

Equity Index Futures Trading Recommendations

18th September 2024

"Move SHORT NDX on Strength - All Eyes on the Fed"

Email: info@longvieweconomics.com

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

- Move ¼ SHORT NDX100 December futures on strength at 19,800.
- Place stop loss 3% above entry (at 20,394).

Rationale

Markets drifted yesterday as they awaited the outcome of today's Fed meeting. The debate continued as to whether the cut will be 25 or 50bps. With that US 1 and 2 year bond yields ticked higher (by 3bps). As of last night's close, markets are pricing 100% chance of at least a 25bps cut with an approx. 65% probability of a 50bps cut. As well as watching the announcement tonight, markets will closely watch the 'dot plots' (summary of economic projections), the full statement and the press conference. Key questions will include: how many more cuts do the 'dot plots' imply for the remainder of 2024 (as well as 2025), as well as the tone of the press conference?

Illustrating that sideways market, the S&P500 closed +0.03%; the NDX100 was +0.05%; while the SOX and DJIA were also both basically unchanged. Sectors were more mixed as energy bounced (reflecting oil price strength). Bitcoin is up again over the past 24 hours (+4.6% from yesterday's low), while gold and silver are somewhat mixed/flat this morning.

Our view remains unchanged from yesterday. That is, after a sharp rally in US equities in the past two weeks, plenty of 'good news' is in the price (with a 50bps rate cut largely priced in/expected). Given the SELL message of the models (see below), we therefore expect the classic 'buy the rumour, sell the fact' price pattern to (continue to) unfold, i.e. with weakness in equities following tonight's Fed decision.

Models update: Short term indicators are increasingly generating a SELL message. In particular, the 3 day CBOE put to call ratio has turned SELL overnight (FIG 1), while the NASDAQ100 put to call ratio is close to SELL (FIG 1a). Elsewhere volatility readings are relatively low (FIG 1e) and, as such, **near term complacency in markets is elevated**. Added to which, our risk appetite models are generating a clear SELL message (FIGs 2 & 2a); key US indices are (close to) technically overbought (FIGs 2b & 2c); while various momentum and breadth models are either on SELL/strong SELL, or have recently generated SELL signals (see FIGs 3 & 3a).

All of which suggests that US equities should fail to convincingly break above their recent pennant patterns (which have been forming in several key indices in recent weeks and months – see FIGs 1b – 1d). The risk reward therefore continues to favour looking to move SHORT US equities.

Yesterday we were not filled on our order to move SHORT NASDAQ100 futures. For choice, given the strengthening SELL message of the models, we favour modestly lowering the order level to 19,800 (from 19,900 yesterday – please see above for detailed recommendation).

Risks, as always, are multiple and include the possibility that upward momentum in markets persists (i.e. that equities are back in a ‘risk on’ regime after a phase of higher volatility in recent months). In that scenario the SELL signals from our models are likely to be early/wrong. We therefore view this trade as somewhat opportunistic.

Key events/macro data today are listed below.

Kind regards,

The team @ Longview Economics

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

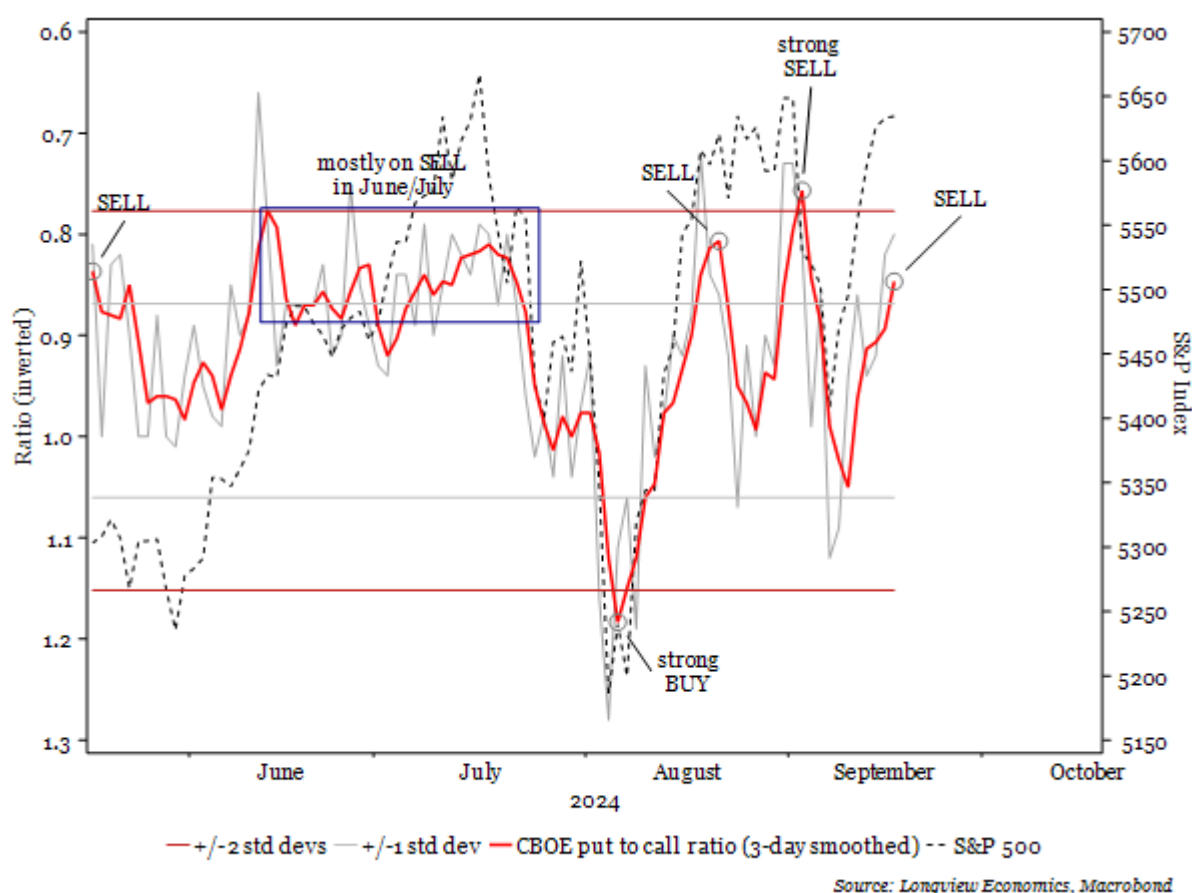
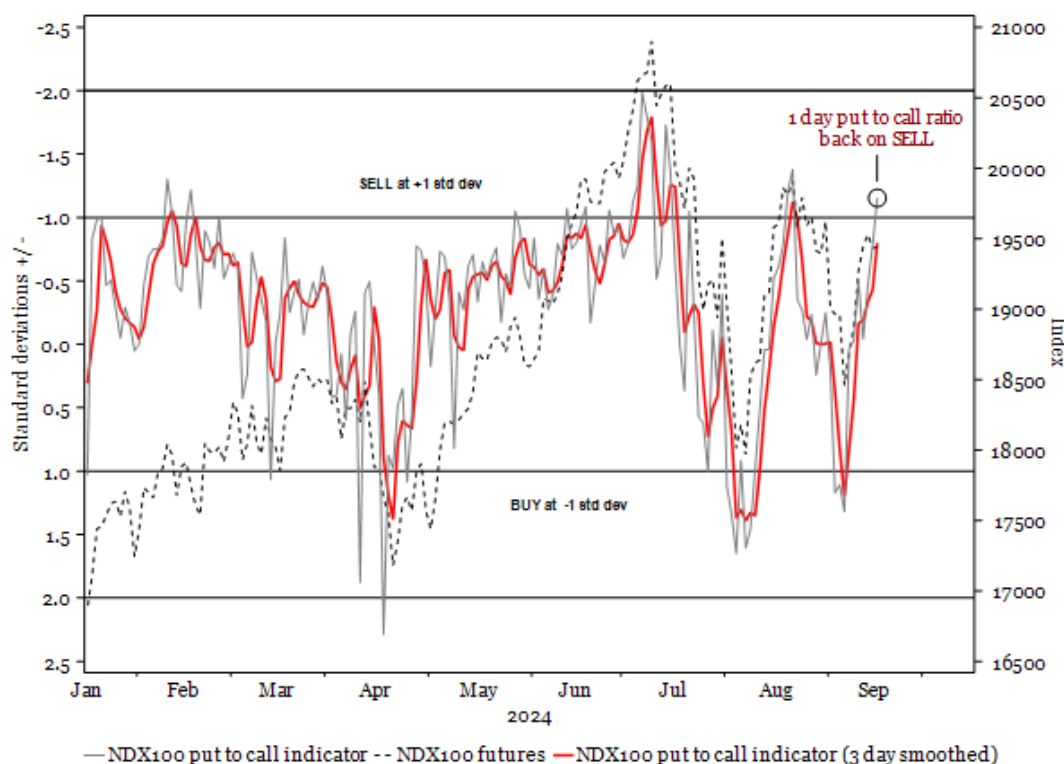


