LVRAG

Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

8th May 2025

"Stay SHORT SPX - models on/close to SELL"

Email: info@longvieweconomics.com

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

"data could easily favour one or other of the Fed's goals"; "appropriate to be patient"; "risks of higher unemployment, higher inflation have risen"

Source: Chair Powell, Fed press conference, 7th May 2025

Yesterday's Fed decision was as expected with no major surprises in the press conference afterwards. Powell and the committee re-iterated the same message from recent weeks/months (a 'wait and see' approach), with a highly uncertain outlook given the unknowability about how tariffs will eventually land. With that, the risks to both sides of their mandate remain (that is, potentially lower growth and possibly higher inflation as well – see quotes above). As such, the decision was no change in rates (as was widely expected).

Consistent with that, 1 and 2 year US government bond yields were largely unchanged (2-year yields closed at the same level as the prior day); while the market (i.e. Fed fund futures) priced out 2bps of rate cuts in 2025 and pushed an extra 3.5bps more cuts into 2026 (i.e. pushed out the easing – FIG 1). That move of rate cuts into 2026 is a continuation of the trend this month, with an extra 12bps of cuts now priced into 2026 (since the end of April).

US equities, meanwhile, whilst choppy intraday (and stronger overnight) remain in the trading range that's been in place over the course of May (FIG 1a). That is, we're no closer to resolving the question of whether the S&P500 is (i) consolidating its gains (and unwinding its SELL signals, in preparation for its next leg higher); or (ii) rolling over.

The main short-term models have continued to edge lower from their 'across the board' SELL message last week. Overall, though, they remain close to SELL (see FIGs 2 to 2f). There was some put covering yesterday, such that the main underlying 1-day CBOE put to call ratio moved up to its SELL level (with the 3-day model, therefore, likely to edge higher over the next 1 – 2 days). Medium term risk appetite models are also now at high/SELL levels (e.g. see FIG 1d).

Added to that, there's a lot of good news effectively priced into equity markets: A tariff deal with the UK, for example, is expected to be announced shortly; China and the US are sitting down for talks in Switzerland this coming weekend (albeit the topic is 'de-escalation' and not yet a discussion of a 'deal'); while America is currently negotiating with multiple countries (the White House claims it's more than 50). Of late, the direction of travel of the newsflow has been mostly positive. Despite that, however, the S&P500 has only been gone sideways for the past 4 – 5 trading sessions.

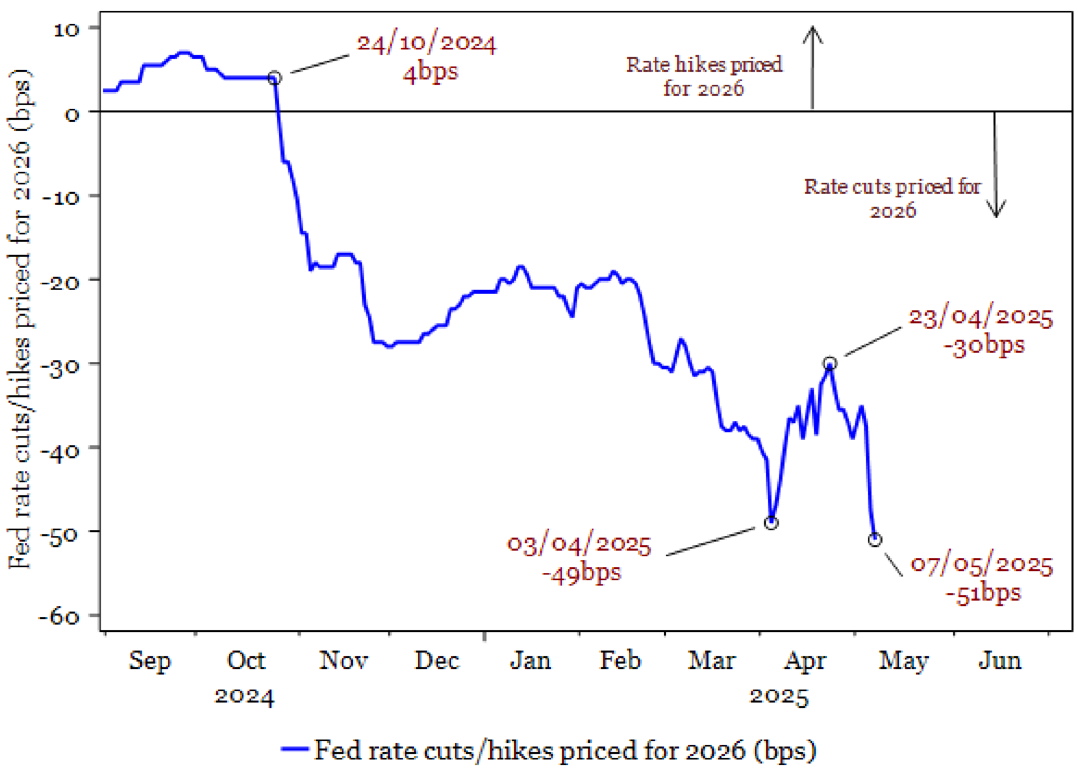
Our view, therefore, remains as per yesterday. We **recommend remaining SHORT S&P500 futures** with an unchanged stop loss. Models retain a clear SELL bias. After such a strong rally from the April lows, some giveback on a '1 – 2' week timeframe is likely. The market remains vulnerable to a sudden deterioration in the newsflow (whether tariffs, macro data or geopolitical issues, e.g. the India-Pakistan situation), especially given the recent removal of downside put protection (hedging), see FIG 2b. Currencies also remain a source of potential volatility (with sharp moves this week in various Asian currencies, e.g. see FIG 1b).

Key events today are listed below and include the Bank of England policy decision (12pm London time) & press conference (12:30pm).

Kind regards,

The team @ Longview Economics

FIG 1: Fed rate cuts/hikes priced for 2026 (bps)



Source: Longview Economics, Macrobond

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

FIG 1b: USDHKD spot rate, 10 day GIP shown with overnight price action

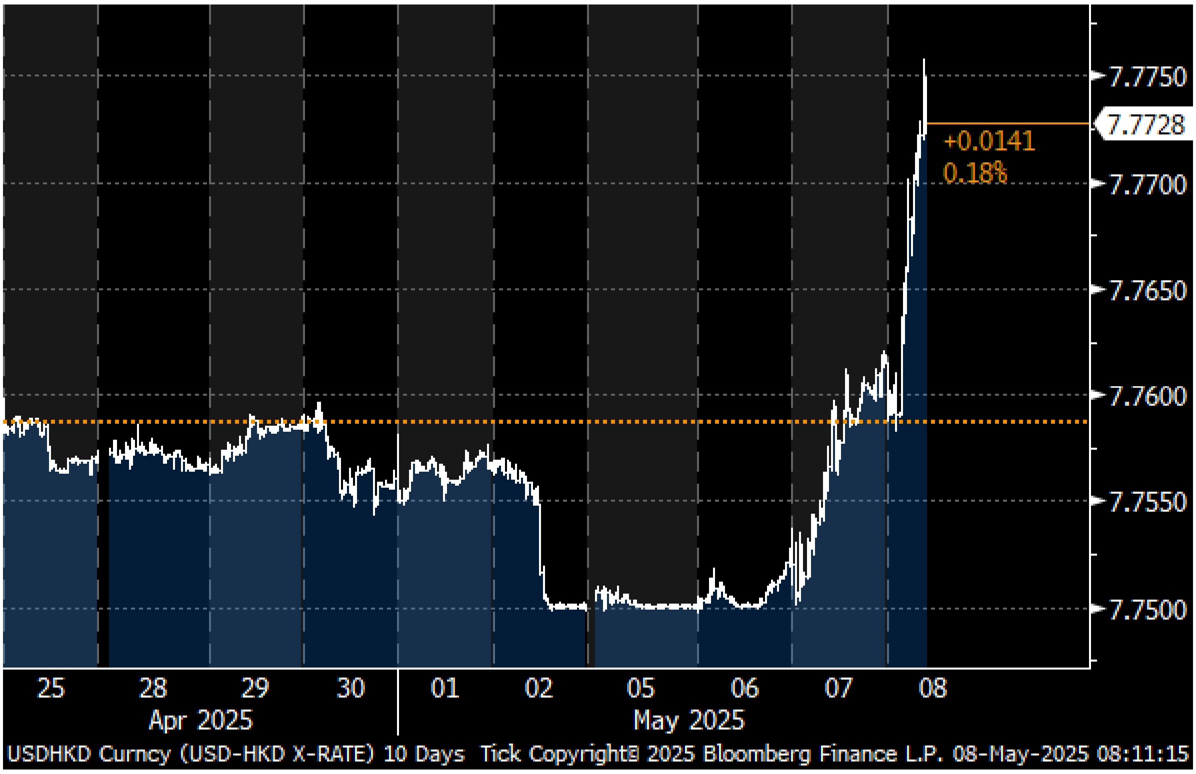
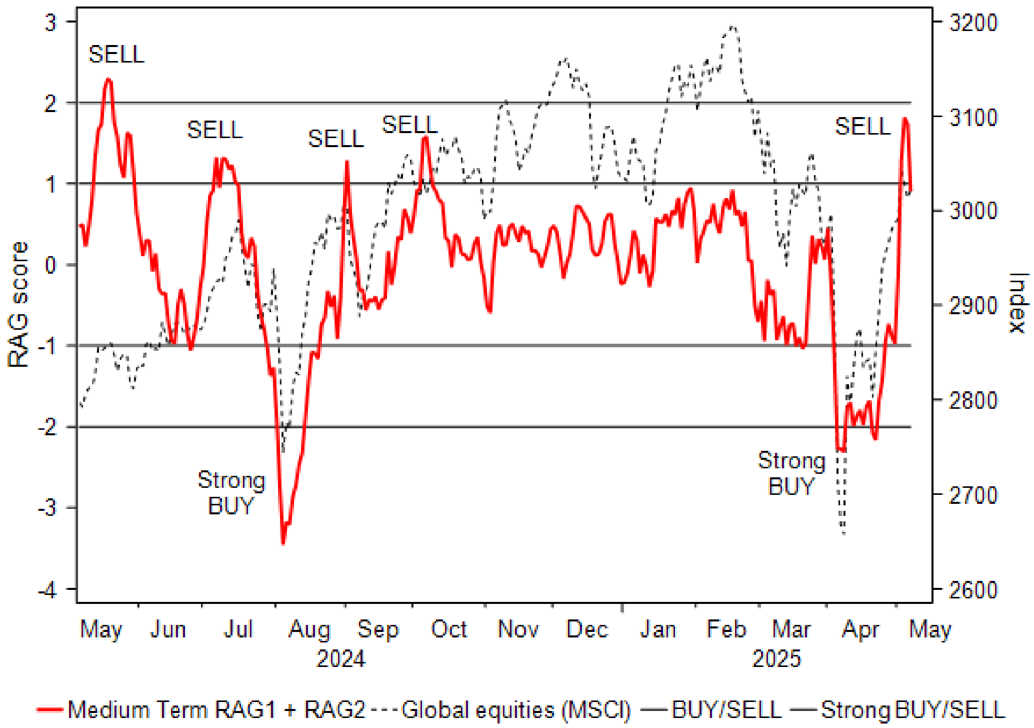


