Equity Index Futures Trading Recommendations

4th June 2025

"Move LONG - Models Support Upside Breakout"

Email: info@longvieweconomics.com

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

- Move ½ LONG June S&P500 futures at current prices (approx. 5,983);
- Place stop 2% below entry.

Rationale

The US equity market was strong again yesterday, with good underlying 'technicals': IT and other growth stocks led the market higher; the breadth of the market was good with 26 out of the 28 key US indices we track closing higher on the day (led by the Philly SOX +2.7%); 8 of the 11 top level sectors were up; along with the significant majority of the S&P500 industry groups. Also of encouragement, the laggards were mostly defensive areas of the market (i.e. food, beverage & tobacco; real estate; household and personal products etc.), while stylistically the S&P500 'high beta (+1.99%)' and the 'pure growth (+1.1%)' indices were the outperformers, and the 'low volatility (-0.3%)' index closed down.

In that sense **it was a broad based, classic 'risk-on' trading session.**

Despite that, the main US equity markets remain within their ranges of the past 2 – 3 weeks. S&P500 futures, for example, are towards the top end of the range that's been in place since mid-May (i.e. 5,734/56 up to 5,994/6,008 – see FIGs 1c & 1c); the NDX100 is similarly towards the top end of its range (along with the Philly SOX, the S&P400 & the S&P600, i.e. small and mid-caps).

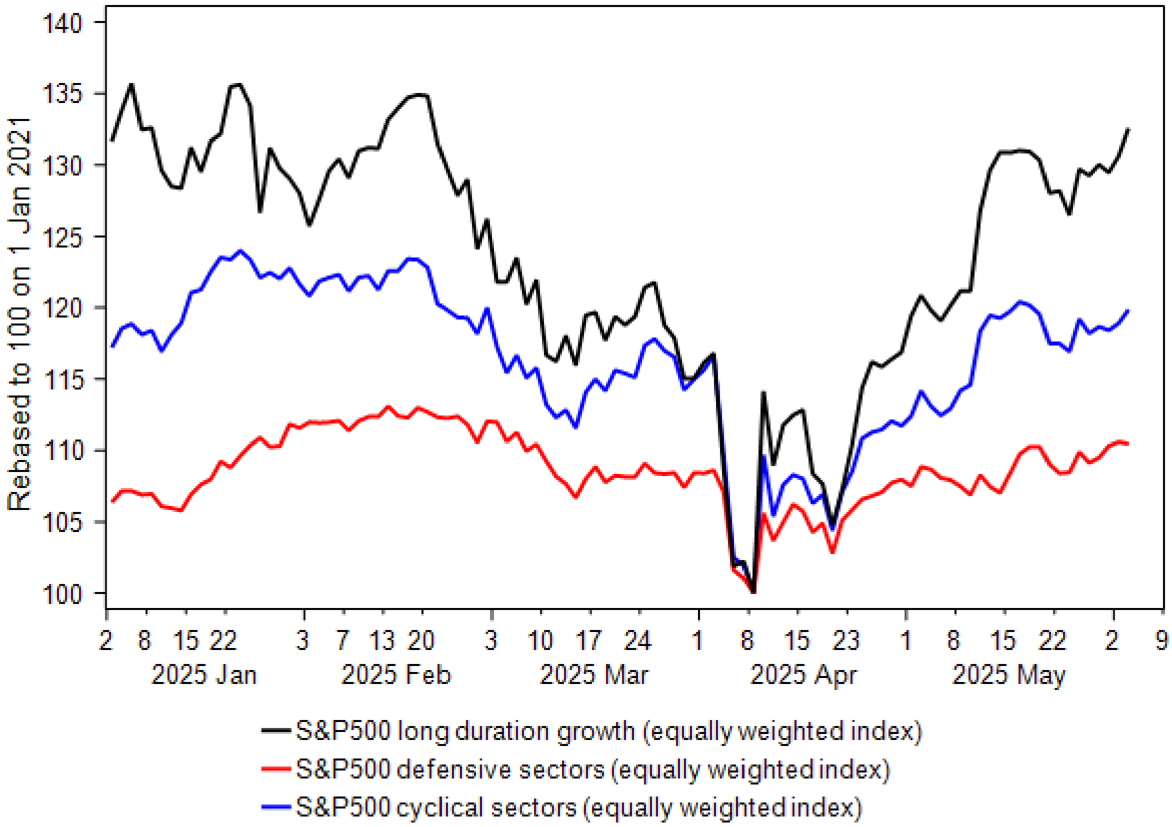
Most **short-term models support the possibility of further upside in the near term**. That is, given most are NEUTRAL they have headroom until they reach SELL. The main short term risk appetite models, for example, are all below their SELL thresholds – see, for example, the 'risk appetite scoring system', 'combined RAG1 plus RAG2', or indeed stand-alone RAG1 and RAG2 (e.g. FIGs 2, 2a, & 2b). Technically, this equity market is not currently overbought. Our short-term technical scoring system has drifted in recent weeks, while the S&P500 is close, but not yet, overextended to the upside on our 10-day overextended measure (FIG 2d); while neither sector nor single stock models are suggesting that these internal parts of the market are frothy/overextended (e.g. see FIGs 2g & 2h). Equally neither are the FAANMG stocks (as a group) overbought at this juncture (FIG 1g). The VIX also remains elevated (at 17%), with capacity to therefore fall further, whilst in certain parts of the market there remains a reasonable degree of downside hedging. The DAX calls less puts model, for example, is back on BUY (FIG 1e); the NDX100 version is mid-range (FIG 1h); while there was also put BUYing yesterday on the broader CBOE version of this model (FIG 2f).

For choice, therefore, upside momentum is likely to continue (for now) until short term models start to reach SELL levels. With that, there's a good chance of an upside breakout above the recent range (potentially a false one – but still a breakout). We therefore recommend moving ½ LONG S&P500 futures at current prices with a 2% stop loss.

Kind regards,

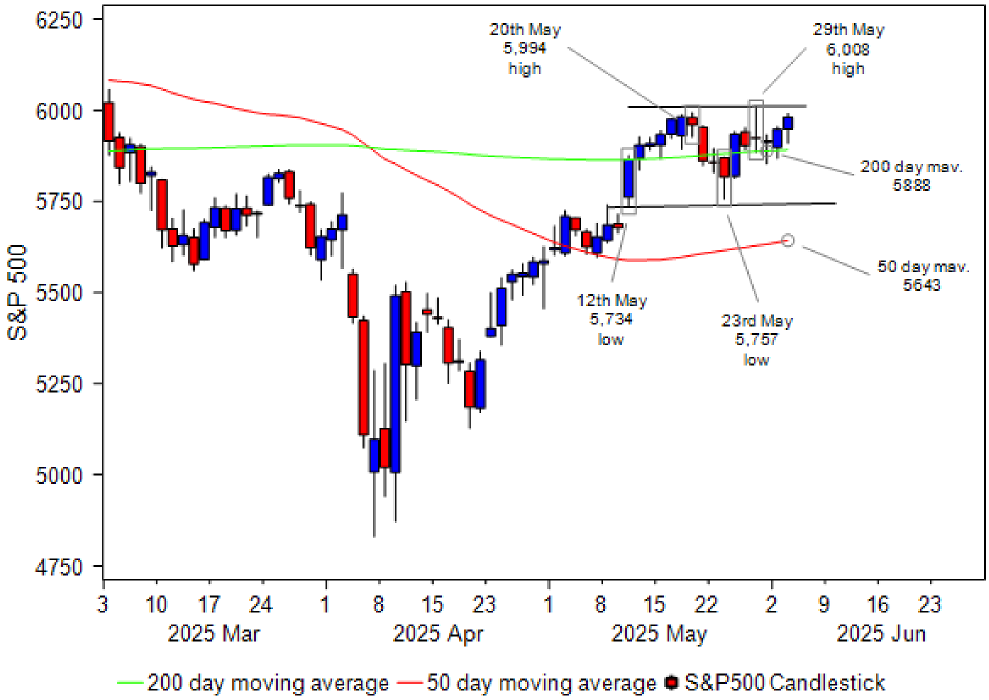
The team @ Longview Economics

FIG 1: S&P500 index – divided into cyclicals, defensives and long duration growth



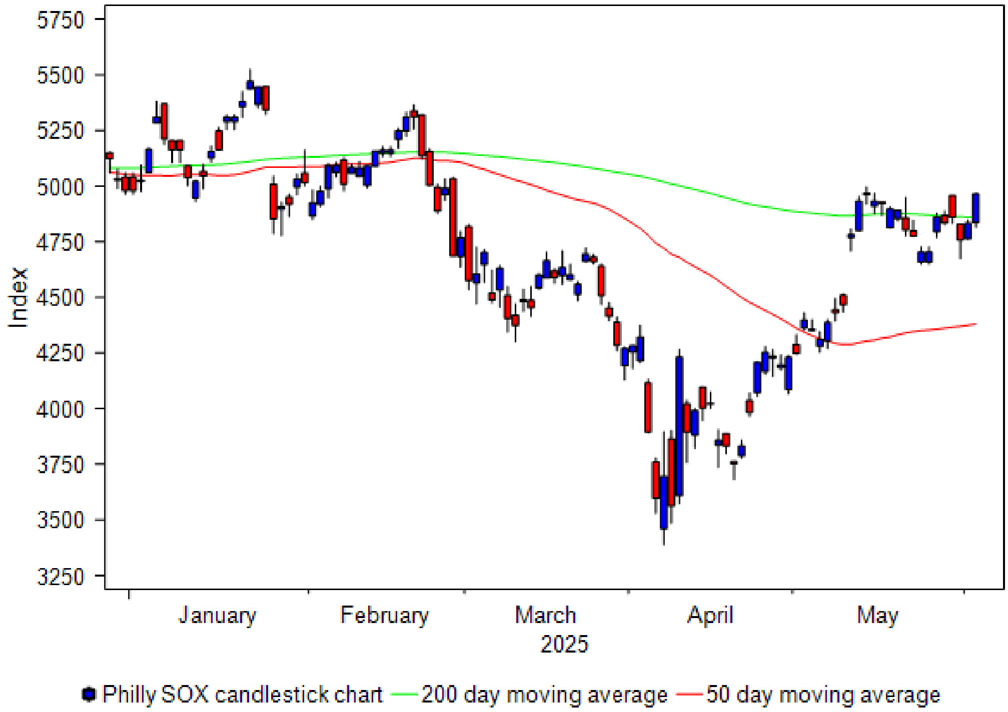
Source: Longview Economics, Macrobond

FIG 1a: S&P500 futures shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

FIG 1b: Philly SOX cash index candlestick, shown with 50 & 200 day moving average



