

## Equity Index Futures Trading Recommendations

“Start BUYing on Weakness”

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4<sup>th</sup> April 2025

### **Trading Recommendation** (‘1 – 2’ week equity index trading recommendation)

- Start BUILDing LONG positions on weakness (if forthcoming).
- Move ¼ LONG S&P500 June futures at 5,325 (i.e. close to March highs) – if weakness forthcoming.
- Increase to ½ LONG at 5,200 (just above August lows).
- Implement a combined 3% stop loss (i.e. stop at 5,104.5)

### **Rationale**

Yesterday was a dramatic down day, induced by the worse than expected tariffs announcement on Wednesday after hours (coupled with too much complacency coming into the announcement\*). The SPX broke through recent key support levels, bonds rallied (NB the 10-year is currently yielding 3.95%), the dollar was 1.7% lower, and the VIX spiked to 30.0%. US sectors were all lower (with the exception of consumer staples). Energy was especially hard hit (as OPEC agreed to make a larger than expected supply hike in May; S&P energy sector -7.5%). Amongst S&P500 industry groups, ‘Consumer durables and apparel’ was the hardest hit as stocks like Nike, Lululemon and Ralph Lauren (-14.4%, -9.6% & -16.3% on the day, respectively) priced in the impact of high tariffs from key nations in their supply chain (e.g. Vietnam etc).

**The key question now is when a relief rally is going to start? And what are the key S&P500 support levels?**

Encouragingly, in that respect, **multiple short and medium term market timing models are now generating BUY and strong BUY signals.**

1. Our short & medium term risk appetite scoring systems are all on strong BUY (see FIGs 2, 3 & FIG A at bottom of the email). The market is, therefore, fearfully priced. **A relief rally, judging by these models, is likely to commence in the next 1 – 3 trading sessions.**
2. A wide variety of indicators are highlighting how **oversold** the market is at this juncture. The S&P500, for example, is notably overextended to the downside relative to its trend line (e.g. see FIG 2d); Nvidia is generating a rare BUY signal (oversold relative to its long term trend line – FIG 2a); short term technical scoring systems are also on BUY – FIGs 3d & 3e).

3. **Volatility models** are confirming that high level of fear in market prices. The VIX curve has inverted, as short-dated volatility has spiked (e.g. VIX closing at 30% yesterday). That model is effectively on strong BUY (albeit not as extreme as August 2024 – which was an unusually high vol spike). The VIX RSI model is also on BUY; while the ‘realised less implied’ equity volatility model is now close to BUY.
4. **Single stocks** (within the US market) are collectively oversold relative to their 10 and 50 day moving averages (FIGs 2c & 3h); sectors are (just) oversold collectively on an RSI model (FIG 3f), although not on a momentum-based indicator (FIG 3g).
5. Finally, the level of **downside put protection is high**, especially on a short-term basis (FIG 3b), although not as high as is typical on a medium-term measure (FIG 2e).

Key support levels for the S&P500 futures include: i) 5,394/5,400 (early September lows last year – FIG 1); ii) 5,321 (March highs last year); and then iii) the lows in August (5,182). We’re currently sitting on/close to the first support level (while the second level is approx. 1.5% lower).

Given the message of the models (both short & medium term), **the case for a relief rally is brewing**. One or two models are not yet at the point that we would expect a relief rally to start at. The medium term put to call ratio, for example, is still at high levels; the sector momentum model is also surprisingly high (i.e. far away from BUY). There’s also no clear evidence of capitulation at this point. Most models, though, are starting to generate good BUY/strong BUY signals. The risk appetite scoring systems are normally especially useful during major pullbacks (like this one). Key macro data today (i.e. non-farm payrolls) might also provide some solace for the market.

As such, the risk reward favours starting to BUY at the next support level (5,321) with a wide stop loss. See trading recommendation above.

**Key events today are shown below.**

Kind regards,

The team @ Longview Economics

\*As evidenced, for example, by the lack of clear and across the board BUY signals on our market timing models – see recent Daily publications for detail.

