

Equity Index Futures Trading Recommendations

10th October 2024

"CPI day - Volatility Likely to be High"

Email: info@longvieweconomics.com

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

- WATCH & WAIT

Rationale

US equity markets continued to rally yesterday from the bottom of their recent trading range, eventually breaking out to the upside. That rally started overnight Monday night and continued through Tuesday and into Wednesday's trading session. With that, S&P500 futures posted a new intraday record high of 5,846.5 (just above the prior high of 5,830.0 on 26th September – FIG 1c). NDX100 futures, meanwhile, are back at the top end of their recent consolidation range (i.e. pushing on the 20,538.0 intraday highs on 26th Sept).

Of note, US CPI data is released later today (1:30pm London time; 8:30am EST). As always (along with non-farm payrolls), this US macro data can generate noteworthy intraday volatility. Interestingly, in that respect, US interest rate futures/expectations have moved sharply since last week's stronger than expected jobs data. Since last Thursday's close, for example (i.e. the day before the payrolls data), the market has priced out 38bps of rate cuts by the end of 2025 (FIG 1). The number of the cuts for the remainder of this year has also moderated (FIG 1 – see Dec 2024 implied rate). With that, 1, 2 and 10 year US bond yields have all picked up sharply. Ten-year yields closed at 4.06% yesterday (up from 3.74% at the start of the month).

In terms of models, the **medium-term SELL case remains and continues to strengthen**. Overnight the SELL-off indicator has reached +19 (i.e. just shy of its key +20 level at which it warns of a heightened risk of a wave of risk aversion – FIG 1a); the combined medium term risk appetite model is on SELL (FIG 1b): while the (medium term) level of downside put protection is low (i.e. markets are vulnerable to negative newsflow and not hedged to the downside).

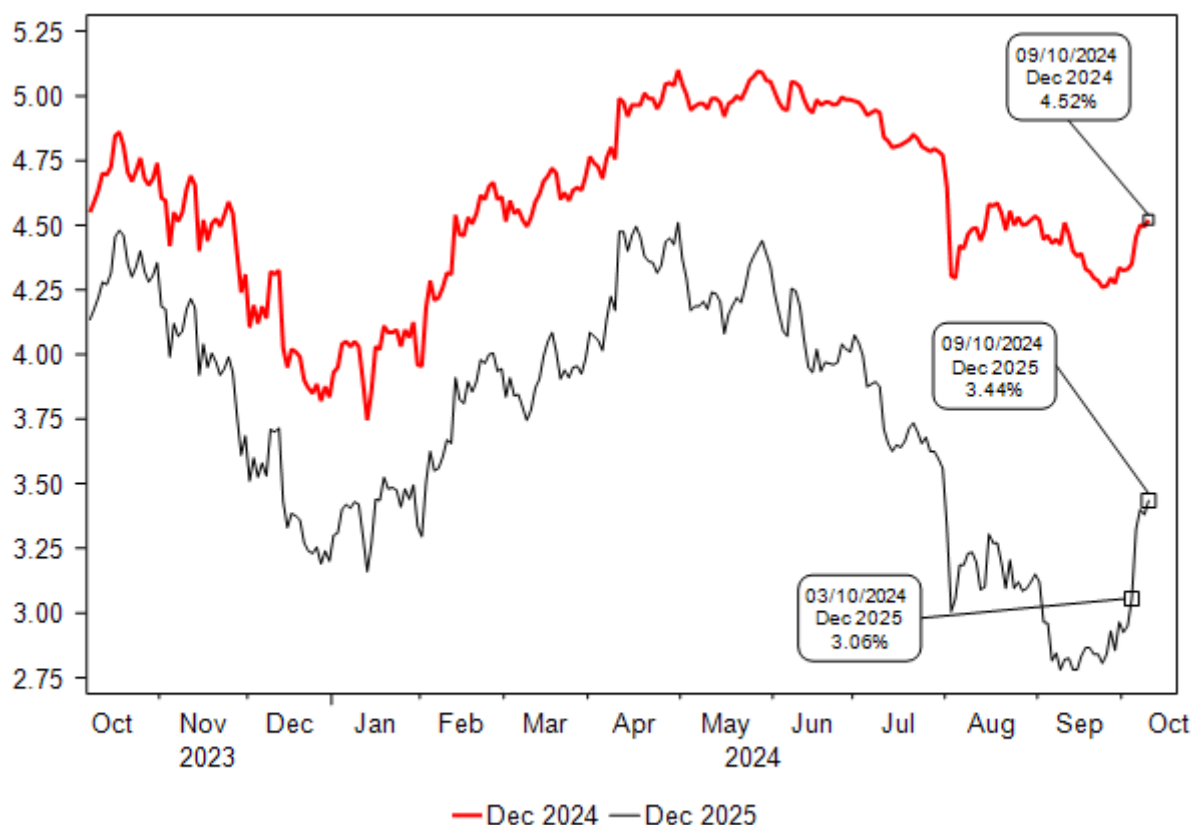
Short term models, however, have drifted lower in the past few trading sessions, highlighting the potential for this breakout to run for a few more trading sessions (before they get back onto SELL). Those models are laid out in FIGs 2 to 2e.

Having (just) been stopped out yesterday and given the potential two-way volatility that's likely as a result of the CPI data release today, we **recommend sitting on the sidelines for now**. Other key important forthcoming events include the Chinese fiscal stimulus announcement which is scheduled for this coming Saturday (12th October). A full list of today's key events is shown below.

Kind regards,

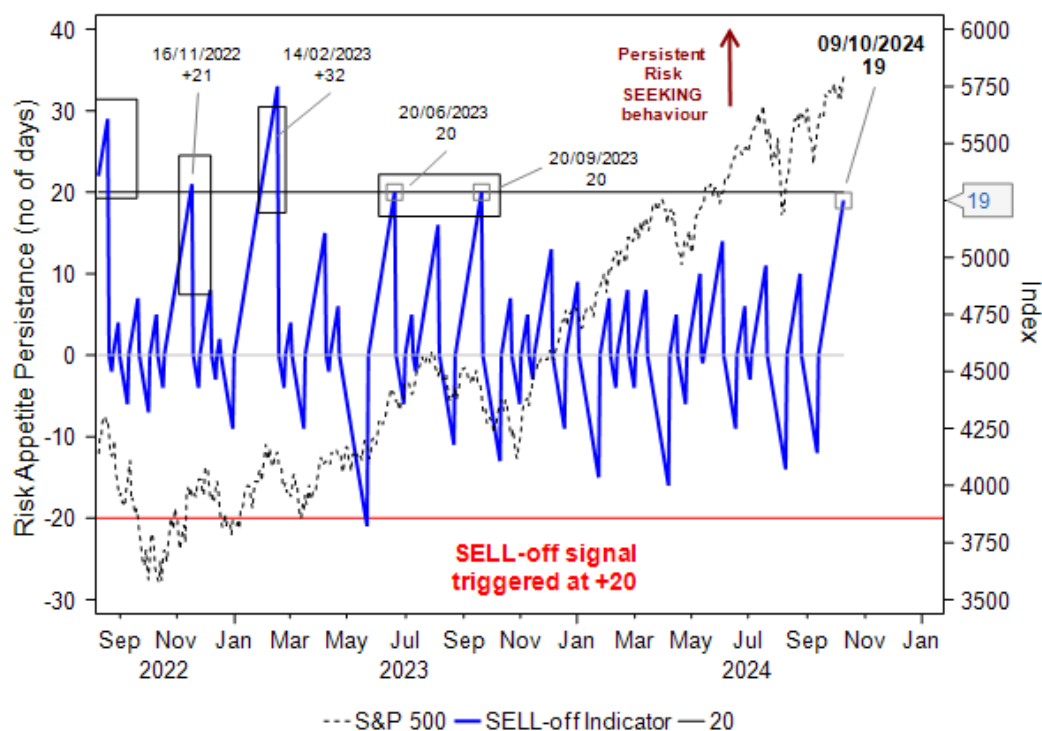
The team @ Longview Economics

FIG 1: US interest rate expectations at year end 2024 and 2025 (derived from Fed Fund futures)



