LV RAG

Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

1st October 2024

"Stay SHORT SPX Futures"

Email: info@longvieweconomics.com

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

- Stay 1/3rd SHORT S&P500 December futures (entry was at 5,820 yesterday).
- Keep the stop loss at 5,936.50 (2% above entry).

Rationale

Despite some strength into the close yesterday, both main US equity indices remain rangebound. For the S&P500 futures that range is 5,760 to 5,820 (i.e. a 1.0% range), which the index has traded in since the day after the Fed announcement on 18th September (FIG 1c). Equally, NDX100 futures have also largely been rangebound since that time (albeit with a slight upward bias – FIG 1d). On September 19th, NDX100 futures reached 20,246 (intraday high). Since then, they have traded primarily between 20,000 and 20,400 (i.e. a 2% range). With that late session and overnight strength in the S&P500 futures, we have been filled on our order to move SHORT at 5,820.0.

Of note, yesterday, Chair Powell spoke at the NY NABE conference. Key headlines included: "not on a preset course; decisions are made meeting by meeting"; "speed at which we cut rates will depend on the data"; "risks to inflation, employment goals roughly in balance". That tone strengthened the dollar, as yields rose (both 1 & 2 year government bond yields) and the market priced out a further 6bps of rate cuts by year end 2024 (& 11bps by year end 2025 – FIG 1). Reflecting that shift higher in rates in the past few trading sessions (& given its impact on marginal liquidity), both the VIX and VVIX have been moving up (FIG 1a). Interestingly, the Dec 2025 futures peaked mid-September and have, since then, moved modestly lower thereby pricing out 19bps of expected cuts between now and then (i.e. the Fed rate is now priced to reach 2.97% by year end 2025 versus 2.78% two weeks ago).

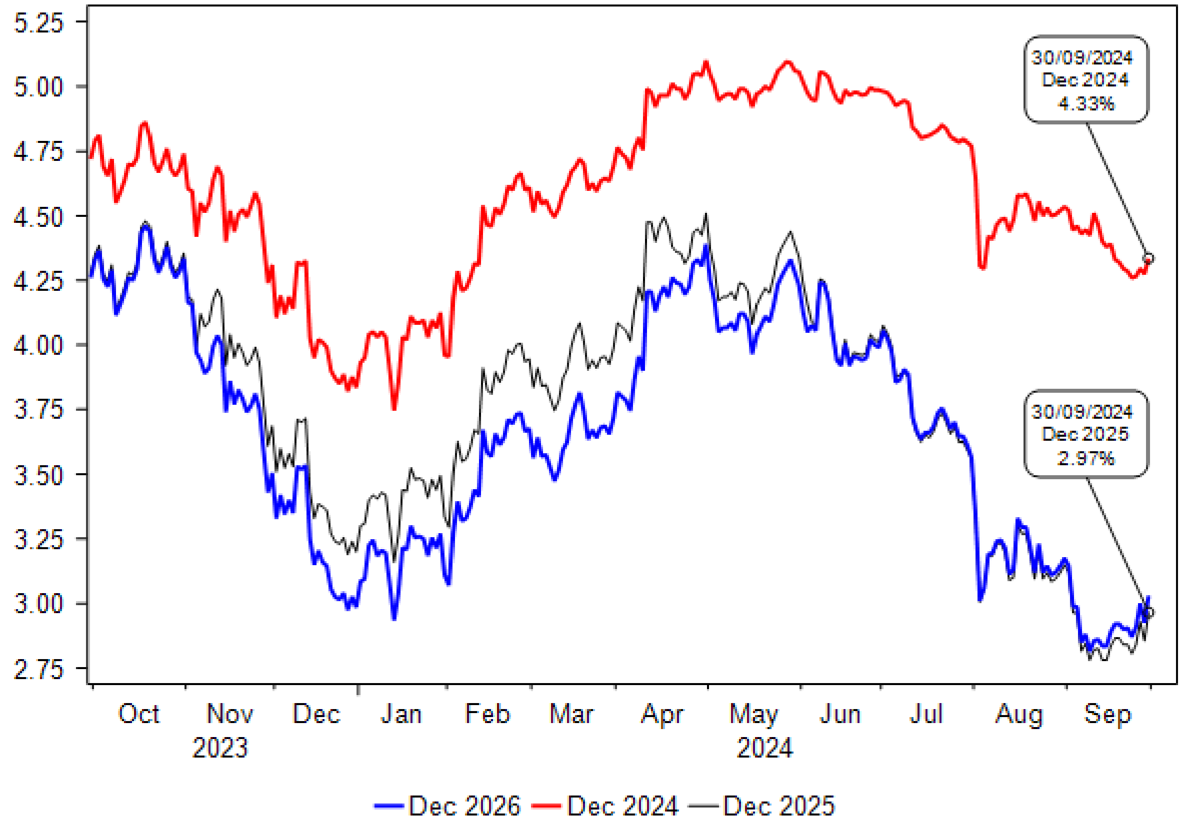
Models remain, essentially, as laid out yesterday. That is, most short term (and increasingly medium term) models are on SELL. Risk appetite is high (markets have been greedy -> the S&P500, for example, is up 6.5% over the past 16 trading sessions); technically markets are overextended on an index, sector and single stock basis, while there is limited downside protection in portfolios (i.e. portfolios are not hedged against downside risk). Medium term models are also largely now on SELL (as outlined yesterday). As such, risk reward favours some giveback. Data this week (given it's a key week) has the potential to be a trigger for that giveback. Surprisingly strong US macro data would likely push yields higher (pricing out some more rate cuts & acting as a headwind for stocks).

Risk reward, therefore, favours STAYing SHORT S&P500 futures – having entered that position yesterday (during strength in the session). Today's key macro data and events are laid out below.

Kind regards,

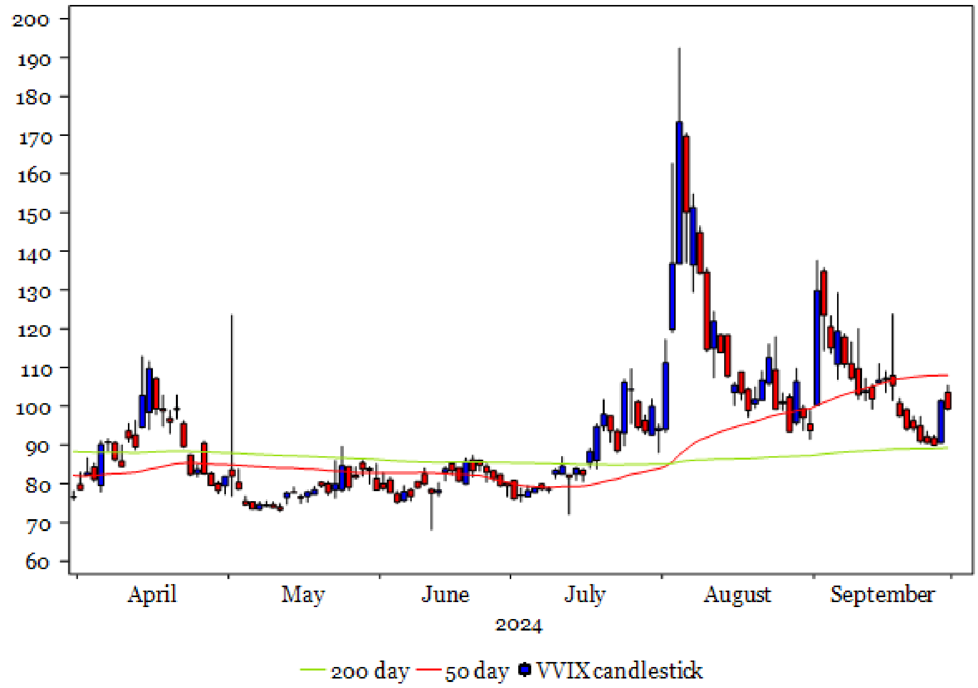
The team @ Longview Economics

FIG 1: Implied US Fed Fund rate expectations (Dec 2024, '25 & '26)