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

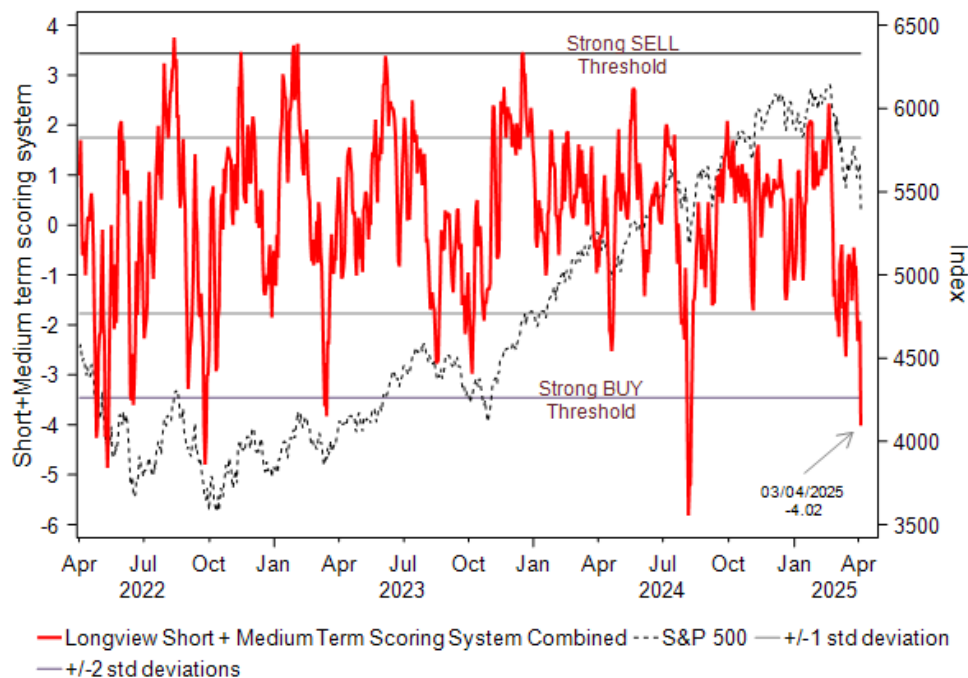


Source: Longview Economics, Macrobond

**FIG 1a: S&P500 futures 30-day tick chart shown with overnight price action**

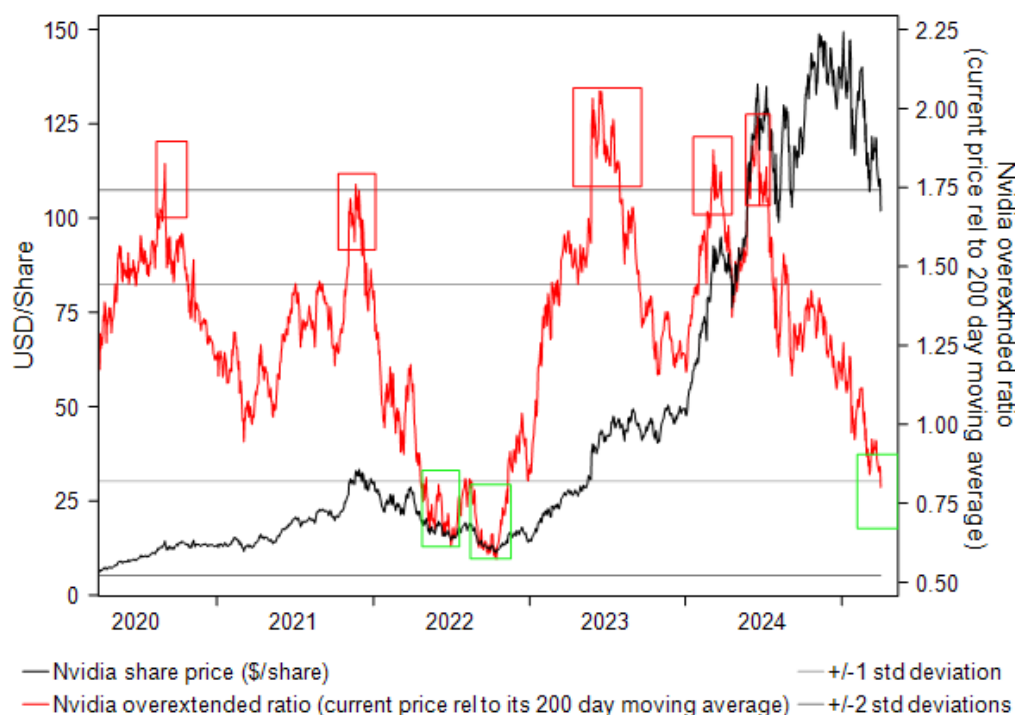


**FIG 2:** Longview combined short PLUS medium term ‘**risk appetite**’ scoring systems vs. S&P500



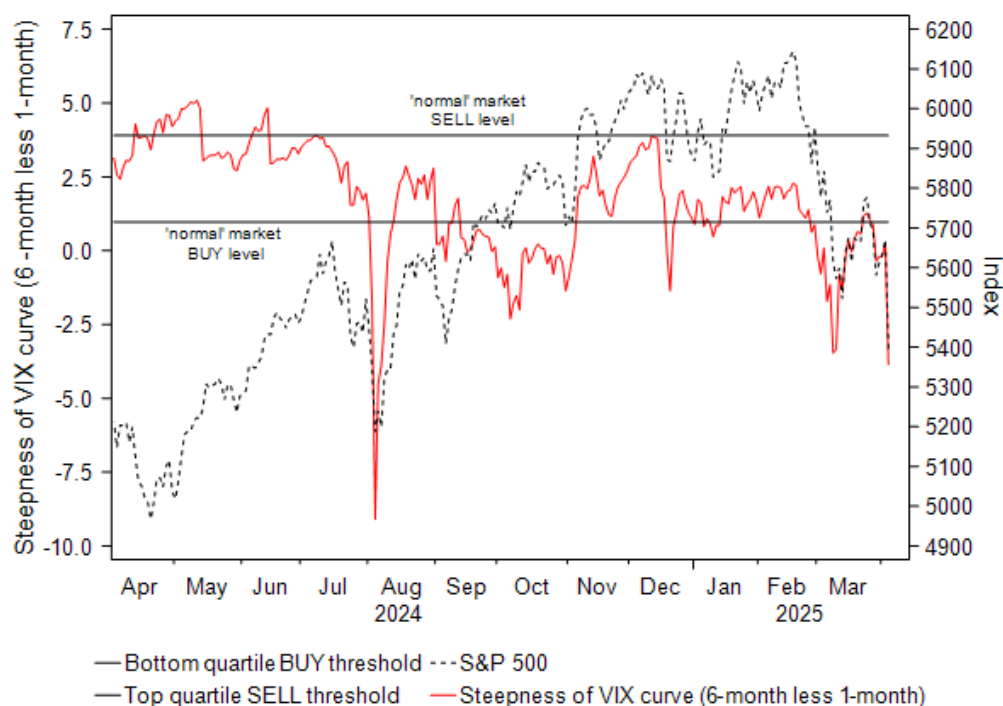
Source: Longview Economics, Macrobond

**FIG 2a:** Nvidia over extendedness chart (price rel to its 200-day moving average) shown with standard deviation bands



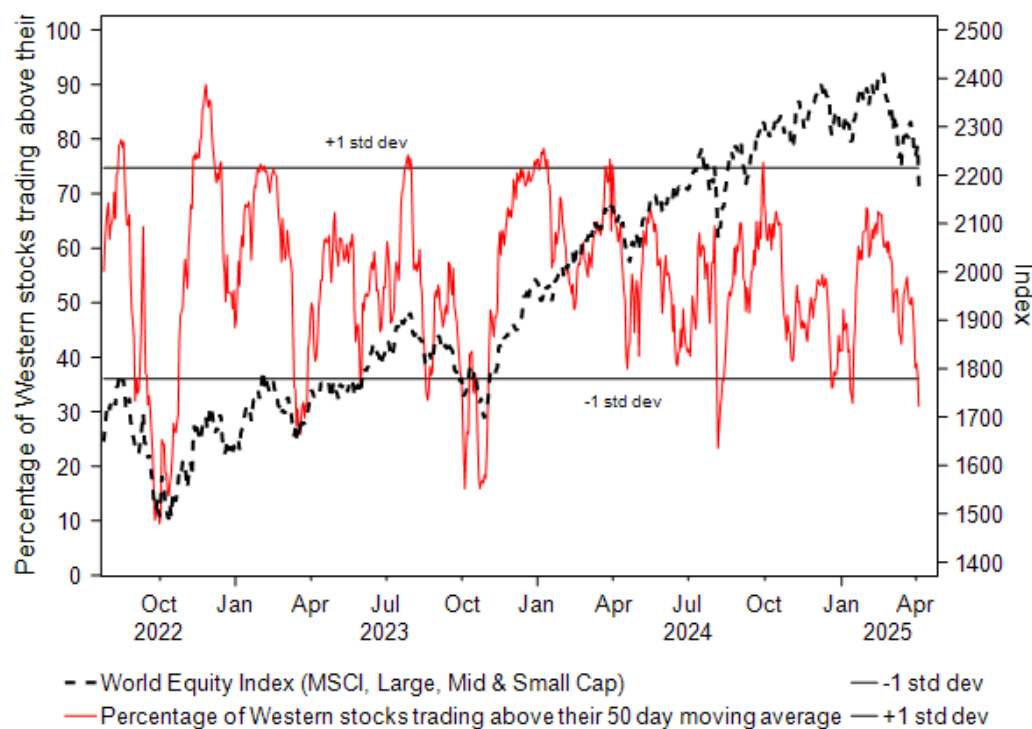
Source: Longview Economics, Macrobond

**FIG 2b:** Steepness of VIX curve (6 less 1 month futures) vs. S&P500



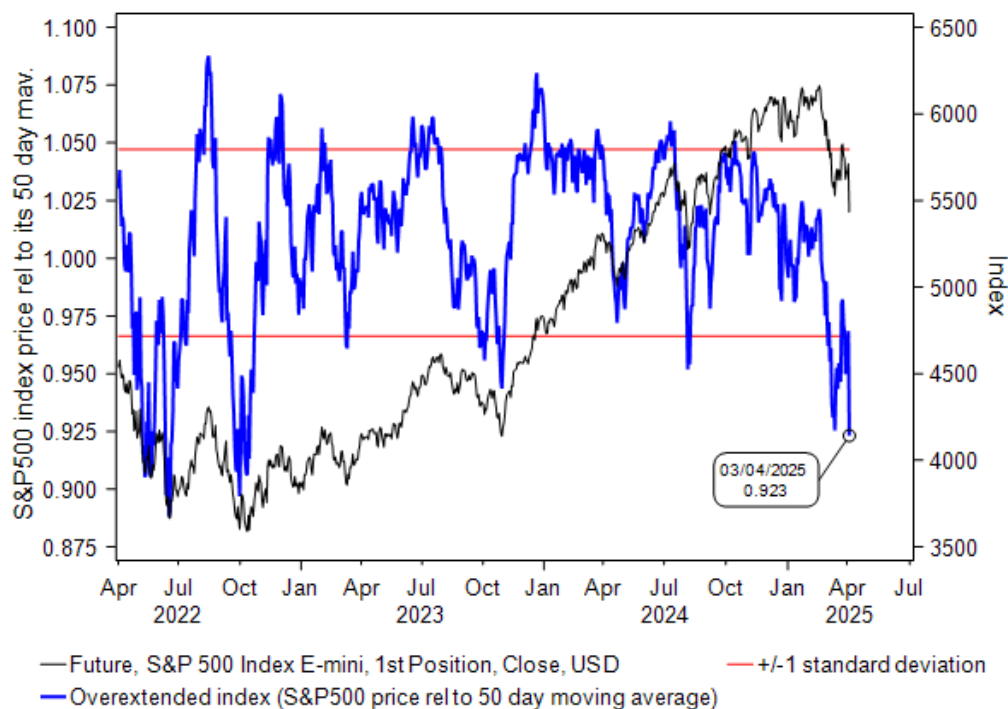
Source: Longview Economics, Macrobond

**FIG 2c:** Proportion of Western stocks above their 50 day moving average vs. S&P500



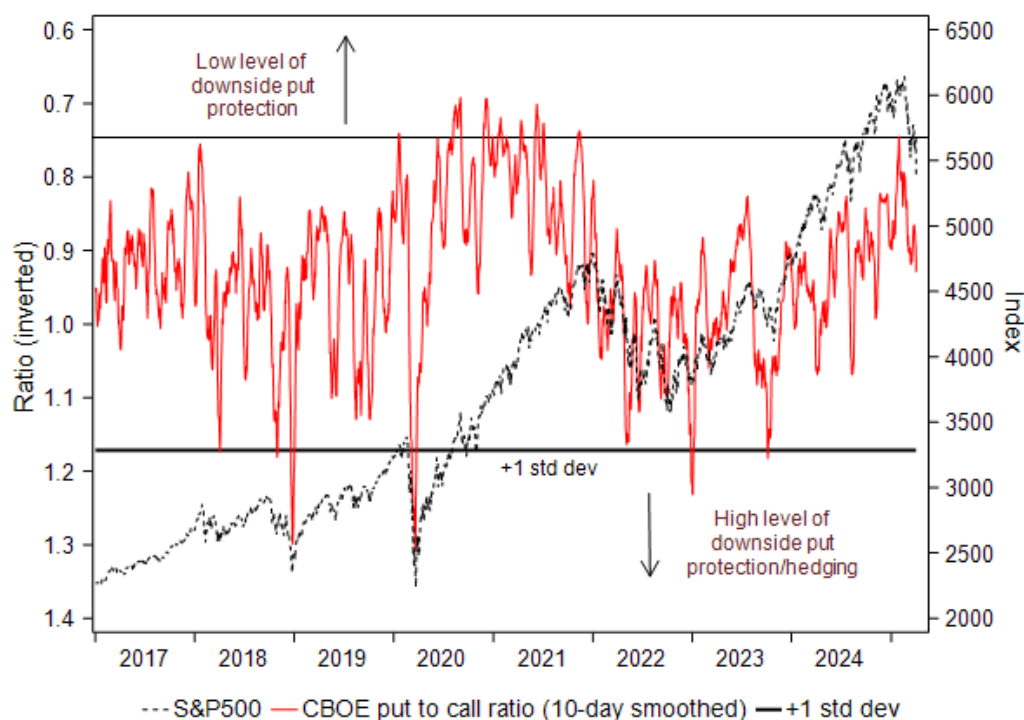
Source: Longview Economics, Macrobond

**FIG 2d:** S&P500 overextended indicator (underlying index price relative to its 50 day moving average)



Source: Longview Economics, Macrobond

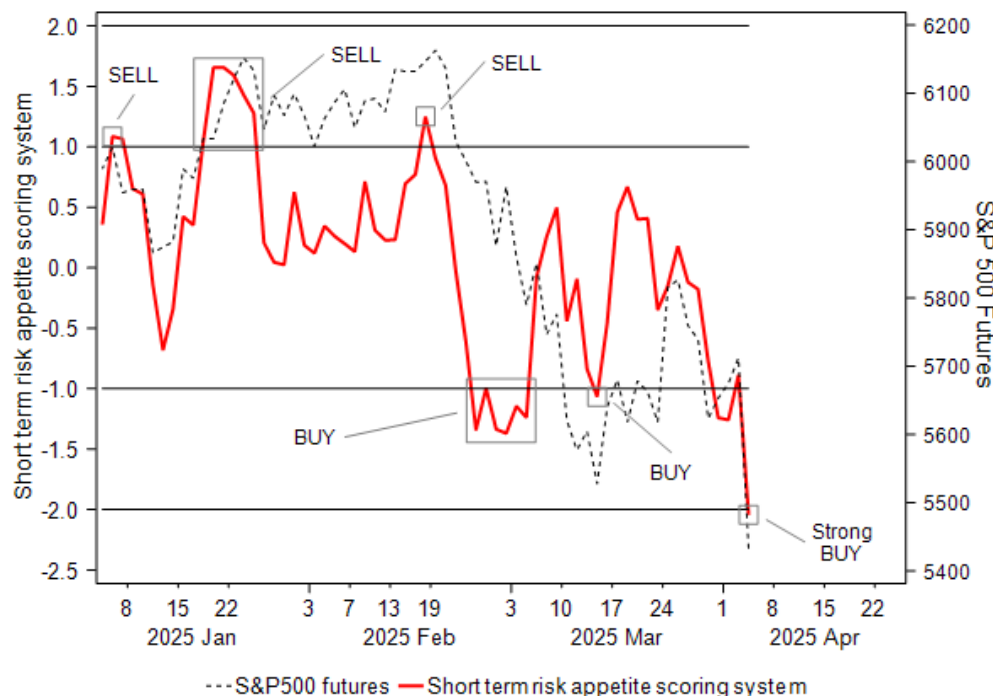
**FIG 2e:** Medium term CBOE put to call ratio vs. S&P500



Source: Longview Economics, Macrobond

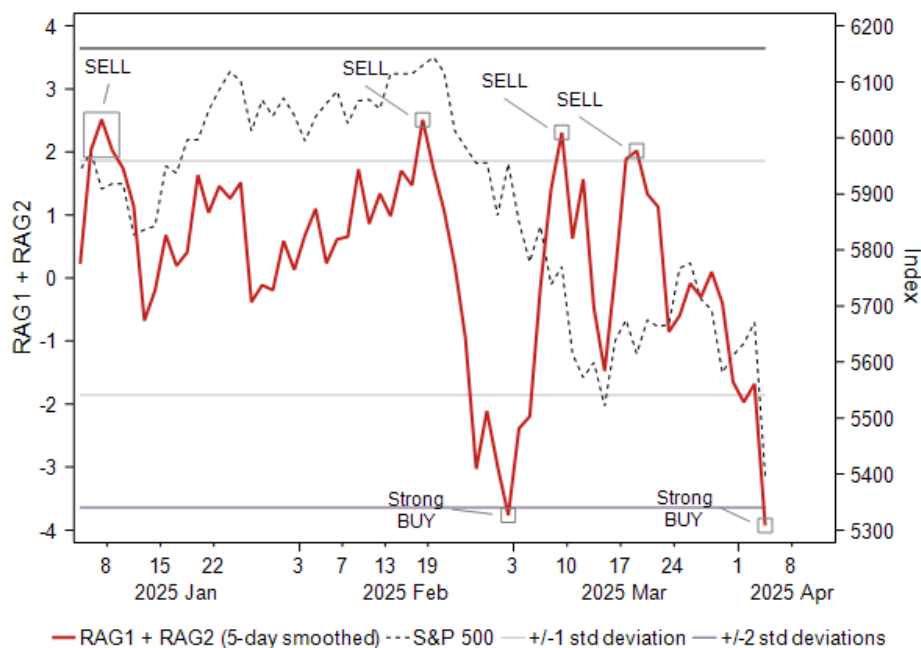
**Short term risk appetite models are (effectively) on BUY...**

