

Equity Index Futures Trading Recommendations

14th October 2024

"Rising Risk of Wave of Risk Aversion - Awaiting ST models To Move onto SELL (along with MT ones)"

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

- Implement opportunistic LONG positions.
- Move 1/3rd LONG at current prices (with a 2% stop loss).

Rationale

From a medium-term (1 – 4 month) models' perspective, the equity market is due some giveback (i.e. a pullback/'wave of risk aversion'). Our SELL-off indicator, which is designed to signal 'waves of risk aversion' in a timely manner, has crossed its key +20 level and continues to march higher (FIG 1a); our medium term risk appetite scoring system is on SELL (FIG 1b), while other medium terms models are also signalling that markets are due to give back some of their recent gains (as detailed in last week's '[Longview Alert](#)').

Short term models, though, support an expectation of a few (1 – 4) trading sessions of further upside (FIGs 2 – 2e). Shortest term RAG and the short term put to call ratio, for example, are both below their SELL thresholds. Indeed, Shortest term RAG was effectively on BUY towards the end of last week (FIG 2a). The short-term risk appetite scoring system is also below its SELL threshold (FIG 2). Added to which, the S&P500, after breaking out of its 12-day trading range on Wednesday last week, continued to strengthen on Friday (pushing further out of that range – FIG 1c). The index closed +0.6% on Friday, led by the cyclical areas of the market (and helped by good bank earning results).

For choice, therefore, in the very near term (next few trading sessions) further upside is likely. If correct, and that occurs, then as we enter into the 2nd half of this week, it's likely that by then both SHORT & MEDIUM term models will be generating an 'across the board' SELL signal. Added to that, it's also likely that other signs of frothiness will become more evident*. For example, there was a pick-up in the volume of single stock call option buying last week (especially the 2nd half). For now, though, that indicator hasn't yet reached its high, SELL threshold (FIG 1).

Also of note, over the weekend Chinese policy makers announced their latest fiscal stimulus plans (Saturday press conference led by the Chinese finance ministry). Overall, the market/commentary expressed disappointment that policy makers didn't announce the size of the package. Chinese equity markets, though, have steadied and rallied modestly overnight (Shanghai +2.1%; China A50 +1.6%).

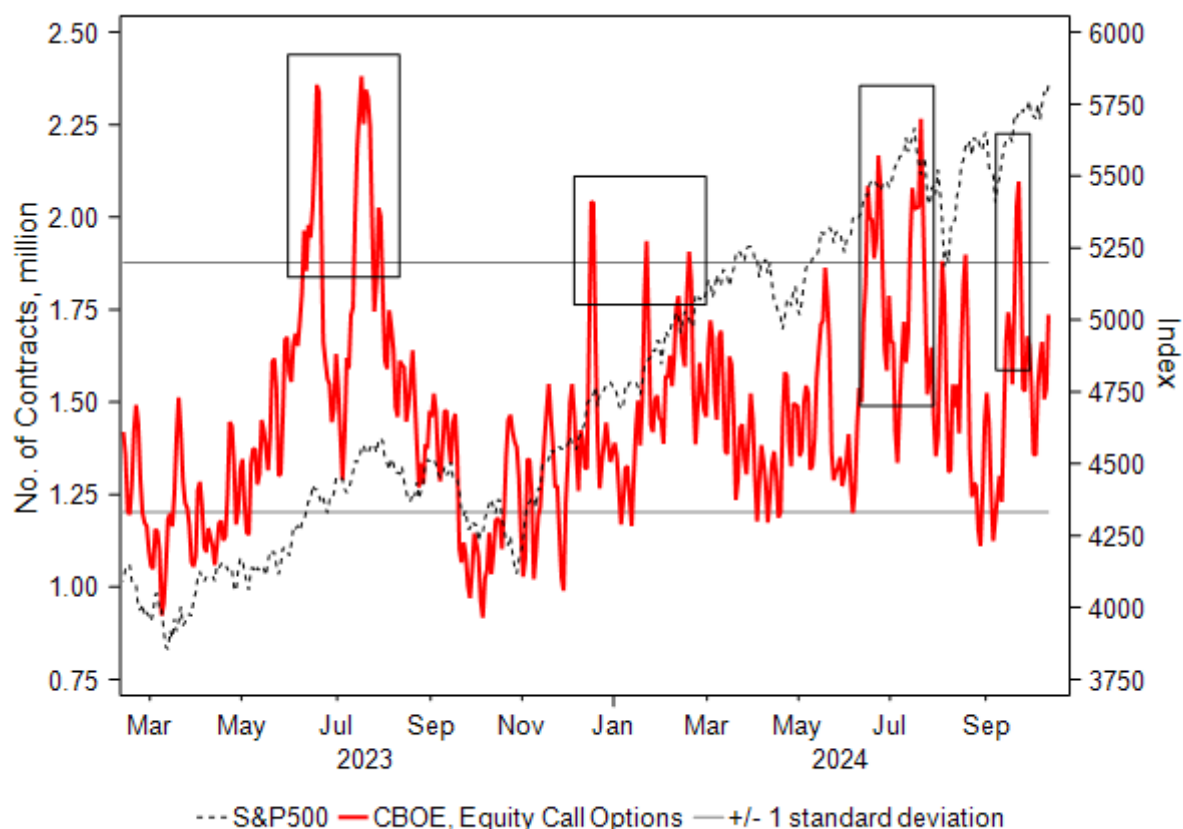
In conclusion, therefore, we expect equity markets to continue to rally through most of this week, such that short term models are also pushed back onto SELL (especially the put to call ratio & shortest-term RAG). At that point, we'd then expect to start BUILDing SHORT positions. Ahead of that, though, and given the set-up of the short-term models and given that the market is not currently overextended in the short term (FIG 1d), we recommend an opportunistic LONG position (with a reasonably tight stop loss) – see trading recommendation above. Key events this week are multiple and include the ongoing US earnings season.

Kind regards,

The team @ Longview Economics

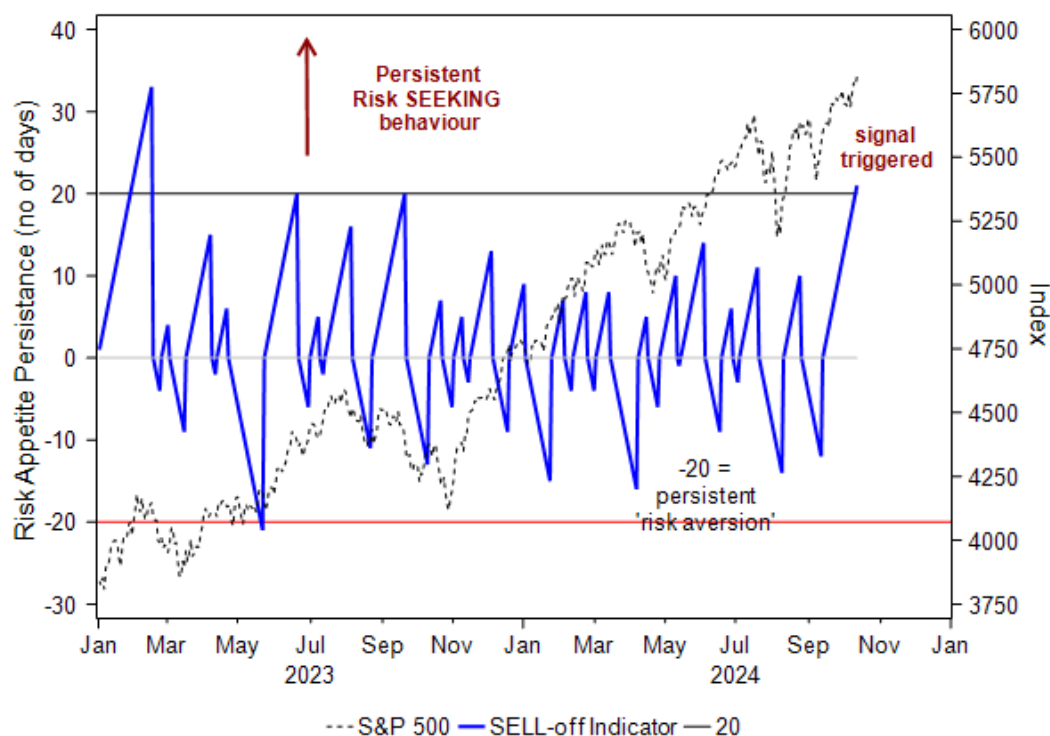
*NB frothiness in markets is typical just prior to a meaningful pullback.

