Equity Index Futures Trading Recommendations

25th September 2024

"Keep BUILDing SHORT positions in NDX100"

Email: info@longvieweconomics.com

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

- Increase from ¼* to ½ SHORT NDX100 December futures at current prices.
- Modestly widen the stop loss to 20,489.0, i.e. 2% away from current prices (from 20,394.0 yesterday).

*NB Initial entry into the ¼ SHORT position was last Wednesday at 19,800.

Rationale

The rationale for remaining SHORT US equity futures continues to build.

Key US equity markets have started trading sideways (consolidating gains). That is, both S&P500 and NDX100 futures have been flat since their intraday highs last Thursday (the day after the Fed announcement when US equities rallied sharply – FIGs 1 & 1a). Notably, that has happened despite the aggressive stimulus announcement from Chinese policy makers (PBOC) overnight yesterday (i.e. 30 hours or so ago). Albeit it's also the case that US equity markets weathered the surprisingly weak consumer confidence data yesterday and still closed higher (SPX +0.2%; NDX100 +0.5%). Overall, though, US equity markets have now traded sideways for the past three trading sessions.

Short term models are increasingly generating an across the board SELL message. Risk appetite models reached SELL two weeks ago, i.e. their signals have been early (FIGs 2 & 2a). Other short-term models, though, have now also reached SELL. From a technical perspective, the S&P500 and NDX100 are now both overbought (FIGs 2b & 4). Momentum, on average, across global equity markets and within the US equity market (from both a sector and single stock perspective) is now toppy (with global momentum rolling over – FIGs 2e & 2f). Single stock support for this rally is also starting to weaken (see FIGs 3, 3a & 3b). Added to the above, downside put protection in portfolios is low, with the CBOE put to call ratio back on SELL (FIG 2c) and single stock call option volume at high levels (i.e. pointing to frothiness in prices – FIG 2d). Tech centric models are also largely generating a clear SELL signal (see FIGs 4, 4a & 4b).

Some bond/rates spreads have started to widen in the past few days. TED spreads, in particular, have widened meaningfully in September (FIG 1b). US high yield (& CCC) spreads also widened yesterday, albeit modestly (whilst Chinese HY bond spreads, reflecting the stimulus package announced overnight Monday/Tuesday, have narrowed). Some of the EZ government bond spreads, notably French and Belgium, have also been widening in the past few trading sessions (FIG 1c). Widening spreads are indicative of rising stress in parts of the global financial market (with the risk of spillover into equity markets).

Risks, as always, are multiple. Some equity markets, for example, look technically as though they are breaking out to new highs (e.g. see German DAX & Spanish IBEX). Equally Fed fund futures continue to pull forward the timing of rate hikes (which is typically supportive of risk assets). The Dec 2024 fed fund futures contract, for example, moved 2.5bps higher yesterday (implying a year end Fed rate which is 2.5bps lower at 4.26%); March, June, Sept and Dec 2025 futures also moved to imply lower fed fund rates at those contract dates.

Overall, though, the **risk reward favours staying SHORT** the NASDAQ100. Given the positioning of the models and the sideways price action (i.e. the strengthening SHORT argument) we recommend increasing from ¼ SHORT to ½ SHORT at current prices. We also recommend a modest widening of the stop loss to 20,489.0 on Dec futures (from 20,394.0 yesterday).

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

Kind regards,

The team @ Longview Economics

<u>**FIG 1:** S&P500 futures 10-day tick chart shown with overnight price action</u>

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

FIG 1b: US TED spreads (NB rising spreads is indicative of growing stress in the financial system)

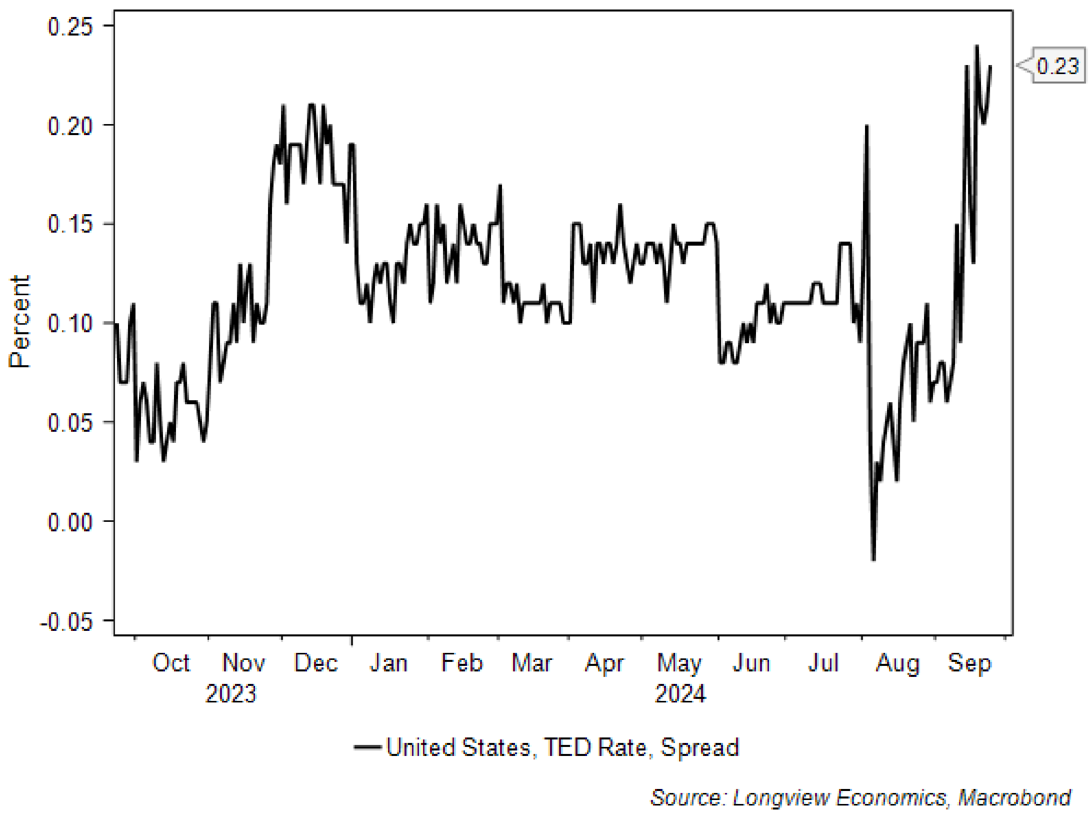
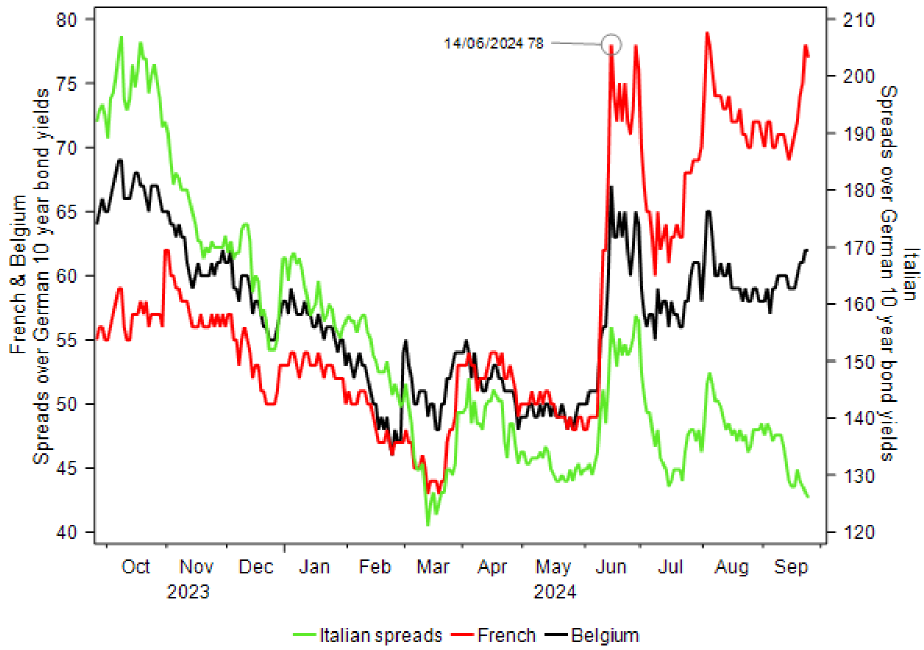


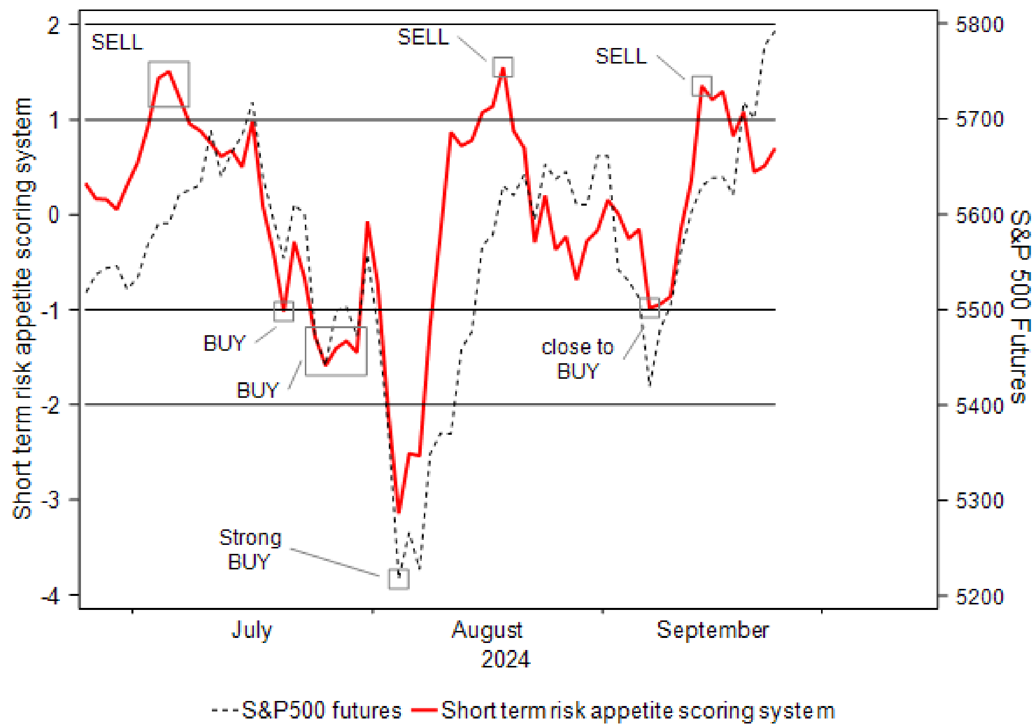
FIG 1c: Various EZ 10-year government bond spreads over German Bund yields (bps)



