LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

15th October 2024

"Stay Opportunistically LONG SPX - modestly tighten stop loss"

Email: info@longvieweconomics.com

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

- Stay 1/3rd LONG December SPX futures (entry was yesterday at 5,861.50).
- Modestly tighten stop loss to 5,790 (approx. 2% below current levels, i.e. from 5,685.50 yesterday).

Rationale

Price action in US equities was encouraging for the bulls yesterday, with 27 of the 28 indices we track closing higher on the session. That was led by the 'tech heavy' parts of the market, including the NASDAQ Computer index (+1.3%) and Philly SOX (+1.8%), while the NASDAQ100 and S&P500 both closed up 0.8%. The S&P500 therefore added to recent gains while the Philly SOX broke above a key resistance level yesterday (FIG 1b). Most of the 'MAG7' stocks closed higher, including Nvidia (+2.4%), which (just) reached a new record high. With that, equity volatility trended down (i.e. both the VIX & VVIX, e.g. see FIG 1e), US 1 & 2 year Treasury yields edged lower again, while various credit/sovereign spreads narrowed on the session (e.g. see FIG 1).

Elsewhere, and in contrast to those signs of strong risk appetite, there was also some risk aversion in markets yesterday. In particular the US dollar continued to strengthen (DXY +0.4%) while a number of key commodity prices moved sharply lower, including various base/precious metals (e.g. copper -0.8%), as well as crude oil (WTI -5.0%) and natural gas (-7.0%).

Overall, therefore and as noted yesterday, our **short term models retain a relatively mixed message**. Risk appetite indicators, for example, are broadly mid-range (FIGs 2 – 2b); our technical scoring system for the S&P500 is NEUTRAL (but close to SELL, see FIG 2c); key leadership stocks like Nvidia are not yet technically overbought (FIG 1c); while various breadth and momentum models are also NEUTRAL (e.g. see FIG 2d & 2e). Furthermore, measures of complacency are mixed. The short term put to call ratio, for example, turned SELL overnight (FIG 3). Call option volumes, though, are not yet on SELL (e.g. see FIG 1c).

In up trending markets, it typically pays to stay with LONG positions until the SELL message from the short term models is clear/broad based. Overall, in that respect, these models point to further upside headroom in equities in the near term (i.e. the next few trading days). For that reason, the **risk reward favours staying opportunistically LONG** US equities, but with a tighter stop loss (please see above for detailed recommendation).

Risks, though, are multiple and include the **clear SELL message from our medium term models**. In particular, the SELL-off indicator is currently on a reading of +22 and is therefore warning of a wave of risk aversion in global markets (see FIG 1f). Other medium term models are at/close to their SELL thresholds (e.g. see the medium term risk appetite scoring system, FIG 1g). On a multi-month timeframe, therefore, this equity market is due a pullback and, typically, these medium term models are timely in signalling the start of pullbacks. We therefore view this trade as somewhat opportunistic.

Today's key data and events are listed below and include a speech by the Fed's Daly this afternoon (4:30pm London time).

Kind regards,

The team @ Longview Economics

<u>**FIG 1:** French, Italian & Belgium spreads over 10 year bunds (bps)</u>

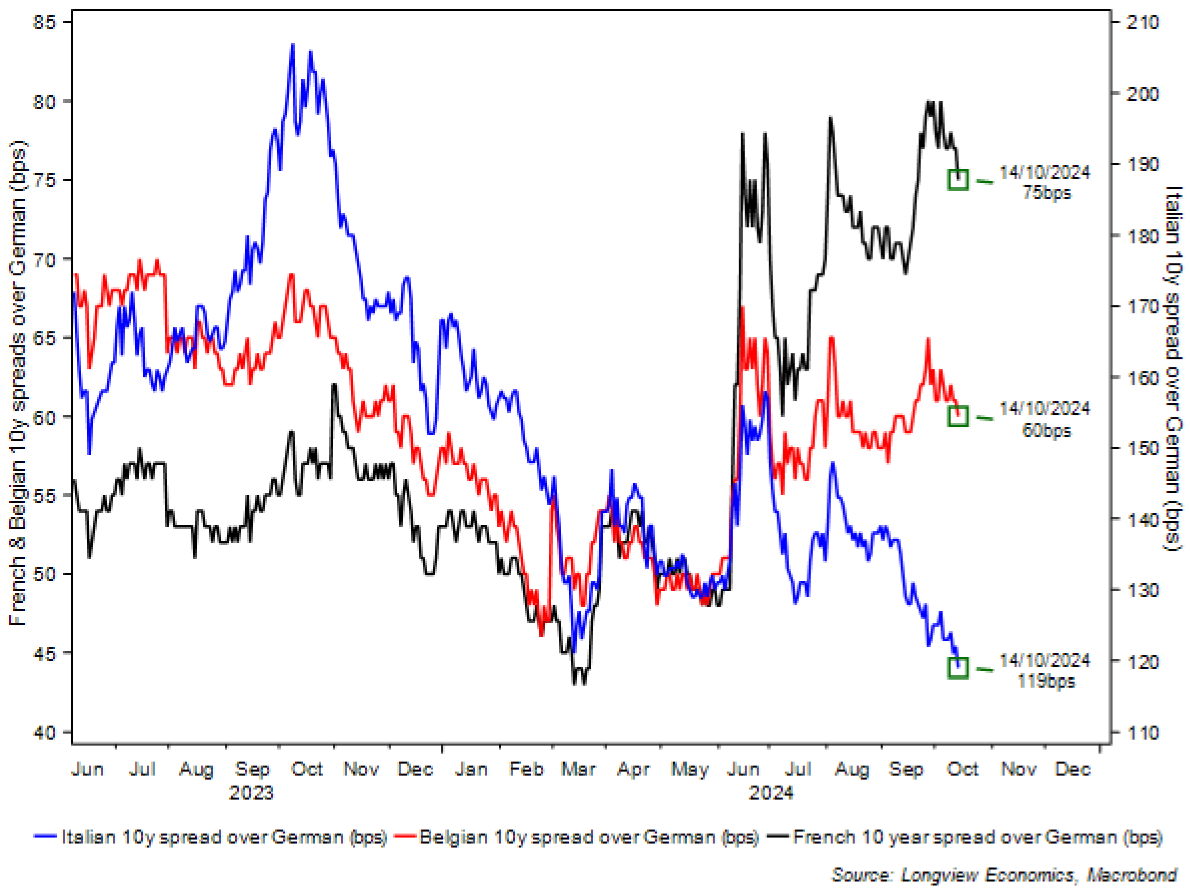


FIG 1a: S&P500 futures candlestick shown with its 50 & 200 day moving averages

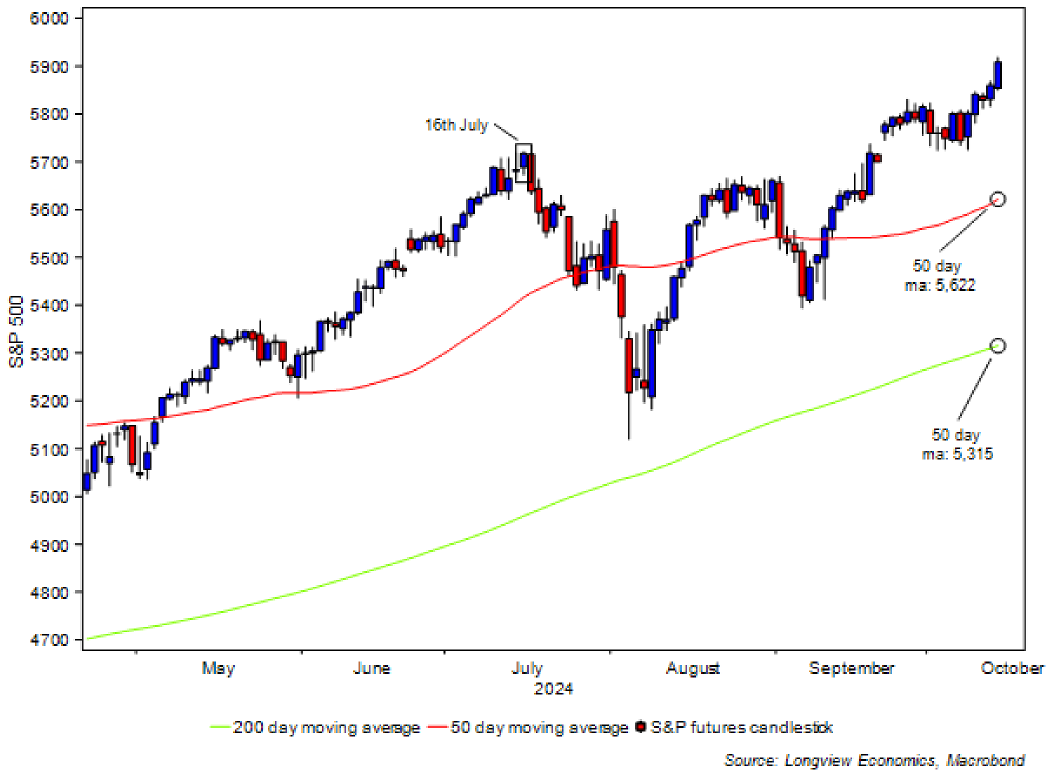


FIG 1b: Philly SOX candlestick, shown with 50 & 200 day moving average

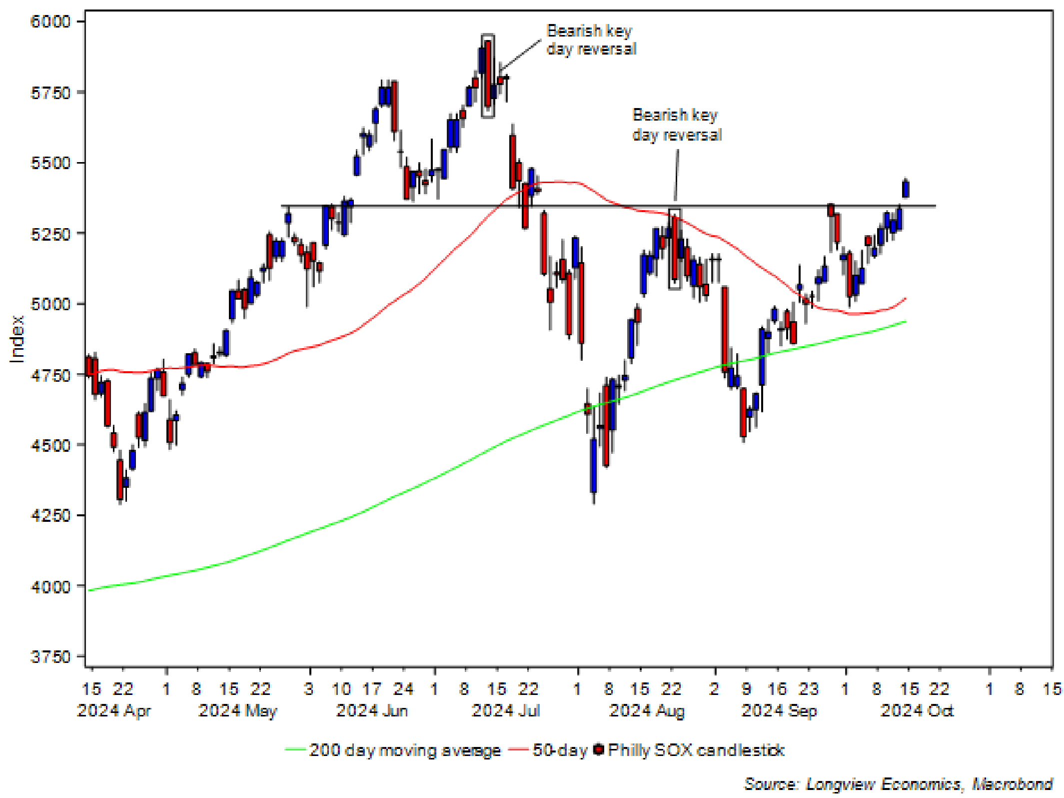


FIG 1c: Volume of outstanding CBOE 'single stock' call options (3 day smoothed) vs. S&P500

