Equity Index Futures Trading Recommendations

9th April 2025

"Continue to WATCH & WAIT (for now)"

Email: info@longvieweconomics.com

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

- WATCH & WAIT (for now).

Rationale

Trade tensions have continued to build in the past 24 hours. In particular, the US announced a 104% tariff rate on Chinese imports yesterday (and China responded by emphasising its commitment to 'fight to the end'). With that, US equities reversed their early session gains and closed lower. The S&P500, for example, was down 1.6%, with larger losses in higher beta indices like the NDX100 (-2.0%); Russell 2000 (-2.7%); and Philly SOX (-3.6%). So far, the S&P500 has remained above its intra-day lows from Monday (FIG 2). Other indices, though, broke below them in yesterday's session (albeit only just, e.g. see the DJ Transportation index, FIG 2f).

Fear levels in markets therefore remain high. The VIX, for example, has been mostly trading between 50-60% this week (FIG 2a); there a signs of panic/washout selling (FIG 2c); volumes are elevated; and the 'risk reversal' for the S&P500 has become more extreme in recent trading days (FIG 2b).

Furthermore, and somewhat troublingly, US Treasuries have sold off (e.g. with 10 year yields backing up by 25bps in the past two days, FIG 1). Other longer dated yields have also moved higher, resulting in a sharp steepening of the yield curve (FIG 1a). Reportedly that reflects the 'sell everything' trade as market participants deleverage/liquidate positions (e.g. see HERE). Others suggest that China is selling Treasuries in retaliation to US tariffs.

Our short term models continue to support the case for a relief rally (on a 1 – 2 week view). In particular our risk appetite models are on strong BUY (FIG 3 & 3a), downside put protection in portfolios is high (see FIGs 3b & 3c), while various technical, breadth, and single stock price based indicators are on strong BUY (FIGs 3d – 3f). Elsewhere it was encouraging yesterday that HY credit spreads narrowed somewhat (albeit that was driven by the sharp move higher in Treasury yields). Medium term models are also increasingly generating a clear BUY signal (as highlighted in yesterday's tactical equity asset allocation publication).

On balance, and while the case for a relief rally is brewing, we continue to favour staying on the sidelines for now. That is, we recommend patience, given the backdrop of rising Treasury yields and growing trade war tensions. Other key (two way) risks include tomorrow's US CPI report for March. Key macro data and events due today are listed below and include the Fed minutes from March meeting (7pm London time).

Kind regards,

The team @ Longview Economics

FIG 1: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages

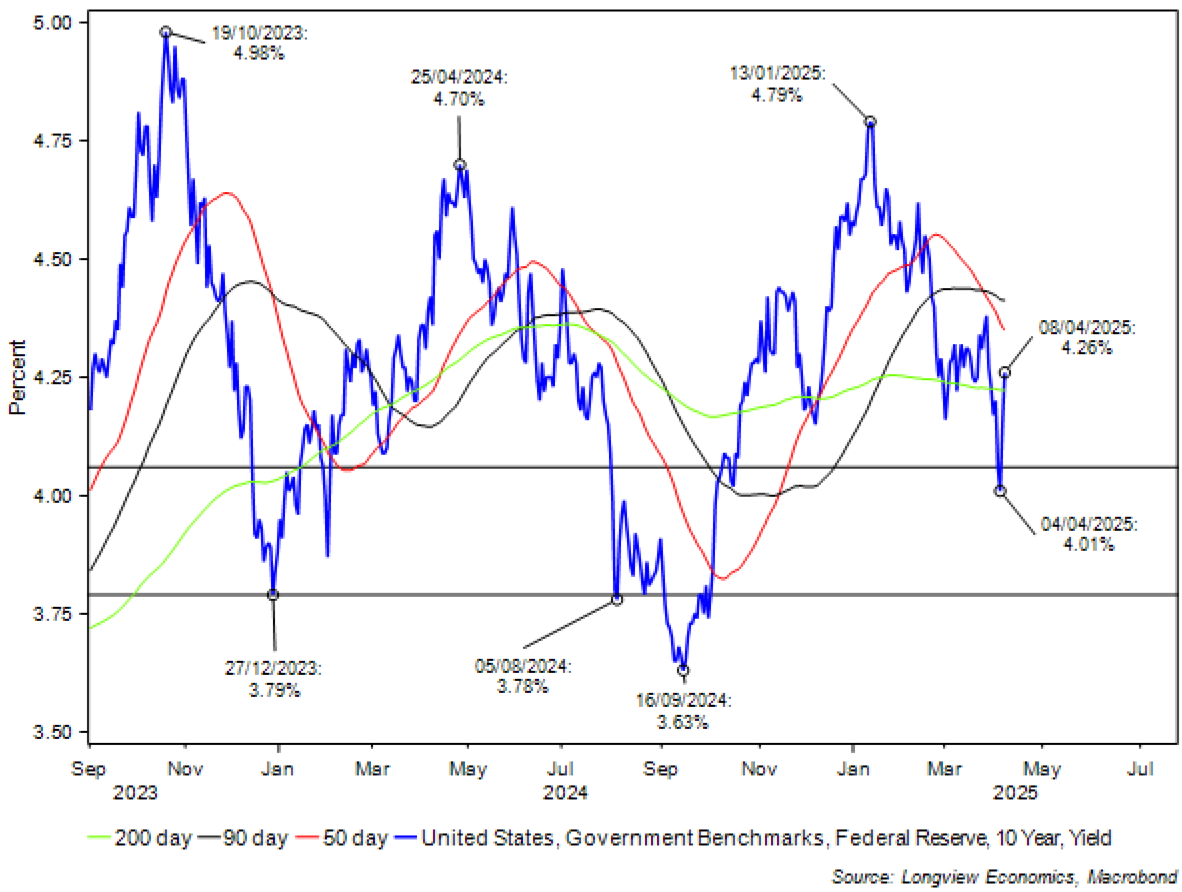


FIG 1a: US yield curve (10 year yield less 2 year, pp.)

FIG 2: S&P500 futures 30-day tick chart shown with overnight price action

FIG 2a: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

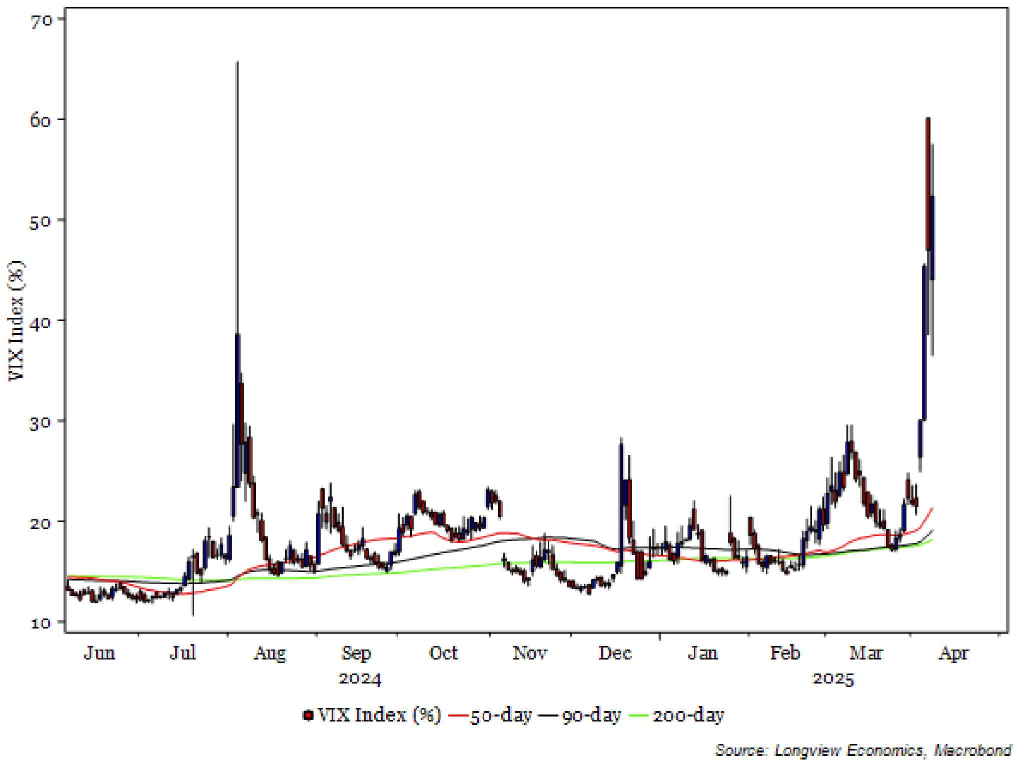
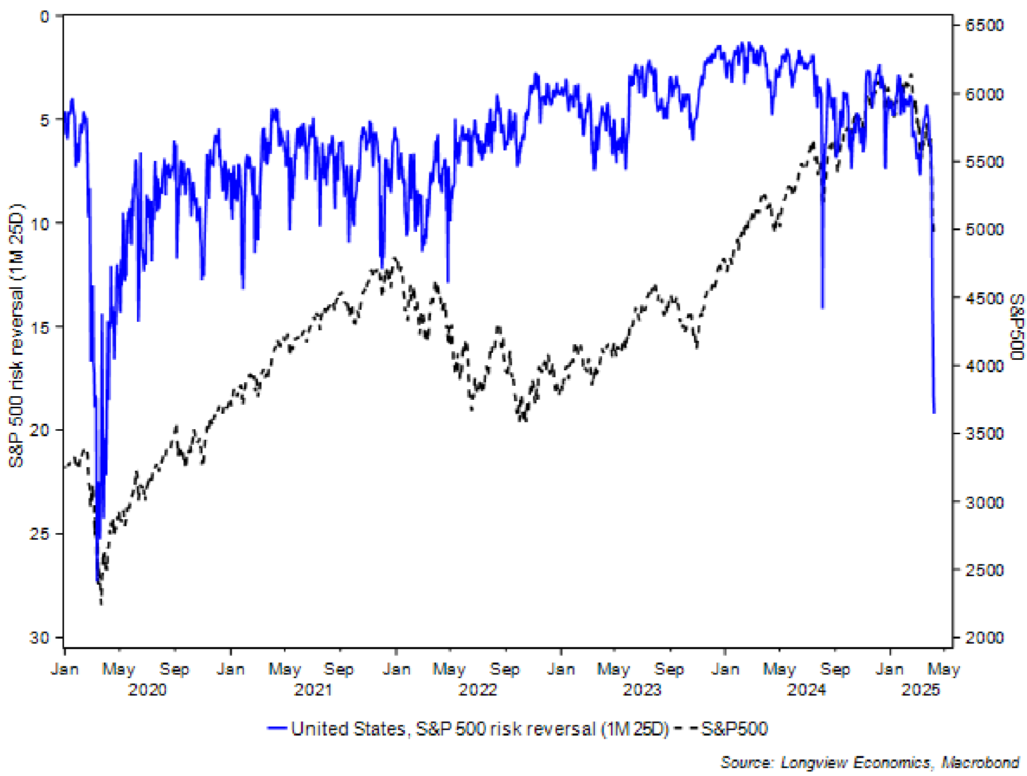


