

Equity Index Futures Trading Recommendations

12th November 2024

"Stay LONG US equities (for now)"

Email: info@longvieweconomics.com

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

- Stay 1/4 LONG **S&P400** December futures (original entry was at 3,294.0 last Wednesday).
- Retain unchanged stop loss at 3,265, NB code is FAZ4.
- Stay 1/4 LONG **S&P500** December futures (entry was at 6,005.50 last Friday).
- Retain unchanged stop loss at 5,925.0.

Rationale

US equities mostly closed higher yesterday, led by **cyclically sensitive parts of the market**. That is, of the 28 indices we track, the best performing ones were the S&P600 small caps (+1.5%); Nasdaq Transports (+1.9%); Nasdaq Banks (+2.8%); and NASDAQ Financials (+3.0%). Growth and tech heavy parts of the market, in contrast, performed poorly. The NASDAQ Computer index, for example, was lower by 0.8%, while the Philly SOX closed down 2.5%. Elsewhere the S&P500 was broadly unchanged (+0.1%), i.e. reflecting its broad sector mix, while the S&P400 mid-caps closed higher (+0.9%).

Of note, the performance of small & mid cap indices has been similar to tech/semiconductor stocks in recent months. Following last week's election, though, those parts of the market have diverged (e.g. see FIG 1). Momentum, therefore, has switched away from tech/growth stocks (towards cyclicals), i.e. as markets price in a new 'business friendly' agenda (which includes fiscal stimulus, low corporate tax rates, deregulation, and so on), i.e. which should stimulate 'cyclical earnings' in the US economy. In that sense, and as highlighted yesterday, US equities are likely in the midst of a **regime switch***, in which upward momentum in those key parts of the market persists for some time.

In those environments, our short term models move back to their SELL thresholds, but their **signals are early/false** (as they were, for example, when Trump was elected in 2016, see FIG 2a). Currently, in that respect, most of our short term models have moved back to SELL, having been on BUY last week. That includes our risk appetite and put to call models (see FIGs 2, 2b, & 2c), as well as various technical & volatility indicators (FIGs 3 – 3c).

Medium term models, in contrast, remain mixed and therefore support the case for further gains in US equities (i.e. an ongoing uptrend). Our medium term risk appetite model, for example, is mid-range (FIG 1c), the volatility futures curve is only just positively sloped (and not yet on SELL – FIG 1d), while other medium term models are also neutral (see our latest tactical equity asset allocation publication for detail).

For now, therefore, the **risk reward favours staying LONG** US equities (see above for detailed recommendation).

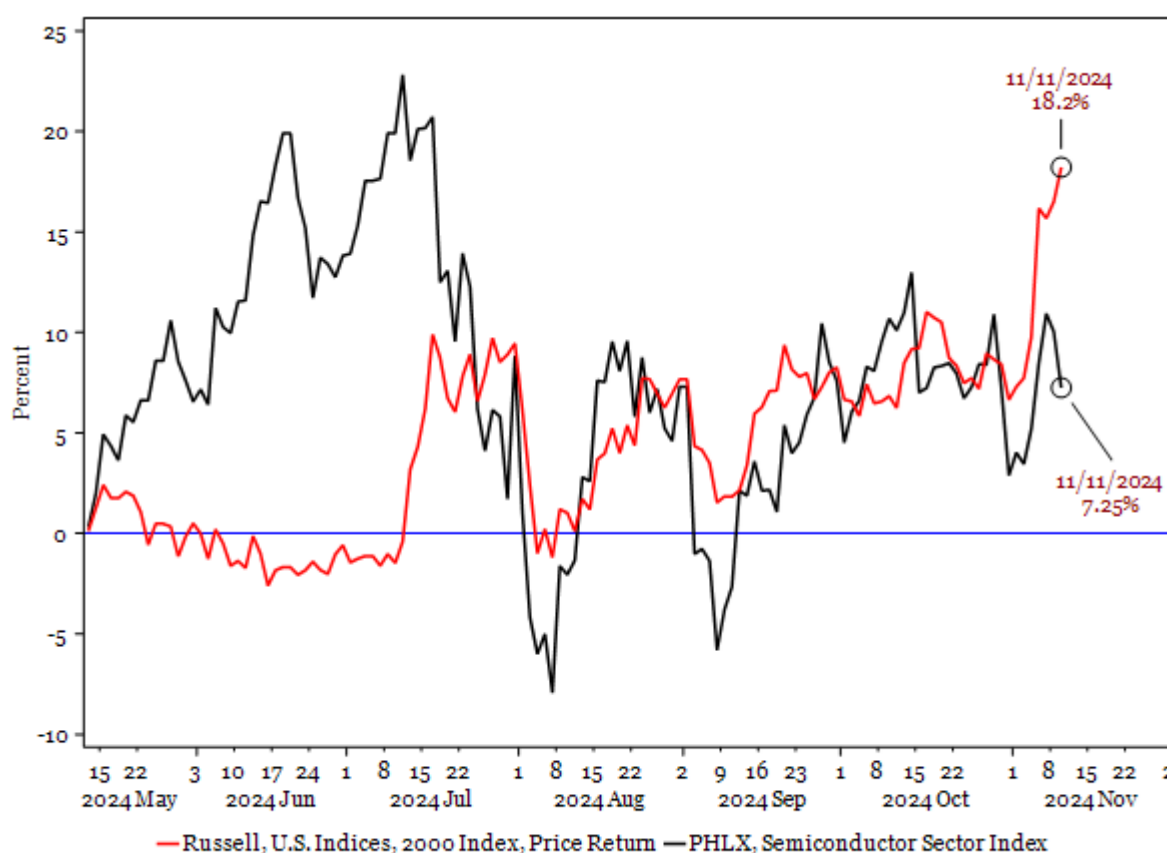
Risks, as always, are multiple, and include the possibility that we have misjudged the market regime (and the current message of the short term models is correct/timely). Please see below for a full list of today's key macro data and earnings.

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: Russell 2000 vs. Philly SOX (% price return, last 6 months)



