

Equity Index Futures Trading Recommendations

17th October 2024

"SELL Case Still Brewing"

Email: info@longvieweconomics.com

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

- WATCH & WAIT (for now).

Rationale

The market was led higher yesterday by 'value', 'cyclicals' and 'high beta' names (with growth areas of the market lagging). **Notable outperformers** included the US transportation sector (with the 'airlines' industry group +7% yesterday after strong United Continental earnings); Russell 2000 (+1.6% and back at its July highs); the small cap S&P600 was +1.4% (also back at July highs); while financials were one of the better performing S&P500 sectors as both 'banks' and 'financial services' were strong on the day. With that, the market breadth was high as advancing stocks outnumbered declining ones by 3.2 to 1. Laggards included the tech and growth areas of the market (e.g. the Philly SOX was only +0.2%, after its 5% fall on Tuesday; Apple, FB, Microsoft & Amazon were all down on the day etc).

The models' backdrop remains as outlined yesterday. That is, **on a medium-term basis**, the case for a meaningful pullback is strong. The SELL-off indicator continues to march higher (which is indicative of persistent and excessive risk seeking behaviour – FIG 1c); the medium-term risk appetite scoring system is on SELL (consistent with the SELL-off indicator – FIG 1d); whilst there is limited downside put protection in portfolios (both in the NDX100 and the broader market – see FIGs 1b & 2f).

In the short term, though, the **message of the models is mixed**. On an index, sector and single stock basis, short term technical models have been moving towards SELL. The percentage of stocks above their 10 day moving averages, for example, is now close to SELL (having been close to BUY at the start of last week); the US industry group (sector) technical model has been behaving in a similar manner (on 7th October it was close to BUY – it's now close to SELL, FIG 2d); whilst the index technical scoring system is just shy of SELL (FIG 2c). Added to which, often ahead of pullbacks between 30 – 45% of US stocks become overbought on a short-term basis (i.e. using a 14-day RSI). As FIG 1a shows, this ratio is currently 25% (& up sharply since last week). In contrast, though, risk appetite models remain on/close to BUY.

Signs of euphoria/excessive appetite for risk, though, continue to build. Sharp multi day moves higher in indices like the R2K is one such sign. This index is approx. 5% higher in 4 trading sessions. More dramatically, the airlines index is 45% higher since early August; while US regional banks are approx. 10% higher in the past two weeks. Much of these price moves are arguably reflecting the market pricing in a growing likelihood of a Trump victory (with a greater emphasis on business-friendly policies). As the RealClear betting odds show (FIG 1), the likelihood of a Trump win has increased sharply in October.

As such, the case is building for a pullback (as some markets become increasingly euphoric/price in a lot of good news). For now, though, given the somewhat mixed message of the short-term models, we continue to WATCH & WAIT.

Kind regards,

The team @ Longview Economics

FIG 1: Presidential bettering odds

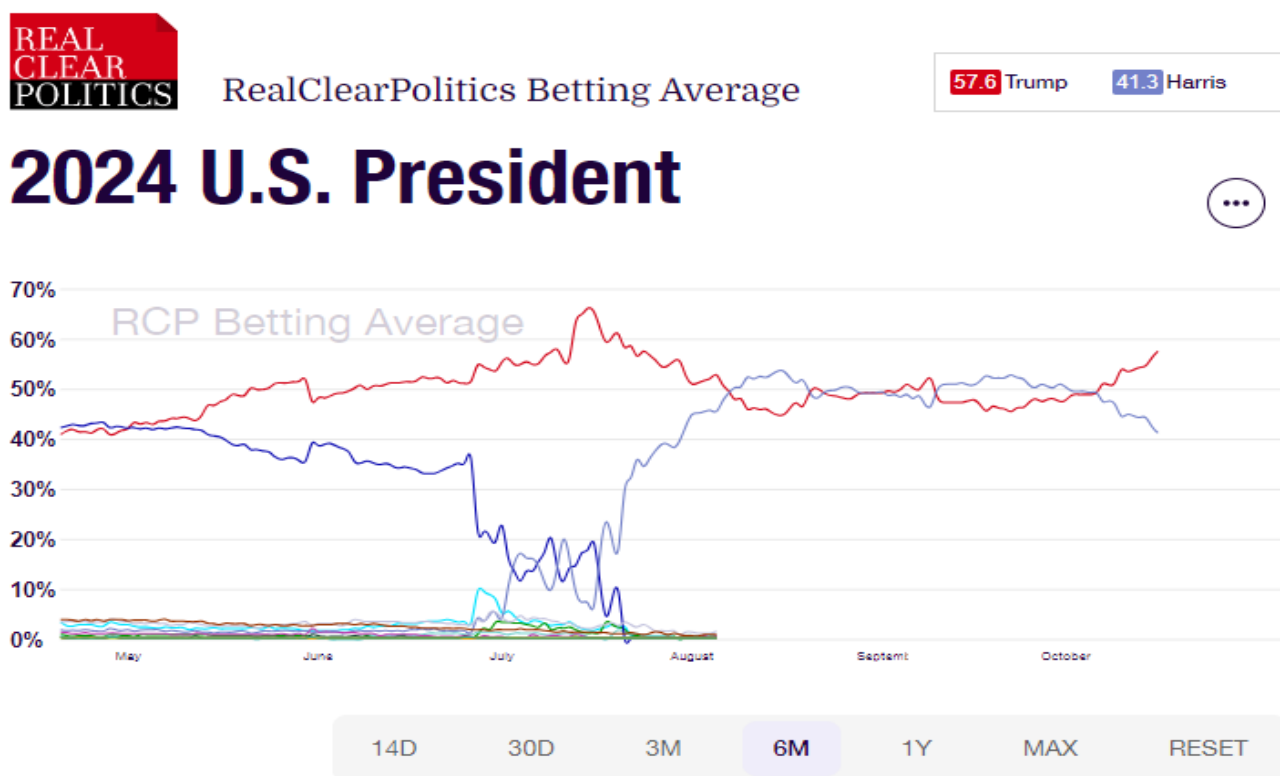
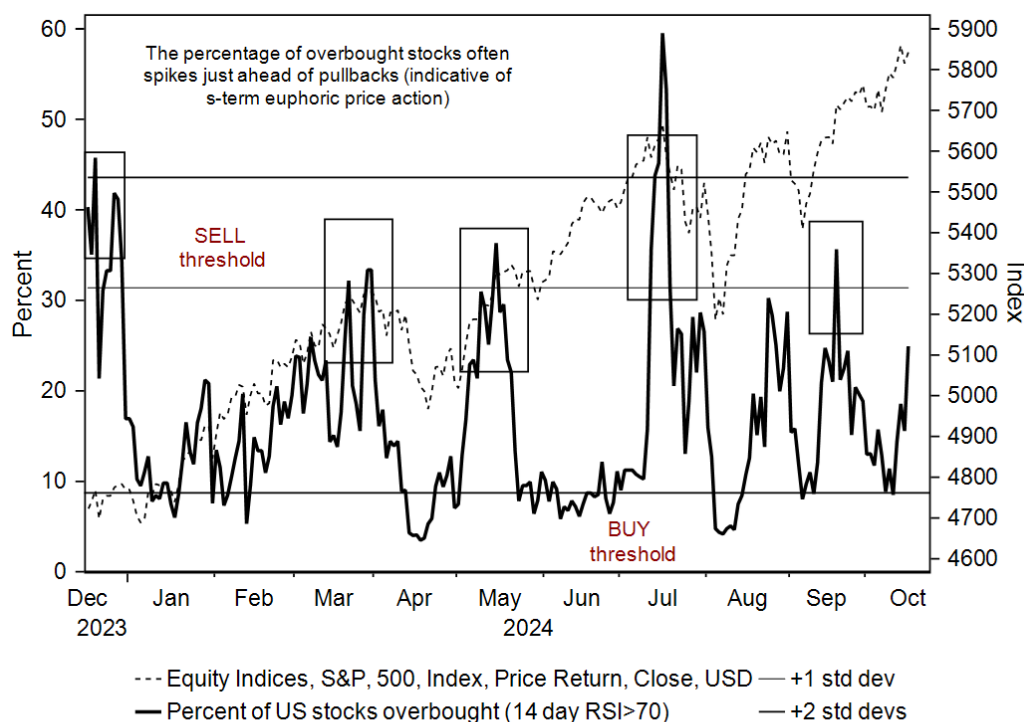
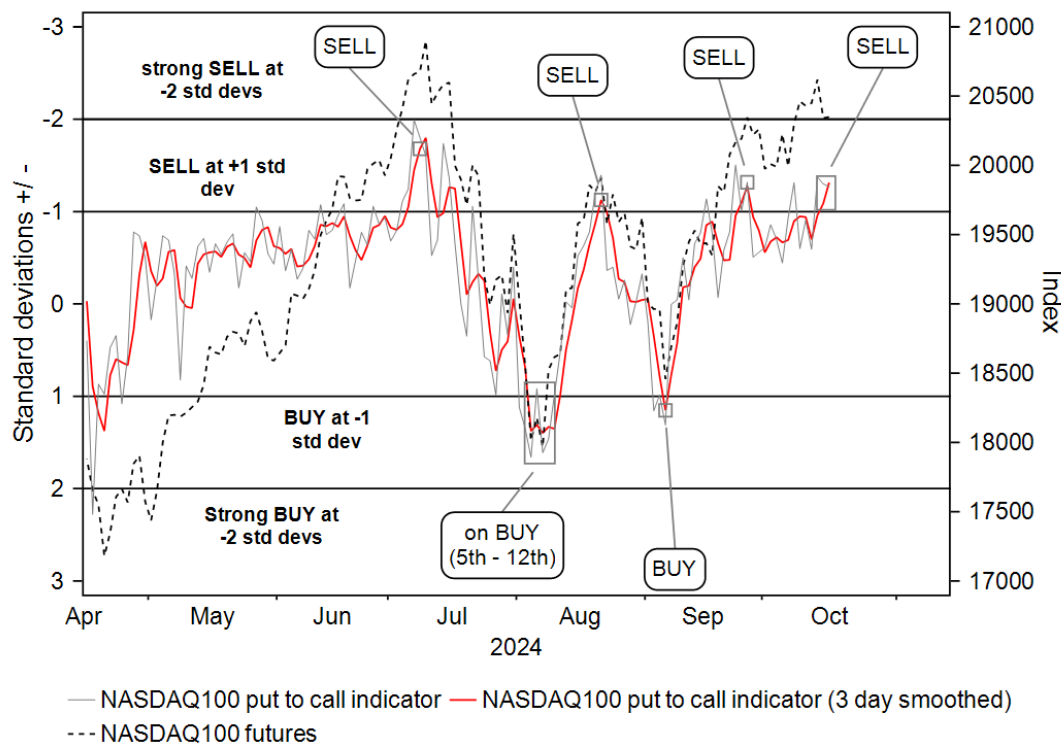