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



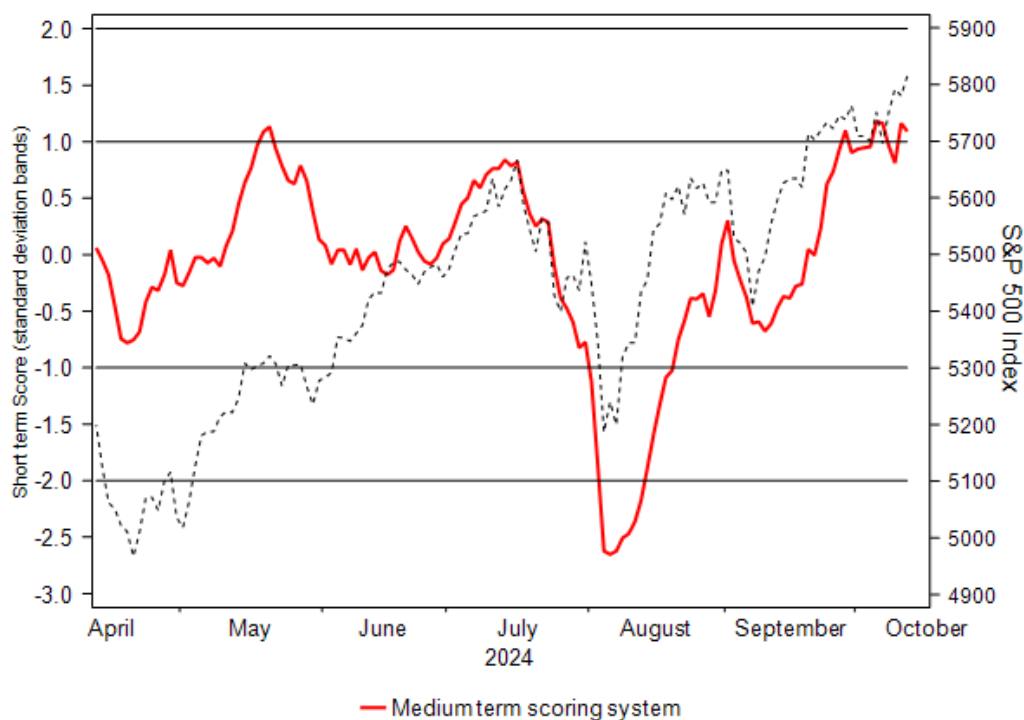
Source: Longview Economics, Macrobond

FIG 1a: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

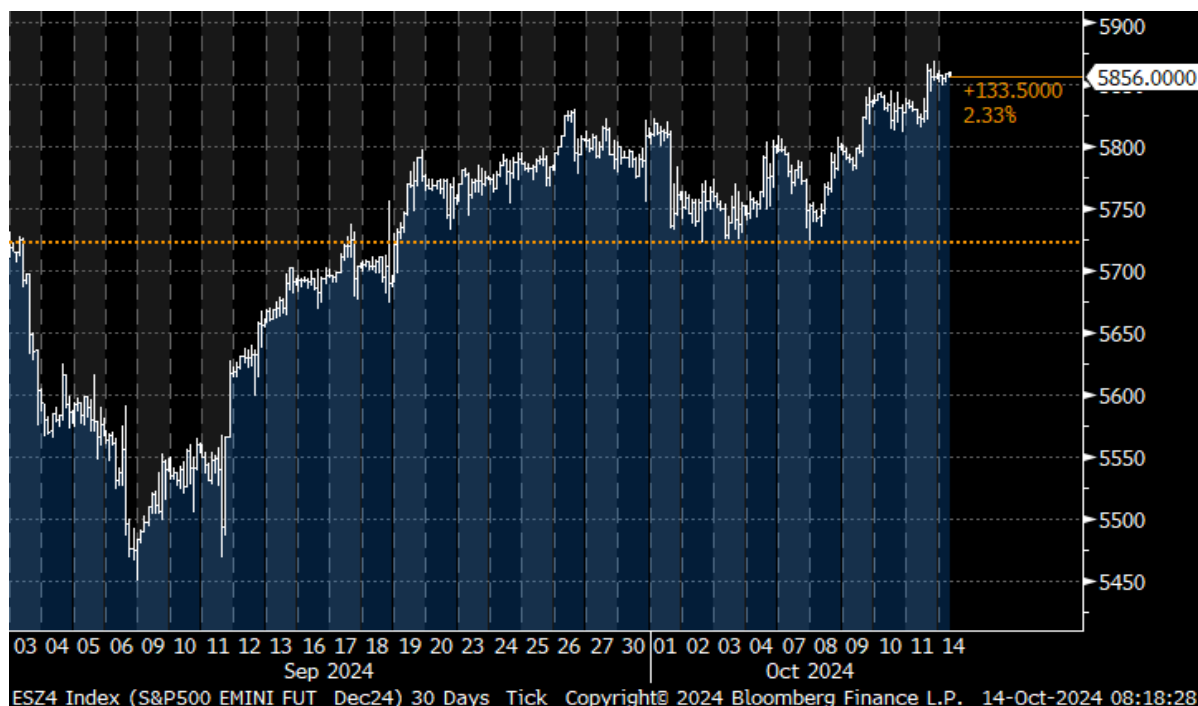


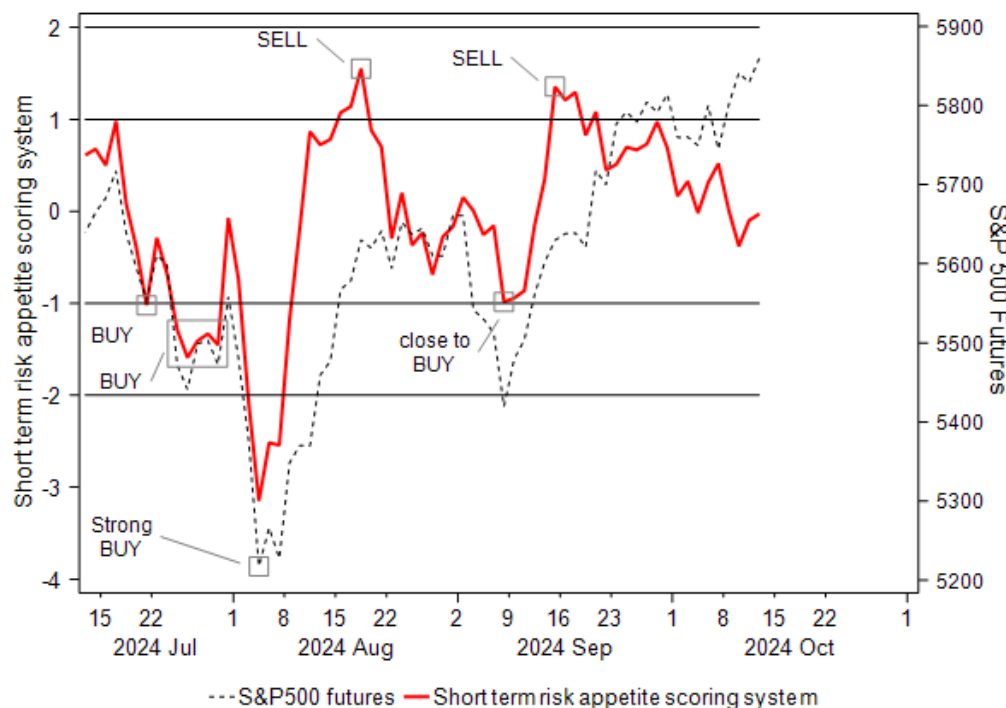
FIG 1d: S&P500 overextended indicator (10 day moving average relative to underlying index price)



Source: Longview Economics, Macrobond

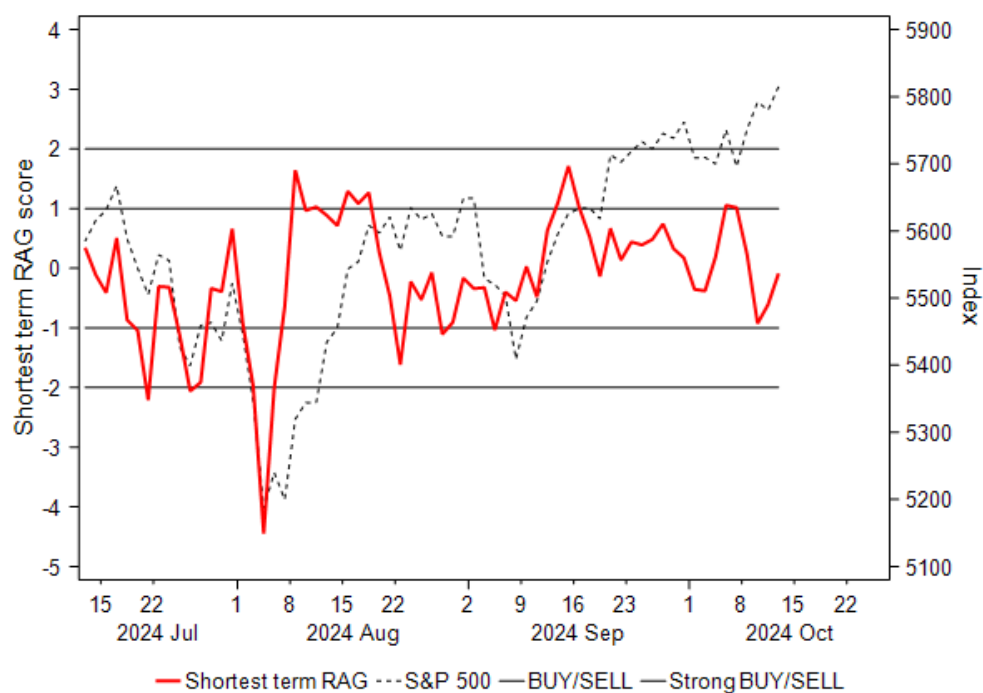
Short term market timing models are mostly mid-range.....

