

# Equity Index Futures Trading Recommendations

6<sup>th</sup> February 2025

“Stay SHORT; Troubling Signs”

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

- STAY ¼ SHORT March S&P500 futures (entry was at 5,999.25);
- Modestly widen the stop to 6,180 from 6,149.0, yesterday (i.e. so it’s sufficiently above the mid/late Jan intraday high of 6,162).

## Rationale

Since implementing this SHORT position on Tuesday, the market has rallied (with the trade now offside), and US price action has felt robust. Yesterday the S&P500, for example, despite being lower earlier in the day London time, rallied throughout the cash session and closed up (+0.4%). Overnight it’s higher still (+0.2% in overnight session). With that, the futures are moving towards the top end of their recent range (FIG 1e). US leadership yesterday came from: i) the Philly SOX (+2.3%); ii) real estate (+1.6%); iii) IT (+1.6%, e.g. Nvidia +5%); and iv) financials (+1.1%). Real estate was boosted by the fall in US bond yields. US 10-year yields were down sharply (FIG 1a) on the back of: i) the publication of the Treasury’s quarterly refunding announcement; & ii) Treasury Secretary Bessent’s comments that he & Trump both want lower 10 year yields (see Bloomberg article: <https://www.bloomberg.com/news/articles/2025-02-05/bessent-says-he-trump-focus-on-10-year-yields-not-pushing-fed>).

Despite that positive US/S&P500 price action, we recommend persisting with the SHORT position. That’s for 5 key reasons:

1. The **SELL-off indicator** continues to build above its key +20 level (FIG 1c). This model, whilst not perfect, has a high hit rate. Its signal suggests that there is a heightened risk of an imminent ‘wave of risk aversion’ (pullback).
2. The SELL-off indicator signal is **confirmed by other medium-term models** which are also generating SELL signals. That includes the medium-term risk appetite scoring system (just below SELL) and the medium term put to call ratio (on SELL – FIG 1d).
3. **Certain spreads (i.e. risk premia) have been widening** in recent trading sessions. In particular US high yield corporate spreads have widened. That suggests some tightening of liquidity, which usually/often leads to weakness in equity markets (FIG 1).
4. **Volumes** in the S&P500 e-mini contract have been low in the past few trading sessions (FIG 1b), highlighting diminished conviction (and low participation) in this recent move higher.

5. The **S&P500 and NDX100 both remain within their range of the past few months** (i.e. since mid-November) – as money has rotated into European markets (& elsewhere), with those markets recently breaking out to new highs (e.g. see IBEX yesterday, FIG 1f). NB that strong (near vertical) price action in various European equity markets in recent trading sessions is also consistent with a signal from the SELL-off indicator. That is, some parts of the global financial market are exhibiting somewhat euphoric near-term price behaviour (which usually occurs just prior to pullbacks).

As such, we recommend staying SHORT S&P500 futures, but with an unchanged position size. At this juncture, without a SELL signal on the shortest-term RAG (FIG 3b) and with a degree of signal ambiguity amongst other short-term models (see FIGs 2 – 5), we recommend holding off from adding to the SHORT (for now). That may, of course, change tomorrow.

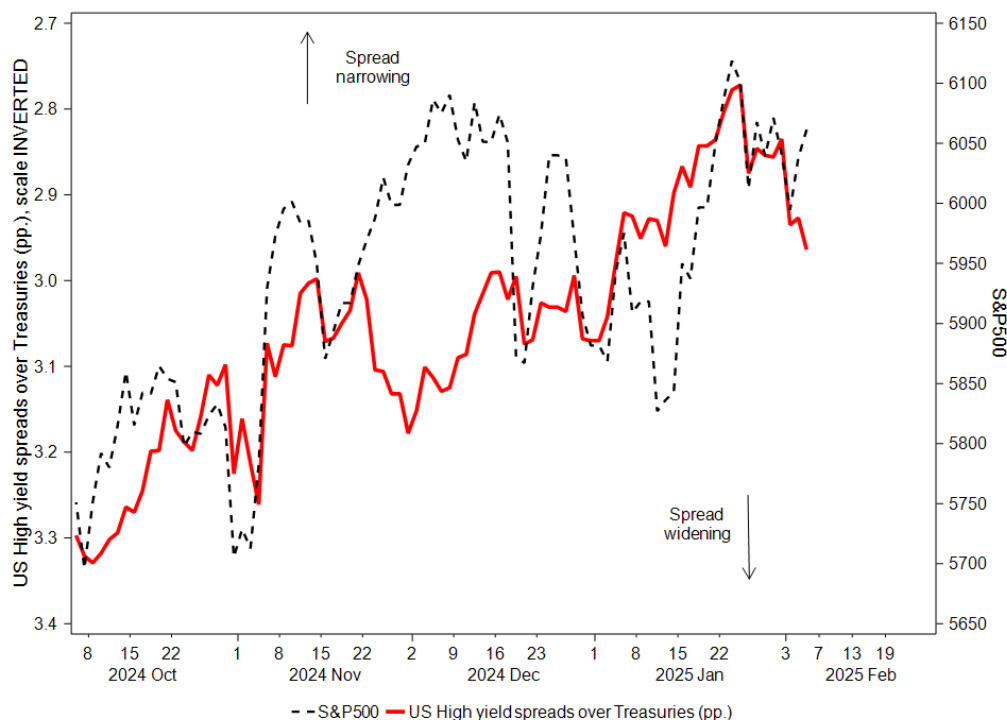
Key events today are listed below and include a BoE monetary policy decision/announcement, further US quarterly earnings (incl. Amazon) and various macro data releases.

Kind regards,

The team @ Longview Economics

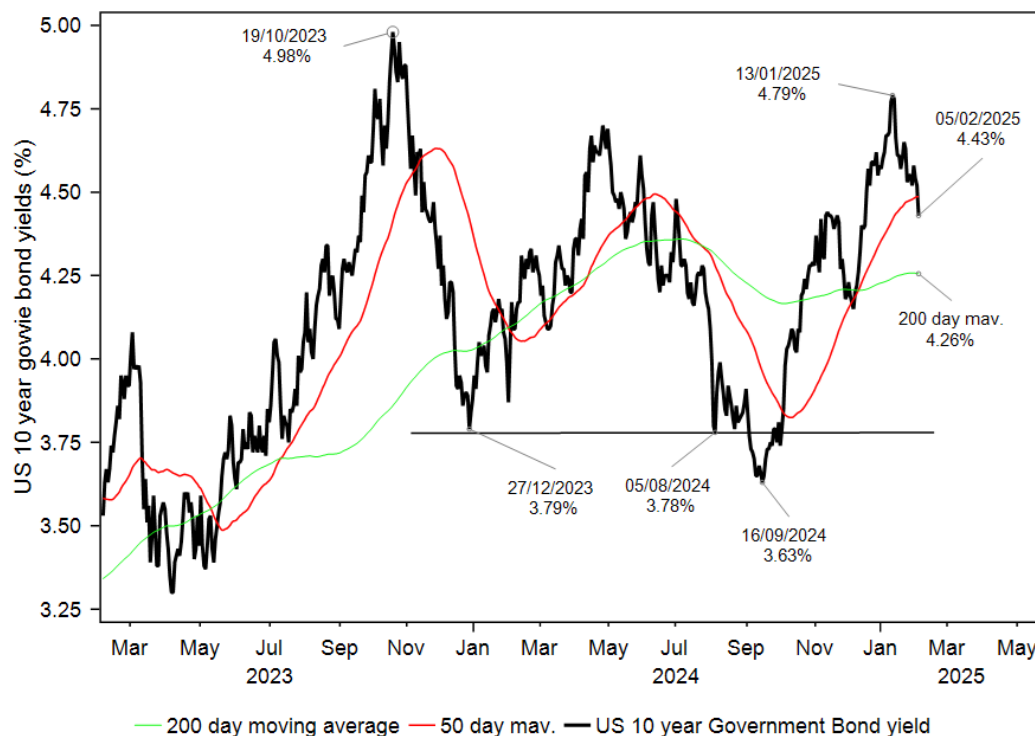
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>);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



