

## Equity Index Futures Trading Recommendations

7<sup>th</sup> February 2025

“SELL-off Risk BUILDing - increase SPX SHORT position on strength”

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

- STAY  $\frac{1}{4}$  SHORT March S&P500 futures (entry was at 5,999.25);
- Increase to  $\frac{1}{2}$  position on strength, at 6,145 (just below the late January highs);
- Modestly widen the stop loss to 6,206 (from 6,180 yesterday).

### Rationale

The model set-up remains broadly as laid out yesterday. That is, medium term models continue to generate SELL signals, whilst the short-term models are more mixed. The SELL-off indicator continues to BUILD above its key +20 level; the medium term put to call ratio remains firmly on SELL; while the medium term risk appetite models (RAG1 + RAG2 & scoring system) are just shy of SELL levels (e.g. see FIG 1c). With respect to short term models, downside protection has been removed again – such that the 3-day put to call model is back on SELL (FIG 4); shortest term RAG moved higher yesterday but is still (just) below its SELL threshold; while technical models remain at low levels, having rolled over in recent trading sessions.

Added to the above, both the NDX100 and S&P500 remain rangebound, whilst other (especially European) equity indices have recently broken out to new highs.

We continue, therefore, to view the risk of a pullback as high: i) Key US indices are (potentially) rolling over → with prolonged sideways price action, whilst other markets make new highs (which is consistent with that expectation); ii) our SELL-off indicator is warning of a heightened risk of a pullback and is often timely (with a good track record) – for example, see FIG 1a which zooms in on +20 signals in 2023; iii) other medium term models are consistent with the SELL-off signal; whilst iv) volumes were again low yesterday with only 1.2 million e-mini S&P500 contracts traded, see FIG 1.

Short term models (especially shortest-term RAG and the short-term risk appetite scoring system) highlight the potential for some modest near-term upside. There also remains some (small) headroom until the S&P500 and NDX100 revisit the highs of their recent ranges (see FIGs 1d & 1f). As such, we remain SHORT S&P500 futures – with an order to ADD to the position size around the S&P500 intraday highs from late January (see above for detailed recommendation).

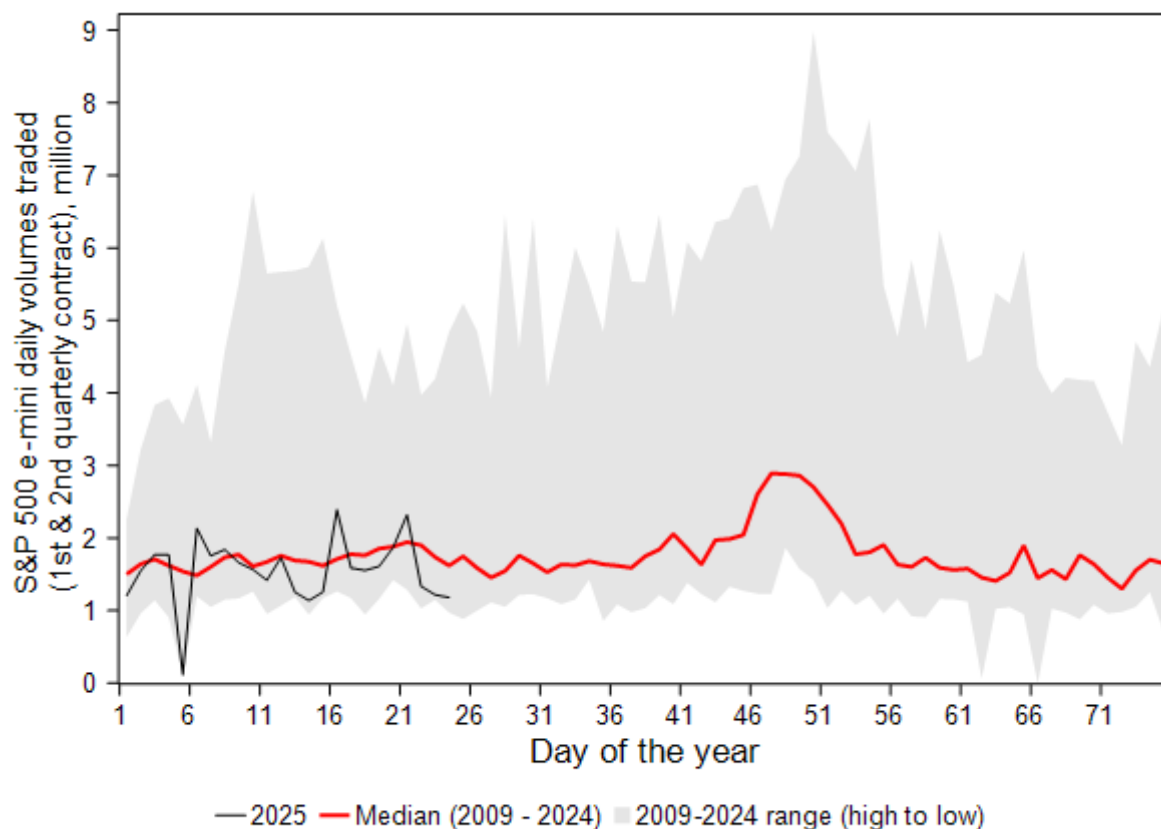
Key macro data today includes US nonfarm payrolls for January (at 1:30pm London time), as well as US Michigan sentiment (the first February estimate, at 3pm). Please see below for a full list of key data and events.

Kind regards,

The team @ Longview Economics

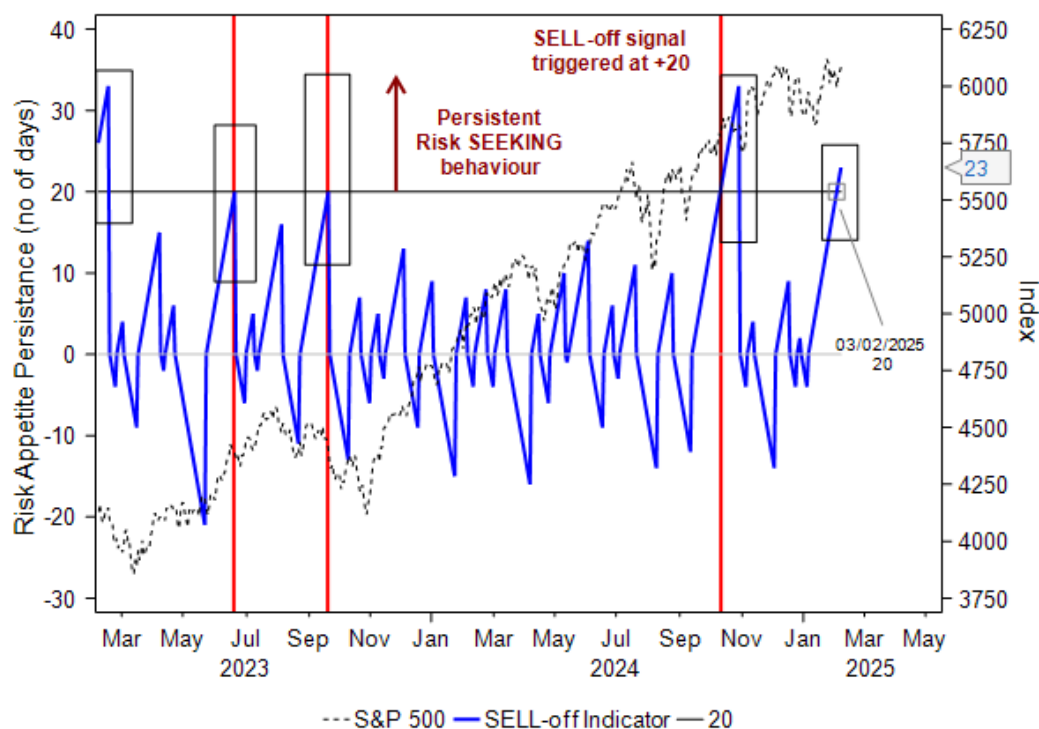
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: <https://www.longvieweconomics.com/the-tactical-investor>); 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: S&P500 e-mini volumes (1<sup>st</sup> & 2<sup>nd</sup> quarterly contracts), shown with seasonal averages**



