

Equity Index Futures Trading Recommendations

12th September 2024

"Stay Opportunistically SHORT SPX"

Email: info@longvieweconomics.com

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

- Stay opportunistically ¼ SHORT S&P500 September futures (entry was at 5,490 yesterday).
- Retain stop loss at 5,600 (i.e. 2% above entry).

Rationale

US markets reversed sharply yesterday from intraday weakness early in the session and rallied hard into the close (FIG 1). The majority of the main equity indices closed higher. The SOX was the best performer (+4.9%), followed by the NDX100 & NDX composite (+2.2%). Key US equity indices printed bullish key day reversals (KDRs). That is, they opened lower, moved below the prior day's lows and then closed above the prior day's highs (e.g. see NDX100 & SPX – FIGs 1a & 1b). These, however, didn't occur at the end of a downtrend, thereby diminishing the strength of that technical signal (i.e. both the NDX100 & S&P500 made their intraday lows on Friday last week). The Philly SOX didn't generate a KDR but did push through key resistance (i.e. its 200-day moving average).

Markets in downtrends, however, often rally sharply for 1 – 2 trading sessions, as short-term traders cover SHORT positions. Illustrating that, the underlying 1-day CBOE put to call ratio moved sharply yesterday – FIG 2c (i.e. as traders closed outstanding put protection, i.e. effectively buying the market). Our rationale yesterday was to expect markets to trend lower until there's broader across the board strong BUY (& BUY signals). At the time of yesterday's email, the signals were largely BUY but only just and not strong BUY. As such, and in the absence of widespread panic/fear - either in prices and/or anecdotally - we expected more downside before the end of this 'wave 3'. Now, with that strength in markets yesterday, our thesis is being questioned. Markets, however, often temporarily reverse sharply during downtrends. As such, we recommend sticking with this approach, for now (i.e. for a further 1 – 3 sessions). As highlighted yesterday, this is an opportunistic SHORT position. Closing the NDX100 SHORT yesterday also proved to be the correct decision (given that yesterday's strength was more marked in that area of the US market). US 1, 2 & 10 year bond yields were also largely unchanged on the day.

Other reasons to stay SHORT include the absence of confirmation of 'risk-on' by various key spreads (i.e. proxy risk premiums). That is, US high yield corporate bond spreads continued to widen (modestly – FIG 1c), along with EZ spreads; US muni spreads tightened, but by a trivial amount (less than 1/2bp); while Chinese HY corporate spreads also continued to widen. Elsewhere, the YEN made new highs yesterday (with USDJPY moving below its 5th August intraday lows - FIG 1d); while the Chinese equity market (CSI300) has made new multi month lows overnight.

Short term models, having bounced, are largely NEUTRAL (i.e. no clear steer – see FIGs 2 to 2e). As such, we remain opportunistically SHORT S&P500 futures (with an unchanged stop loss). Key events/data out today are shown below (and include the ECB rate decision and press conference).

Kind regards,

The team @ Longview Economics

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

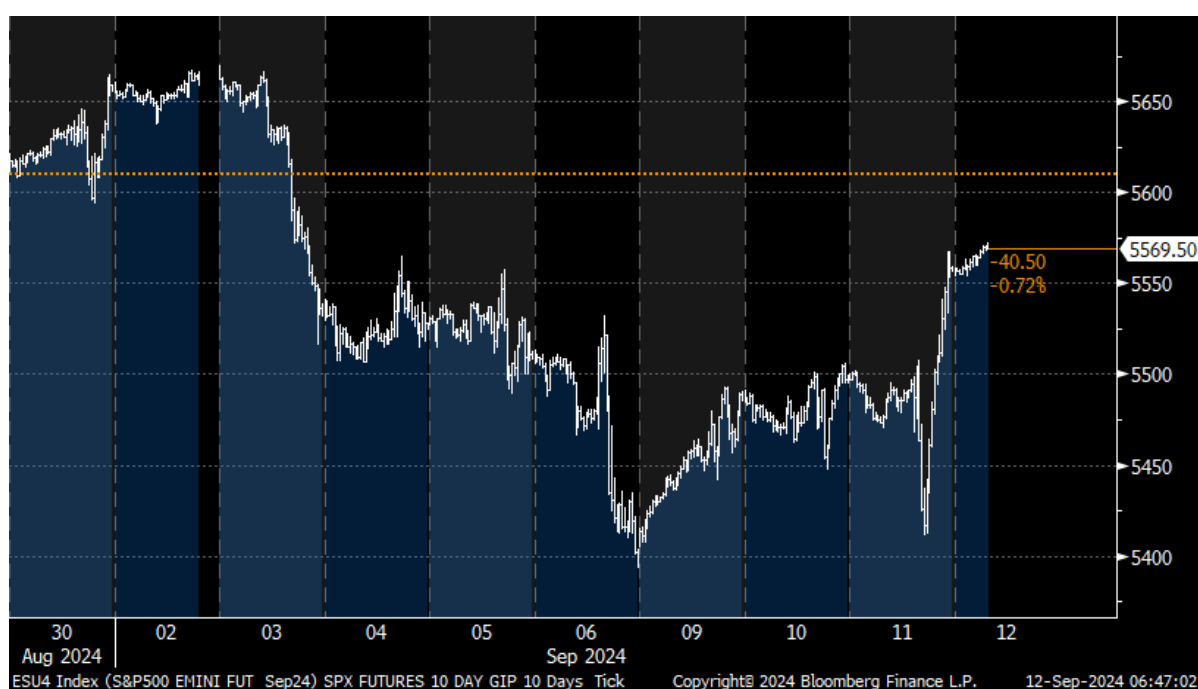
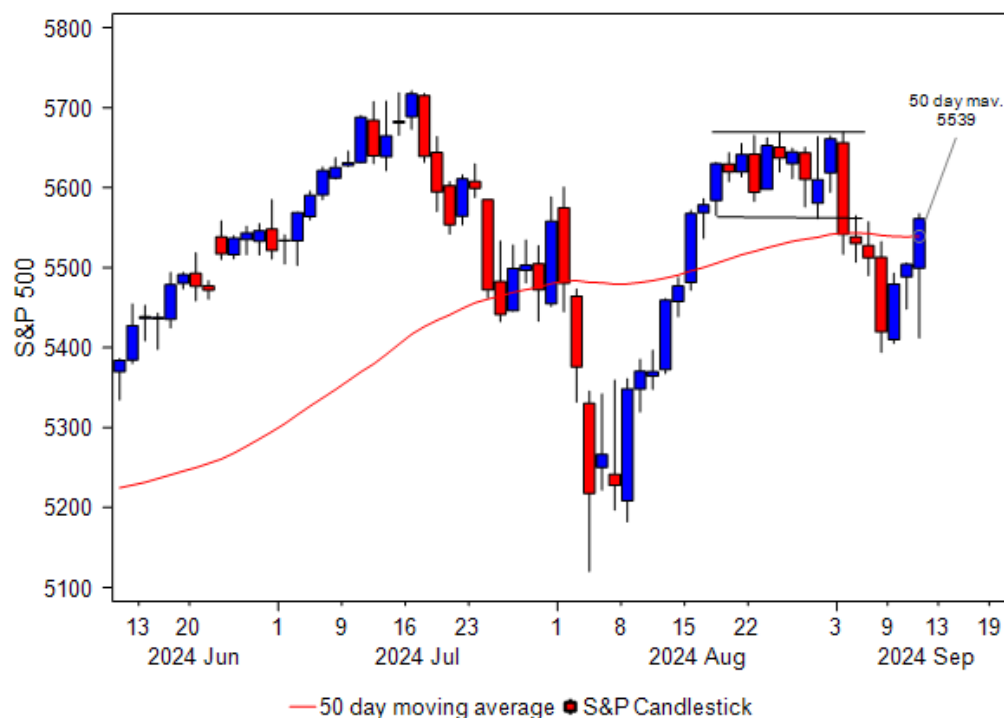
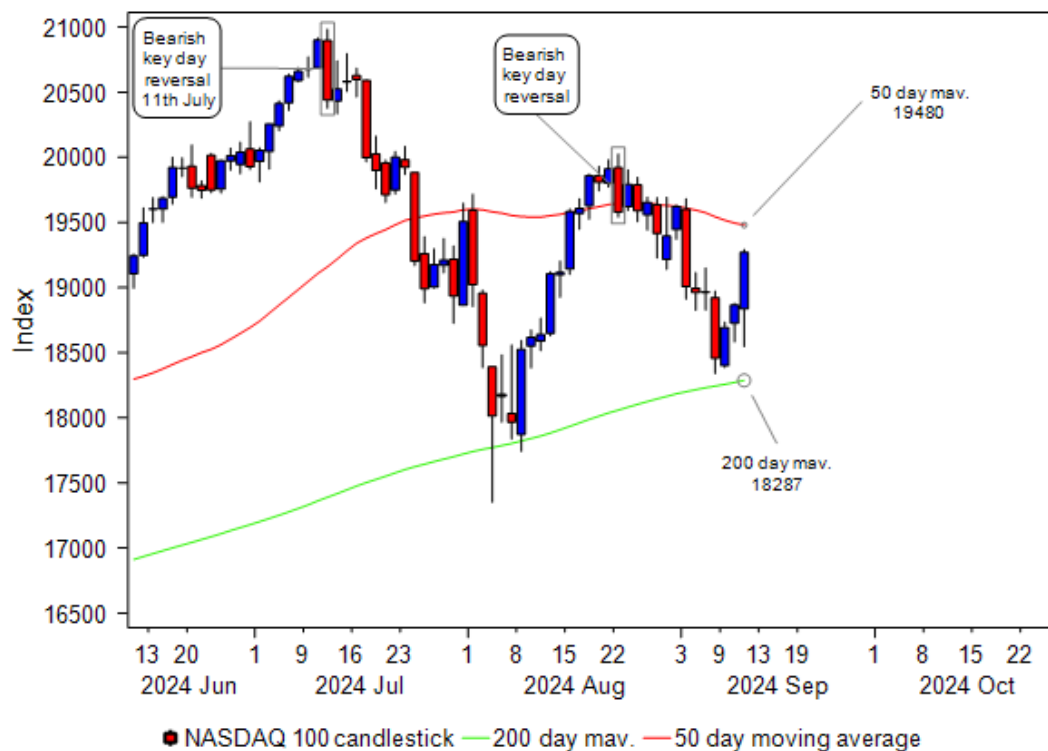