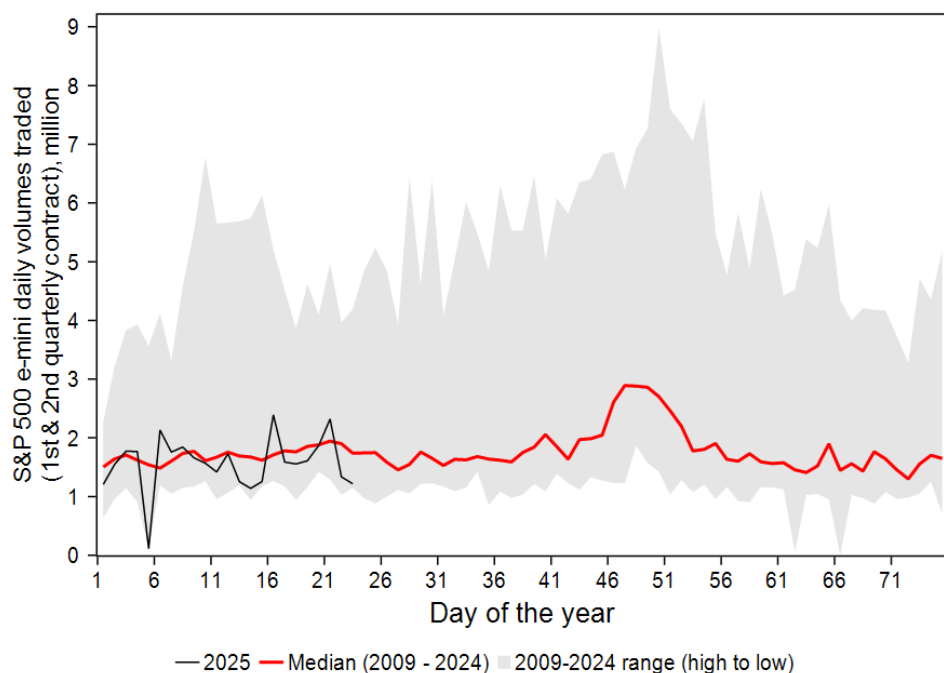
Source: Longview Economics, Macrobond

**FIG 1a: US 10-year government bond yields shown with key moving averages**



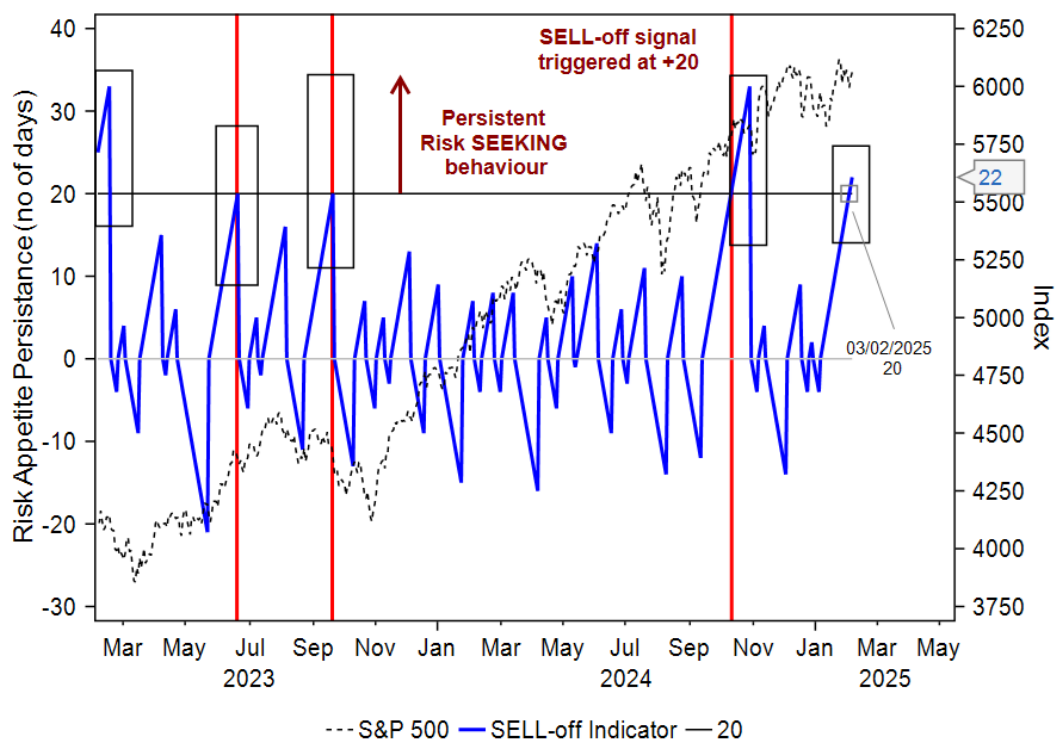
Source: Longview Economics, Macrobond

**FIG 1b:** S&P500 e-mini volumes (1<sup>st</sup> & 2<sup>nd</sup> quarterly contracts), shown with seasonal averages



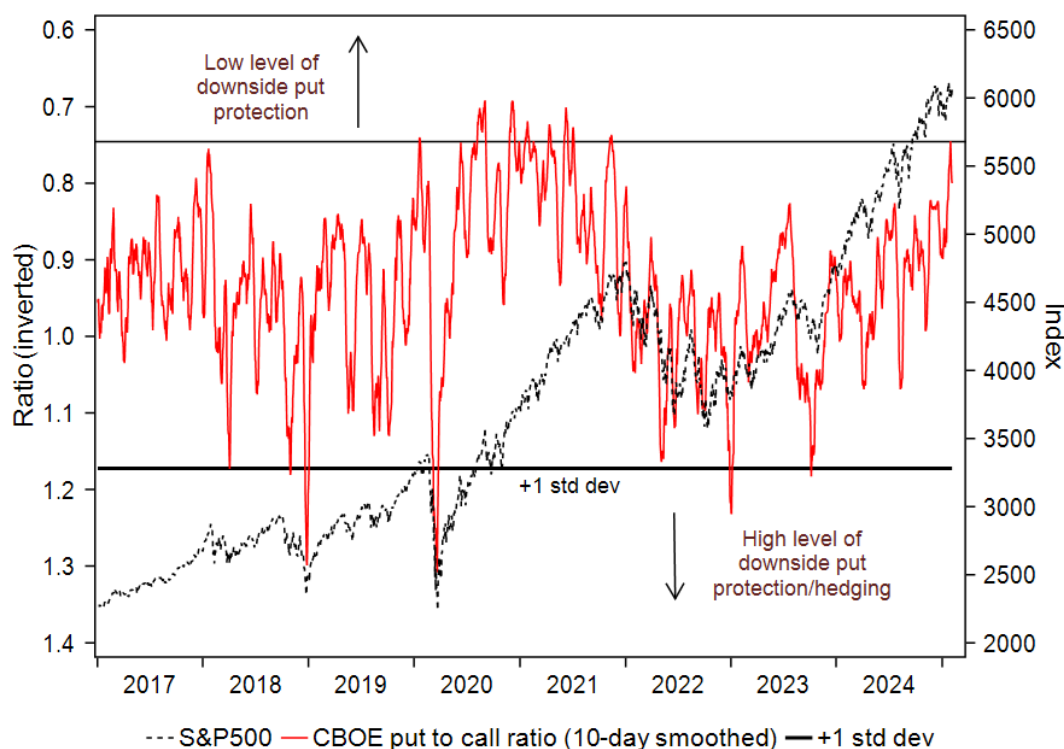
Source: Longview Economics, Macrobond

**FIG 1c:** Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

**FIG 1e:** S&P500 March 2025 futures 60-day tick chart shown with overnight price action



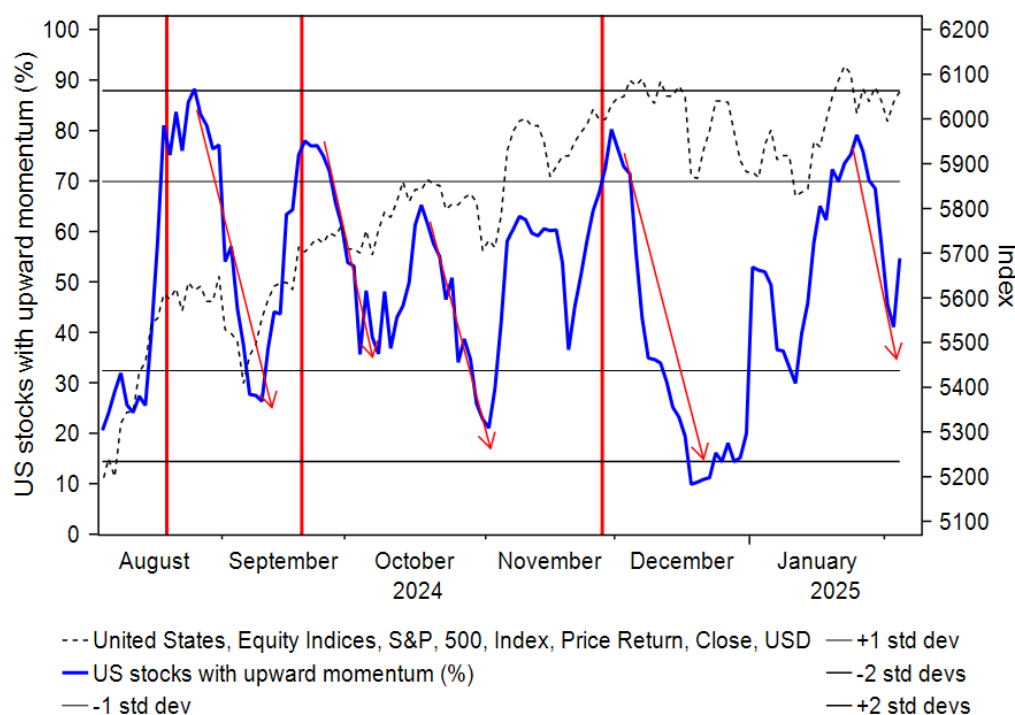
**FIG 1f:** Spanish IBEX large cap index shown with its 50-day moving average



Source: Longview Economics, Macrobond

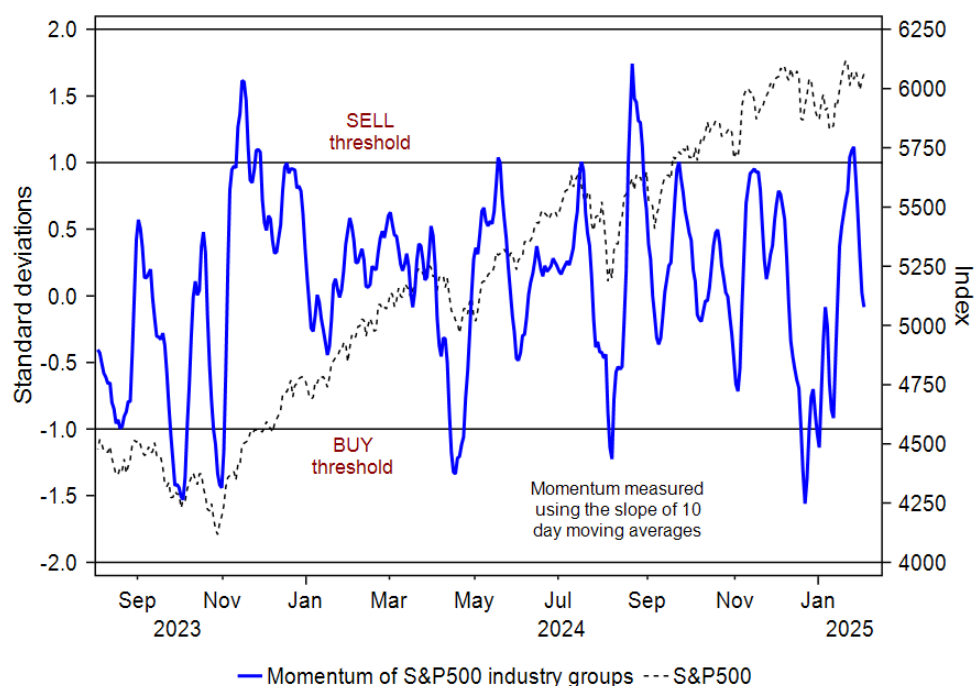
## Sector & single stock momentum models have been trending lower....

