LVRAG

Daily Risk Appetite Gauge

# Equity Index Futures Trading Recommendations

7th April 2025

"WATCH & WAIT (for now)"

*Email: info@longvieweconomics.com*

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

- WATCH & WAIT.

## Rationale

Global equity markets are trading sharply lower this morning. In particular the S&P500 is down ~5% at the time of writing (after a dramatic down day on Friday: -6.0%). The index is therefore off 22% (since the late February highs), and down 16% since last Wednesday (i.e. 2nd April intra-day highs).

The size of the move is similar in other key US indices, albeit with larger losses in higher beta markets (e.g. the Philly SOX: -7.6% on Friday). Elsewhere Asian & European markets are sharply lower overnight (with circuit breakers triggered in Japanese & Taiwanese indices). Other risk assets have also added to Friday's losses this morning (e.g. WTI OIL: -4.0%; and copper: -1.8%), while safe haven BUYing of US Treasuries has continued (e.g. with US 10y yields trading 11bps lower overnight).

Fear and panic in markets are therefore high. Illustrating that, the VIX has opened at around 60% this morning (FIG 1). That's indicative of **panic selling**, and highlights the case for a near term relief rally. Consistent with that, the VIX futures curve is deeply inverted (generating a strong BUY message, FIG 1c), the S&P500 risk reversal is at its most extreme level since the pandemic/2020 (FIG 1b), and there's evidence of broad based/indiscriminate selling of stocks (e.g. see FIG 1a). Anecdotally, this recent episode is being compared to the 1987 crash. Market chatter is therefore deeply bearish (also a contrarian BUY signal – which is consistent with the extreme positioning of those indicators).

Elsewhere our short term models have all moved lower and are generating a clear strong BUY message. In particular our risk appetite indicators are on strong BUY (see FIGs 3 & 3a), downside put protection in portfolios is high (with the CBOE model on strong BUY, FIG 3b), while various breadth, momentum, and technical models have a clear BUY/strong BUY message (FIGs 3d – 3g).

All of which suggests that **a relief rally is likely** on a 1 – 2 week view. The key question is: From what level will that rally start? On Friday we were filled on our orders to move LONG the S&P500. Those positions were stopped out later in the day. As such, we're reticent to re-implement the same trade straightaway (i.e. as good discipline – and given the risk of further upside in the VIX, in the very near term). We therefore favour standing back and 'WATCHing & WAITing' (at least for today).

Key events and macro data this week are multiple and include US CPI on Thursday and US Michigan consumer sentiment on Friday. It's also the start of the US Q1 quarterly earnings season (in earnest – with various major banks reporting on Friday).

Please see below for a full list of today's key macro data & events.

Kind regards,

The team @ Longview Economics

**FIG 1:** VIX Index (%), 30 day tick chart shown with overnight price action

**FIG 1a:** Percentage of US stocks within 3% of their 52-week lows vs. S&P500

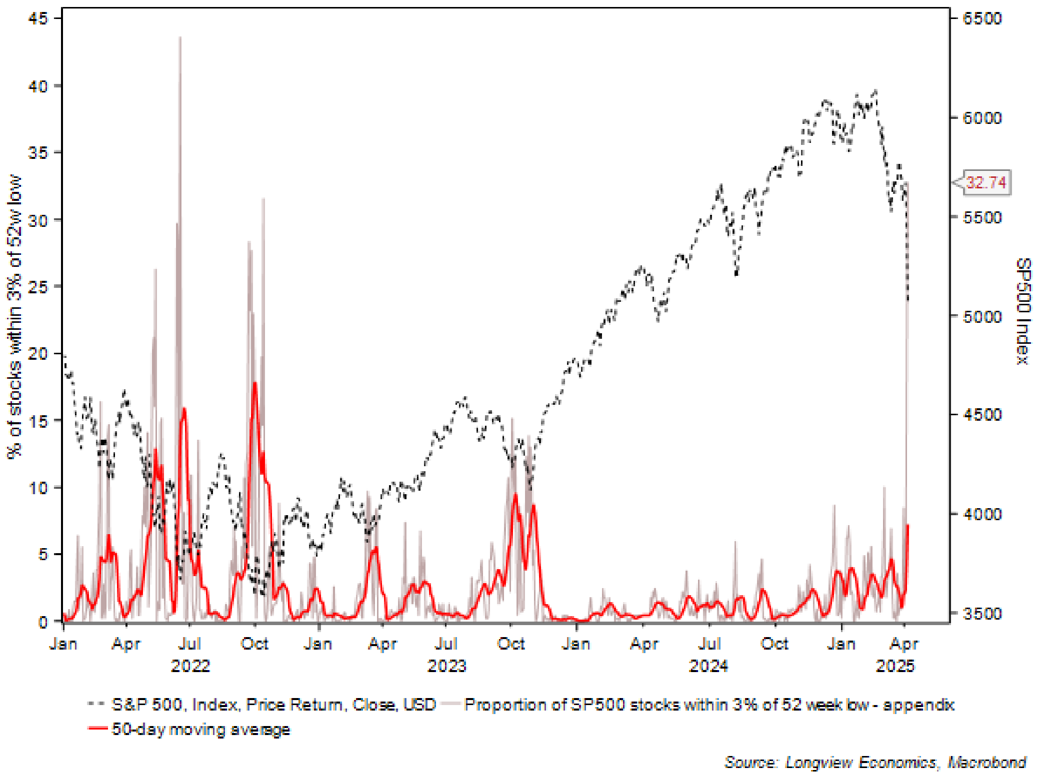
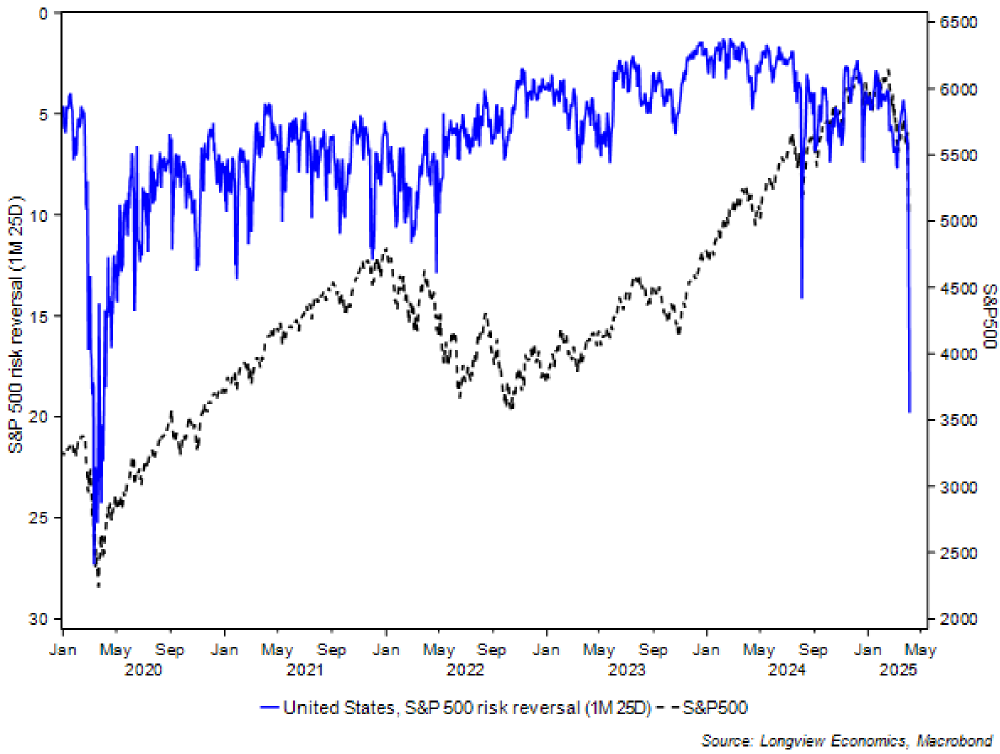
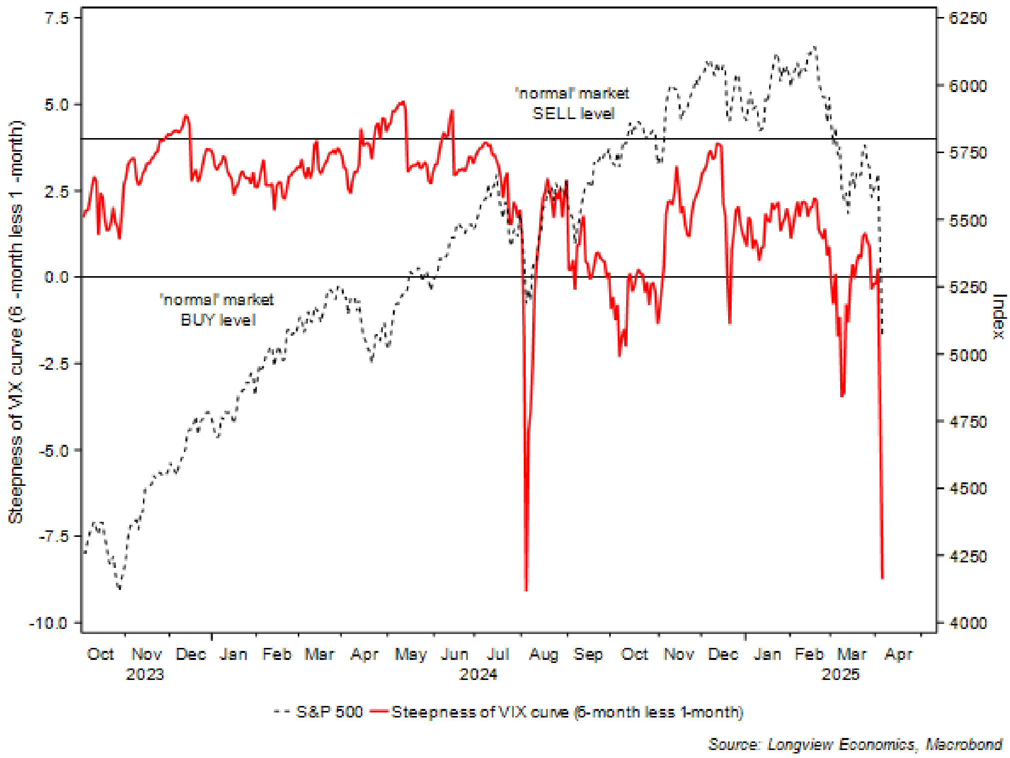