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

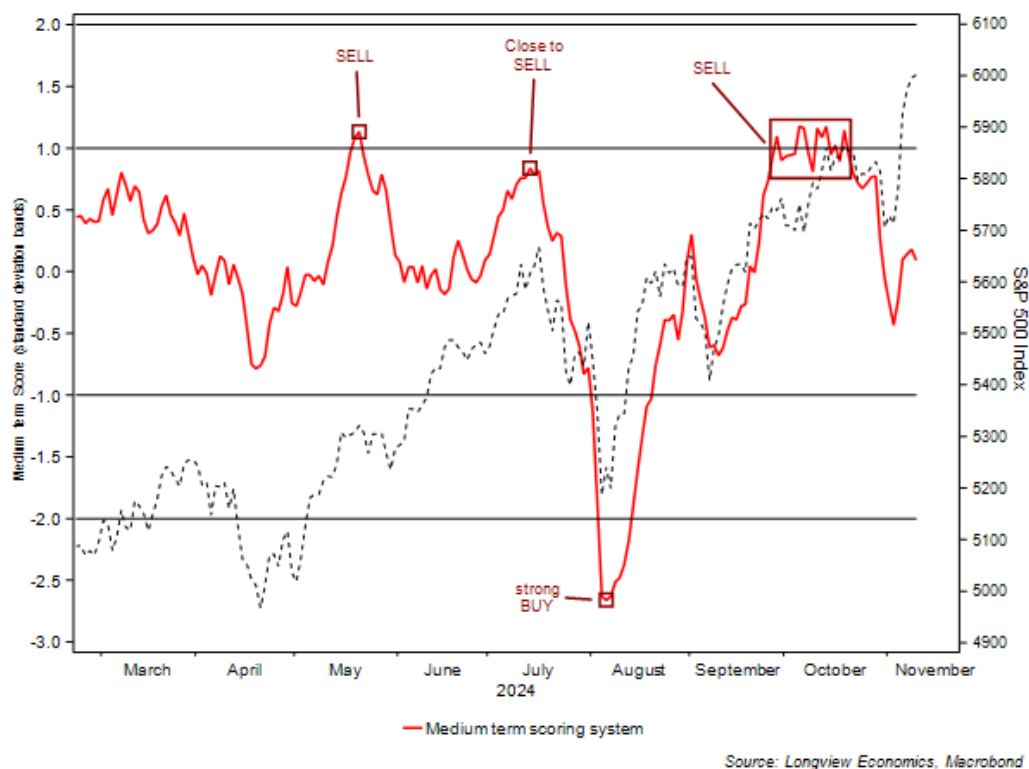


FIG 1d: Steepness of VIX curve (6 less 1 month futures) vs. S&P500

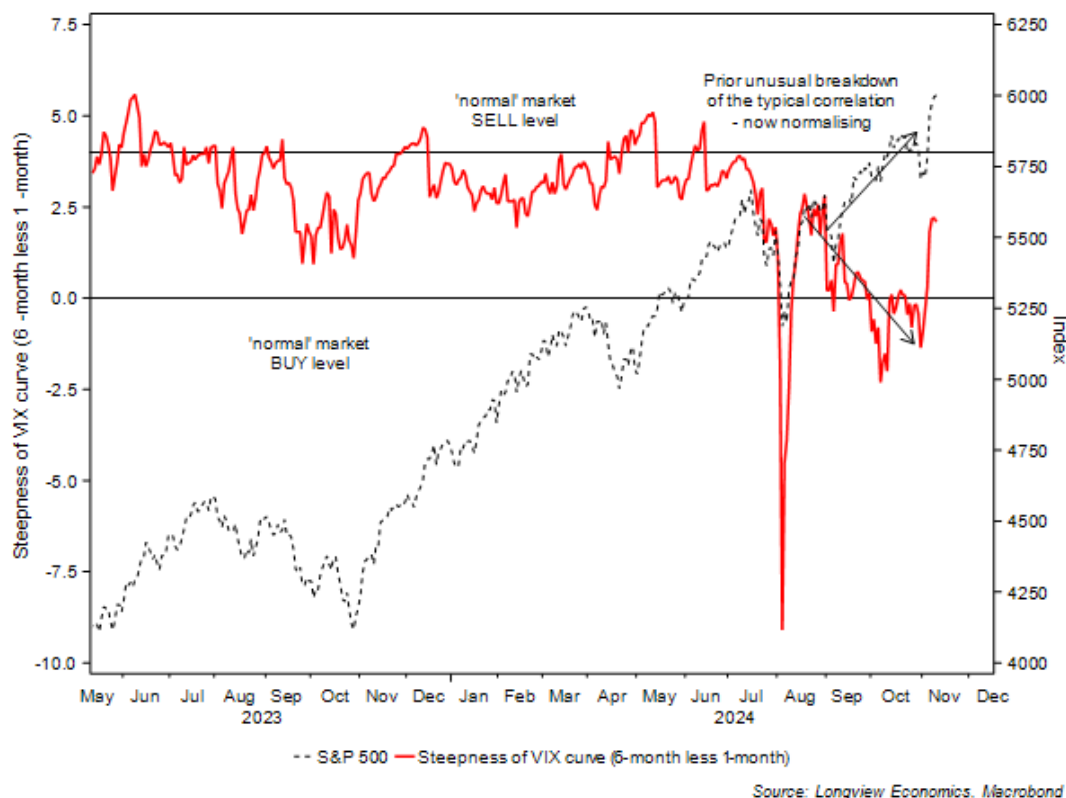
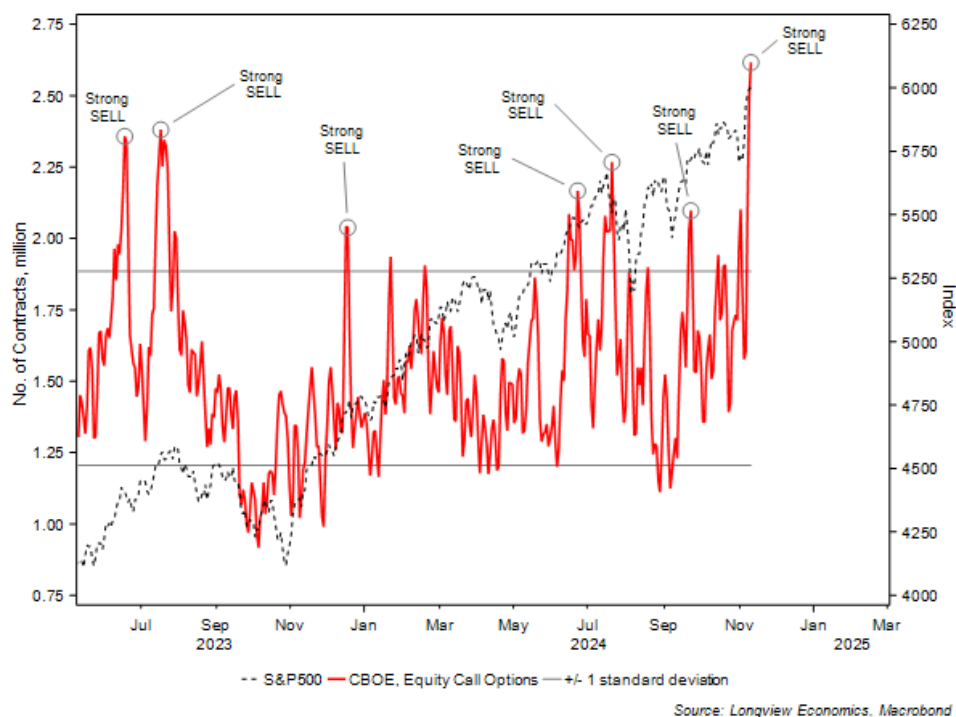


FIG 1e: Volume of outstanding CBOE ‘single stock’ call options (3 day smoothed) vs. S&P500



Short-term risk appetite models are on SELL...

FIG 2: Longview short term ‘risk appetite’ scoring system vs. S&P500

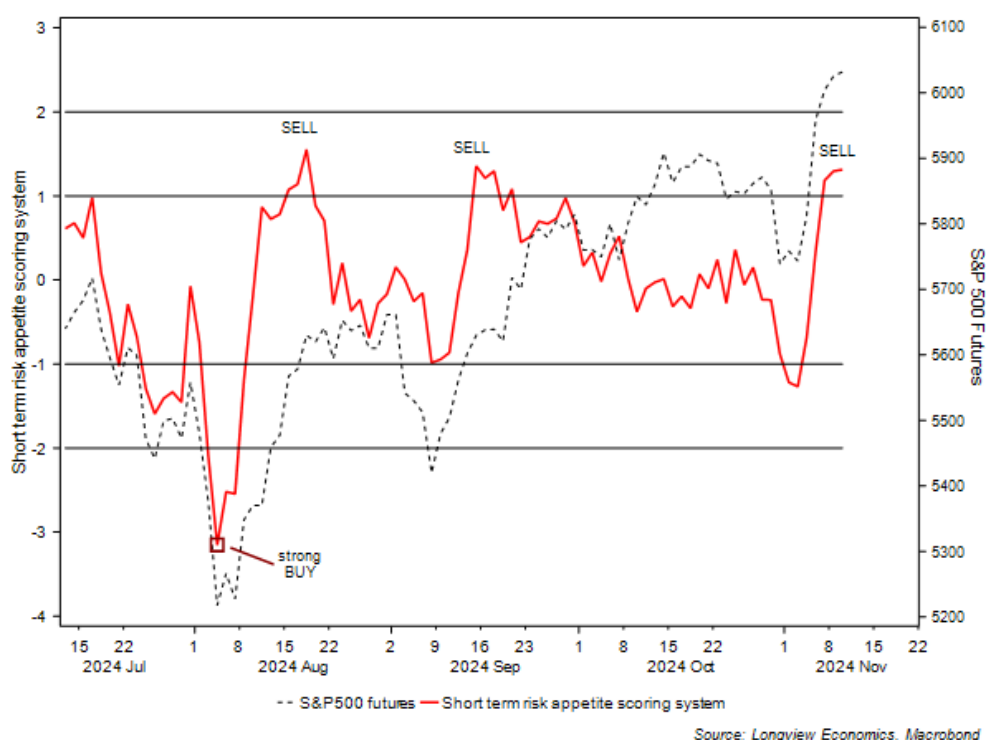
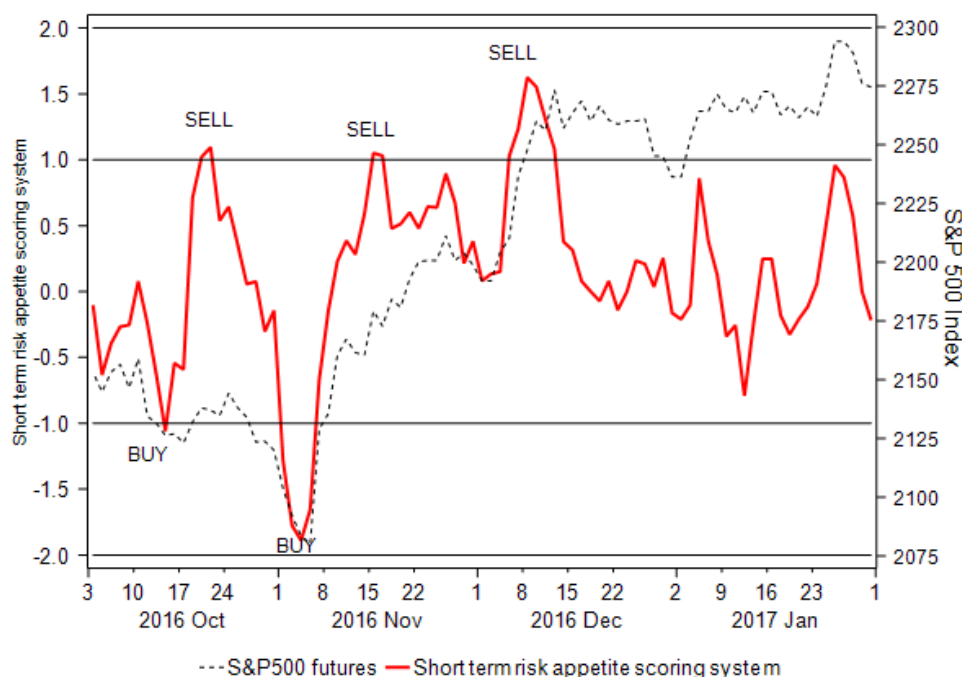
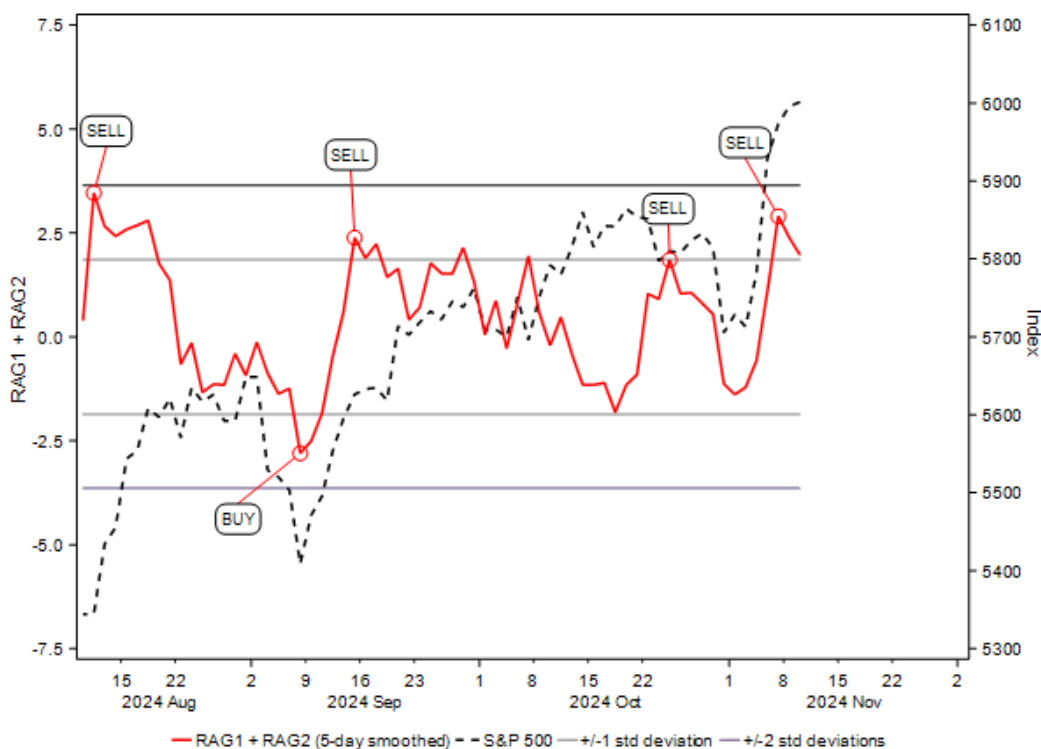


FIG 2a: Longview short term **'risk appetite'** scoring system vs. S&P500 ->
During 2016 Trump Election



