Equity Index Futures Trading Recommendations

7th May 2025

"All Eyes on Fed/Market Leadership of Past Month now Overstretched"

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

- STAY 1/3rd SHORT S&P500 June futures (entry was last week at 5,670.0, just above the 50-day moving average).

- Keep the stop loss at 5,790.0, i.e. just over 1% above Friday's intraday high.

Rationale

Key US equity indices popped higher overnight on the back of China's stimulus announcement. That announcement included a 50bp cut in the RRR, a 10bp cut in the 7-day reverse repo rate (to 1.4% from 1.5%), which will, in turn, pull down key lending rates in the economy (e.g. the LPR). Multiple other (smaller) announced measures are detailed in this Bloomberg article: https://www.bloomberg.com/news/articles/2025-05-07/pboc-governor-among-top-chinese-officials-set-to-attend-briefing - see middle section of the article).

Chinese equity indices are currently trading around 0.5% to 1% higher, while the RMB has softened modestly (although traded notably higher yesterday in sympathy with various other strong Asian currency moves, like the TWD, Korean Won etc). The timing of the Chinese cuts likely reflects: i) the recent upward pressure on multiple Asian currencies; & ii) the agreement, over the past 24 hours, between China and the US to hold (de-escalation) trade talks in Switzerland this coming weekend (see https://www.bloomberg.com/news/articles/2025-05-06/bessent-greer-to-meet-with-china-to-start-trade-talks-this-week).

Despite that pop higher, both the **NDX100 and SPX** have remained **rangebound over the past 4 - 5 days** (FIG 1). The question therefore remains, as per yesterday: Are these indices **consolidating their gains** (whilst SELL signals unwind)**;** OR are they about to **roll over?**

Key short-term models remain on, or close to, SELL: Risk appetite remains high (FIGs 2 & 2a); technically the market is (close to) overbought at an index, sector and single stock level (FIGs 2c, 2d & 2e); while much of the downside hedging has been removed in the past month (FIG 2b). That model set-up, therefore, remains broadly as it has for the past few trading sessions.

Elsewhere, the parts of the market that have led the rally (i.e. since 8th April) **are now overbought** (see FAANMGs index, FIG 1d); while defensive sectors have (collectively) lagged (not surprisingly). As a result, long duration growth is now overbought relative to the defensive area of the market (with that model generating a short-term SELL signal, FIG 1e); while defensives are also oversold in the short term relative to the S&P500 (in turn generating a 'BUY defensives' signal* – FIG 1f).

All of that is, therefore, consistent with some near-term challenges for the recent market leadership and, therefore, the headline index.

Other medium-term models are also starting to reach high levels, e.g. see the ‘medium term RAG1 & RAG2 combined risk appetite’ model (FIG 1g).

As such, our view is unchanged from yesterday –> we remain SHORT S&P500 futures/see trading recommendation above.

Key events today are listed below and include the Fed meeting, announcement (7pm London time/2pm EST) and press conference (7:30pm London time/2:30am EST). While no rate cuts are expected (i.e. a 1.9% probability of a cut according to WIRP), the tone of Powell’s comments, as always, will be critical.

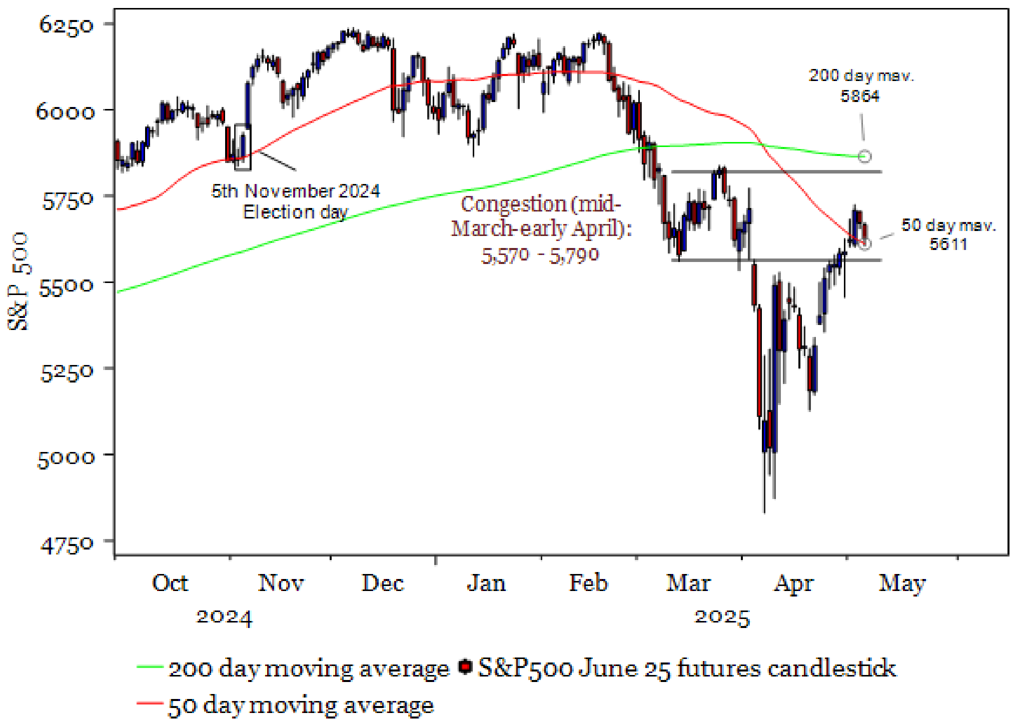
Kind regards,

The team @ Longview Economics

*NB which is equivalent to SELL the market, i.e. defensive sectors typically lead when the market falls.

FIG 1: S&P500 futures 10-day tick chart shown with overnight price action

FIG 1a: S&P500 June 25 futures candlestick shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

FIG 1b: S&P500 June futures shown with key Fibonacci retracement levels

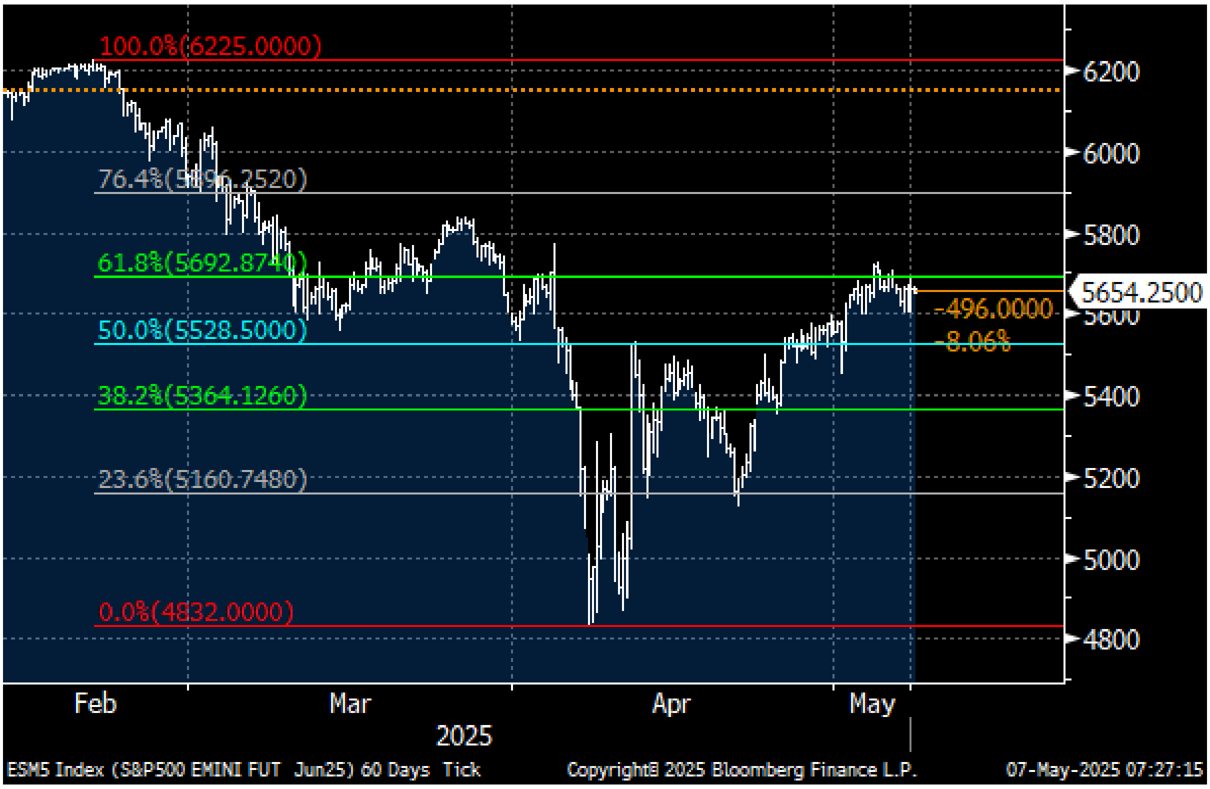


FIG 1c: S&P500 broken into cyclical, defensive and long duration growth/IT sectors (rebased to 100 1 Jan 2025)

