Equity Index Futures Trading Recommendations

23rd September 2024

"Stay SHORT NDX - unchanged stop"

Email: info@longvieweconomics.com

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

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

Rationale

Upward momentum, post the Fed's larger than expected rate cut, has been strong. Gold, for example, has made new highs, 1 & 2 year Treasury yields closed at new YTD lows on Friday (with new highs in the price), and the S&P500 has also made a new all time closing high (on Thursday). **In other key assets, though, price action has been mixed**: Key leadership stocks are struggling to move higher (e.g. see Nvidia, FIG 1d); the NASDAQ100 hasn't broken above its key resistance level (its August highs, FIG 1b); while the Philly SOX generated a bearish key day reversal pattern last week, and has failed to convincingly break out of its pennant formation (FIG 1c). Furthermore, outside of tech/growth stocks, there was a dramatic (bearish) reversal in the DJ Transportation (DJT) index on Friday (which closed down 3.5%, having made new highs on Thursday, see FIG 1f), while other indices remain poised at key levels (i.e. yet to 'break out' one way or the other). That includes the Russell 2000 (which is close to its YTD highs, see FIG 1e), as well as the DAX in Europe (FIG 1g). Elsewhere US 10 year Treasury yields have been starting to work their way higher (FIG 1h).

The key question, therefore, is: With plenty of 'good news' in the price (i.e. a larger than expected rate cut), **what will push US equities higher in the near term?** Or, put another way: Has the uptrend in the NASDAQ100 resumed? Or will it follow a similar 'false breakout' pattern to the DJT index (FIG 1f)?

Short term models, in that respect, are generating a **clear SELL message**. Risk appetite models are on/close to SELL (FIGs 2 & 2a); US equities are technically overbought (FIGs 2b & 3); downside put protection in portfolios is low (FIGs 2c & 3b); complacency is elevated (with high call option volumes on single stock names, see FIG 1a); sentiment is close to bullish levels (a contrarian SELL signal, FIG 3c); while various breadth and momentum models are generating clear SELL signals (FIGs 2d, 2e, & 3a).

Of note, in that respect, momentum in US single stocks is now overbought. As FIG 1 shows, the single stock momentum model is now above +1 standard deviation (highlighting the broad based BUYing of stocks in the past week). As such this model is now on SELL. In the past six months it's generated four SELL signals, all of which have been followed by some near term weakness in the S&P500, albeit all models fail at certain points in time.

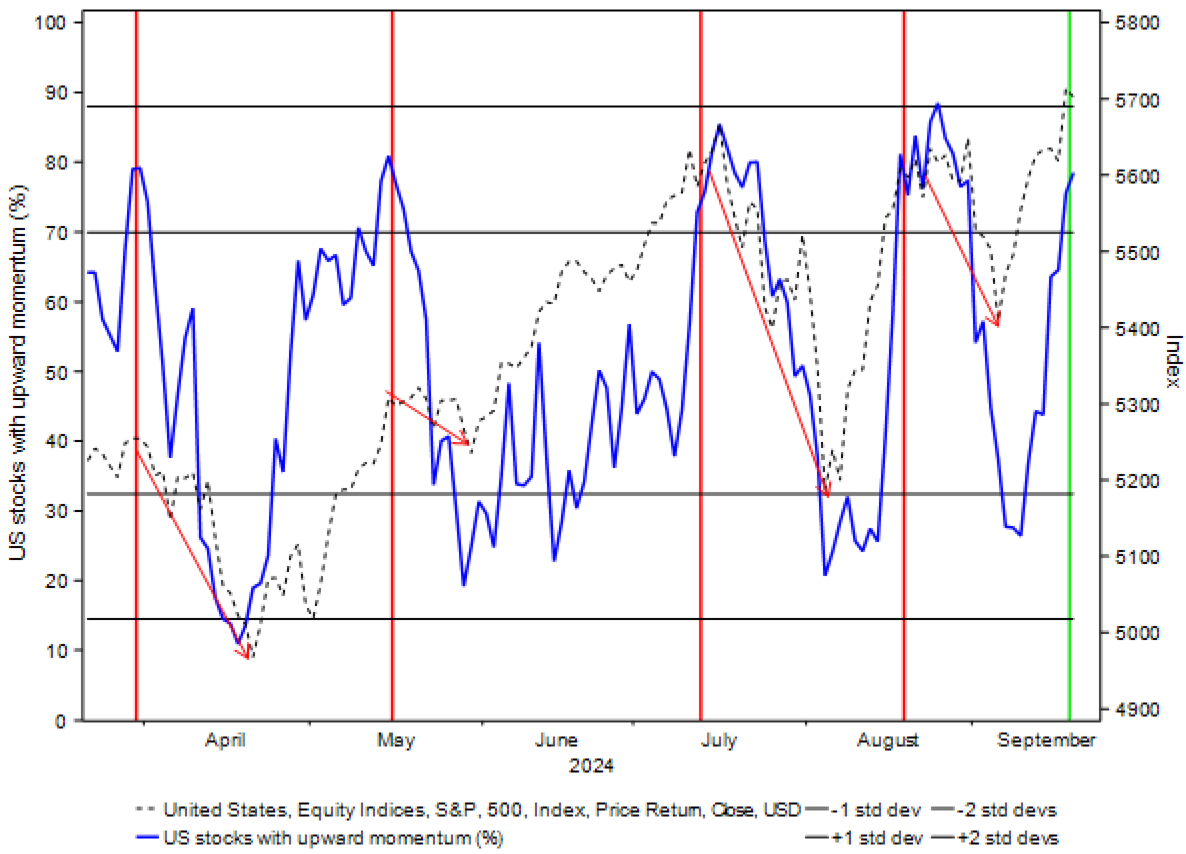
As such, with several asset prices poised at key levels, and given the SELL message of the short term models, risk reward continues to favour staying SHORT the NASDAQ100 (see above for detailed recommendation). Risks, as always, remain multiple.

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

Kind regards,

The team @ Longview Economics

FIG 1: US S&P500 stocks with upward momentum (%) vs. S&P500



Source: Longview Economics, Macrobond

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

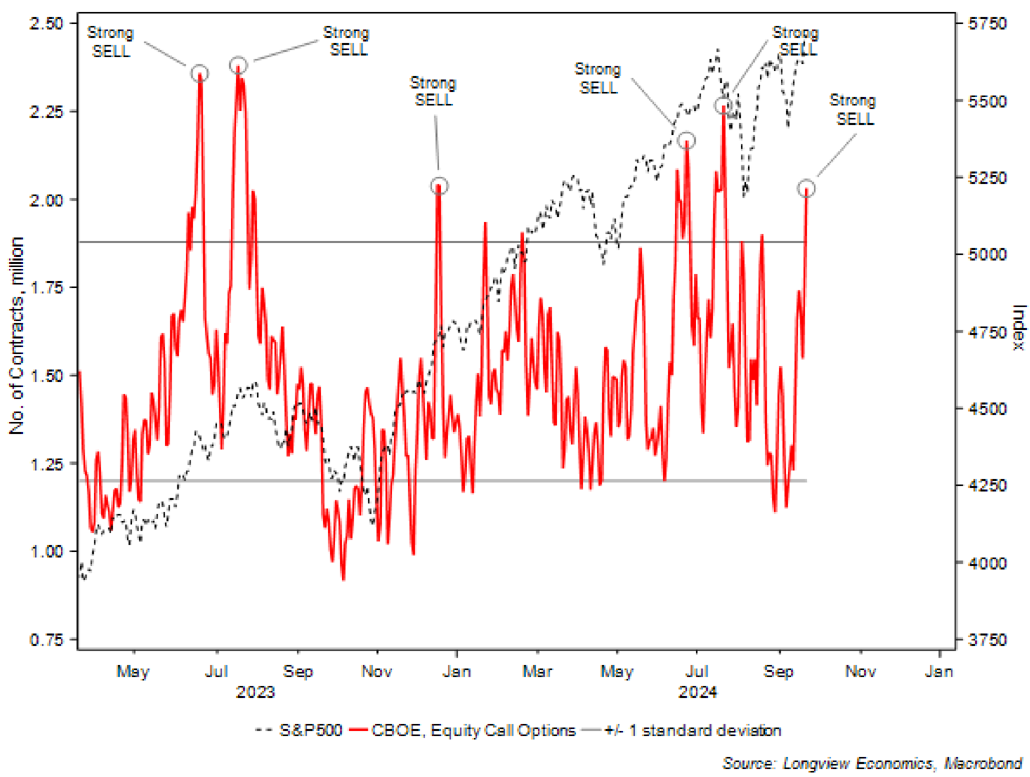


FIG 1b: NASDAQ100 futures candlestick, shown with 50 & 200 day moving averages

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

Source: Longview Economics, Macrobond

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

Source: Longview Economics, Macrobond

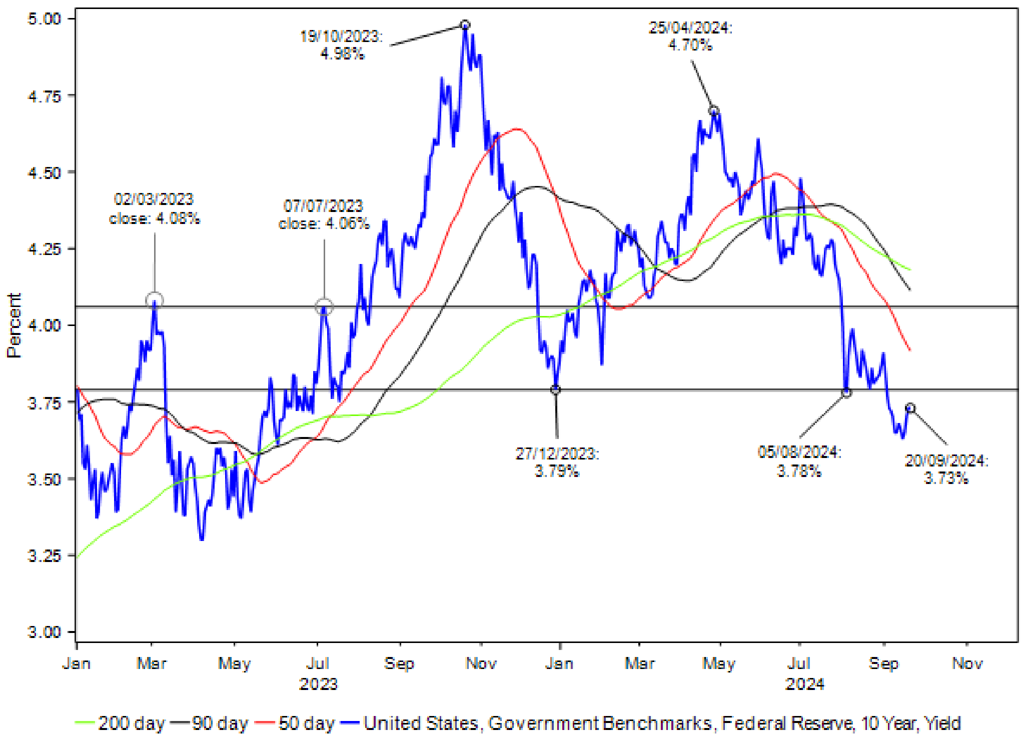
FIG 1e: Russell 2000 futures candlestick shown with 50 & 200 day moving averages

