Equity Index Futures Trading Recommendations

30th October 2024

"Stay SHORT SPX - unchanged stop"

Email: info@longvieweconomics.com

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

- Stay 1/3rd 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 mixed yesterday. In particular, the 'growth heavy' parts of the market performed well, with strong gains in the NASDAQ100 (+1.0%); Nasdaq Computer Index (+1.3%); and the Philly SOX (+2.3%). The 'cyclical' and 'defensive' parts of the market, in contrast, performed poorly, e.g. with the NASDAQ Banks (-0.6%) and DJ Utilities (-2.0%) closing lower.

That's been a key sector theme within the S&P500 in recent weeks. That is, cyclicals and defensives have trended lower since mid-October, while long duration growth stocks have pushed higher (FIG 1). That theme continued after hours yesterday, with stronger than expected earnings from Google (and a new high in NASDAQ100 futures, see FIG 1b). More cyclically sensitive indices are flat/down in the past 24 hours (e.g. the DJIA and Russell 2000).

Given its broader sector mix (compared to the NDX), the S&P500 has remained within its sideways trading range of recent weeks (i.e. between 5,801.00 and 5,927.25), see FIG 1a. The key question, therefore, is: **Which way will it break out of that range?** And when?

In our view the S&P500 should break to the downside.

In particular, **the SELL-off indicator continues to march higher**. This morning it's on a reading of +33. At readings of +20 and above, this indicator warns of a wave of risk aversion in global markets. The track record of those warning signals is reasonably strong, and is examined in our latest tactical equity asset allocation research.

Other medium term models are also warning of a pullback in equities. That includes equity market sentiment (which is bullish, and generating a contrarian SELL signal, i.e. for tech stocks, see FIG 1d), as well as our medium term risk appetite scoring system (see FIG 1e). Short term models retain a more mixed message. Of note, our key risk appetite models have recently generated SELL signals (see FIGs 2 & 2a), while other short term (technical) models have rolled over (FIGs 3 – 3b).

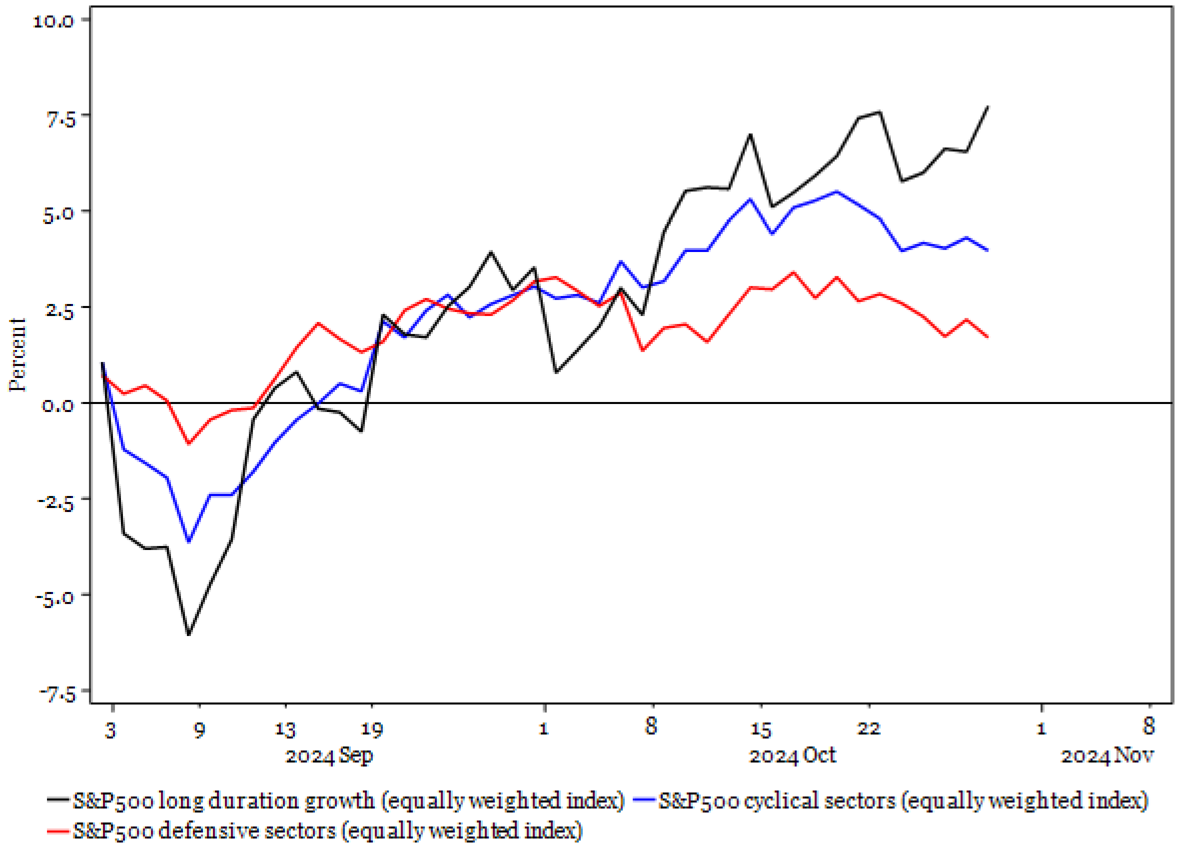
On balance therefore the **risk reward favours staying SHORT SPX futures** (for now). Please see above for detailed recommendation.

Risks, as always, are multiple and include the potential for tech stocks to squeeze higher on better than expected earnings (NB Microsoft and Meta both report earnings later today). Other key (two way) risks include today's US macro data (ADP employment for October, due 12:15pm London time, as well as the first estimate of Q3 GDP, due at 12:30pm). Please see below for a full list of today's key macro data and events.

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 index – divided into cyclicals, defensives and long duration growth (% performance, last two months)



Source: Longview Economics, Macrobond

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

FIG 1b: NASDAQ100 futures 30-day tick chart shown with overnight price action

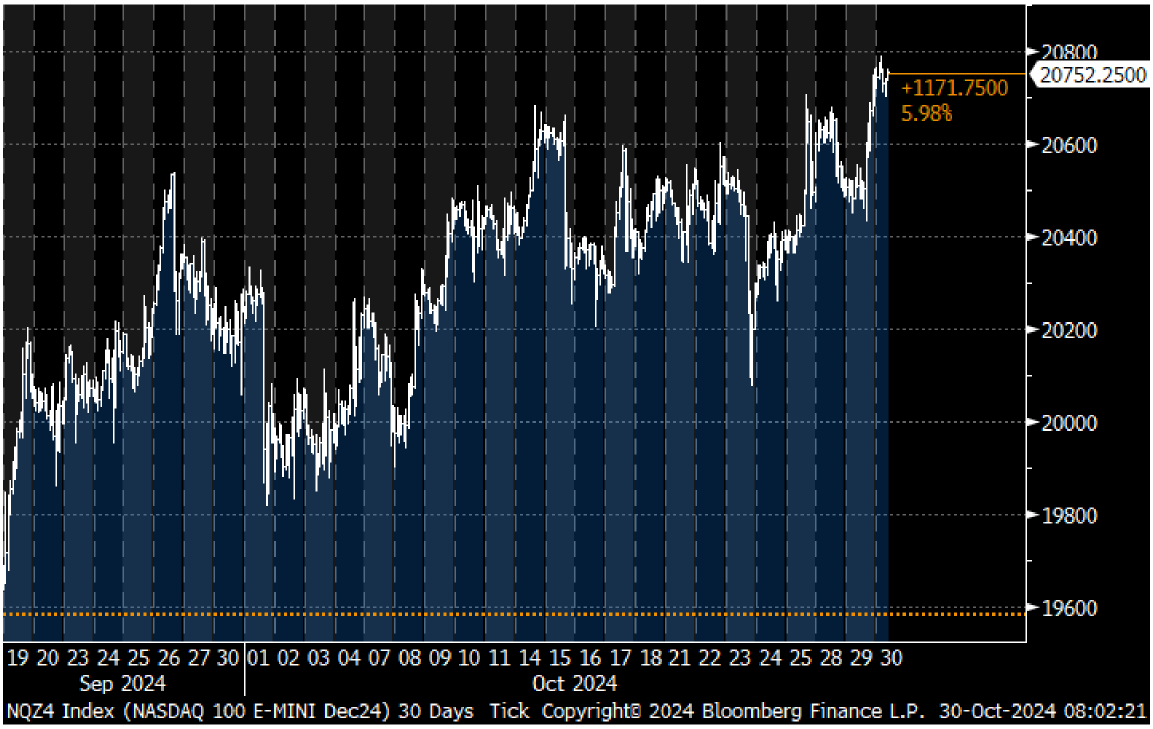
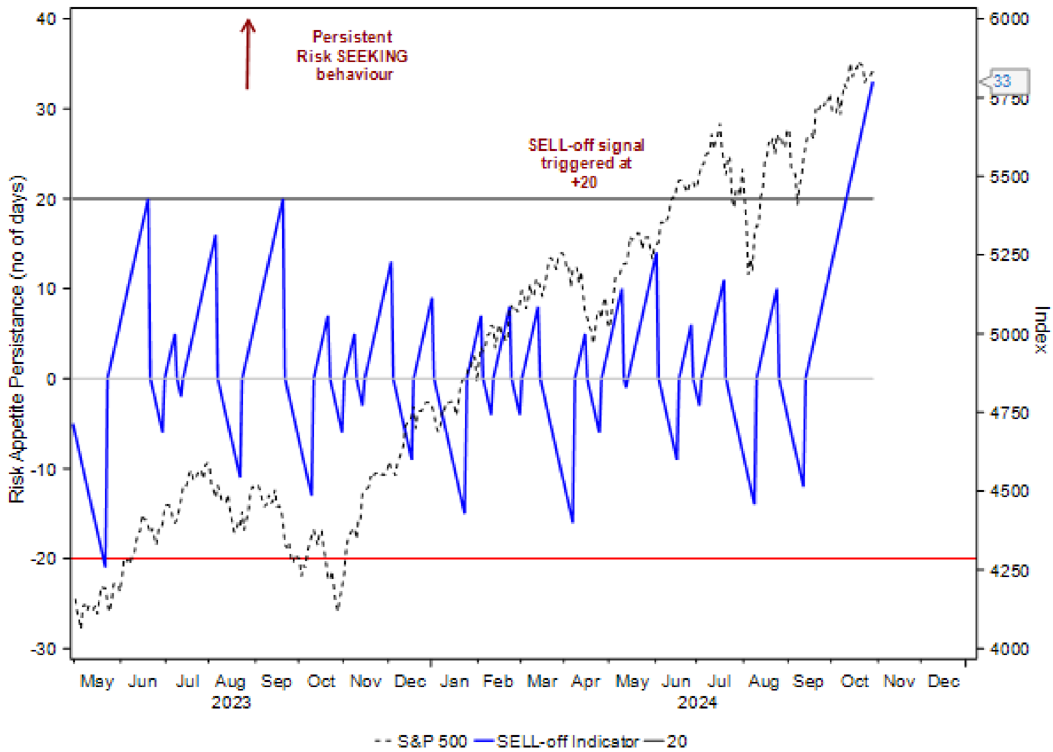
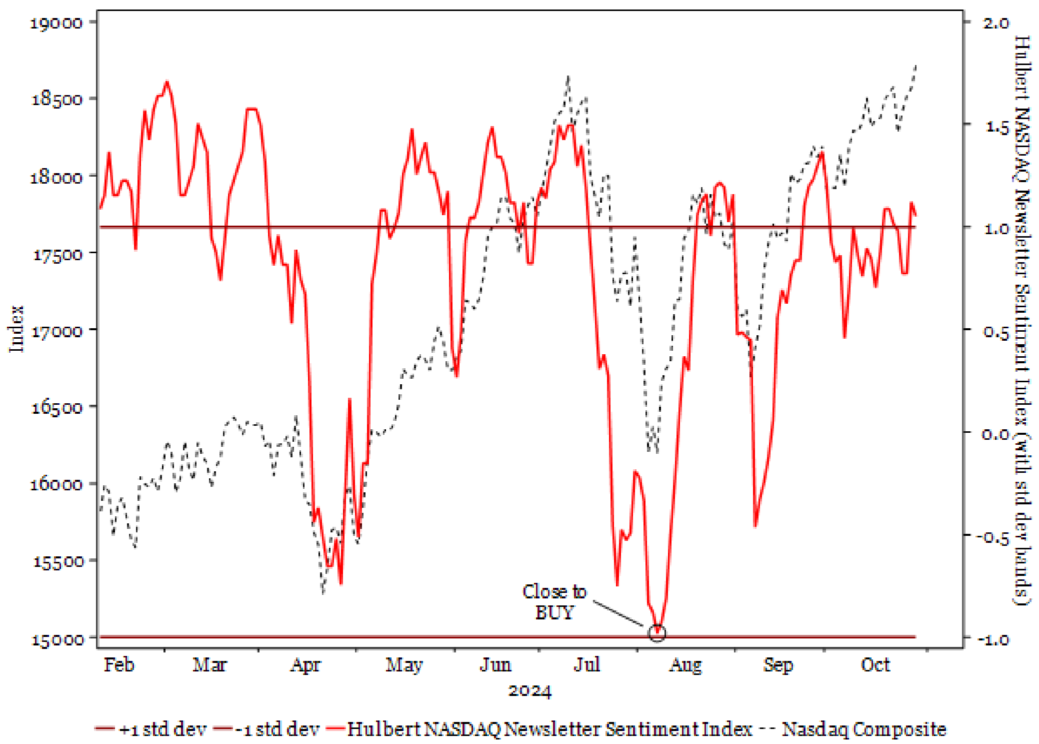


