

Equity Index Futures Trading Recommendations

15th November 2024

"STAY LONG SPX - Keep Unchanged/Tight Stop Loss"

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

- Stay ¼ LONG S&P500 December futures (entry was at 6,005.50 last Friday).
- Retain unchanged stop loss at 5,925.0.

Rationale

Yesterday's comments by Powell were perceived as relatively hawkish (i.e. less dovish than last week). In particular he said that the Fed does not need to be "in a hurry" to cut rates, and that the performance of the US economy was "remarkably good". As such, and while the rates market was broadly unchanged (e.g. see FIG 1b), US equity markets rolled over, with many indices **breaking below their recent/sideways trading ranges**. In particular, that was notable in key/high beta parts of the market, including small/mid cap stocks (e.g. with the S&P400 mid cap index down 1.0%, see FIG 1a). As a result we were stopped out of our LONG mid-caps position (while S&P500 futures are trading close to our stop loss).

That move lower in US equities, below recent trading ranges, is clearly testing our LONG equities thesis (and our view, outlined yesterday, that equities are in the midst of a 'regime change').

Having said that, and reflecting general weakness in risk assets yesterday, **the BUY message from a number of key short term models has strengthened** overnight. Of note that includes our combined 'RAG1 plus RAG2' model and our shortest term RAG indicator, both of which have turned BUY overnight (see FIGs 2a & 2b). Elsewhere our risk appetite scoring system is close to its BUY threshold (FIG 2). Those models have mostly generated timely signals in recent months and suggest that recent/near term weakness is advanced (and may be nothing more than a 1 – 2 day wobble, within an ongoing uptrend). Price action in other assets is encouraging in that respect, e.g. see the recent narrowing of US high yield and European sovereign spreads (FIGs 1c & 1d). On balance, therefore, we continue to favour staying LONG the S&P500 (please see above for detailed recommendation).

Risks, though, remain multiple and include the position of other short term models, which are mostly on/close to SELL. That includes put to call, technical, and certain breadth indicators (shown below in FIGs 3 – 3c). Reflecting that we favour keeping the stop loss on the LONG S&P500 position unchanged (and now at relatively tight levels, i.e. given the move lower in the index).

Kind regards,

The team @ Longview Economics

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



Source: Longview Economics, Macrobond

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

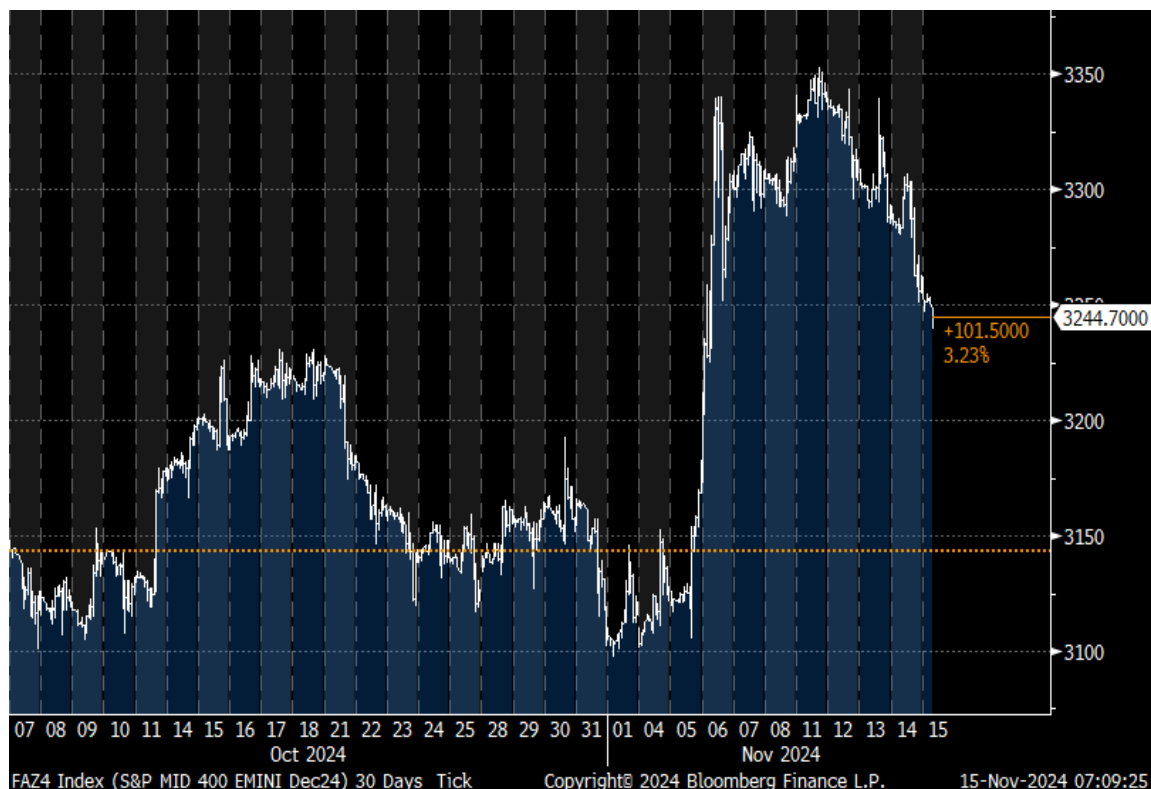
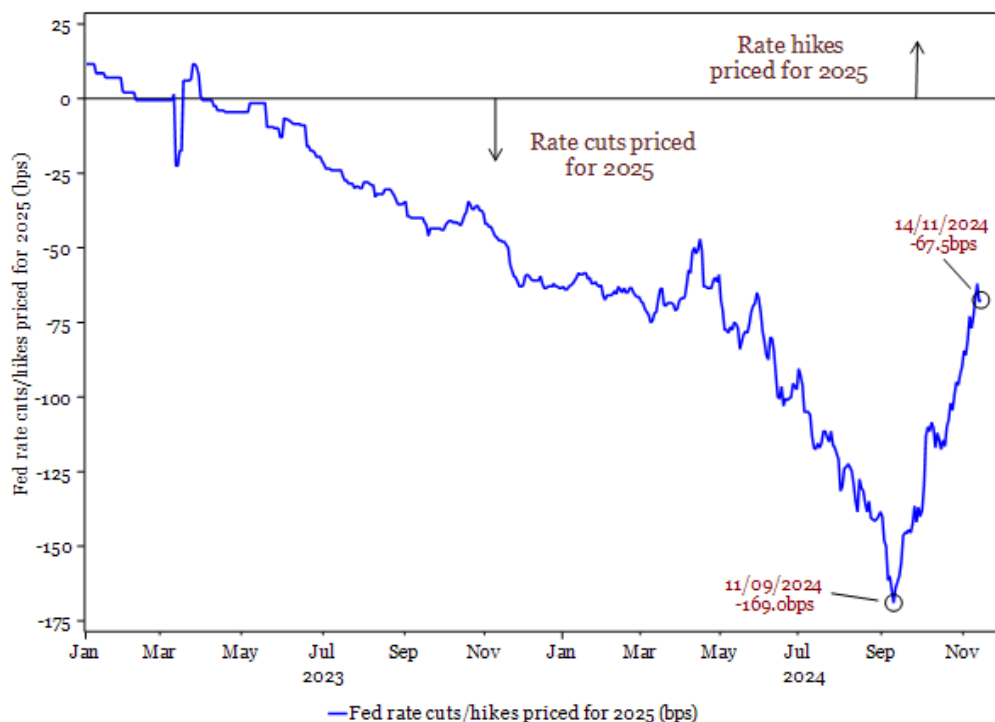
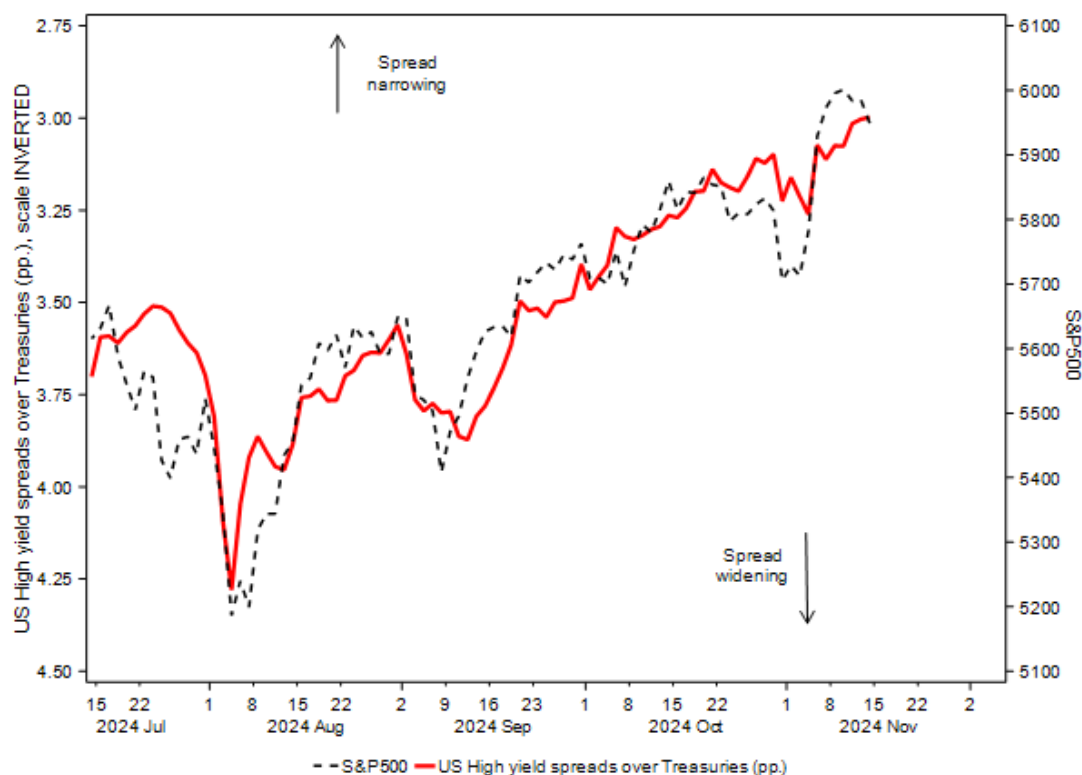


FIG 1b: Fed rate cuts/hikes priced for 2025 (bps)



