Equity Index Futures Trading Recommendations

30th September 2024

"Re-instate SHORT positions (SPX futures)"

Email: info@longvieweconomics.com

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

- Re-instate SHORT positions.
- Move 1/3rd SHORT S&P500 December futures on modest strength (i.e. at 5,820, just below 26th & 27th Sept intraday highs)
- Implement a 2% stop loss.

Rationale

Trading on Friday was more mixed (compared to earlier in the week). The main US indices closed lower (S&P500 -0.1%; NDX100 -0.5%). Other indices, like the US small & mid-caps, the Transportation index and the DJIA all closed higher on the day. Sector performance was also mixed with energy (+2.1%) leading the market higher while IT (-1.0%), materials (-0.2%) & consumer discretionary (-0.1%) were the laggards. The Philly SOX was down 1.8% (Nvidia -2.1%). The dollar index was down 0.2%, the VIX was 160bps higher (bouncing off its 200-day moving average), while US government bond yields ticked lower across the curve (FIG 1e). Overnight **Asian markets have generated markedly divergent performances** with Japanese markets down 4.8% (Nikkei 225), whilst China's equity indices have surged once again (e.g. China A50 +6.8%; Hang Seng +3.2%). Elsewhere in Asia, most other markets are flat/lower (e.g. Korean Kospi -2.1%; Taiwan -0.2%).

Despite (just) being stopped out of a SHORT position last week, the **rationale for moving SHORT is clear**. Models continue to generate a widespread SELL message. **Short term models**, like the risk appetite gauge, the put to call ratios and technical models are all on SELL (and in some instances convincingly on SELL – Figs 2 to 2c); **medium term models** are also increasingly on SELL – the medium term risk appetite gauge is on SELL; the Colvin model is at one of its highest levels in the past 5 years; while the medium term put to call ratio is also on SELL (FIGs 1a, 1b & 1c). In other words, on a short and medium-term basis, there is widespread evidence of overbought, under hedged and greedy markets. Reflecting that, the combined short & medium term risk appetite scoring system is back on SELL (FIG 1).

In addition to the model set-up, the **main US markets have continued to trade sideways**. What appeared to be a breakout last Thursday (NDX100 & S&P500) has since reversed/faded. The S&P500 has now, therefore, essentially traded sideways since its highs on 19th September (the day after the Fed 50bps cut – FIG 1d); the NDX100 has behaved similarly.

Sideways price action, whilst models are generating SELL signals, is a good set-up for moving SHORT equity index futures (again). Added to that, those sideways markets have occurred despite the announcement of aggressive stimulus by the Chinese authorities last week (with further information overnight), and despite the pulling forward of the timing of US rate cuts (encouraged last week by various Fed governor speeches).

As such, we recommend starting to BUILD SHORT positions once again (see trading recommendation above for detail).

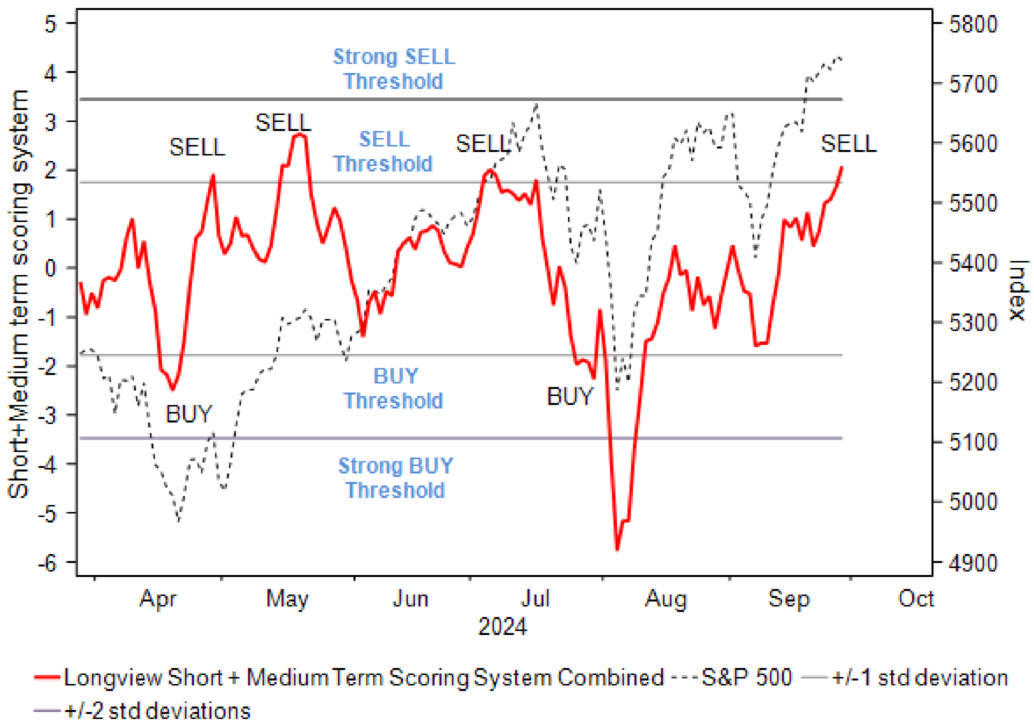
Risks, as always, are plentiful and include one missing element (of the SHORT set-up), which is the absence of a +20 signal on our SELL-off indicator. Those signals typically occur just ahead of major pullbacks. The high level of outstanding single stock call options (evidence of frothiness in markets) has also faded in the past three trading sessions. Of note, though, these signals aren't always present ahead of typical 1 – 2 week pullbacks (and are indicative of more meaningful waves of risk aversion).

