

## Equity Index Futures Trading Recommendations

26th September 2024

"Stay SHORT - Price Action Troubling, BUT Models on SELL. Tight Stop"

Email: [info@longvieweconomics.com](mailto:info@longvieweconomics.com)

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

- Stay ½ SHORT NDX100 December futures (blended entry was at 19,955.12).
- Keep the stop loss at 20,489.0 (i.e. 2% away from yesterday's entry prices).

\*NB Initial entry into the first ¼ SHORT position was last Wednesday at 19,800. Then a further ¼ SHORT yesterday at 20,110.25

### Rationale

**The rationale for being SHORT US equity index futures remains but is less compelling than yesterday morning.** In particular, the S&P500 and NDX100 have both broken out of their sideways trading range (FIGs 1 & 1a). That likely reflects the stimulus announcements out of China (both last night and the prior night) as well as the latest sharp falls in the oil price (down around 2.5% overnight, as Saudi is rumoured to be preparing to 'increase output'). Our models, though, continue to generate multiple SELL signals, while some signs of stress remain in the global financial market (see FIGs 1b & 1c).

Short-term models are laid out in FIGs 2 to 4b. The **message of those models** is that the main US markets are overbought; there are low levels of downside put protection (hedging) in portfolios; market participants, in general, have become greedy (hence the high 'risk appetite' readings); while momentum is fading (or on SELL/at high levels) including at an index, sector and single stock level. Overall, therefore, the backdrop (from a models' perspective) is consistent with SHORT positions. In terms of the **price action** the argument has become less compelling as the S&P500 and NDX100 have both broken out of their recent four-day trading ranges (see FIGs 1 & 1a). At this stage, of course, that is still plausibly a false breakout – likely driven by the sizeable Chinese stimulus package which was announced overnight Monday into Tuesday (with further measures announced last night) and the latest oil price falls. **High/widening spreads**, though, add to the (downward) pressure on financial markets. In the US that includes high TED spreads (although that may reflect the current proximity to quarter end) whilst in the EZ, French and Belgium spreads widened relative to German Bunds – which adds to pressure on Eurozone risk assets.

Overall, therefore, the bulk of the rationale remains. Of particular note, the message of the models is strong and across the board. Certain medium-term models are also now at high/SELL (or close to SELL) levels. Those include the medium term put to call ratio; the Colvin model; and the medium-term risk appetite scoring system. With a breakout of recent trading ranges our conviction is diminished (especially since that breakout is accompanied by new stimulus measures). Our trade is now close to its stop loss. We remain SHORT (as per yesterday) – see trading recommendation above for detail. Key macro data and events are shown below.

Kind regards,

The team @ Longview Economics

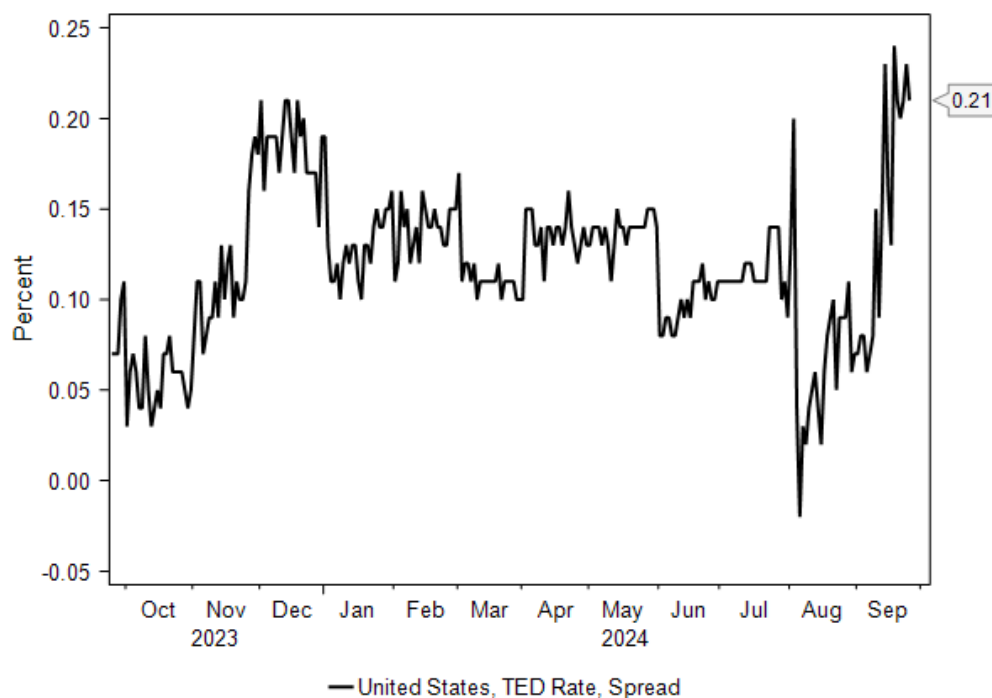
**FIG 1:** S&P500 futures 10-day tick chart shown with overnight price action



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



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



Source: Longview Economics, Macrobond

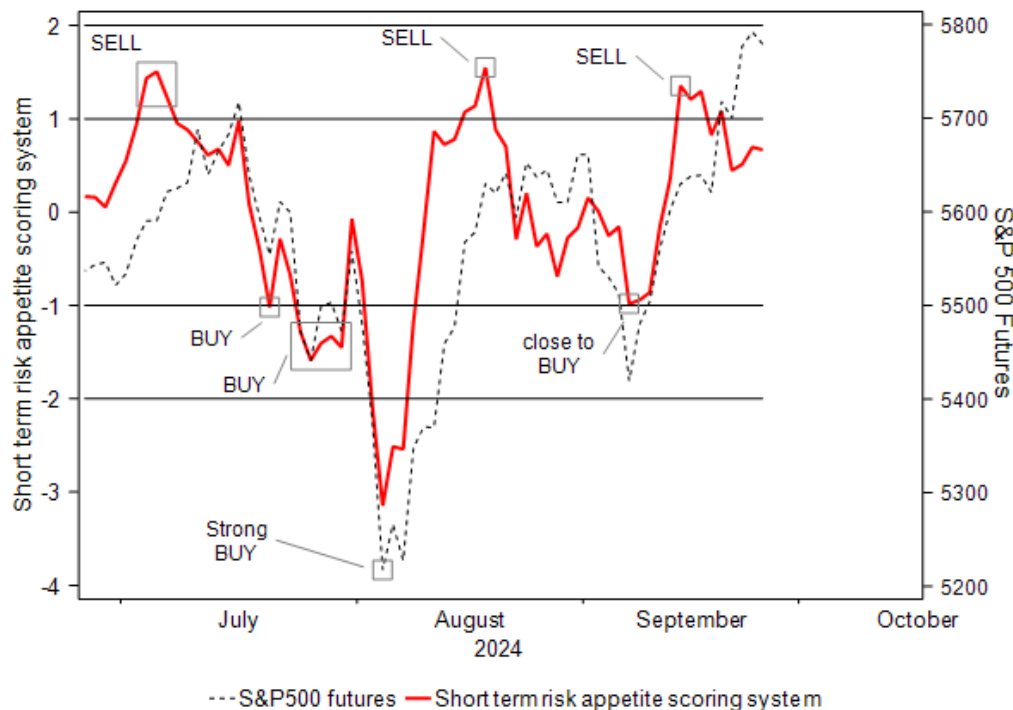
**FIG 1c:** Various EZ 10-year government bond spreads over German Bund yields (bps)



Source: Longview Economics, Macrobond

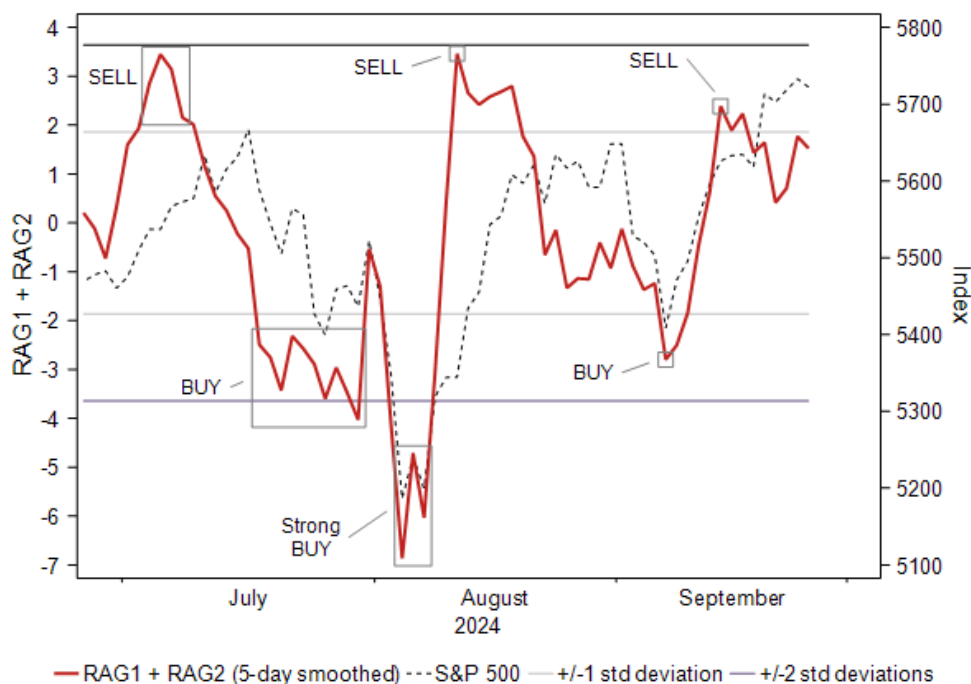
**Short term market timing models are all on (or close to) SELL.....**