FIG 2b: S&P500 skewness* (risk reversal, 1 month, 0.25 delta) vs. S&P500



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

FIG 2c: Percentage of US stocks within 3% of their 52-week lows vs. S&P500

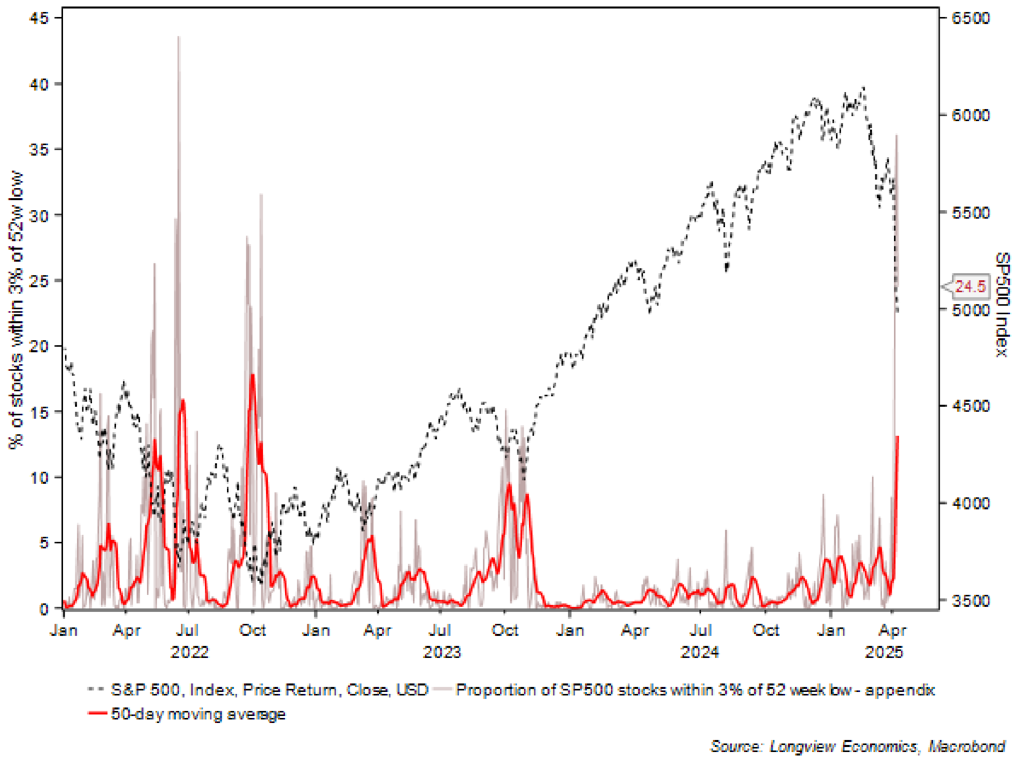


FIG 2d: Breadth of S&P500 futures intraday trading range vs. S&P500

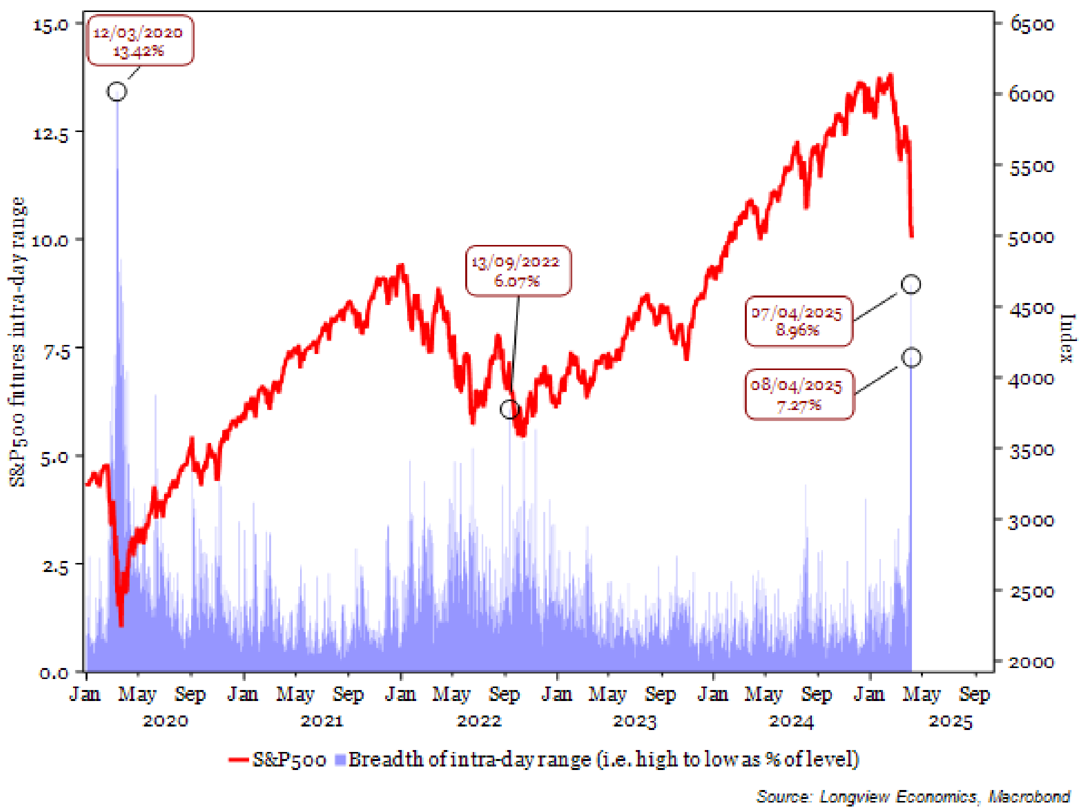


FIG 2e: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500

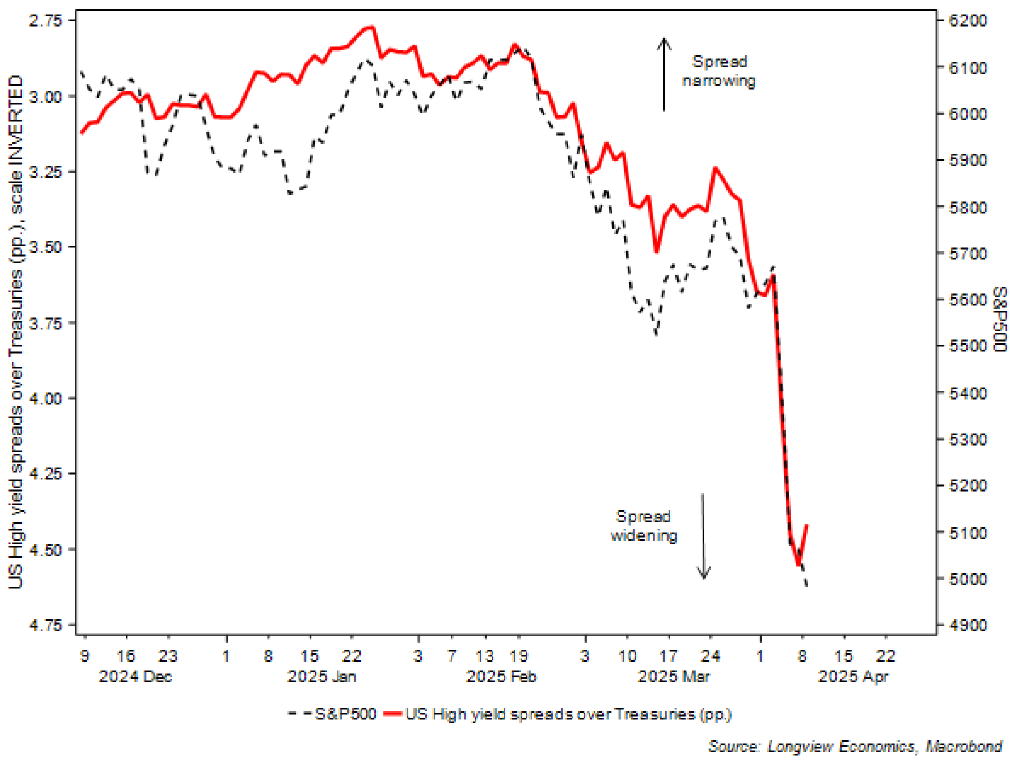


FIG 2f: DJ Transports index candlestick chart shown with key moving averages

