LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

11th October 2024

"All Eyes on China Tomorrow"

Email: info@longvieweconomics.com

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

- WATCH & WAIT

Rationale

US equities drifted yesterday, with the S&P500 moving in a narrow 0.55% intraday trading range (FIG 1) and closing 0.2% lower. The NDX100 was 0.1% lower, the Philly SOX was down 0.5%, whilst small and mid-cap US indices were some of the worst performing headline US equity indices (down 0.4% – 0.7%). As such, despite the S&P500 breaking out of its two-week sideways trading range on Wednesday, there was limited follow through buying yesterday pushing it higher* (e.g. see S&P500 30-day GIP chart – FIG 1c). Oil acted as a major headwind for risk assets as BRENT and WTI futures rallied 3.6 – 3.7%, back towards their 7th October highs (as geopolitical issues continue to rumble in the background). US sector strength, not surprisingly, therefore was dominated by the energy sector (+0.8%), whilst materials (+0.2%) & IT (+0.1%) were the only other positive areas of the market. The dollar was flat, European equity markets were mostly down yesterday, whilst overnight Asian equities have been mixed.

In terms of models, the medium-term ones (with a '1 – 4' month time horizon) are generating a collective SELL signal. Overnight the SELL-off indicator has reached its key +20 level. At +20 it warns of a heightened risk of a wave of risk aversion (i.e. a pullback). Its hit rate is high and it's typically timely. In yesterday's Longview Alert ("SELL Signals: A Full House"), we showed the efficaciousness of all 38 indicator signals since its design in 2006. In summary:

> "On 50% of signals, therefore, there is a meaningful tactical pullback (i.e. 4% or higher); on a further 37% of occasions, markets move modestly lower (i.e. between 0 – 4% down); while in 13% of examples, it's a false signal (or it's early/not timely)."

Source: Longview Alert, 10th October 2024

Other medium-term models (like the medium-term risk appetite scoring system, the Colvin model and the medium term put to call ratio) are all at, or close to, SELL.

Short term models, however, have some headroom until they reach SELL again. Global softness across a range of risk assets (especially non-US ones) has pulled short term risk appetite, and other models, lower over the past 1 – 2 weeks. That price weakness, for example, has been evident in the DAX, the Kospi, the Shanghai Composite, the Aussie equity market and so on (mostly since the start of October). As such, the short-term risk appetite scoring system, shortest term RAG and the technical scoring systems are all down from SELL levels and have, in some instances, been close to BUY (i.e. of late, e.g. see FIGs 2 – 2e). Overall, therefore, these models support patience before re-entering SHORT positions.

In addition, tomorrow (i.e. this Saturday) the Chinese finance Ministry will be making an announcement on the Chinese fiscal stimulus package. That has the capacity to either disappoint markets or exceed expectations. In other words, it's an important, exogenous, and unforecastable event and, therefore, a two-way risk.

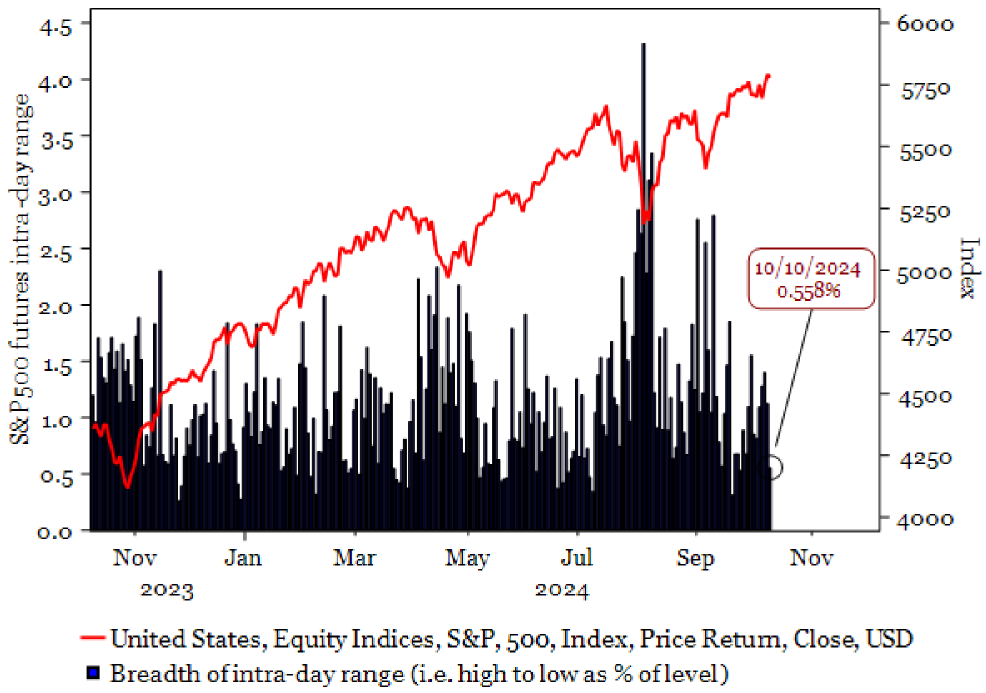
For now, therefore, we recommend continuing to WATCH & WAIT. Key data and events today are shown below (and include US PPI and Michigan sentiment data). It's also the start of the US earnings season (in earnest) today with various major banks reporting later.

Kind regards,

The team @ Longview Economics

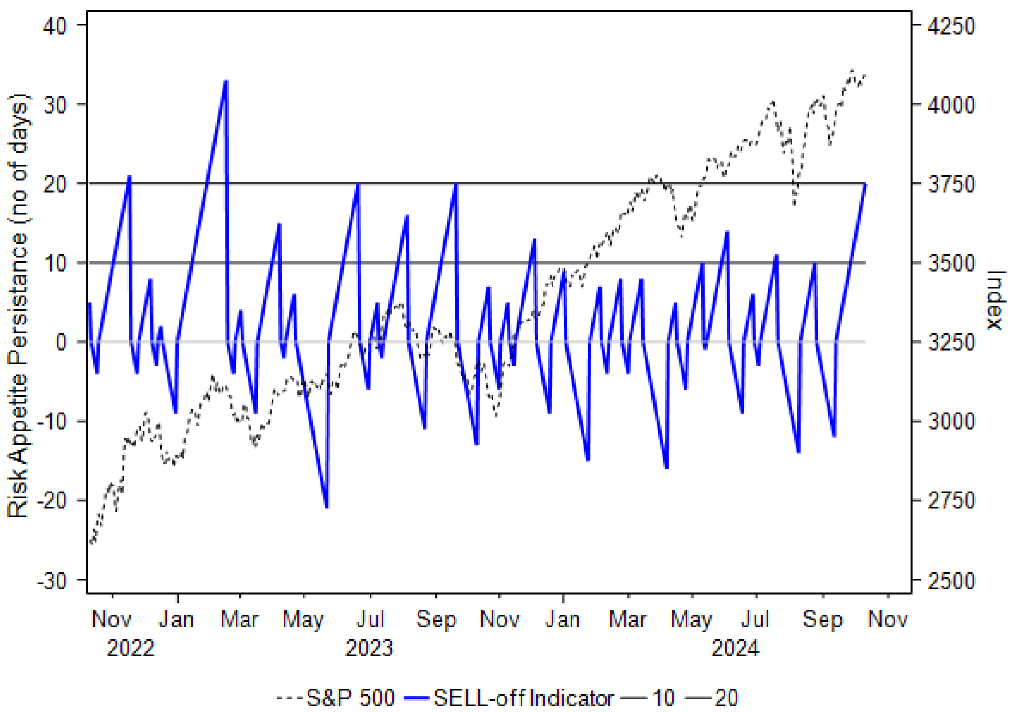
*i.e. Wednesday's breakout by the S&P500, so far, isn't very convincing from a technical, price action perspective.

