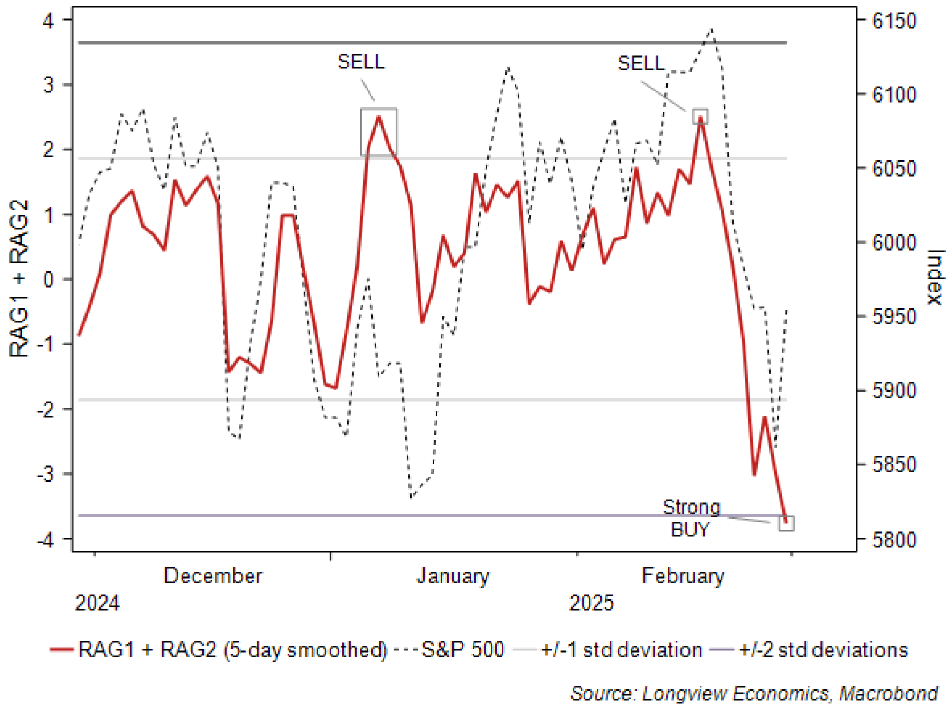


FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

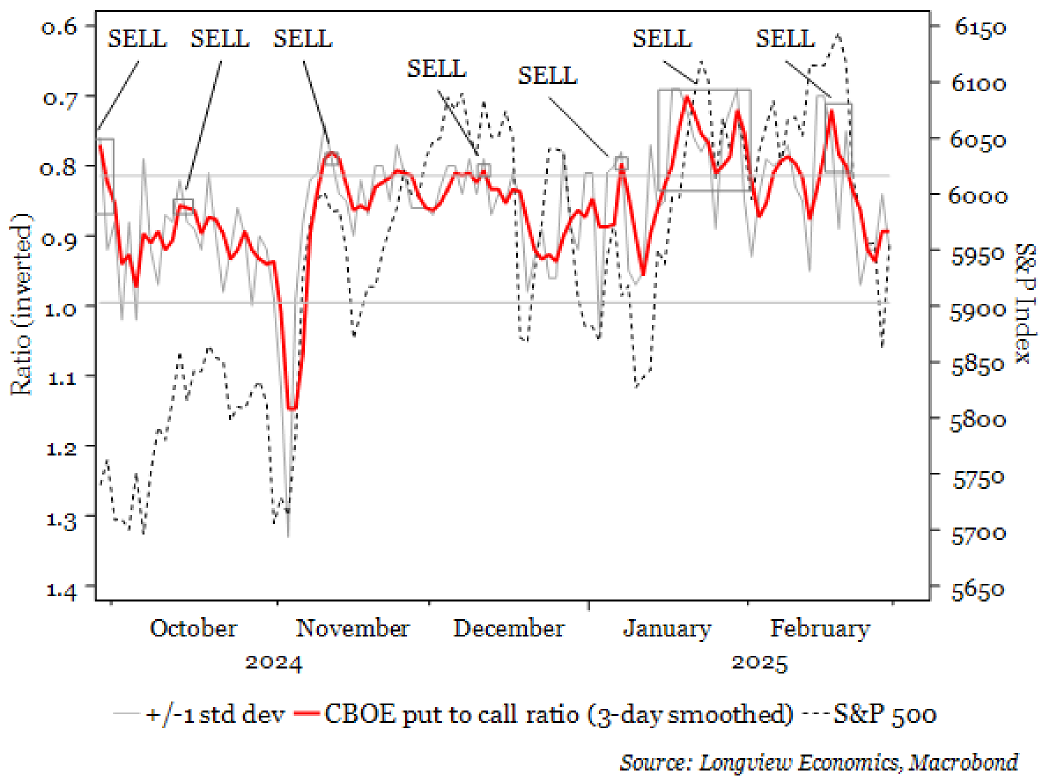
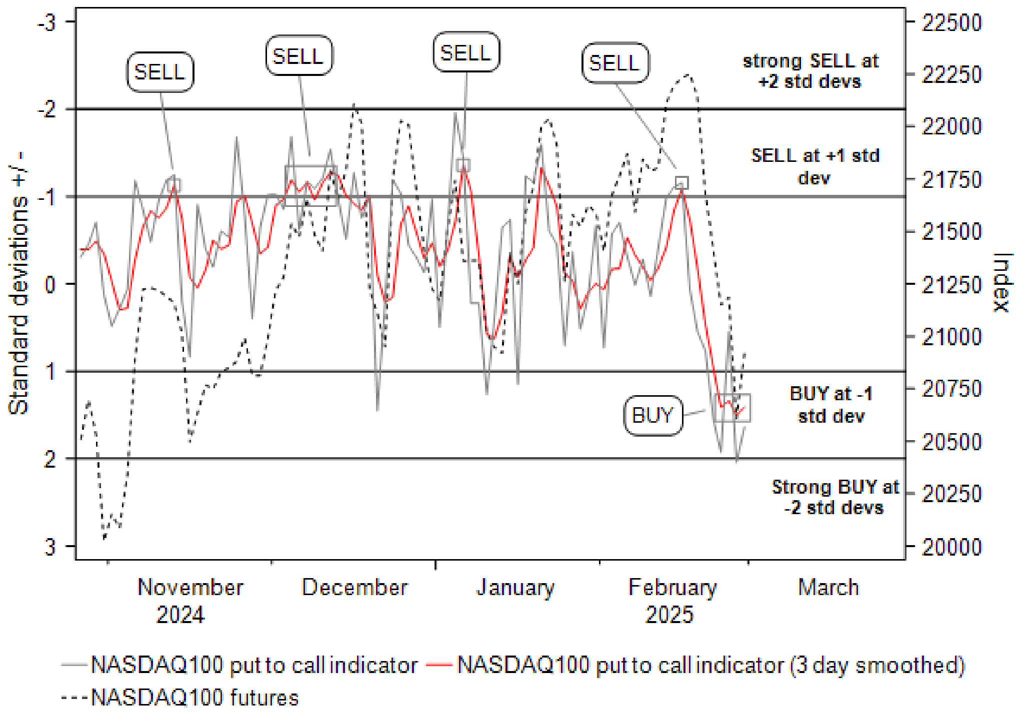
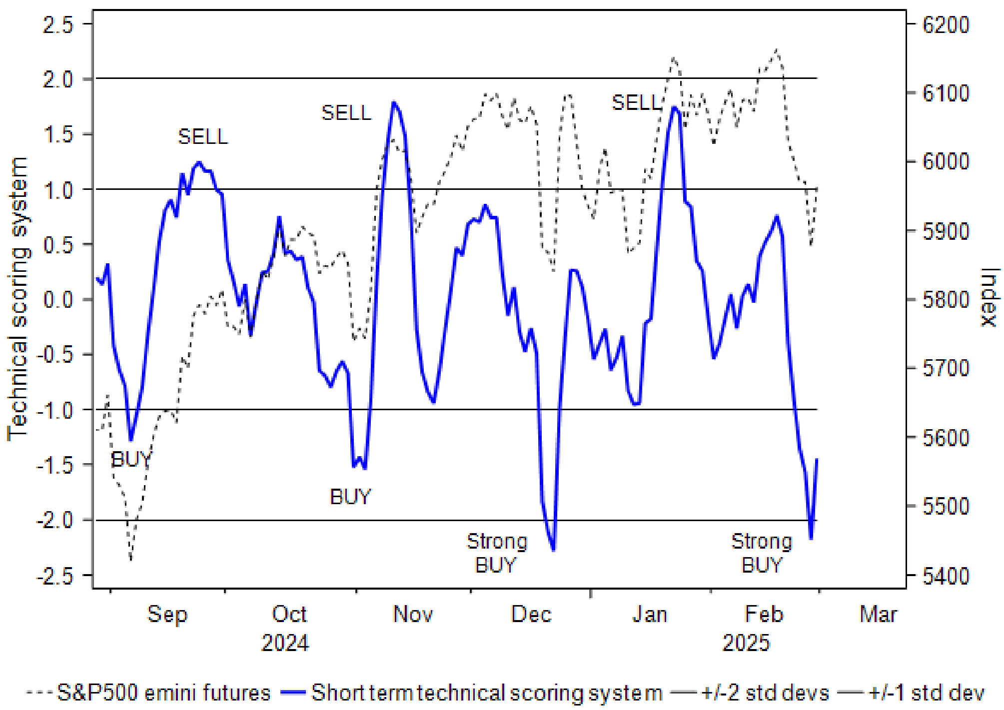