FIG 1a: S&P500 futures candlestick shown with its 50-day moving average



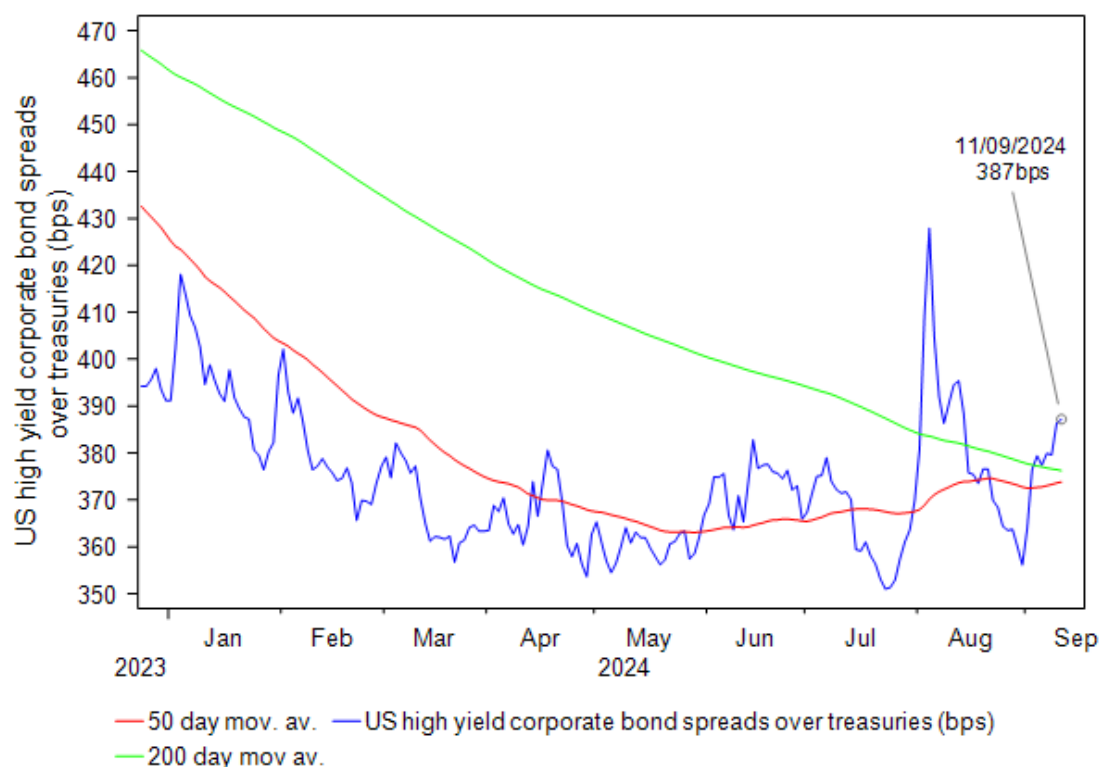
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



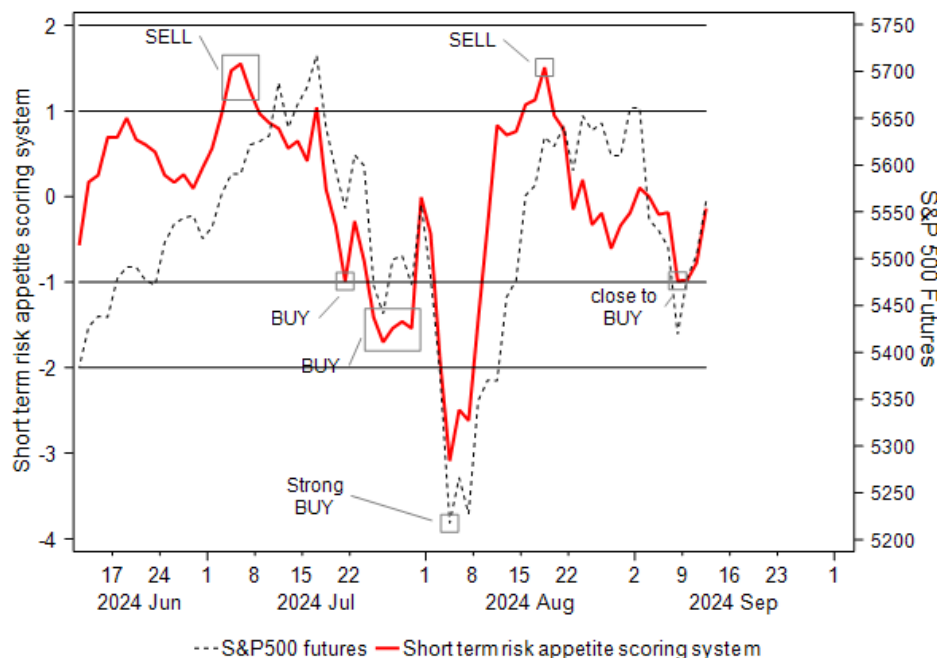
Source: Longview Economics, Macrobond

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



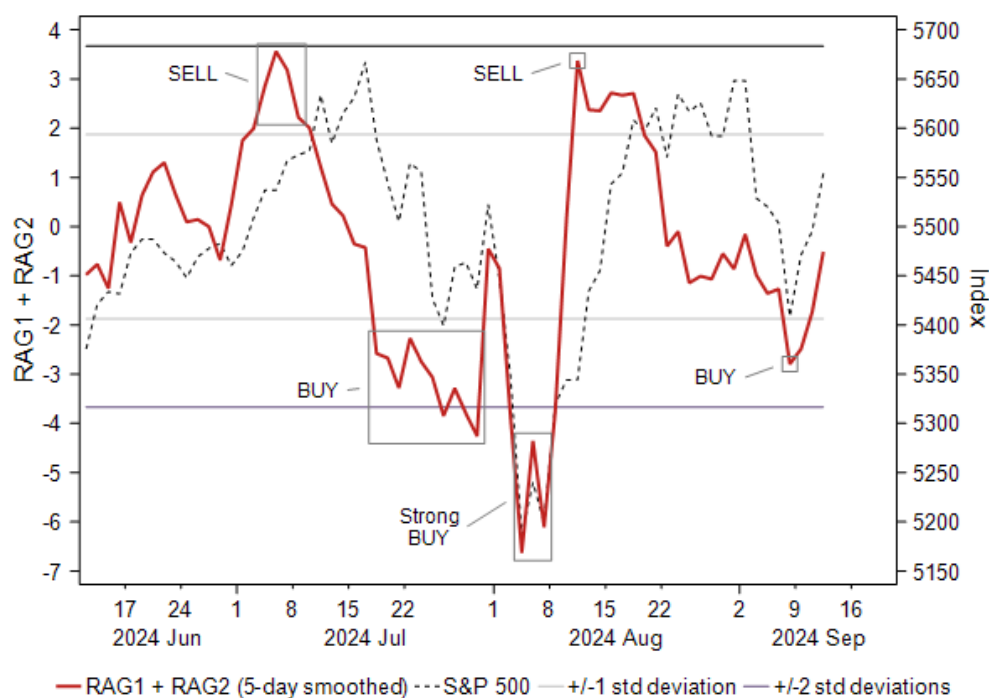
Short term market timing models mostly NEUTRAL....