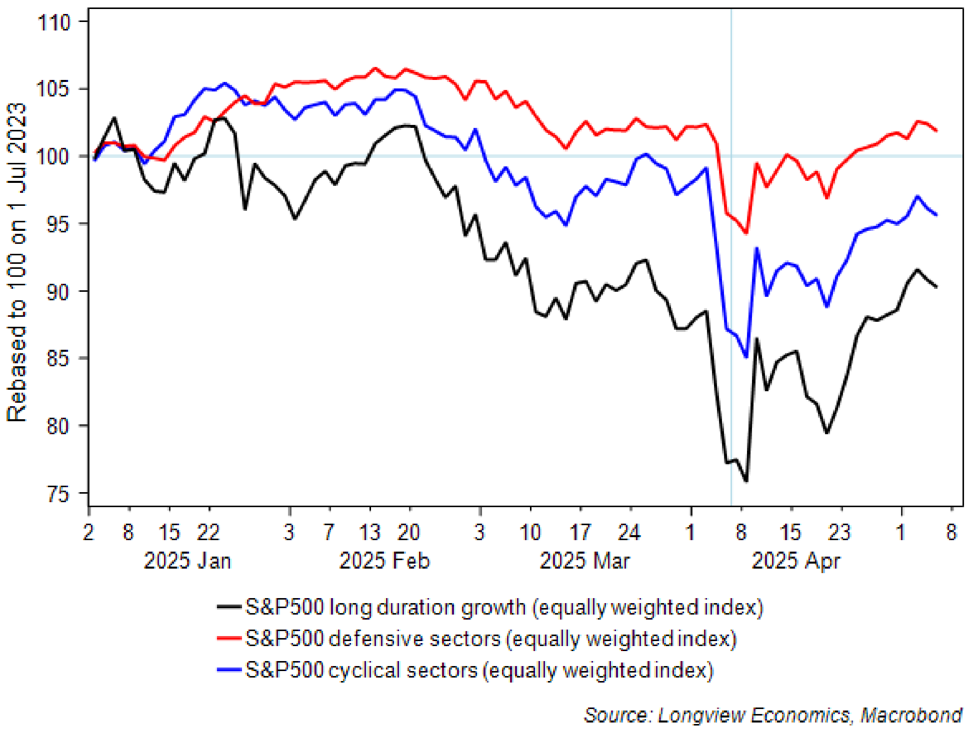


FIG 1d: Short term **'technical'** scoring system for an equally weighted basket of FAANMG stocks (vs. FAANMG stocks, equally weighted)

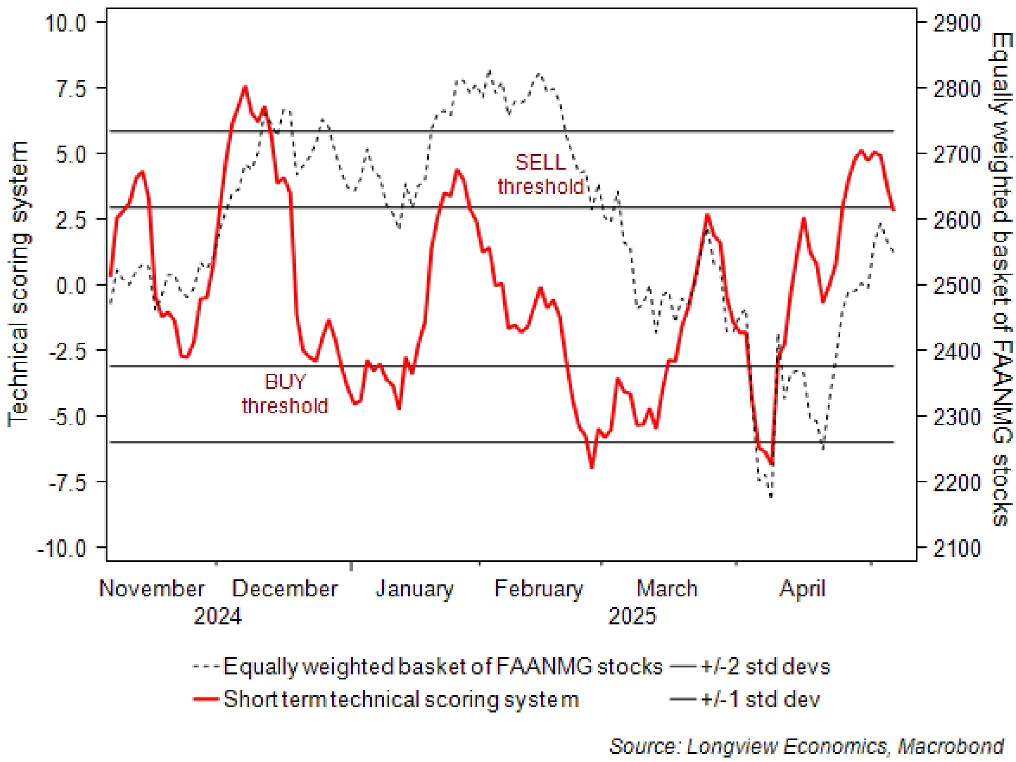


FIG 1e: Short term technical scoring system for 'long duration growth/tech' sectors relative to defensive sectors shown with relative performance

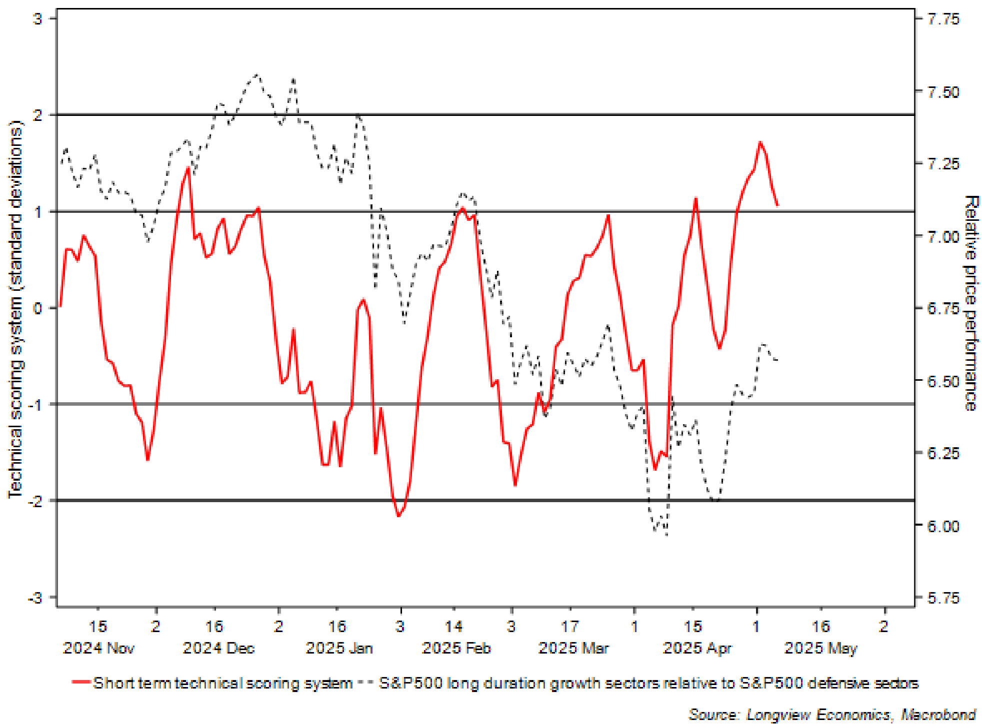


FIG 1f: Longview short term technical scoring system for S&P500 defensive sectors vs. defensive sectors index

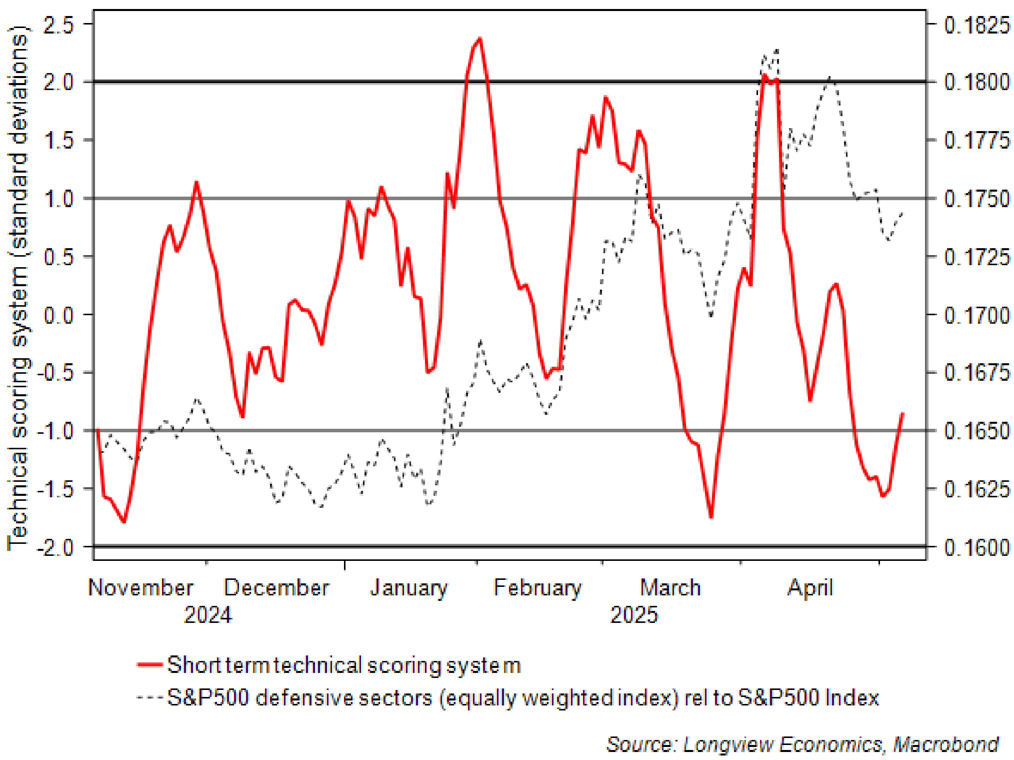
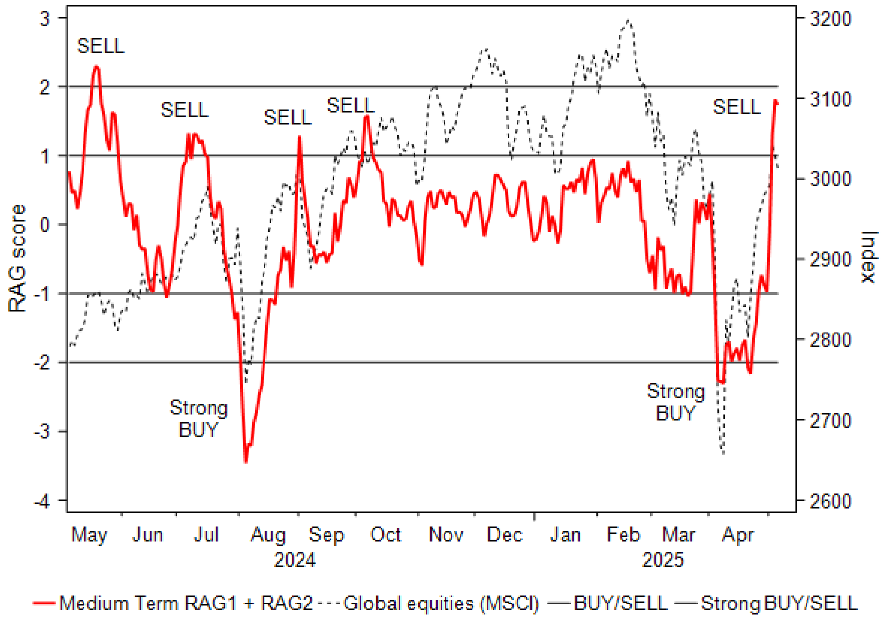


