LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

10th September 2024

"Stay SHORT NDX - downtrend likely ongoing (for now)"

Email: info@longvieweconomics.com

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

- Stay ¼ SHORT NDX100 September futures*.
- Retain unchanged stop loss at 19,100.

*NB blended entry was 19,721.25, with the trade implemented on 23rd August.

Rationale

The strategy remains as per yesterday. That is, markets are in a downtrend and, in that environment, it **pays to stay with SHORT positions** until there is a clear, across the board BUY (or strong BUY) message from a range of short, and sometimes medium term, indicators.

Yesterday's price action did nothing to negate that thesis. That is, US/global equity markets bounced, but **didn't deliver any signs of trend exhaustion**. The Philly SOX, for example, closed up 2.2% on the session, but traded in a relatively narrow range compared to Friday (see FIG 1a). With that, the NASDAQ100 (+1.3%) only retraced a small portion of Friday's losses (and remained below the intra-day lows from Wednesday and Thursday last week, FIG 1). Elsewhere, the rally in equities was on seasonally 'normal' volumes (FIG 1d) and was not confirmed by other key asset prices. High yield credit spreads, for example, were broadly unchanged (FIG 1c); while US 10 year yields continued to edge lower (FIG 1b), which has been consistent with equity market weakness in recent weeks (i.e. on growing concerns about the US macro outlook).

Furthermore, while certain short term 'tech centric' models are starting to generate BUY signals, **the message is not yet clear/across the board**. None of them, for example, have reached strong BUY, while some are still NEUTRAL (e.g. see the NASDAQ100 sentiment index), FIGs 2 – 2c. Similarly, the BUY message from our (general) short term models is not yet clear/compelling. Risk appetite and some technical models are on BUY (FIGs 3, 3a, & 3b). The CBOE put to call ratio, though, is NEUTRAL/mid range (FIG 3c), while other key breadth and momentum models are mostly NEUTRAL (see FIGs 3d, 3e, & 3f). As such there is still a lack of fear/panic priced into equities at this juncture.

Overall therefore the risk reward continues to favour staying with SHORT NDX positions.

Risks, as always are multiple and include the possibility that we have misjudged the market regime (and equities are entering/have entered a new uptrend). It's also possible that the NASDAQ100 rallies from its 200 day moving average, thereby beginning to form a pennant pattern. Reflecting those risks we reduced the position size of the SHORT trade yesterday and tightened the stop loss.

Key events/macro data today include US NFIB small business optimism (for August) as well as the first Trump vs. Harris presidential debate. Please see below for a full list of today's key macro data/events.

Kind regards,

The team @ Longview Economics

FIG 1: NASDAQ100 futures shown with 50 & 200 day moving averages

Source: Longview Economics, Macrobond

FIG 1a: Philly SOX index shown with 50 & 200 moving averages

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

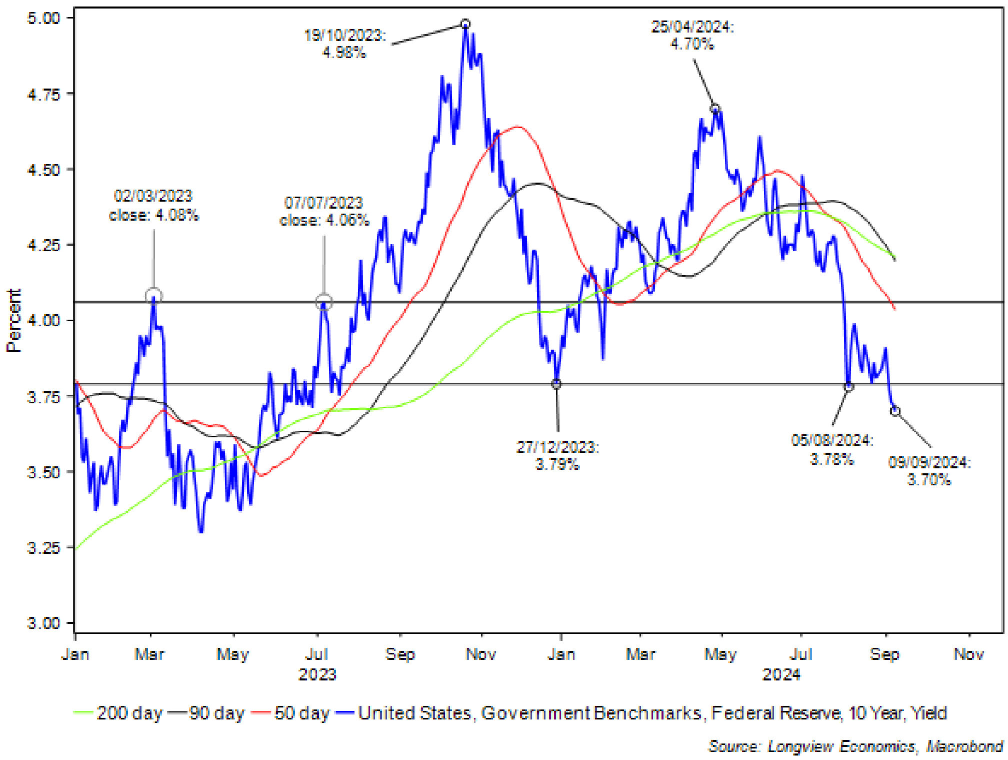


FIG 1c: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500

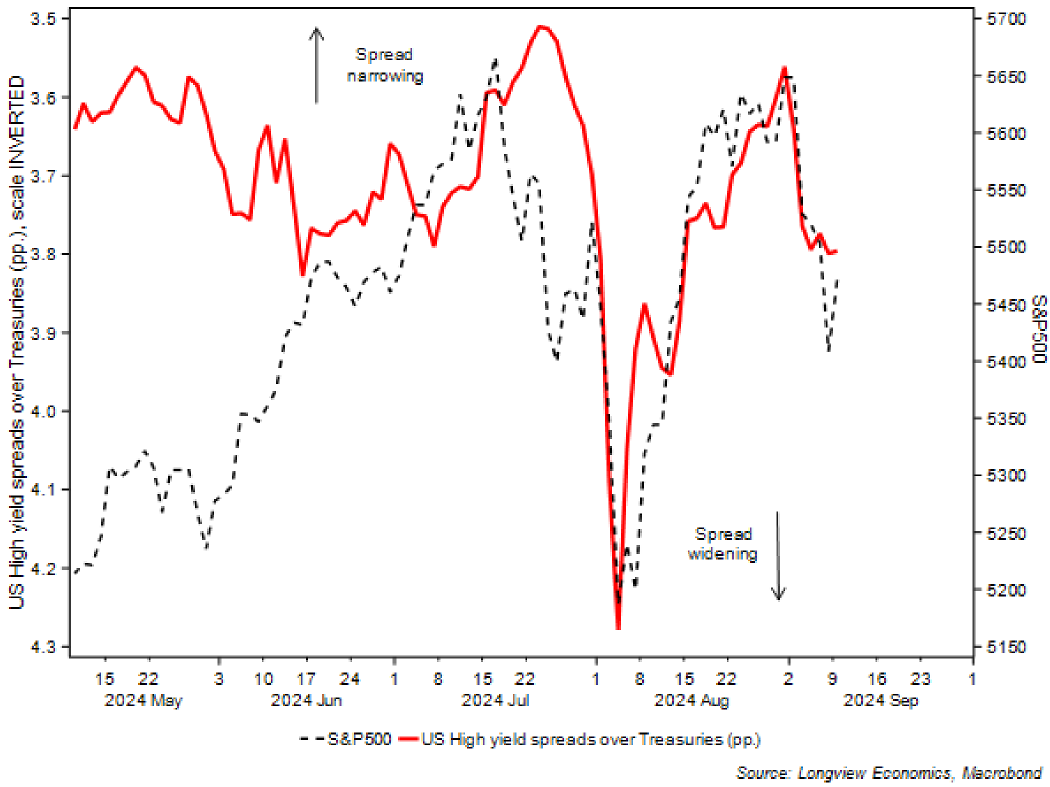
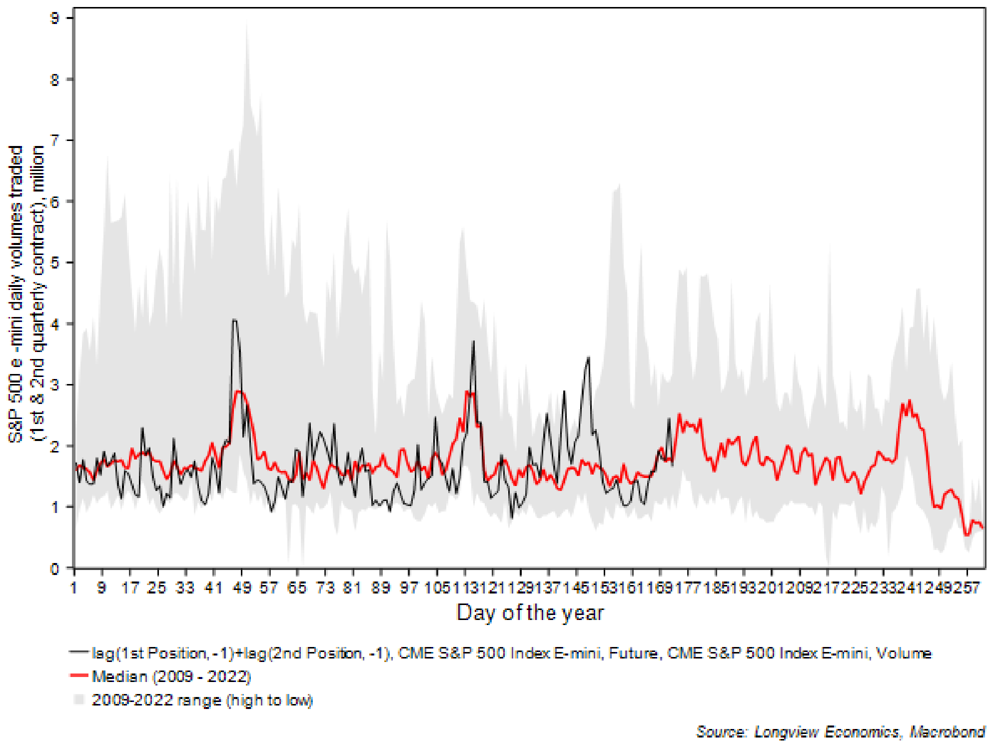


