

## Equity Index Futures Trading Recommendations

14<sup>th</sup> November 2024

"STAY LONG - US markets Consolidating Gains"

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

In the last 4 – 6 trading sessions, key US equity indices have started **tracking sideways**, i.e. consolidating their election gains. S&P500 futures, for example, have been rangebound since Friday last week (between 5,990 and 6,053 – FIG 1); NDX100 futures have behaved similarly tracking sideways to slightly lower since 8<sup>th</sup> November (FIG 1a); while the S&P400 mid-cap futures have also been rangebound (albeit in a wider range, FIG 1b).

As those indices have tracked sideways, some of the **key short term market timing models have been unwinding their SELL signals**. In particular, the risk appetite models (measures of 'fear and greed') have fallen notably from high, SELL levels. Those models include the 'combined RAG1 plus RAG2' model, the 'short-term risk appetite scoring system' and the 'shortest term RAG' (albeit they all have common elements, see FIGs 2 – 2b).

Those models have fallen as other 'risk assets' across the globe have softened in recent trading sessions. **Various European equity markets**, for example, have pulled back in the past few weeks (mostly since mid-October), e.g. see Spanish IBEX, Italian MIB, French CAC and the STOXX600. Similarly, several Asian equity markets have been pulling back of late. South Korea's Kospi, for example, is at a 1-year low and down sharply in the past 4 trading sessions; HK's Hang Seng has been pulling back since 7<sup>th</sup> October, but with renewed downside momentum this week; whilst a broader MSCI Asian index has been similarly weak since the election. Various commodities have also been weak. BRENT, for example, is back at its lows, while copper has broken below its 200-day moving average. **These and many other risk assets have, therefore, been in 'risk off' mode in recent days**. That price action (and general risk off behaviour) has driven the (risk appetite) models lower.

**Sideways price action by US equity indices, given that weakness elsewhere, is therefore impressive** (and highlights underlying bullishness in those US markets). In that sense, it's consistent with our rationale (i.e. 'regime change') for staying LONG yesterday/earlier this week (despite widespread SELL signals) – see yesterday's daily publication for detailed explanation.

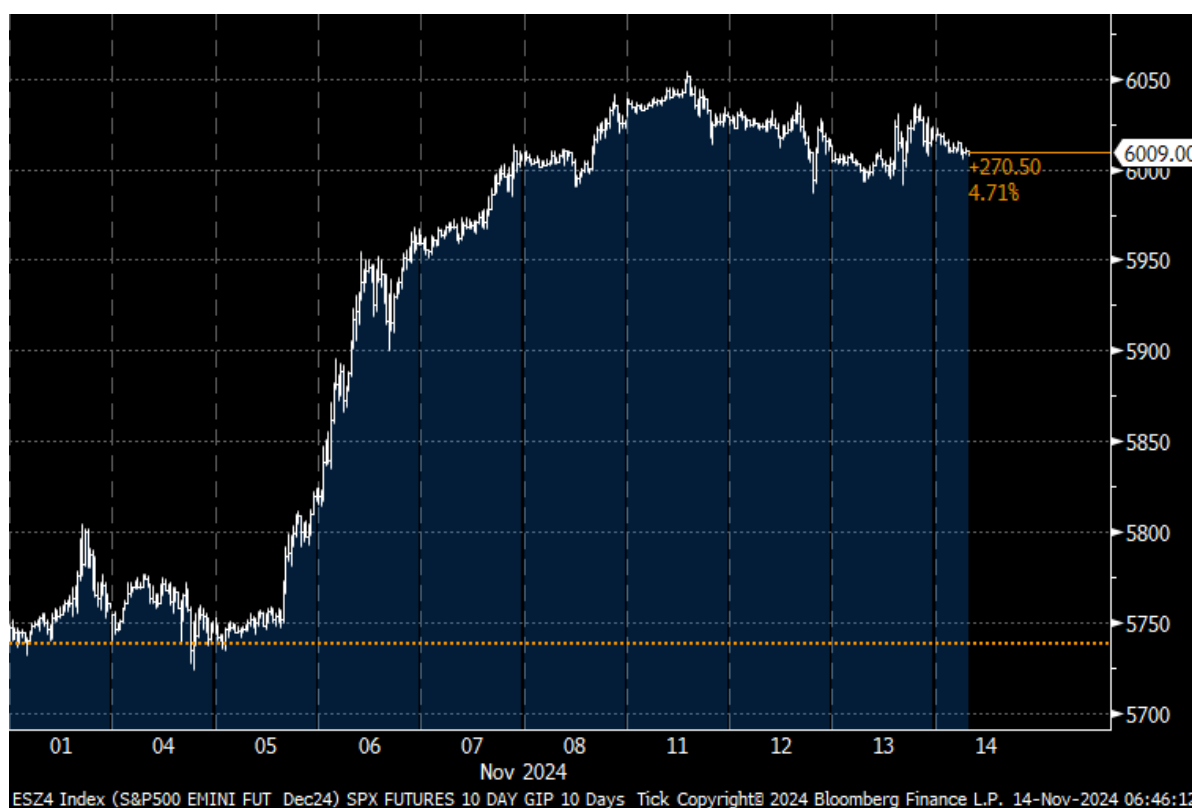
**Given that underlying US equity resilience, we recommend remaining LONG US equity index futures** (with a reasonably tight stop loss). If US markets remain range bound and short-term model signals unwind further, then a case would likely emerge for ADDing to position size. For now, though, we remain 1/2 LONG (see trading recommendation above for detail).

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

Kind regards,

The team @ Longview Economics

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



**FIG 1a: NDX100 futures 10-day tick chart shown with overnight price action**

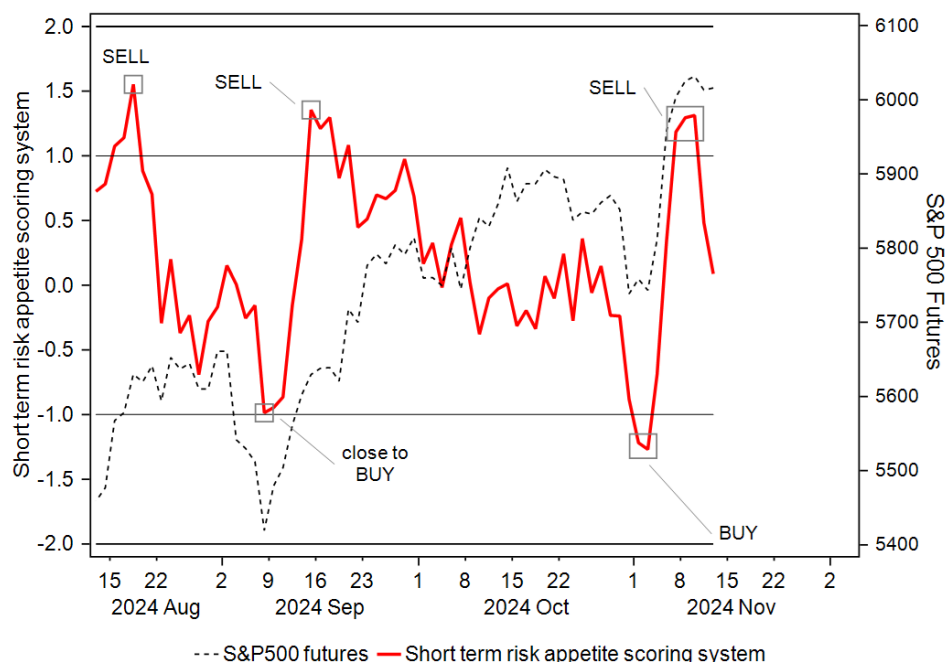


**FIG 1b: S&P400 mid-cap futures 10-day tick chart shown with overnight price action**



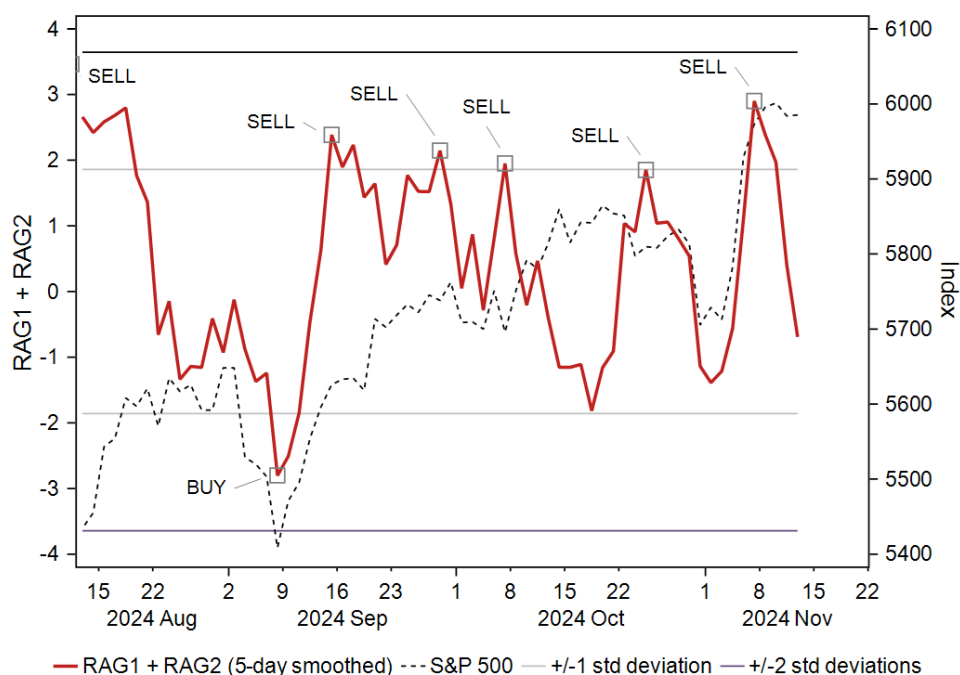
**Short-term risk appetite models have moved notably lower in the past few days...**