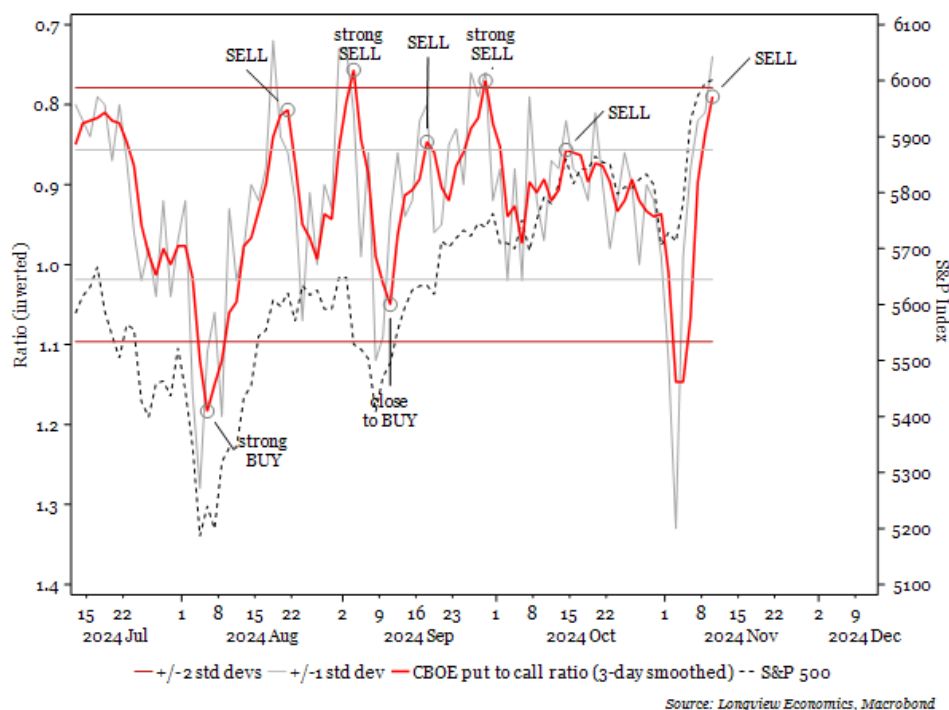
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



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

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

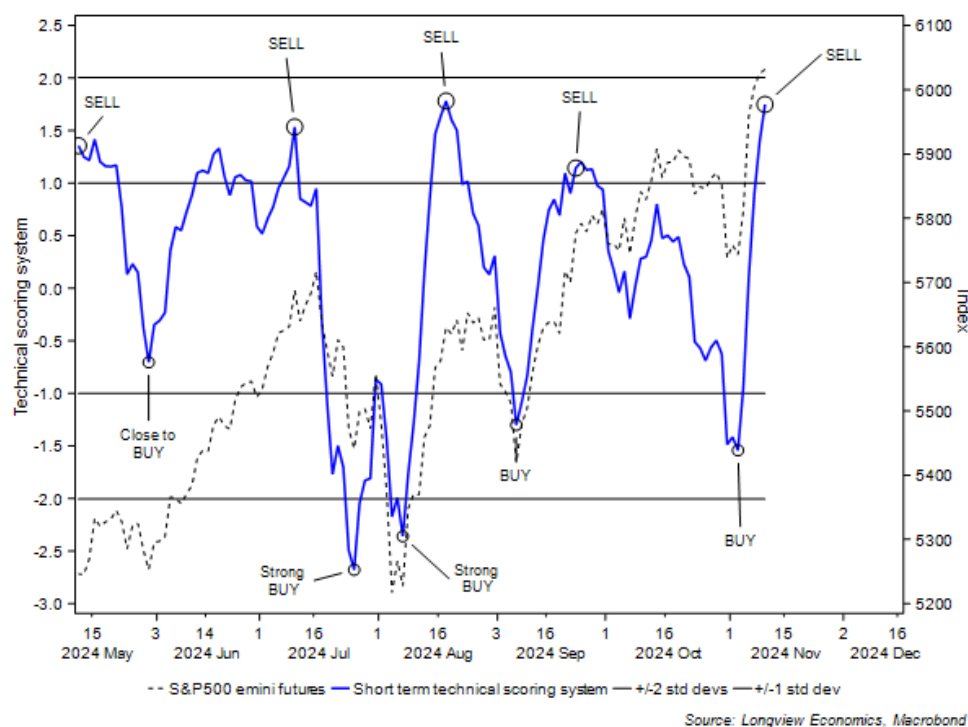


FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

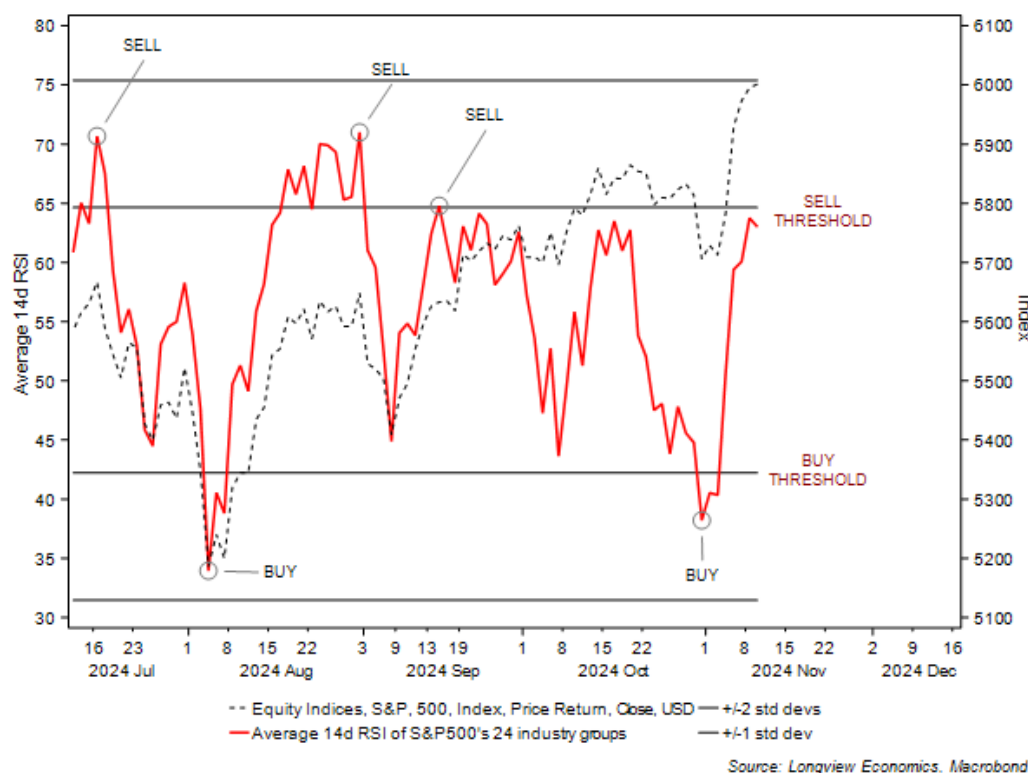


FIG 3b: Proportion of US stocks above their 10 day moving average vs. S&P500

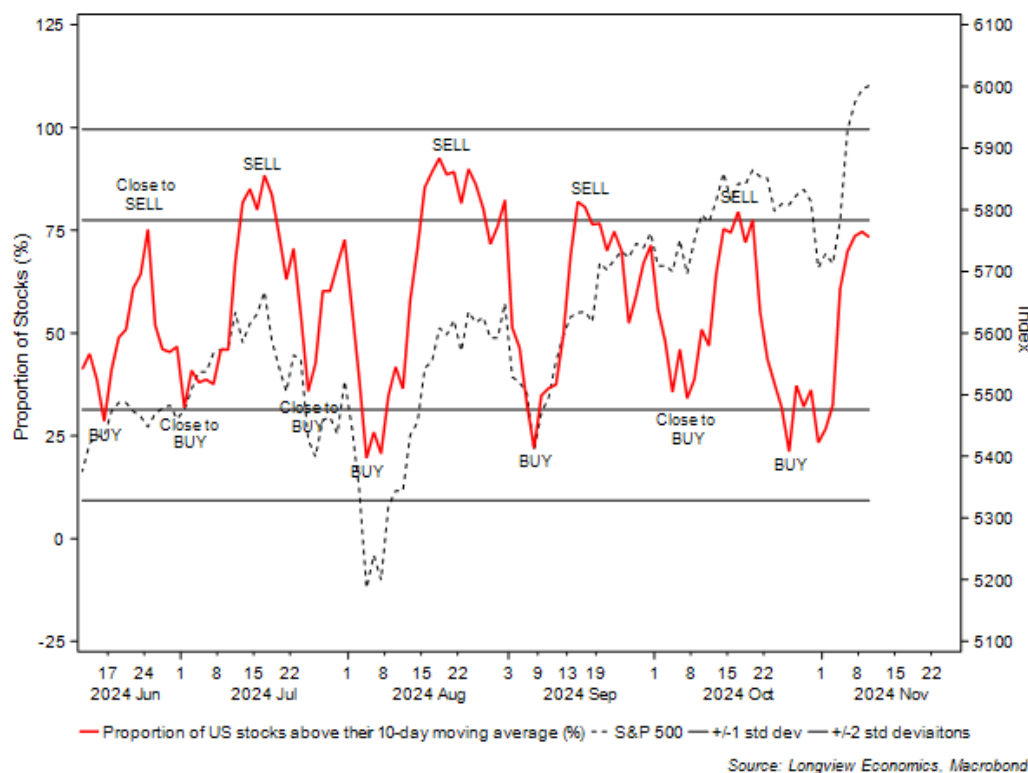
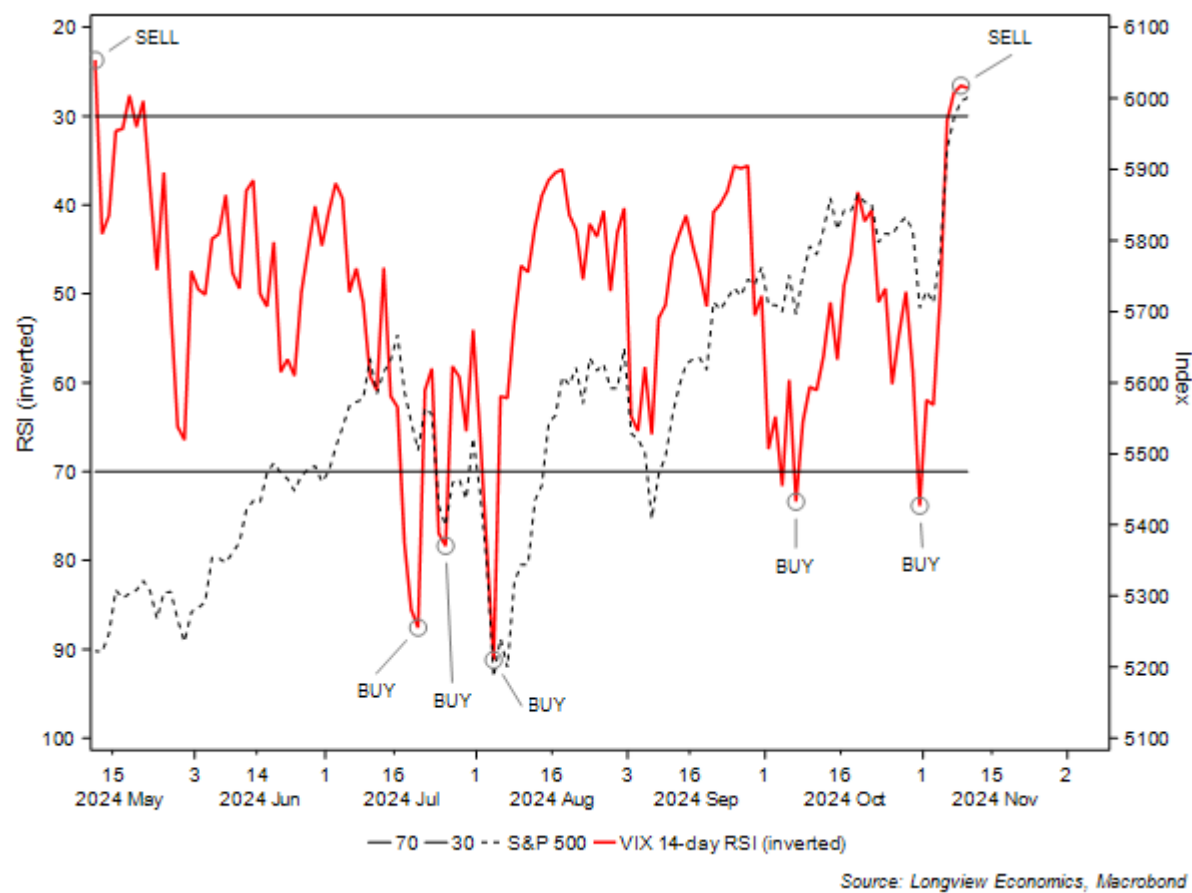


