Equity Index Futures Trading Recommendations

24th 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

US equity markets were mixed yesterday, with modest gains in key indices (e.g. NASDAQ100 & S&P500: both +0.3%). There has still, therefore, been a lack of follow through strength in this equity market (with relatively poor/unimpressive price action on Friday and yesterday, i.e. post last week's Fed decision).

Overnight the Chinese authorities have surprised markets with rate cuts (both the RRR and interest rates) and other new stimulus measures (see HERE for detail). That's triggered some strength in oil (e.g. Brent: +1.2%); and copper (+2.3%) as well as the Chinese currency (CNH: +0.4%). US equities, though, are only trading modestly higher (e.g. with NDX futures up 0.2% at the time of writing).

With only modest gains in the index in recent trading days, the NASDAQ100 continues to test a key resistance level (just below 20,000 on the cash index, which is the highs from late August and mid-June, see FIG 1b). Elsewhere the Philly SOX has struggled to break above its 50 day moving average (and the top of its recent pennant formation, FIG 1c). In part that reflects poor price action in Nvidia (~44% of the PHLX market cap), which has failed to break above its 50 day trend line (FIG 1d).

Short term models suggest that upward **momentum in the NASDAQ100 should continue to fade (and then reverse)** over coming trading days. In particular, the NDX is technically overbought (FIG 3); the NDX momentum model is on SELL (FIG 3a); downside put protection in NDX stocks is low (FIG 3b); and NDX sentiment is close to bullish levels (i.e. a contrarian SELL signal).

Other (general) short term models also point to near term weakness in markets. Risk appetite models, for example, are on/close to SELL (FIGs 2 & 2a), while various put to call, momentum, and breadth models are also on (or leaning towards) SELL, see FIGs 2b – 2f. Added to which, complacency levels are high (FIG 1a), while our (single stock) momentum model is back on SELL, and has generated timely signals in recent months, FIG 1.

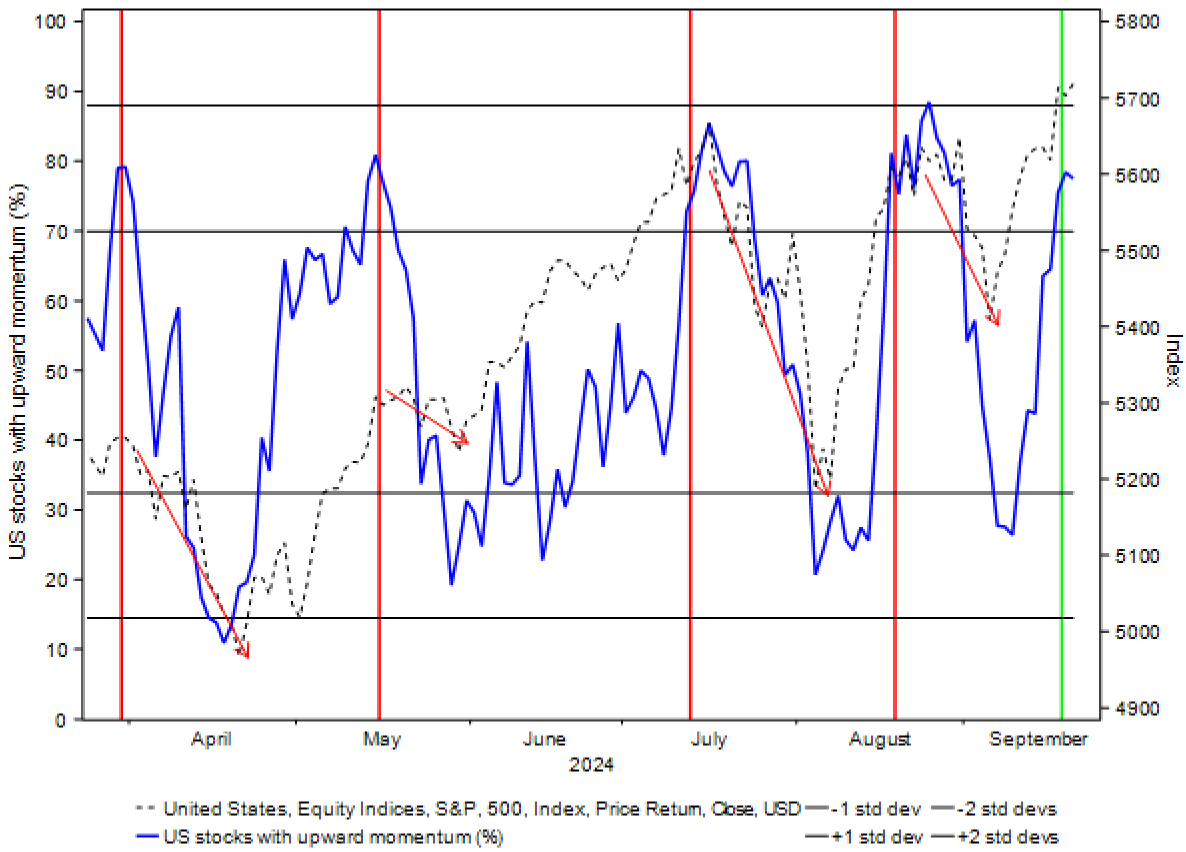
The **risk reward therefore favours staying SHORT** the NASDAQ100, with an unchanged stop. Please see above for detailed recommendation. Risks, as always, are multiple, and include the possibility that equities have entered a 'risk on' regime (i.e. the uptrend has resumed).

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

Kind regards,

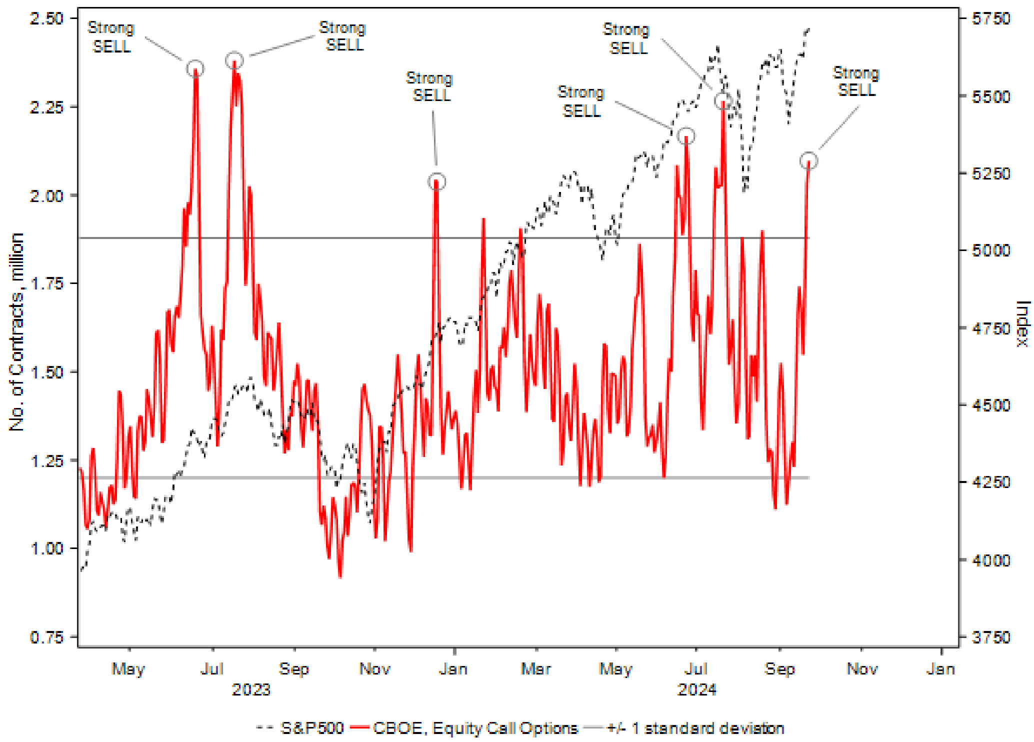
The team @ Longview Economics

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



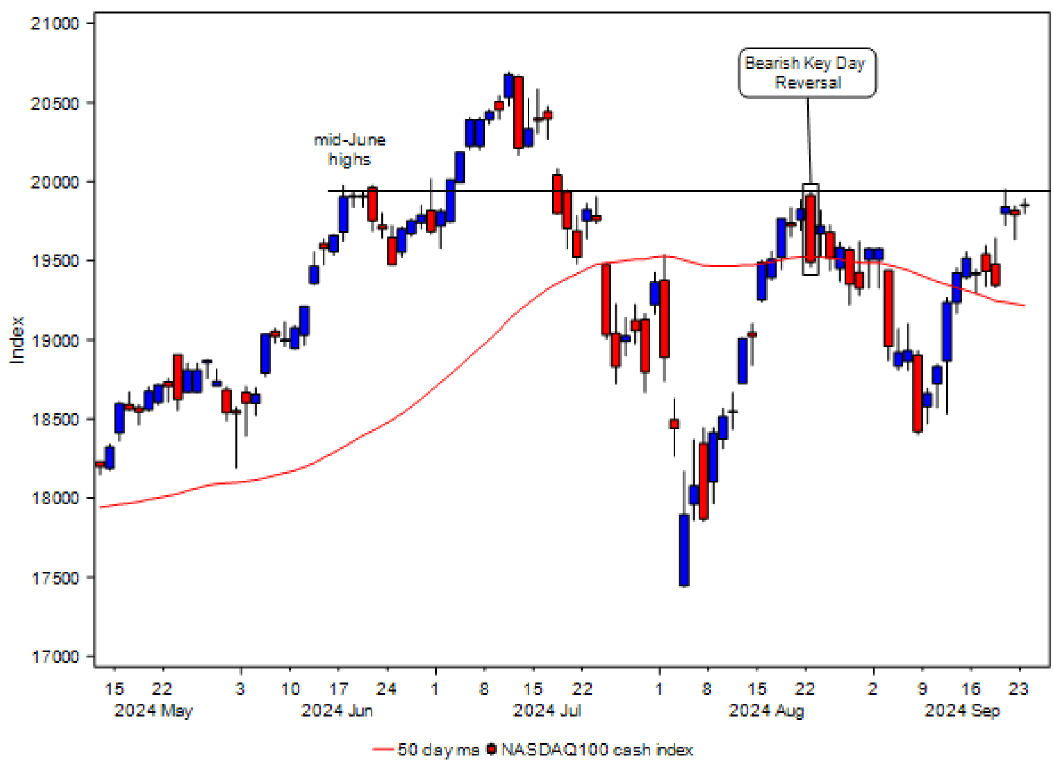
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 1b: NASDAQ100 cash index, shown with 50 day moving average



