LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

19th September 2024

"Stay SHORT NDX - bearish KDR in Philly SOX"

Email: info@longvieweconomics.com

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

- Stay ¼ SHORT NDX100 December futures (entry was yesterday at 19,800).
- Retain unchanged stop loss 3% above entry (at 20,394).

Rationale

Yesterday the Fed surprised markets with a 50bps rate cut (vs. expectations of 25bps). **Initially**, that was well received by markets, with a sharp move lower in Treasury yields across the curve, a weaker dollar, and strength in equities (as well as key 'liquidity barometers', including gold and silver).

Much of that initial move in key asset prices, though, **reversed later in the trading session**. In particular, the surprise rate cut was viewed as a 're-shuffling of the deck chairs', with markets pricing out cuts for next year (FIG 1b). As such, while 1 year Treasury yields edged lower (-4bps), yields at other parts of the curve closed up, e.g. with 2 year (+2bps) and 10 year (+5bps) yields higher on the session. With that, the US dollar closed +0.1% (having made a multi-month low on the announcement); gold (-0.4%) and silver (-2.1%) gave back their gains and closed lower; and most major equity indices closed **down on the session**.

In particular the Philly SOX was the worst performing index (-1.1%), and generated a **bearish key day reversal** (KDR) pattern* yesterday. That's the third bearish KDR in the PHLX in the past three months, with each one marking a local high in the index (at the top of its recent pennant formation – see FIG 1). Elsewhere a number of key leadership stocks performed poorly, including Nvidia (-1.9%), which has failed to break above its 50 day moving average (FIG 1a).

Broadly speaking, therefore, US equities have continued to follow the **'buy the rumour, sell the fact'** price pattern we highlighted yesterday (despite some strength in US equities this morning).

Short term models, in that respect, continue to point to further **near term downside in US equities**. In particular, our risk appetite models have recently generated SELL signals (FIGs 2 & 2a); technically the NASDAQ100 (and other indices) are close to overbought levels (see FIGs 2b & 2c); while downside put protection in portfolios is low (with key put to call models on/close to SELL, see FIGs 2d & 2e). Elsewhere various momentum, breadth, and technical/price based models are on (or close to) SELL, see FIGs 3 – 3c.

The **risk reward therefore favours staying SHORT** the NDX (having been filled on our order yesterday). Please see above for detailed recommendation. **Key risks**, as always, are multiple and include the possibility that risk assets have entered a 'risk on' regime, and the uptrend in key US equity indices has therefore resumed.

Kind regards,

The team @ Longview Economics

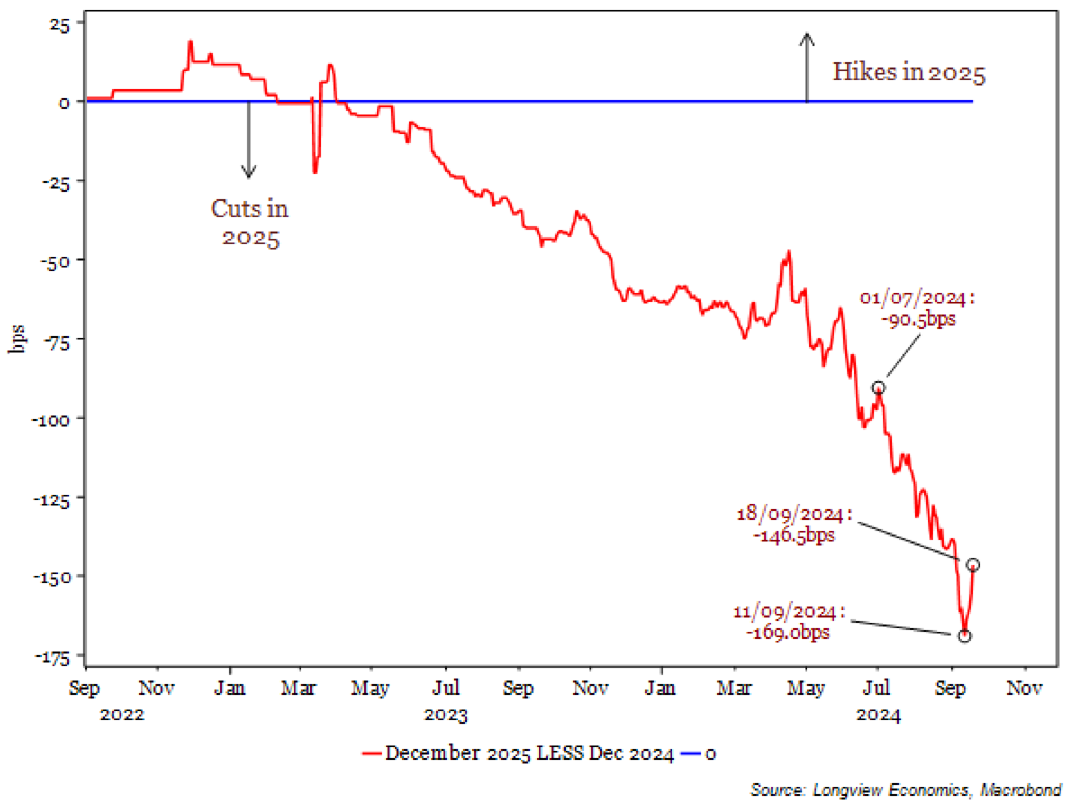
*That is, the index opened higher, made a new intra-day high, and then closed below Tuesday's low. Usually bearish key day reversal patterns mark a near term change of trend (from bullish to bearish).

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

Source: Longview Economics, Macrobond

FIG 1a: NVIDIA share price (USD/share), shown with 50 & 200 day moving averages

FIG 1b: US interest rate expectations (Dec 2024 vs Dec '24) 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

