

Equity Index Futures Trading Recommendations

27th September 2024

"WATCH & WAIT"

Email: info@longvieweconomics.com

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

- WATCH & WAIT

Rationale

Overall, momentum in global equity markets has been strong in the past two weeks, driven initially by the bigger than expected Fed rate cut (& with further cuts then brought forward in terms of market pricing); and then by Chinese stimulus announcements this week (i.e. the initial rate cuts, housing market and other support announced at the start of this week; followed by rumours of more announcements, including bank recapitalisation plans). The Chinese market is, not surprisingly, up sharply this week (see this week's '[Monthly Asset Allocation](#)' publication for further analysis).

Given that strength, though, most of our short-term models are either on SELL (or have recently generated a SELL signal). Those models are shown below (FIGs 2 to 4b). Medium term models are also increasingly moving towards/onto SELL. The medium term put to call ratio, medium term risk appetite scoring system and the Colvin model, for example, are all at high/close to SELL levels. With that, the combined short & medium term risk appetite scoring system is also close to SELL (FIG 1c).

Consistent with that, **the market set-up is neatly summarised by FIGs 1 & 1a**. These models show how overextended the S&P500 and NDX100 are relative to their own 50 day moving averages (using standard deviation bands to measure that). In both instances, the models are close to generating a SELL signal at +1 standard deviation. In other words, this rally is 'long in the tooth'. Occasionally, during renewals of bullish phases in markets (like early 2024) markets will push through and ignore these SELL signals. Most of the time, though, they signal a phase of forthcoming weakness in equities. Interestingly, in that respect, other cyclical areas of the US market have been struggling of late. Both the mid and small caps, for instance, have failed recently to push through record highs (e.g. see FIG 1b). Added to which, single stock momentum remains troubling (e.g. FIG 3), while the US market hasn't priced in more rate cuts in total (post the Fed's 50bps surprise), i.e. it's simply brought forward the timing of those cuts. Clearly, therefore, there is now a lot of good news priced into this market.

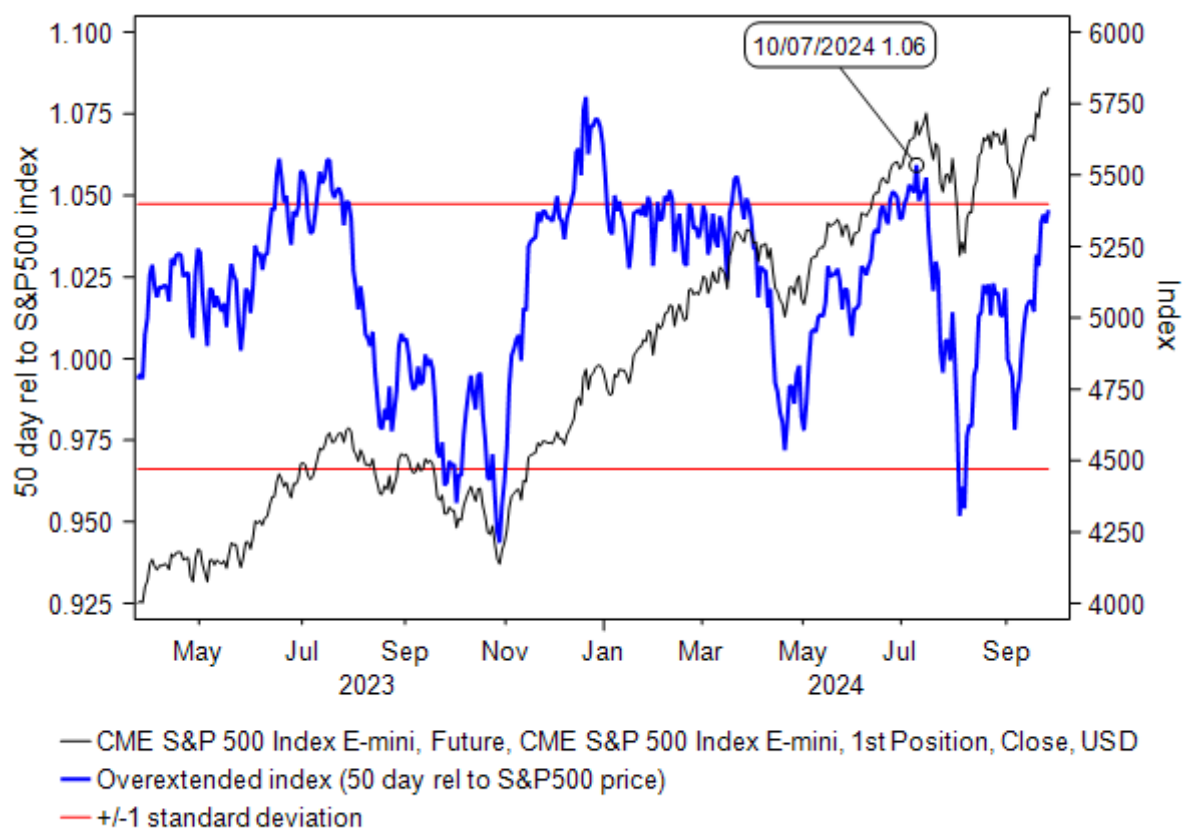
With initial strength in the NDX100 futures (before the cash open), we were stopped out of our LONG position yesterday. The futures popped above our stop loss level (at 20,489.0, NDX100 Dec futures) during London morning hours, before then fading at the US cash open (to close the day 0.7% higher). Those futures have faded further overnight (at time of writing).

As such, having been stopped, we recommend standing back and WATCHing & WAITing today. Key events are shown below.

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 overextended indicator (50 day moving average relative to underlying index price) vs. S&P500 futures



Source: Longview Economics, Macrobond

FIG 1a: NDX100 overextended indicator (50 day moving average relative to underlying index price) vs. NDX100 futures

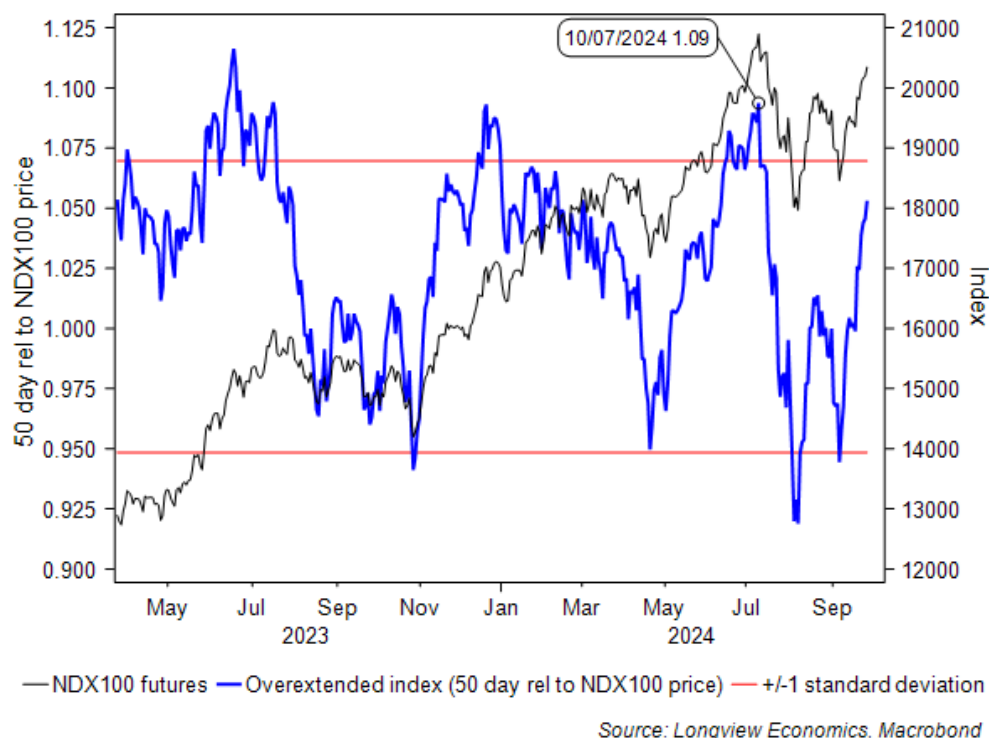
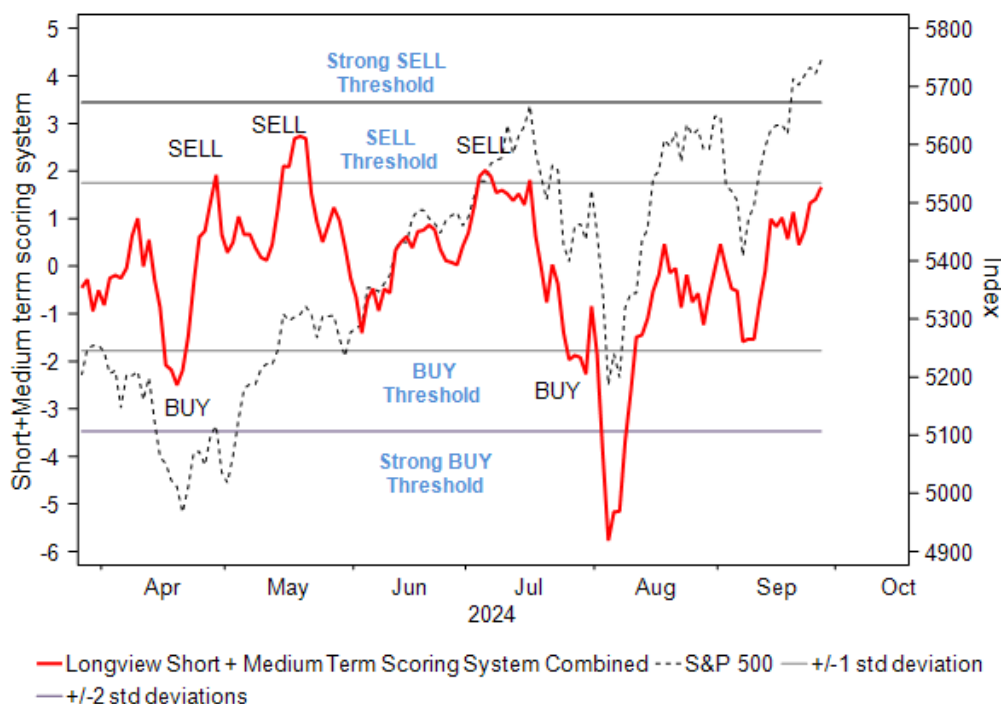


