Equity Index Futures Trading Recommendations

11th September 2024

"Weakness Broadening - Switch from SHORT NDX to SHORT SPX"

Email: info@longvieweconomics.com

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

- Close ¼ SHORT NDX100 September futures* at current prices.
- Move opportunistically ¼ SHORT S&P500 September futures.
- Implement a 2% stop loss (above entry).

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

Rationale

This 'wave 3' of selling in the **tech-centric areas** of the US/global market is now reasonably advanced. The NDX100 and Philly SOX have been in a downtrend since Thursday 22nd August (when they generated a bearish key day reversal). That is almost 3 weeks in a downtrend. The NDX100 is close to its 200-day moving average, while the Philly SOX is trading below it. Added to which, most NDX100 centric models are generating BUY signals (as highlighted yesterday).

As is typical in pullbacks, **the weakness that started in tech (in wave 1) is now spreading to other parts of the global stock market.** That is, the non-tech areas of the global stock market are starting to underperform. That was evident yesterday with energy and financials (-1.9% & -1.0%) weighing upon the market, while both the Philly SOX and NDX100 bounced (+1.2% & 0.9%). Energy was pulled down by sharp falls in the oil price as it continues to break below key support levels (FIG 1e). Financials were impacted by comments made by JP Morgan and Ally Financial at a Barclays banking conference in the US. Elsewhere signs of stress are building in the broader macro (i.e. certain key asset prices): US high yield corporate bond spreads, for example, widened notably yesterday (FIG 1c), along with EZ high yield spreads; US 2 and 10 year bond yields continued to move below key support levels (FIG 1b), while the YEN is breaking above its 5th August highs overnight (FIG 1f). With that the DAX, Nikkei and South Korean Kospi indices have been trending down since 3rd/4th September, along with the S&P500 (e.g. see FIGs 1 & 1g). Spreads on US muni bonds have also been widening (FIG 1d).

Our other main '1 – 2' week market timing models are also mostly generating BUY signals (FIGs 2 – 2f). The key exceptions are the technical sector models (FIGs 2d & 2e) which are yet to reach that level (highlighting that non tech areas of the market are not yet oversold). Most short-term models have only just reached BUY. In a typical 'wave 3', we'd expect them to reach strong BUY.

Given that broadening of the market's weakness, we favour **switching the NDX100 SHORT into an S&P500 SHORT**. In a sense, this is opportunistic in that the models have already reached BUY. As such, it's likely to be a short-lived trade (i.e. a handful of trading sessions, at most). In other words, we're **looking for a final leg down in the broader market**, led by the non-tech areas, to complete this 'wave 3', thereby setting the markets up for a sizeable relief rally (or resumption of the uptrend).

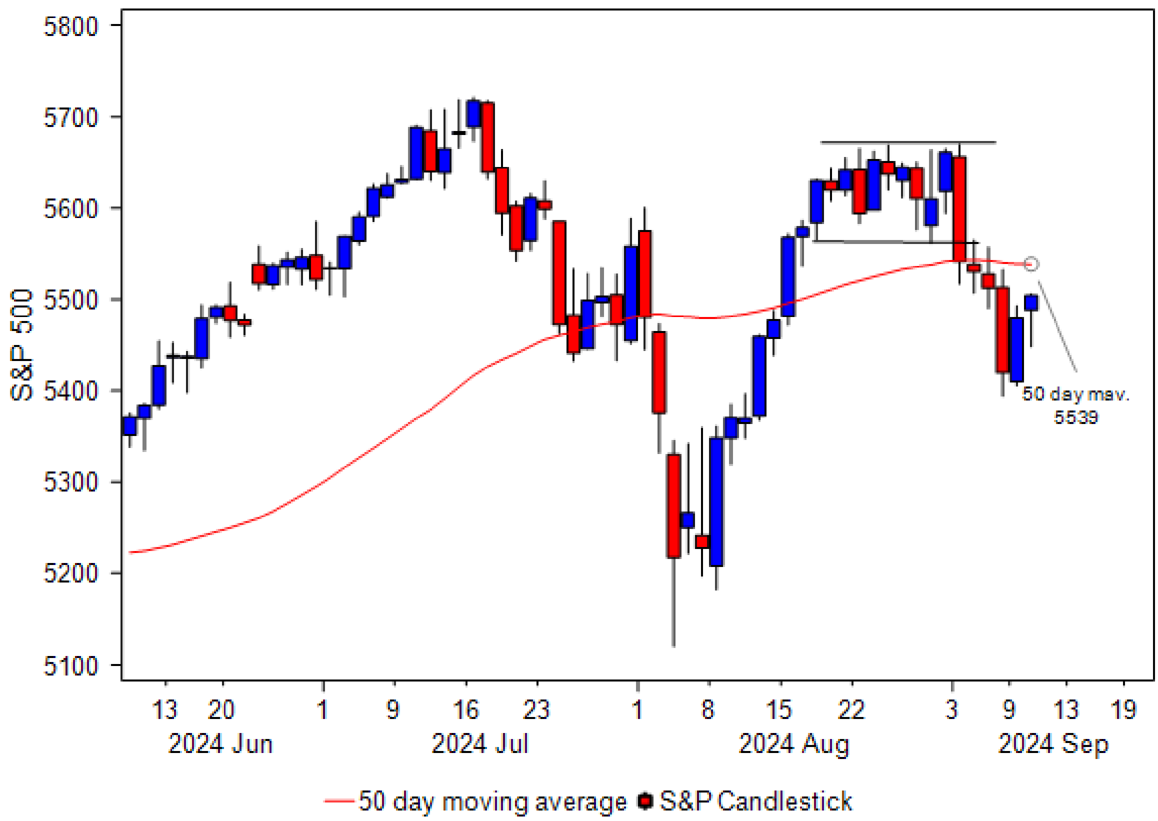
For now, therefore, we are closing ¼ SHORT NDX100 and moving ¼ SHORT S&P500 futures. Given the current proximity of the futures to their 50-day moving average (a key resistance level, 5,539 – FIG 1), we recommend a 2% stop loss, just above that key resistance level.

Key risks, as always, are multiple and include the possibility that wave 3 is already finished. US CPI is also published today, with the potential to generate volatility in markets (although that potential has likely diminished vs. 6 months ago).

Kind regards,

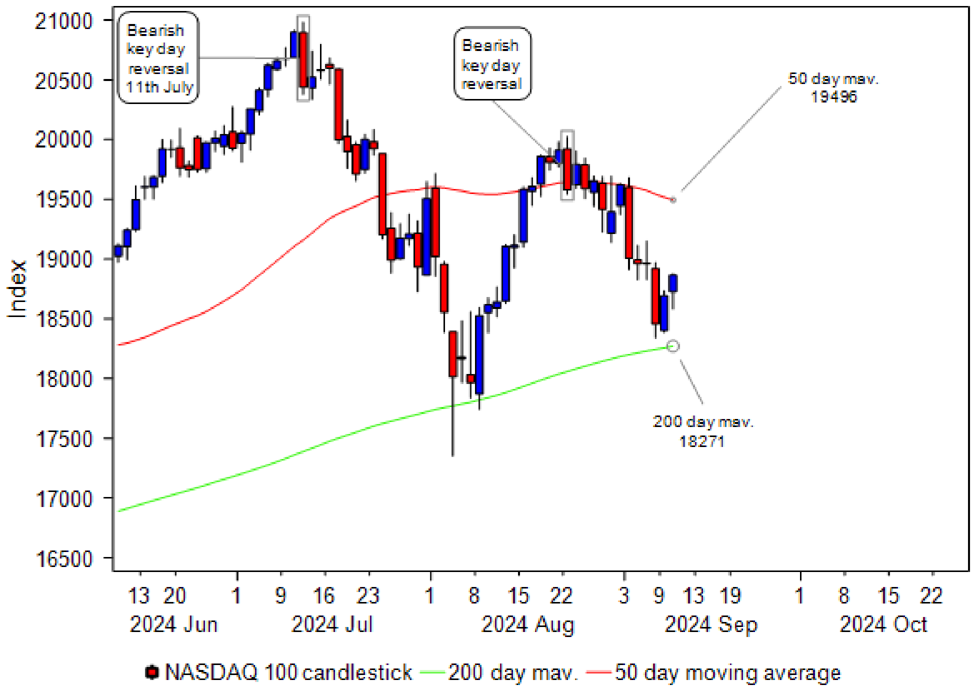
The team @ Longview Economics

FIG 1: S&P500 futures candlestick shown with its 50-day moving average



Source: Longview Economics, Macrobond

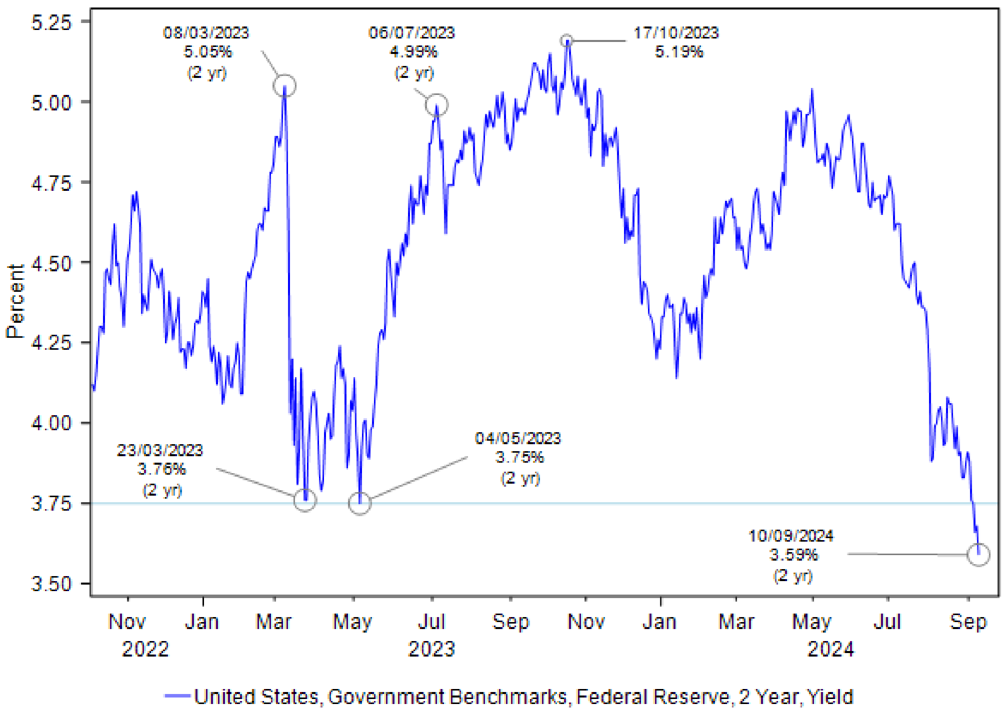
FIG 1a: NASDAQ100 futures shown with 50 & 200 day moving averages