FIG 3c: Short term (14 day) VIX RSI (NB scale INVERTED) vs. S&P500

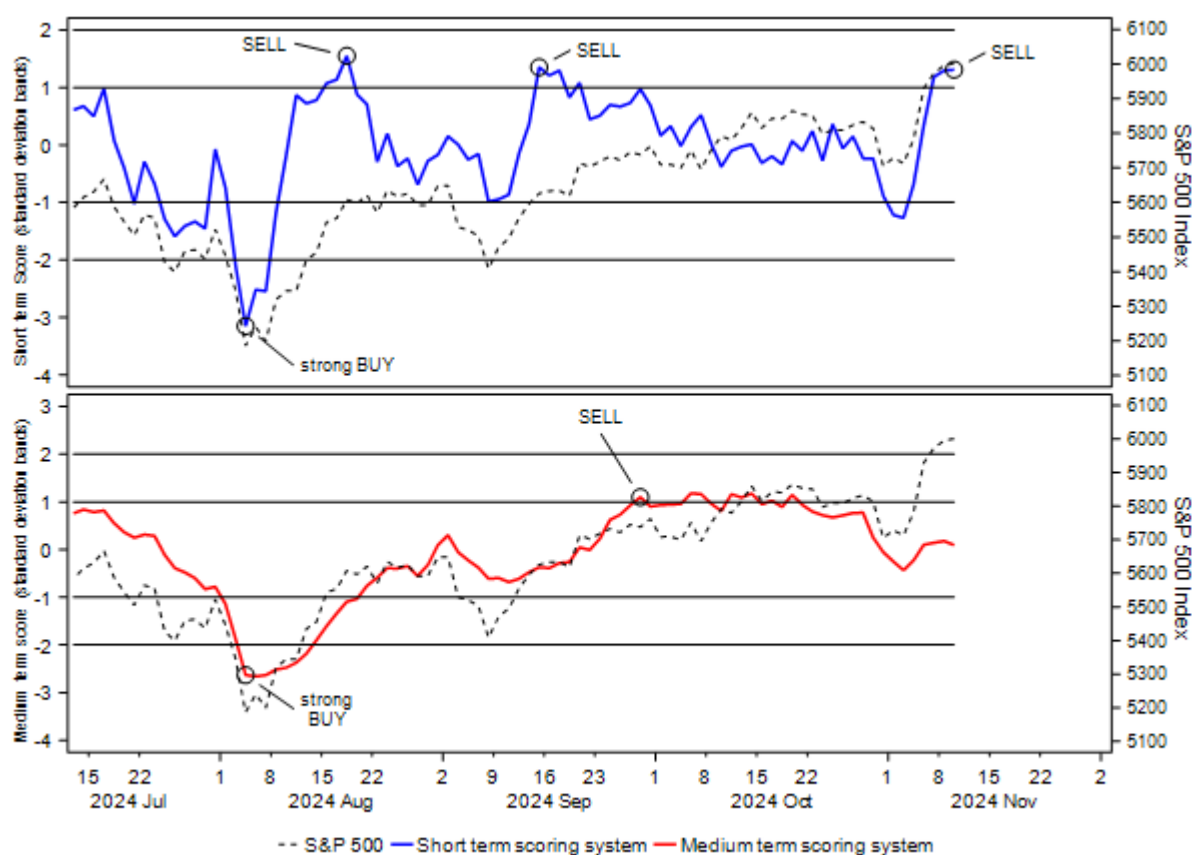


Key Longview Scoring Systems (chart below):

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

Key macro data/events

Key data today include: Australian NAB business confidence (Oct, 12:30am); **Japanese machine tool orders** (October first estimate, 6am); **UK Employment, jobless claims & average weekly earnings** (Sept/Oct, 7am); German headline CPI (October final estimate, 7am); **German & Eurozone ZEW survey** – expectations & current situation (Nov, 10am); **US NFIB small business optimism** (Oct, 11am); Canadian building permits (Sept, 1:30pm); US New York Fed 1 year inflation expectations (Oct, 4pm); **US Senior Loan Officer Opinions survey** (7pm); Japanese PPI (Oct, 11:50pm).

Key events today include: Speeches by the ECB's Rehn at UBS European Conference 2024 (8am), Centeno at a conference about Portugal's economic development (9am) & Cipollone on financial sanctions at Global Research Forum (2pm); speeches by the Fed's Waller at Banking conference (3pm), Barkin in Baltimore (3:15pm), Harker on fintech and AI (10pm) & Barkin at Salisbury-Wicomico Economic Development (10:30pm).

Key earnings today include: **Home Depot**, Occidental, **AstraZeneca**, **SoftBank Group Corp**, Tokyo Electron, Commonwealth Bank of Australia.

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

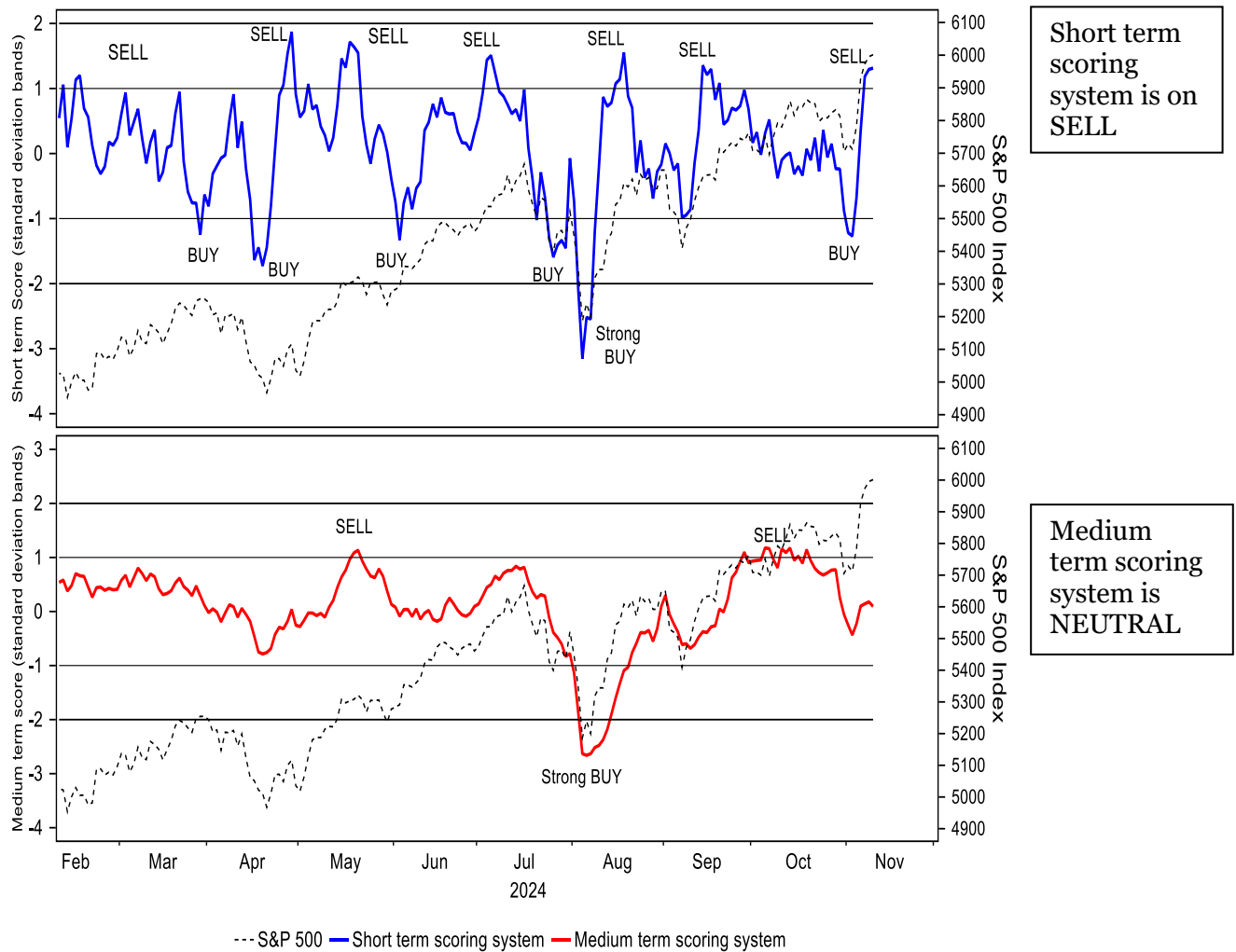
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12th November 2024