FIG 1b: S&P600 candlestick shown with its 50 & 200 day moving average



FIG 1c: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



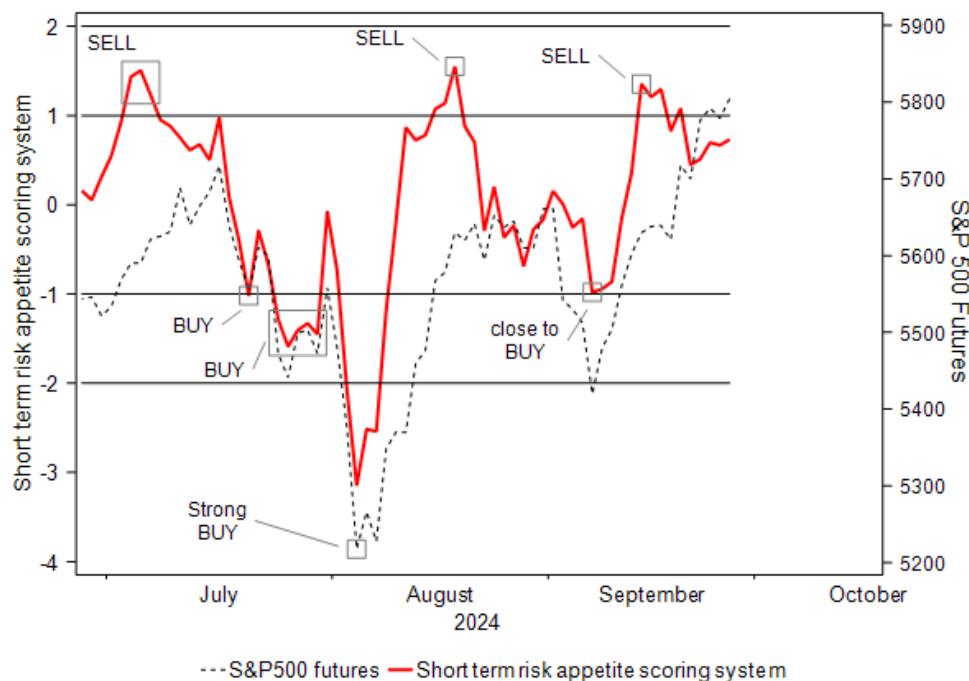
Source: Longview Economics, Macrobond

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



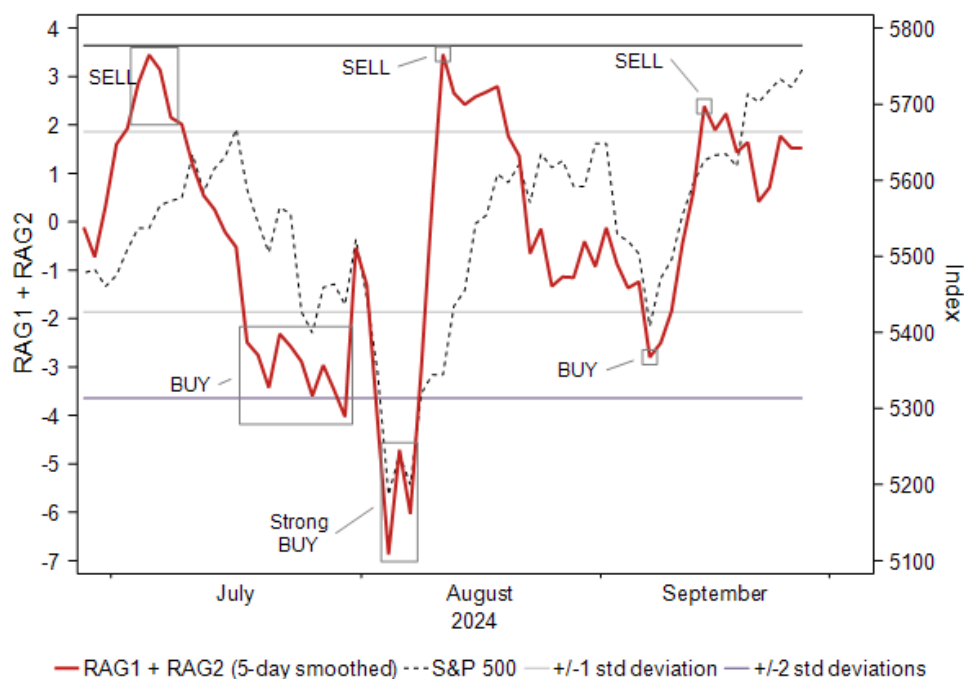
Short term market timing models are all on (or close to) SELL.....

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

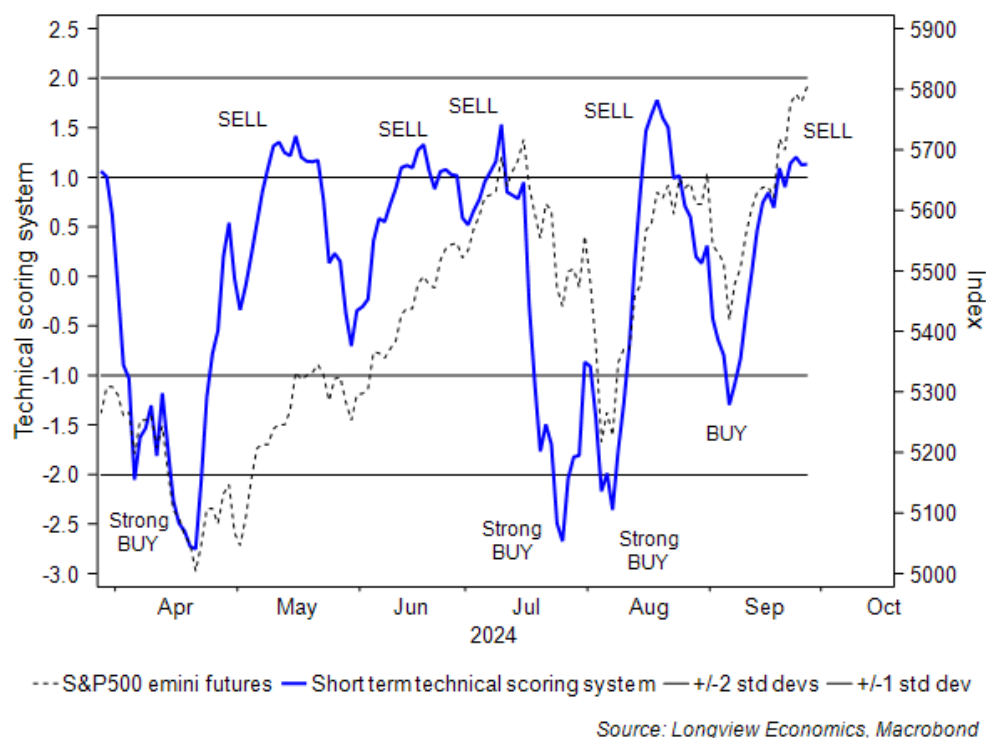


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

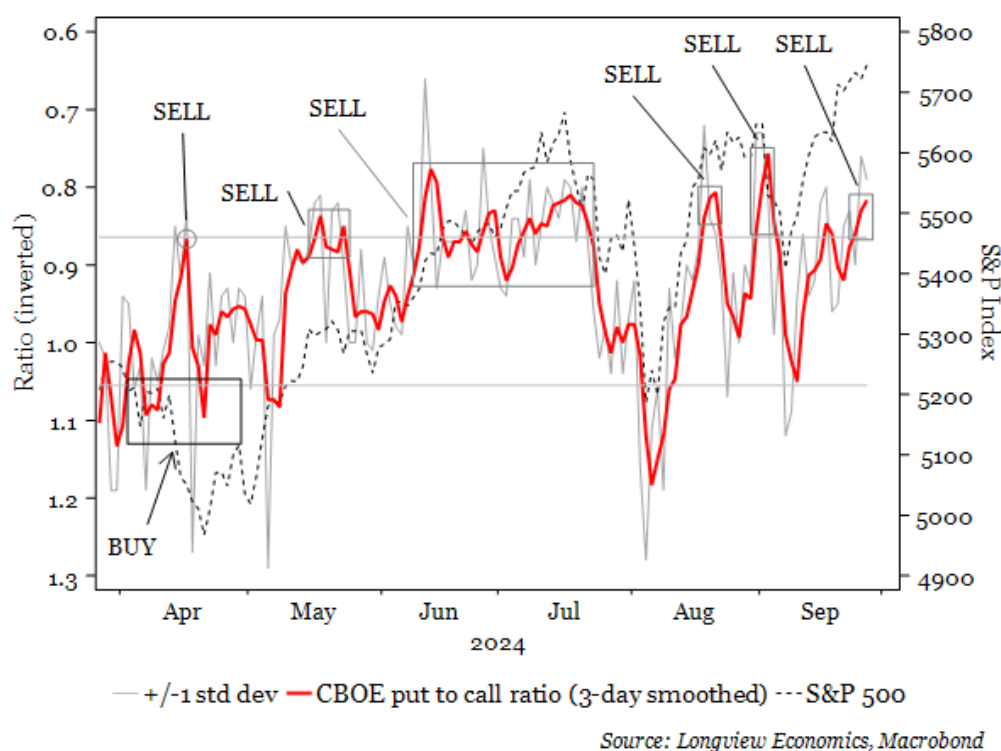
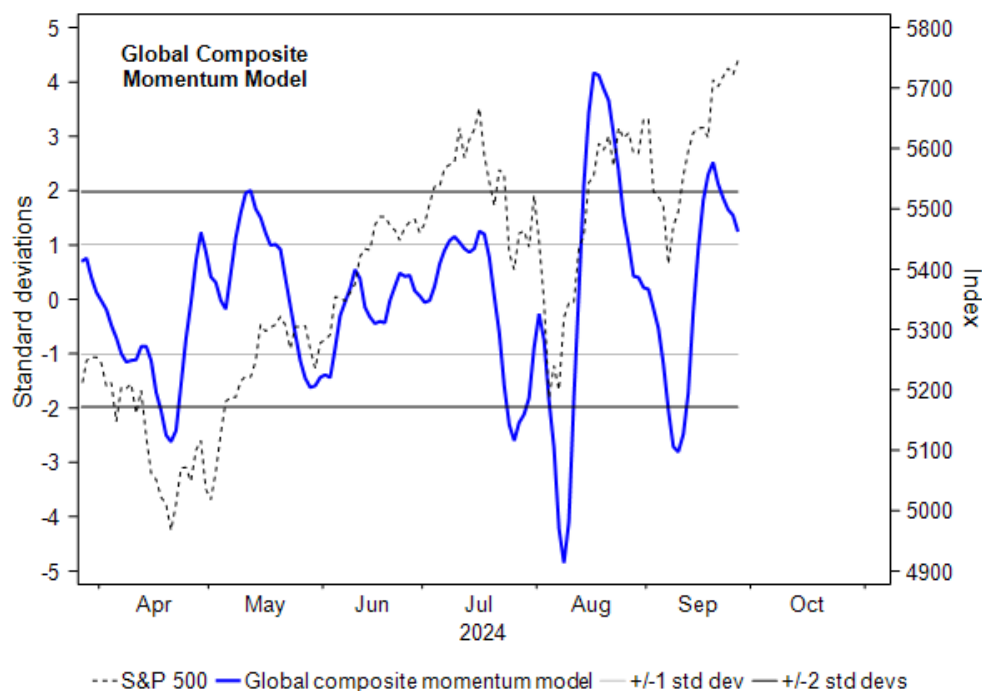


