Equity Index Futures Trading Recommendations

25th October 2024

"Stay SHORT"

Email: info@longvieweconomics.com

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

- Stay 1/3rd SHORT S&P500 December futures (entry was yesterday/Thursday at 5,861.0).
- Keep stop loss 2% above entry (at 5,978.0, which is above the 5,927 record intraday highs).

Rationale

Over the course of the past few trading sessions, we have been looking to BUILD SHORT positions in S&P500 futures. Earlier in the week, the market (just) failed to reach our preferred entry level. Given Wednesday's sharp down day and the breaking of the 7-day sideways trading range (i.e. support – see FIG 1), we decided to implement the SHORT position yesterday at current prices (i.e. at the time of publication of the daily email, with an entry price of 5,861). Over the past 24 hours the price action has been mixed. The market initially bounced yesterday, after such a sharp down day on Wednesday (and supported by good Tesla and UPS earnings), but then faded later in the day. Currently it's sitting at/close to our entry point (which is also an interesting resistance level). In that sense, yesterday's price action did nothing to discourage us from being SHORT.

Indeed, at this juncture, there are **three (potentially four) key reasons to stay SHORT:**

1. **Medium term models remain on/close to SELL**. The SELL-off indicator continues to build to high levels. On its latest reading it's reached +30 (FIG 1b). Above +20 it warns of a heightened risk of a meaningful pullback. Its track record was examined in detail in our latest Tactical Alert publication (for '1 – 4' month traders of US equities). In summary

"All 38 prior SELL-off indicator signals are shown in table 1. Five of those 38 were false; a further 14 resulted in a minor pullback (i.e. of between 0 – 4%, from the date of the signal to the local low); a further 19 resulted in a pullback of 4% or more (often double-digit teens pullbacks). On 50% of signals, therefore, there is a meaningful tactical pullback (i.e. 4% or higher); on a further 37% of occasions, markets move modestly lower (i.e. between 0 – 4% down); while in 13% of examples, it's a false signal (or it's early/not timely). **The average pullback from the date of the signals to the local low is 4.9%. The median is 5.5%.** The full list and analysis of the signals is shown in table 1. All these signals are out of sample (i.e. they occurred post the design of the model)."

Source: Longview Tactical Alert, 10th October 2024 (available to subscribers to the 'Tactical' package – see HERE: https://www.longvieweconomics.com/the-tactical-investor

Other medium-term models have a similar message. The medium-term risk appetite scoring system is close to SELL (having generated a SELL signal in recent trading sessions); the medium-term RSI of equities relative to bonds is on SELL (equities). Equities have been overbought and bonds have become oversold – thereby encouraging an asset allocation switch out of equities and into bonds (as higher bond yields squeeze equity markets). Downside put protection is at low levels (as shown yesterday with the medium-term CBOE put to call ratio, as well as the NDX100 calls less puts indicator), which implies portfolios are exposed to the downside, while sentiment remains high.

2. **Key short-term models are starting to move back onto SELL**. Risk appetite models, in particular, have moved higher over recent trading sessions. 'Shortest-term RAG', for example, is back on SELL: the 'combined RAG1 plus RAG2' is close to SELL; while the 'short term risk appetite scoring system' is leaning towards SELL (FIGs 2 – 2b). The short term put to call ratio also remains at high levels (i.e. as shown on the chart, FIG 2c). In contrast, the momentum in the market and the single stock and sector support has weakened/narrowed in recent trading sessions. The headline index technical scoring system, for example, has rolled over, whilst breadth is at low levels (implying a diminishing number of advancing single stocks). With that, the single stock momentum model retains further room to the downside (FIG 3c).

3. Finally, **key equity markets appear to be losing (technical) momentum**. On Wednesday, for example, the S&P500 broke below its recent consolidation trading range; while yesterday, after an initial brief rally, it failed to hold above the lower end of that prior range (and is currently sitting just below that lower end). That was despite good earnings news, with strong Tesla and UPS earnings reports yesterday. Indeed overall, the US earnings season has started well with 179 S&P500 companies having reported so far and surprising, in aggregate, by +6% on earnings (i.e. above the usual 3% - 4% surprise). The market, therefore, has responded poorly to positive newsflow. **That is typically a sign of a tired market.**

Finally, the fourth factor, is the forthcoming election risk. The election is now less than two weeks away and brings with it considerable uncertainty (potentially a contested outcome; possible/likely tariffs on all US imports, if Trump wins; and so on). Added to that, markets still await an Israeli response to the Iranian attack (yet the oil market/price remains quiet/subdued).

Overall, therefore, models and looming concerns tilt the risk reward in favour of STAYing SHORT US equity index futures. Key events and macro data today are laid out below. Risks, as always, are plentiful.

Kind regards,

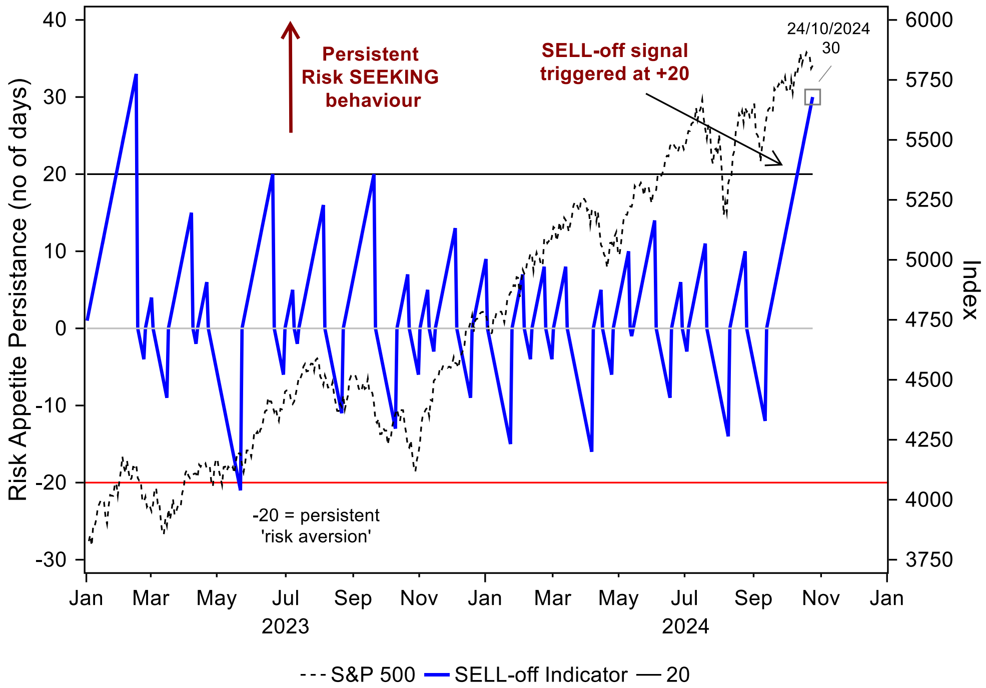
The team @ Longview Economics

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

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

Source: Longview Economics, Macrobond

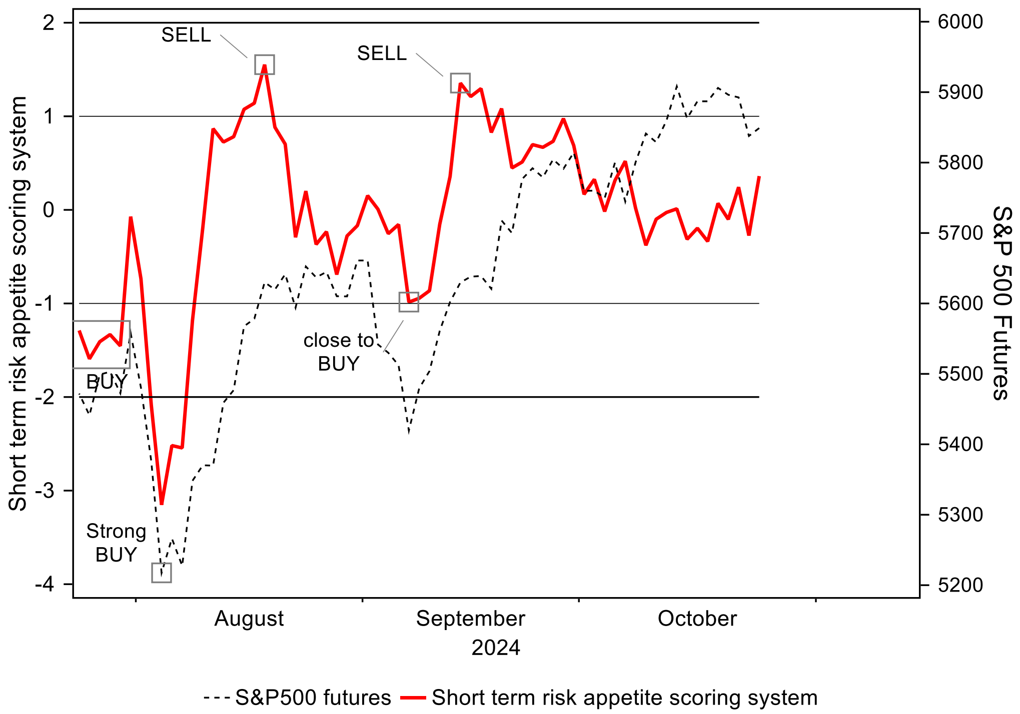
FIG 1b: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

