

## Equity Index Futures Trading Recommendations

17<sup>th</sup> September 2024

"Move SHORT NDX on strength"

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

- Move ¼ SHORT NDX100 December futures on strength at 19,900 (i.e. just below the late August highs).
- Place stop loss 3% above entry (at 20,497).

### Rationale

**Markets continued to price looser Fed policy** yesterday. In particular, the chance of a 50bps cut at tomorrow's meeting edged higher to 71% (up from 49% on Friday). Linked to that, US 1 & 2 year yields made another YTD low (FIG 1d), the US dollar continued to fall (DXY: -0.4%), US 10 year yields edged lower (-3bps), and the 10 year TIPS yield was down 4bps.

Overall, that seemed to support US equities, with most major indices higher on the session. With that the equally weighted S&P500 is back at its early September highs (FIG 1c); high yield credit spreads narrowed further (FIG 1e); while EZ sovereign spreads mostly tightened (e.g. see FIG 1f).

**Key barometers of liquidity**, though, were either down yesterday (e.g. Bitcoin: -1.7%), or broadly unchanged (e.g. gold: +0.2% & silver: 0.0%). Added to which, US leadership stocks lost momentum, with Nvidia 2.0% lower (and seemingly struggling at its 50 day moving average, see FIG 1b). Other key semiconductor names like Broadcom (-2.2%) and Micron (-4.4%) were also weaker.

As such both the NASDAQ100 (-0.5%) and Philly SOX (-1.4%) closed lower yesterday and have **failed to break above the top of their pennant patterns** (see FIGs 1 & 1a). Usually, when markets lack direction and trade in a narrowing range (a pennant), it's associated with indecision. They then eventually break out one way or the other (albeit there are sometimes false/temporary breakouts which then quickly reverse). The key question, therefore, is: Which way will those key indices ultimately break?

Short term models increasingly suggest that **US equities will break to the downside**. Several indicators are either on SELL, or have moved closer to SELL overnight. In particular, our risk appetite models remain on SELL (FIGs 2 & 2a), technical scoring systems for major indices are close to SELL (FIG 2b & 2c); downside put protection is relatively low (FIGs 2d & 2e); while various breadth and momentum models are either on or close to SELL (FIGs 3 – 3b).

In the very near term, there's a risk that equities squeeze higher into the Fed meeting. Given that a 50bps cut is already largely priced in, though, and given the emerging SELL signals from the models, our view is that equities will sell off post tomorrow's meeting. As highlighted in yesterday's Daily Risk Appetite Gauge, that would fit the classic 'buy the rumour, sell the fact' template.

The **risk reward therefore favours looking to build SHORT positions in the NASDAQ100** on strength, if forthcoming (see above for detailed recommendation).

Key events/macro data today are listed below and include the NAHB homebuilders index (for September, due at 3pm London time).

Kind regards,

The team @ Longview Economics

**FIG 1: NASDAQ100 futures shown with 50 & 200 day moving averages**

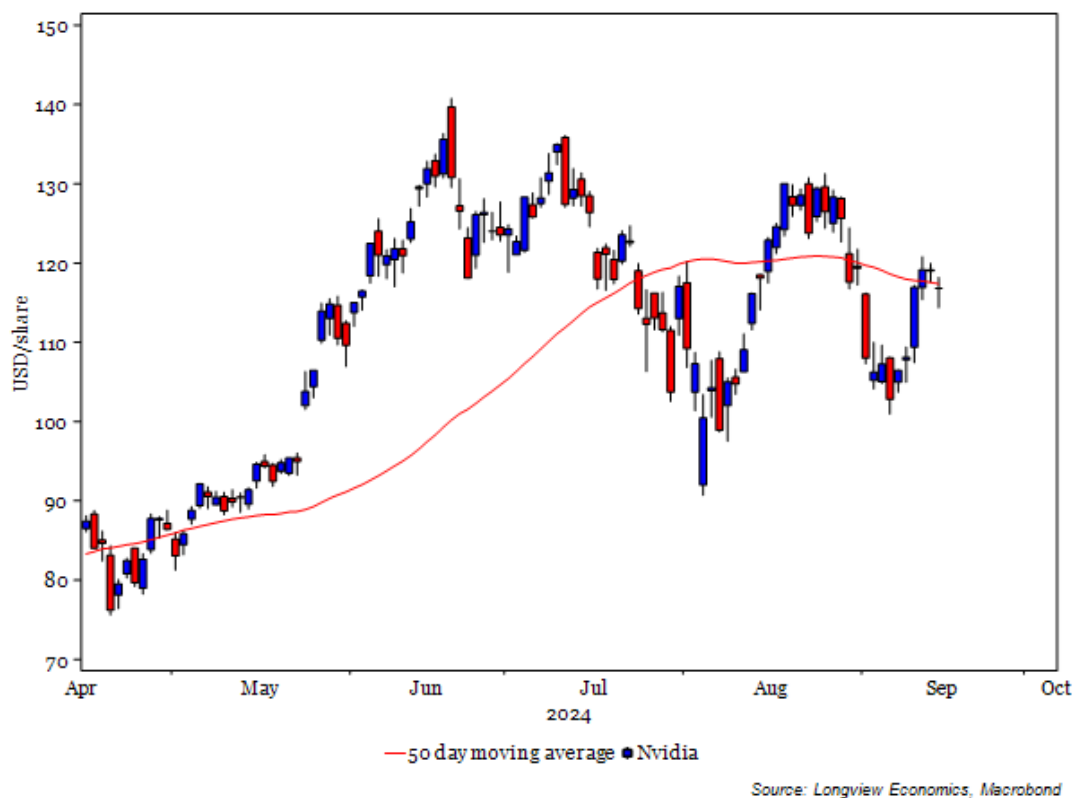


Source: Longview Economics, Macrobond

**FIG 1a:** Philly SOX index candlestick chart shown with key moving averages



**FIG 1b:** NVIDIA share price (USD/share), shown with its 50 day moving average



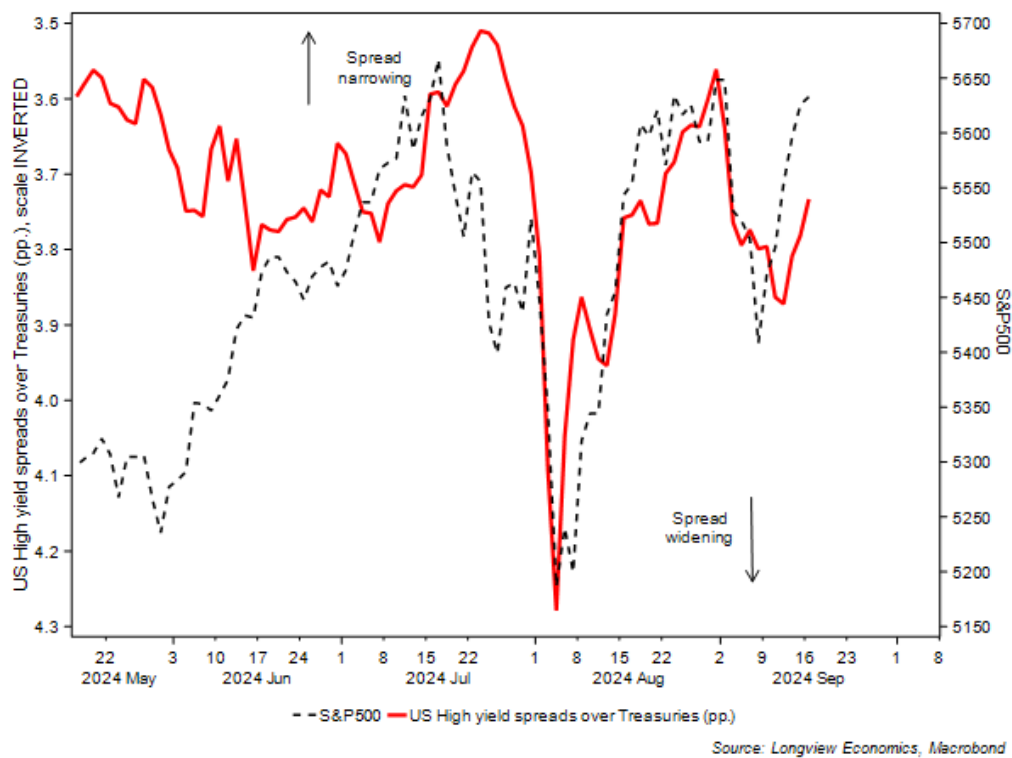
**FIG 1c:** Equally weighted S&P500 index, with its 50 & 200 day moving averages