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



Source: Longview Economics, Macrobond

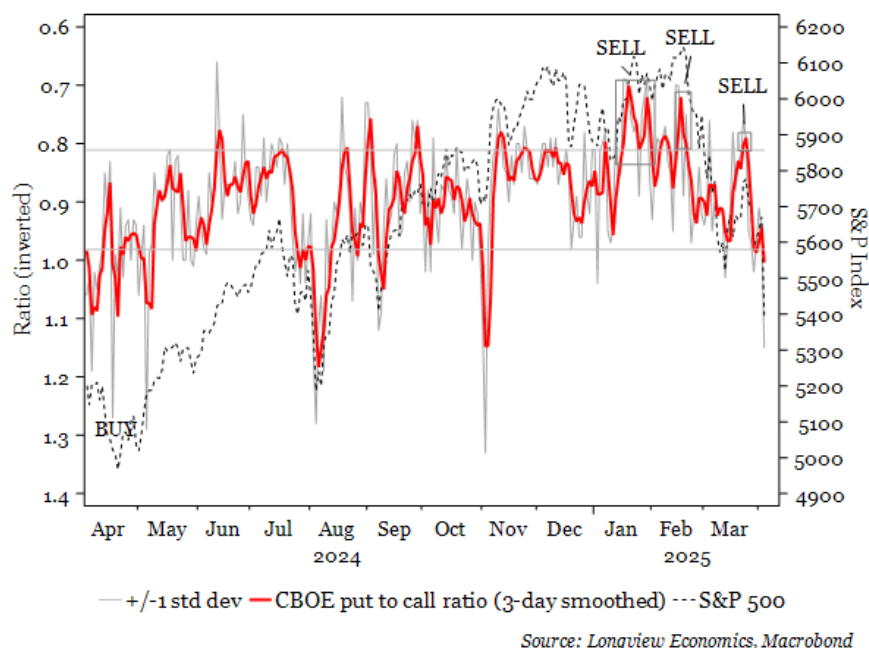
**FIG 3a:** Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

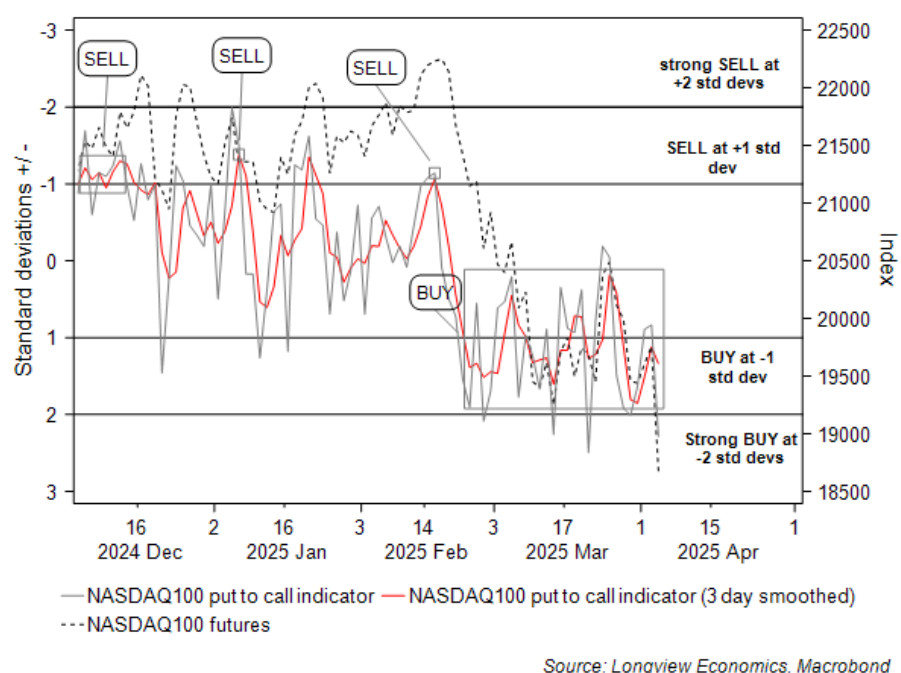
**Put to call ratio models are now on/close to BUY (although not on strong BUY)...**

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



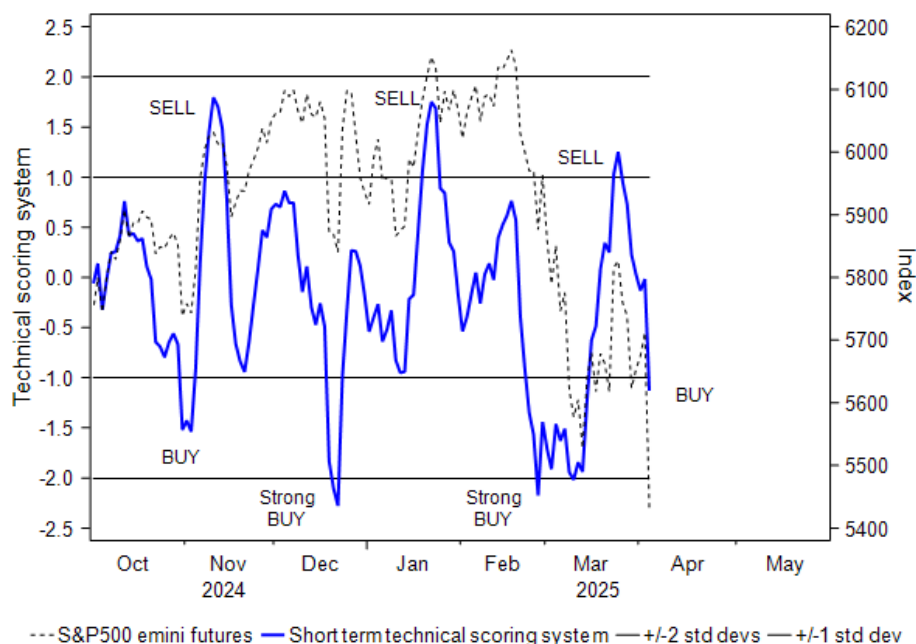
**The NDX100 put to call ratio indicator is on BUY....**

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



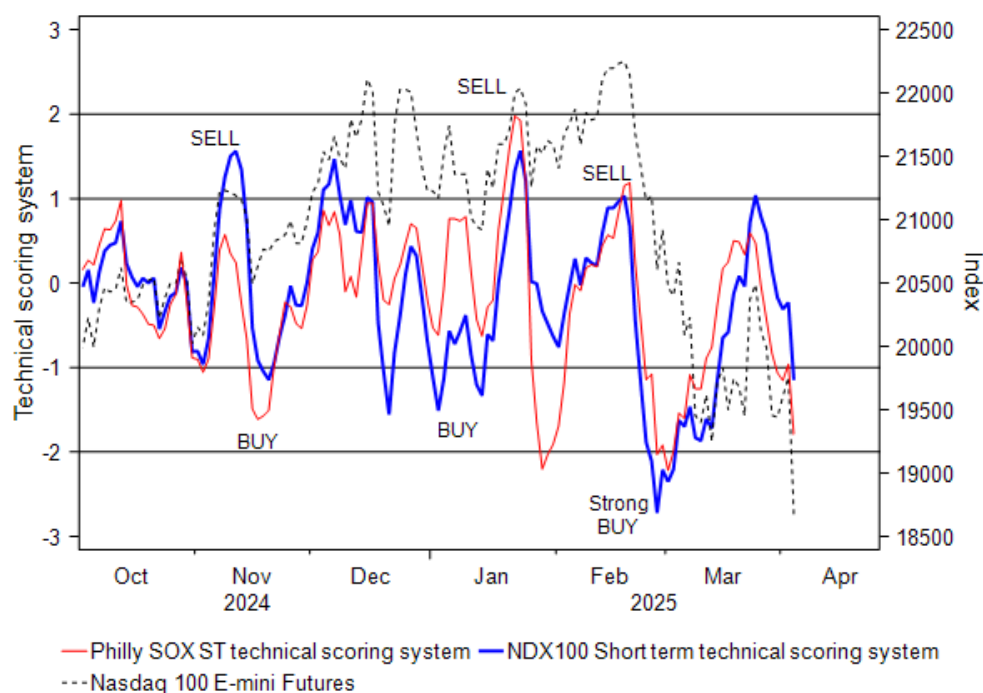
## Technical/price-based models (for indices) are on BUY....