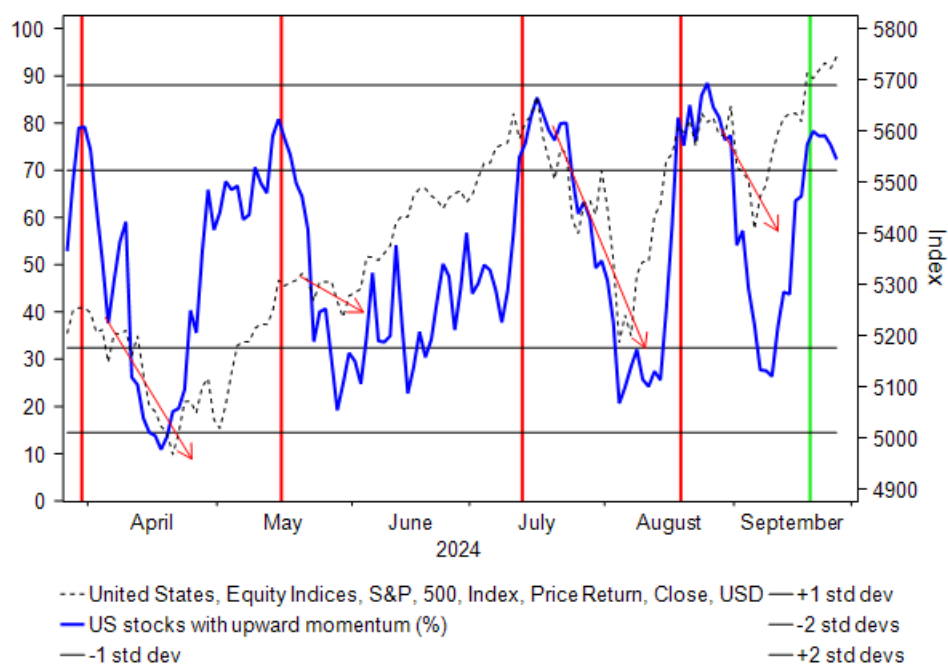
FIG 2d: Global composite momentum model vs. S&P500



Source: Longview Economics, Macrobond

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

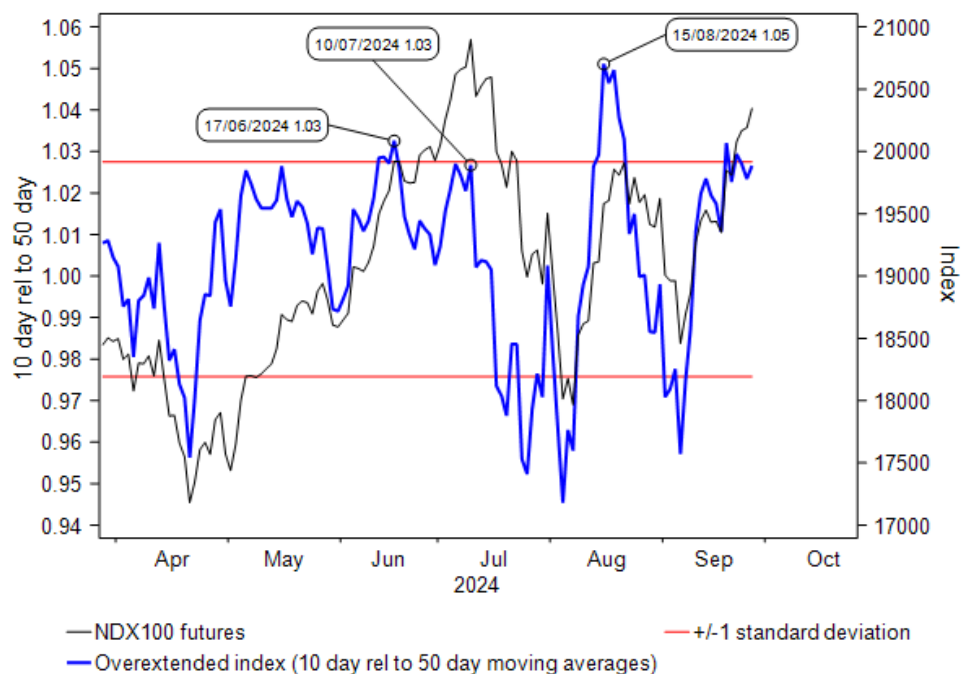
FIG 3: US S&P500 stocks with upward momentum (%) vs. S&P500



Source: Longview Economics, Macrobond

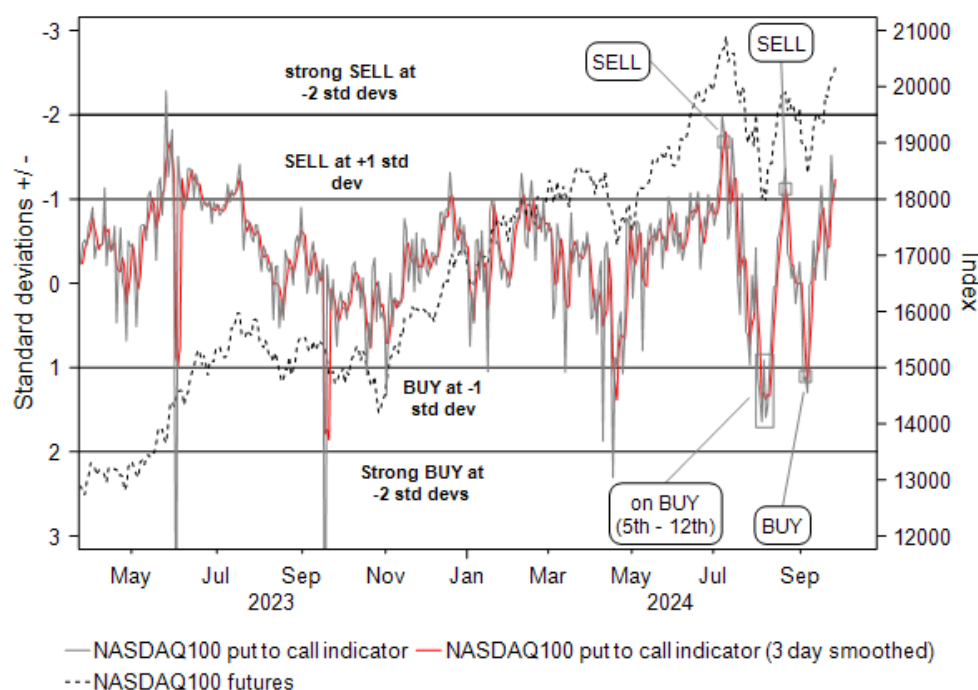
Tech centric models are on SELL...

FIG 4: NDX100 overextended indicator (10 day moving average relative to underlying index price)