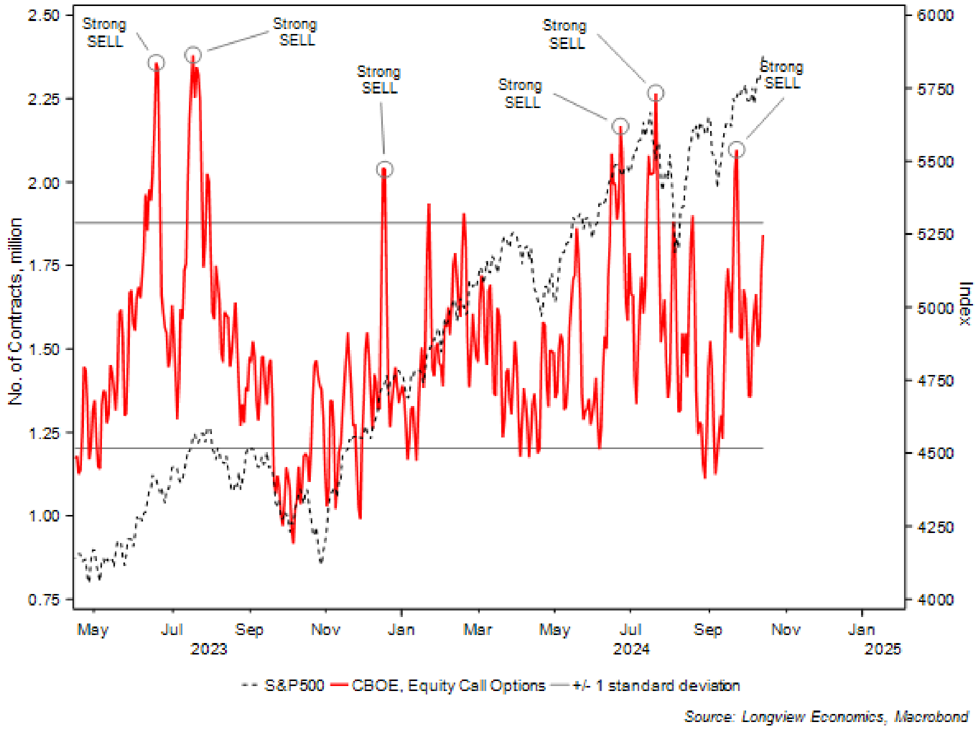


FIG 1d: Nvidia overextended ratio (current price rel. to its 50 day moving average) vs. Nvidia share price (USD/share)

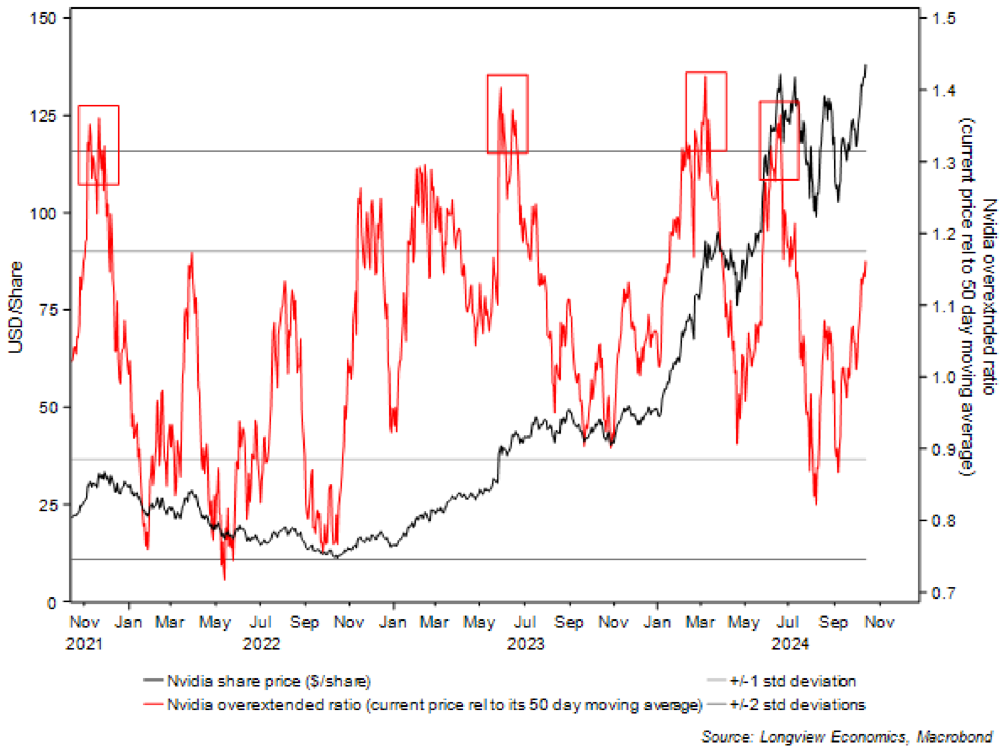
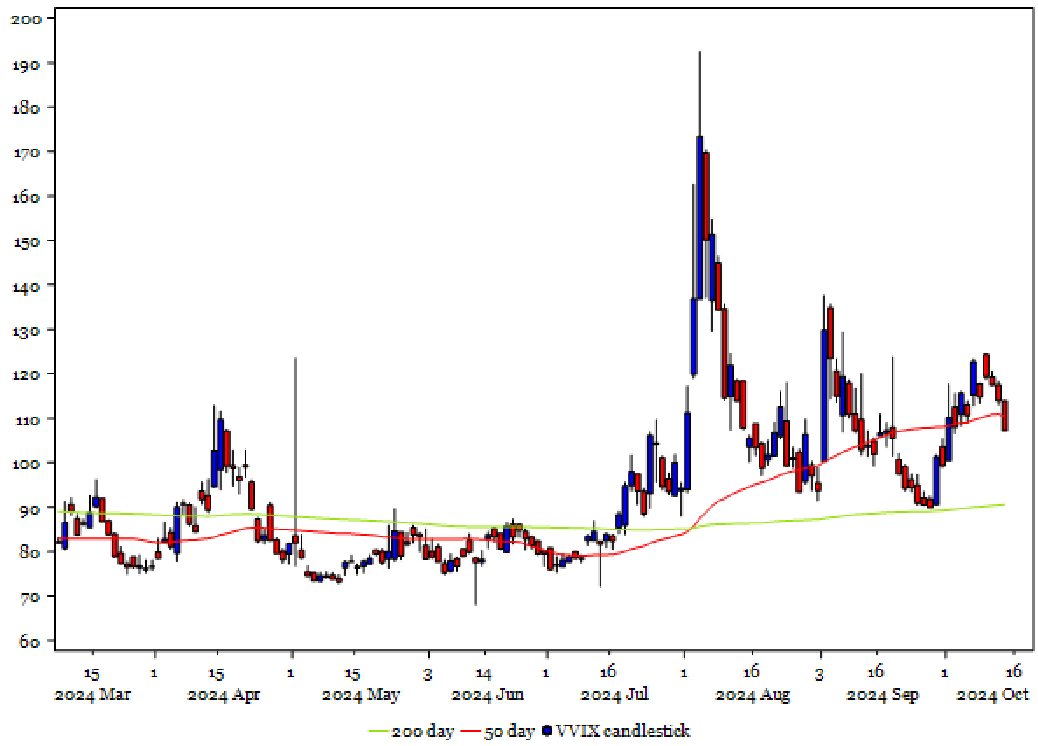
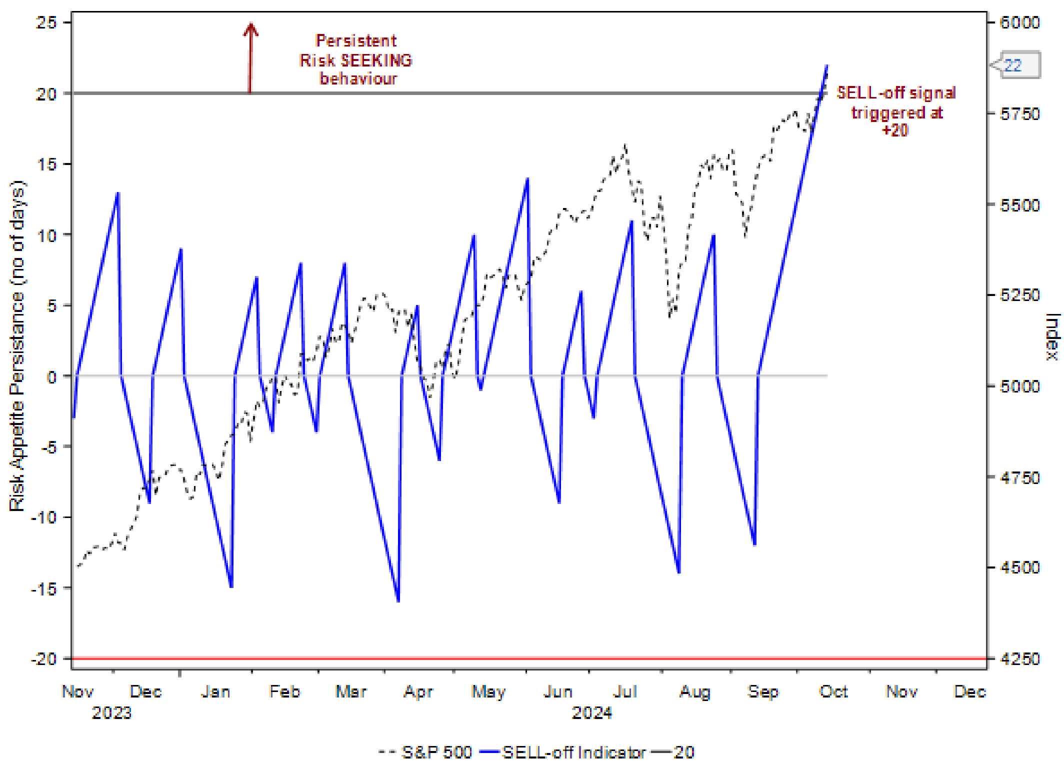


FIG 1e: VVIX candlestick shown with 50 & 200 day moving averages (%)