Source: Longview Economics, Macrobond

FIG 1c: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500



Source: Longview Economics, Macrobond

FIG 1d: Italian sovereign spreads over BUNDs (inverted) vs. S&P500



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

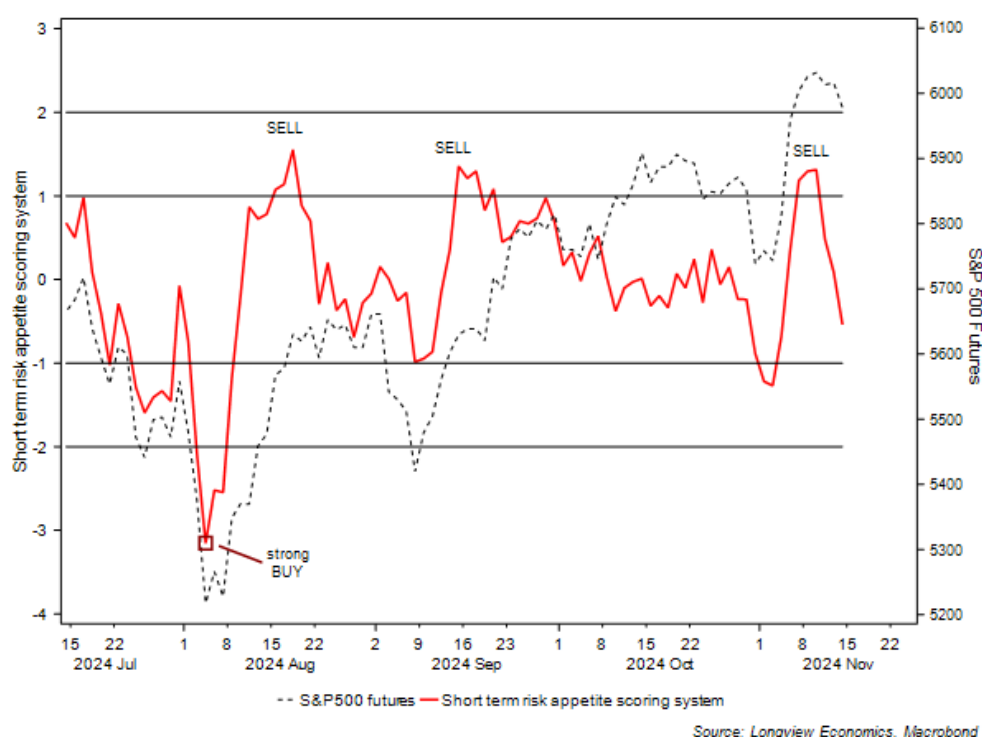


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

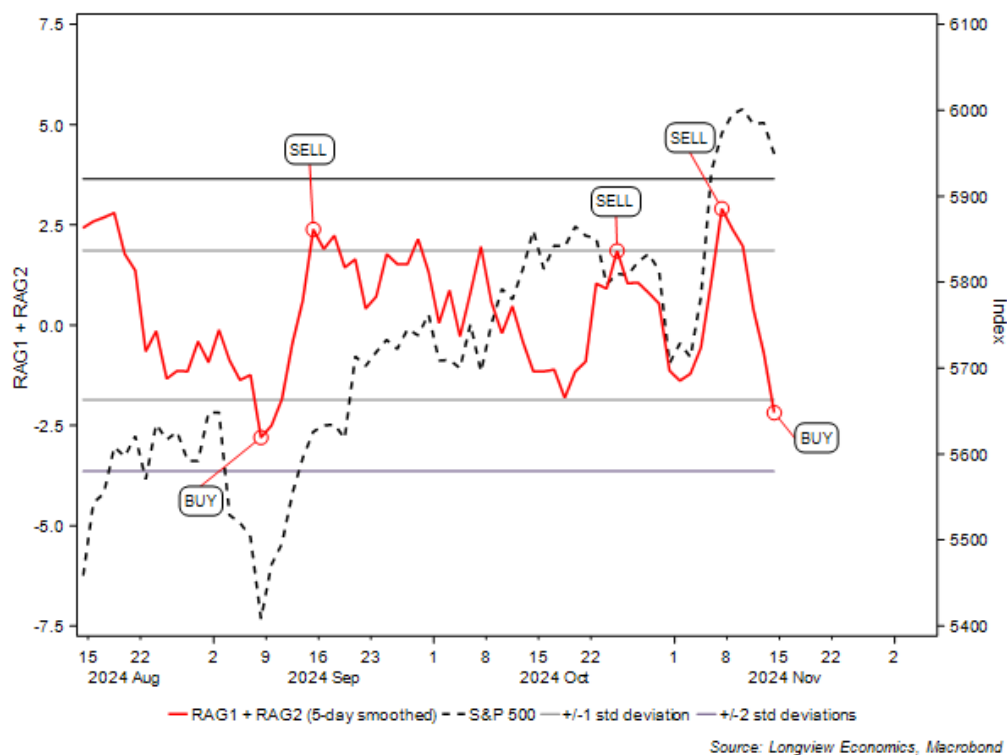
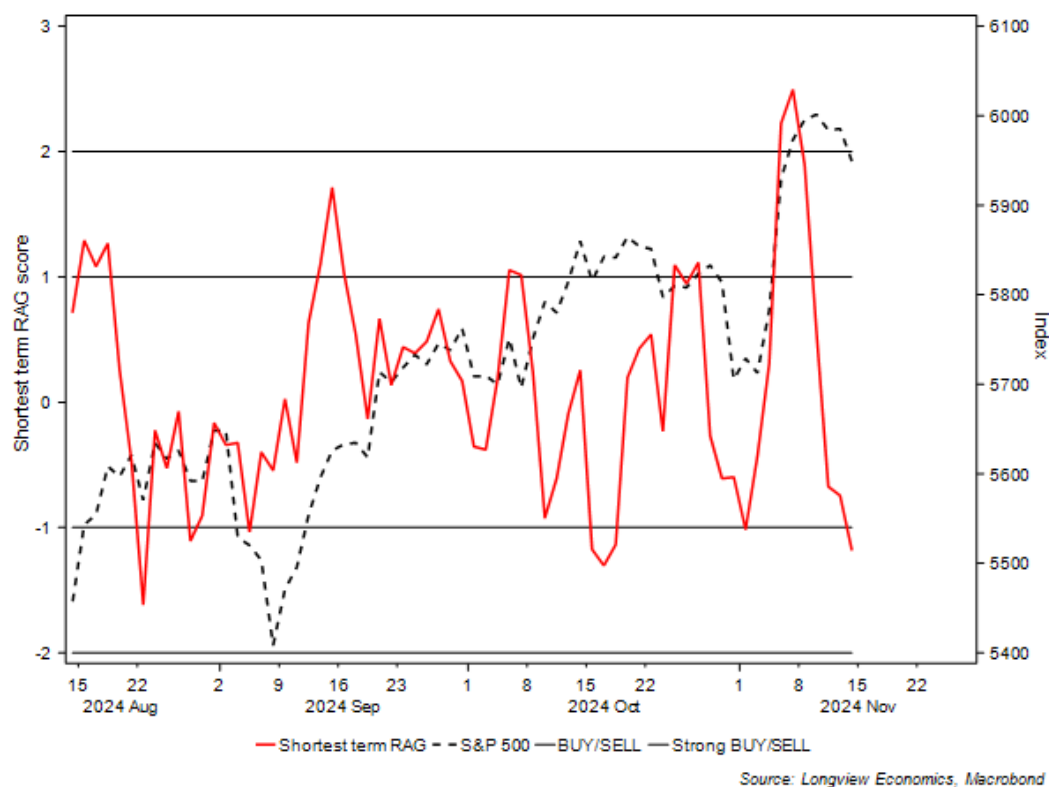


FIG 2b: Longview shortest term **'risk appetite'** scoring system vs. S&P500



Other short-term models remain on/close to SELL...