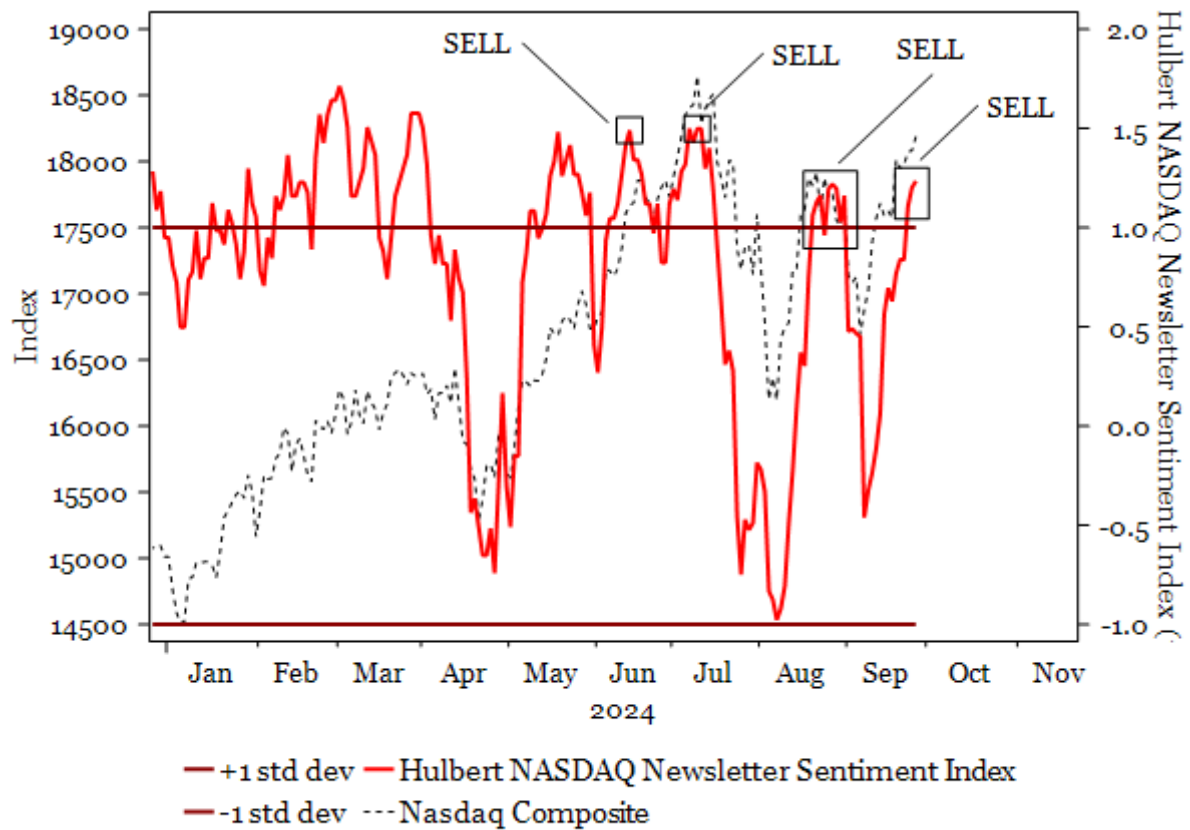
Source: Longview Economics, Macrobond

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



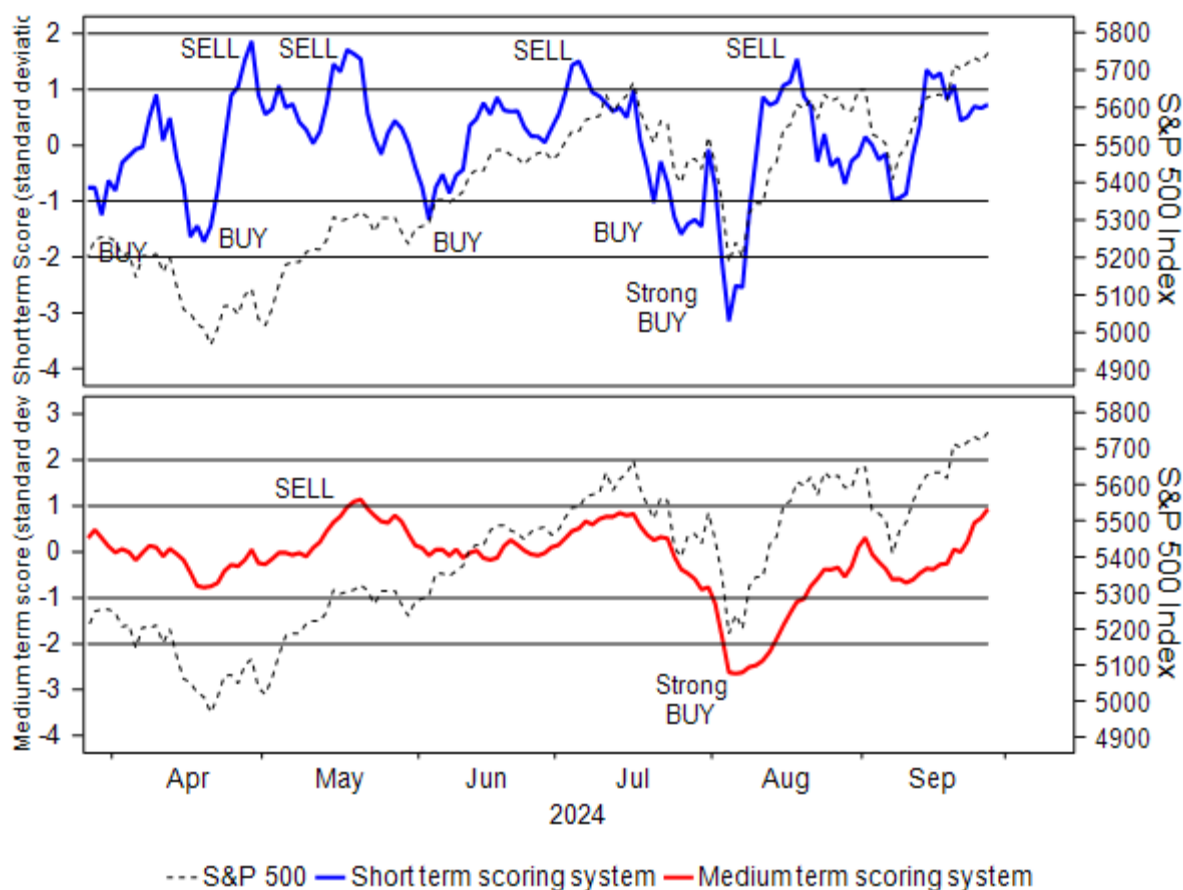
Source: Longview Economics, Macrobond

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: Chinese industrial profits (Aug, 2:30am); Japanese ESRI leading index (July final estimate, 6am); French consumer spending (Aug, 7:45am); **French headline CPI & PPI** (September first estimate, 7:45am); German unemployment change (Sept, 8:55am); ECB 1 & 3 year inflation expectations (Aug, 9am); Italian industrial sales (Jul, 9am); Eurozone consumer confidence (September final estimate, 10am); Italian PPI (Aug, 10am); **UK CBI distributive trades survey** (Sept, 11am); Canadian GDP (Jul, 1:30pm); **US personal income & spending including headline & core PCE** (Aug, 1:30pm); US Michigan sentiment (September final estimate, 3pm); US Kansas City Fed service sector activity (Sept, 4pm).

Key events today include: speeches by the ECB's Rehn at New Frontiers in Macroprudential Policy conference (8:15am), Lane & Nagel at fiscal policy, financial sector policy and economic growth conference (9:15am & 12:15pm) & Cipollone in Vienna (10:40am); speech by the Fed's Collins and Kugler at Fitchburg (2:30pm).

Key earnings today include: N/A

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.

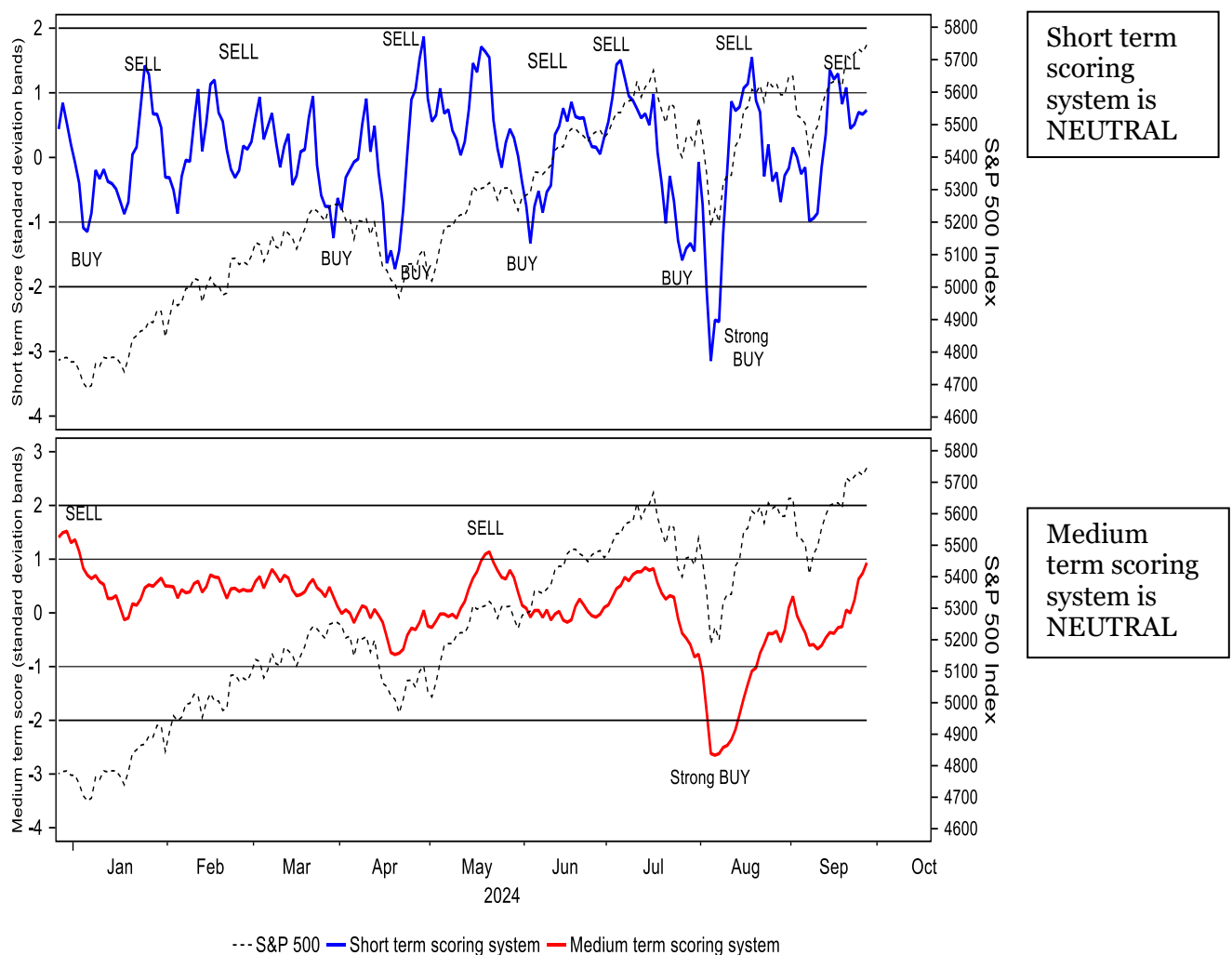


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Section 1: Longview Scoring Systems (short & medium term*)