FIG 1: Breadth of intraday S&P500 range vs. S&P500



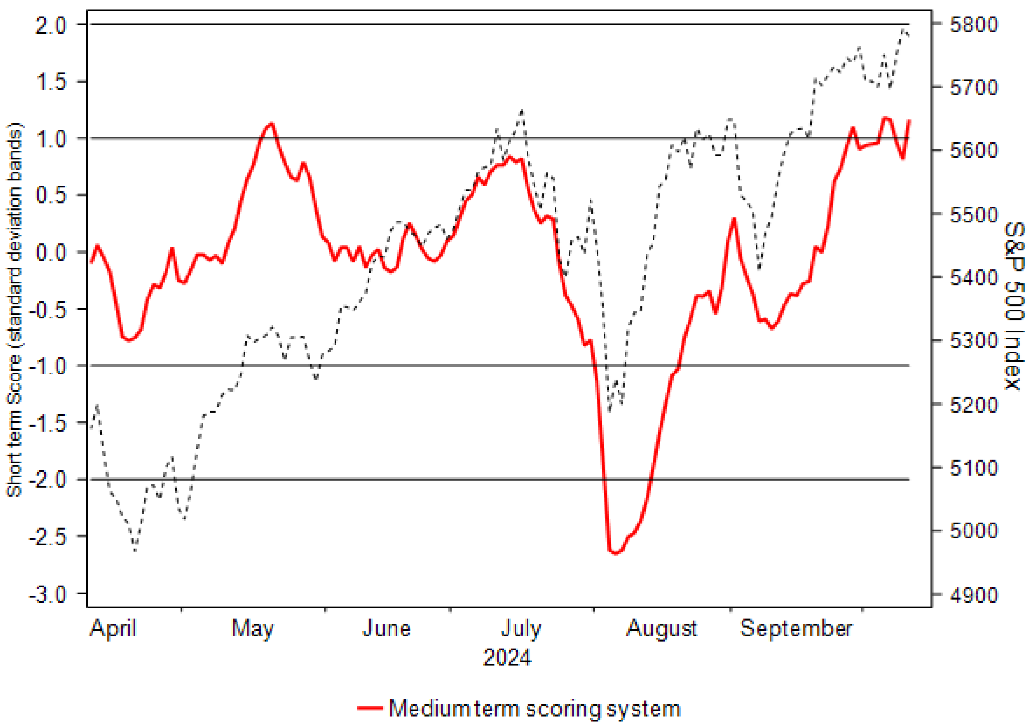
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

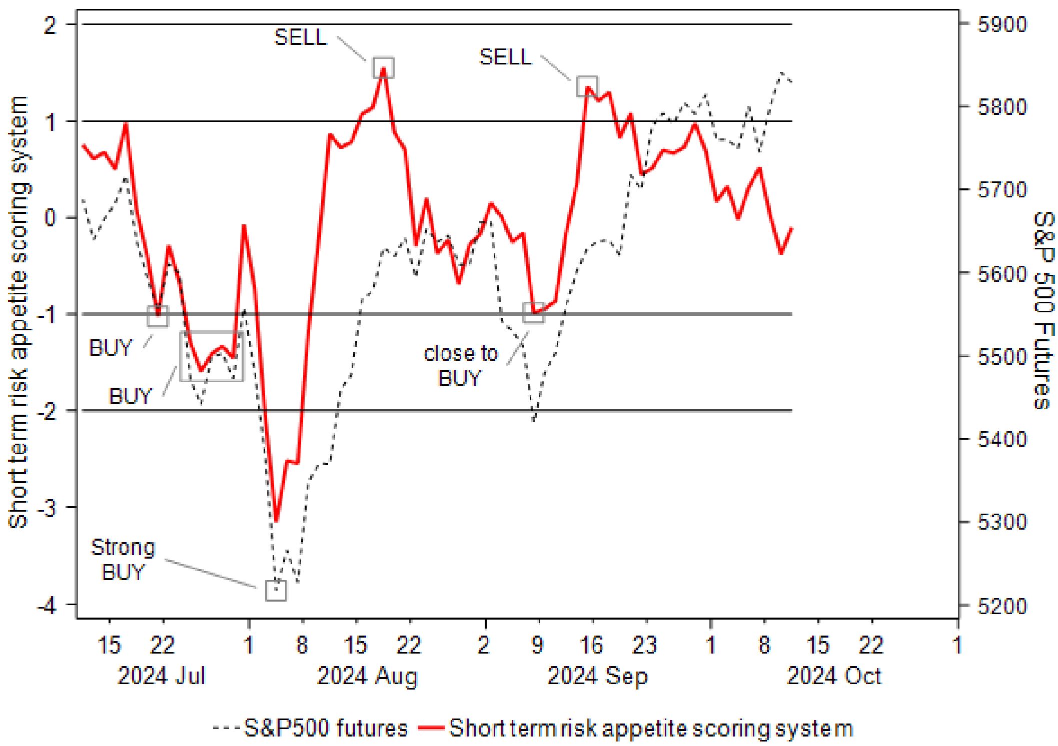


Source: Longview Economics, Macrobond

FIG 1c: S&P500 futures 30-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 **SHORTEST term** RAG1 vs. S&P500