FIG 1d: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



Tech centric models –> starting to generate BUY signals…

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

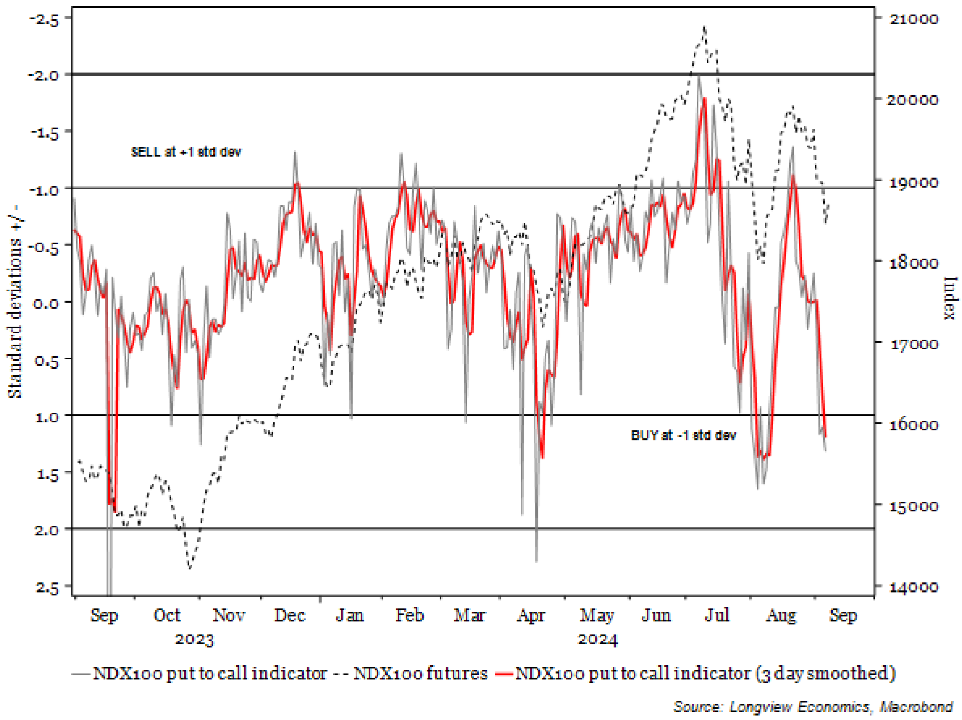


FIG 2a: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

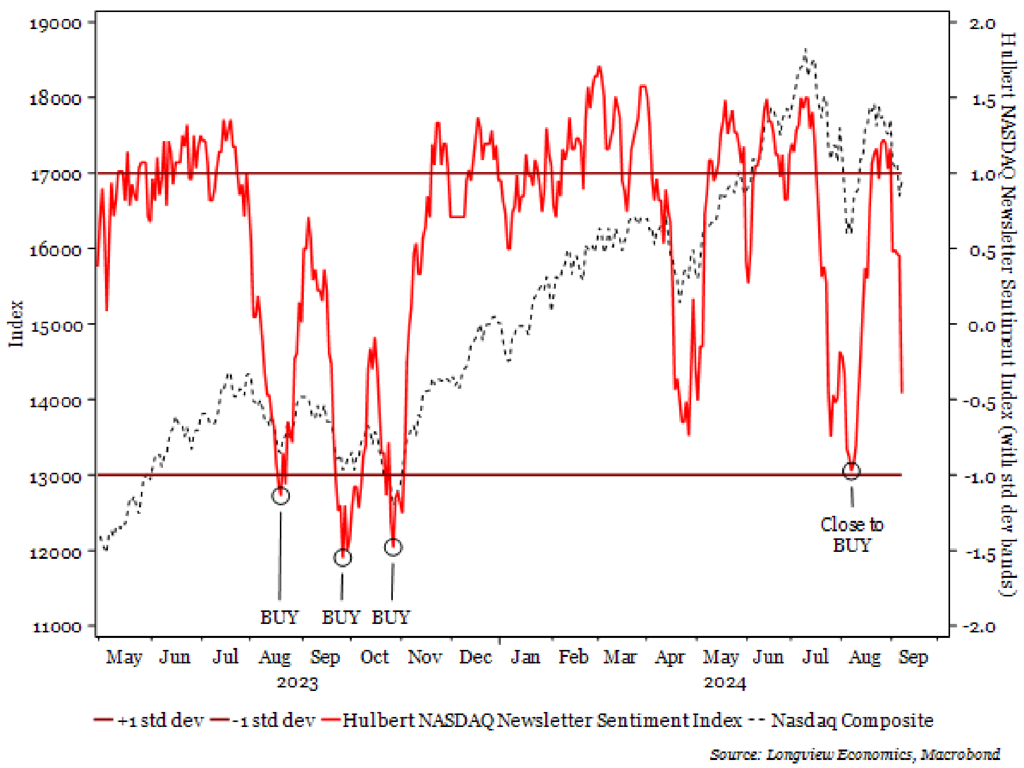


FIG 2b: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures

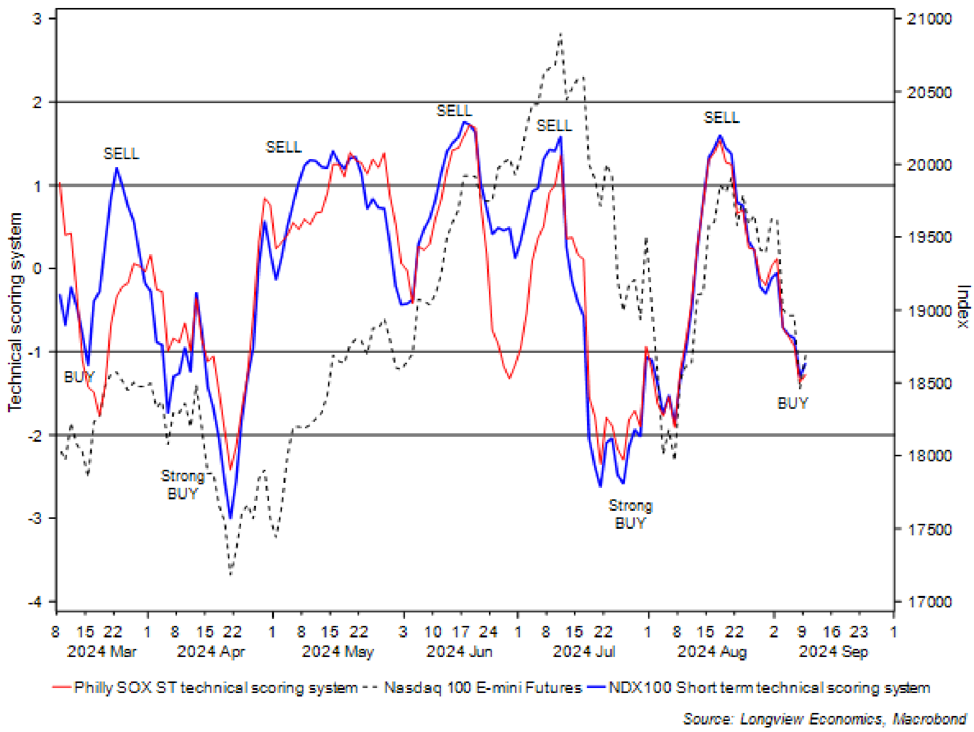
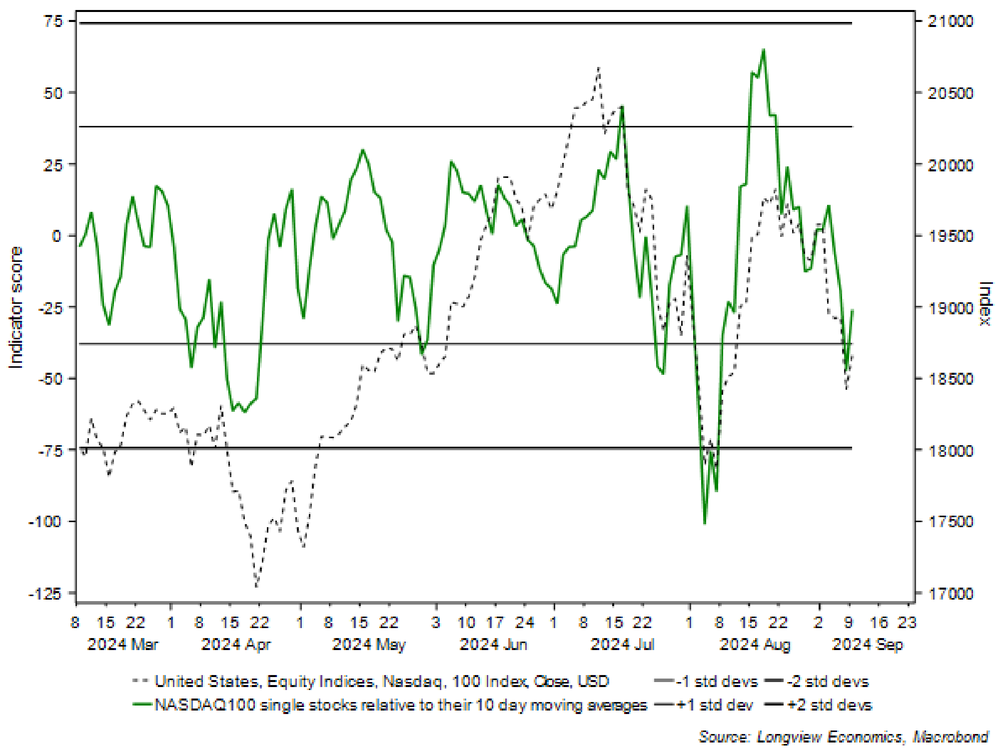
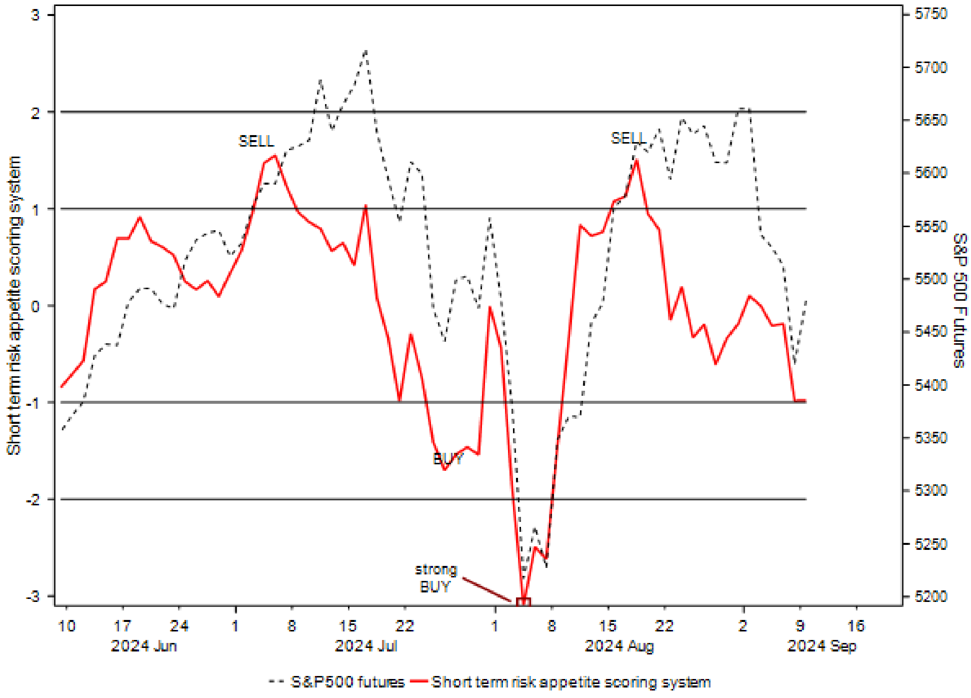