FIG 1c: Longview SELL-off indicator vs. S&P500



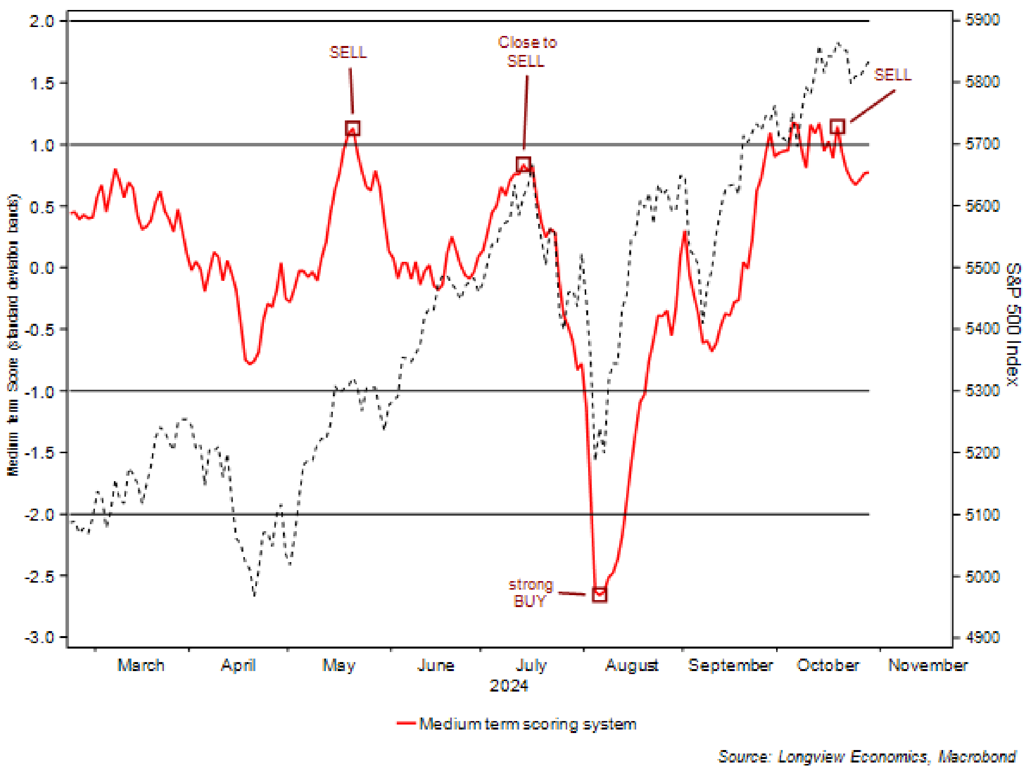
Source: Longview Economics, Macrobond

FIG 1d: Hulbert NASDAQ sentiment index shown with NASDAQ composite index



Source: Longview Economics, Macrobond

FIG 1e: Medium term **'risk appetite'** scoring system vs. S&P500



Short-term risk appetite models have recently generated SELL signals……

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

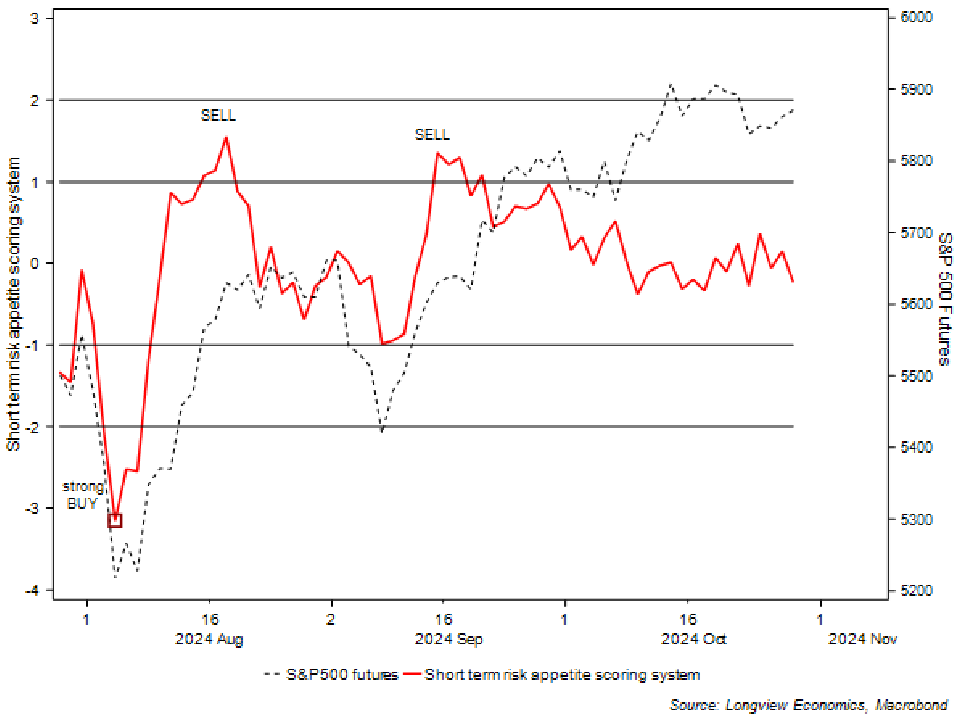


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