Source: Longview Economics, Macrobond

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

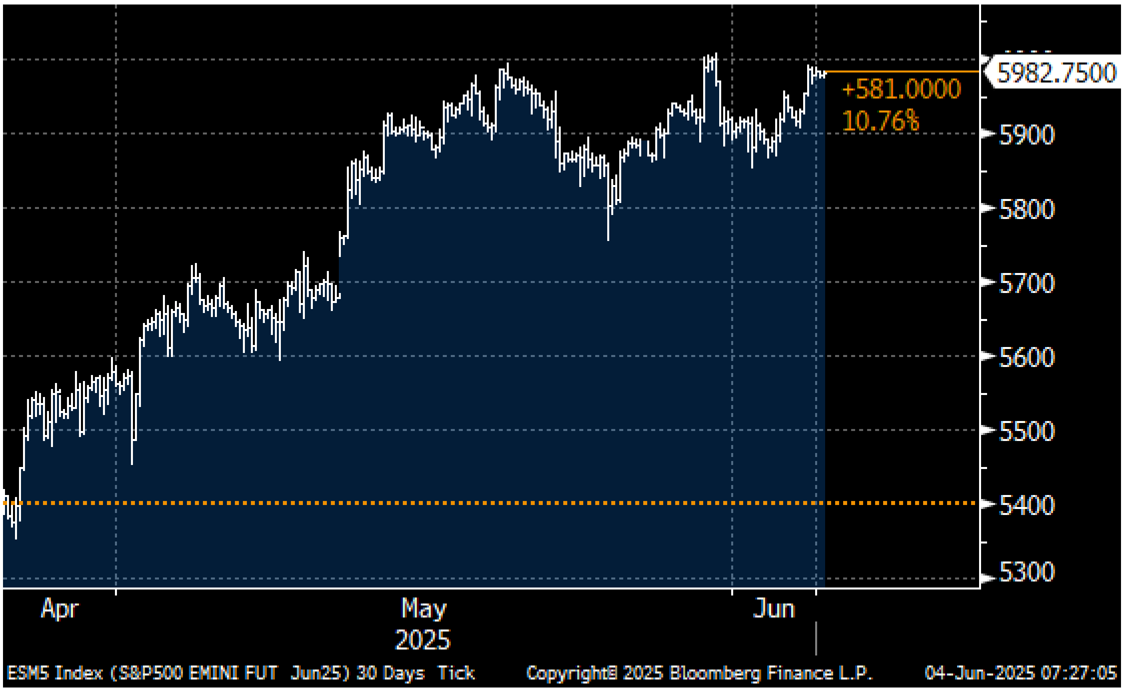


FIG 1d: NDX100 futures 30-day tick chart shown with overnight price action

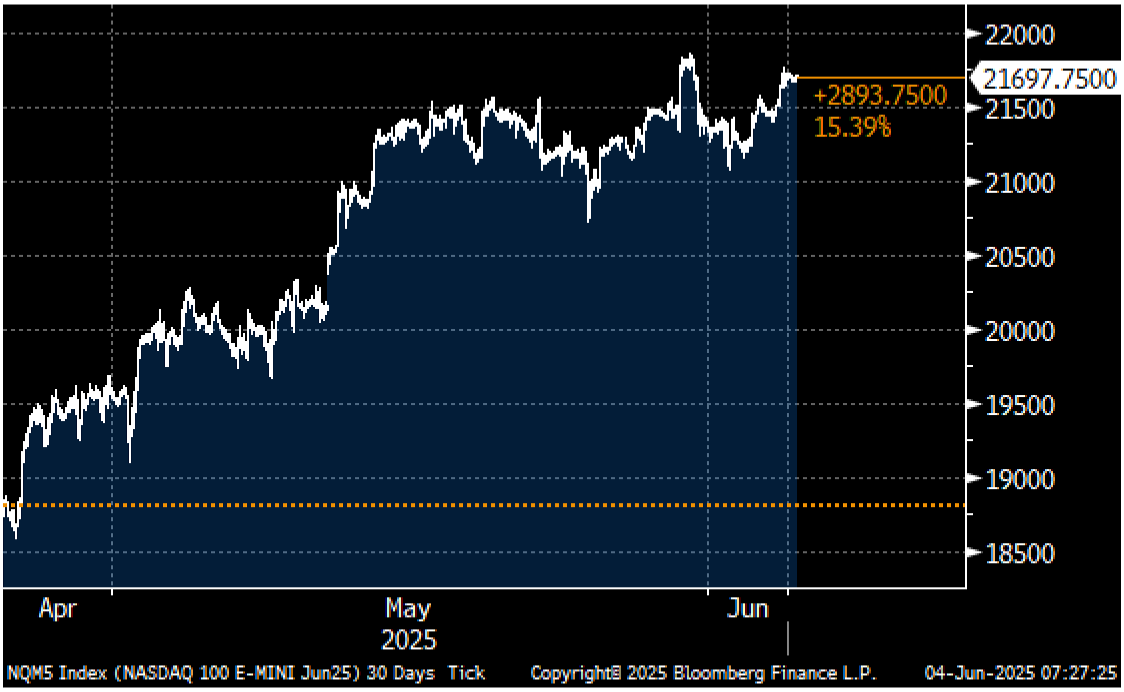
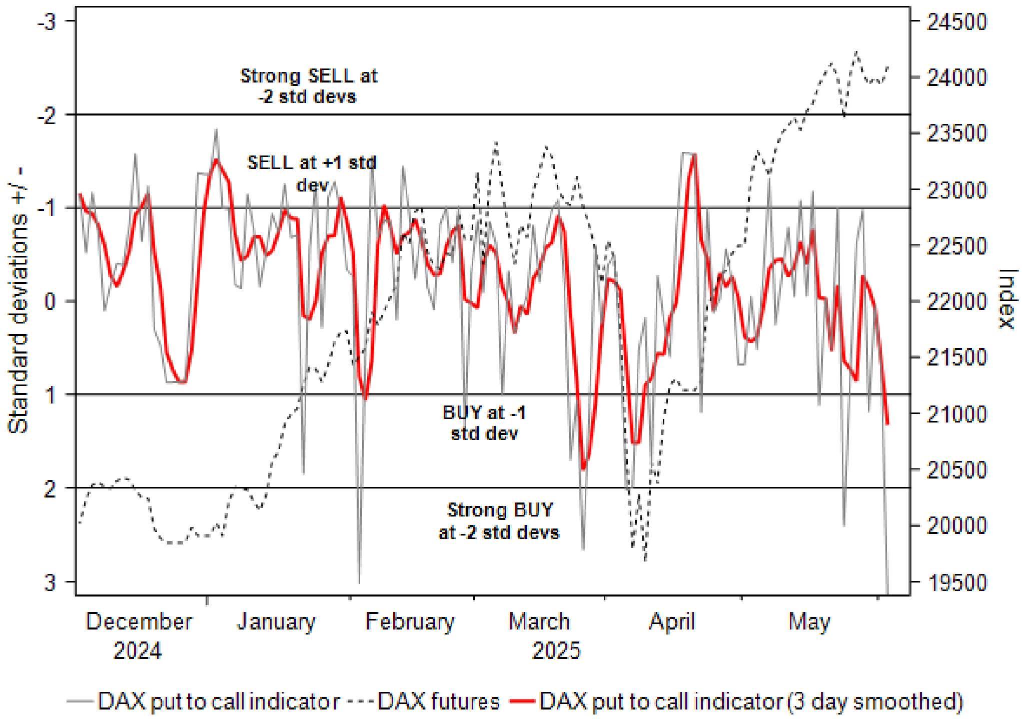
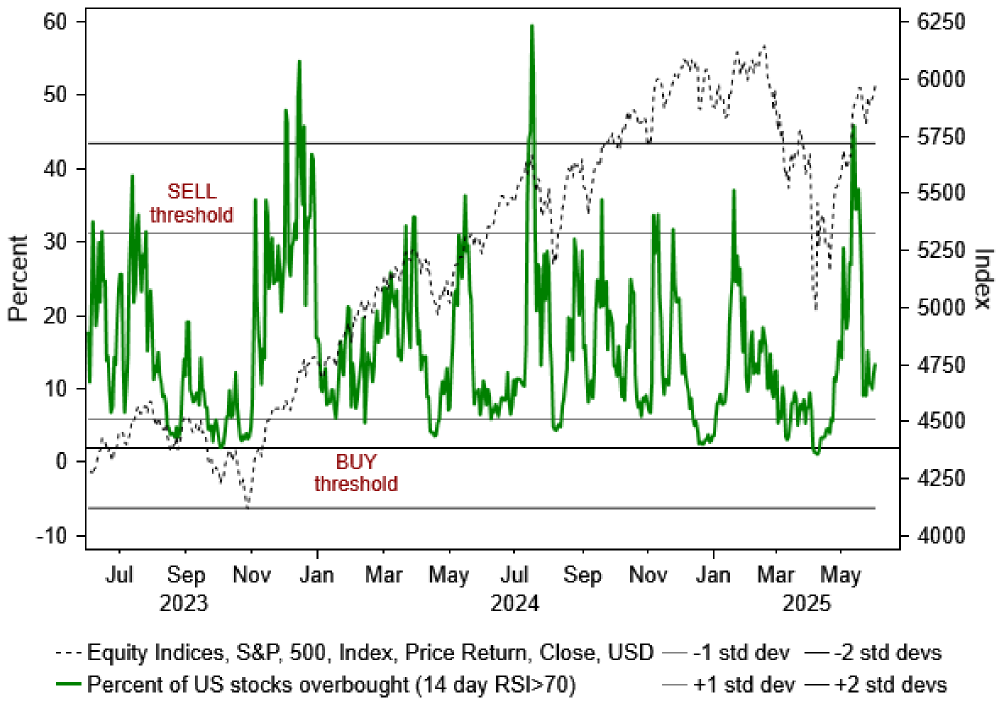


