

Equity Index Futures Trading Recommendations

22nd October 2024

"Move SHORT on strength"

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

- Move ¼ SHORT S&P500 December futures on strength, i.e. at 5,918.00;
- Increase to ½ on further strength (i.e. 2% above that level at 6,036.00);
- Place stop loss 3% above combined entry (at 6,156.50).

Rationale

It was a quiet day across the breadth of US equity markets. Traded volumes were low (with only 1.1 million S&P500 e-mini contracts traded*, FIG 1); the S&P500 closed modestly lower (-0.2%); whilst the Philly SOX was only 0.1% higher & the NDX100 +0.2%. Sector dispersion was more meaningful with rotation into IT (+0.9%) and out of some of the bond proxies: Real estate, in particular, was weak (down 2.1% on the session). One key feature across global asset markets was the marked (& continued) back-up in US 10-year bond yields. They jumped by 9bps to close just above their 200-day moving average at 4.19% (FIG 1a). As recently as mid-September, yields closed at a low of 3.63%. With the speed of that move, bonds are now oversold (i.e. on price), whilst our medium-term RSI model of 'equities versus bonds' now favours owning bonds over equities – FIG 1b.

Other medium-term models remain positioned as they were yesterday. That is, the SELL-off indicator continues to march higher (latest +27, FIG 1c); the medium term risk appetite scoring system is on SELL (FIG 1e); while the medium term put to call ratio is just below its SELL threshold. The level of outstanding call options also remains high (a sign of frothiness – FIG 1d). Some equity markets, meanwhile, have started to lose upwards momentum including the Aussie ASX200, Japan's Nikkei & Korea's Kospi. The S&P500 and NDX100, in turn, have tracked sideways in the last 5 – 10 trading sessions – FIG 1f (indeed the NDX100 is at the same level that it reached initially at the end of September). Short term models retain a mixed message, as outlined yesterday (FIG 2 – 2d).

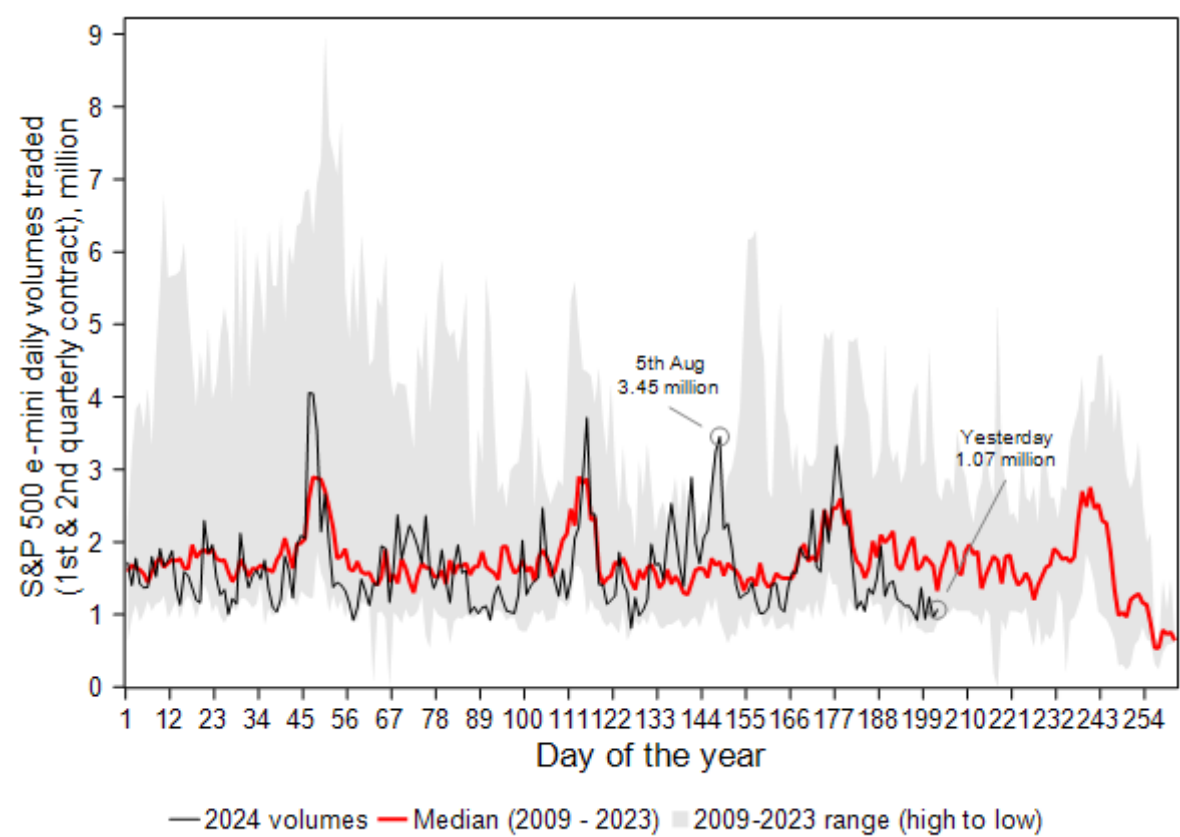
Our view is unchanged from yesterday. The SELL-off indicator has a high hit rate (of forecasting pullbacks); while its signal is confirmed by other medium-term models. The positioning of the short-term models creates some ambiguity about the timing of the entry into SHORT positions. The forthcoming US Presidential election is likely also having some impacts upon the short-term direction of this market, as is the current US earnings season. As such, we continue to recommend moving SHORT on strength, if forthcoming (see recommendation above). Key events today are laid out below.

Kind regards,

The team @ Longview Economics

*& low volumes in the QQQ and the NDX100 e-minis as well as low levels of NYSE single stocks traded.

FIG 1: S&P500 e-mini volumes (1st & 2nd quarterly contracts), shown with seasonal averages