**FIG 1d:** US 1 & 2 year Treasury yields (%)



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

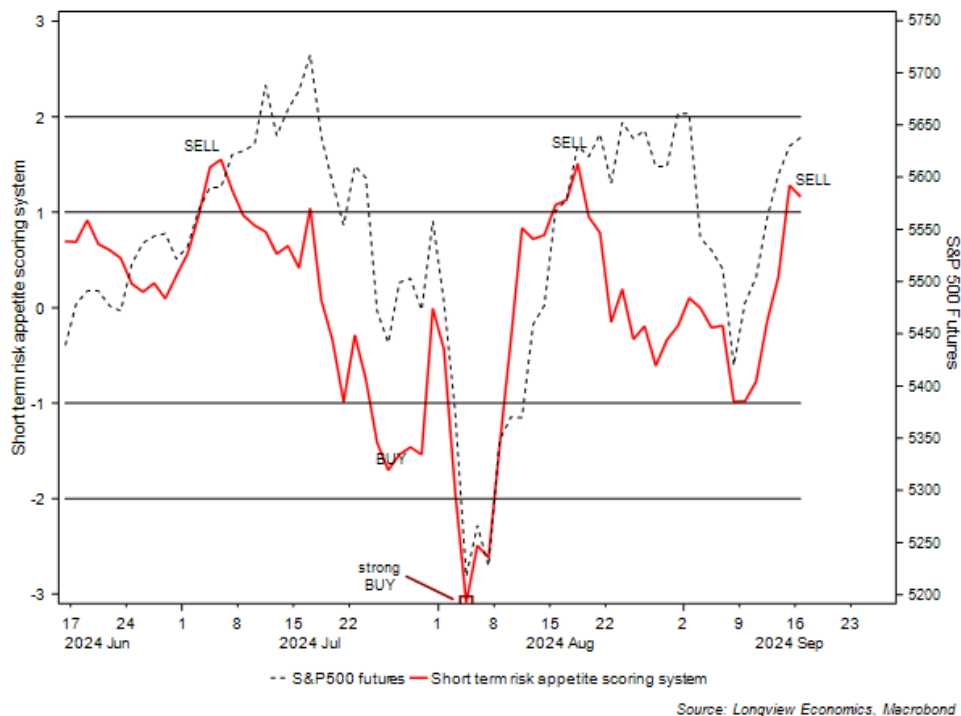


**FIG 1f:** French, Italian & Belgium spreads over 10 year bunds (bps)

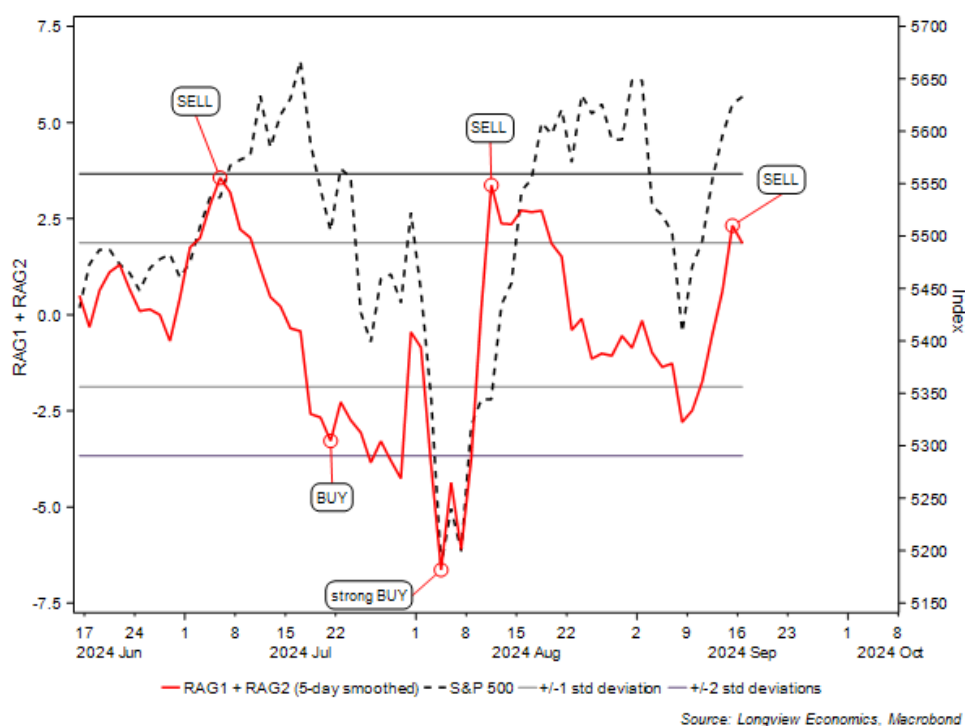


**Short term market timing models are either on or close to SELL.**

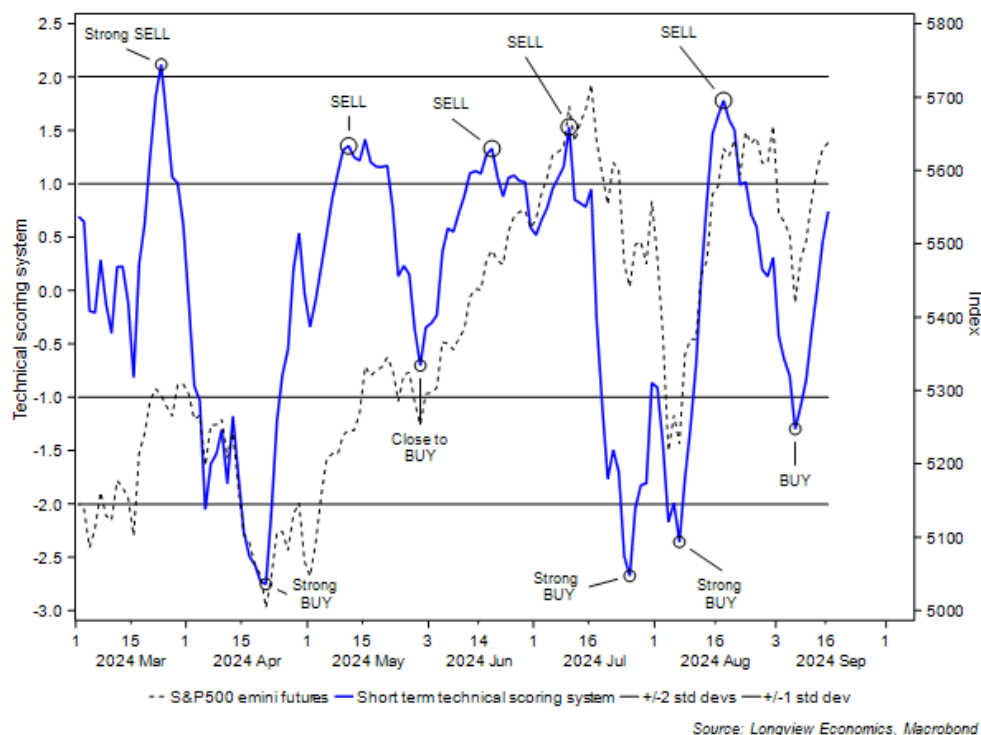
**FIG 2:** Longview short term 'risk appetite' scoring system vs. S&P500



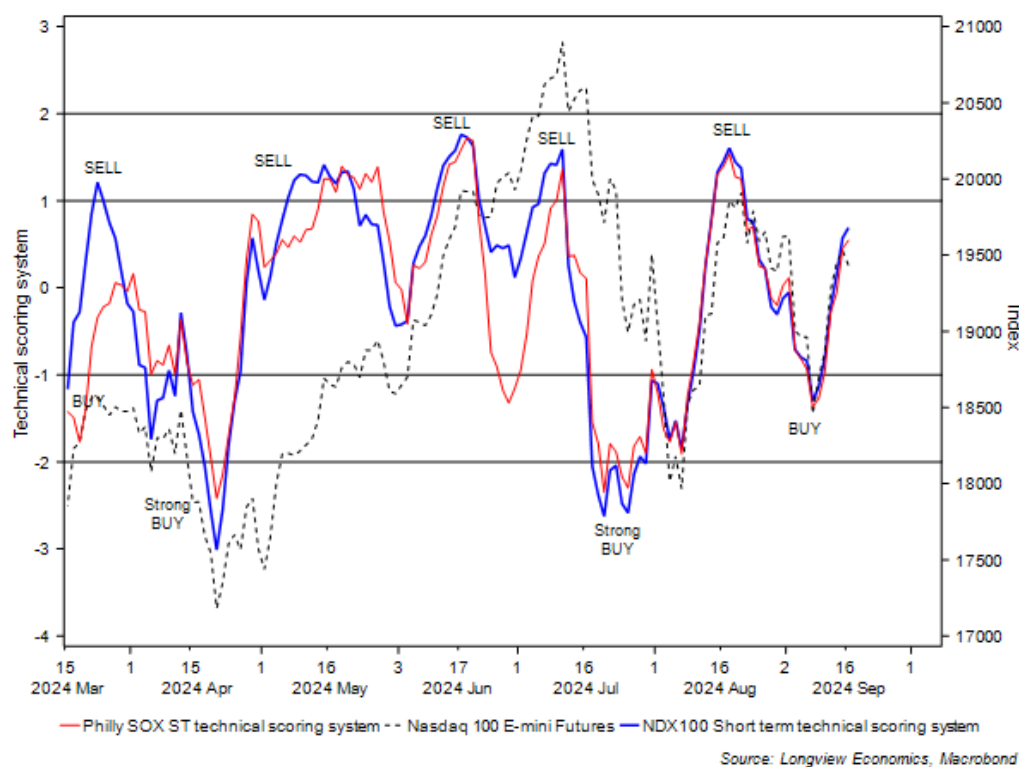
**FIG 2a:** Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