FIG 1a: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



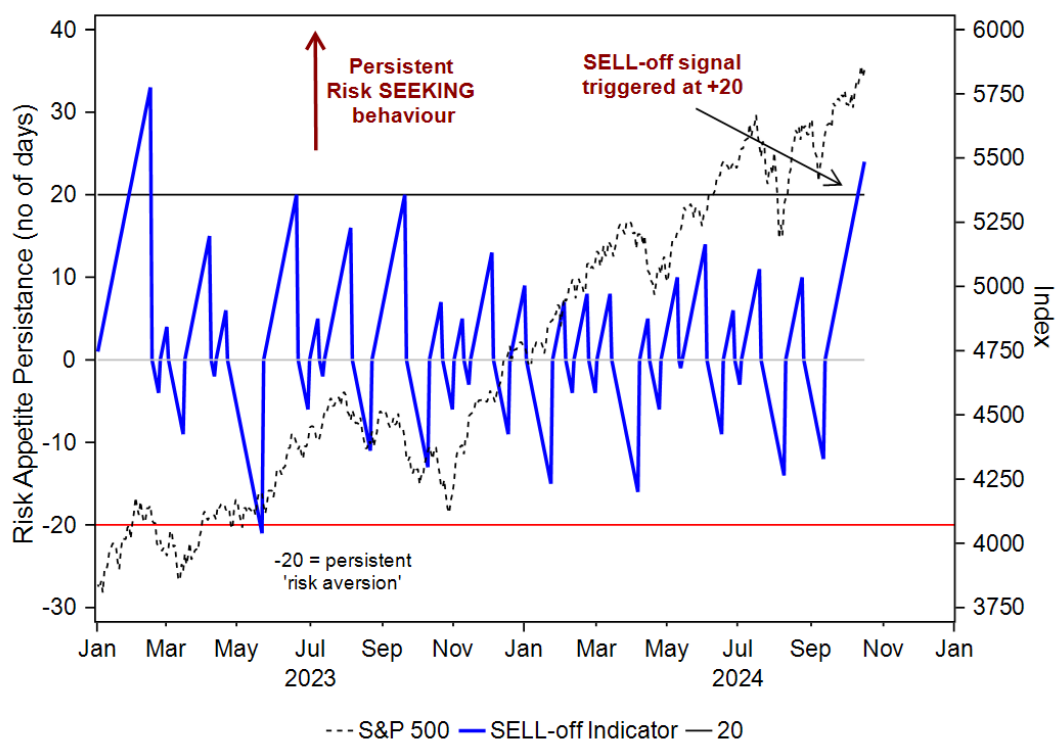
Source: Longview Economics, Macrobond

FIG 1b: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



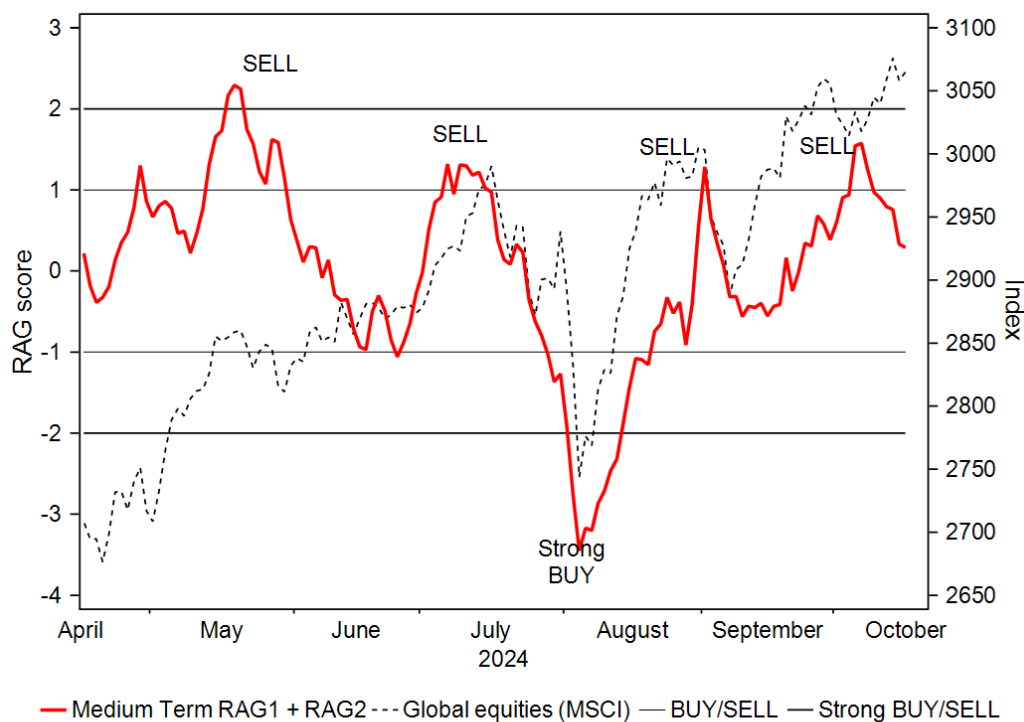
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

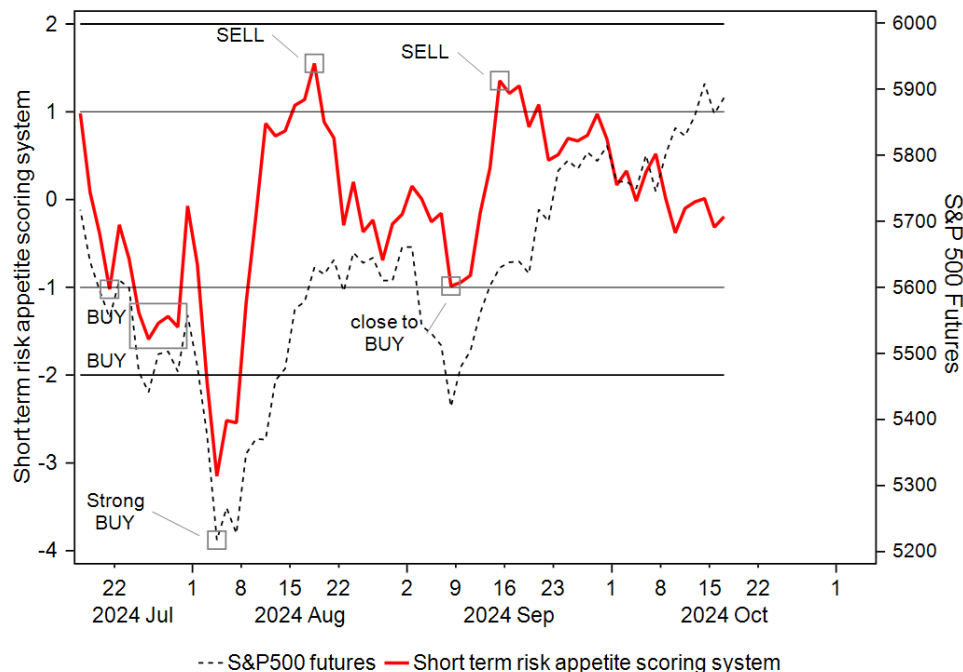
FIG 1d: Longview medium term 'risk appetite' scoring system vs. S&P500



Source: Longview Economics, Macrobond

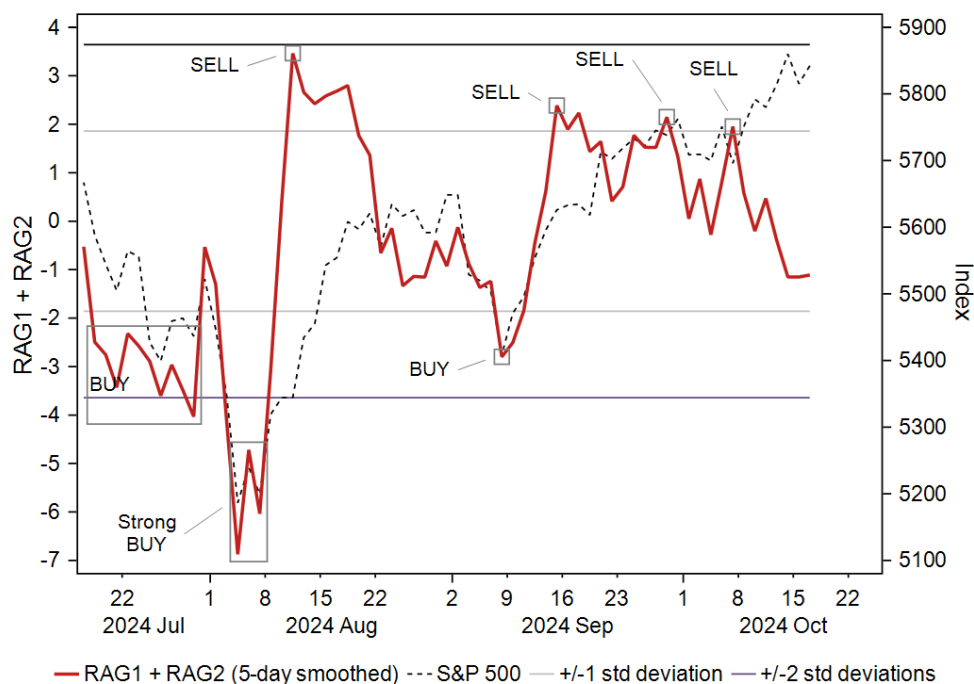
Short term market timing models are mixed.....