FIG 1f: DJ Transports index candlestick chart shown with key moving averages

FIG 1g: DAX30 candlestick shown with its 50 & 200 day moving averages

Source: Longview Economics, Macrobond

FIG 1h: US 10 year Treasury yield (%), shown with 50, 90, & 200 day moving averages



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

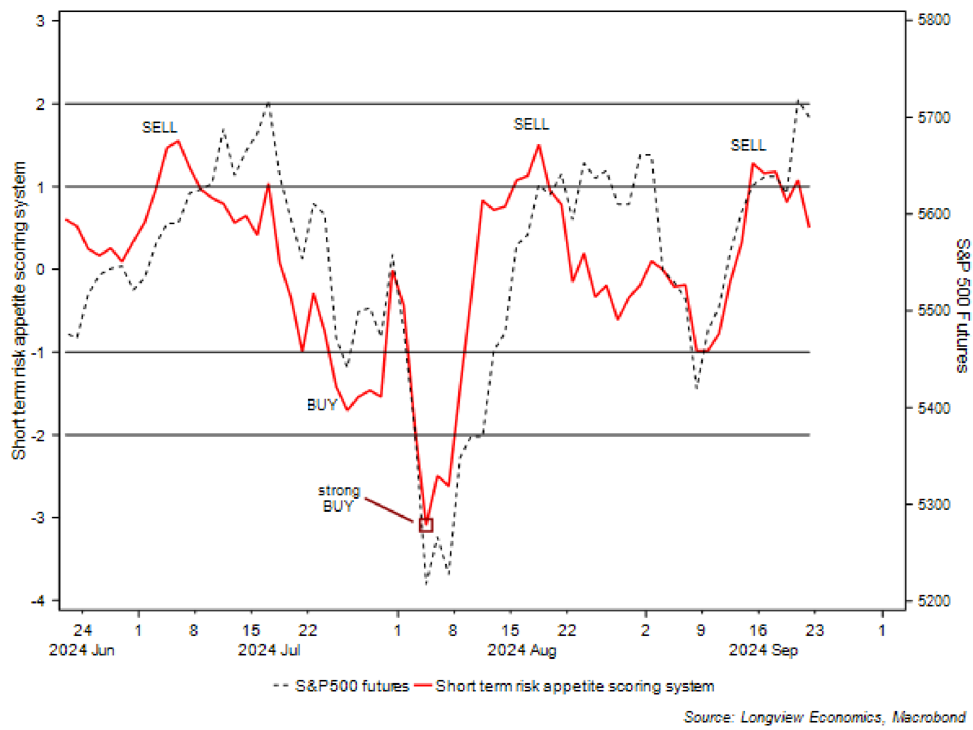


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

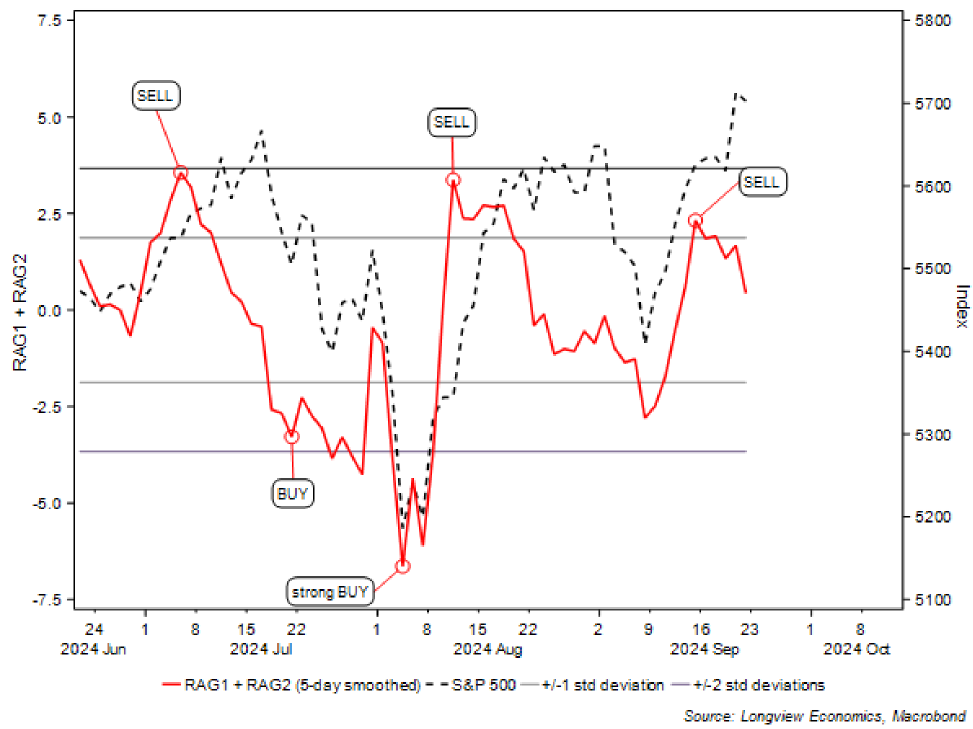
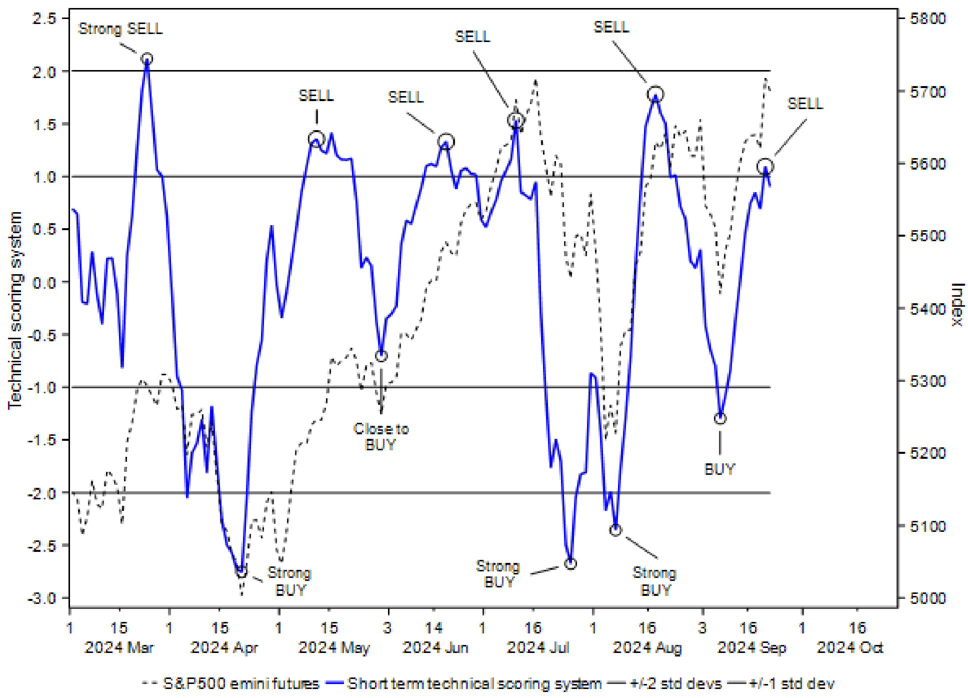
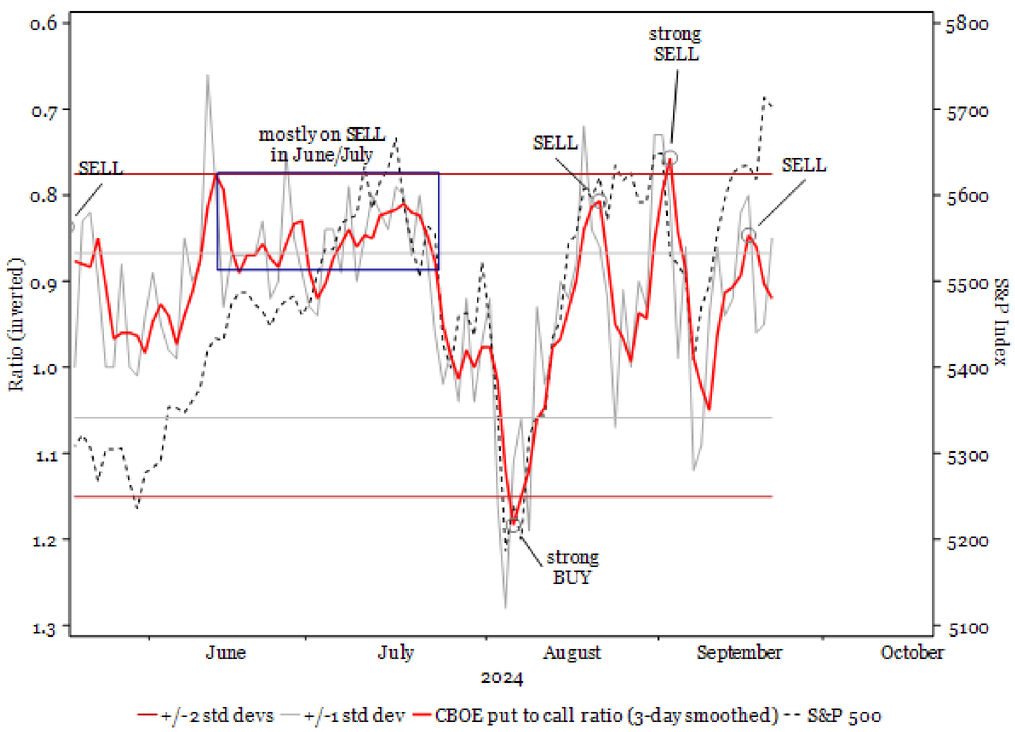


