Equity Index Futures Trading Recommendations

20th September 2024

"Stay SHORT NDX - keep unchanged stop loss"

Email: info@longvieweconomics.com

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

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

Rationale

Price action was encouraging for the bulls yesterday. In particular, after selling off post Wednesday's Fed decision, most major US indices rallied sharply on the session. That was led by tech/growth areas of the market, including the NASDAQ100 (+2.6%); Nasdaq Computer Index (+3.1%); and the Philly SOX (+4.3%). With that, both the NDX & PHLX have broken above the top of their recent pennant formations (FIGs 1a & 1b), while the S&P500 (+1.7%) closed at a new record high.

Elsewhere key liquidity barometers were strong. Gold, for example, rallied 1.1% yesterday and made a new record high, while silver (+2.4%) and Bitcoin (+2.1%) were also stronger on the session. With that US Treasury yields were lower at the front end, the yield curve steepened, and high yield credit spreads tightened sharply (e.g. see FIG 1d). Overnight the BoJ held rates steady (as expected) and hinted at tightening policy in coming months. The Japanese currency is broadly unchanged overnight (i.e. with USDJPY up 0.2% at time of writing).

All that questions our view that momentum in equities should roll over (i.e. casts doubt over the 'buy the rumour, sell the fact' thesis we laid out earlier this week). Instead, yesterday's price action is consistent with the view that markets have shifted back into a 'risk on' regime, underpinned by looser Fed policy. That was the key risk to this trade, as laid out in yesterday's Daily Risk Appetite Gauge publication. Our conviction in this trade has therefore diminished.

Despite that, and with the market trading reasonably close to our stop, we continue to favour staying with the SHORT trade (for now). In particular, the **SELL message from our short term models has strengthened** overnight. At a single stock level, for example, US equities are now overbought across the board (see FIG 1); our risk appetite models have a clear SELL signal (FIGs 2 & 2a); US equity indices are increasingly over-extended to the upside (FIGs 2b & 2c); levels of complacency in markets are high (with put to call indicators on/close to SELL, FIGs 2d & 2e); while various momentum and breadth models are generating SELL signals (see FIGs 3 – 3c).

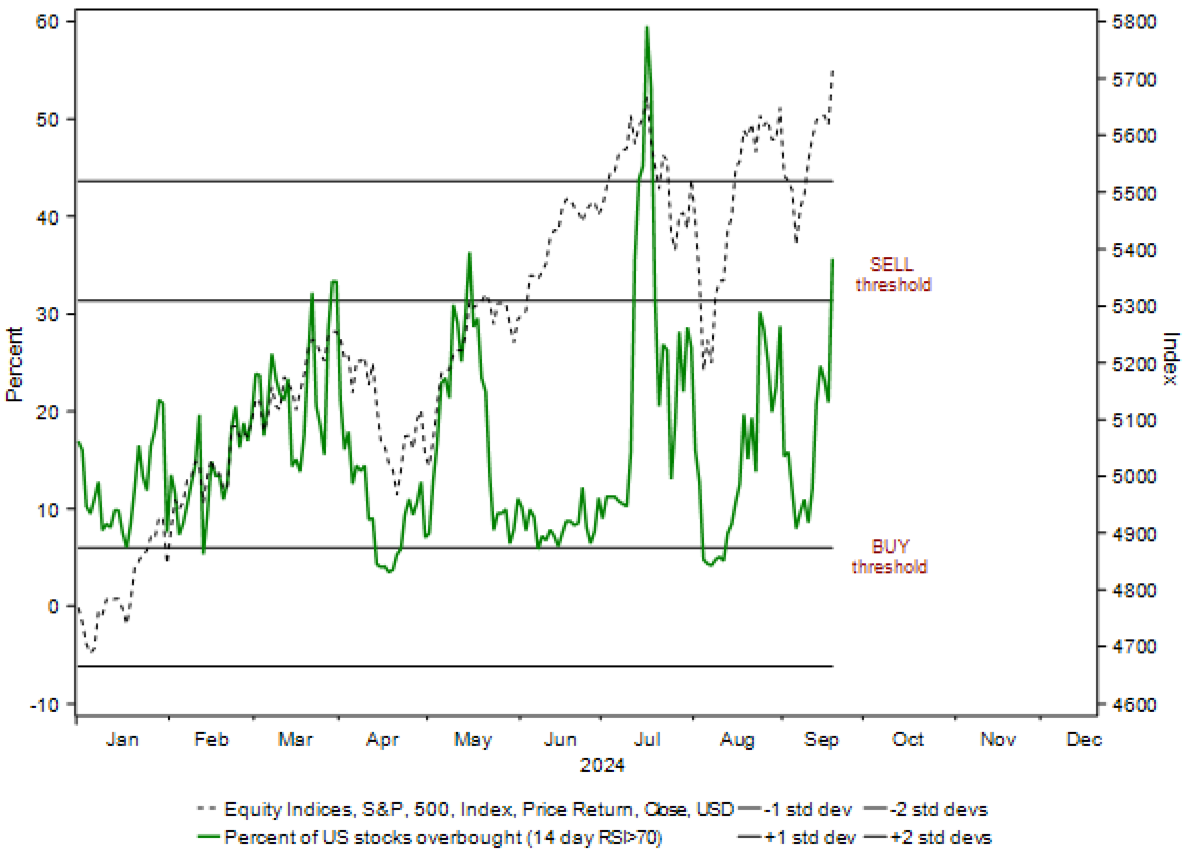
Given that backdrop, and with plenty of 'good news' priced into markets in the near term, it's plausible that yesterday's rally was a 'false breakout' (which occasionally happens at the end of pennant formations). Of note, in that respect, that Nvidia's share price failed to move convincingly above its 50 day moving average yesterday (FIG 1c), while the NASDAQ100 is testing a key resistance level (its late August highs – see FIG 1a). For now, therefore, the risk reward favours staying SHORT (albeit with an unchanged, and now relatively tight, stop loss).

Please see below for a list of today's key data and events.

Kind regards,

The team @ Longview Economics

FIG 1: Percentage of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500



Source: Longview Economics, Macrobond

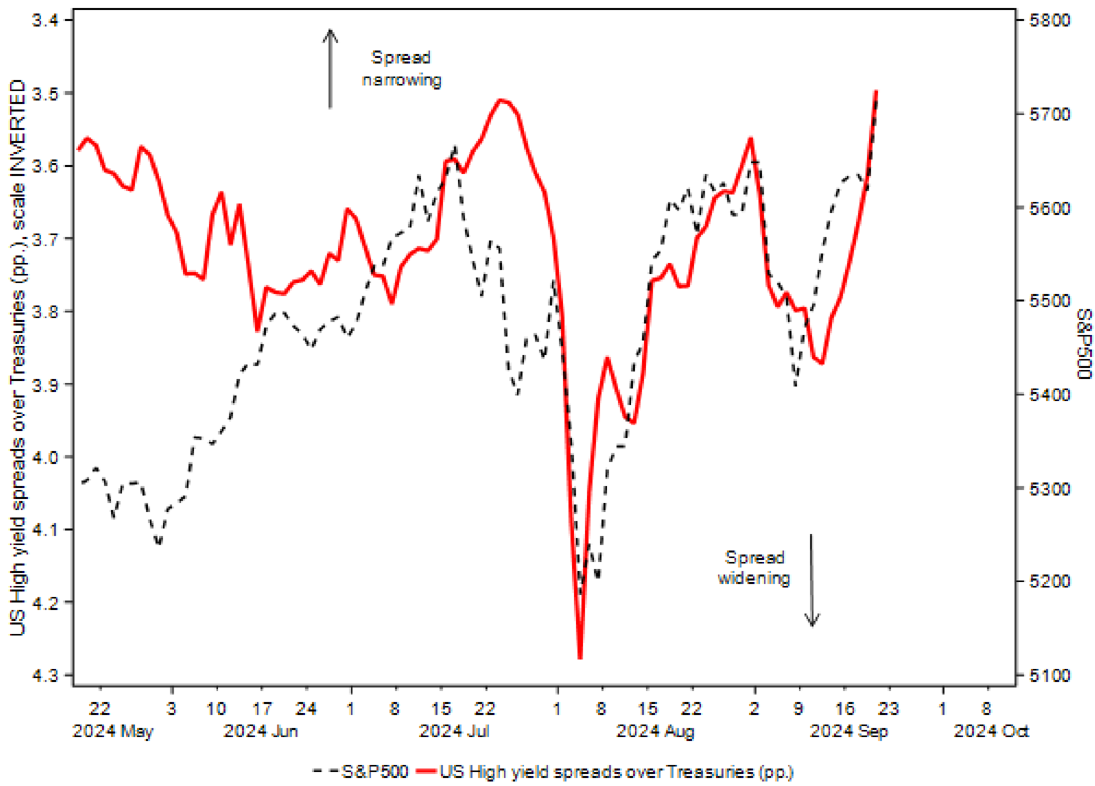
FIG 1a: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages

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

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

Source: Longview Economics, Macrobond

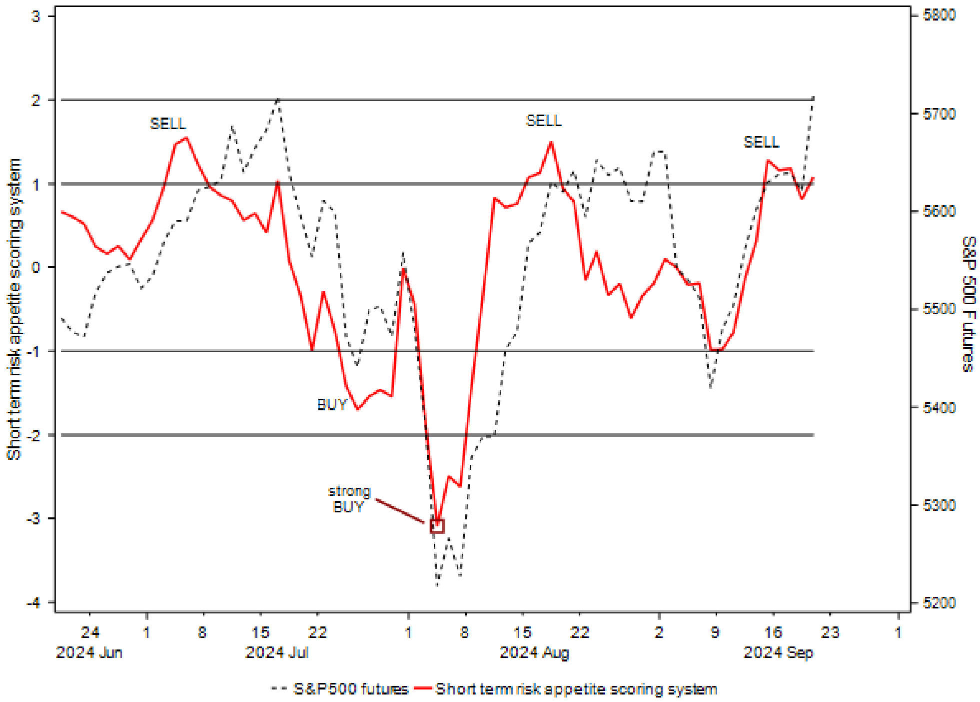
FIG 1d: US high yield corporate bond spreads (bps, NB scale INVERTED) vs. S&P500



Source: Longview Economics, Macrobond

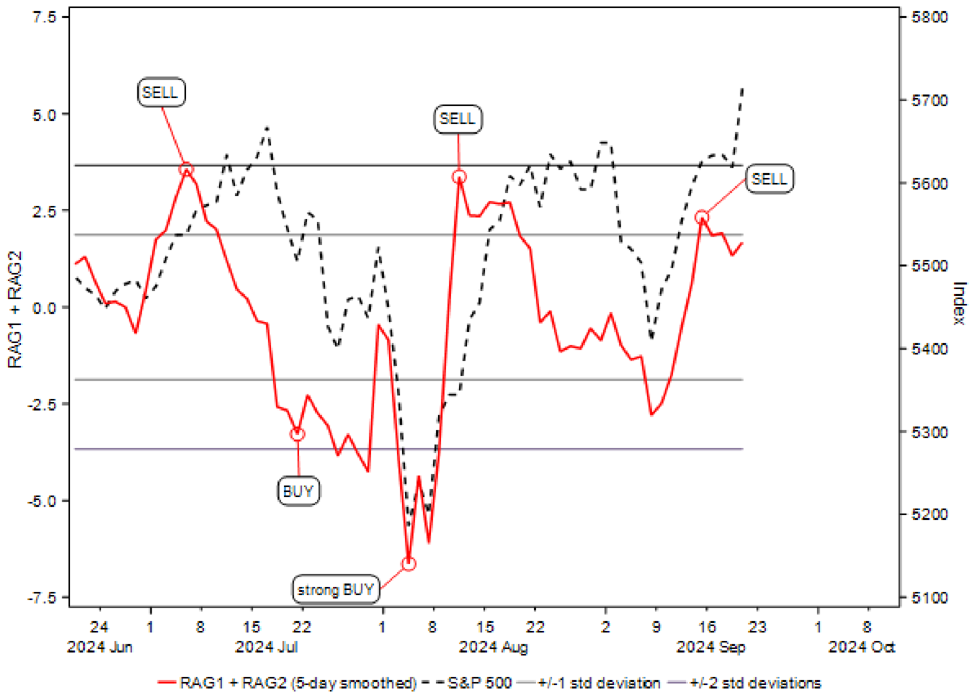
Short term market timing models are either on or close to SELL.

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



Source: Longview Economics, Macrobond

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

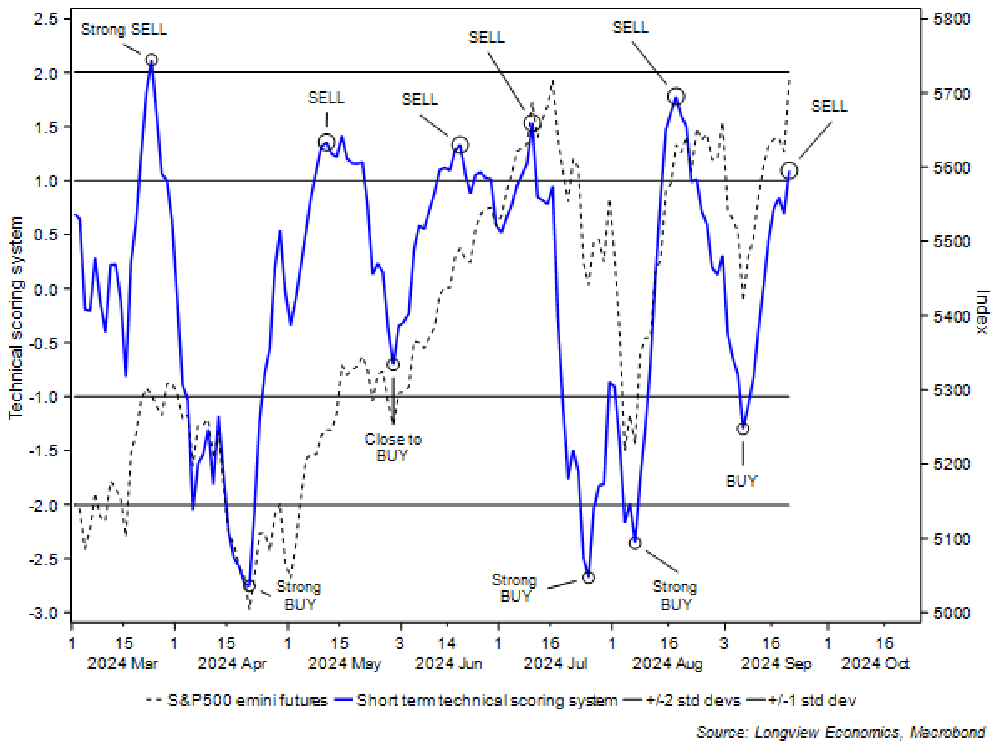


FIG 2c: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures

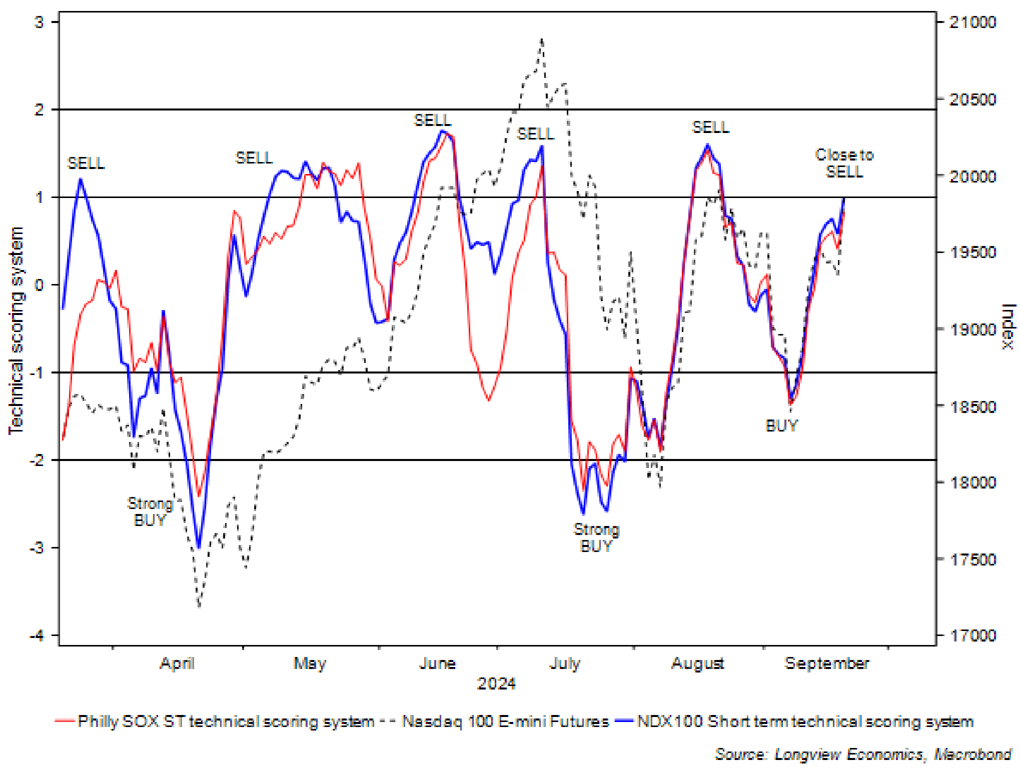
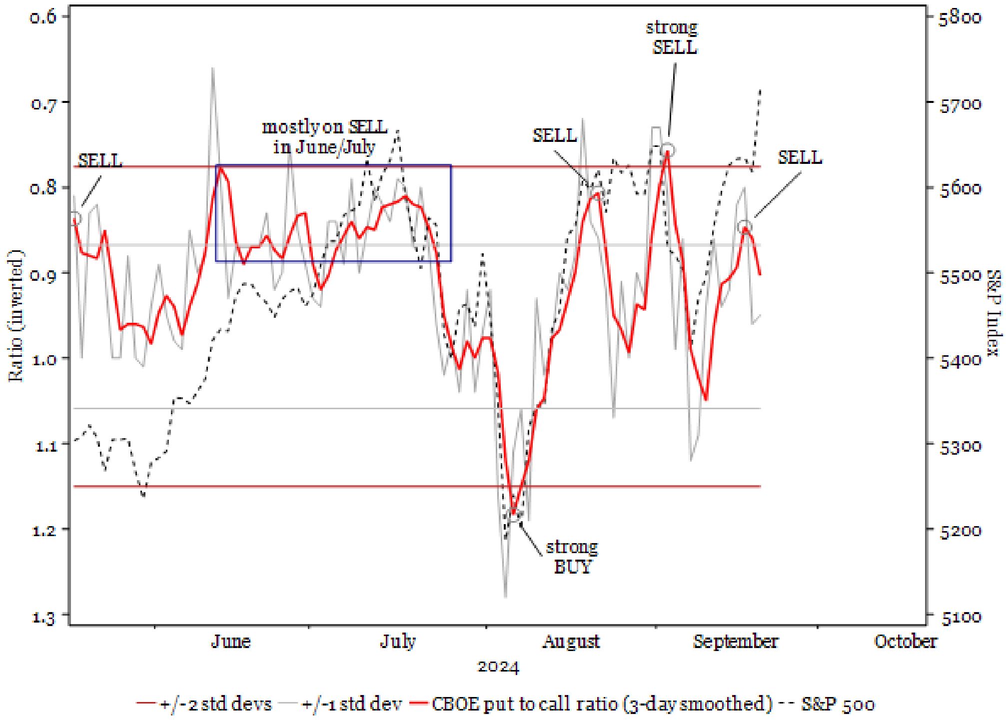
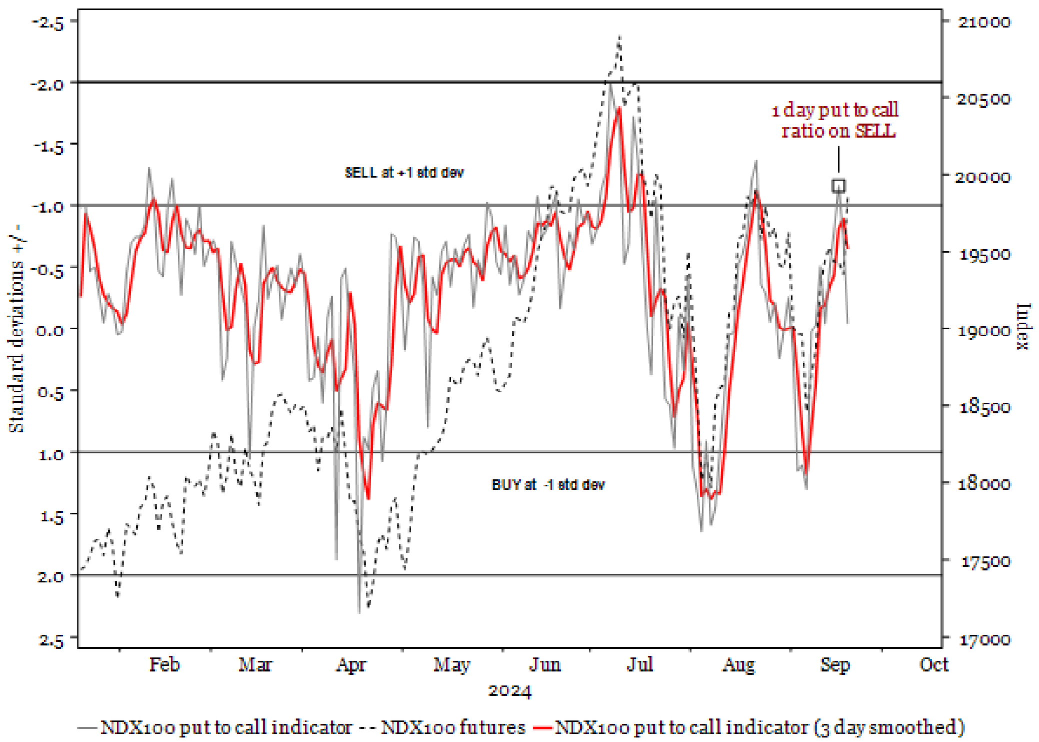


