

## Equity Index Futures Trading Recommendations

24<sup>th</sup> October 2024

"Momentum (likely) Rolling Over - Move SHORT"

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

- Move 1/3<sup>rd</sup> SHORT S&P500 December futures at current prices (i.e. approx. 5,860.0).
- Place stop loss 2% above combined entry (at ~5,977; above the 5,927 record intraday highs).

### Rationale

The **S&P500 sold off sharply yesterday, breaking out of its recent '7 – 8' day sideways trading range**. That range had been 5,850 to 5,927 (i.e. a 1.3% range, in place since 14<sup>th</sup> October). Late in the session, the index sold off sharply during the day to a low of 5,801 (FIG 1a). With that, the index also moved below its 10-day moving average for the first time since earlier this month (pointing to a potential shift in momentum, FIG 1b). The NDX100 behaved similarly breaking out of its recent shorter term trading range (i.e. past 11 trading sessions), although the upward momentum has been weaker of late in the NDX100. As such, the index is broadly unchanged over the past month (FIG 1c).

The **market pullback is (most likely) due to the sharp back-up in bond yields in recent weeks**. Yesterday, those yields closed at 4.24% (i.e. US 10-year bonds), up from as low as 3.63% in mid-September. As highlighted in our daily publications, equities have recently become overbought relative to bonds. Illustrating that, our medium-term RSI model (of equities vs. bonds) moved back onto SELL (equities) in the middle of this month (having been on BUY equities in early August – FIG 1).

**Other medium-term models remain at high/SELL levels:** The SELL-off indicator continues to BUILD higher (latest +28, FIG 1e); the medium-term risk appetite scoring system is just below its SELL threshold (FIG 1f); while the medium-term CBOE put to call ratio, the NDX100 calls less puts indicator and NDX sentiment all remain on or close to SELL (e.g. FIG 1g). Medium term models, therefore, support an expectation that a notable pullback is likely at this juncture. The risk, as always, is that markets often post sharp one-day wobbles as the SELL-off indicator builds (i.e. like cracks in the uptrend), before the final, meaningful washout of excessive risk appetite (i.e. before the full pullback).

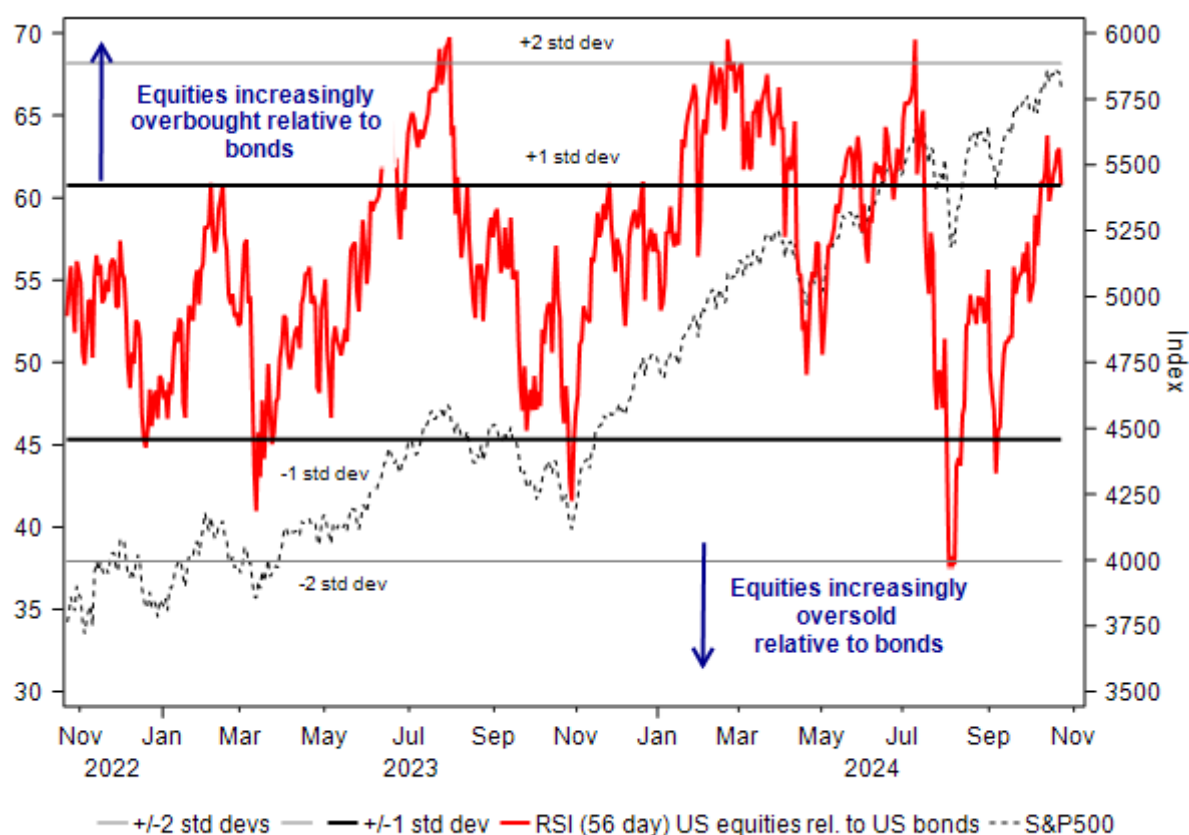
**Short term models, meanwhile, are mostly mid-range.** The risk appetite models are high/close to SELL (FIGs 2 & 2a); there was downside buying of put protection yesterday, such that the CBOE short term ratio is shifting higher (lower on the chart as its inverted – FIG 2b); while technical models are lower/closer to BUY (FIGs 3 – 3b). Overall, though, there's no clear BUY message across the breadth of short-term models. Indeed, they are collectively NEUTRAL (i.e. their message is ambiguous).

Aggregating the key messages of the models, therefore, the **most likely outcome is that markets are shifting into a near term (multi day/maybe week) downtrend**. As such, until at least short-term models are generating a collective BUY signal (and potentially medium term one as well), then the **risk reward favours building SHORT positions** in US equity index futures. Having failed to enter into a SHORT position yesterday (as the market didn't reach out 5,918 level), we recommend moving SHORT at current levels (i.e. approx. 5,860, which is at the lower end of the prior 7-day trading range). See trading recommendation above for detail.