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



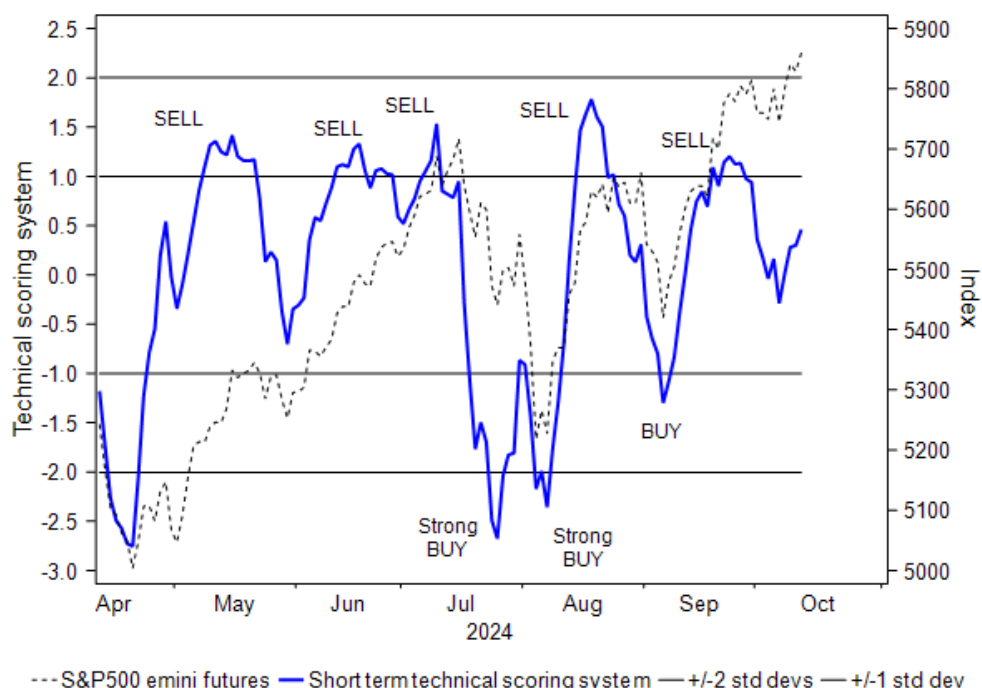
Source: Longview Economics, Macrobond

FIG 2a: Longview **SHORTEST** term RAG1 vs. S&P500



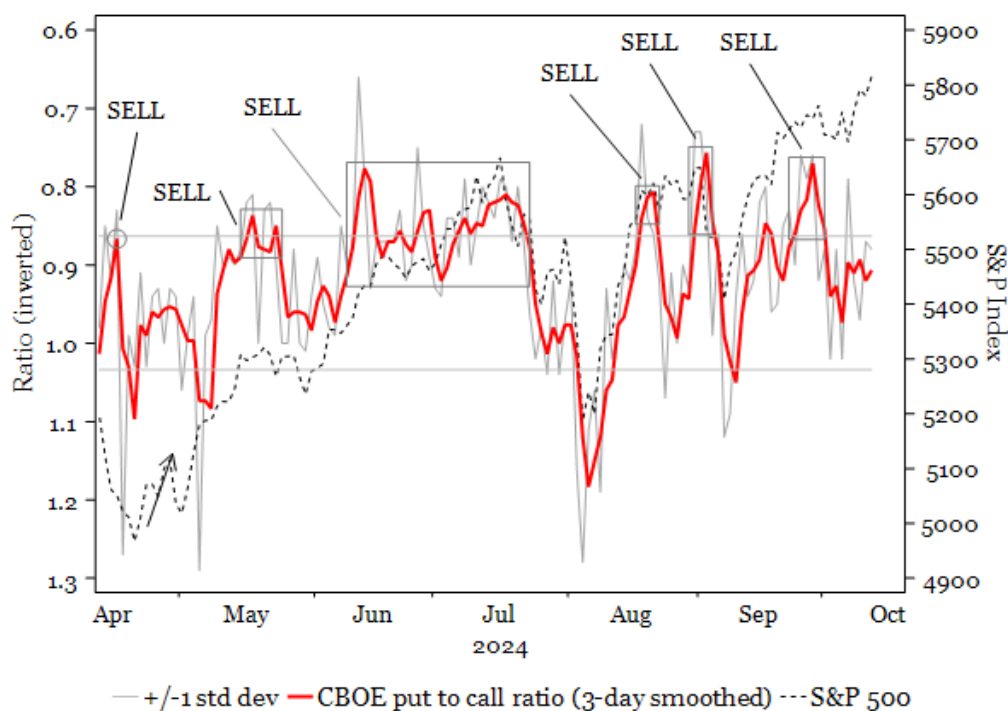
Source: Longview Economics, Macrobond

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



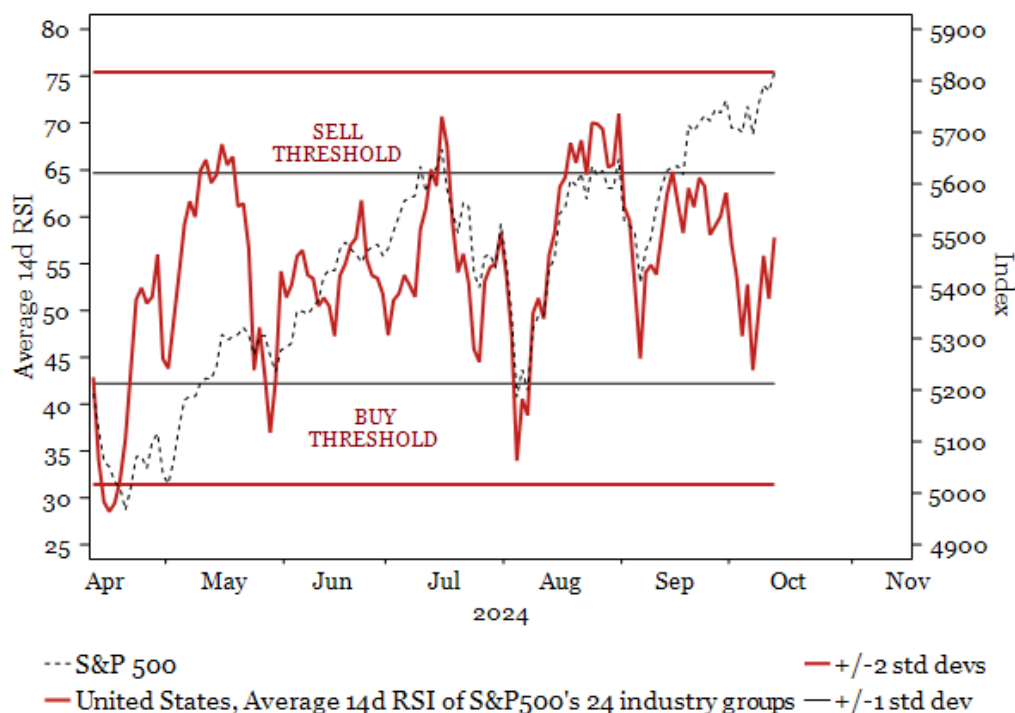
Source: Longview Economics, Macrobond

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



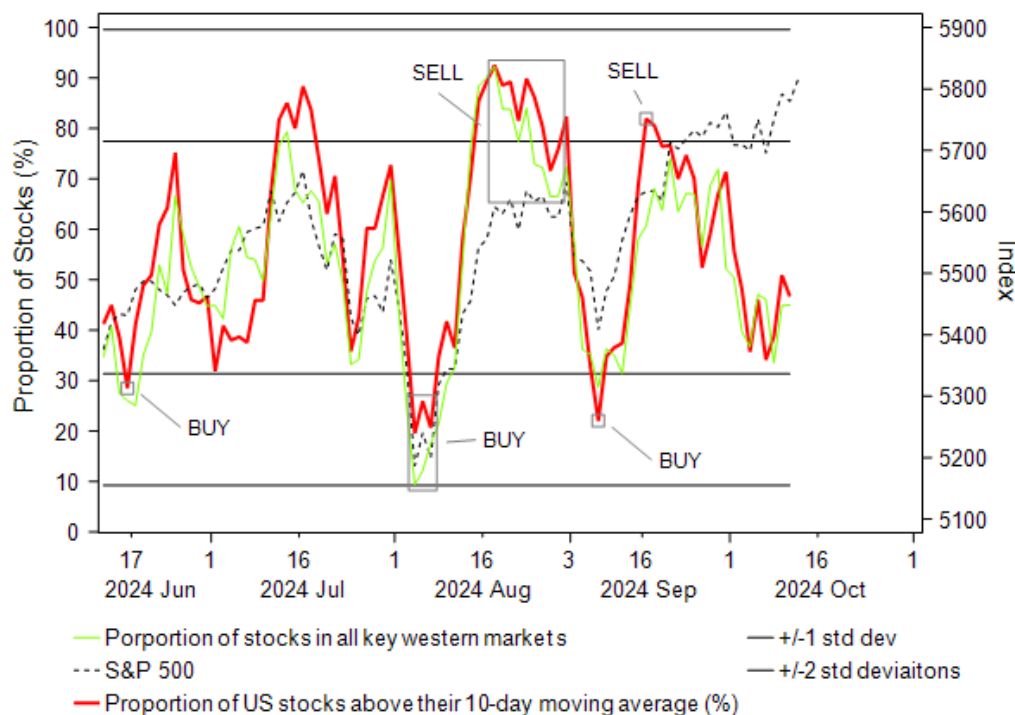
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 2e: Proportion of Western stocks above their 10 day moving average vs. S&P500



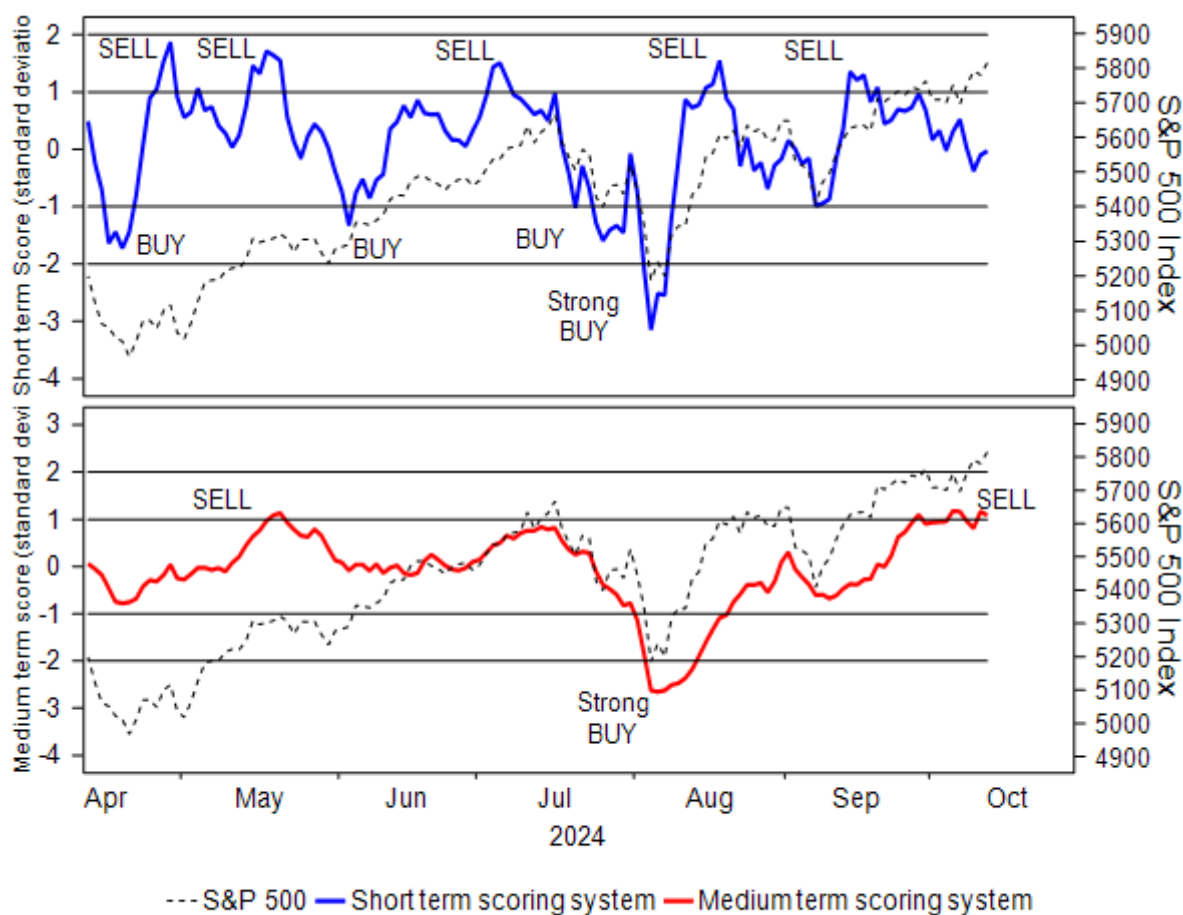
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**

Medium term (1 – 4 month) scoring system: **SELL**

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: **Chinese imports/exports & trade balance** (Sept, 8am); UK Rightmove house prices (Oct, 12:01am); US New York Fed 1 year inflation expectations (Sept, 4pm).