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

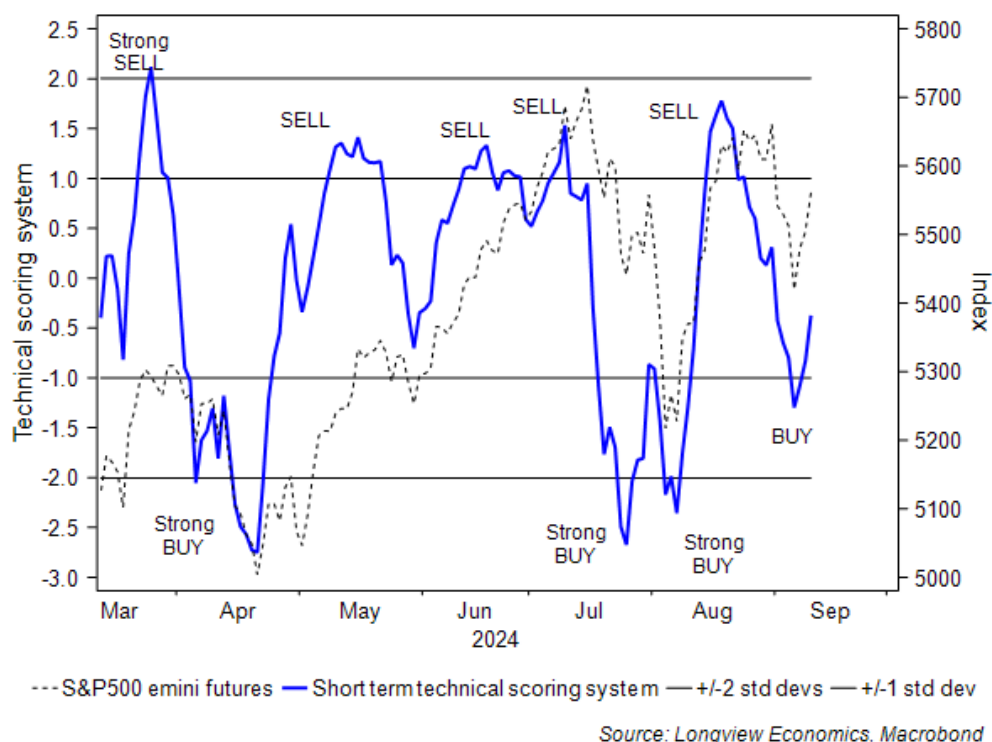


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

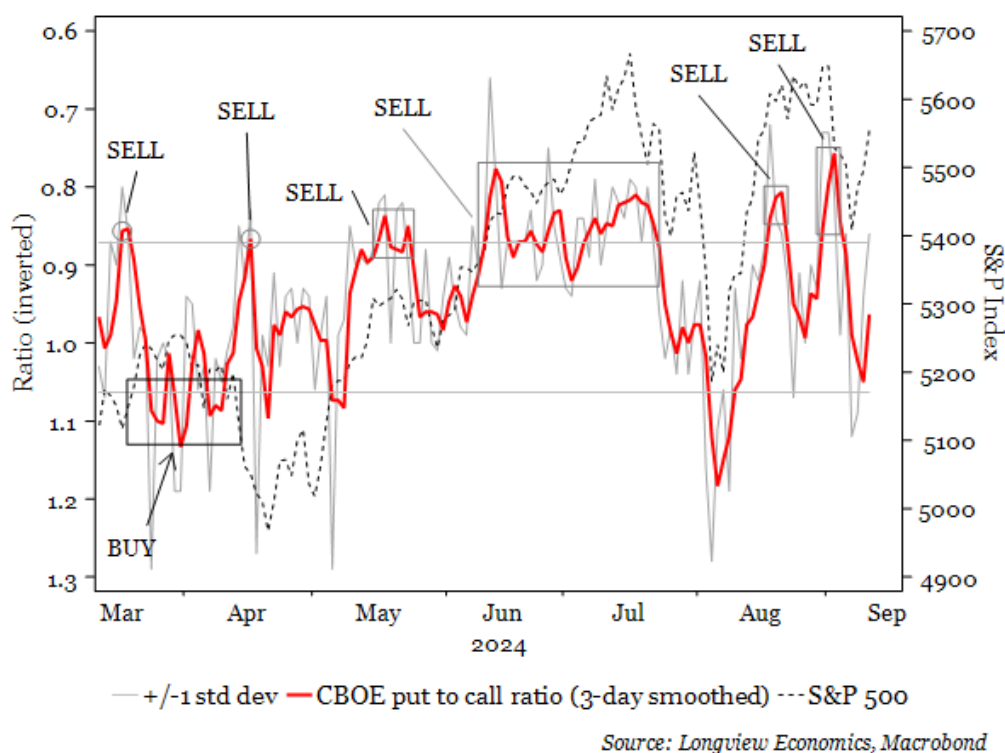
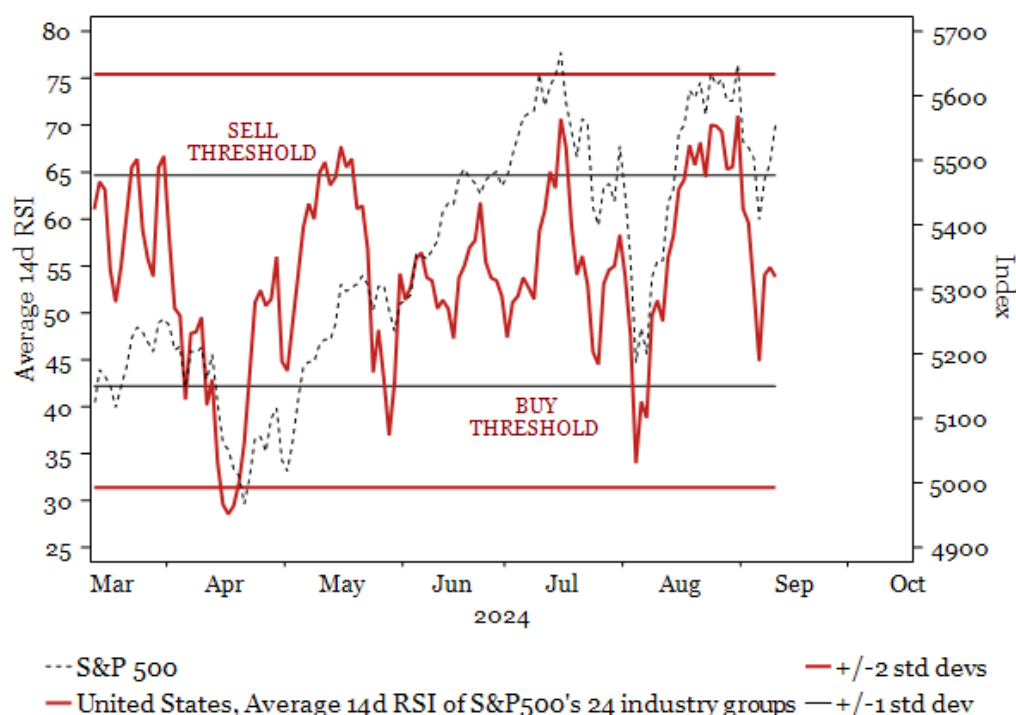
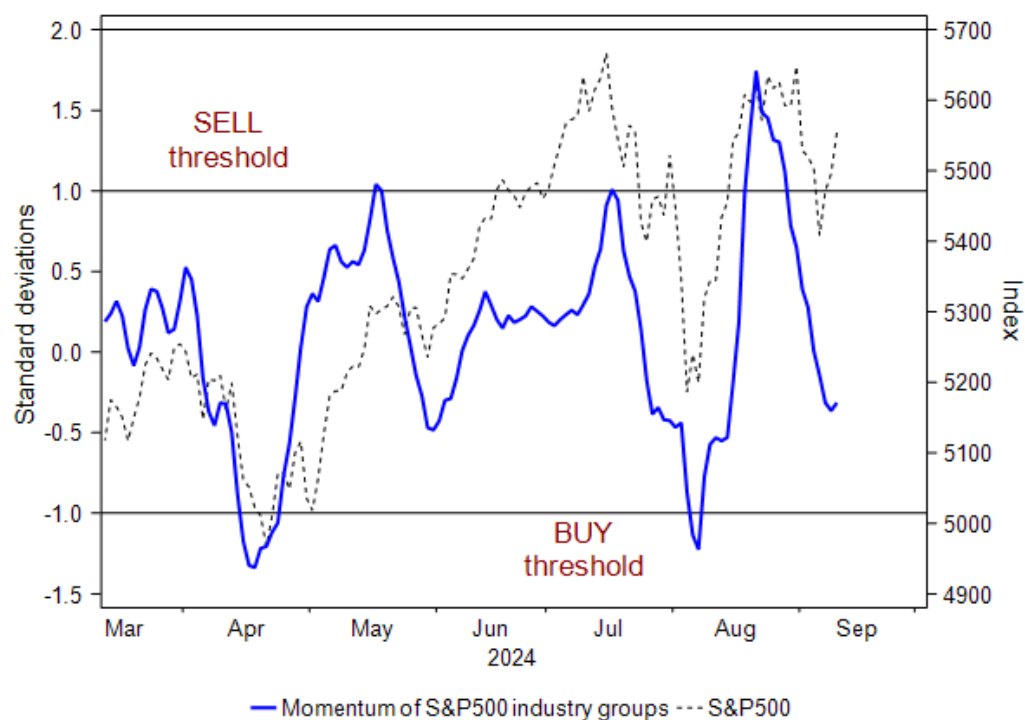


FIG 2d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

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



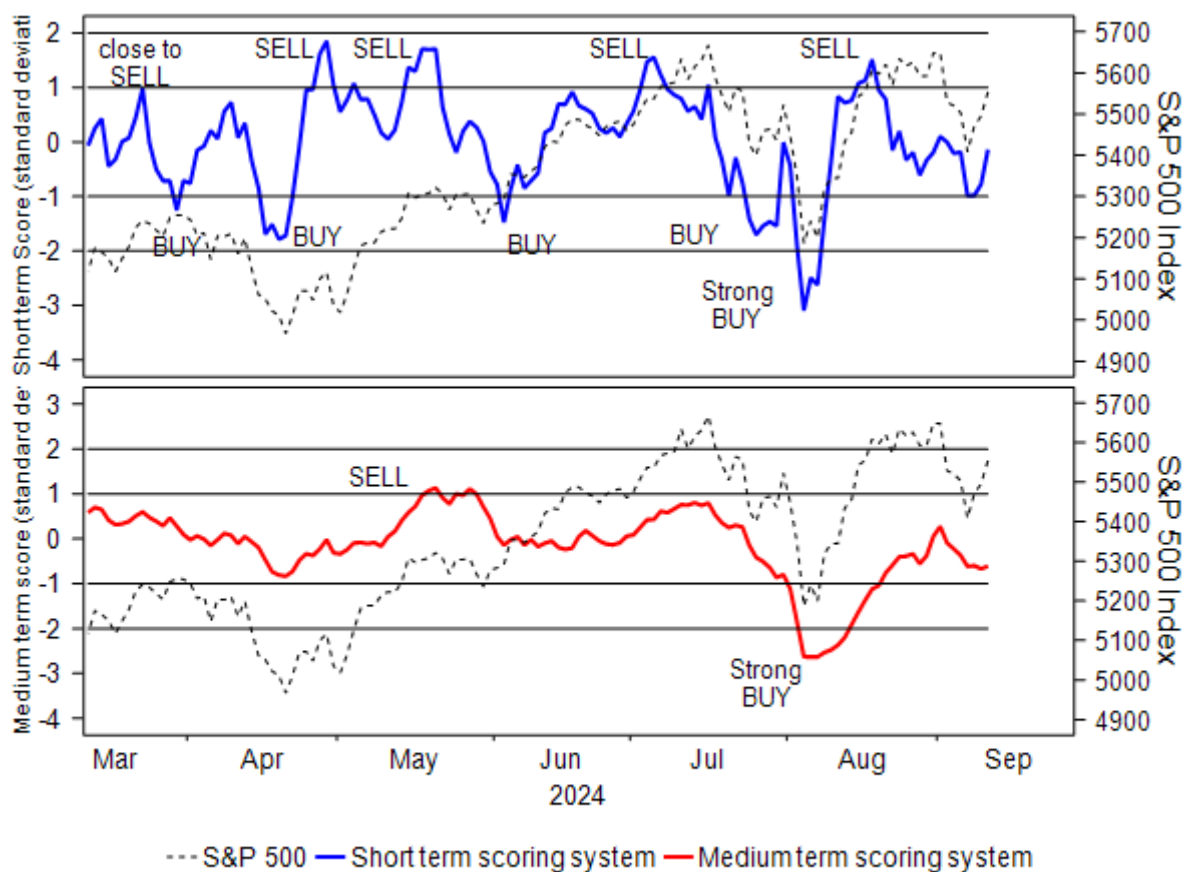
Source: Longview Economics, Macrobond

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 RICS house price balance (Aug, 12:01am); Japanese PPI (Aug, 12:50am); Australian consumer inflation expectation (Sep, 2am); Italian unemployment rate (Q2, 9am); **Chinese total social financing, new yuan loans, and Mo, M1 & M2 money supply** (Aug, 9am); Canadian building permits (Jul, 1:30pm); **US headline & core PPI** (Aug, 1:30pm); US weekly jobless claims (1:30pm); US household change in net worth (Q2, 5pm); US monthly budget statement (Aug, 7pm).

