LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

5th March 2025

"Keep BUILDing LONG S&P futures position - Markets Trying to Find a Floor"

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

- Stay ½ LONG March S&P500 futures (blended entry was 5,800*).
- Keep the stop loss 3% below combined entry (i.e. at 5,626).

*With an initial ¼ LONG at 5,850, and a further ¼ LONG at 5,750 yesterday.

Rationale

Once again volatility was heightened again yesterday as S&P500 futures traded in a wide range of 2.4% (i.e. 140 S&P points – FIG 1). Given that, we were filled on the 2nd part of our LONG S&P500 March futures position (at 5,750), such that we're now ½ LONG (blended entry 5,800). Yesterday's intraday low was at 5,744 (i.e. just below the 200-day moving average, FIG 1a). Most key support levels were tested but held yesterday (i.e. at least initially). Those various support levels were outlined on Monday and included: "i) 5,850 (intraday lows on Friday); ii) 5,800 – intraday lows in December and January; iii) 5,752 (200 day moving average); iv) 5,720 - which was various intraday highs and lows over past 9 months (FIG 1a)".

Our view remains as per yesterday: That is, we **expect a 'wave two' relief rally to begin at some point over the next handful of trading sessions**. Consistent with that, our models are signalling high levels of fearfulness in equity markets (i.e. in the short term) which is a contrarian BUY signal, while the S&P500 is at a major support area (i.e. 5,720 up to 5,800/50). As such, the risk reward favours continuing to BUILD/HOLD LONG positions in US equity index futures (i.e. during this phase of heightened market volatility and large intraday swings).

Those **short-term models** are shown below (primarily FIGs 2 to 2e). Most are now on BUY/strong BUY (including risk appetite models, short term technical scoring systems, and the single stock momentum model). The short-term CBOE (i.e. broad market) put to call ratio is still NEUTRAL (FIG 2a). The NDX equivalent indicator, though, is on BUY (FIG 2b). The short-term sector momentum model is close to BUY (FIG 2d). Short term models are overall, therefore, close to an 'across the board' clear BUY message.

Medium term models are also increasingly now generating a BUY message. The medium-term risk appetite scoring system, for example, has turned BUY overnight (FIG A below). The steepness of the volatility curve has moved onto BUY (signalling increasingly high levels of fear priced into markets – FIG 1c); while the VVIX (volatility of the VIX) has spiked to high levels.

Added to which, key stocks in the **NASDAQ and Philly SOX are overextended to the downside** (oversold) and, therefore, poised to rally (at least for a few weeks).

Both Nvidia and Broadcom, for example, are 1 – 2 standard deviations overextended (i.e. measuring price relative to their 50 day moving averages). As FIGs 1d & 1e illustrate that typically signals a floor for the price and a subsequent rally (either for a few weeks or for longer). NDX sentiment is also back on BUY; the NDX100 put to call ratio is on BUY (2b), while both the NDX100 & Philly SOX are now oversold in the medium term (FIGs 1f & 1g). In other words, the tech/semis area of the market can provide some near-term leadership for this market and underpin a 'wave two' relief rally in the US.

Given that, **we recommend STAYing LONG S&P500 futures** (having built the position yesterday and earlier this week). Risks, as always, are multiple and include various Trump policy risks, and key macro data today and later this week (e.g. ISM services later today). On balance, though, the risk reward of LONG positions is favourable on a '1 – 2' week timeframe/outlook. That is a 'wave two'* relief rally is likely brewing and is expected to play out over the next 1 – 3 weeks.

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

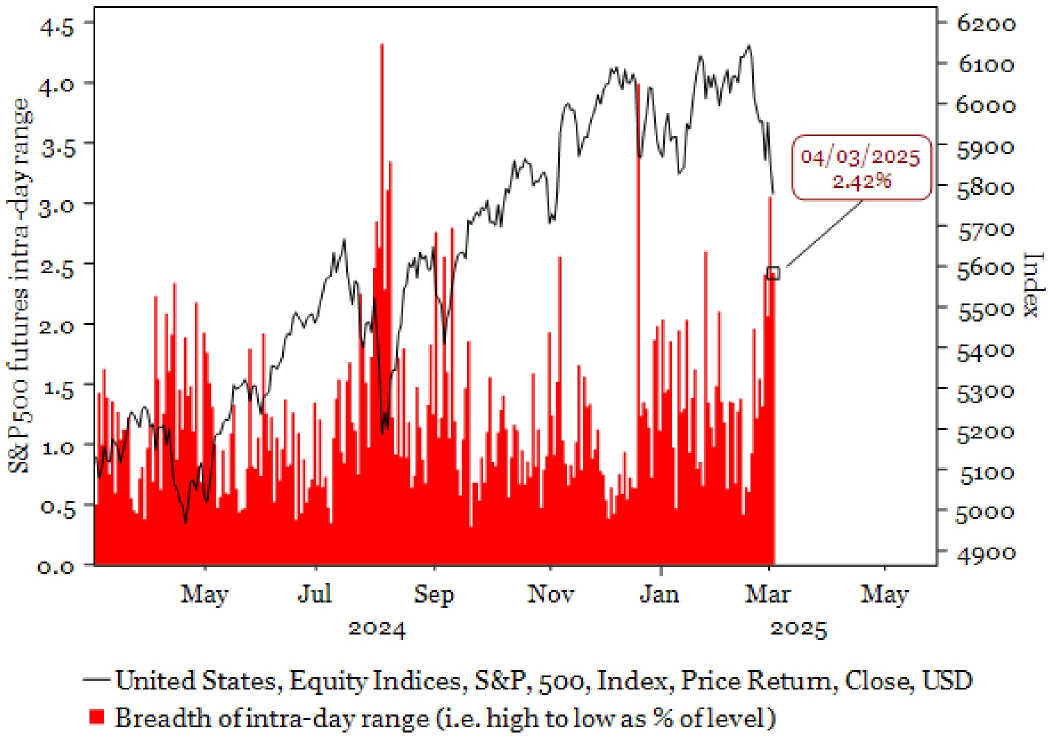
Kind regards,

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.

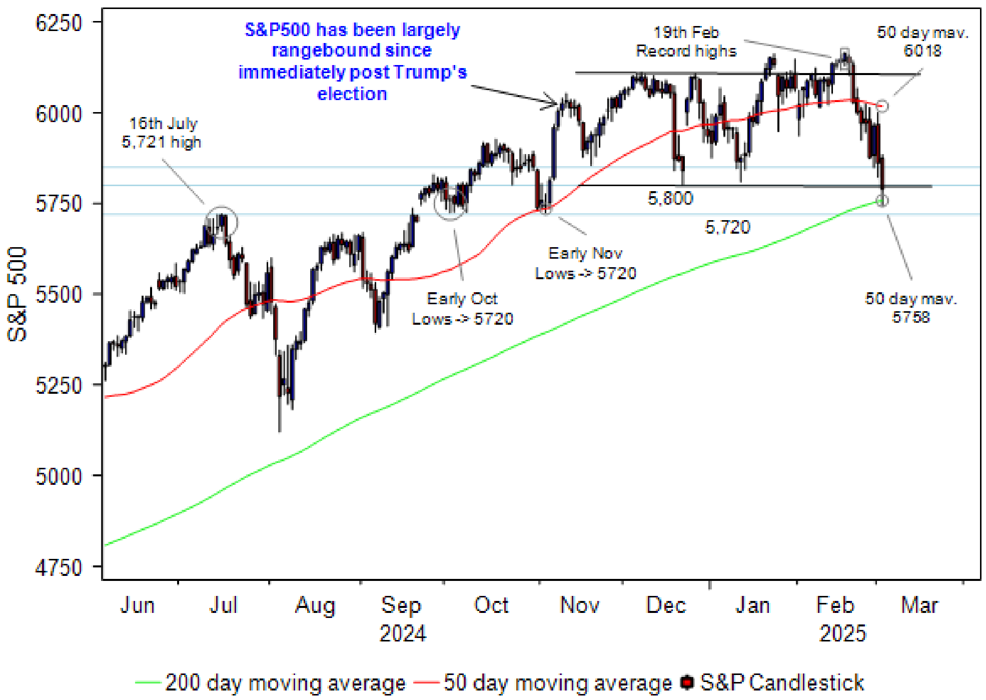
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor);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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1b: S&P500 futures 150-day tick chart shown with overnight price action