**FIG 1b:** S&P500 skewness* (risk reversal, 1 month, 0.25 delta) vs. S&P500



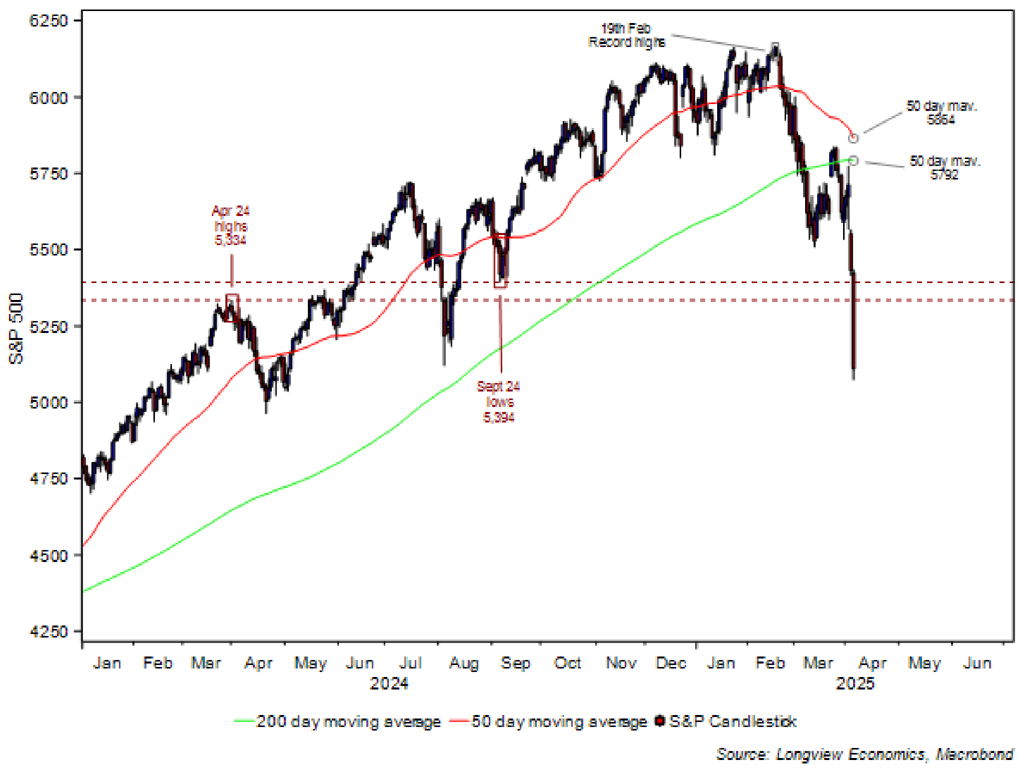

*Which compares the 'strike vol' of calls and puts with the same delta.

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



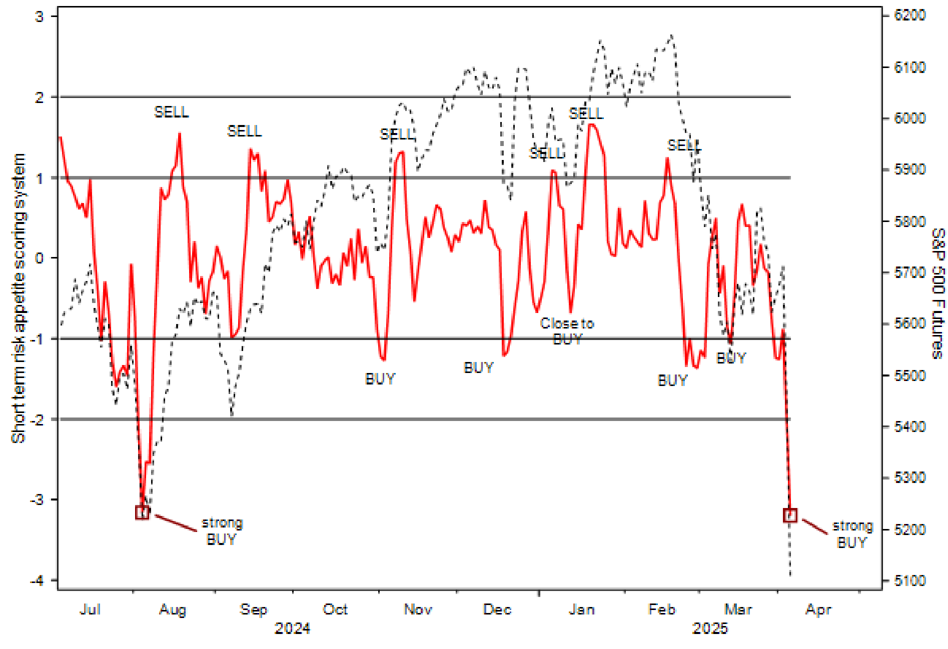

**Up to date as of Friday's close.

**FIG 2:** S&P500 futures candlestick shown with its 50 & 200 day moving average



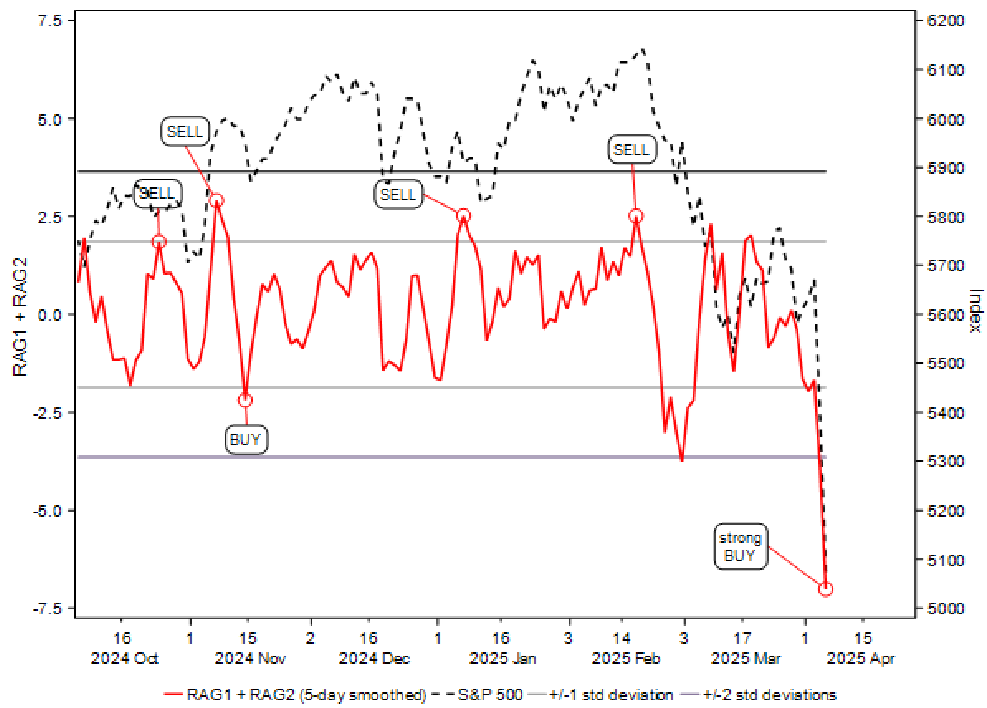
## Short term risk appetite models are on strong BUY…

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




Source: Longview Economics, Macrobond

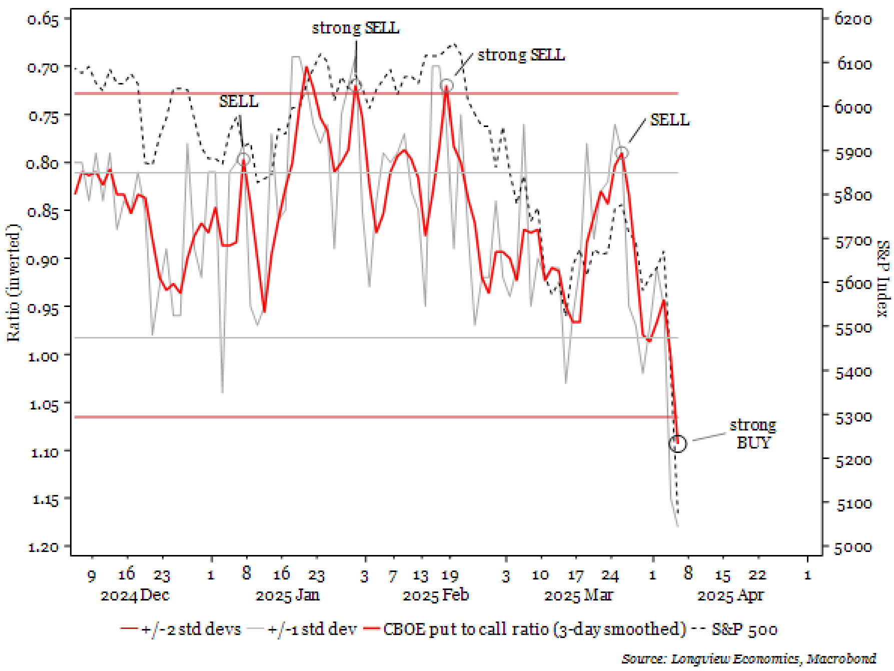
**FIG 3a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500