Kind regards,

The team @ Longview Economics

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

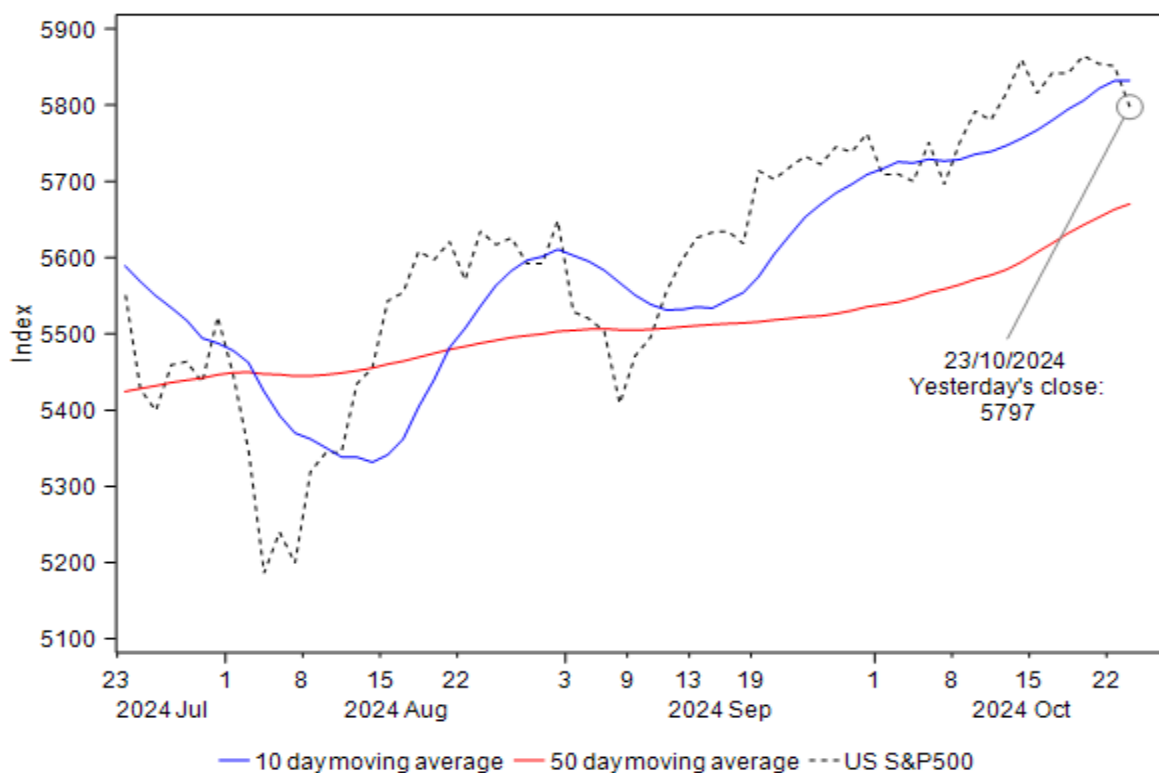


Source: Longview Economics, Macrobond

**FIG 1a:** S&P500 futures 30-day tick chart shown with overnight price action

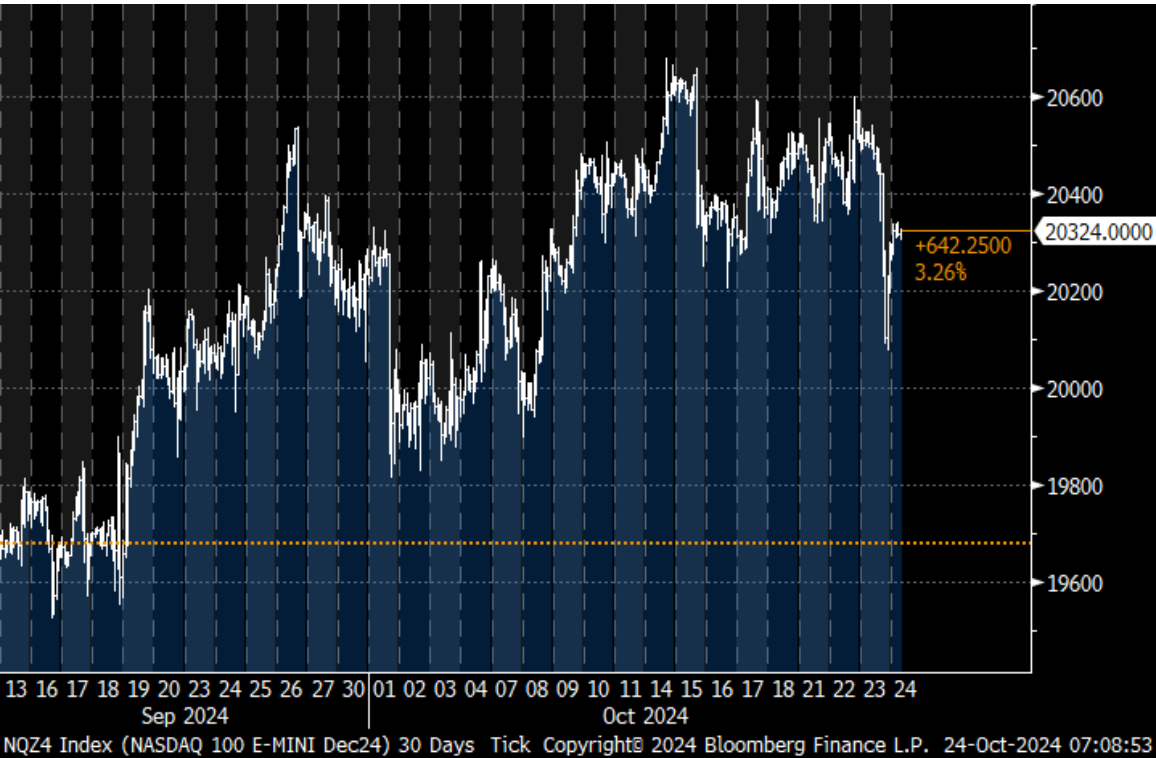


**FIG 1b:** S&P500 shown with 10 & 50 day moving averages



Source: Longview Economics, Macrobond

**FIG 1c:** NDX100 futures 30-day tick chart shown with overnight price action

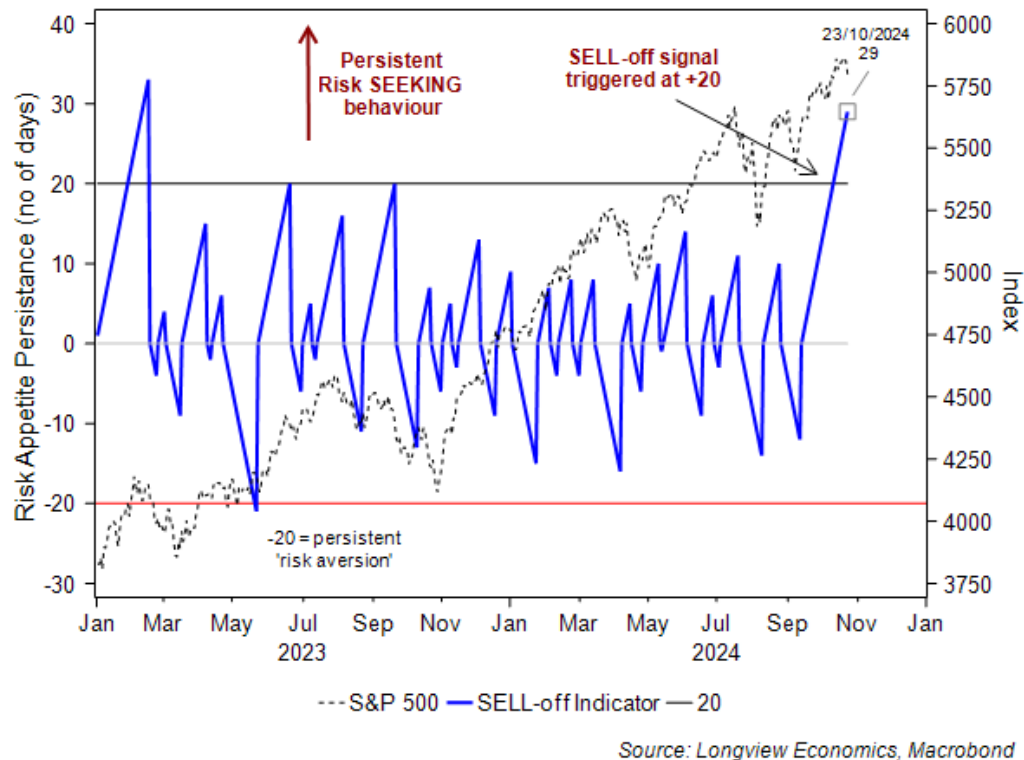