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

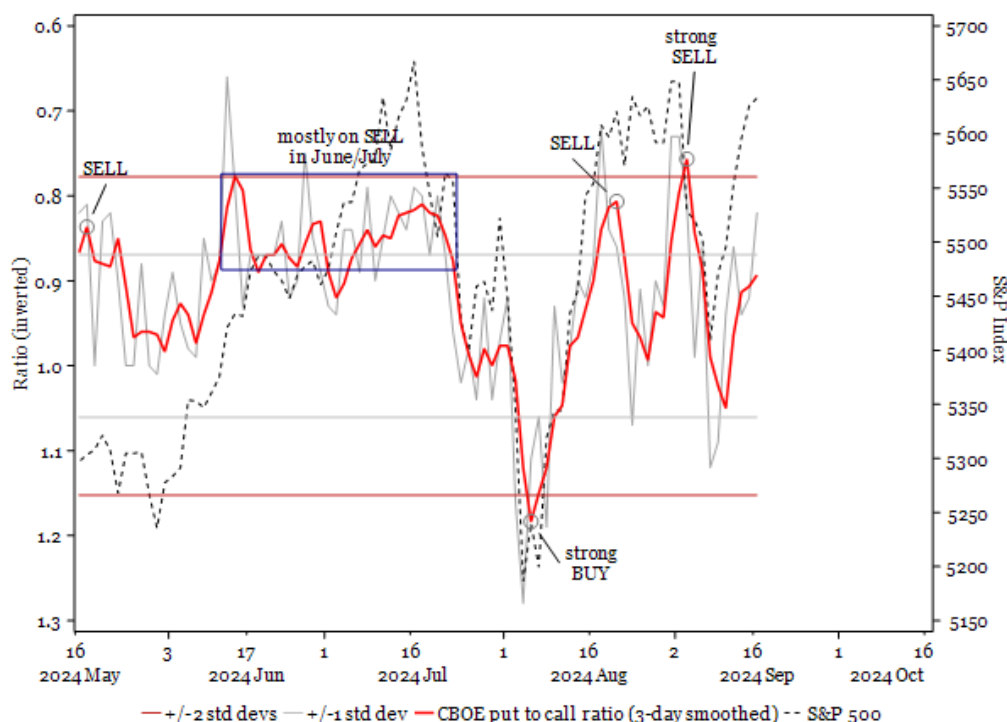


**FIG 2c:** Longview NASDAQ100 & Philly SOX short term **‘technical’** scoring system vs. NASDAQ100 futures



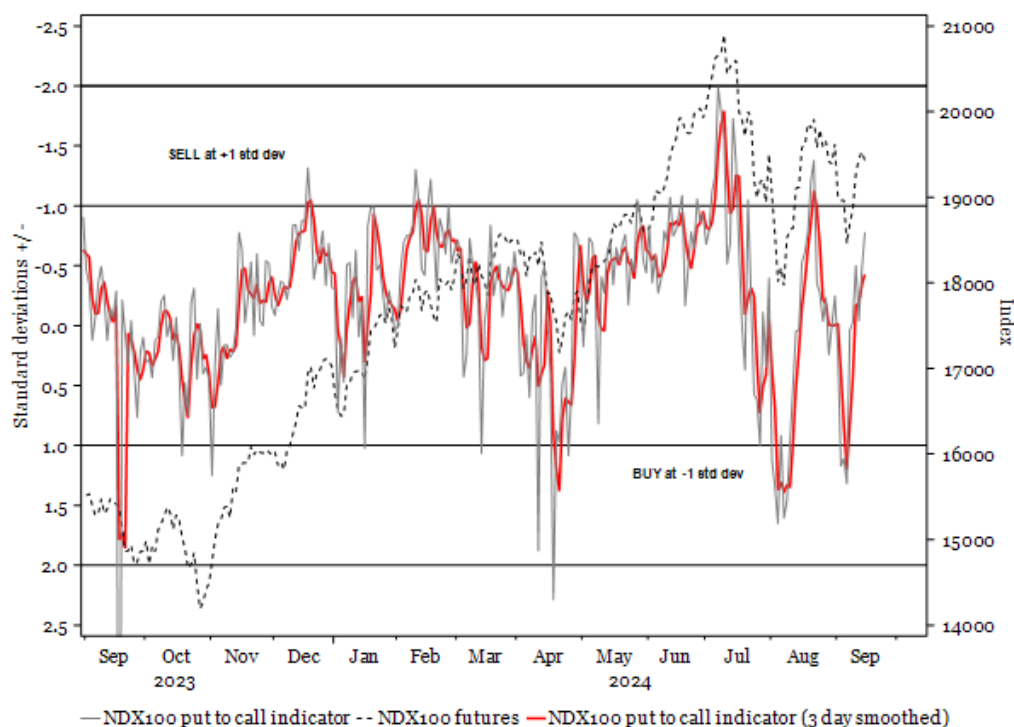


**FIG 2d: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500**



Source: Longview Economics, Macrobond

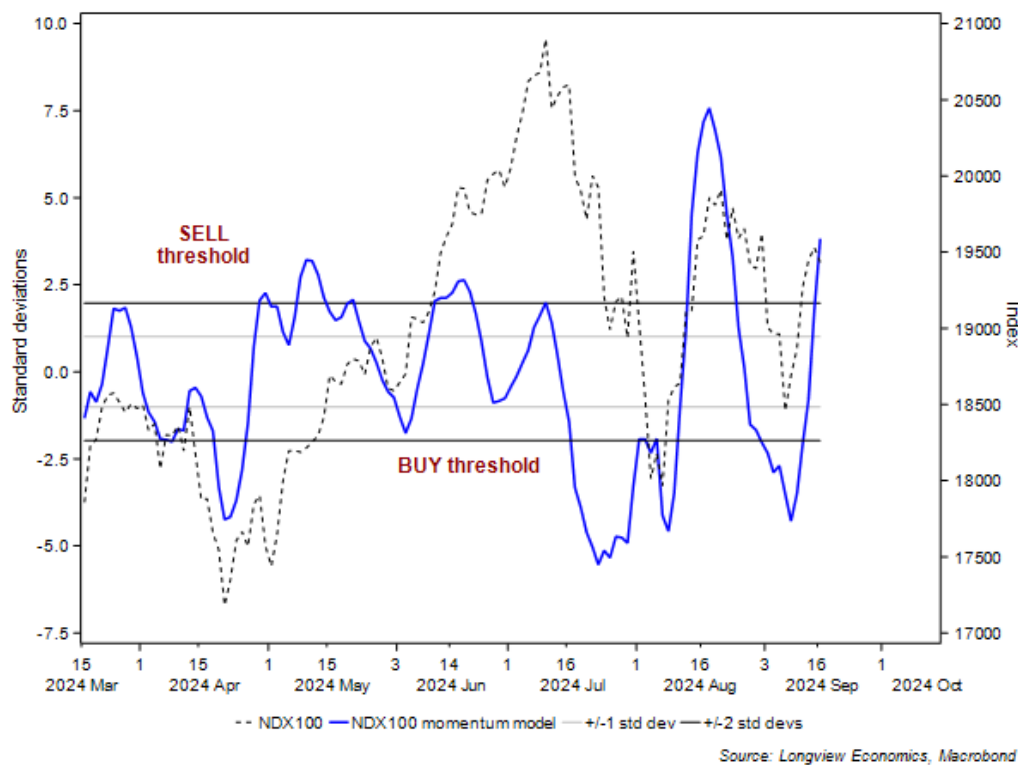
**FIG 2e: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100**



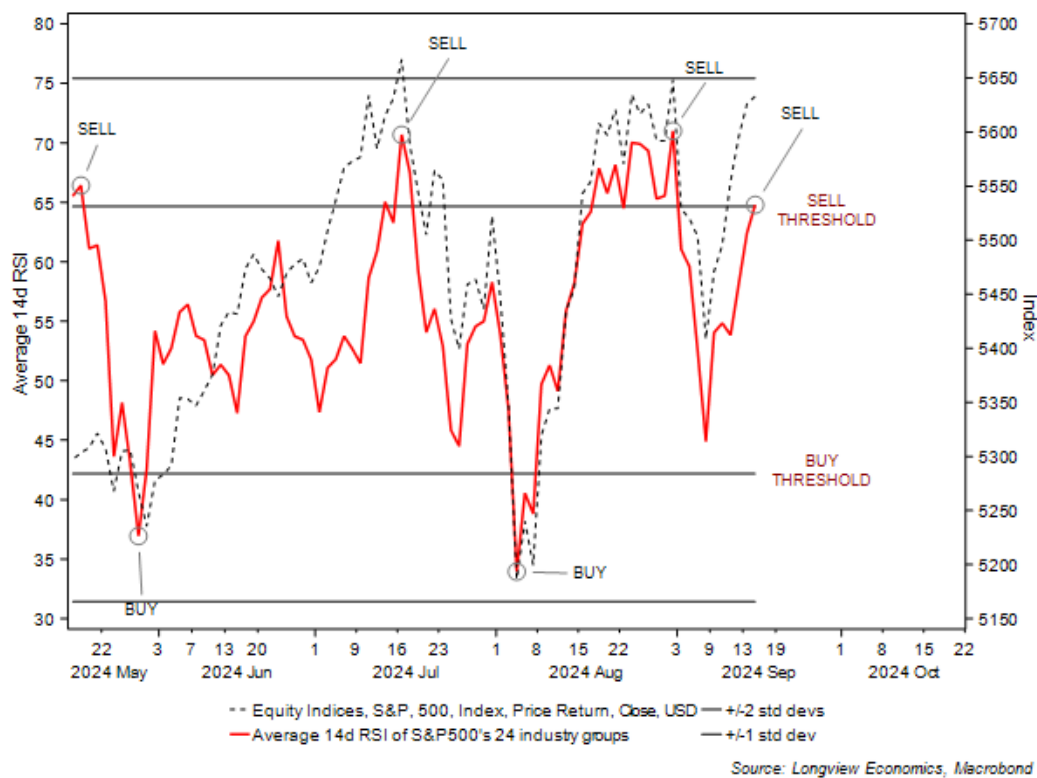
Source: Longview Economics, Macrobond



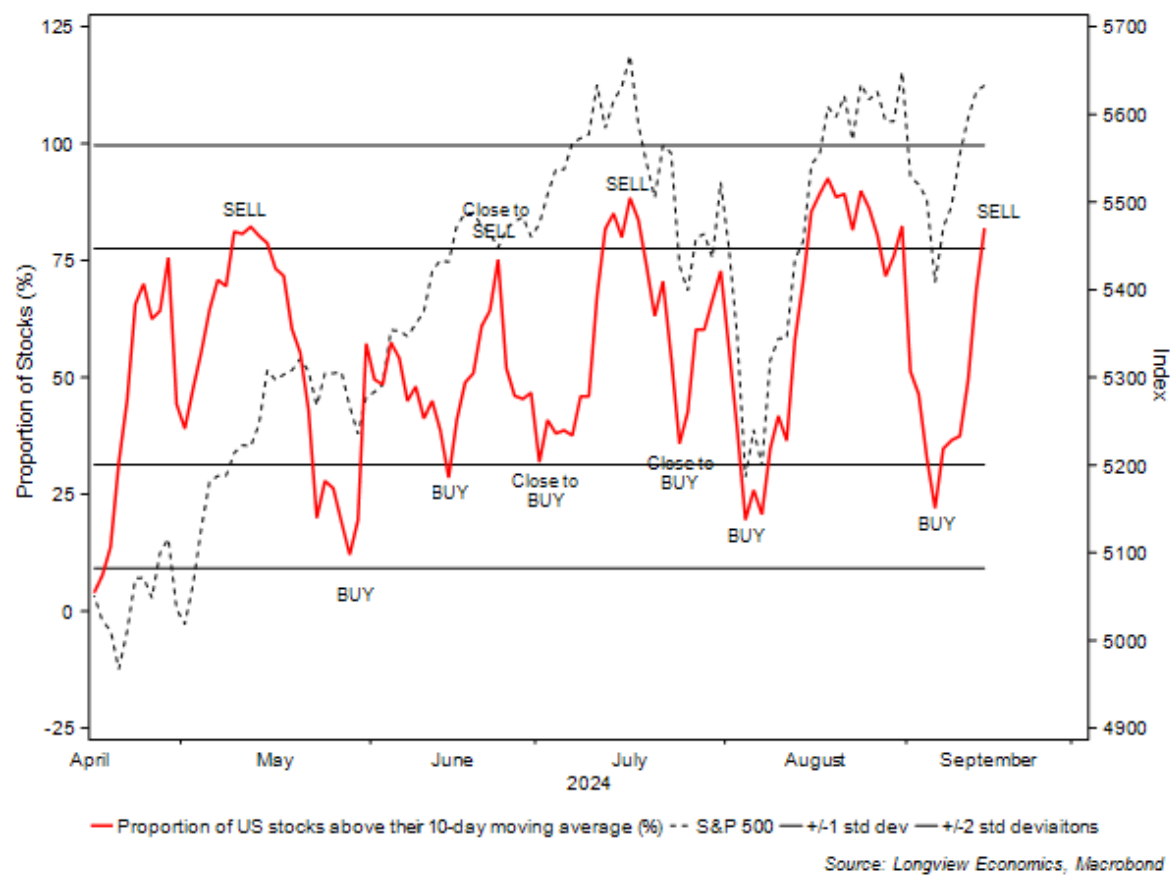
**FIG 3:** NDX100 momentum model shown vs. NDX100