**FIG 2:** US S&P500 stocks with upward momentum shown vs. S&P500



Source: Longview Economics, Macrobond

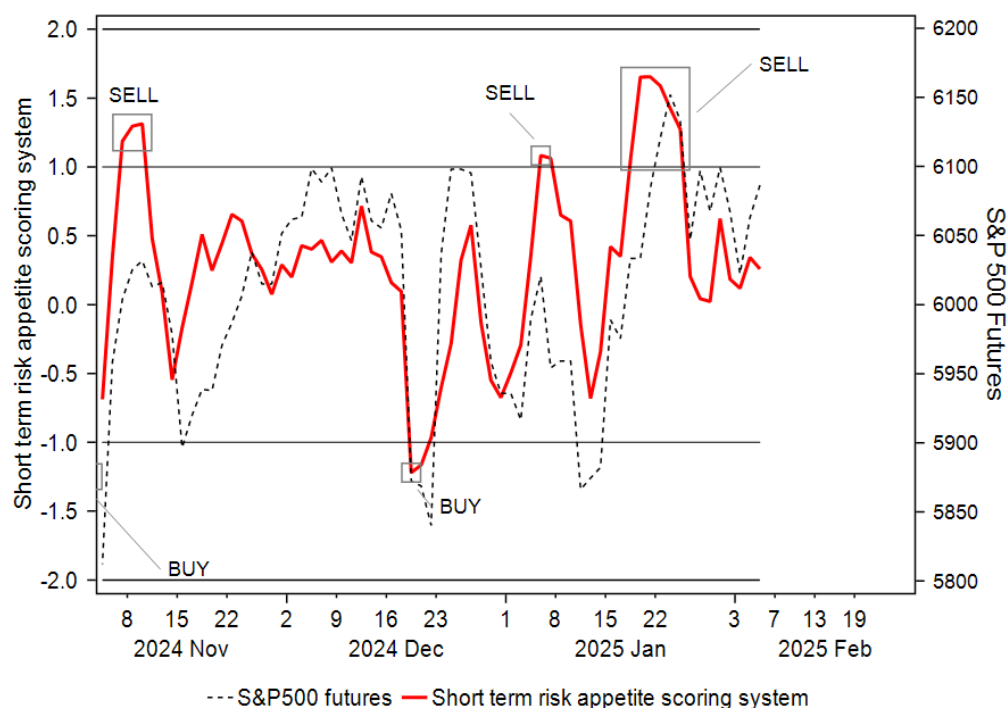
**FIG 2a:** Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

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

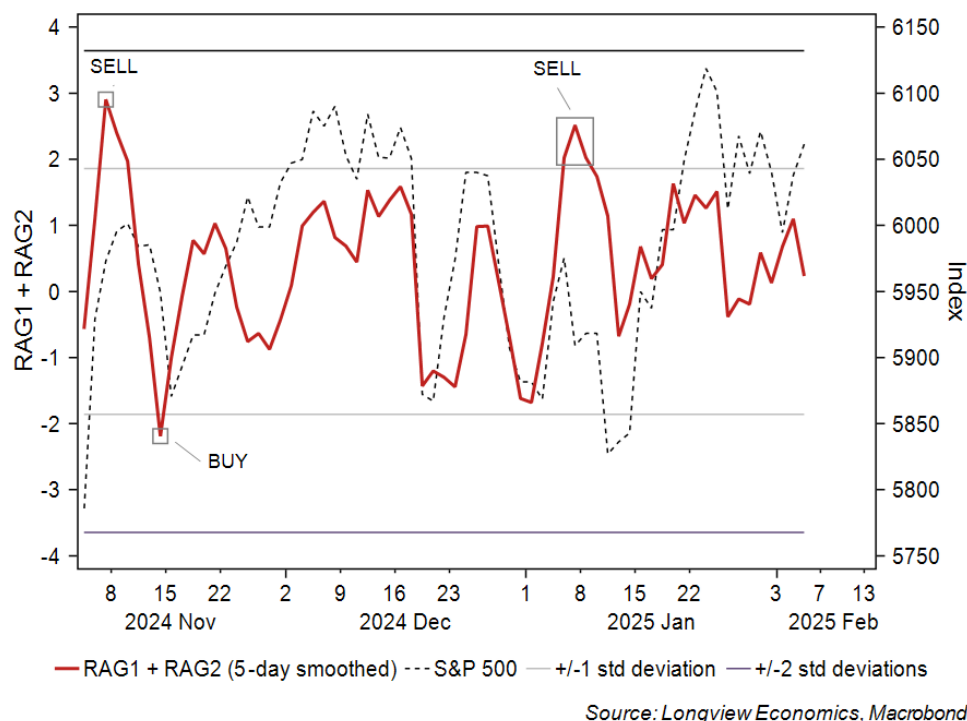
**FIG 3:** Longview short term 'risk appetite' scoring system vs. S&P500



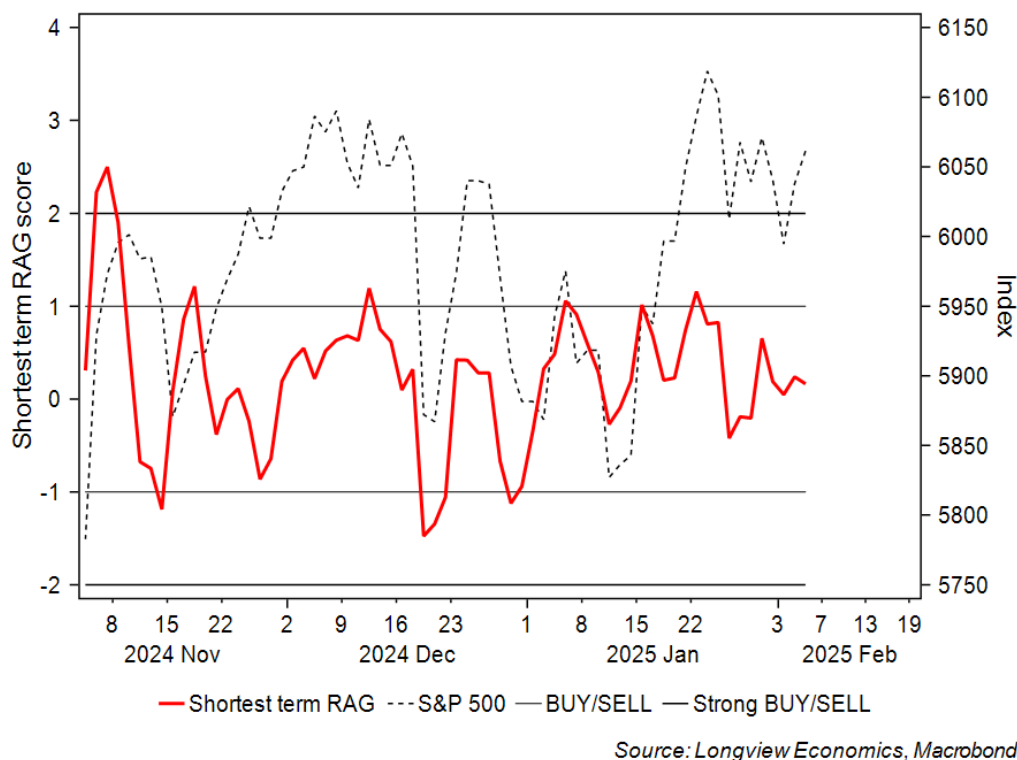
Source: Longview Economics, Macrobond



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



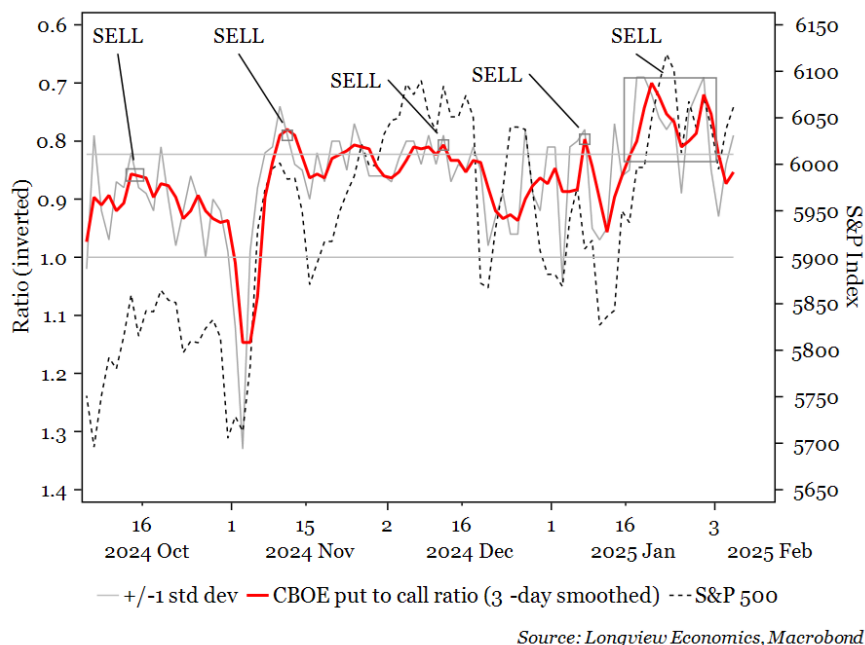
**FIG 3b:** Longview shortest term **'risk appetite'** model vs. S&P500





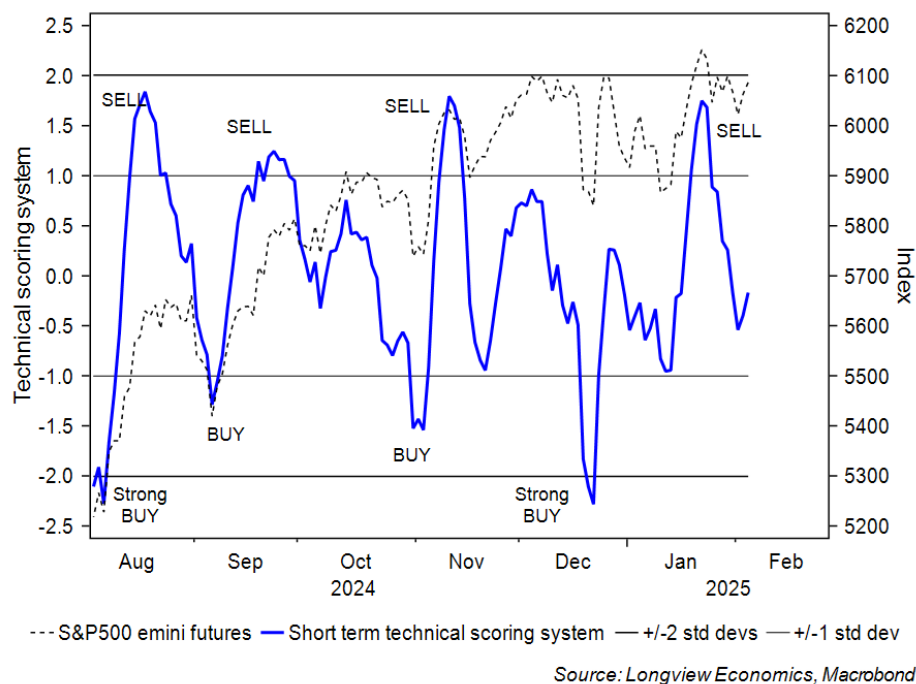
## The short-term CBOE put to call model was recently on strong SELL.....