**FIG 1d:** US 10-year bond yields shown with key moving averages

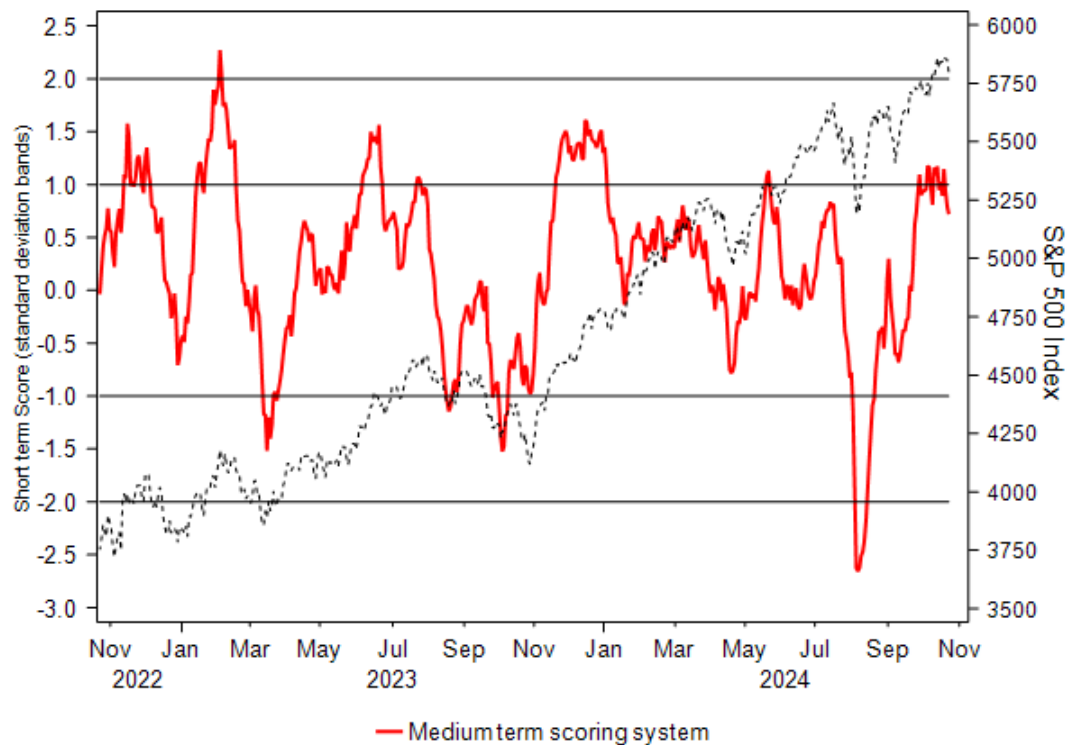


Source: Longview Economics, Macrobond

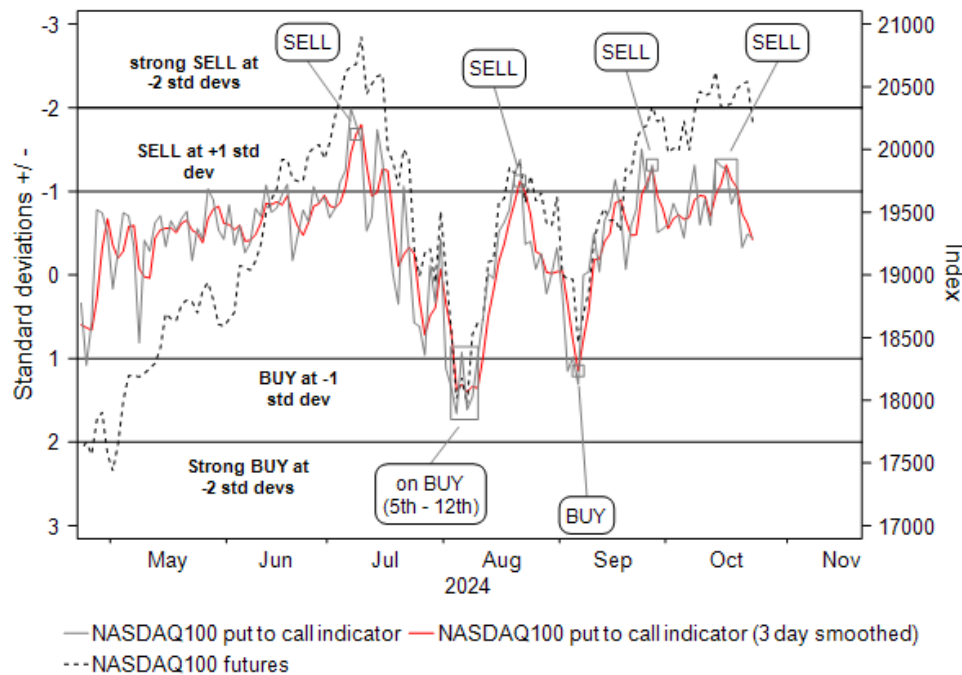
**FIG 1e:** Longview SELL-off indicator vs. S&P500



**FIG 1f:** Longview medium term 'risk appetite' scoring system vs. S&P500



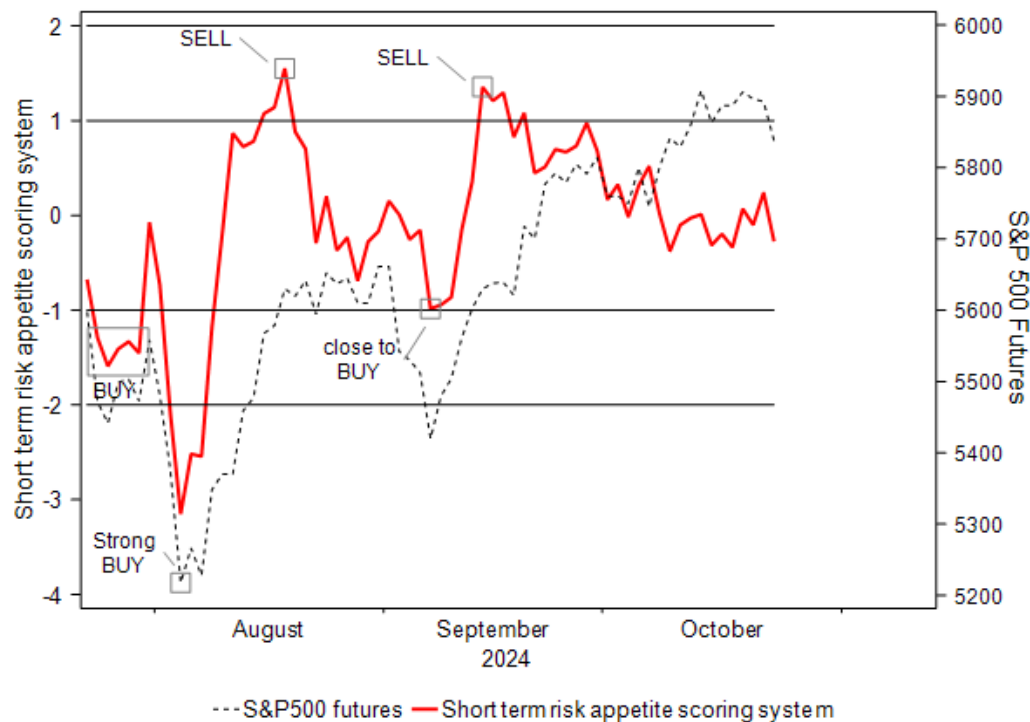
**FIG 1g:** NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