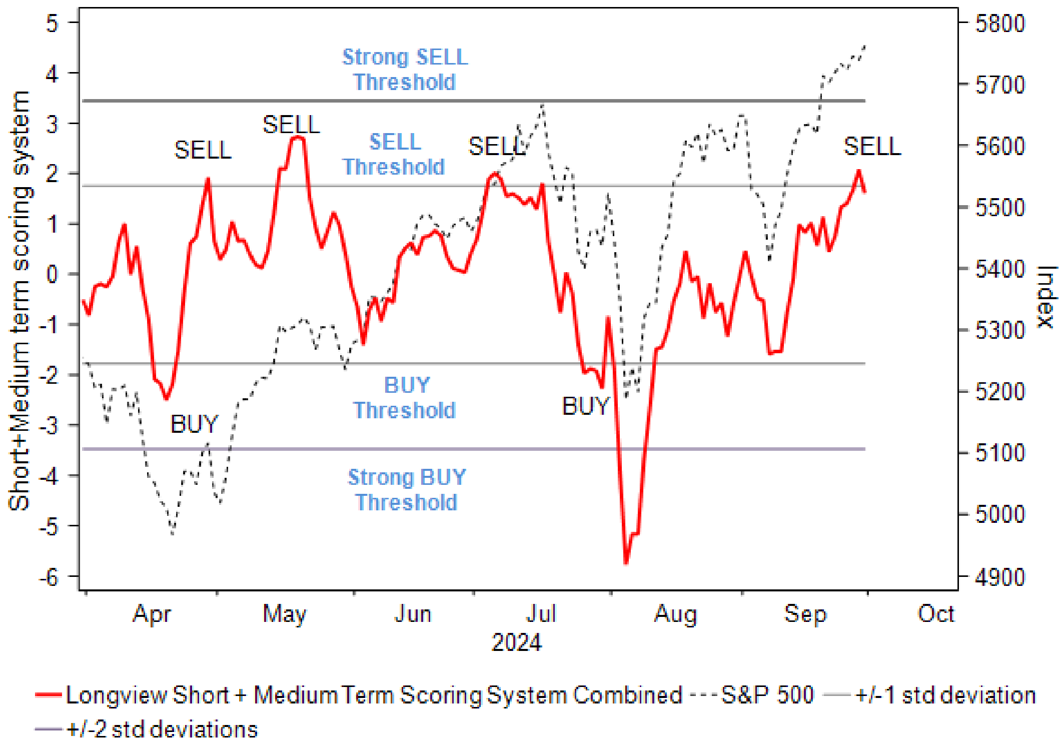
Source: Longview Economics, Macrobond

FIG 1a: VVIX candlestick chart shown with key moving averages



Source: Longview Economics, Macrobond

FIG 1b: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



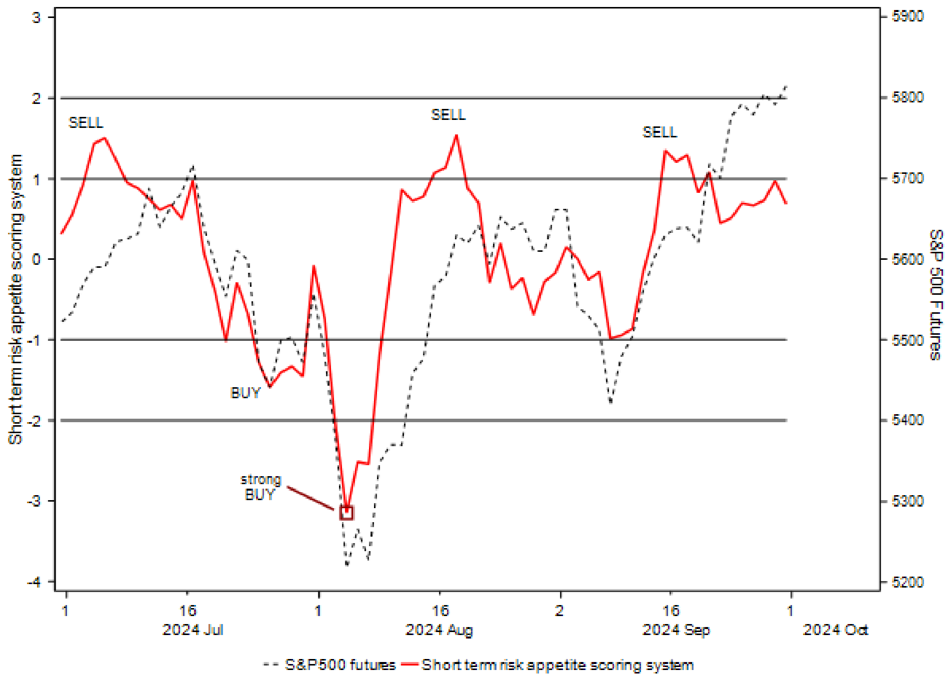
Source: Longview Economics, Macrobond

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

FIG 1d: NDX100 futures 10 day tick chart shown with overnight price action

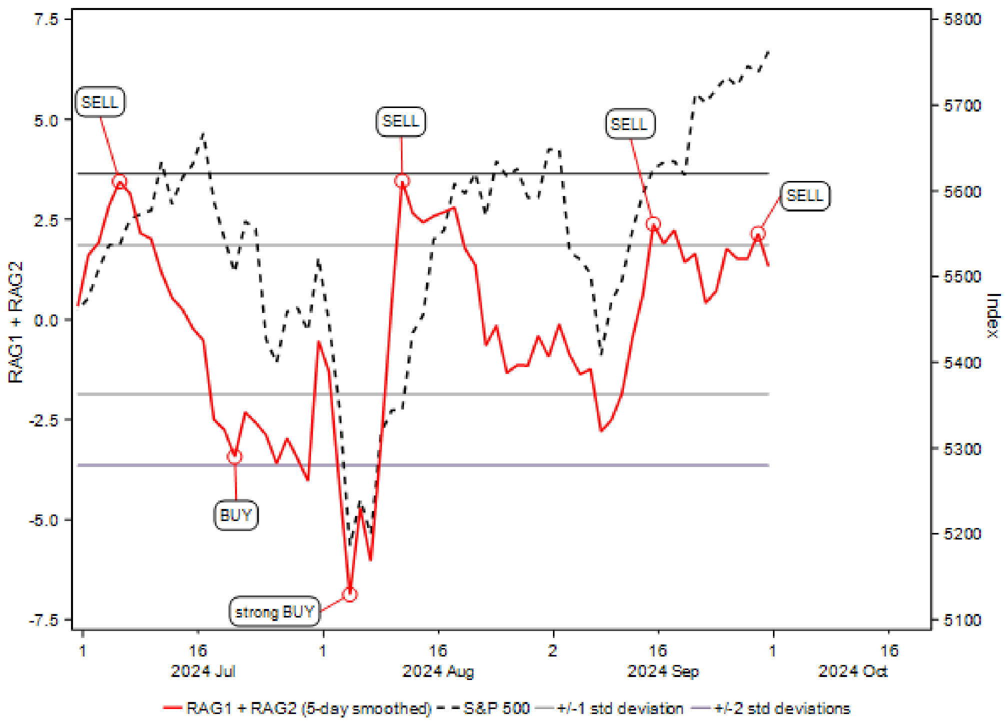
Short term market timing models are all on (or close to) SELL……