Source: Longview Economics, Macrobond

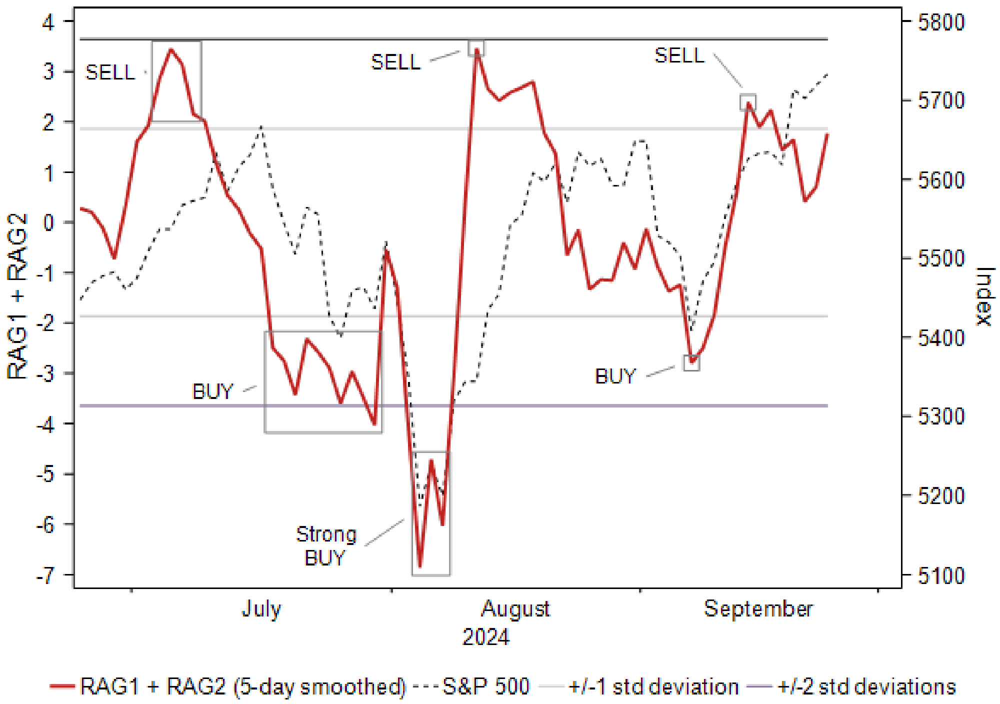
Short term market timing models are all on (or close to) SELL......