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



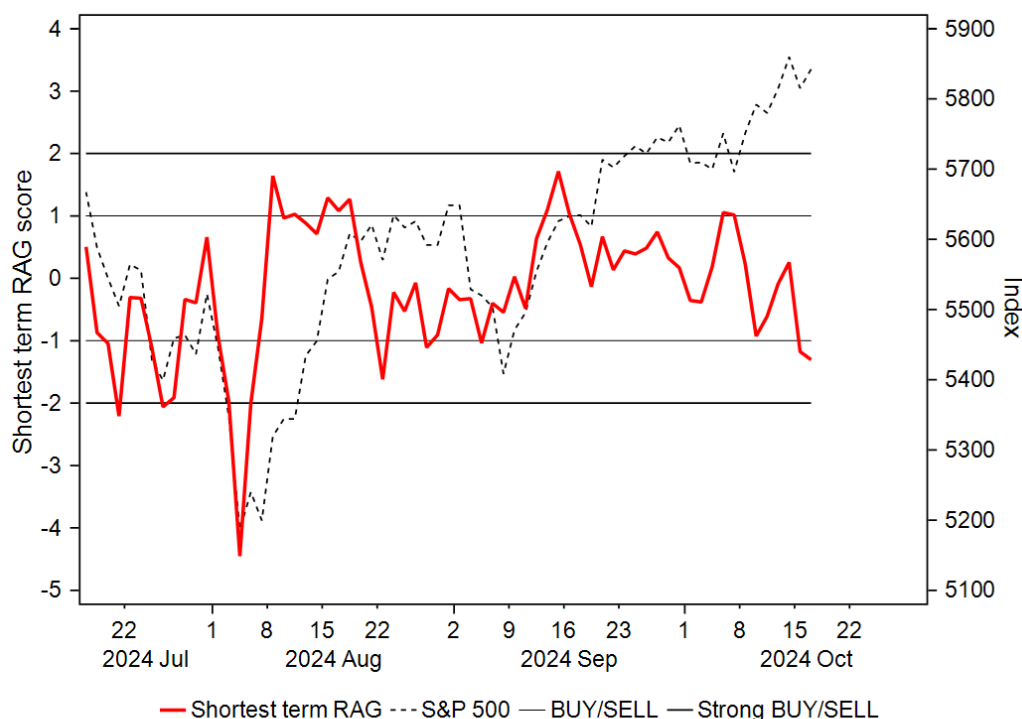
Source: Longview Economics, Macrobond

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



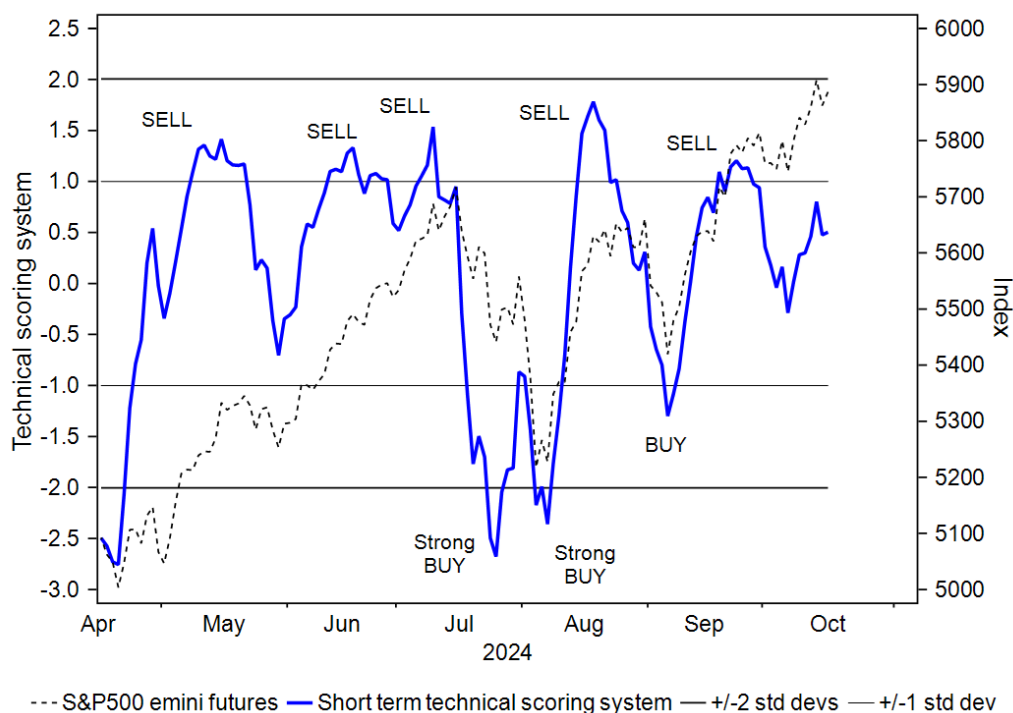
Source: Longview Economics, Macrobond

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



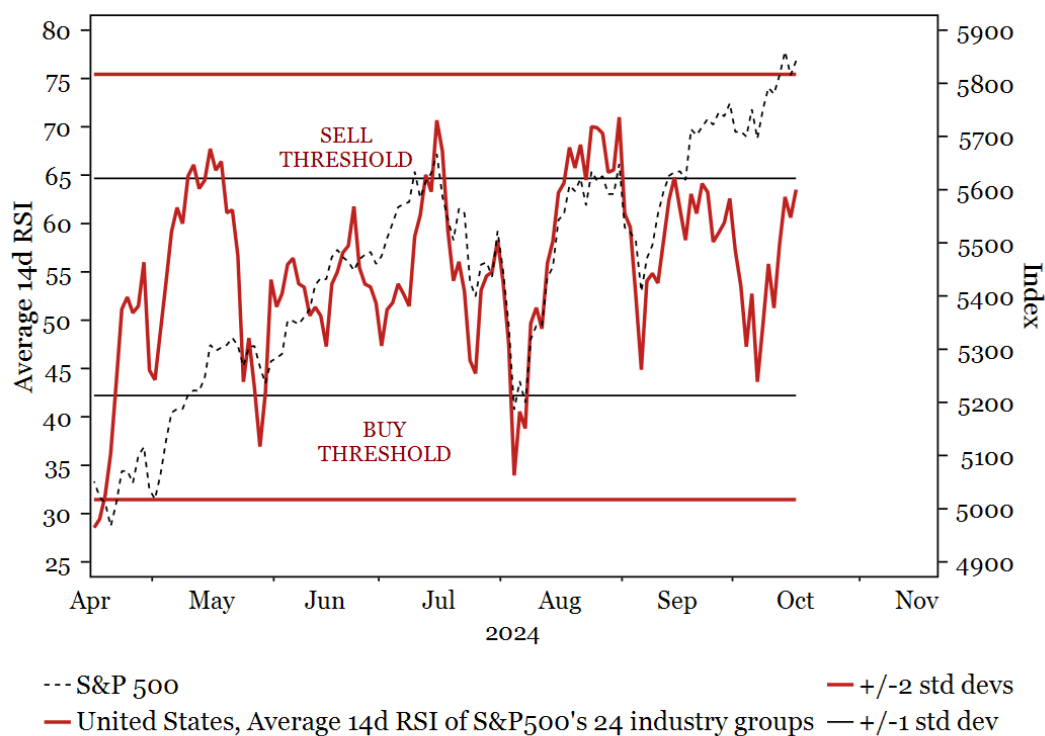
Source: Longview Economics, Macrobond

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



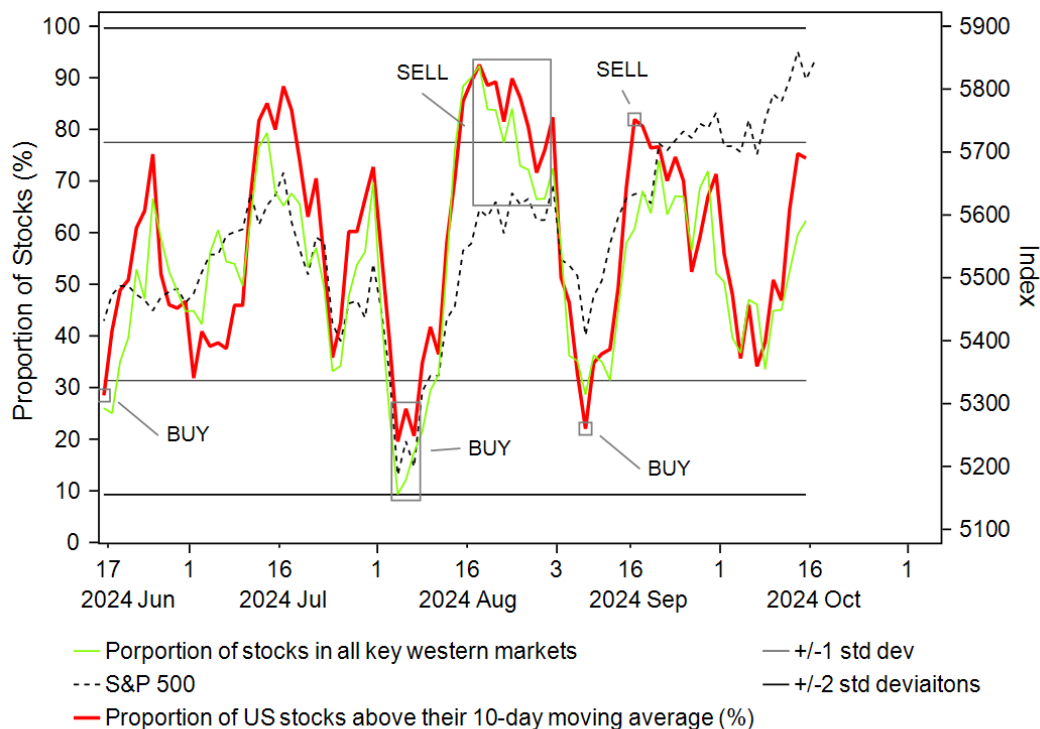
Source: Longview Economics, Macrobond

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



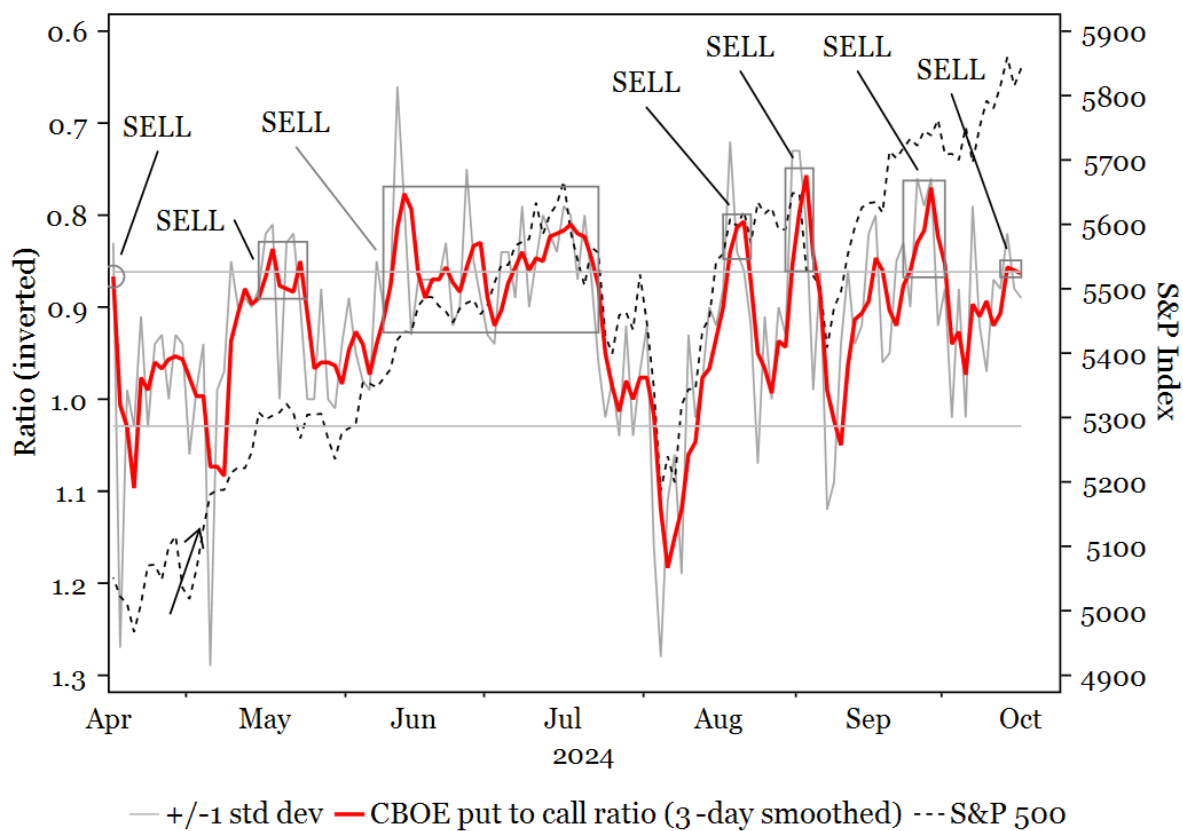
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