FIG 1a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

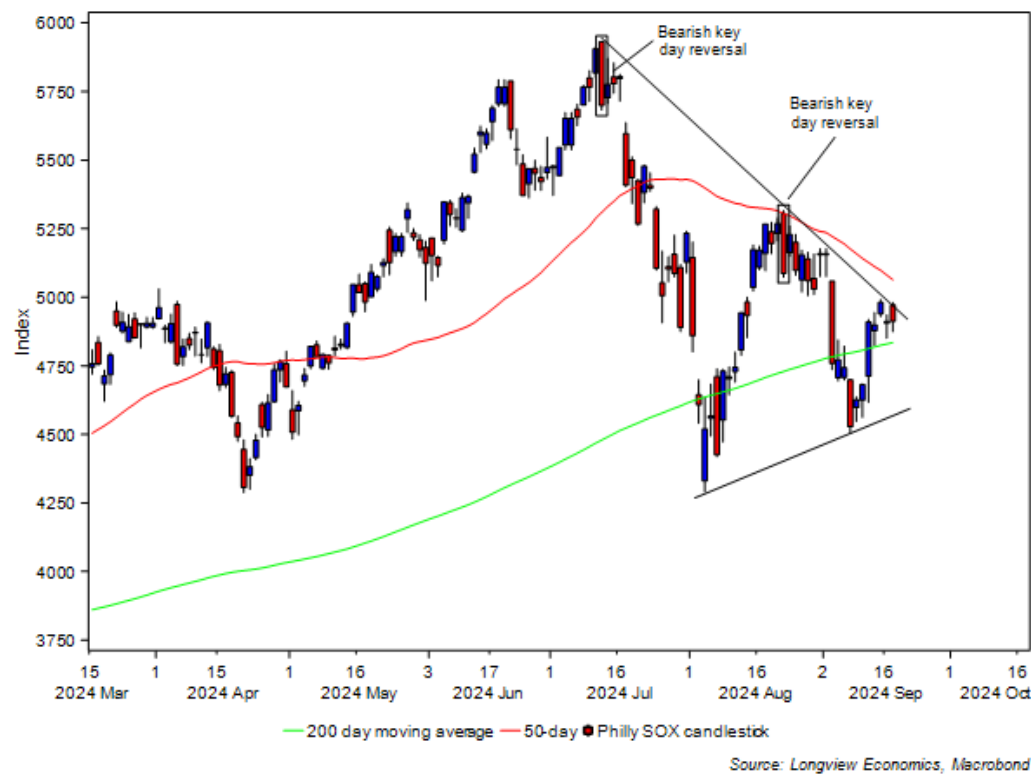
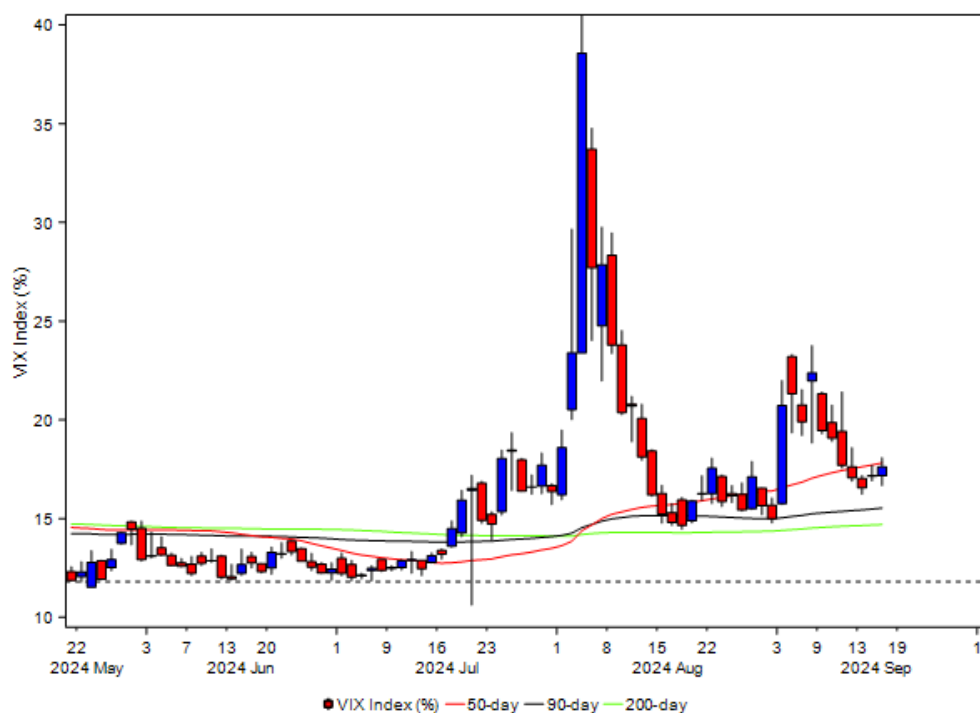


FIG 1d: Russell 2000 futures shown with 50 & 200 day moving averages



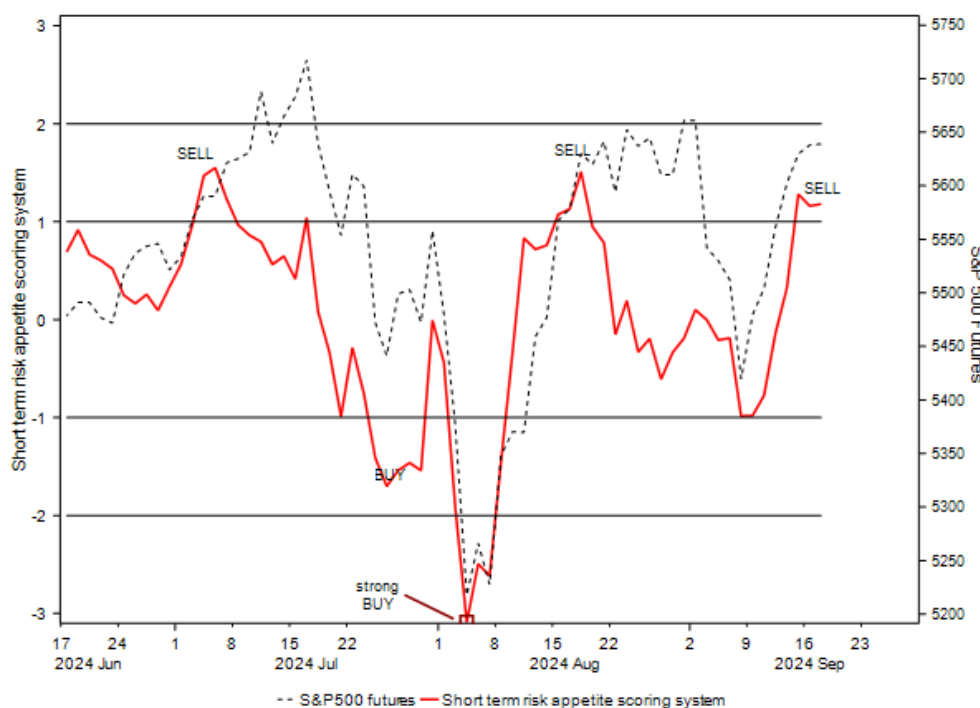
FIG 1e: VIX candlestick shown with 50, 90 & 200 day moving averages (%)



Source: Longview Economics, Macrobond

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

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

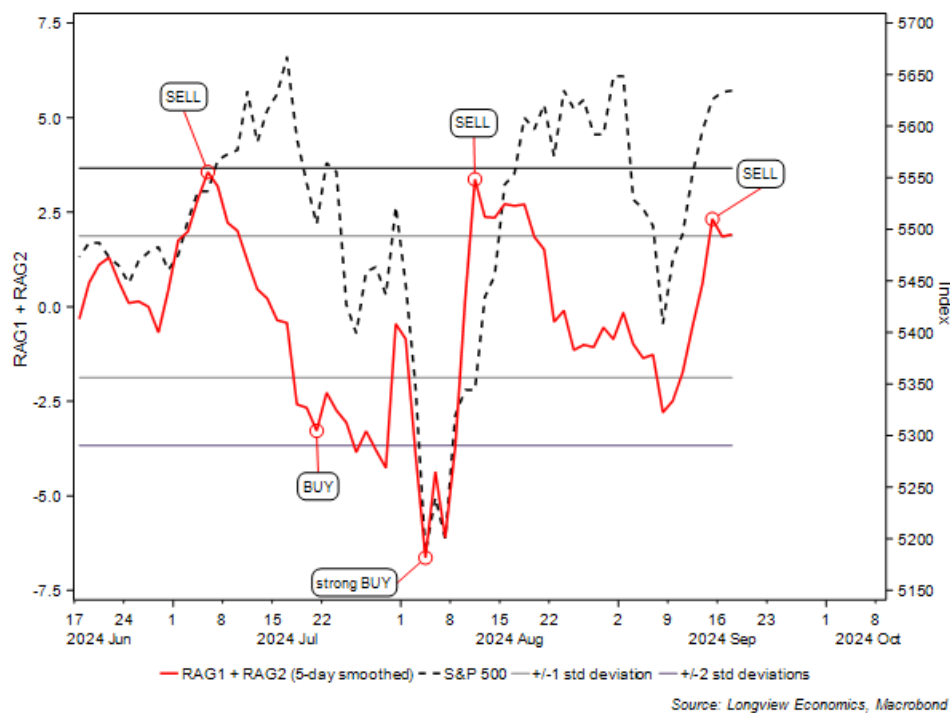


FIG 2b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures

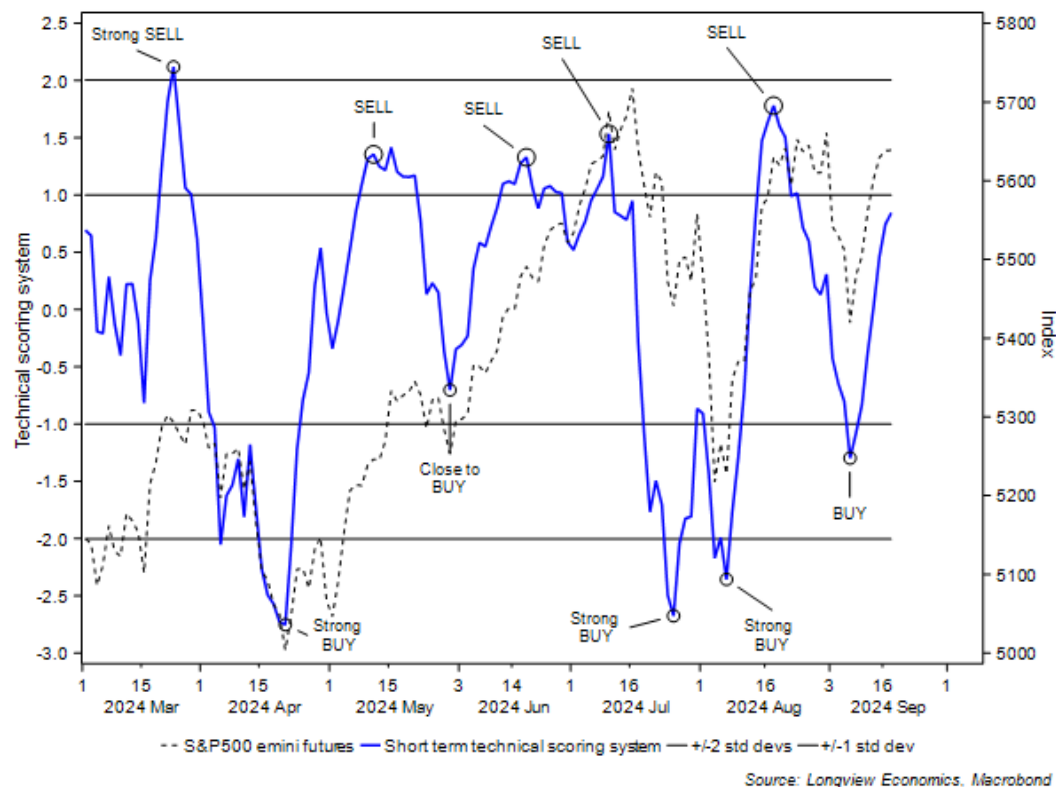


FIG 2c: Longview NASDAQ100 & Philly SOX short term **‘technical’** scoring system vs. NASDAQ100 futures