Source: Longview Economics, Macrobond

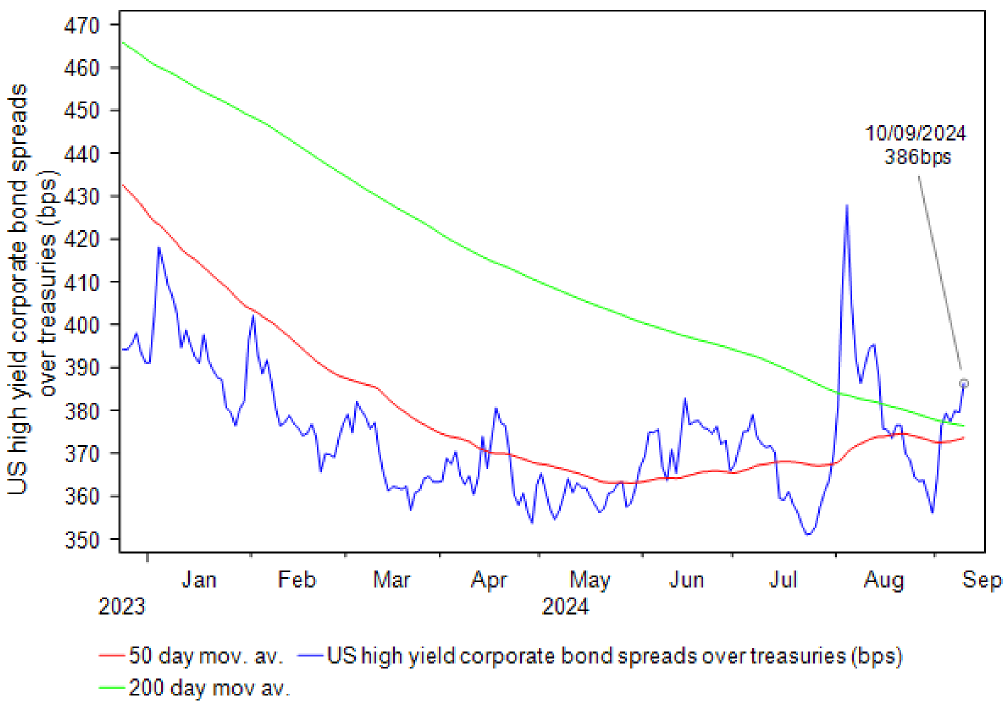
Signs of stress are growing across the broader market....

FIG 1b: US 2-year bond yield (%) shown with key levels



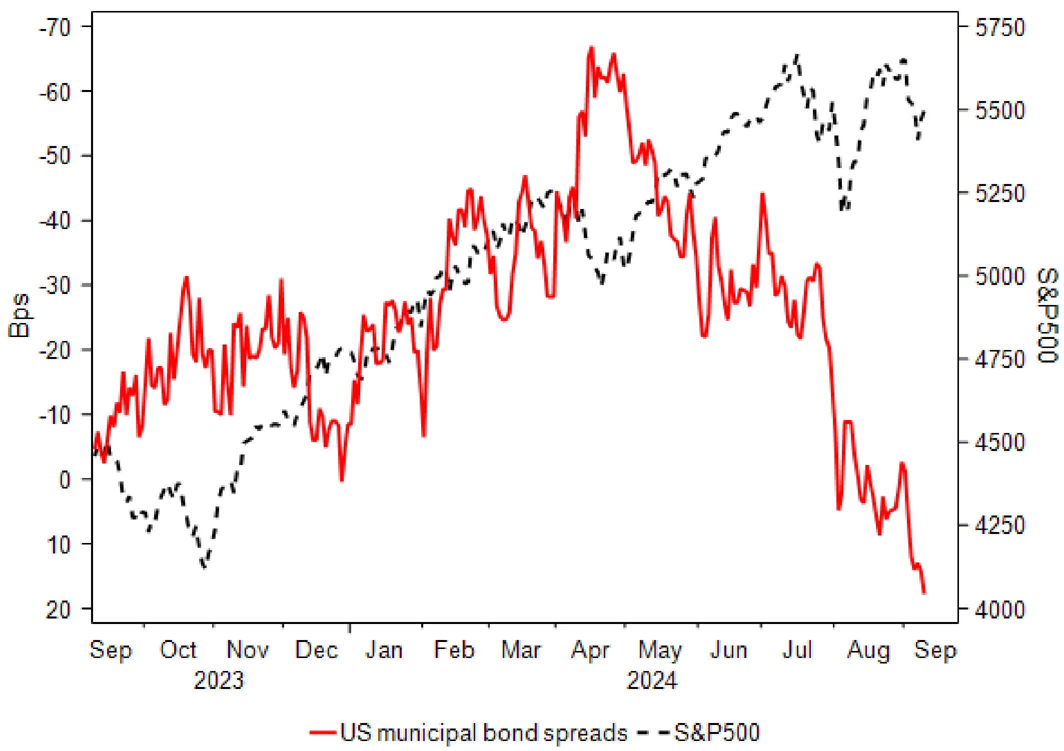
Source: Longview Economics, Macrobond

FIG 1c: US high yield corporate bond spreads (bps) shown with key moving averages



Source: Longview Economics, Macrobond

FIG 1d: US muni bond spreads (bps, inverted) vs. S&P500



Source: Longview Economics, Macrobond

FIG 1e: BRENT candlestick (US$/barrel) shown with key moving averages

Source: Longview Economics, Macrobond

FIG 1f: Japanese USDJPY 30-day tick chart shown with overnight price action

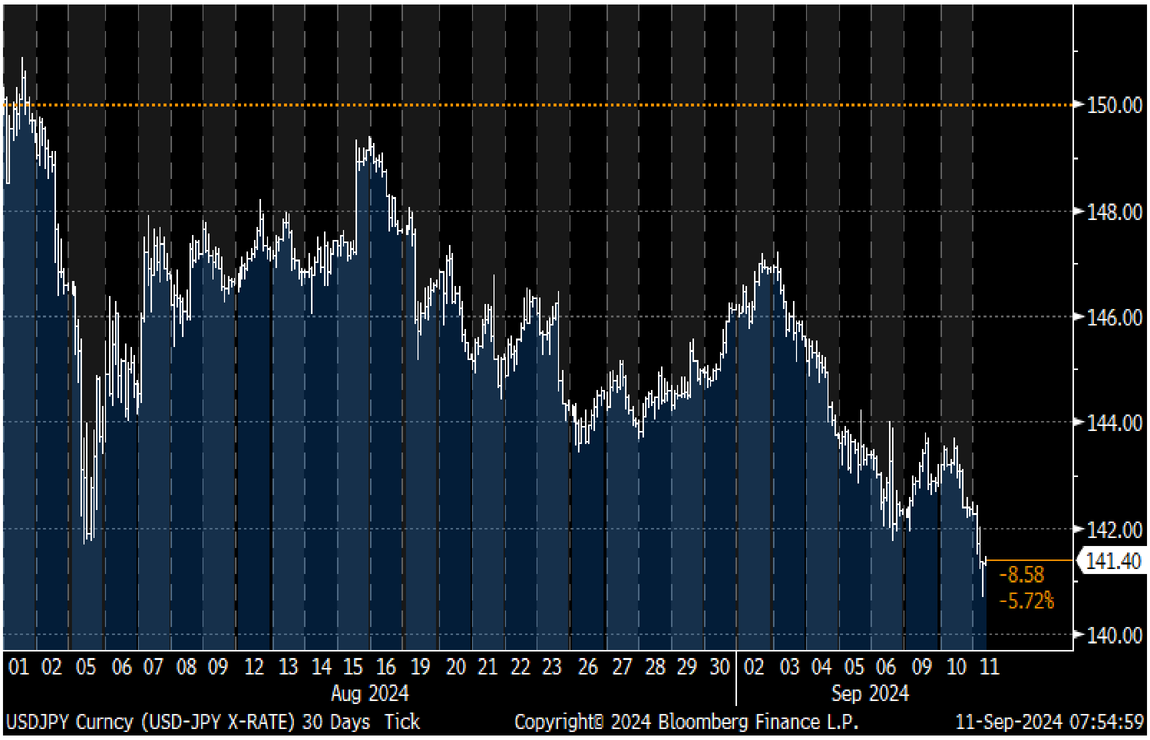
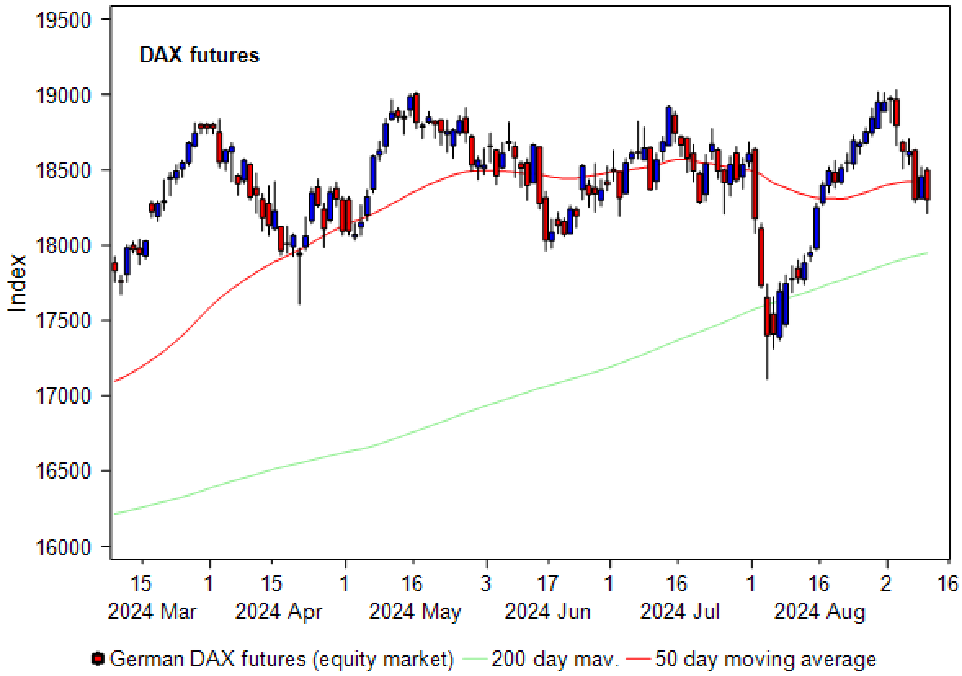