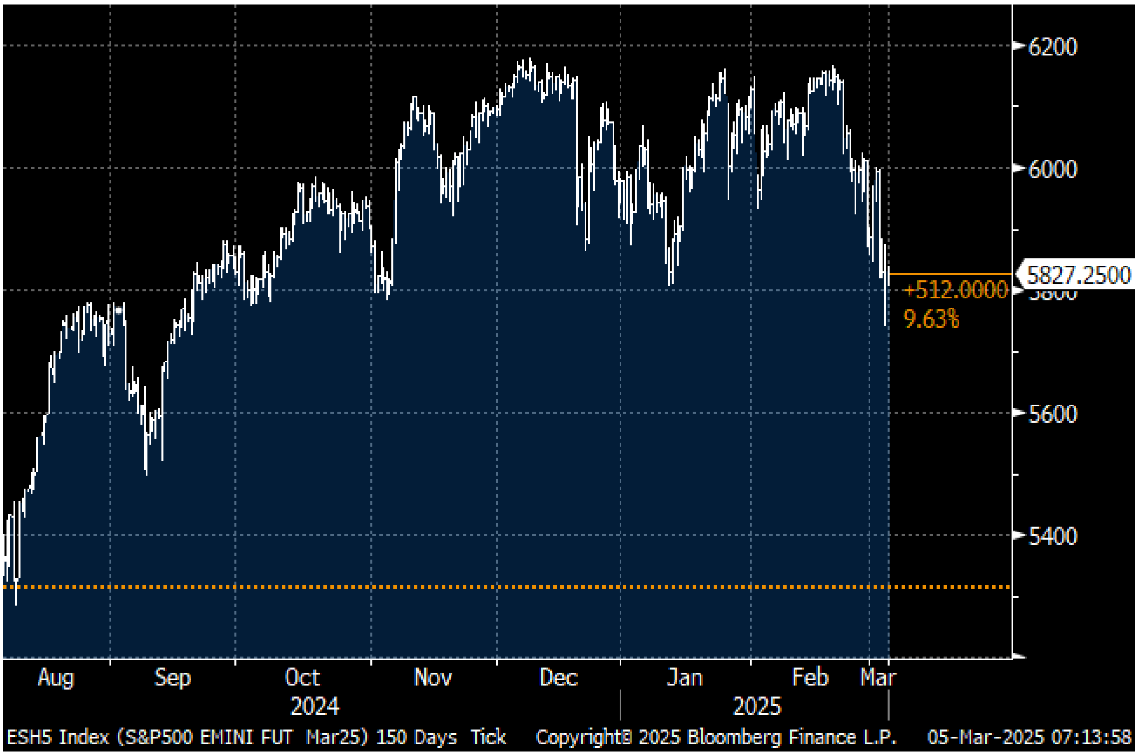
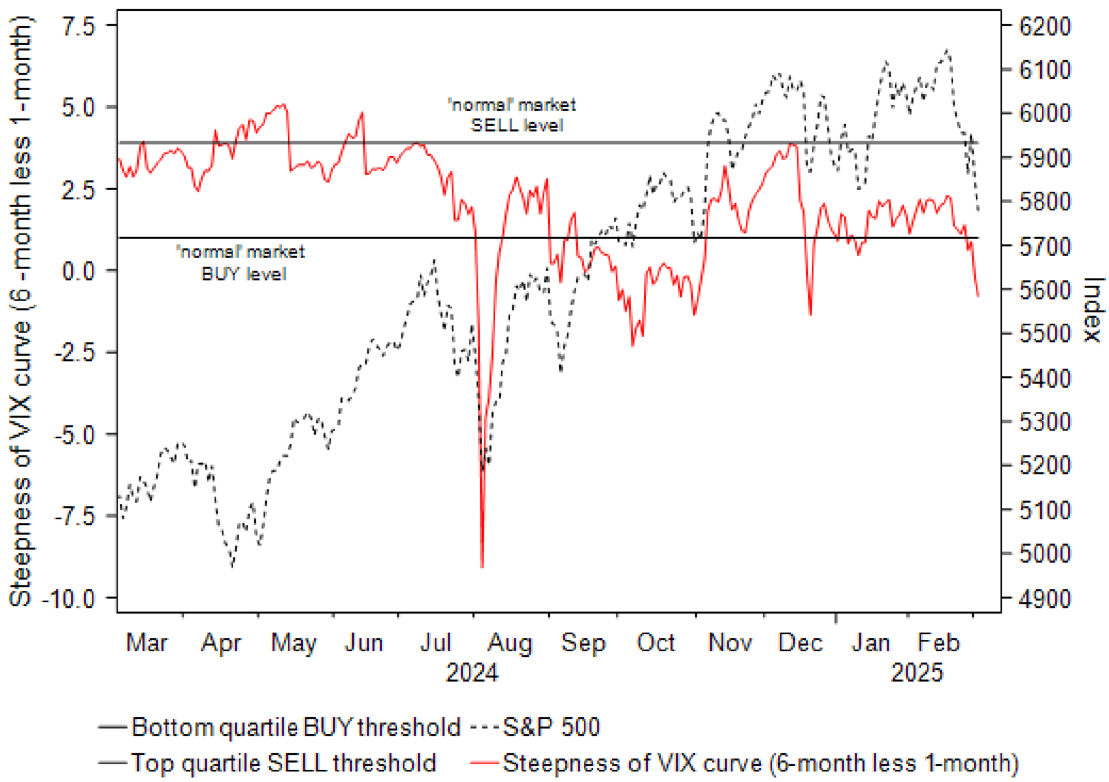
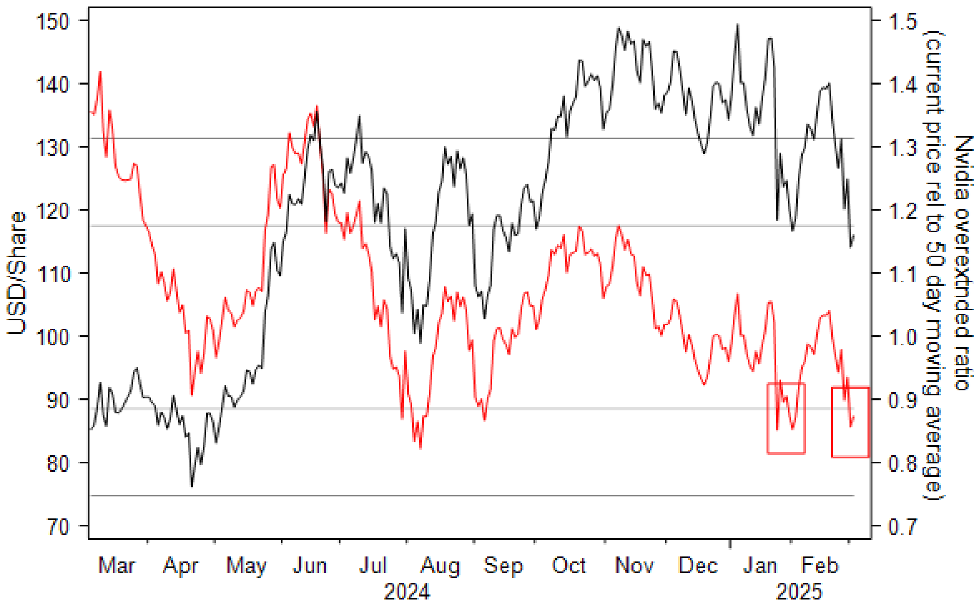


FIG 1c: Steepness of VIX curve (6 less 1 month futures) vs. S&P500



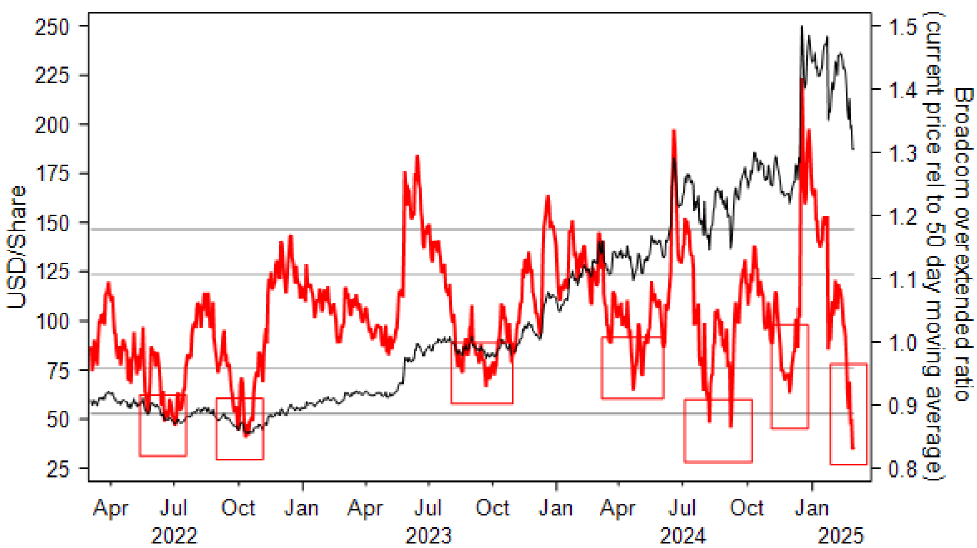
Source: Longview Economics, Macrobond

FIG 1d: Nvidia overextended indicator (price rel. to 50-day moving average) vs. Nvidia share price (US$/share)



Source: Longview Economics, Macrobond

FIG 1e: Broadcom overextended indicator (price rel. to 50-day moving average) vs. Broadcom share price (US$/share)



Source: Longview Economics, Macrobond

FIG 1f: Longview NDX100 medium term **'technical'** scoring system vs. NDX100 futures

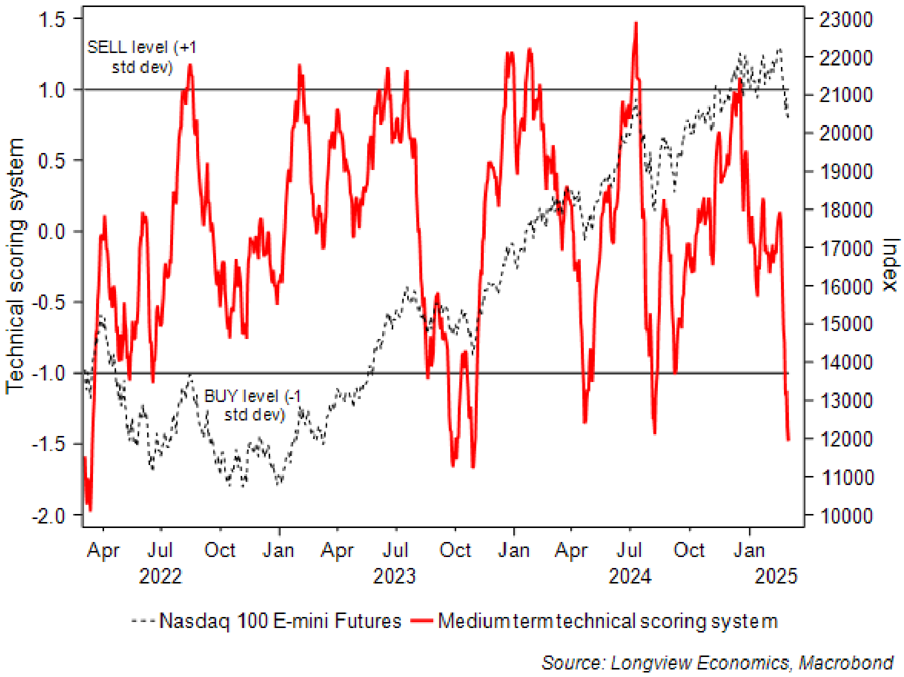


FIG 1g: Longview Philly SOX medium term **'technical'** scoring system vs. Philly SOX index