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

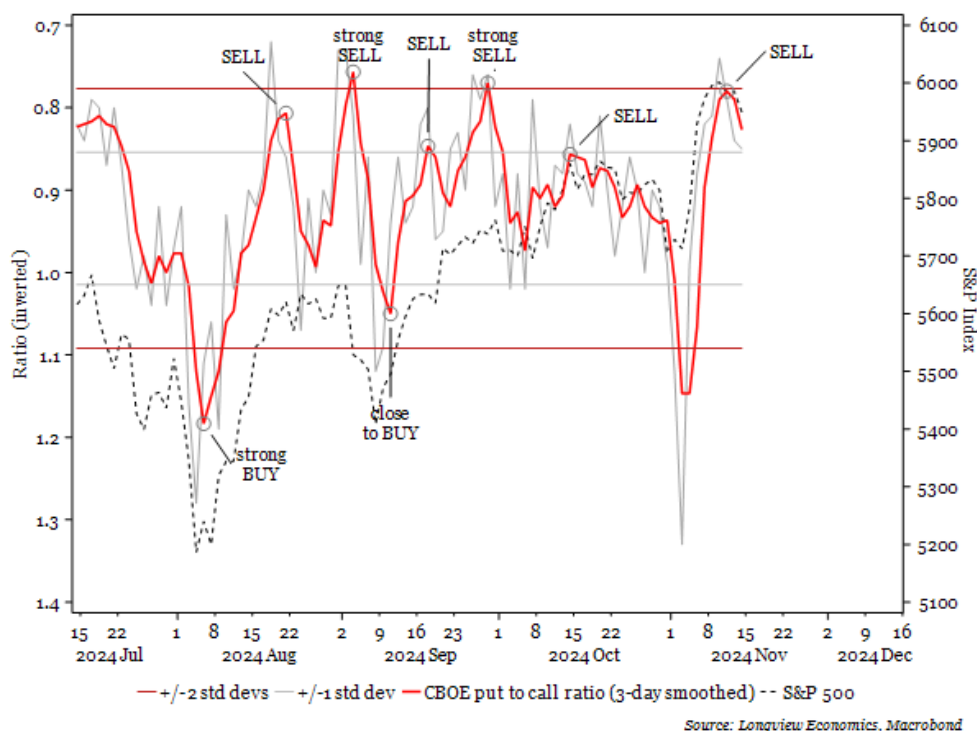


FIG 3a: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

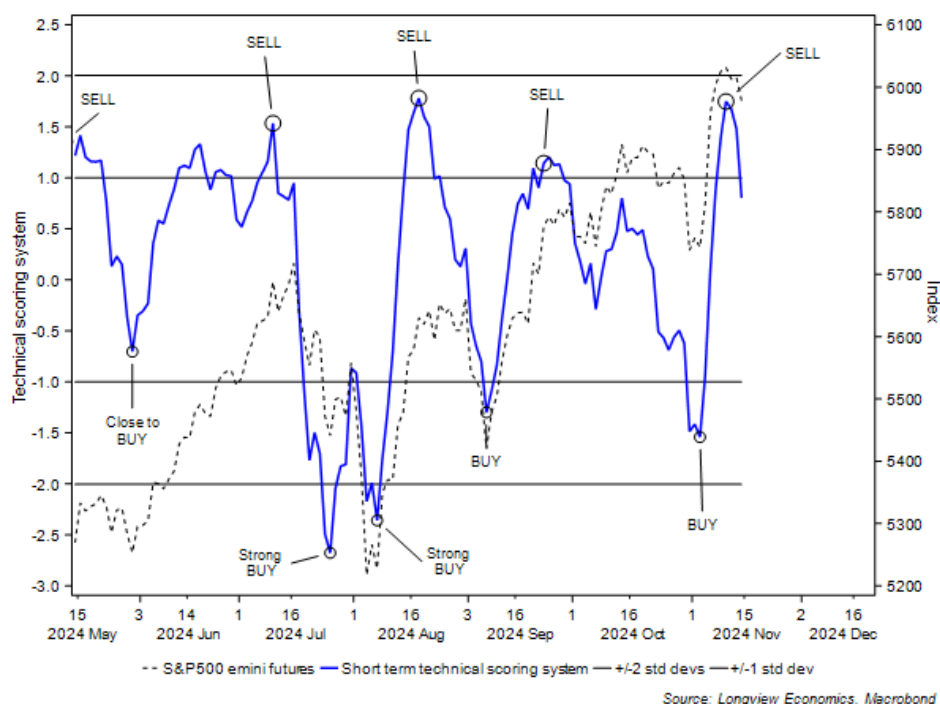


FIG 3b: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

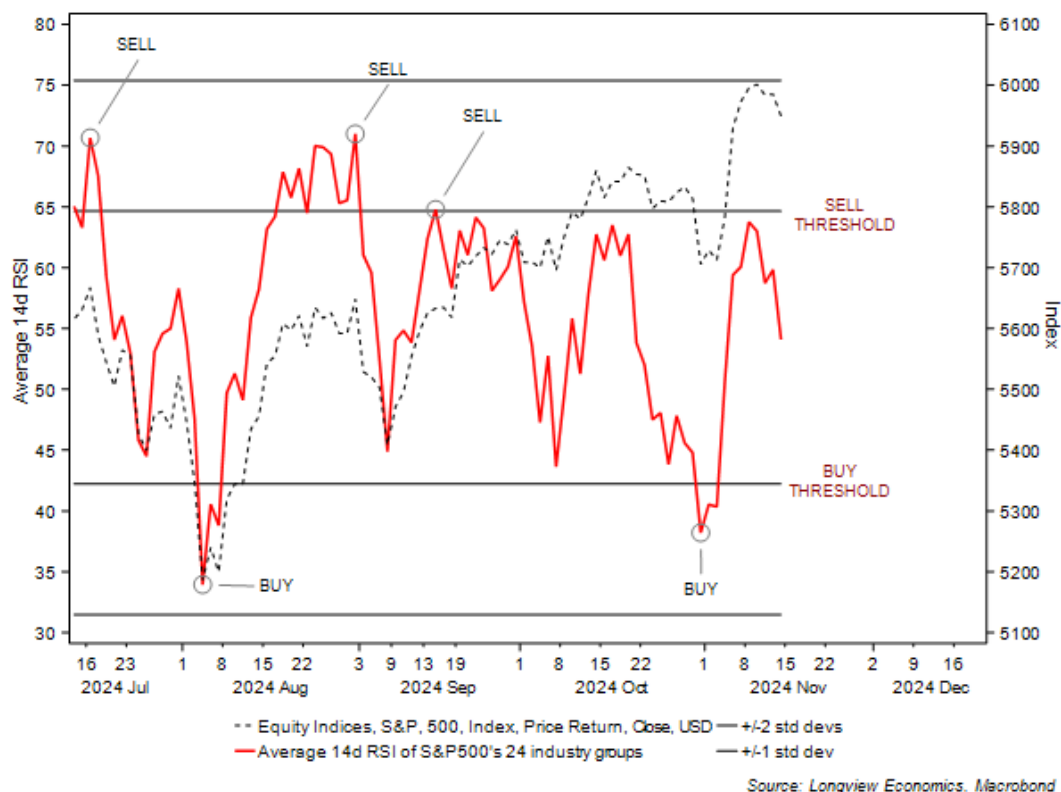
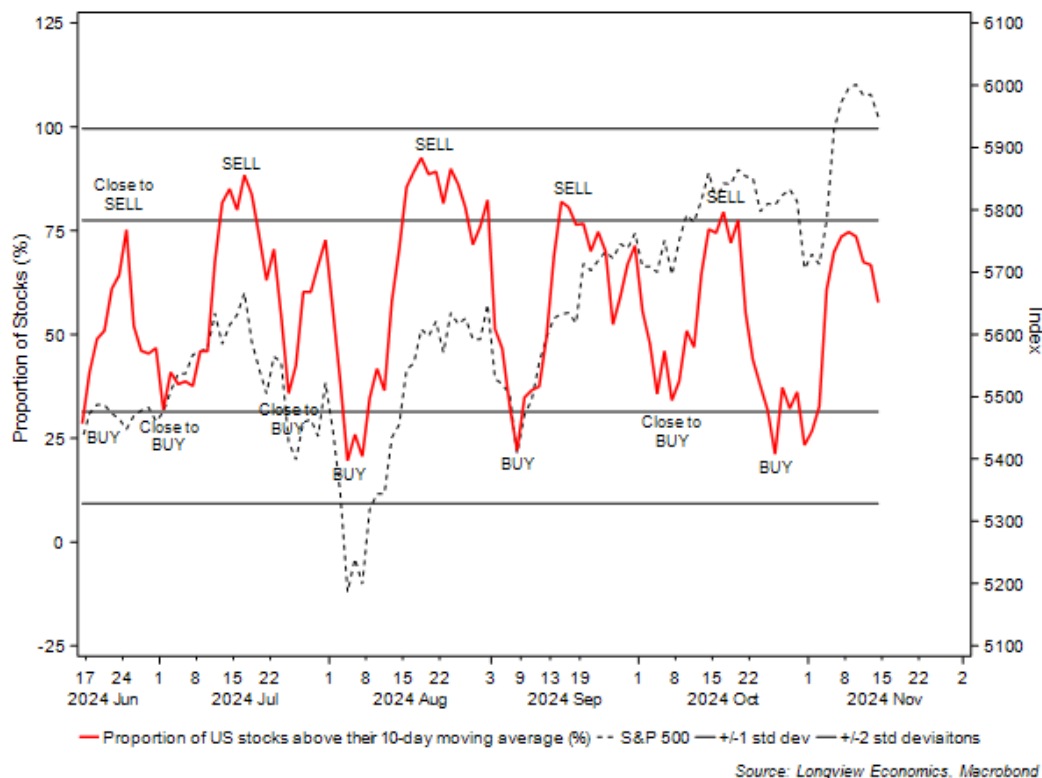


FIG 3c: Proportion of US stocks above their 10-day moving average vs. S&P500

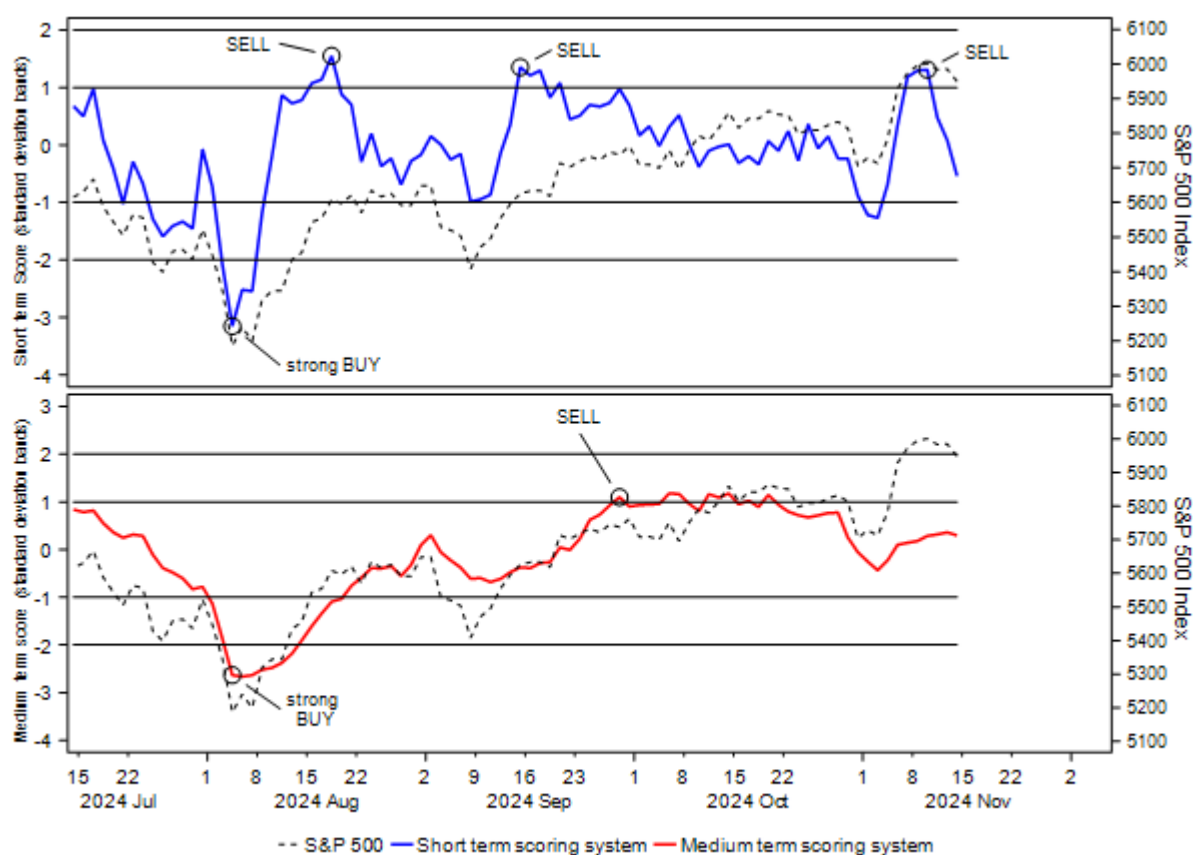


Key Longview Scoring Systems (chart below):

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: **Chinese new & used home prices** (Oct, 1:30am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Oct, 3am); UK Monthly GDP estimate, industrial & manufacturing production, goods trade balance & construction output (Sept, 7am); French headline & core CPI (October final estimate, 7:45am); Italian general government debt (Sept, 9:30am); Canadian manufacturing & wholesale sales (Sept, 1:30pm); US Empire manufacturing (Nov, 1:30pm); **US retail sales** (Oct, 1:30pm); US import & export price index (Oct, 1:30pm); Canadian existing home sales (Oct, 2pm); US industrial & manufacturing production & capacity utilisation (Oct, 2:15pm); US business inventories (Sept, 3pm).