FIG 1e: DAX40 calls less puts indicator (3 day smoothed) vs. DAX40 index



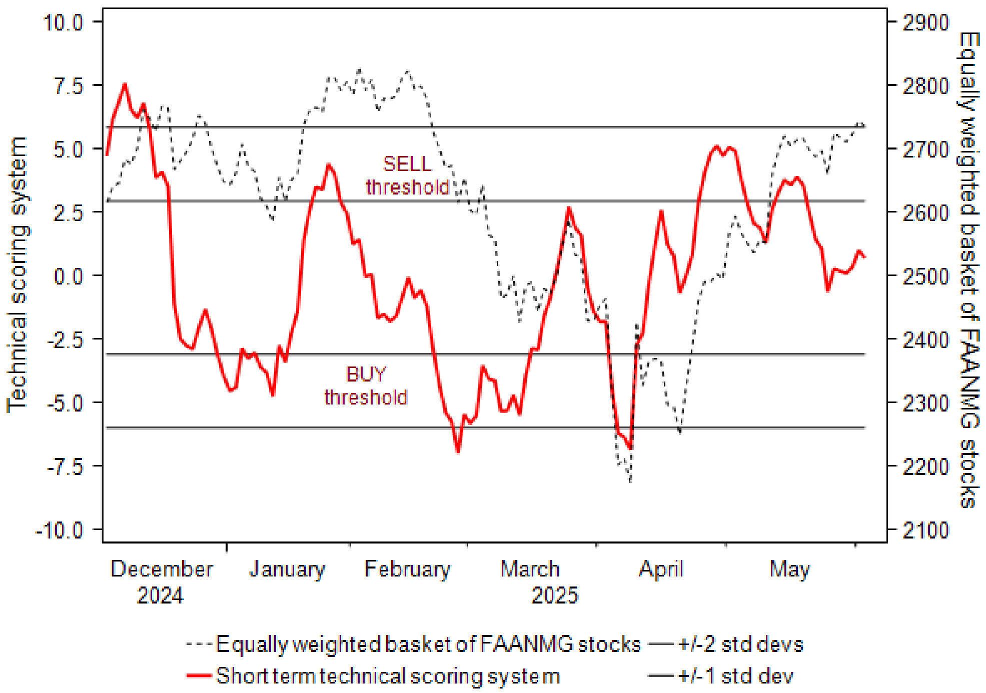
Source: Longview Economics, Macrobond

FIG 1f: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500



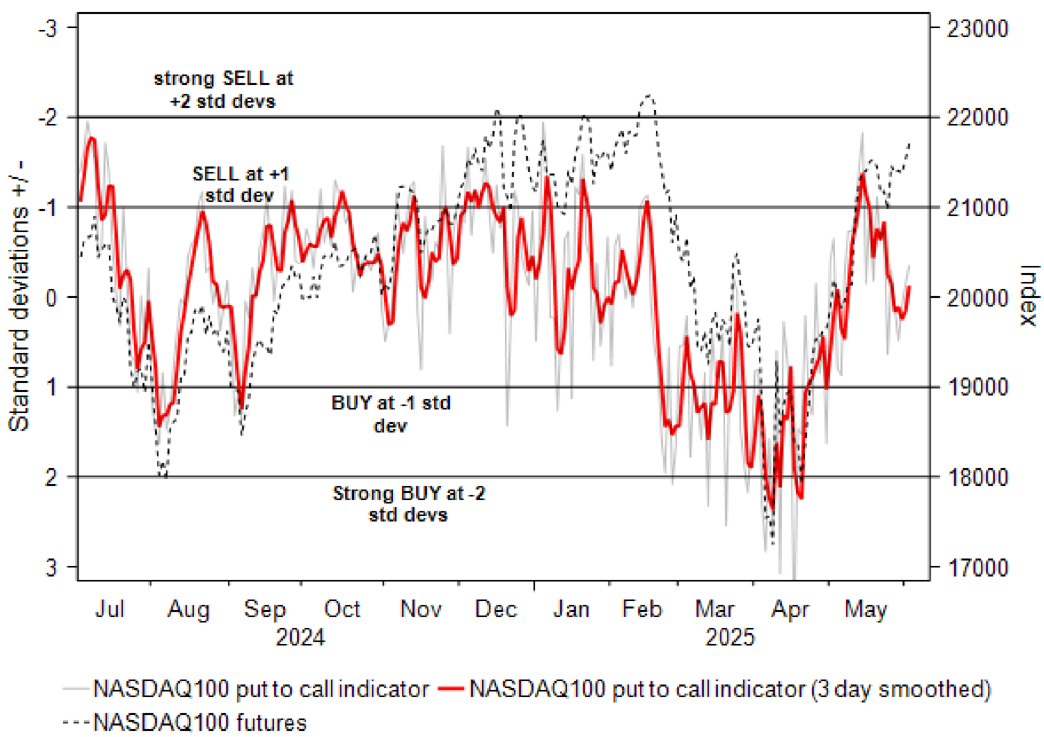
Source: Longview Economics, Macrobond

FIG 1g: Short term **'technical'** scoring system for an equally weighted basket of FAANMG stocks (vs. FAANMG stocks, equally weighted)



Source: Longview Economics, Macrobond

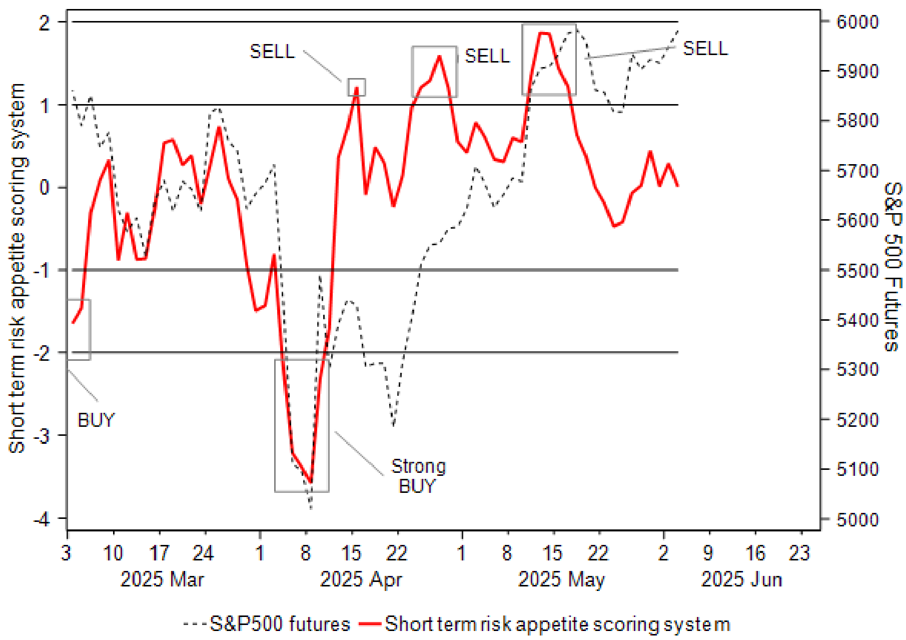
FIG 1h: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

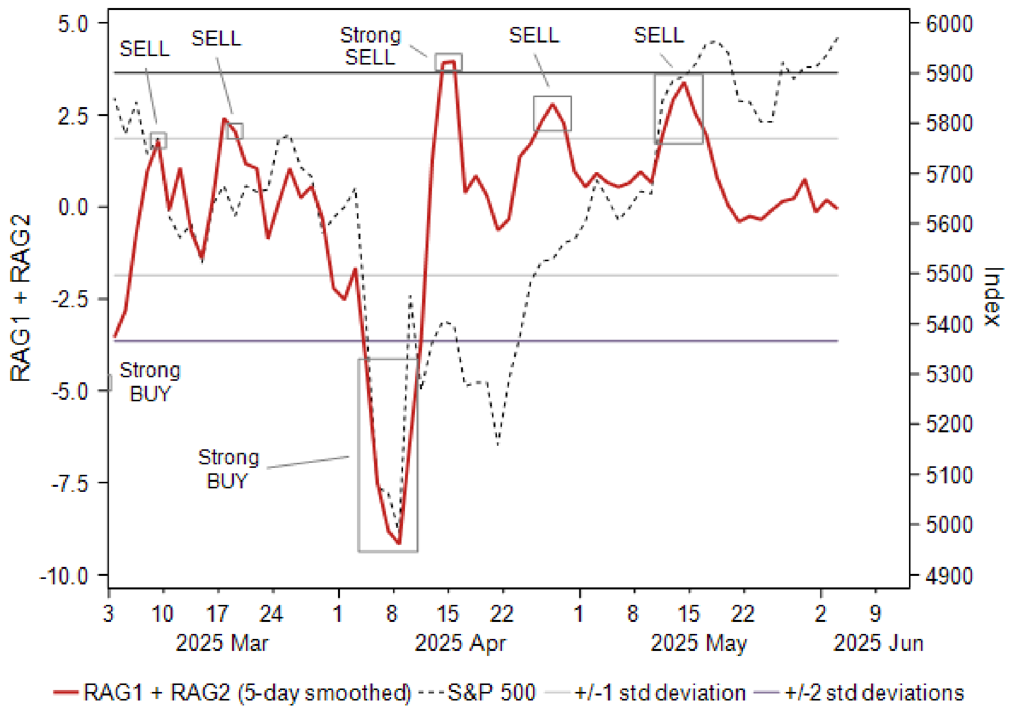
Short term models are mostly mid-range/NEUTRAL…