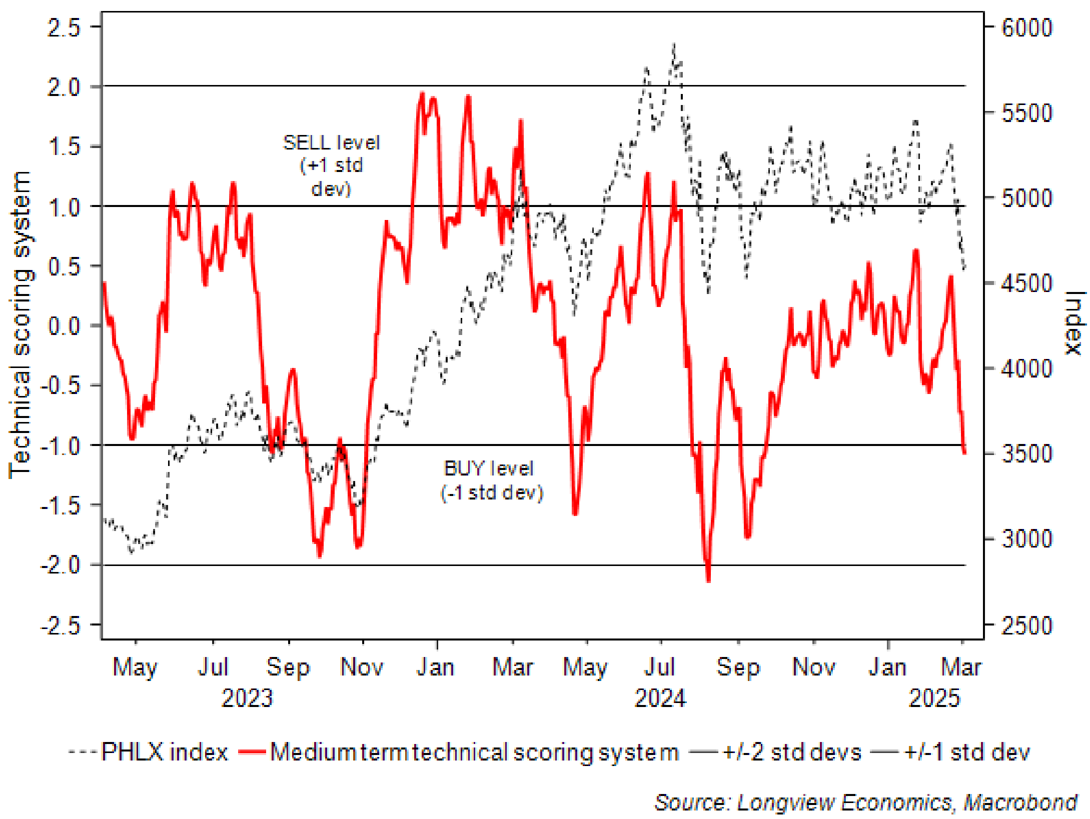
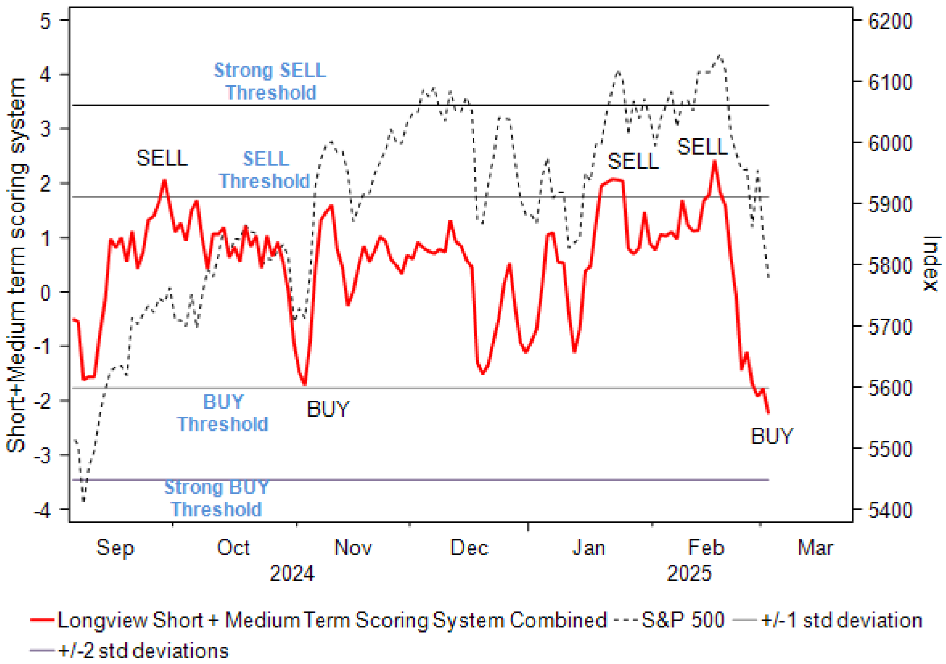


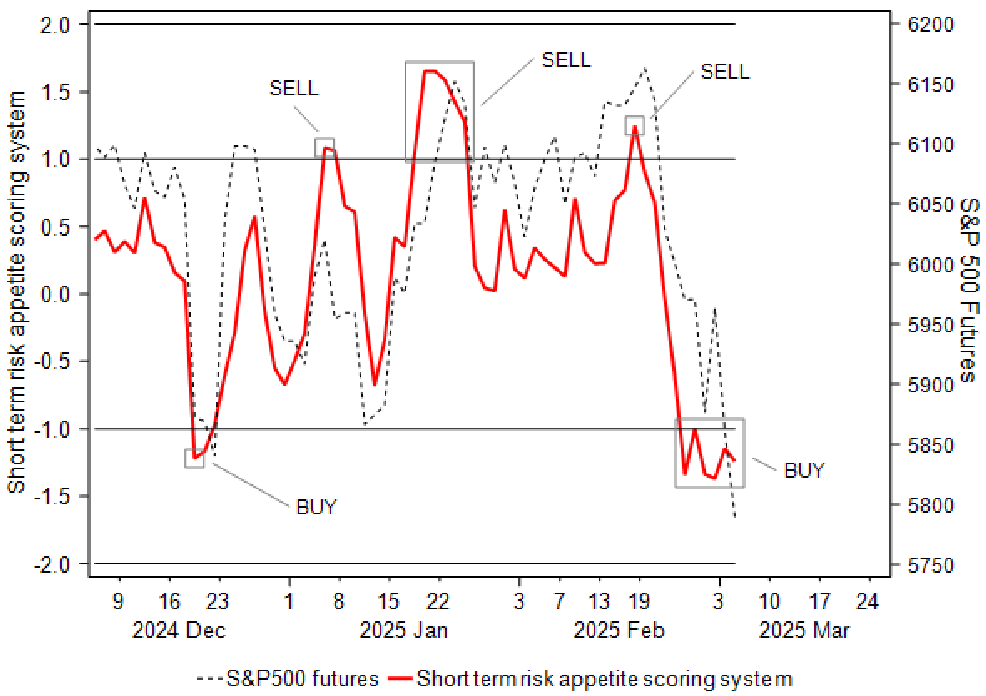
FIG 1h: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



Source: Longview Economics, Macrobond

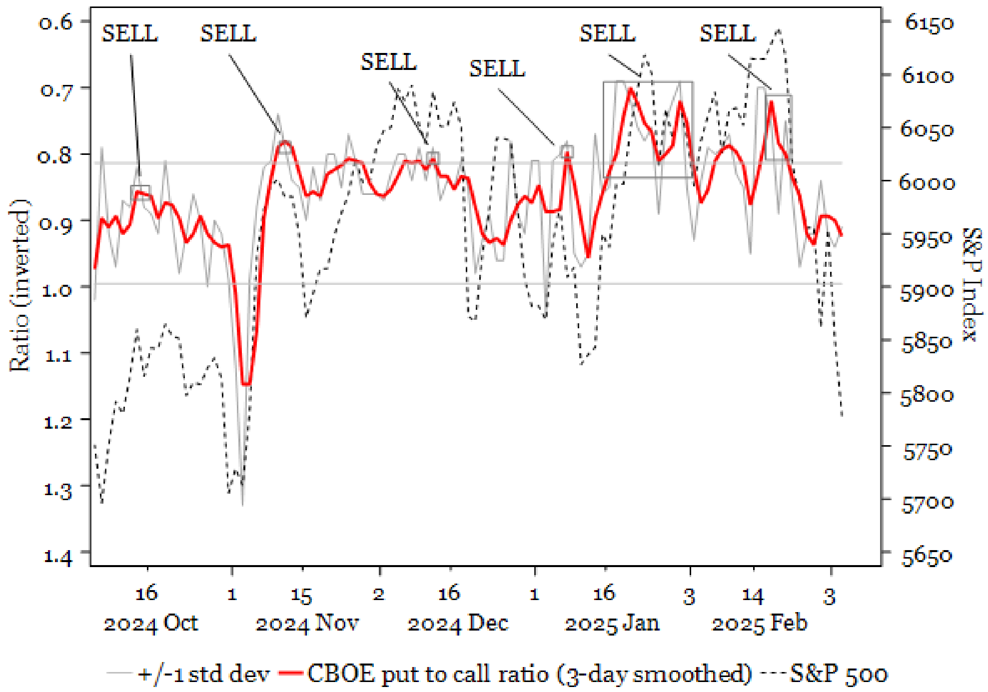
Short term models are mostly on BUY/strong BUY....