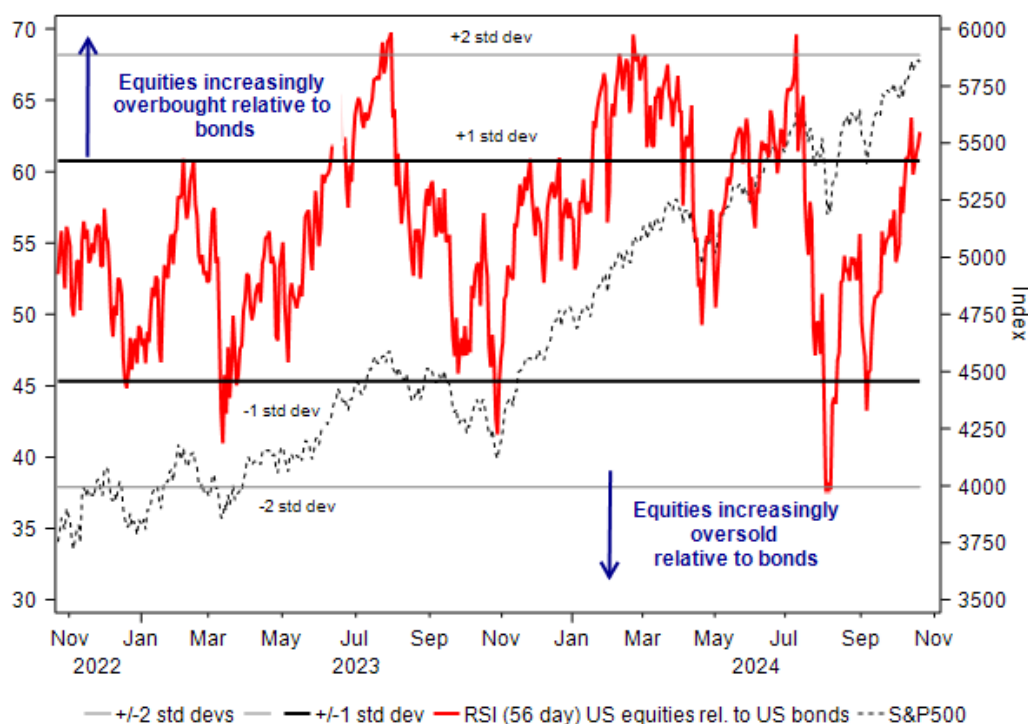
Source: Longview Economics, Macrobond

FIG 1a: US 10-year bond yields shown with key moving averages



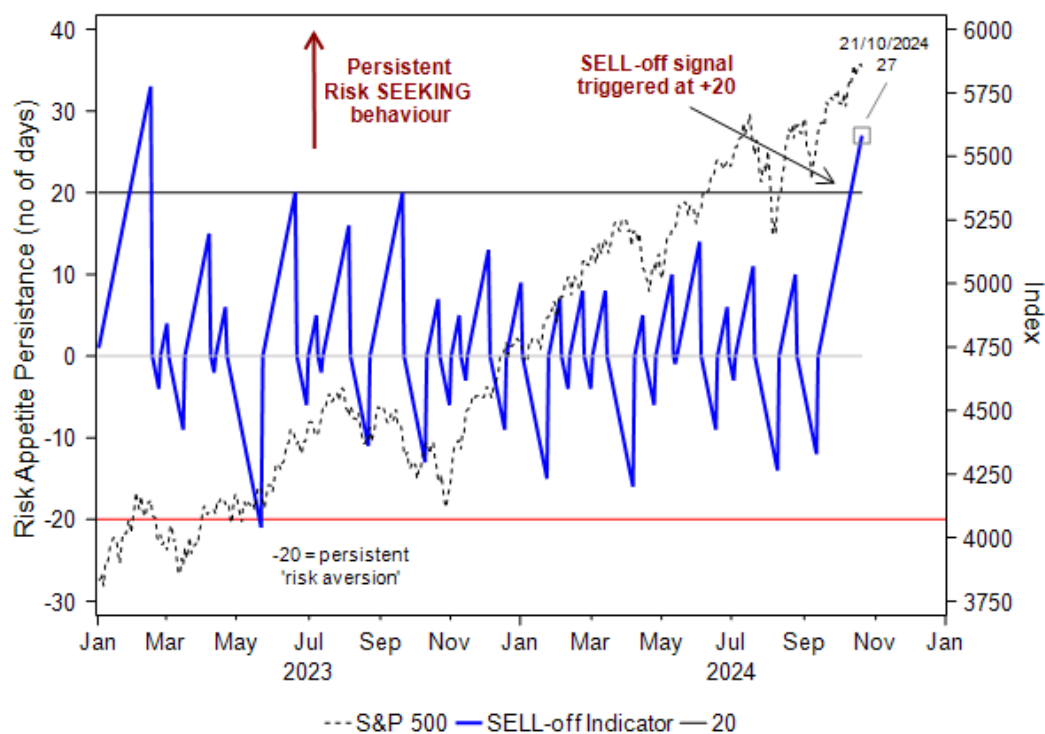
Source: Longview Economics, Macrobond

FIG 1b: US medium term RSI (equities vs. bonds) vs. S&P500



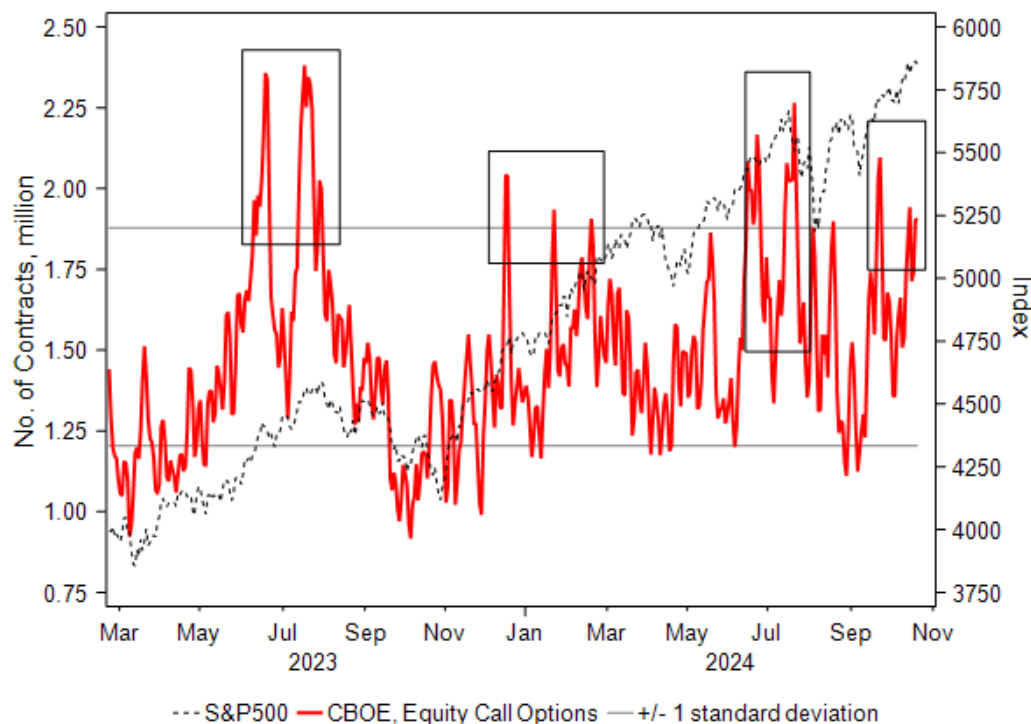
Source: Longview Economics, Macrobond

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



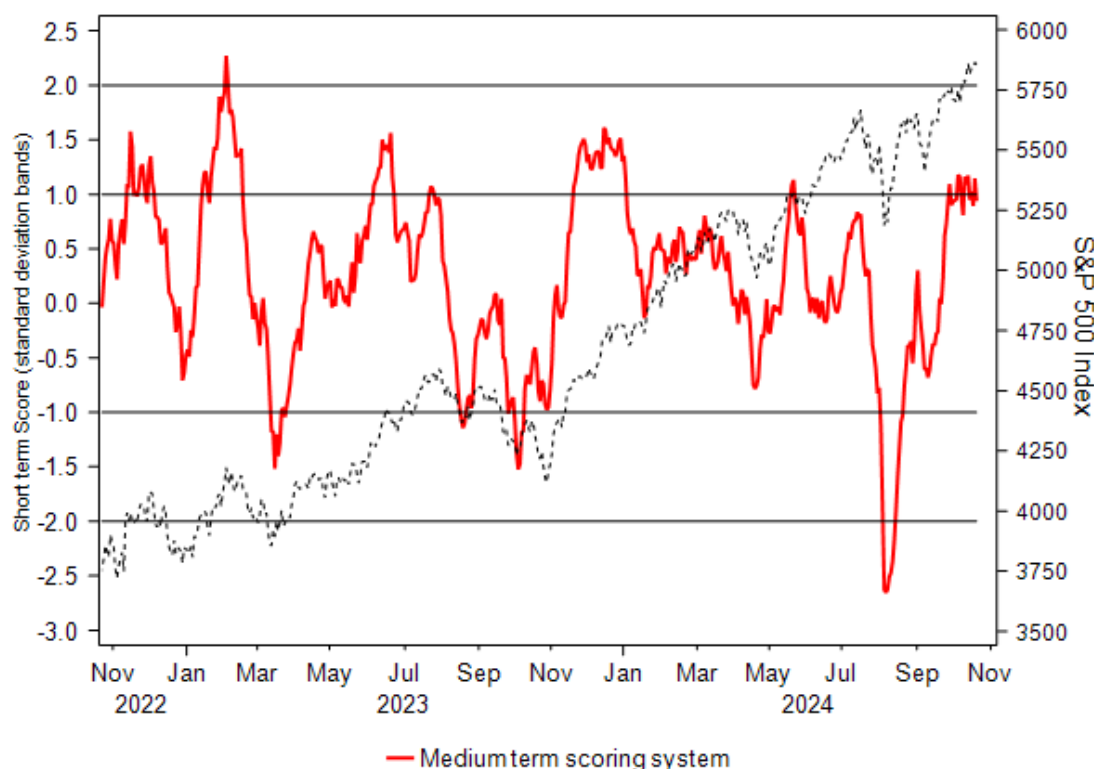
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



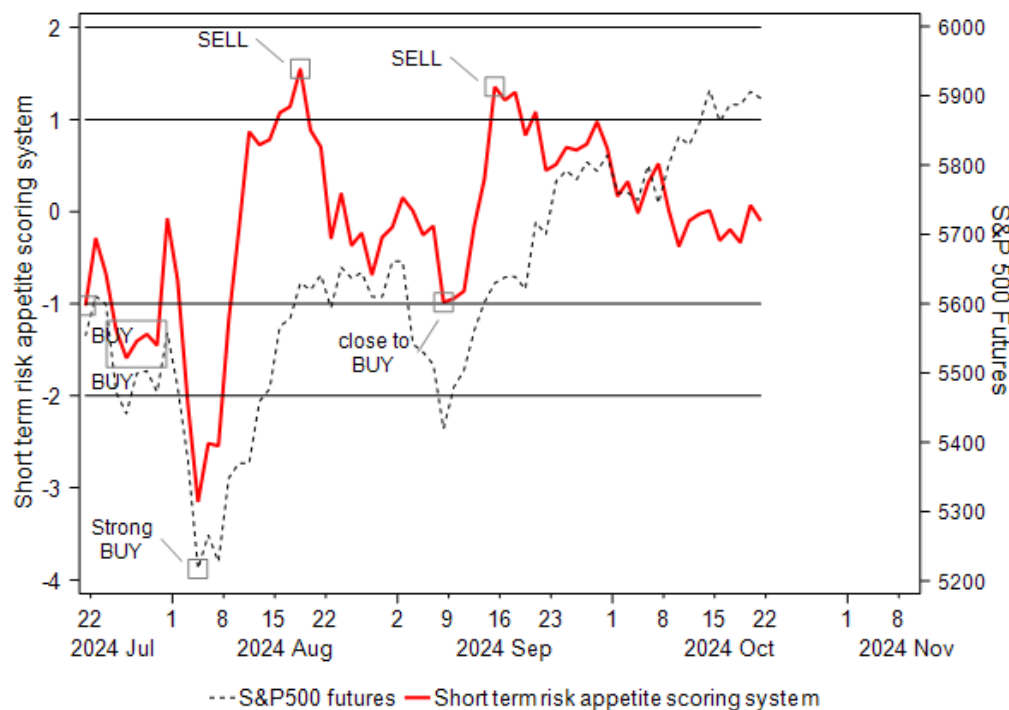
Source: Longview Economics, Macrobond

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



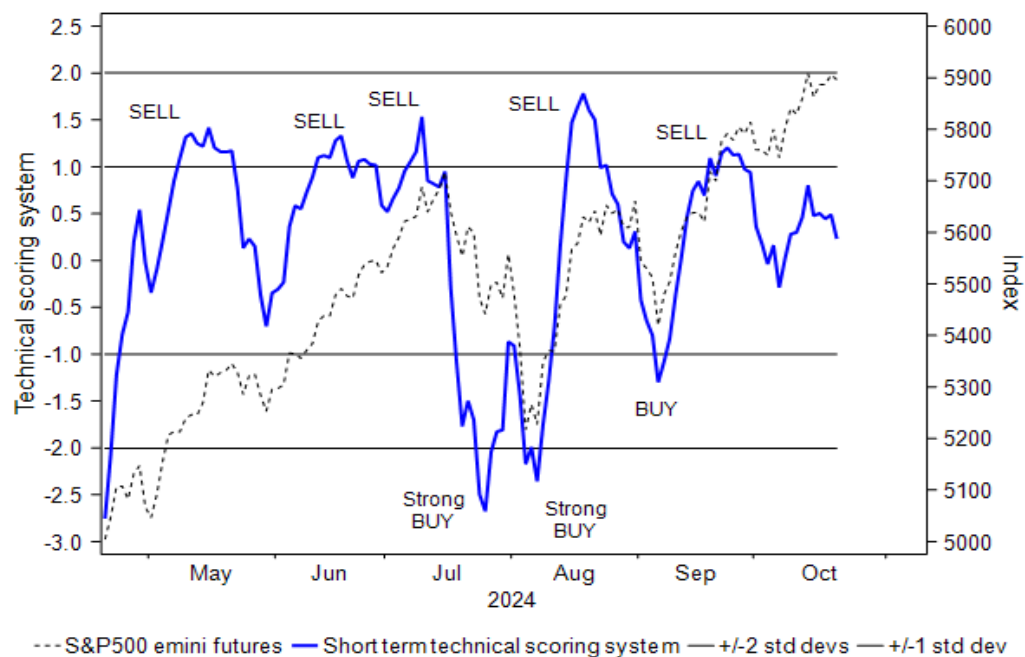
Short term market timing models are mixed.....