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



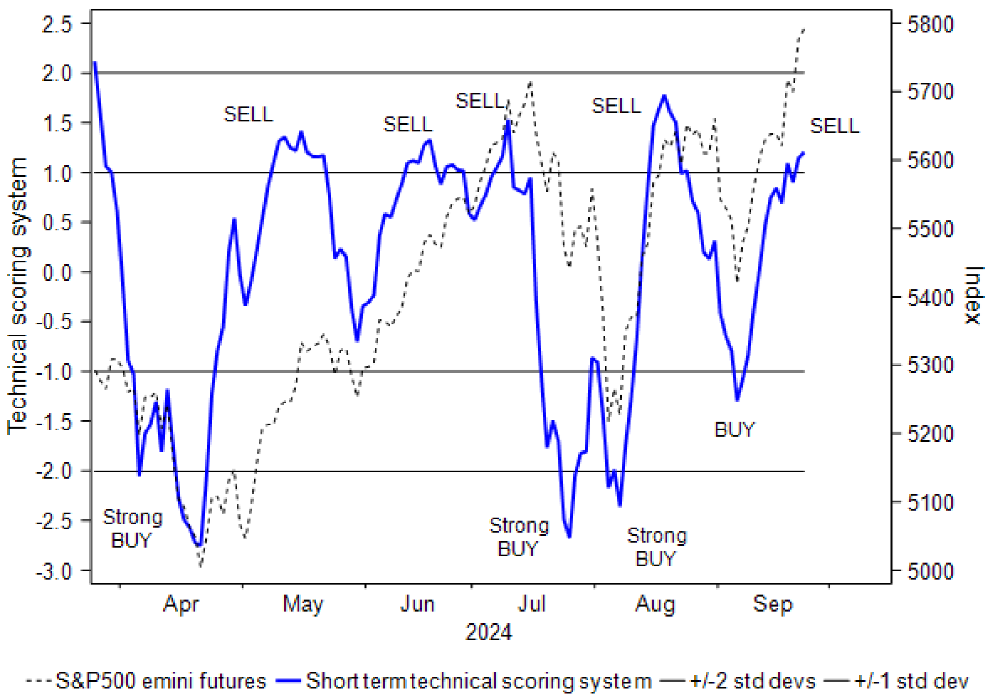
Source: Longview Economics, Macrobond

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



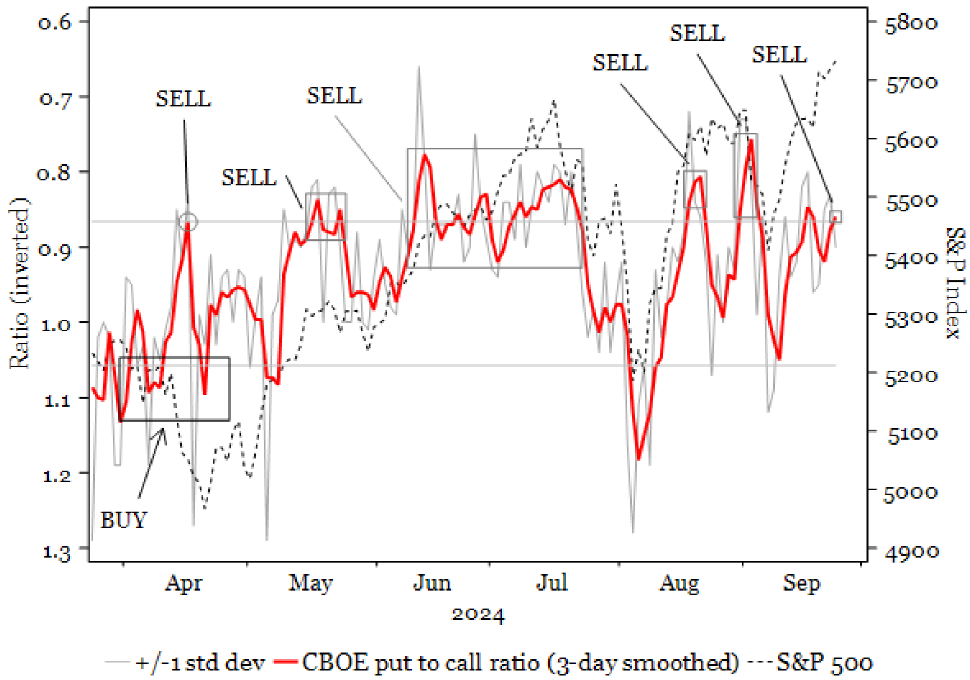
Source: Longview Economics, Macrobond

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



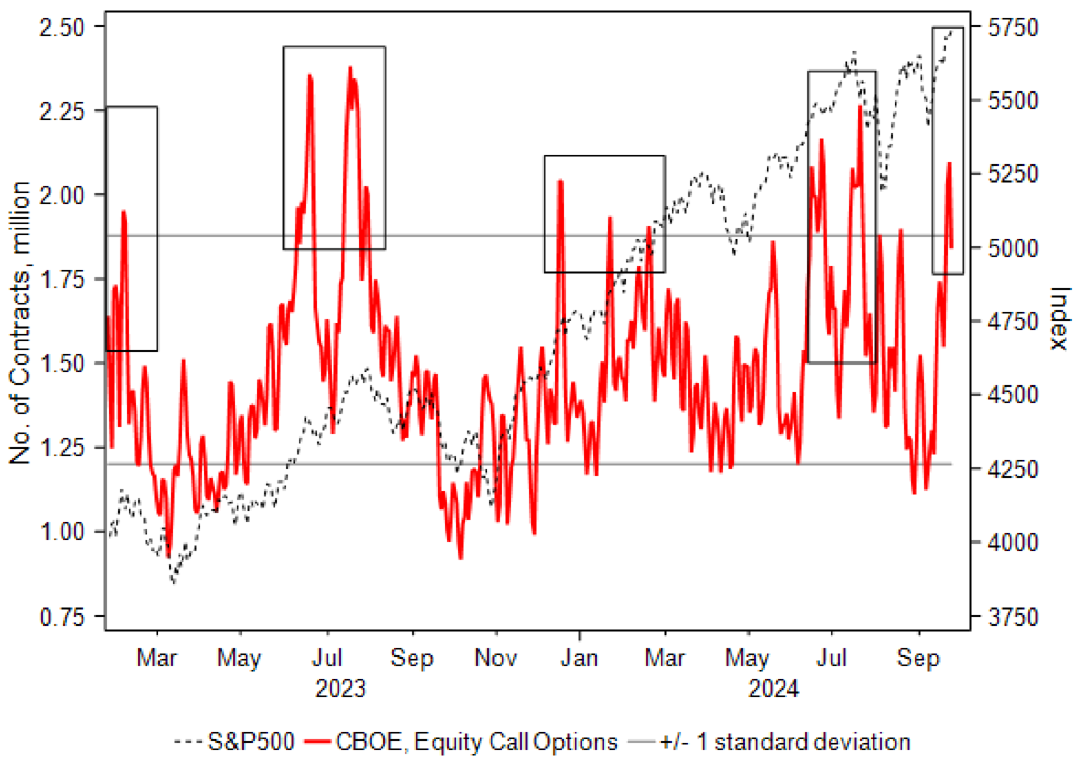
Source: Longview Economics, Macrobond

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



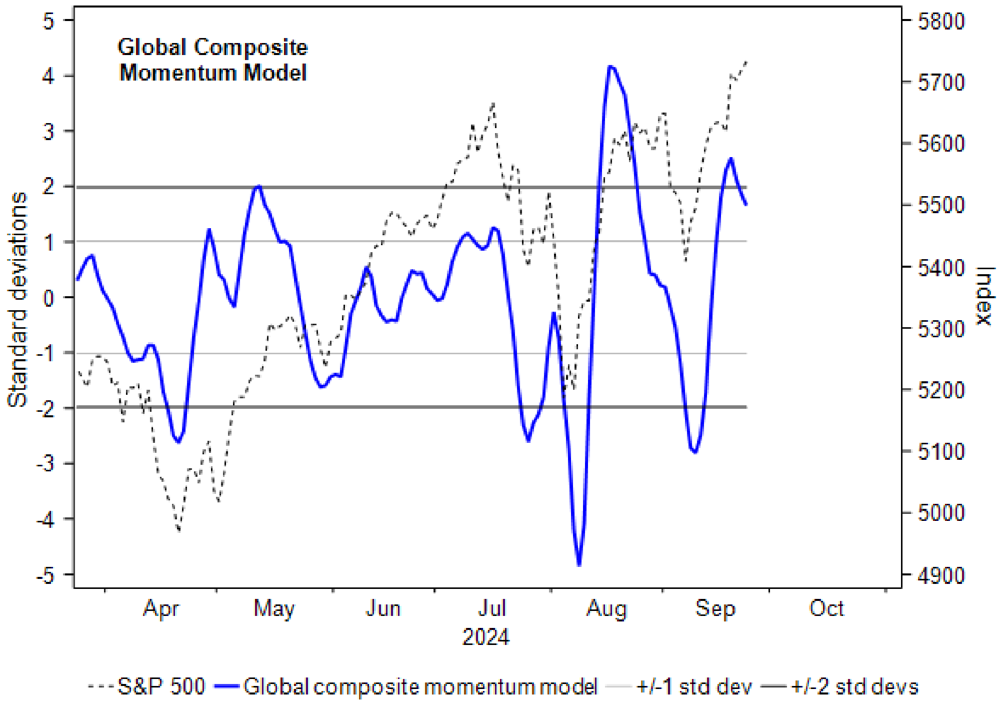
Source: Longview Economics, Macrobond

FIG 2d: US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500



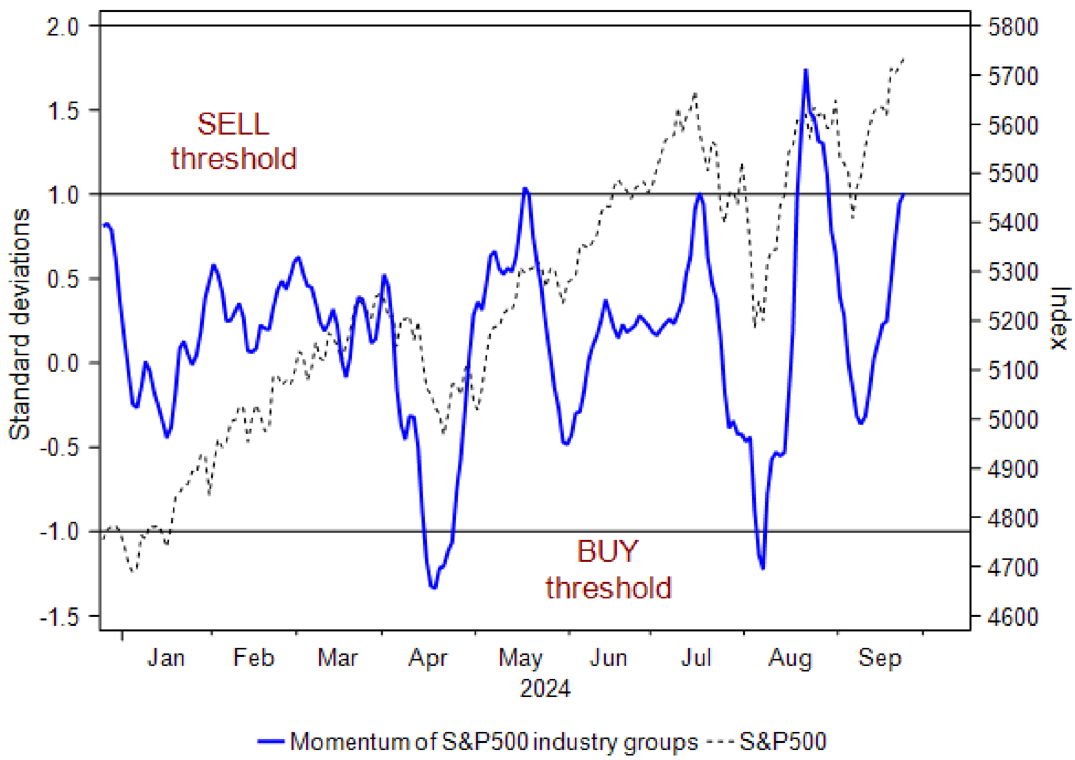
Source: Longview Economics, Macrobond

FIG 2e: Global composite momentum model vs. S&P500



Source: Longview Economics, Macrobond

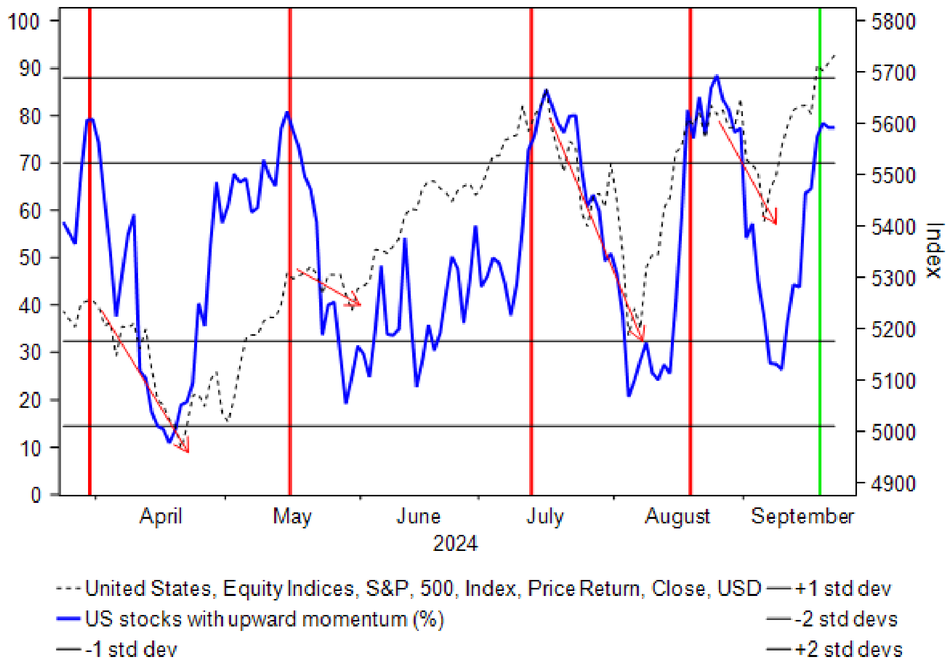
FIG 2f: Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

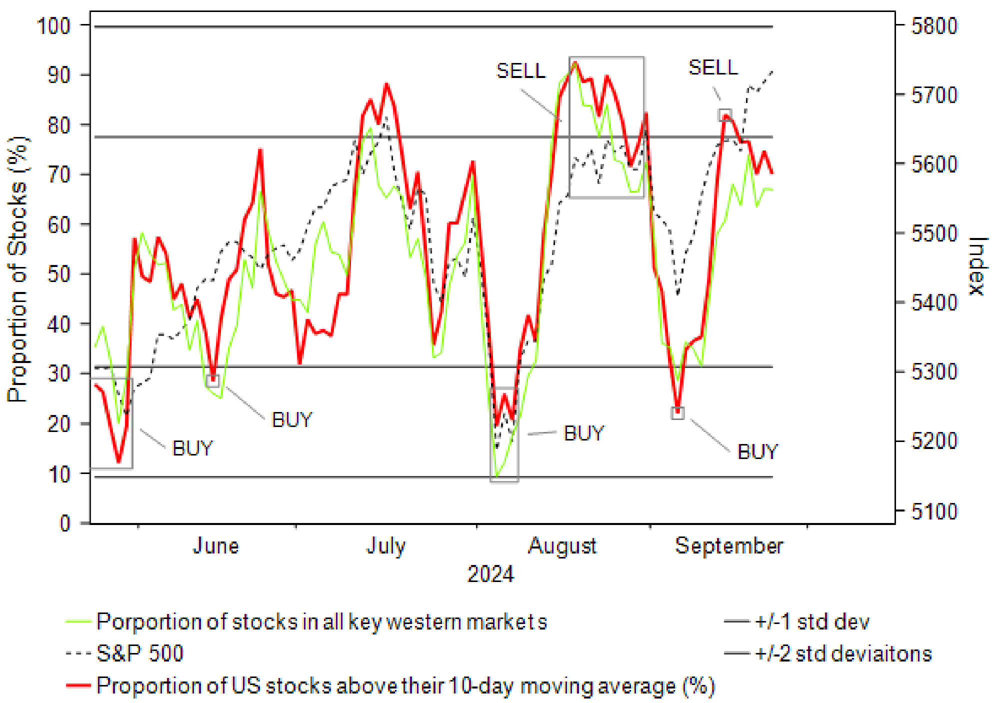
Momentum amongst the underlying single stocks is toppy and starting to fade…

FIG 3: US S&P500 stocks with upward momentum (%) vs. S&P500



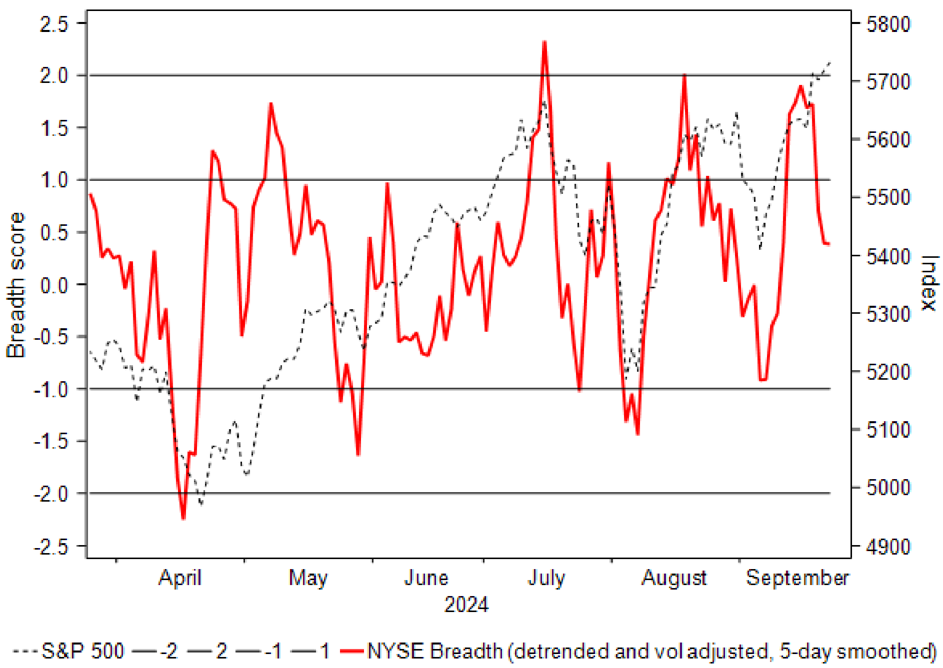
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