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



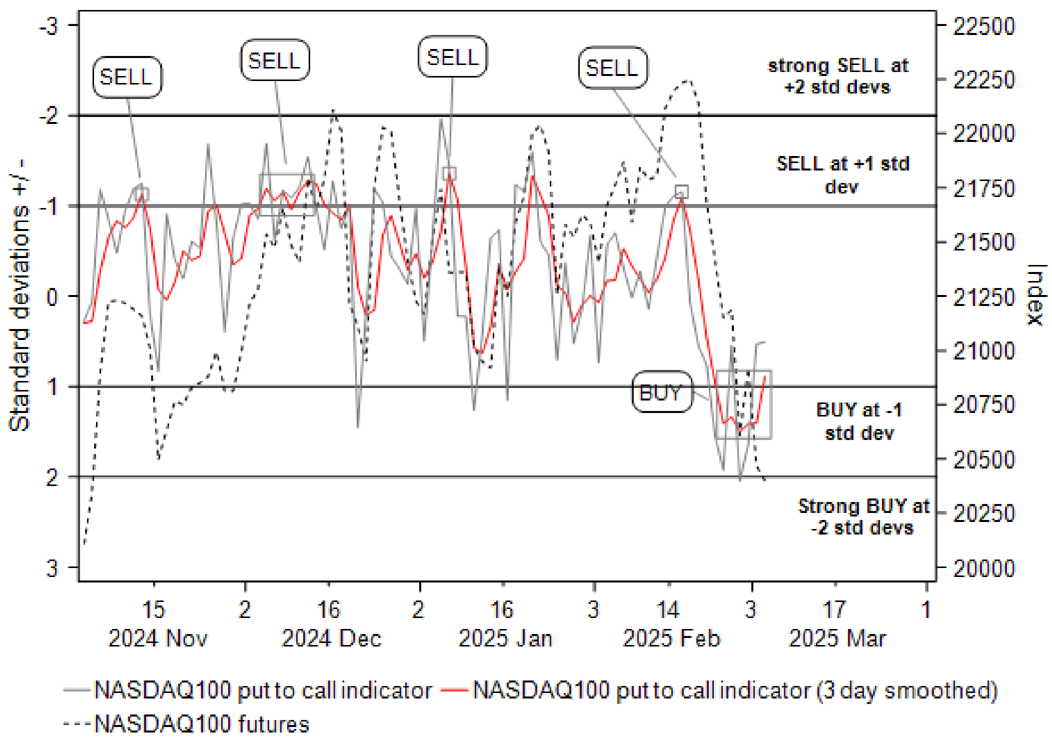
Source: Longview Economics, Macrobond

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



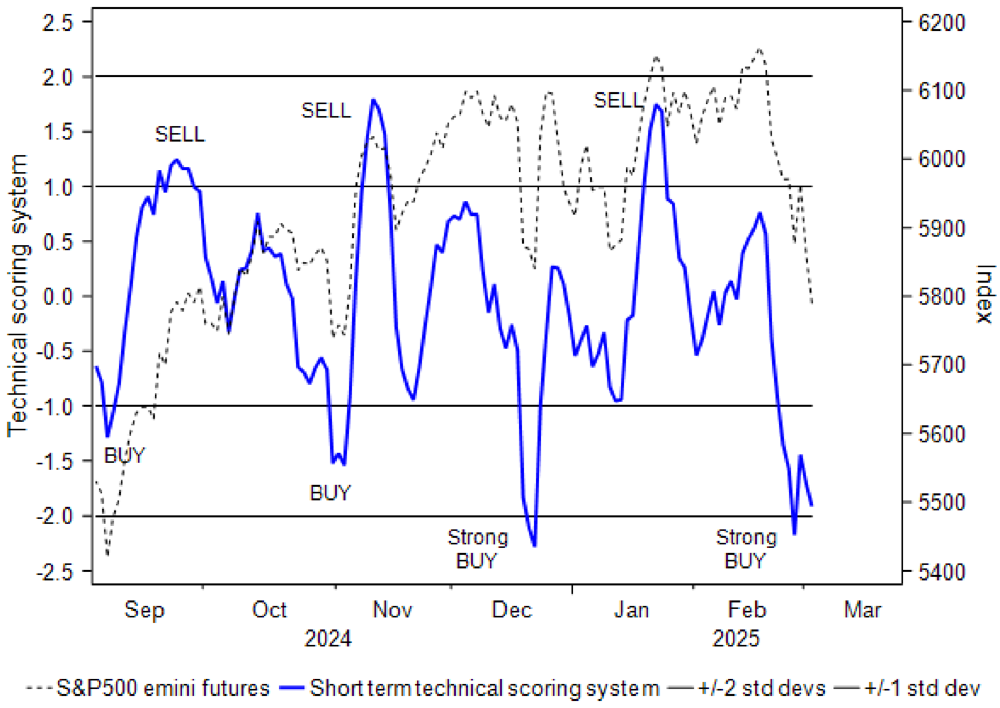
Source: Longview Economics, Macrobond

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



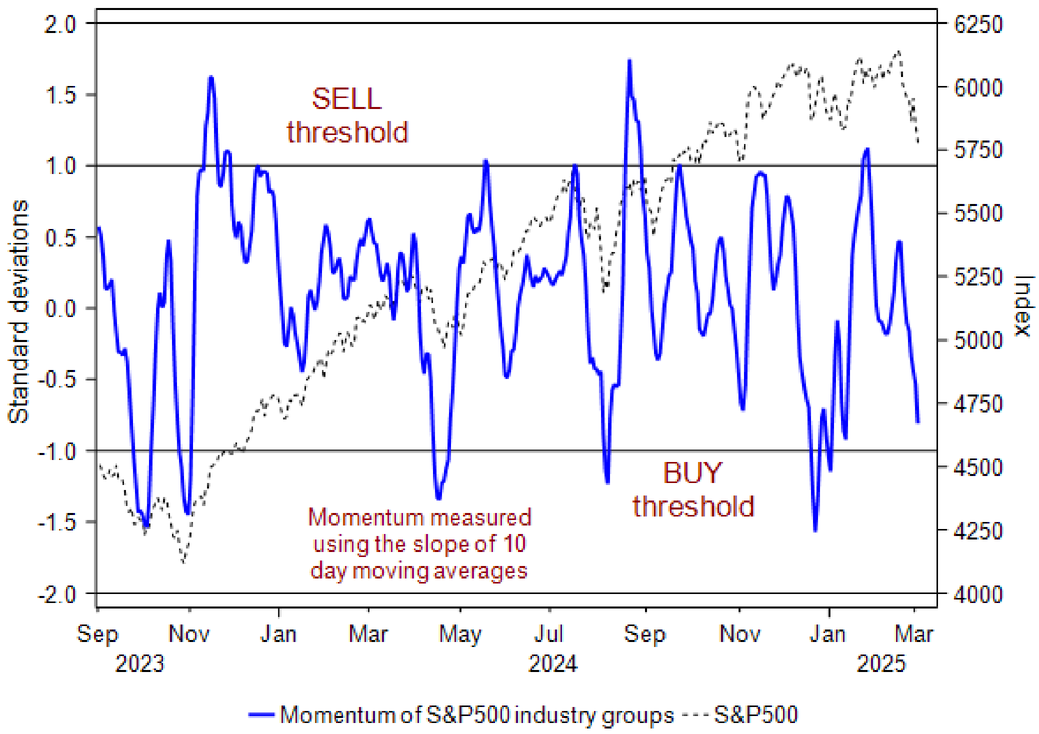
Source: Longview Economics, Macrobond

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



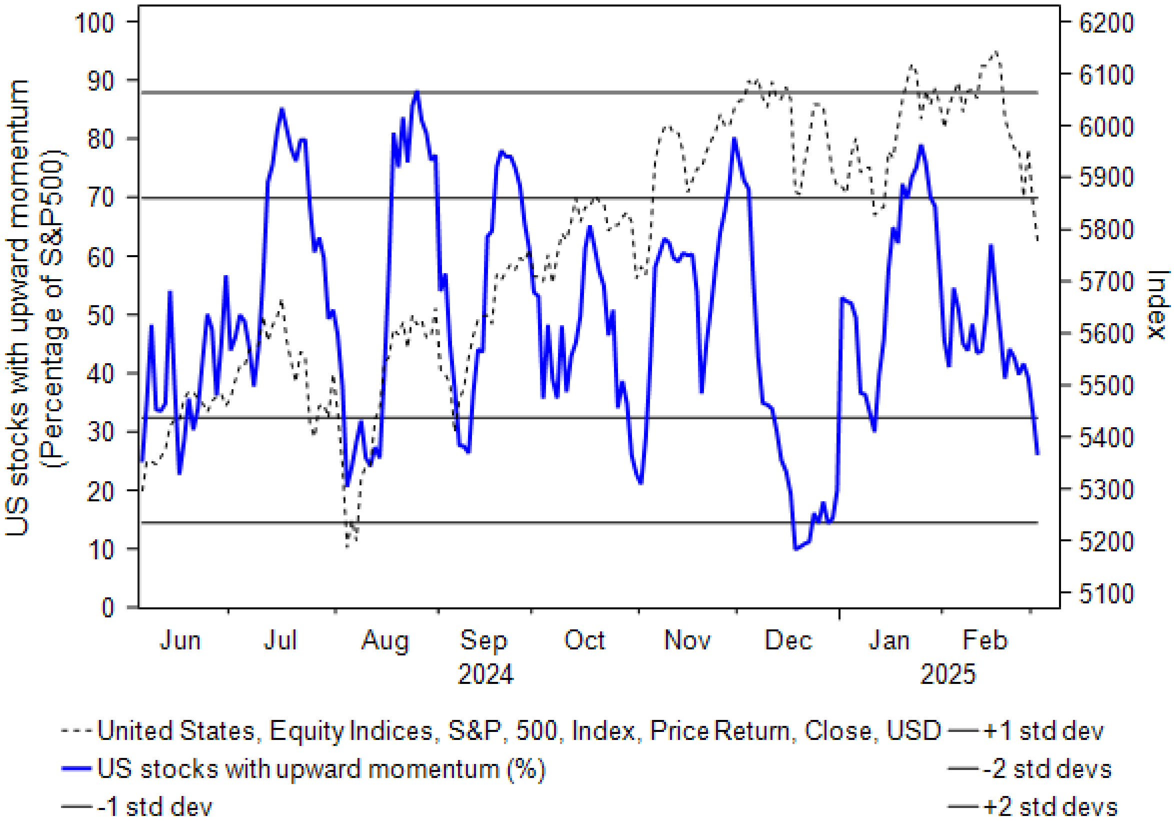
Source: Longview Economics, Macrobond

FIG 2d: Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

FIG 2e: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500

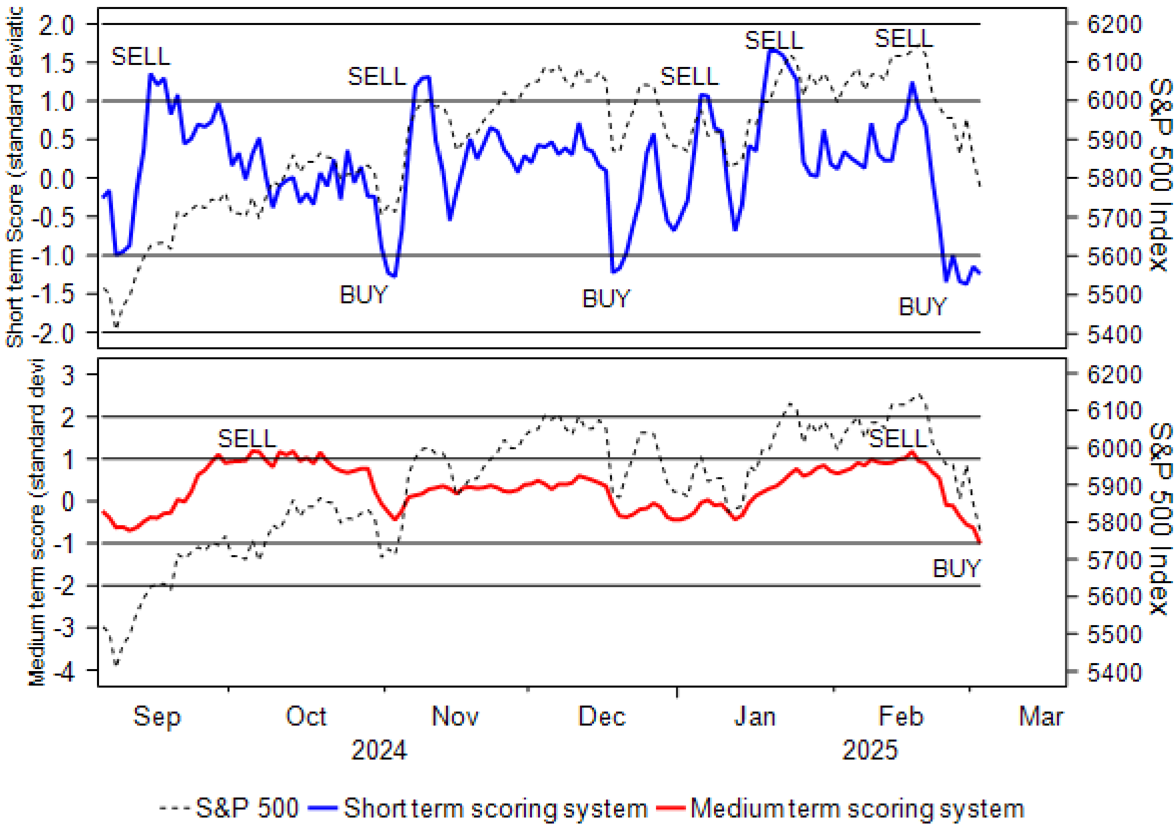


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **BUY**
Medium term (1 – 4 month) scoring system: **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: Australian GDP (Q4, 12:30am); Japanese Jibun Bank services sector PMI (February final estimate, 12:30am); **Chinese Caixin service sector PMI** (Feb, 1:45am); French industrial & manufacturing production (Jan, 7:45am); HCOB service sector PMIs for Spain (8:15am), Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all February final estimates apart from Spain & Italy; Italian GDP (Q4 final estimate, 9am); UK New car sales (Feb, 9am); UK S&P service sector PMI (February final estimate, 9:30am); Italian retail sales (Jan, 10am); **Eurozone PPI** (Jan, 10am); **US ADP employment change** (Feb, 1:15pm); Canada S&P service sector PMI (Jan, 2:30pm); US S&P service sector PMIs (February final estimate, 2:45pm); US durable goods orders (January final estimate, 3pm); **US ISM services index** (Feb, 3pm).