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

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



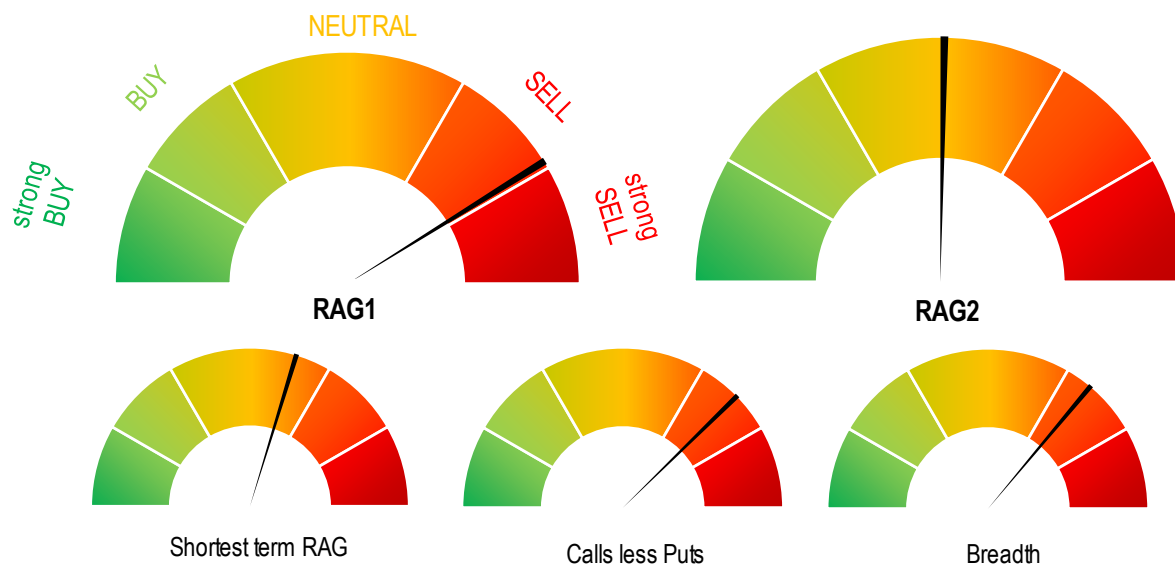
Source: Longview Economics, Macrobond

*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**

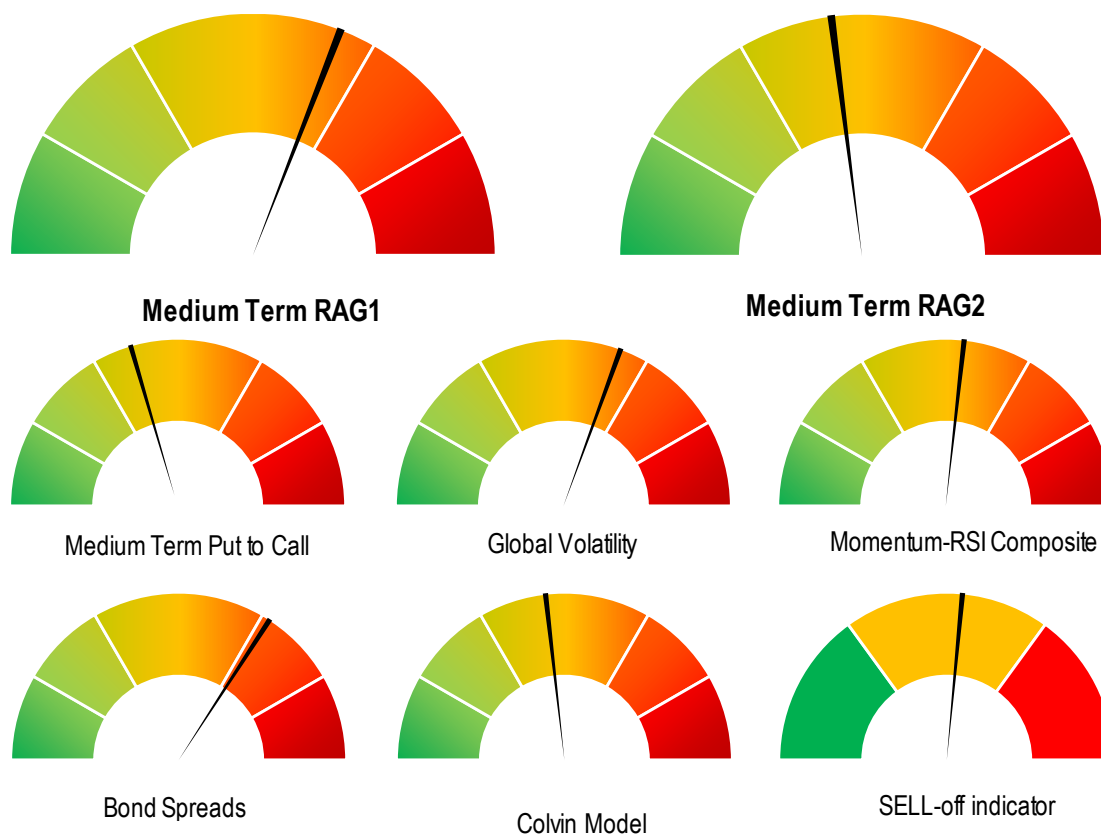
Section 1a: Summary of indicator signals**

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

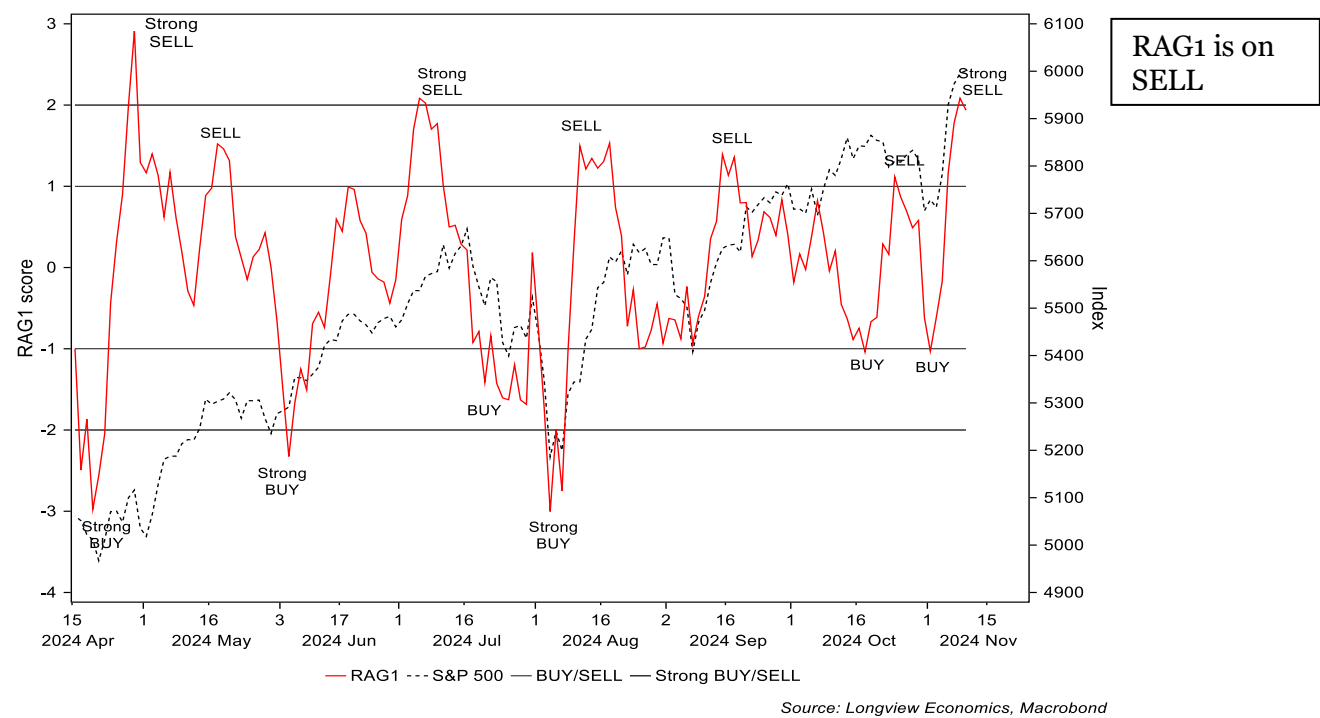
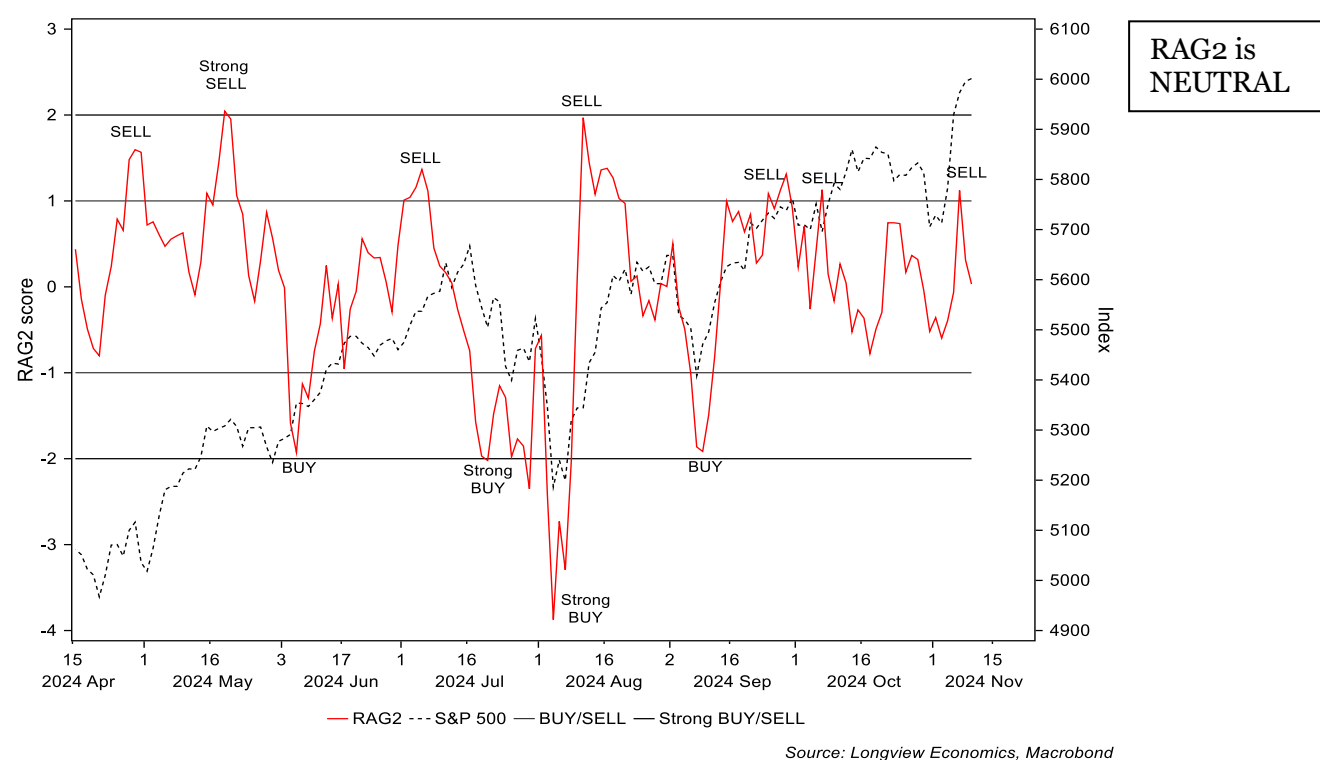