FIG 1c: S&P500 June futures shown with key Fibonacci retracement levels

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

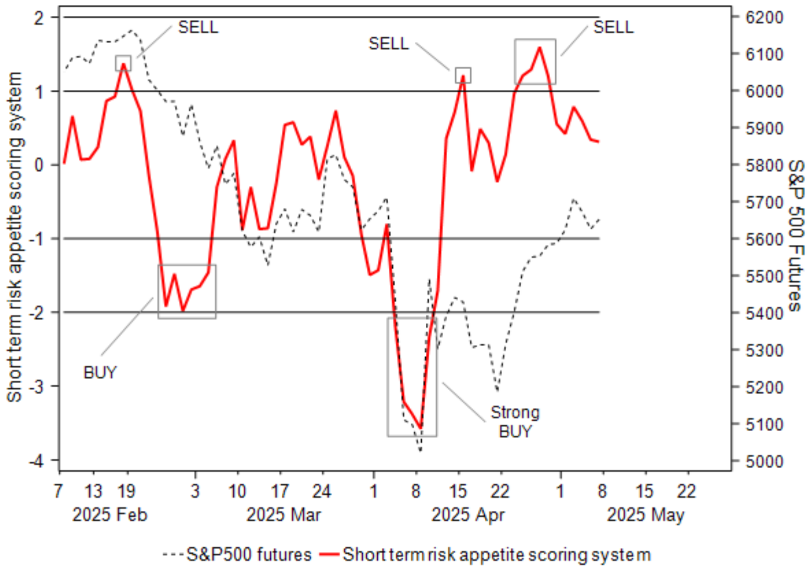


Source: Longview Economics, Macrobond

Key short term market timing models:

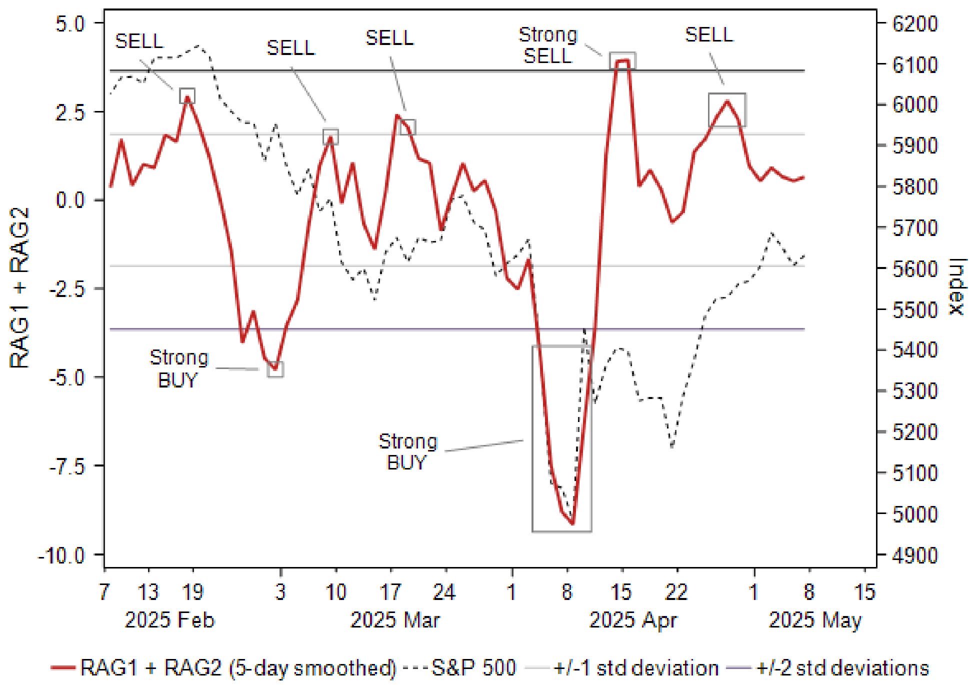
Risk appetite models have been rolling over from high levels (but remain close to SELL)…

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



Source: Longview Economics, Macrobond

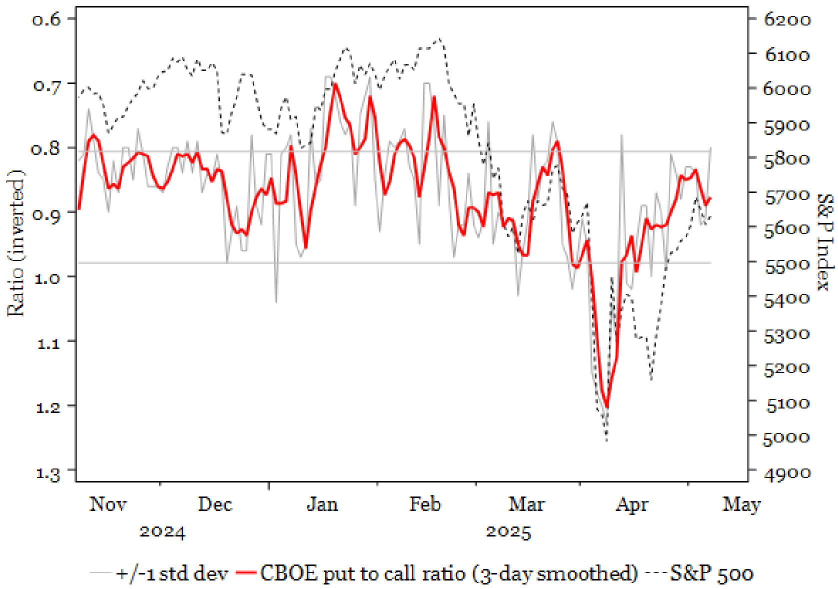
FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

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

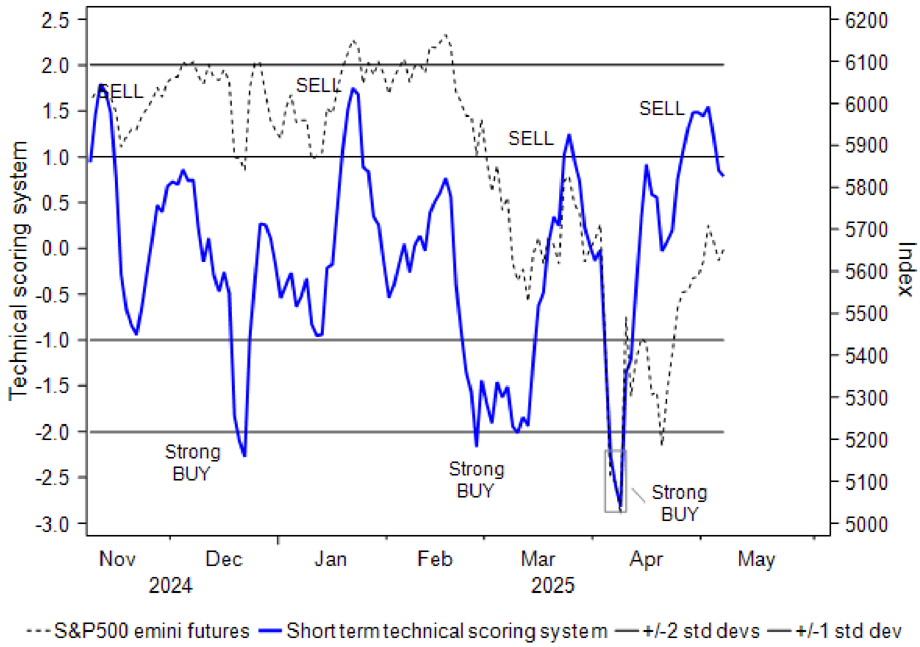
FIG 2b: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

