Equity Index Futures Trading Recommendations

18th October 2024

"Move SHORT SPX on strength"

Email: info@longvieweconomics.com

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

- Move 1/3rd SHORT S&P500 December futures on strength, i.e. at 5,918.
- Place stop loss 3% above entry (at 6,095.50).

Rationale

The march higher in the SELL-off indicator continued yesterday. The model is now on +25 (NB at +20 it signals a high likelihood of an imminent wave of risk aversion – FIG 1). This model is designed to measure periods of persistent and excessive risk appetite. It draws upon data from across the global financial spectrum. Its current signal is the result of various parts of the global financial market becoming frothy. US airline and financial stocks are two examples of that and have both gone parabolic in recent trading sessions (e.g. FIG 1a). Bonds selling off (as they have this month), whilst equities rally, is another classic sign of higher risk assets outperforming lower risk ones. Equally, as bonds sell off, the ‘bond proxy’ defensive/‘lower risk’ equity sectors underperform (& the higher beta cyclical areas of the market outperform). All that price action is consistent with a build up of excessive risk appetite.

Furthermore, as that has played out in recent weeks, US govvie bonds have gone from being overbought (from August through to mid-September), to now being oversold (e.g. see RSI, FIG 1b). With that, the US 10-year yield has also now backed up close to its 200-day moving average (which is likely to be a resistance level) – see FIG 1c. At the same time, equities have moved from being oversold to overbought. Using our overextended indicator, for example, in early August the model was on BUY (FIG 1d). Earlier this week it had once again reached SELL (i.e. equities were overextended to the upside). As a result, our RSI of equities relative to bonds is back on SELL, having been on BUY in early August (FIG 1e).

Added to that, other medium term models are also generating SELL signals. The medium term risk appetite gauge, for example, is on SELL (FIG 1i). Downside put protection has been removed from portfolios (i.e. traders and investors are increasingly facing the same way – e.g. see FIGs 1g & 1h), while the Colvin model remains at high levels.

The case for a pullback, therefore, continues to build. Indeed, increasingly the models support an asset allocation switch out of equities and back into bonds.

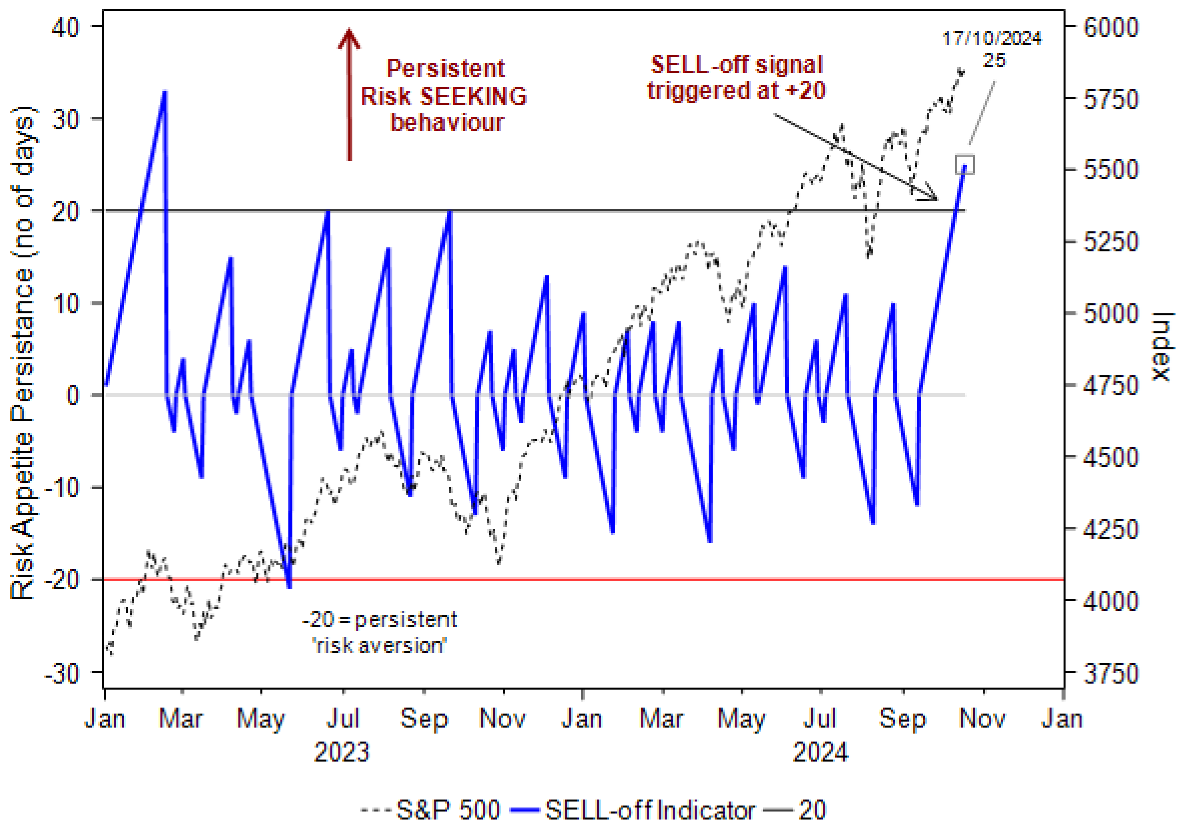
At the same time, both the S&P500 and NDX100 futures have started to tread water in the past few trading sessions. The S&P500, for example, has been rangebound between 5,850 and 5,927 since Monday this week. Short term models are still mixed, though, with short term risk appetite models having rolled over and technical models increasingly on/close to SELL. The percentage of single stocks above their 10 day moving averages, for example, is now back on SELL (FIG 2d).

As such, timing entry into SHORT positions remains challenging. Given such a strong clear, medium term message, though, we recommend moving 1/3rd SHORT S&P500 December futures on strength (towards the top end of the recent range), i.e. at 5,918. We also recommend using a 3% stop loss.