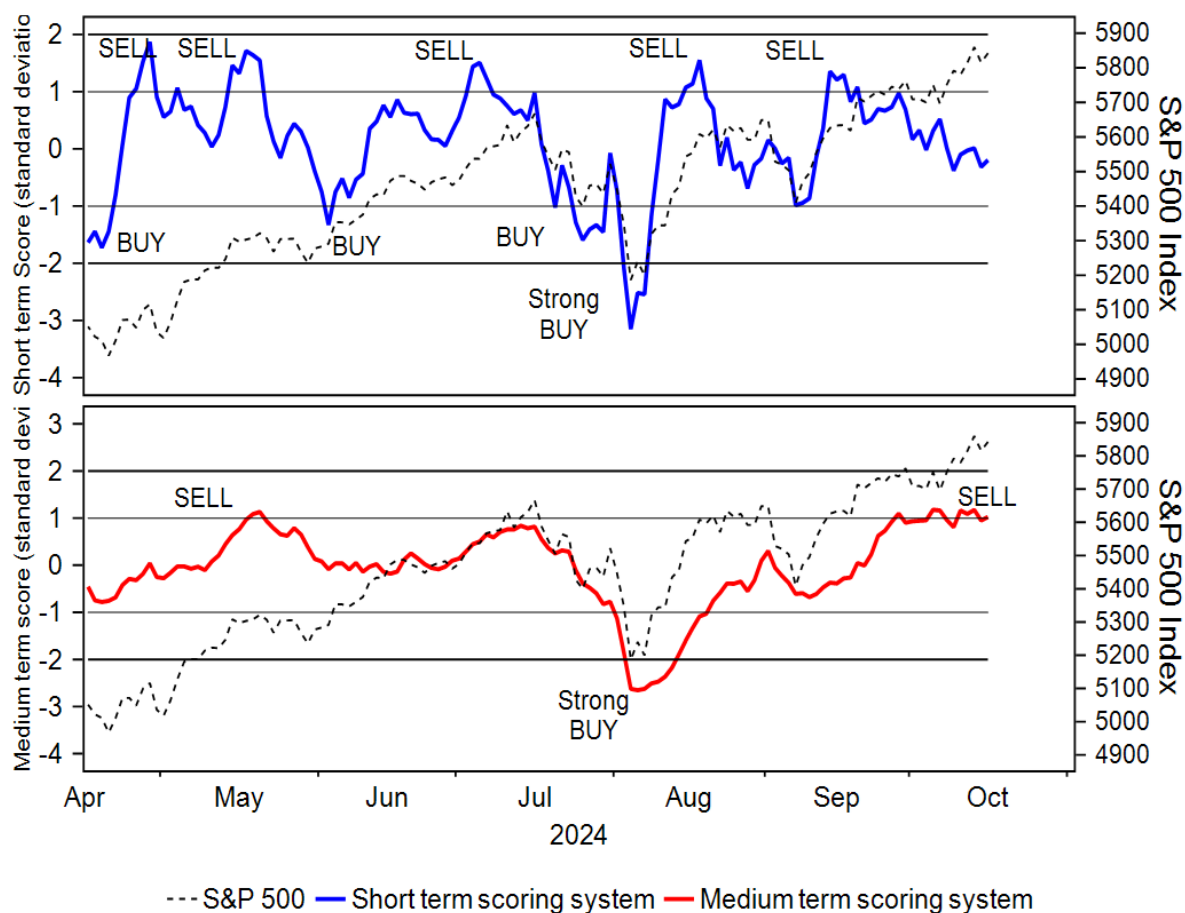
Source: Longview Economics, Macrobond

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: Japanese imports/exports & trade balance (Sept, 12:50am); Australian employment data (Sept, 1:30am); Eurozone trade balance (Aug, 10am); Eurozone headline & core CPI (September final estimate, 10am); **US retail sales** (Sept, 1:30pm); US Philadelphia Fed business outlook (Oct, 1:30pm); **US weekly jobless claims** (1:30pm); US industrial & manufacturing production & capacity utilisation (Sept, 2:15pm); US business inventories (Aug, 3pm); **US NAHB homebuilders index** (Oct, 3pm); US total net TIC flows (Aug, 9pm).

Key events today include: ISTAT publishes data on poverty in Italy (9am); **ECB policy decision** (1:15pm) followed by an ECB press conference hosted by Lagarde (1:45pm); speech by the **Bank of England's Wood** at the annual City banquet at **Mansion House** (9pm).

Key earnings today include: **Taiwan Semiconductor**, EssilorLuxottica, Danone, Pernod Ricard, **Netflix**, **Blackstone**, Intuitive Surgical, Elevance Health, Marsh McLennan, Truist Financial Corp, Travelers, Tractor Supply.

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.



Notice: This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

-  Longview Economics
-  @chriswatling
-  @LviewEconomics
-  Longview Economics
-  Longview Economics
-  Longview Economics