FIG 1g: Longview combined key **medium term 'risk appetite'** models (RAG1 + RAG2) vs. S&P500

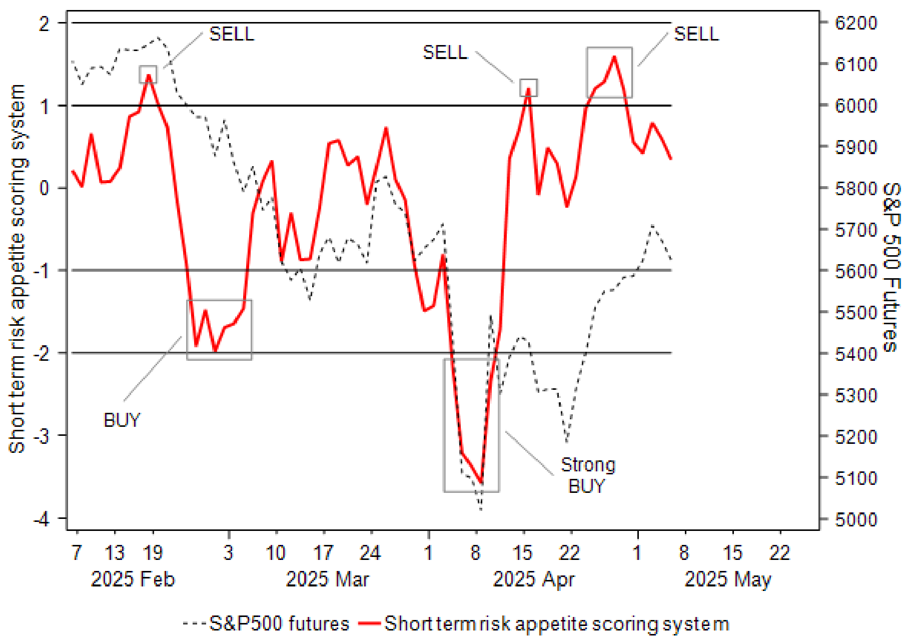


Source: Longview Economics, Macrobond

Key short term market timing models:

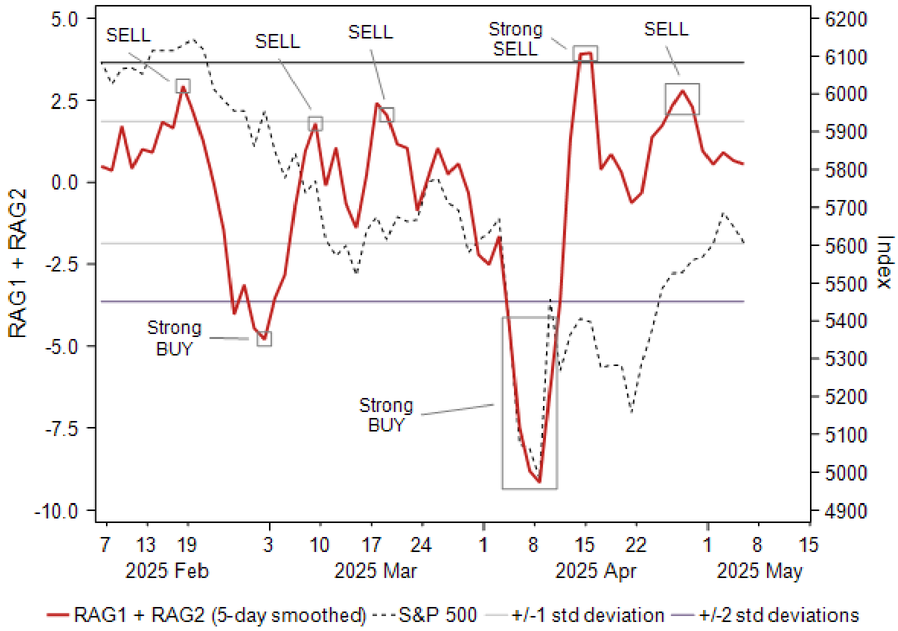
Risk appetite models have been rolling over from high levels (but remain close to SELL)…

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



Source: Longview Economics, Macrobond

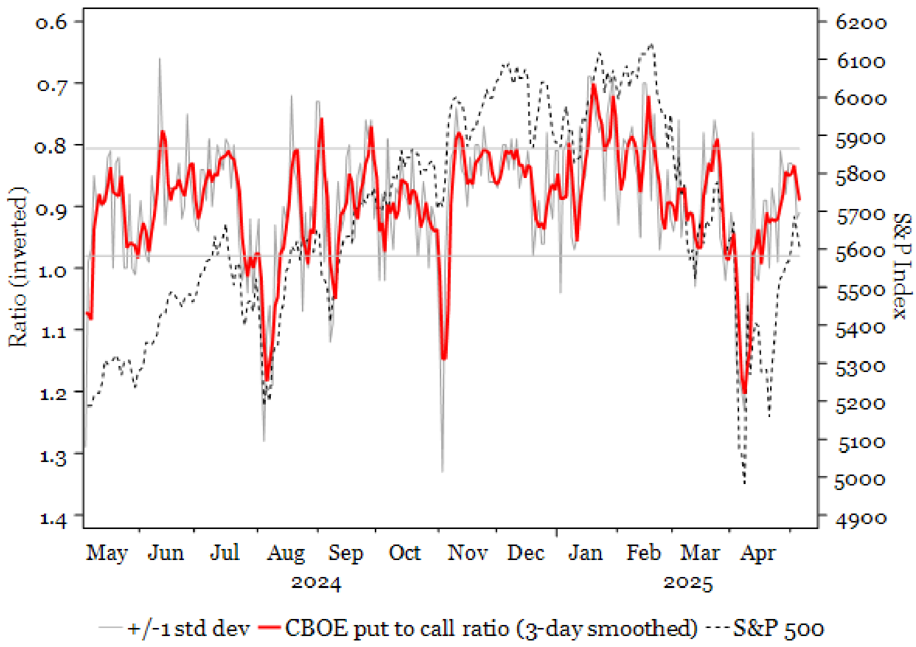
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

Downside put protection is at low levels, such that these models are on, or close to, SELL….

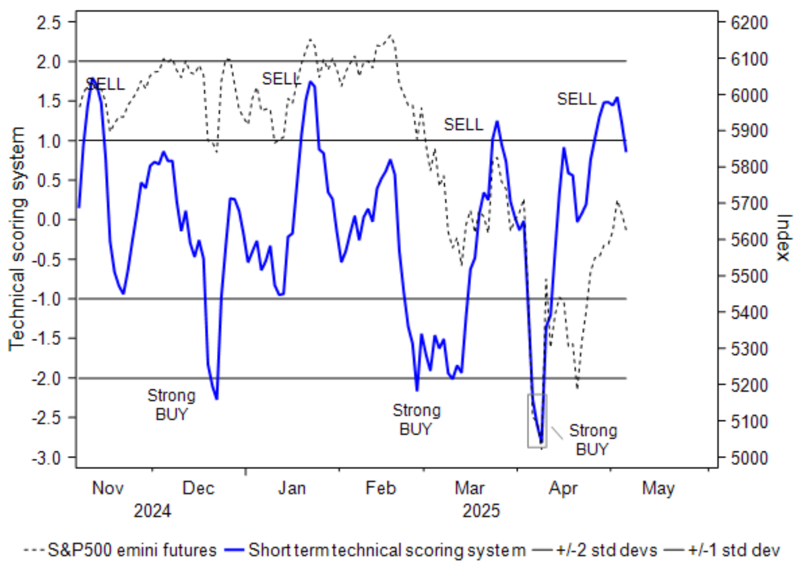
FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

Technical & price-based (index) models are mostly now on/close to SELL…

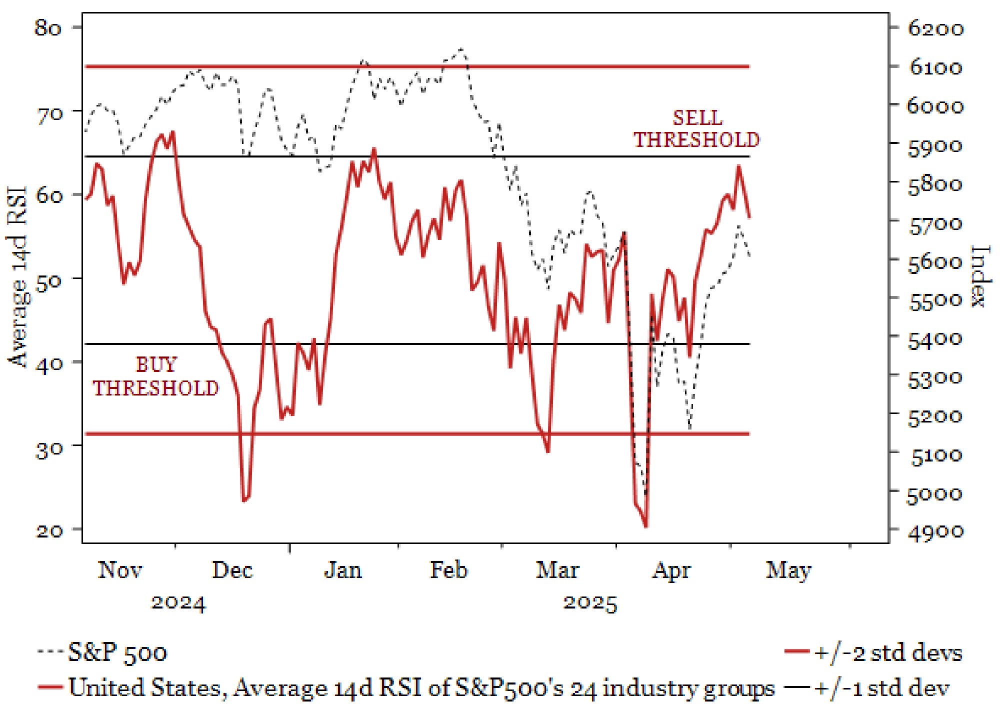
FIG 2c: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



