Equity Index Futures Trading Recommendations

7th March 2025

"Extreme US - German Divergence/Reminiscent of March 2000"

Email: info@longvieweconomics.com

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

- Stay ½ LONG March S&P500 futures (blended entry was 5,800*).
- Keep an unchanged stop loss 3% below combined entry (i.e. at 5,626).
- Move ¼ SHORT DAX March futures at current prices (with a 3% stop loss).

*With an initial ¼ LONG at 5,850, and a further ¼ LONG at 5,750 earlier this week.

Rationale

The S&P500 once again tested its key 5,750 level yesterday, pushing below it for part of the trading session (with an intraday low of 5,720, i.e. approx. 0.5% below). At the time of writing the market is sitting at around its 5,750 support. As outlined earlier this week, there are multiple key support levels close to the current price (including 5,800; 5,750; 5,720; & 5,762 - the 200-day moving average, see FIGs 1d & 1e).

Despite further weakness in the headline US equity markets yesterday (with R2K -1.6%; SPX -1.8%; NDX100 -2.8%; & SOX -4.5%), our **key short term 'risk appetite' models and scoring system have moved higher and are now mid-range**/moving towards SELL (indeed shortest-term RAG is already on SELL). That reflects the **bifurcated nature** of these global markets with US equities moving in the opposite direction to European (and some Asian) equity markets, coupled with the global nature of the risk appetite models (that is, they measure risk appetite across the breadth of global financial markets). As such, that European and Asian strength in risk appetite has been pushing these models higher. Yesterday, for example, German equities were again up on the day (DAX +1.5%,) while German bonds sold off sharply (i.e. with a spike higher in bund yields). Both of those are signs of risk seeking in Europe and were matched/followed (to an extent) by many other European assets.

As a result of recent strength in European equities, though, indices like the DAX are overextended to the upside (relative to their 50-day moving average, FIG 1a). In contrast, US indices are overextended to the downside (using the same model methodology**). That is, both the S&P500 and NDX100 are oversold on that metric by 1 standard deviation (e.g. FIG 1b).

The **contrast between these two models is highly unusual** and at its most extreme since the peak of the dotcom bubble in March 2000 (FIG 1).

So, the question is: **How will that divergence resolve itself?** In particular, in the context of this '1 – 2' week recommendation, how will it resolve itself in the next 5 – 10 trading sessions? Will the S&P500 hold at this key support level; or will the European (and Asian) markets pullback and drag the US down with them?

Other key market timing models, specifically US centric ones (like technical single stock and sector models) are already generating reasonably good BUY signals (although there is a risk in this type of tempestuous market that those signals move to strong BUY before a local low). Added to which, at a headline level, the market is also oversold. A bounce, therefore, seems likely (still) – even if only temporarily. Our concern, though, is threefold: i) there isn't a high level of downside put protection in US equity portfolios (i.e. see the CBOE put to call ratio) – which suggests we haven't as of yet reached peak 'panic'; ii) there's no sign of 'capitulation' as of yet; & iii) a pullback in Europe seems likely (and could potentially push US equities below our stop loss).

In order to counter that risk, we recommend also MOVING ¼ SHORT DAX futures with a 3% stop; whilst remaining ½ LONG S&P500 futures (with an unchanged stop loss). If we're stopped out of our LONG S&P500 futures position we'd expect to try (once more) once there's clear and across the board strong BUY signals.

Key macro and other events are shown below and include US nonfarm payrolls data (1:30pm UK time).

Please see above for detailed recommendation.

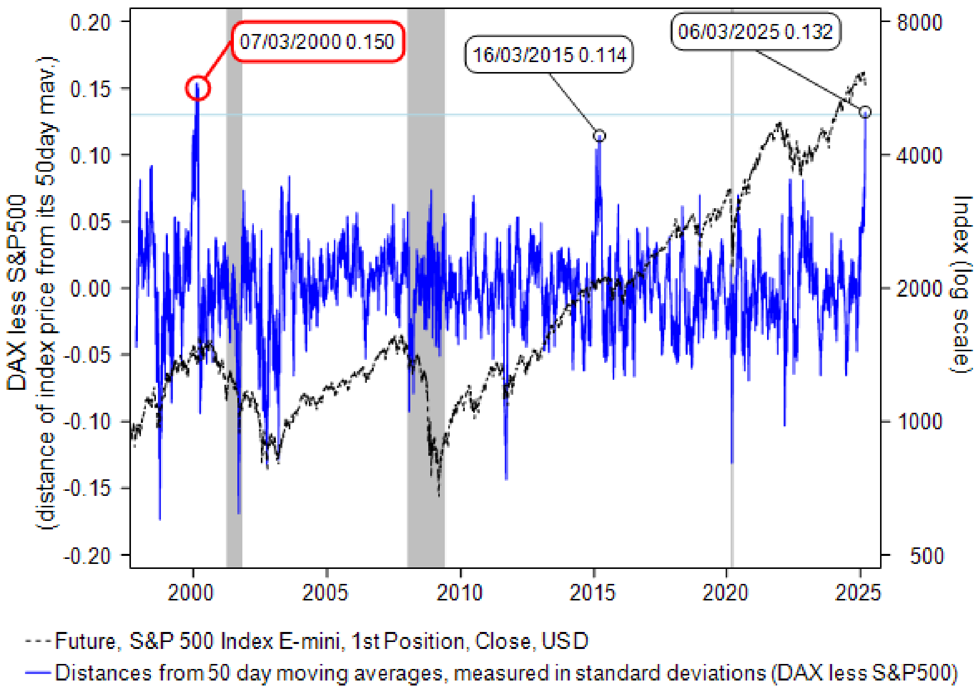
Kind regards,

The team @ Longview Economics

**These models measure the overextended nature of the price of the index against its 50 day moving average. The idea is to pick up how far price has moved from its current underlying trend (in this instance the 50 day mav.). Once that reaches +/-1 standard deviation, in a normal market, it acts as an effective BUY or SELL signal (i.e. depending on whether it's + or - SD).

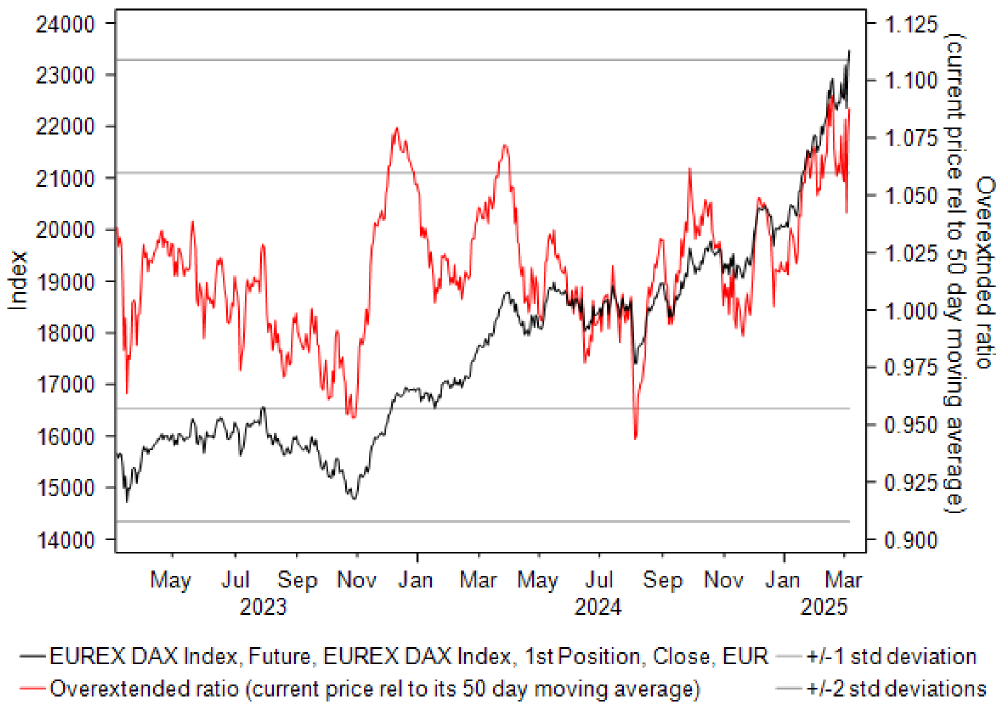
NB the goal of this publication is to implement '1 – 2' week, LONG or SHORT trades on equity index futures (looking for 1 – 3 trades per month). For longer term 1 – 4 month trading recommendations and analysis, see our 'Tactical Asset Allocation' publications (available: https://www.longvieweconomics.com/the-tactical-investor); 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: DAX less S&P500 (distance of current price from respective 50 day moving averages, measured in standard deviations)



Source: Longview Economics, Macrobond

FIG 1a: DAX overextended indicator (index price relative to its 50 day moving average)



Source: Longview Economics, Macrobond

FIG 1b: S&P500 overextended indicator (index price relative to its 50 day moving average)