**FIG 3d:** Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



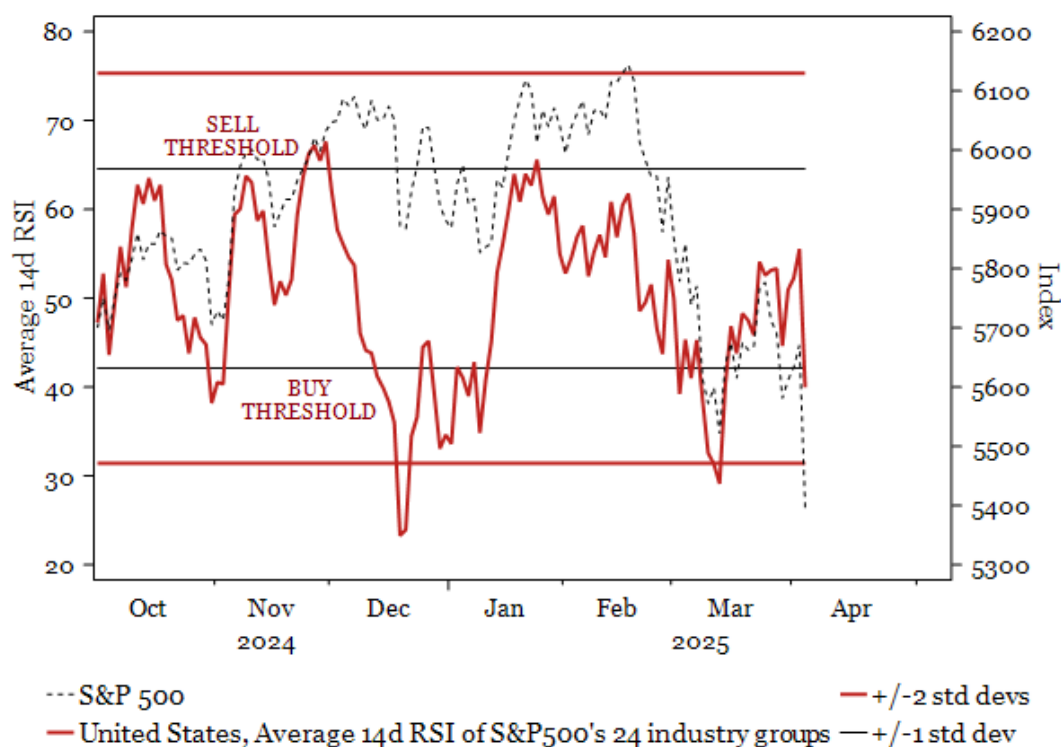
Source: Longview Economics, Macrobond

**FIG 3e:** Longview NDX100 & Philly SOX short term **'technical'** scoring systems vs. NDX100 futures



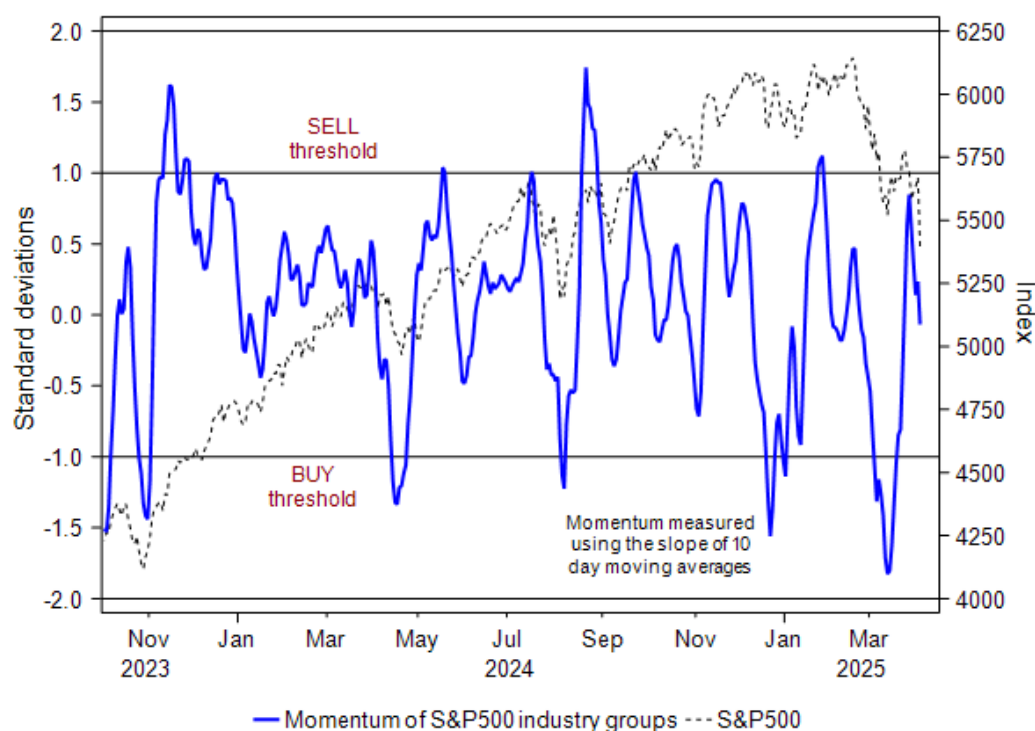
Source: Longview Economics, Macrobond

**FIG 3f:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



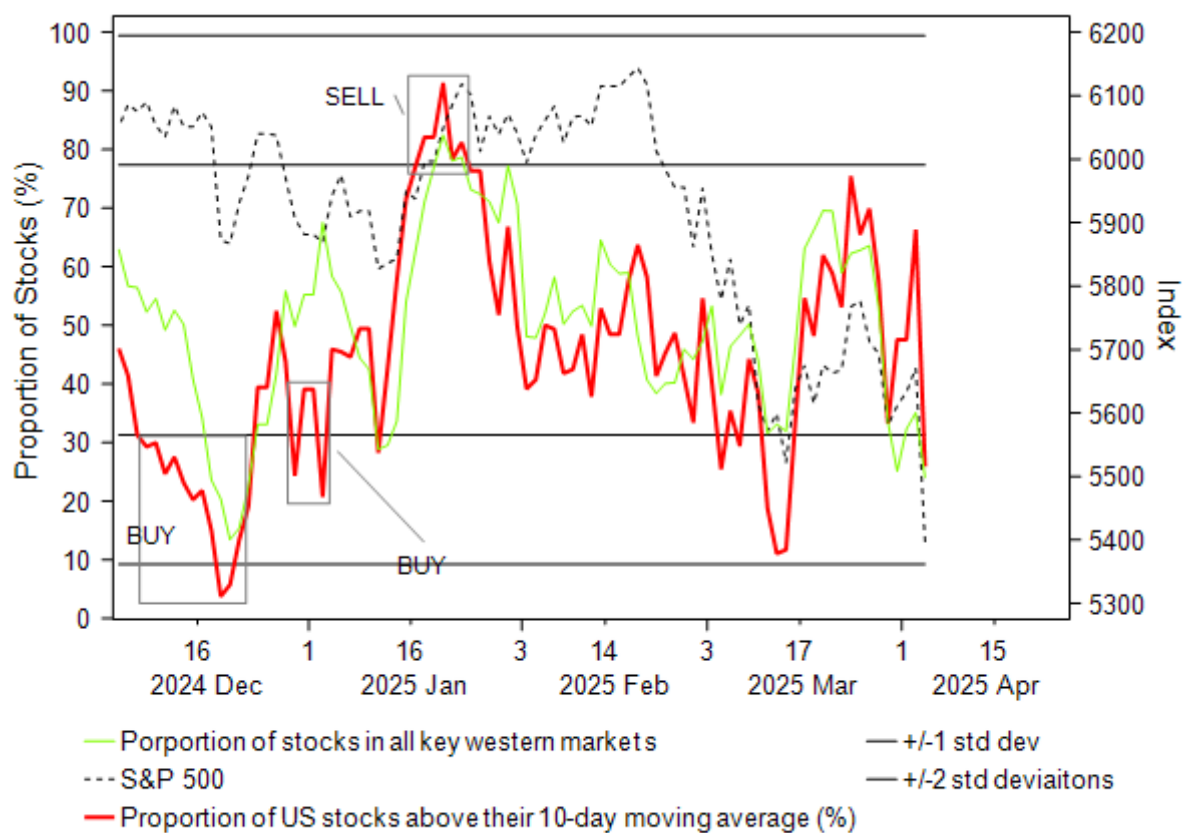
Source: Longview Economics, Macrobond

**FIG 3g:** Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

**FIG 3h:** Proportion of Western stocks above their 10 day moving average vs. S&P500



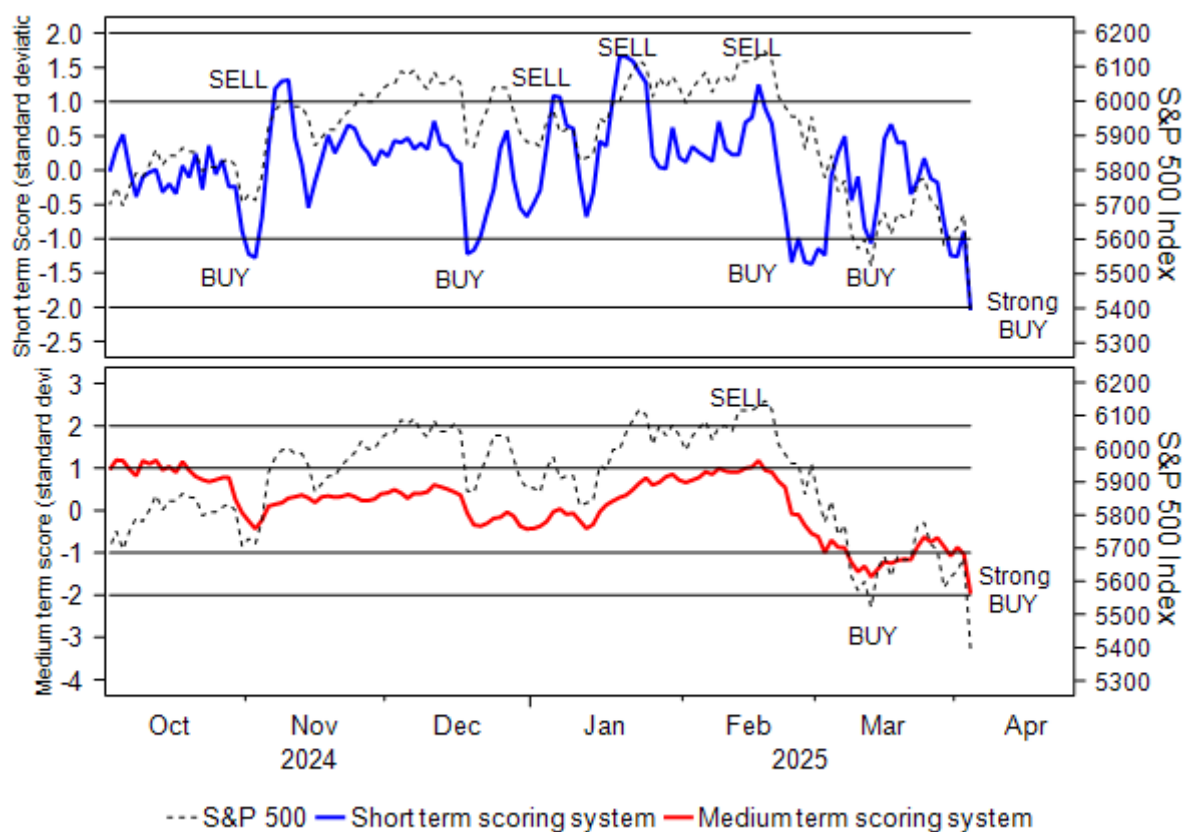
Source: Longview Economics, Macrobond

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

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

**Medium term** (1 – 4 month) scoring system: **Strong BUY**

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



Source: Longview Economics, Macrobond

## Key macro data/events

**Key data** today include: Japanese household spending (Feb, 12:30am); Australian household spending (Feb, 1:30am); **German factory orders** (Feb, 7am); French industrial & manufacturing production (Feb, 7:45am); Spanish industrial production (Feb, 8am); HCOB construction sector PMI for Germany (Mar, 8:30am); Italian retail sales (Feb 9am); UK New car sales (Mar, 9am); UK S&P construction sector PMI (Mar, 9:30am); **US nonfarm payrolls, hourly earnings & unemployment data** (Mar, 1:30pm); Canadian employment data (change in employment, unemployment rate & participation rate) (Mar, 1:30pm).

**Key events** today include: Speech by the Fed's **Powell** on economic outlook in Virginia (4:25pm); market holiday in China on account of 'Ching Ming' festival.