Source: Longview Economics, Macrobond

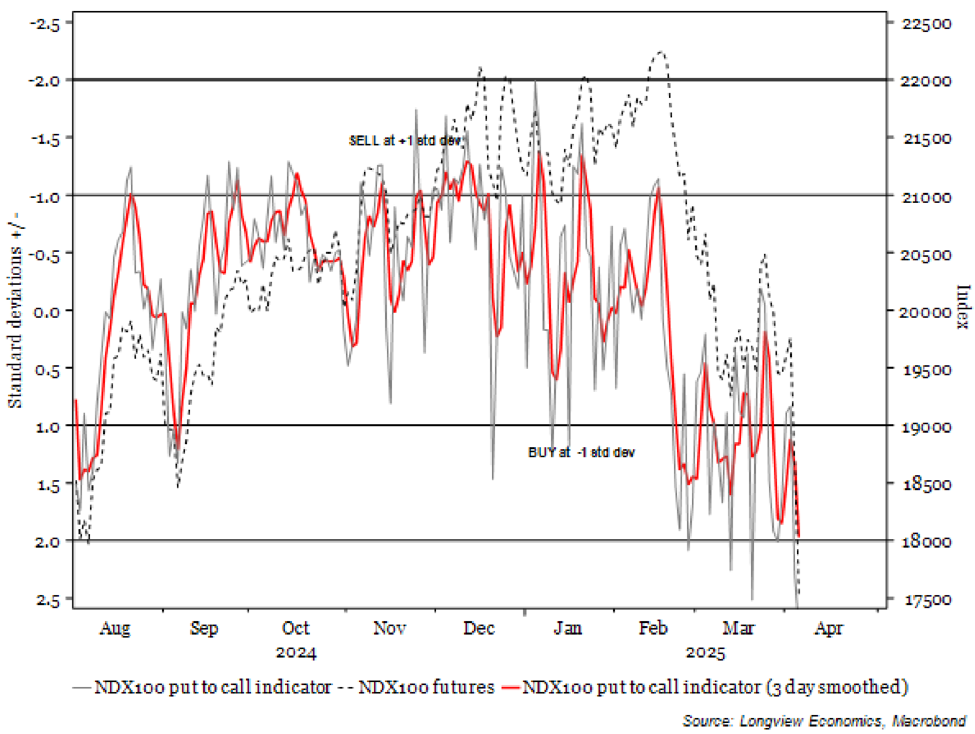
## Put to call ratio models are now on strong BUY…

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



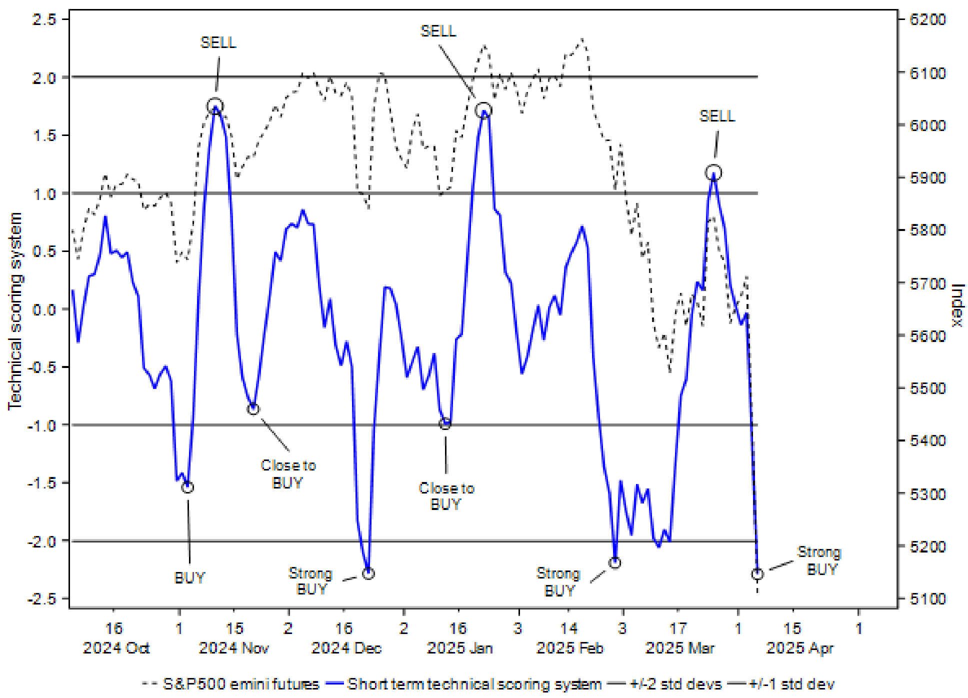

## The NDX100 put to call ratio indicator is close to strong BUY….

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



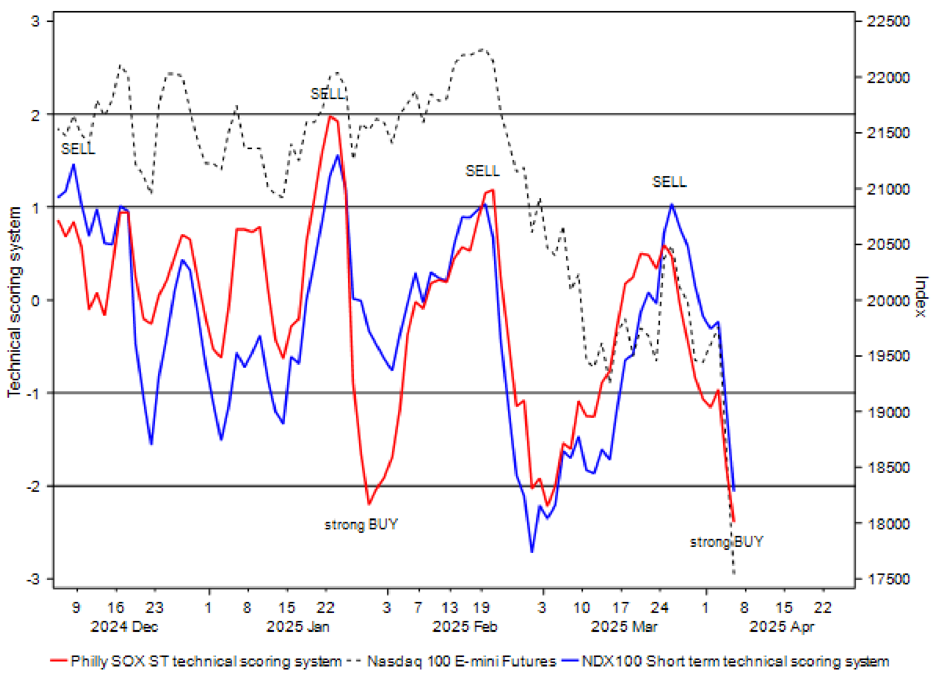
# Technical/price-based models (for indices) are on strong BUY….