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



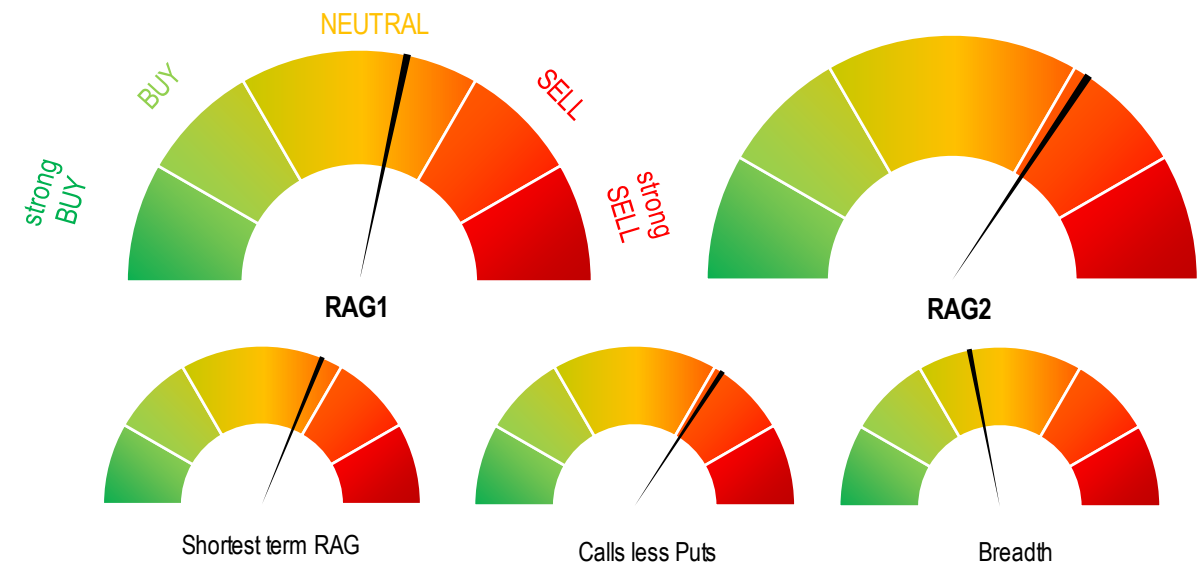
Source: Longview Economics, Macrobond

*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**

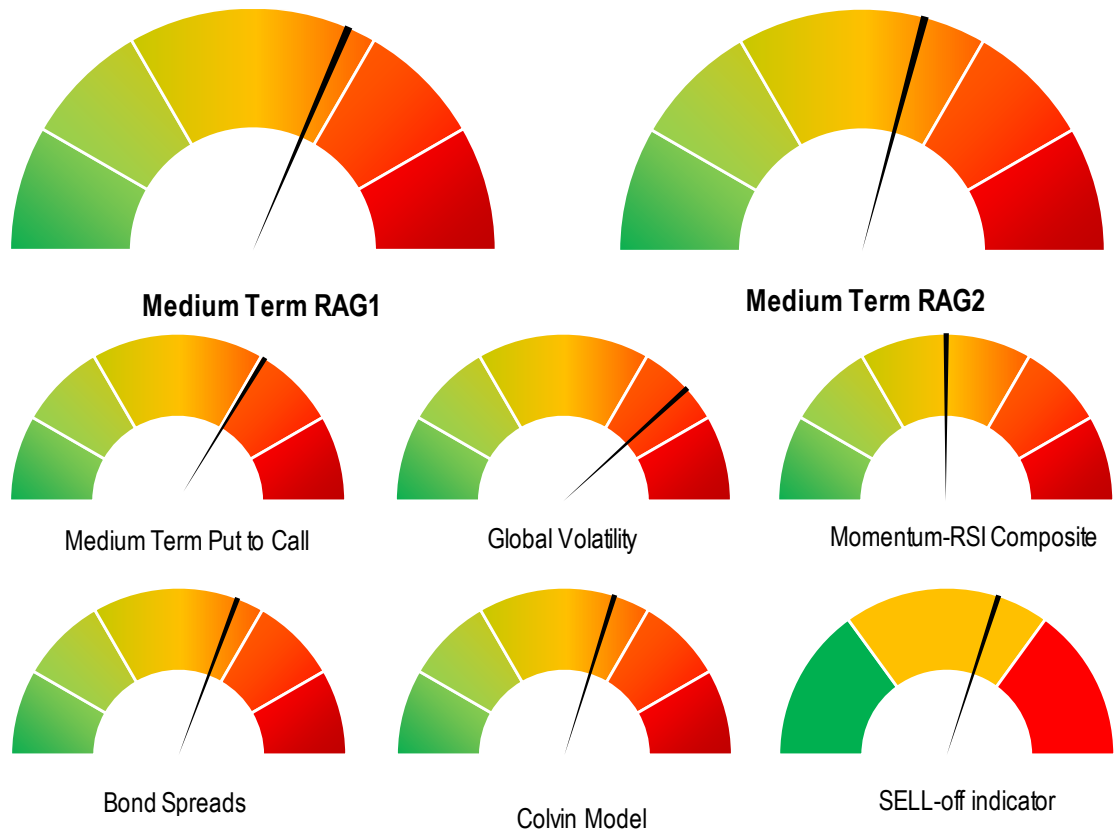
Section 1a: Summary of indicator signals**

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

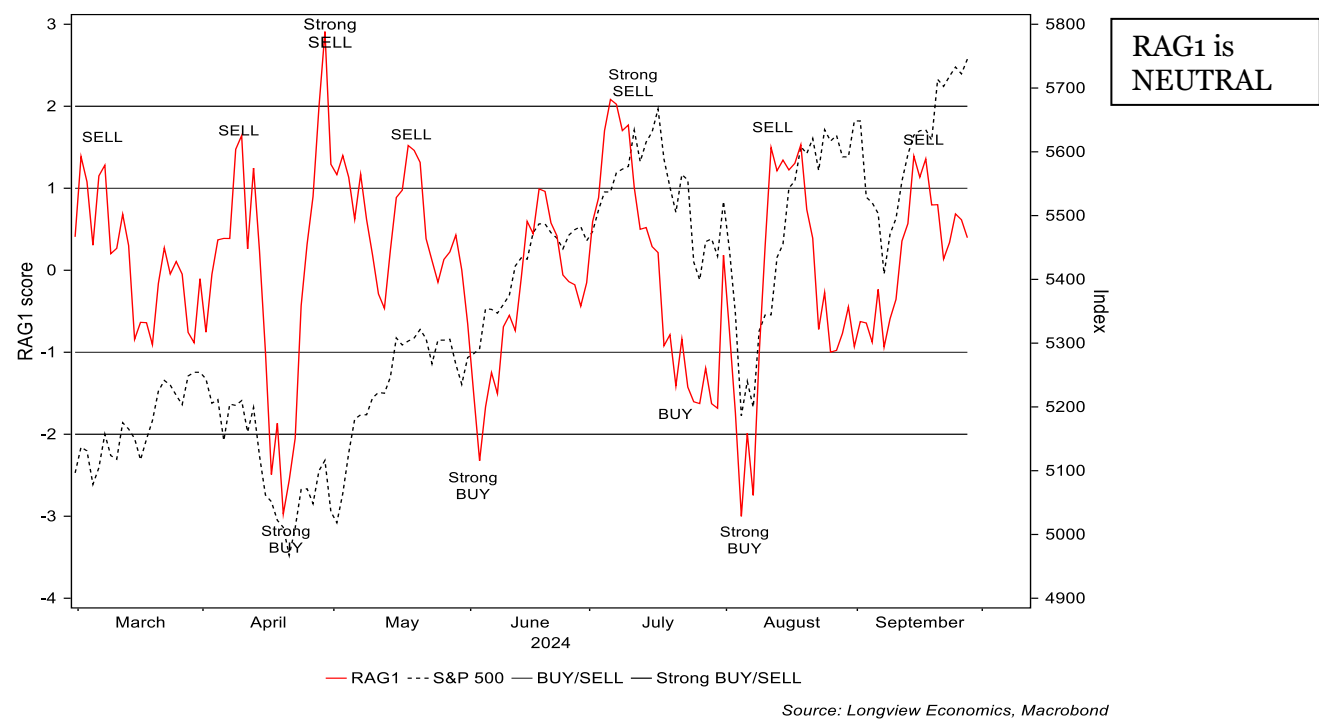
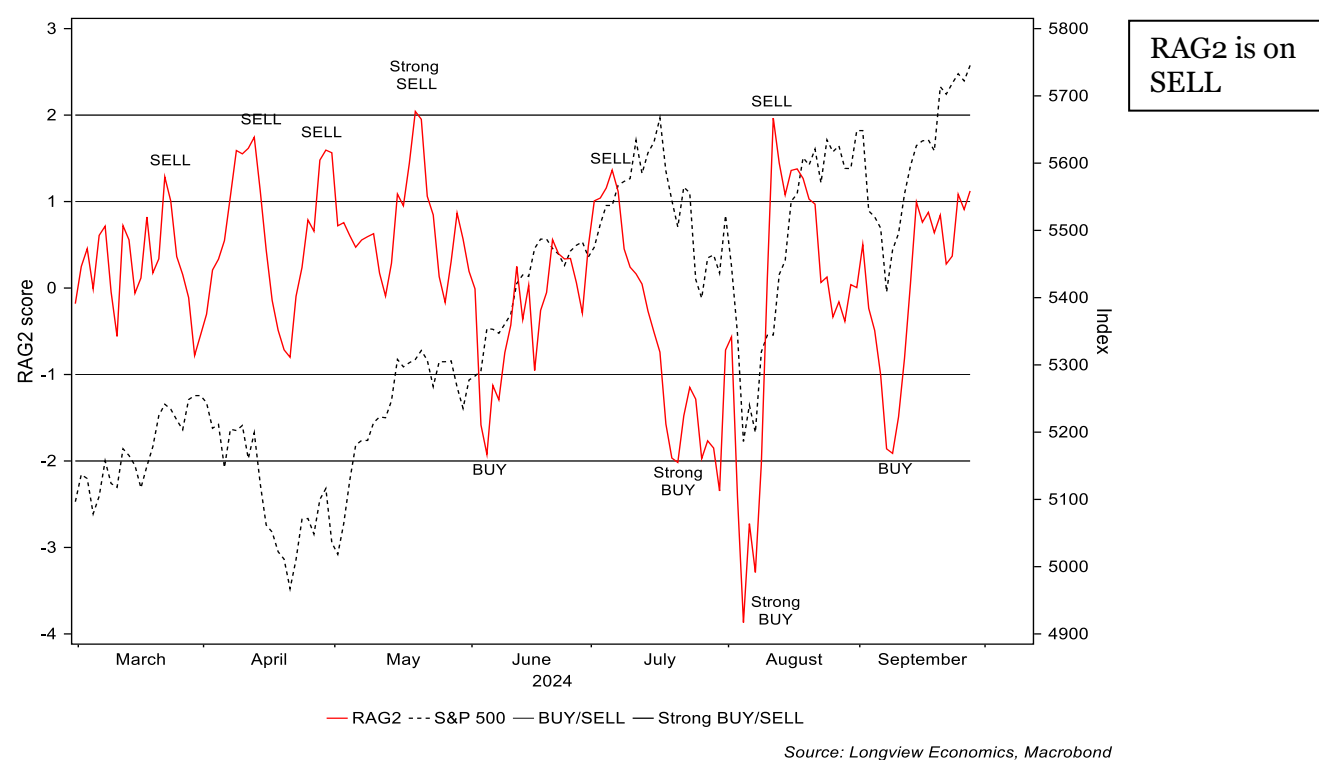


