LVRAG
Daily Risk Appetite Gauge

Equity Index Futures Trading Recommendations

23rd October 2024

"Keep Building SHORT Positions"

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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 another low volume trading day yesterday, with just over 1 million S&P500 e-mini contracts traded (and low single stock volume on the NYSE). S&P500 and NDX100 futures both drifted within their recent trading ranges and closed largely unchanged (-0.1% & +0.1%, respectively). For the S&P500 that range has been between 5,850 to 5,927 (i.e. a 1.3% range for the past six trading sessions – FIG 1). The NDX100 is similar, trading in a 2.3% range for the past 9 – 10 trading sessions (FIG 1a). Sector and stock rotation continued with Microsoft the largest single stock points contributor to the S&P500, as it rallied 2% from its 200-day moving average. In terms of sectors, 'consumer staples' was the best performing sector on the day, whilst materials, industrials and utilities all closed lower. US 10-year bond yields continued to back up and closed at 4.20% (just above their 200-day moving average – FIG 1b), the dollar edged higher and the VIX edged lower.

US quarterly earnings have been strong (so far) this earnings season, collectively surprising positively (by +6%, i.e. above the usual +4% surprise). That, however, hasn't (so far) lifted the S&P500 out of its recent trading range.

From a **medium-term perspective**, the models are generating the same collective (SELL) message as laid out in recent 'Daily Risk Appetite Gauge' publications. That is, the SELL-off indicator continues to march higher (FIG 1c), the volume of outstanding single stock call options is still high, the medium-term risk appetite scoring system is still at/close to SELL, and so on. See recent Daily publications for detail.

Short term models have, in contrast, **been shifting their message**. Short term risk appetite models are moving back towards SELL (see FIGs 2, 2a & 2b); the short term put to call ratio remains close to SELL (FIG 2c); while the breadth of the market's advance has deteriorated (e.g. see index, sector & single stock technical models – FIGs 3, 3a & 3b). During a build higher in the SELL-off indicator, it usually pays to wait for entry into SHORT positions until both the short term put to call ratio and 'Shortest-term' RAG reach SELL (i.e. suggesting short term greediness/complacency). Given another day's strength in risk assets, that message is likely to be in place. As such, we continue to recommend moving SHORT S&P500 futures on strength.

Our view, therefore, remains unchanged: BUILD SHORT futures positions on strength (see trading recommendation above). Medium term models remain on SELL; the SELL-off indicator, especially, continues to climb higher; while increasingly key short-term models are moving towards signalling SELL. Key events are shown below. Risks remain multiple in this market.

Kind regards,

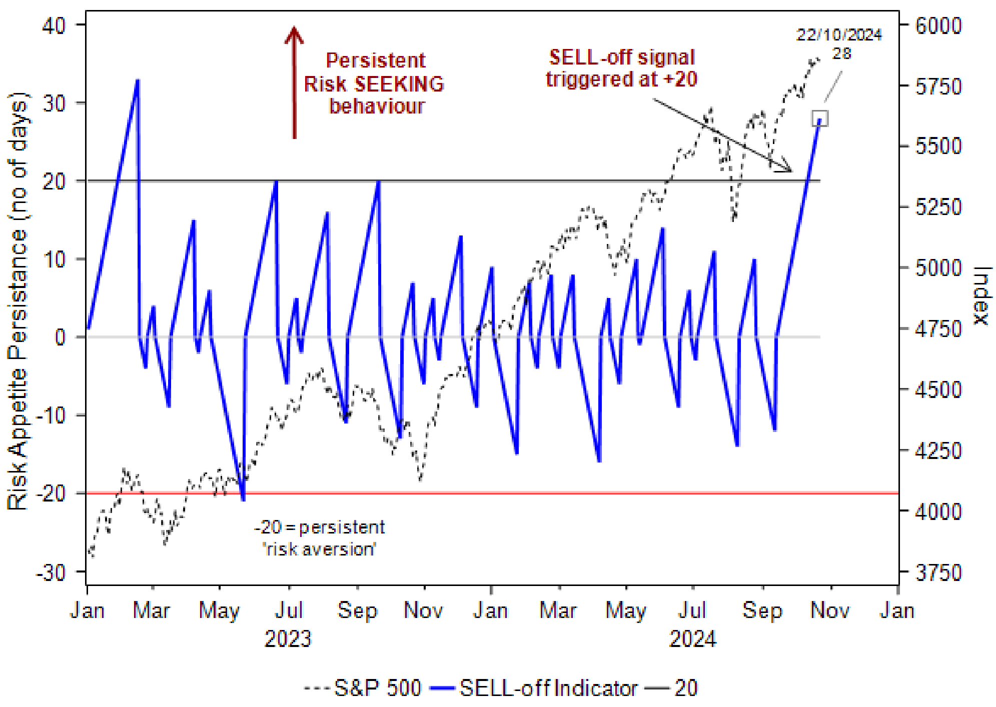
The team @ Longview Economics

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

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

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

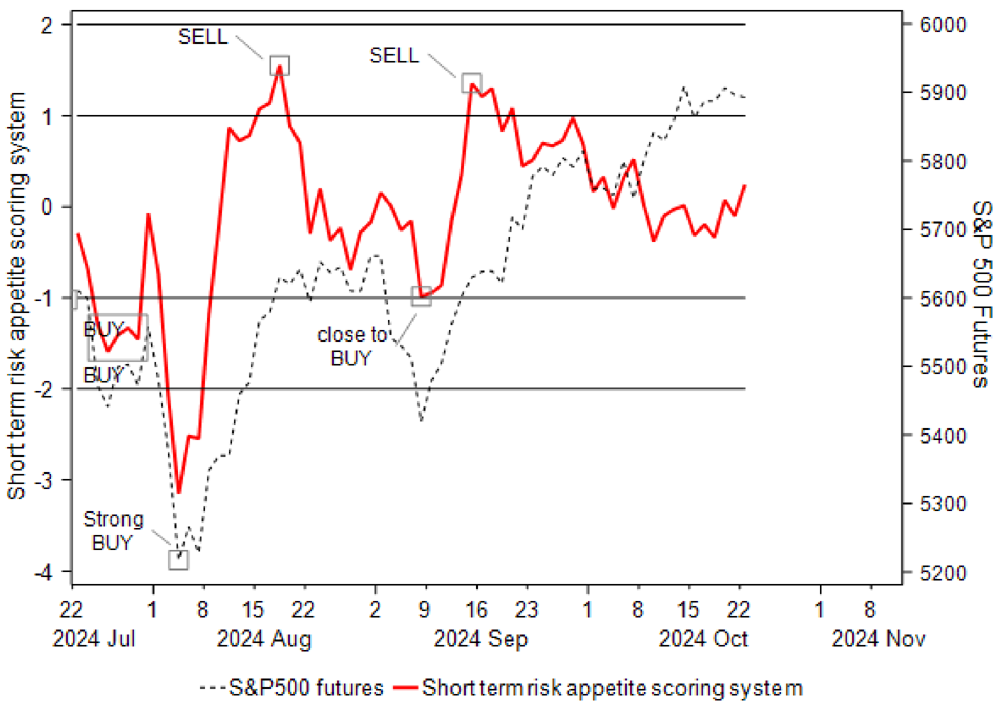
FIG 1c: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

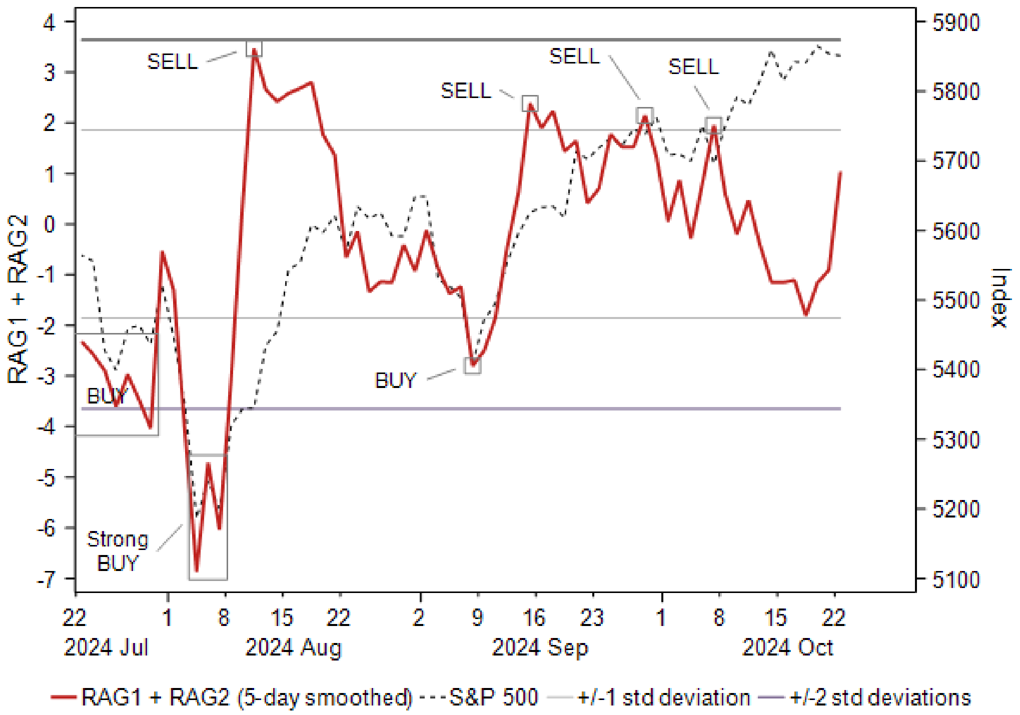
Certain short-term models have been moving higher ……

