

Equity Index Futures Trading Recommendations

18th November 2024

"WATCH & WAIT (for now)"

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

- WATCH & WAIT.

Rationale

After some weakness in markets last Thursday, US equities continued to roll over on Friday, led by the 'growth heavy' parts of the market. In particular the NASDAQ100 (-2.4%) and Philly SOX (-3.4%) closed sharply lower, while other key/high beta indices also performed poorly (e.g. NASDAQ Biotech: -4.4%). With that, the S&P500 (-1.3%) moved further below its recent sideways trading range (and also below its highs from mid-October, i.e. a key support level, see FIG 1). As such we were stopped out of our LONG S&P500 futures position (i.e. at 5,925).

According to the newsflow, that weakness was triggered by Powell's hawkish comments on Thursday (he said the Fed is not "in a hurry" to cut rates, and that the performance of the US economy was "remarkably good"). US 2 and 10 year yields, though, closed broadly flat on the week and, with that, interest rate expectations (e.g. for 2025) were broadly unchanged (see FIG 1f).

It's more likely, therefore, that equity markets were merely unwinding some of the election-related 'excess' (i.e. strong risk appetite) from earlier this month.

Of note, in that respect, our **short term models remain mixed** (overall). That is, risk appetite models are mostly leaning towards BUY, having been on SELL in early November (see FIGs 2 – 2b). Other short term models, though, are not yet on BUY (albeit they have moved lower). That includes various technical, momentum and breadth indicators, which are now mostly NEUTRAL (FIGs 3 – 3e). Elsewhere other key indicators still highlight a degree of near term complacency in markets. Volatility, for example, remains subdued (see FIG 1d); downside put protection in portfolios is low (and effectively on SELL, see FIG 1e); while the number of outstanding call options on US single stocks is high (FIG 1c).

Last week our view was that the US election result marked a regime change, in which US equities would squeeze higher in the near term (despite the mixed signals from our models). Price action on Thursday and Friday, though, has clearly not confirmed that view.

As such, having been stopped out of our LONG position, and given mixed signals from the models, the **risk reward favours WATCHing and WAITing** (for now).

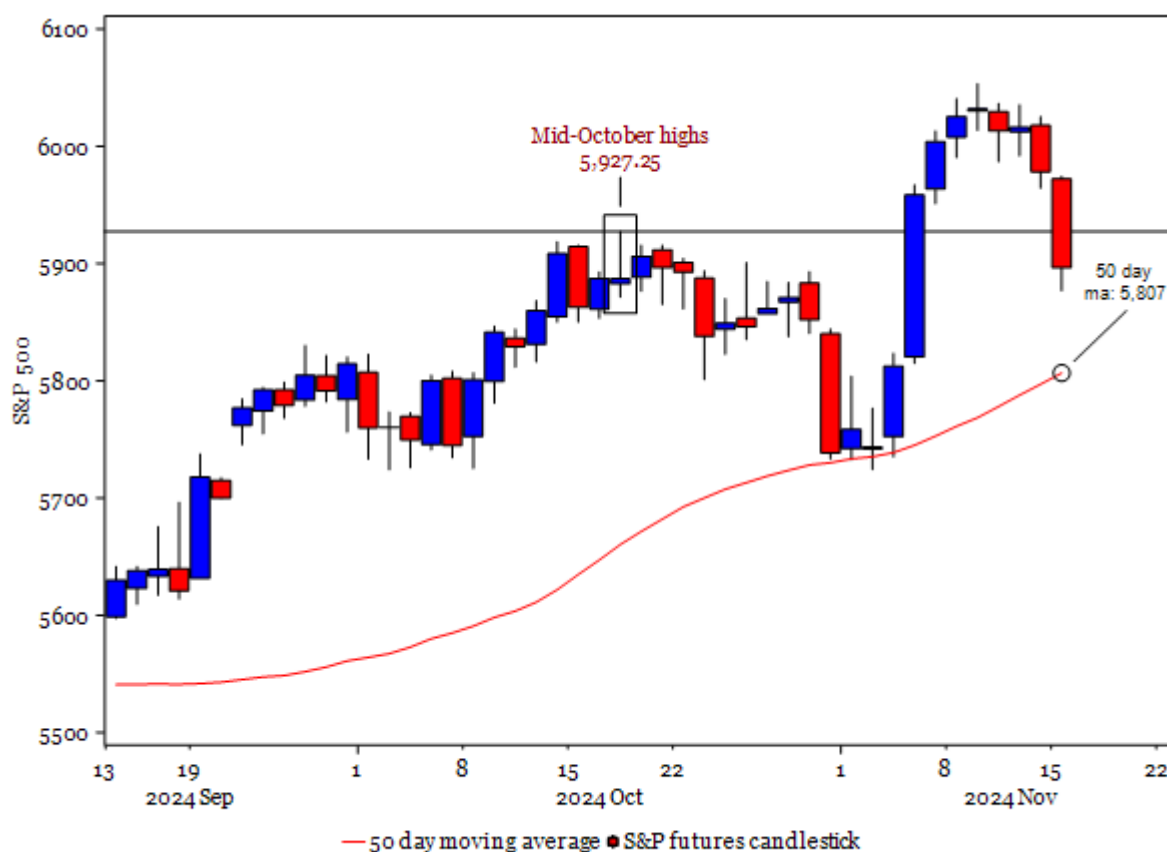
Key events this week include several housing data points in the US, with updates on the NAHB home builders index (Monday), housing starts and permits (Tuesday), and existing home sales (Thursday). Elsewhere the Conference Board Leading Index is due on Thursday, S&P manufacturing & service sector PMIs (November first estimates) are on Friday, and Nvidia earnings release is on Wednesday.

