Equity Index Futures Trading Recommendations

2nd September 2024

"Markets poised - technically"

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

- STAY 1/3rd SHORT NDX100 September futures (blended entry was 19,721.25, with the trade implemented last week).
- Keep stop loss at 19,920.0 (~1% above entry).

Rationale

Markets ended the week on a strong note on Friday with the S&P500 +1.0%, the NDX100 +1.3% and the Philly SOX +2.6%. With that strength many of those key indices moved back to the top end of their recent consolidation ranges (and/or up to a key technical support level). For the S&P500 that range has been 5,560 – 5,665 (with the S&P500 closing at 5,661 on Friday – FIG 1b). Both the NDX100 and the Philly SOX pushed up towards their 50 day moving averages (but didn't negate the bearish KDR signals from Thursday 22nd August – FIG 1c). Global equities are similarly back at the top end of their recent consolidation range (FIG 1a); while Nvidia remains below its 50-day moving average (despite its strength on Friday); Amazon, meanwhile, moved sharply higher (pushing through its key 200 day moving average level). **Technically, therefore, this market remains poised. Is it simply consolidating (at the headline S&P500 level); Or is it rolling over – as the tech area of the market has been doing in the past 7 trading sessions?**

Short term market timing models retain largely the same message as Friday. Some of them have bounced moderately on the back of Friday's strong price action. Most notably, there was a high level of put covering such that the 3-day CBOE put to call ratio has gone back onto SELL (FIG 3c). Risk appetite models, though, are NEUTRAL, having rolled over from SELL (FIGs 3 & 3a); technical models for the headline indices have also mostly rolled over in the past 1 – 2 weeks (e.g. see FIGs 2b & 3b); sector and single stock technical and momentum models, though, remain on/close to SELL reflecting the concentration of the weakness in the tech/long duration growth area of the market (FIGs 3d & 3e). Other momentum models, meanwhile, have rolled over, highlighting that the upward momentum has slowed (FIGs 4 – 4c). Overall, therefore, models are mixed but retain a SELL bias.

Elsewhere the **price action in both silver and bitcoin has been interesting** and supportive of an expectation of a phase of 'risk off' in this equity market. Both prices have been trending lower (with lower highs and lows) in recent months. BTC is off modestly in the past 24 hours and down around 10% in the past week (FIG 1). Silver was also weak again on Friday (down 1.9%). Gold, meanwhile, has gone sideways in the past 10 trading sessions.

Most US markets are closed today for Labor Day (re-opening tomorrow as normal). As a result, trading volumes are likely to be light. This week, though, is the big data week for the US with ISM manufacturing tomorrow, JOLTS (Wednesday), ISM services (Thursday) and then non-farm payrolls (Friday). We recommend remaining SHORT NDX100 futures (see trading recommendation above for detail).

Kind regards,

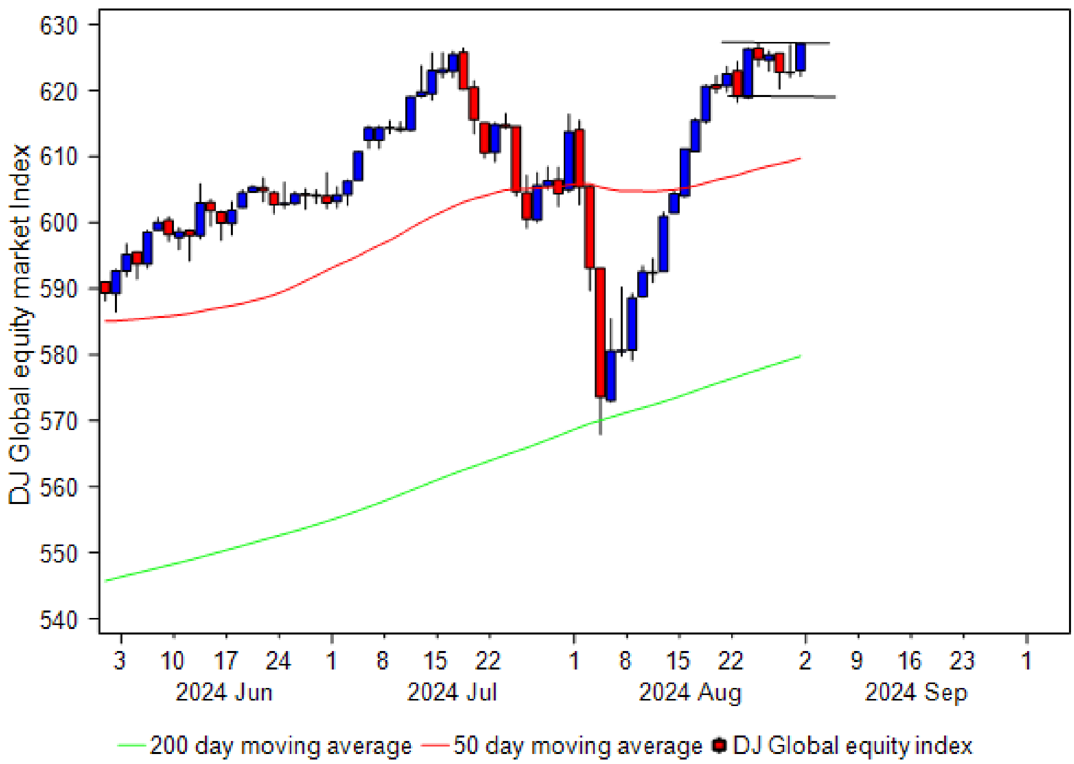
The team @ Longview Economics

FIG 1: Bitcoin futures shown with key moving averages

Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

FIG 1a: DJ Global equity index candlestick shown with its 50 & 200 day moving averages



Source: Longview Economics, Macrobond

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

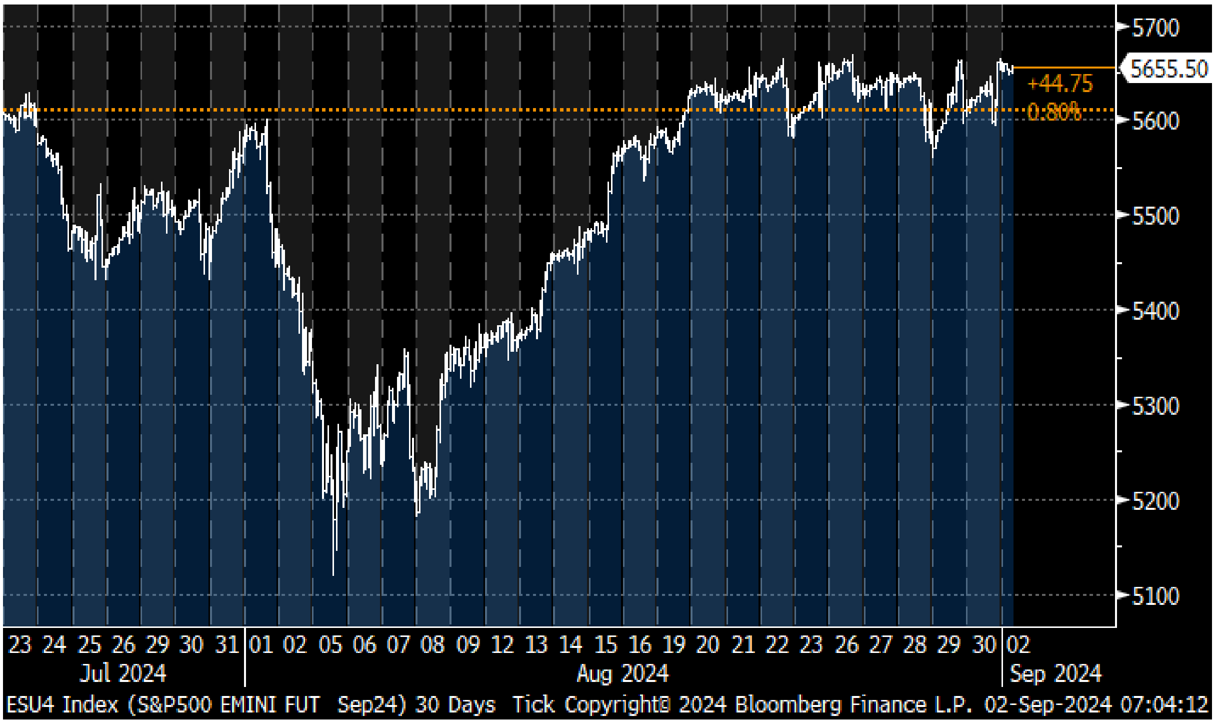
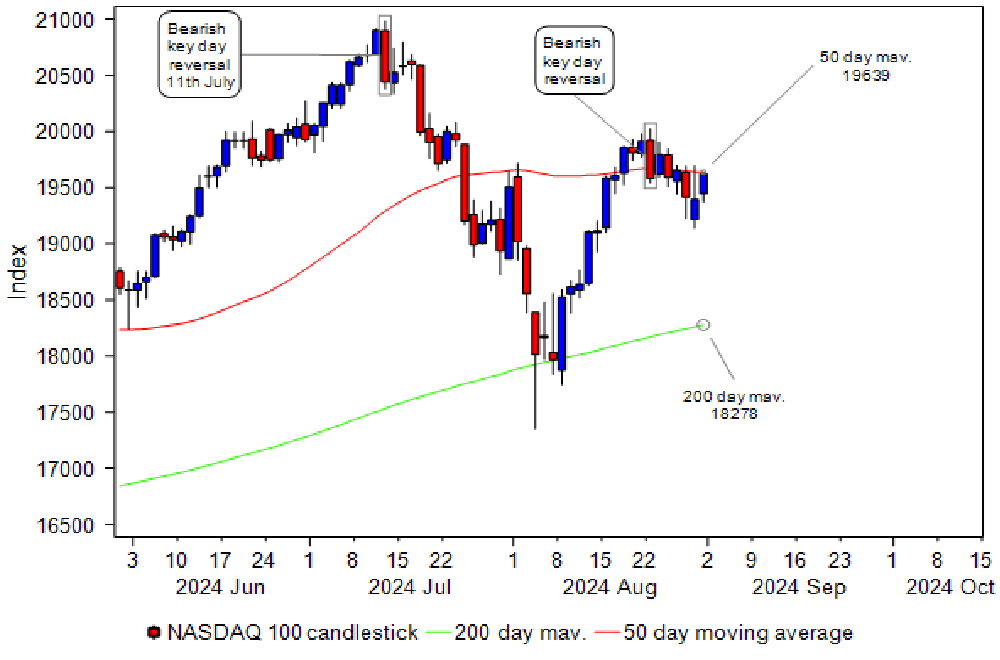