**Key earnings** today include: Yaskawa Electric corp.

## 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 2<sup>nd</sup> April 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).*



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## 1 – 2 Week View on Risk

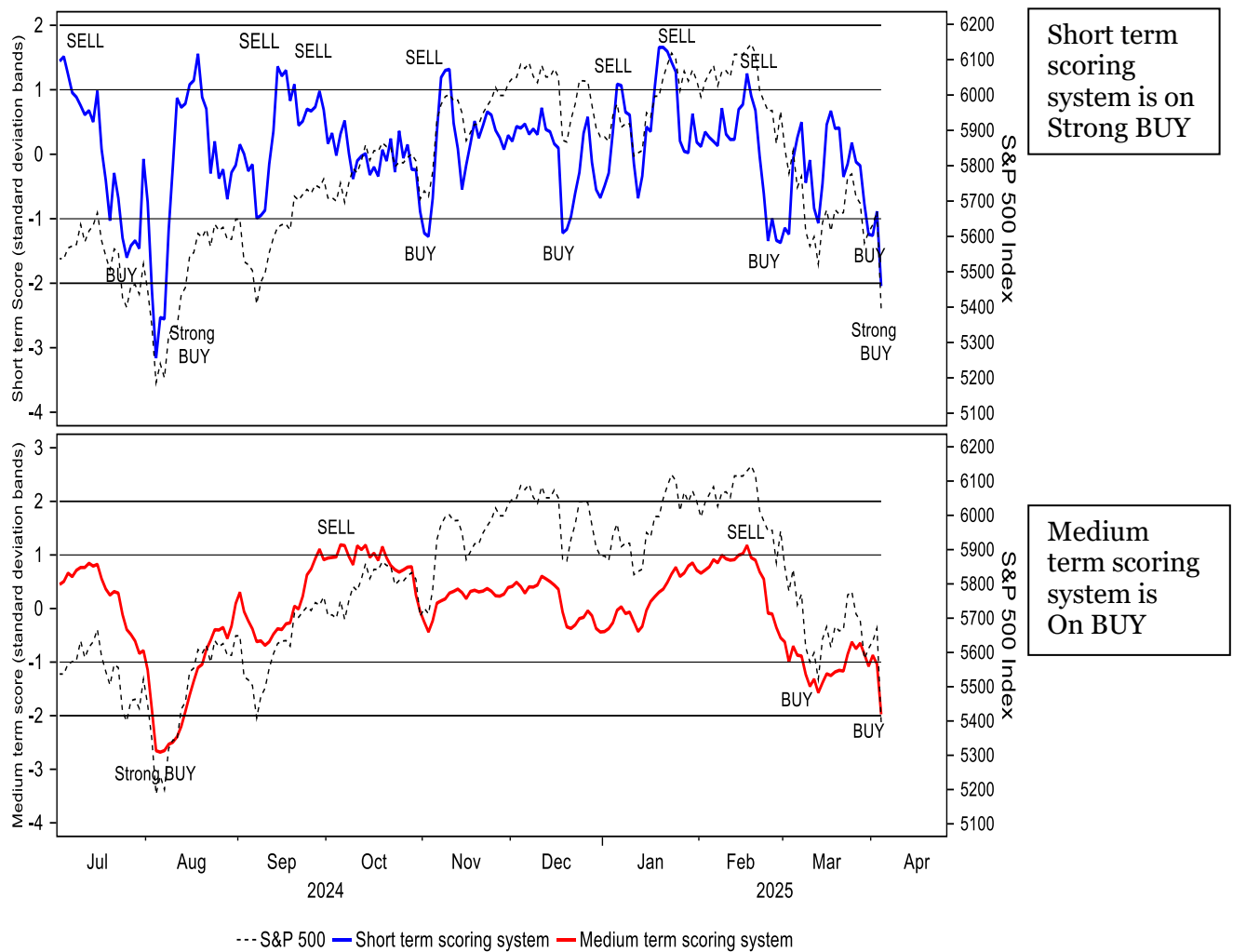
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4<sup>th</sup> April 2025

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

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



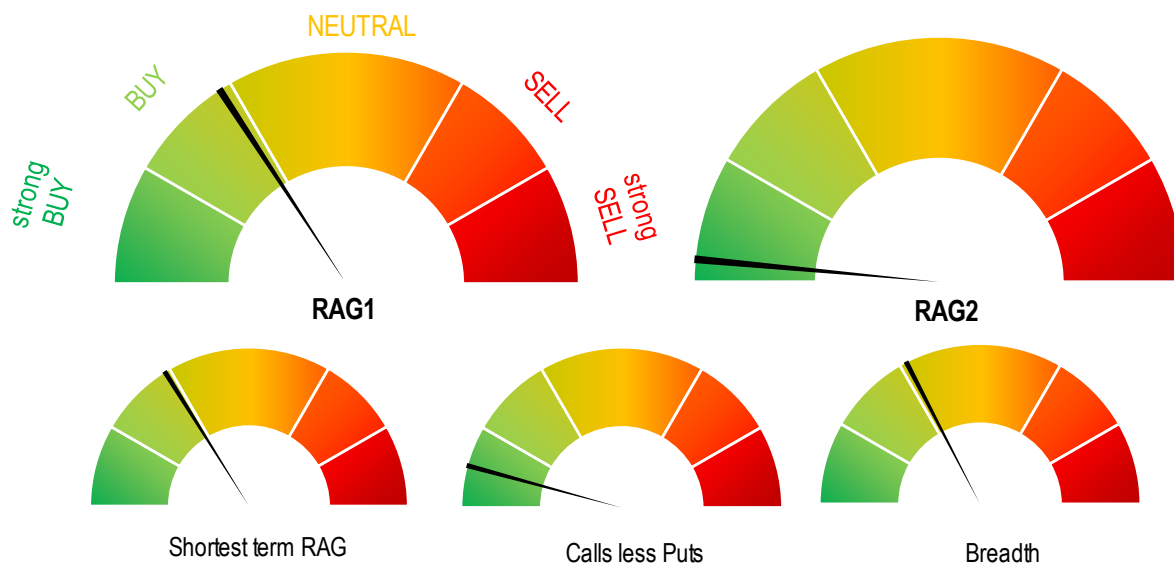
Source: Longview Economics, Macrobond

\*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**

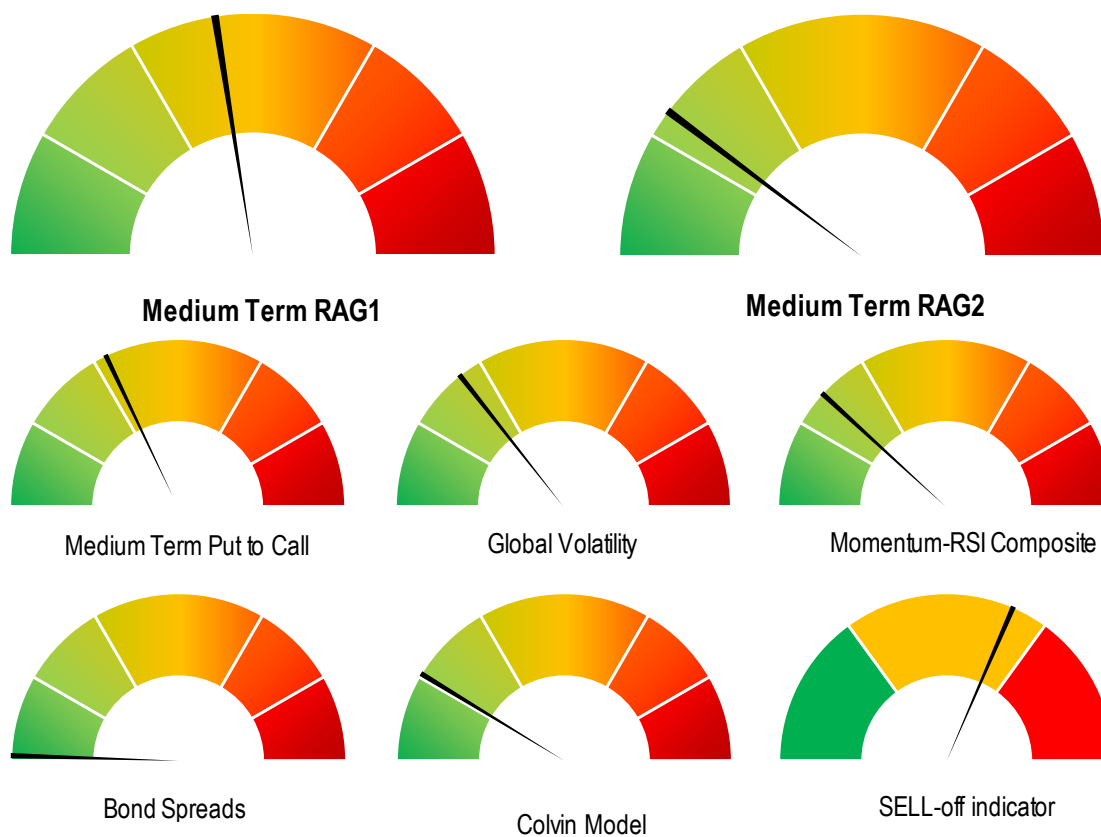
## Section 1a: Summary of indicator signals\*\*