Source: Longview Economics, Macrobond

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

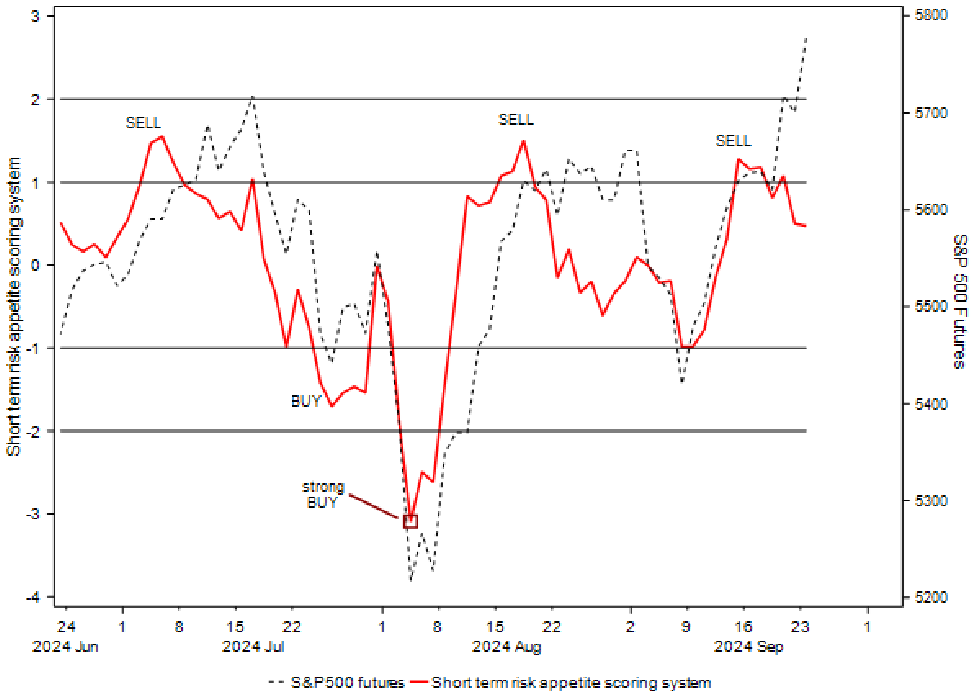
Source: Longview Economics, Macrobond

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

Source: Longview Economics, Macrobond

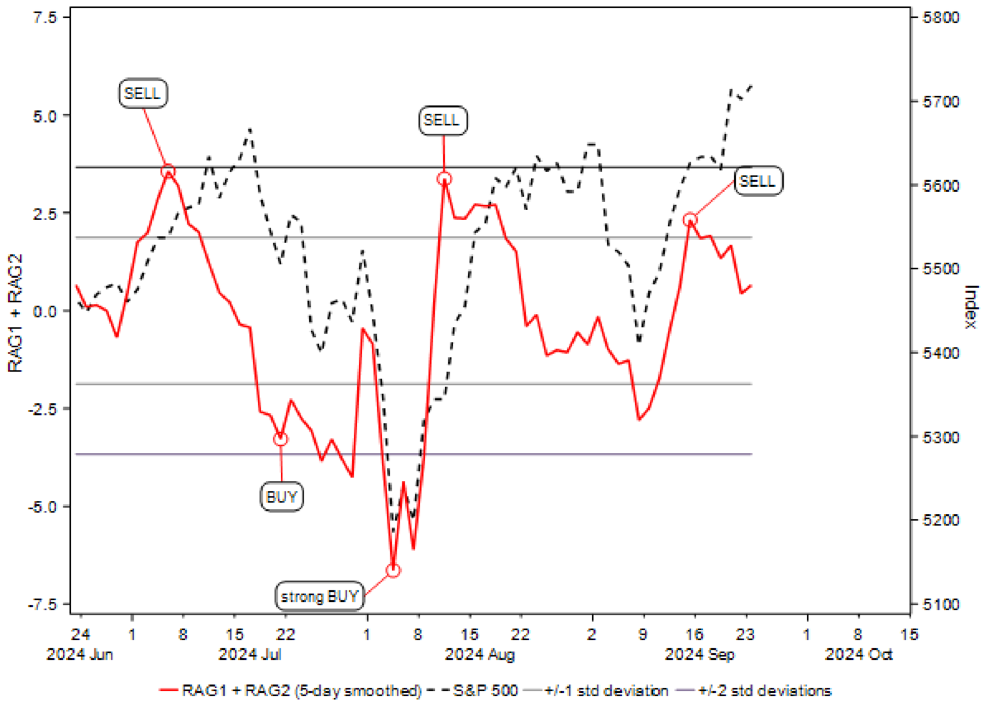
Short term market timing models are either on or close to SELL.

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



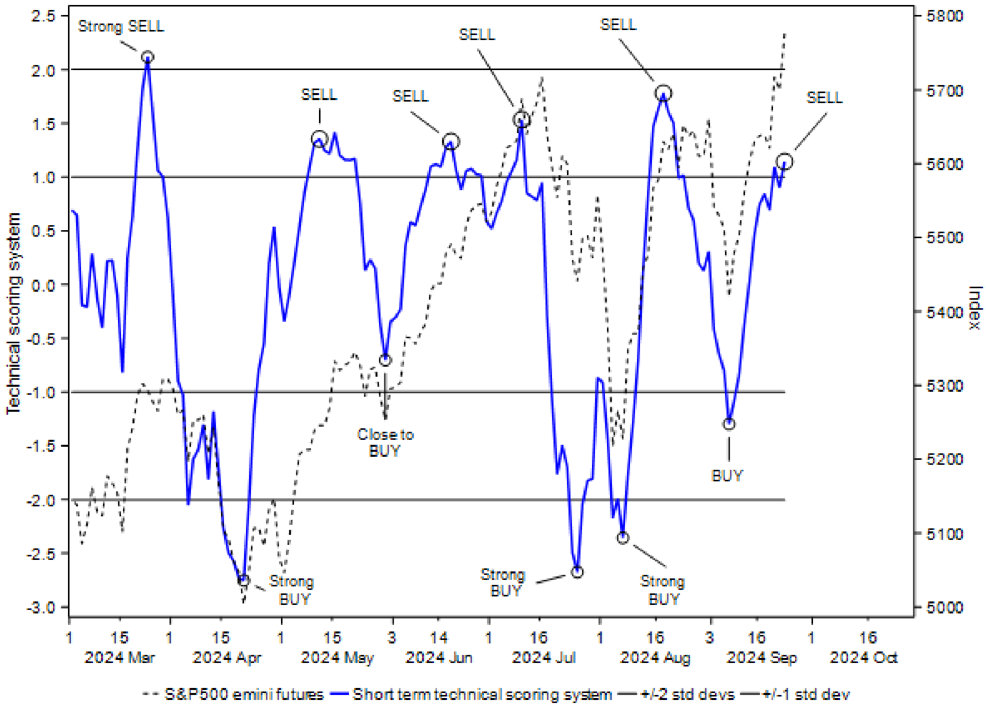
Source: Longview Economics, Macrobond

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



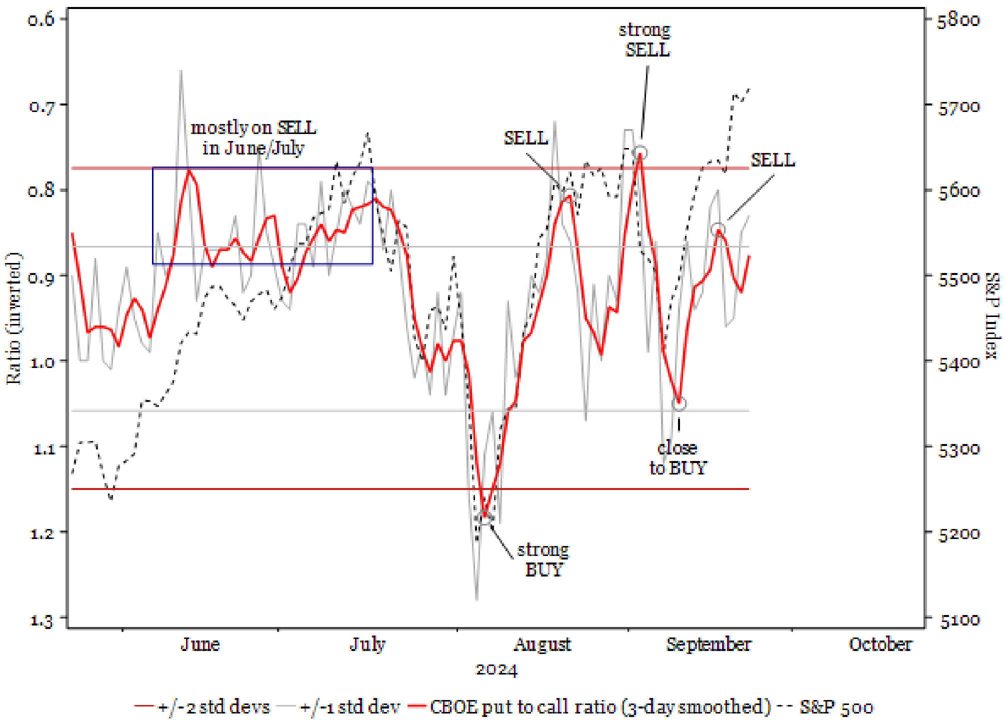
Source: Longview Economics, Macrobond

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



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: Global composite momentum model vs. S&P500