Short term risk appetite models are on strong BUY…

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

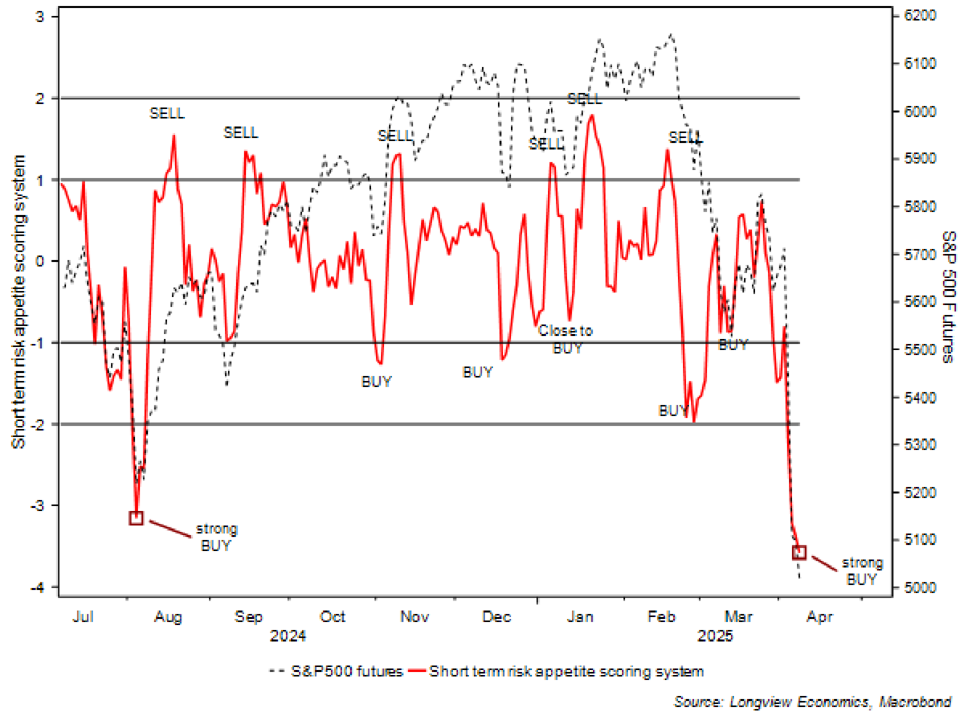
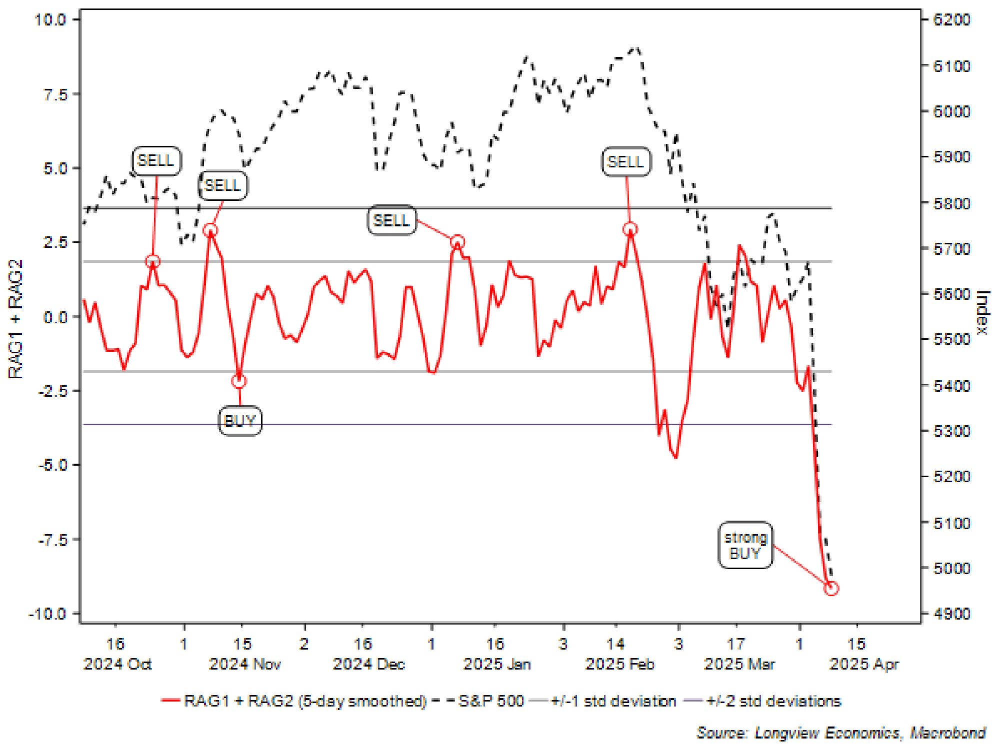
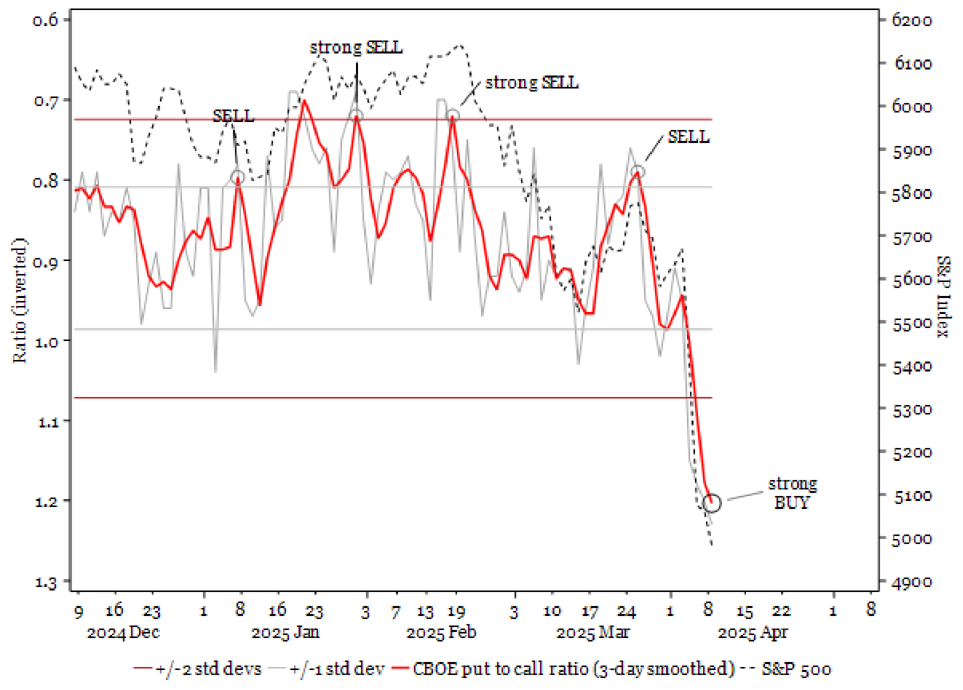


FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



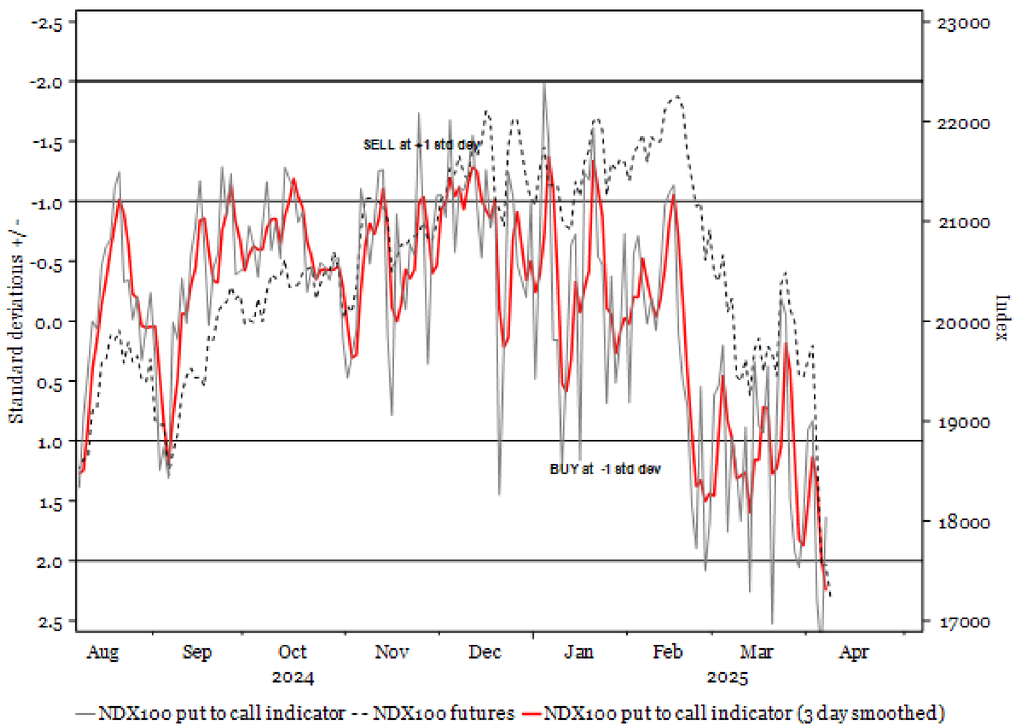
Put to call ratio models are on strong BUY…

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Technical/price-based models are on strong BUY….

