# Equity Index Futures Trading Recommendations

13th September 2024

"Stand Back/WATCH & WAIT (for now)"

*Email: info@longvieweconomics.com*

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

- WATCH & WAIT (for now)

**Rationale**

With continued strength in equities over the past 24 hours, we have been stopped out of our 'opportunistic' SHORT S&P500 futures position (@ 5,600). The extra leg down that we'd been anticipating didn't come to pass. Strength in markets was largely across the board, with 27 out of the 28 main US indices higher on the session, all sectors positive as well as most industry groups. US small and mid-caps led the market higher with both the R2K and the S&P600 small caps +1.2%, helped by a modest narrowing of US HY corporate bond spreads (i.e. reversing some of the prior day's weakness). Sector leadership came from 'Communication Services' and 'Consumer Discretionary'. In contrast, the Philly SOX was down on the day (but only -0.2%), while the YEN has continued to make new highs against the dollar (i.e. risk off) and various Asian (especially Chinese) equity markets have sold off again overnight (making new lows – e.g. see the CSI300).

Both the SOX and NDX100 have generated a technical pennant price pattern (with lower highs and higher lows). Both indices are now close to the top of that formation (i.e. at an initial resistance level). The NDX100 is also at its 50-day moving average (as is Nvidia) – FIG 1b. Traded volumes were at average/normal levels yesterday (i.e. not providing any sense of conviction levels, or lack thereof). Of note, there was some pick-up in single stock call option buying (from low levels) – i.e. some renewal of speculative interest in the mega cap tech stocks (some of which have bounced from key support levels, e.g. see Microsoft - FIG 1d).

Most of our key short term market timing models are mid-range (having been on BUY at the end of last week/earlier this week, FIGs 2 – 2e). The NASDAQ100, though, is close to overextended in the short term (FIG 1bi), whilst its 10-day moving average remains below its 50-day (i.e. implying its primary short-term trend remains to the downside).

Given that NEUTRAL message of the models (i.e. no strong steer), coupled with the proximity to a potential resistance level (i.e. the top of the pennant formation), we recommend WATCHing and WAITing at this juncture (to see how price action and models evolve after the four up days this week). It's also good discipline to stand back the day after being stopped out. Key events today include the first estimate of Michigan sentiment (see below for full list).