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



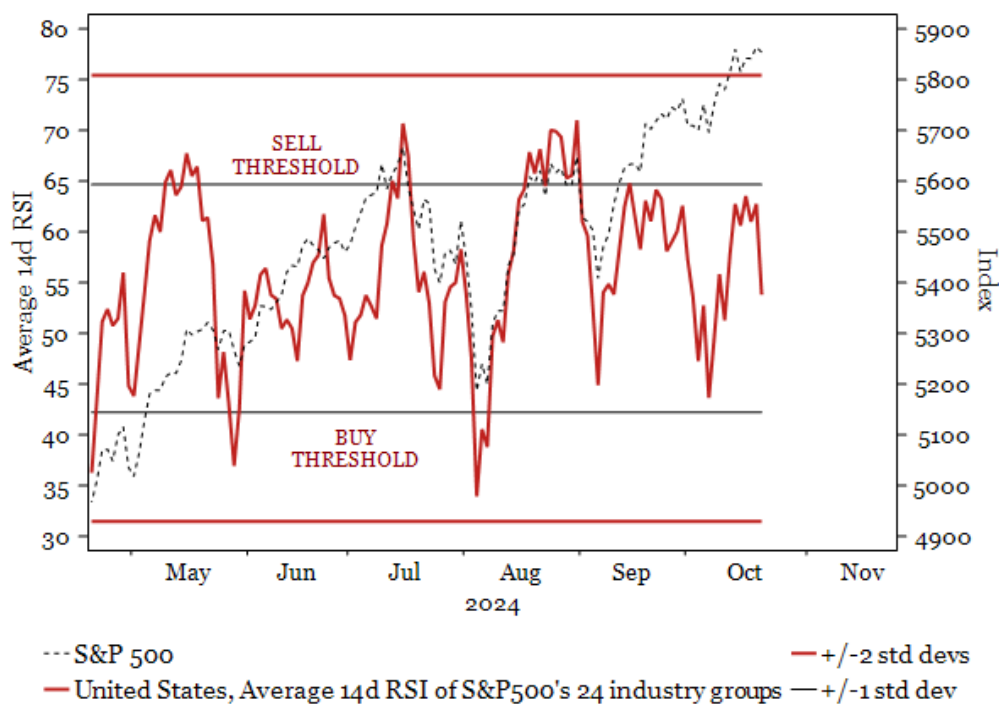
Source: Longview Economics, Macrobond

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



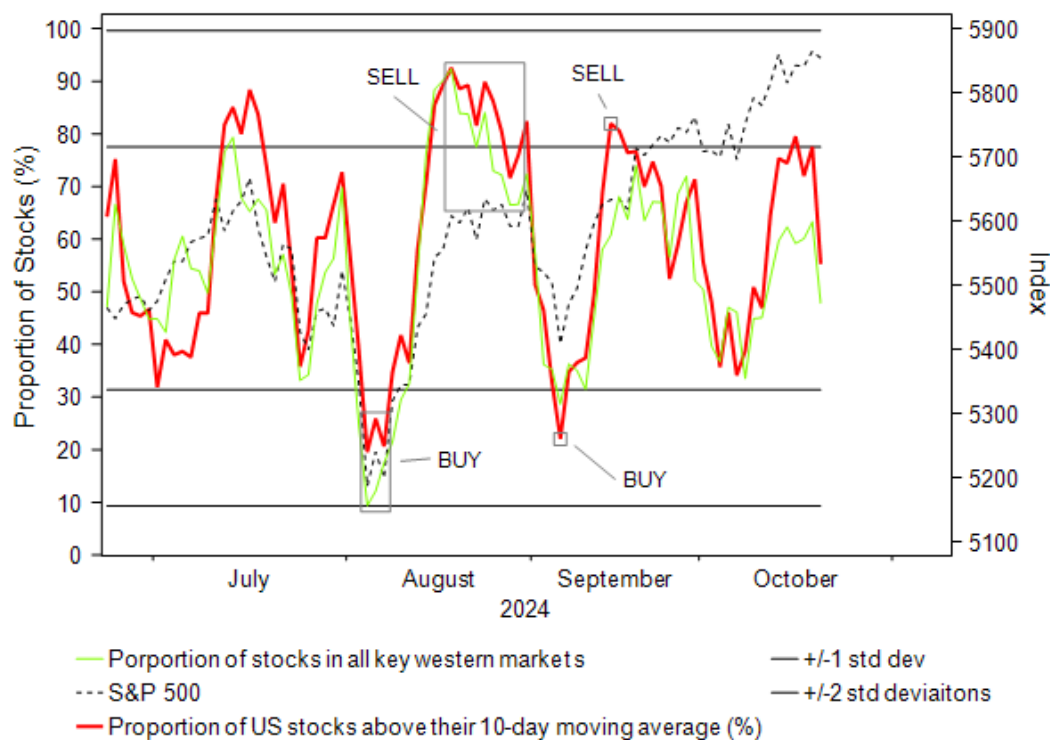
Source: Longview Economics, Macrobond

FIG 2b: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



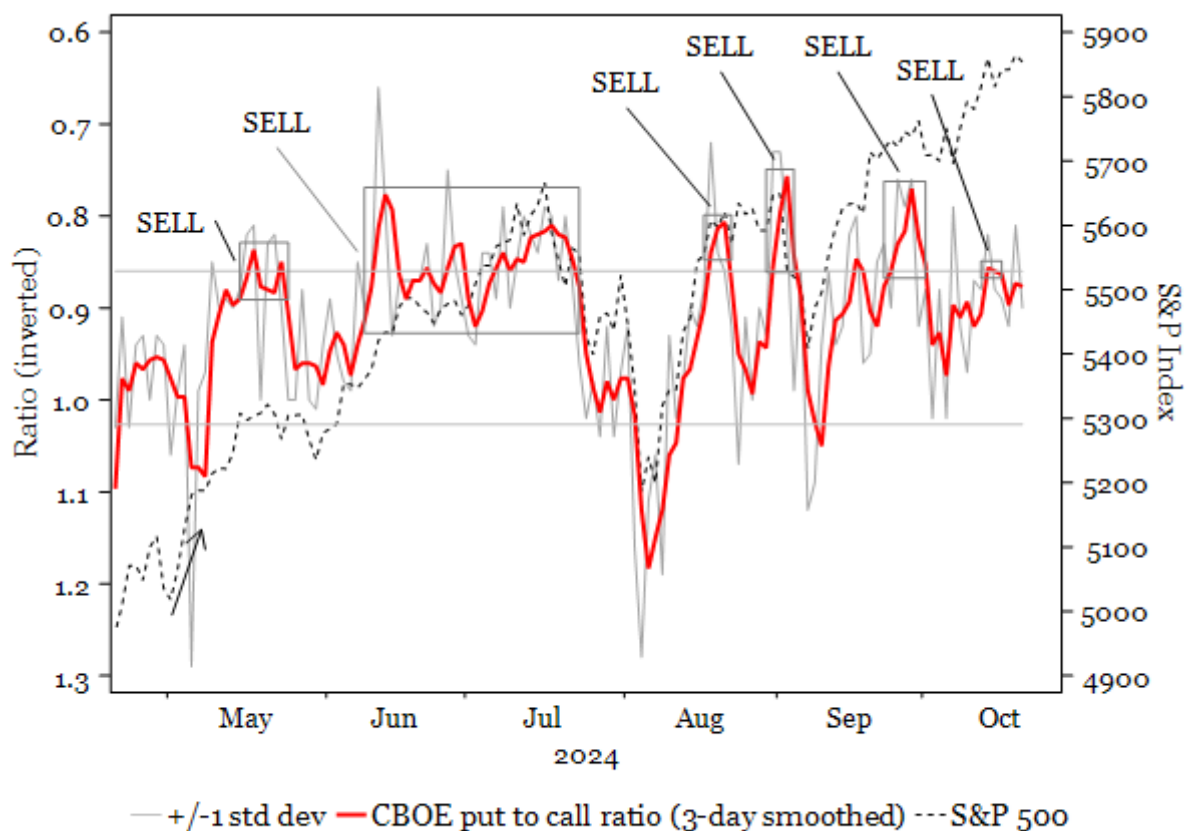
Source: Longview Economics, Macrobond

FIG 2c: Proportion of US stocks above their 10 day moving average vs. S&P500



Source: Longview Economics, Macrobond

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



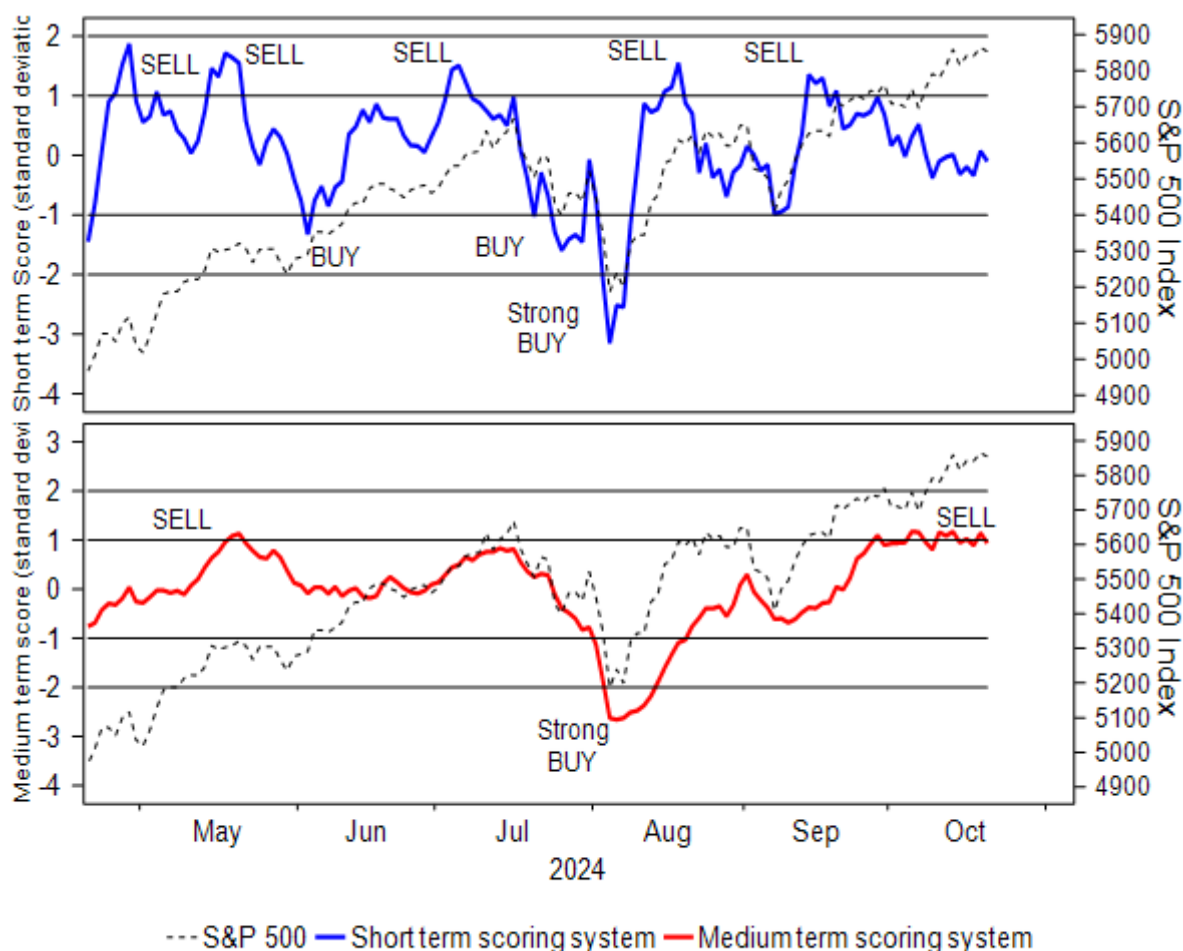
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

Medium term (1 – 4 month) scoring system: **NEUTRAL** (just below SELL)

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 public sector finances (Sept, 7am); Eurozone new car sales (Sept, 5am); US Philadelphia Fed service sector activity (Oct, 1:30pm); US Richmond Fed manufacturing (Oct, 3pm).