FIG 2c: NASDAQ100 single stocks relative to their 10 day moving averages (aggregated) vs. NDX100



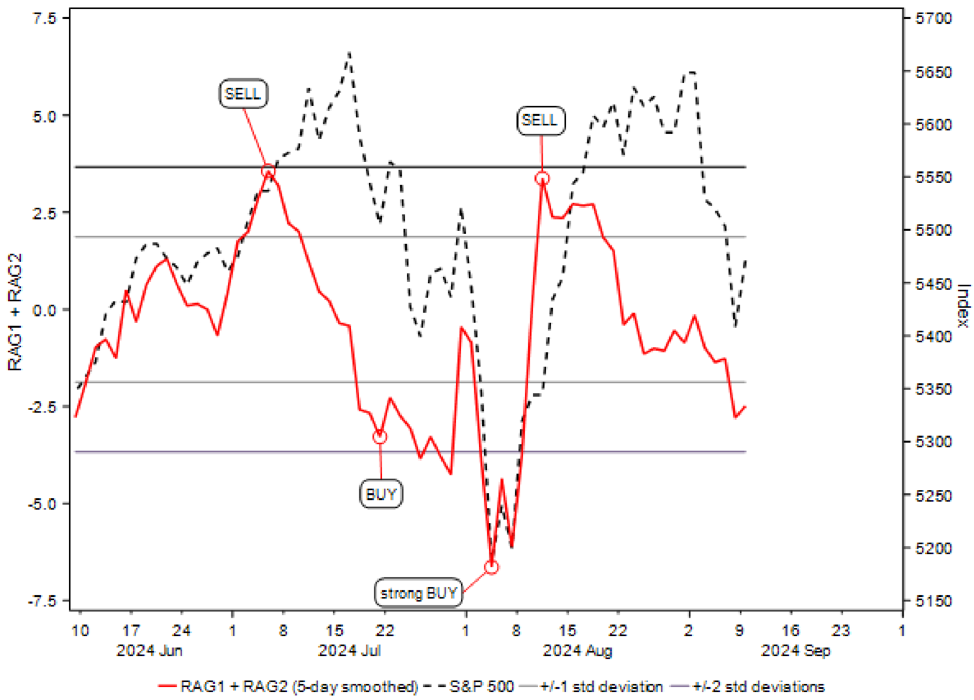
Short term market timing models increasingly generating BUY signals….