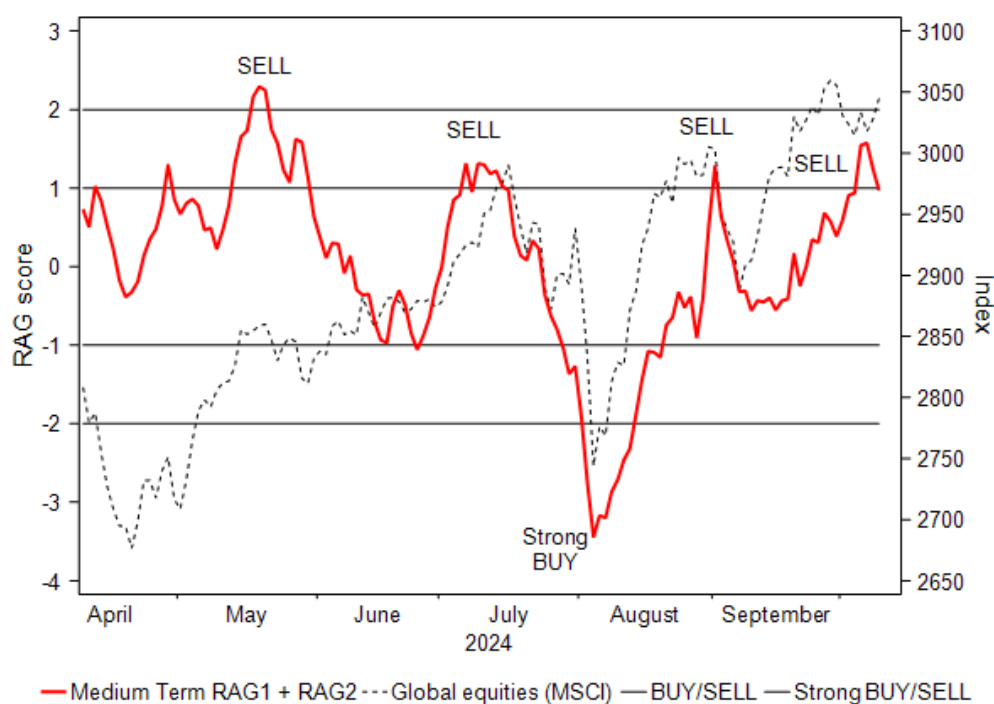
Source: Longview Economics, Macrobond

FIG 1a: Longview SELL-off indicator vs. S&P500



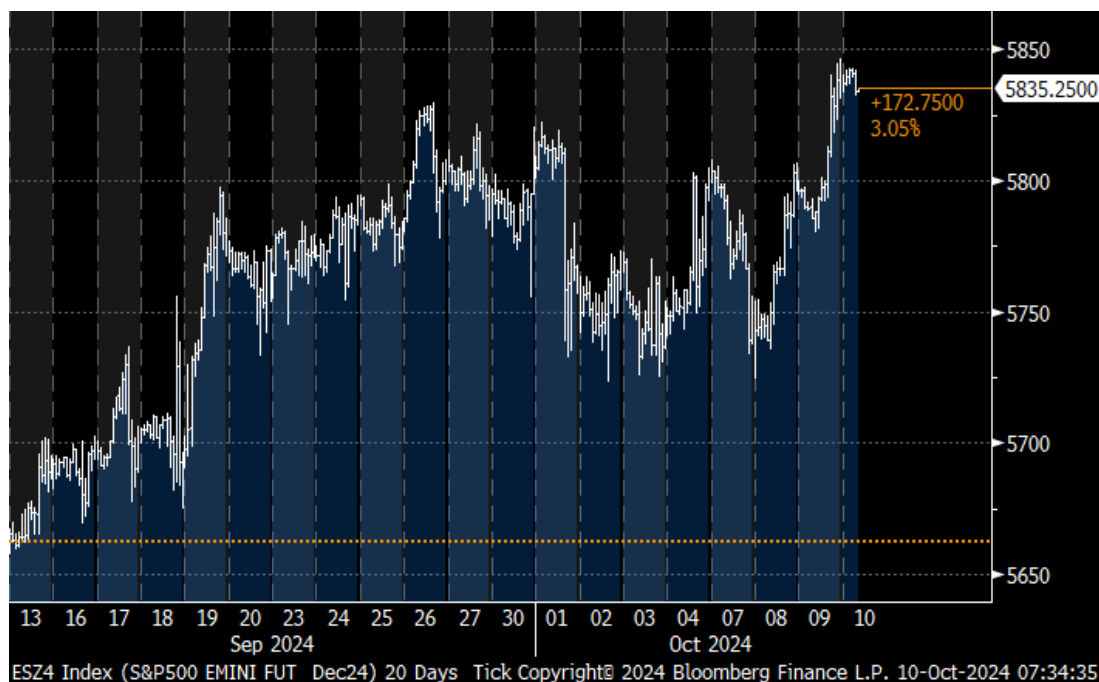
Source: Longview Economics, Macrobond

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



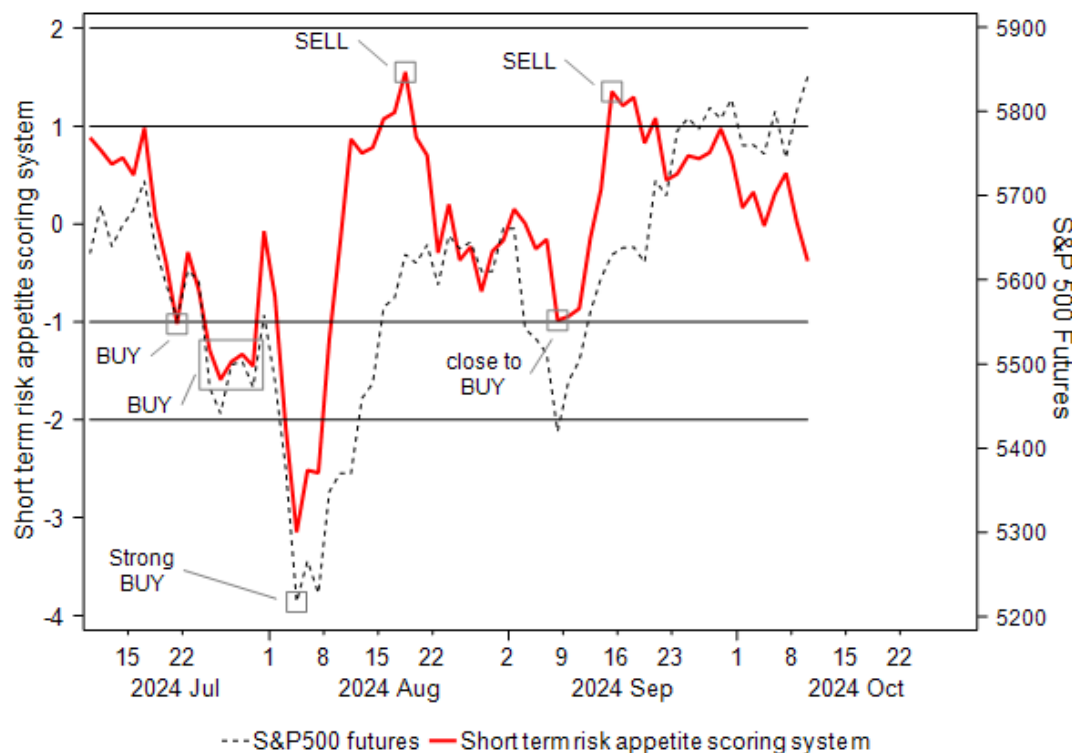
Source: Longview Economics, Macrobond

FIG 1c: S&P500 futures 20-day tick chart shown with overnight price action



Short term market timing models have eased off from recent SELL signals.....