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



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

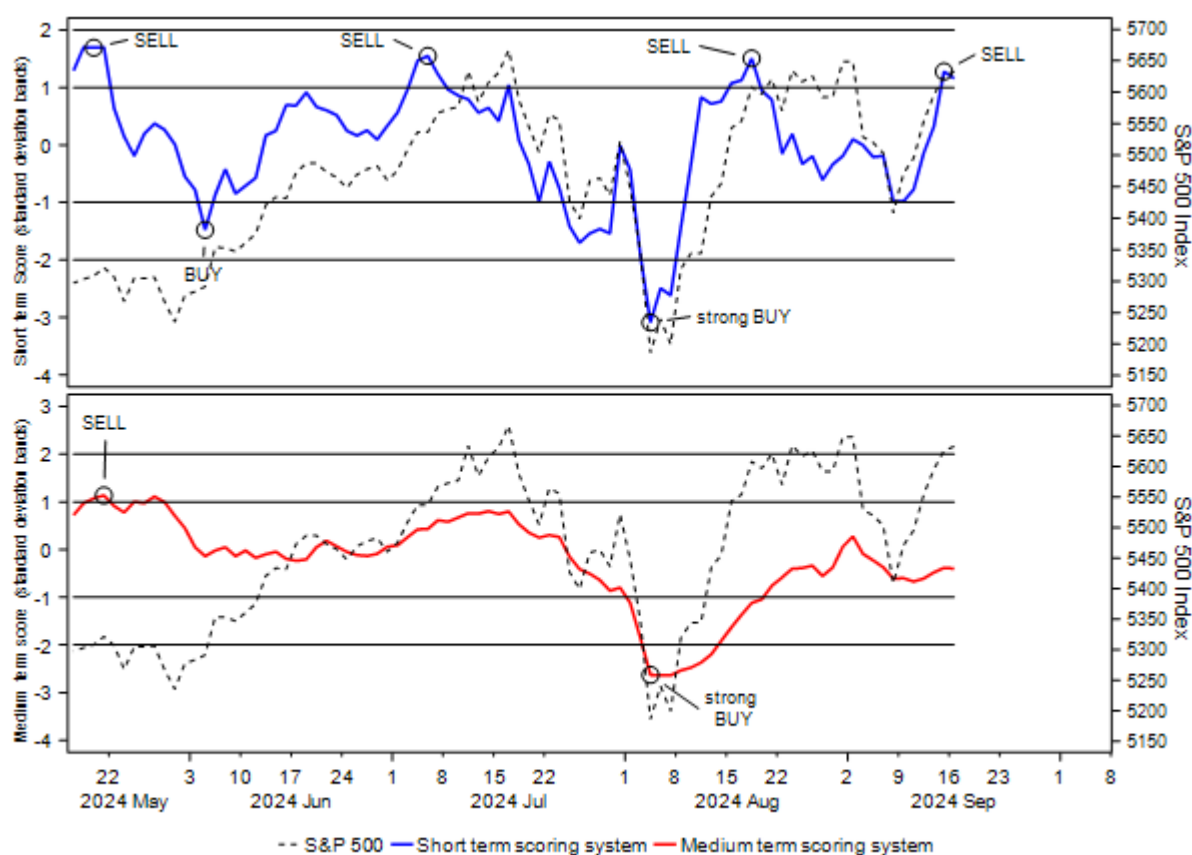


**Key Longview Scoring Systems** (chart below):

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

**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: **German & Eurozone ZEW survey** – expectations & current situation (Sept, 10am); Canadian housing starts (Aug, 1:15pm); **US retail sales** (Aug, 1:30pm); US New York Fed services business activity (Sept, 1:30pm); Canadian headline & core CPI (Aug, 1:30pm); US industrial & manufacturing production & capacity utilisation (Aug, 2:15pm); US business inventories (Jul, 3pm); **US NAHB homebuilders index** (Sept, 3pm).

**Key events** today include: Market holidays in various APAC countries (e.g. China, Hong Kong, Japan etc.) on account of Mid-Autumn Festival (Mon – Wed).

**Key earnings** today include: Ferguson.

## 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 (5<sup>th</sup> September 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).*

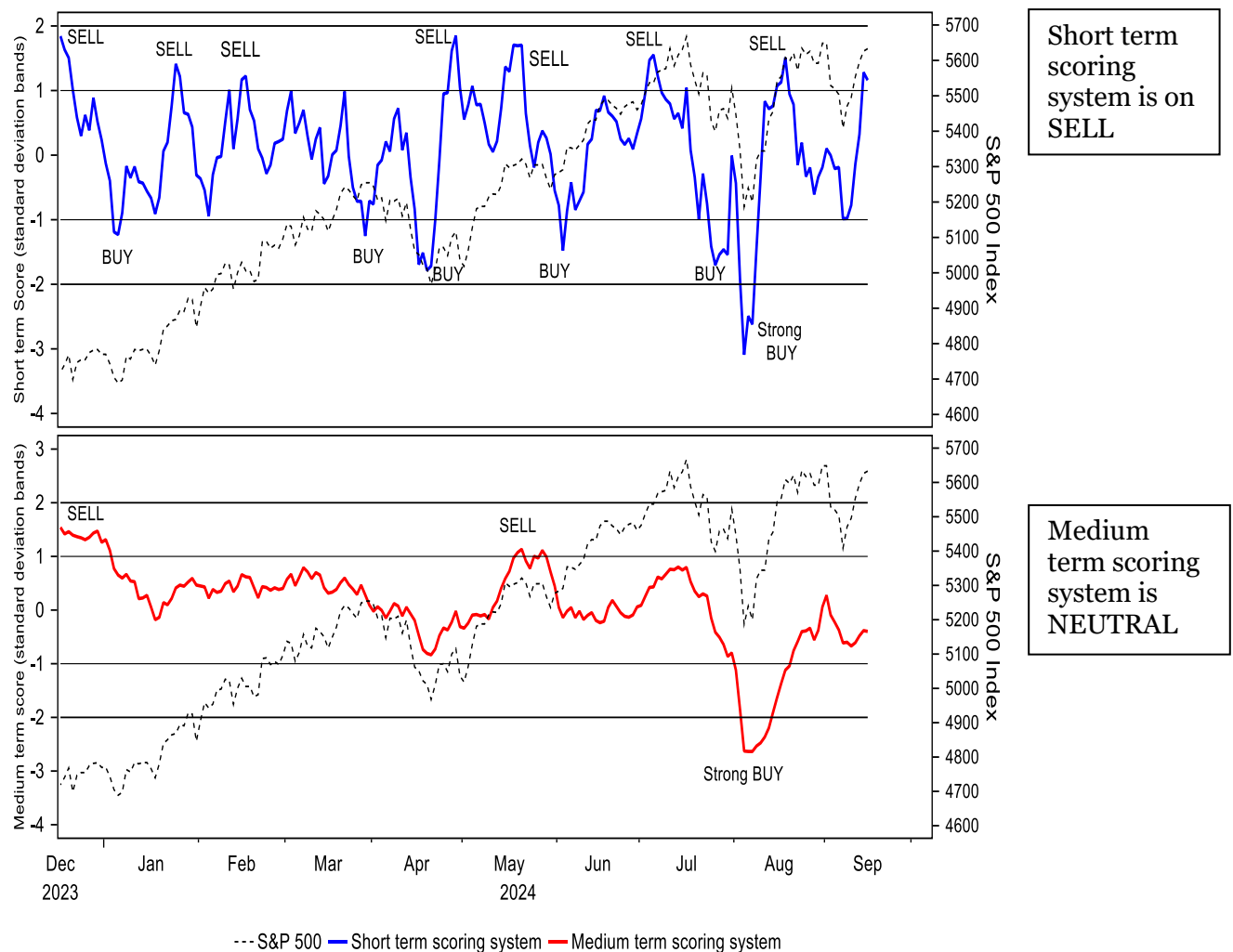


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## Section 1: Longview Scoring Systems (short & medium term\*)