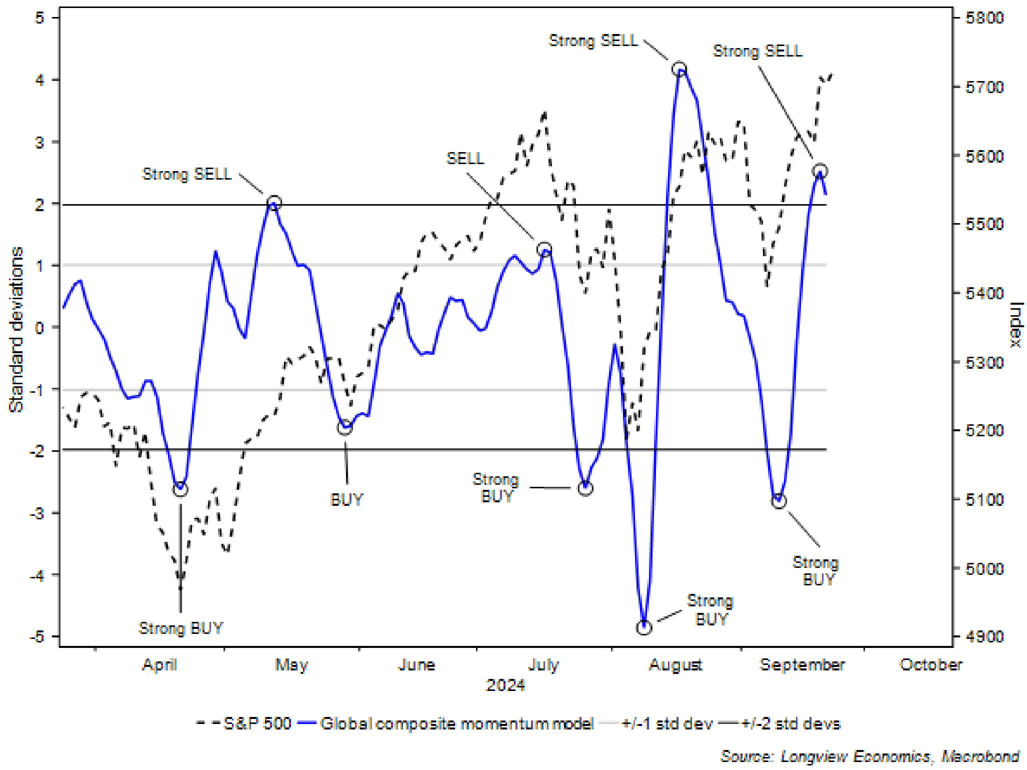


FIG 2e: Proportion of US stocks above their 10 day moving average vs. S&P500

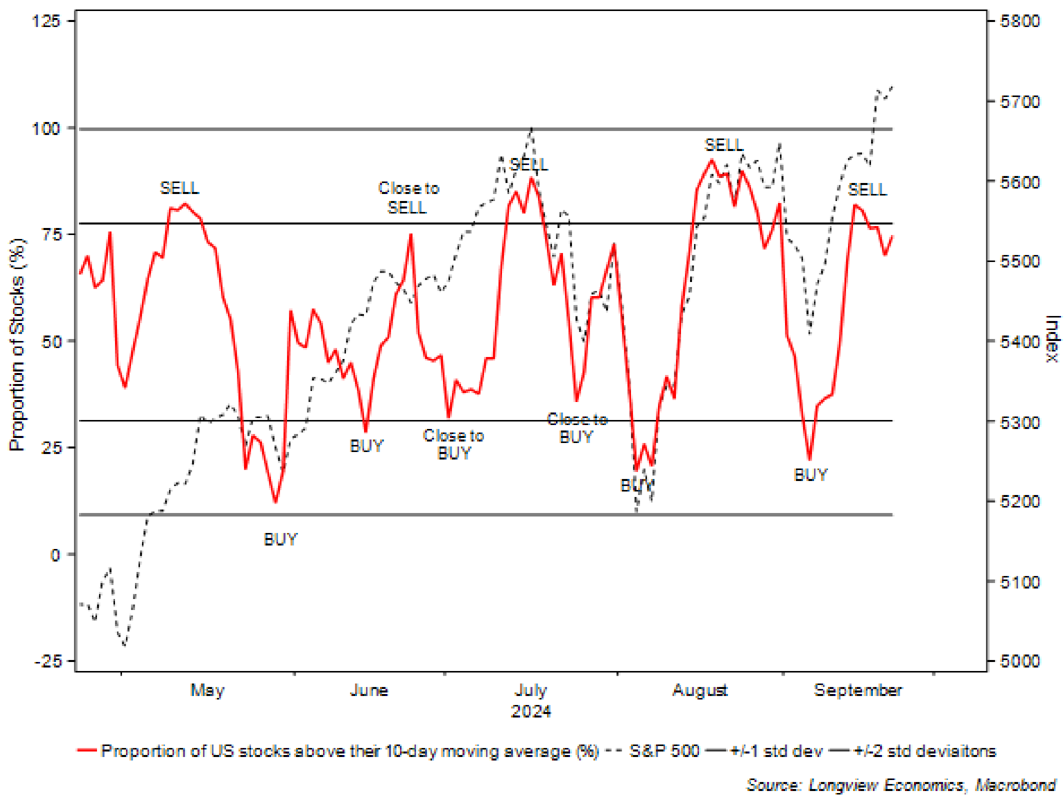
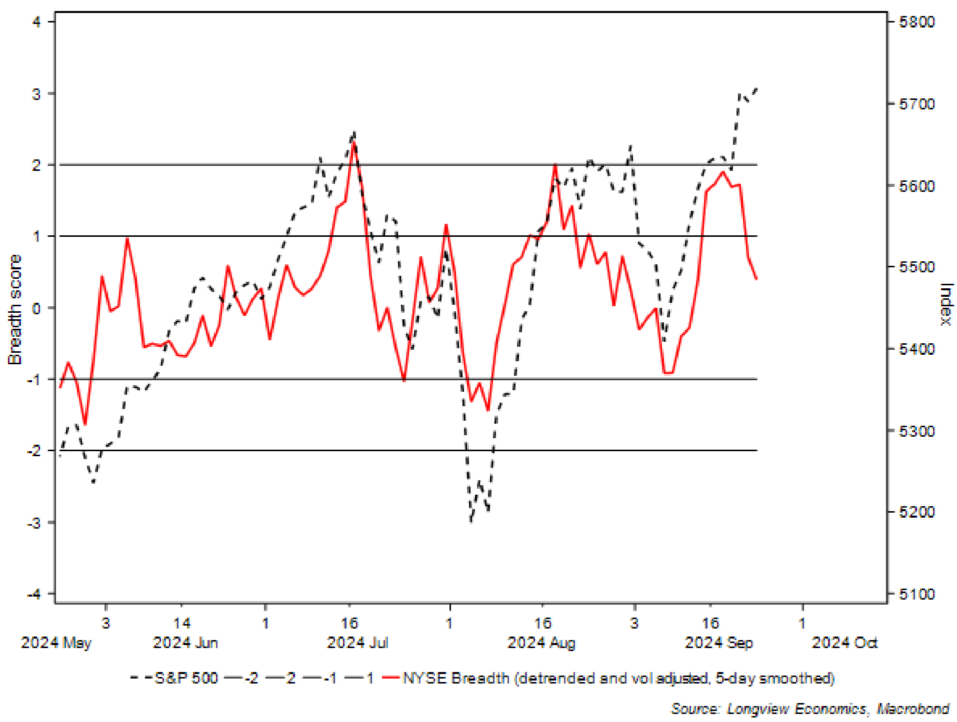
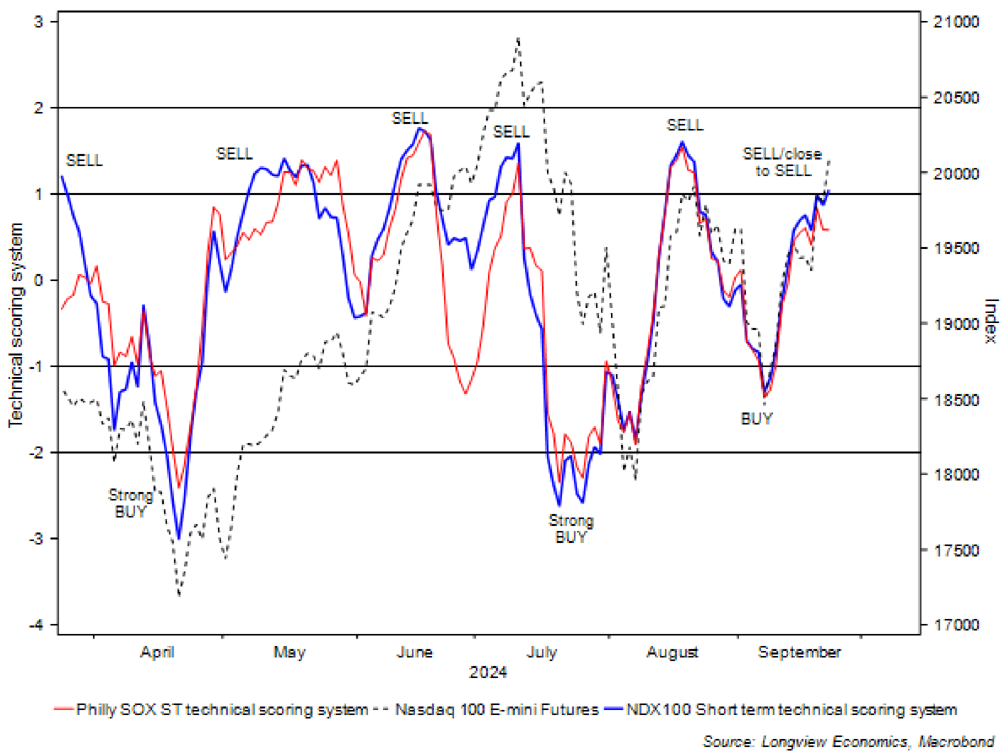