Key events today include: Speeches by the Bank of England's Greene at the Atlantic Council (2:15pm), Bailey at the Bloomberg Global Regulatory Forum (2:45pm) & Breeden on cross-border payments (8:15pm); speeches by the ECB's Centeno in Washington (2pm), Knot in New York (2:05pm), Holzmman in Bloomberg panel (2:45pm), Villeroy in New York (6pm) & Rehn at Peterson Institute event (7pm); speech by the Fed's Harker at Fintech conference (3pm).

Key earnings today include: **L'Oreal, GE Aerospace, Danaher, Philip Morris, Verizon, Texas Instruments**, Rtx Corp, Lockheed Martin, Fiserv, Sherwin-Williams, Moody's, 3M, Freeport-McMoran, PACCAR, Norfolk Southern, General Motors, Kimberly-Clark, Baker Hughes, China Mobile, China Unicom Hong Kong LTD.

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 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

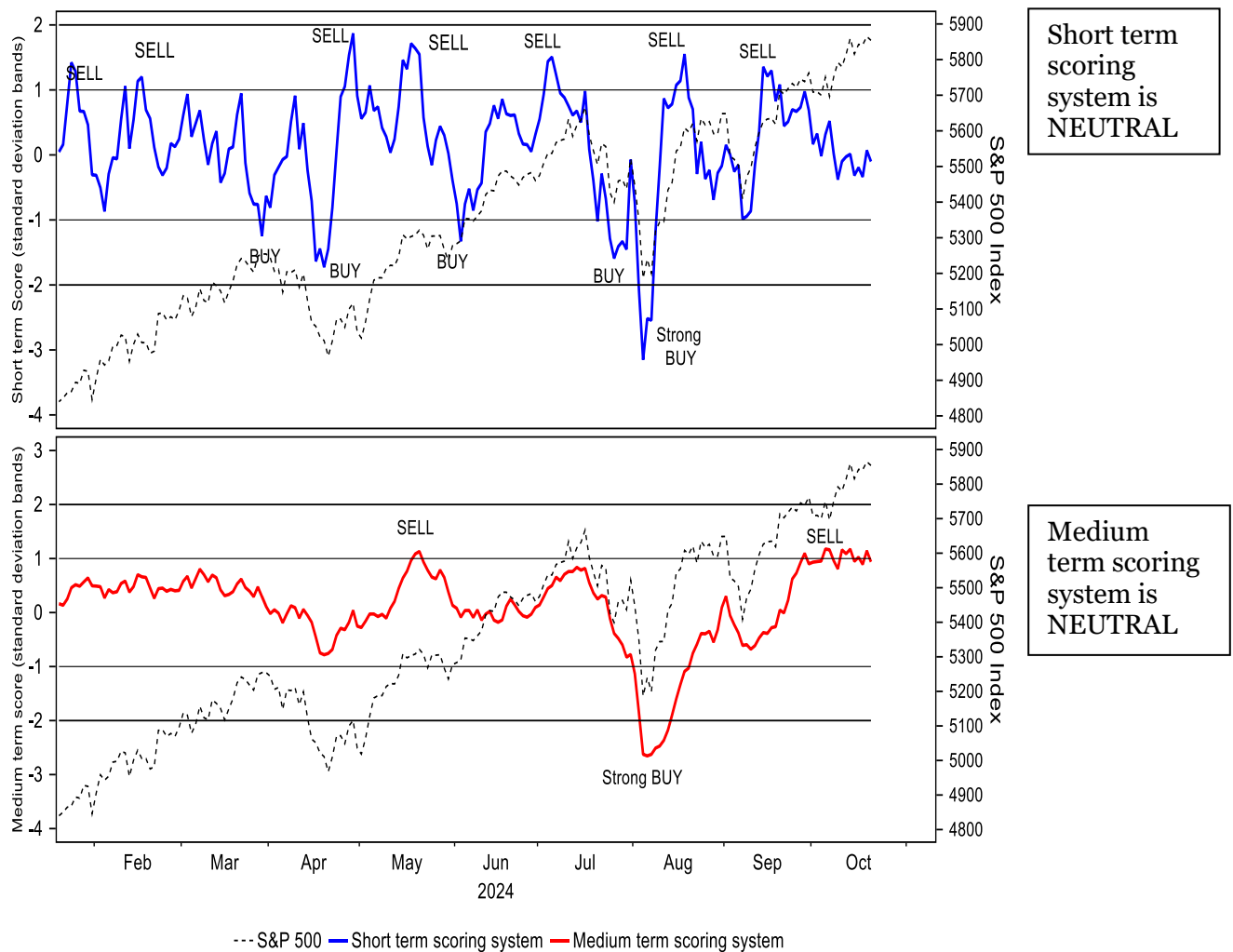
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22nd October 2024

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

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



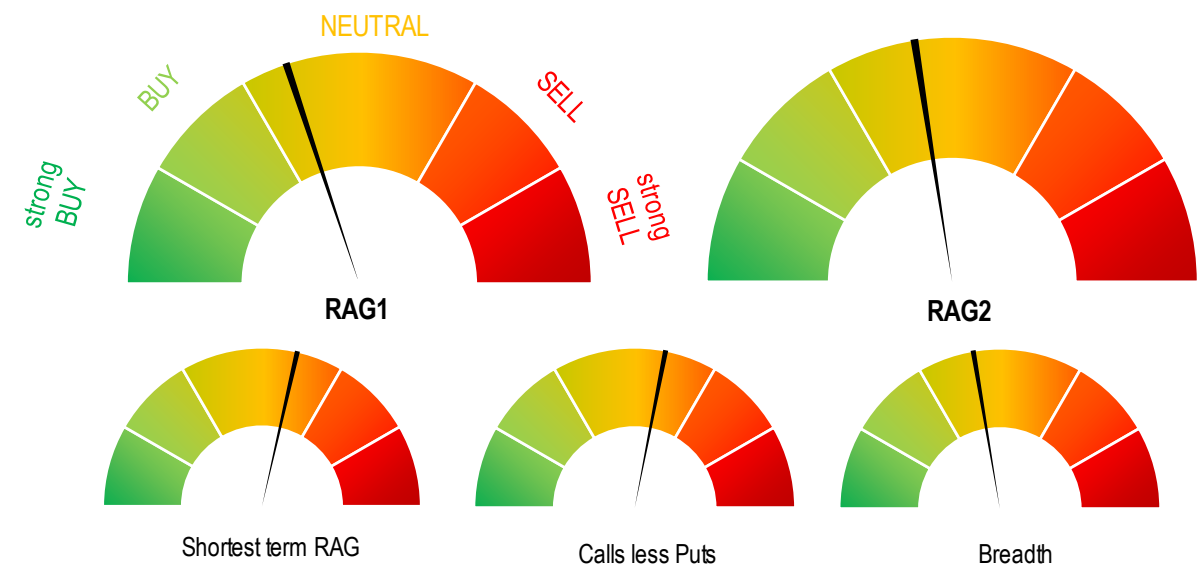
Source: Longview Economics, Macrobond

*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**

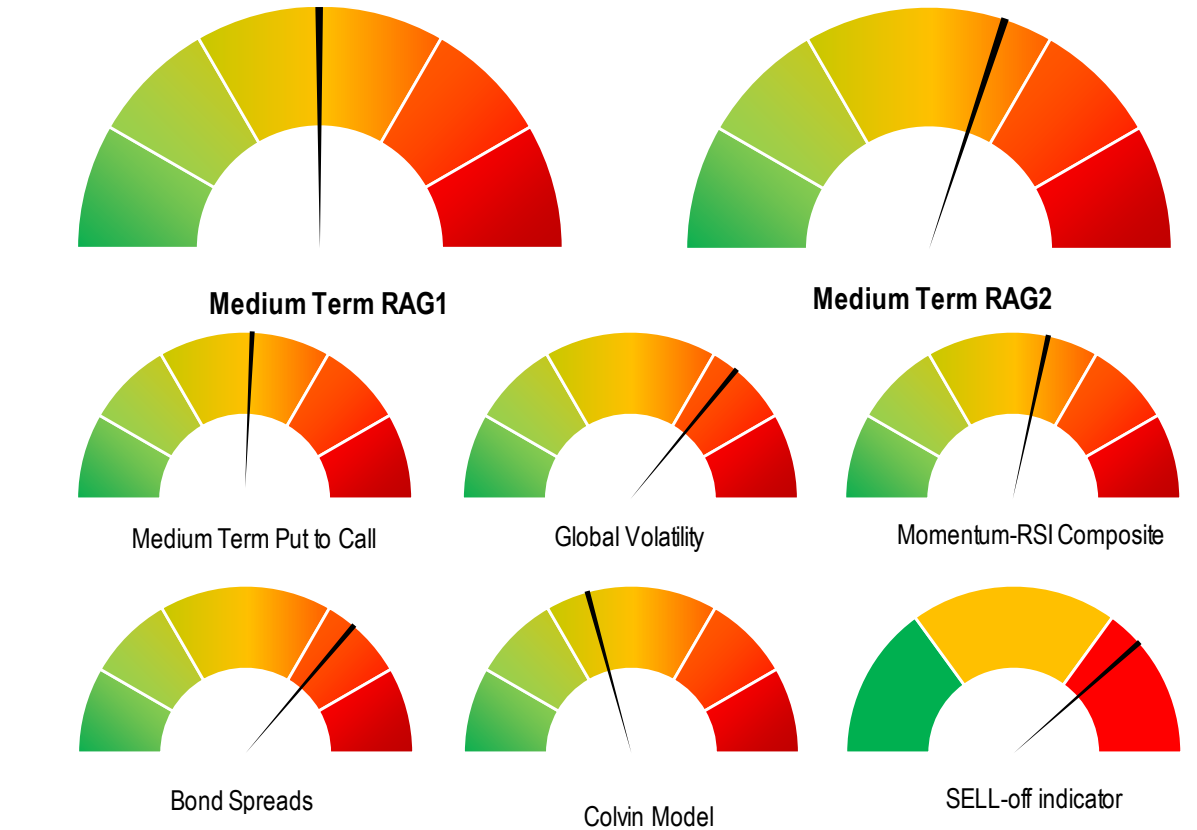
Section 1a: Summary of indicator signals**