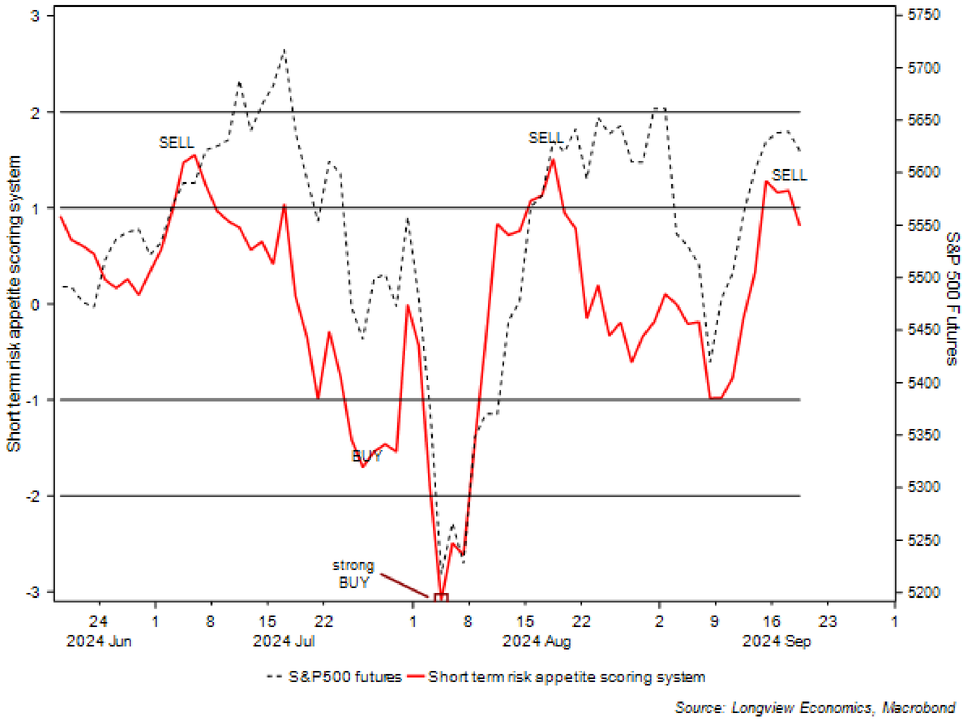


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

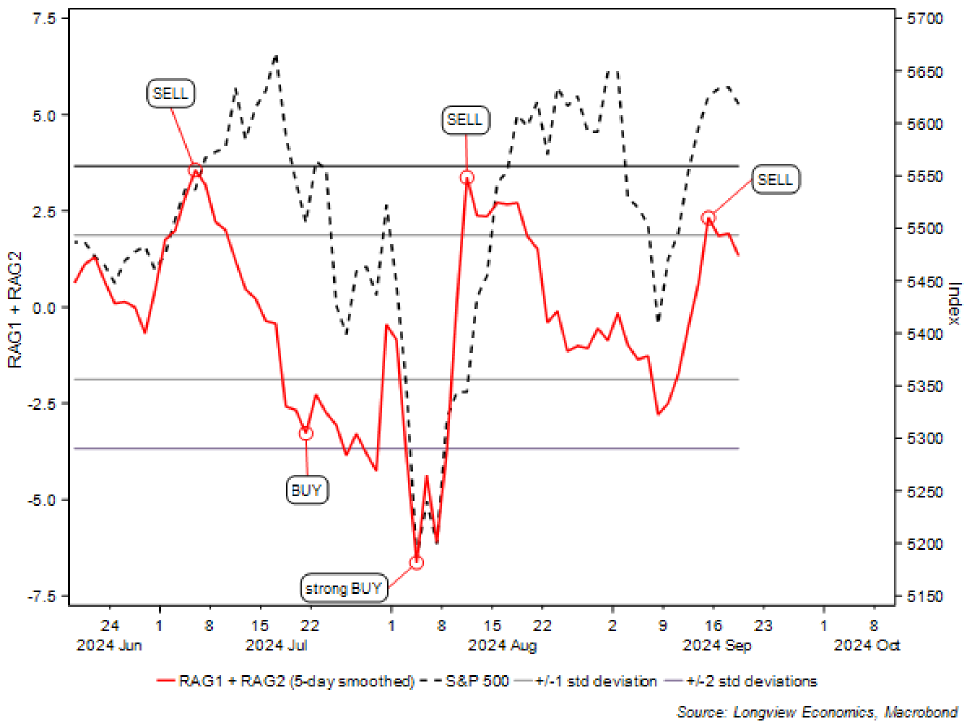


FIG 2b: Longview S&P500 short term ‘technical’ scoring system vs. S&P500 futures

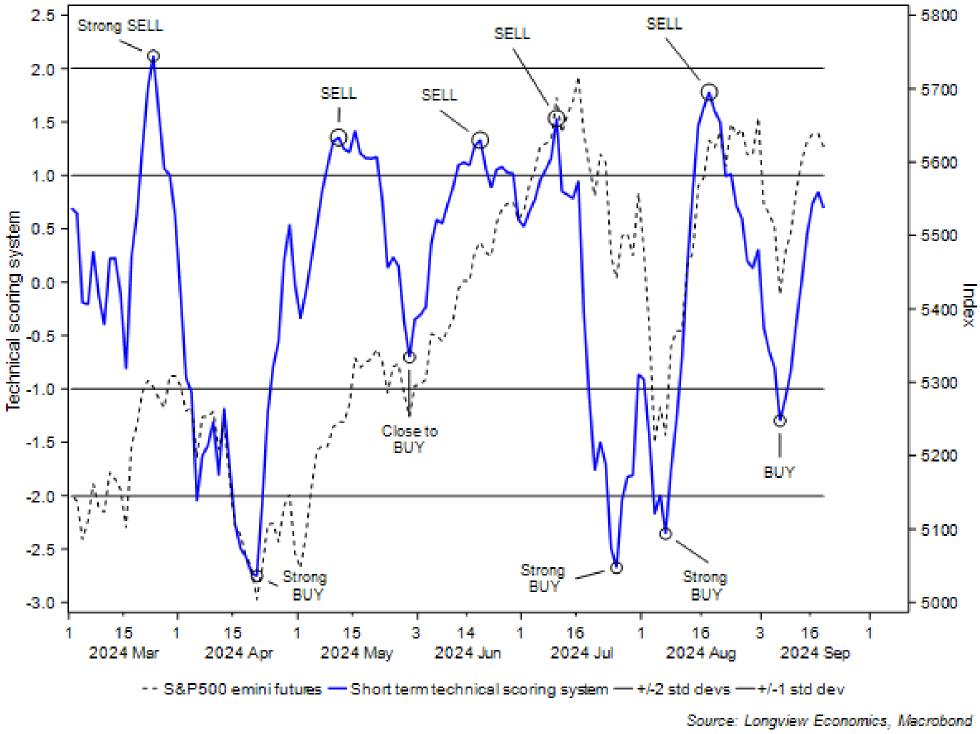