Kind regards,

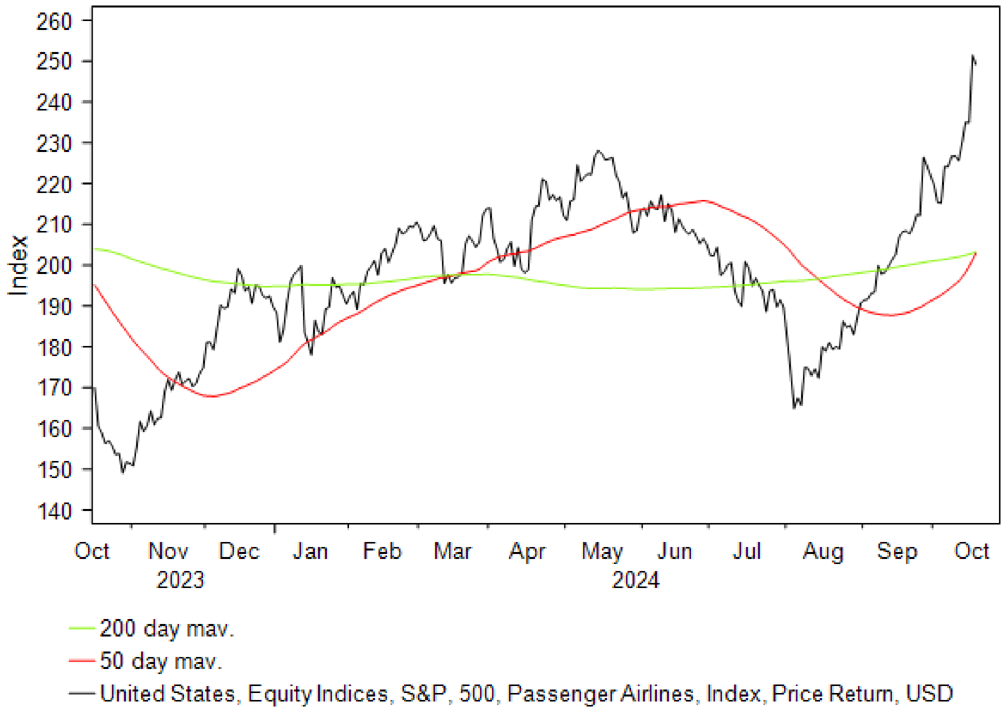
The team @ Longview Economics

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



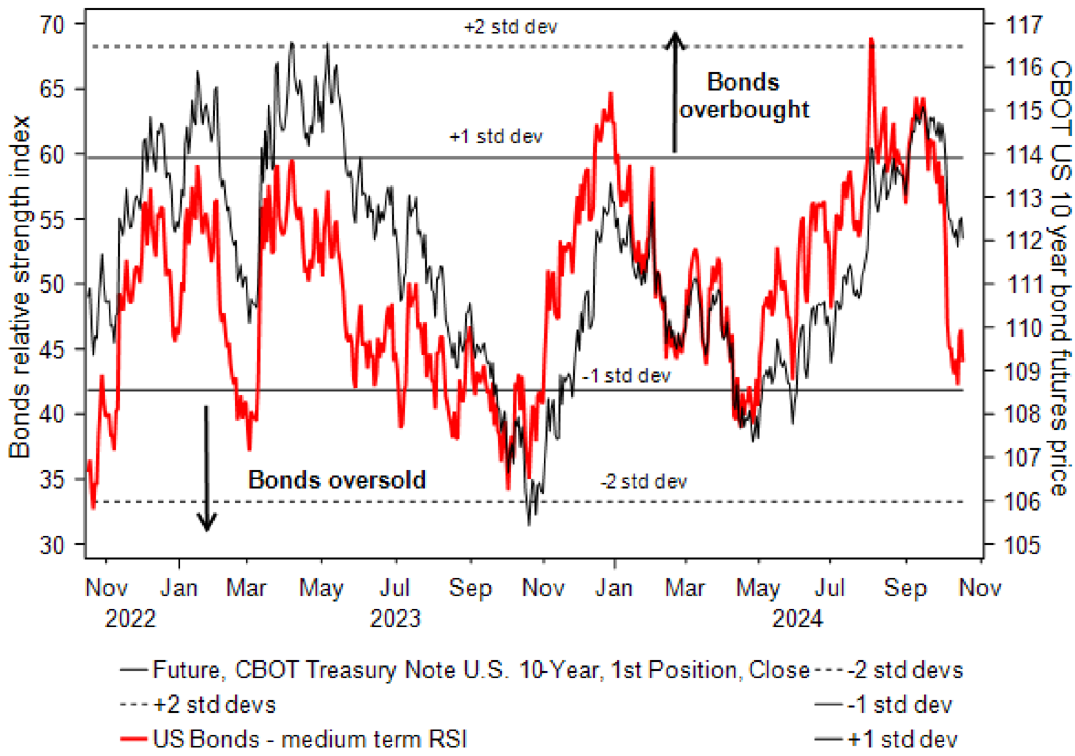
Source: Longview Economics, Macrobond

FIG 1a: US S&P500 airline industry group shown with key moving averages



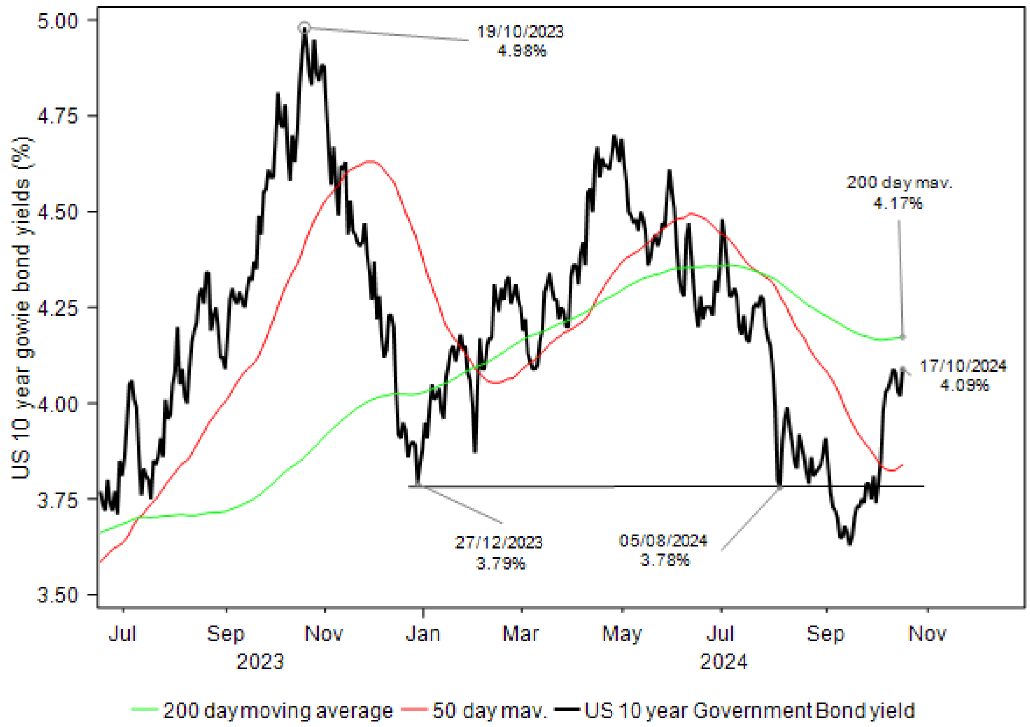
Source: Longview Economics, Macrobond

FIG 1b: Medium term RSI (US bond futures) vs. bond futures price



Source: Longview Economics, Macrobond

FIG 1c: US 10-year bond yields shown with key moving averages

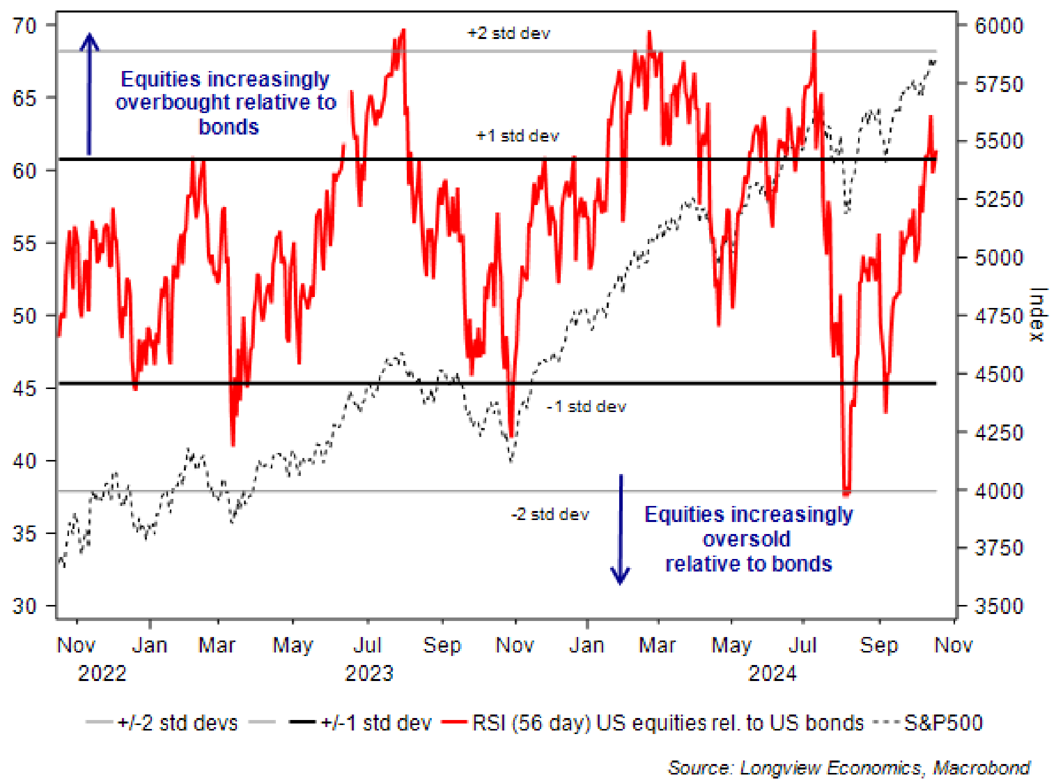


Source: Longview Economics, Macrobond

FIG 1d: Over-extended indicator for the SPX (price relative to 50 day) vs. SPX

Source: Longview Economics, Macrobond

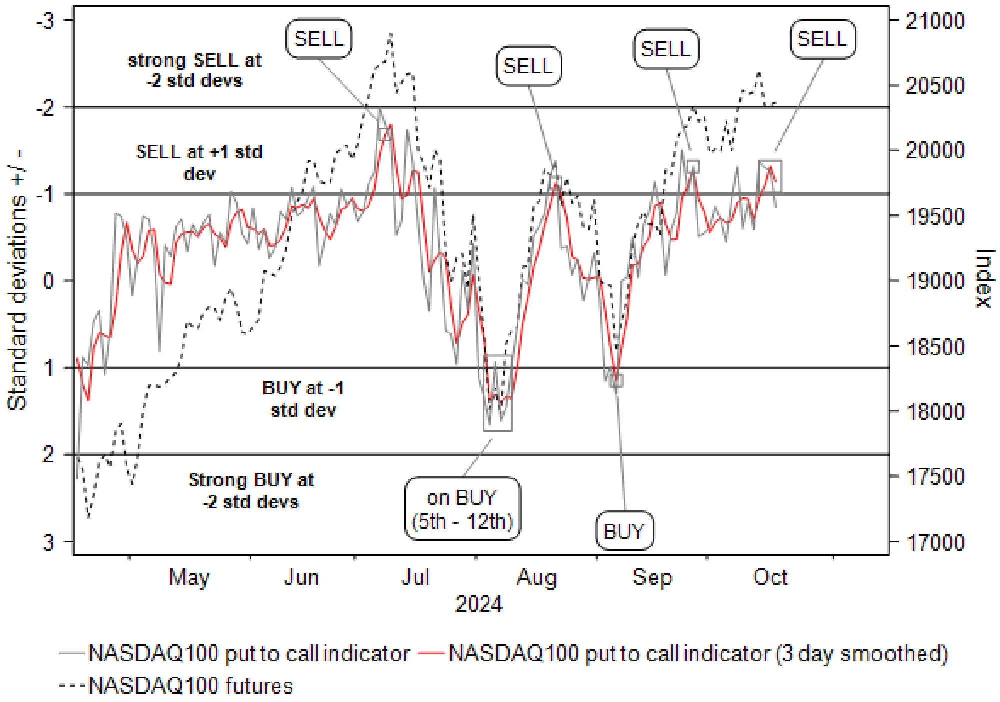
FIG 1e: Medium term RSI (of equities relative to bonds) vs. S&P500



Source: Longview Economics, Macrobond

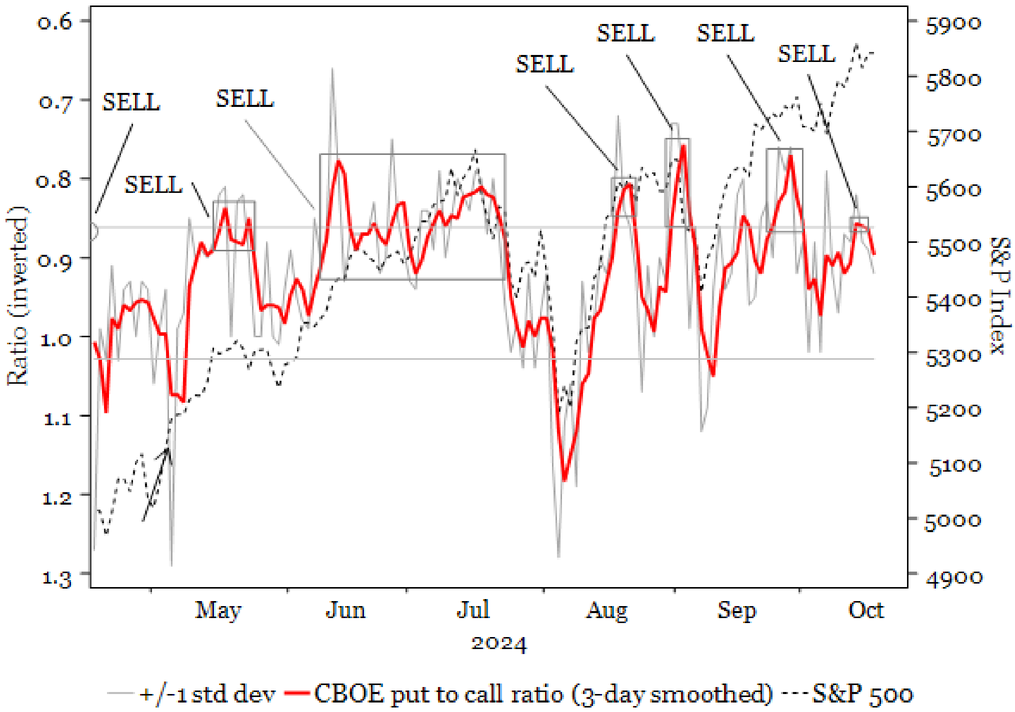
FIG 1f: S&P500 futures 10-day tick chart shown with overnight price action

