

## Equity Index Futures Trading Recommendations

13<sup>th</sup> November 2024

"Is Market Consolidating? or Rolling over?"

Email: [info@longvieweconomics.com](mailto:info@longvieweconomics.com)

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

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

### Rationale

The critical question remains as outlined yesterday. **That is, are markets pricing in a new regime\*?** Has there been a regime shift driven by the newly elected Trump government (and its clean sweep of the Presidency and both Houses of Congress, as well as the popular vote). If correct and our interpretation of the Trump agenda is correct (i.e. business, stock market and growth friendly) then the risk rewards favours sticking with LONG positions until there are clear and across the board SELL signals (from both short and medium-term models).

Currently, most short-term models are on SELL (while medium term ones are mostly mid-range). In a normal market environment, therefore, we would have removed LONG positions and potentially moved SHORT. As highlighted above, though, this is not a normal market environment. This is (likely) one of those rare occasions when market positioning adjusts dramatically to price an unexpected exogenous outcome (i.e. in this instance the election – which was expected to be close). In that environment SELL signals on short term models are either false or mark a period of consolidation (and an opportunity to keep BUILDing LONG positions). Below, for example, we reproduce the short-term risk appetite scoring system model for the last Trump election (2016 – FIG 2a). Whilst there are differences this time (i.e. Trump is more of a known quantity etc), there are also parallels (i.e. the extent of his victory was a surprise etc). In that respect, and as the charts shows in the 2016 regime shift, the initial SELL signals were overwhelmed/ignored by the market (including the mid November 2016 SELL signal).

**For choice, therefore, we'd expect this market to either shortly resume its uptrend or undergo a period of consolidation** before then resuming its uptrend. In both instances, risk reward favours STAYing LONG S&P400 and S&P500 futures (and potentially ADDing to those positions if models ease off as the market trends sideways).

**Risks, as always, are multiple** and include (most obviously) that we're wrong on 'regime change'. Equally US CPI data is published later today. A surprise data point could generate volatility in the equity market (albeit that's a two-way risk). Other risks include spillover from the poor price action that has been happening in the European markets (e.g. see yesterday's weakness in the French CAC -2.7%; German DAX -2.1% and Italian equity market -2.1%). Those markets have (likely) struggled in recent days as various EZ sovereign spreads over bud yields have widened (e.g. see FIG 1d). Other risks include the ongoing threat (& likelihood) of retaliation in the Israeli Iranian conflict.

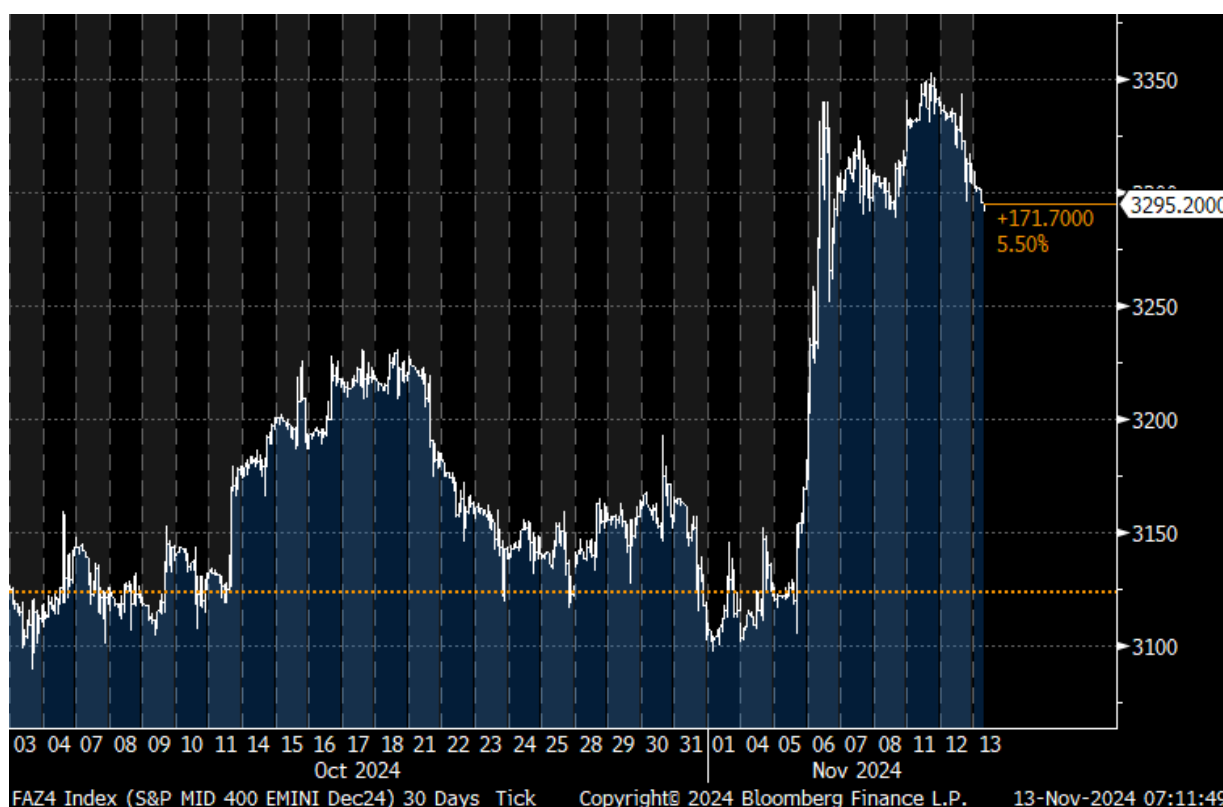
Please see below for a full list of today's key macro data and earnings.

Kind regards,

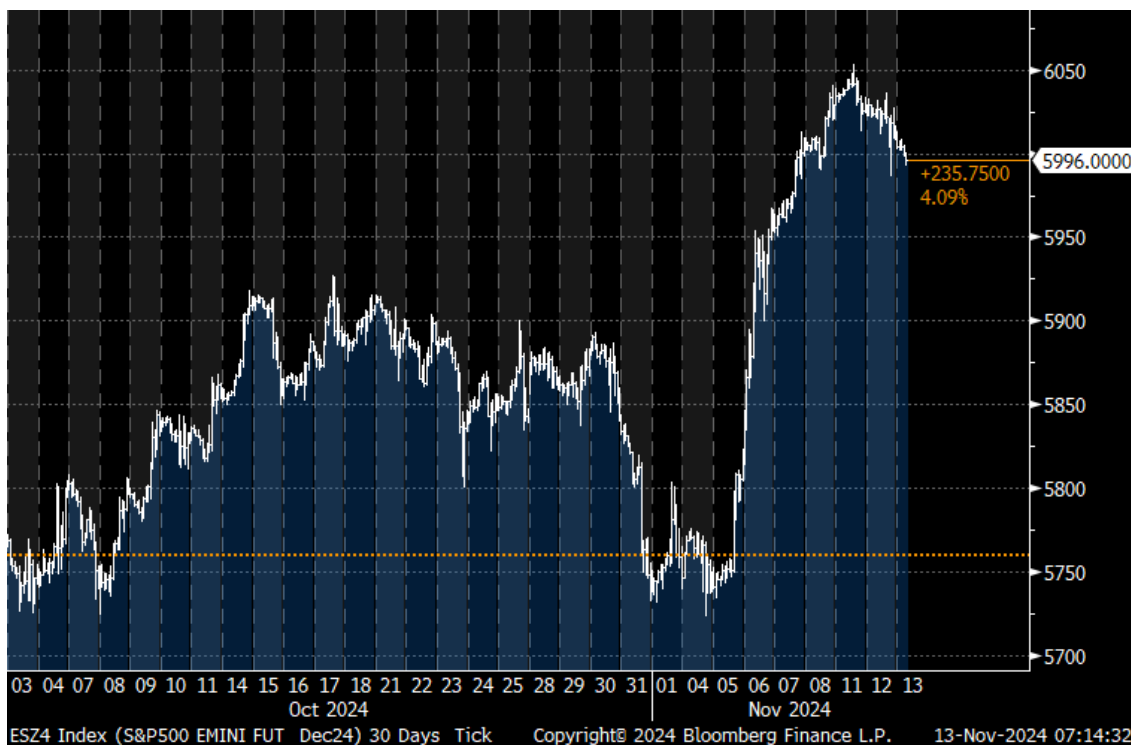
The team @ Longview Economics

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

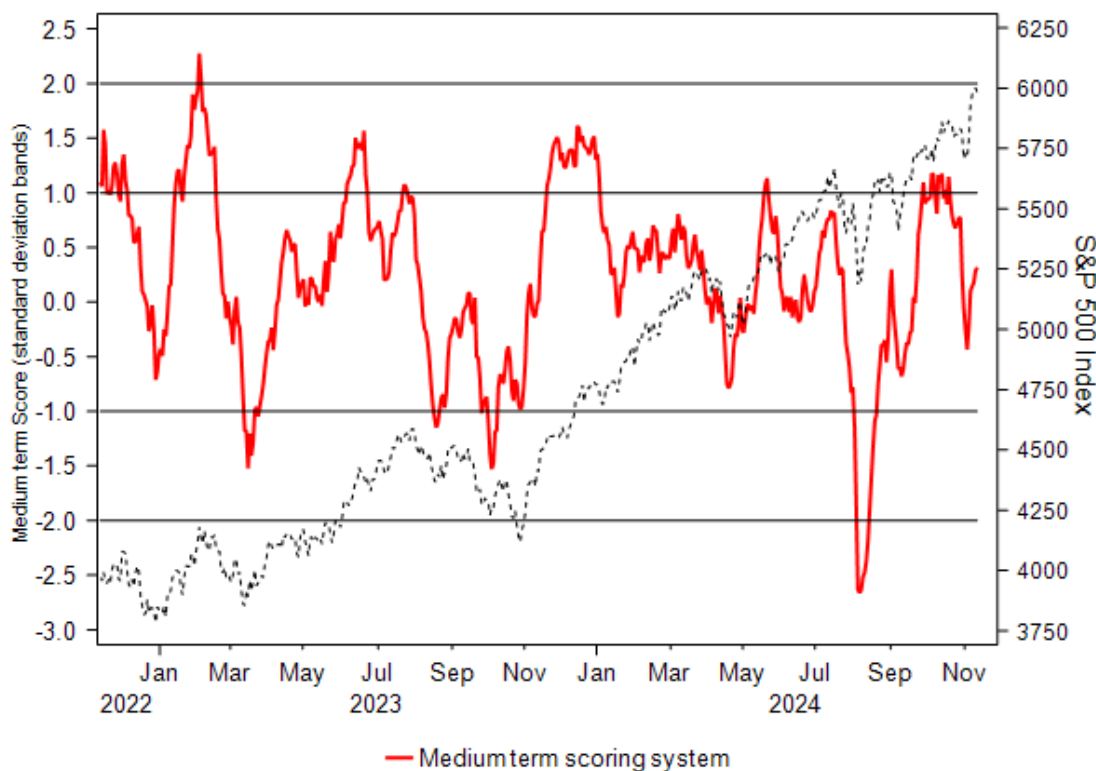
**FIG 1: S&P400 mid-cap futures 30-day tick chart shown with overnight price action**