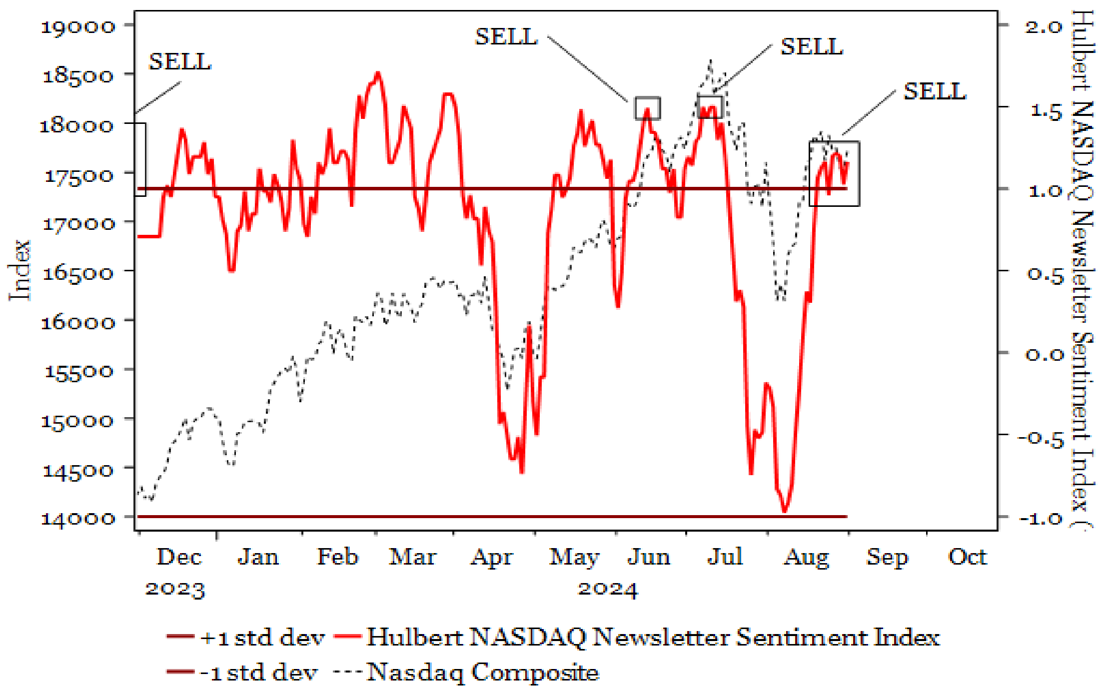
FIG 1c: NASDAQ100 futures candlestick shown with its 50 & 200-day moving averages



Source: Longview Economics, Macrobond

Tech centric models –> continue to roll over from SELL signals last week…

FIG 2: Hulbert NASDAQ sentiment index shown with NASDAQ composite index



Source: Longview Economics, Macrobond

FIG 2a: NDX100 overextended indicator (10 day moving average relative to underlying index price)

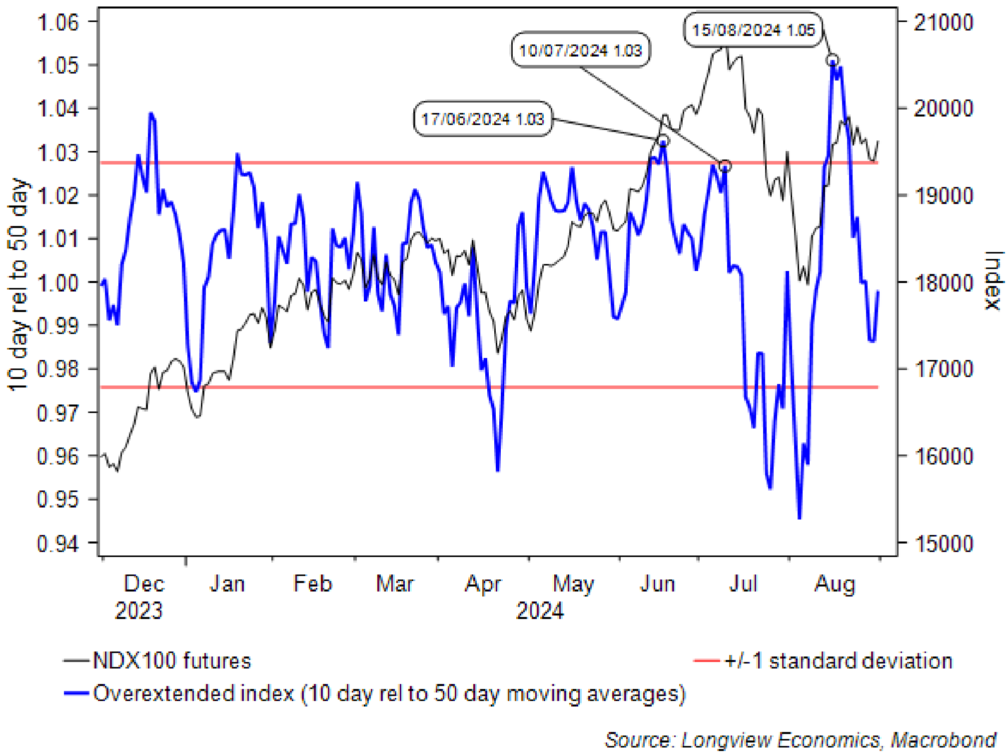


FIG 2b: Longview NDX100 & Philly SOX short term **'technical'** scoring systems vs. NDX100 futures

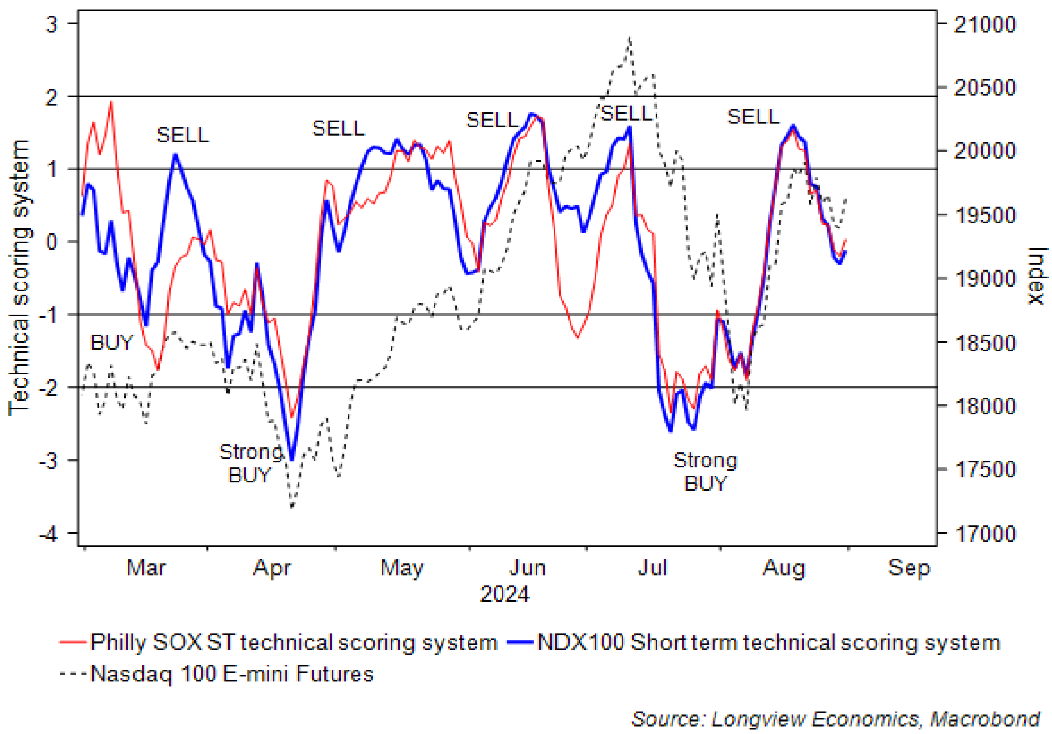
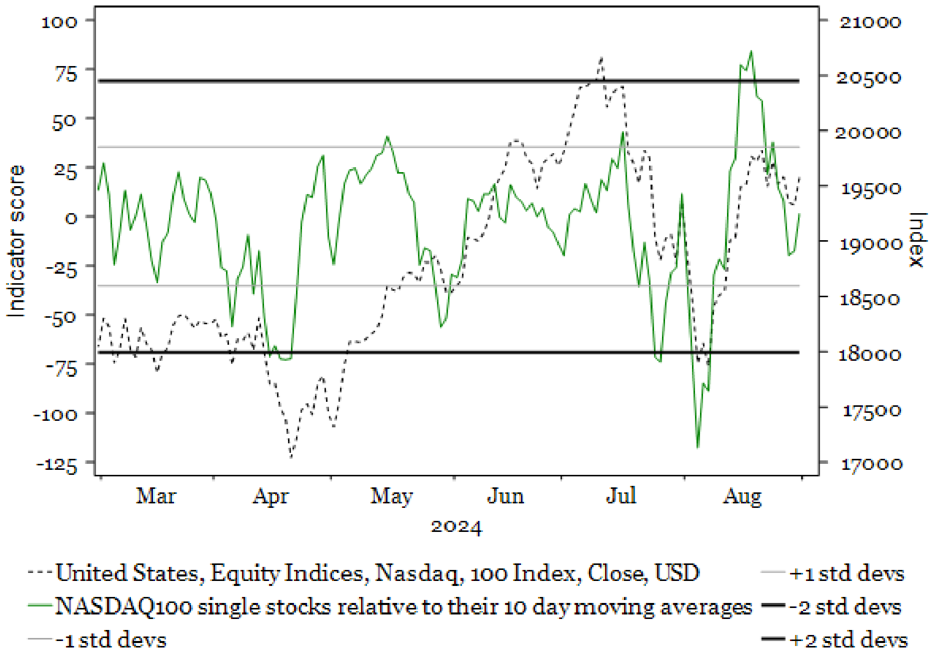


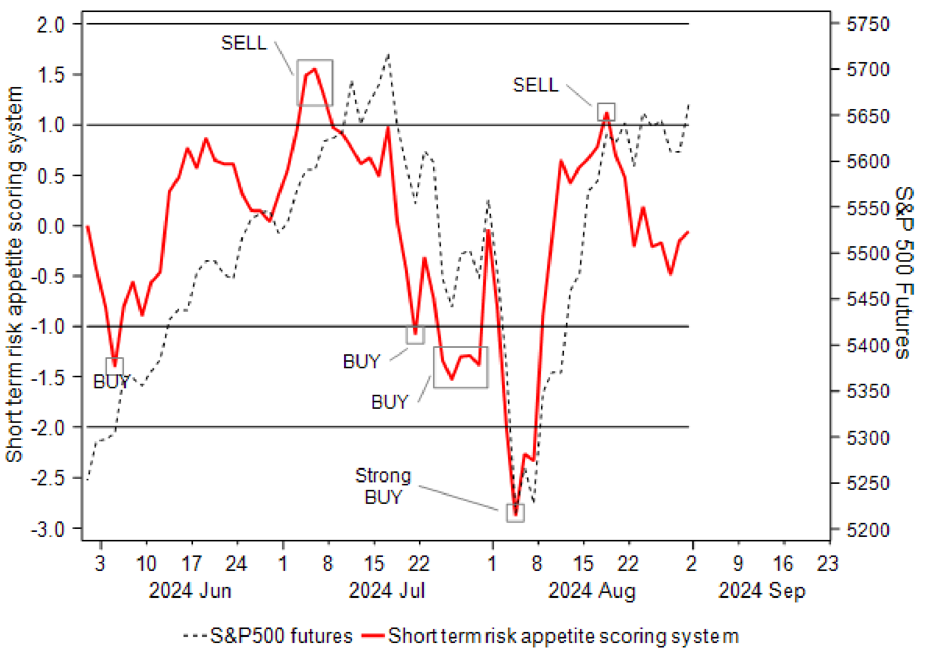
FIG 2c: NASDAQ100 single stocks relative to their 10 day moving averages (aggregated) vs. NDX100