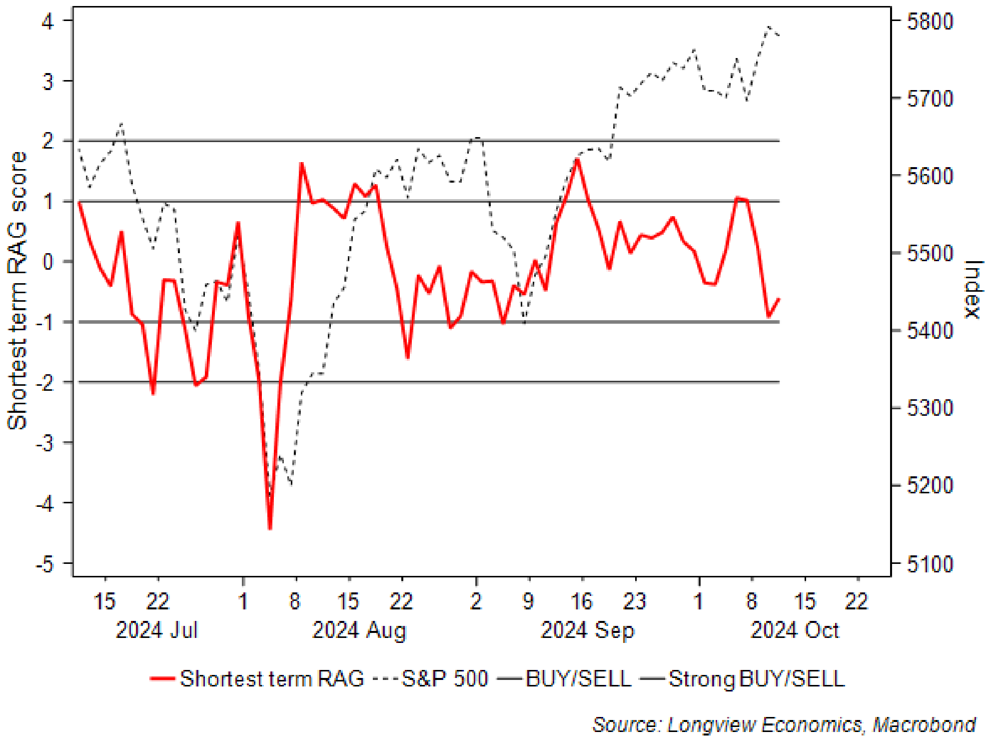


FIG 2b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

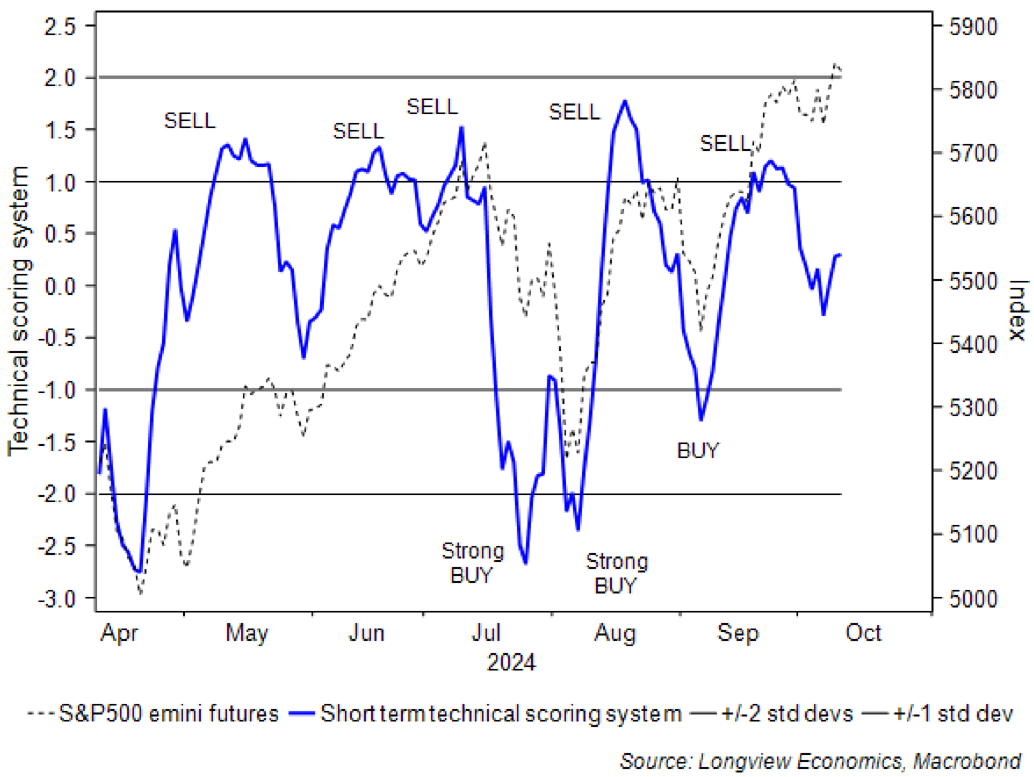
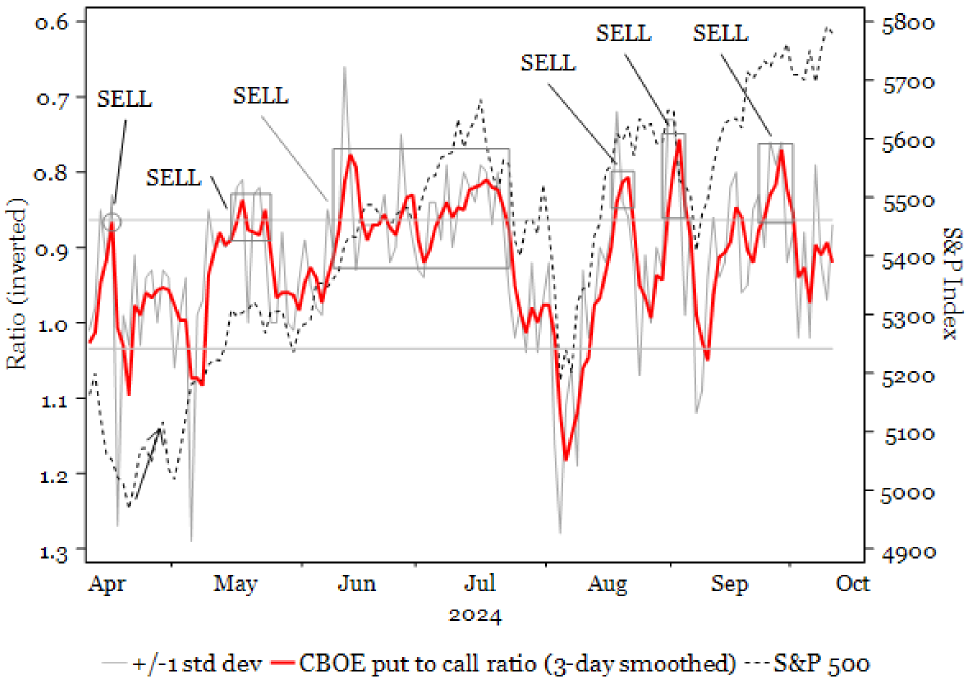
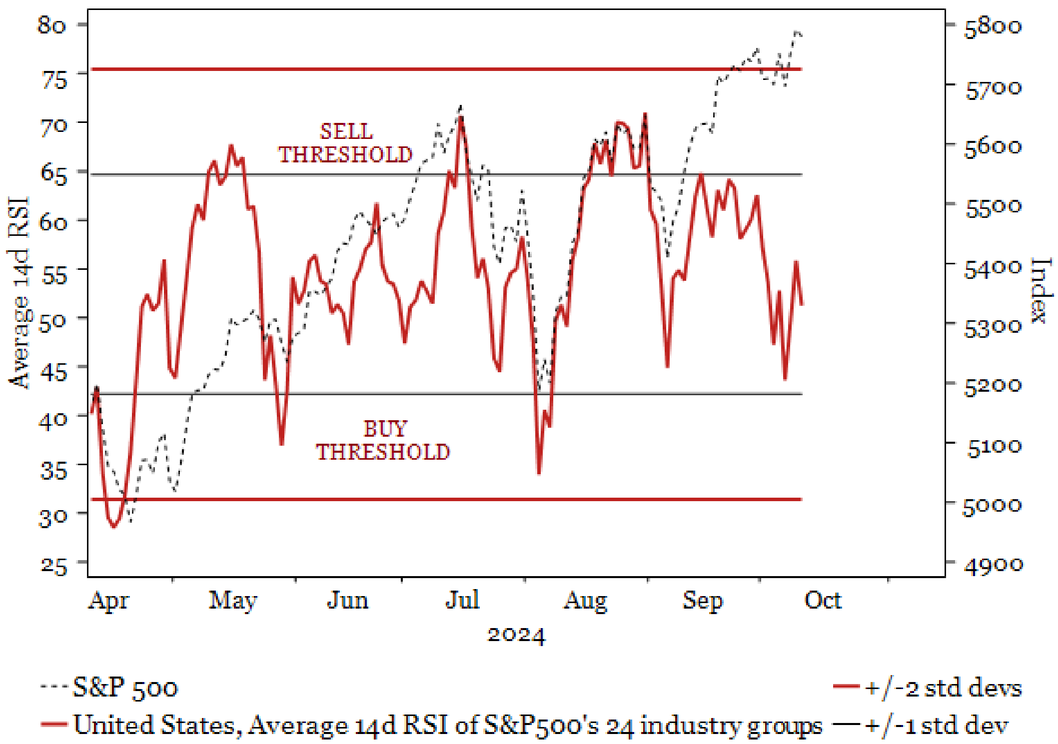


