LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

8th November 2024

"Keep ADDing to LONG Positions"

Email: info@longvieweconomics.com

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

- Reduce from 1/3rd to ¼ LONG **S&P400** December futures at current prices (original entry was at 3,294.0 last Wednesday).

- Tighten the stop loss to 3,265, which is 2% below current prices (& up from 3,234 on Friday; NB code is FAZ4).

- Stay ¼ LONG **S&P500** December futures (entry was at 6,005.50 on Friday morning).

- Tighten the stop loss to 5,925.0 – approx. 2% below current prices (from 5885.50 on Friday).

Rationale

Upside momentum continued on Friday with most key US indices, sectors, and industry groups higher on the session. The S&P500 closed +0.4% for its 4th consecutive higher close. The S&P500 is now up 5% since Monday's close last week (i.e. just before election day). The NDX100 was flat (SOX down) as sector strength came from the defensive and more cyclical areas of the market. Utilities, real estate and consumer staples were the best performing S&P500 sectors on Friday. Industrials and financials also performed well. US 10-year bond yields were largely unchanged (1bps lower), while 1 & 2 year yields ticked higher. The dollar was strong again (although didn't move above Wednesday's post-election intraday high – i.e. raising the question: Is it topping out?). Gold & Silver were weak. Both appeared to have lost momentum in recent trading sessions (i.e. potentially rolling over?). Bitcoin has remained strong over the weekend rising above $80k for the first time (and looks as though it has decisively broken out of its recent range).

With that strength in risk assets over recent trading sessions, **most of our short-term models are now on SELL**. As laid out on Friday, **during rare 'regime shifts'***, those models are often early when they signal SELL. For example, after Trump's surprise 2016 victory, the equity market rallied sharply, initially for just over a month (as it priced in a regime shift). As FIG 2a shows, our short-term risk appetite scoring system, in that instance, signalled SELL too early. Other ST models behaved similarly at that time (e.g. the short-term technical scoring system). If we're correct therefore (re: regime shift) then risk reward favours running LONG positions but with a tighter stop. Those short-term models are laid out below in FIGs 2 to 3c.

Medium-term models, meanwhile, remain mixed. For example, there's been a high level of buying of single stock call options, as a sign of enthusiasm for the election outcome. That, though, is often a sign of frothiness in markets (FIG 1c). In contrast, VIX futures hedging still hasn't fully unwound. VIX 6-month futures prices remain elevated; the volatility futures curve is only just positively sloped (and not yet on SELL – FIG 1d). In addition, other medium-term models remain mid-range, like the medium-term risk appetite scoring system (FIG 1e); and the model of the 'percentage of US/Western stocks above 50 day moving averages'. As such, medium term models support further continued gains in key equity markets.

Markets, as always, though retain risks. In Europe, for example, various government sovereign spreads over bunds have been widening (whilst Germany itself is embroiled in a political crisis – with the coalition breaking down). Bloomberg report today that:

"for the first time, 10-year bund yields have risen above those of interest-rate swap rates — the liquid derivatives that enable banks to hedge longer-dated fixed-coupon risk for floating short-term interest rate exposure, or vice versa. With more than €50 trillion ($54 trillion) outstanding across maturities, the spread between swaps and government bonds is a key barometer of stress in the system."

Source: Bloomberg, 11th November 2024 https://www.bloomberg.com/opinion/articles/2024-11-11/the-mighty-german-bund-is-losing-its-benchmark-shine

Added to that, geopolitical issues in the Middle East remain a concern, as the Iranian Israeli conflict continues (with further retaliation likely at any time).

In that sense, there are risks. In order to balance the positive US outlook with various global risks (at a time of 'across the board' short term SELL signals), we recommend STAYing LONG (for the reasons outlined above), but reducing the total position size to ½ LONG and tightening stop losses. Please see trading recommendation above for full detailed recommendation.

See below for a full list of today's key macro data and earnings.

Kind regards,

The team @ Longview Economics

*NB regime shifts are reasonably rare and include shifts in the monetary policy regime or a new government with a new policy agenda etc.

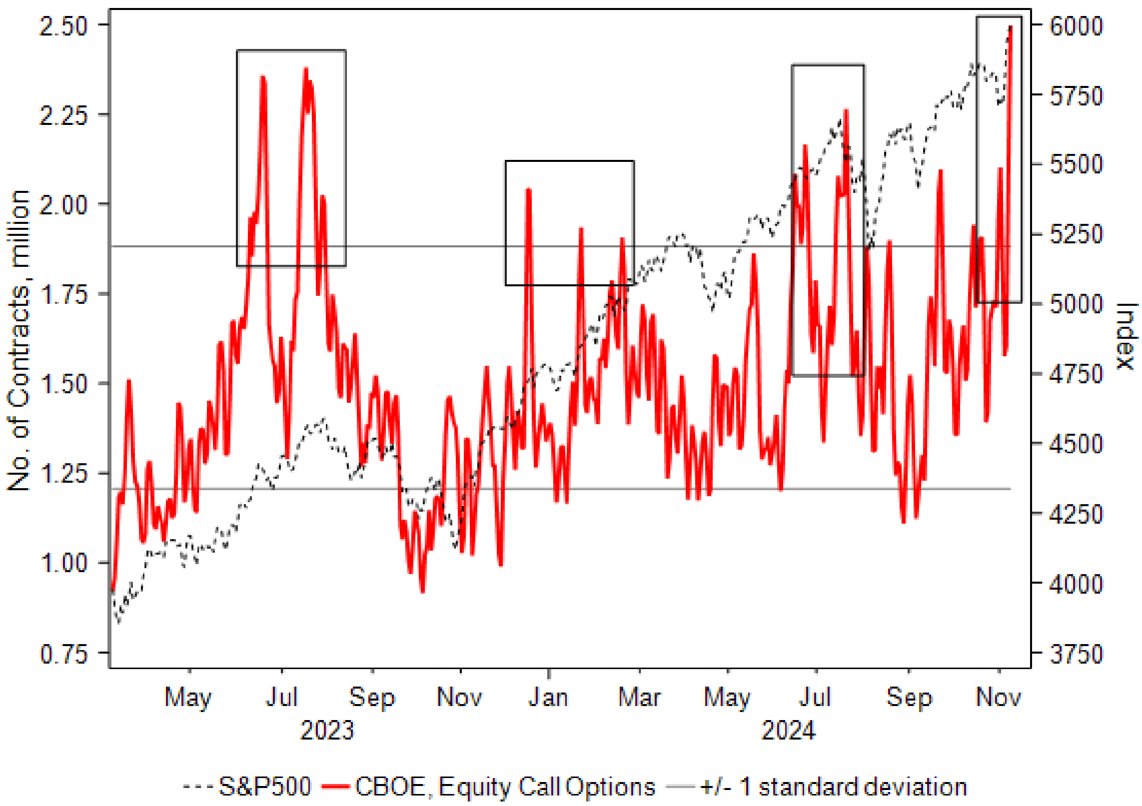
FIG 1: US 10-year bond yields shown with key moving averages

Source: Longview Economics, Macrobond

FIG 1a: S&P400 mid-cap futures 10-day tick chart shown with overnight price action

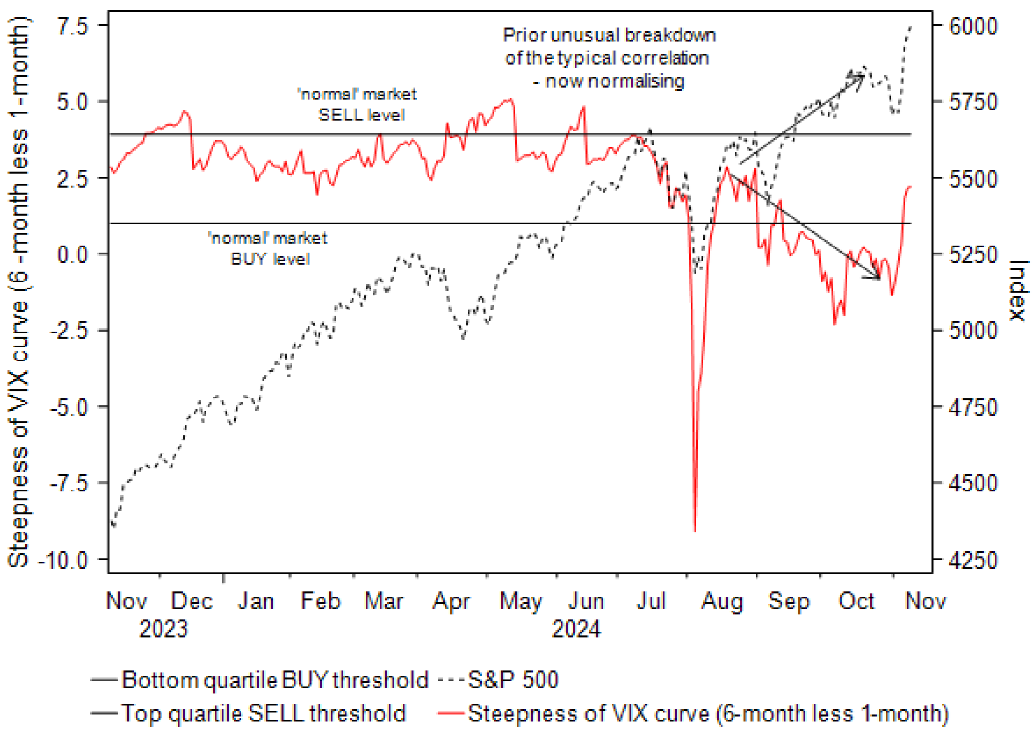
FIG 1b: S&P500 futures 10-day tick chart shown with overnight price action

FIG 1c: Volume of outstanding CBOE 'single stock' call options (3 day smoothed) vs. S&P500