FIG 2b: Longview S&P500 short term **'technical'** scoring system vs. S&P500 futures



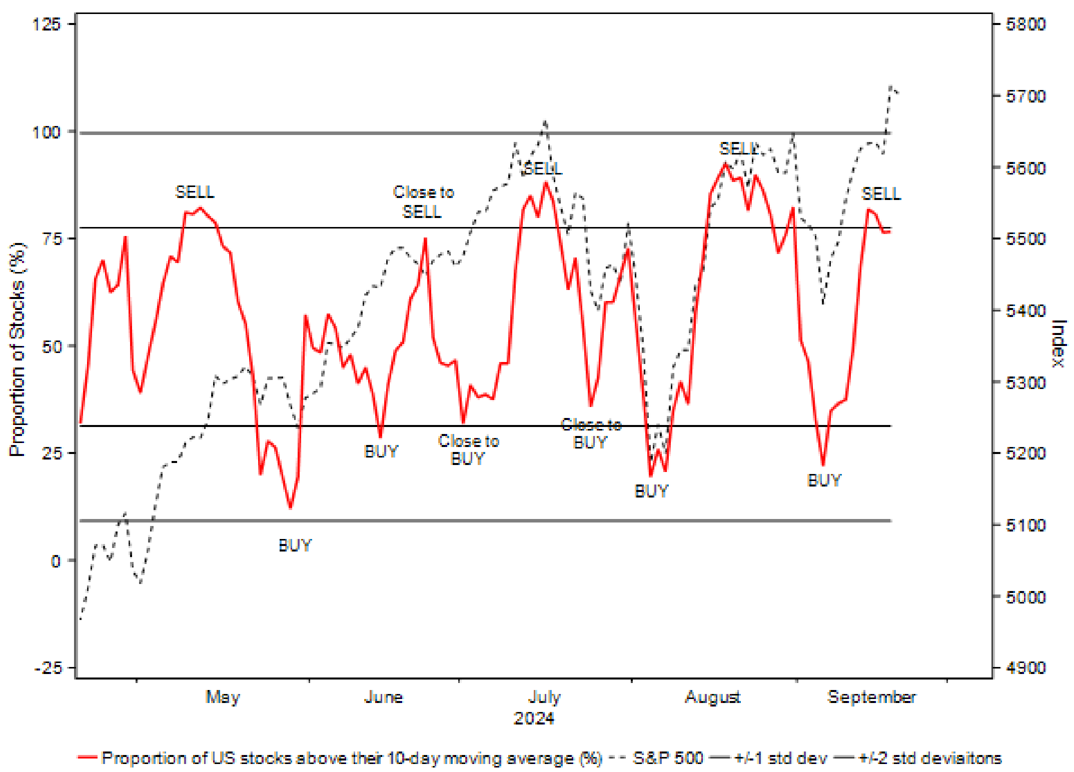
Source: Longview Economics, Macrobond

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



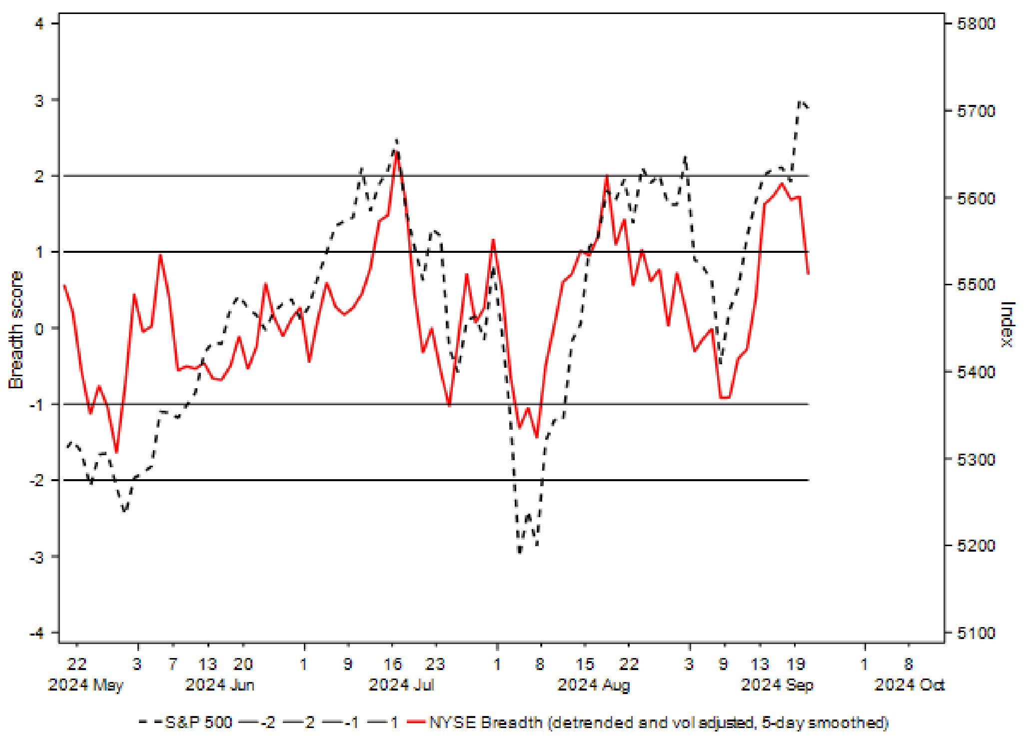
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

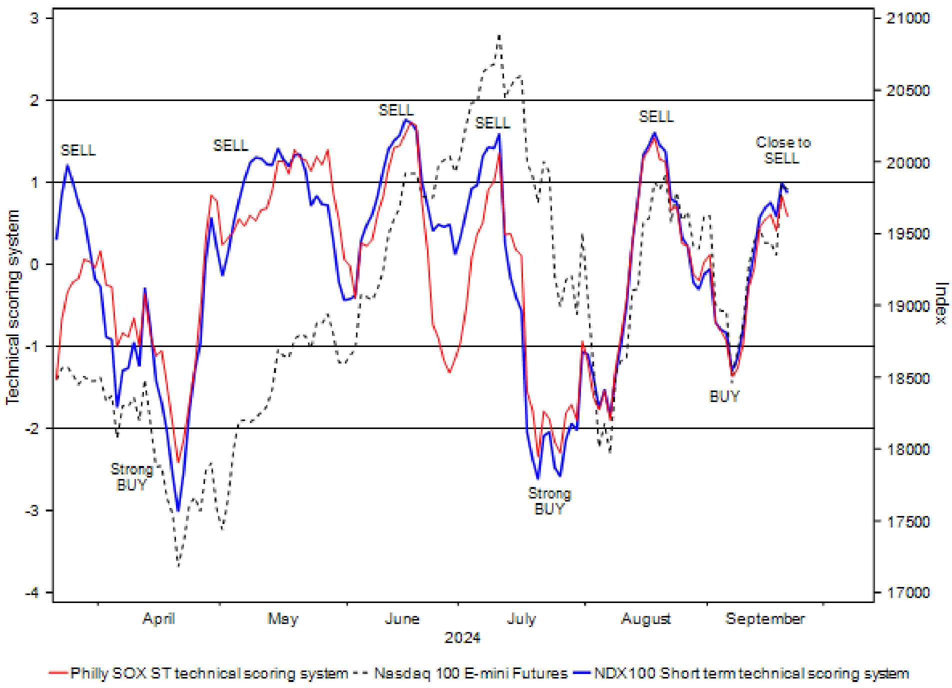
FIG 2e: Short term NYSE breadth model vs. S&P500



Source: Longview Economics, Macrobond

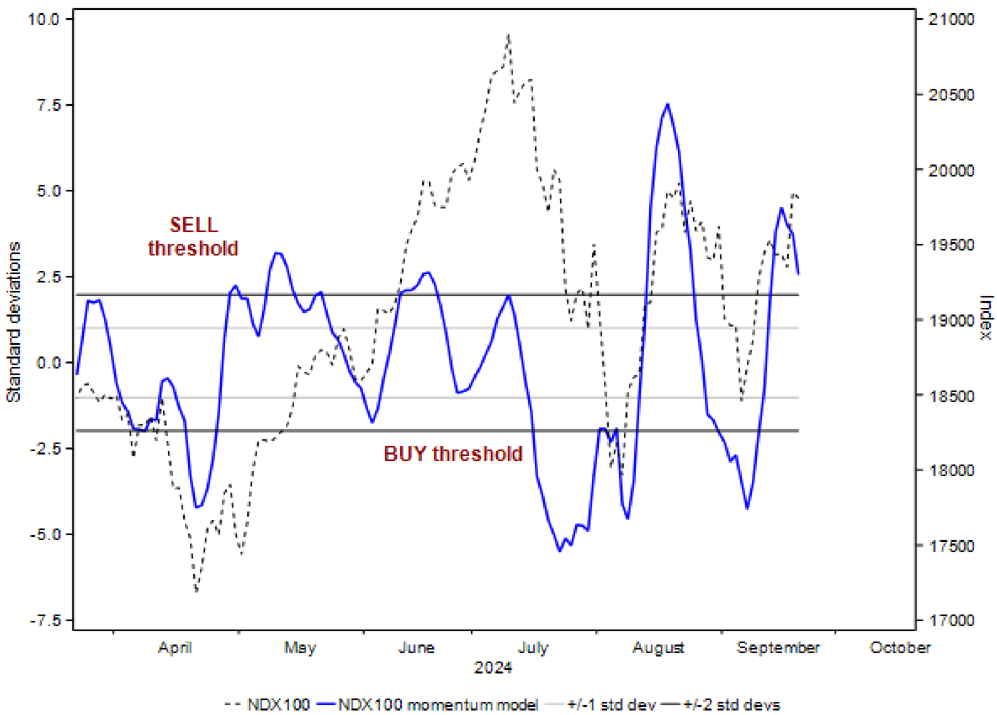
Tech centric models are on/close to SELL levels

FIG 3: Longview NASDAQ100 & Philly SOX short term **'technical'** scoring system vs. NASDAQ100 futures