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



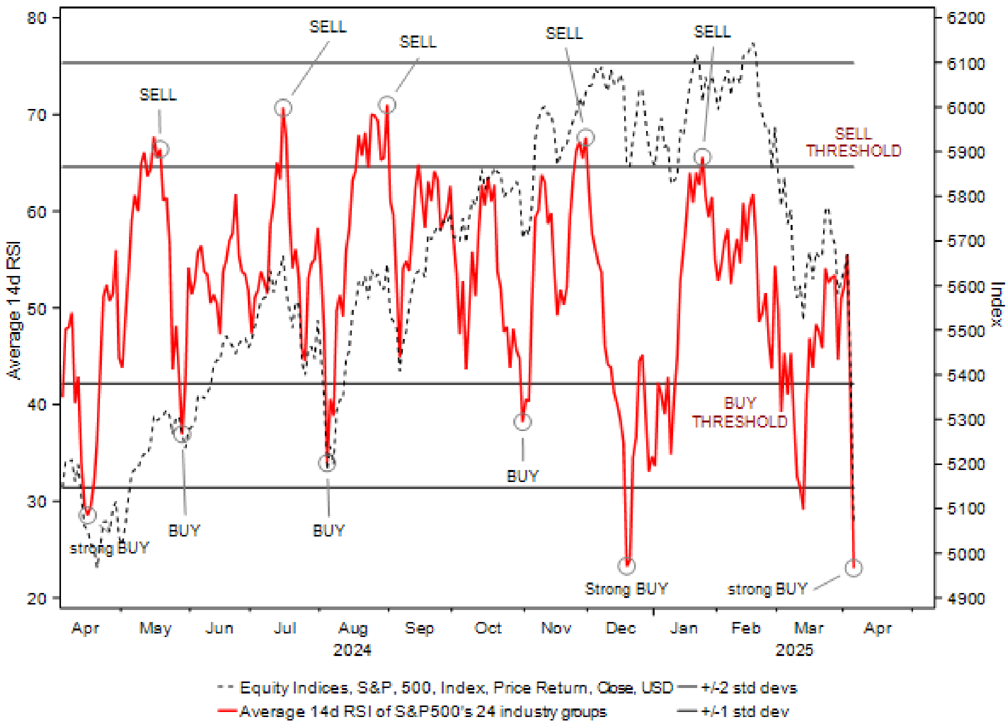

Source: Longview Economics, Macrobond

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



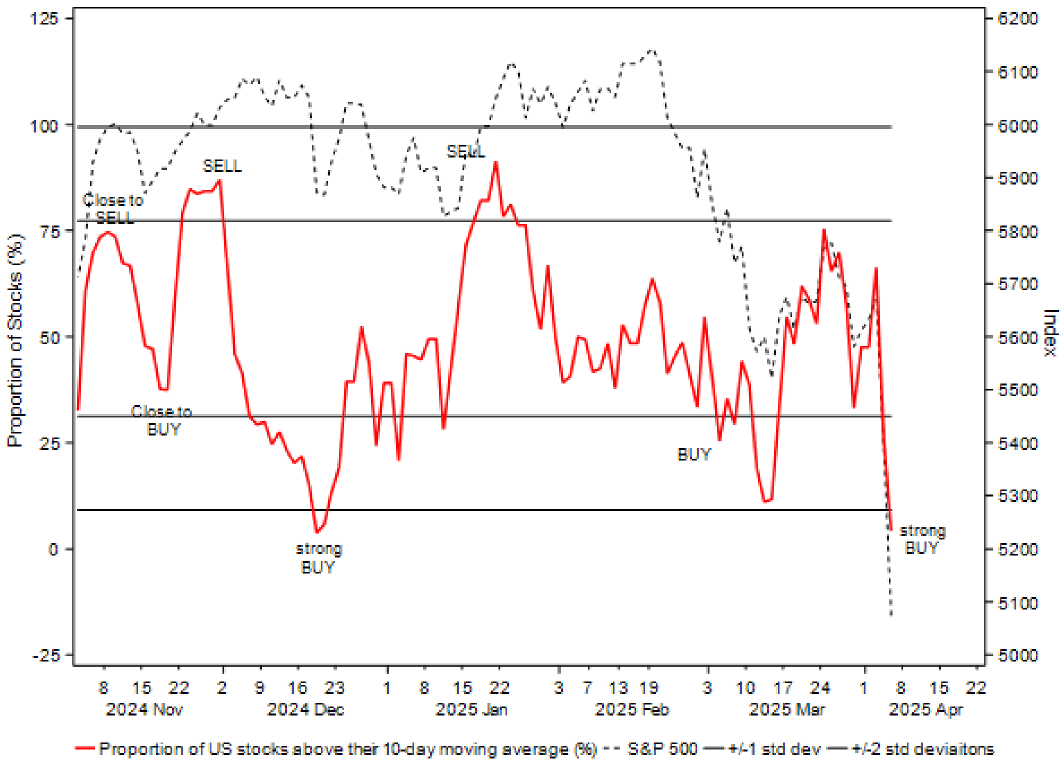

Source: Longview Economics, Macrobond

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




Source: Longview Economics, Macrobond

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

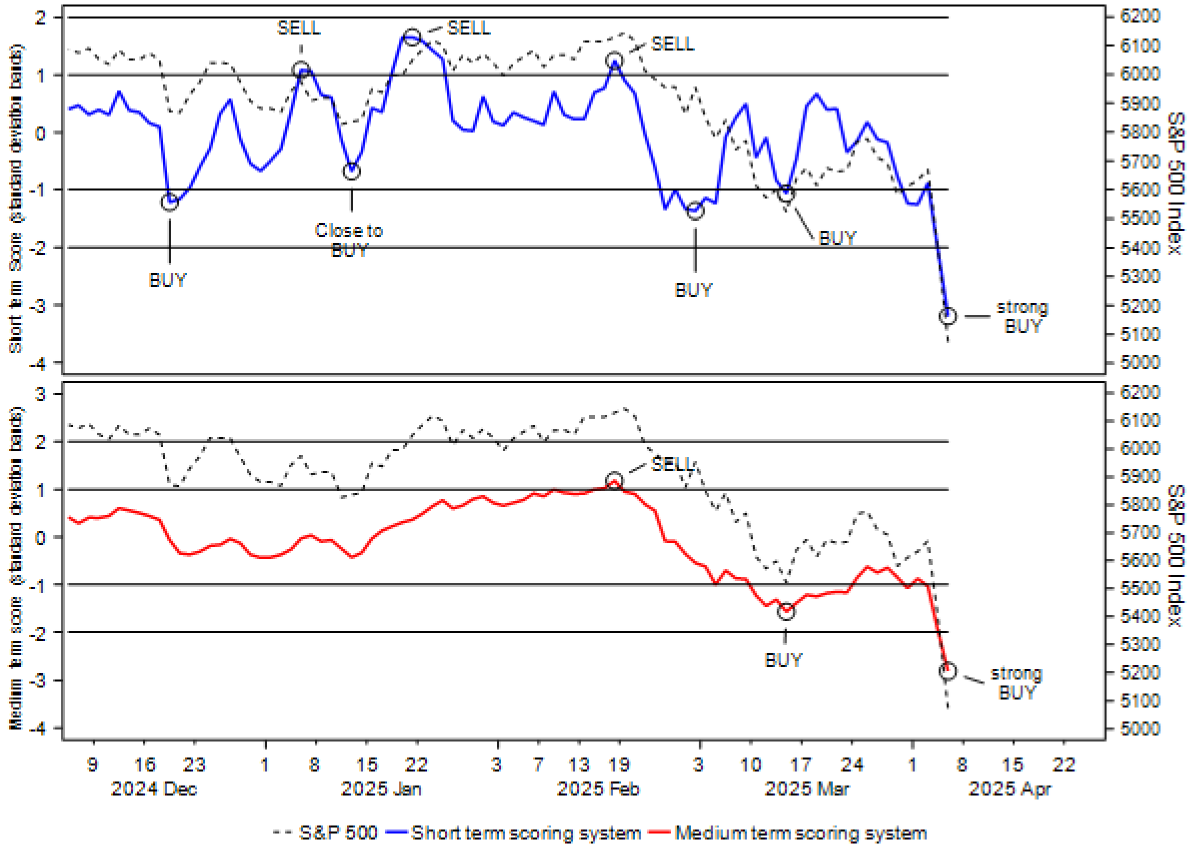



Source: Longview Economics, Macrobond

**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*

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## Key macro data/events

**Key data** today include: **German industrial production** (Feb, 7am); UK Halifax house price index (Mar, 7am); German imports/exports, & trade balance (Feb, 7am); Eurozone Sentix investor confidence (Apr, 9:30am); **Eurozone retail sales** (Feb, 10am); US consumer credit (Feb, 8pm).

**Key events** today include: Speech by the ECB's Cipollone in Rome (10:45am).

**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 last week on 2nd 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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*Longview Economics*
*@chriswatling*
*@LviewEconomics*
*Longview Economics*
*Longview Economics*
*Longview Economics*