Key events today include: Speech by the RBA's Bullock at the ASIC Annual Forum (12:30am); speeches by the Fed's Lane at seminar 'A Fragmenting Trading System: where we stand and implications for policy' (3pm) & Cipollone at CER Ditchley Park conference (3:15pm).

Key earnings today include: Assicurazioni Generali.

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 6th November 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

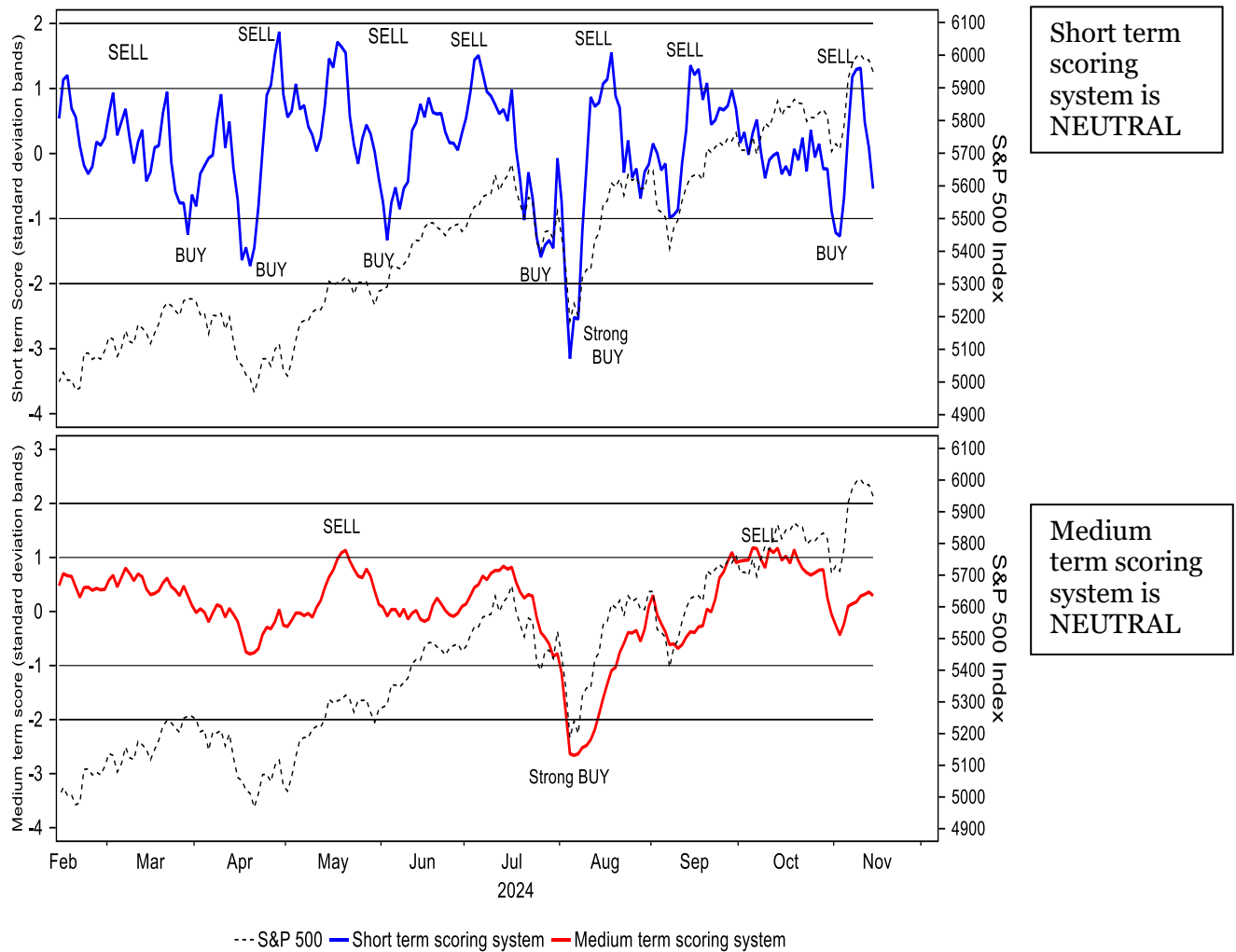
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15th November 2024

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

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



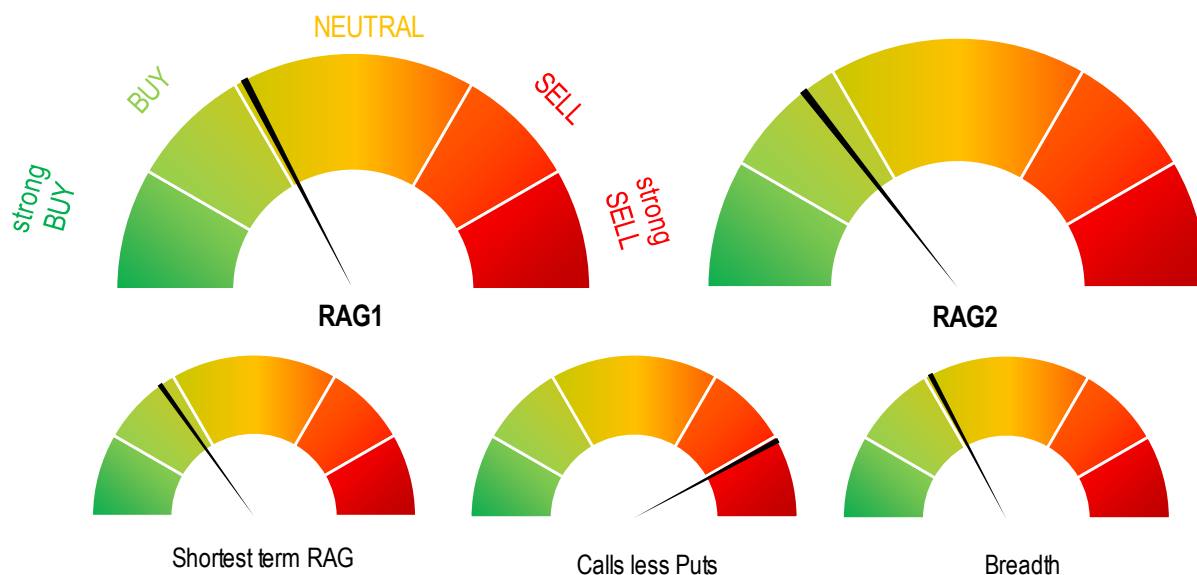
Source: Longview Economics, Macrobond

*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**

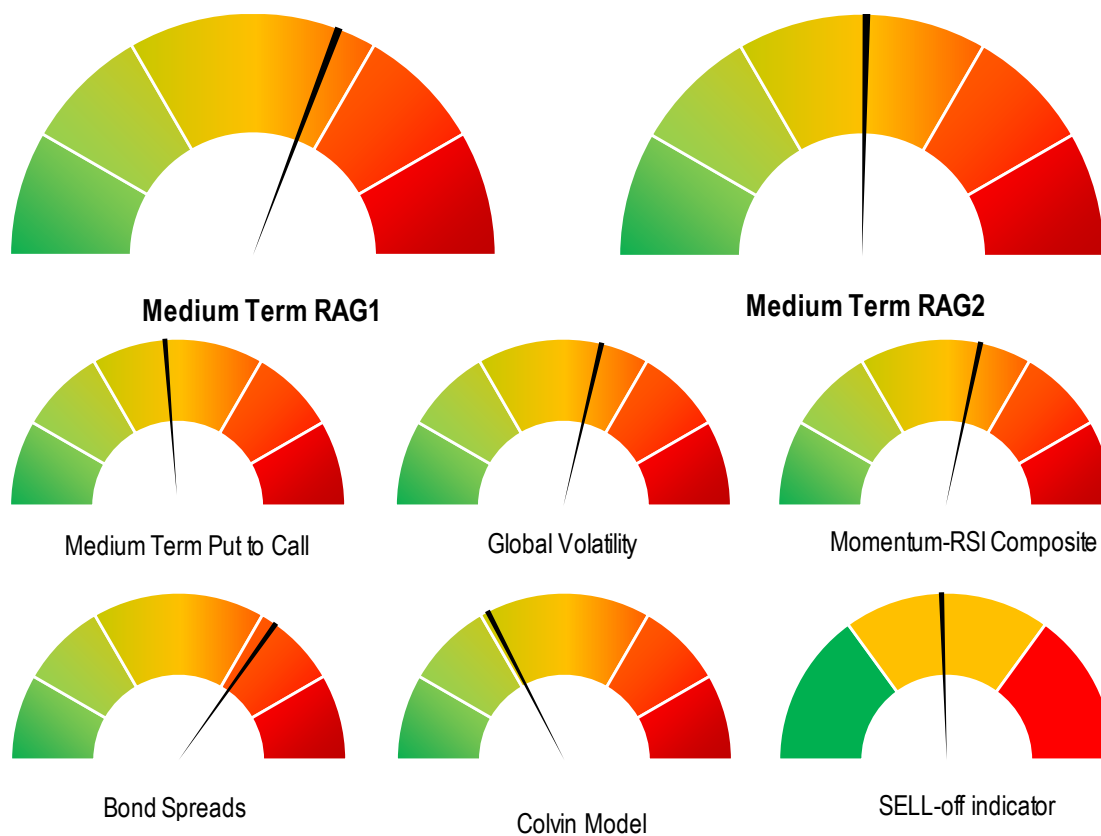
Section 1a: Summary of indicator signals**