Key events today include: Speech by the BOJ's Uchida in Shizuoka (1:30am); MPs on the Treasury Committee will question the Bank of England Governor and other members of the Monetary Policy Committee (2:30pm); **Fed publishes Beige Book** (7pm); China 'Two Sessions' (annual parliamentary meeting); RBNZ hosts inflation research conference.

Key earnings today include: Marvell.

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

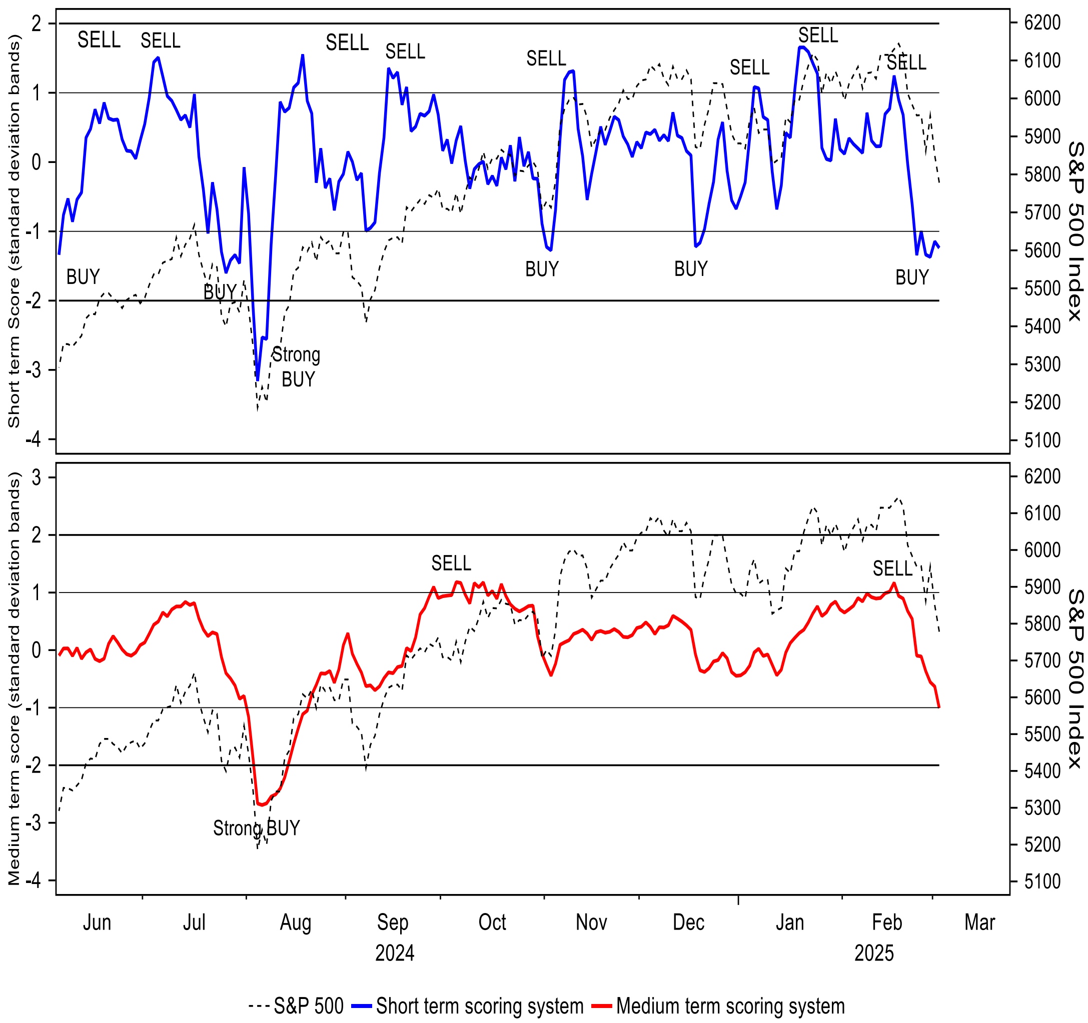
1 – 2 Week View on Risk

5th 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

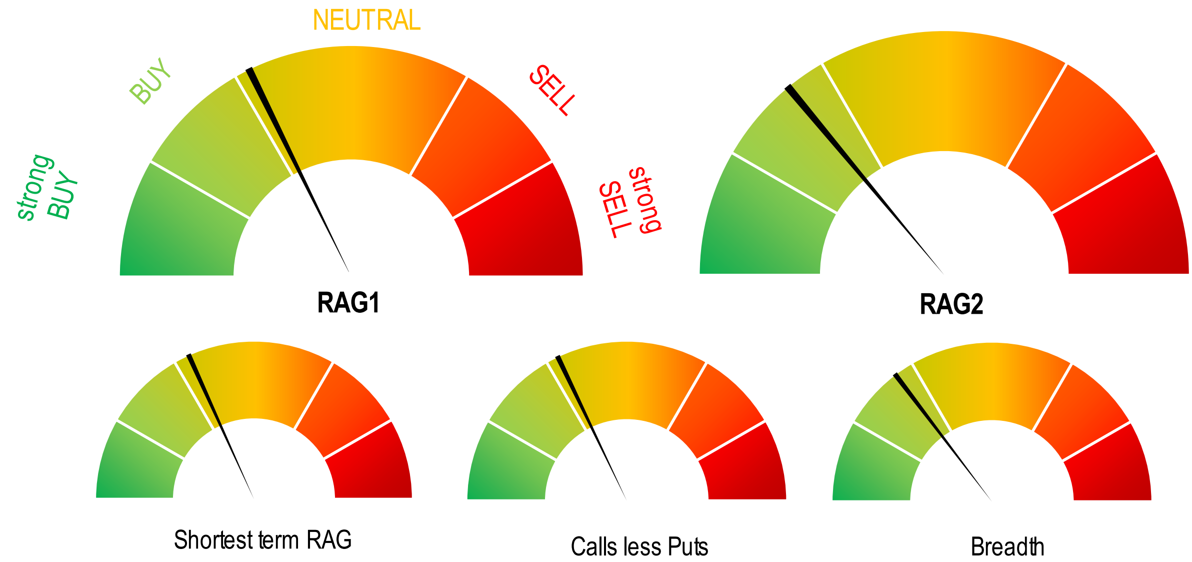
Source: Longview Economics, Macrobond

*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

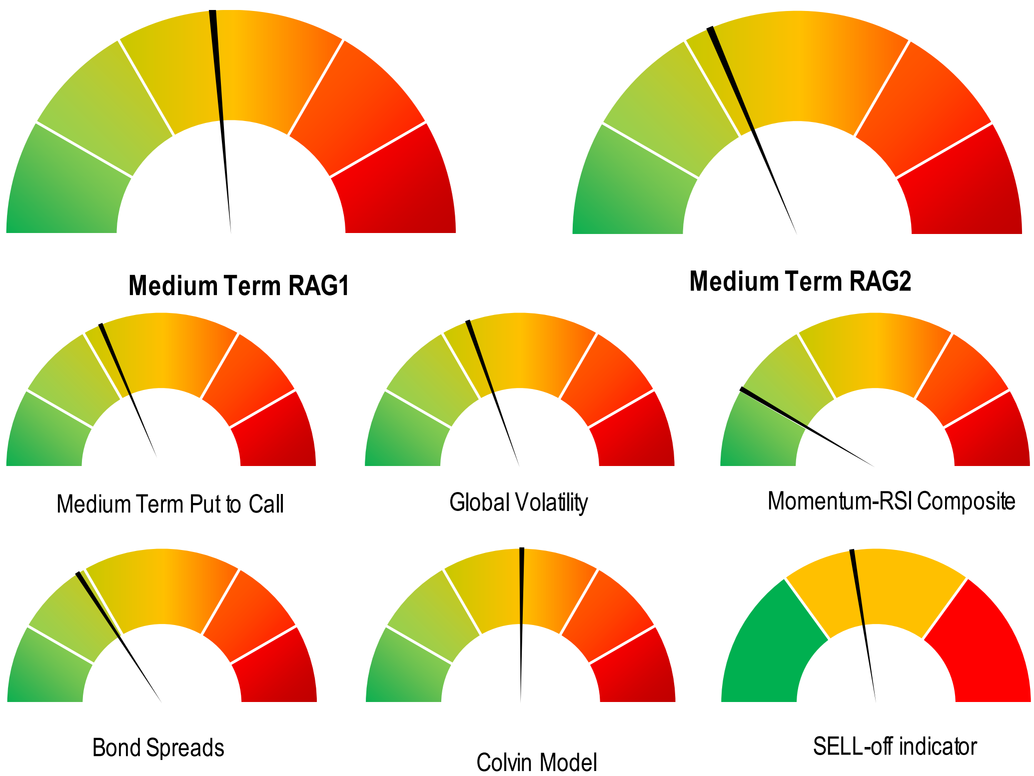
Section 1a: Summary of indicator signals**