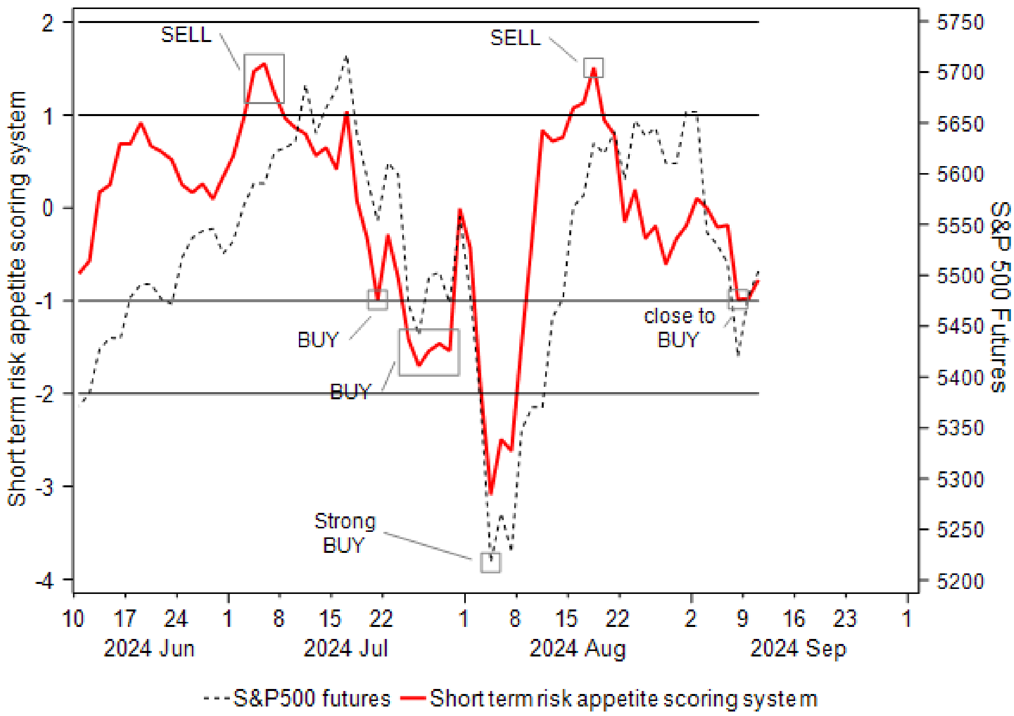
FIG 1g: DAX futures candlestick shown with its 50 & 200 day moving averages



Source: Longview Economics, Macrobond

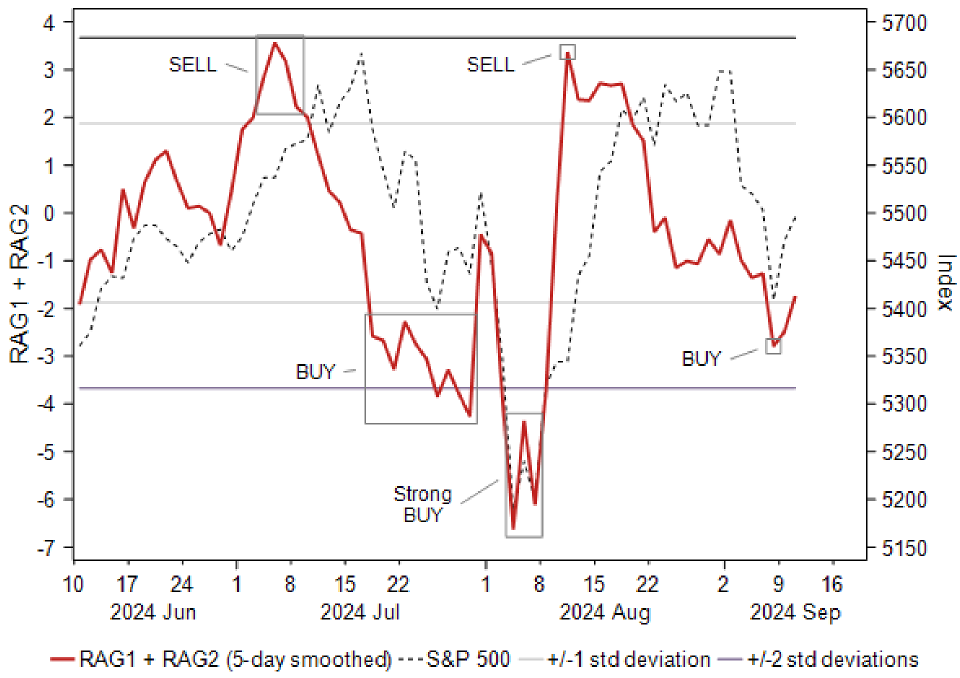
Short term market timing models mostly generating BUY signals....