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



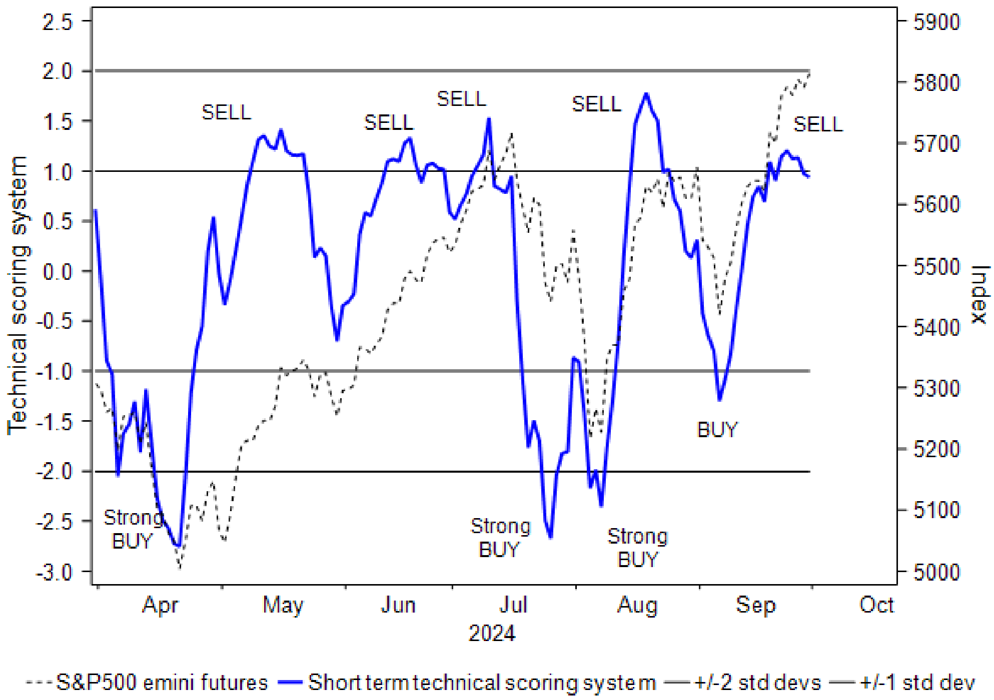
Source: Longview Economics, Macrobond

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



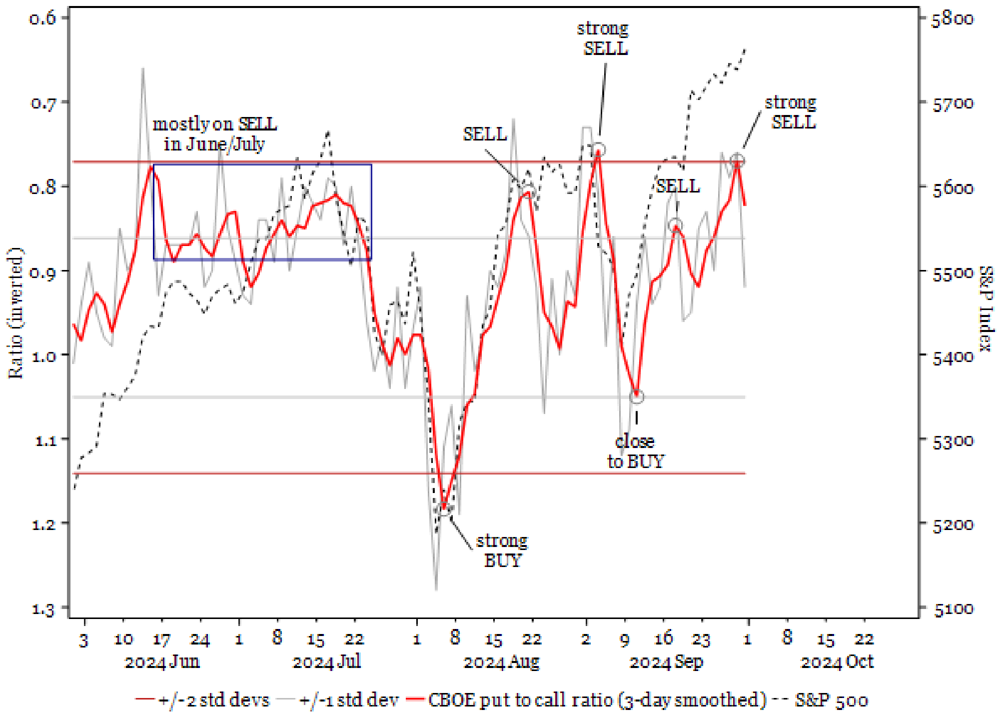
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

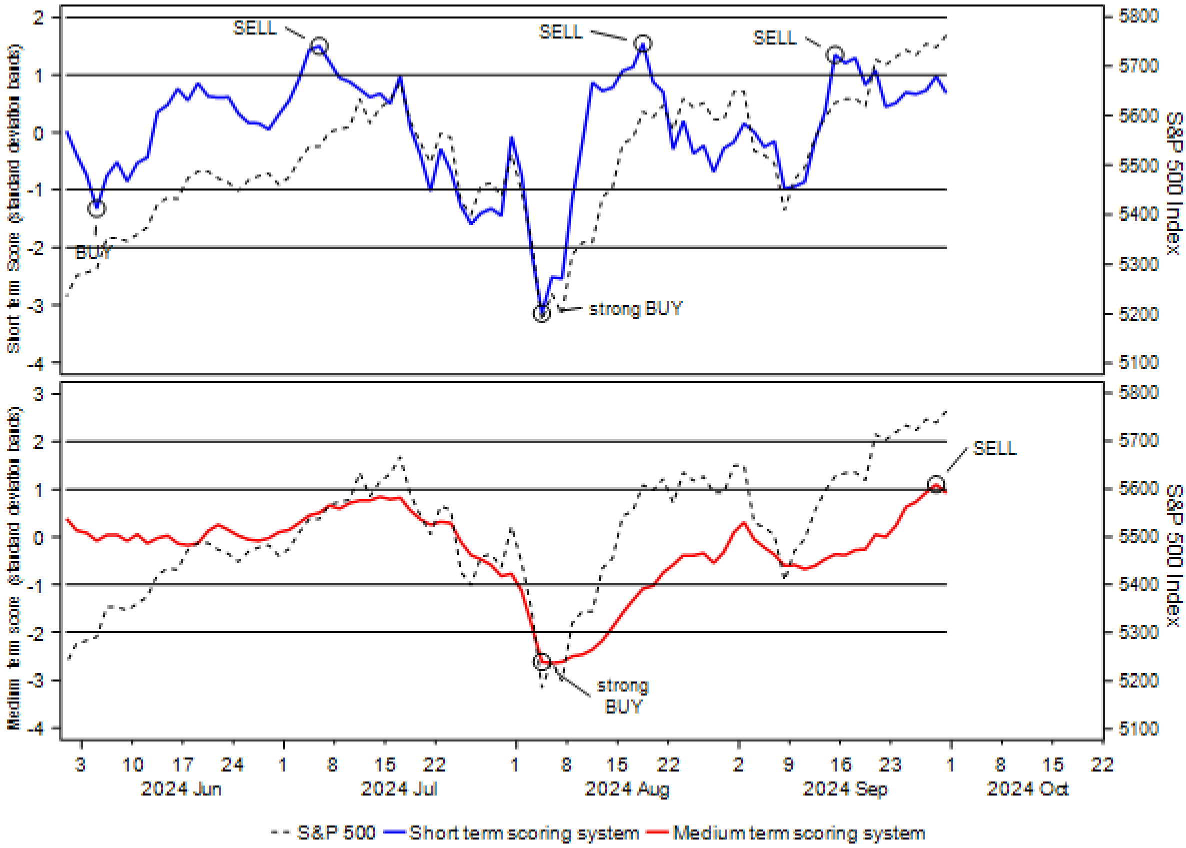


Source: Longview Economics, Macrobond

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

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

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 Judo Bank manufacturing sector PMI (September final estimate, 12am); Japanese jobless rate (Aug, 12:30am); **Japanese Tankan manufacturing & service sector PMIs** (Q3, 12:50am); Japanese Jibun Bank manufacturing PMI (September final estimate, 1:30am); Australian building approvals & retail sales (Aug, 2:30am); UK BRC retail prices (Sept, 12:01am); UK S&P manufacturing sector PMI (September final estimate, 9:30am); HCOB manufacturing sector PMIs for Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all September final estimates apart from Spain & Italy; **Eurozone headline & core CPI** (September first estimate, 10am); Italian new car sales (Sept, 5pm); US S&P manufacturing sector PMI (September final estimate, 2:45pm); US construction spending (Aug, 3pm); **US JOLTS job openings** (Aug, 3pm); **US ISM manufacturing** (Sept, 3pm); US Dallas Fed services activity (Sept, 3:30pm).

Key events today include: BOJ releases summary of opinions for September meeting (12:50am); market holidays in China on account of National Day (Tues – Fri); Speech by the Bank of England's Pill at the Q3 Confederation of British Industry Economic Growth Board (3pm); speeches by the ECB's Guindos in Frankfurt (8am), Nagel at Bundesbank conference (8am), Rehn on monetary policy (9am) & Schnabel in Frankfurt (4:30pm); Riksbank minutes from September meeting (8:30am); speeches by the Fed's Bostic in conversation with Lisa Cook (4pm) & Bostic, Barkin & Collins in a panel discussion at the Technology-Enabled Disruption conference (11:15pm).

Key earnings today include: **Nike**, Paychex.