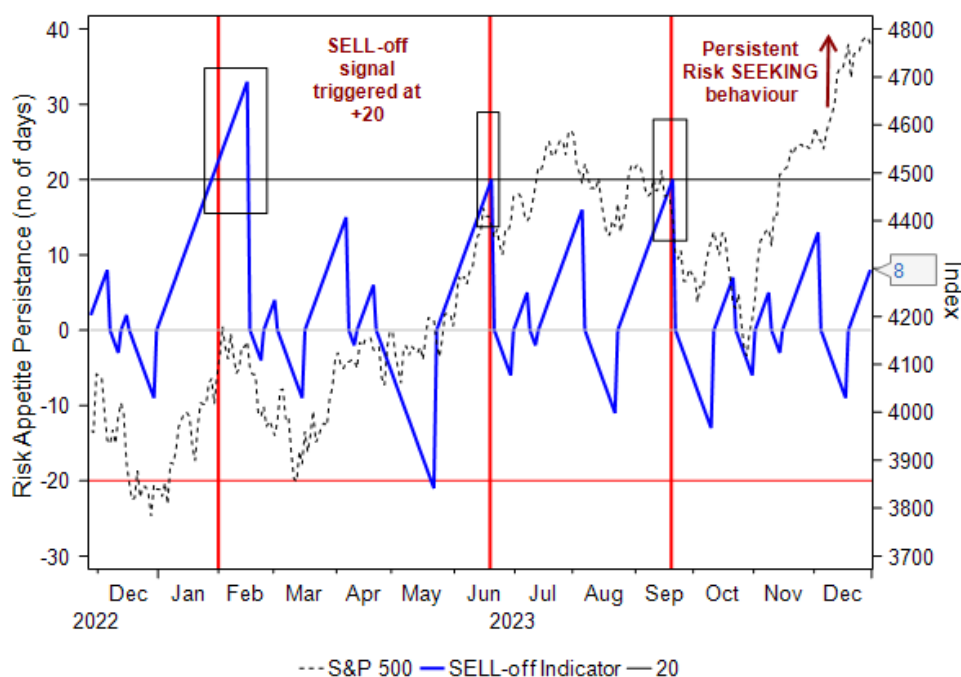
Source: Longview Economics, Macrobond

**FIG 1a: Longview SELL-off indicator vs. S&P500 – past 2 years**



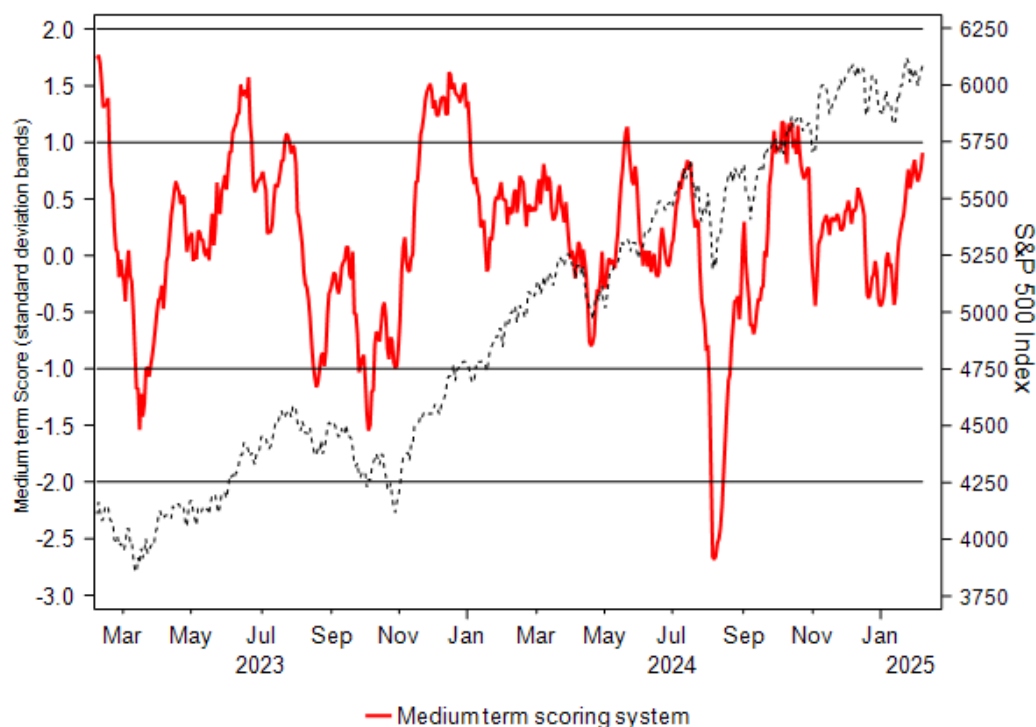
Source: Longview Economics, Macrobond

**FIG 1b: Longview SELL-off indicator vs. S&P500 – December 2022 through to end 2023**



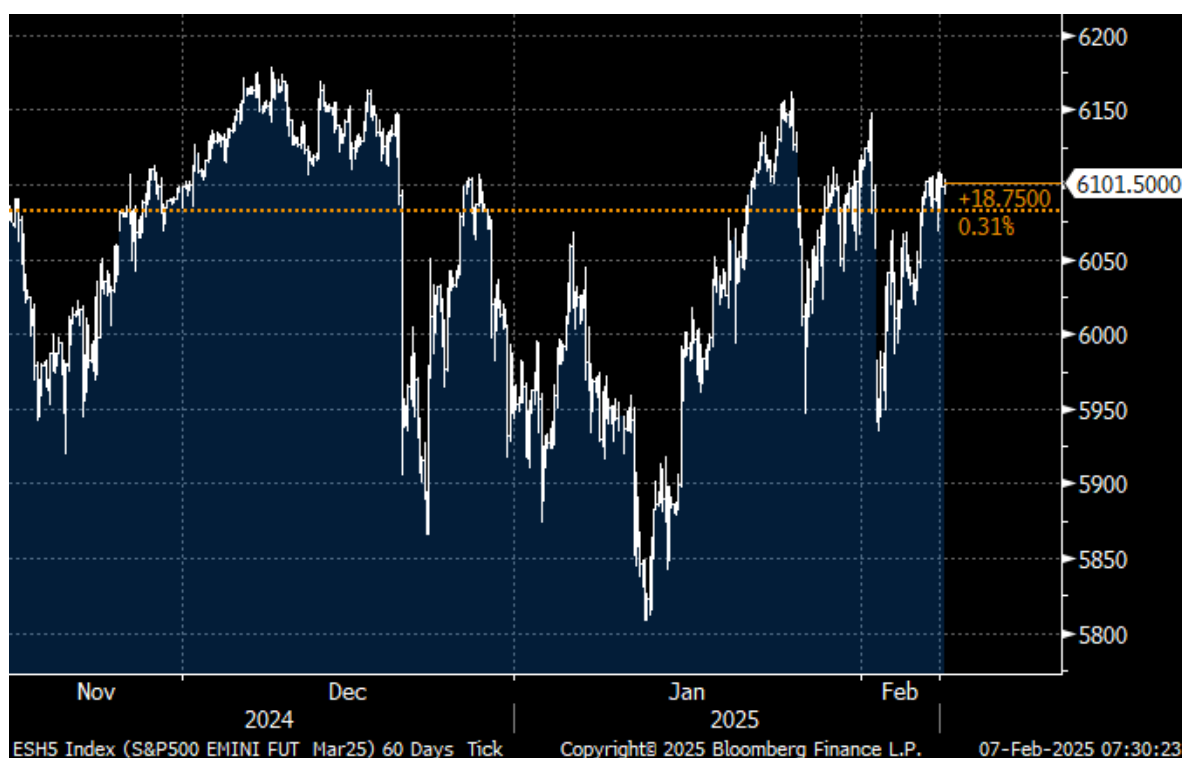
Source: Longview Economics, Macrobond

**FIG 1c:** Medium term risk appetite scoring system vs. S&P500

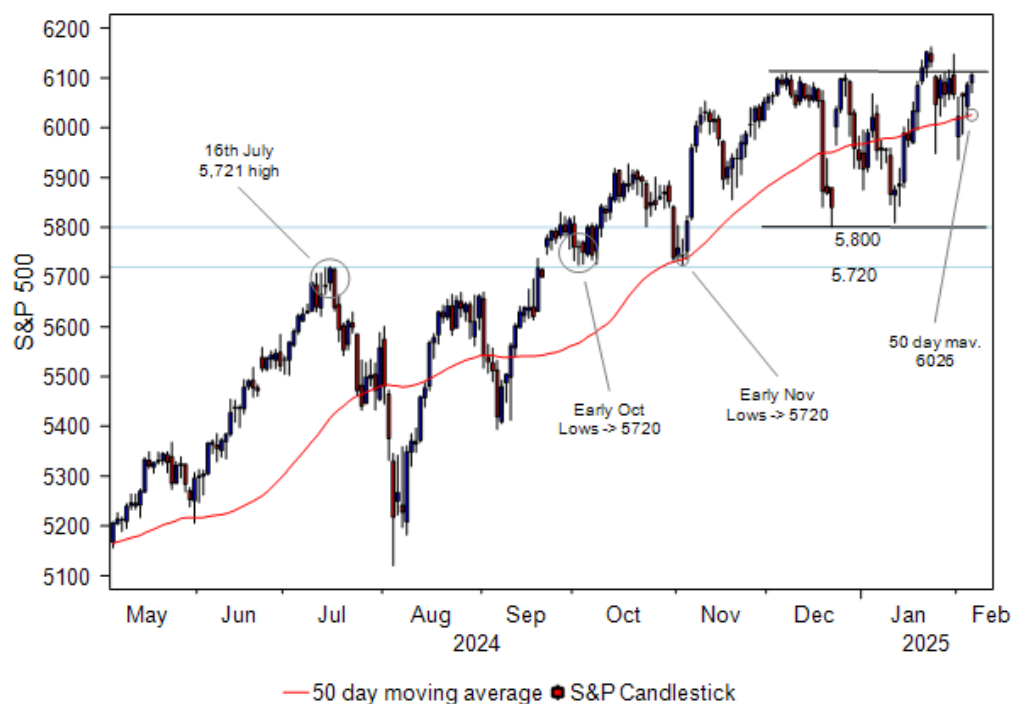


Source: Longview Economics, Macrobond

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

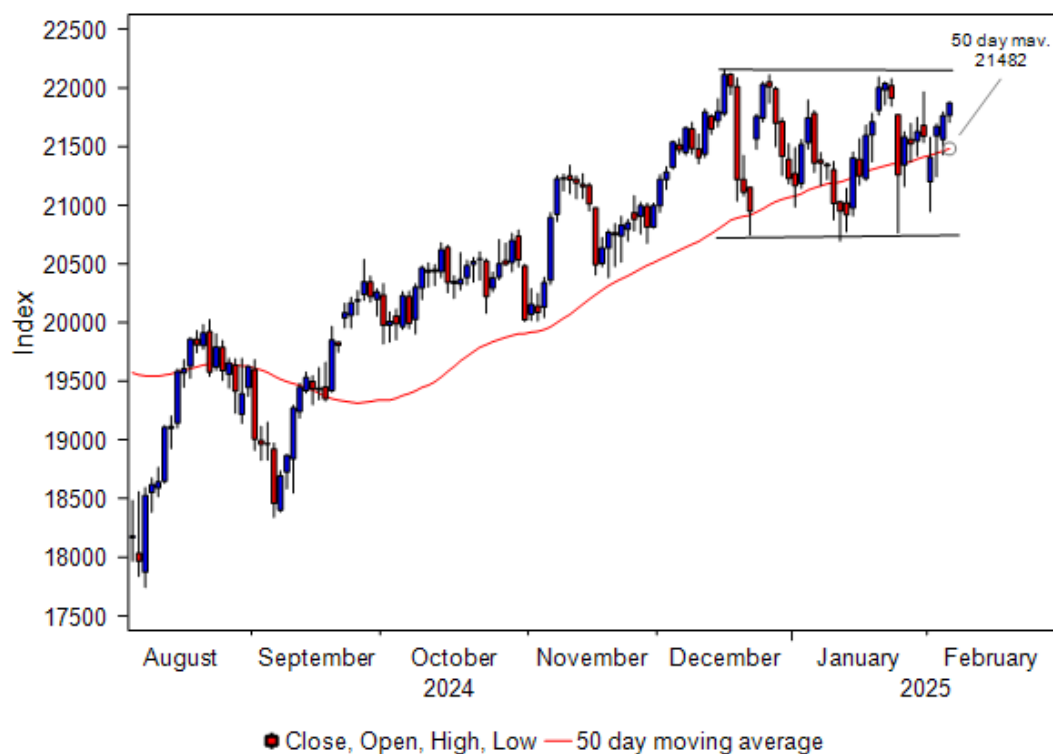