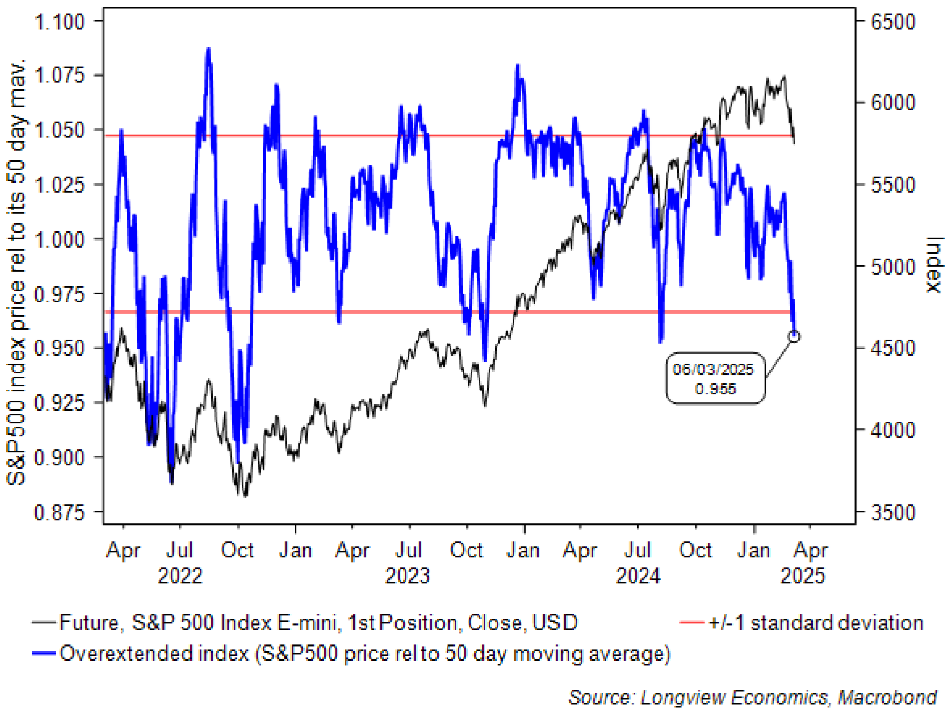


FIG 1c: NDX100 overextended indicator (index price relative to its 50 day moving average)

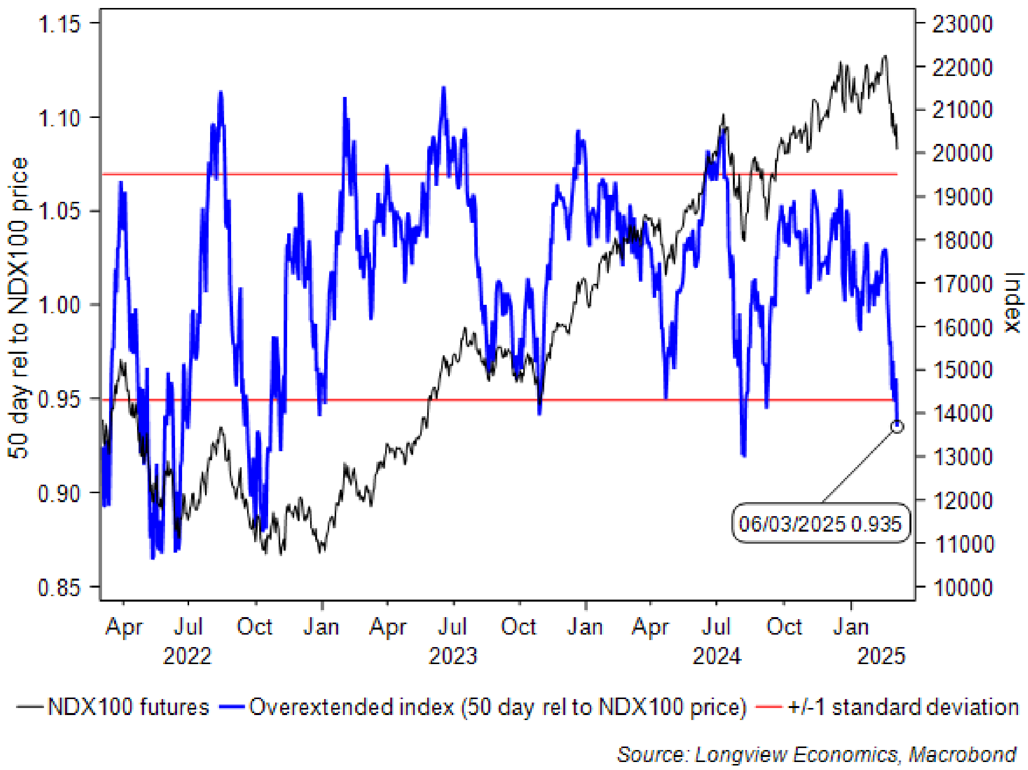


FIG 1d: S&P500 futures candlestick chart, shown with 50 & 200 day moving averages

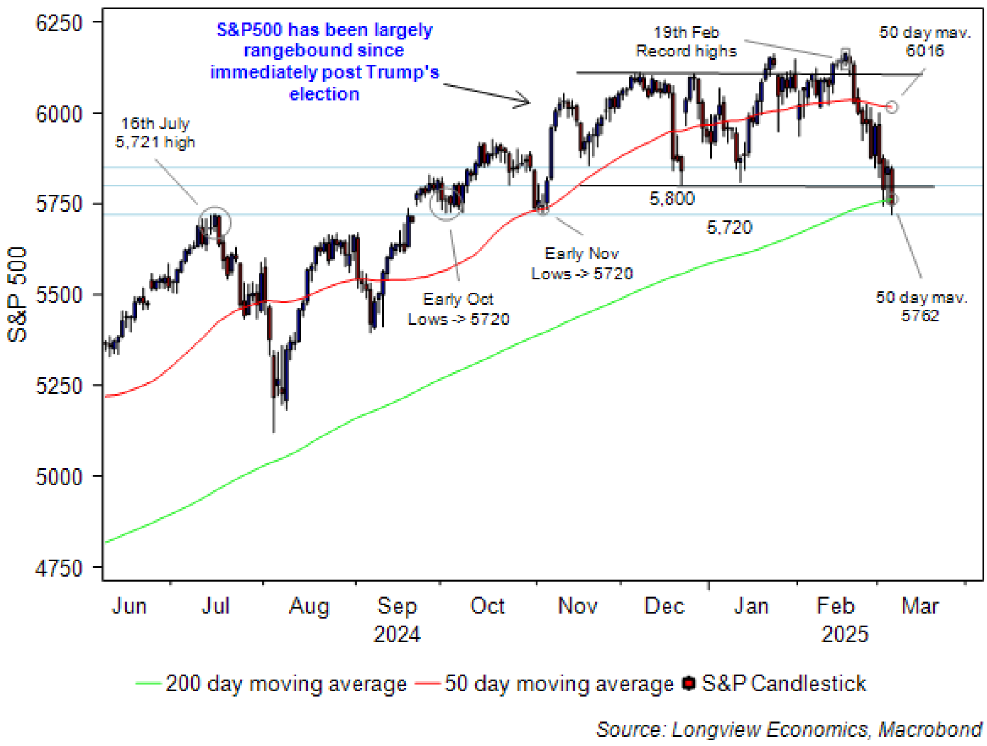
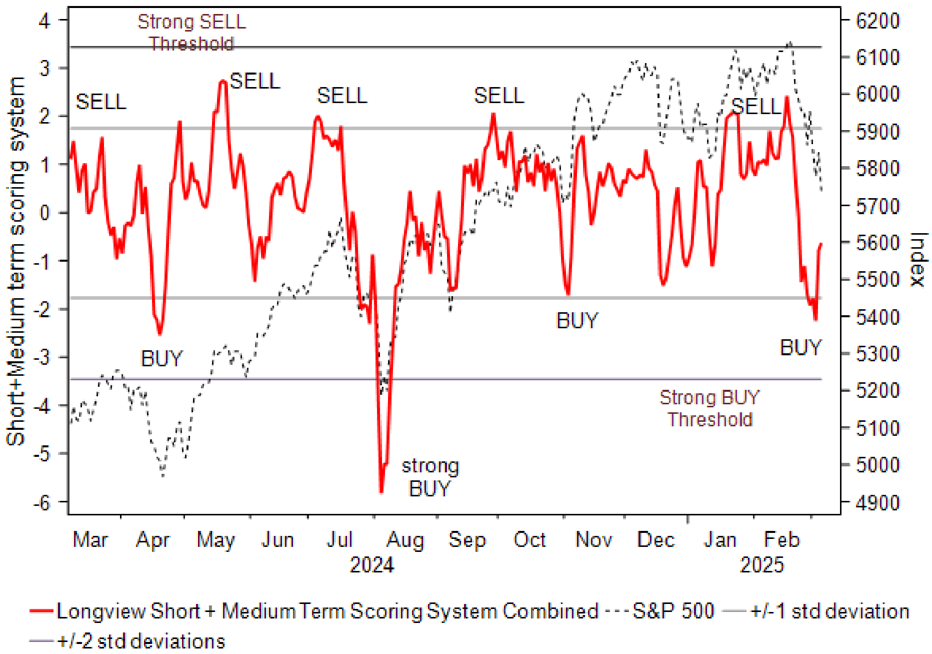


FIG 1e: S&P500 futures **5-day** tick chart shown with overnight price action

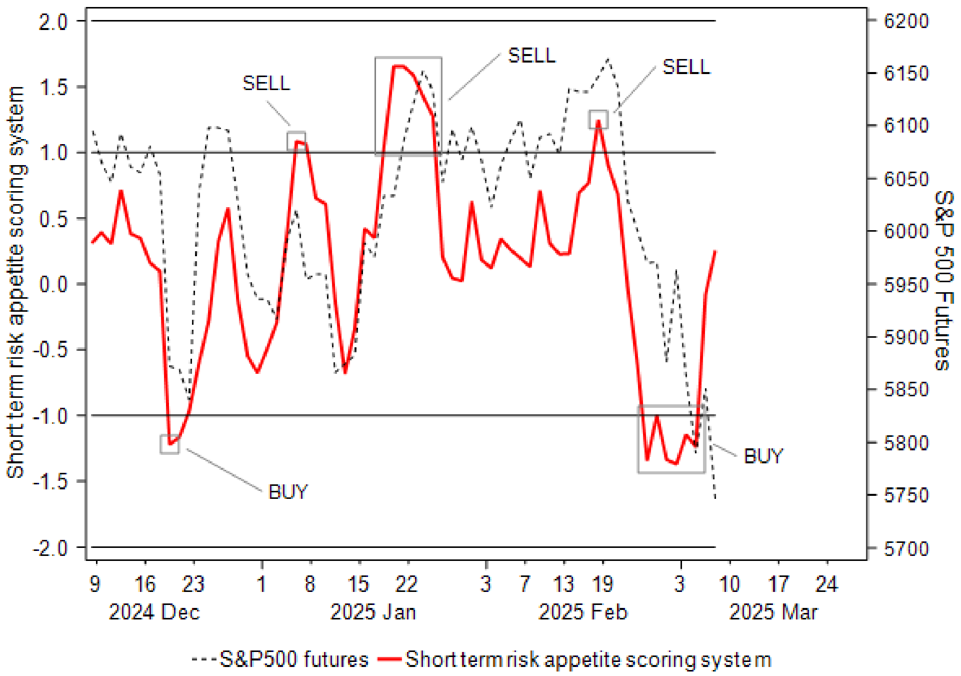
FIG 1f: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