Key events and macro data released today are shown below. Over the course of the week, there are multiple data releases (especially in the US) including ISM manufacturing, ISM services and non-farm payroll data. It's also the 'Golden Week' holiday in China, with markets closed tomorrow through to the end of the week.

Kind regards,

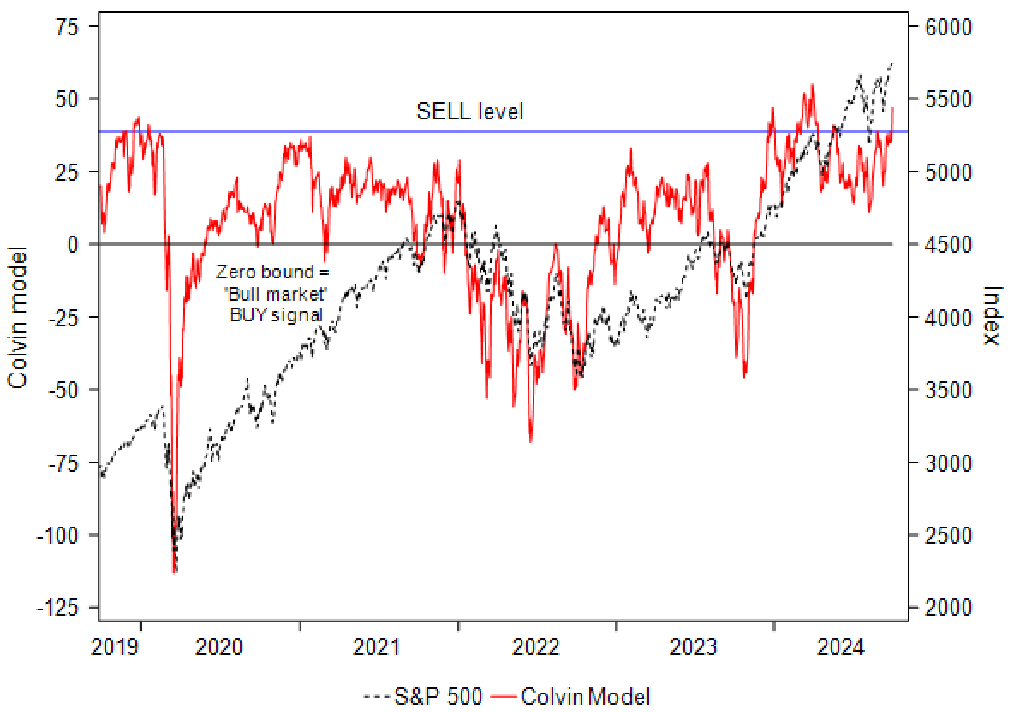
The team @ Longview Economics