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



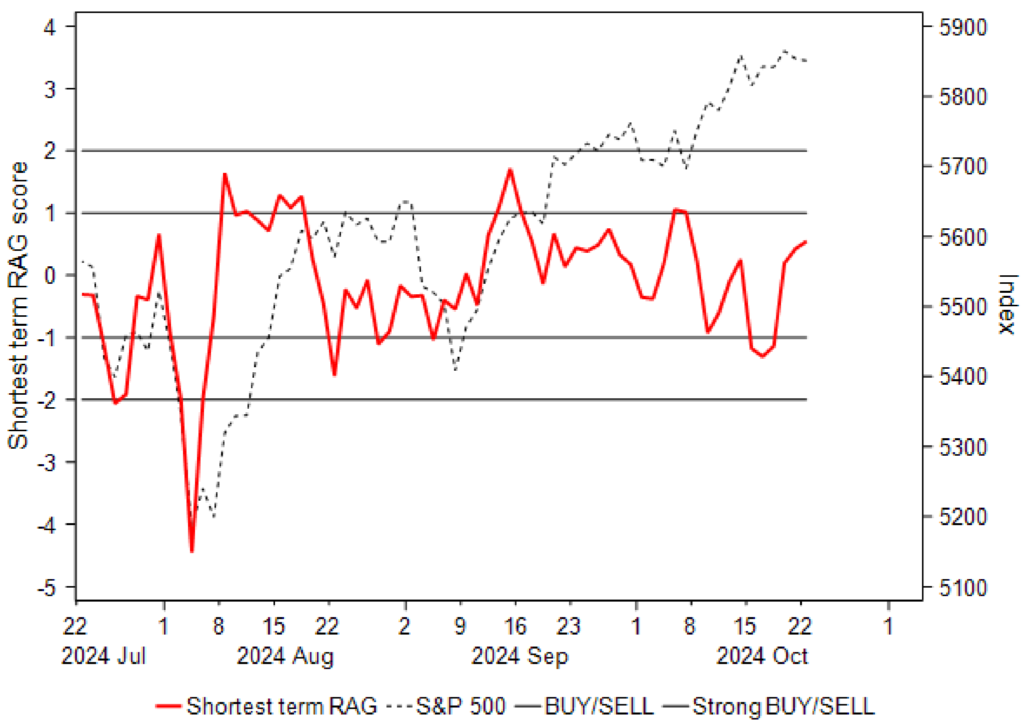
Source: Longview Economics, Macrobond

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



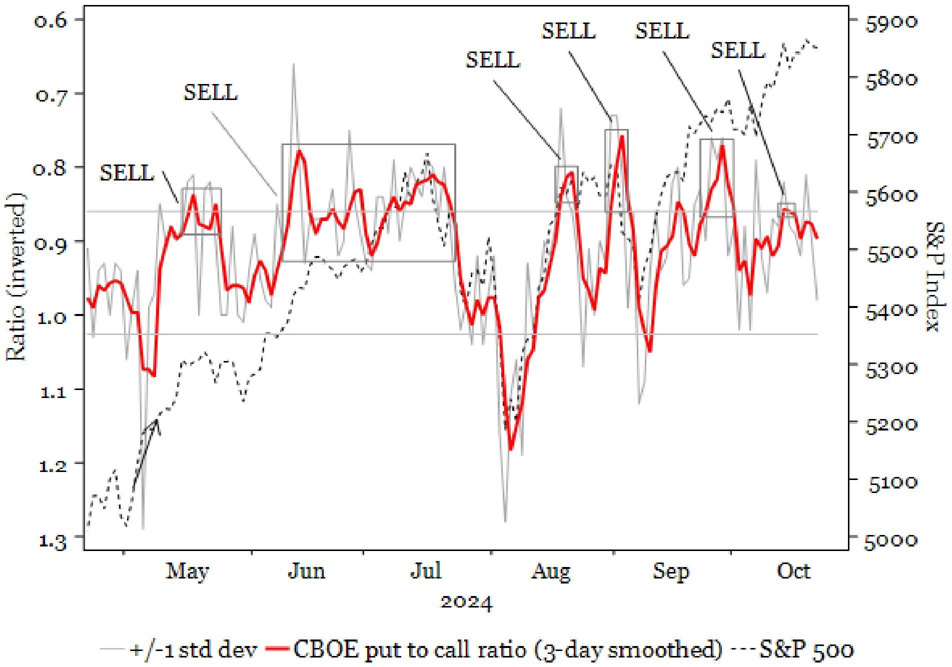
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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