Please see below for a full list of today's key macro data, earnings & events.

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: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages



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



FIG 1c: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500

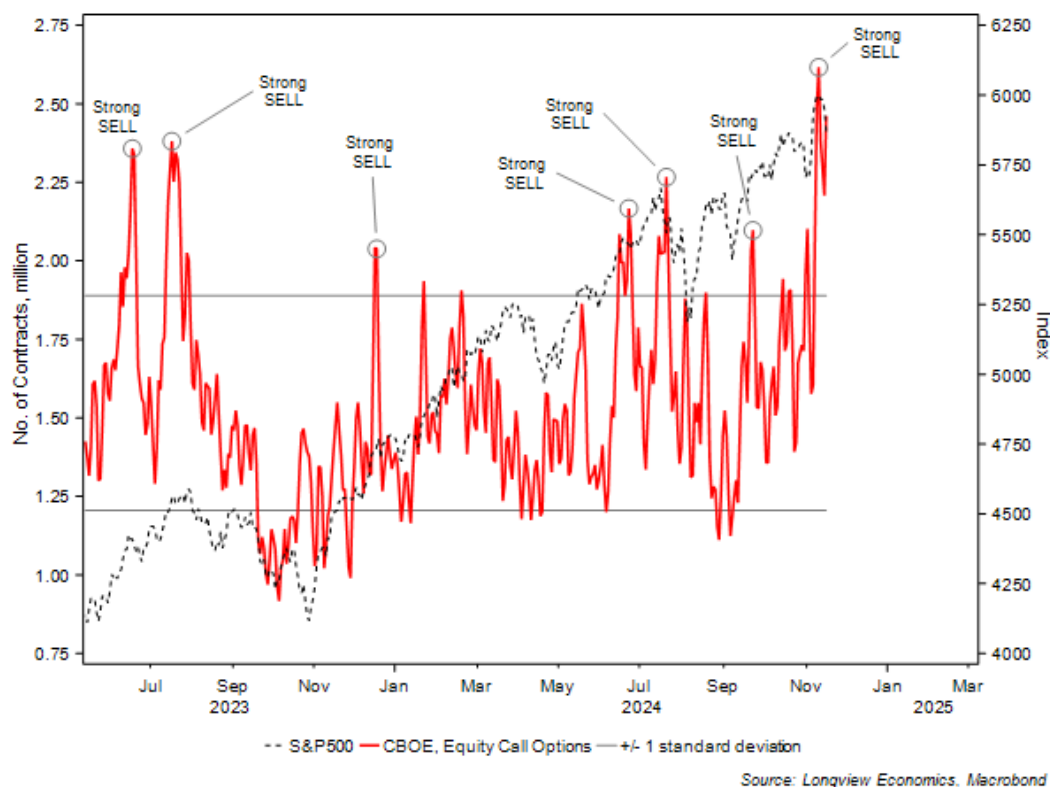