**FIG 1a: S&P500 futures 30-day tick chart shown with overnight price action**

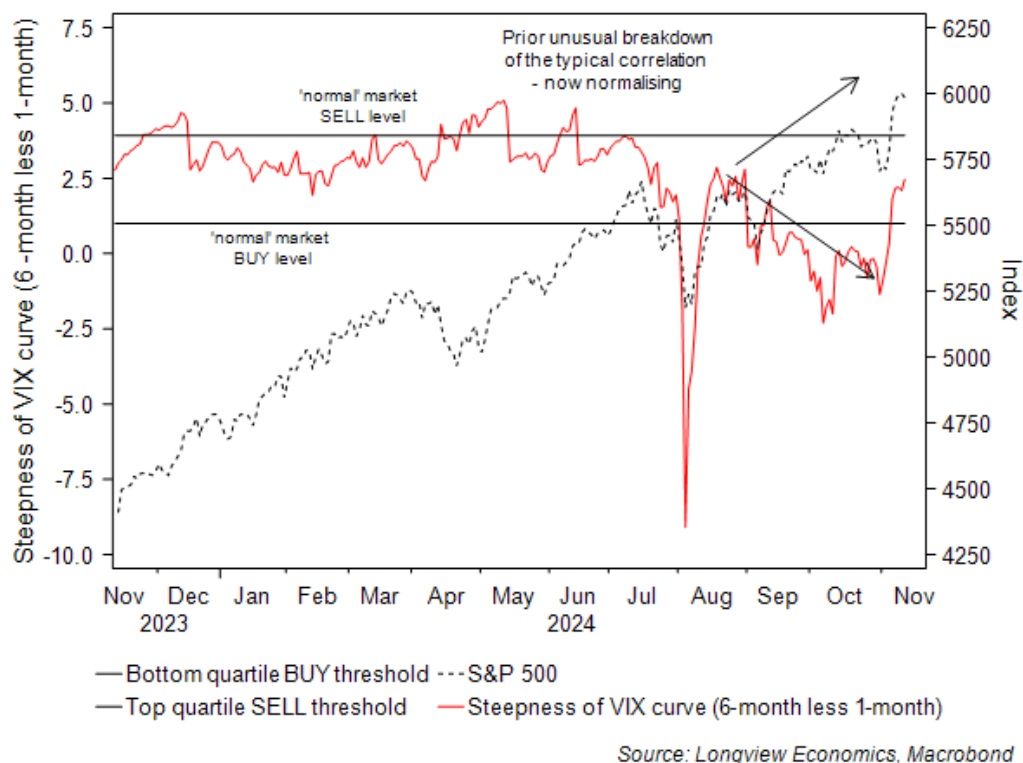


**FIG 1b: Longview medium term ‘risk appetite’ scoring system vs. S&P500**

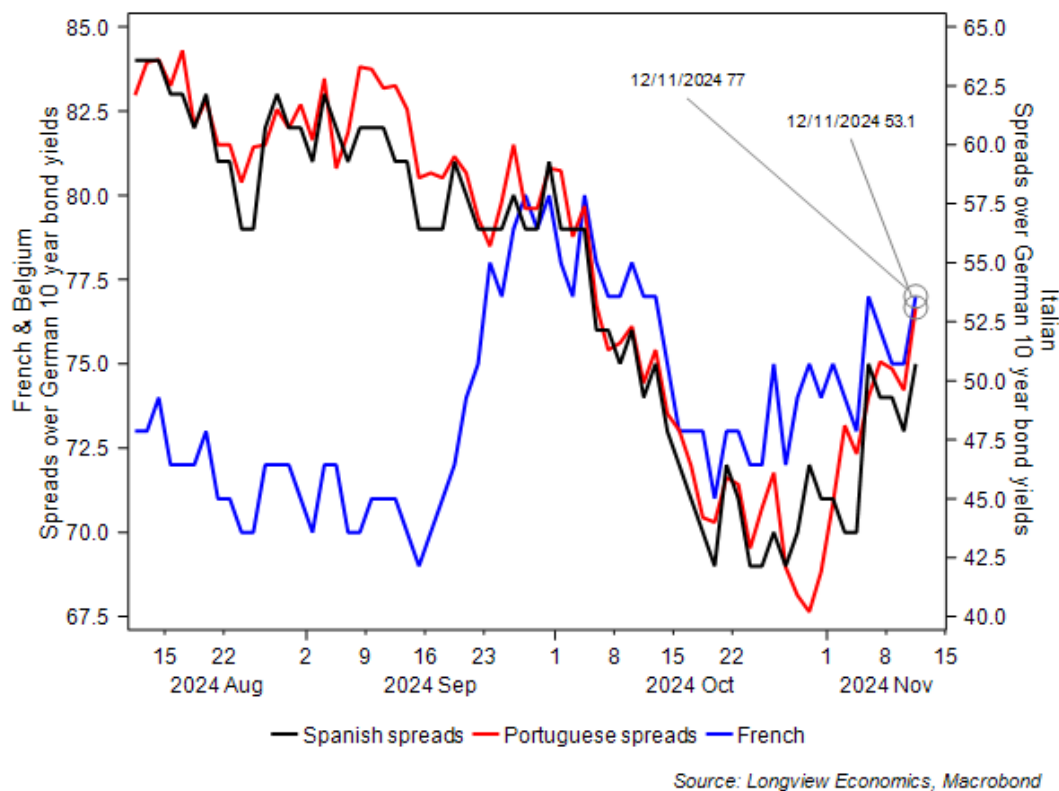


Source: Longview Economics, Macrobond

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

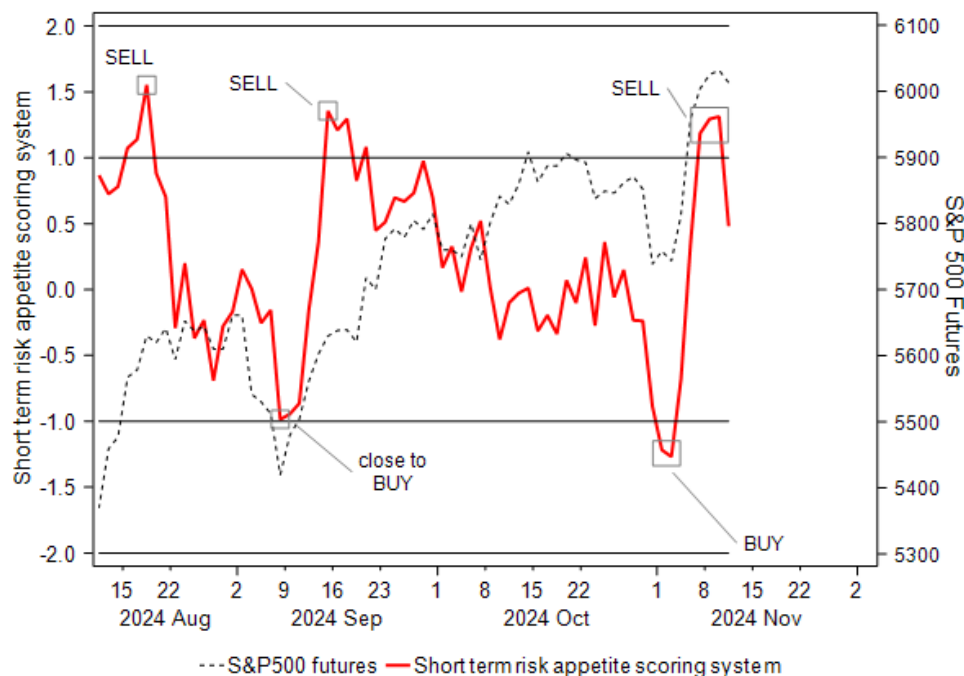


**FIG 1d:** Various EZ sovereign spreads over bund yields (bps)



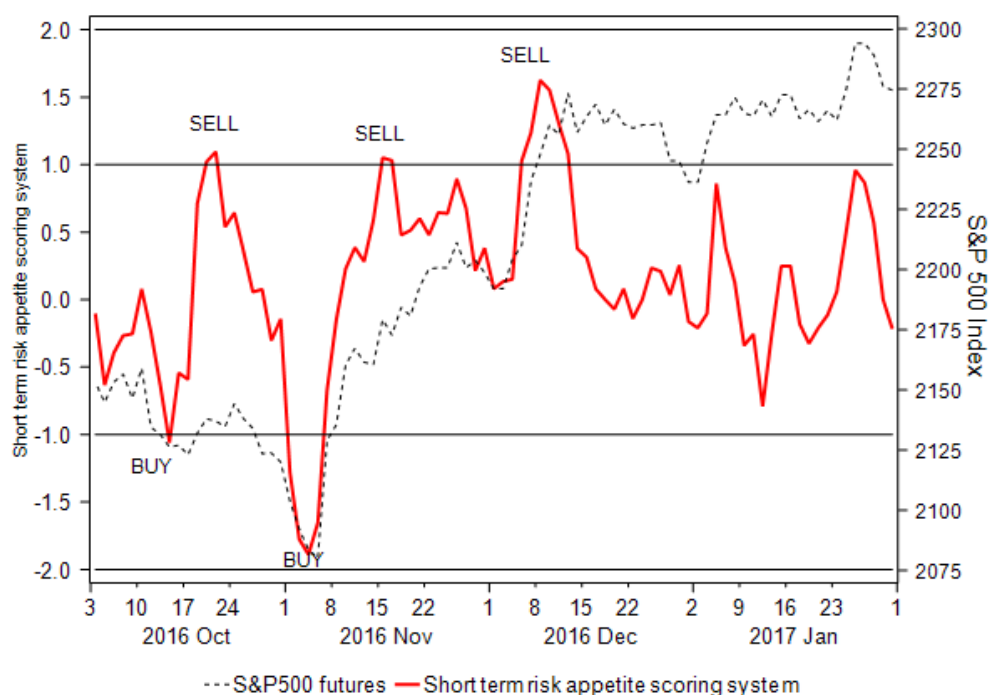
## Short-term risk appetite models have rolled over from SELL...