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



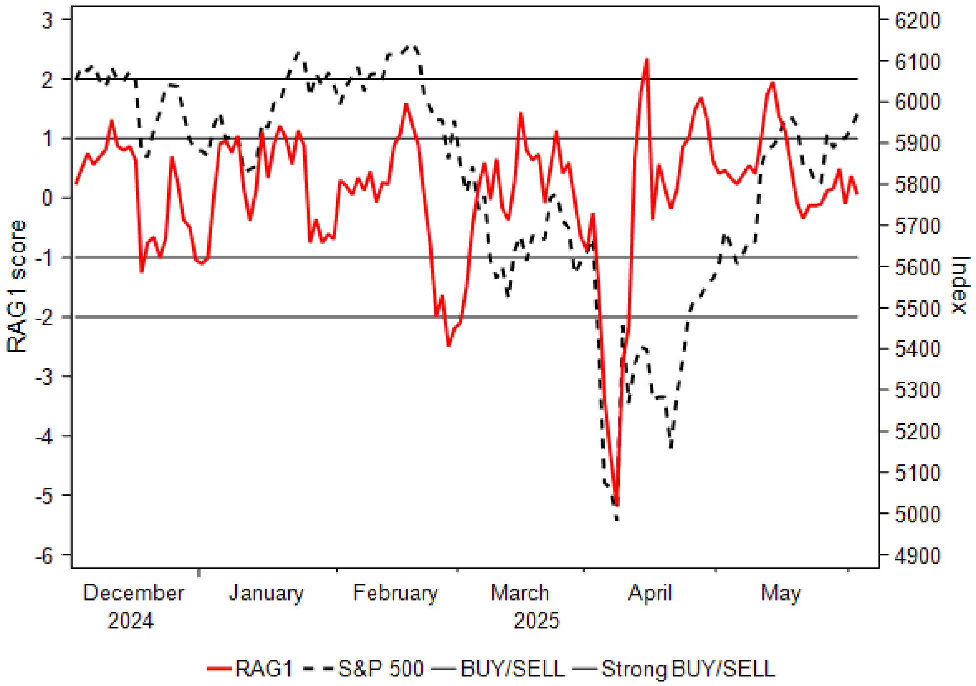
Source: Longview Economics, Macrobond

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



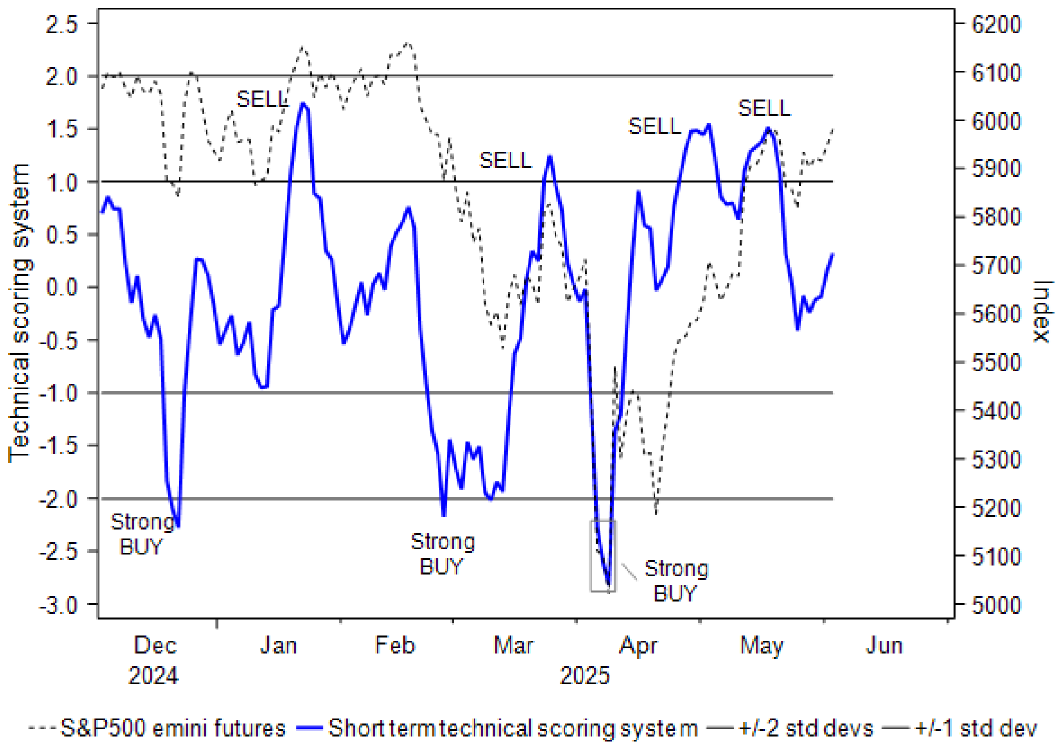
Source: Longview Economics, Macrobond

FIG 2b: Longview key **'risk appetite'** model (RAG1) vs. S&P500



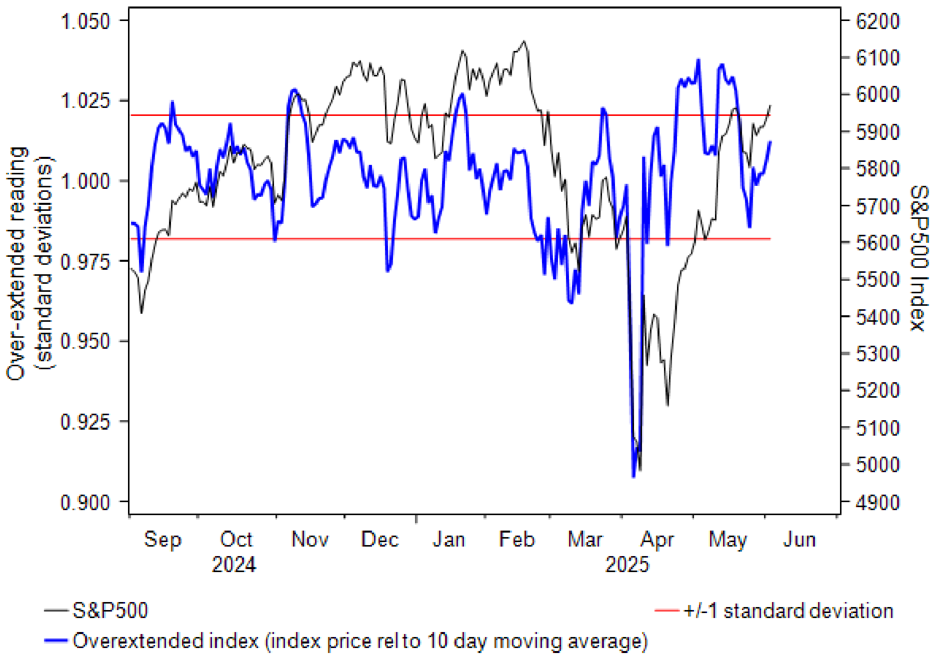
Source: Longview Economics, Macrobond

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



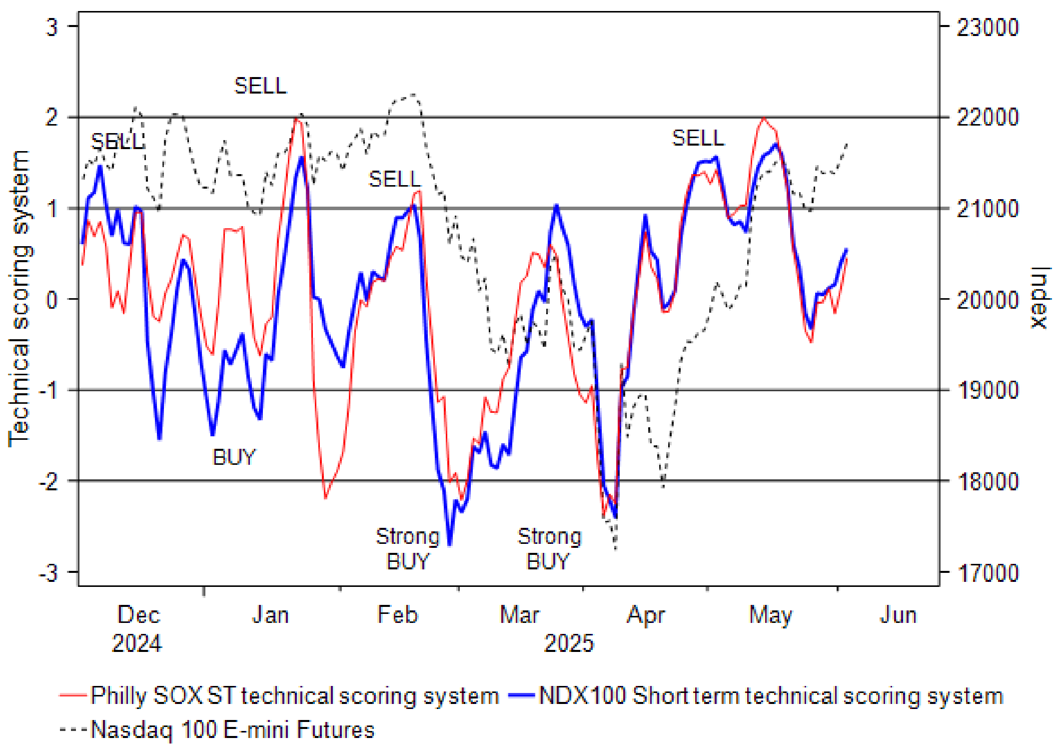
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

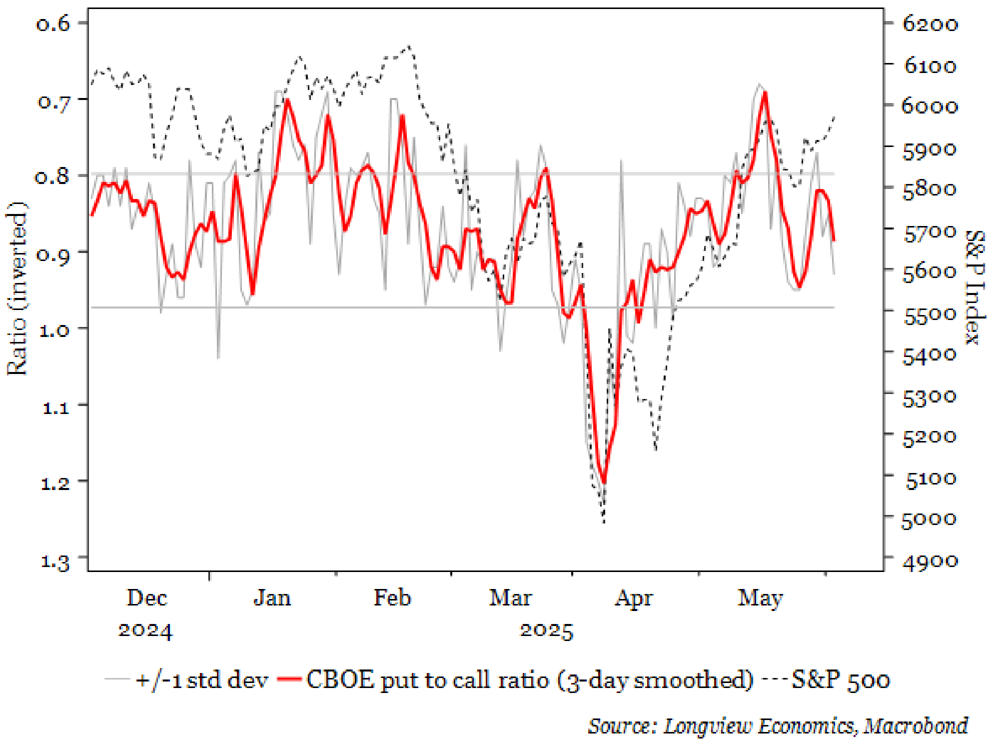


FIG 2g: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

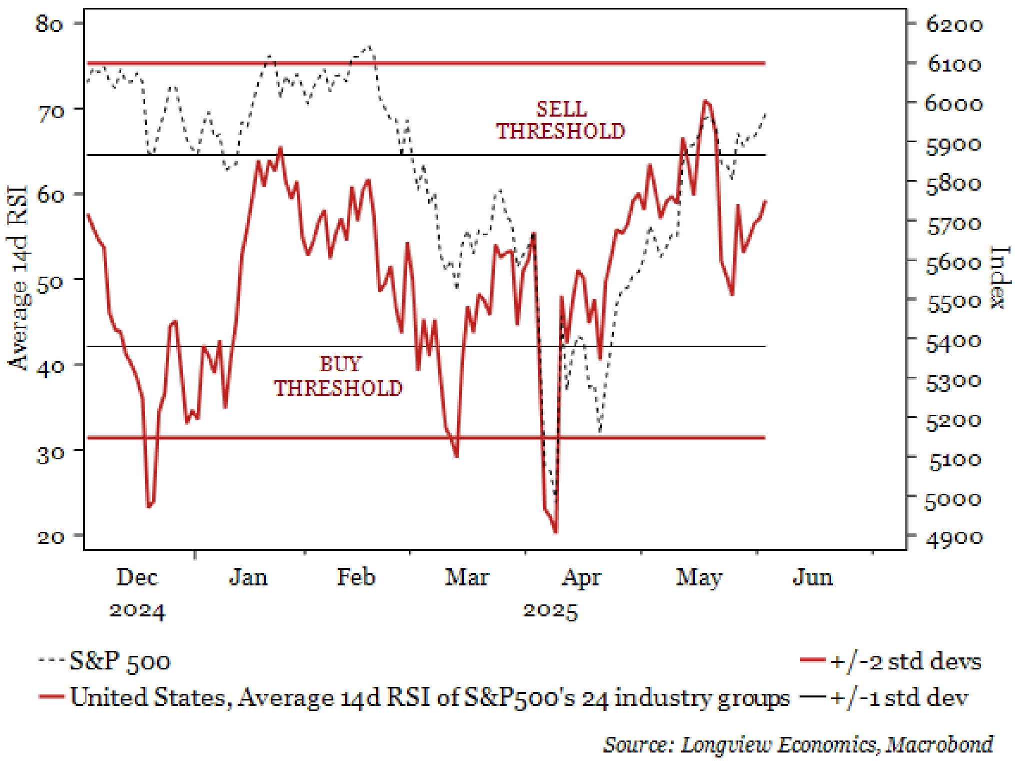
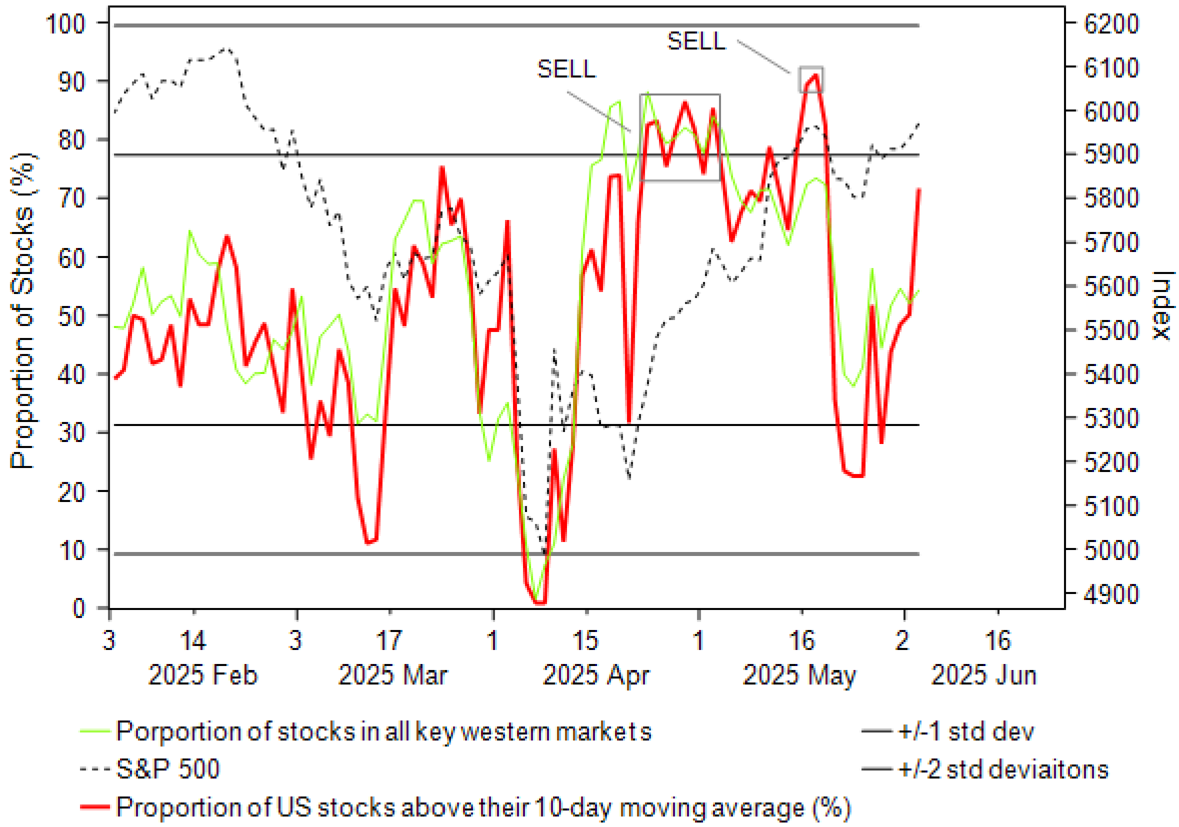