FIG 2c: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



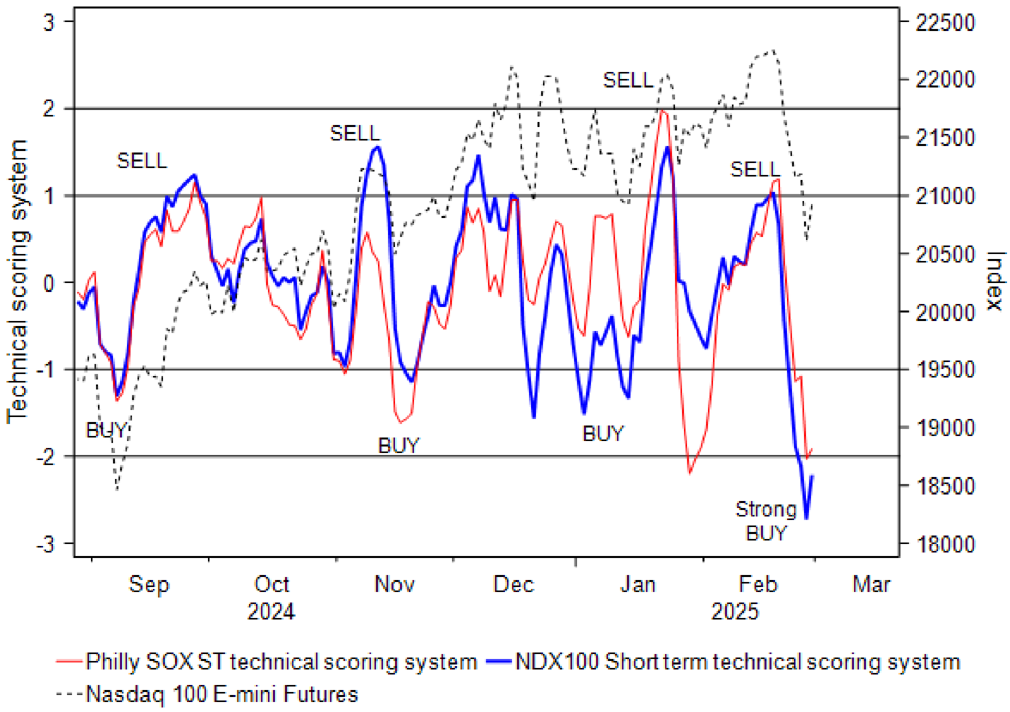
Source: Longview Economics, Macrobond

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



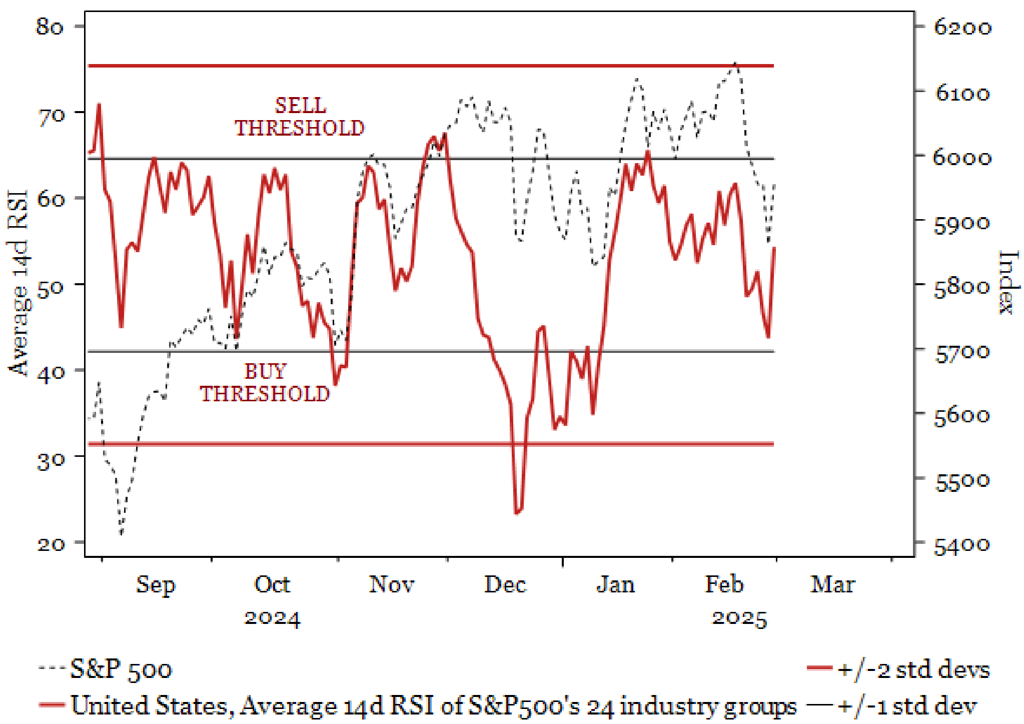
Source: Longview Economics, Macrobond

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



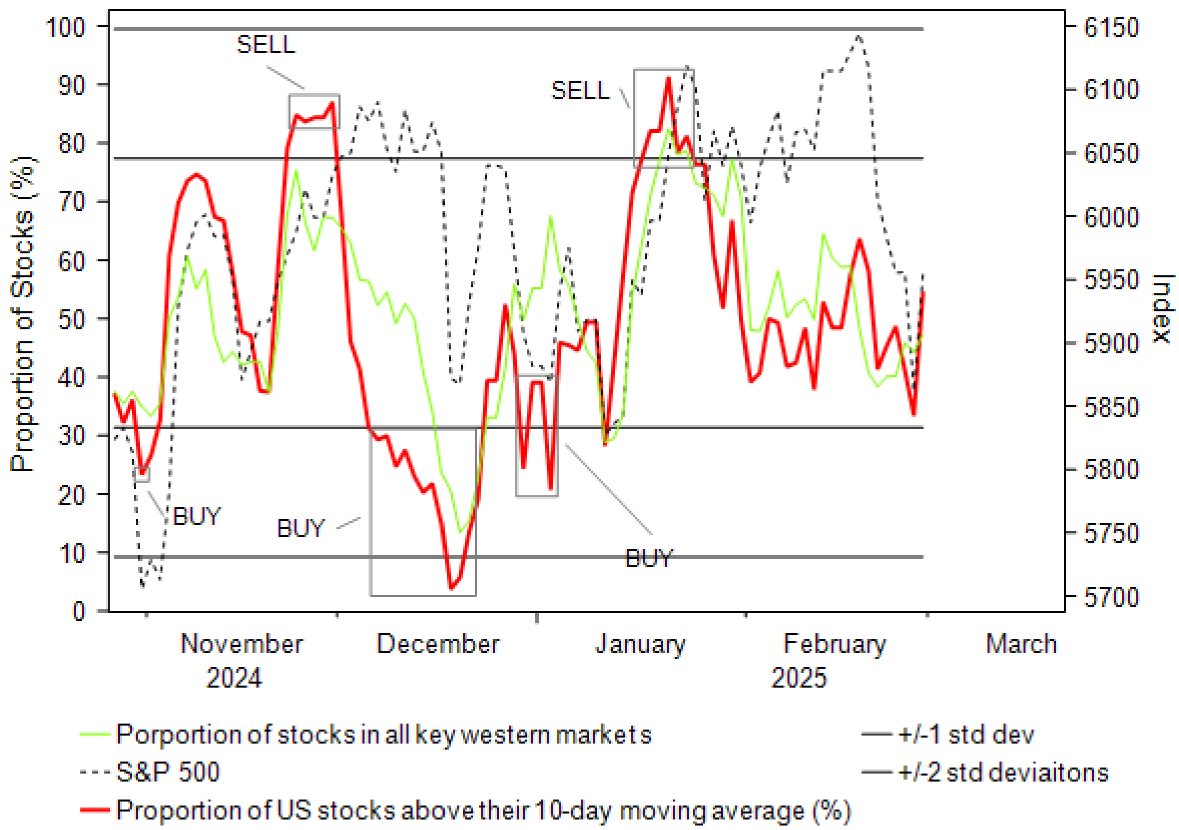
Source: Longview Economics, Macrobond

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 Western stocks above their 10 day moving average vs. S&P500

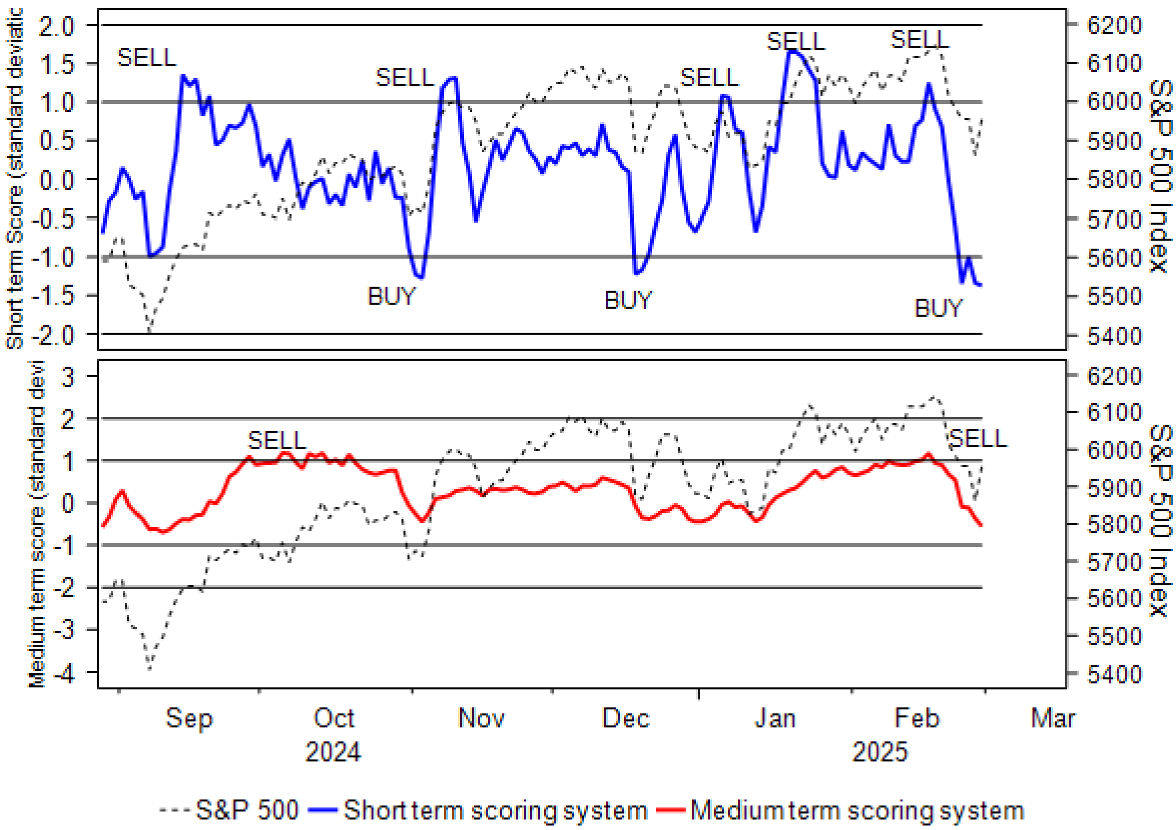


Source: Longview Economics, Macrobond

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

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

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



Source: Longview Economics, Macrobond

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Key macro data/events

Key data today include: Australian headline CPI (Feb, 12am); Japanese Jibun Bank manufacturing sector PMI (February final estimate, 12:30am); Australian ANZ-Indeed job advertisements (Feb, 12:30am); Australian inventories & company profits (Q4, 12:30am); Japanese capital spending & company sales (Q4, 12:50am); **Chinese Caixin manufacturing sector PMI** (Feb, 1:45am); HCOB manufacturing sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & EZ (9am) - all February final estimates apart from Spain & Italy; **UK Net consumer credit, mortgage approvals & M4 money supply** (Jan, 9:30am); UK S&P manufacturing sector PMI (February final estimate, 9:30am); **EZ headline & core CPI** (February first estimate, 10am); Canadian S&P Global manufacturing sector PMI (Feb, 2:30pm); US S&P manufacturing sector PMIs (February final estimate, 2:45pm); **US ISM manufacturing** (Feb, 3pm); US vehicle sales (Jan, 3pm); US construction spending (3pm); Japanese monetary base (Feb, 11:50pm); Japanese jobless rate (Jan, 11:30pm).

Key events today include: Bundesbank to present proposal on Debt Brake reform (11am); speech by the Fed's Musalmen on the economy (5:35pm).

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 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