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



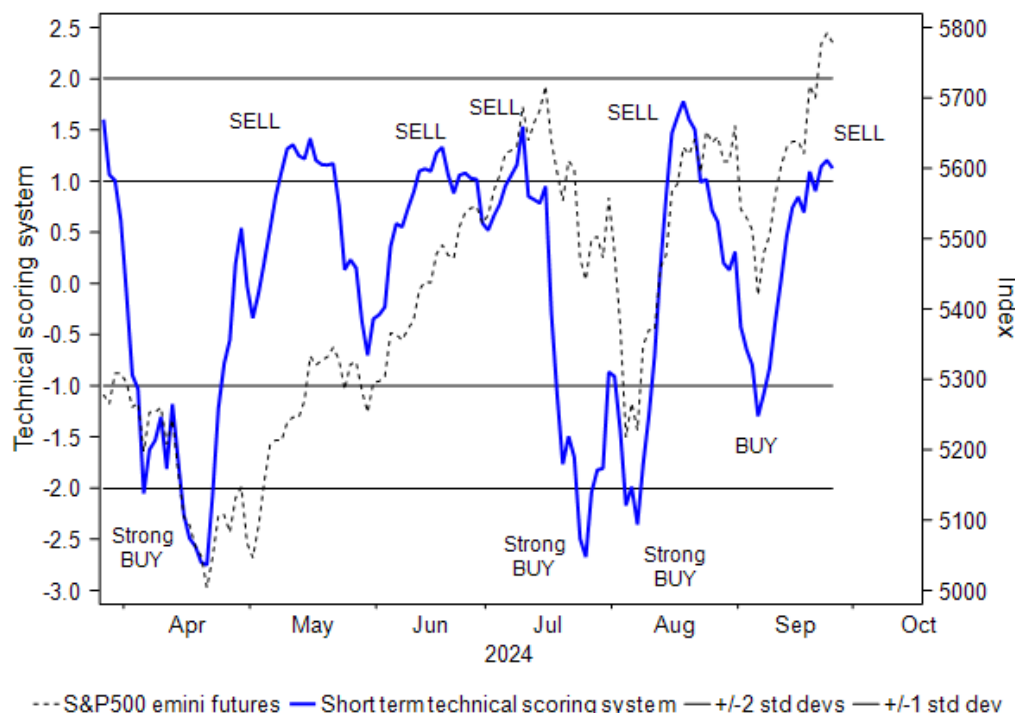
Source: Longview Economics, Macrobond

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



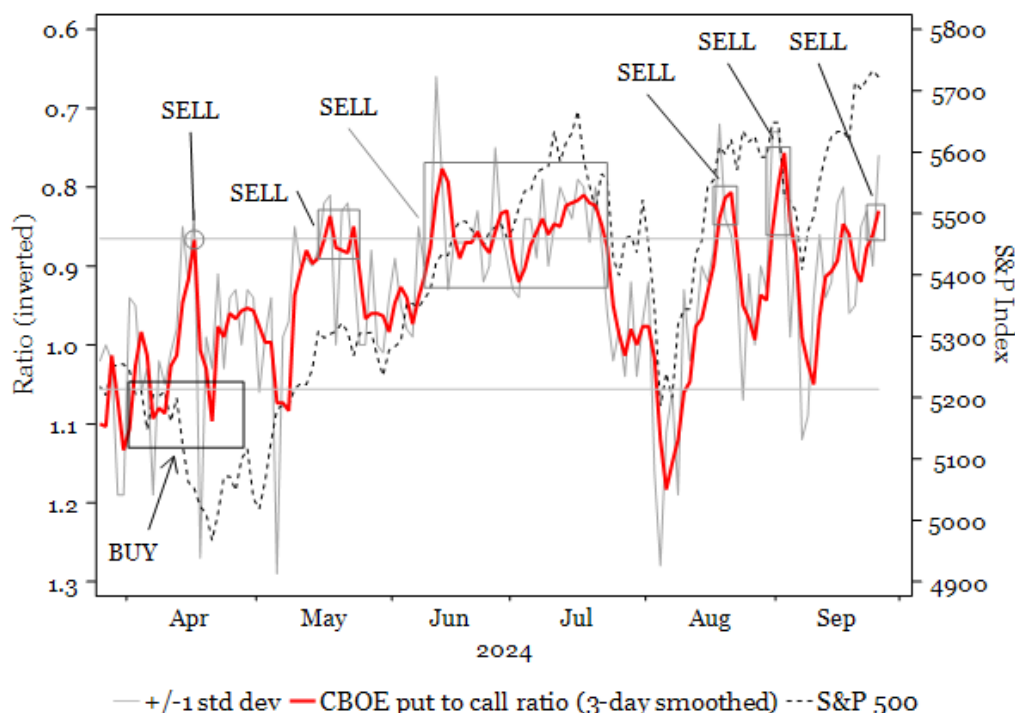
Source: Longview Economics, Macrobond

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



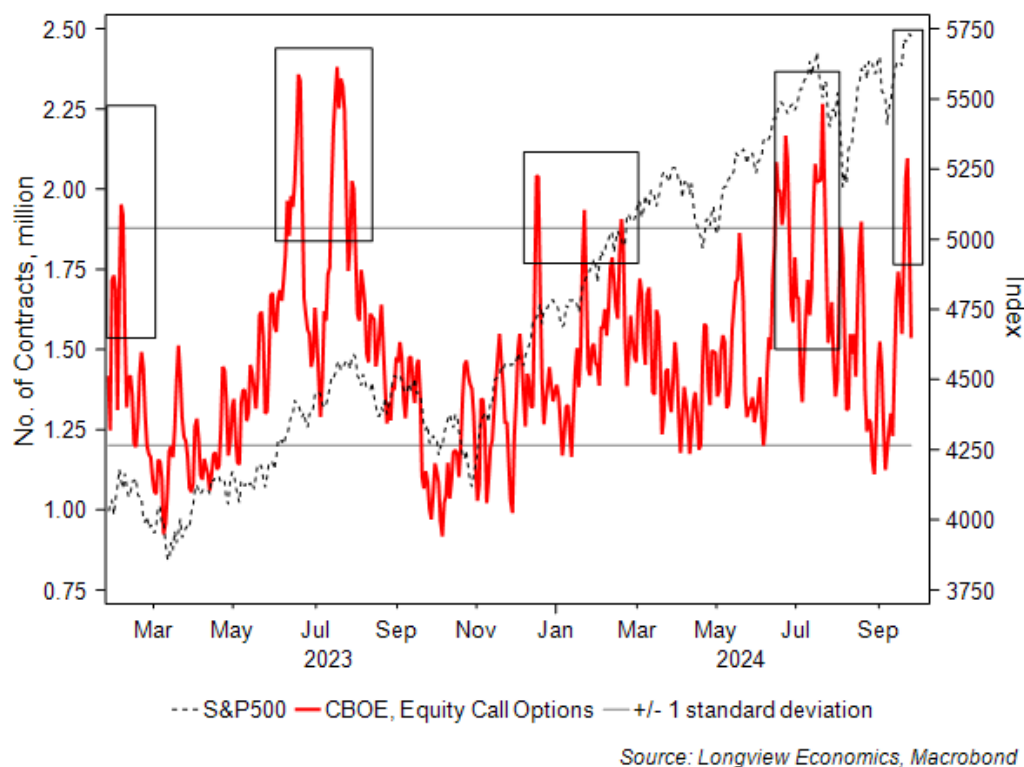
Source: Longview Economics, Macrobond

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

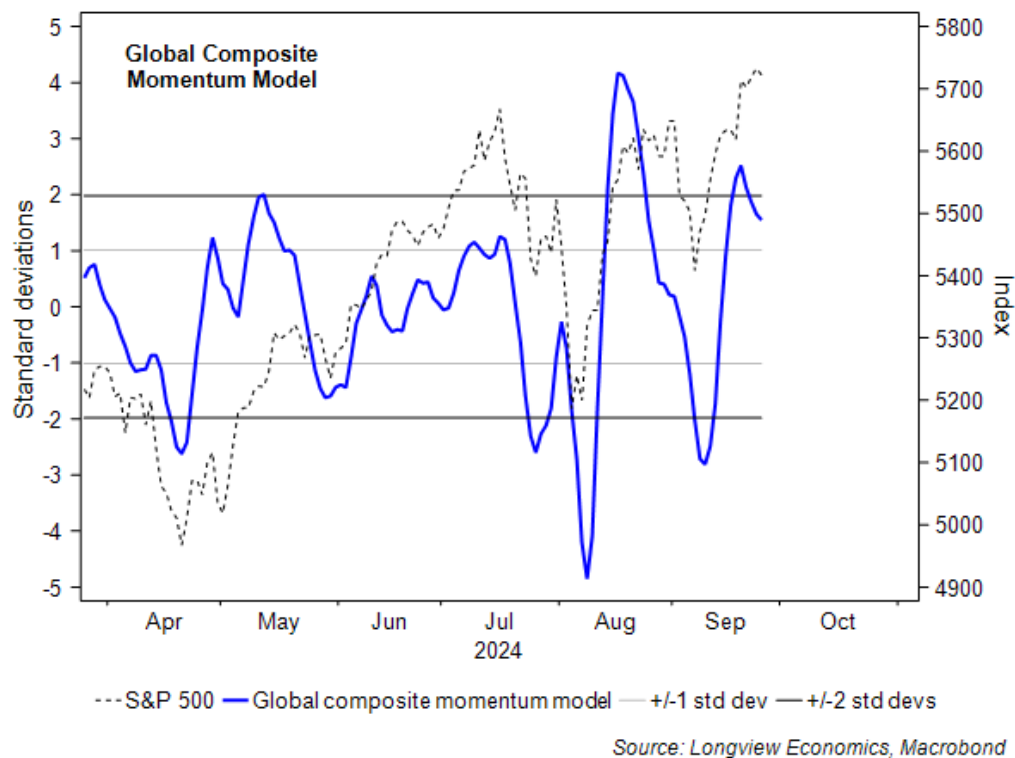


Source: Longview Economics, Macrobond

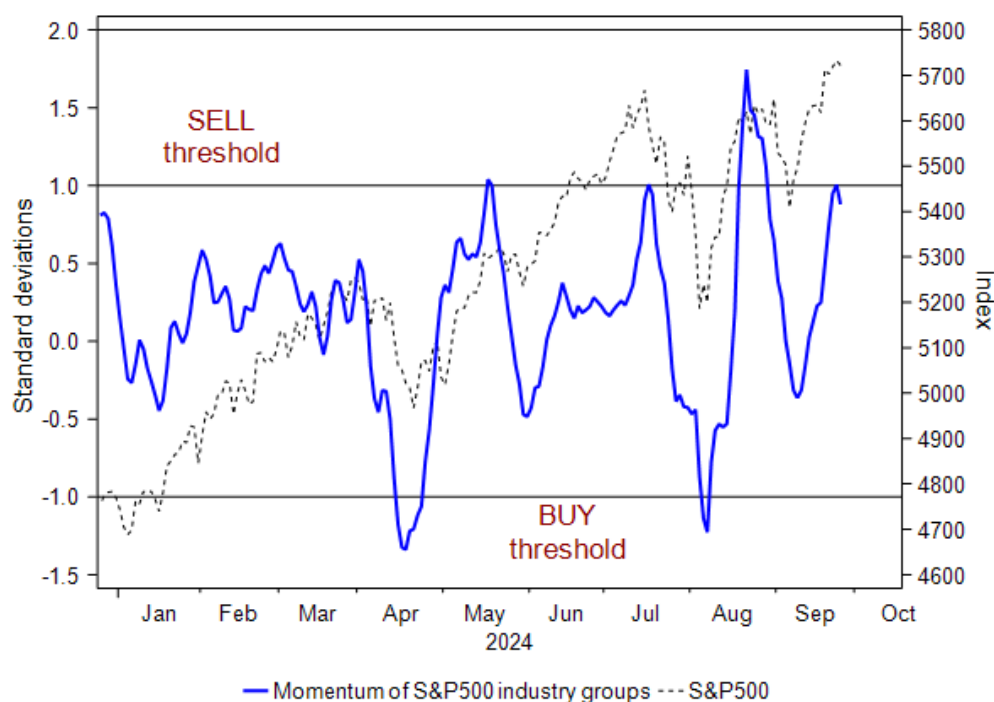
**FIG 2d:** US CBOE single stock call options (no. of contracts, smoothed) vs. S&P500