FIG 2f: Short term NYSE breadth model vs. S&P500



Tech centric models are on/close to SELL levels

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



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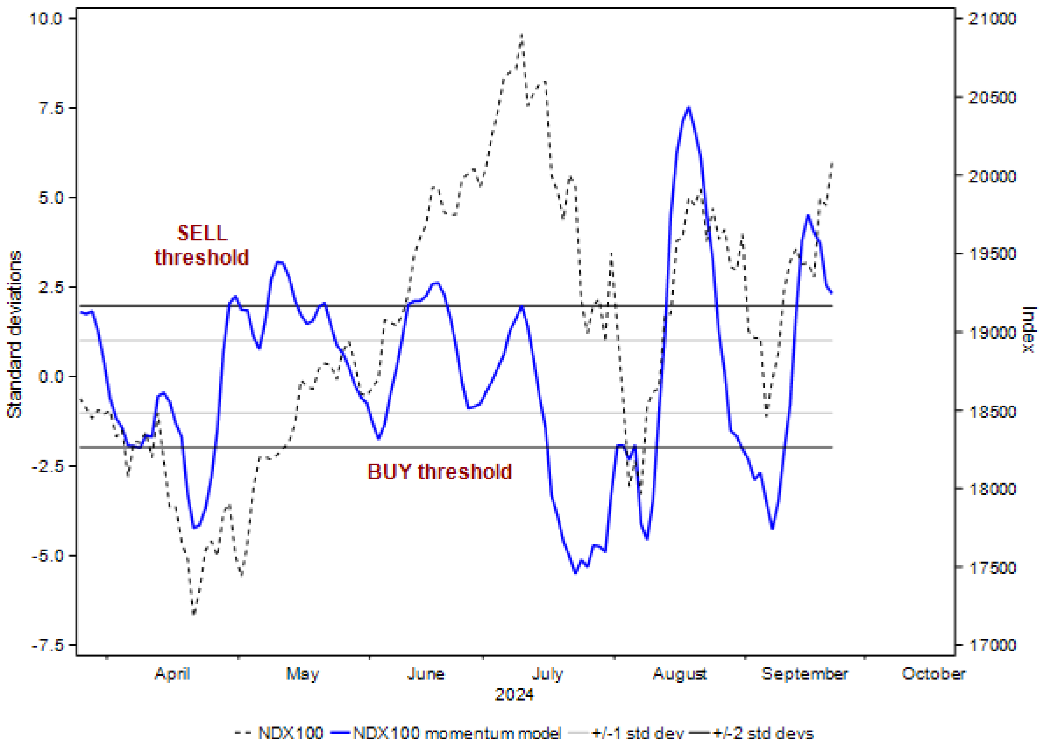
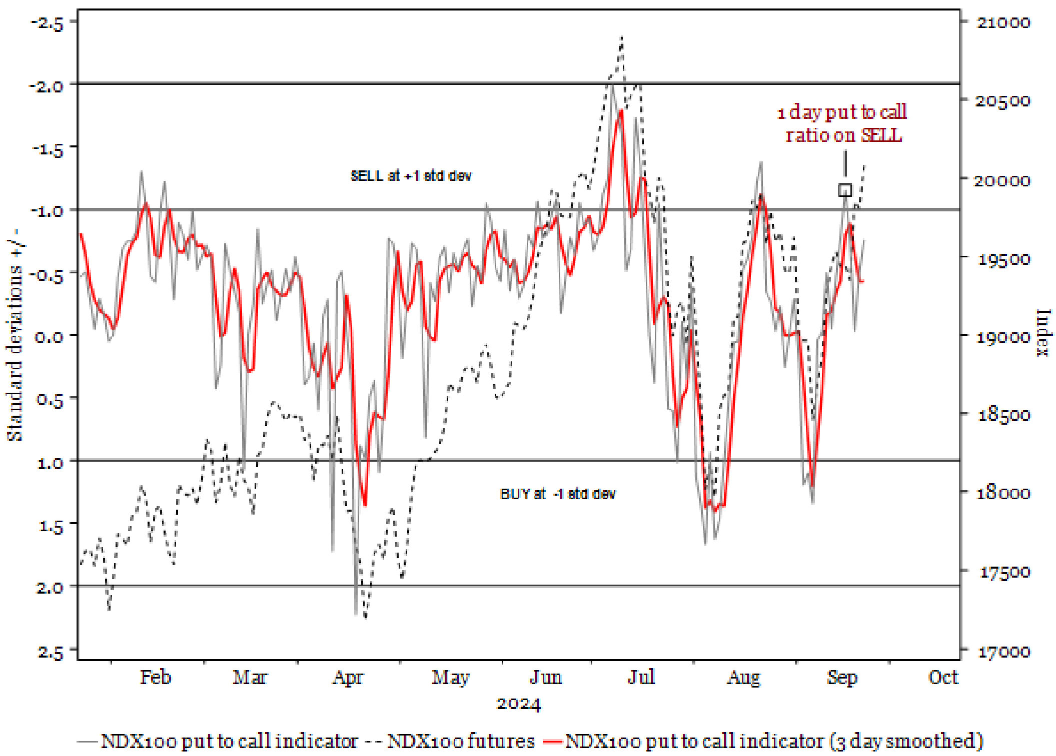
Daily Risk Appetite Gauge

FIG 3a: NDX100 momentum model shown vs. NDX100



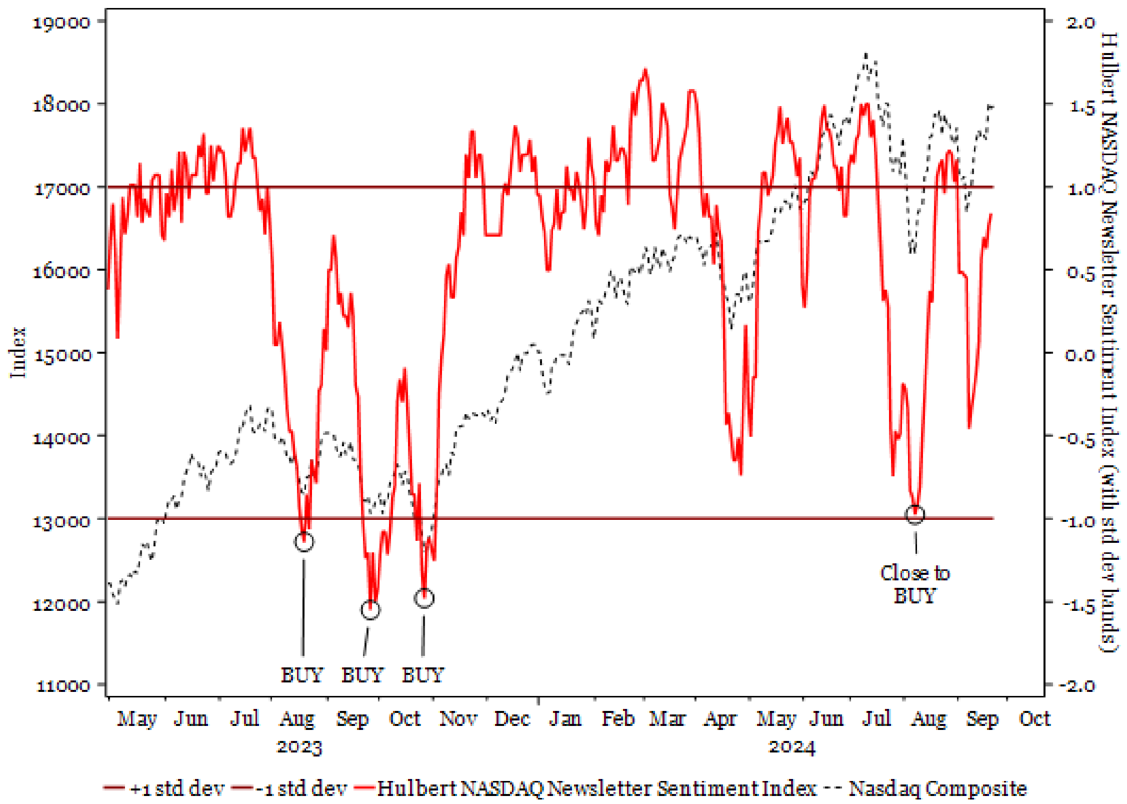
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

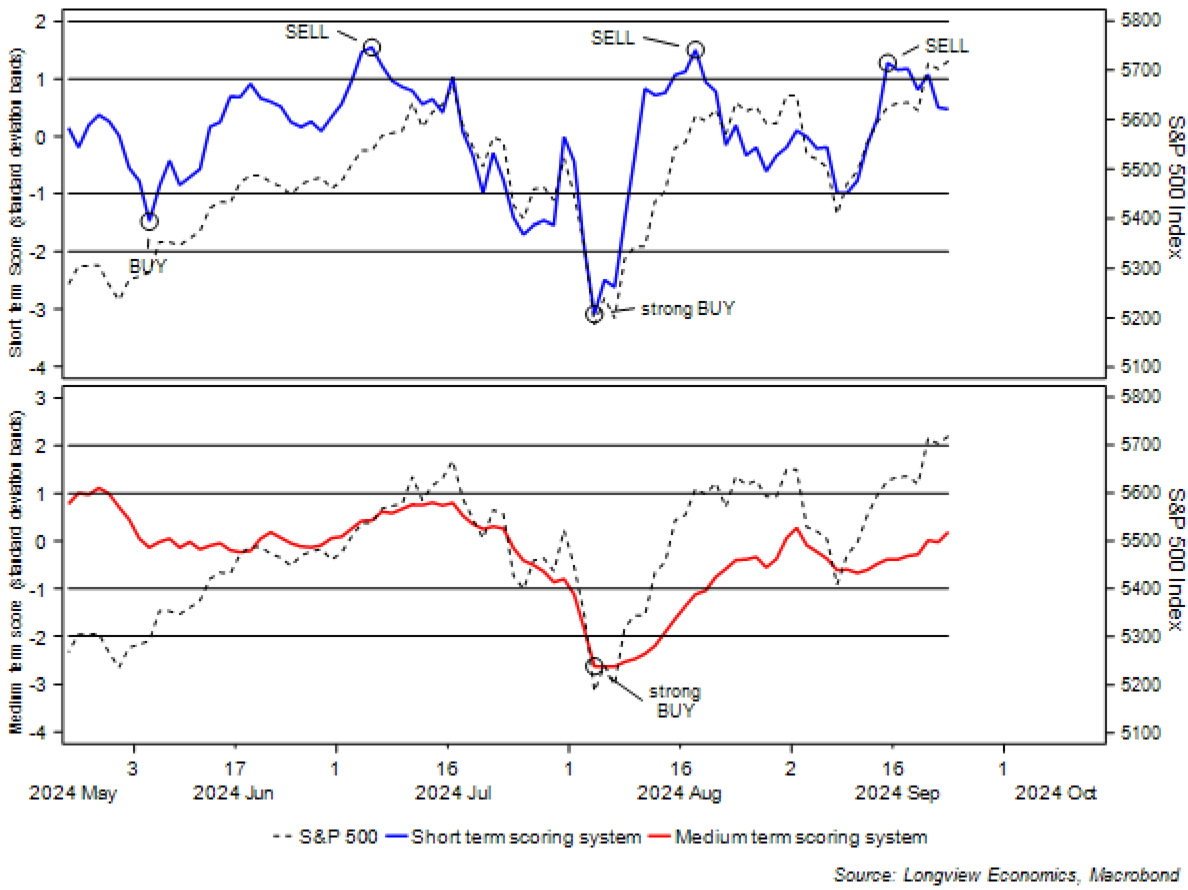


Source: Longview Economics, Macrobond

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**

<u>**FIG A:** Longview short and medium term scoring systems vs. S&P500</u>



Key macro data/events

Key data today include: **Japanese Jibun Bank manufacturing & service sector PMIs** (September first estimates, 1:30am); **German IFO business climate** (Sept, 9am); US Philadelphia Fed service sector activity (Sept, 1:30pm); US FHFA house price index (Sept, 1:30pm); US S&P/Case-Shiller 20-city & national house prices (Jul, 2pm); **US Conference Board consumer confidence** (Sept, 3pm); US Richmond Fed manufacturing (Sept, 3pm).

Key events today include: **RBA policy decision** (5:30am); speeches by the ECB's Muller at press conference on Estonian central bank's new economic forecasts (9am), Escriva in Madrid & Nagel on the German economy in Frankfurt (5pm).

Key earnings today include: AutoZone.

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.