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



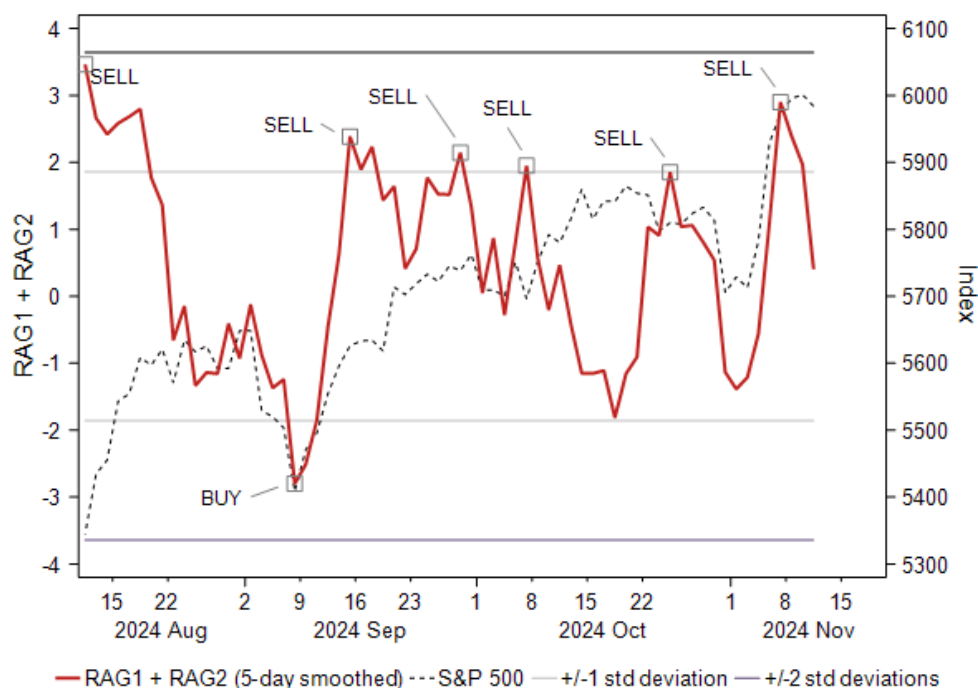
Source: Longview Economics, Macrobond

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



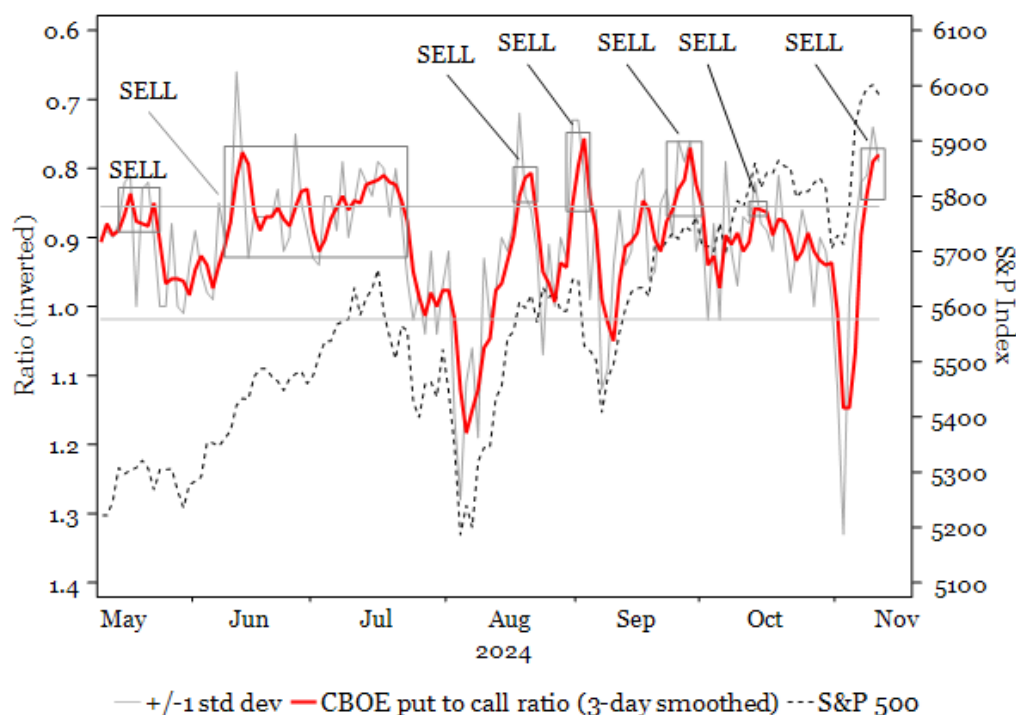
Source: Longview Economics, Macrobond

**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

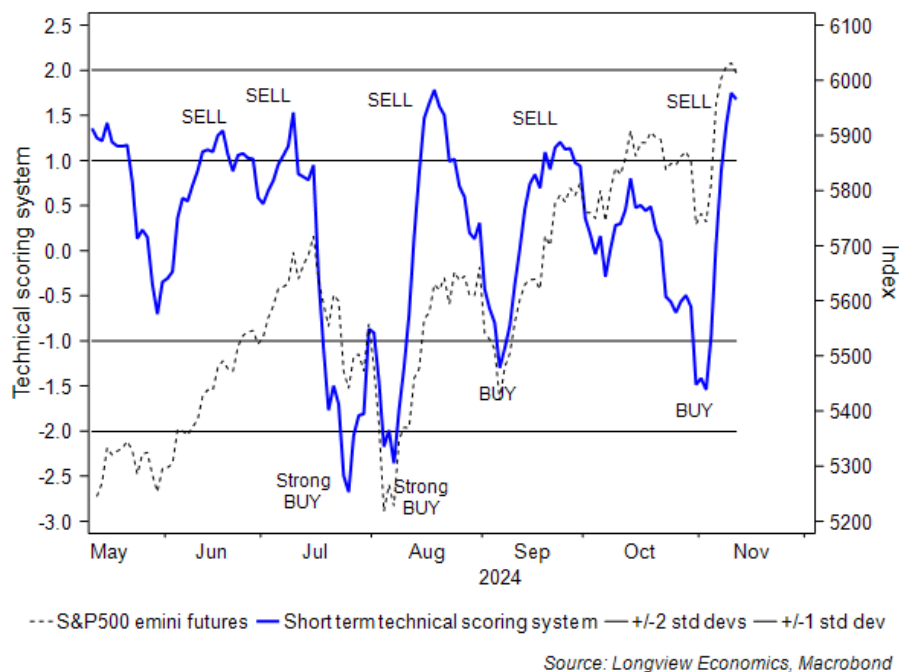


Source: Longview Economics, Macrobond

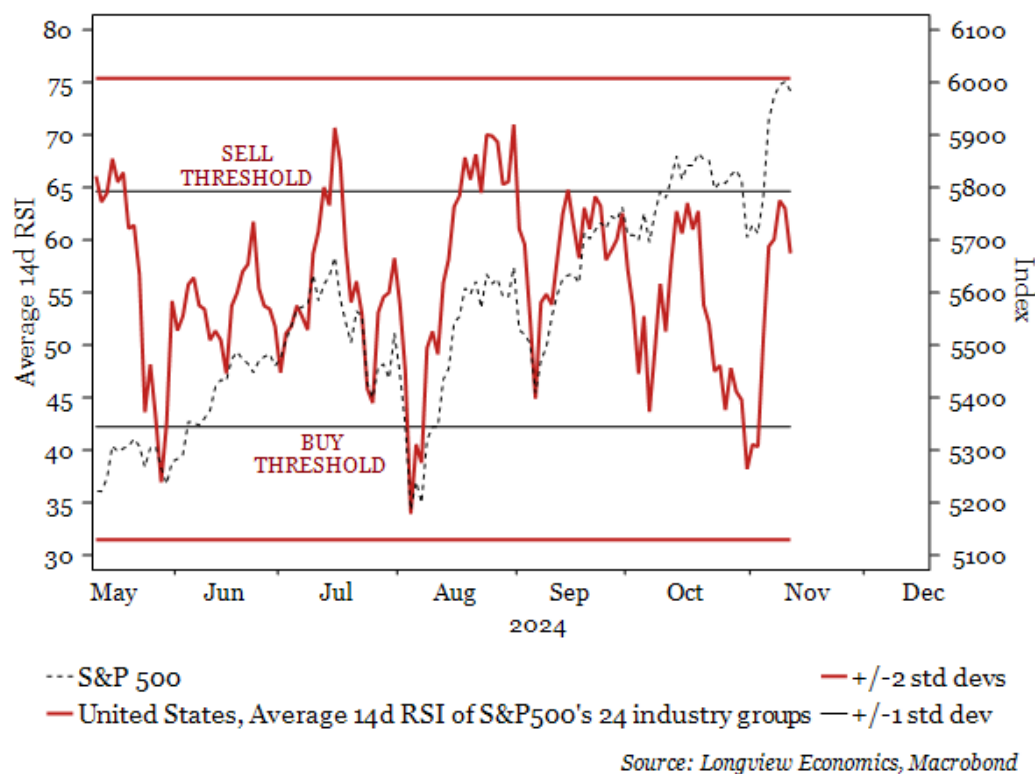


**Short term technical models are starting to roll over from SELL signals...**

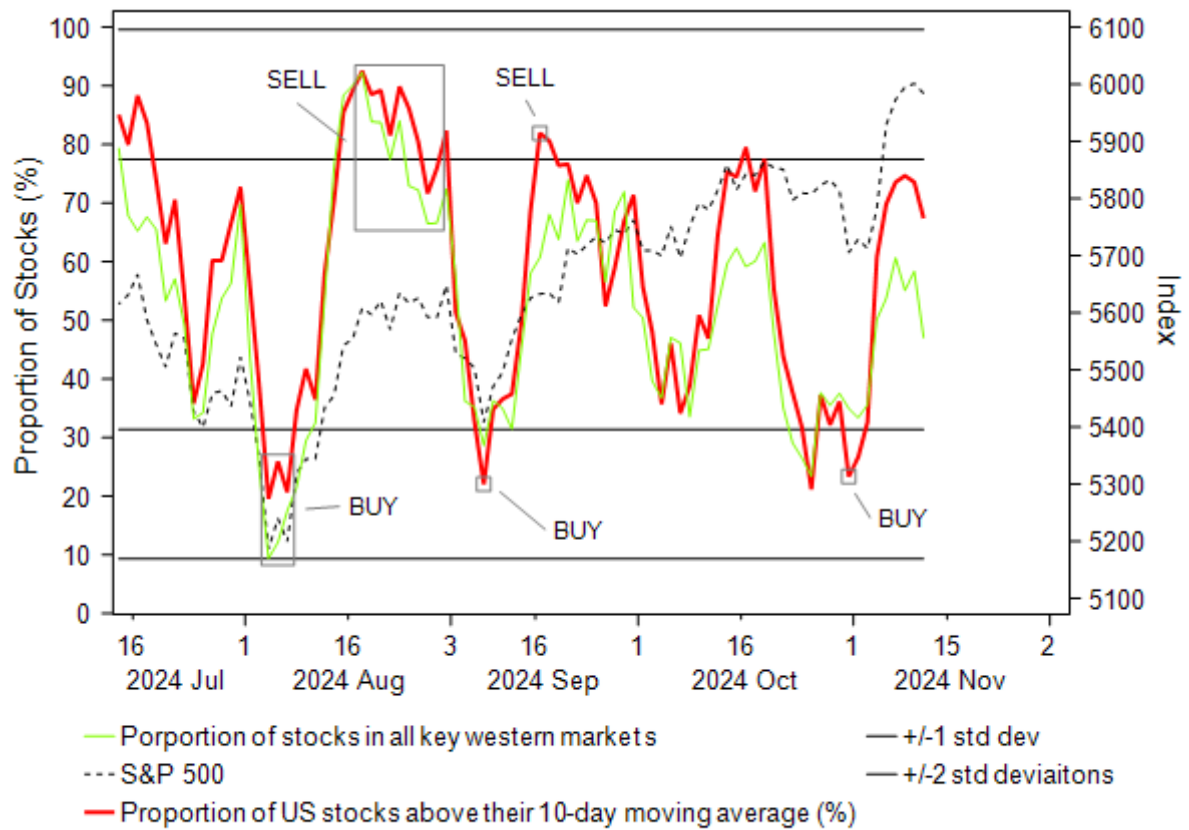
**FIG 3:** Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