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



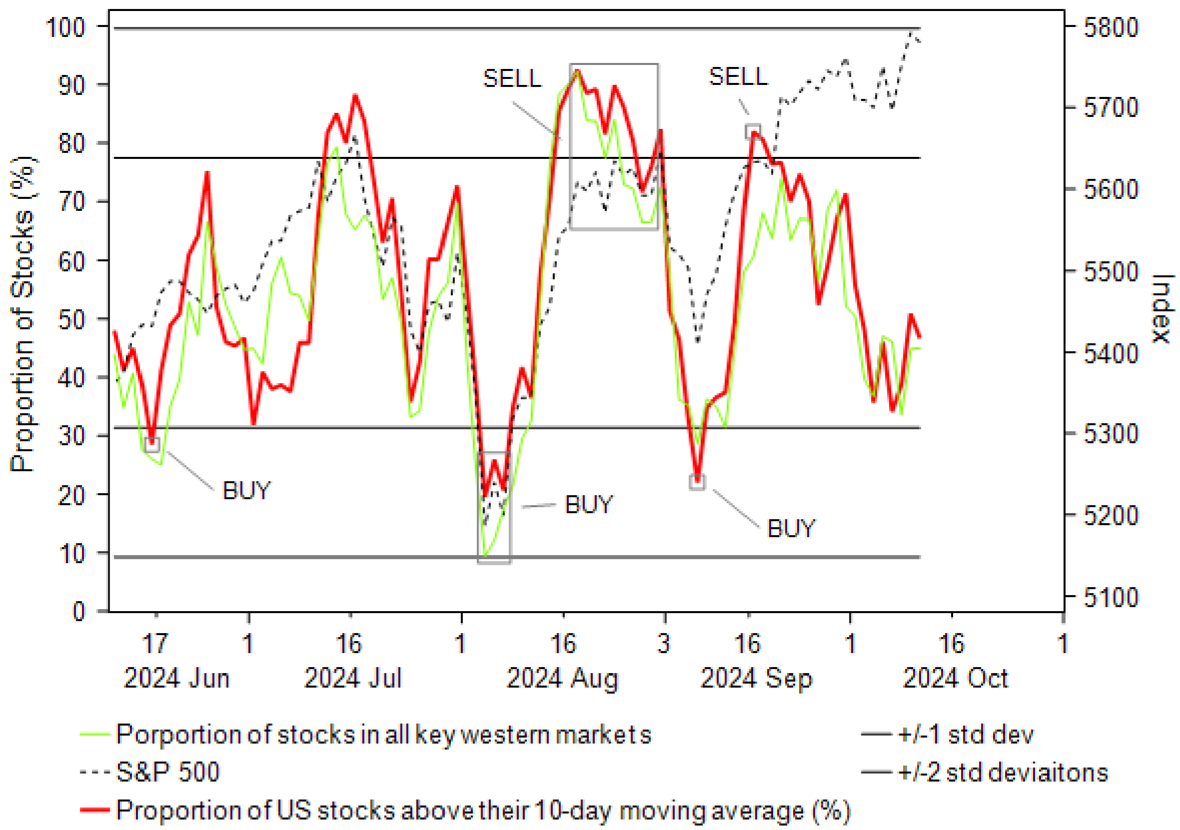
Source: Longview Economics, Macrobond

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

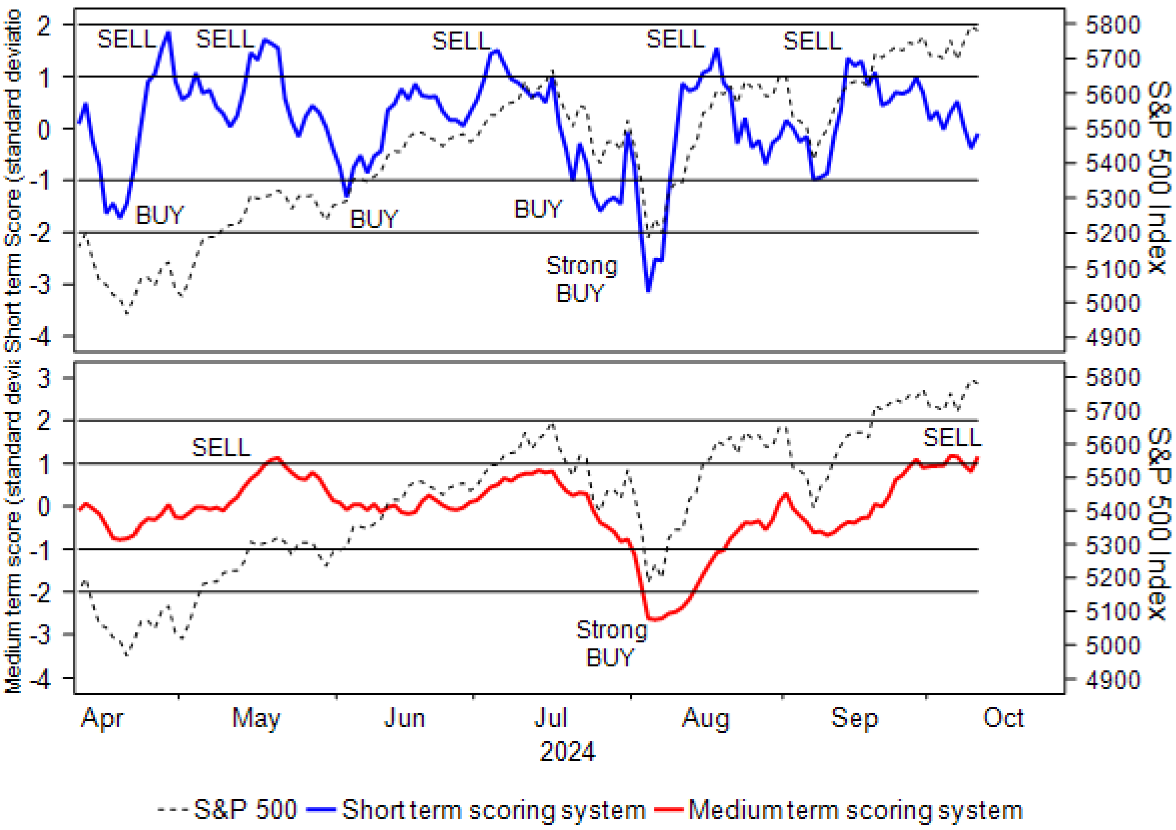


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **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 M2 & M3 money supply** (Sept, 12:50am); UK Monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (Aug, 7am); German headline CPI (September final estimate, 7am); **US headline & core PPI** (Sept, 1:30pm); Canadian employment data (Sept, 1:30pm); **US Michigan sentiment** (October first estimate, 3pm).

Key events today include: Market holiday in Hong Kong on account of Chung Yeung Day; speeches by the Fed's Goolsbee at the Community Bankers Symposium (2:45pm) & Logan in panel discussion (3:45pm).

Key earnings today include: **JPMorgan**, **Wells Fargo&Co**, Bank of NY Mellon, Fastenal.

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.