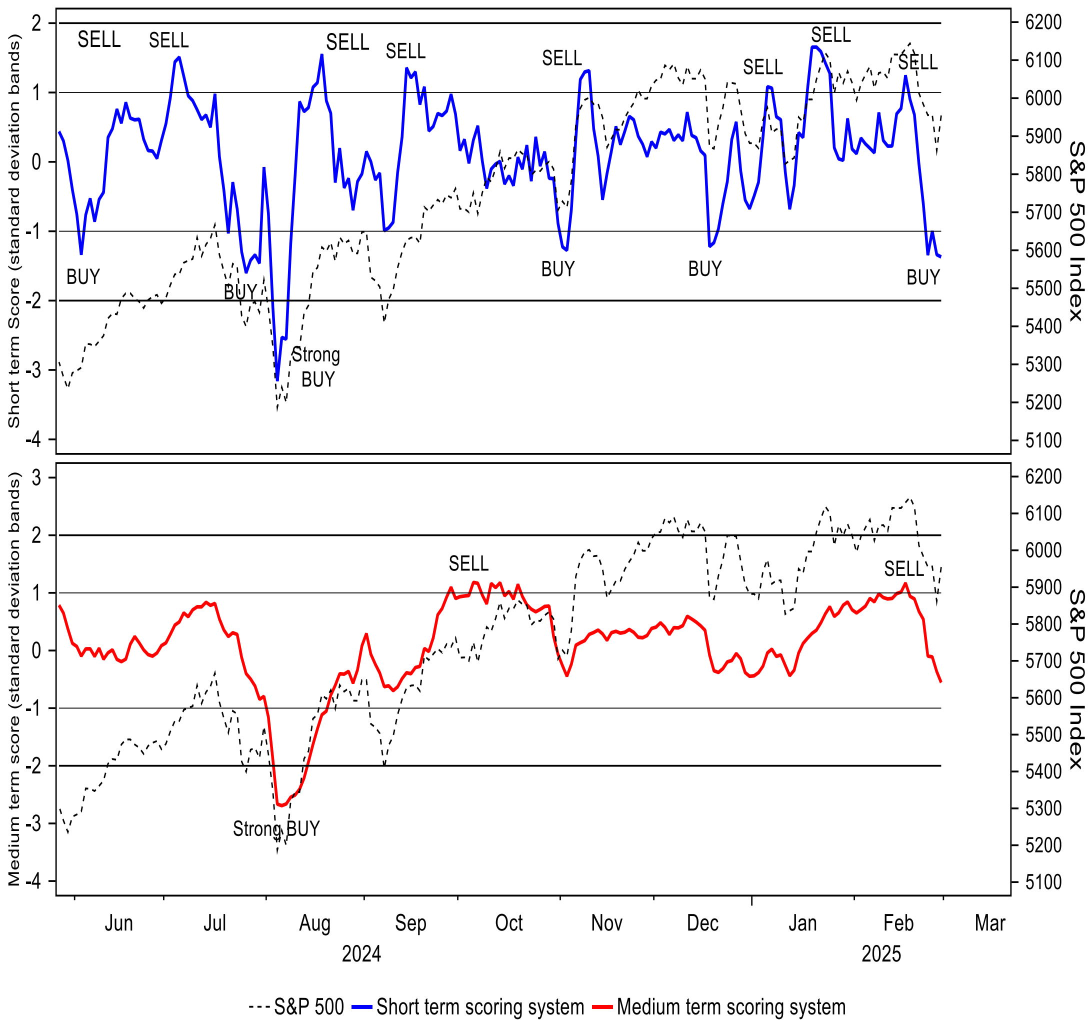
1 – 2 Week View on Risk

3rd March 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 on BUY

Medium term scoring system is NEUTRAL

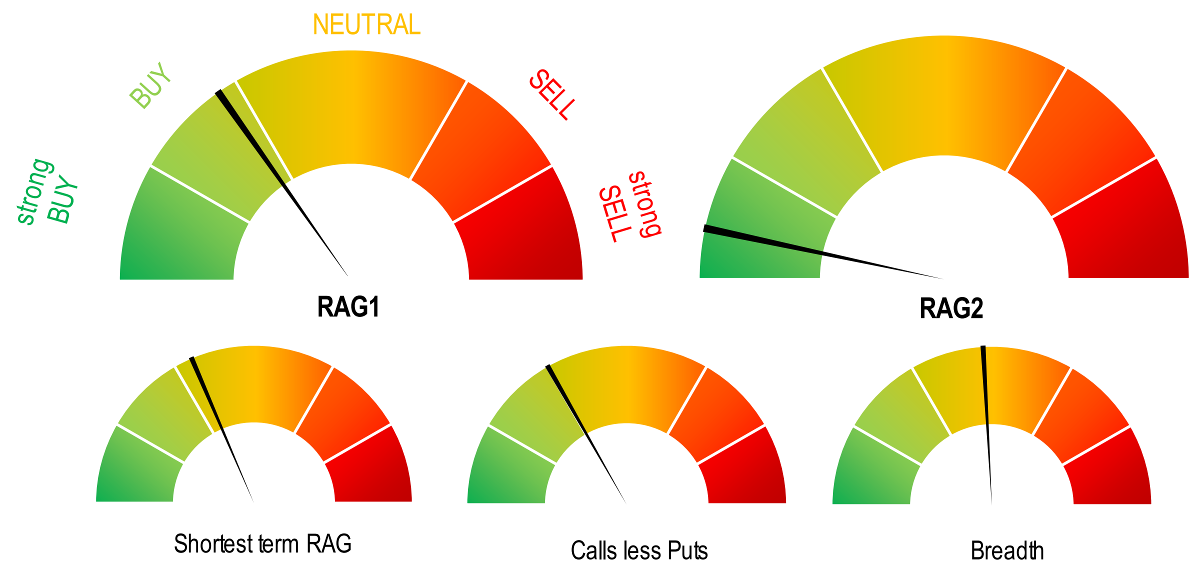
Source: Longview Economics, Macrobond

*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

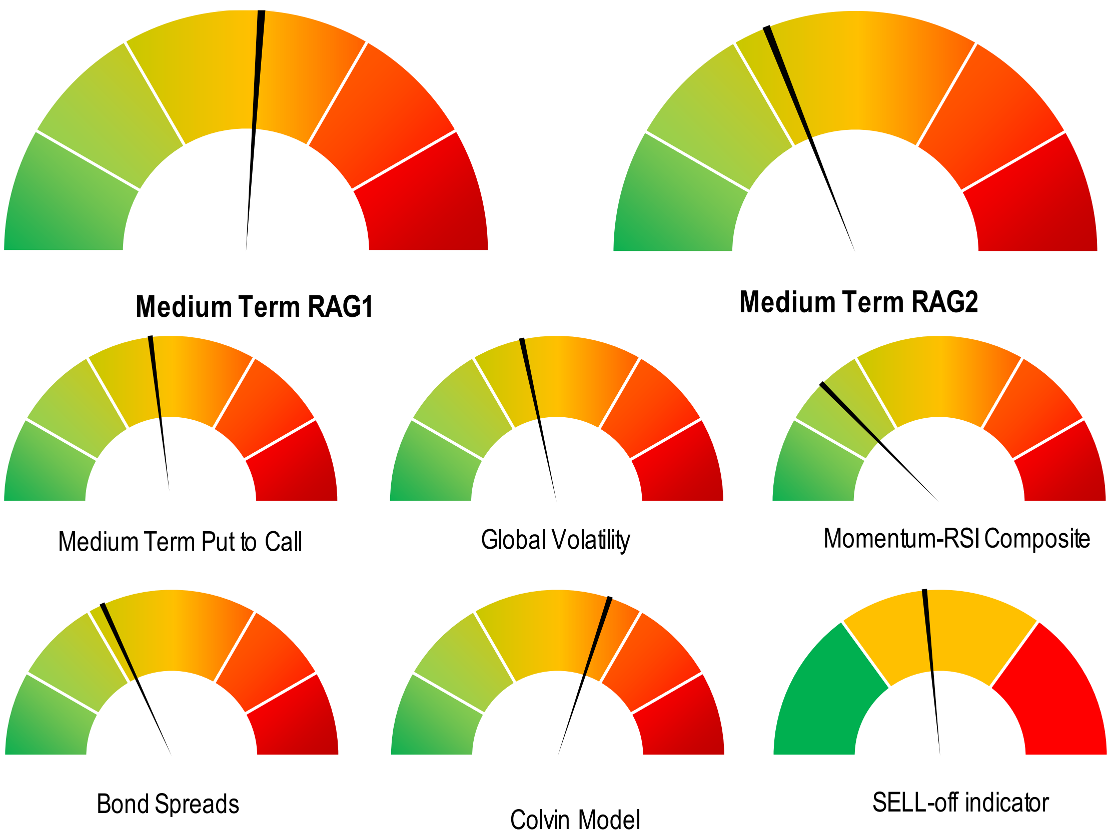
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