### Short-term models are mixed.....

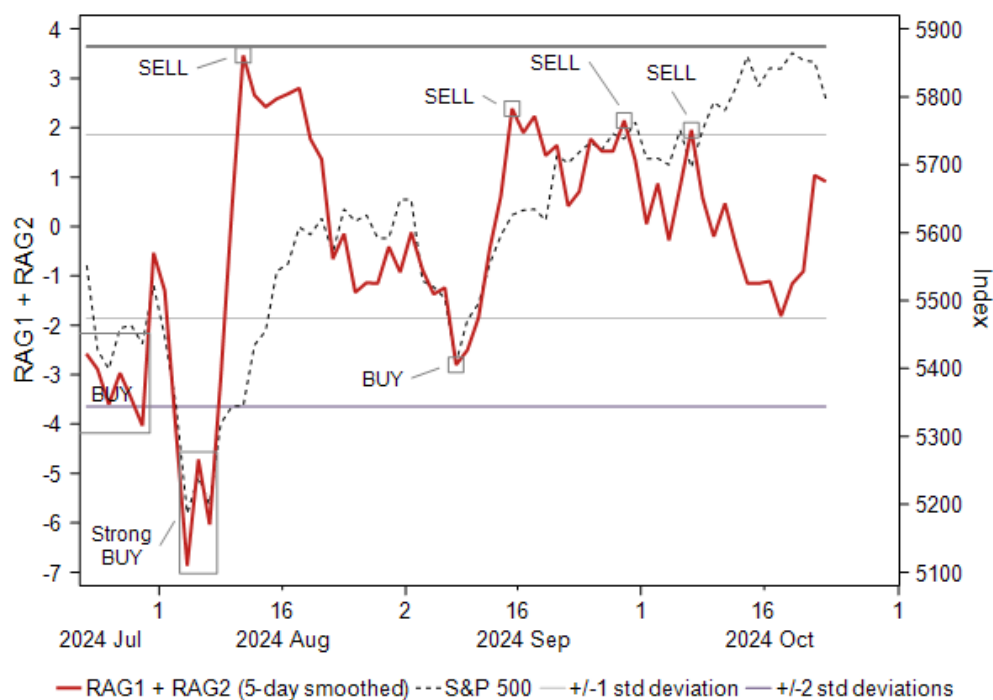
**FIG 2:** Longview short term 'risk appetite' scoring system vs. S&P500



Source: Longview Economics, Macrobond

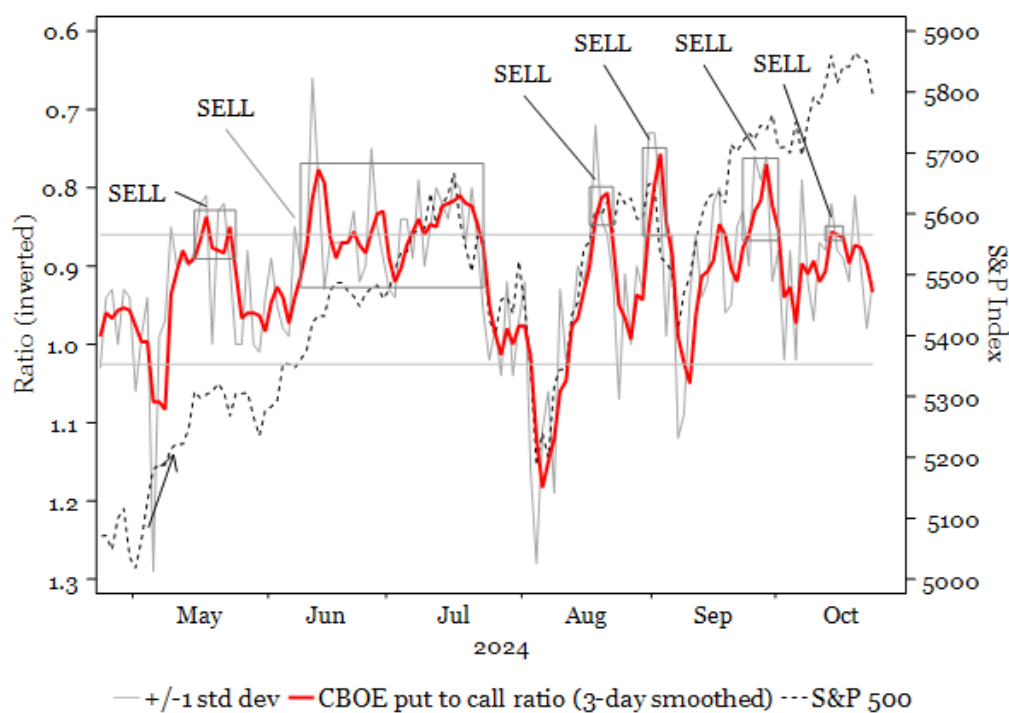


**FIG 2a:** Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



Source: Longview Economics, Macrobond

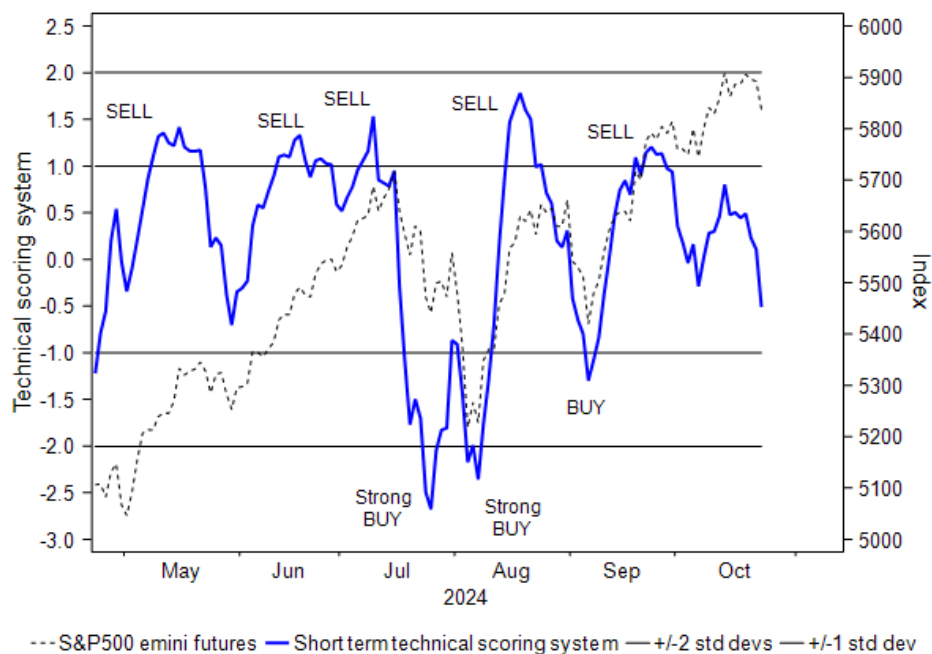
**FIG 2b:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

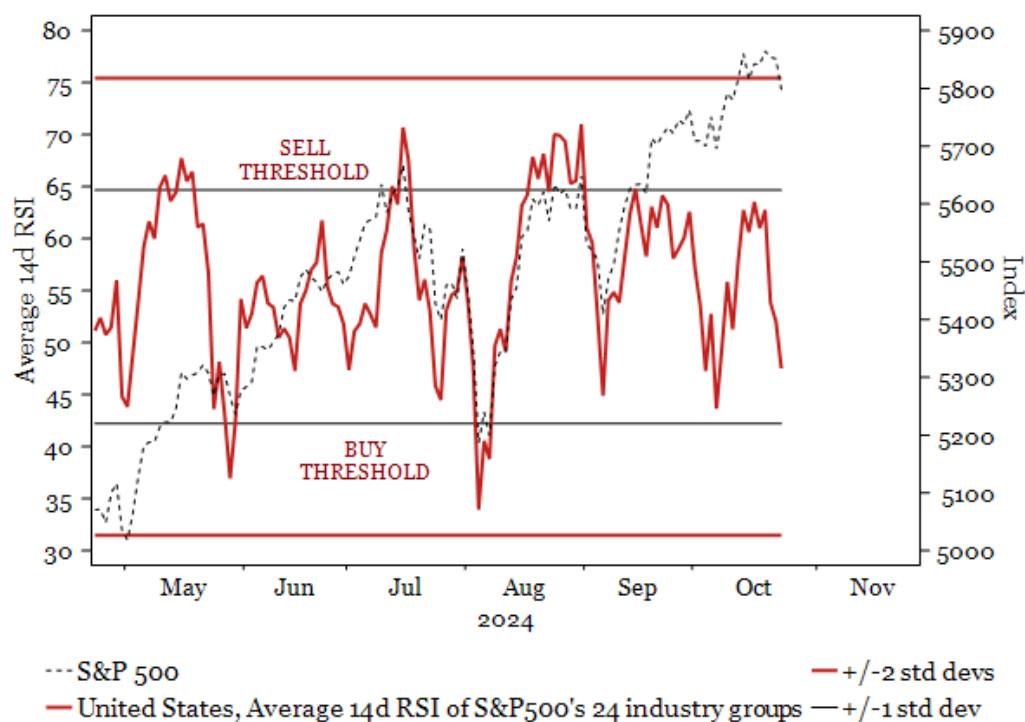
## Short term technical models have rolled over...

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



Source: Longview Economics, Macrobond

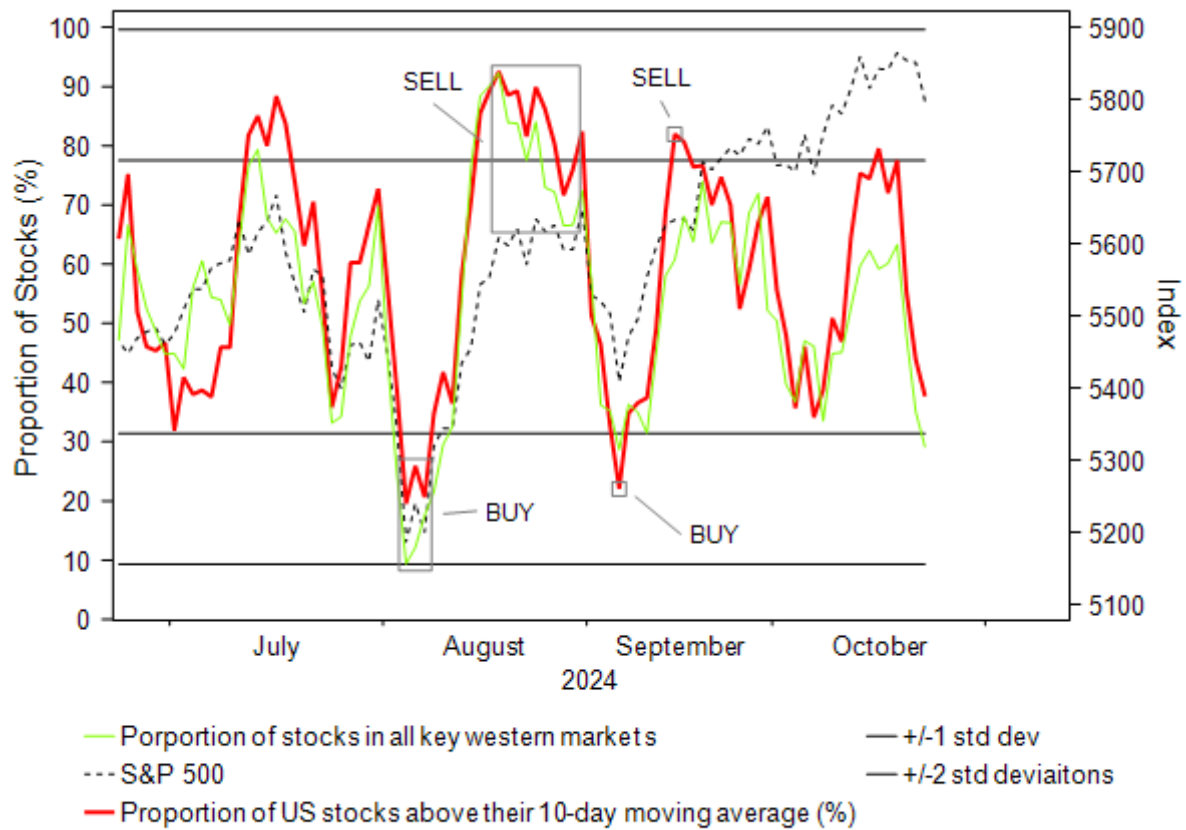
**FIG 3a:** Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond



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



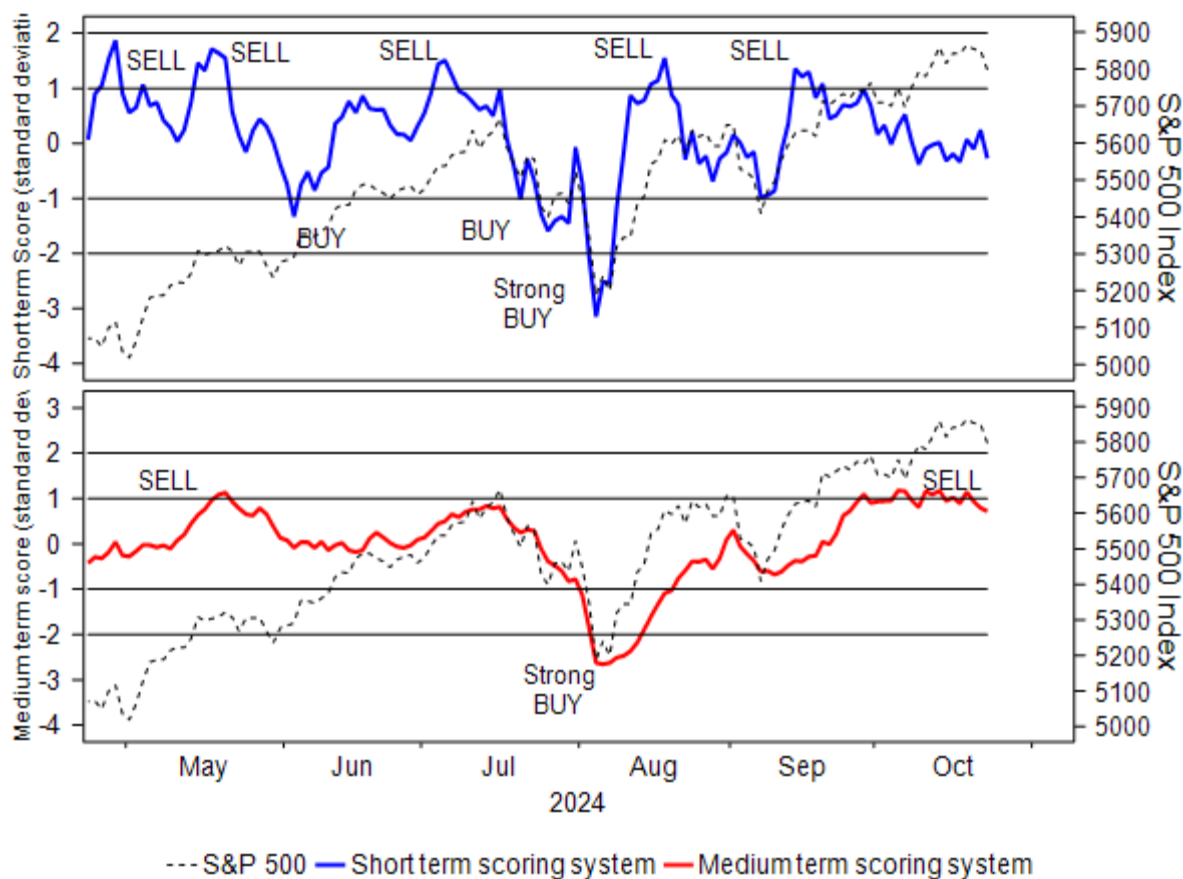
Source: Longview Economics, Macrobond

**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

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**Key data** today include: **Japanese Jibun Bank manufacturing & service sector PMIs** (October first estimate, 1:30am); Japanese machine tool orders (September final estimate, 7am); French INSEE business & manufacturing confidence (Oct, 7:45am); **HCOB manufacturing & service sector PMIs for France** (8:15am), **Germany** (8:30am) & **Eurozone** (9am) – all October first estimates; **UK S&P manufacturing & service sector PMIs** (October first estimate, 9:30am); CBI industrial trends orders (Oct, 11am); US Chicago Fed national activity (Sept, 1:30pm); US weekly jobless claims (1:30pm); **US S&P manufacturing & service sector PMIs** (October first estimate, 2:45pm); **US new home sales** (Sept, 3pm); US Kansas City Fed manufacturing sector activity (Oct, 4pm).

**Key events** today include: Speech by the Bank of England's Mann in Washington (2pm); speeches by the ECB's Kazaks on 'Global Macro Economy in a New World' (2pm) & Lane at 'Inflation: Drivers and Dynamics 2024' conference (6pm); speech by the Fed's Hammack at an event hosted by the Fed & ECB (1:45pm).

**Key earnings** today include: **Amazon, Mastercard, Caterpillar**, S&P Global, Union Pacific, Honeywell, **United Parcel Service**, Northrop Grumman, Carrier Global, Arthur J Gallagher, Capital One Financial, Digital, Keurig Dr Pepper, L3Harris Technologies, Monolithic, Valero Energy, Nasdaq Inc, Hermes International, Vinci, Equinor, SEB A, Unilever, Relx, London Stock Exchange, **Barclays**, CNOOC, Wesfarmers, Fortescue Metals.

## Definitions & other matters:

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*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 10<sup>th</sup> October 2024. If you are not on the distribution list and would like to receive these reports pls email [info@longvieweconomics.com](mailto:info@longvieweconomics.com).*



LV RAG  
Daily Risk Appetite Gauge

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## 1 – 2 Week View on Risk

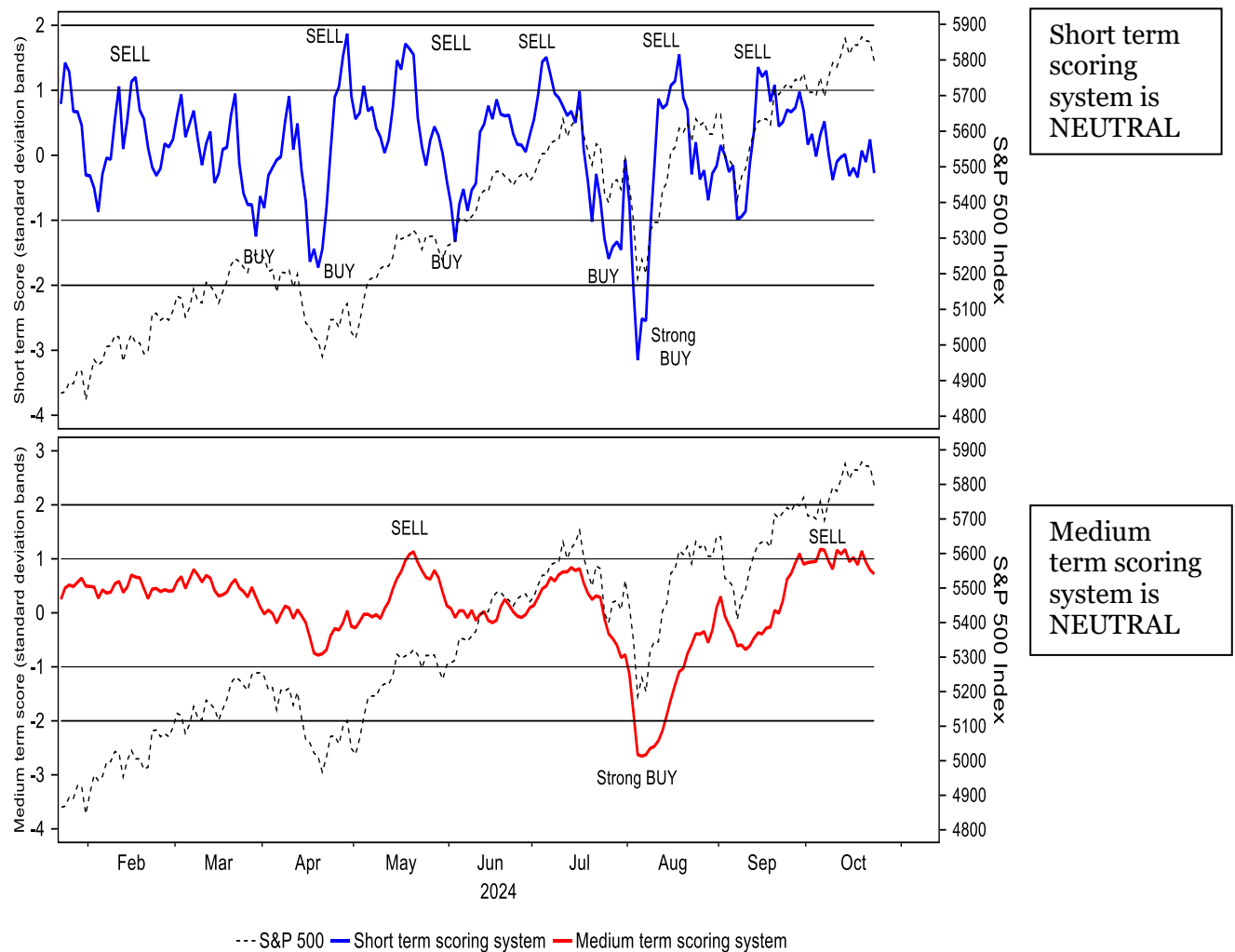
Longview Economics

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24<sup>th</sup> October 2024