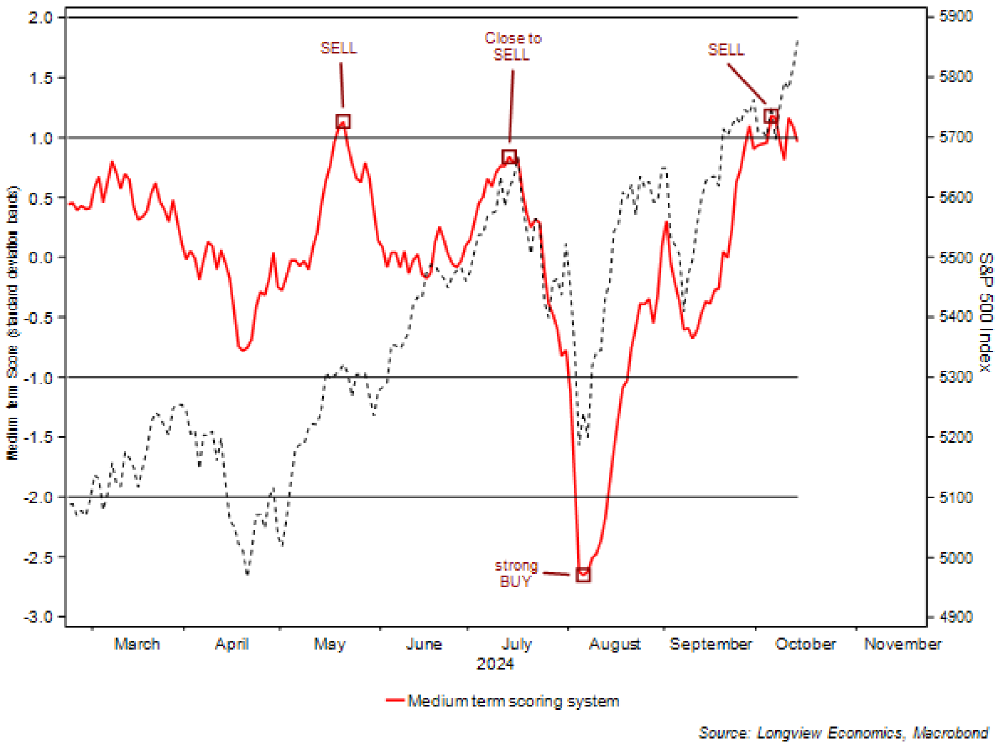
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



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

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

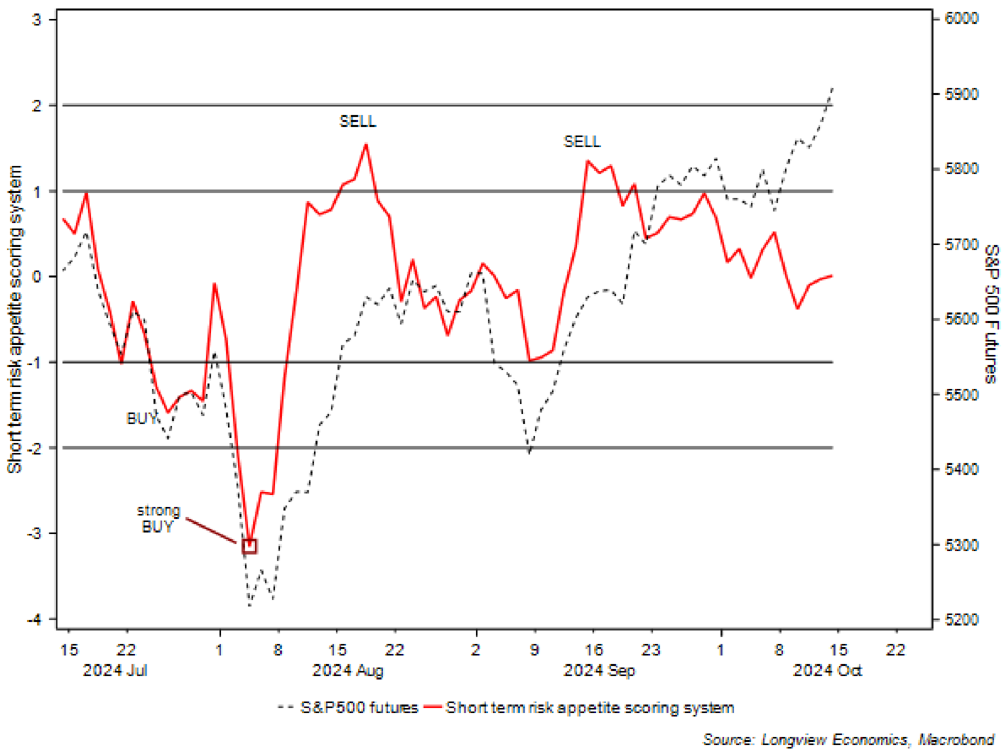


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

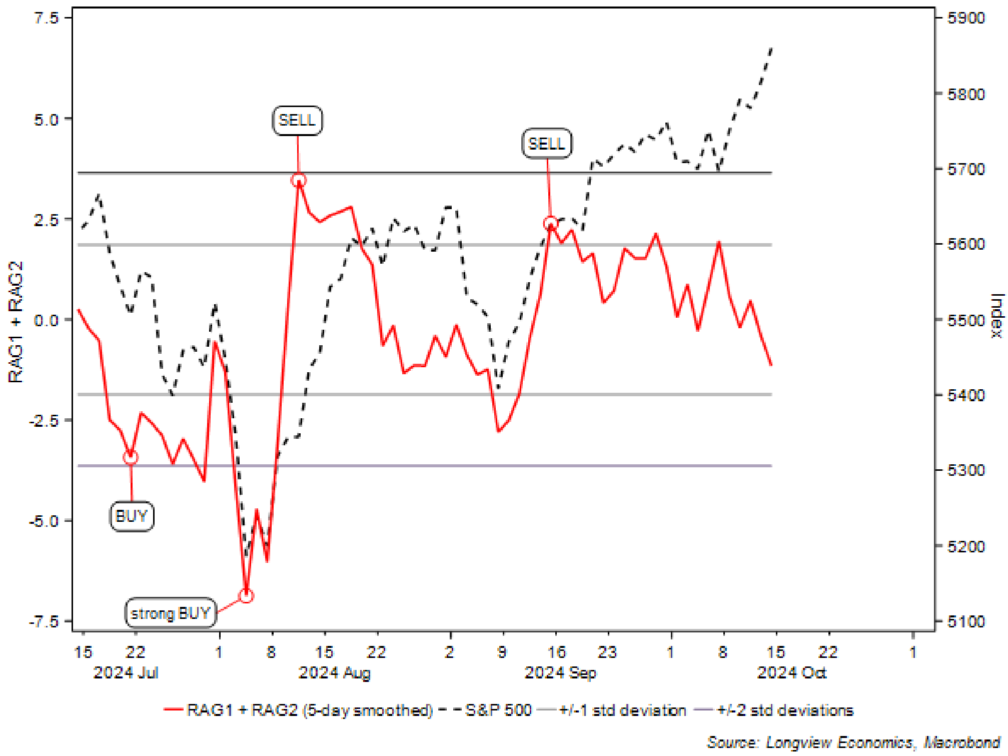


FIG 2b: Longview **SHORTEST term** RAG1 vs. S&P500

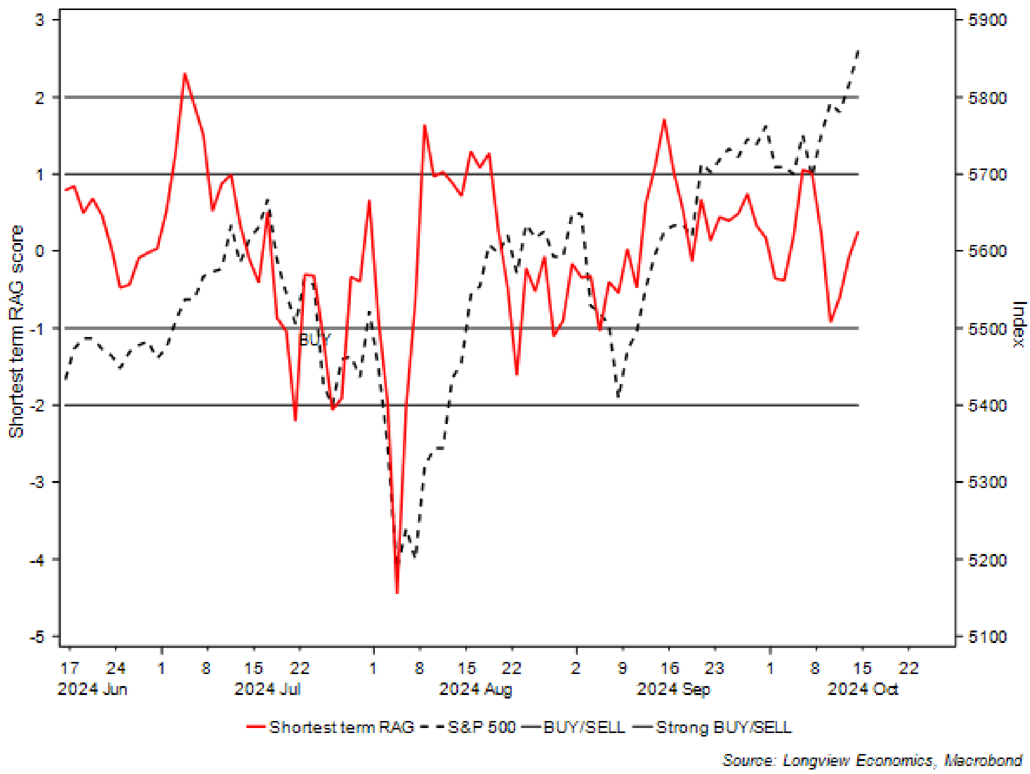
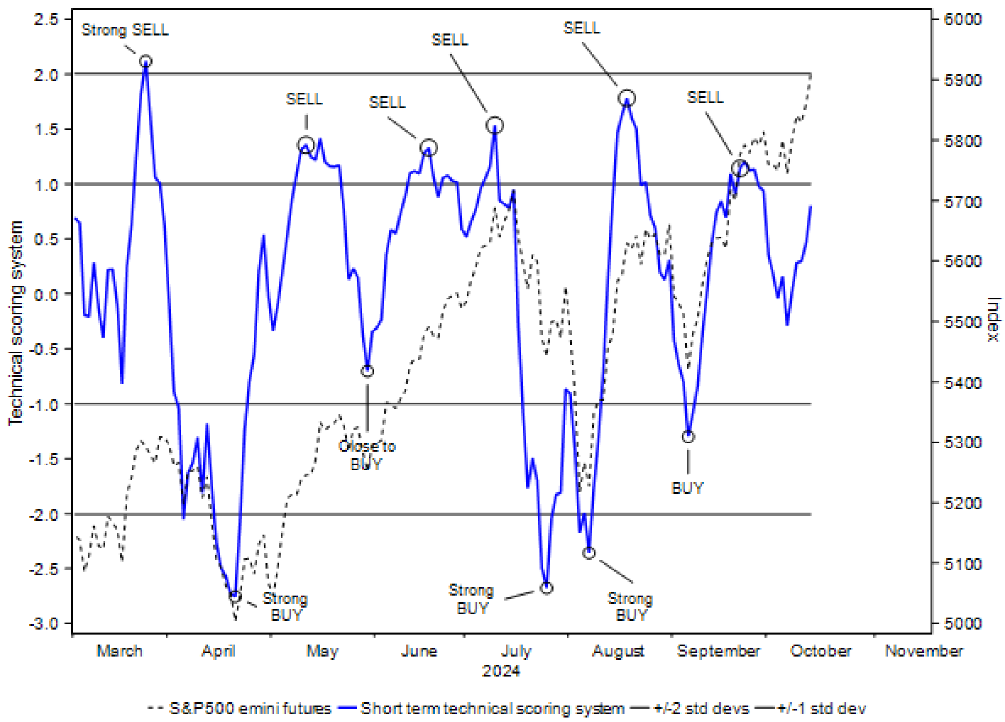
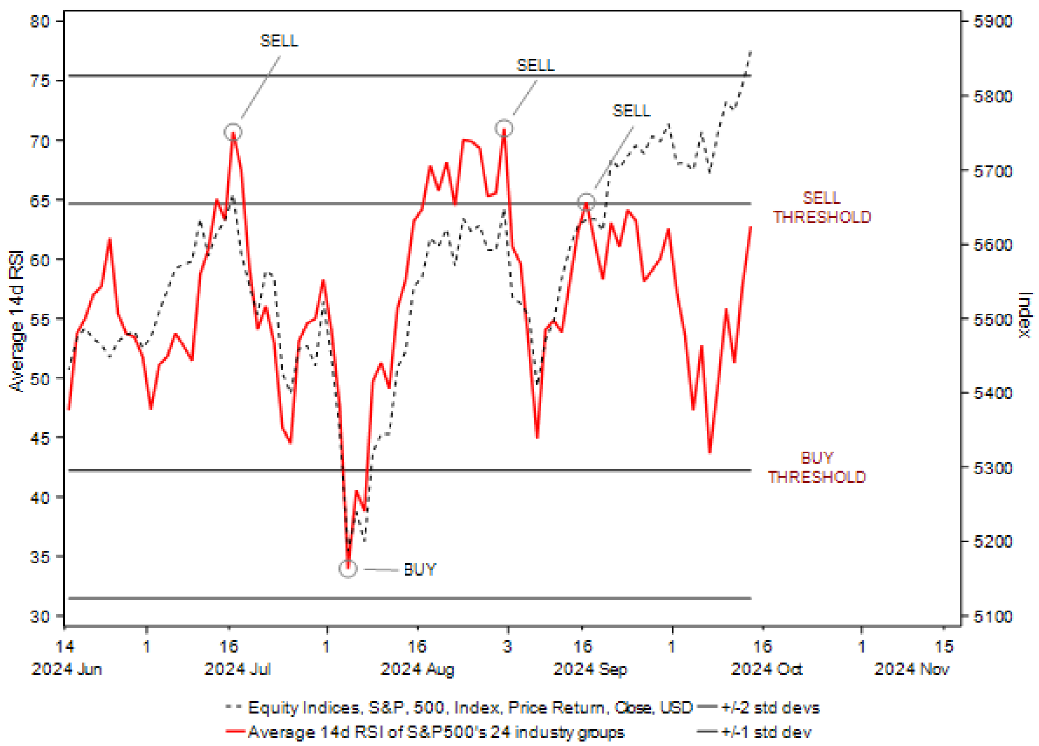