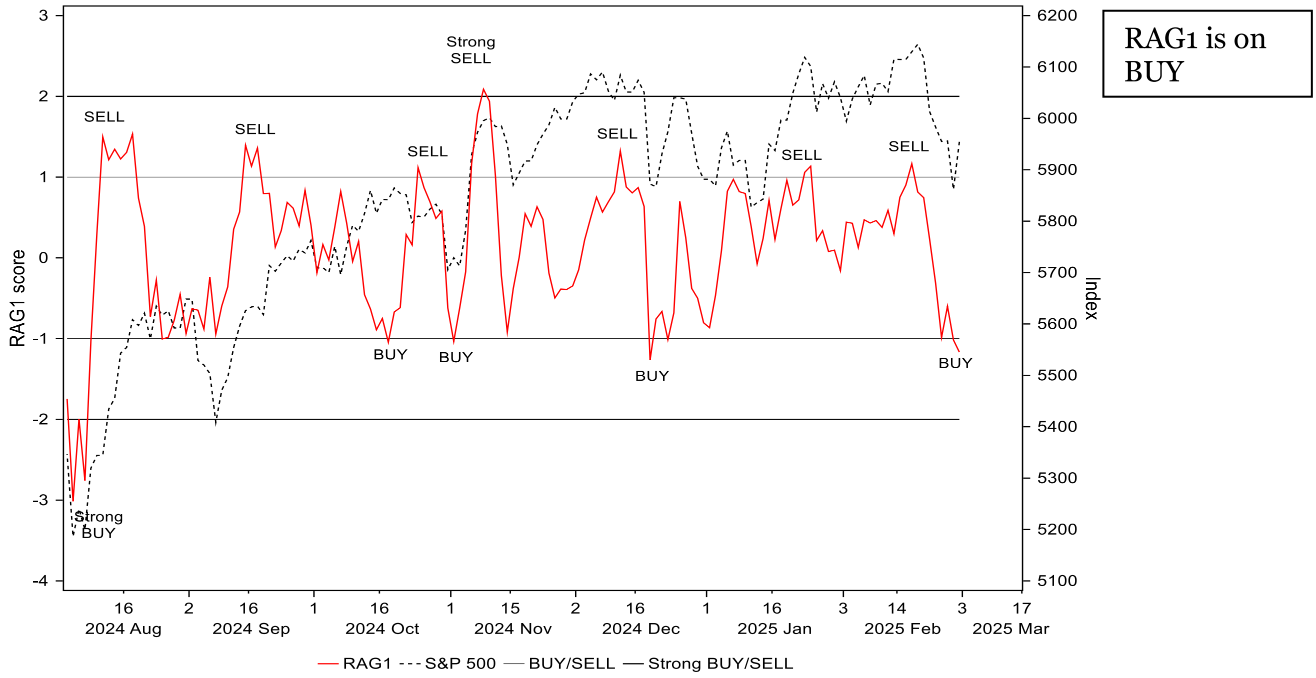
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

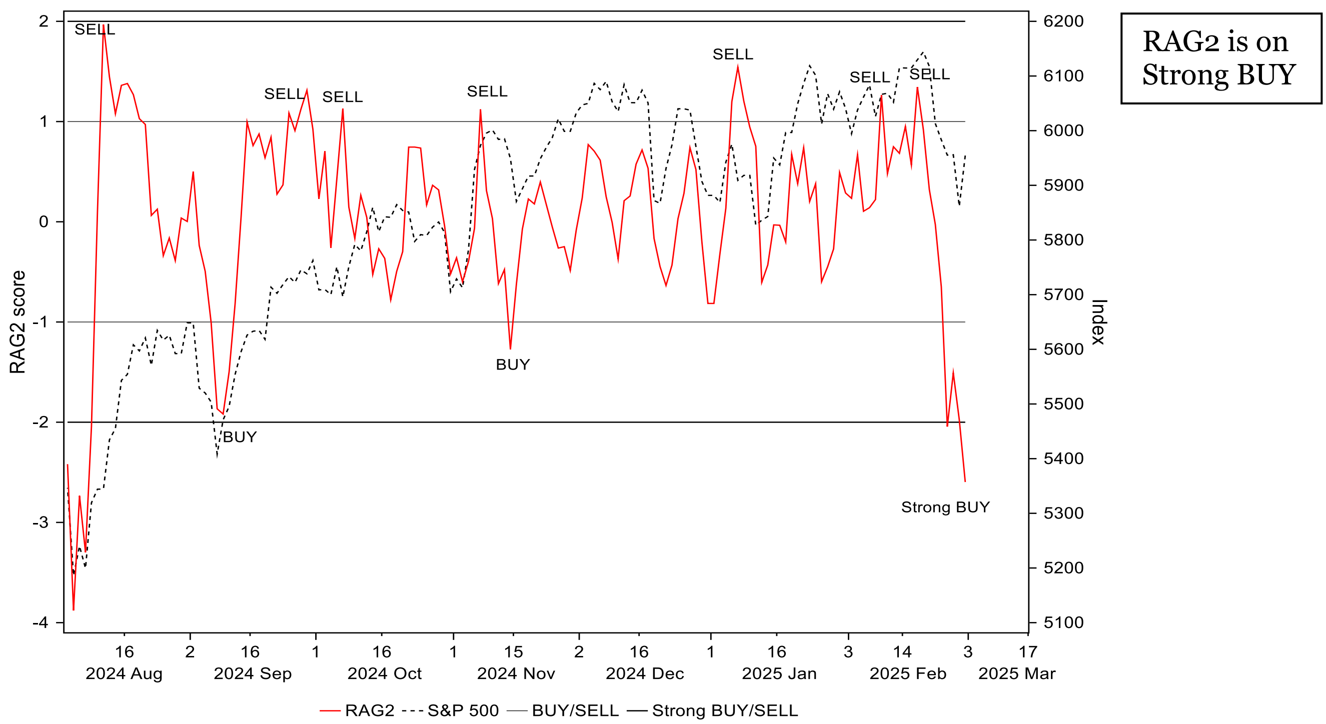
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

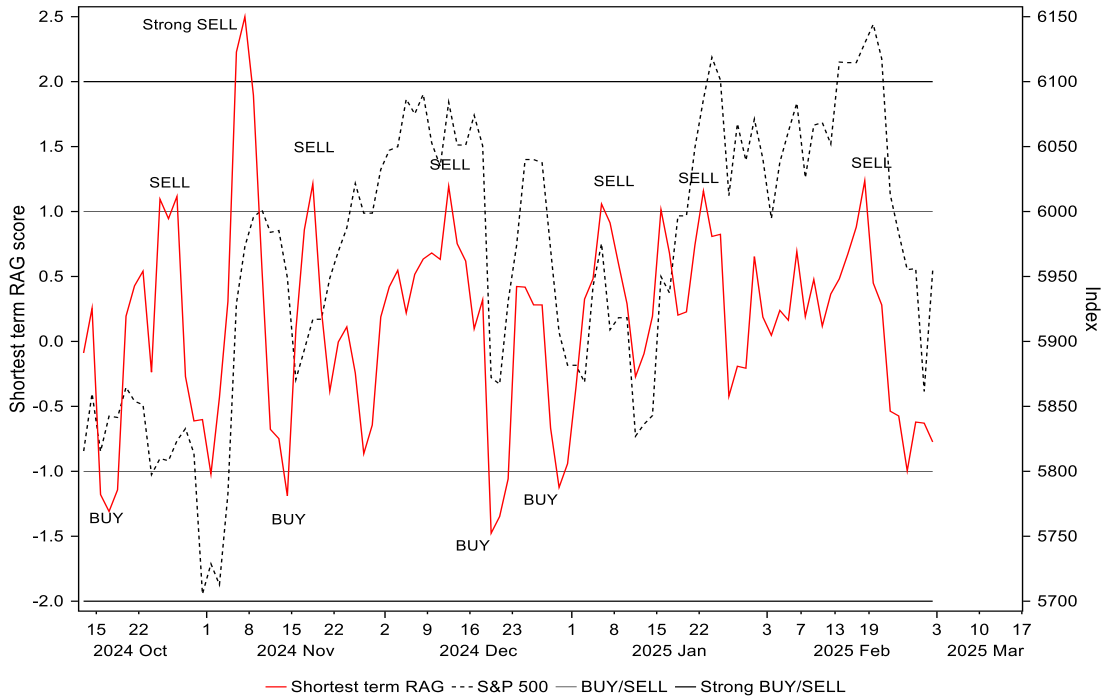
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

