

Equity Index Futures Trading Recommendations

1st November 2024

"Stay SHORT SPX - Pullback Likely Underway"

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

- Stay 1/3rd SHORT S&P500 December futures (entry was last Thursday at 5,861.0).
- Tighten stop loss to 5,830 (from 5,912 yesterday), i.e. to just above the intra-day lows of 23rd October.

Rationale

Yesterday morning our SELL-off indicator 'closed out' its warning signal, having reached a reading of +33 on Wednesday. In other words, after 33 trading days of persistently strong 'risk seeking' behaviour, upward momentum in global markets had started to fade/turn. In that respect, when the SELL-off indicator 'closes out' (returns to ZERO, see FIG 1), it usually signals a **regime change** in markets (i.e. from 'risk on' to 'risk off').

Price action in US/global equities yesterday was consistent with that regime change thesis. In particular, all of the 28 major US indices we track closed lower on the day (except for the DJ Utilities index: +0.8%); key leadership (growth) parts of the market delivered the largest losses, e.g. with the NASDAQ100 (-2.4%); NASDAQ Composite (-2.8%), and Philly SOX (-4.0%) sharply lower on the day; and, once again, most indices sold off into the close (i.e. bearish price action). Elsewhere risk aversion continued to build in other key assets, e.g. with marked losses in gold (-1.6%) and silver (-3.3%), and a widening of US HY and EZ sovereign bond spreads (e.g. see FIG 1d).

The key question, therefore, is: How much more downside is likely in US equities/risk assets in coming days and weeks? Was yesterday a 'one day wobble'? Or is a pullback underway?

As we noted yesterday, risk off regimes typically persist until there are: (i) signs of fear/panic; (ii) evidence of capitulation; and/or (iii) a clear and across the board BUY message from our short and medium term indicators. None of those factors, though, are currently in place.

In particular, our **short term risk appetite models have not yet turned BUY** (see FIGs 2 – 2b); put to call indicators are either mid-range or still close to SELL (see FIGs 2c & 2d); and only some (not all) of our short term technical (price based) models are back at BUY levels (see FIGs 3 – 3c). There are also no signs of panic. The VIX, for example, is not especially elevated (FIG 1b), while the number of outstanding single stock call options is high (FIG 1d). Elsewhere medium term models are broadly mid-range, having been on SELL (e.g. see FIG 1e).

The risk reward therefore favours staying SHORT, with a tighter stop loss for risk management purposes (see above for detailed recommendation).

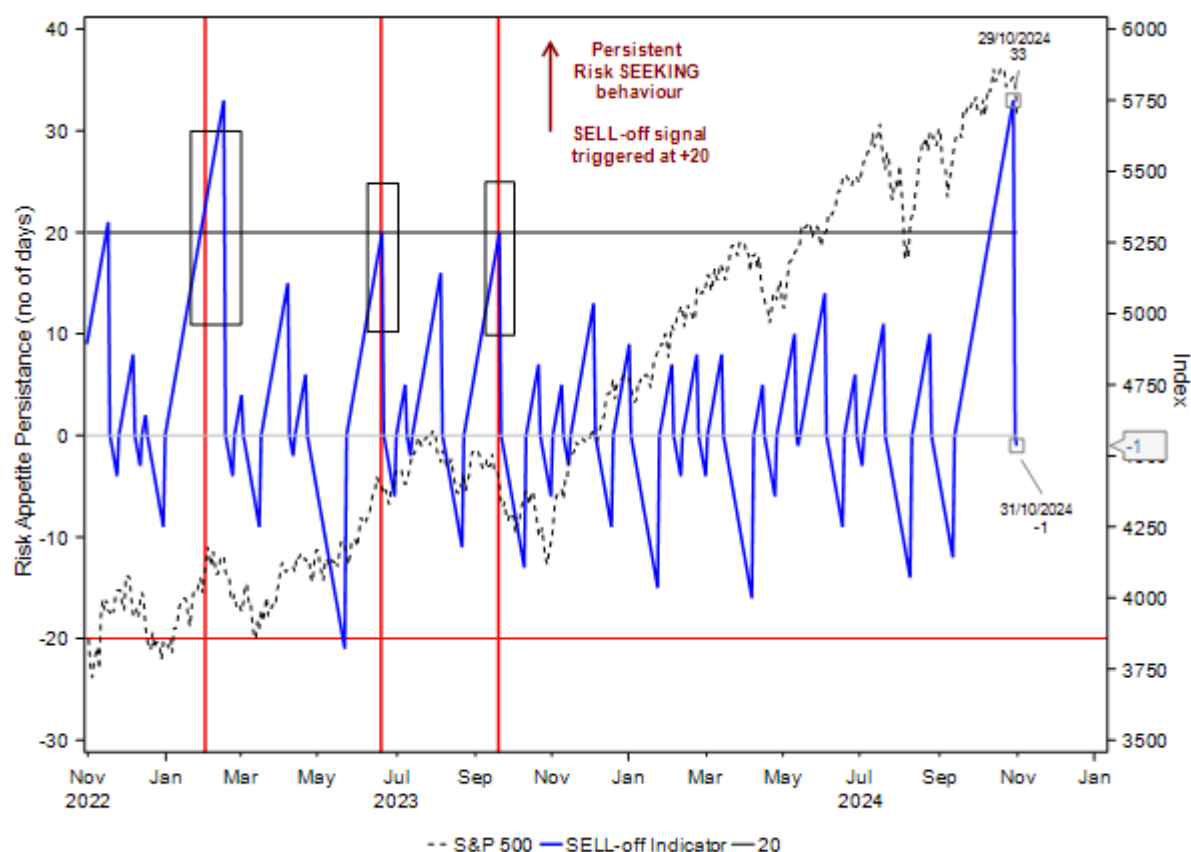
Key risks, as always, are multiple and include the possibility that the signal from our SELL-off indicator is wrong/early (and we have therefore misjudged the regime switch in markets). Other key two way risks include today's US nonfarm payrolls report (which is expected to show a hurricane and strike-related slowdown in employment).