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



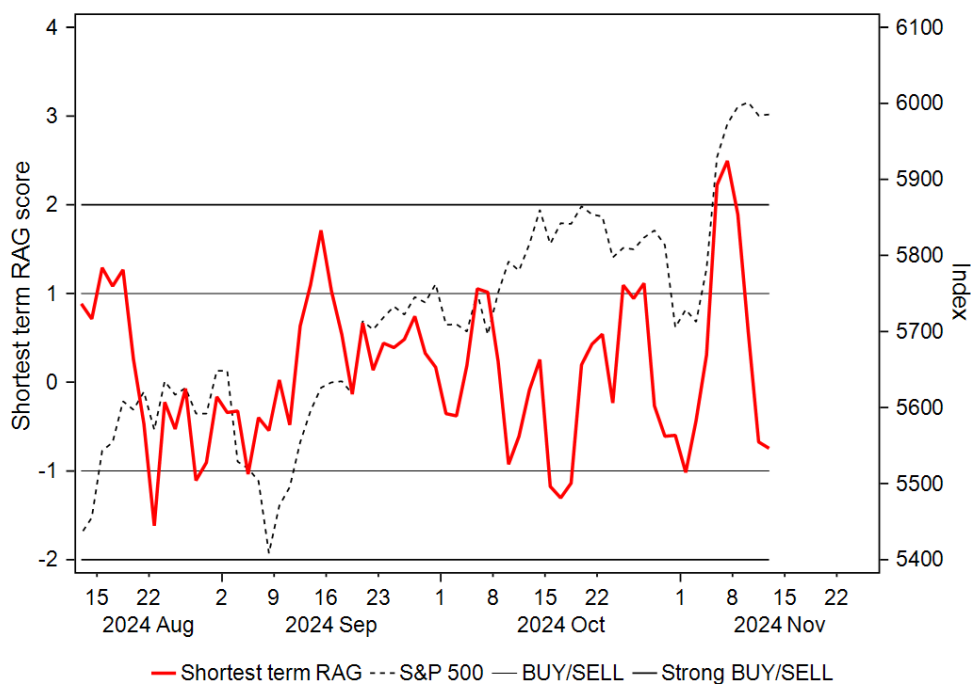
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

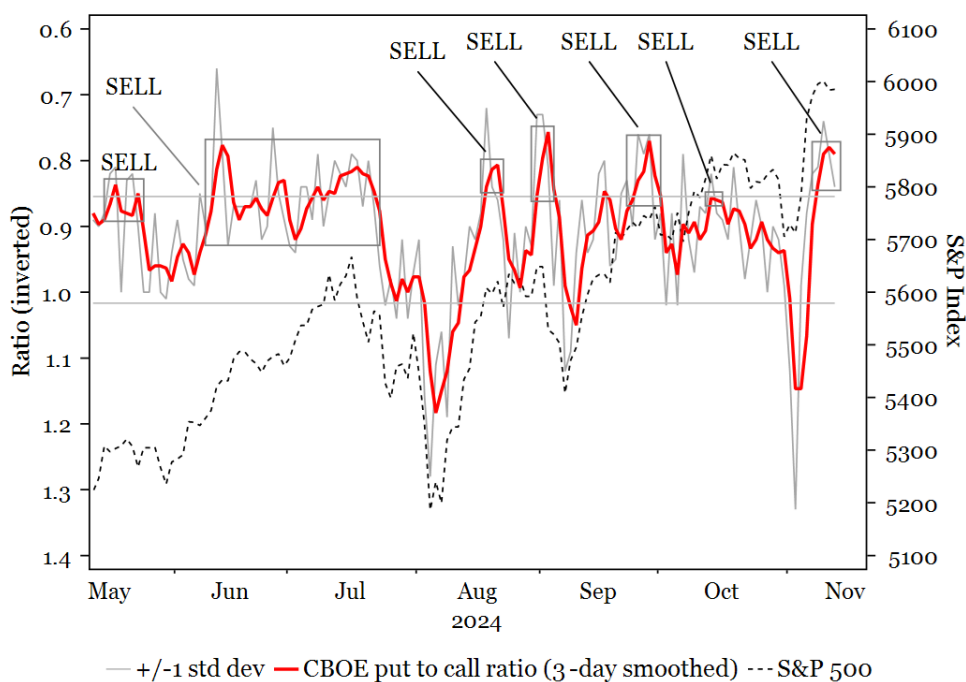
**FIG 2b:** Longview shortest term 'risk appetite' scoring system vs. S&P500



Source: Longview Economics, Macrobond

### Other short-term models remain on SELL...

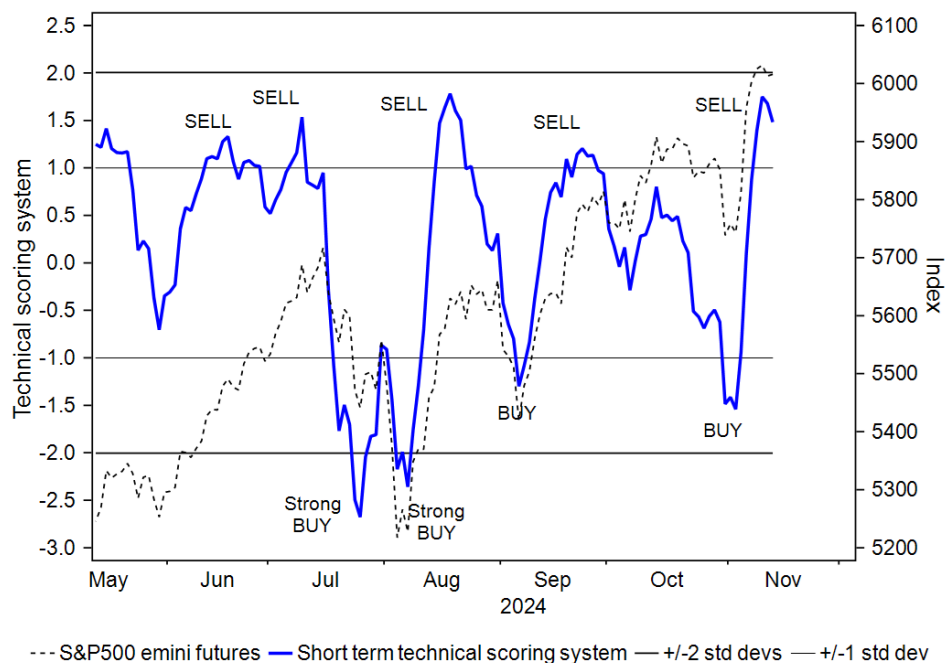
**FIG 2c:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

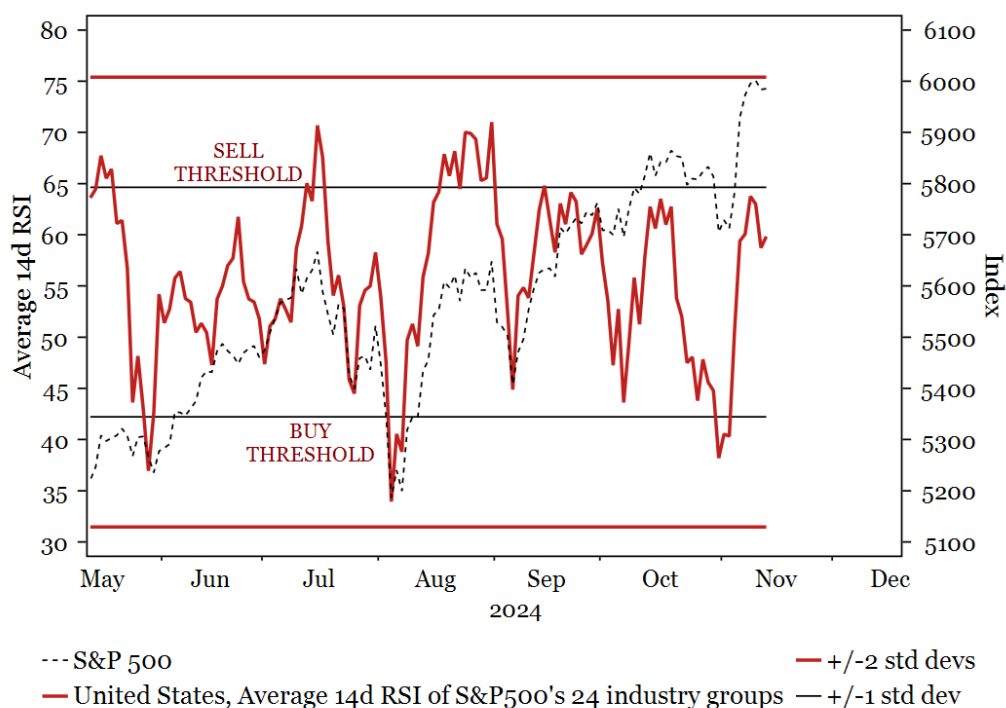
## Short term technical models are at high levels (close to SELL)...