Key events today include: Market holiday in Japan on account of National Sports Day; speech by the Bank of England's Dhingra on a panel in India (7:30am); speech by the ECB's Villeroy in Paris (8am); speeches by the Fed's Kashkari on fiscal deficits, monetary policy and inflation (2pm), Waller on the Economic outlook (8pm) & Kashkari in Fireside chat (10pm); market holiday in Canada on account of Thanksgiving Day.

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 on 10th October 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

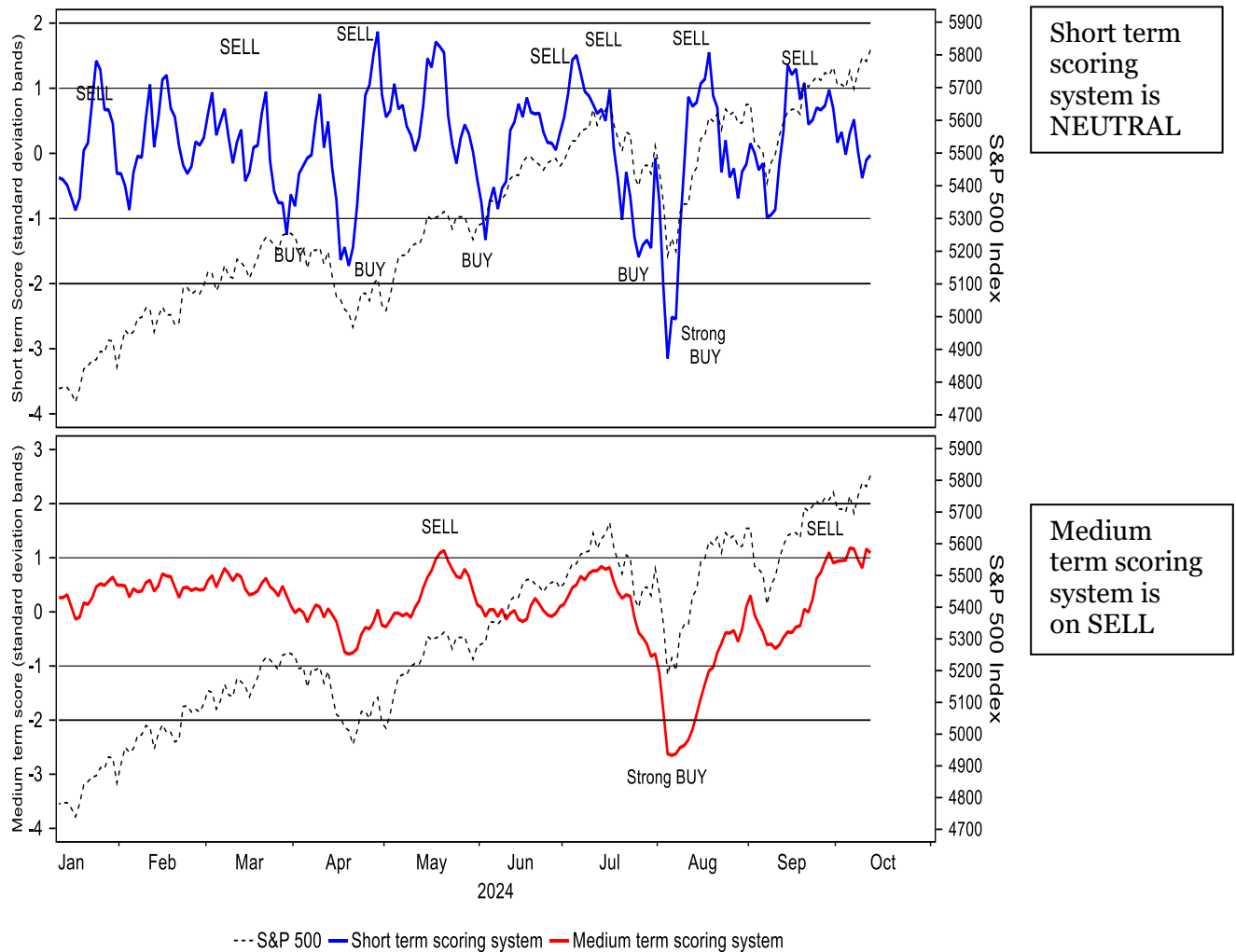
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14th October 2024

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

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



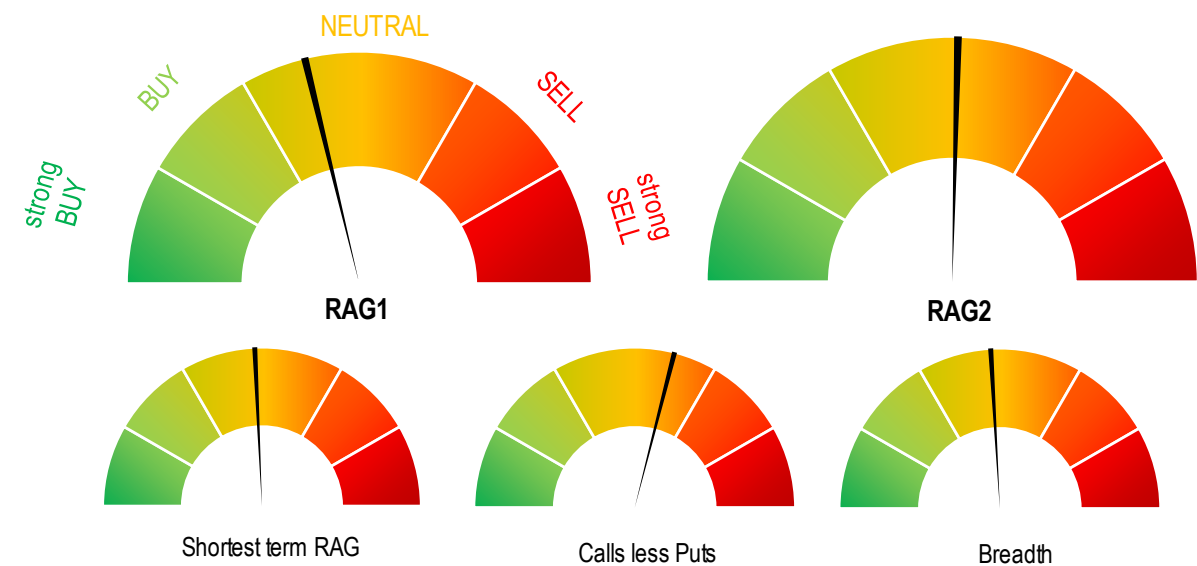
Source: Longview Economics, Macrobond

*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

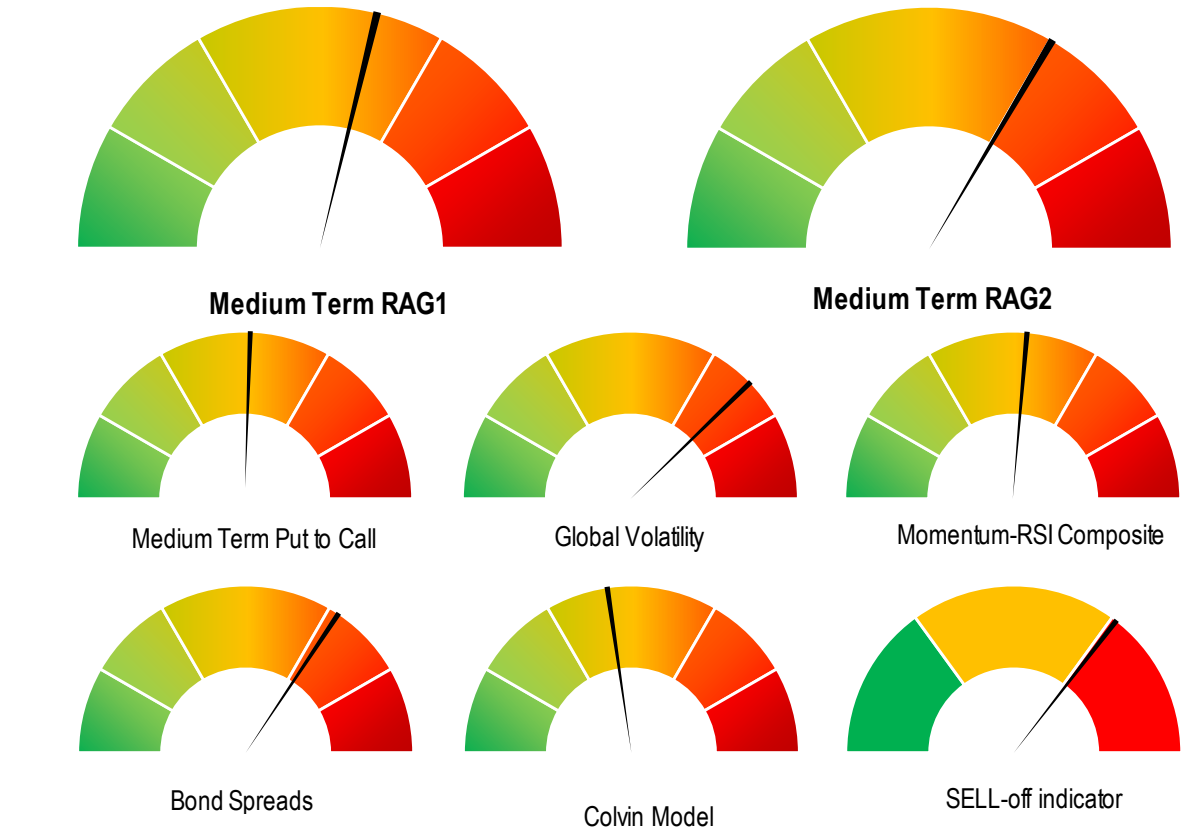
Section 1a: Summary of indicator signals**