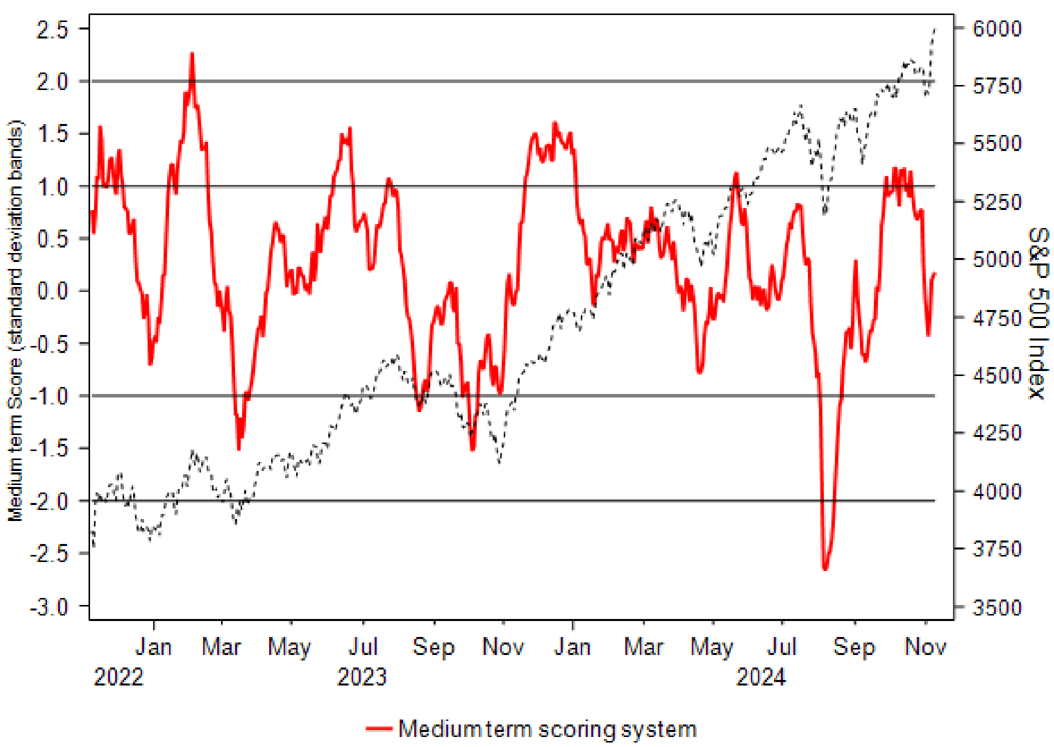
Source: Longview Economics, Macrobond

FIG 1d: Steepness of VIX curve (6 less 1 month futures) vs. S&P500



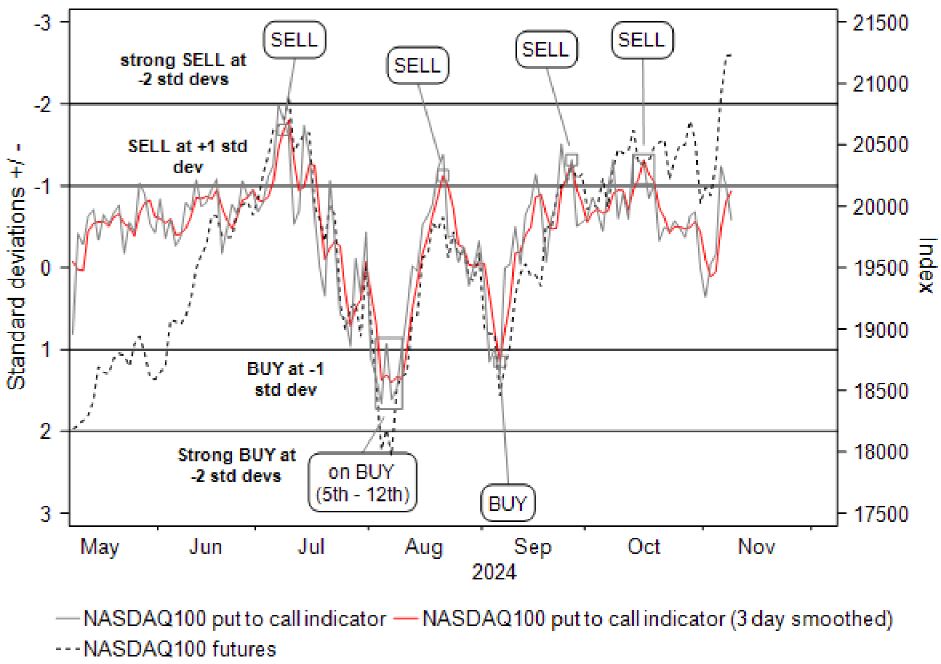
Source: Longview Economics, Macrobond

FIG 1e: Longview medium term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

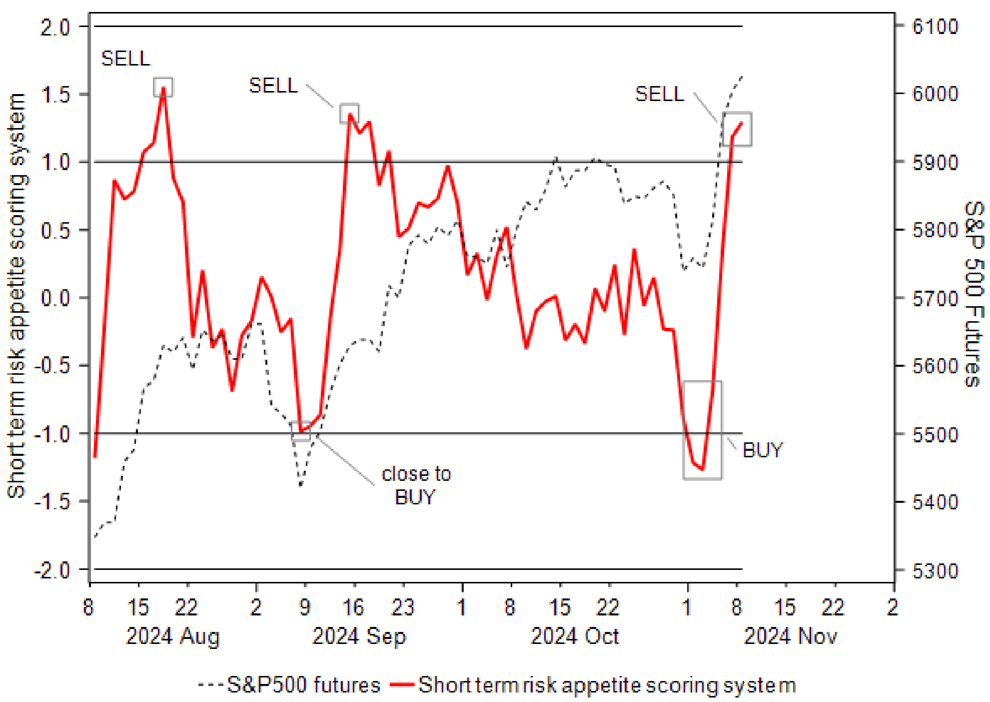
FIG 1f: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

Short-term risk appetite models are on SELL…

FIG 2: Longview short term 'risk appetite' scoring system vs. S&P500 – last 3 months



Source: Longview Economics, Macrobond

FIG 2a: Longview short term **'risk appetite'** scoring system vs. S&P500 –> **During 2016 Trump Election**