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

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



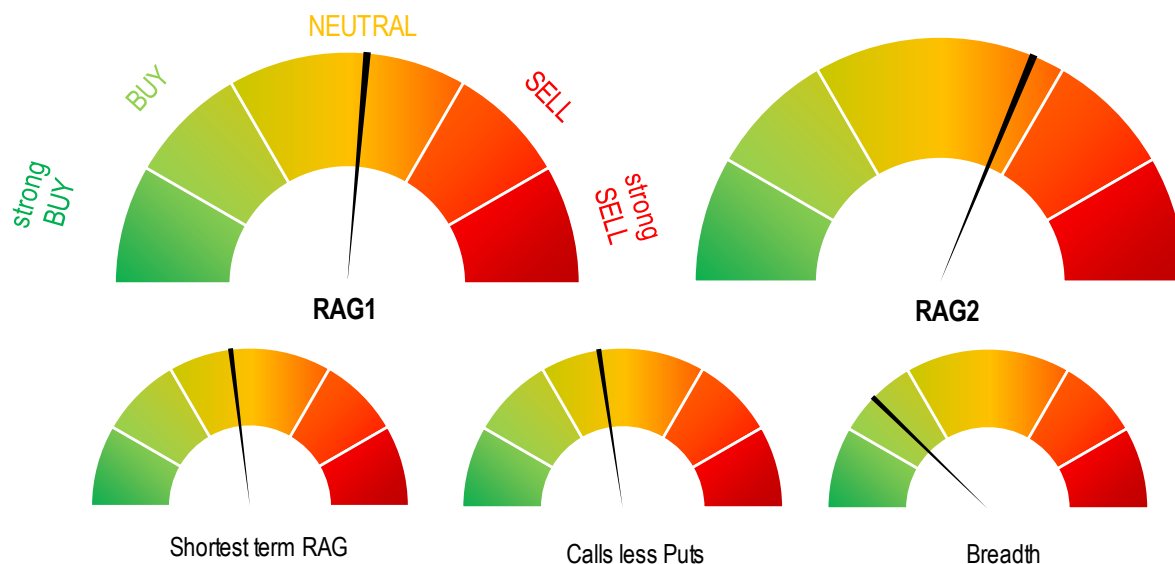
Source: Longview Economics, Macrobond

\*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**

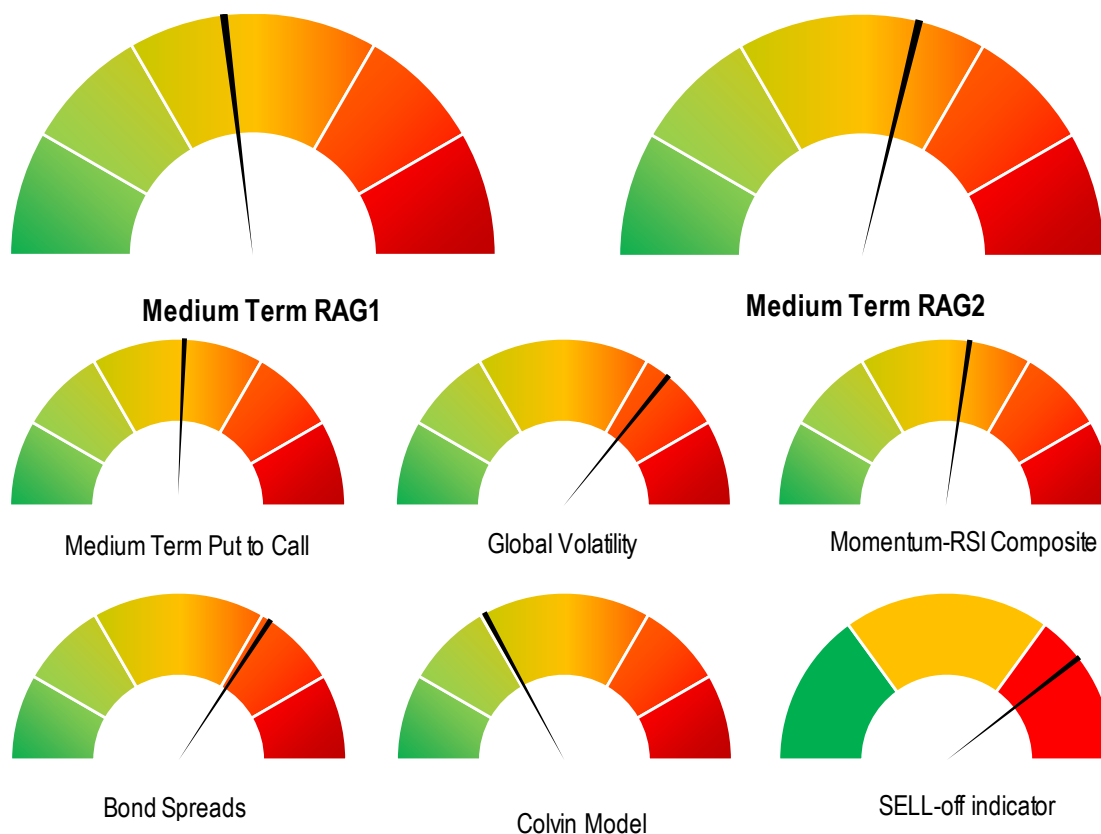
## Section 1a: Summary of indicator signals\*\*

**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

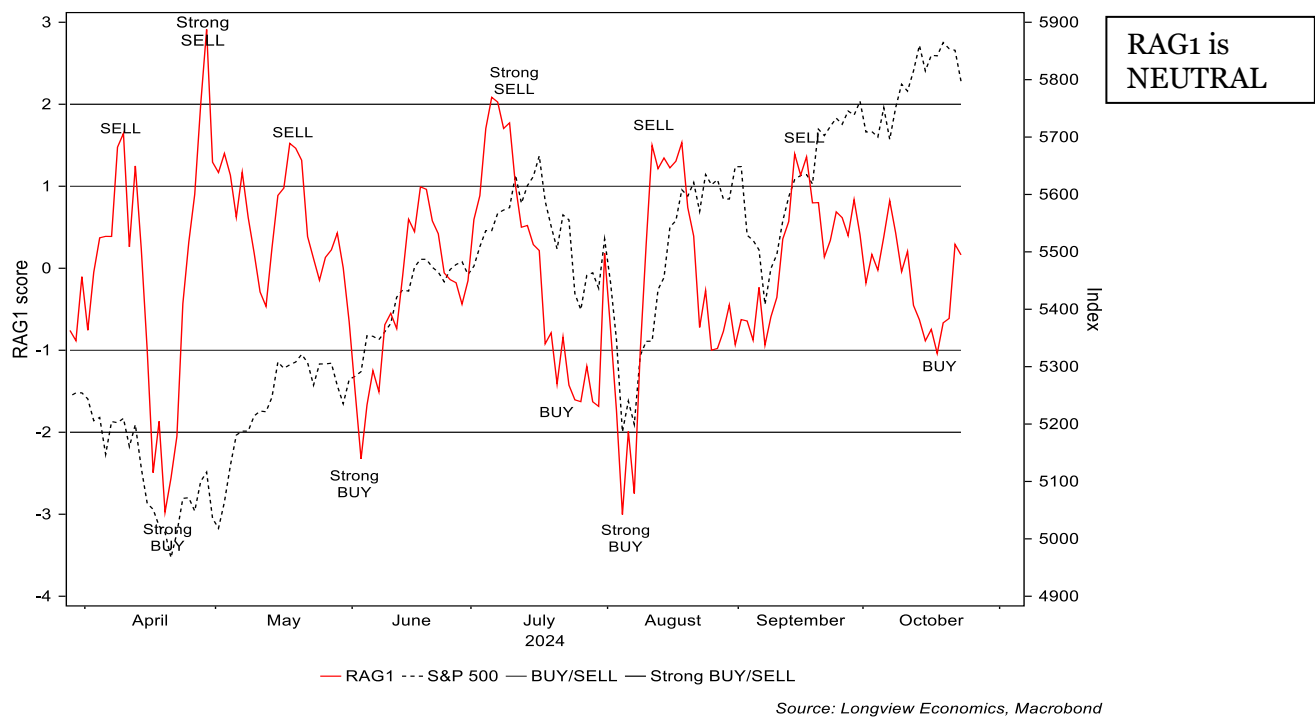
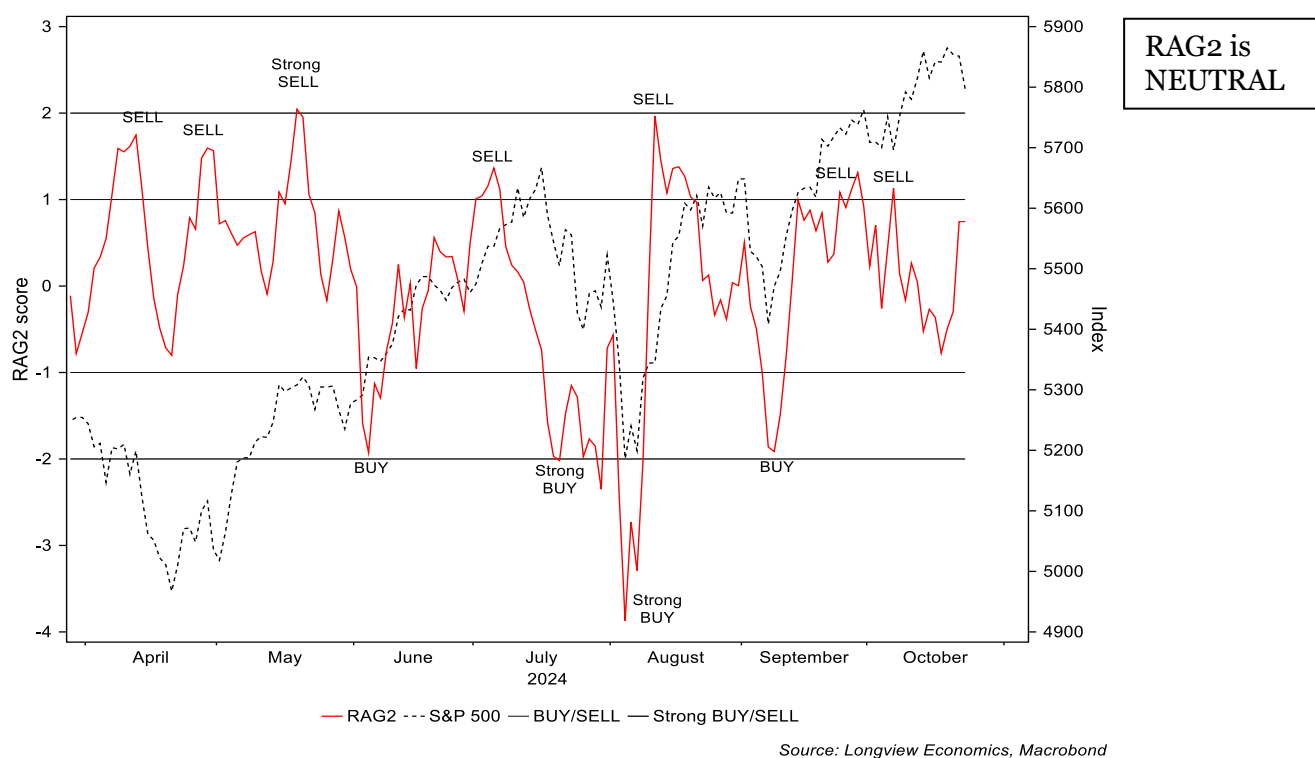
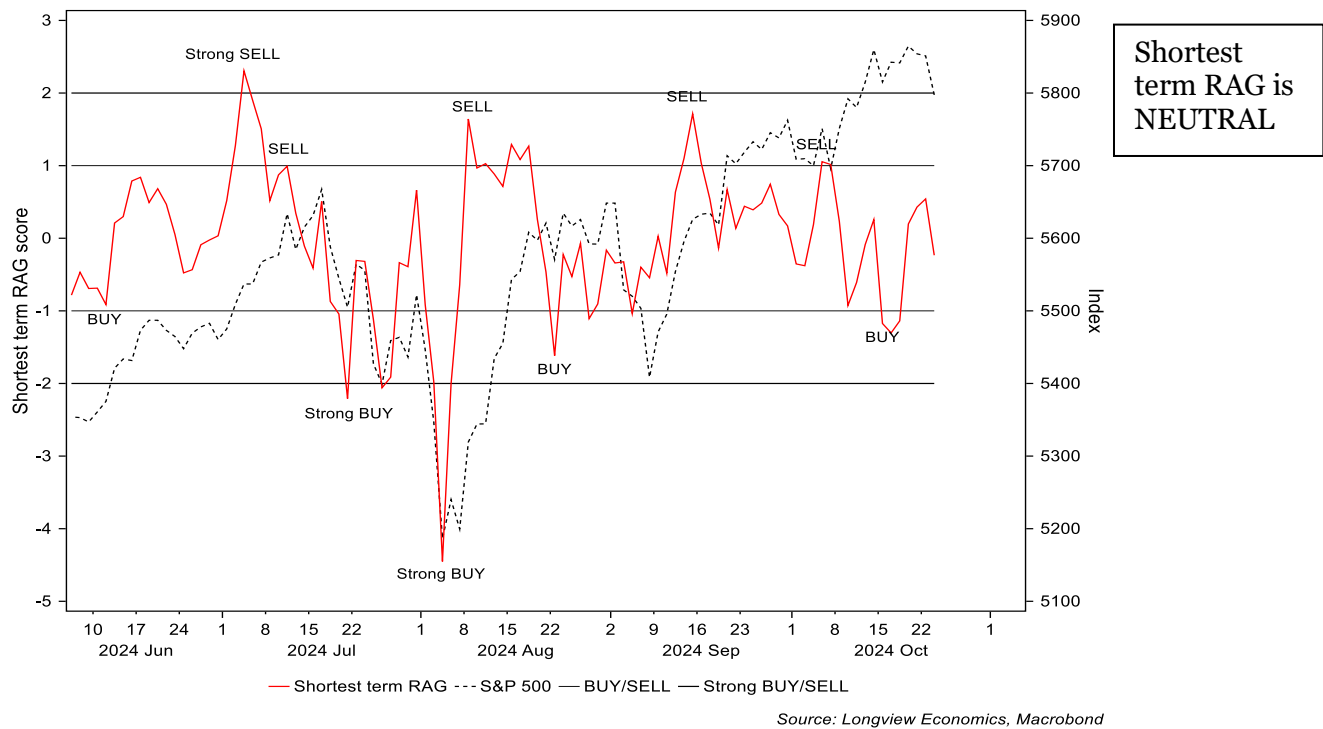