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

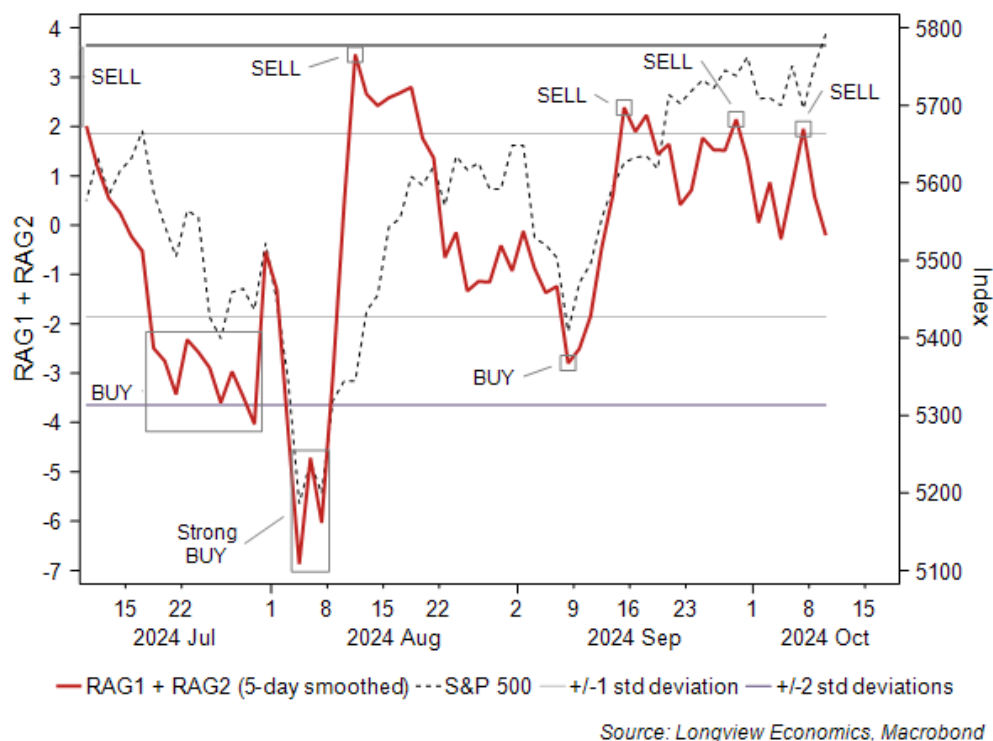


FIG 2b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

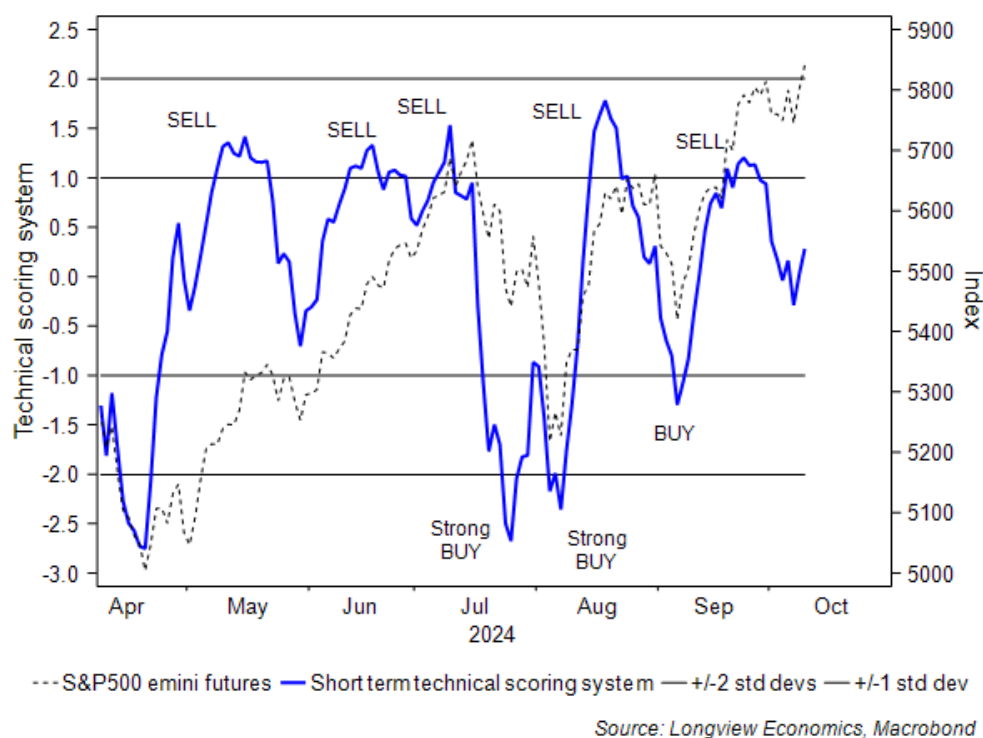
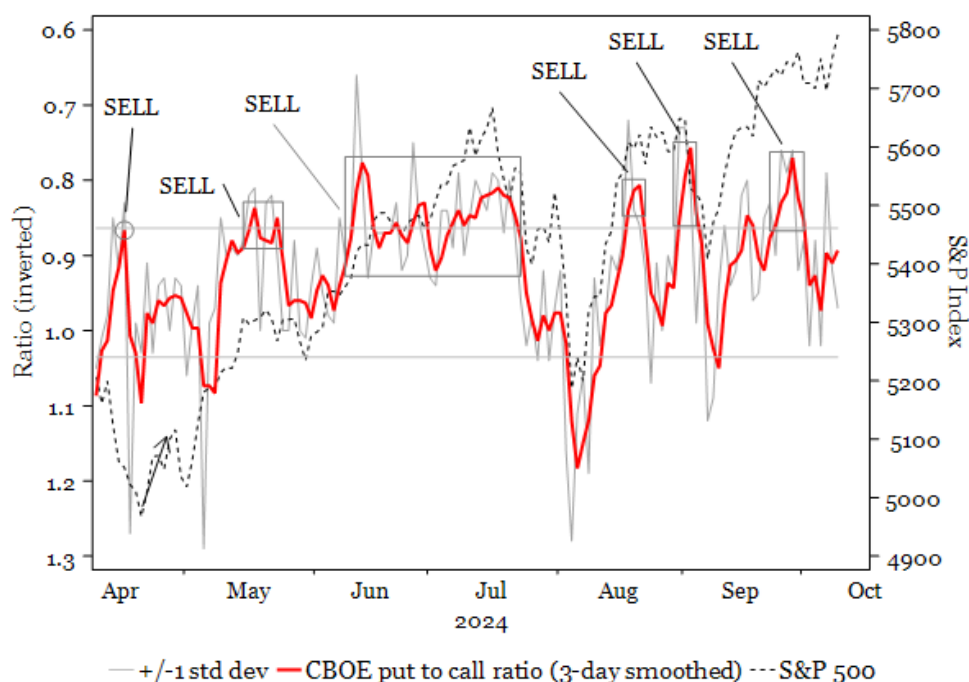
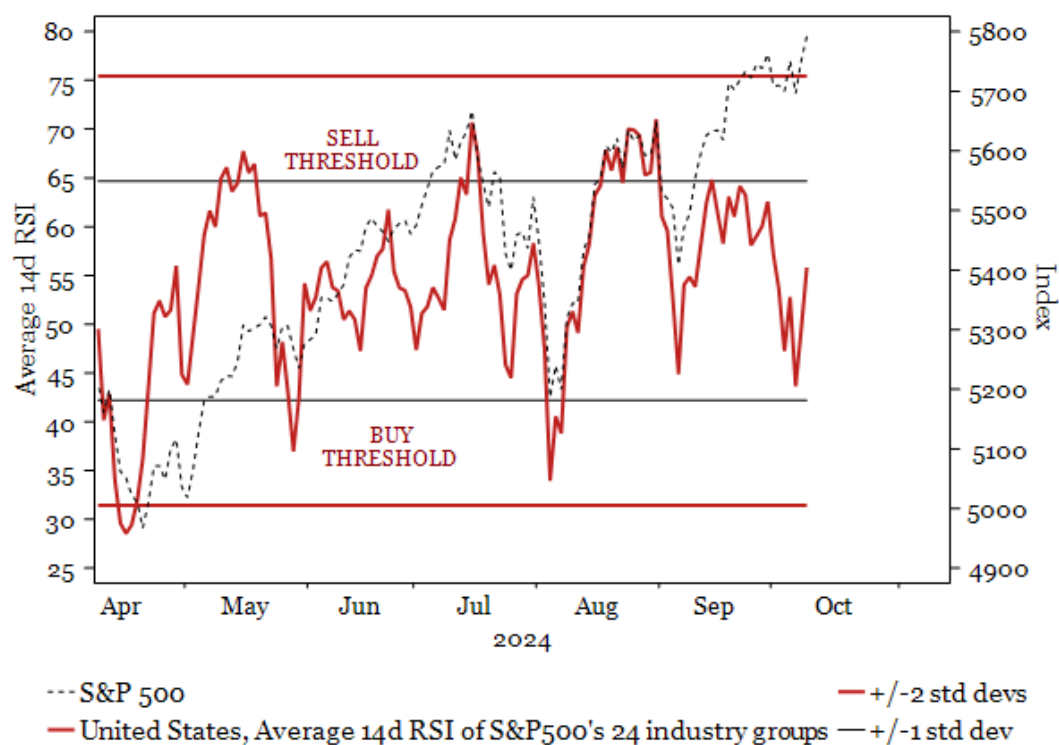


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



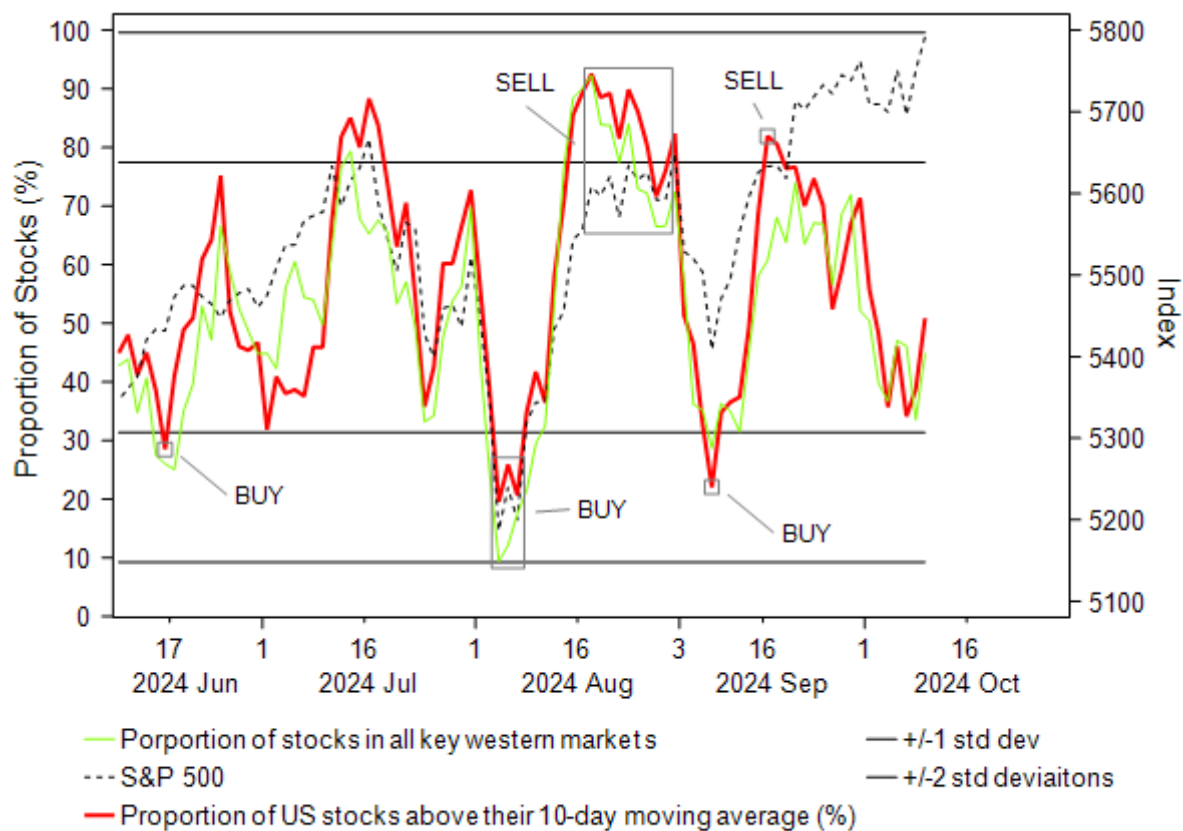
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