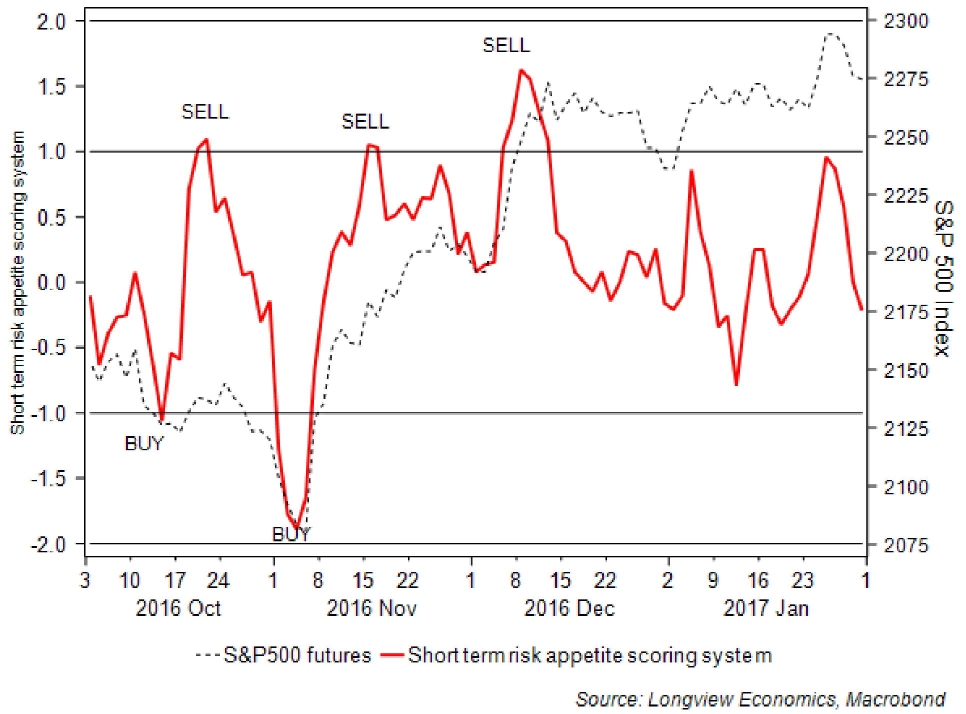


FIG 2b: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

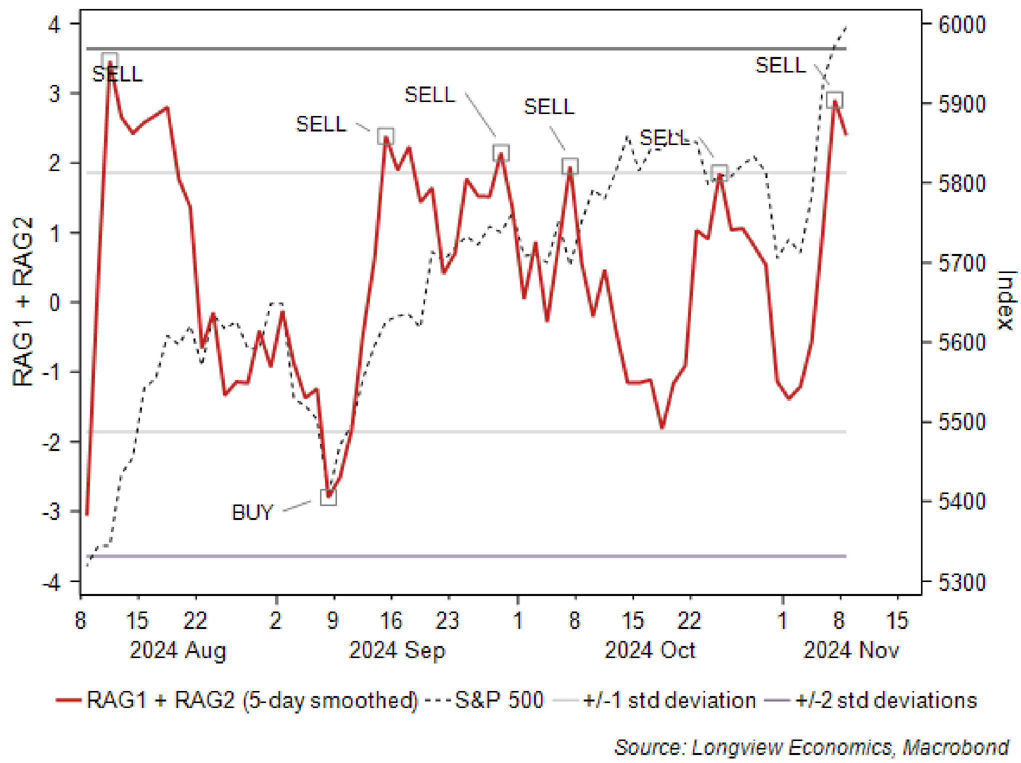
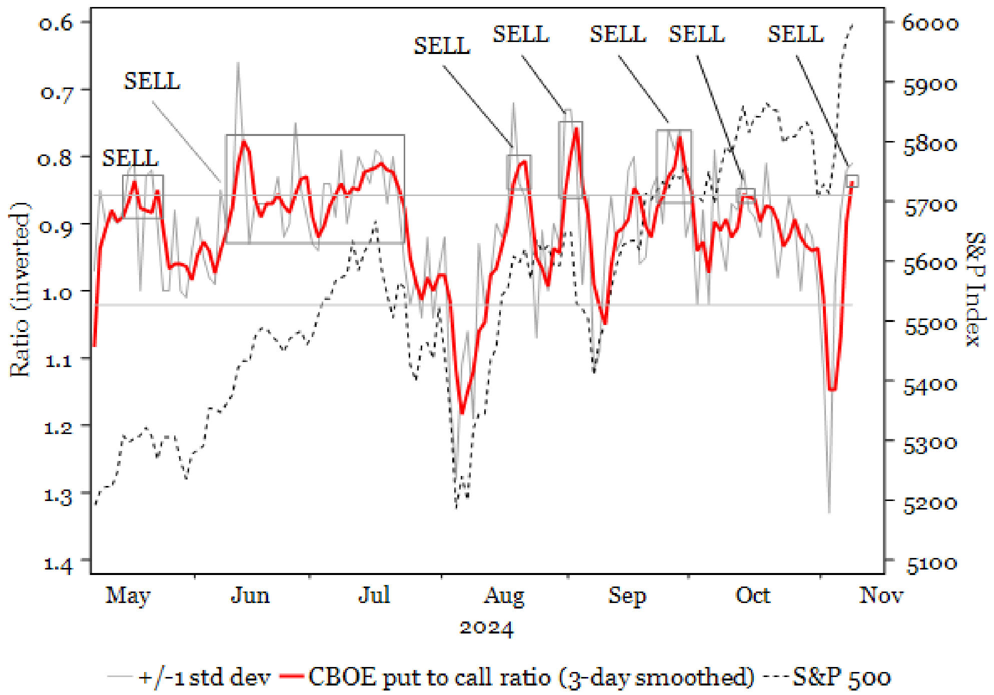


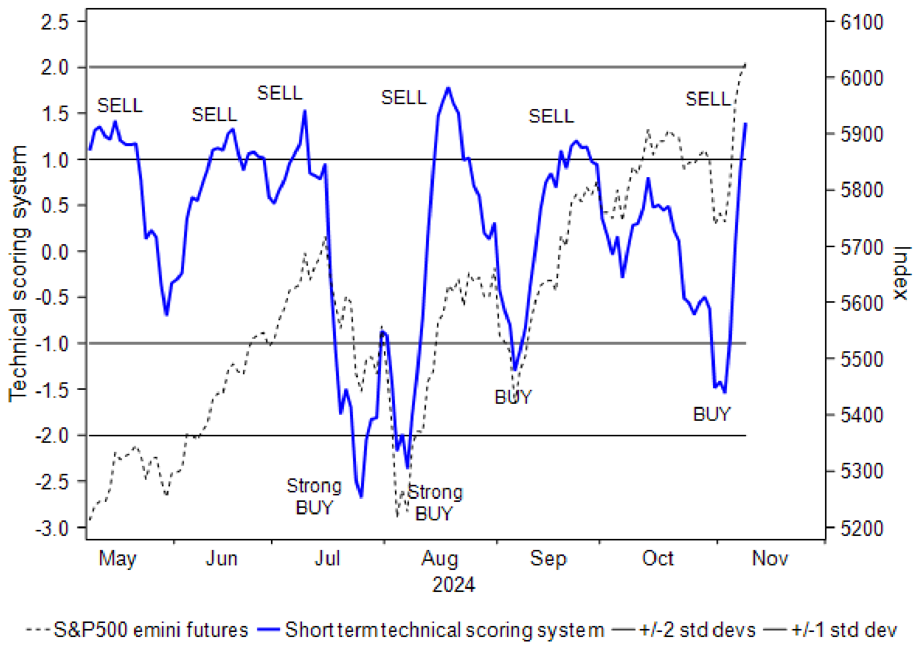
FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

Short term technical models are also on/close to SELL…

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



Source: Longview Economics, Macrobond

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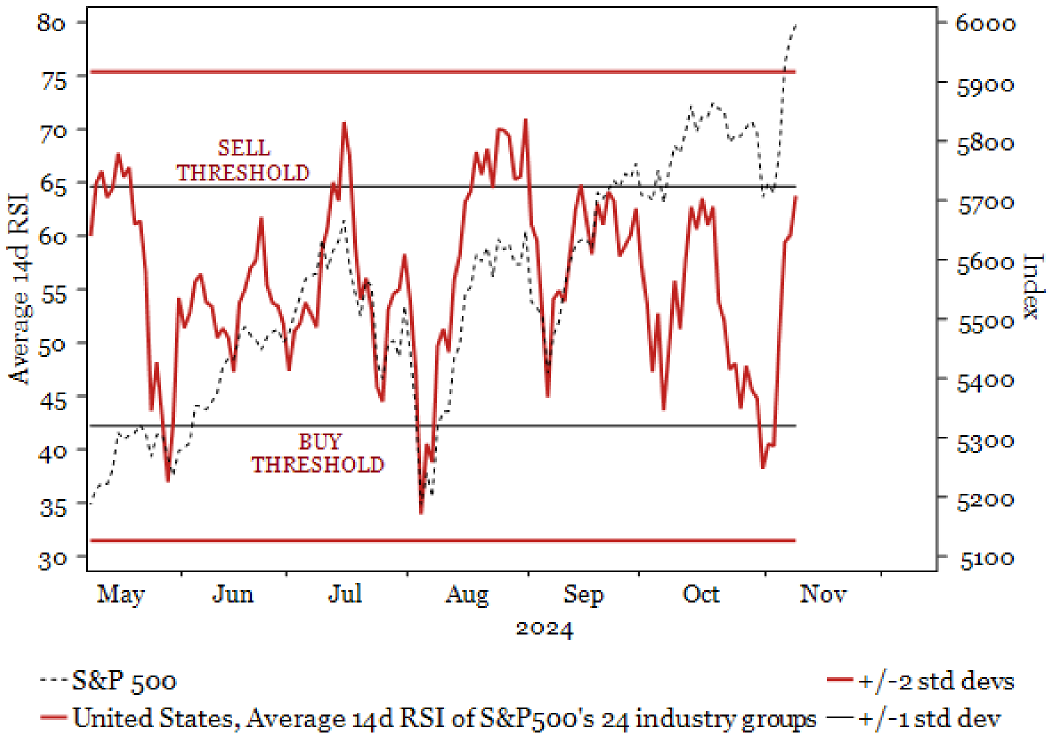
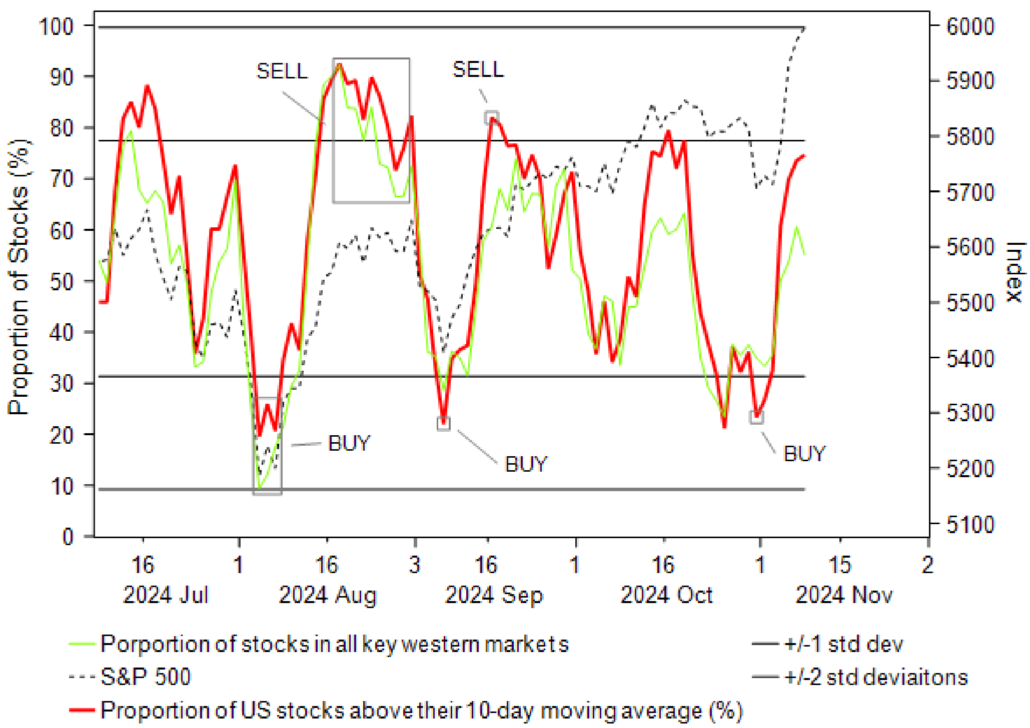
FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