**FIG 4:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



## Technical models (for indices) are mostly close to BUY.....

**FIG 5:** Longview S&P500 short term 'technical' scoring system vs. S&P500 futures

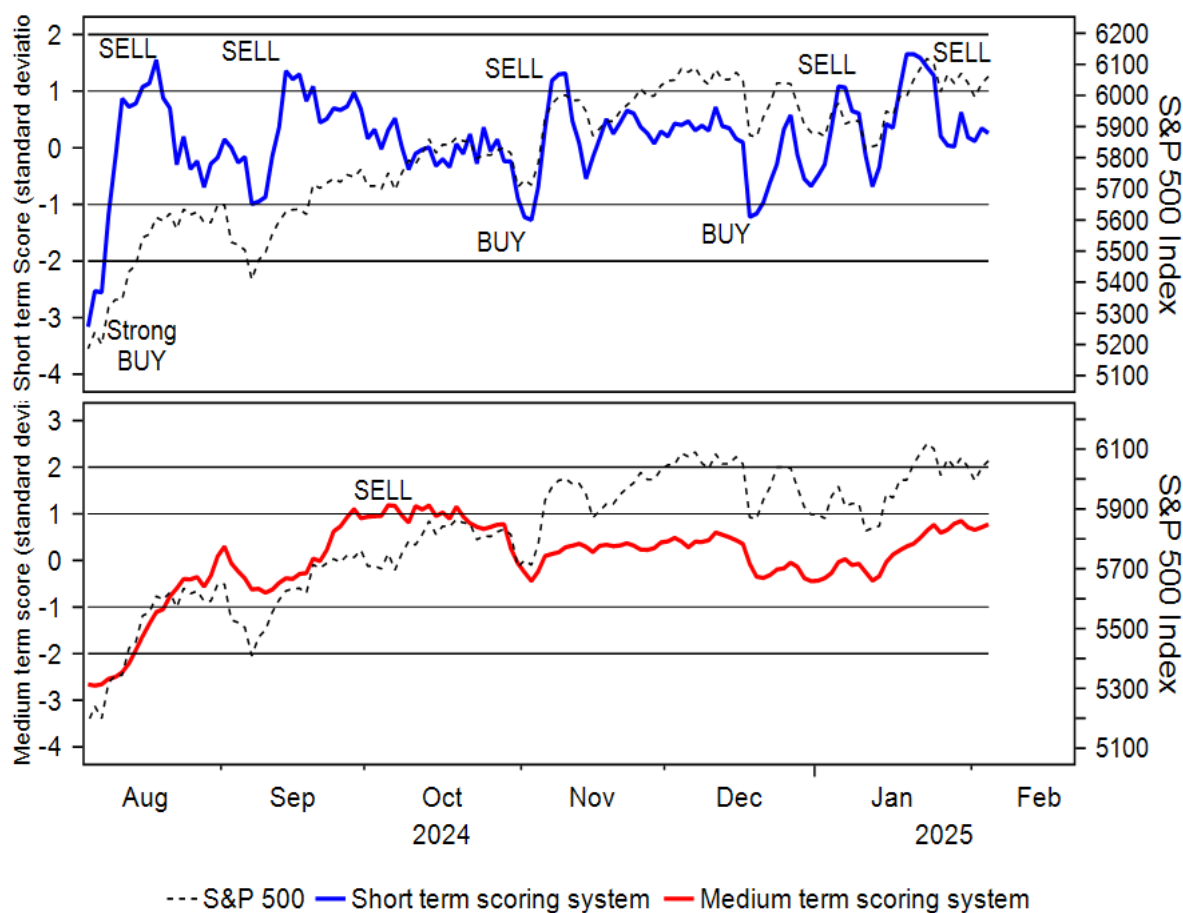


### Key Longview Scoring Systems (chart below):

**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 imports/exports, & trade balance (Dec, 12:30am); **German factory orders** (Dec, 7am); UK S&P construction sector PMI (Jan, 9:30am); **Eurozone retail sales** (Dec, 10am); **US Challenger job cuts** (Jan, 12:30pm); US nonfarm productivity & unit labour costs (Q4 first estimate, 1:30pm); US weekly jobless claims (1:30pm); Japanese household spending (Dec, 11:30pm).

**Key events** today include: Speech by the BOJ's Tamura in Nagano (1:30am); **Bank of England policy decision & minutes** (12pm) followed by press conference (12:30pm); speeches by the ECB's Vujcic in London (3pm) & Nagel & Escriva in Mexico City (4:15pm & 8:30pm); the Fed's Jefferson gives lecture at Swarthmore College (12:30am) & speech by Waller on future payments (7:30pm).

**Key earnings** today include: **Amazon.com**, **Eli Lilly**, Linde PLC, Philip Morris, Honeywell, ConocoPhillips, Bristol-Myers Squibb, ICE, Motorola, Fortinet, Becton Dickinson, Hilton Worldwide, Constellation Software, **L'Oreal**, Vinci, ING Groep, **AstraZeneca**, Tokyo Electron, Itochu Corp, Mitsubishi 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 3<sup>rd</sup> February 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

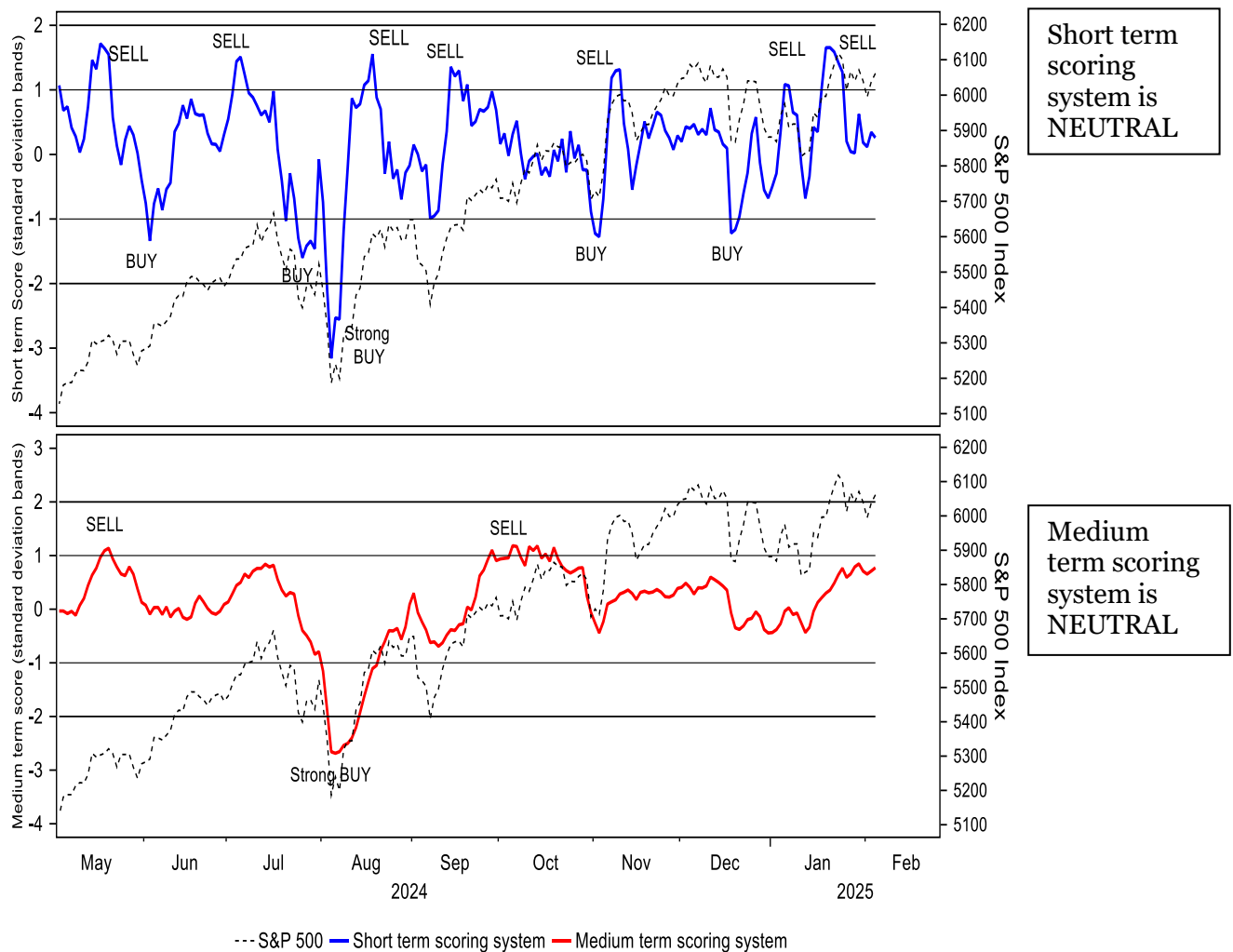
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6<sup>th</sup> February 2025