FIG 2c: Longview NASDAQ100 & Philly SOX short term ‘technical’ scoring system vs. NASDAQ100 futures

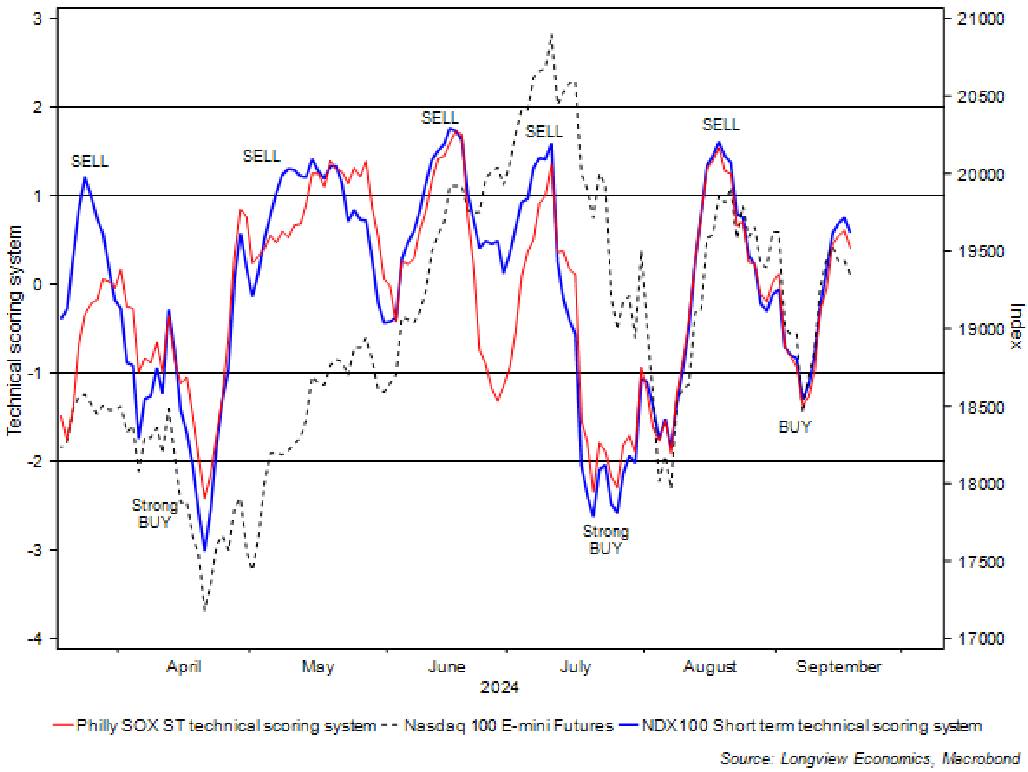
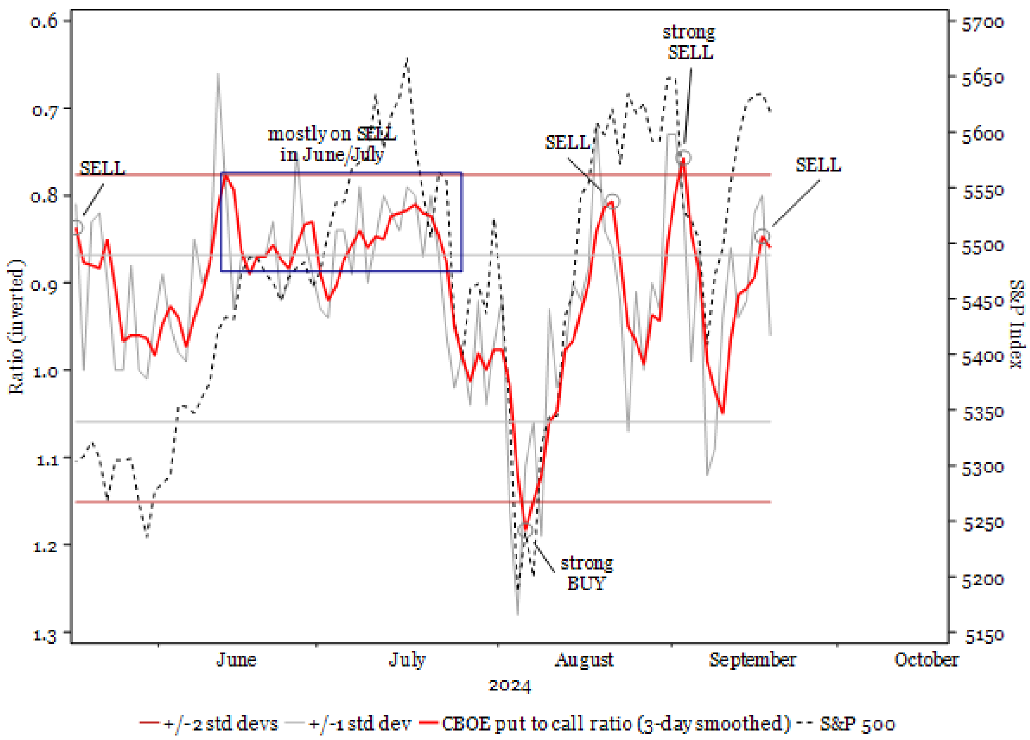
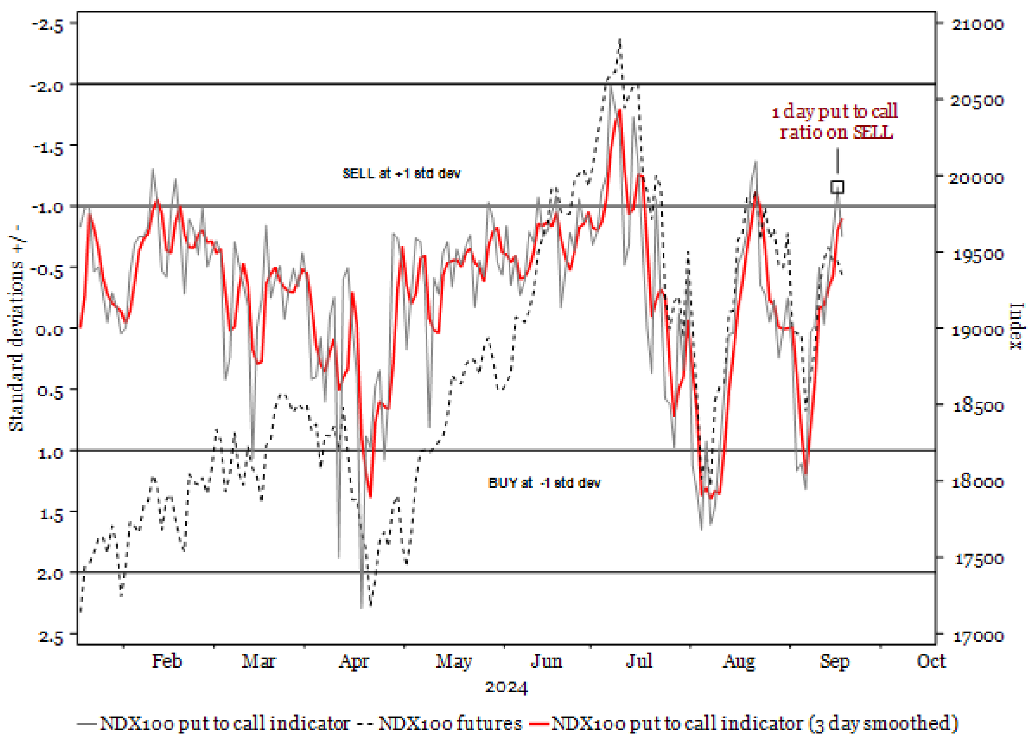