LVRAG

Daily Risk Appetite Gauge

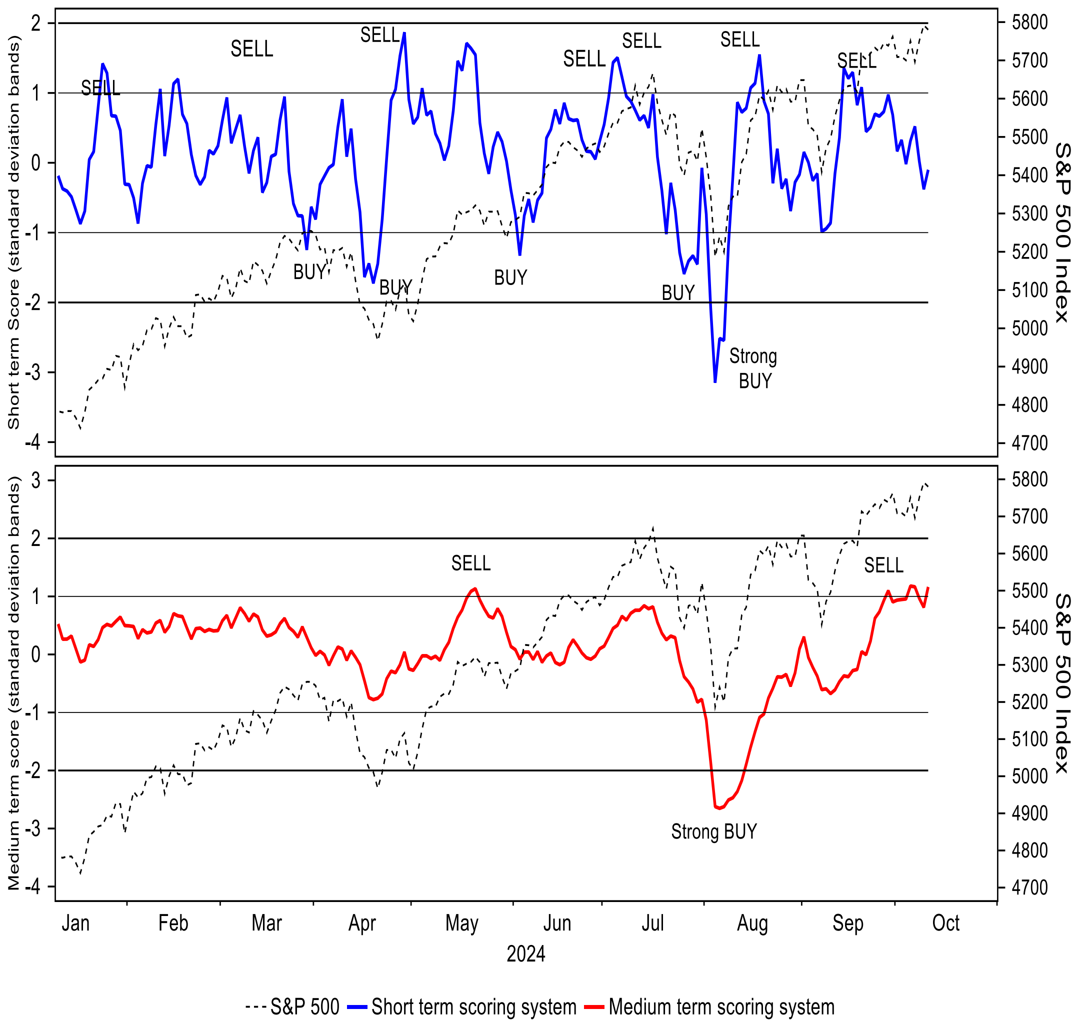
1 – 2 Week View on Risk

11th October 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



Short term scoring system is NEUTRAL

Medium term scoring system is on SELL

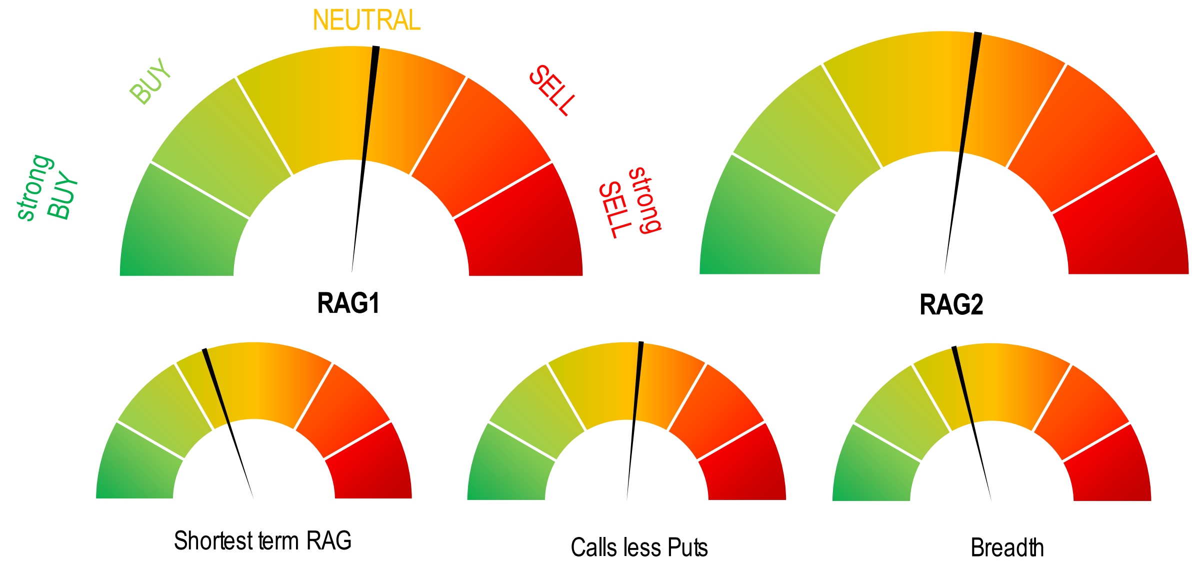
Source: Longview Economics, Macrobond

*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

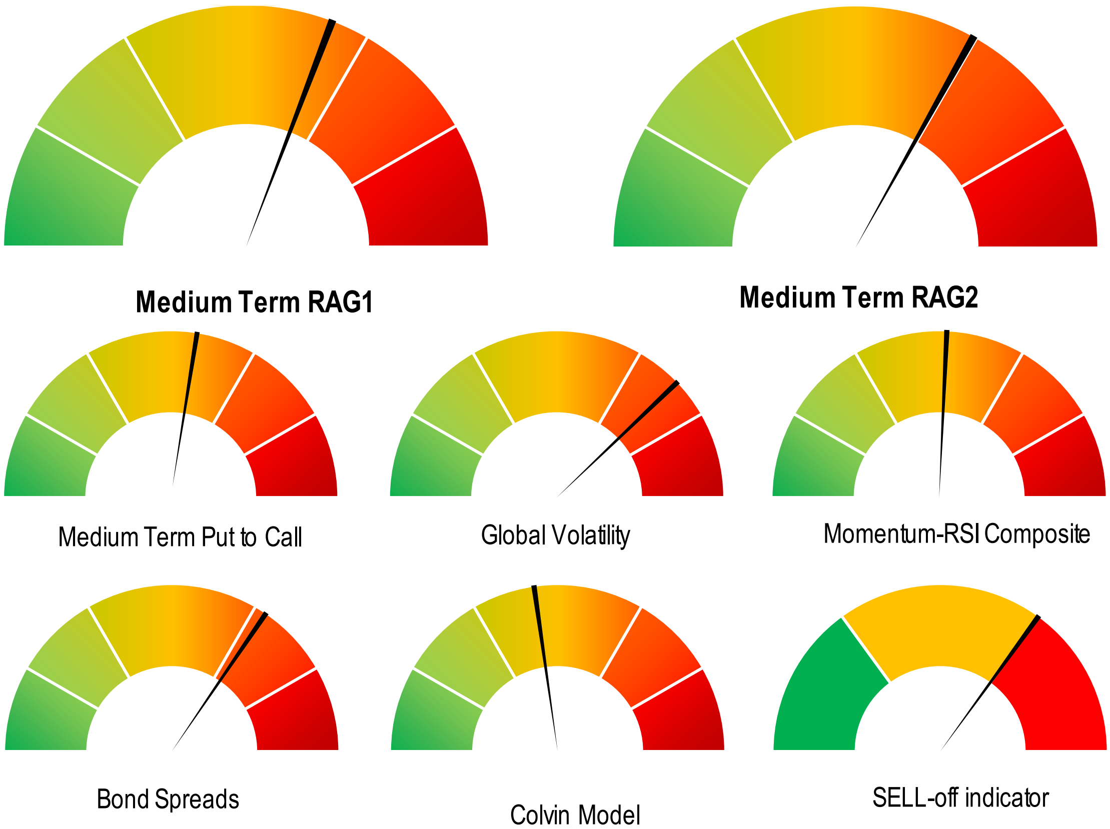
Section 1a: Summary of indicator signals**

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

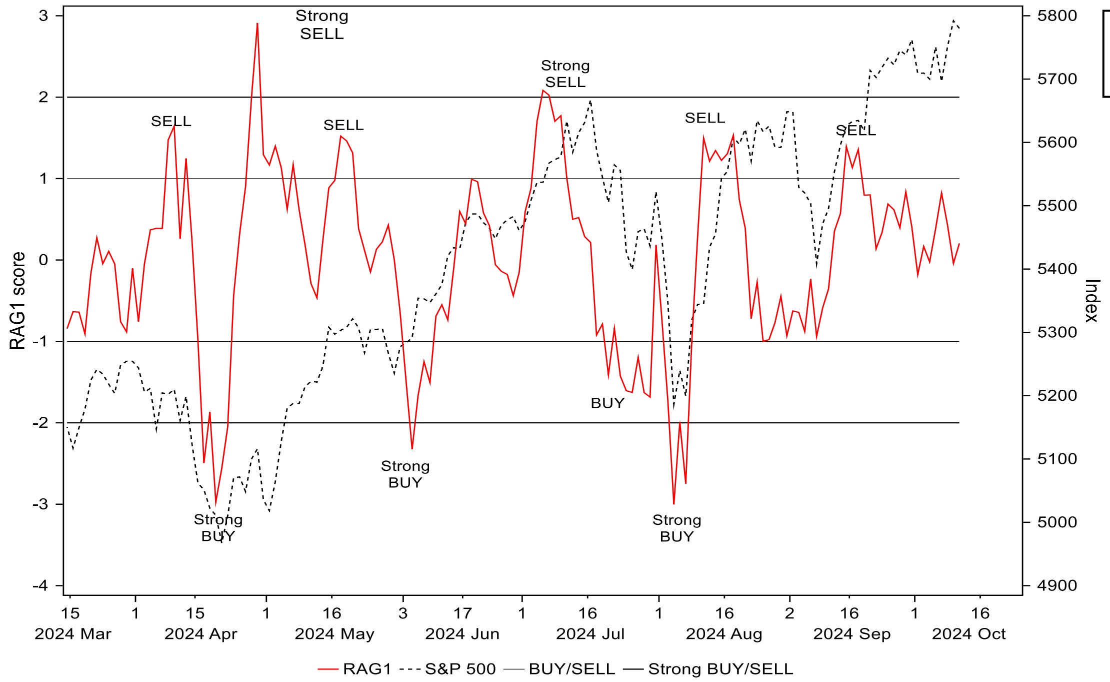


Source: *Longview Economics*

**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

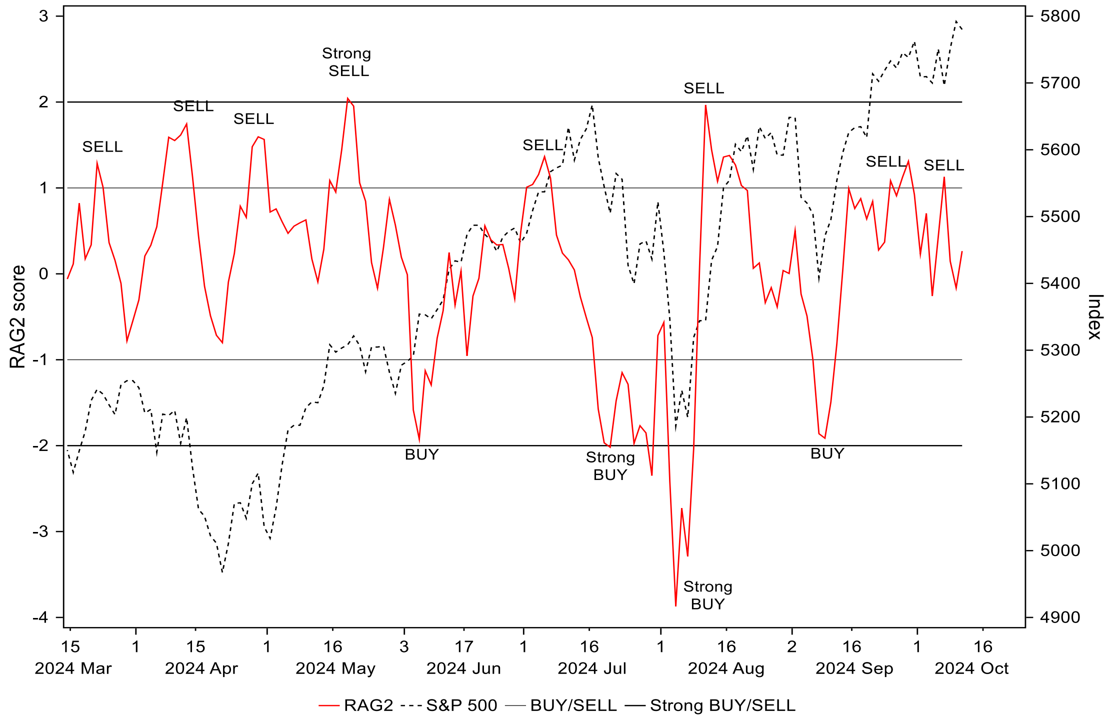
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