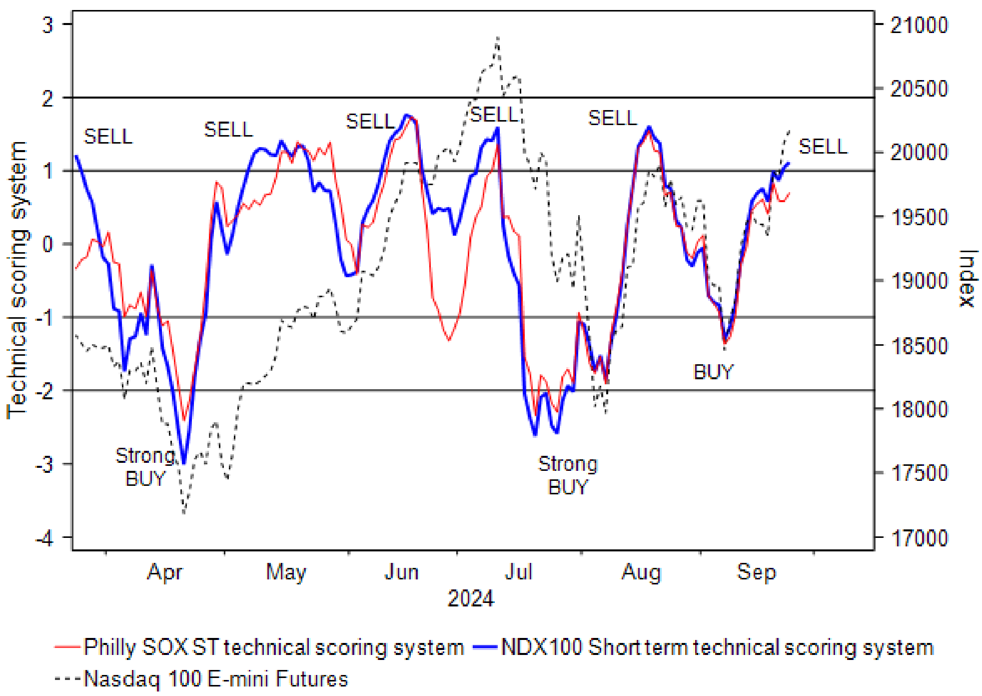
FIG 3b: Short term NYSE breadth model vs. S&P500



Source: Longview Economics, Macrobond

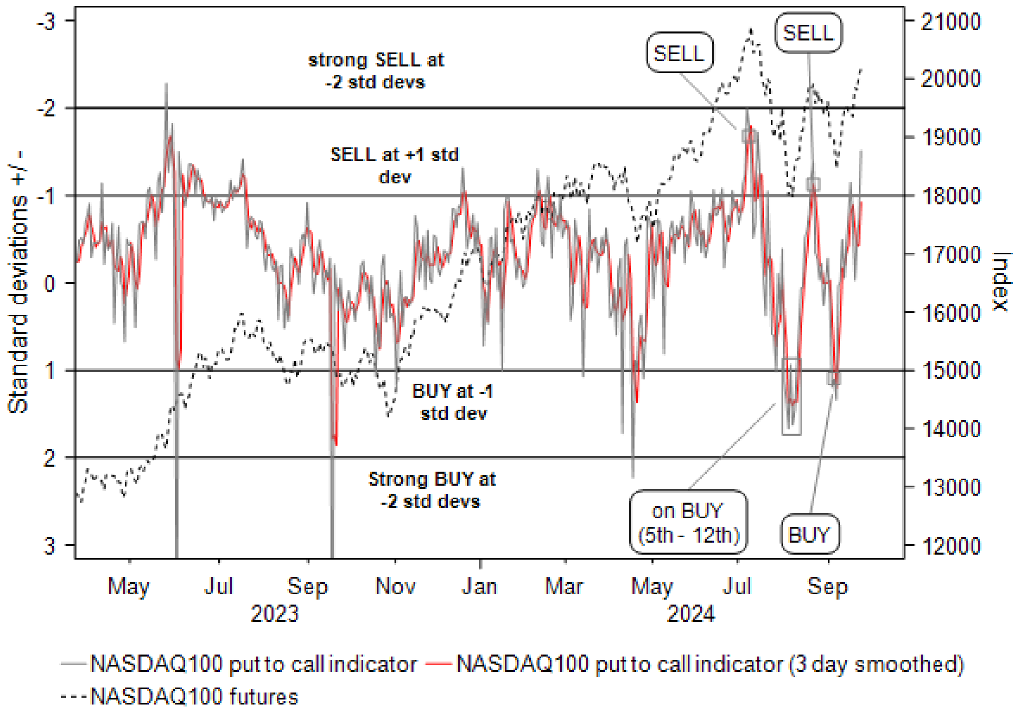
Tech centric models are on/close to SELL levels

FIG 4: Longview NASDAQ100 & Philly SOX short term ‘technical’ scoring system vs. NASDAQ100 futures



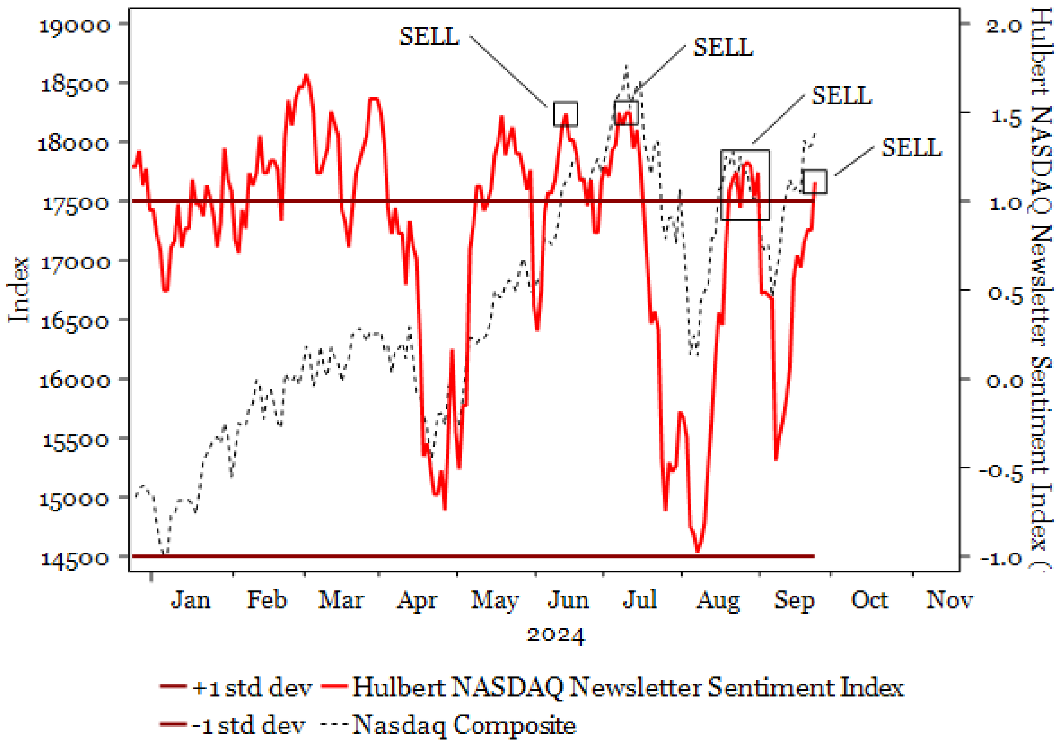
Source: Longview Economics, Macrobond

FIG 4a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100



Source: Longview Economics, Macrobond

FIG 4b: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

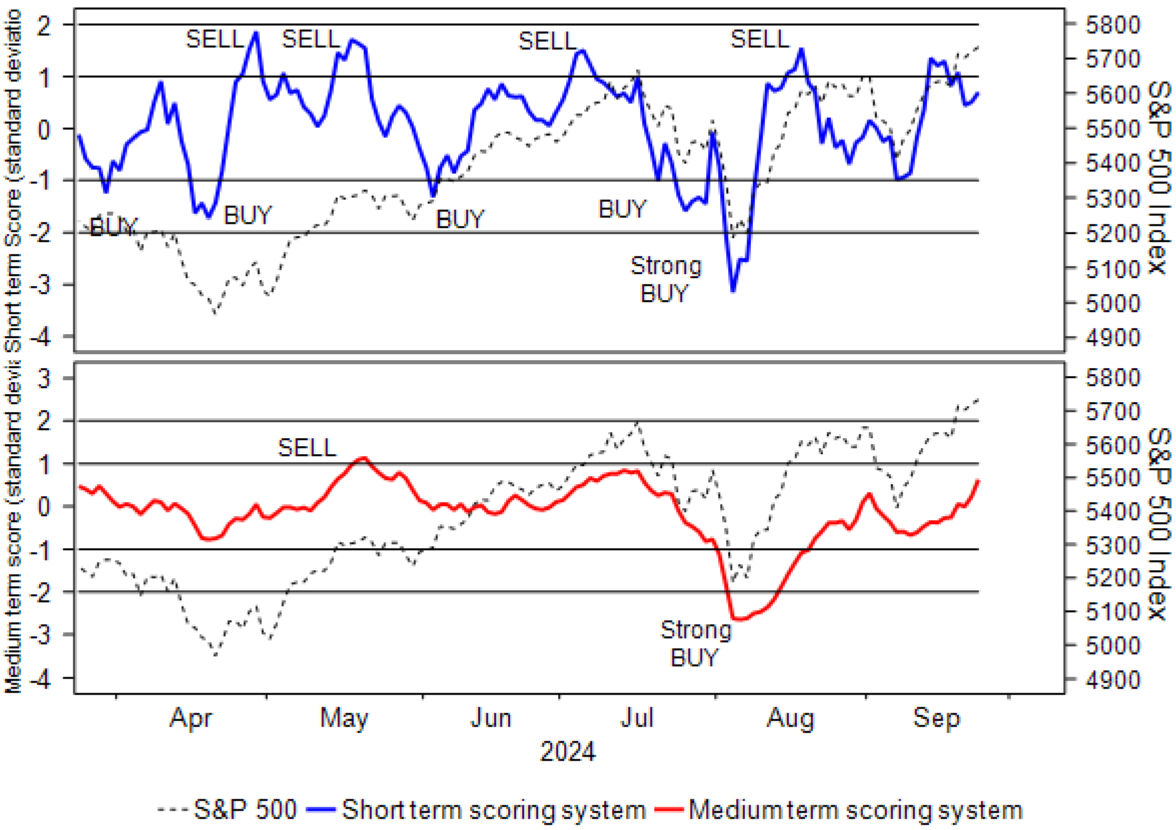


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: Japanese PPI services (Aug, 12:50am); Australian CPI (Aug, 2:30am); **French INSEE consumer confidence** (Sept, 7:45am); **US new home sales** (Aug, 3pm).