Short term technical models have been rolling over…

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

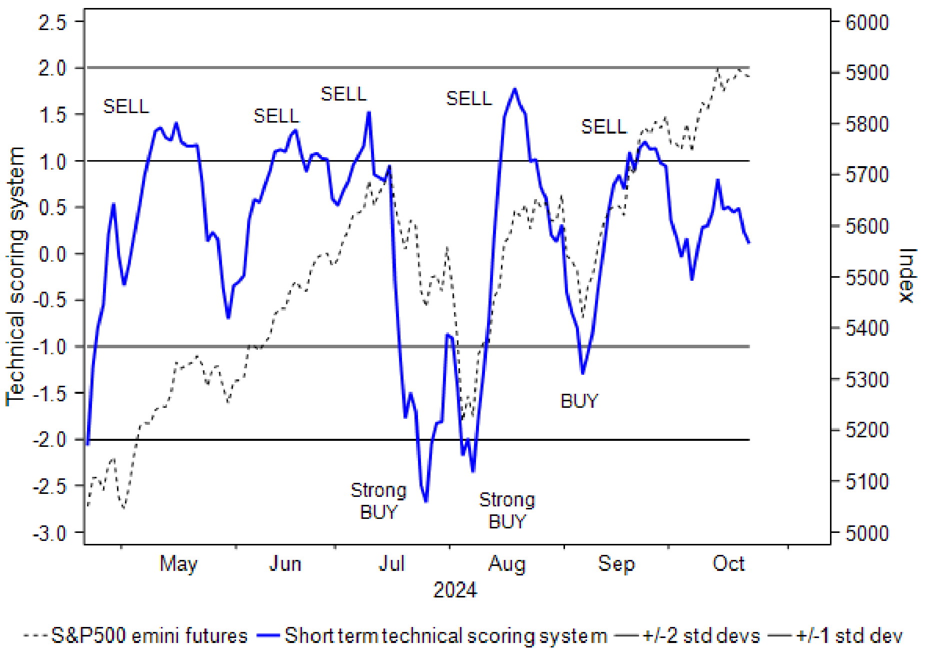
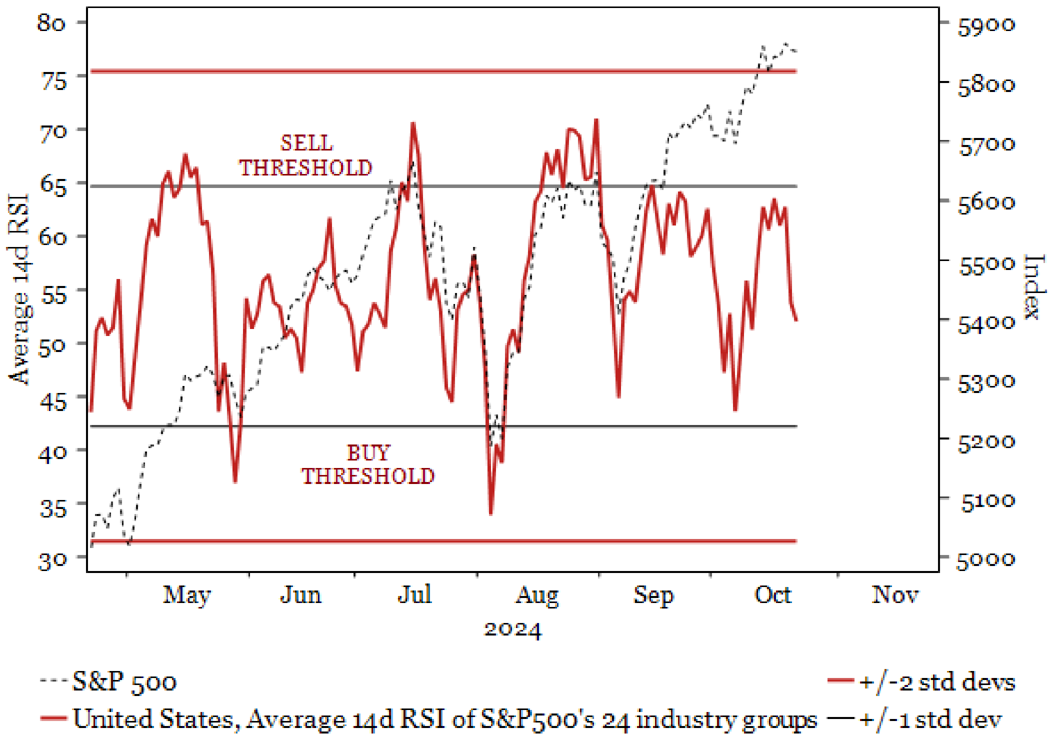
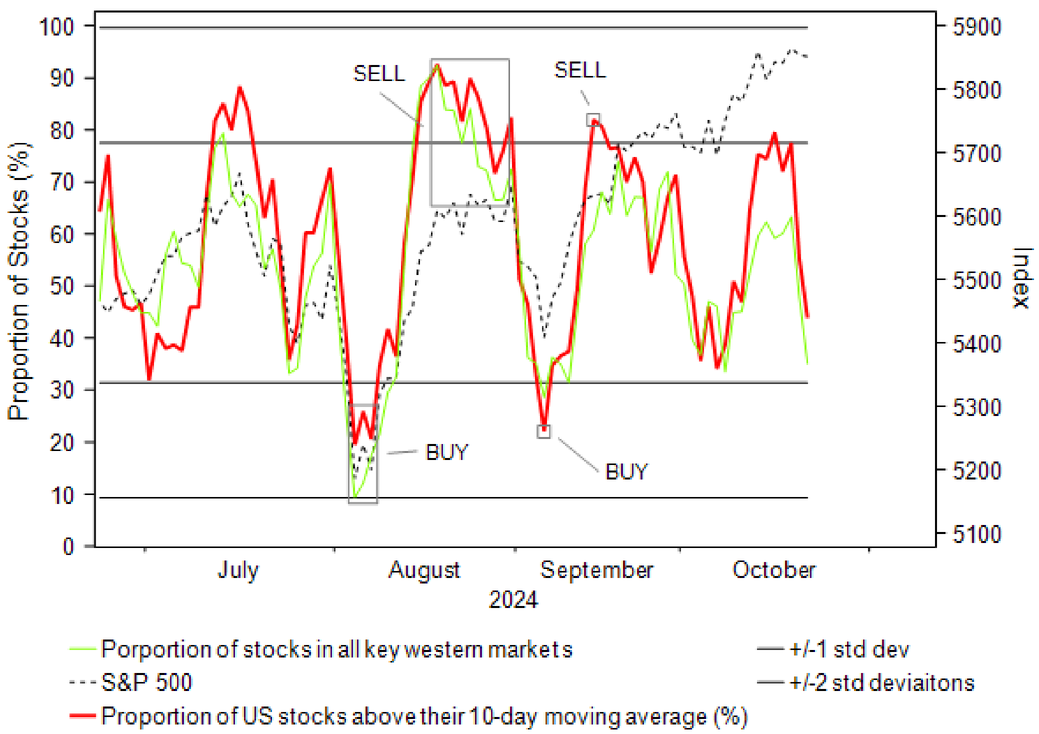


FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

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

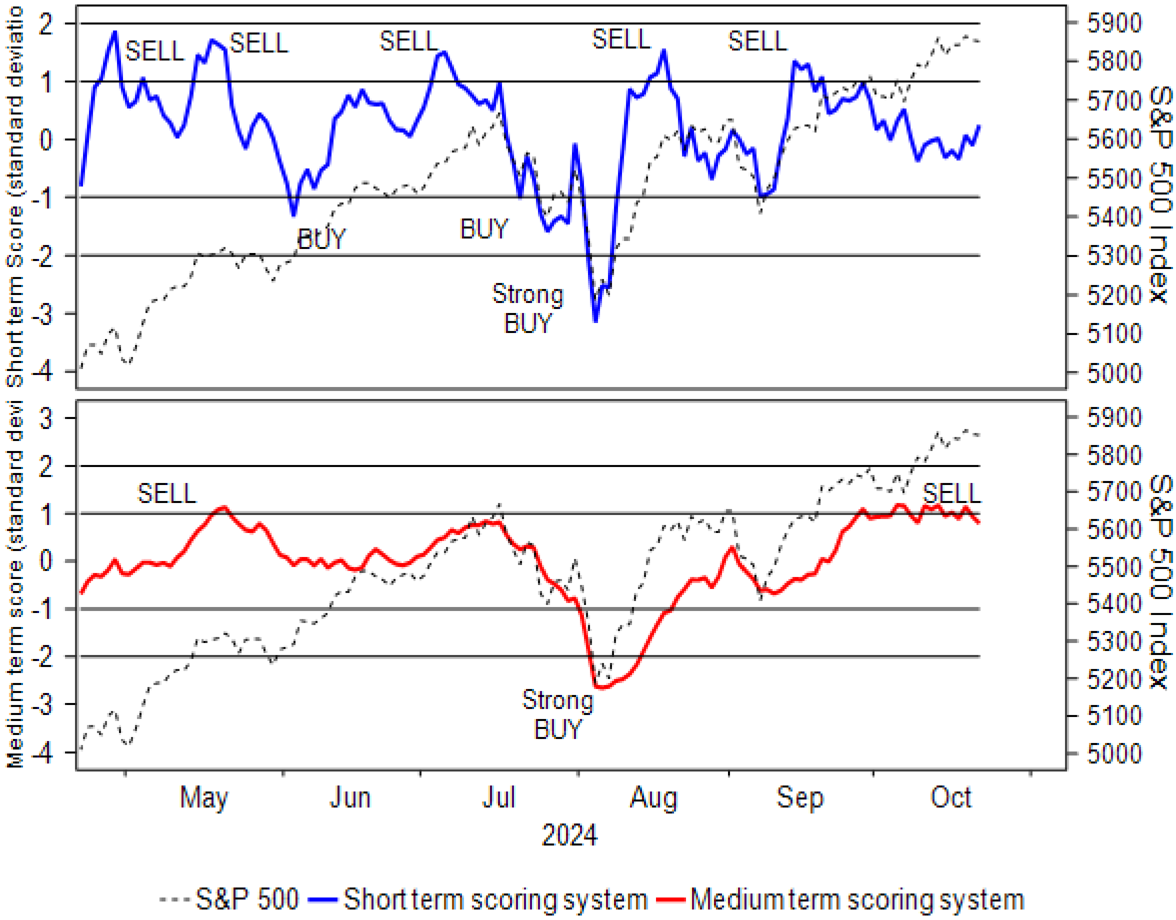


Source: Longview Economics, Macrobond

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: **Eurozone consumer confidence** (October first estimate, 3pm); **US existing home sales** (Sept, 3pm); Australian Judo Bank manufacturing & service sector PMIs (October first estimate, 11pm).

Key events today include: Speeches by the Bank of England's Breeden at the IIF annual event (2pm) & Bailey at the IIF annual event (9:30pm); speech by the ECB's **Lagarde** on Europe's economic challenges at the Atlantic Council (3pm) & **Lane**, Cipollone, Escriva, Knot & Centeno participate in IIF annual membership meeting (3-8pm); **Bank of Canada policy decision** (Wed, 2:45pm); speech by the Fed's Bowman at Fintech conference (2pm) & Barkin speaks about community colleges (5pm); **Fed publishes Beige Book** (7pm).

Key earnings today include: **Tesla**, **Coca-Cola**, T-Mobile US, Thermo Fisher Scientific, IBM, ServiceNow Inc, NextEra Energy, AT&T, Boston Scientific, Boeing, Lam Research, General Dynamics, CME Group, Amphenol, GE Vernova LLC, O'Reilly Automotive, Waste Connections, Newmont Goldcorp, Roper Technologies, Hilton Worldwide, United Rentals, Ameriprise Financial, Atlas Copco, ASSA ABLOY B, DSV, Air Liquide, Iberdrola, Heineken, Lloyds bank, Reckitt Benckiser, Telstra Group, HKEX.