Fig 2b: RAG 2 vs. S&P 500

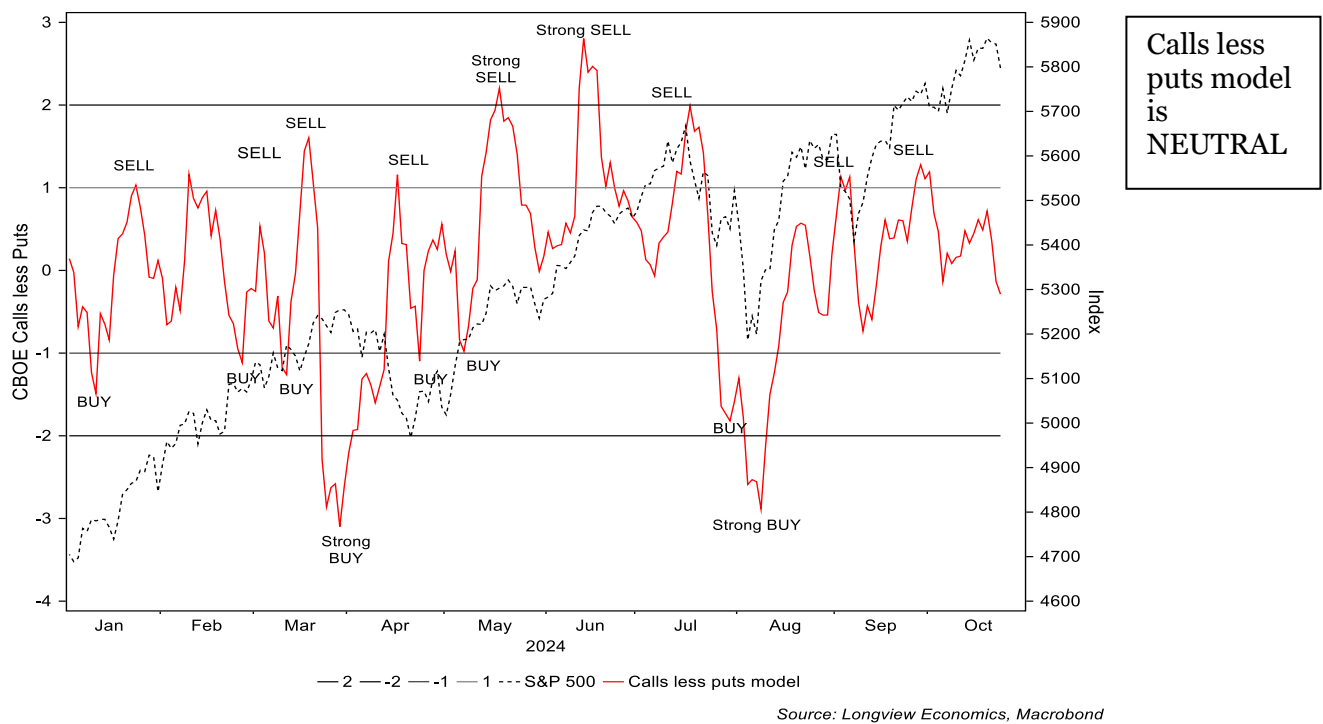


For explanations of indicators please see page 10

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

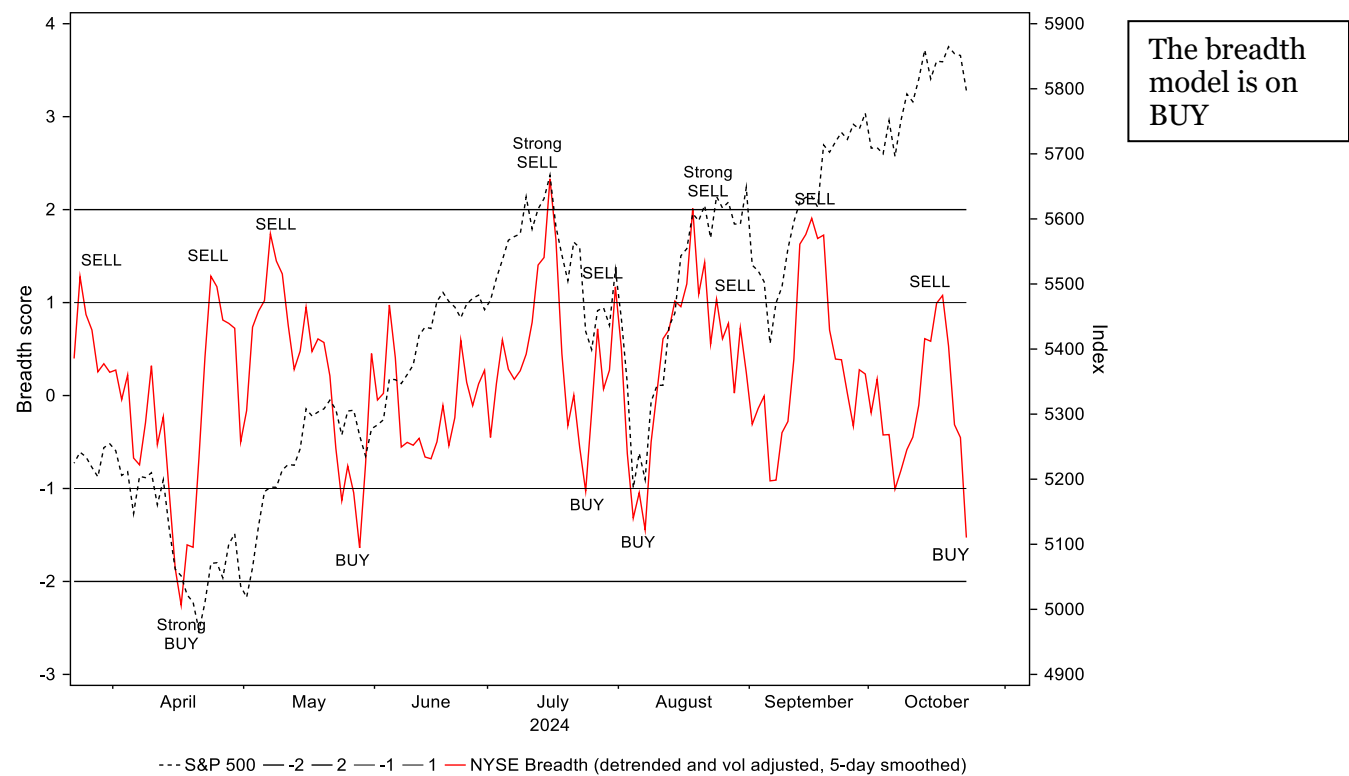


**Fig 2d:** CBOE calls less puts (5 day moving average) vs. S&P500



**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

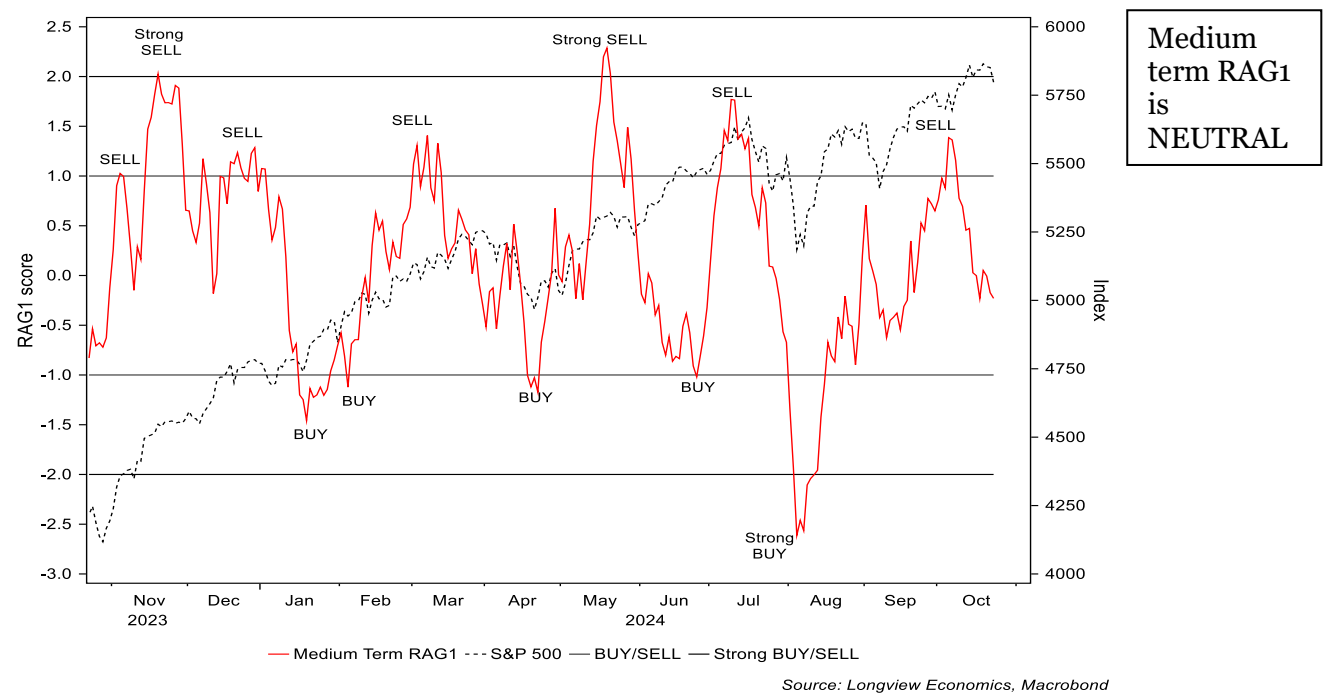
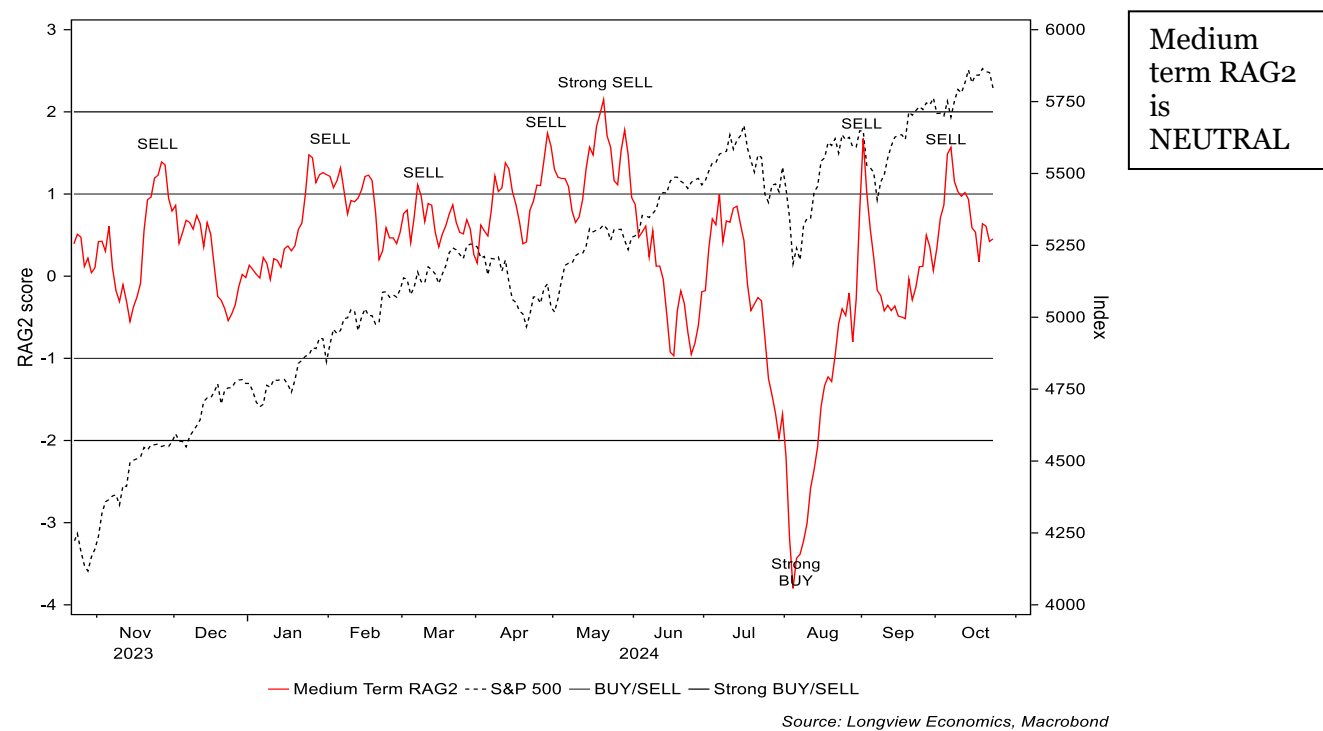
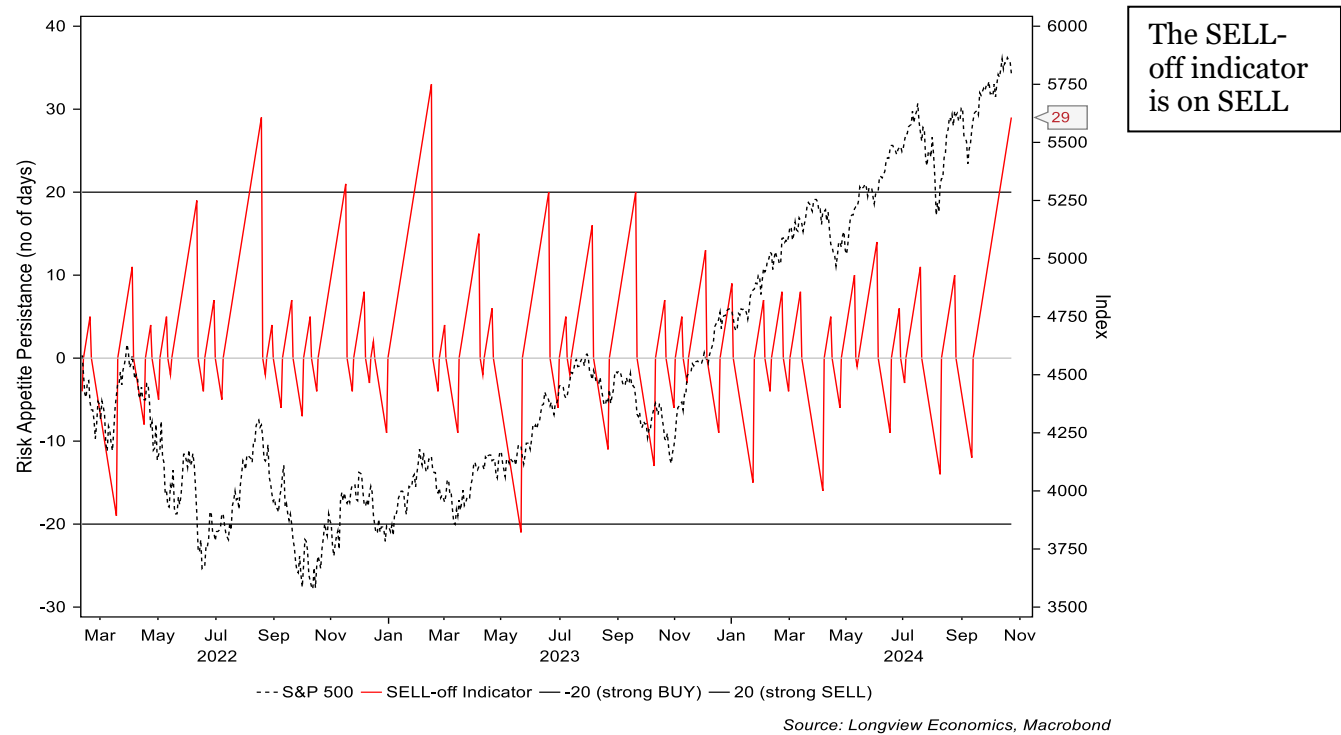