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



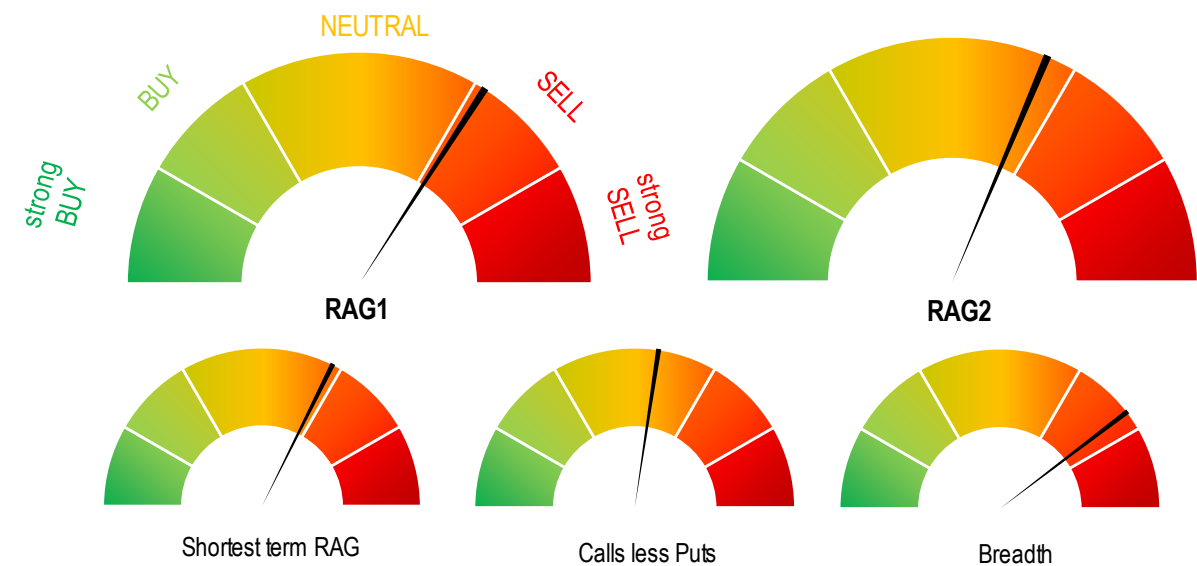
Source: Longview Economics, Macrobond

\*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**

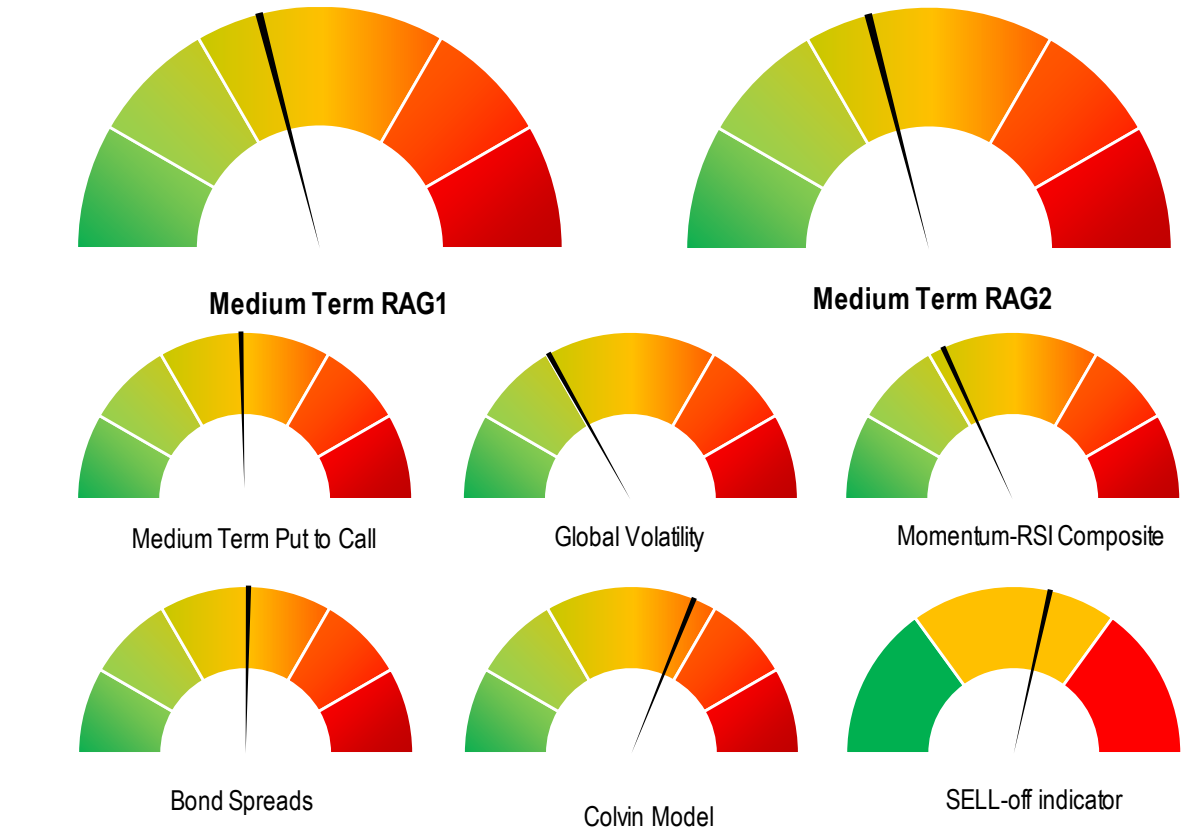
**Section 1a: Summary of indicator signals\*\***

**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

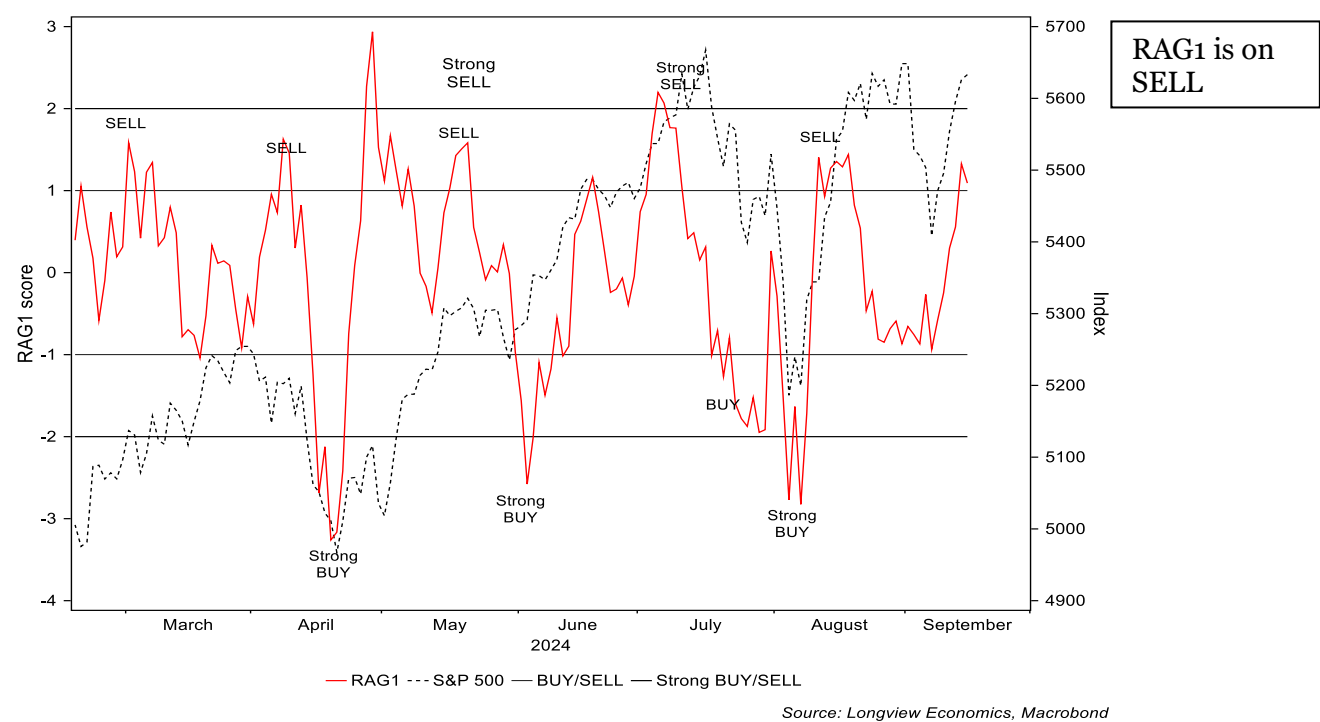
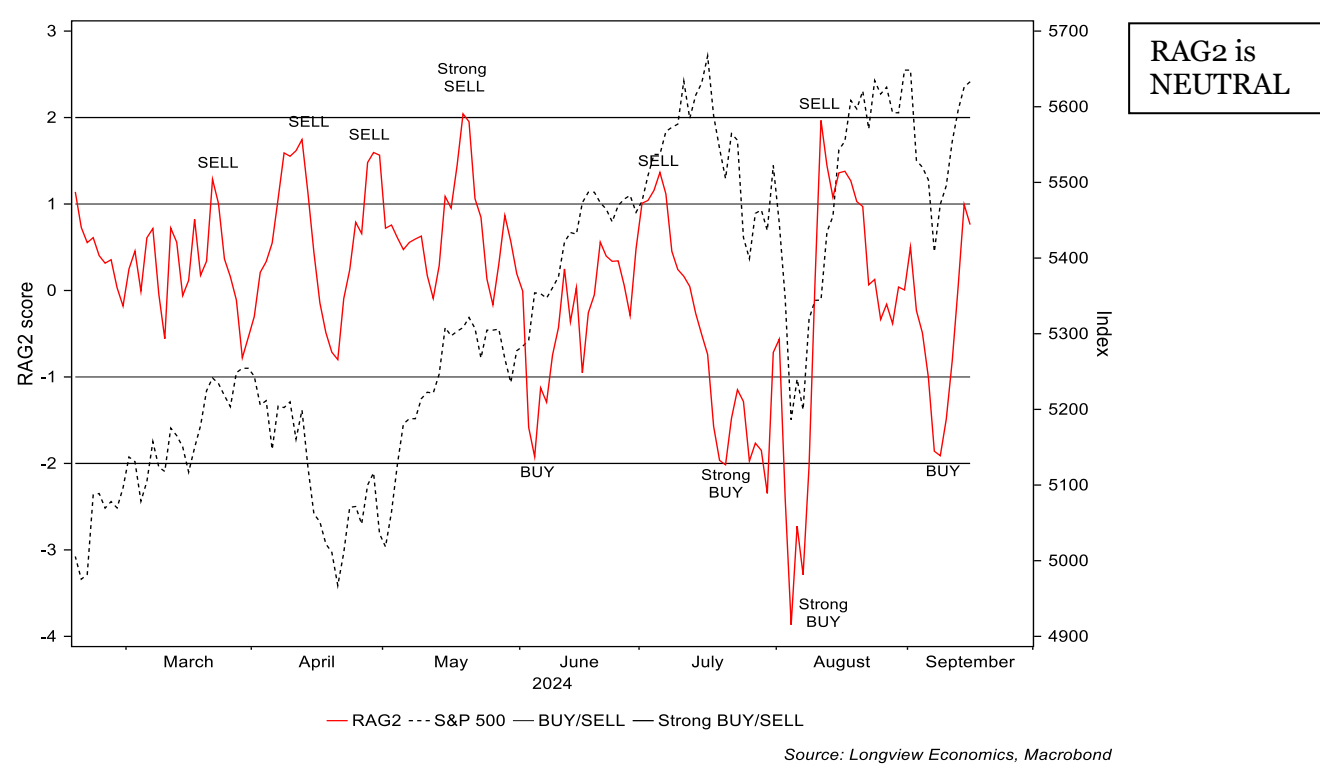