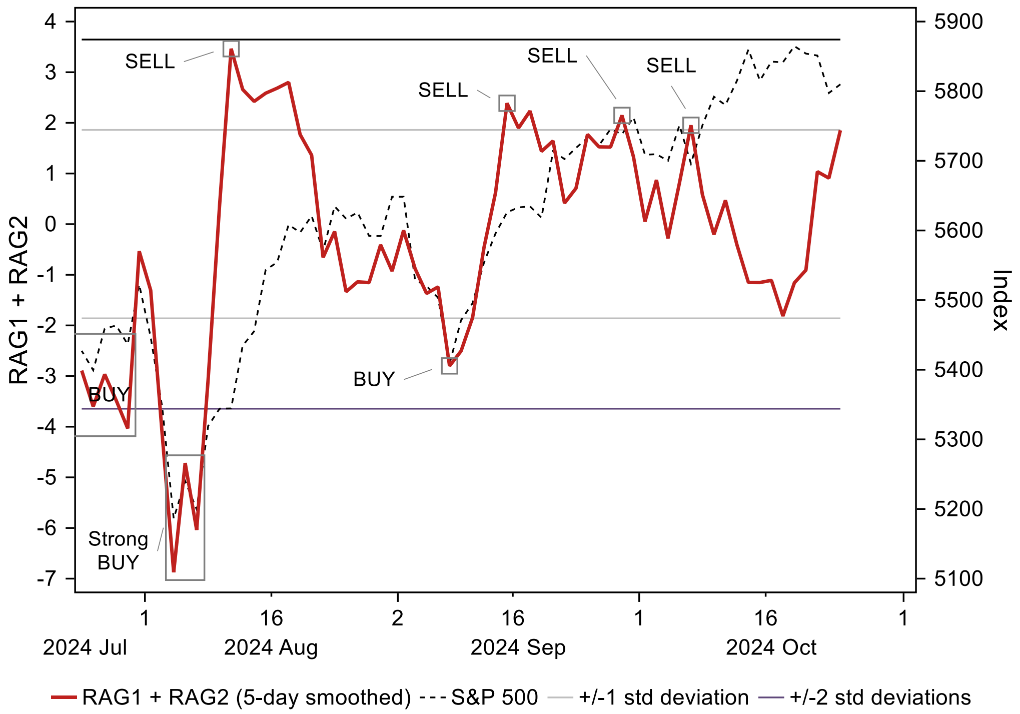
Short-term risk appetite models are on/leaning towards SELL……

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



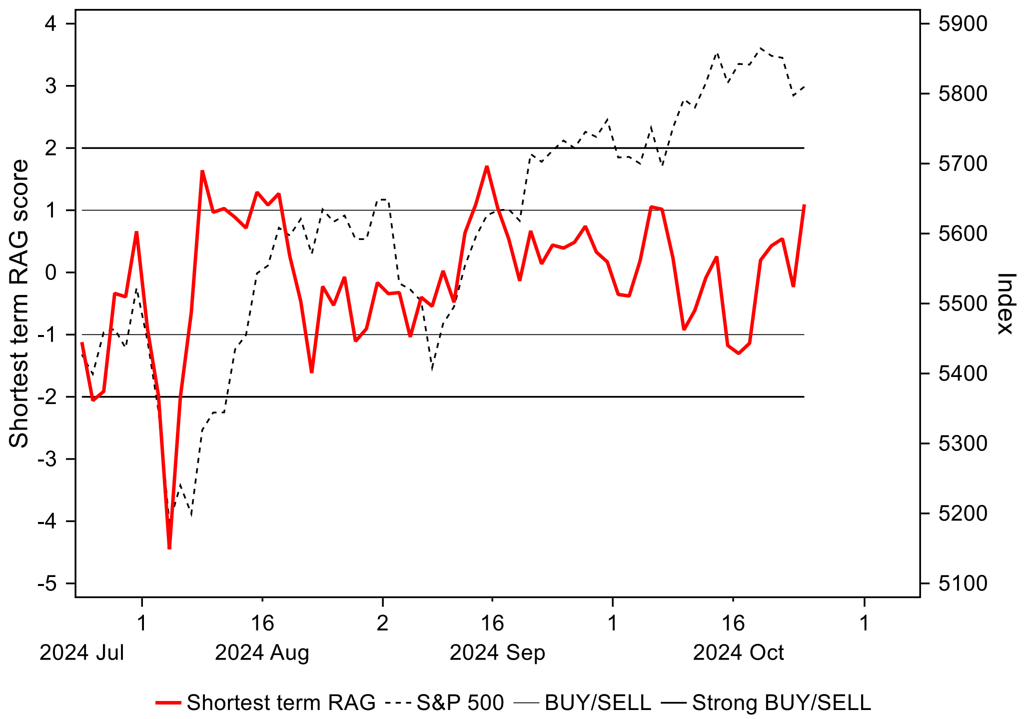
Source: Longview Economics, Macrobond

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



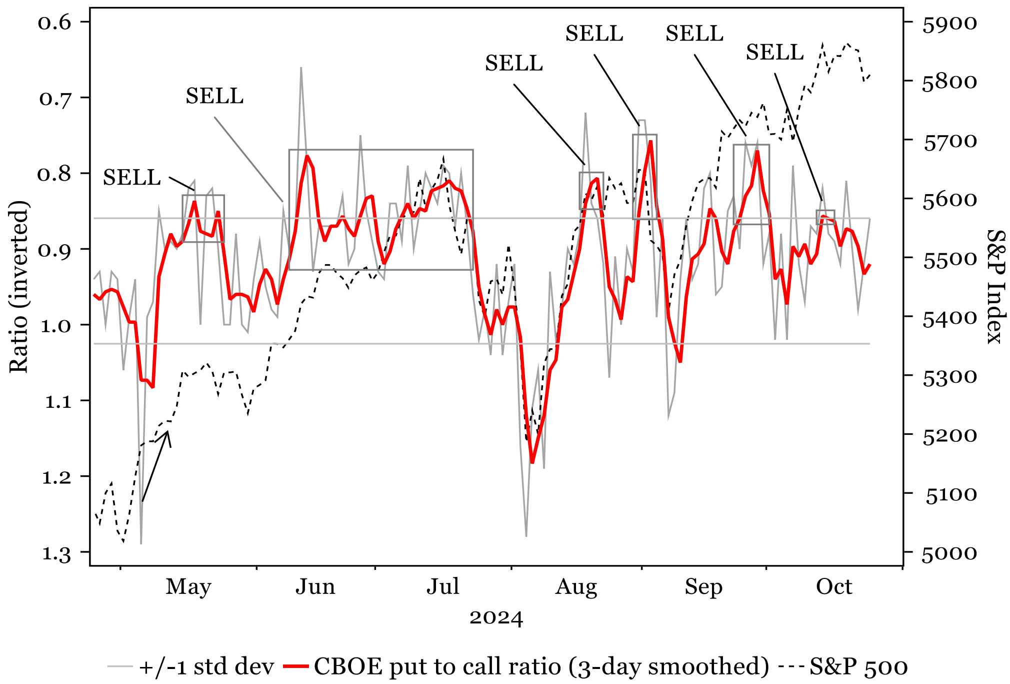
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

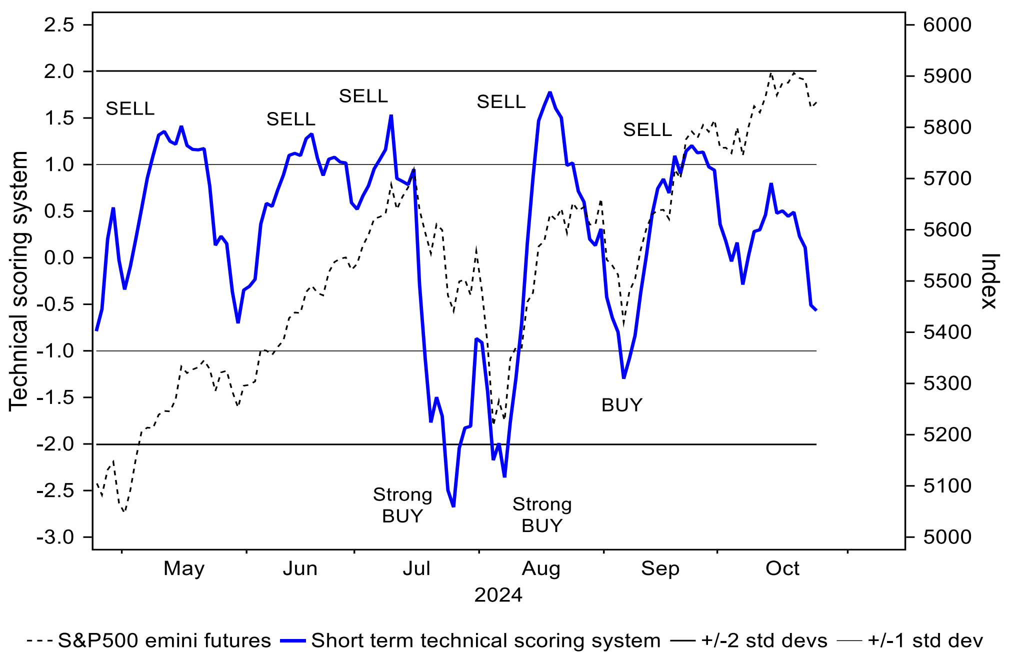
FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