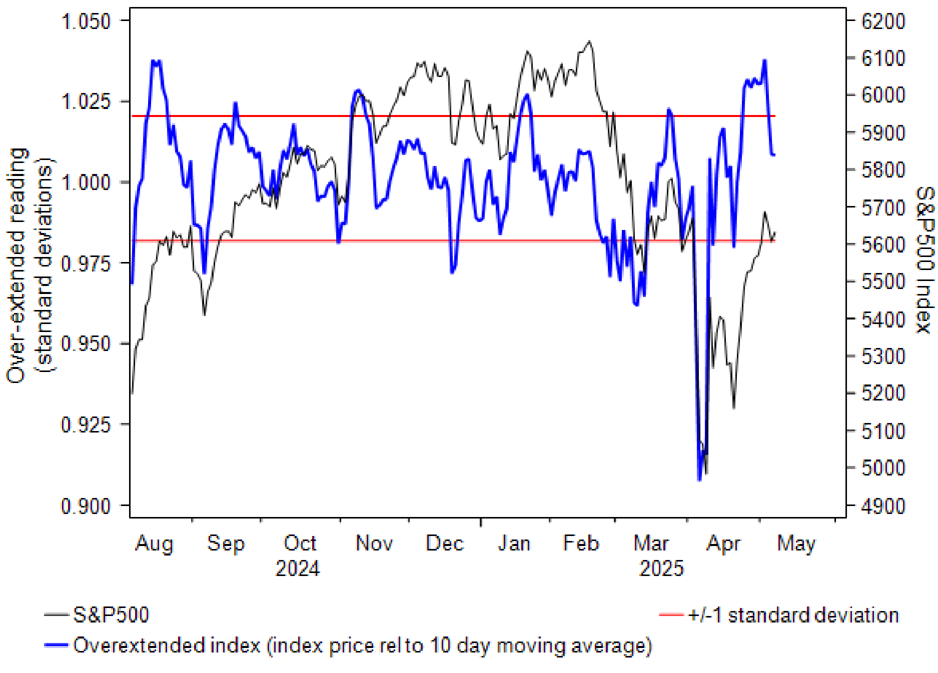
Technical & price-based (index) models are mostly close to SELL...

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



Source: Longview Economics, Macrobond

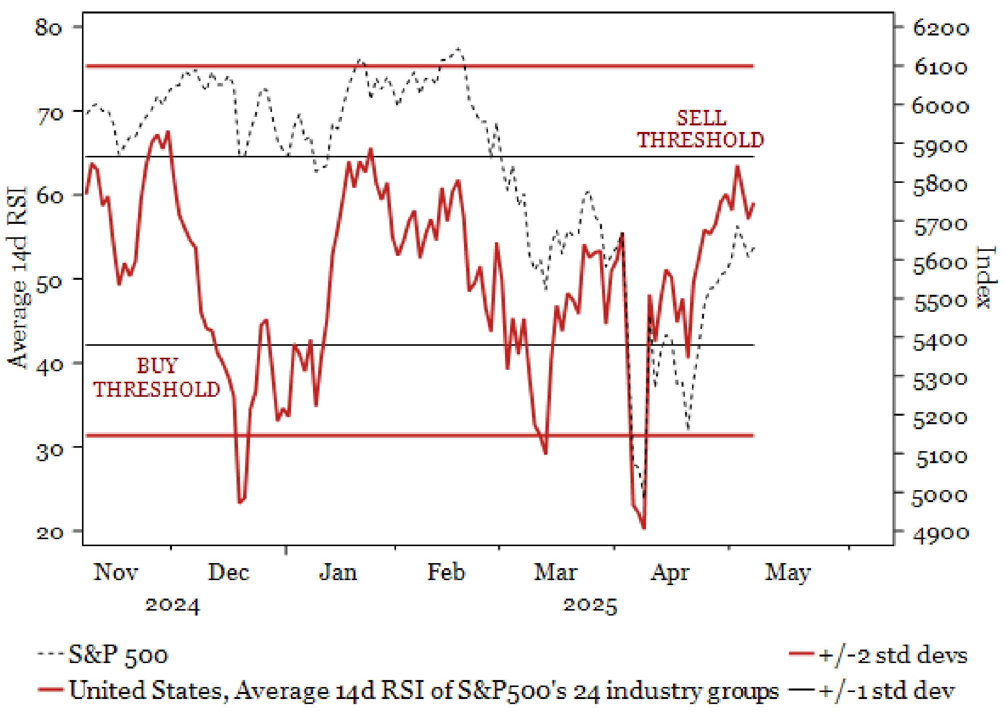
FIG 2d: S&P500 overextended index (index price relative to 10 day moving average) vs. S&P500



Source: Longview Economics, Macrobond

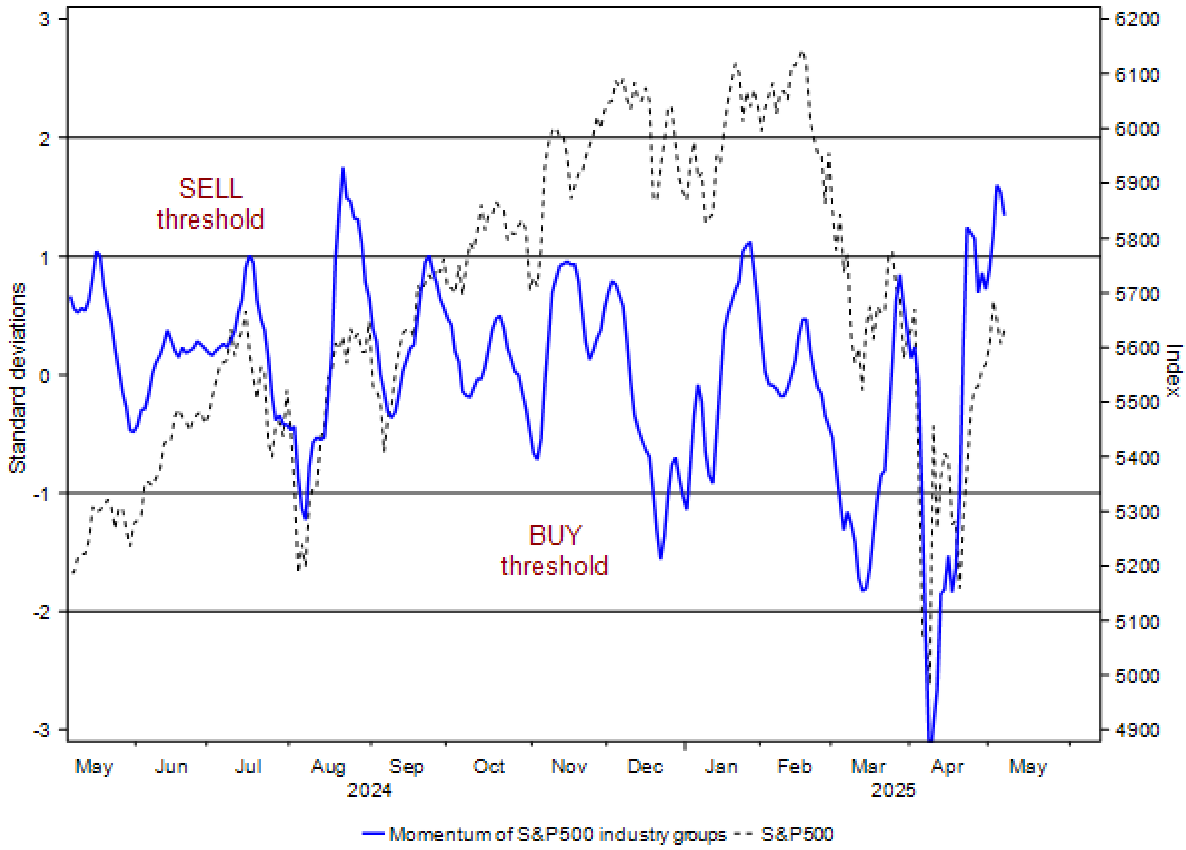
US sector models are collectively close to SELL…