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

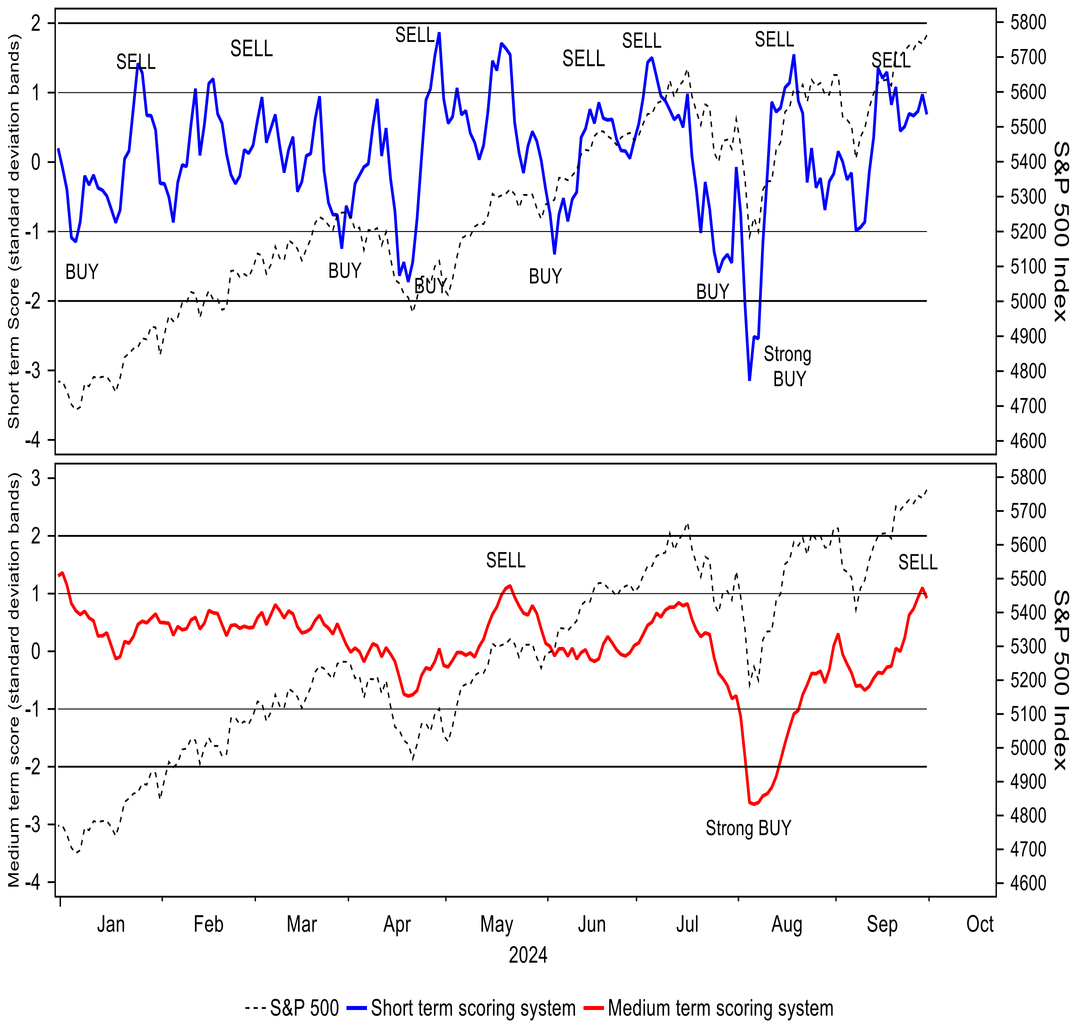
1 – 2 Week View on Risk

1st 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



Source: Longview Economics, Macrobond

Short term scoring system is NEUTRAL

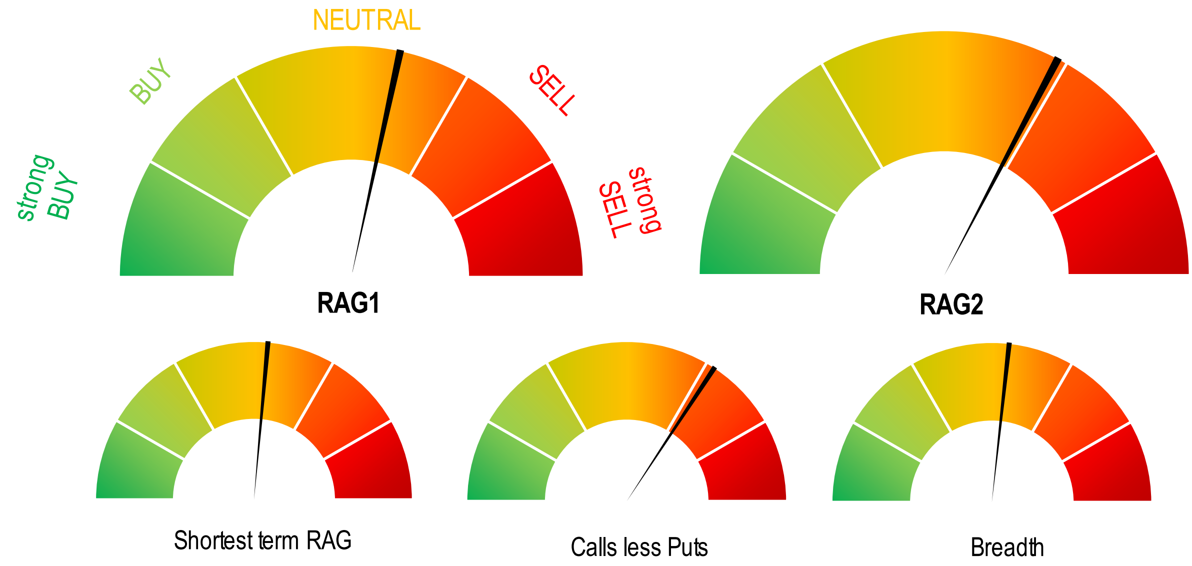
Medium term scoring system is NEUTRAL

*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

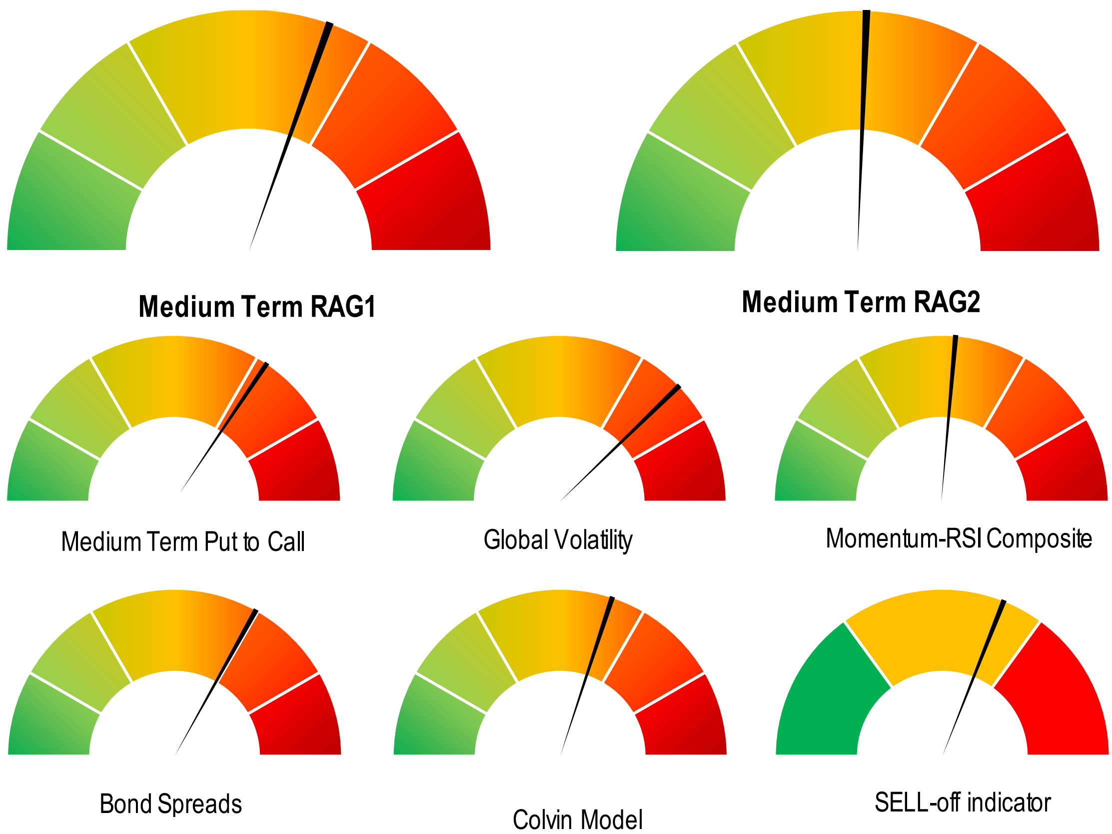
Section 1a: Summary of indicator signals**