Fig 2b: RAG 2 vs. S&P 500



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

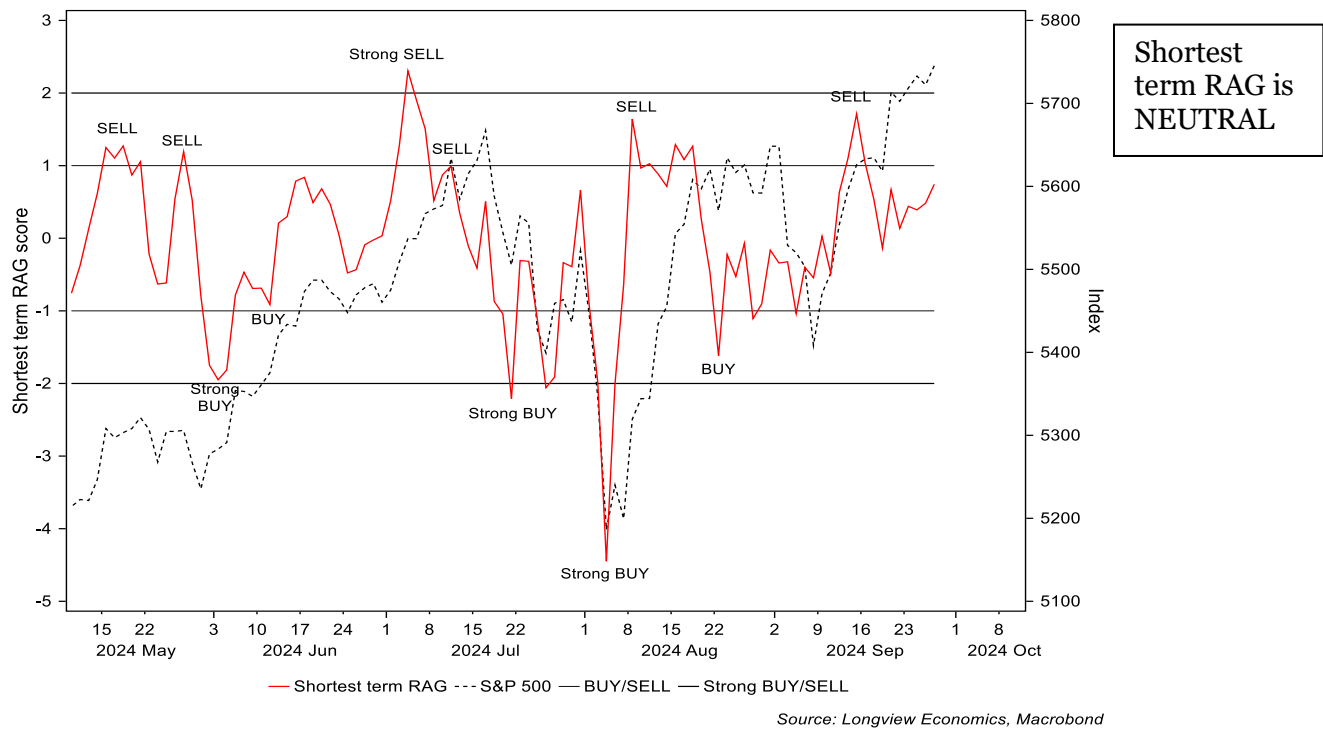
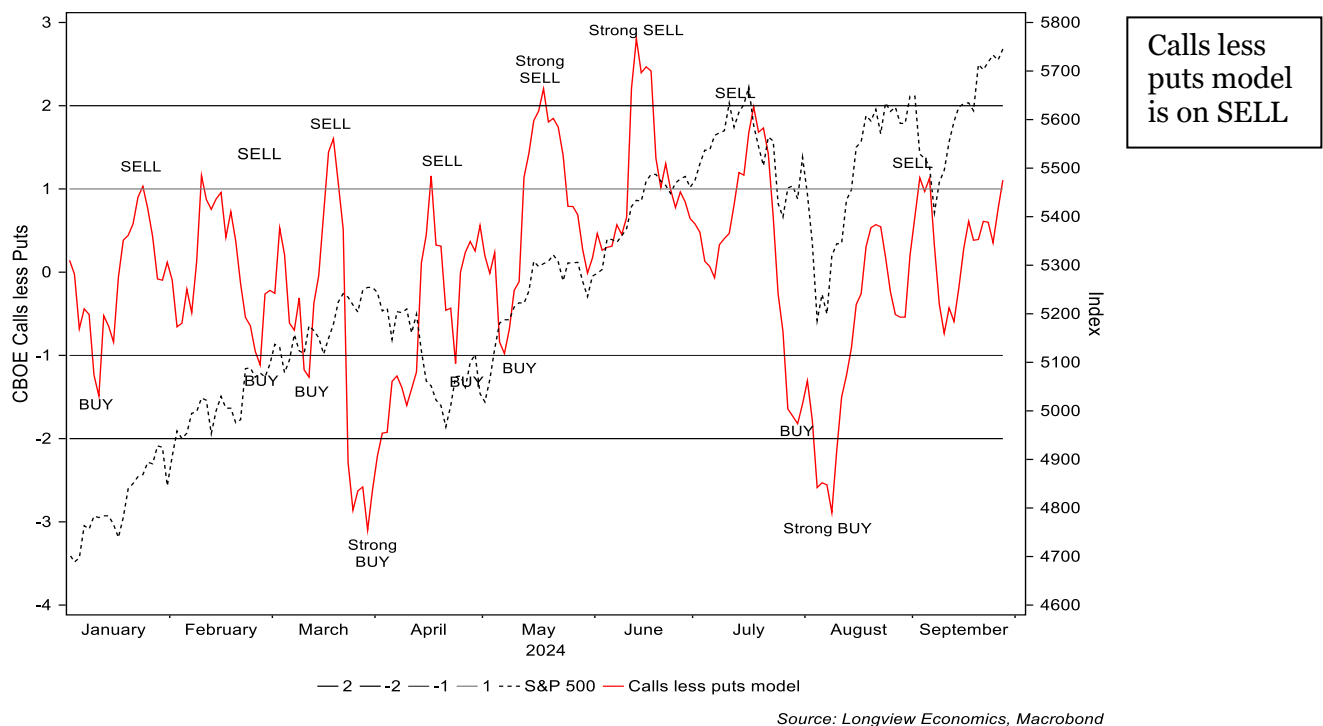
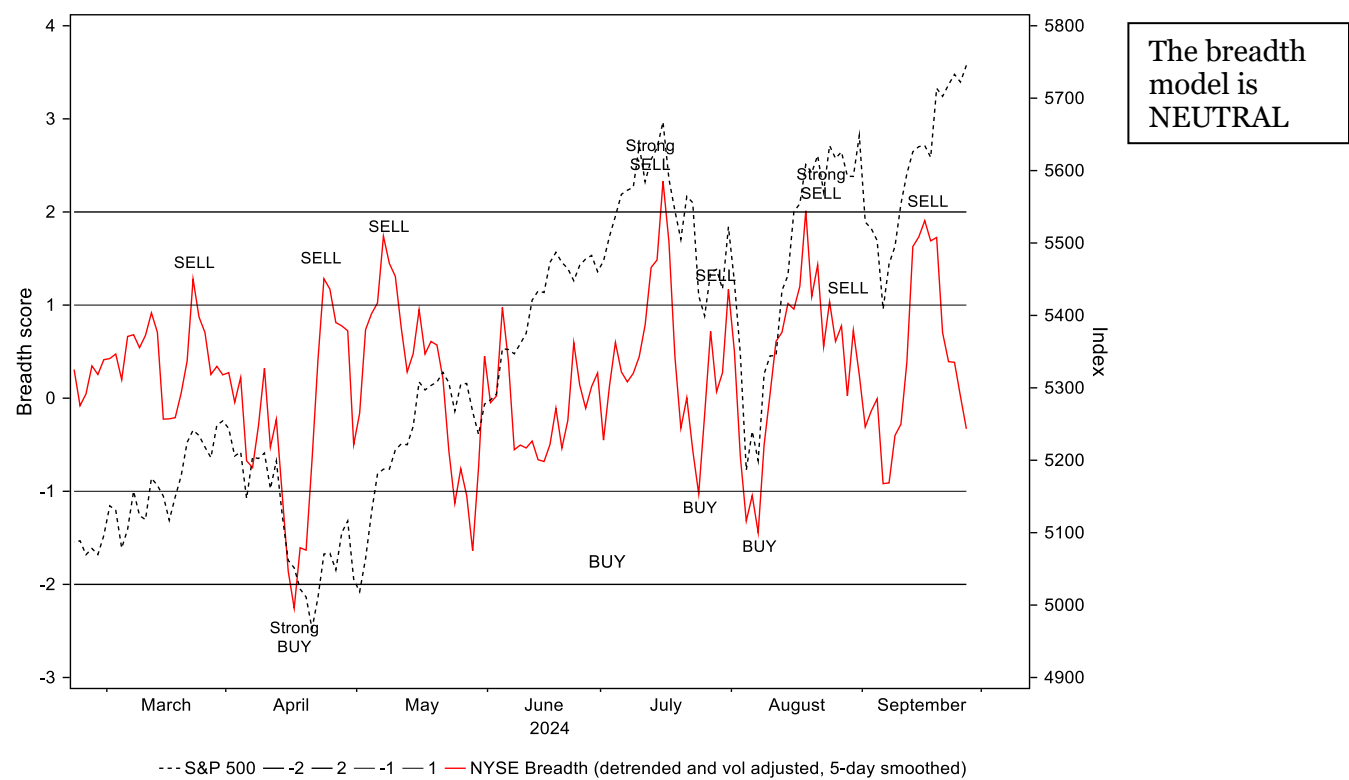


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

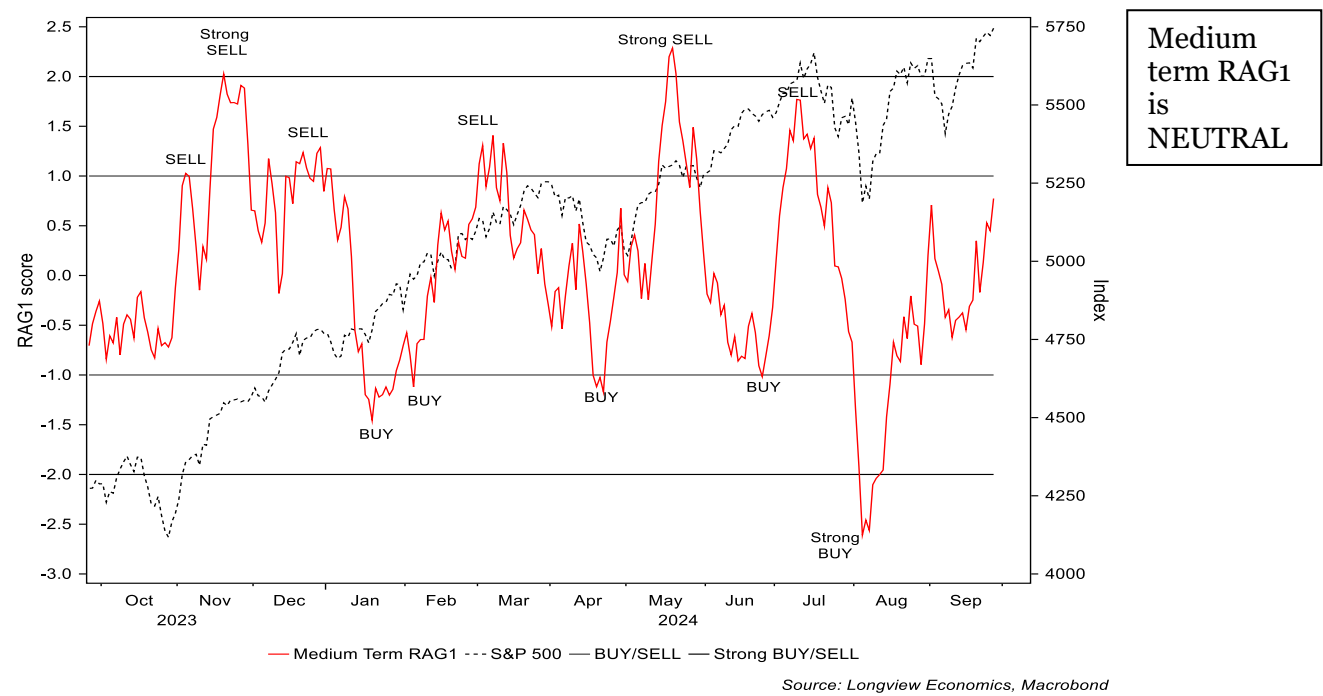
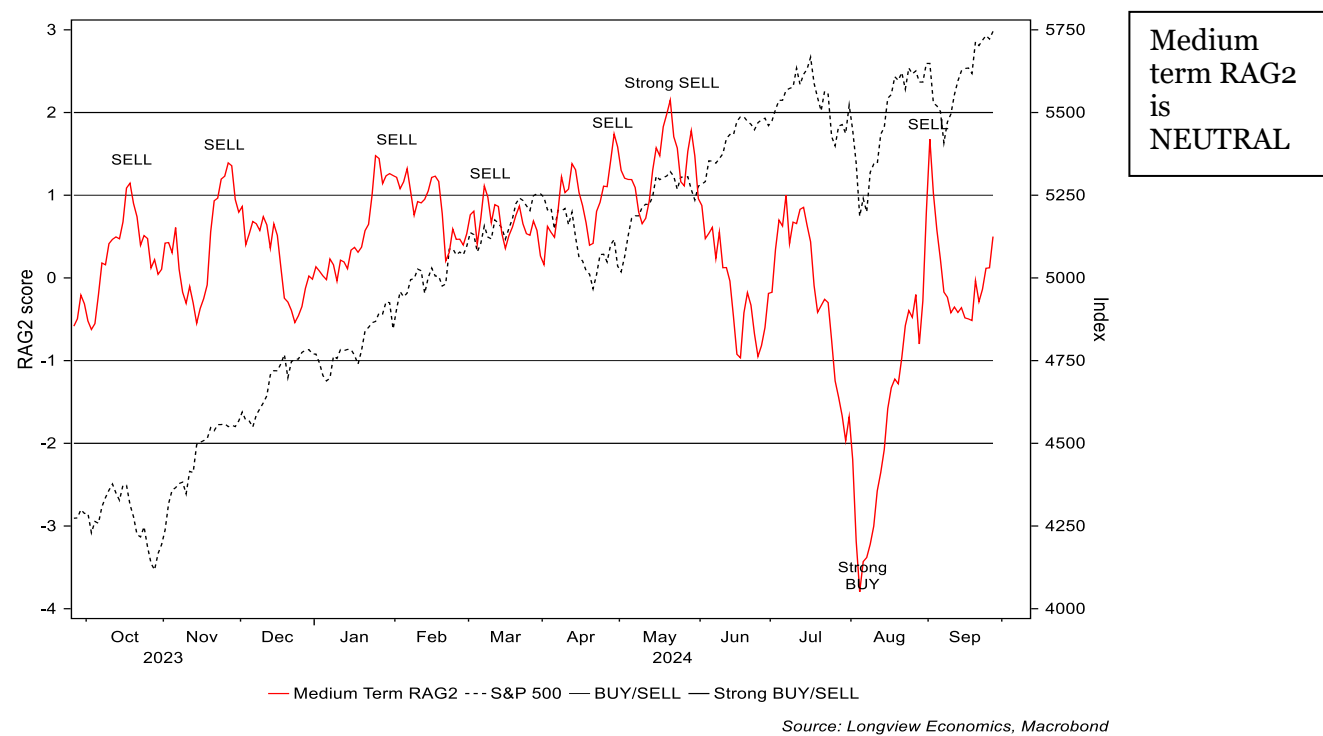