LVRAG
Daily Risk Appetite Gauge

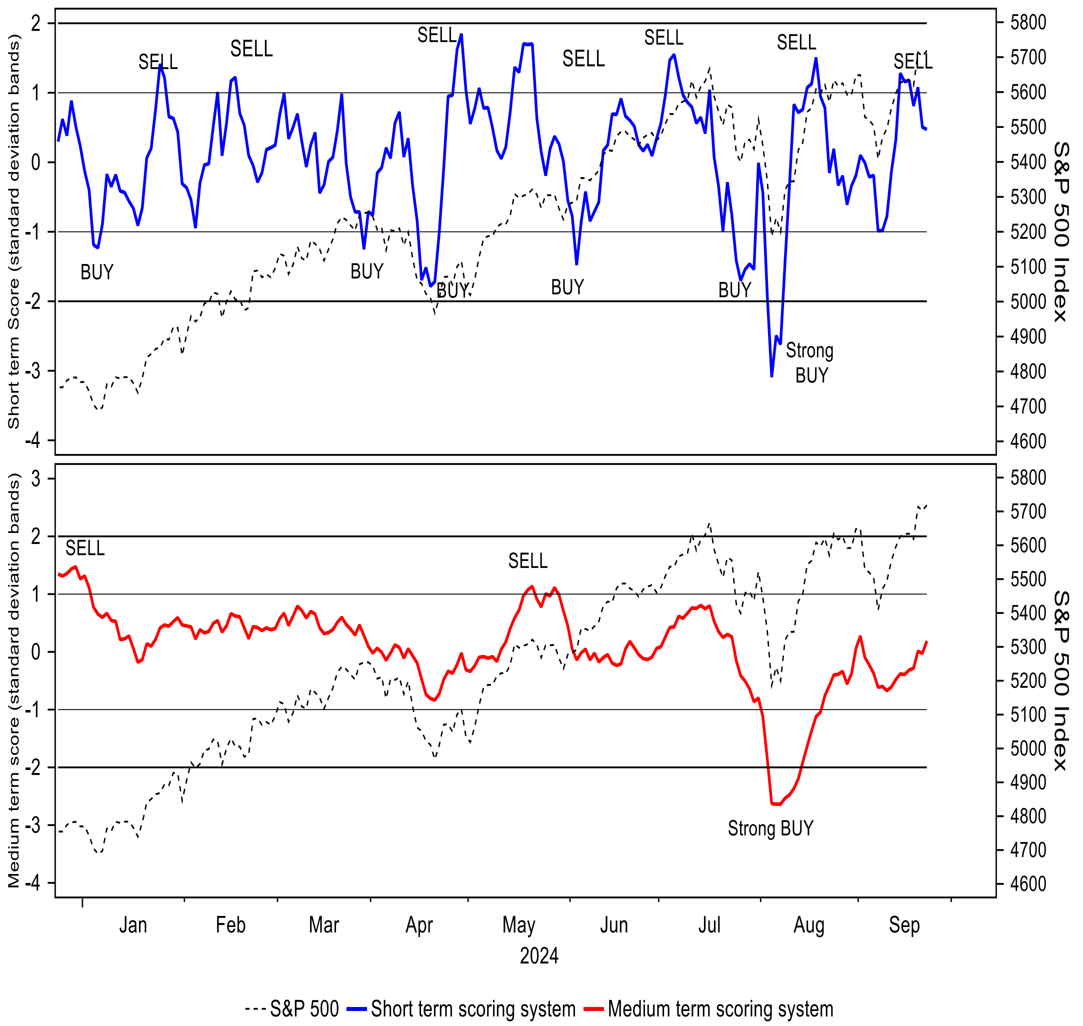
1 – 2 Week View on Risk

24th 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 NEUTRAL

Medium term scoring system is NEUTRAL

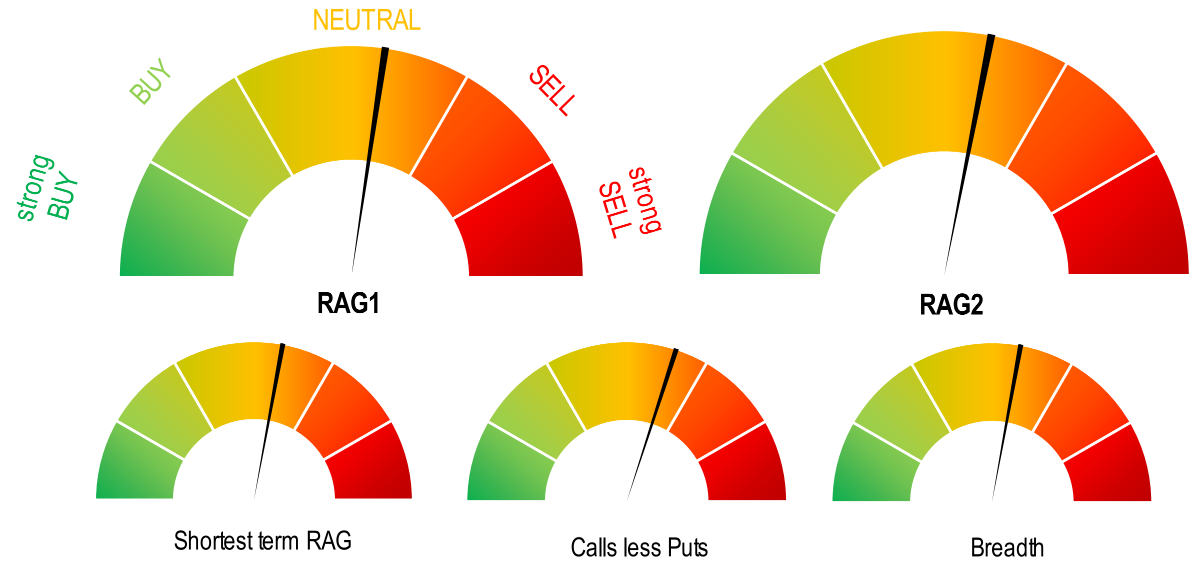
Source: Longview Economics, Macrobond

*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

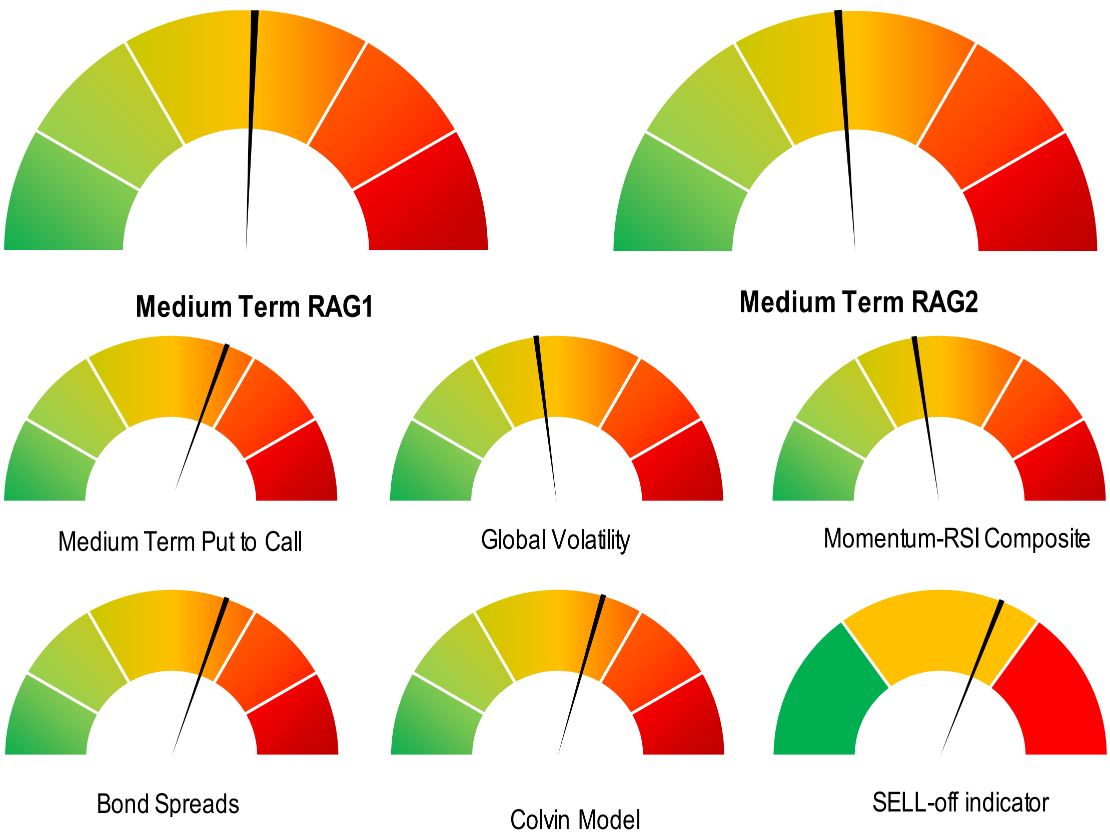
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

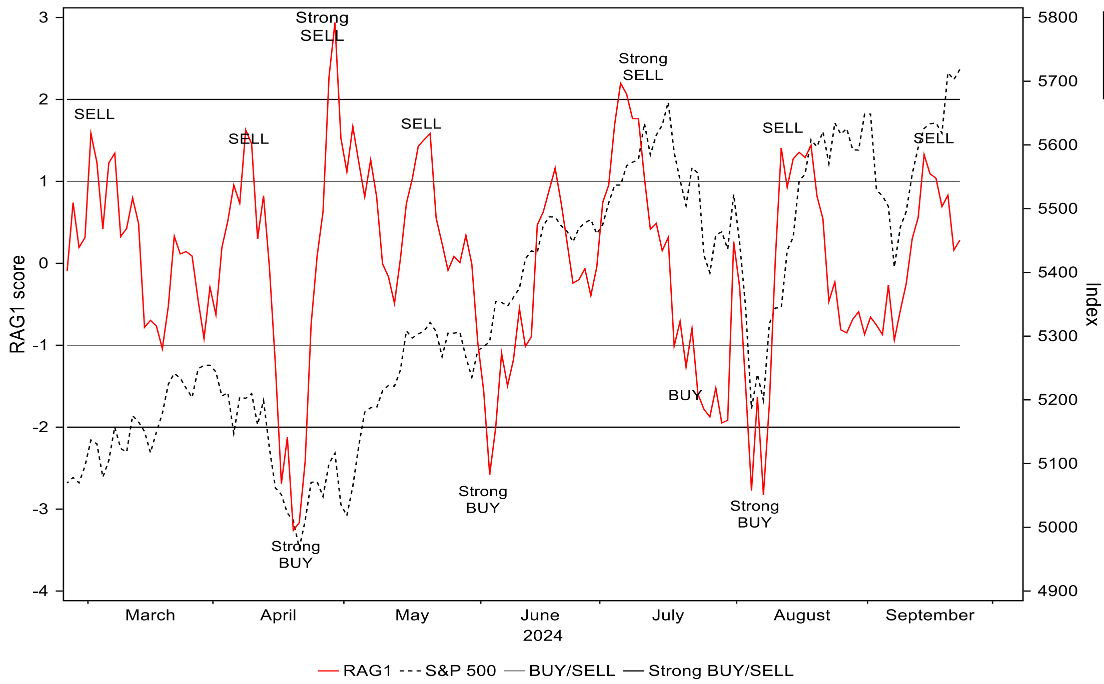
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