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

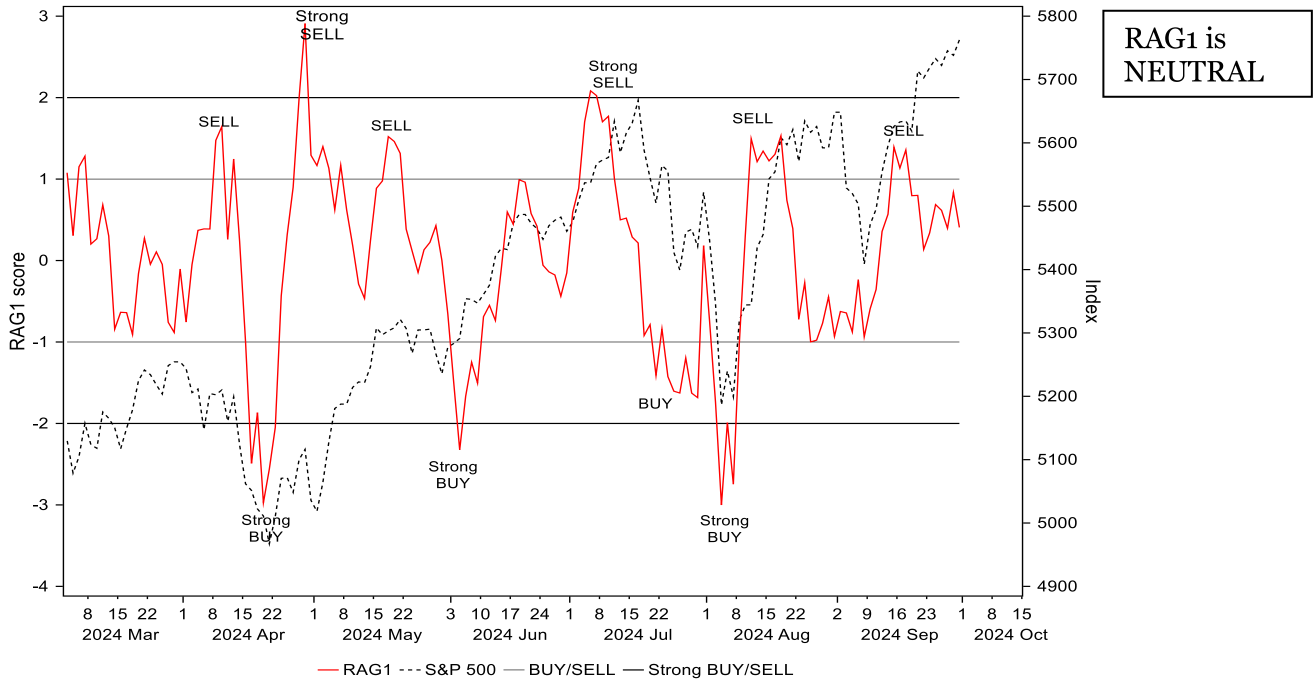


Source: *Longview Economics*

**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

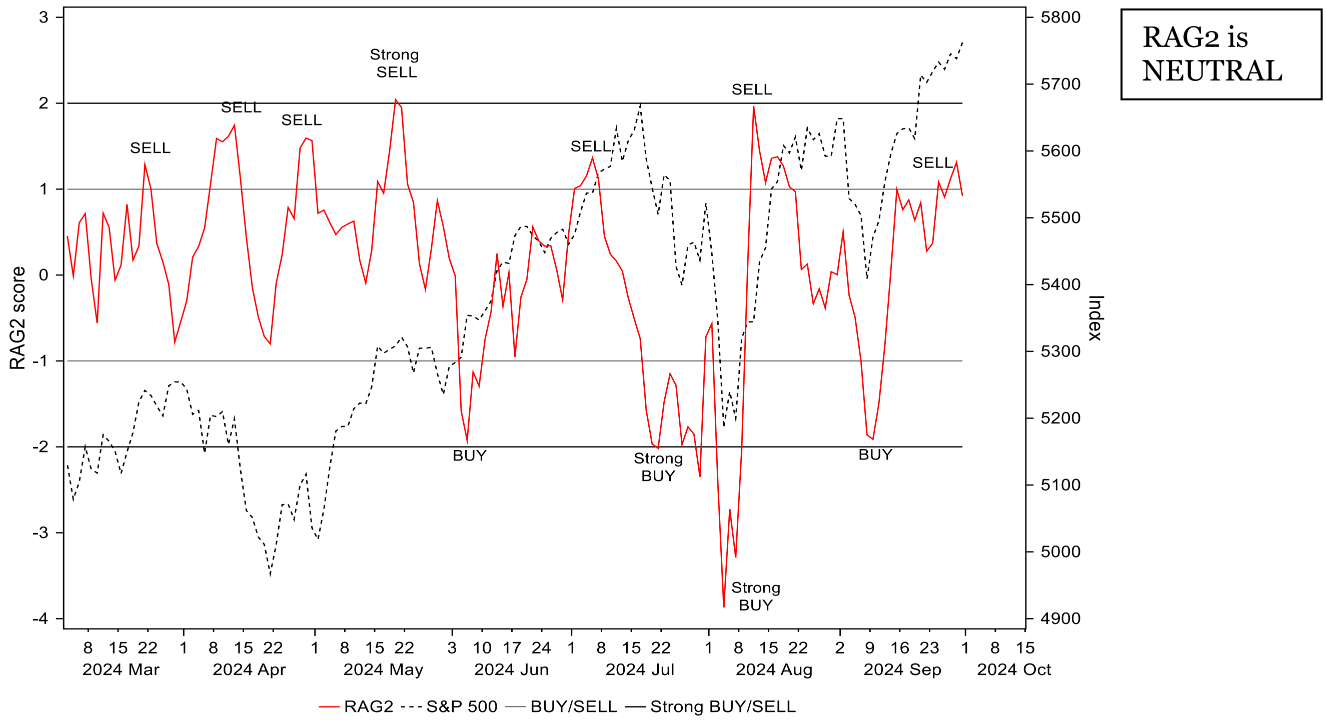
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

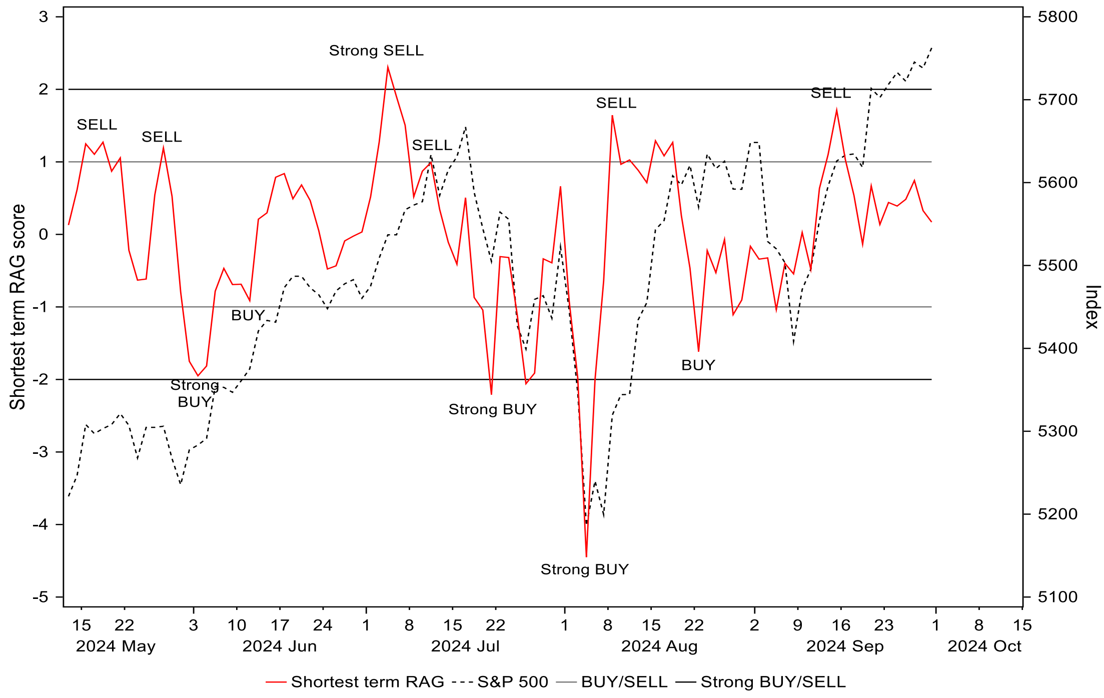
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