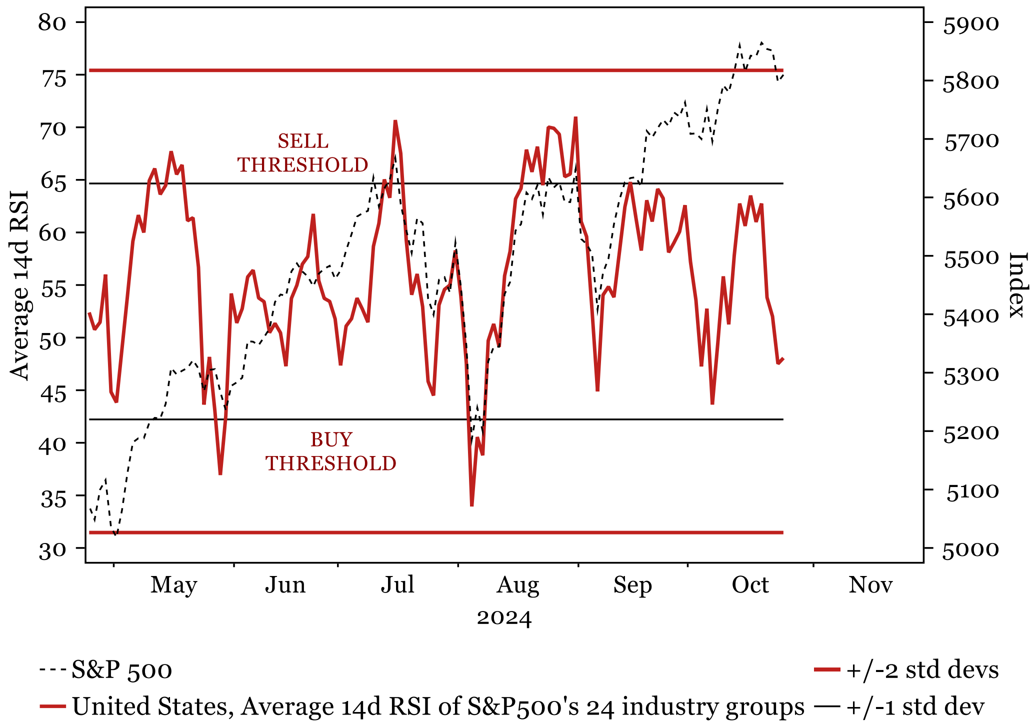
Short term technical models have rolled over…

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



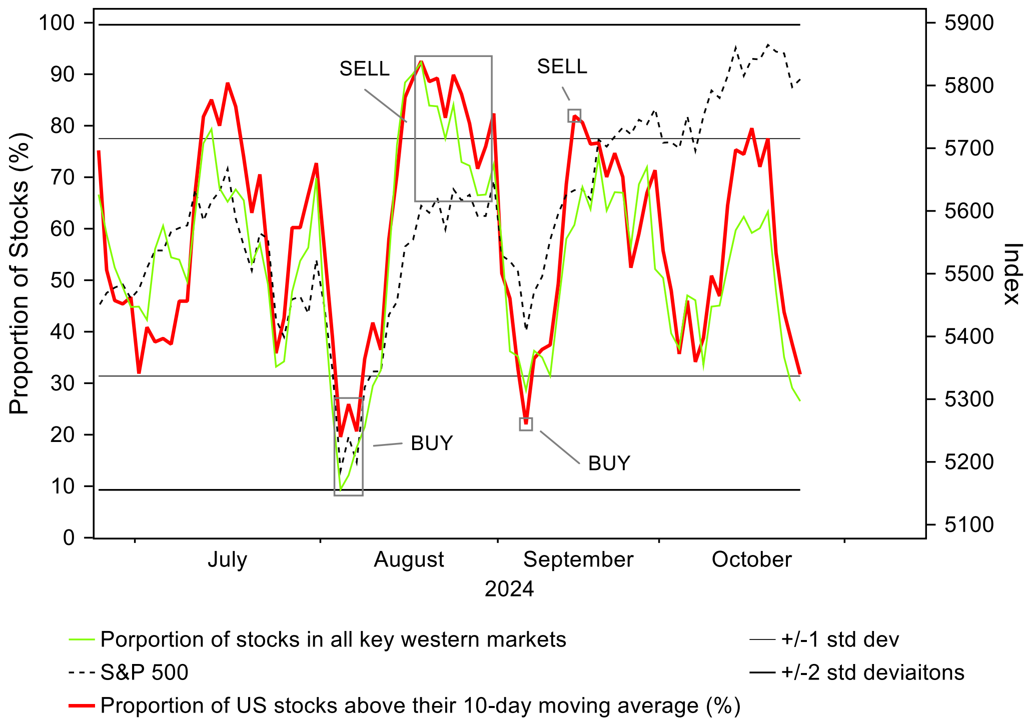
Source: Longview Economics, Macrobond

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



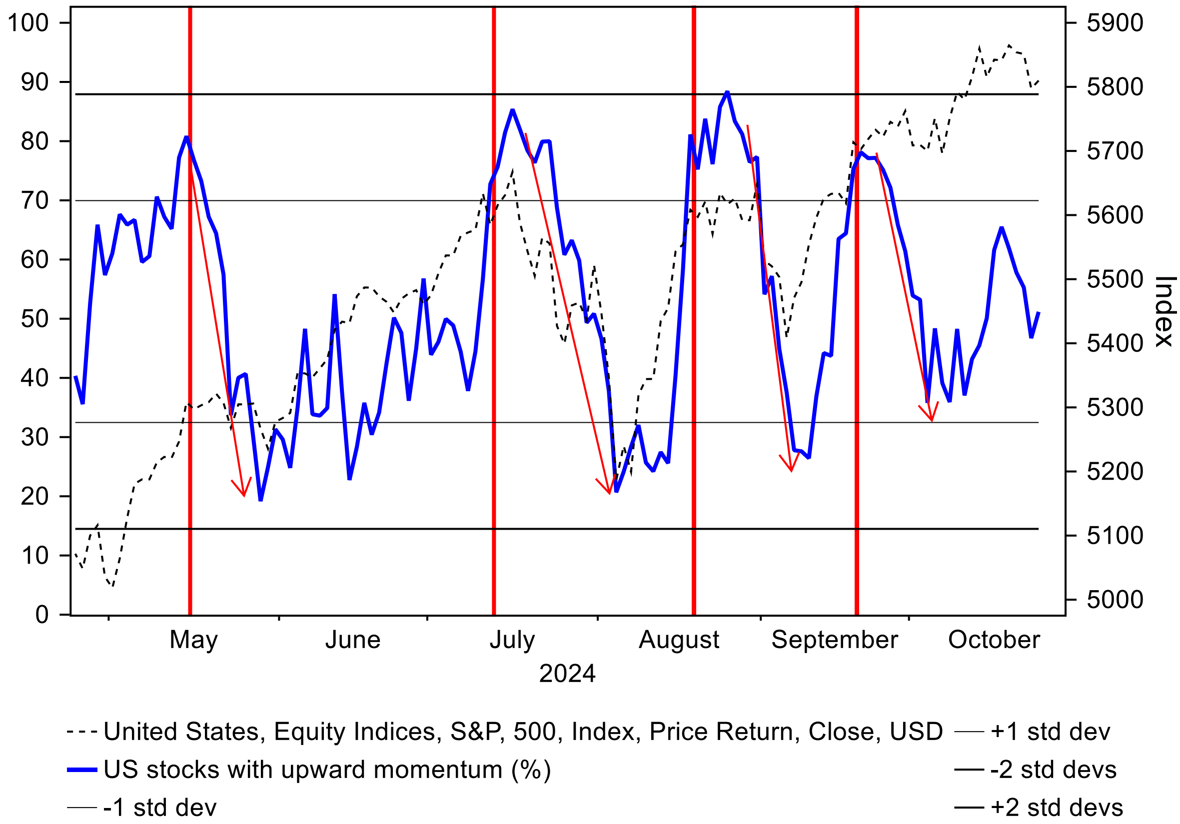
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 3c: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500