FIG 2d: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



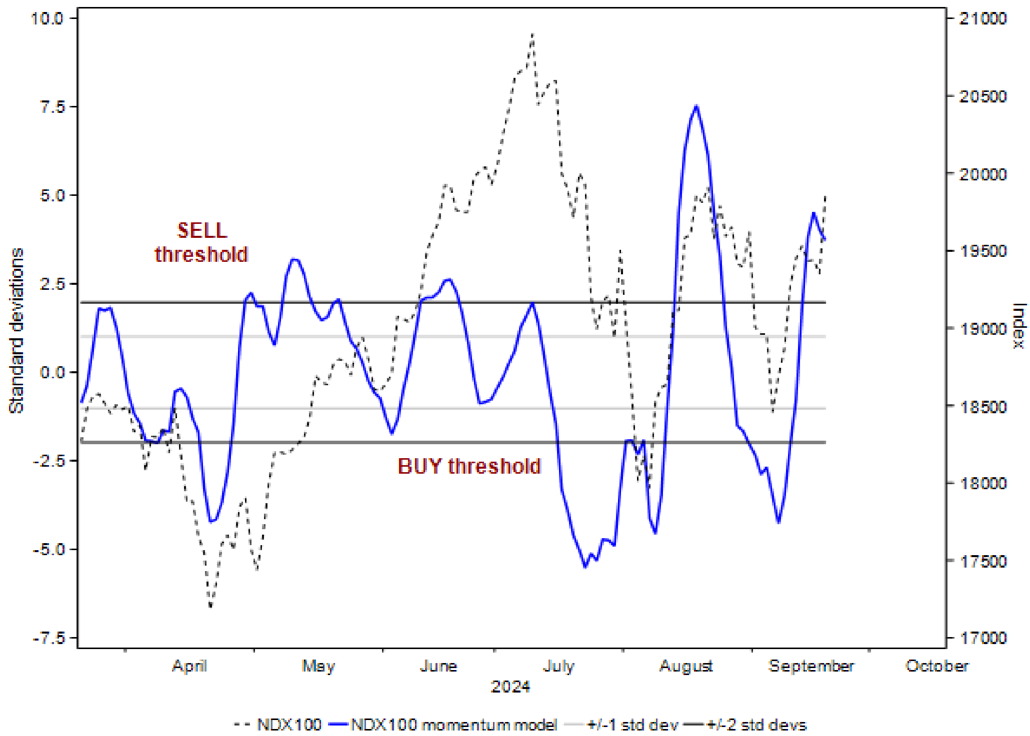
Source: Longview Economics, Macrobond

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



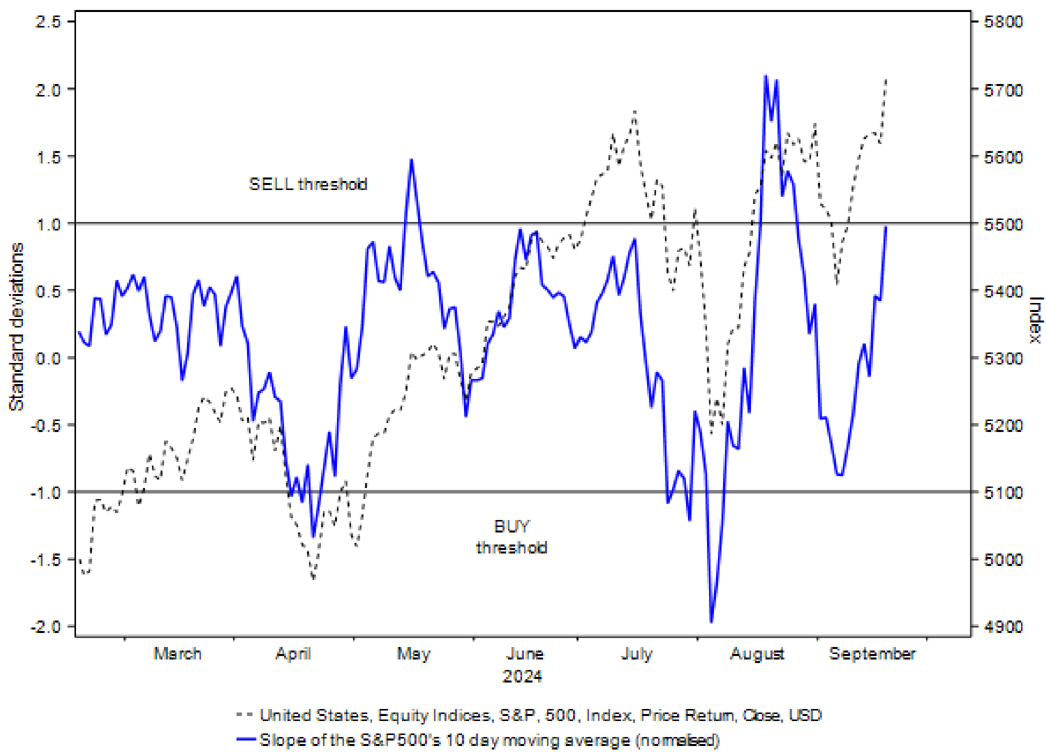
Source: Longview Economics, Macrobond

FIG 3: NDX100 momentum model shown vs. NDX100



Source: Longview Economics, Macrobond

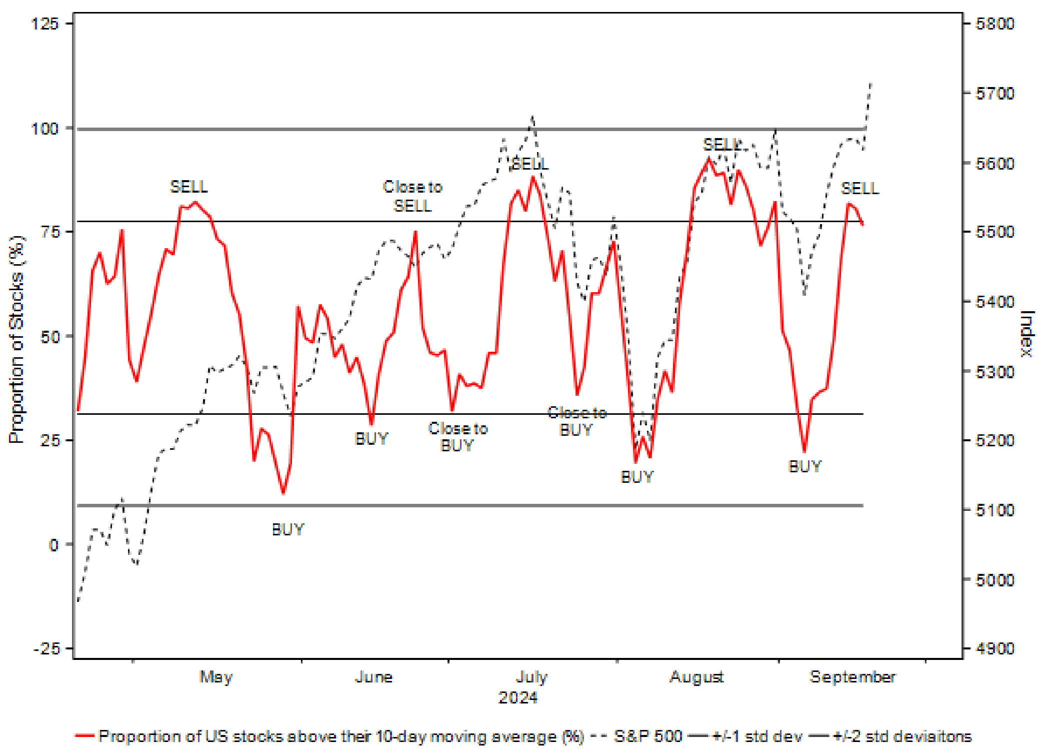
FIG 3a: US S&P500 stocks with upward momentum shown vs. S&P500