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

Kind regards,

The team @ Longview Economics

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



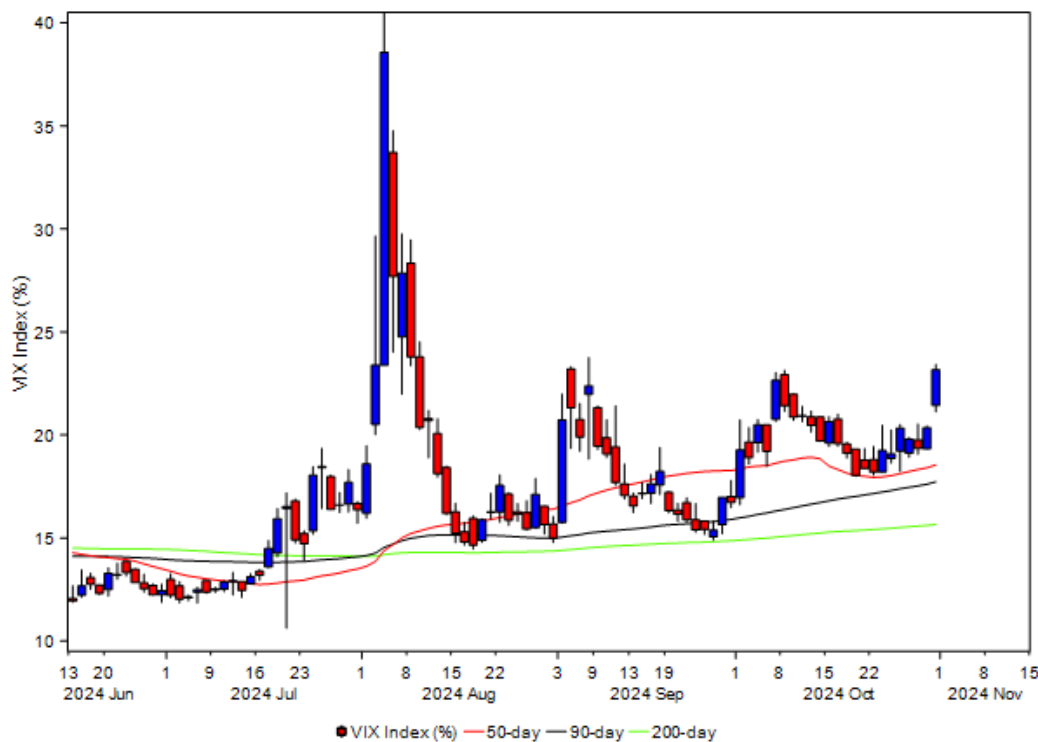
Source: Longview Economics, Macrobond

FIG 1a: S&P500 futures candlestick shown with its 50 day moving average



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

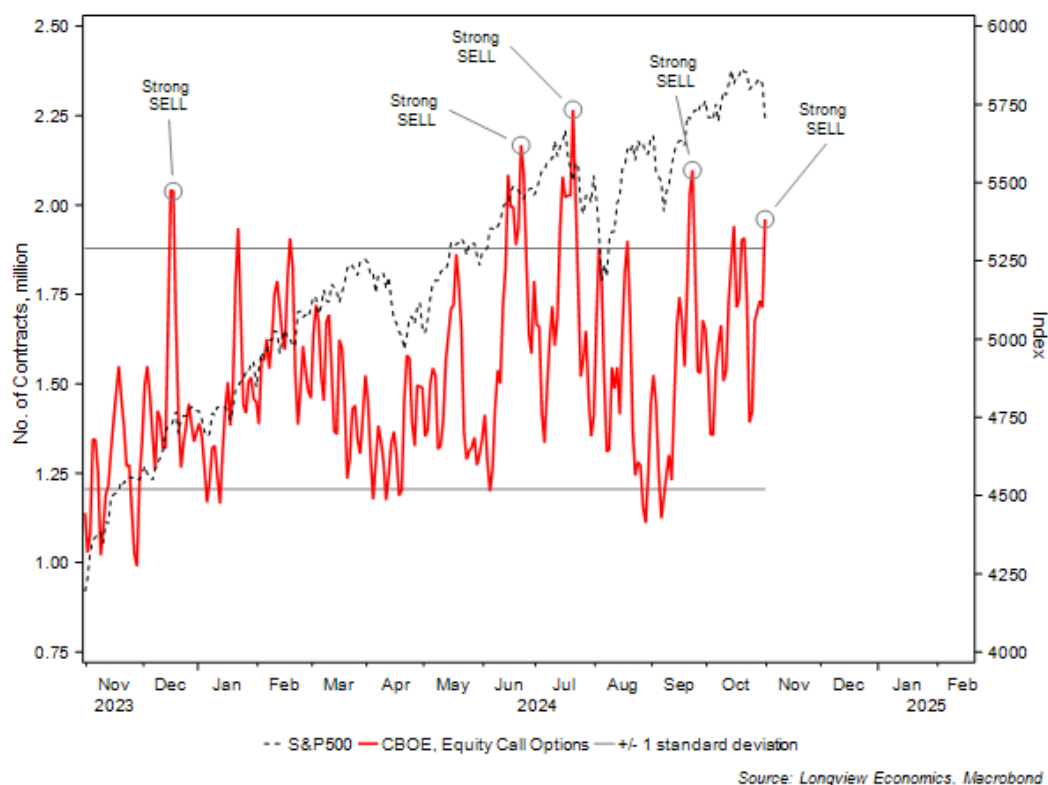


FIG 1d: Italian sovereign spreads over BUNDS (inverted) vs. S&P500

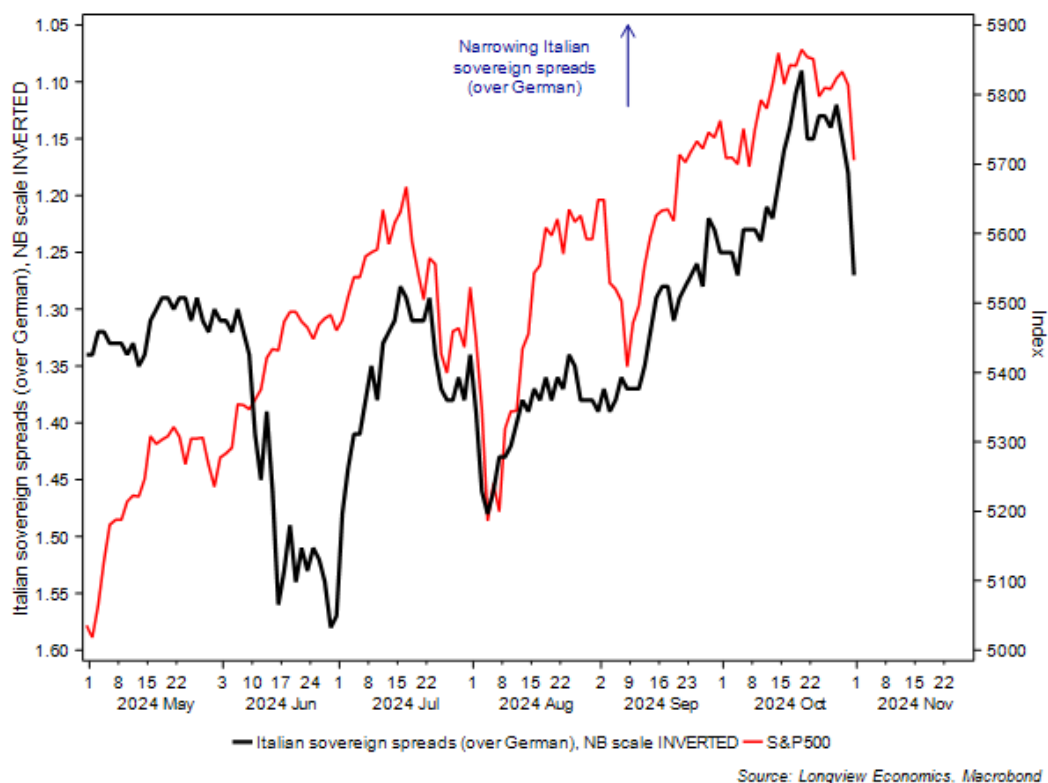
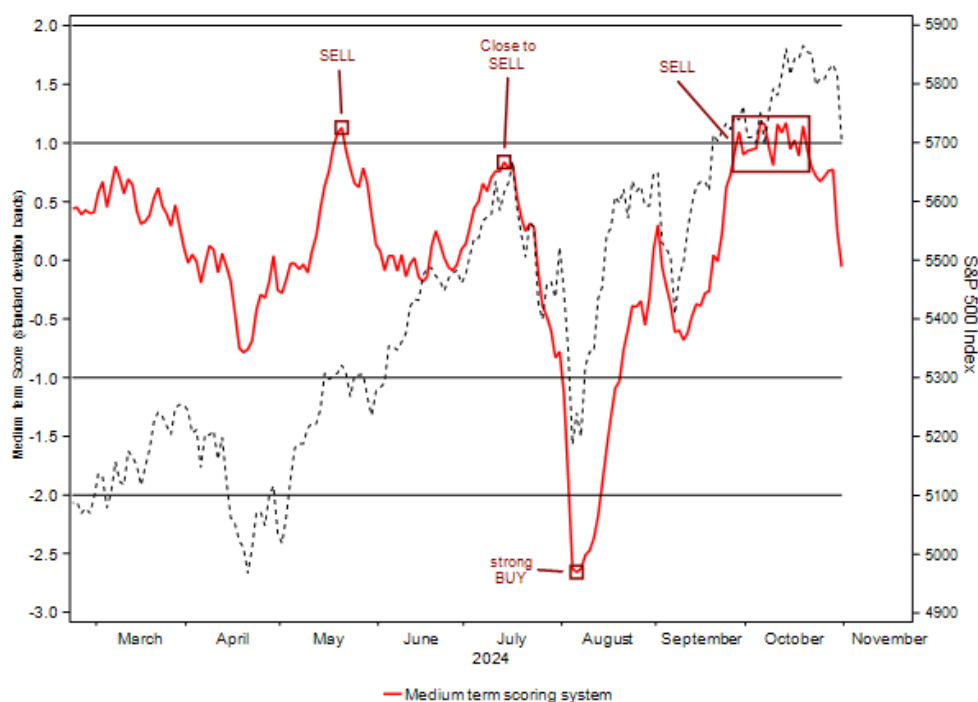


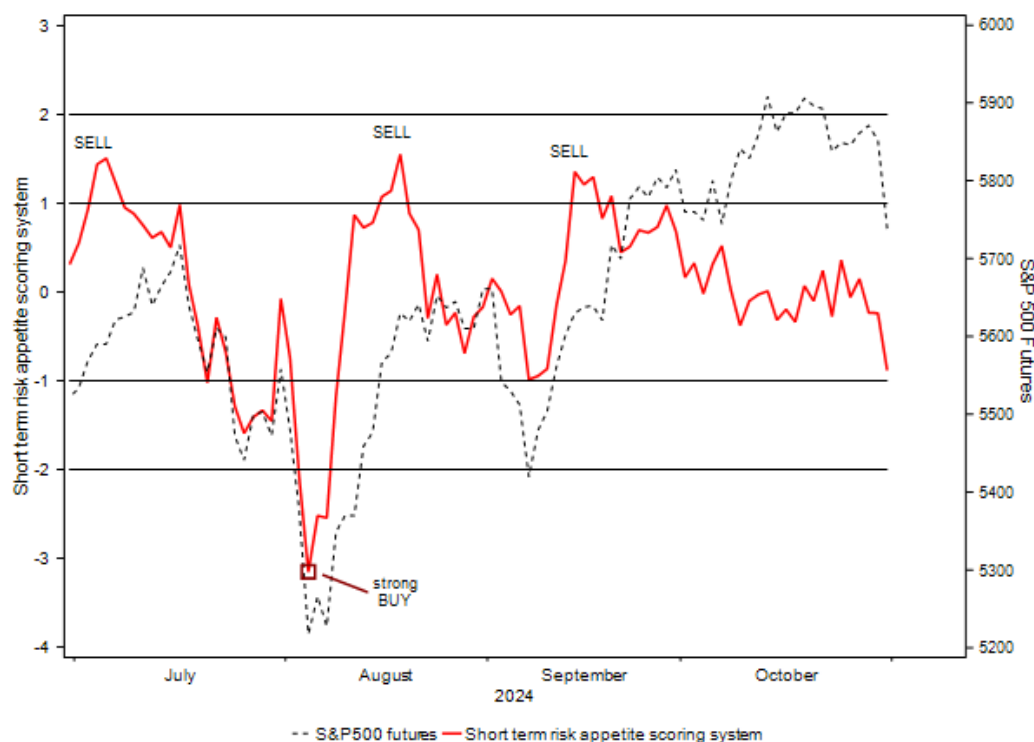
FIG 1e: Medium term ‘risk appetite’ scoring system vs. S&P500