FIG 2h: Proportion of Western stocks above their 10-day moving average vs. S&P500

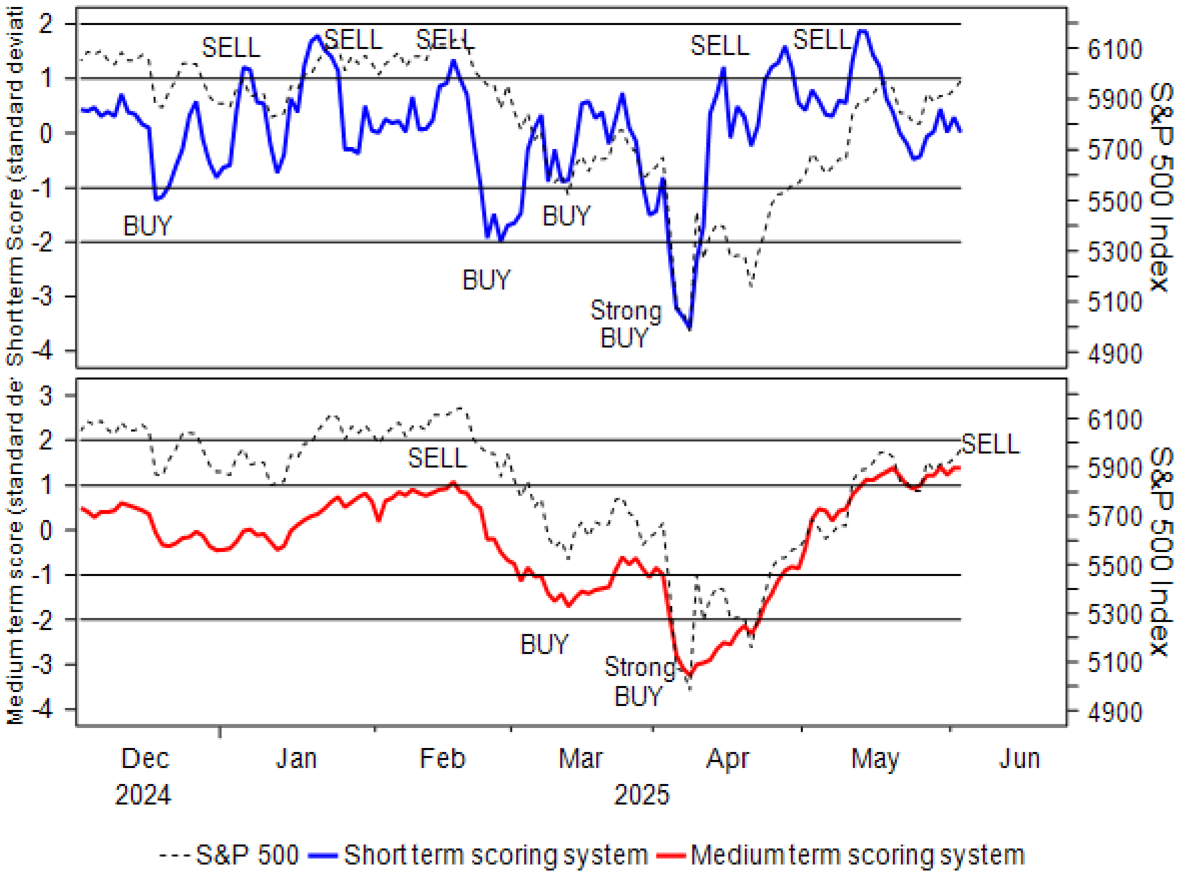


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **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 S&P services sector PMI (May final estimate, 12am); Japanese Jibun Bank services sector PMI (May final estimate, 1:30am); Australian GDP (Q1, 2:30am); Spanish industrial production (Apr, 8am); HCOB services sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all May final estimates apart from Spain & Italy; UK S&P service sector PMI (May final estimate, 9:30am); **US ADP employment** (May, 1:15pm); Canada S&P service sector PMI (May final estimate, 2:30pm); US S&P service sector PMIs (May final estimate, 2:45pm); **US ISM services PMI** (May, 3pm).

Key events today include: **Bank of Canada Policy Decision** (2:45pm); **Fed releases Beige Book** (7pm).

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 19th May 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

1 – 2 Week View on Risk

4th June 2025

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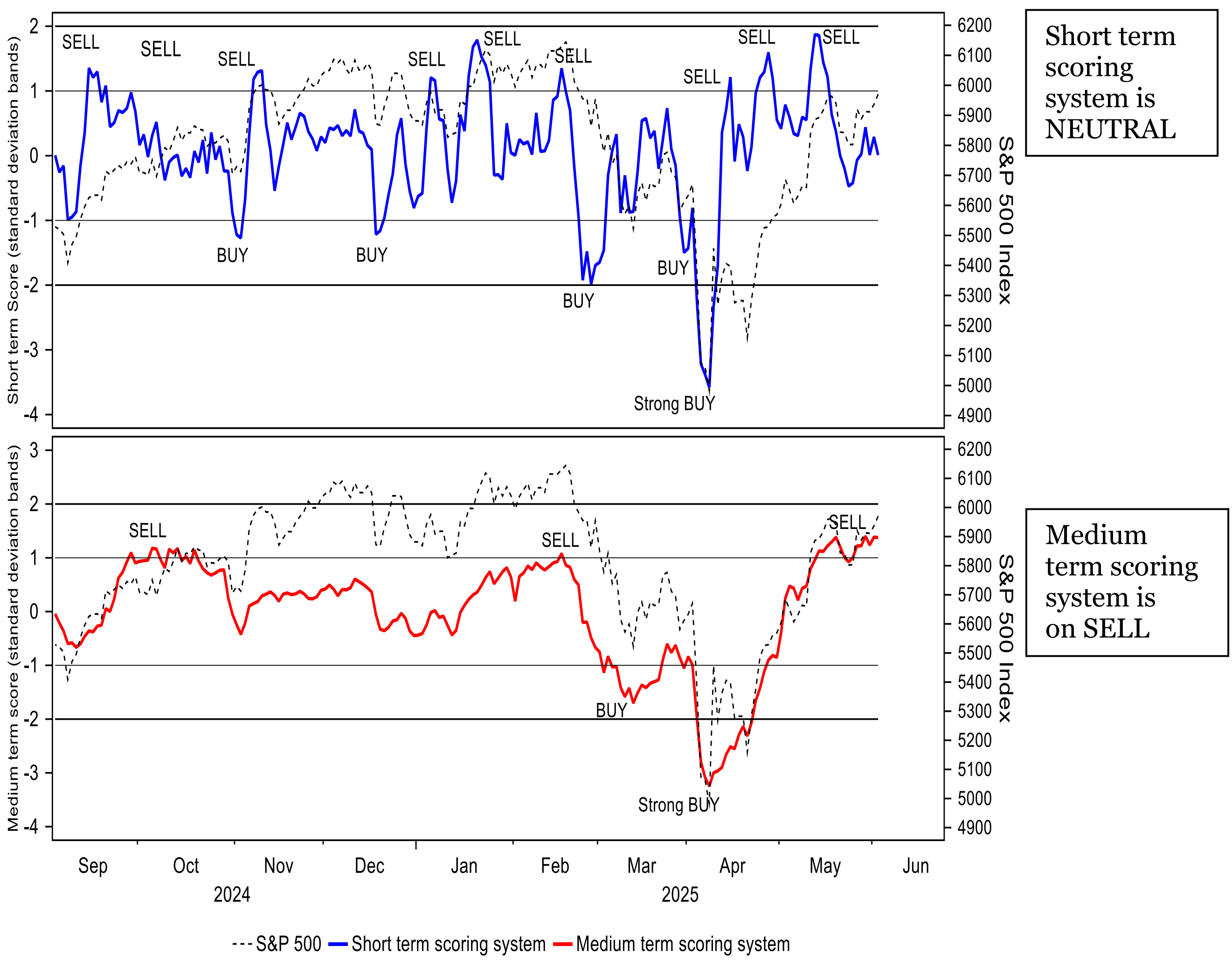
Section 1: Longview Scoring Systems (short & medium term*)

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



Source: Longview Economics, Macrobond

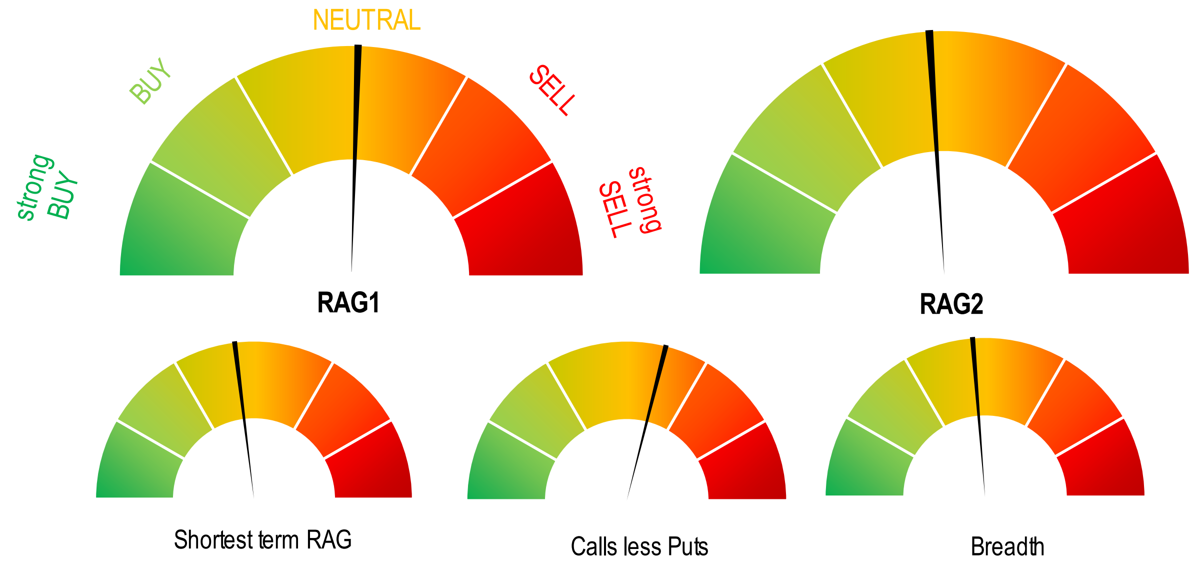
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

Important disclosures are included at the end of this report
For explanations of indicators please see page 10