Source: Longview Economics, Macrobond

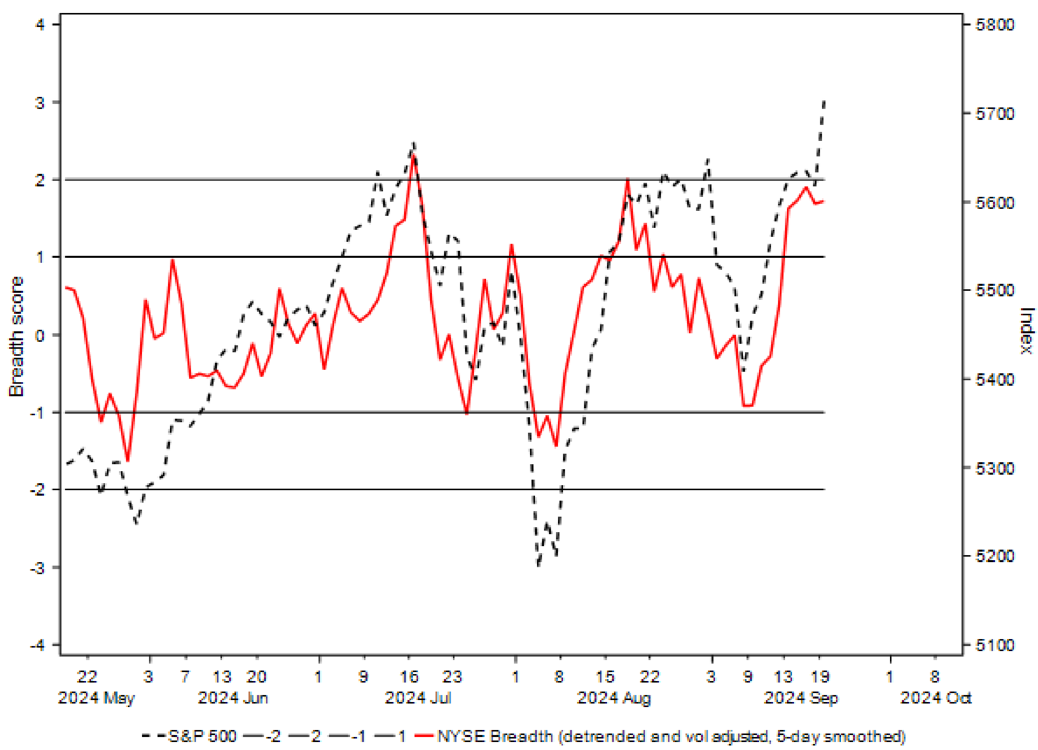
LVRAG Daily Risk Appetite Gauge

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

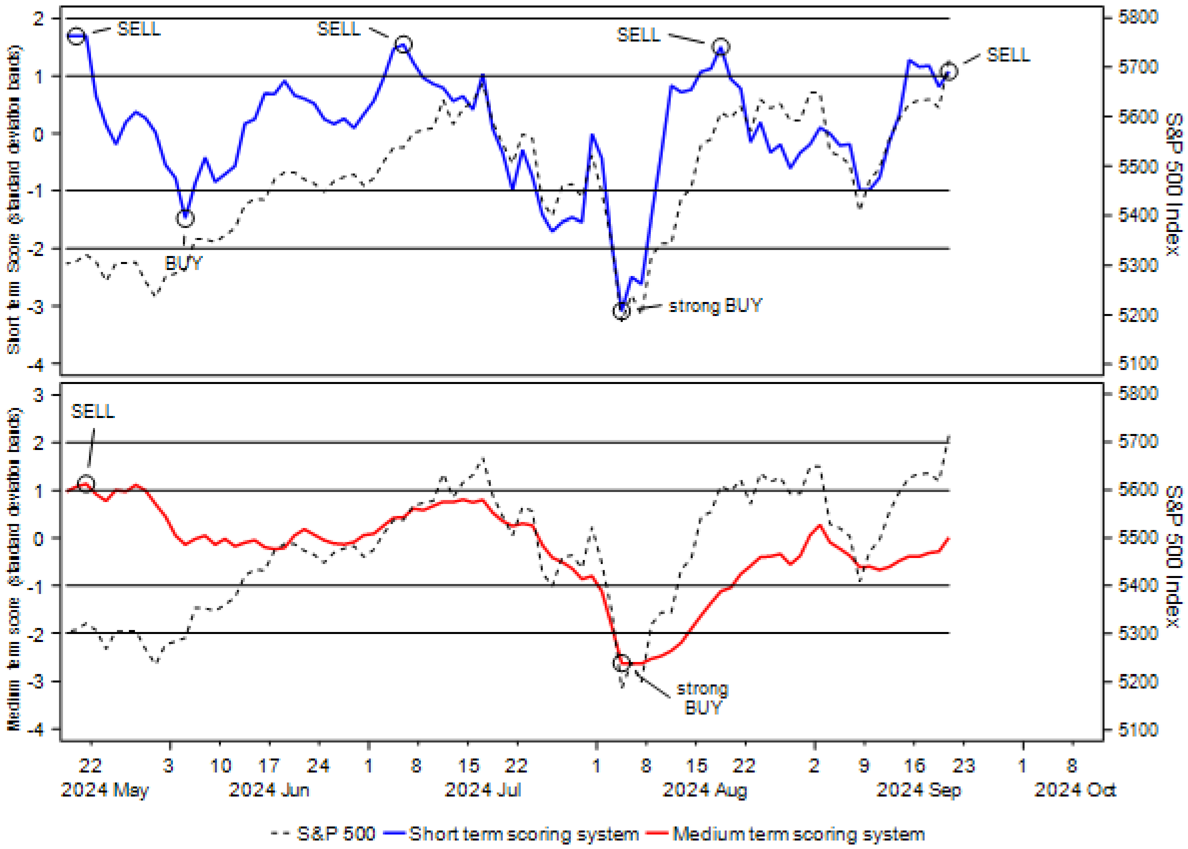


Source: Longview Economics, Macrobond

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

Short term (1 – 2 week) scoring system: **SELL** (just)
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: UK GfK consumer confidence (Sept, 12am); **Japanese headline & core CPI** (Aug, 12:30am); **UK retail sales** (Aug, 7am); UK public sector finances (Aug, 7am); **German PPI** (Aug, 7am); French INSEE business & manufacturing confidence (Sept, 7:45am); **Eurozone consumer confidence** (September first estimate, 3pm); Canadian retail sales (Jul, 1:30pm); Canadian industrial product & raw material price index (Aug, 1:30pm).

Key events today include: **PBoC (1 & 5 year LPR) policy decision** (2am); **BOJ policy decision**; the ECB's Lagarde delivers Central Bank lecture (4pm).

Key earnings today include: N/A

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.