Source: Longview Economics, Macrobond

US sectors are collectively close to SELL…

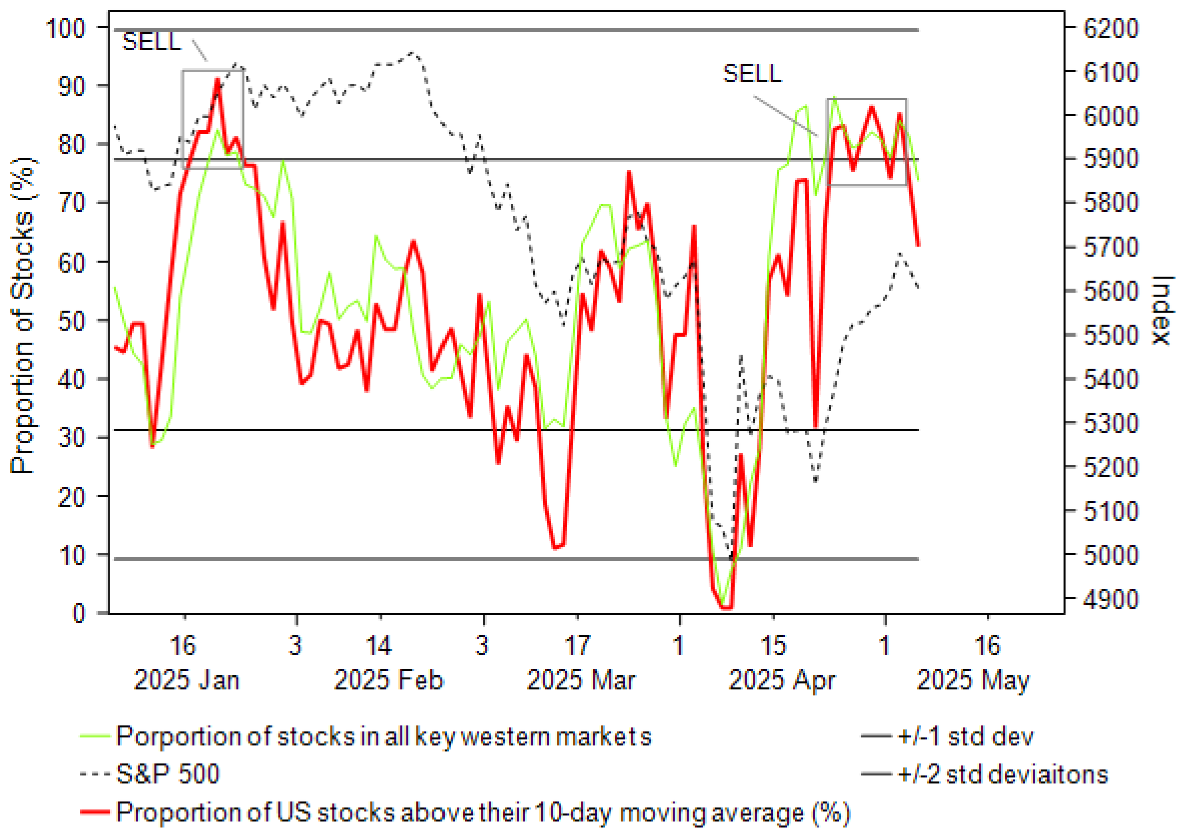
FIG 2d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

Single stock models are mostly on SELL/close to SELL....

FIG 2e: Proportion of Western stocks above their 10-day moving average vs. S&P500

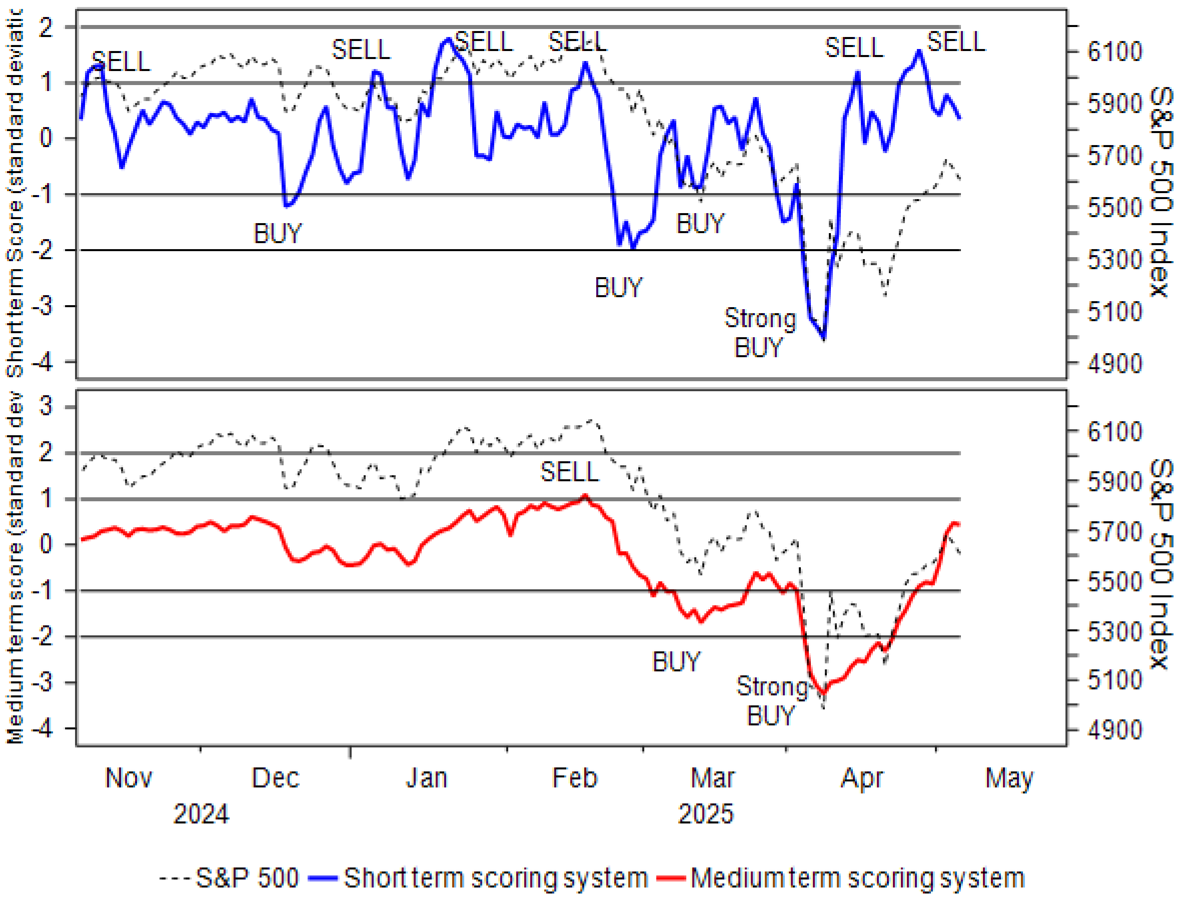


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL** (from SELL last week)
Medium term (1 – 4 month) scoring system: **NEUTRAL**

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 Jibun Bank services sector PMI (April final estimate, 1:30am); **German factory orders** (Mar, 7am); French private sector payrolls (Q1 first estimate, 7:45am); French trade balance (Jan, 7:45am); HCOB construction sector PMI for Germany (Apr, 8:30am); UK S&P construction sector PMI (Apr, 9:30am); Italian retail sales (Mar, 9am); **Eurozone retail sales** (Mar, 10am); US consumer credit (Mar, 8pm).

Key events today include: **Fed policy decision** (7pm) followed by press conference (7:30pm).

Key earnings today include: **Uber Tech**, **Walt Disney**, Arm, Applovin, DoorDash, Fortinet, **Novo Nordisk**, **UniCredit,** SoftBank Corp, Japan Tobacco, National Australia Bank, British American Tobacco, Zurich Insurance Group.

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 1st May 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