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



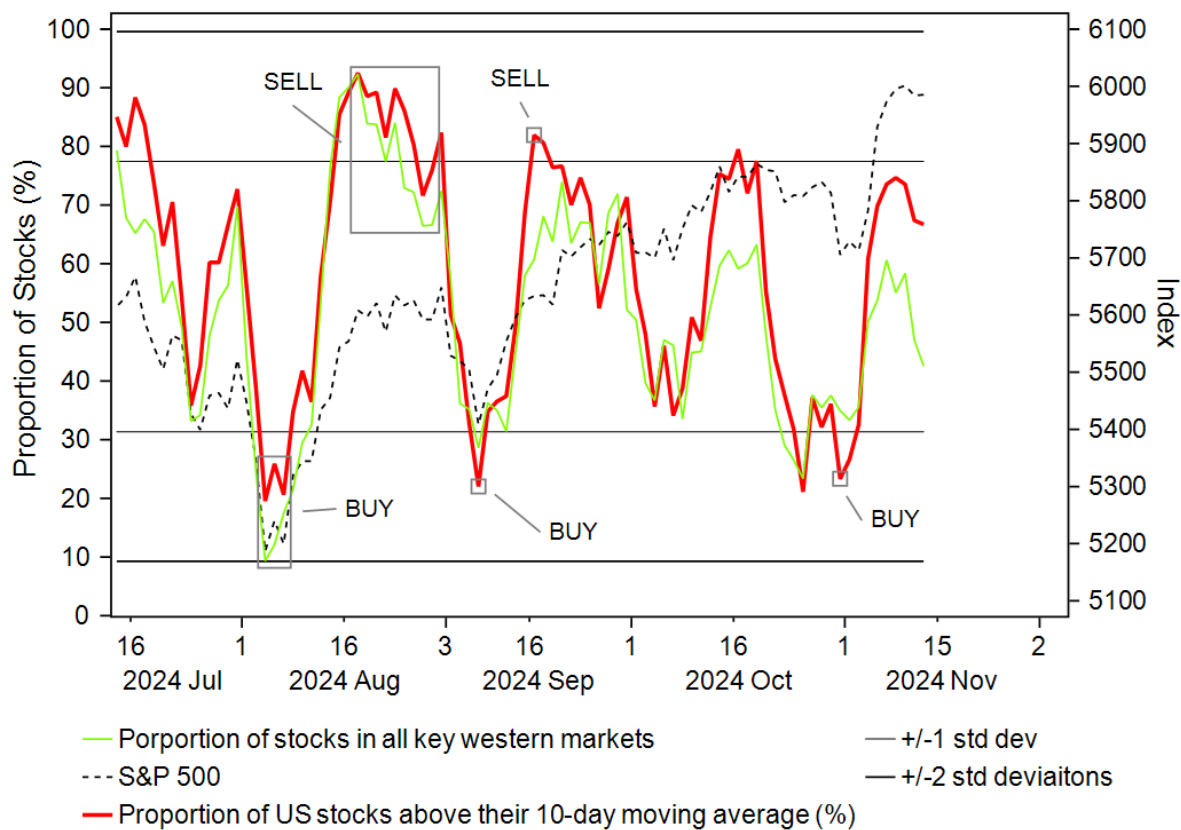
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

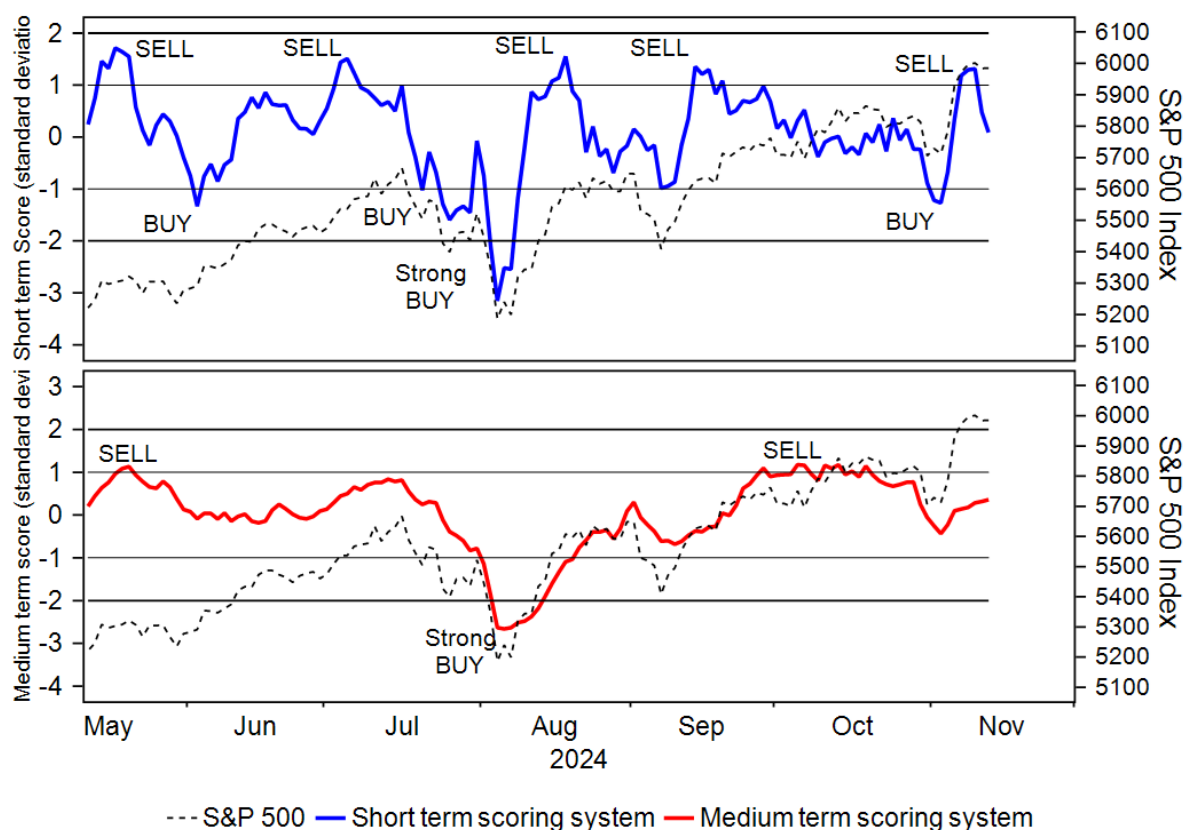


### Key Longview Scoring Systems (chart below):

**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

**Key data** today include: Australian consumer inflation expectations (Nov, 12am); **RICS house price balance** (Oct, 12:01am); Australian employment change (Oct, 12:30am); Spanish headline & core CPI (October final estimate, 8am); Eurozone GDP (Q3 second estimate, 10am); Eurozone employment (Q3 first estimate, 10am); **US headline & core PPI** (Oct, 1:30pm); US weekly jobless claims (1:30pm); Japanese GDP (Q3 second estimate, 11:50pm).

**Key events** today include: speech by the Bank of England's Bailey at the annual financial and professional services dinner (9pm); **Chancellor Reeves gives Mansion House speech** (Thurs); ECB minutes from October meeting (1:30pm); speech by the ECB's Schnabel in Washington (6:30pm); the Fed's Barkin discusses the Economy in Fireside chat (2:15pm), **speeches by Powell** at event in Dallas (8pm) & Williams at NY Fed event (9:15pm).

**Key earnings** today include: **Walt Disney, Applied Materials**, Palo Alto Networks, Ross Stores, 3I Group, Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial, Mizuho Financial.