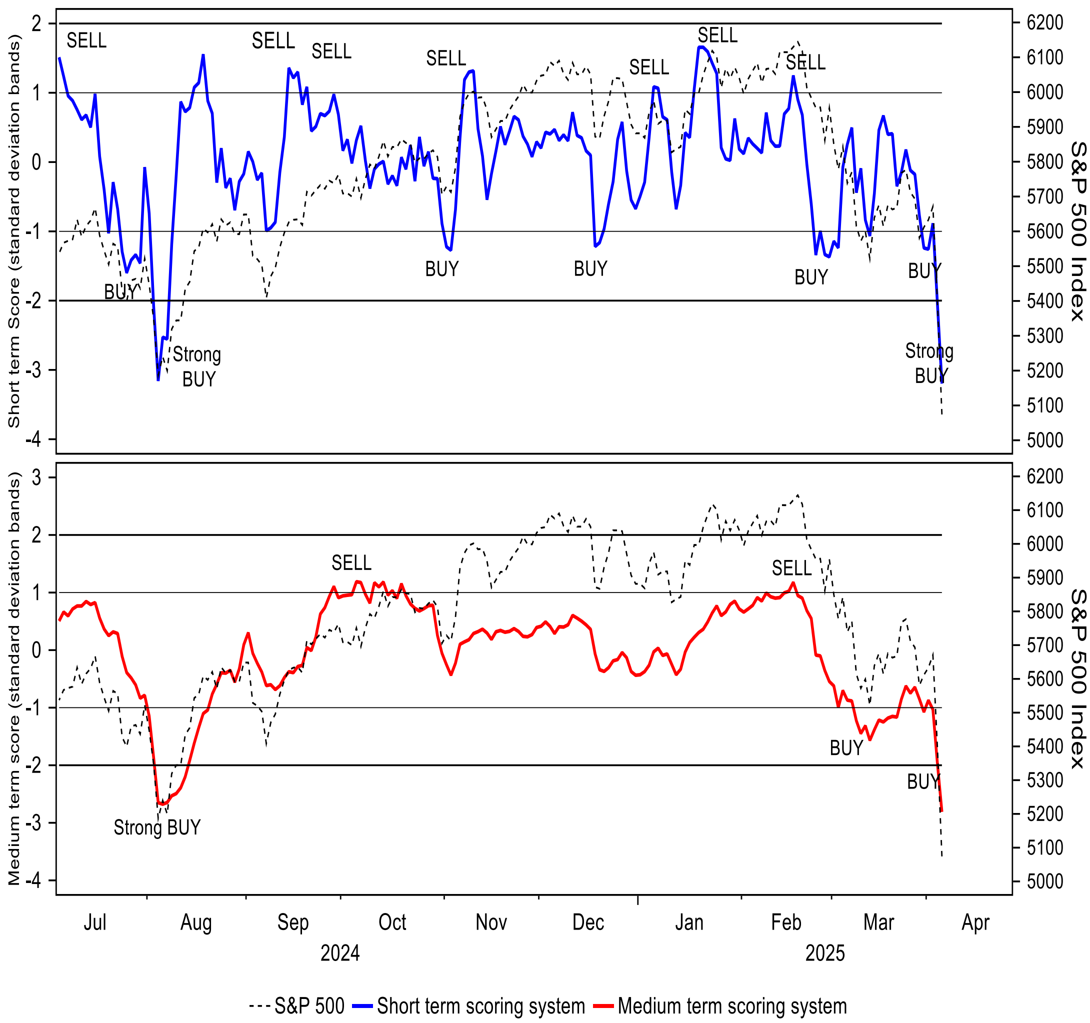
# 1 – 2 Week View on Risk

7th April 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 Strong BUY

Medium term scoring system is On BUY

*Source: Longview Economics, Macrobond*

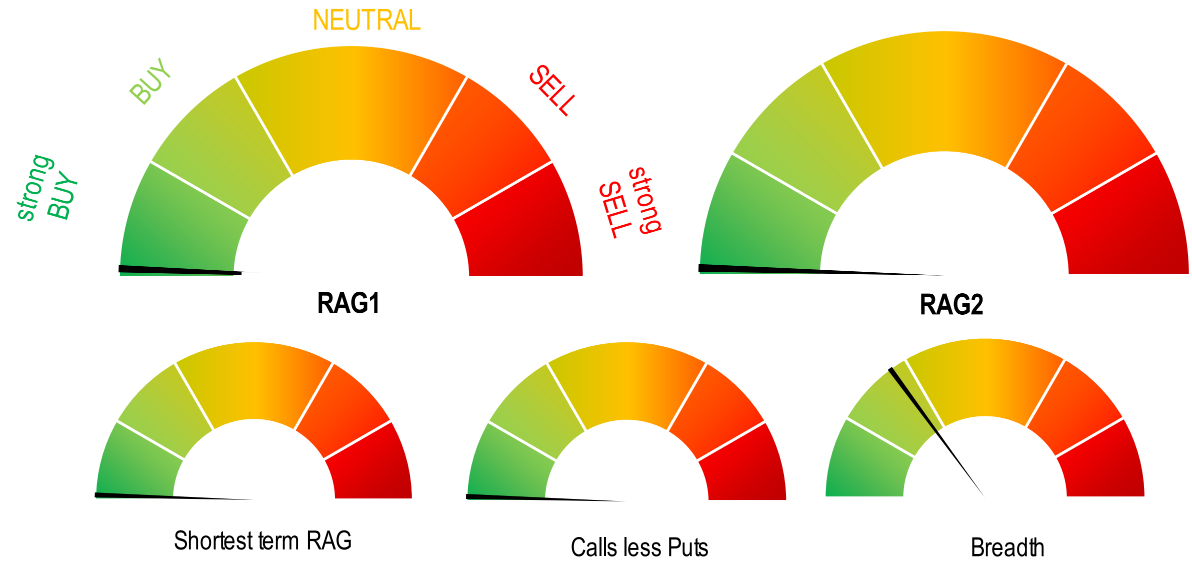
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

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

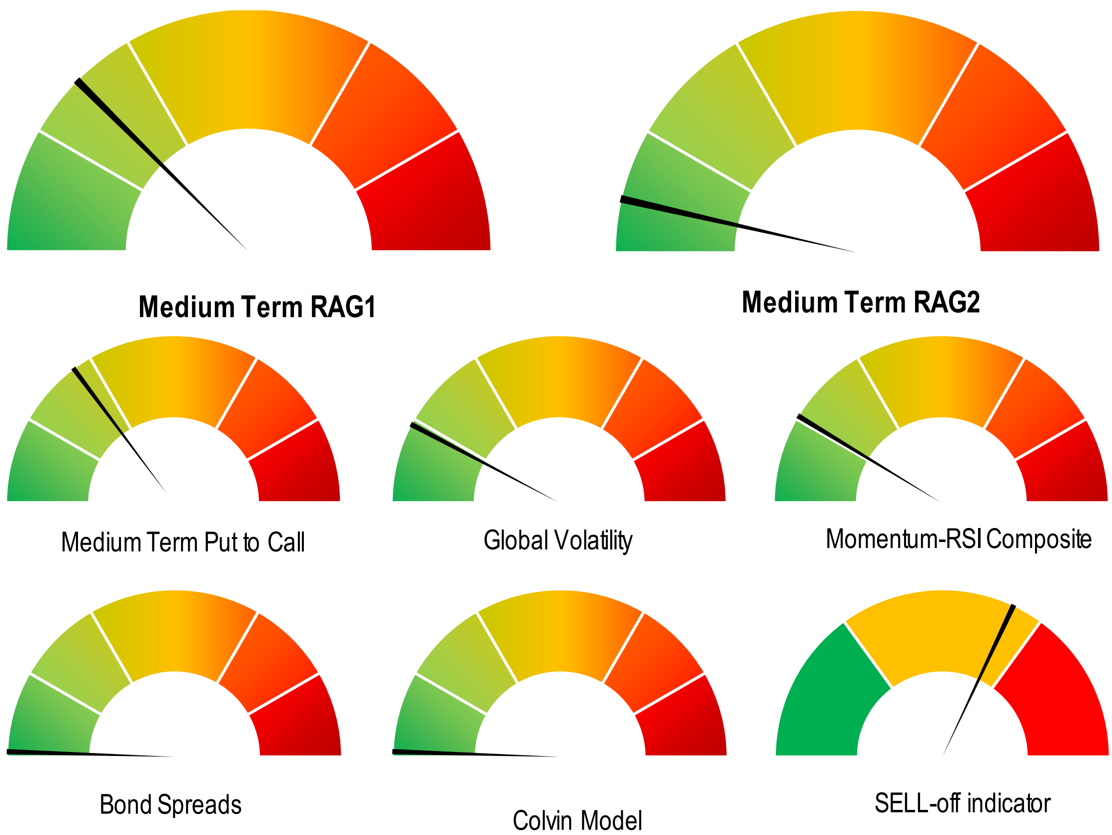
## **Section 1a:** Summary of indicator signals**

**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

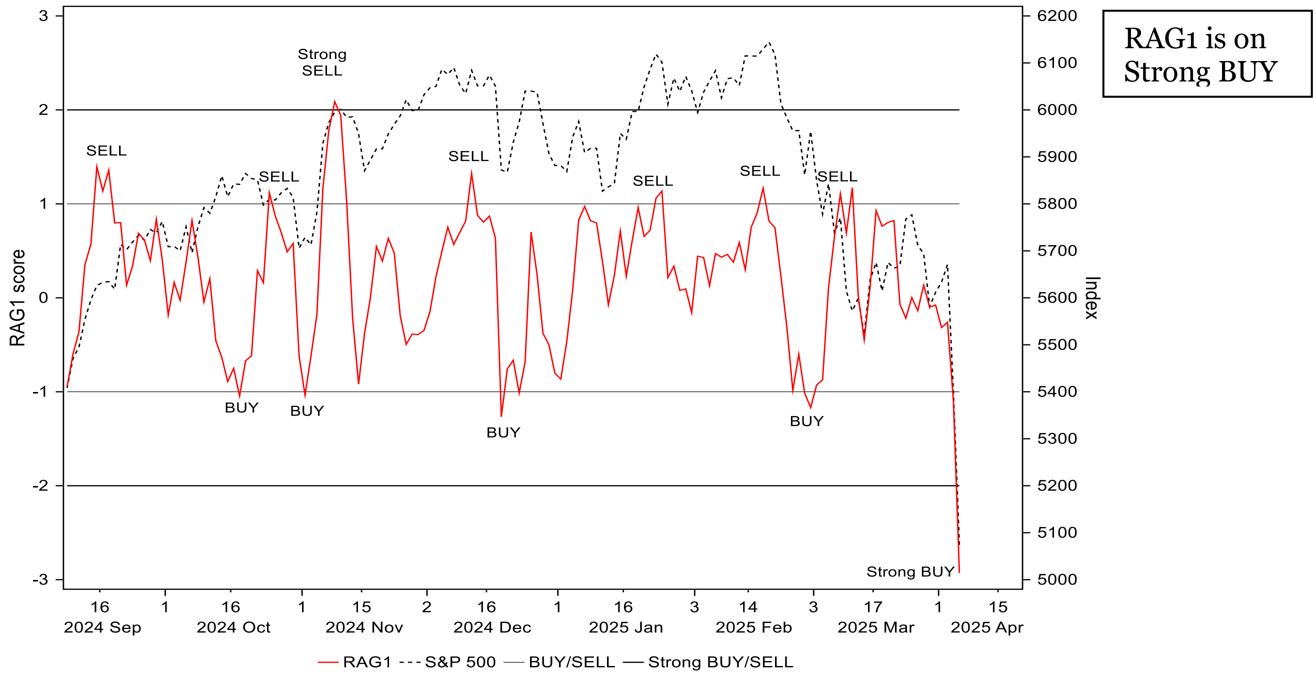



***Source:*** *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

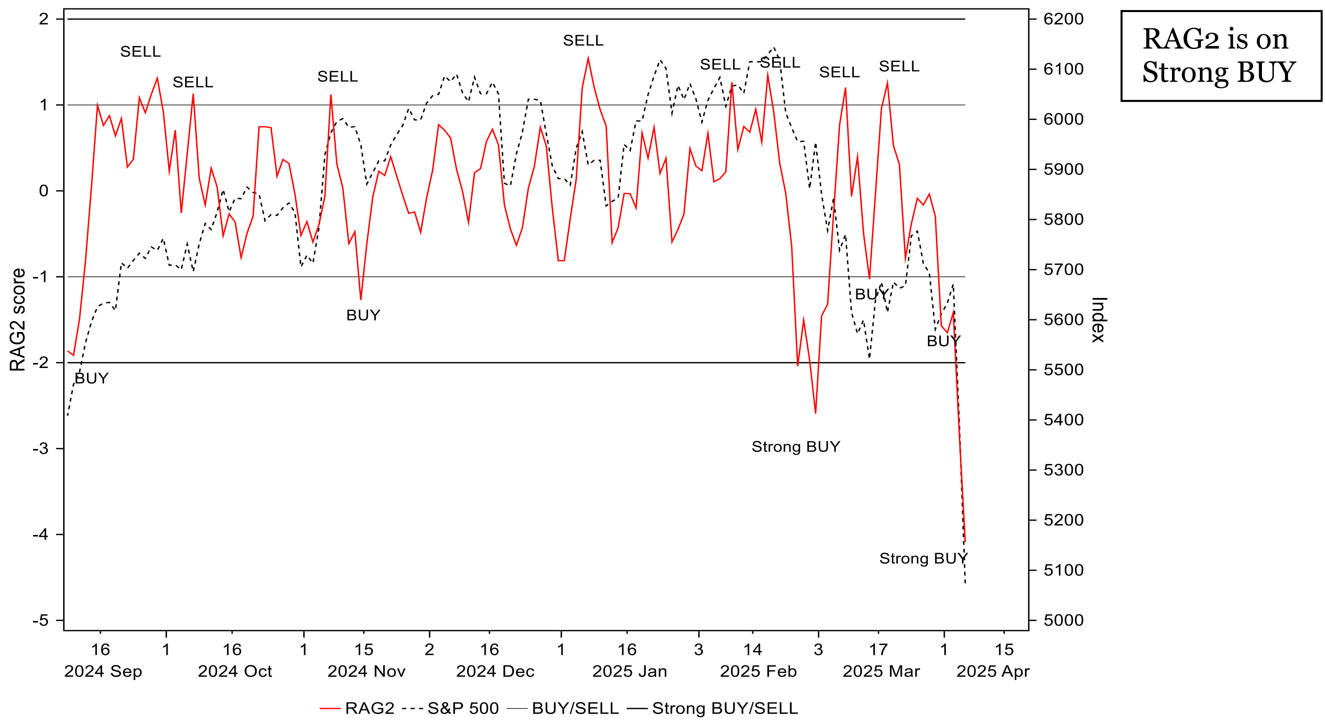
## **Section 2:** Short term (1 – 2 week) trading models