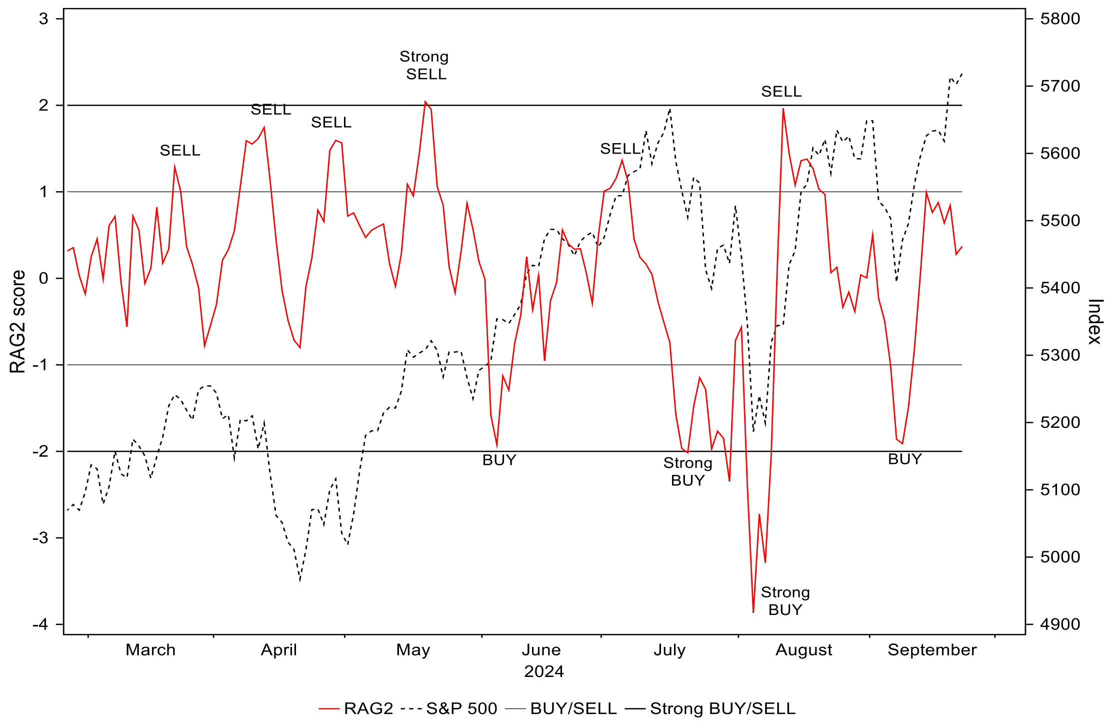
Fig 2a: RAG 1 vs. S&P 500



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

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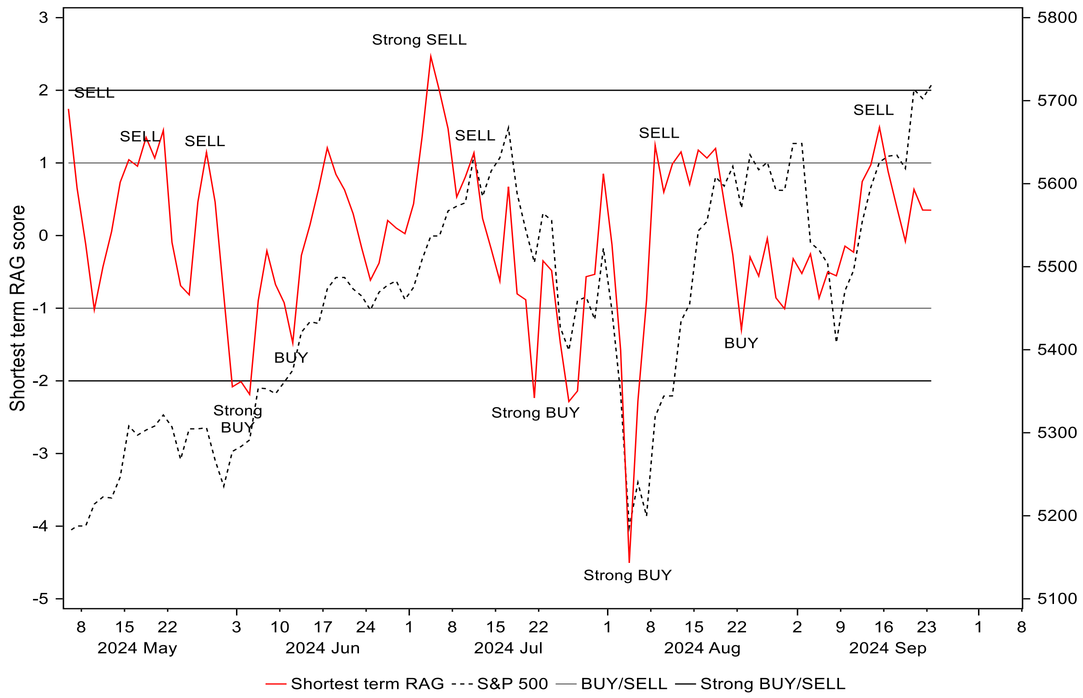
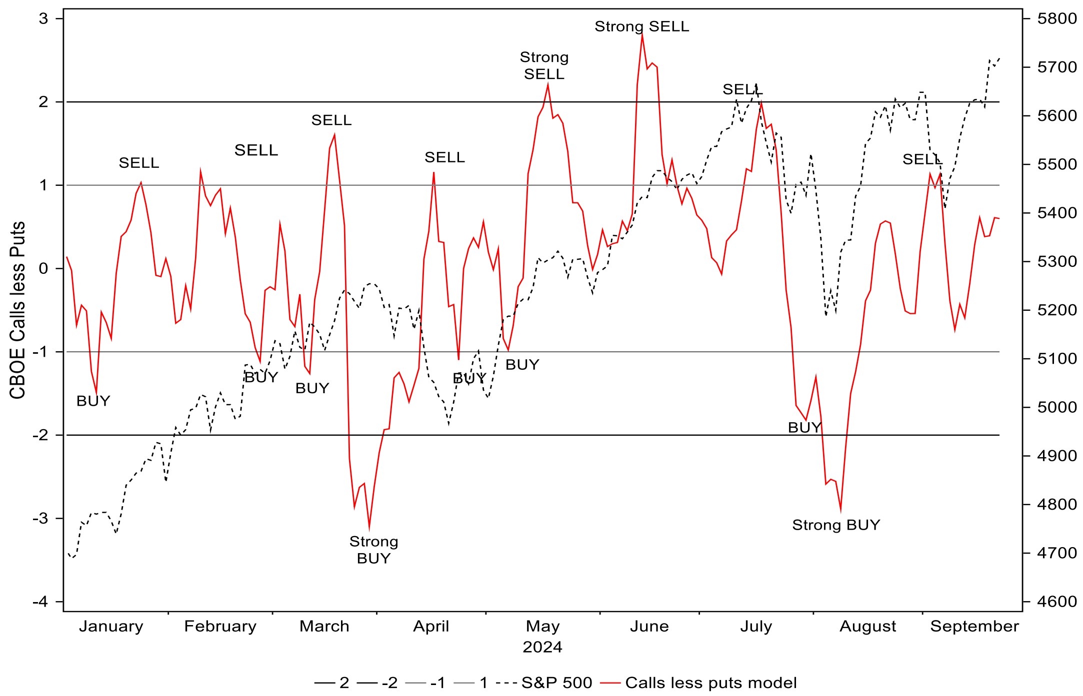
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