FIG 1d: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

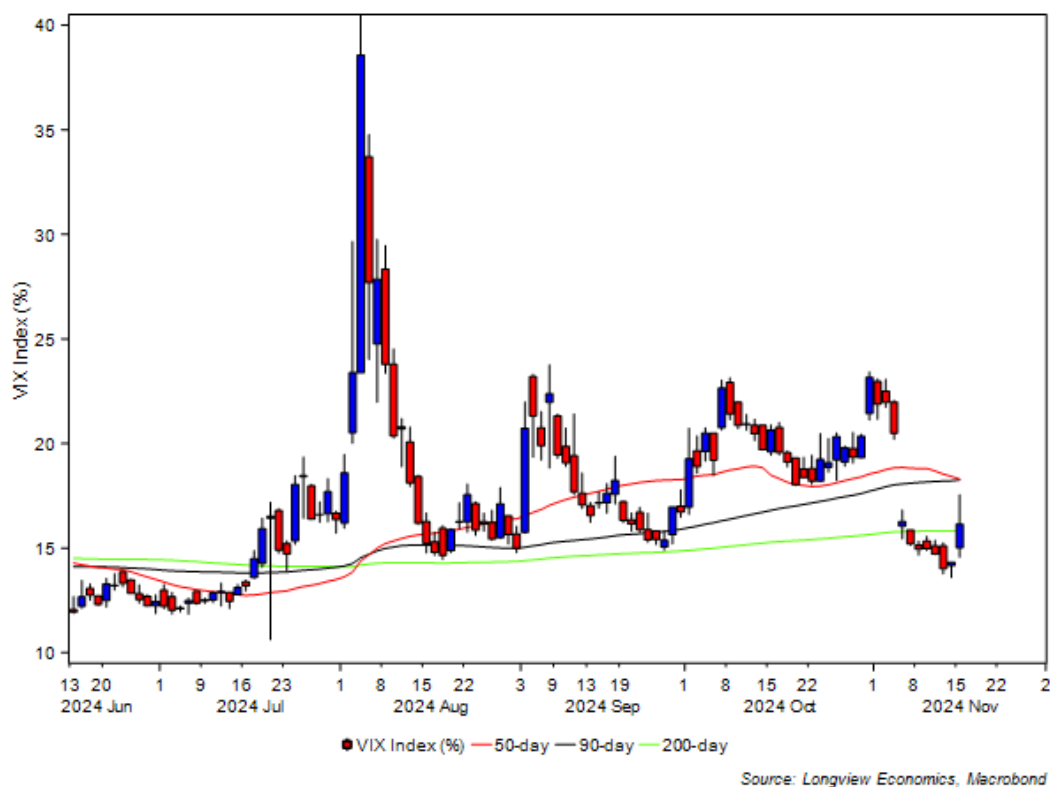
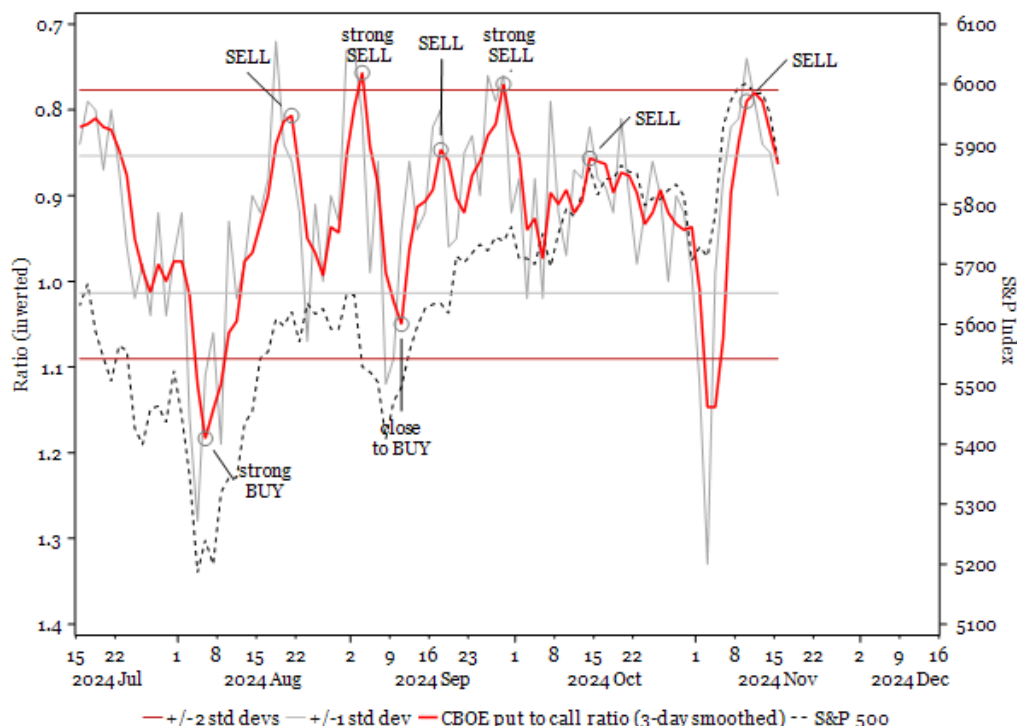
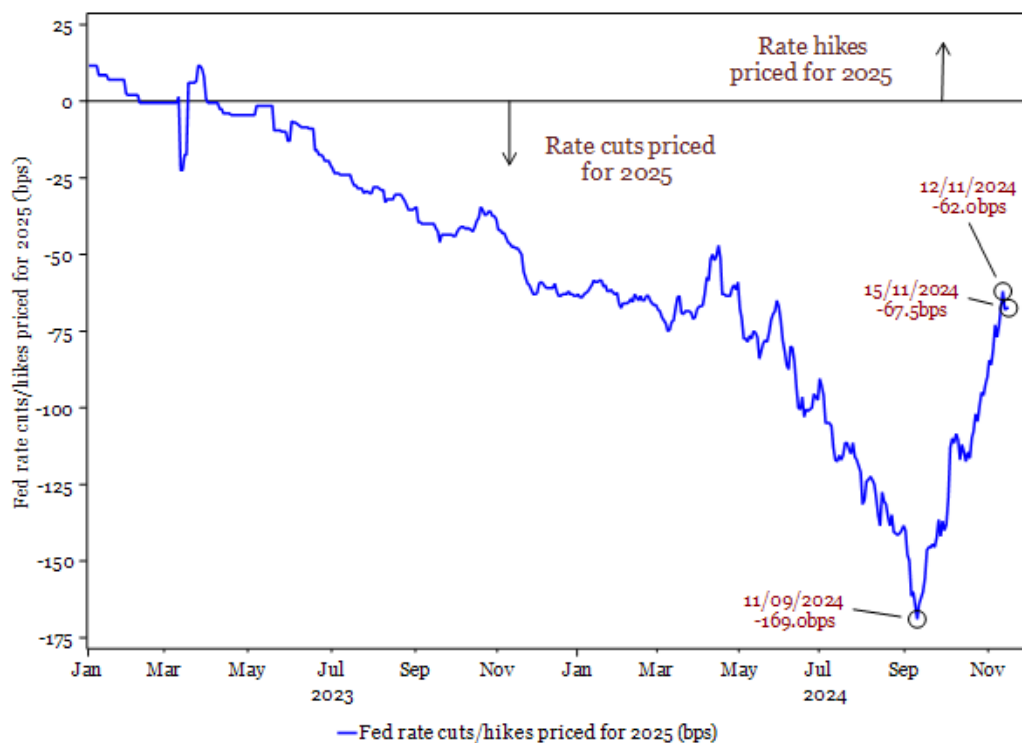


FIG 1e: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

Short-term risk appetite models are mostly on/leaning towards BUY levels...