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

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



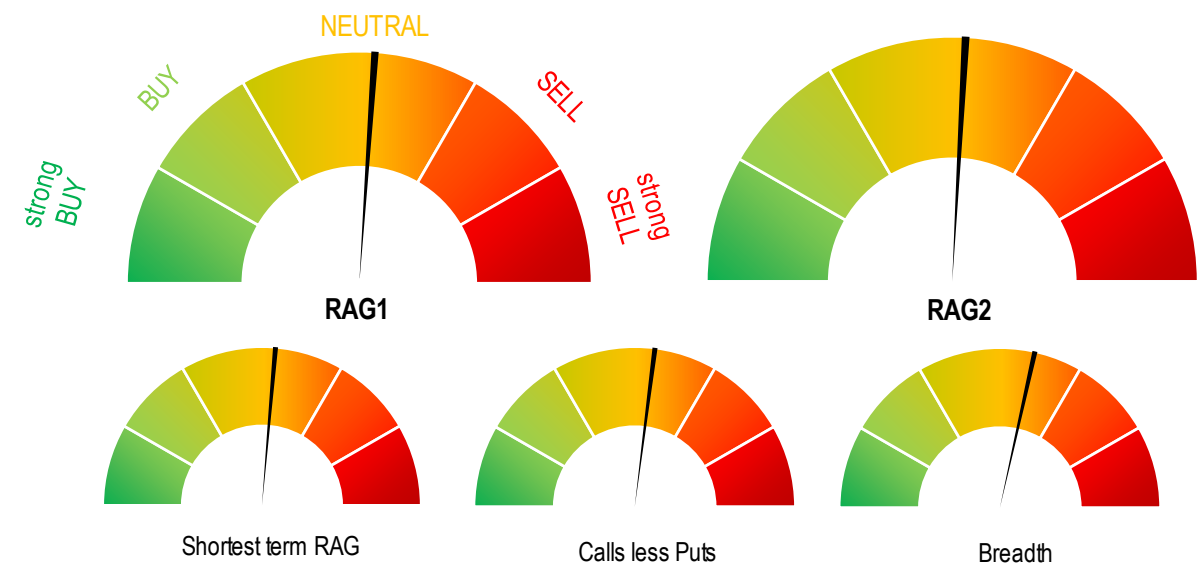
Source: Longview Economics, Macrobond

\*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**

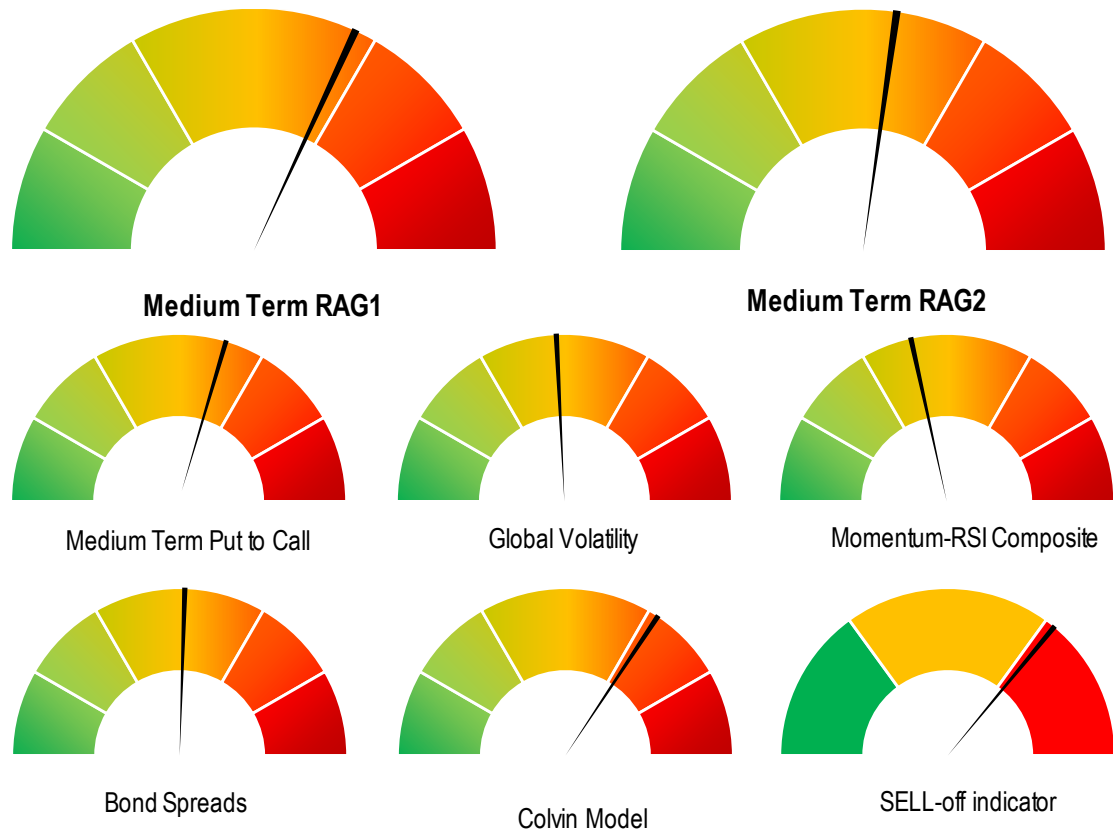
**Section 1a: Summary of indicator signals\*\***

**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

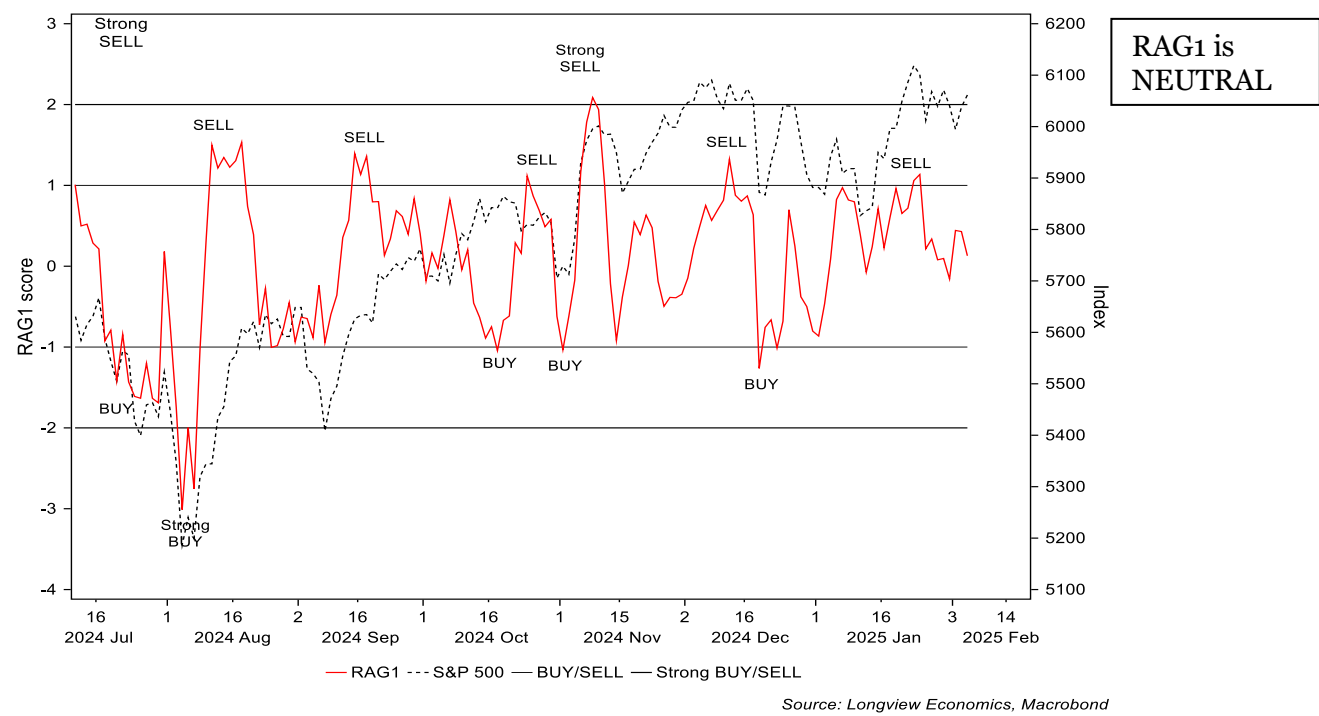
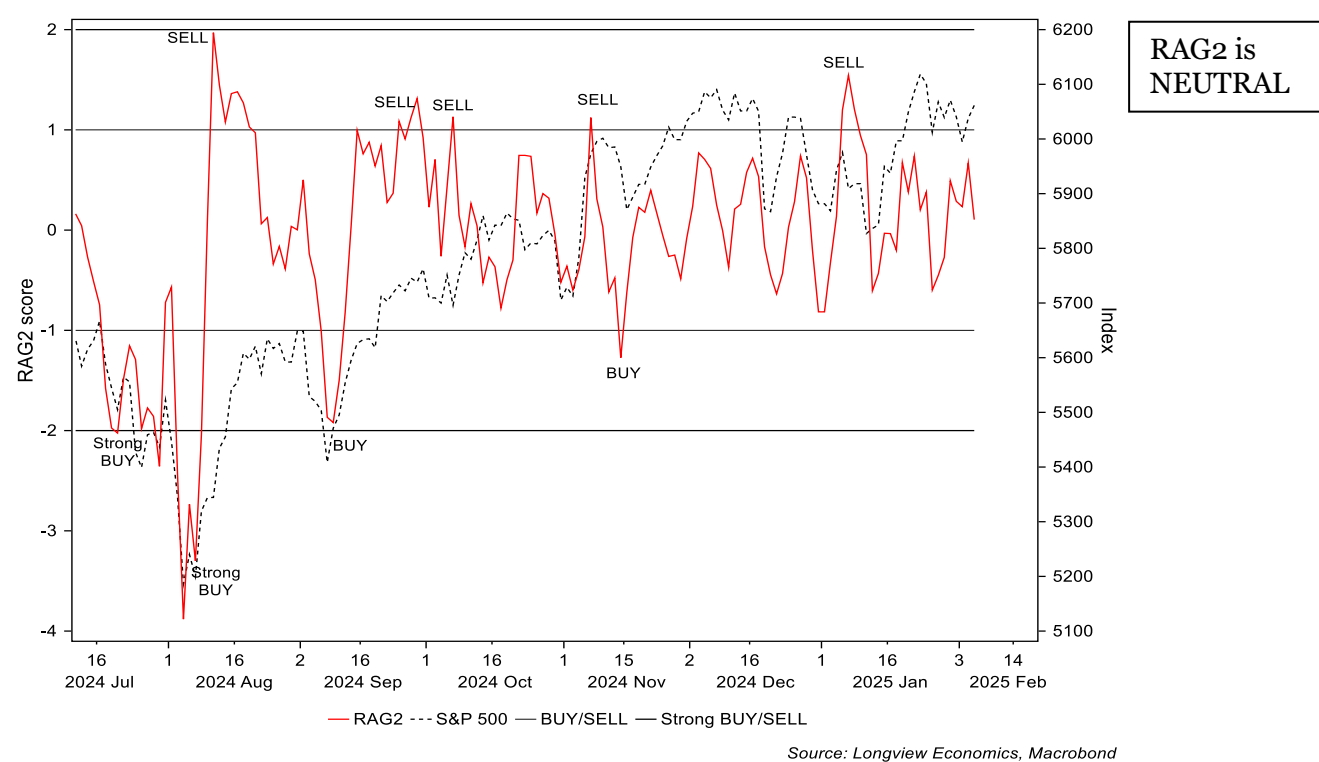
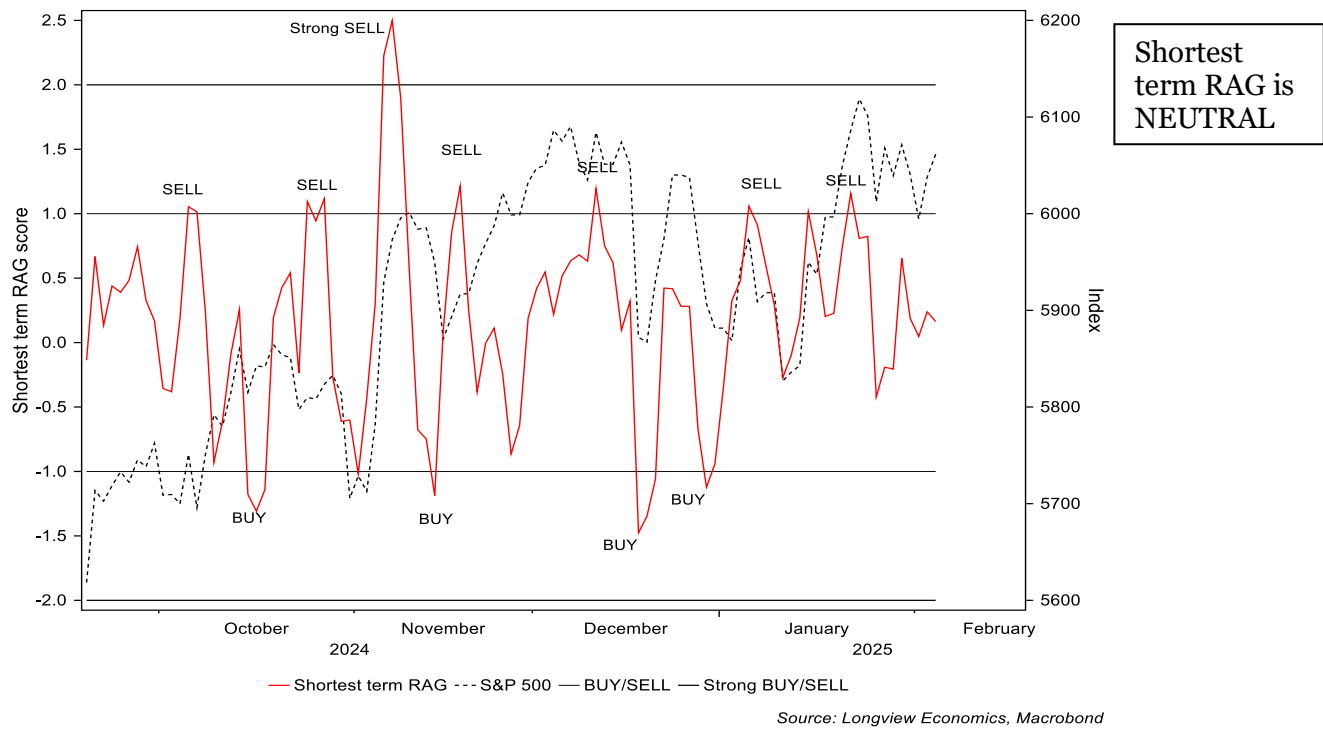