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

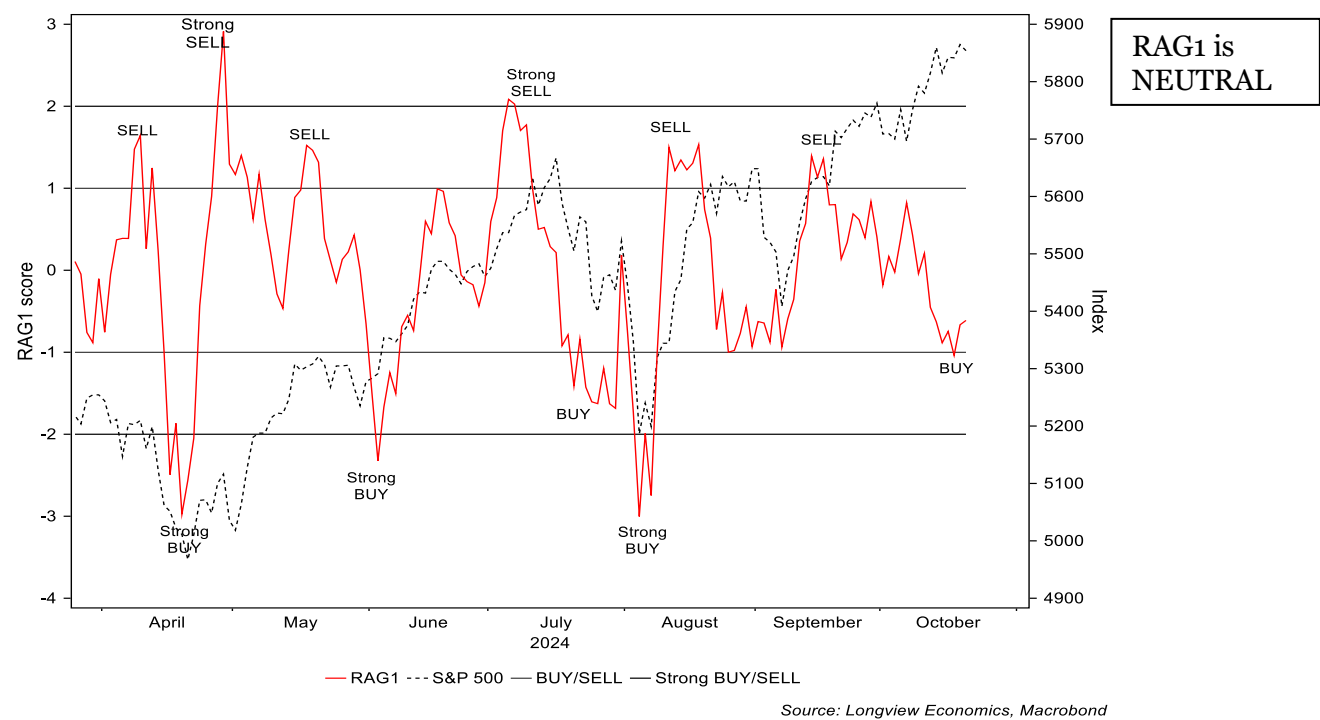
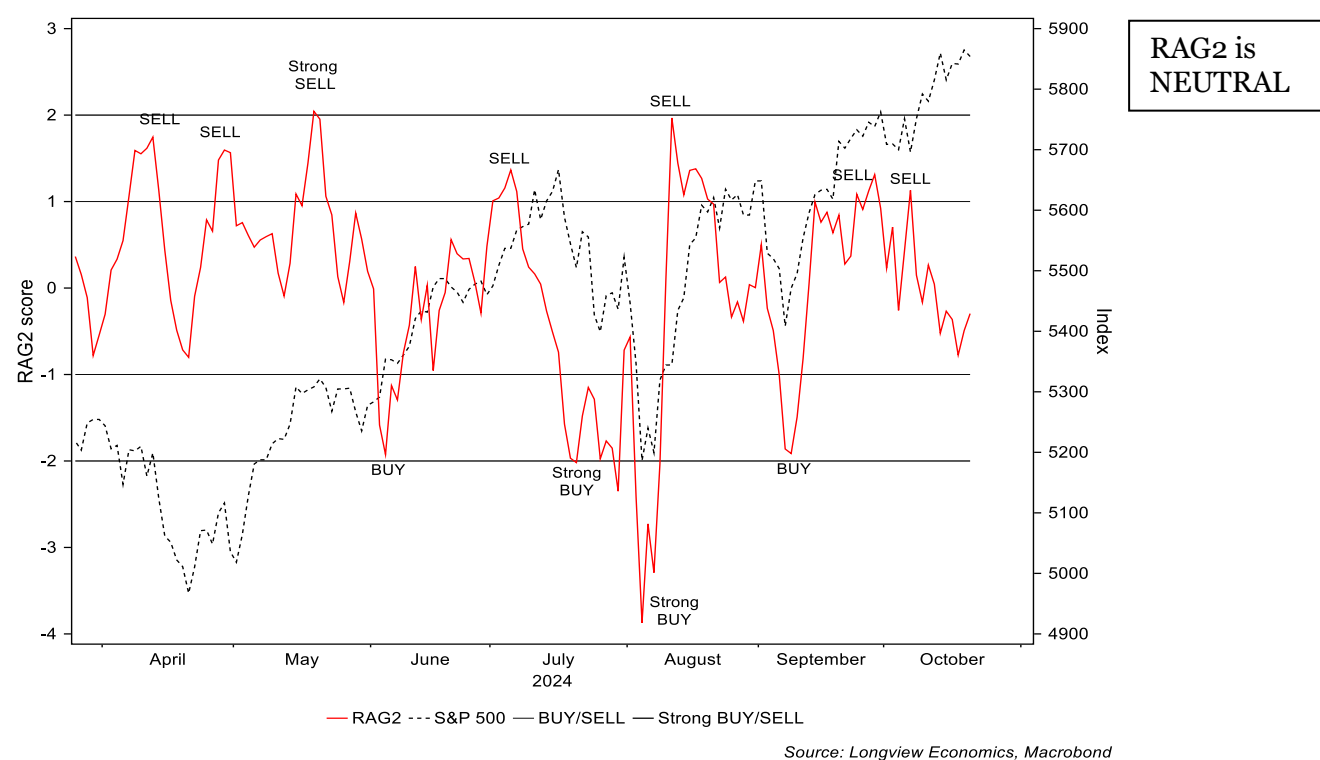