FIG 2c: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



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 US stocks above their 10 day moving average vs. S&P500

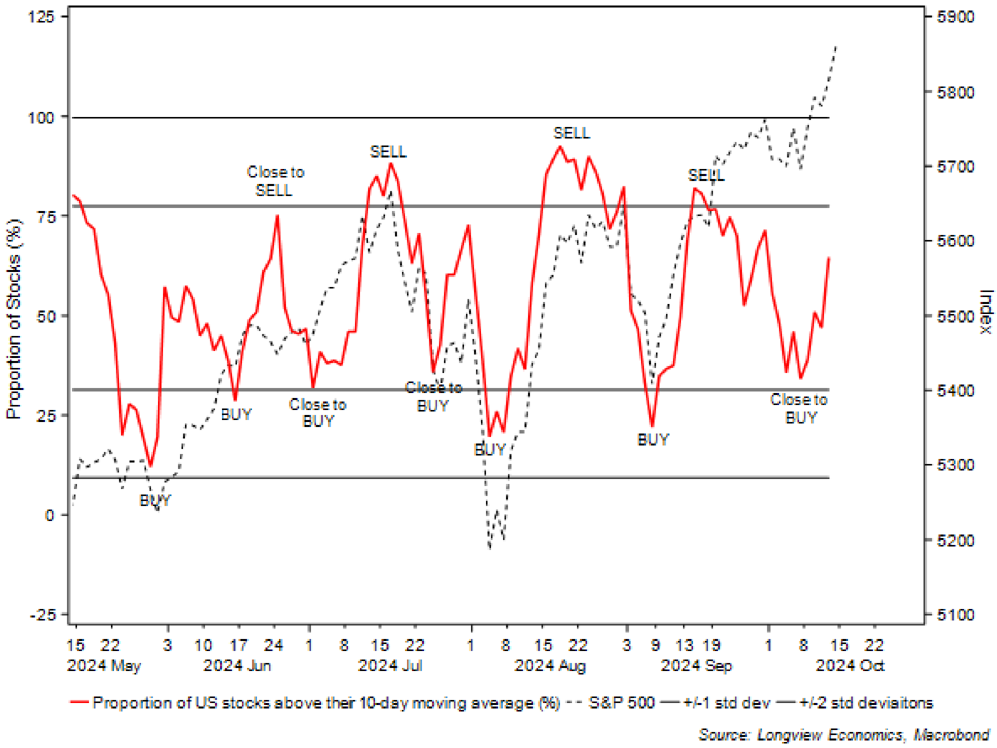
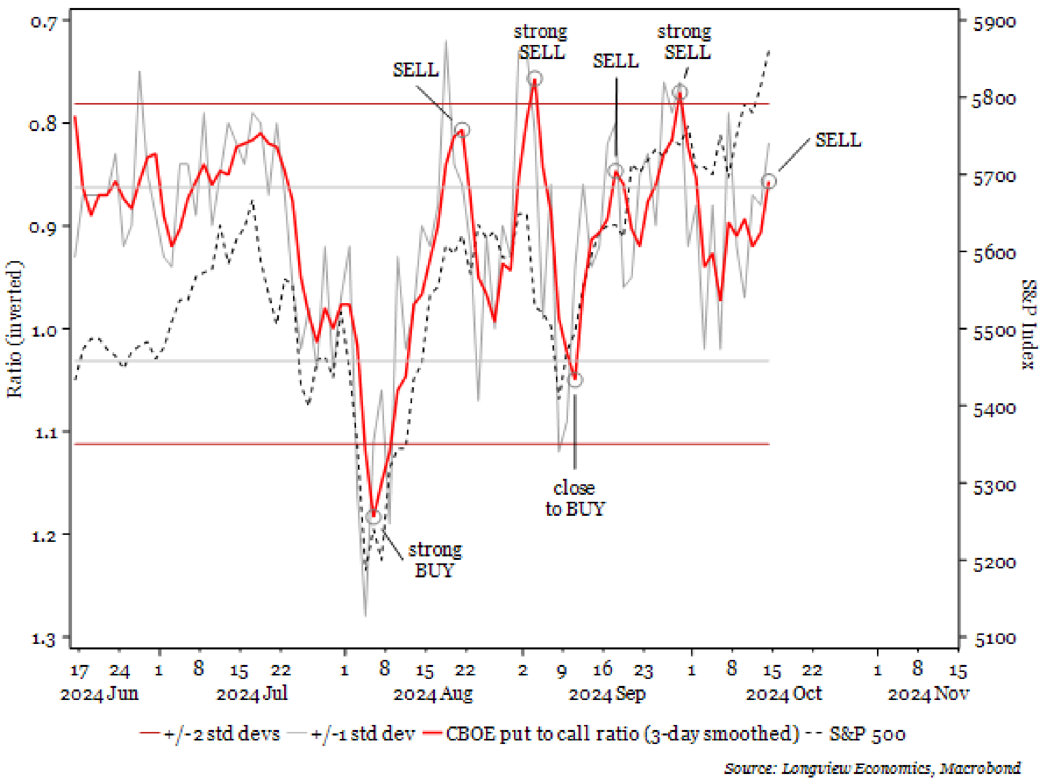


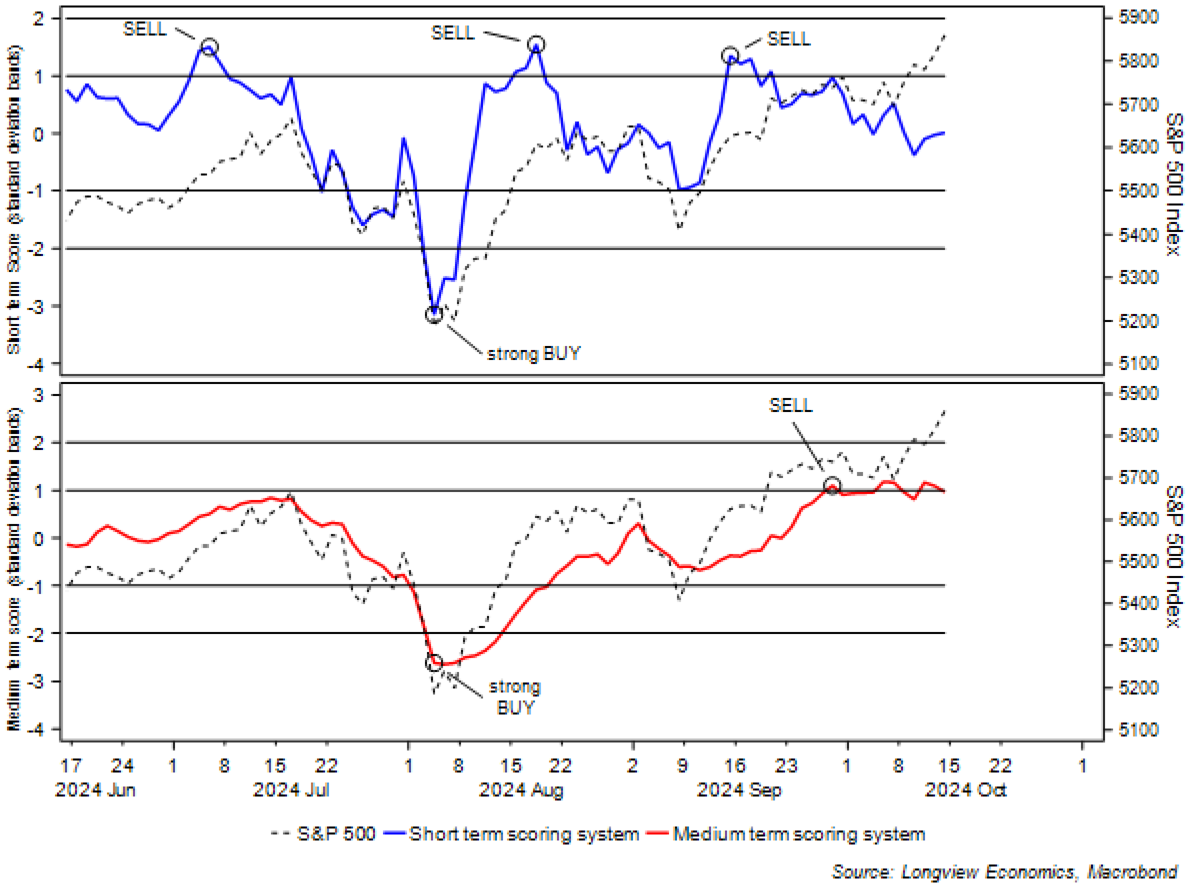
FIG 3: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



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

Short term (1 – 2 week) scoring system: **NEUTRAL**
Medium term (1 – 4 month) scoring system: **NEUTRAL** (albeit only just)

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



Key macro data/events

Key data today include: Japanese industrial production & capacity utilisation (August final estimate, 5:30am); **UK Employment, jobless claims & average weekly earnings** (Aug/Sept, 7am); German wholesale price index (Sept, 7am); French headline & core CPI (September final estimate, 7:45am); Spanish headline & core CPI (September final estimate, 8am); **German & Eurozone ZEW survey –** expectations & current situation (Oct, 10am); **Eurozone industrial production** (Aug, 10am); US Empire manufacturing (Oct, 1:30pm); Canadian headline & core CPI (Sept, 1:30pm); Canadian existing home sales (Sept, 2pm).