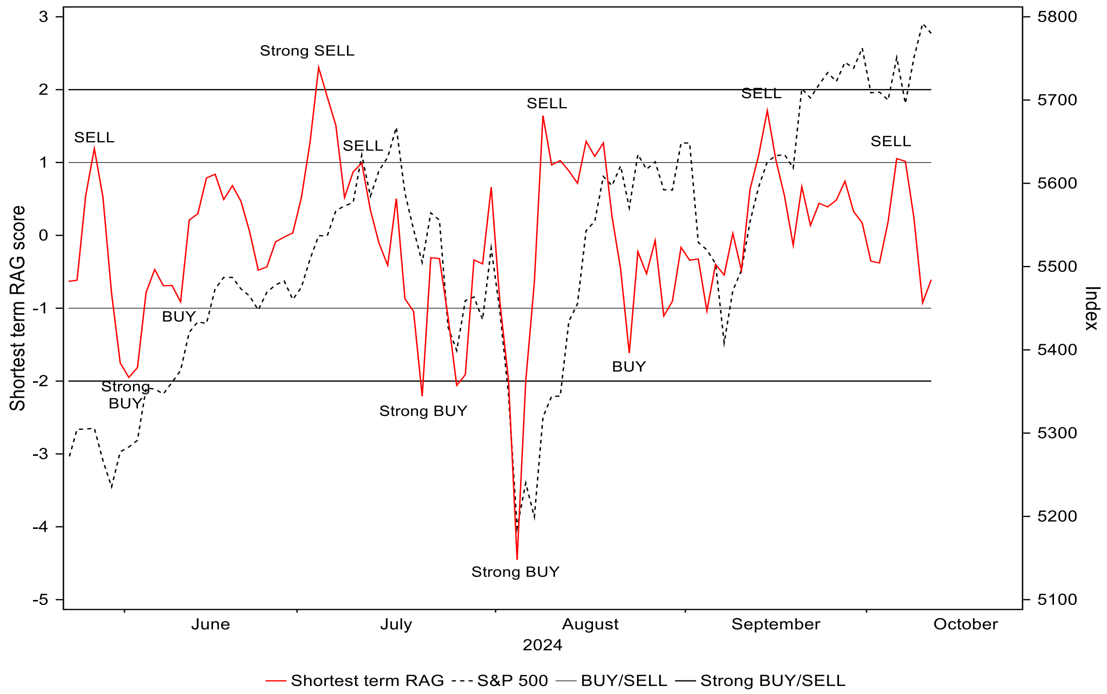


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

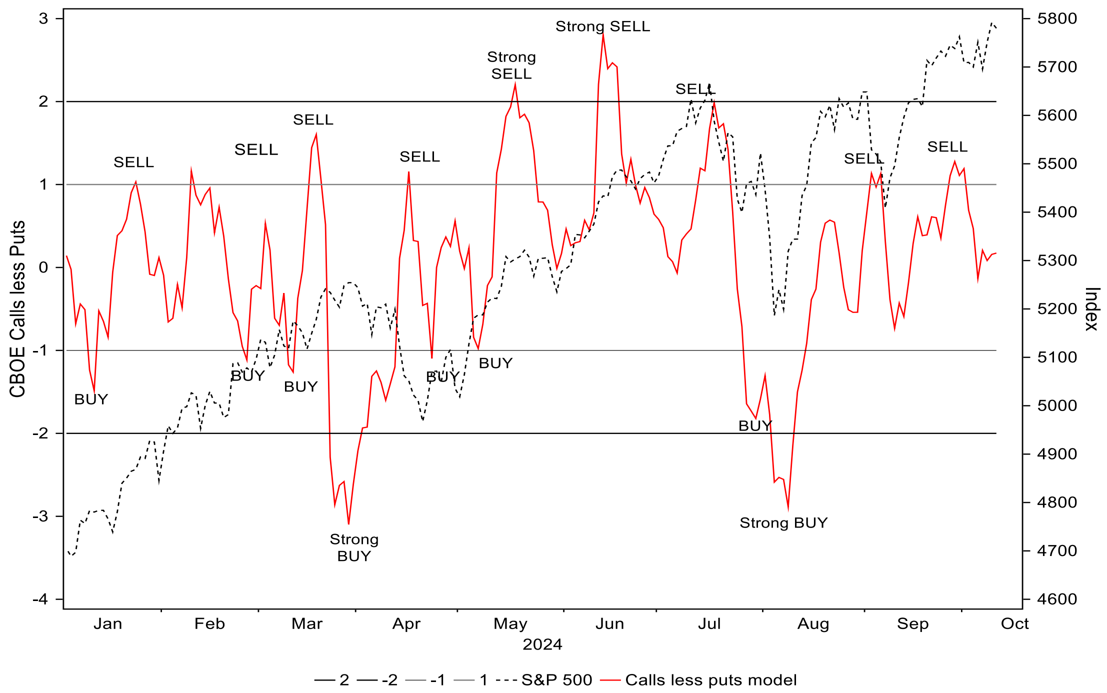
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