LVRAG Daily Risk Appetite Gauge

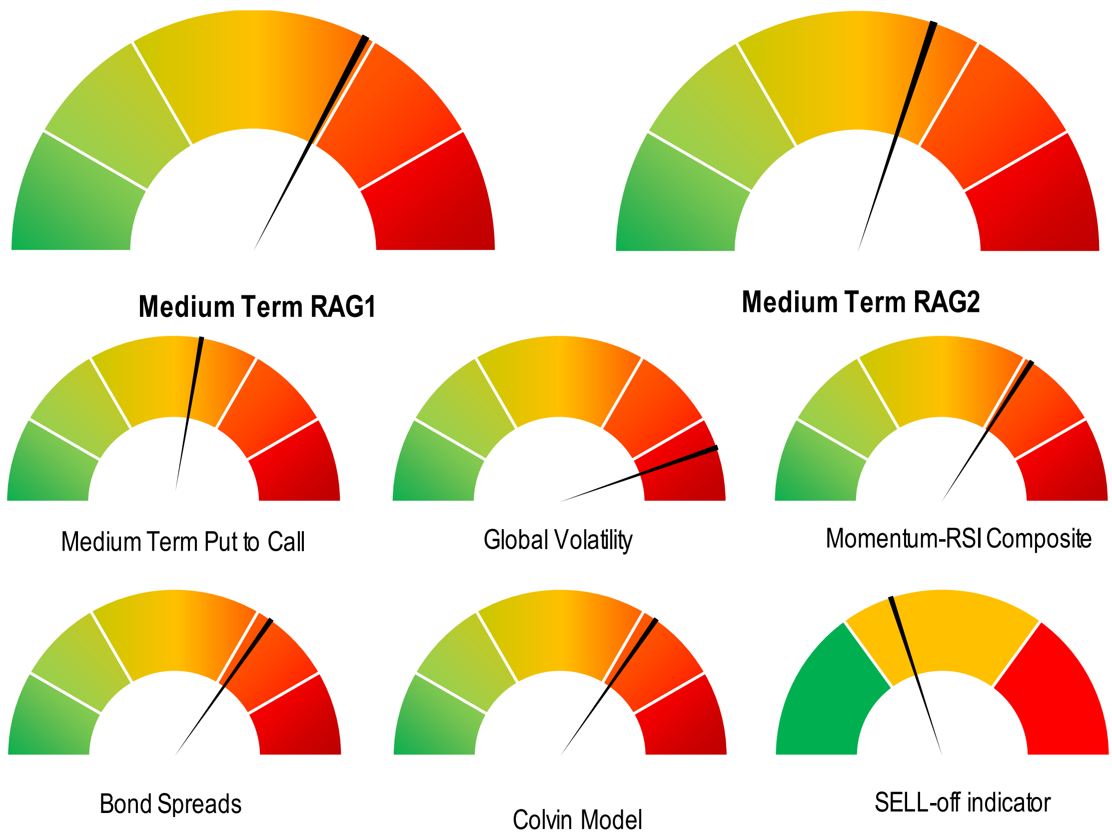
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

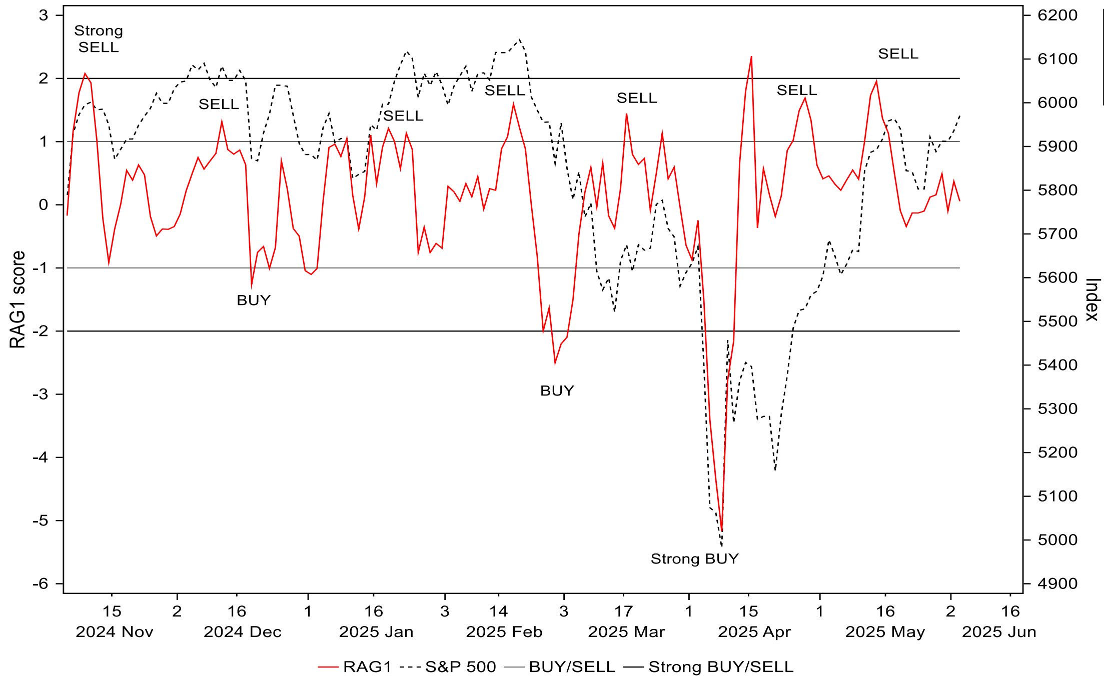
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

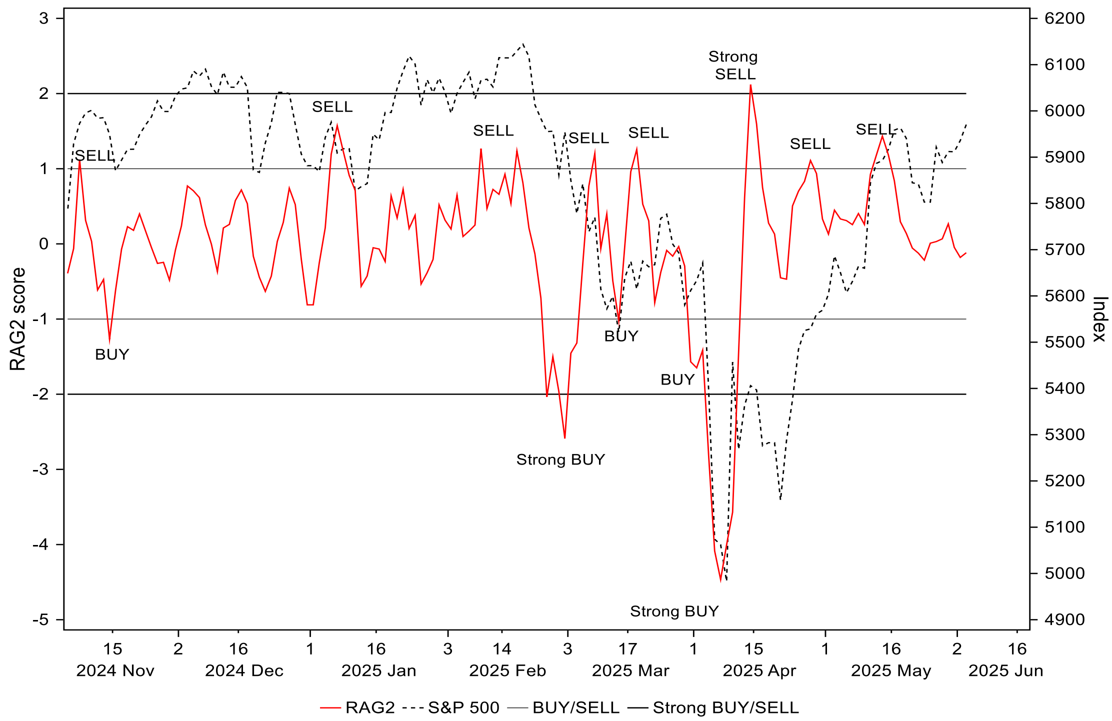
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

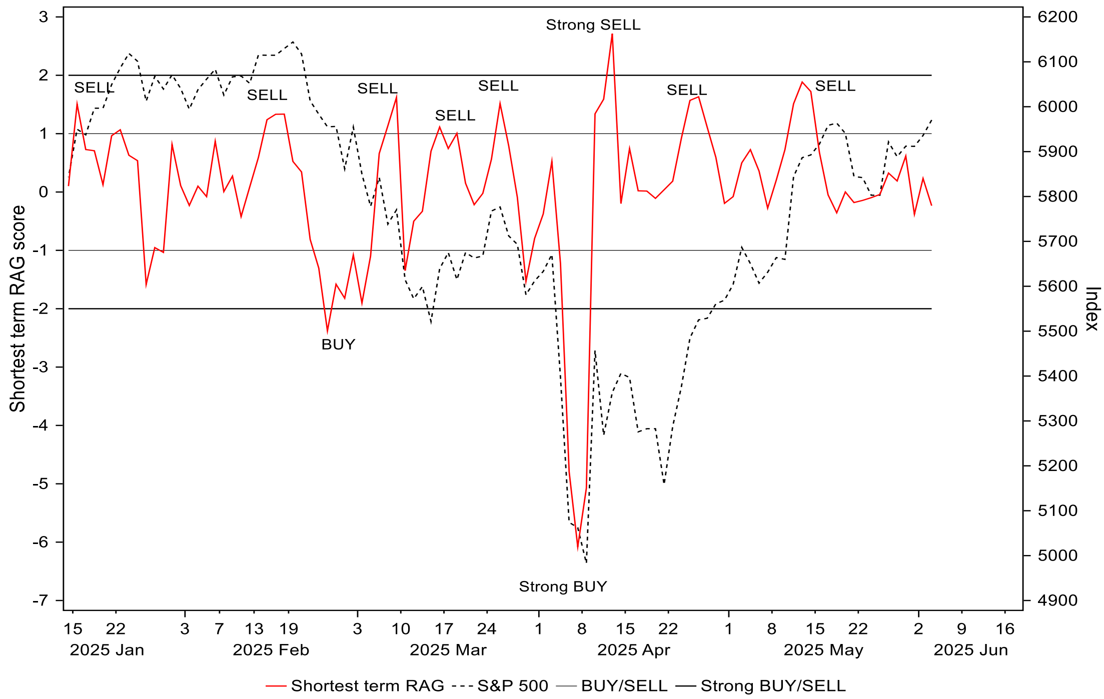


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

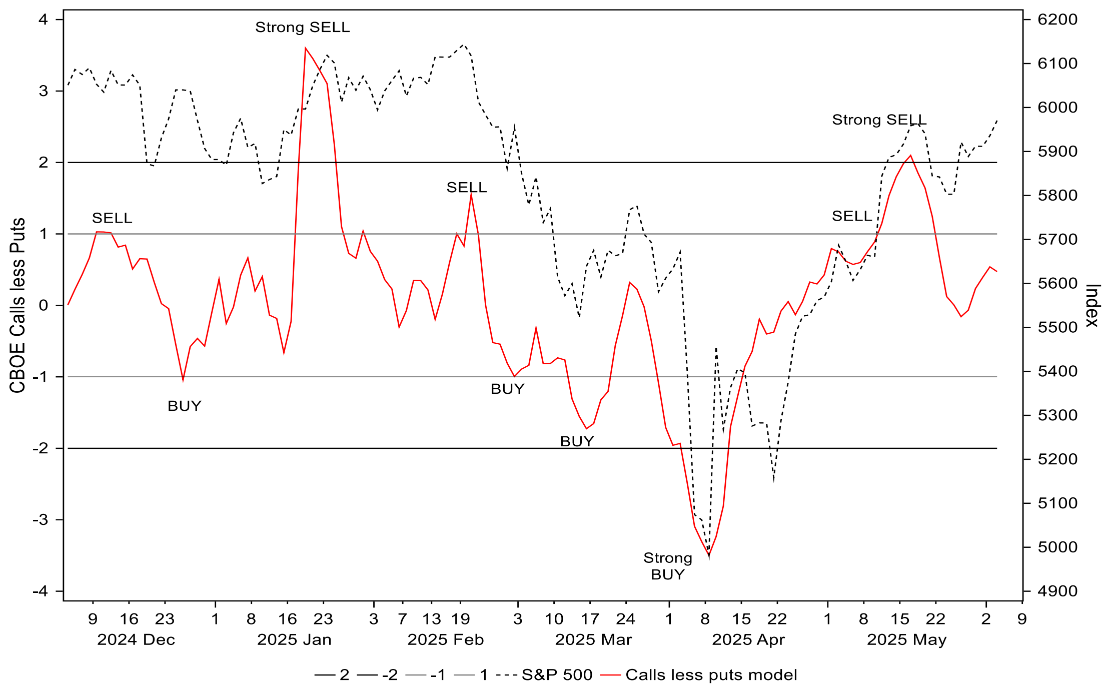
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