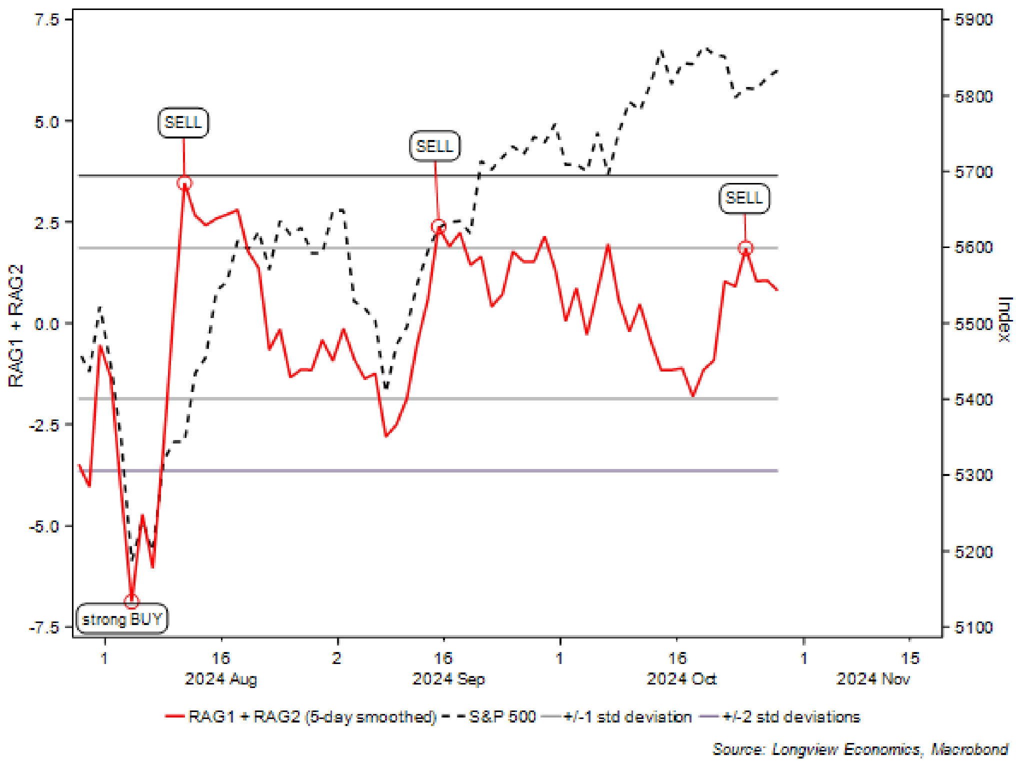


FIG 2b: Longview **shortest term 'risk appetite'** scoring system vs. S&P500

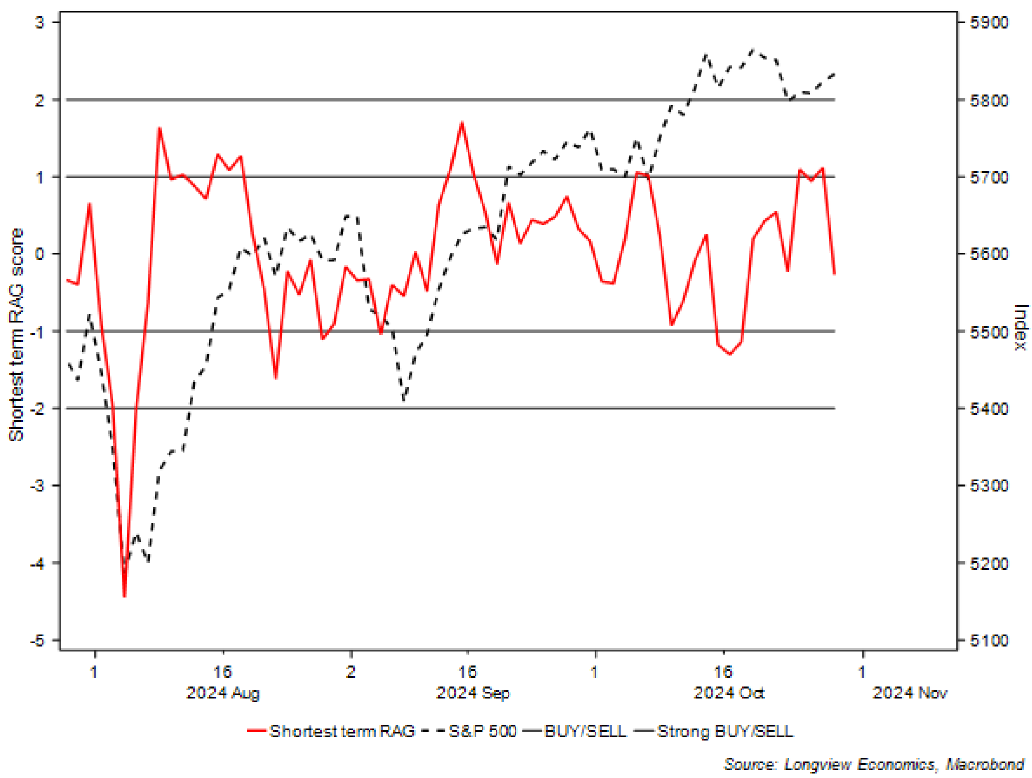
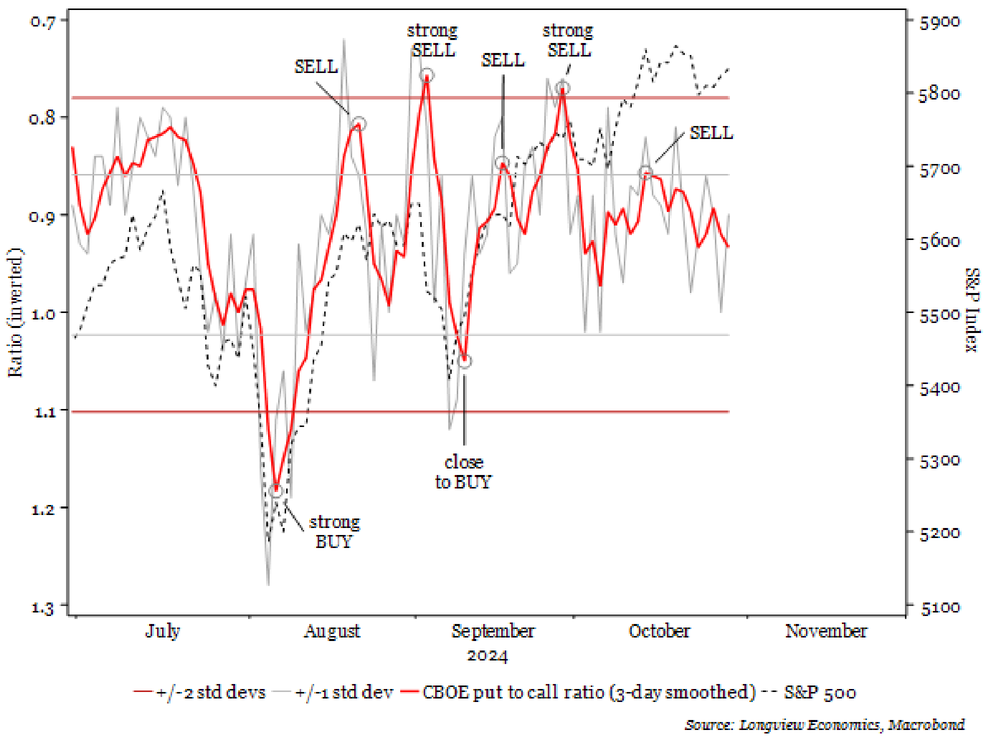


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Short term technical models have rolled over…

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

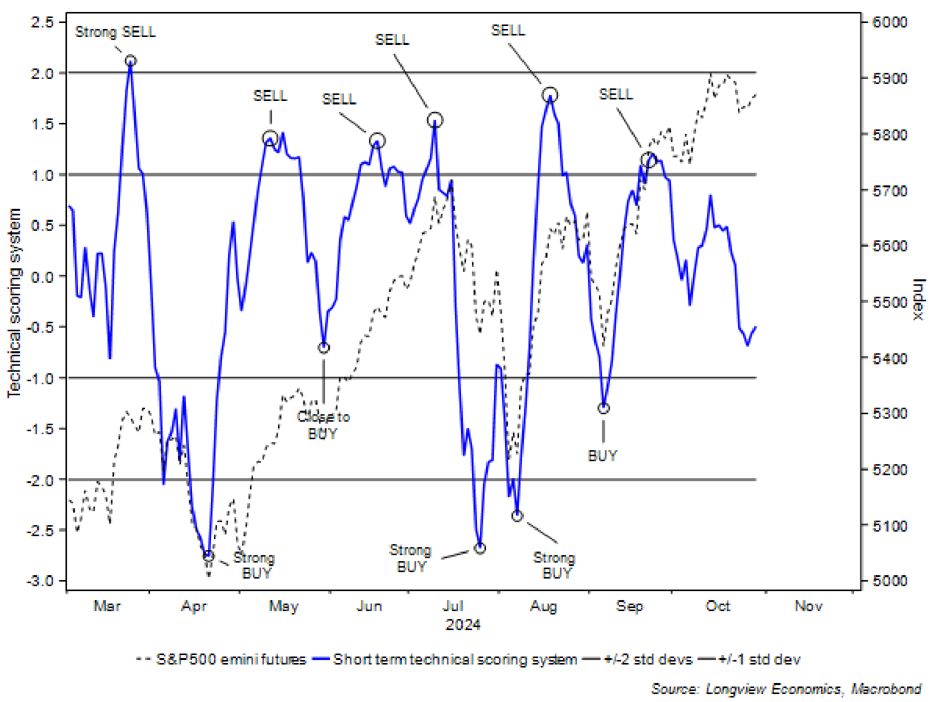
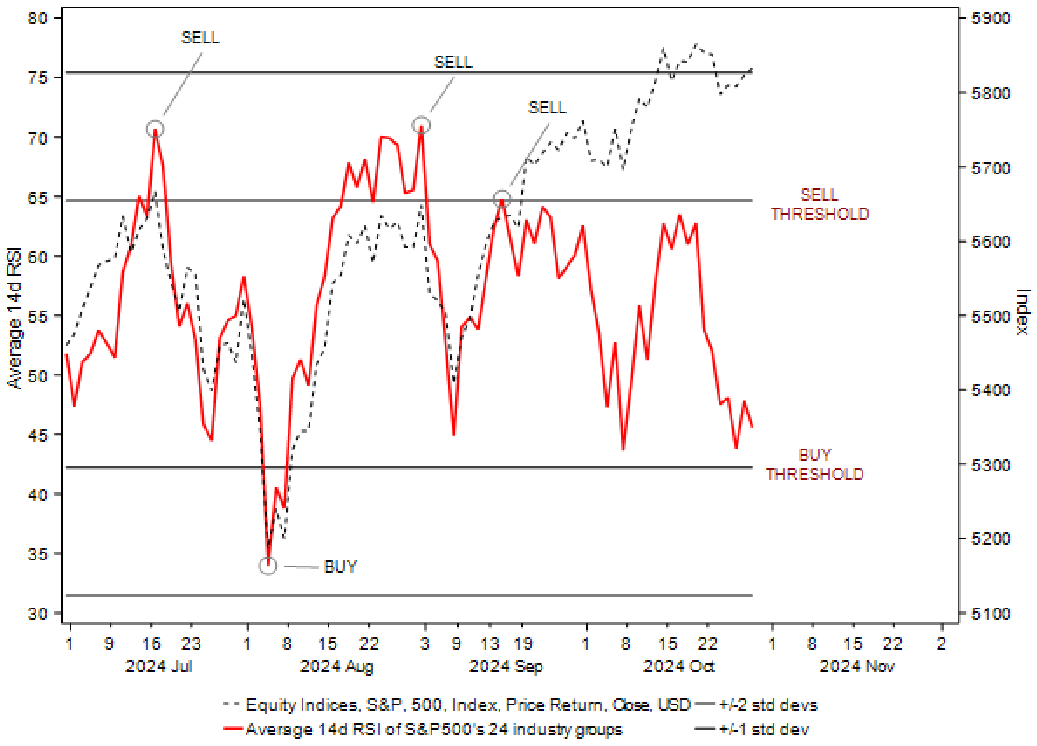
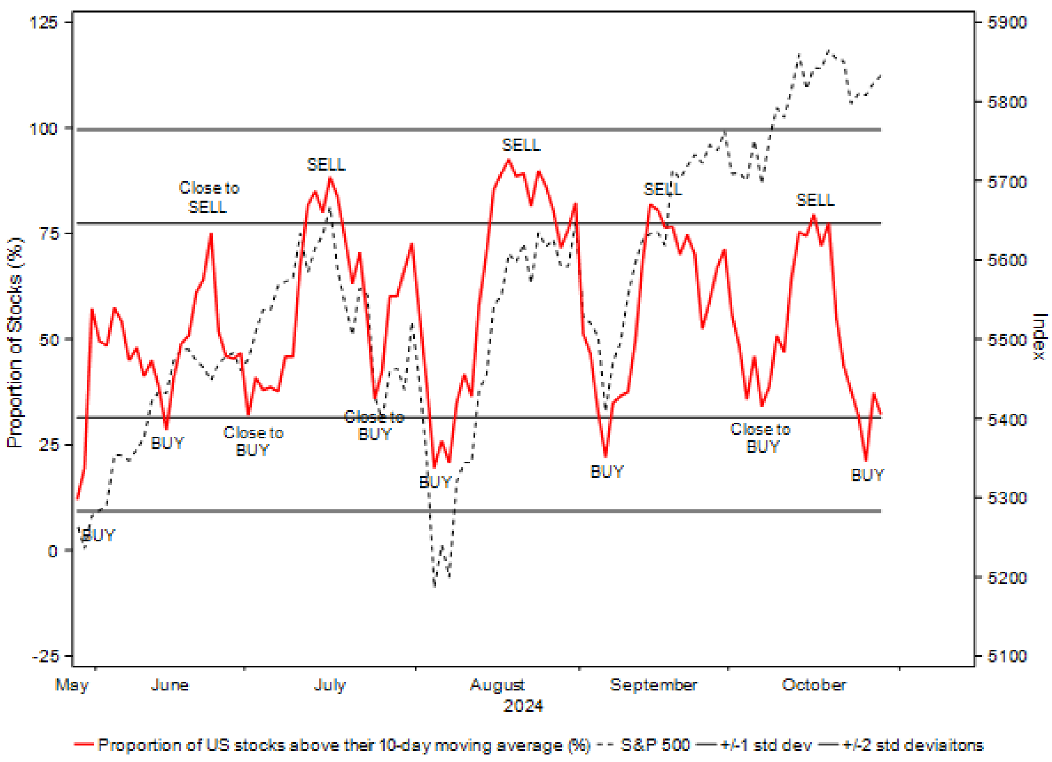


FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

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



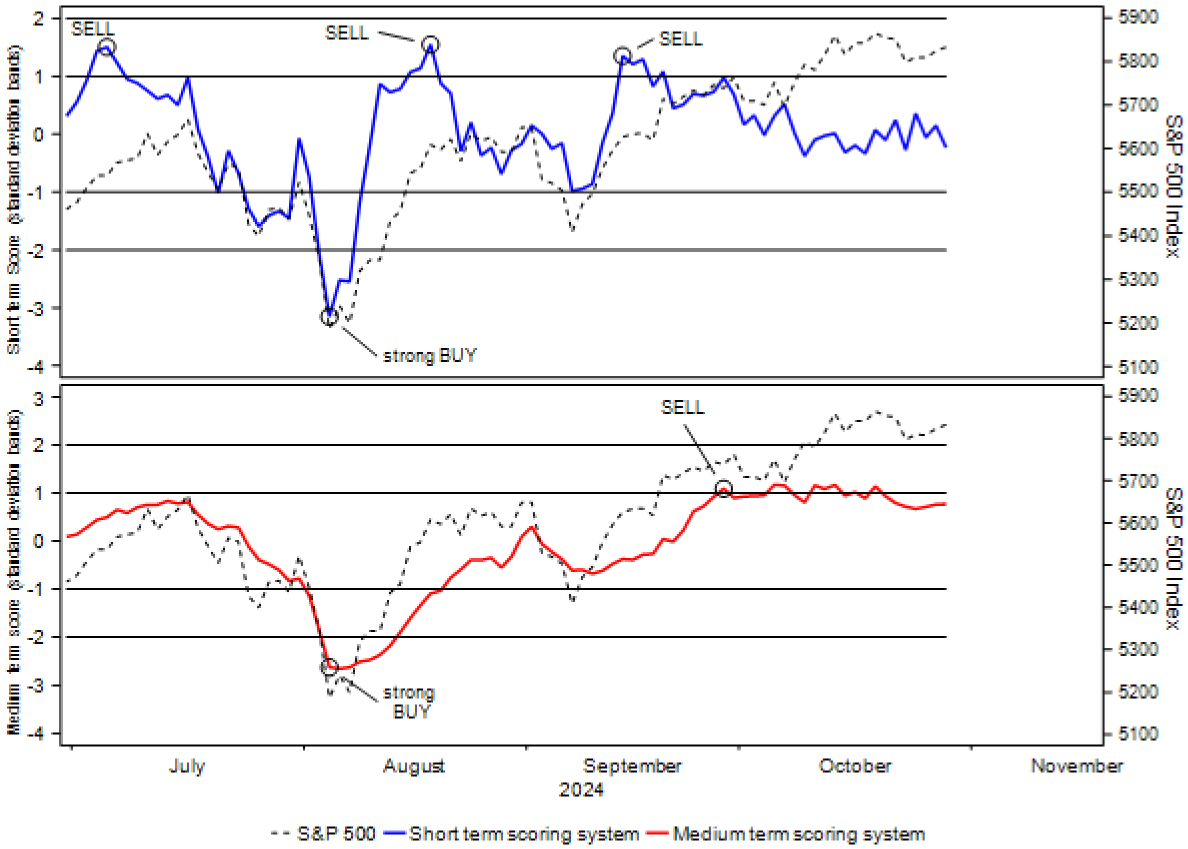
Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

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

Key data today include: Australian headline CPI (Sept, 12:30am); **Japanese ESRI consumer confidence** (Oct, 5am); **French GDP** & consumer spending (Q3 first estimate, 6:30am); **Spanish GDP and headline & core CPI** (Q3/October first estimate, 8am); German unemployment change (Oct, 8:55am); **German & Italian GDP** (Q3 first estimate, 9am); Eurozone consumer confidence (October final estimate, 10am); **Eurozone GDP** (Q3 first estimate, 10am); Italian headline PPI (Sept, 10am); **German headline CPI** (October first estimate, 1pm); **US ADP employment change** (Oct, 12:15pm); **US GDP** (Q3 first estimate, 12:30pm); US pending home sales (Sept, 2pm); **Japanese retail sales & industrial production** (Sept, 11:50pm).

Key events today include: Chancellor of the Exchequer Rachel Reeves presents annual budget to Parliament (12:30pm); speeches by the ECB's Schnabel in Frankfurt (3pm) & Nagel in Frankfurt (6pm).

Key earnings today include: **Microsoft**, **Meta Platforms**, **Eli Lilly**, **AbbVie**, **Caterpillar**, Amgen, Booking, ADP, UBS Group, Airbus Group, AXA, Schneider Electric, GSK plc, Glencore, Standard Chartered, **PetroChina**, China Merchants Bank, Hitachi.

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 10th October 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