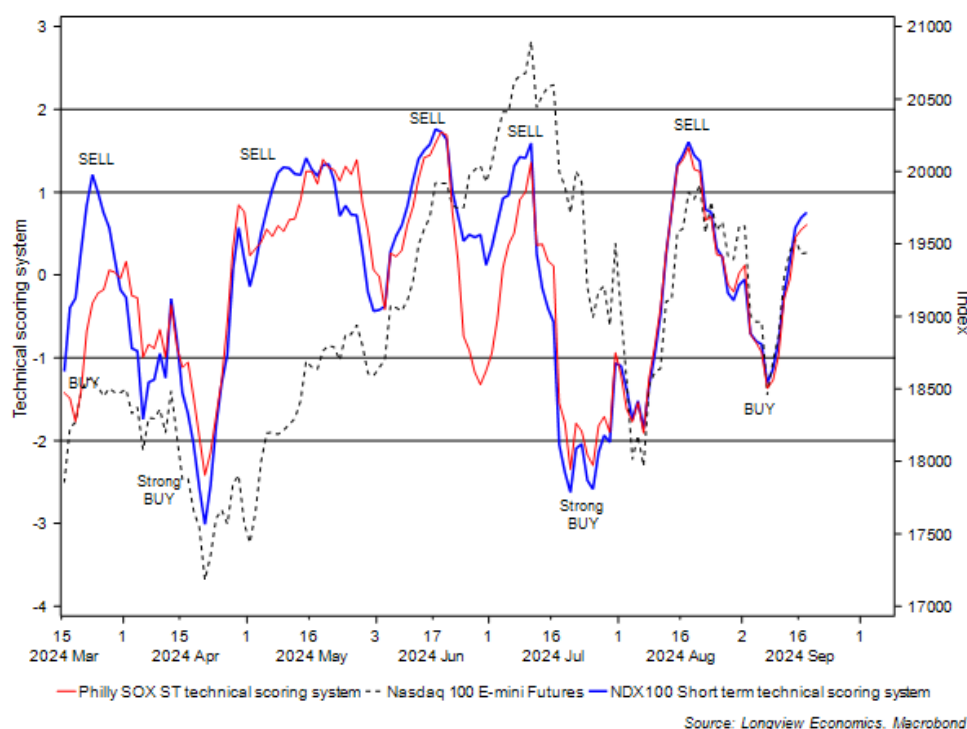


FIG 3: NDX100 momentum model shown vs. NDX100

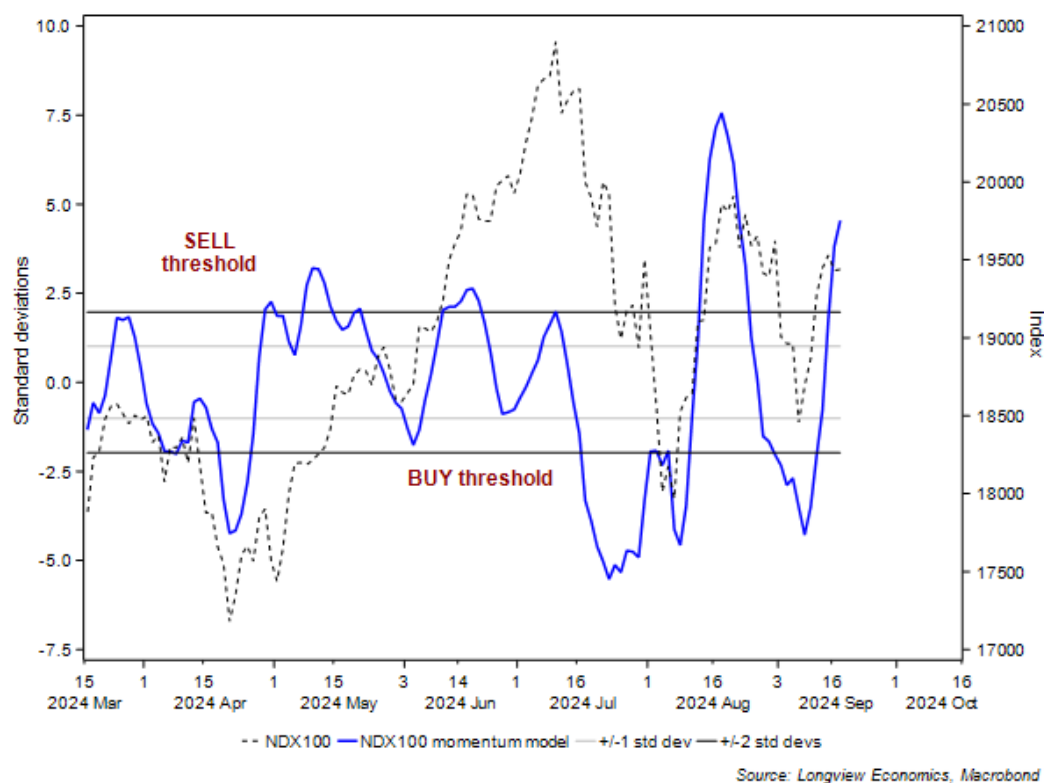
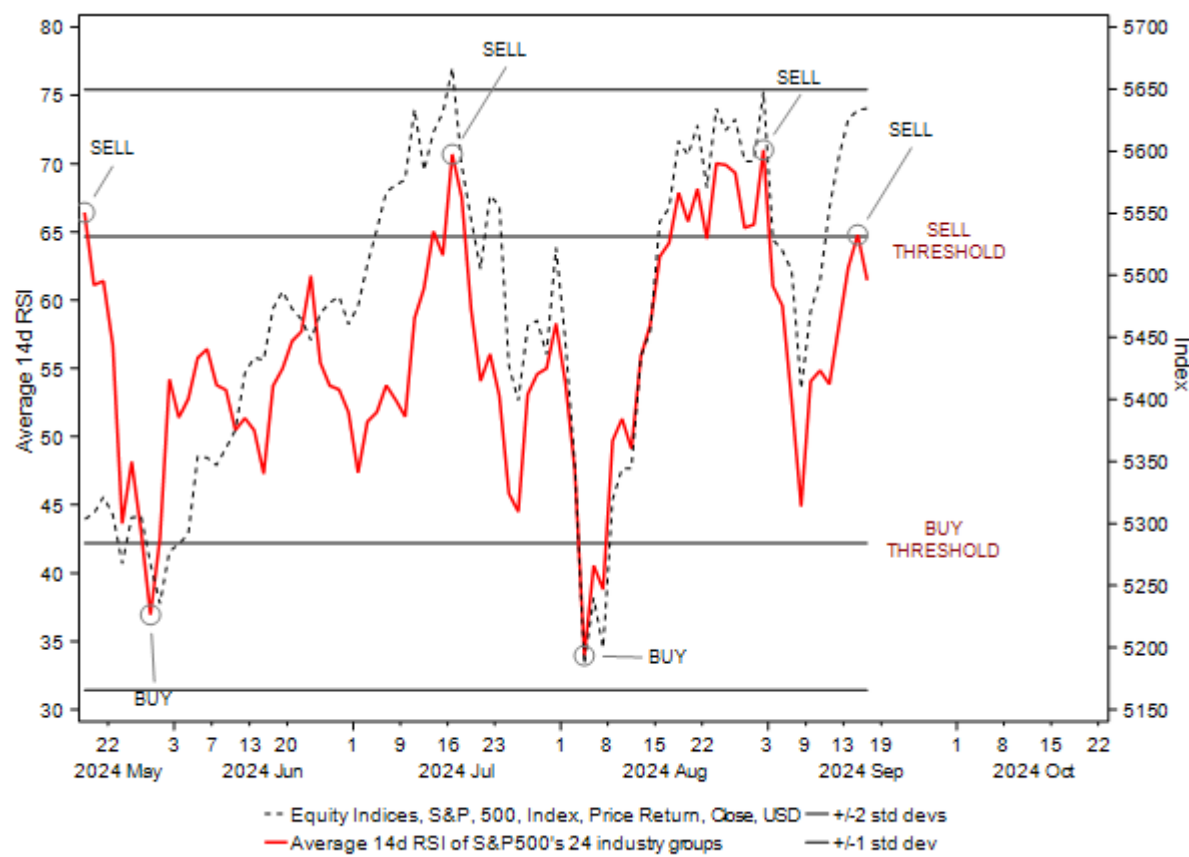


FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

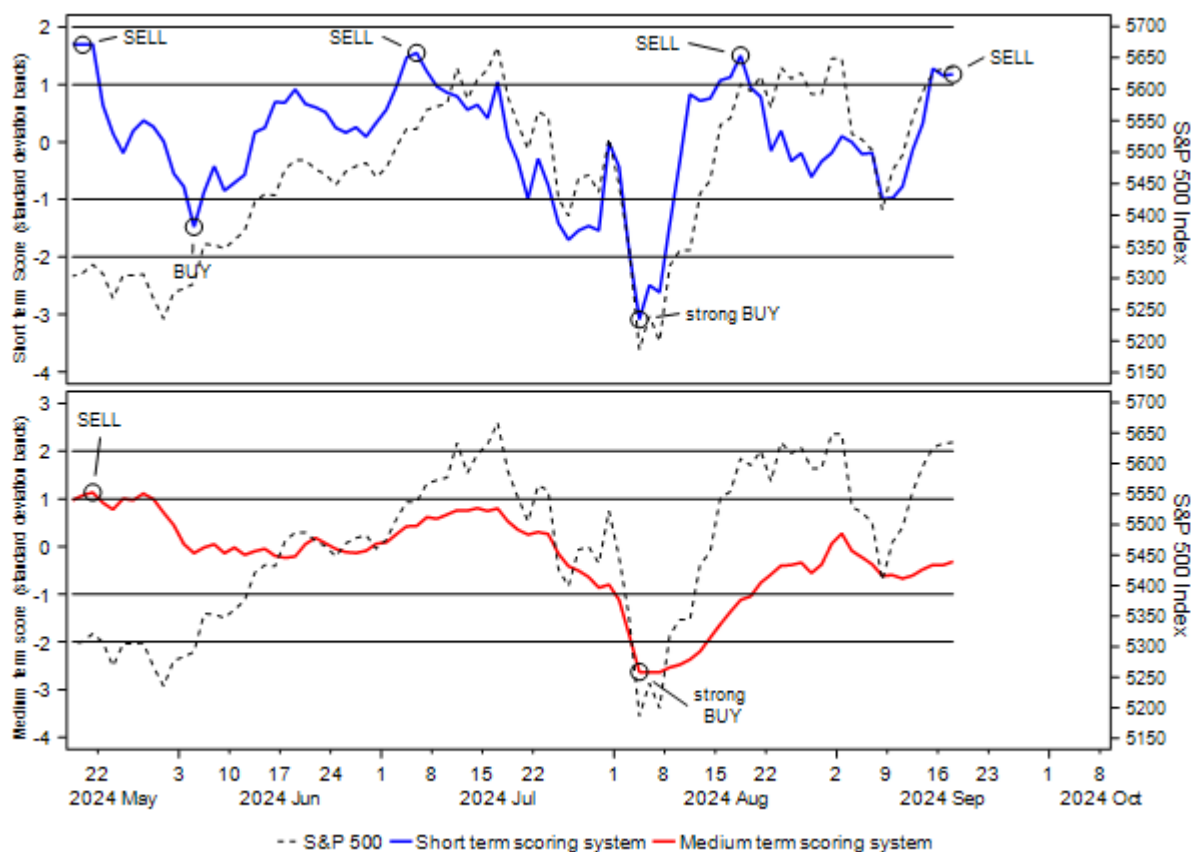


Key Longview Scoring Systems (chart below):