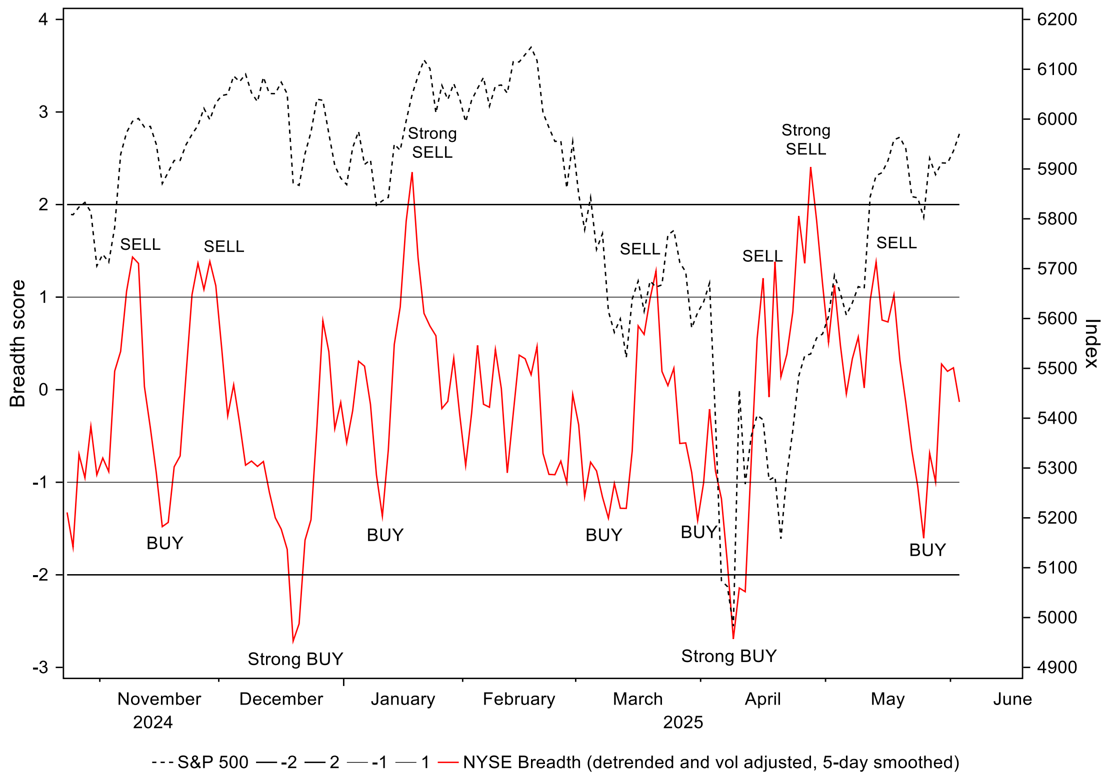


Calls less puts model is NEUTRAL

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



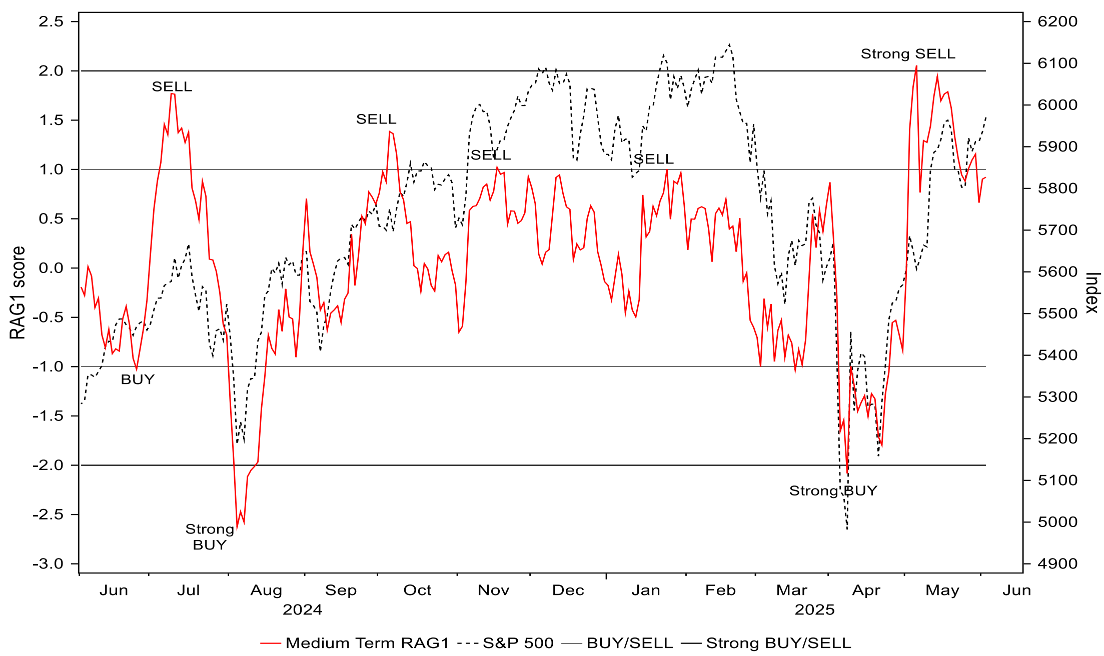
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

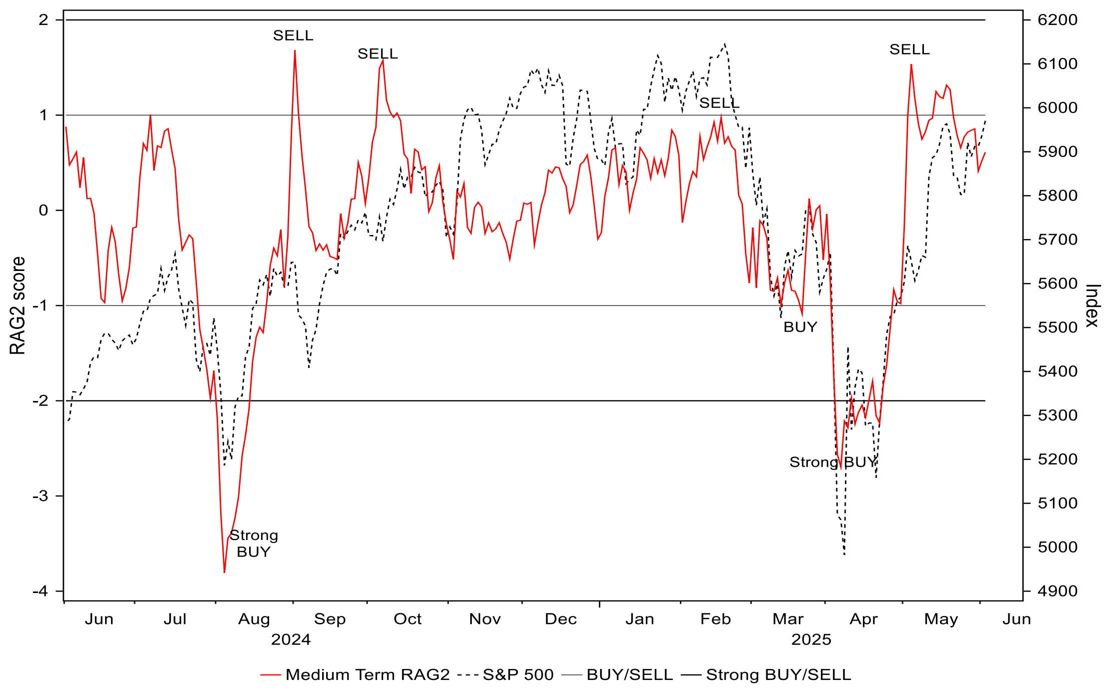
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

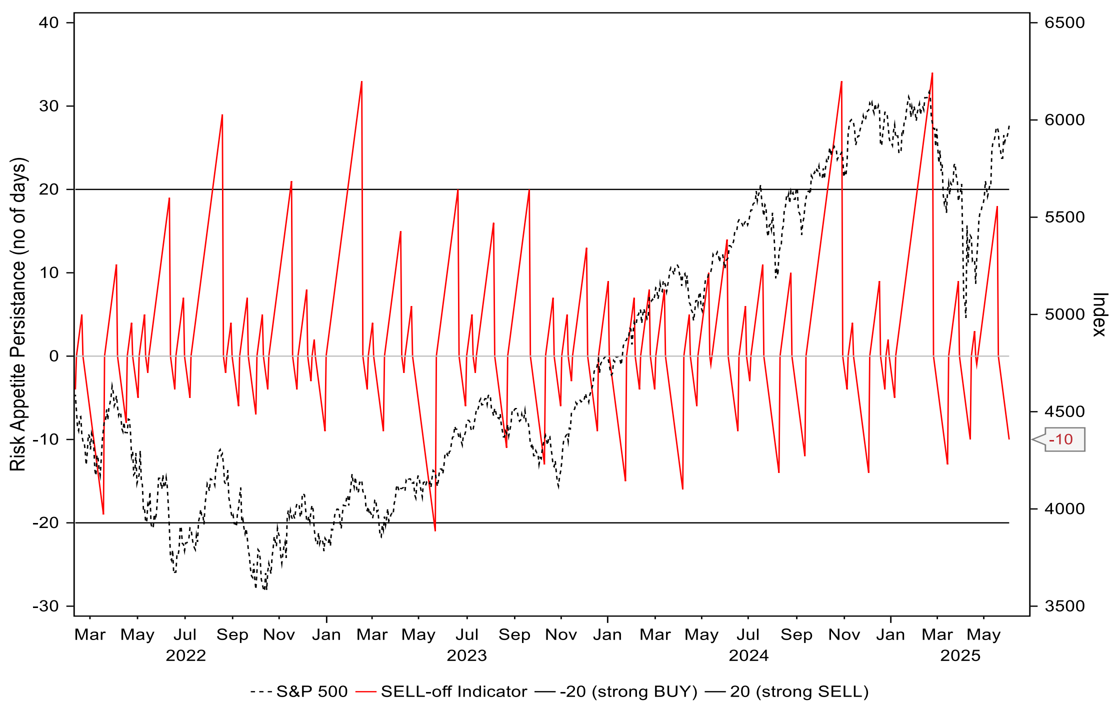


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

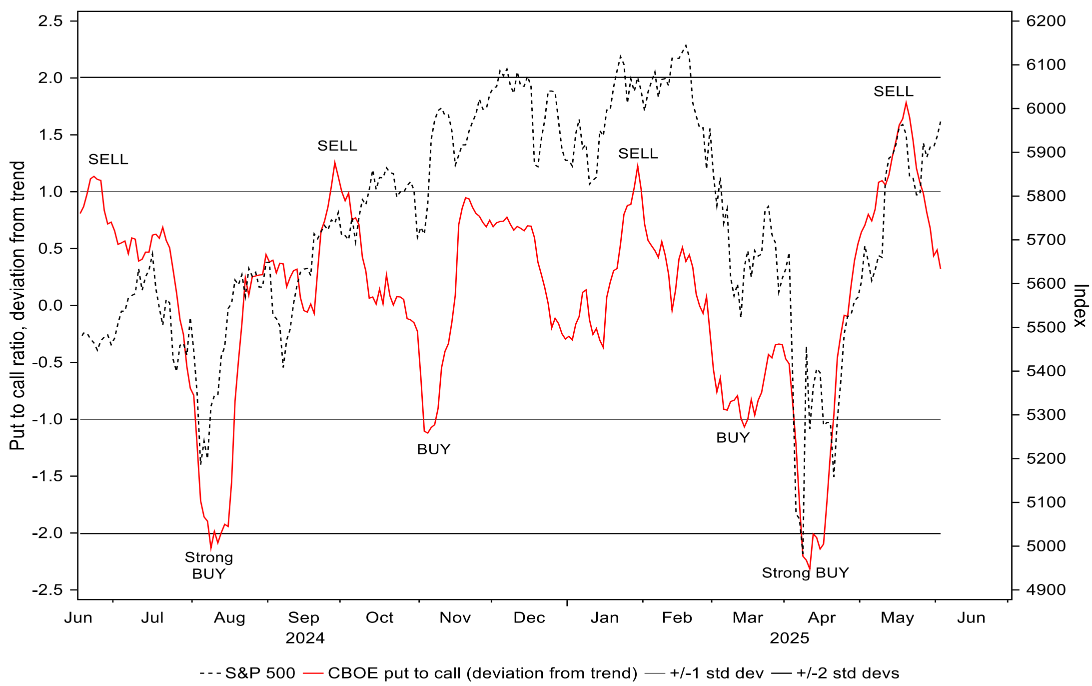
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