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

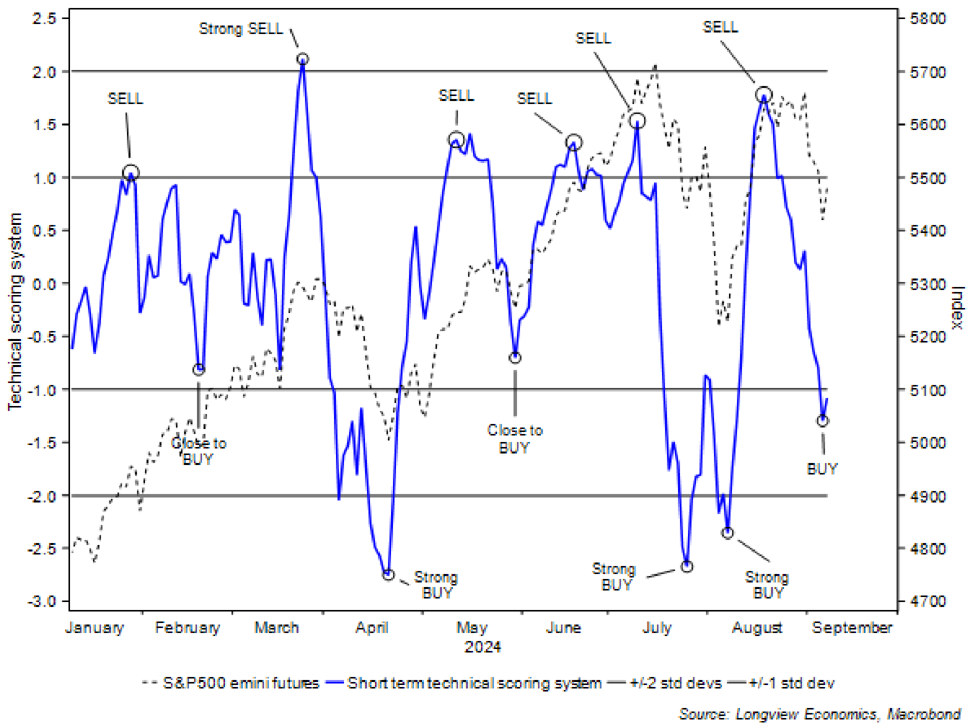


FIG 3c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

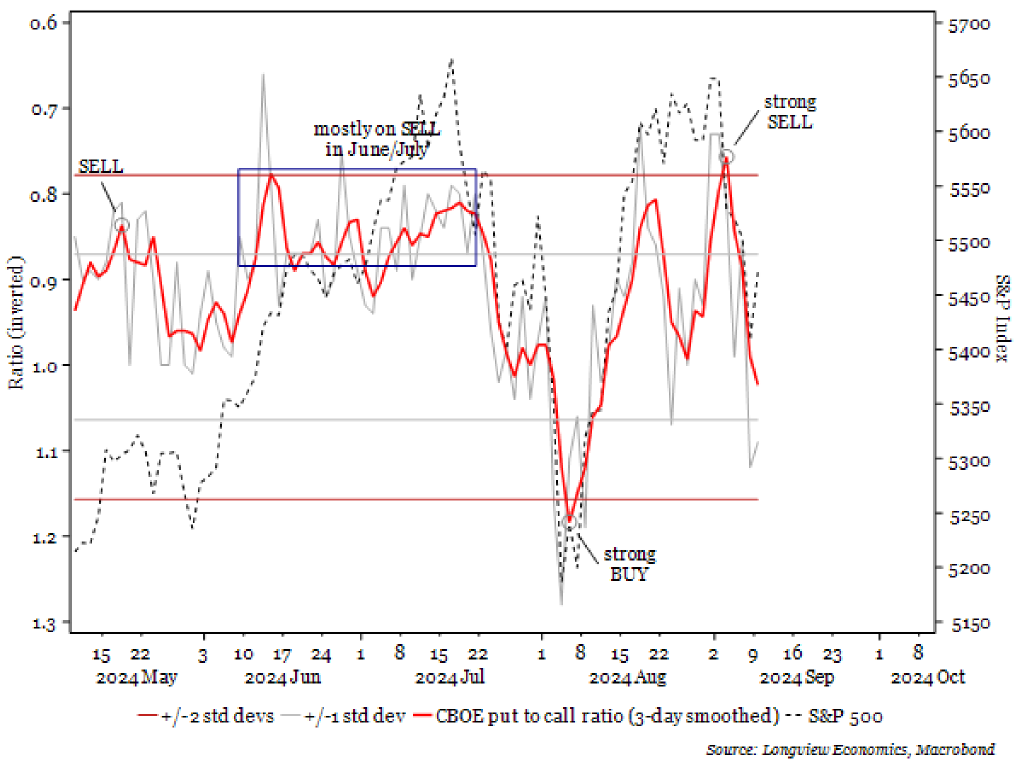


FIG 3d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

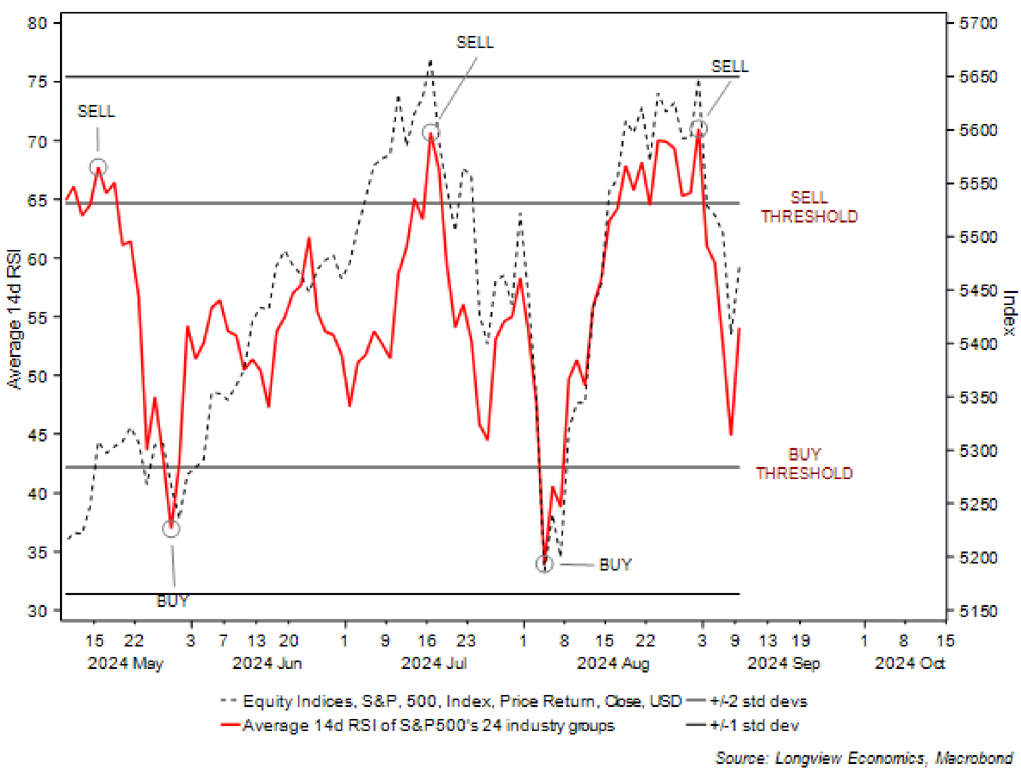


FIG 3e: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500

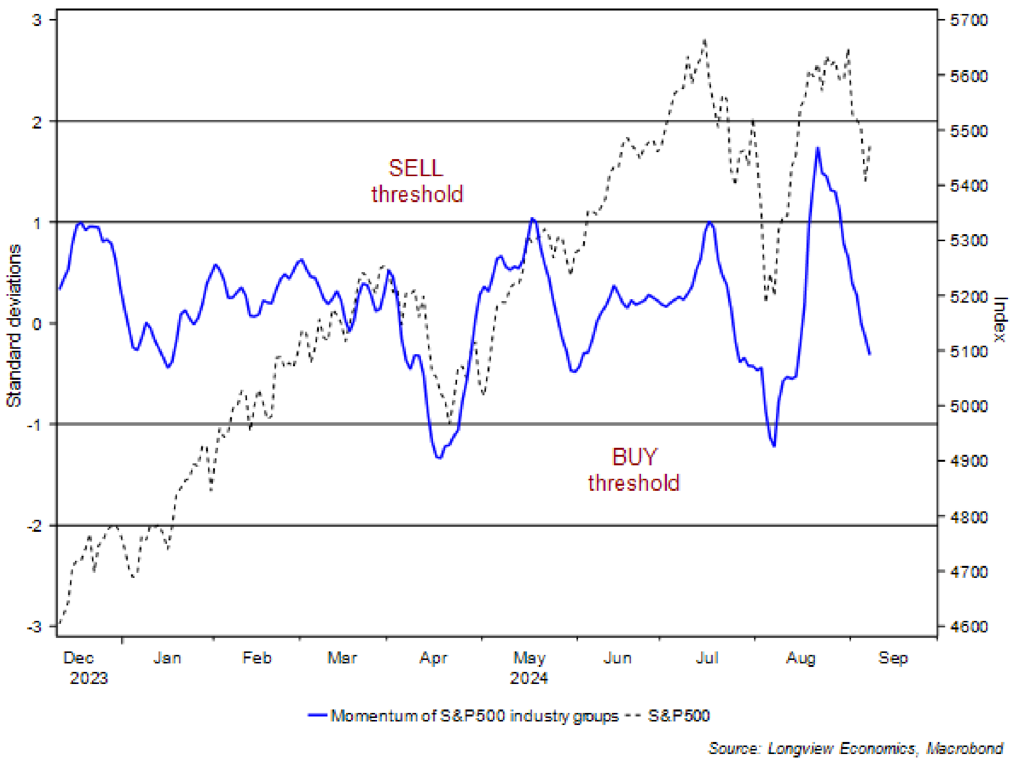
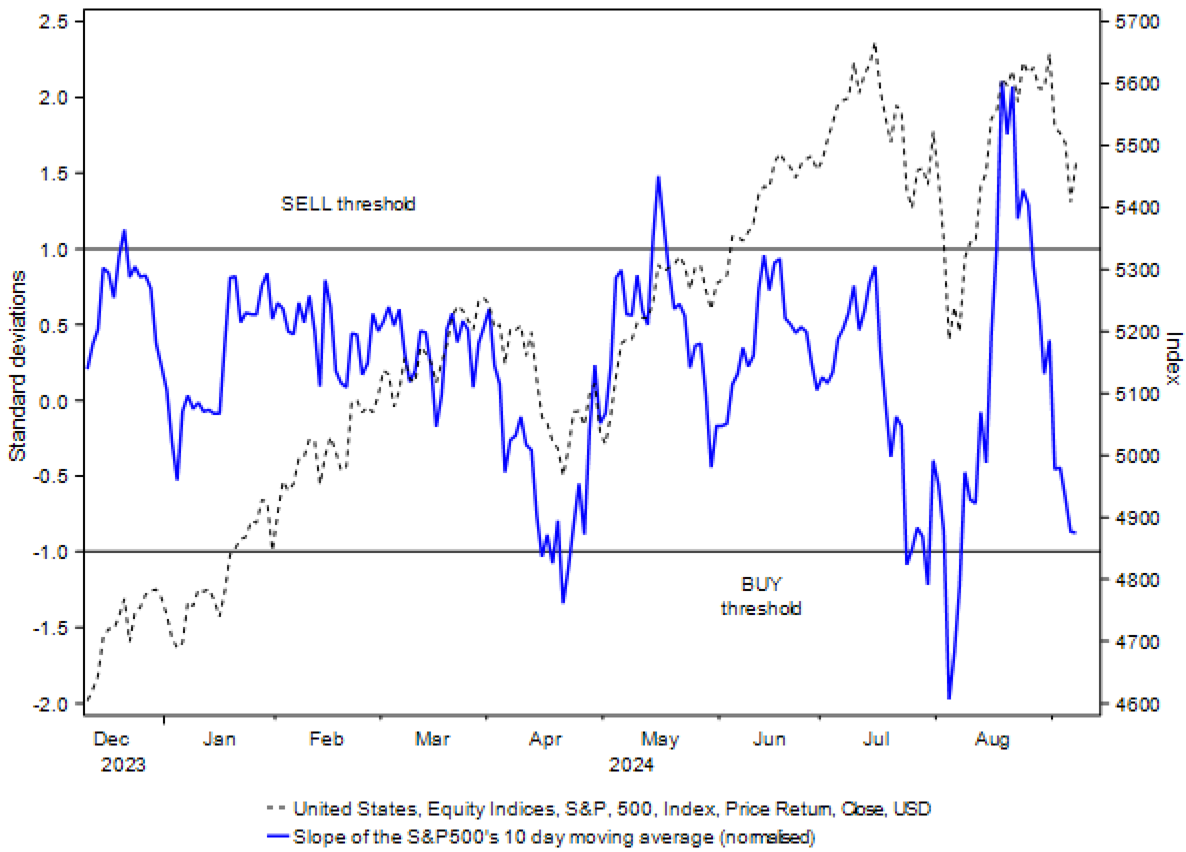


FIG 3f: US S&P500 stocks with upward momentum shown vs. S&P500

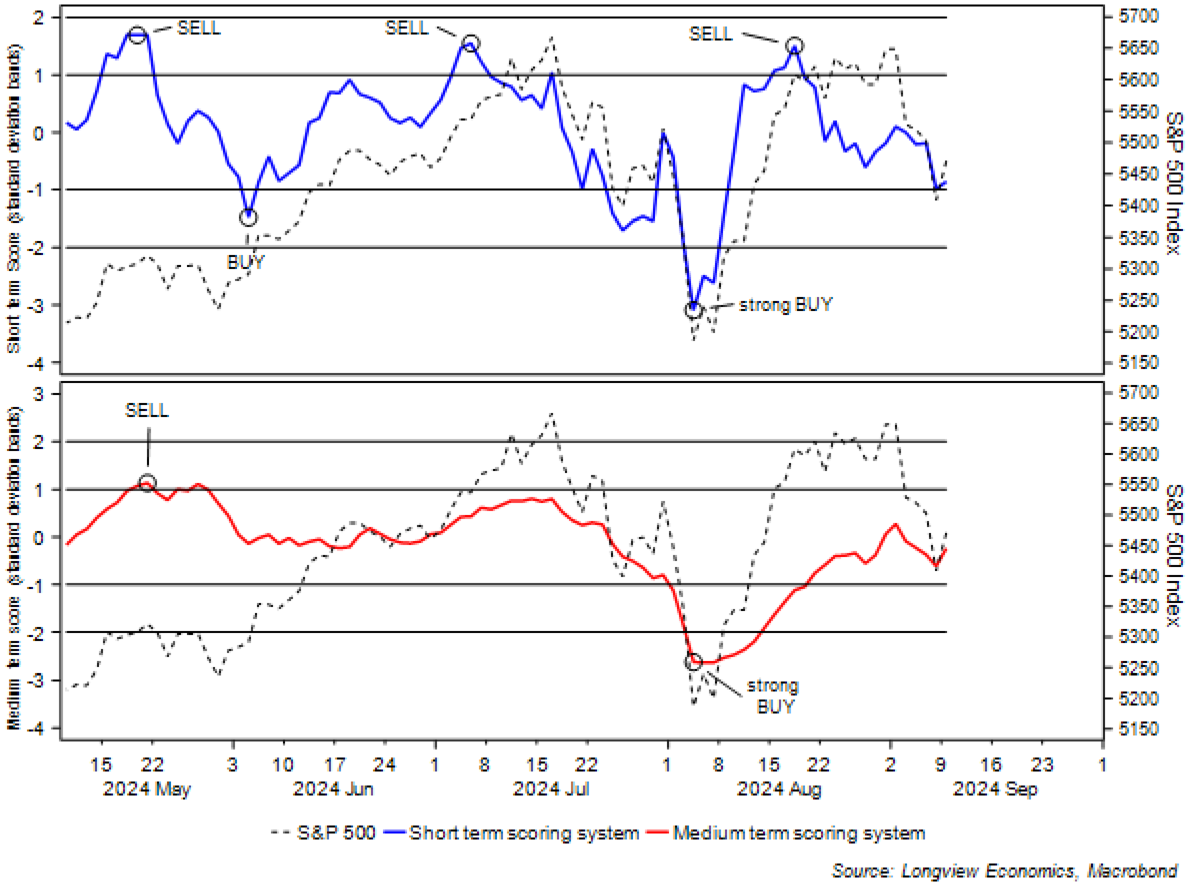


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below)**:**

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

FIG A: Longview short and medium term scoring systems vs. S&P500



Key macro data/events

Key data today include: Japanese M2 & M3 money supply (Aug, 12:50am); Australian Westpac consumer confidence (Sep, 1:30am); Australian NAB business confidence (Aug, 2:30am); **Japanese machine tool orders** (August first estimate, 7am); **UK Employment, jobless claims & average weekly earnings** (Jul/Aug, 7am); German headline CPI (August final estimate, 7am); Italian industrial production (Jul, 9am); **US NFIB small business optimism** (Aug, 11am).

Key events today include: ISTAT publishes note on the Italian Economy (10am); **Trump vs. Harris presidential debate** (9:00 pm EDT).