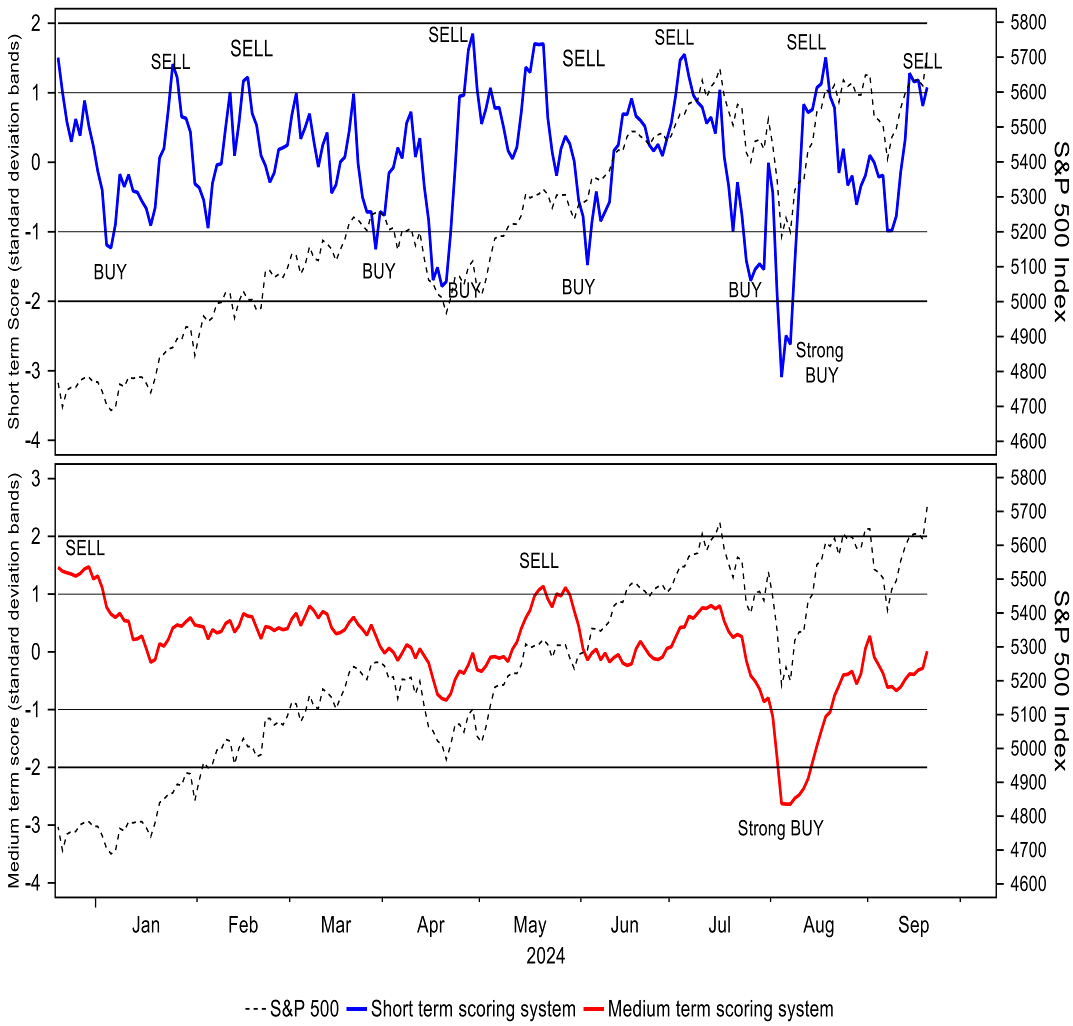
1 – 2 Week View on Risk

20th 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 on SELL

Medium term scoring system is NEUTRAL

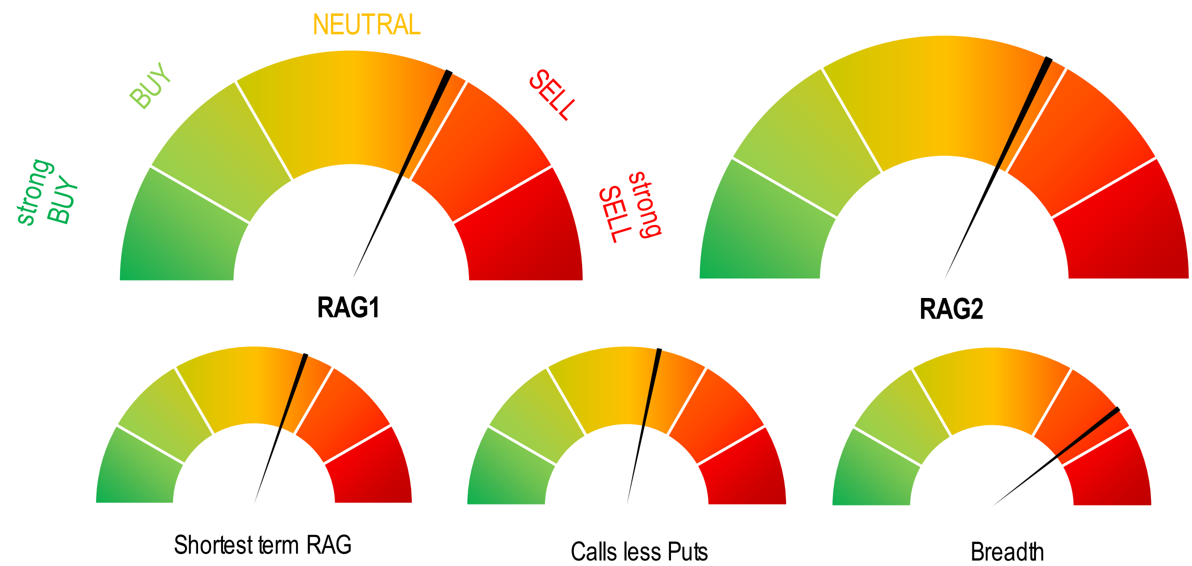
Source: Longview Economics, Macrobond

*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

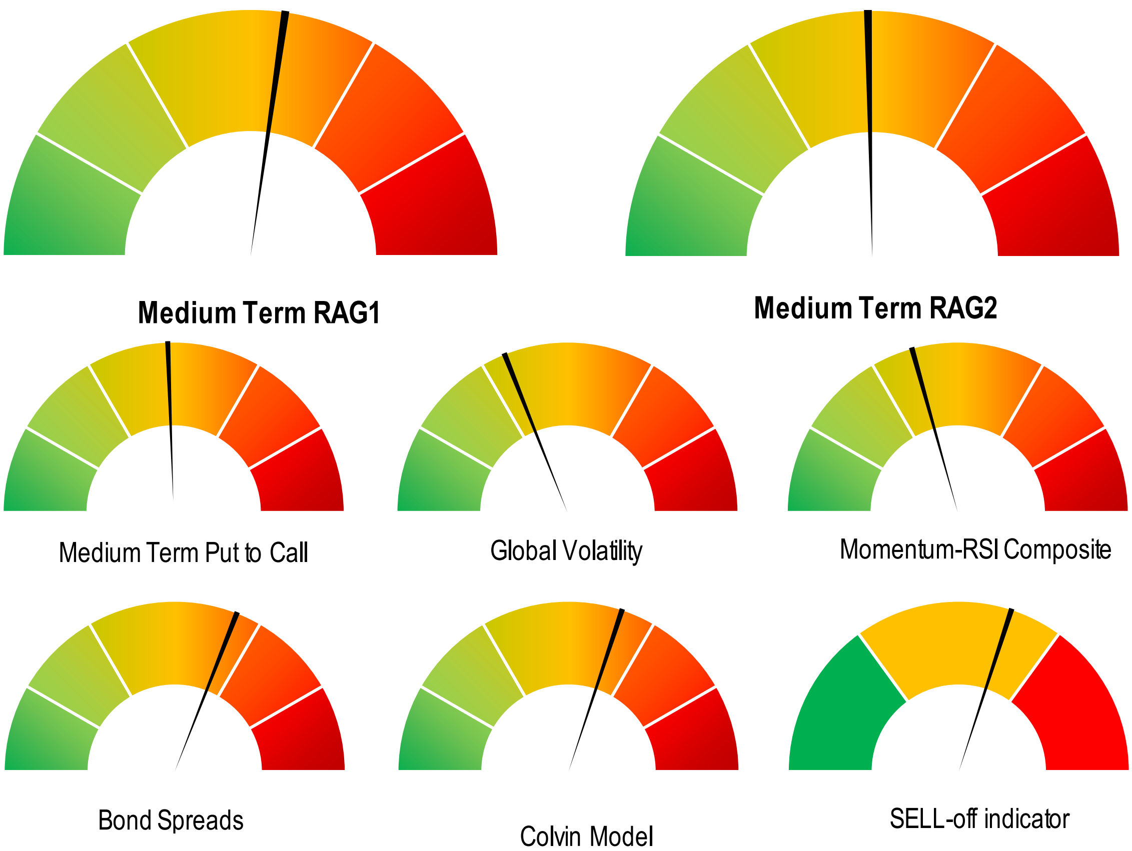
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

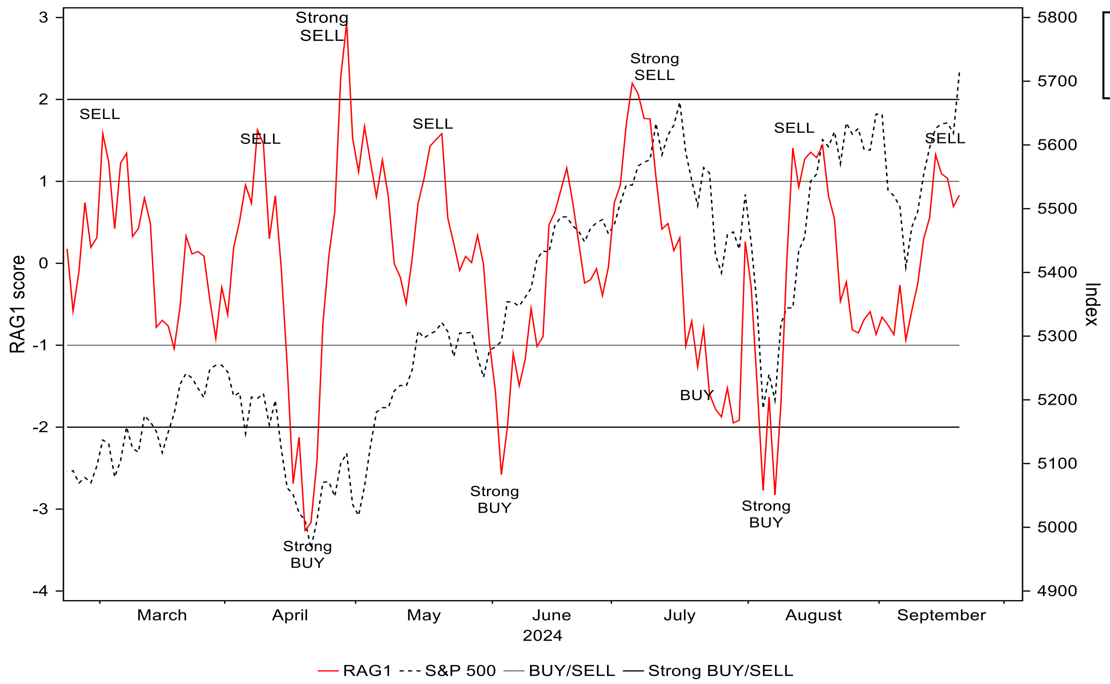
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