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

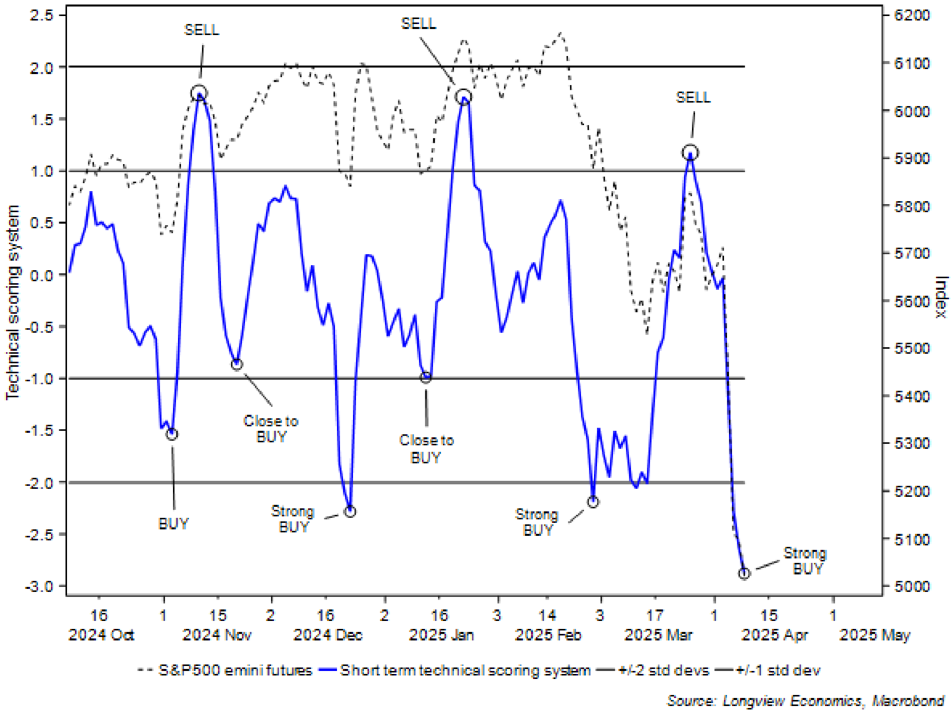
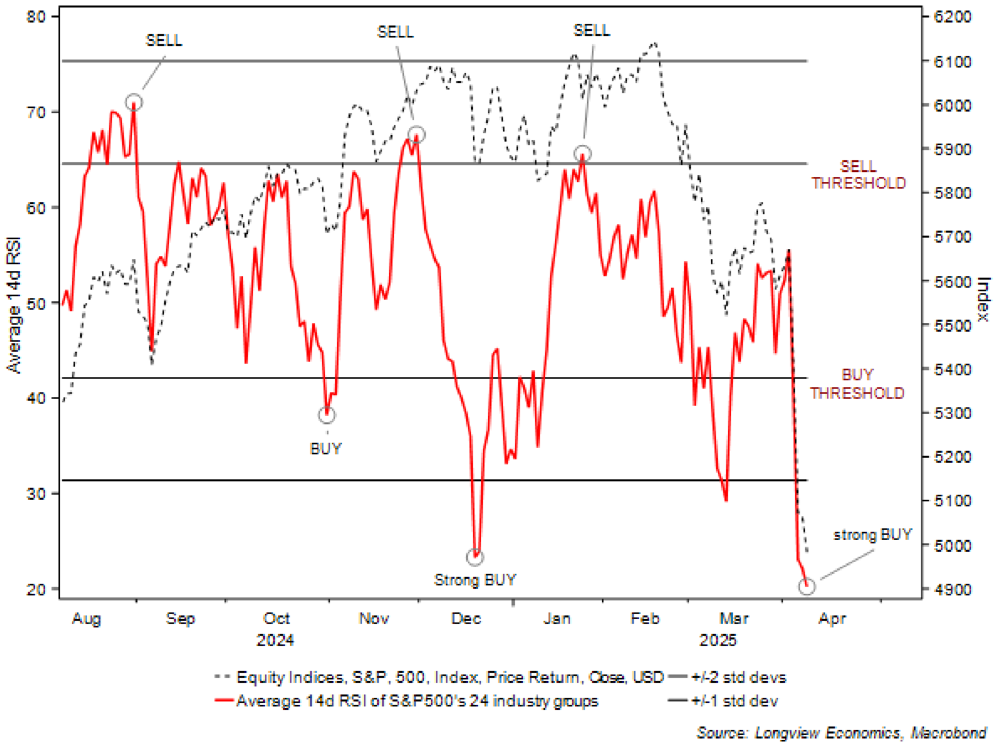
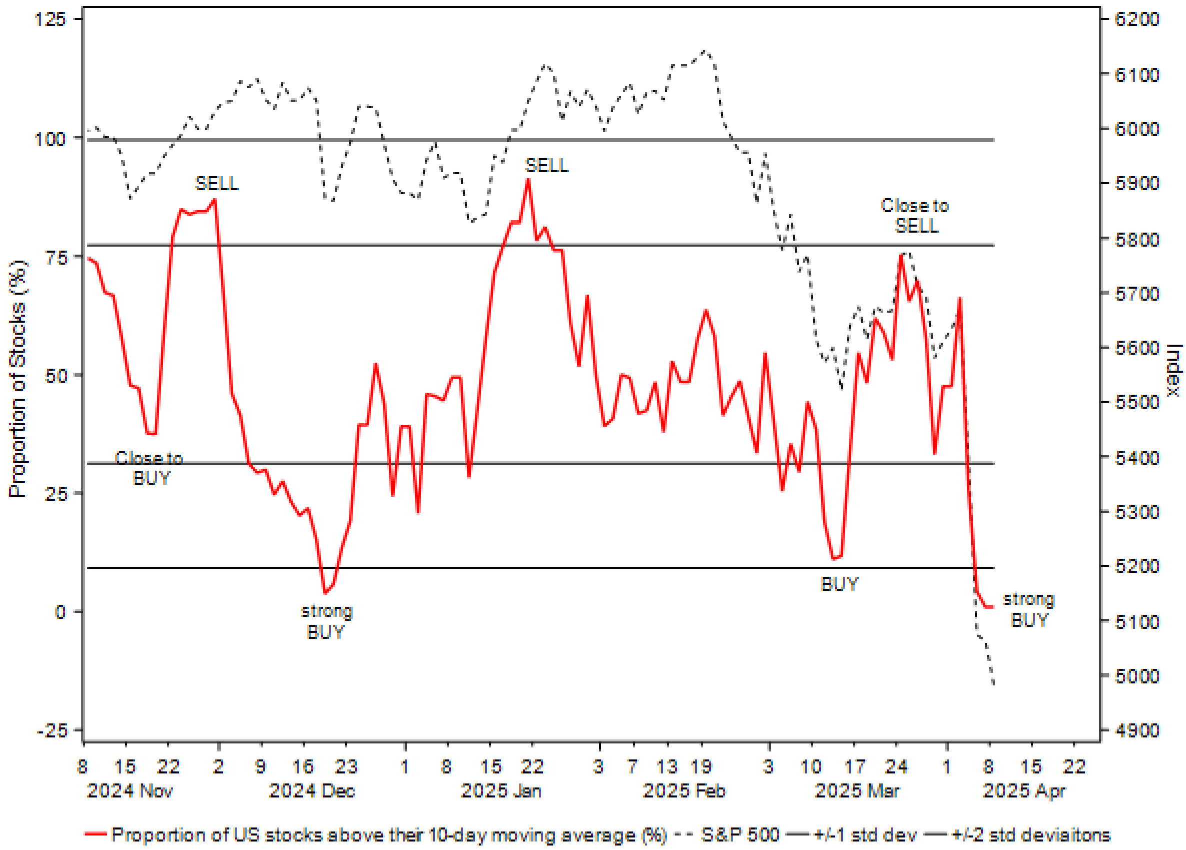


FIG 3e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



<u>**FIG 3f:** Proportion of US stocks above their 10 day moving average vs. S&P500</u>

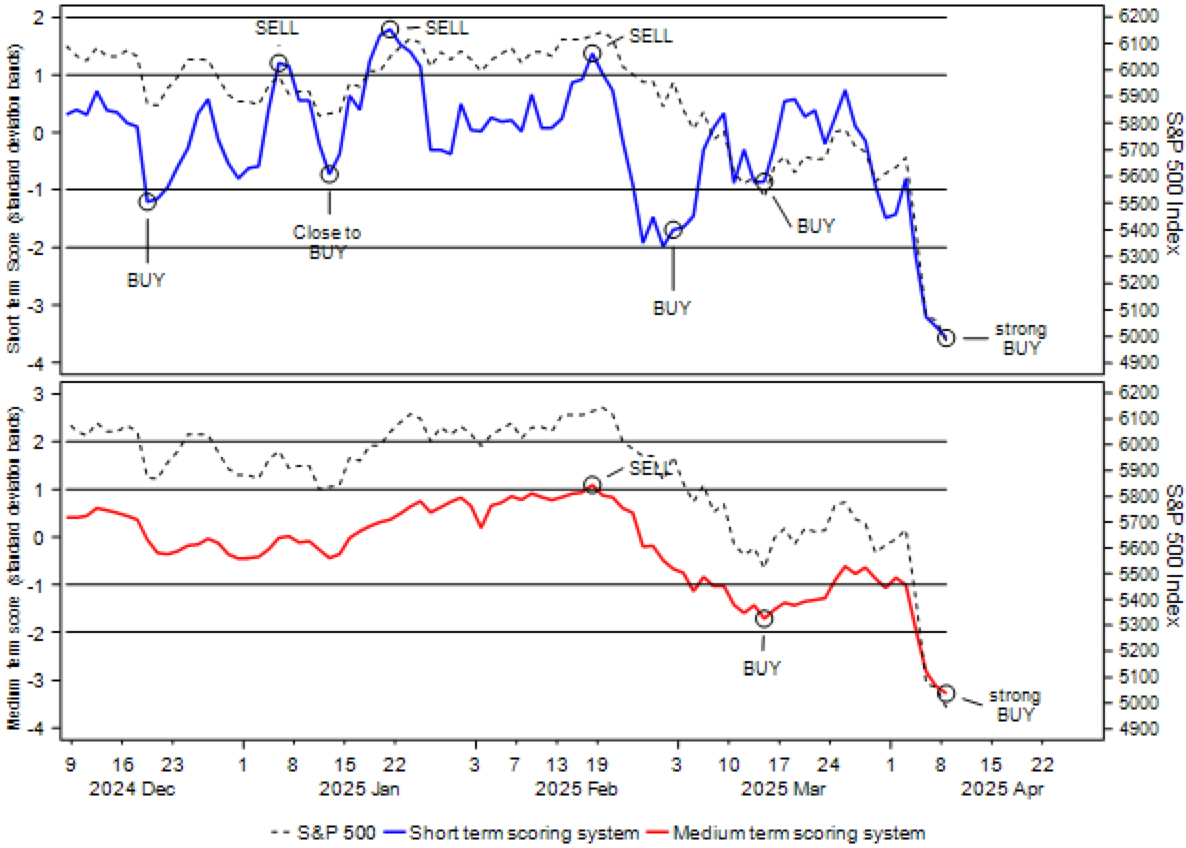


Source: Longview Economics, Macrobond

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

Key macro data/events

Key data today include: **Japanese ESRI consumer confidence** (Mar, 6am); **Japanese machine tool orders** (March first estimate, 7am); US wholesale sales & inventories (Feb, 3pm).

Key events today include: **Fed minutes from March meeting** (7pm); speeches by the Fed's Kughler on inflation dynamics & Barkin at the Economic Club of Washington (4pm); speeches by the ECB's Knot & Cipollone in Amsterdam (8:35am & 1:30pm) & Villeroy in Paris (10am); speech by the BOJ governor Ueda at the Trust companies conference.