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



Source: Longview Economics, Macrobond

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

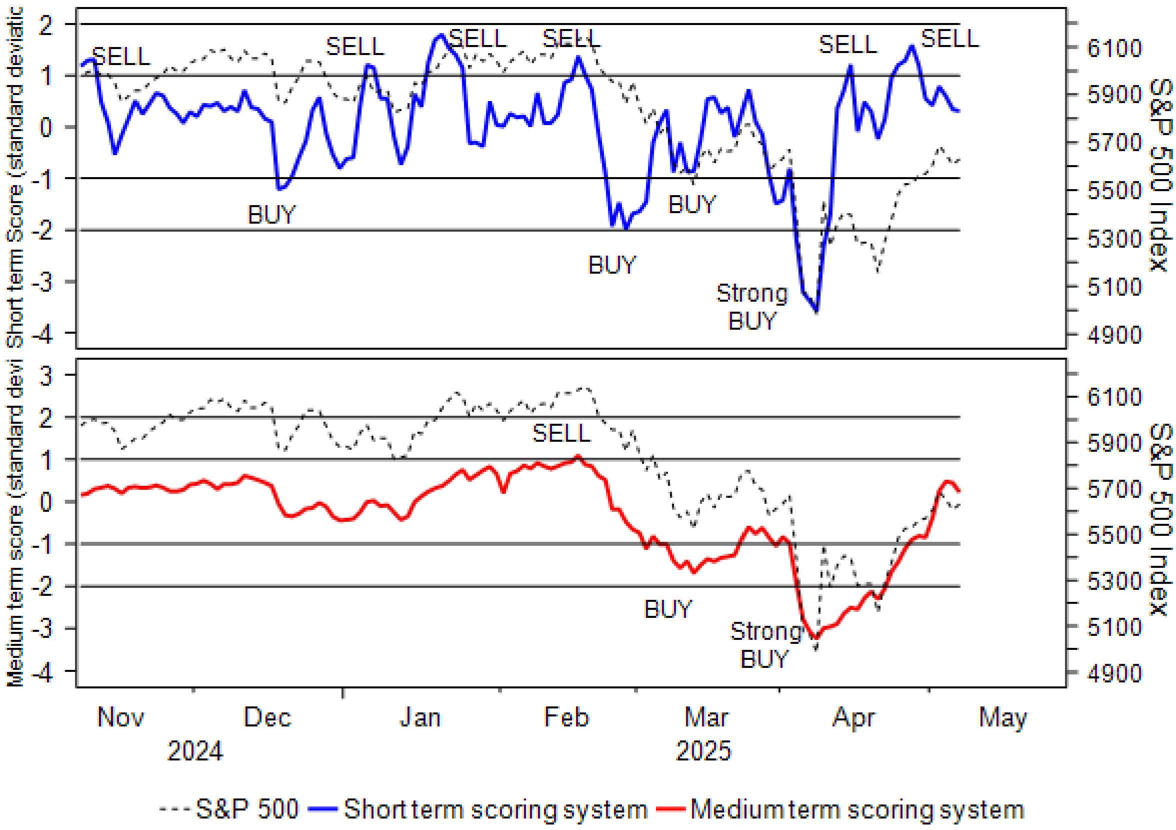


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**
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: **UK RICS house price balance** (Apr, 12:01am); **German industrial production** (Mar, 7am); German imports/exports, & trade balance (Jan, 7am); Spanish industrial production (Mar, 8am); US nonfarm productivity & unit labour costs (Q1 first estimate, 1:30pm); US weekly jobless claims (1:30pm); US wholesale sales & inventories (Mar, 3pm); US New York Fed 1 year inflation expectations (Apr, 4pm).

Key events today include: **Bank of England policy decision & minutes** (12pm), followed by press conference (12:30pm); BOJ minutes of March meeting (12:50am); Riksbank policy decision (8:30am).

Key earnings today include: Toyota, Shopify, ConocoPhillips, MercadoLibre, McKesson, Enel, Mitsubishi Heavy Industries, Takeda Pharmaceutical, Nintendo, Panasonic, ANZ Holdings.