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



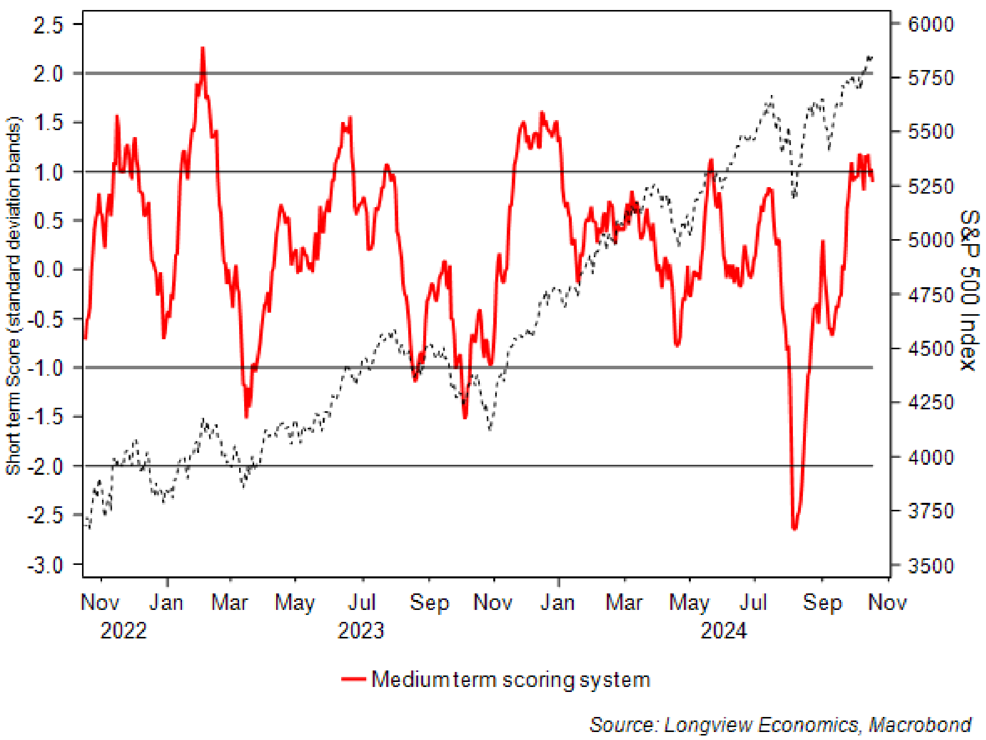
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Short term market timing models are more mixed……

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

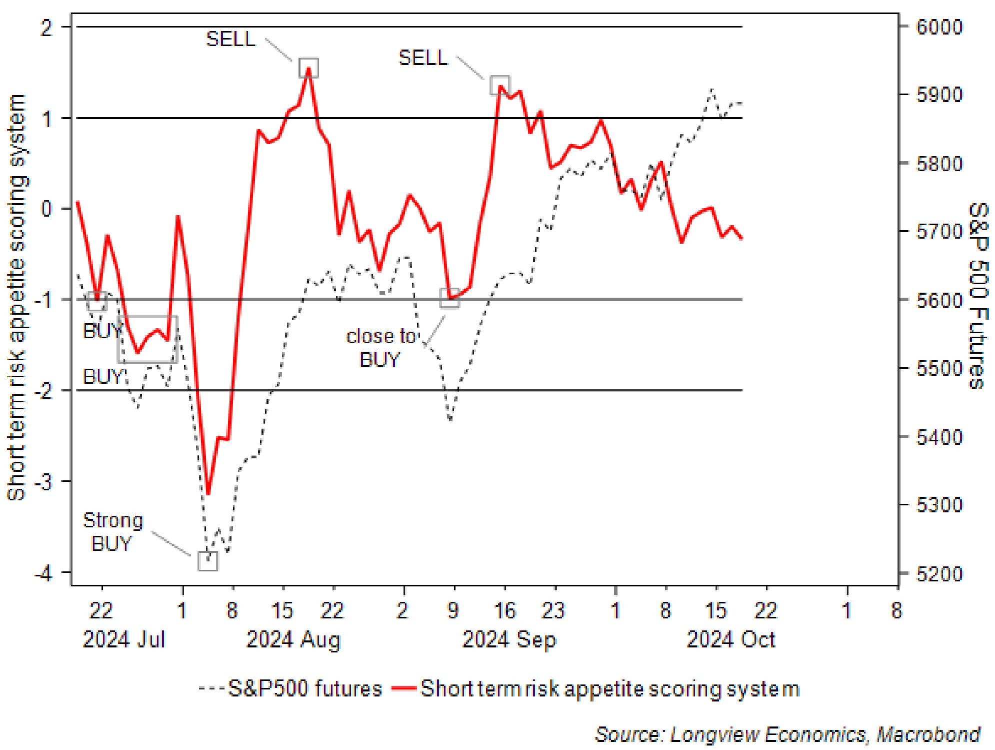
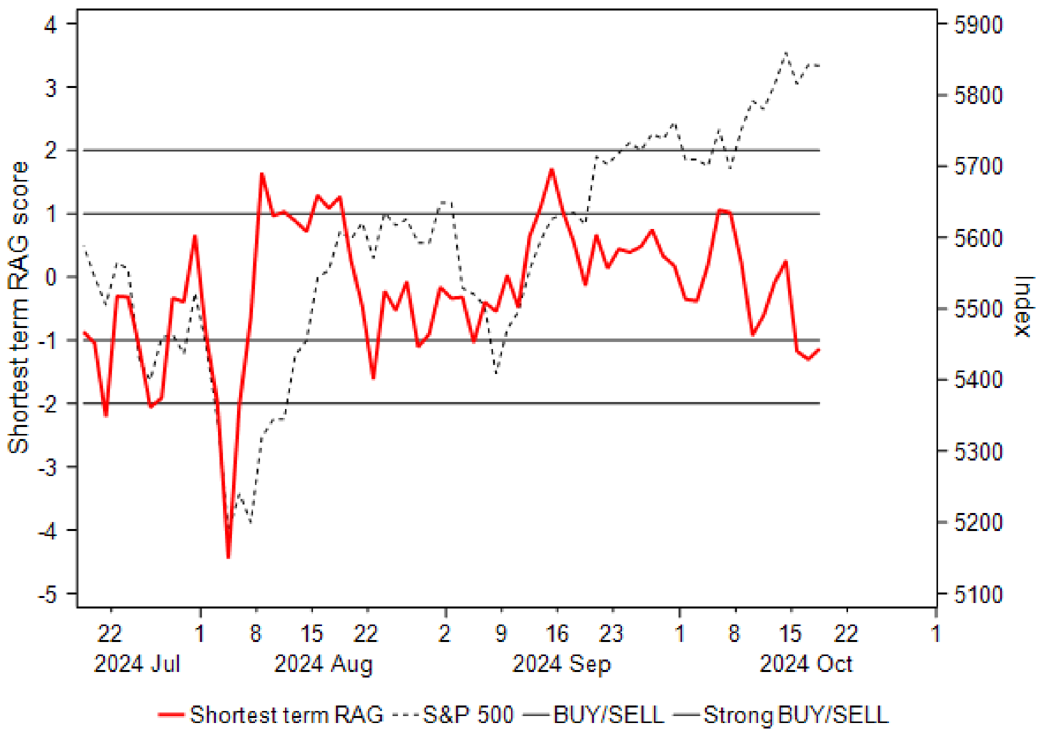
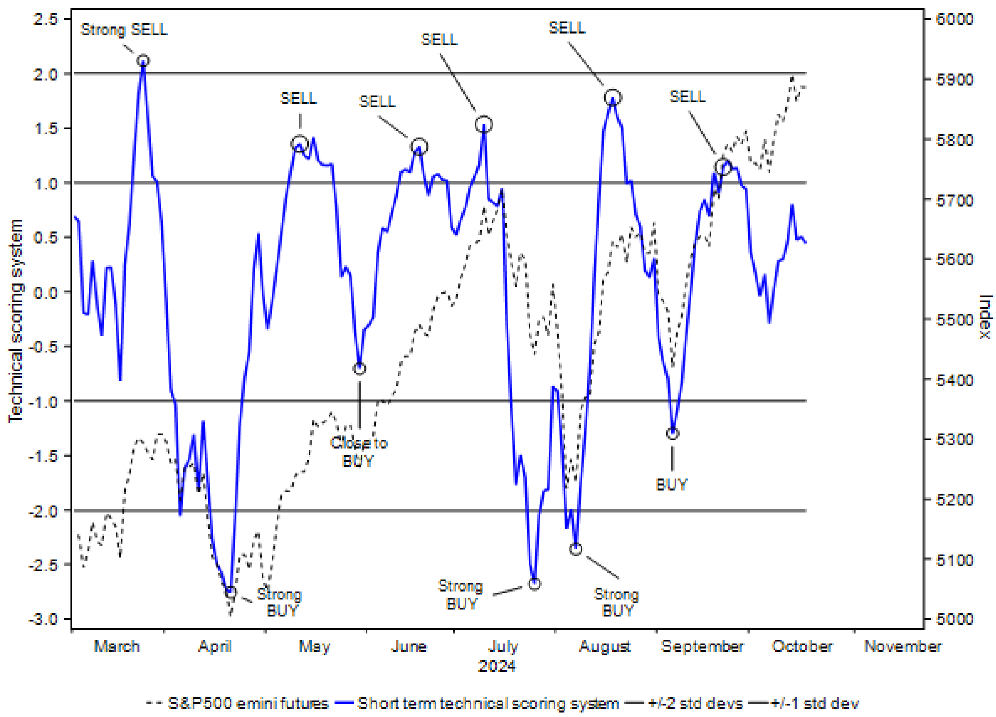