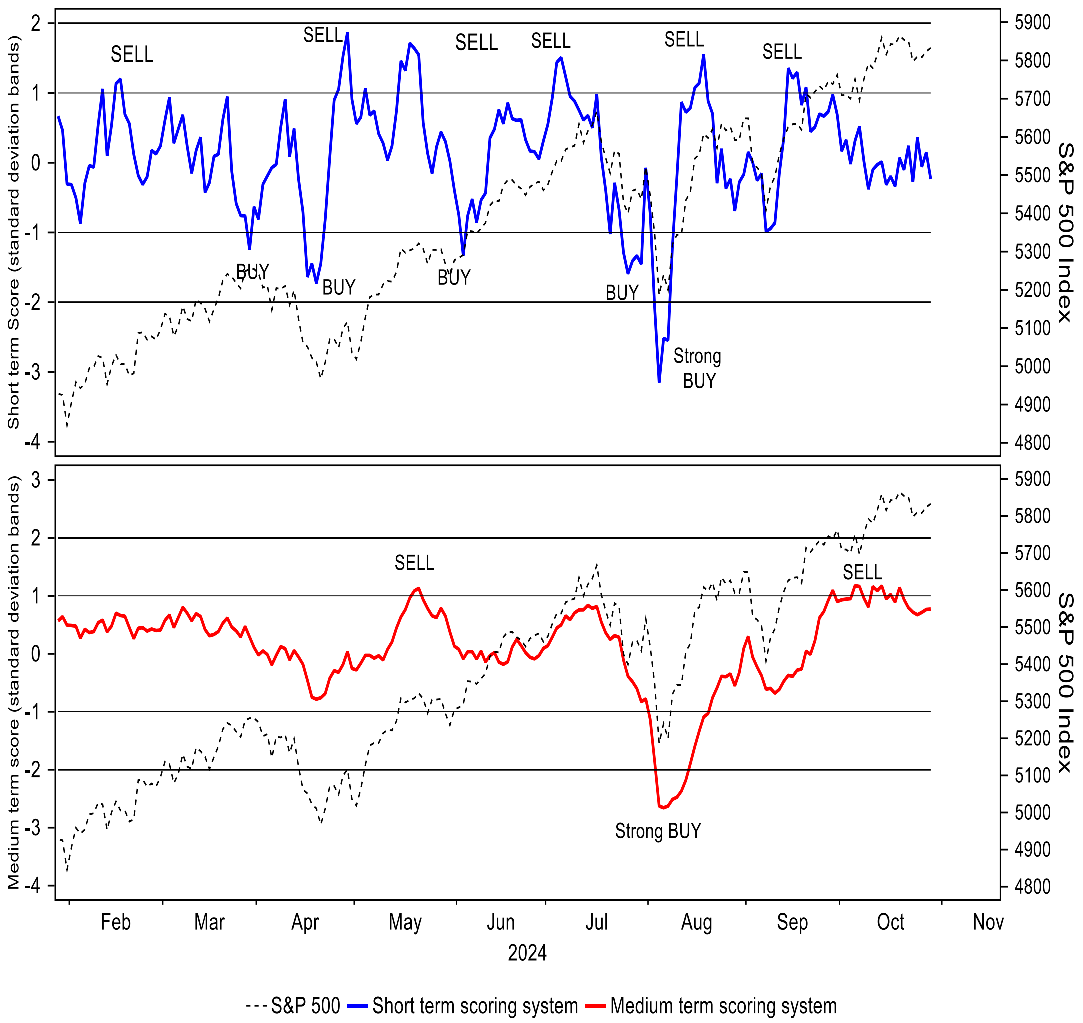
1 – 2 Week View on Risk

30th October 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

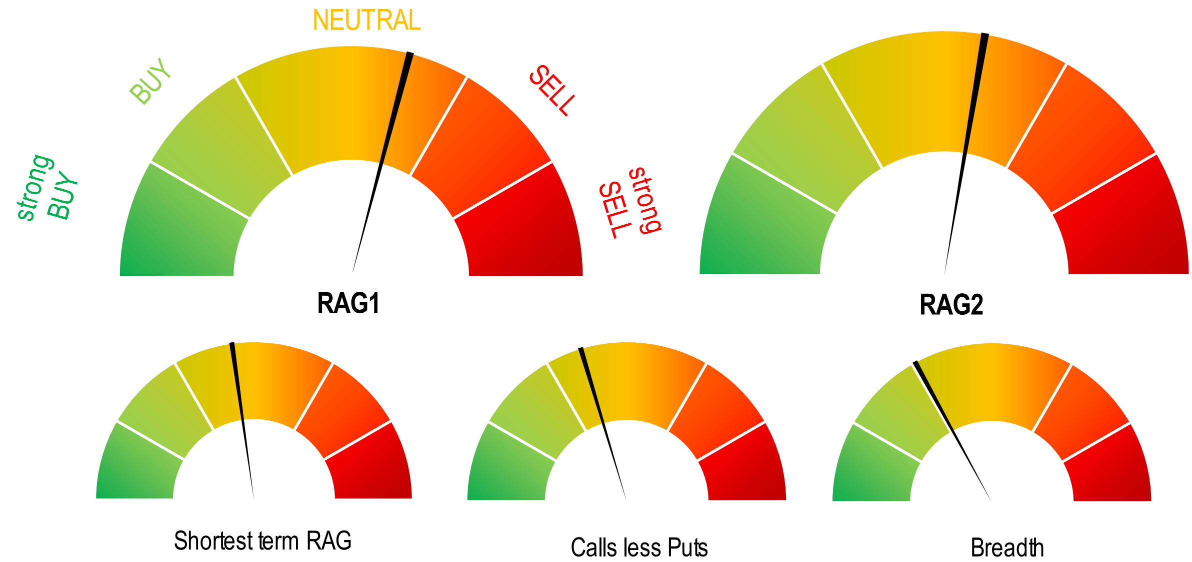
*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

Important disclosures are included at the end of this report
For explanations of indicators please see page 10

LVRAG
Daily Risk Appetite Gauge

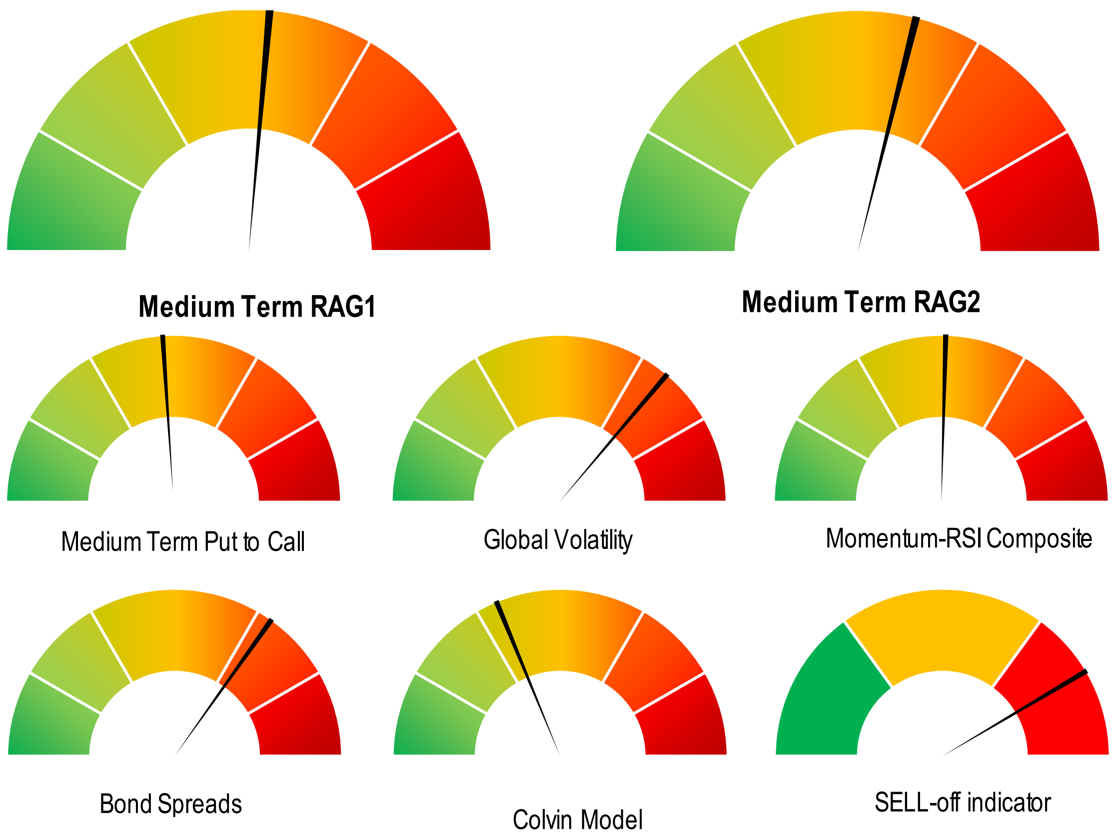
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: *Longview Economics*

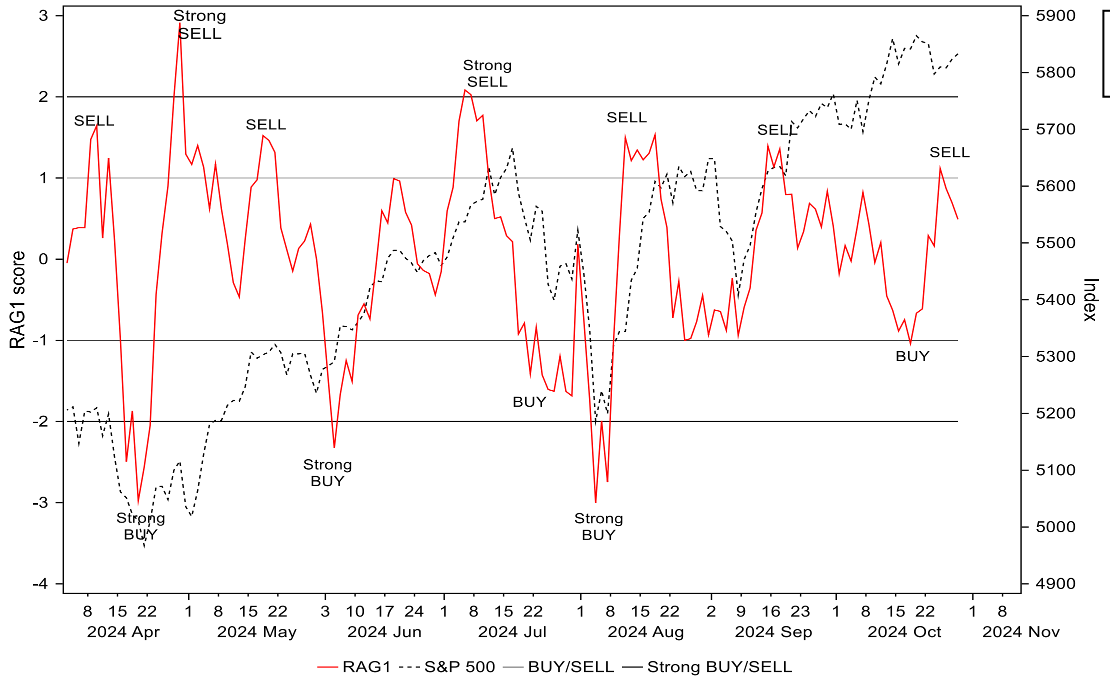
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