Key events today include: Speech by the ECB's Nagel on the digital Euro (7:15am); ECB bank lending survey (9am); **speech by the Fed's Daly** at an event hosted by the NYU Stern School of Business (4:30pm); speech by the RBA's Hunter at the Citi Australia & New Zealand Investment Conference (11pm).

Key earnings today include: **Rio Tinto PLC**, **Louis Vuitton**, **UnitedHealth**, **J&J**, **Bank of America**, **Goldman Sachs**, Progressive, Charles Schwab, Citigroup, PNC 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 10th October 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

LVRAG
Daily Risk Appetite Gauge

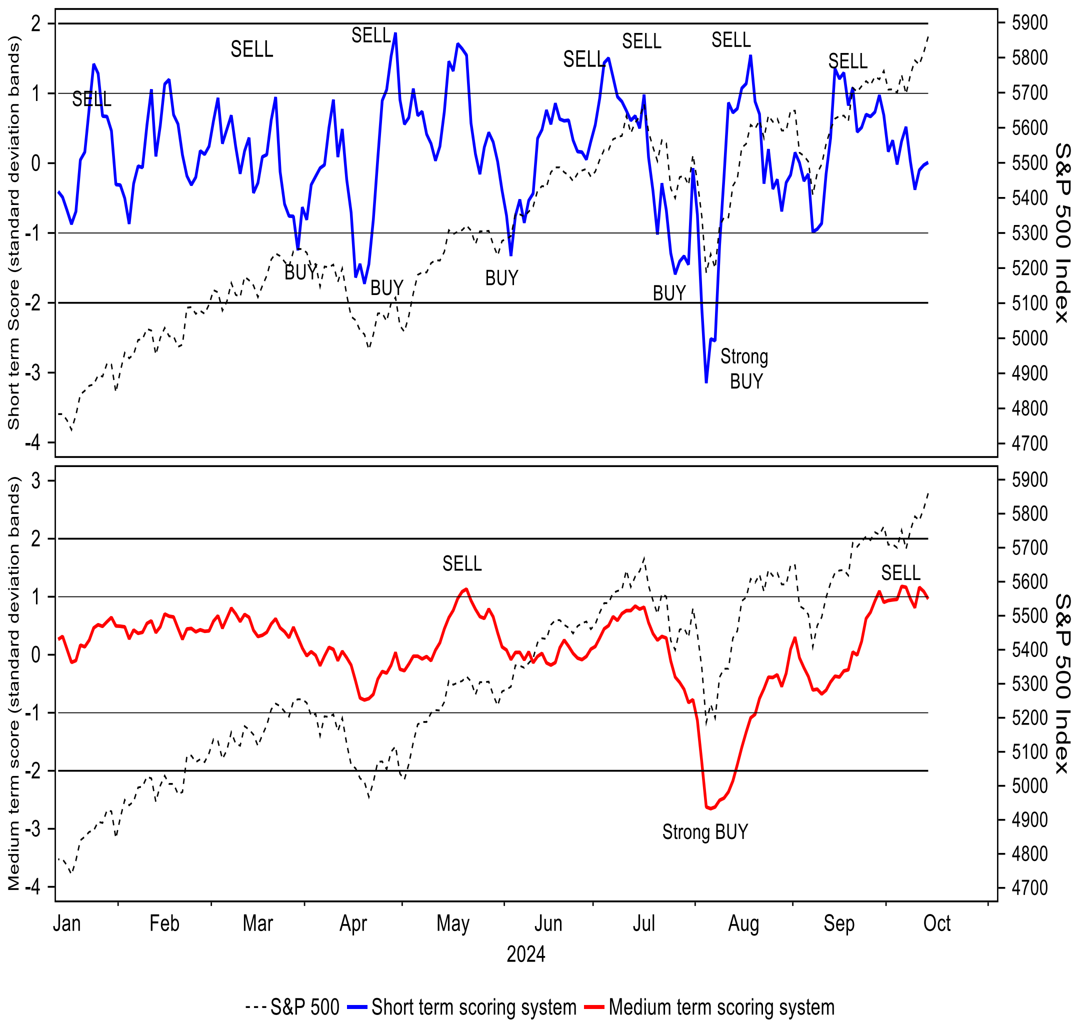
1 – 2 Week View on Risk

15th October 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

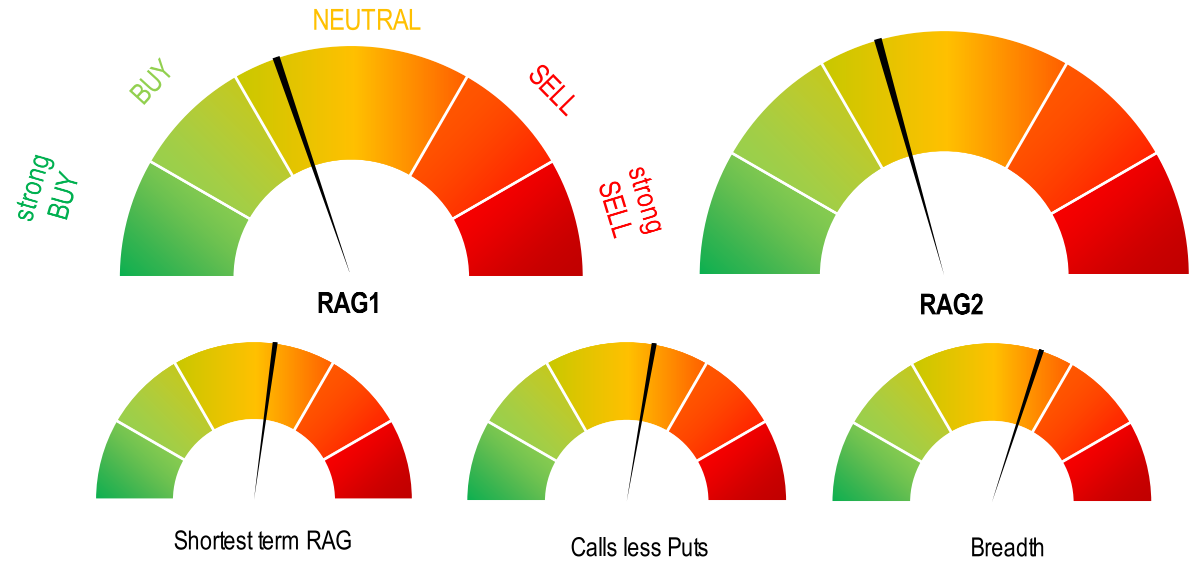
Source: Longview Economics, Macrobond

*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

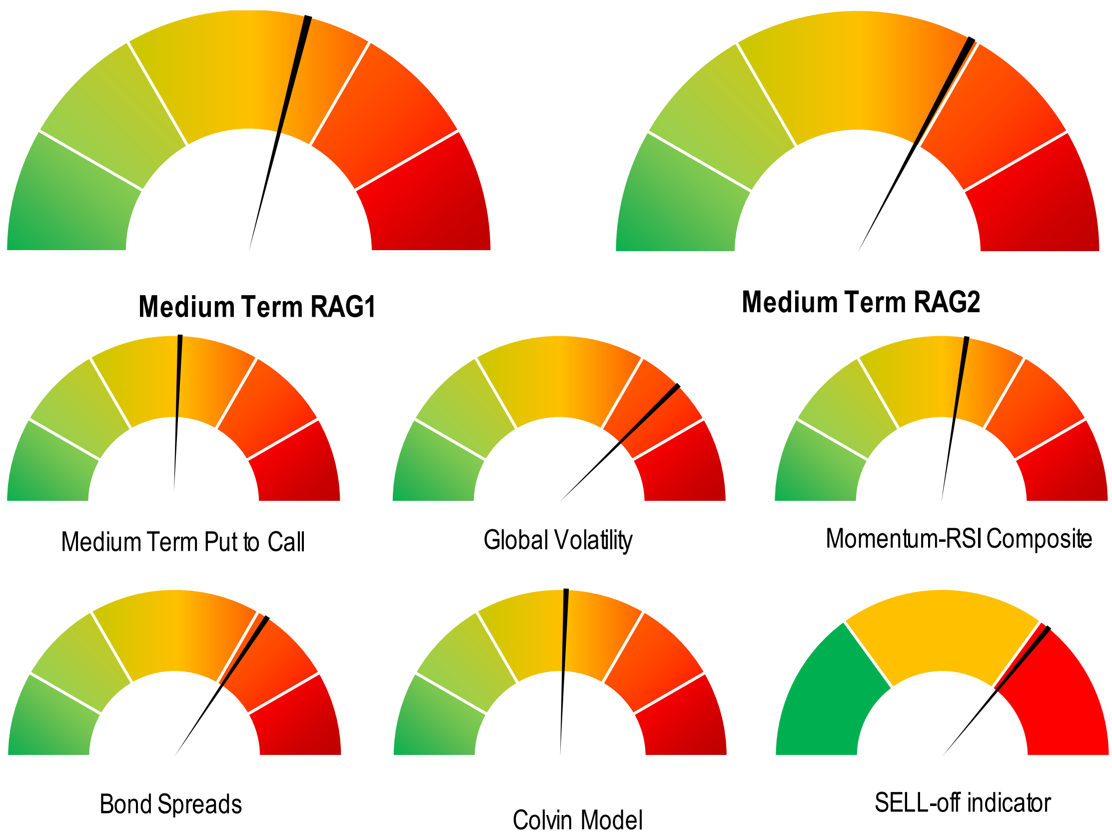
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