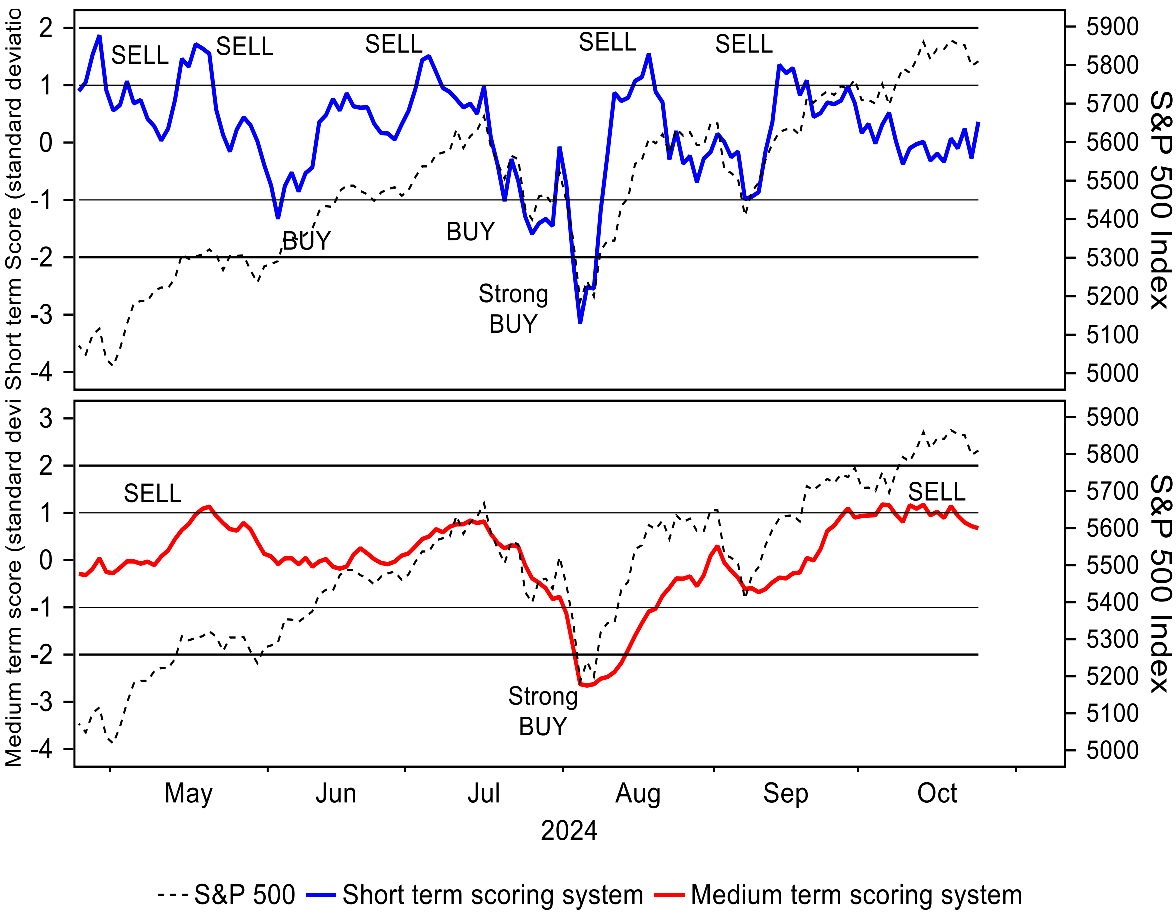


Source: Longview Economics, Macrobond

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 GfK consumer confidence (Oct, 12:01am); Japanese PPI services (Sept, 12:50am); Japanese ESRI leading index (August final estimate, 6am); **French INSEE consumer confidence** (Oct, 7:45am); Spanish unemployment rate (Q3, 8am); Spanish PPI (Sept, 8am); **German IFO business climate** (Oct, 9am). (Oct, 9am); ECB 1 & 3 year inflation expectations (Sept, 9am); Italian ISTAT consumer & manufacturing confidence (Oct, 9am); **Eurozone M3 money supply** (Sept, 9am); French total jobseekers (Q3, 11am); Canadian retail sales (Aug, 1:30pm); **US durable goods orders** (September first estimate, 1:30pm); US Michigan sentiment (October final estimate, 3pm); US Kansas City Fed service sector activity (Oct, 4pm).

Key events today include: N/A

Key earnings today include: HCA, Colgate-palmolive, Aon, **Sanofi**, Safran, Natwest**,** China Shenhua Energy Co.

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.