Source: Longview Economics, Macrobond

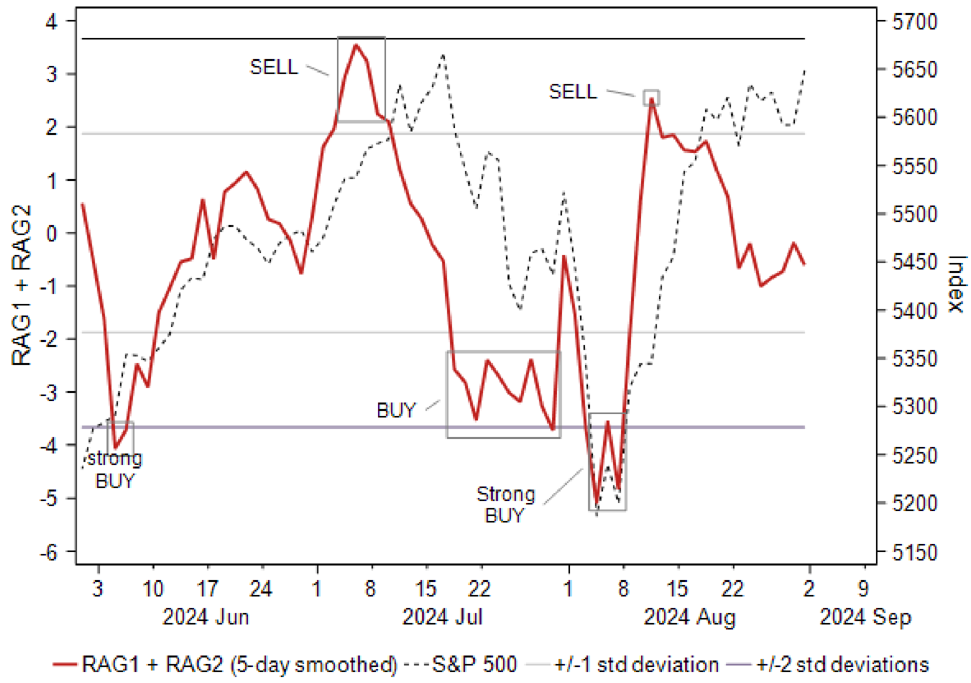
Key short term market timing models either remain on SELL or have rolled over from recent SELL signals....

FIG 3: Longview short term **'risk appetite'** scoring system vs. S&P500



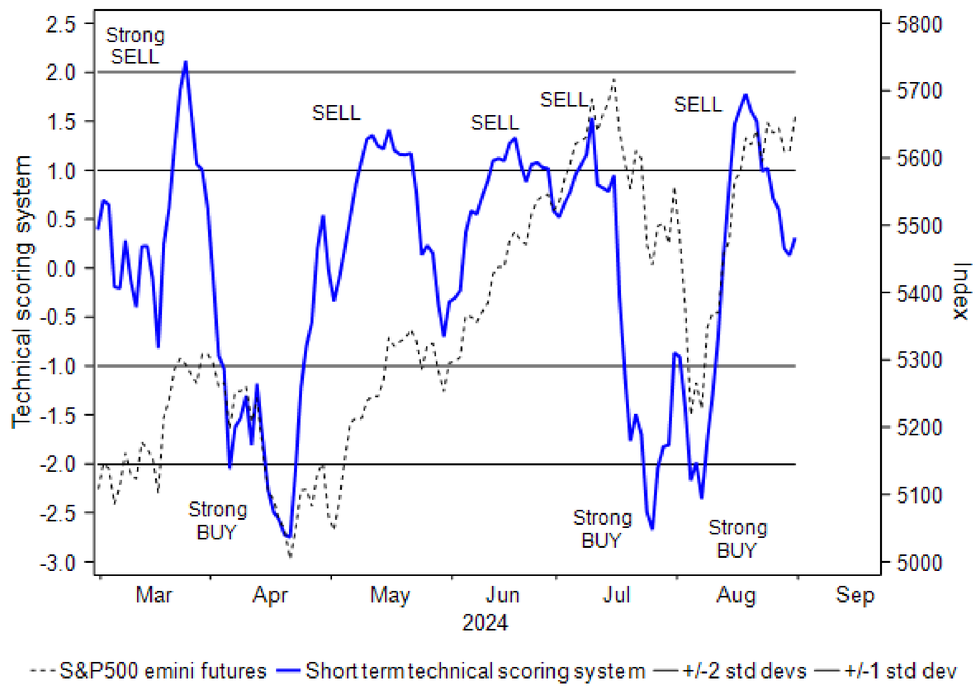
Source: Longview Economics, Macrobond

FIG 3a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500



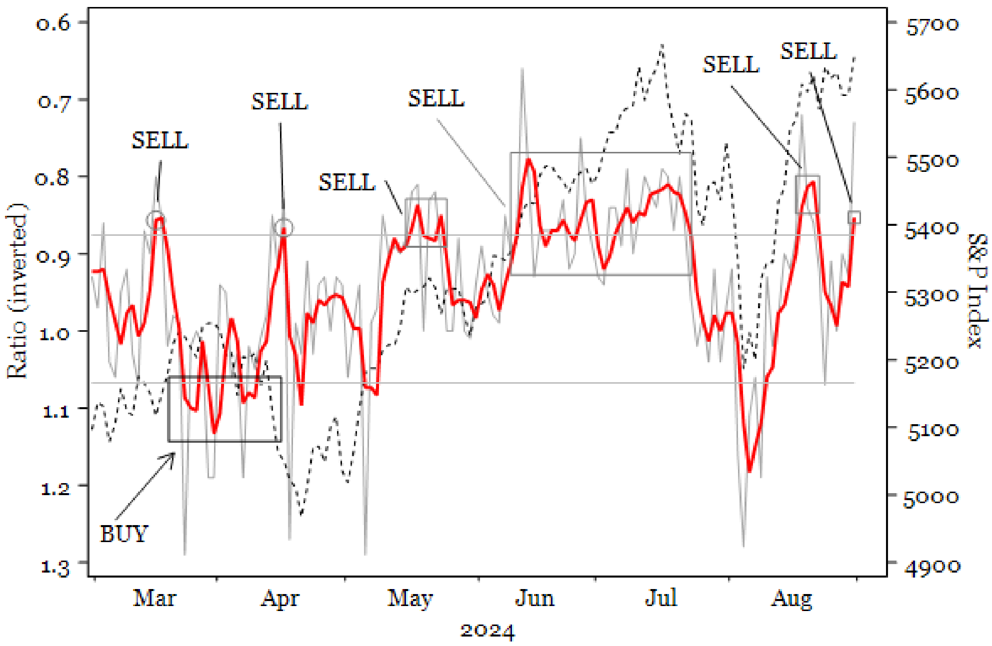
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

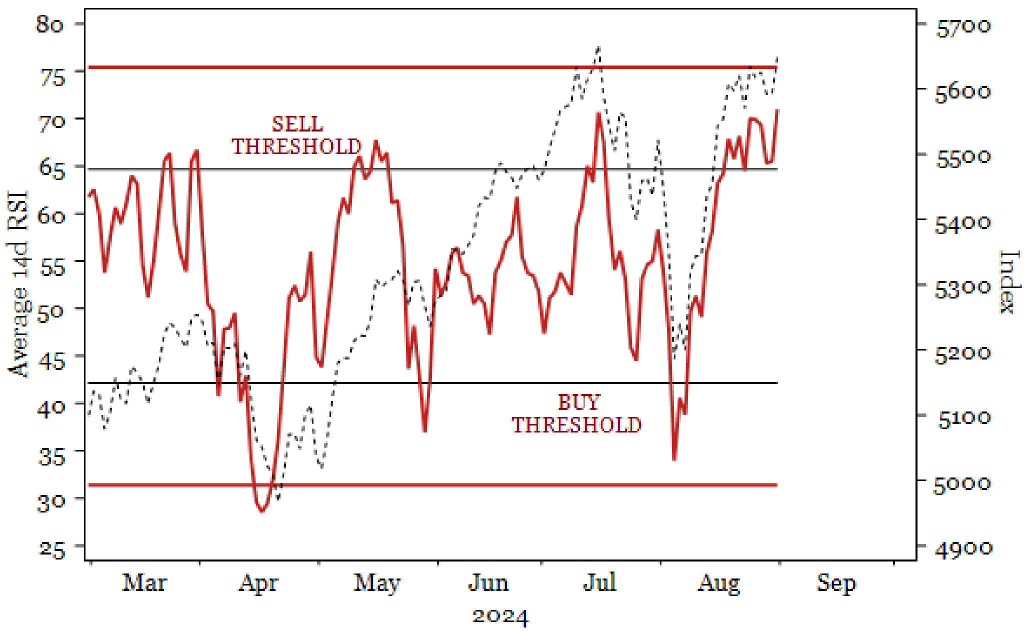
FIG 3c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



+/-1 std dev — CBOE put to call ratio (3-day smoothed) --- S&P 500

Source: Longview Economics, Macrobond

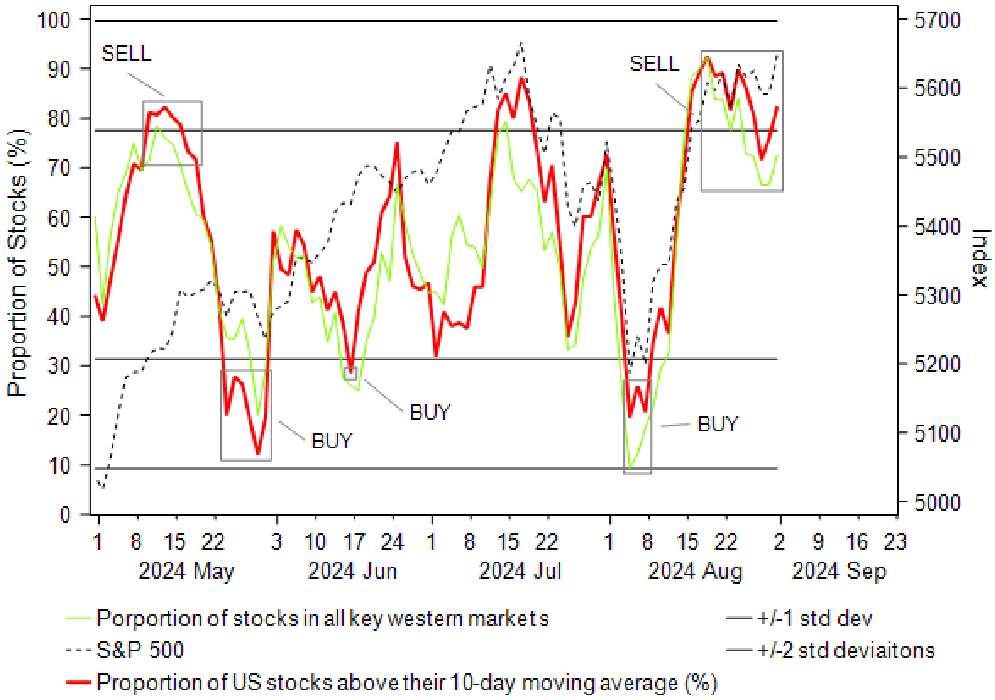
FIG 3d: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



--- S&P 500
— United States, Average 14d RSI of S&P500's 24 industry groups
— +/-2 std devs
— +/-1 std dev