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1 – 2 Week View on Risk

7th May 2025

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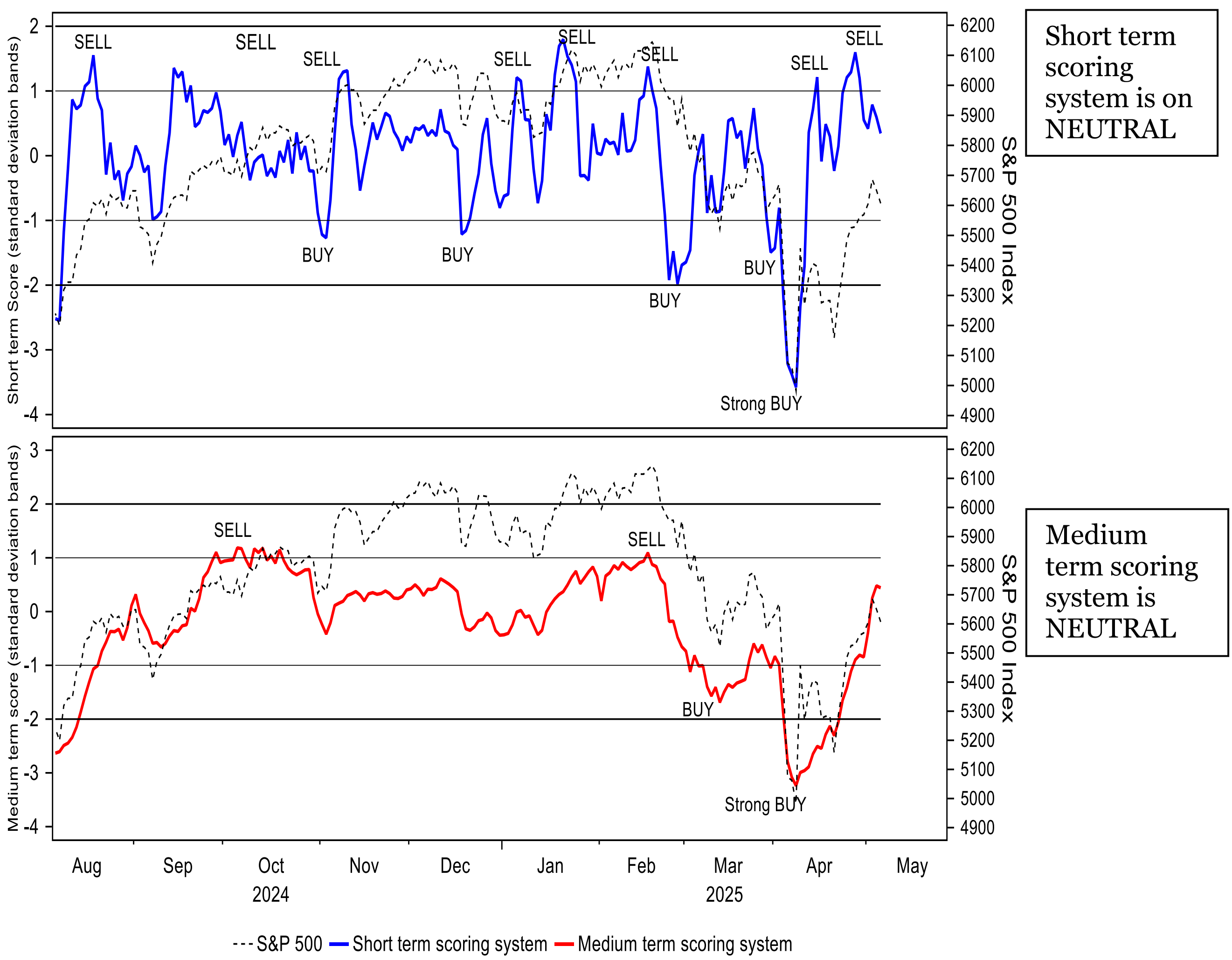
Section 1: Longview Scoring Systems (short & medium term*)

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



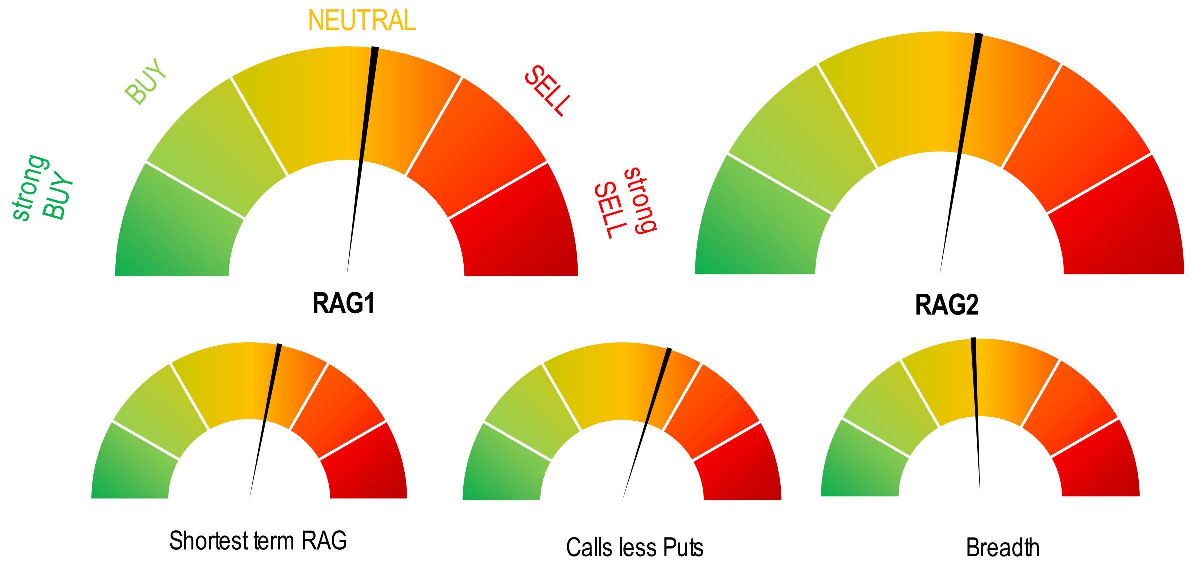
Source: Longview Economics, Macrobond

*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

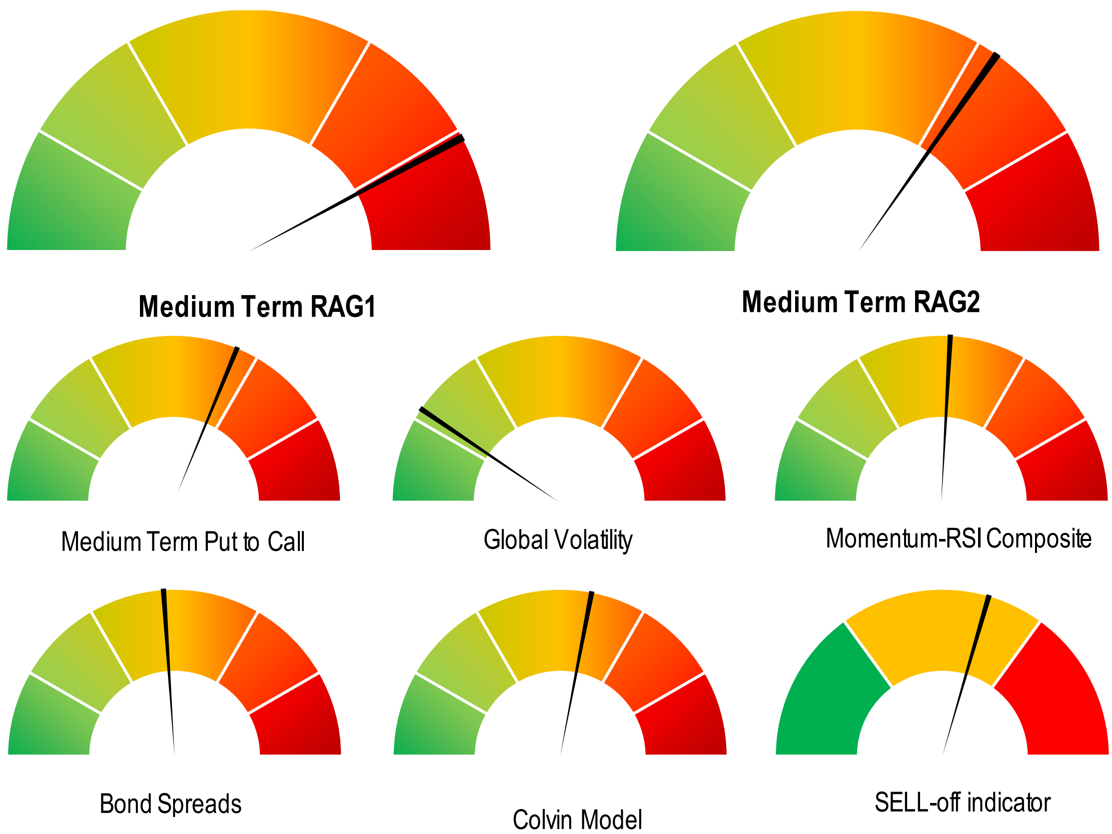
Section 1a: Summary of indicator signals**