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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Daily Risk Appetite Gauge

1 – 2 Week View on Risk

23rd October 2024

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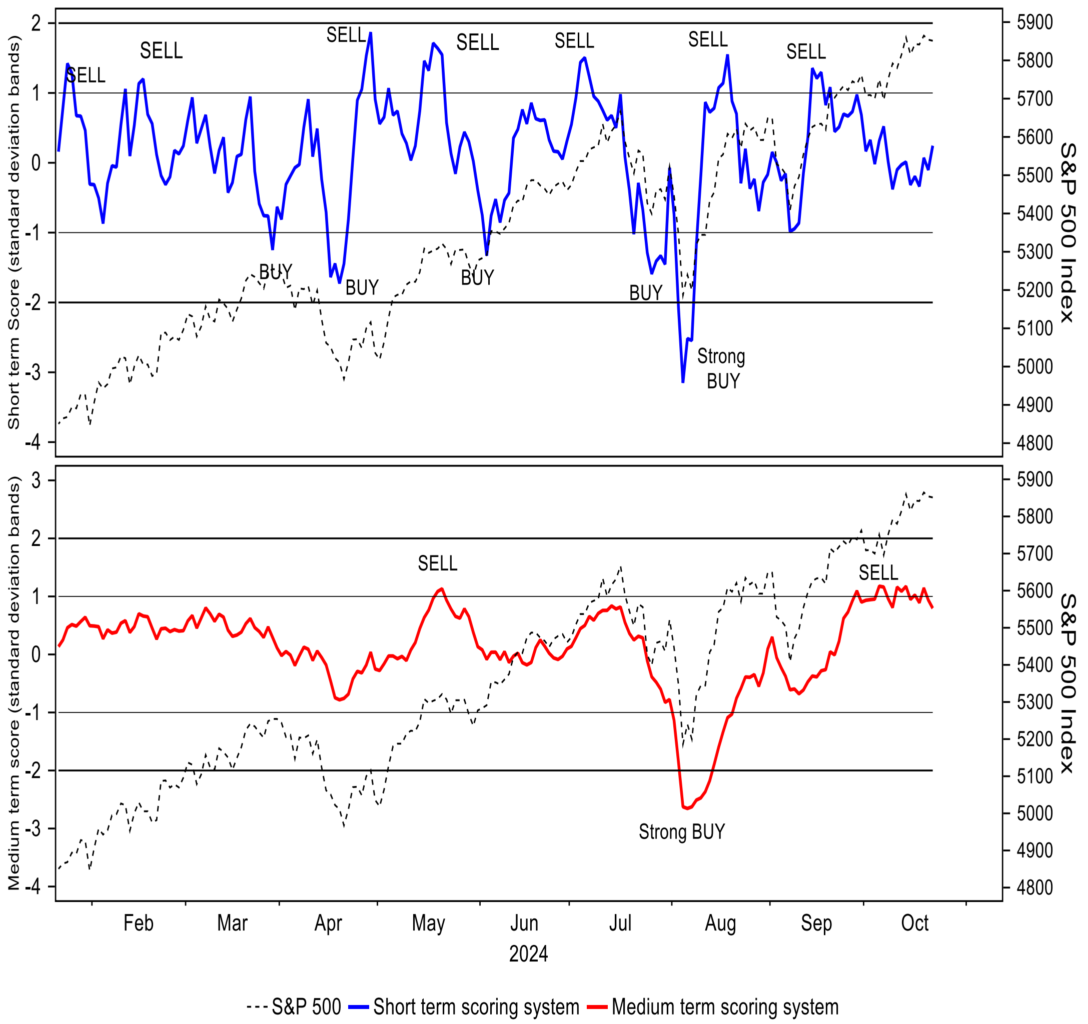
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

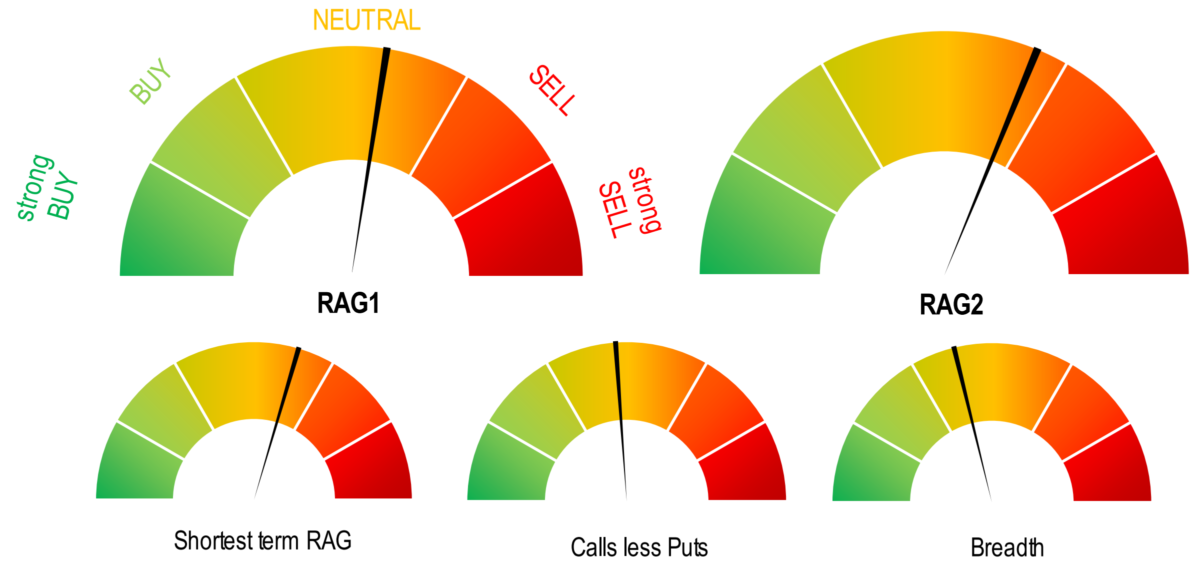
Source: Longview Economics, Macrobond

*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

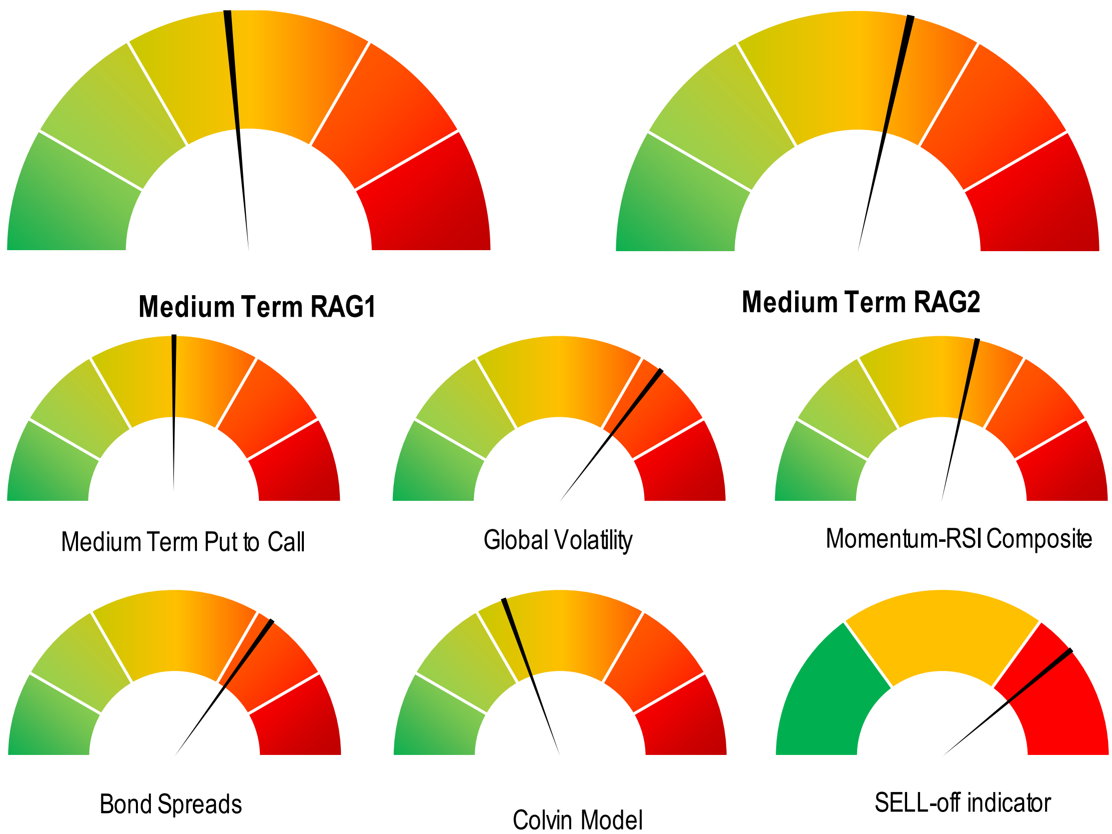
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