Source: Longview Economics, Macrobond

FIG 3a: NDX100 momentum model shown vs. NDX100



Source: Longview Economics, Macrobond

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

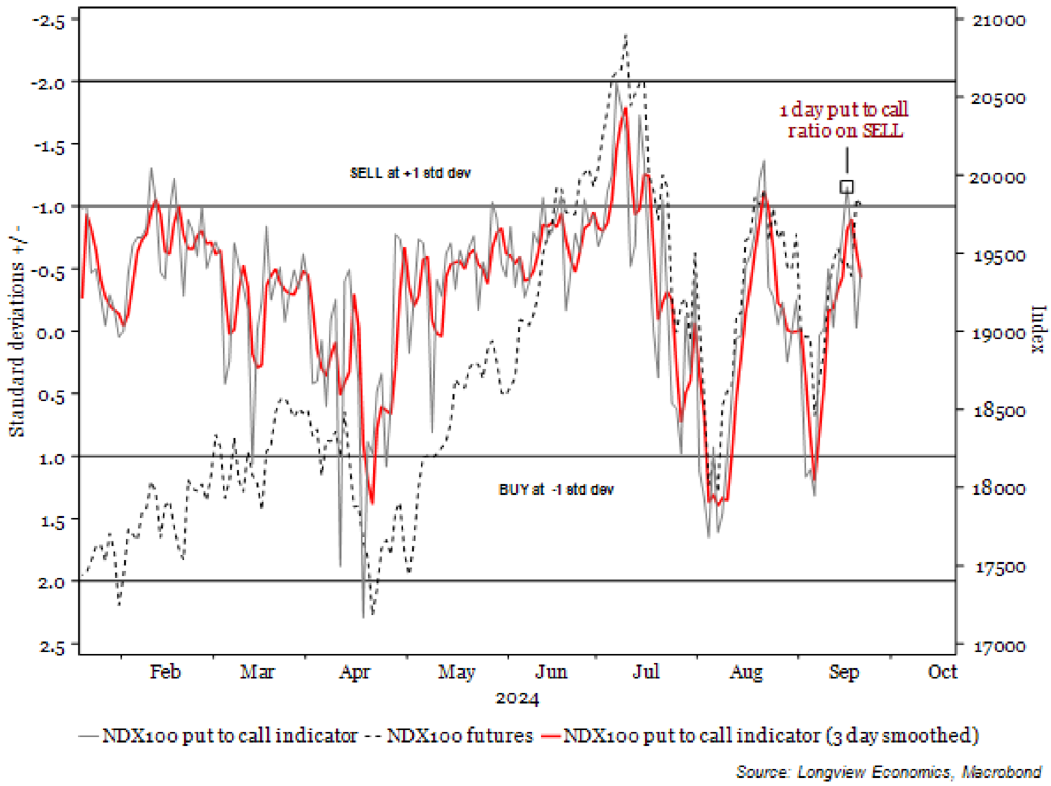
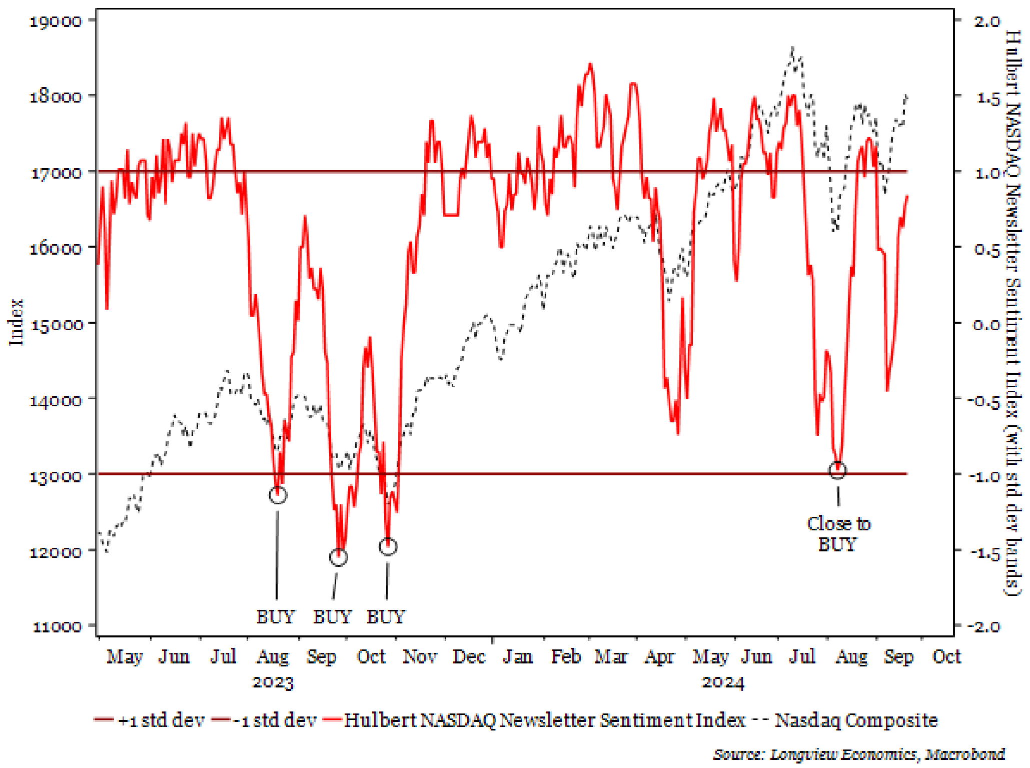


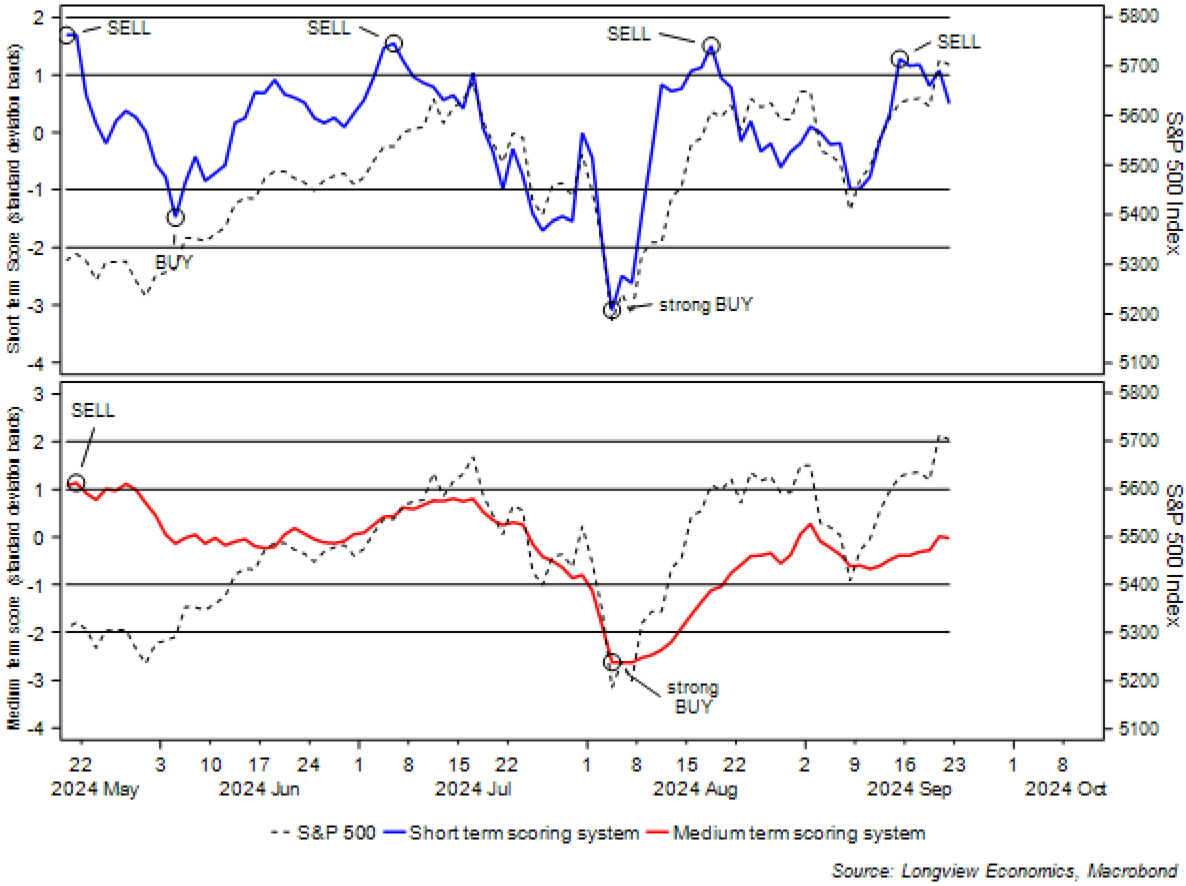
FIG 3c: Hulbert NASDAQ sentiment index shown with NASDAQ composite index



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

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

FIG A: Longview short and medium term scoring systems vs. S&P500



LVRAG
Daily Risk Appetite Gauge

Key macro data/events

Key data today include: Australian Judo Bank manufacturing & service sector PMIs (September first estimates, 12am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all September first estimates; **UK S&P manufacturing & service sector PMIs** (September first estimates, 9:30am); UK CBI industrial trends orders (Sept, 11am); **US S&P manufacturing & service sector PMIs** (September first estimates, 2:45pm).

Key events today include: Market holiday in Japan on account of Autumn Equinox; speech by the ECB's Cipollone in EU parliament about the digital Euro (2pm); speeches by the Fed's Bostic on the Economic outlook (1pm), Goolsbee in Fireside chat (3:15pm) & Kashkari in Q&A on childcare (6pm).