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

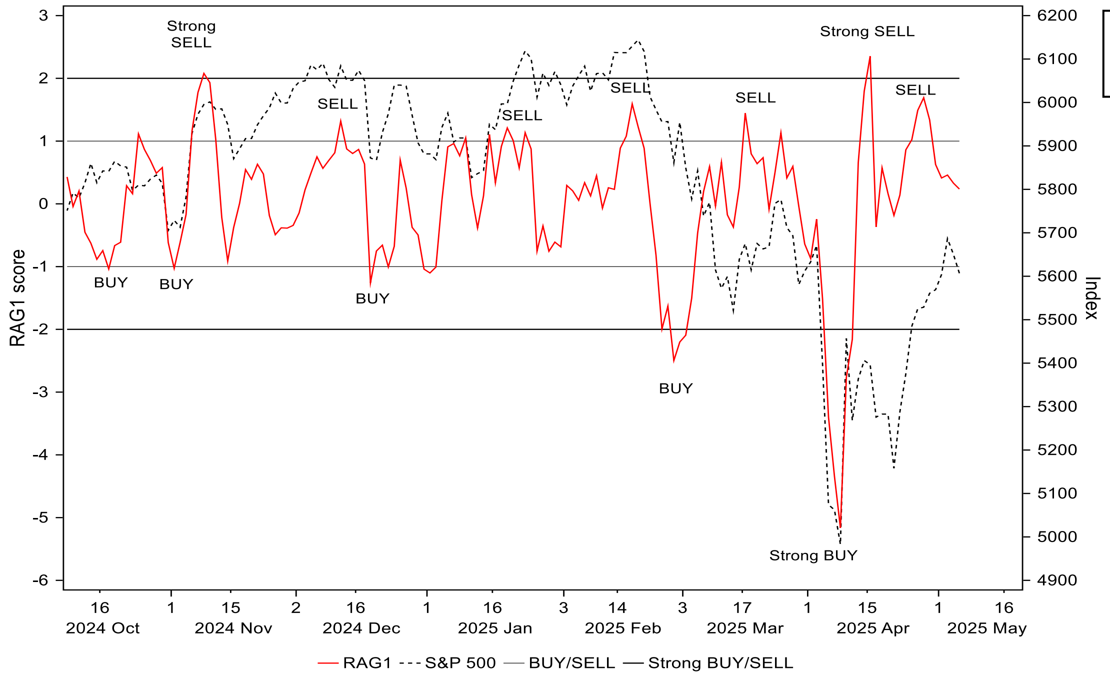


Source: *Longview Economics*

**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

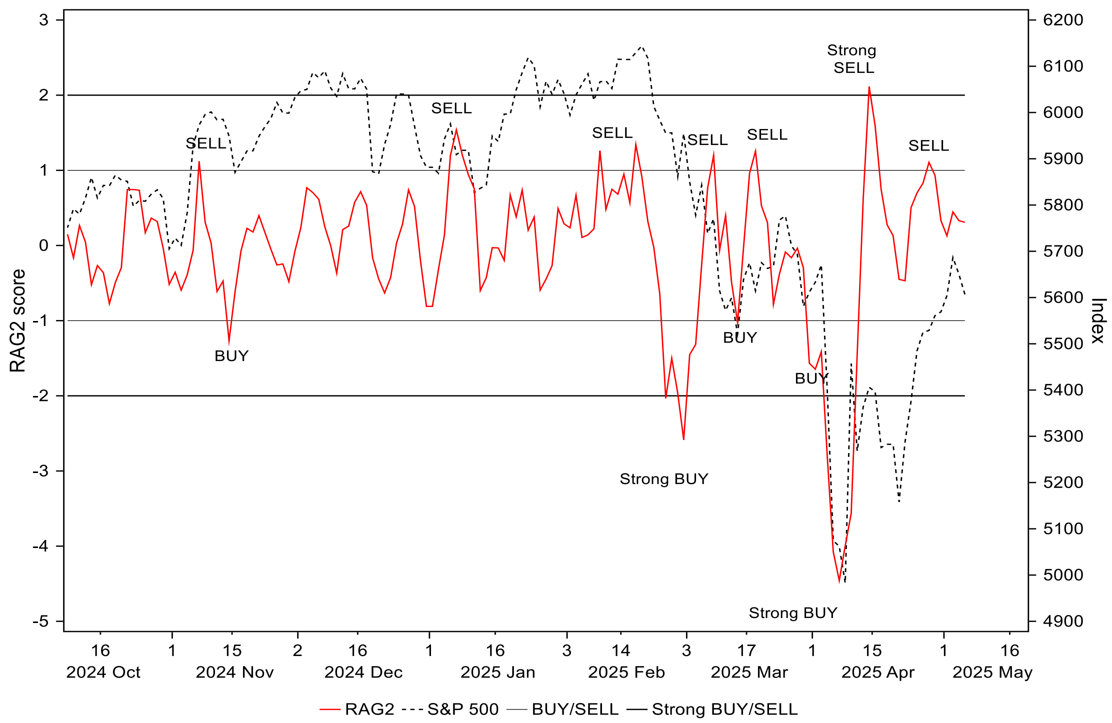
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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



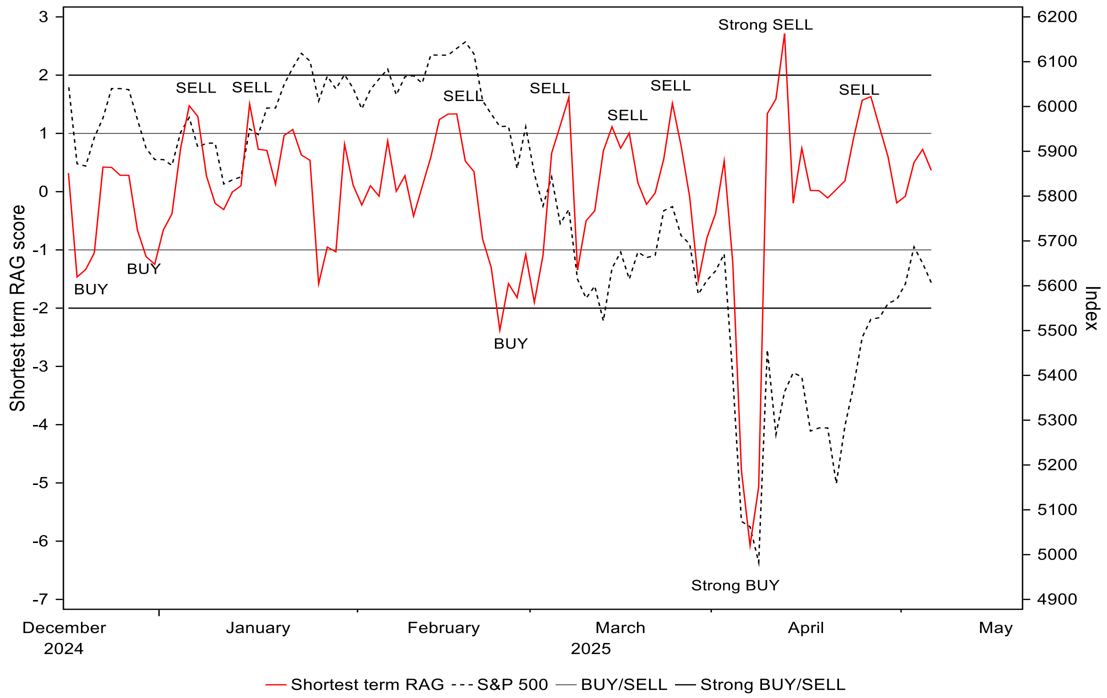
RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

LVRAG Daily Risk Appetite Gauge

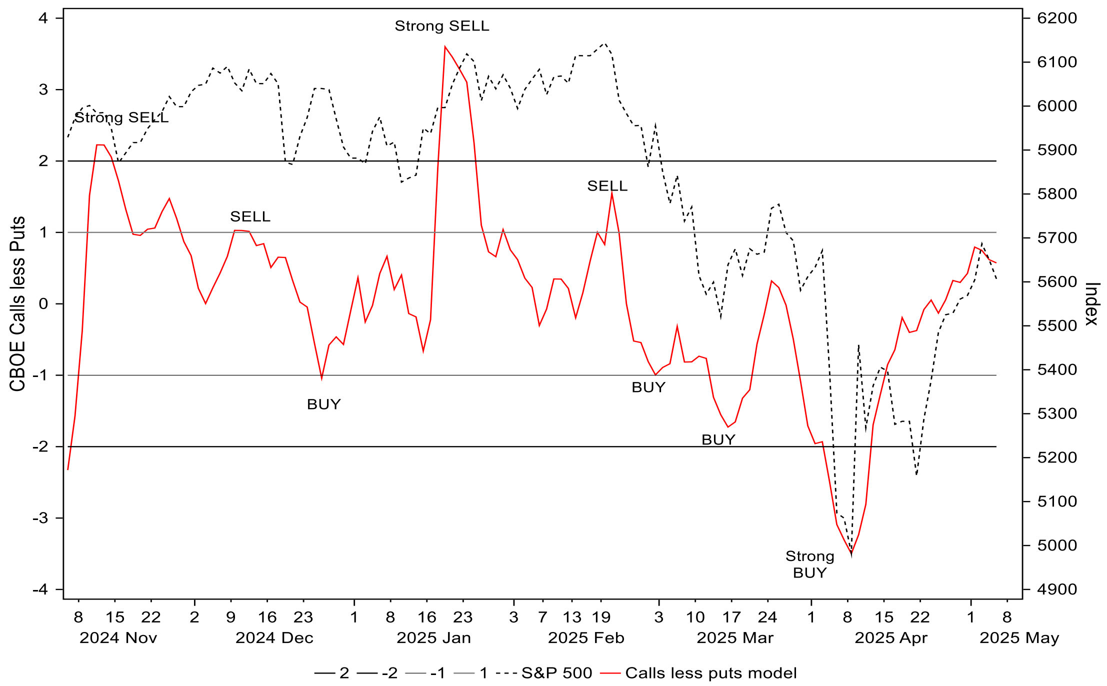
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