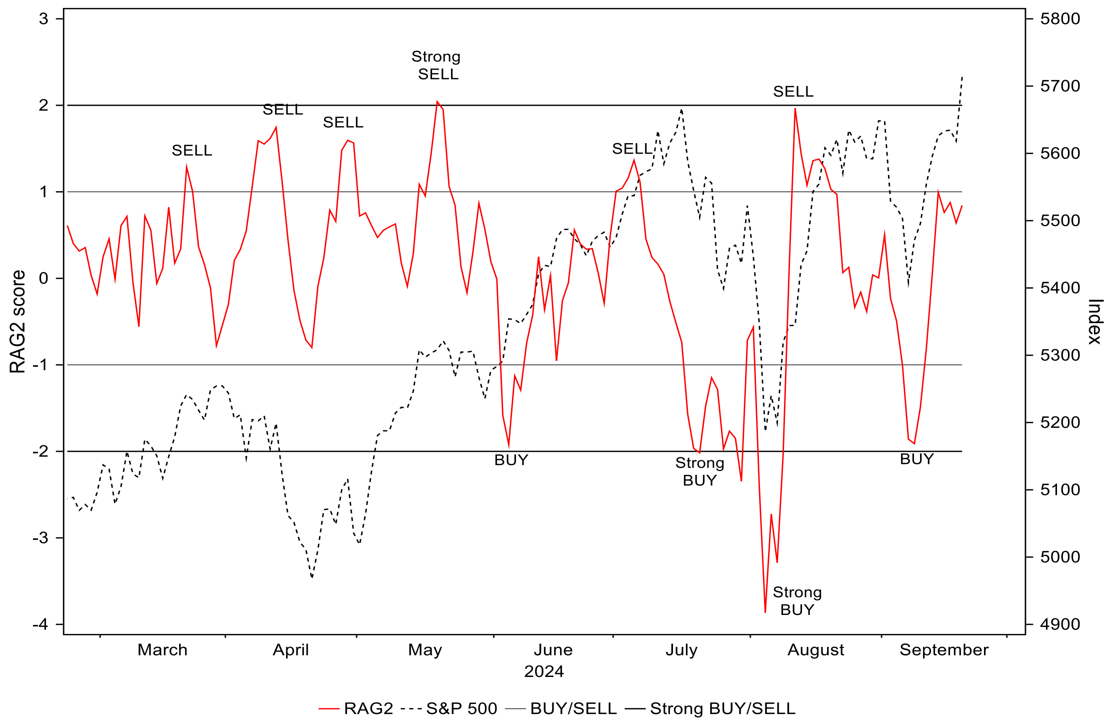
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

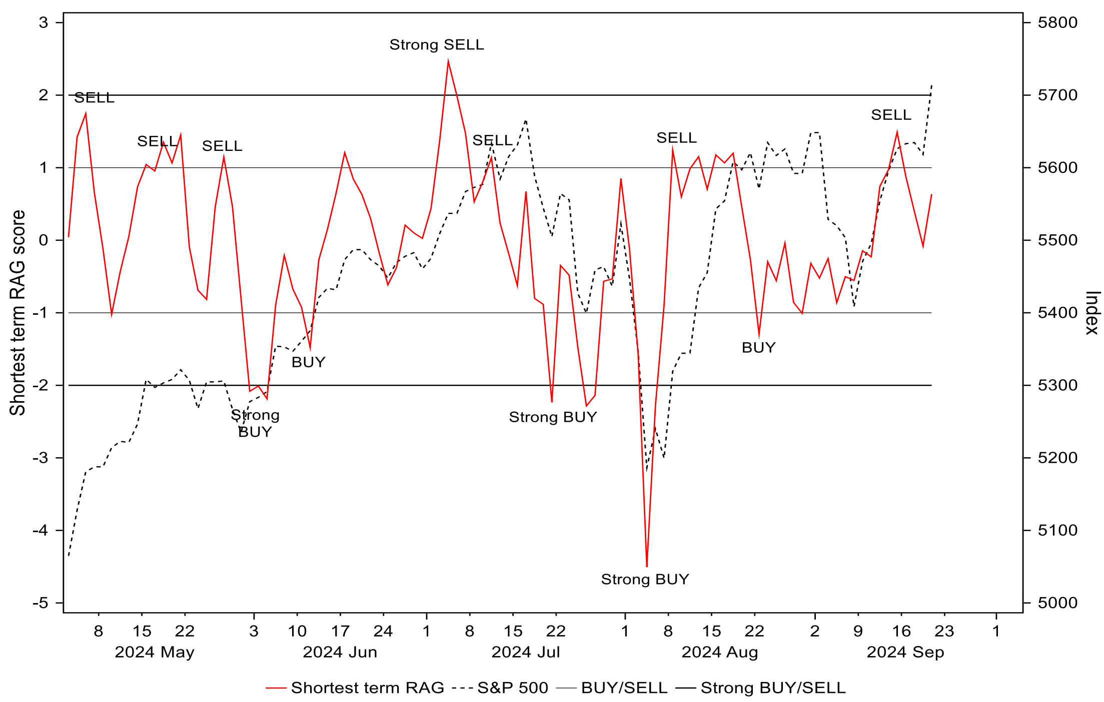


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

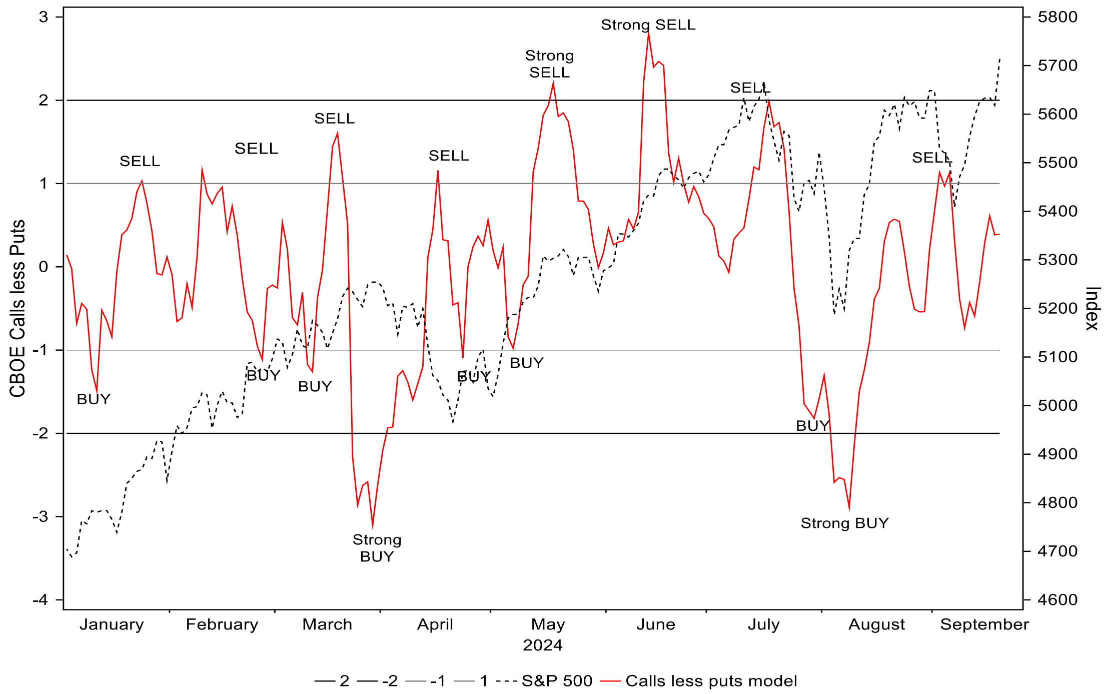
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