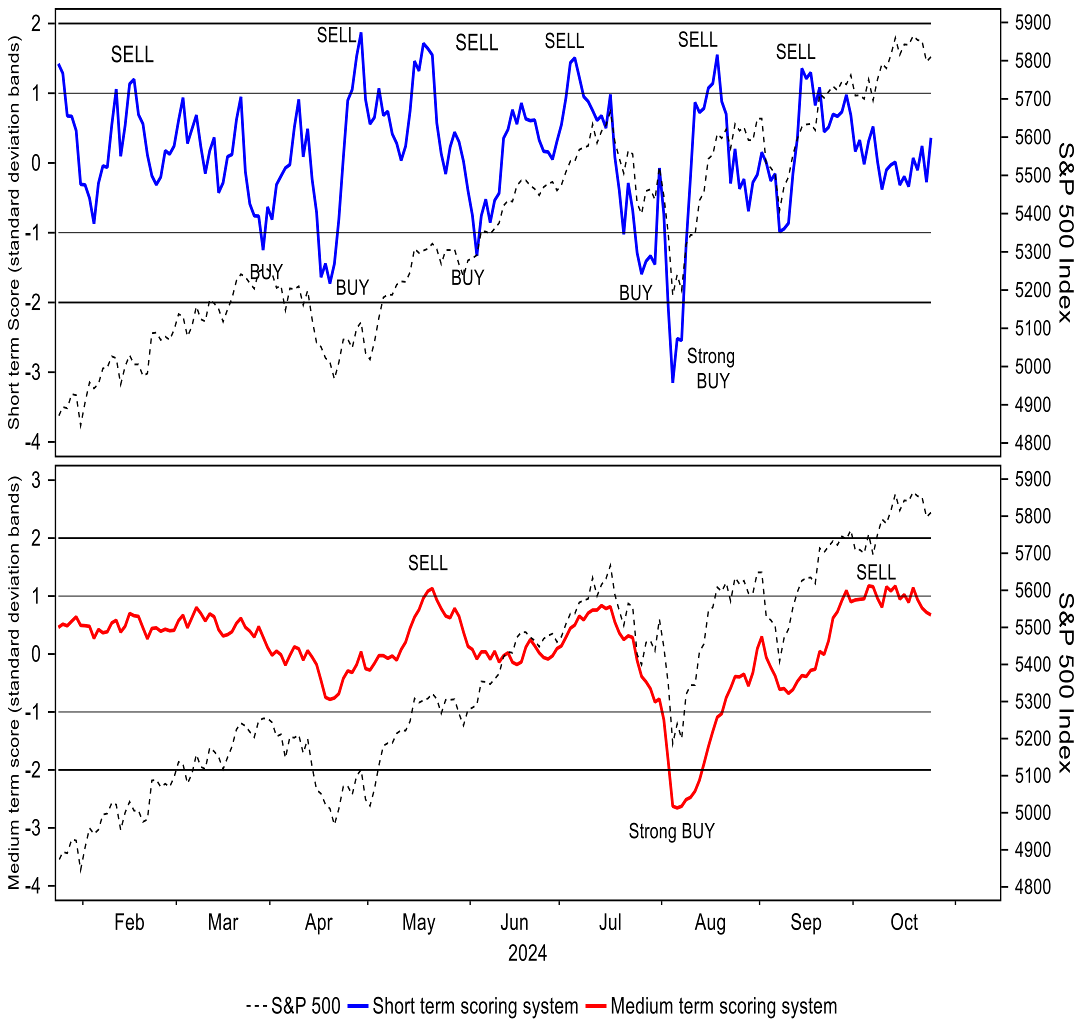
1 – 2 Week View on Risk

25th October 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

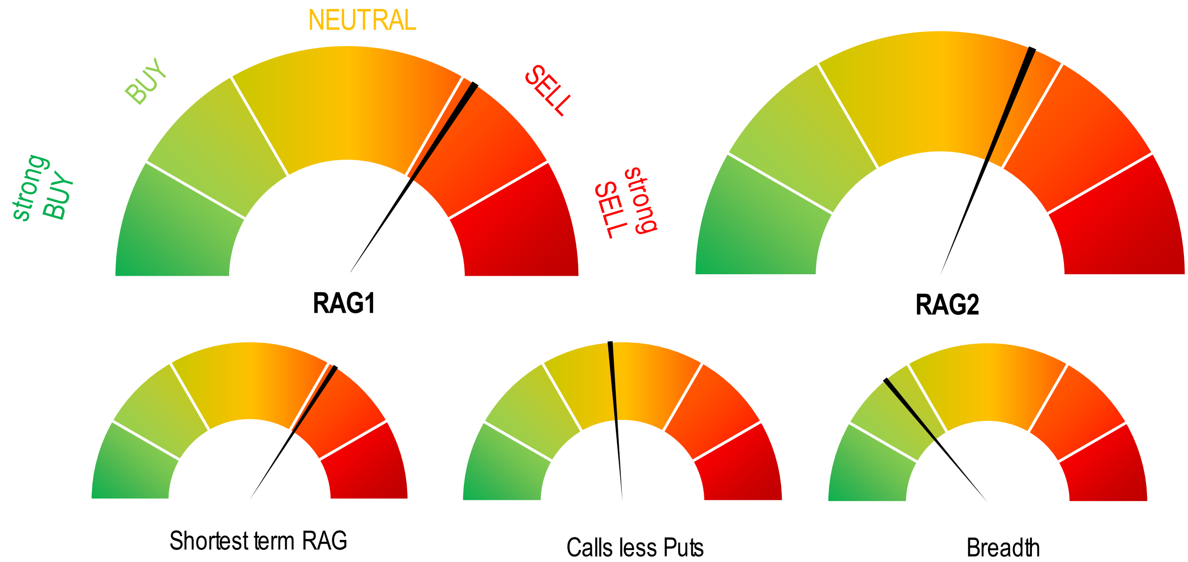
Source: Longview Economics, Macrobond

*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

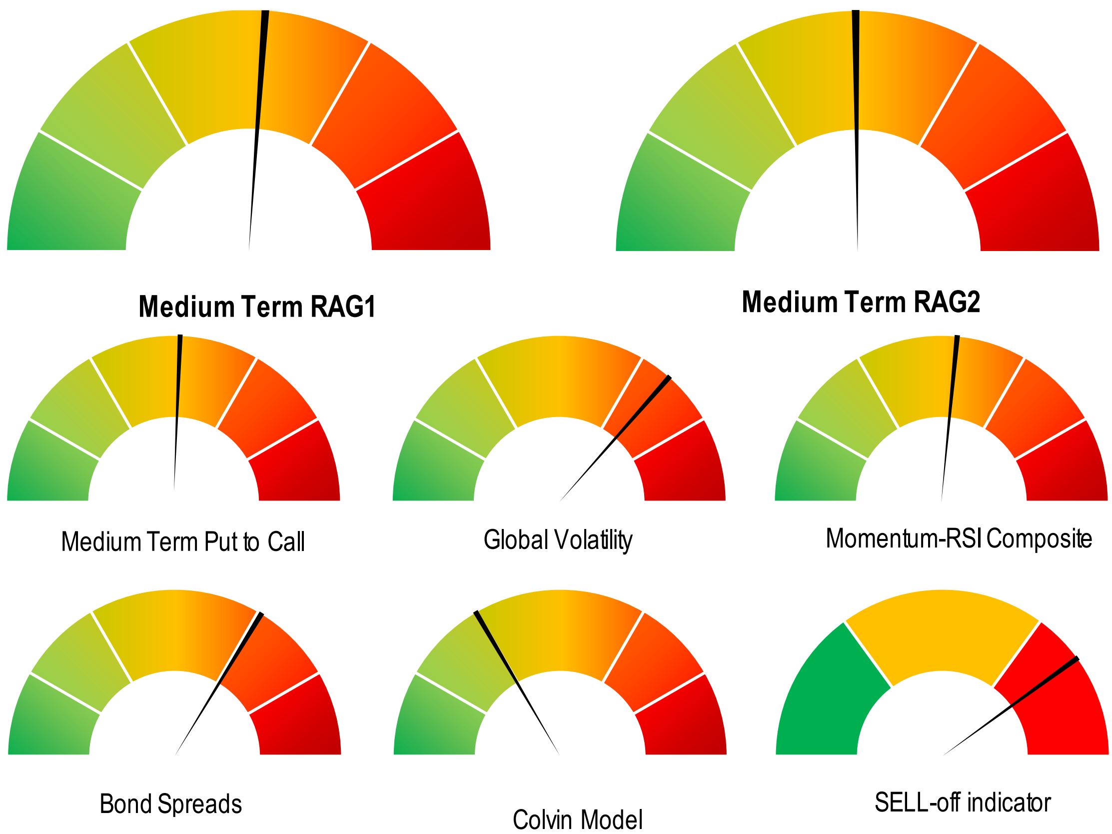
Section 1a: Summary of indicator signals**

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

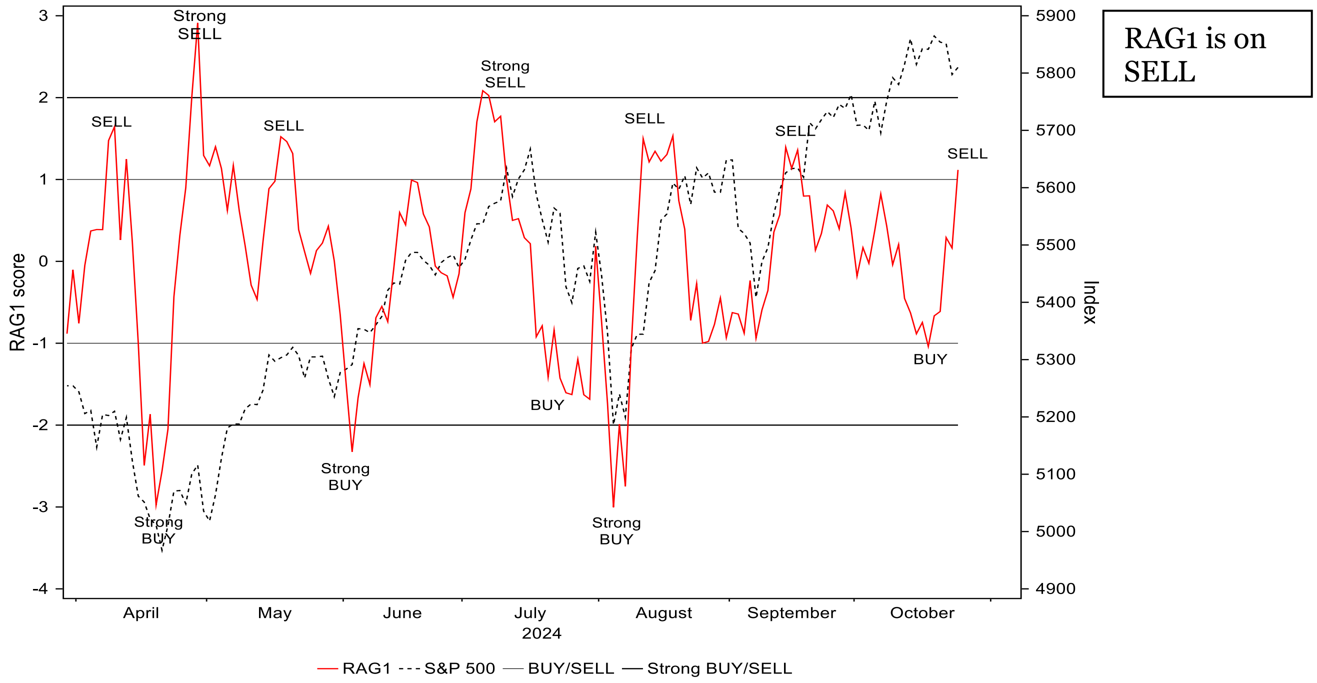


Source: *Longview Economics*

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

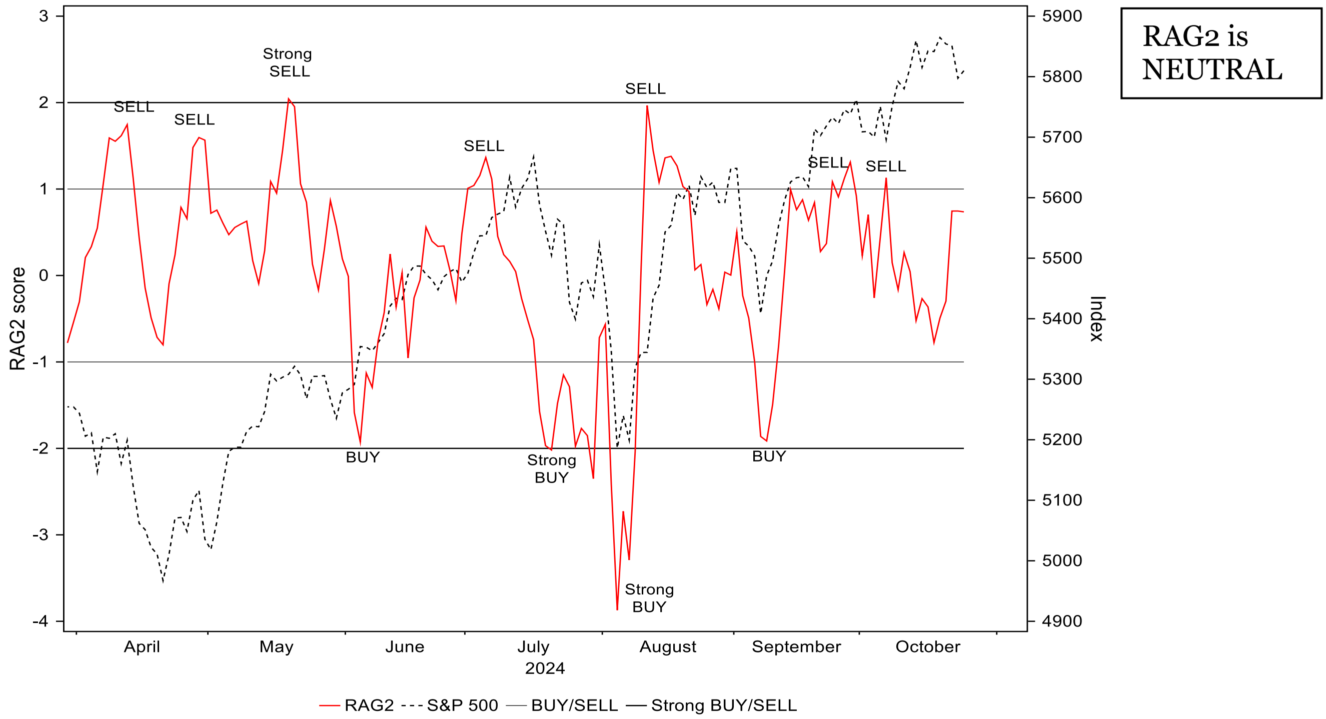
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