**FIG 1e:** S&P500 futures candlestick shown with its 50-day moving average



Source: Longview Economics, Macrobond

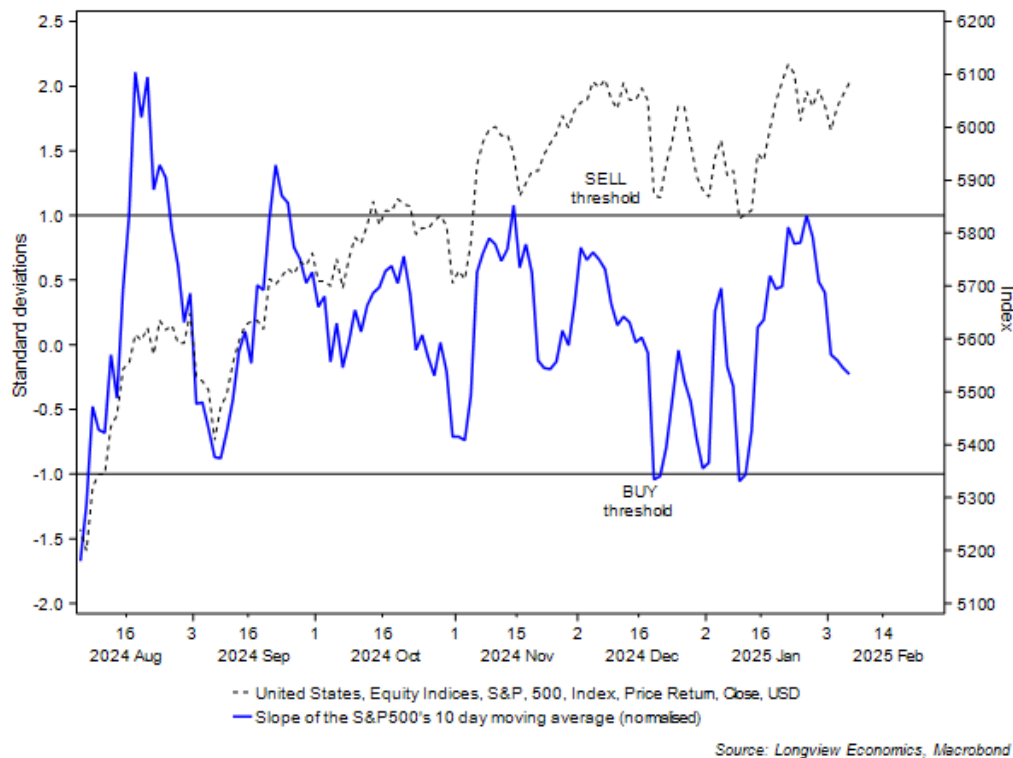
**FIG 1f:** NDX100 futures candlestick shown with its 50-day moving average



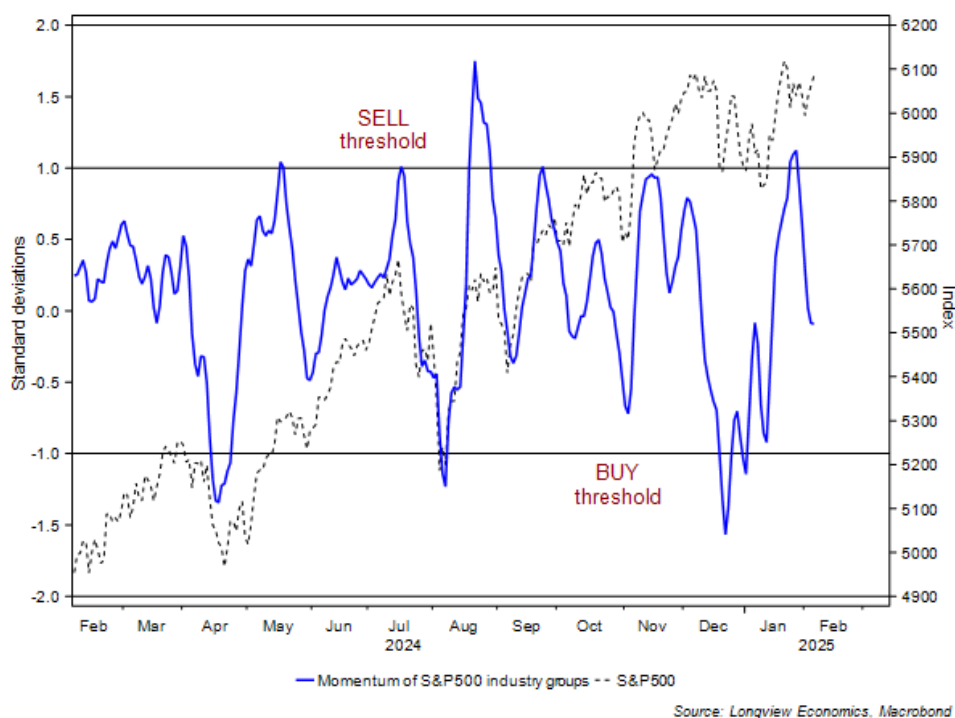
Source: Longview Economics, Macrobond

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

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

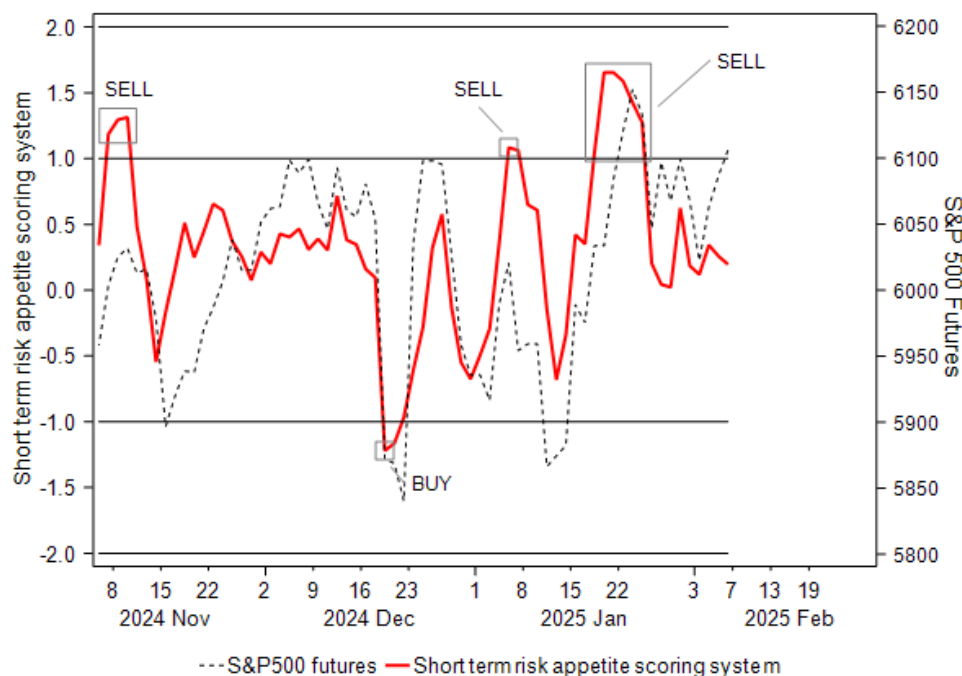


**FIG 2a:** Momentum of S&P500 industry groups vs. S&P500 cash index



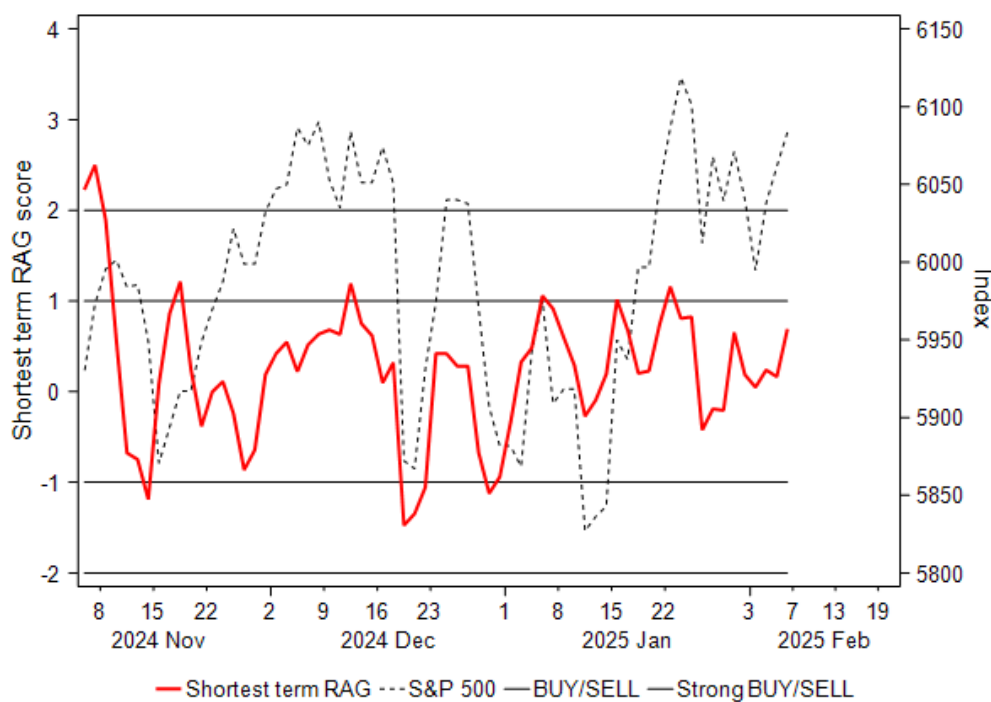
## Risk appetite models are broadly mid-range...