Key earnings today include: Seven & I Holdings, Zijin Mining 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 yesterday, 8th April 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

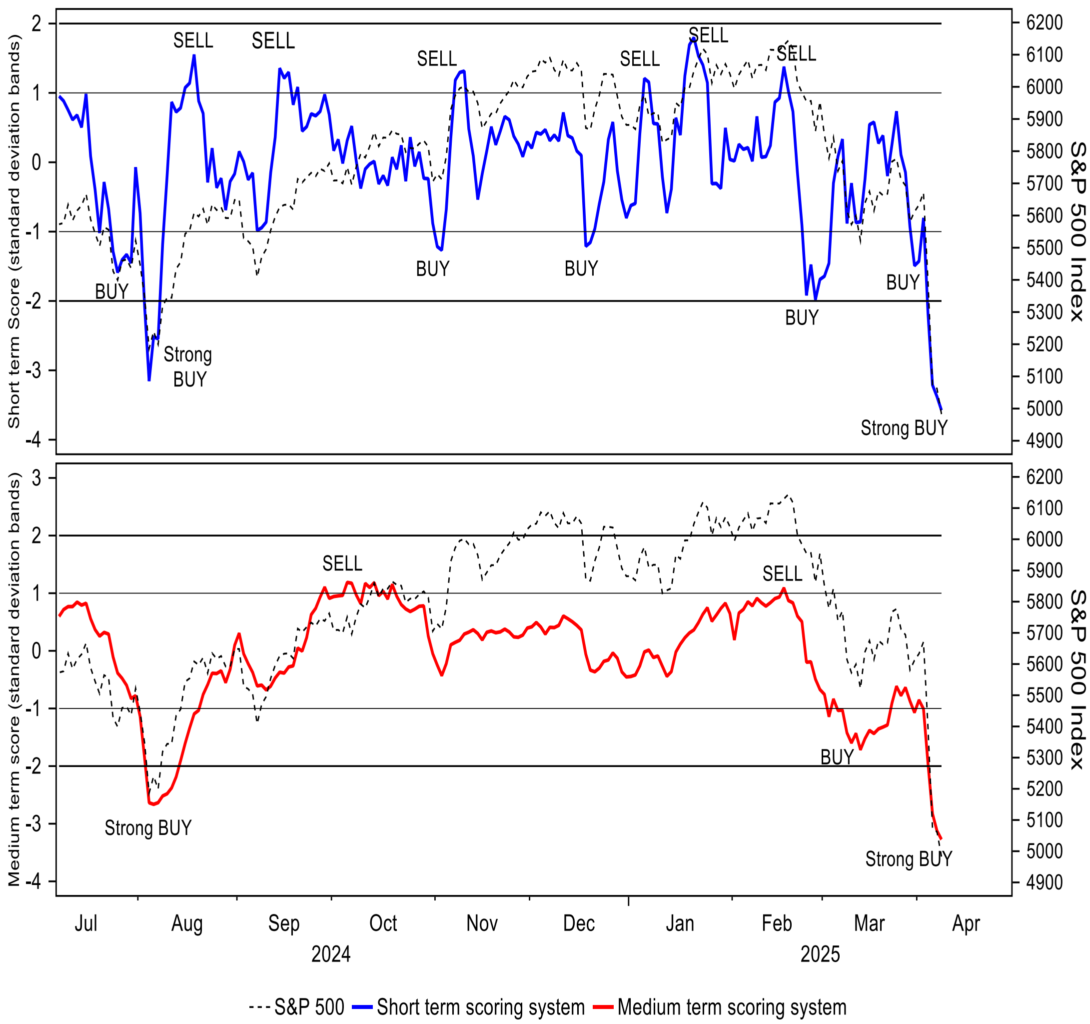
1 – 2 Week View on Risk

9th 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 Strong BUY

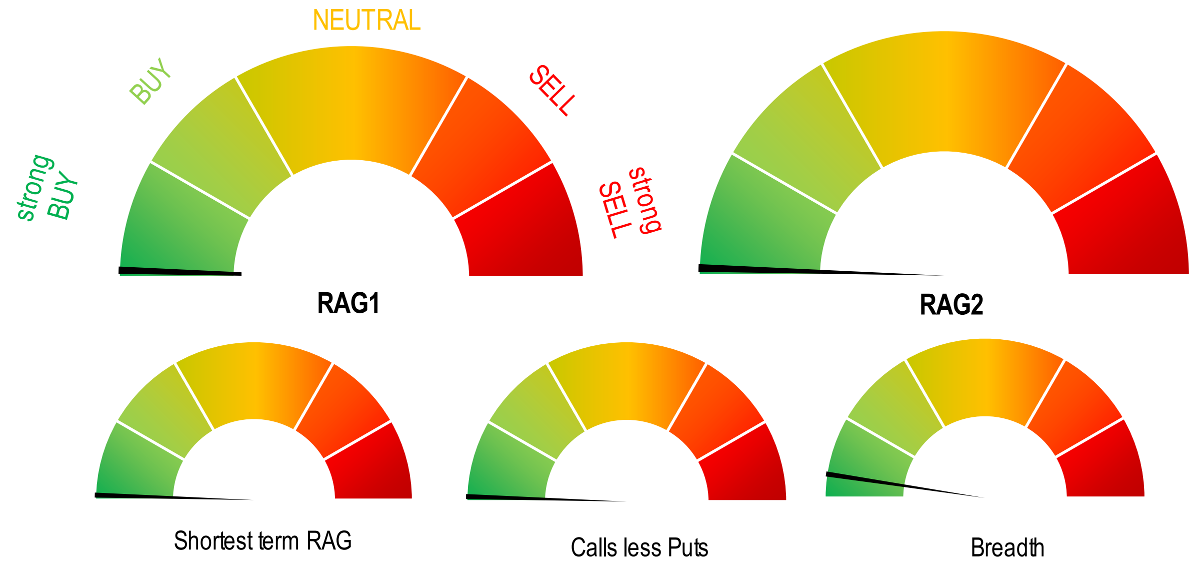
Source: Longview Economics, Macrobond

*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

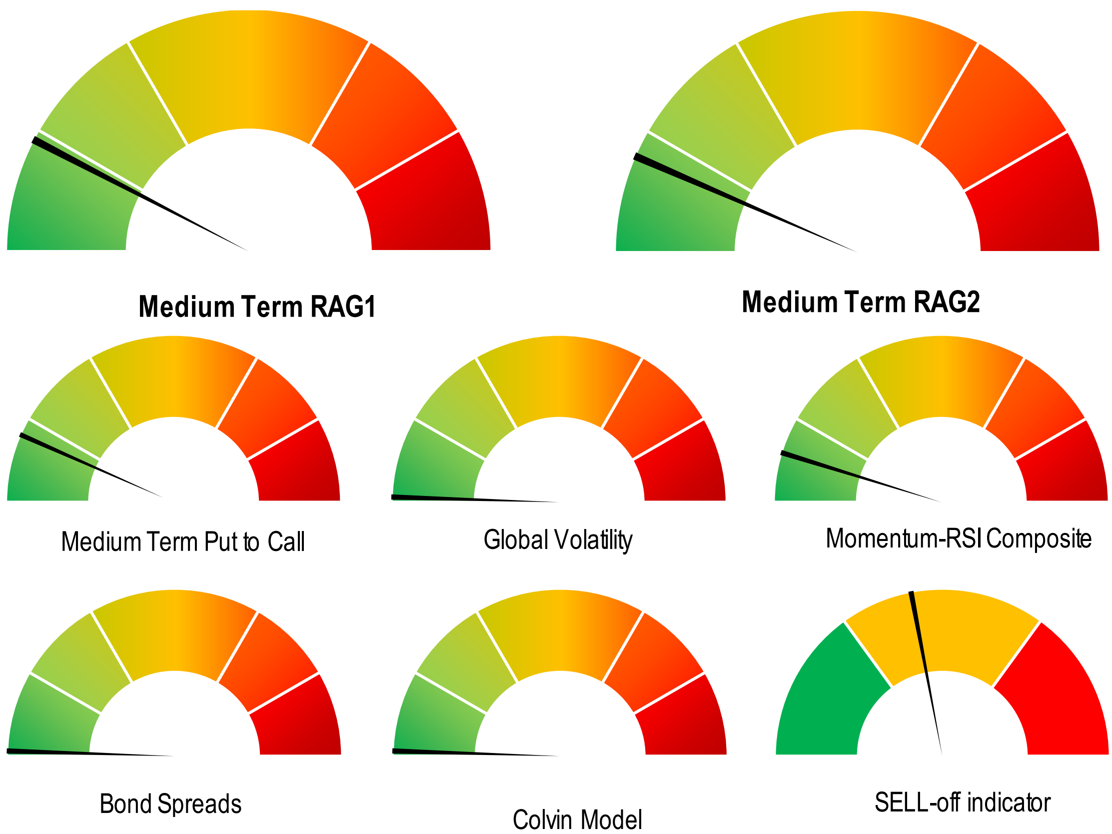
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

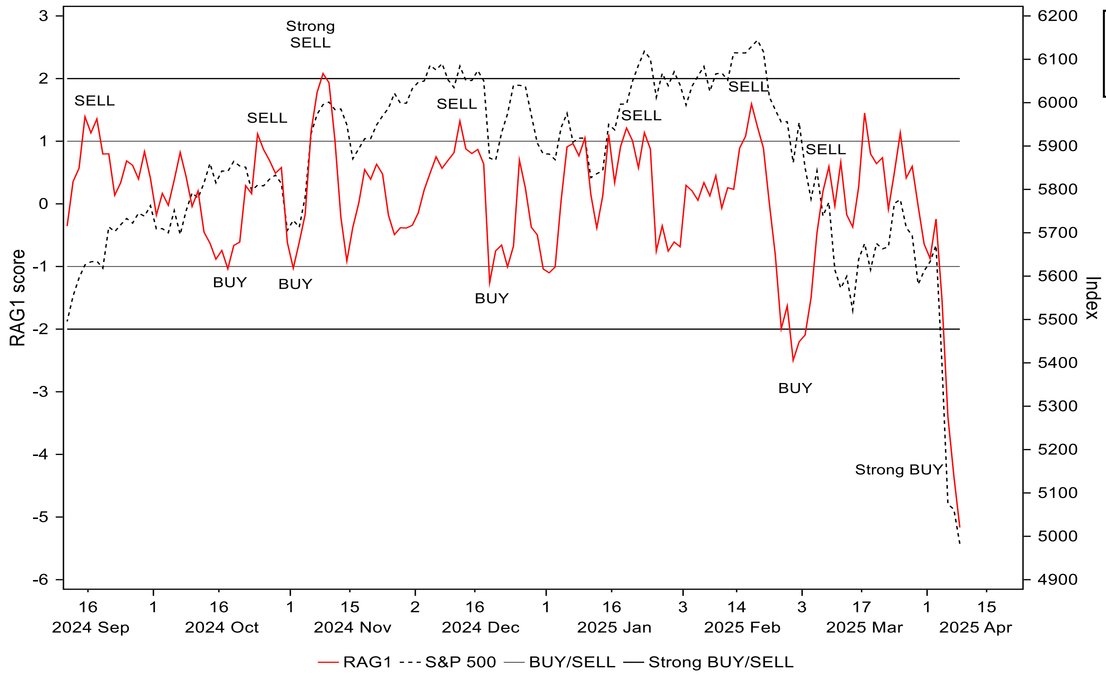
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