FIG 2a: Longview **SHORTEST term** RAG1 vs. S&P500



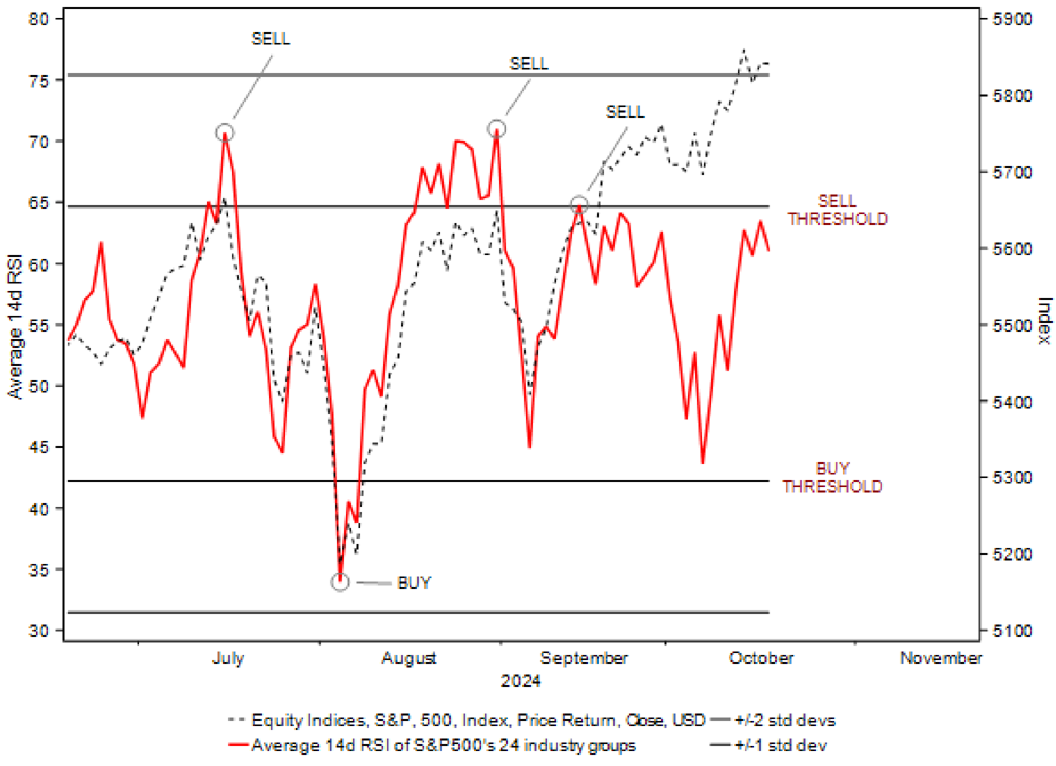
Source: Longview Economics, Macrobond

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



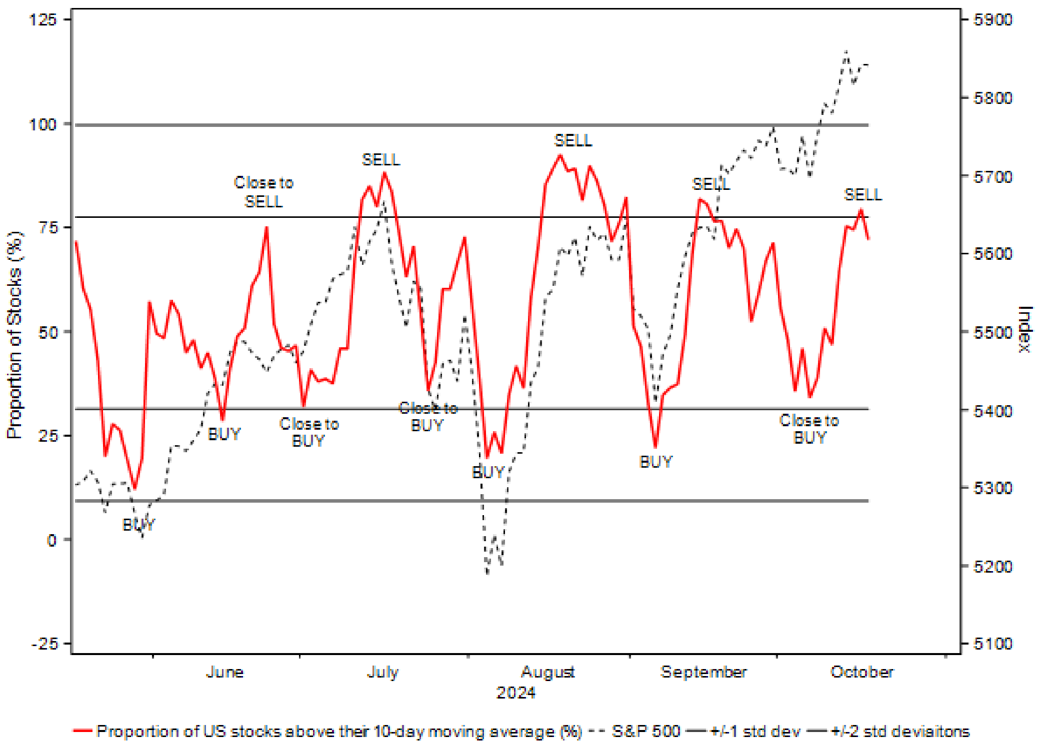
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

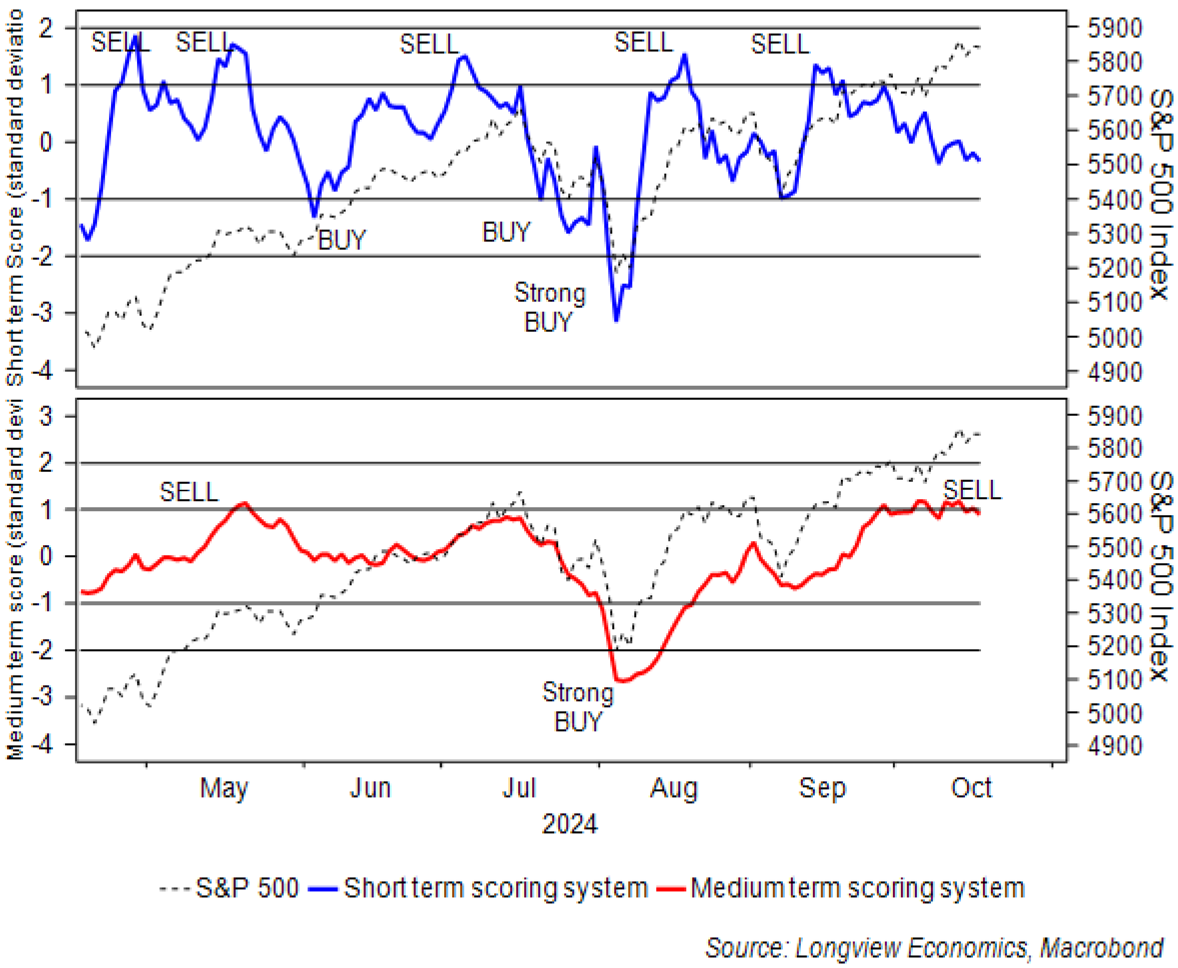


Source: Longview Economics, Macrobond

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

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

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



Key macro data/events

Key data today include: **UK Retail sales** (Sept, 7am); ECB current account (Aug, 9am); Eurozone construction output (Aug, 10am); **US housing starts & building permits** (Sept, 1:30pm).

Key events today include: **Japanese headline & core CPI** (Sept, 12:30am); **Chinese new & used home prices** (Sept, 2:30am); **Chinese GDP** (Q3, 3am); **Chinese activity data** (industrial production, retail sales, fixed asset, property investment & unemployment rate – Sept, 3am); ECB survey of professional forecasters (Fri, 9am); the Fed's Kashkari moderates panel event (3pm) & speech by the Fed's Waller on decentralised finance (5:10pm).

Key earnings today include: **China Mobile**, Zijin Mining Group, Legal & General, **P&G**, **American Express**, Schlumberger, Fifth Third.