FIG 2d: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



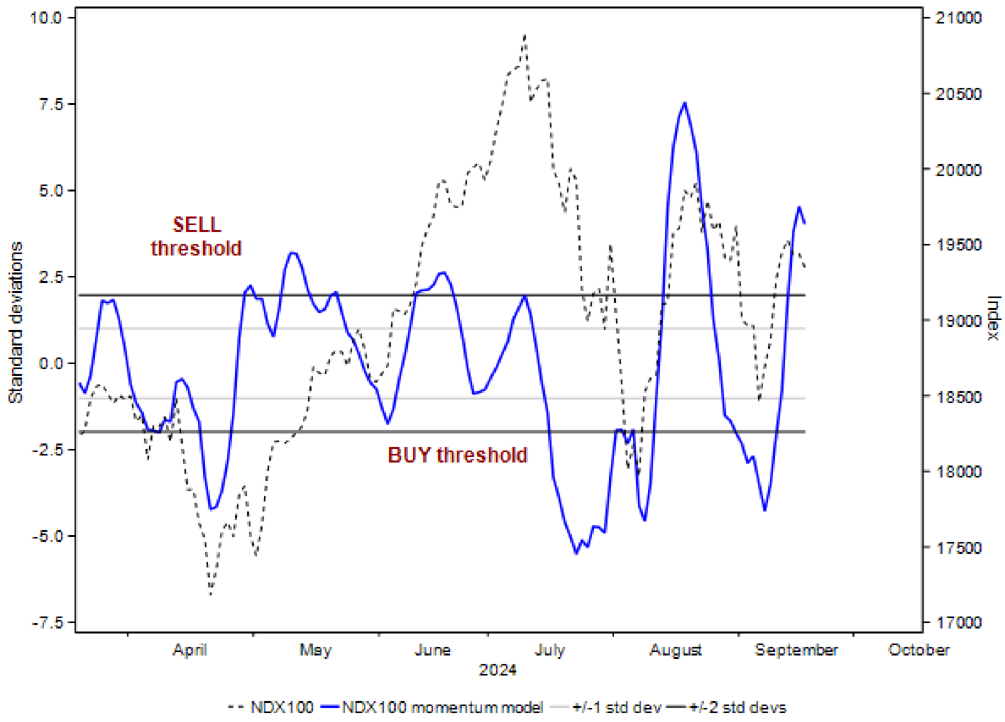
Source: Longview Economics, Macrobond

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



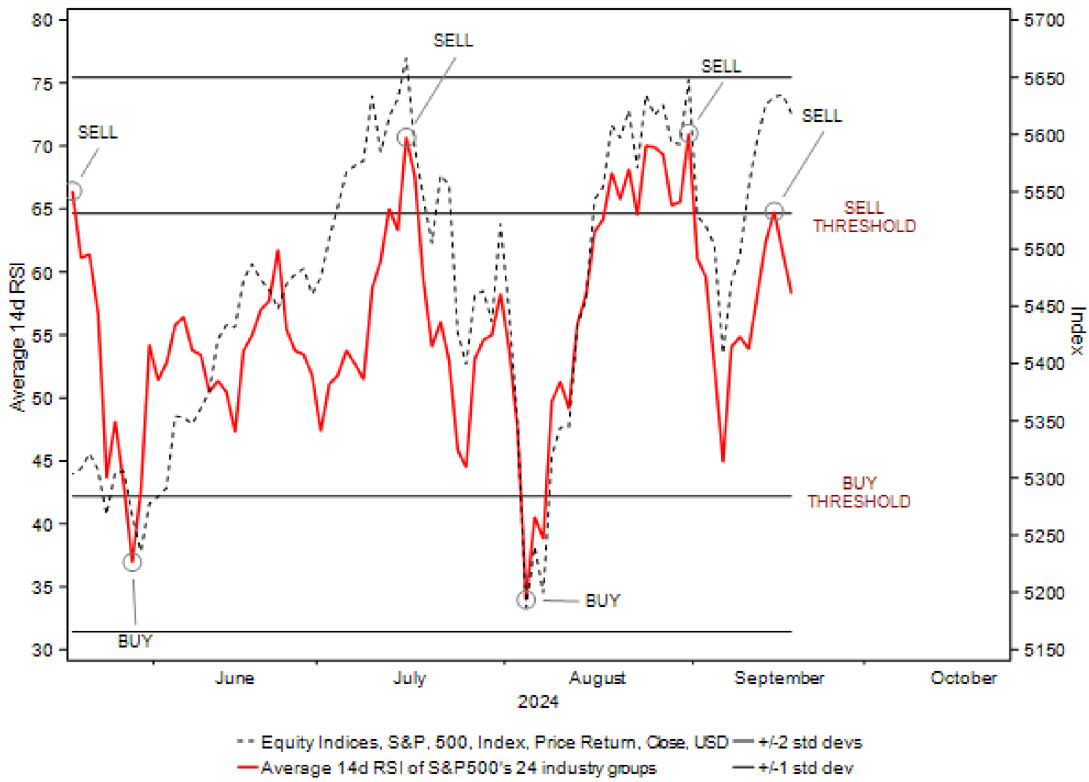
Source: Longview Economics, Macrobond

FIG 3: NDX100 momentum model shown vs. NDX100



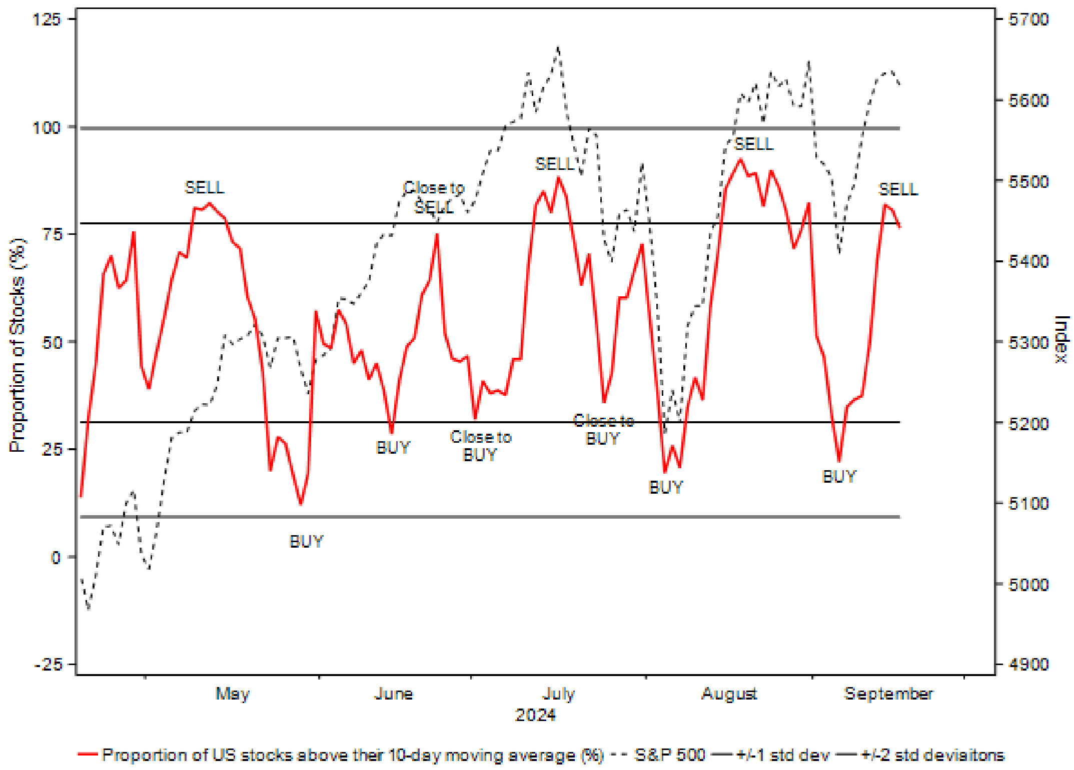
Source: Longview Economics, Macrobond

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



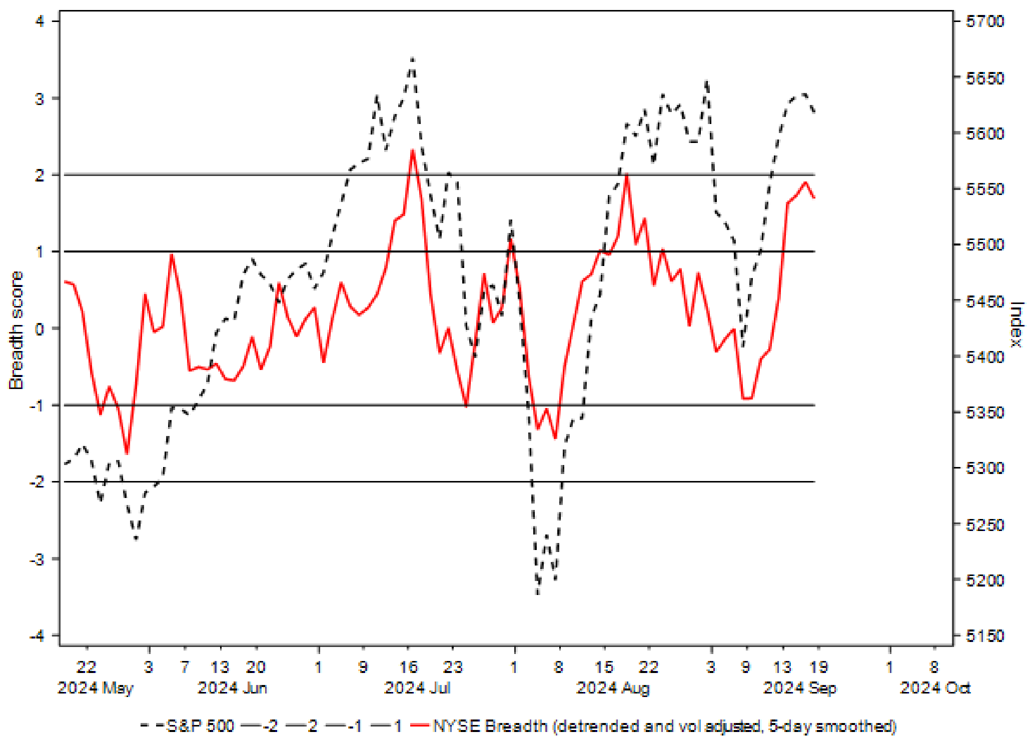
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

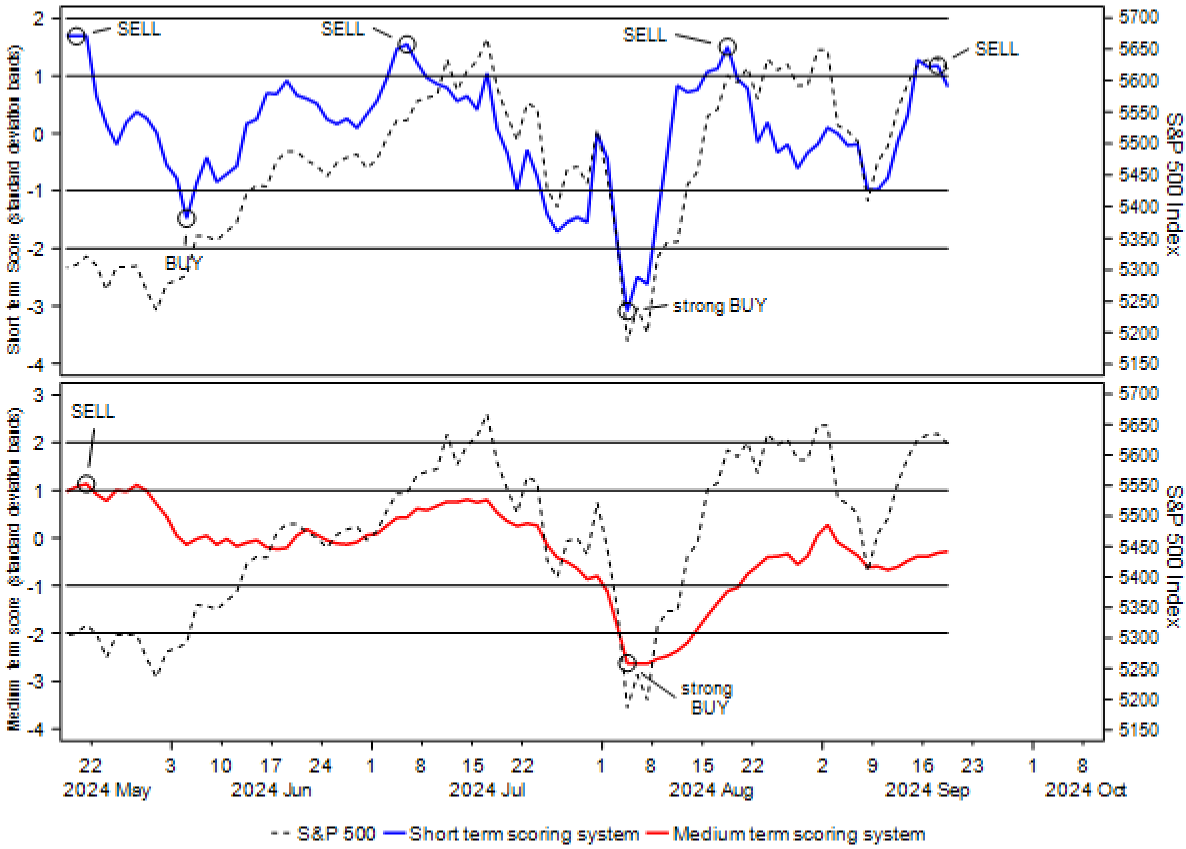


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **NEUTRAL** (just/from SELL yesterday)
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: Australian employment data (Aug, 2:30am); Eurozone new car sales (Aug, 5am); Eurozone current account balance (Jul, 9am); Italian current account balance (Jul, 9:30am); US current account balance (Q2, 1:30pm); US Philadelphia Fed business outlook (Sept, 1:30pm); US weekly jobless claims (1:30pm); **US Conference Board leading index** (Aug, 3pm); **US existing home sales** (Aug, 3pm).

Key events today include: Speeches by the ECB's Knot on global financial outlook, EU monetary policy and financial institutions (8:15am), Panetta in Catania (10am), Nagel in Elmau (12:30pm) & Schnabel on current aspects of monetary policy (10am & 3:40pm); **UK Bank of England policy decision** (12pm).

Key earnings today include: Lennar.

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 (5th September 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