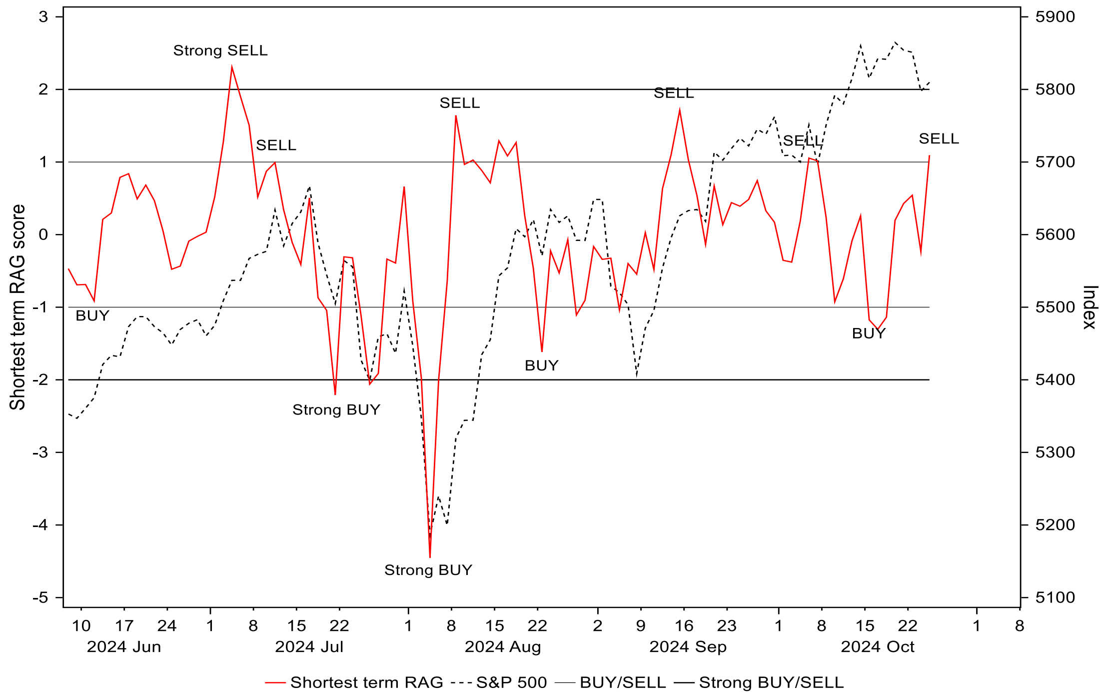
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

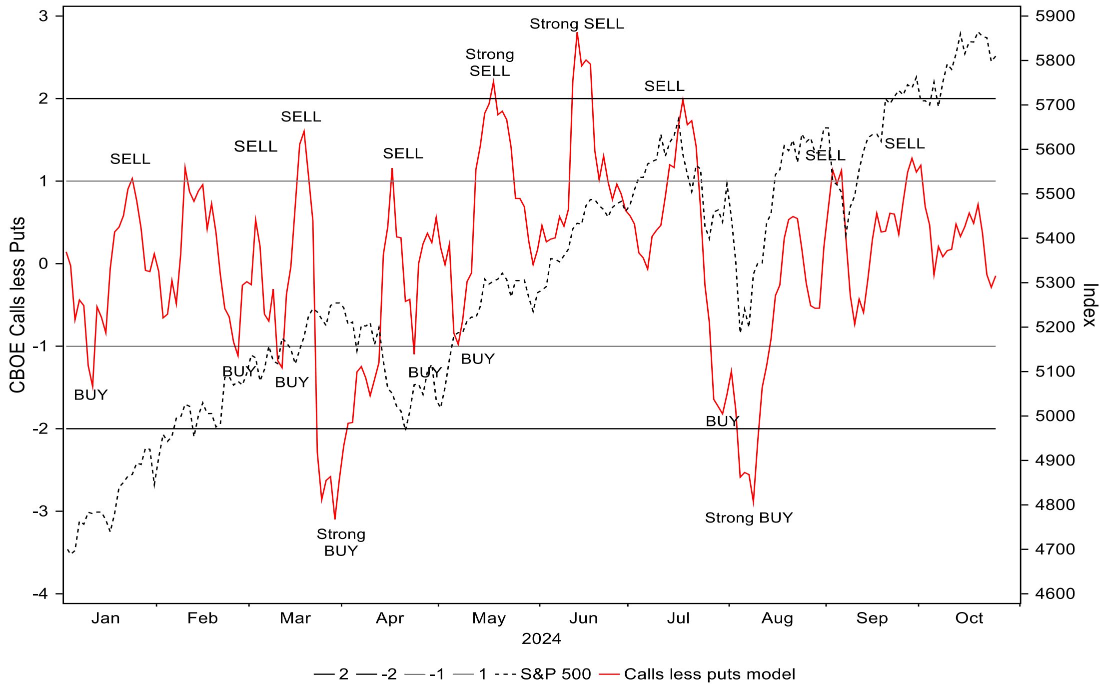
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on SELL