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



Source: Longview Economics, Macrobond

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

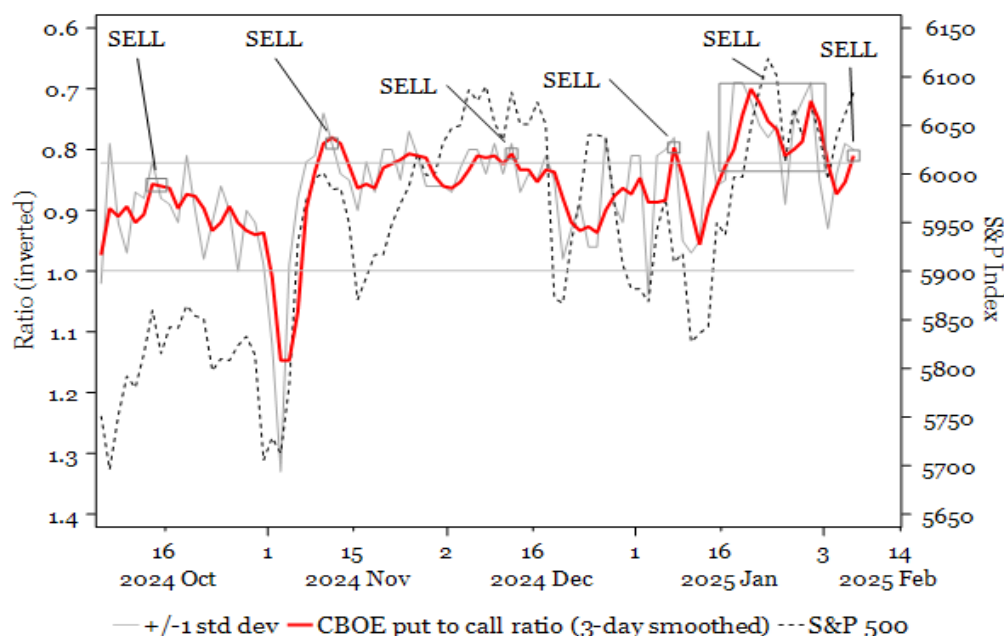


Source: Longview Economics, Macrobond



**The short-term CBOE put to call model is on SELL.....**

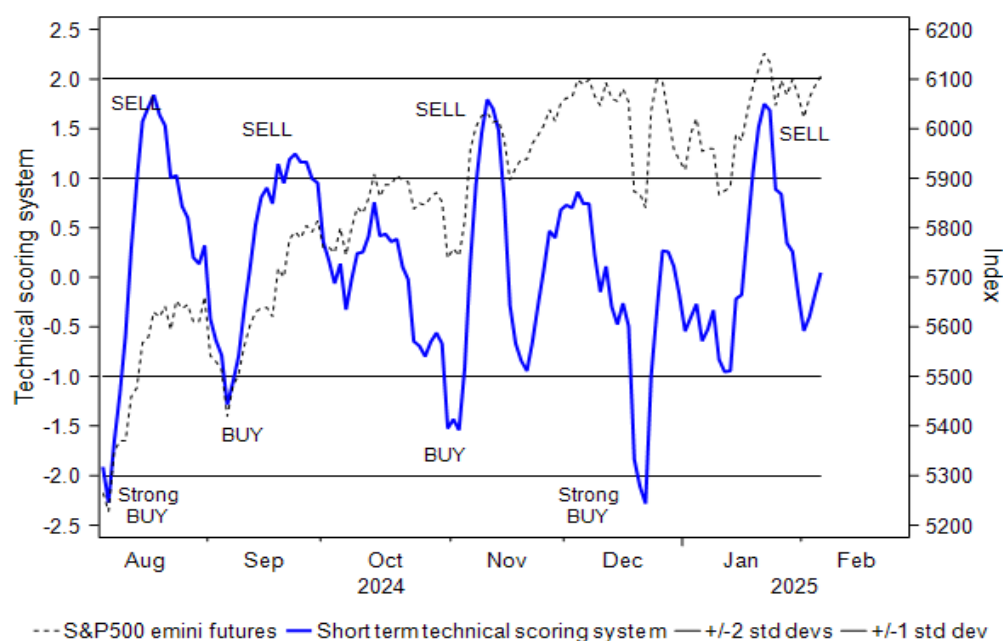
**FIG 4:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

**Technical models (for indices) are mid-range.....**

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



Source: Longview Economics, Macrobond

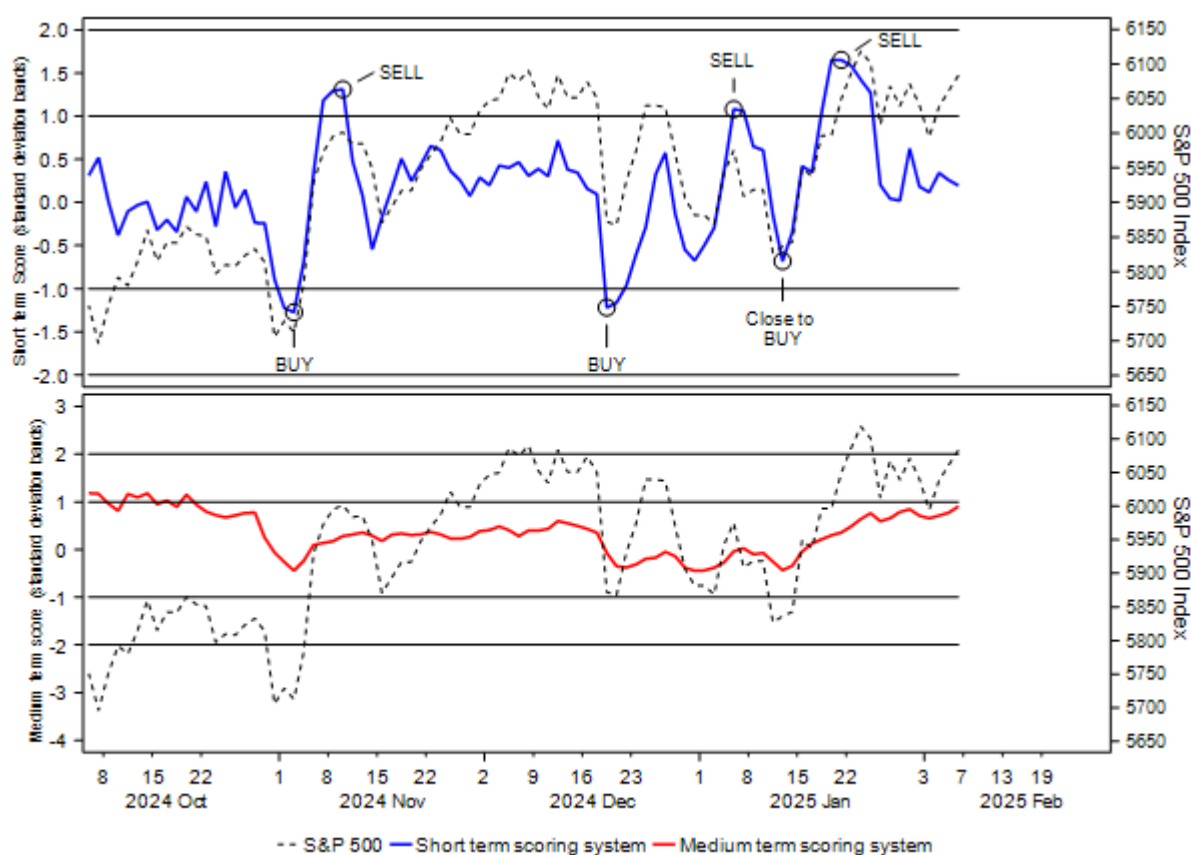


## Key Longview Scoring Systems (chart below):

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

**Medium term** (1 – 4 month) scoring system: **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: **Japanese ESRI leading index** (December first estimate, 5am); UK Halifax house prices (Jan, 7am); German imports/exports, & trade balance (Dec, 7am); **German industrial production** (Dec, 7am); French private sector payrolls (Q4 first estimate, 7:45am); Spanish industrial production (Dec, 8am); **US nonfarm payrolls, hourly earnings & unemployment data** (Jan, 1:30pm); Canadian employment data (change in employment, unemployment rate & participation rate) (Jan, 1:30pm); **US Michigan sentiment** (February first estimate, 3pm); US wholesale sales & inventories (Dec, 3pm); US consumer credit (Dec, 8pm).

**Key events** today include: Speeches by the ECB's Guindos in Madrid (8:45am); speech by the Bank of England's Pill at the National MPC Agency briefing (Fri, 12:15pm); Fed's Bowman gives an update on the economy (2:25pm) & speech by Kugler on entrepreneurship and aggregate productivity at the 2025 Miami Economic Forum (5pm).

**Key earnings** today include: Nippon Telegraph & Telephone 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

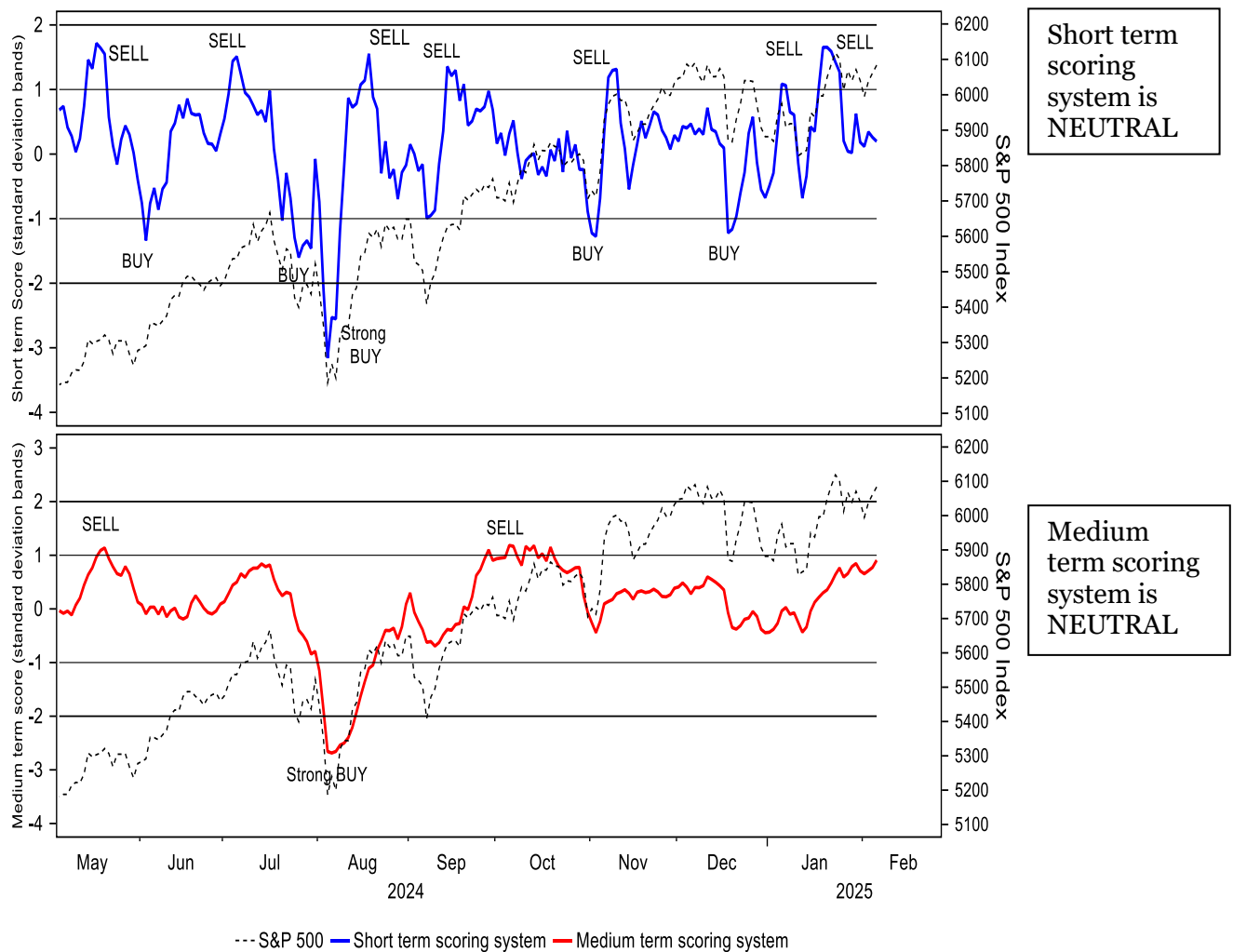
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7<sup>th</sup> February 2025