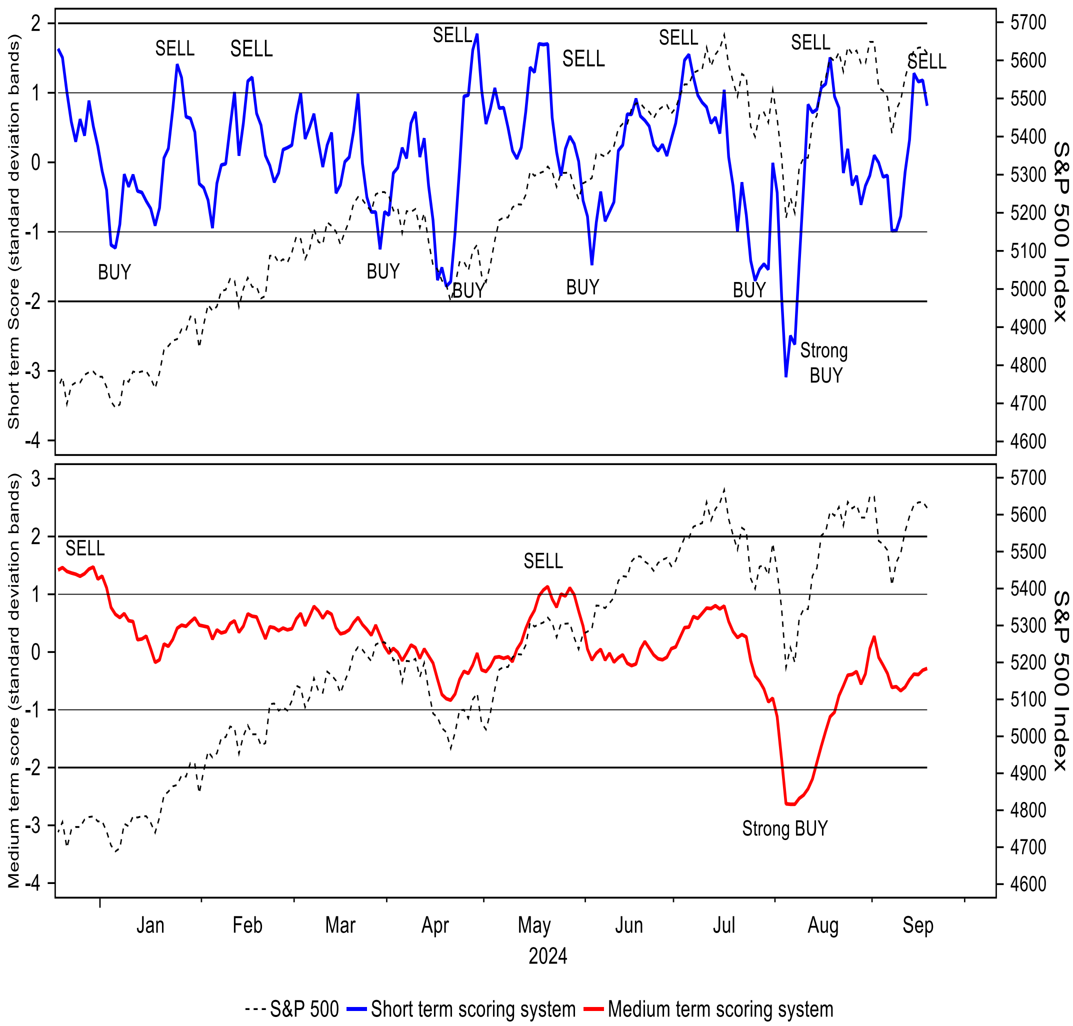
1 – 2 Week View on Risk

19th September 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

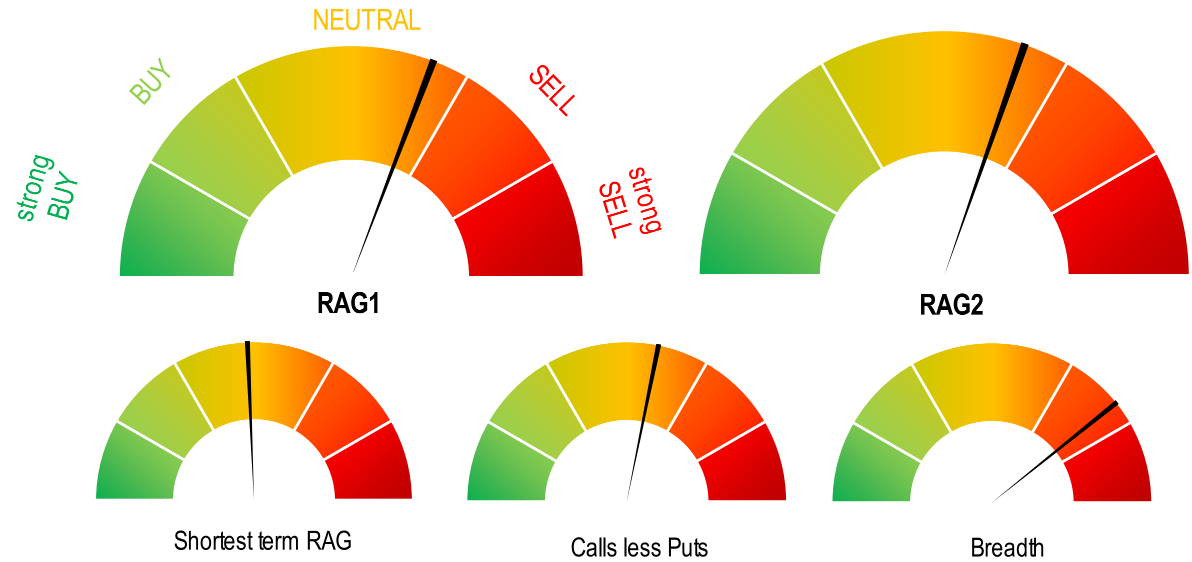
Source: Longview Economics, Macrobond

*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

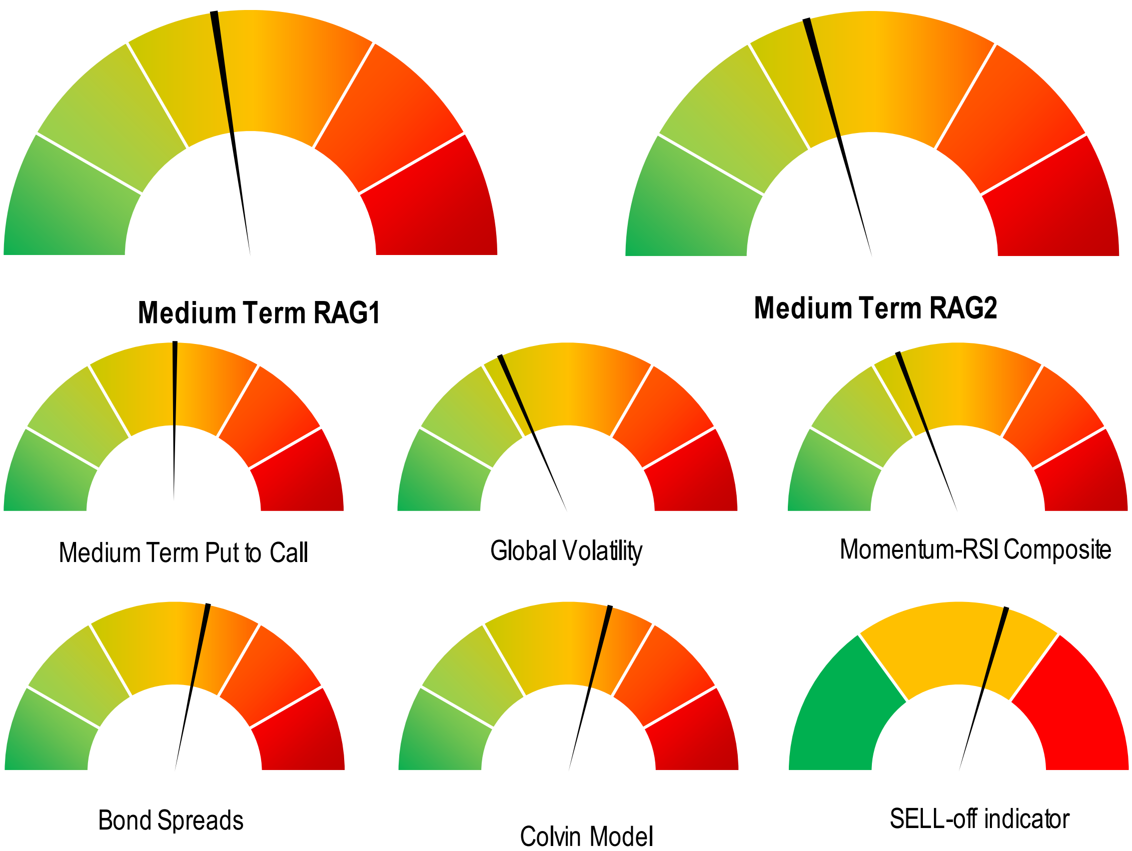
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

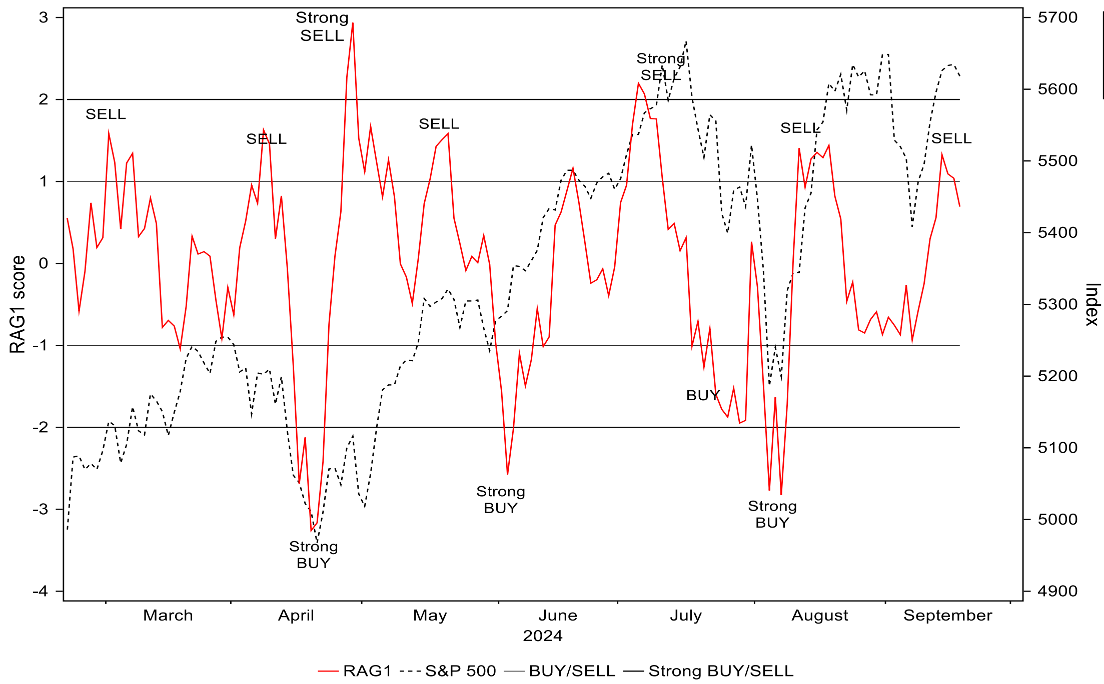
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

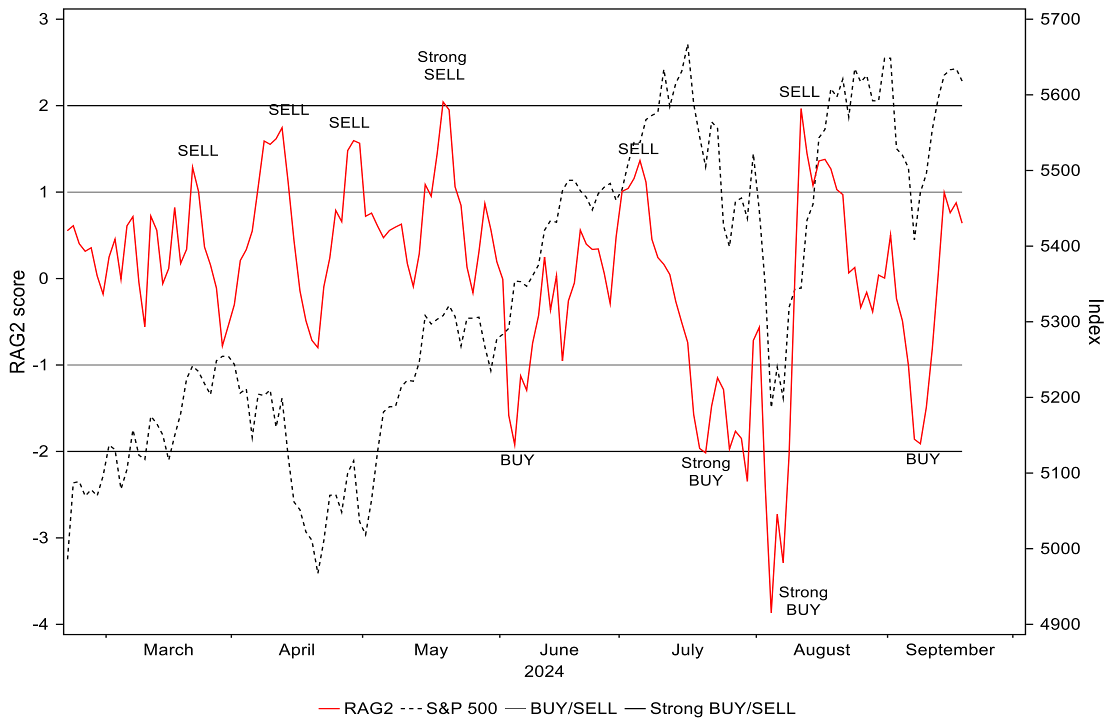
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