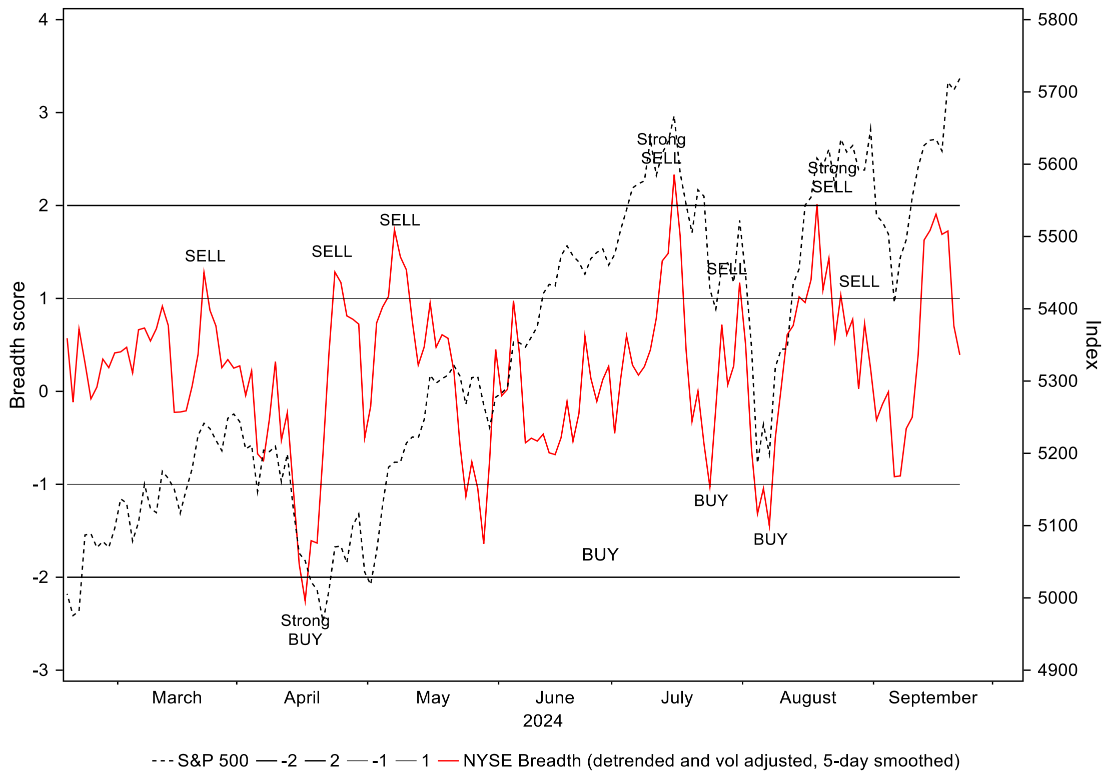


Calls less puts model is NEUTRAL

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



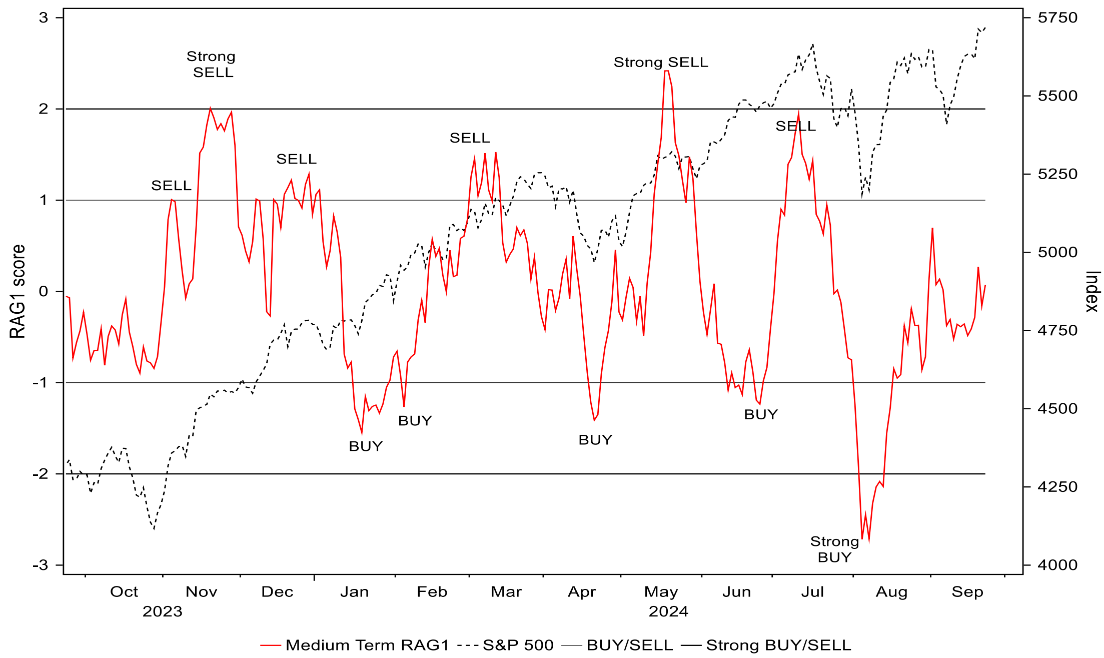
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

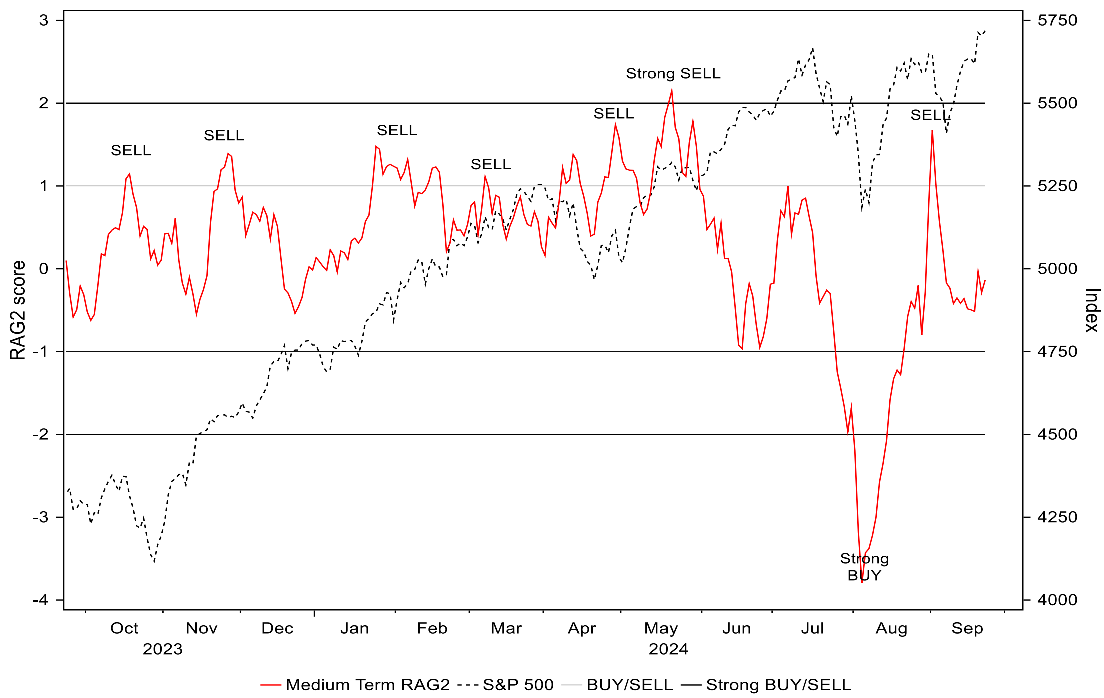
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

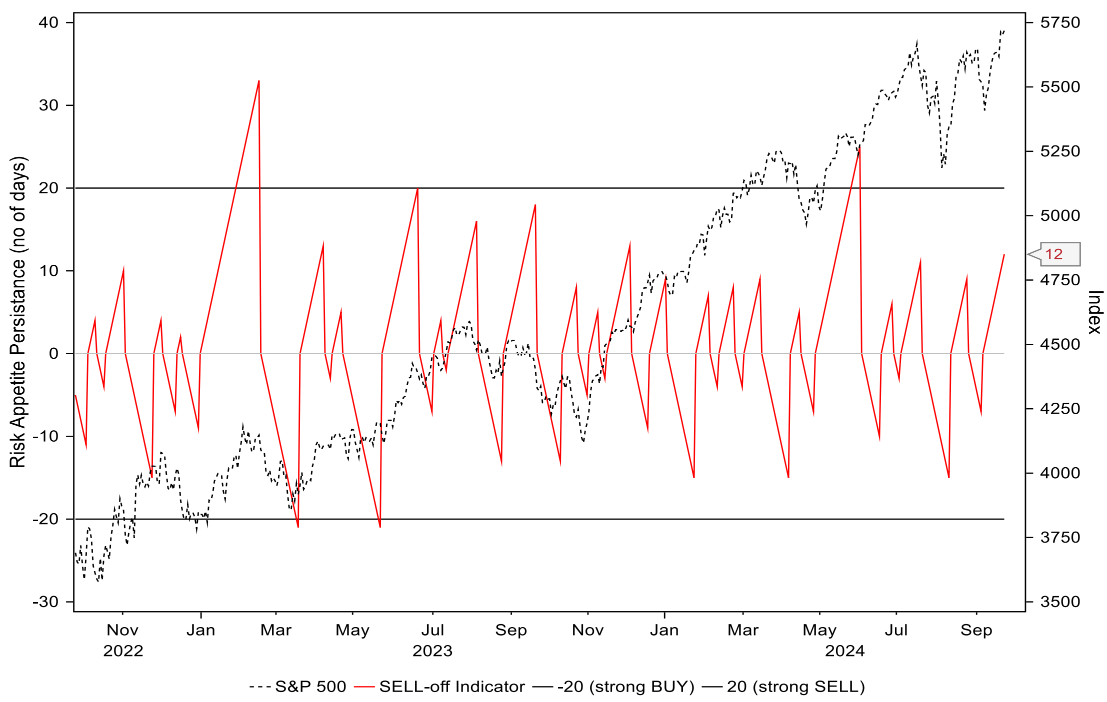


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

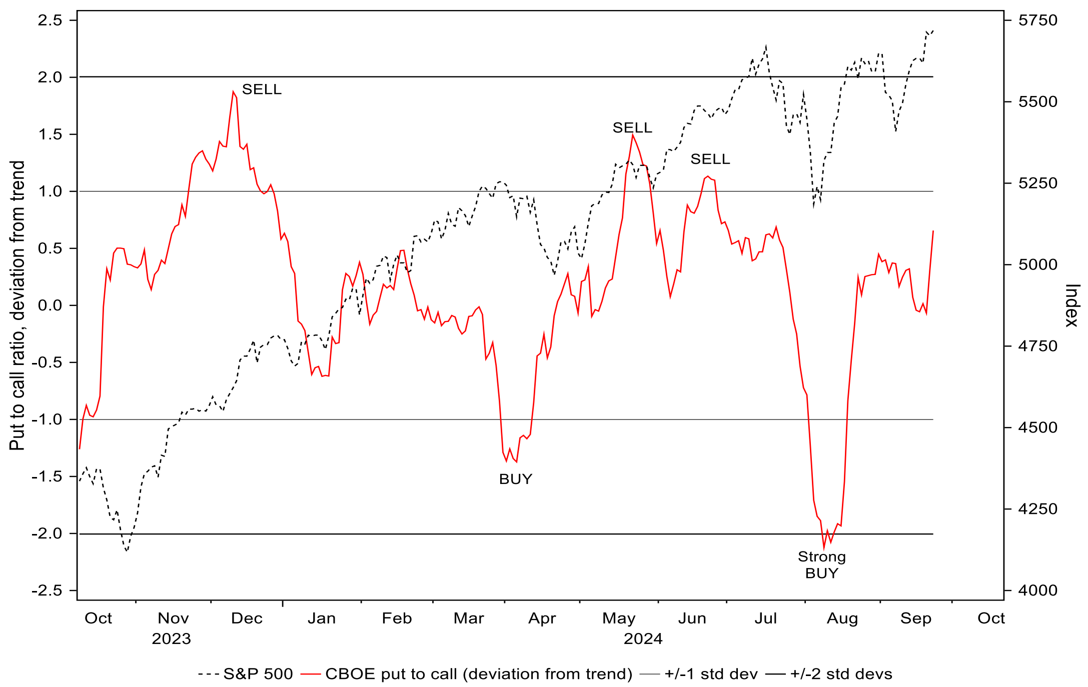
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