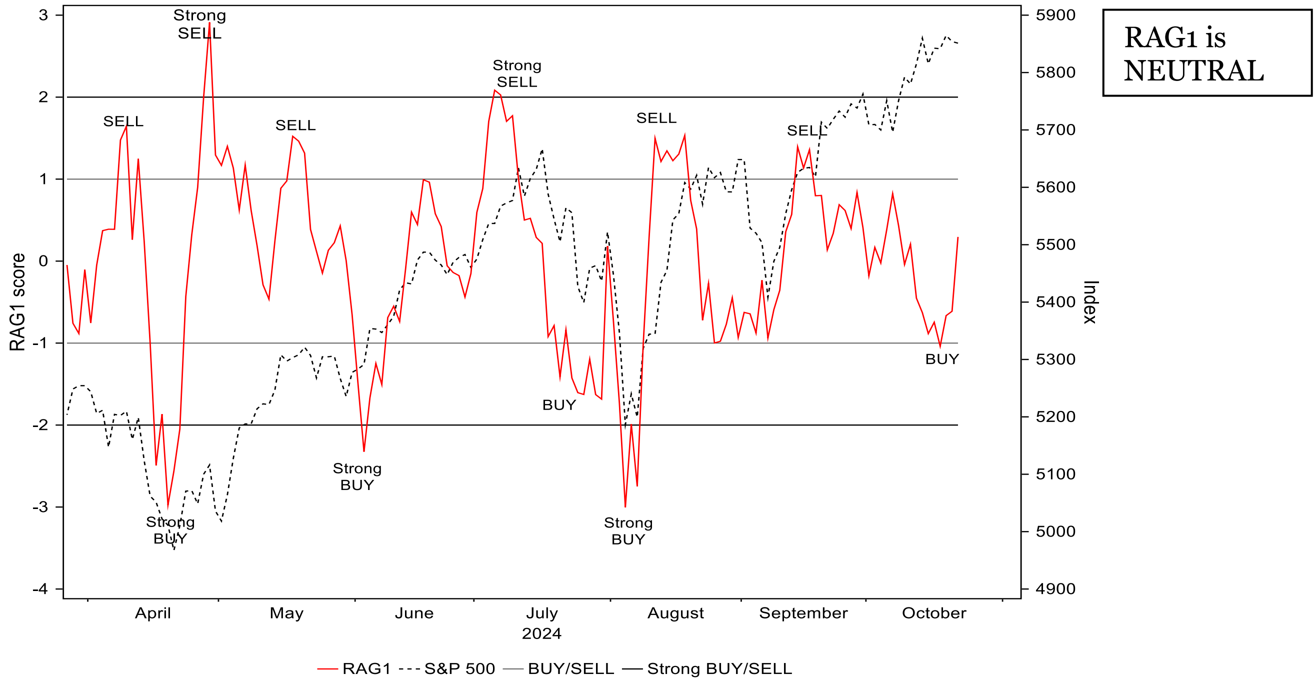
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

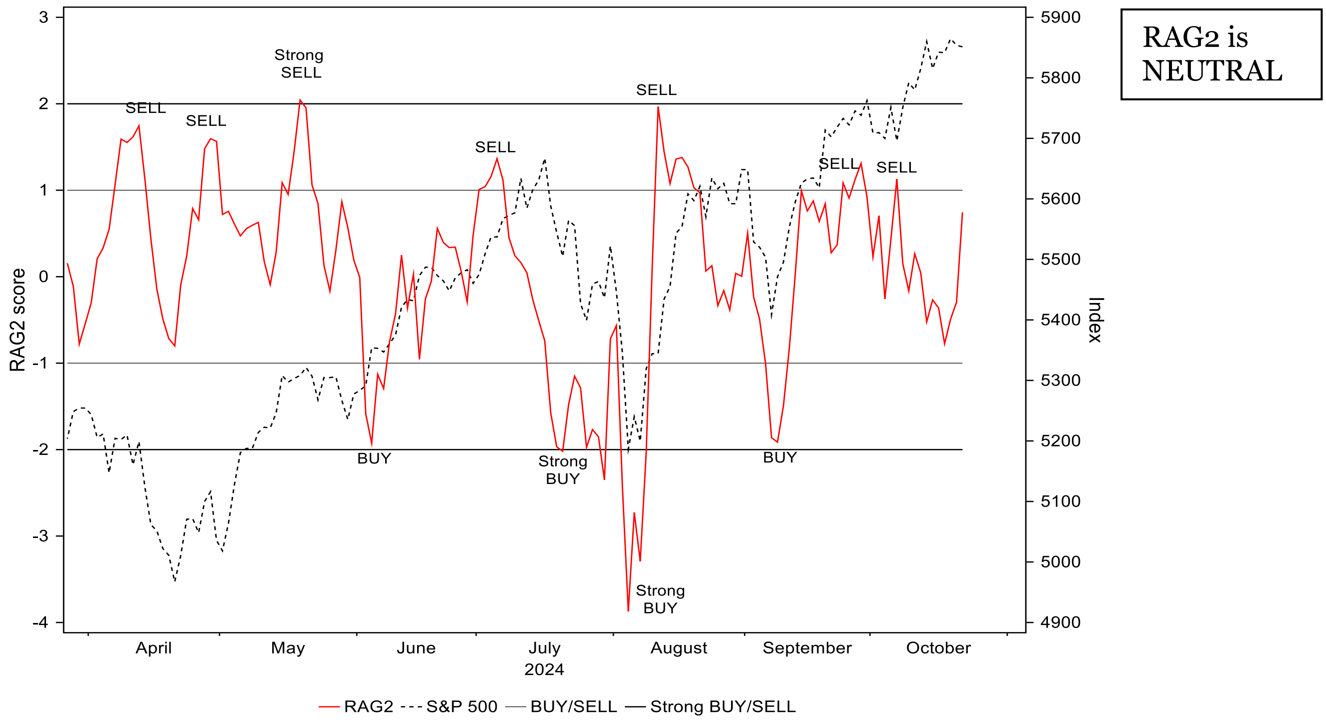
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

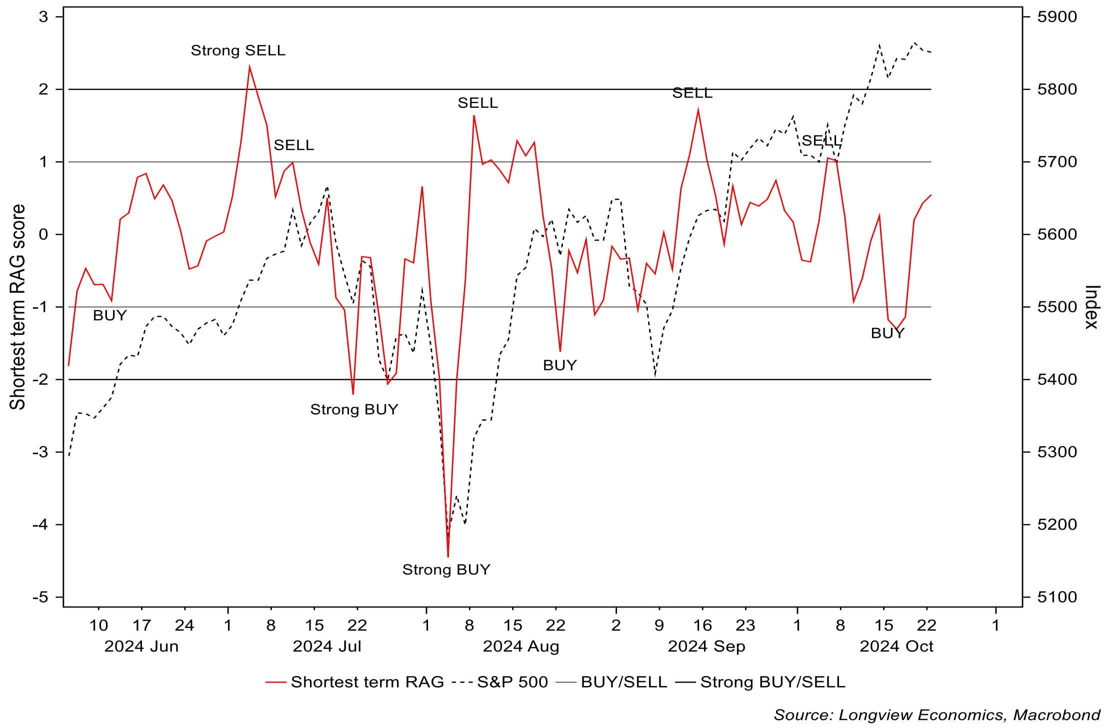
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