Fig 2b: RAG 2 vs. S&P 500



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

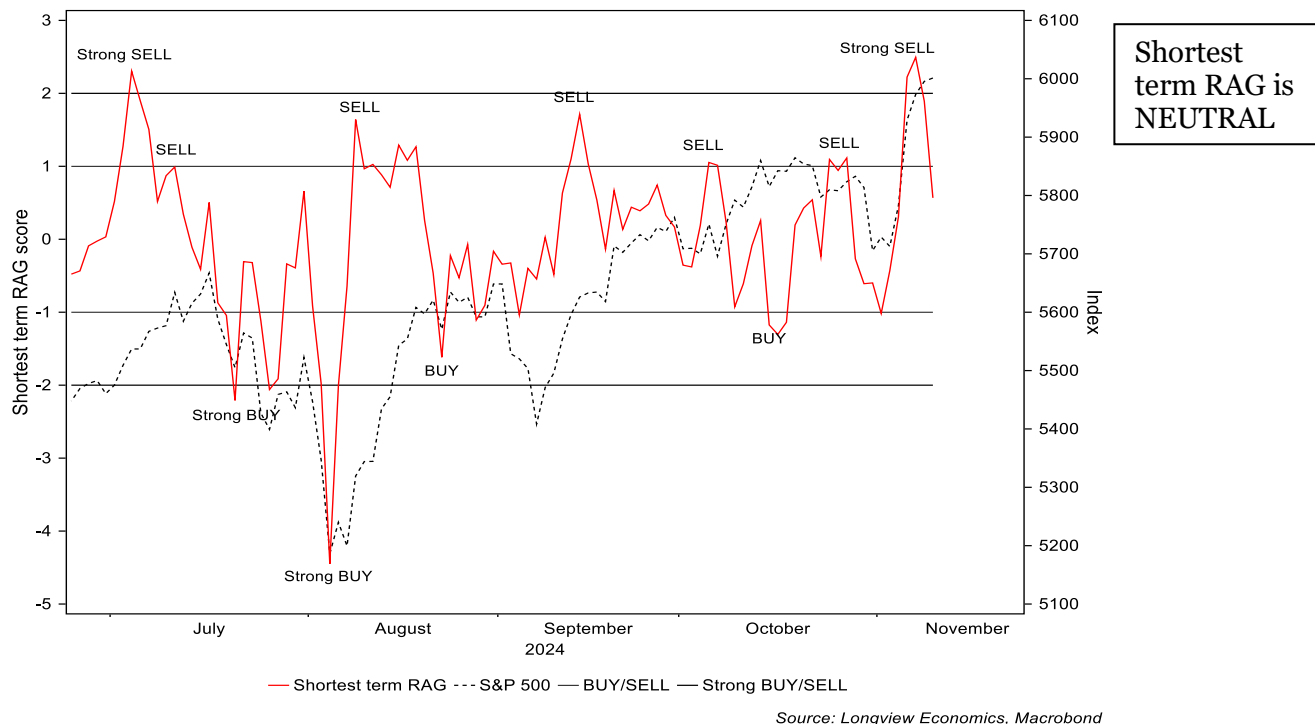
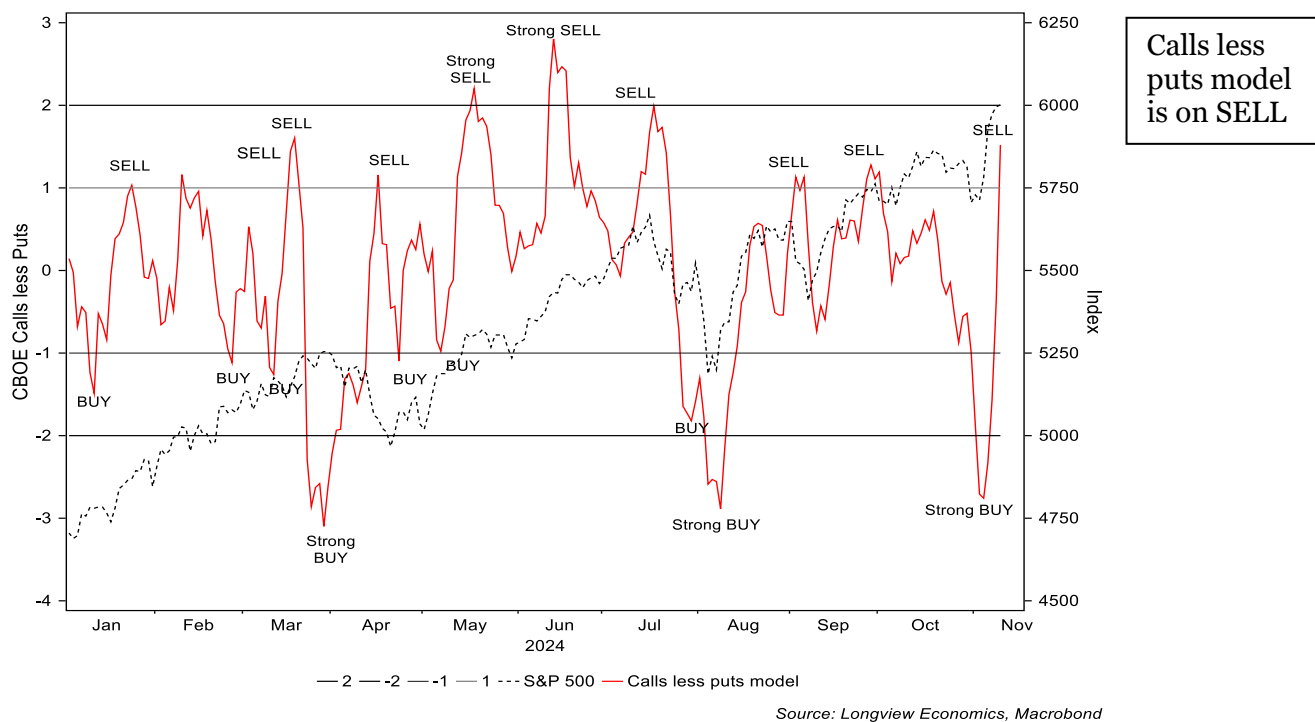
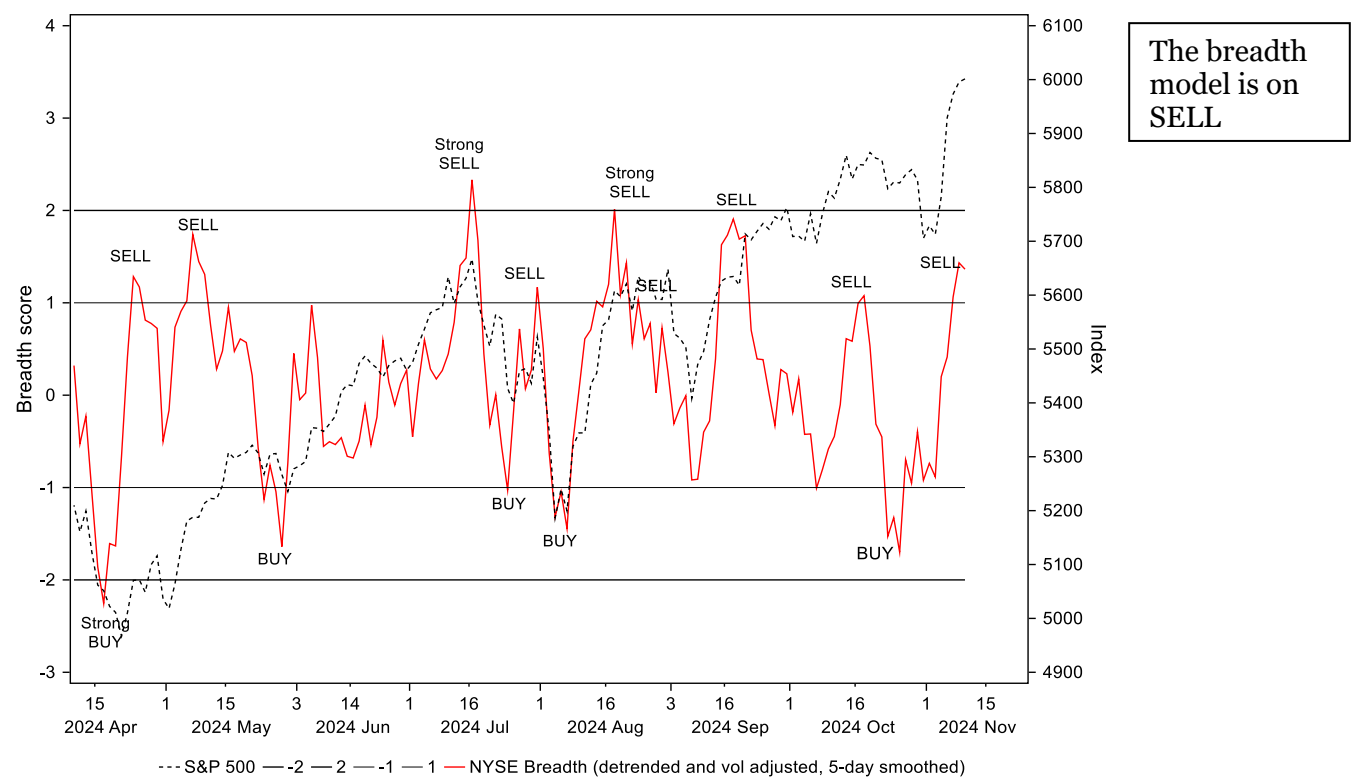