Source: Longview Economics, Macrobond

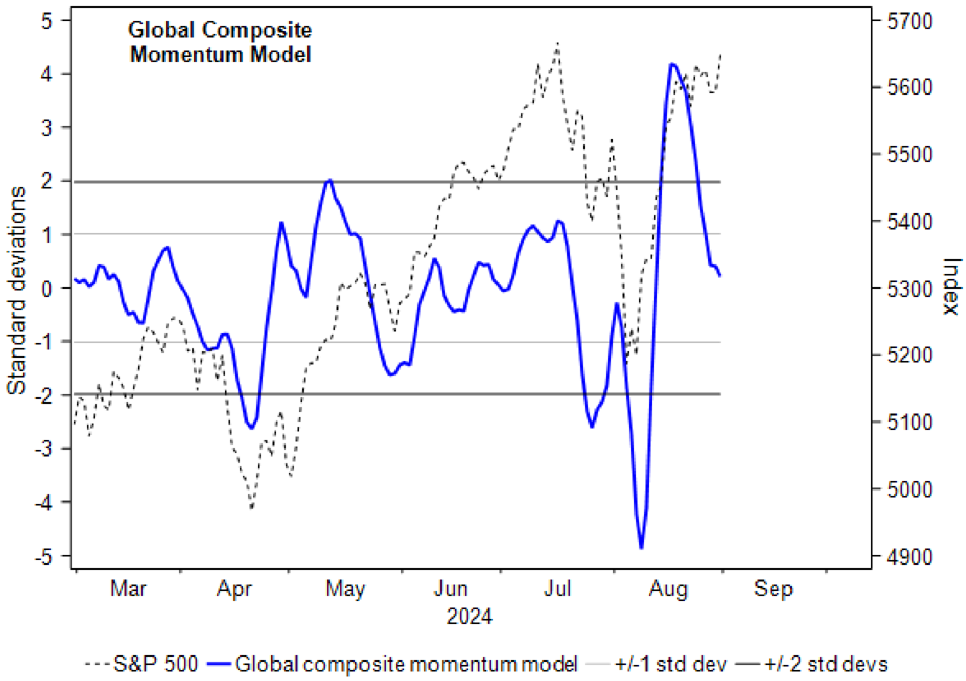
FIG 3e: Proportion of US stocks above their 10-day moving average vs. S&P500



Source: Longview Economics, Macrobond

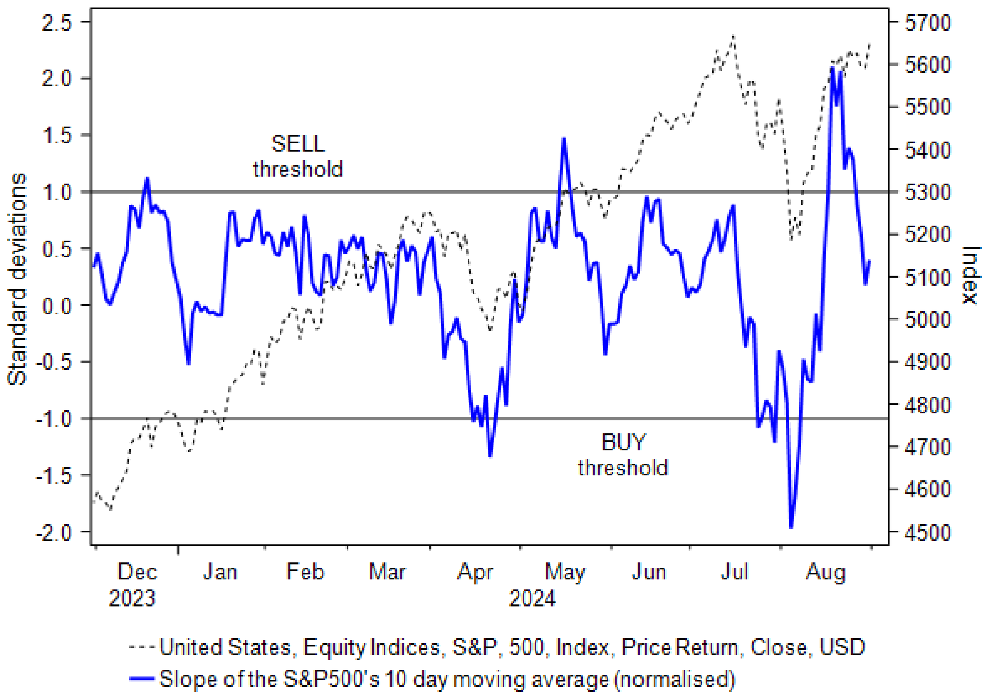
Momentum models are mostly rolling over from recent SELL signals.....

FIG 4: Longview global composite momentum model vs. S&P500



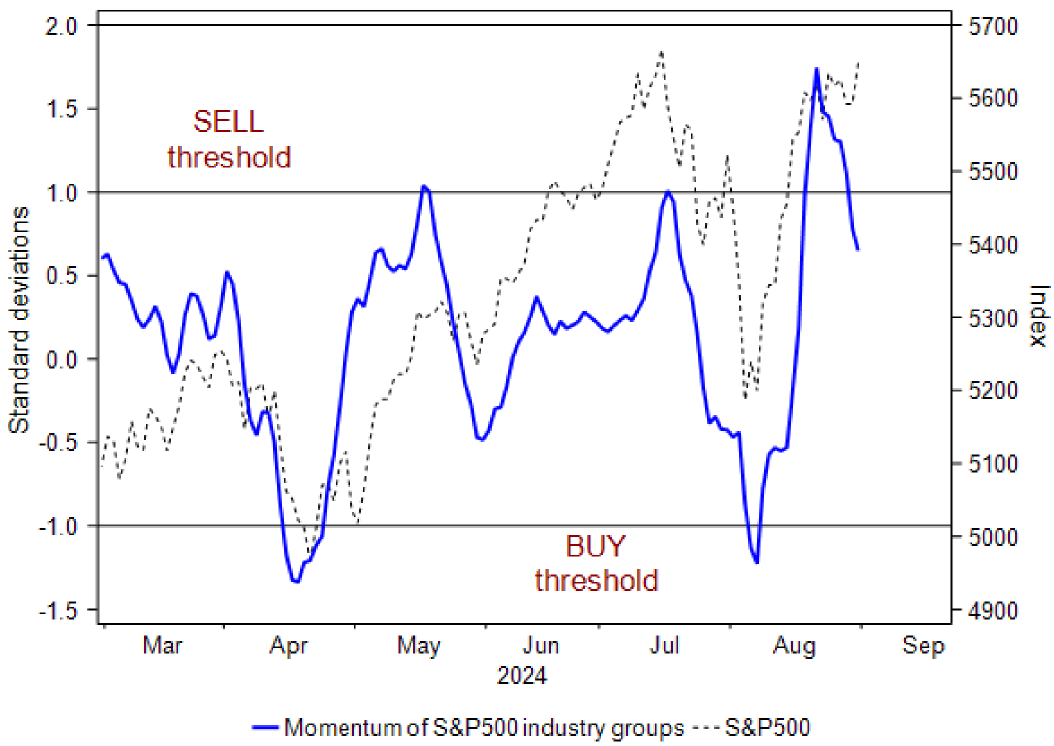
Source: Longview Economics, Macrobond

FIG 4a: S&P500 momentum model (i.e. slope of its 10 day mav. normalised) vs. S&P500