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

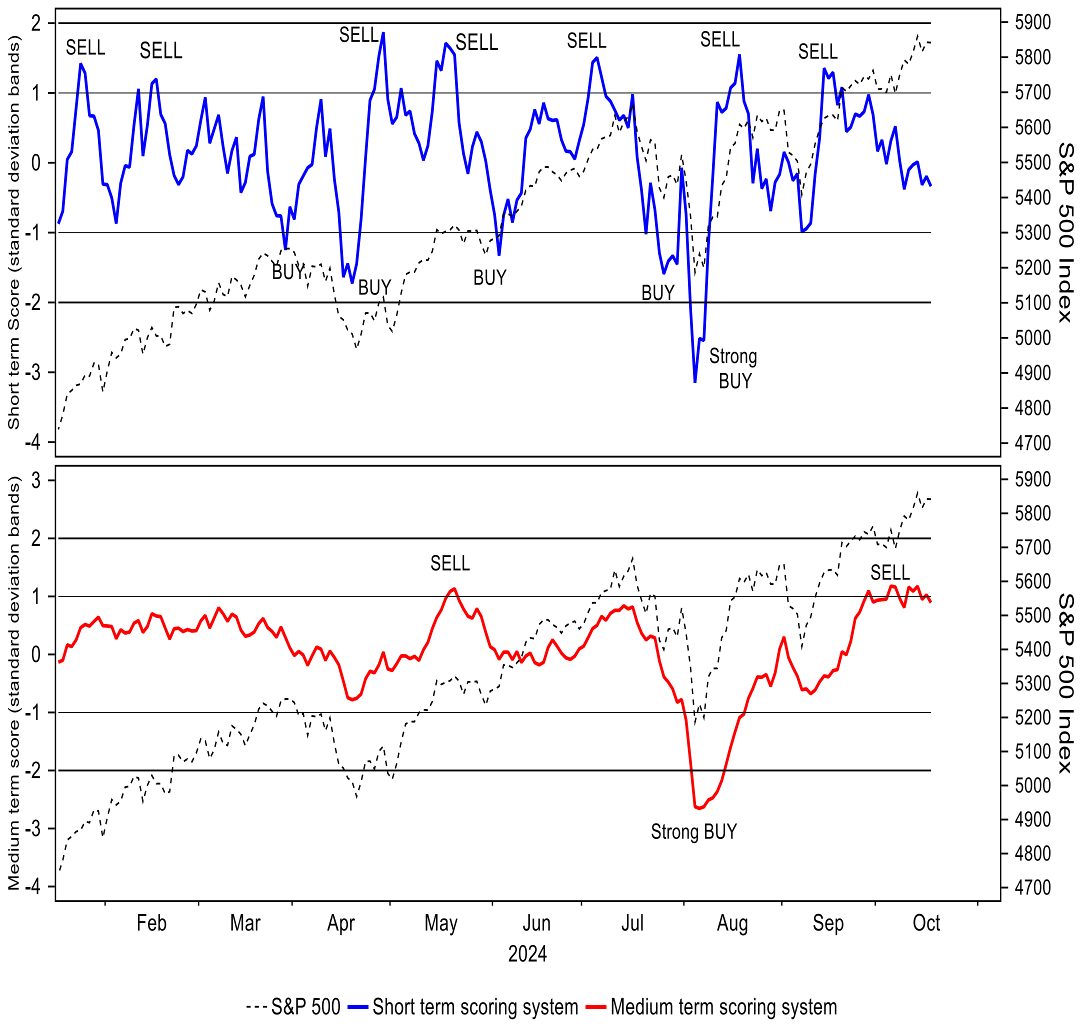
1 – 2 Week View on Risk

18th 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

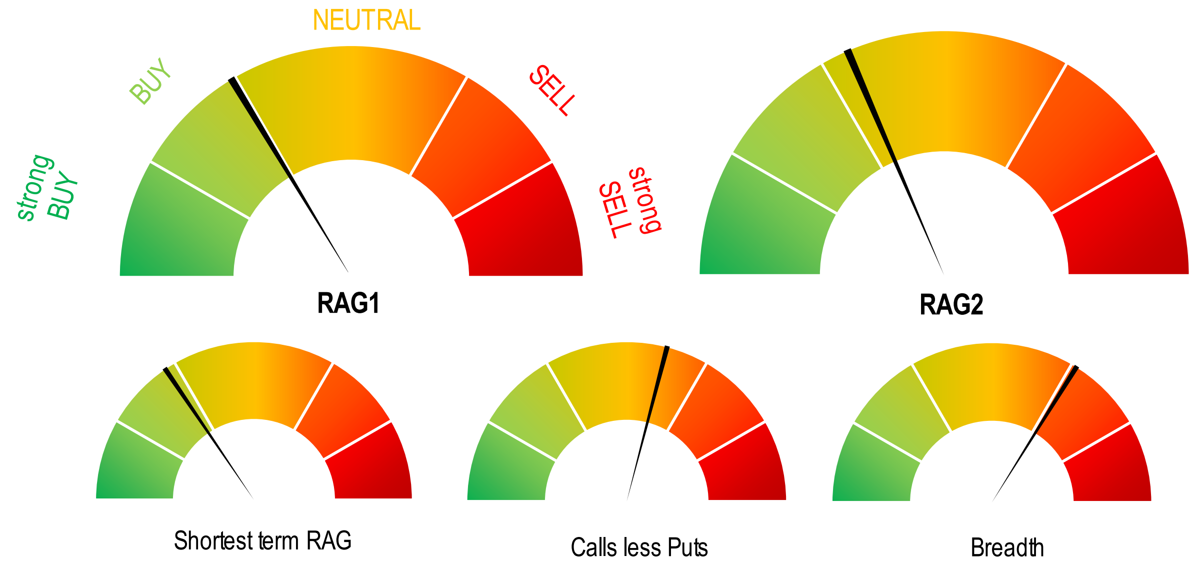
Source: Longview Economics, Macrobond

*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

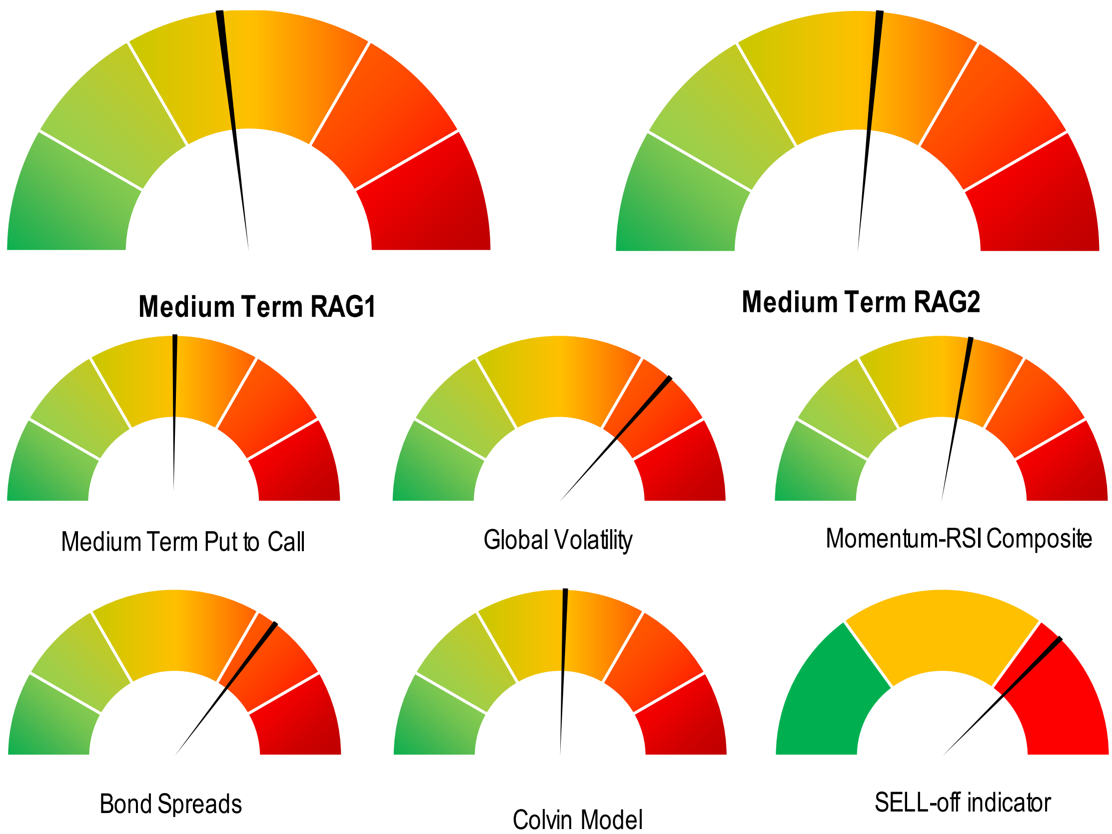
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

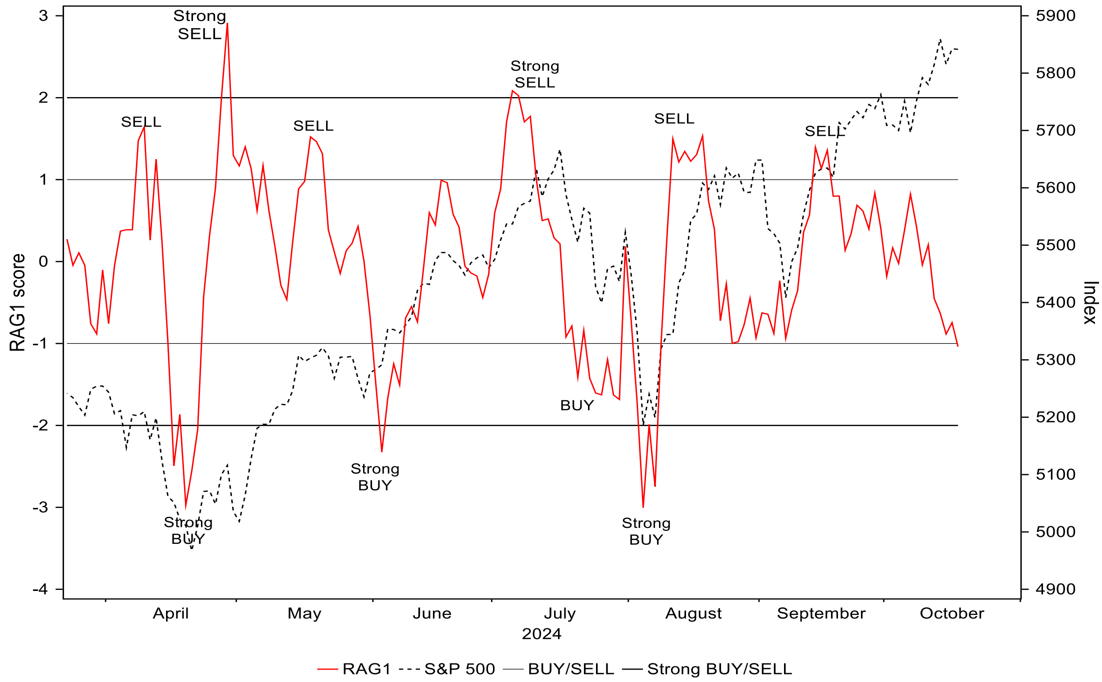
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