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

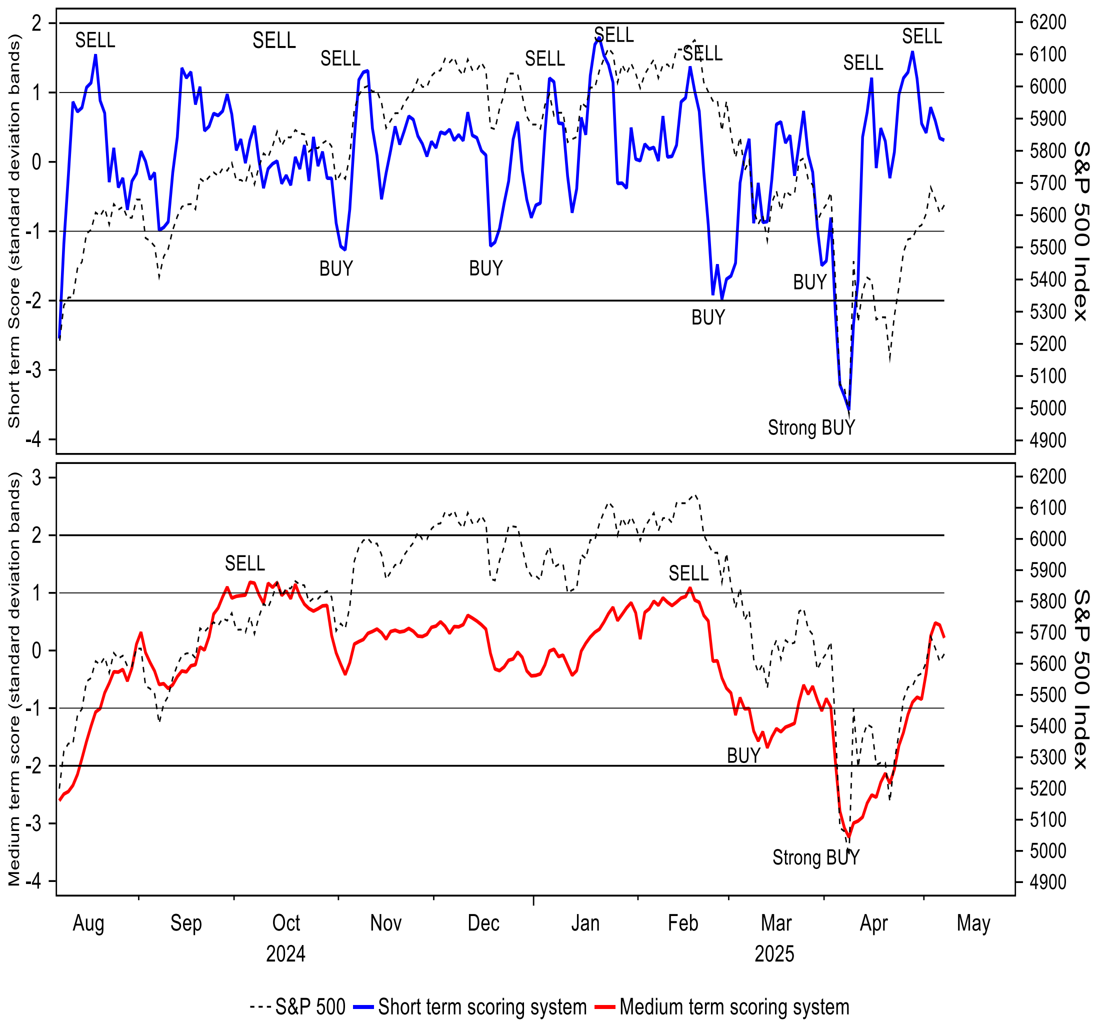
1 – 2 Week View on Risk

8th May 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 NEUTRAL

Medium term scoring system is NEUTRAL

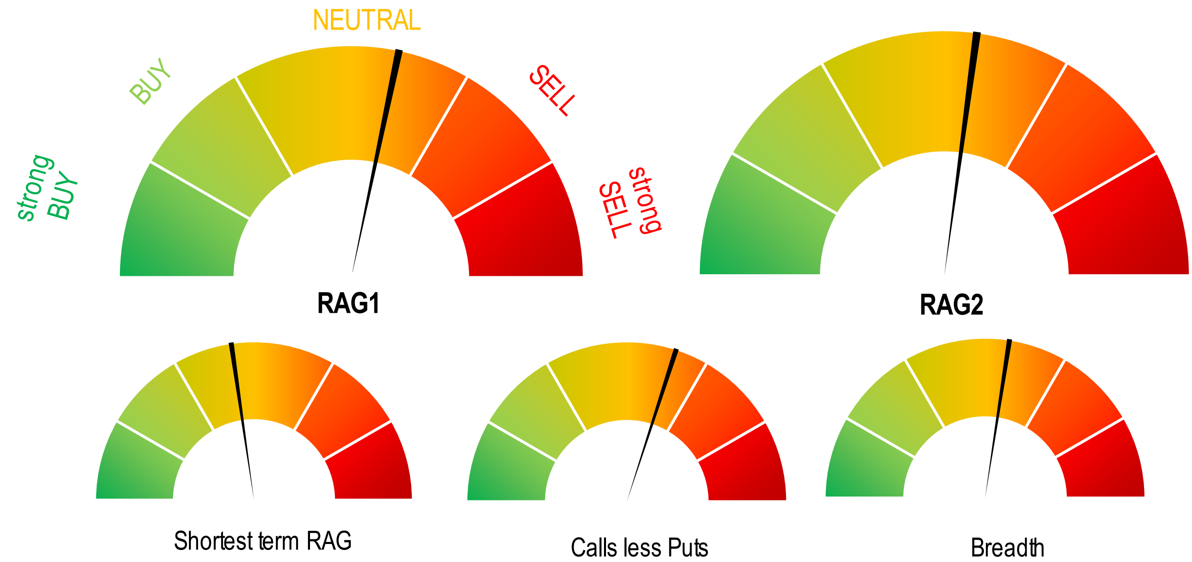
Source: Longview Economics, Macrobond

*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

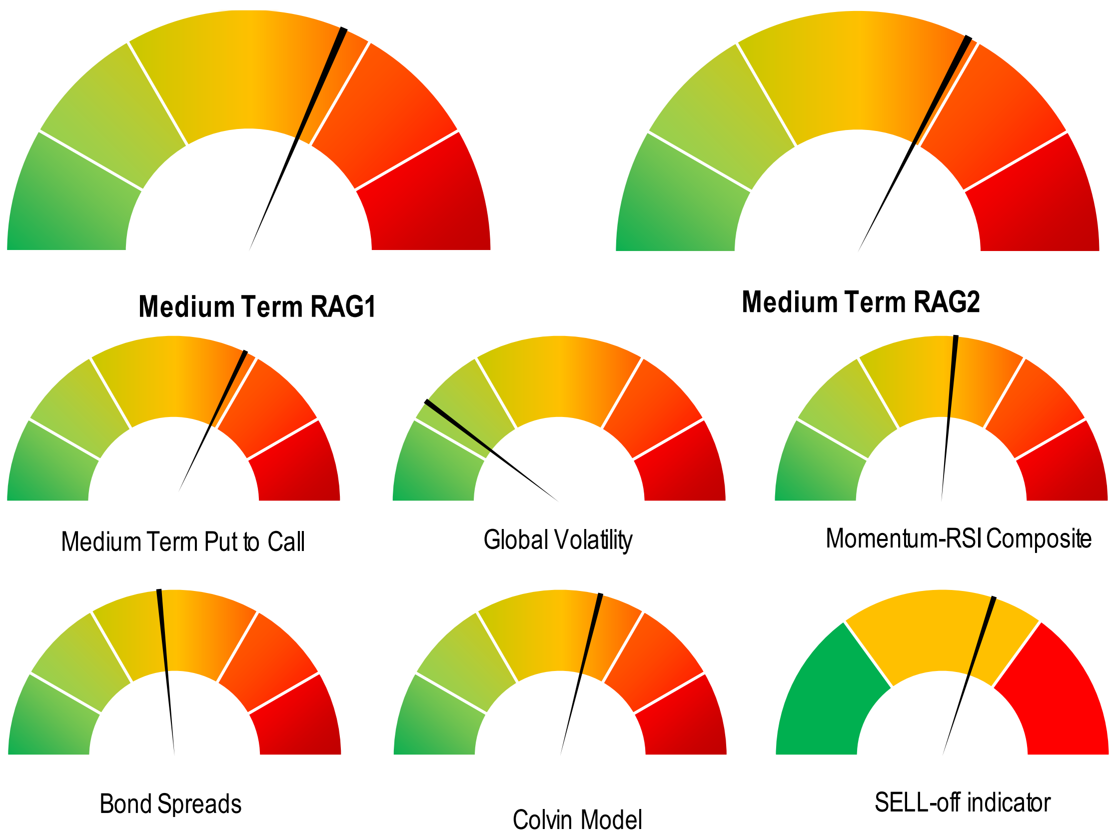
Section 1a: Summary of indicator signals**

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

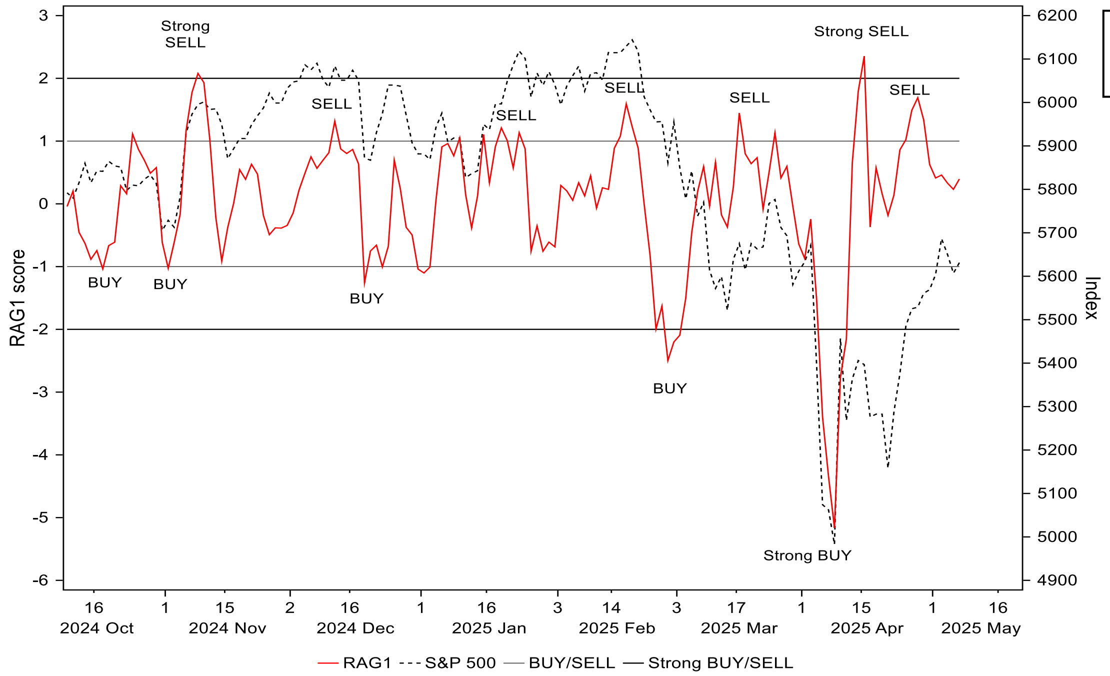


Source: *Longview Economics*

**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

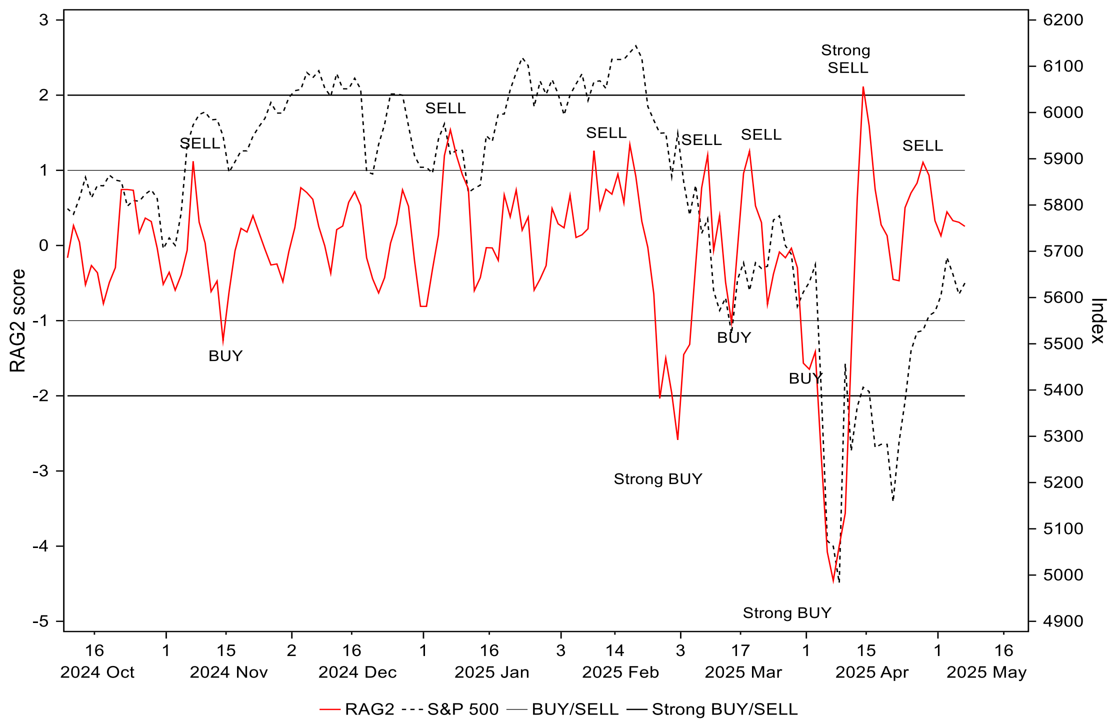
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