Key events today include: **Riksbank policy decision** (8:30am); speech by the Bank of England's Megan Greene (9am); speech by the Fed's Kugler on economic outlook at Harvard Kennedy School (9pm).

Key earnings today include: **Micron**, Cintas, Paychex.

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

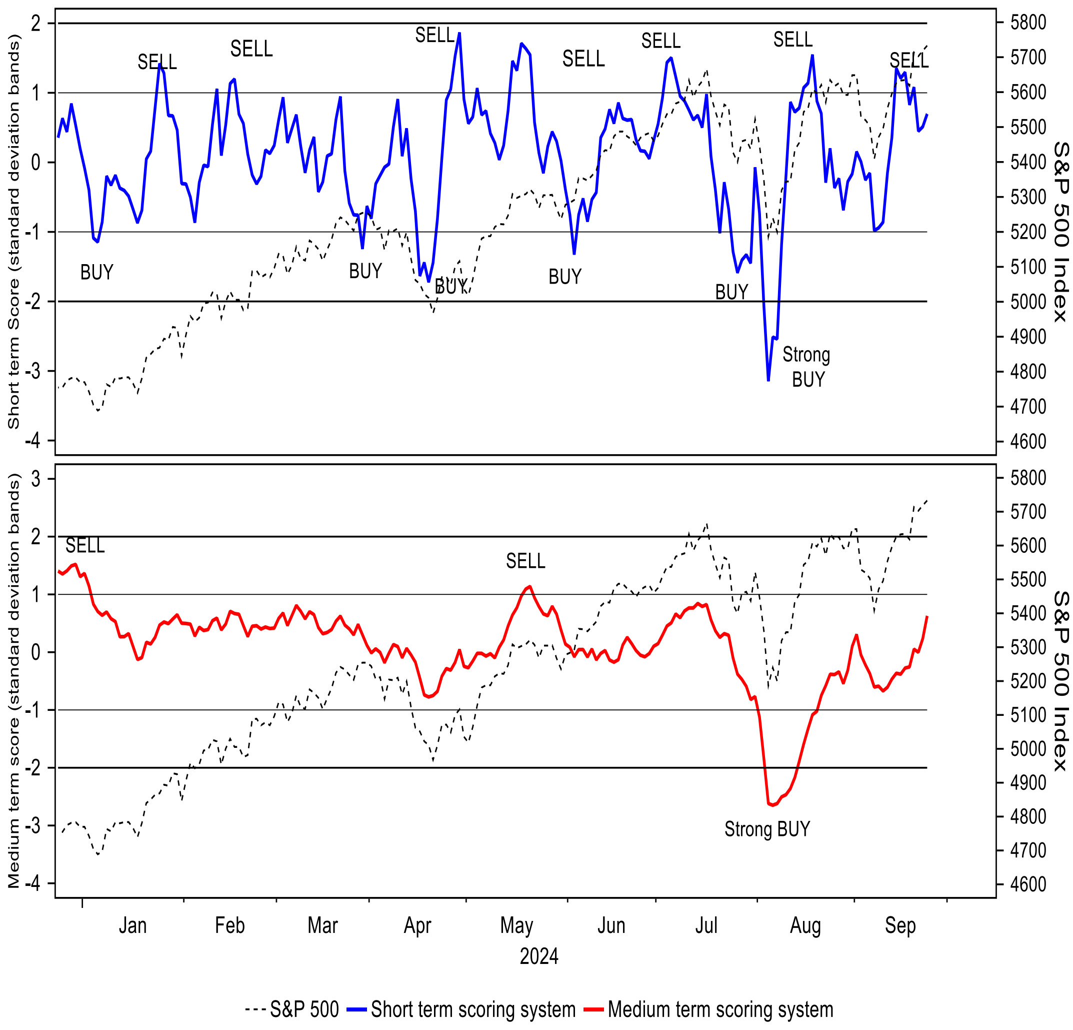
1 – 2 Week View on Risk

25th 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

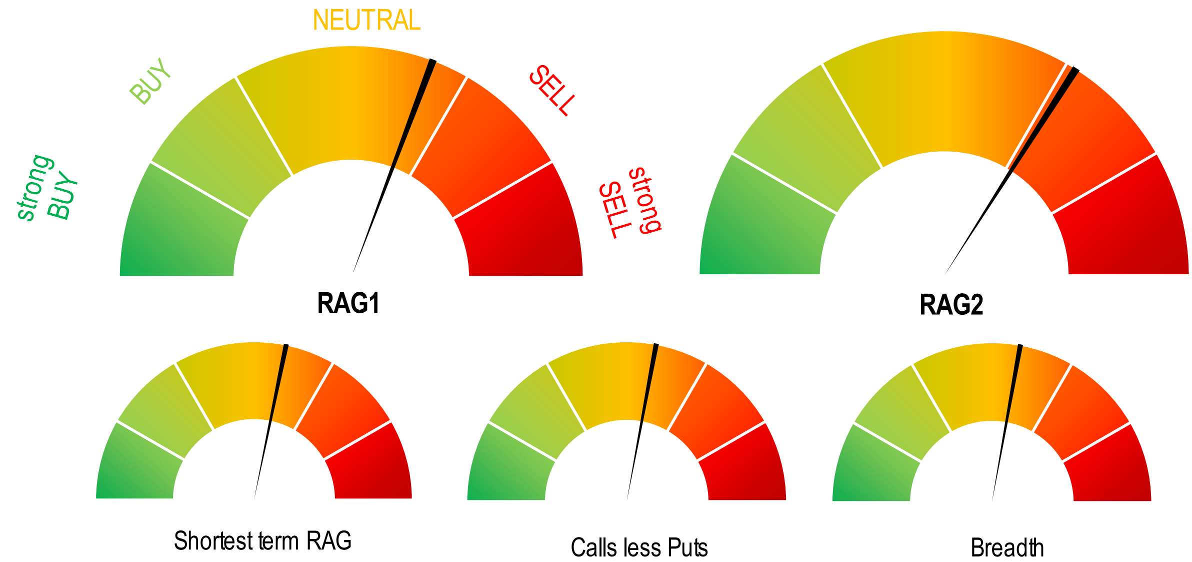
Source: Longview Economics, Macrobond

*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

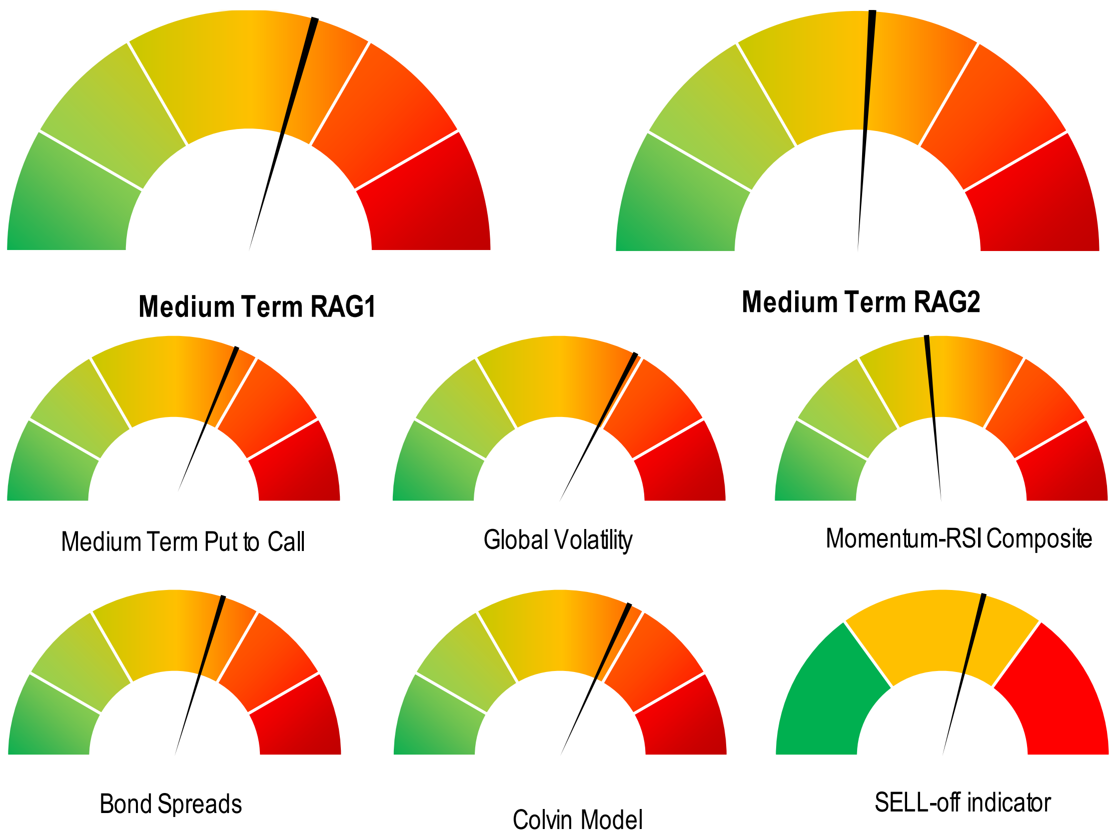
Section 1a: Summary of indicator signals**