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: Japanese imports/exports & trade balance (Aug, 12:50am); Japanese machinery tool orders (Jul, 12:50am); Australian Westpac leading index (Aug, 1:30am); **UK Headline & core CPI**, RPI & PPI (Aug, 7am); UK Land Registry house prices (Jul, 9:30am); Eurozone headline & core CPI (August final estimate, 10am); Eurozone construction output (Jul, 10am); **US housing starts & building permits** (Aug, 1:30pm); US total net TIC flows (Jul, 9pm).

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); speech by the RBA's Jones on at the Intersekt Festival (12:20am); speeches by the ECB's Holzmann & Vujcic at Vienna conference (8am & 8:15am) & Nagel in Frankfurt (12pm); **Fed policy decision** & summary of economic projections (Wed, 7pm); Bank of Canada publishes summary of deliberations (Wed, 6:30pm).

Key earnings today include: General Mills.

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 earlier this month (5th September 2024). If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

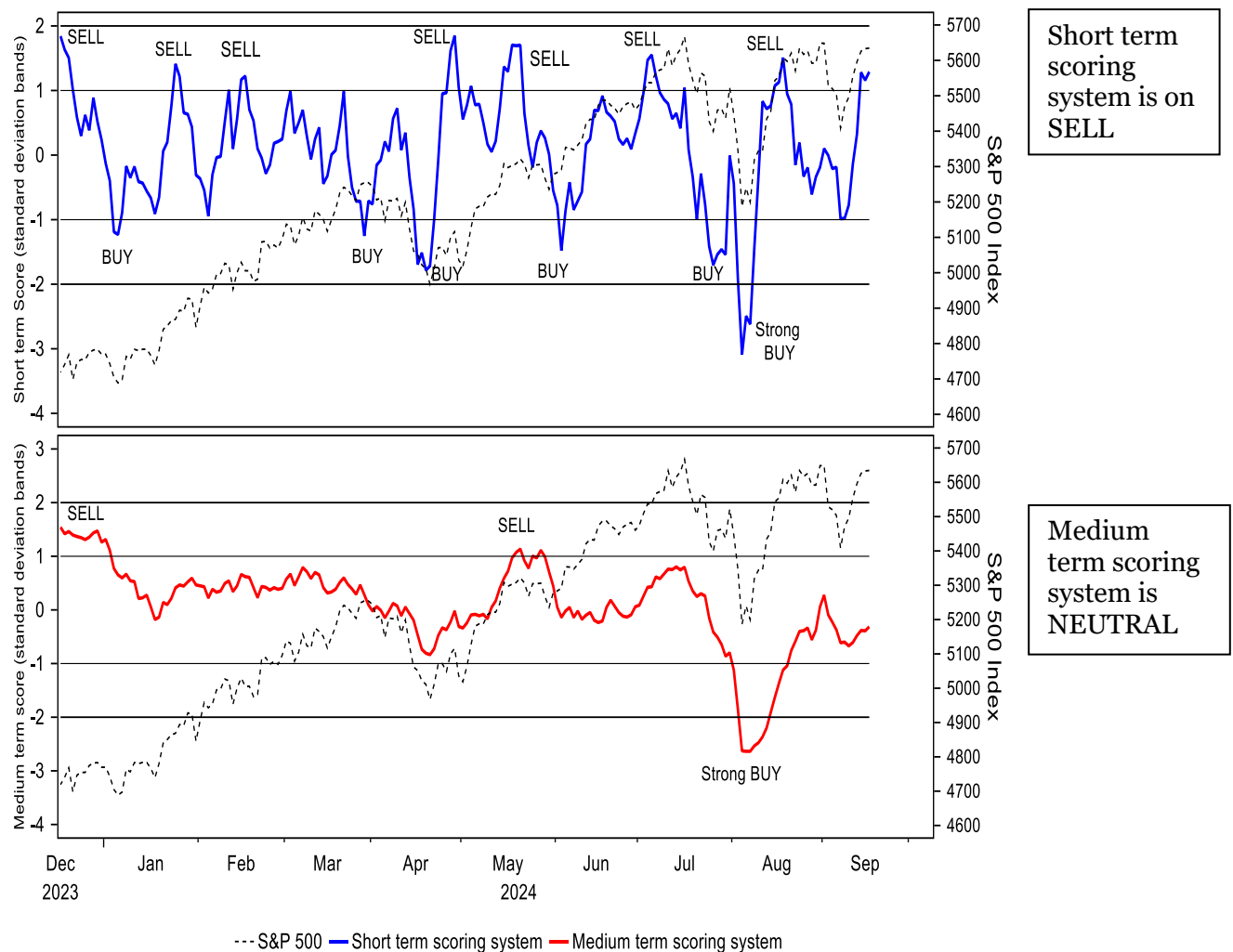


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Section 1: Longview Scoring Systems (short & medium term*)

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



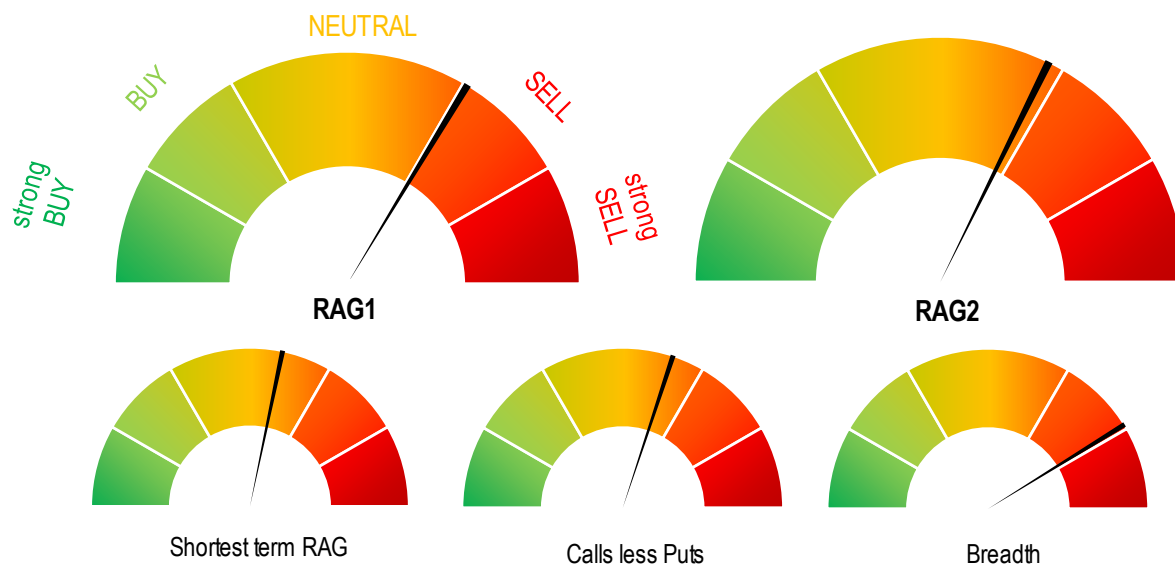
Source: Longview Economics, Macrobond

*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**

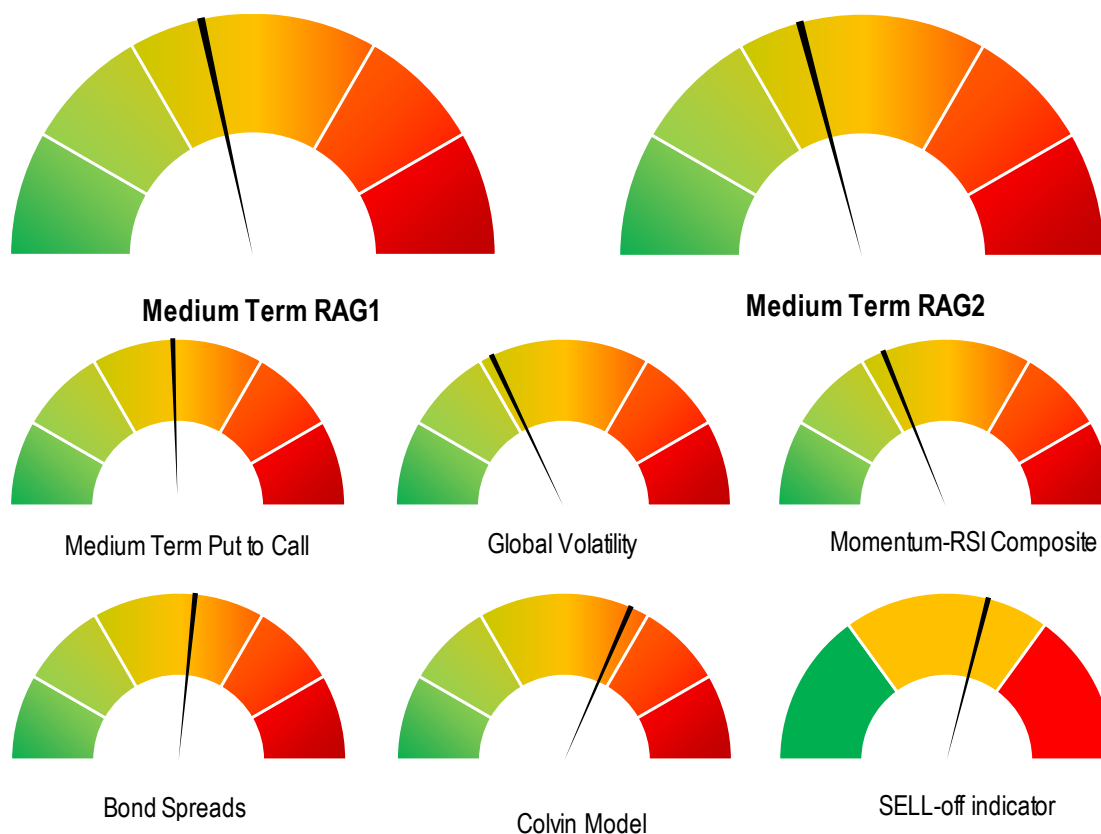
Section 1a: Summary of indicator signals**