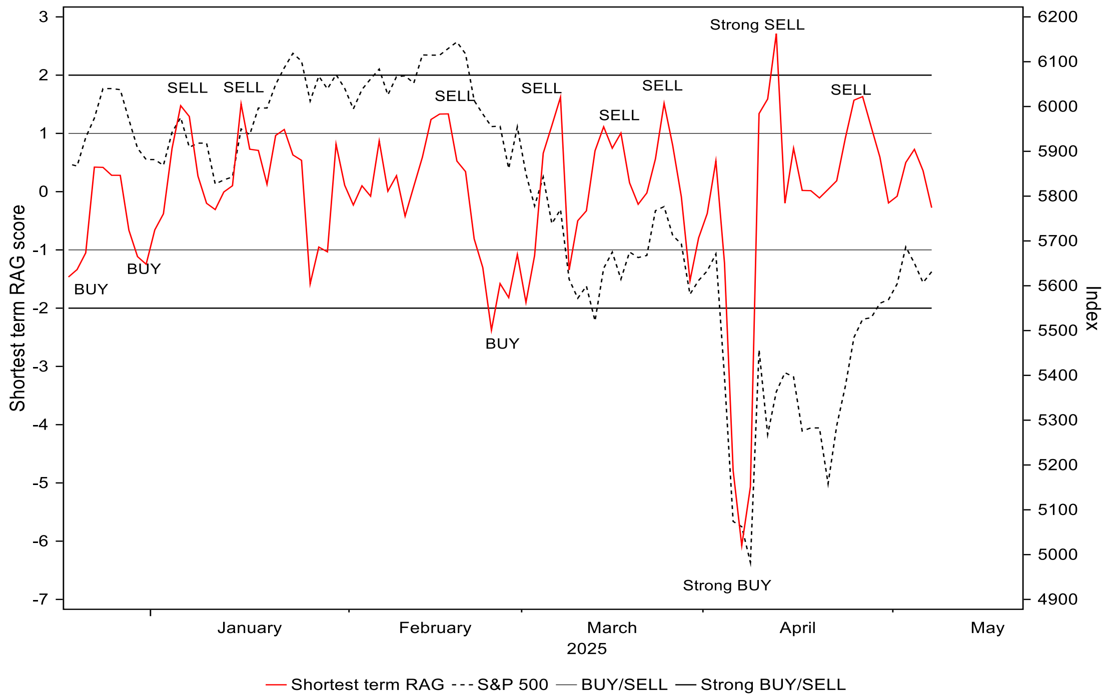


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

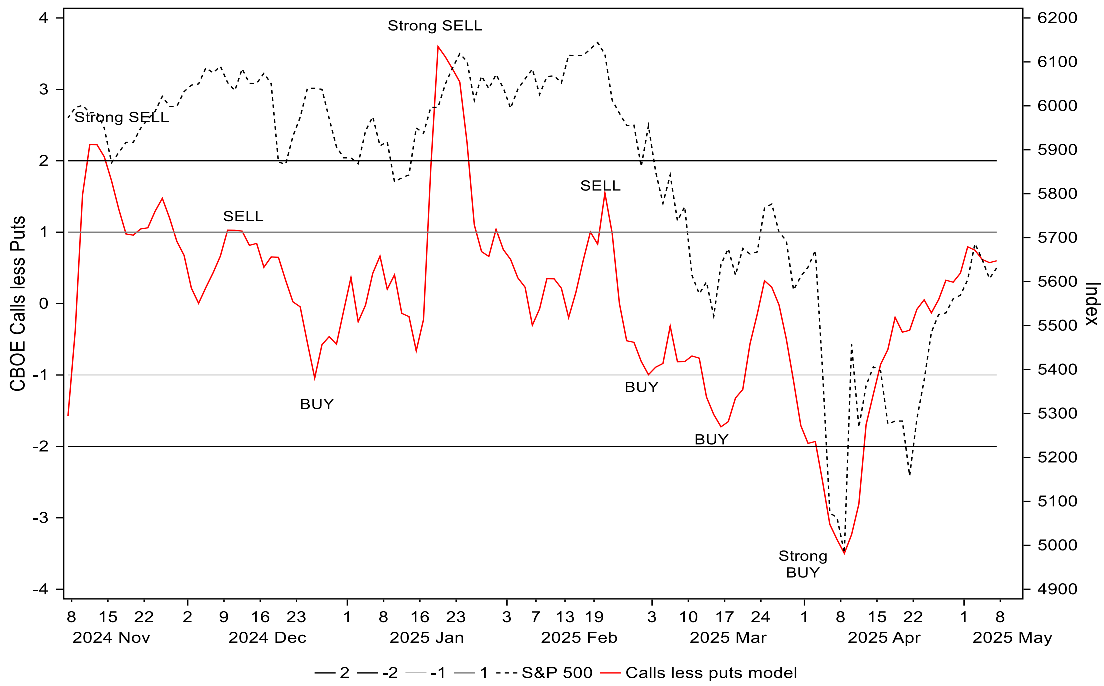
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

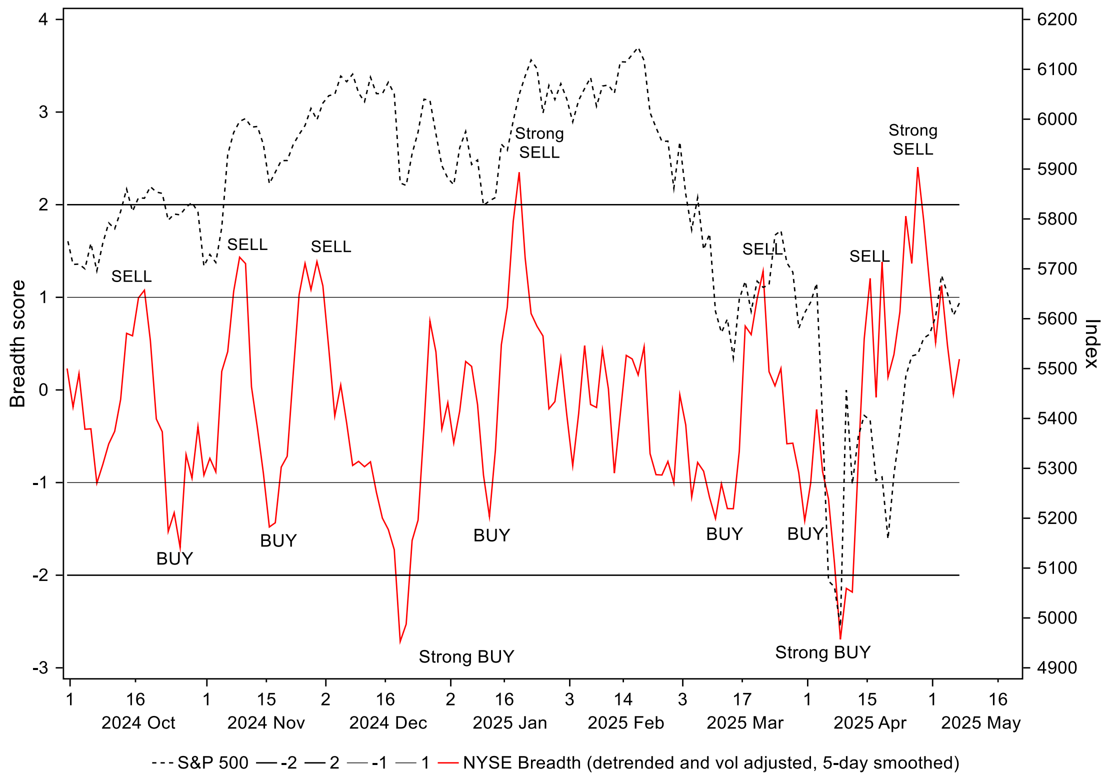


Calls less puts model is NEUTRAL

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



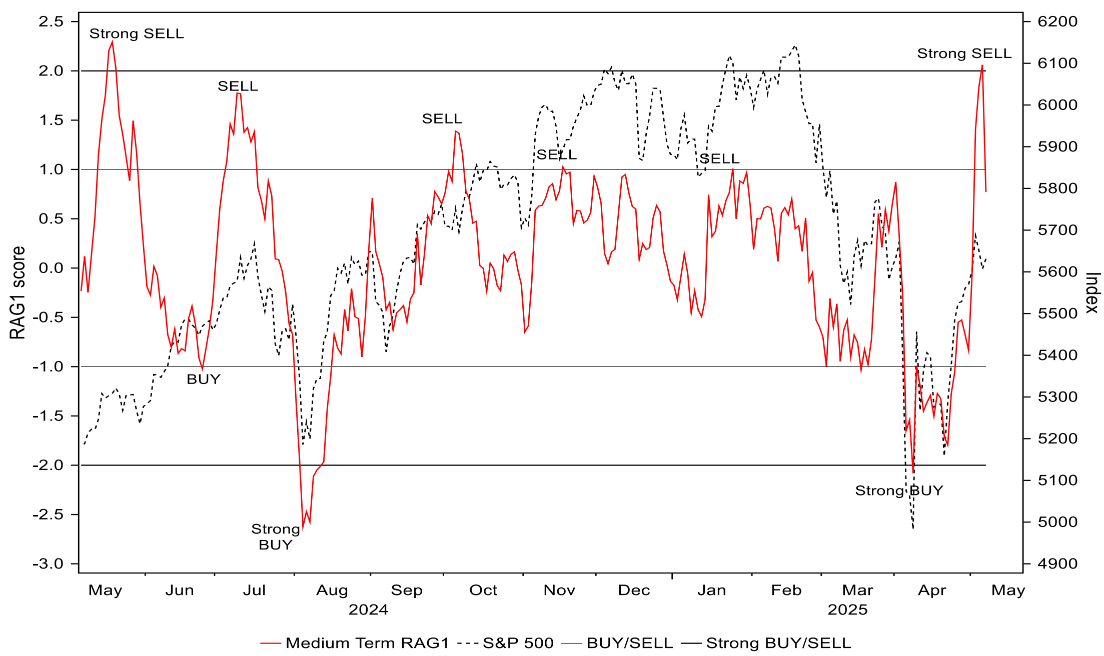
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