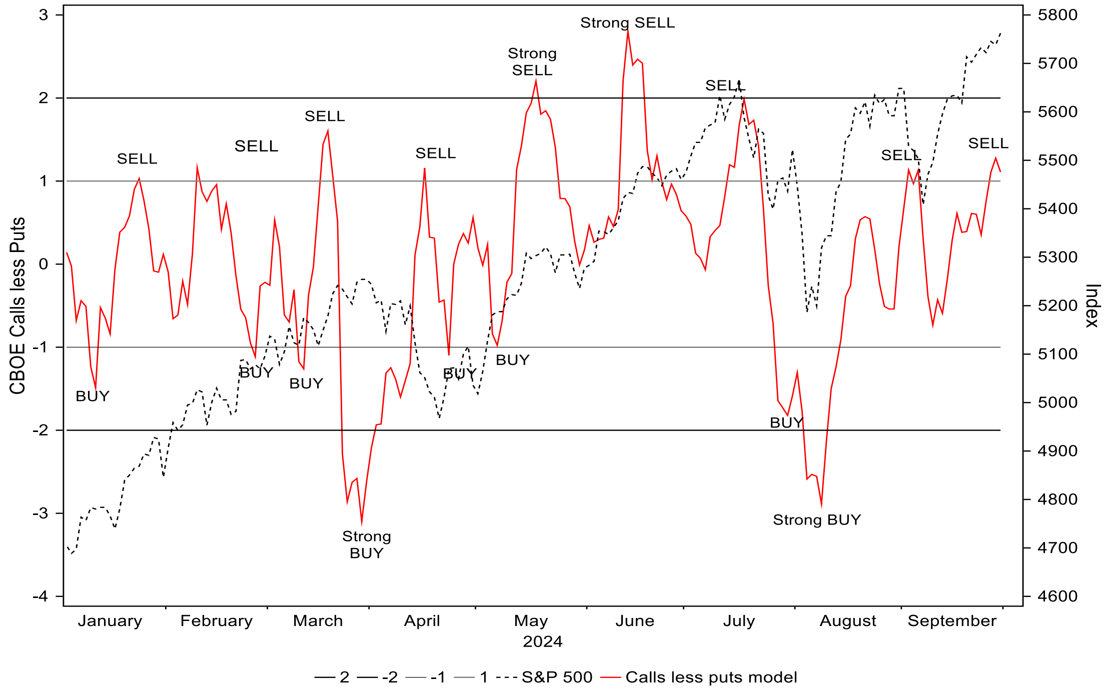
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



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 on SELL

For explanations of indicators please see page 10

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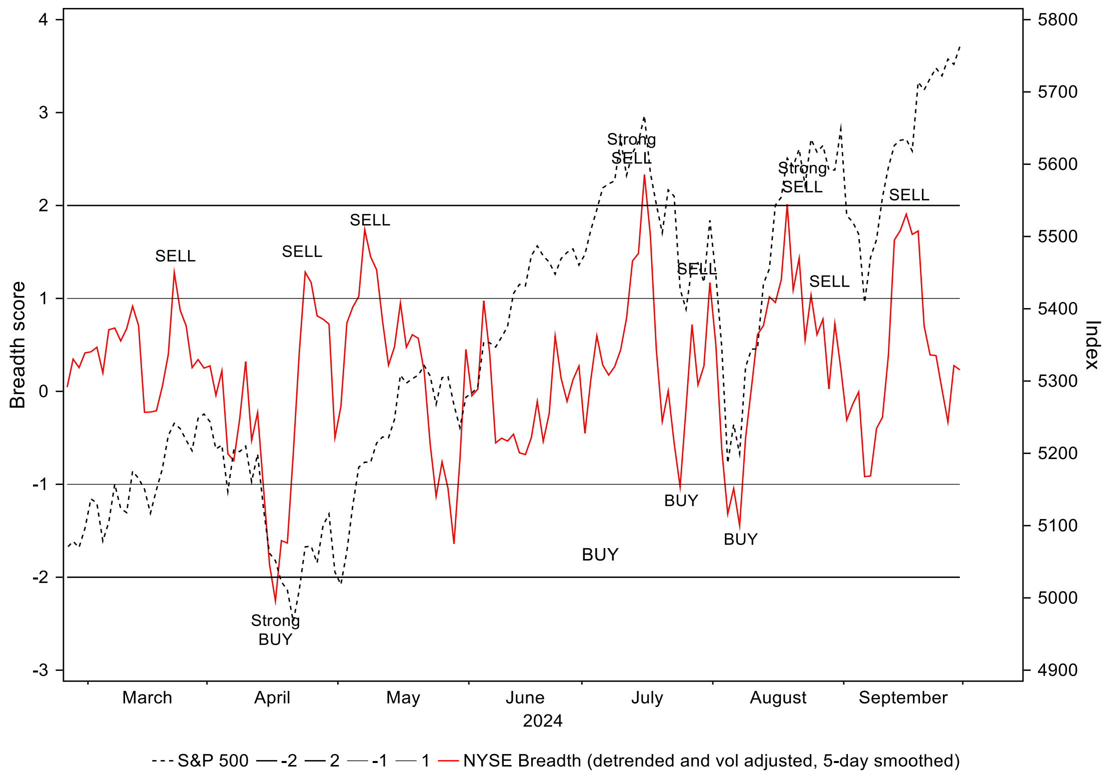
Daily Risk Appetite Gauge

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



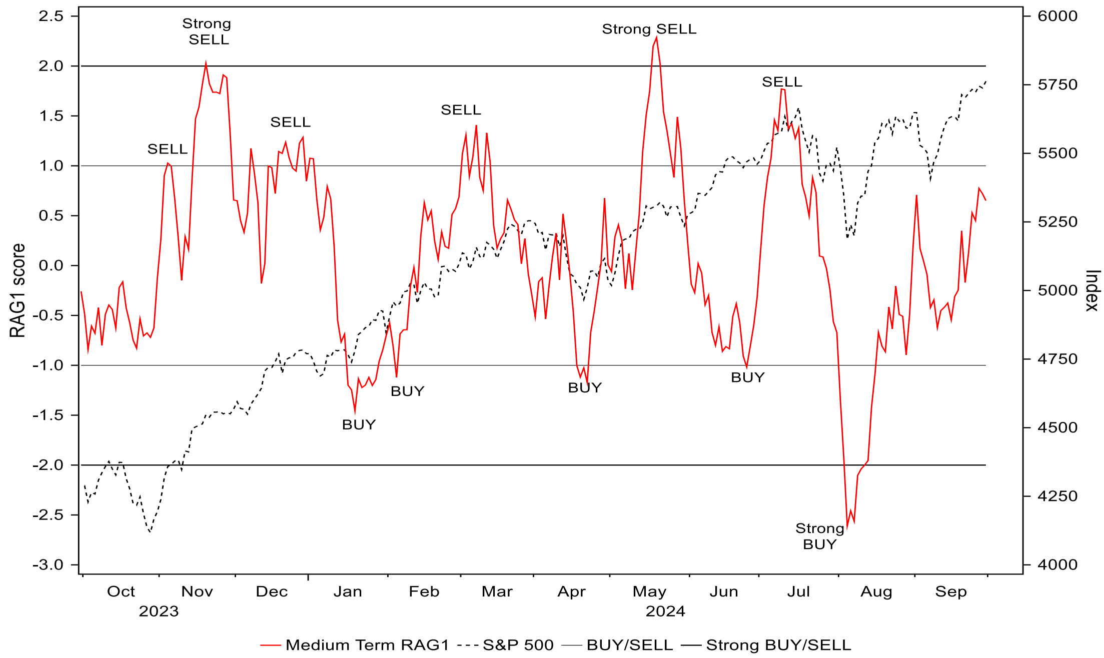
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