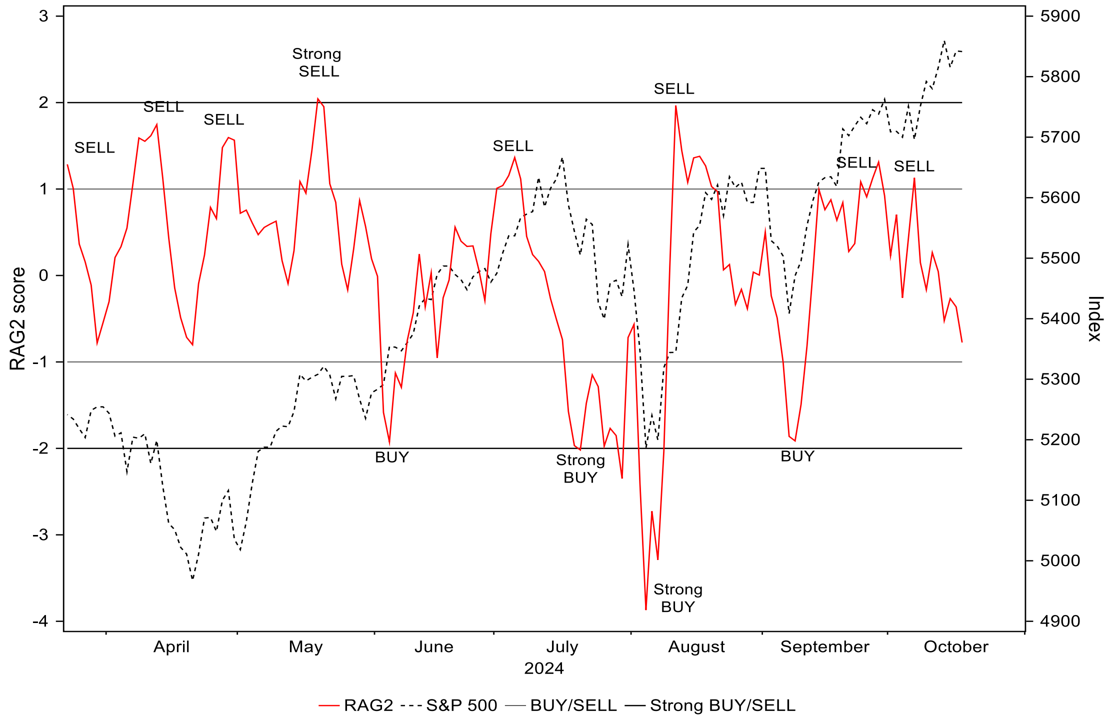
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on BUY

Source: Longview Economics, Macrobond

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

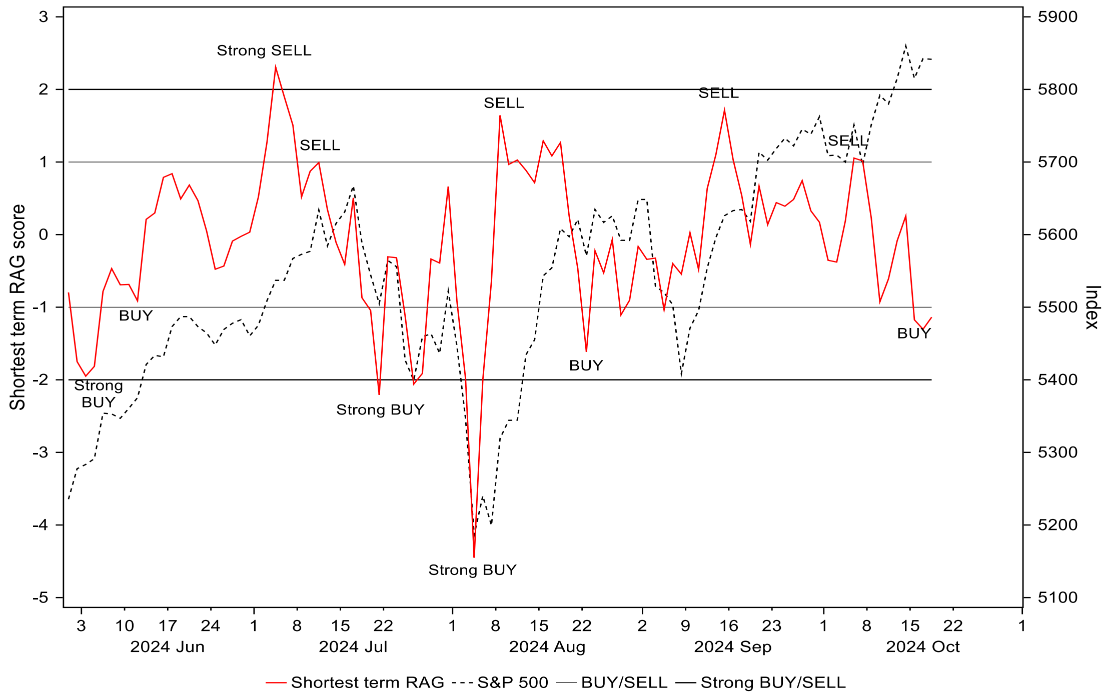


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

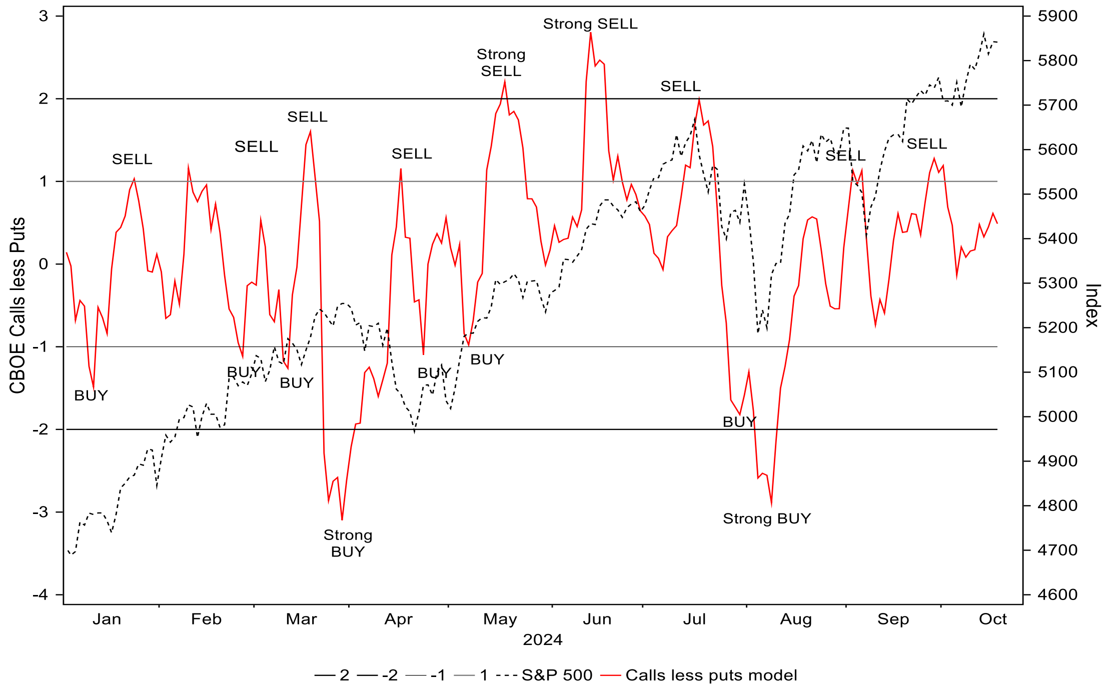
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on BUY