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

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



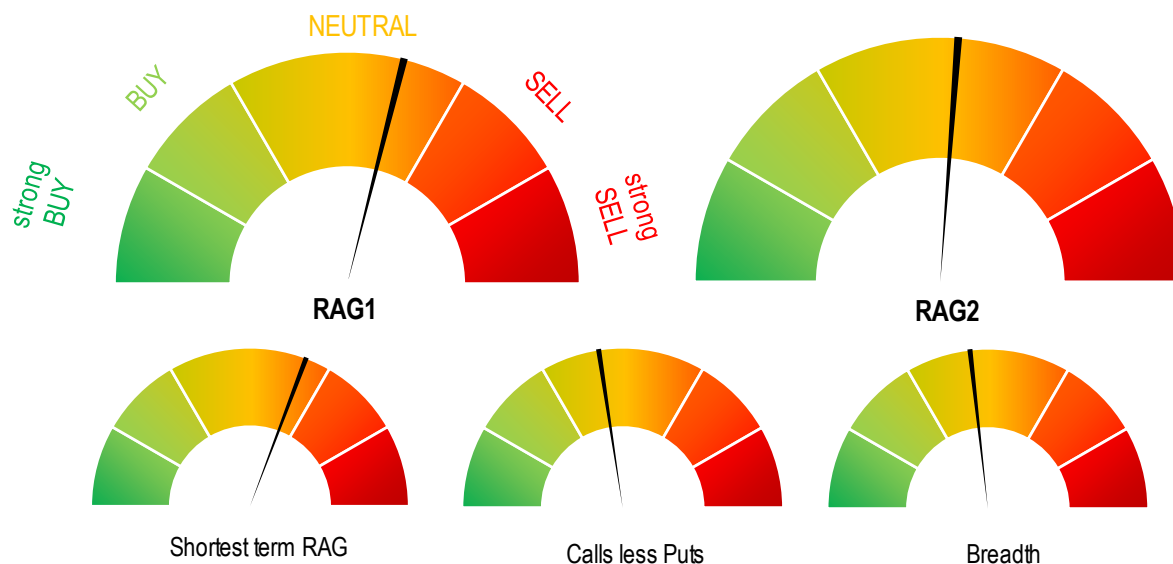
Source: Longview Economics, Macrobond

\*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**

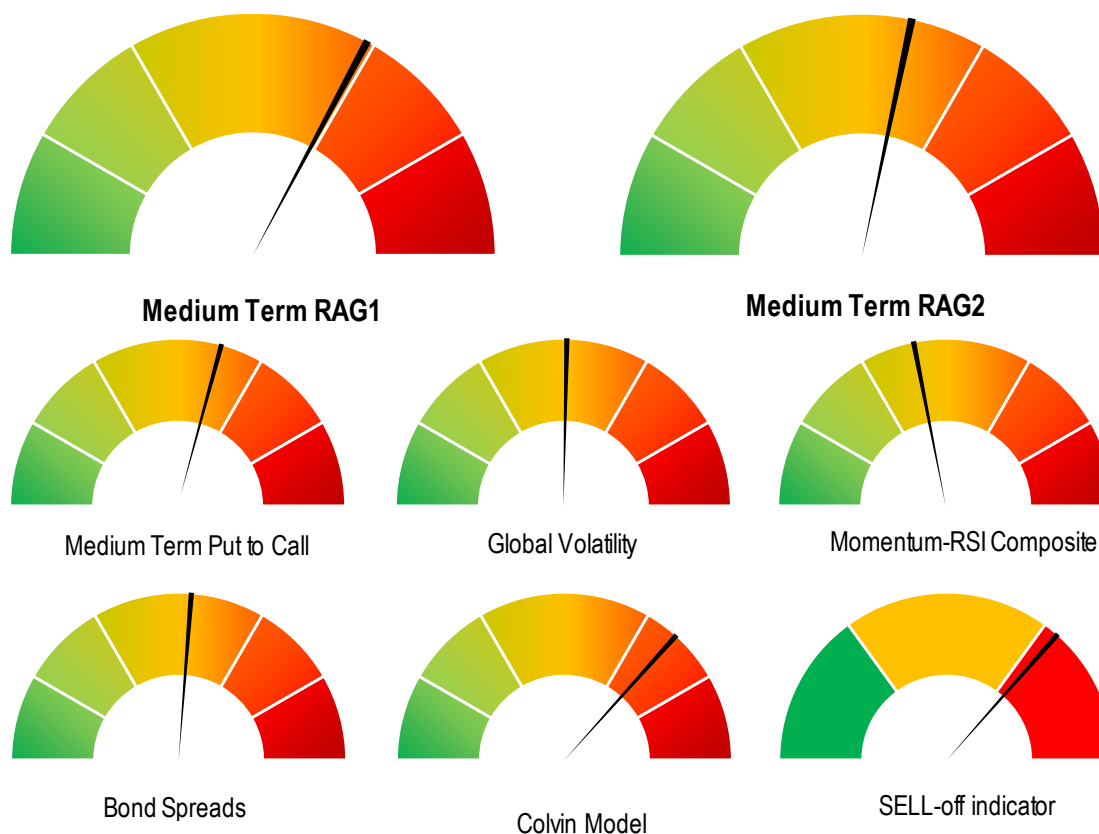
## Section 1a: Summary of indicator signals\*\*

**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

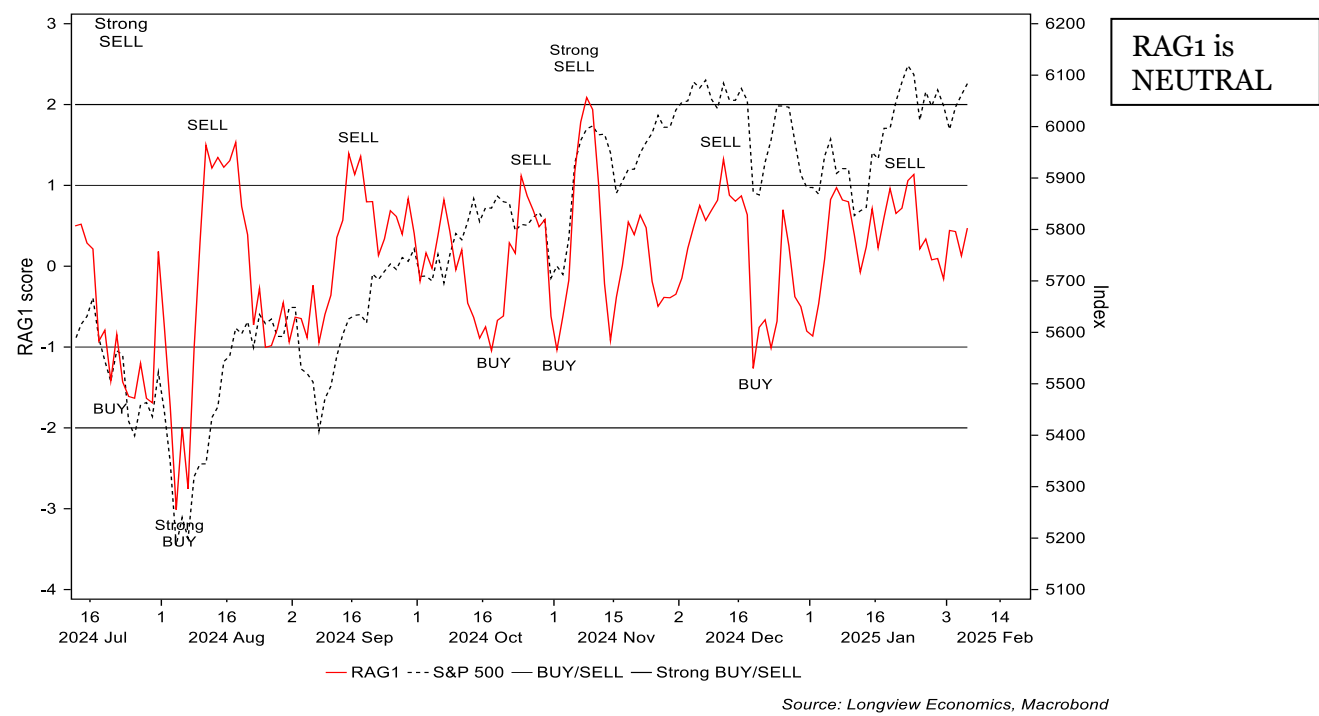
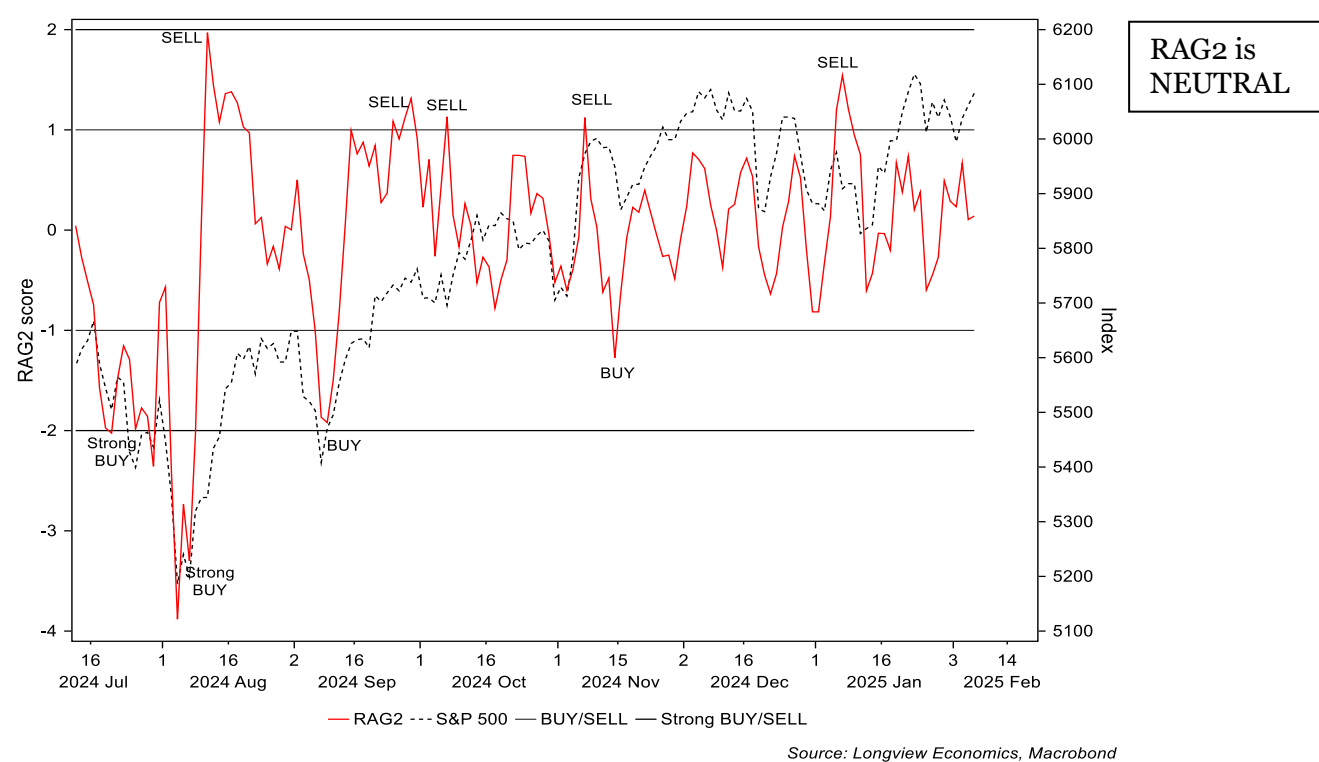
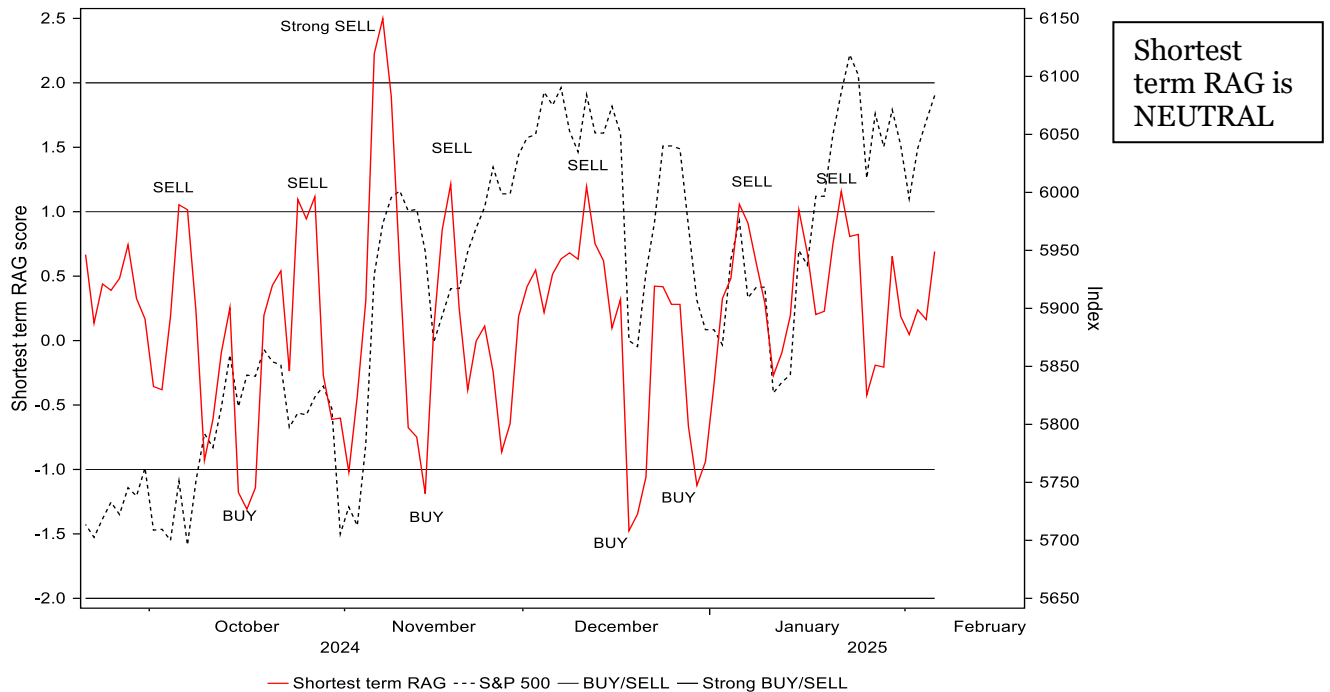