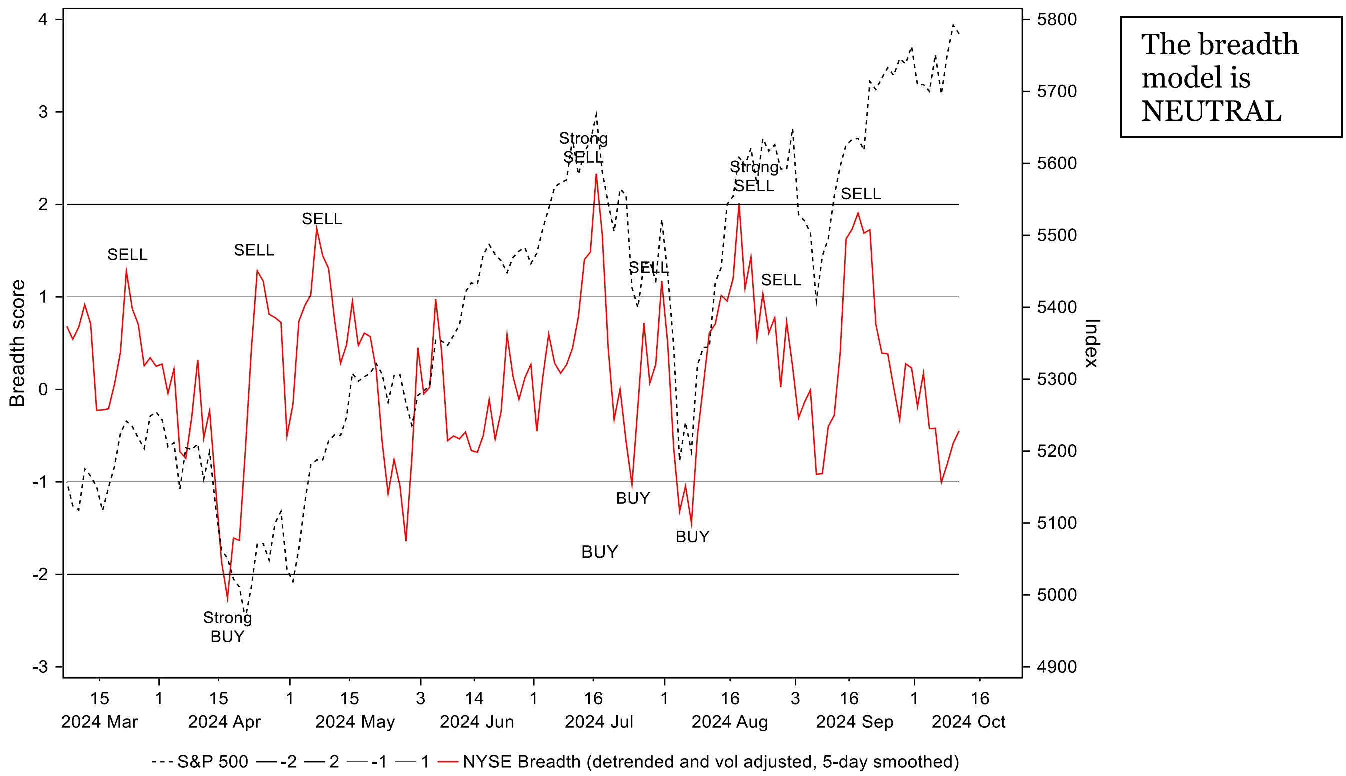


Calls less puts model is NEUTRAL

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

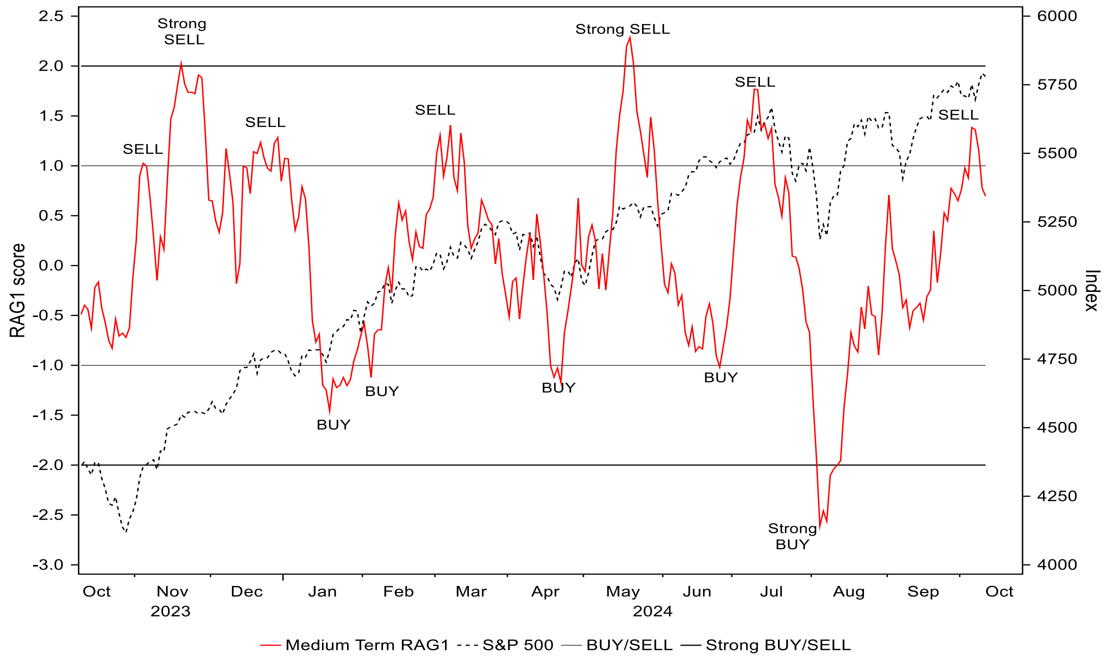


Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

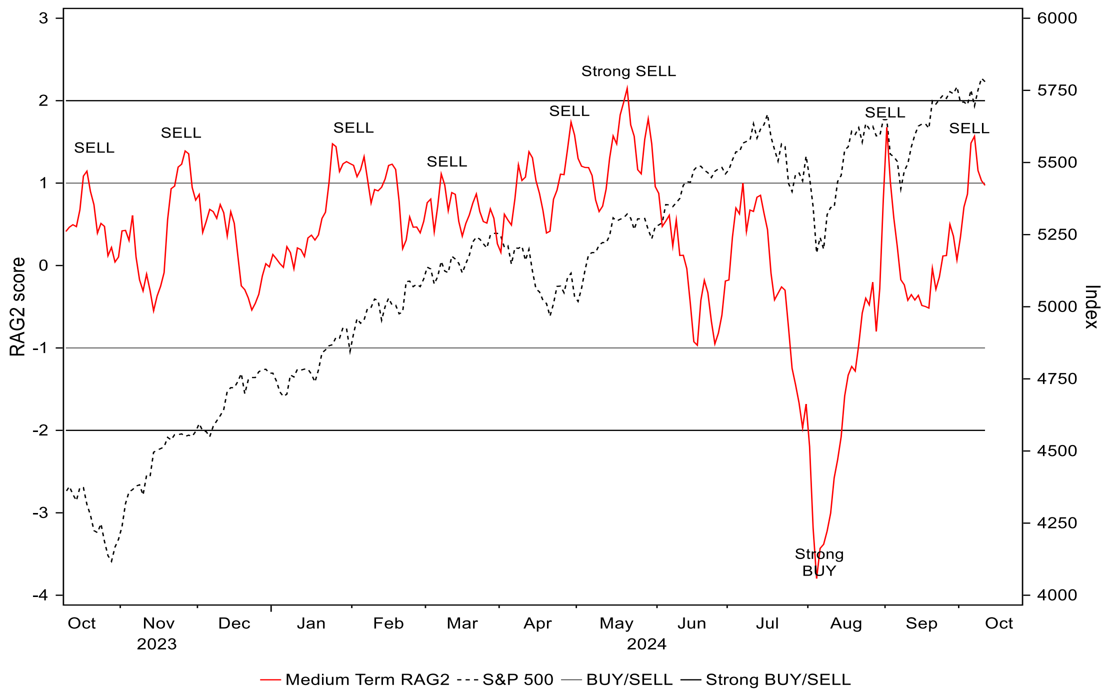
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

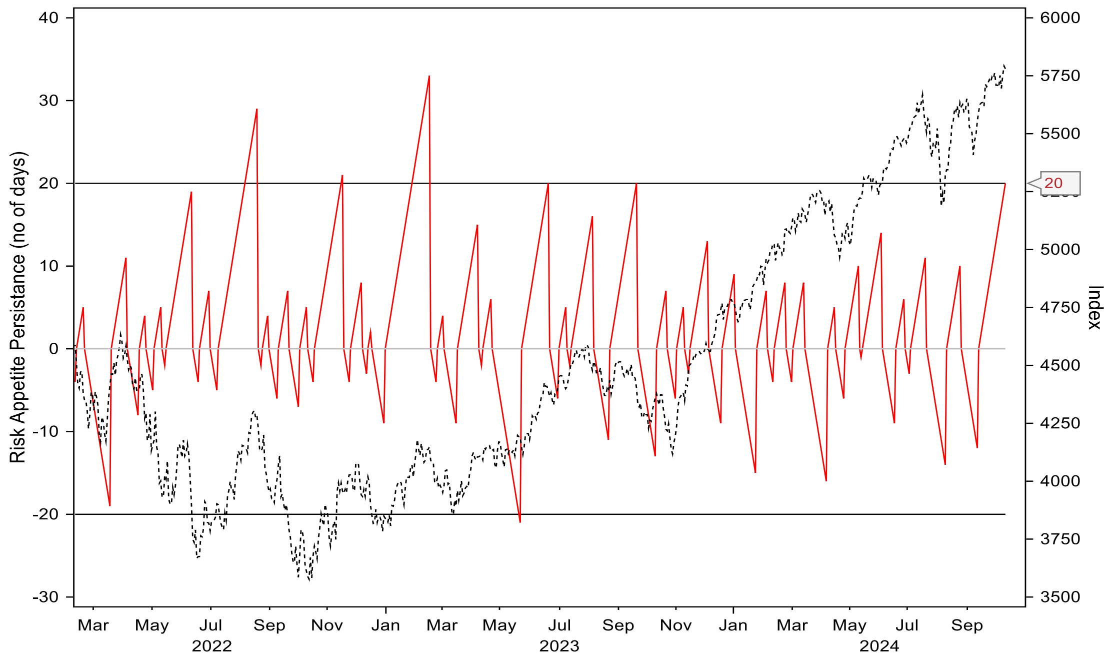


Medium term RAG2 is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

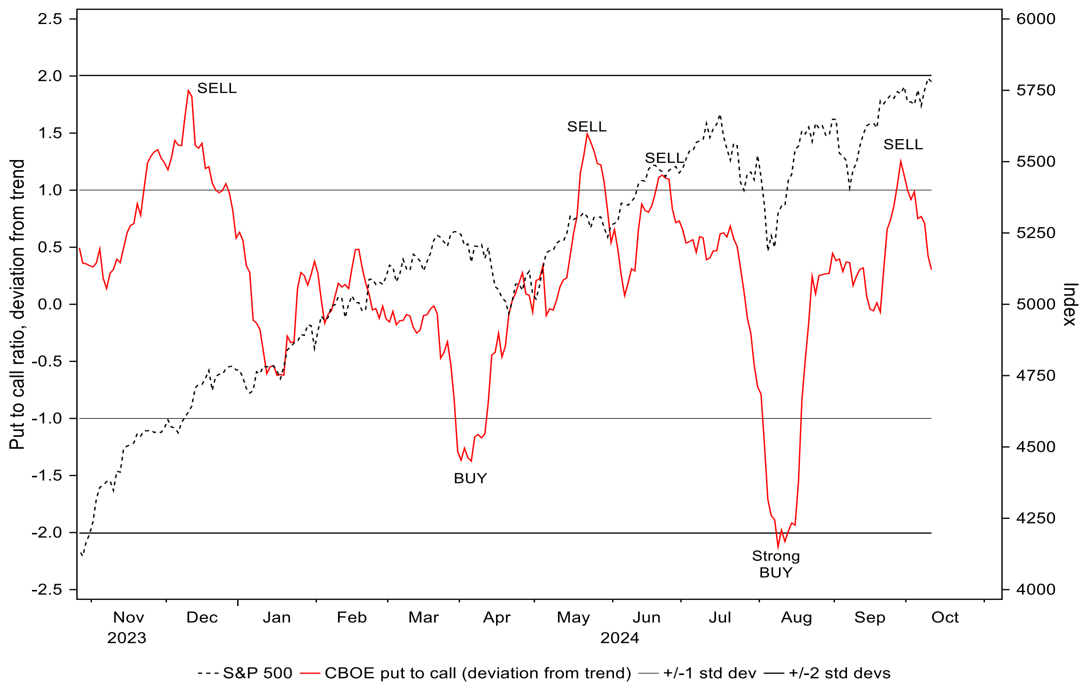
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