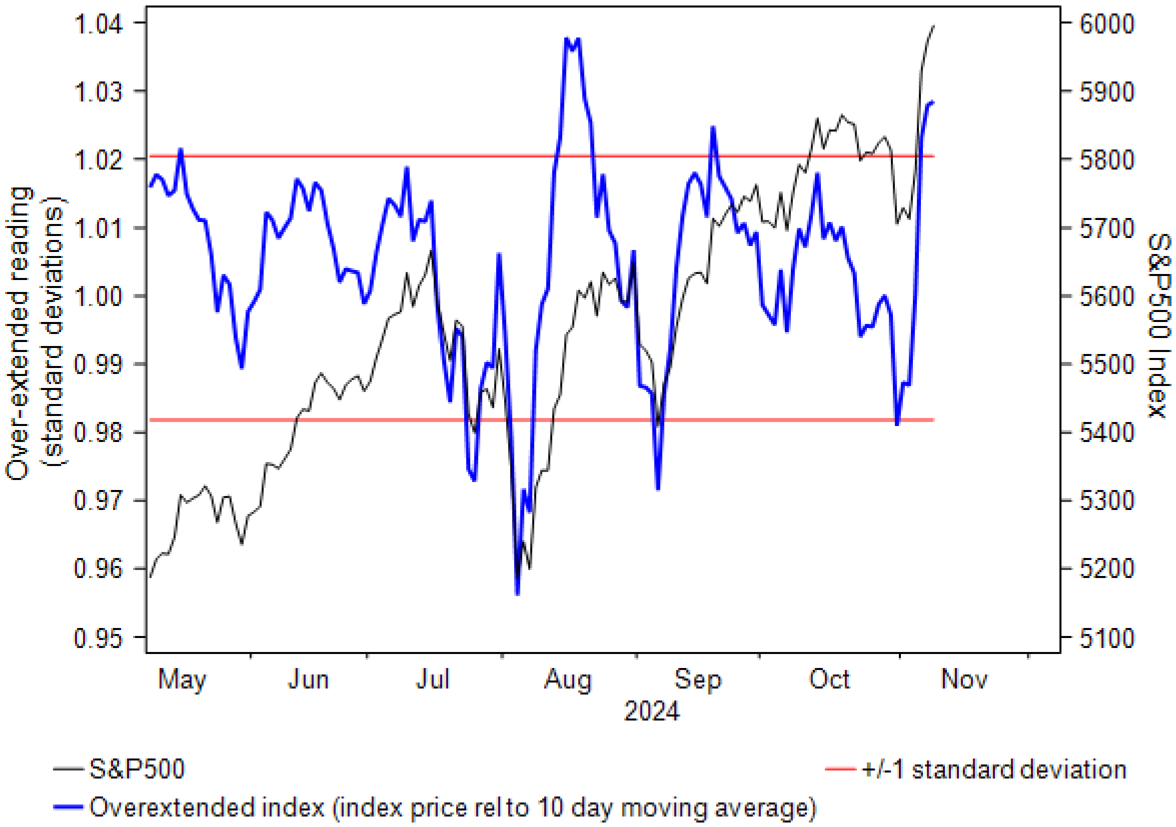
Source: Longview Economics, Macrobond

FIG 3b: Proportion of US stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

FIG 3c: S&P500 overextended indicator (10 day moving average relative to underlying index price)

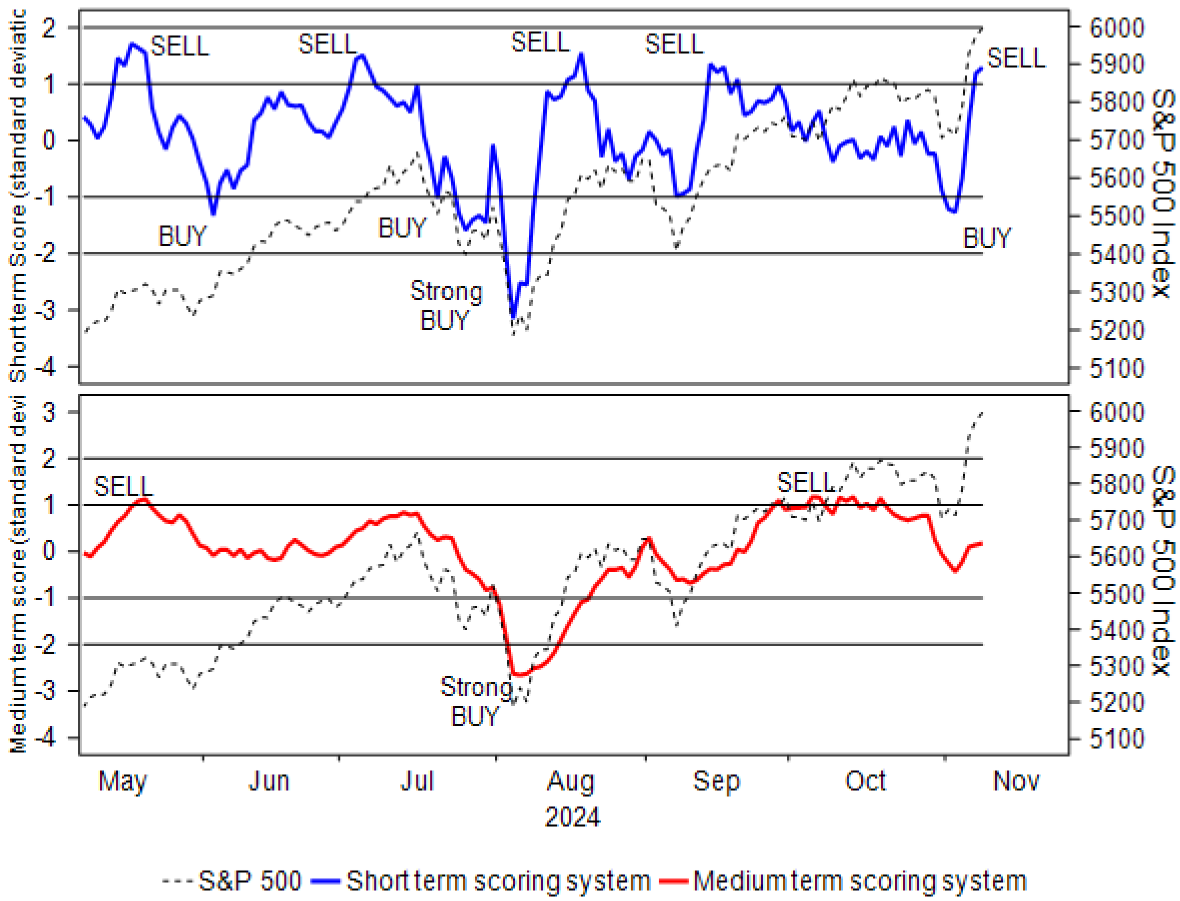


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **SELL** (from BUY 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

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Key macro data/events

Key data today include: Australian Westpac consumer confidence (Nov, 11:30pm); Japanese M2 & M3 money supply (Oct, 11:30pm).

Key events today include: N/A

Key earnings today include: **Recruit 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 6th November 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