Fig 2b: RAG 2 vs. S&P 500



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

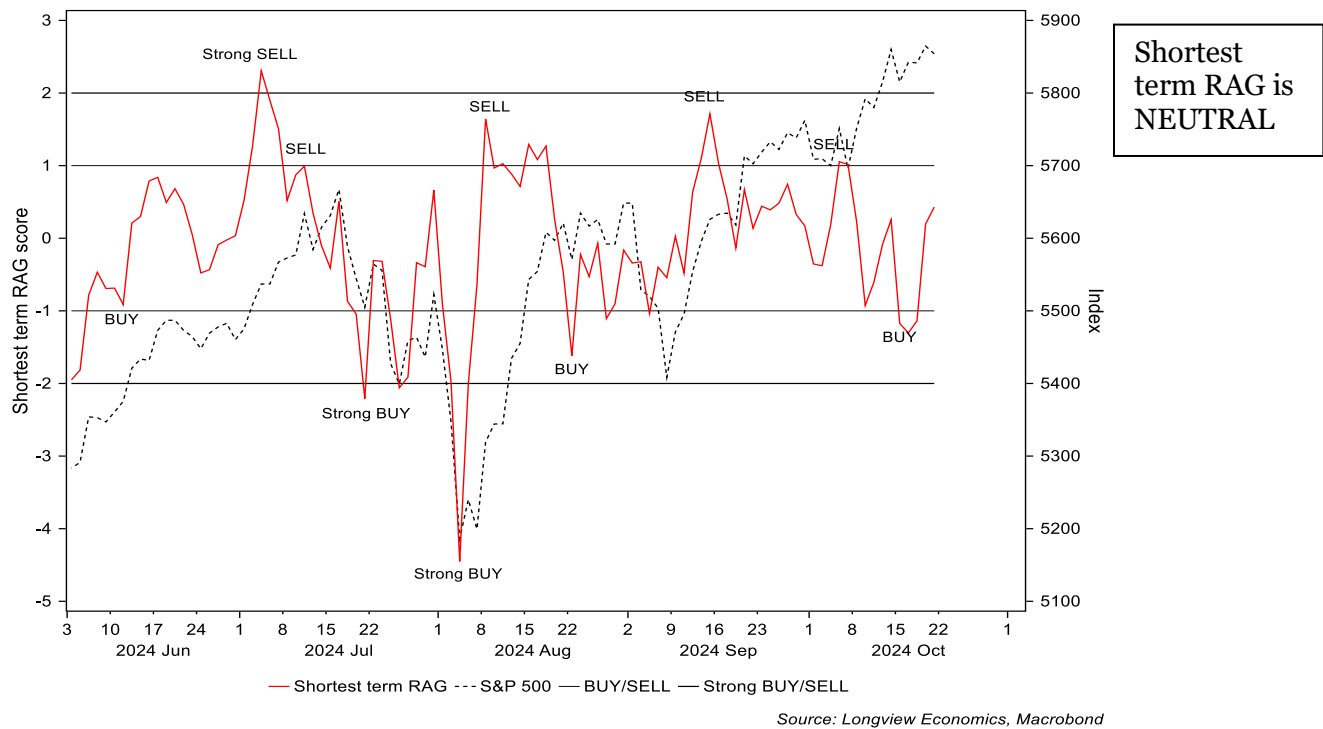
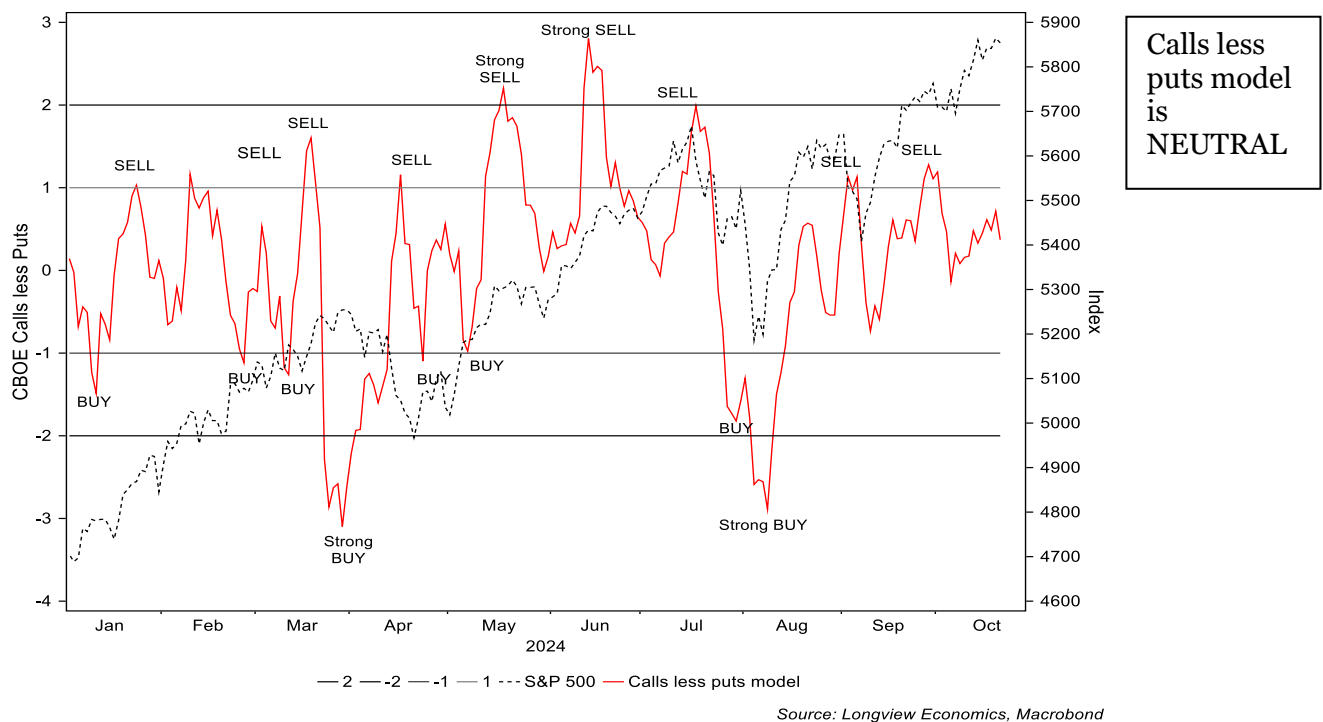
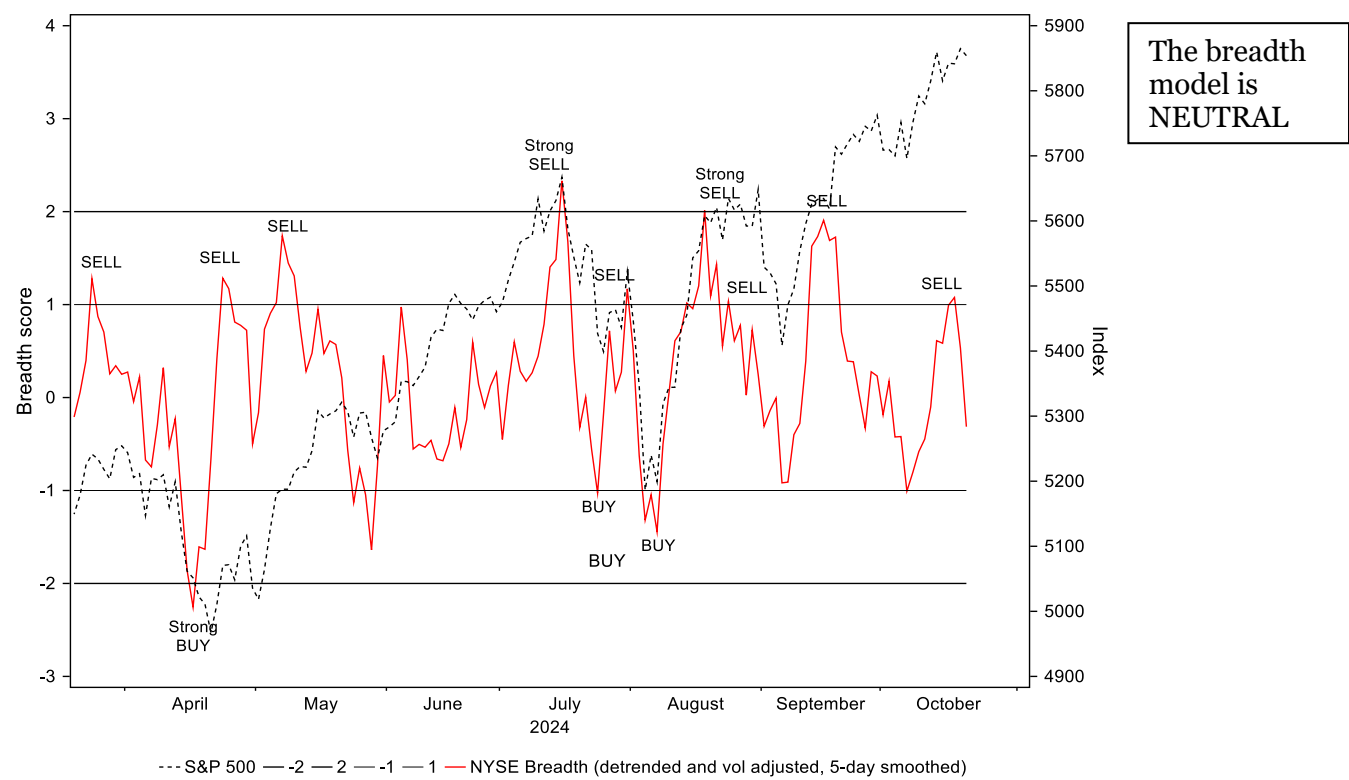


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

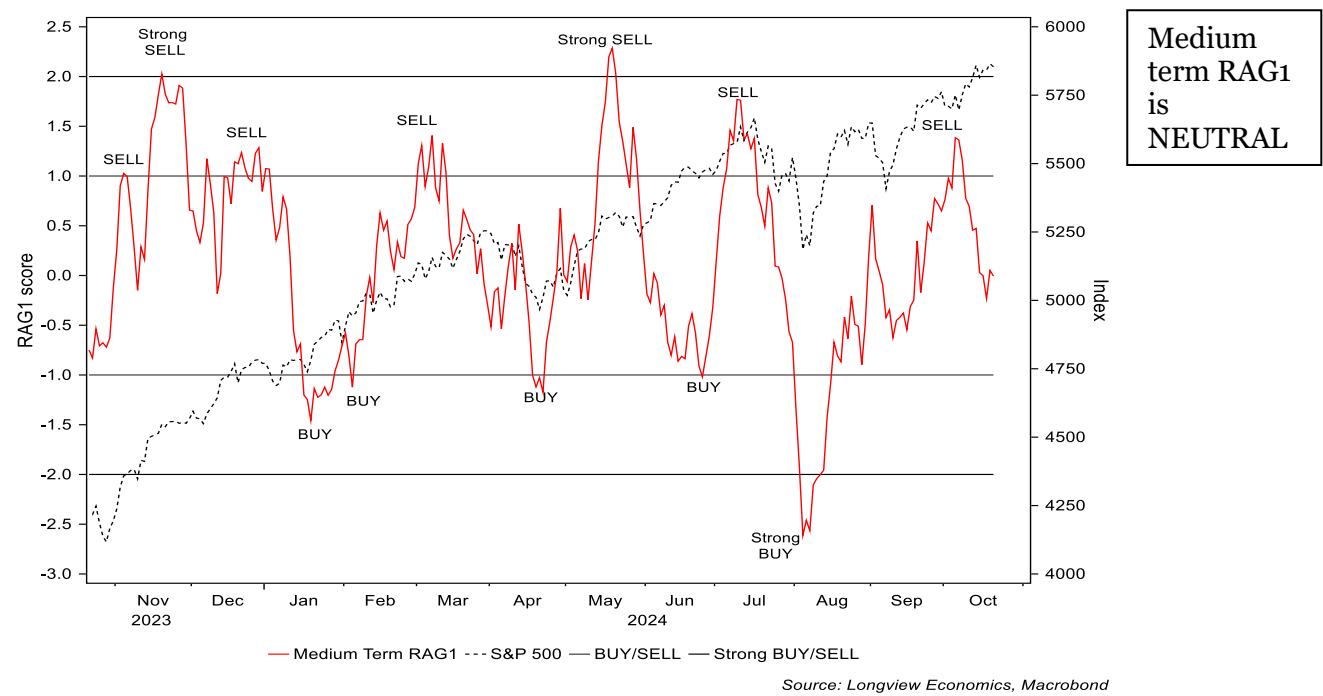
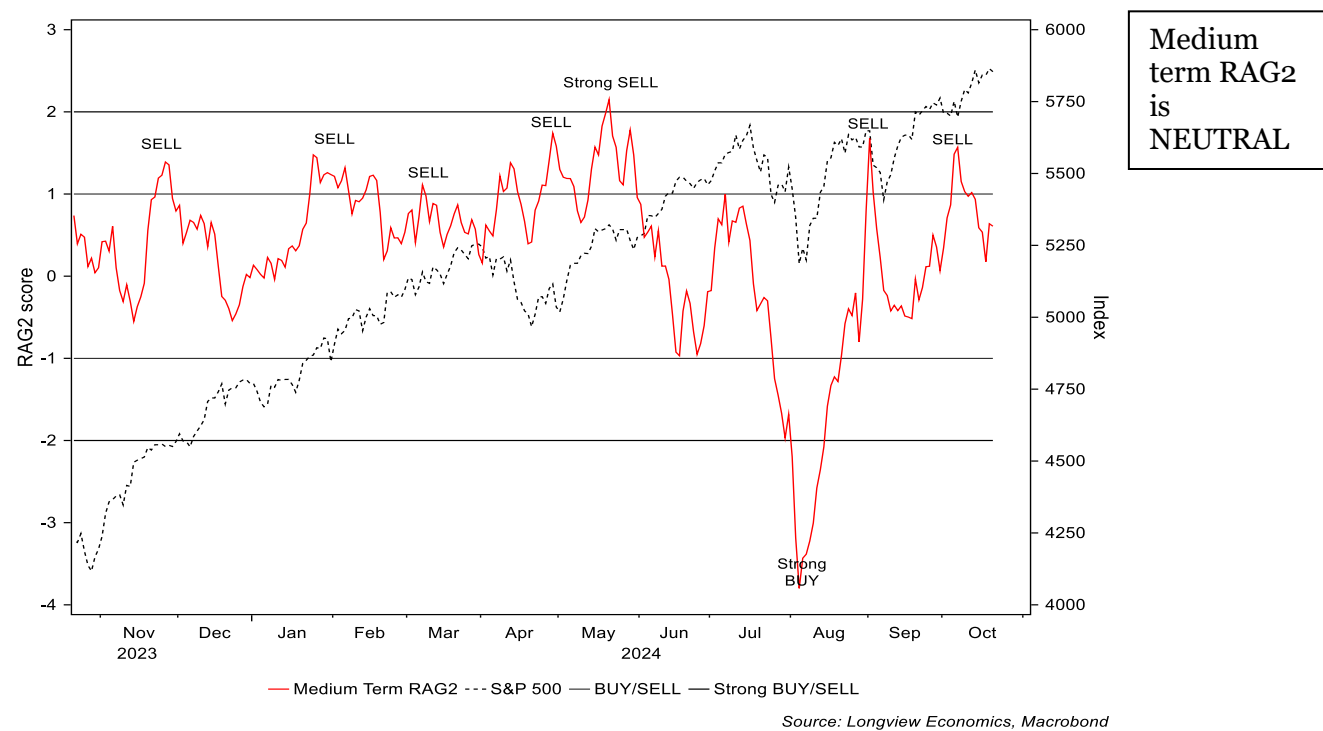