FIG 2: Longview short term **'risk appetite'** scoring system vs. S&P500



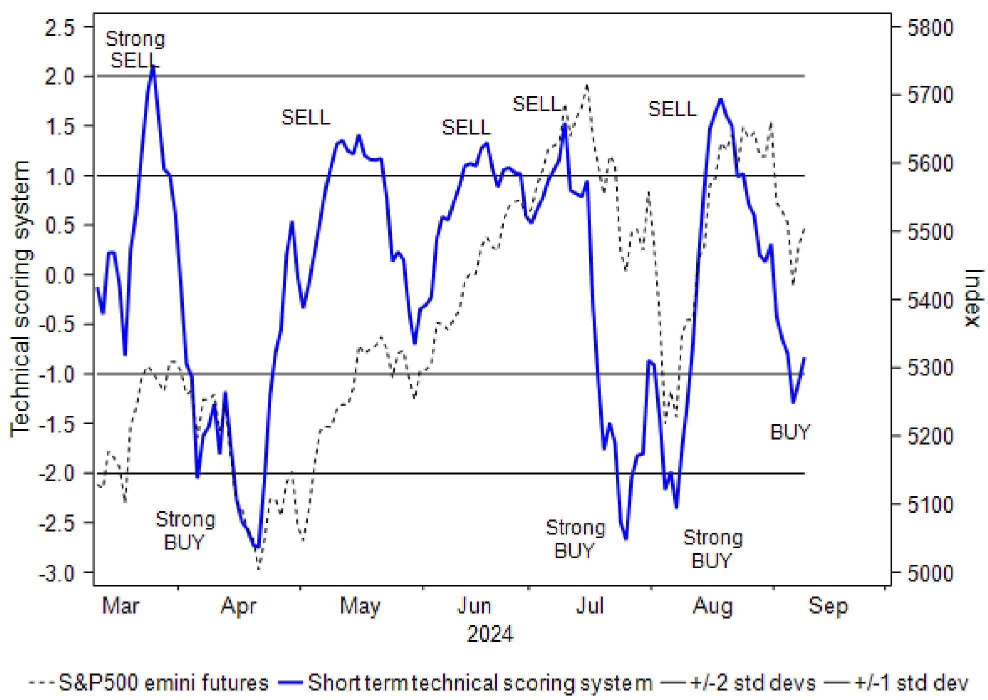
Source: Longview Economics, Macrobond

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



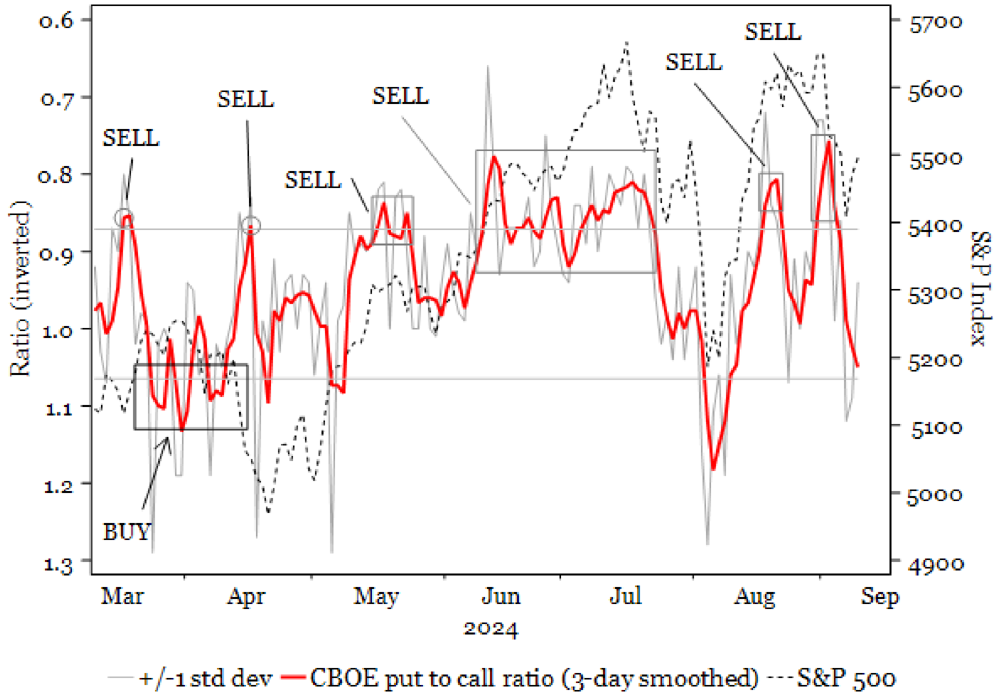
Source: Longview Economics, Macrobond

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



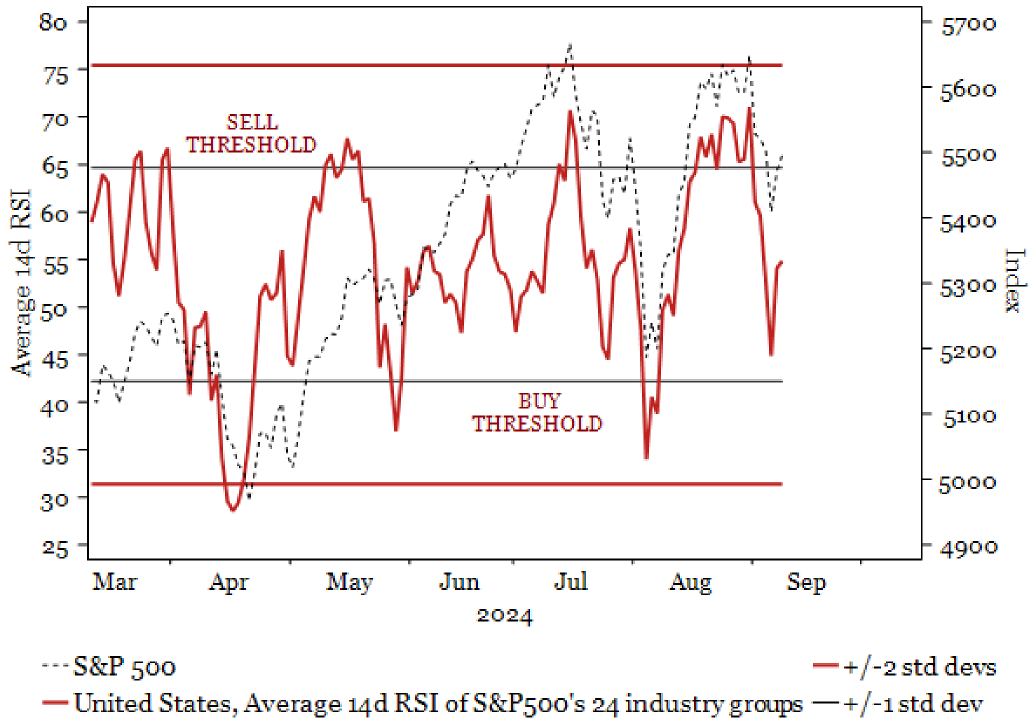
Source: Longview Economics, Macrobond

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



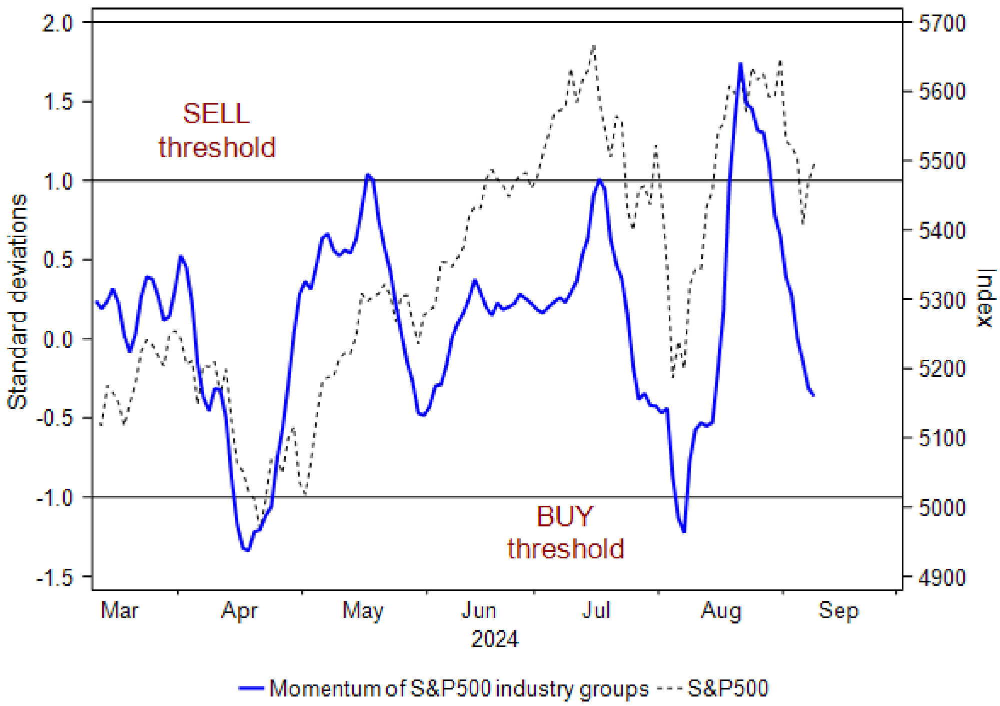
Source: Longview Economics, Macrobond

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



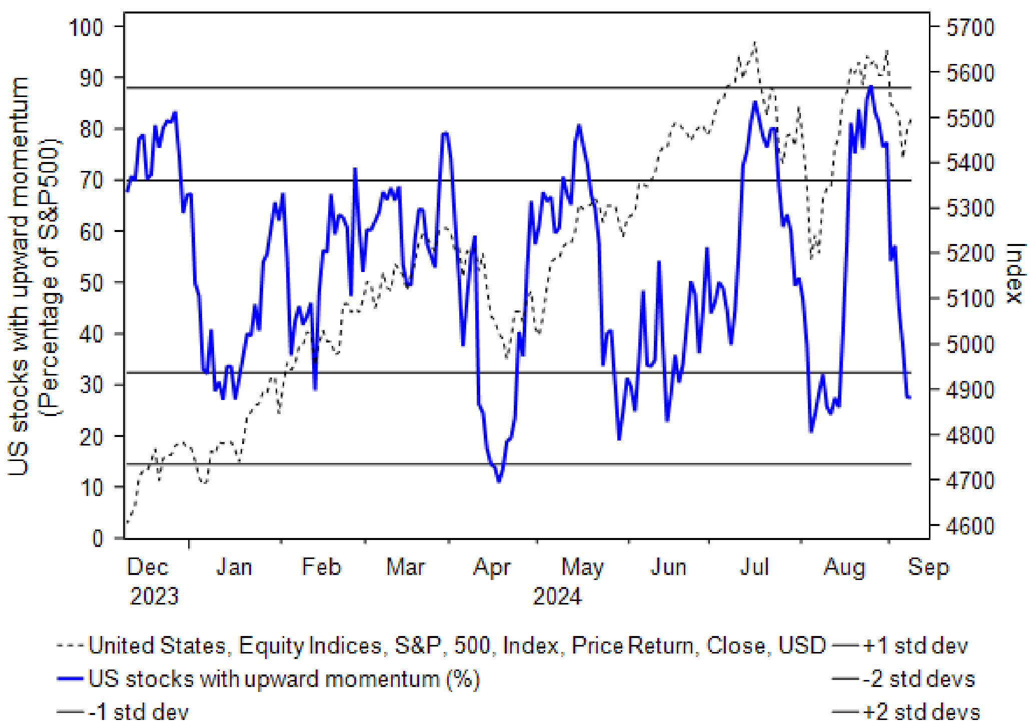
Source: Longview Economics, Macrobond

FIG 2e: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500



Source: Longview Economics, Macrobond

FIG 2f: US S&P500 stocks with upward momentum shown vs. S&P500

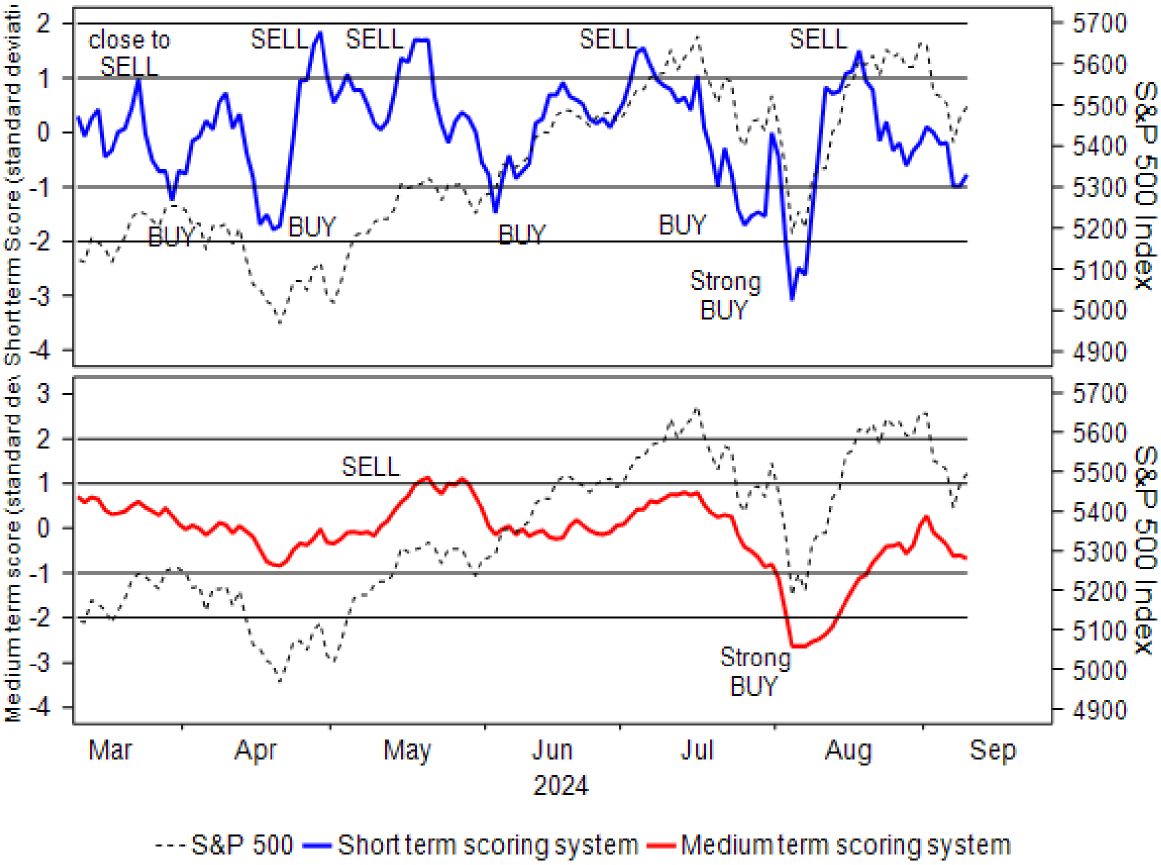


Source: Longview Economics, Macrobond

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

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

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: UK Monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (July, 7am); **Chinese total social financing, new yuan loans, and M0, M1 & M2 money supply** (Aug, 9am); **US headline & core CPI** (Aug, 1:30pm).

Key events today include: Speech by the RBA's Hunter at the Barrenjoey Economic Forum (1:20am); speech by the BOJ's Nakagawa in Akita (2:30am).

Key earnings today include: Inditex.

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.