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

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

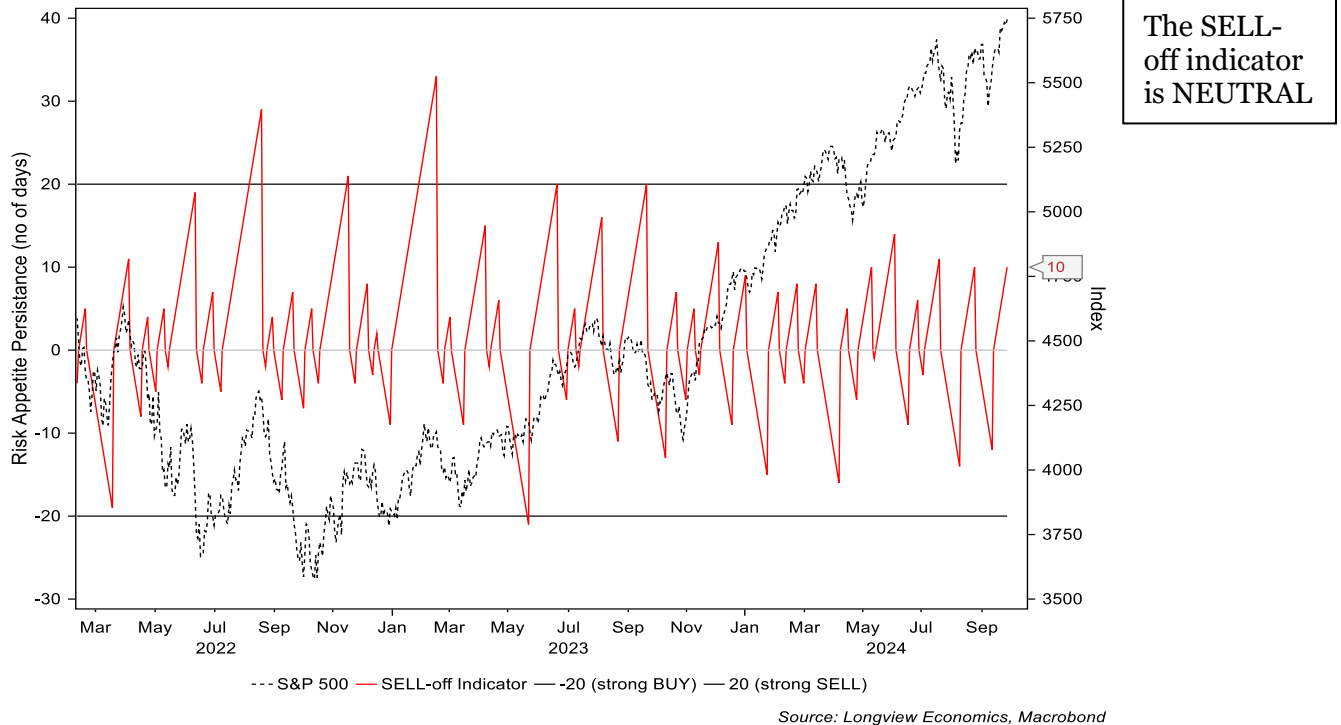
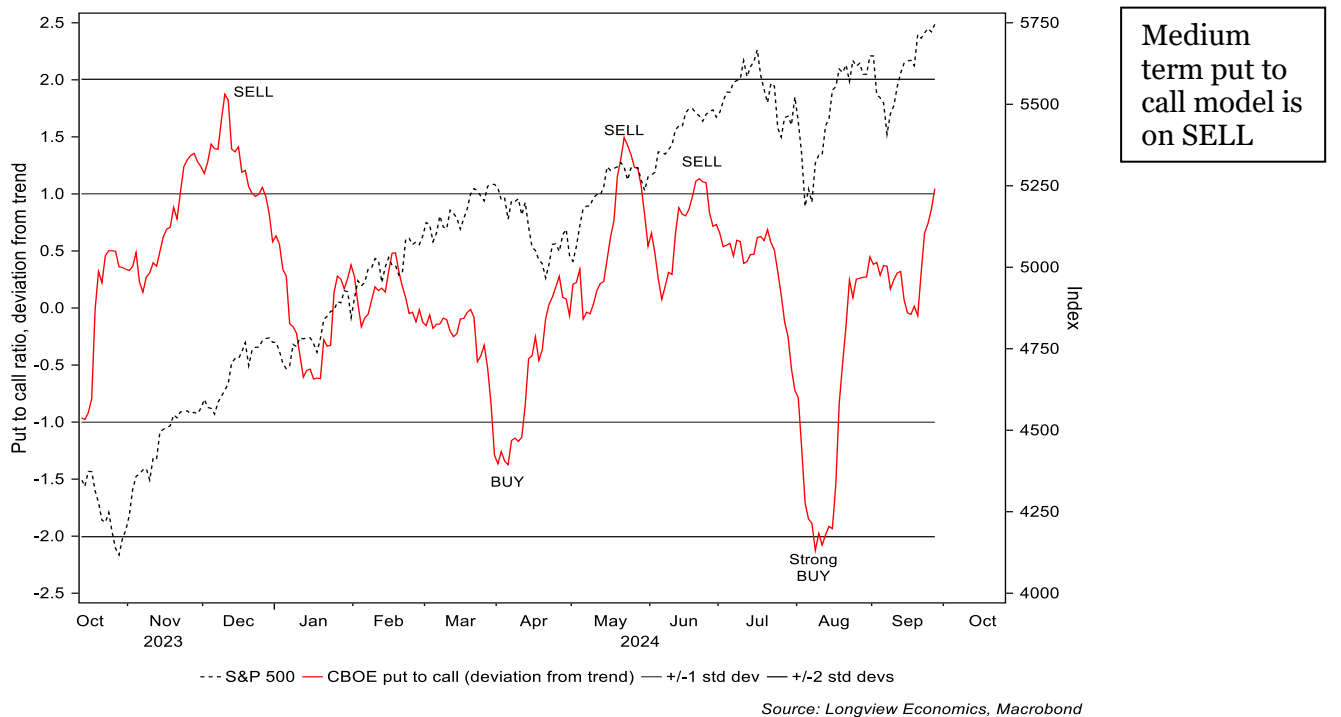