Source: Longview Economics, Macrobond

Short-term risk appetite models have started to move towards BUY levels

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

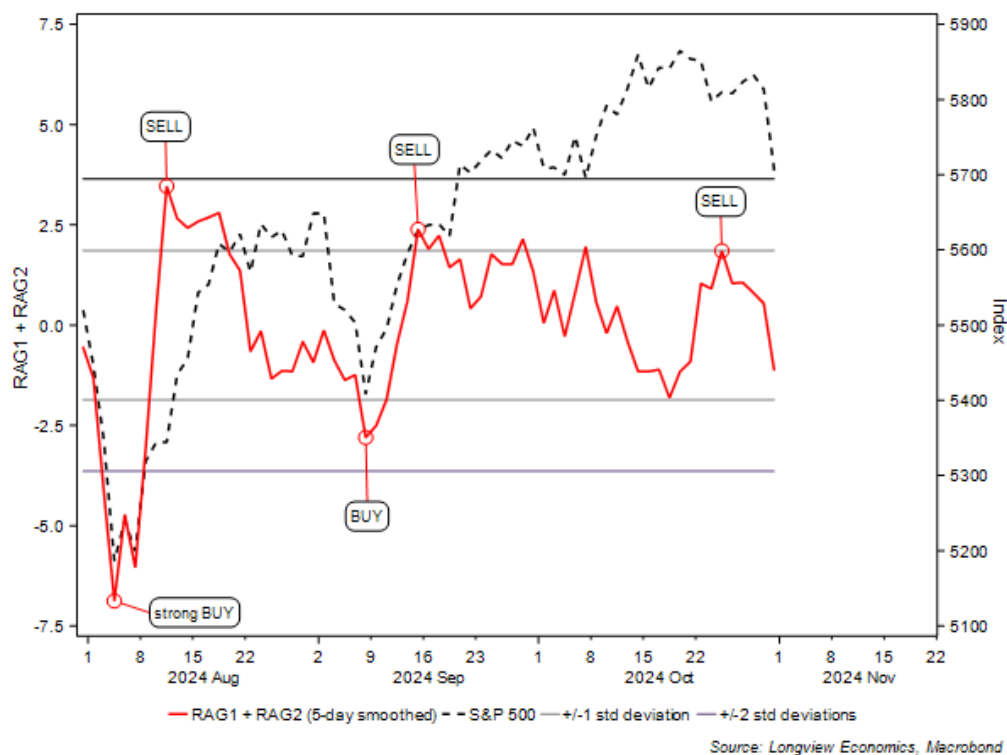


FIG 2b: Longview **shortest term** **'risk appetite'** scoring system vs. S&P500

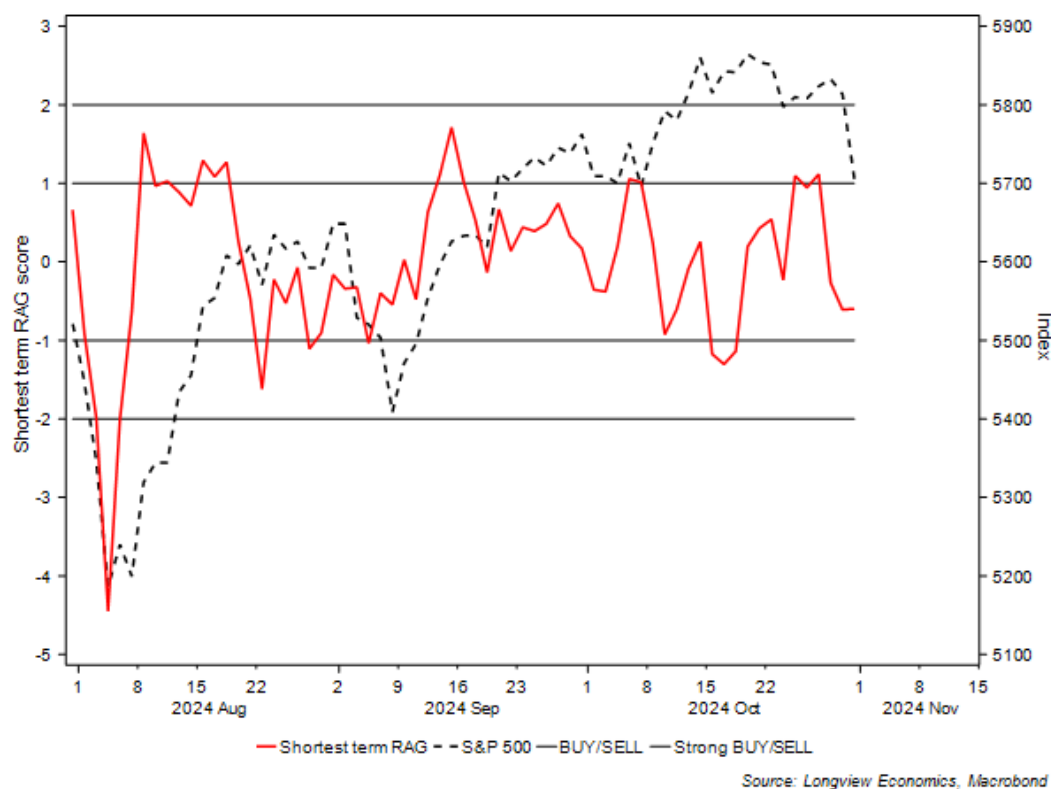


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

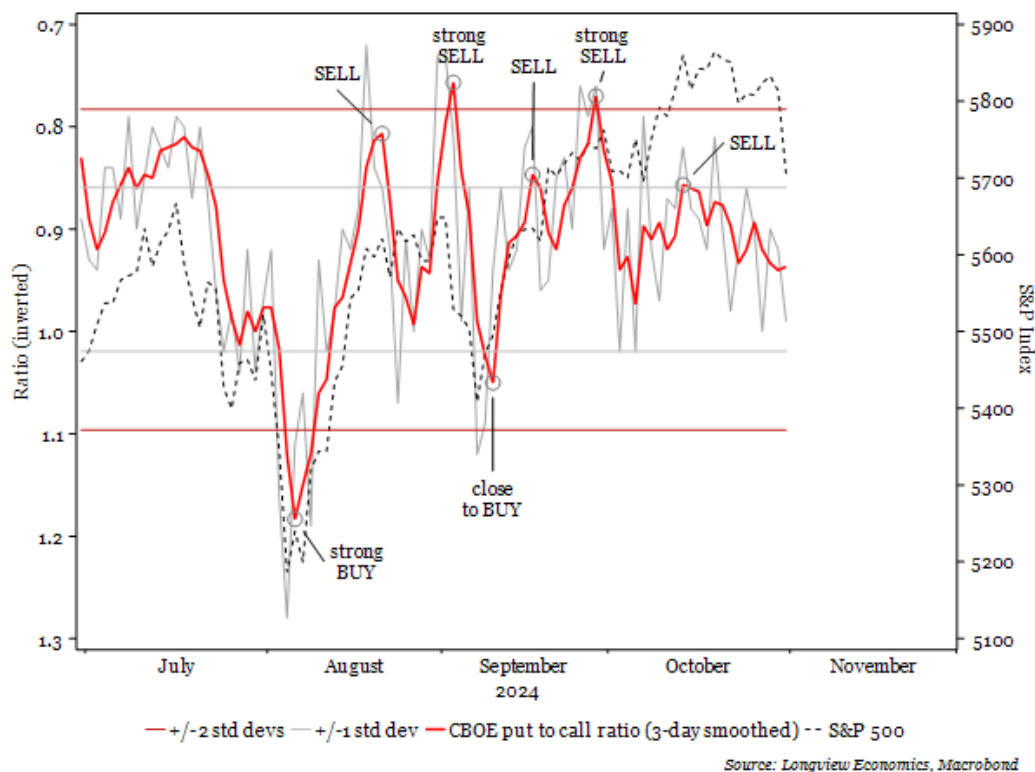
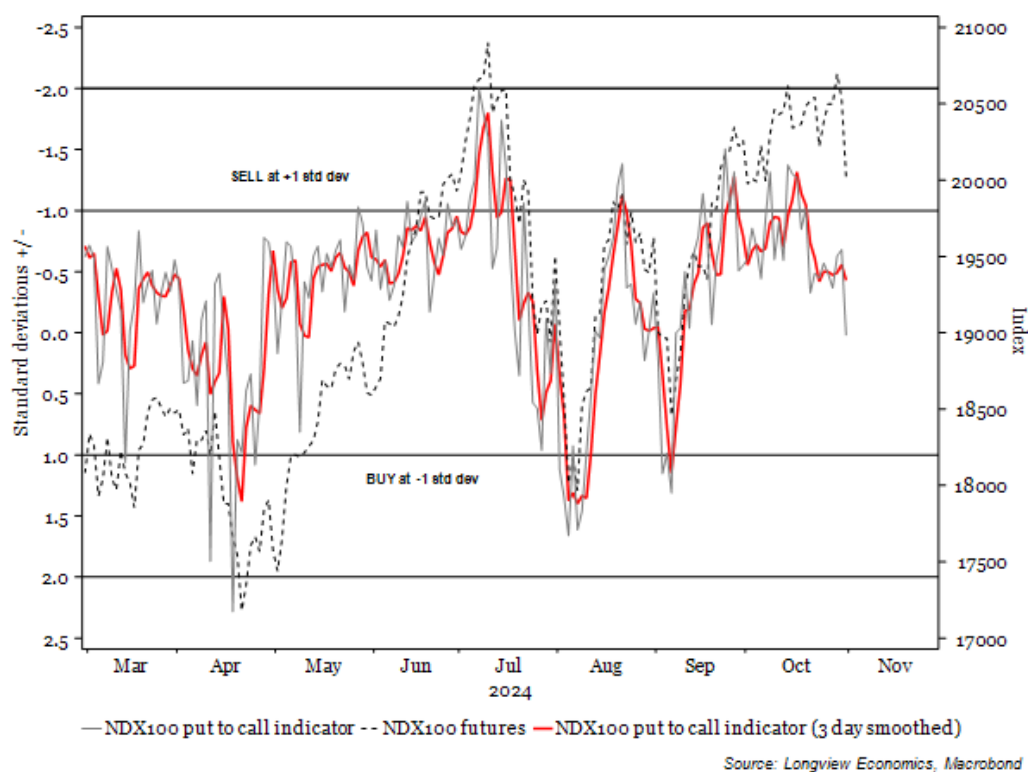


FIG 2d: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Short term technical models have rolled over...