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




*Source: Longview Economics, Macrobond*

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

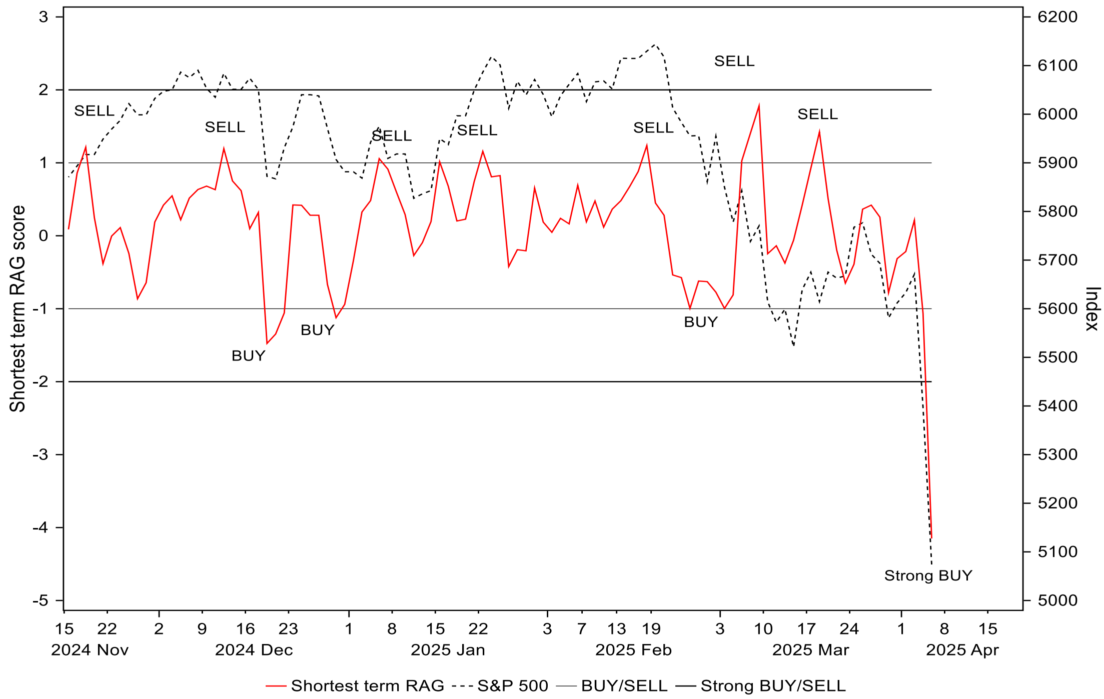



*Source: Longview Economics, Macrobond*

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

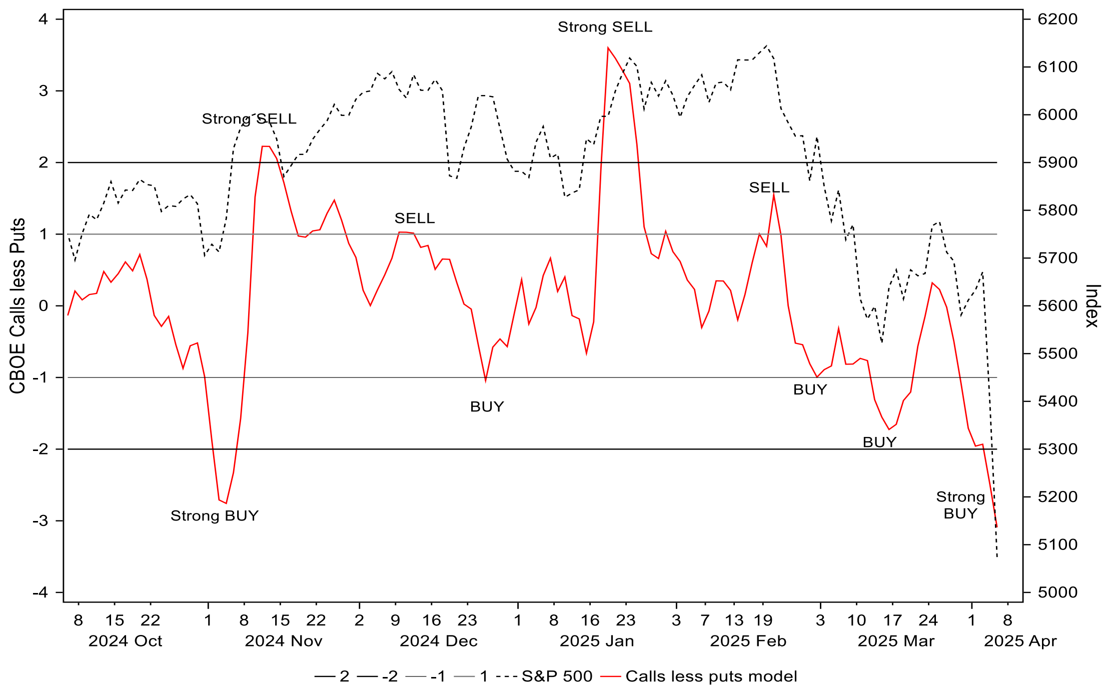
**Fig 2c:** Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500