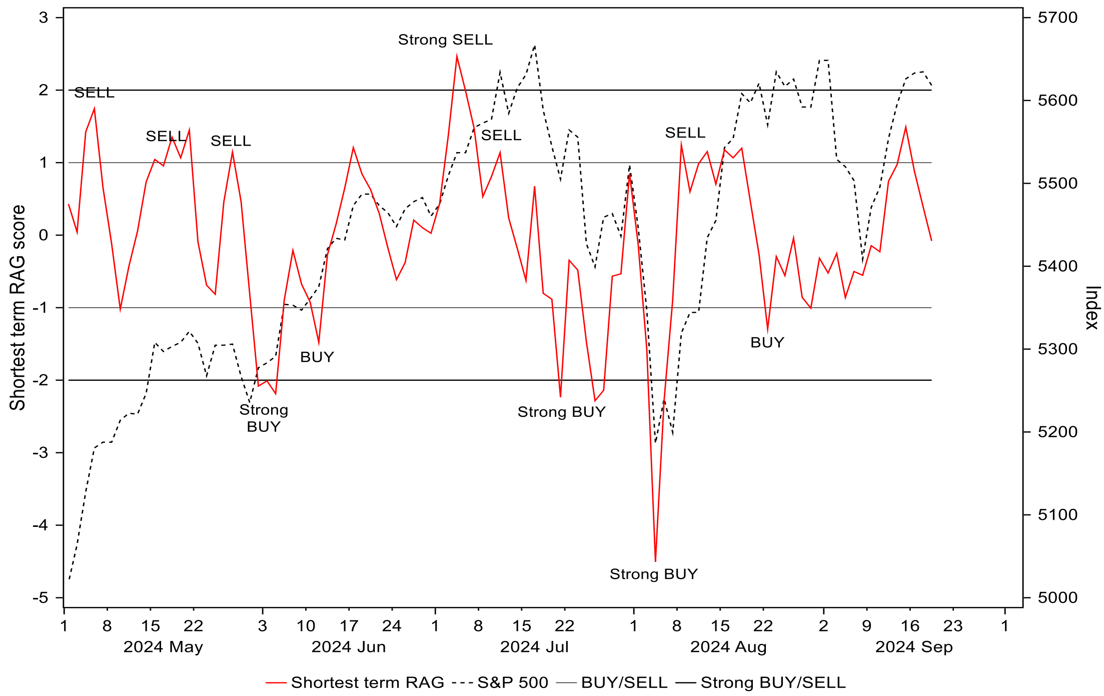


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

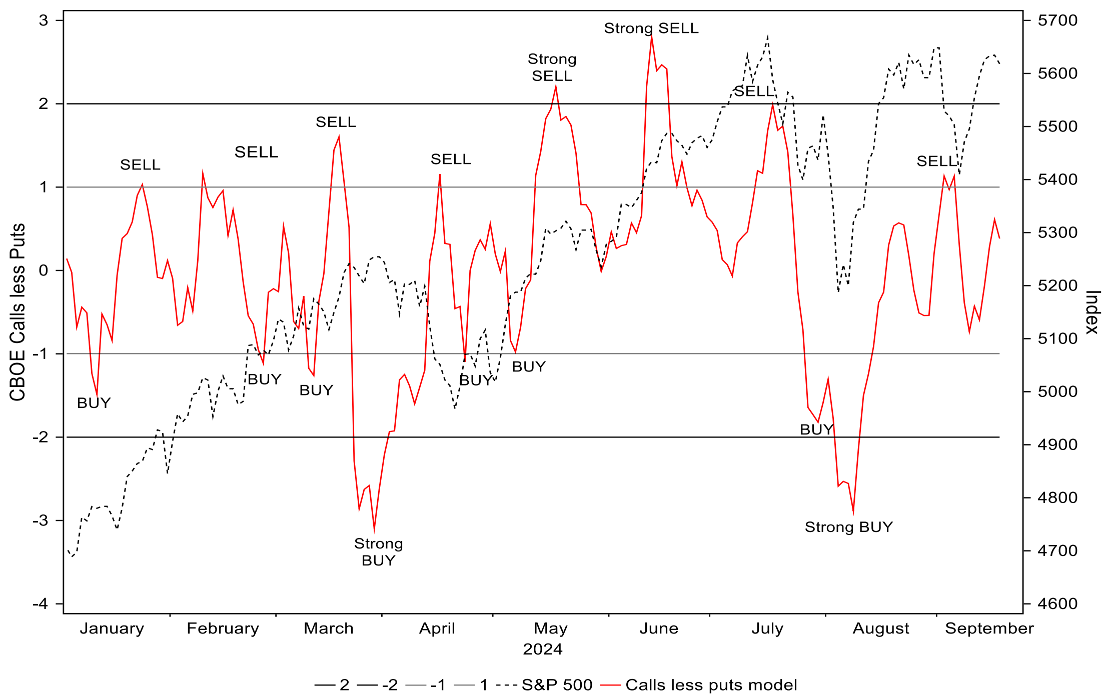
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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



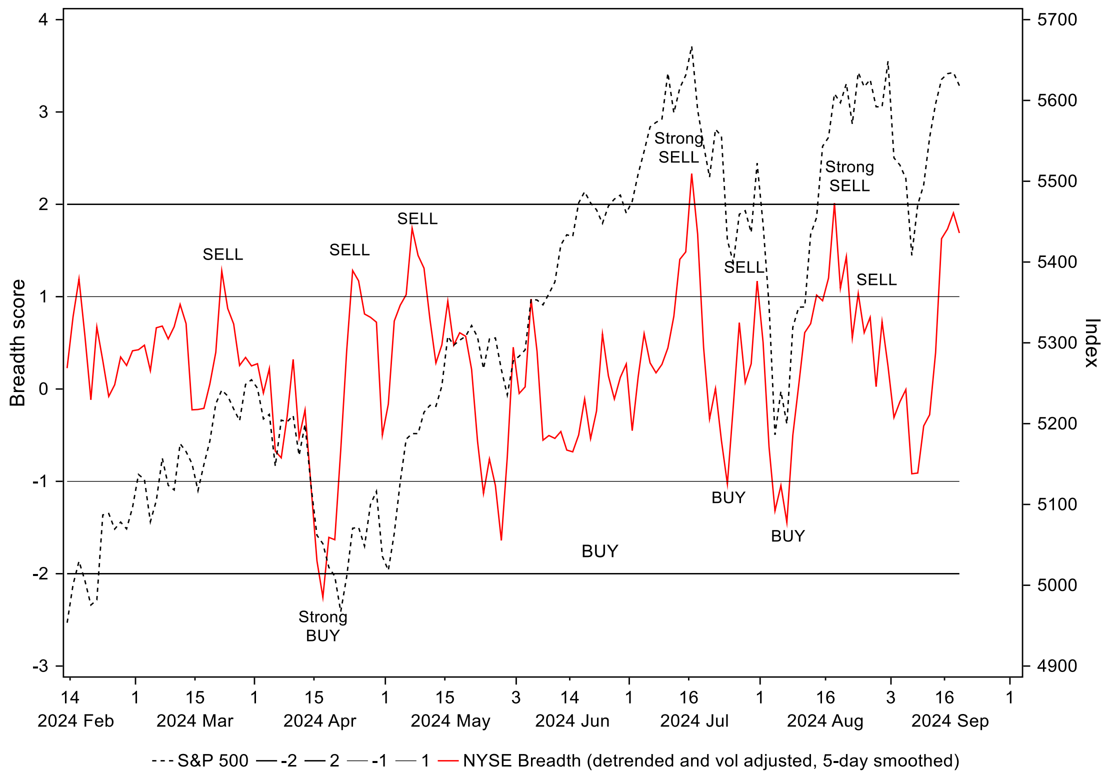
Source: Longview Economics, Macrobond

Calls less puts model is NEUTRAL

For explanations of indicators please see page 10

  |

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



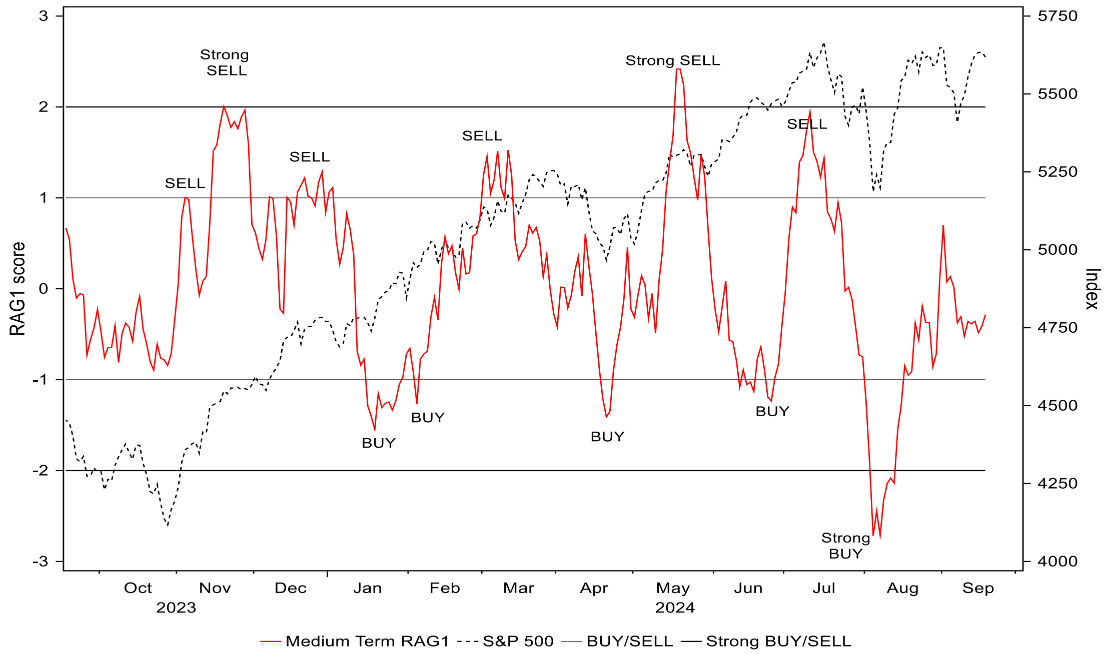
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