Source: Longview Economics, Macrobond

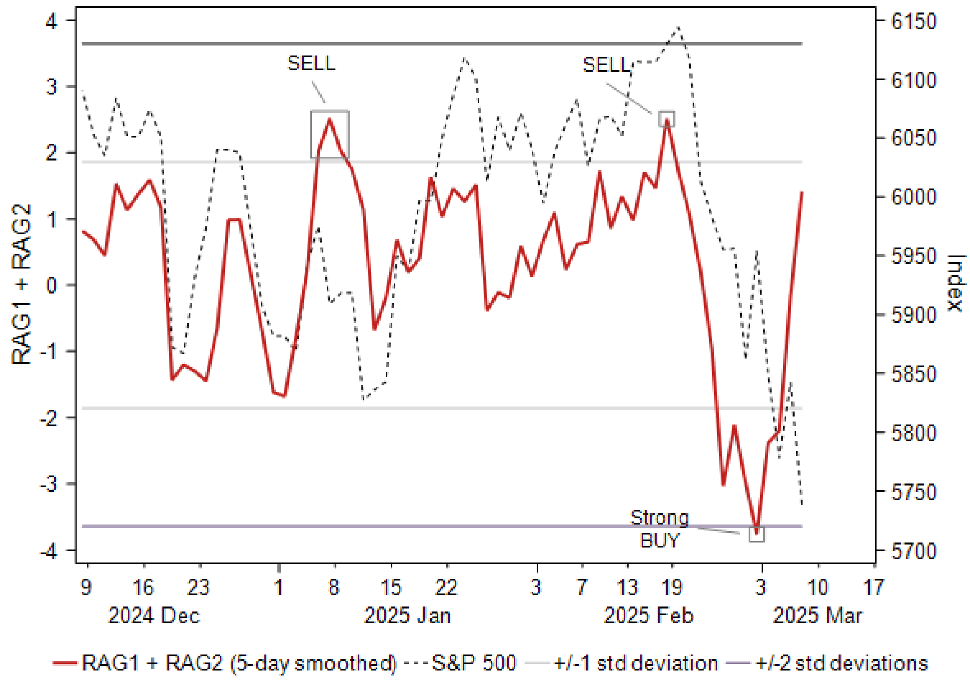
Short term models are either still on BUY – or are bouncing from those levels....