Key events today include: Speech by the BOJ's Nakagawa in Tamura in Okayama (Thurs, 2am); **ECB policy decision** (1:15pm) followed by press conference hosted by **Lagarde** (1:45pm).

Key earnings today include: **Adobe, Kroger.**

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.

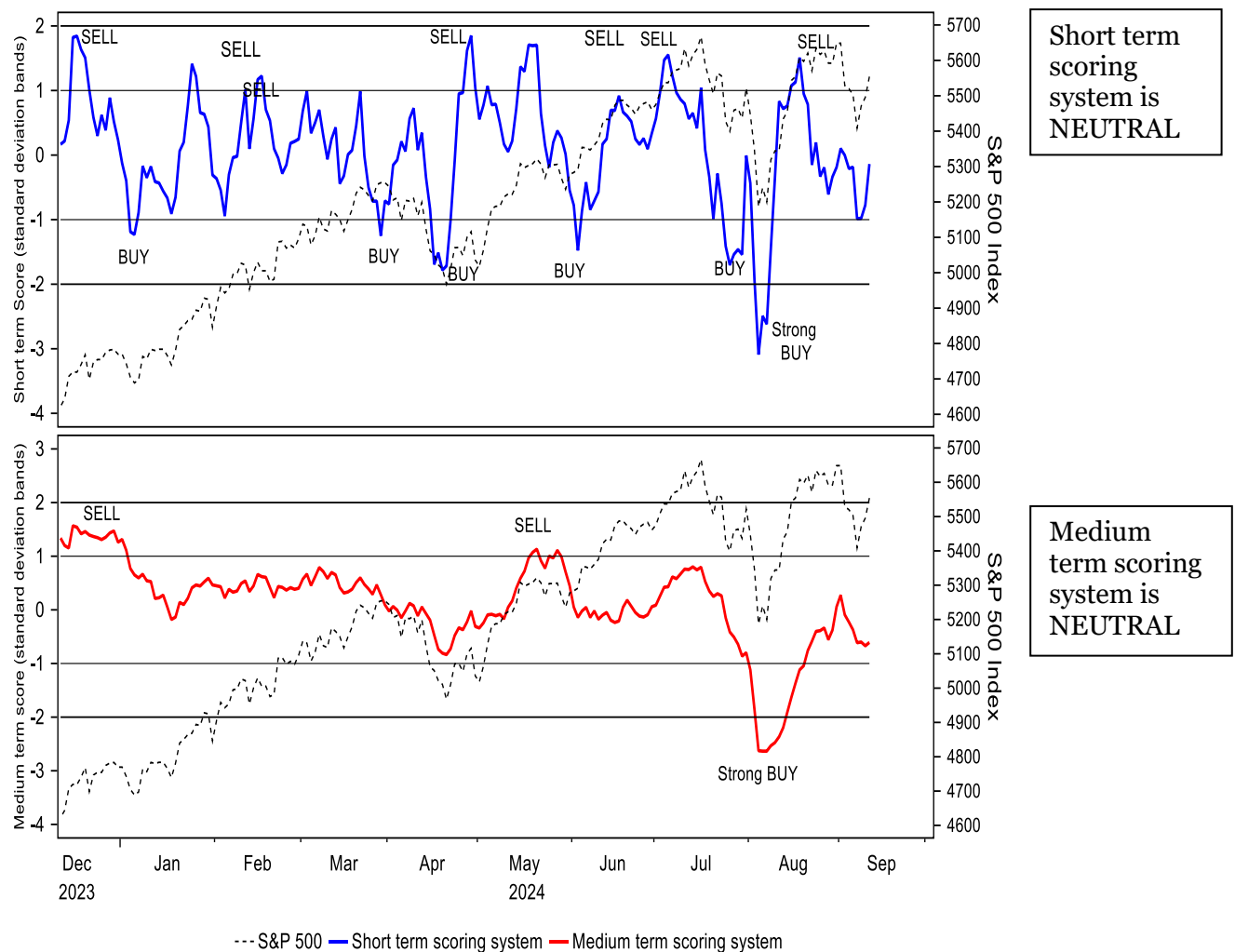


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Section 1: Longview Scoring Systems (short & medium term*)

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



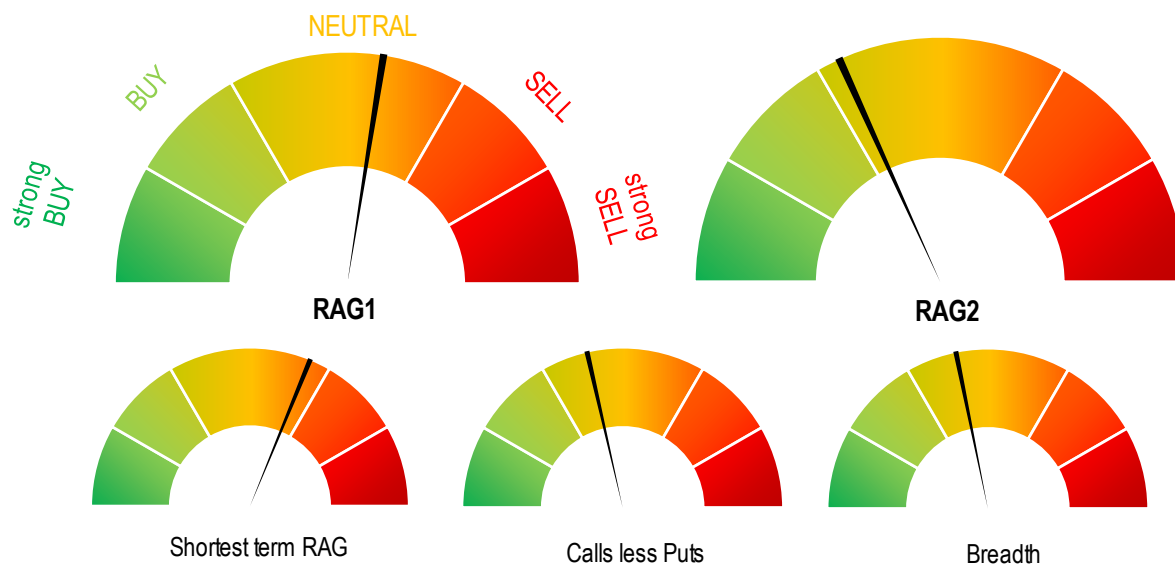
Source: Longview Economics, Macrobond

*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**

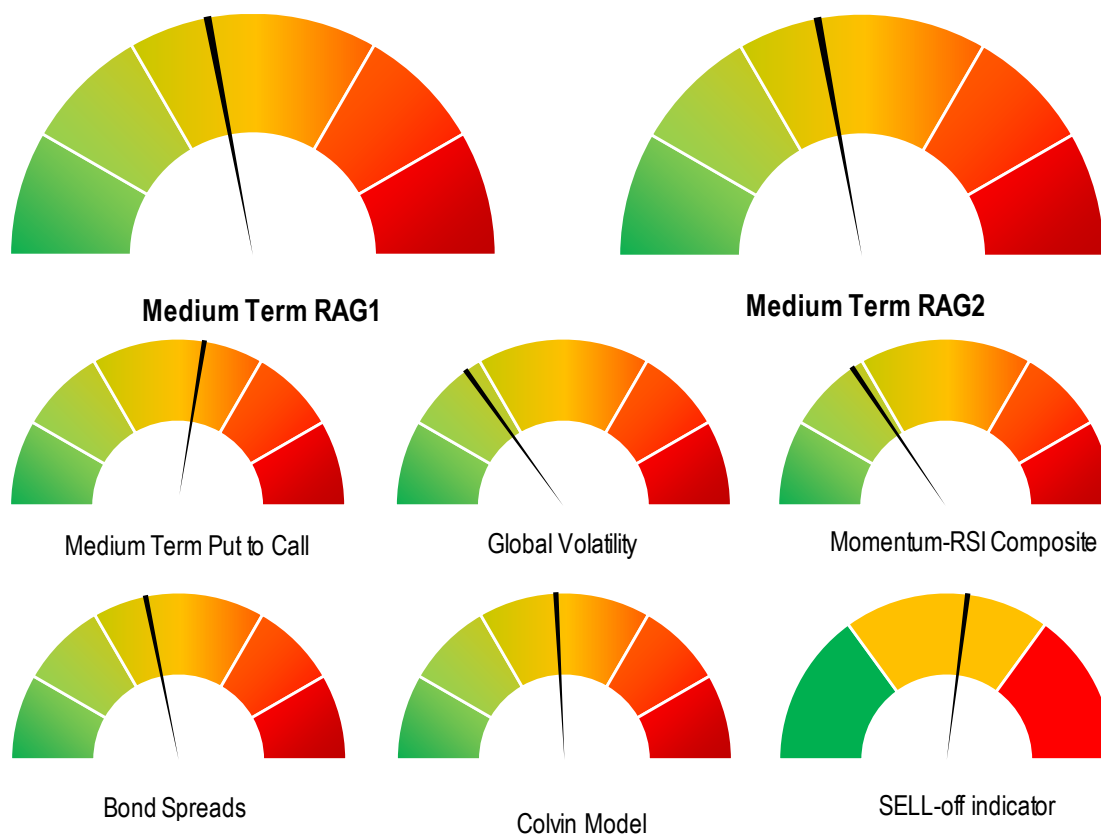
Section 1a: Summary of indicator signals**