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

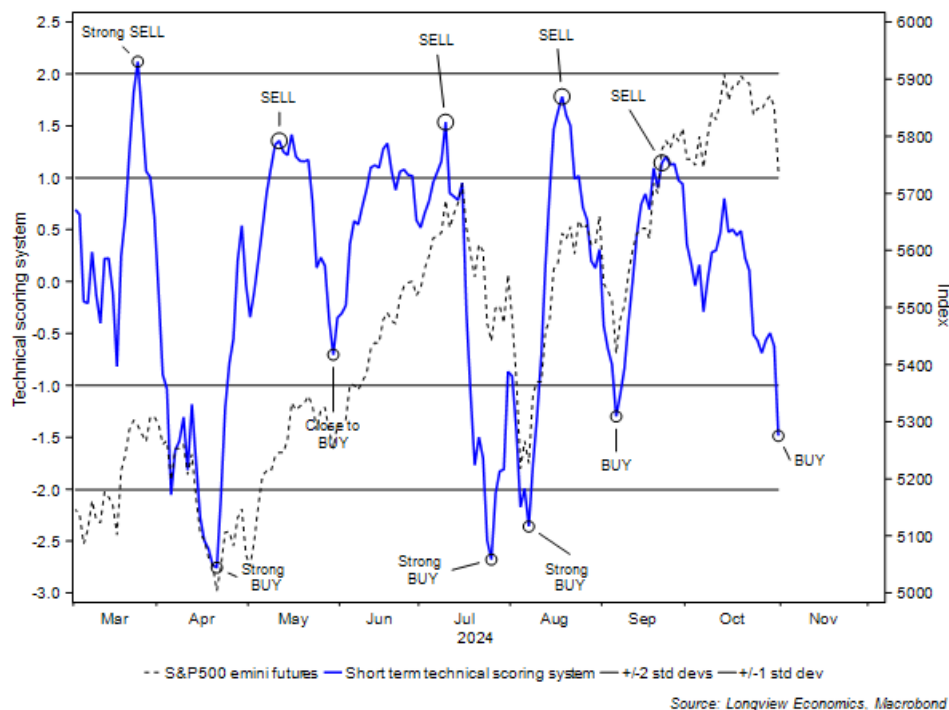


FIG 3a: US S&P500 stocks with upward momentum shown vs. S&P500

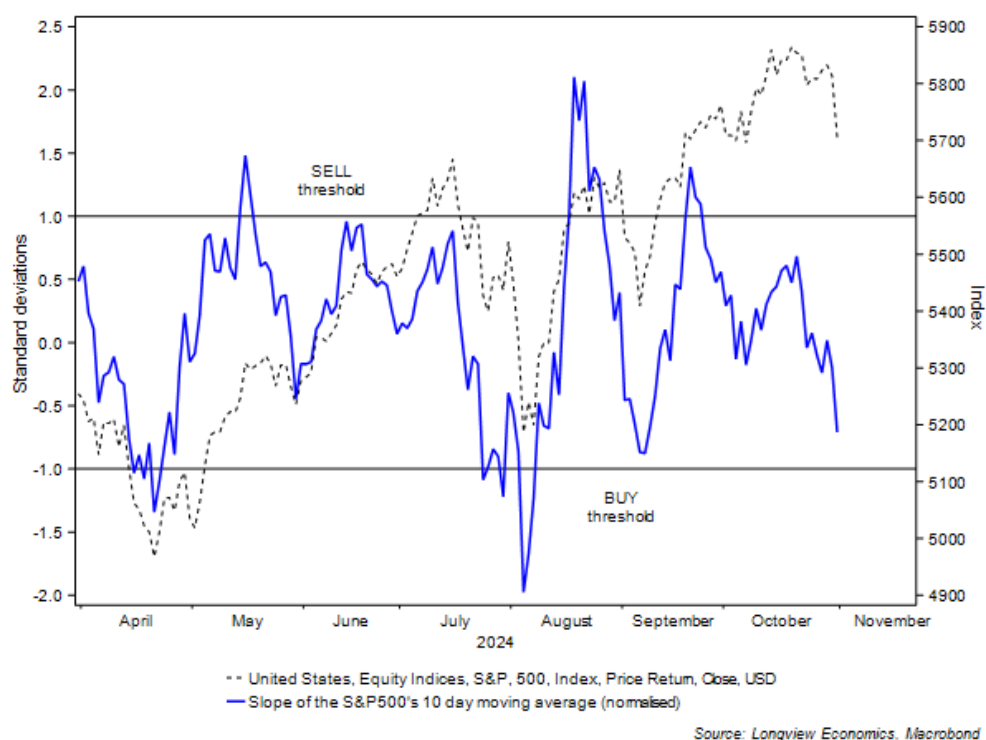
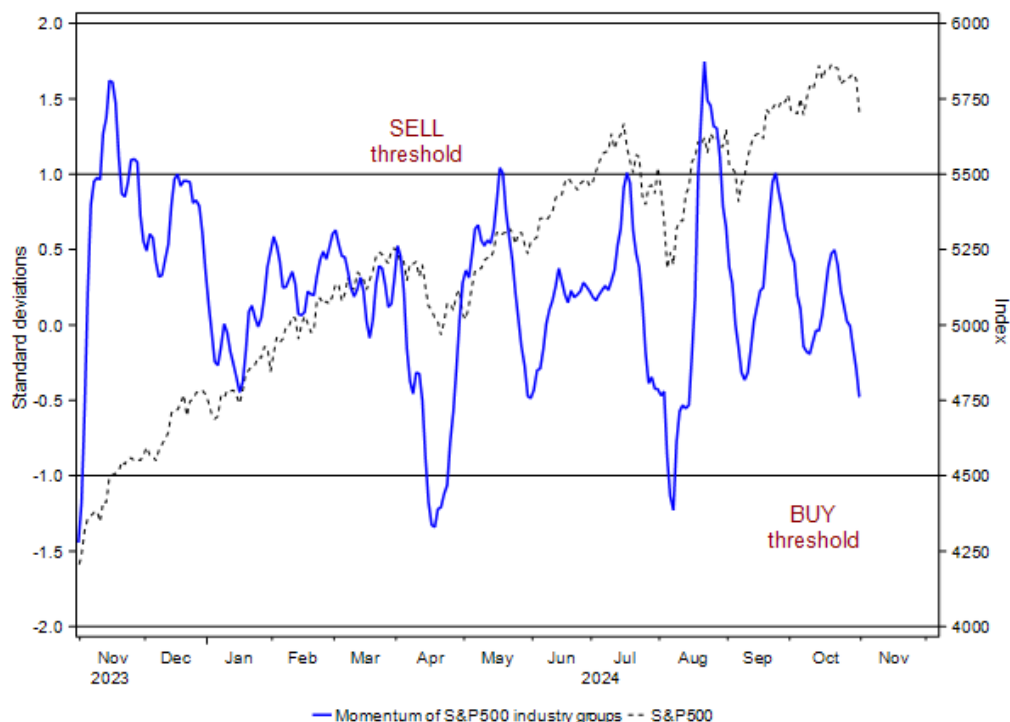
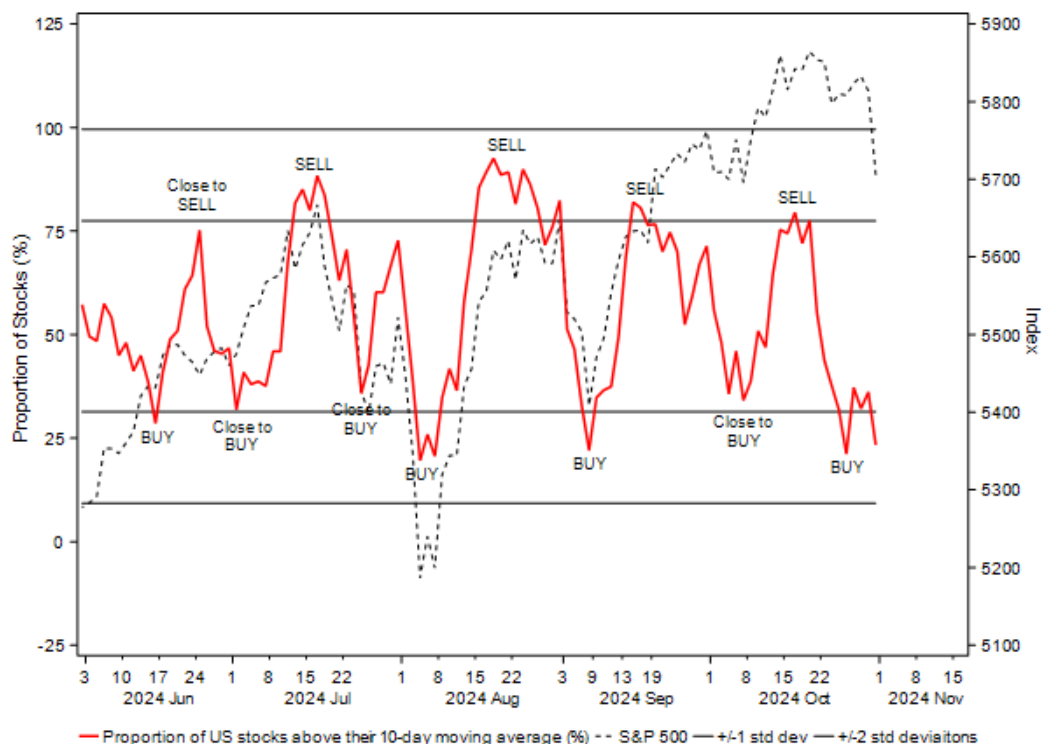


FIG 3b: Momentum of US industry groups (i.e. all 24, scored and aggregated) vs. S&P500



Source: Longview Economics, Macrobond

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



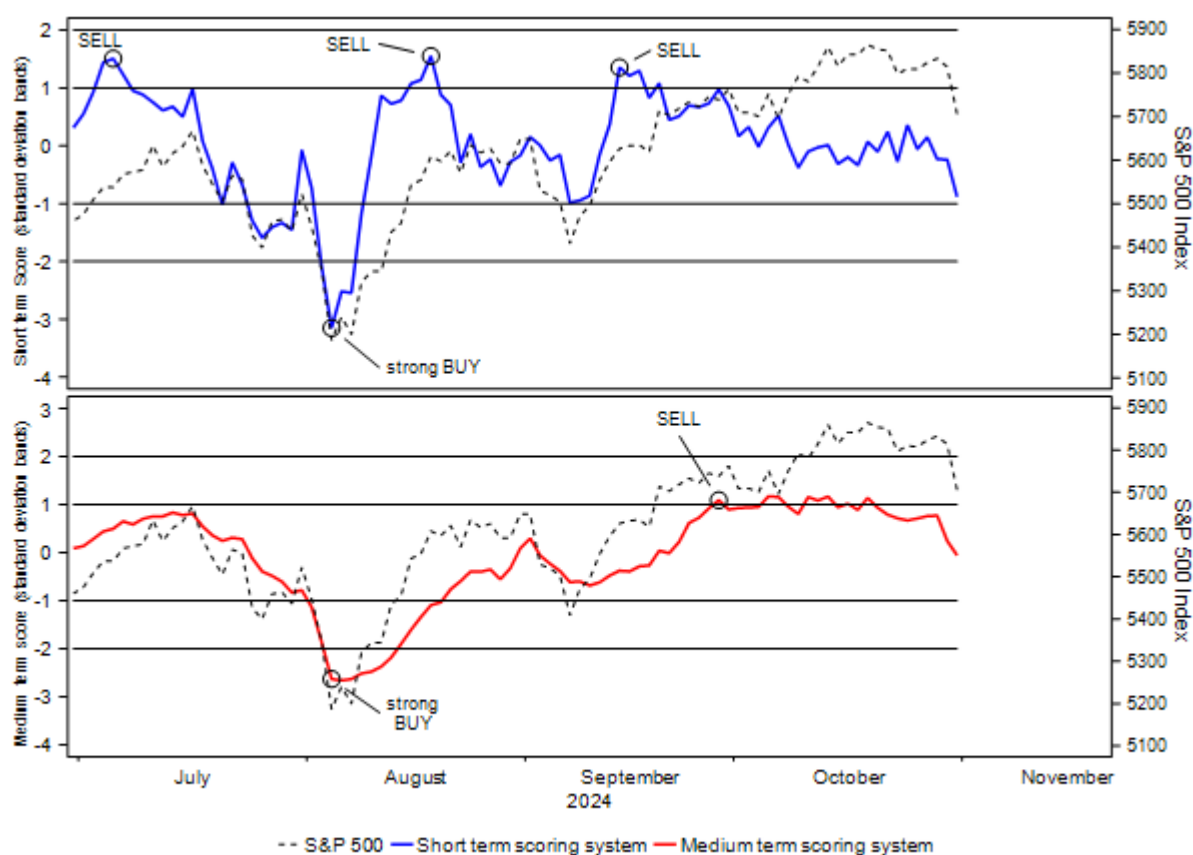
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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 Jibun Bank manufacturing sector PMI (October final estimate, 12:30am); Australian household spending (Sept, 12:30am); Australian PPI (Q3, 12:30am); Australian home loan value (Sept, 12:30am); **UK Nationwide house prices** (Oct, 7am); UK S&P manufacturing sector PMI (October final estimate, 9:30am); **US nonfarm payrolls, hourly earnings & unemployment** (Oct, 12:30pm); Canadian S&P manufacturing sector PMI (Oct, 1:30pm); **Chinese Caixin manufacturing sector PMI** (Oct, 1:45pm); US S&P manufacturing sector PMI (October final estimate, 1:45pm); US construction spending (Sept, 2pm); **US ISM manufacturing** (Oct, 2pm).

Key events today include: N/A

Key earnings today include: **Exxon Mobil, Chevron**, Enbridge, Macquarie, Mitsubishi Corp, KDDI Corp, Mitsui.

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 10th October 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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1 – 2 Week View on Risk

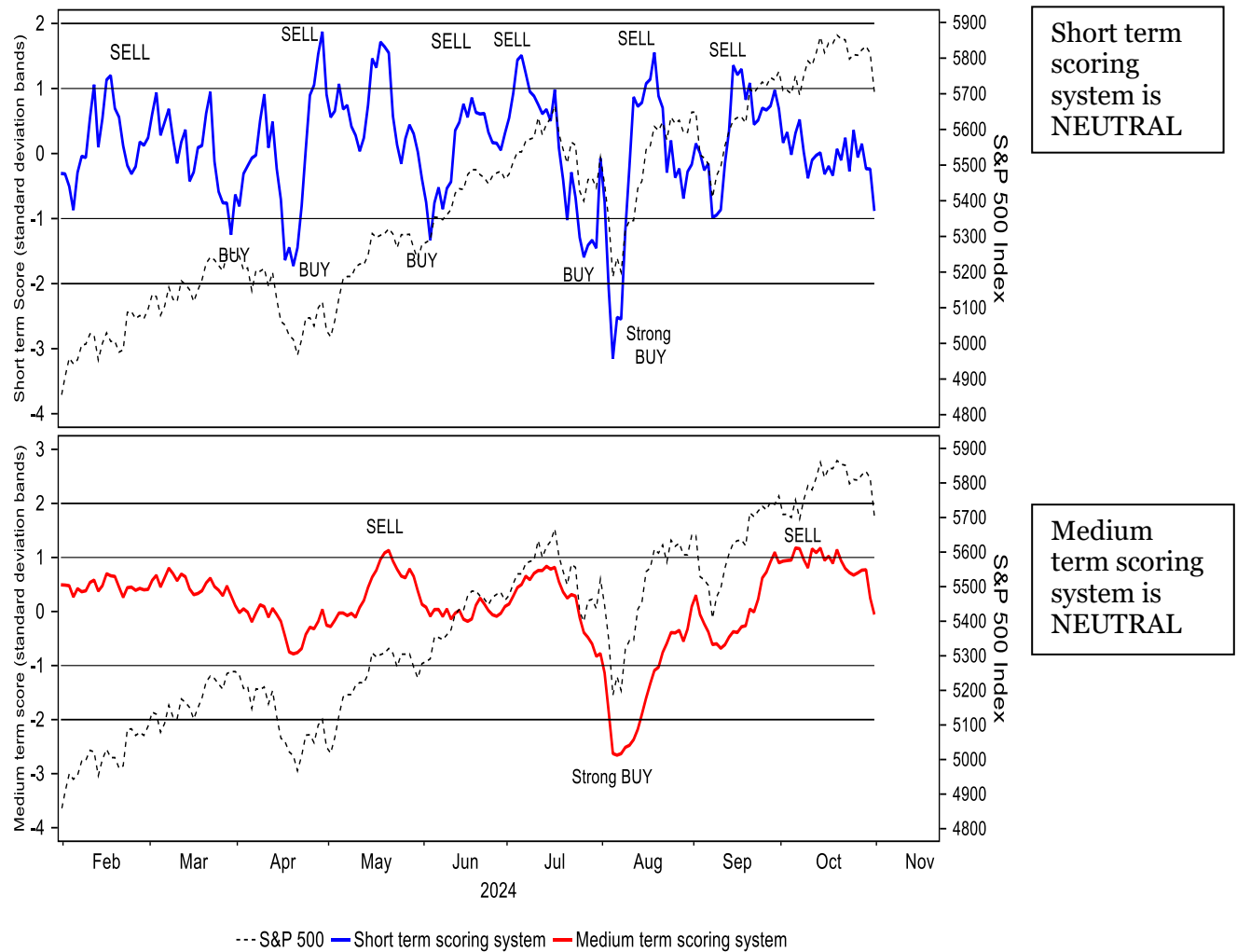
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1st November 2024