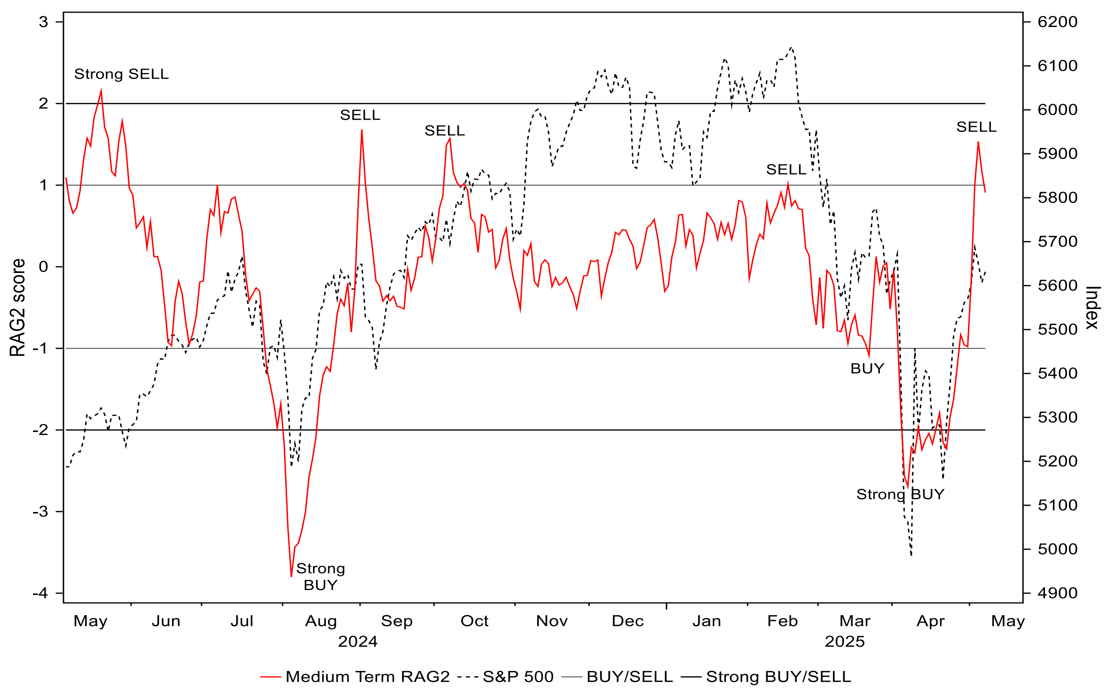
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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



Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

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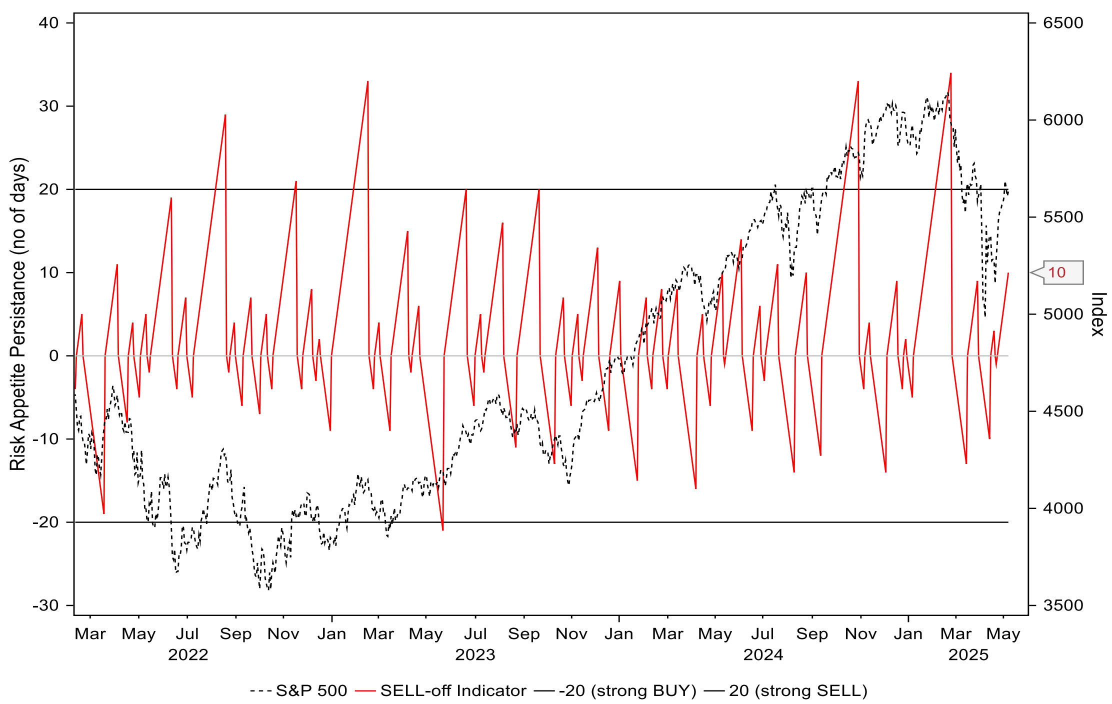
Daily Risk Appetite Gauge

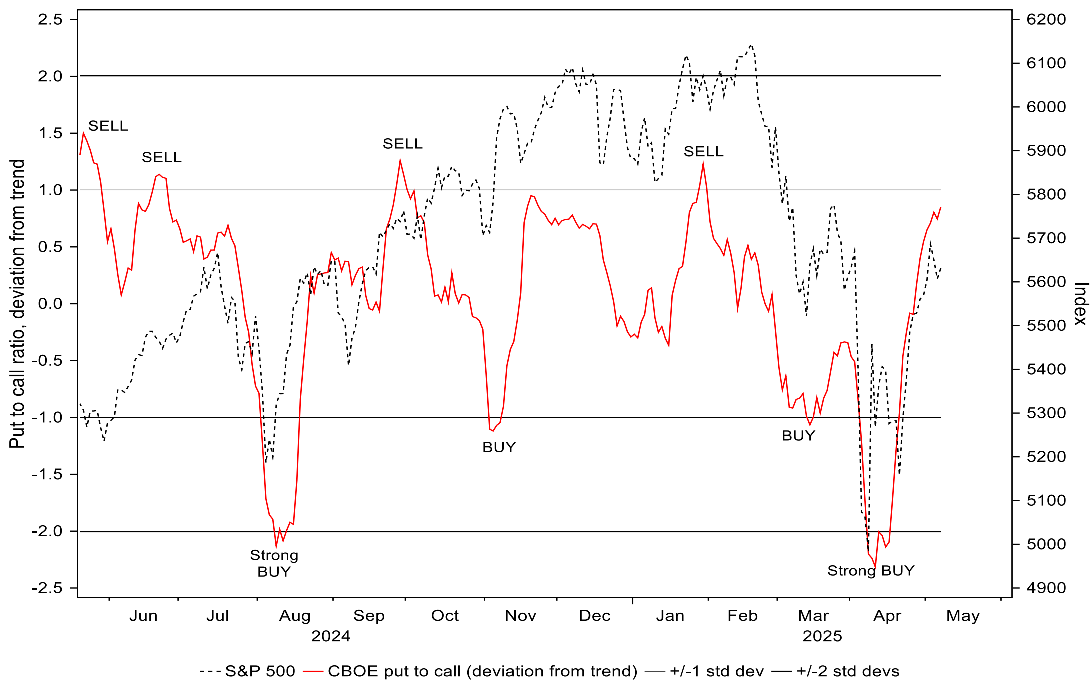
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