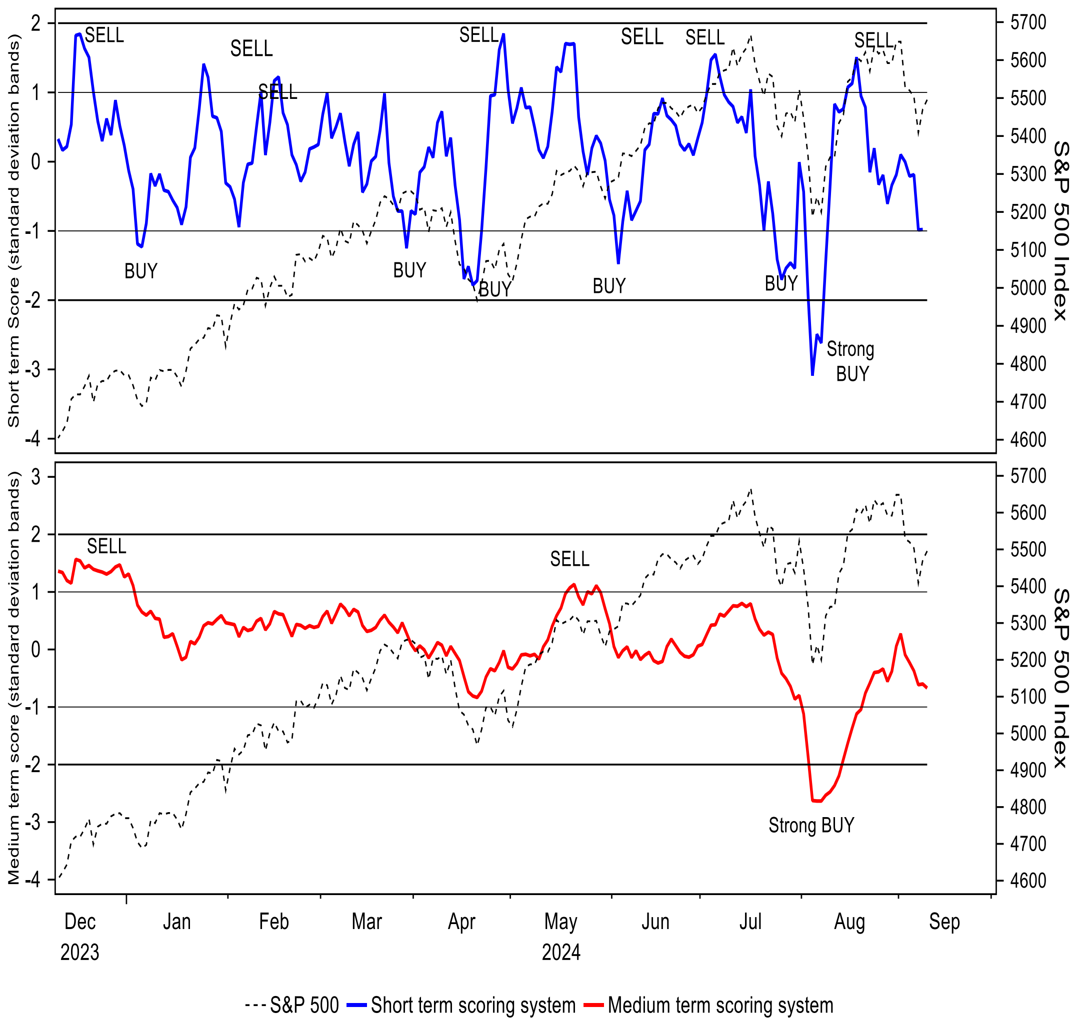
1 – 2 Week View on Risk

11th 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

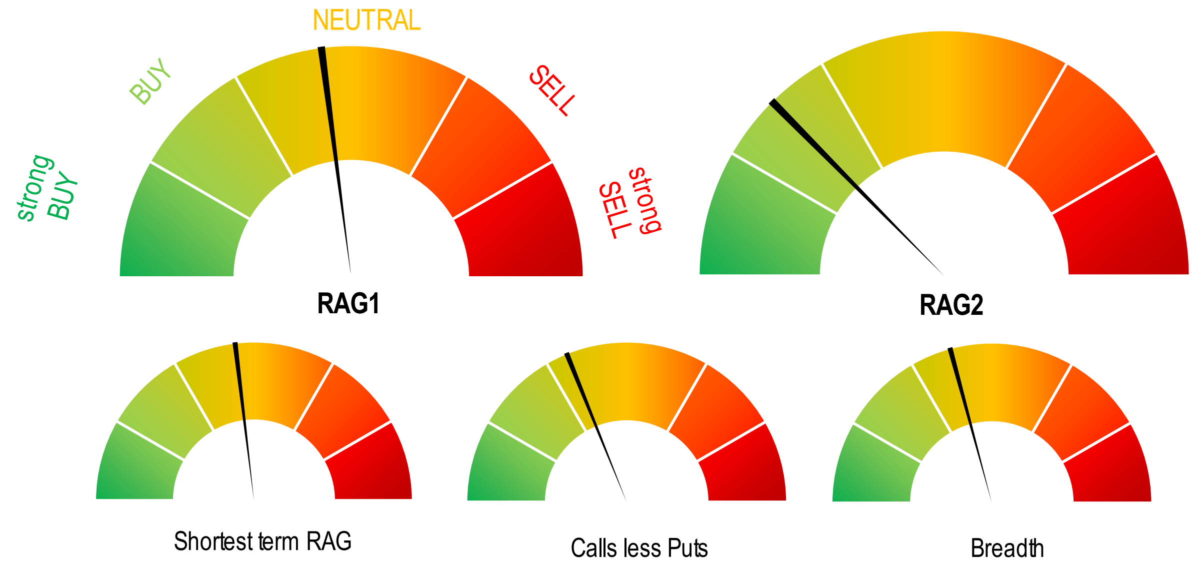
Source: Longview Economics, Macrobond

*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

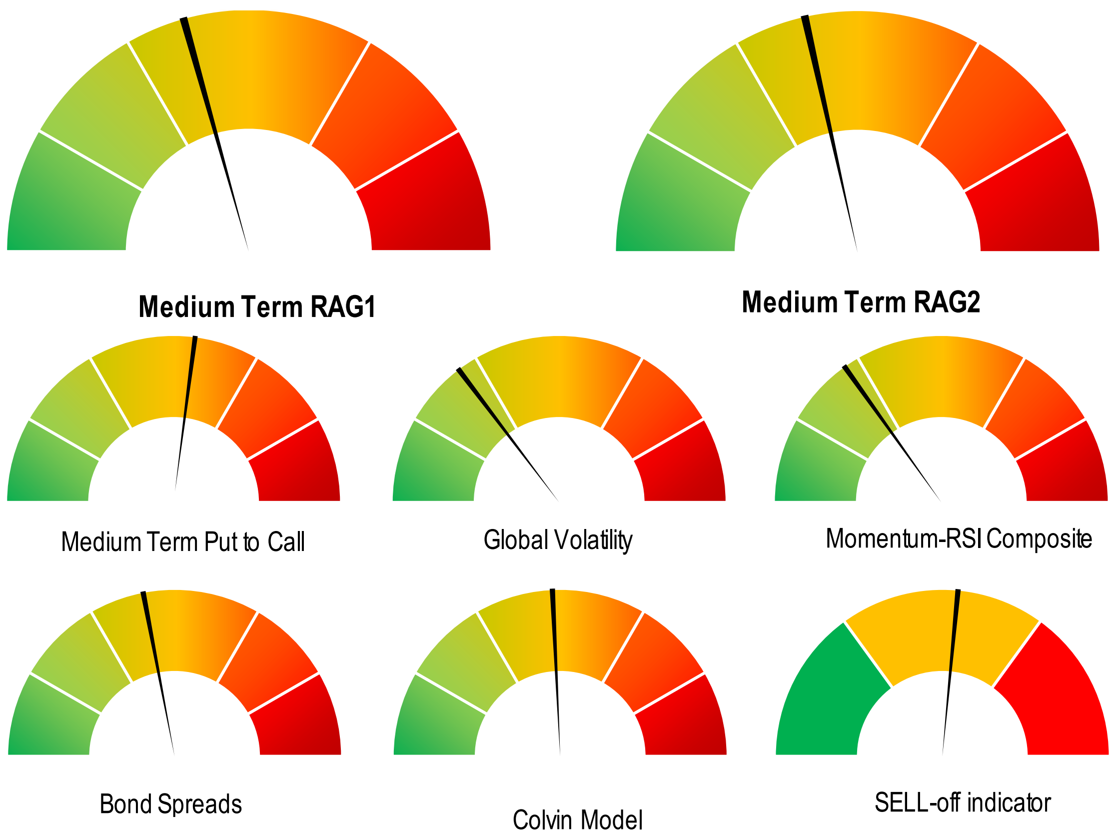
Section 1a: Summary of indicator signals**