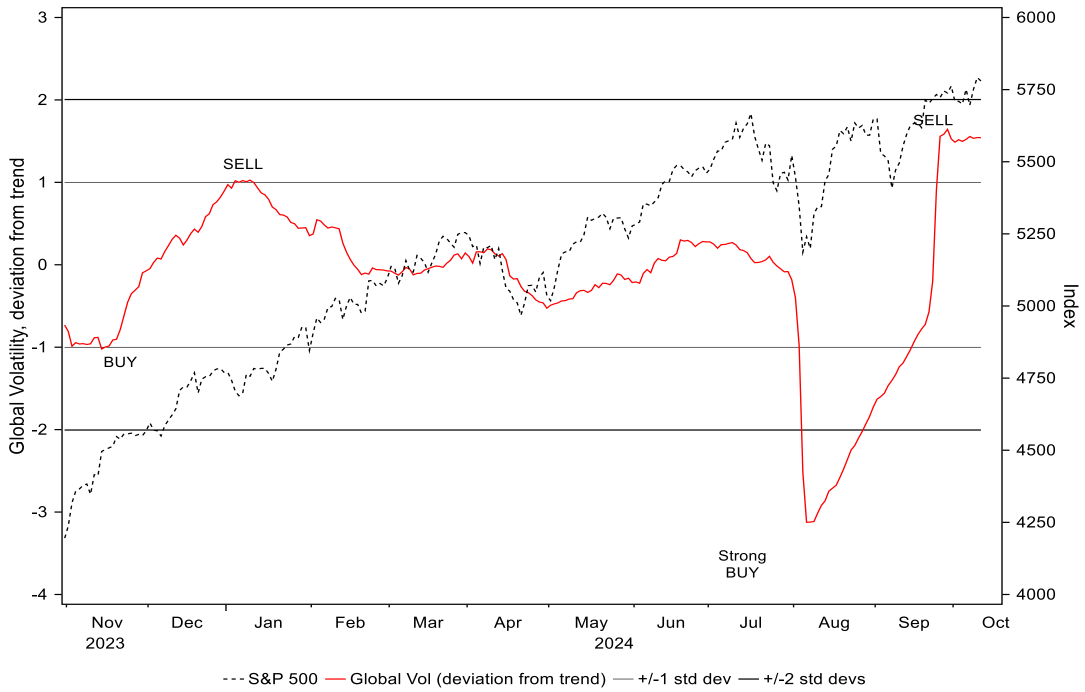


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

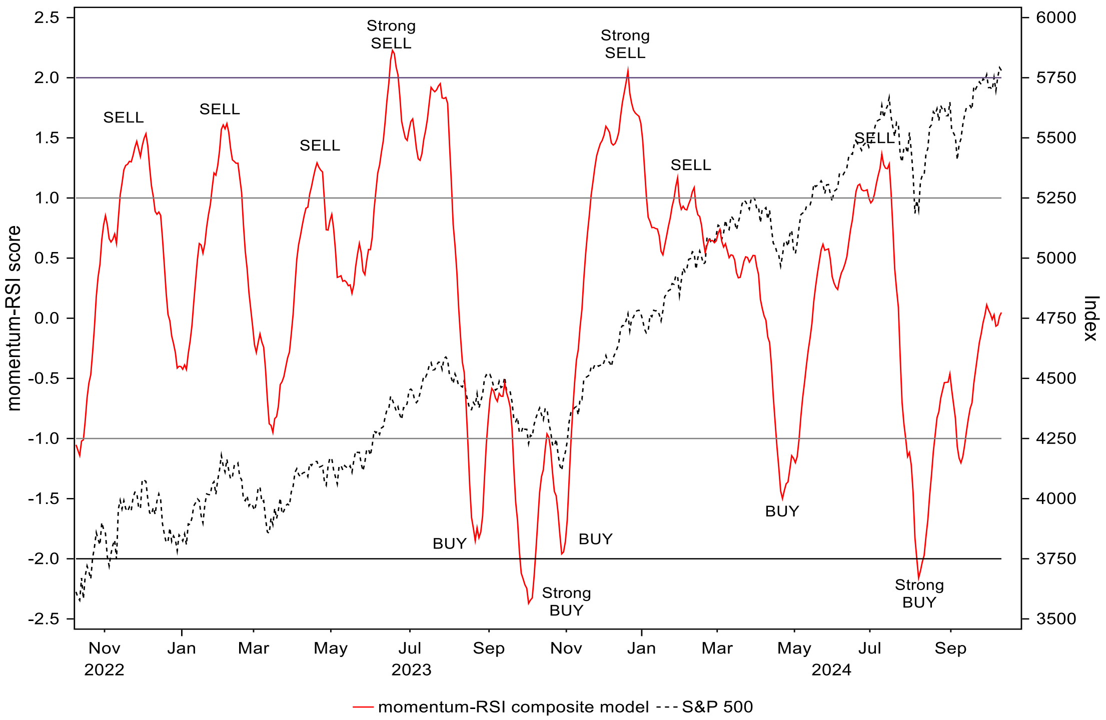
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on SELL

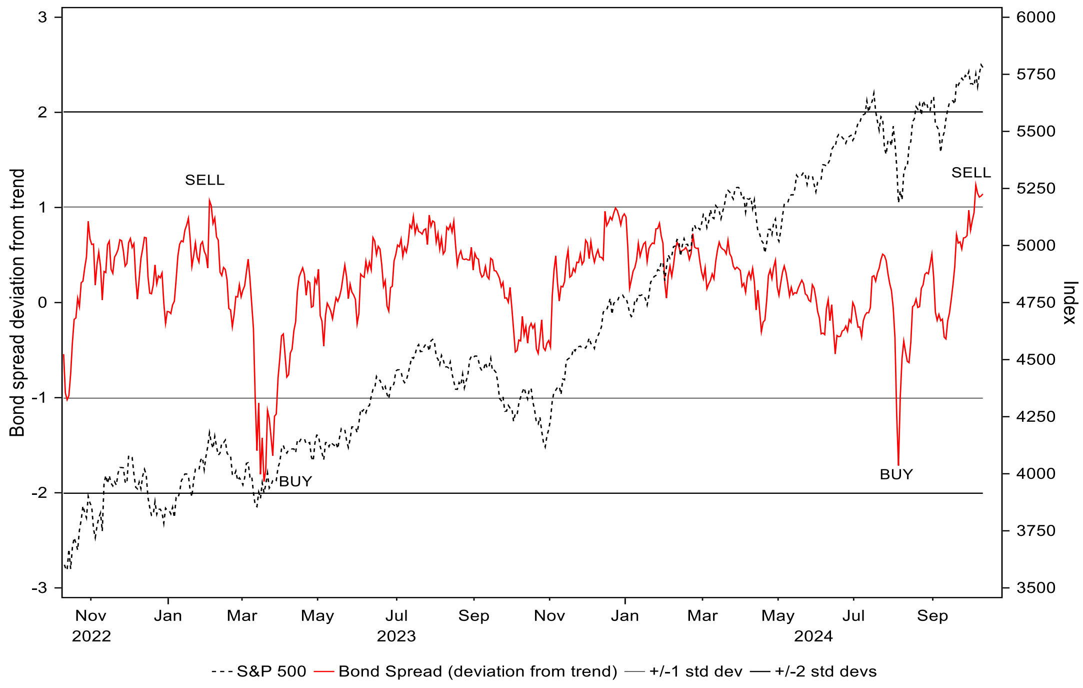
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

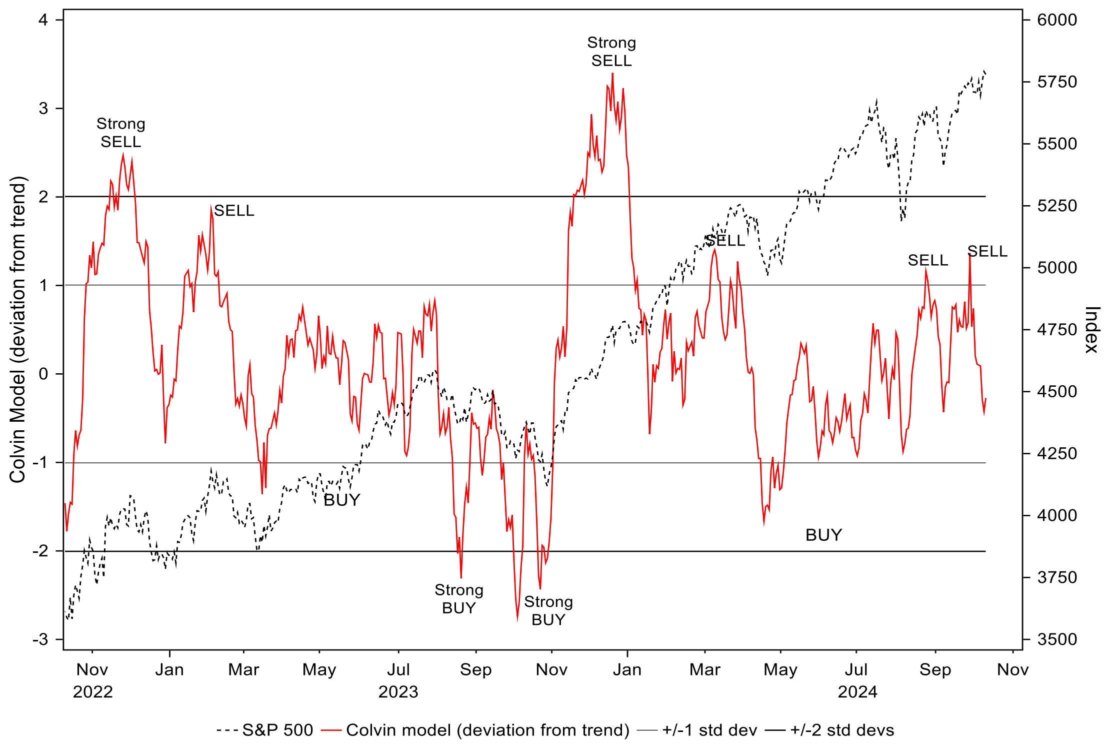
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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