Kind regards,
The team @ Longview Economics

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

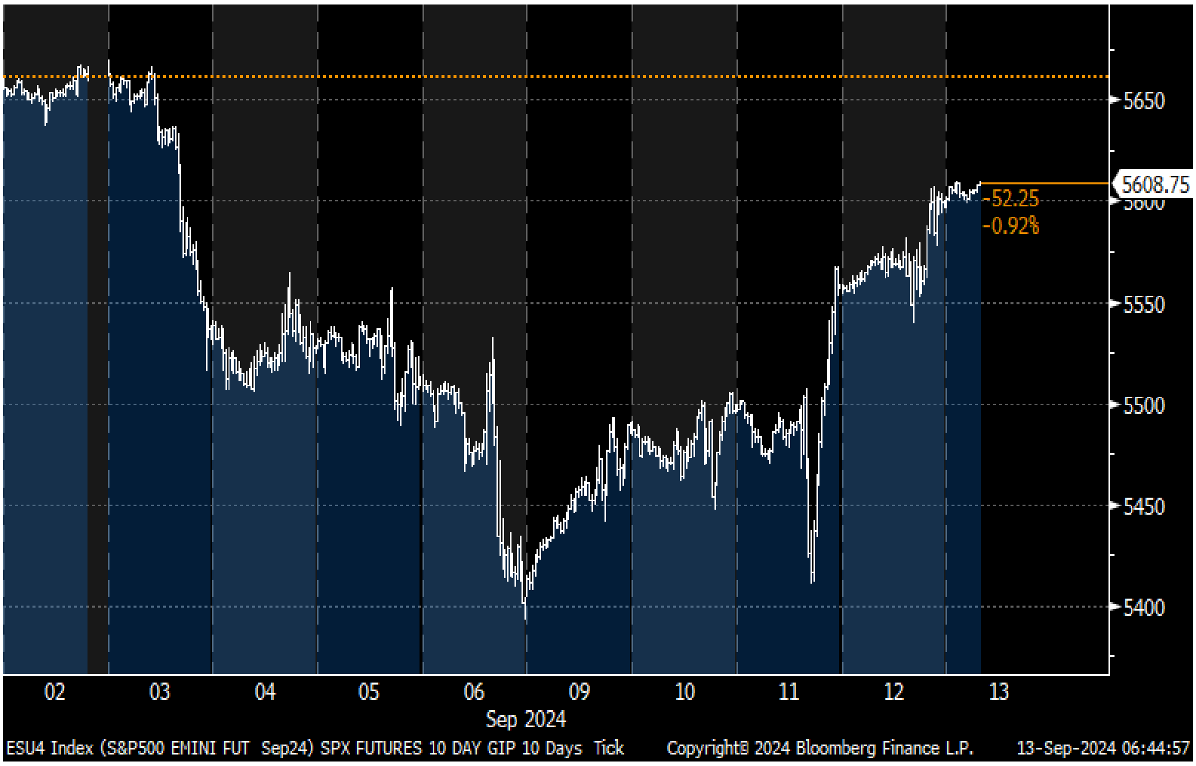



**FIG 1a:** S&P500 futures candlestick shown with its 50 & 200 day moving averages

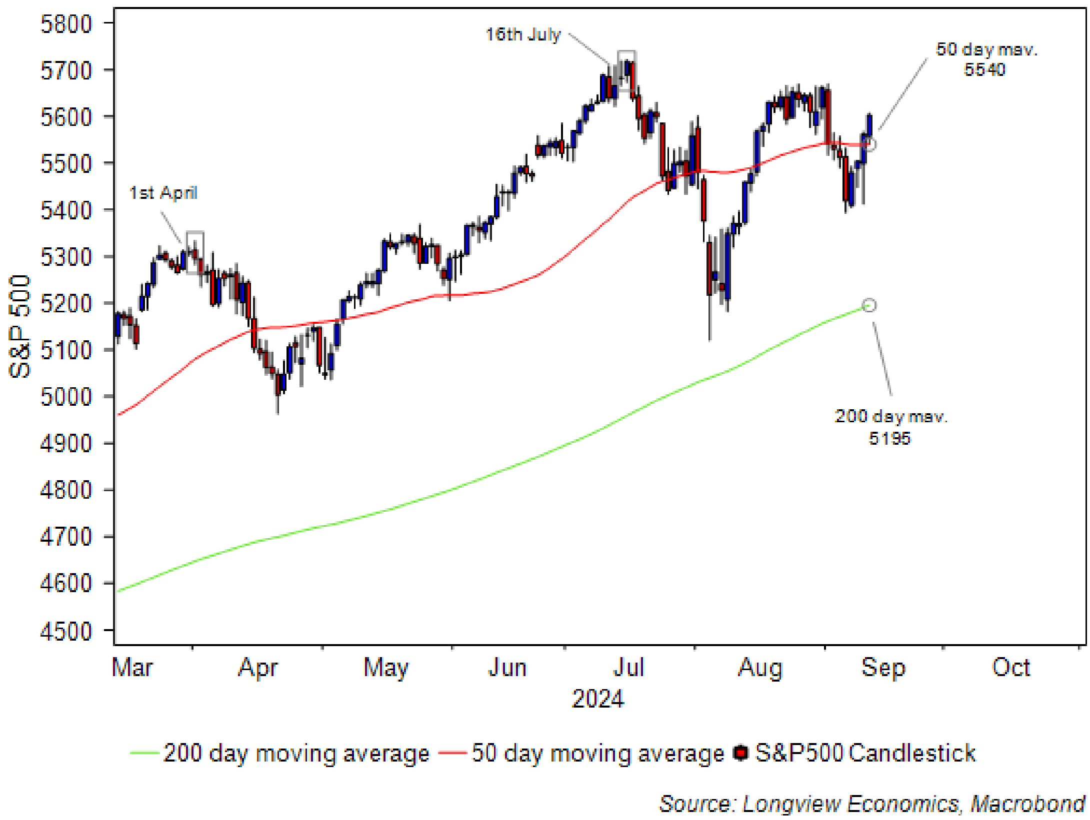


**FIG 1b:** NASDAQ100 futures shown with 50 & 200 day moving averages

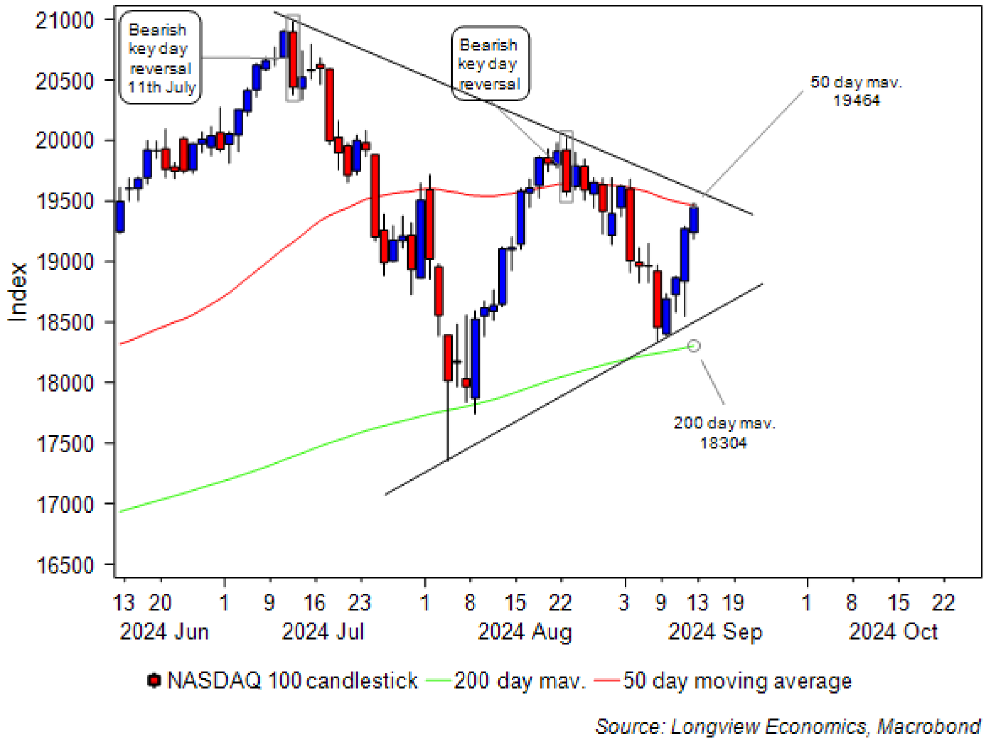
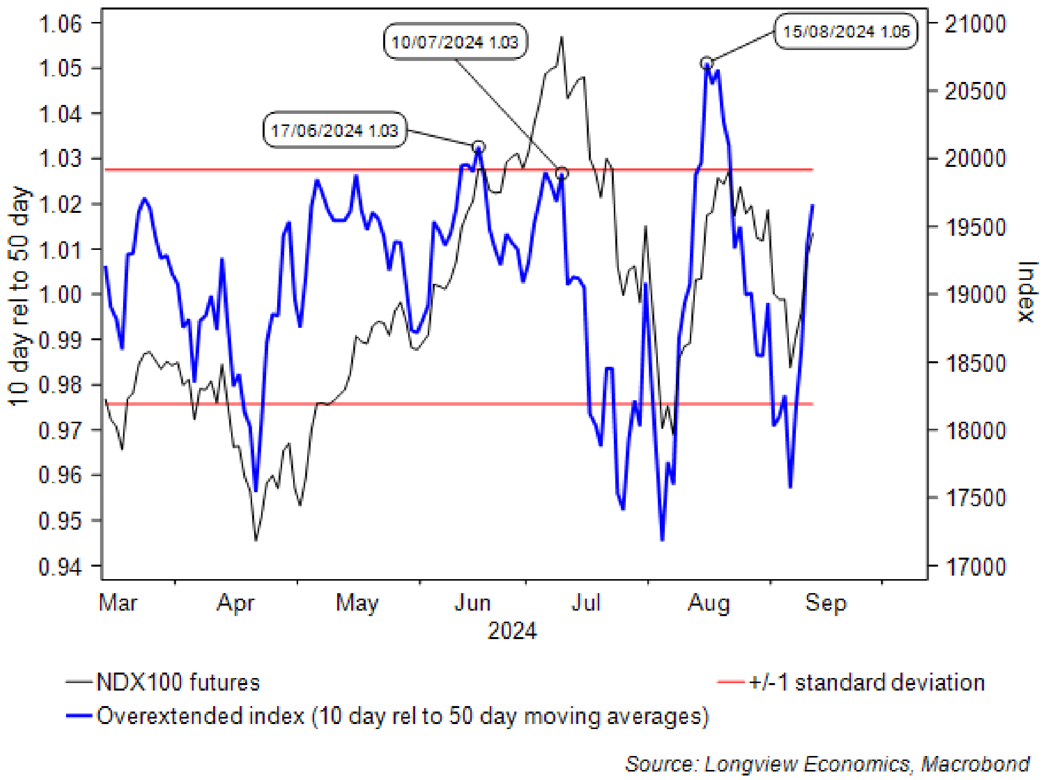
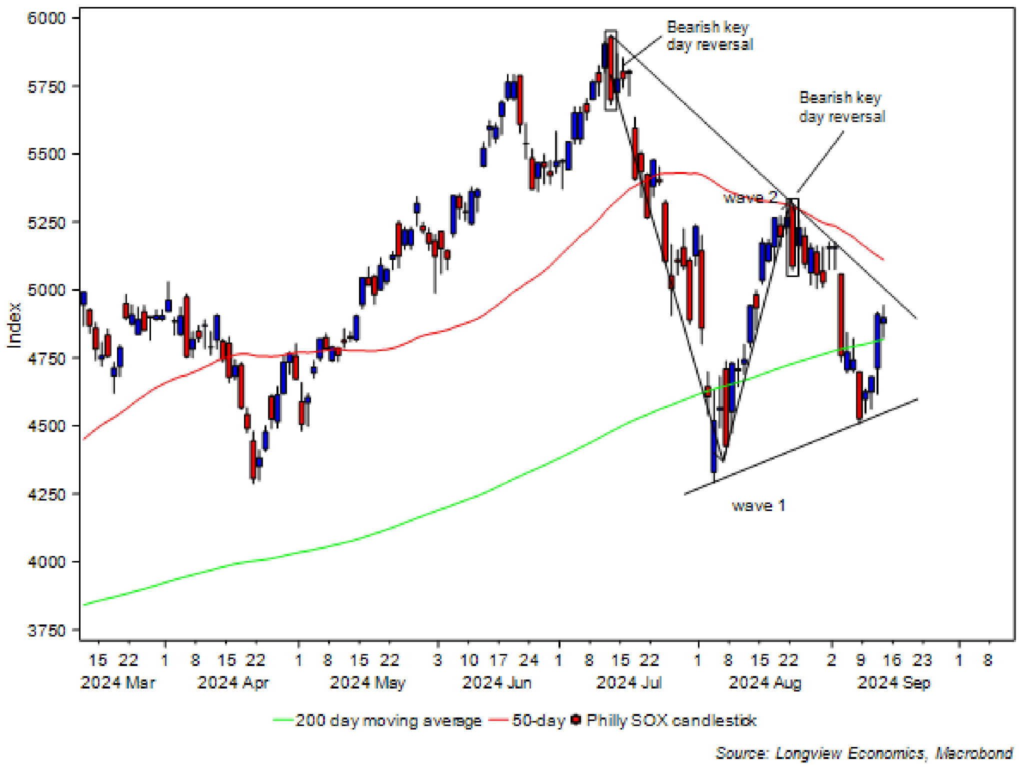