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

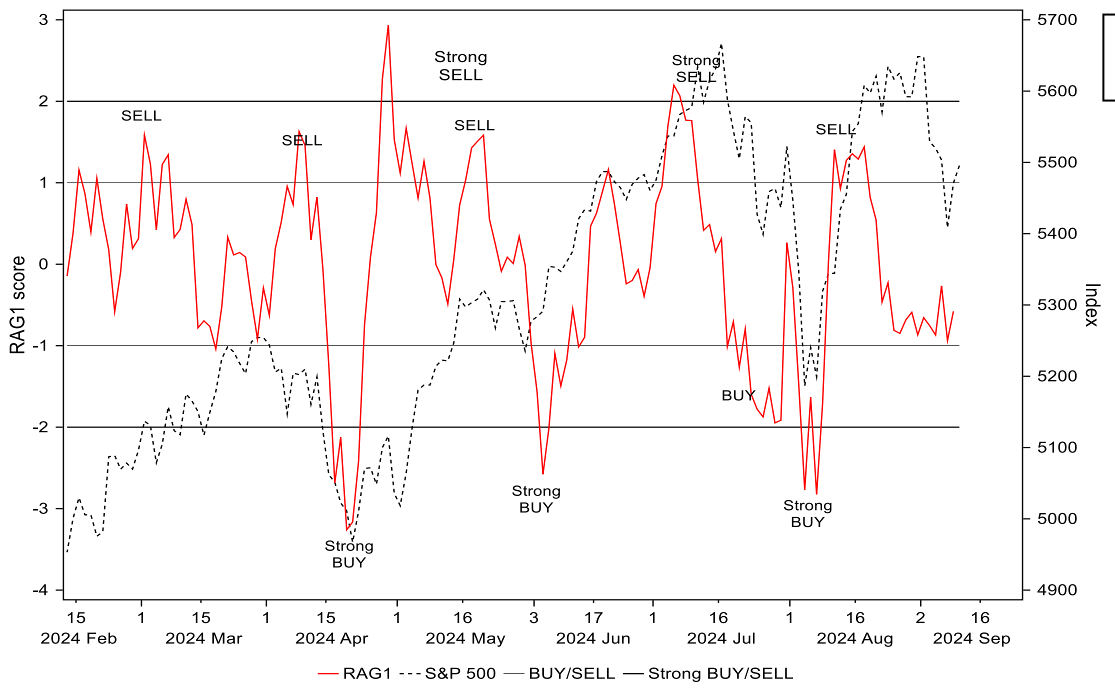


Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

LVRAG
Daily Risk Appetite Gauge

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

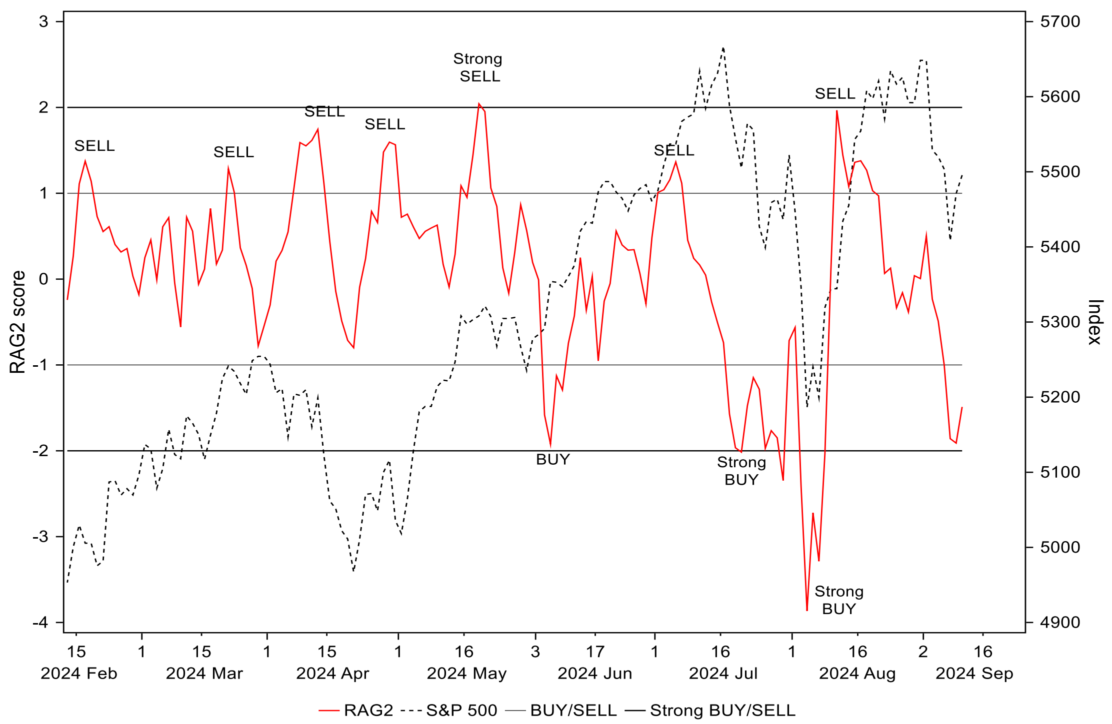
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

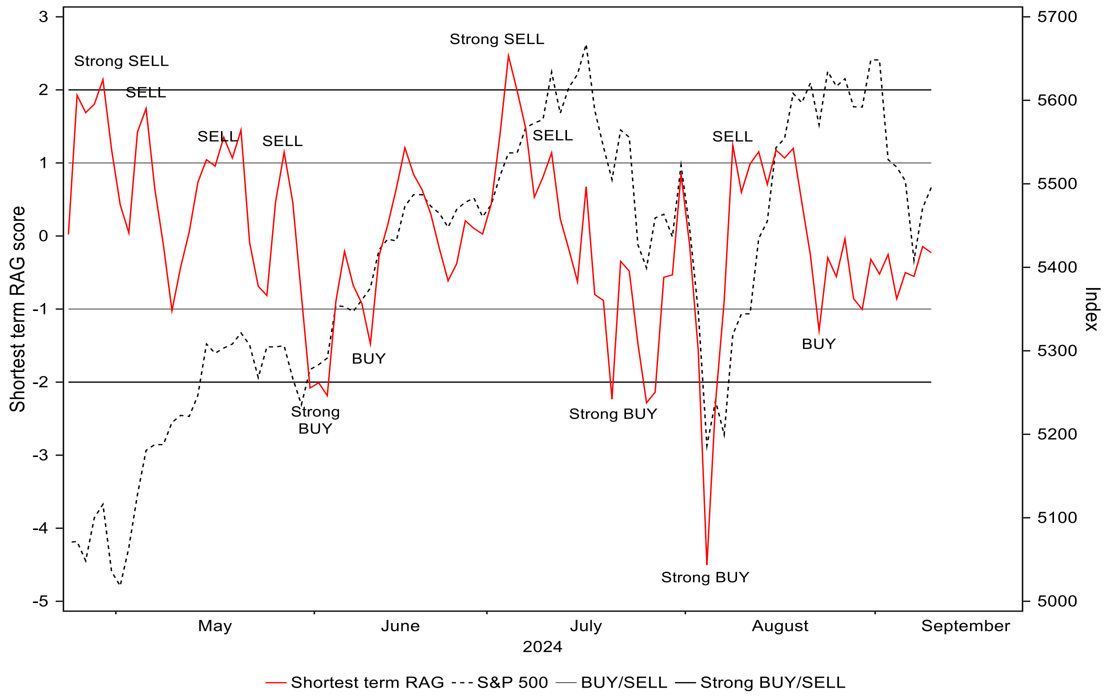


RAG2 is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

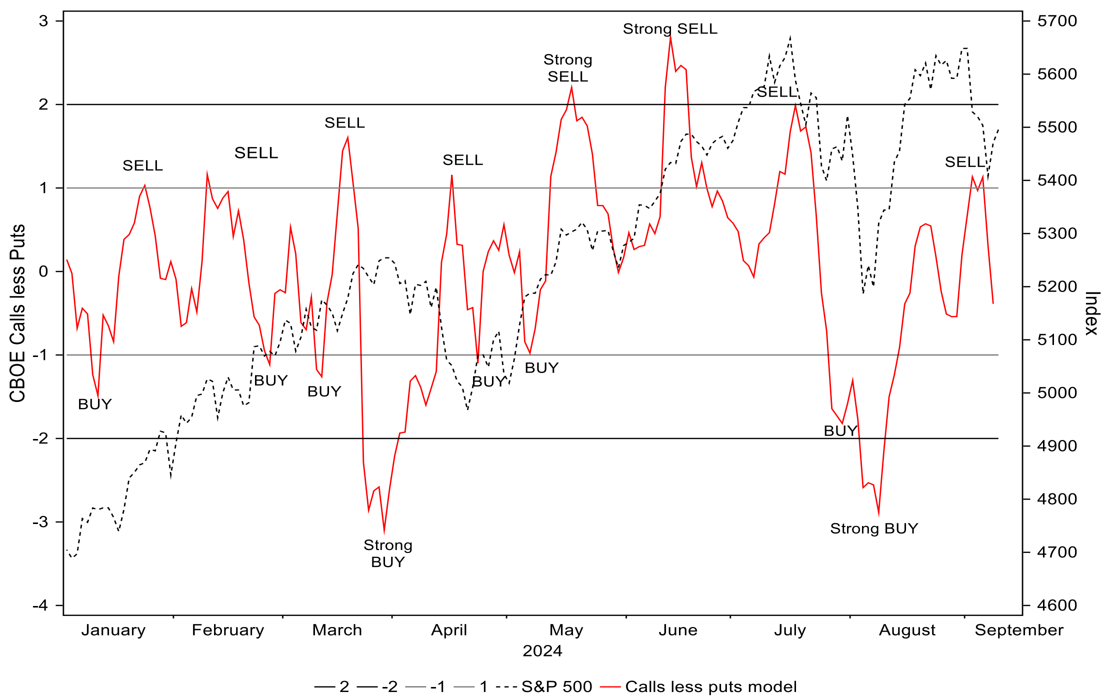
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