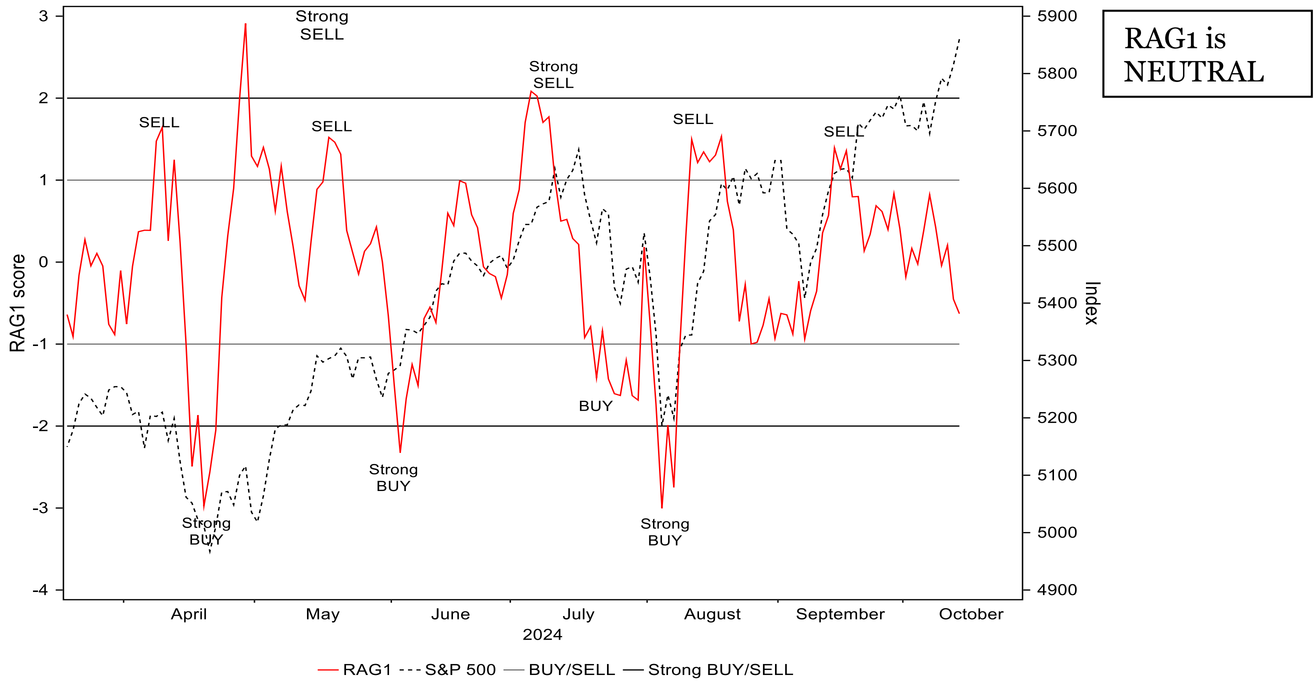
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

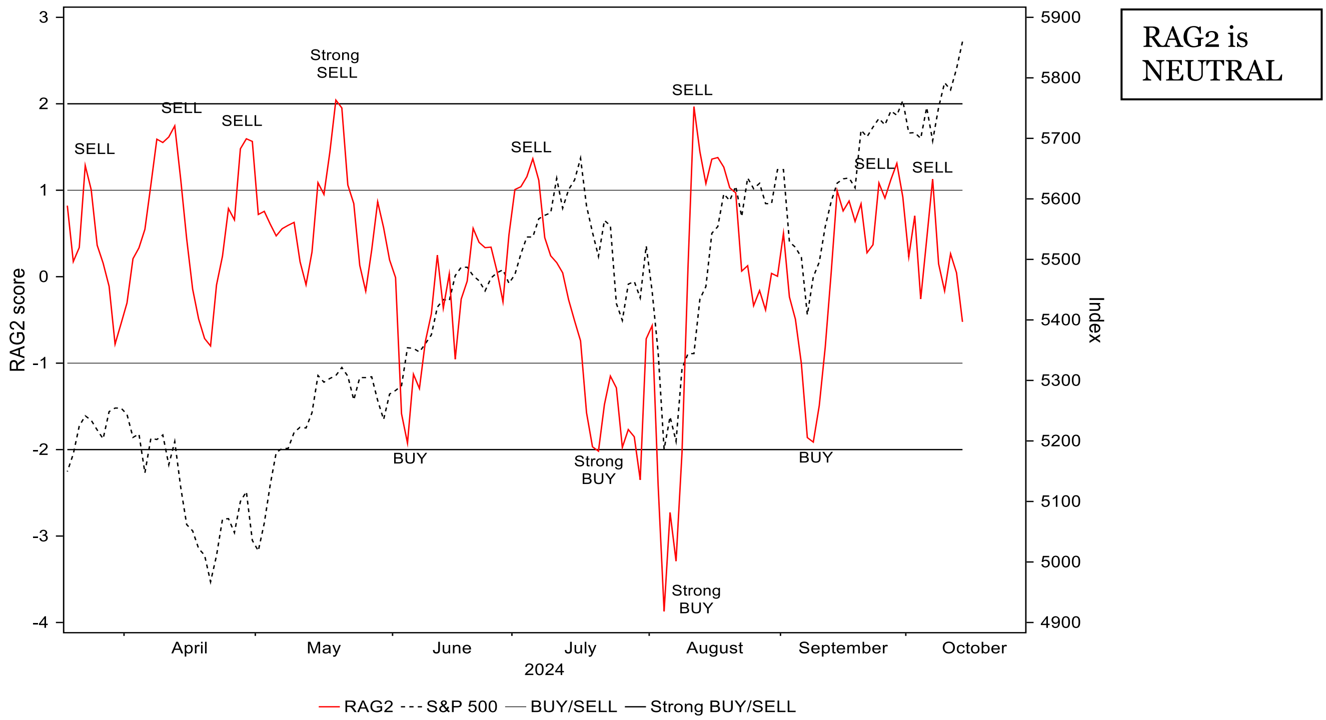
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

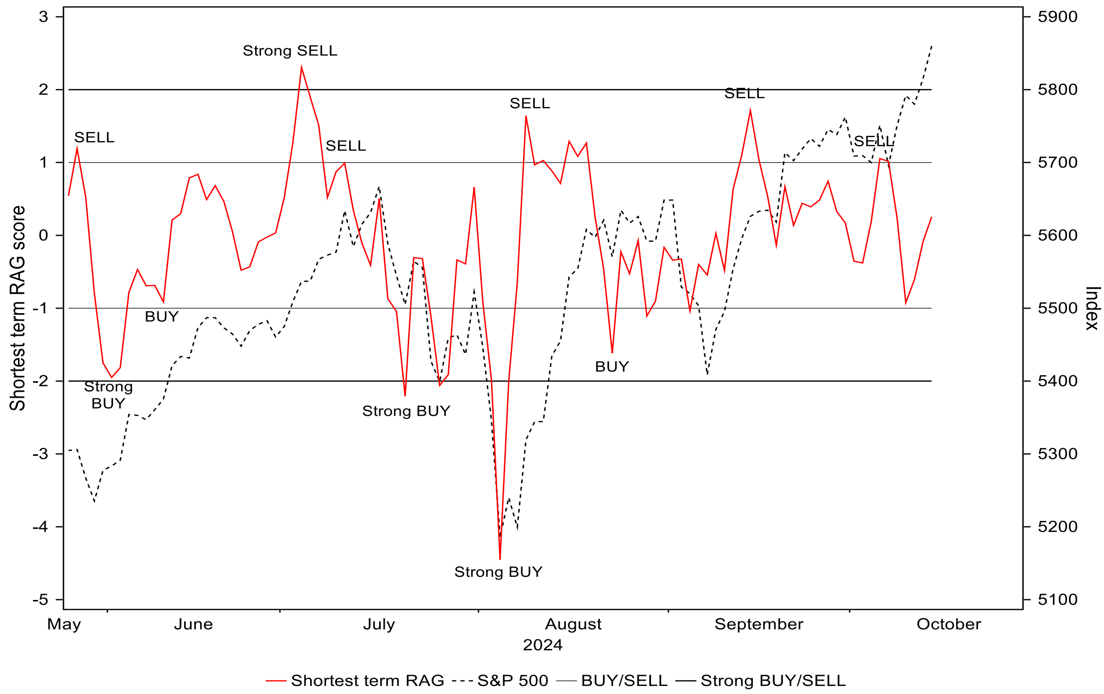
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

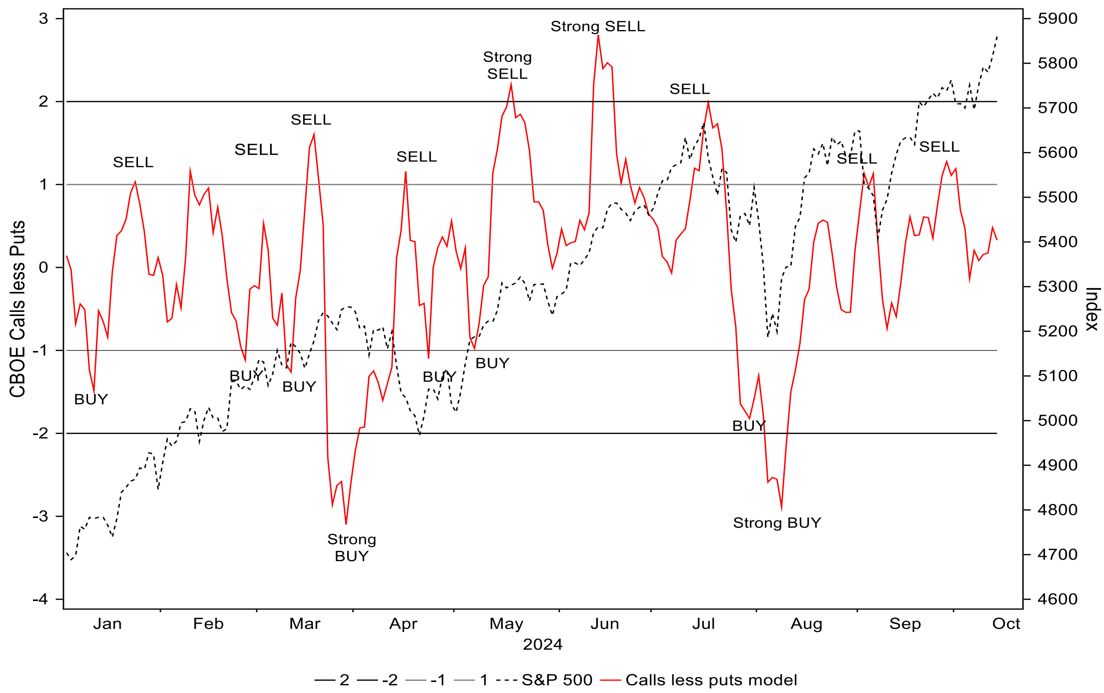
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