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



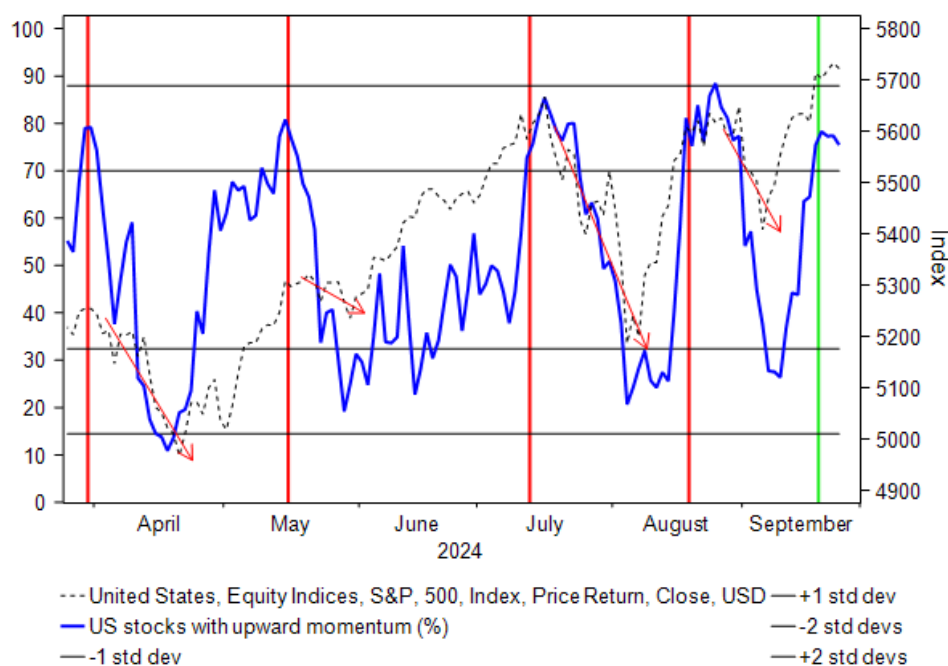
**FIG 2f:** Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

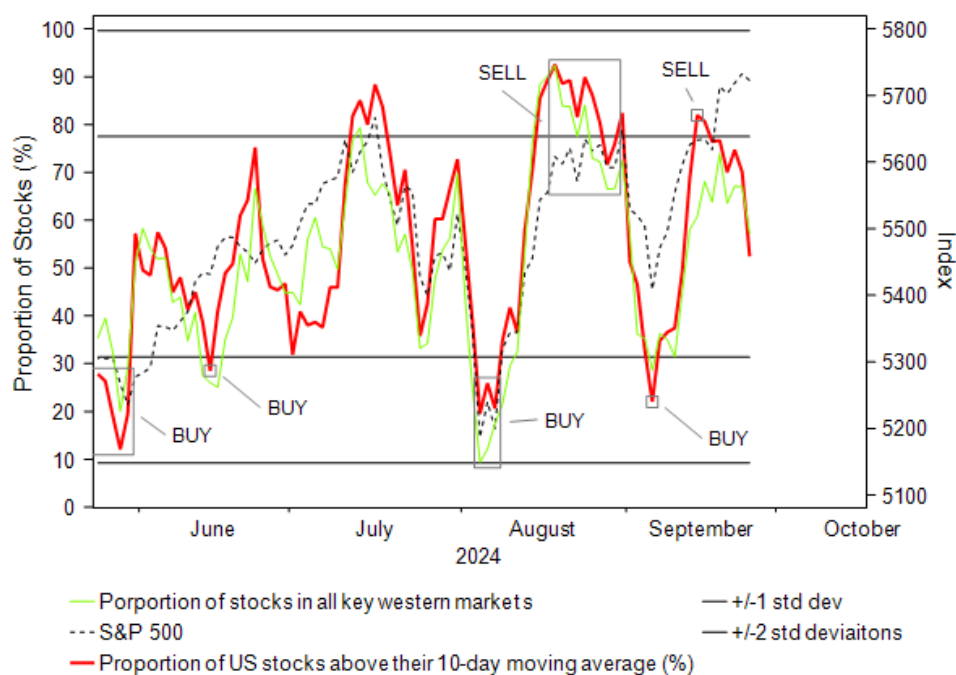
**Momentum amongst the underlying single stocks is topy and starting to fade...**

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



Source: Longview Economics, Macrobond

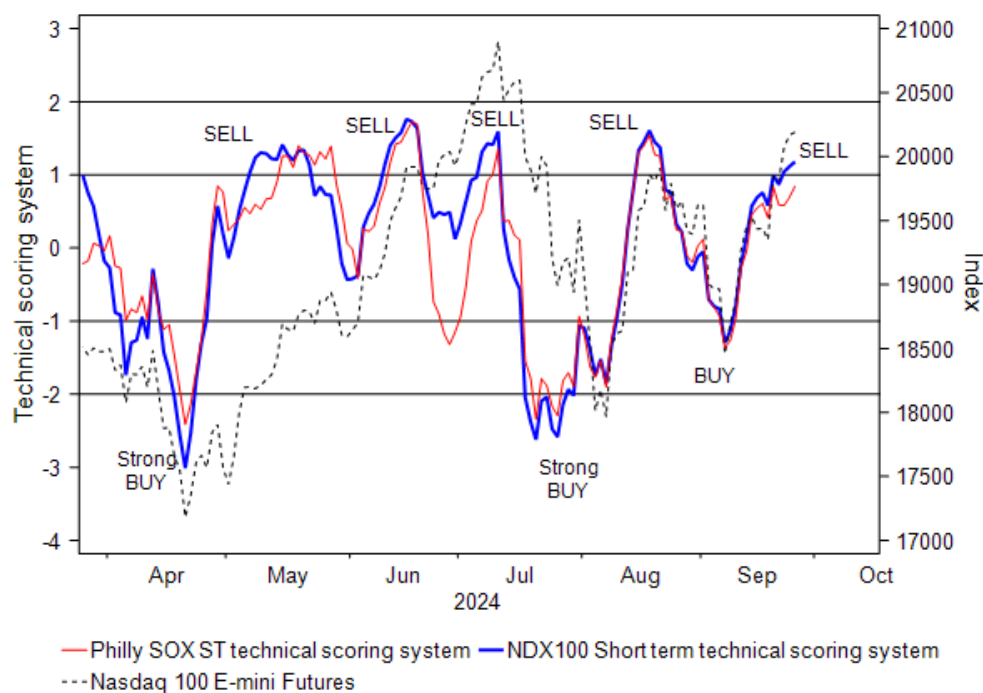
**FIG 3a:** Proportion of US stocks above their 10-day moving average vs. S&P500



Source: Longview Economics, Macrobond

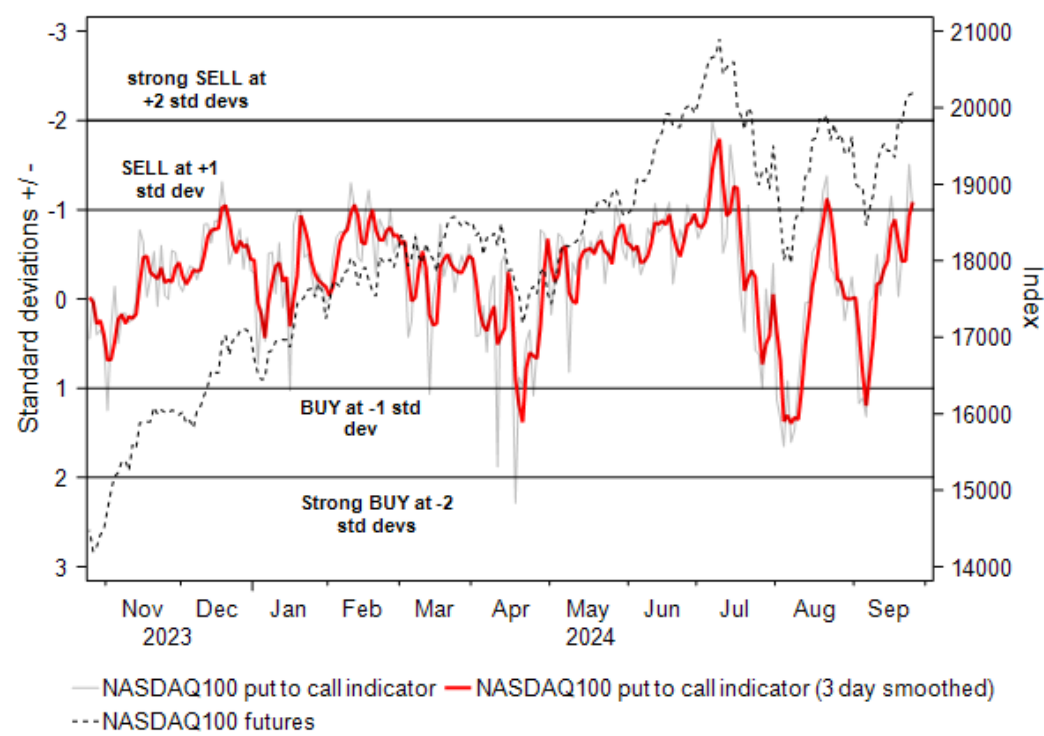
### Tech centric models are on/close to SELL levels