Key earnings today include: N/A

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 (5th September 2024). 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

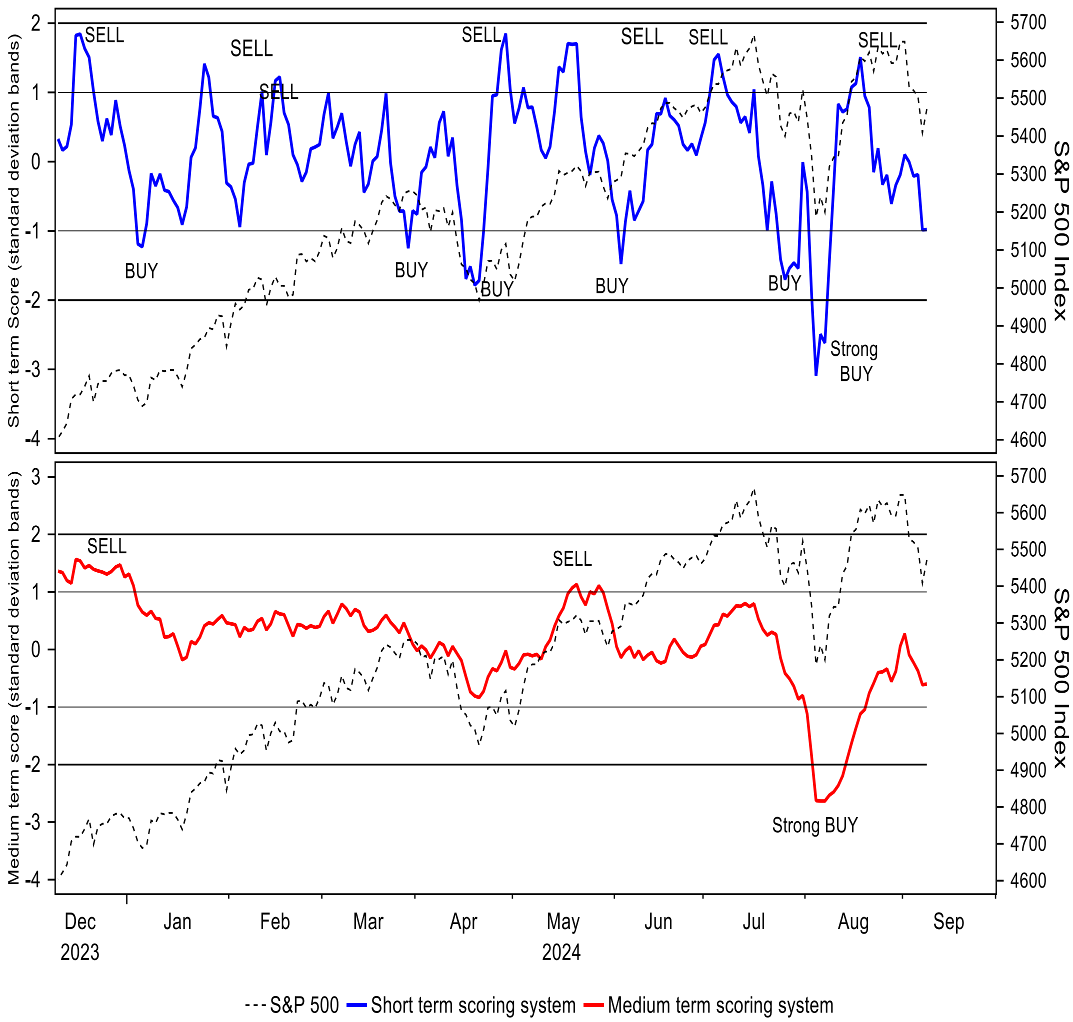
1 – 2 Week View on Risk

10th September 2024

Longview Economics
Email: ragtrader@dailyragtrader.com

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

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



Source: Longview Economics, Macrobond

Short term scoring system is NEUTRAL

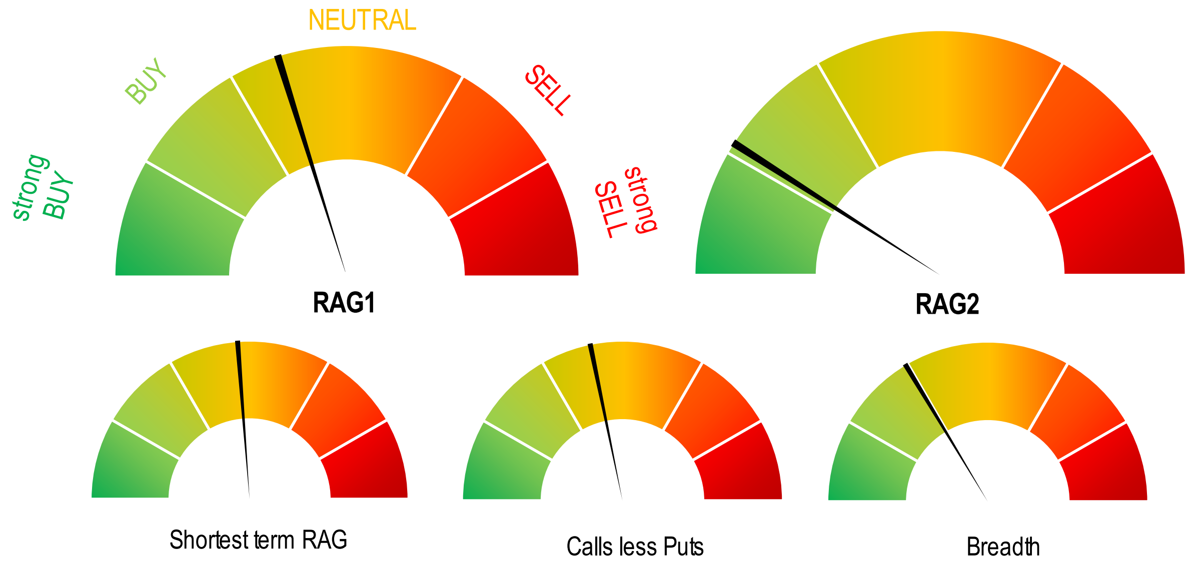
Medium term scoring system is NEUTRAL

*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

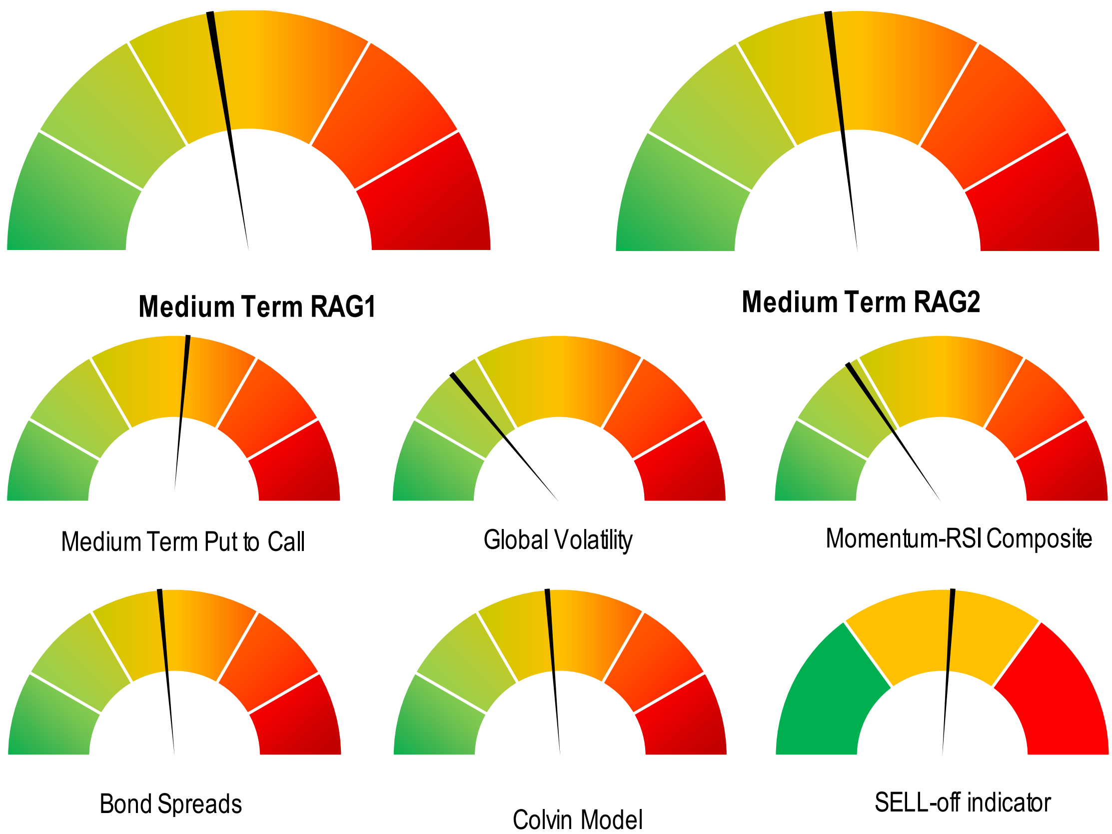
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

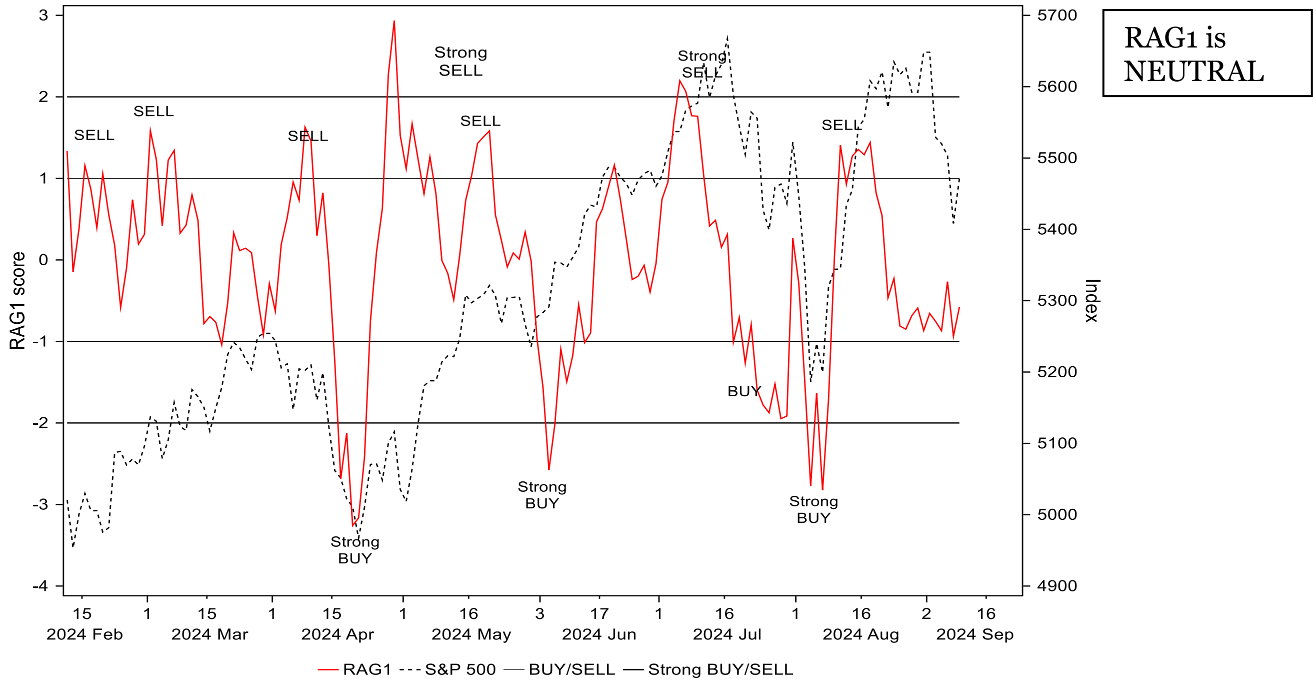
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