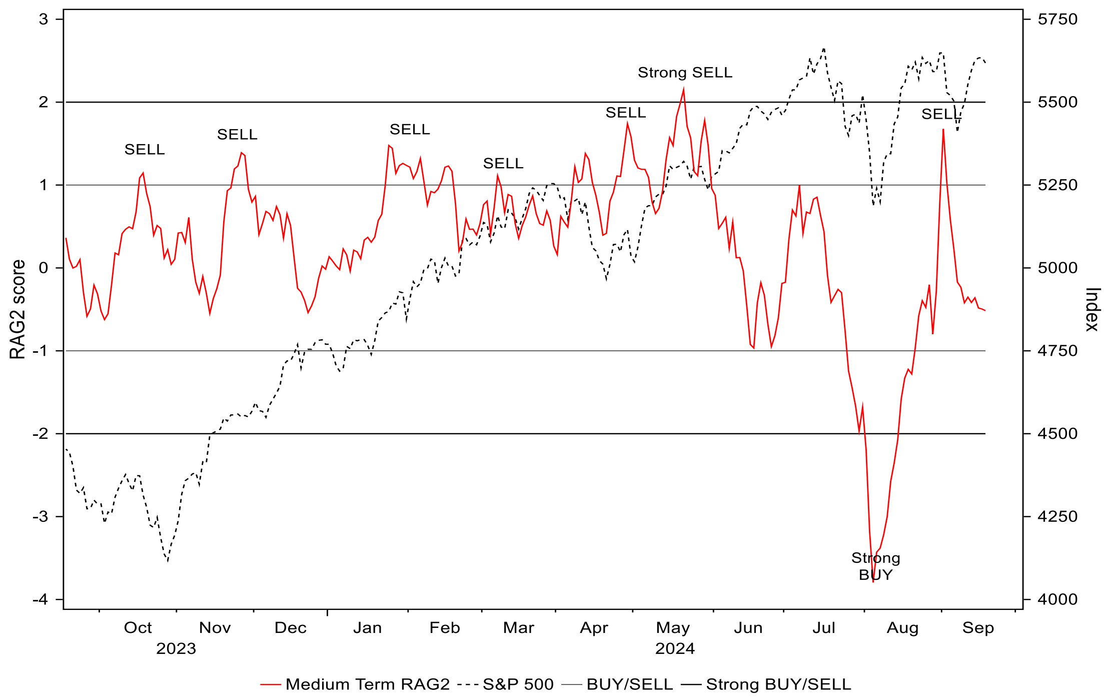
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

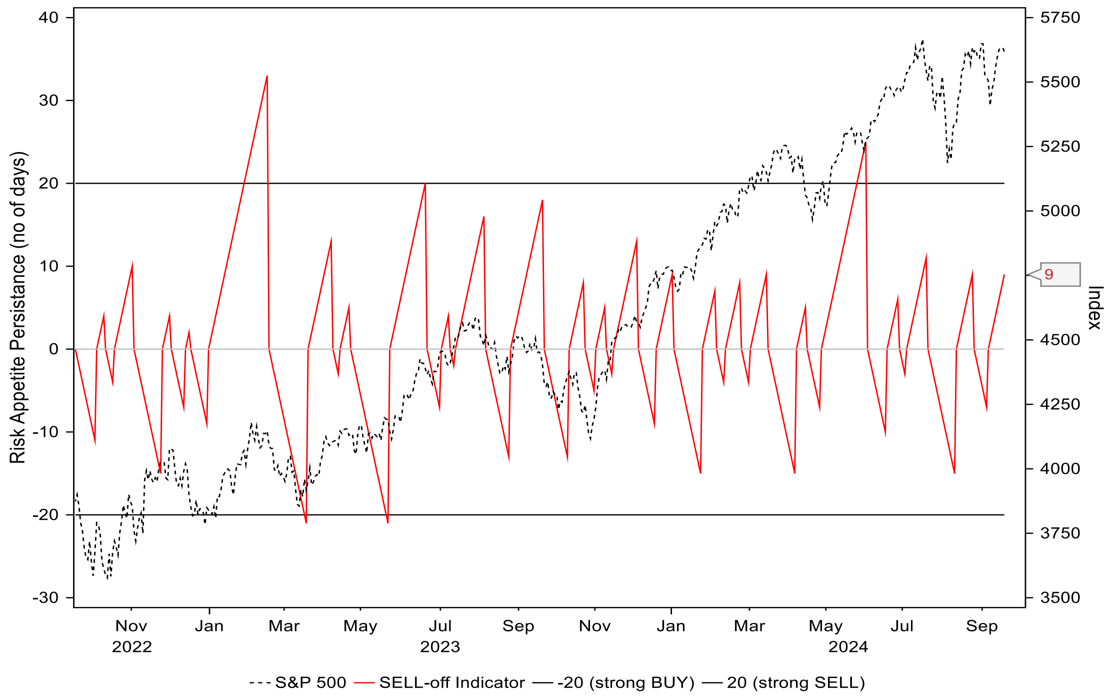


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

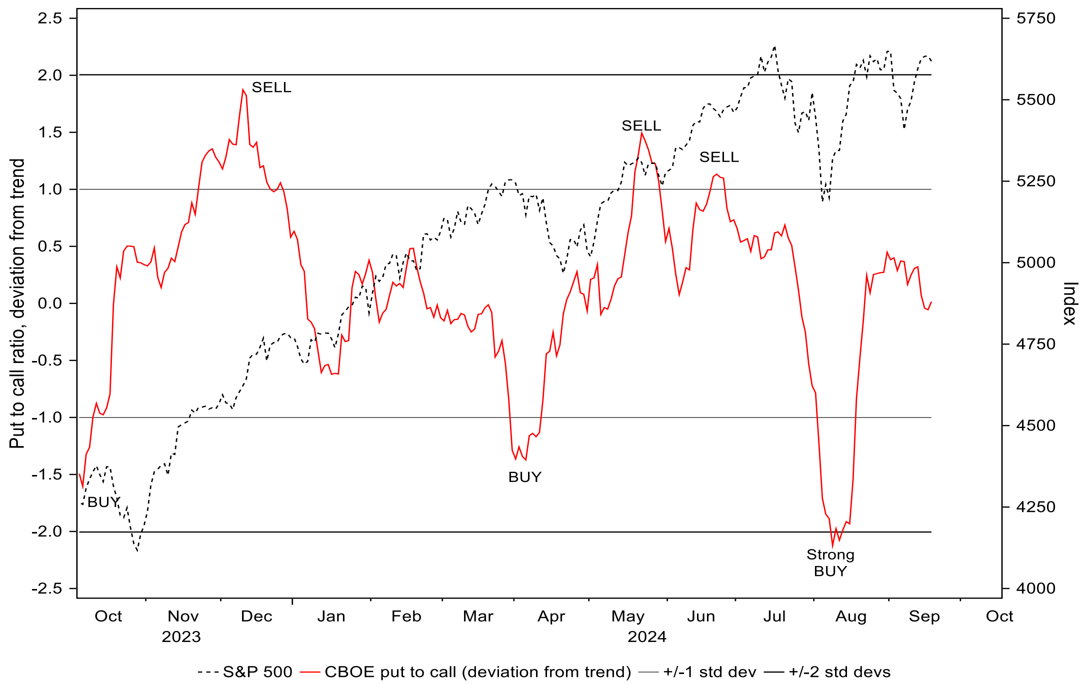
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