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

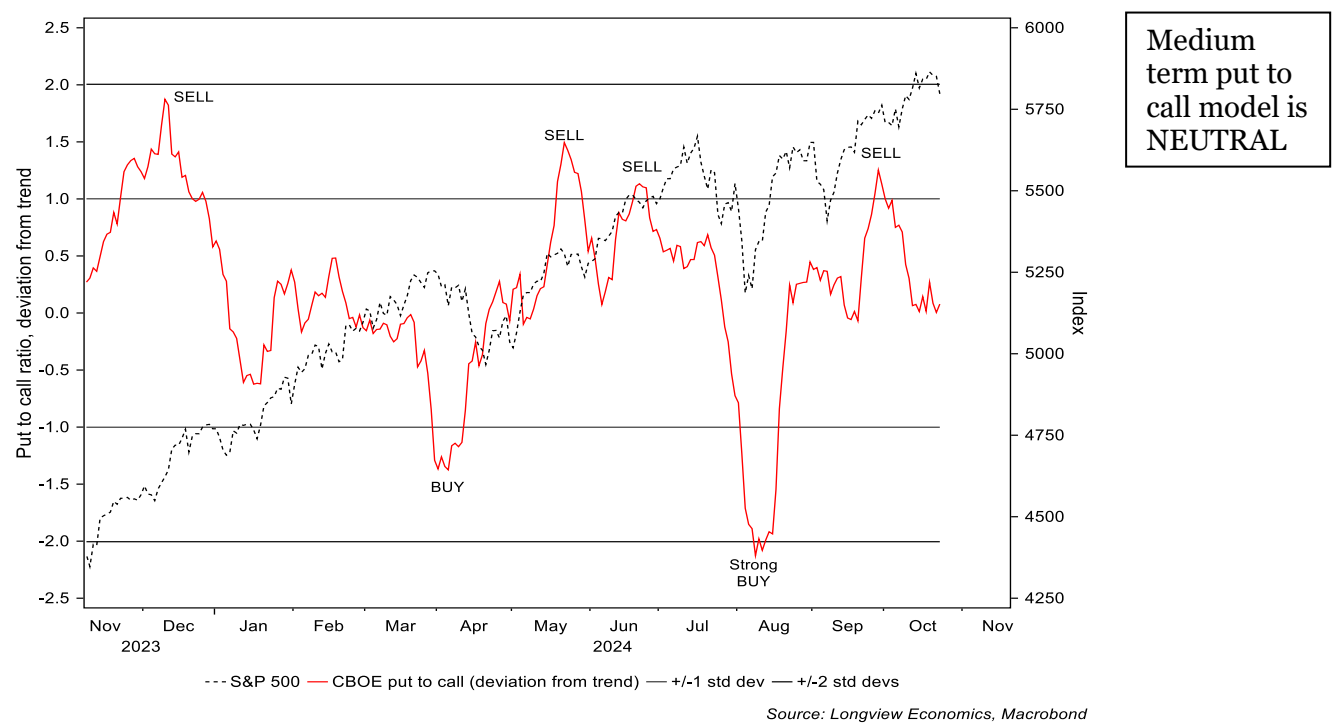


For explanations of indicators please see page 10

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

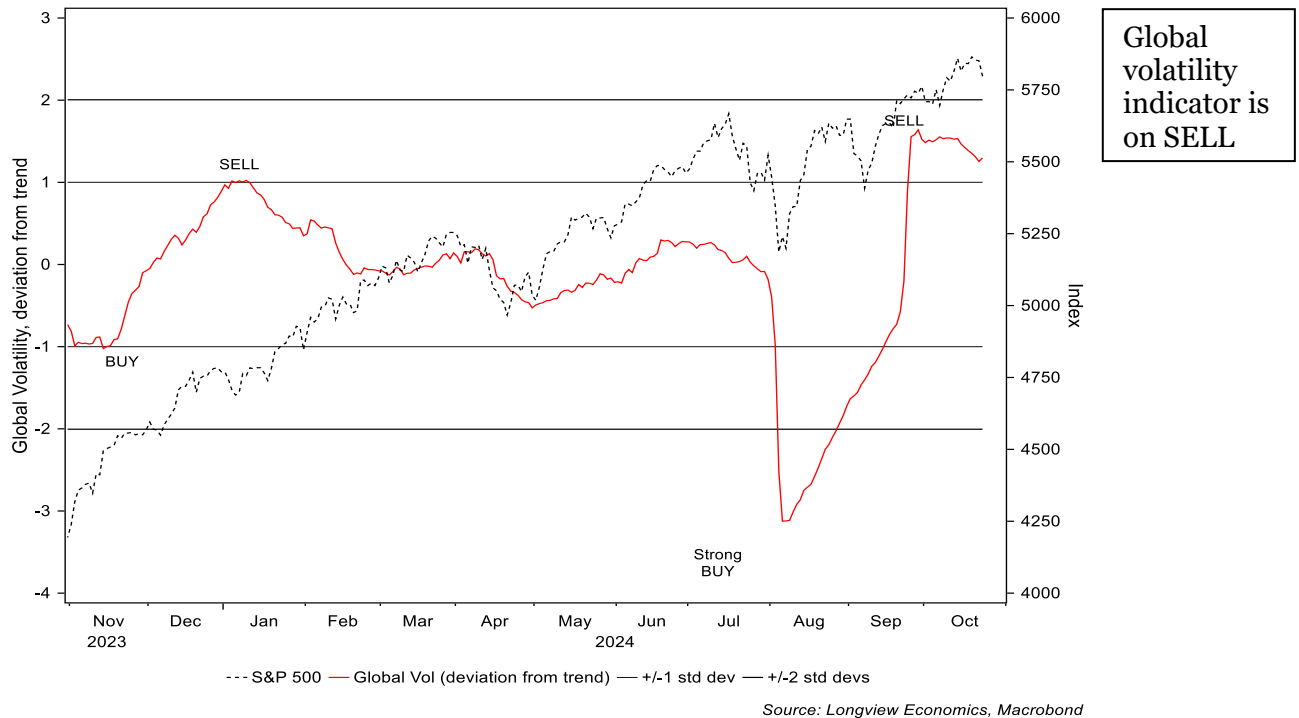


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

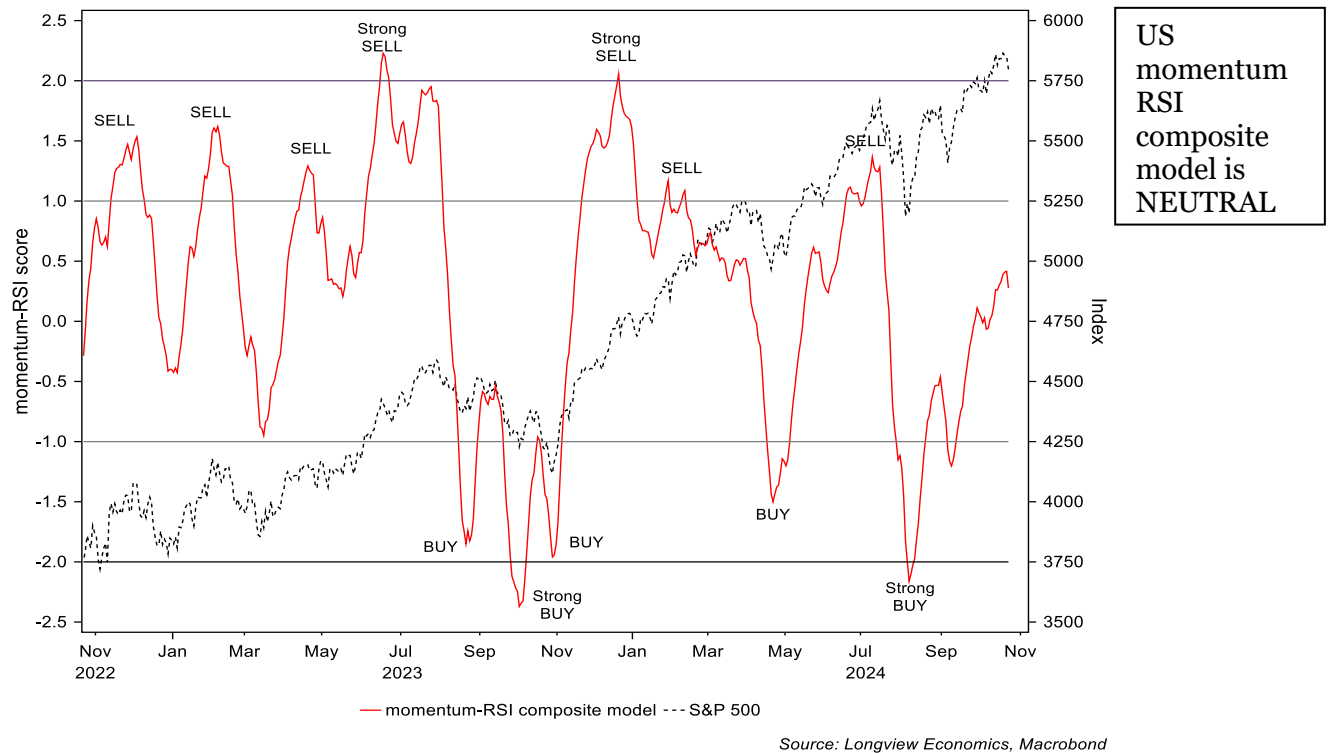


**For explanations of indicators please see page 10**

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

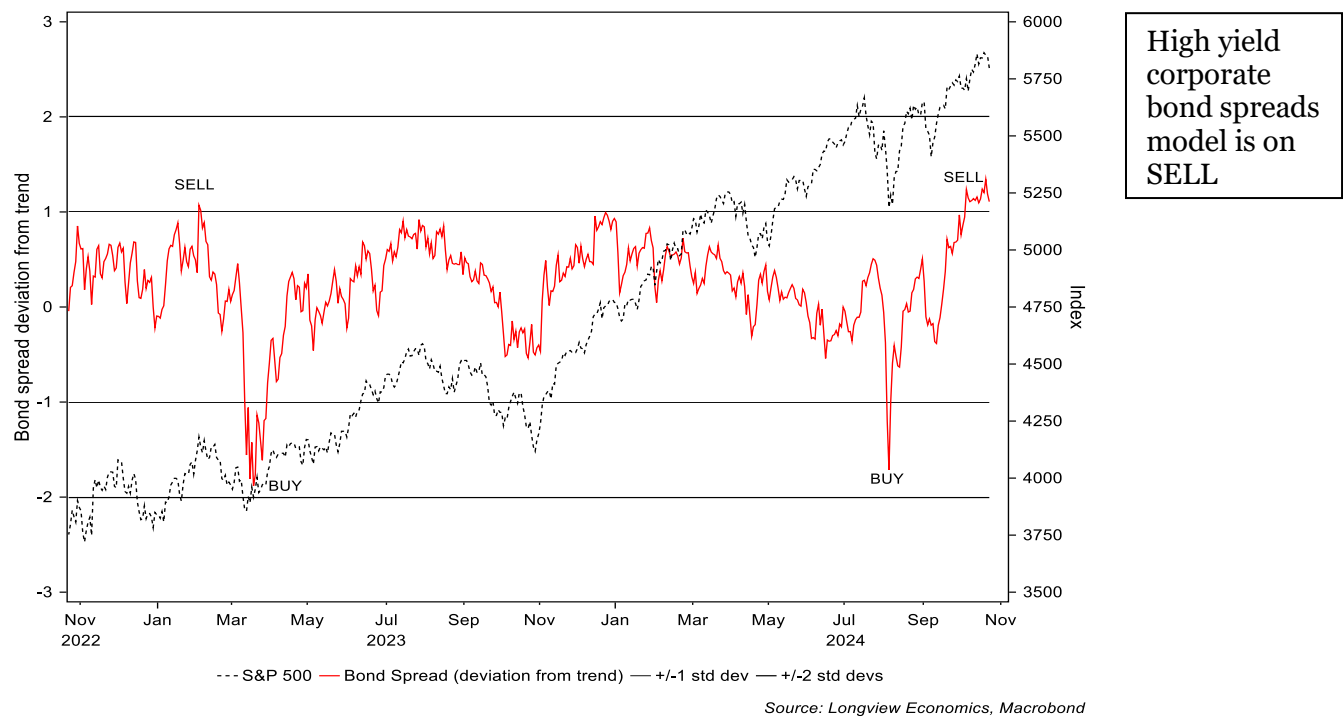


**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500

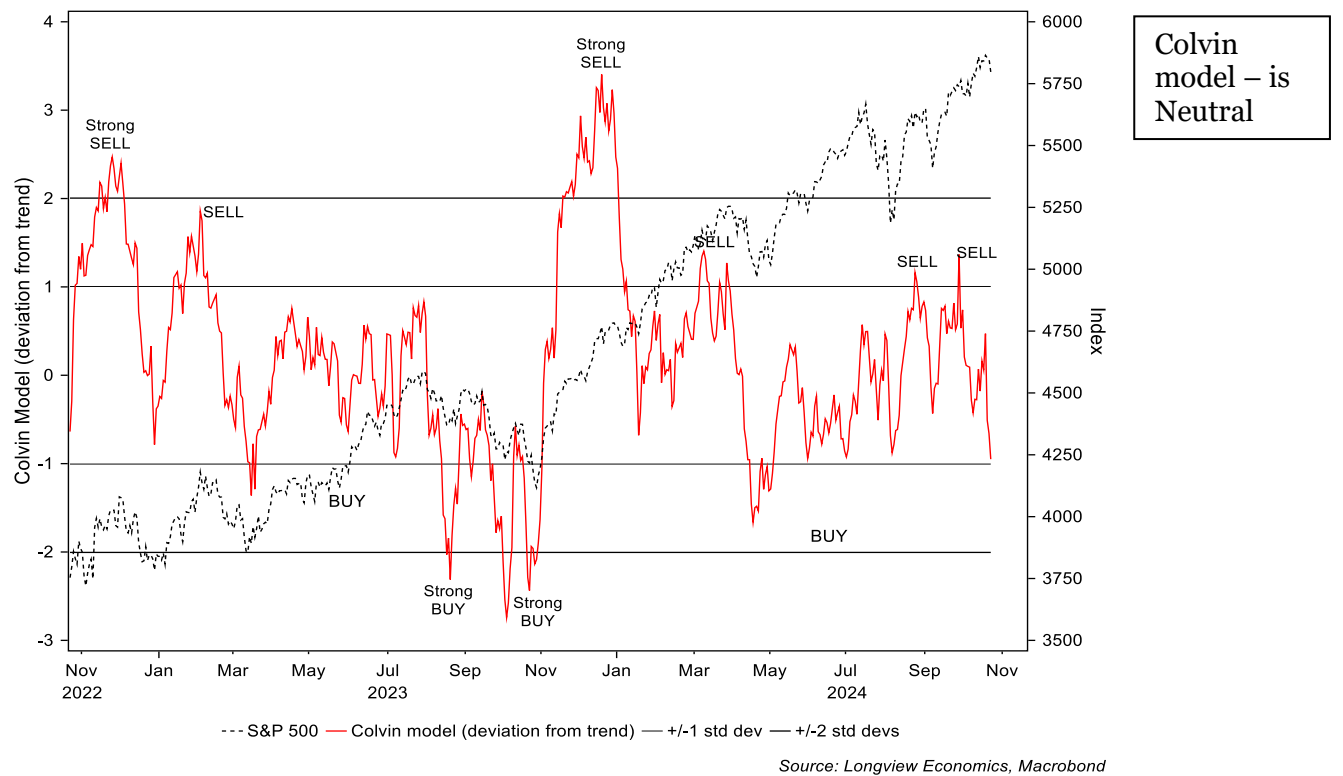




**Fig 3g:** High yield corporate bond spreads deviation from trend model vs. S&P500



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



*For explanations of indicators please see page 10*

## Appendix: Model Explanations

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### **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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