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

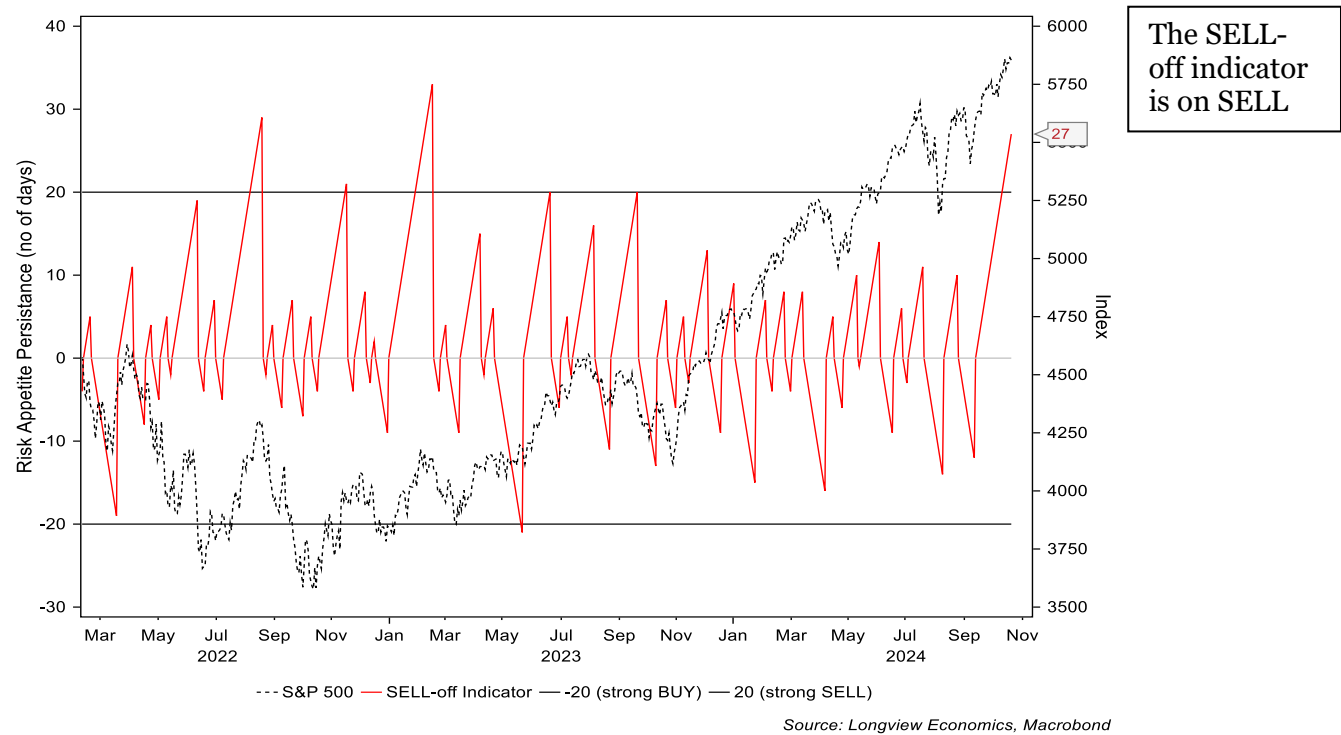
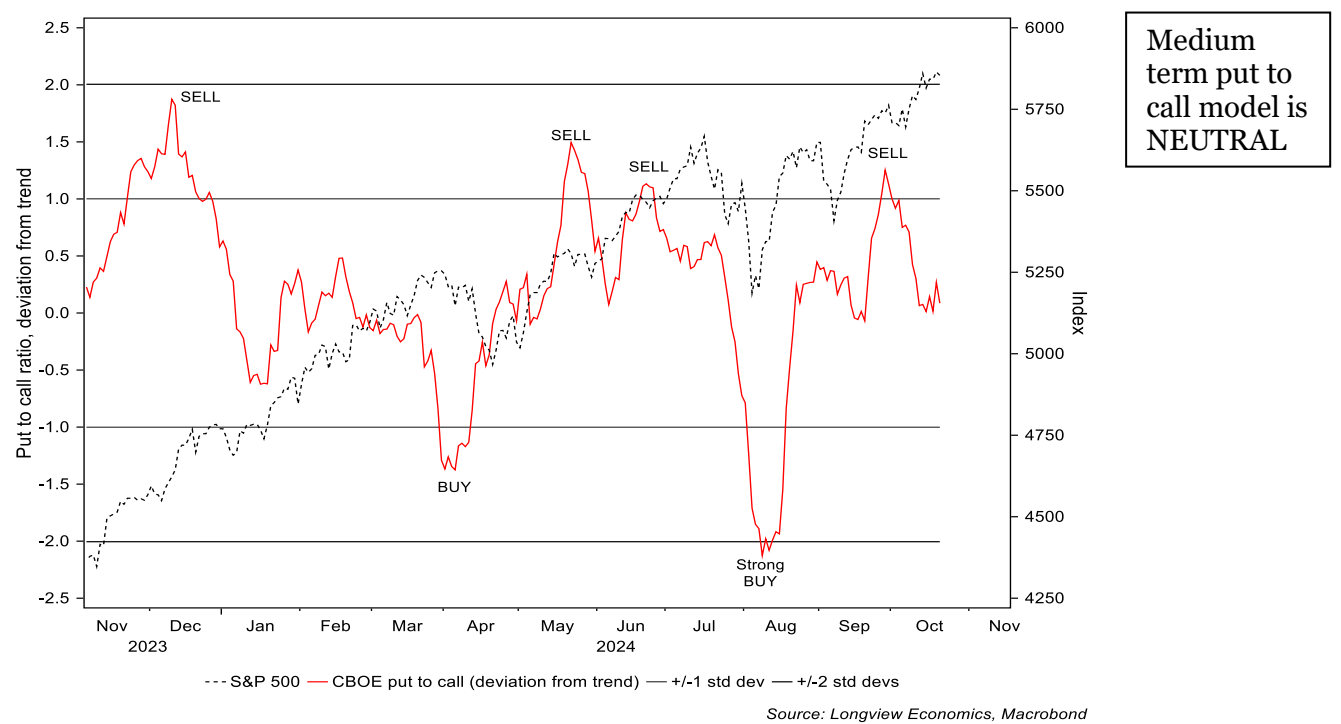