**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



Source: Longview Economics, Macrobond

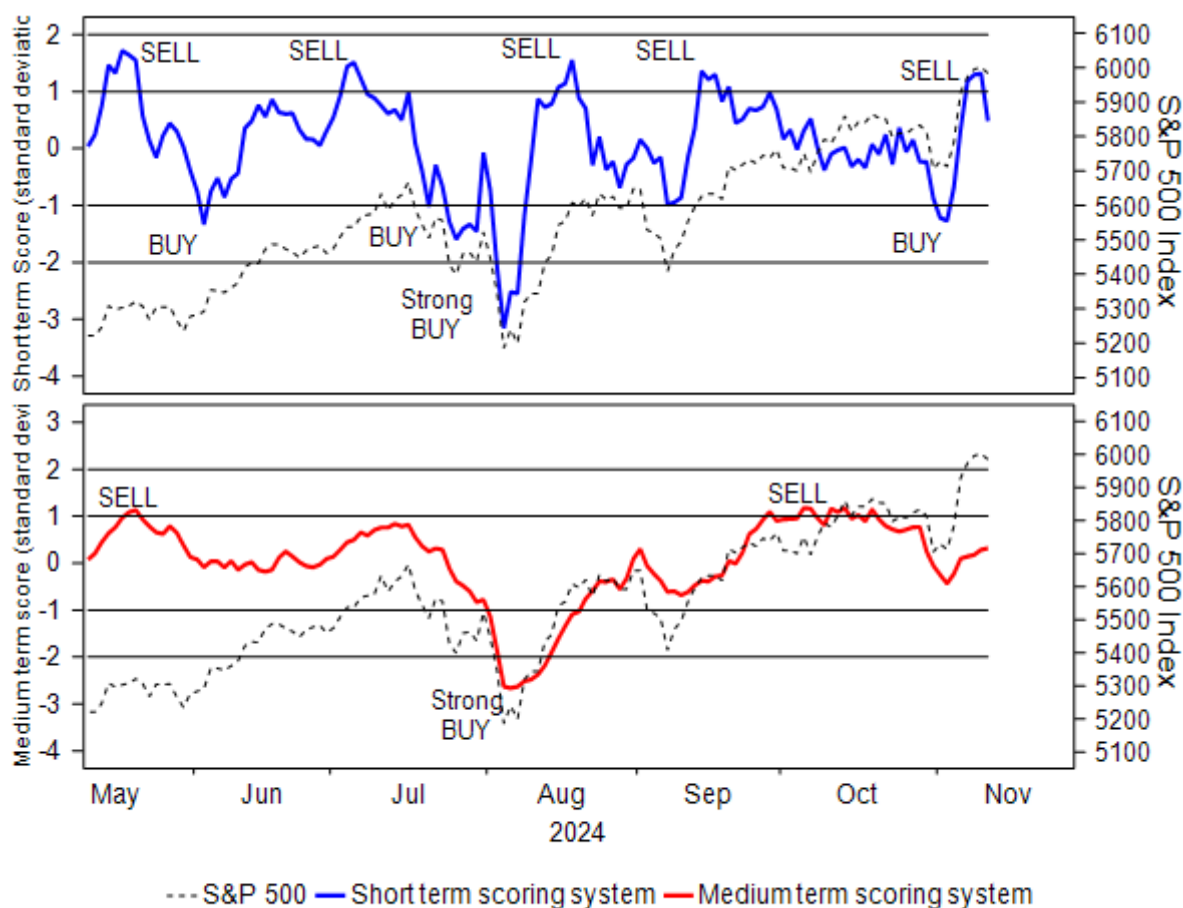


### Key Longview Scoring Systems (chart below):

**Short term** (1 – 2 week) scoring system: **NEUTRAL** (from SELL earlier this 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

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**Key data** today include: Australian wage price index (Q3, 12:30am); French unemployment rate (Q3, 6:30am); Eurozone industrial production (Sept, 10am); **US headline & core CPI** (Oct, 1:30pm); US monthly budget statement (Oct, 7pm).

**Key events** today include: Riksbank minutes from November (8:30am); speech by the Bank of England's Mann at BNP Paribas' Global Markets Conference (9:45am); speeches by the Fed's Logan at Energy conference (2:45pm), Musalem on the Economy and monetary policy (6pm) & Schmid at Energy conference (6:30pm).

**Key earnings** today include: **Cisco**, Copart, Aristocrat Leisure.

## Definitions & other matters:

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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 6<sup>th</sup> November 2024. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).



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## 1 – 2 Week View on Risk

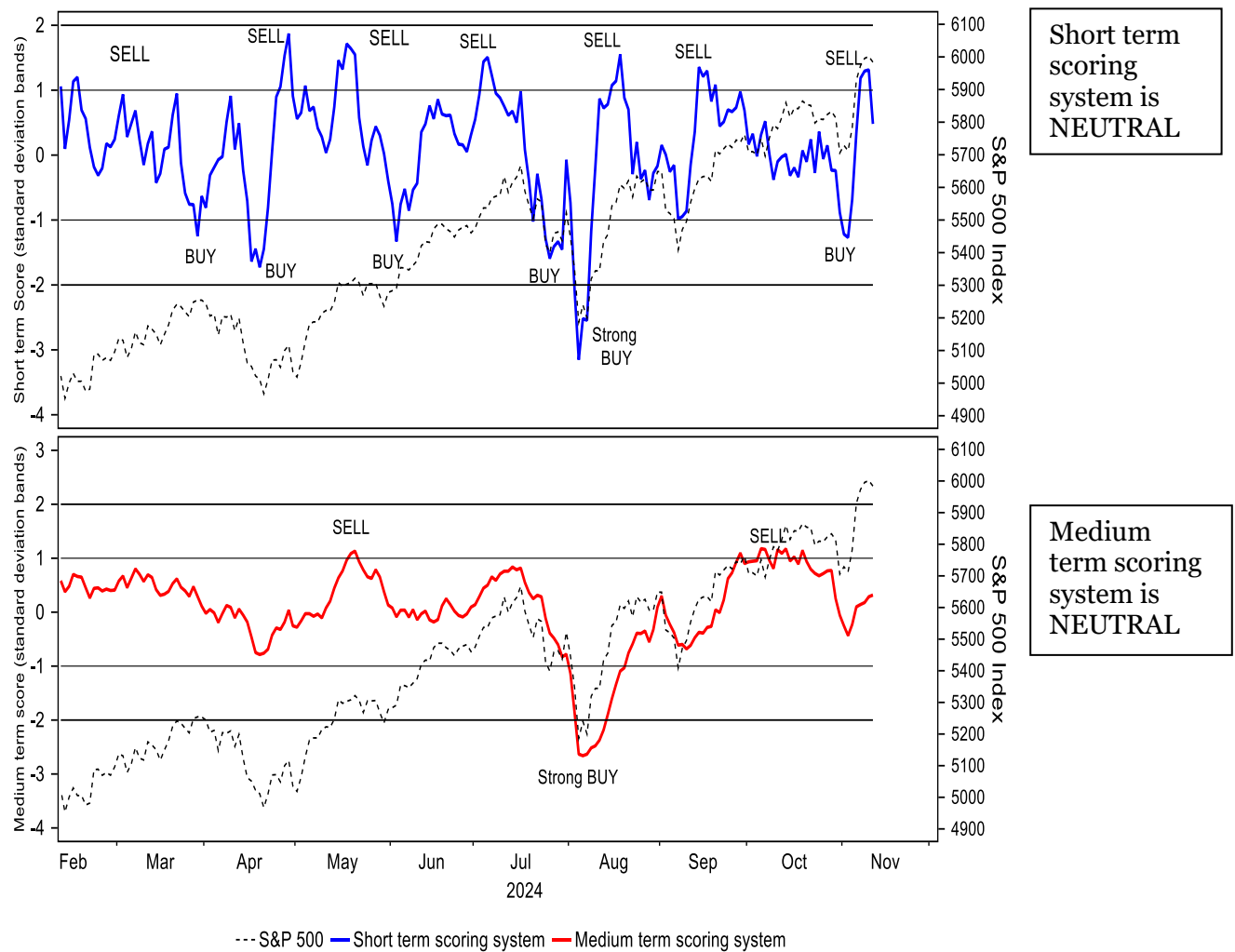
Longview Economics

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13<sup>th</sup> November 2024