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

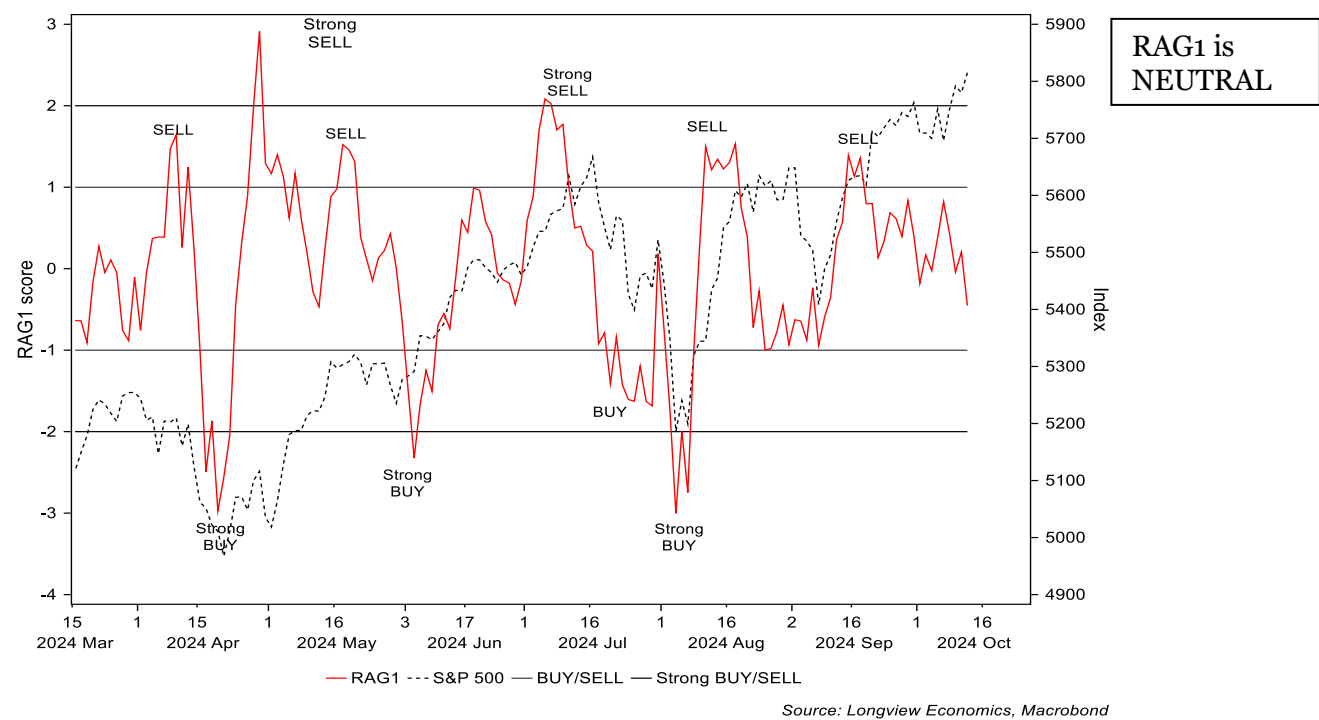
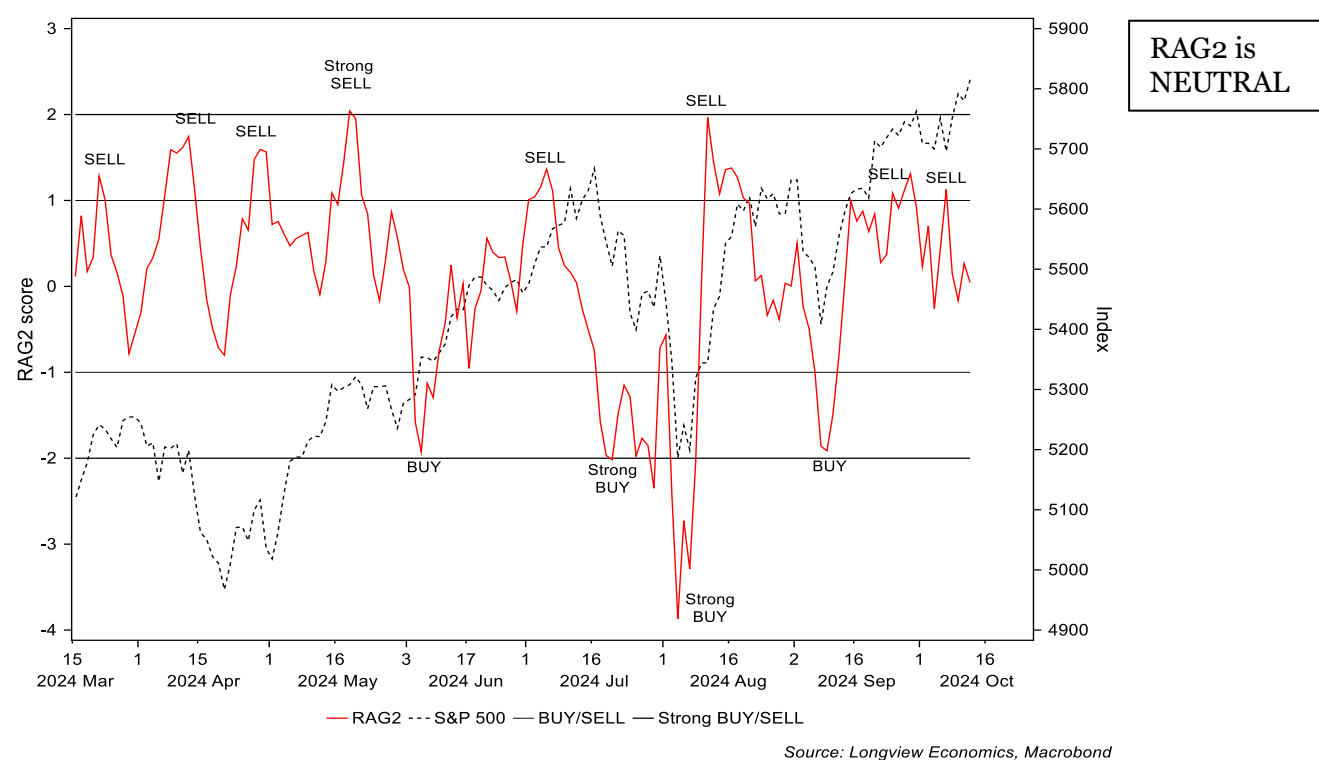