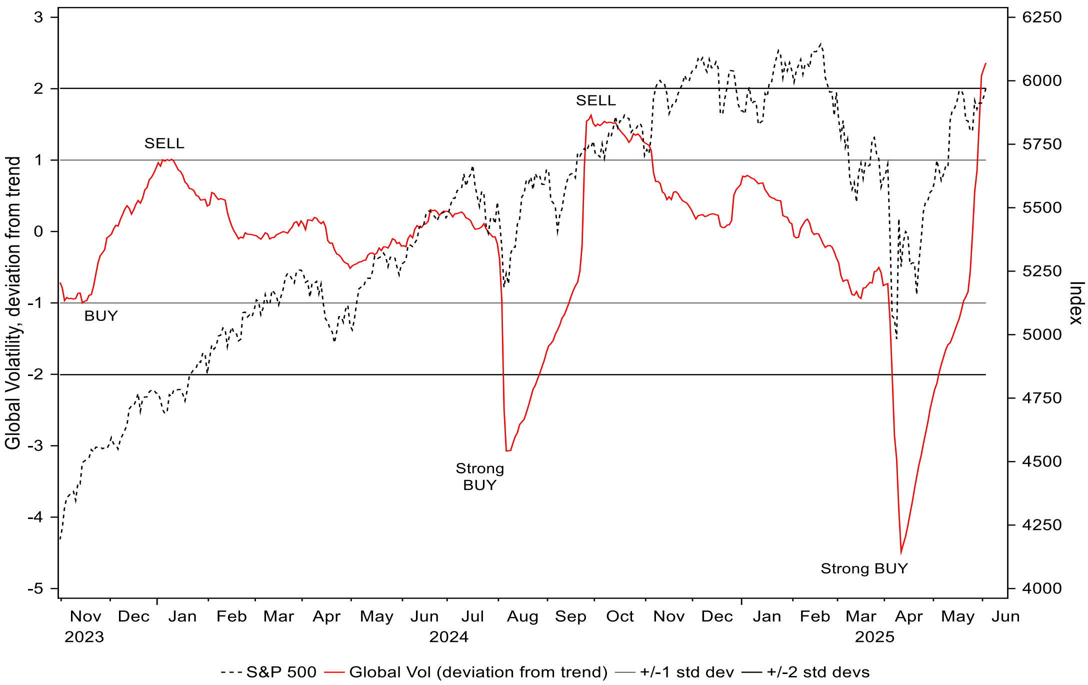


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

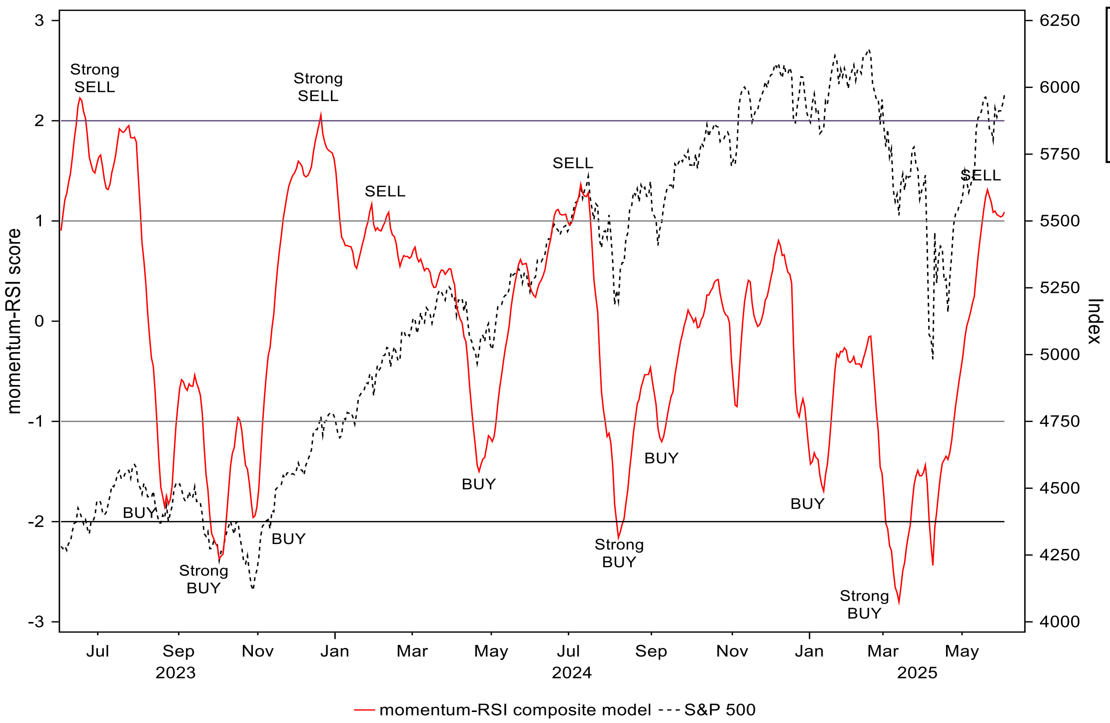
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on Strong SELL

Source: Longview Economics, Macrobond

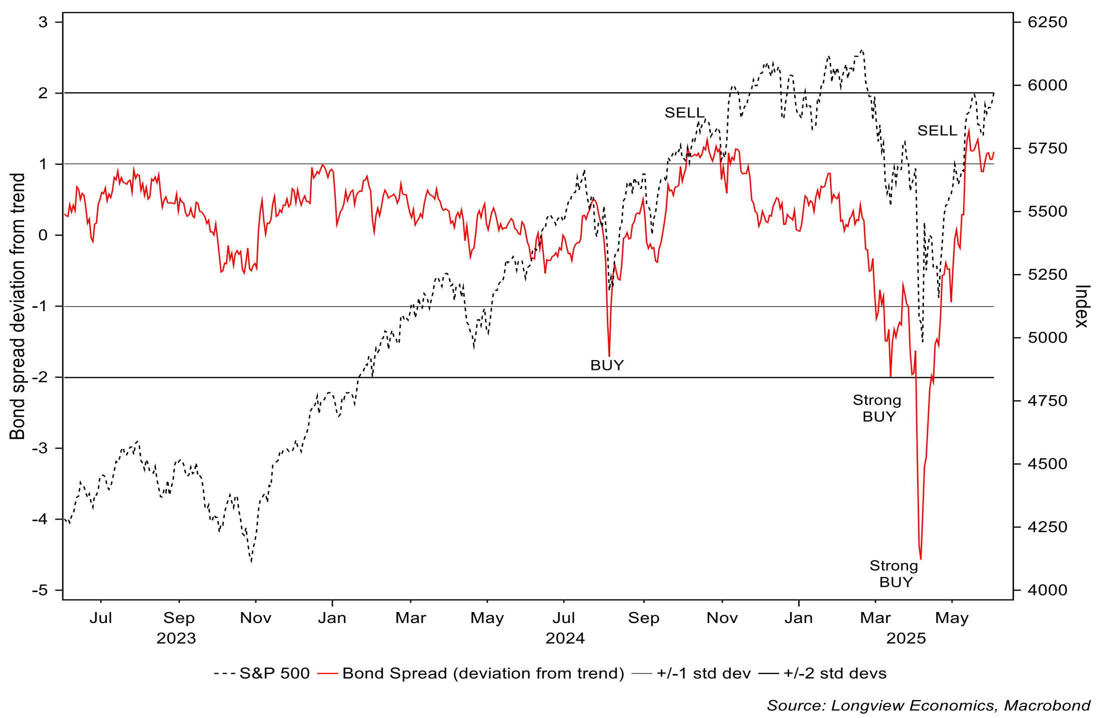
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on SELL

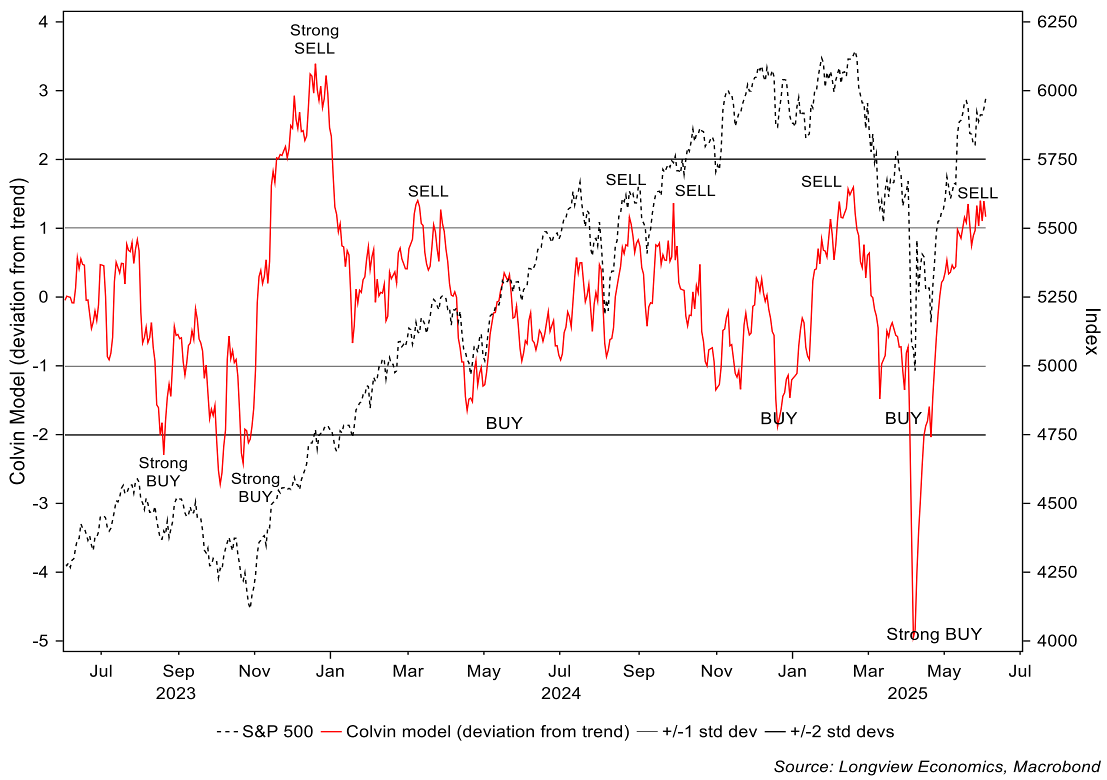
Source: Longview Economics, Macrobond

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



High yield corporate bond spreads model is on SELL

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



Colvin model – is on SELL

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.

LVRAG
Daily Risk Appetite Gauge

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