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

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



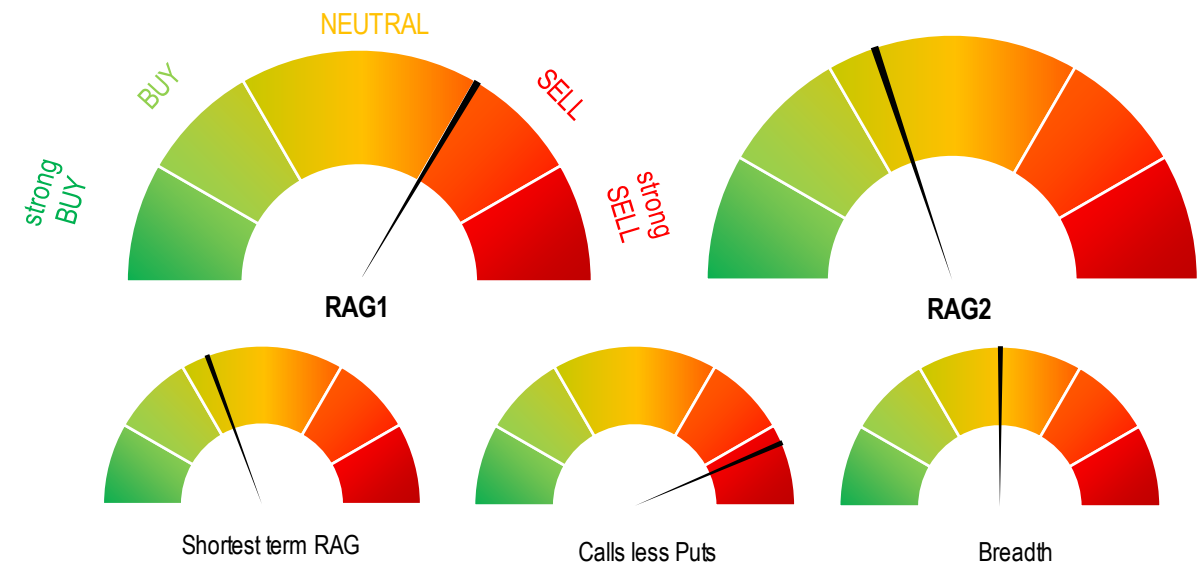
Source: Longview Economics, Macrobond

\*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**

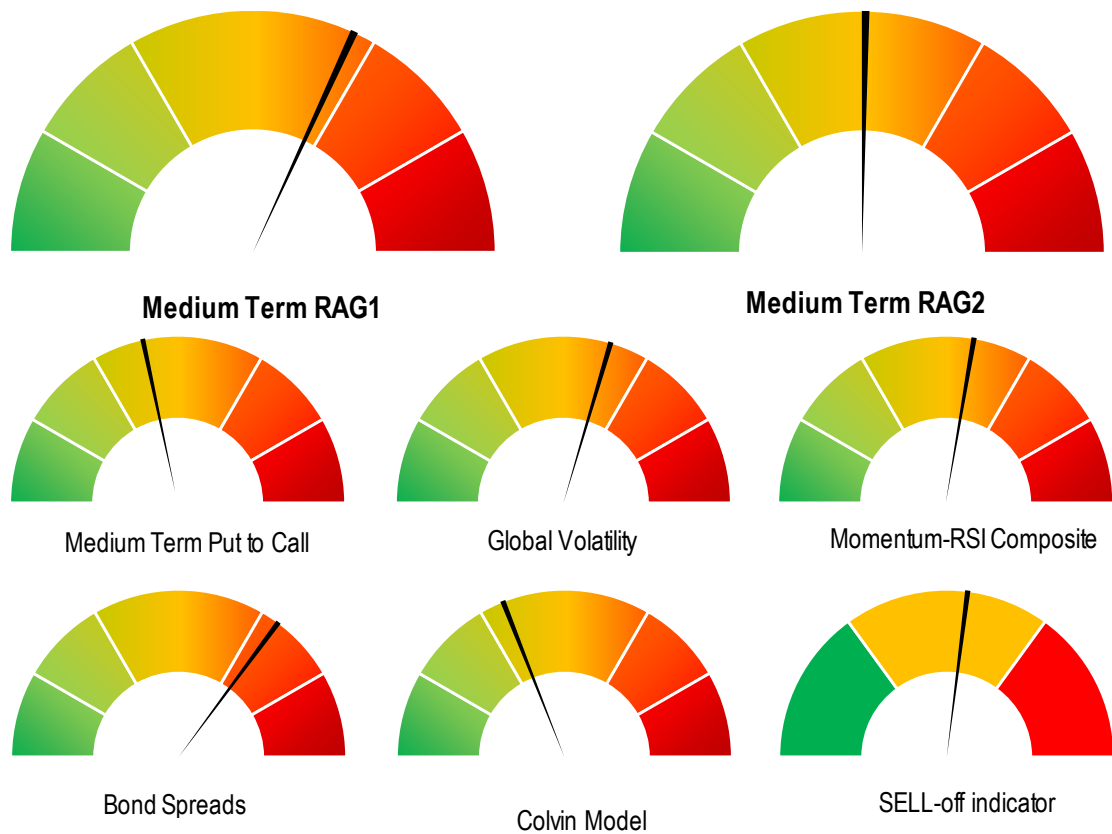
**Section 1a: Summary of indicator signals\*\***

**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

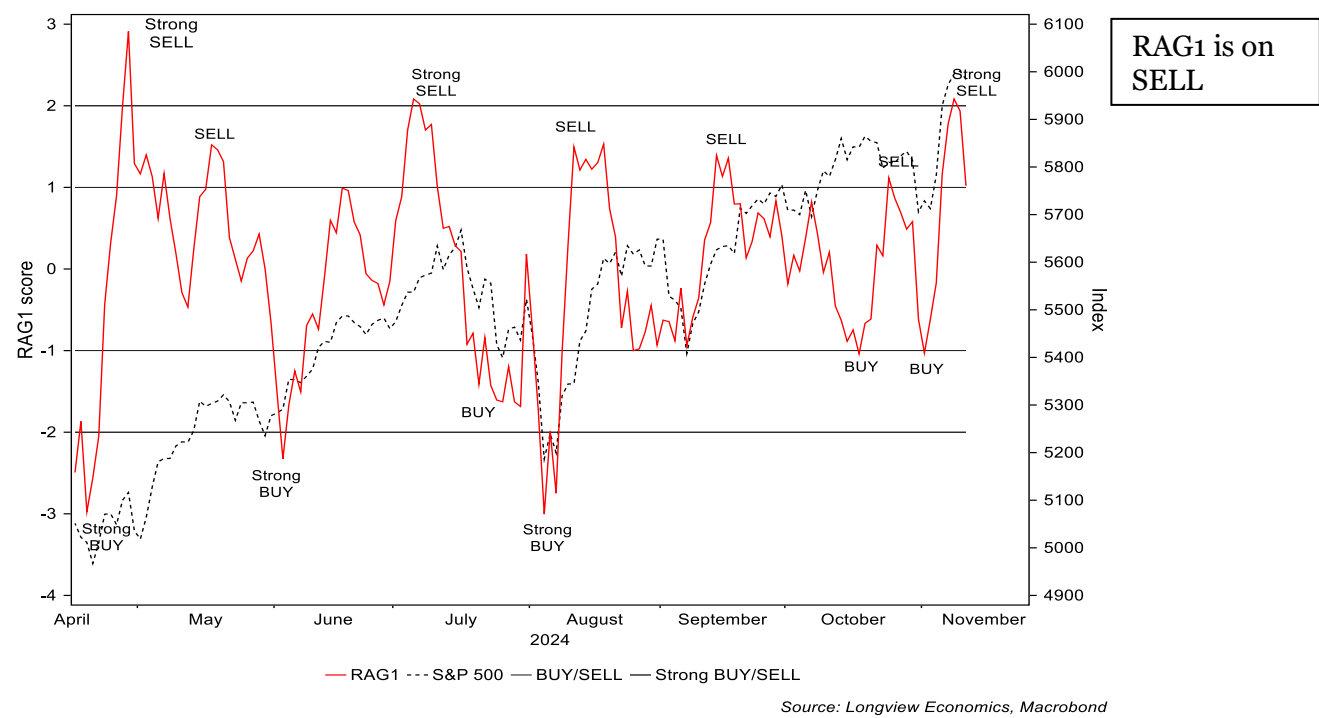
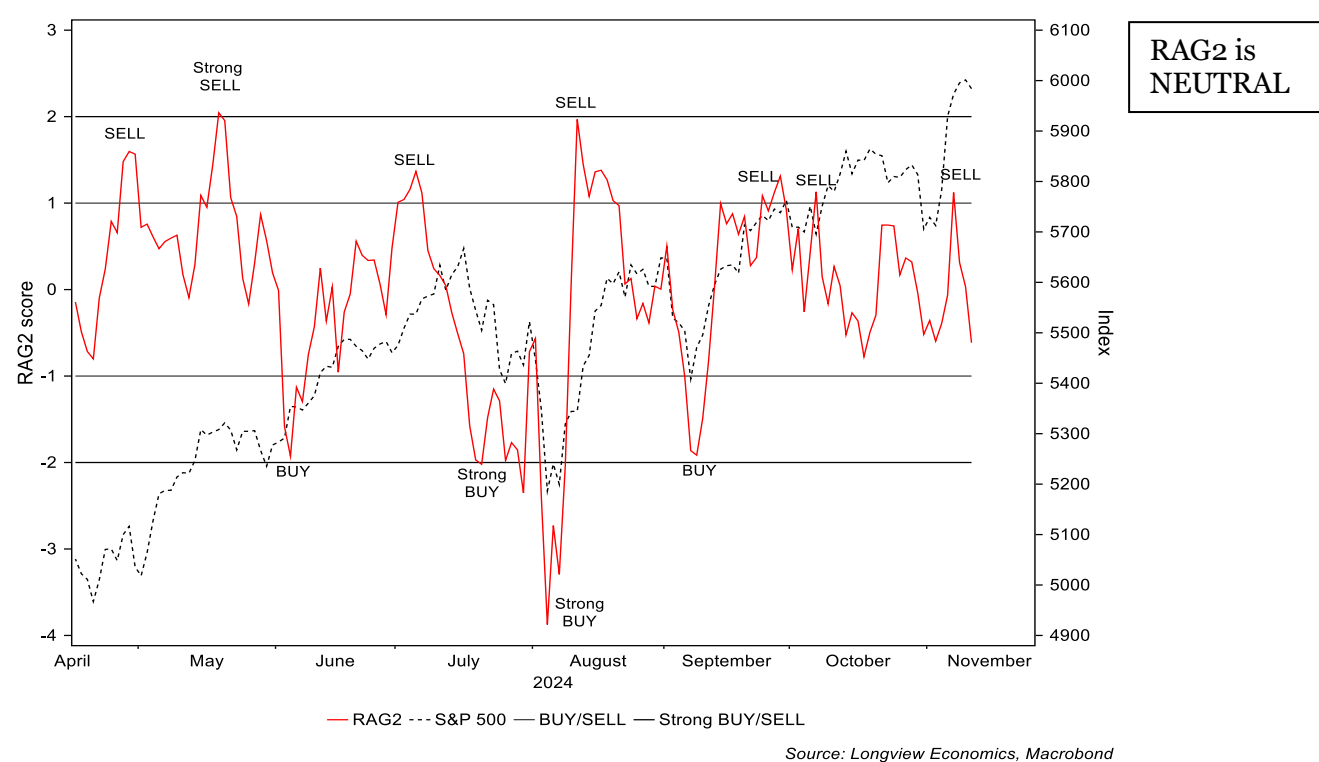
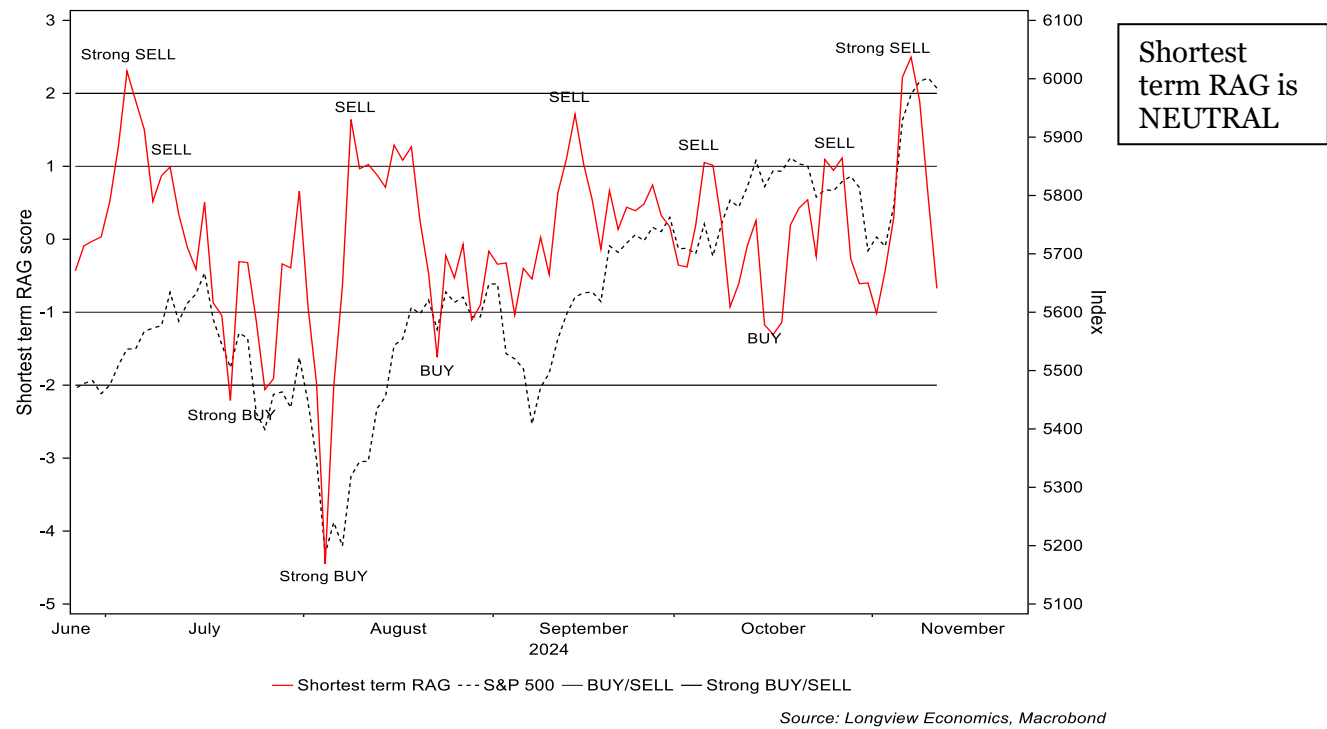