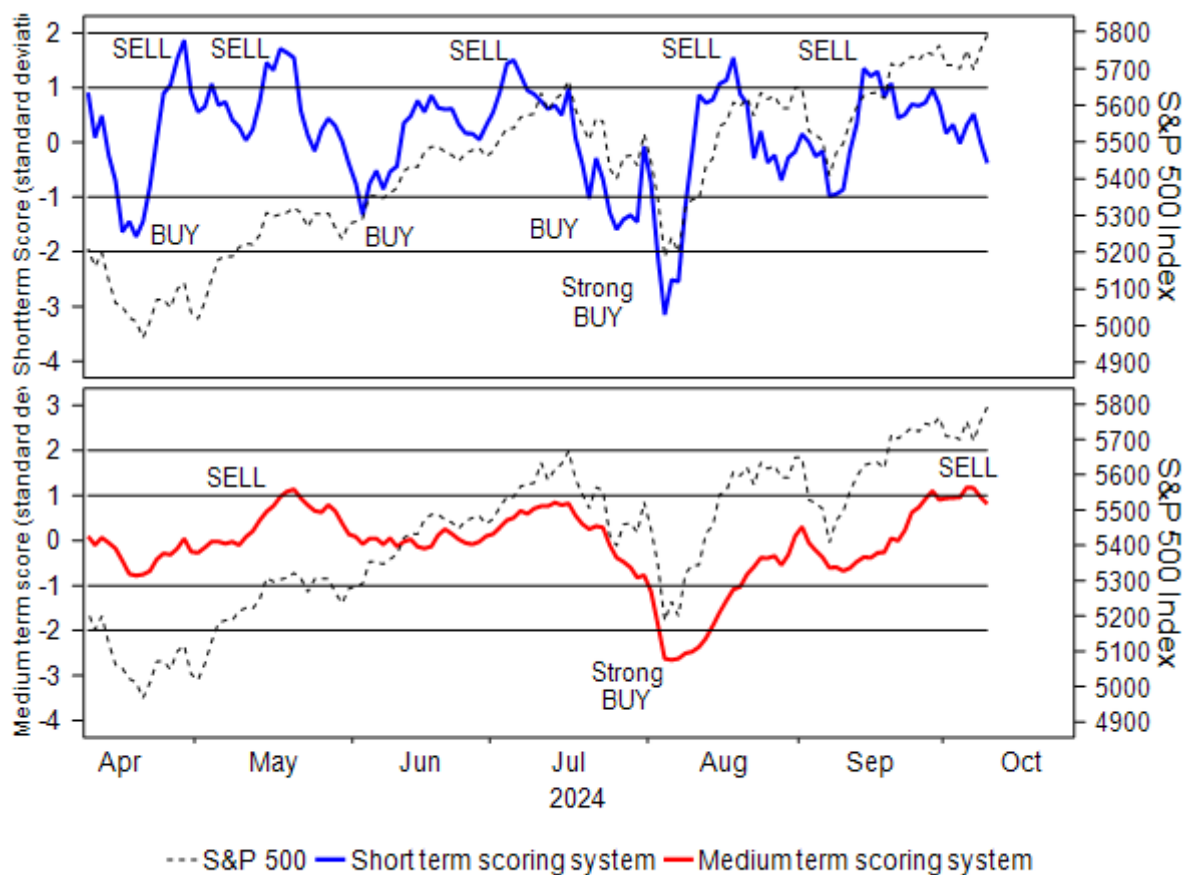
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

Medium term (1 – 4 month) scoring system: **NEUTRAL** (just below 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 PPI (Sept, 12:50am); Japanese bank lending (Sept, 12:50am); **RICS house price balance** (Sept, 12:01am); German retail sales (Aug, 7am); Italian industrial production (Aug, 9am); **US headline & core CPI** (Sept, 1:30pm); US weekly jobless claims (1:30pm).

Key events today include: Speech by the RBA's Hunter at Macquarie University (8:45am); speeches by the Fed's Barkin in Fireside chat (3:30pm) & Williams at Binghamton University (4pm).

Key earnings today include: Progressive, Delta Air Lines, Domino's Pizza Inc, Fast Retailing, Seven & i 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 3rd October 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.



Notice: This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

-  Longview Economics
-  @chriswatling
-  @LviewEconomics
-  Longview Economics
-  Longview Economics
-  Longview Economics