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



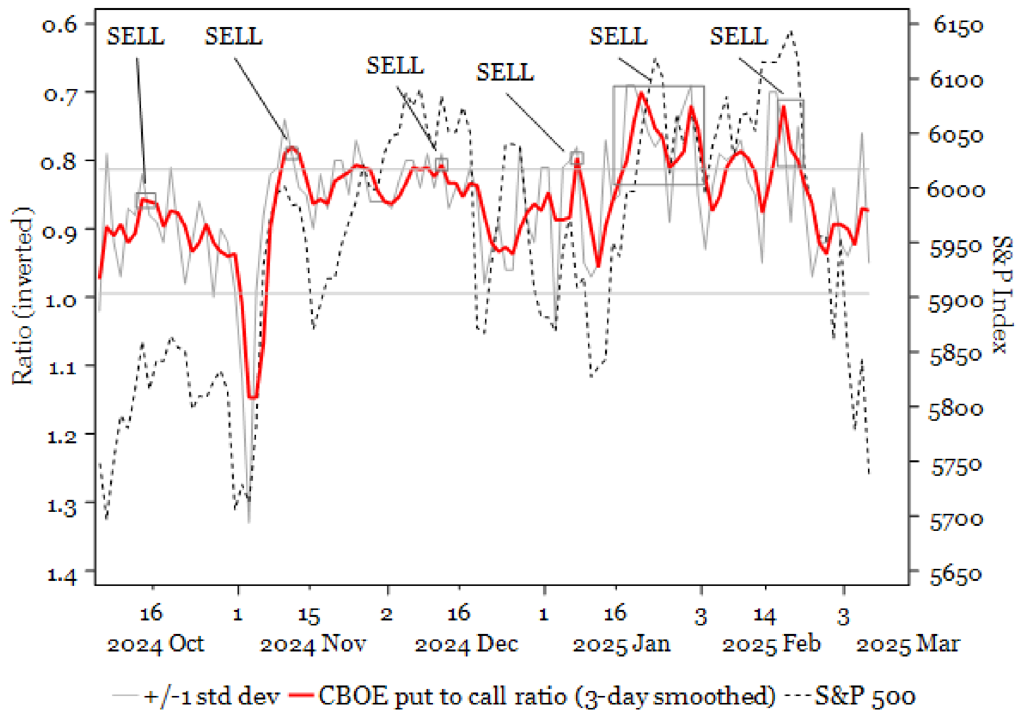
Source: Longview Economics, Macrobond

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



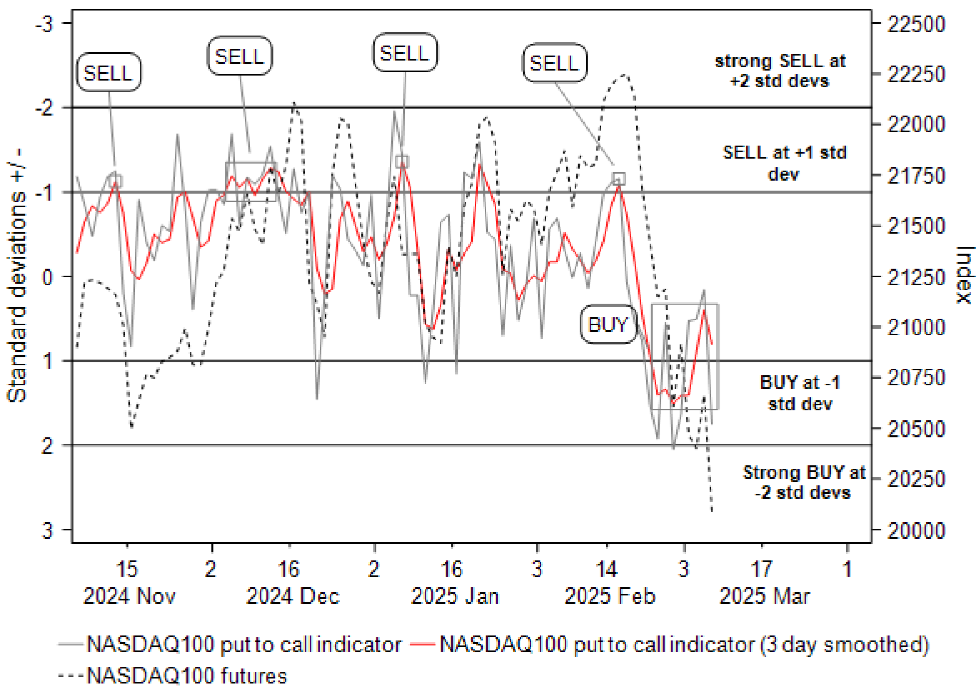
Source: Longview Economics, Macrobond

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



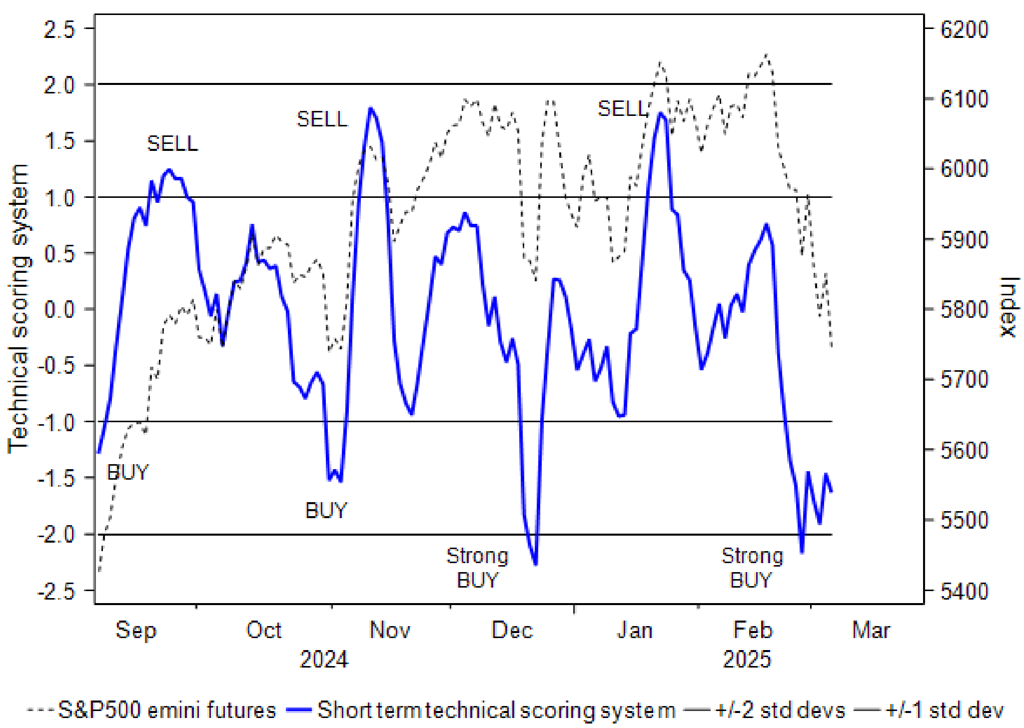
Source: Longview Economics, Macrobond

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



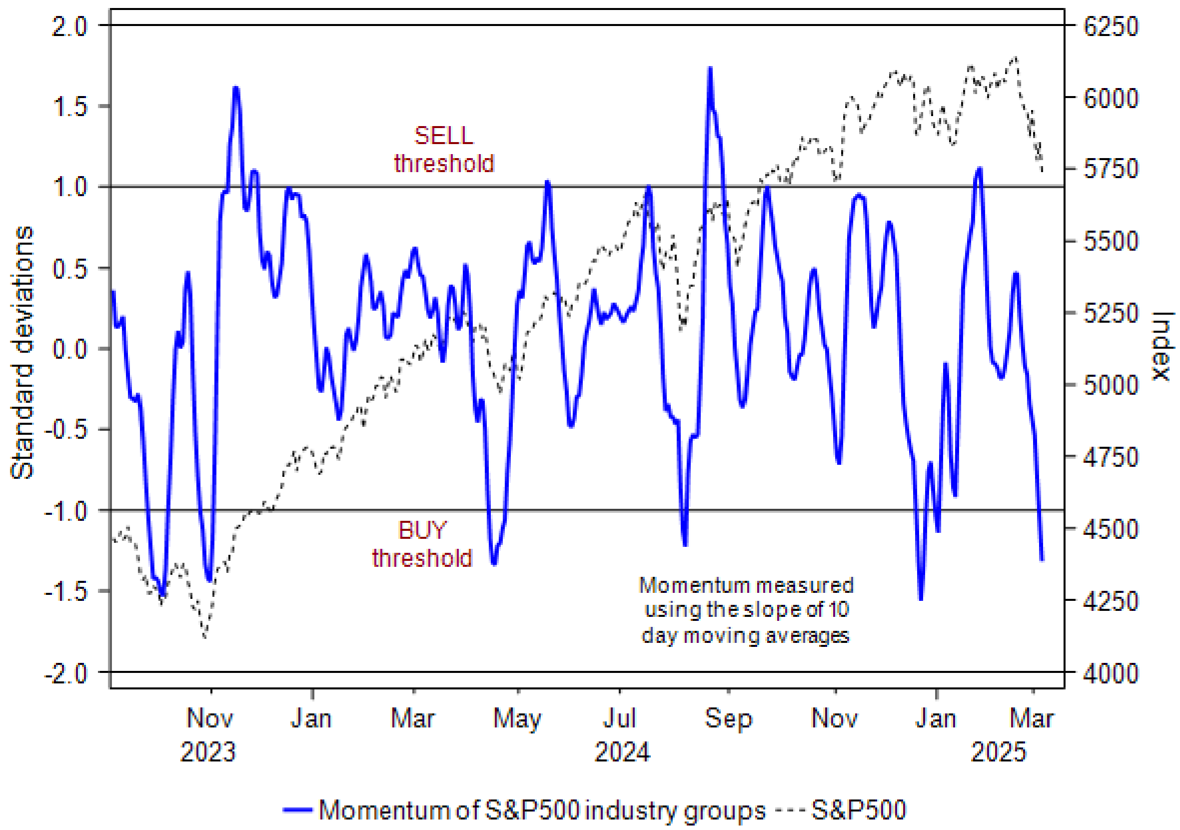
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

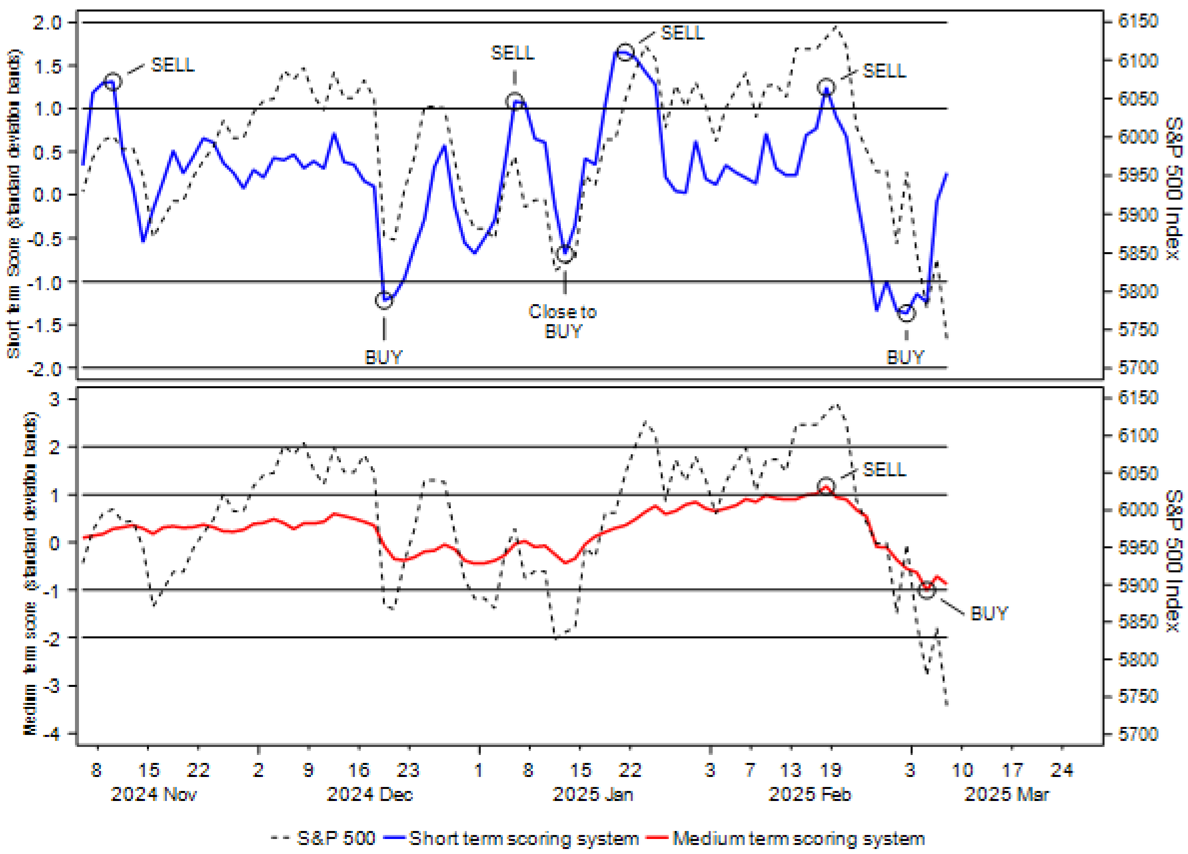


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from BUY earlier this week)
Medium term (1 – 4 month) scoring system: **NEUTRAL** (from BUY earlier this week)

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 household spending (Jan, 12:30am); UK Halifax house prices (Feb, 7am); **German factory orders** (Jan, 7am); French trade balance (Jan, 7:45am); Spanish industrial production (Jan, 8am); Eurozone GDP (Q4 final estimate, 10am); **US nonfarm payrolls, hourly earnings & unemployment data** (Feb, 1:30pm); Canadian employment data (change in employment, unemployment rate & participation rate) (Feb, 1:30pm); US consumer credit (Dec, 8pm).

Key events today include: Speeches by the ECB's Lagarde, Nagel, Knot & Panetta at IWD Event (9:30am) & Ceteno & Kazaks in Lisbon (3:45pm); speeches by the Fed's Bostic on the economy (12am) & Williams on a panel on policy transmission (3:45pm); speech by the Bank of England's Mann at the Reserve Bank of New Zealand research conference (8:15pm); China 'Two Sessions' (annual parliamentary meeting).

Key earnings today include: Constellation Software.

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 5th March 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