Fig 2b: RAG 2 vs. S&P 500

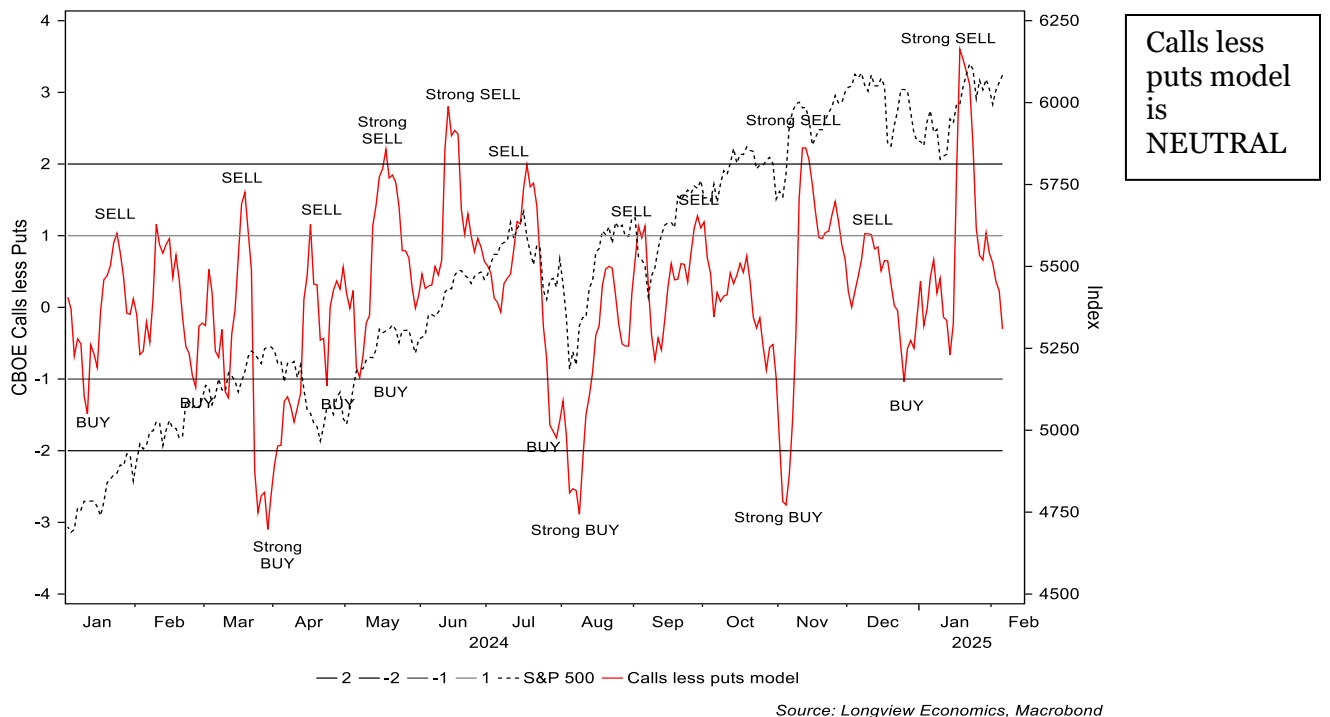


For explanations of indicators please see page 10

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

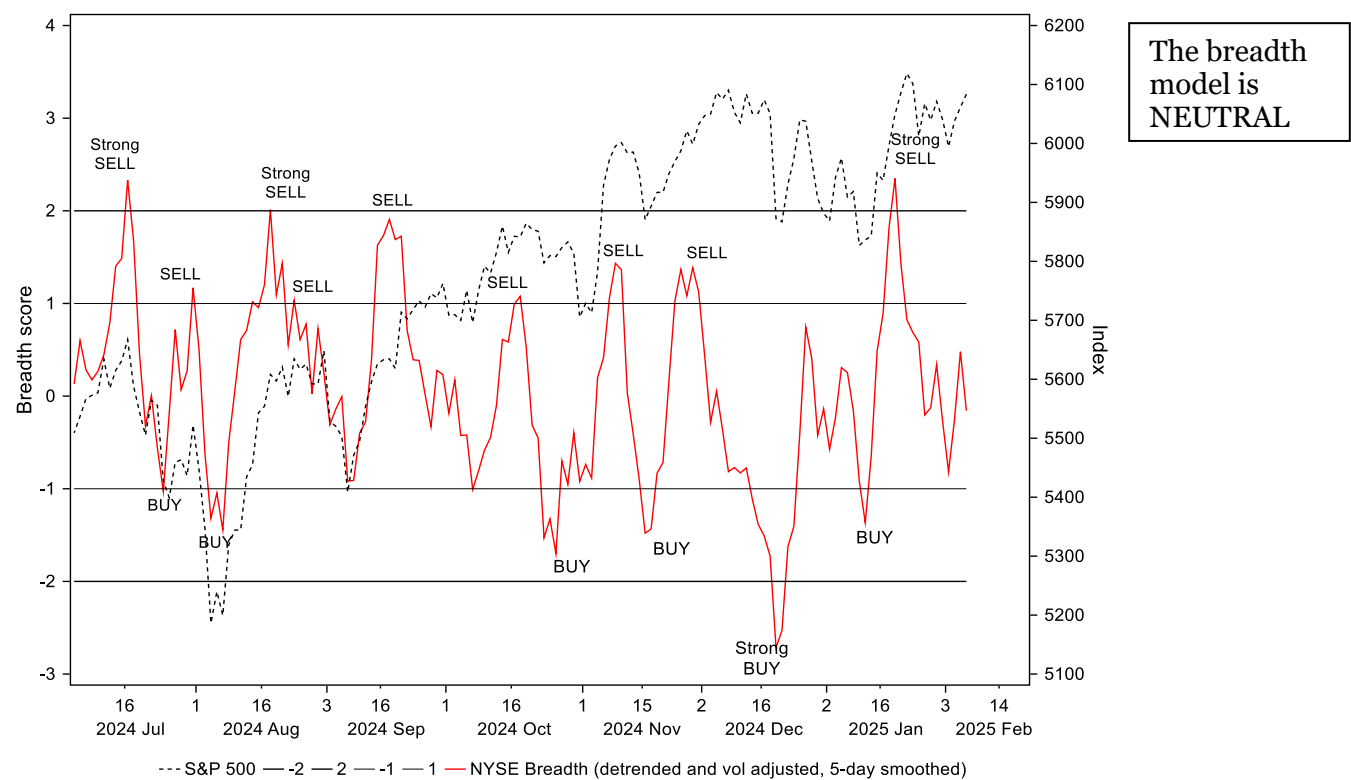


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



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