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

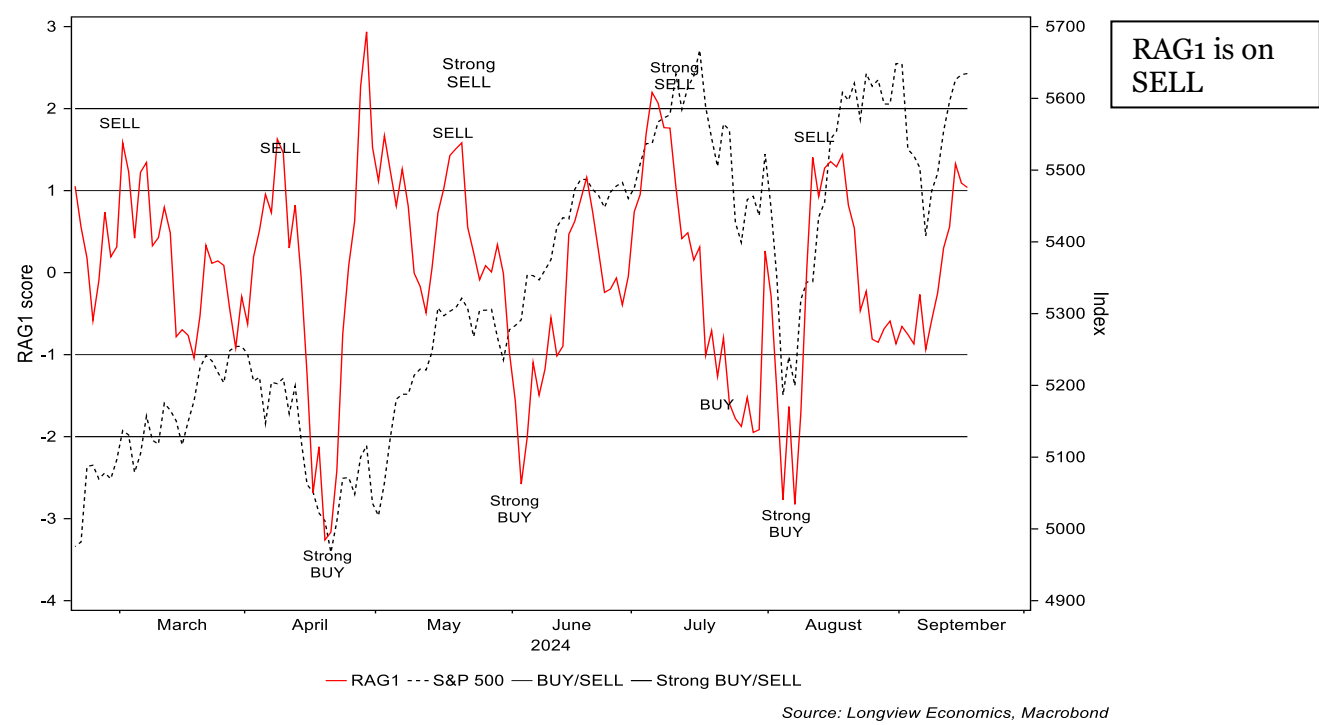
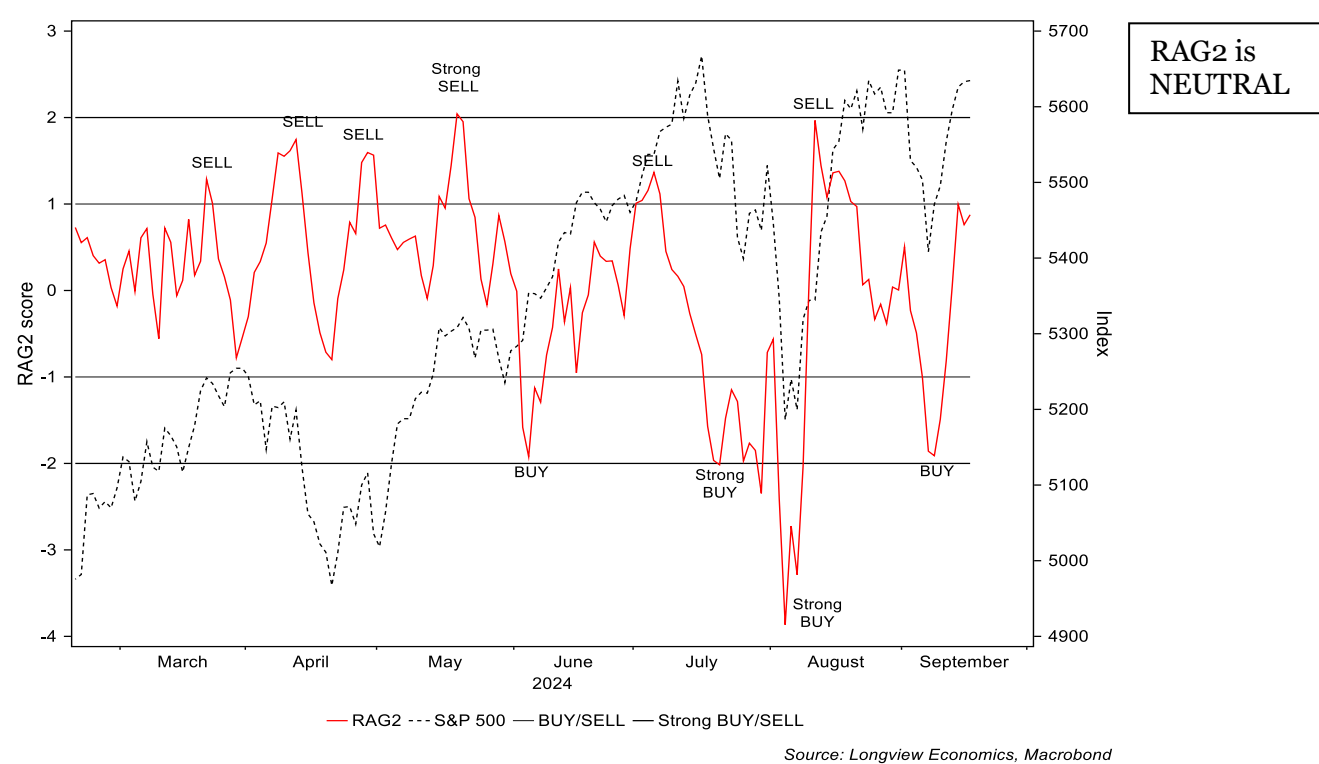