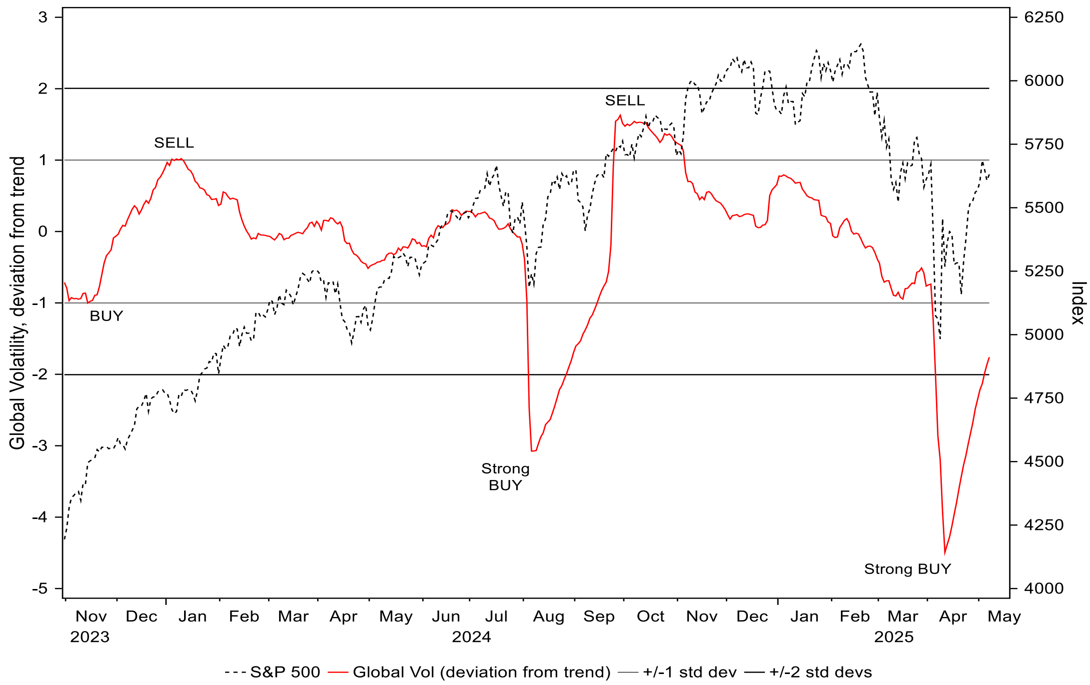


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

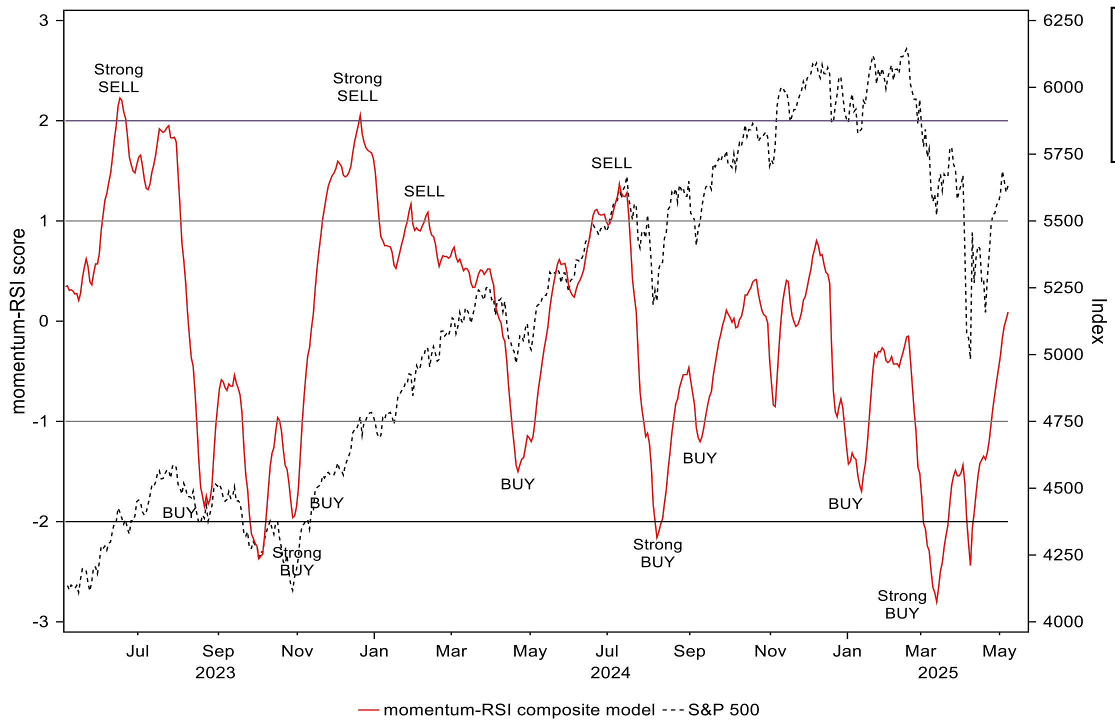
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on BUY

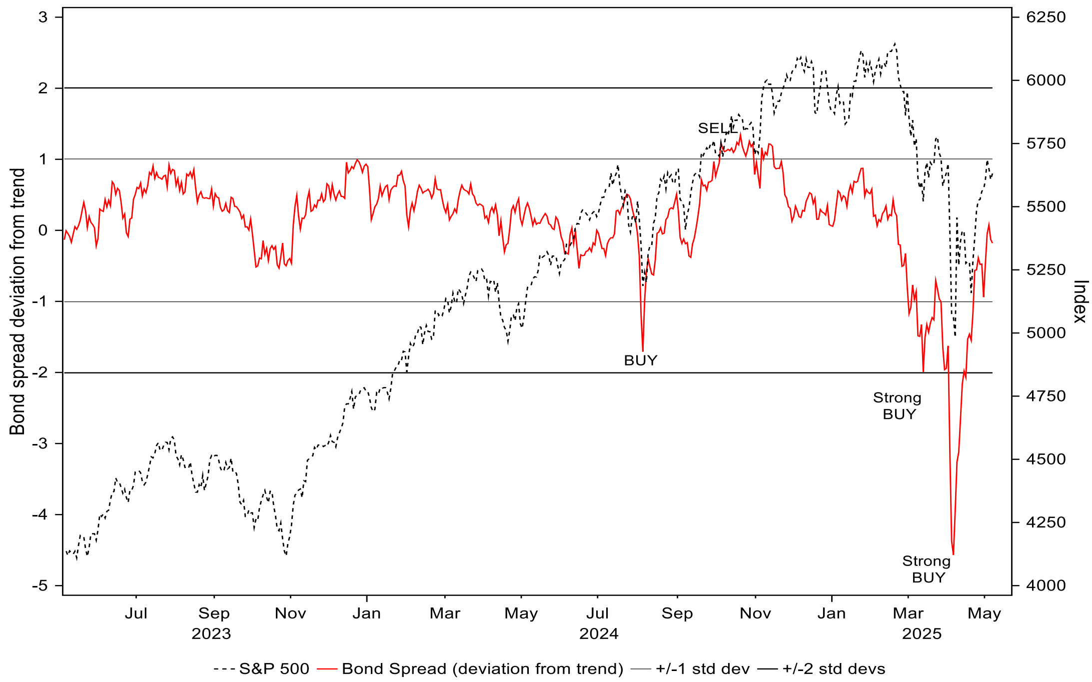
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

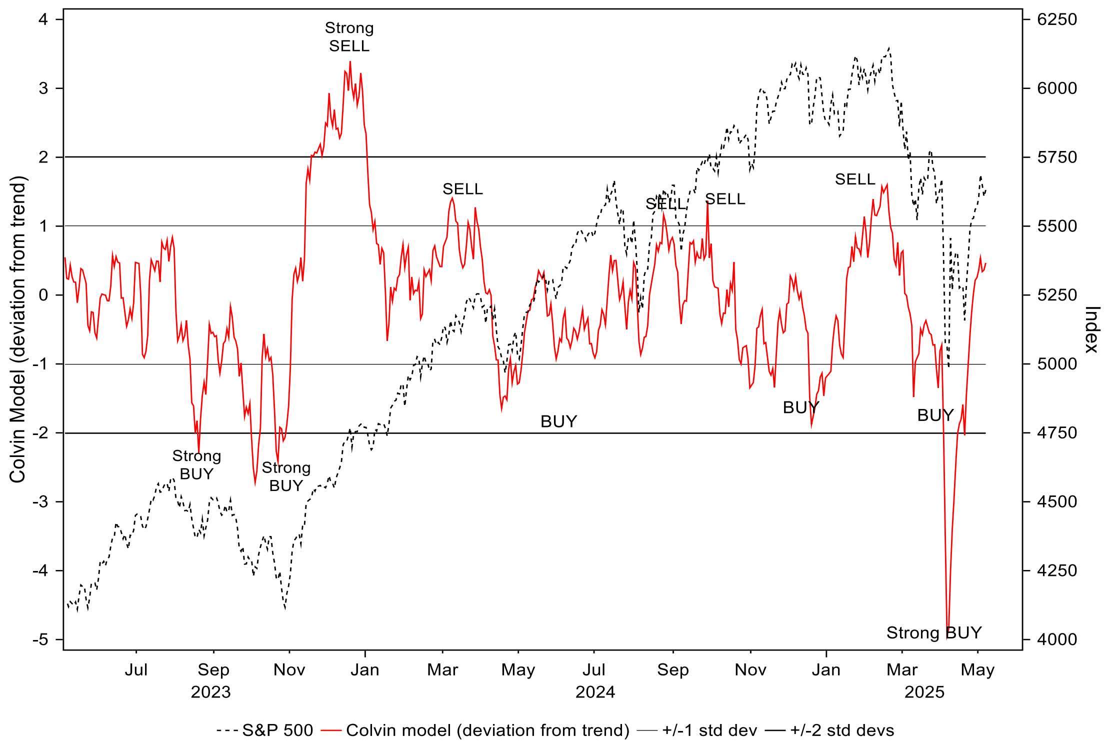
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

Source: Longview Economics, Macrobond

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



Colvin model – is NEUTRAL

Source: Longview Economics, Macrobond

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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