Fig 2b: RAG 2 vs. S&P 500



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

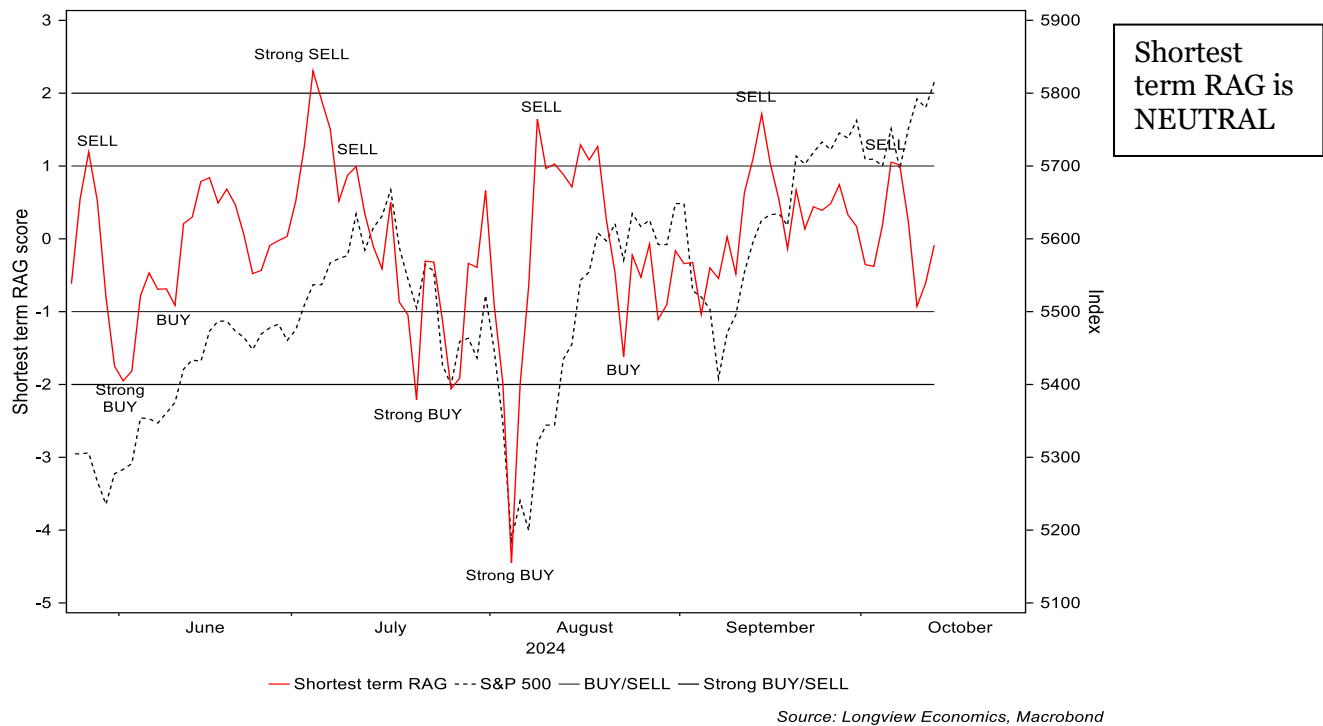
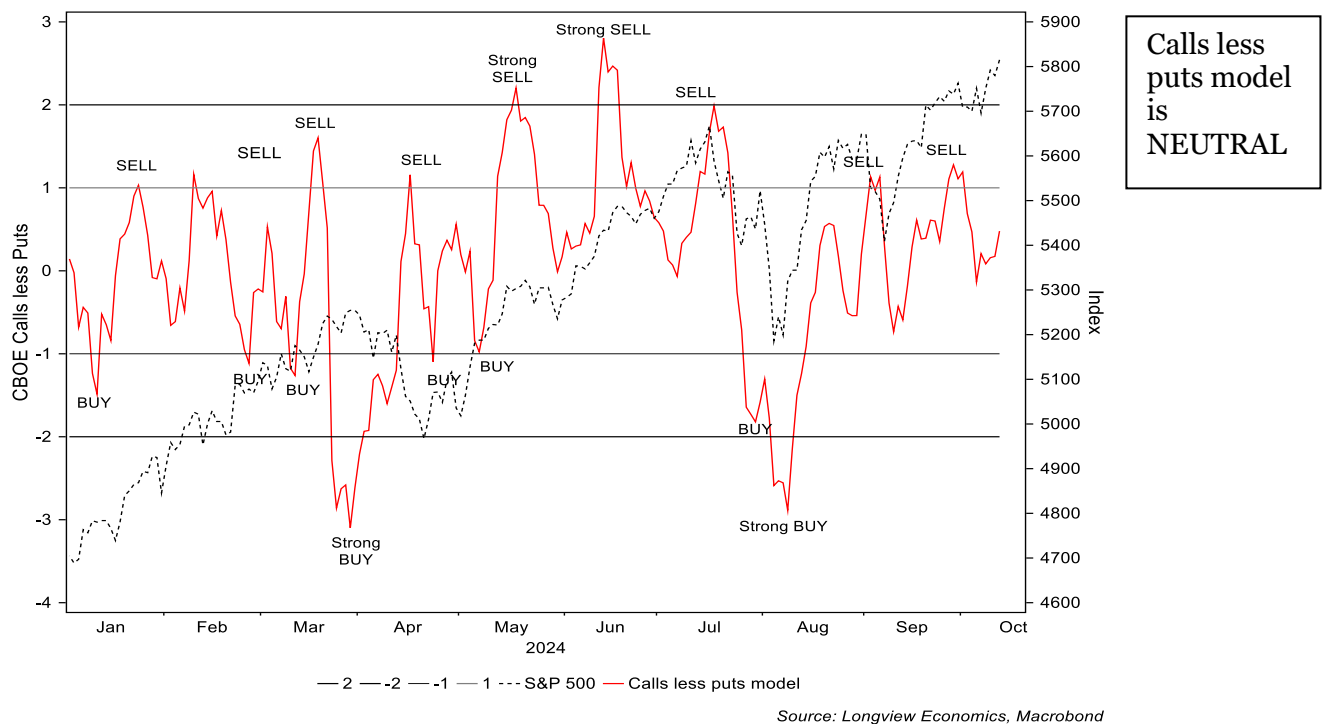
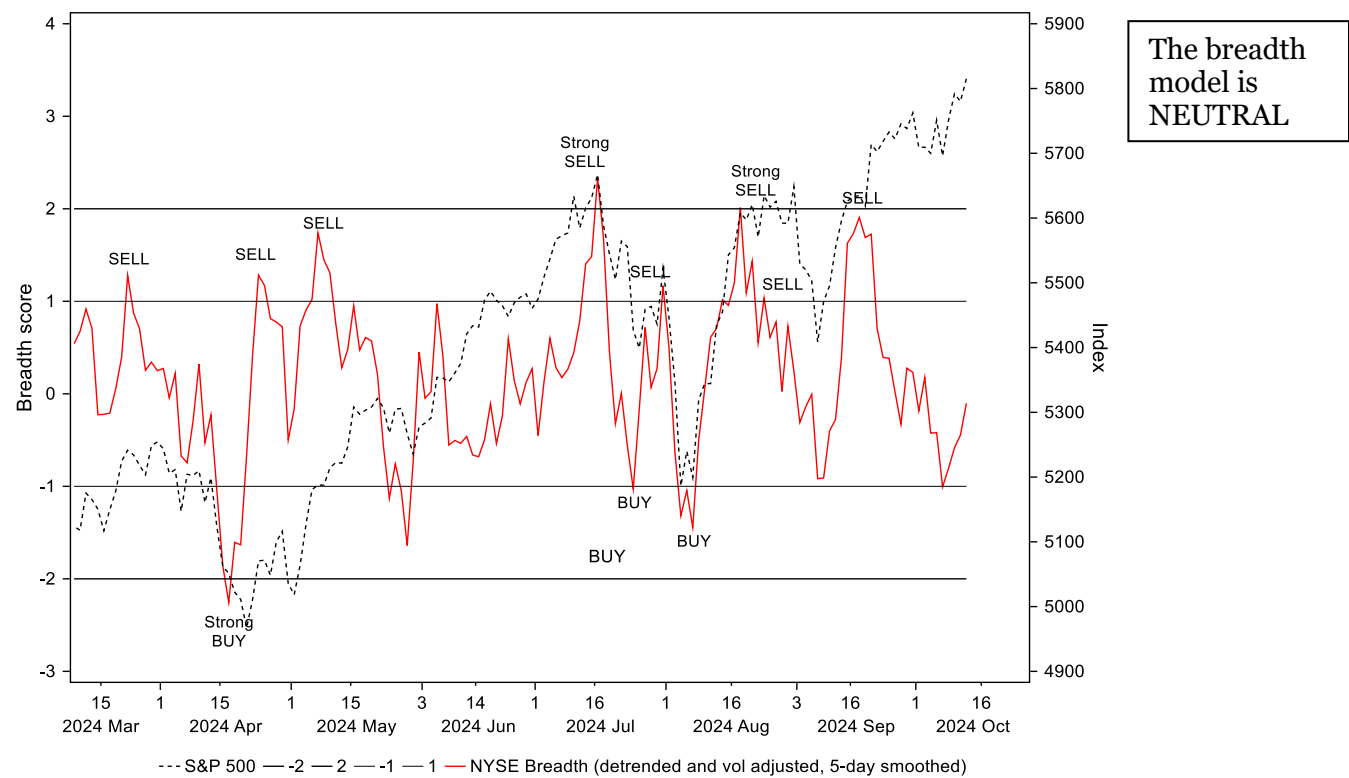


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

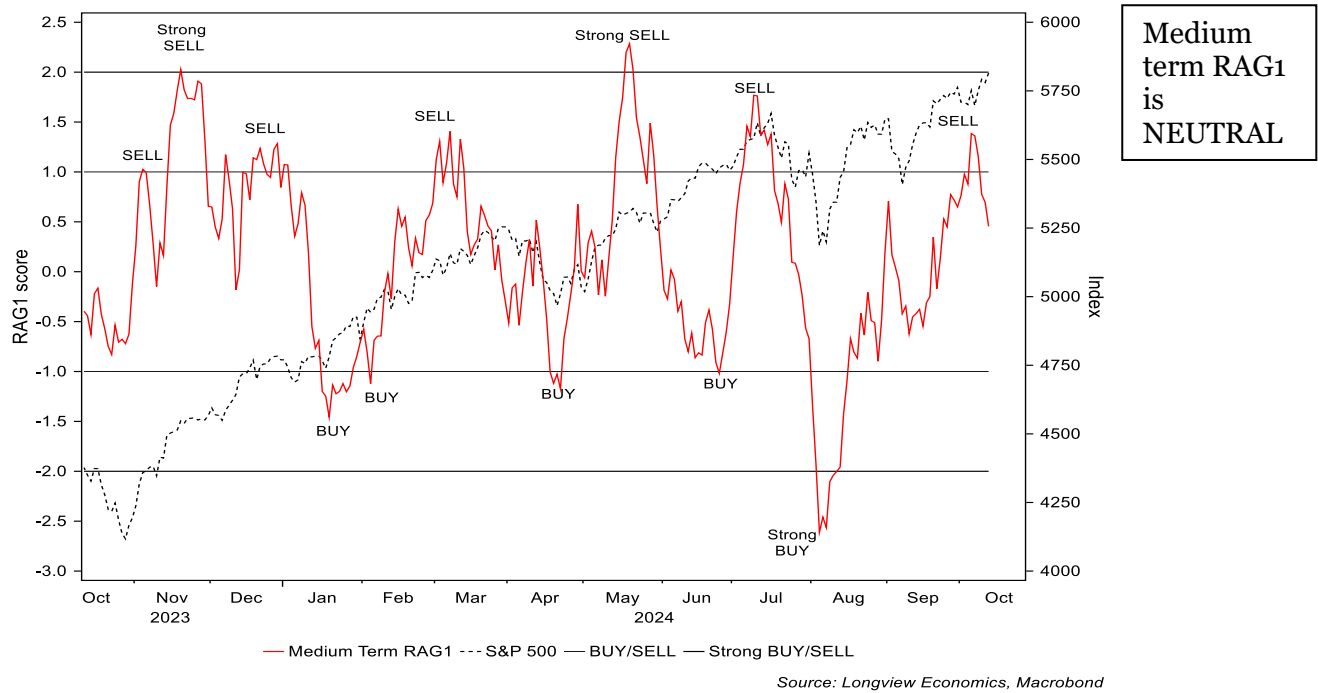
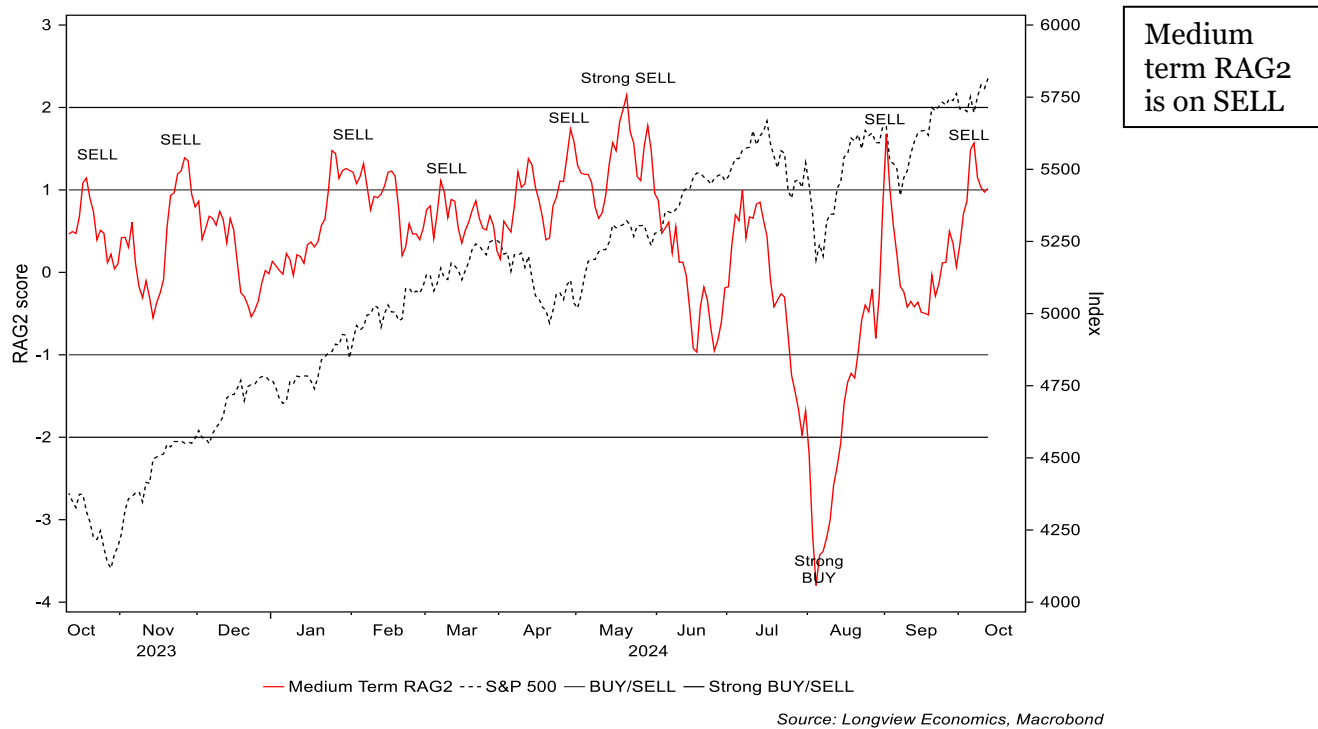