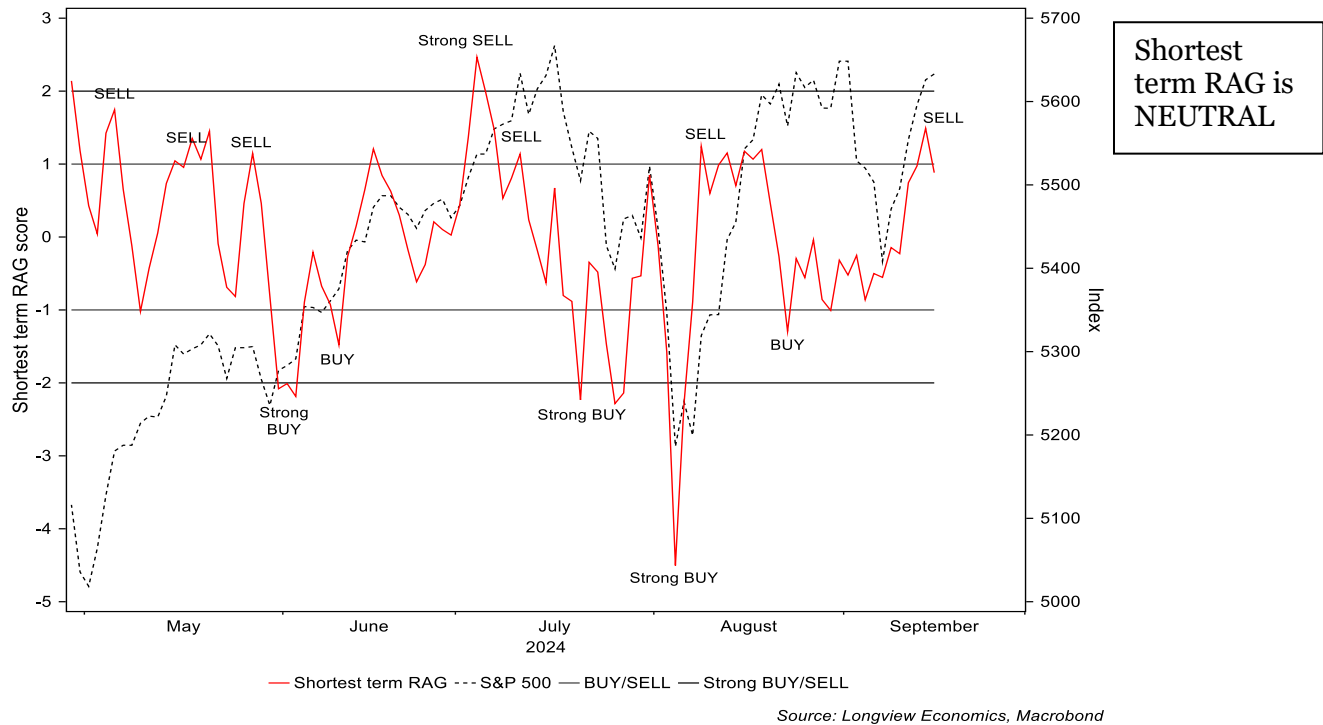
Fig 2b: RAG 2 vs. S&P 500



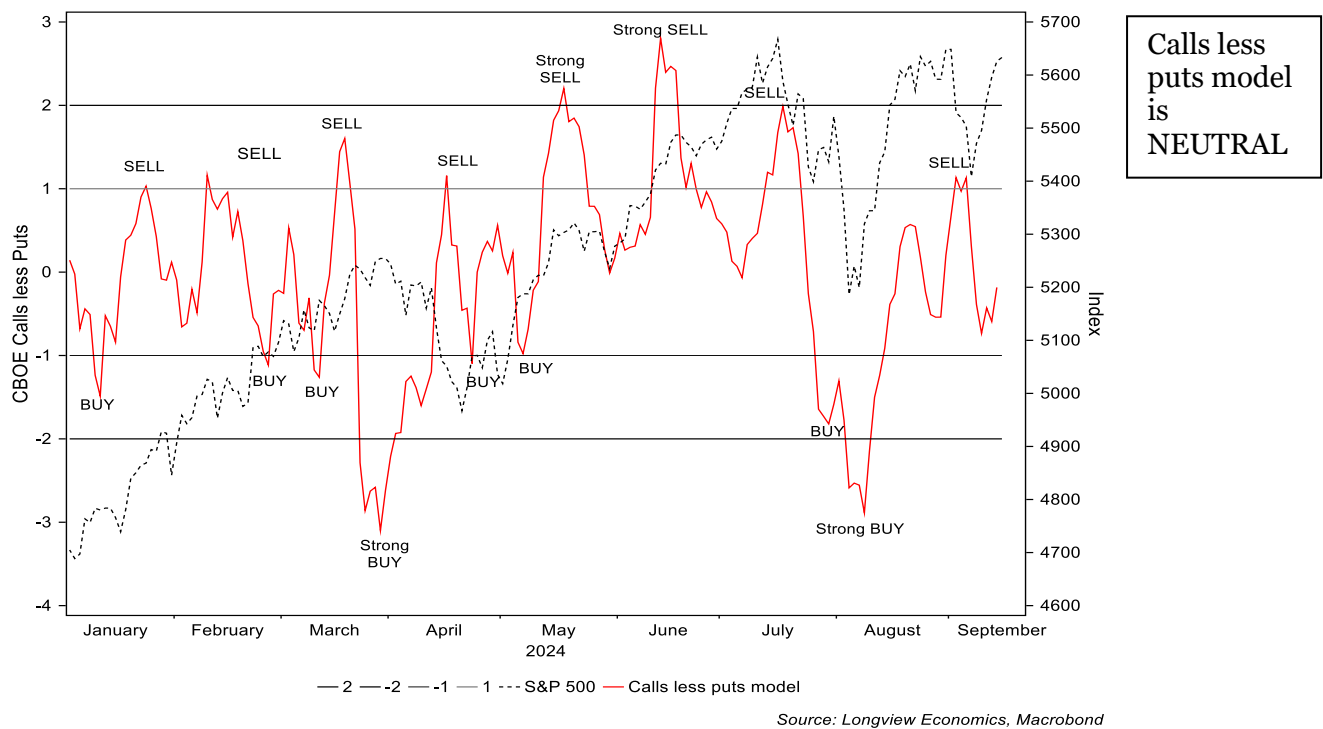
For explanations of indicators please see page 10