## 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 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

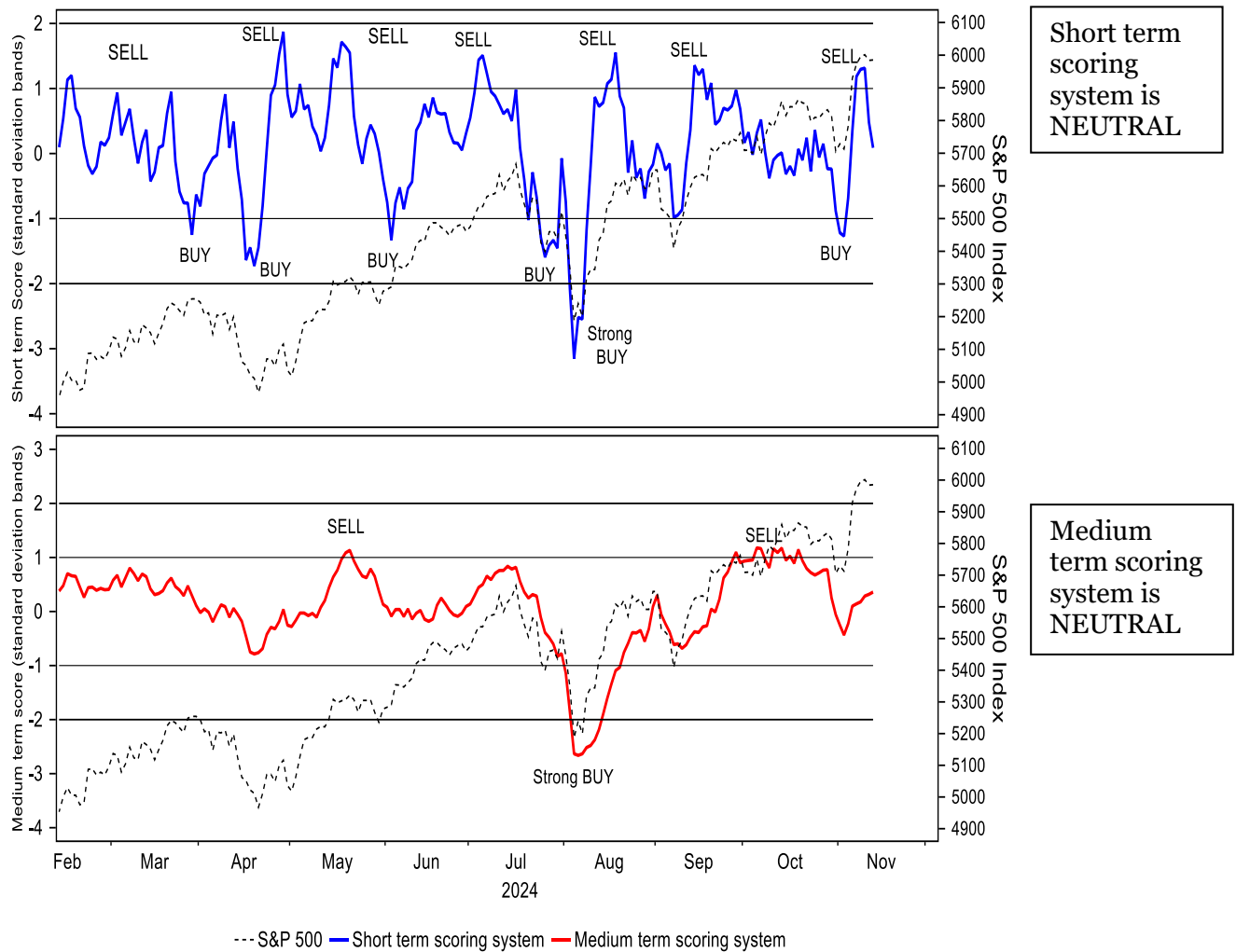
Longview Economics

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14<sup>th</sup> November 2024

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

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



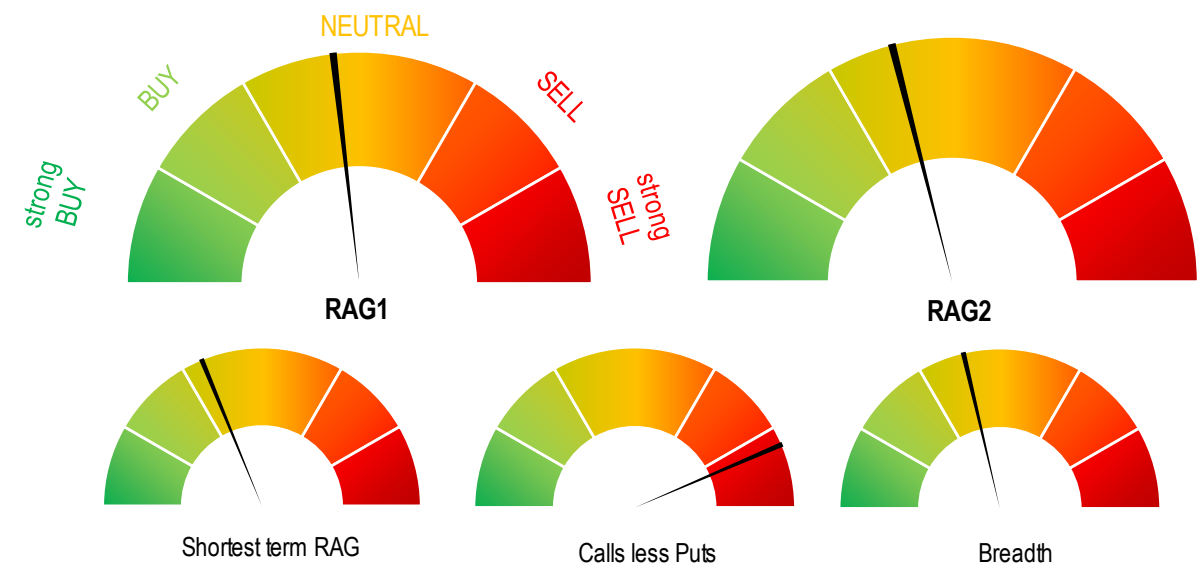
Source: Longview Economics, Macrobond

\*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**

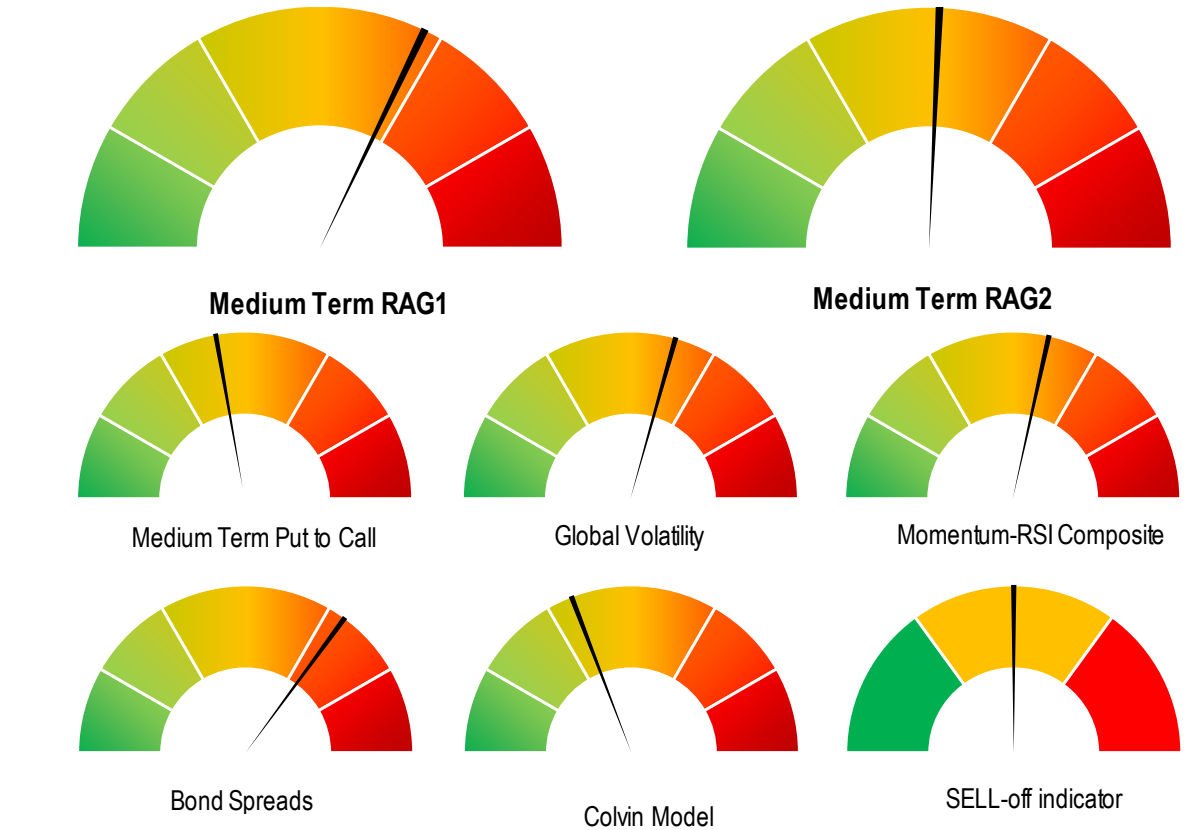
**Section 1a: Summary of indicator signals\*\***