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



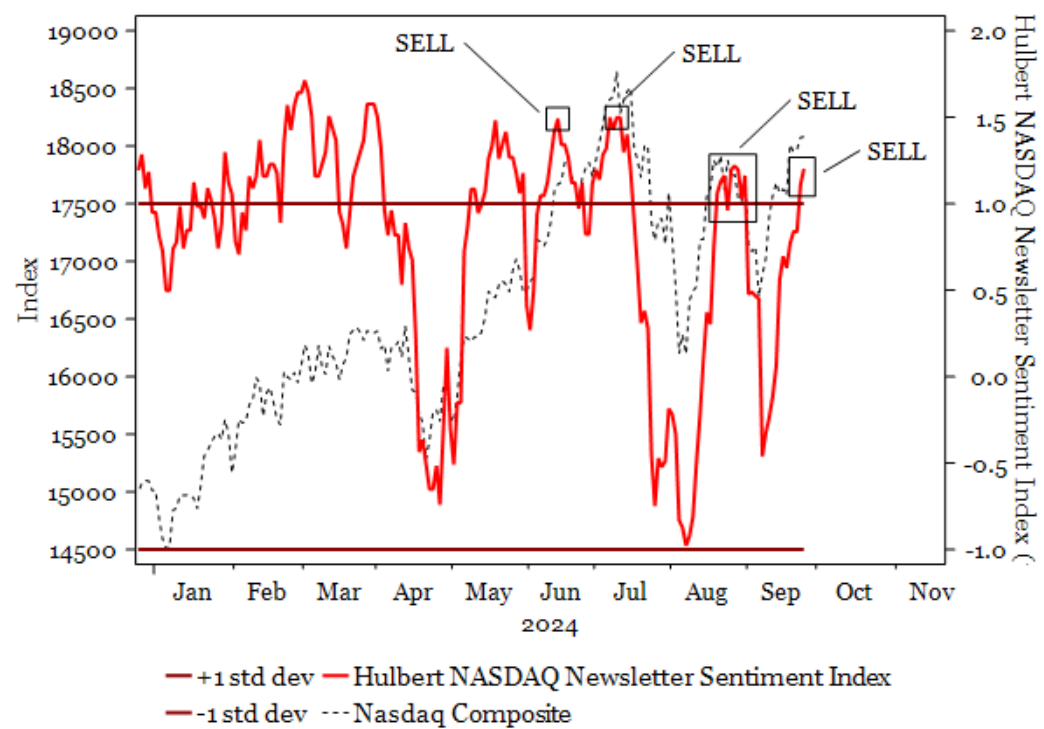
Source: Longview Economics, Macrobond

**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



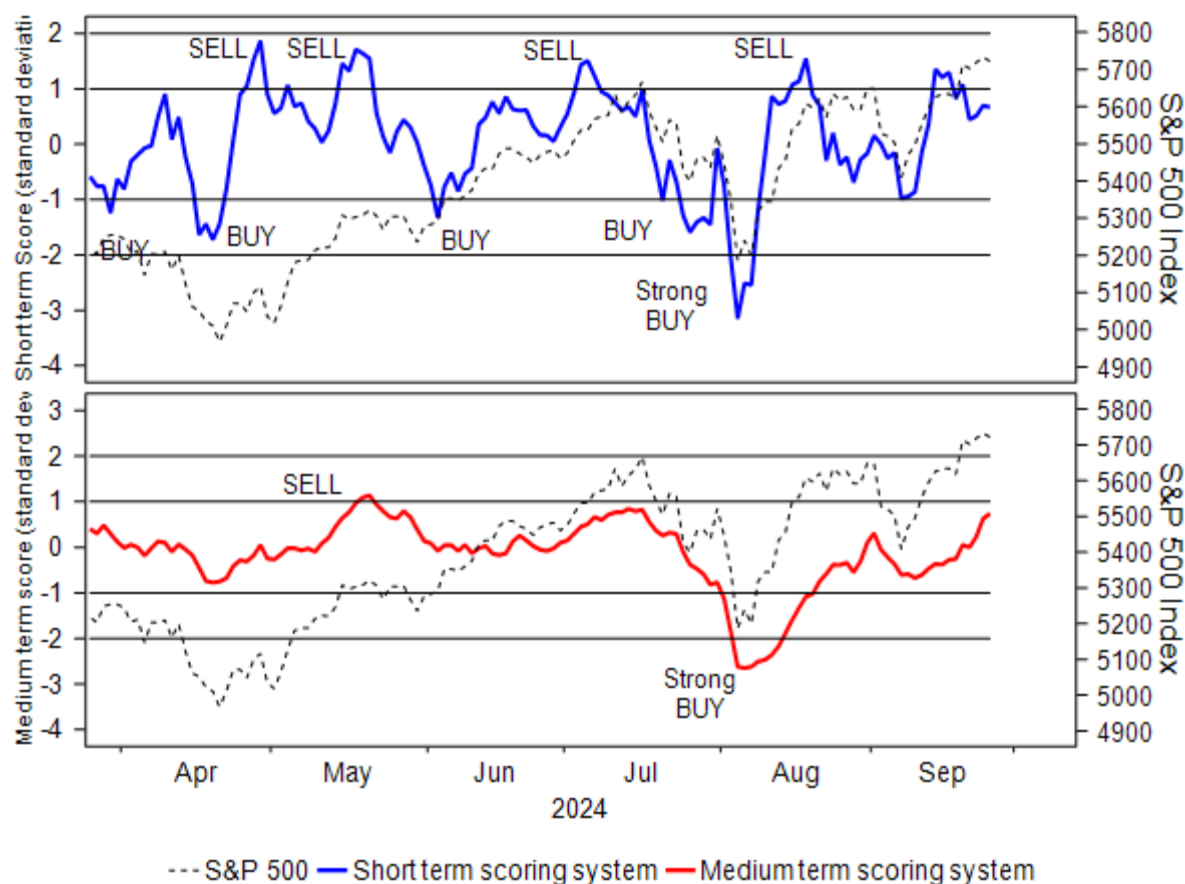
Source: Longview Economics, Macrobond

### 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: Australian job vacancies (Aug, 2:30am); Japanese machine tool orders (August final estimate, 7am); German GfK consumer confidence (Oct, 7am); Italian ISTAT consumer confidence (Sept, 9am); **Eurozone M3 money supply** (Aug, 9am); Canadian employment change (Jul, 1:30pm); US GDP (Q2 third estimate, 1:30pm); **US durable goods orders** (August first estimate, 1:30pm); US weekly jobless claims (1:30pm); US pending home sales (Aug, 3pm); US Kansas City Fed manufacturing activity (Sept, 4pm).

**Key events** today include: BOJ minutes from July policy meeting (12:50am); RBA publishes financial stability review (2:30am); **SNB policy decision** (8:30am); speech by the ECB's Lagarde at New Frontiers in Macroeconomic Policy conference (2:30pm); speeches by the Fed's Colins & Kugler in Fireside Chat (2:10pm), Powell, Williams & Barr at the 10<sup>th</sup> annual US Treasury Market conference (2:20pm - 3:30pm) & Kashkari hosts Fireside Chat (6pm).

**Key earnings** today include: **Costco, Accenture.**

## 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 5<sup>th</sup> September 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).

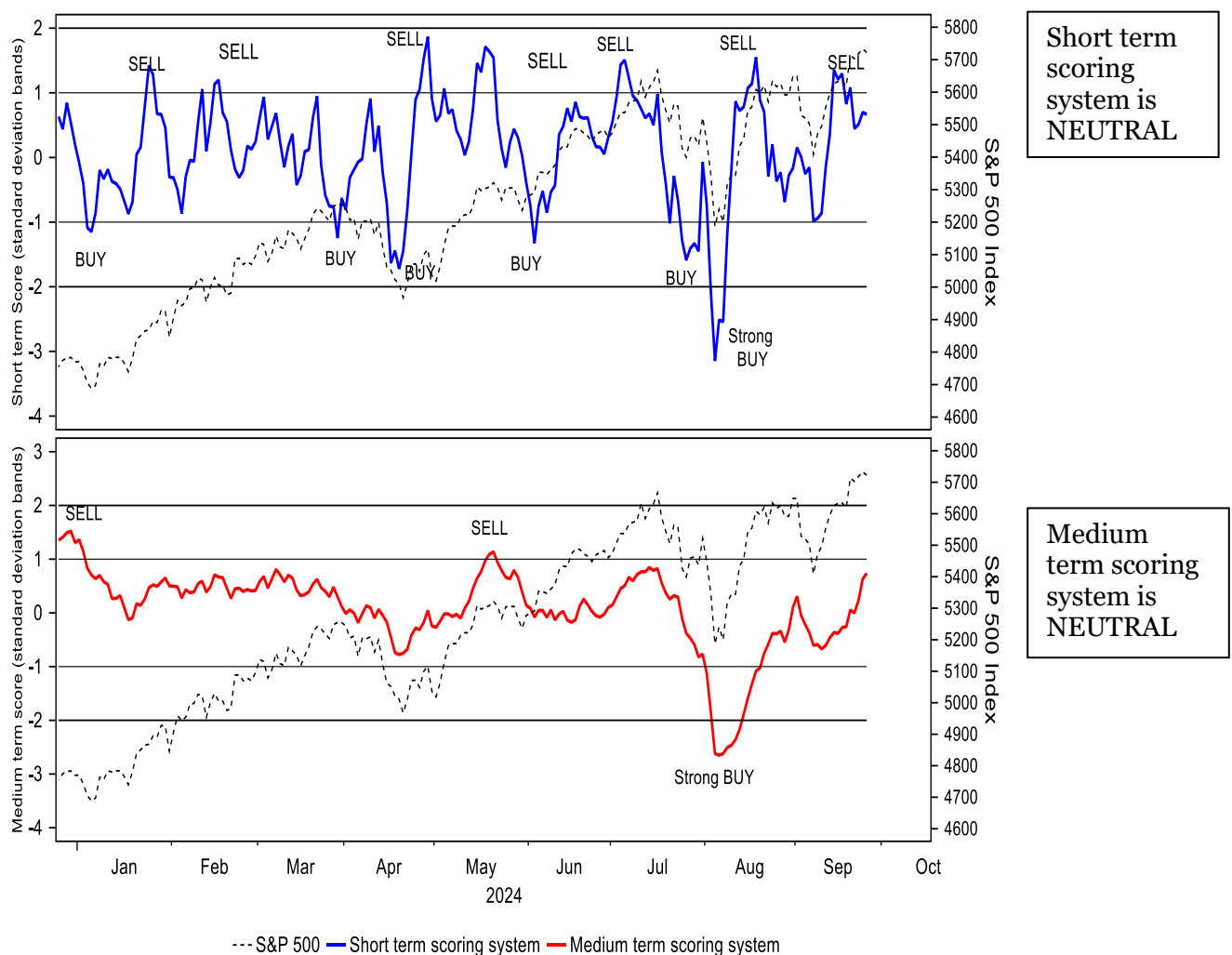


Notice: This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

-  Longview Economics
-  @chriswatling
-  @LviewEconomics
-  Longview Economics
-  Longview Economics
-  Longview Economics