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

23rd September 2024

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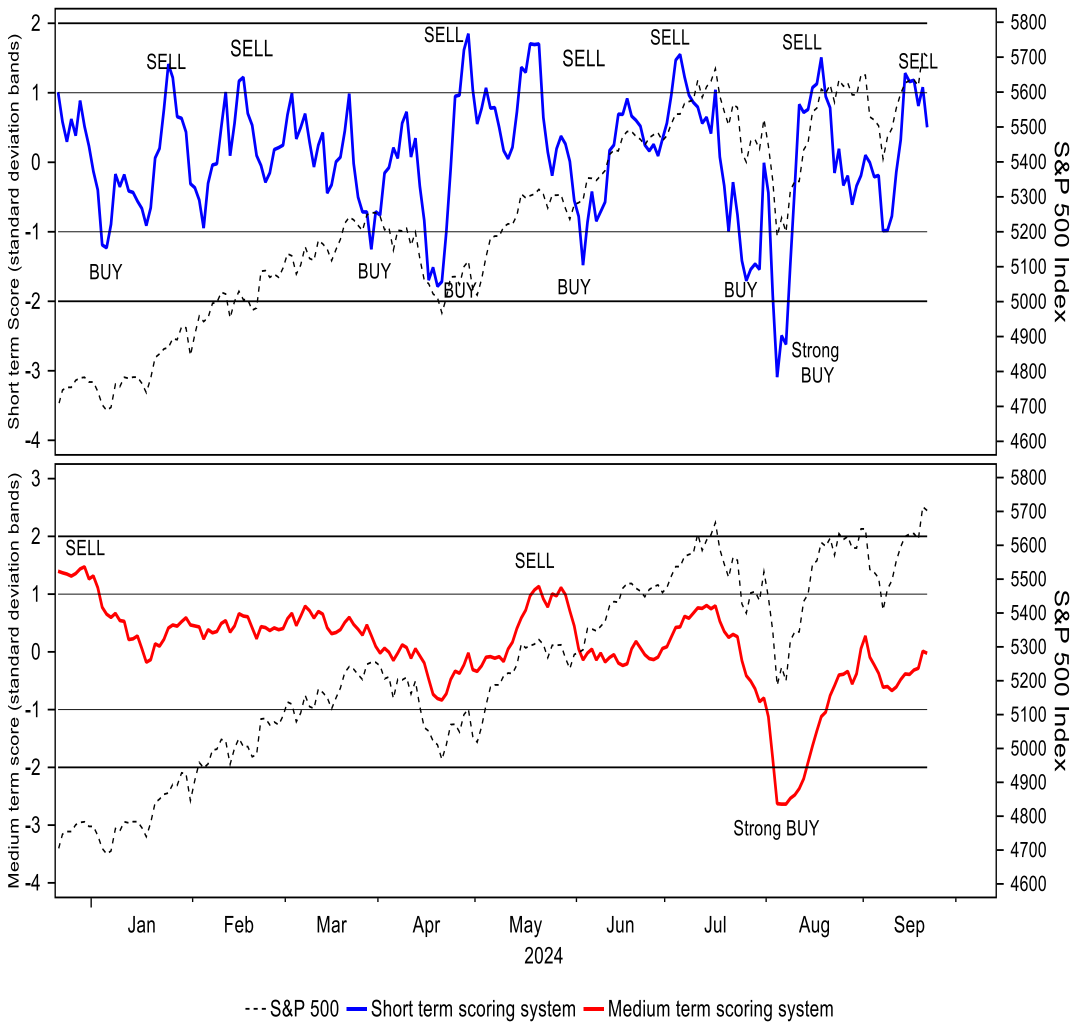
Section 1: Longview Scoring Systems (short & medium term*)

Fig 1: Longview ‘short term’ and ‘medium term’ scoring systems



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

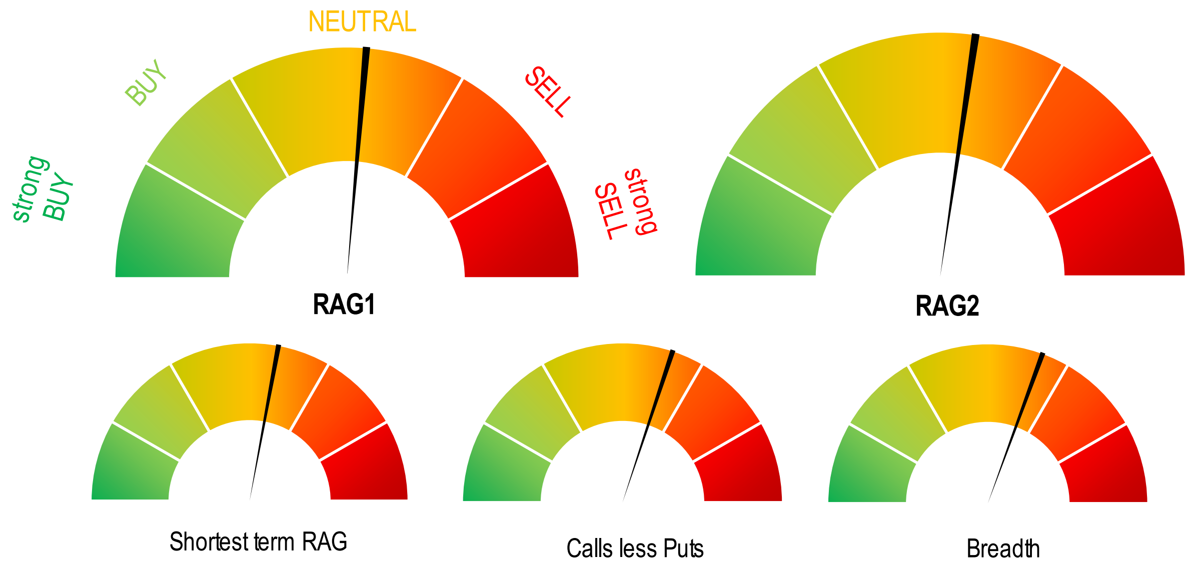
Source: Longview Economics, Macrobond

*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

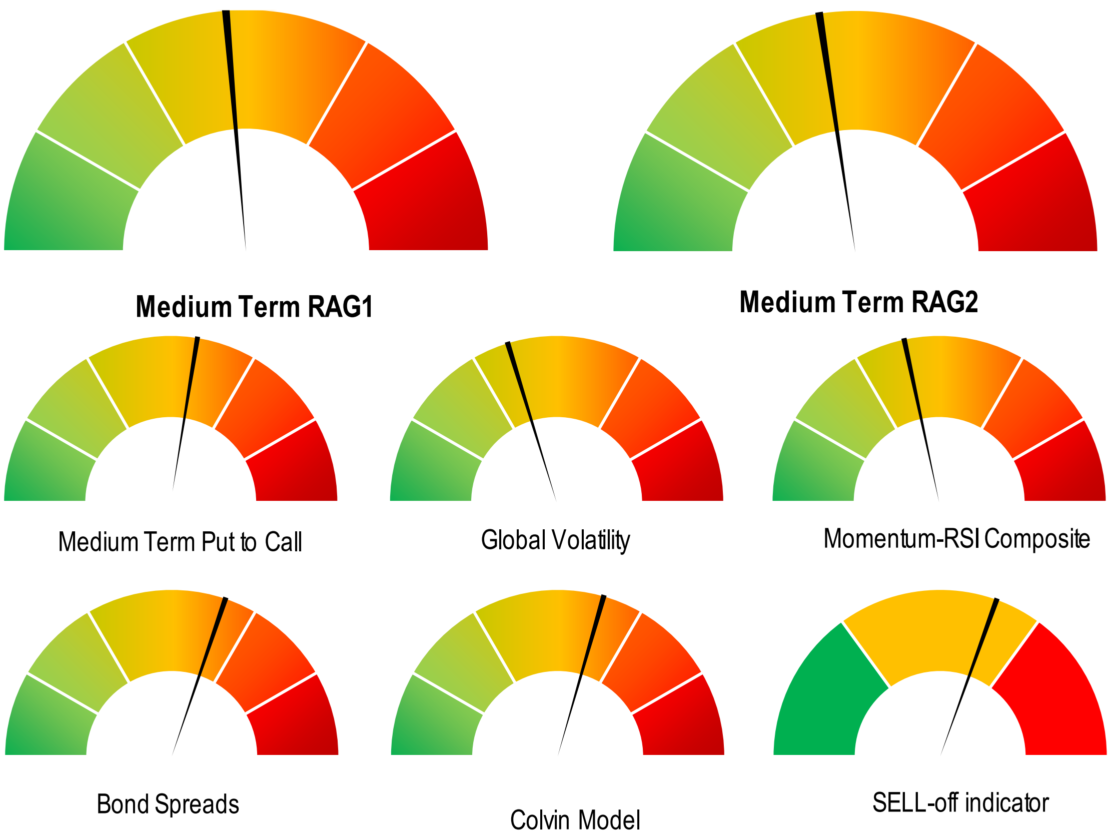
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

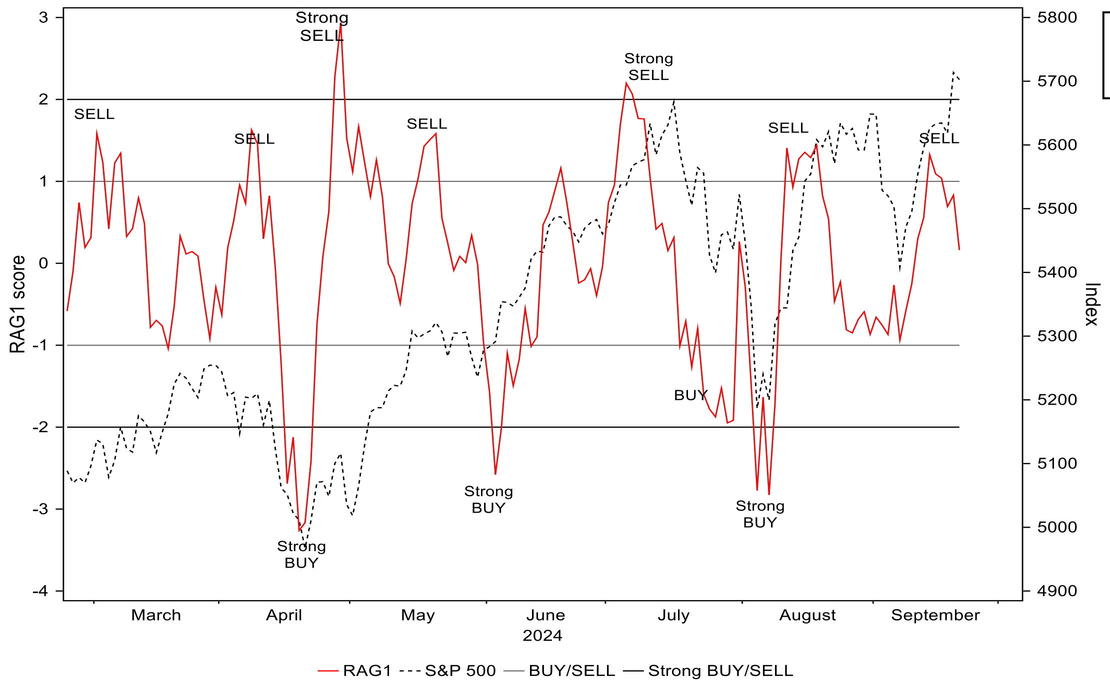
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