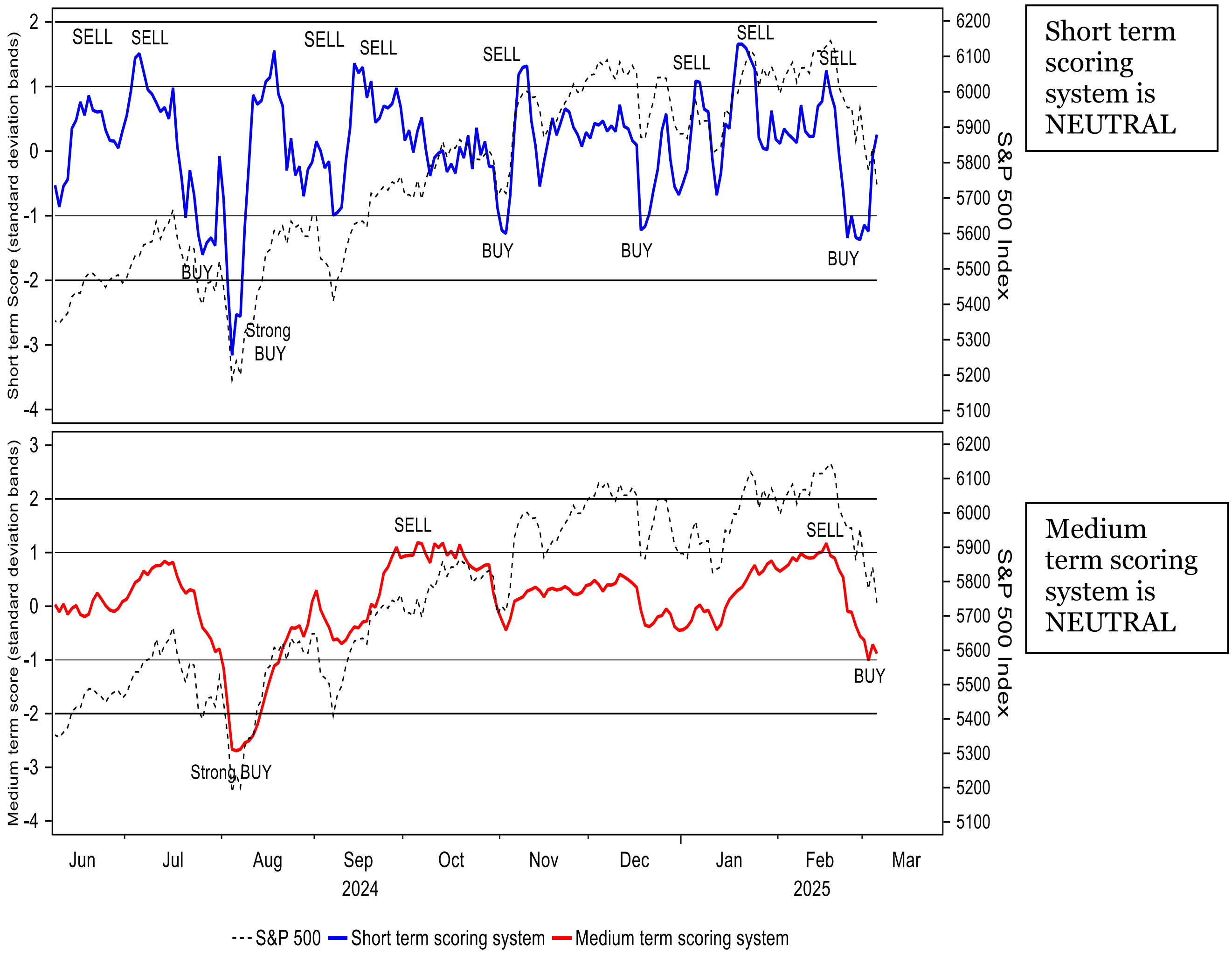
1 – 2 Week View on Risk

7th 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



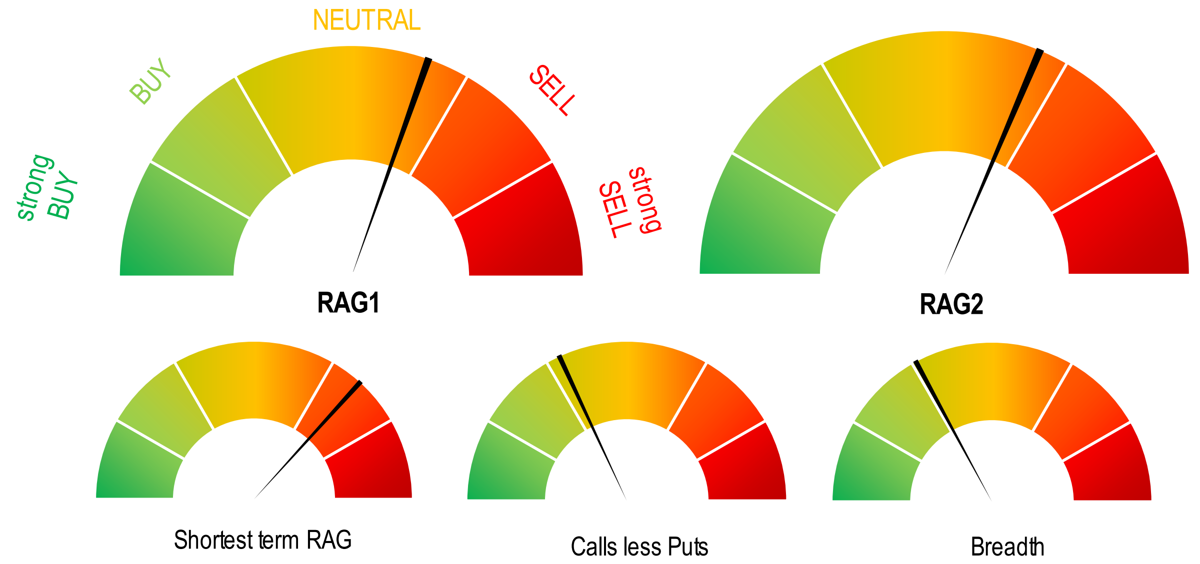
Source: Longview Economics, Macrobond

*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

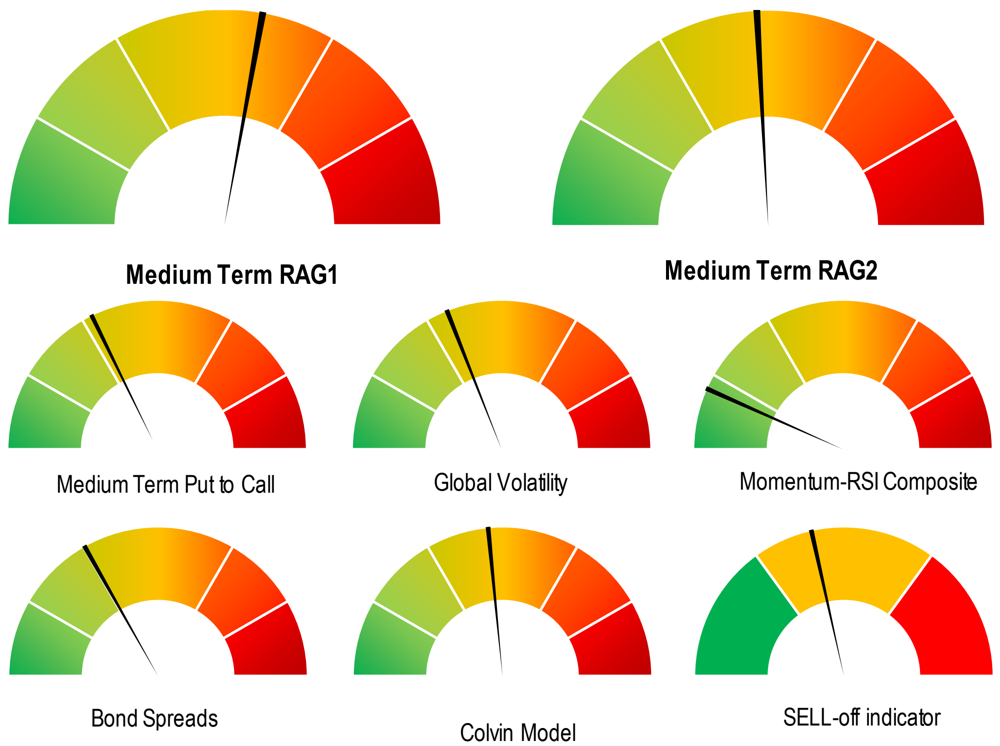
Section 1a: Summary of indicator signals**