Source: Longview Economics, Macrobond

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

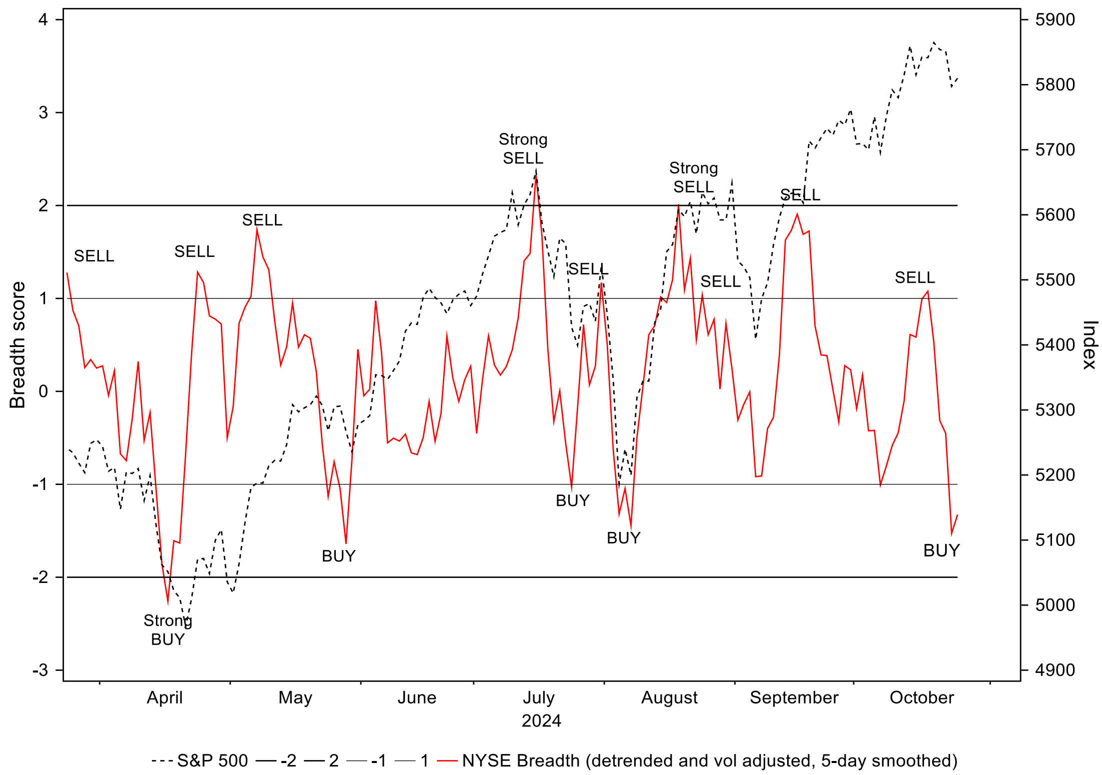


Calls less puts model is NEUTRAL

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



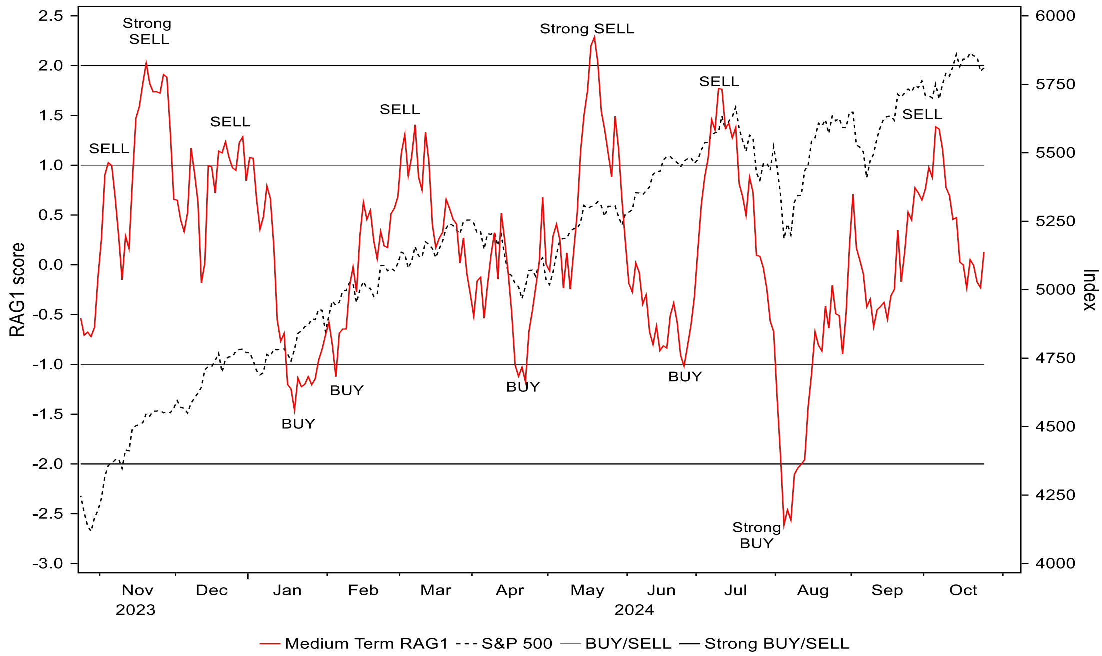
The breadth model is on BUY

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

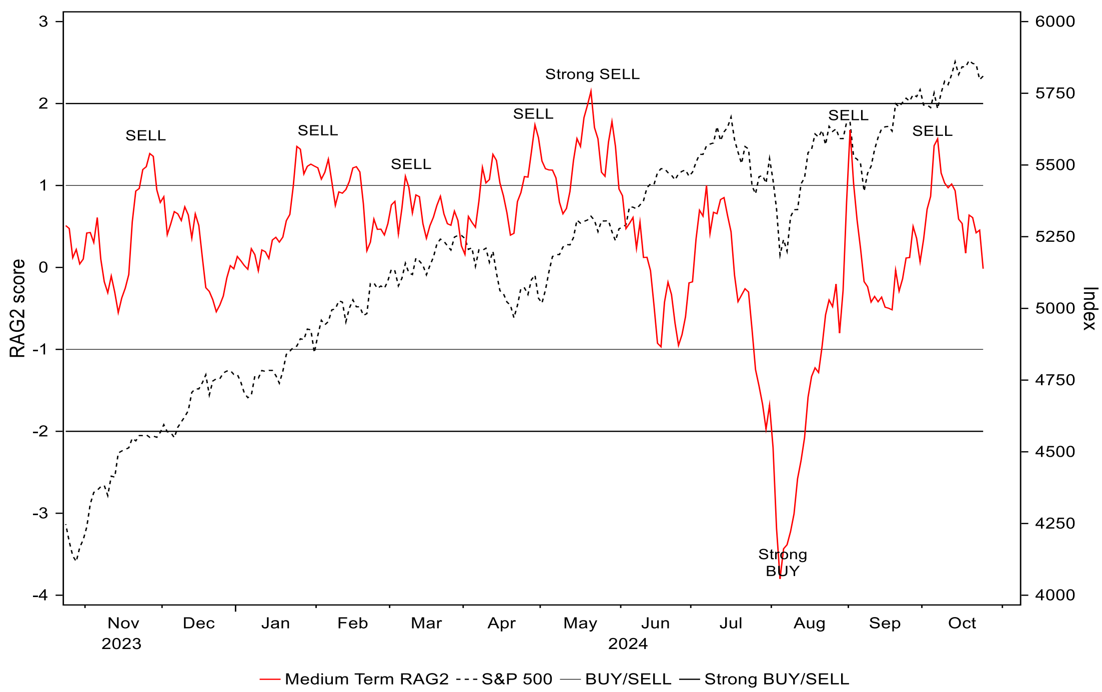
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

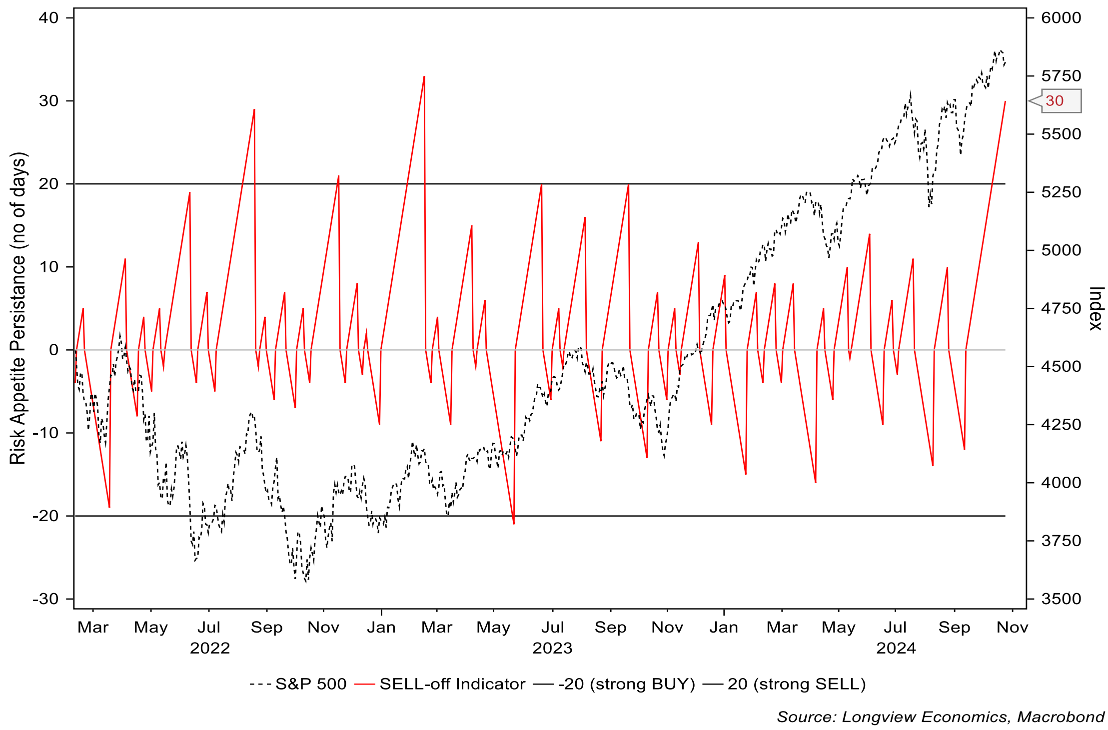


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

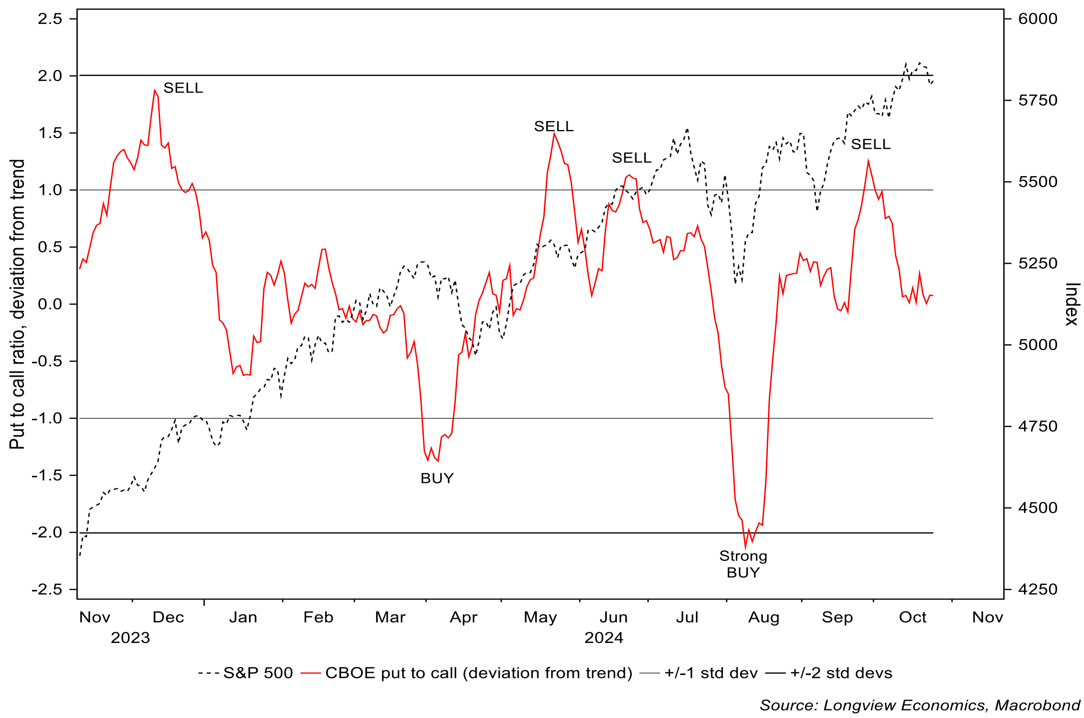
For explanations of indicators please see page 10

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



The SELL-off indicator is on SELL

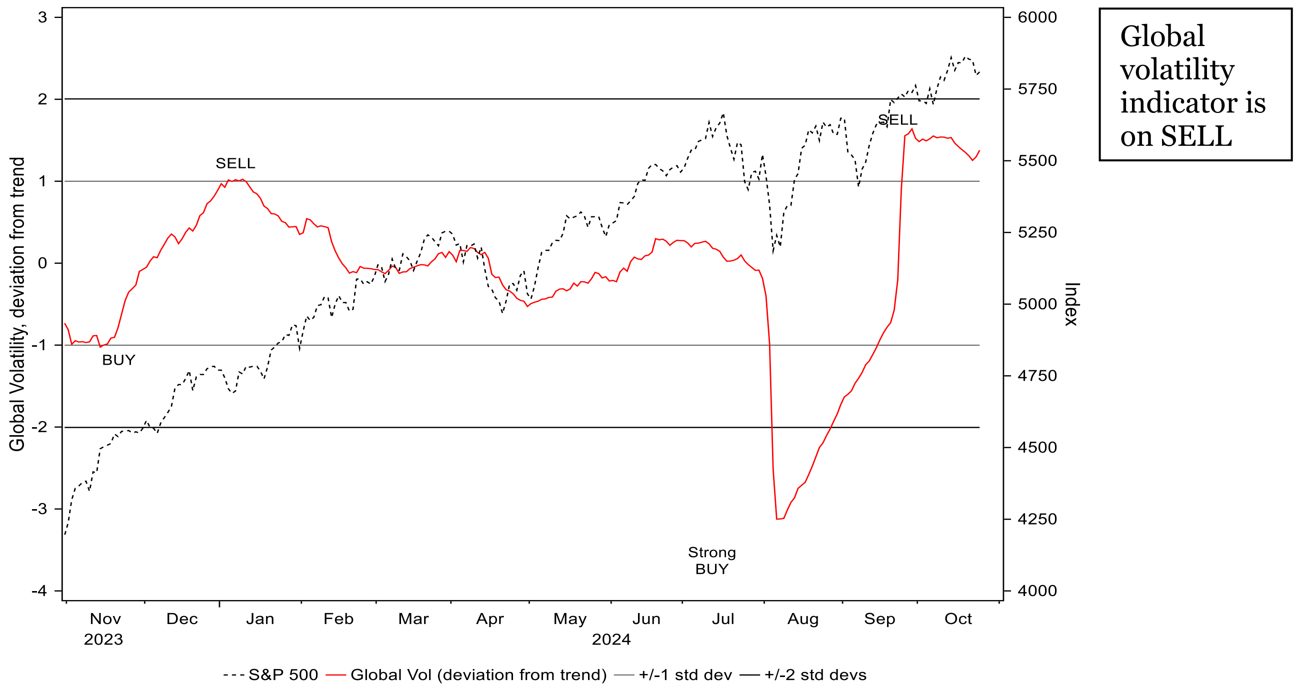
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