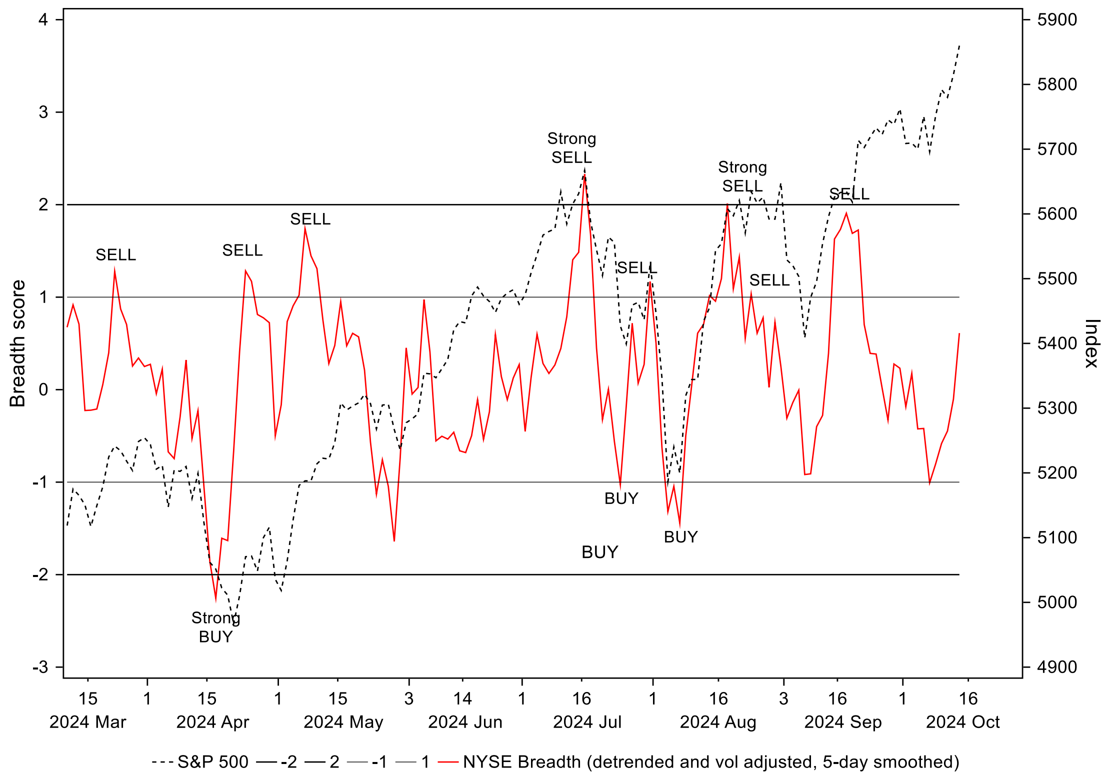


Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



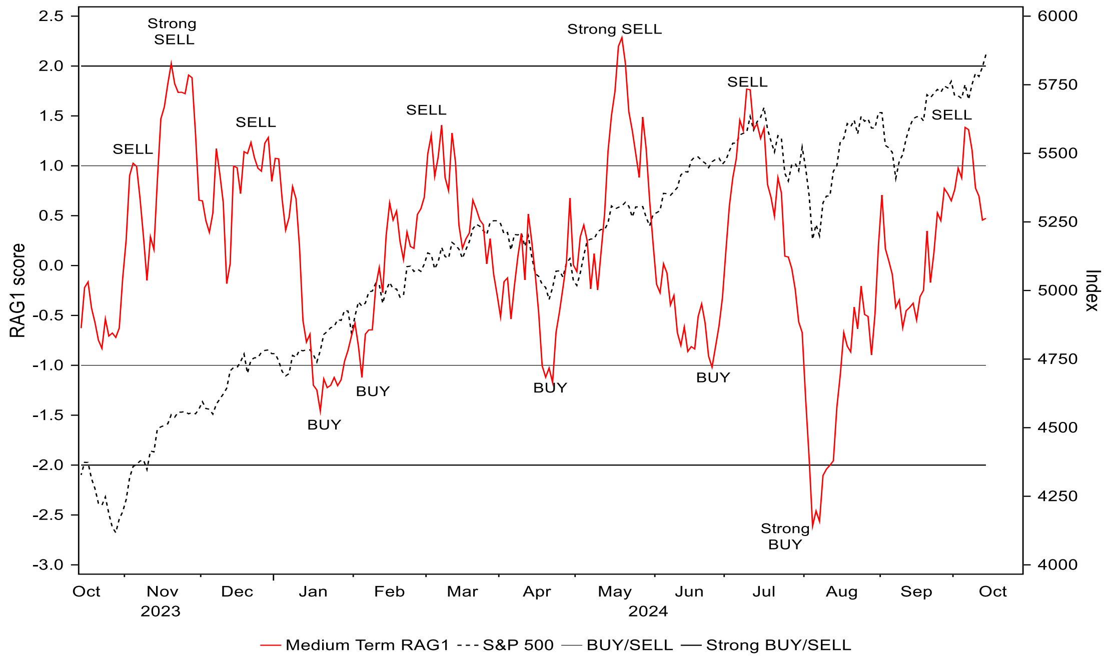
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

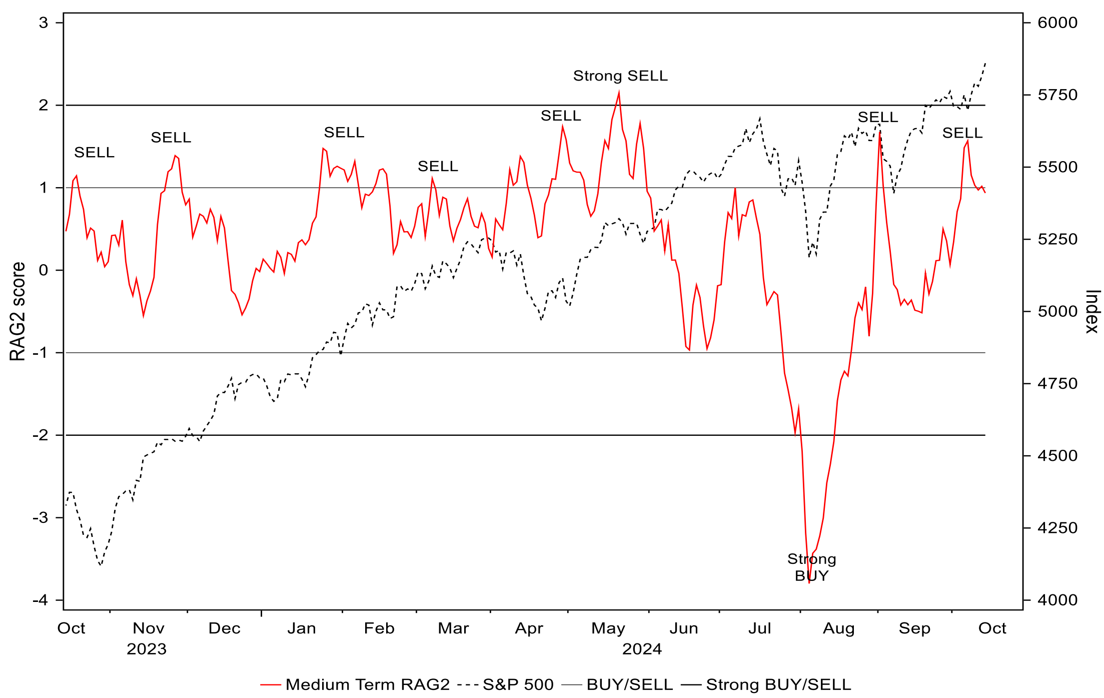
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

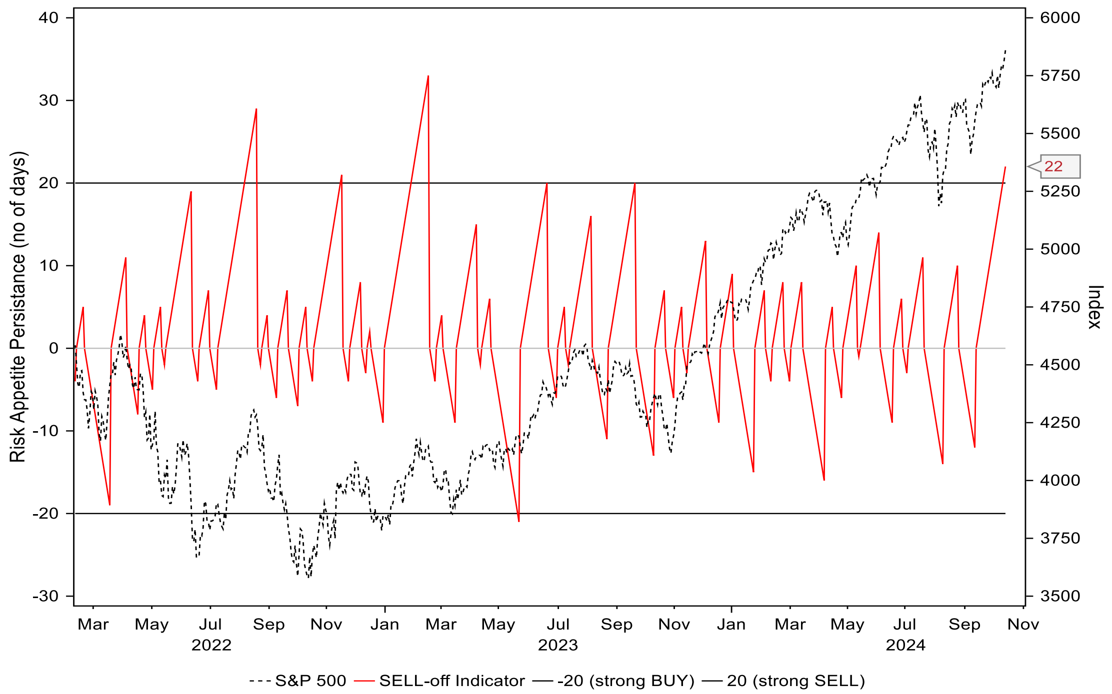


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

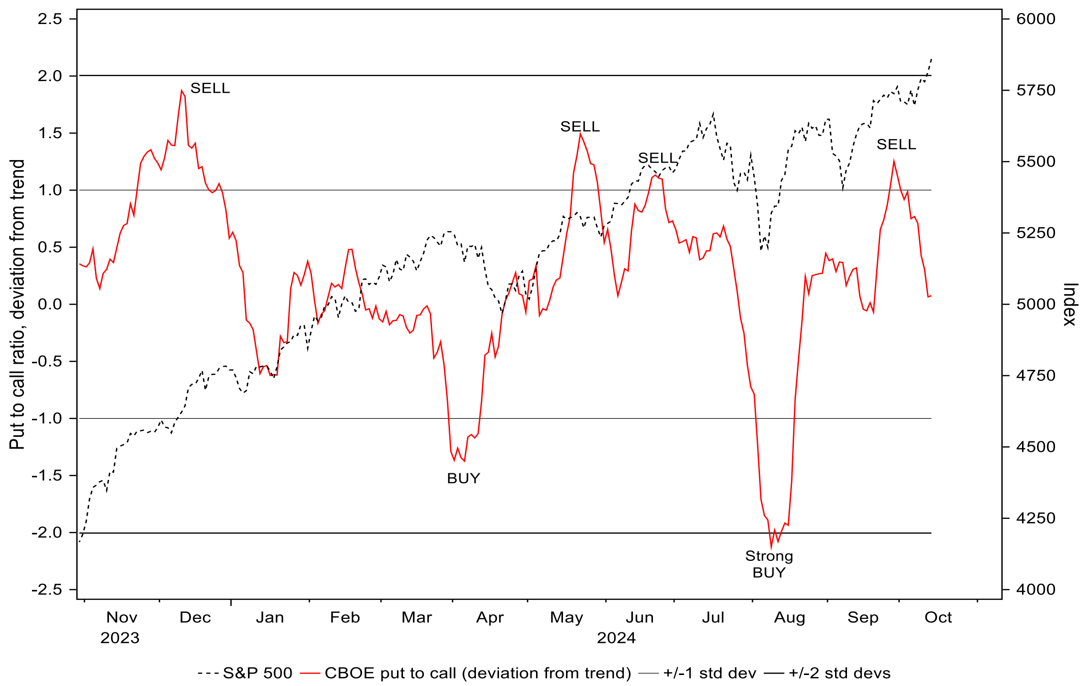
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is on SELL