Shortest term RAG is on Strong BUY

*Source: Longview Economics, Macrobond*

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



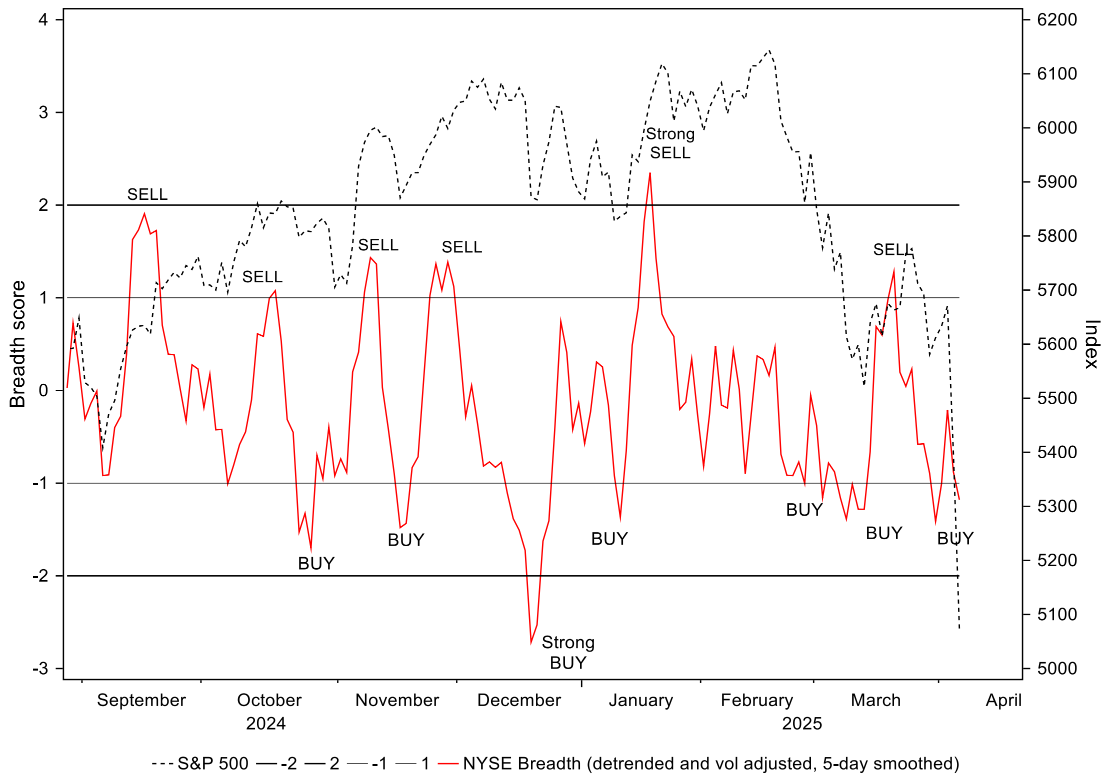

Calls less puts model is on Strong BUY

*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*

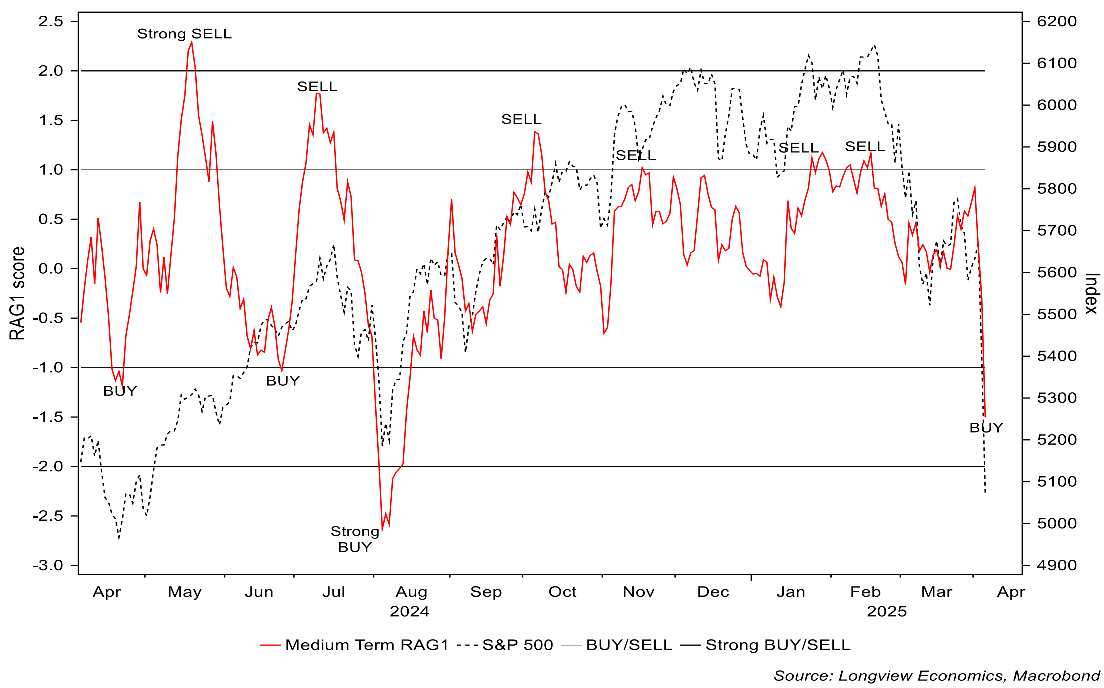
The breadth model is on BUY

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

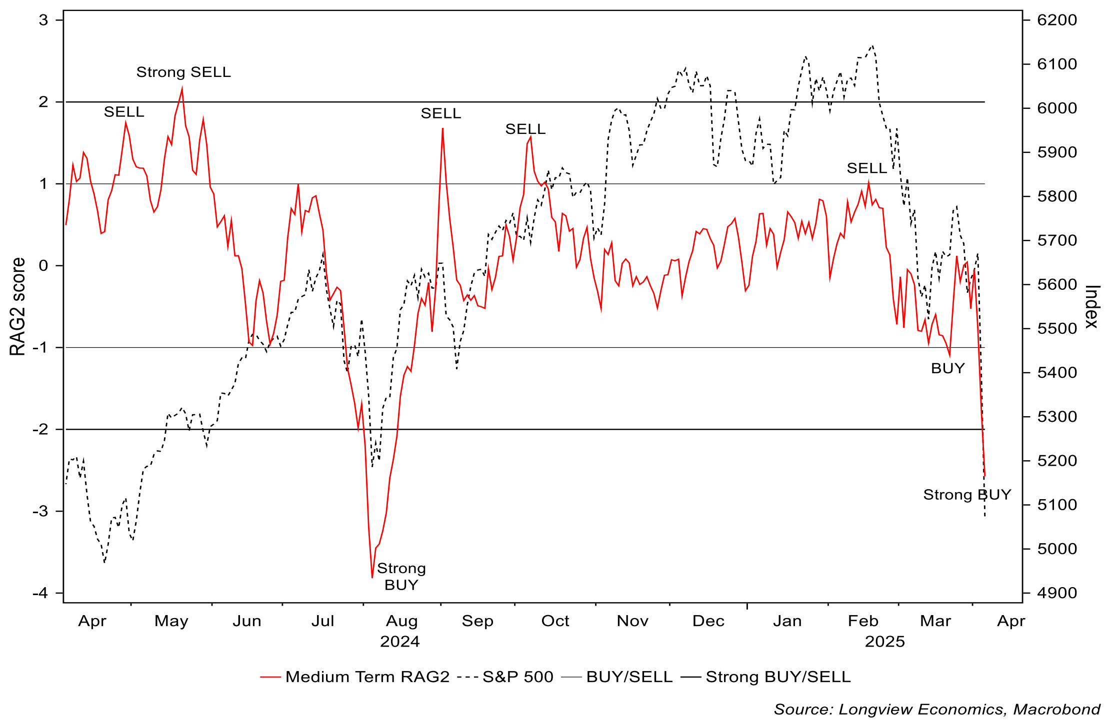
# **Section 3:** Medium term (1 – 4 month) outlook

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




Medium term RAG1 is on BUY

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




Medium term RAG2 is on Strong BUY

*For explanations of indicators please see page 10*

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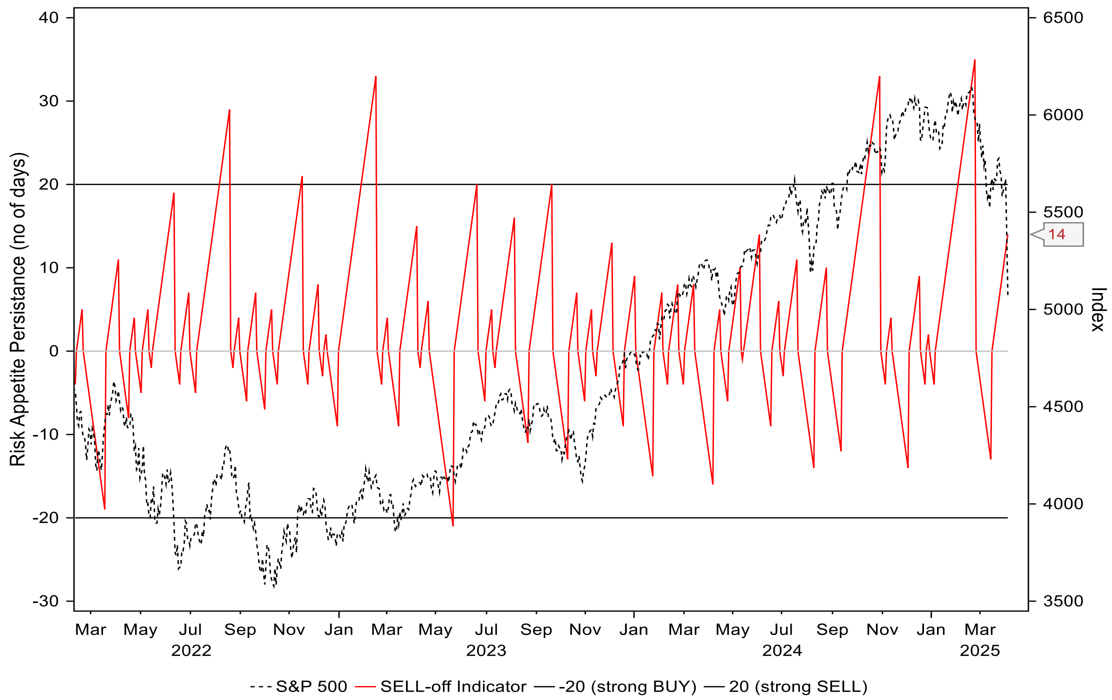
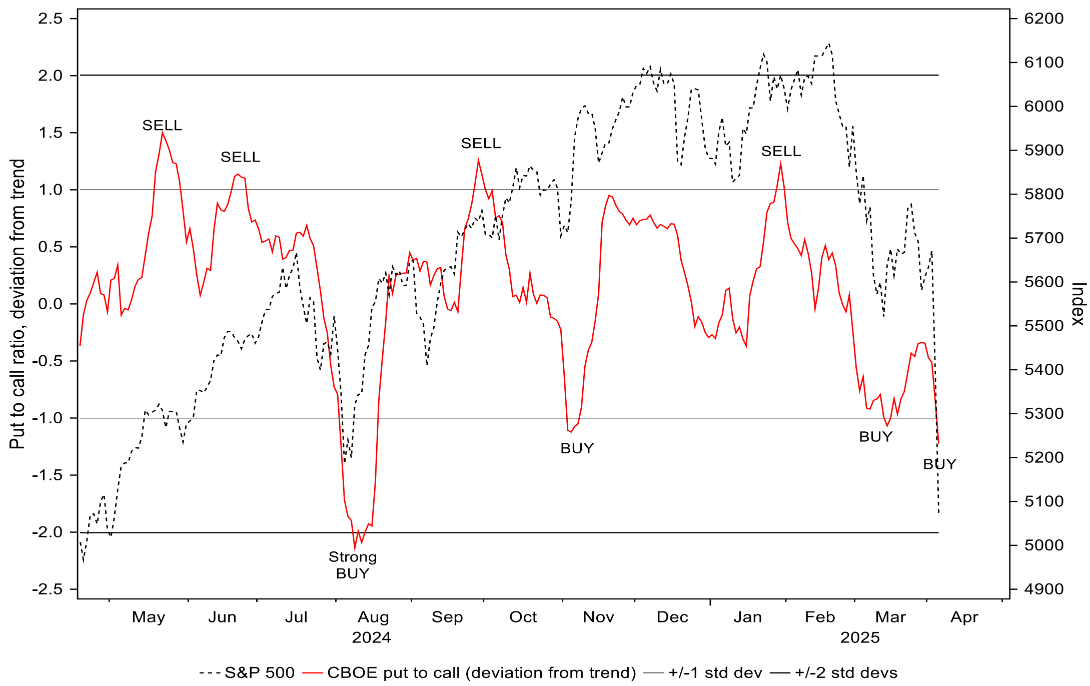
**Fig 3c:** SELL-off indicator (shown vs. S&P500)