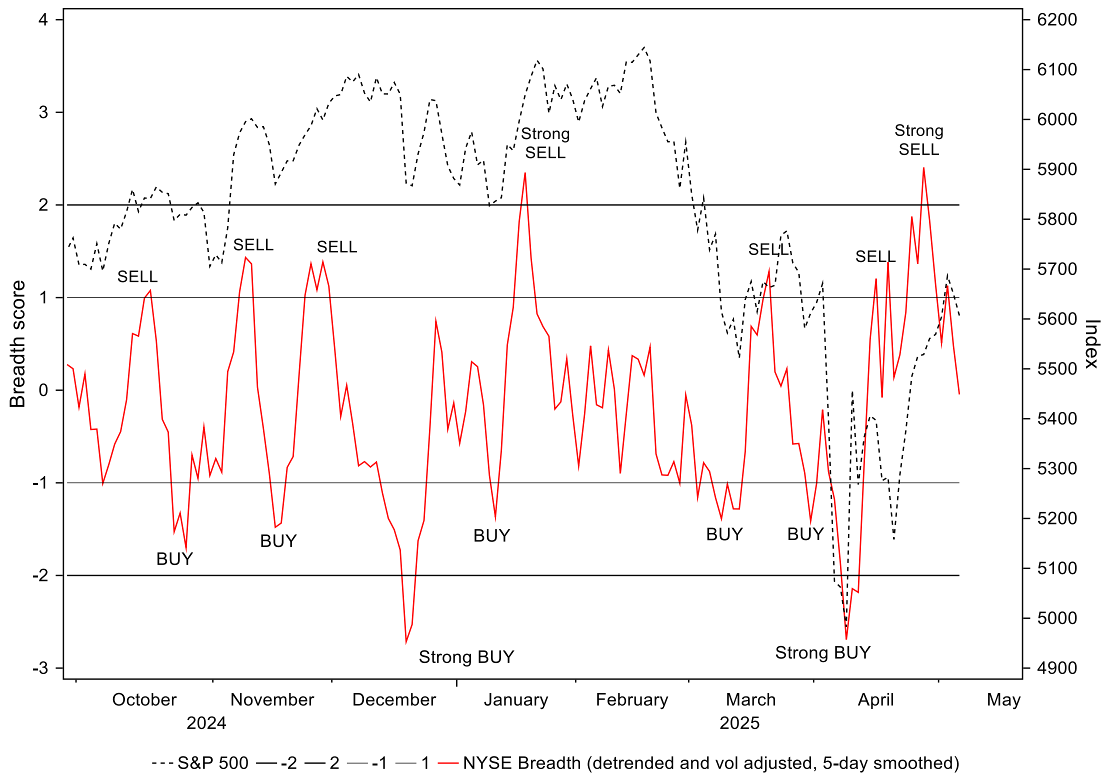


Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

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



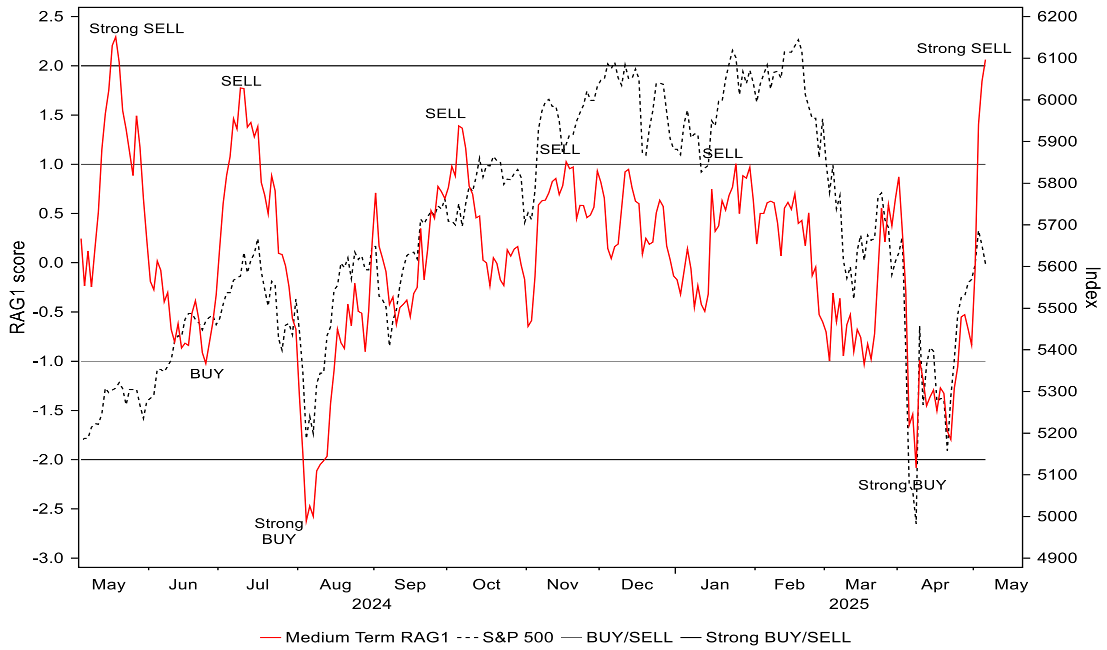
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

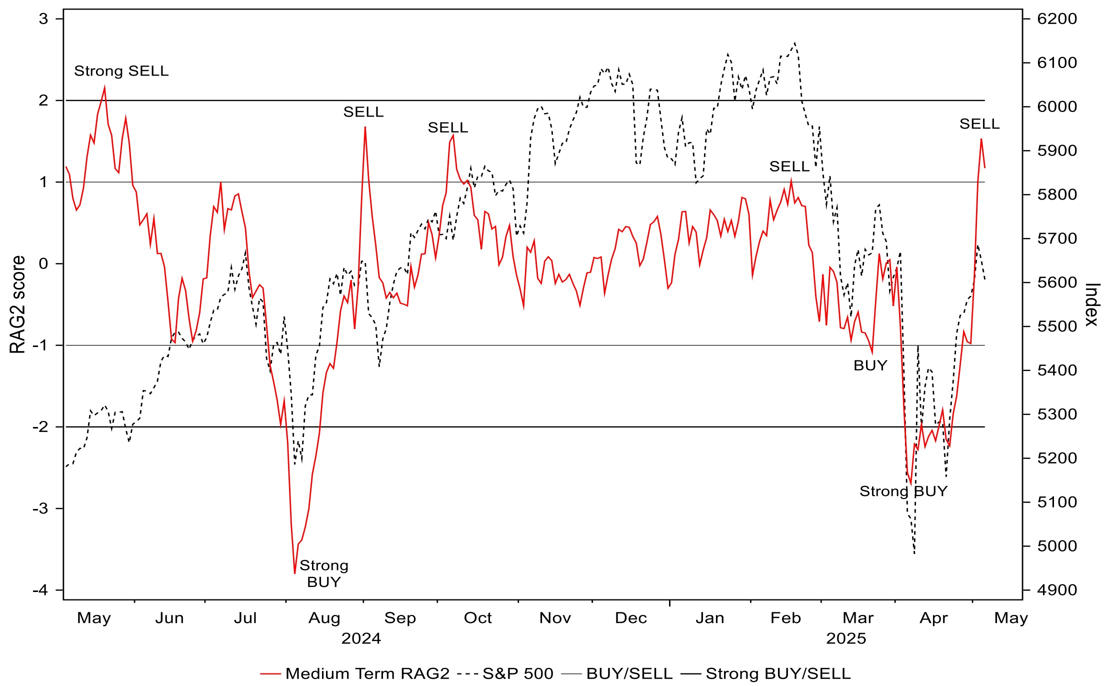
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on Strong SELL

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

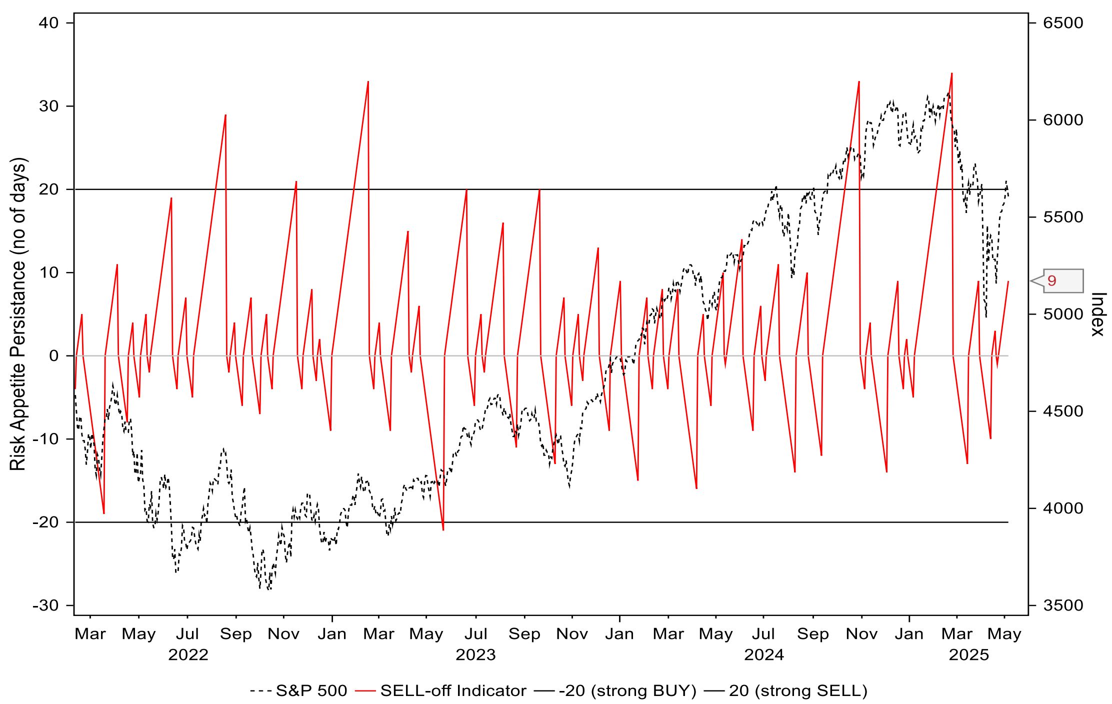


Source: Longview Economics, Macrobond

Medium term RAG2 is on SELL

For explanations of indicators please see page 10

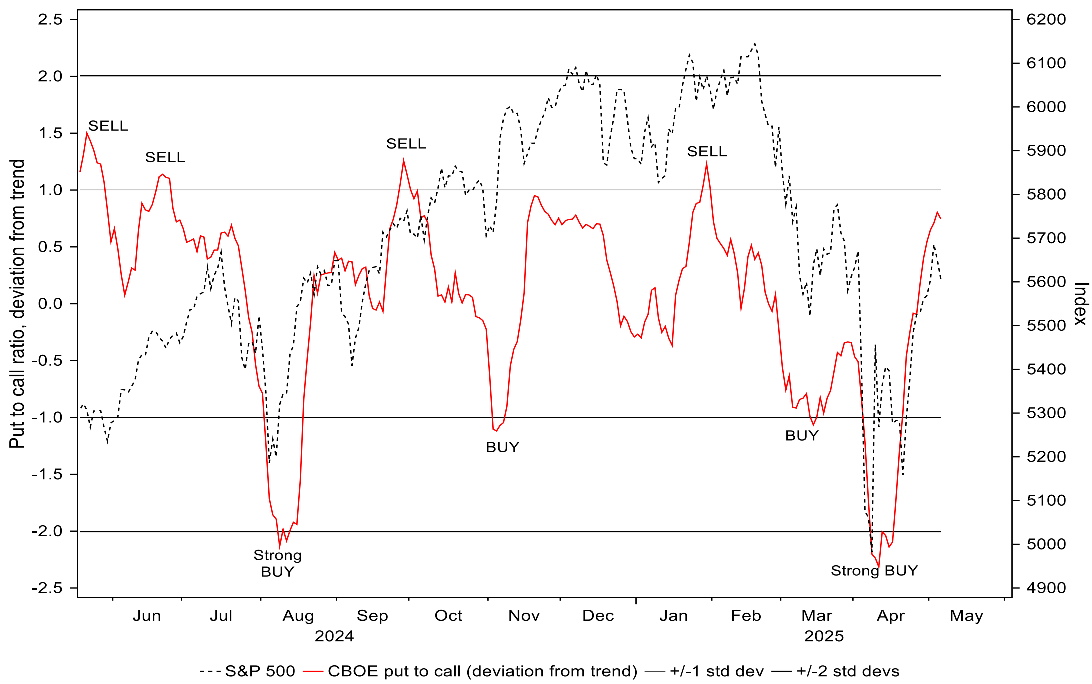
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