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

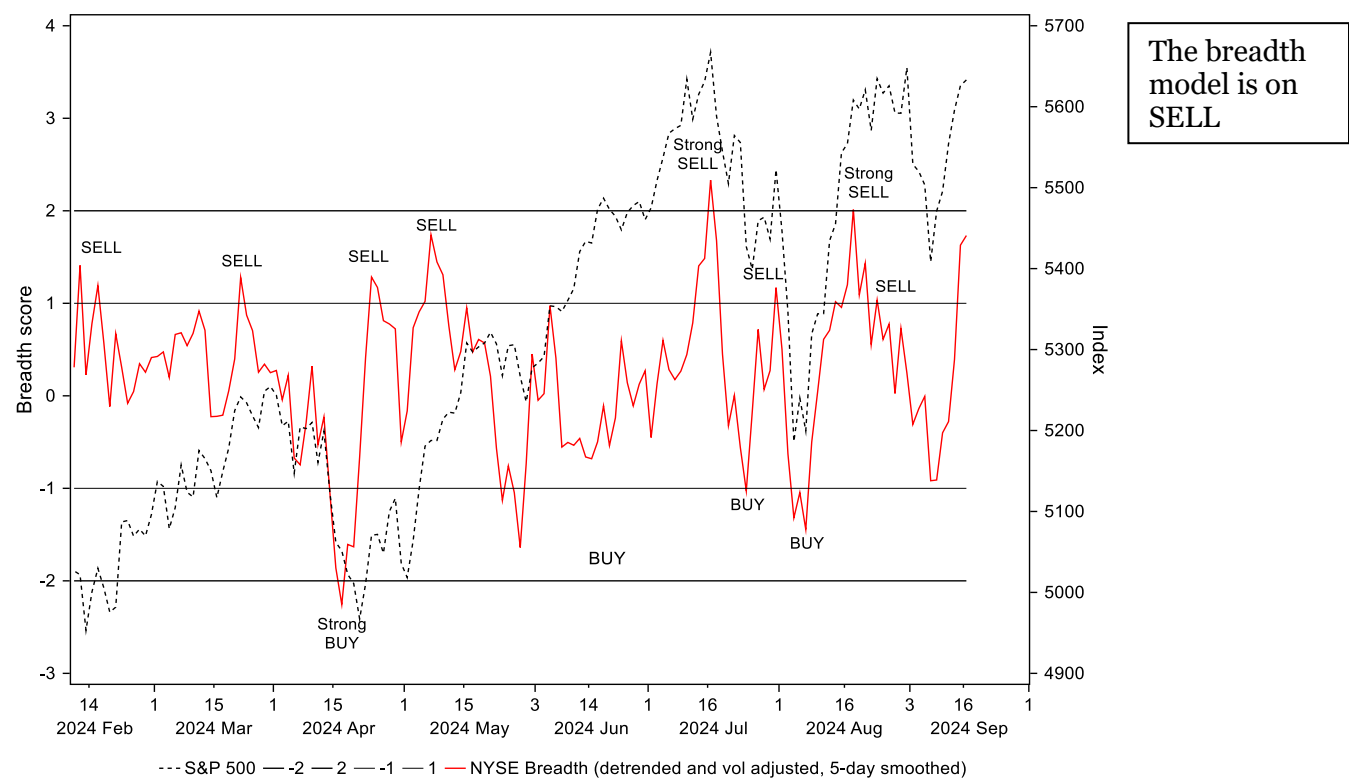


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

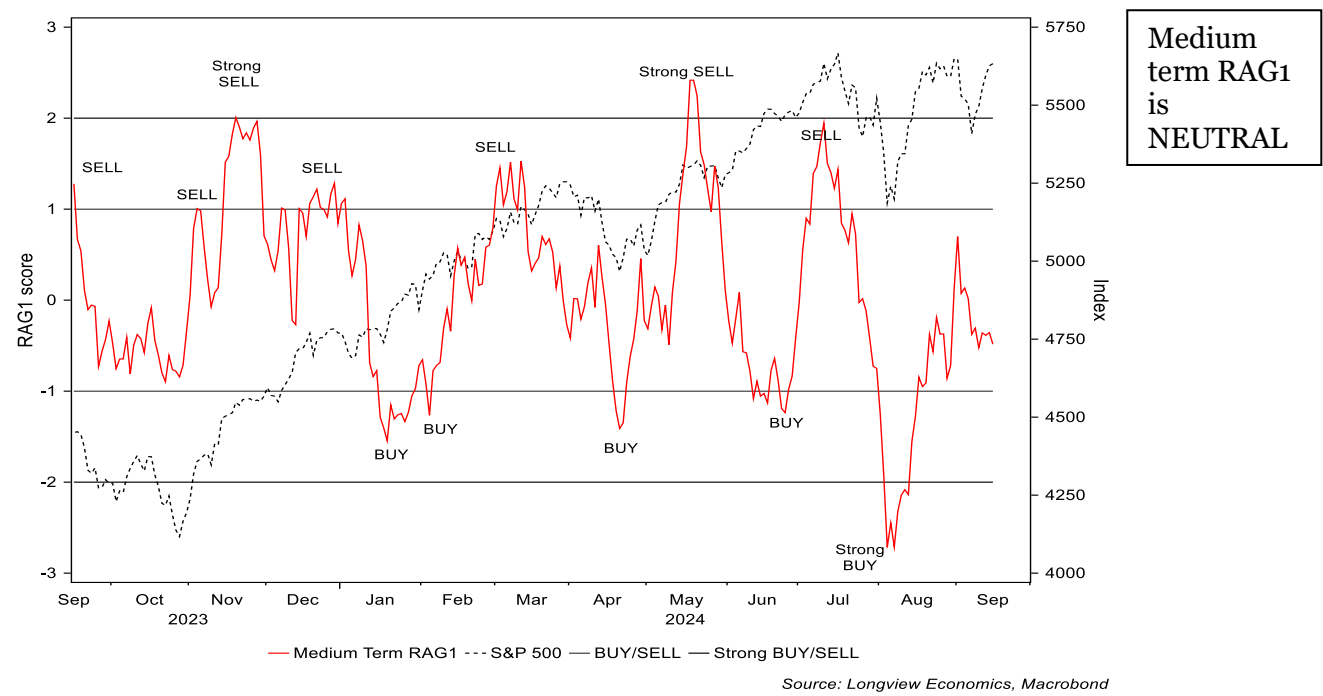
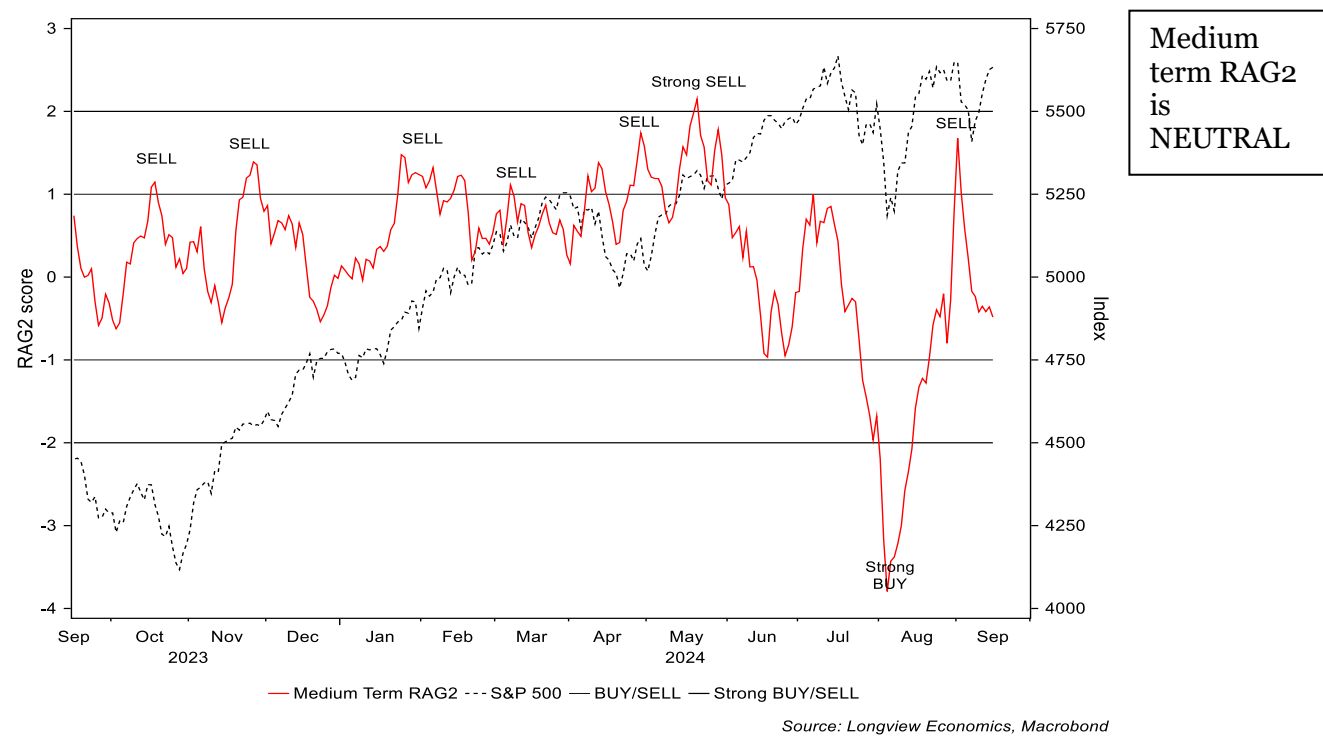
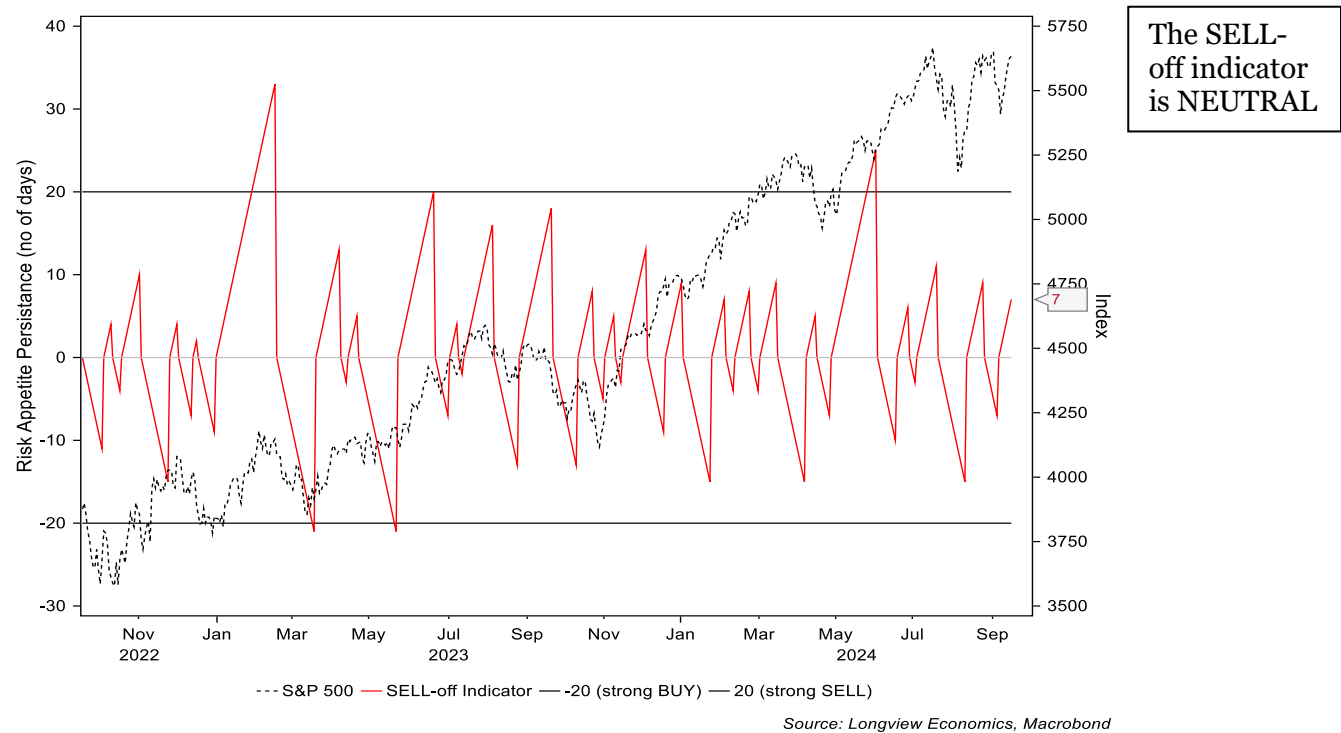