Fig 2b: RAG 2 vs. S&P 500



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

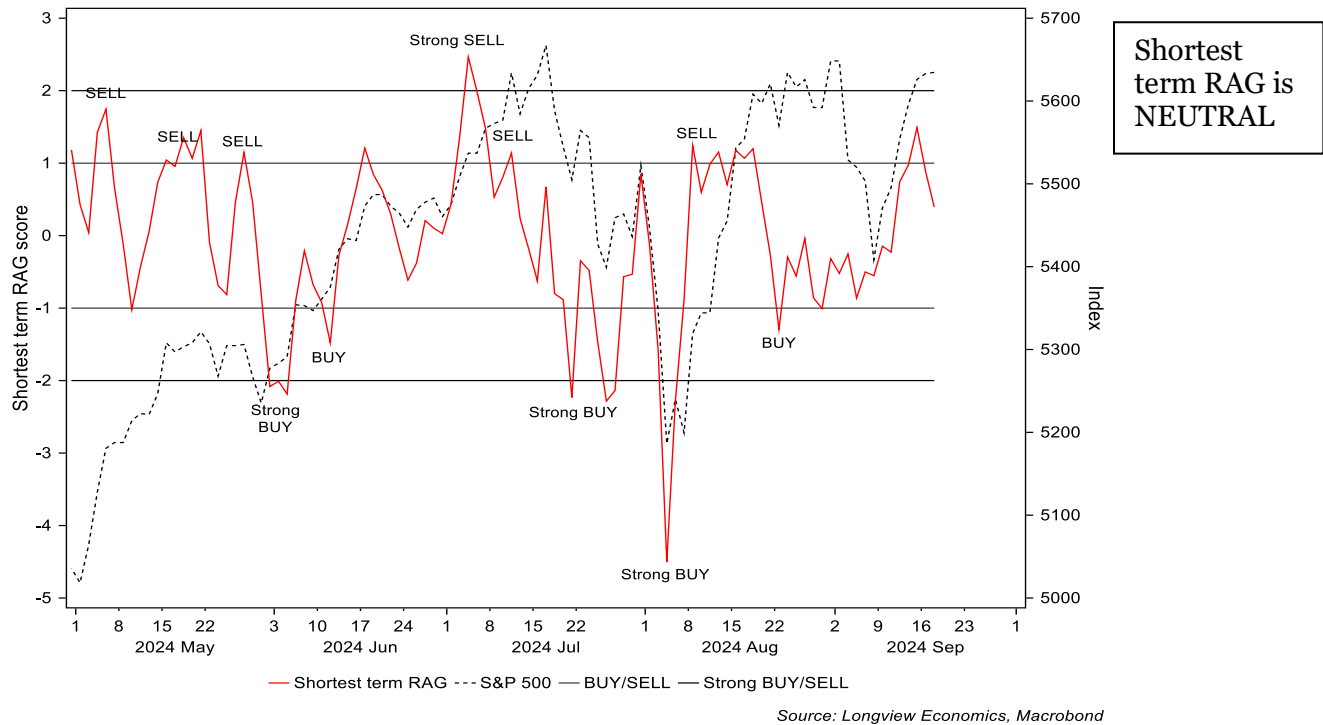
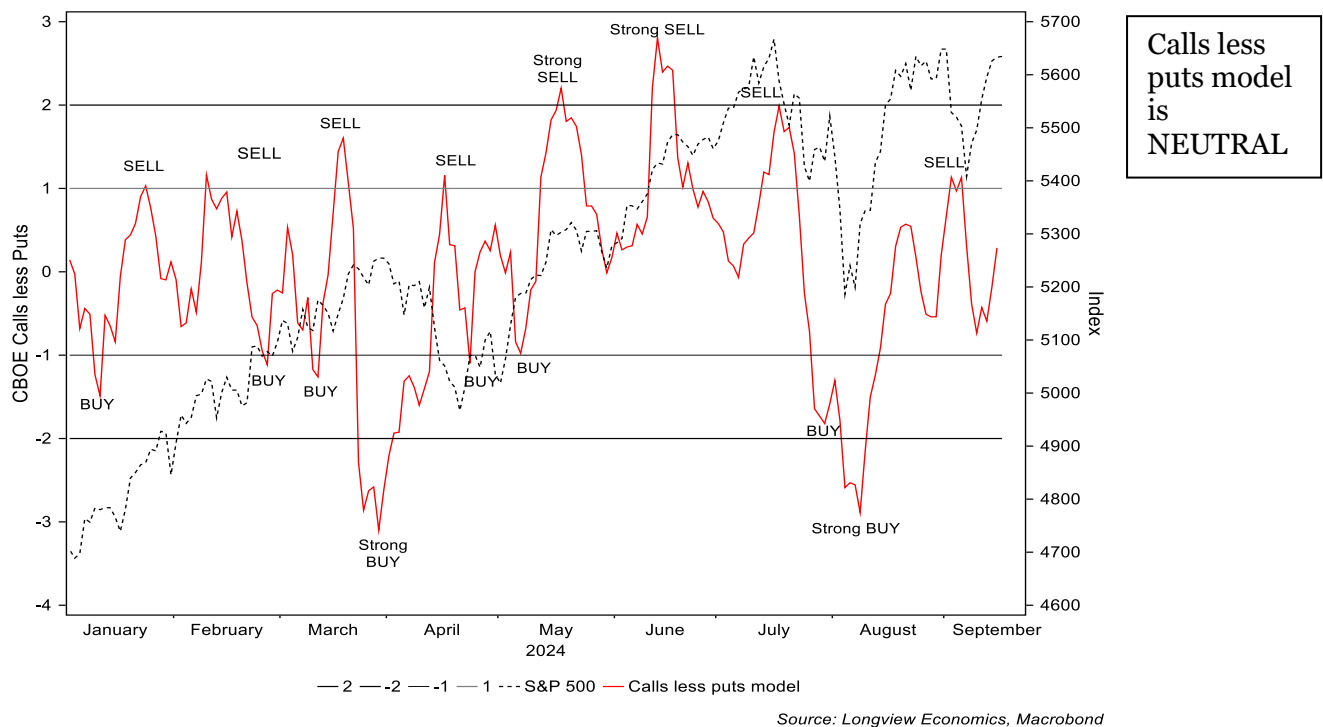
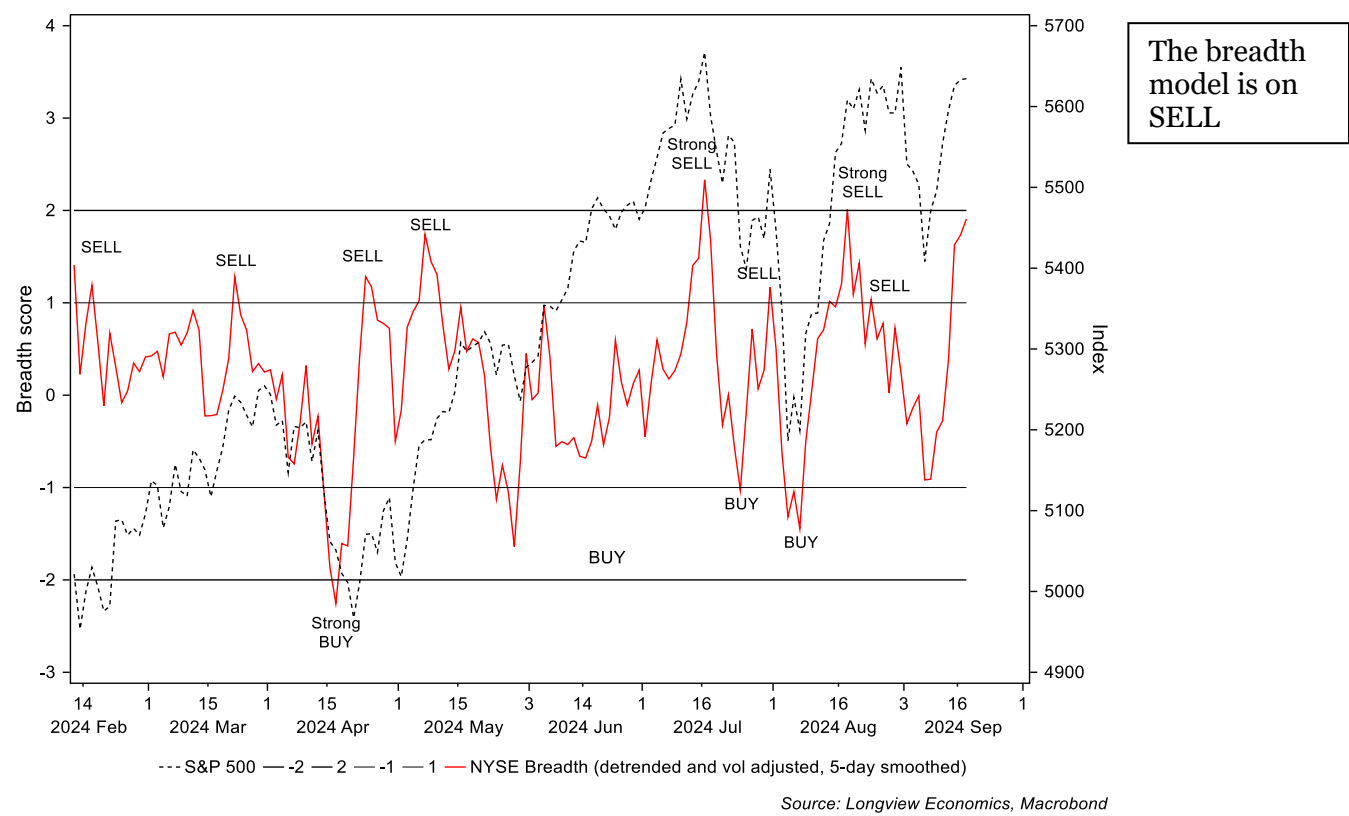


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



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

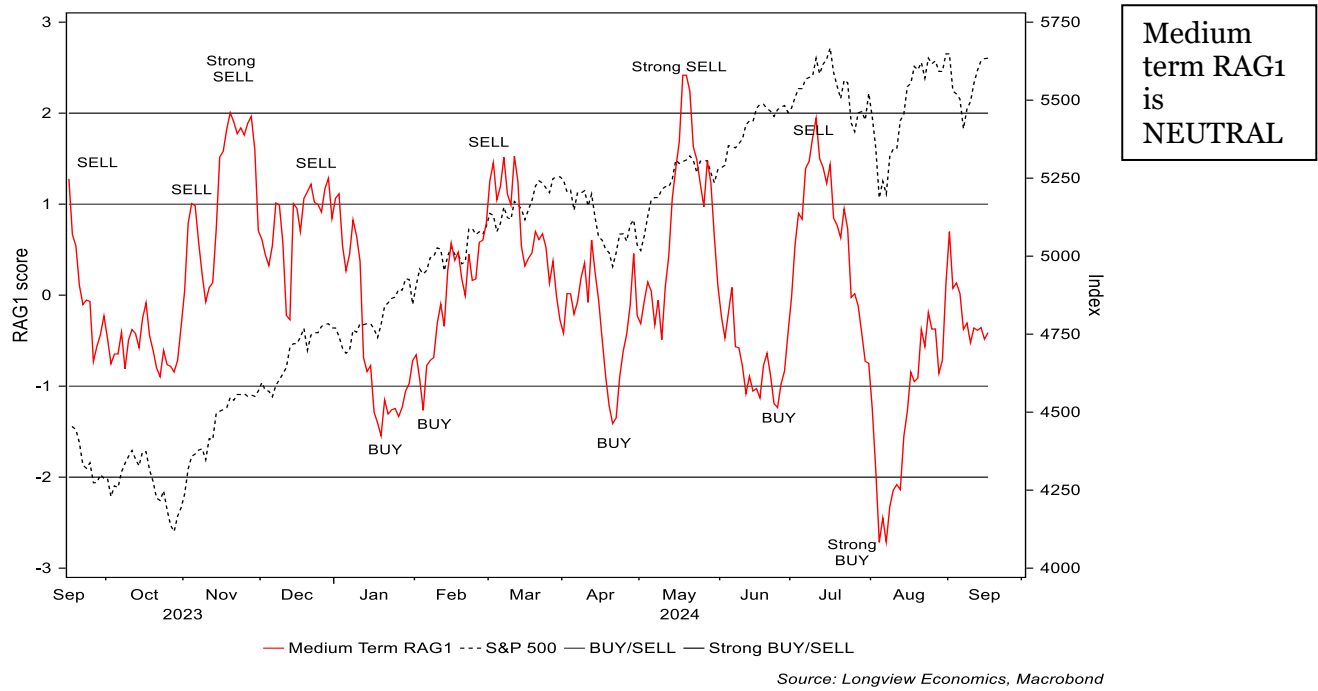
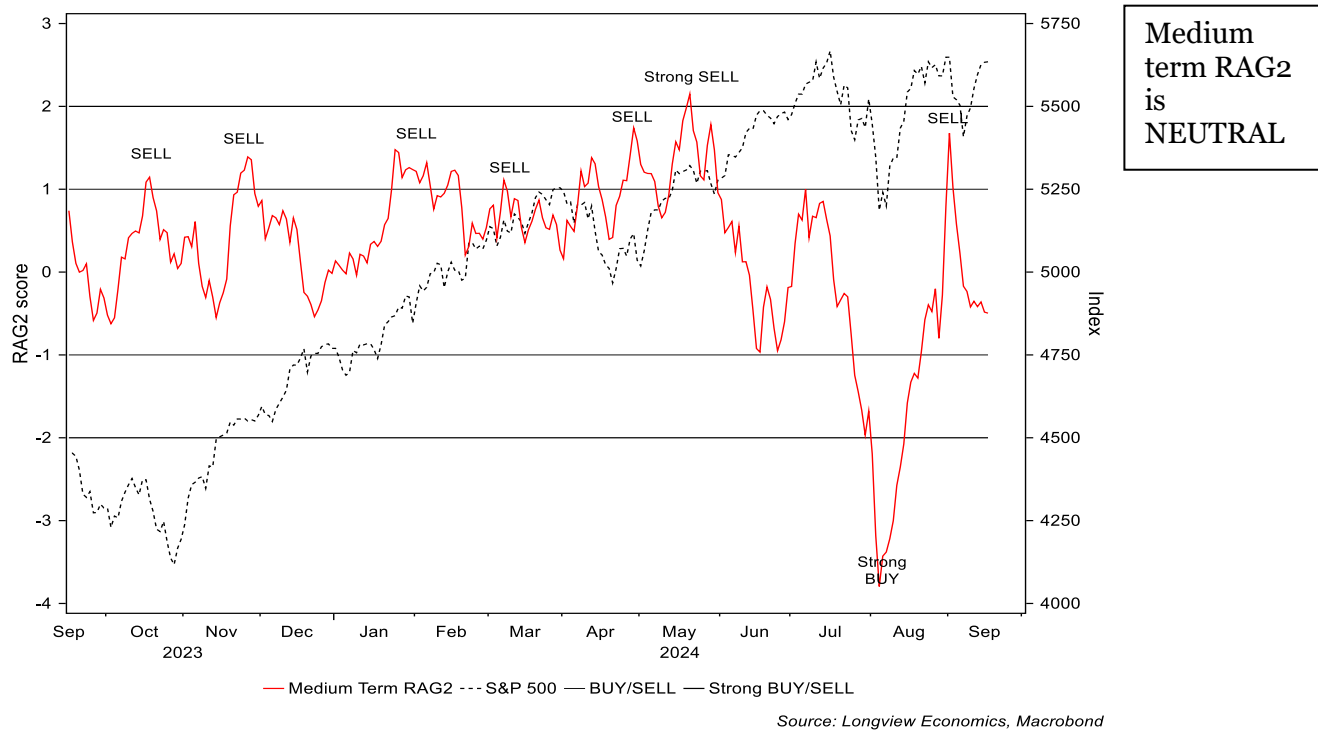


