

## Equity Index Futures Trading Recommendations

29<sup>th</sup> October 2024

"Stay SHORT SPX – unchanged stop"

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

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

- Stay 1/3<sup>rd</sup> SHORT S&P500 December futures (entry was last 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

Price action in US equities was poor yesterday. In particular, after opening higher, SPX futures lost momentum throughout the day (and closed at around the session lows). That was similar to Friday's price pattern (i.e. a rally that faded), and was despite better than expected earnings (9 out of 10 S&P500 companies surprised to the upside on earnings yesterday, while 1 was modestly disappointing). US equities therefore struggled to move higher, despite positive newsflow.

That's been the theme of this earnings season: Of the 193 companies that have reported, 148 have surprised to the upside (77%). In aggregate, they have beaten expectations by 6% (compared to an average beat of 3 – 4%). The S&P, though, has traded sideways/down since mid-October (FIG 1b). In that sense this market is tired and vulnerable to the downside.

Elsewhere US rates and bond yields have continued to push higher. Yesterday, for example, the US 10 year Treasury yield closed up 3bps at 4.28% (i.e. a new local high, see FIG 1a). Other parts of the Treasury yield curve also moved higher, while the rates market priced out more Fed cuts for 2025 (see FIG 1).

Adding to that backdrop (of poor momentum & rising rates), our **SELL off indicator is warning of a wave of risk aversion in global markets**. It does that at a reading of +20 and above (and is currently on +32, see FIG 1c). The track record of this model is strong and was examined in detail in our latest Tactical Alert publication (i.e. a '1 – 4' month US equity market outlook). Other medium term models are also on (or close to) SELL levels (e.g. see FIG 1d below) and support the case for a pullback in equities. The message of the short term models is more mixed. Our key risk appetite indicators, though, are close to their SELL thresholds. That includes the combined 'RAG1 plus RAG2' model (which is just below its SELL level, see FIG 2b), as well as shortest term RAG (which is on SELL, see FIG 2c).

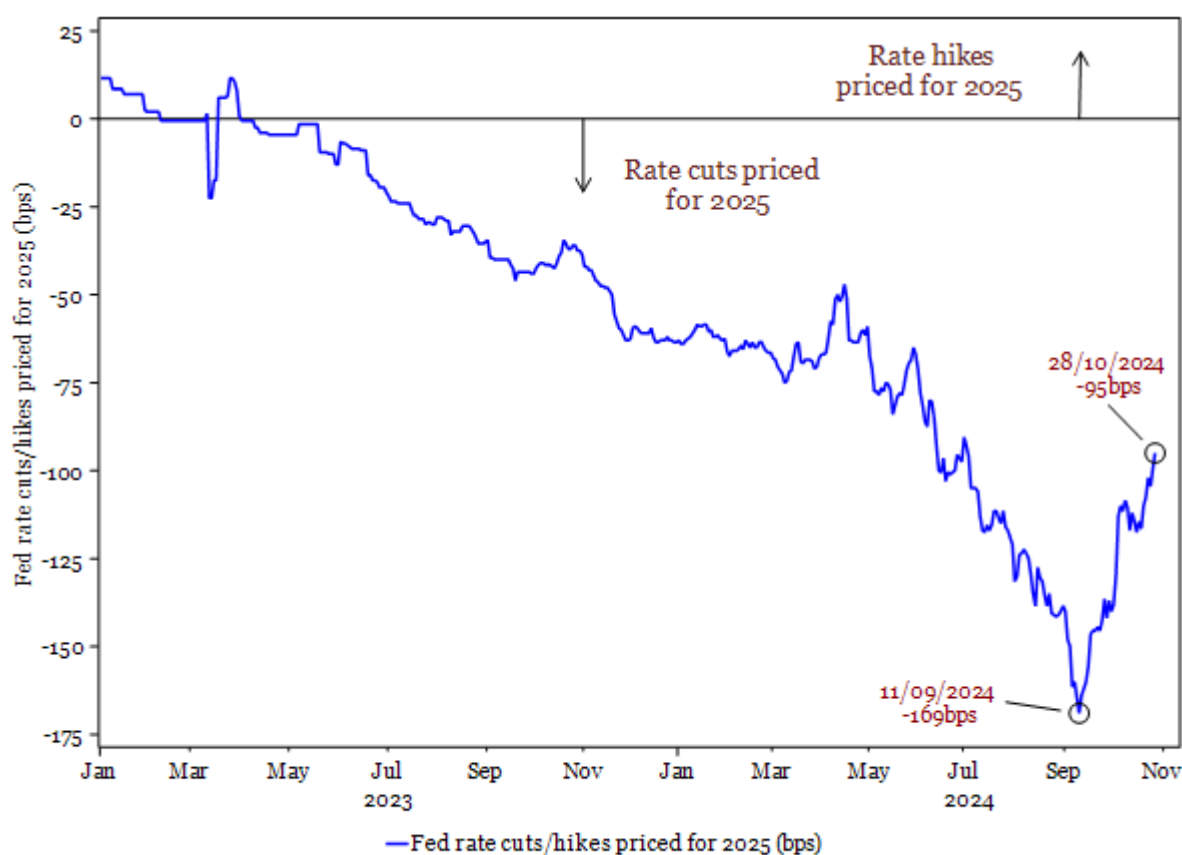
The risk reward therefore continues to favour staying SHORT S&P500 futures (please see above for detailed recommendation).

Two way risks to this trade are multiple and include earnings from Alphabet today (amongst others), as well as key macro data (i.e. US job openings and consumer confidence). Please see below for a list of today's key events. NB four other MAG7 companies report earnings this week (Apple, Microsoft, Amazon and Meta).

Kind regards,

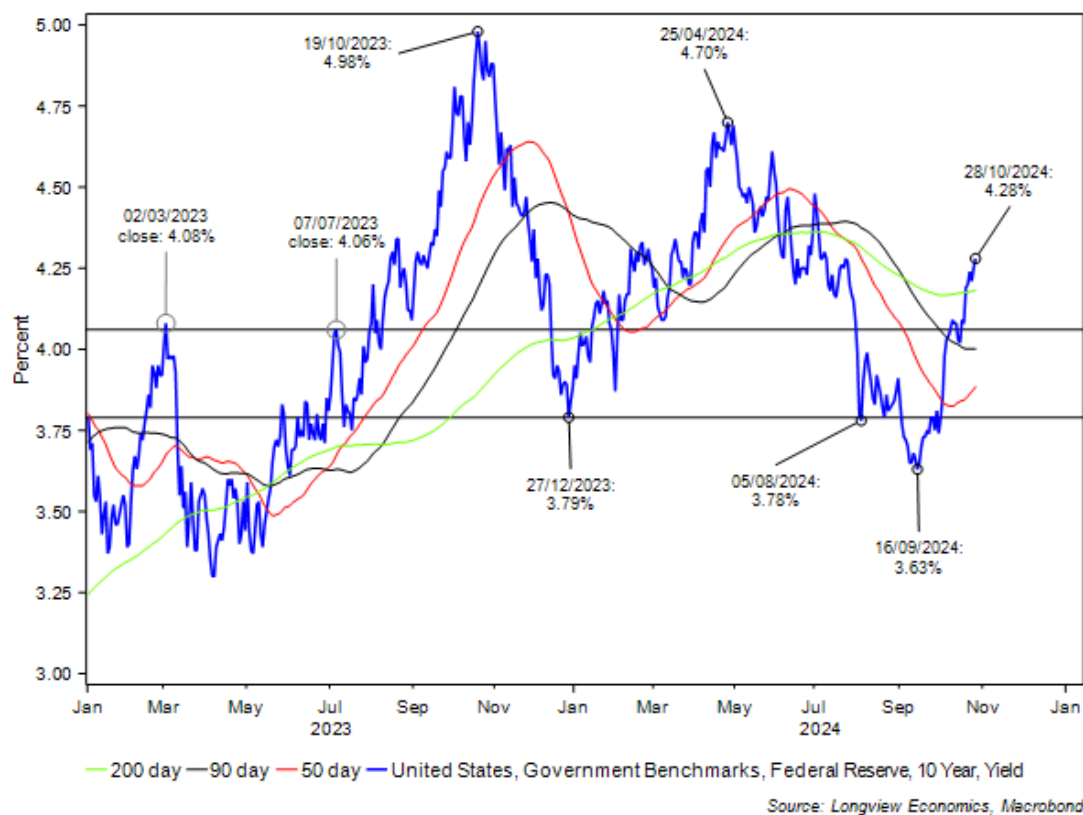
The team @ Longview Economics

**FIG 1:** Fed rate cuts/hikes priced for 2025 (bps)



Source: Longview Economics, Macrobond

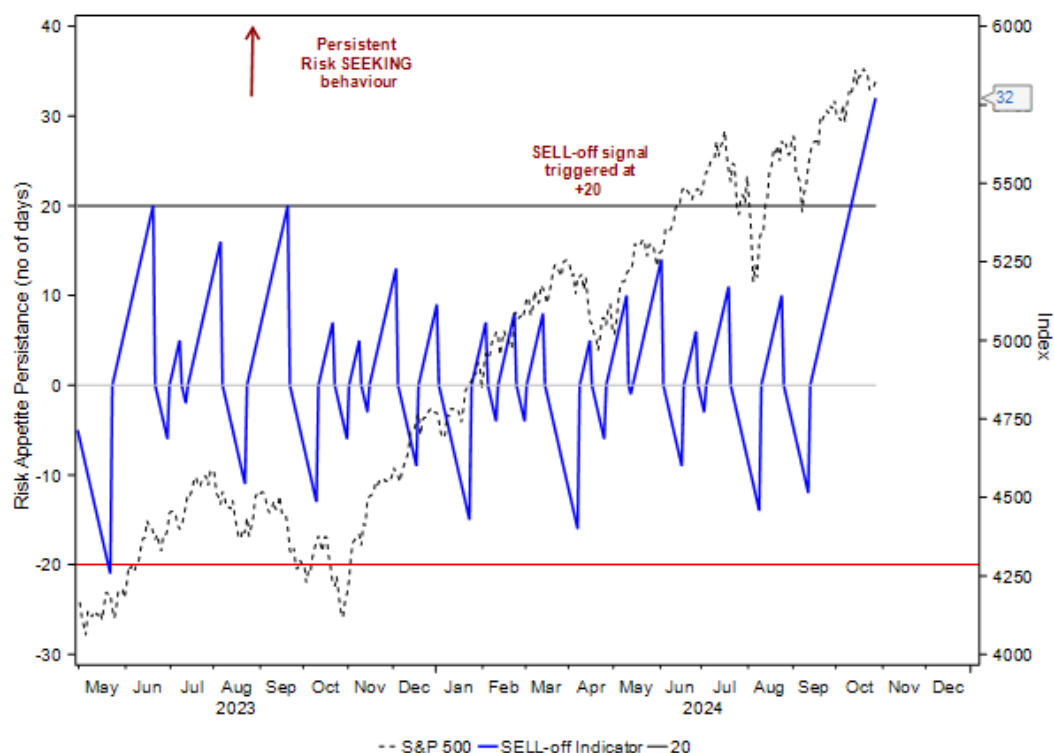
**FIG 1a:** US 10-year bond yields shown with key moving averages