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

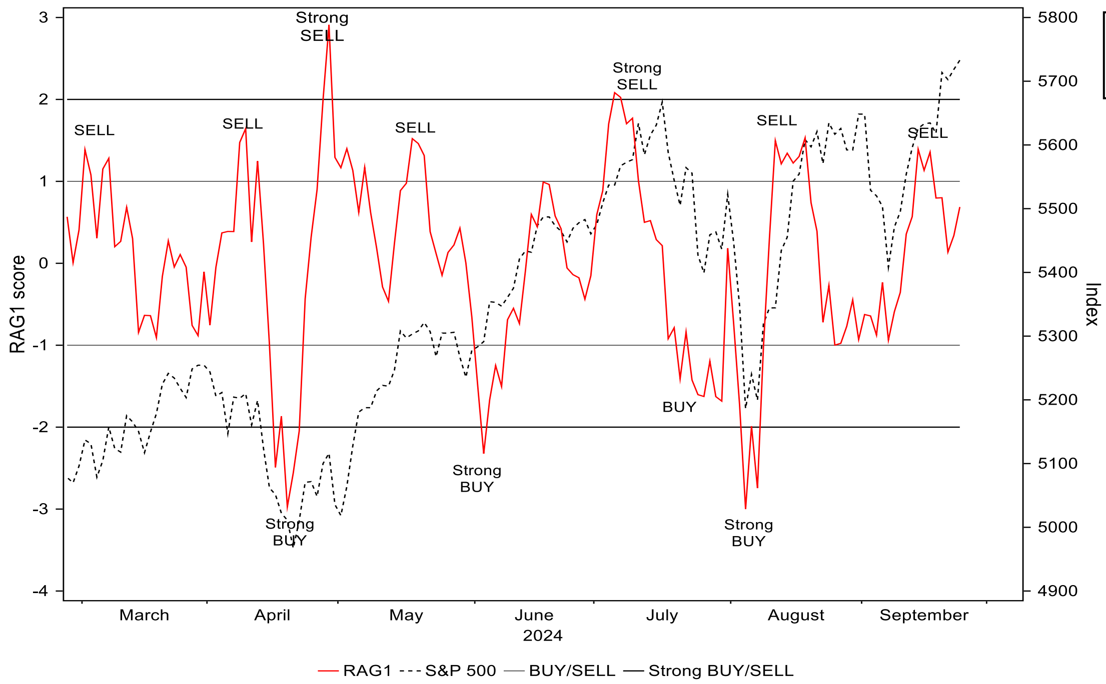


Source: *Longview Economics*

**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

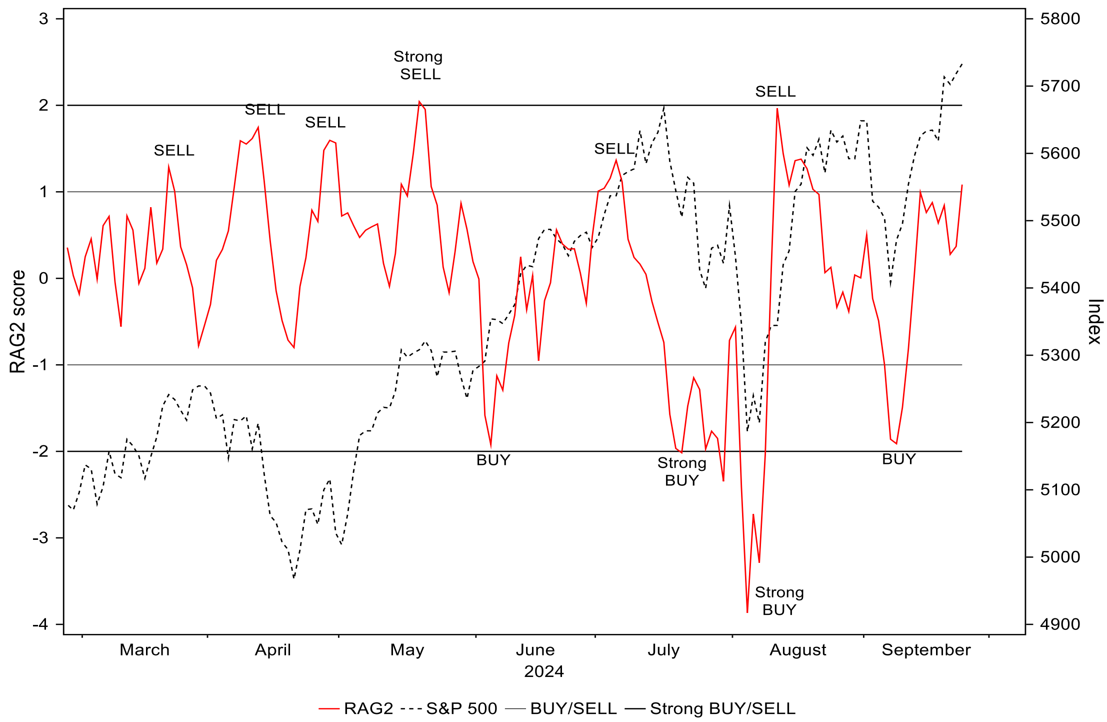
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

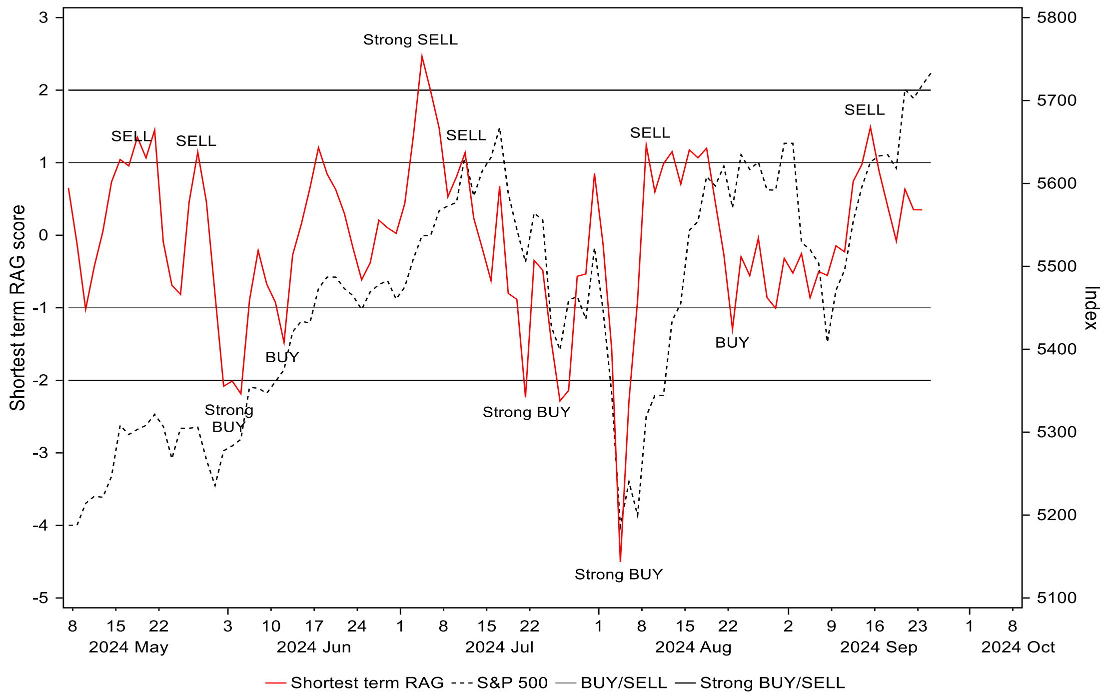


RAG2 is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

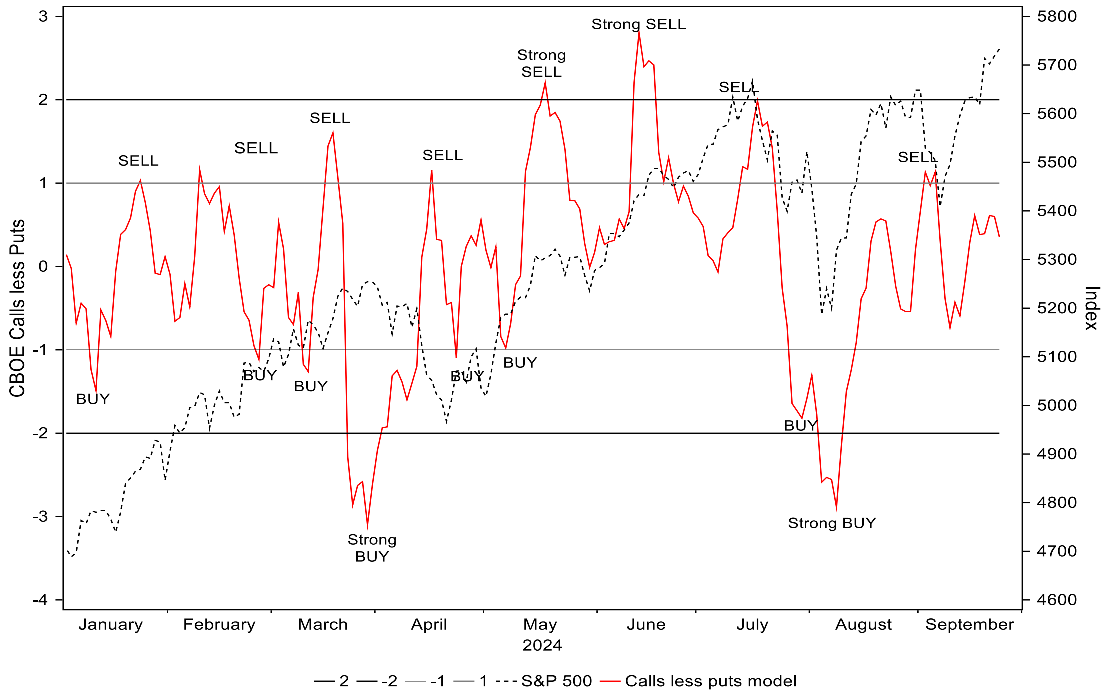
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