1 – 2 Week View on Risk

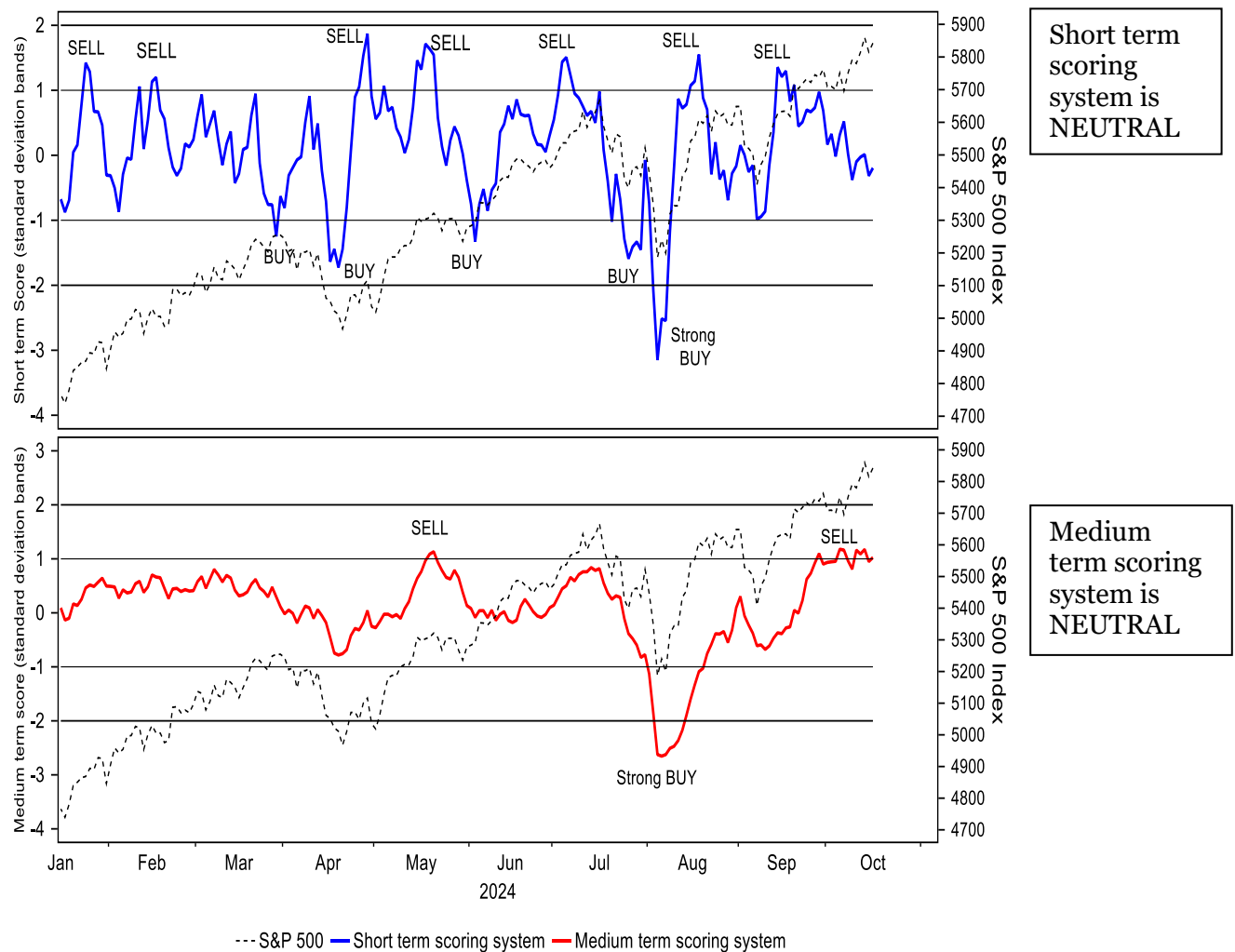
Longview Economics

Email: ragtrader@dailyragtrader.com

17th October 2024

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

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



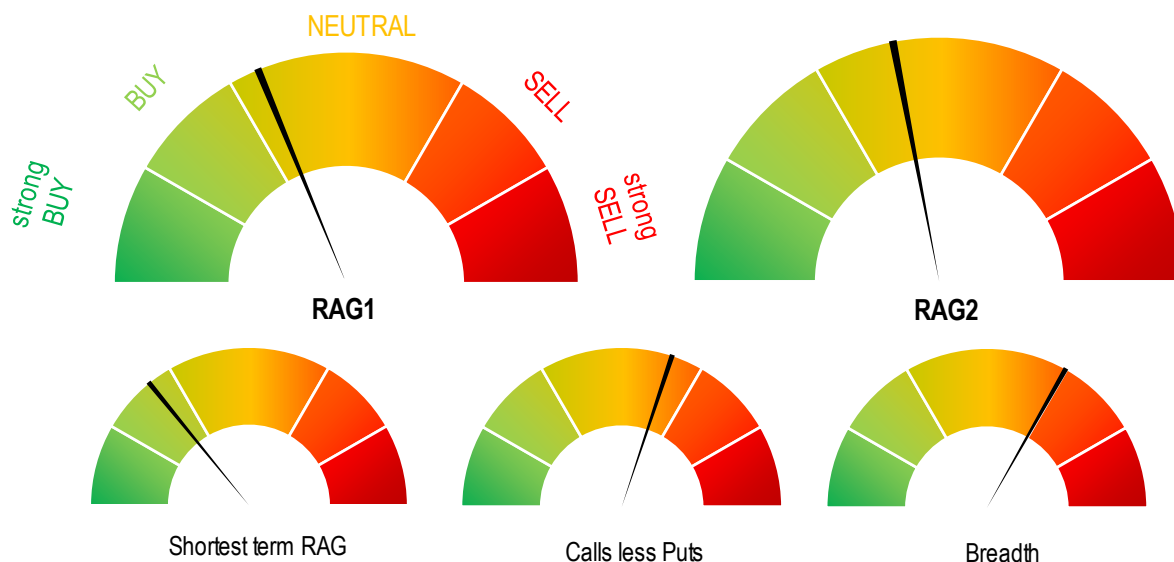
Source: Longview Economics, Macrobond

*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**

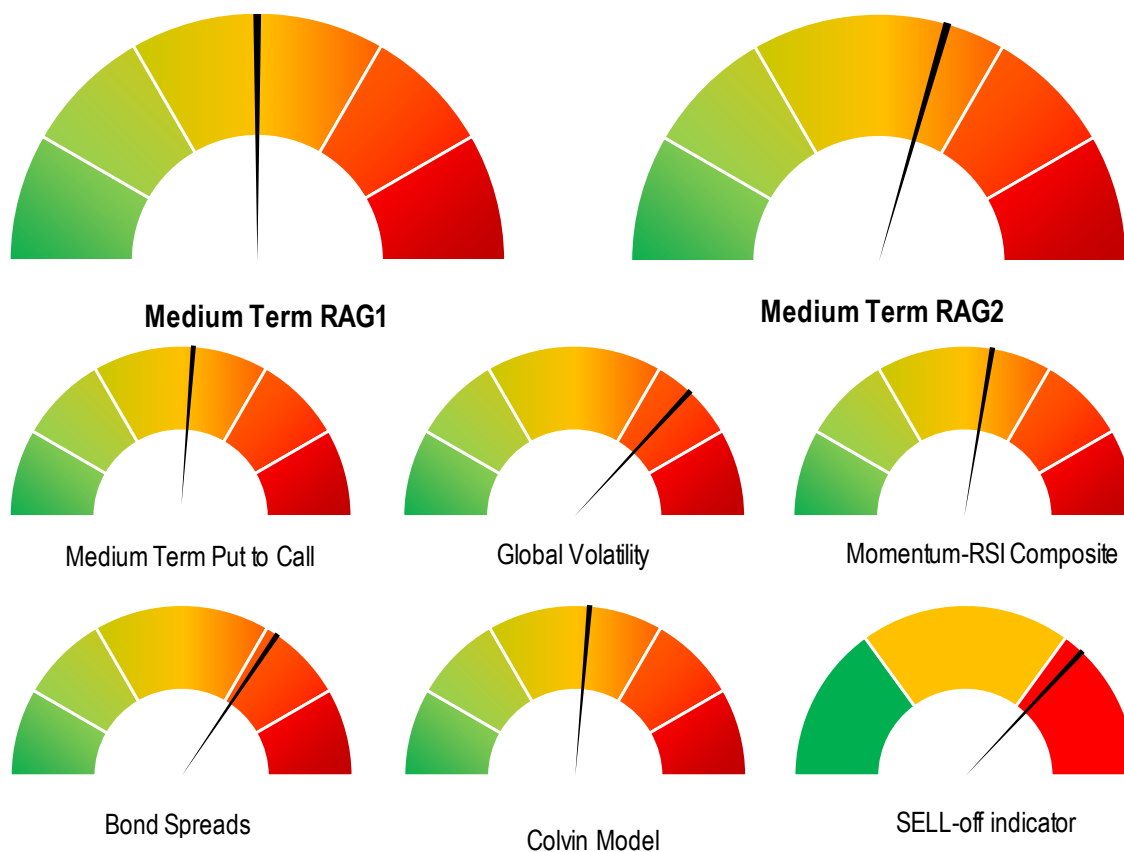
Section 1a: Summary of indicator signals**

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

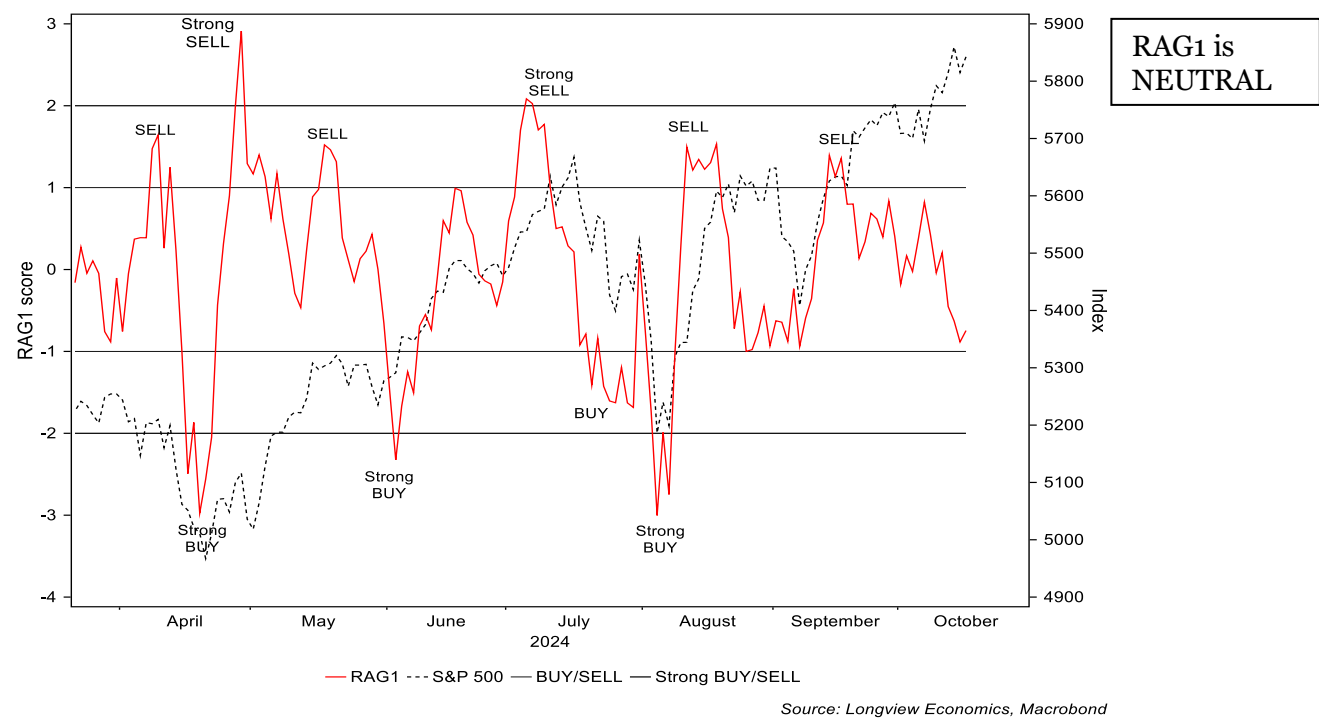
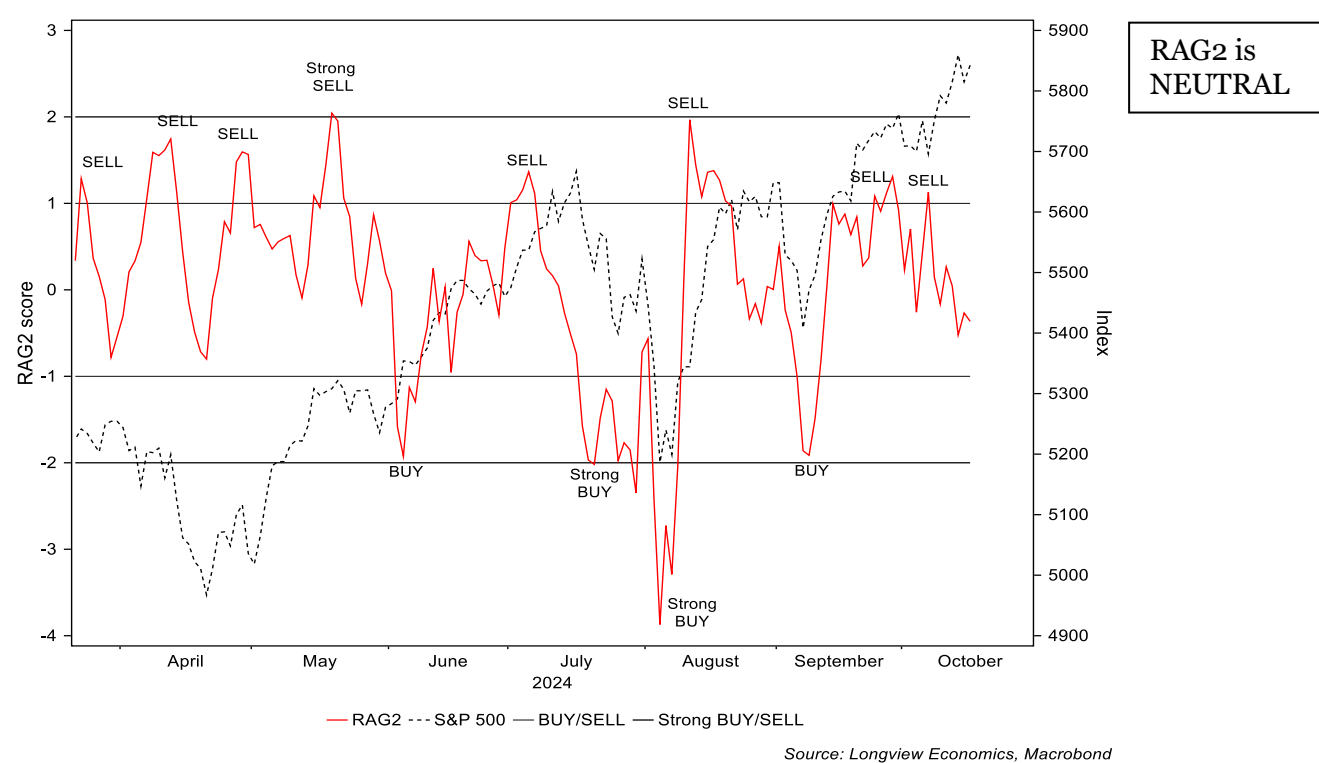