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

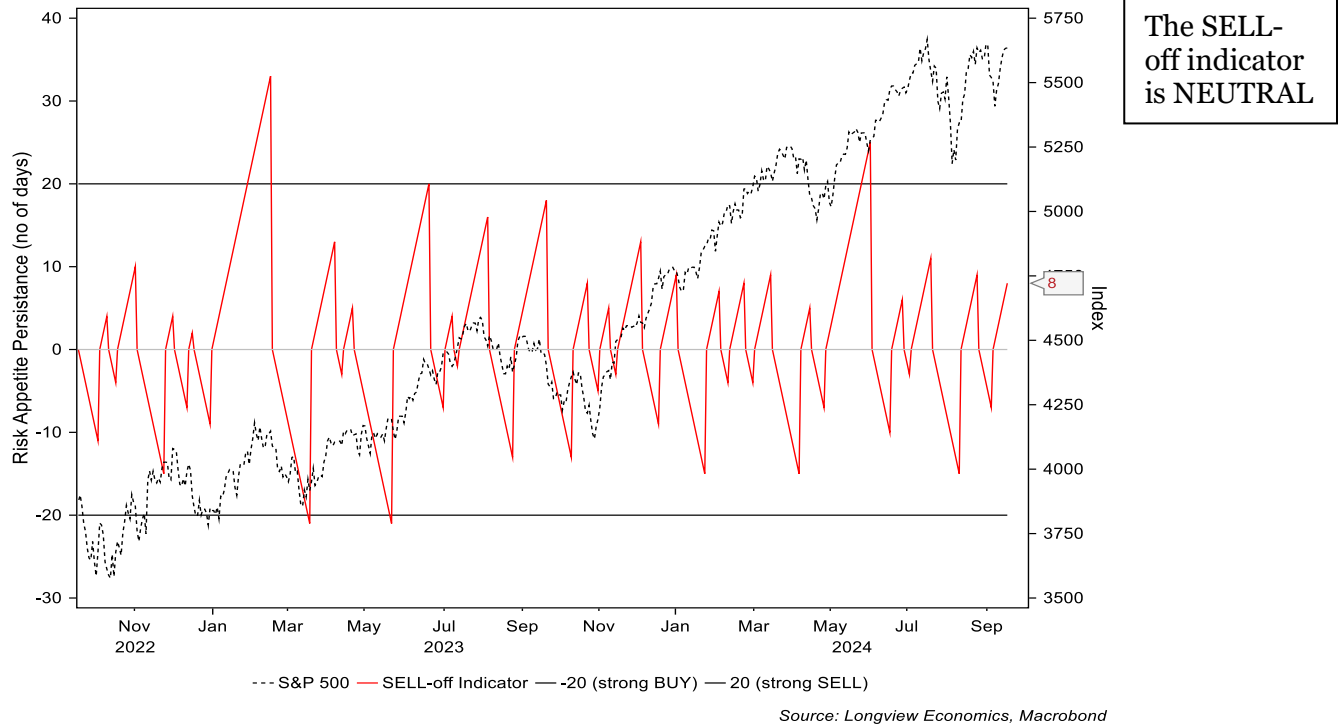
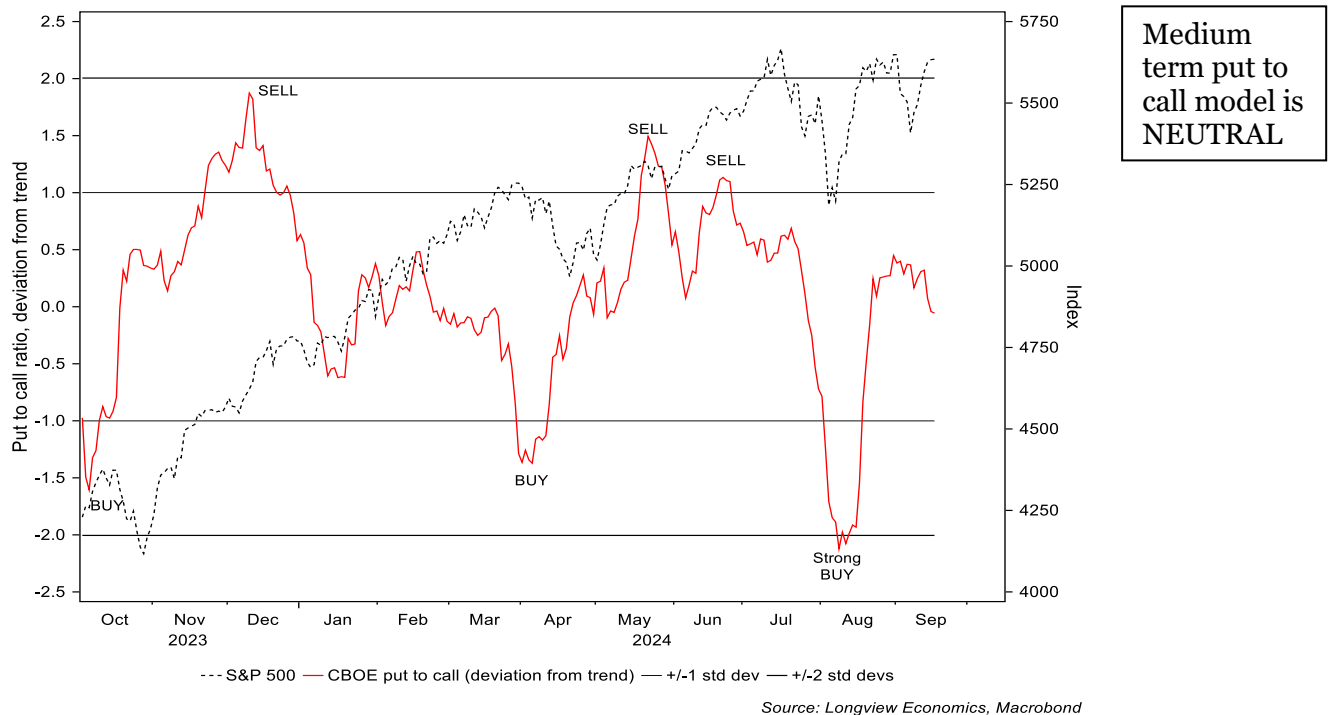