**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

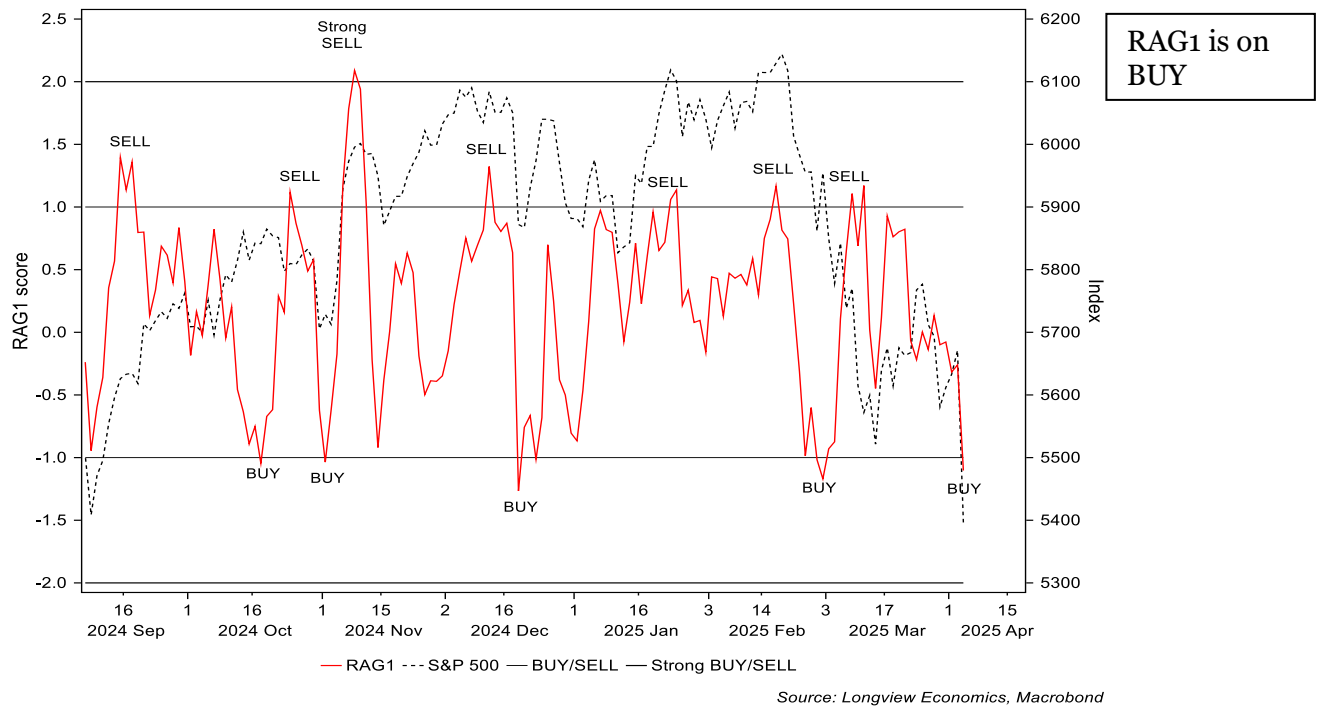


**Source:** Longview Economics

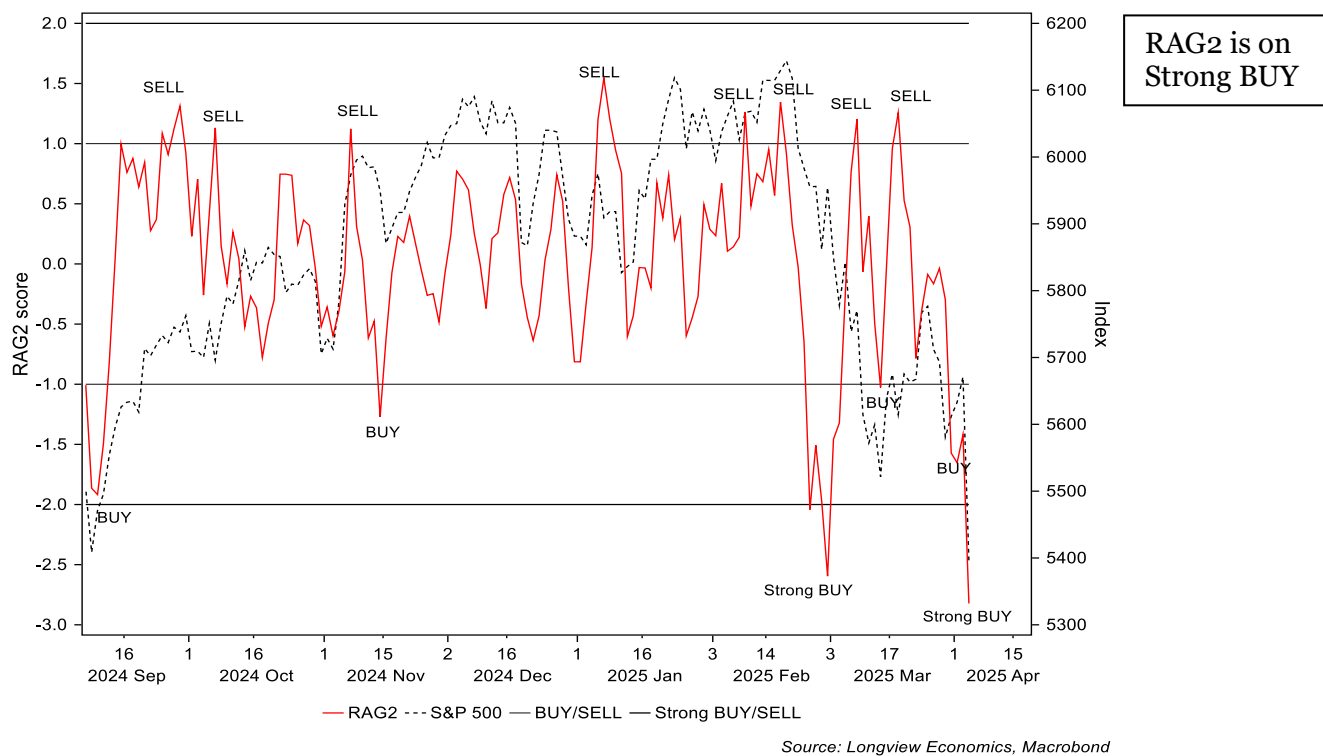
\*\*The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

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

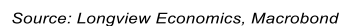
**Fig 2a: RAG 1 vs. S&P 500**



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

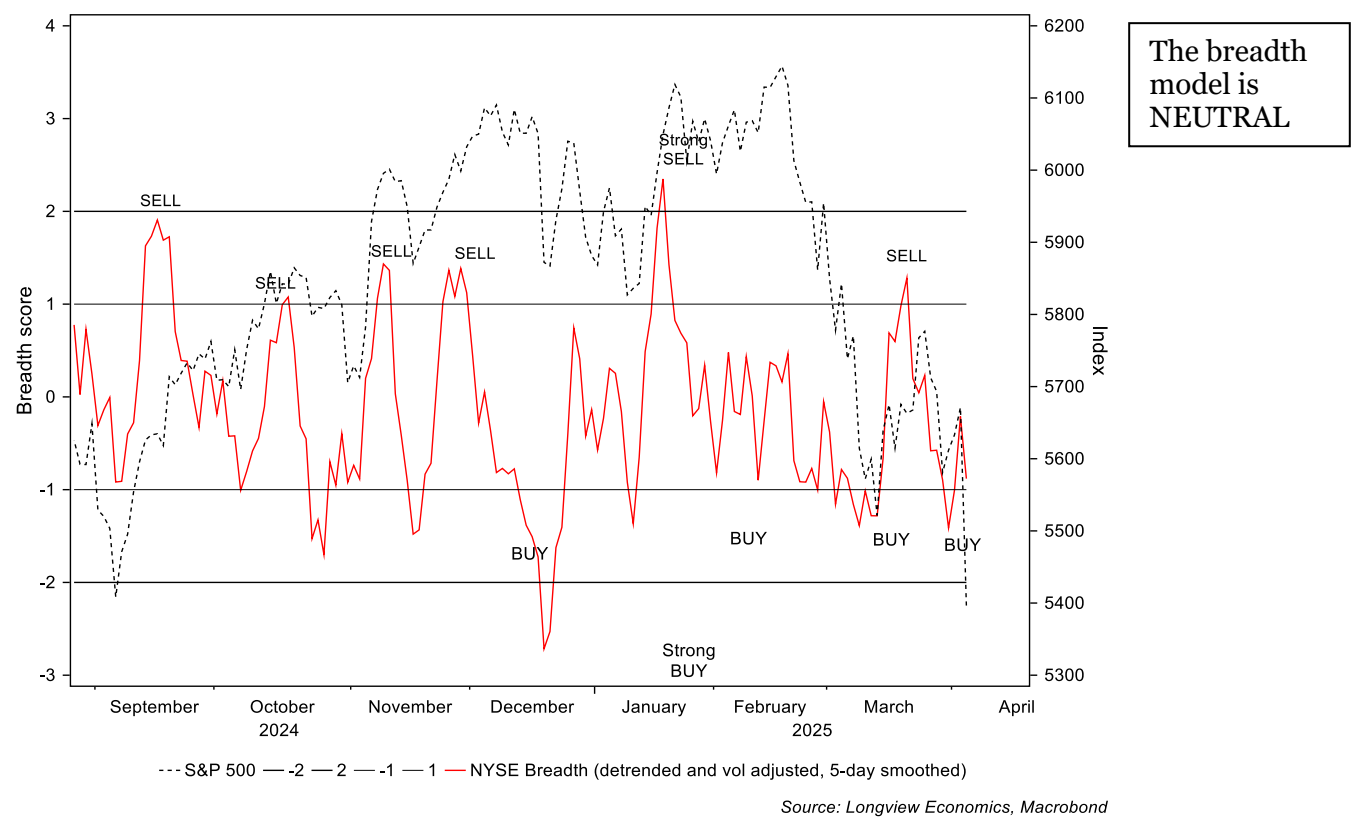


**For explanations of indicators please see page 10**



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

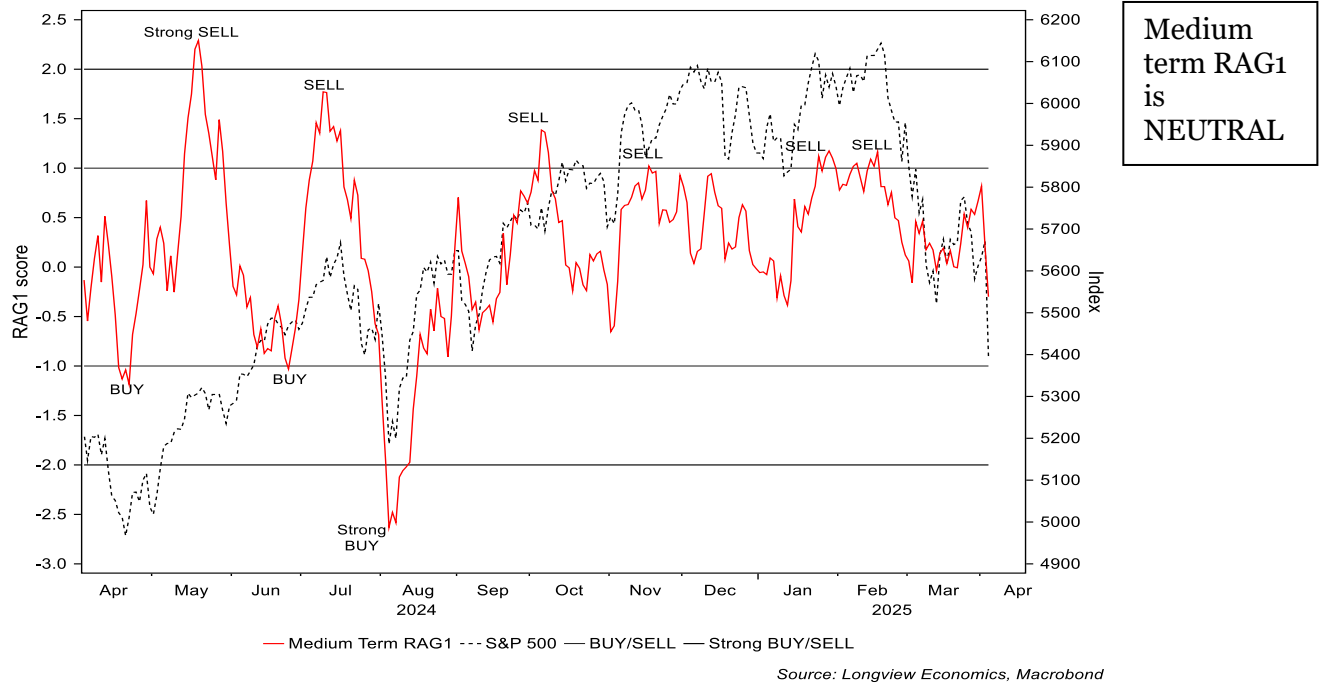
**Fig 2e:** Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