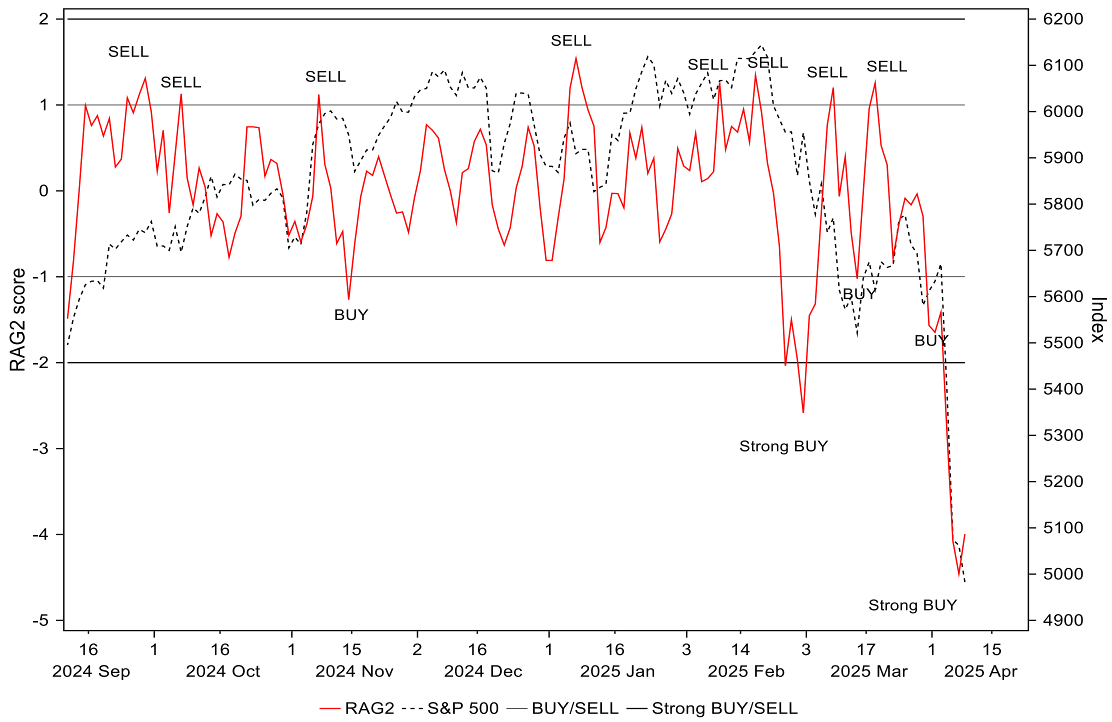
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on Strong BUY

Source: Longview Economics, Macrobond

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

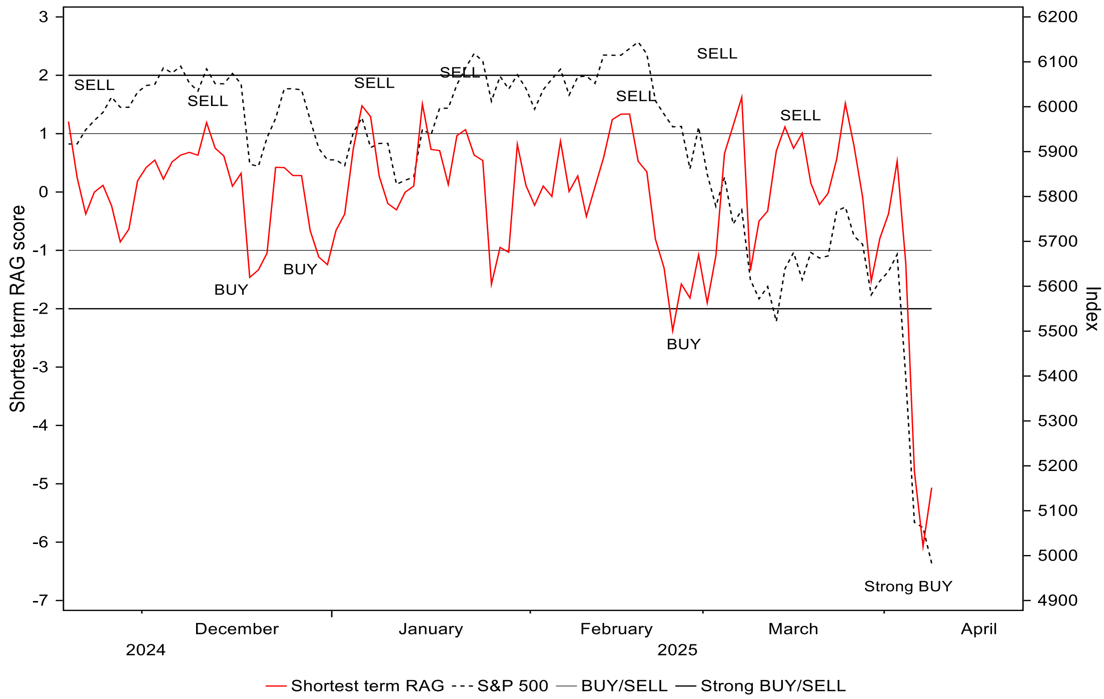


RAG2 is on Strong BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

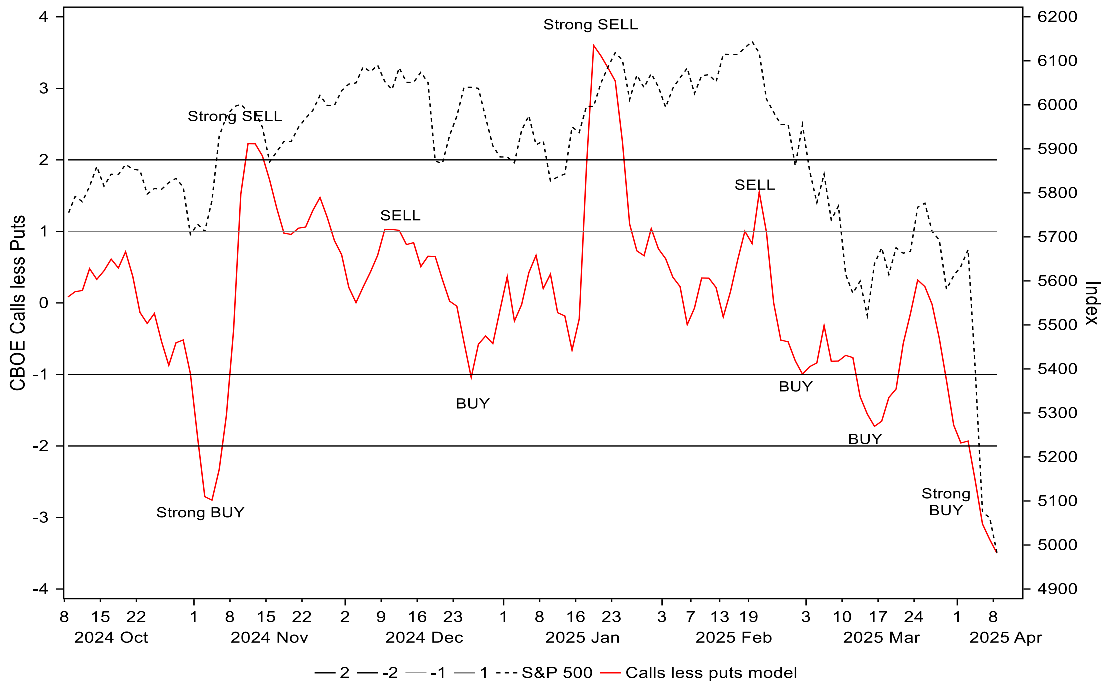
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on Strong BUY

Source: Longview Economics, Macrobond

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



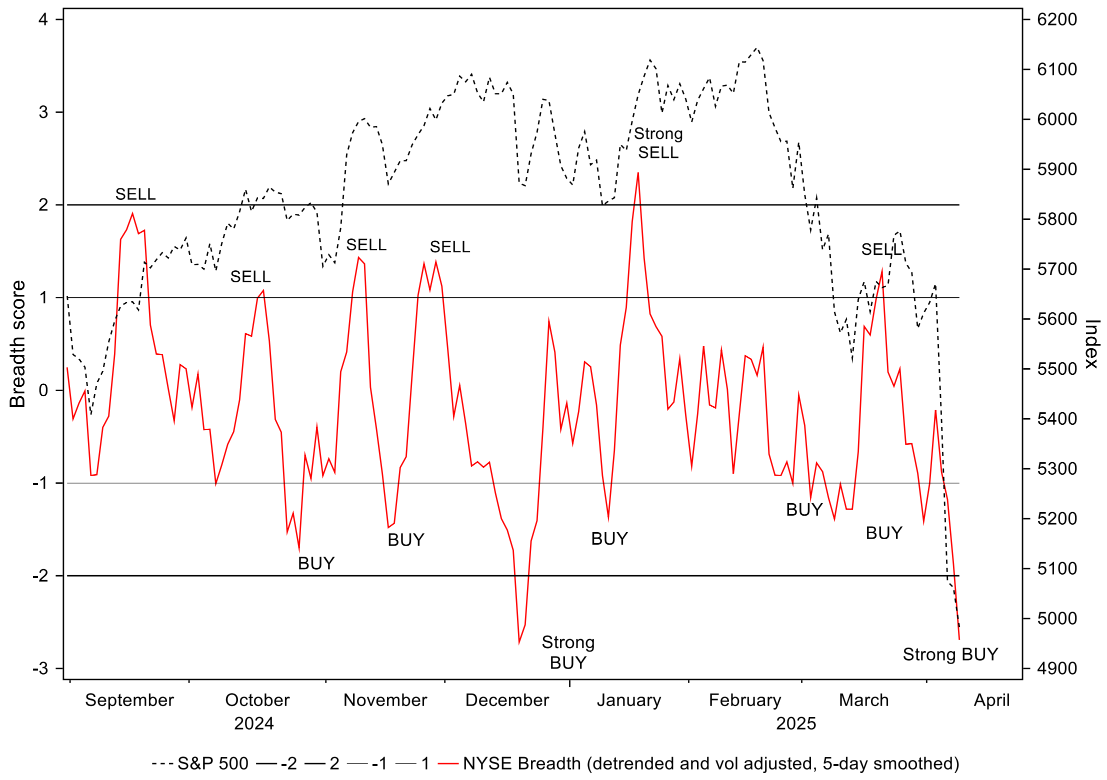
Calls less puts model is on Strong BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