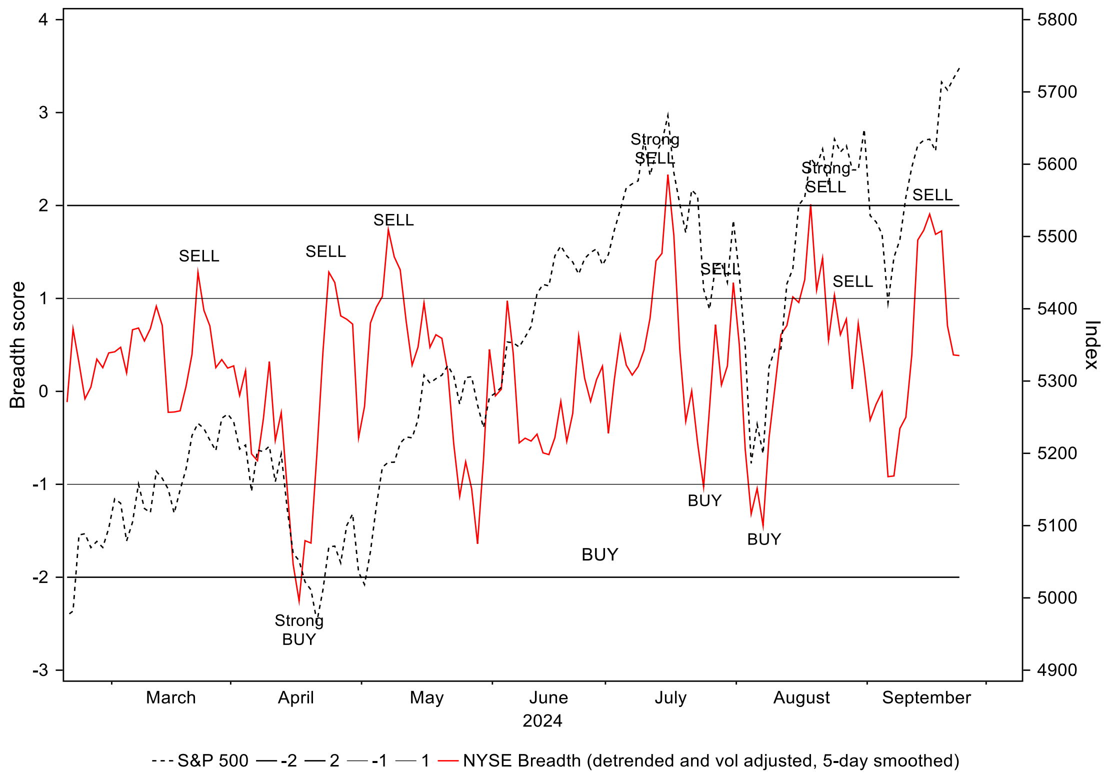


Source: Longview Economics, Macrobond

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



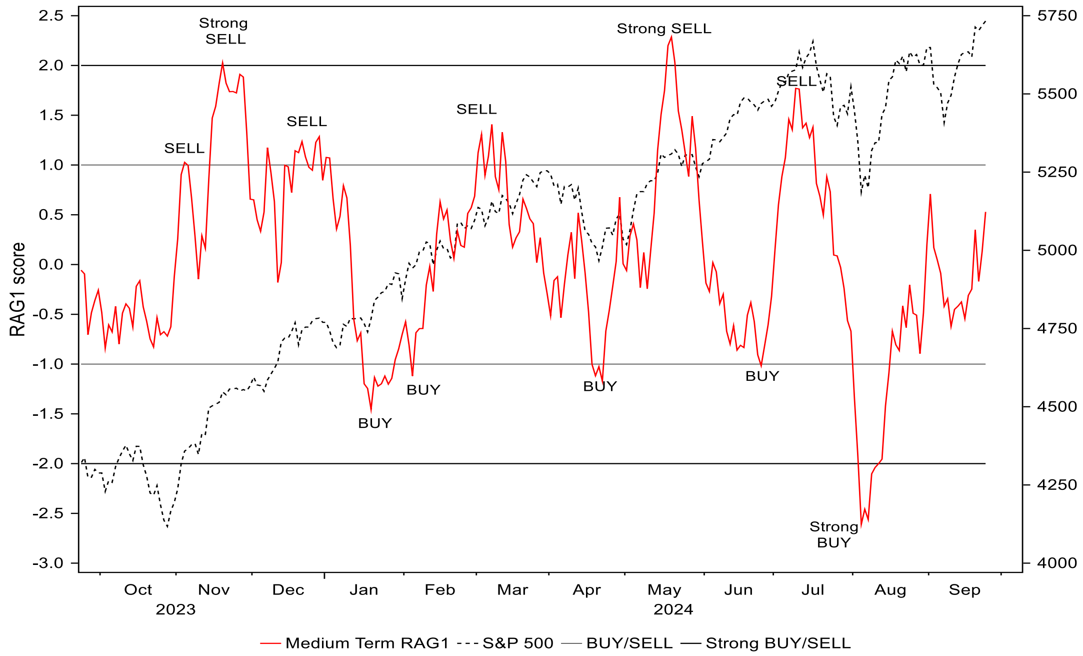
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

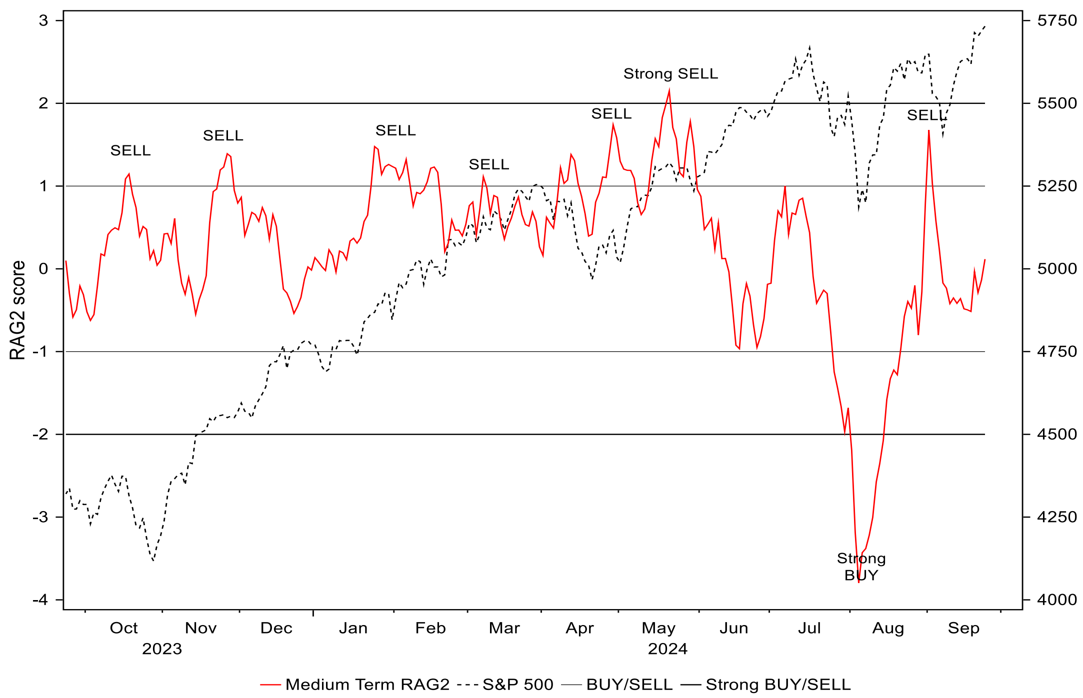
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

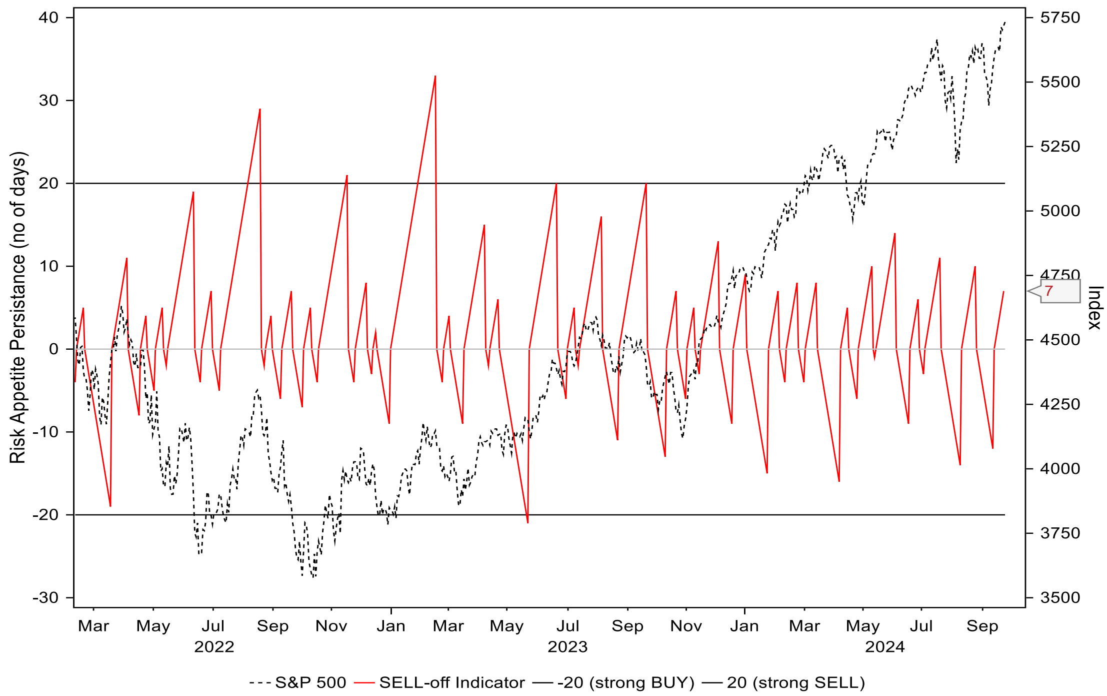


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

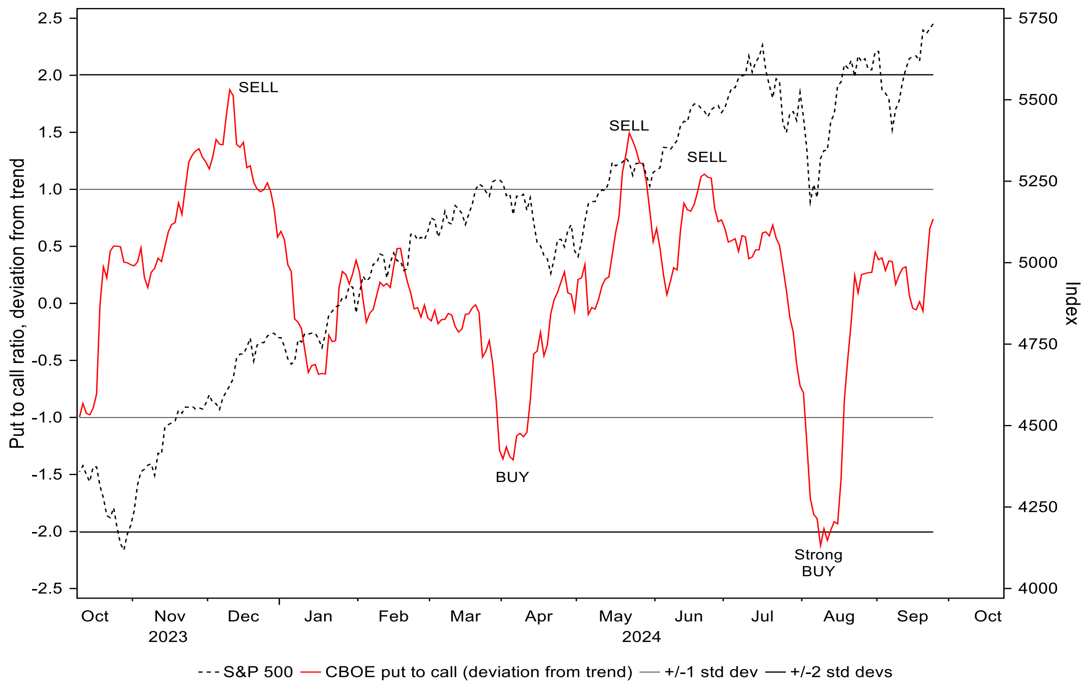
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