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

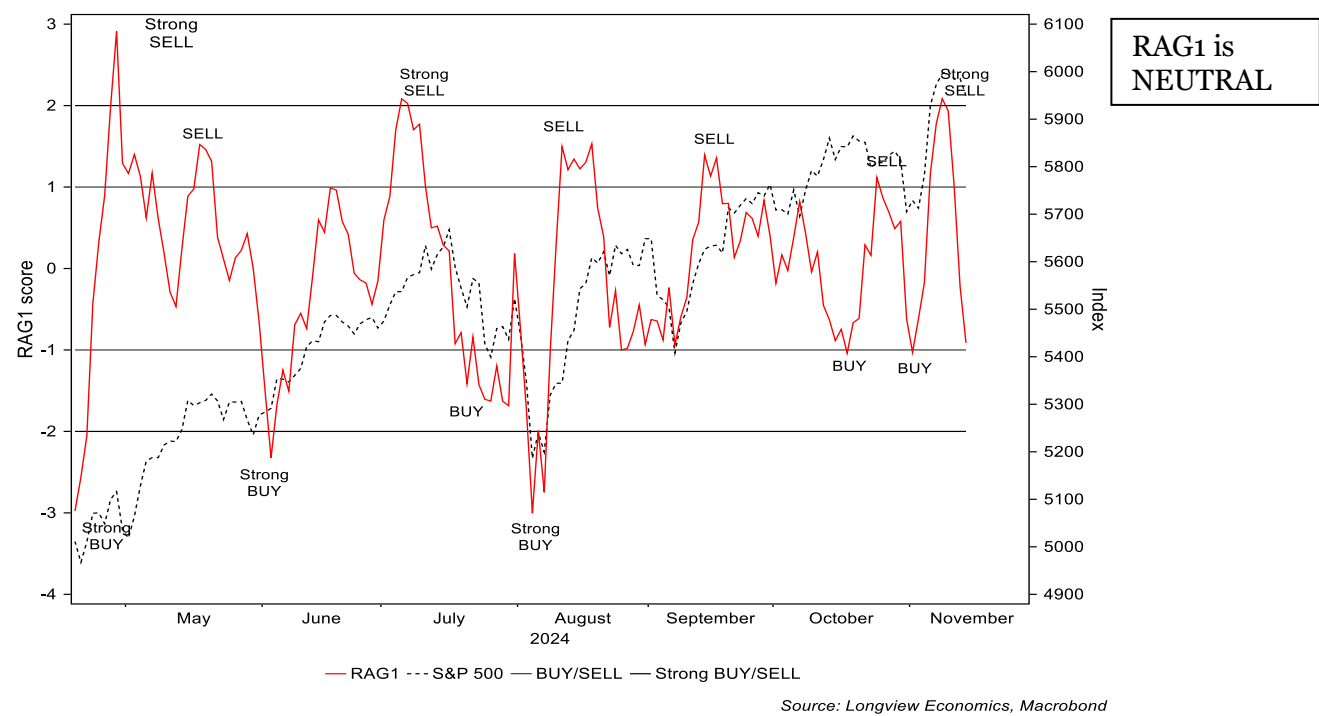
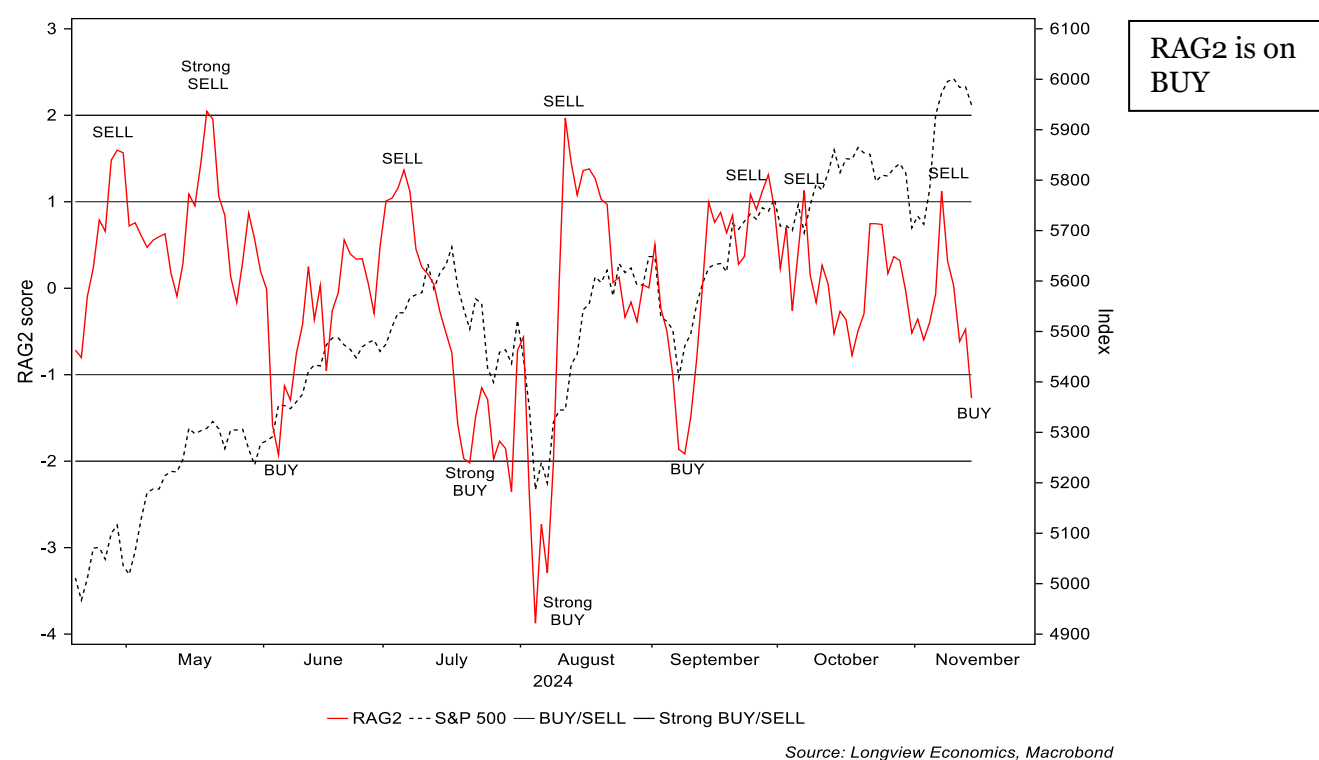