Source: Longview Economics, Macrobond

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

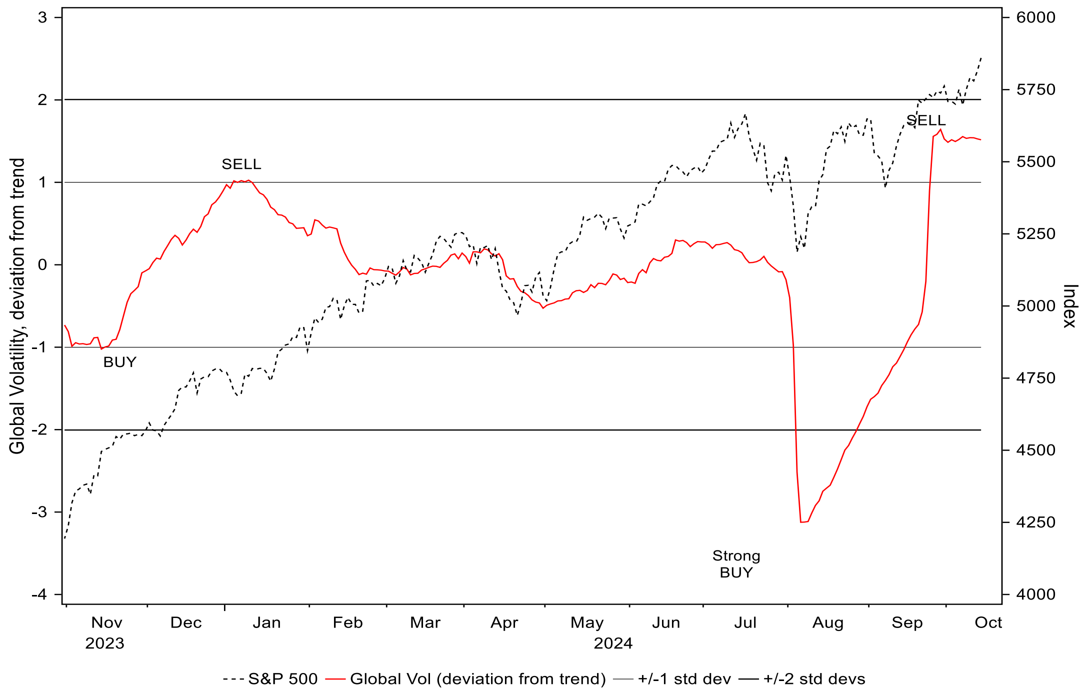


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

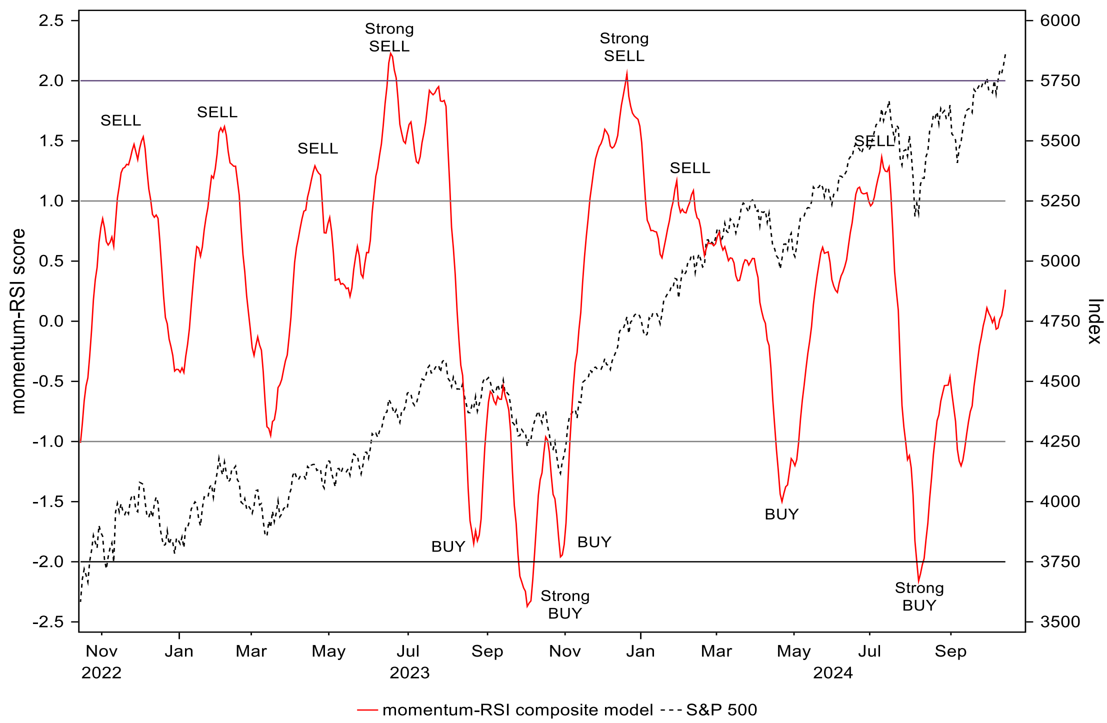
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on SELL

Source: Longview Economics, Macrobond

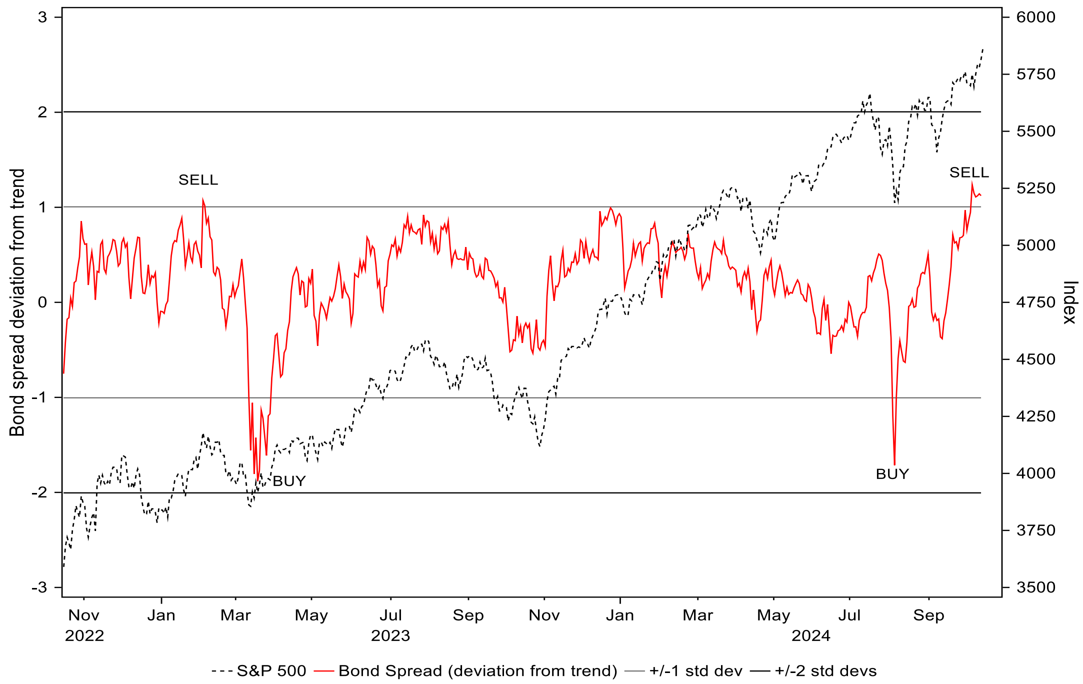
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

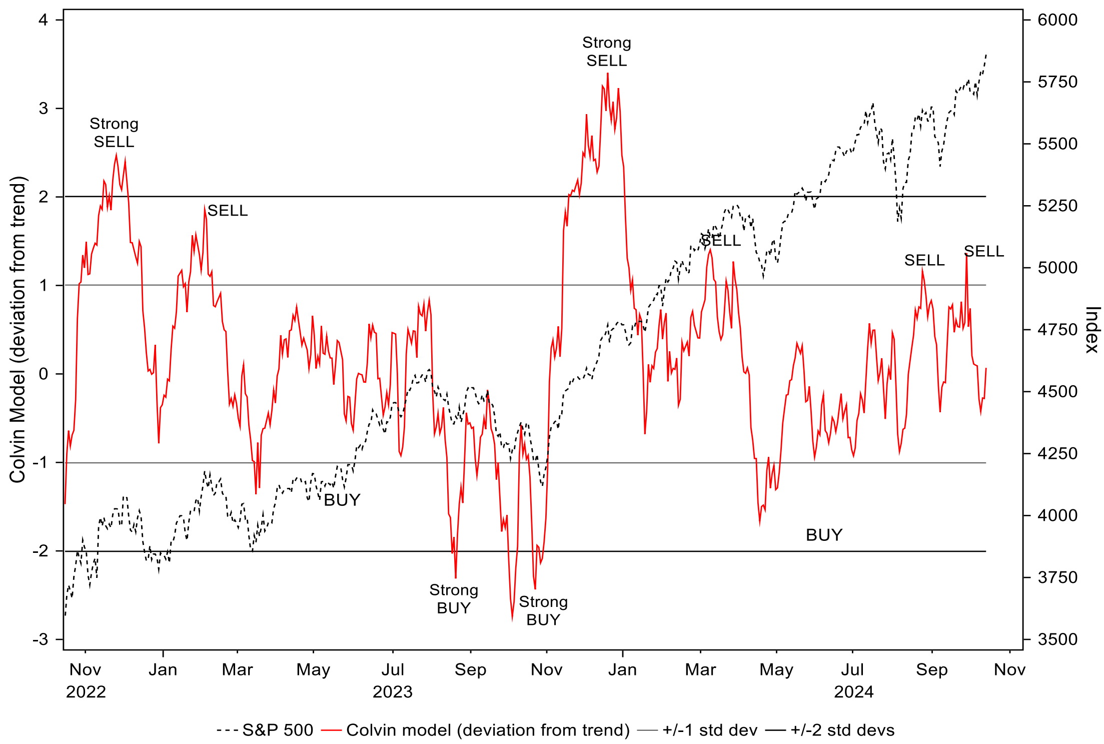
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on SELL

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



Source: Longview Economics, Macrobond

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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