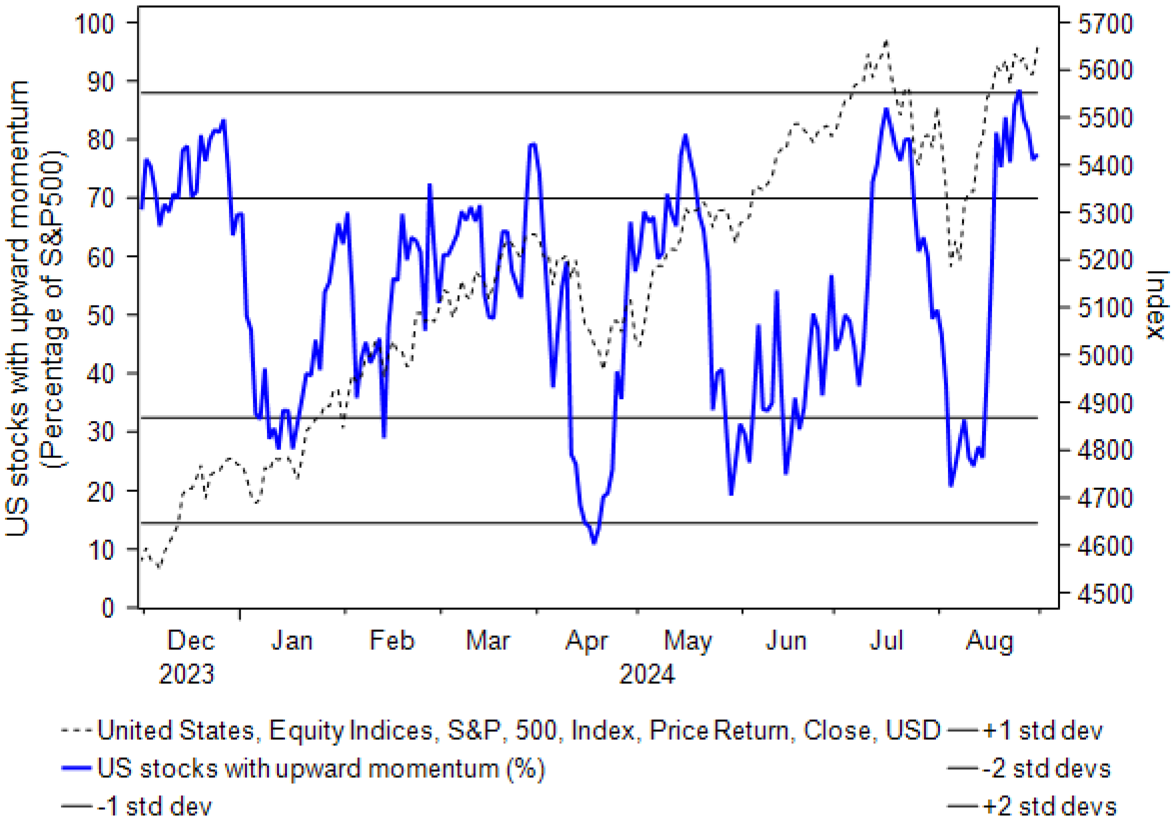
Source: Longview Economics, Macrobond

FIG 4b: Momentum of S&P500 industry groups vs. S&P500 cash index



Source: Longview Economics, Macrobond

FIG 4c: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500

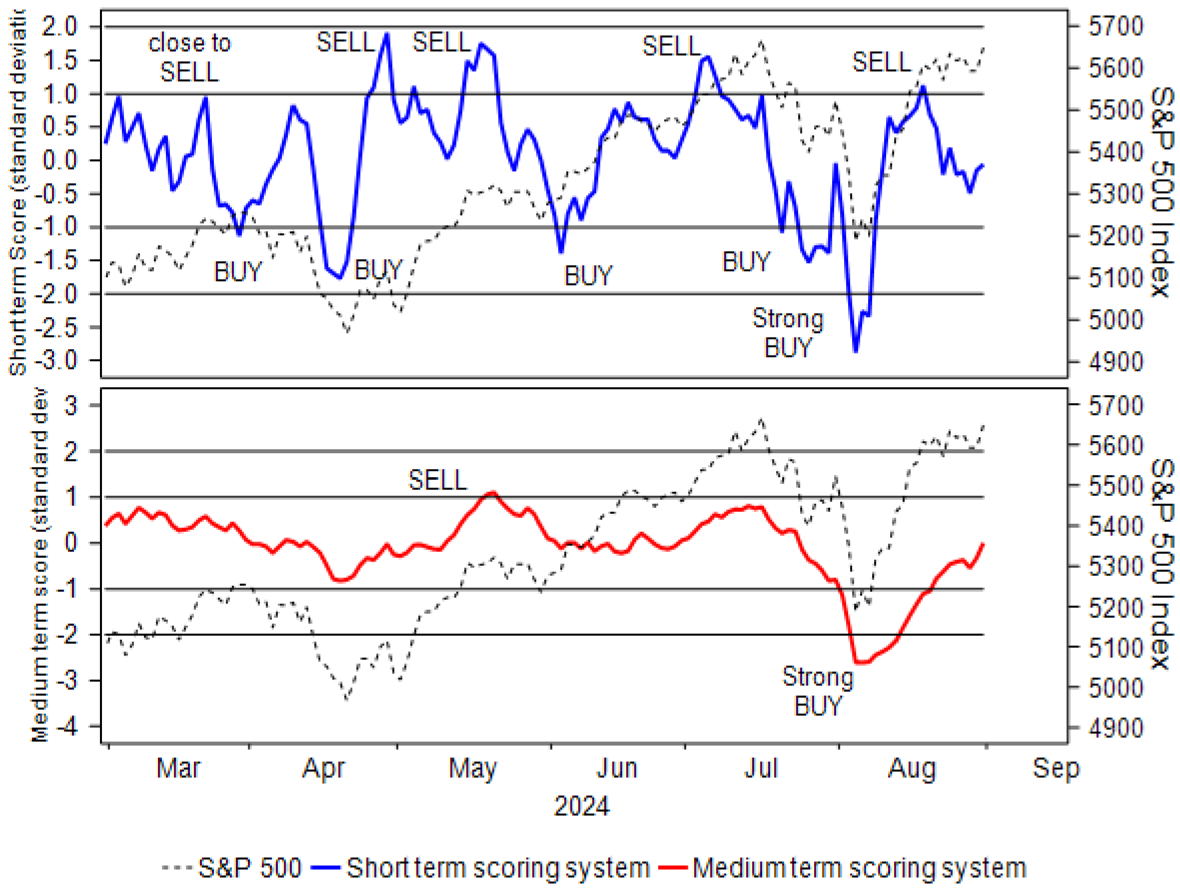


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

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

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 Judo Bank manufacturing sector PMI (August final estimate, 12am); Japanese capital spending & company sales (Q2, 12:50am); Japanese Jibun Bank manufacturing sector PMI (August final estimate, 1:30am); Australian headline CPI (Aug, 2am); Australian inventories & company profits (Q2, 2:30am); Australian ANZ-Indeed job advertisements (Aug, 2:30am); Australian building approvals (Jul, 2:30am); Australian private sector houses (Jul, 2:30am); **Chinese Caixin manufacturing sector PMI** (Aug, 2:45am); HCOB manufacturing sector PMIs for Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all August final estimates apart from Italy; UK S&P manufacturing sector PMI (August final estimate, 9:30am); Italian PPI (Jul, 10am); Italian new car sales (Aug, 5pm).

Key events today include: Market holiday in the US & Canada on account of Labour Day.

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 6th August 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

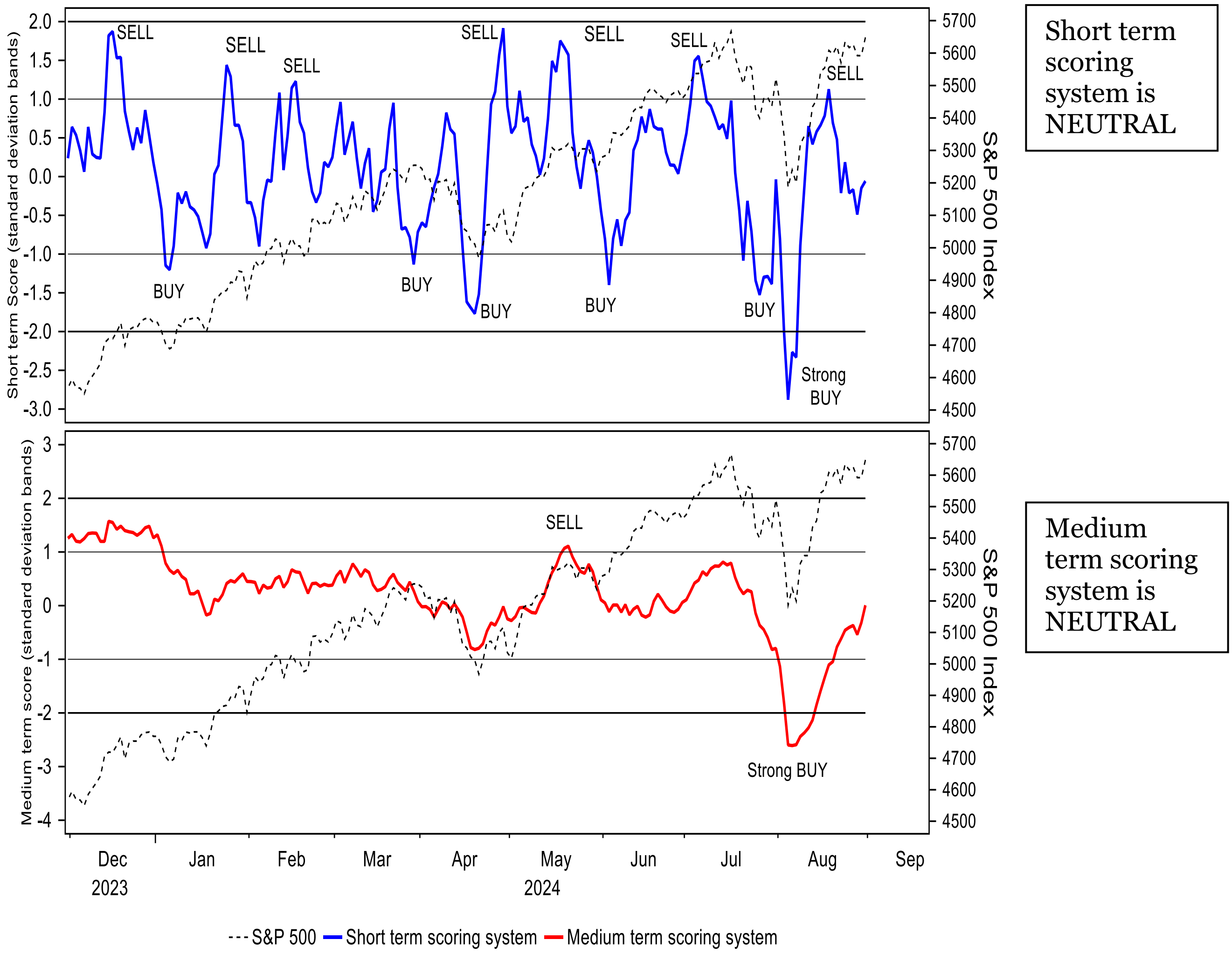
1 – 2 Week View on Risk

2nd 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



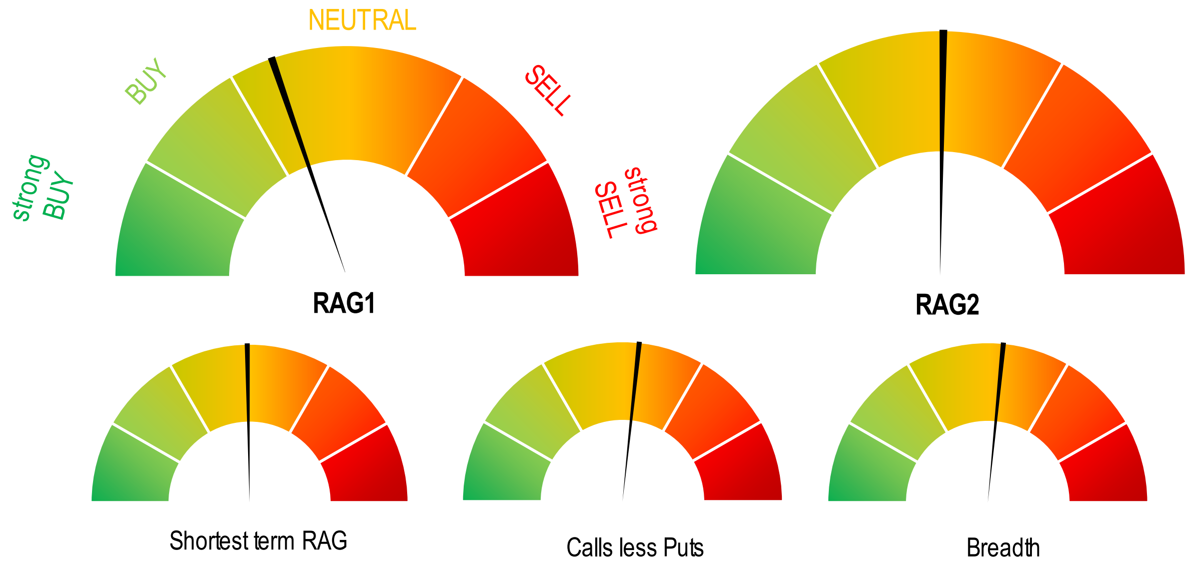
Source: Longview Economics, Macrobond

*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

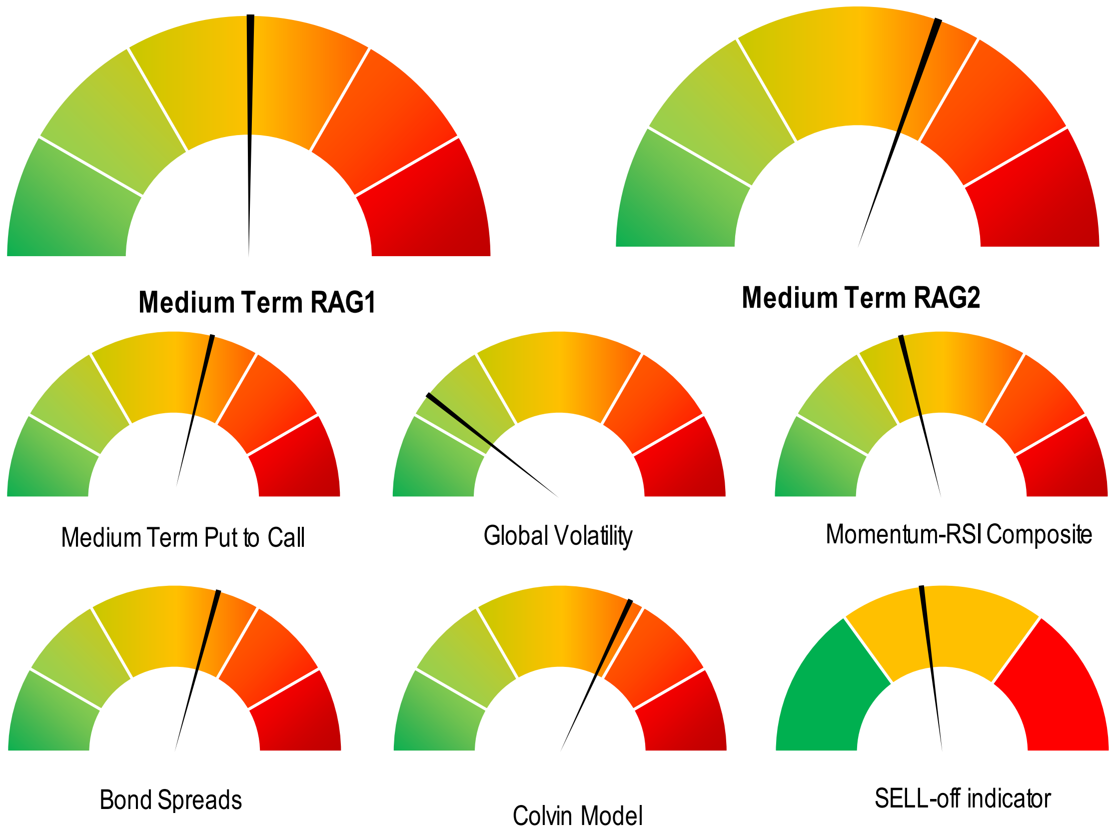
Section 1a: Summary of indicator signals**