Fig 2b: RAG 2 vs. S&P 500



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

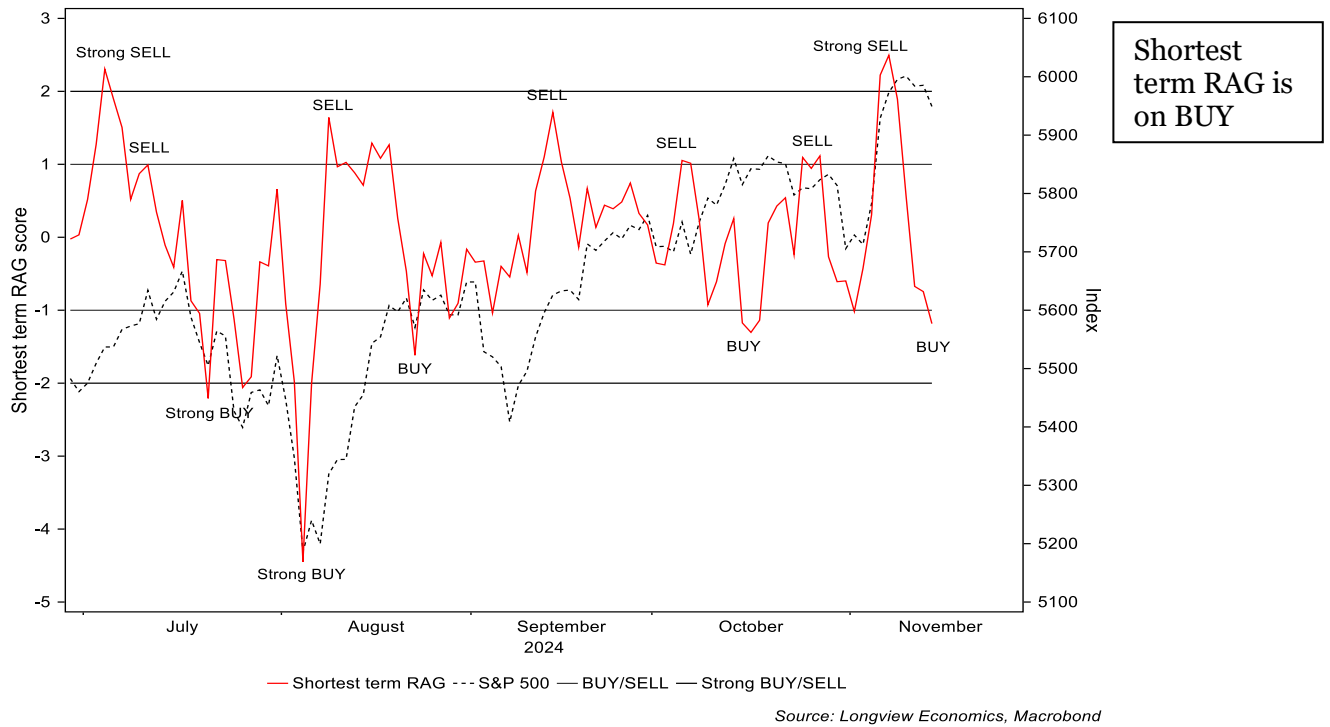
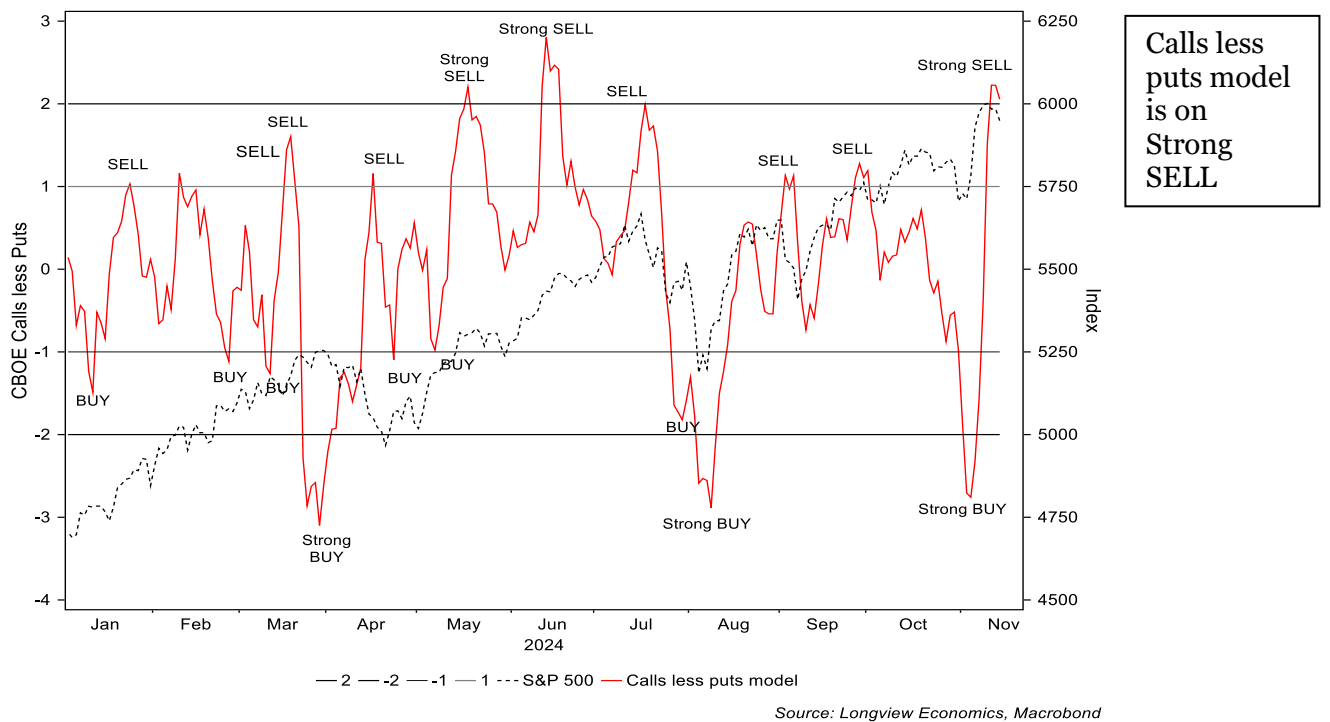
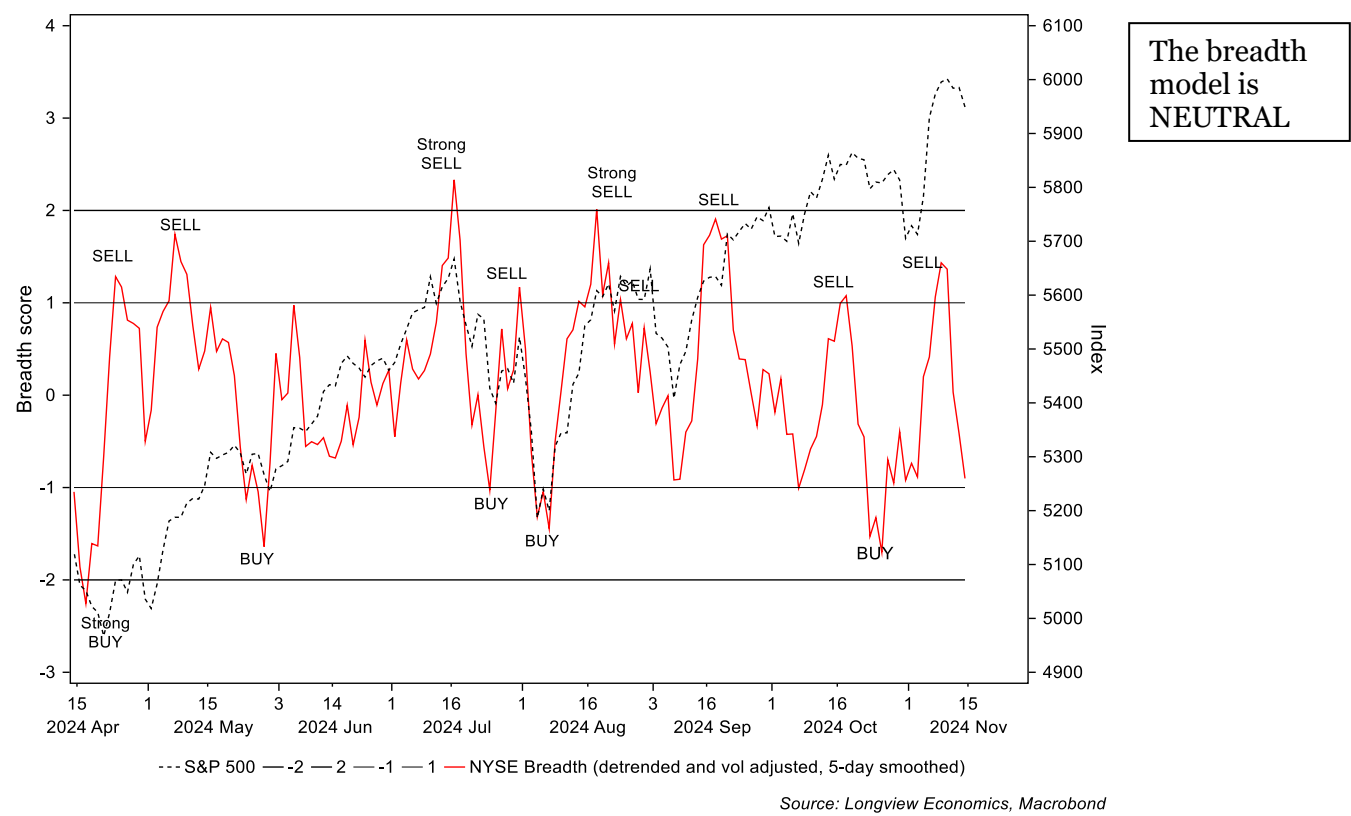


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

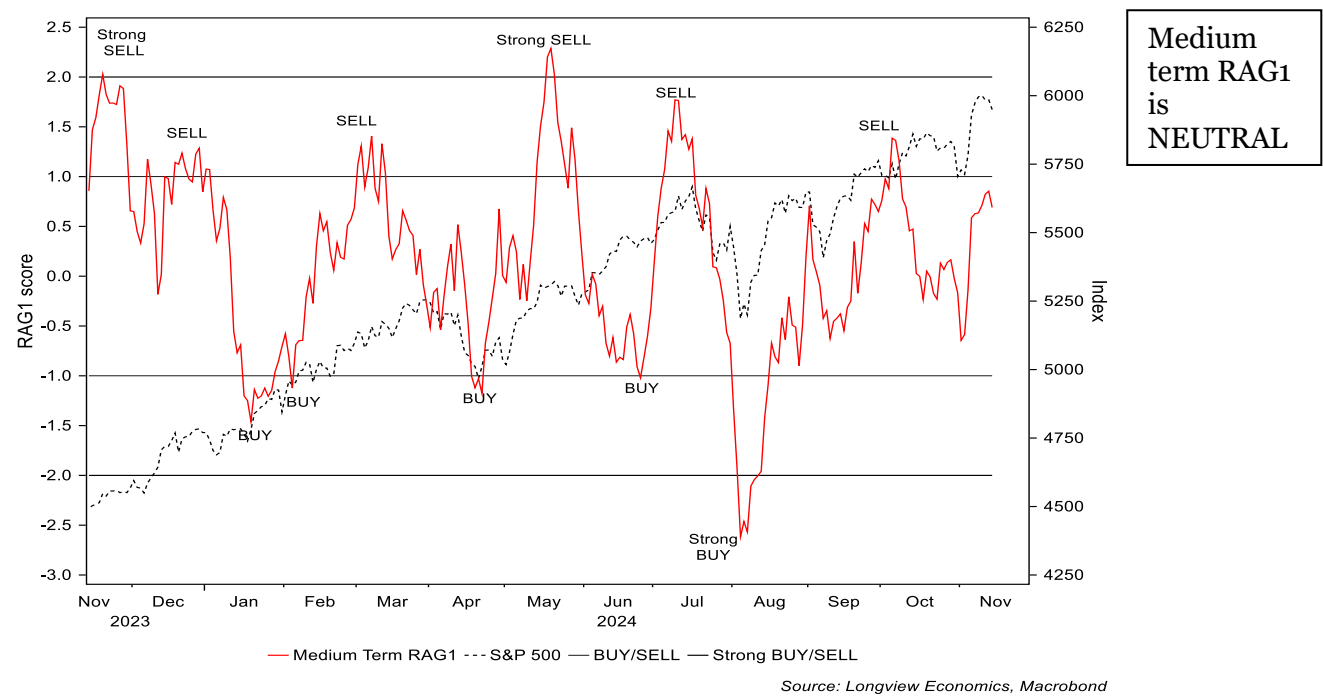
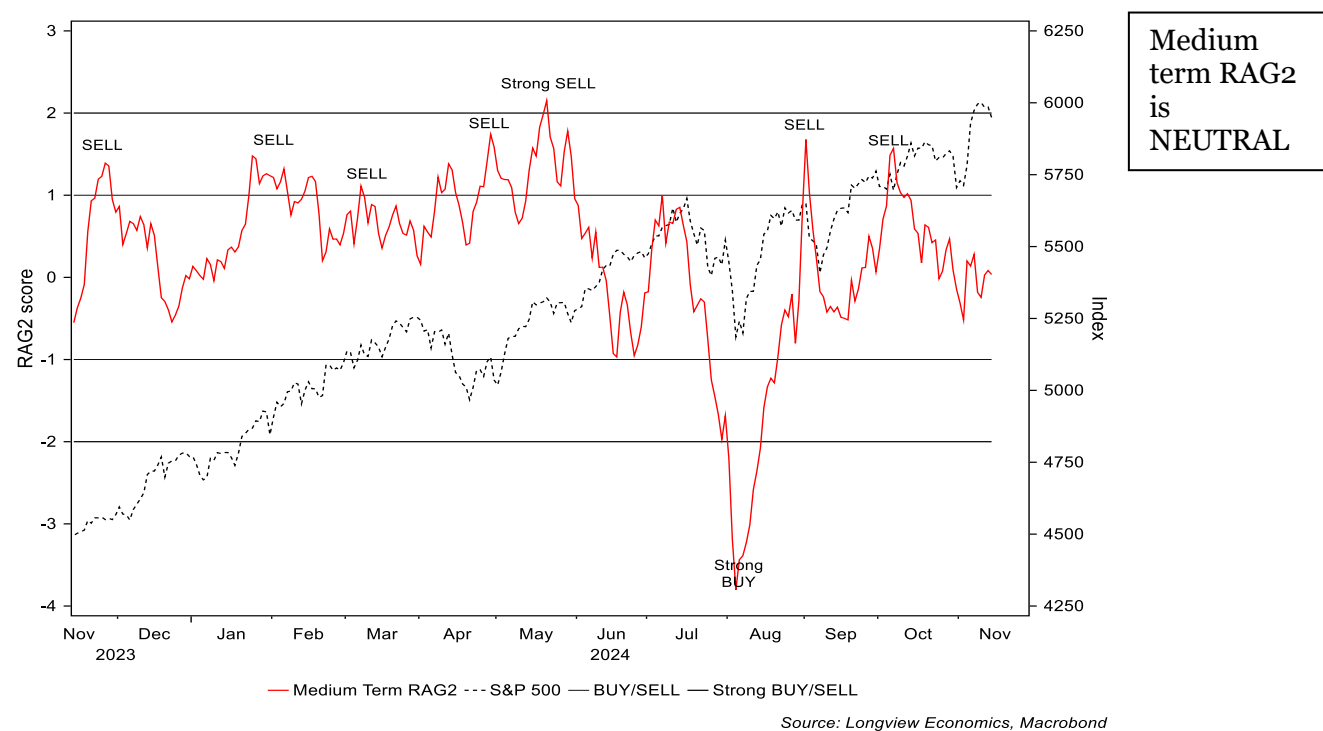