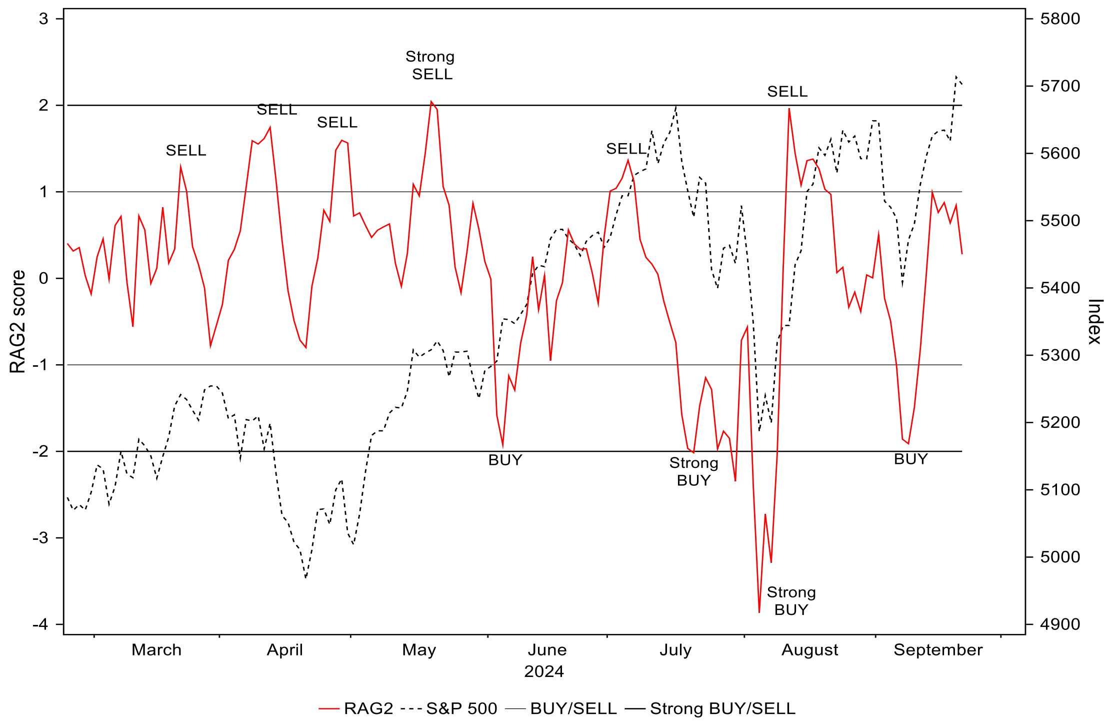
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

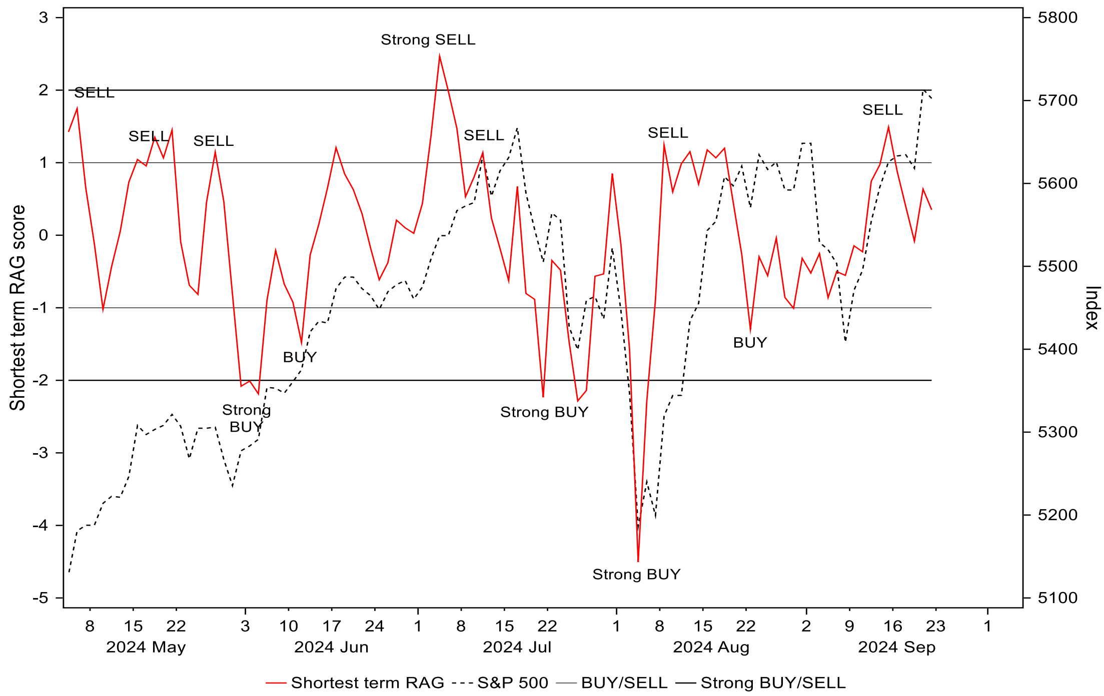


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

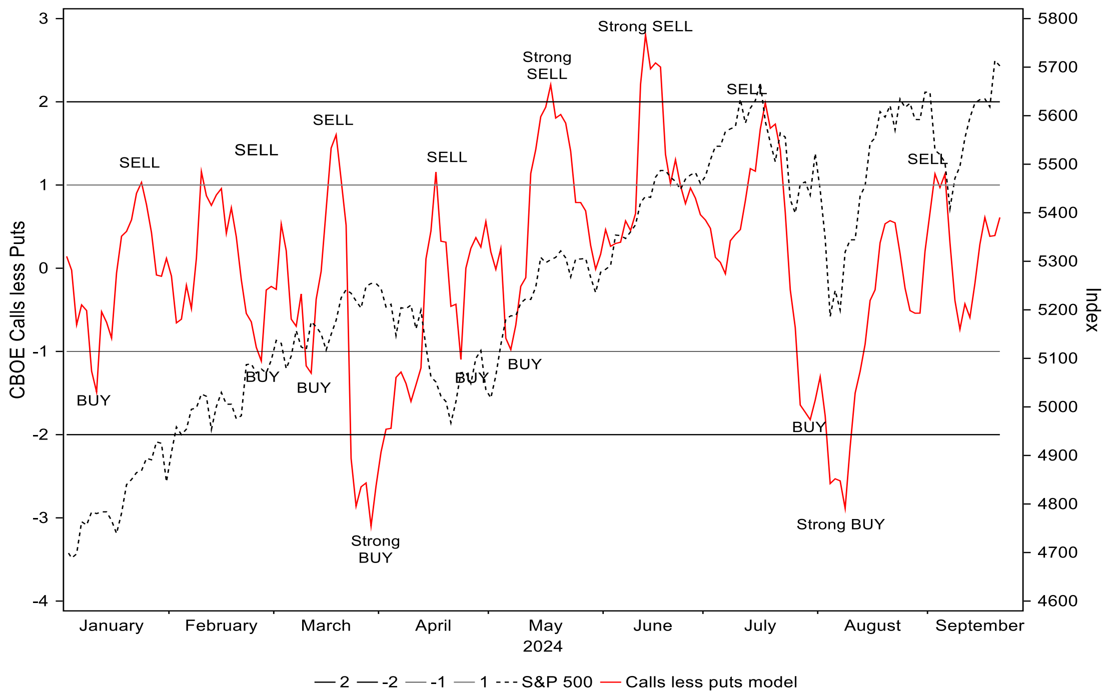
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