Fig 2b: RAG 2 vs. S&P 500



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

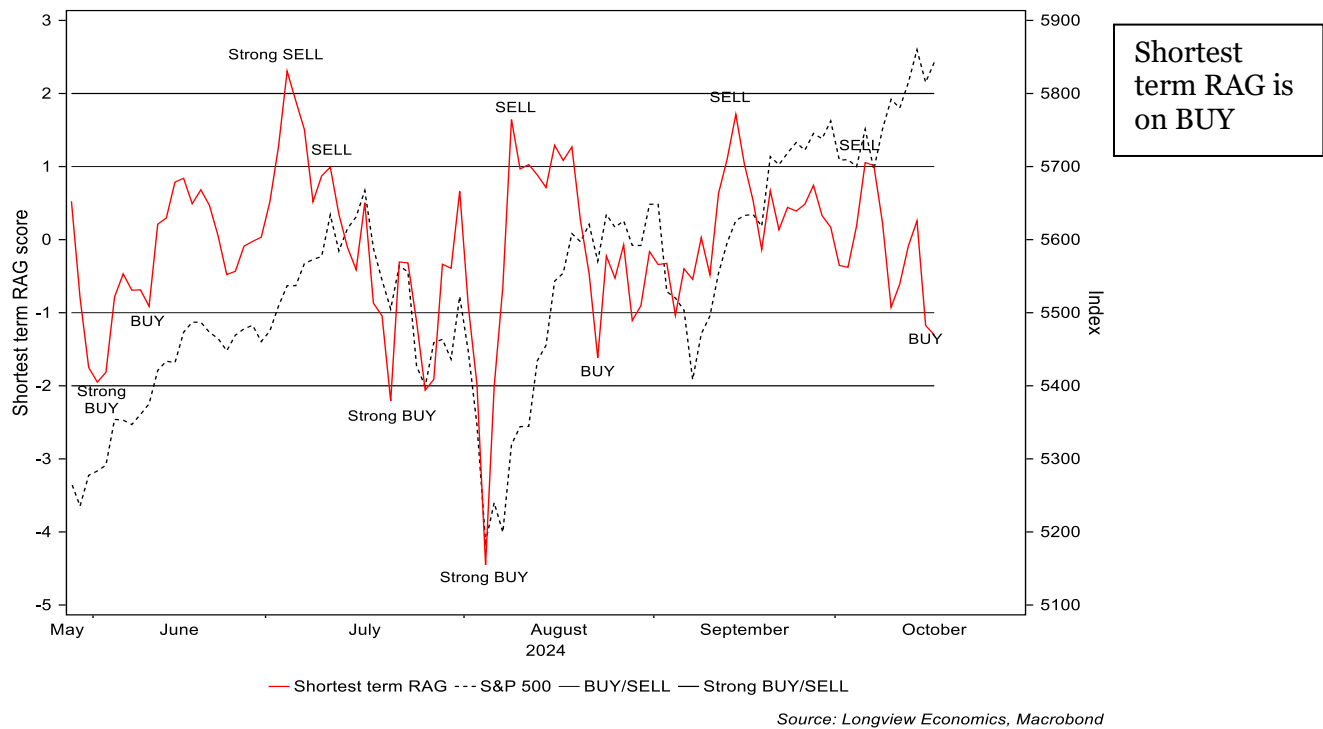
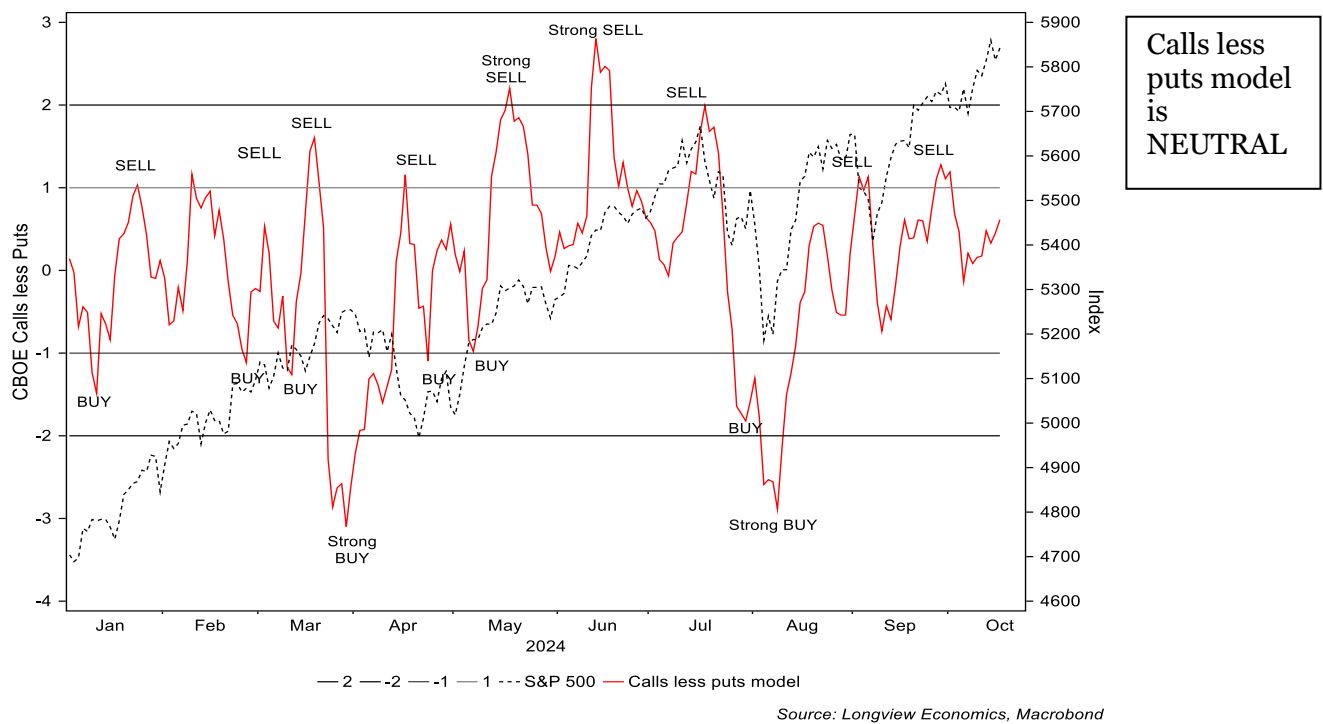
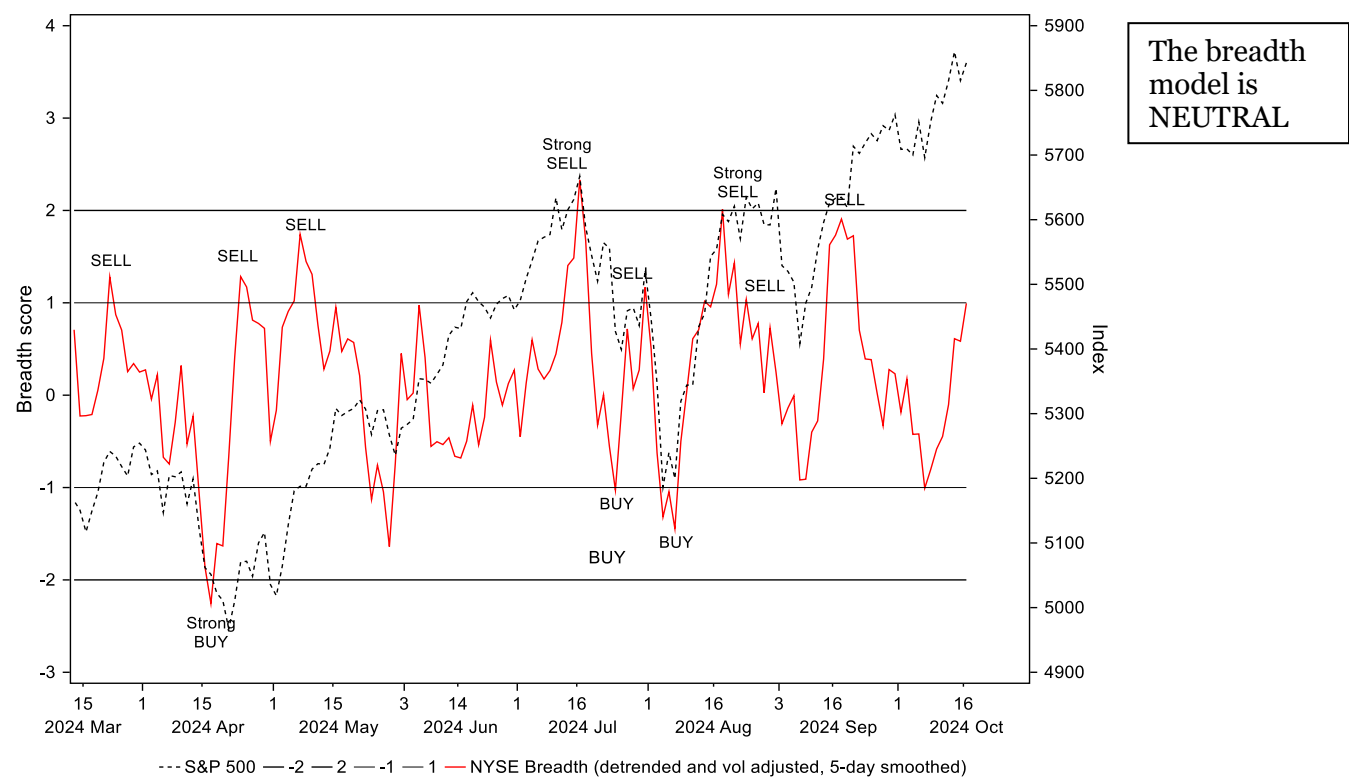