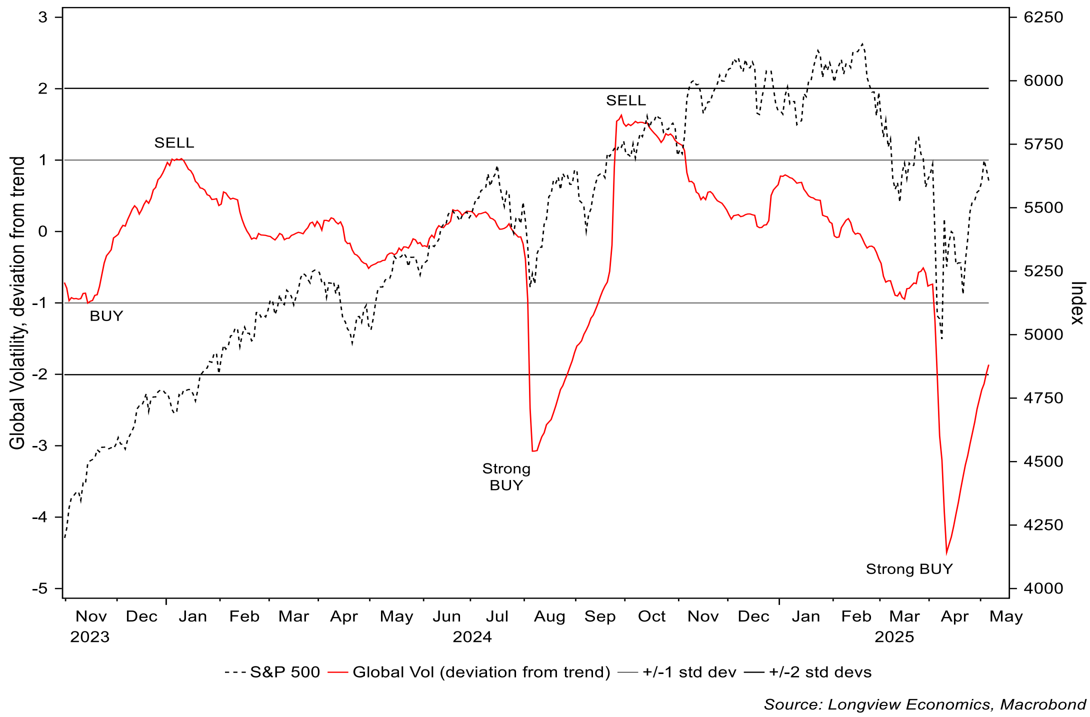


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

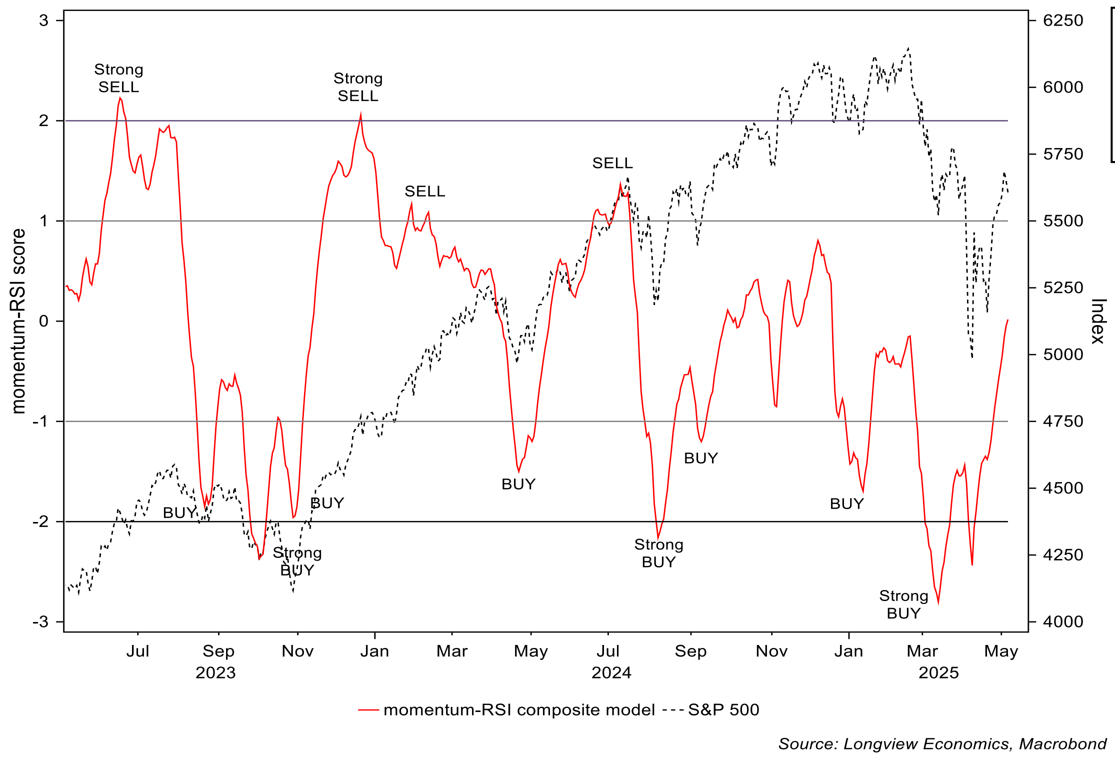
For explanations of indicators please see page 10

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



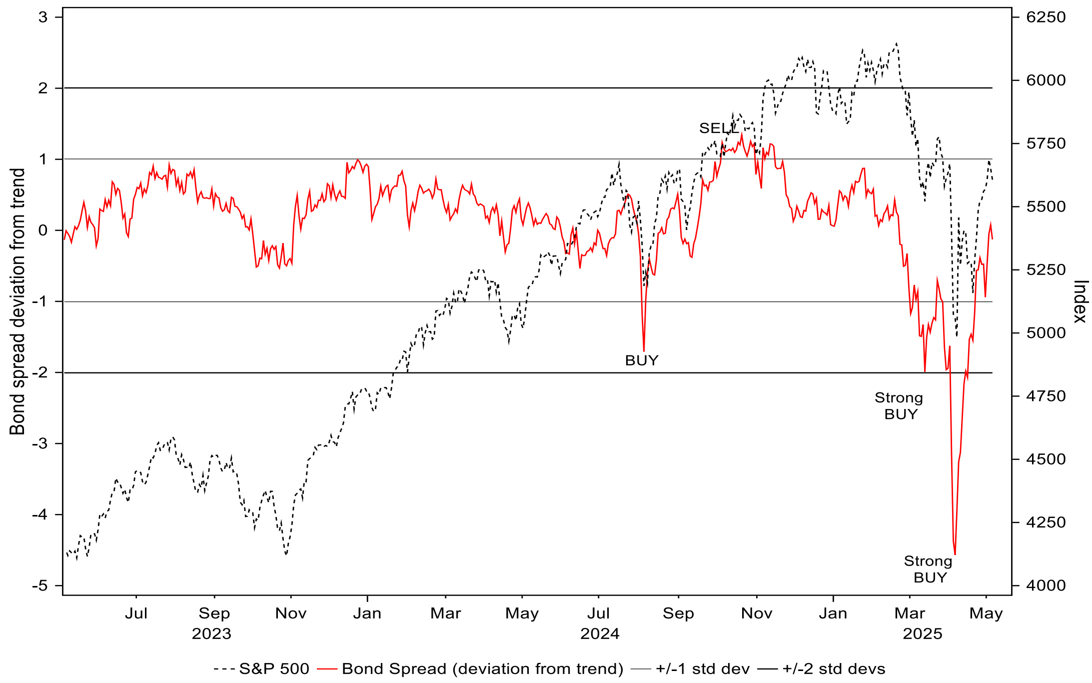
Global volatility indicator is on BUY

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



US momentum RSI composite model is NEUTRAL

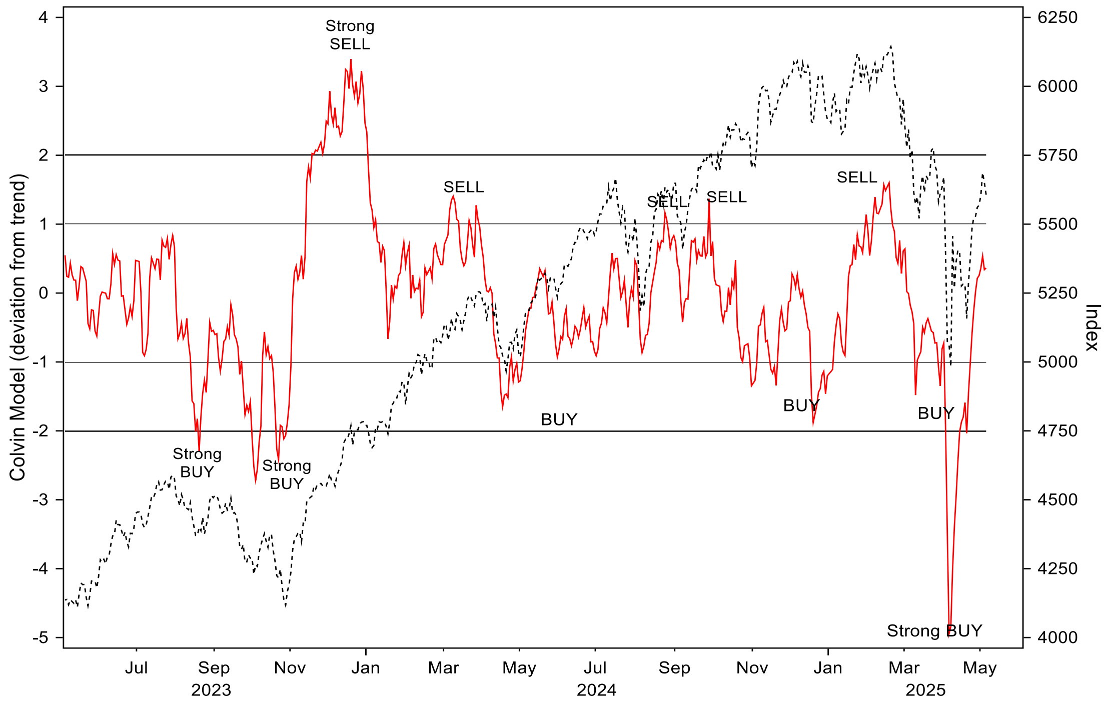
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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