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

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



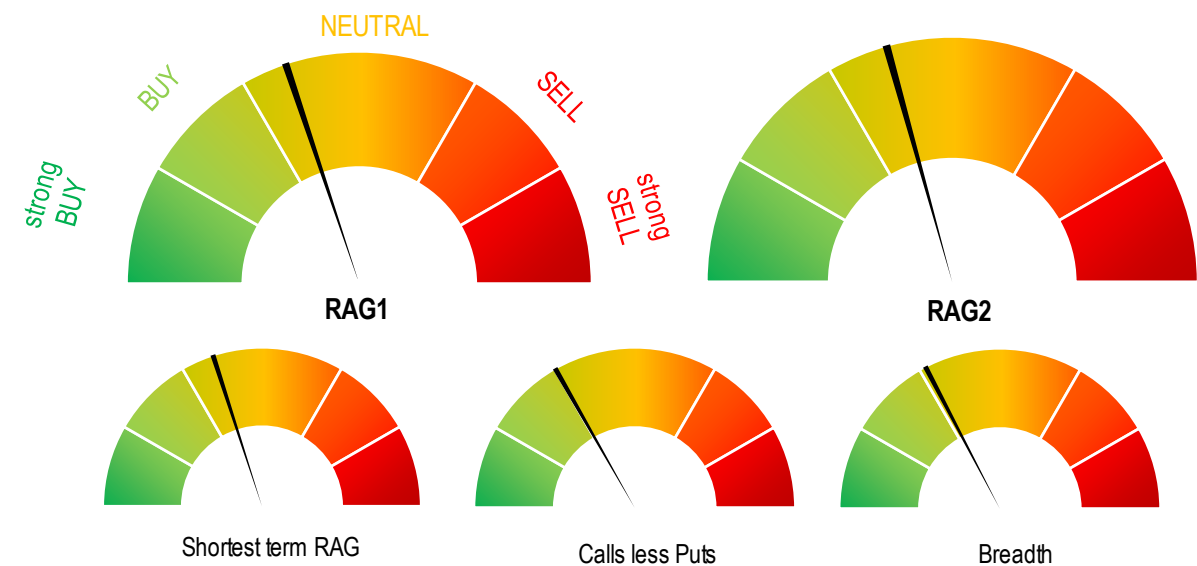
Source: Longview Economics, Macrobond

*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**

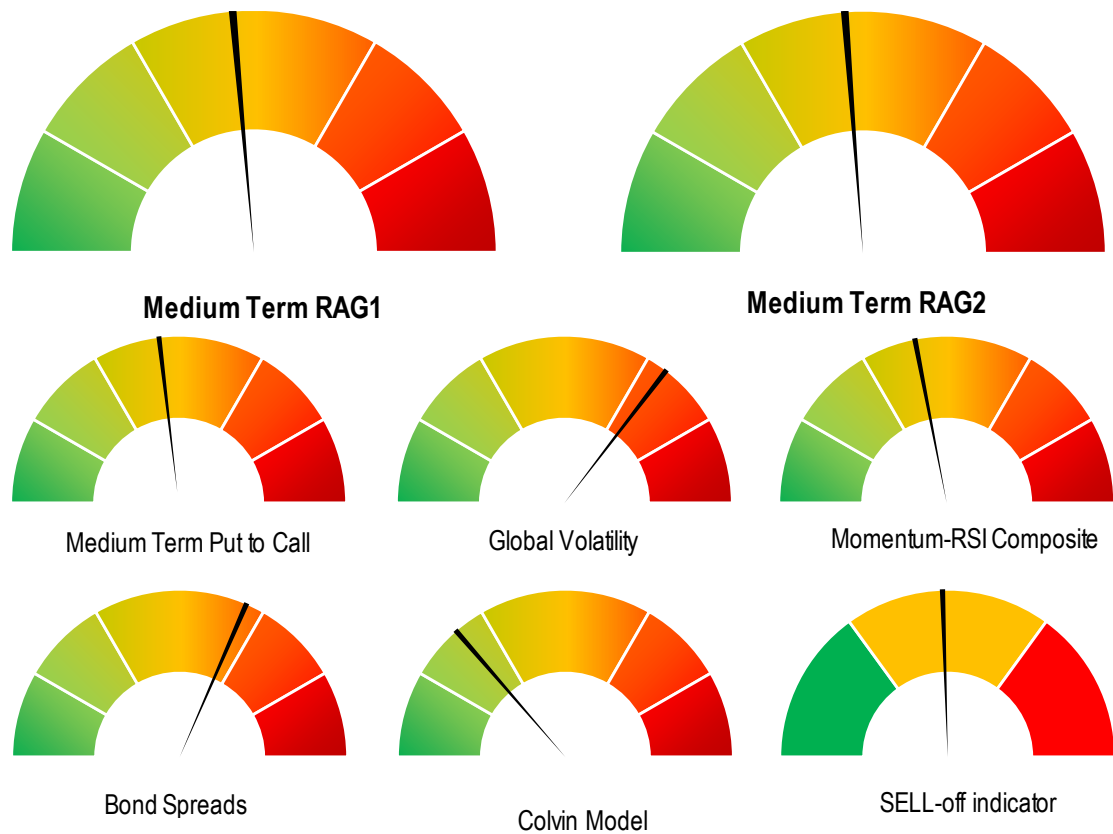
Section 1a: Summary of indicator signals**

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

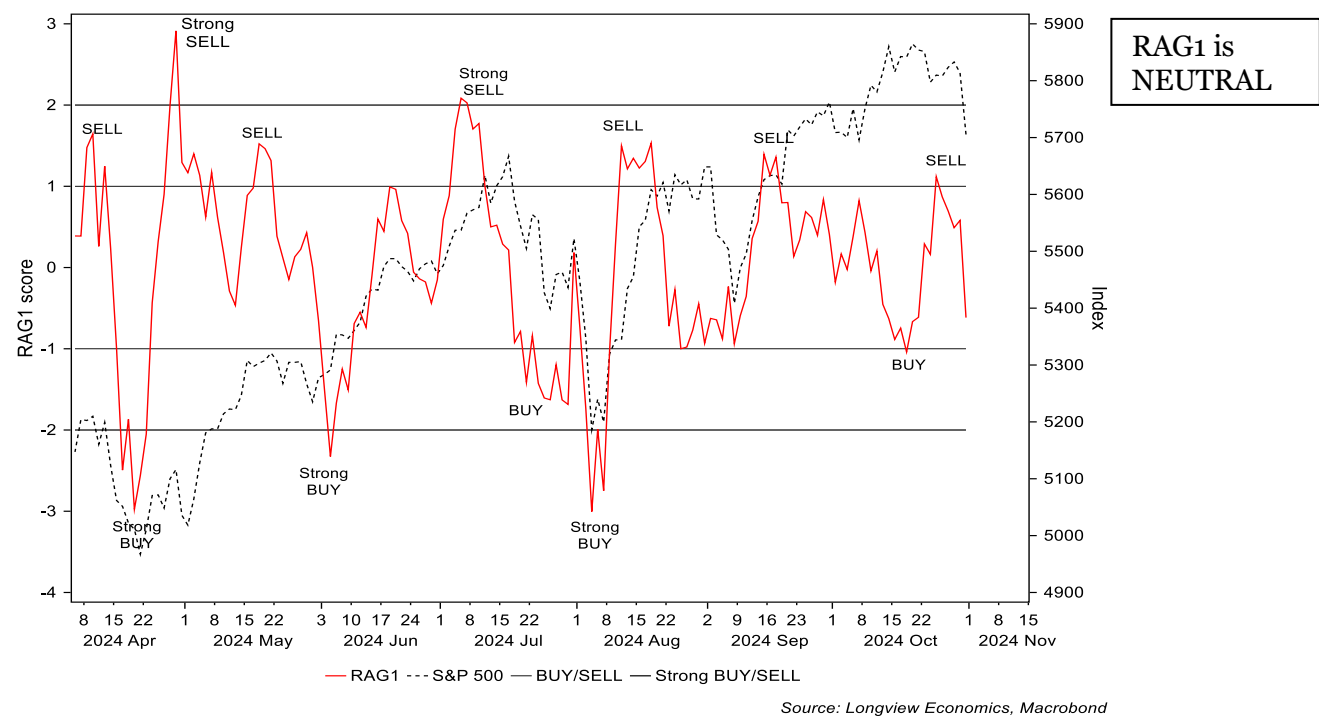
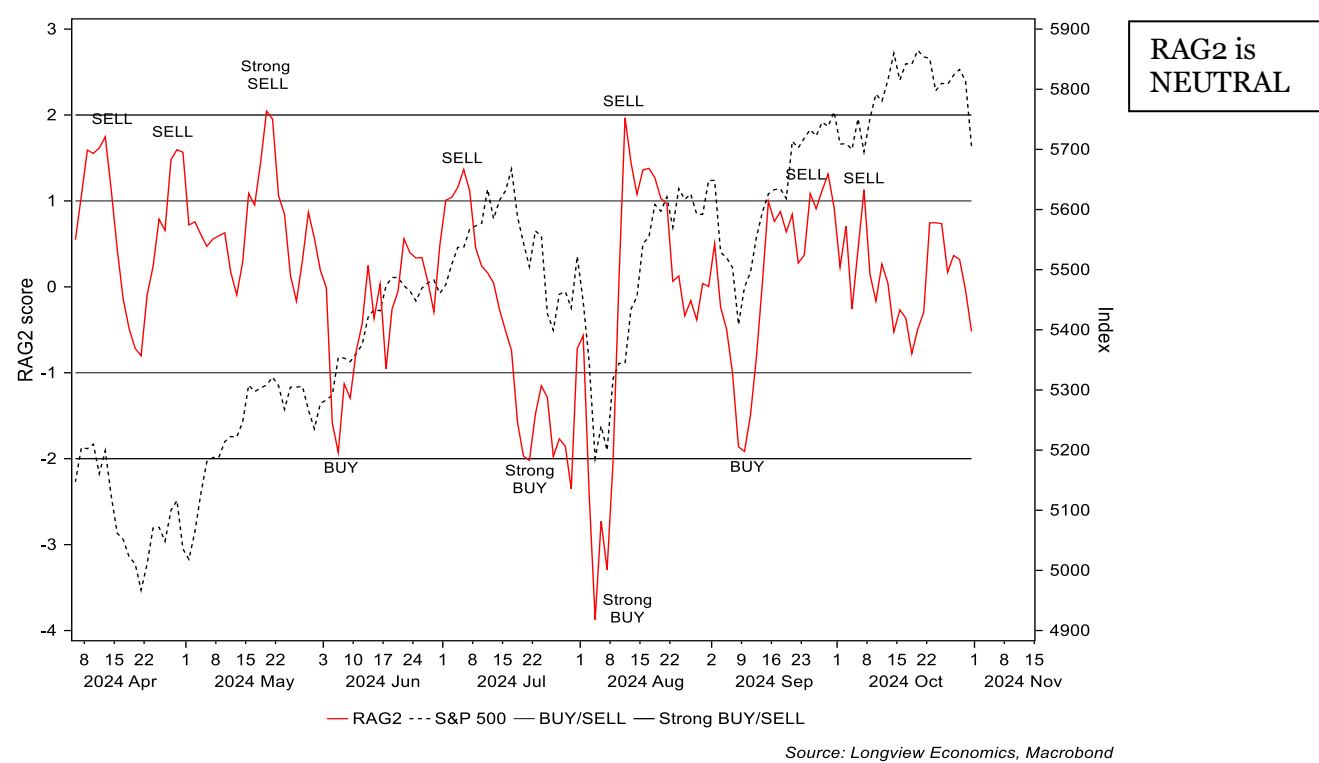