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

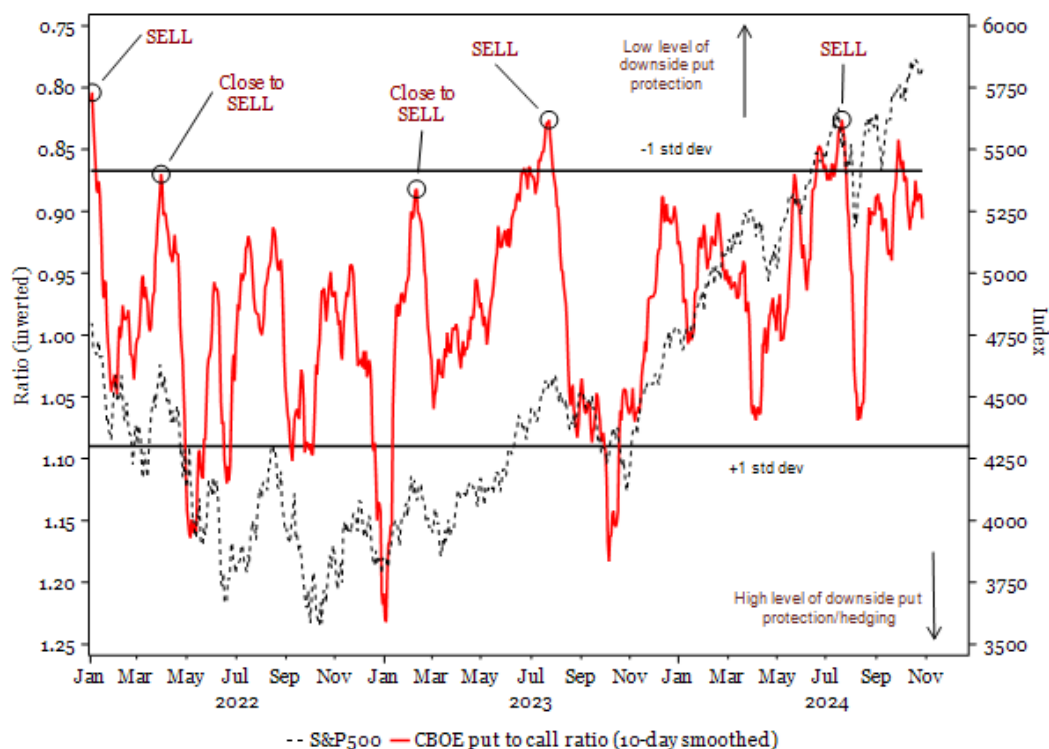


**FIG 1c: Longview SELL-off indicator vs. S&P500**



Source: Longview Economics, Macrobond

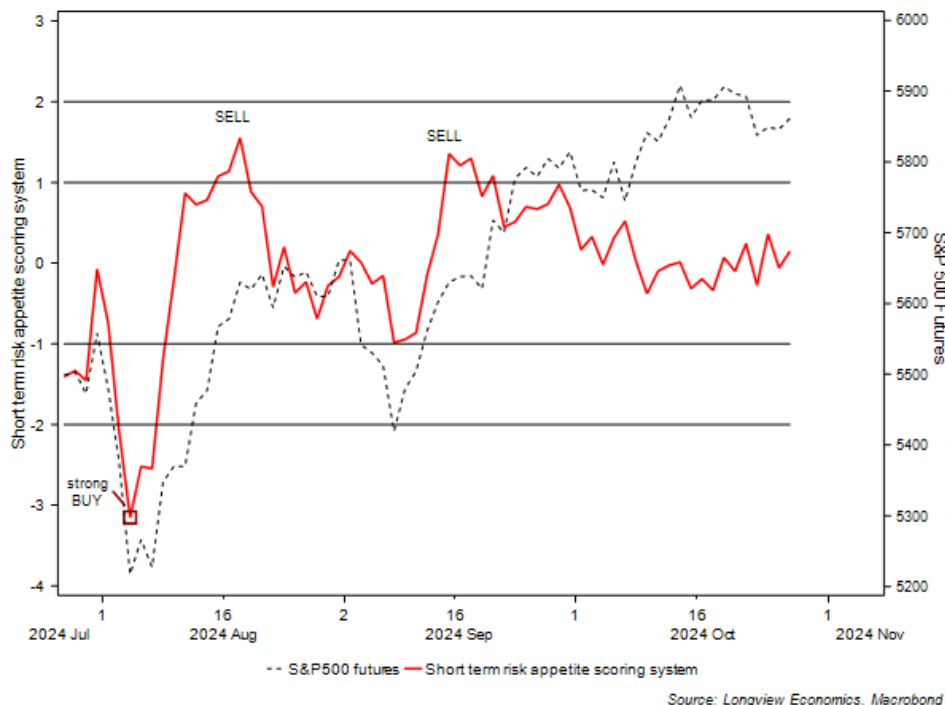
**FIG 1d: CBOE put to call ratio (10 day smoothed) vs. S&P500**



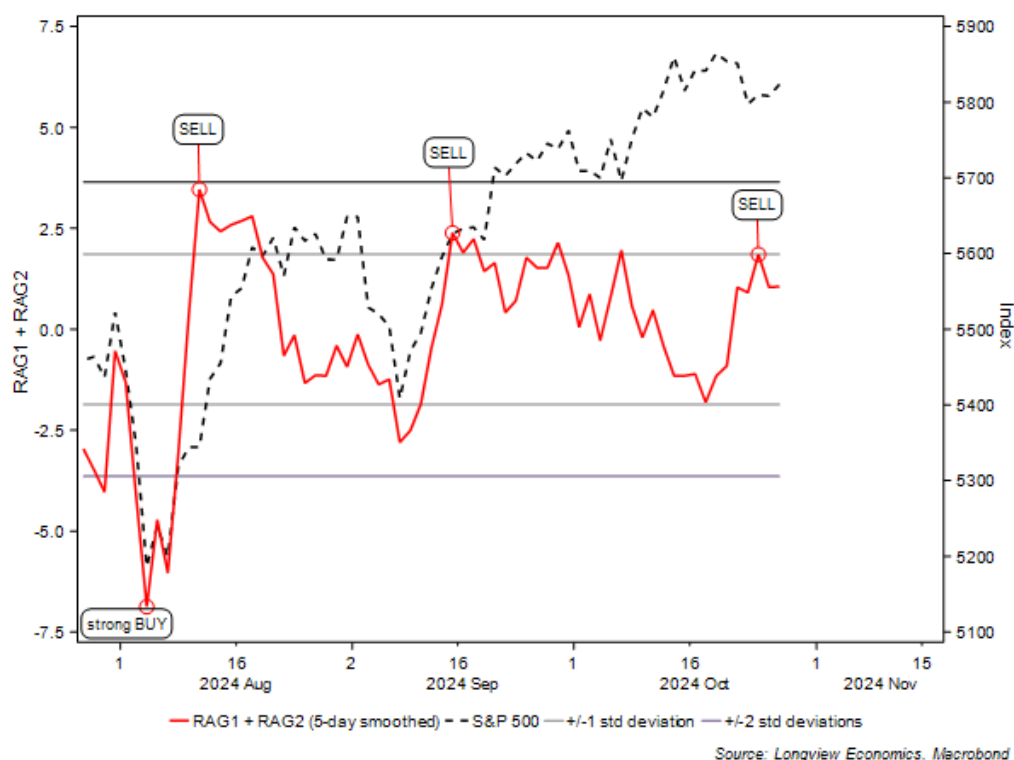
Source: Longview Economics, Macrobond

**Short-term risk appetite models are mostly on/leaning towards SELL.....**

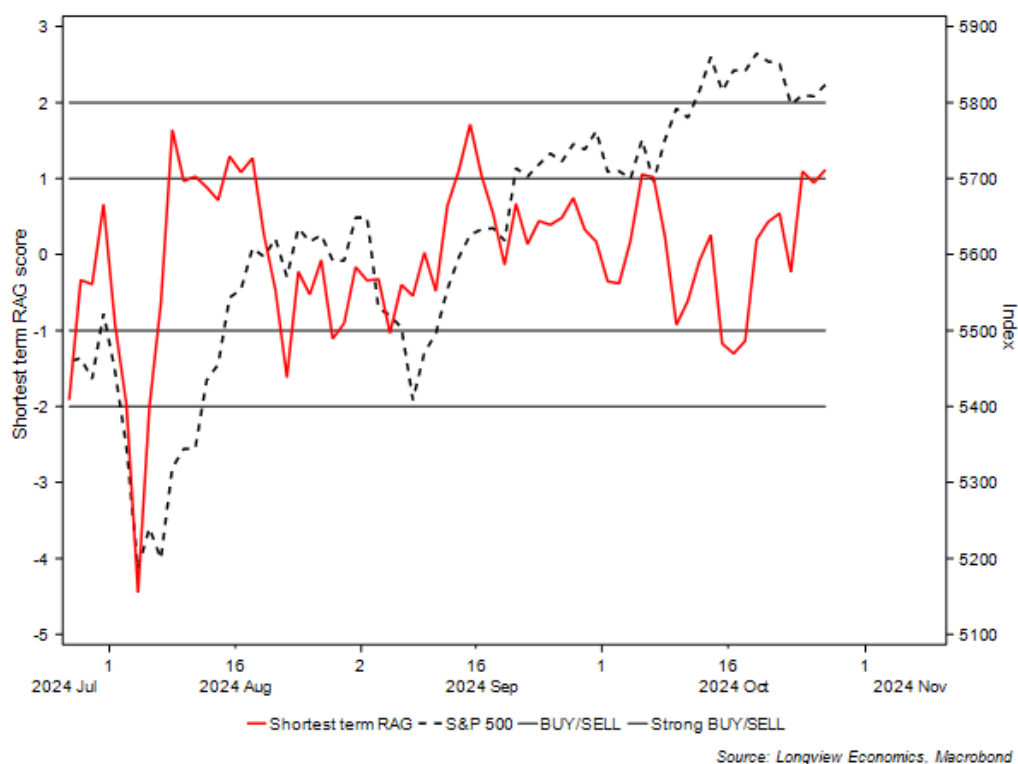
**FIG 2:** Longview short term 'risk appetite' scoring system vs. S&P500