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



Source: Longview Economics, Macrobond

*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

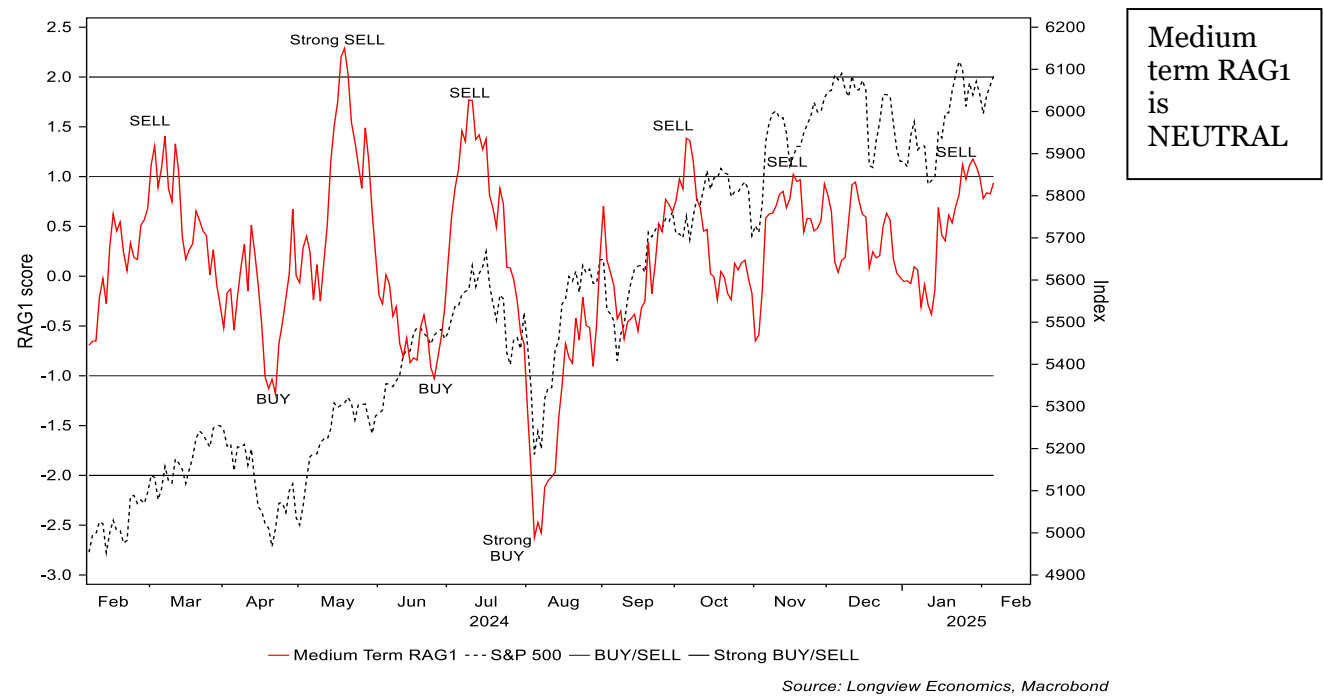
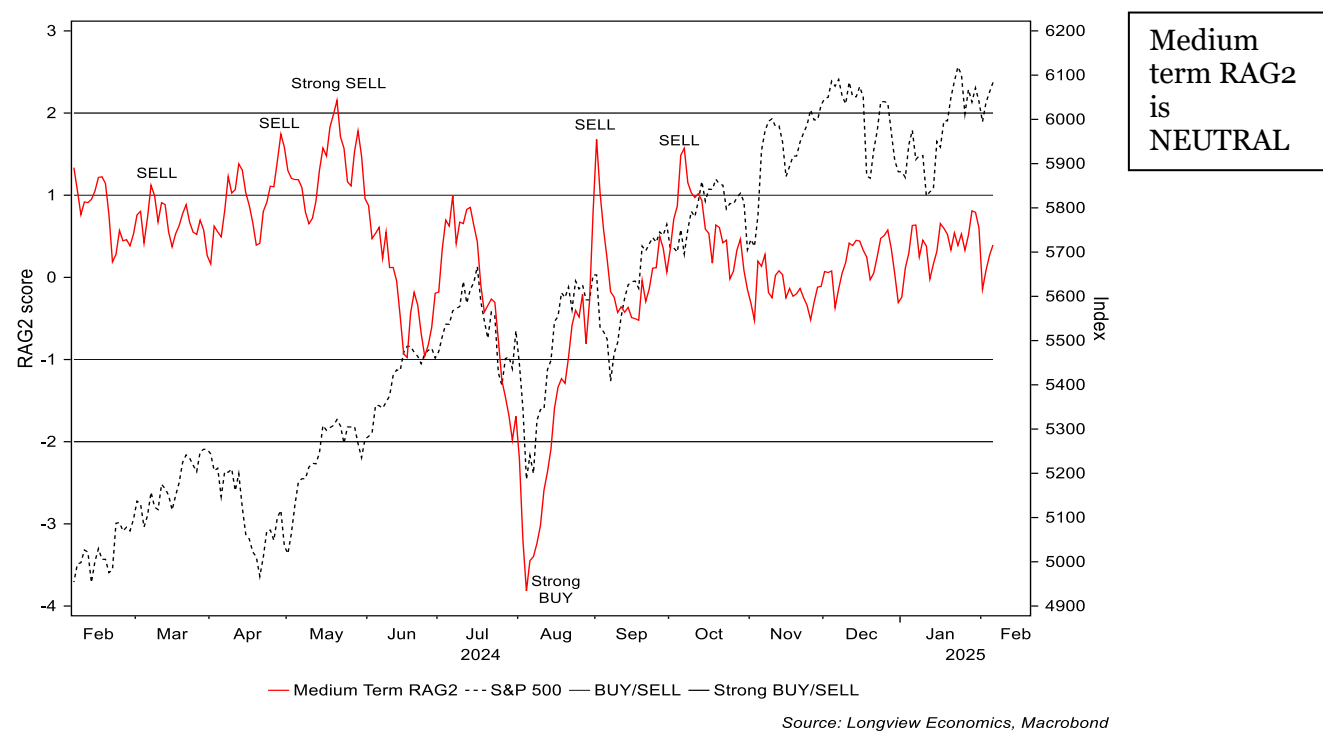
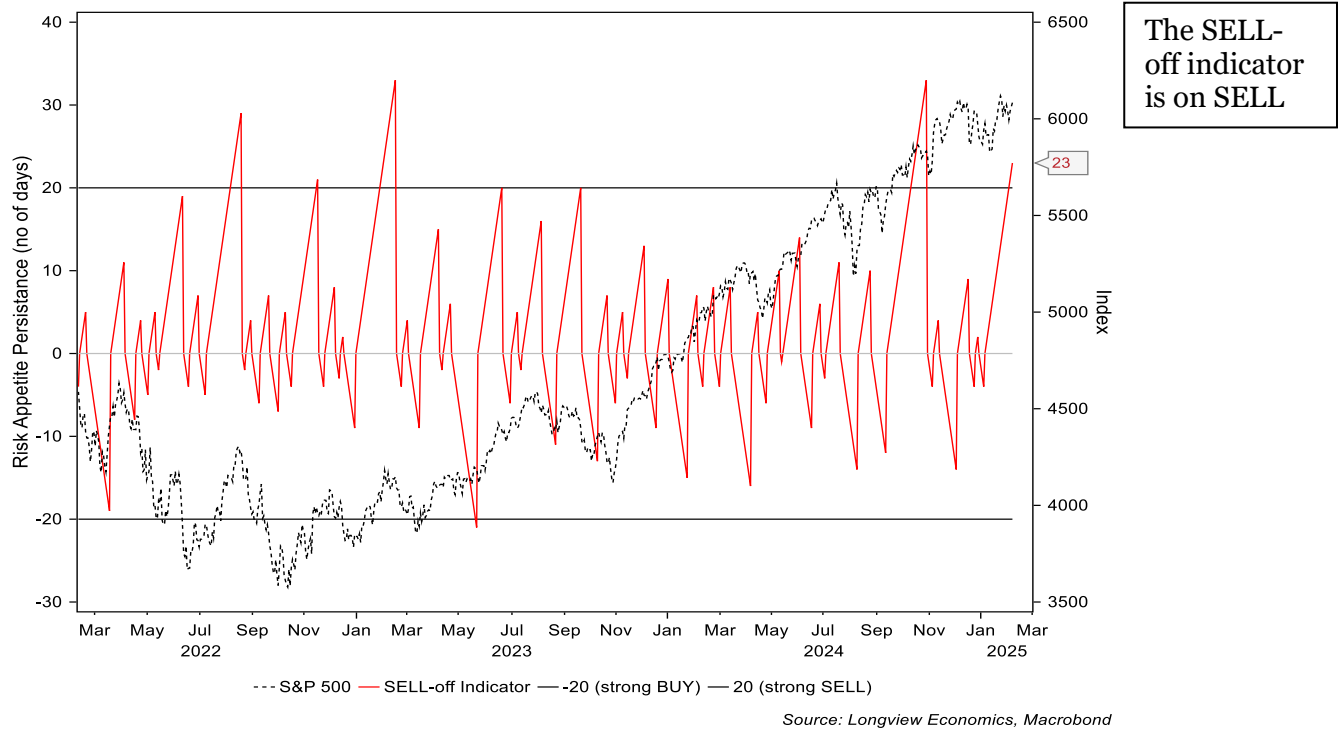