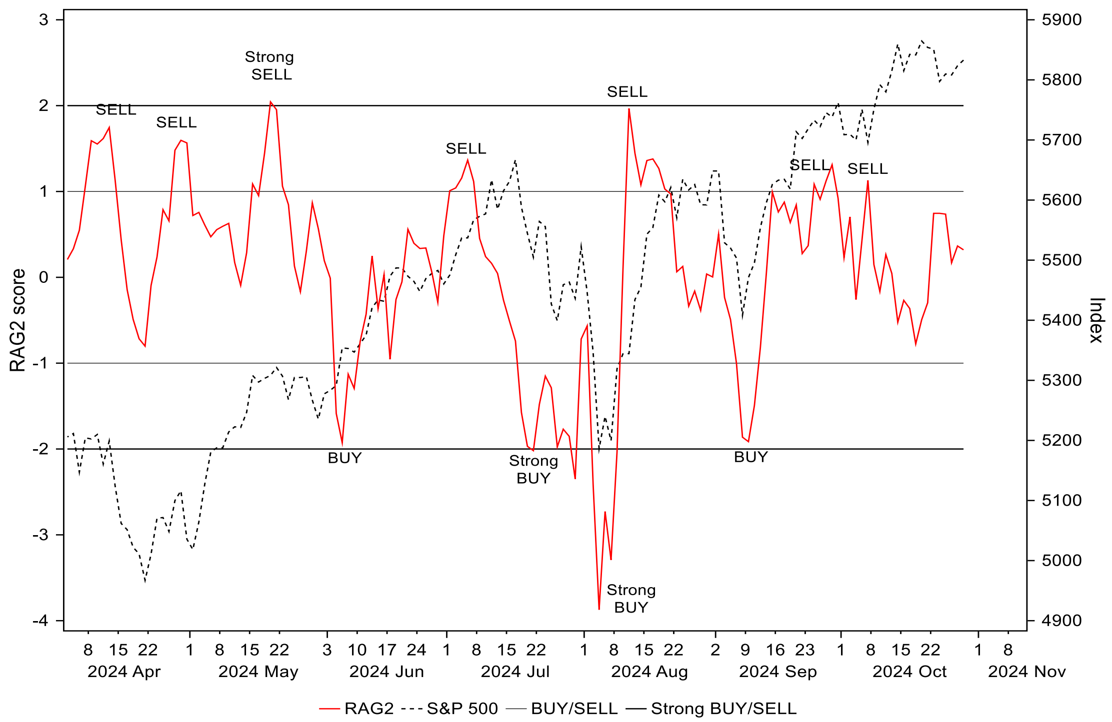
Fig 2a: RAG 1 vs. S&P 500



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

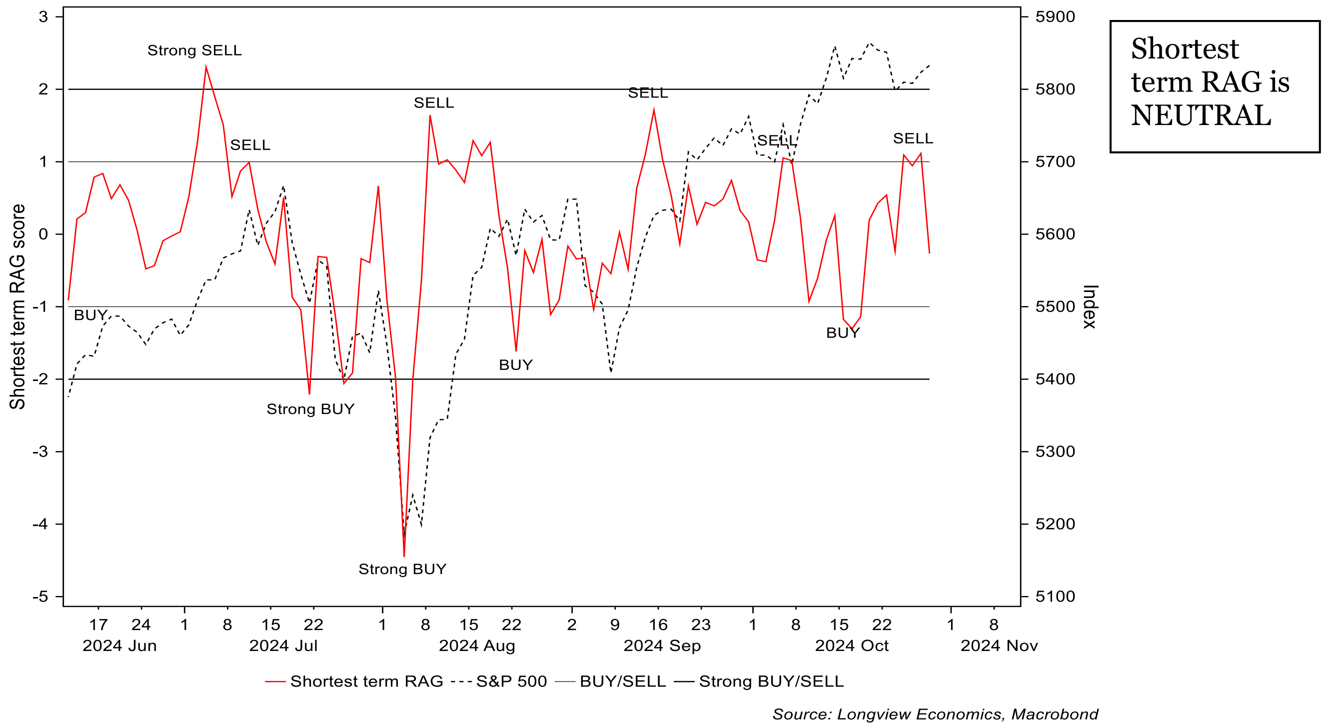
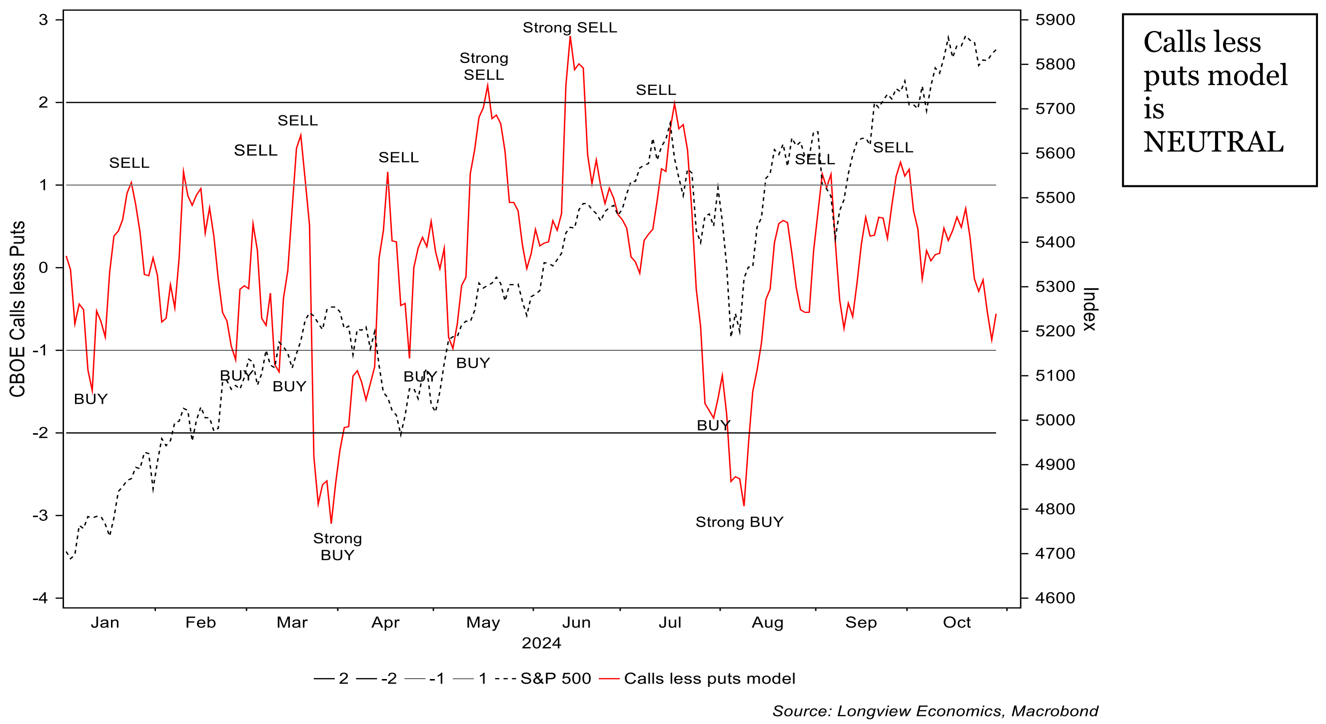
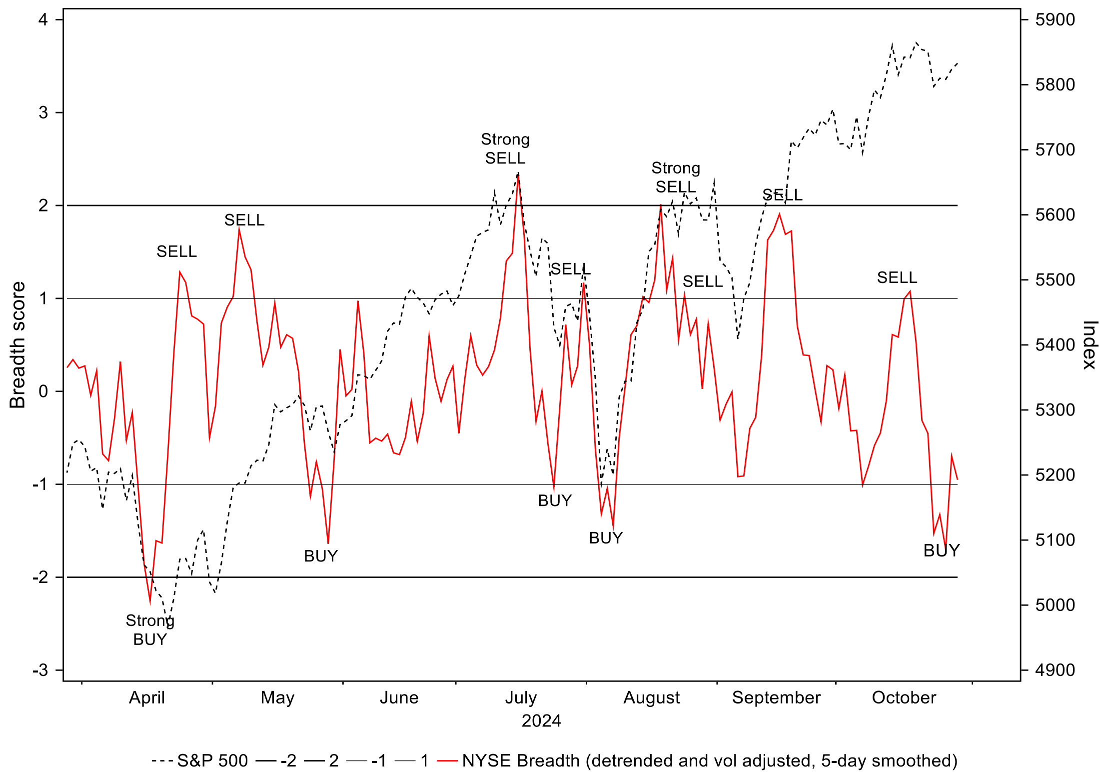