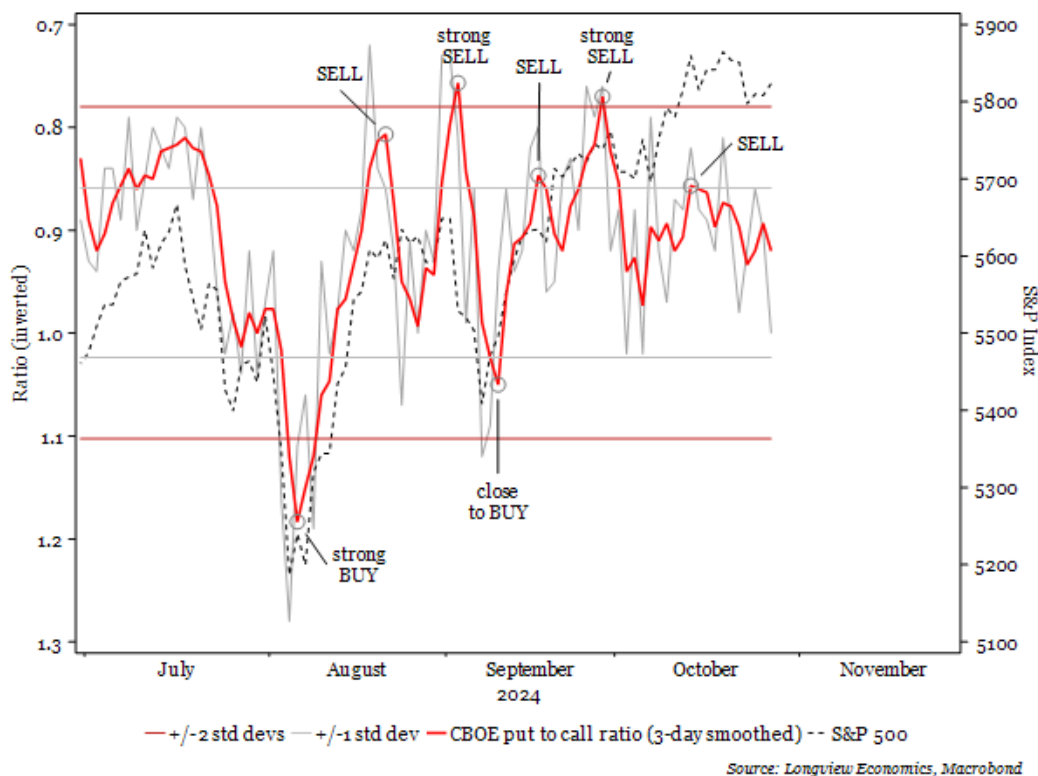
**FIG 2a:** Longview combined key 'risk appetite' models (RAG1 + RAG2) vs. S&P500