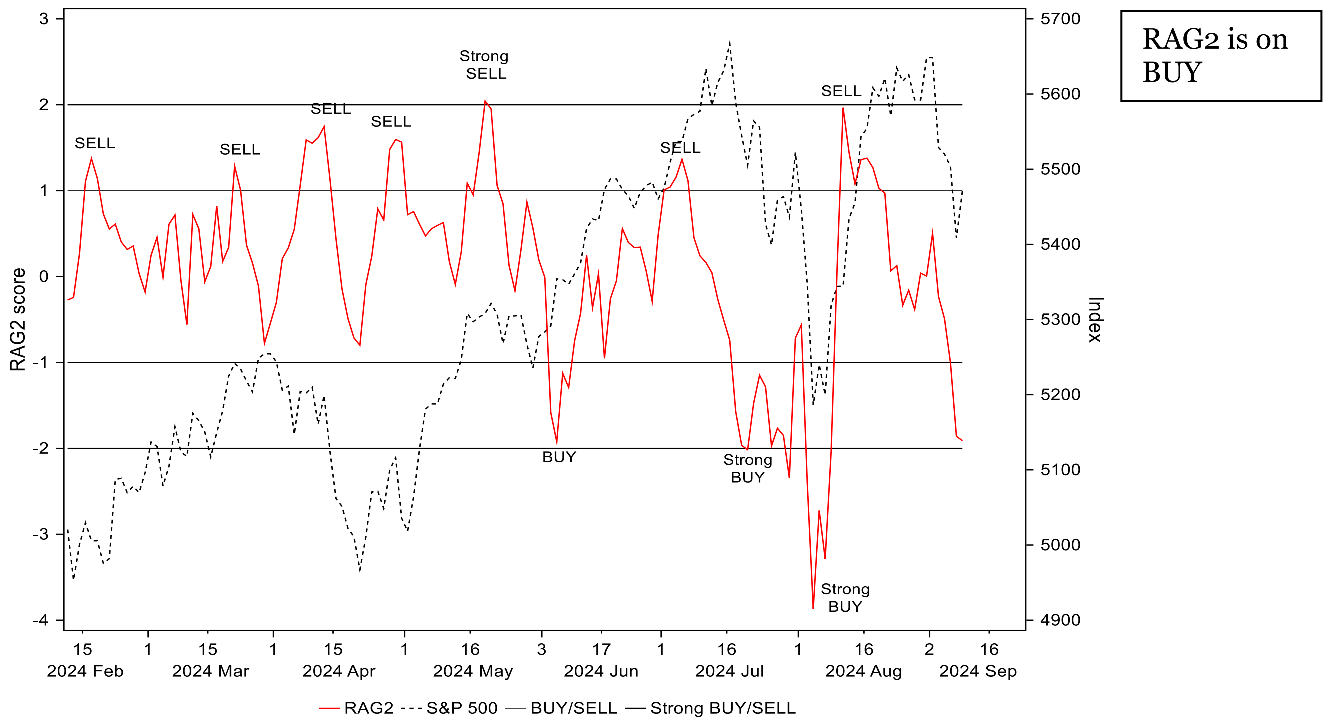
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

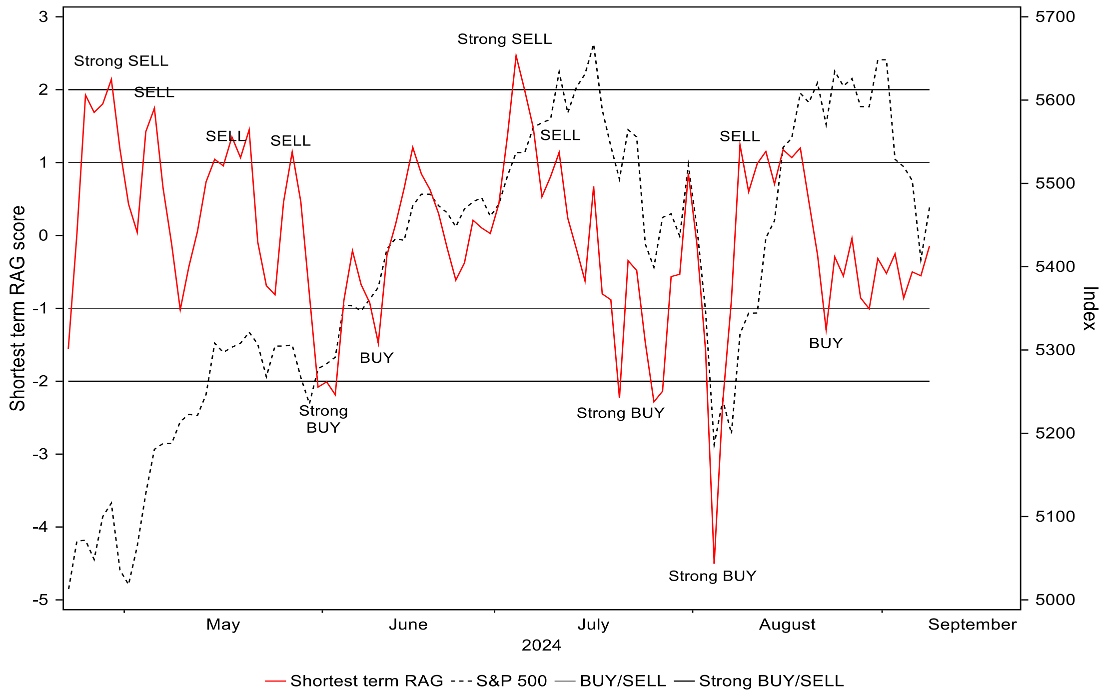
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

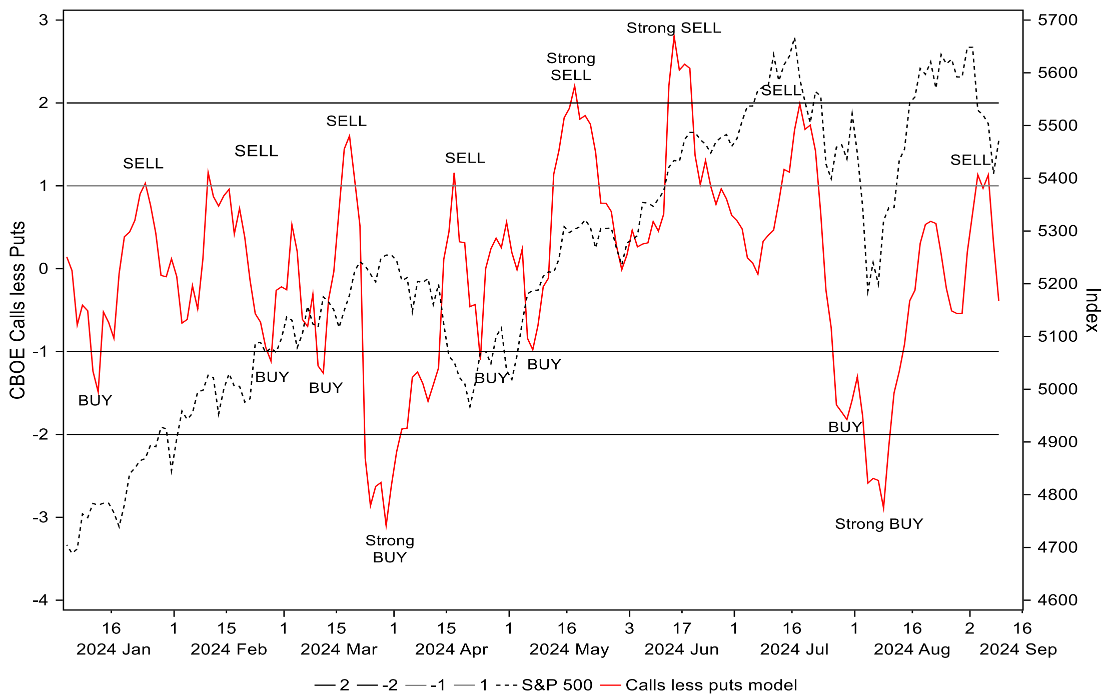
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