**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

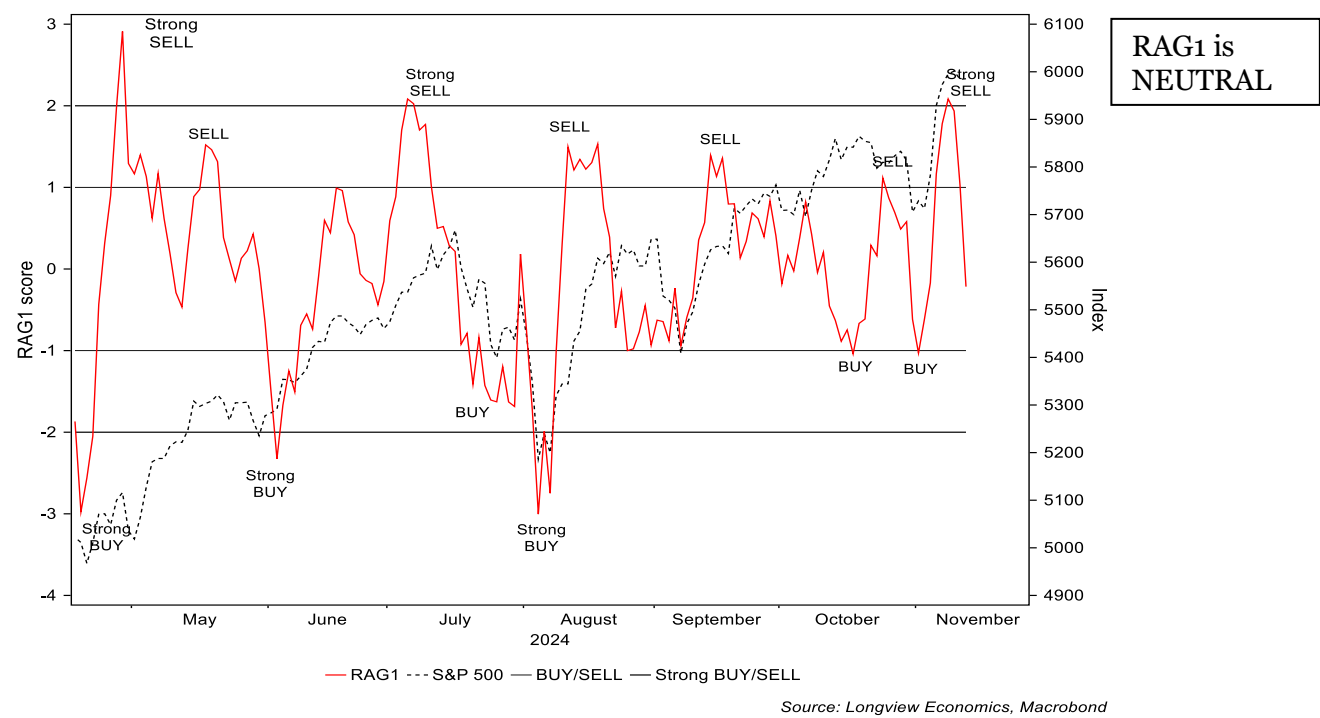
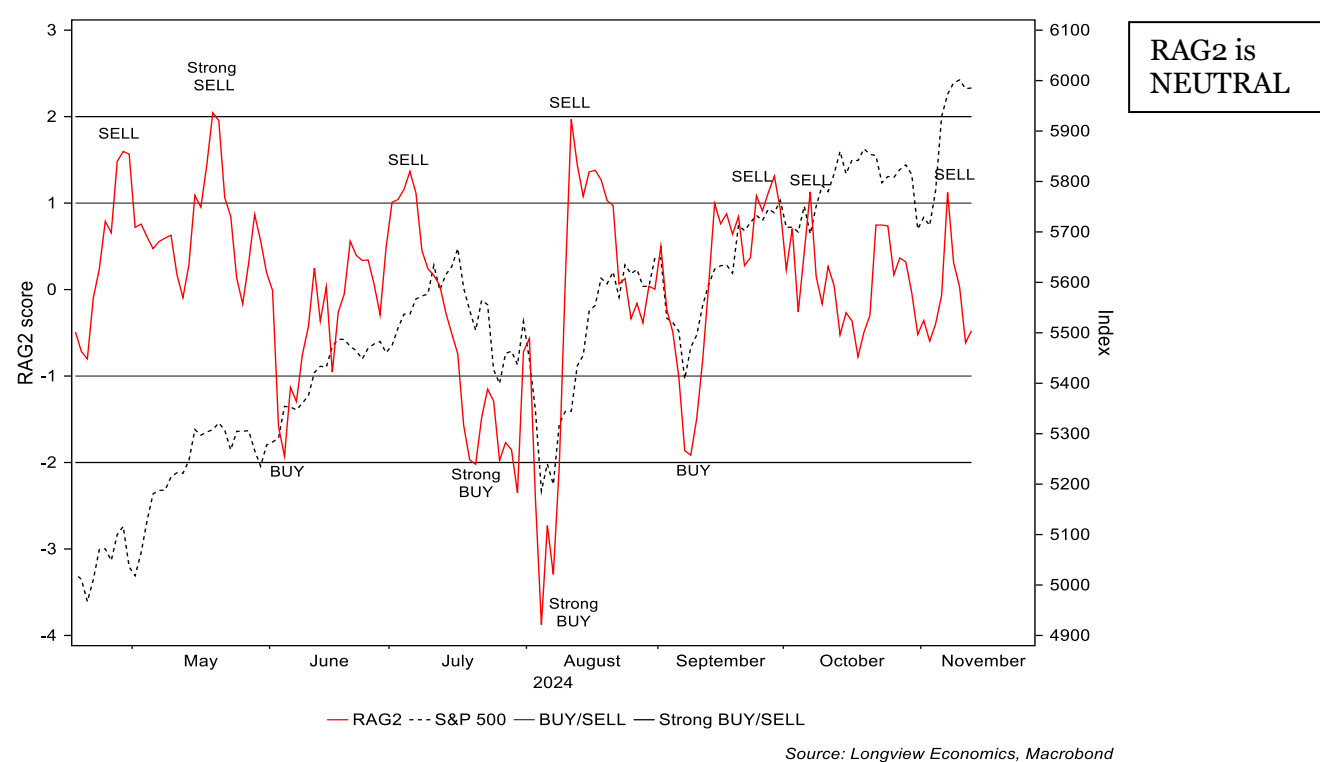
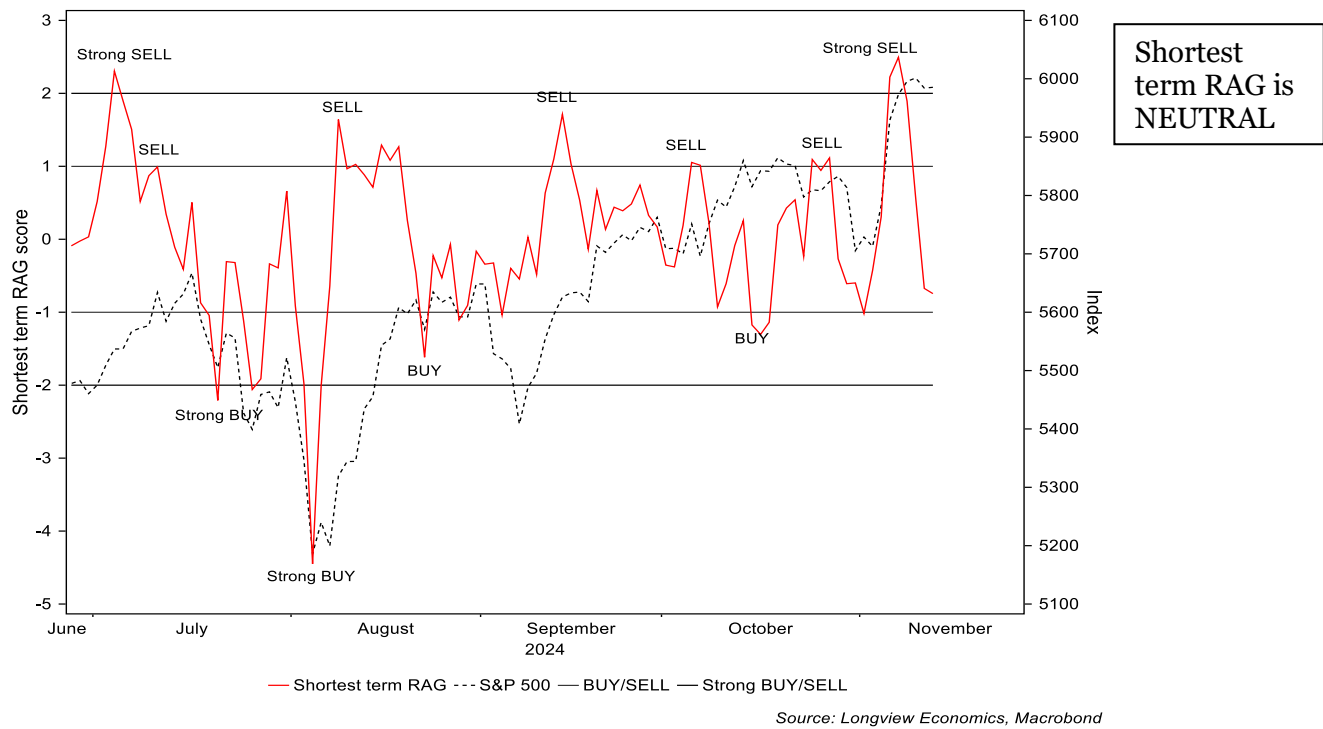