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

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



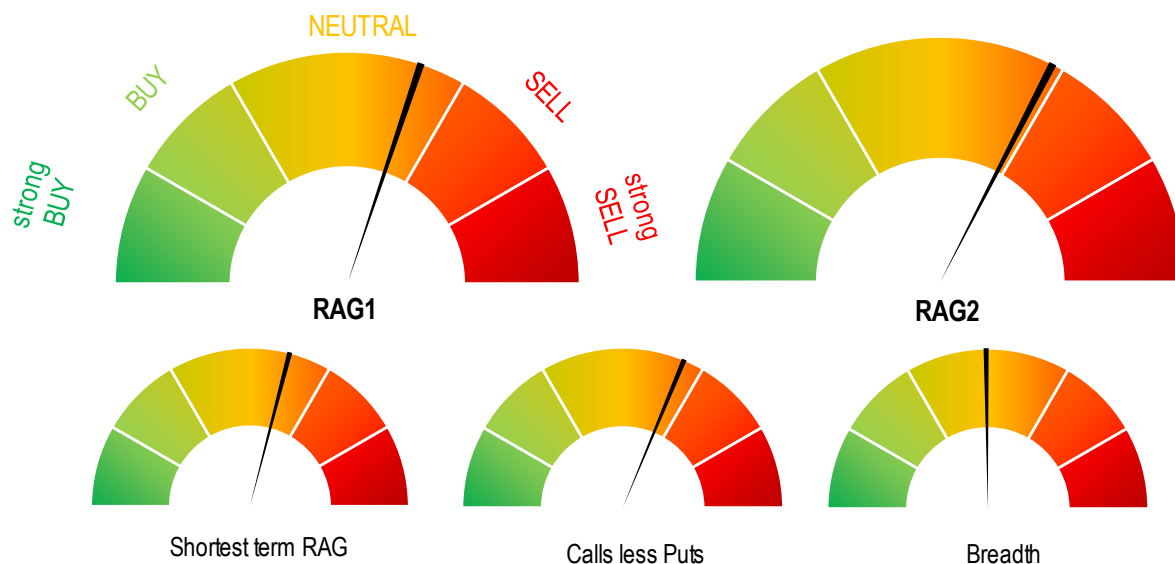
Source: Longview Economics, Macrobond

\*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**

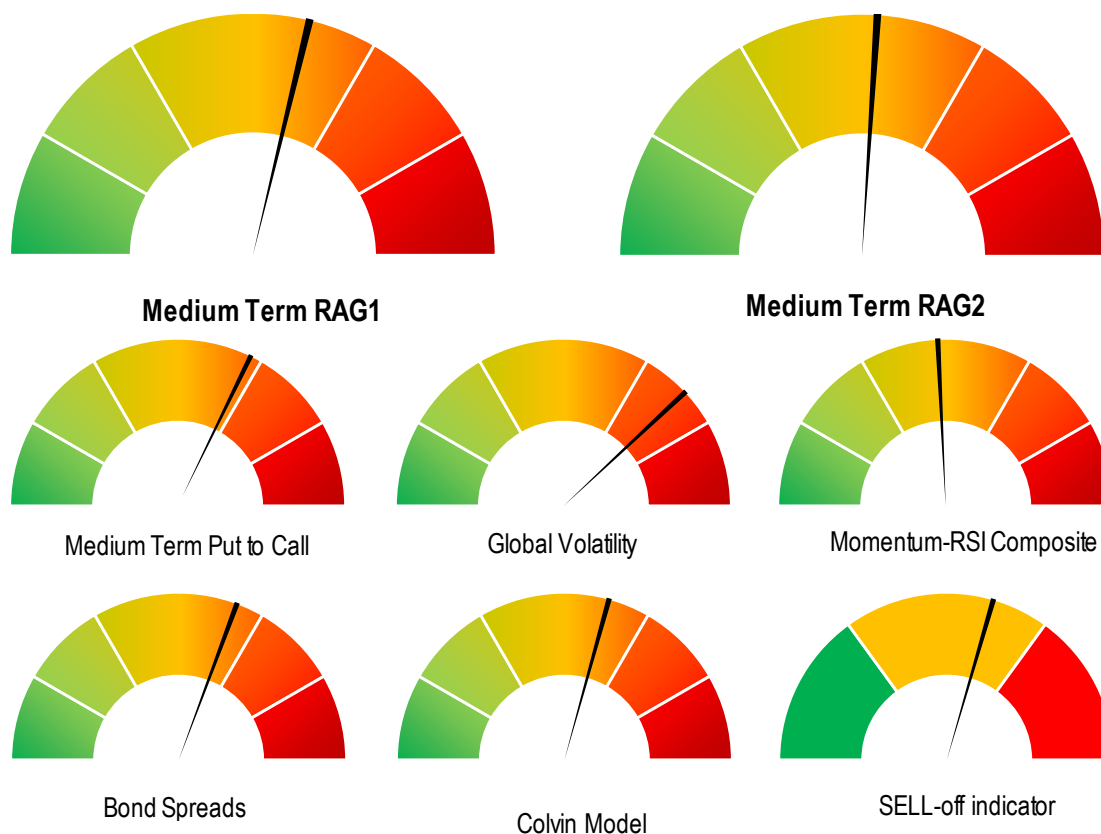
## Section 1a: Summary of indicator signals\*\*

**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

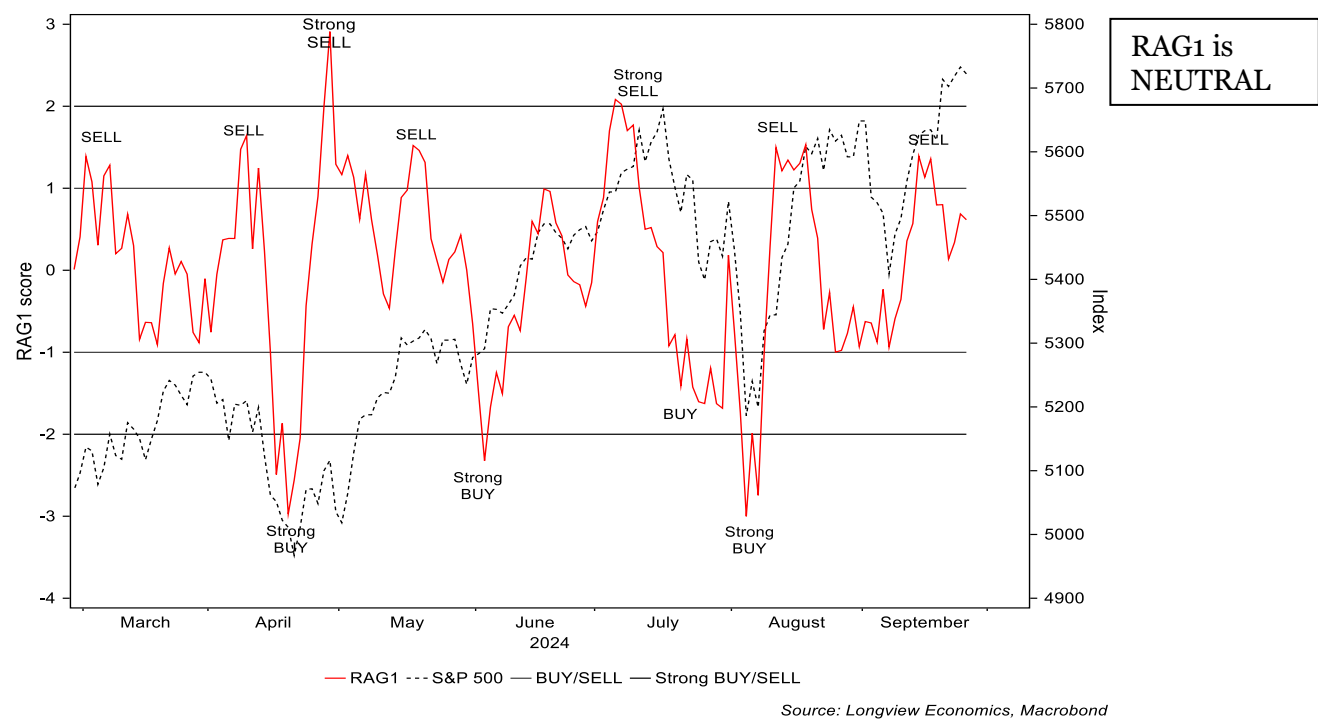
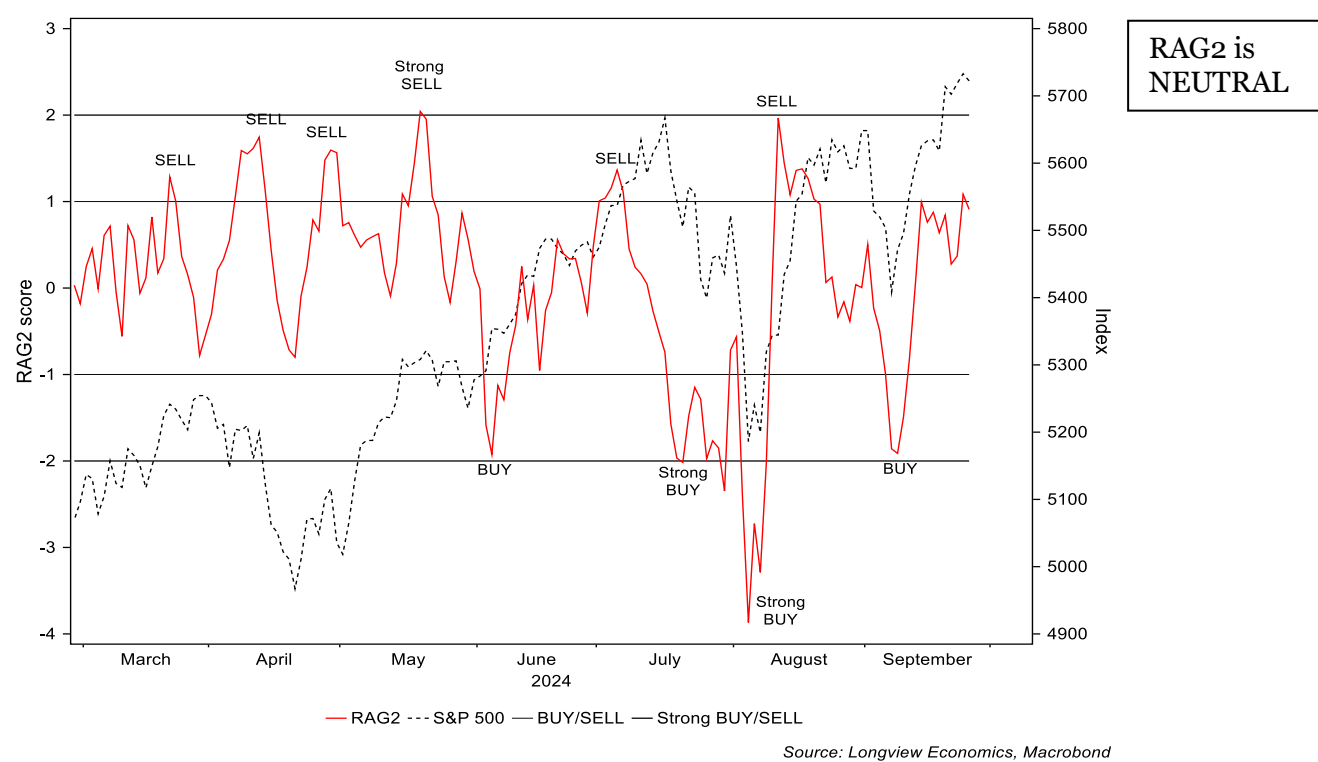