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

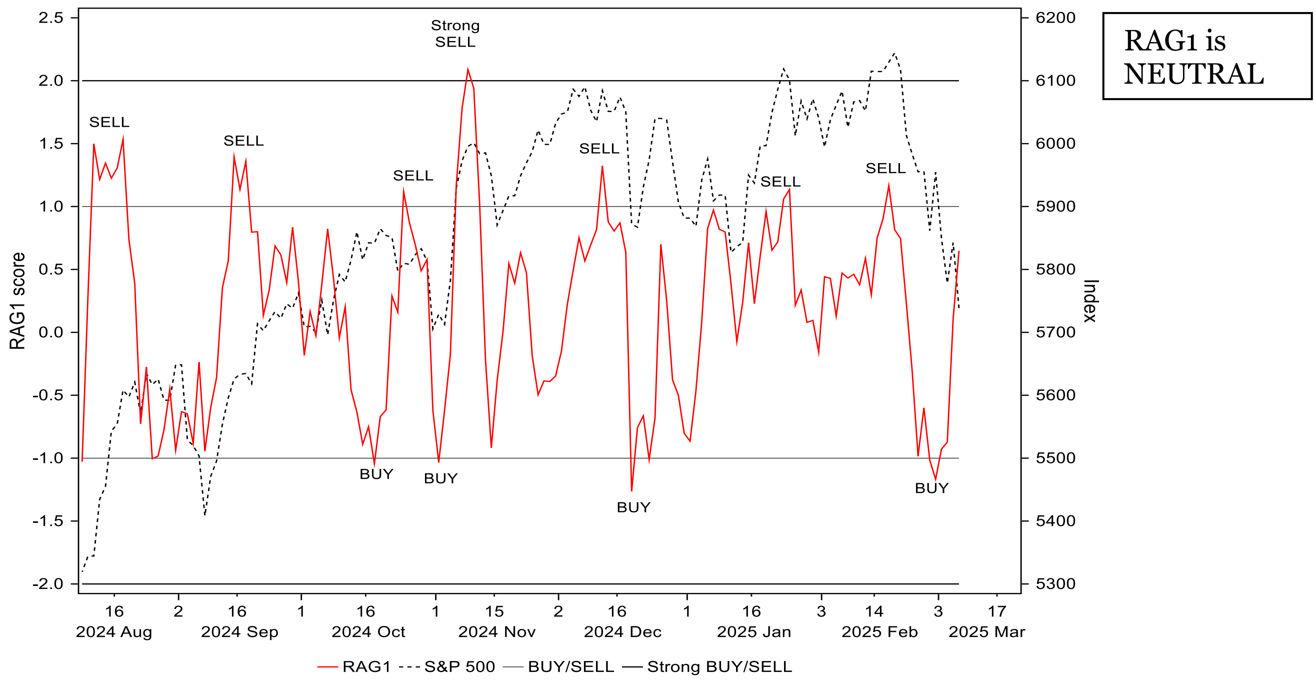


Source: *Longview Economics*

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

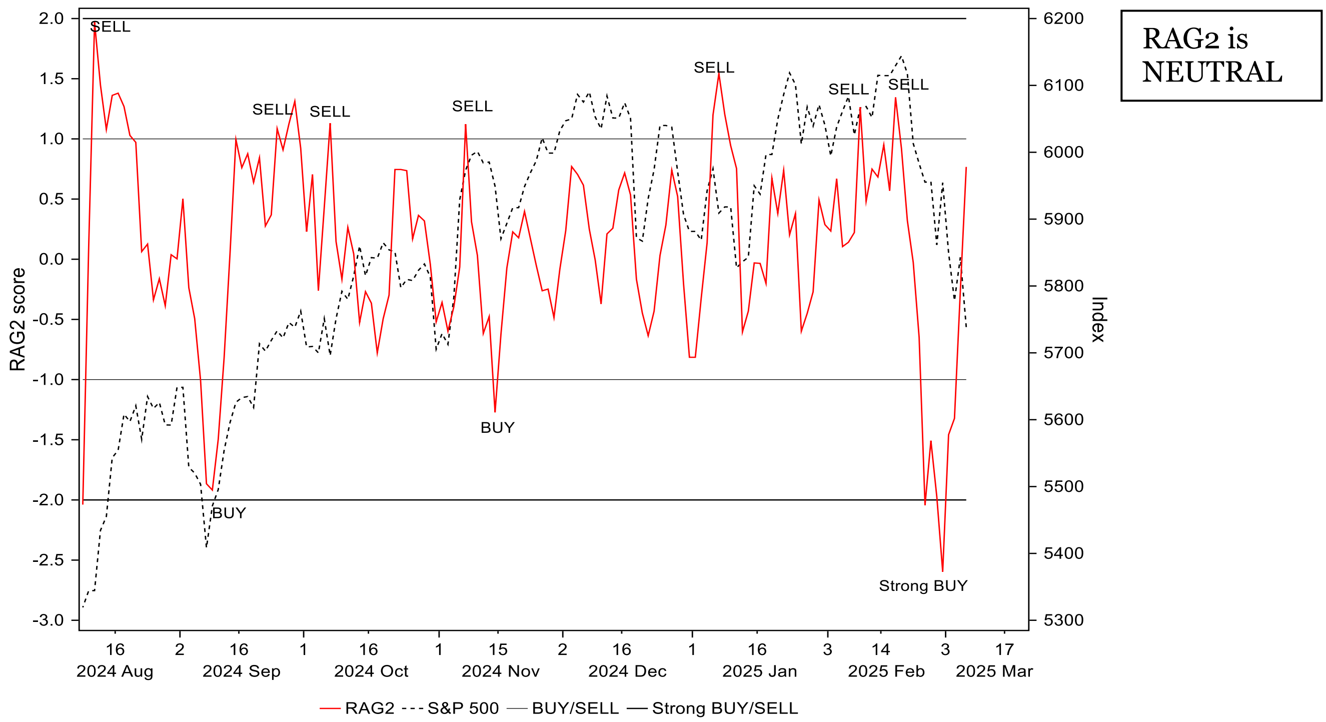
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

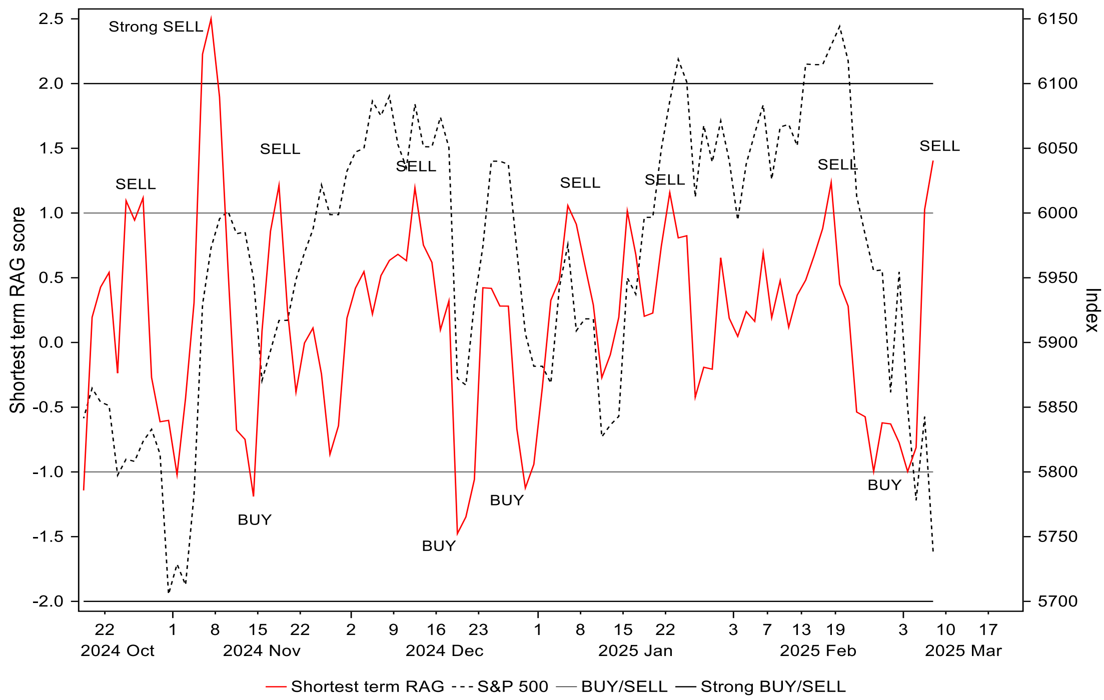
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

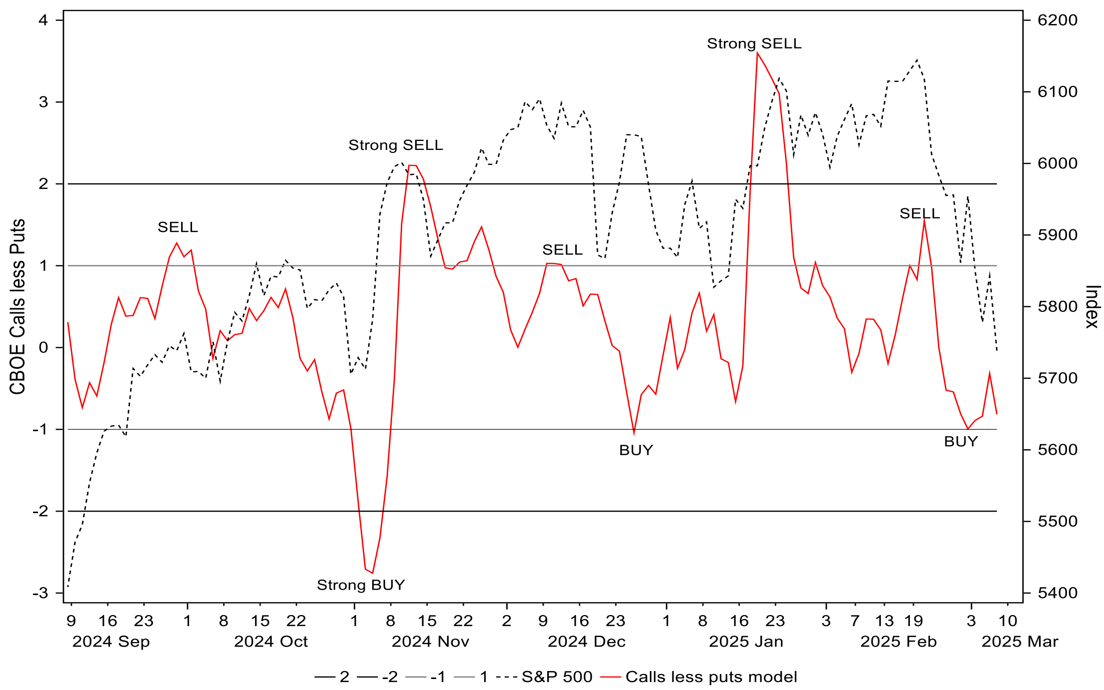
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on SELL