Fig 2b: RAG 2 vs. S&P 500

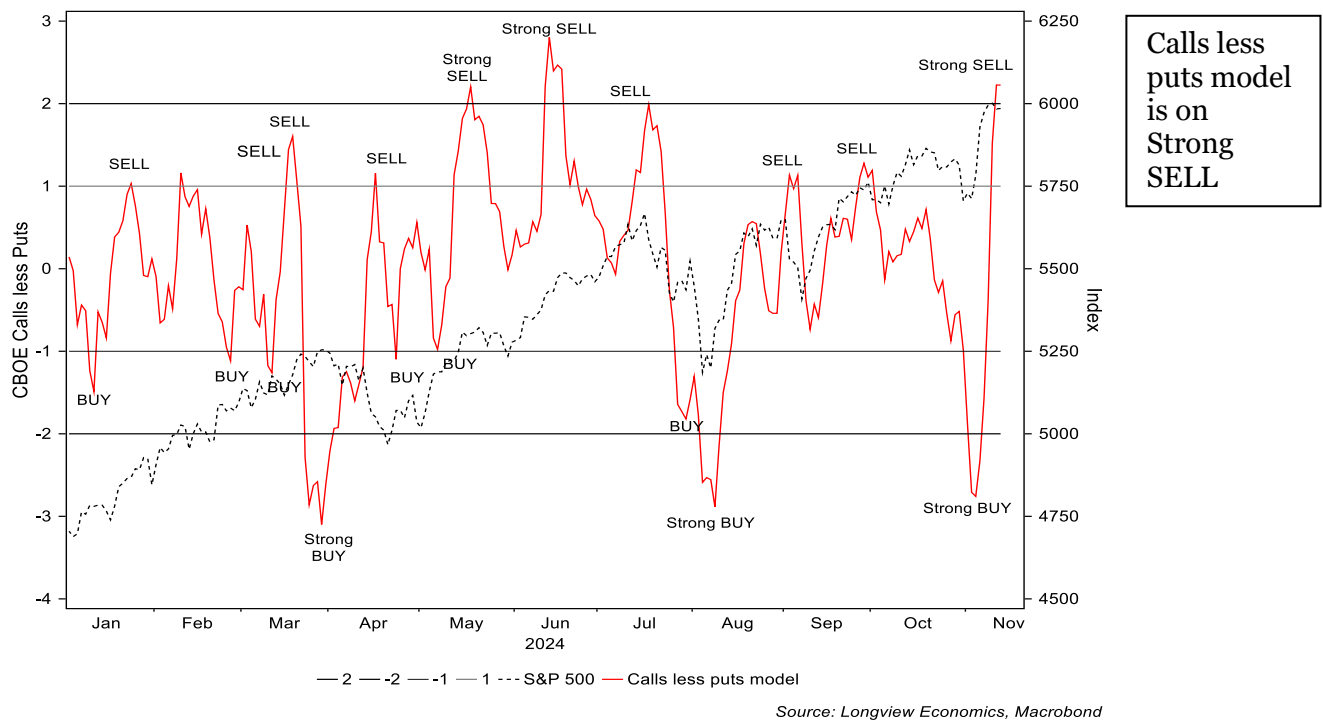


For explanations of indicators please see page 10

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

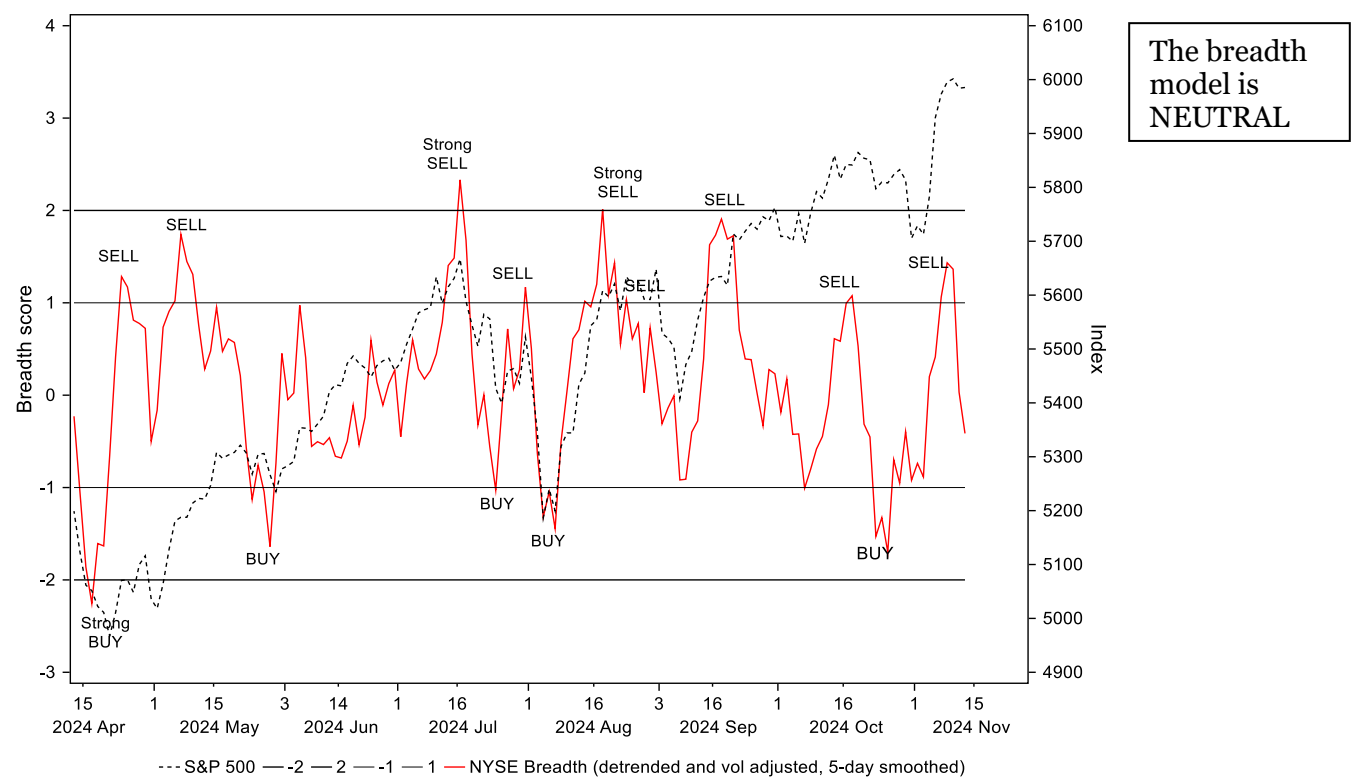


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



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

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



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

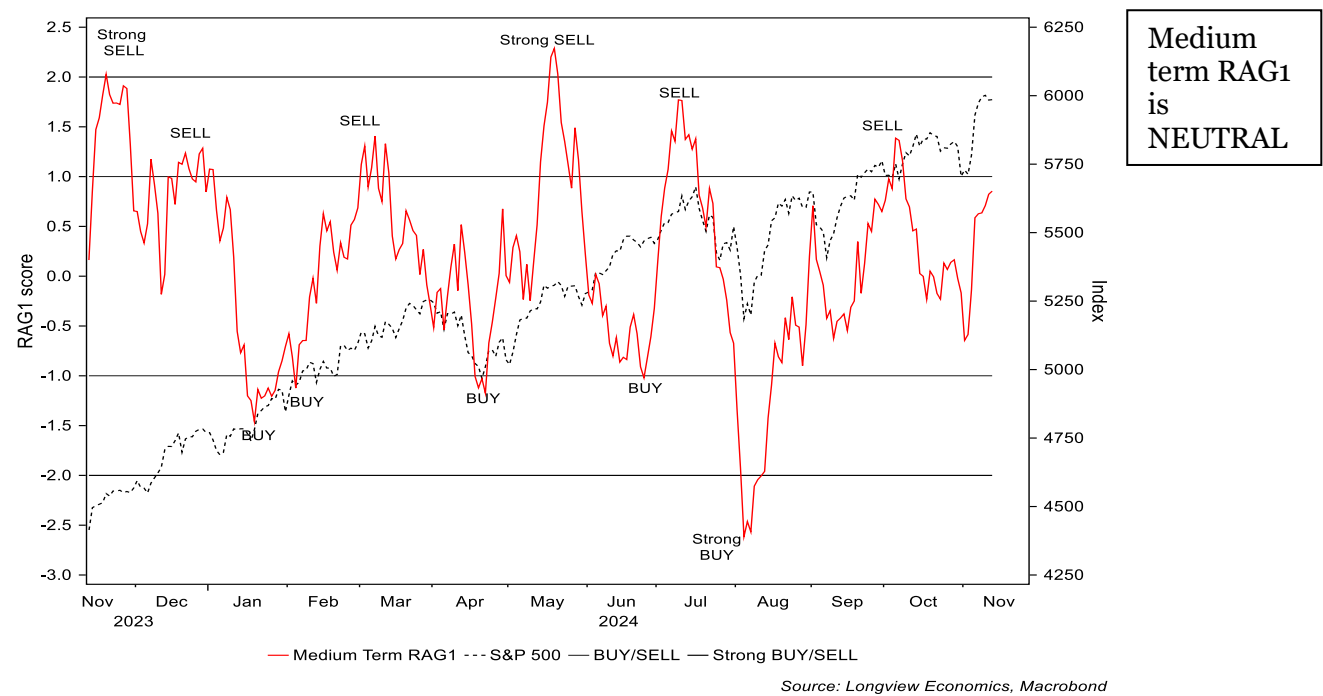
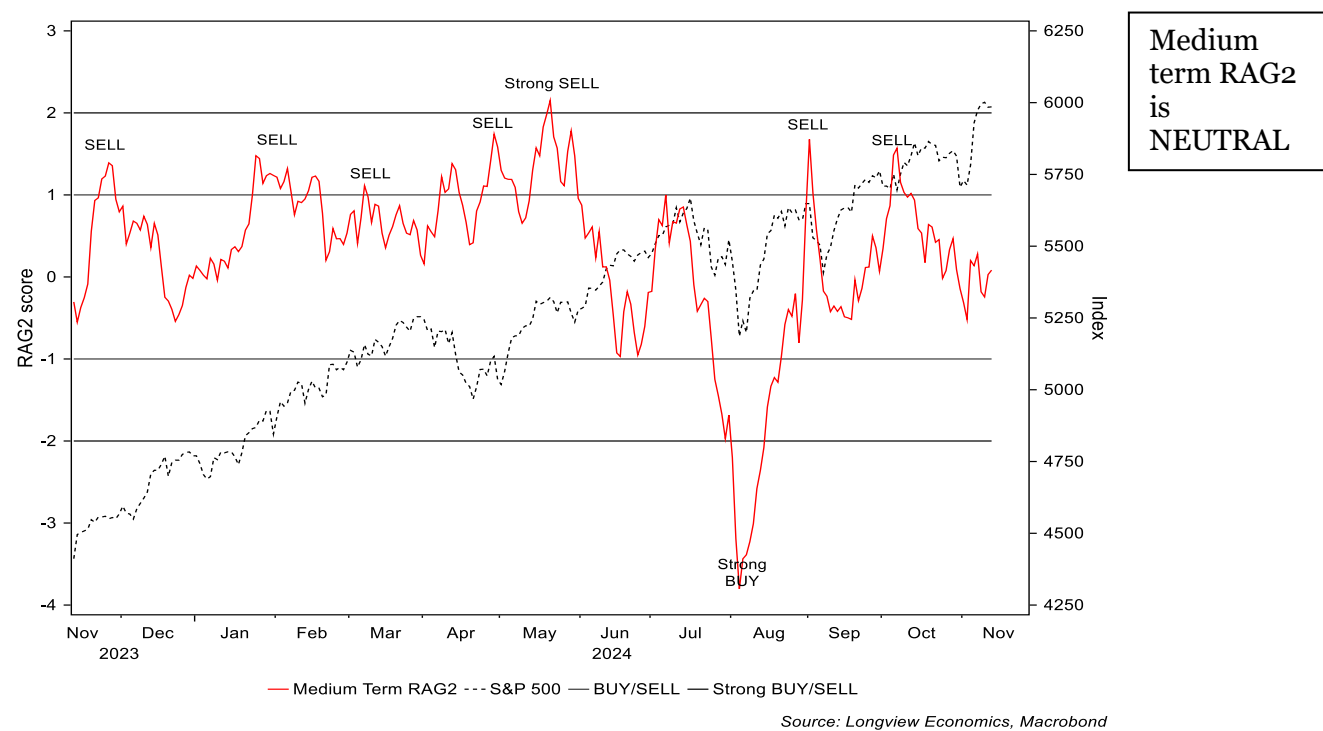