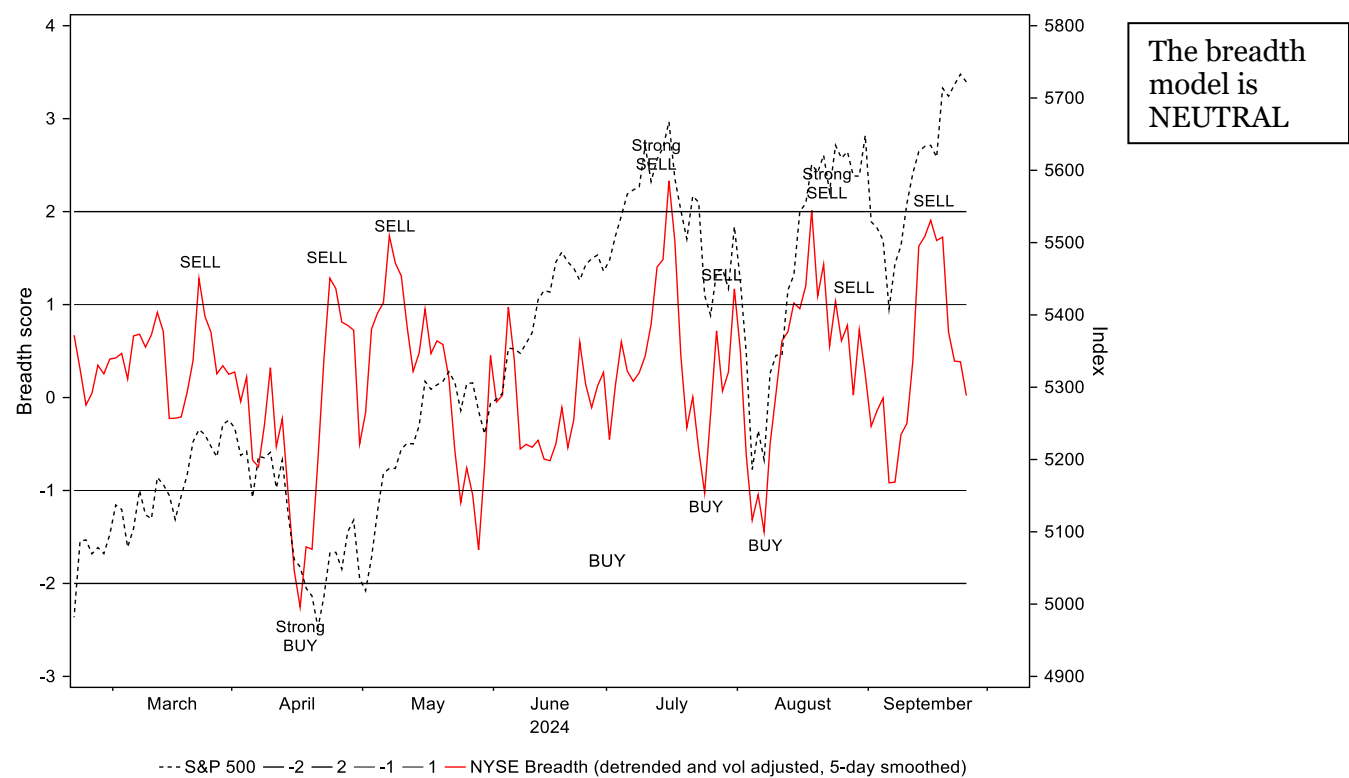
Fig 2b: RAG 2 vs. S&P 500



For explanations of indicators please see page 10



**Fig 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

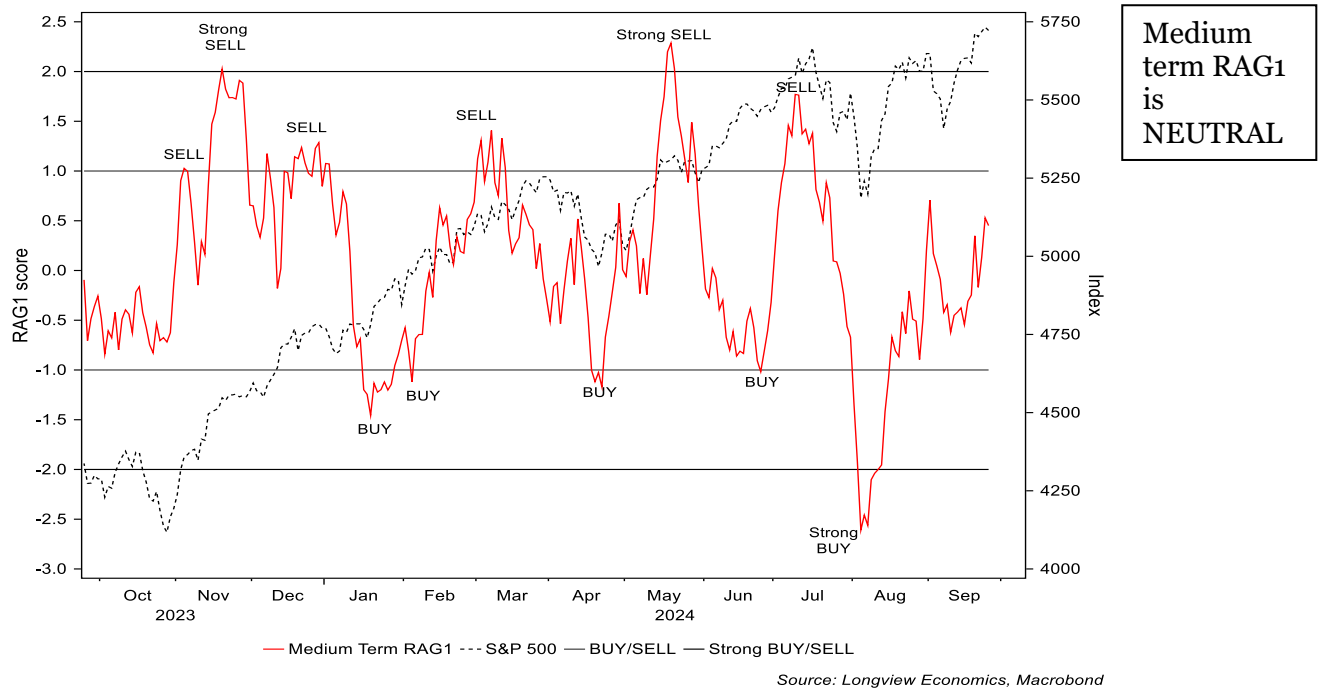
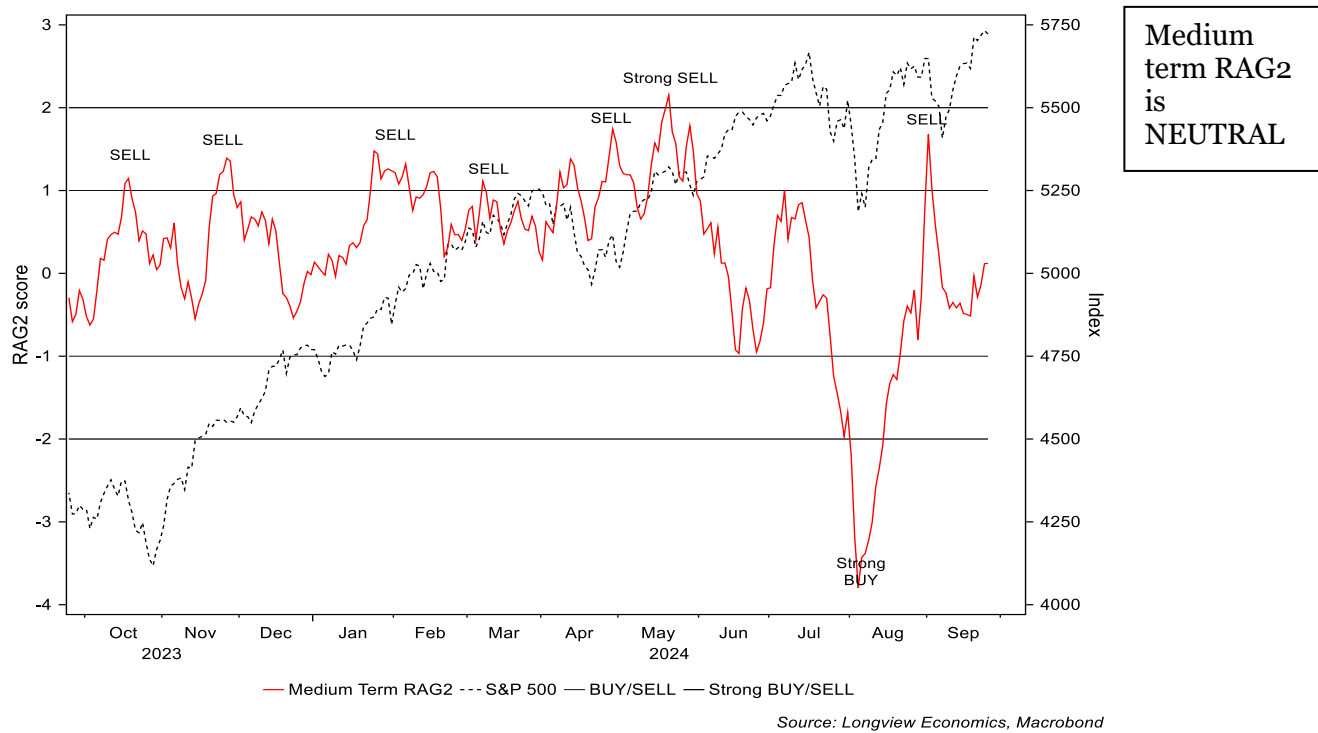
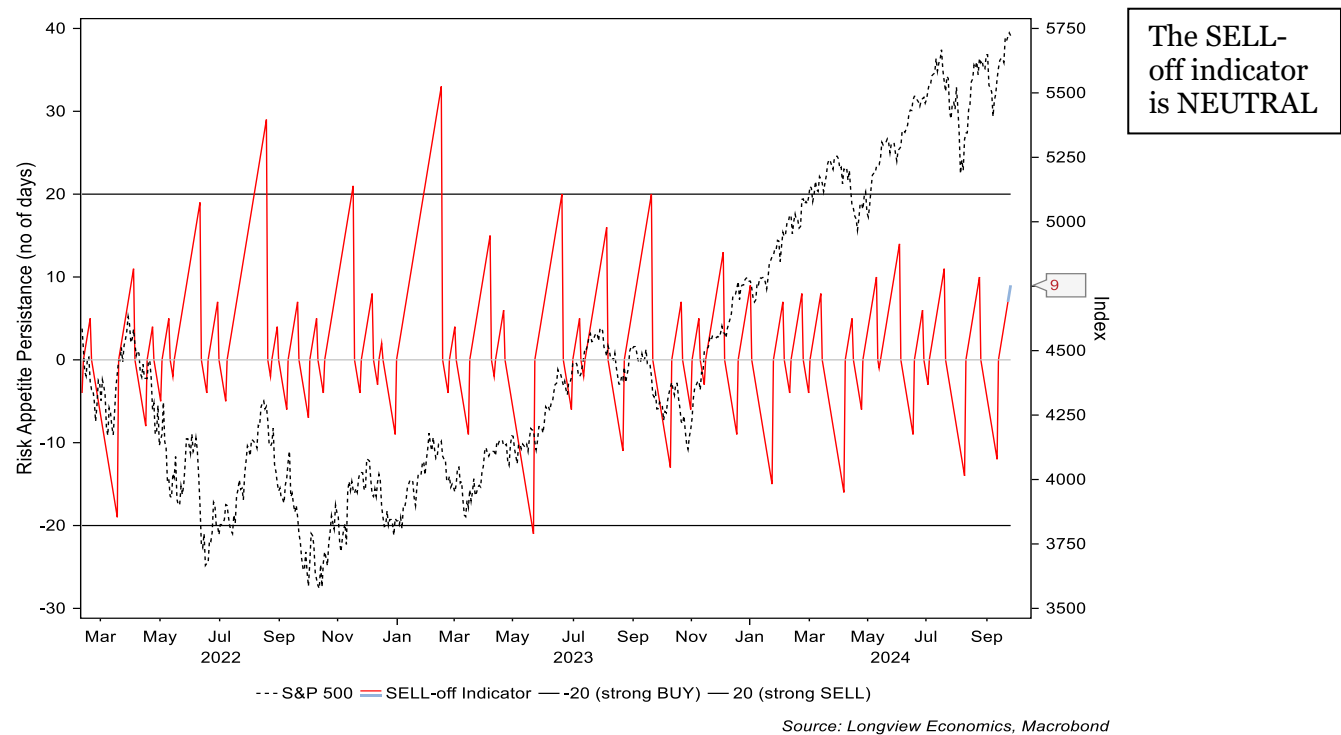