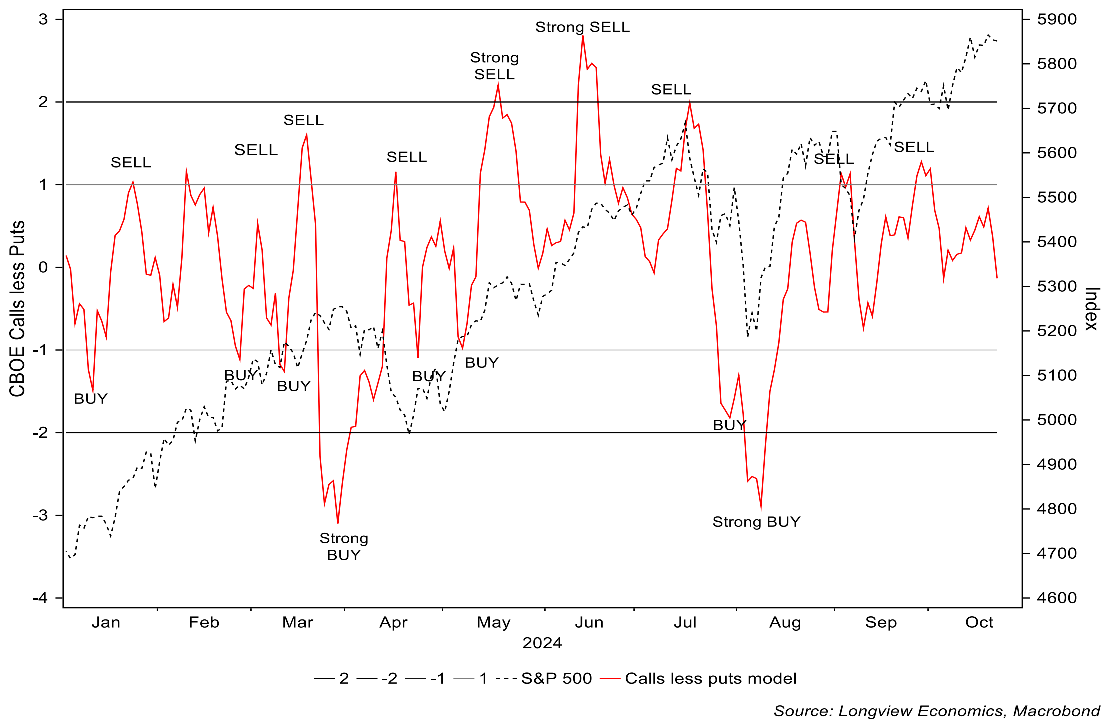
For explanations of indicators please see page 10

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



Shortest term RAG is NEUTRAL

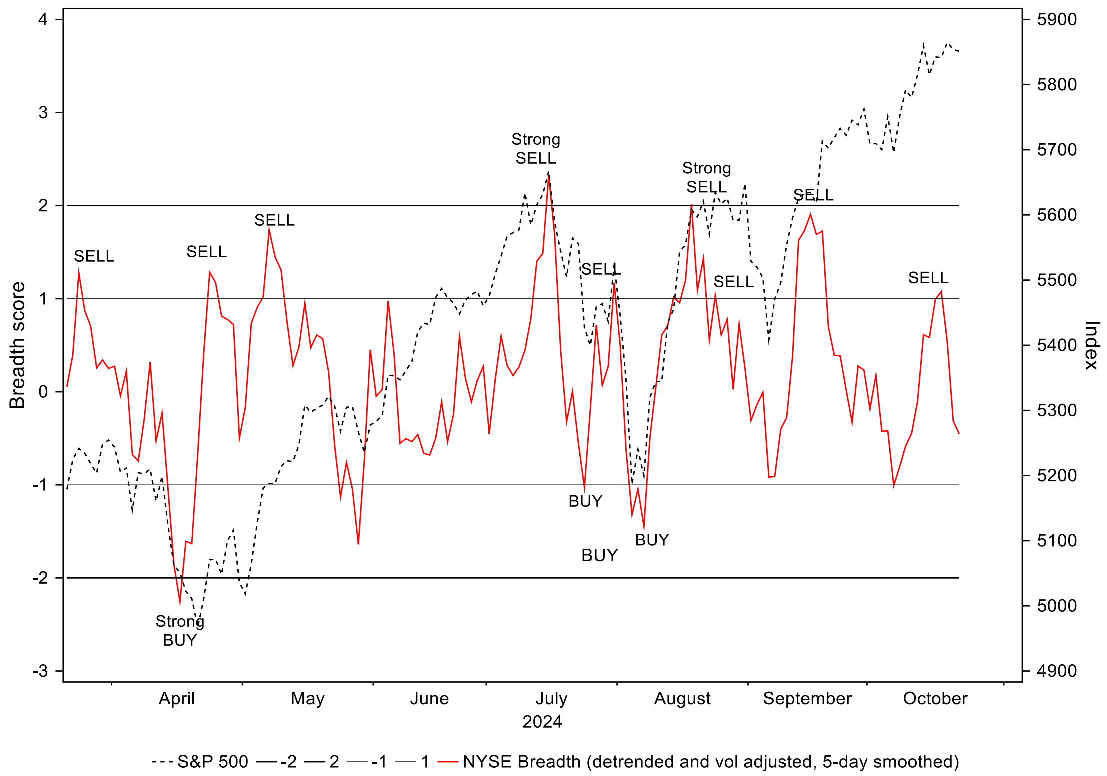
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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



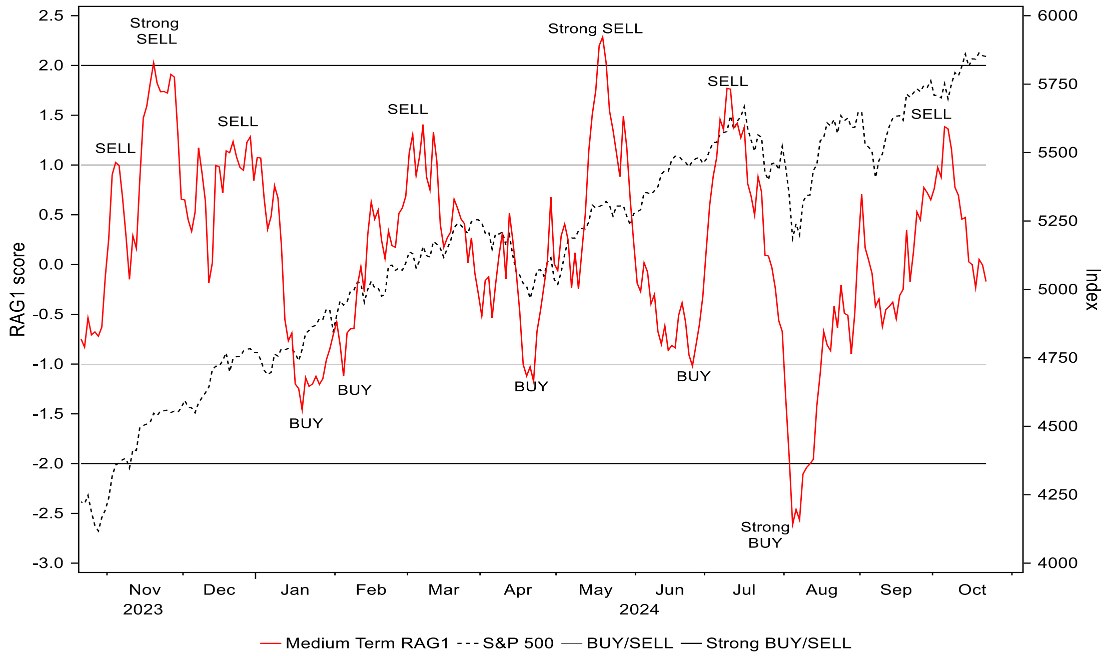
The breadth model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