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500

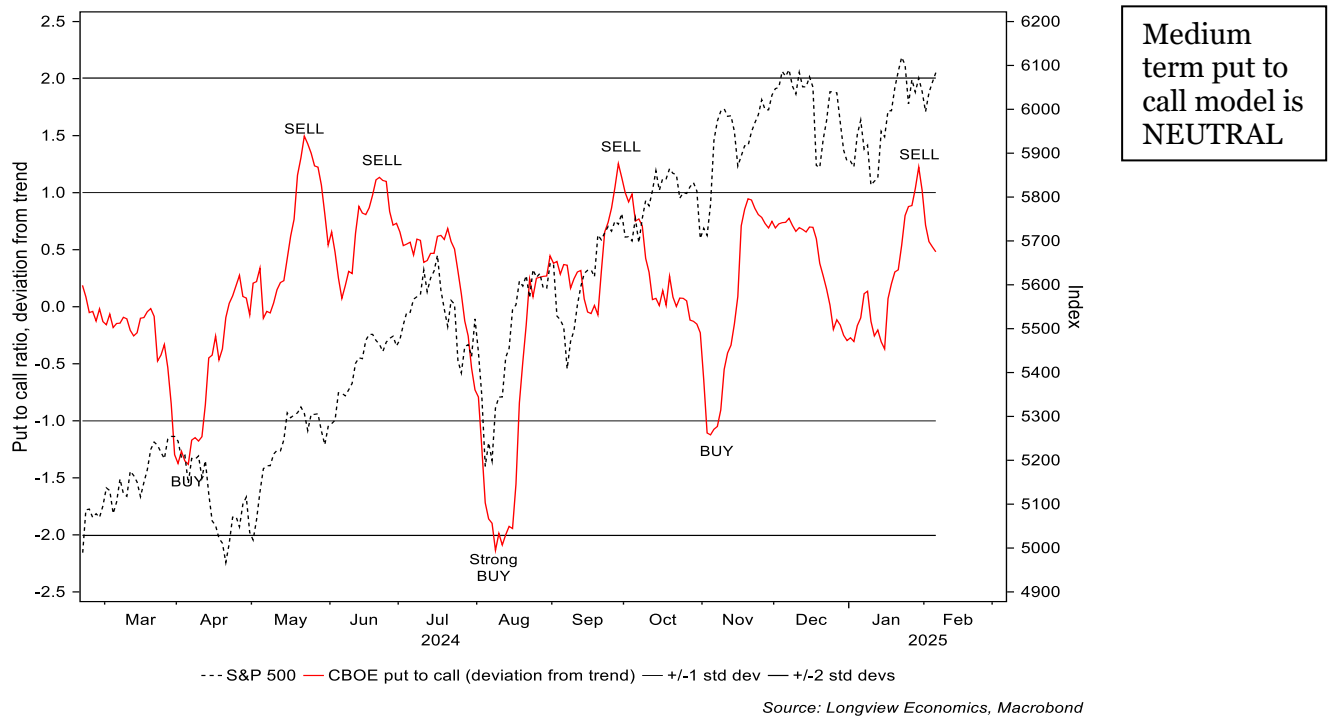


For explanations of indicators please see page 10

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

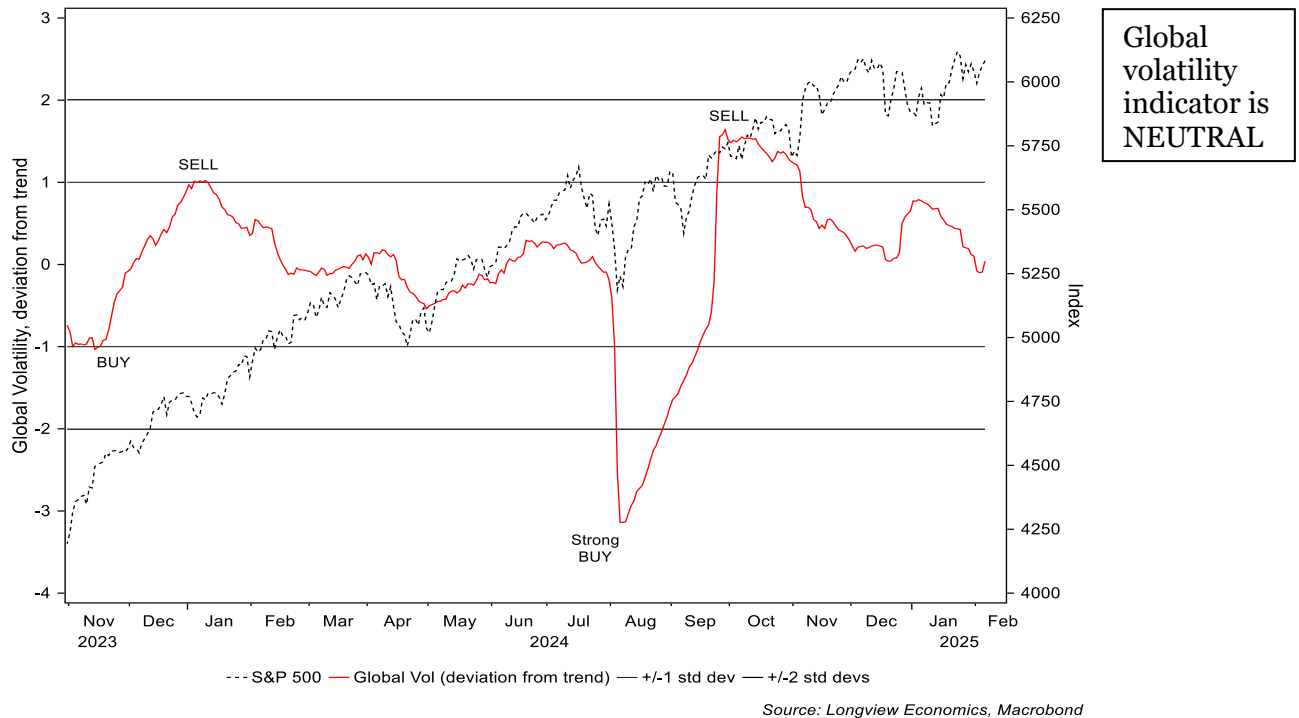


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

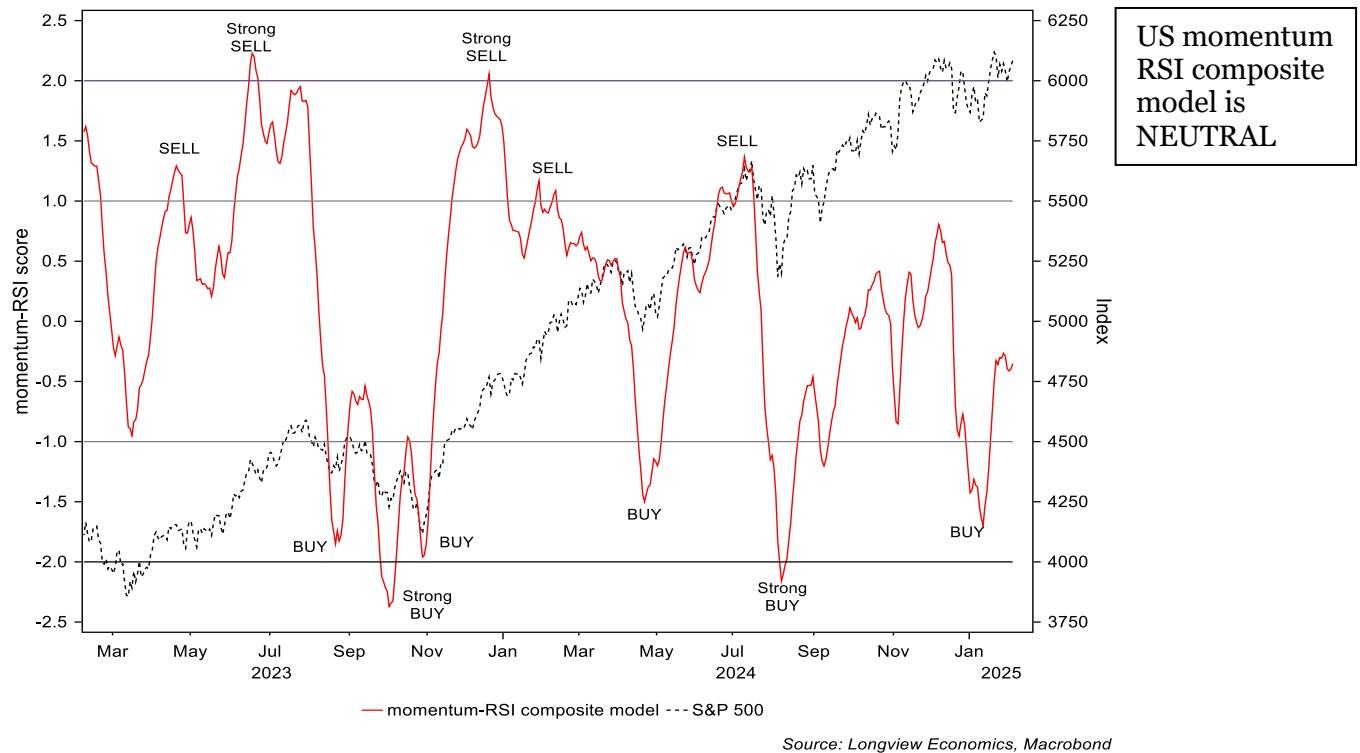


**For explanations of indicators please see page 10**

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



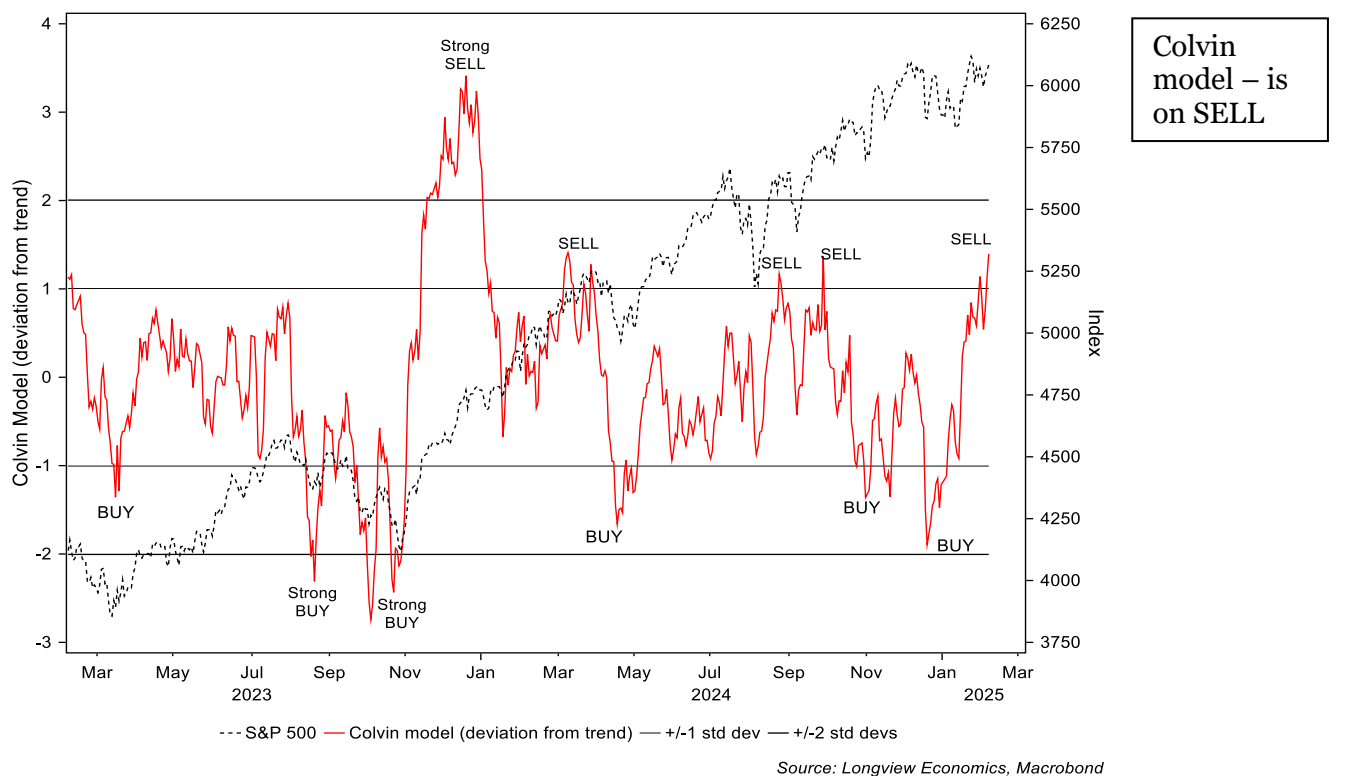
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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