1 – 2 Week View on Risk

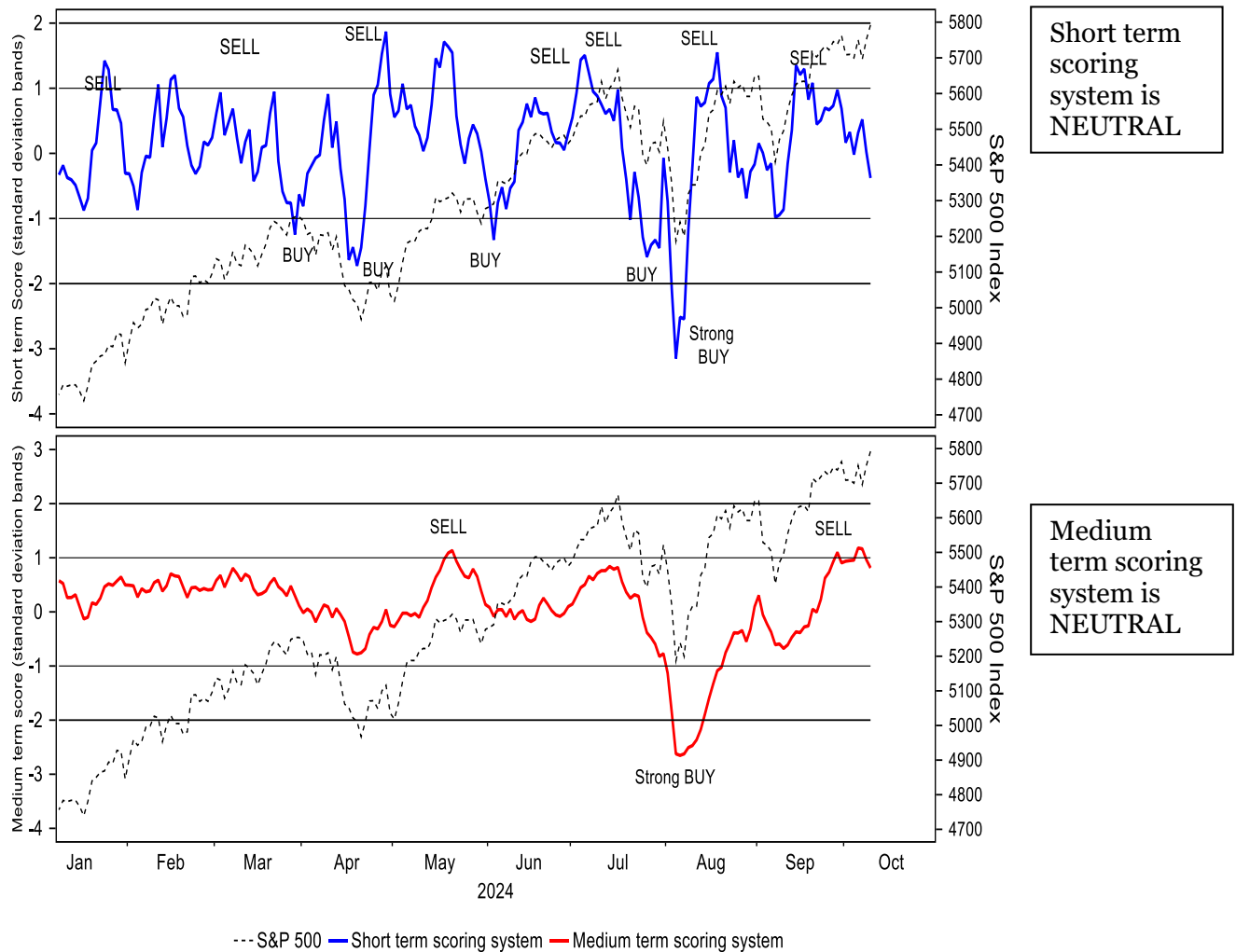
Longview Economics

Email: ragtrader@dailyragtrader.com

10th October 2024

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

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



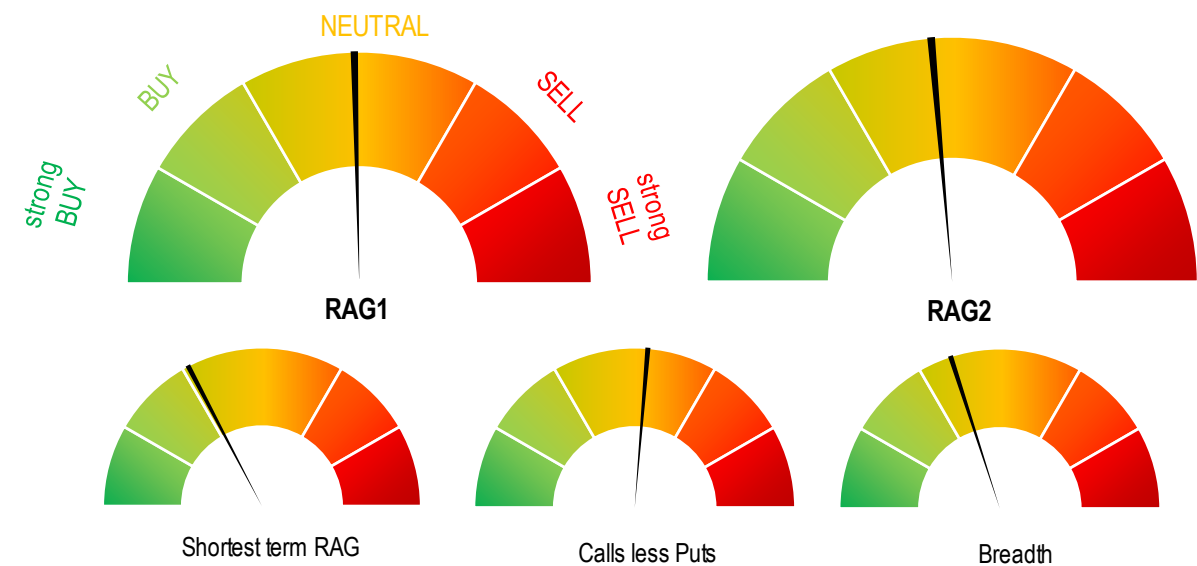
Source: Longview Economics, Macrobond

*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**

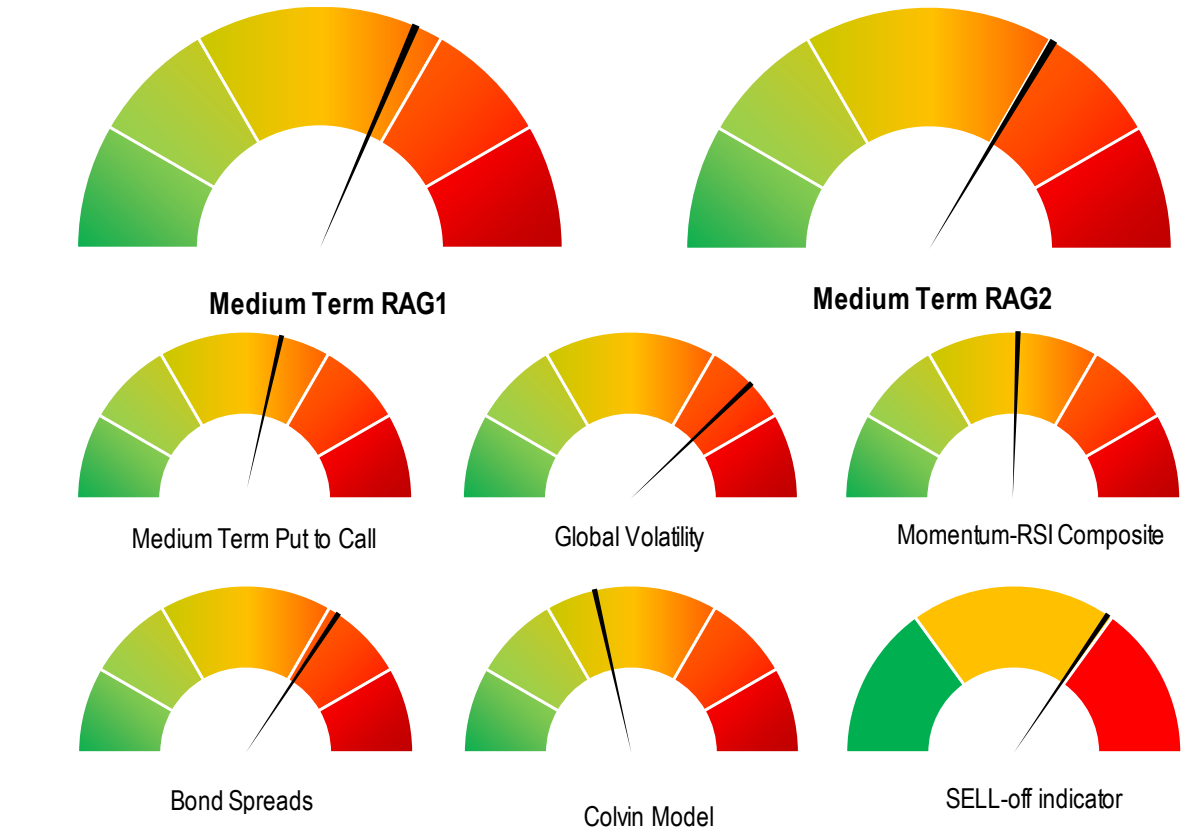
Section 1a: Summary of indicator signals**

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

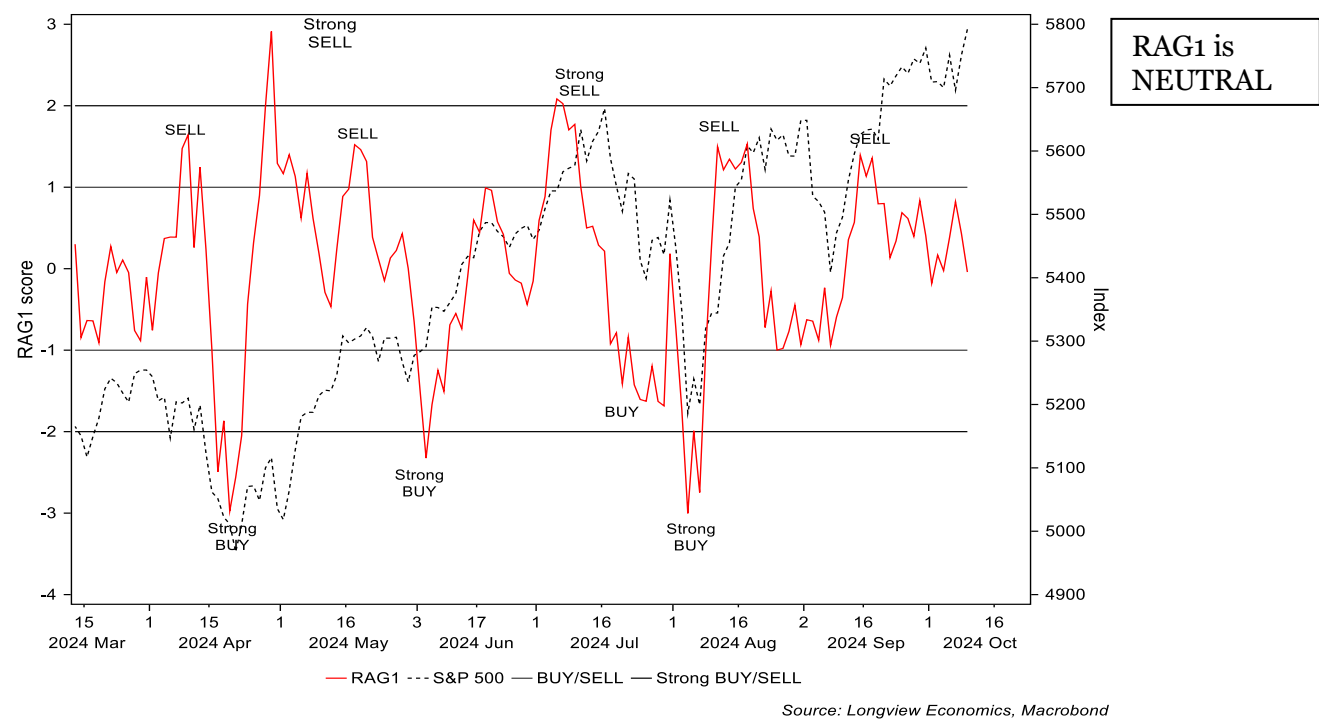
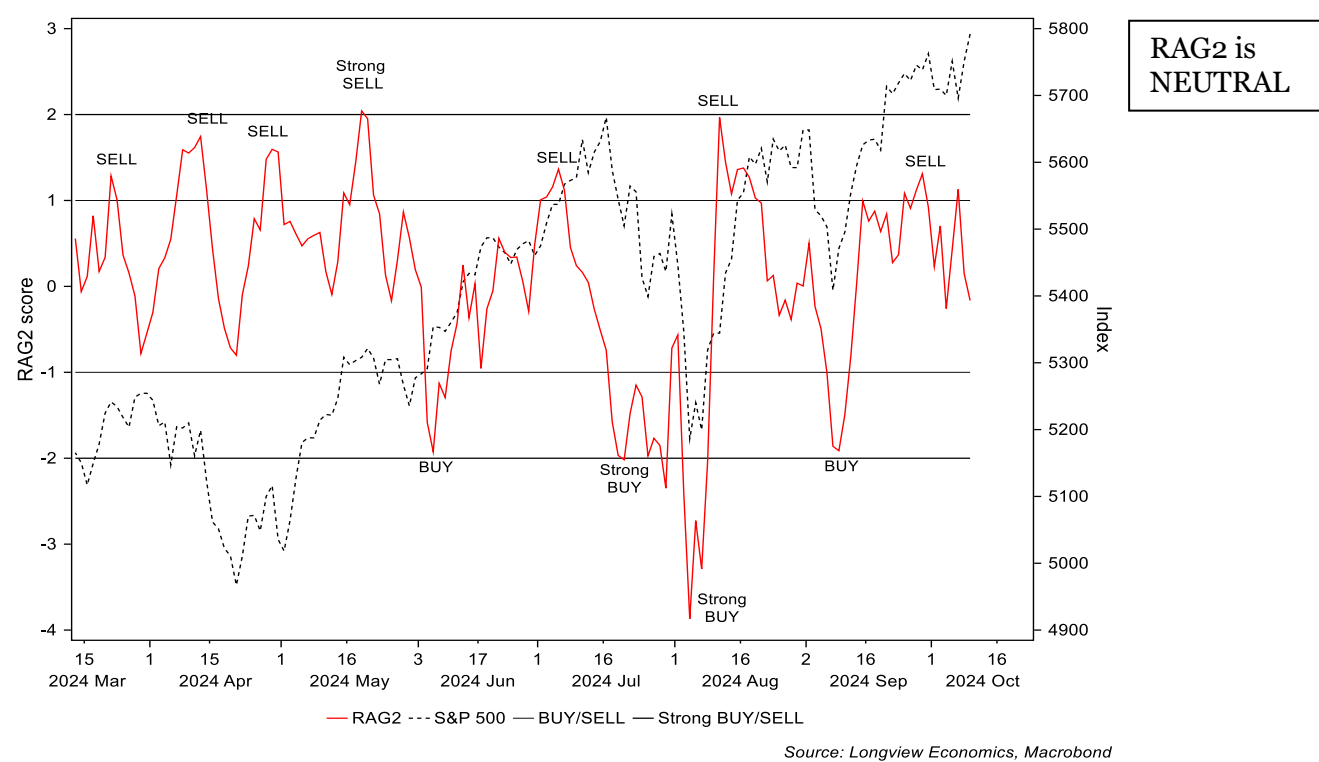