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

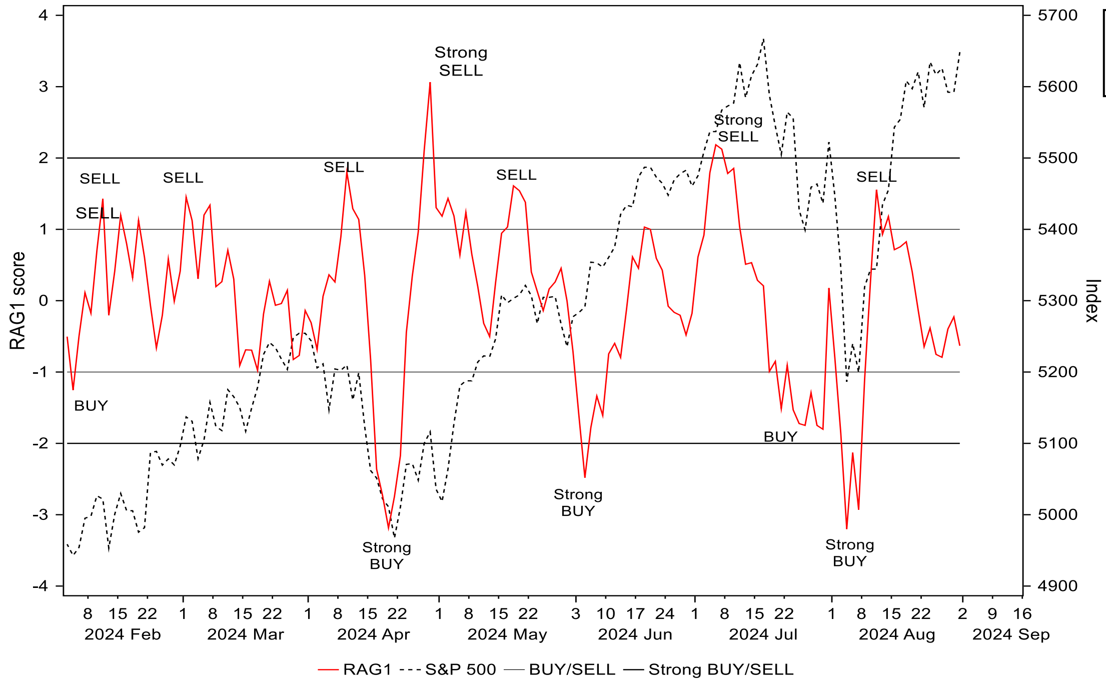


Source: *Longview Economics*

**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

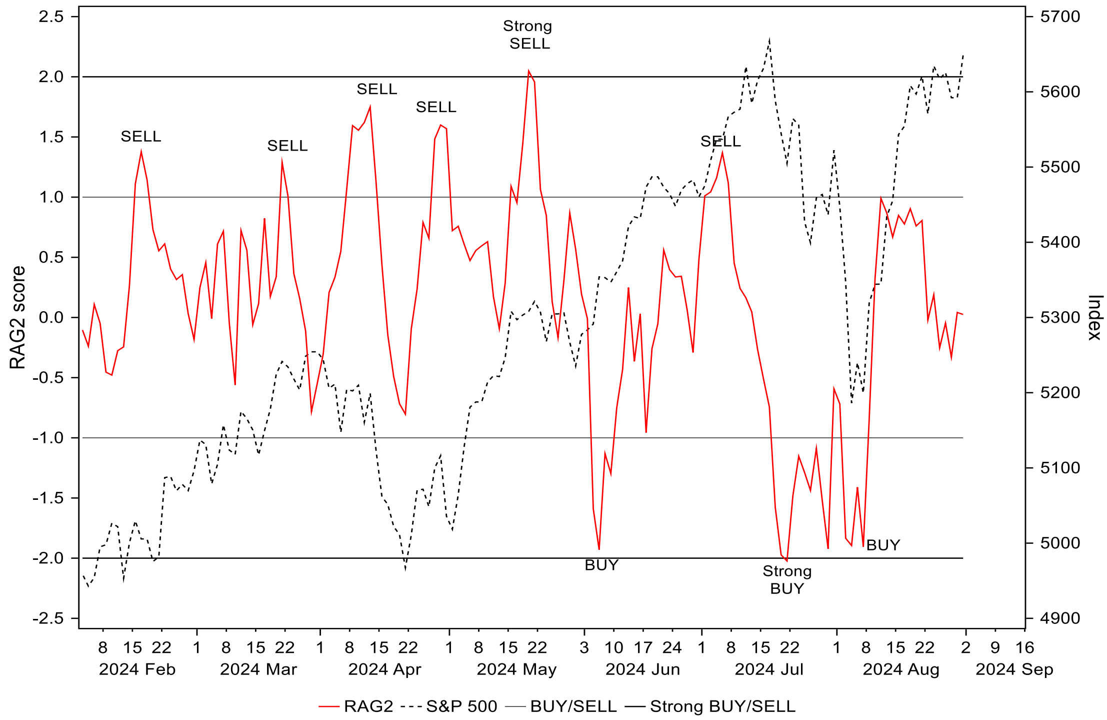
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

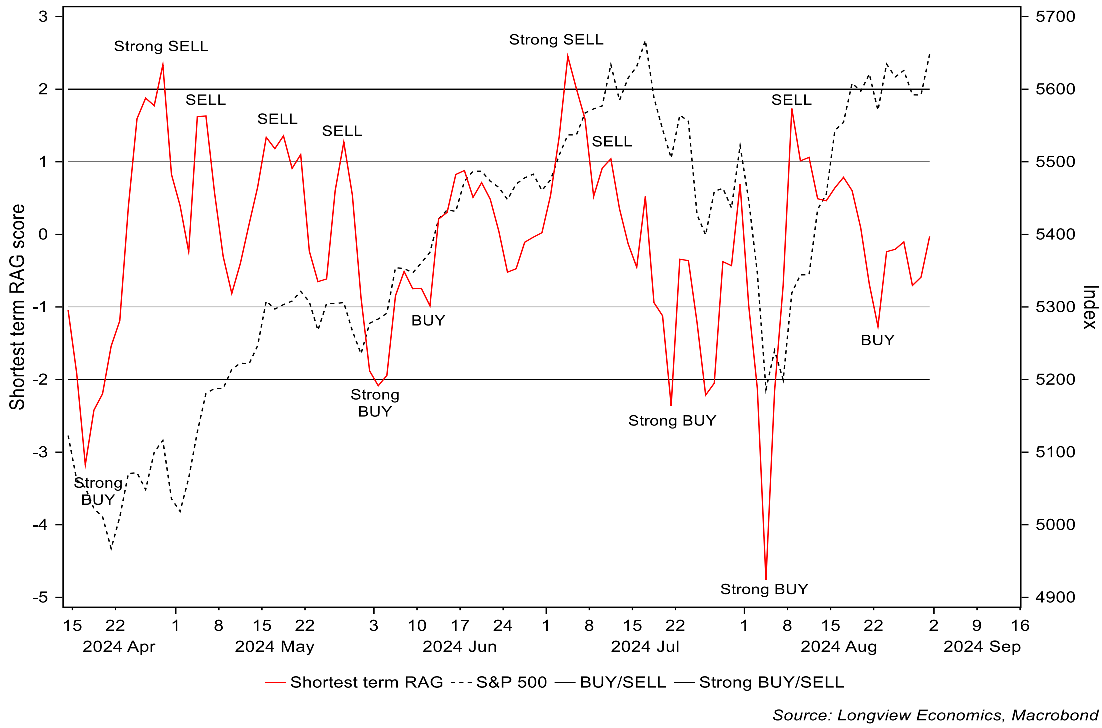


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

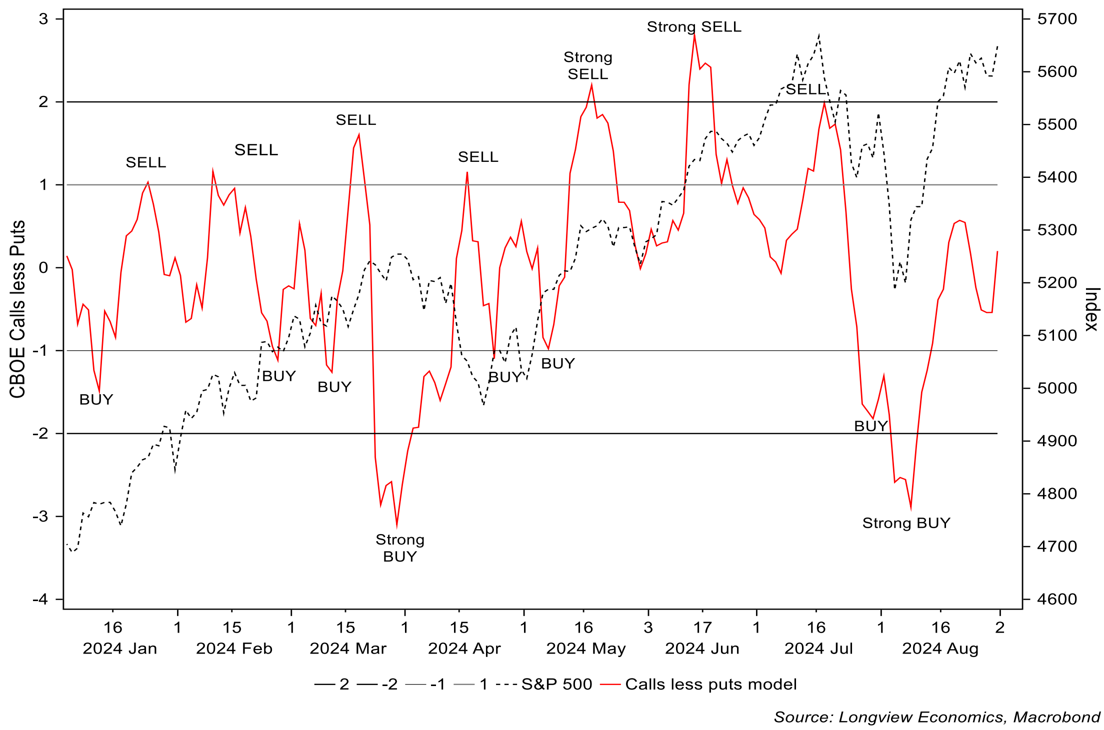
For explanations of indicators please see page 10