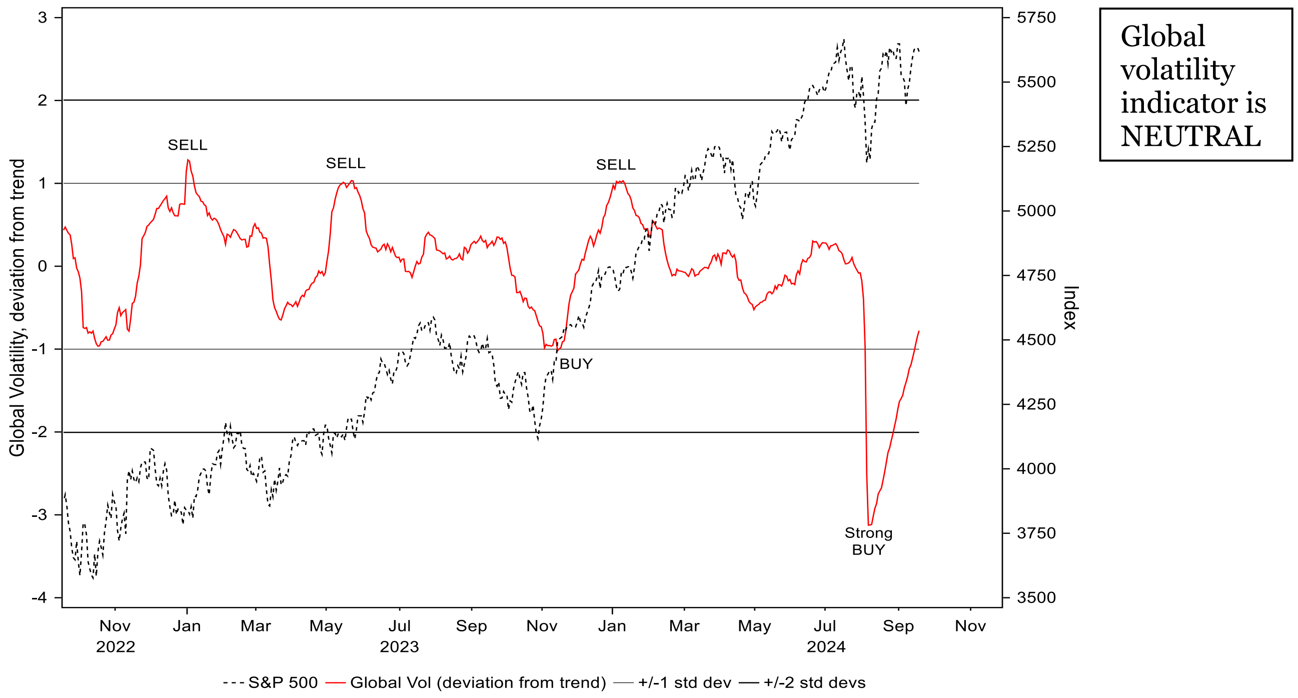


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

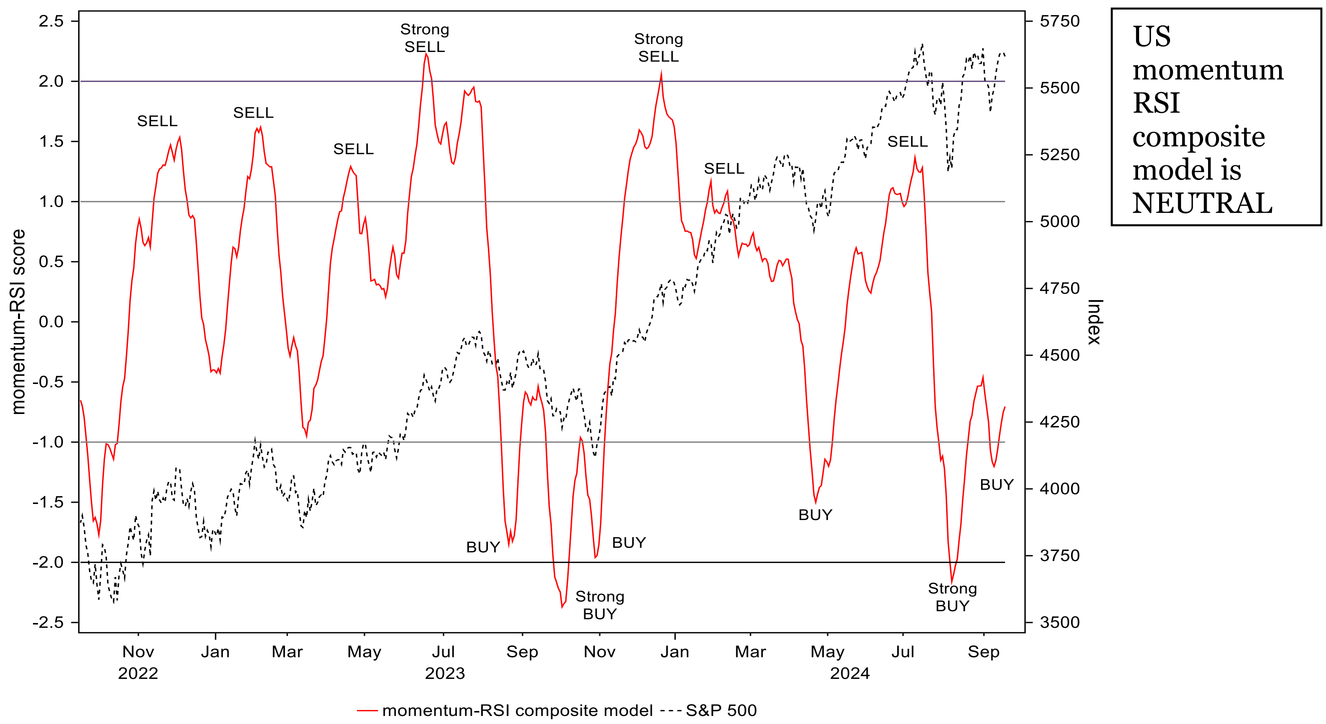
For explanations of indicators please see page 10

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



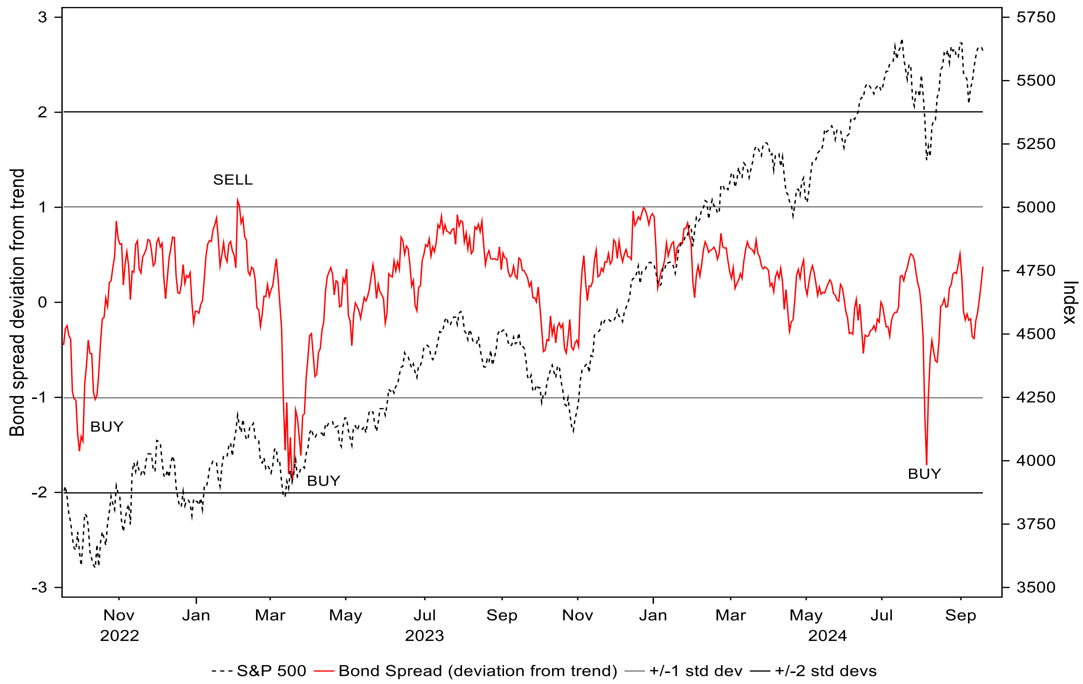
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

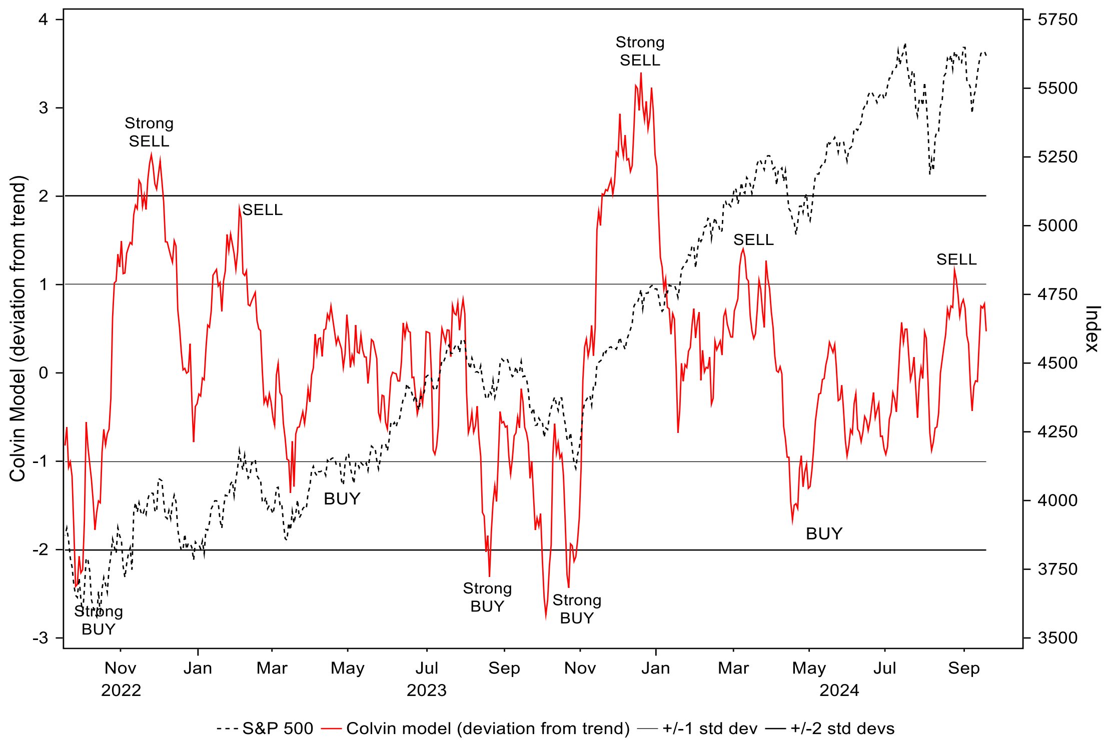
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

Source: Longview Economics, Macrobond

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



Colvin model – is NEUTRAL

Source: Longview Economics, Macrobond

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

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.