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1 – 2 Week View on Risk

11th November 2024

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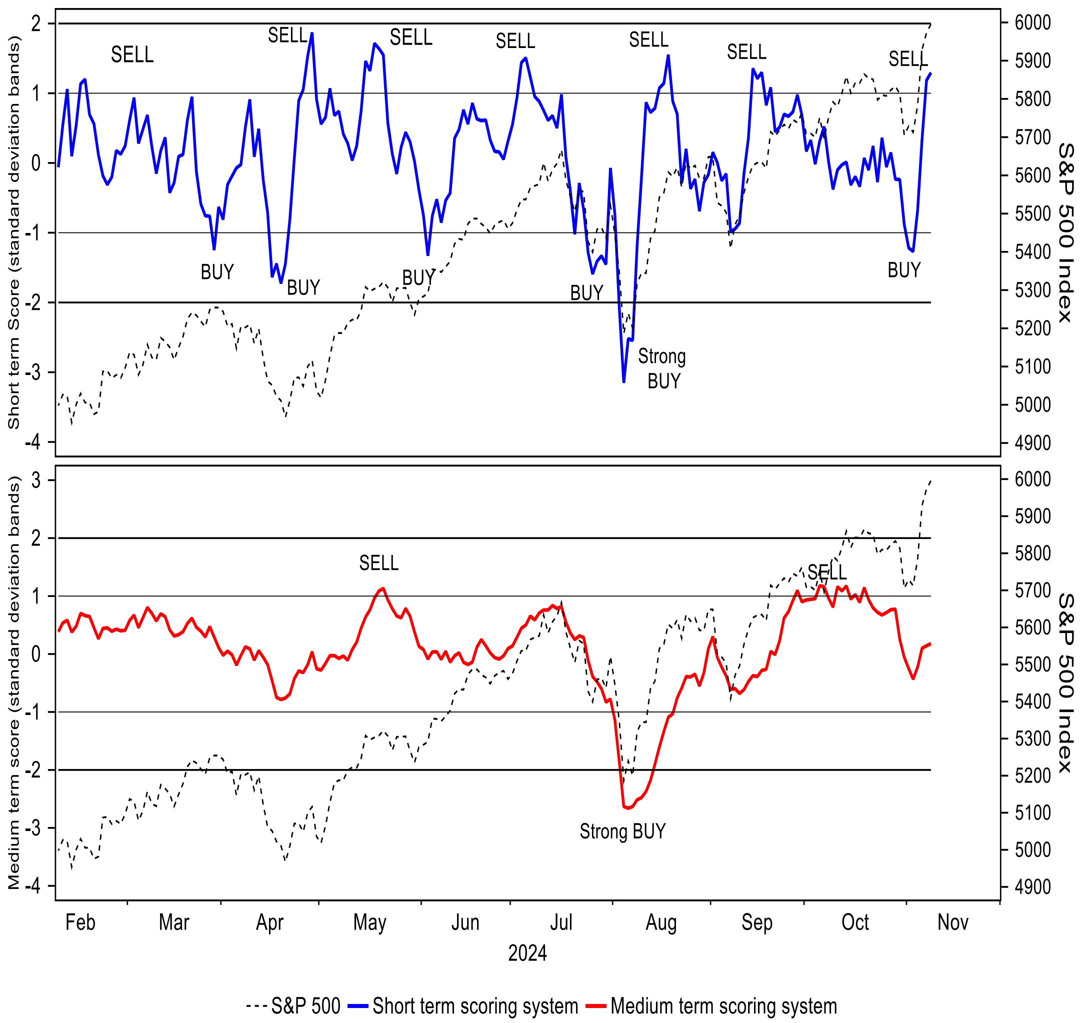
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is on SELL

Medium term scoring system is NEUTRAL

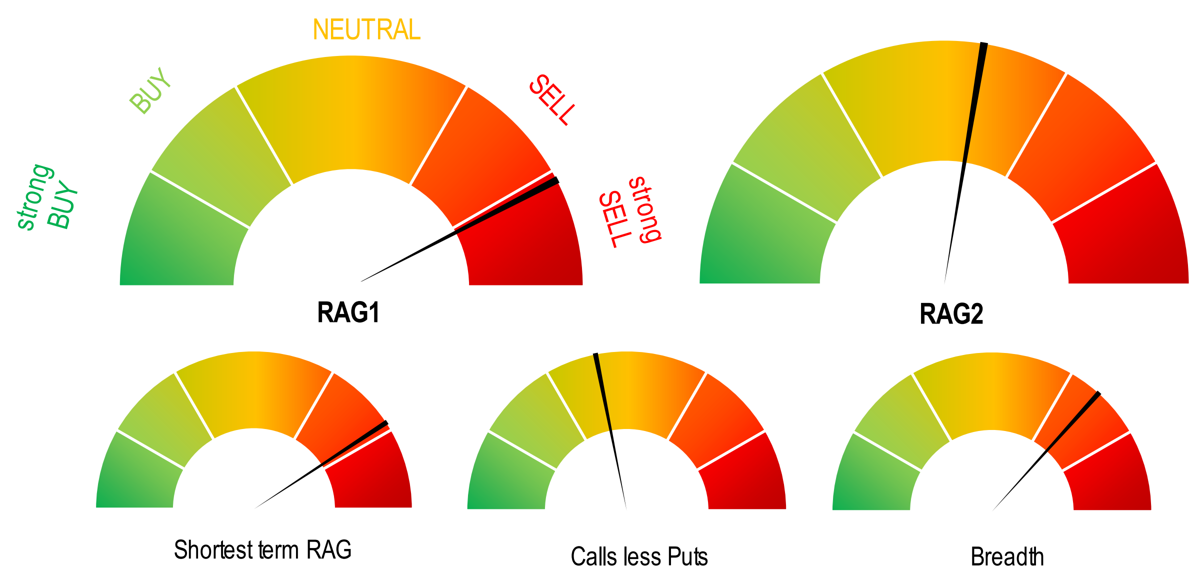
Source: Longview Economics, Macrobond

*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

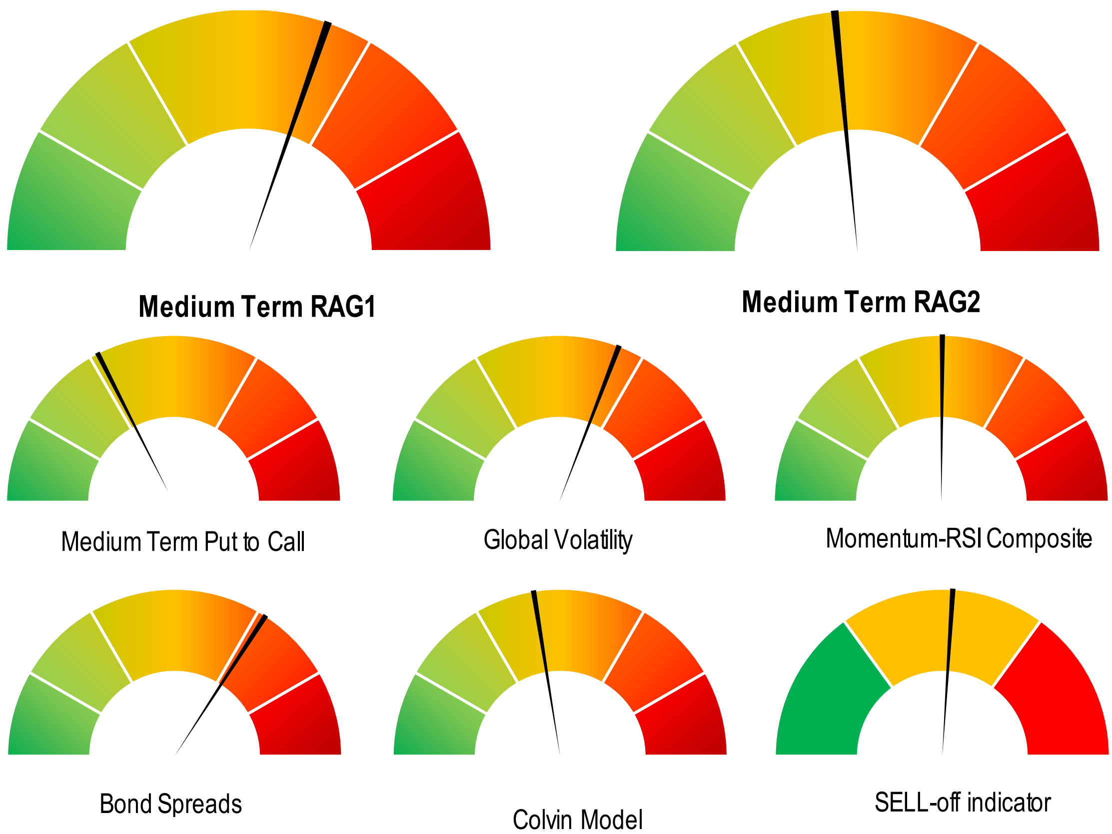
Section 1a: Summary of indicator signals**