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

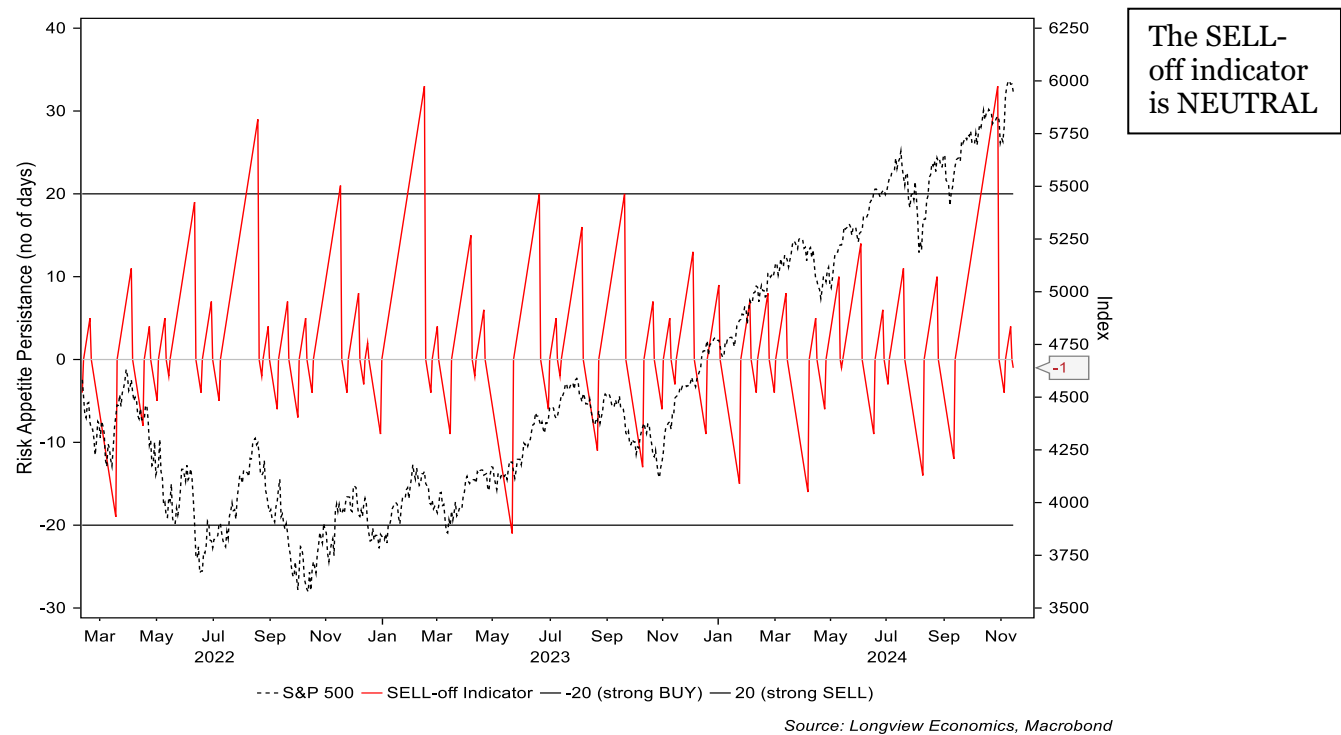
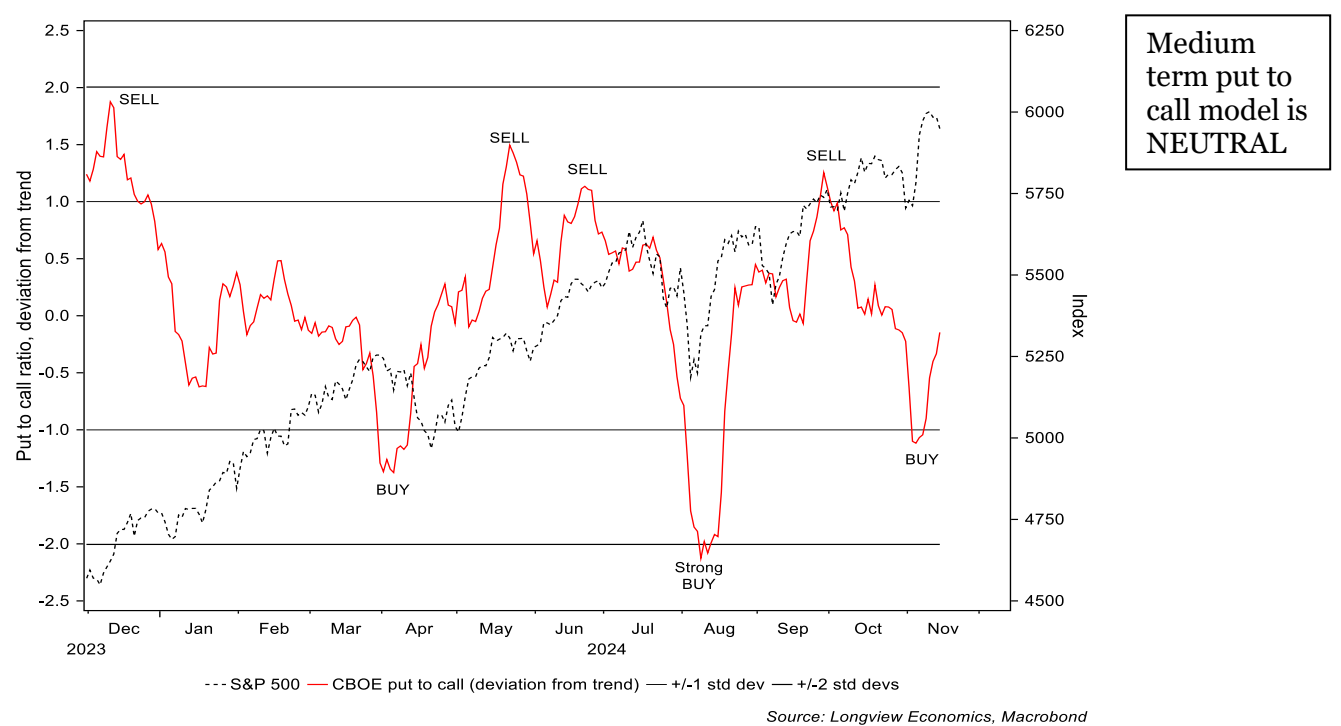