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

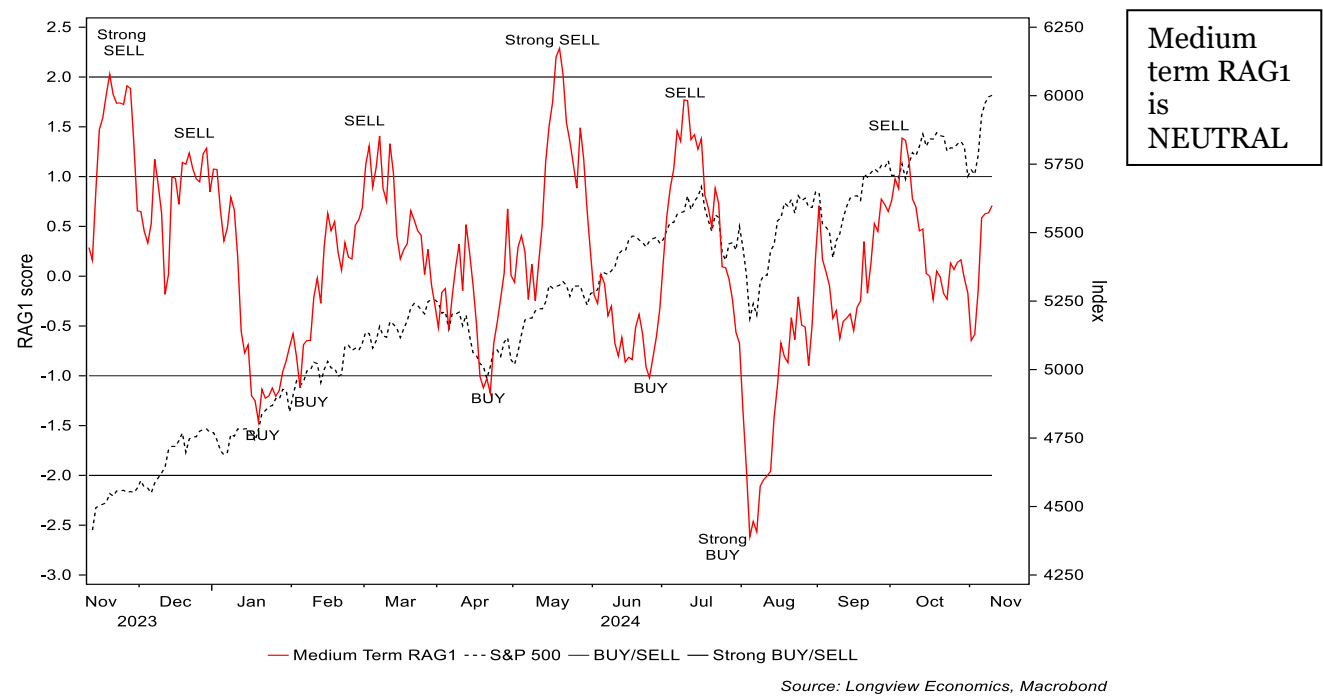
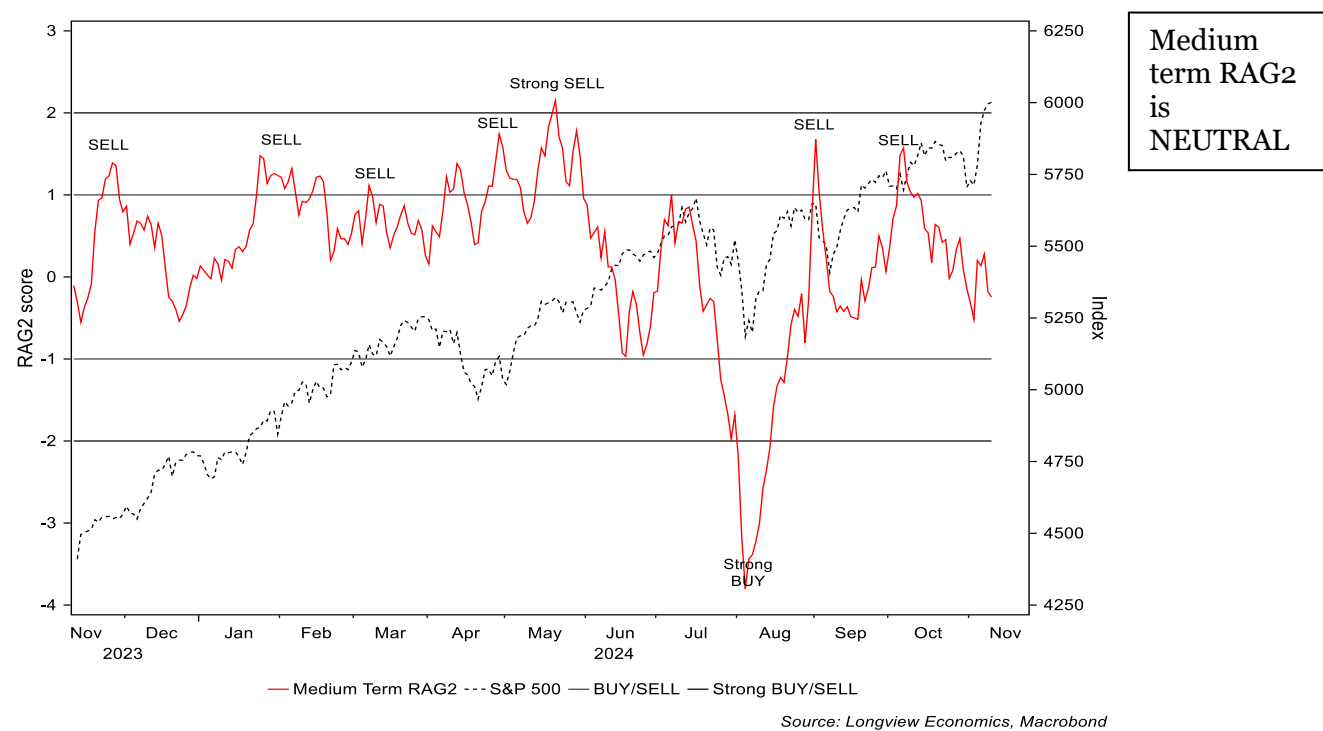


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

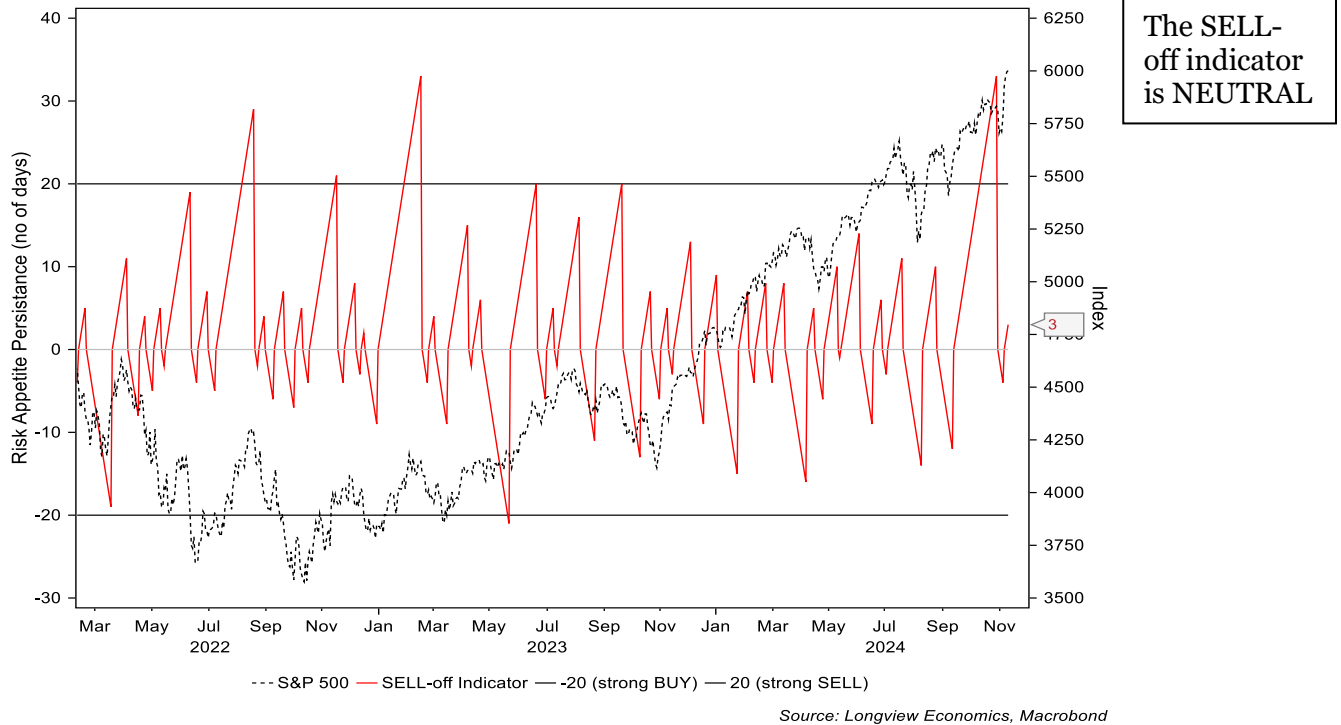
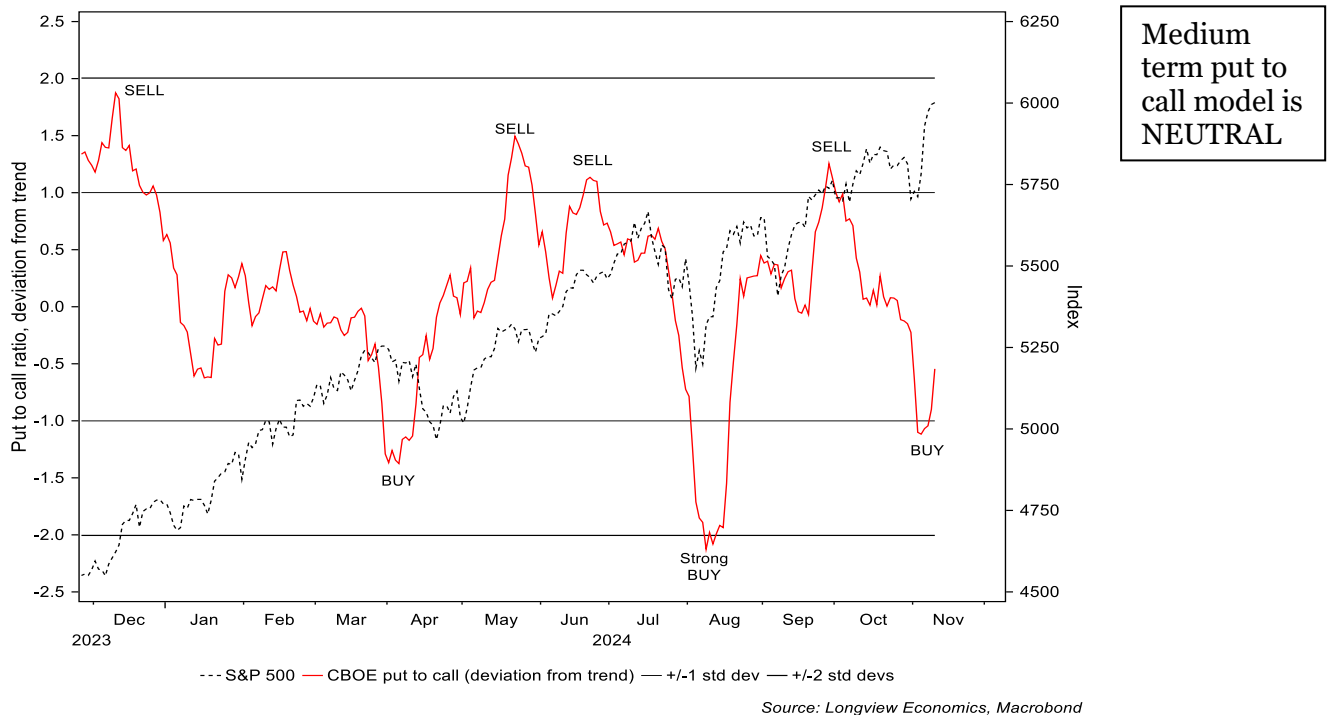