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

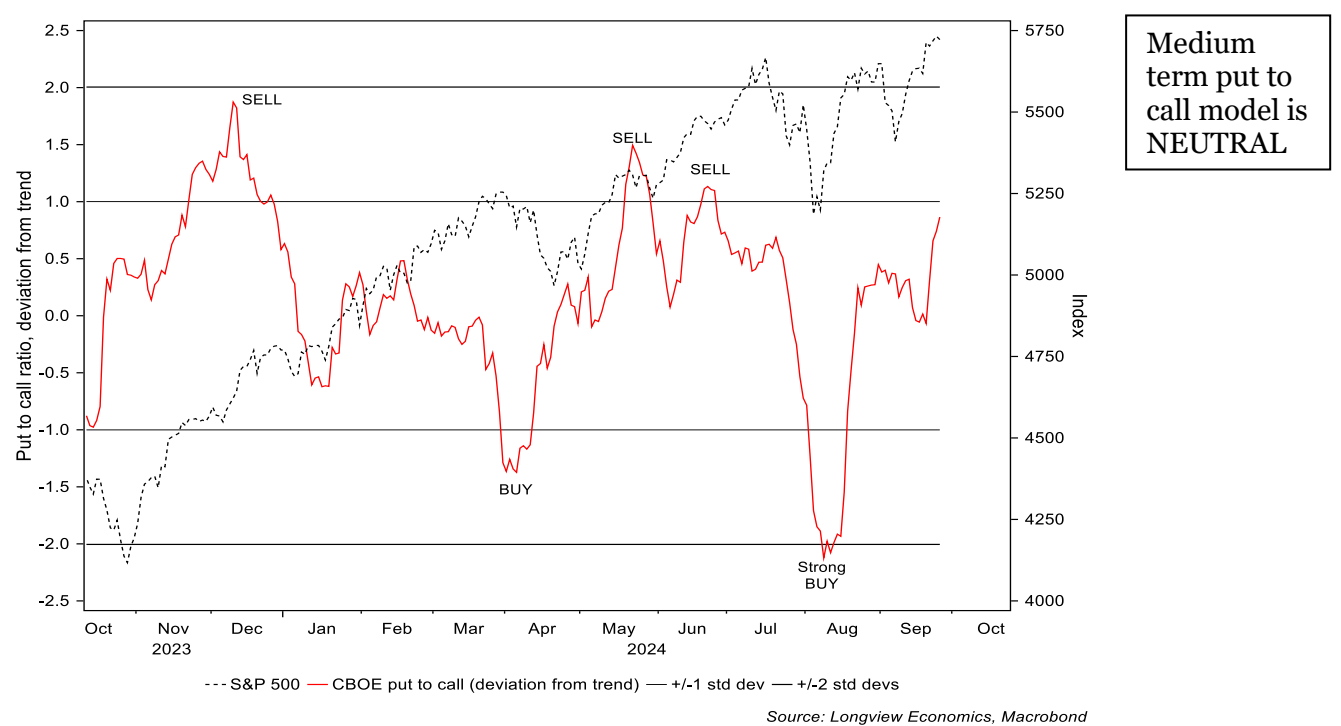


For explanations of indicators please see page 10

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

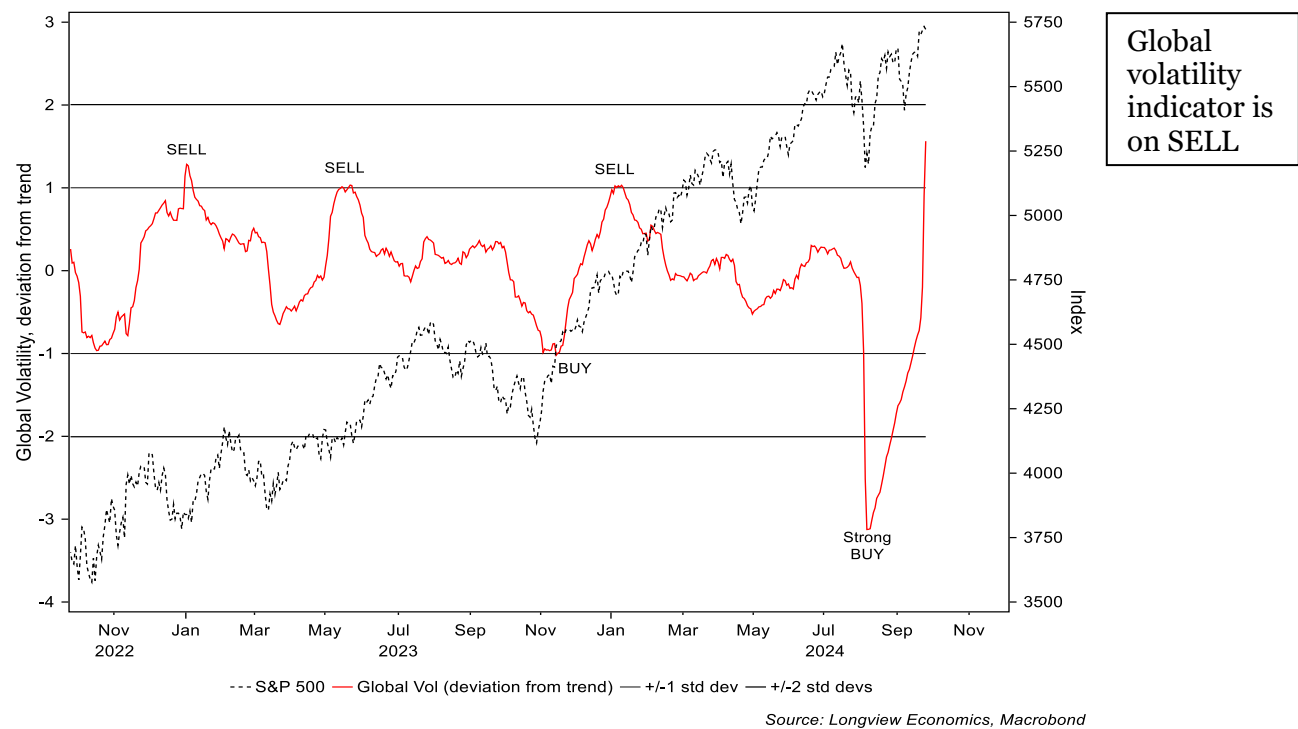


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

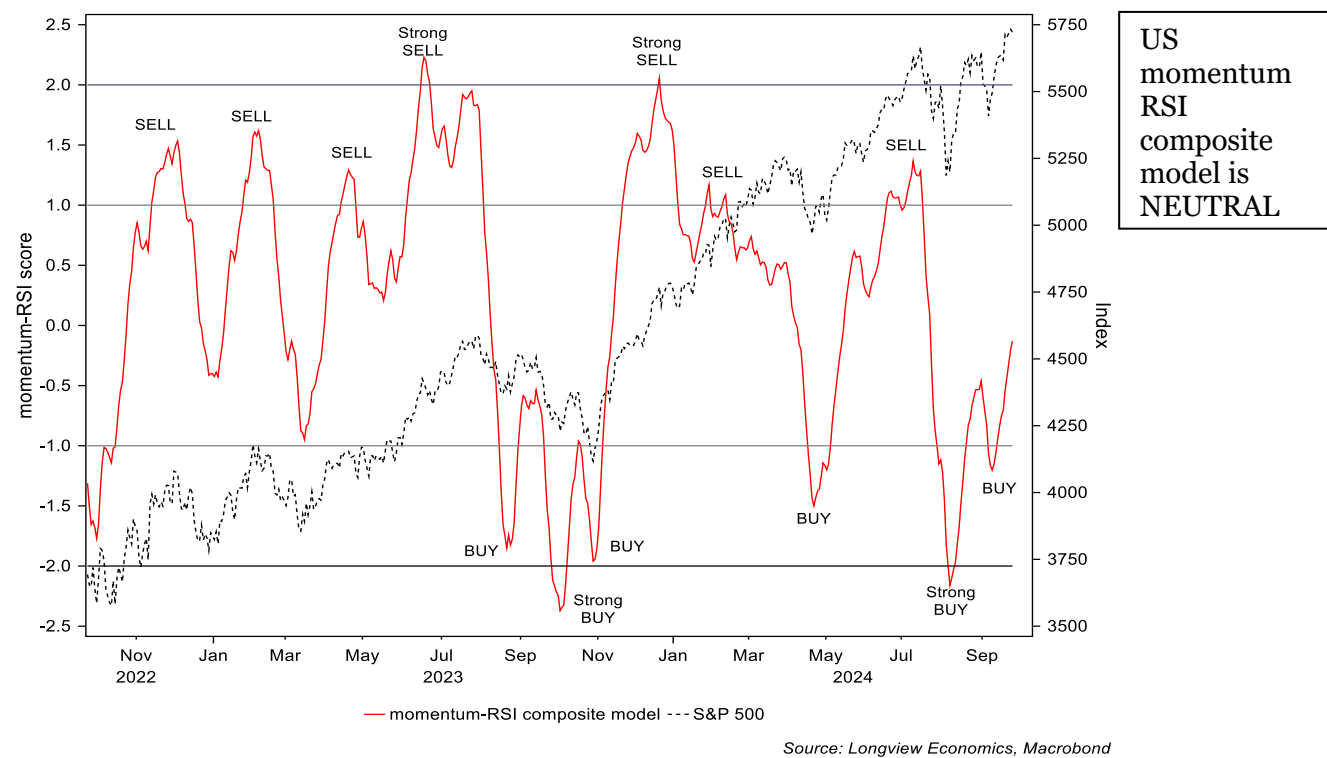


**For explanations of indicators please see page 10**

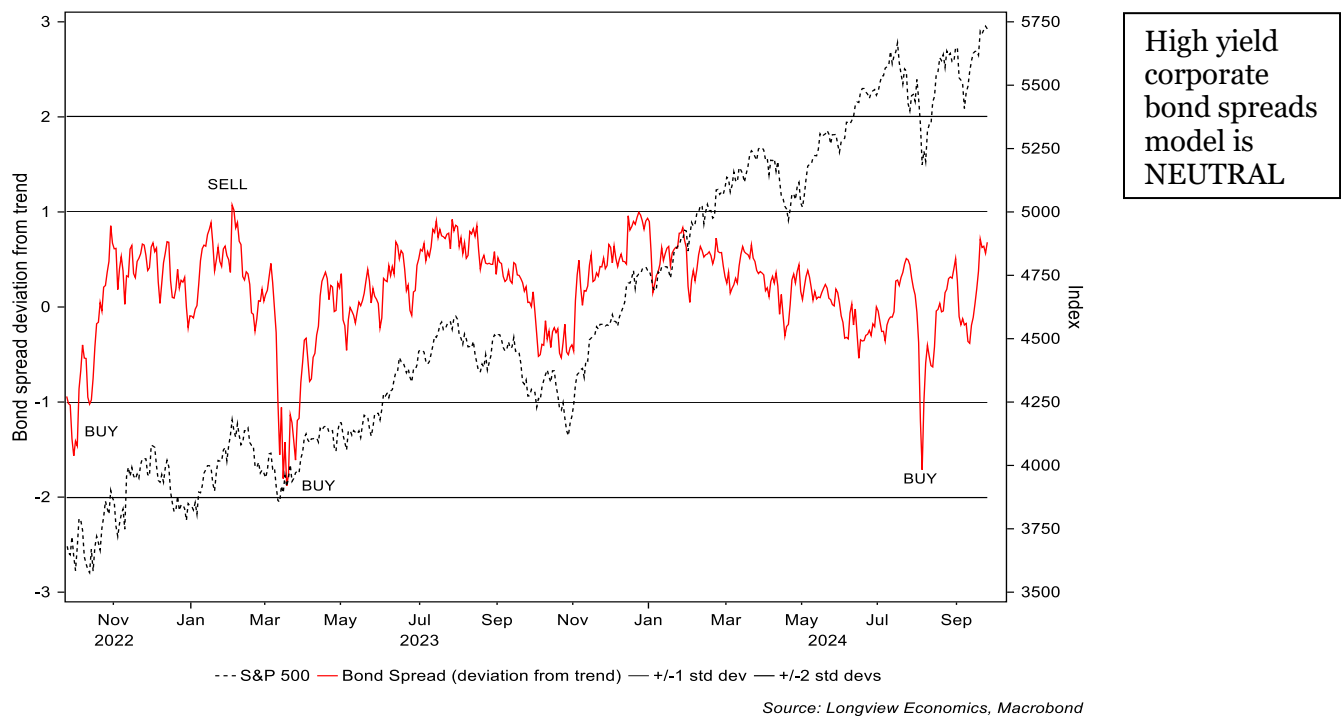
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



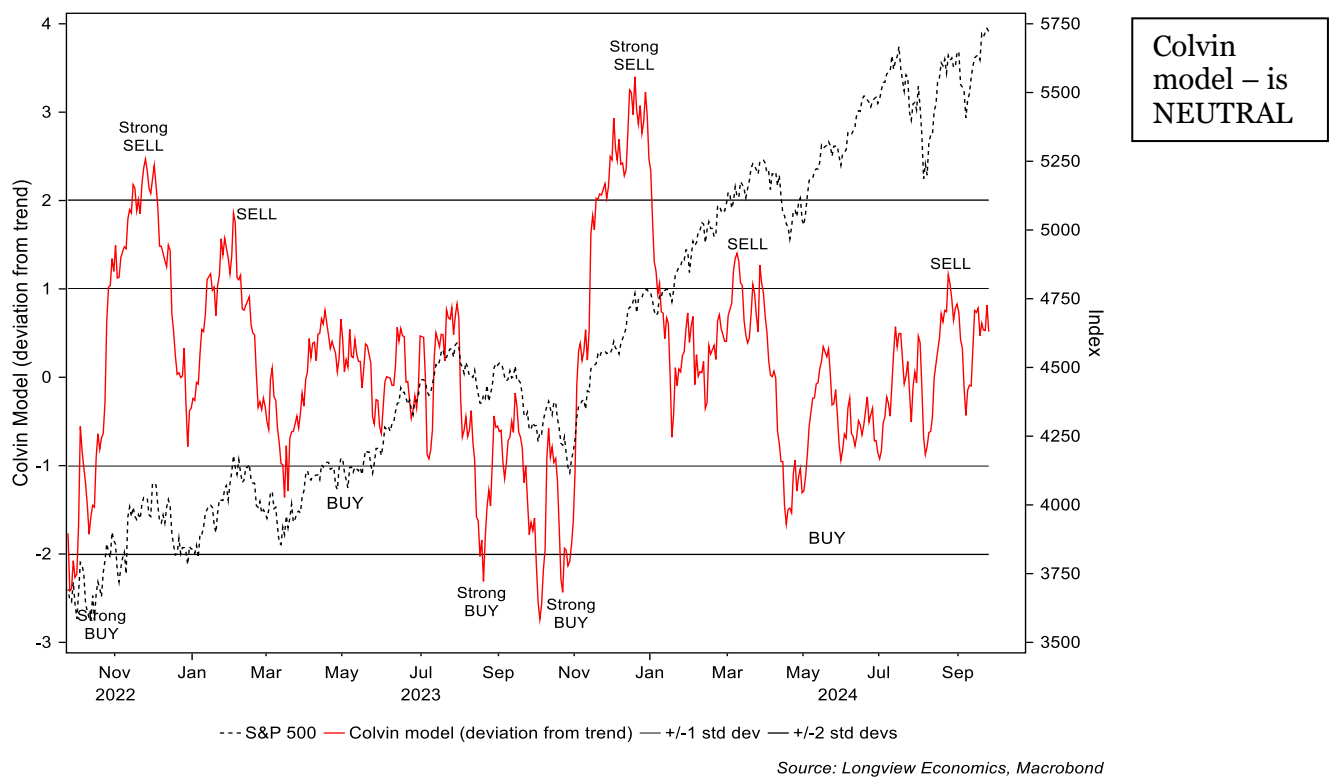
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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

---

### **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.

## Disclaimer

This Publication is protected by U.K. and International Copyright laws.

All rights are reserved. No license is granted to the user except for the user's personal use. No part of this publication or its contents may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means, except as permitted under agreement with Longview Economics Ltd.

This publication is proprietary and limited to the sole use of Longview Economics' clients and trial subscribers. Each reproduction of any part of this publication or its contents must contain notice of Longview Economics' copyright. This agreement shall be governed and construed in accordance with U.K. Copyright law and the parties hereto irrevocably submit to the exclusive jurisdiction of the English courts in respect of any dispute or matter arising out of or connected with this Agreement.

Any disclosure or use, distribution, dissemination or copying of any information received from Longview Economics Ltd. is strictly prohibited, whether derived from the reports or from any oral or written communication by way of opinion, advice, or otherwise with a principal of the company; and such information is not warranted in any manner whatsoever; and is for the use of our clients and trial subscribers only. Longview Economics Limited will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to the accuracy or completeness. All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. Some investments may not be readily realisable since the market in securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee of its future performance. Some investments may be subject to sudden and large falls in values and on realisation you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

DailyRagTrader is an investment research report produced by Longview Economics Ltd which is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.

For professional clients only.