Source: Longview Economics, Macrobond

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

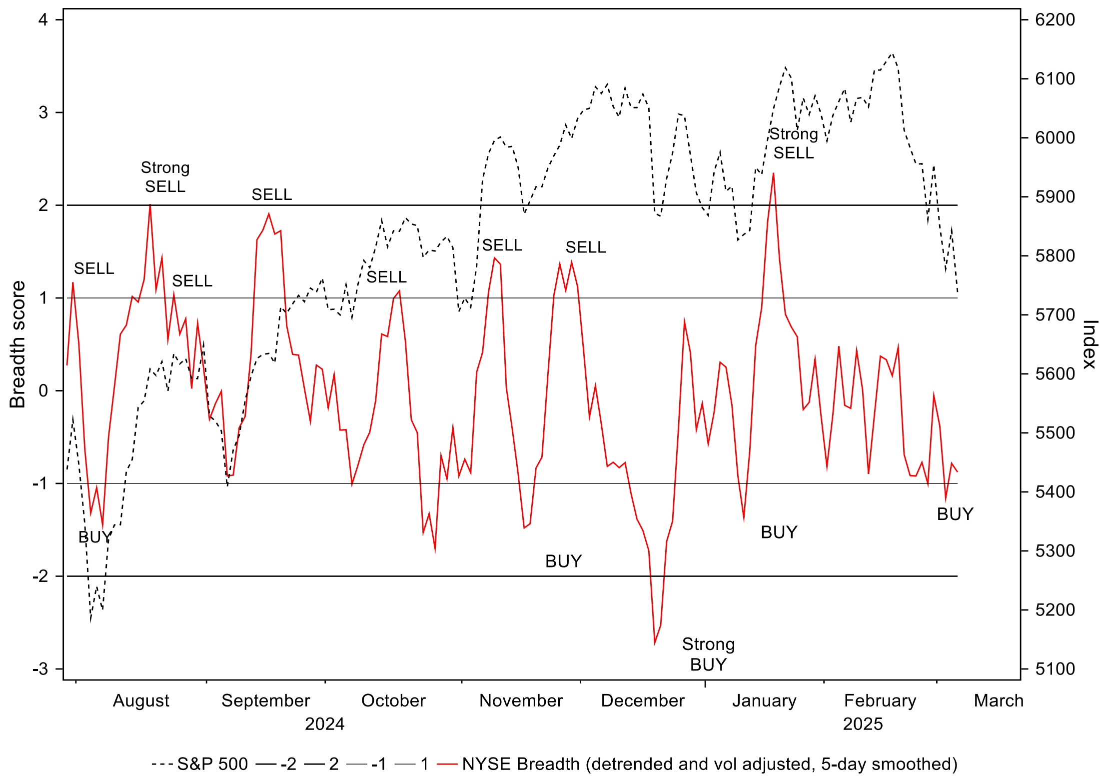


Calls less puts model is NEUTRAL

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



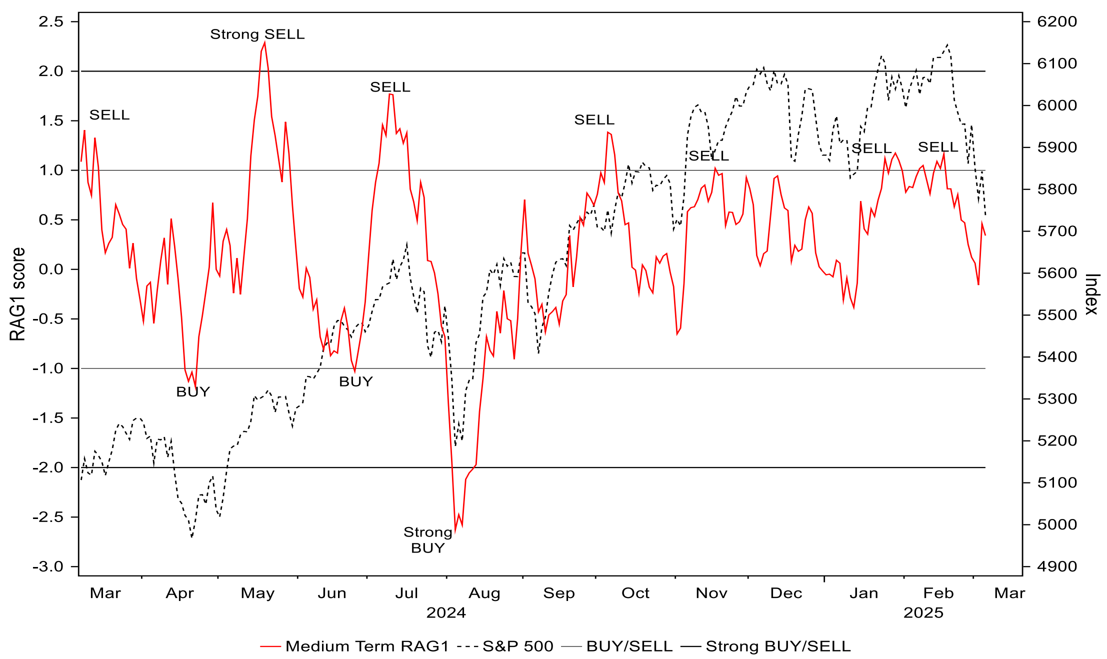
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

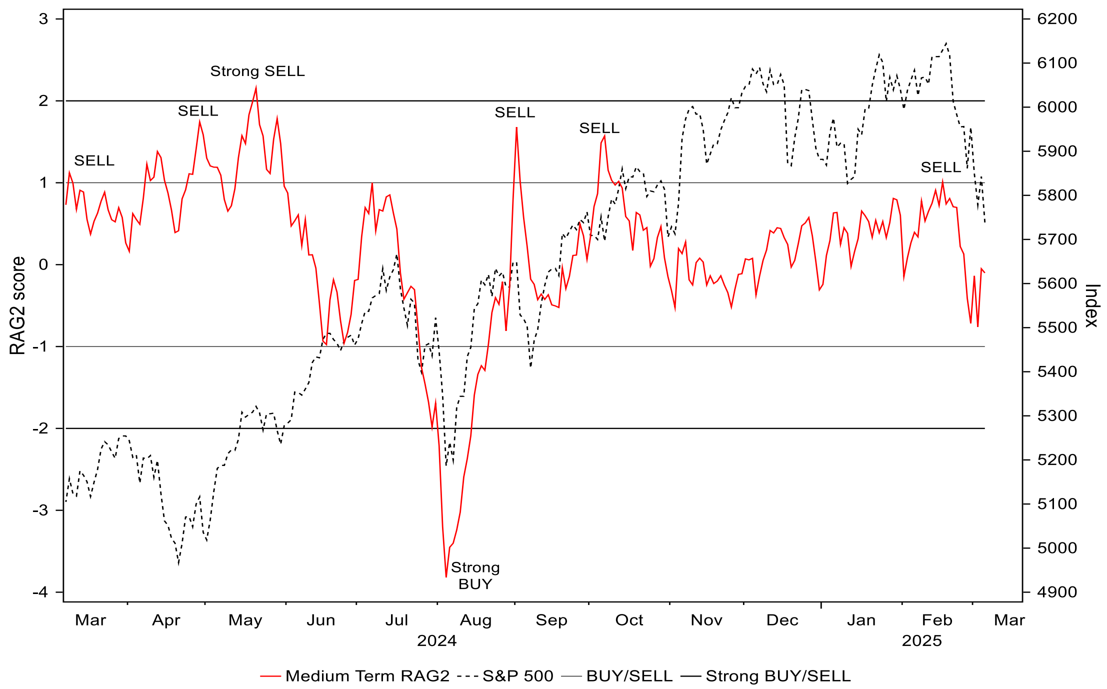
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

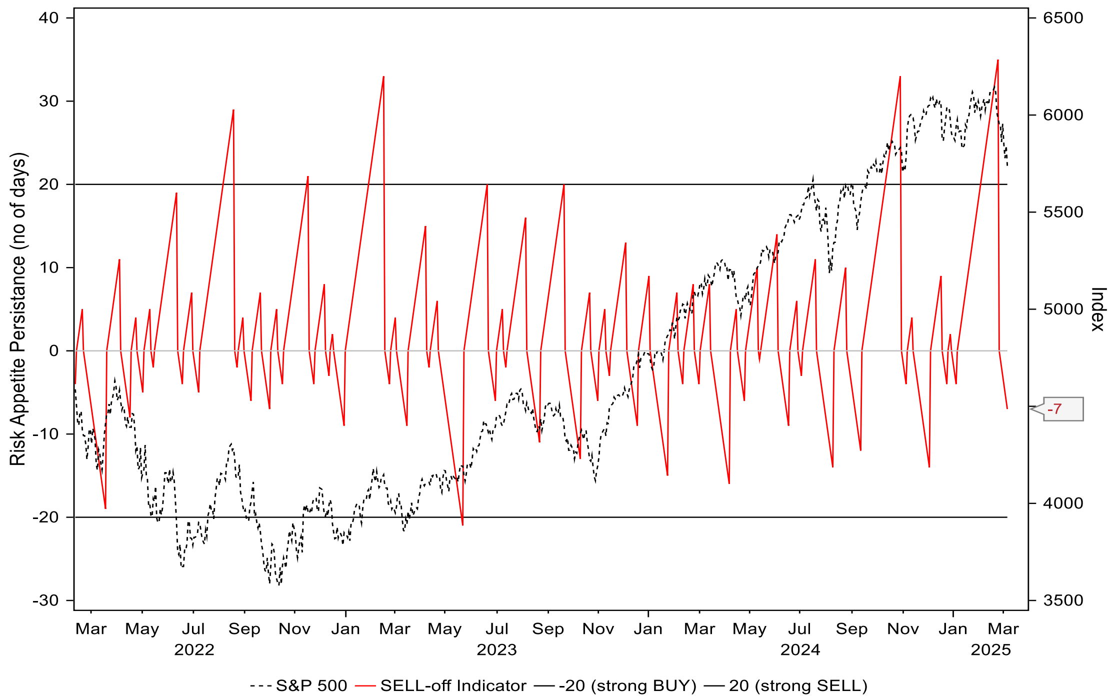


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

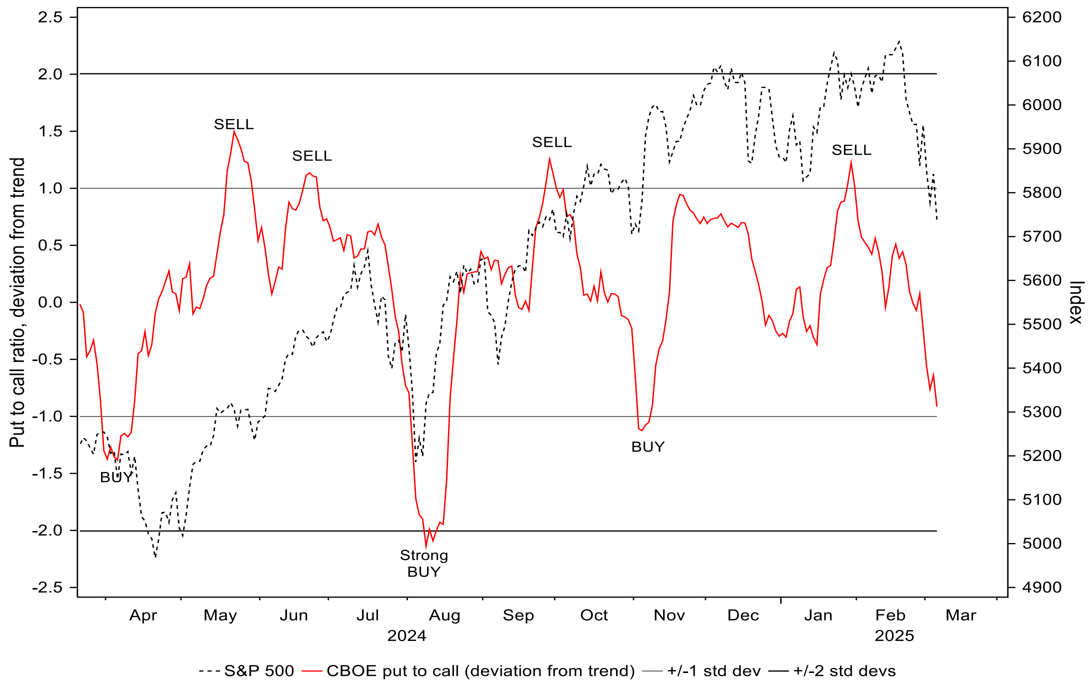
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