Source: Longview Economics, Macrobond

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

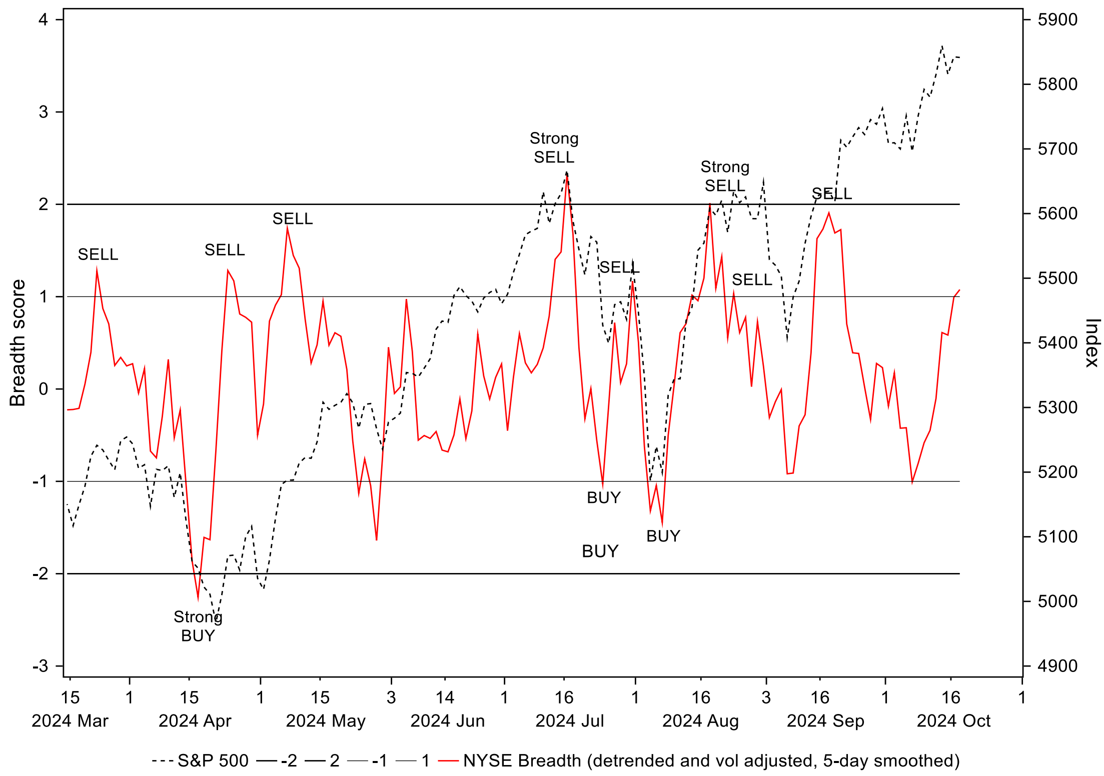


Calls less puts model is NEUTRAL

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



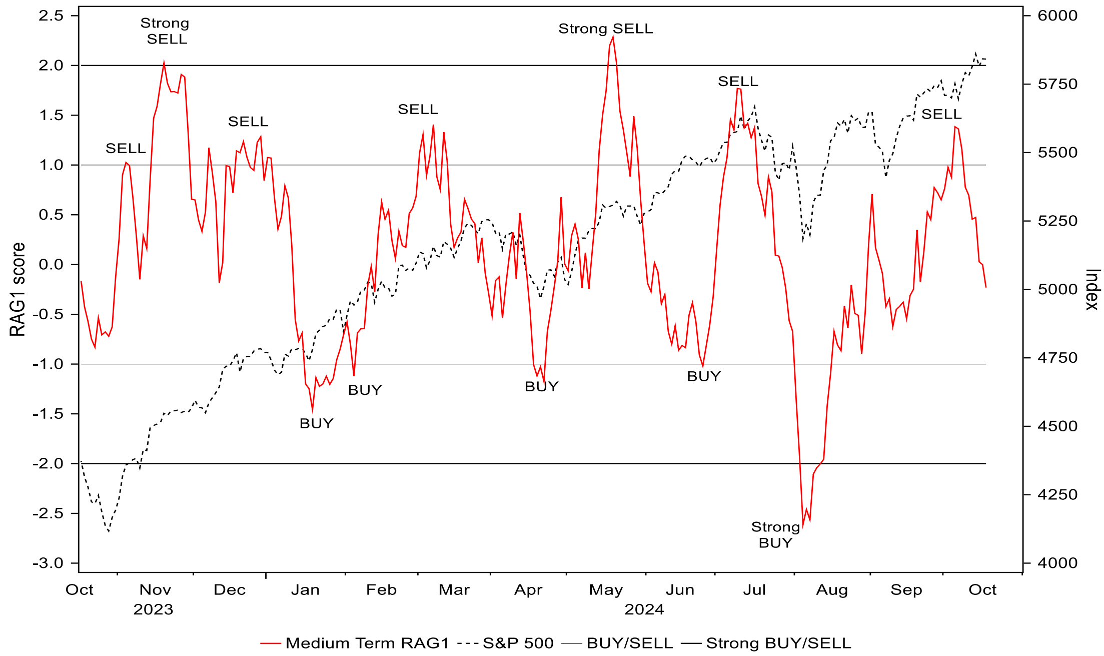
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

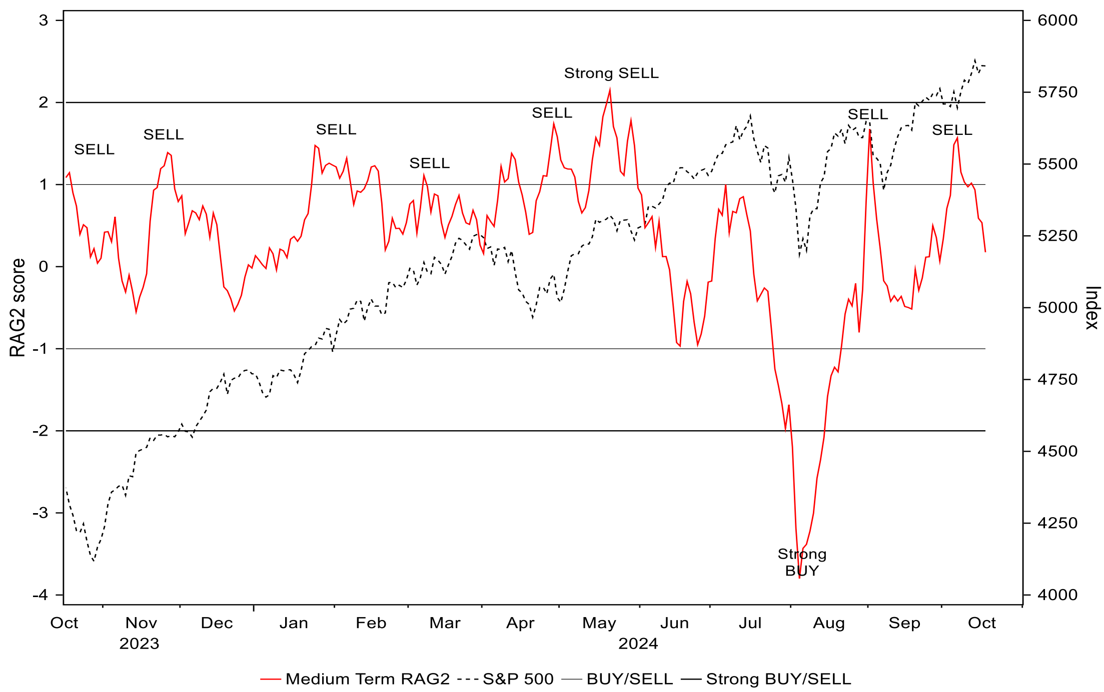
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

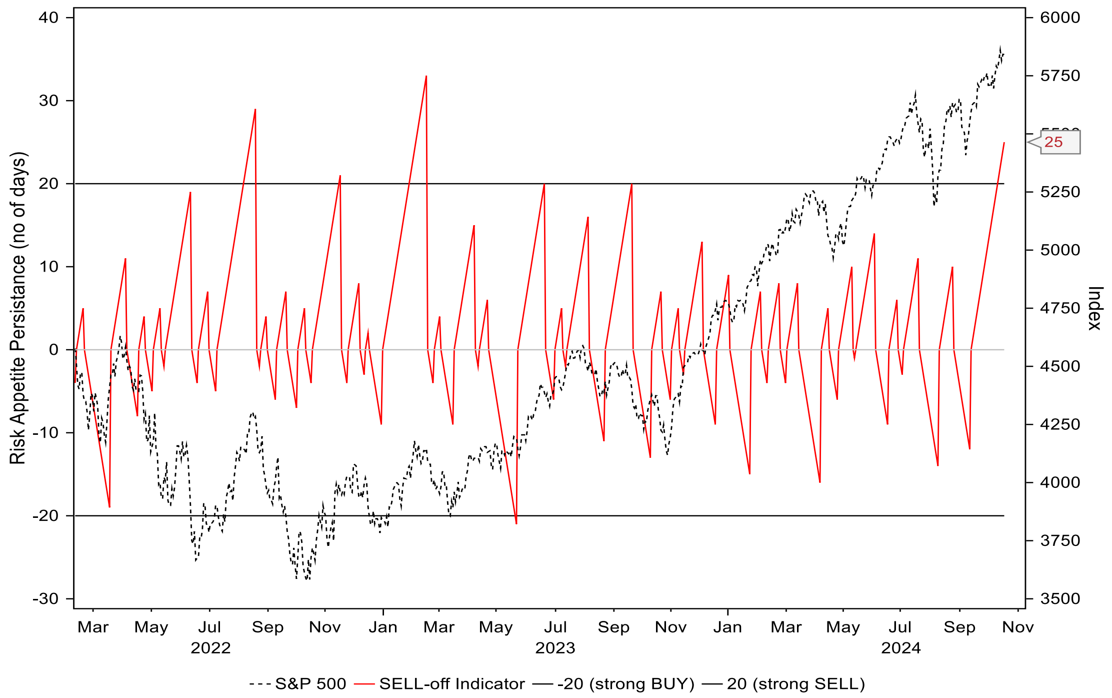


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

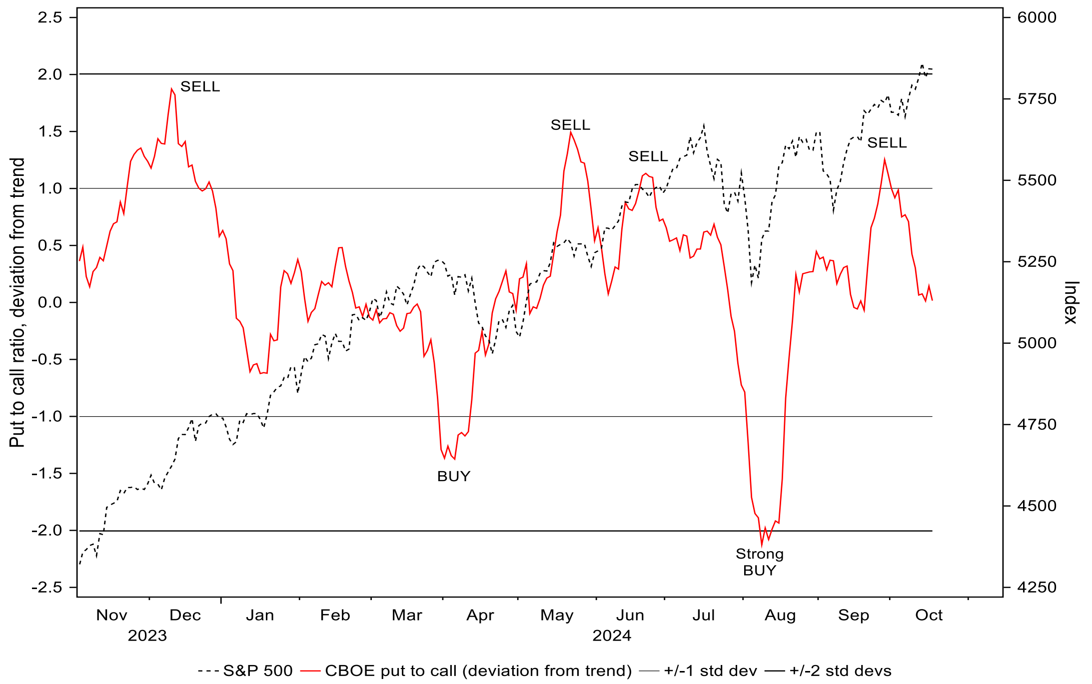
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