Fig 2b: RAG 2 vs. S&P 500

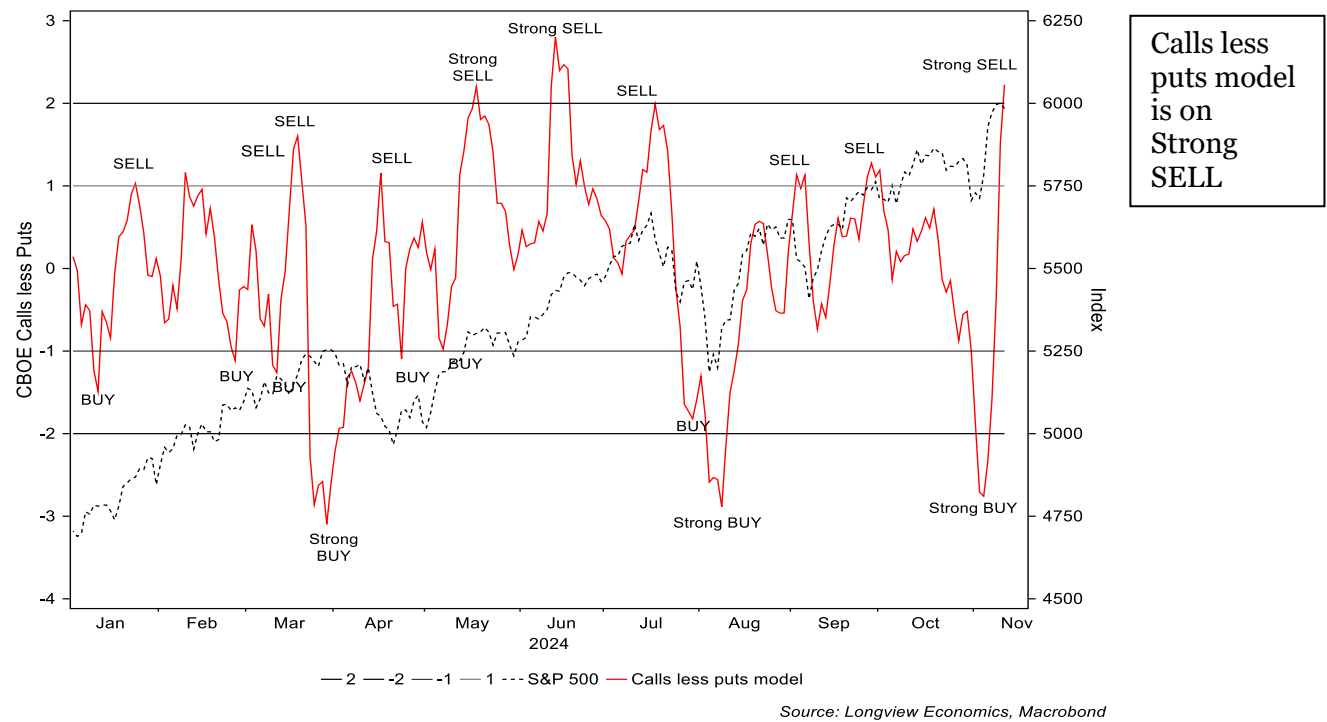


For explanations of indicators please see page 10

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



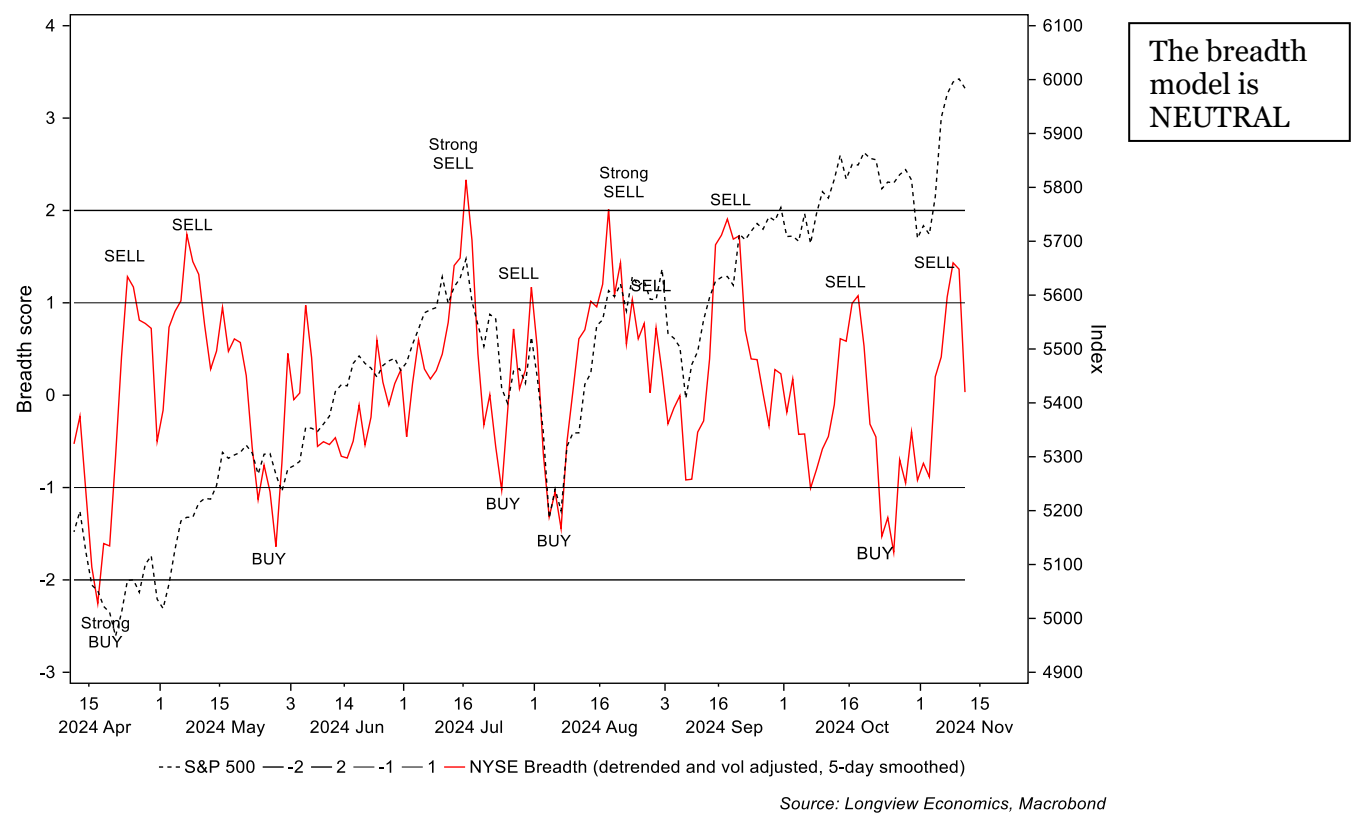
**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**For explanations of indicators please see page 10**