Fig 2b: RAG 2 vs. S&P 500

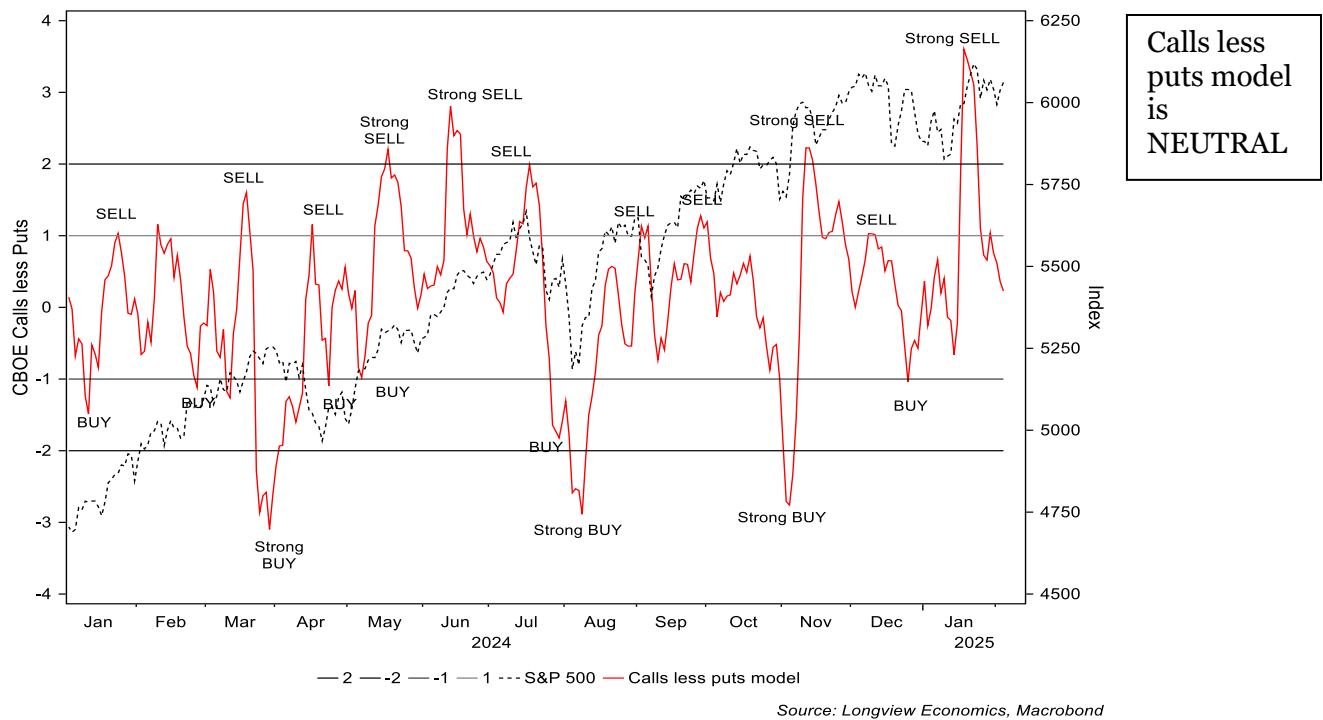


For explanations of indicators please see page 10

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



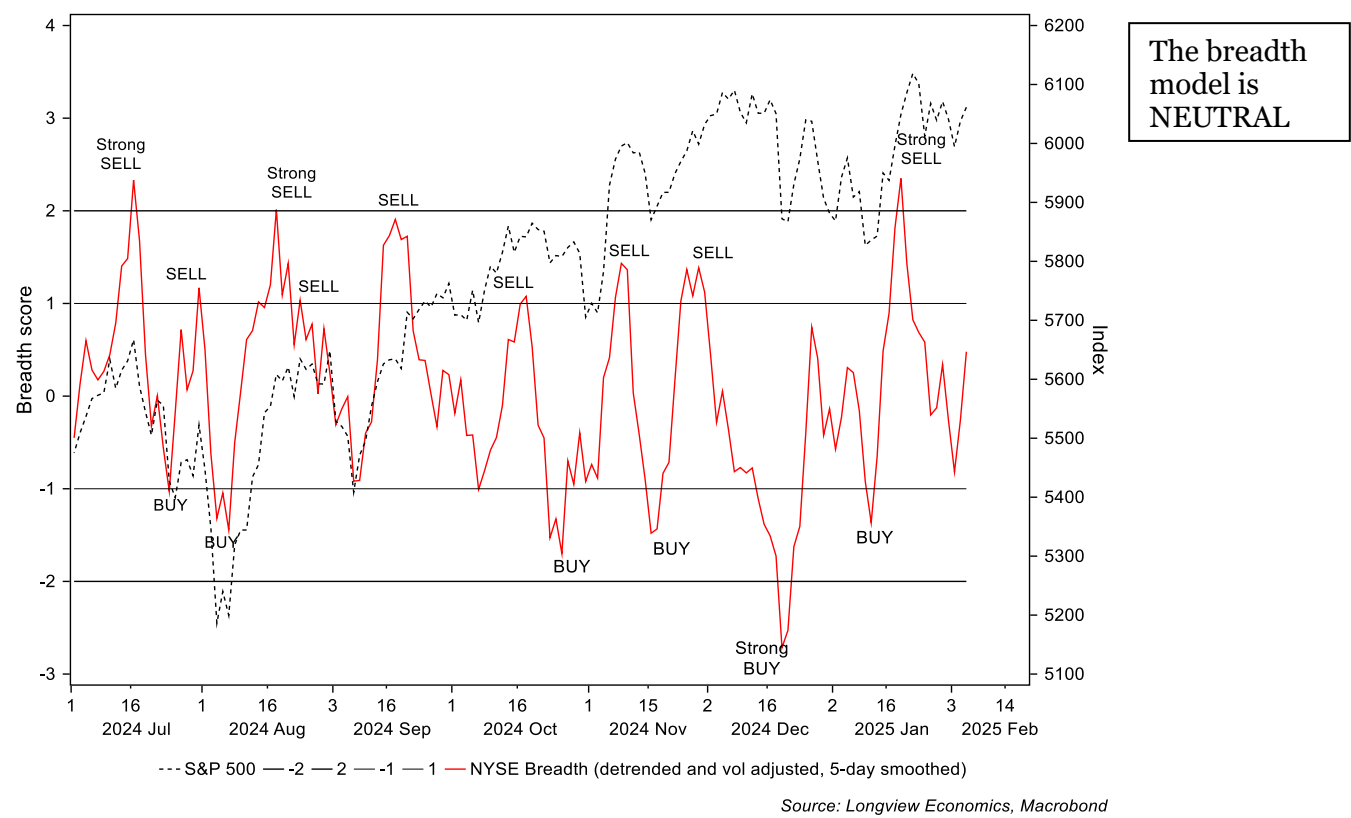
**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