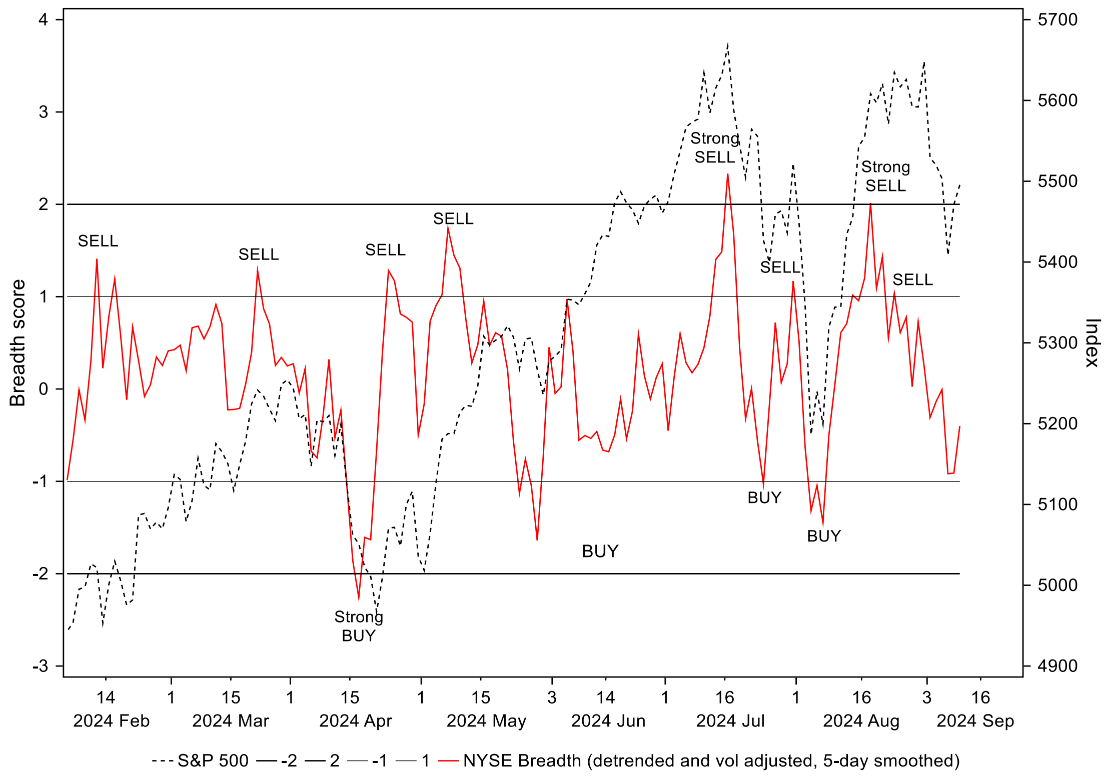


Calls less puts model is NEUTRAL

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



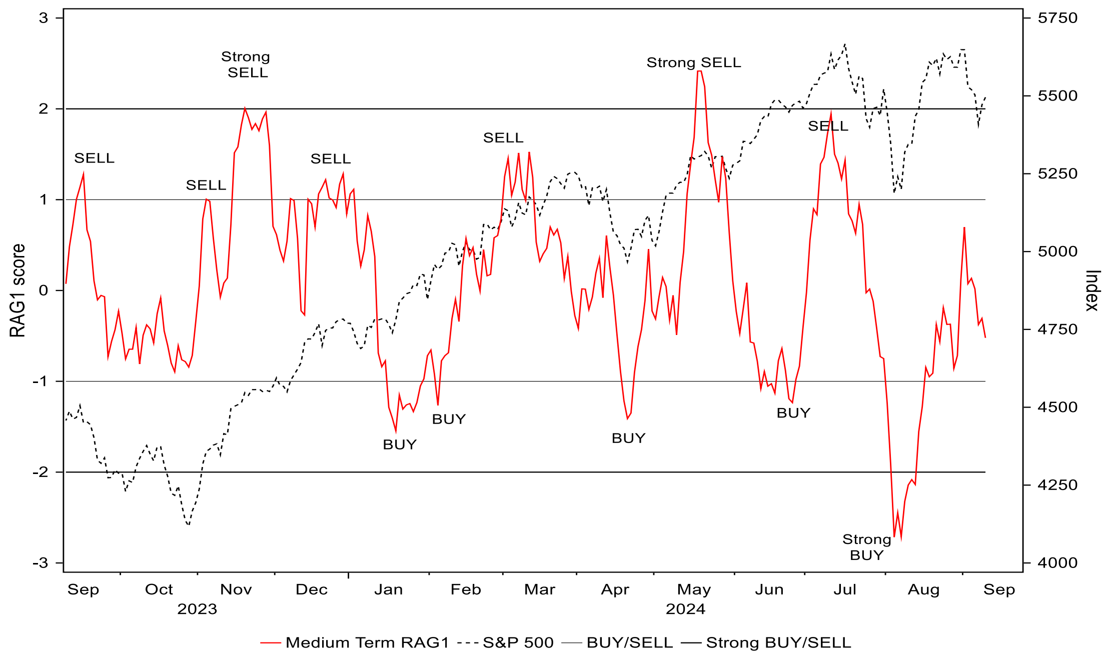
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

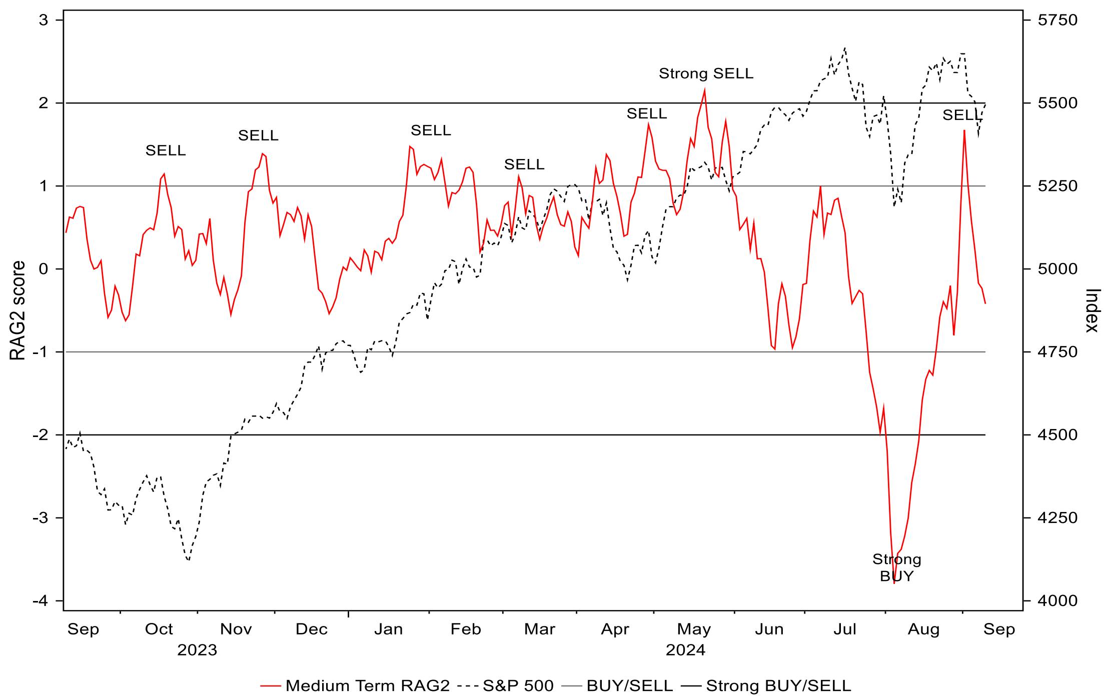
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

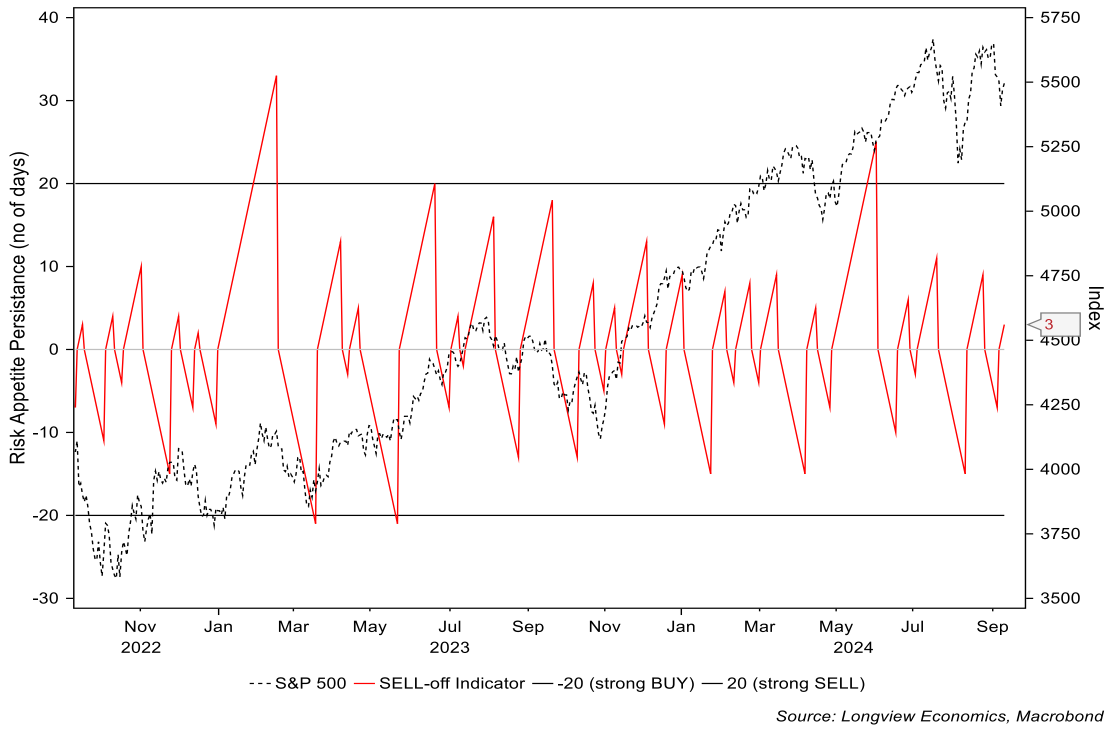


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

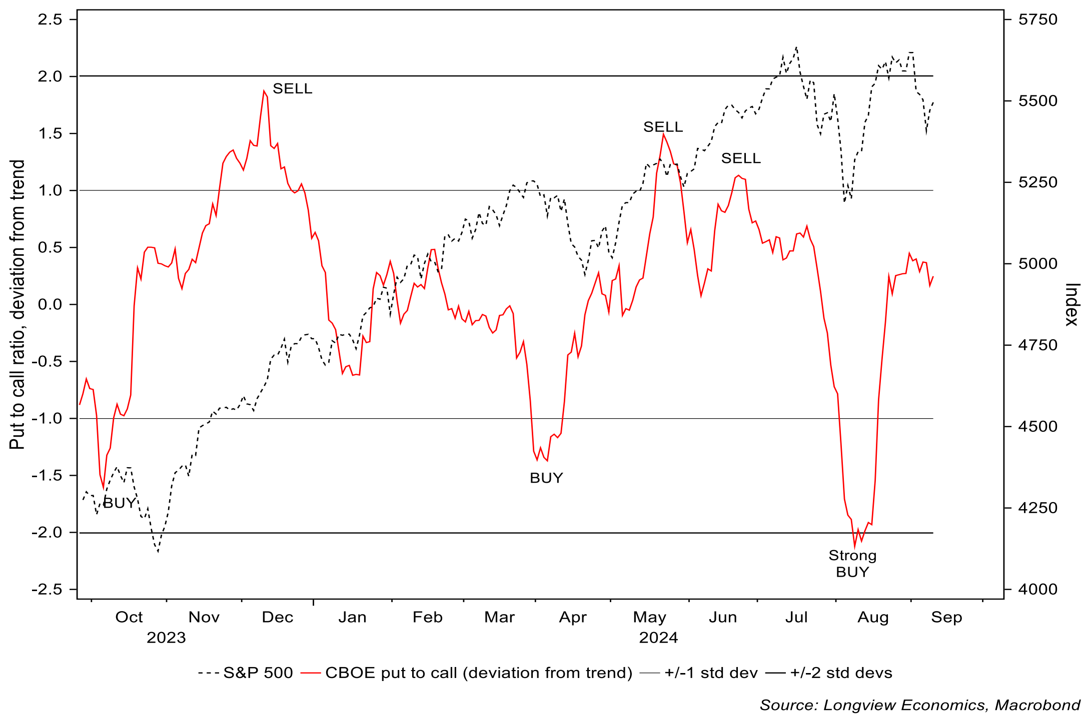
For explanations of indicators please see page 10