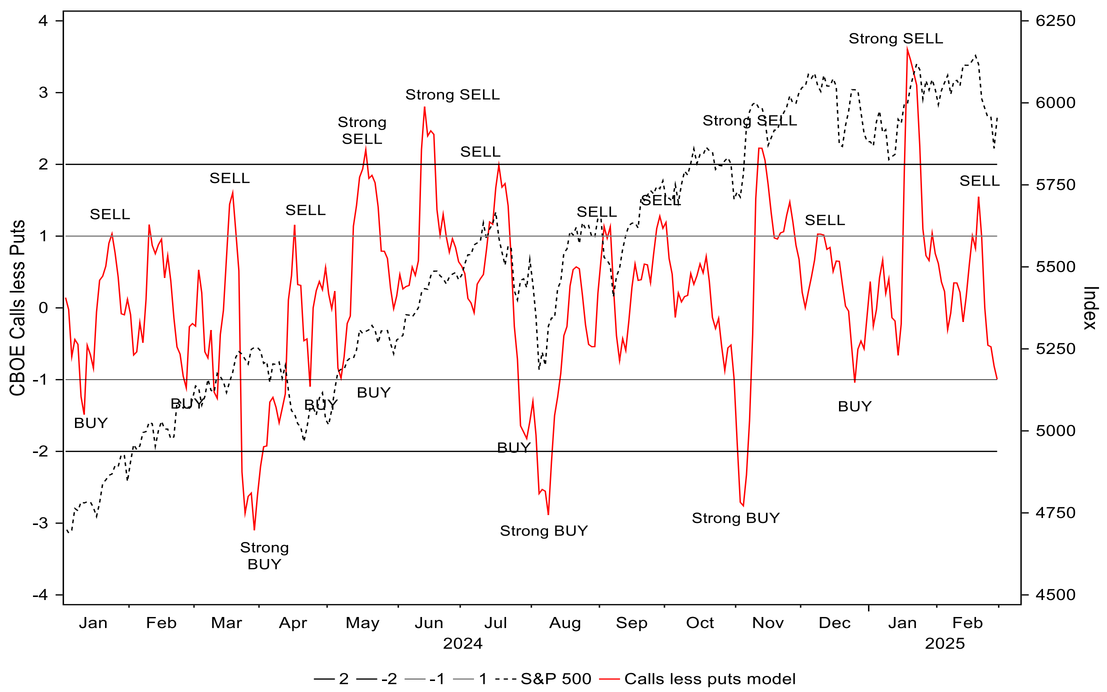
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

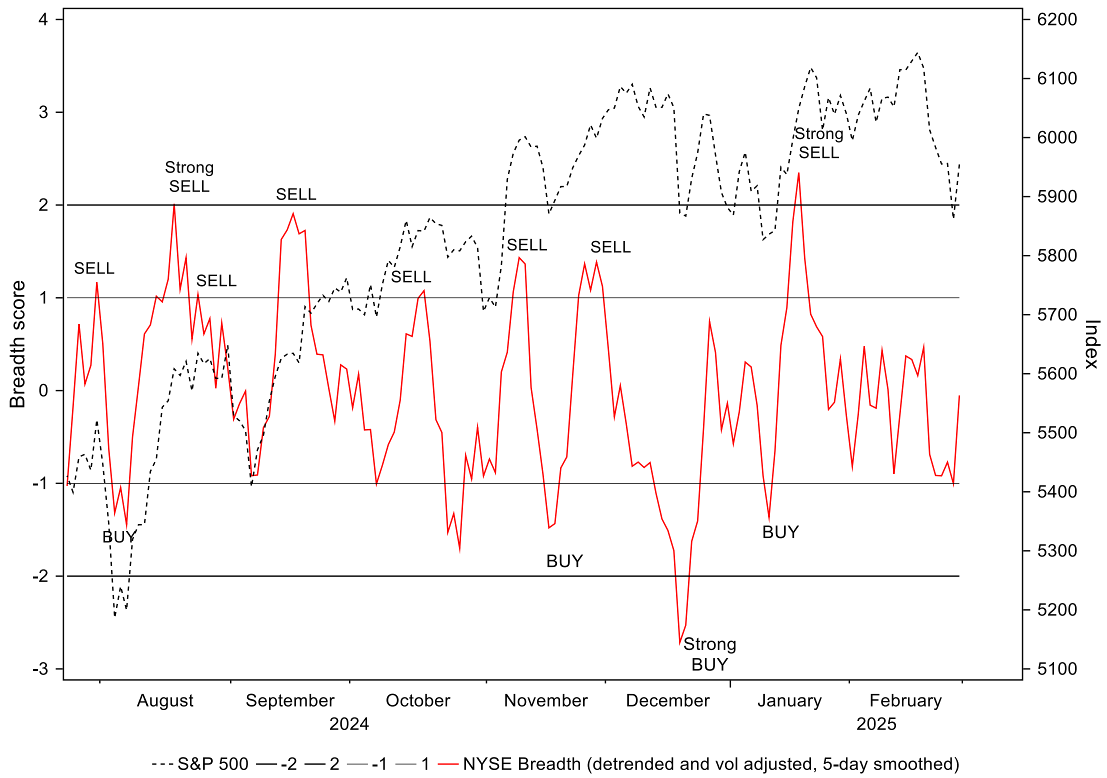


Calls less puts model is NEUTRAL

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



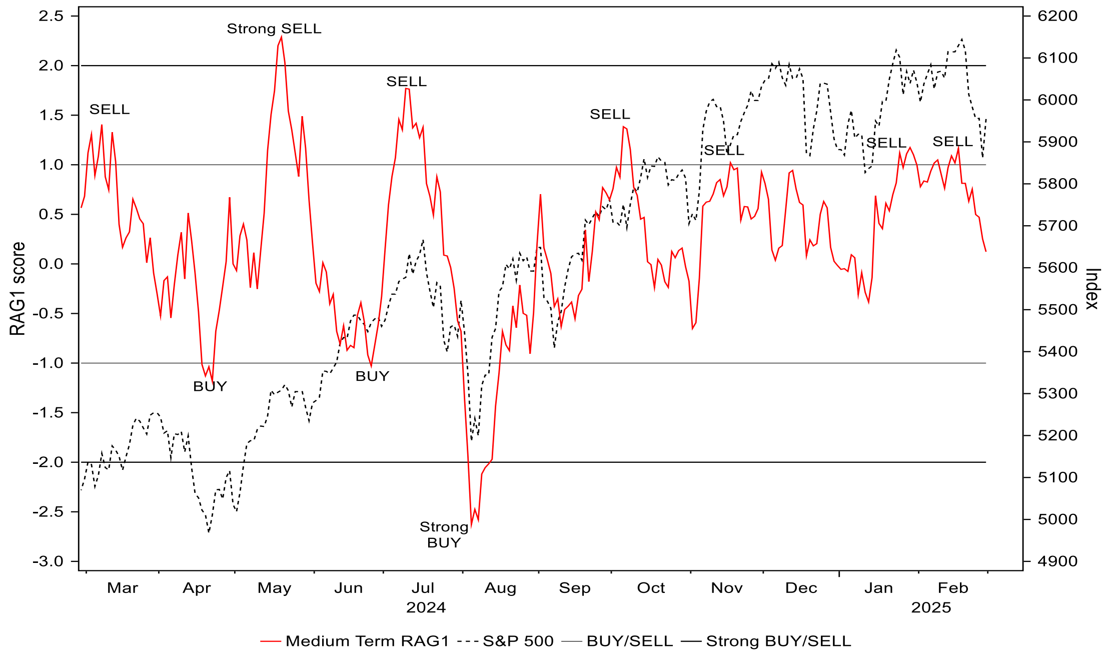
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

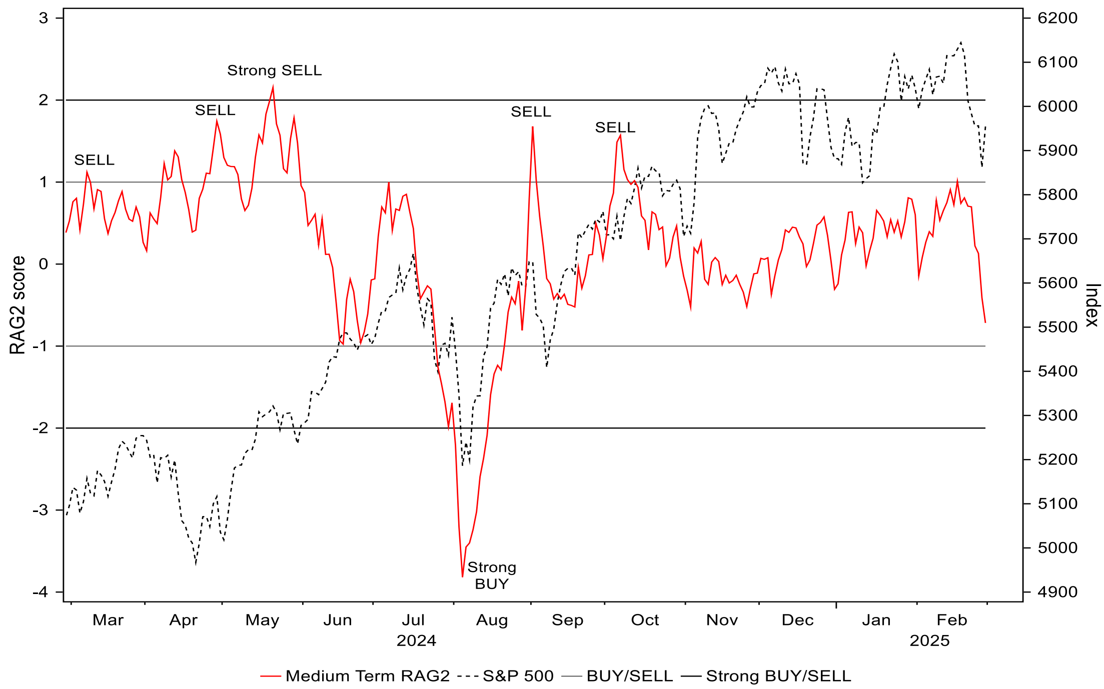
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