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

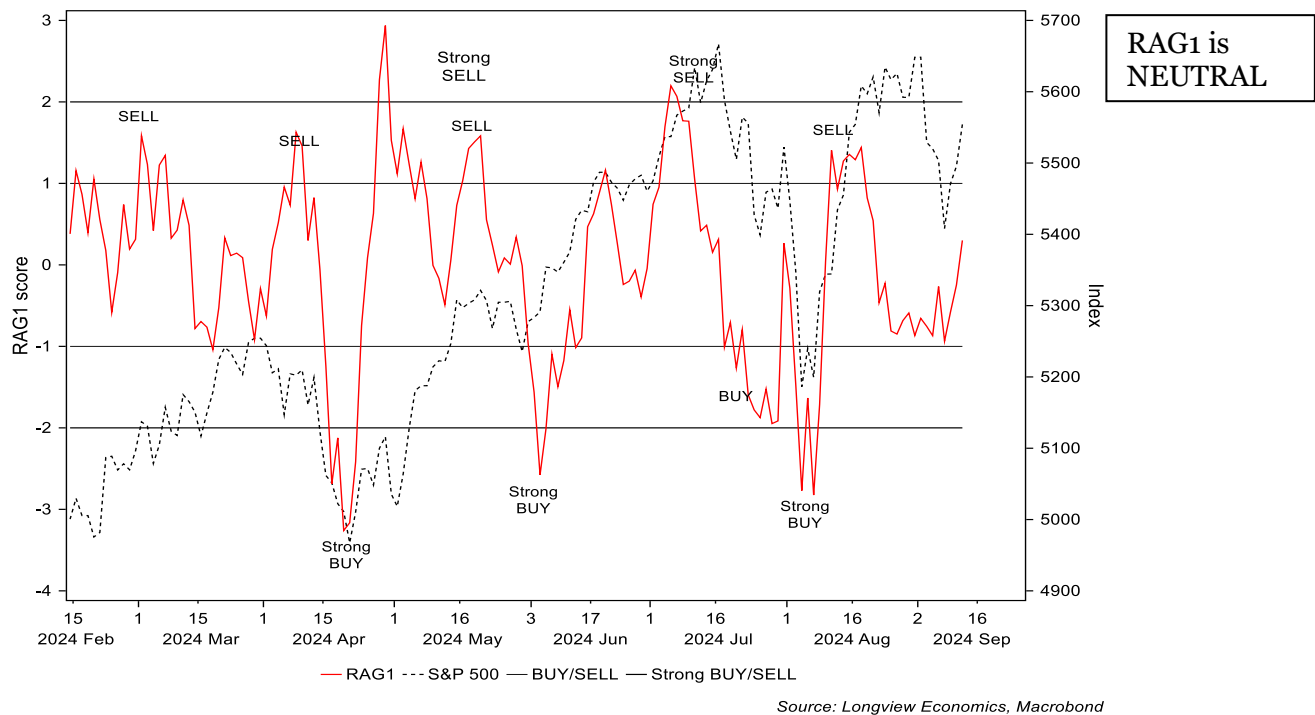
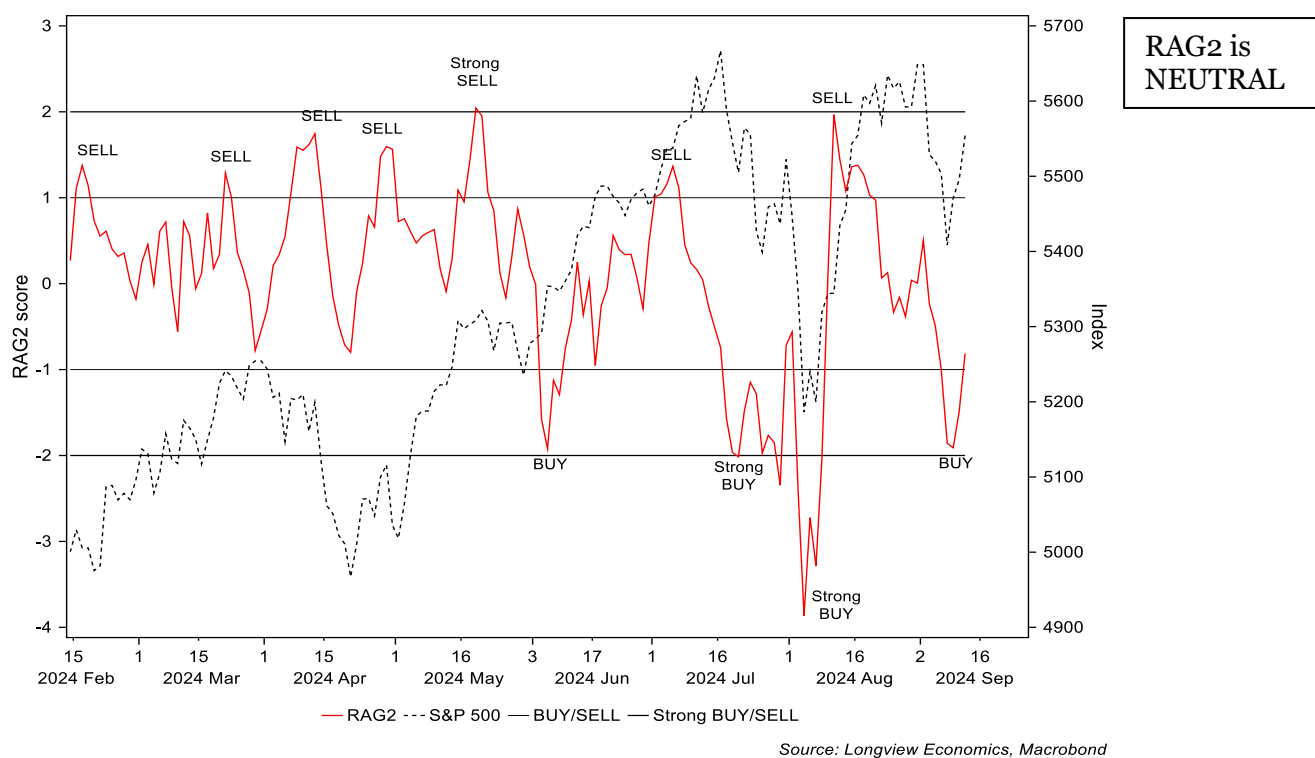