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

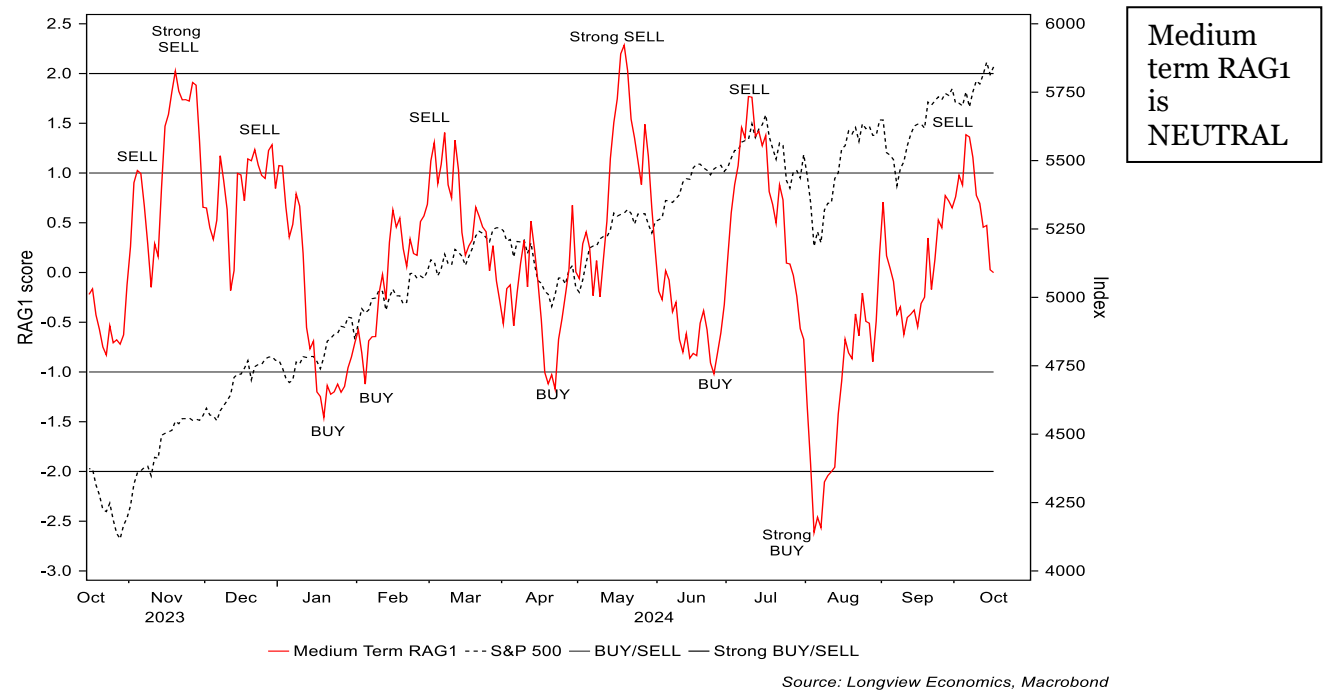
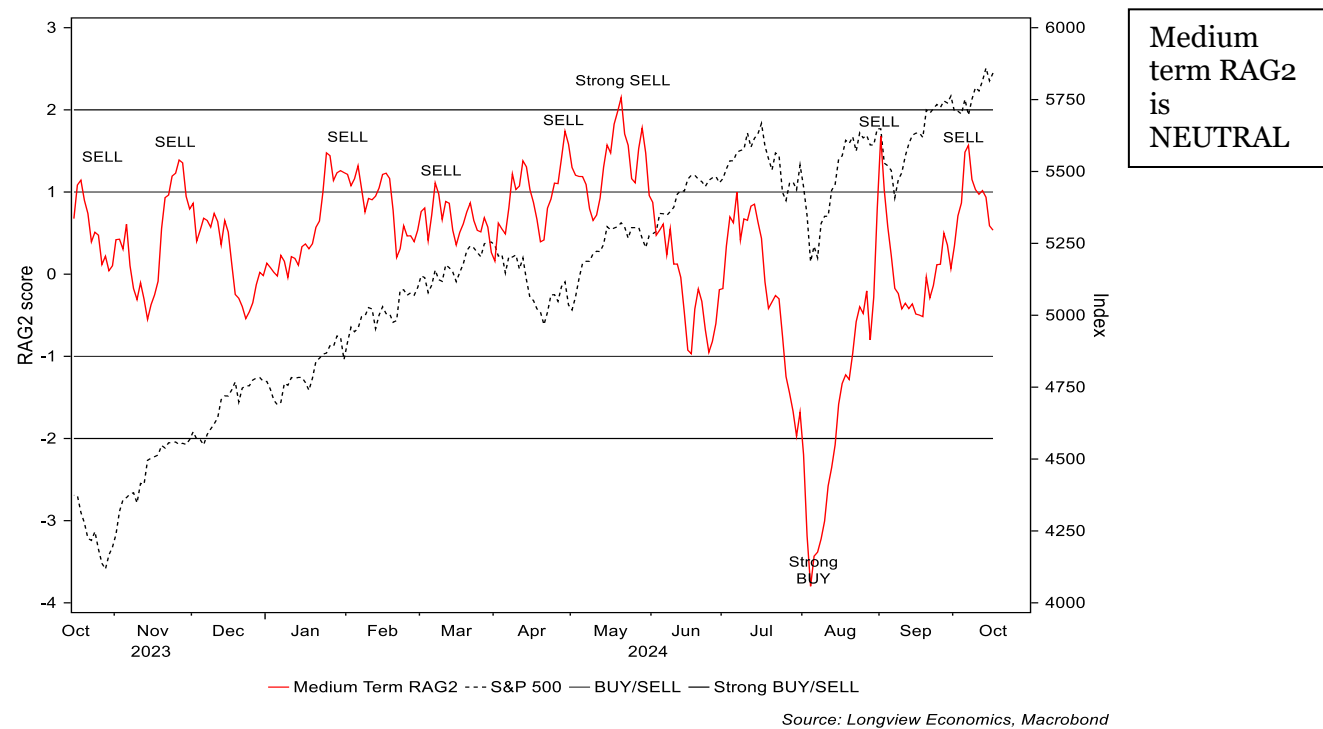


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

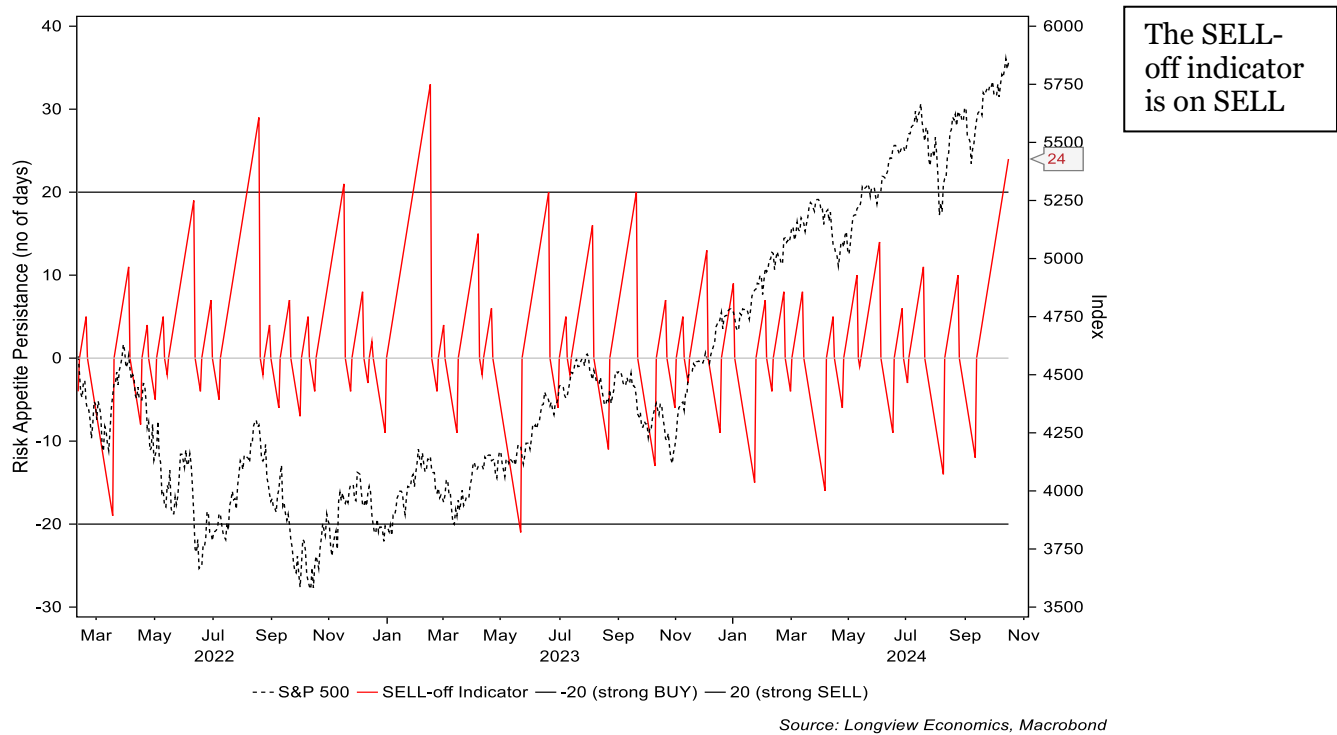
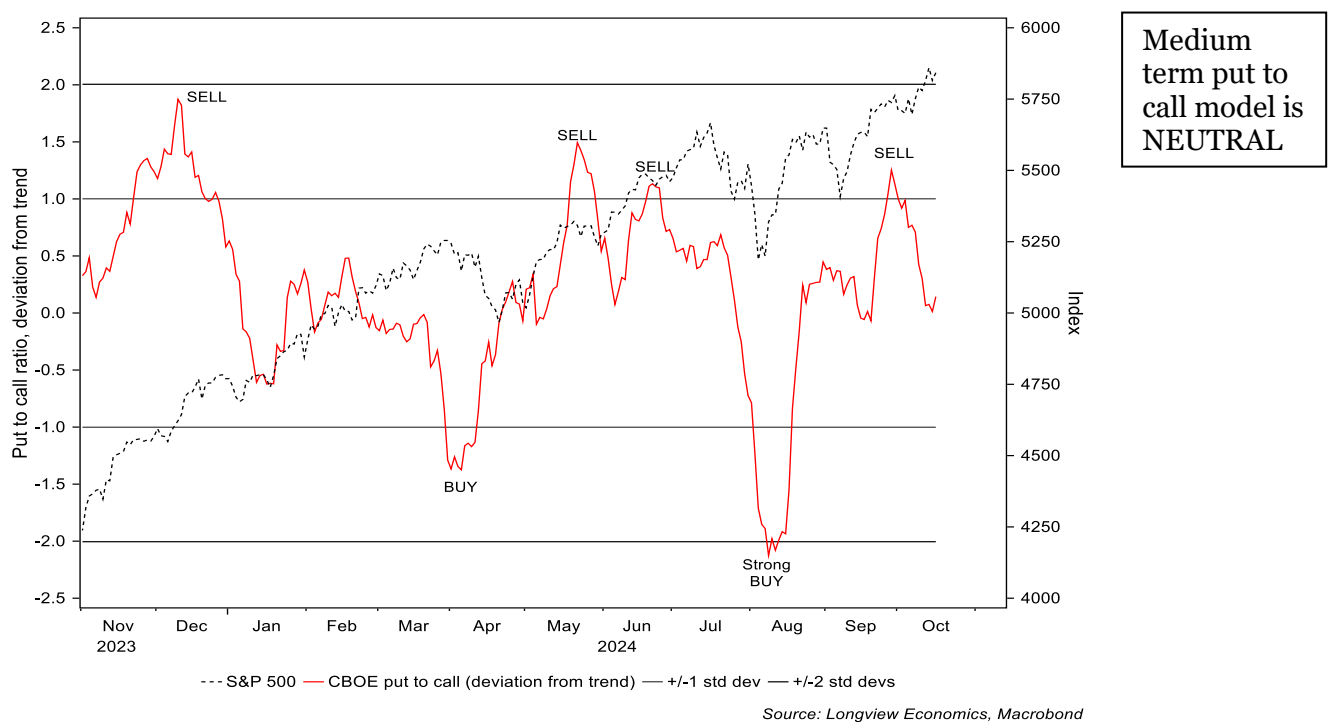