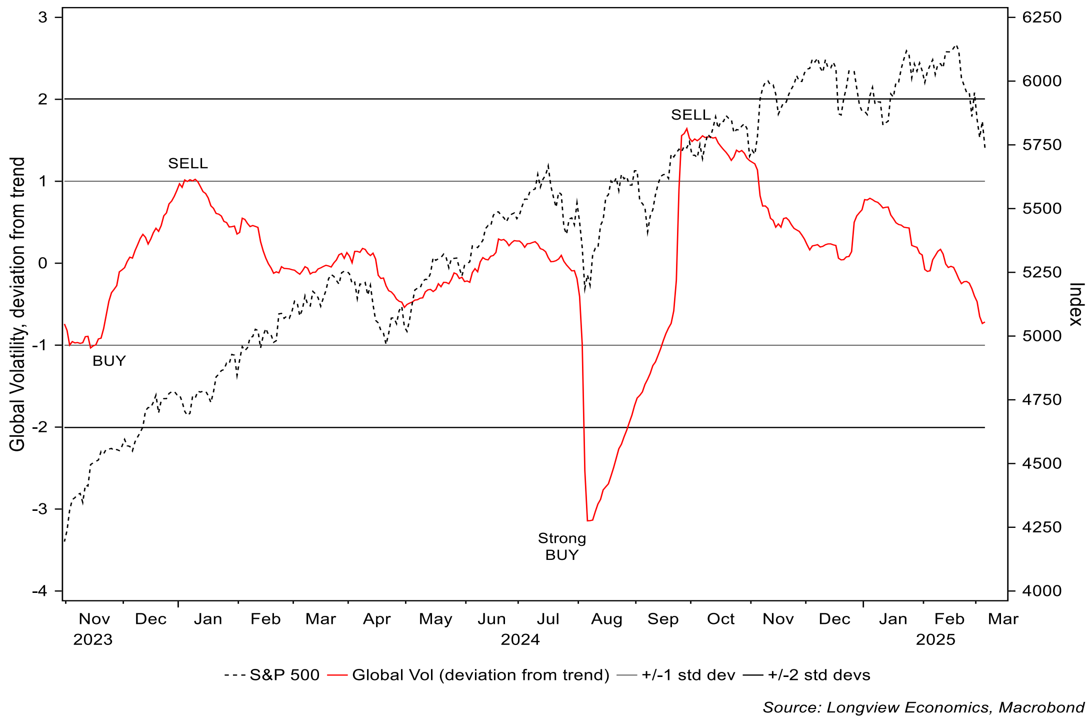


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

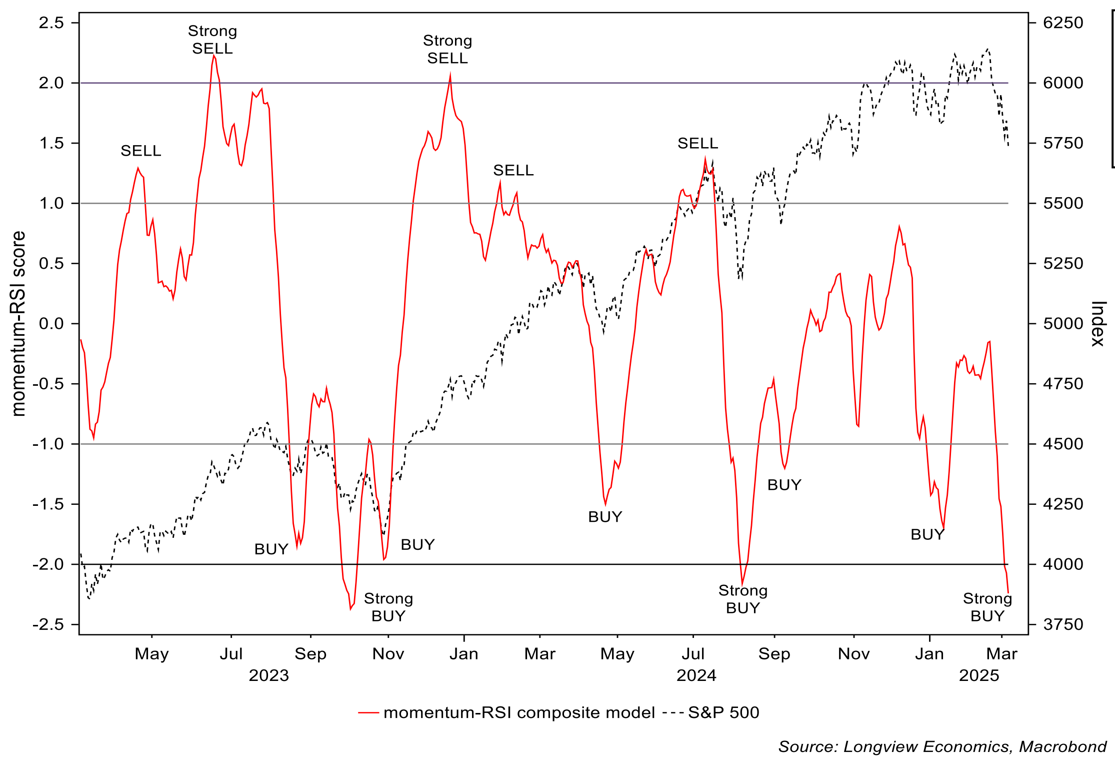
For explanations of indicators please see page 10

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



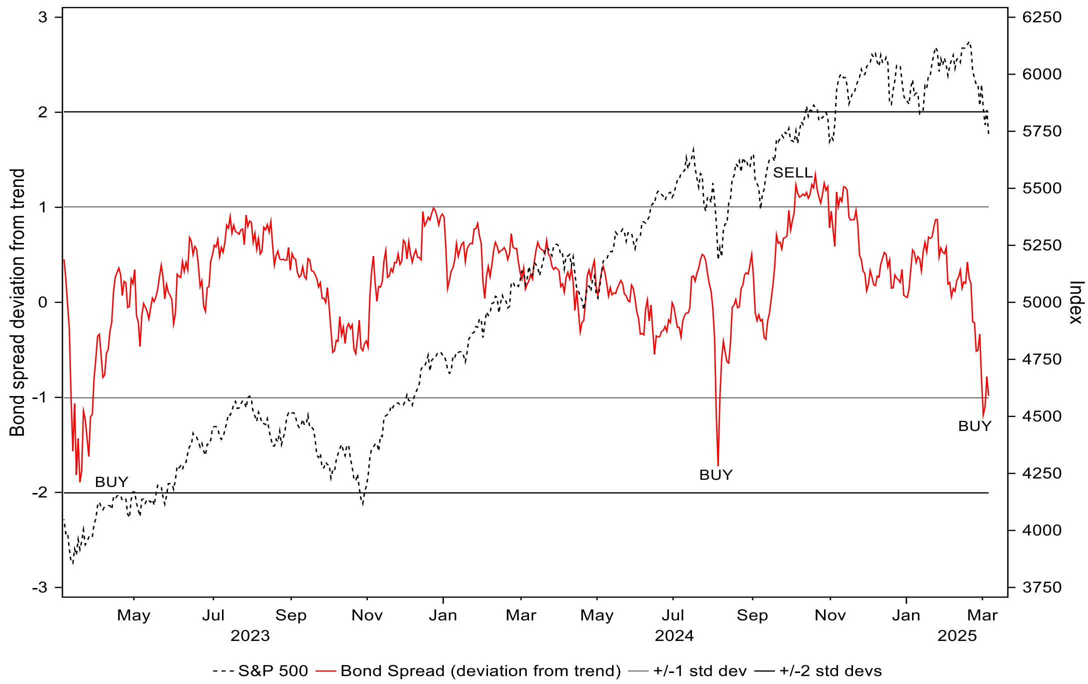
Global volatility indicator is NEUTRAL

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



US momentum RSI composite model is on Strong BUY

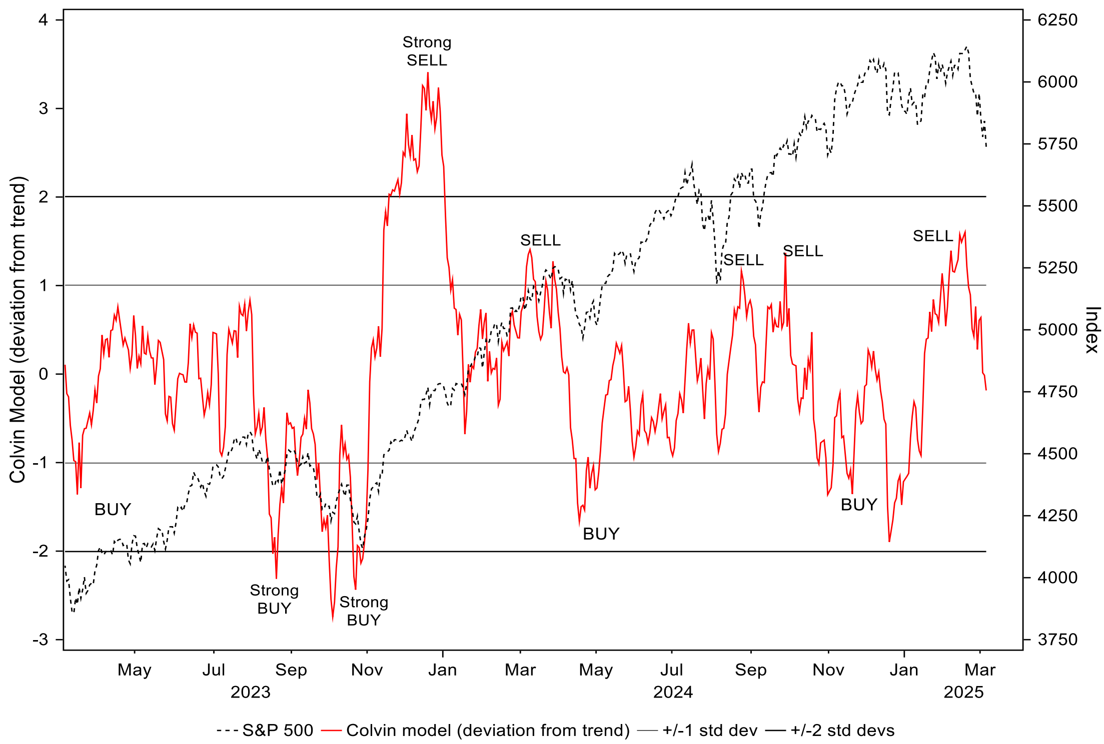
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is NEUTRAL

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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