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

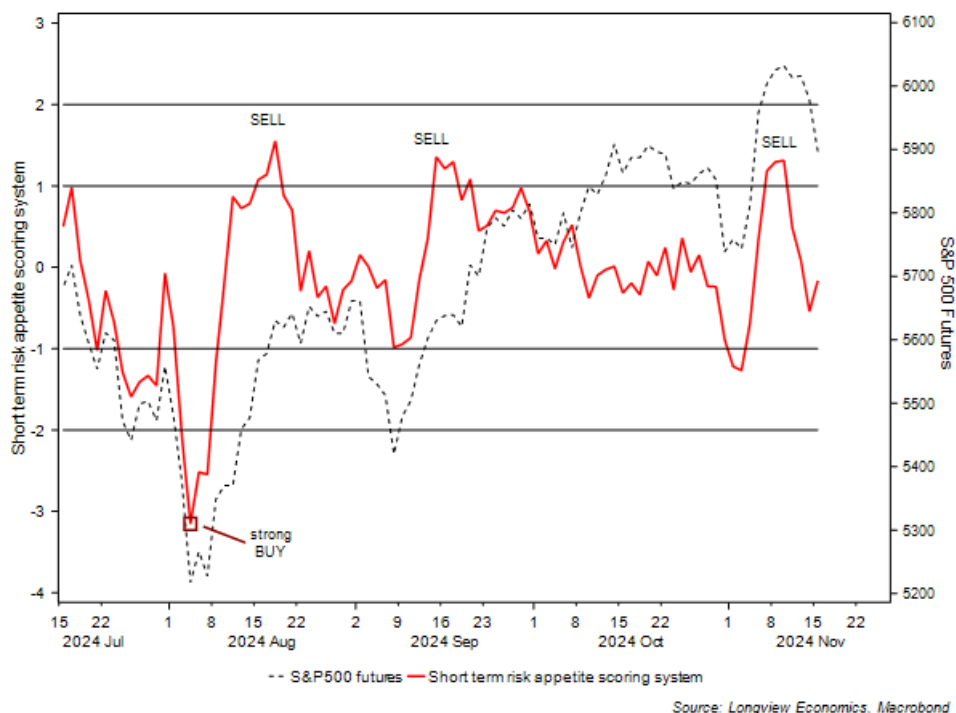


FIG 2a: Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500

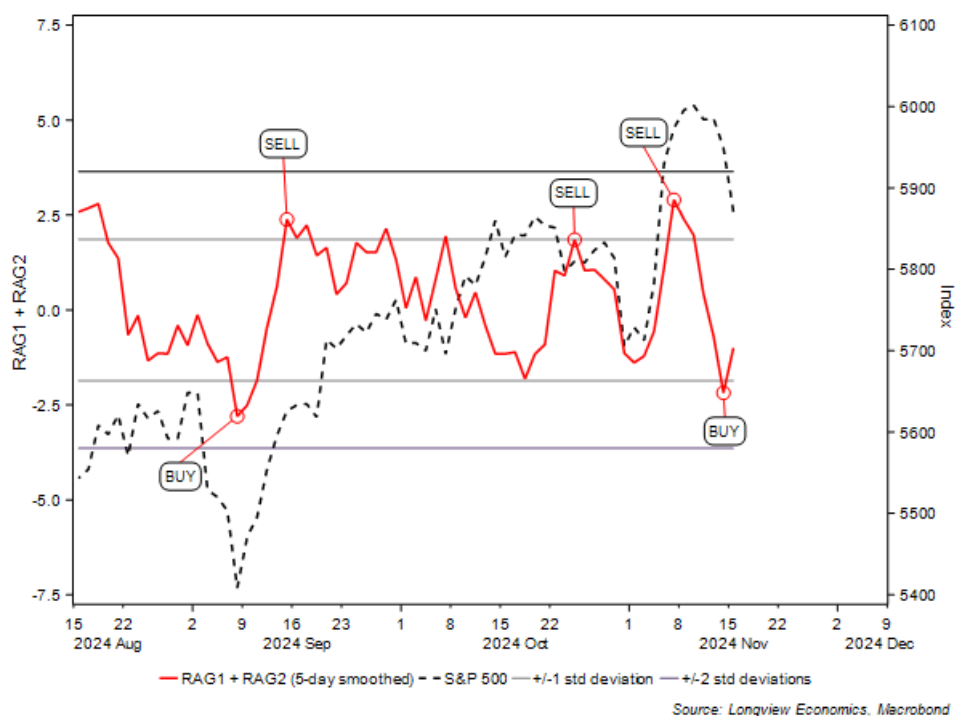
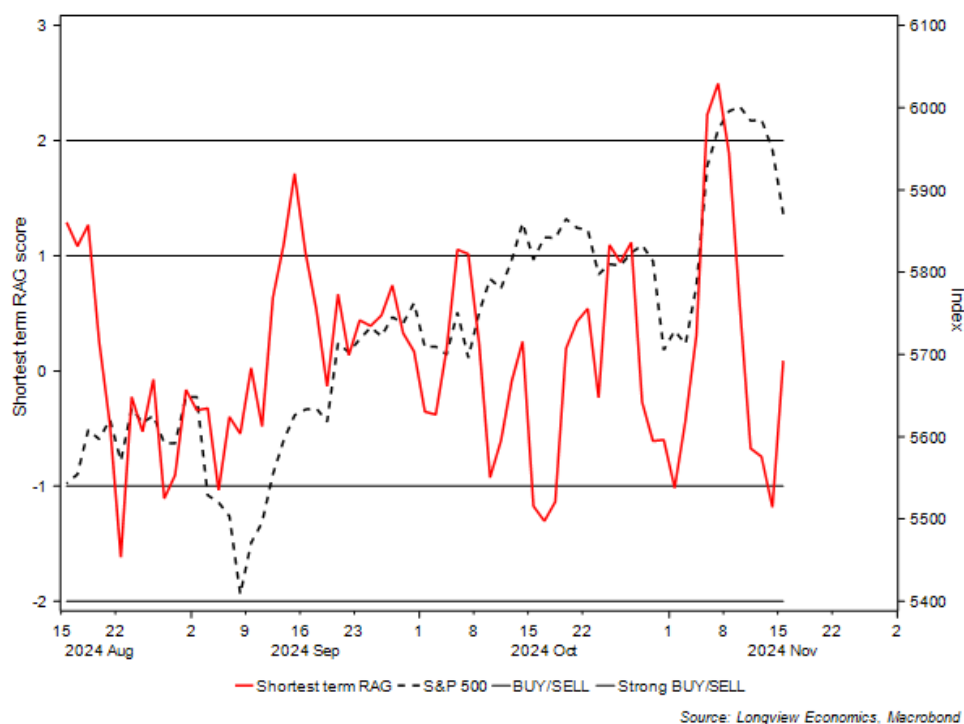