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

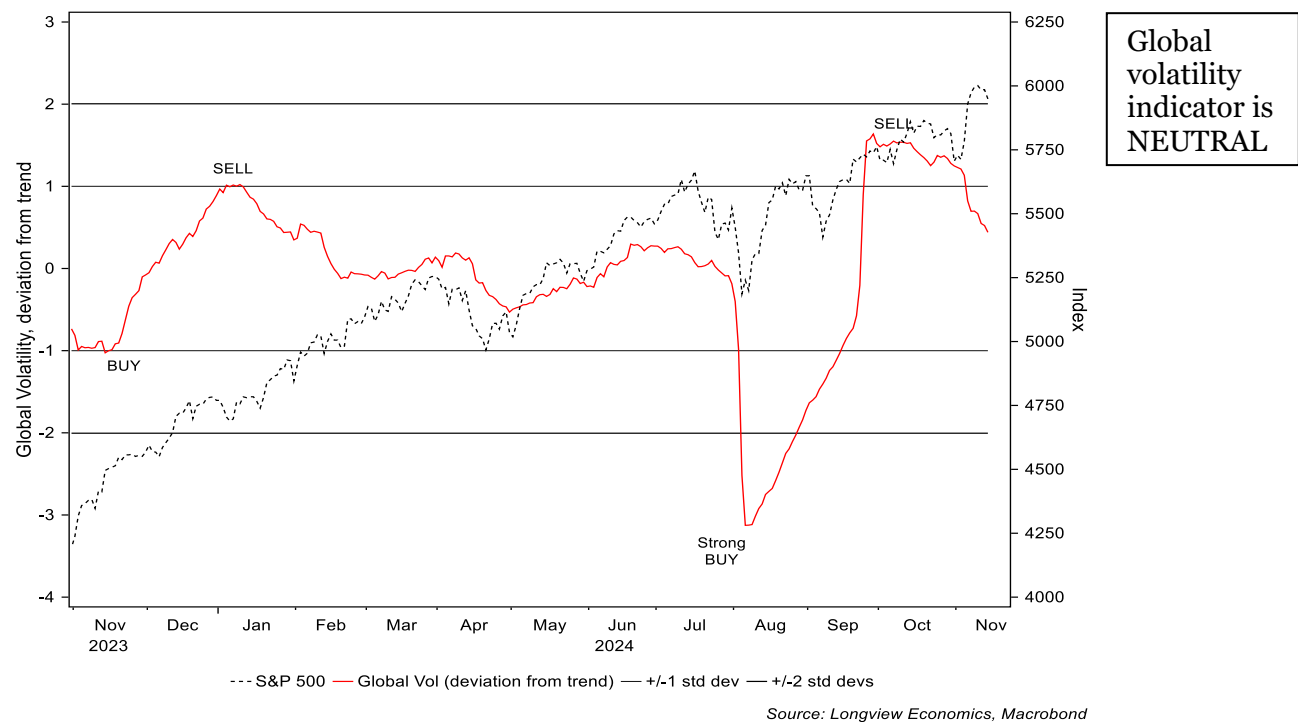


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

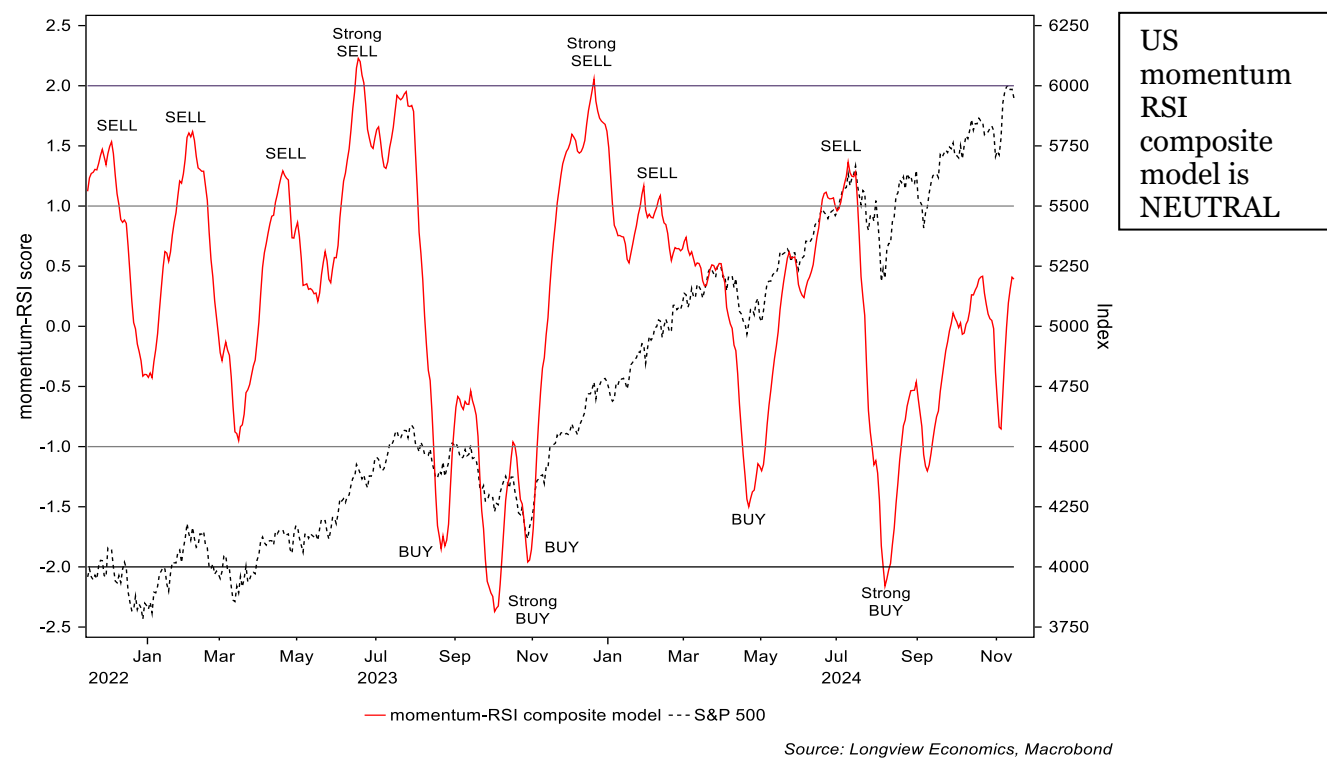


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

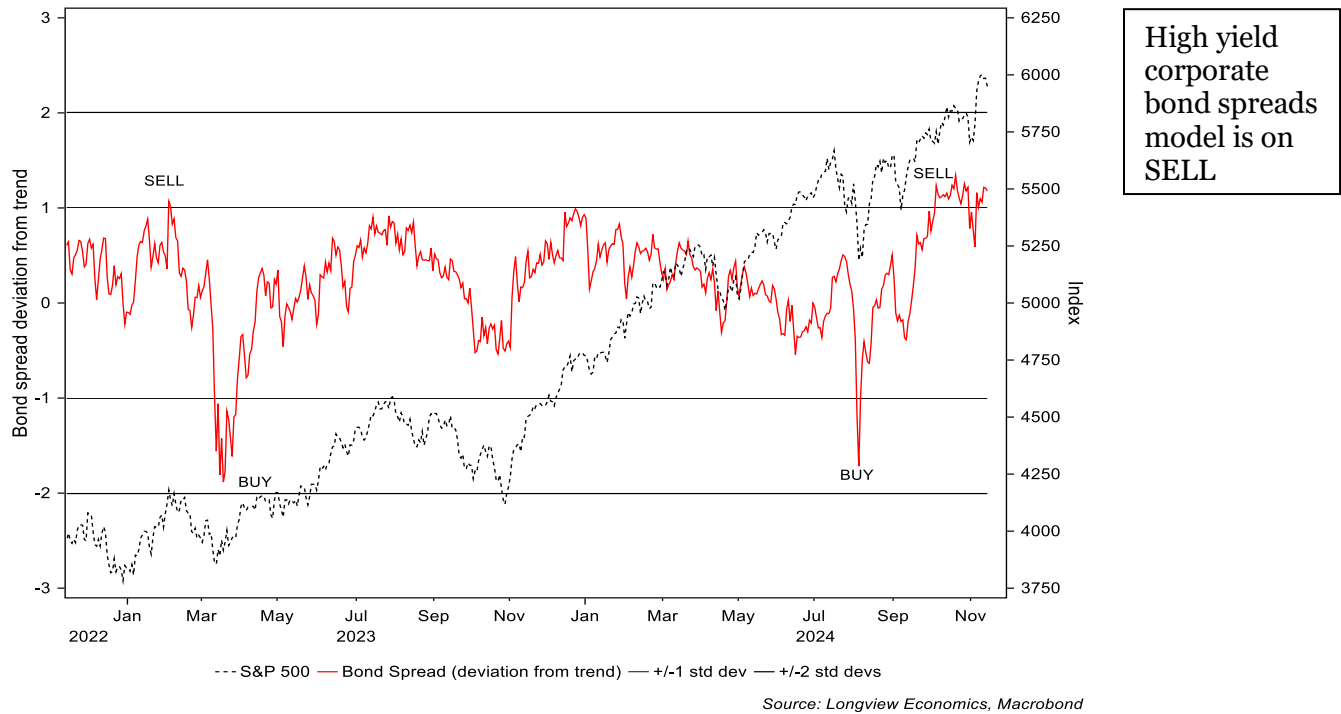
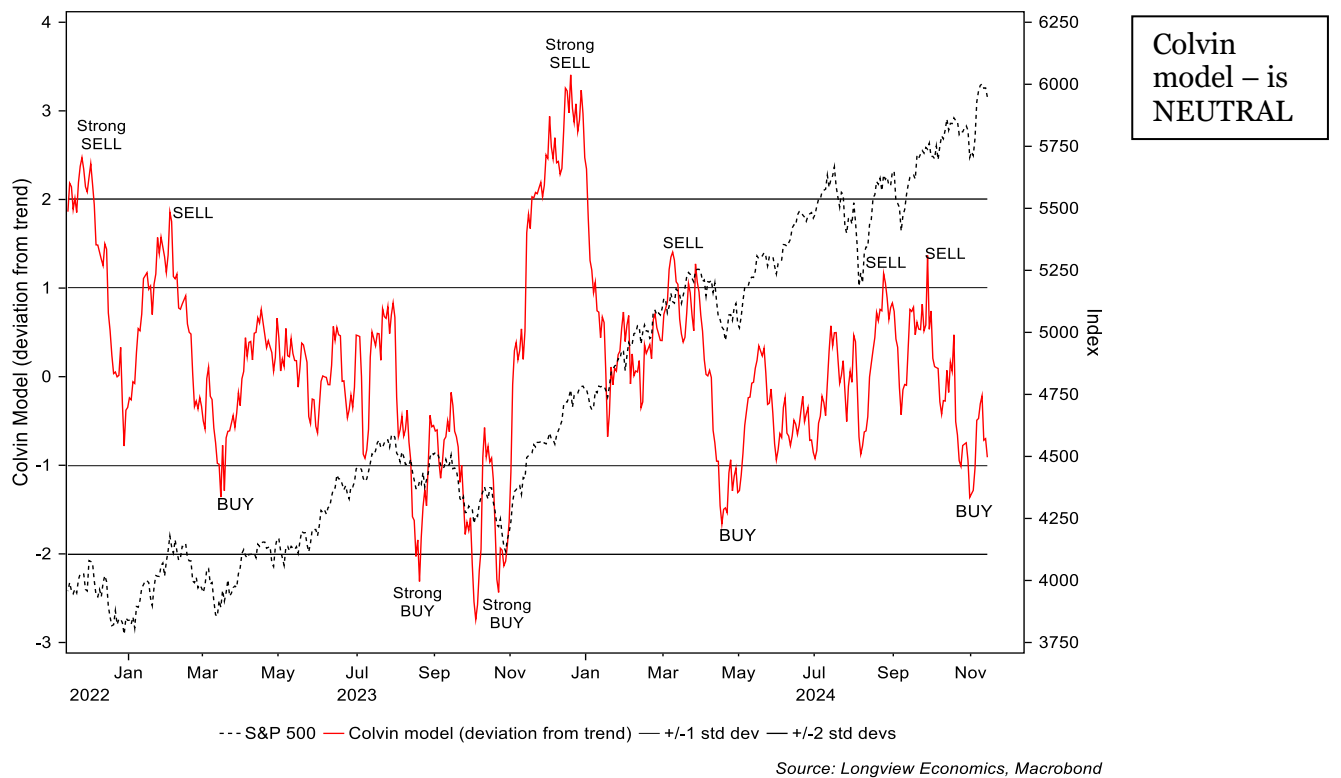


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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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