**FIG 1bi:** NDX100 overextended indicator (10 day moving average relative to underlying index price)



## FIG 1c: Philly SOX index candlestick chart shown with key moving averages




## FIG 1d: Microsoft candlestick shown with key moving averages

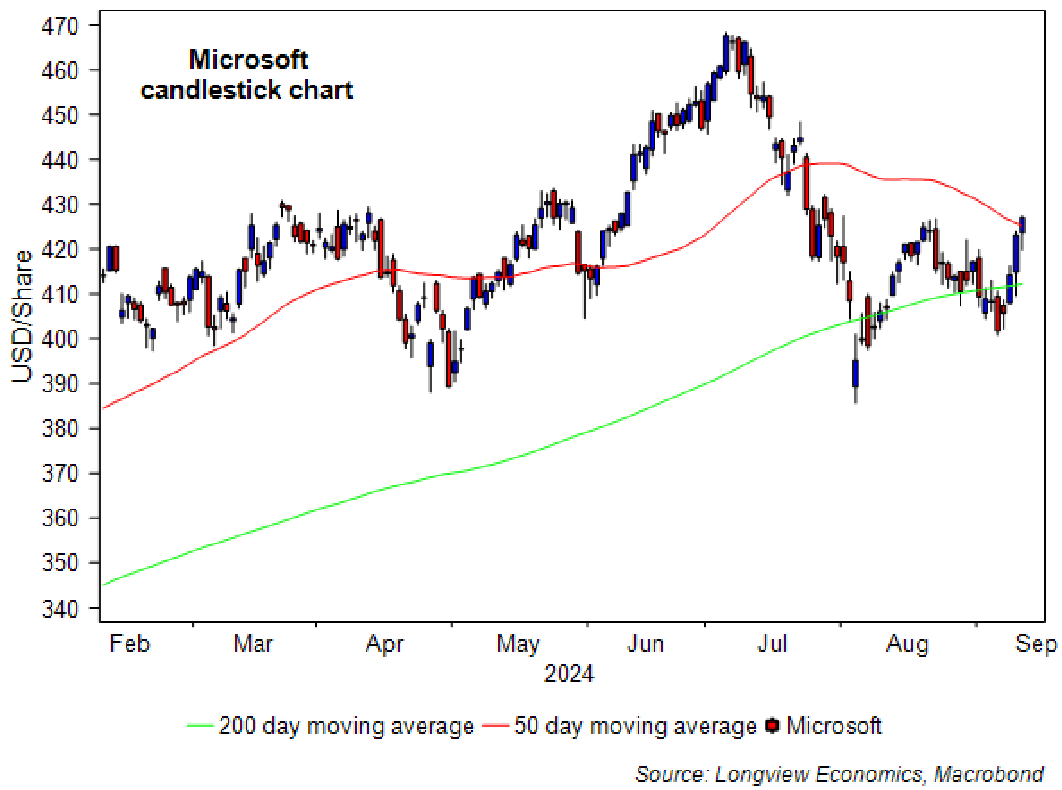


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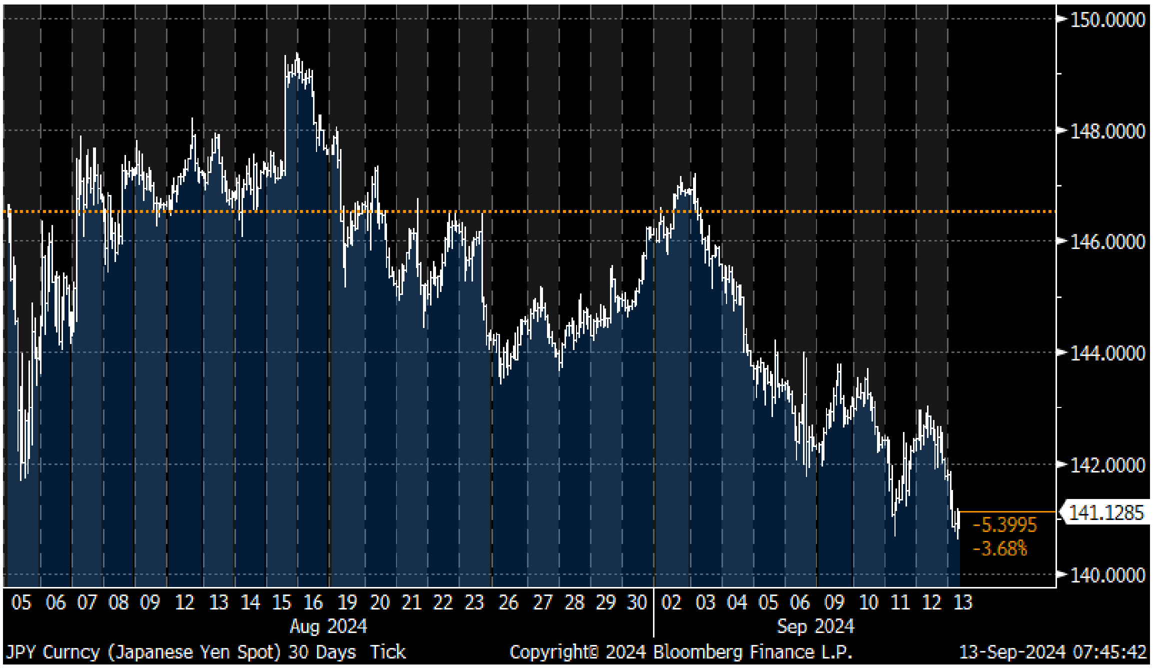
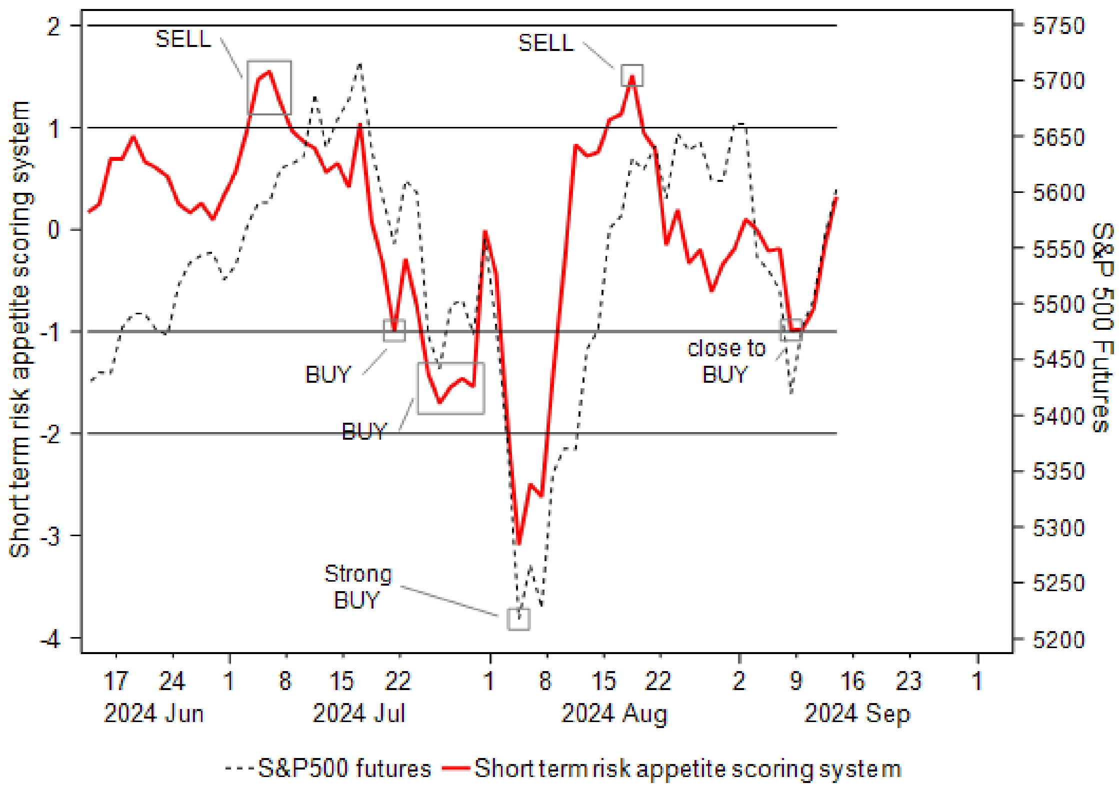
**FIG 1e:** Japanese USDJPY 30-day tick chart shown with overnight price action