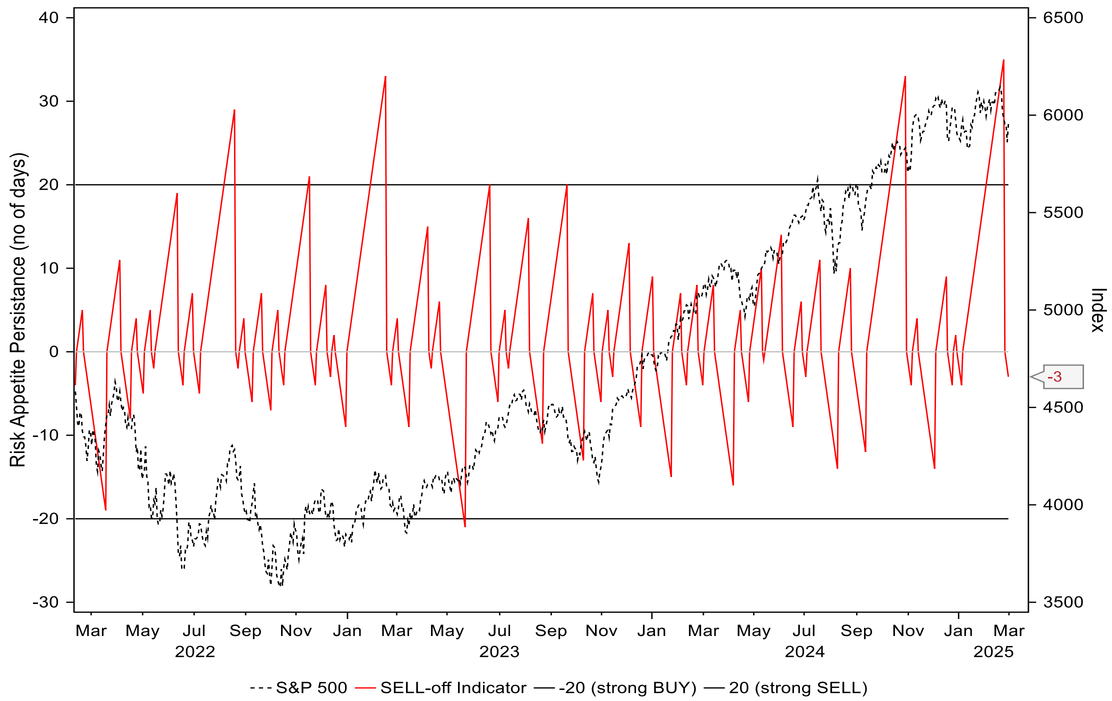


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

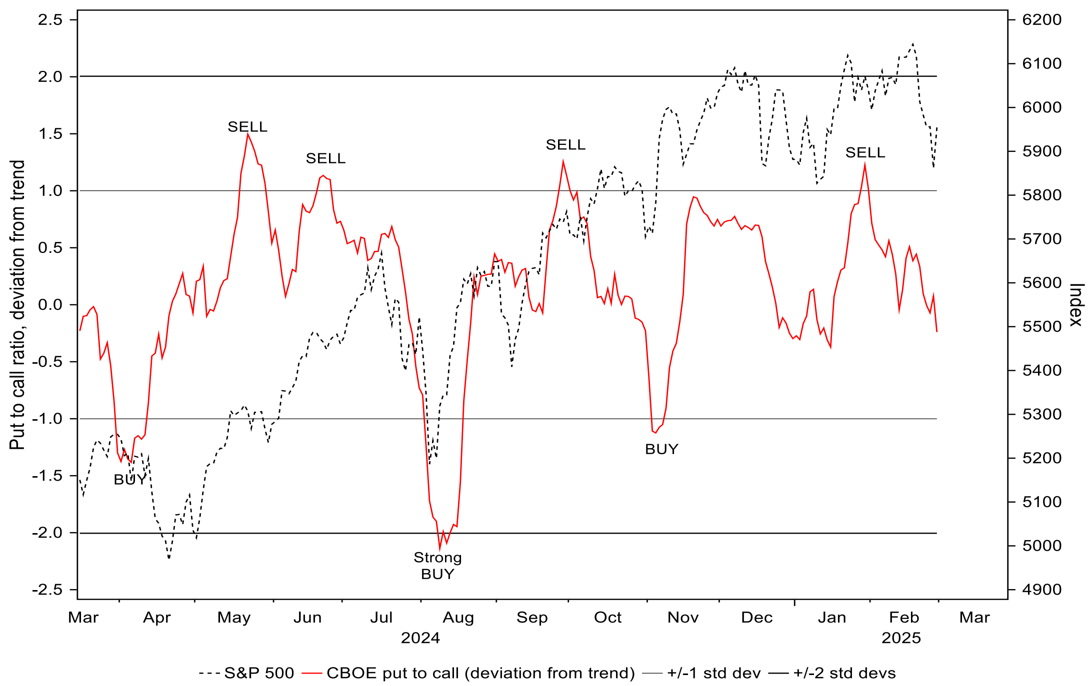
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