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



*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

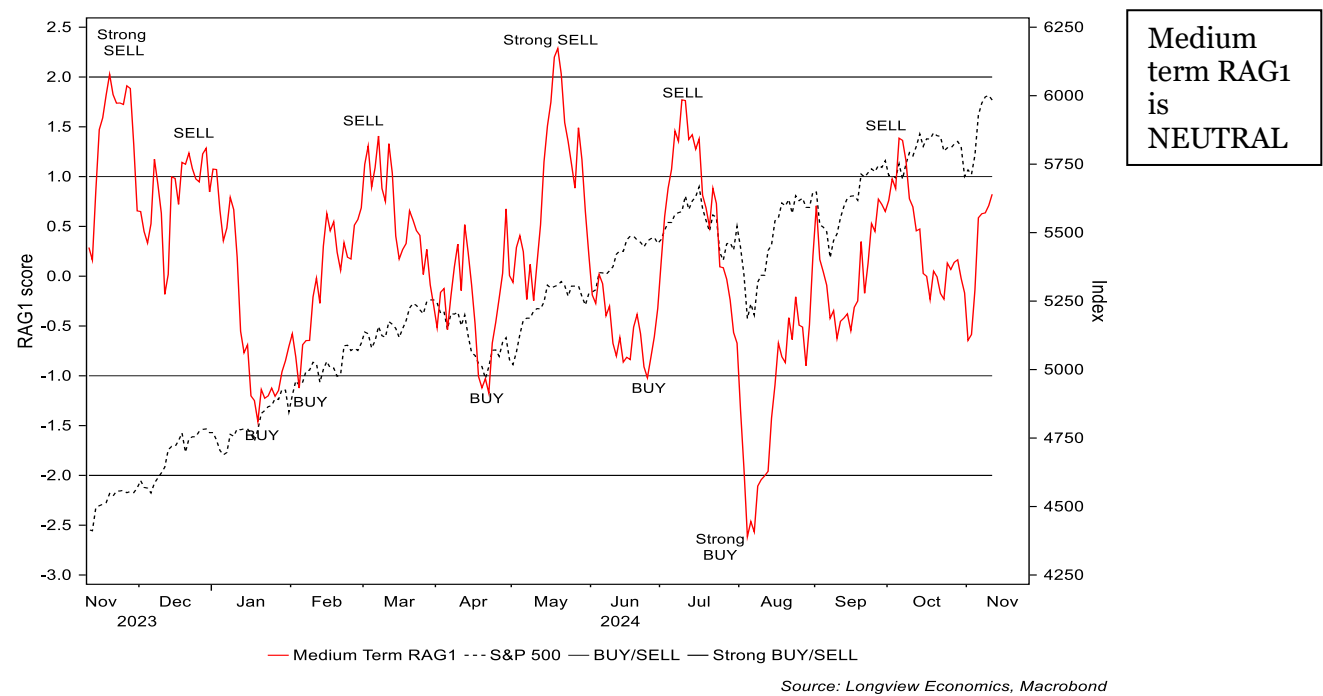
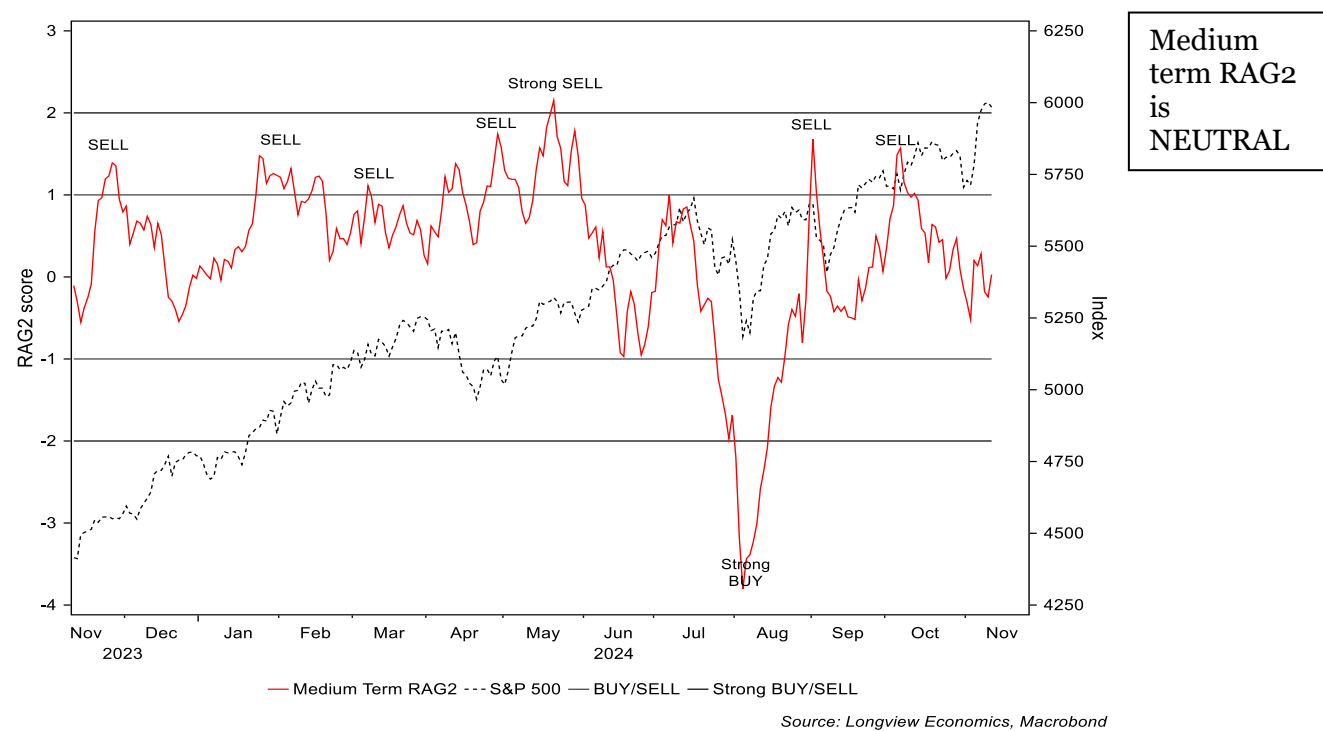
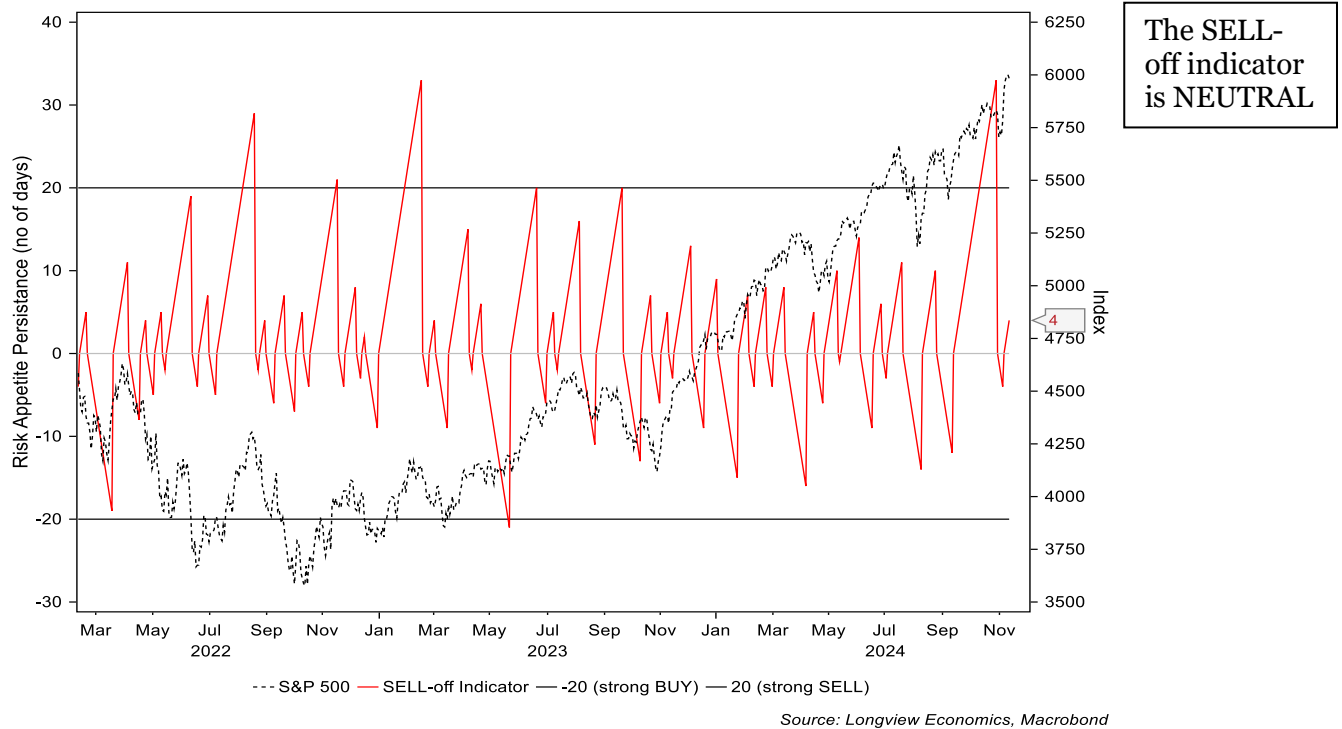