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

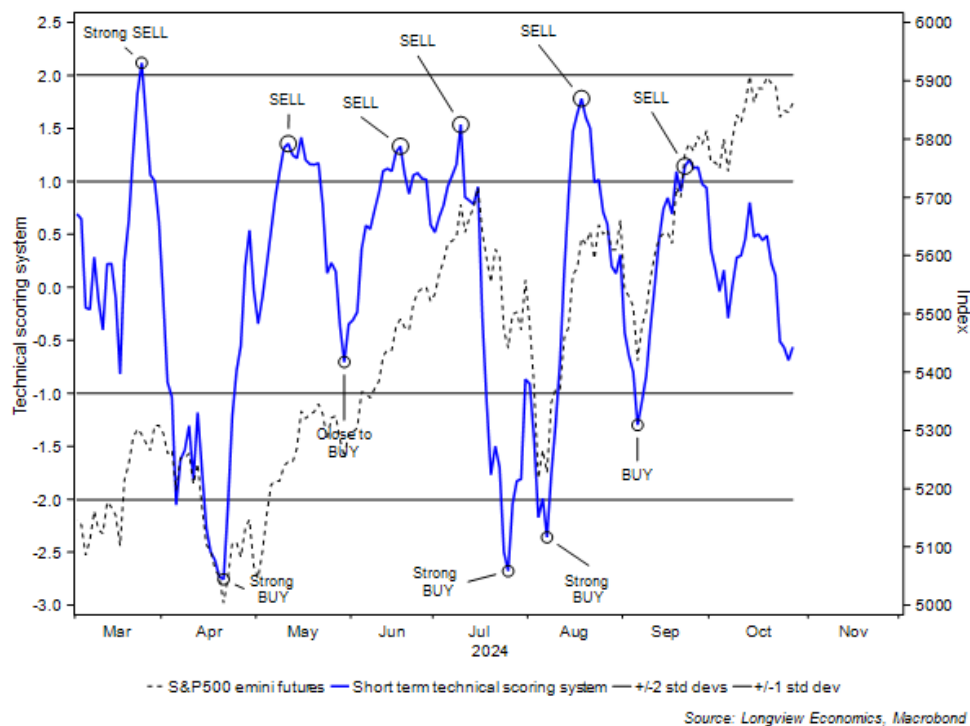


**FIG 2c:** CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

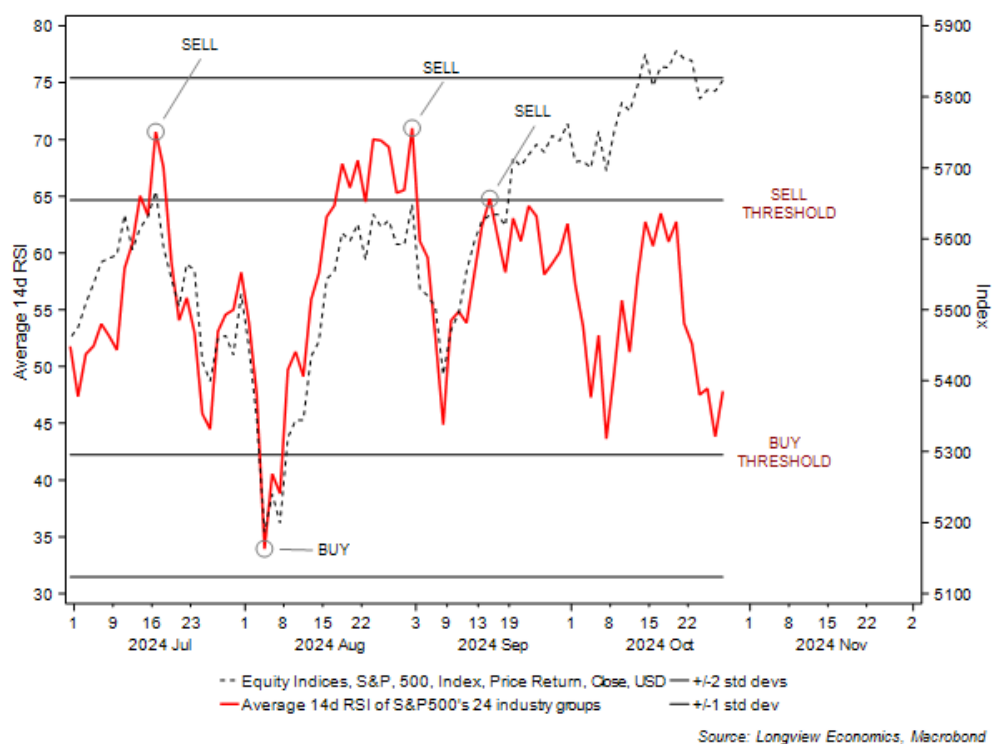


## Short term technical models have rolled over...

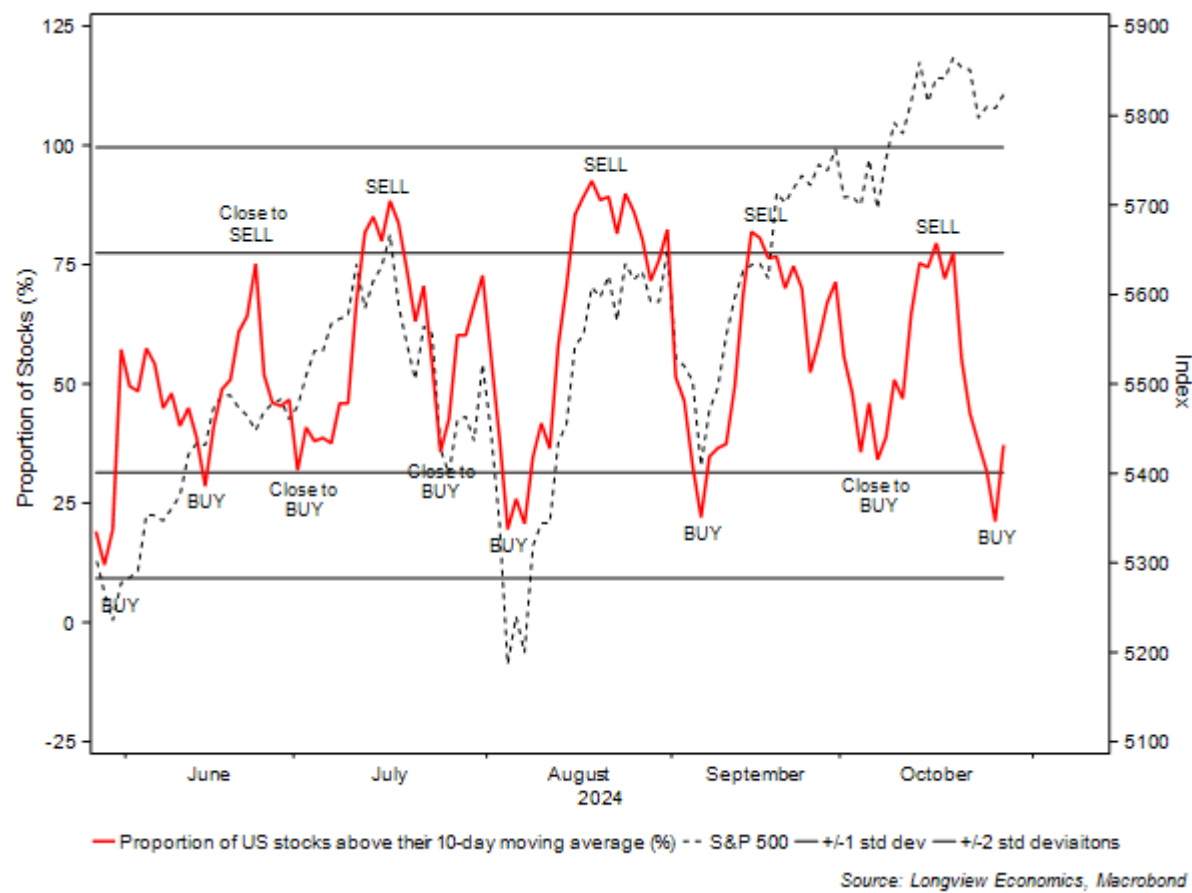
**FIG 3:** Longview S&P500 short term **‘technical’** scoring system vs. S&P500 futures



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



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

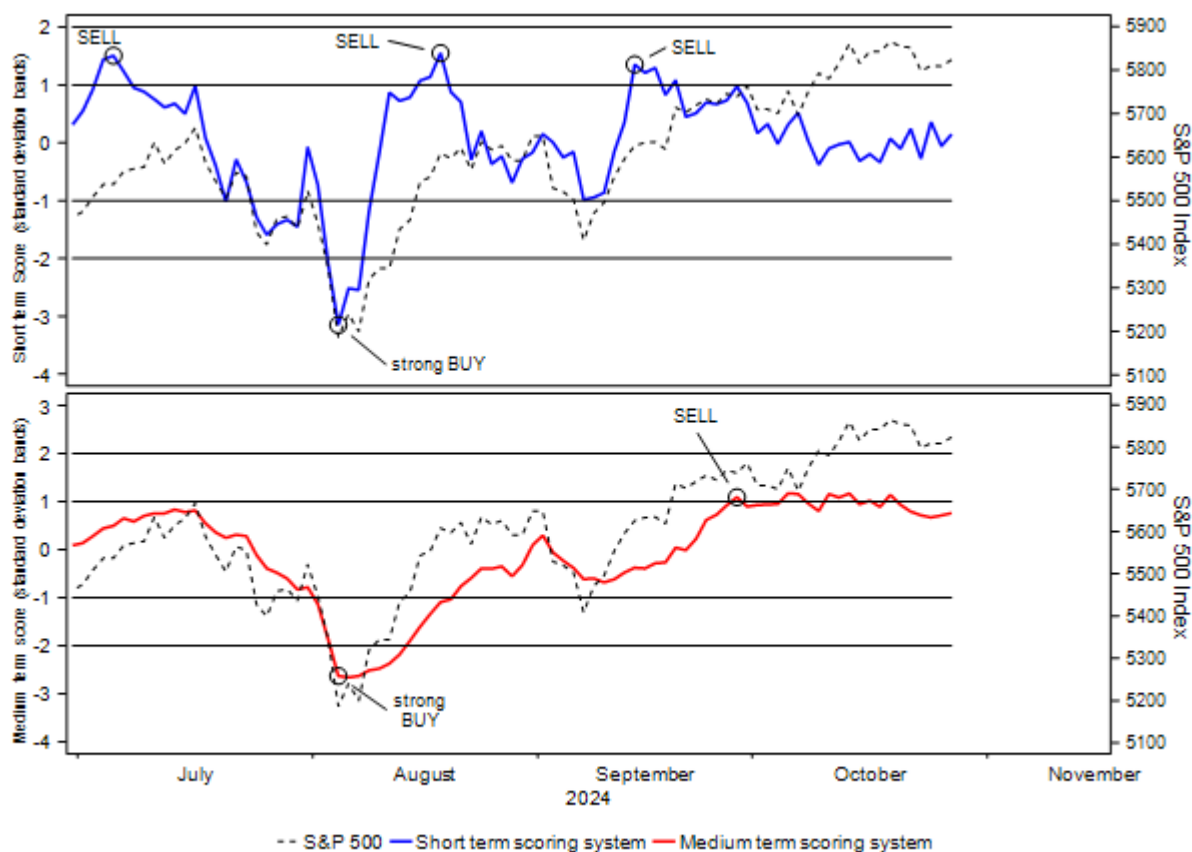


## Key Longview Scoring Systems (chart below):

**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

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**Key data** today include: UK BRC retail prices (Oct, 12:01am); German GfK consumer confidence (Nov, 7am); Italian wages (Sept, 9am); UK **Net consumer credit, mortgage approvals, mortgage lending & M4 money supply** (Sept, 9:30am); US wholesale and