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

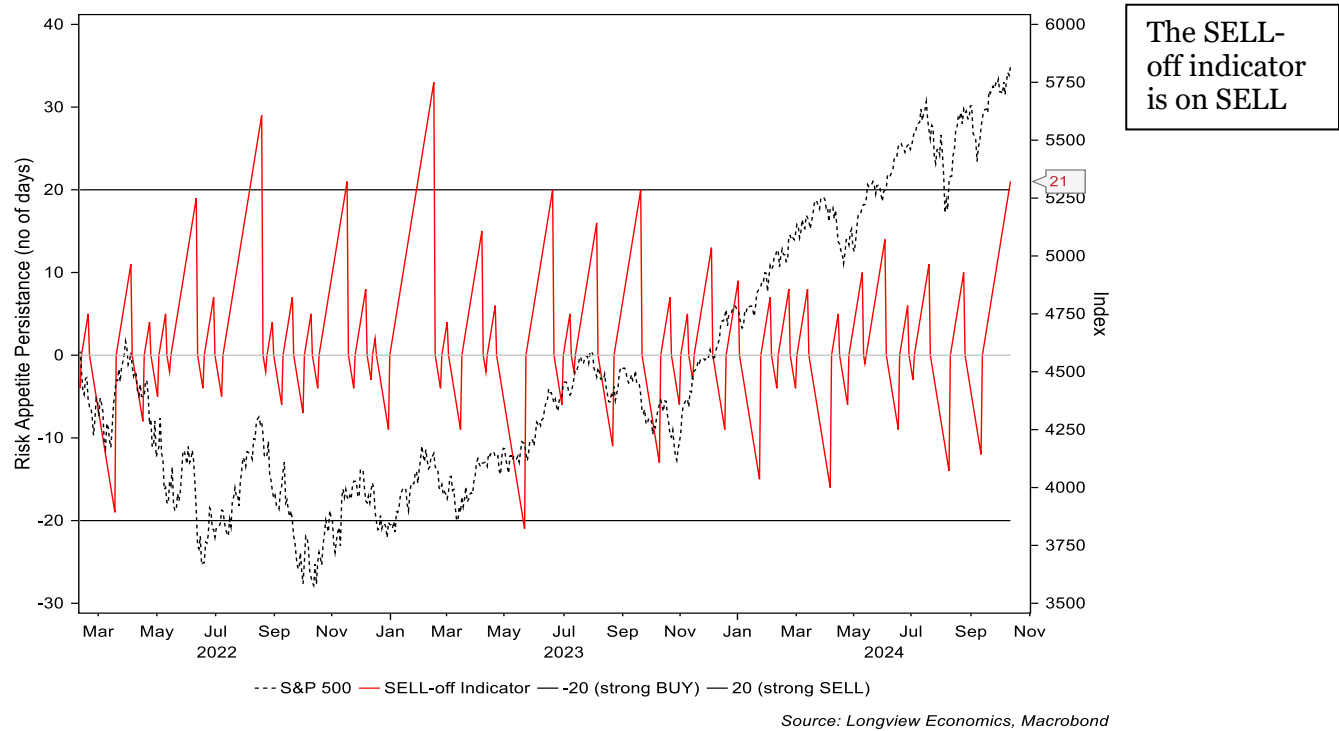
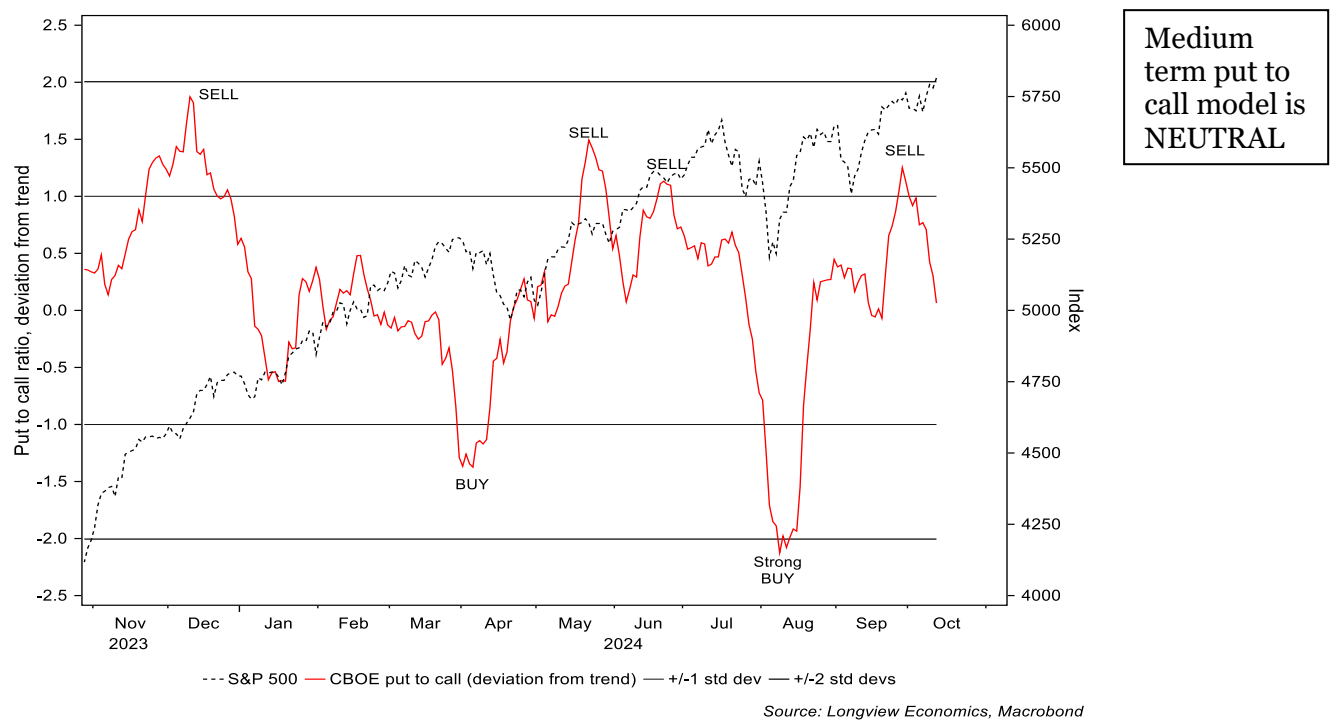