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

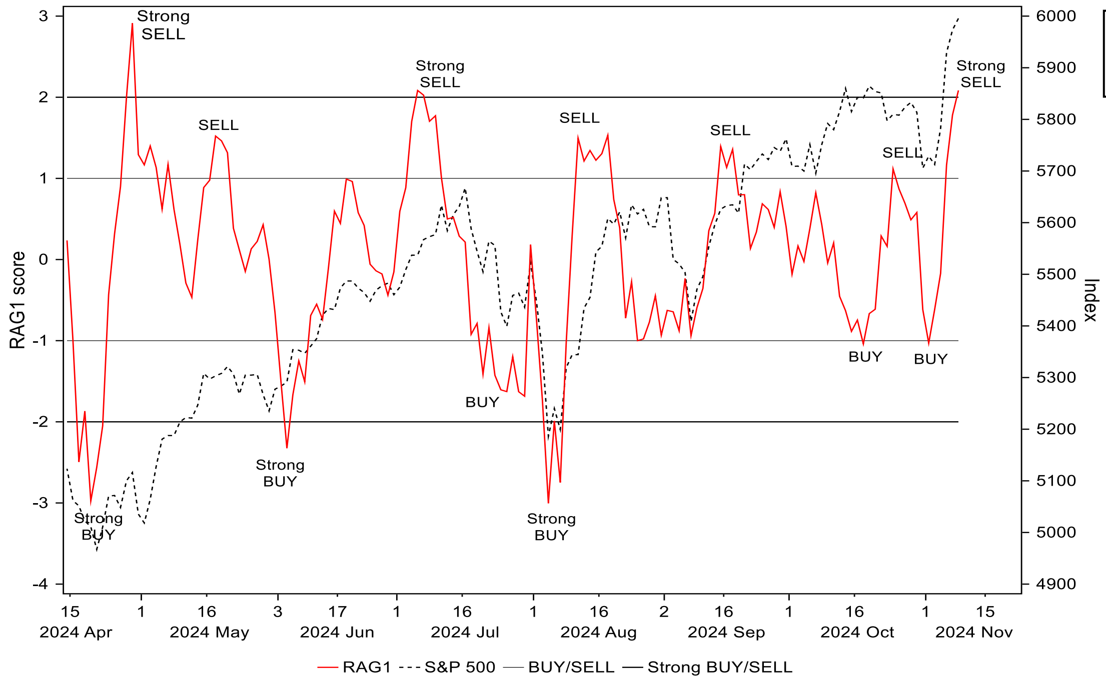


Source: *Longview Economics*

**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

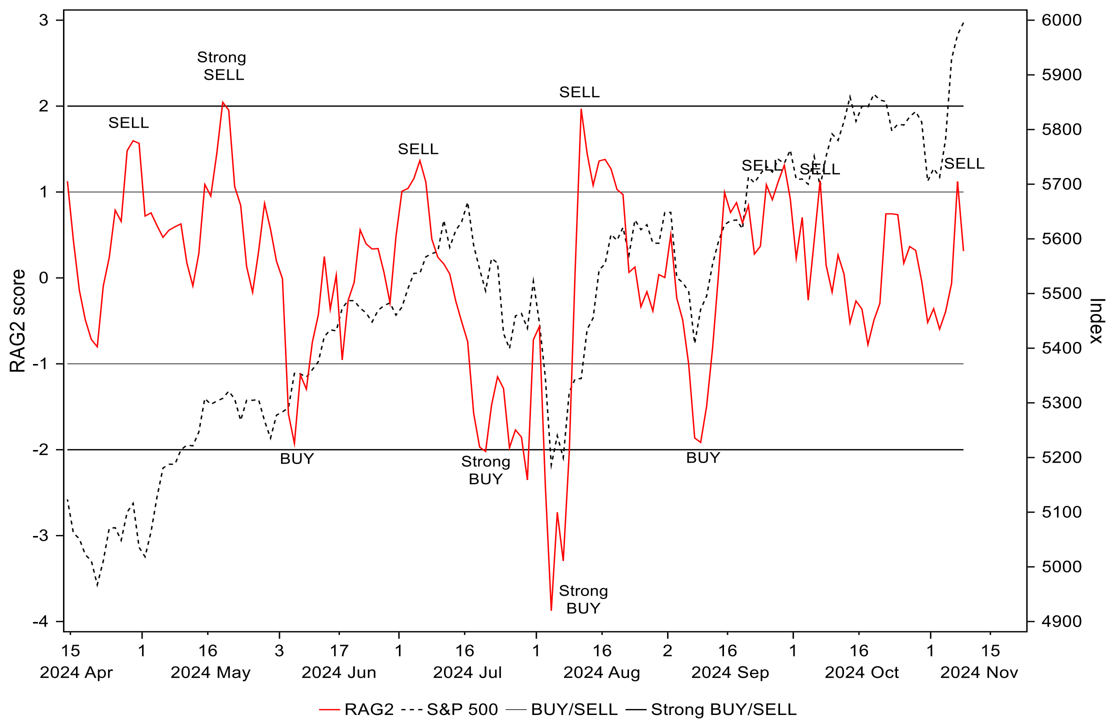
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on Strong SELL

Source: Longview Economics, Macrobond

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

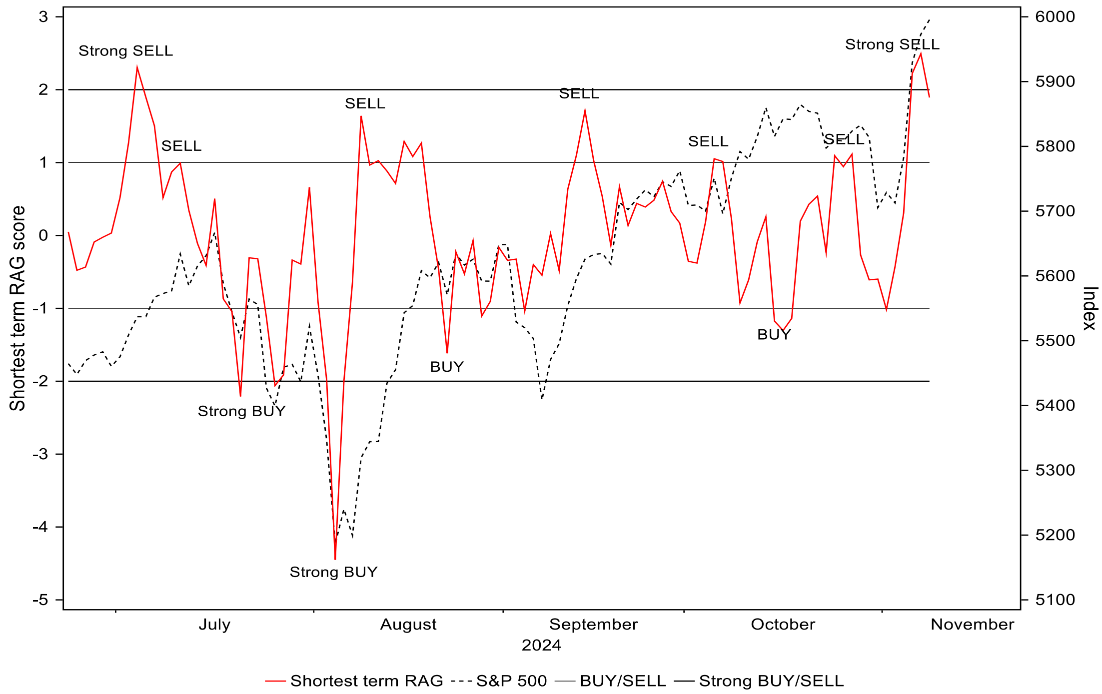


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

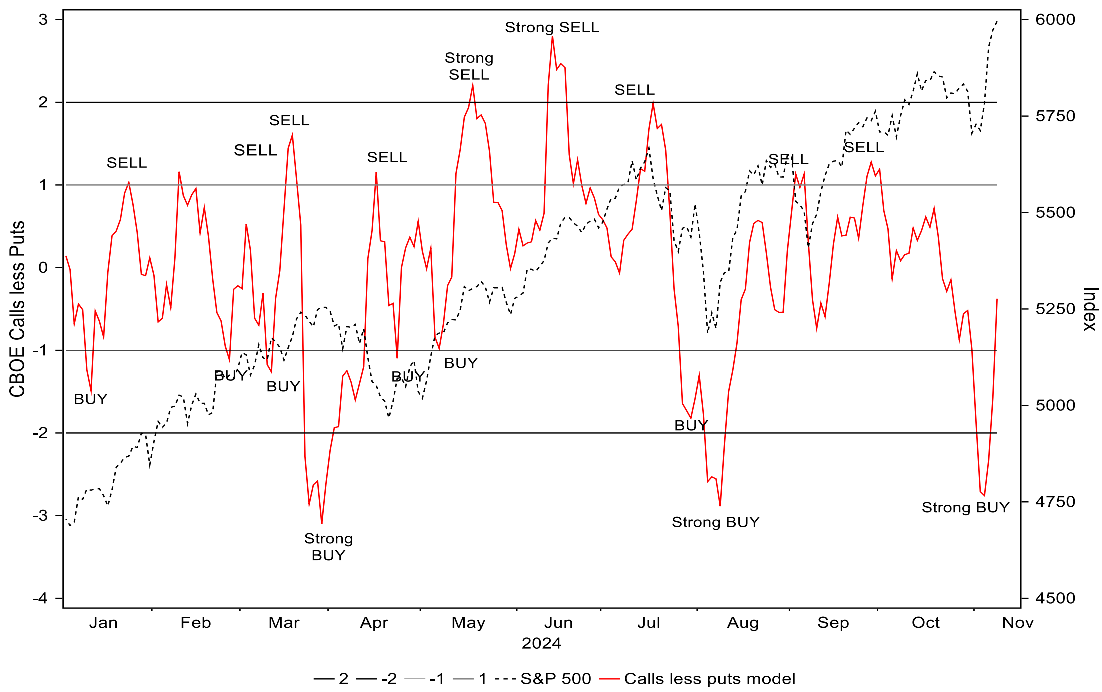
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on SELL

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

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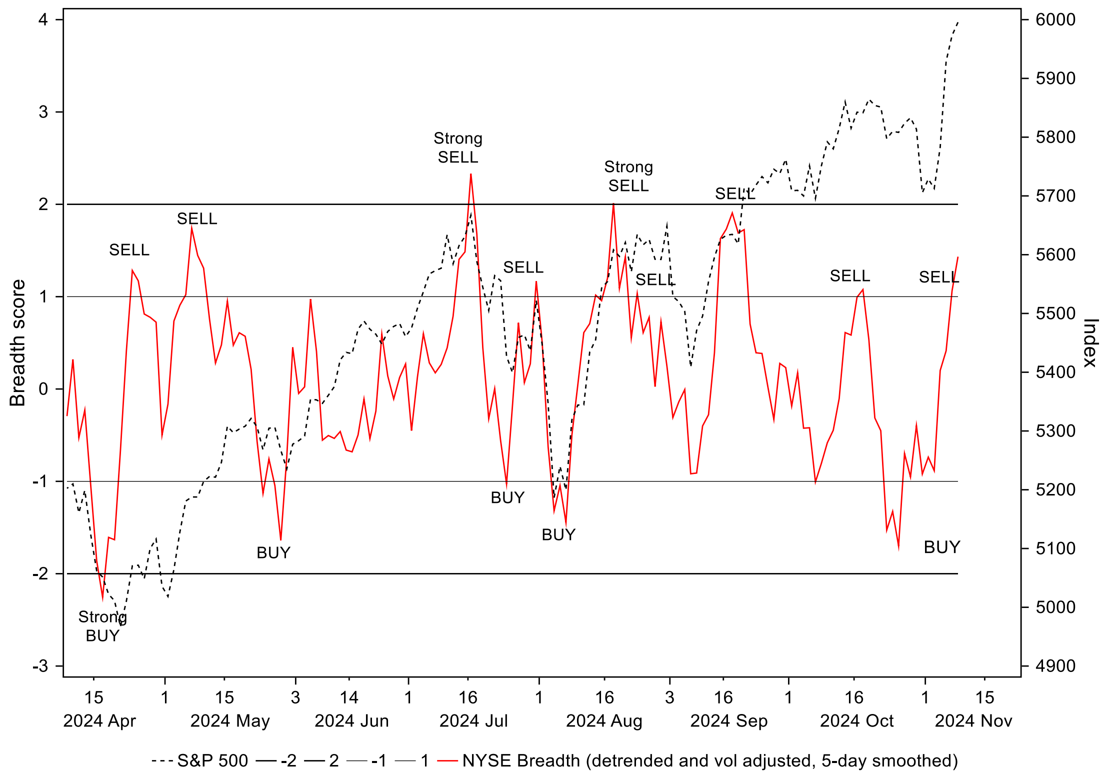
Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