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

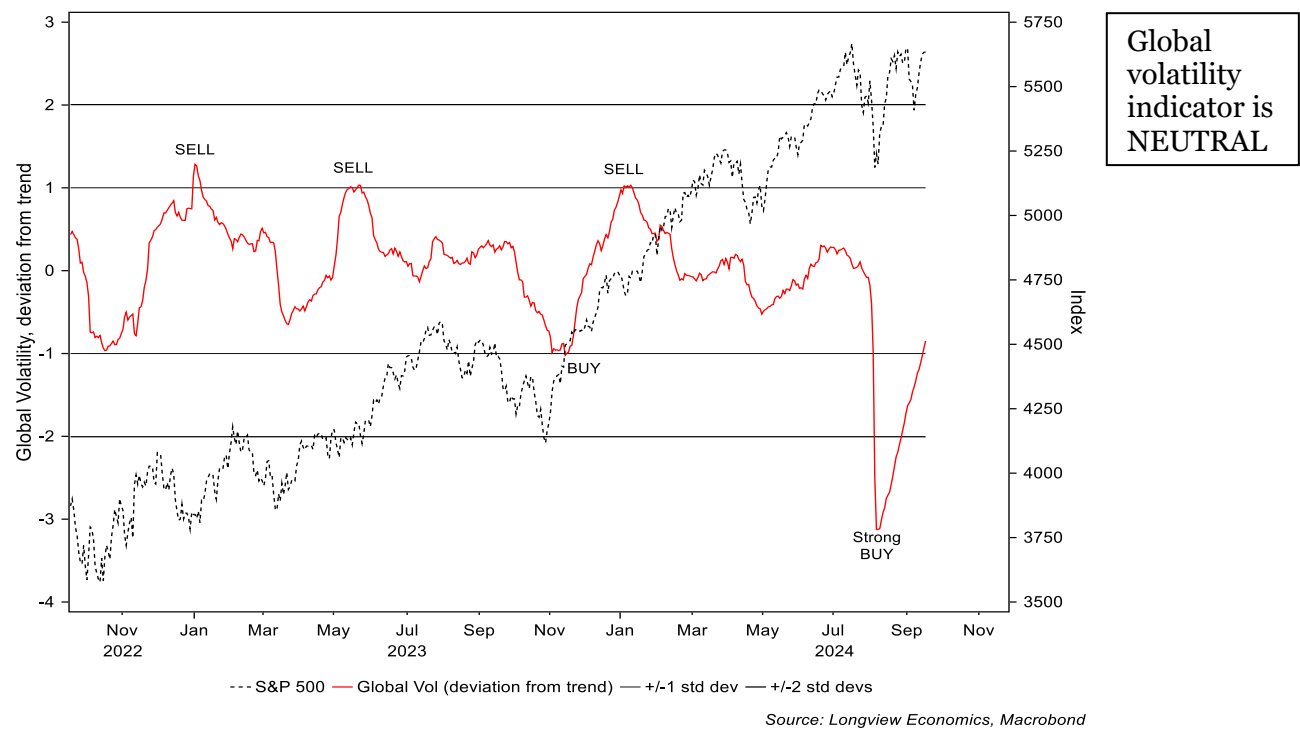


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

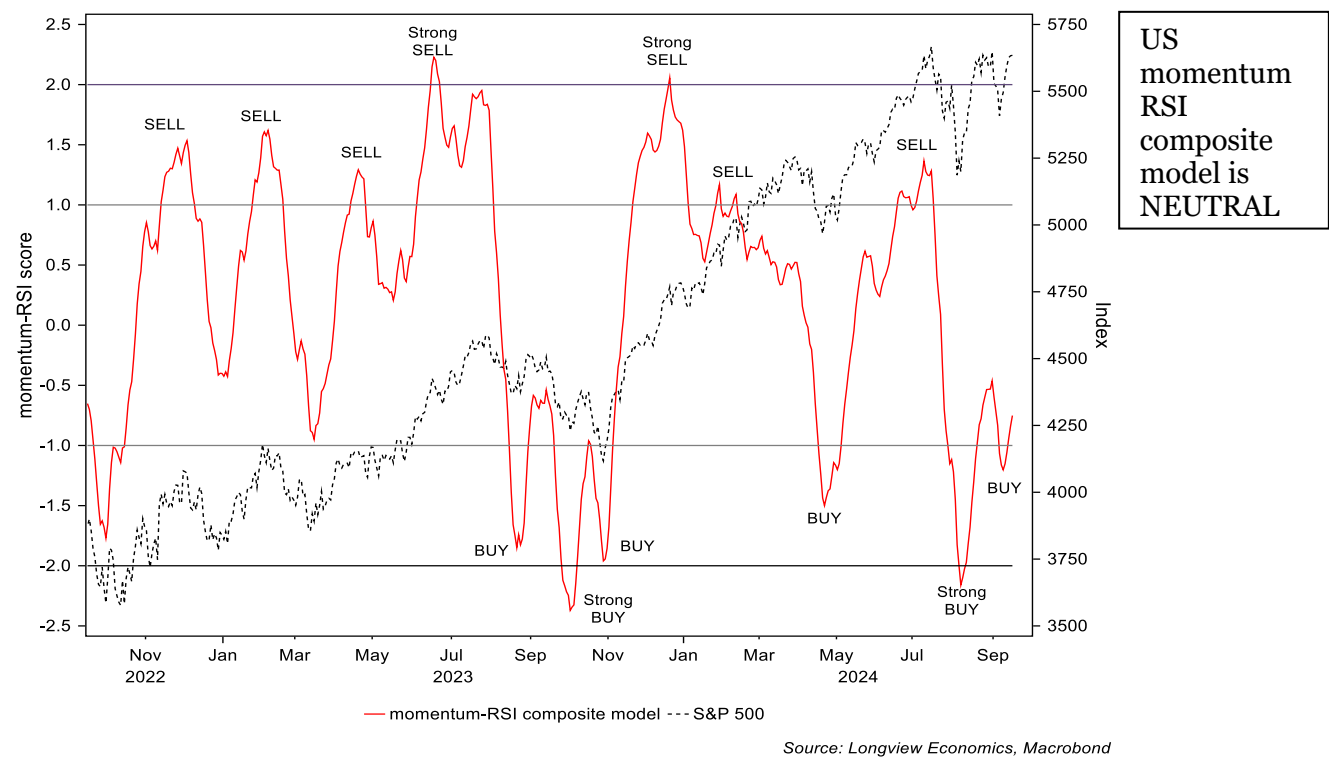


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

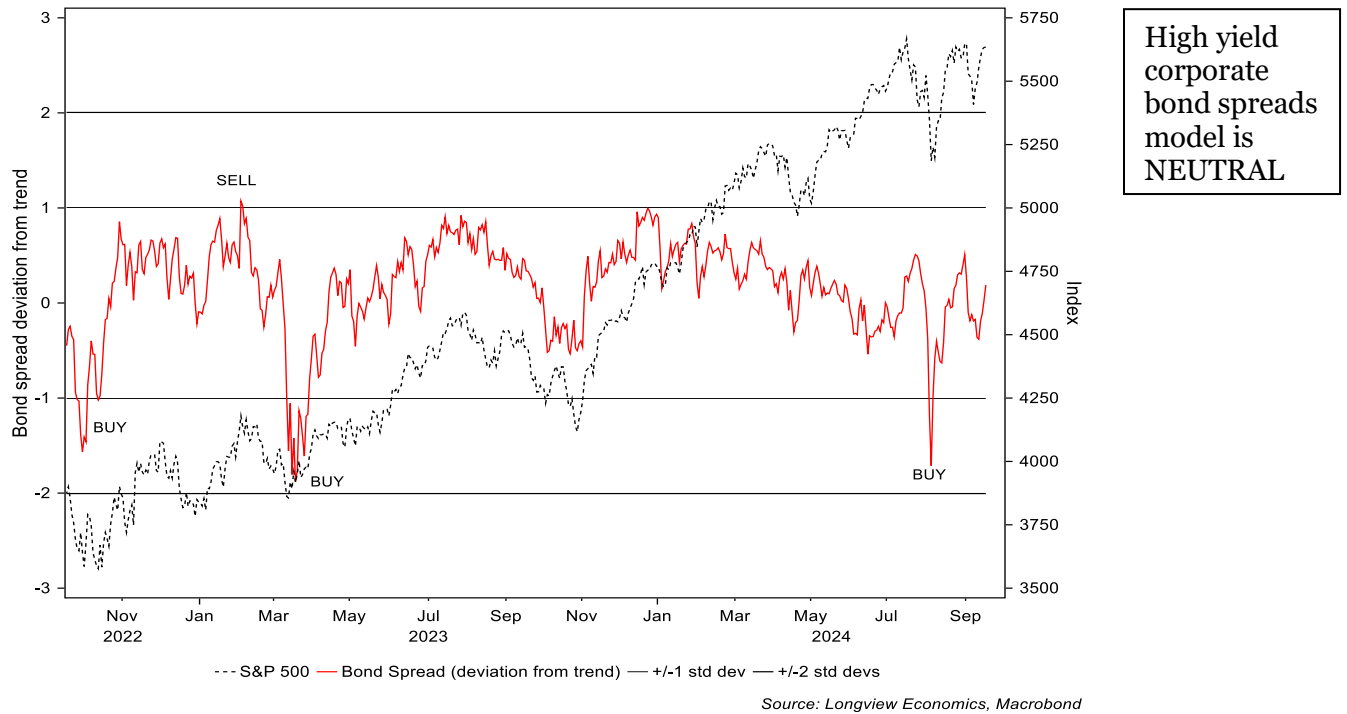
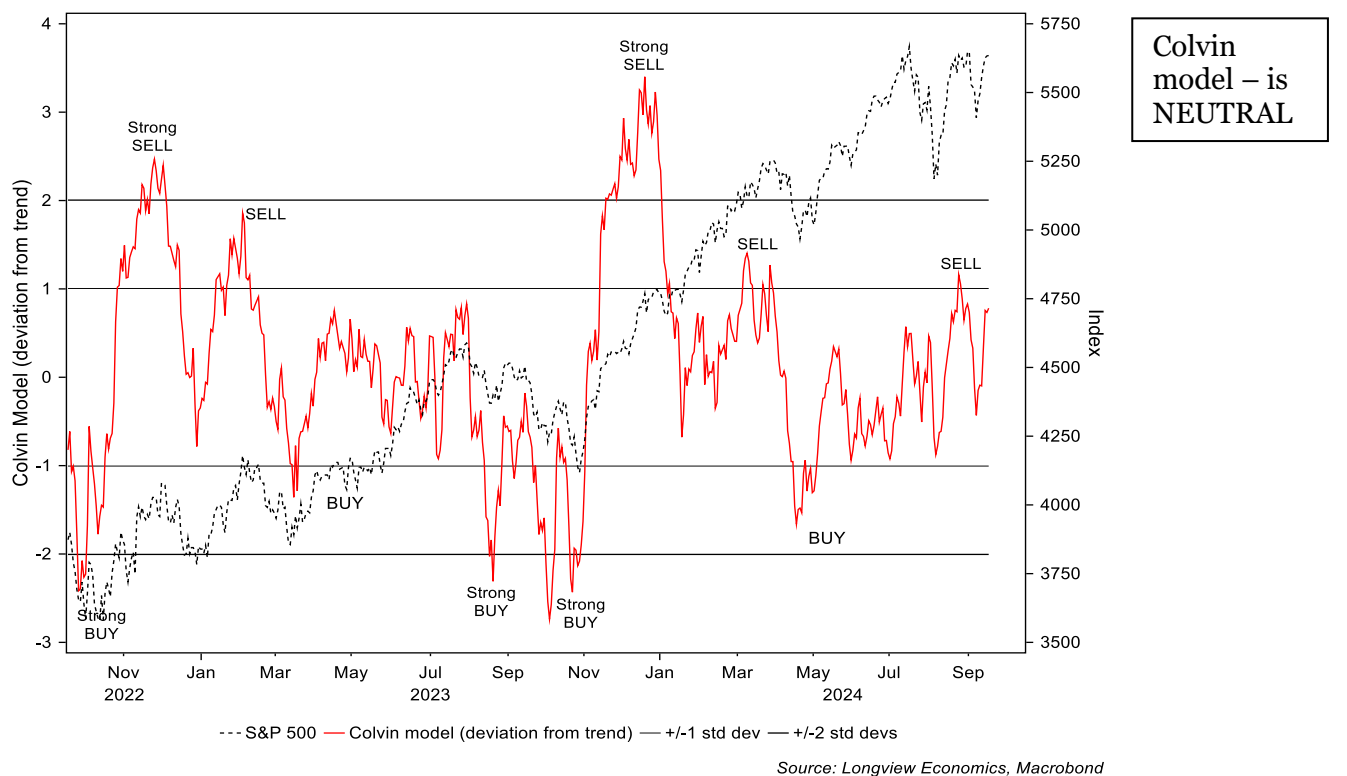


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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.

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