Fig 2b: RAG 2 vs. S&P 500



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

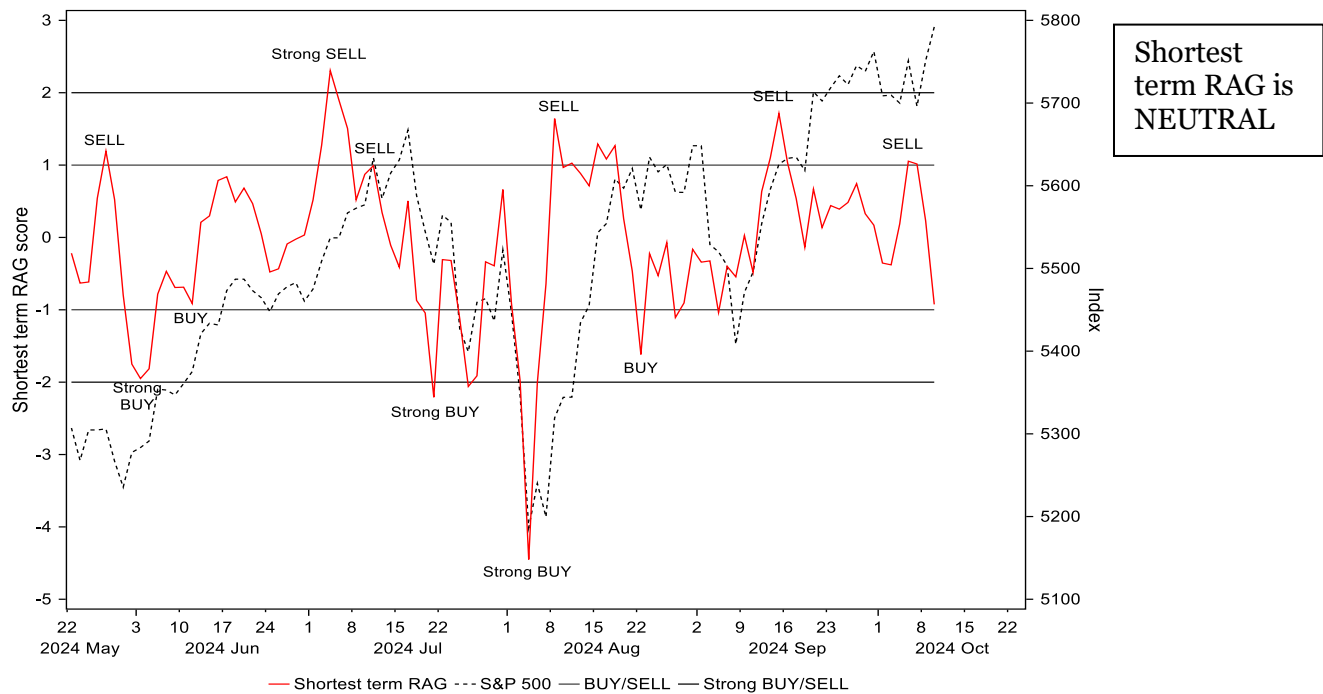
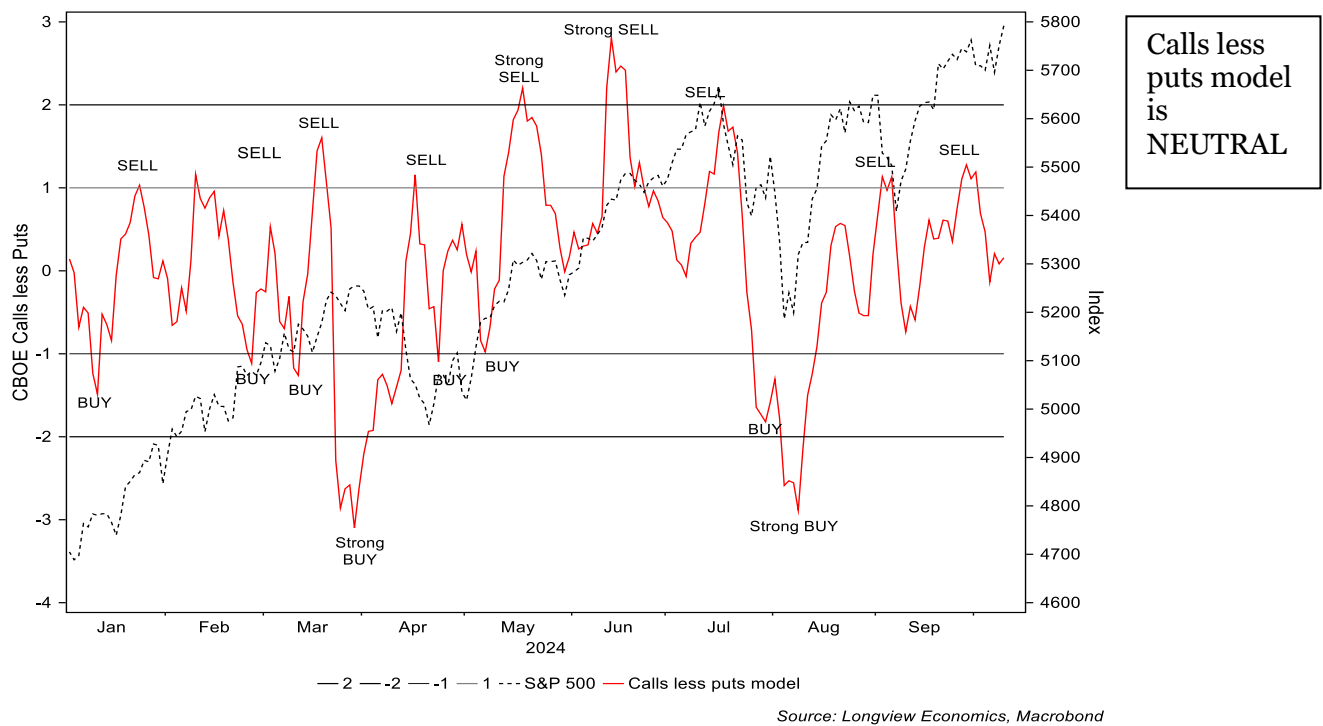
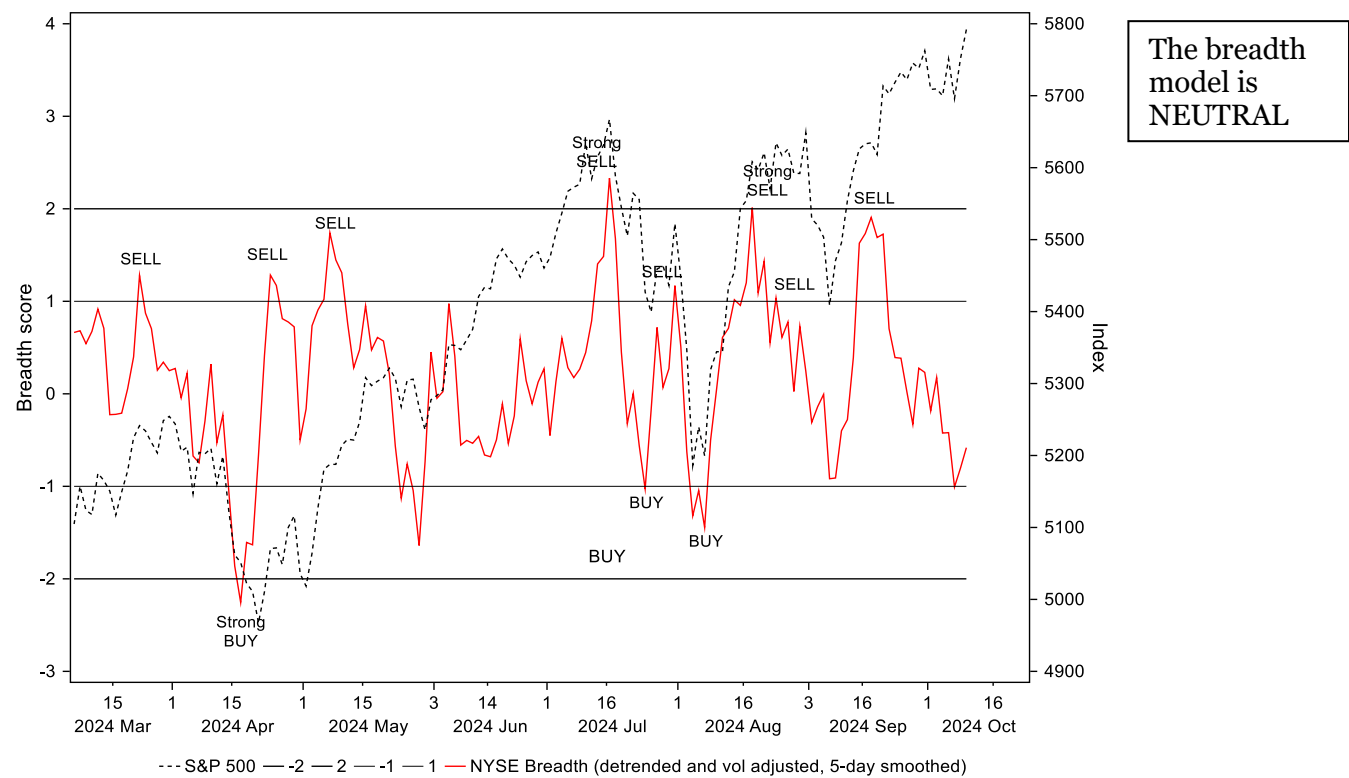


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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 – 2 month) outlook

Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500

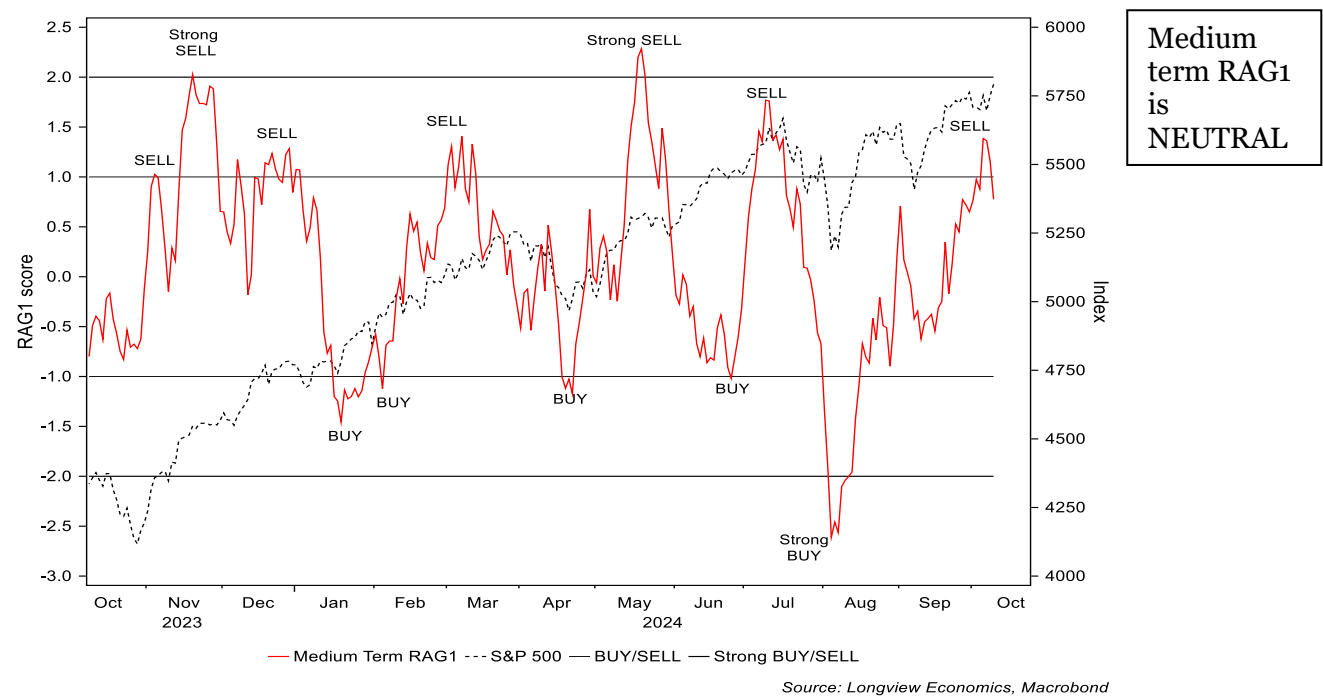
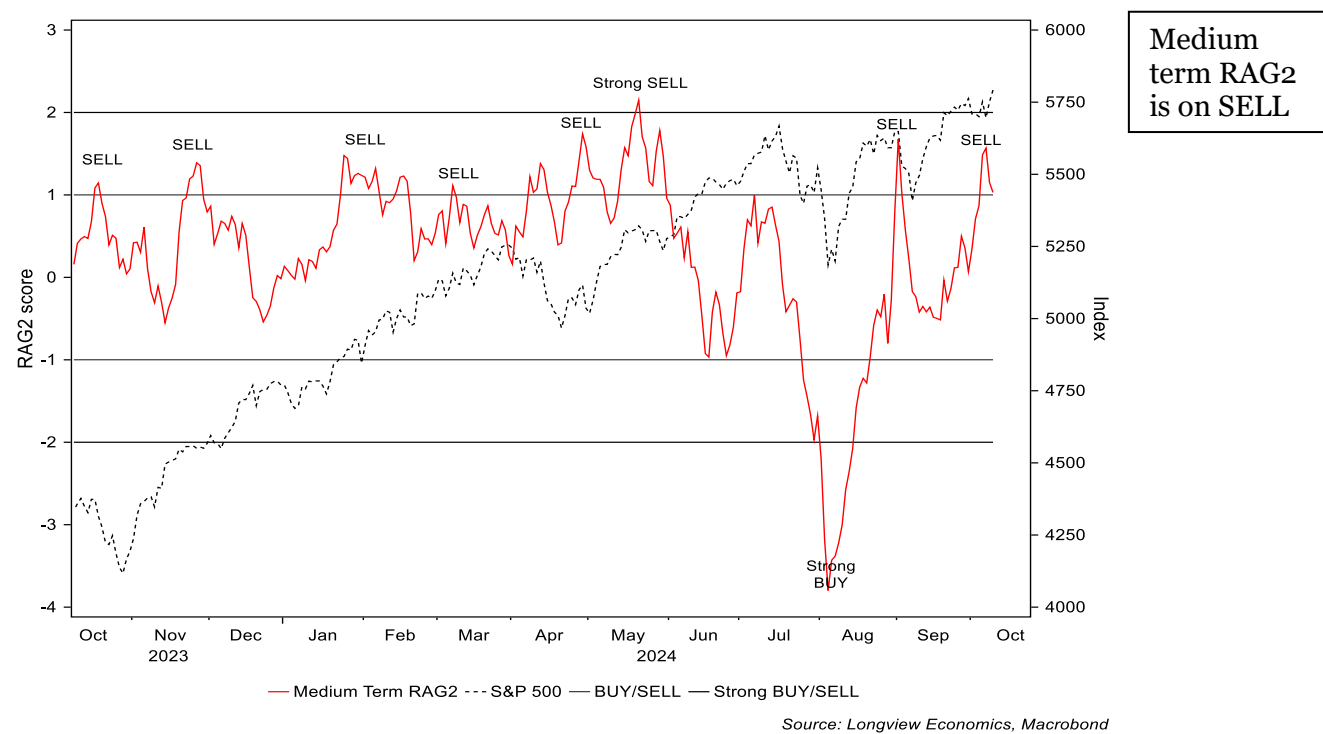


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

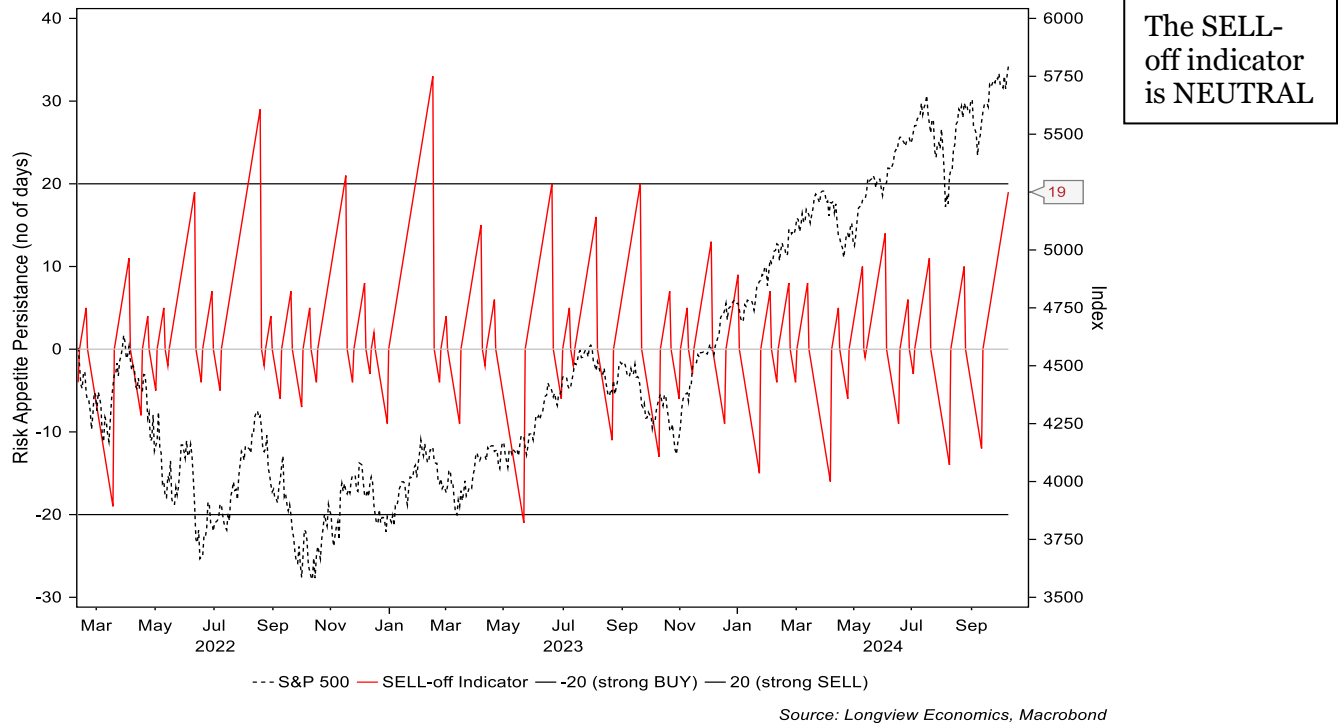
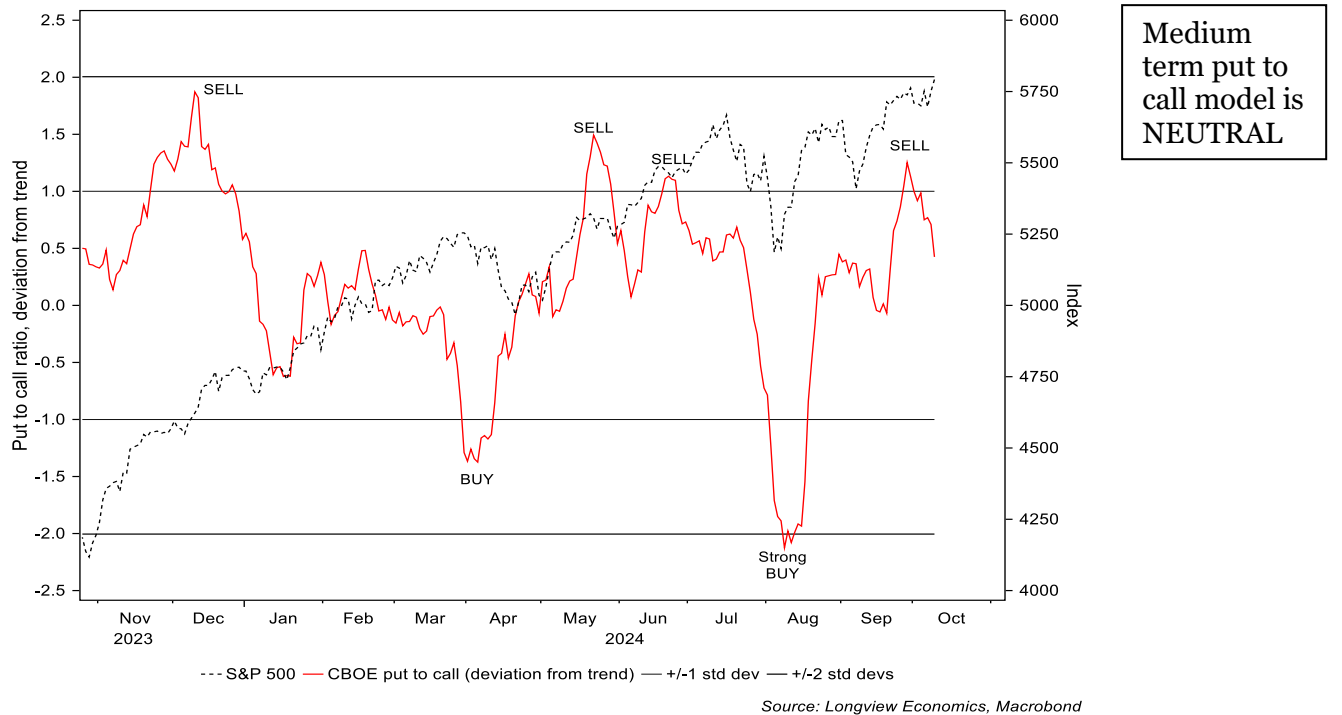