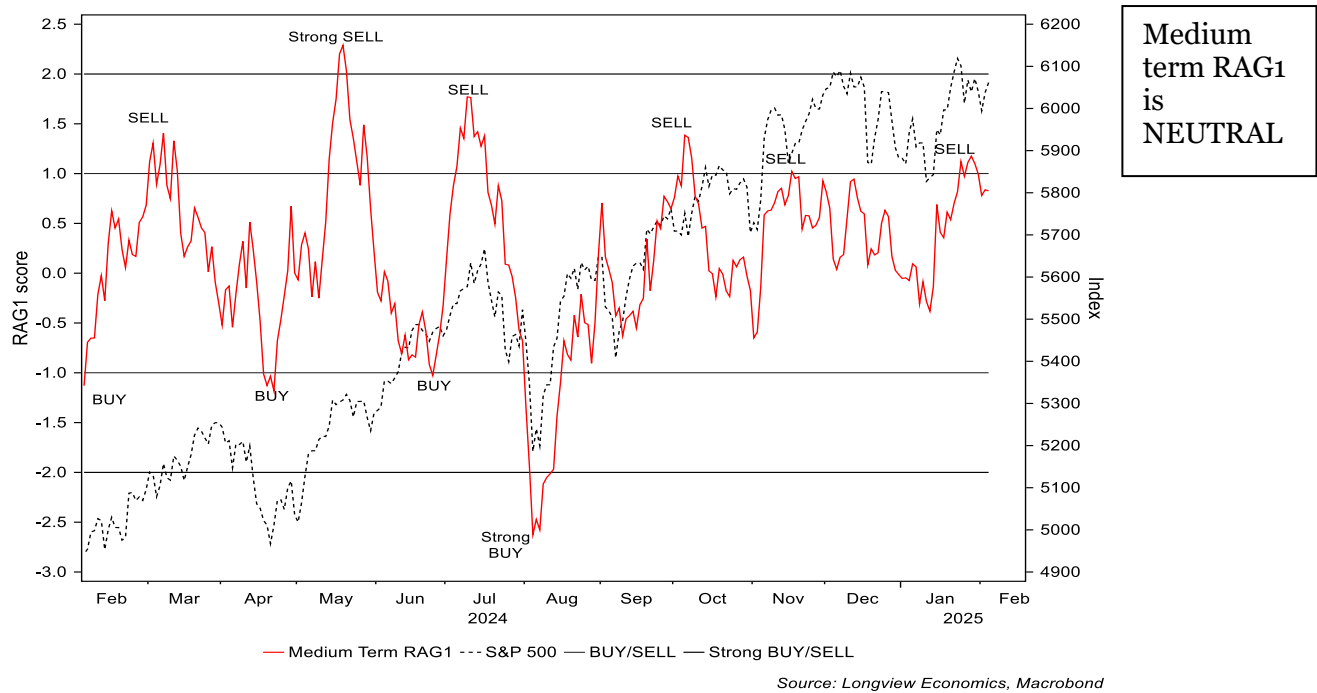
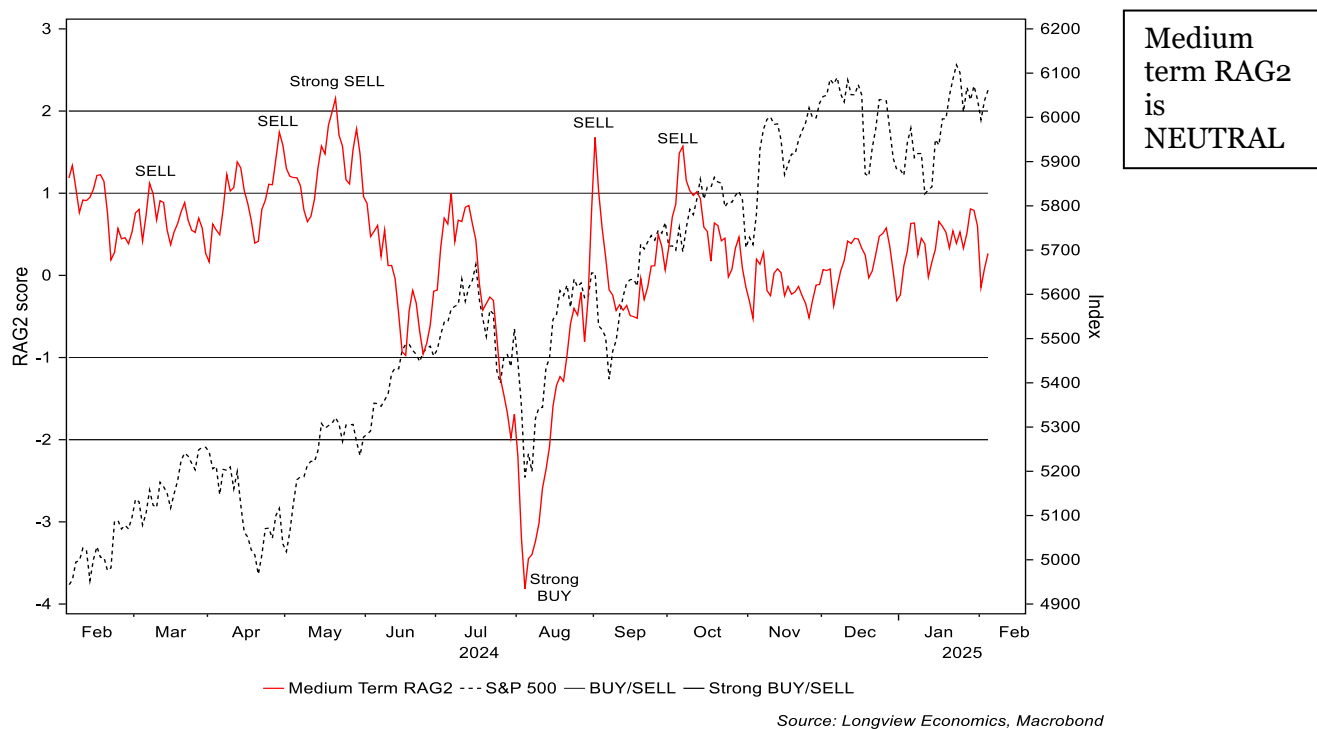
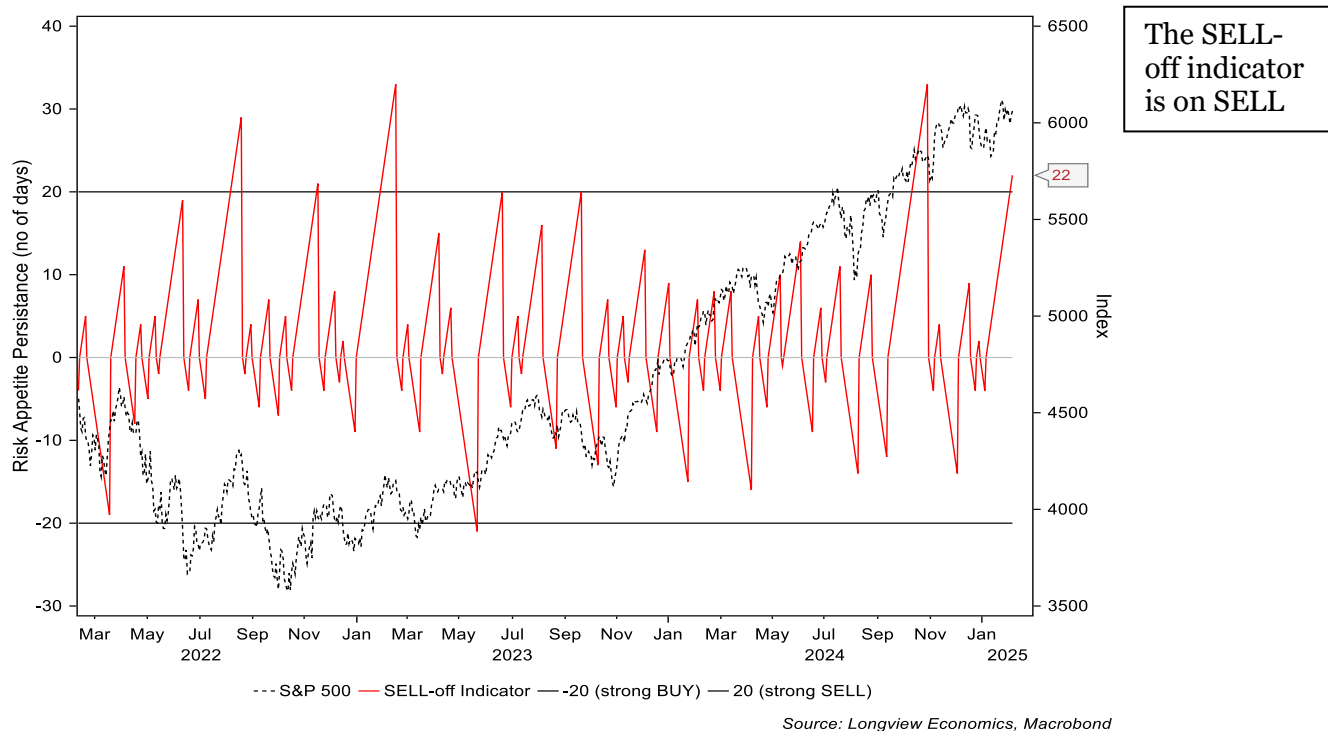