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

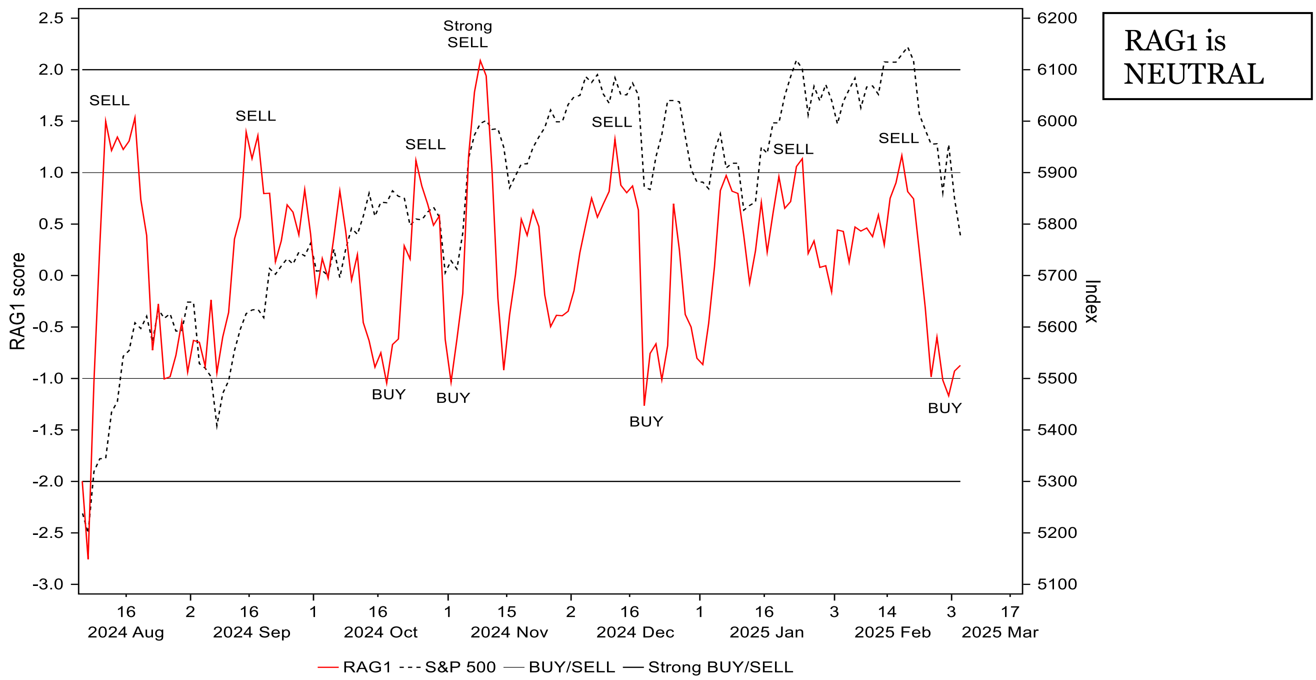


Source: *Longview Economics*

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

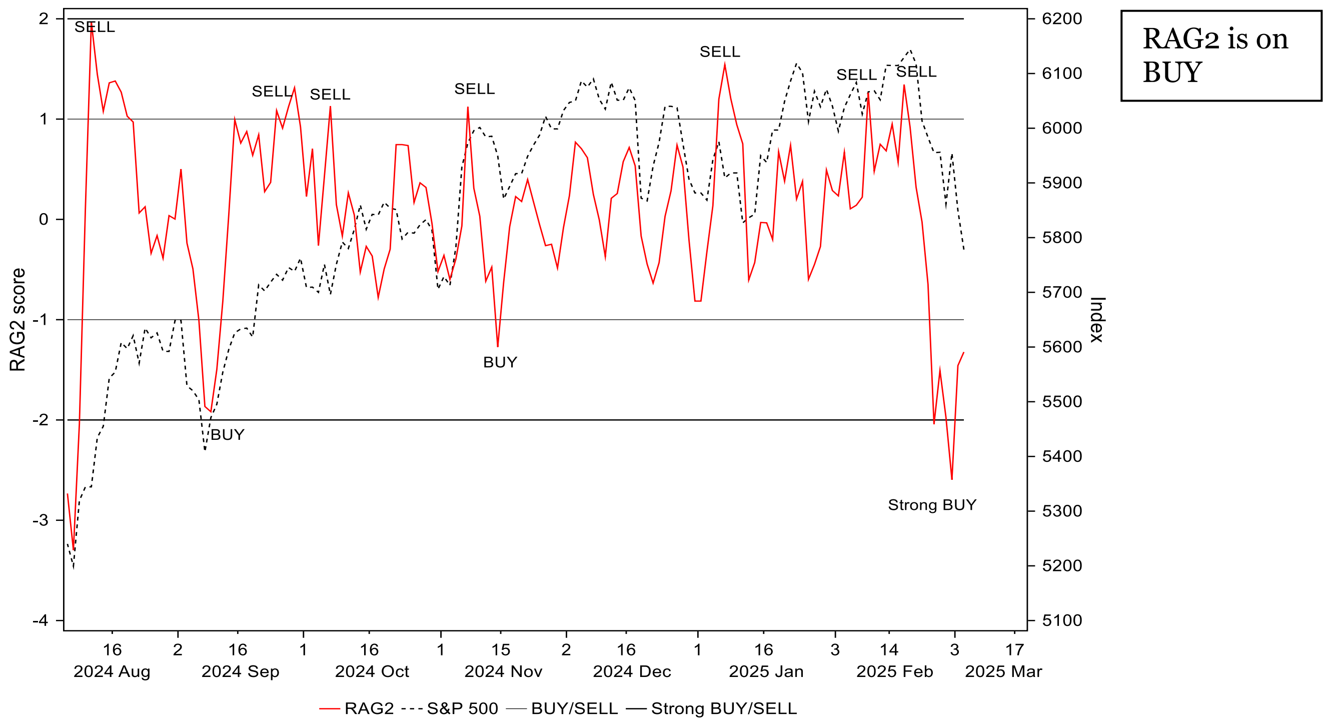
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

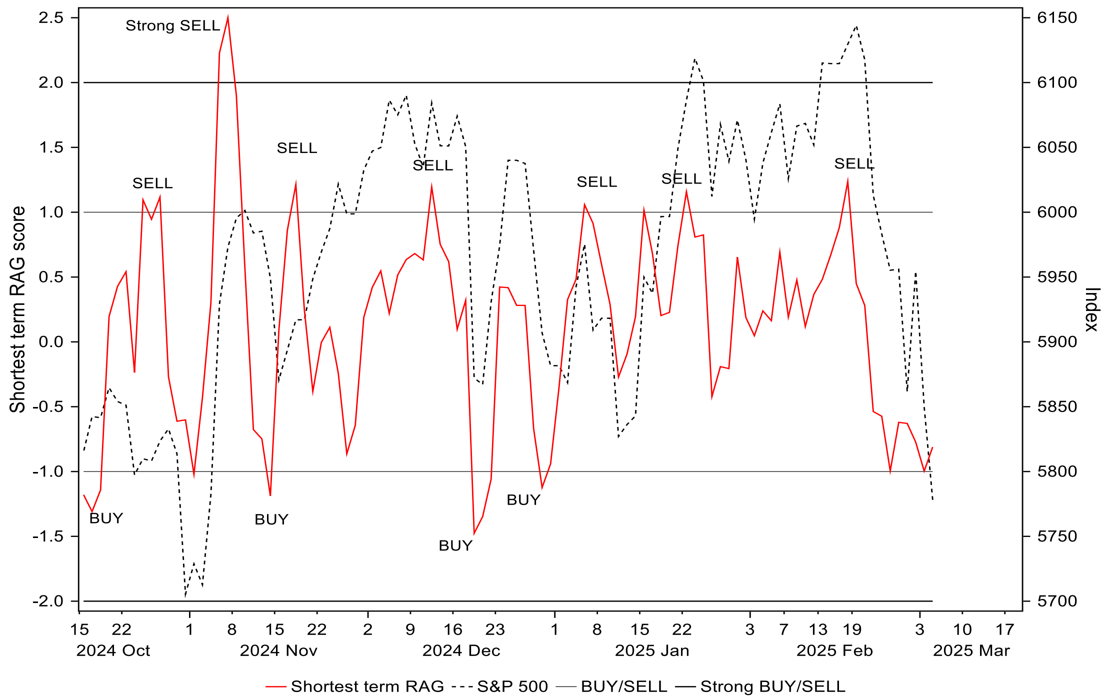
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

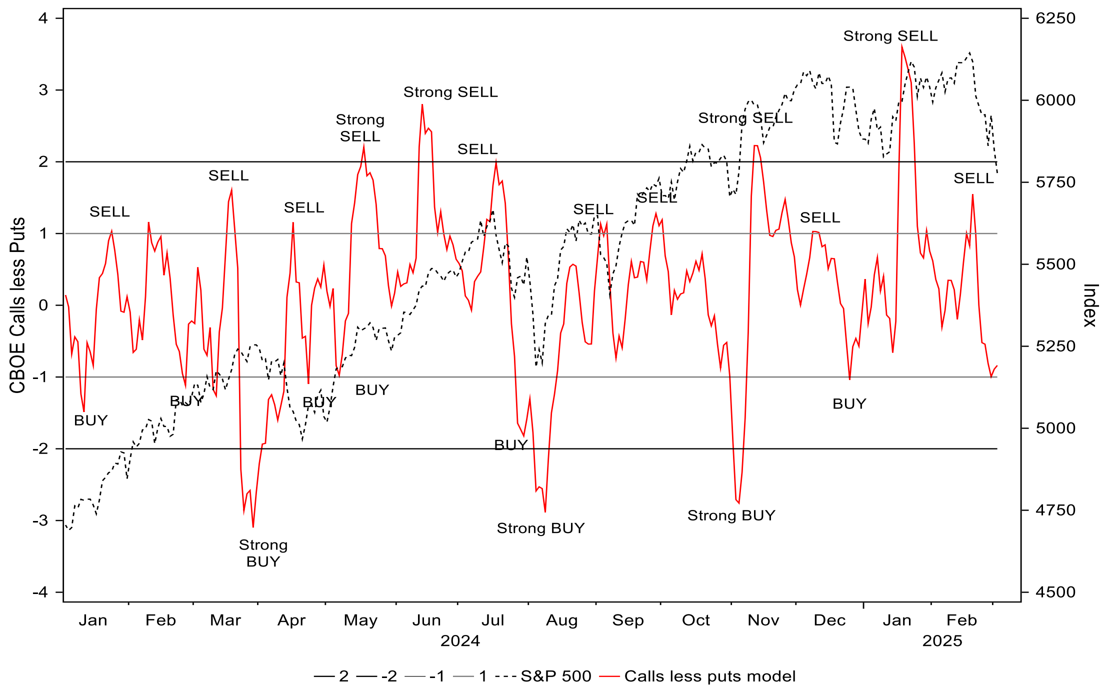
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