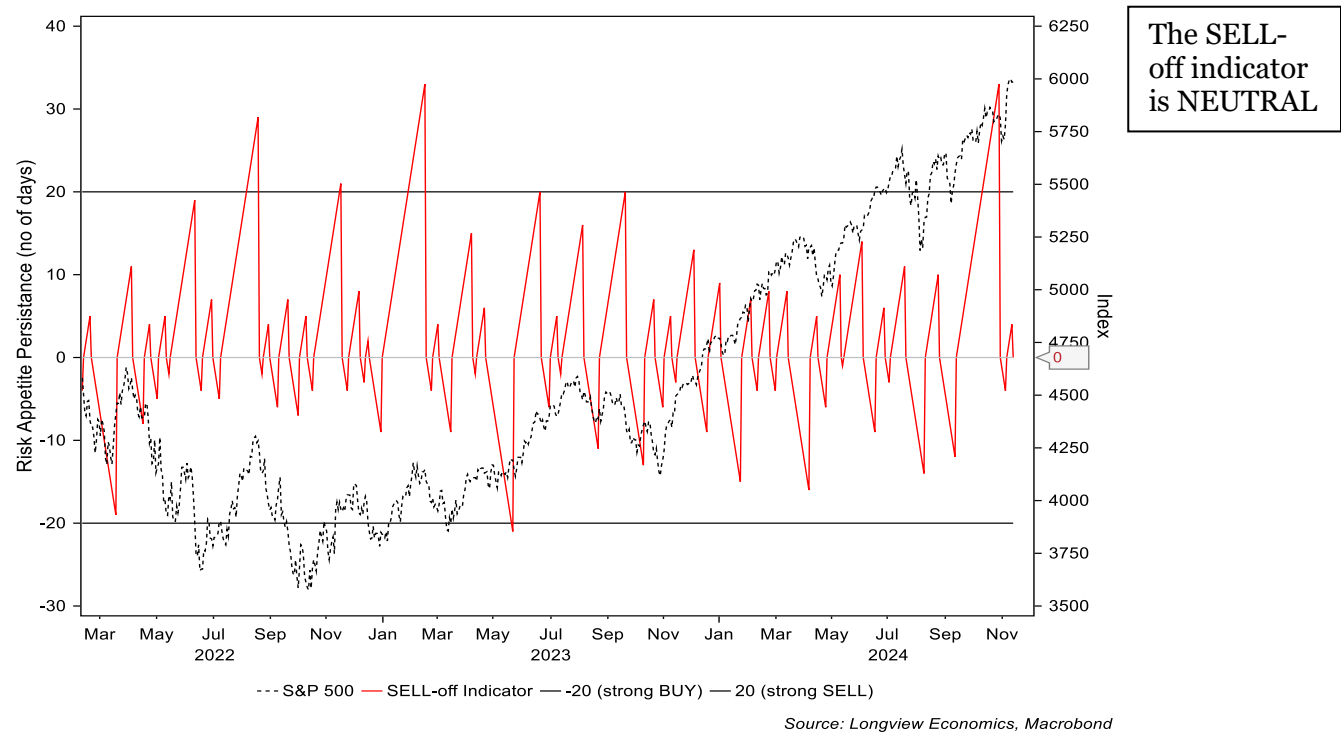
Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



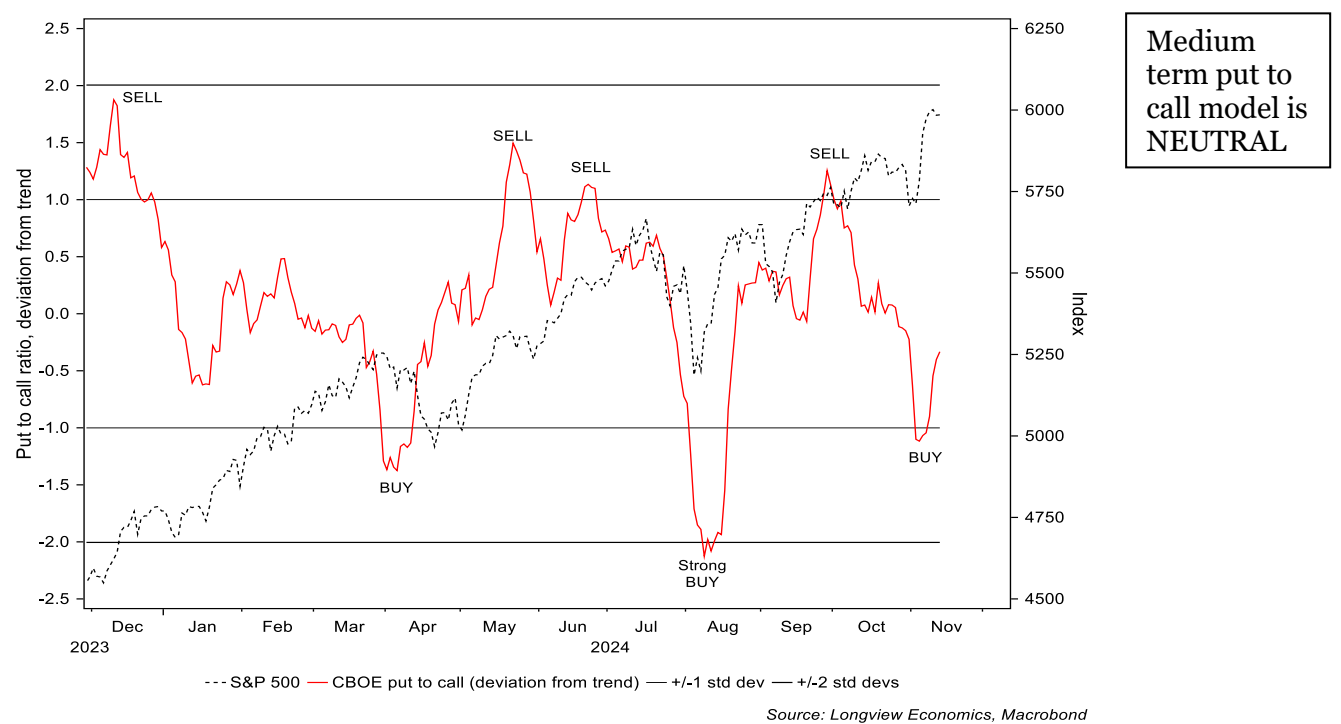
For explanations of indicators please see page 10