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



Shortest term RAG is NEUTRAL

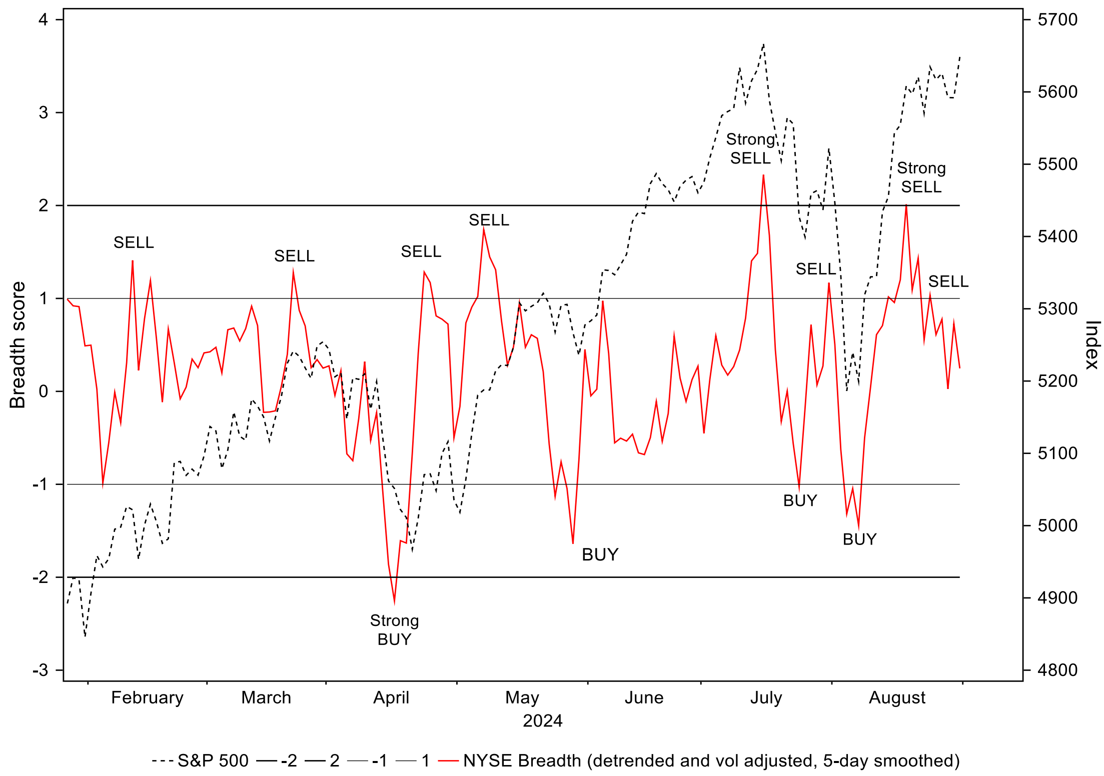
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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



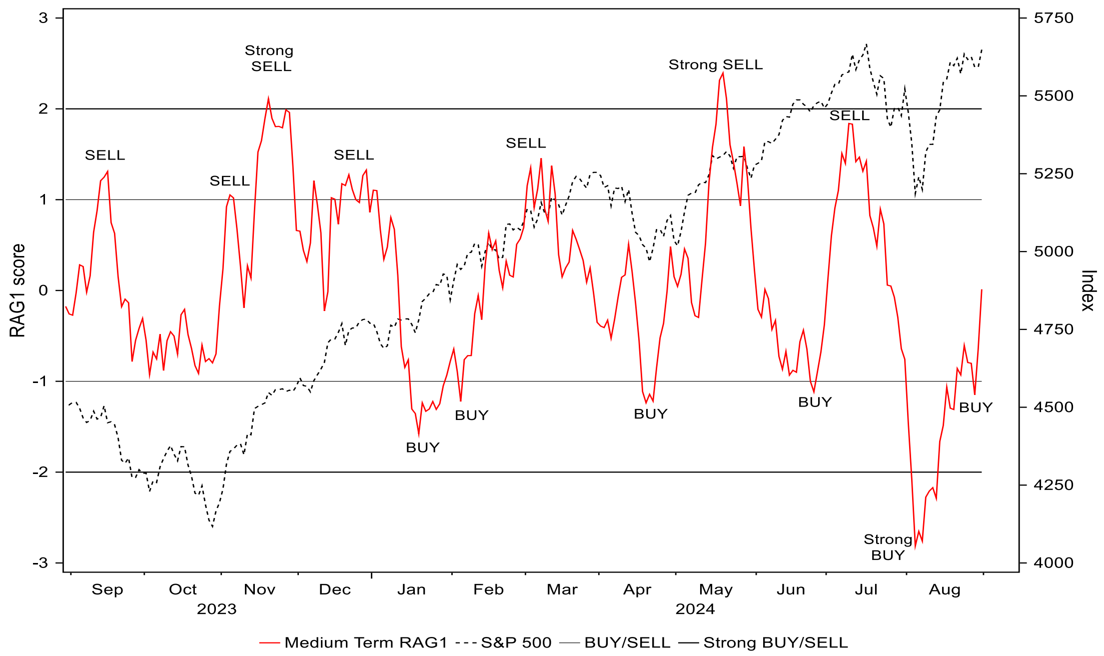
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

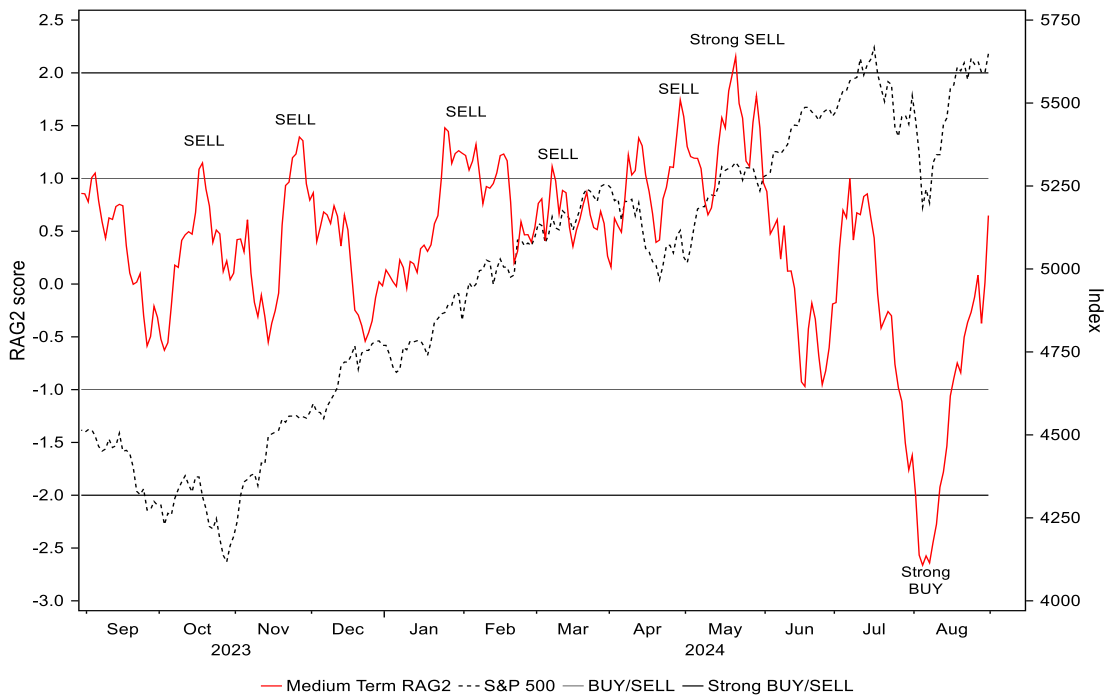
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

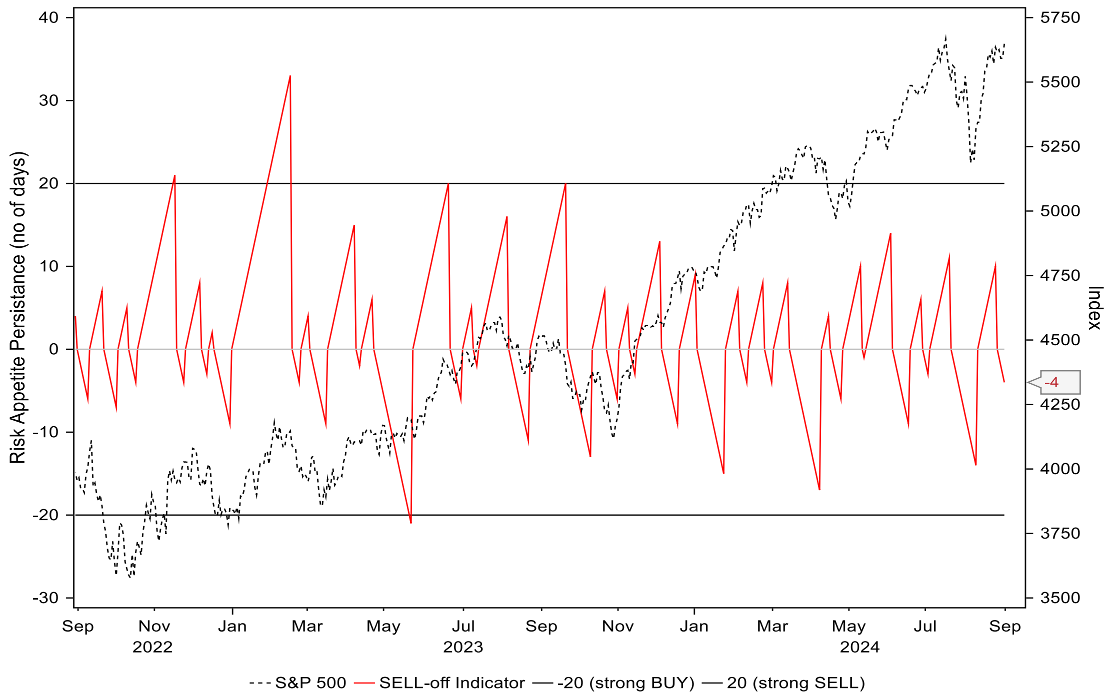


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

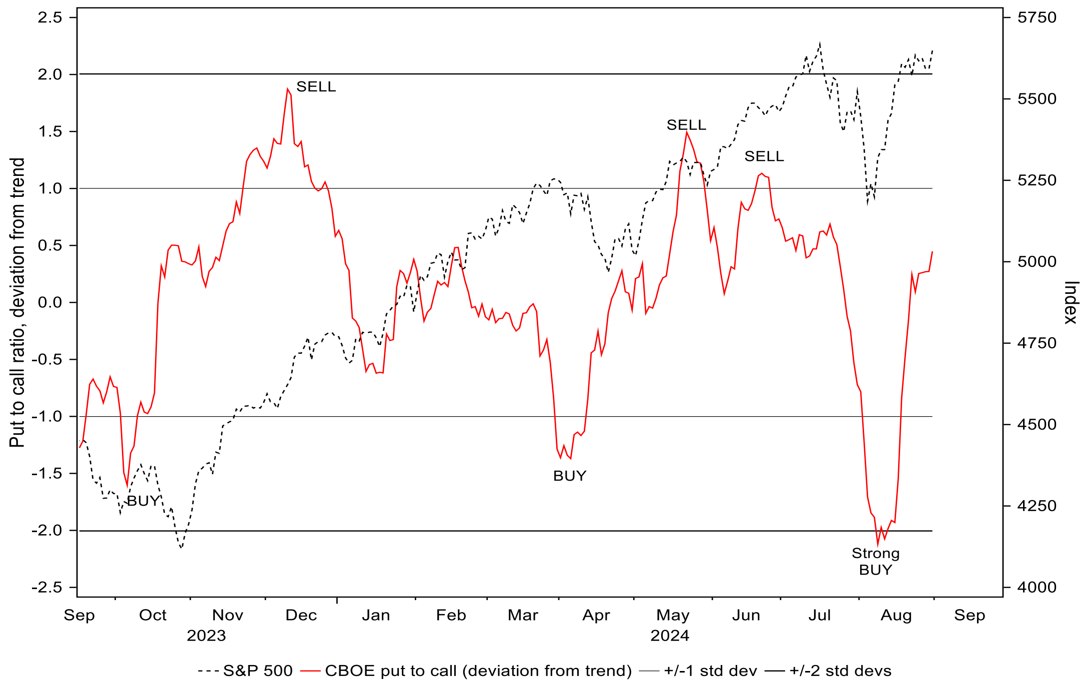
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