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



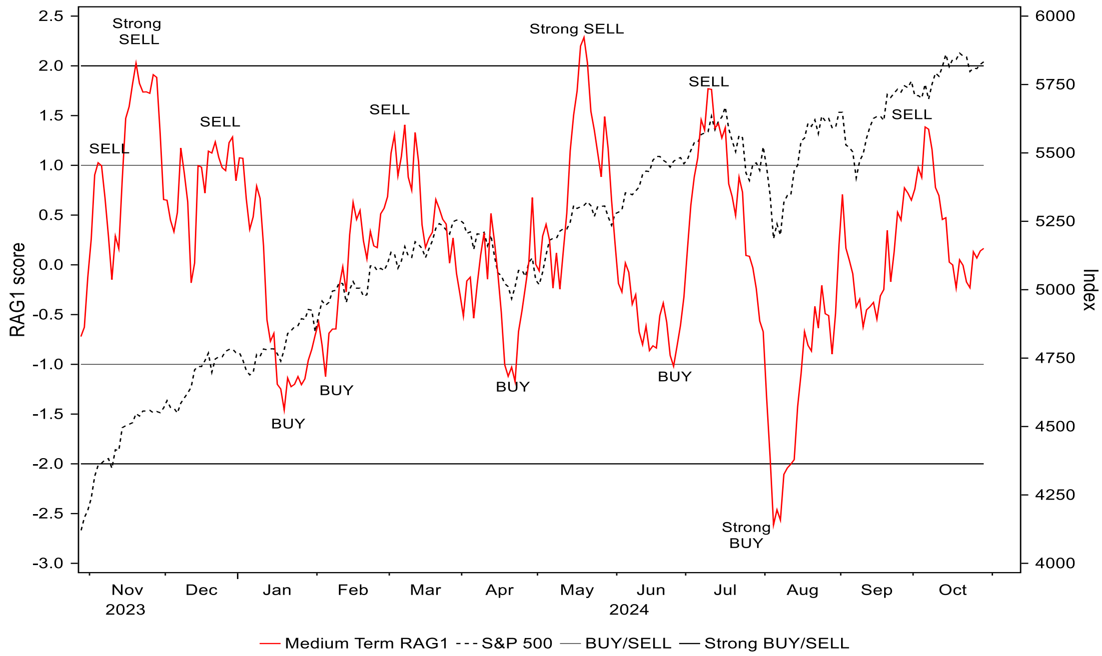
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

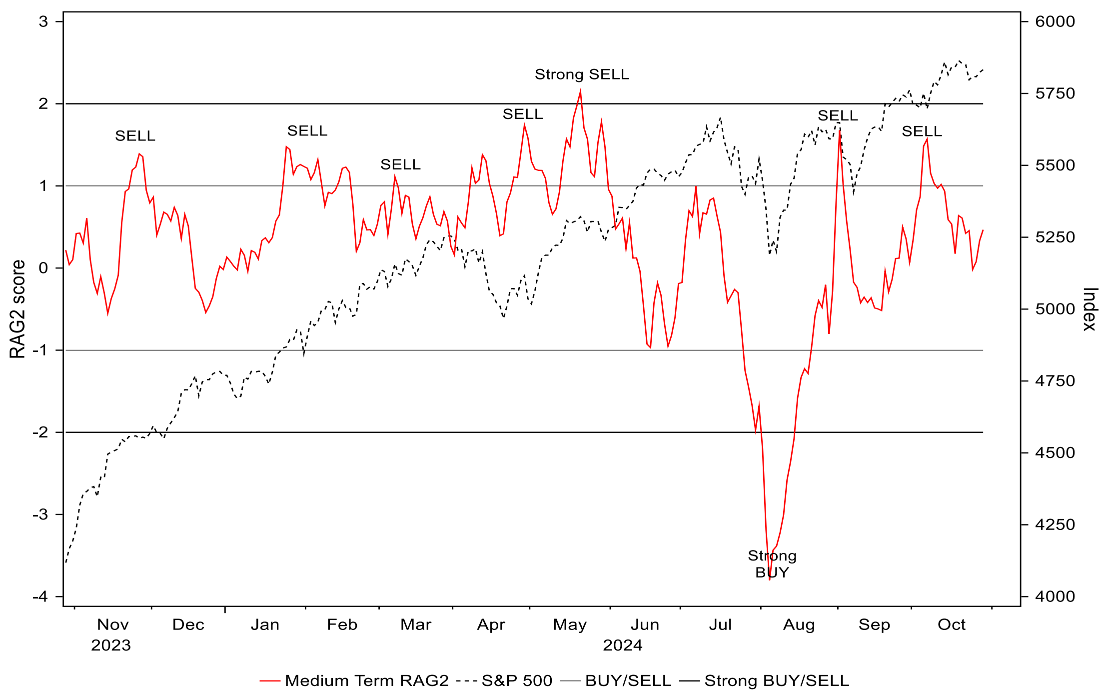
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

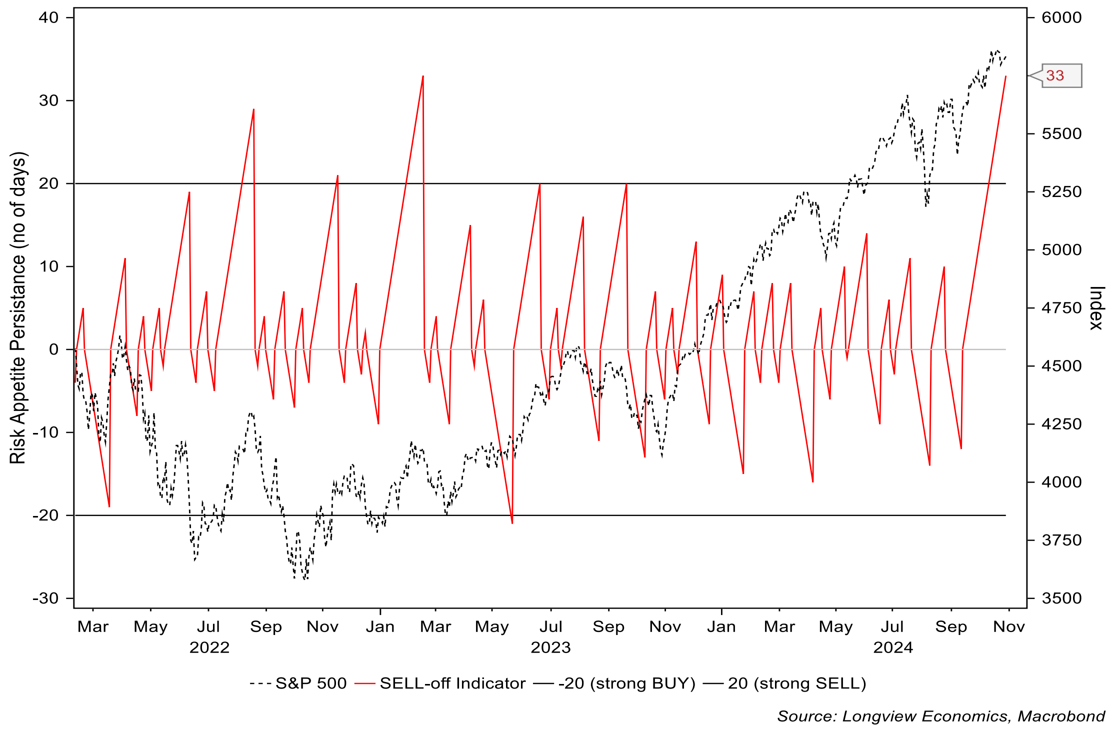


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

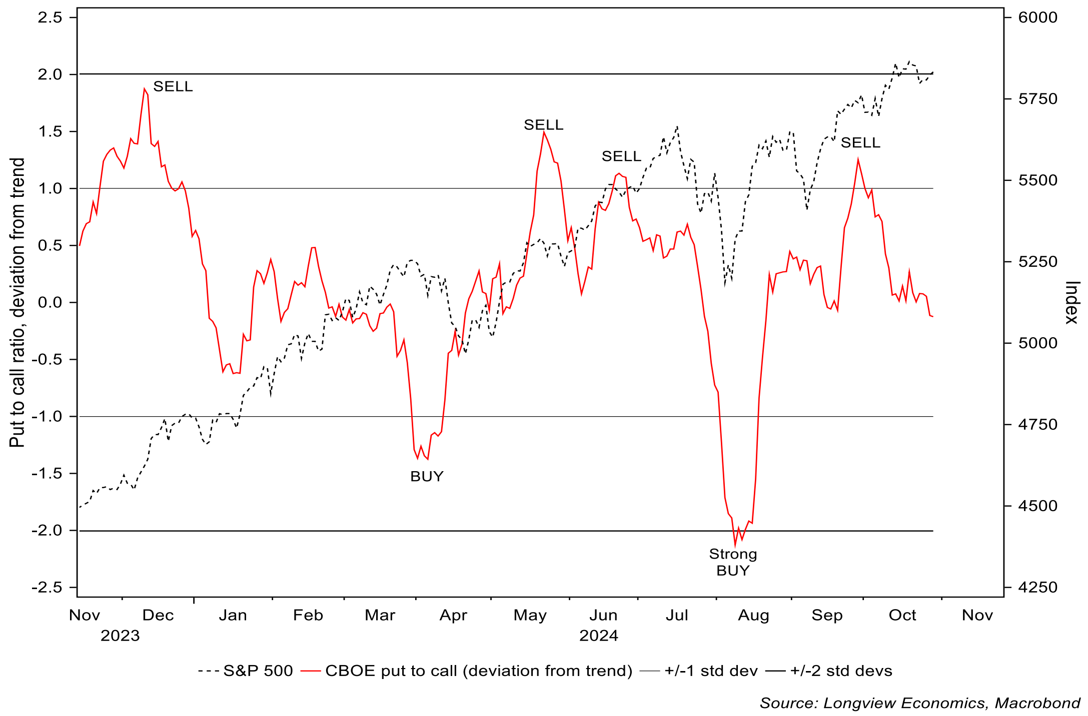
For explanations of indicators please see page 10