retail inventories (Sept, 12:30pm); US FHFA house price index (Aug, 1pm); US S&P/Case-Shiller 20-city & national house prices (Aug, 1pm); **US JOLTS job openings** (Sept, 2pm); **US Conference Board consumer confidence** (Oct, 2pm); US Dallas Fed service sector activity (Oct, 2:30pm).

**Key events** today include: N/A

**Key earnings** today include: **Alphabet, Visa, AMD, McDonald's, Pfizer, Stryker, Chubb, American Tower, Mondelez, PayPal, Santander, Saint Gobain, HSBC, BP, China Petrol, Keyence.**

## Definitions & other matters:

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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 10<sup>th</sup> October 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).*



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## 1 – 2 Week View on Risk

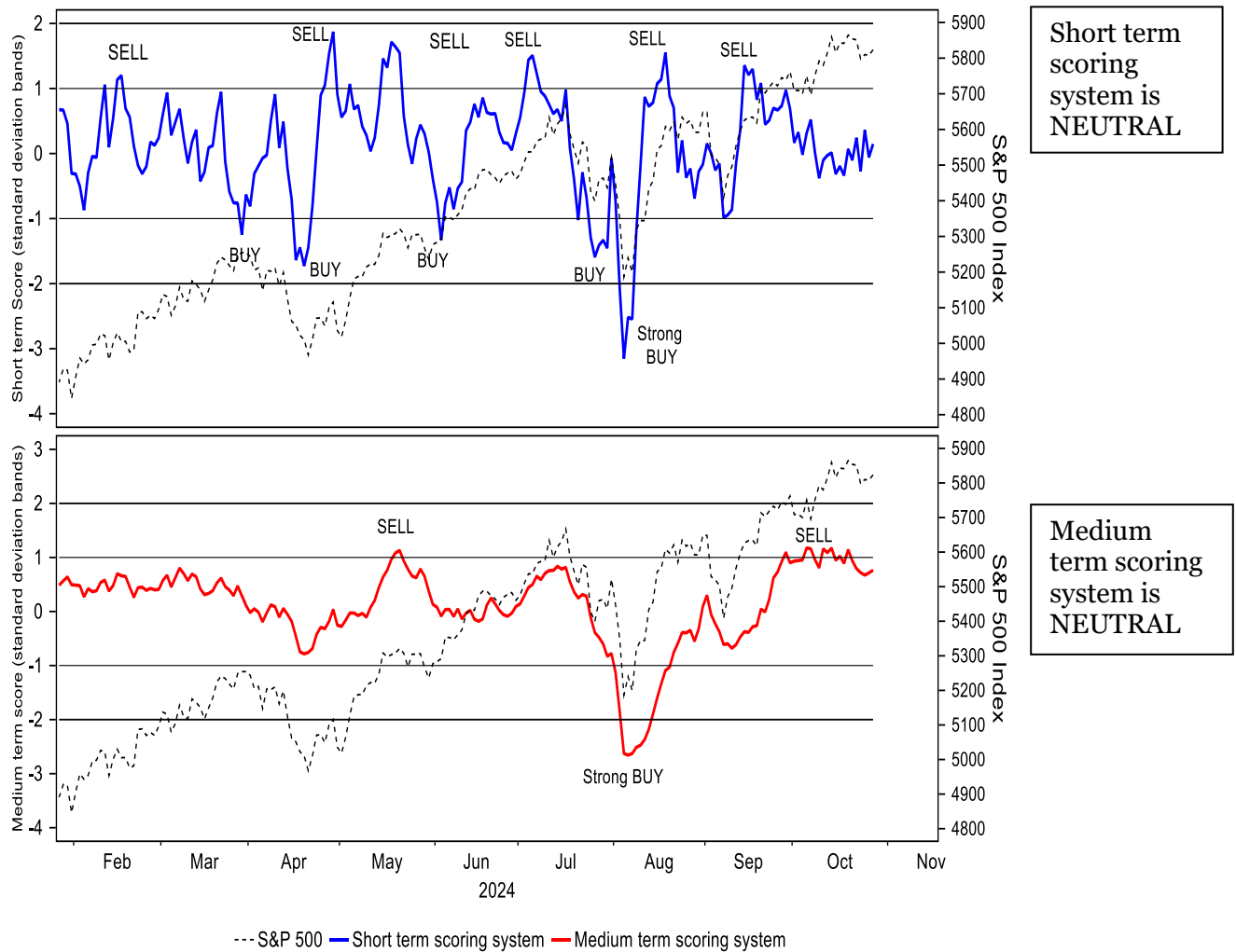
Longview Economics

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29<sup>th</sup> October 2024