Fig 2b: RAG 2 vs. S&P 500



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

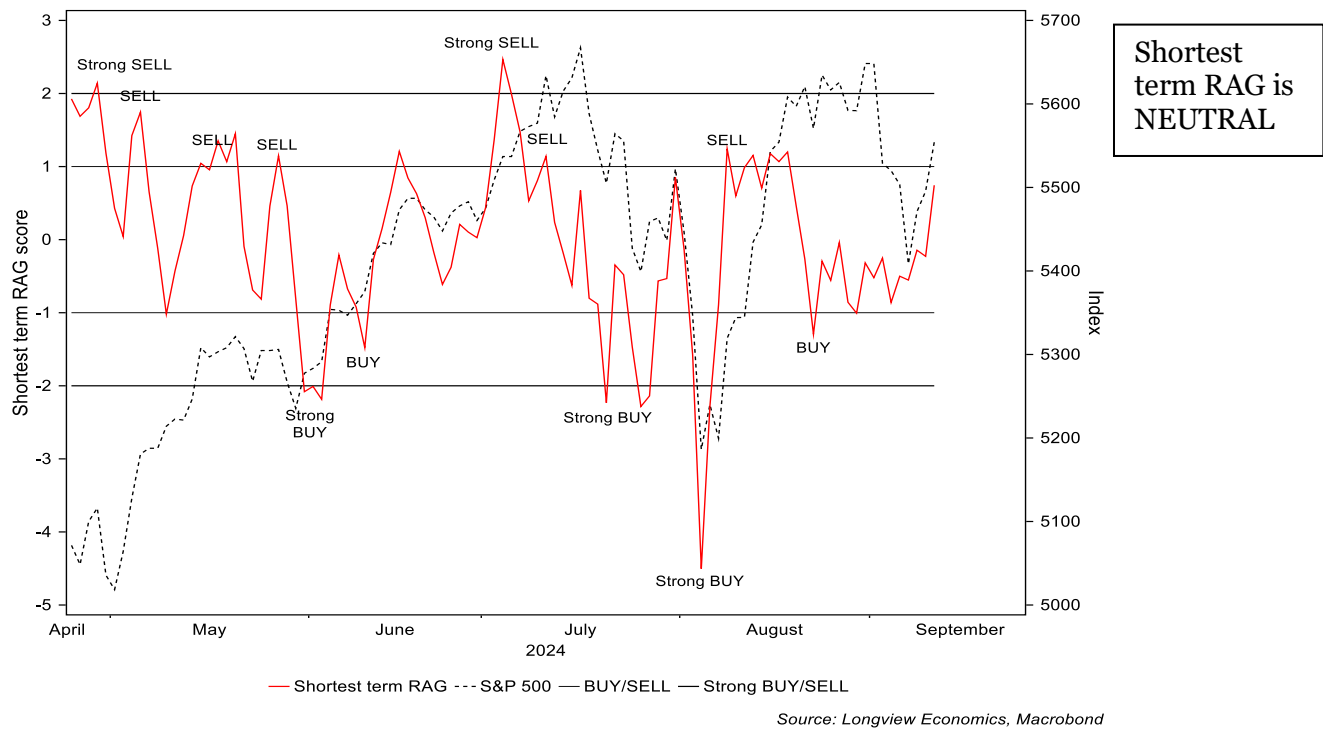
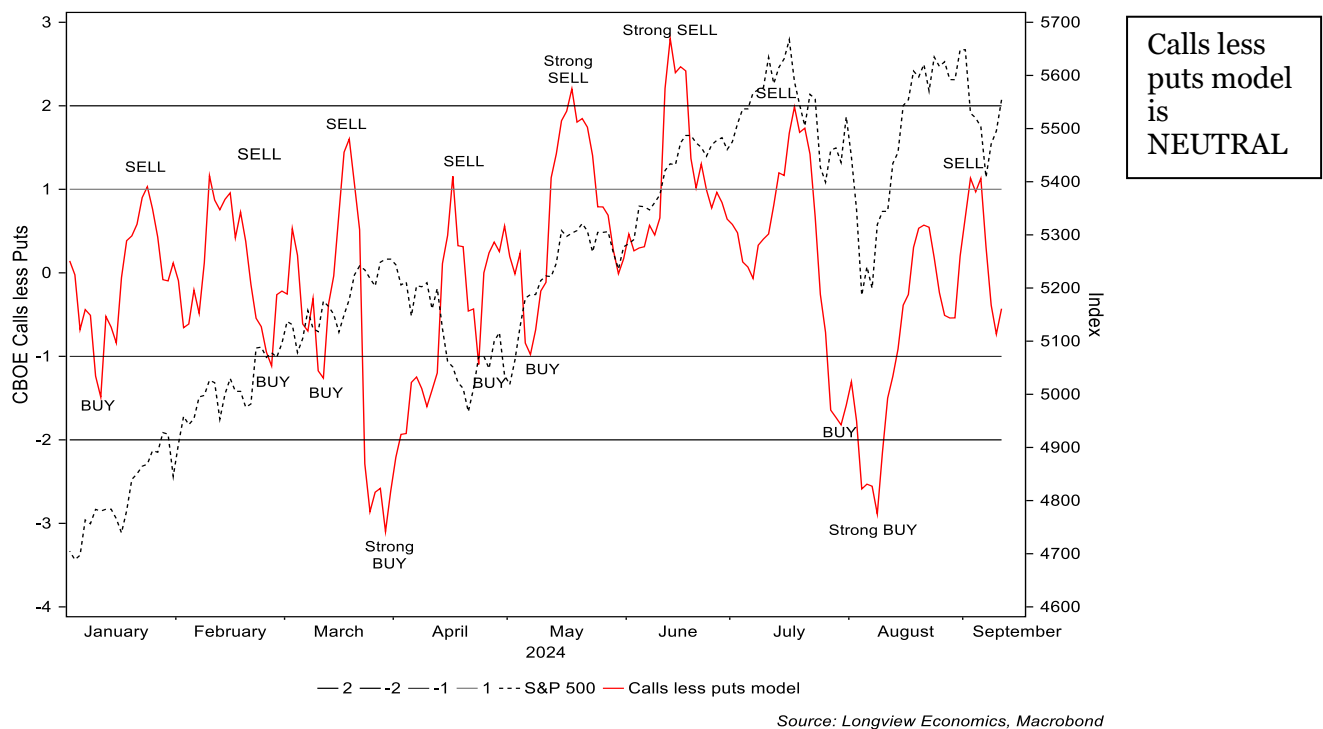
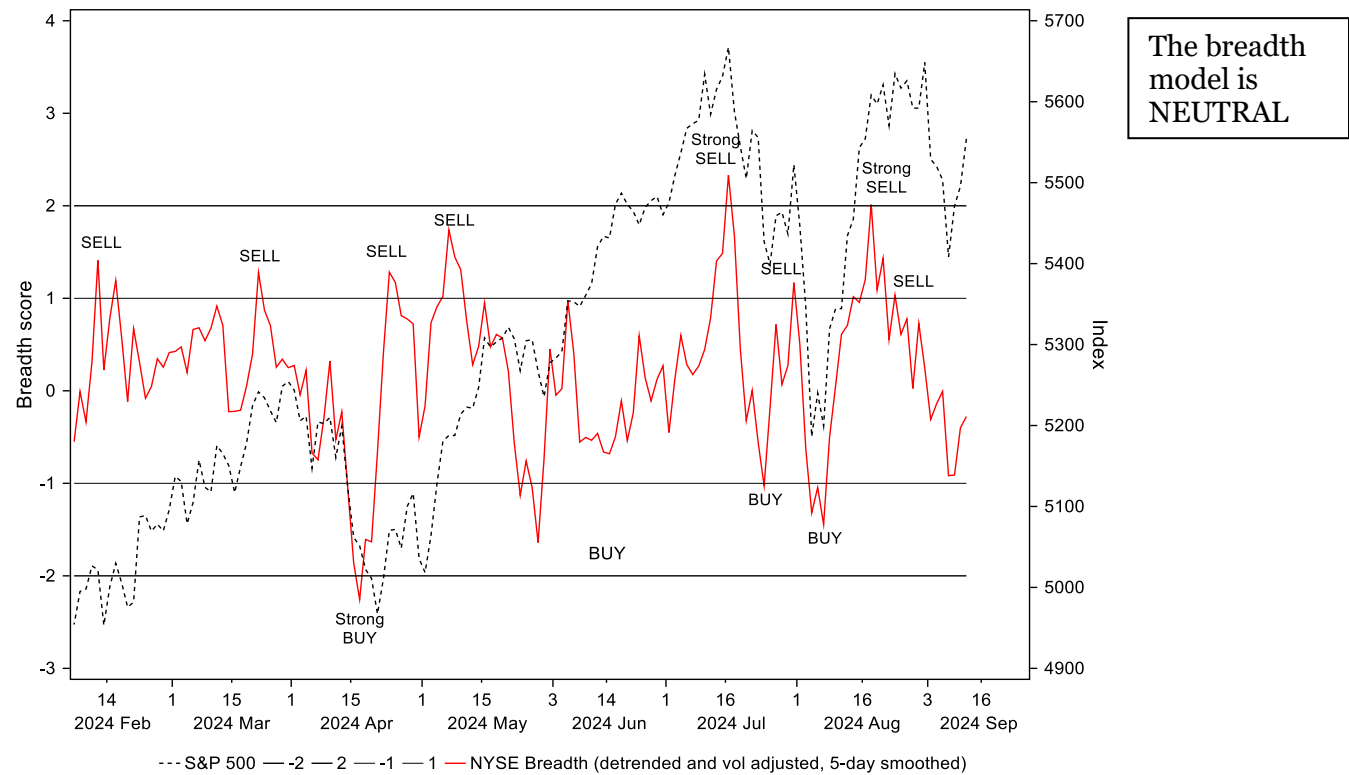


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

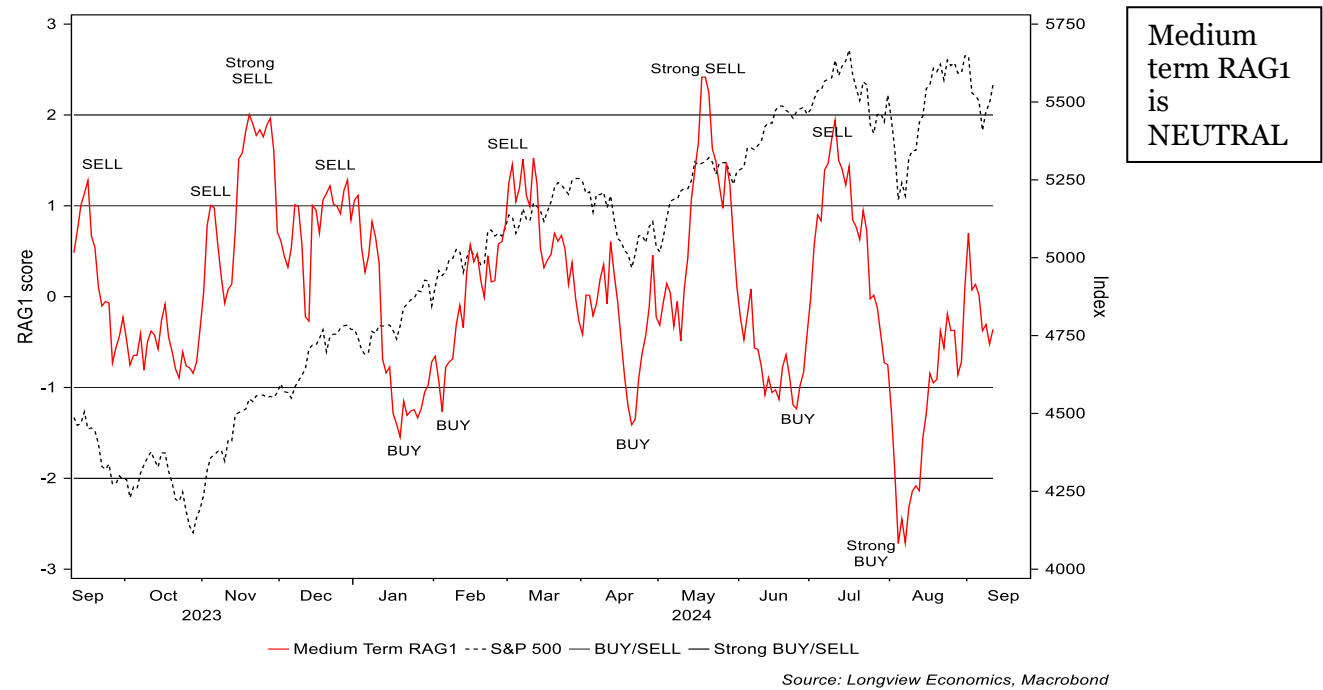
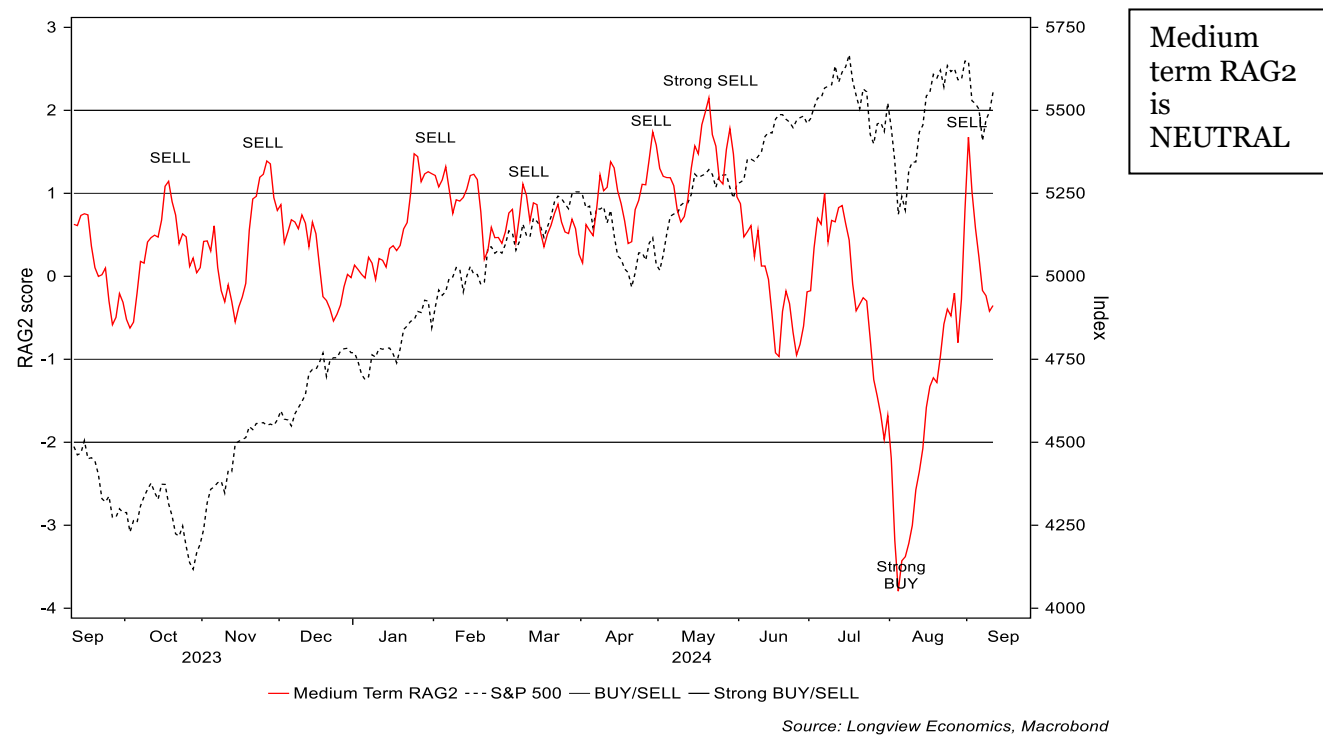