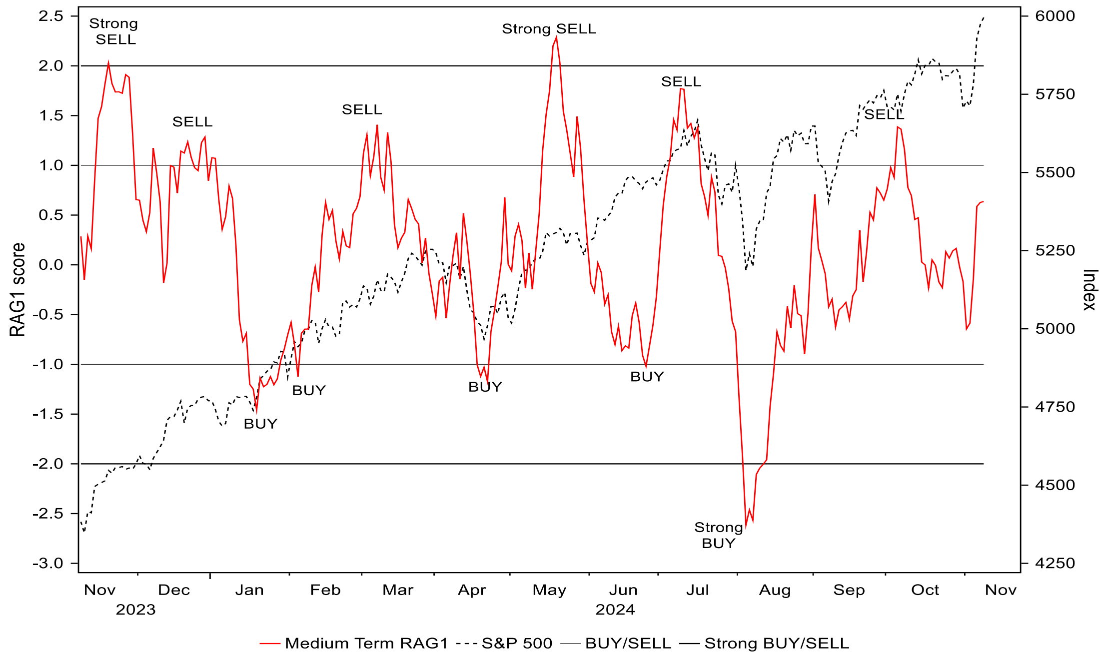
The breadth model is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

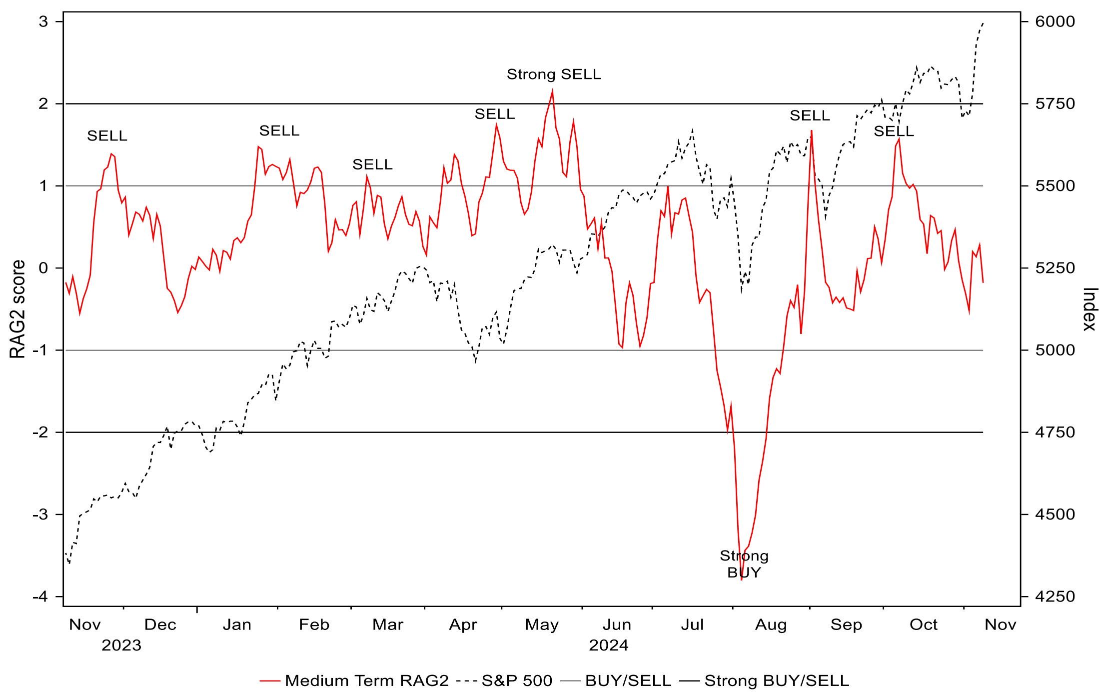
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

Fig 3b: Medium term RAG2 (1 – 2 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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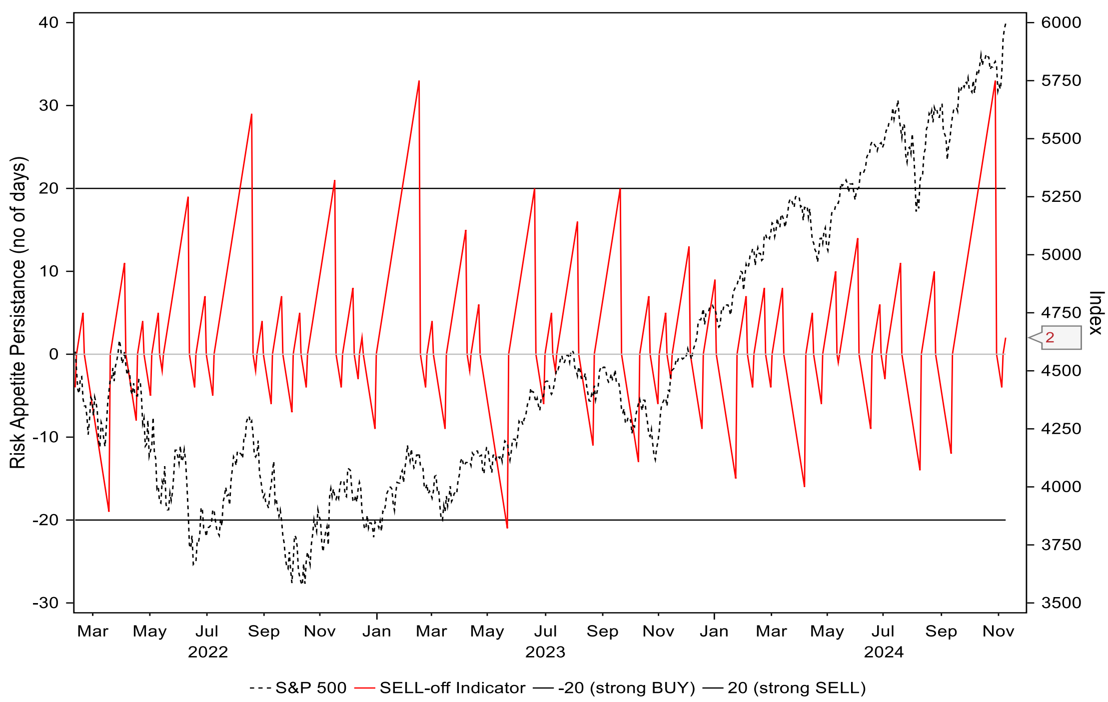
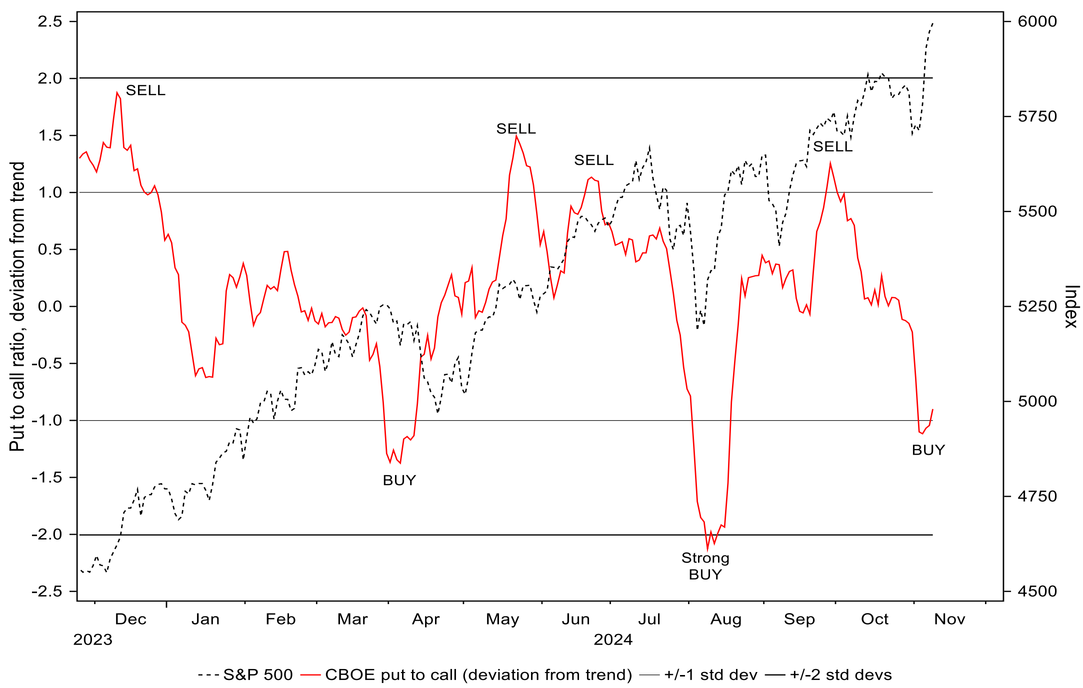
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