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



The SELL-off indicator is on SELL

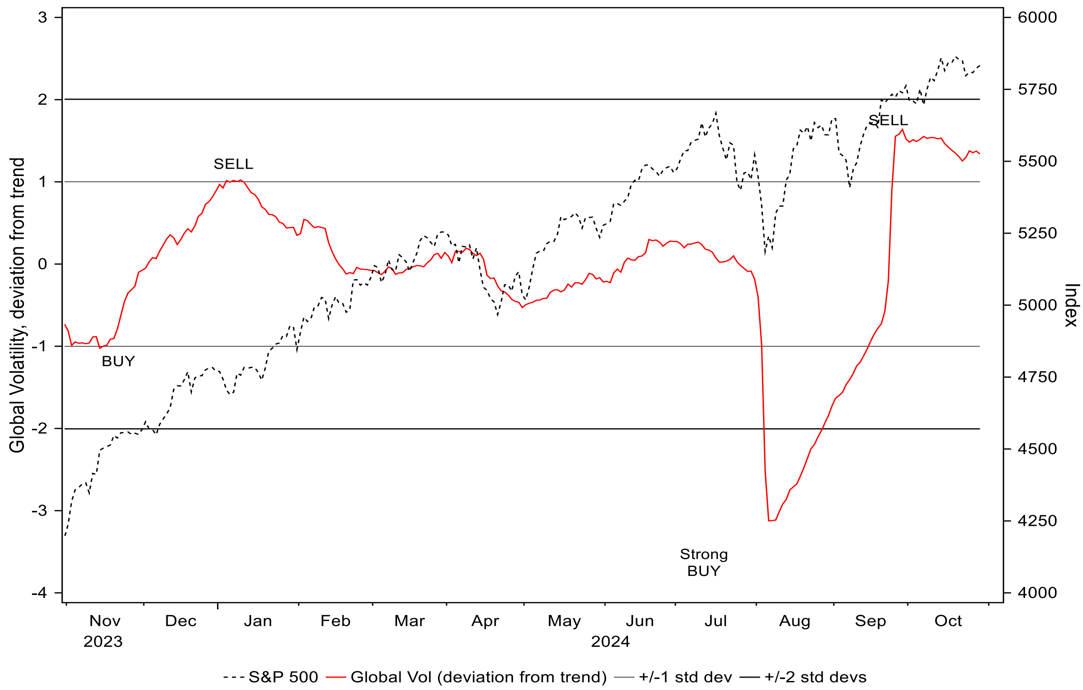
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

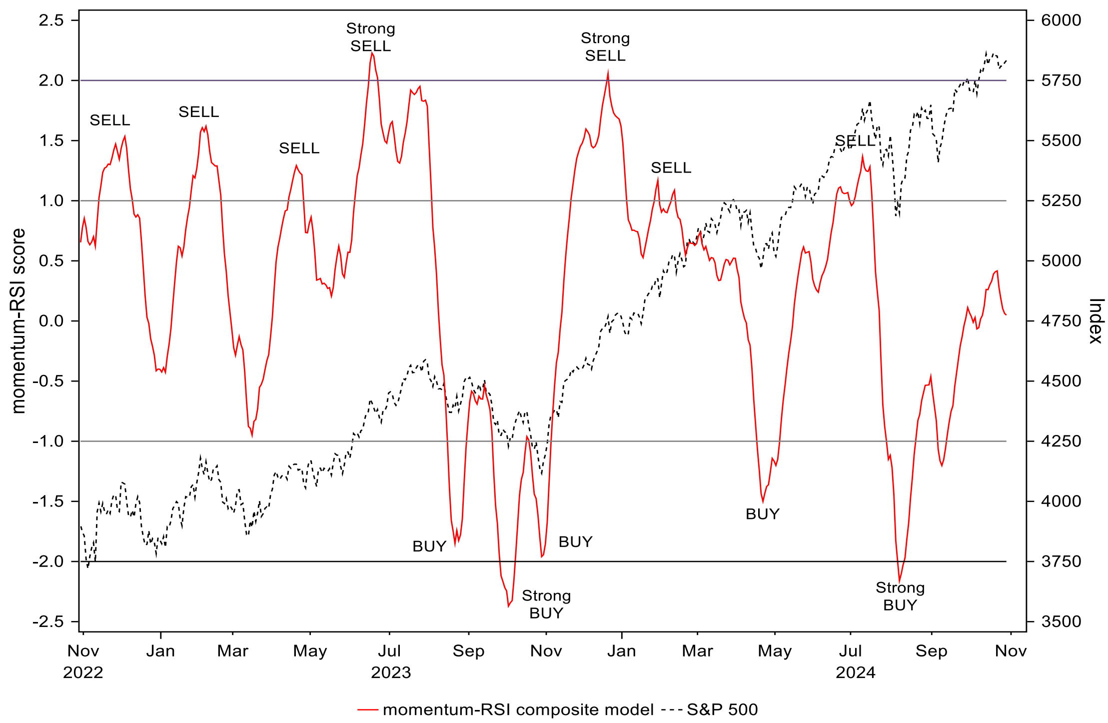
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on SELL

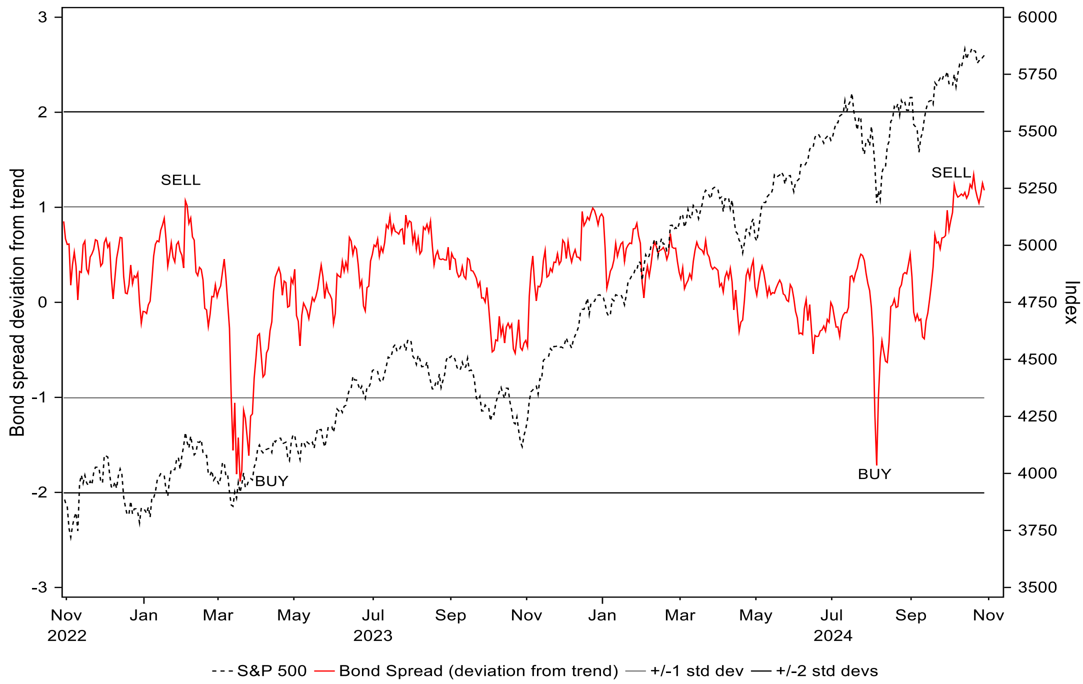
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

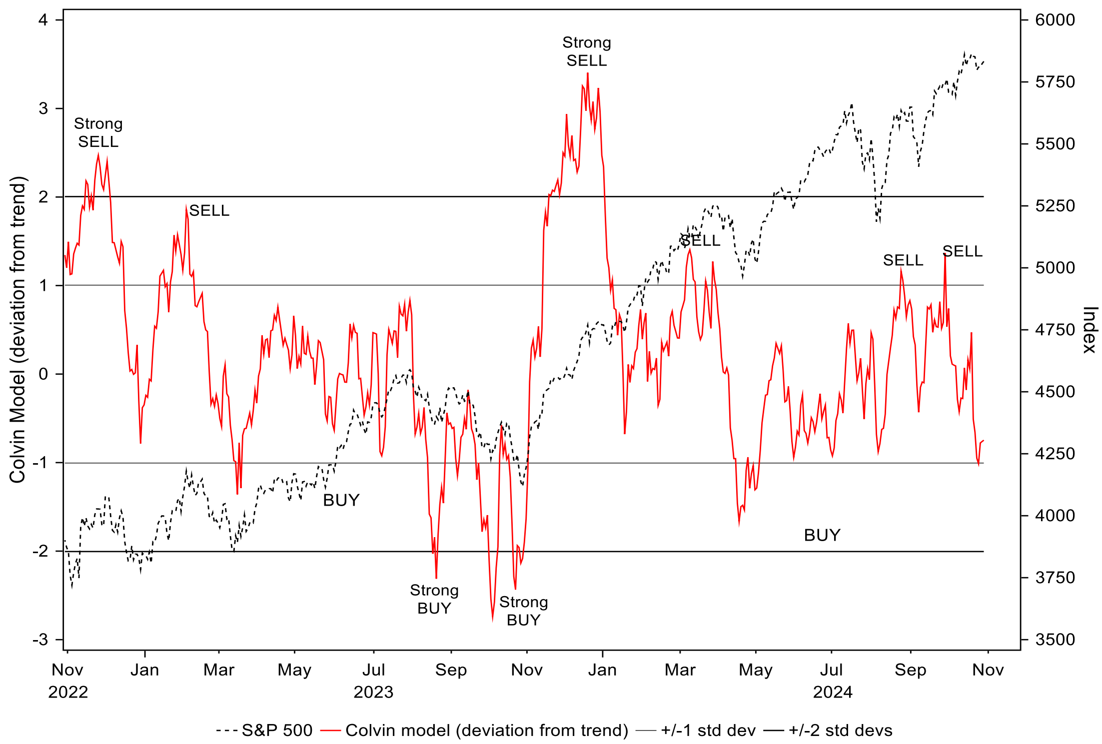
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is on SELL

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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