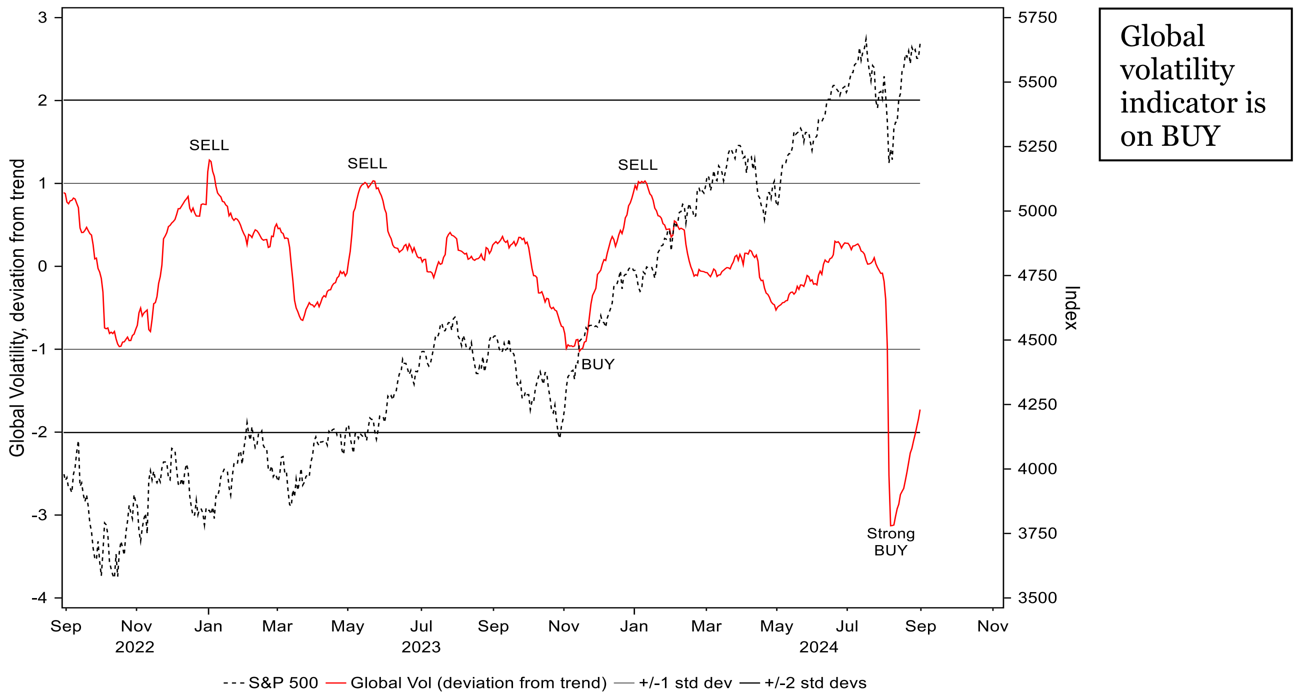


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

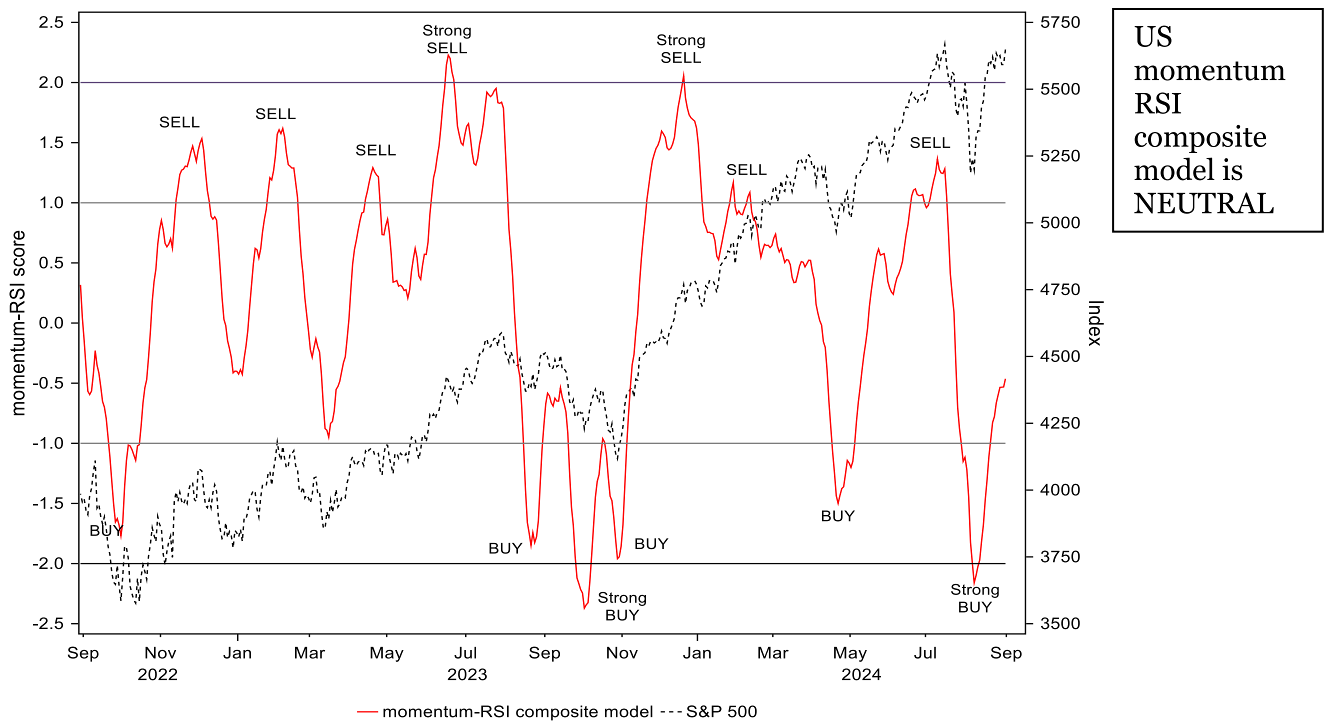
For explanations of indicators please see page 10

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



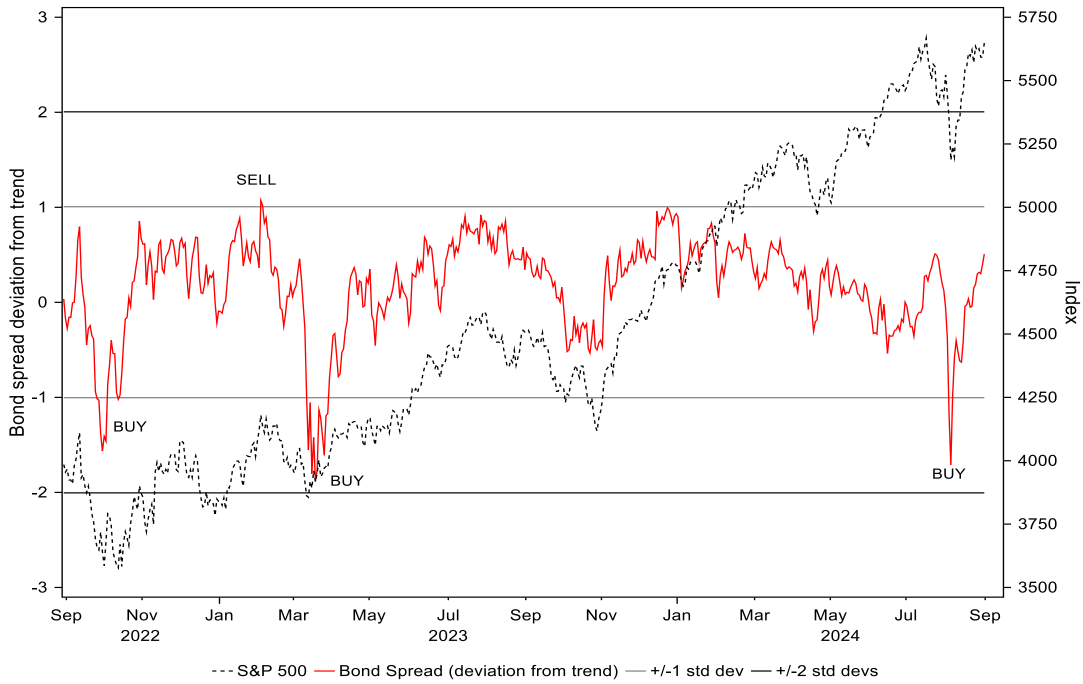
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

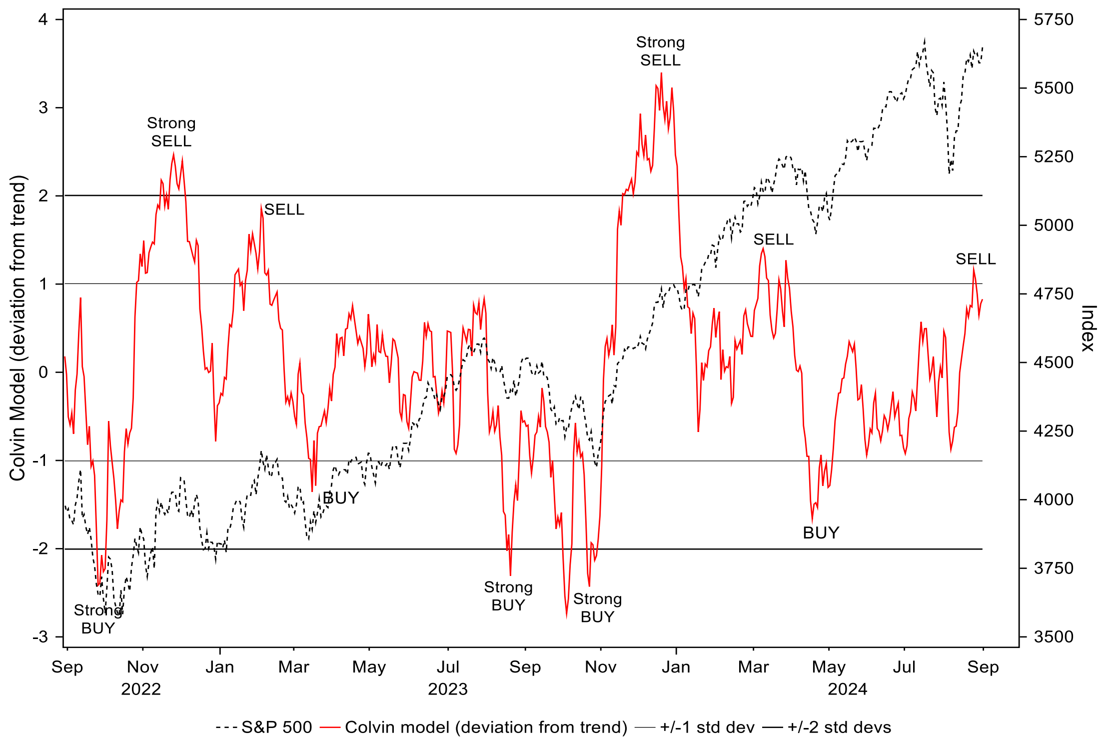
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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