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

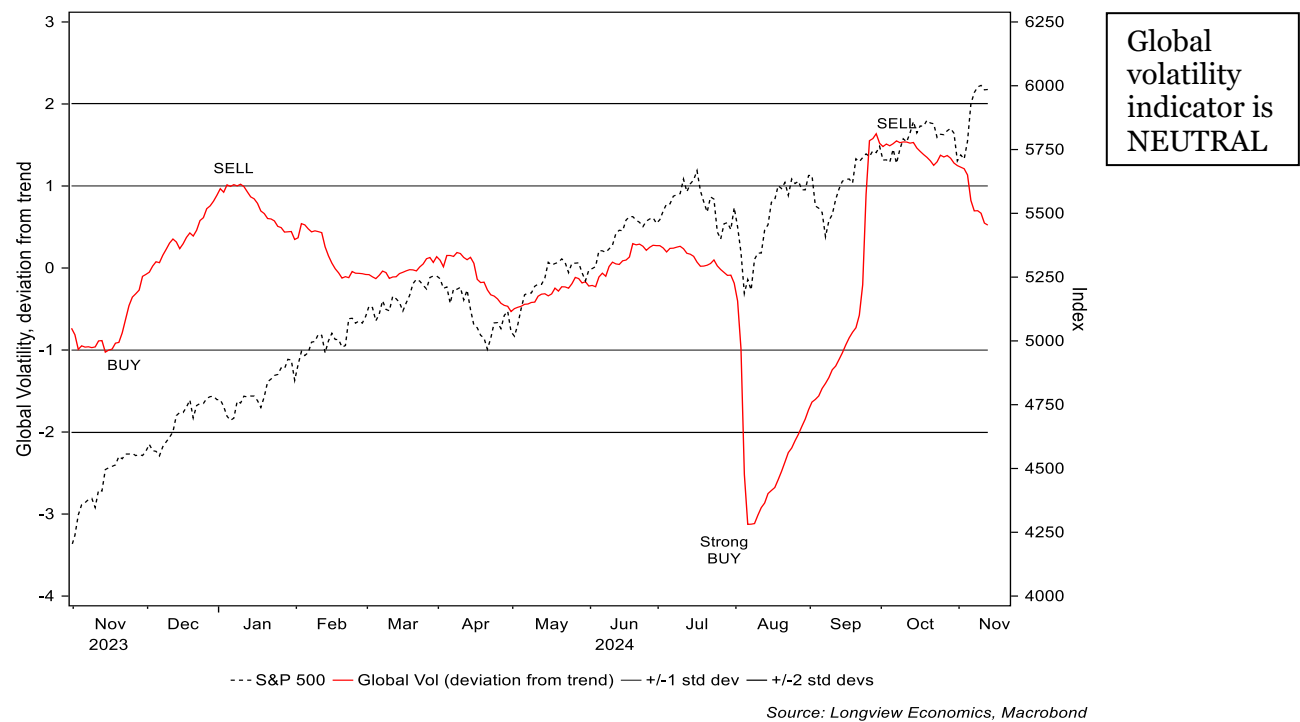


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

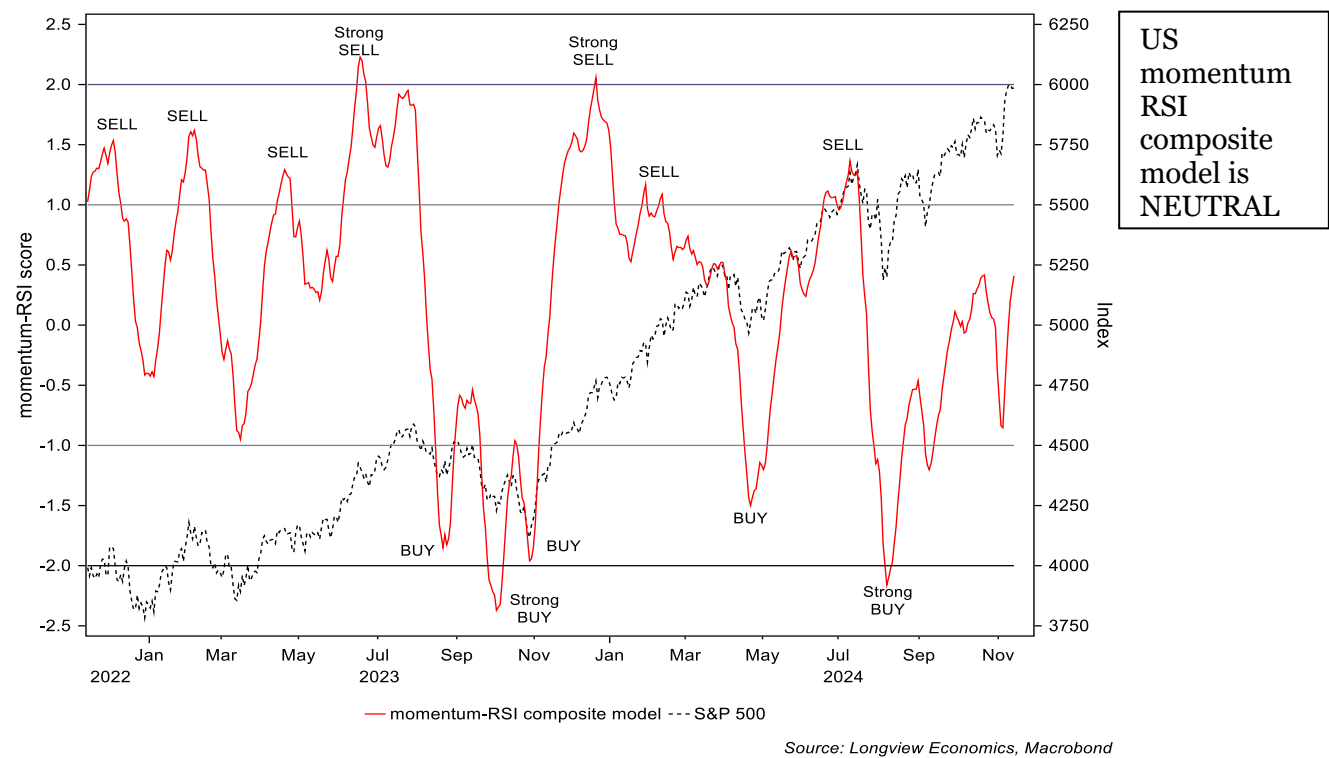


**For explanations of indicators please see page 10**

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



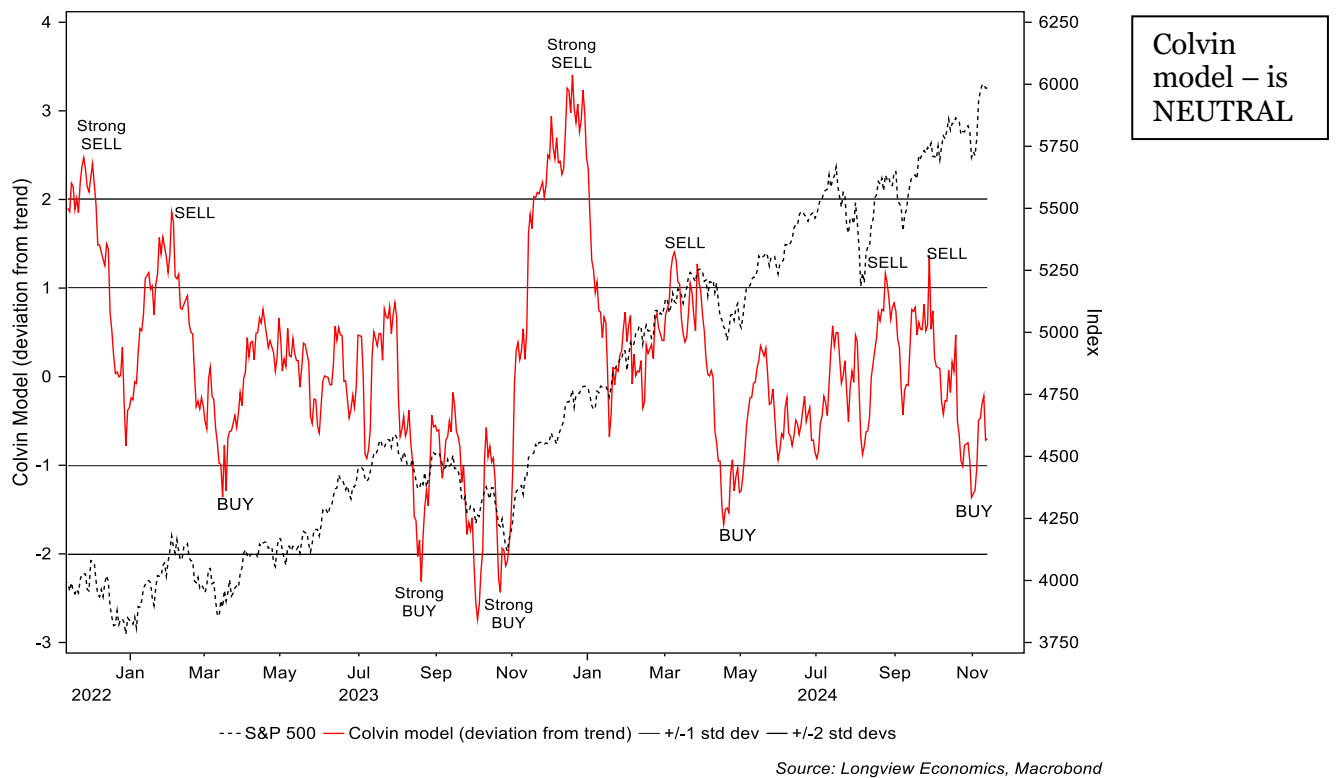
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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

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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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