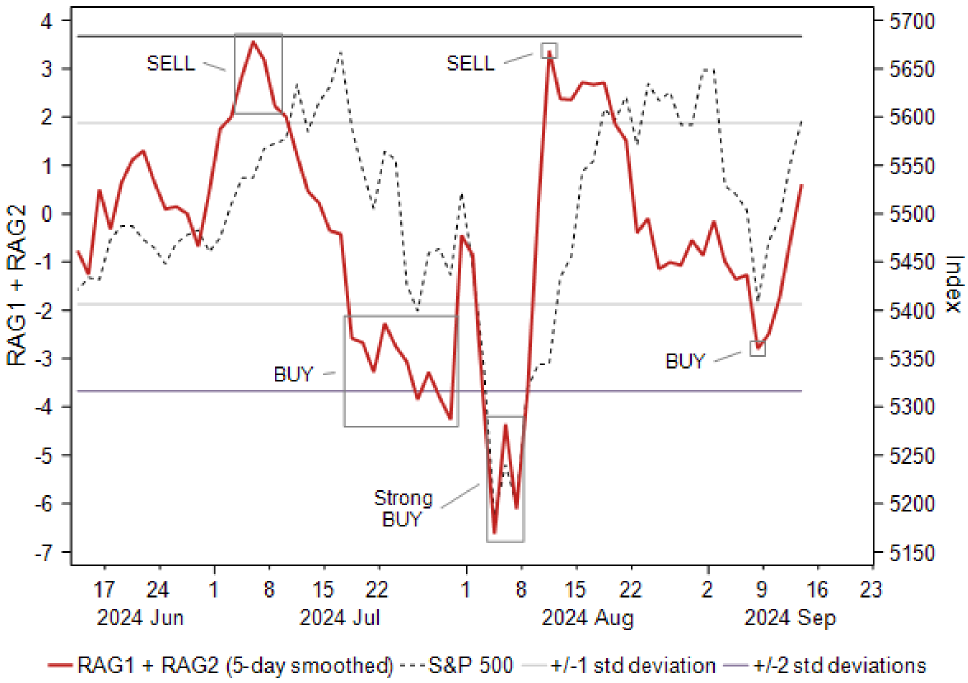

## Short term market timing models are mostly NEUTRAL….

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



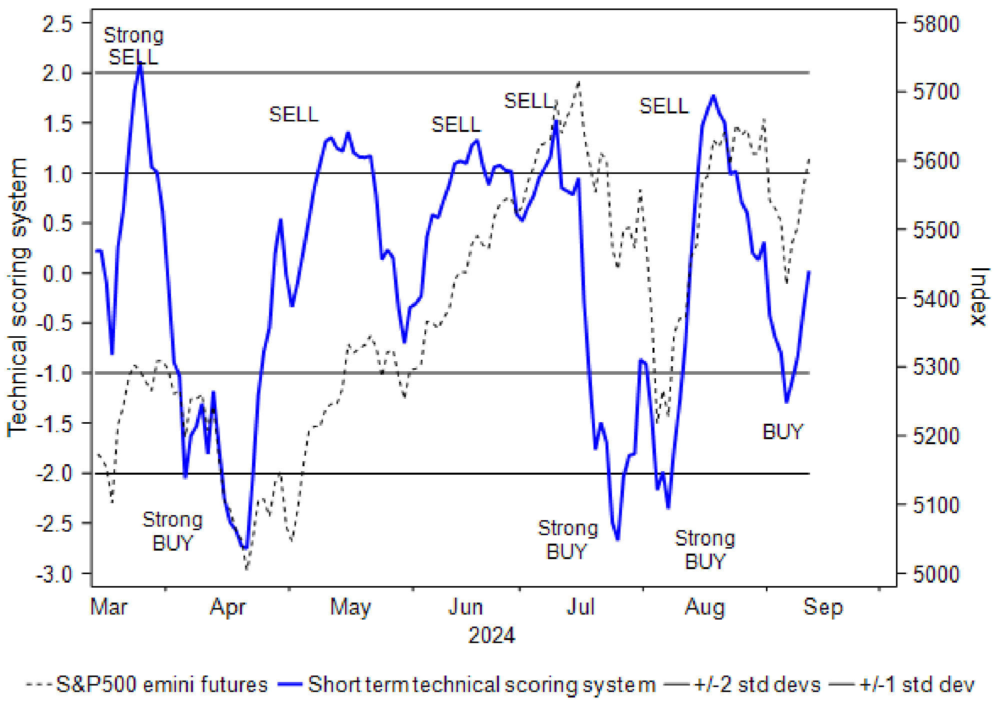

*Source: Longview Economics, Macrobond*

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



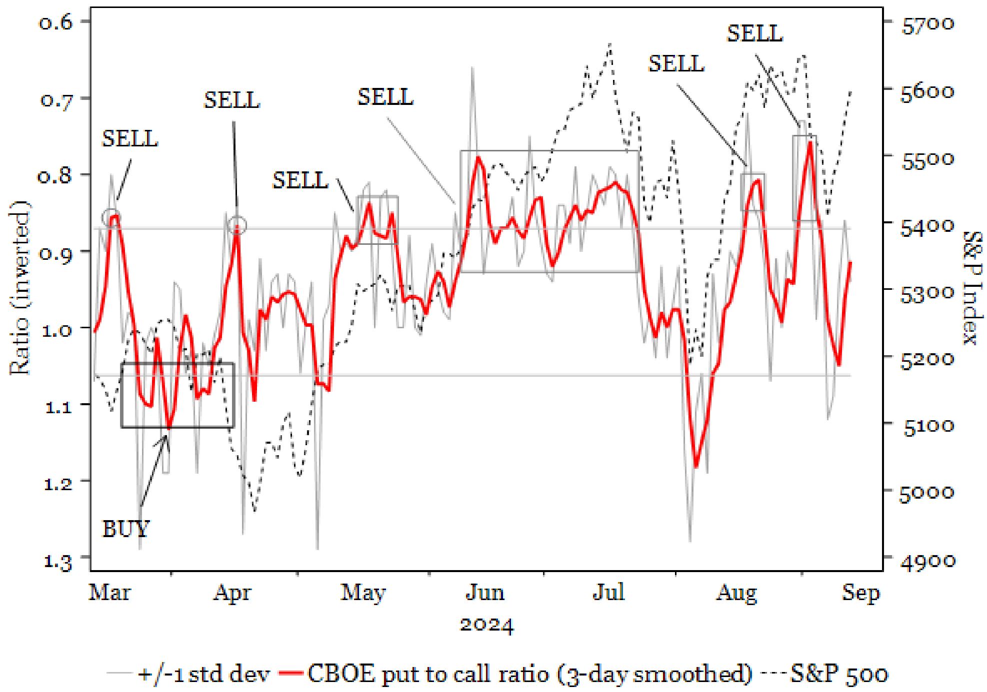

*Source: Longview Economics, Macrobond*

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



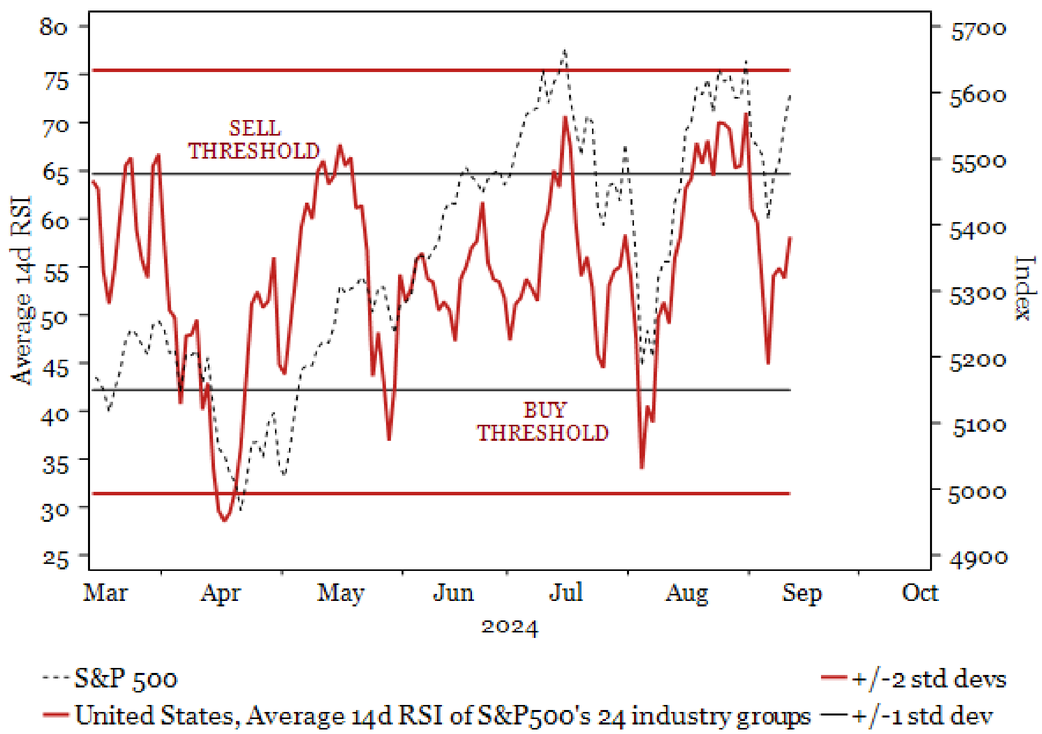

*Source: Longview Economics, Macrobond*

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



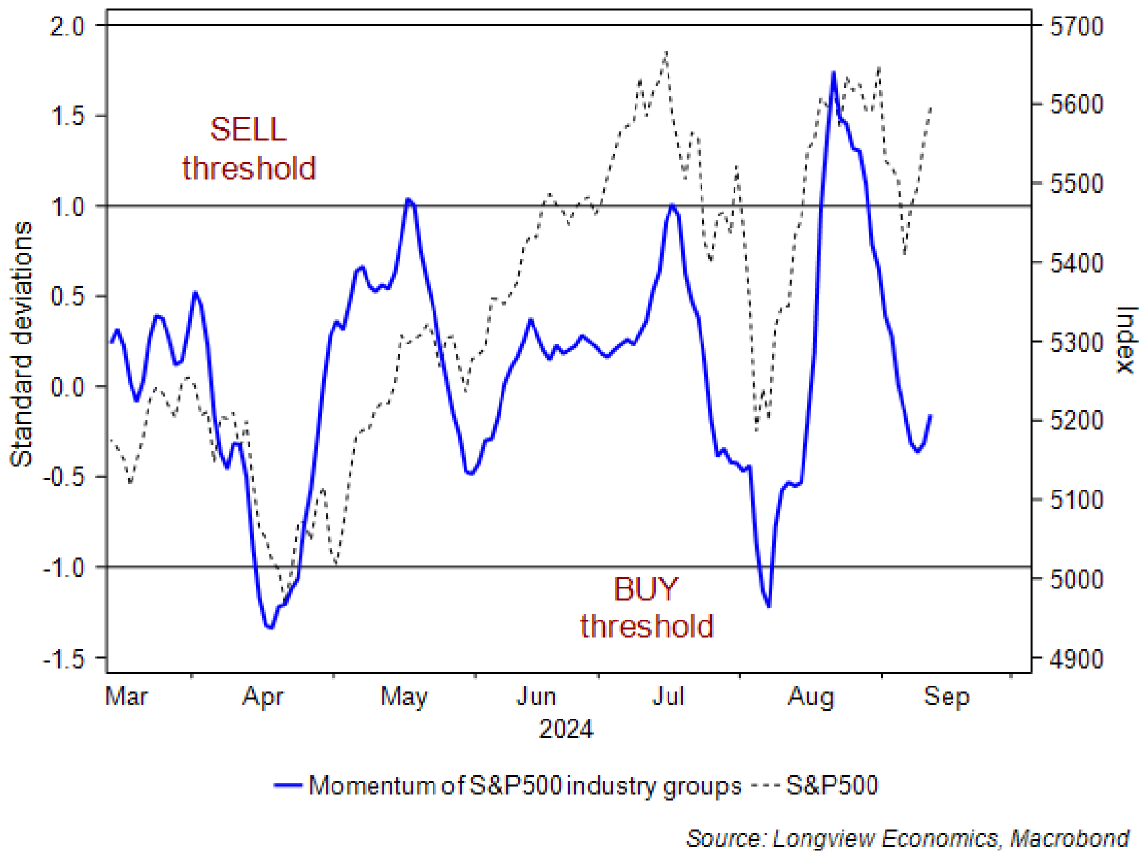

*Source: Longview Economics, Macrobond*

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




*Source: Longview Economics, Macrobond*

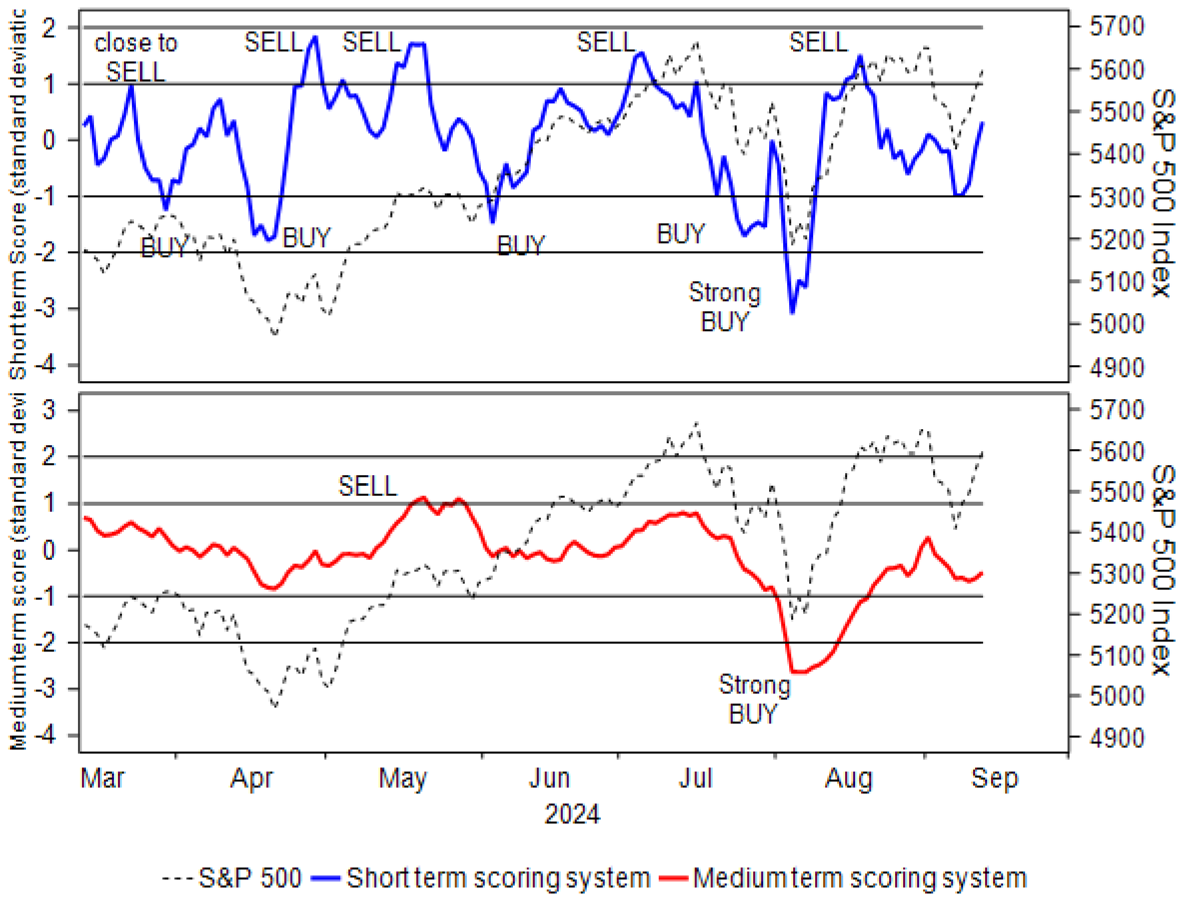
**FIG 2e:** Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500



## Key Longview Scoring Systems (chart below):

**Short term** (1 – 2 week) scoring system: **NEUTRAL**
**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: Japanese industrial production & capacity utilisation (July final estimate, 5:30am); French headline & core CPI (August final estimate, 7:45am); French wages (Q2 final estimate, 7:45am); **Eurozone industrial production** (Jul, 10am); US export & import price index (Aug, 1:30pm); Canadian capacity utilisation rate (Q2, 1:30pm); **US Michigan sentiment** (September first estimate, 3pm).

**Key events** today include: UK Bank of England releases inflation attitudes survey (9:30am); speech by the ECB's Rehn in Helsinki (9:30am).