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

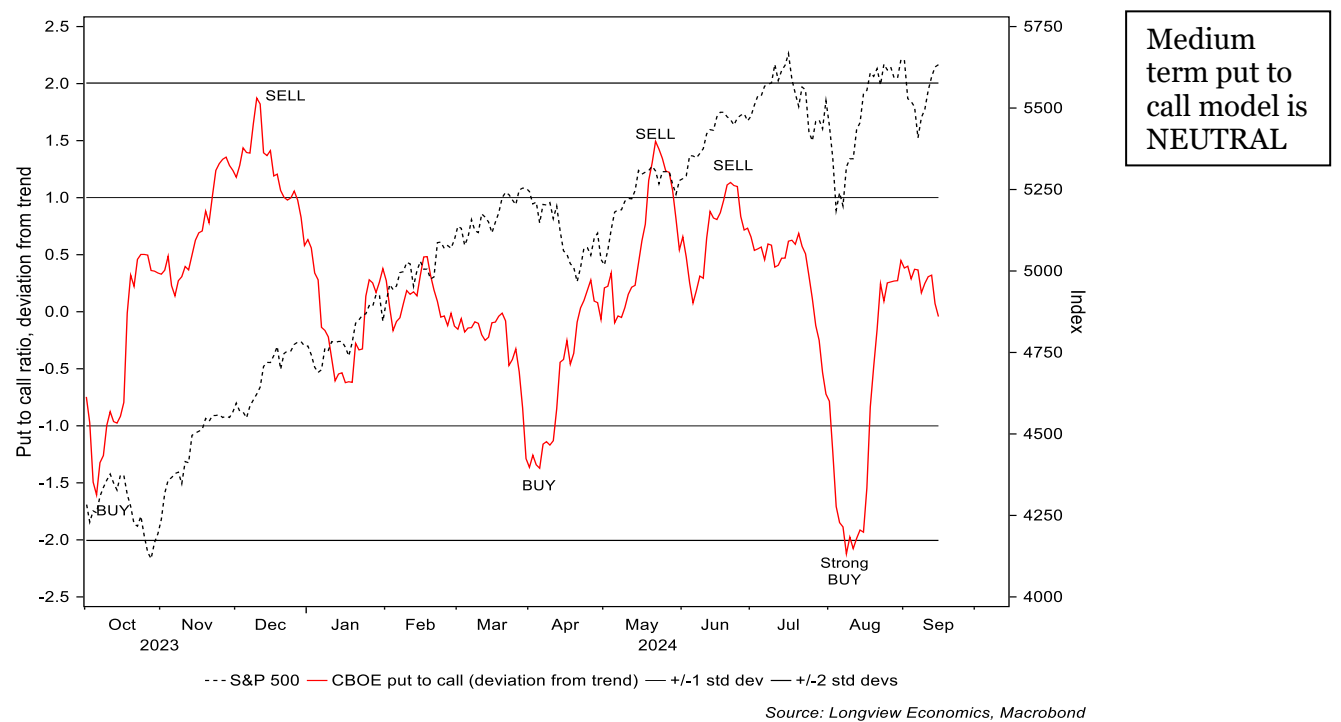


For explanations of indicators please see page 10

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

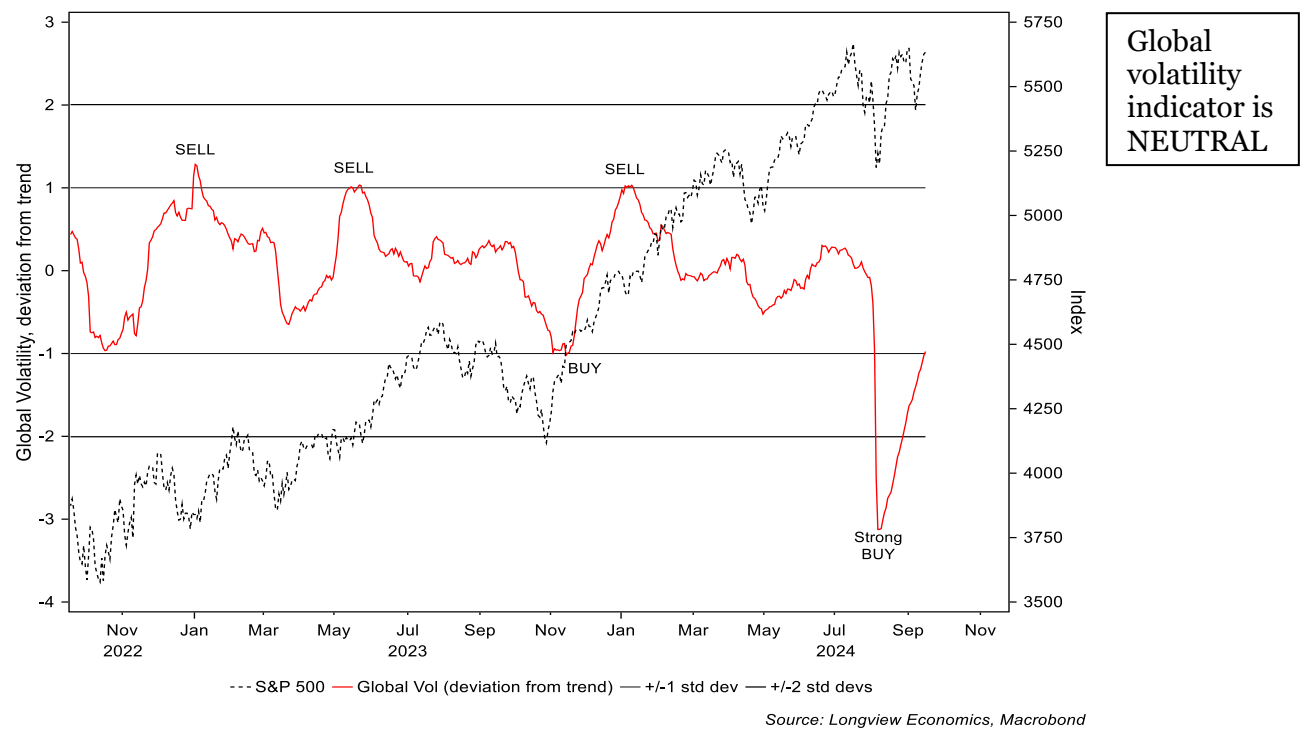


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

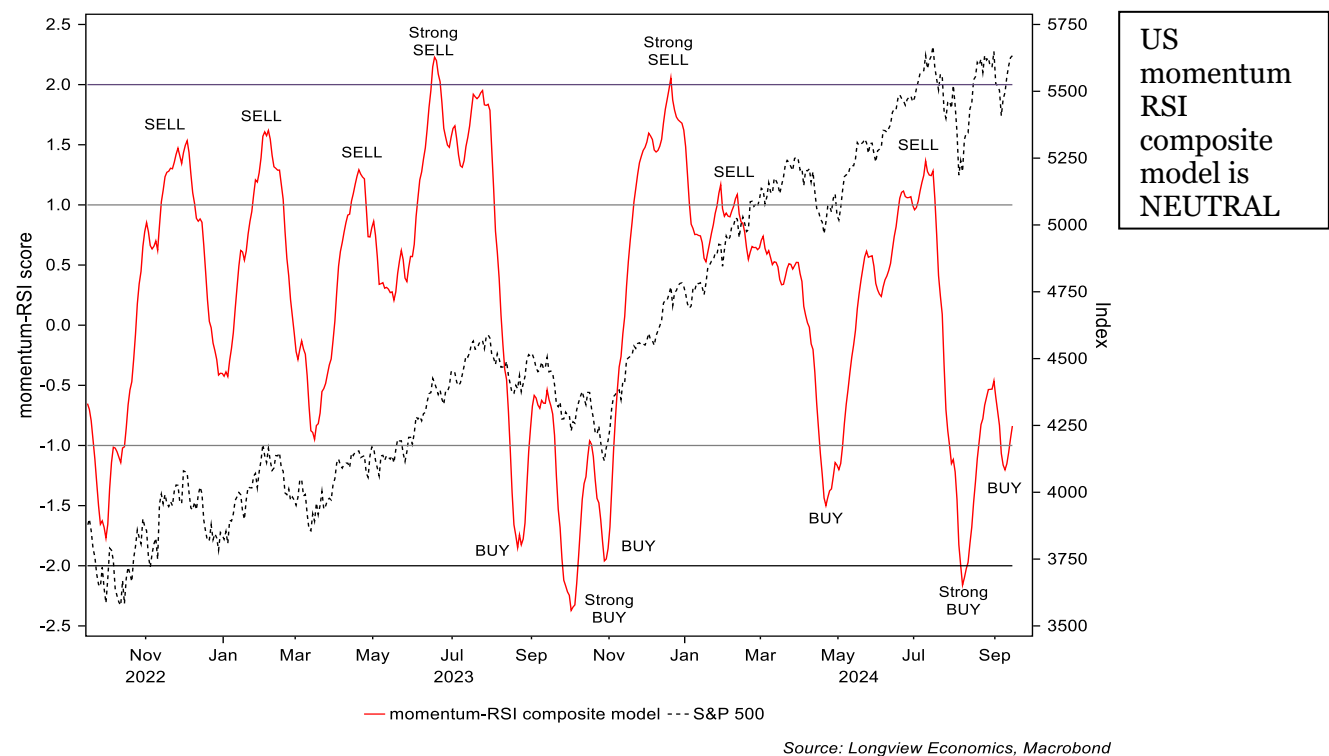


**For explanations of indicators please see page 10**

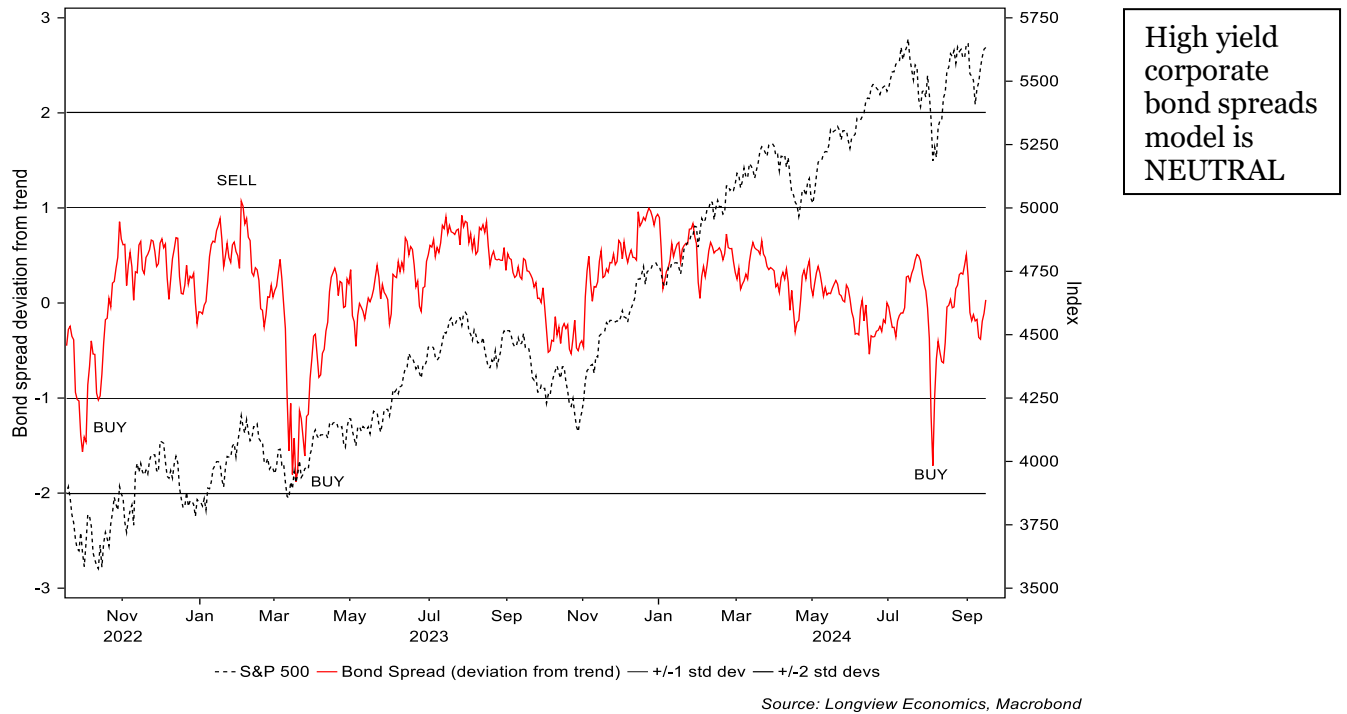
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



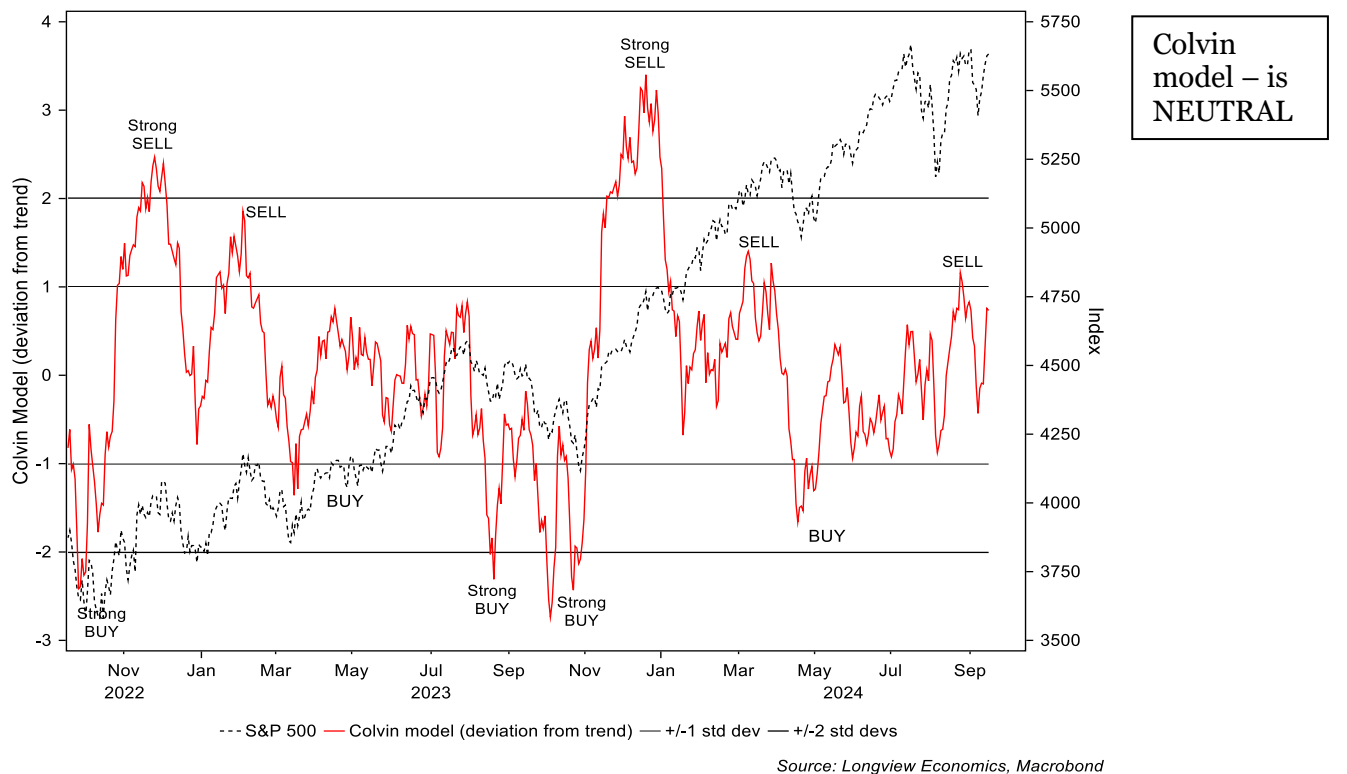
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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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