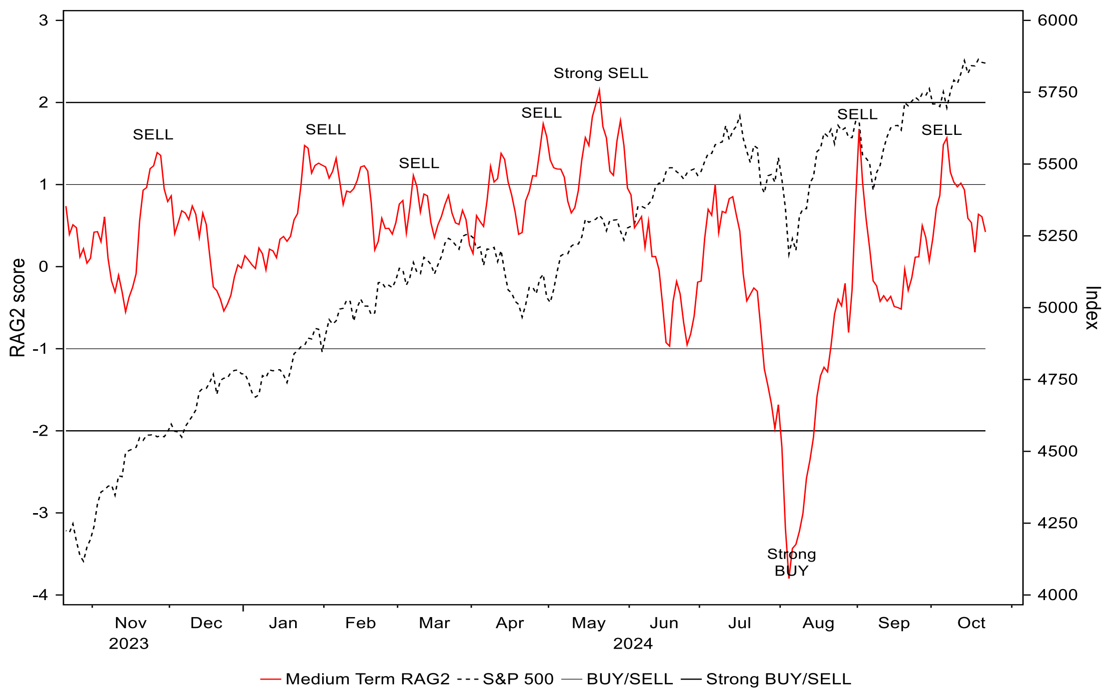
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



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

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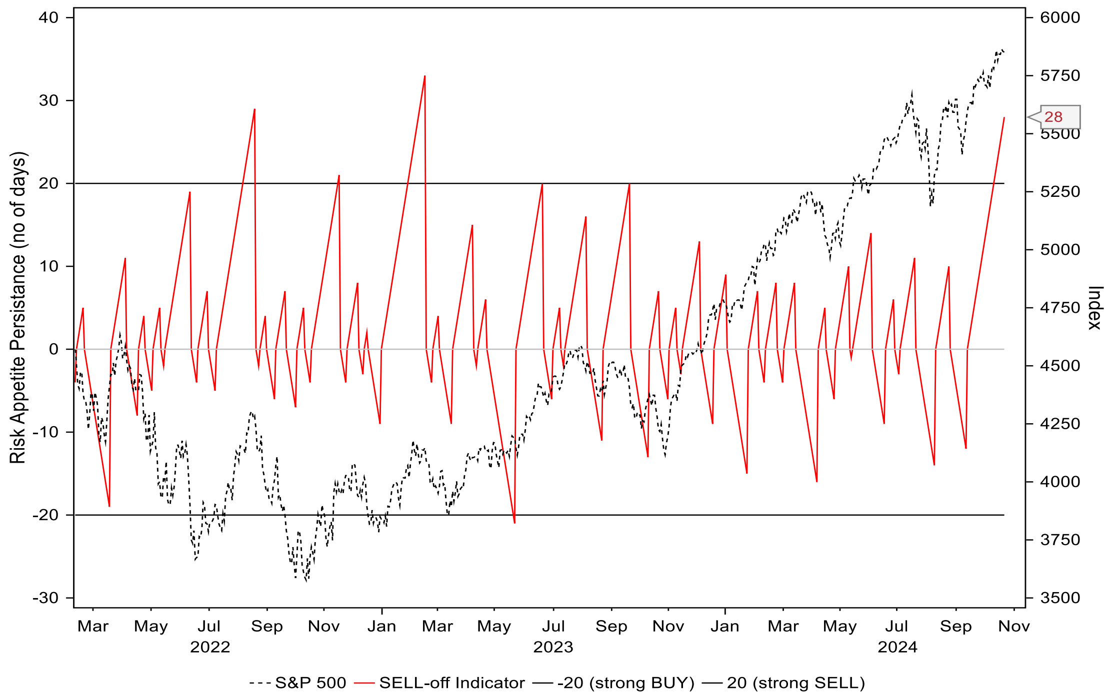
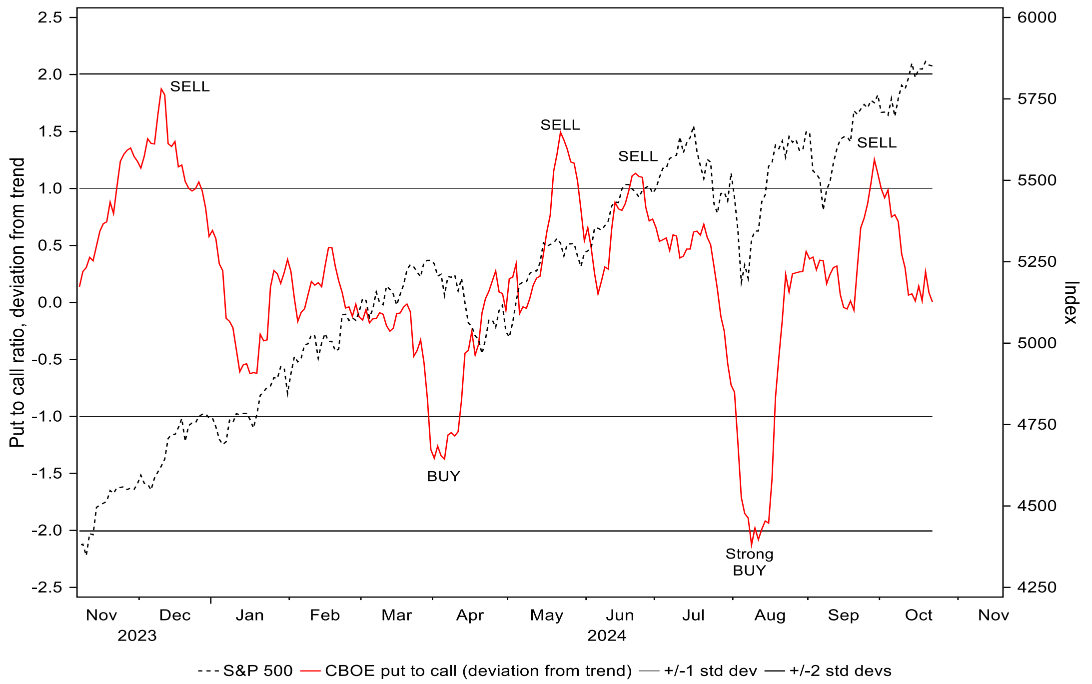
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is on SELL