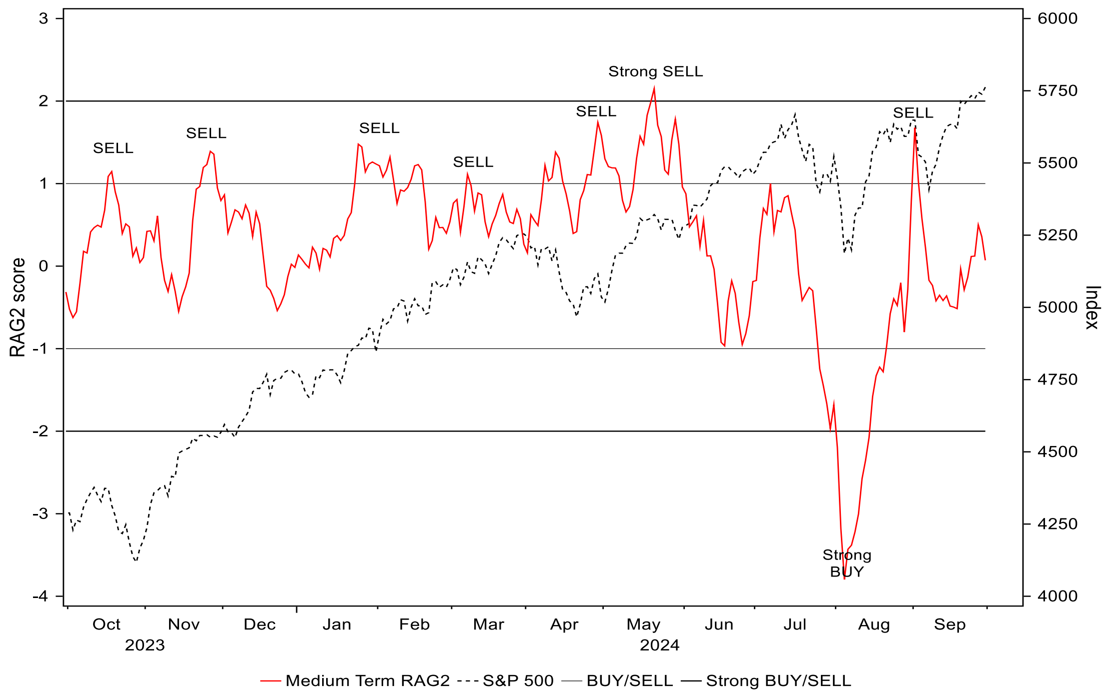
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

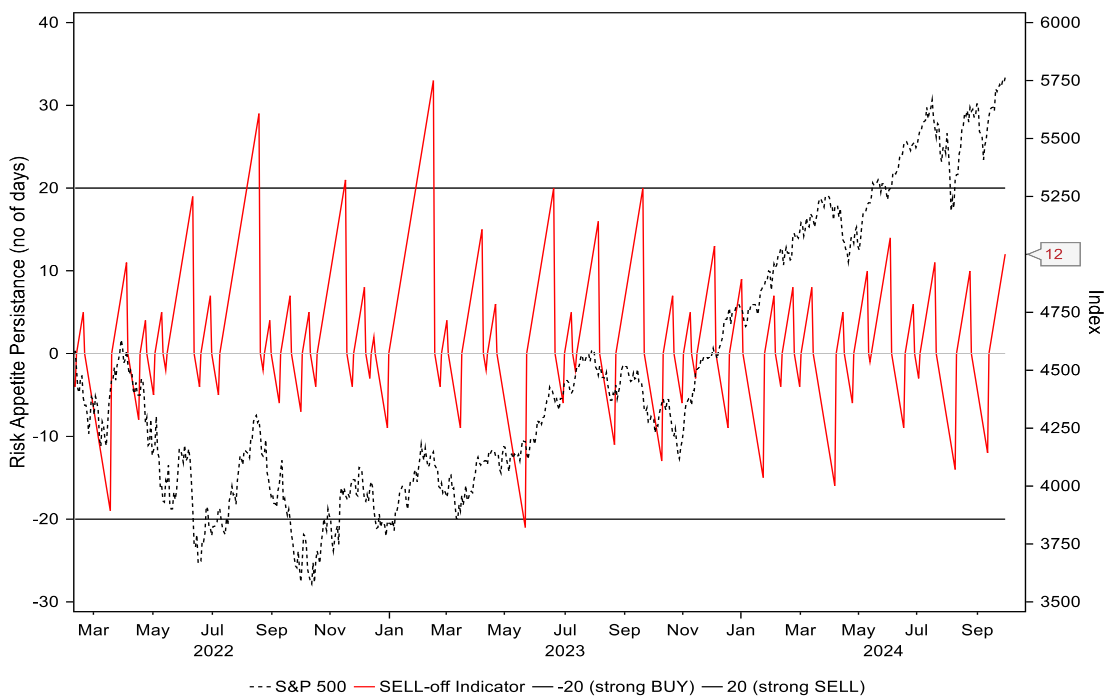


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

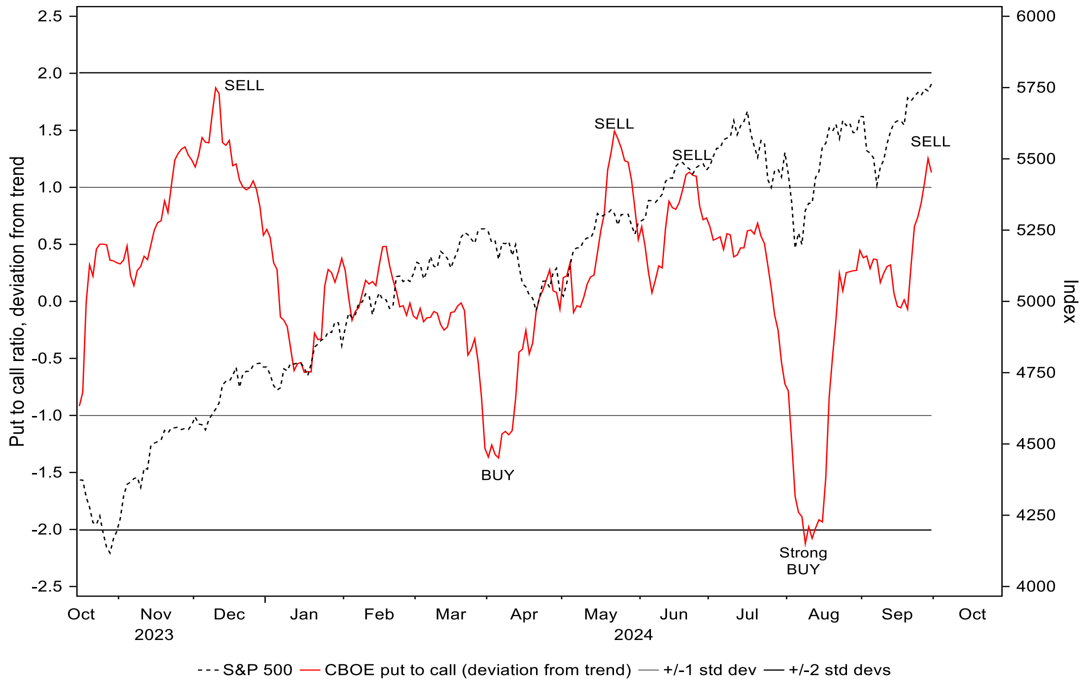
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