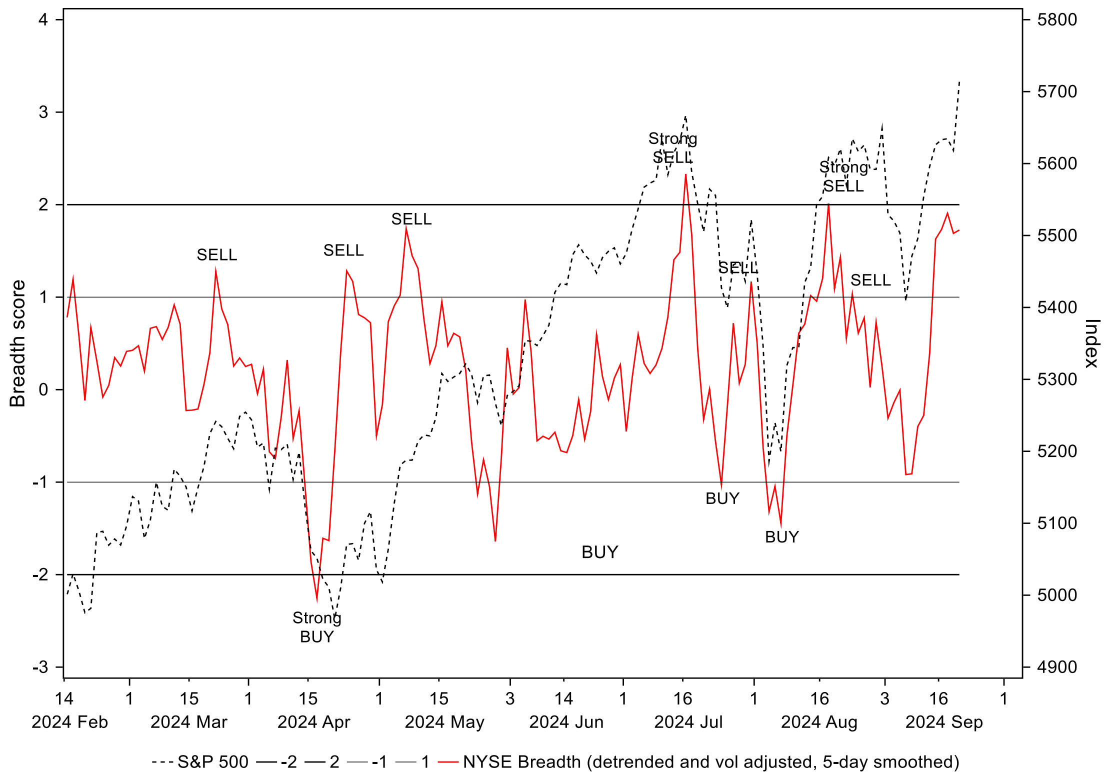


Calls less puts model is NEUTRAL

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



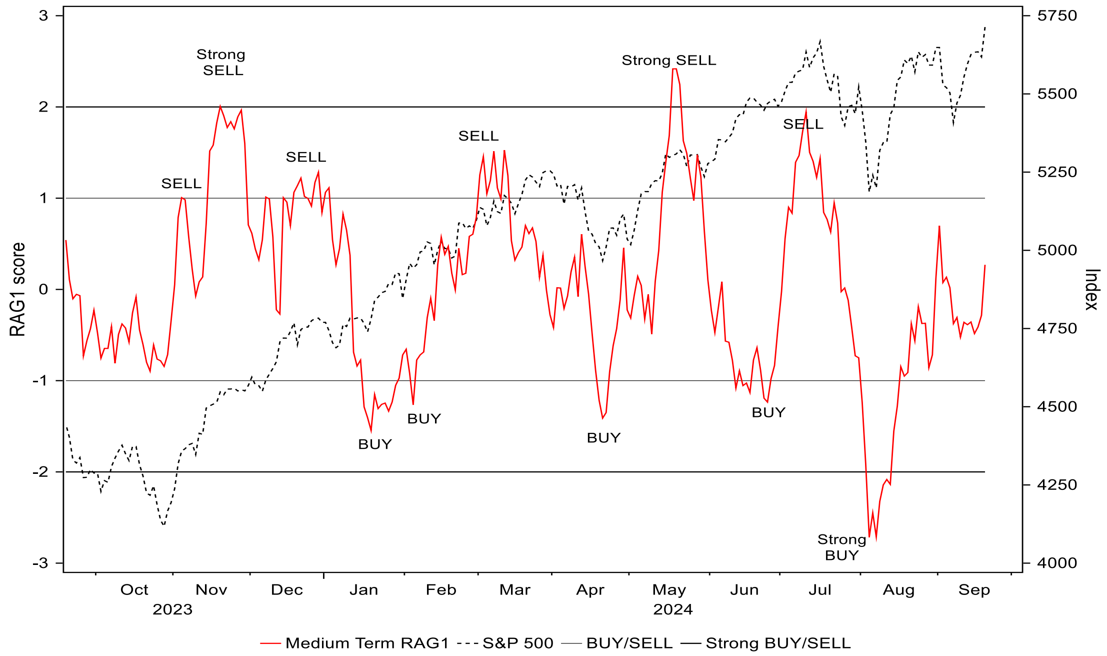
Source: Longview Economics, Macrobond

The breadth model is on SELL

For explanations of indicators please see page 10

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

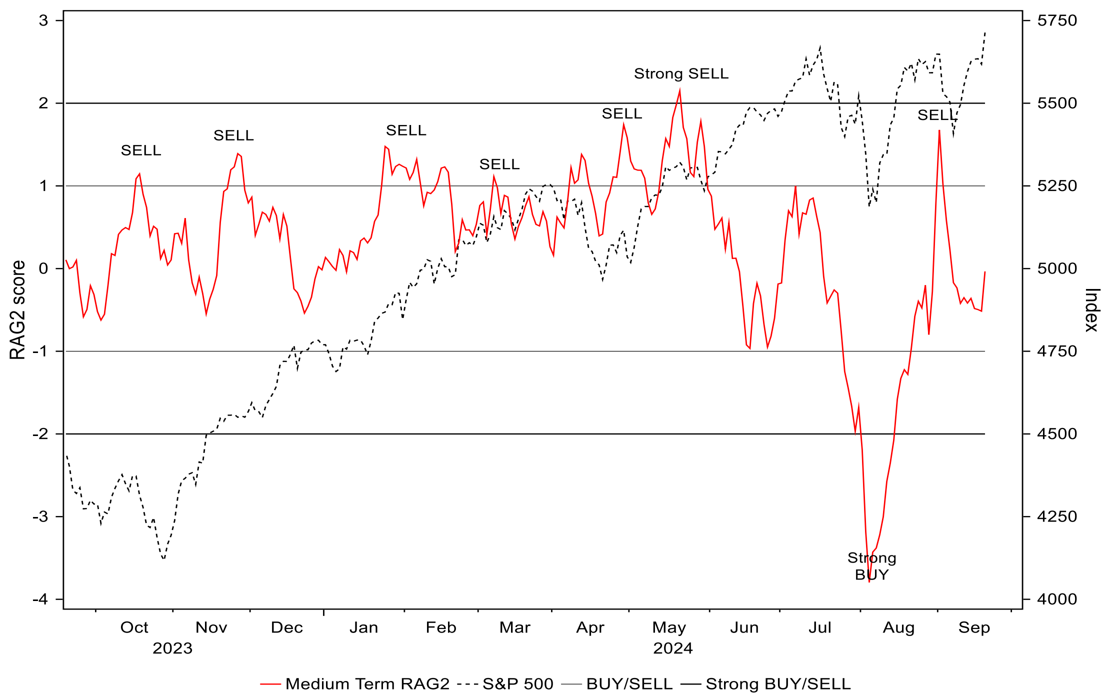
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

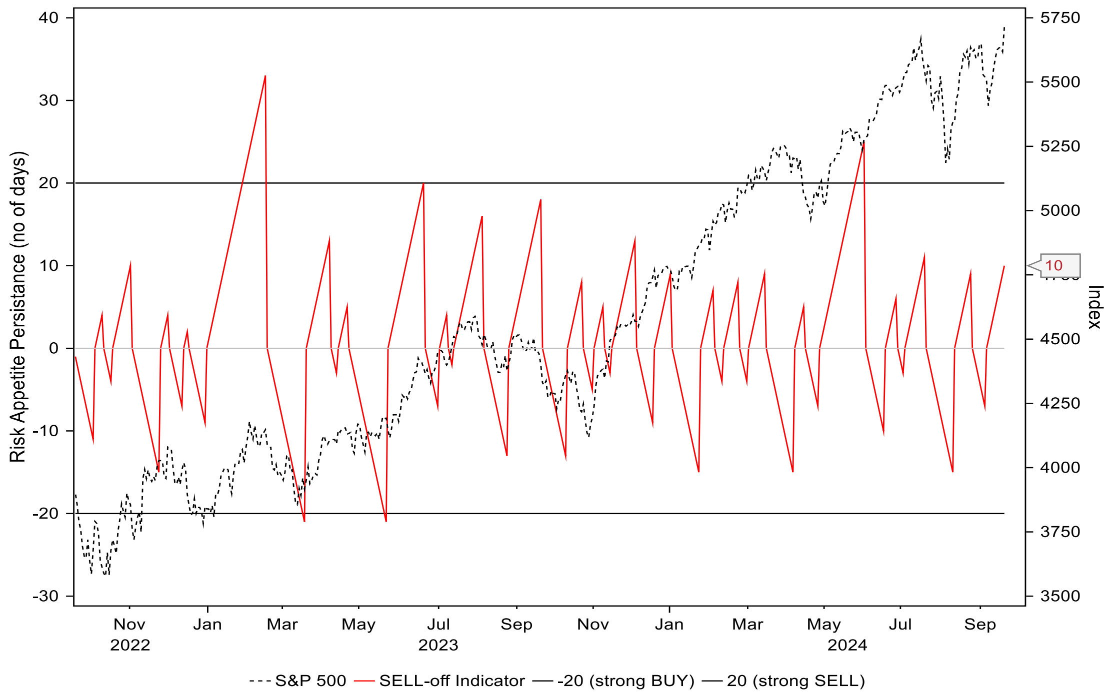


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

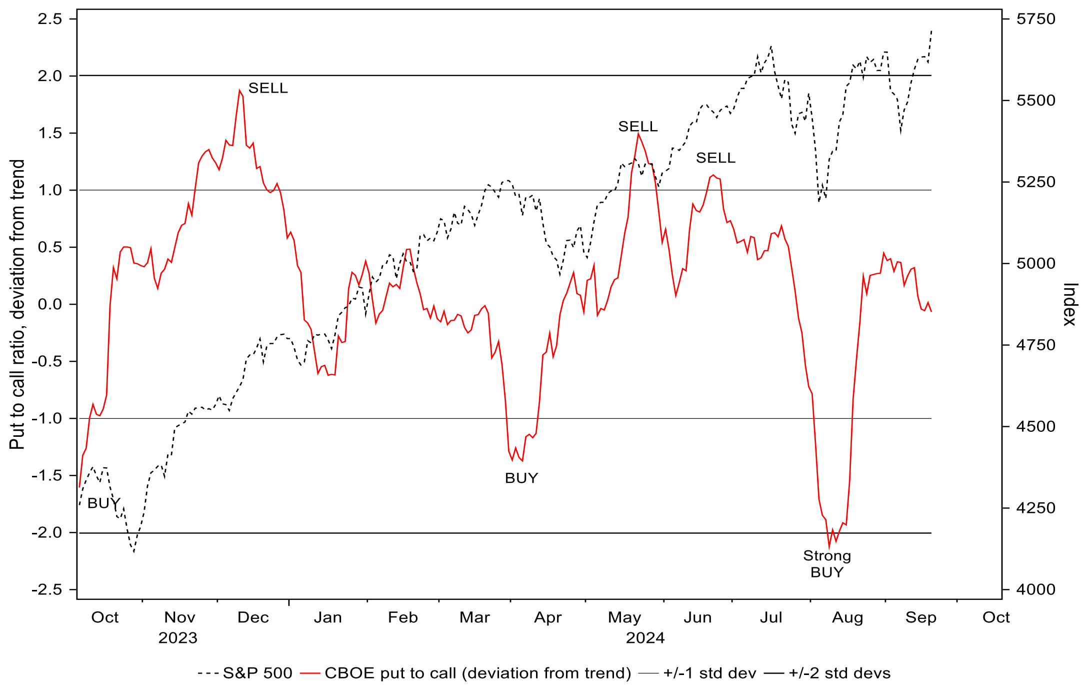
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