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



The SELL-off indicator is NEUTRAL

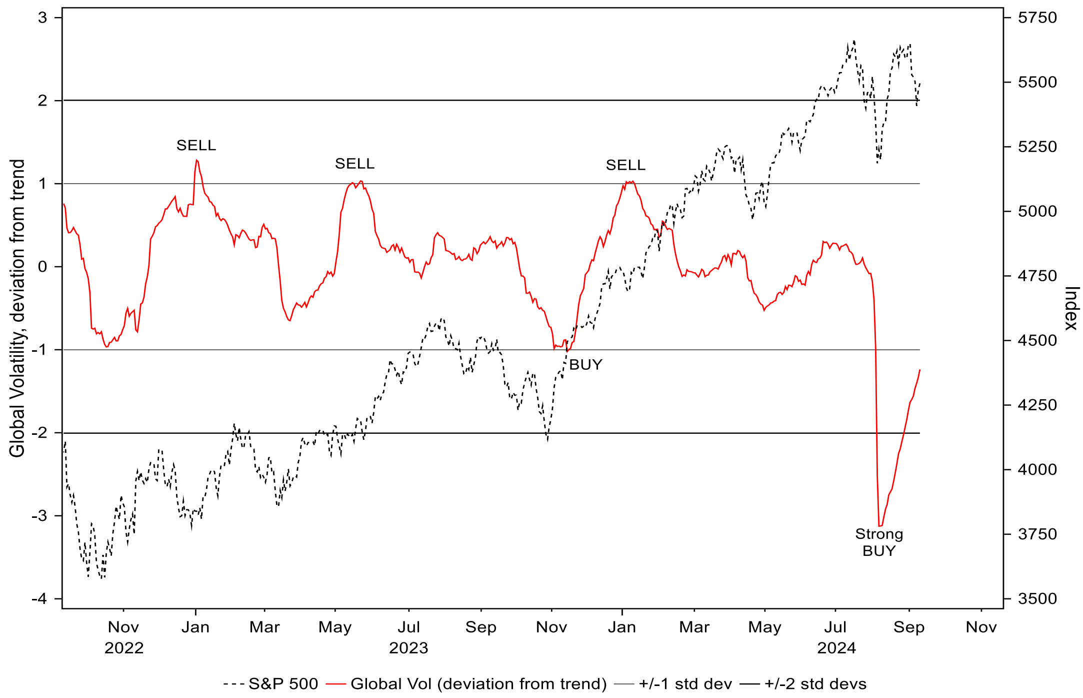
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

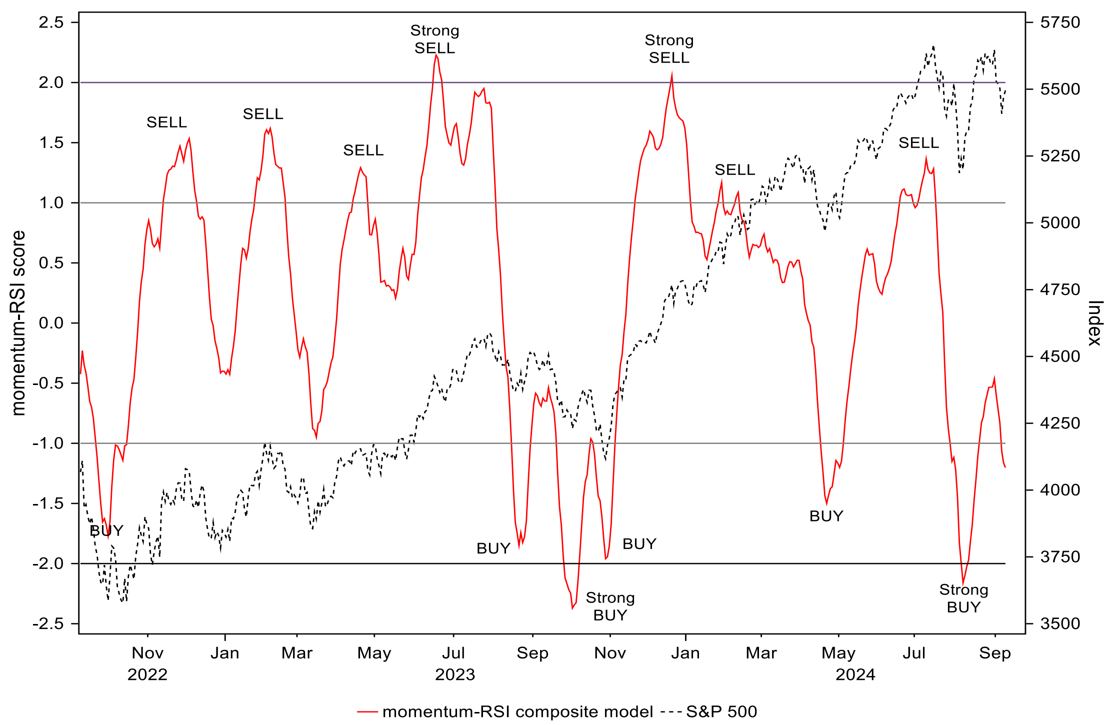
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on BUY

Source: Longview Economics, Macrobond

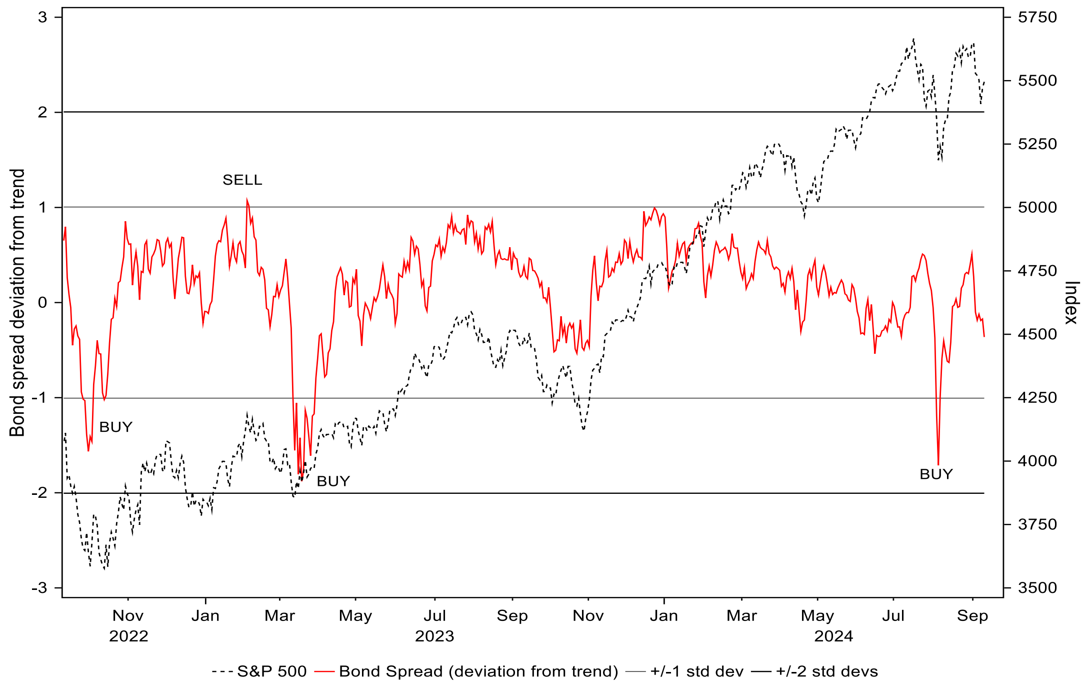
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is on BUY

Source: Longview Economics, Macrobond

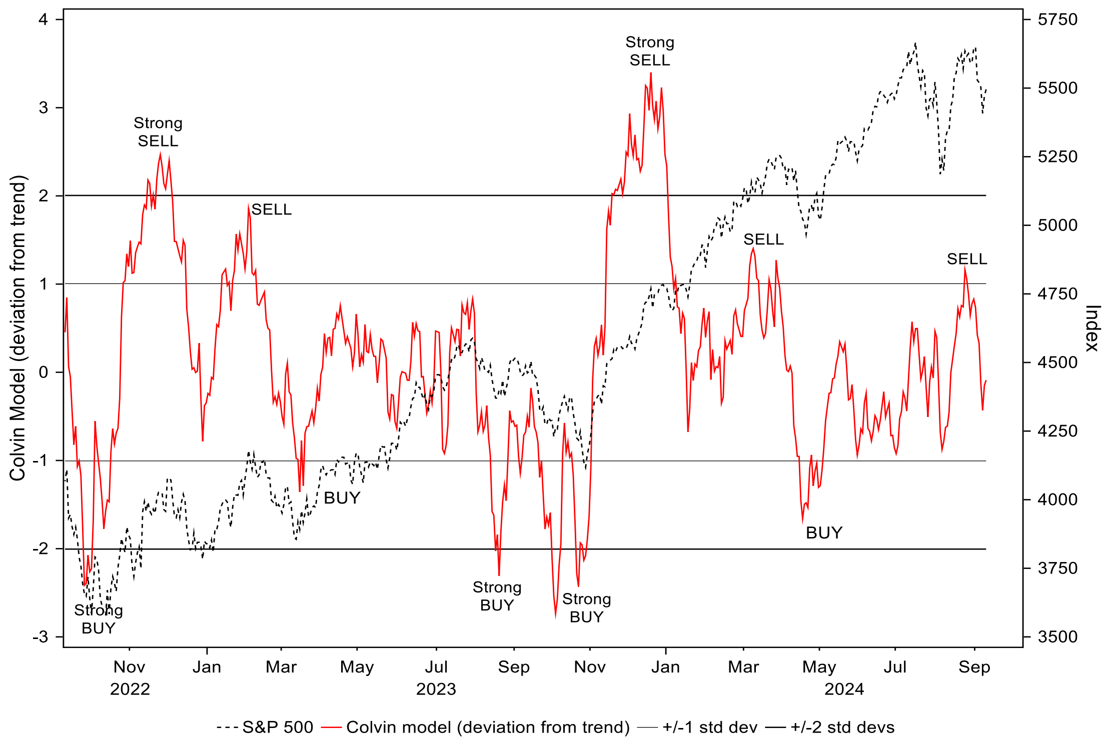
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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