Fig 2b: RAG 2 vs. S&P 500



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

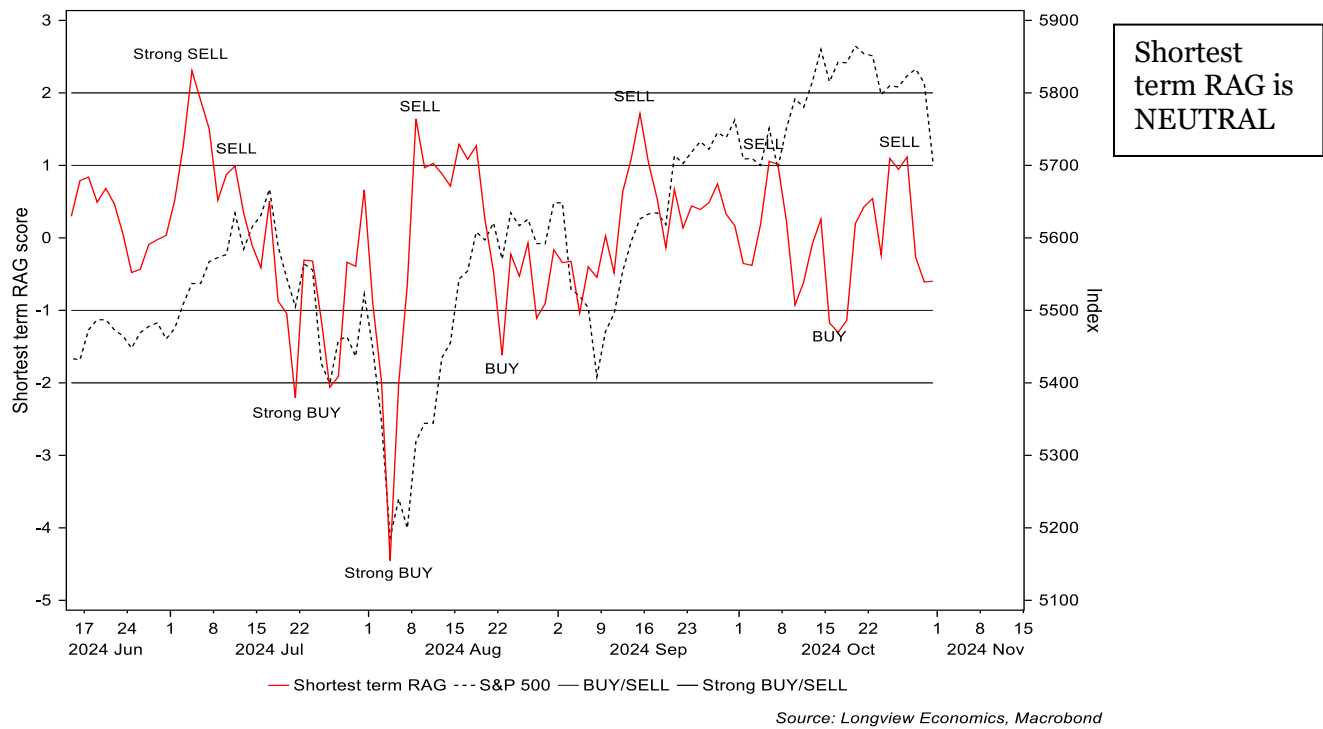
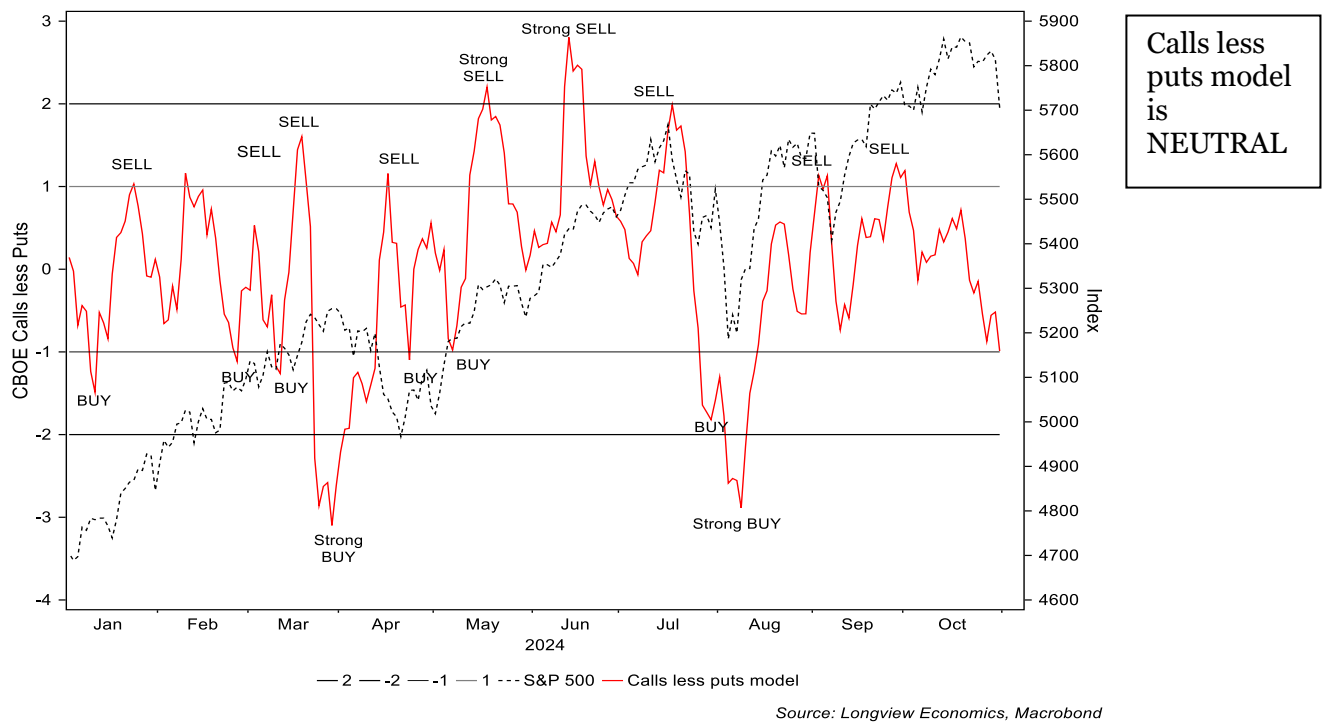
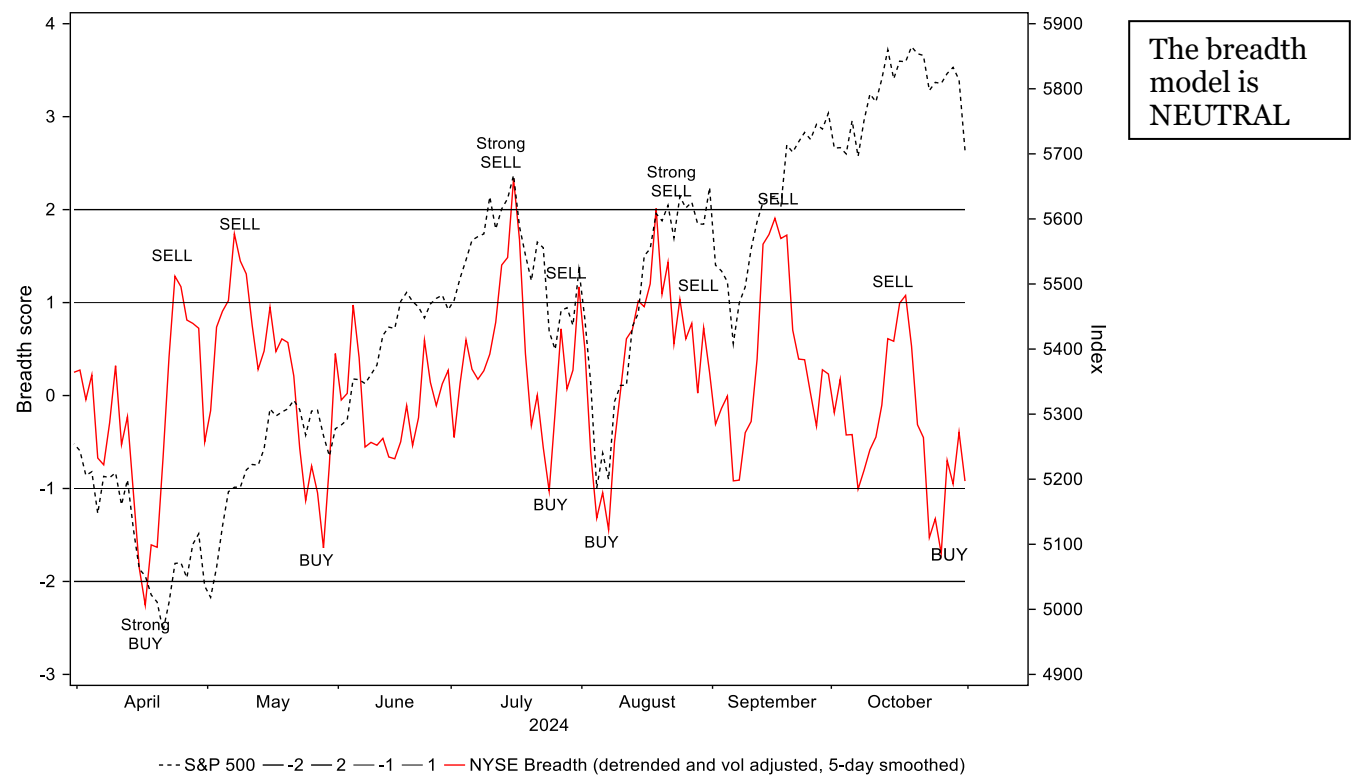