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

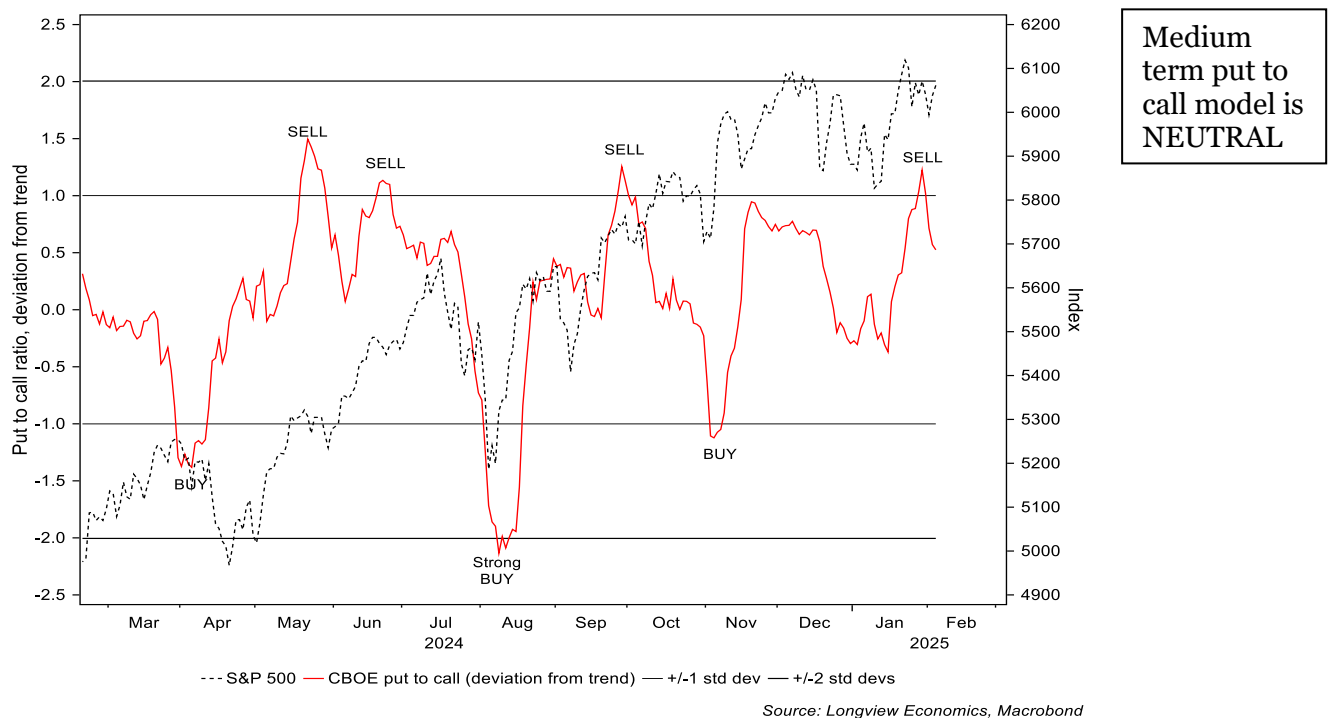


For explanations of indicators please see page 10

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

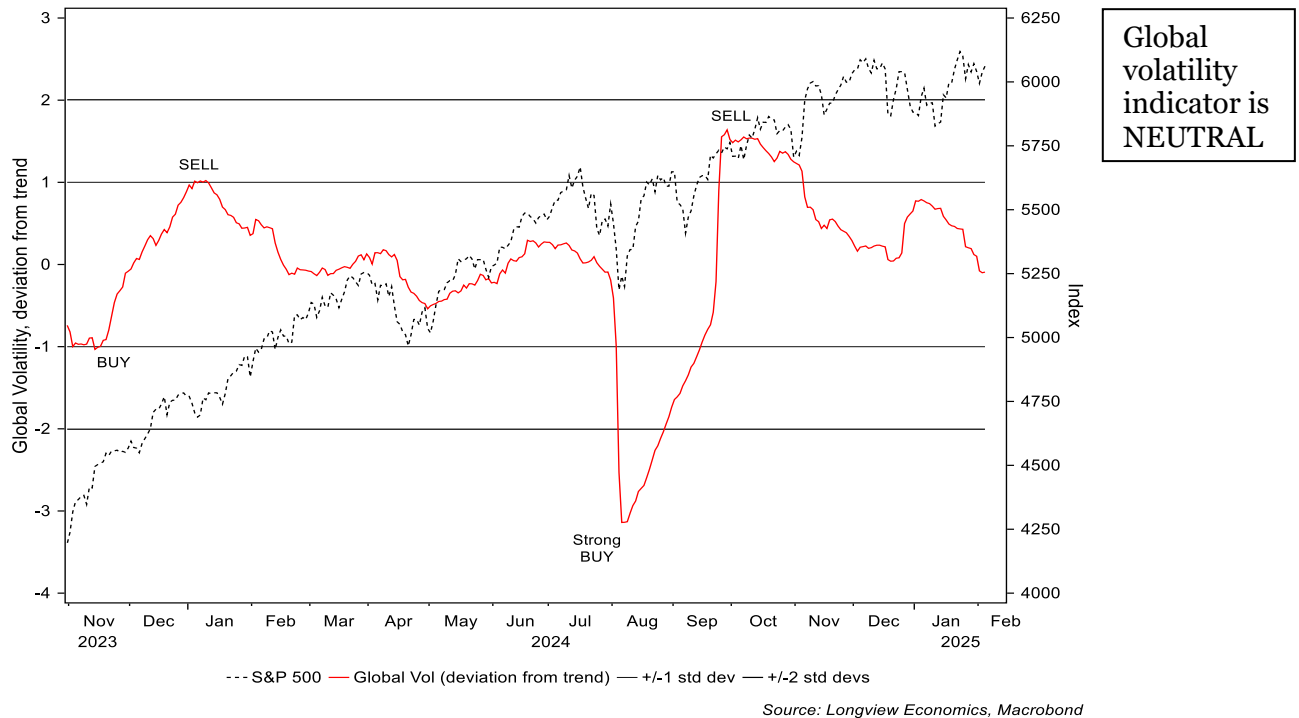


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

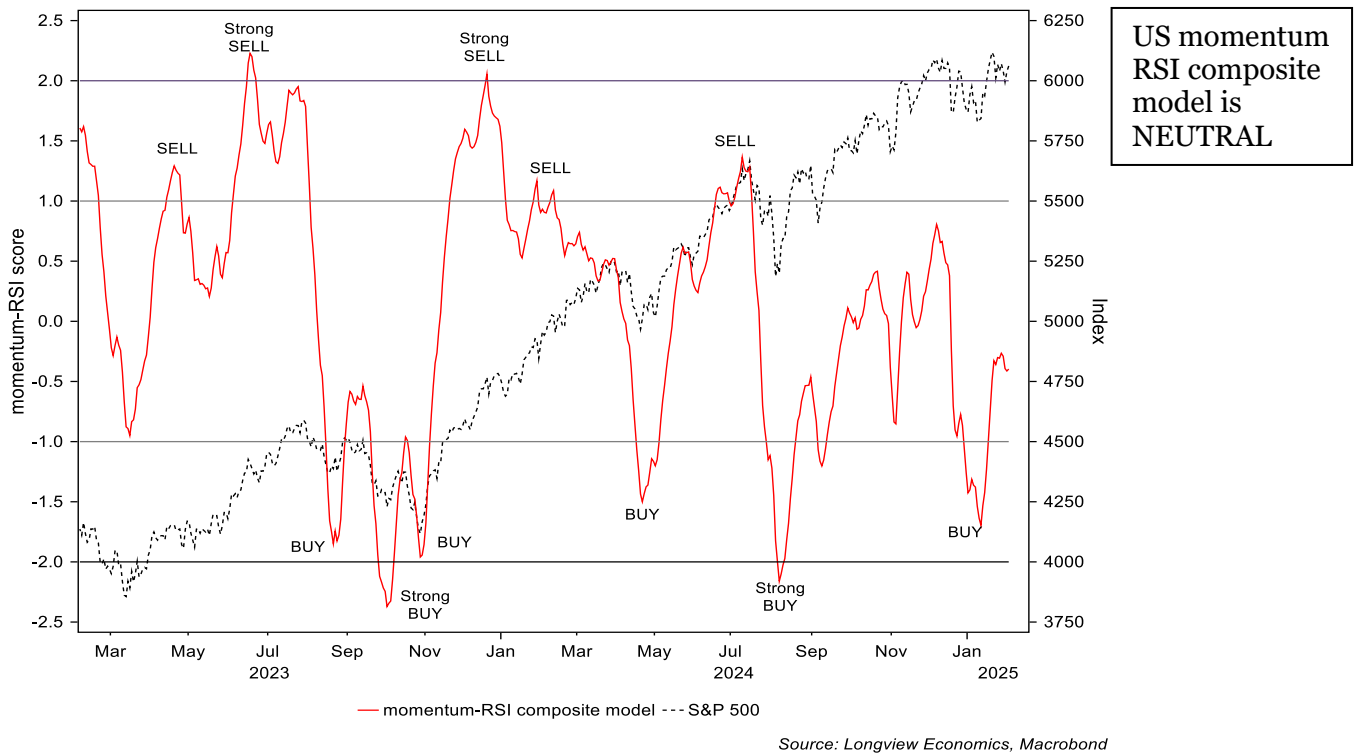


**For explanations of indicators please see page 10**

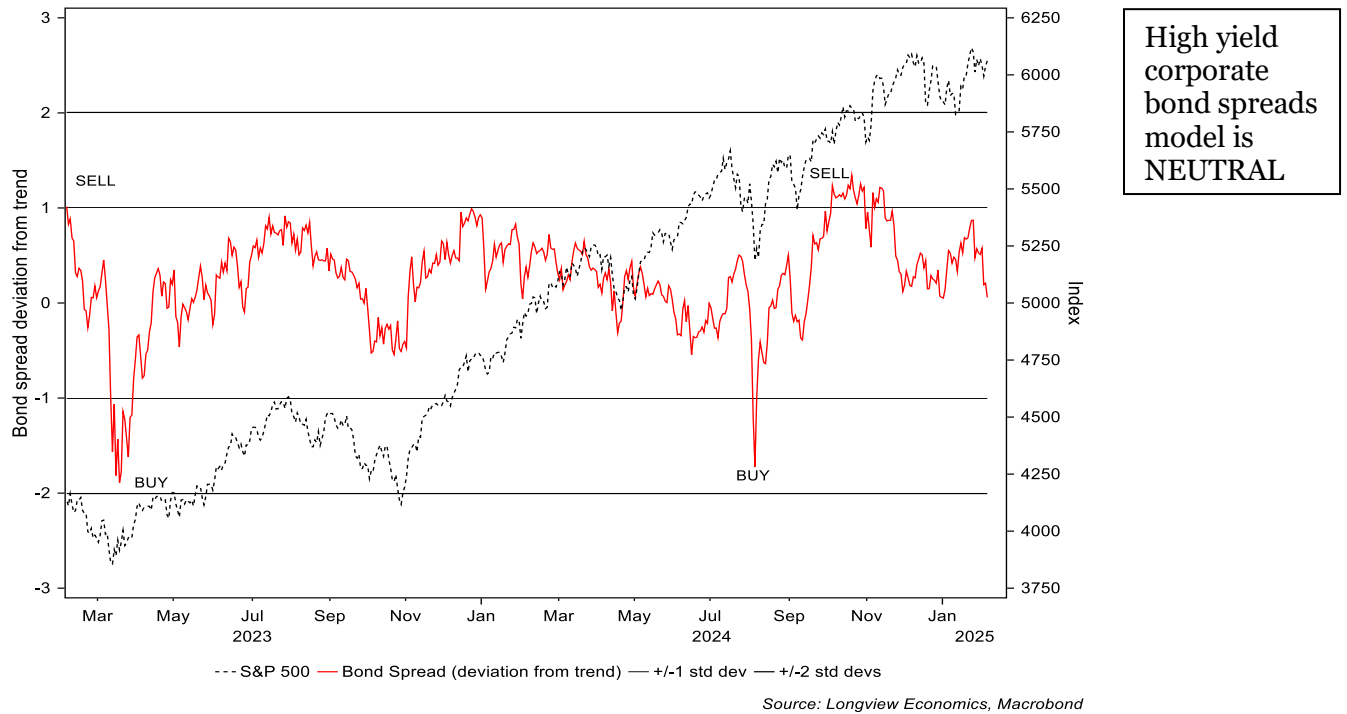
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



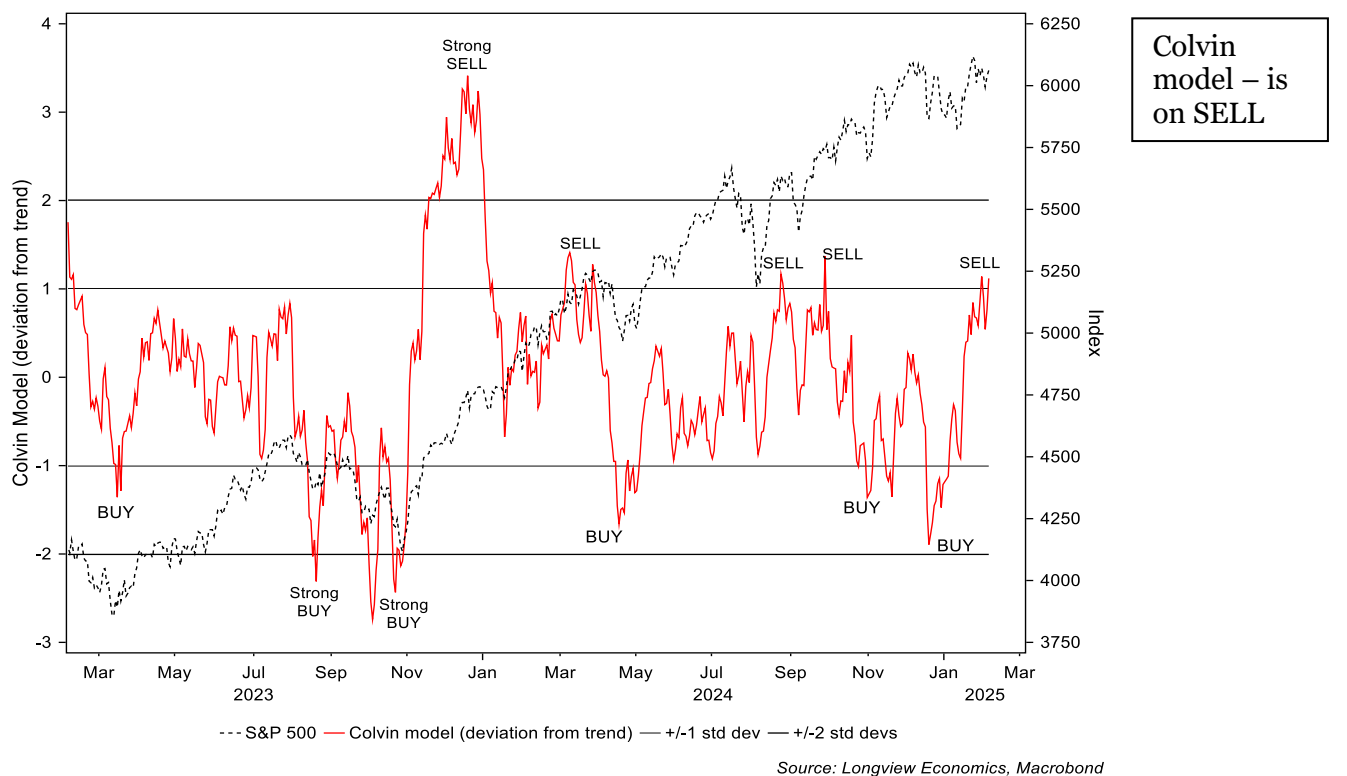
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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