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

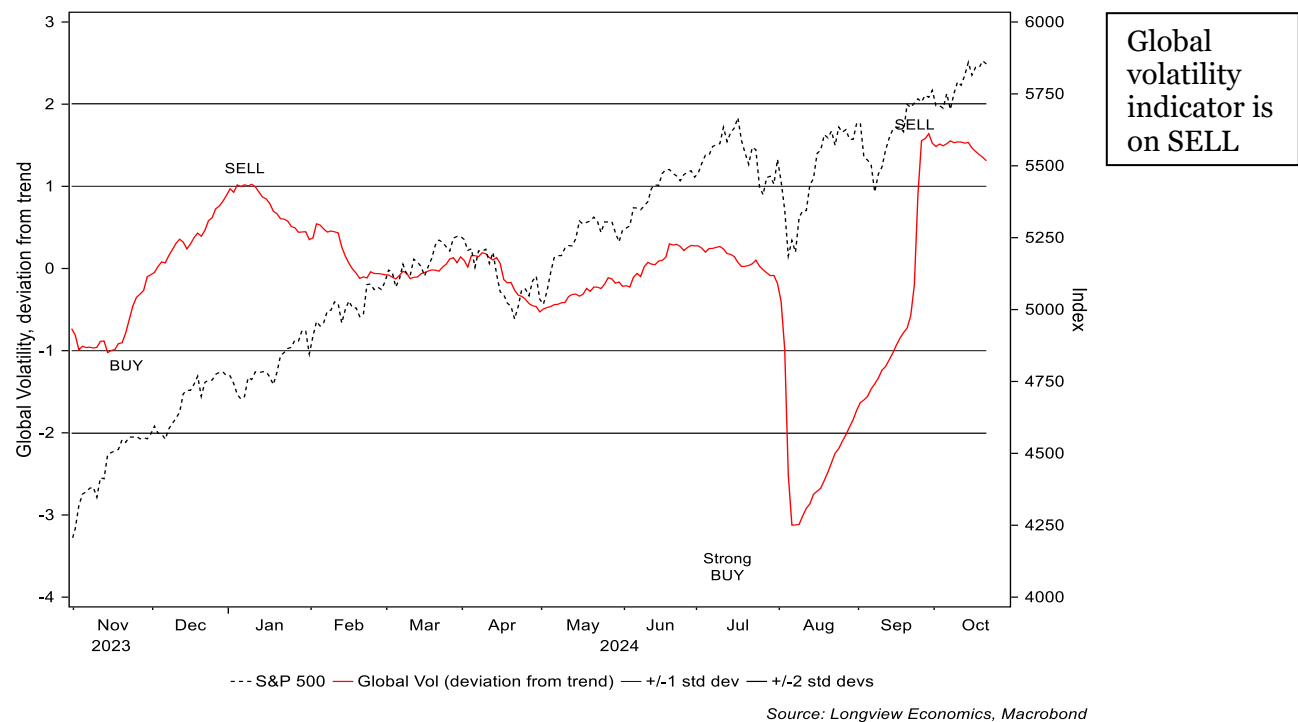


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

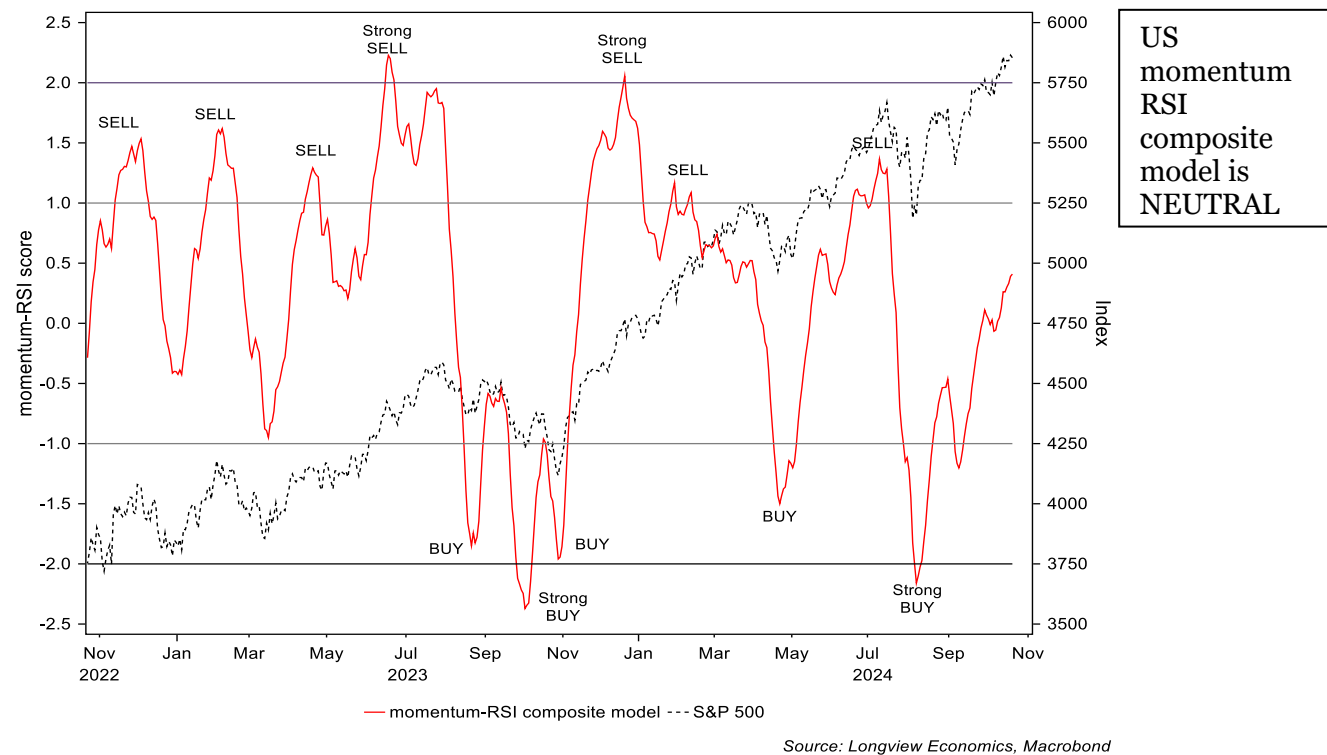


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

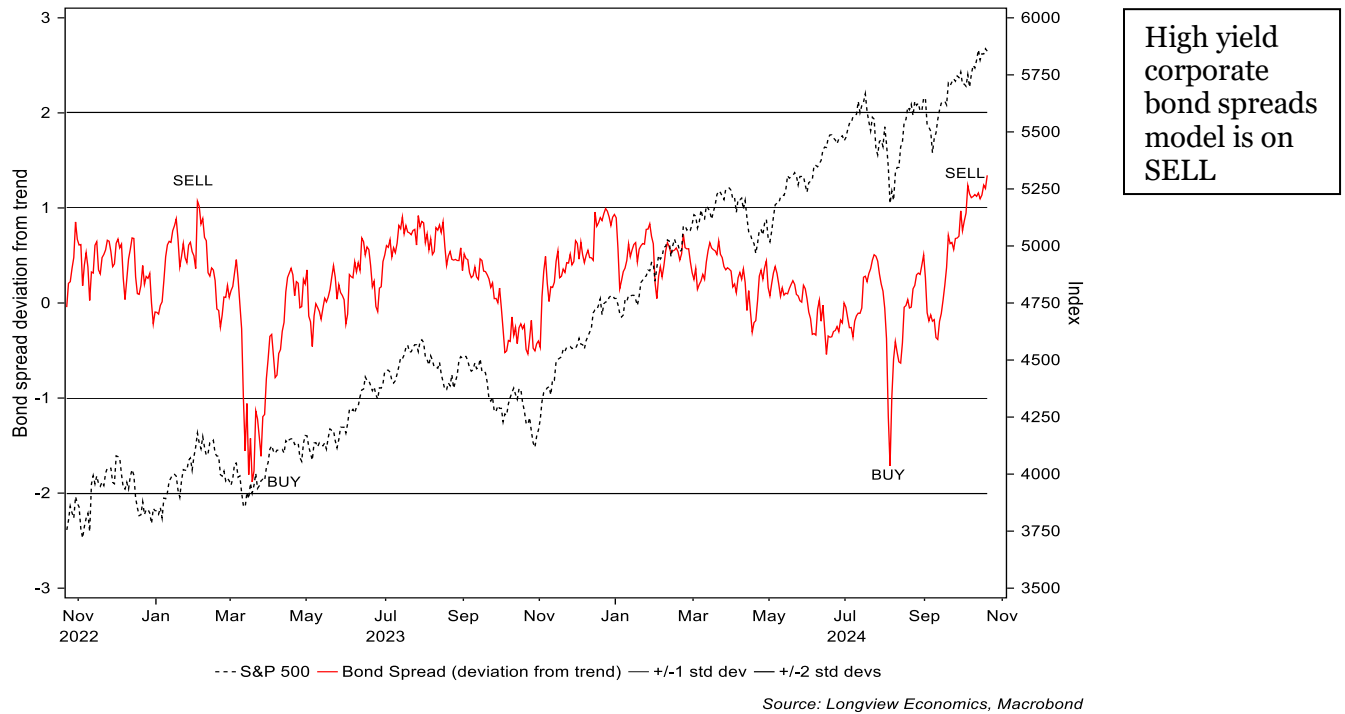
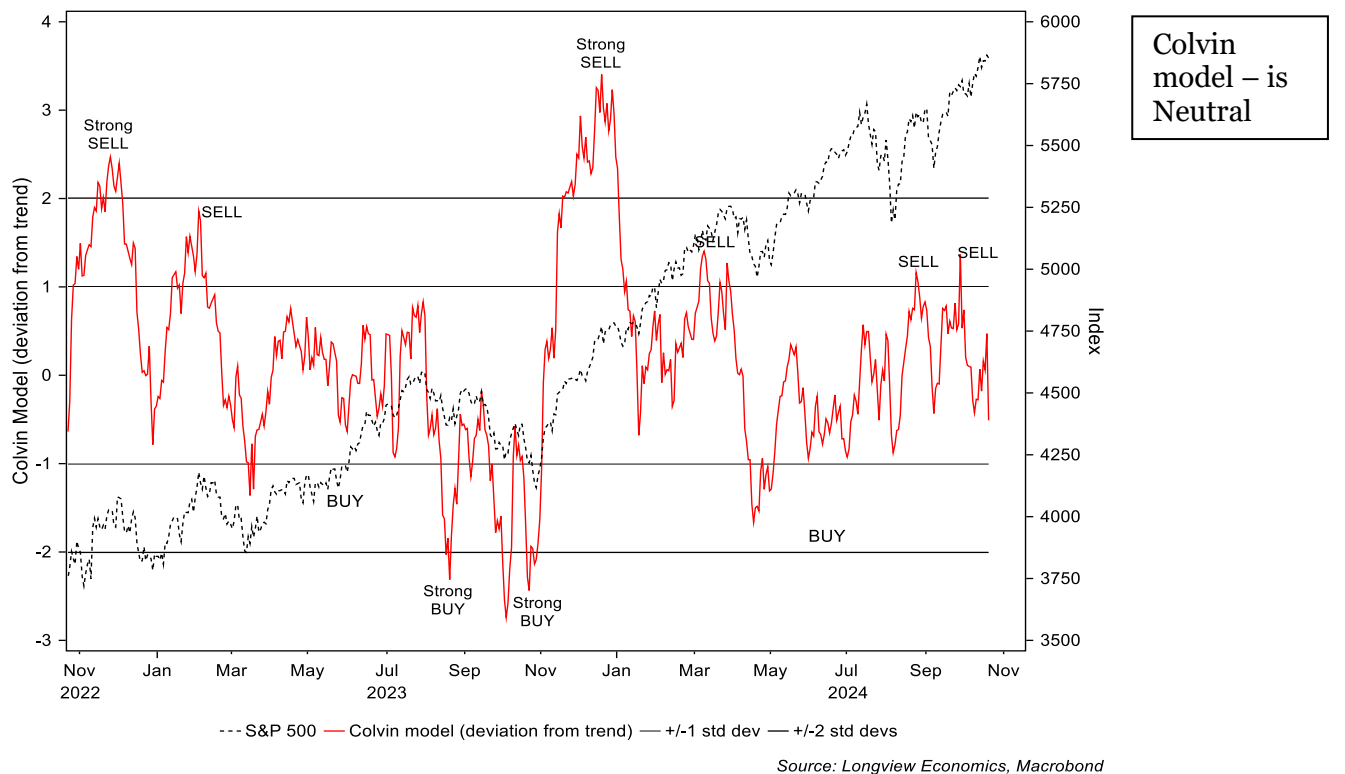


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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