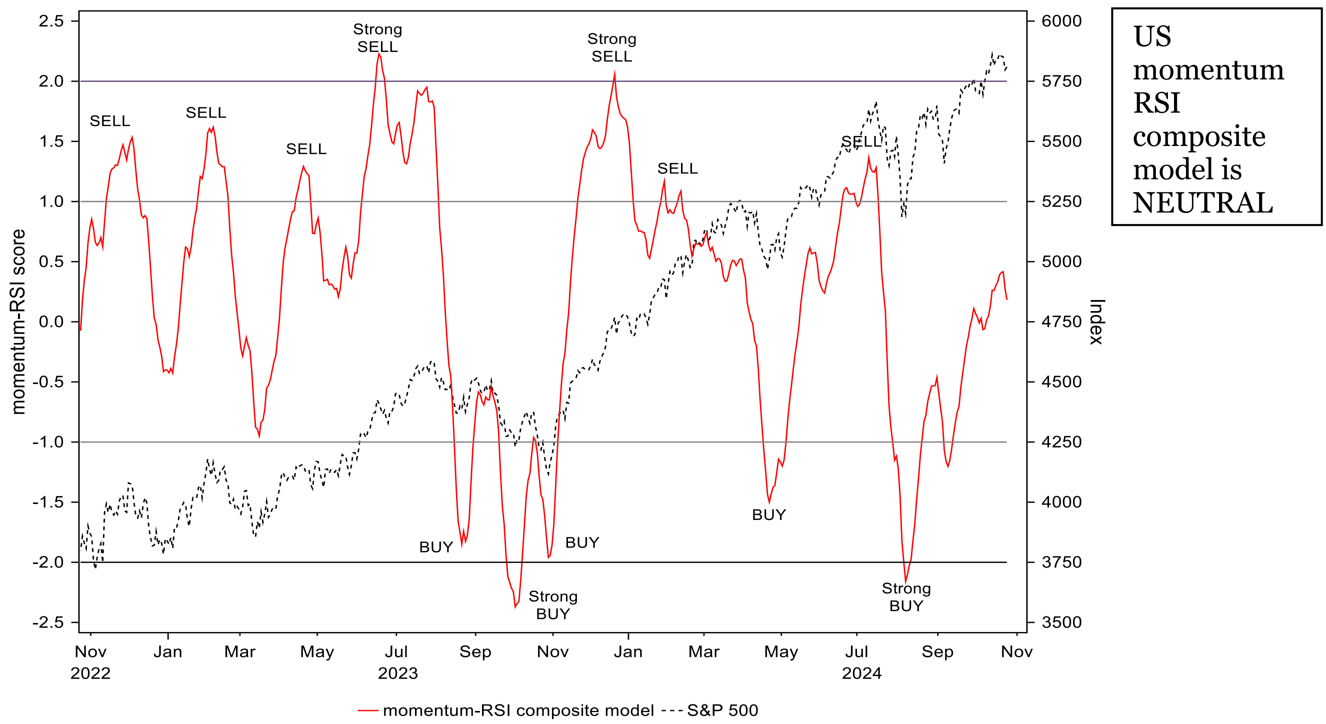
For explanations of indicators please see page 10

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



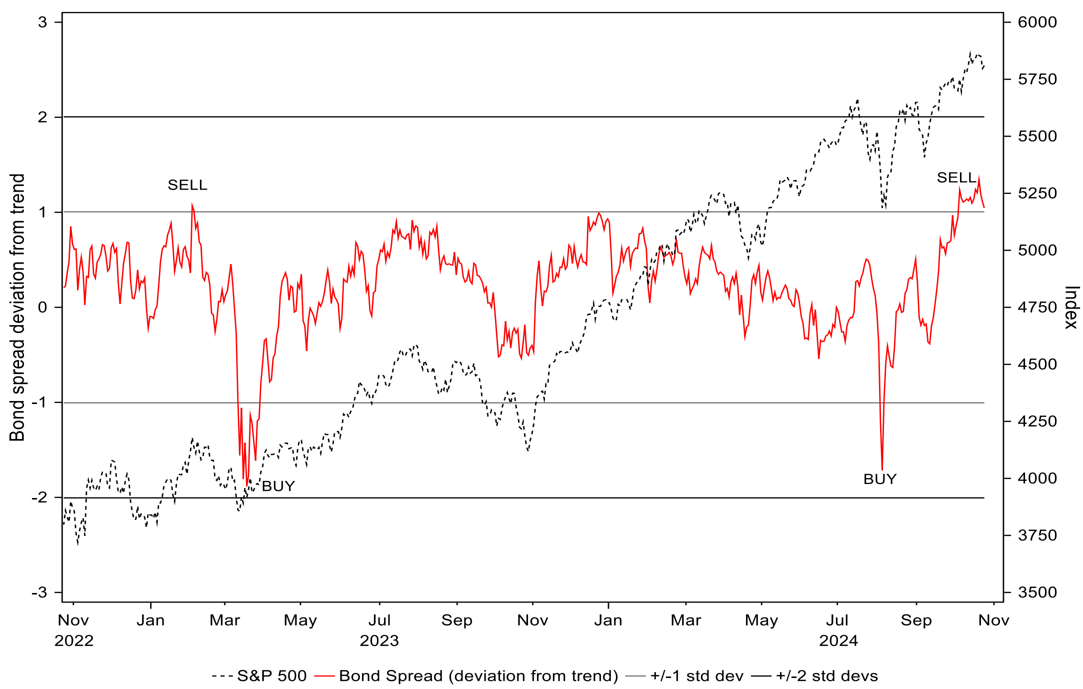
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

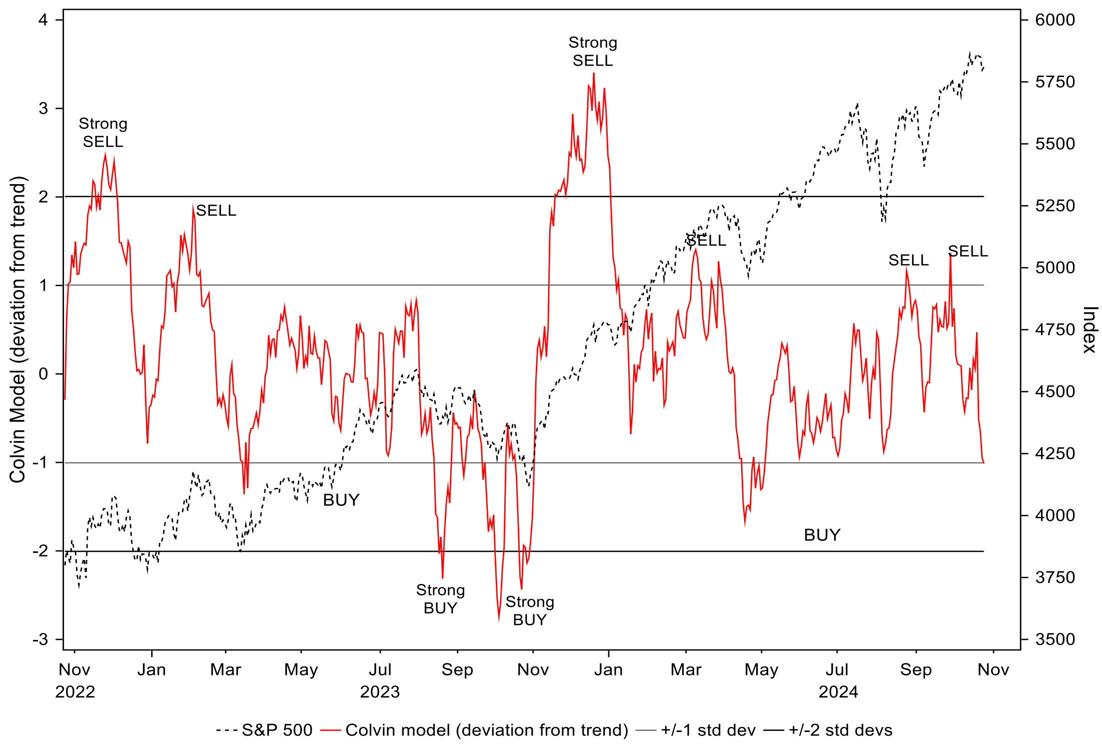
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is on SELL

Source: Longview Economics, Macrobond

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



Colvin model – is Neutral

Source: Longview Economics, Macrobond

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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