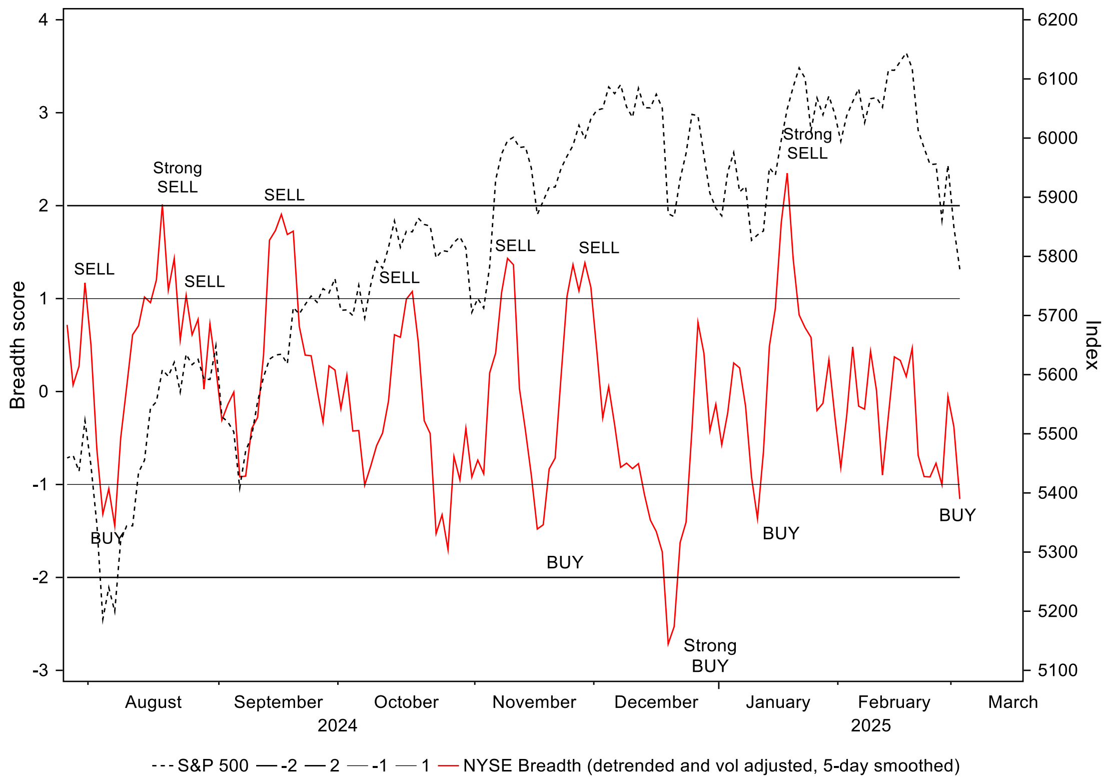


Calls less puts model is NEUTRAL

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



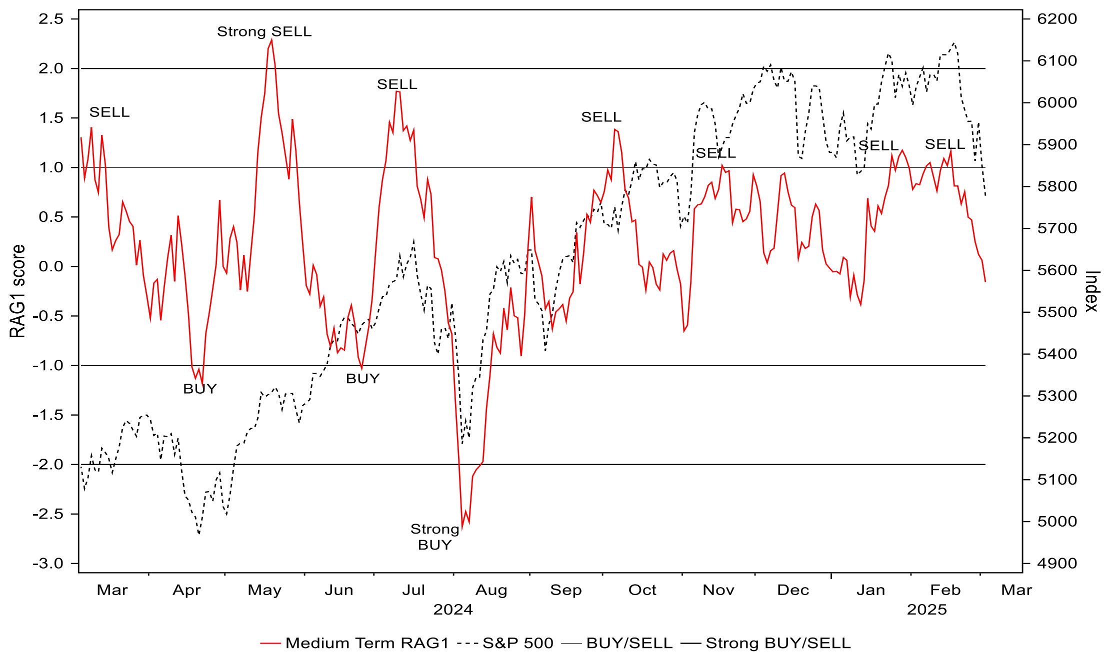
Source: Longview Economics, Macrobond

The breadth model is on BUY

For explanations of indicators please see page 10

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

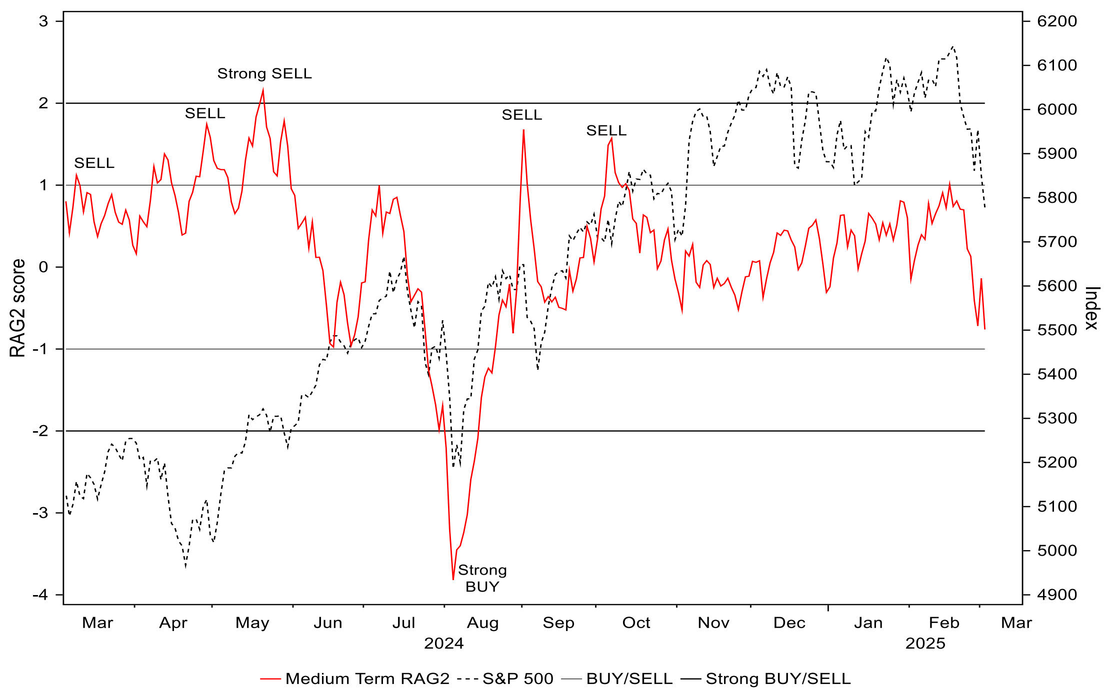
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

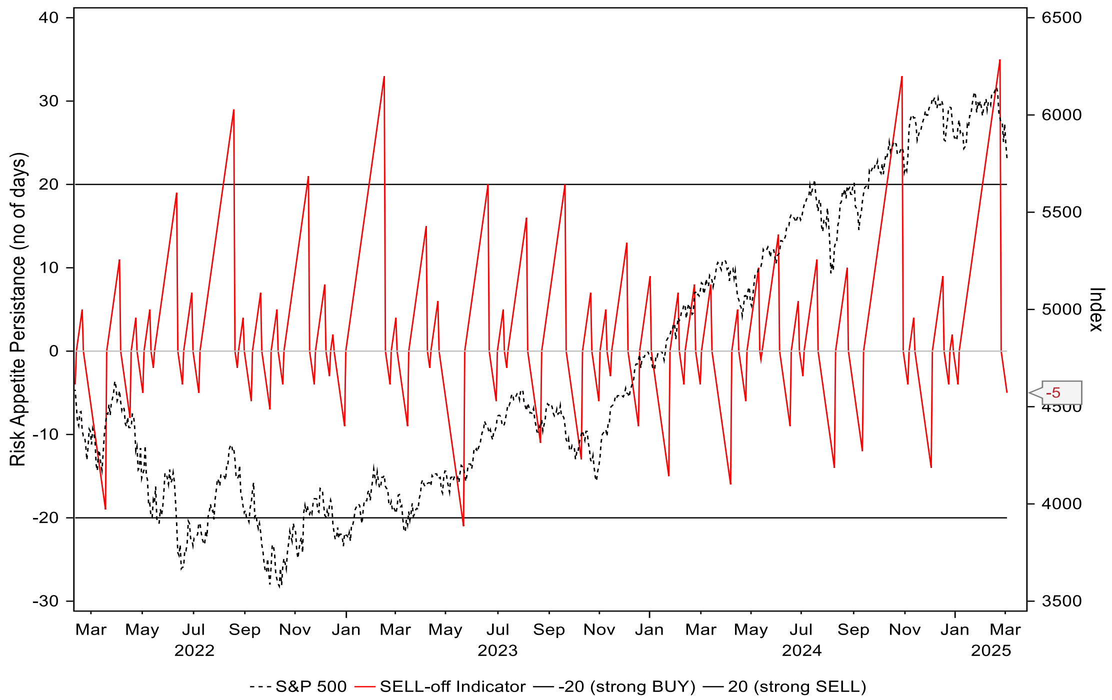


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

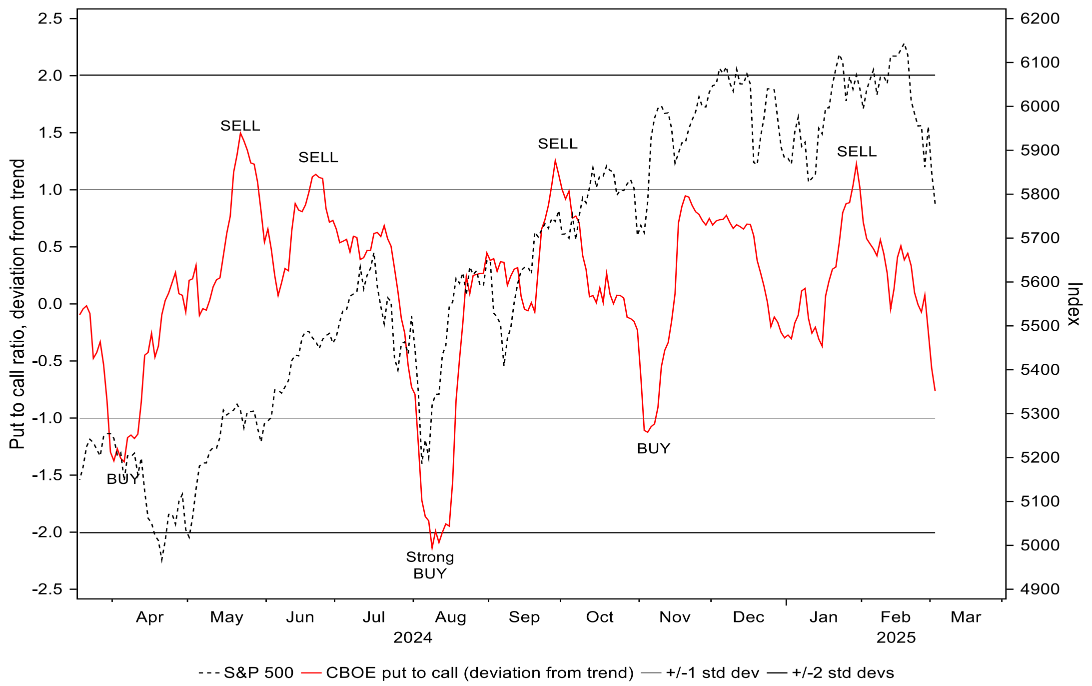
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