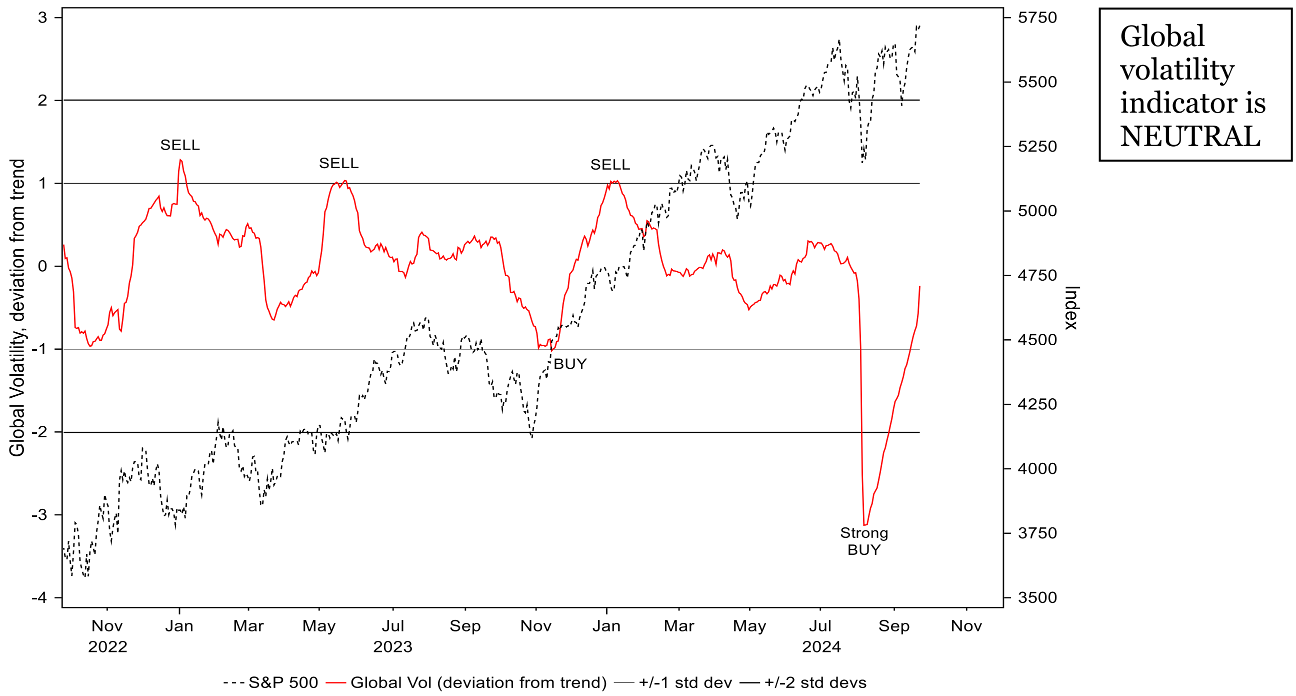


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

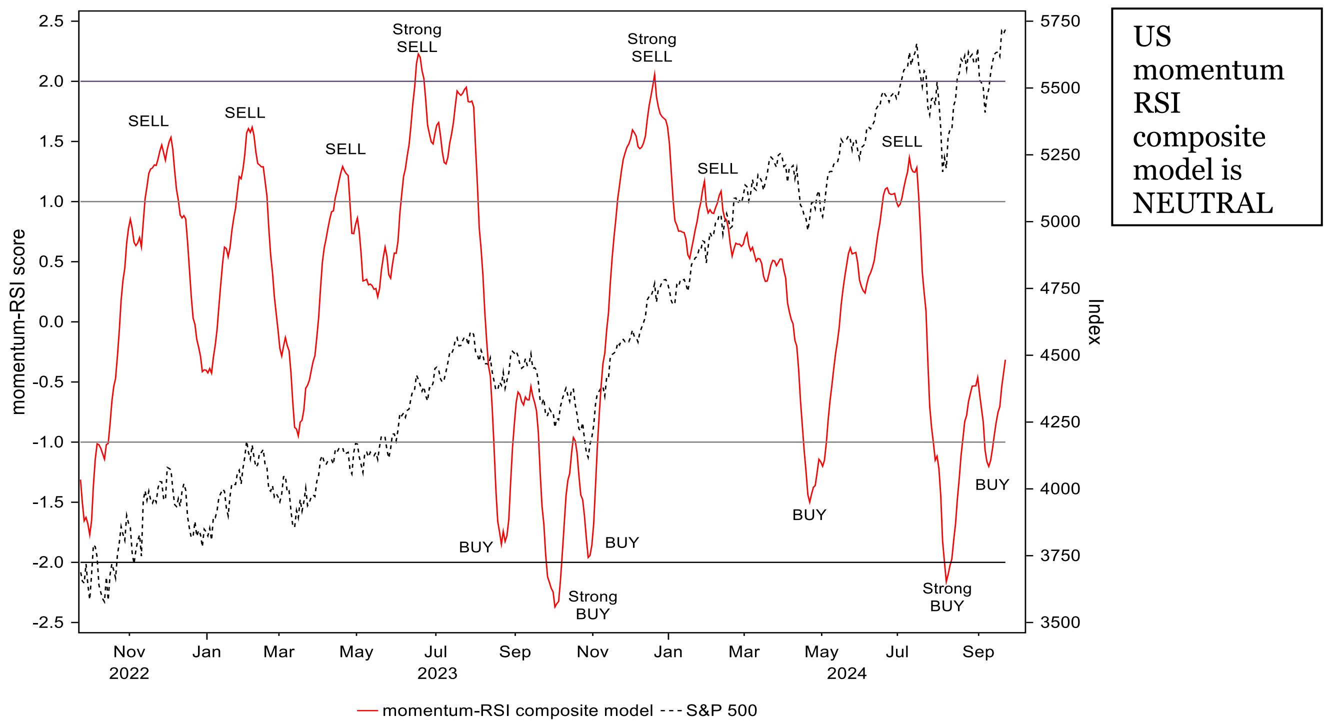
For explanations of indicators please see page 10

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



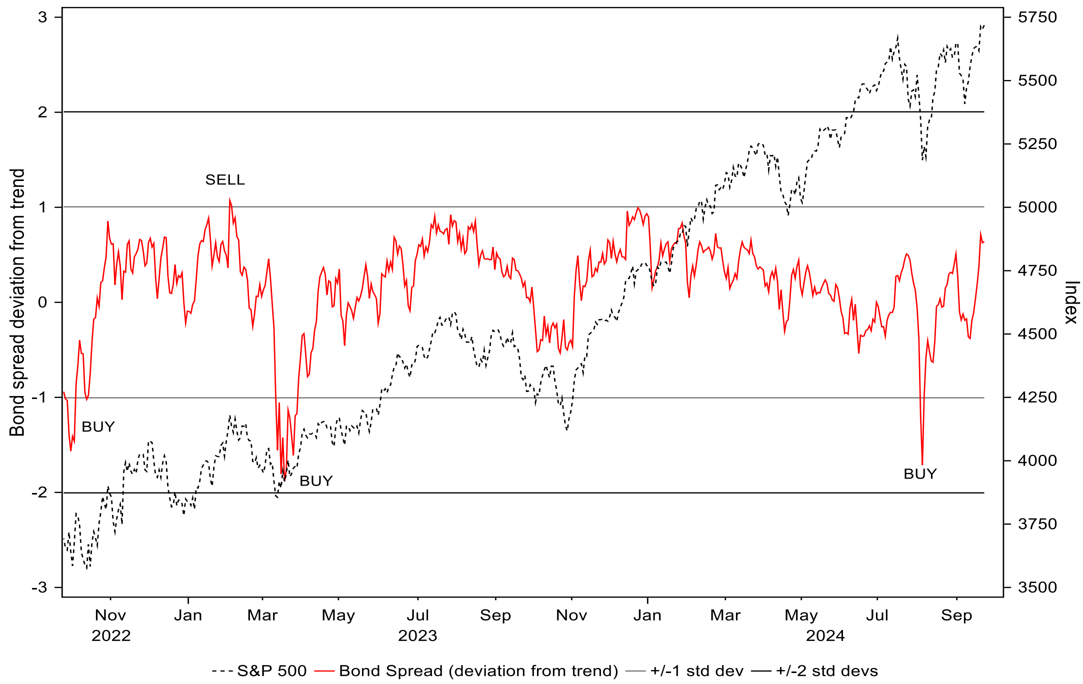
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

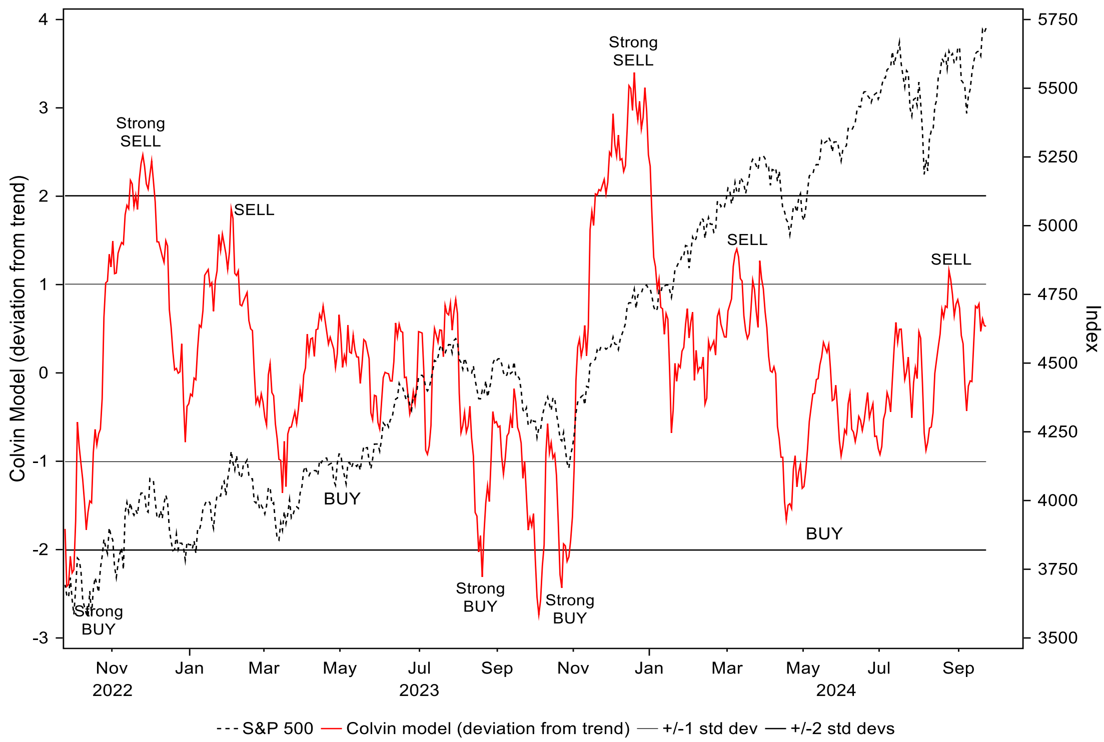
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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