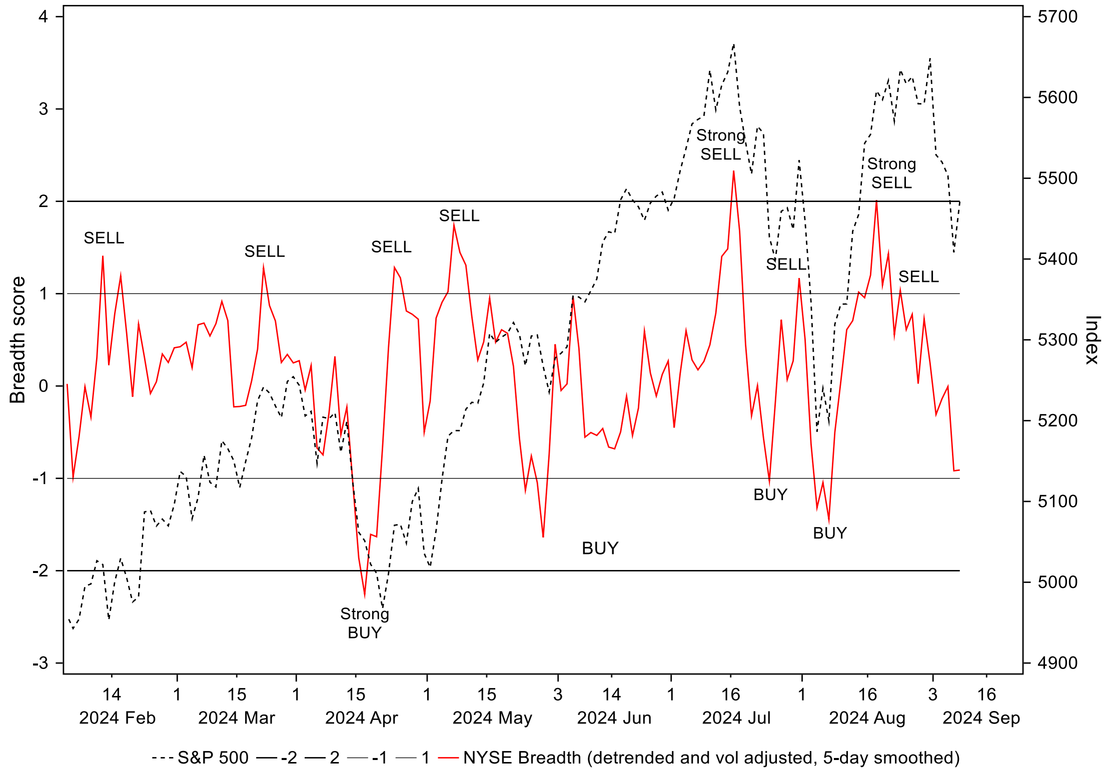


Source: Longview Economics, Macrobond

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



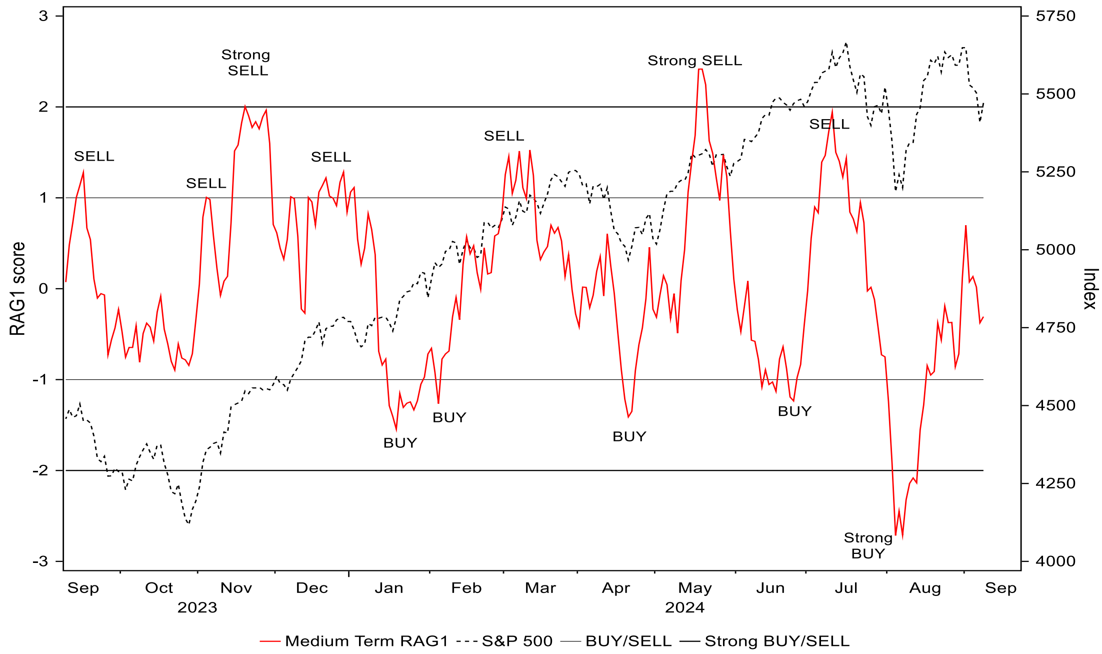
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

Section 3: Medium term (1 – 2 month) outlook

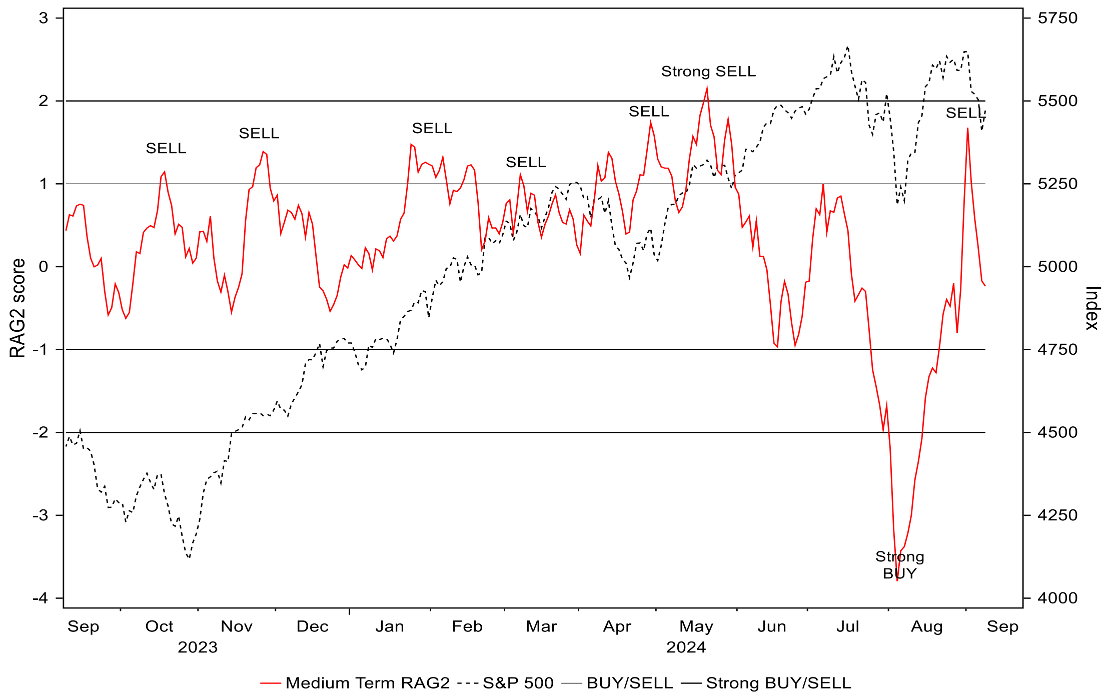
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

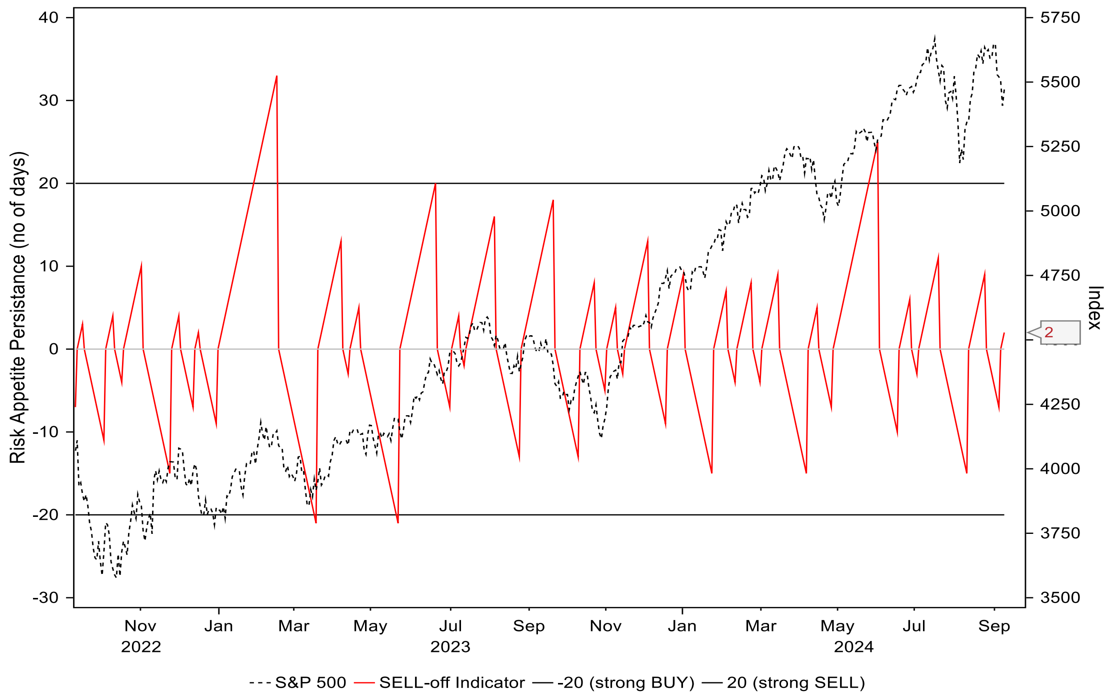


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

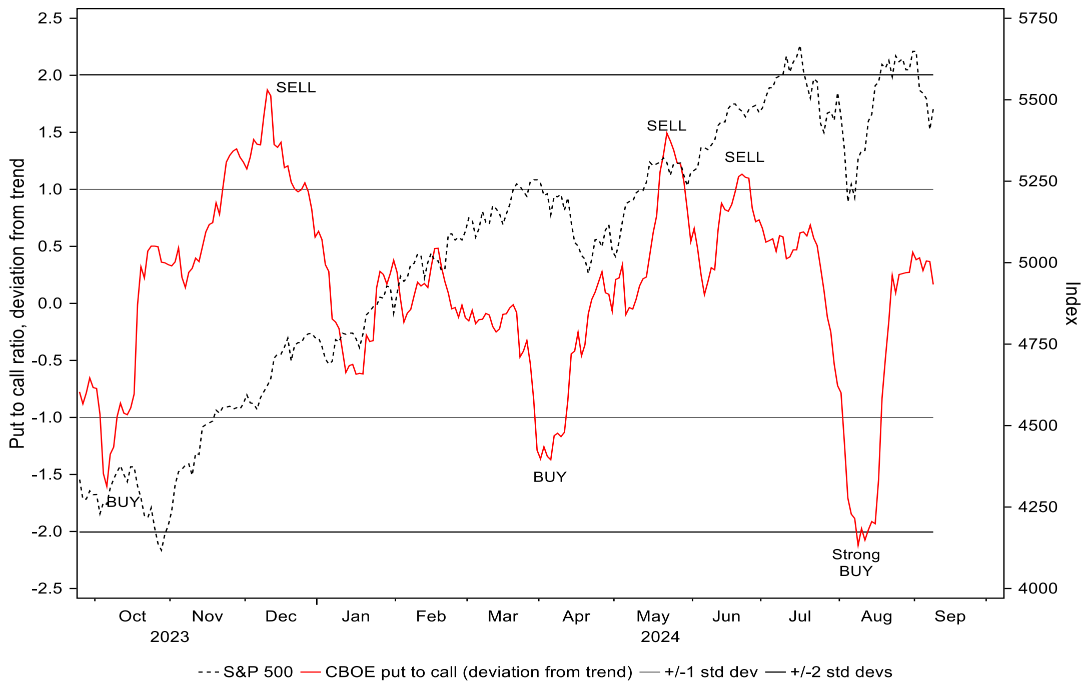
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