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

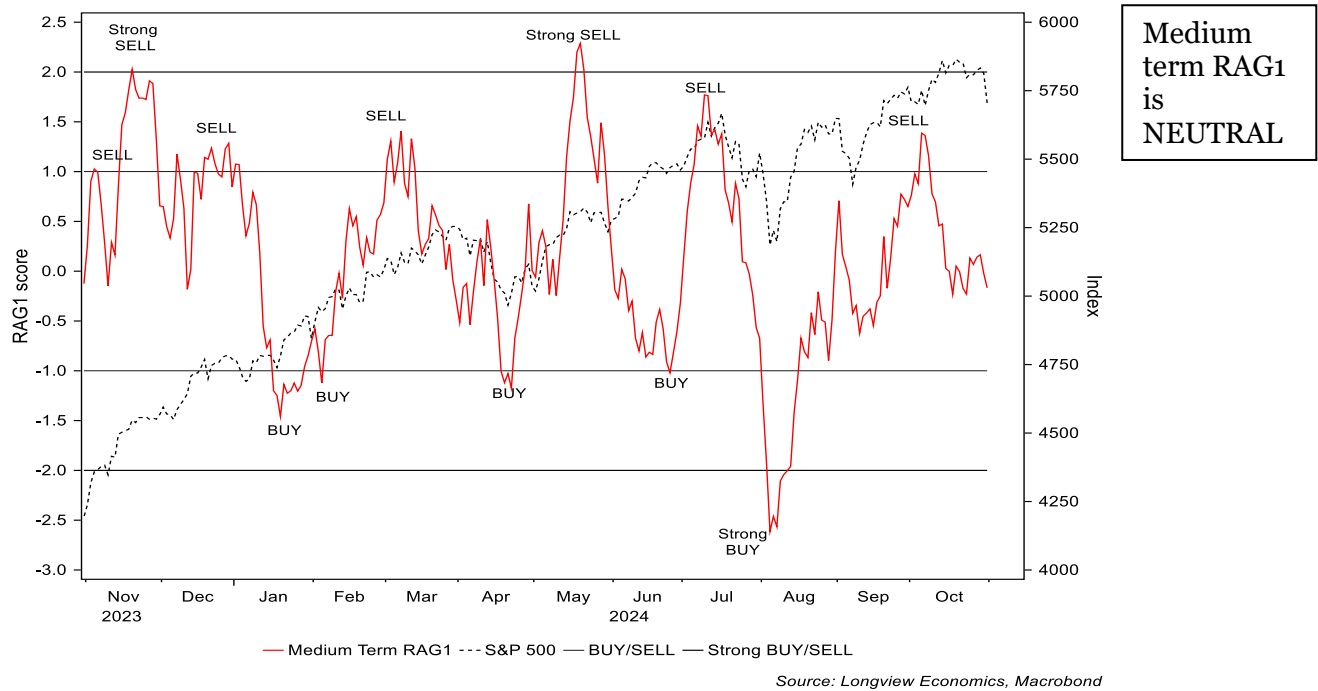
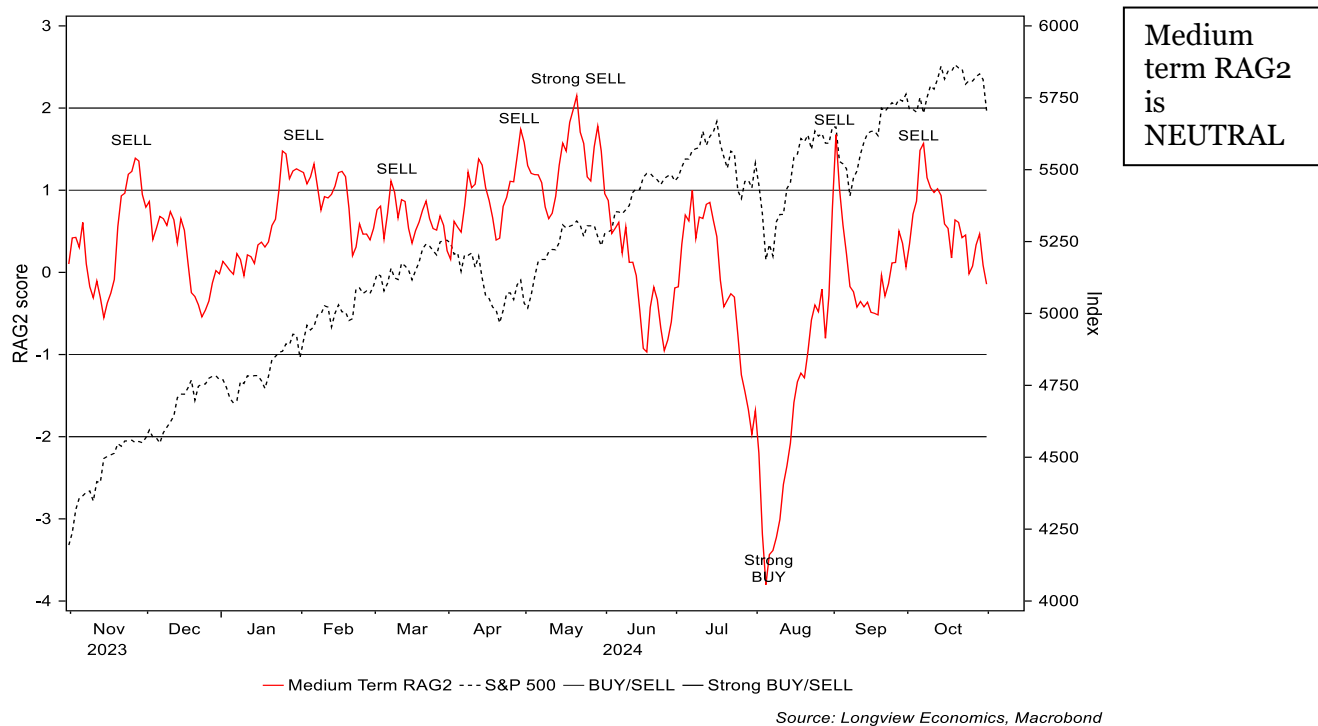


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

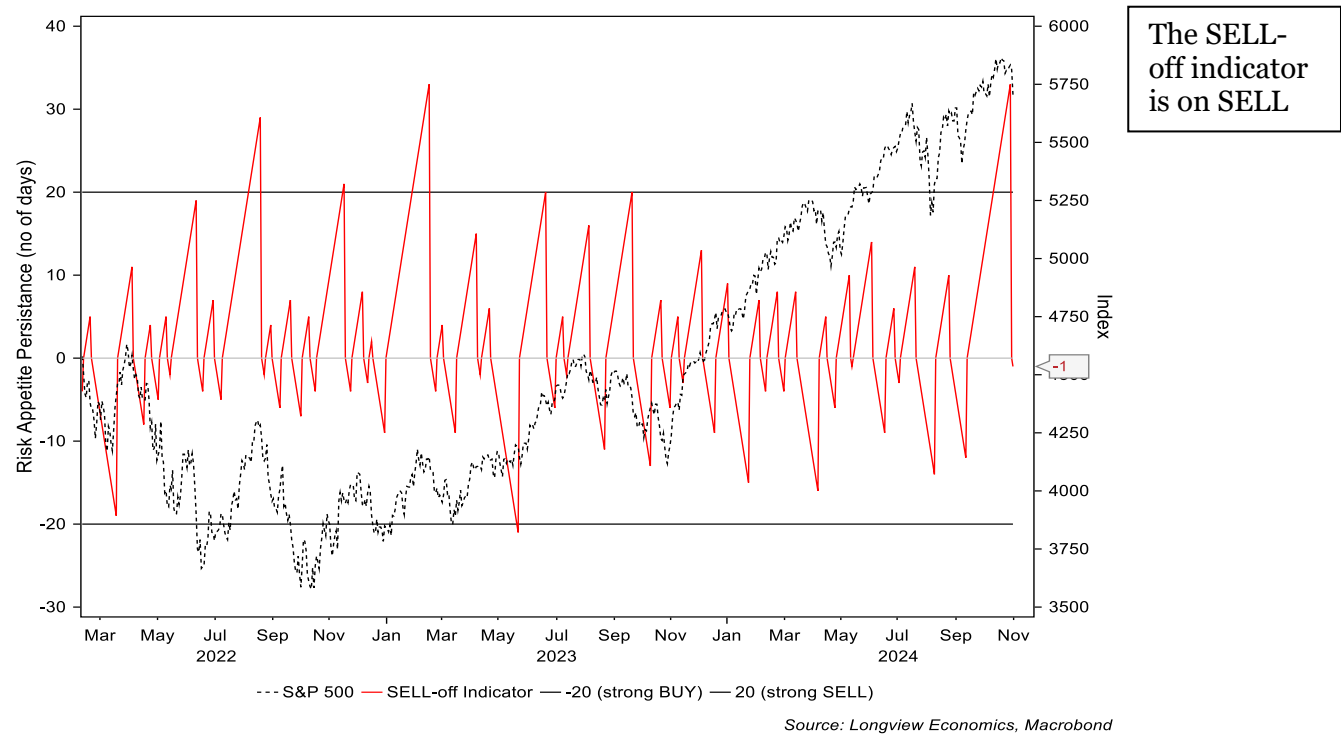
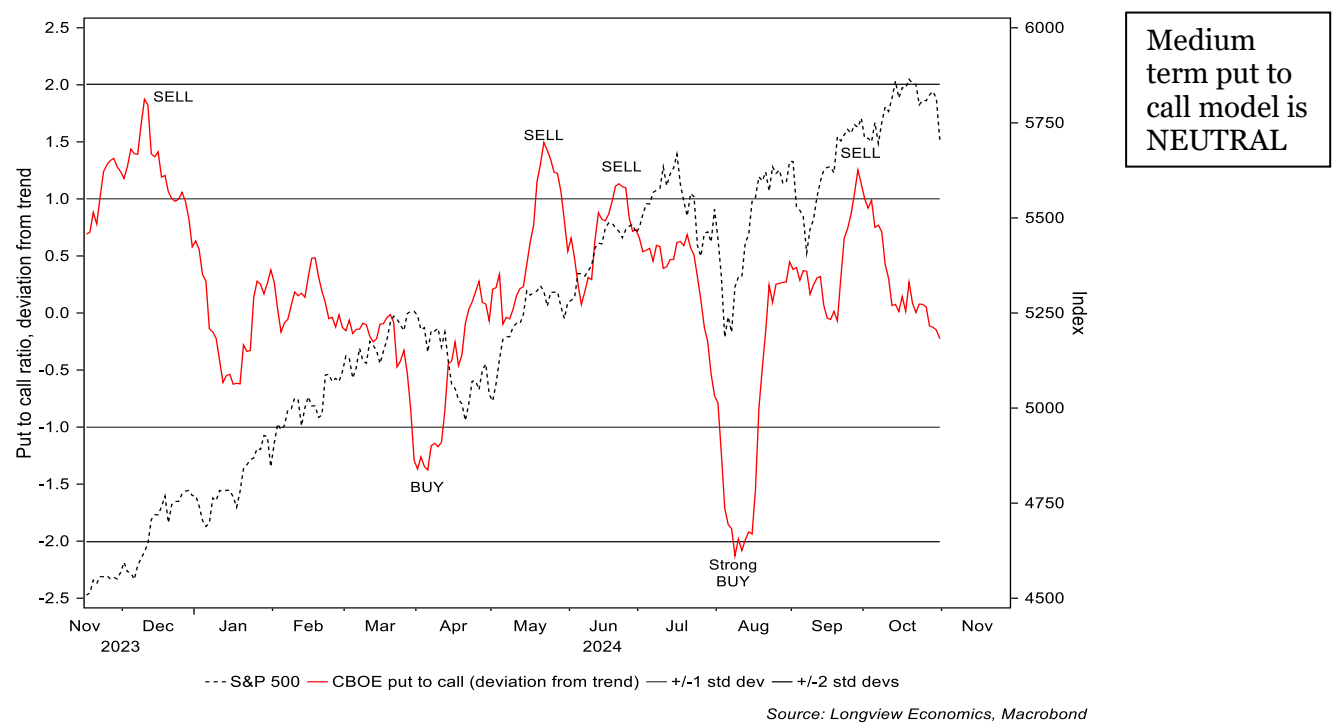