Fig 3d: CBOE put to call trend deviation model vs. S&P500



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

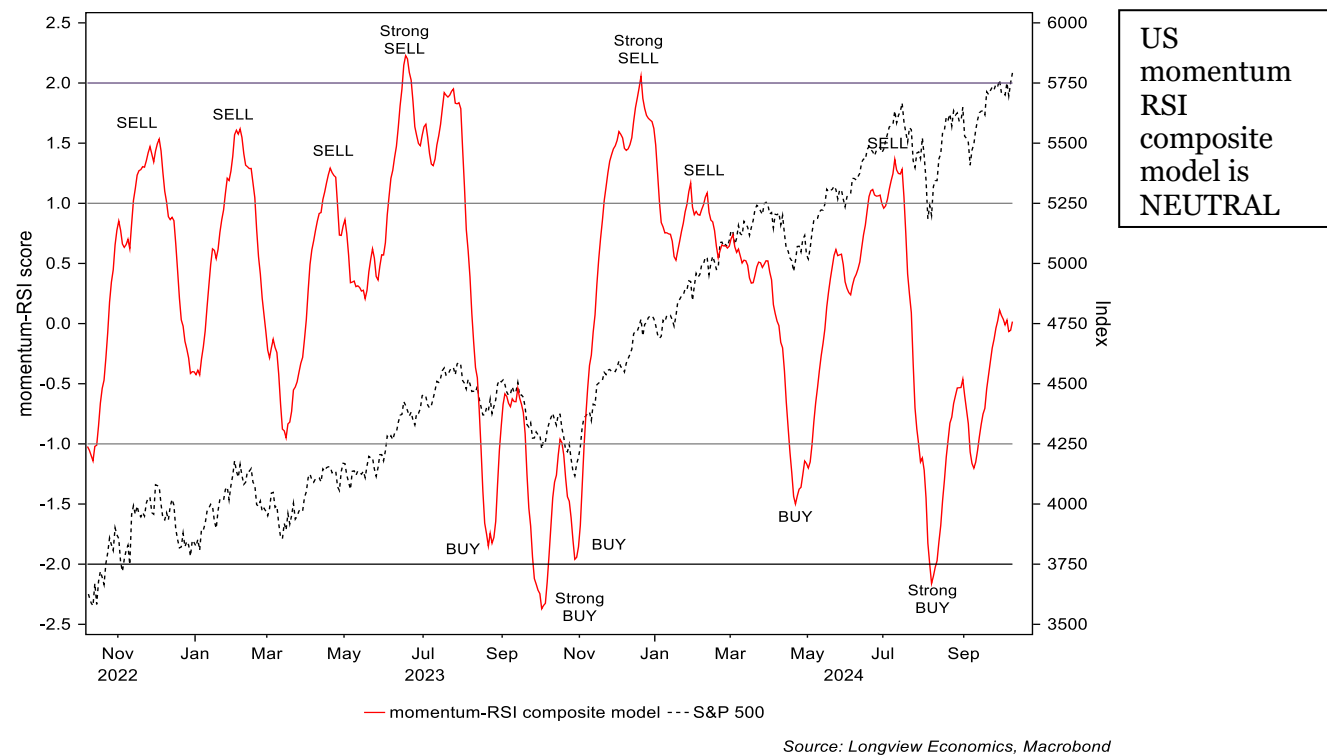


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

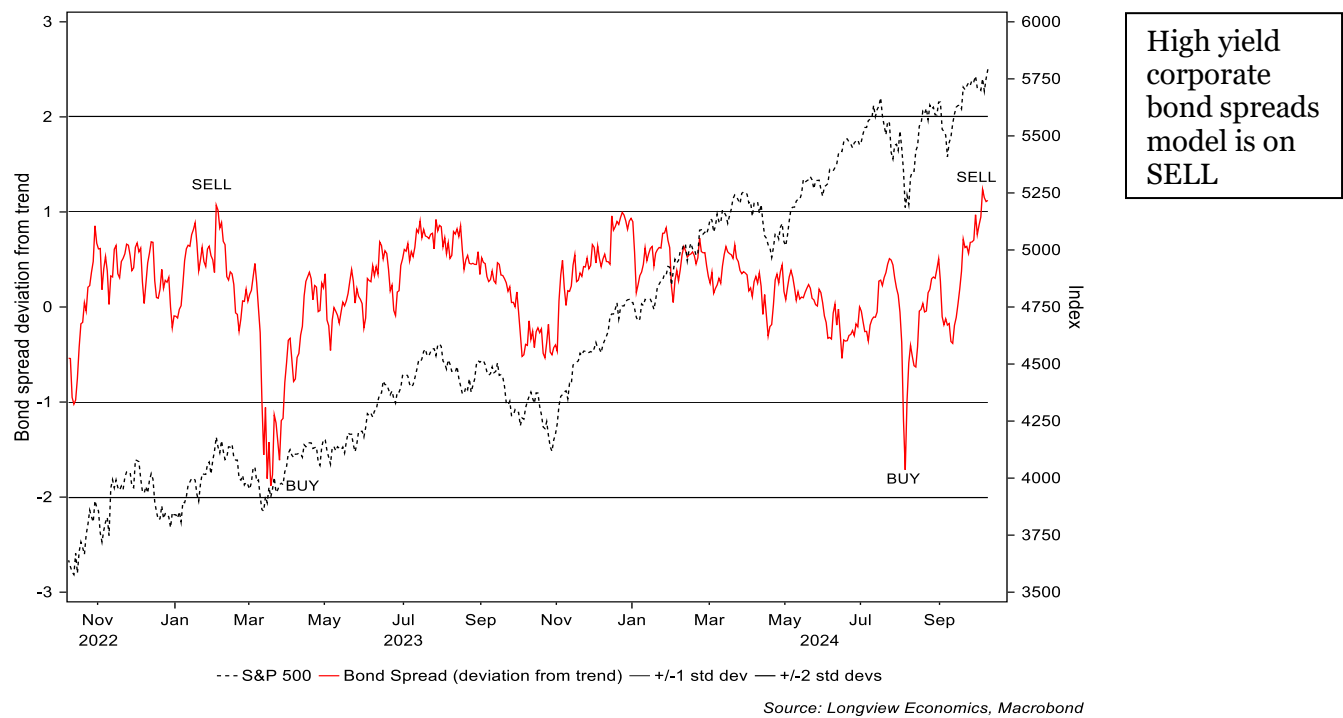
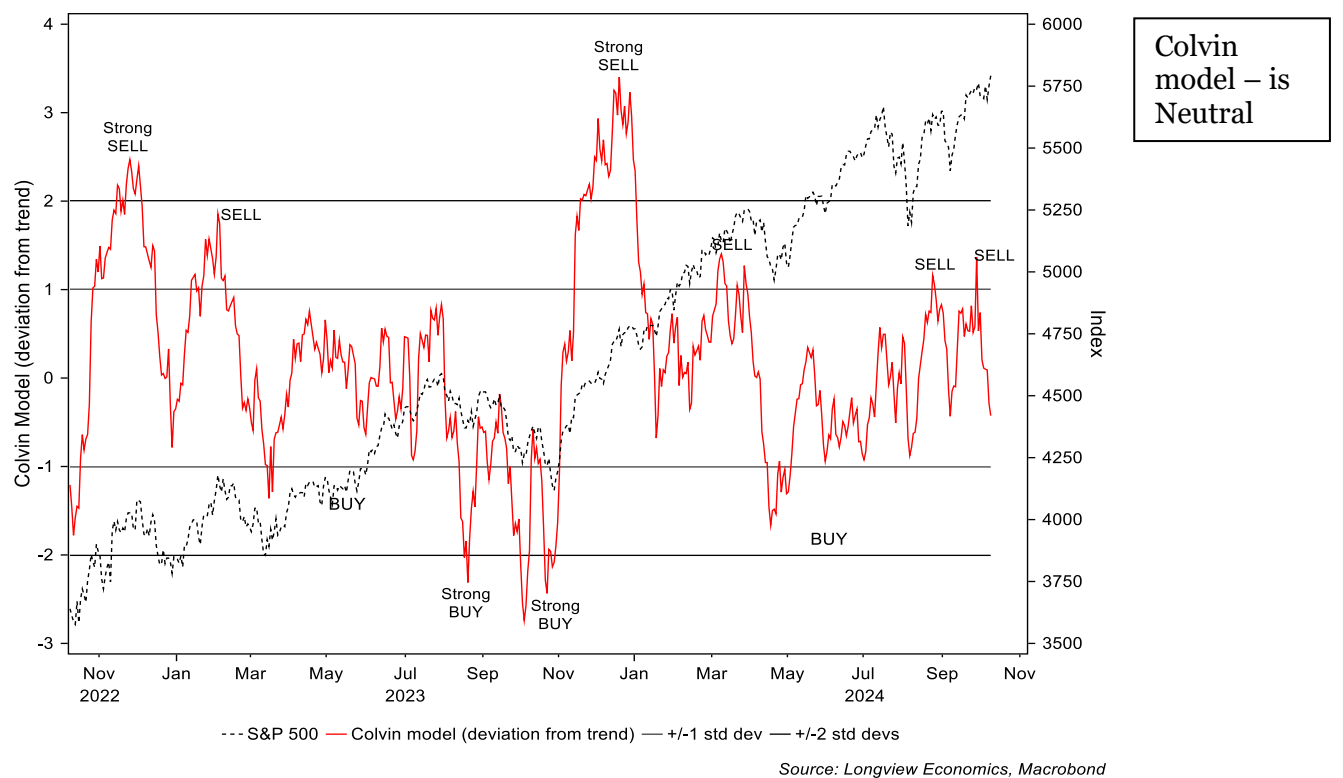


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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.

Disclaimer

This Publication is protected by U.K. and International Copyright laws.

All rights are reserved. No license is granted to the user except for the user's personal use. No part of this publication or its contents may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means, except as permitted under agreement with Longview Economics Ltd.

This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.