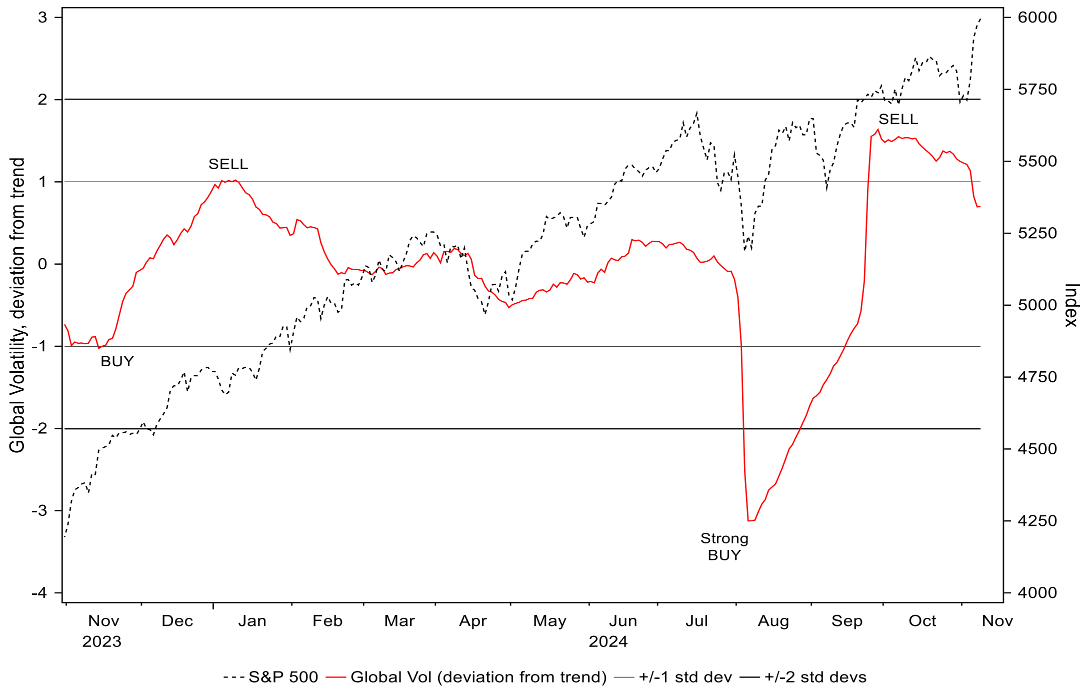


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

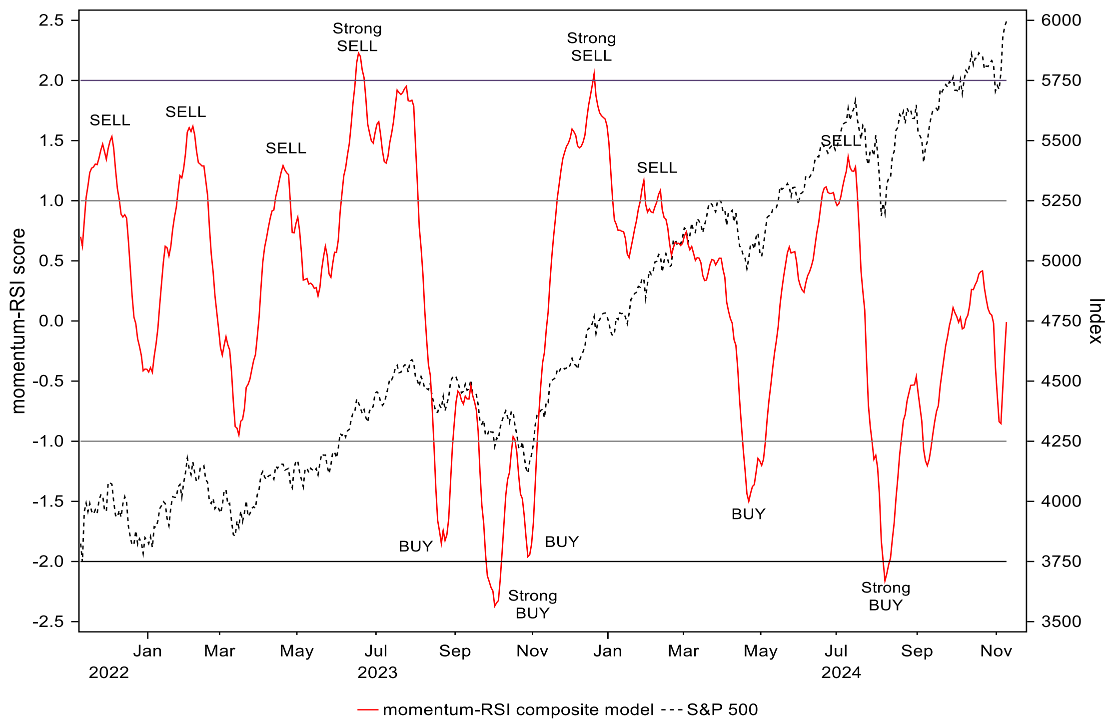
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

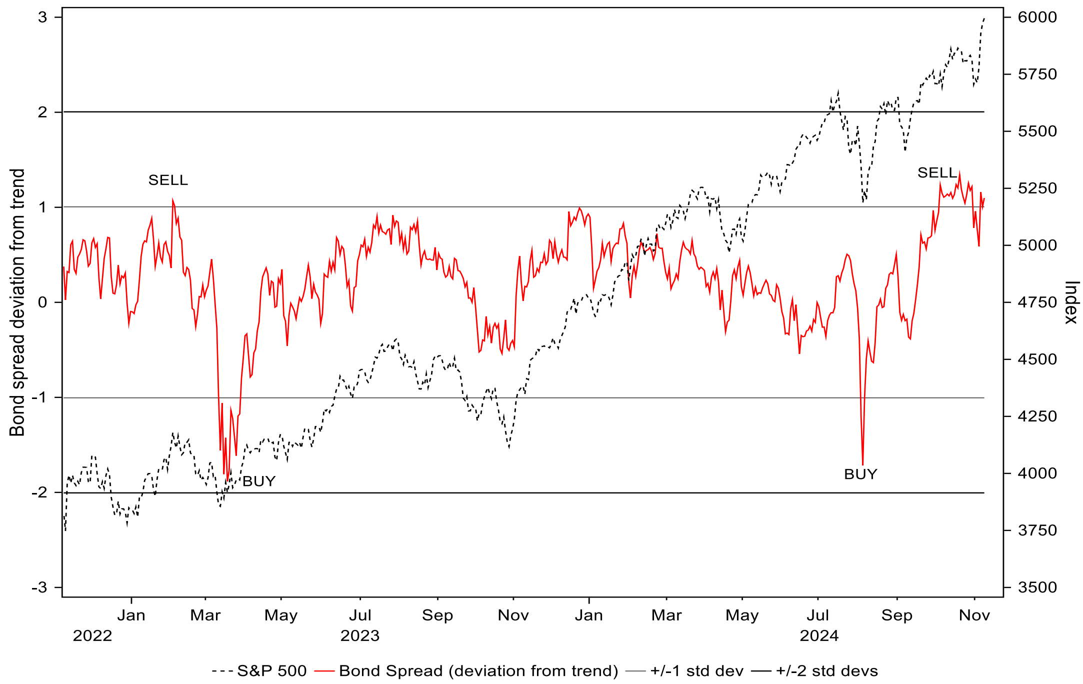
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

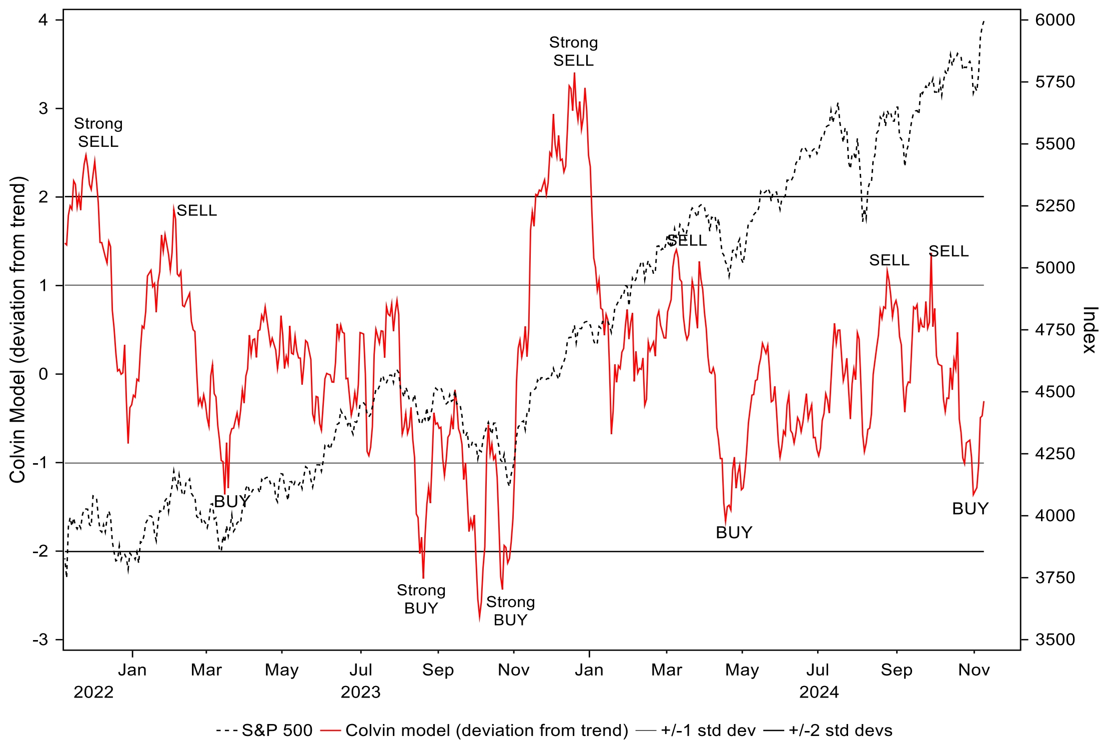
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on SELL

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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