Fig 3d: CBOE put to call trend deviation model vs. S&P500



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

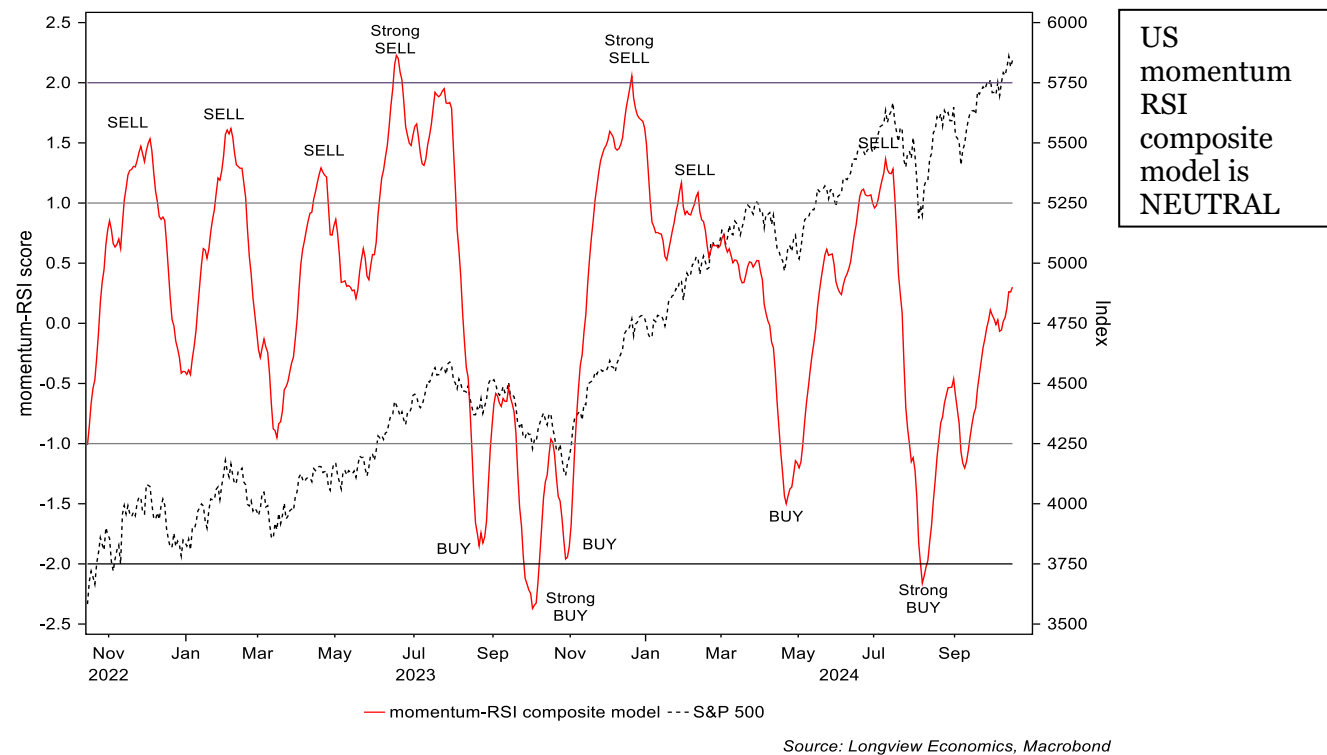


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

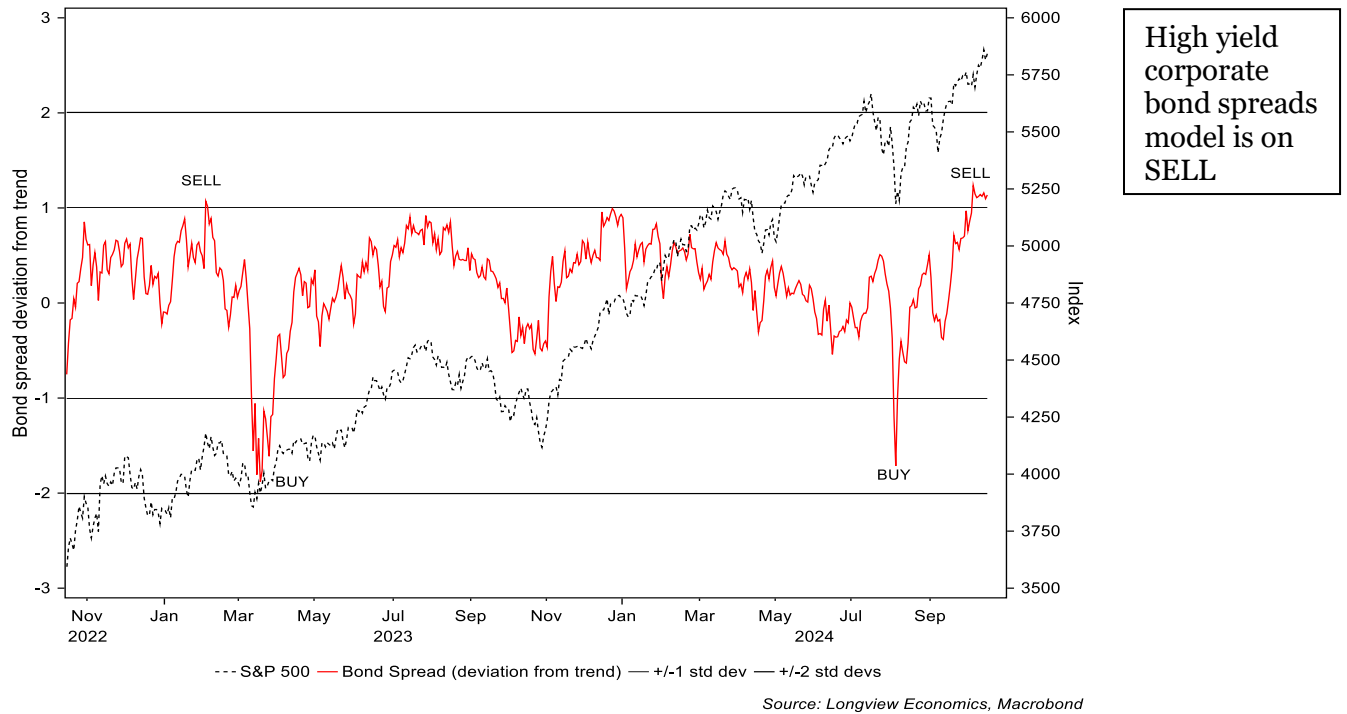
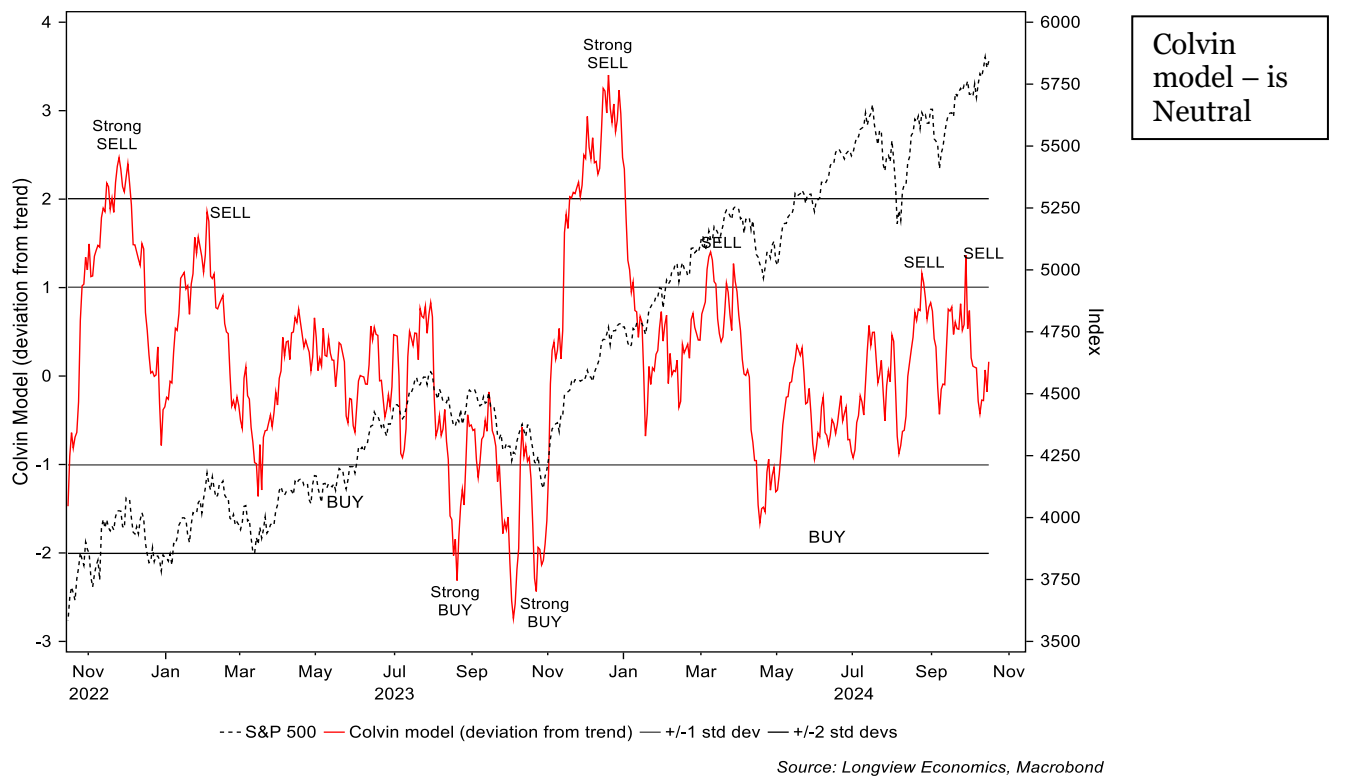


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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.

Disclaimer

This Publication is protected by U.K. and International Copyright laws.

All rights are reserved. No license is granted to the user except for the user's personal use. No part of this publication or its contents may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means, except as permitted under agreement with Longview Economics Ltd.

This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.