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

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



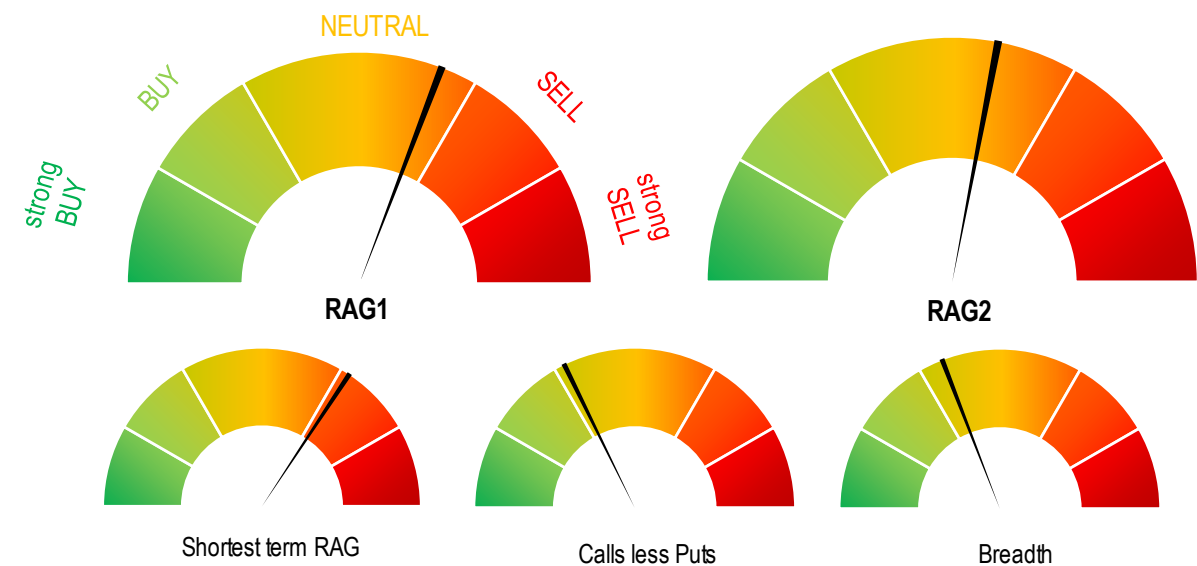
Source: Longview Economics, Macrobond

\*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**

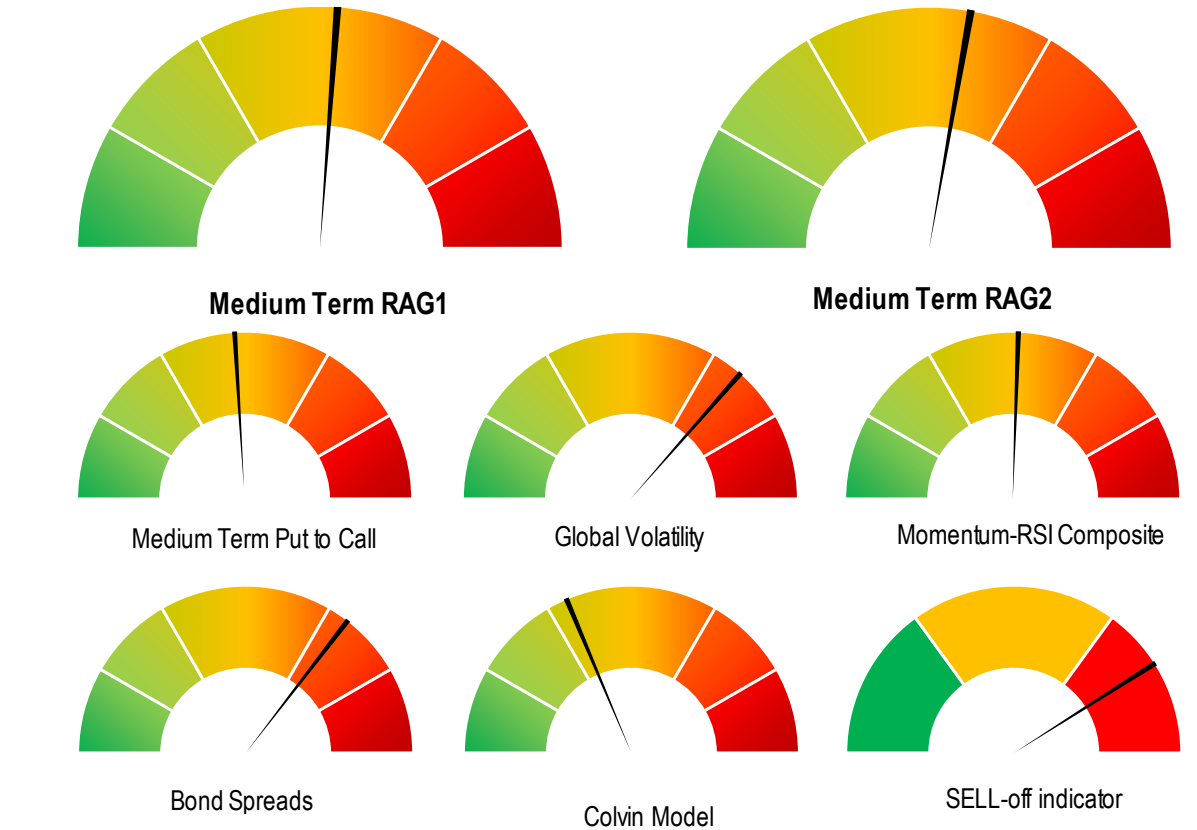
**Section 1a: Summary of indicator signals\*\***

**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

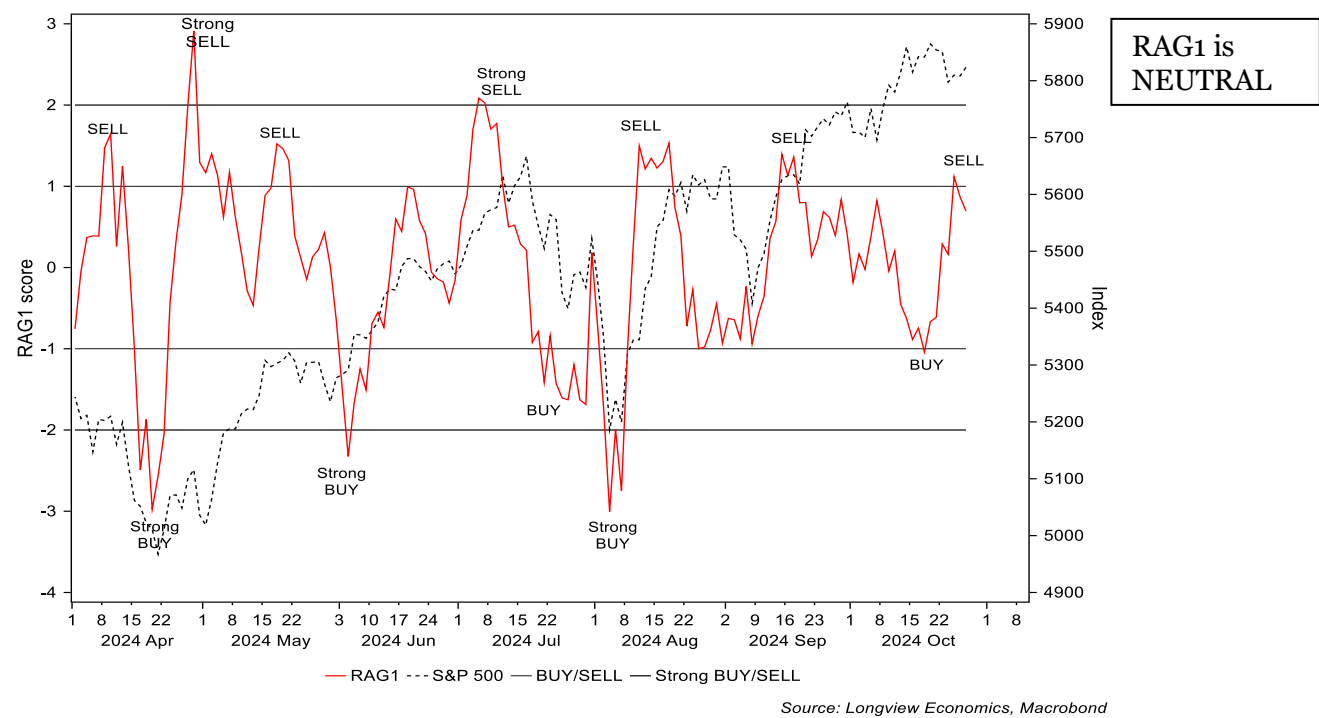
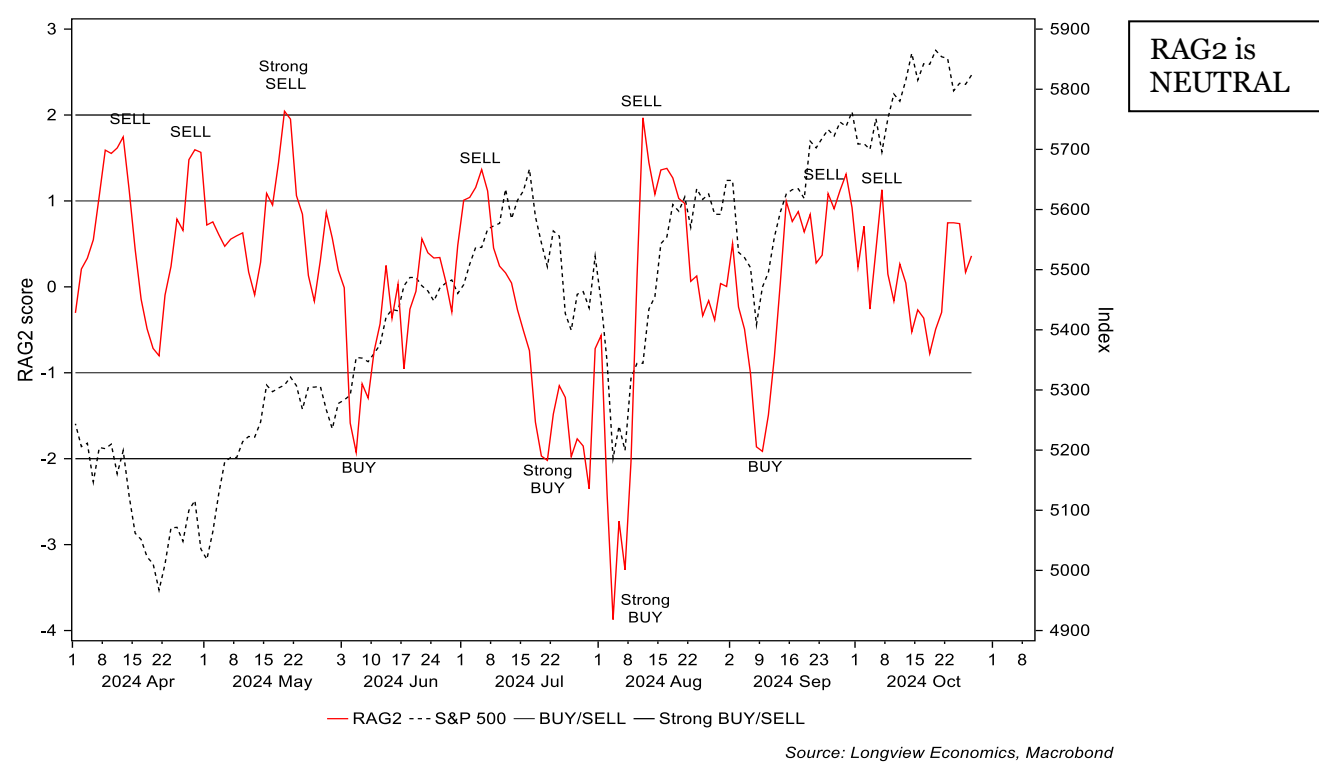
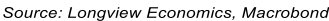
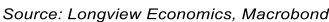