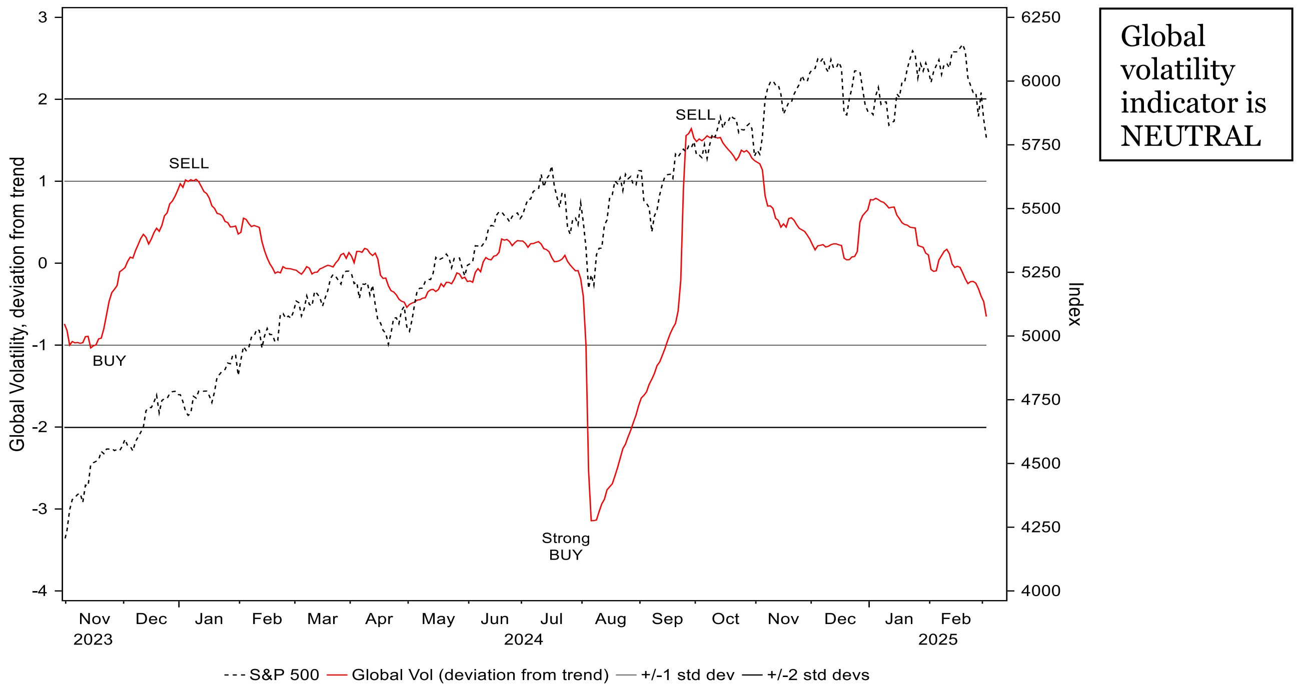


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

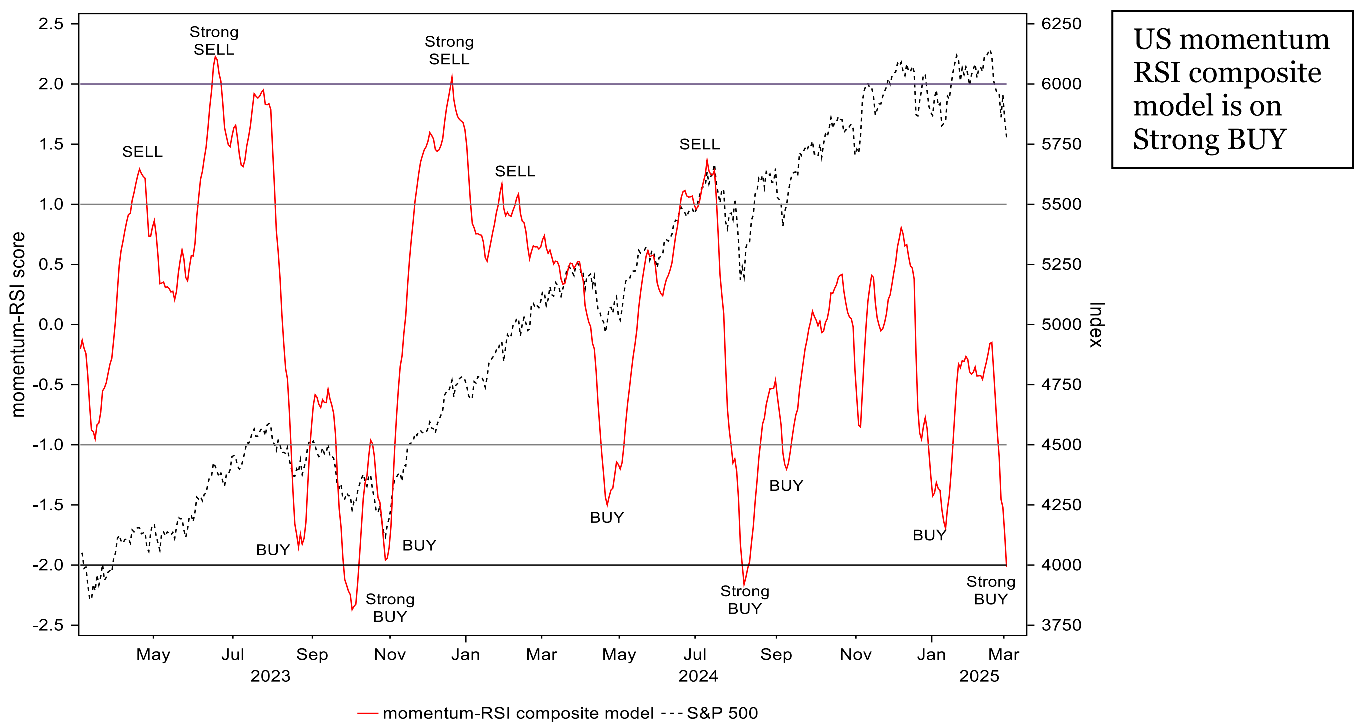
For explanations of indicators please see page 10

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



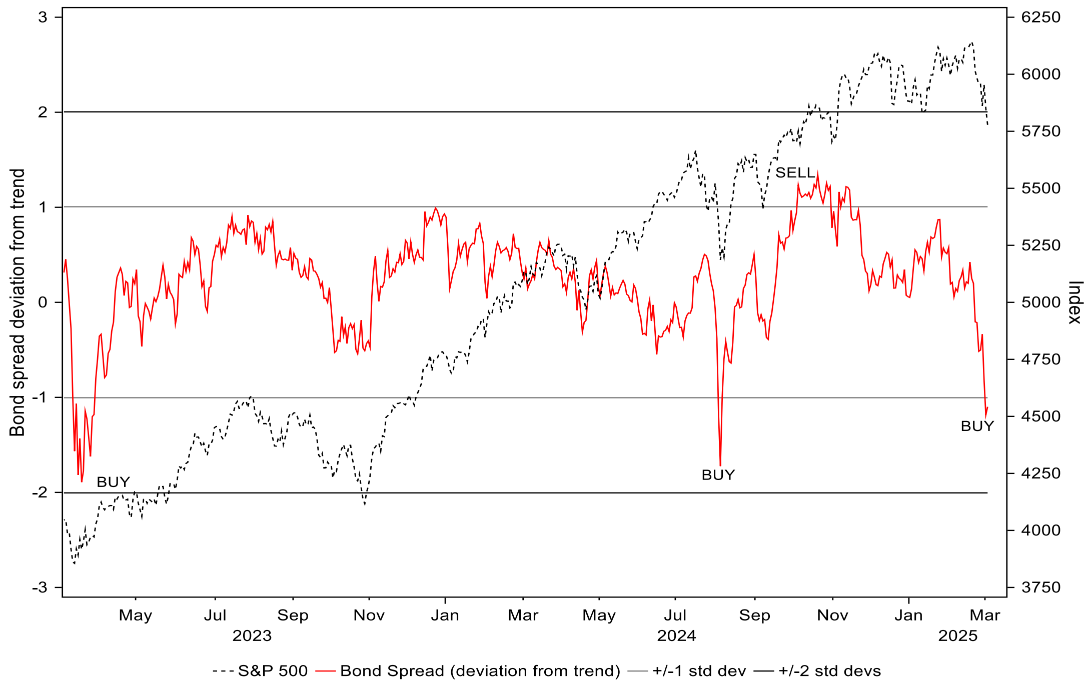
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

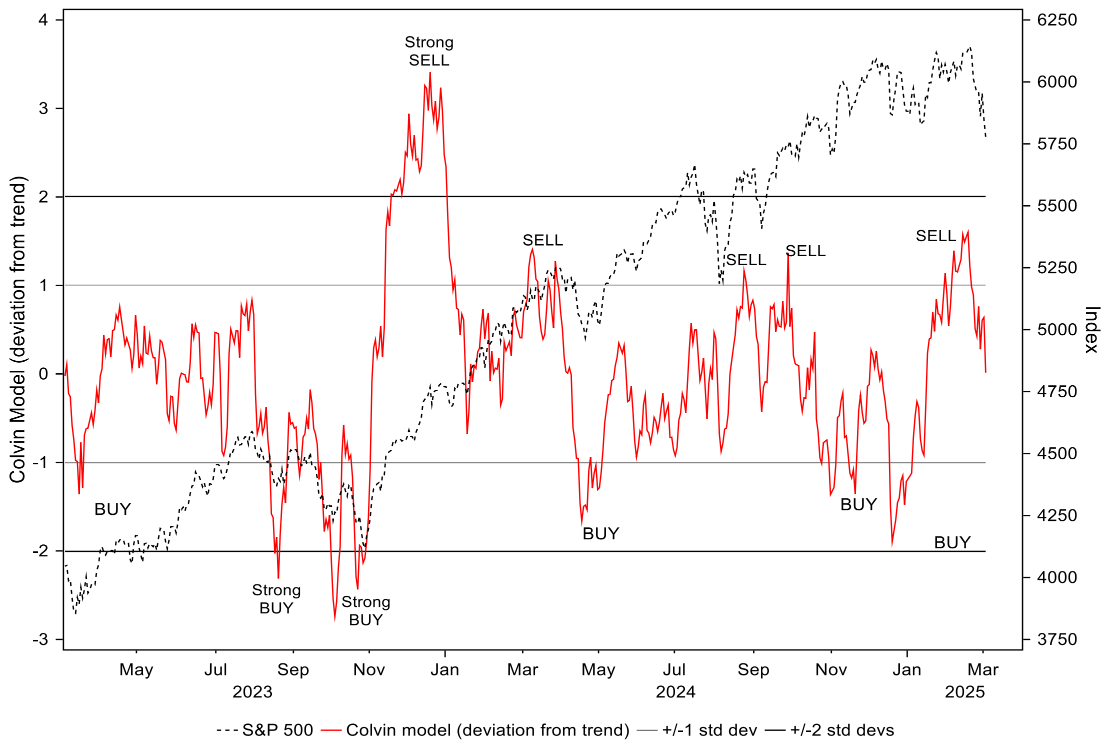
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on BUY

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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