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



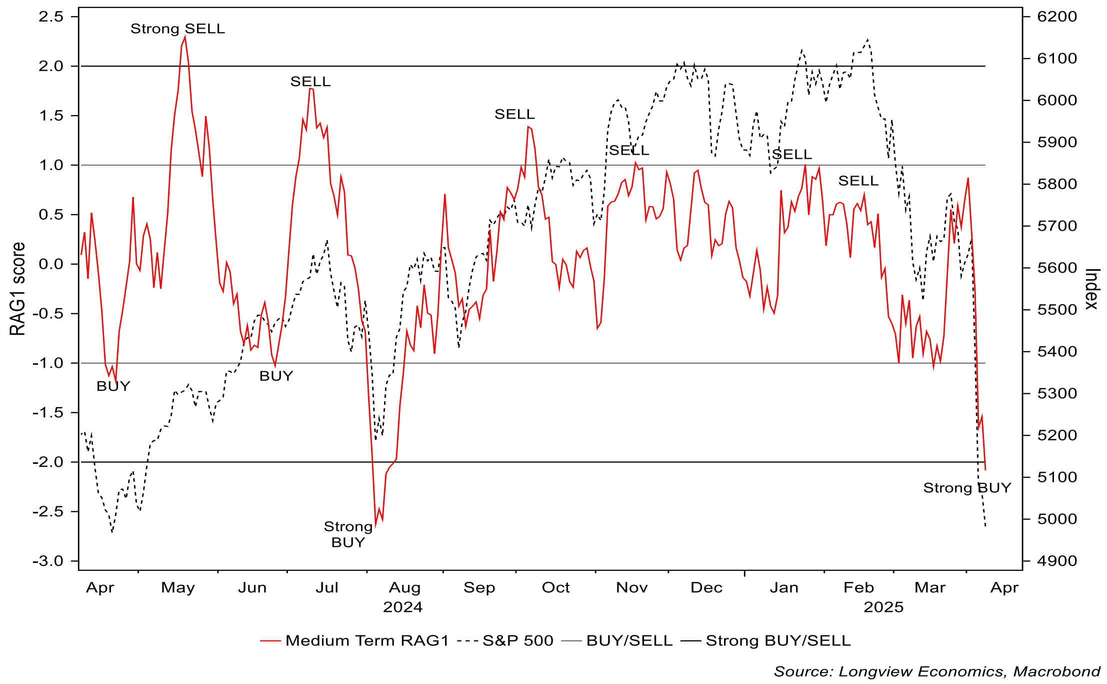
Source: Longview Economics, Macrobond

The breadth model is on Strong BUY

For explanations of indicators please see page 10

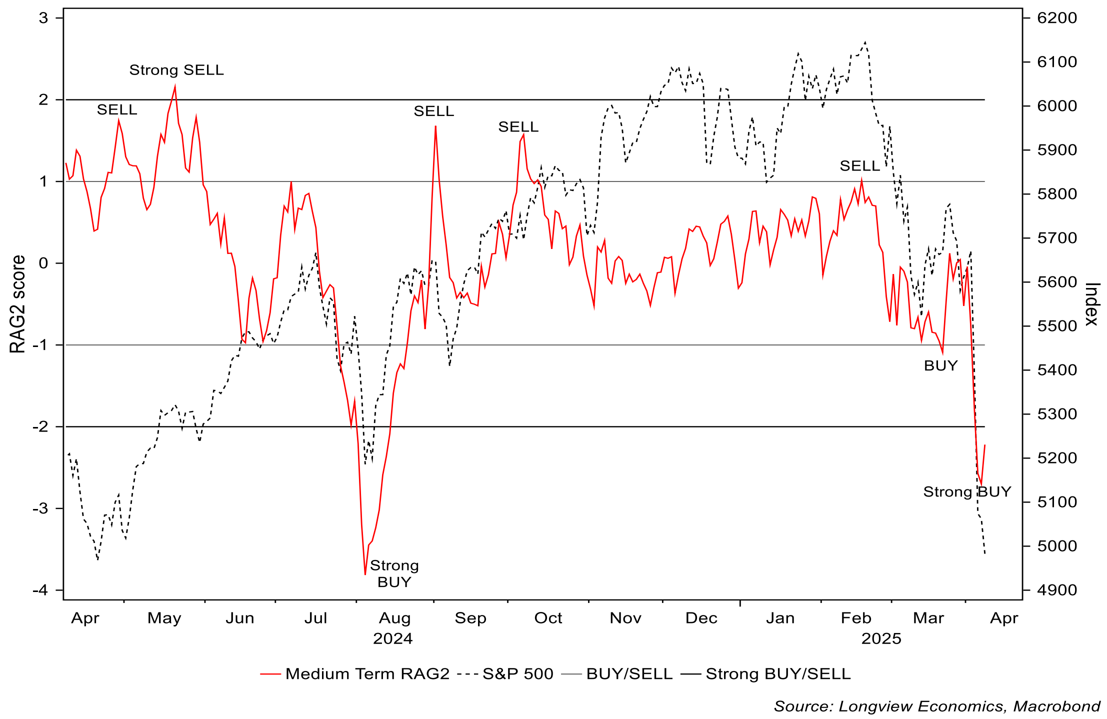
Section 3: Medium term (1 – 4 month) outlook

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



Medium term RAG1 is on Strong BUY

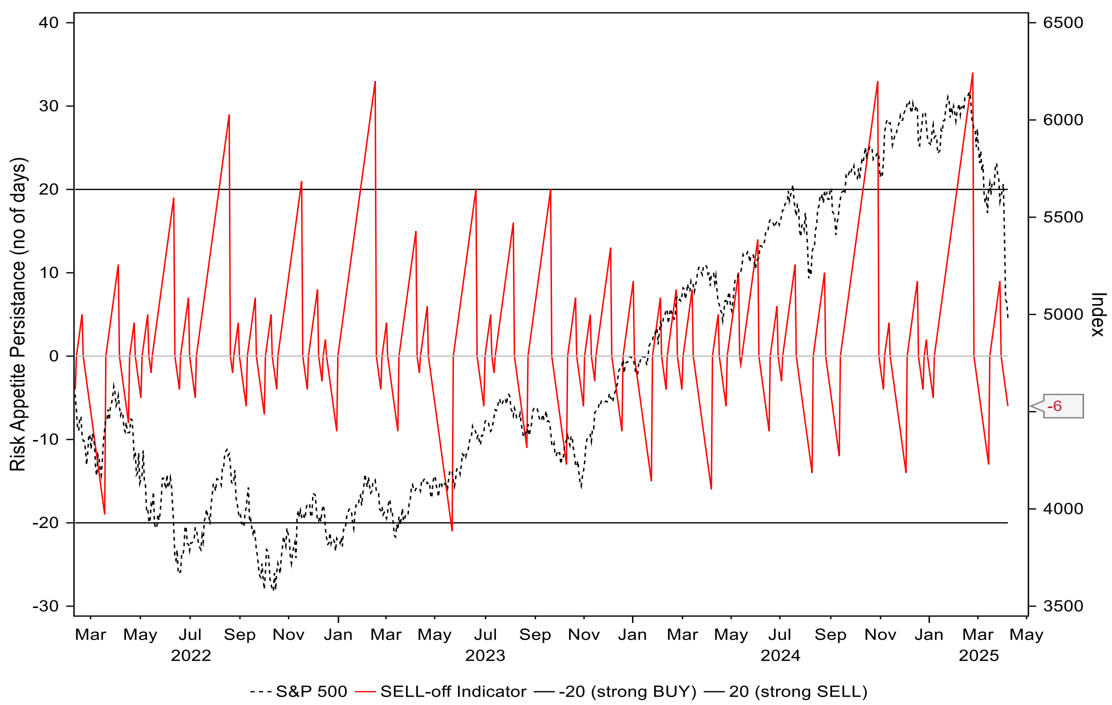
Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



Medium term RAG2 is on Strong BUY

For explanations of indicators please see page 10

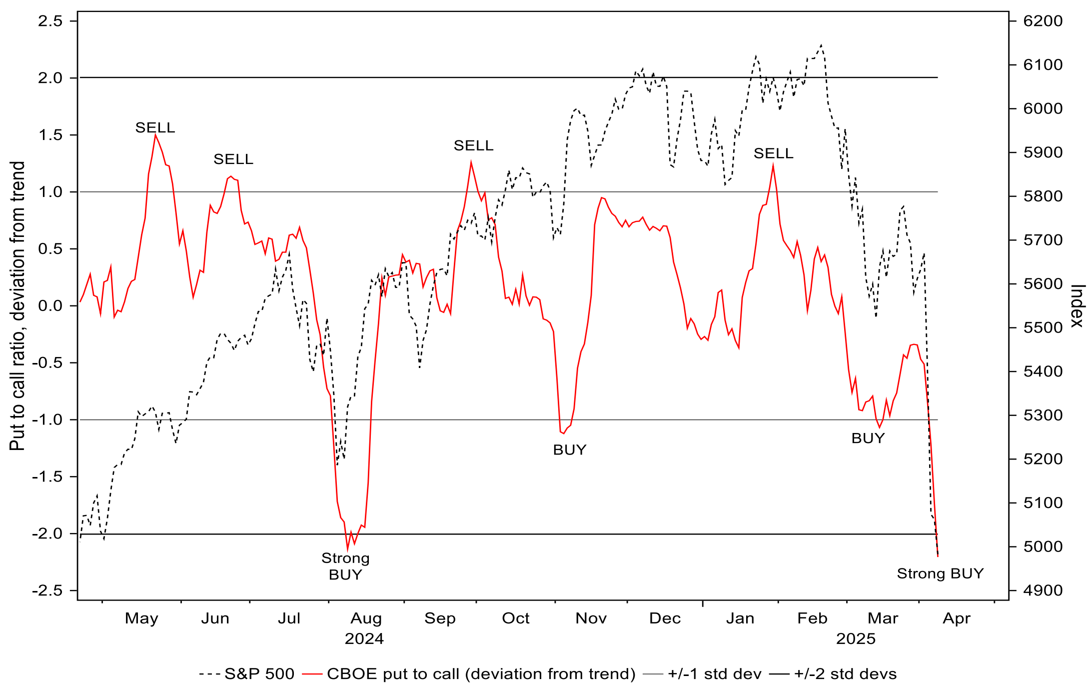
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