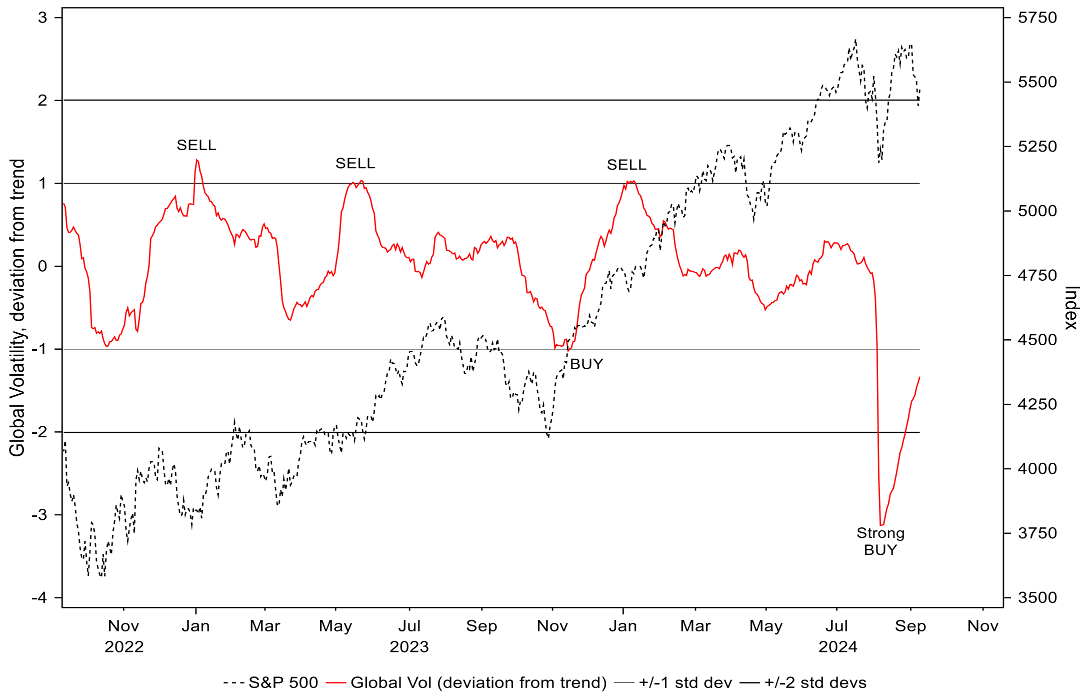


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

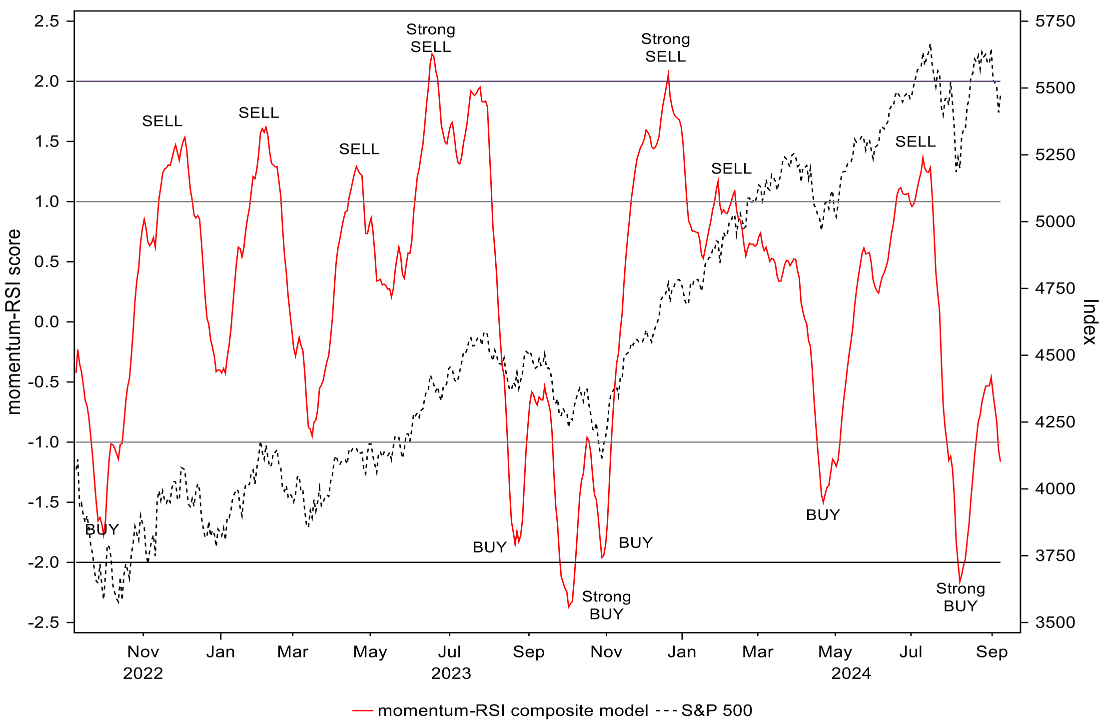
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on BUY

Source: Longview Economics, Macrobond

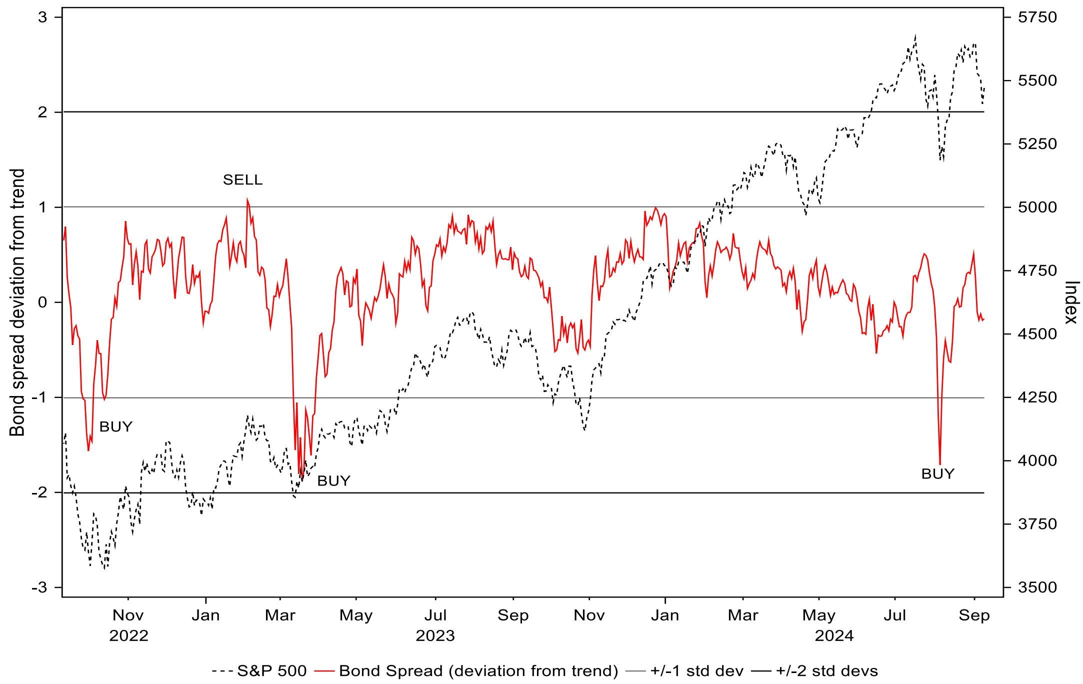
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

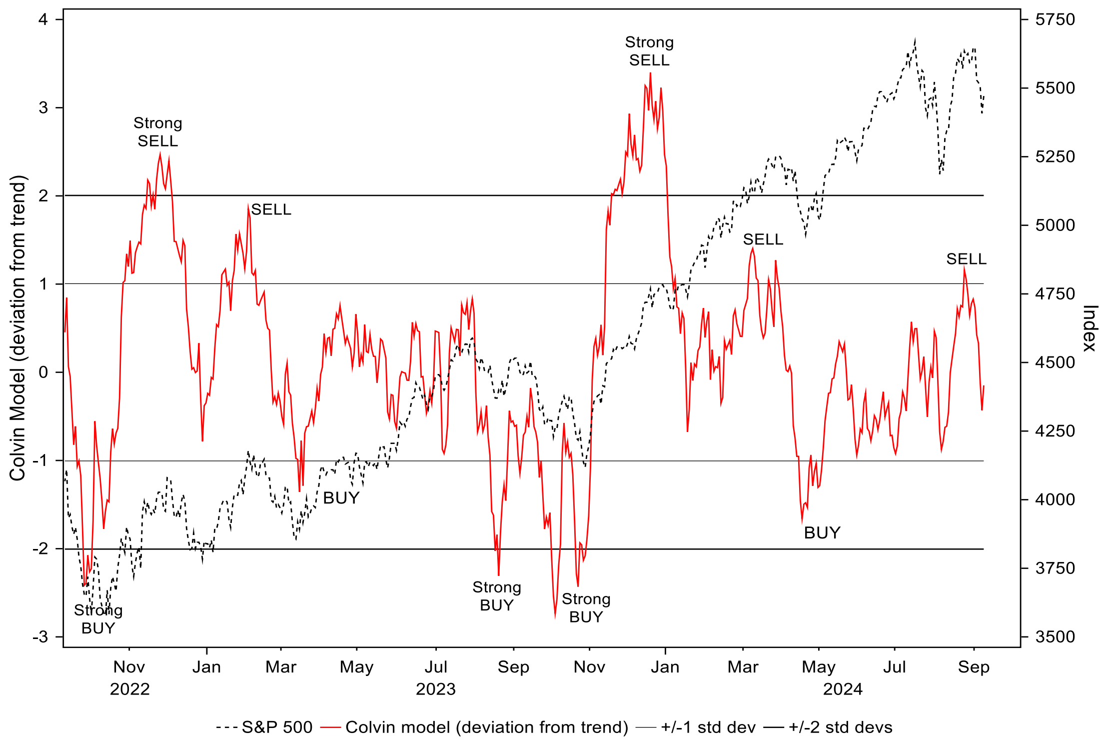
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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