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

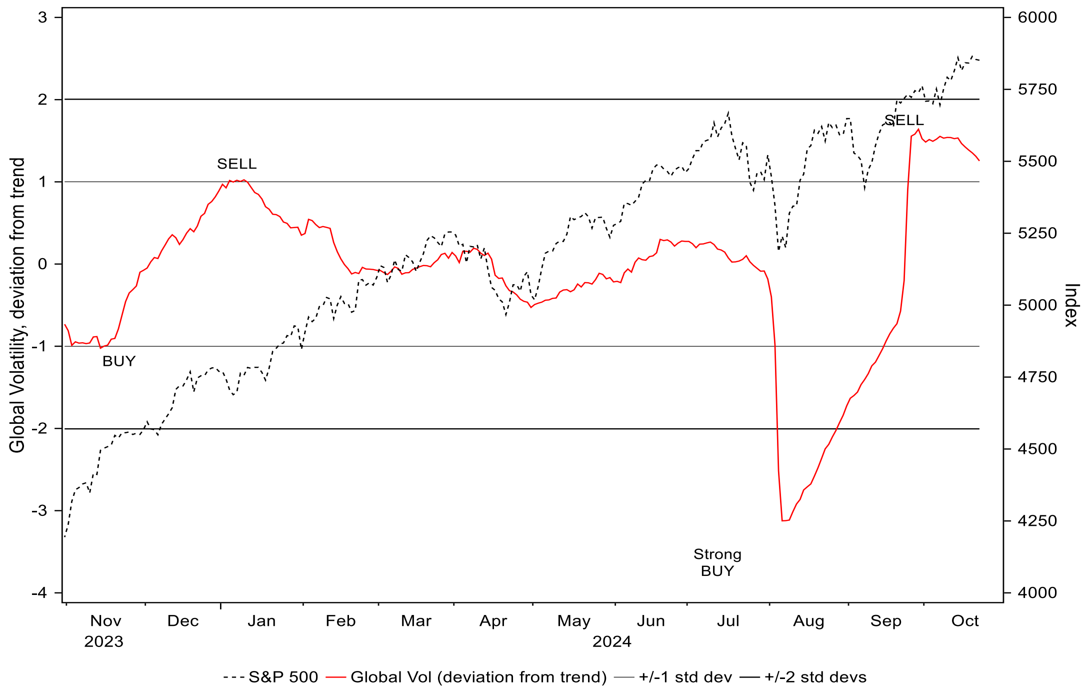


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

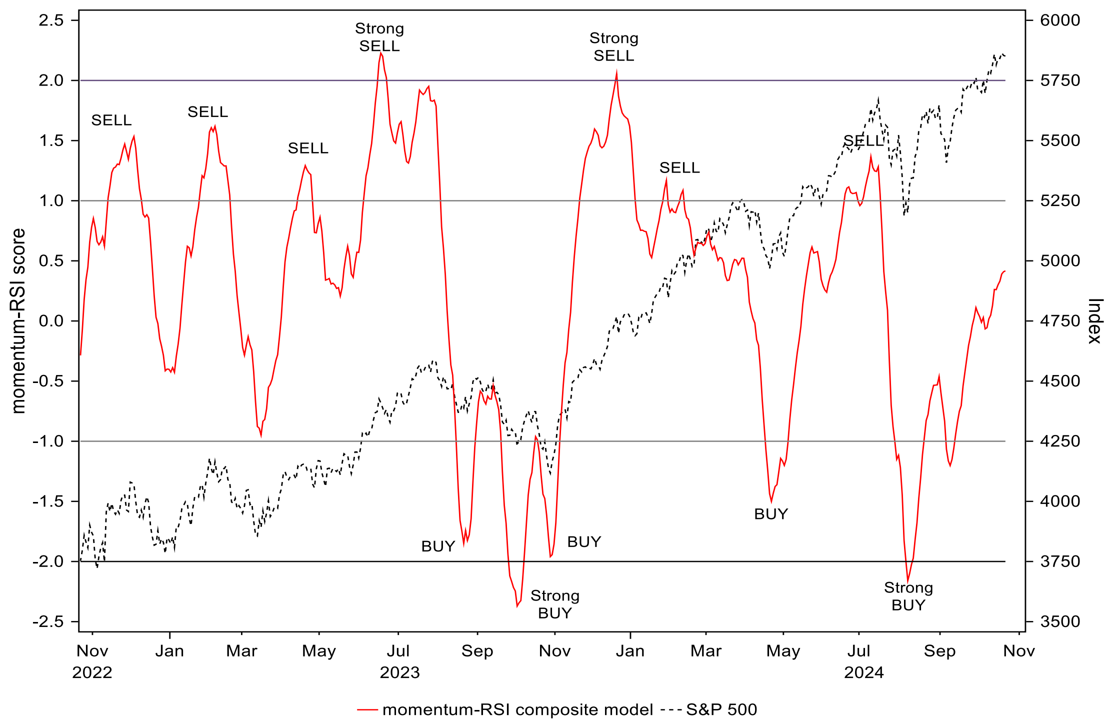
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is on SELL

Source: Longview Economics, Macrobond

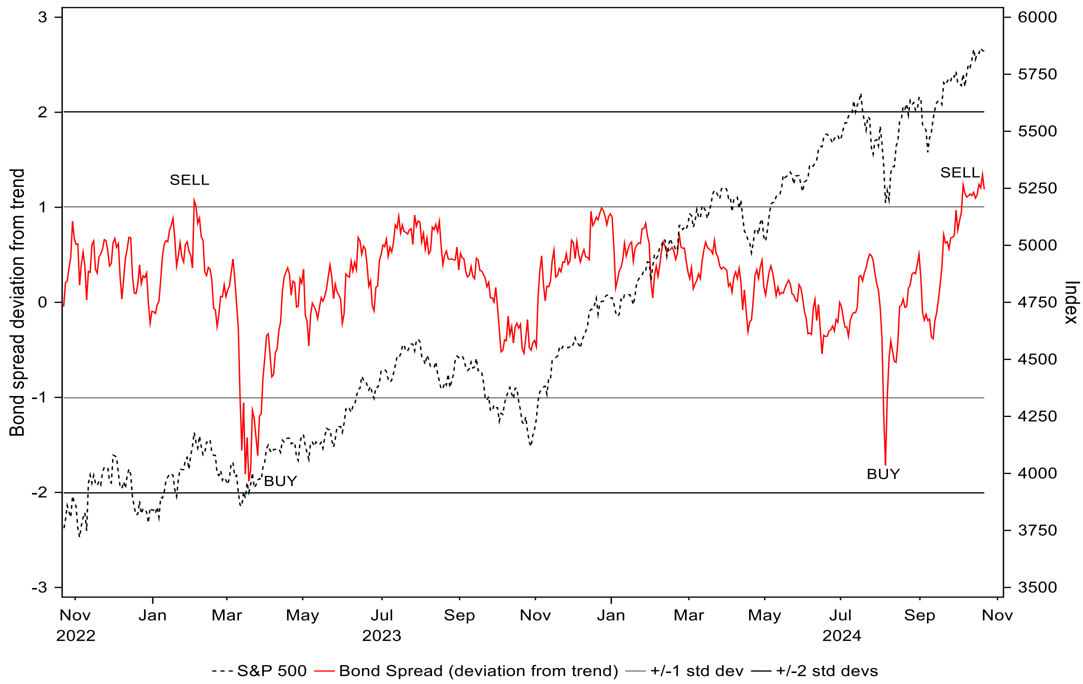
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

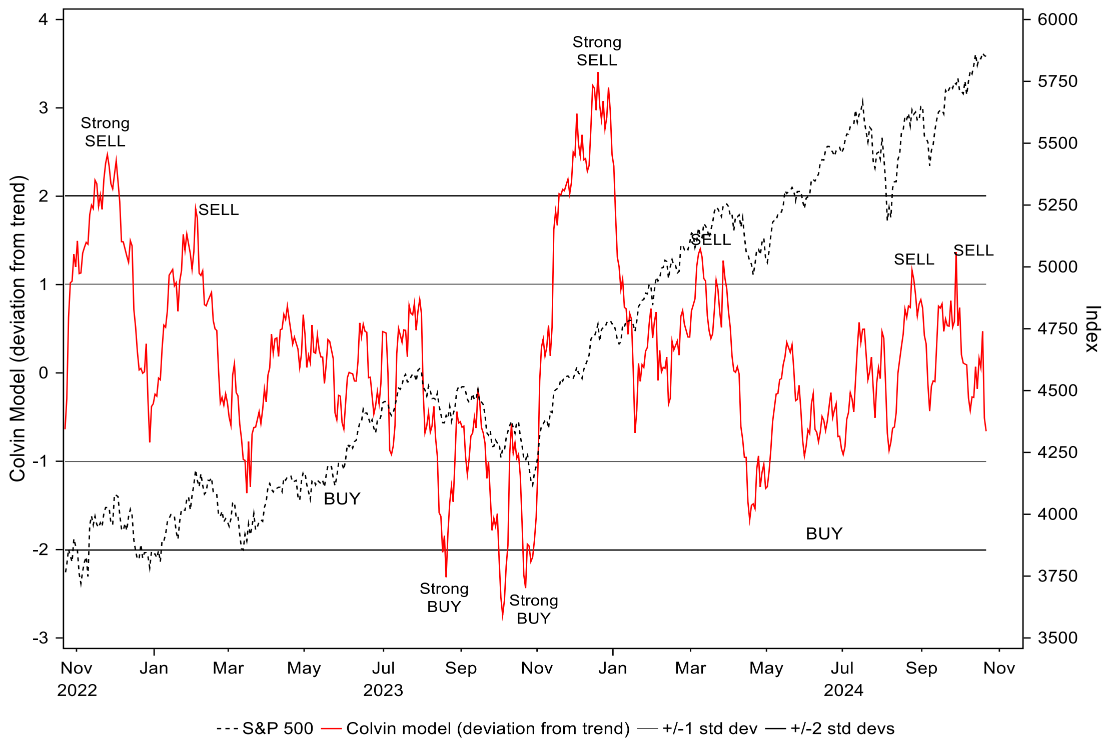
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on SELL

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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