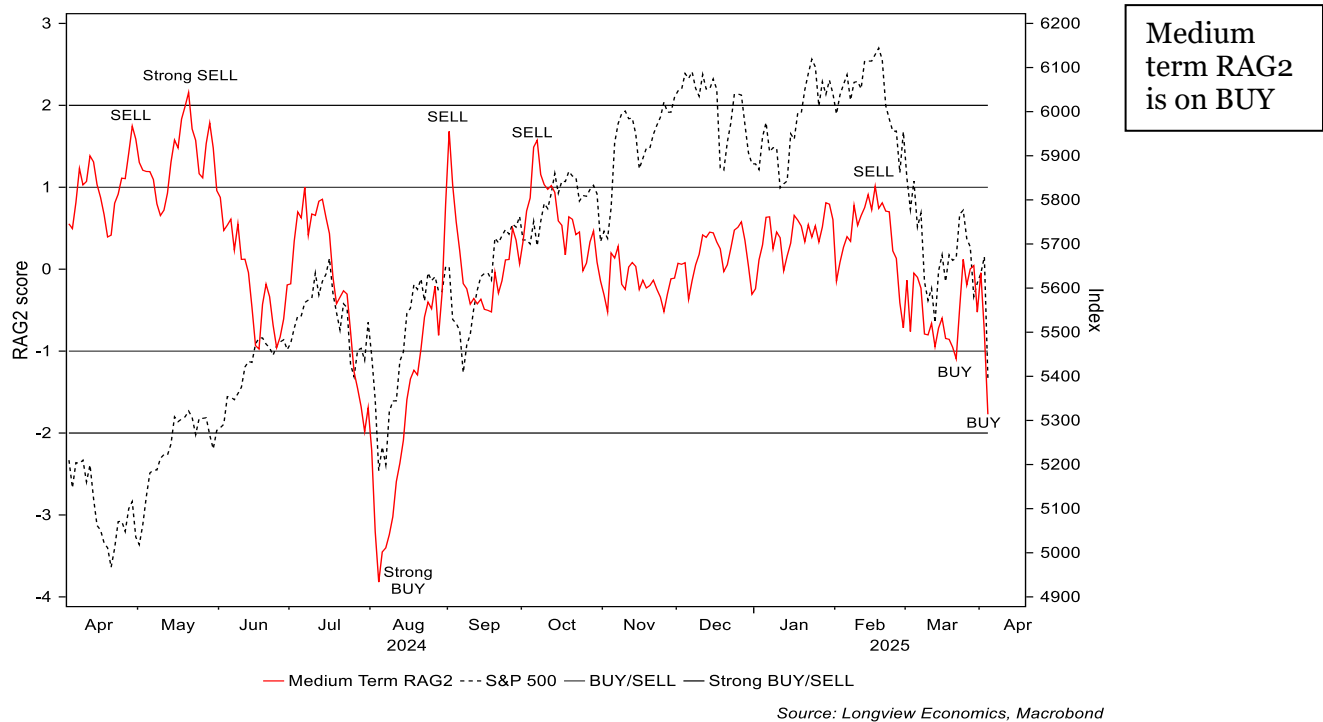
*For explanations of indicators please see page 10*