Fig 2b: RAG 2 vs. S&P 500

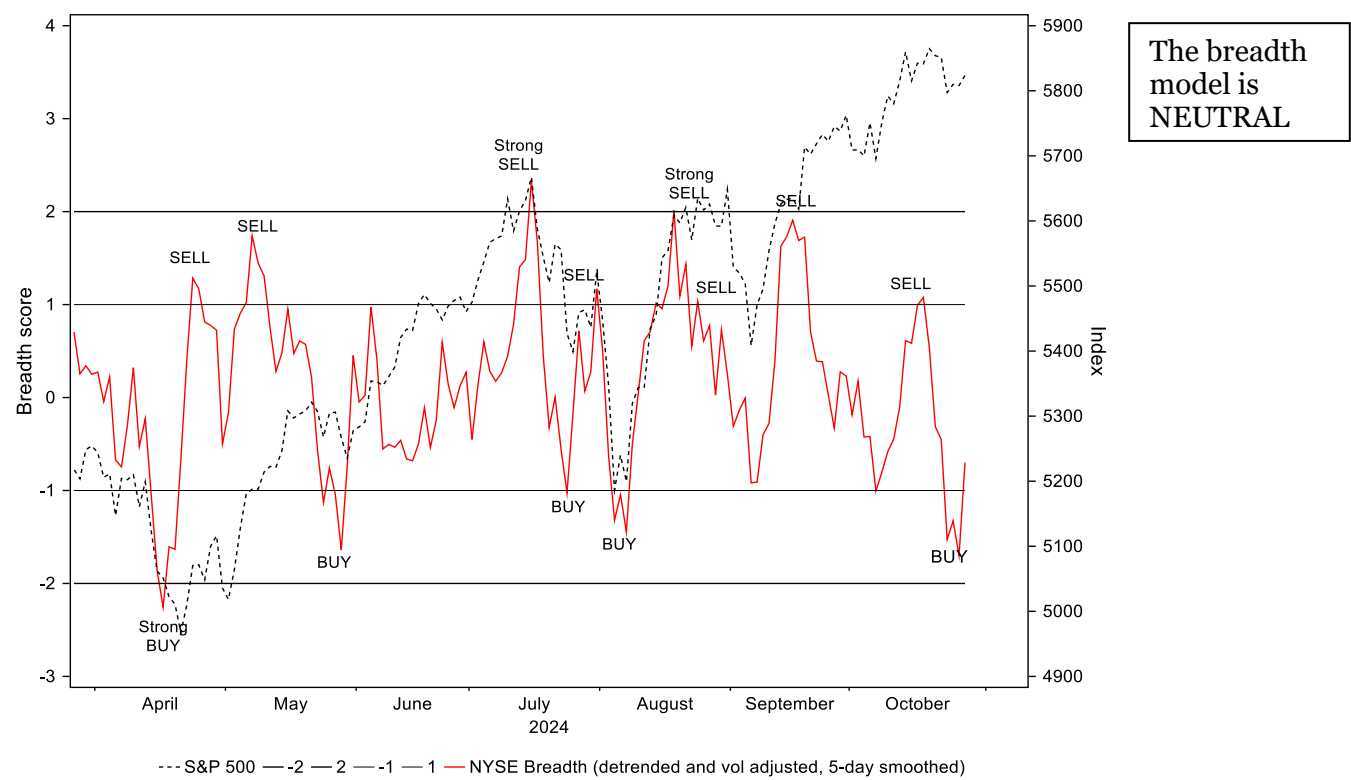


For explanations of indicators please see page 10



***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

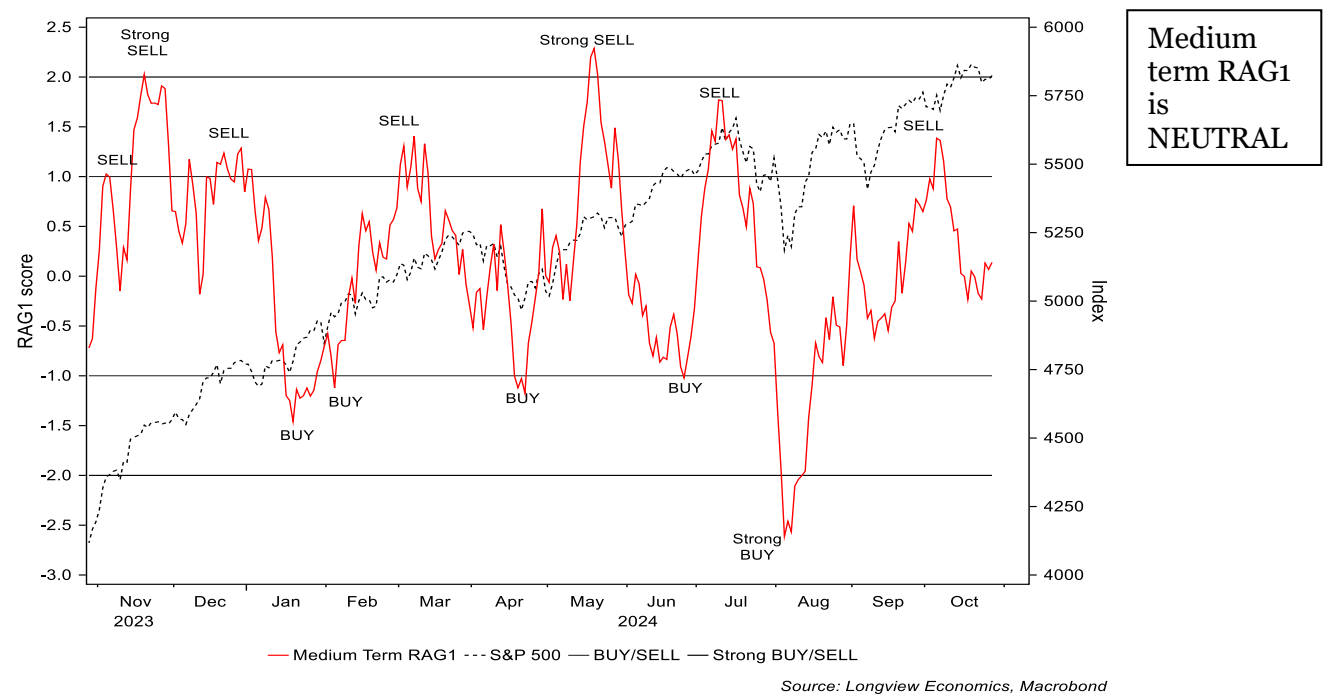
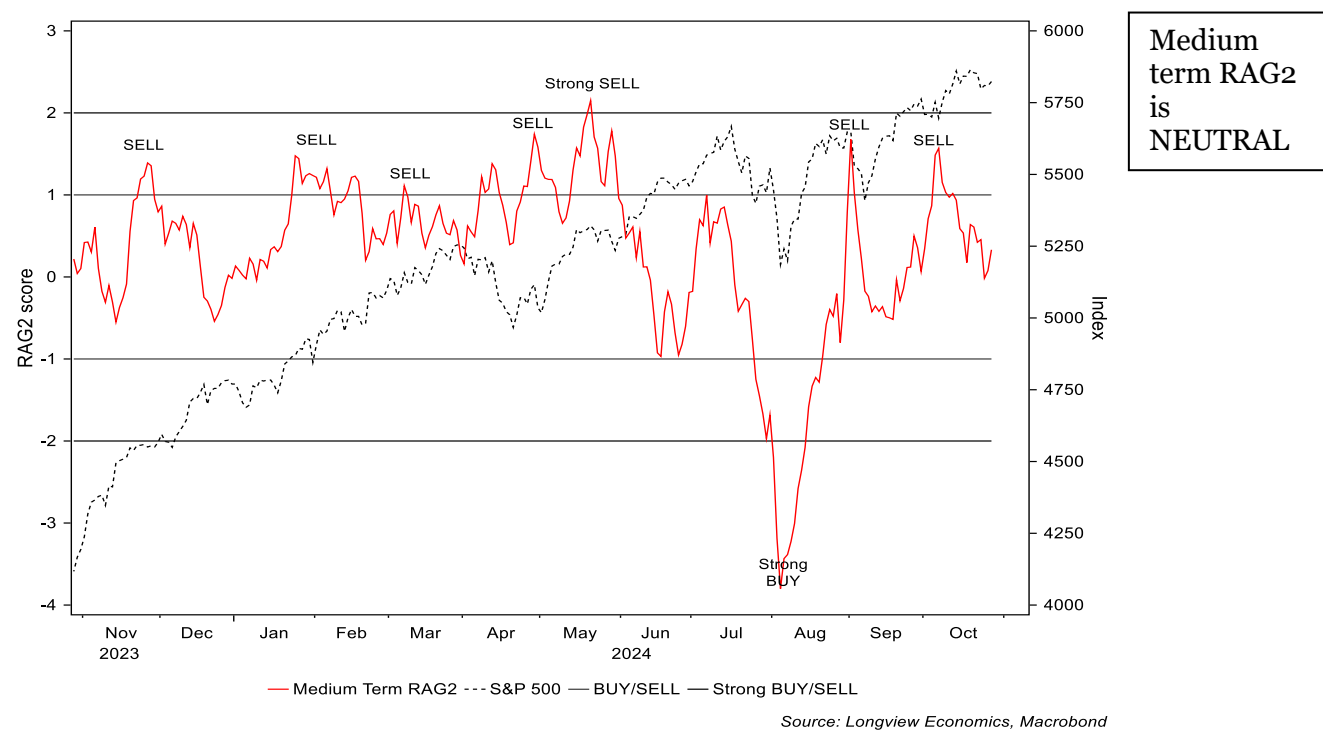
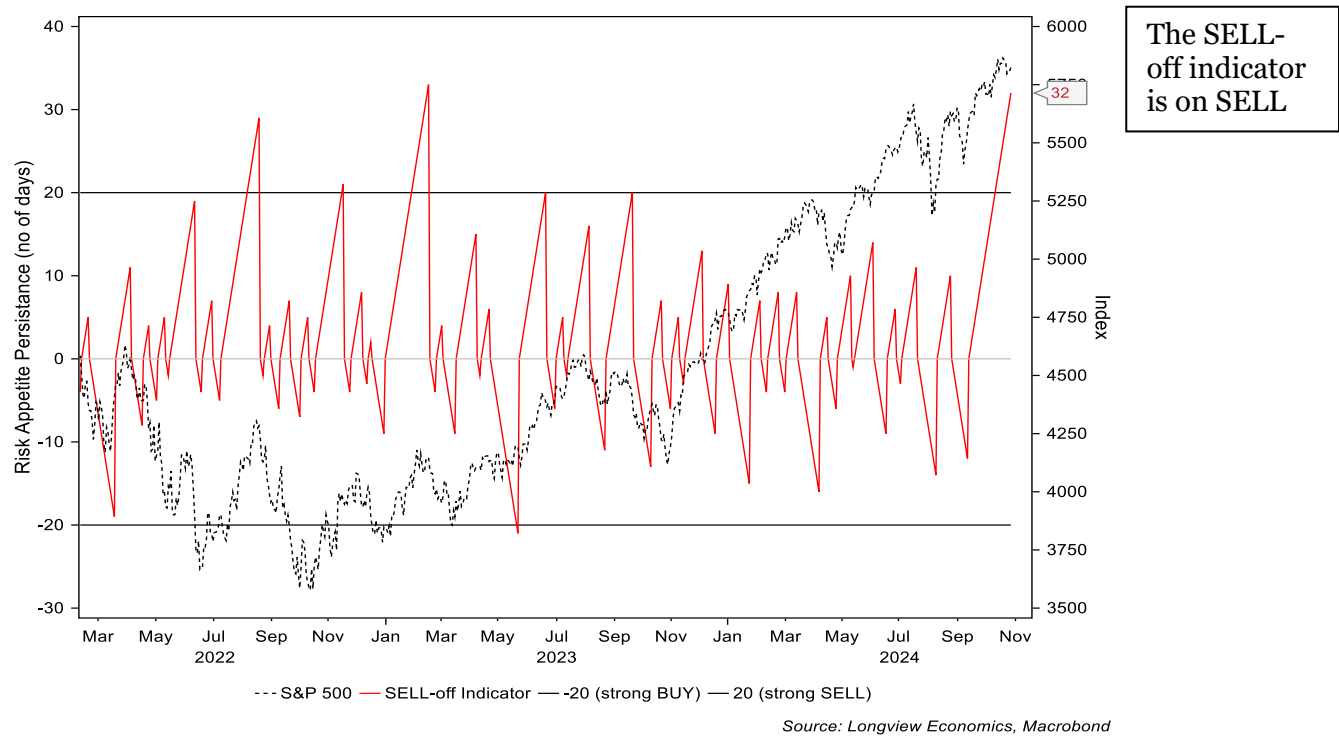