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

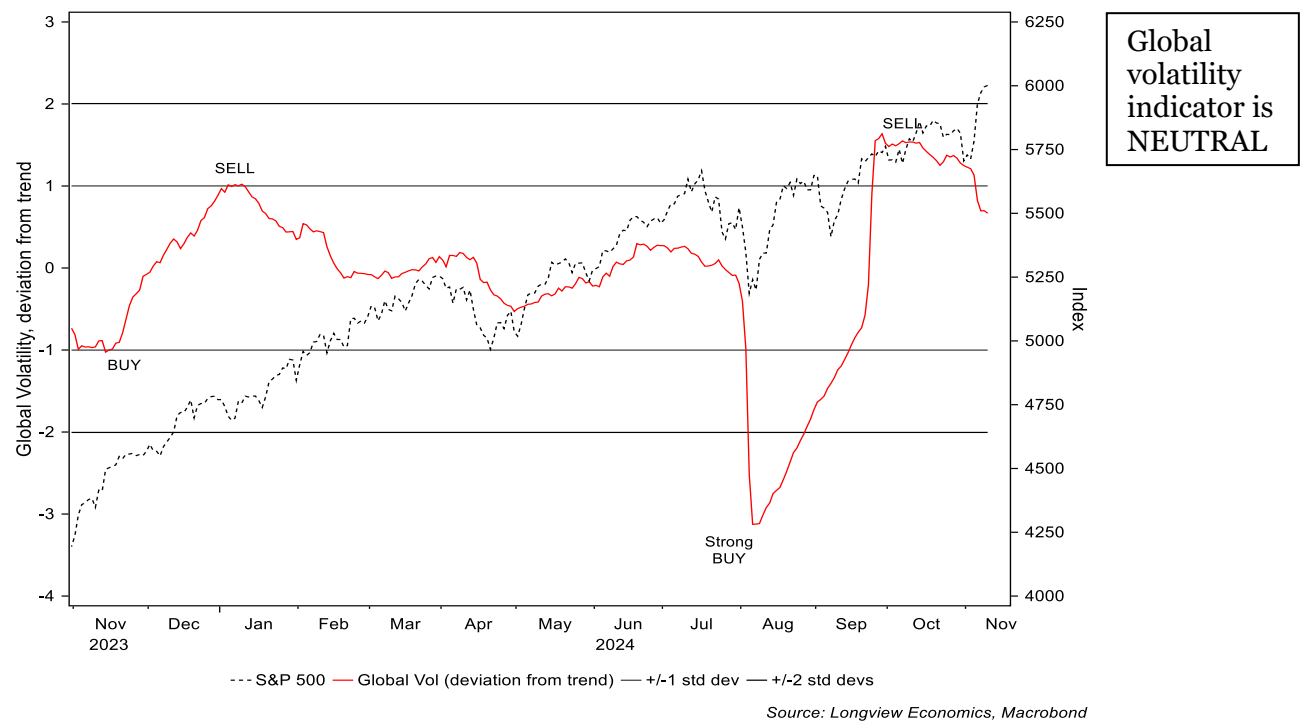


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

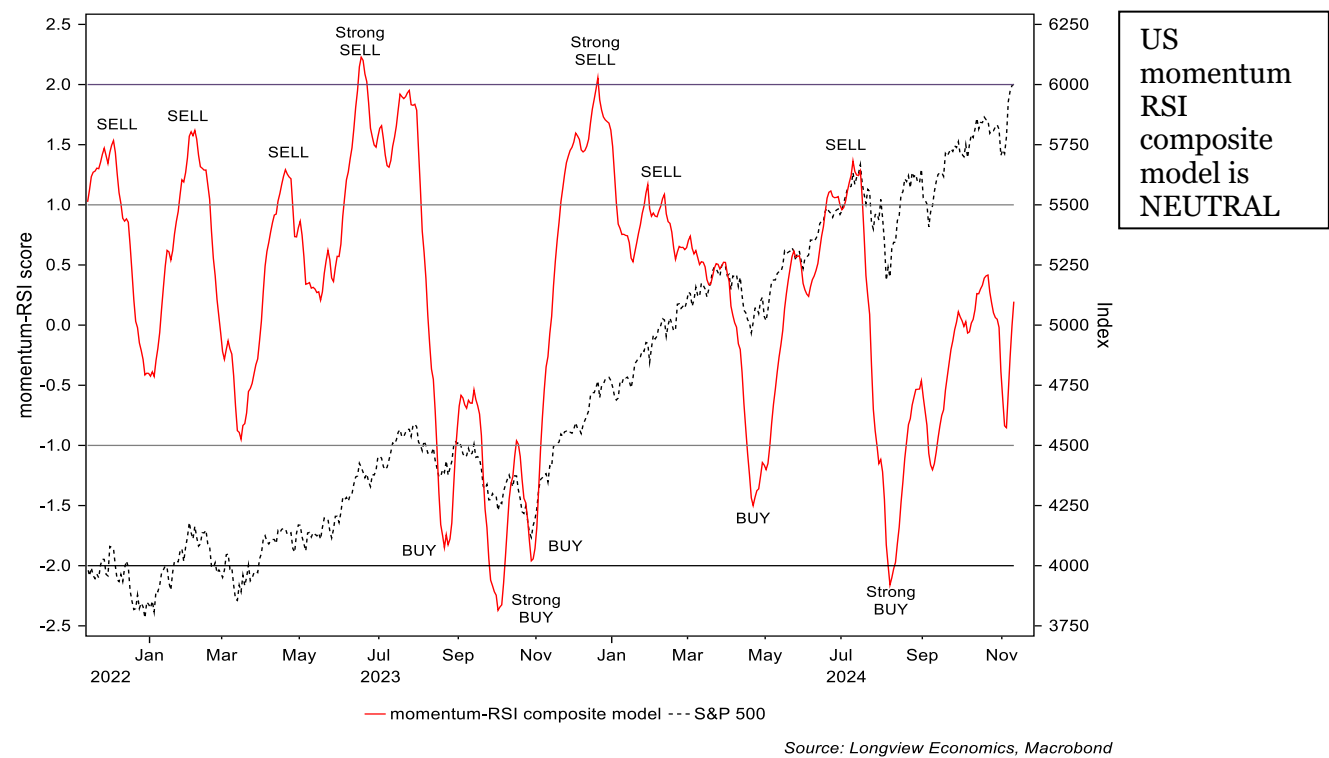
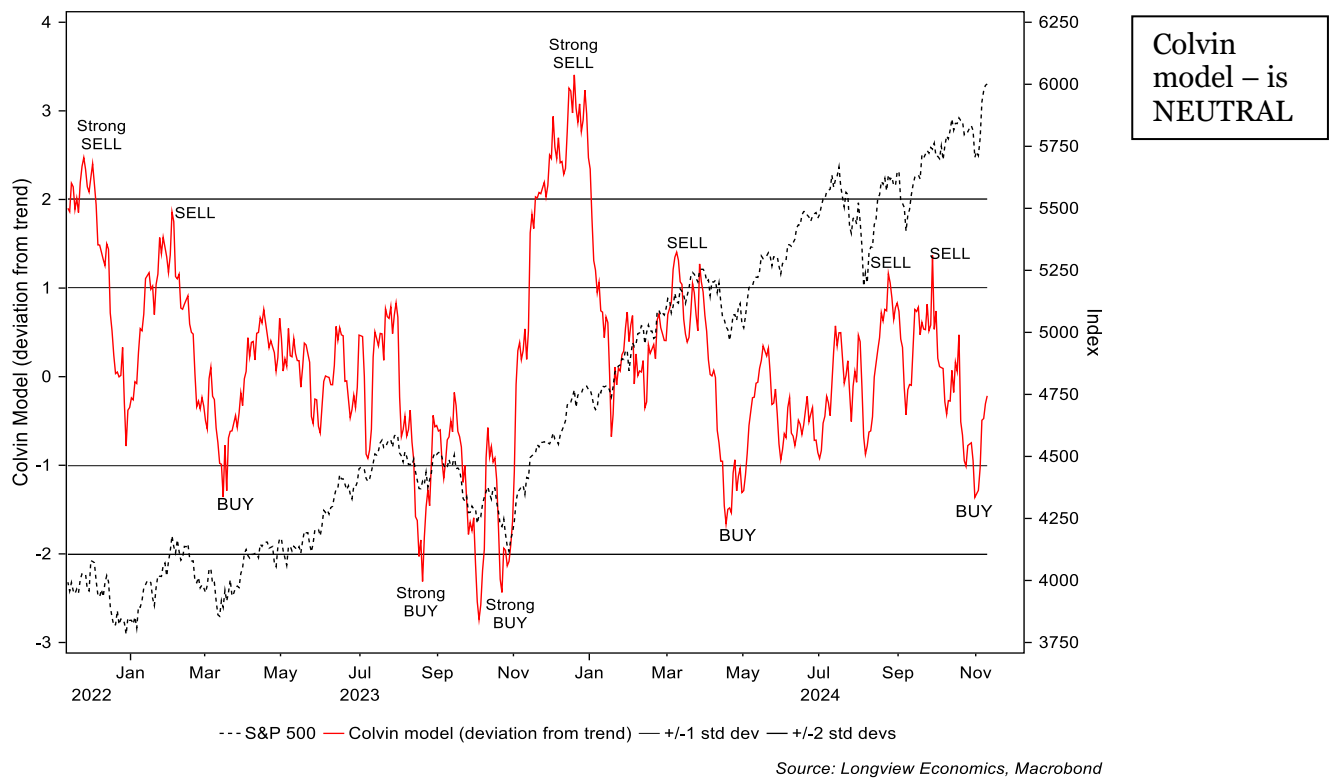


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

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