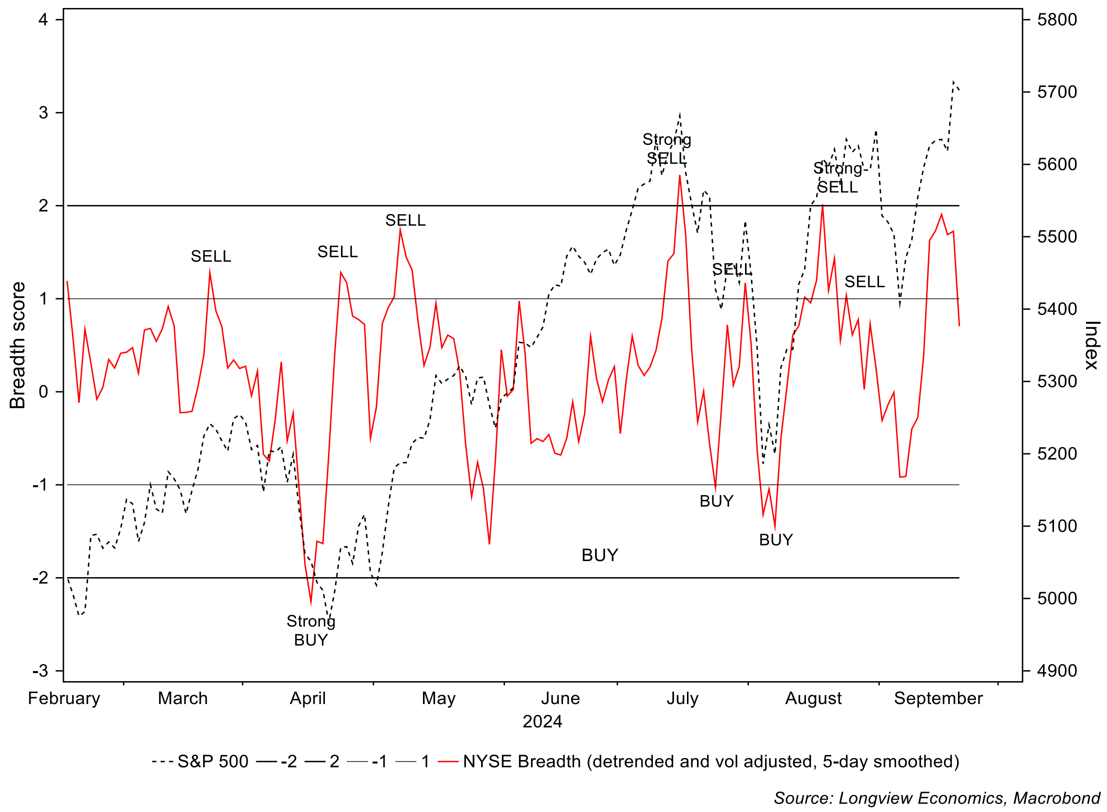


Calls less puts model is NEUTRAL

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



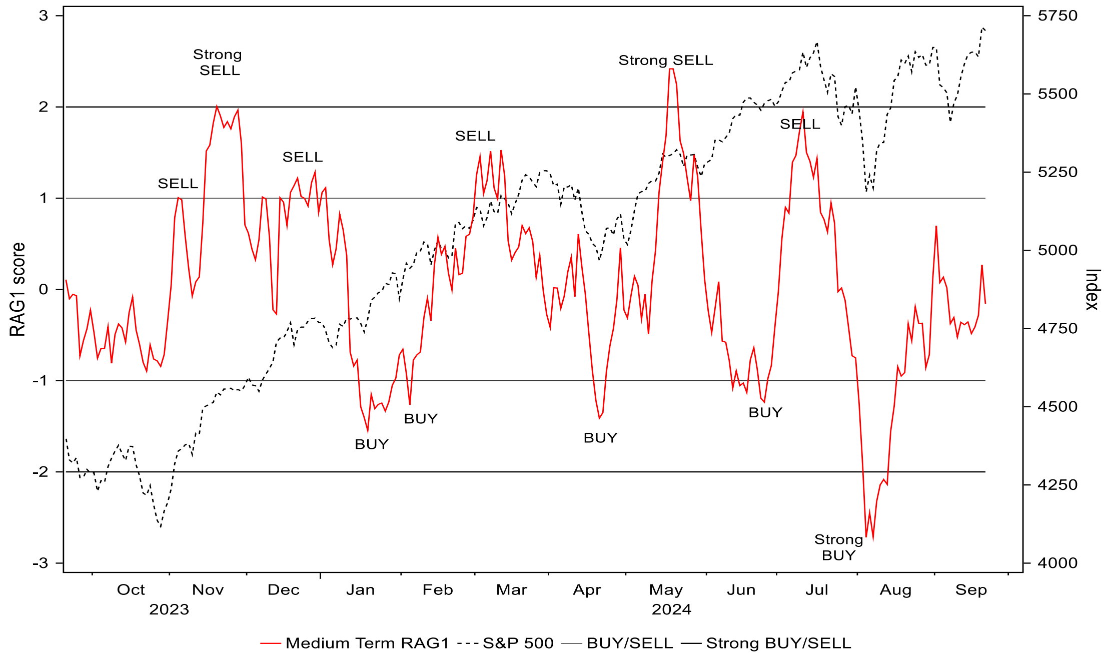
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

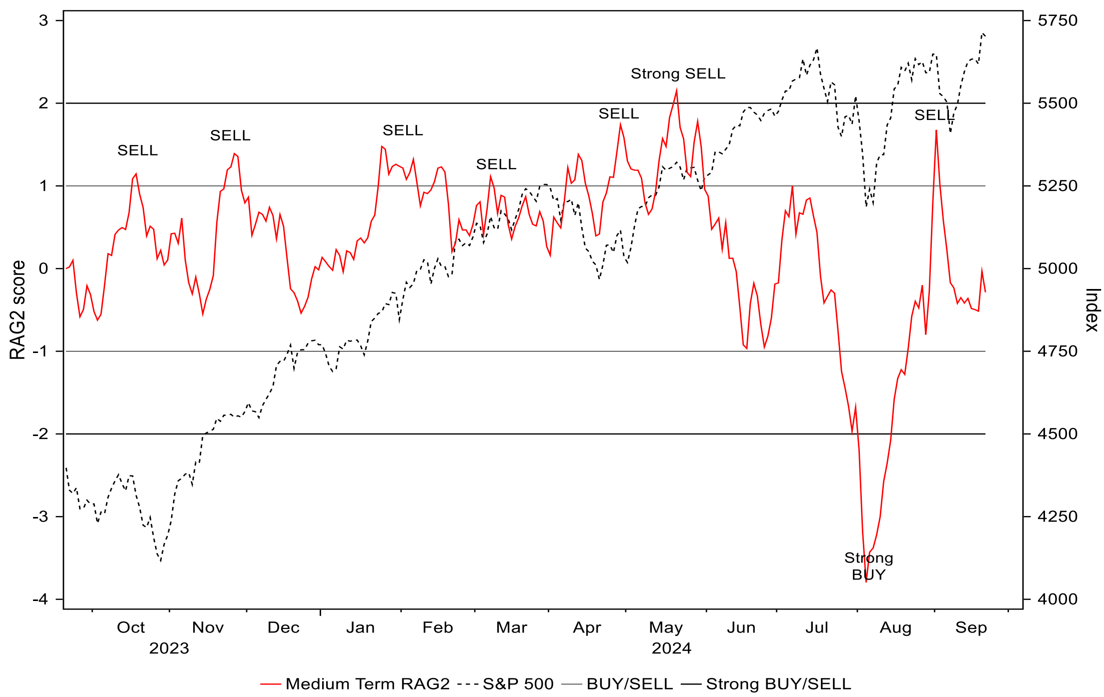
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

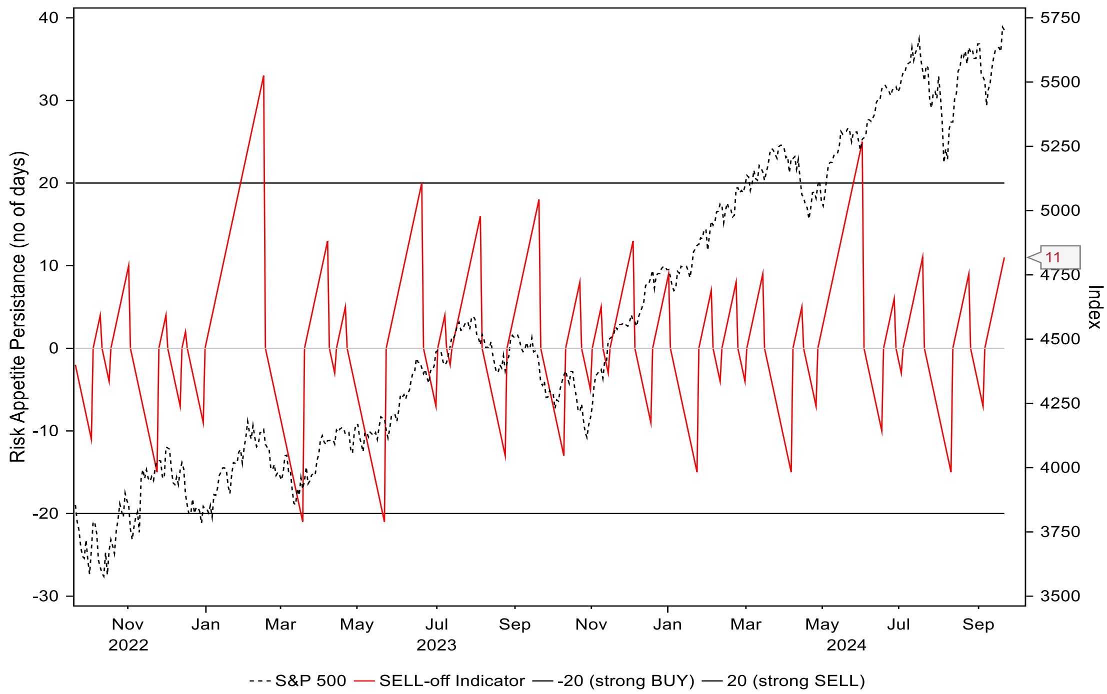


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

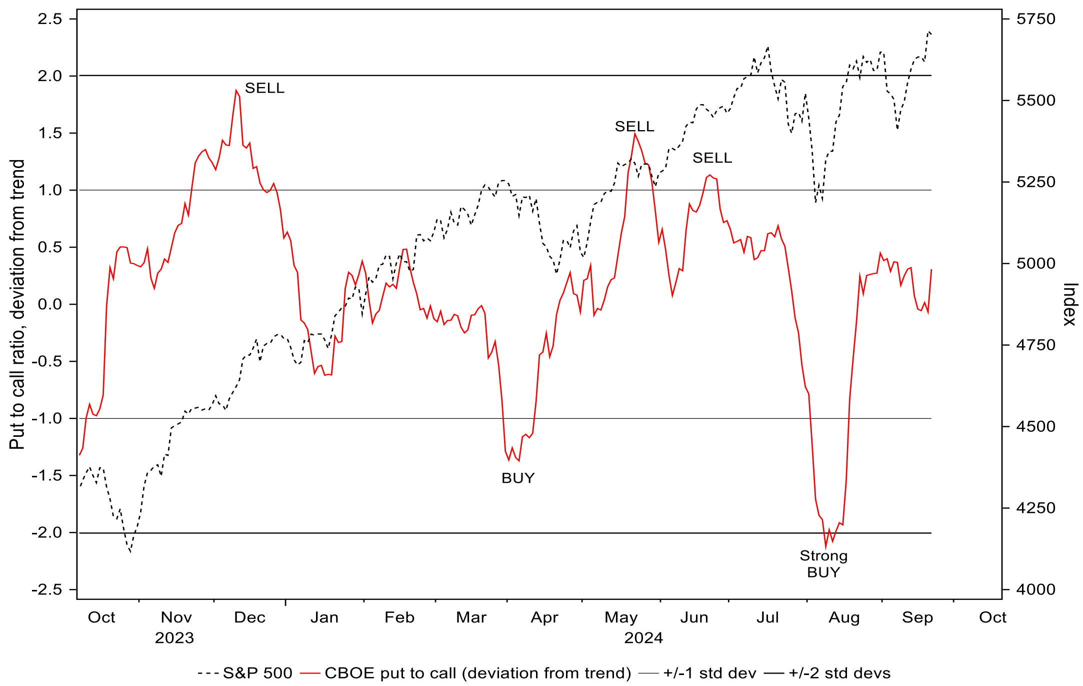
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