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

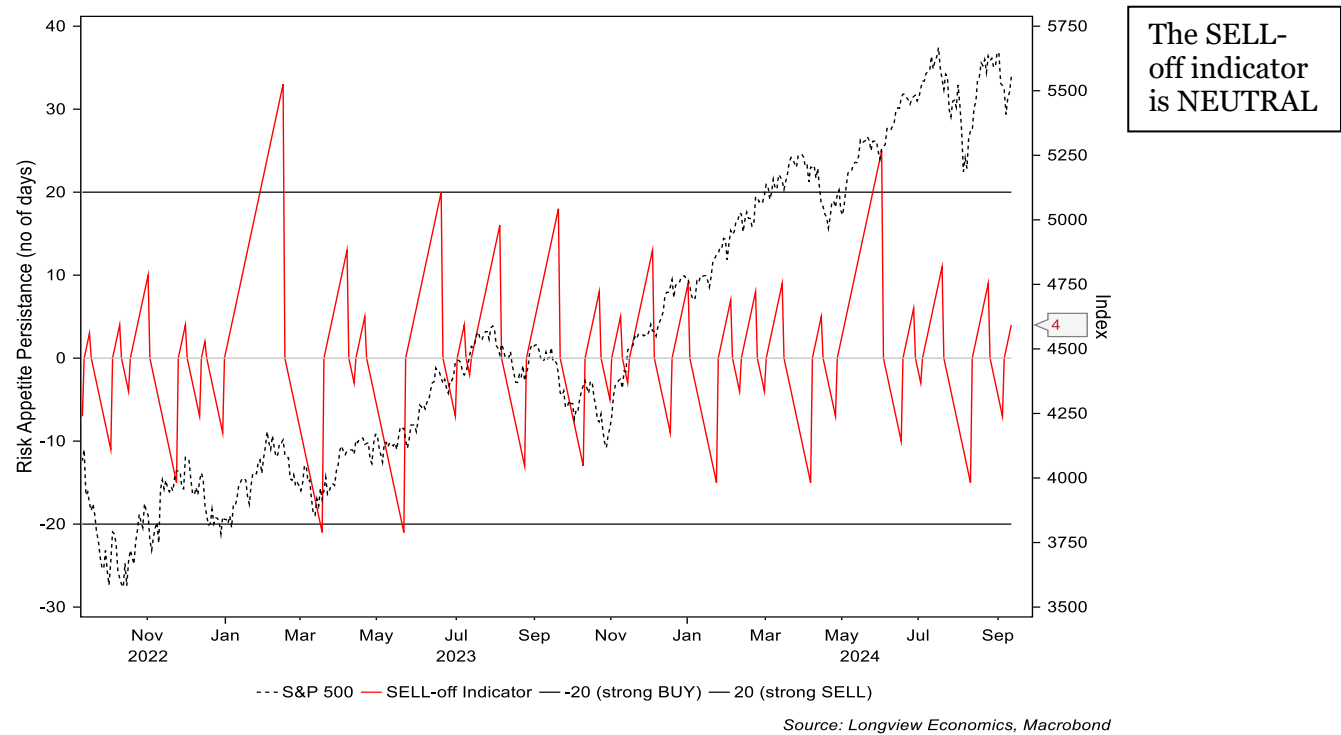
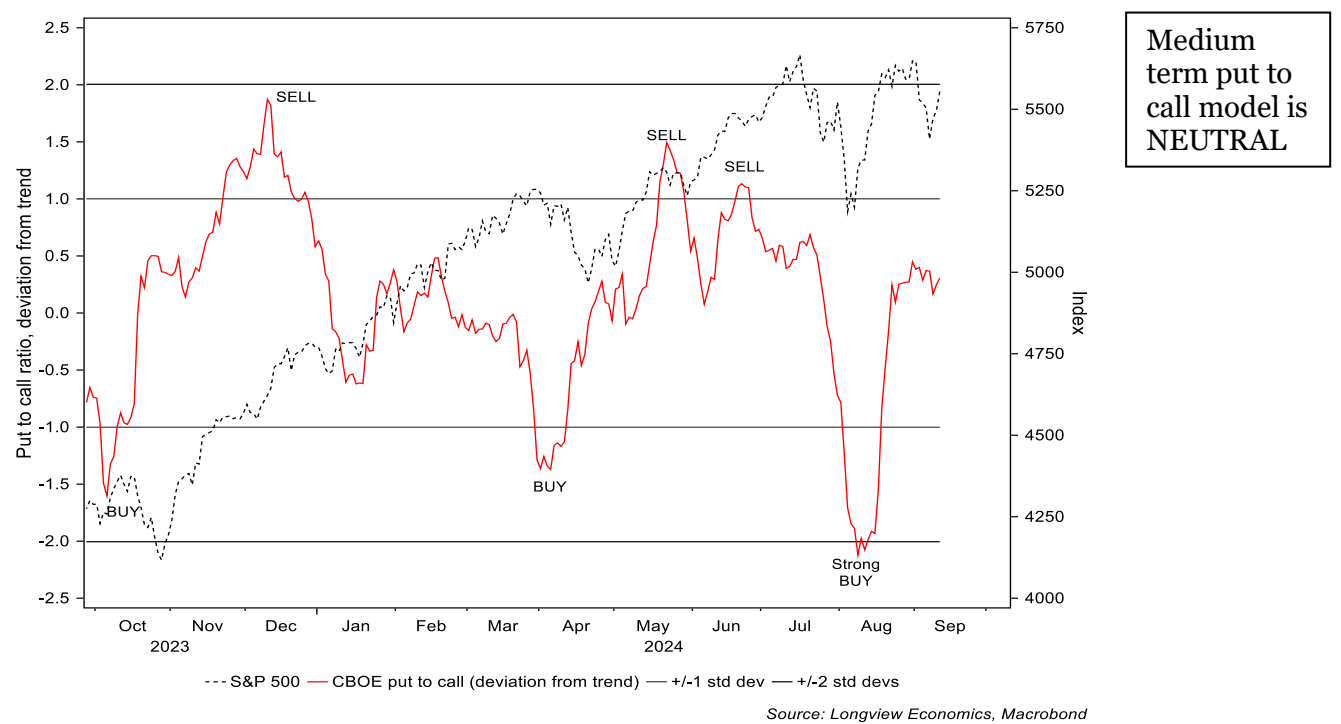