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

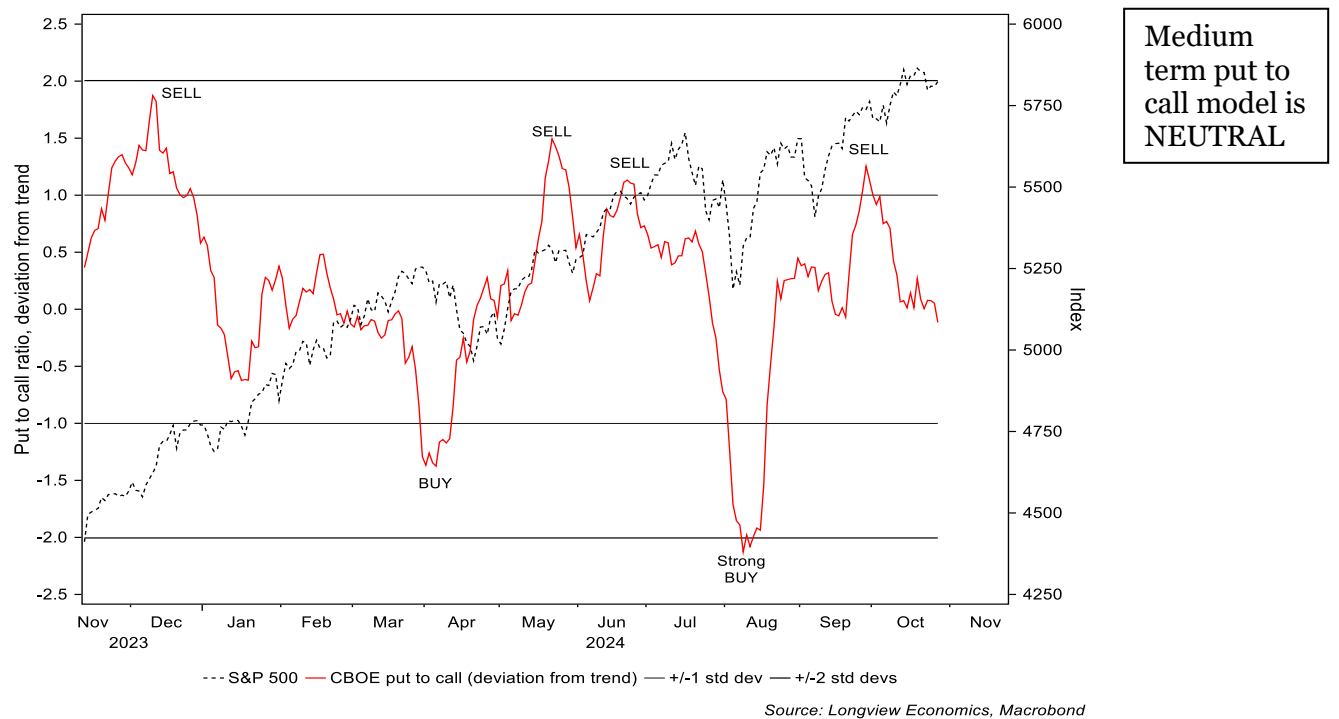


For explanations of indicators please see page 10

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

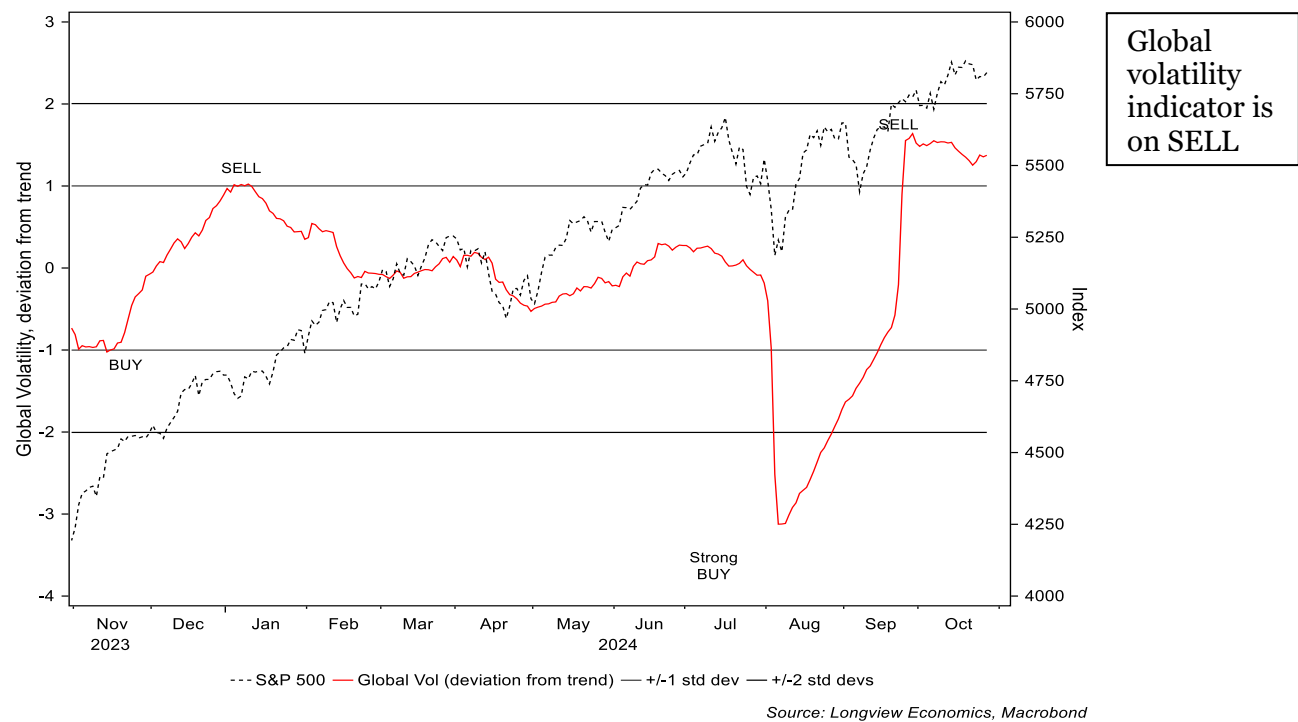


**Fig 3d:** CBOE put to call trend deviation model vs. S&P500

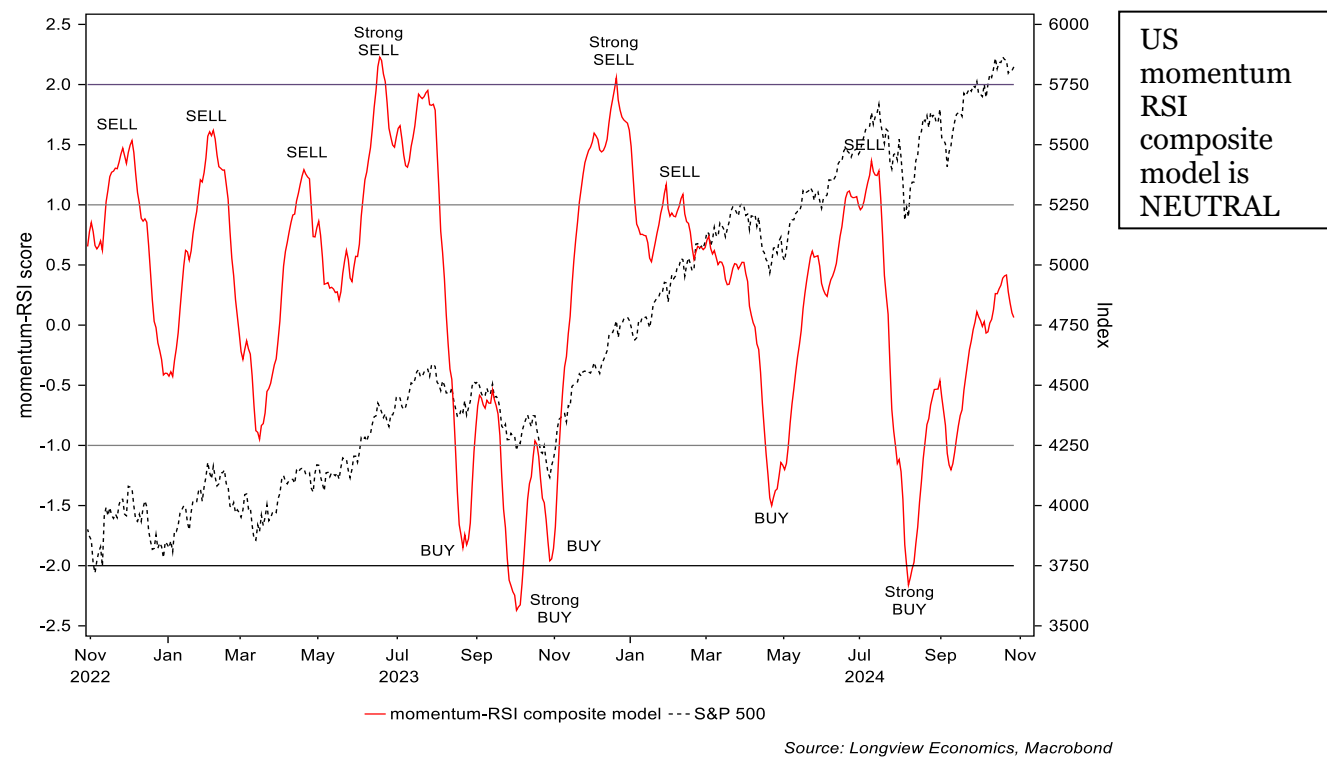


**For explanations of indicators please see page 10**

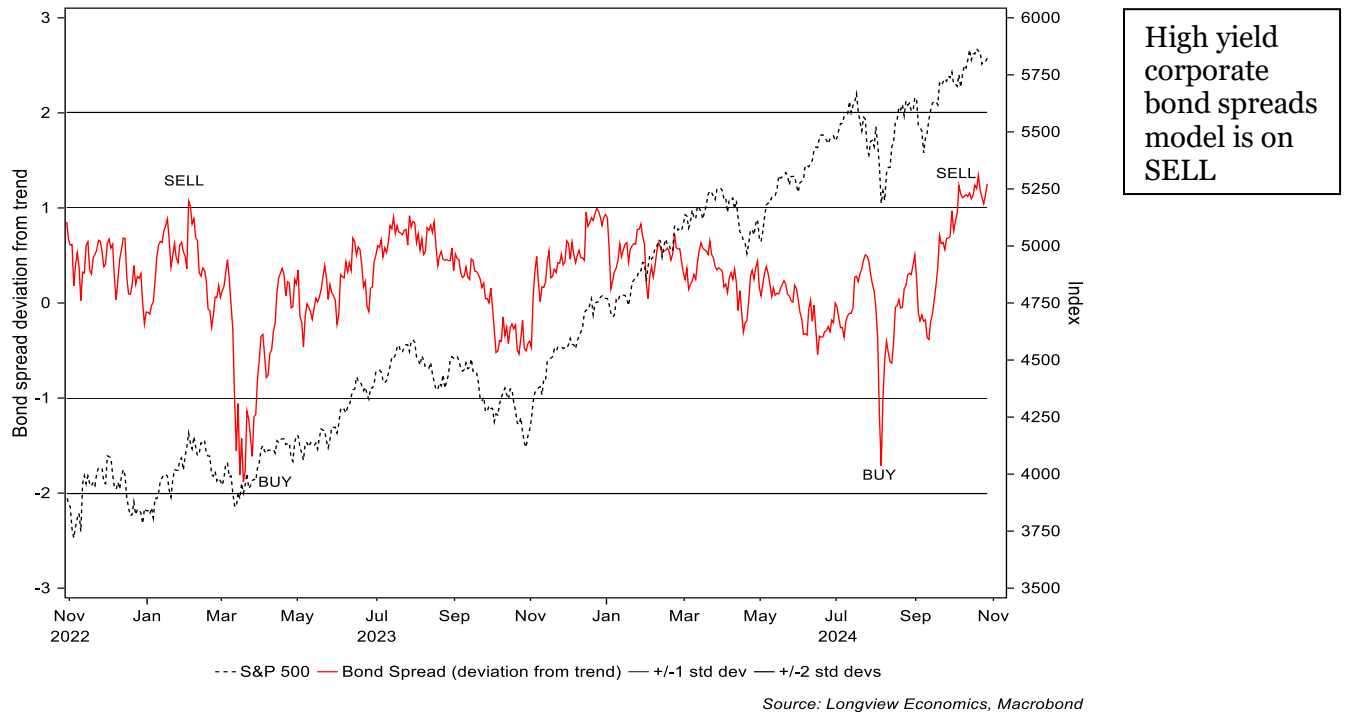
**Fig 3e:** Global volatility (deviation from trend) model vs. S&P500



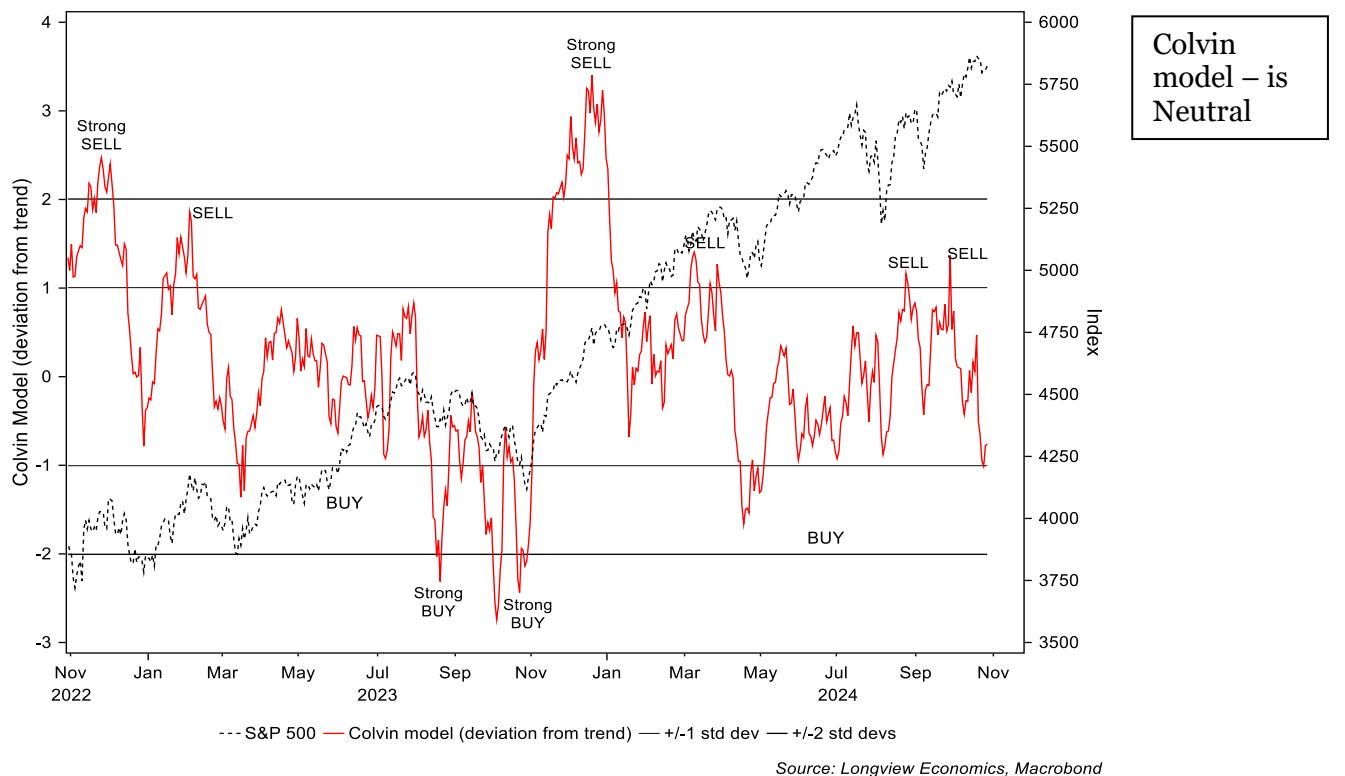
**Fig 3f:** Longview Momentum-RSI composite model vs. S&P 500



**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

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### **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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