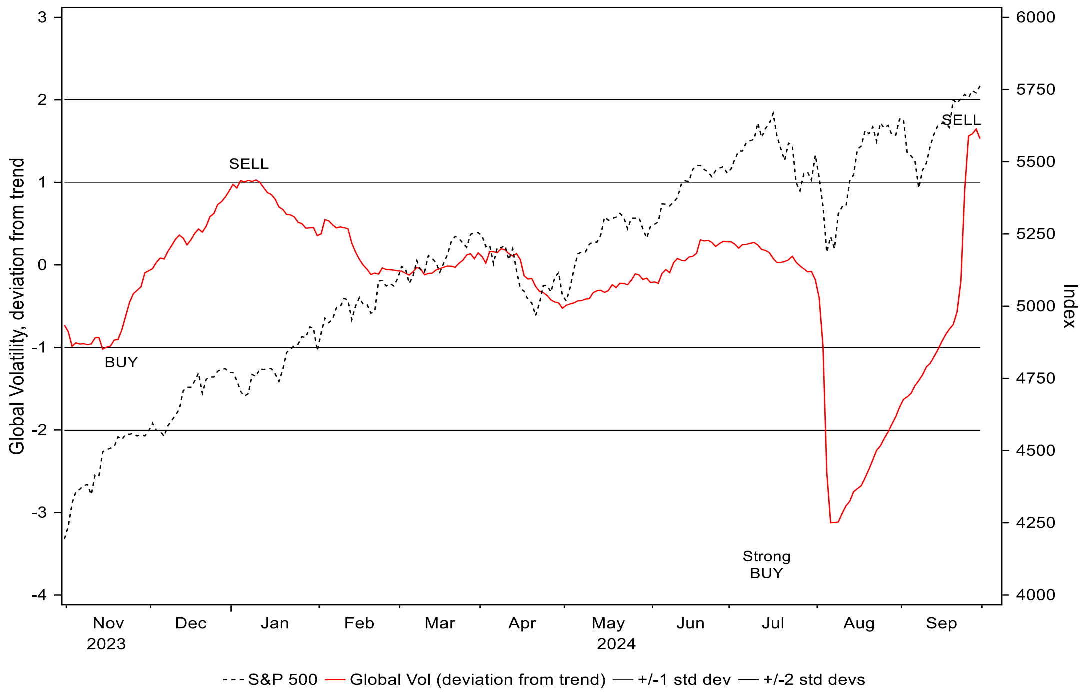


Source: Longview Economics, Macrobond

Medium term put to call model is on SELL

For explanations of indicators please see page 10

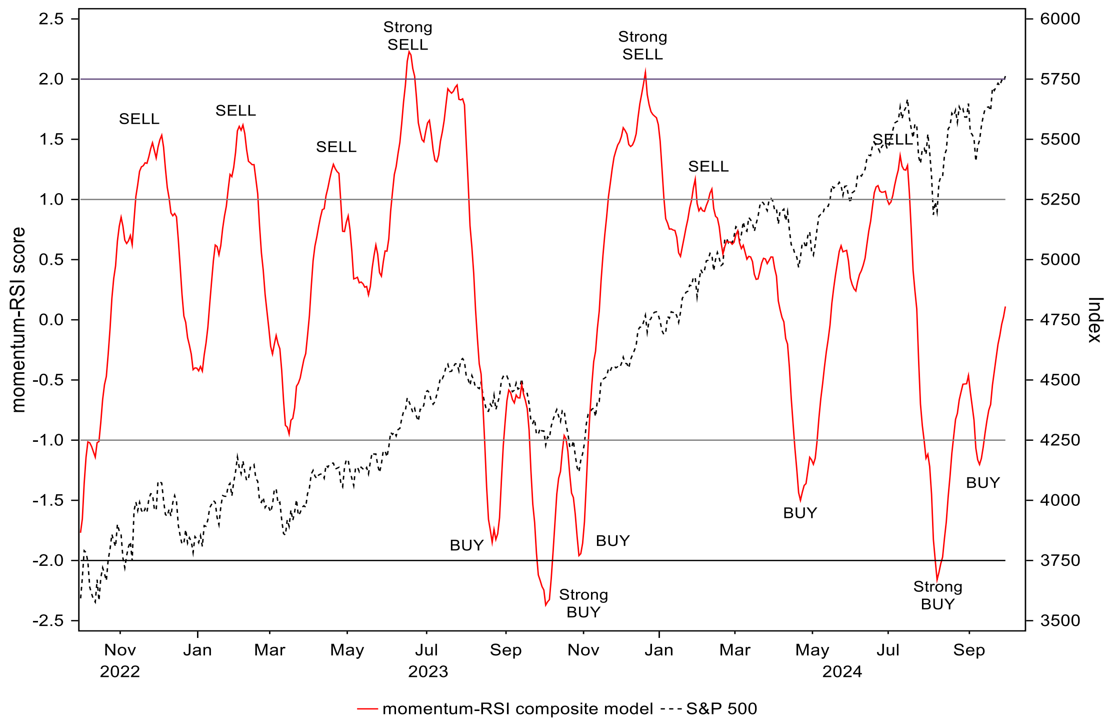
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on SELL

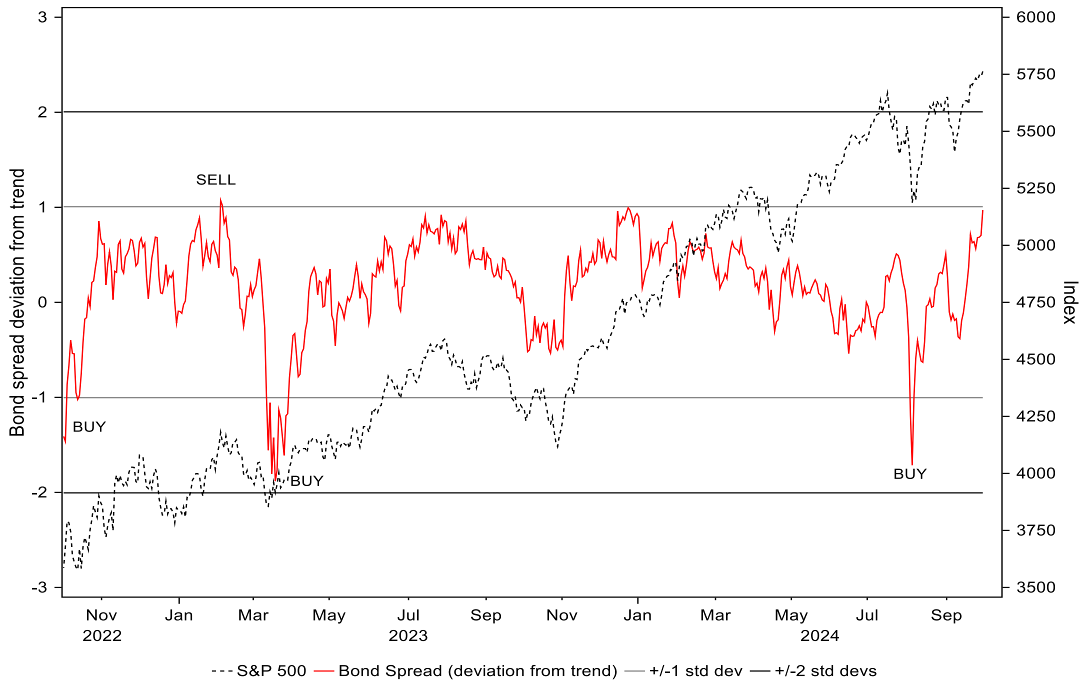
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

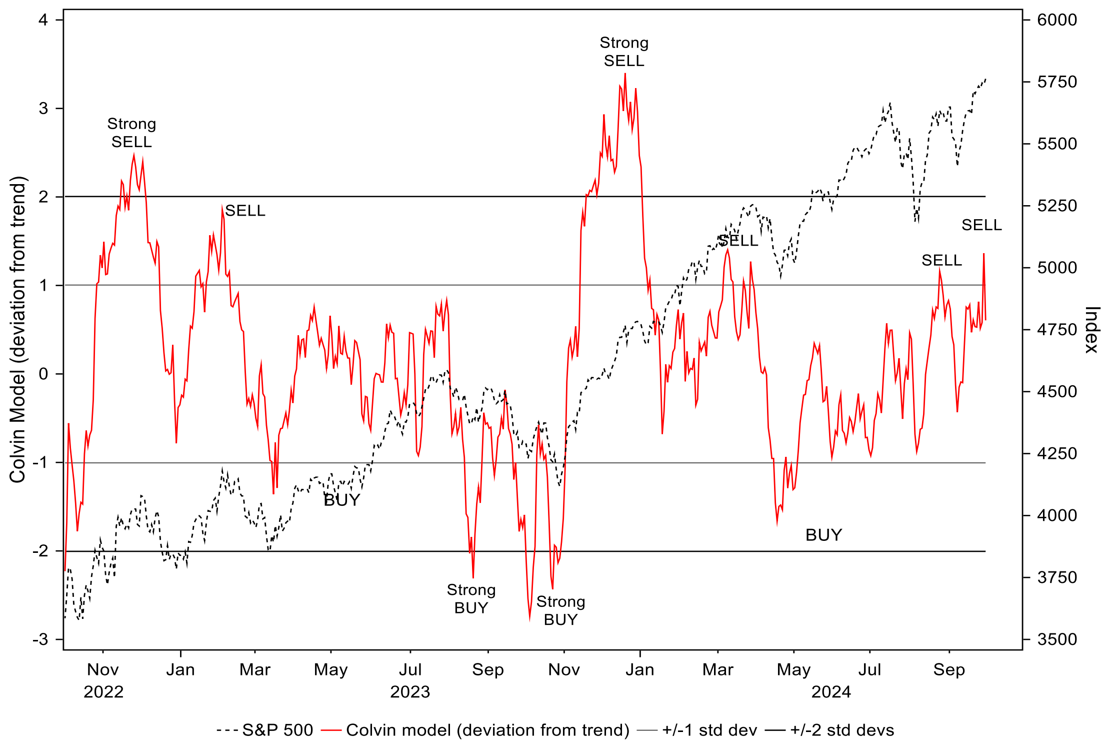
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is NEUTRAL

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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