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

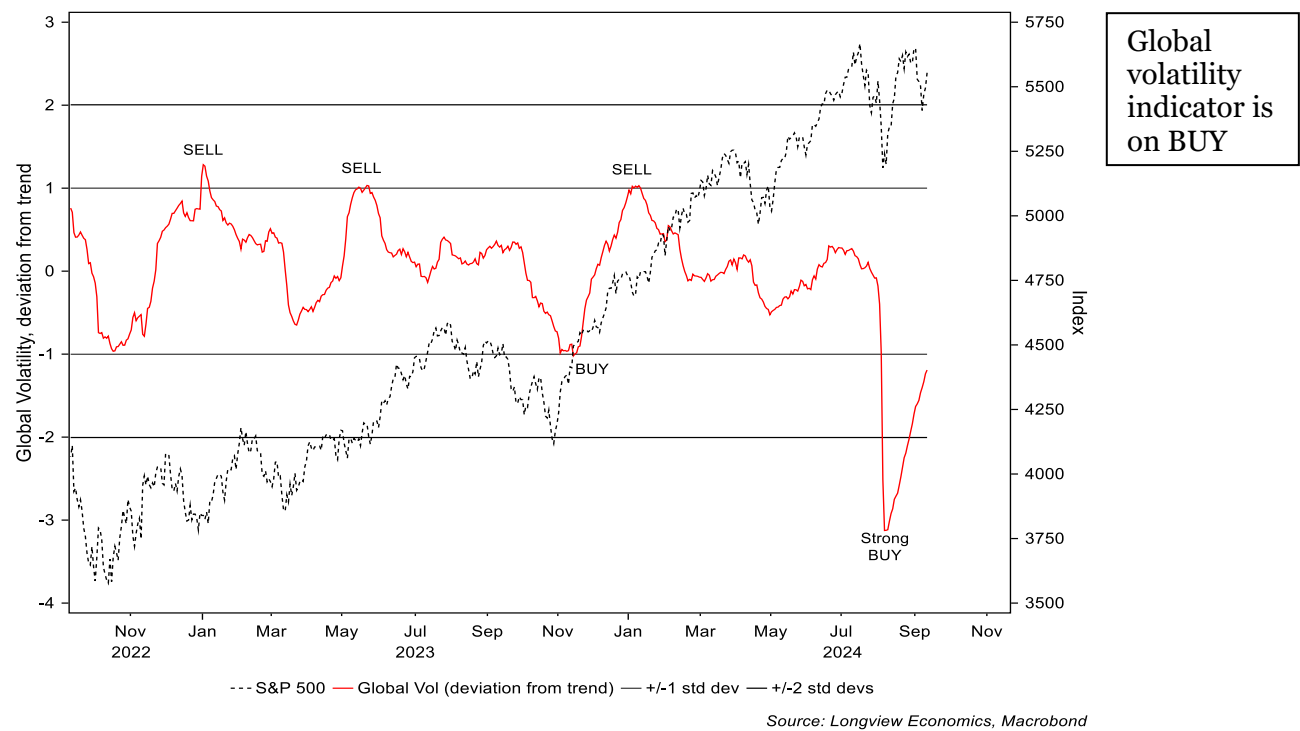


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

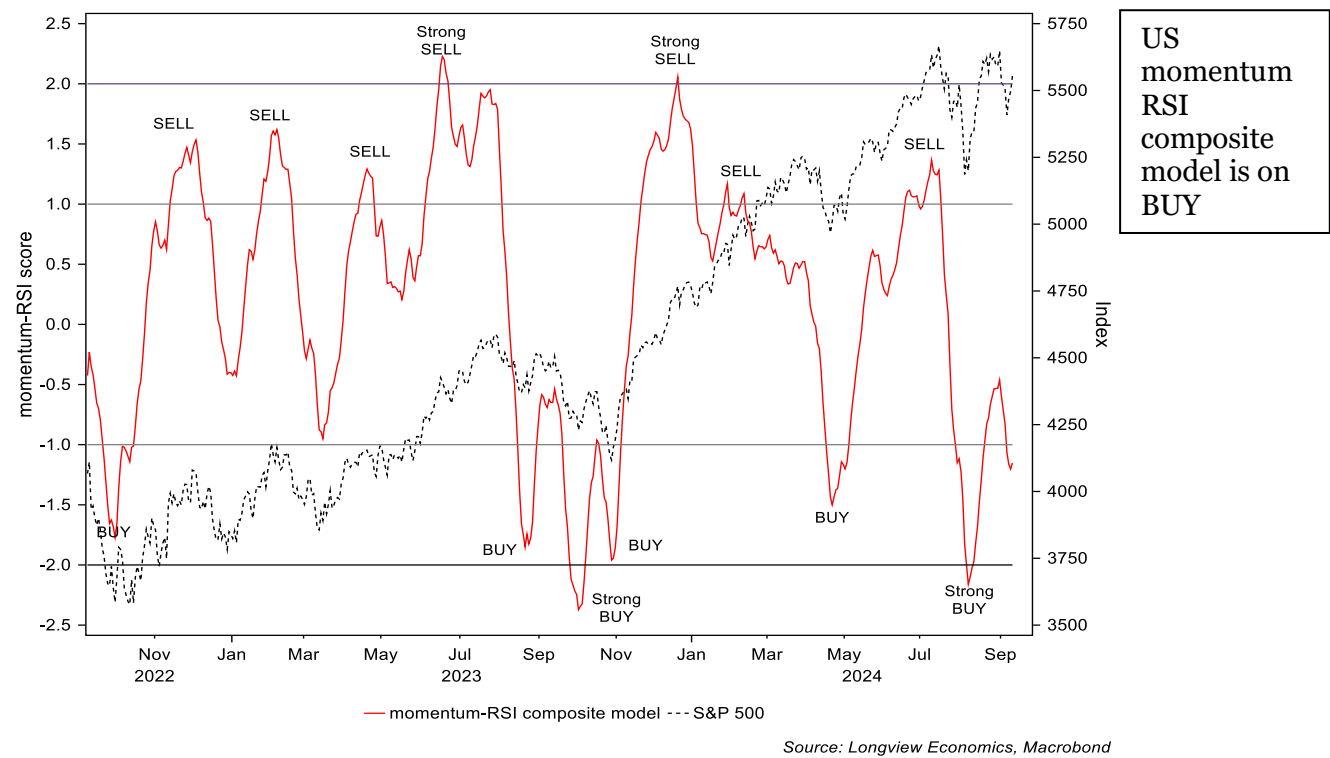


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

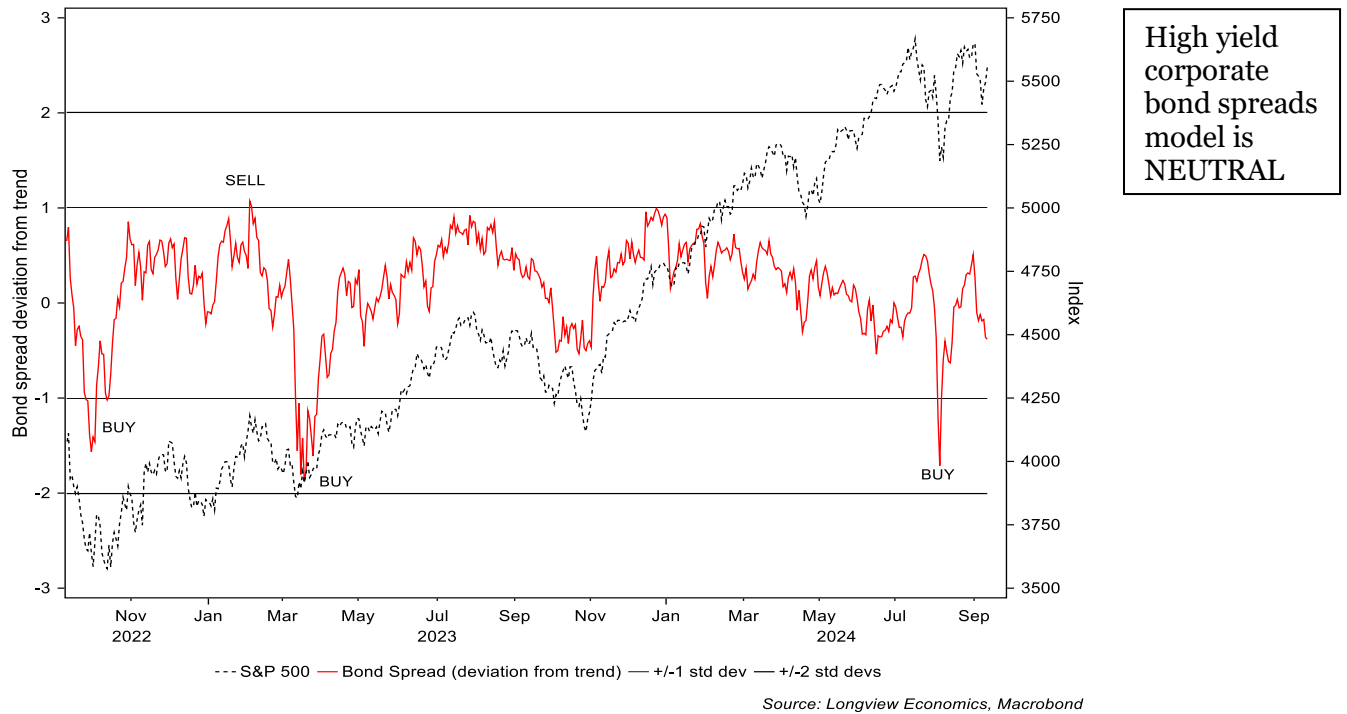
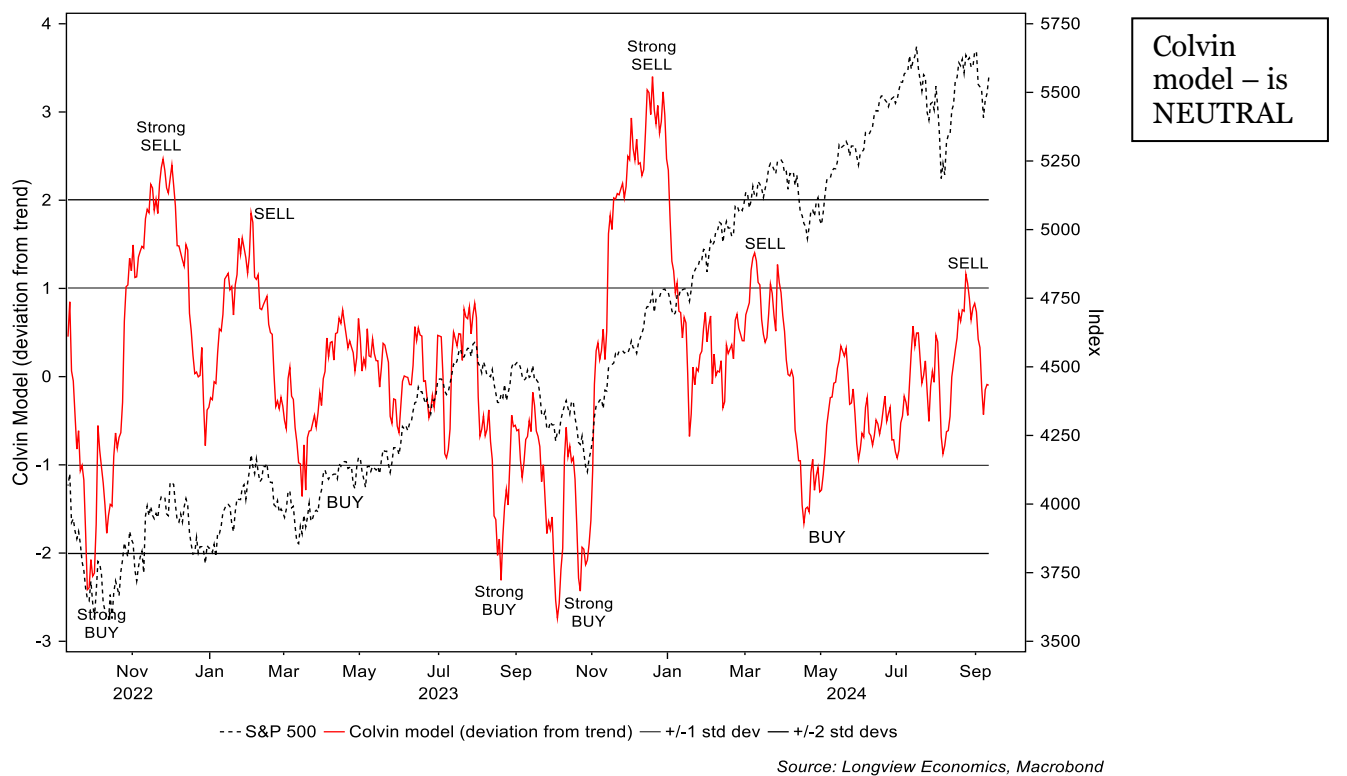


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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