*Source: Longview Economics, Macrobond*

The SELL-off indicator is NEUTRAL

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



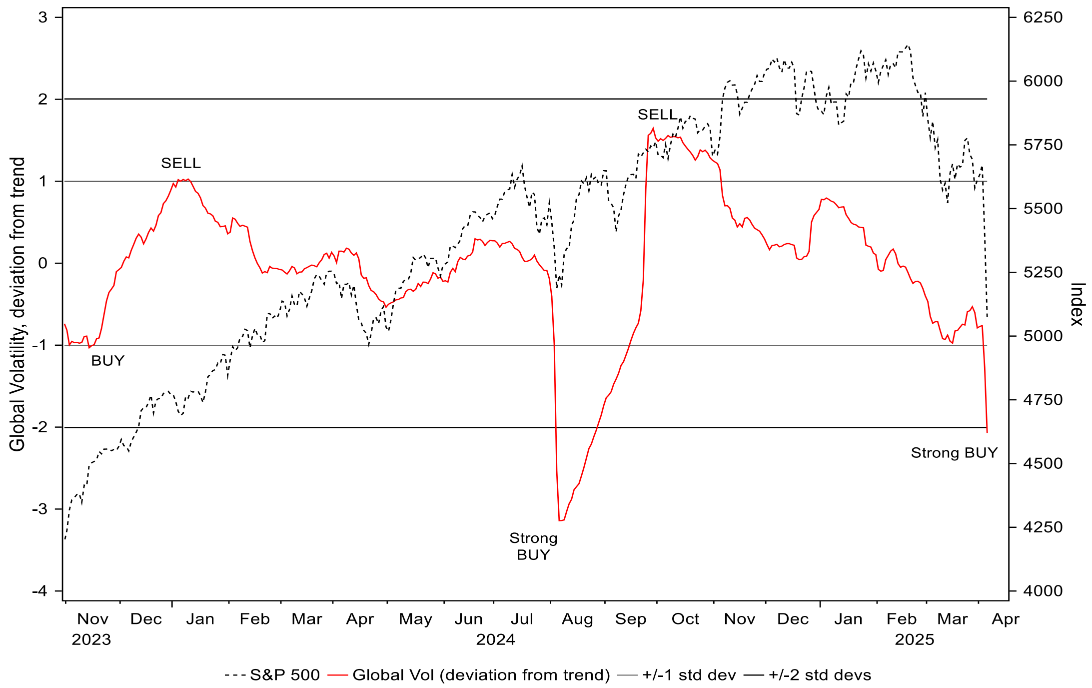

*Source: Longview Economics, Macrobond*

Medium term put to call model is on BUY

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

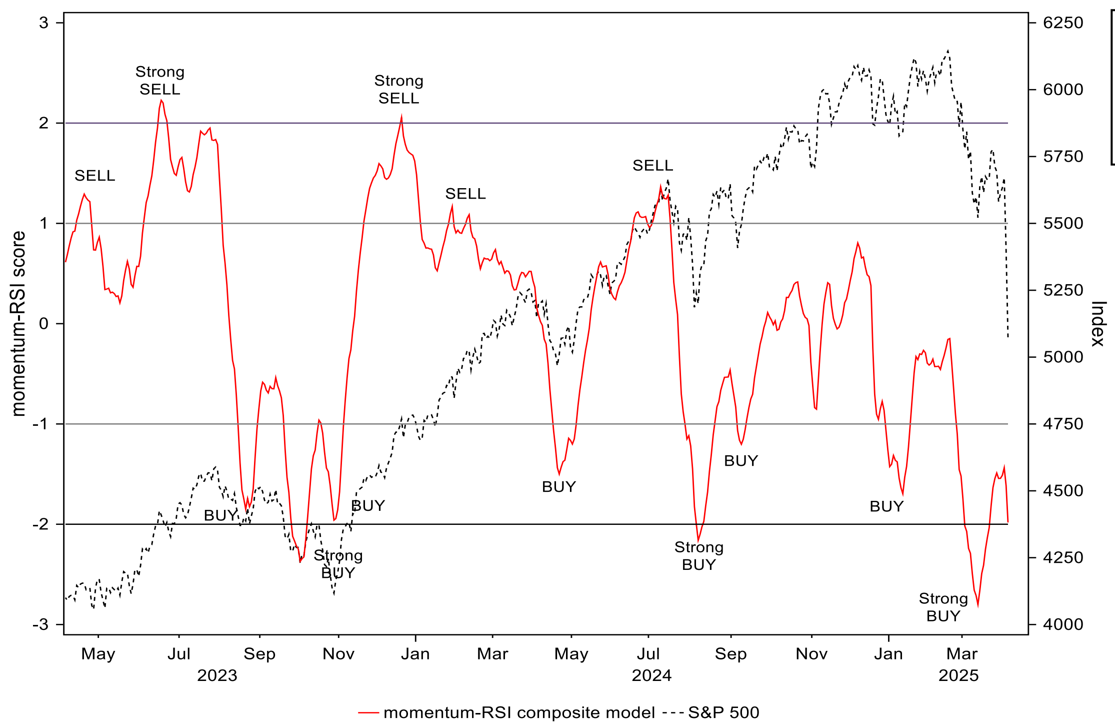
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500




Global volatility indicator is on Strong BUY

Source: Longview Economics, Macrobond

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




US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

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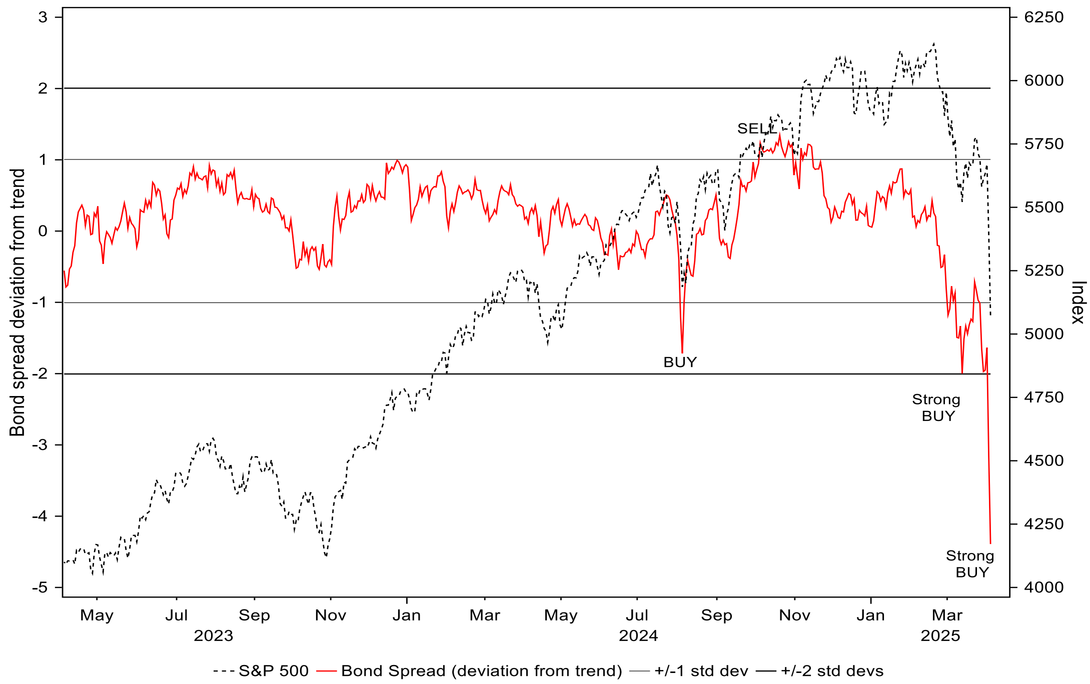
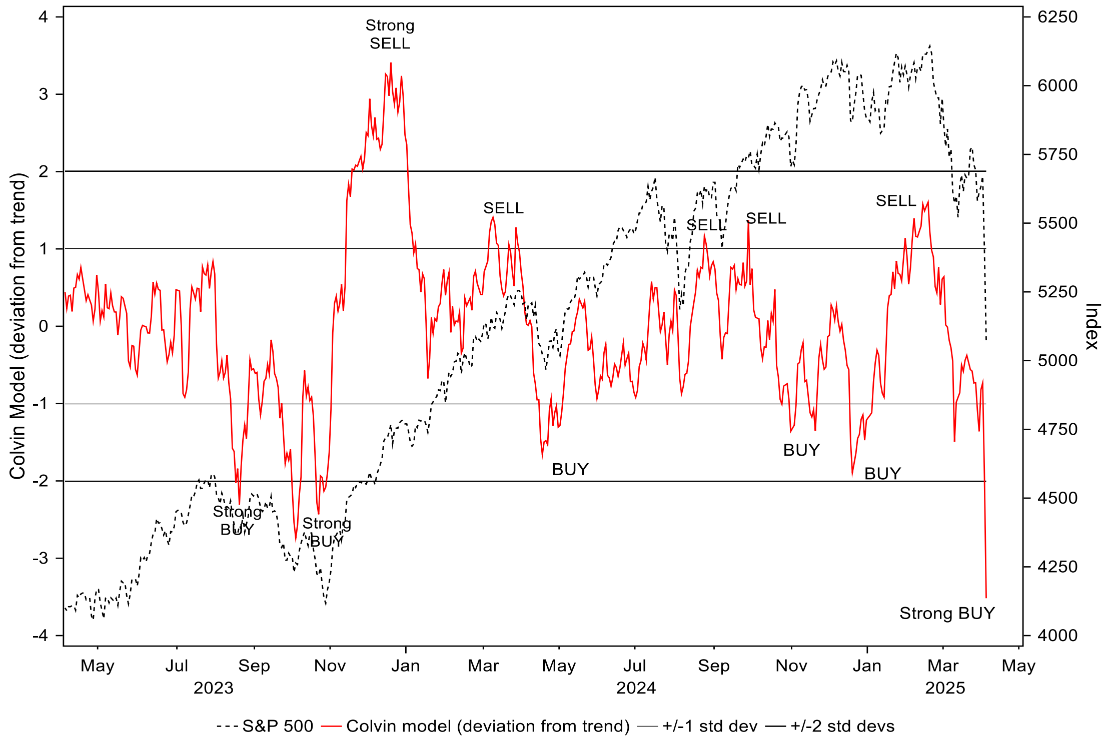
**Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500




Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on Strong BUY

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




Source: Longview Economics, Macrobond

Colvin model – is on Strong BUY

***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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