FIG 2b: Longview shortest term **'risk appetite'** scoring system vs. S&P500



Other short-term models are (mostly) NEUTRAL, having recently been on SELL...

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

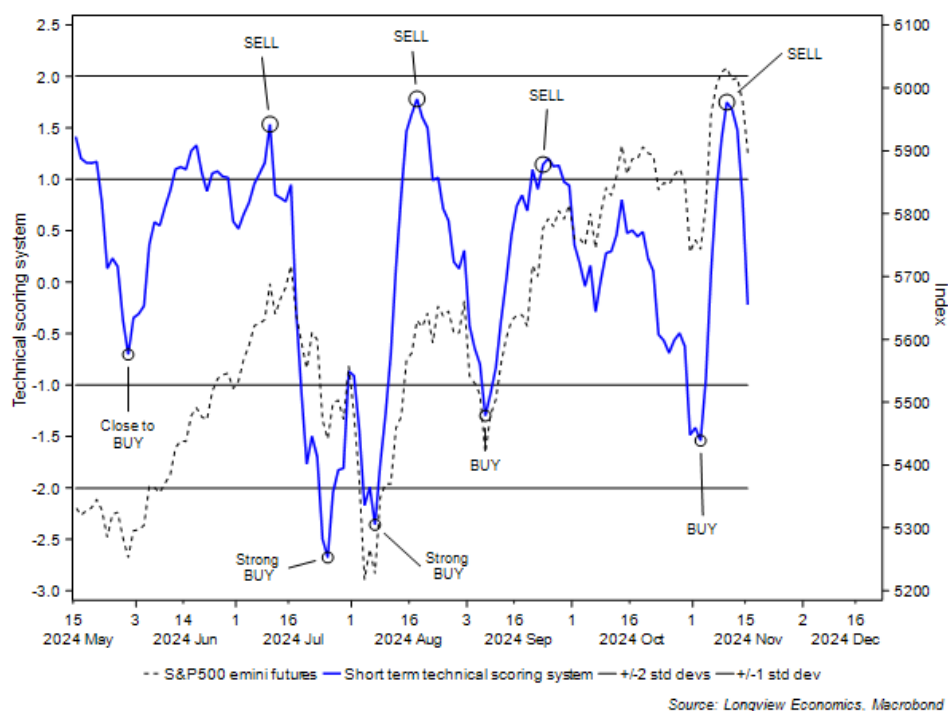
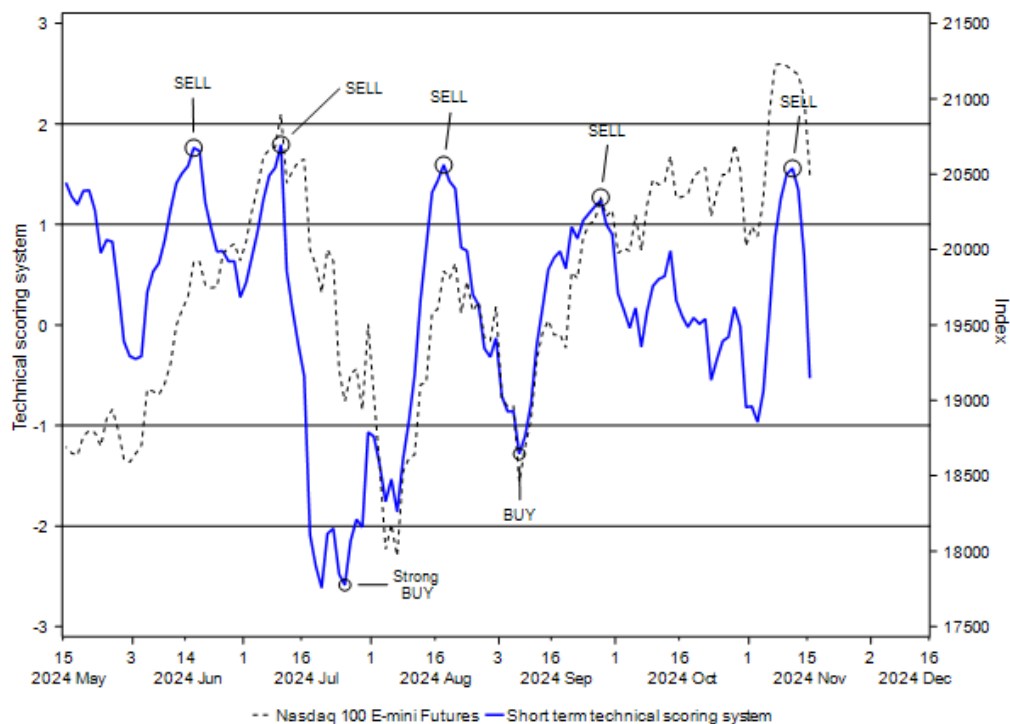
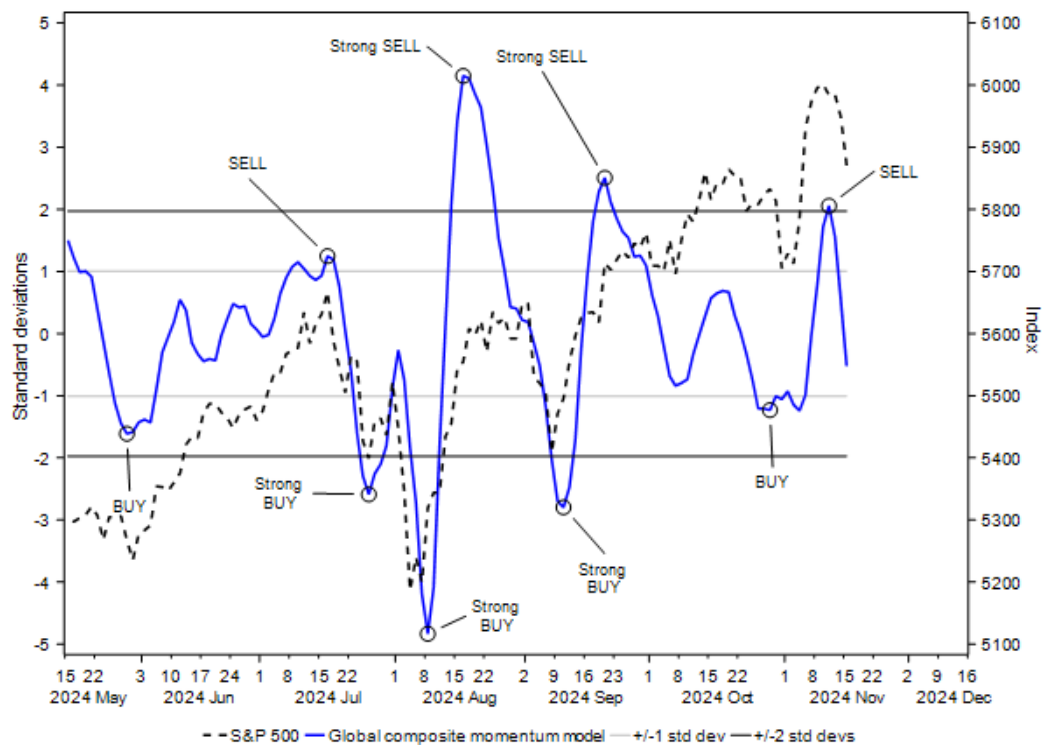