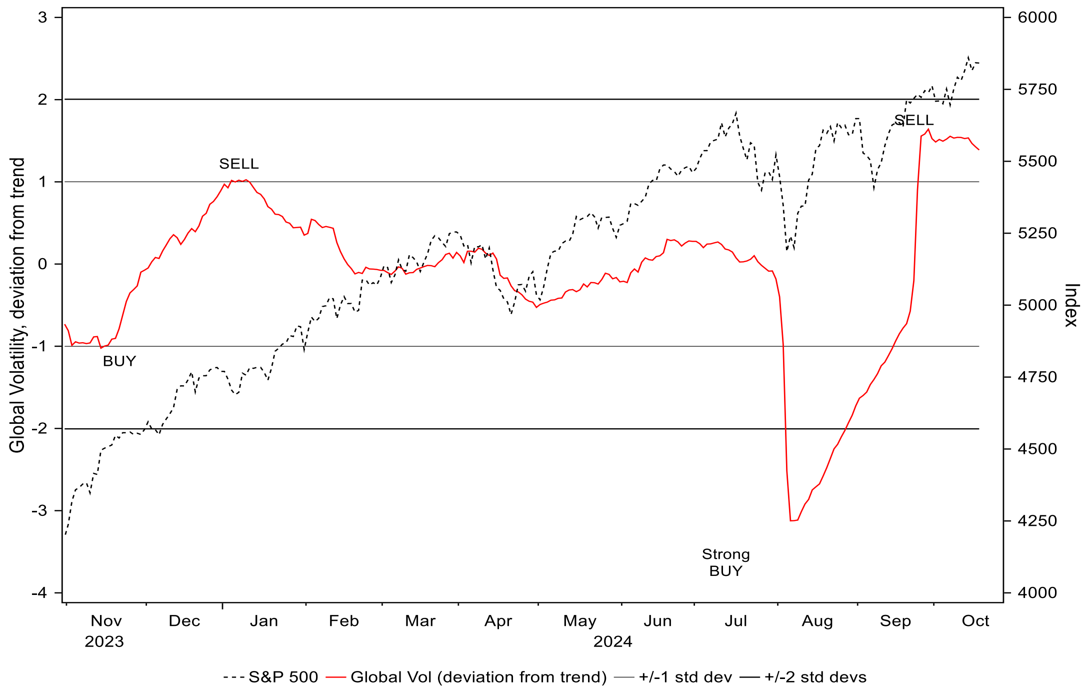


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

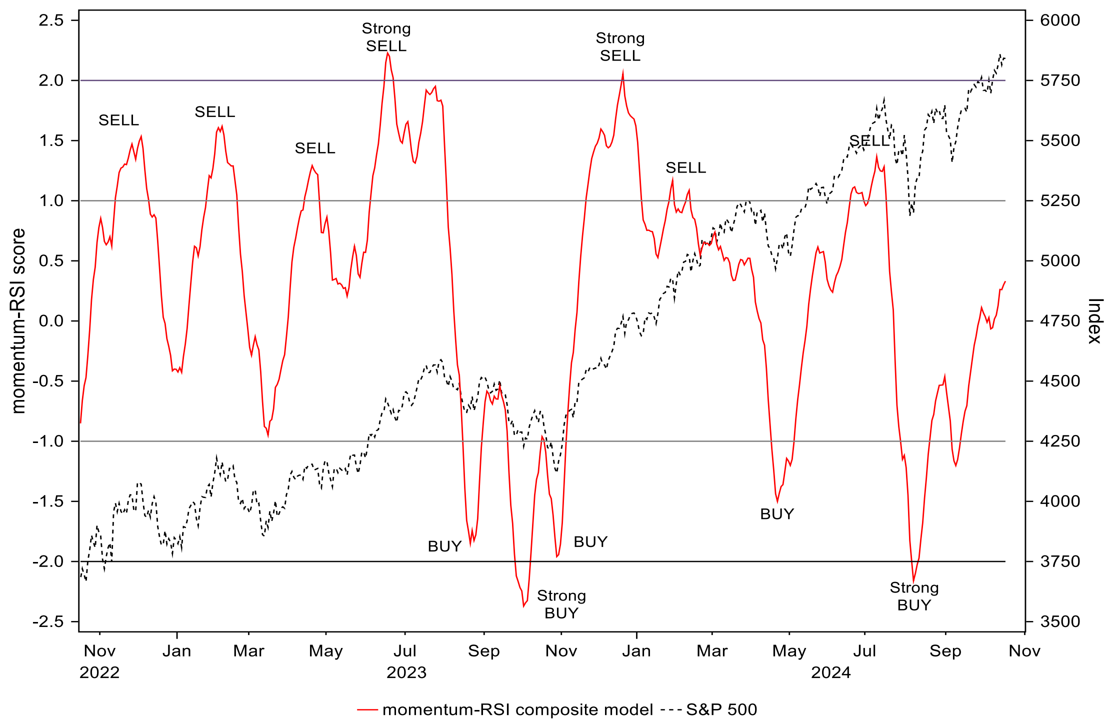
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on SELL

Source: Longview Economics, Macrobond

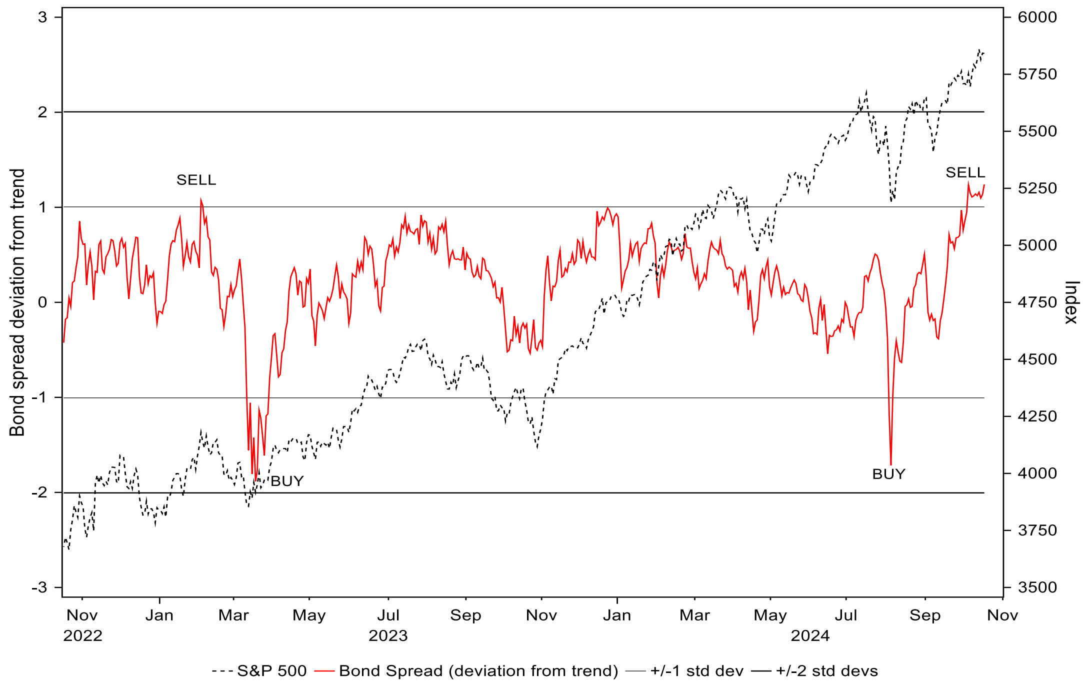
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

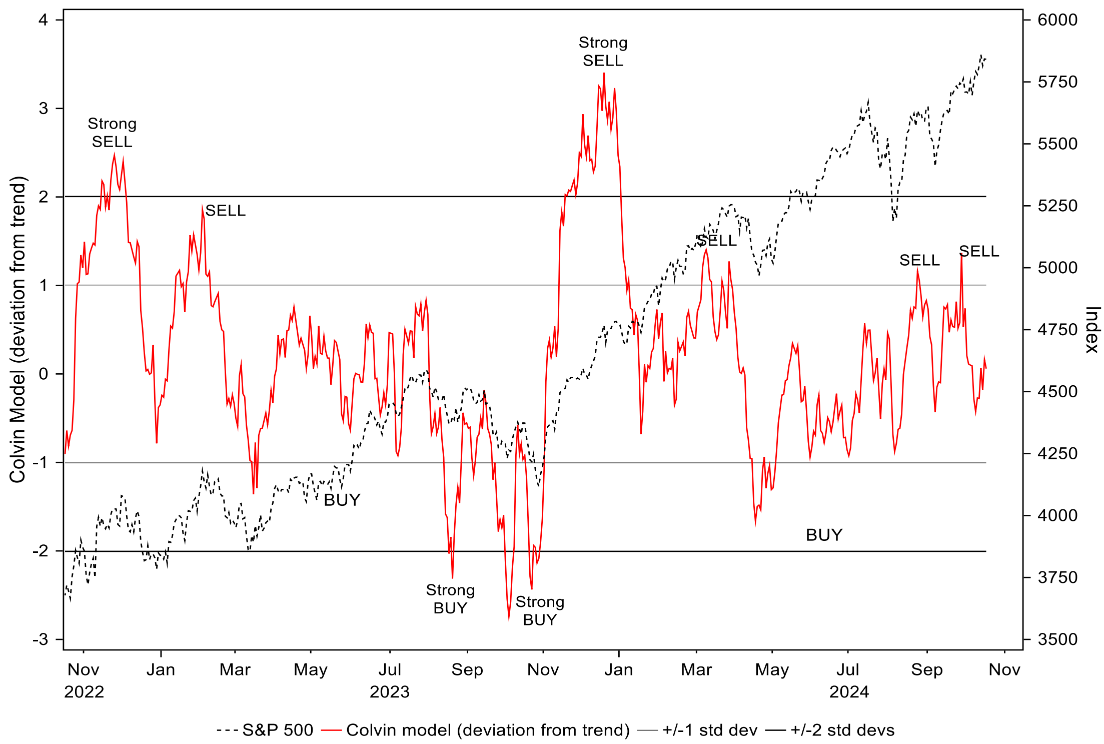
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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