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

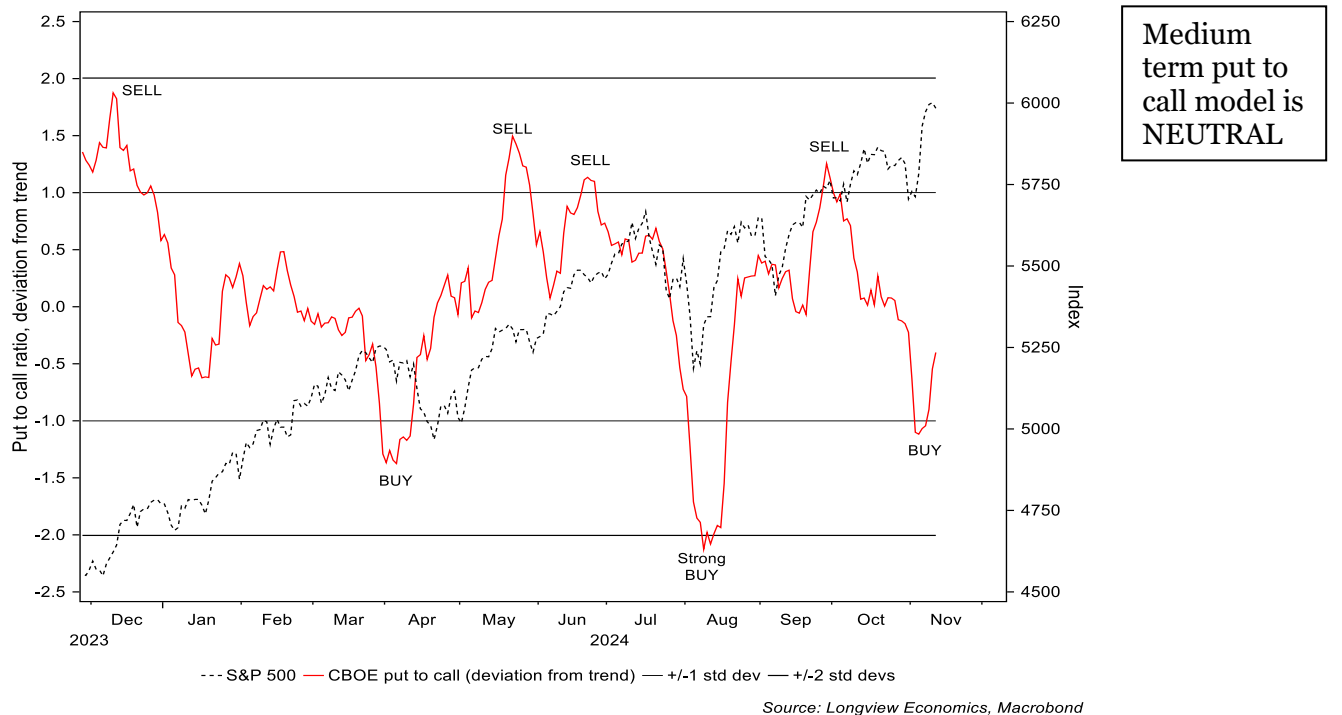


For explanations of indicators please see page 10

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

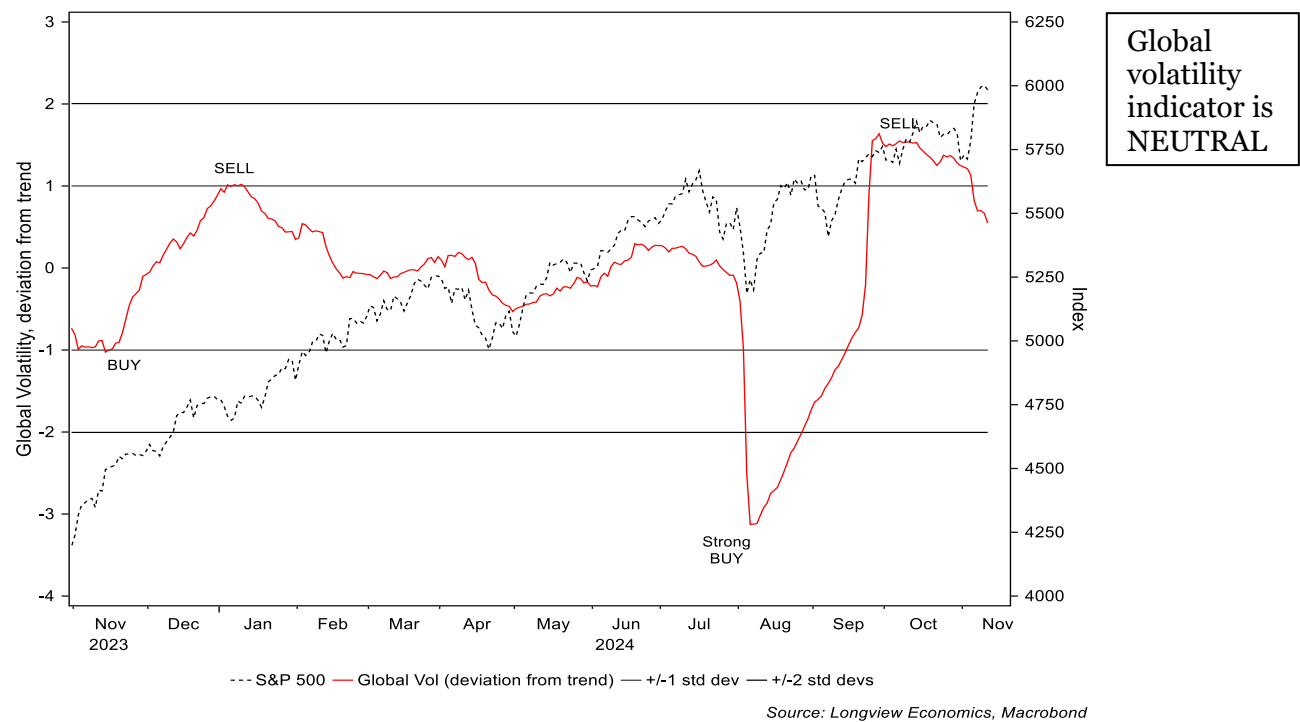


**Fig 3d: CBOE put to call trend deviation model vs. S&P500**

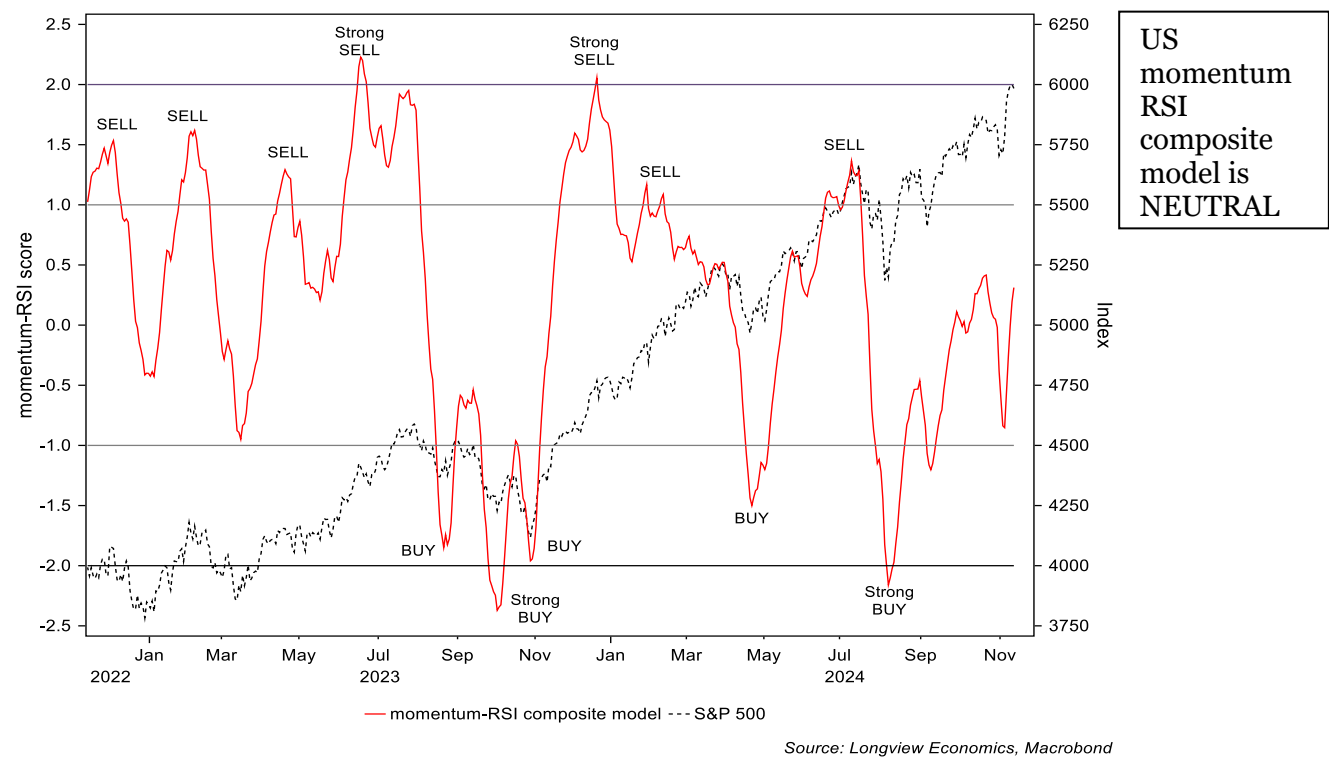


**For explanations of indicators please see page 10**

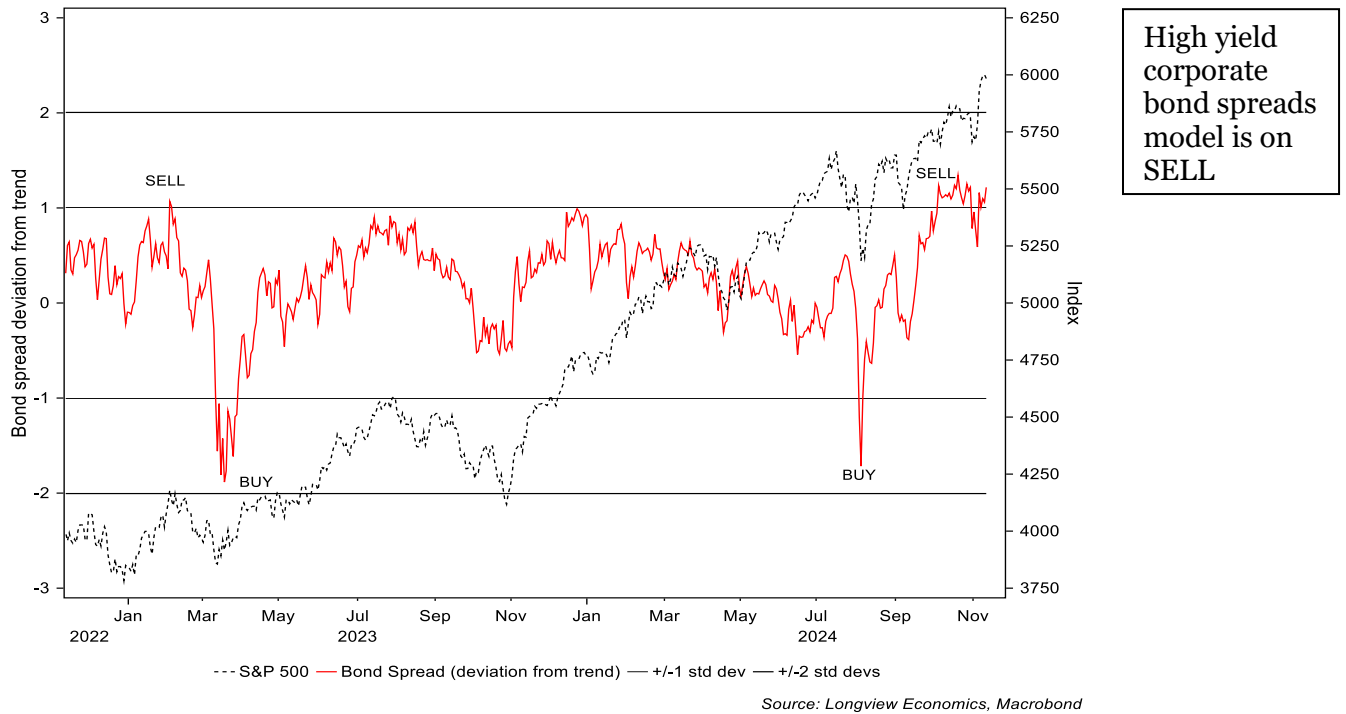
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



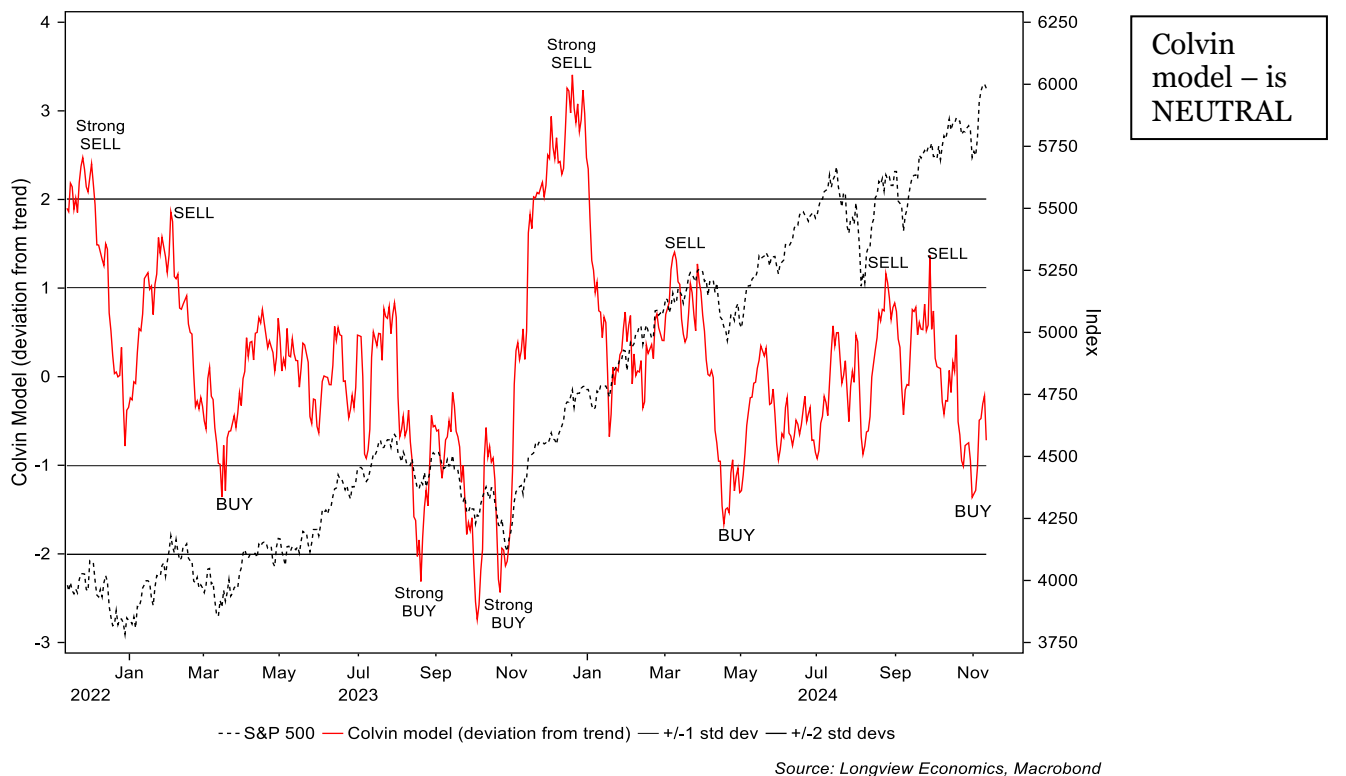
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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

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### **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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