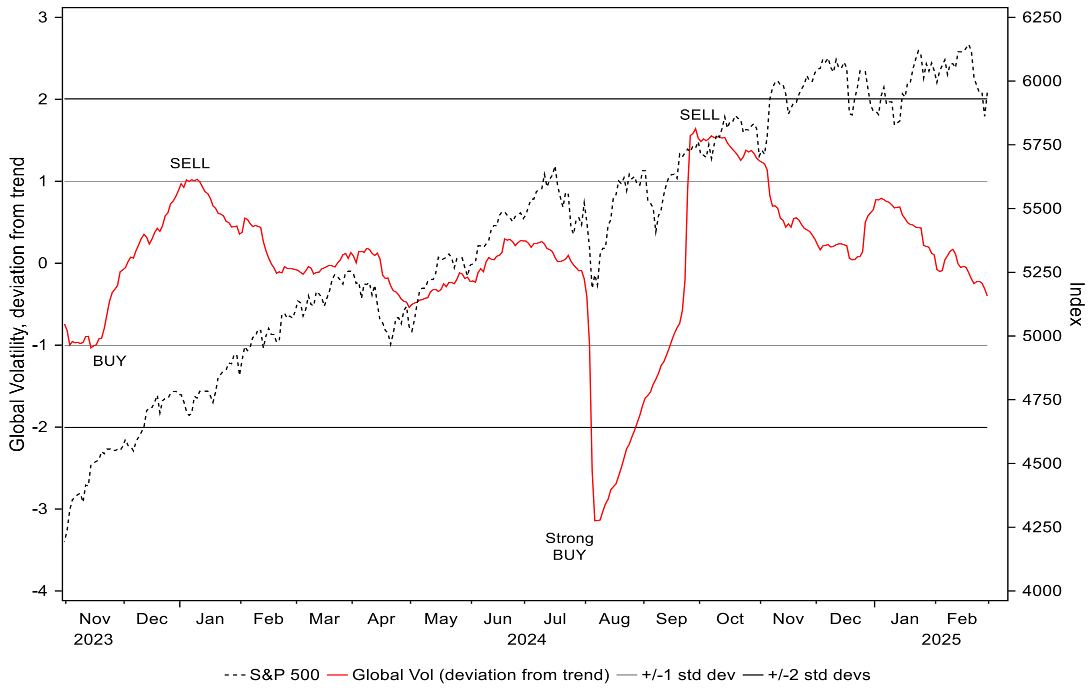


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

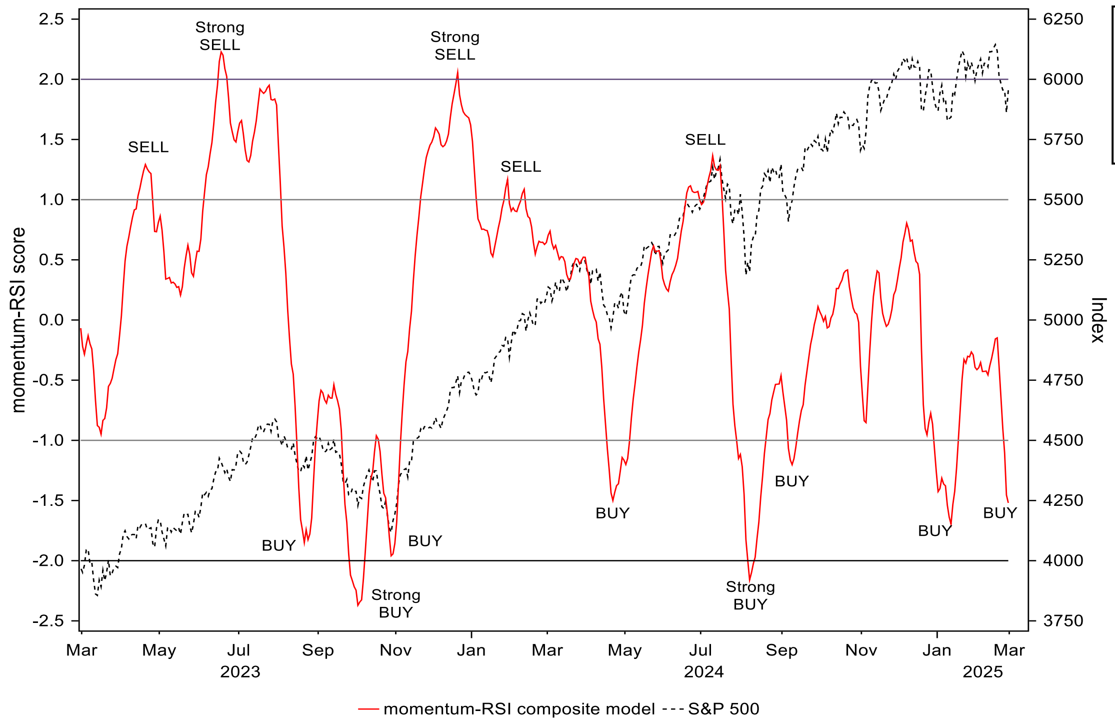
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

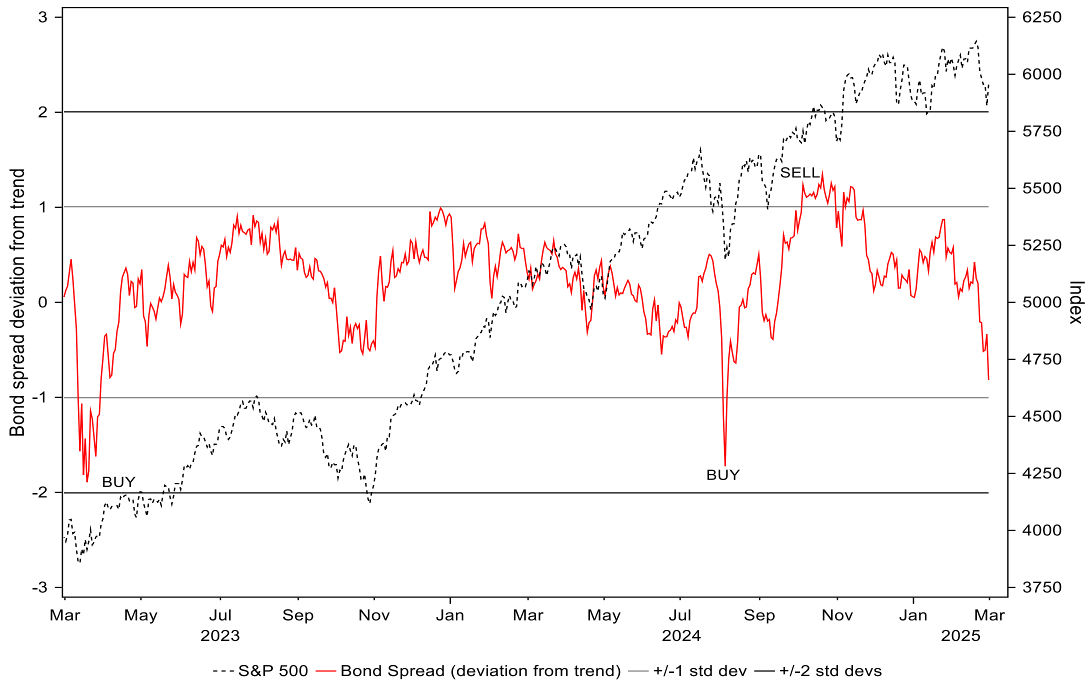
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is on BUY

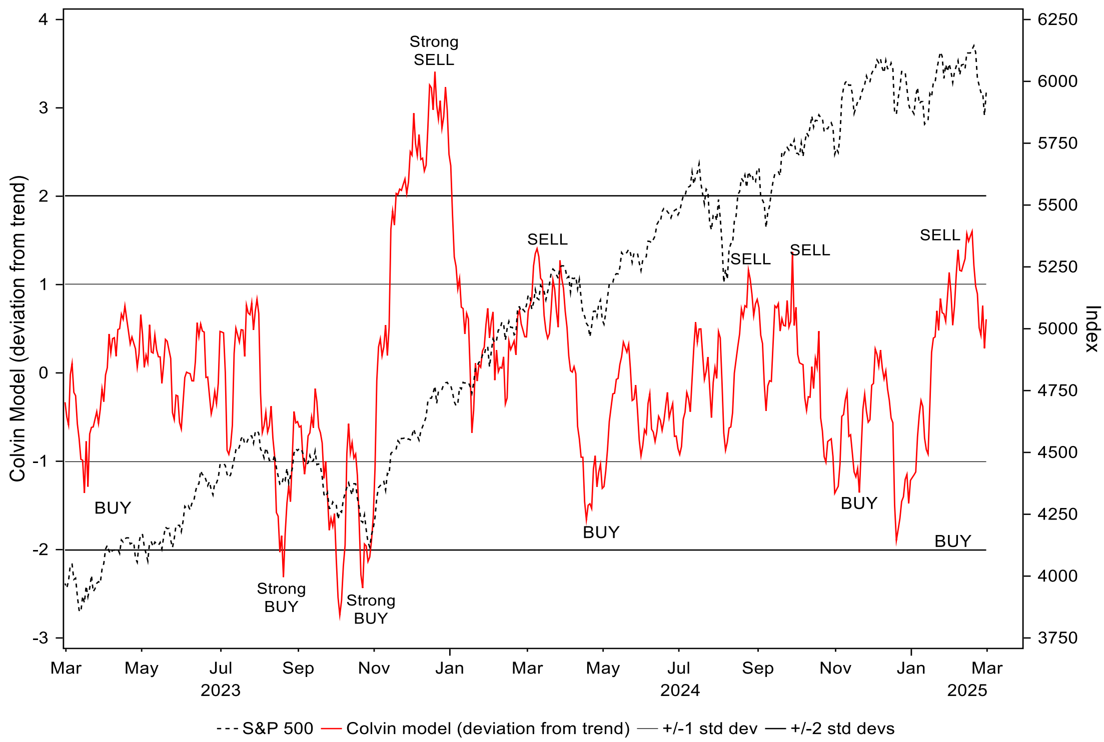
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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