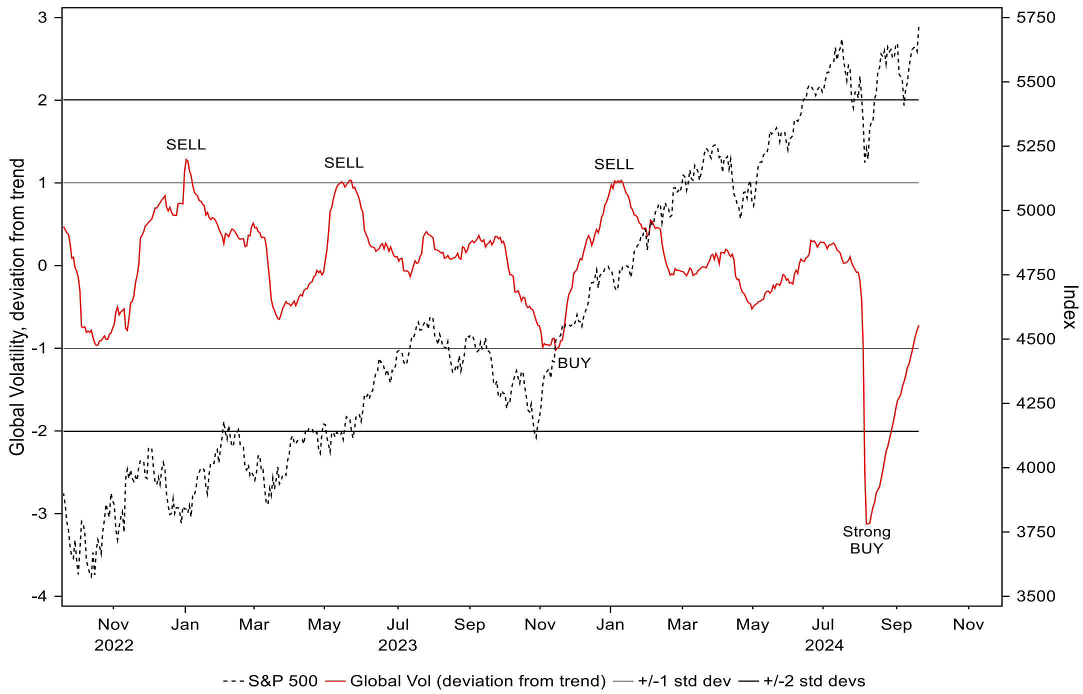


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

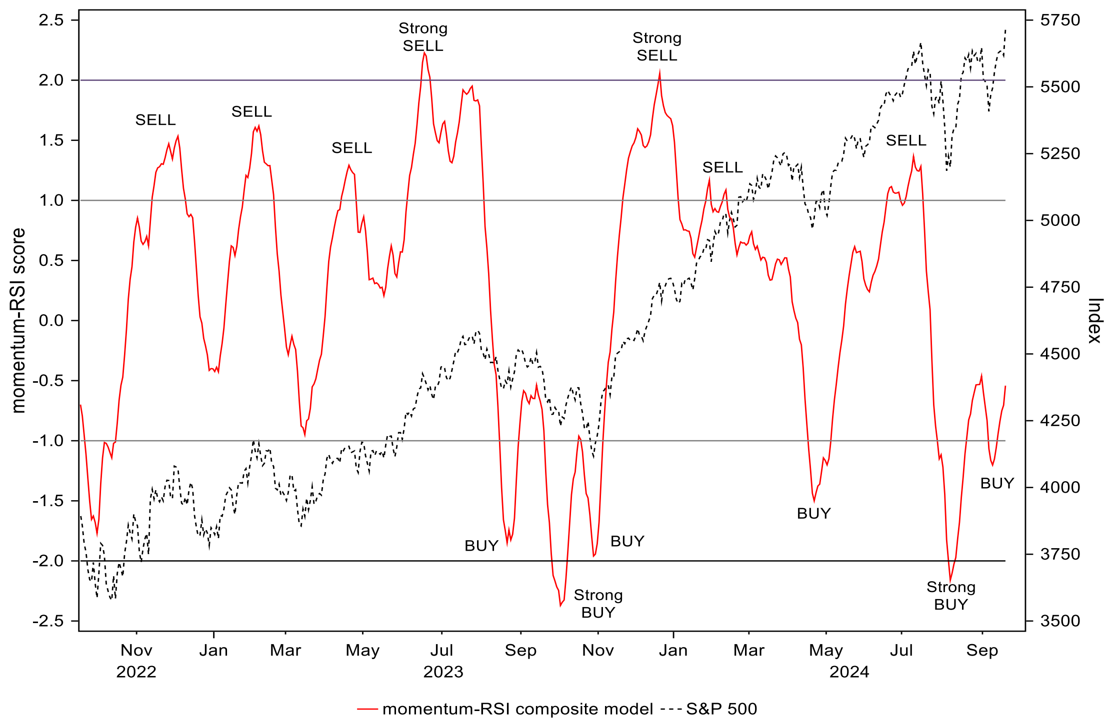
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

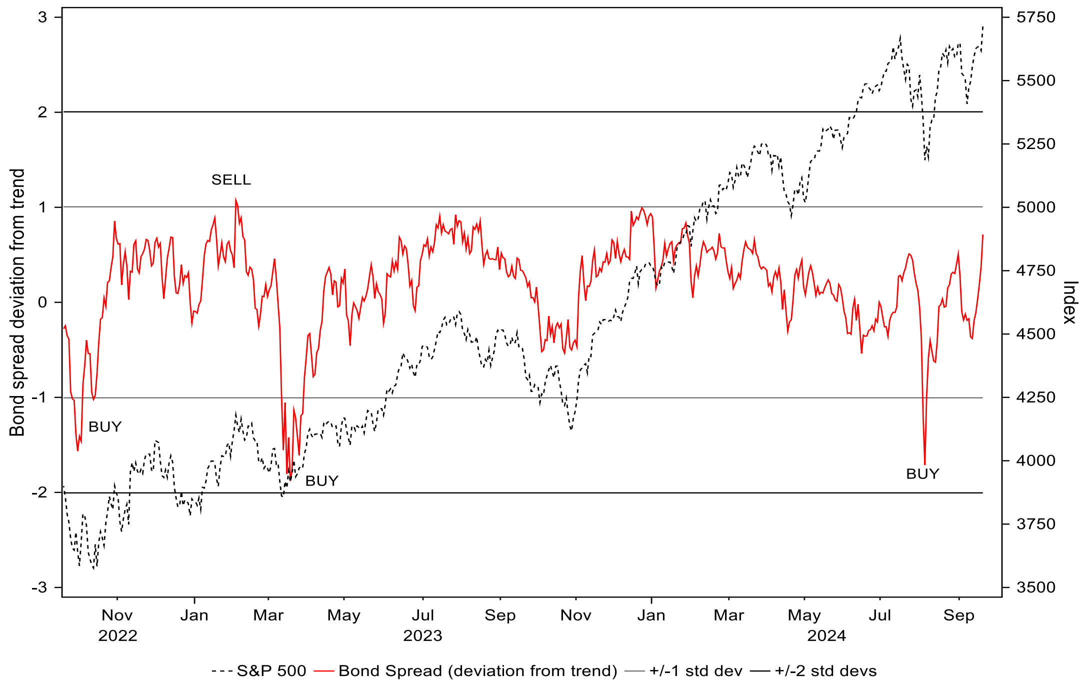
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

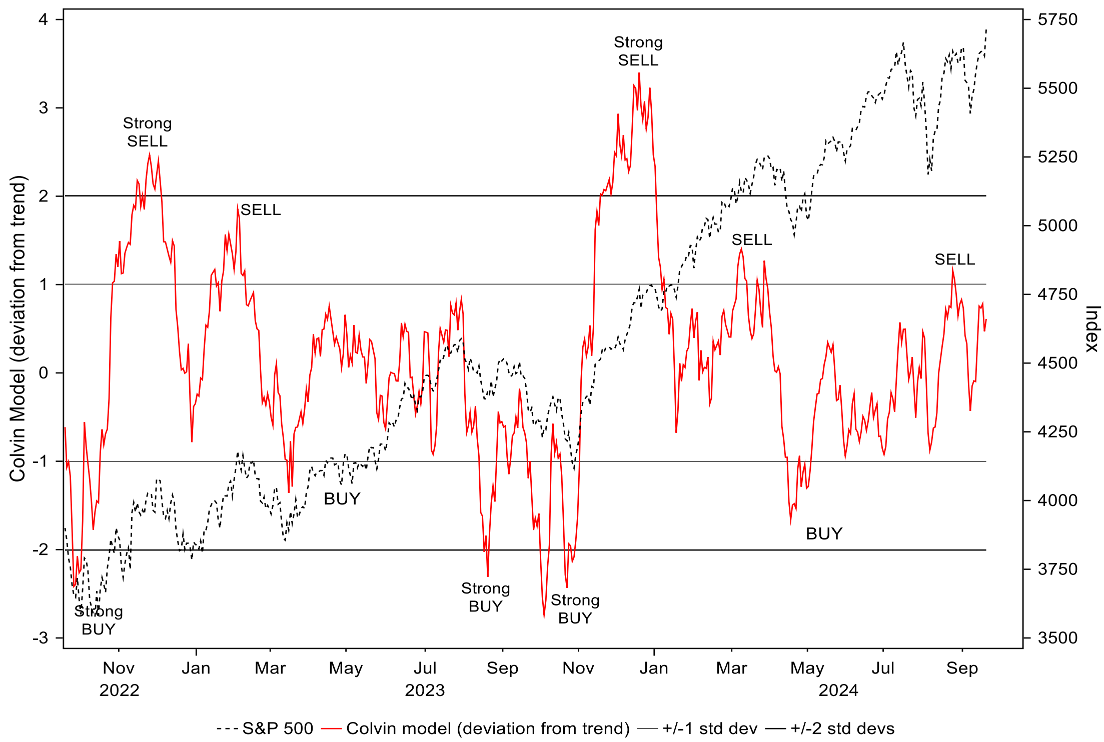
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is 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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