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

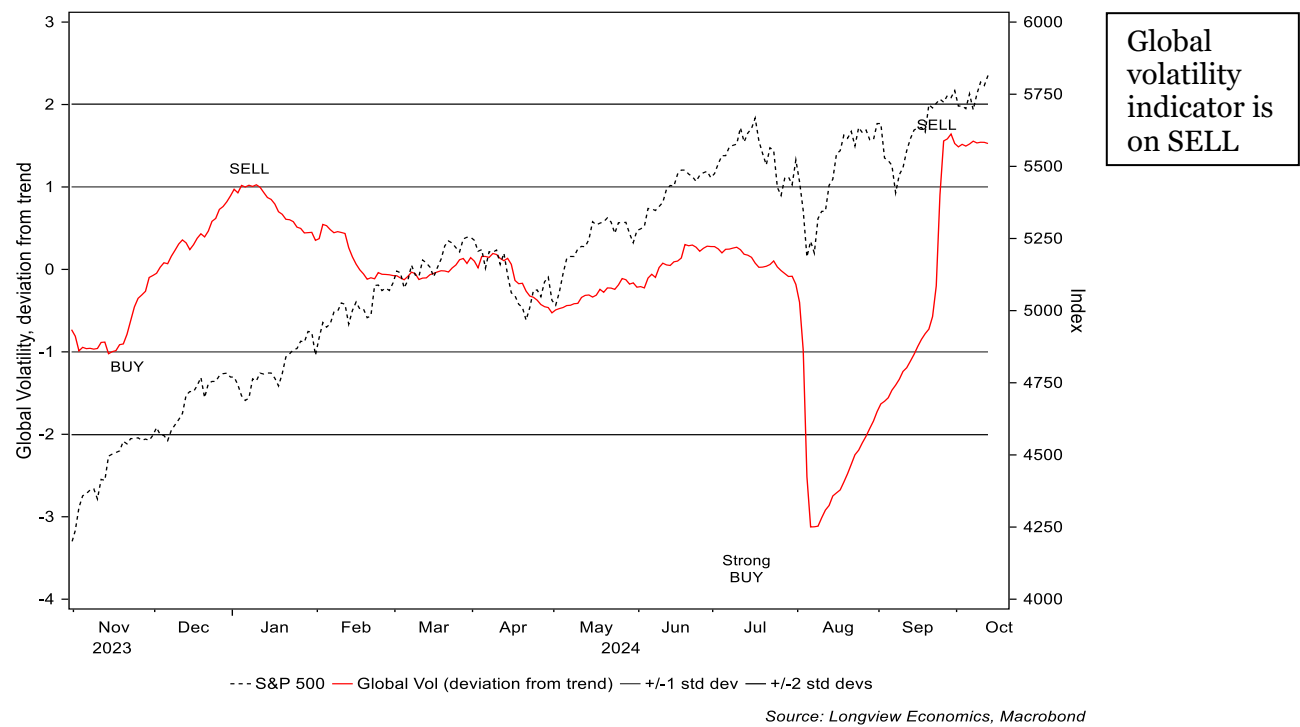


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

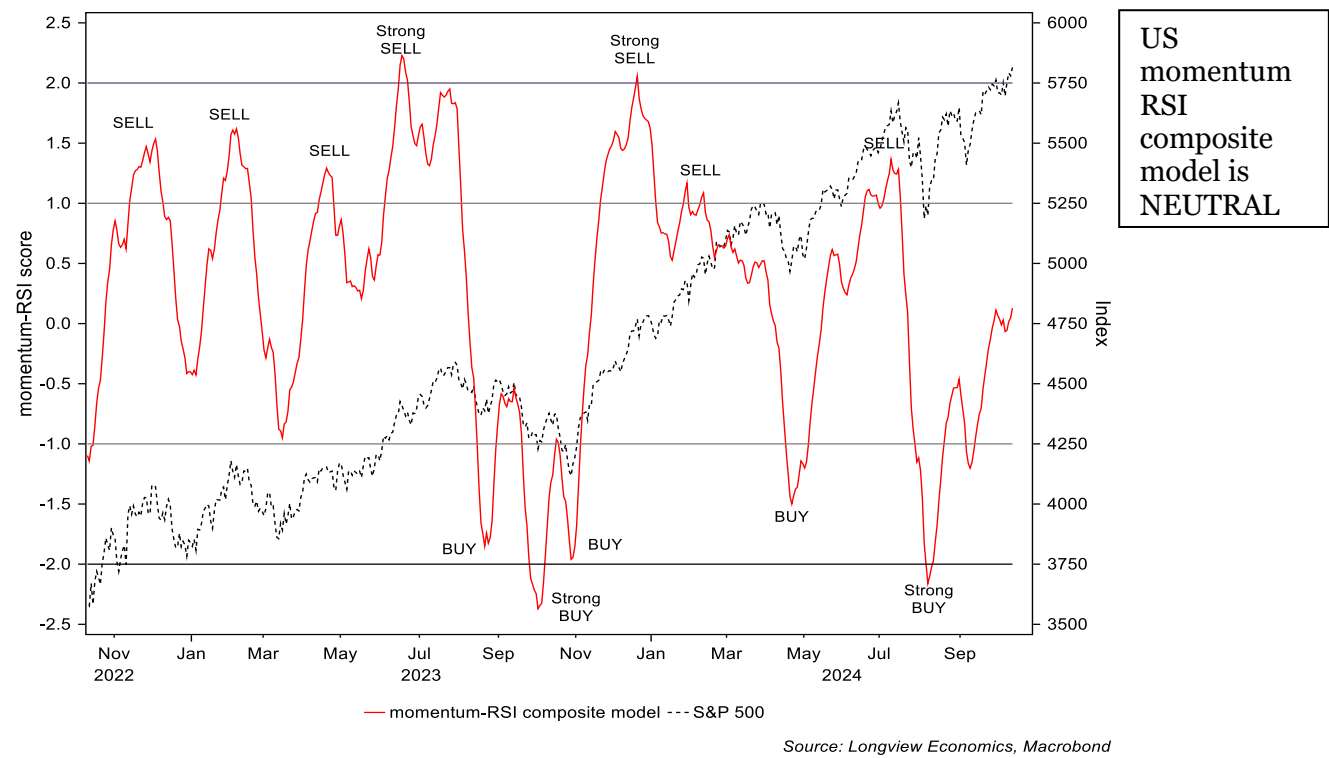


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

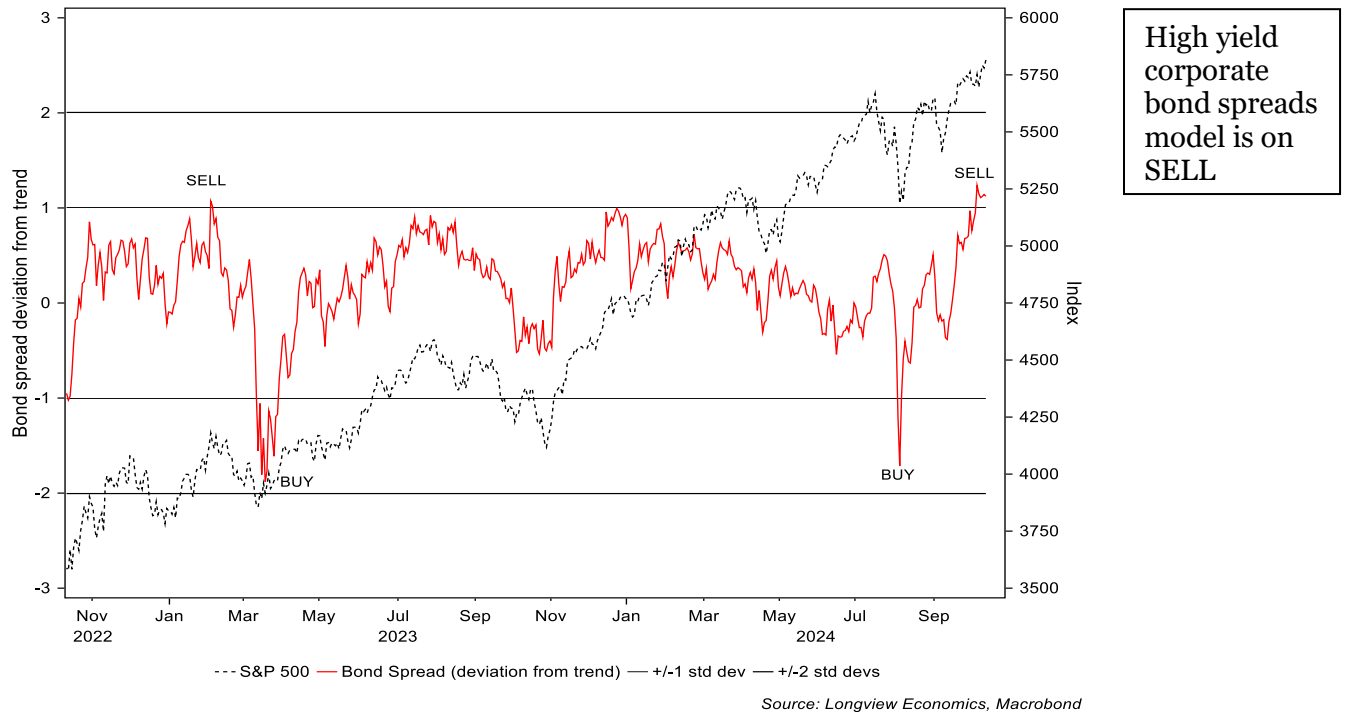
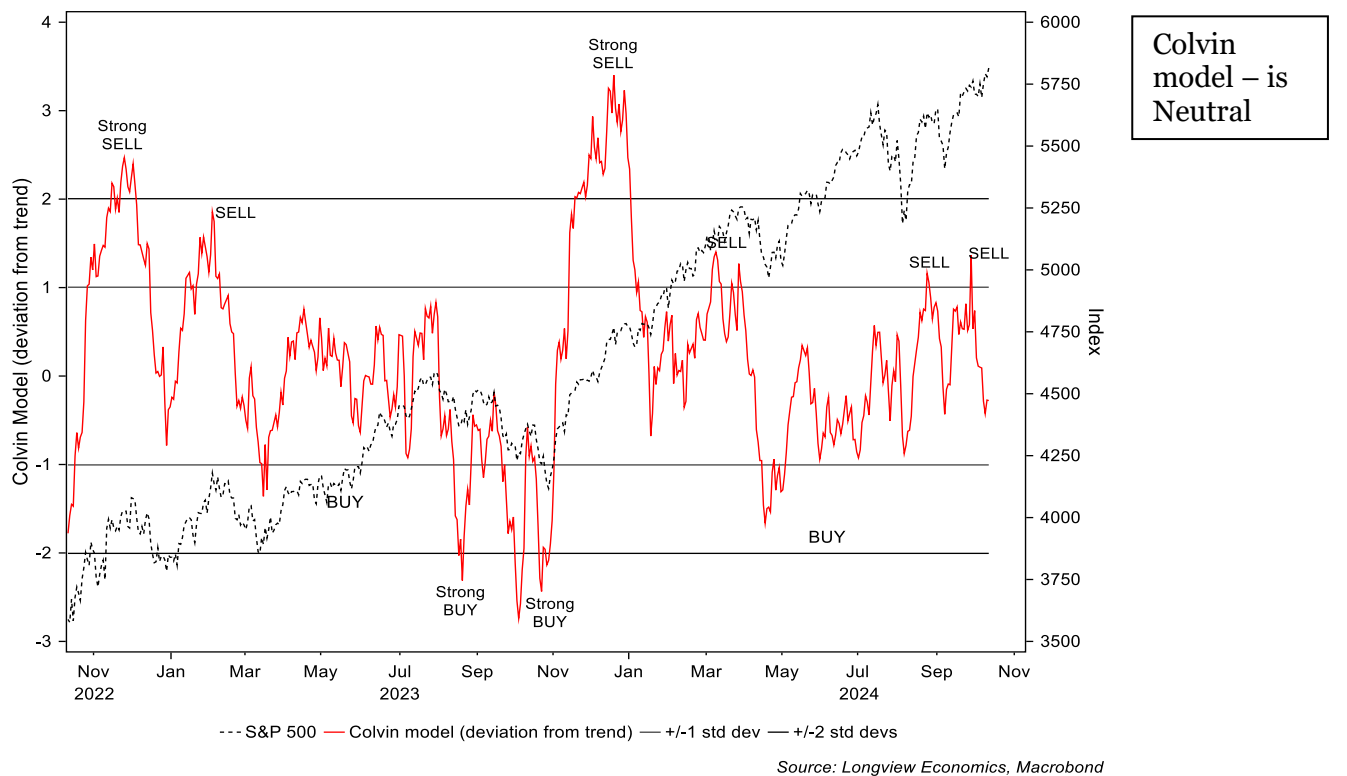


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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