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

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

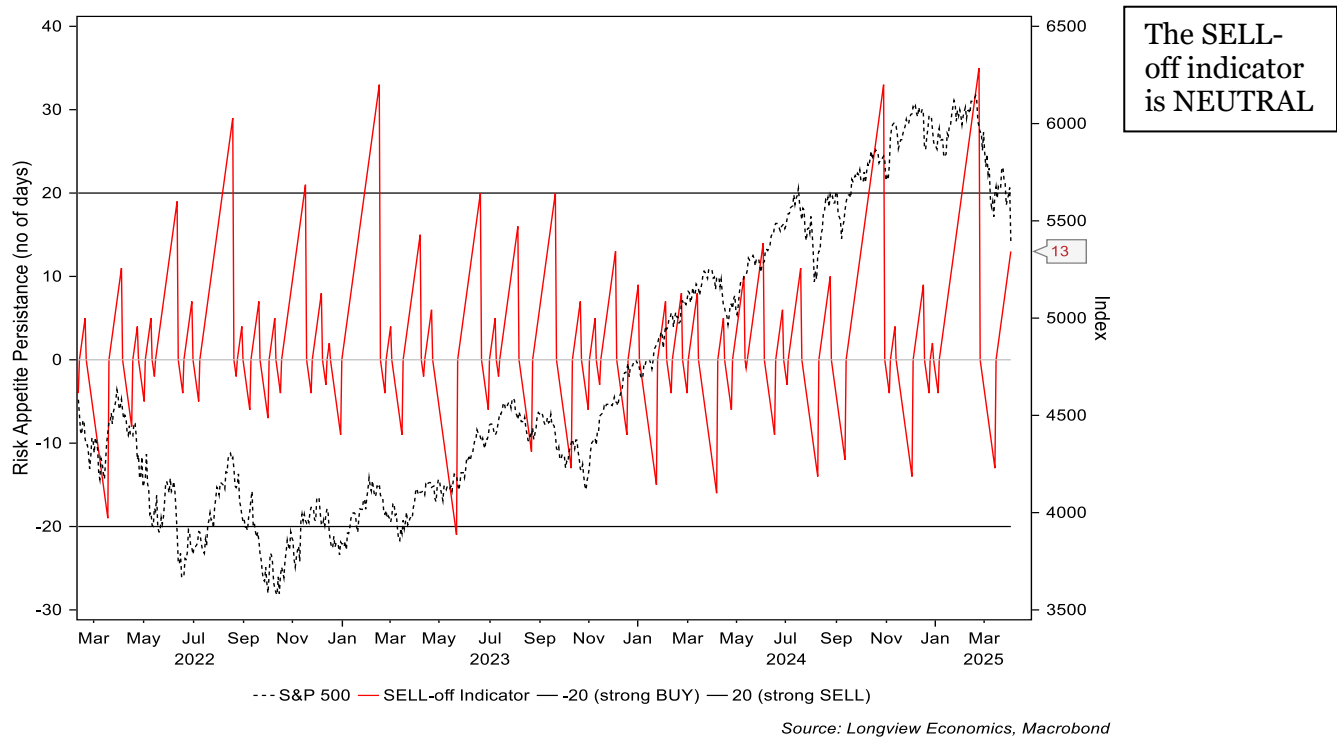


**Fig 3b:** Medium term RAG2 (1 – 4 month view) vs. S&P 500

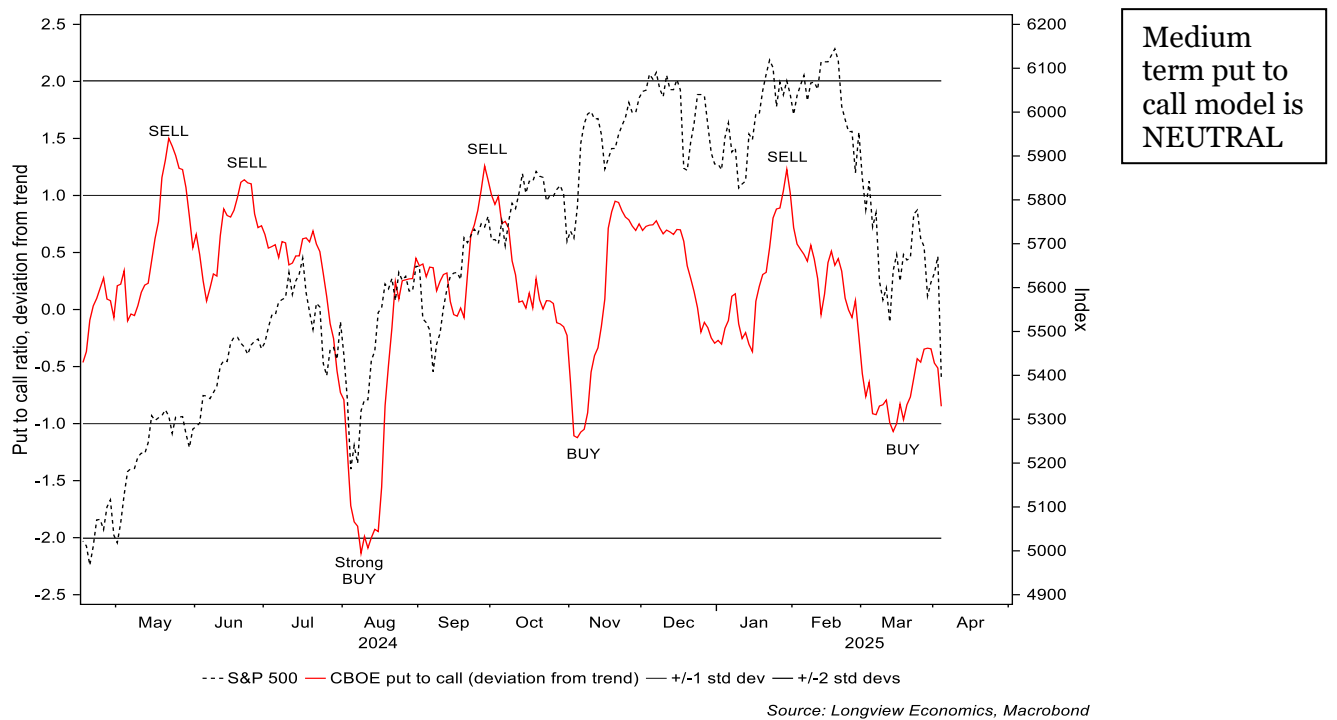


**For explanations of indicators please see page 10**

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

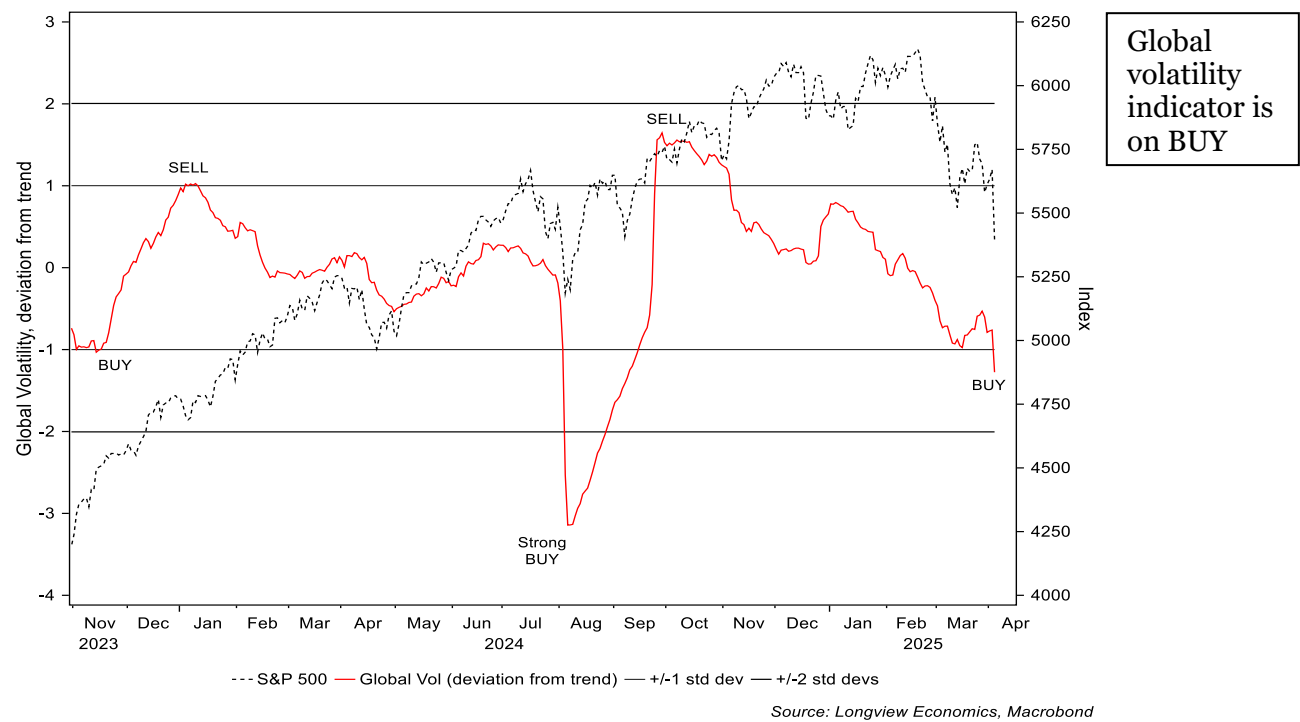


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

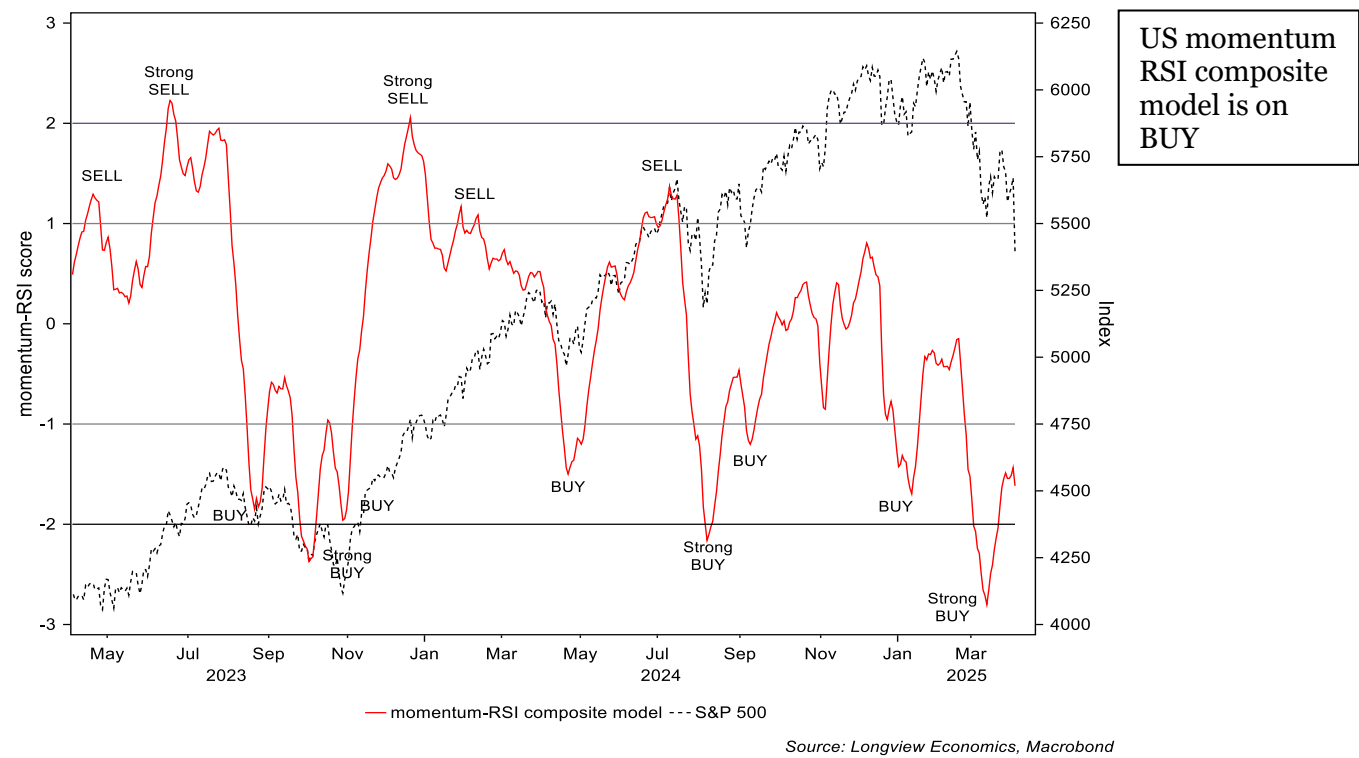


**For explanations of indicators please see page 10**

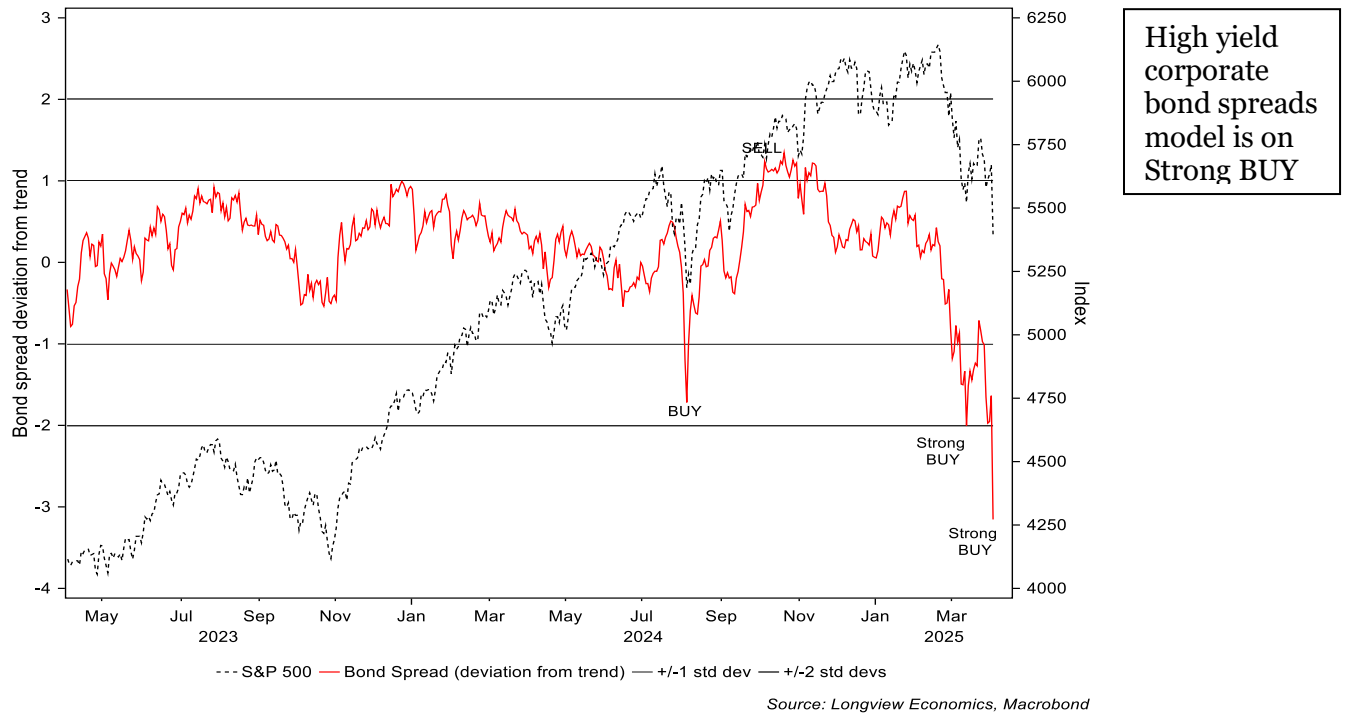
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



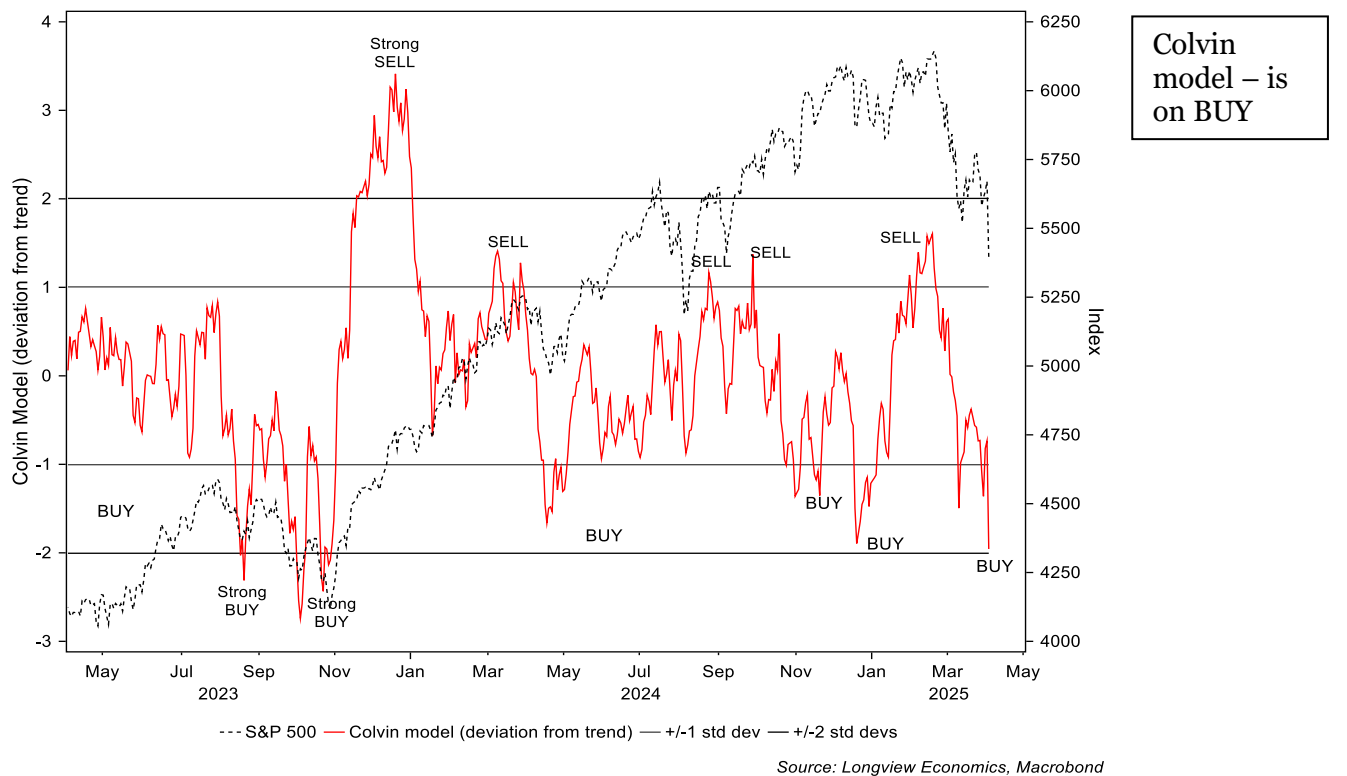
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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