FIG 3a: Longview NASDAQ100 short term **‘technical’** scoring system vs. NASDAQ100 futures



Source: Longview Economics, Macrobond

FIG 3b: Global composite momentum model vs. S&P500



Source: Longview Economics, Macrobond

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

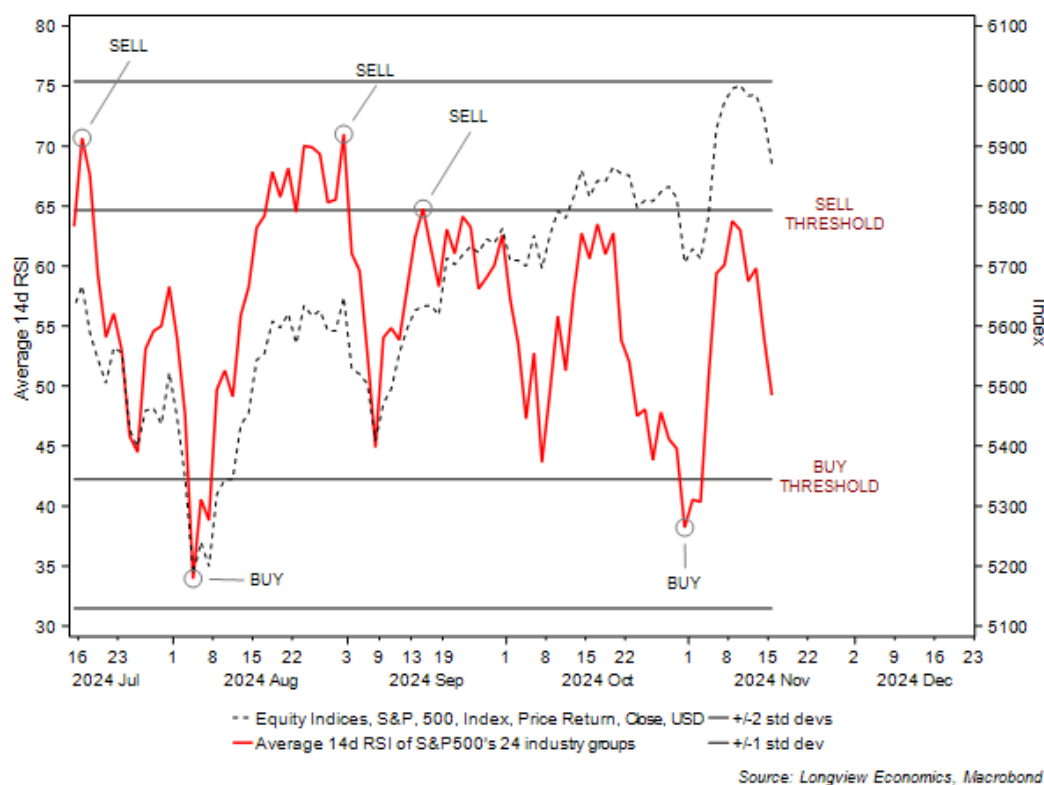


FIG 3d: Short term NYSE breadth model vs. S&P500

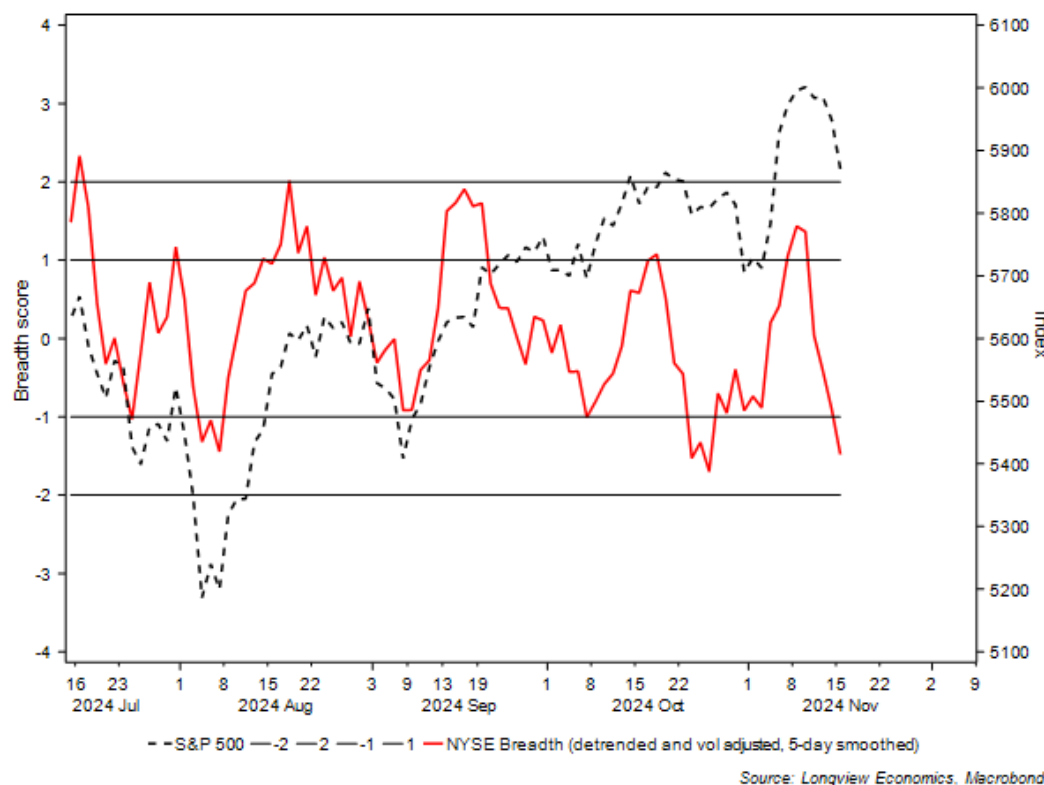
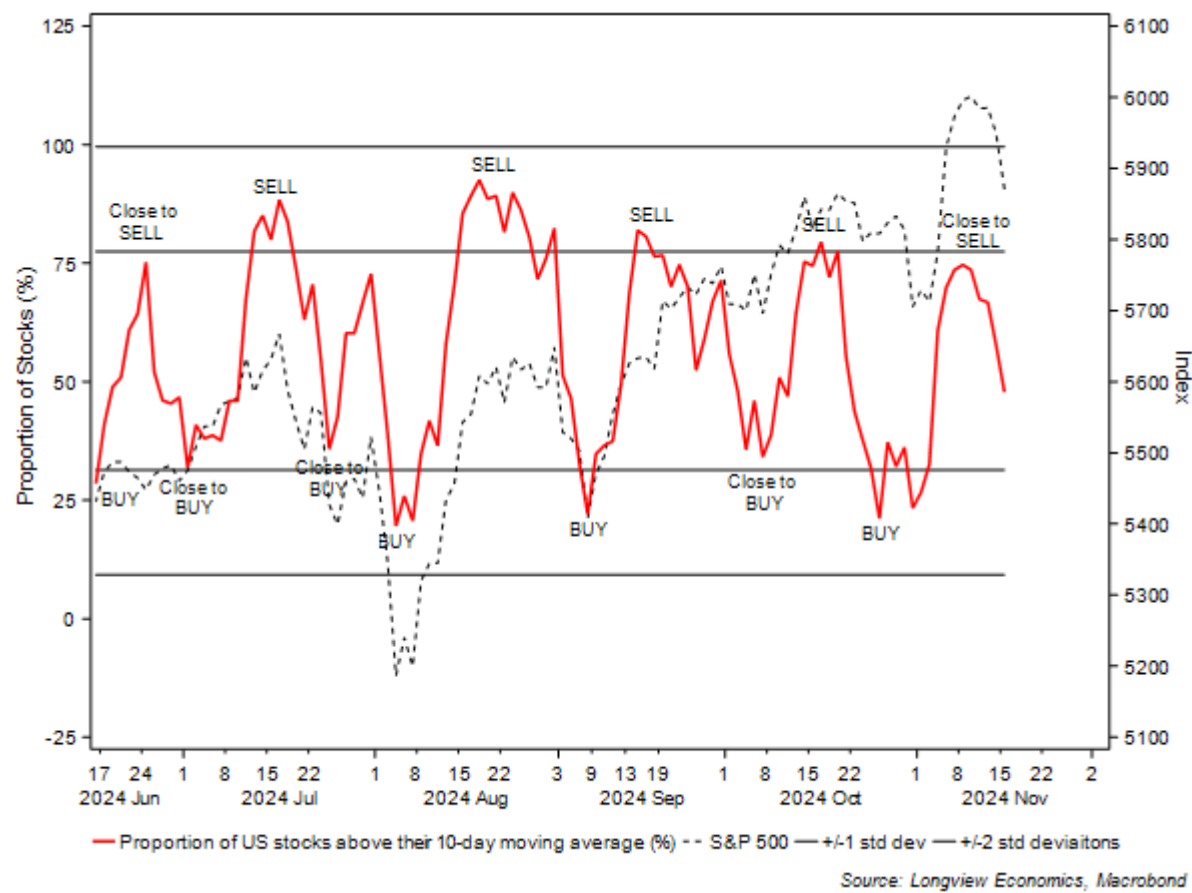