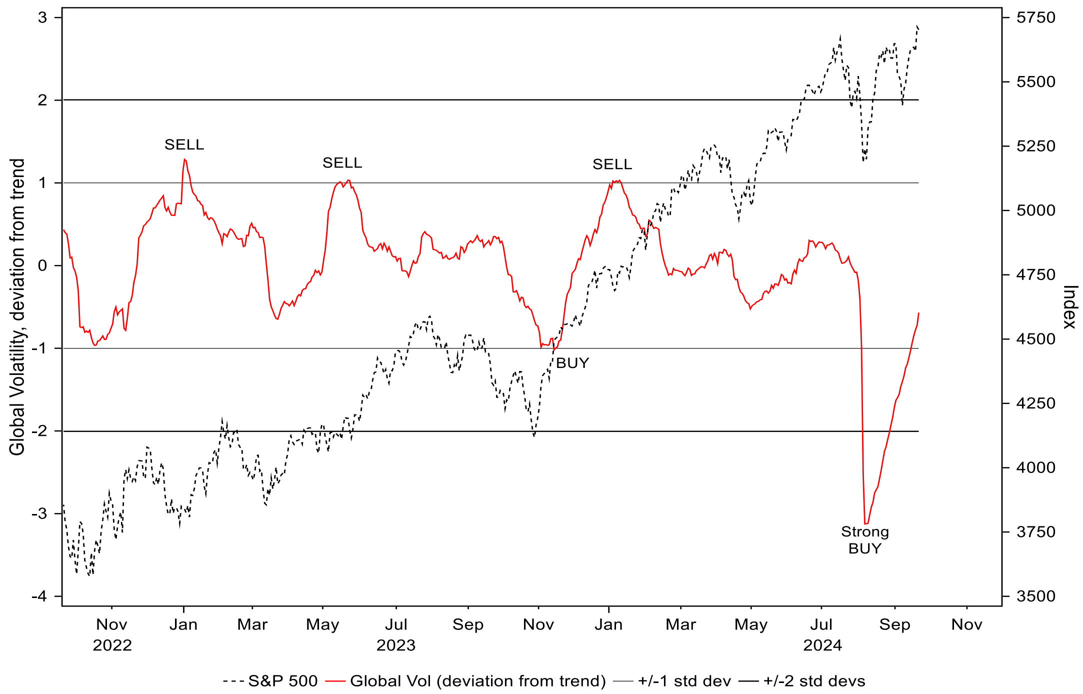


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

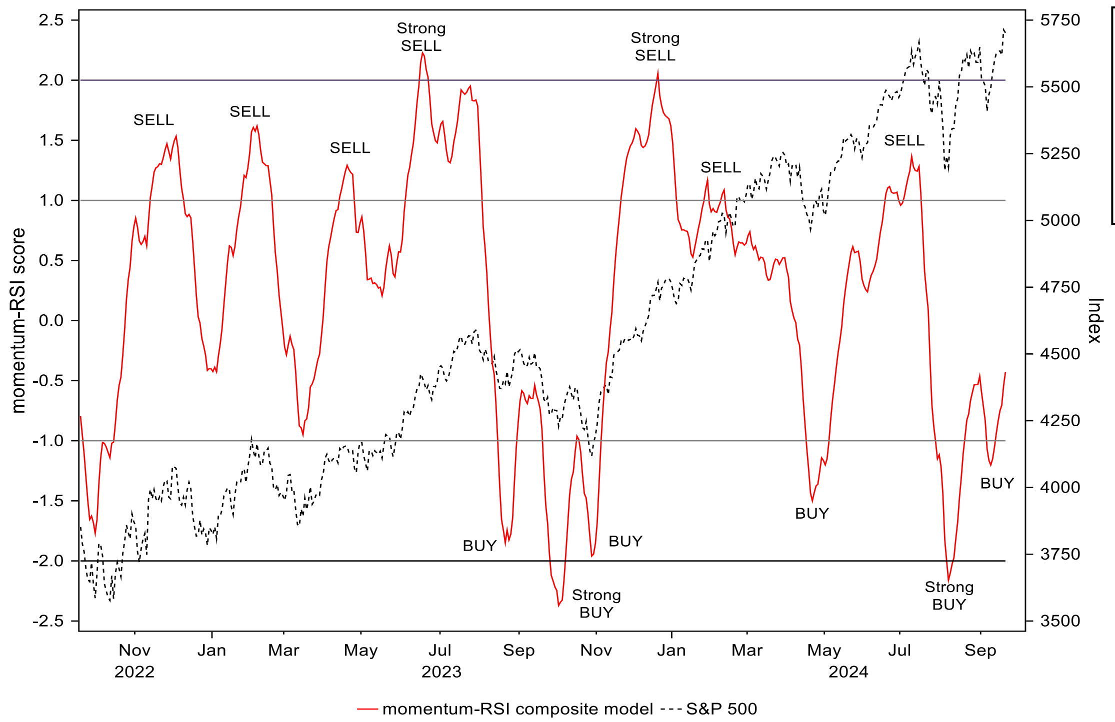
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

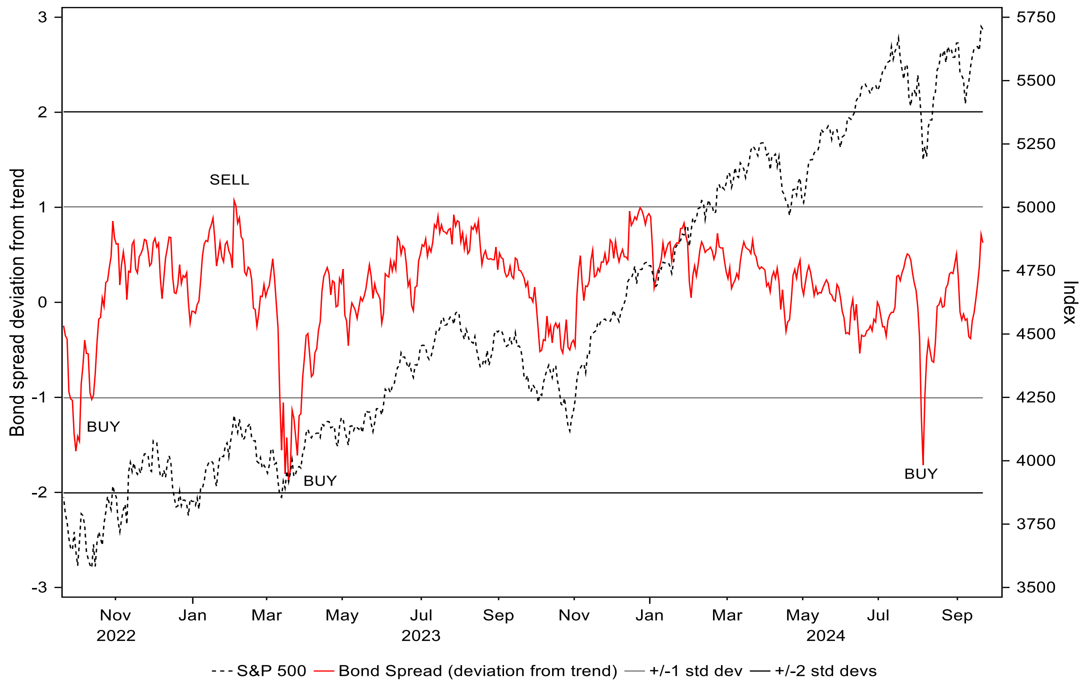
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

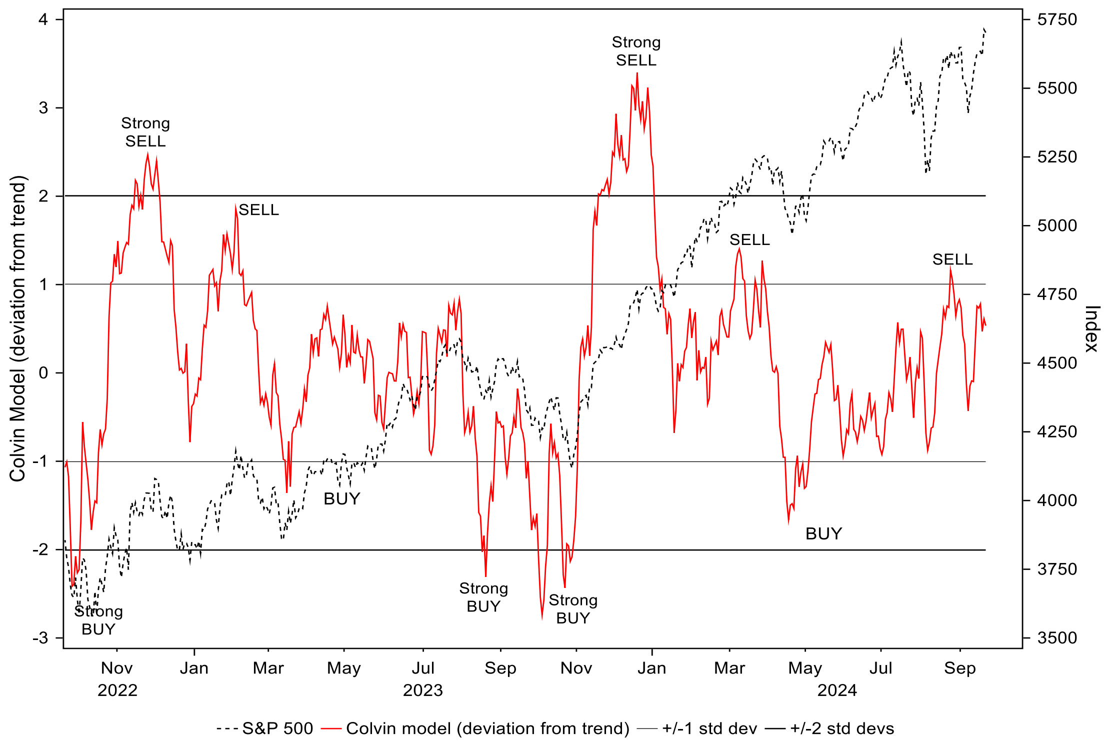
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

LVRAG
Daily Risk Appetite Gauge

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