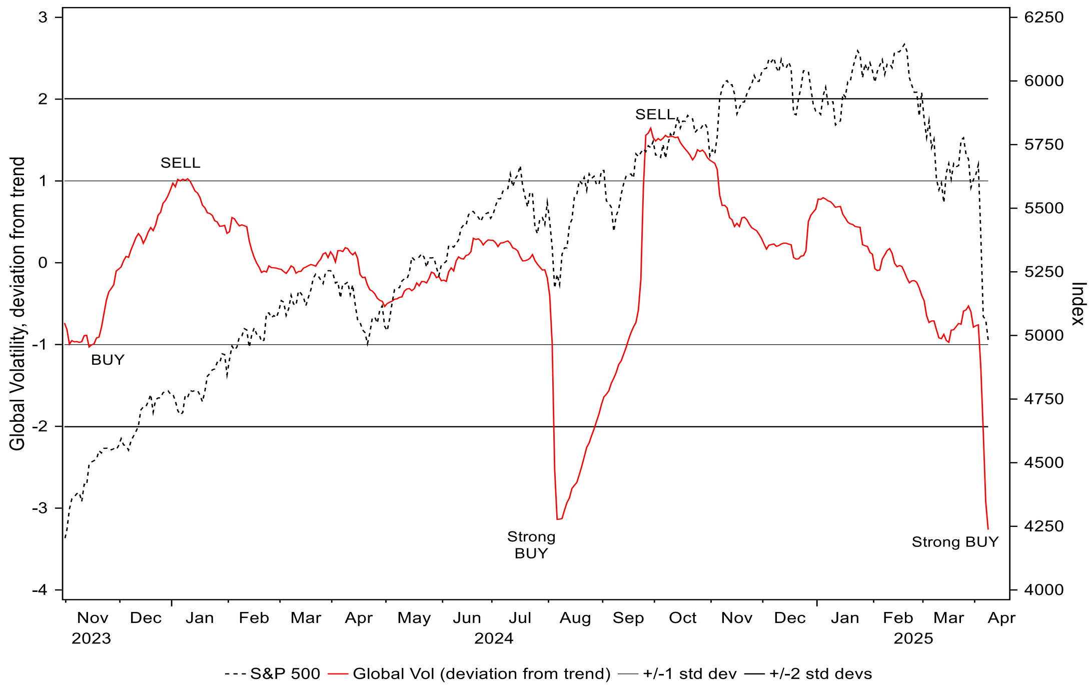


Source: Longview Economics, Macrobond

Medium term put to call model is on Strong BUY

For explanations of indicators please see page 10

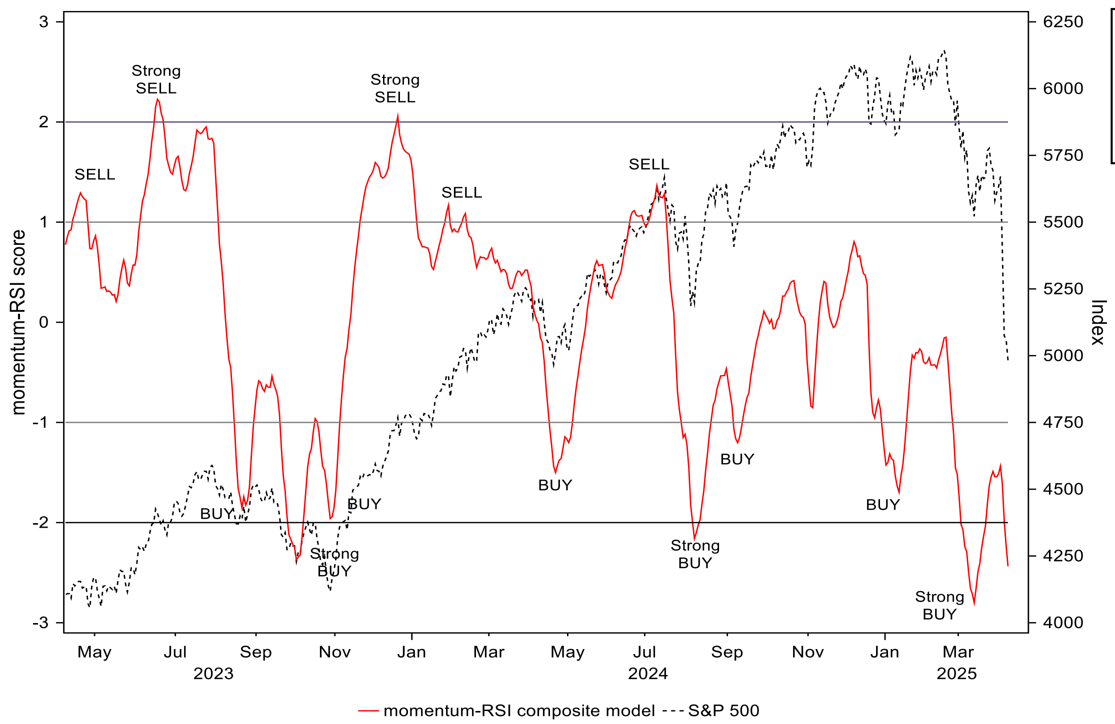
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on Strong BUY

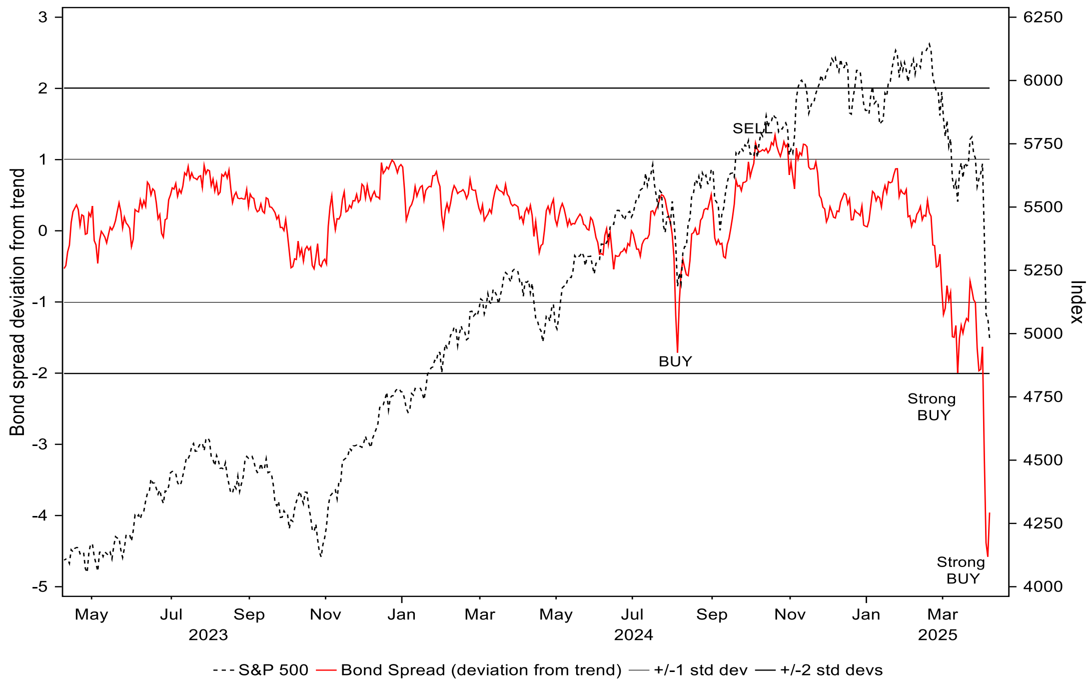
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is on Strong BUY

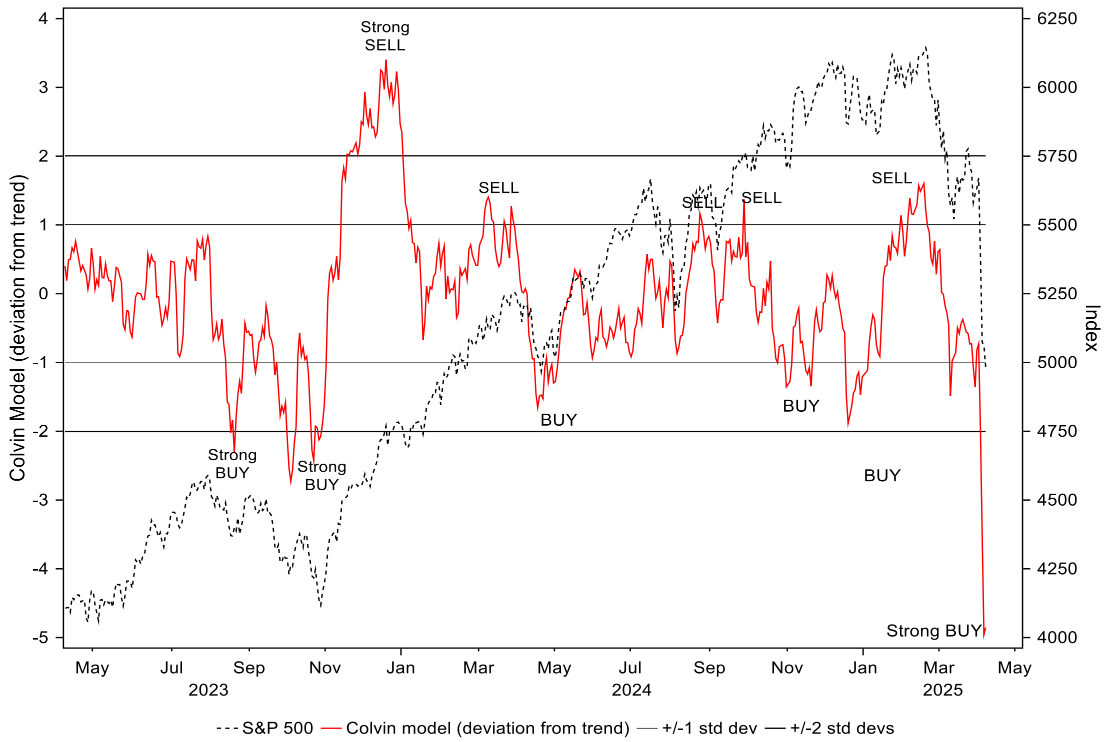
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is 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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