FIG 3e: Proportion of US stocks above their 10-day moving average vs. S&P500

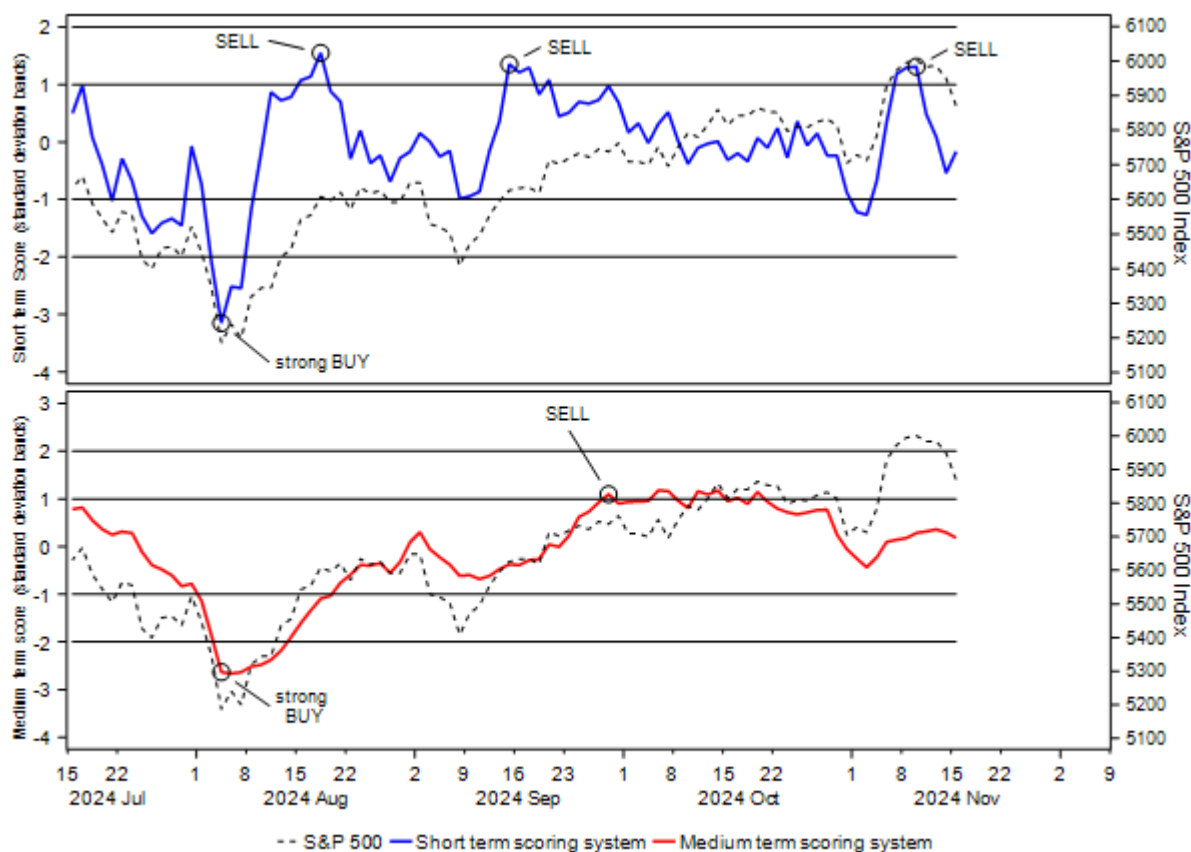


Key Longview Scoring Systems (chart below):

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

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: UK Rightmove house prices (Nov, 12:01am); Eurozone trade balance (Sept, 10am); US New York Fed service sector business activity (Nov, 1:30pm); **US NAHB homebuilders index** (Nov, 3pm); US total net TIC flows (Sept, 9pm).

Key events today include: Speech by the RBA's Kent at the Sir Leslie Melville Lecture in Canberra (6:30am); speeches by the ECB's Guindos in Frankfurt (8am), Nagel in Tokyo (8am), Makhoul in Dublin (9am), Lane in Rome (1pm), Stournaras in Athens (1pm), Vujic in London (6:30pm) & Lagarde in Paris (6:30pm); speech by the Fed's Goolsbee at the Financial Markets Group Fall Conference (3pm).

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 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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