**Key earnings** today include: N/A

## 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](mailto:info@longvieweconomics.com).*

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Daily Risk Appetite Gauge

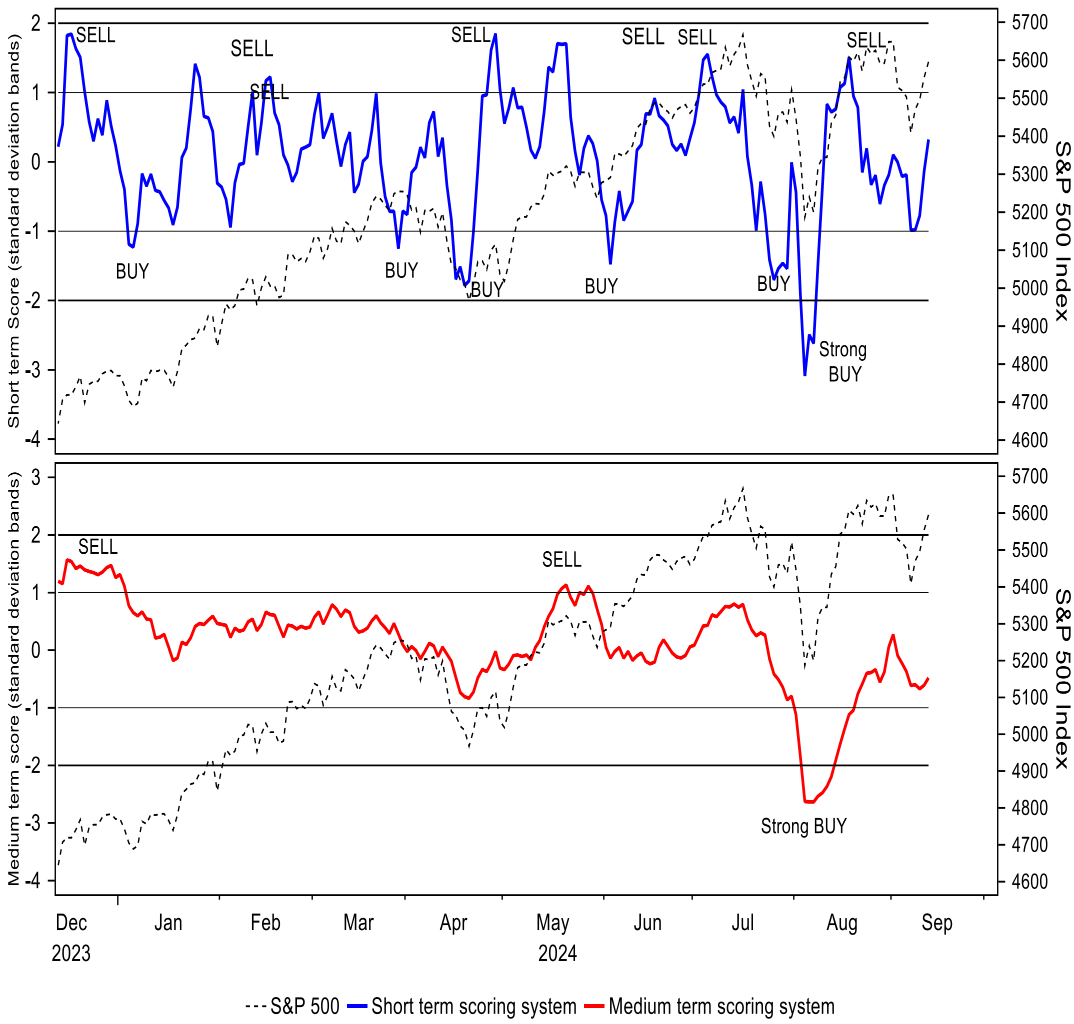
# 1 – 2 Week View on Risk

13th 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

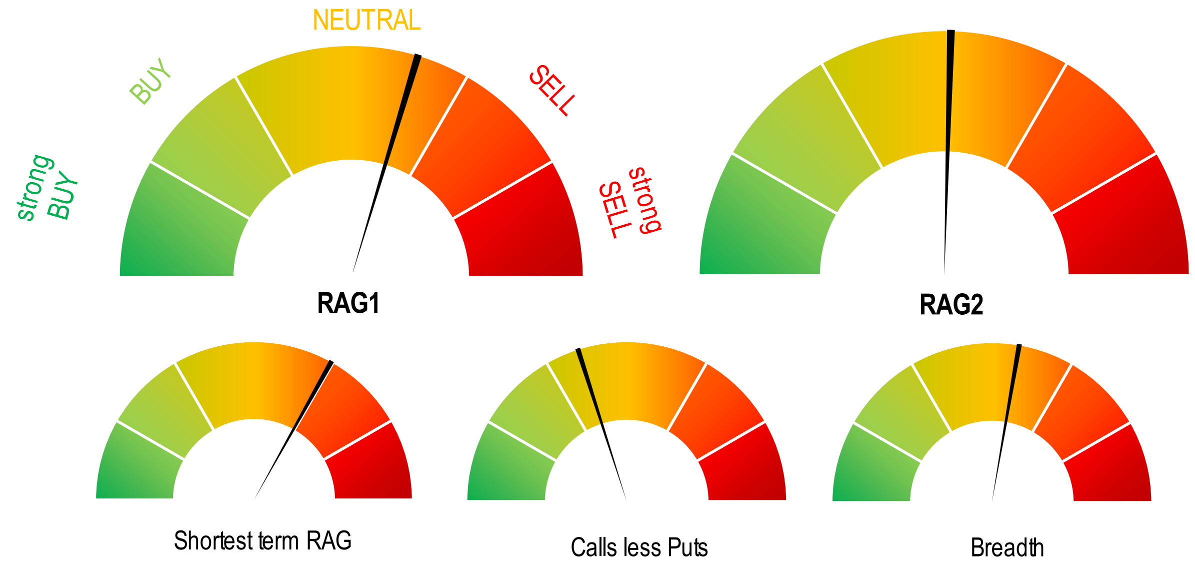
*Source: Longview Economics, Macrobond*

*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***

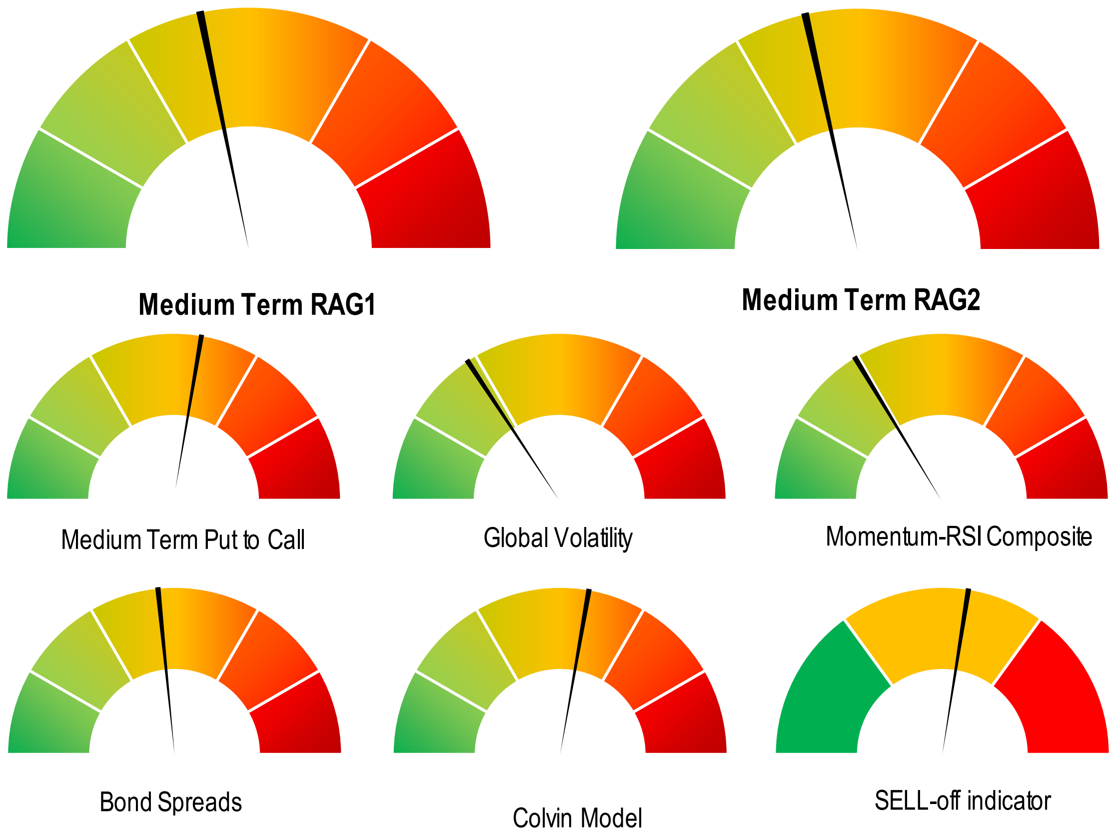
## **Section 1a:** Summary of indicator signals**