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

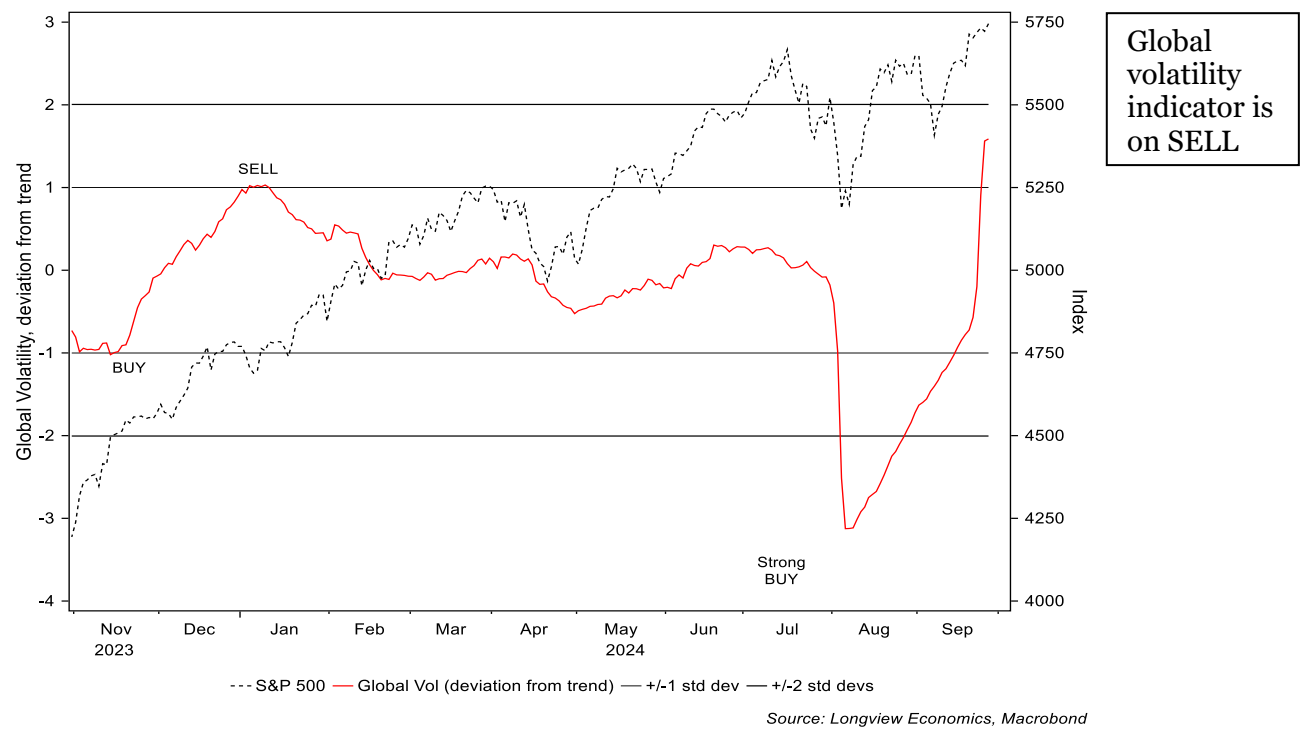


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

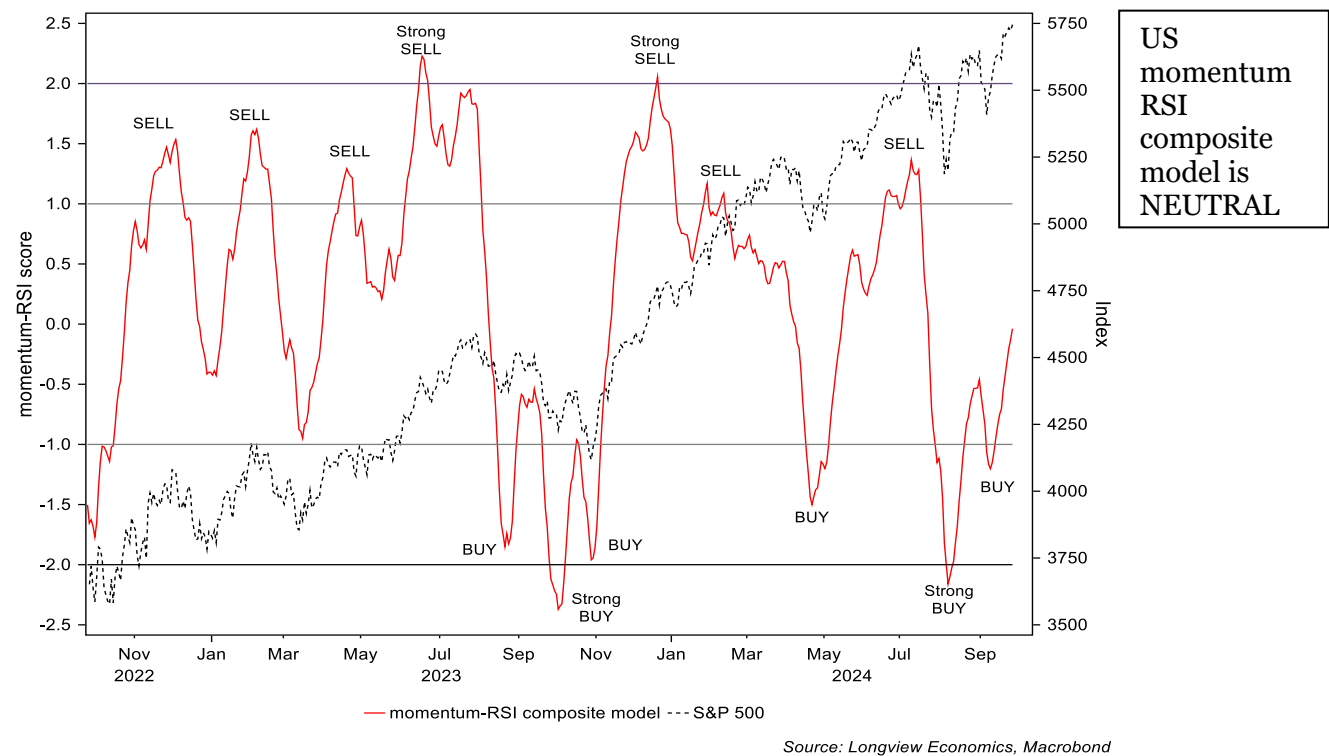


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

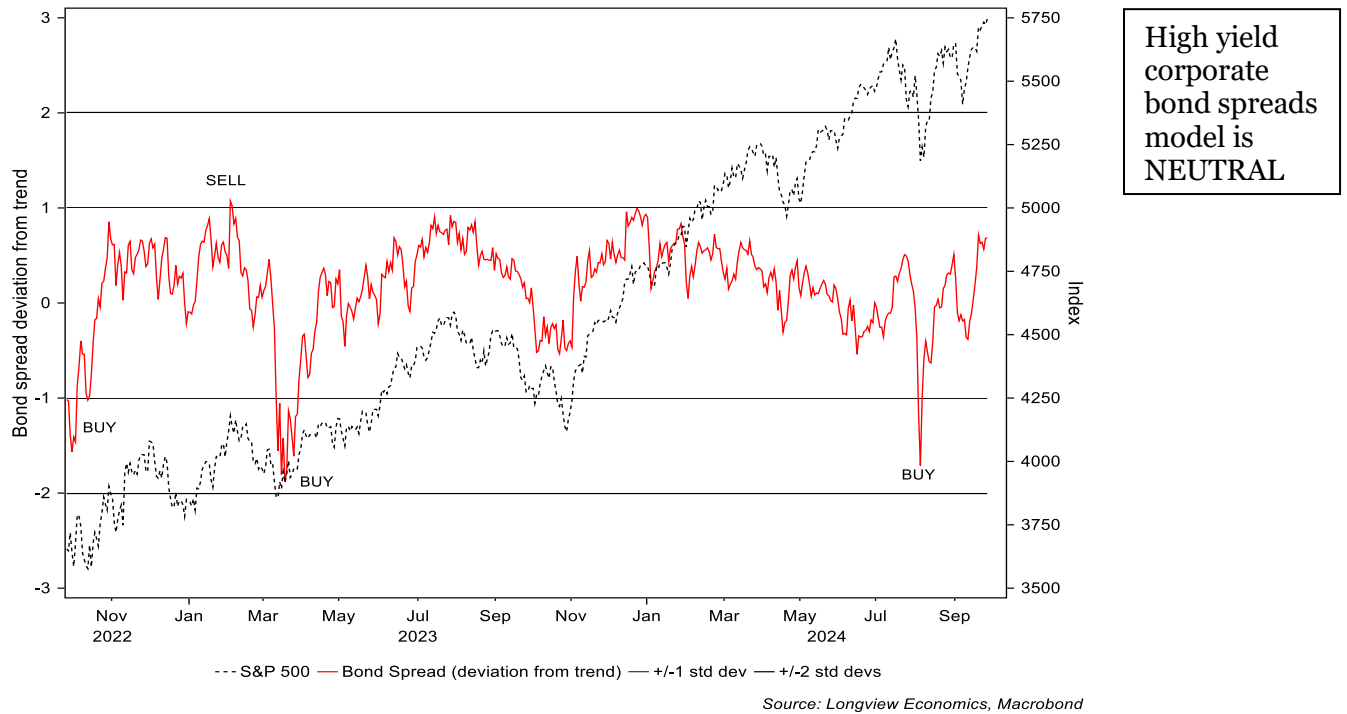
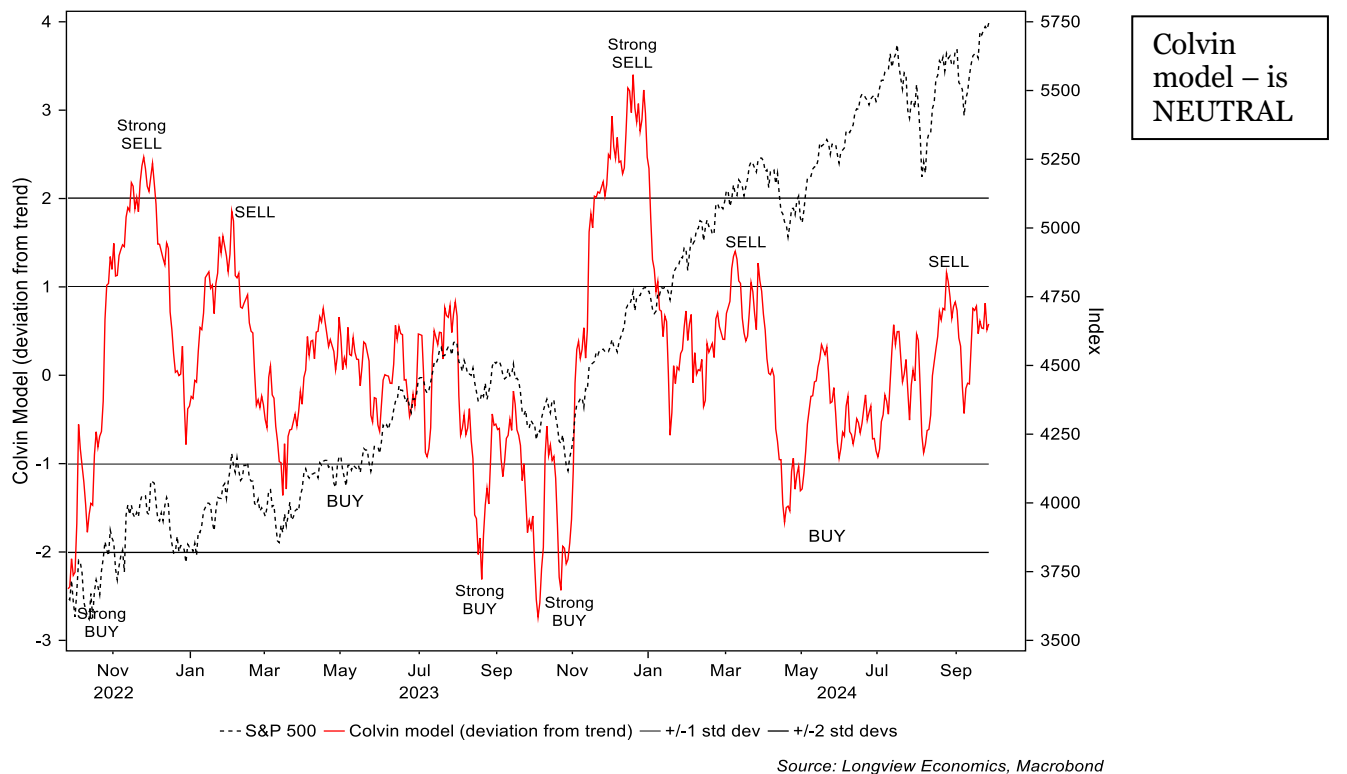


Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

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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