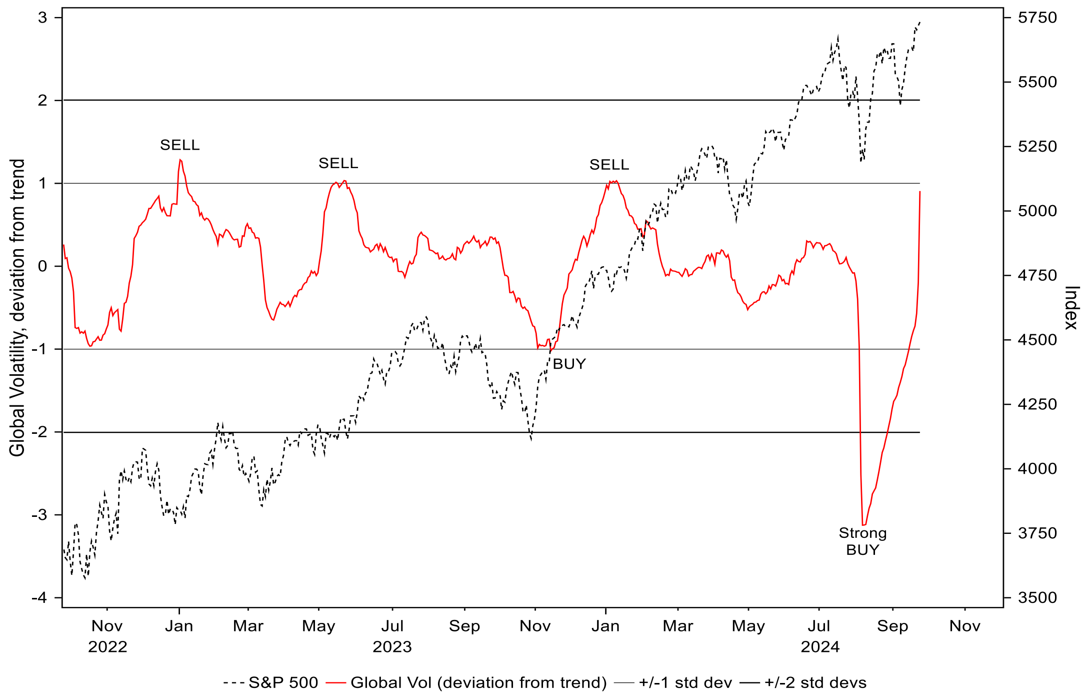


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

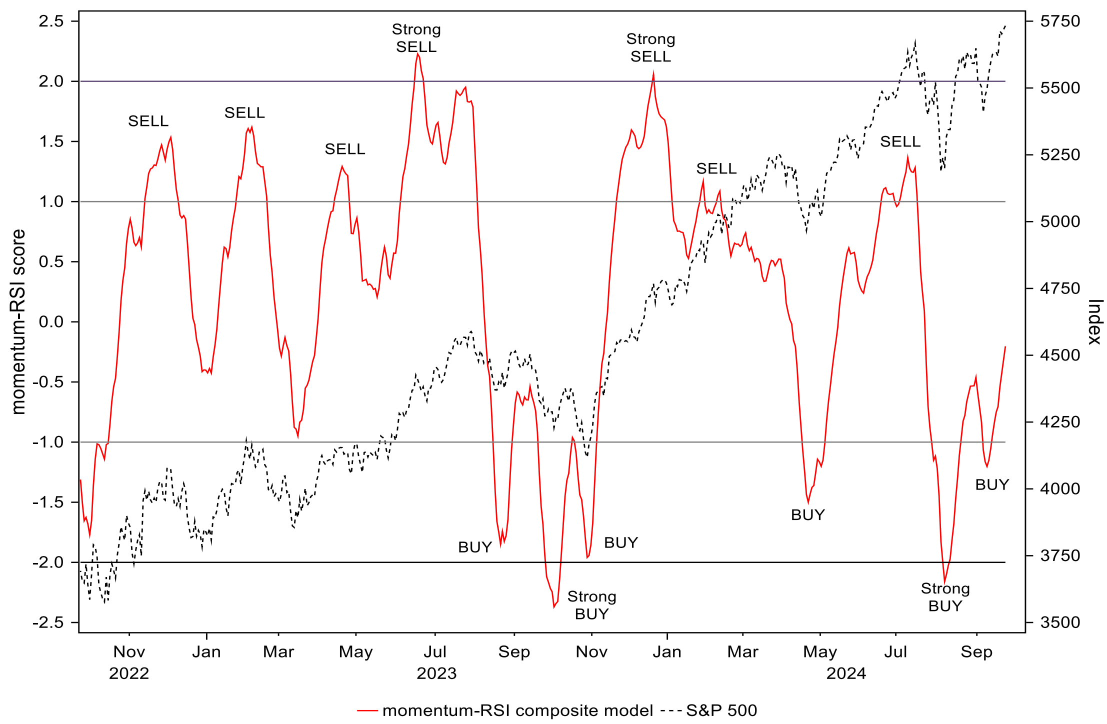
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

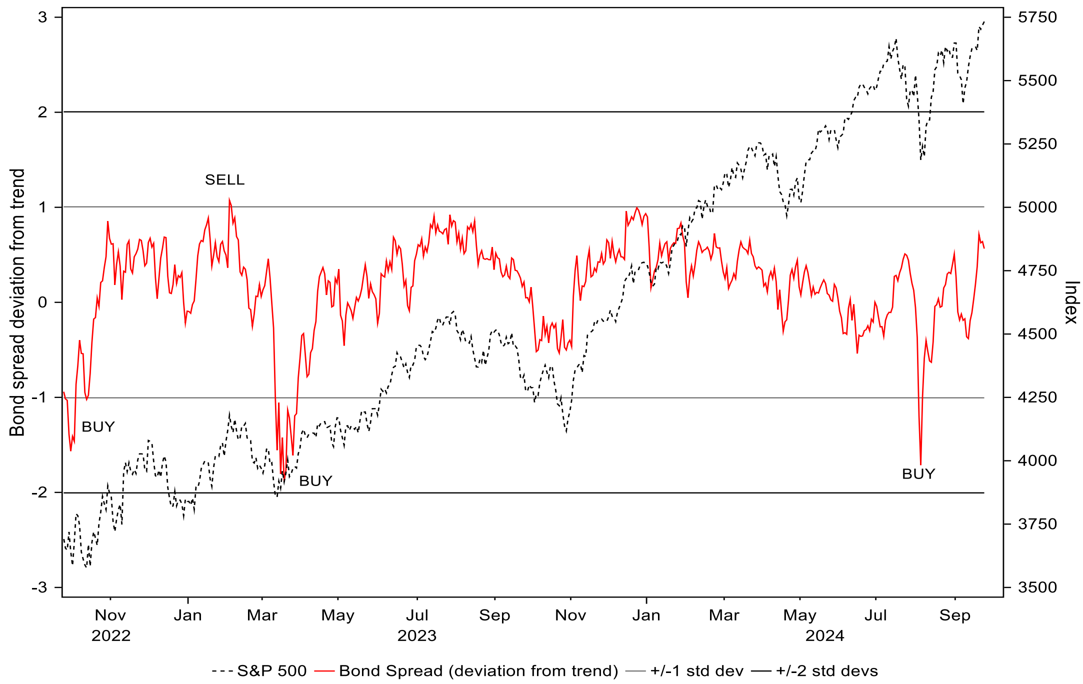
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

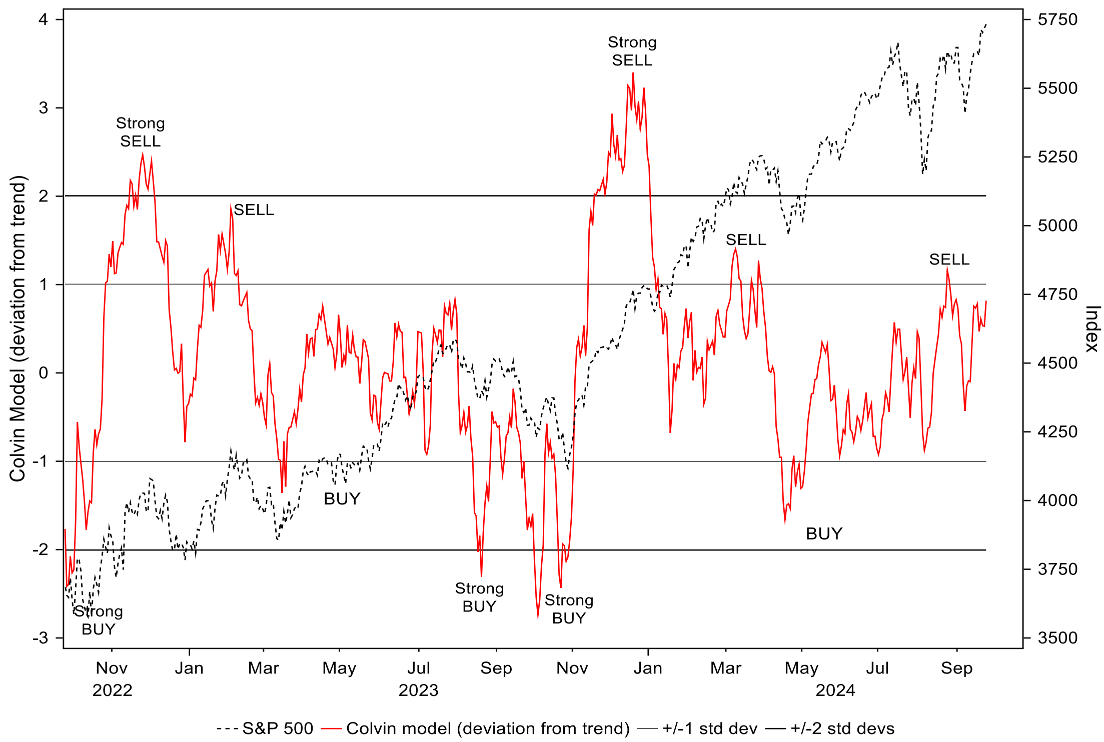
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

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