**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

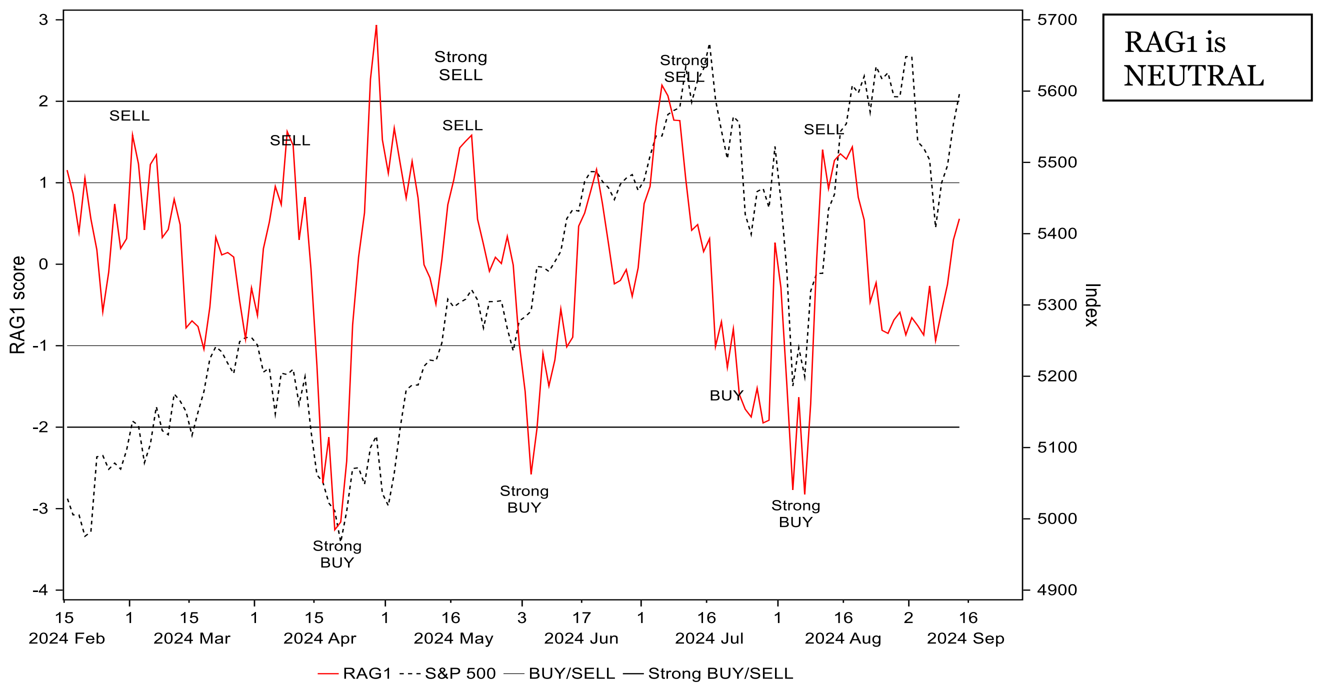



***Source:*** *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

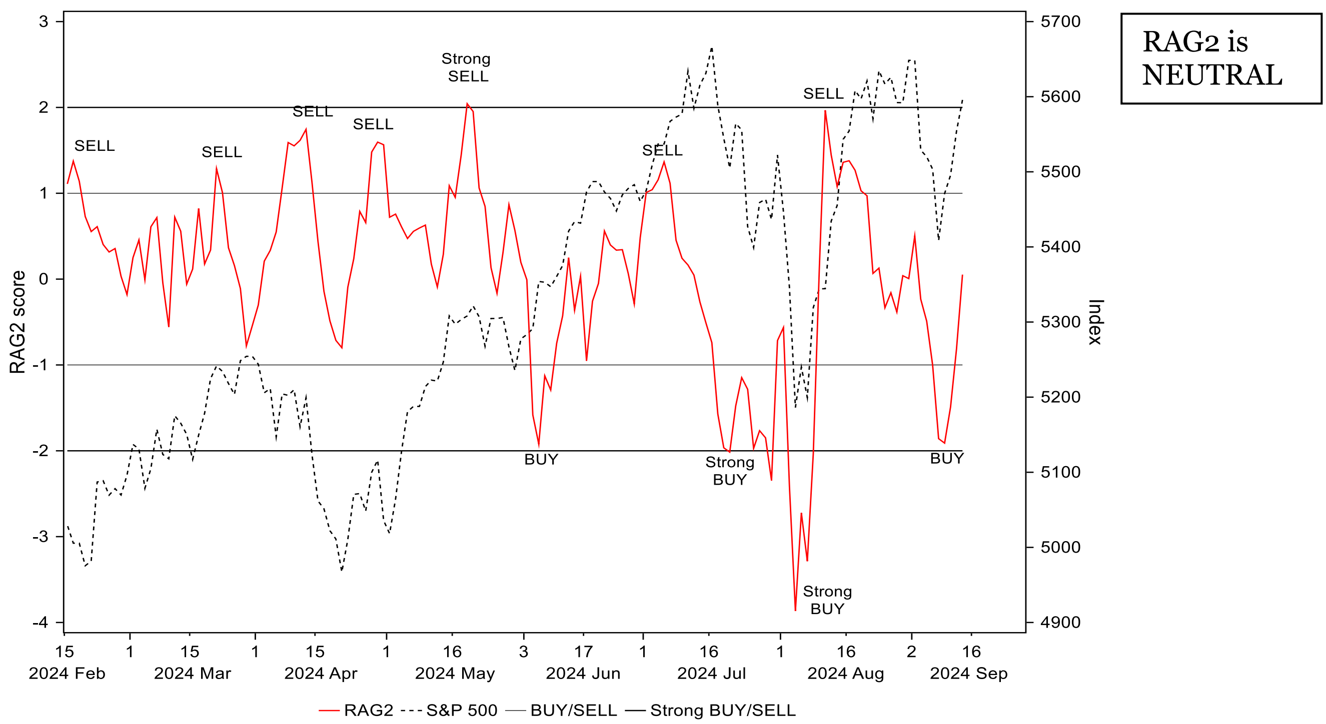
## **Section 2:** Short term (1 – 2 week) trading models

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




*Source: Longview Economics, Macrobond*

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

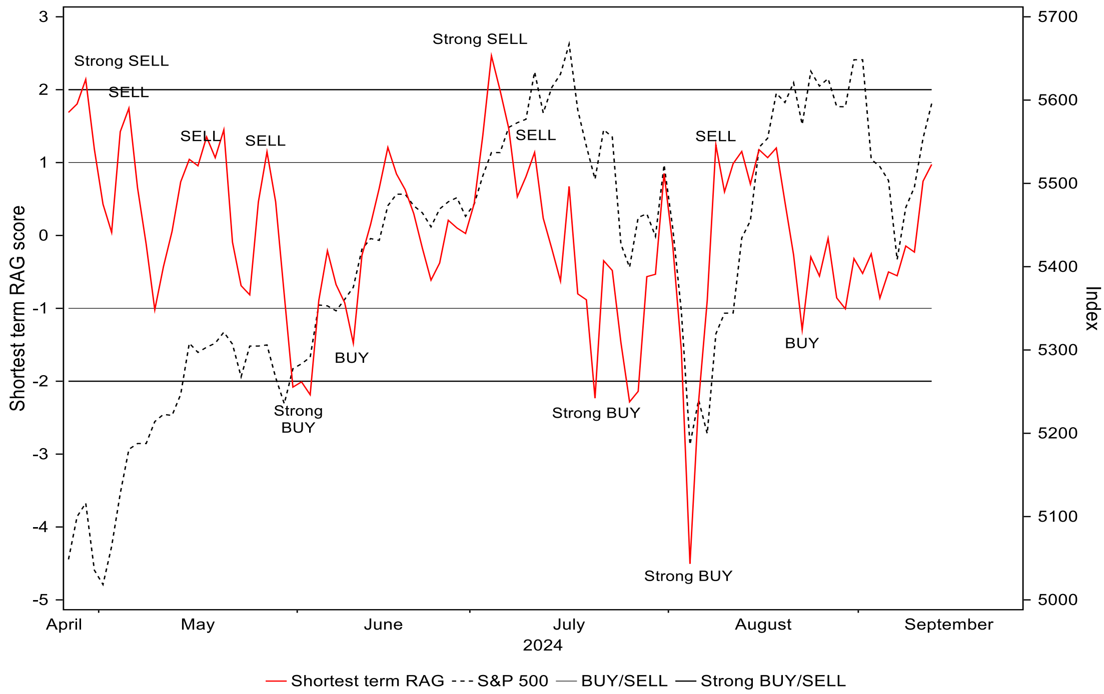



*Source: Longview Economics, Macrobond*

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

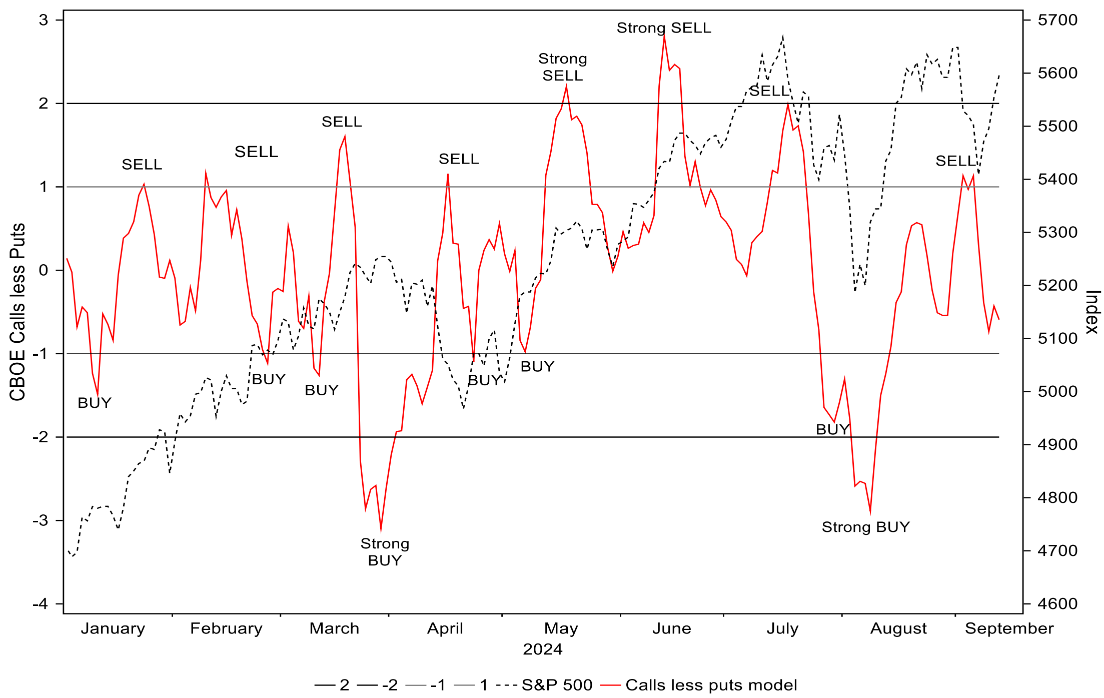
**Fig 2c:** Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500




Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

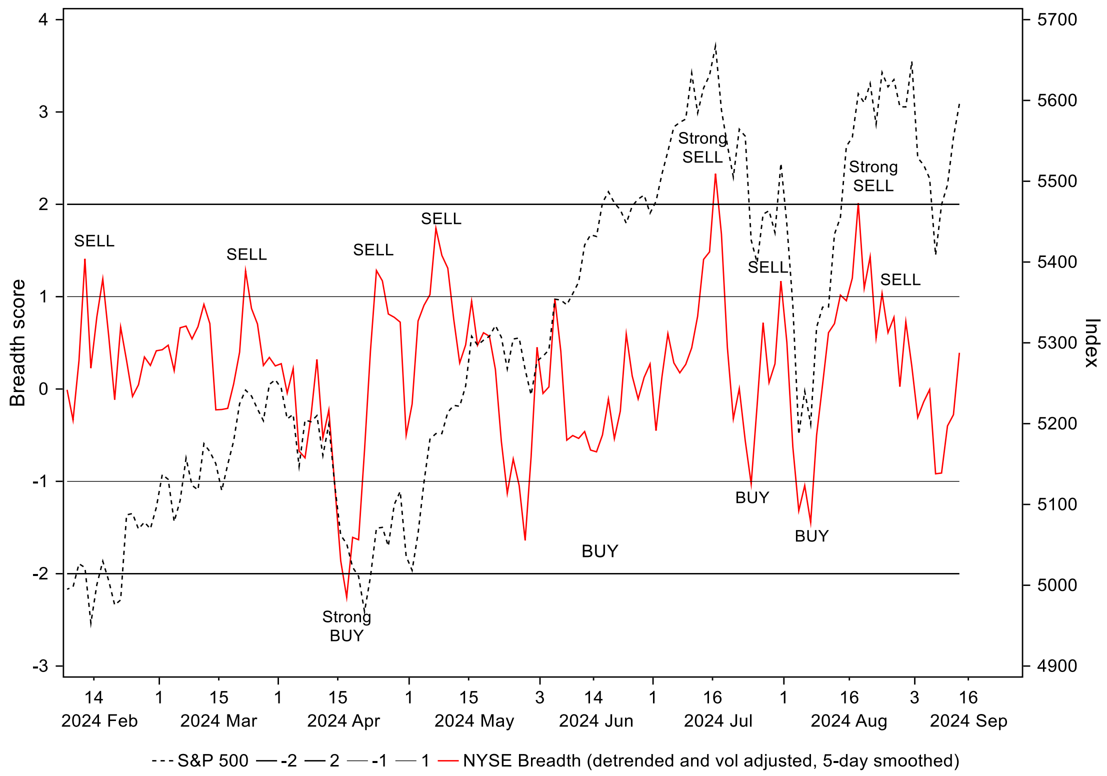



Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

***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

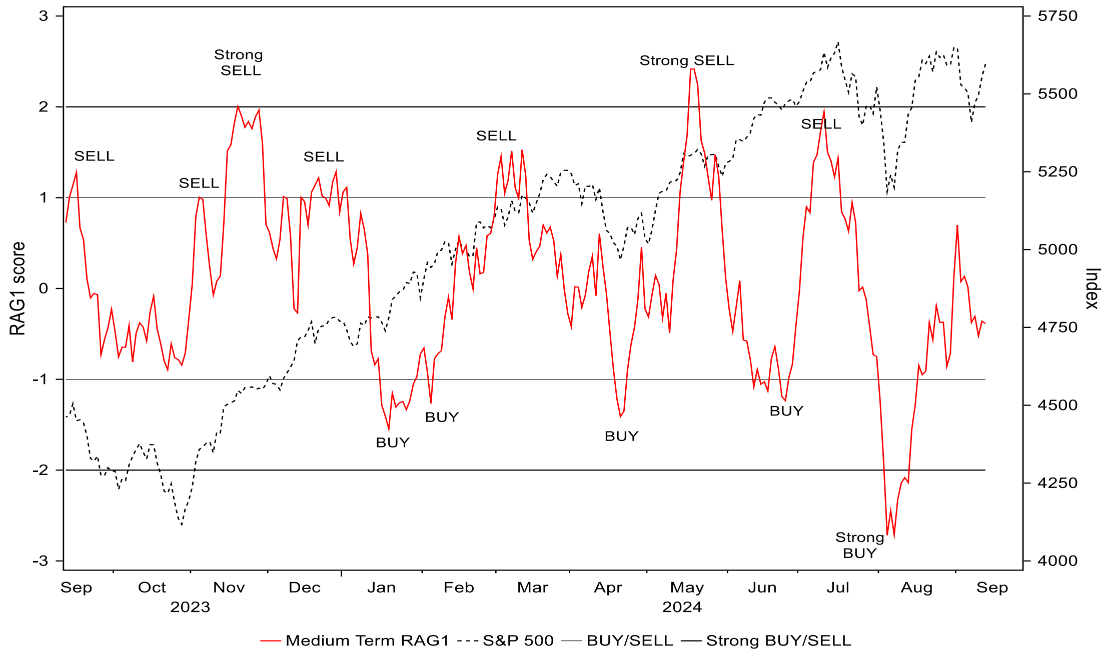
The breadth model is NEUTRAL

*For explanations of indicators please see page 10*

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

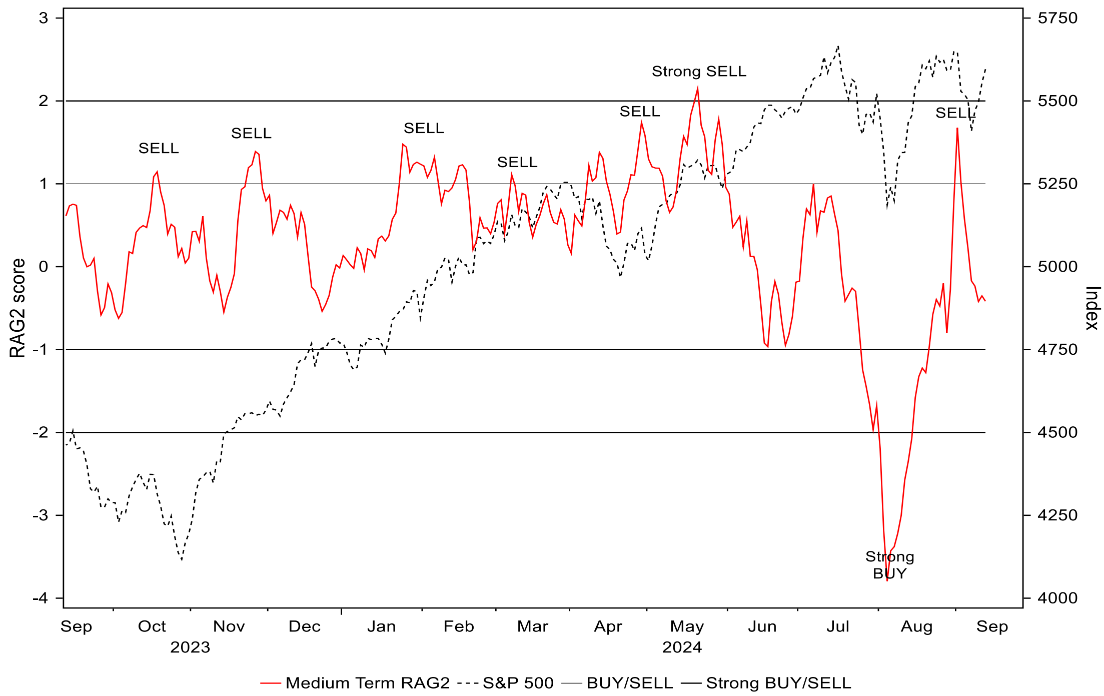
### **Fig 3a:** Medium term RAG1 (1 – 2 month view) vs. S&P 500




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***

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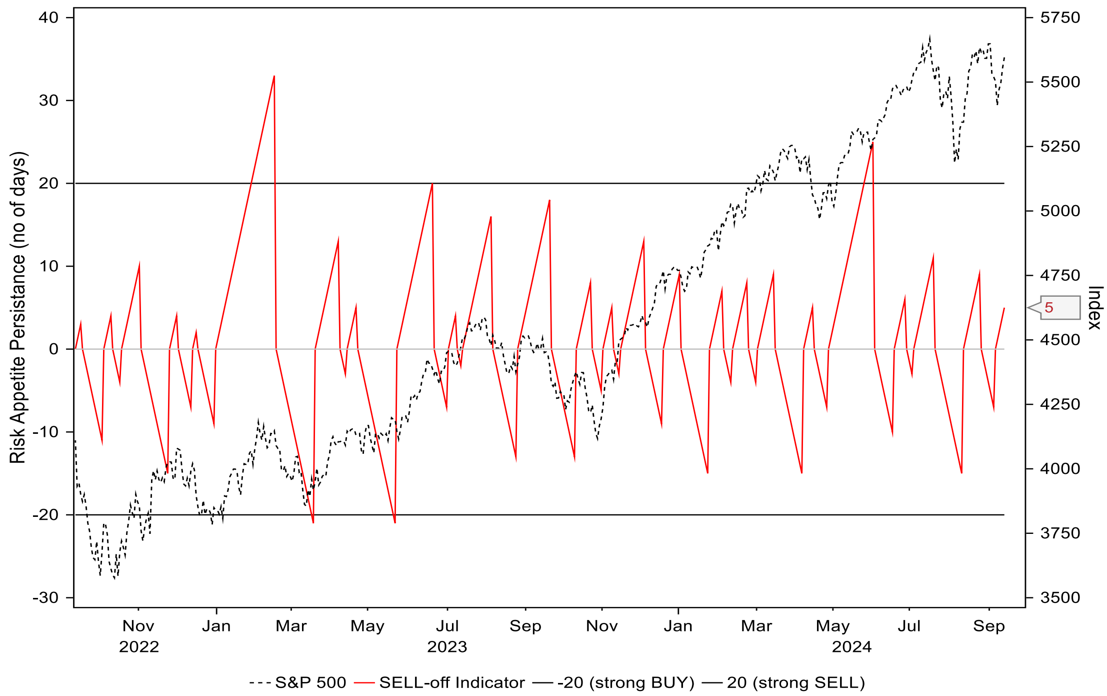
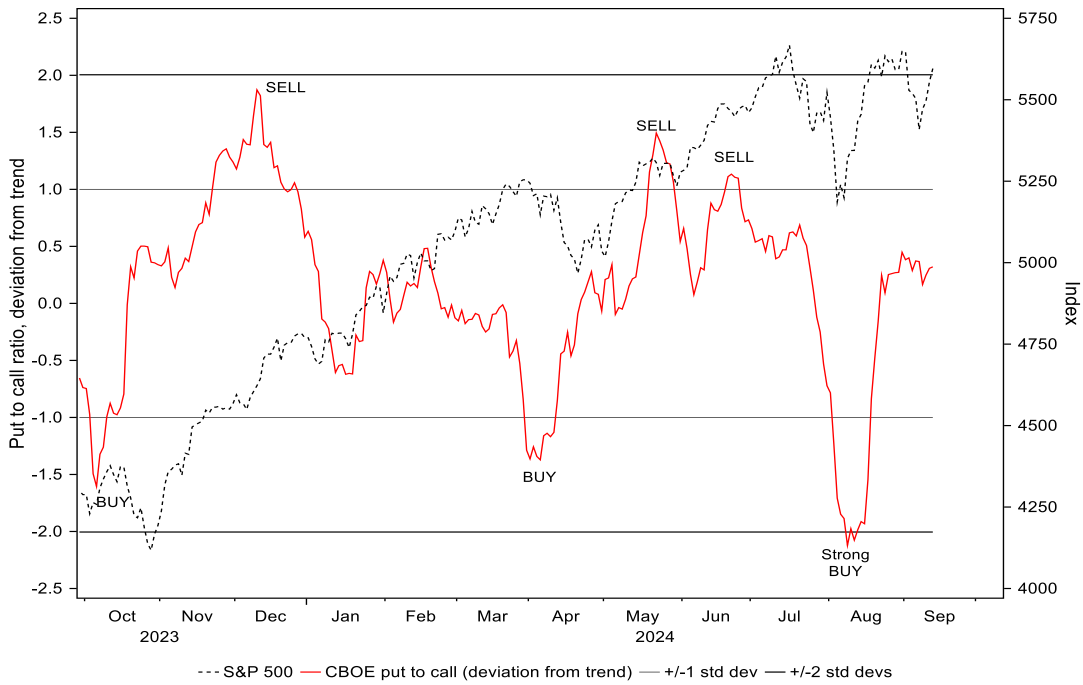
**Fig 3c:** SELL-off indicator (shown vs. S&P500)




Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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



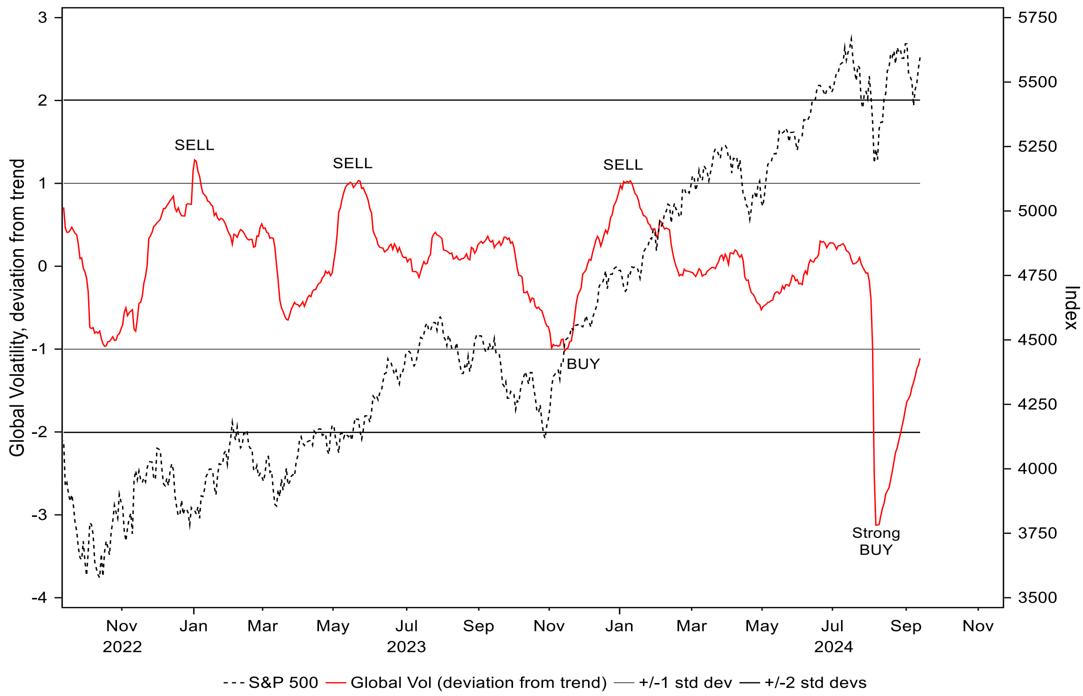

Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

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

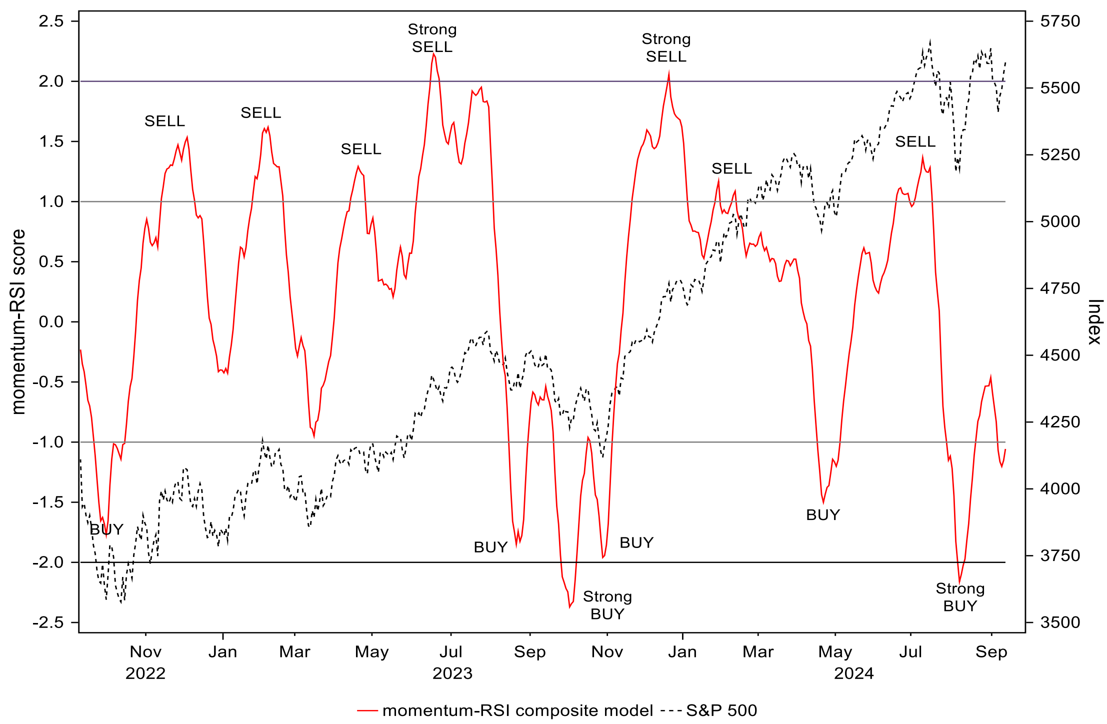
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500




Source: Longview Economics, Macrobond

Global volatility indicator is on BUY

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




Source: Longview Economics, Macrobond

US momentum RSI composite model is on BUY

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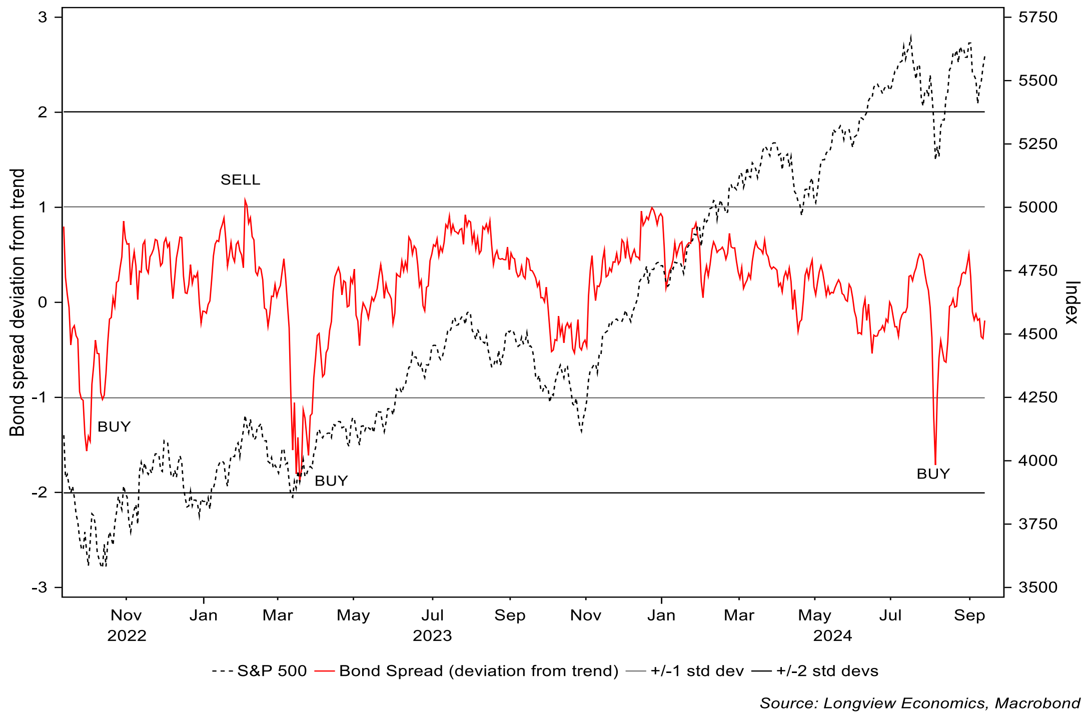
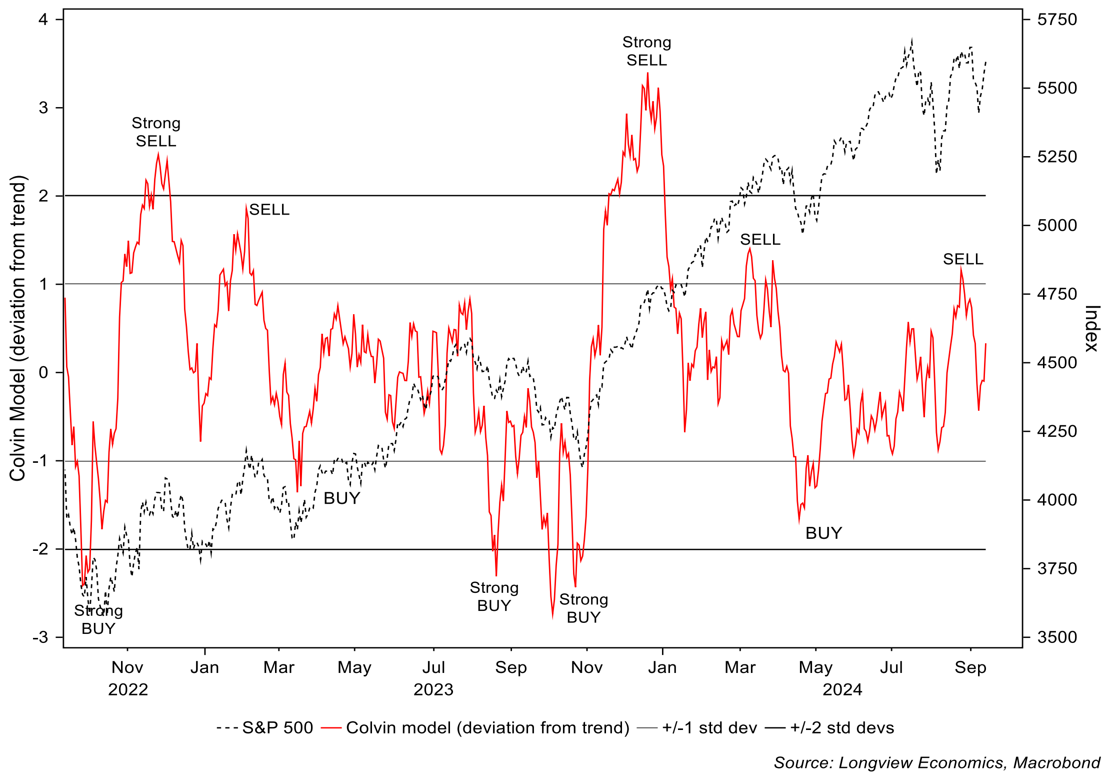
**Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500




High yield corporate bond spreads model is NEUTRAL

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




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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