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

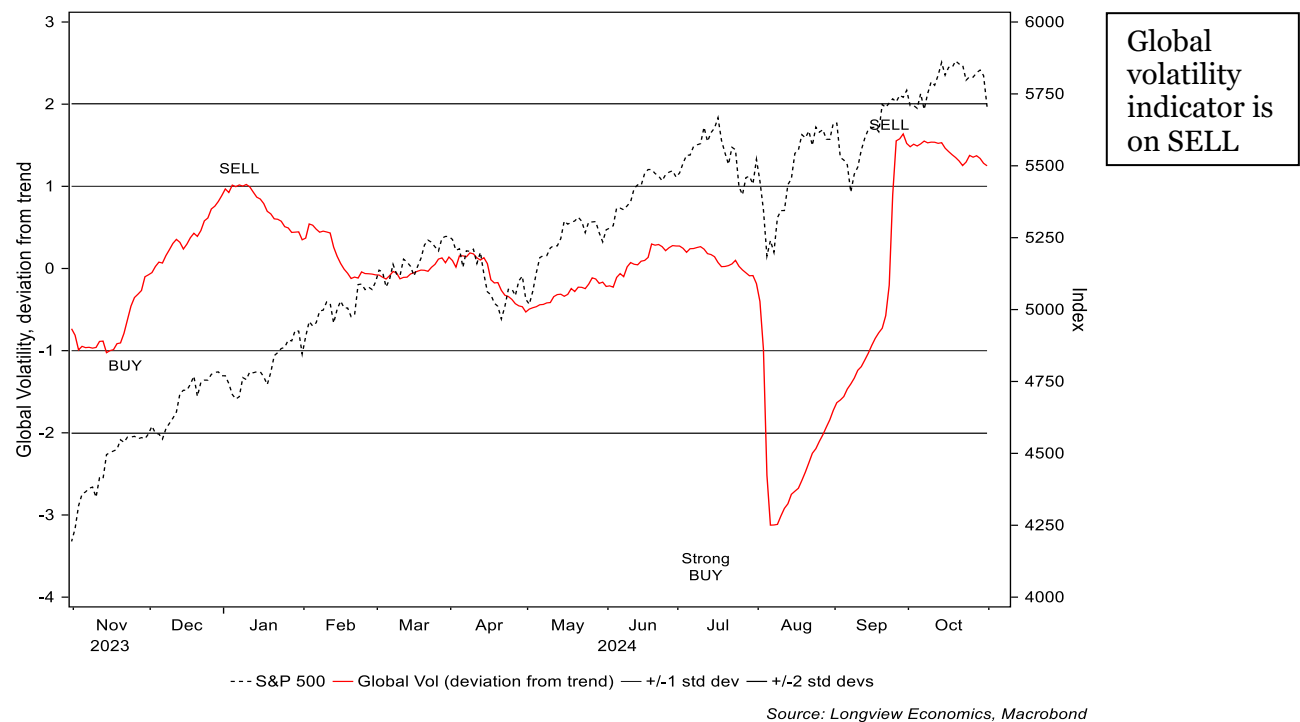


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

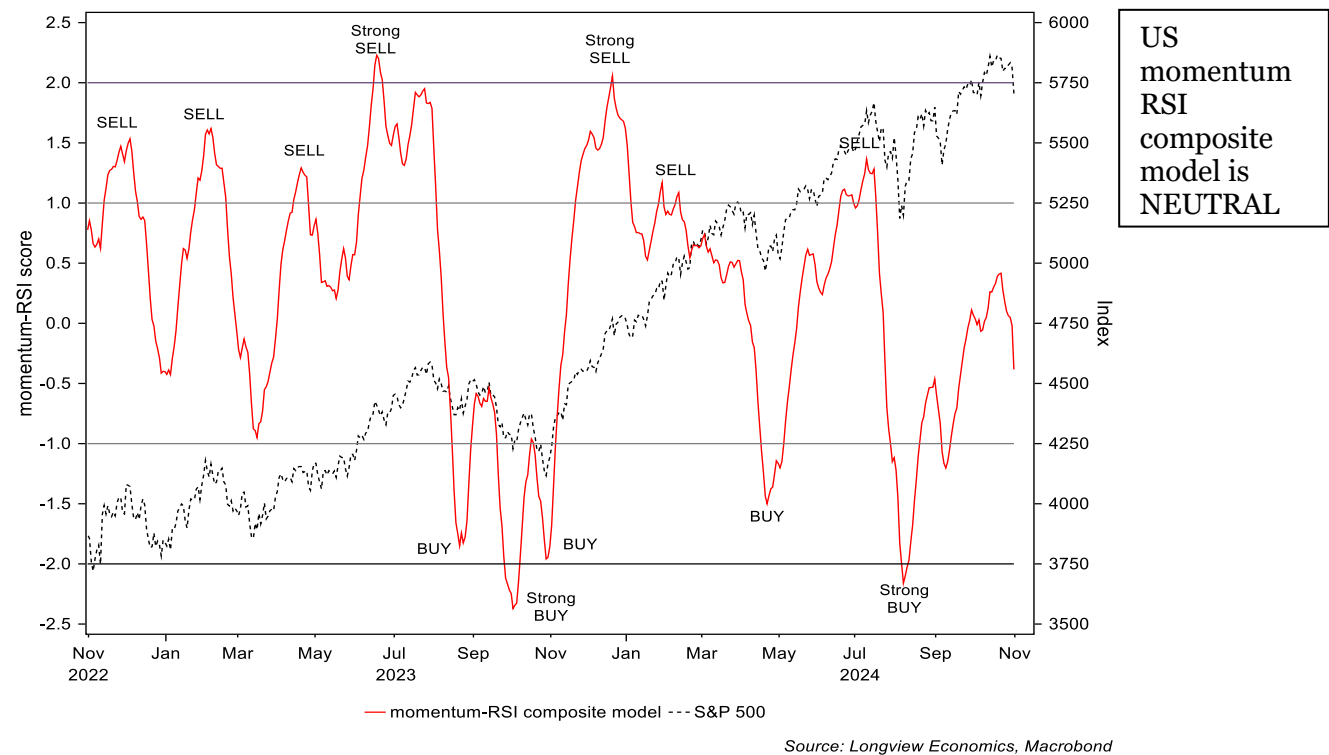


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

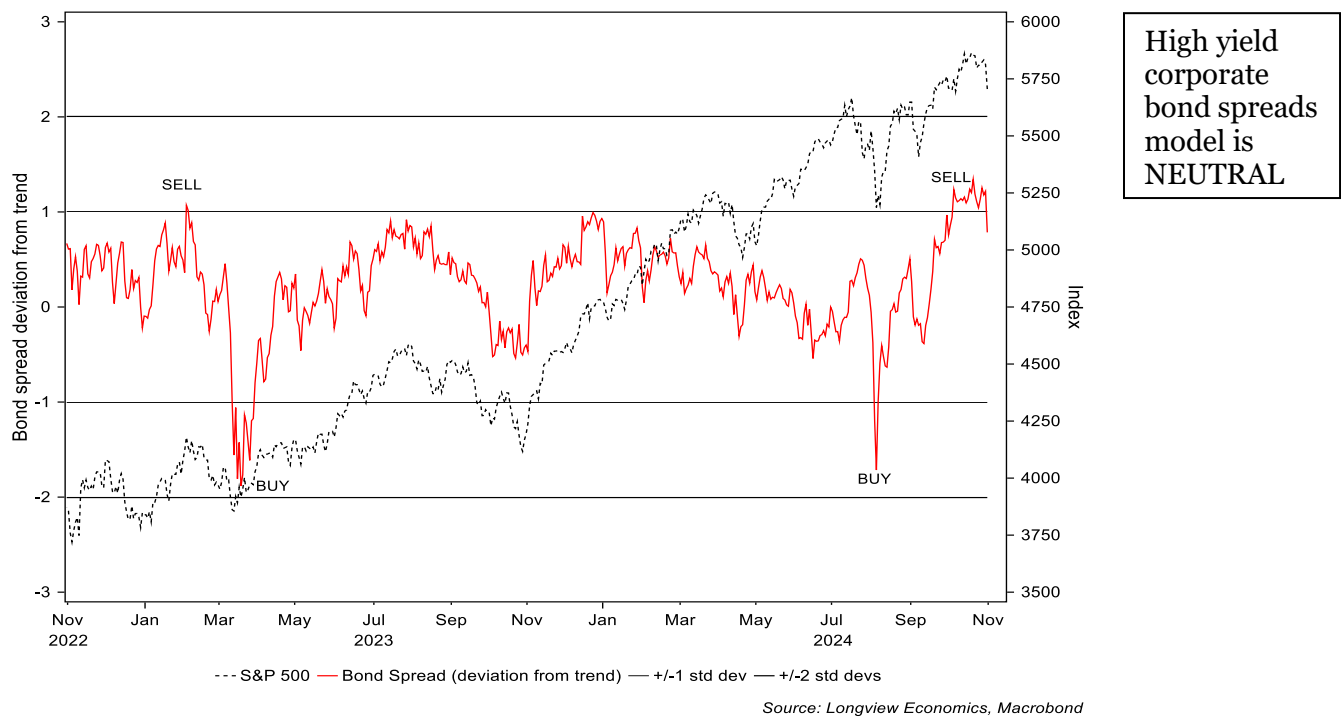
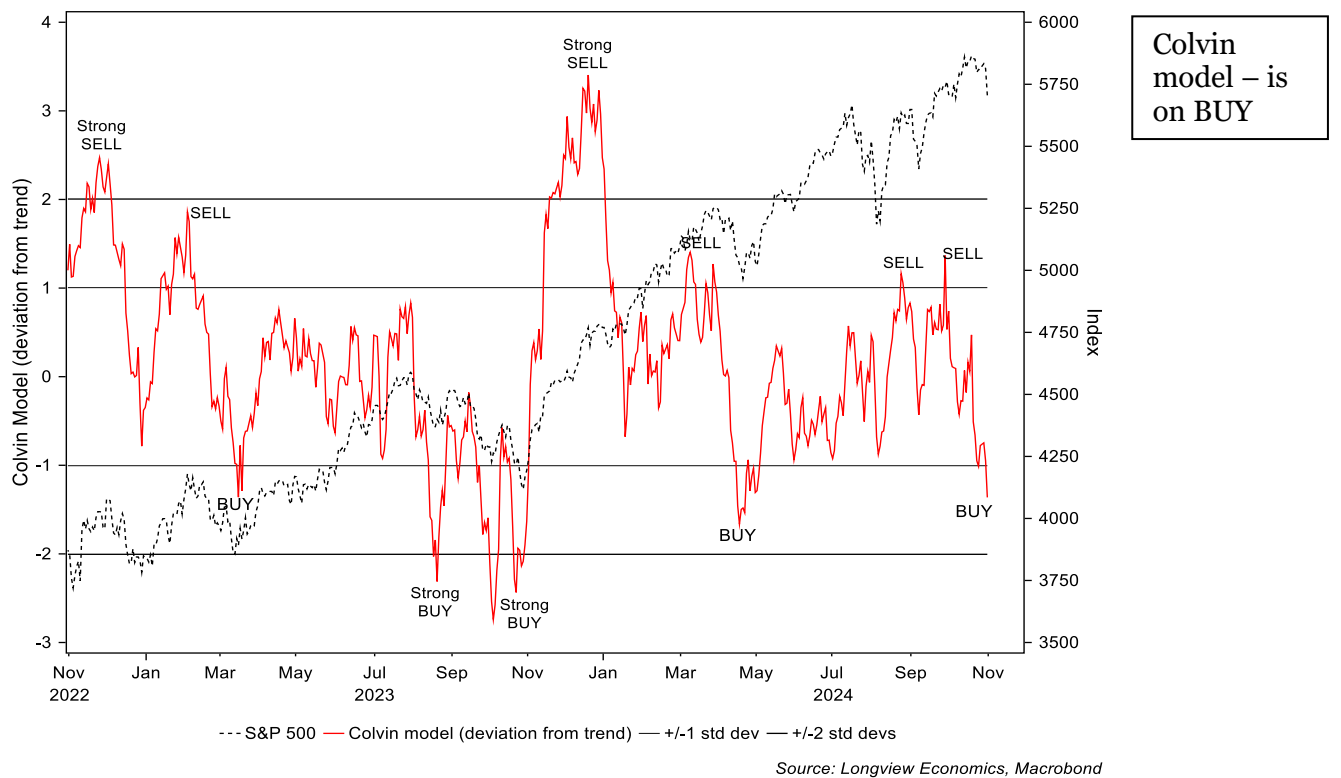


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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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