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



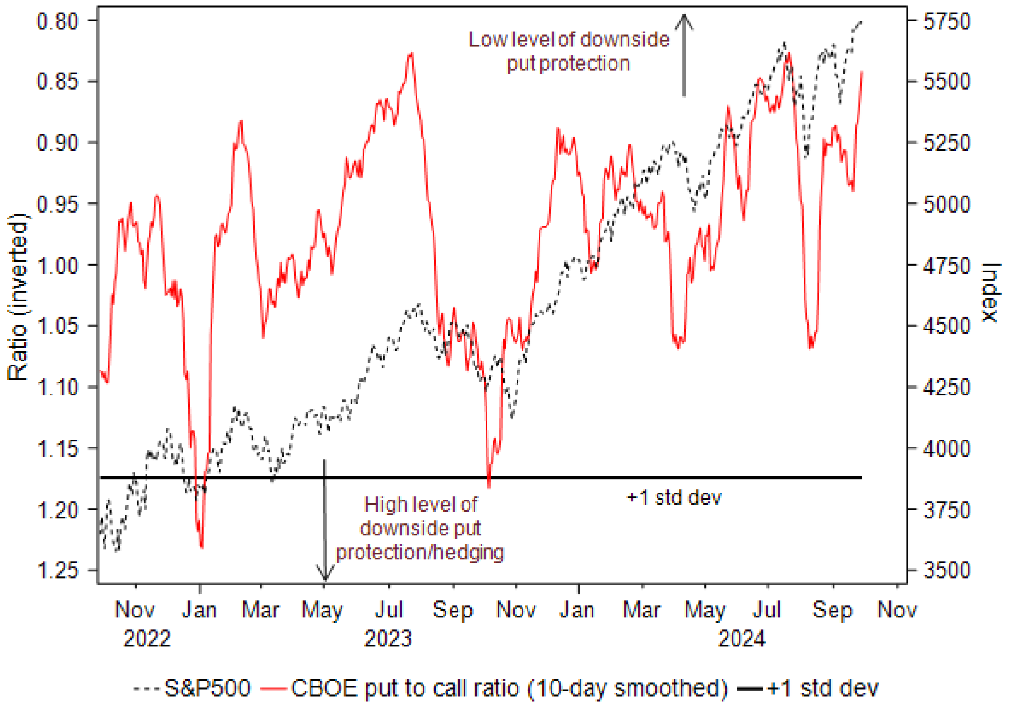
Source: Longview Economics, Macrobond

FIG 1a: Colvin model (global over-extendedness indicator) vs. S&P500



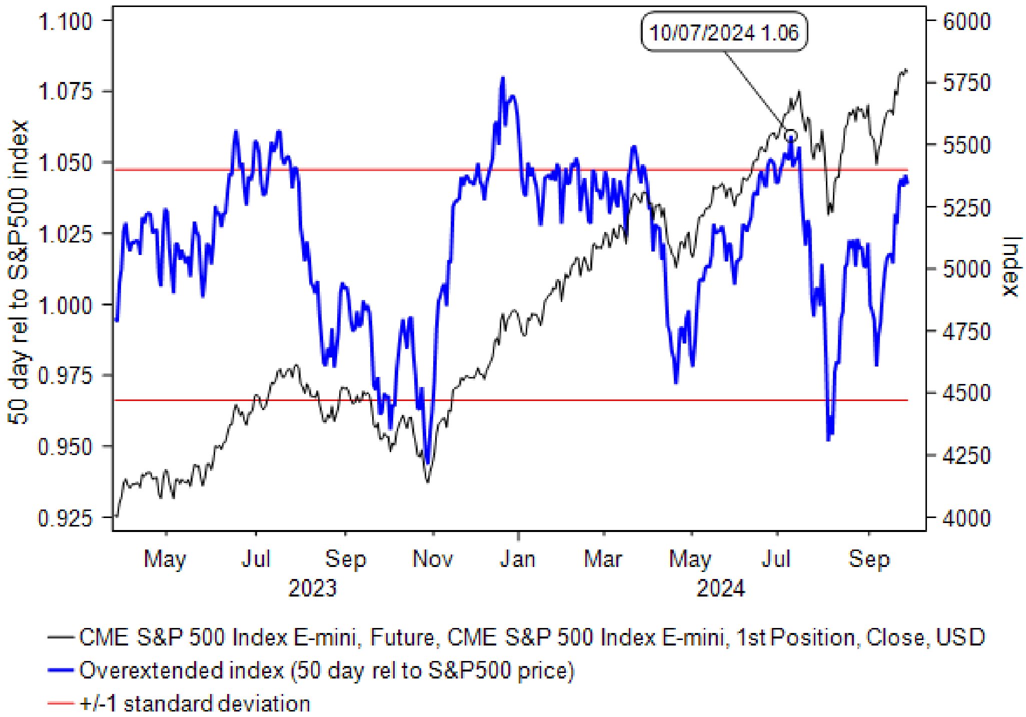
Source: Longview Economics, Macrobond

FIG 1b: Medium term CBOE put to call ratio (10 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

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

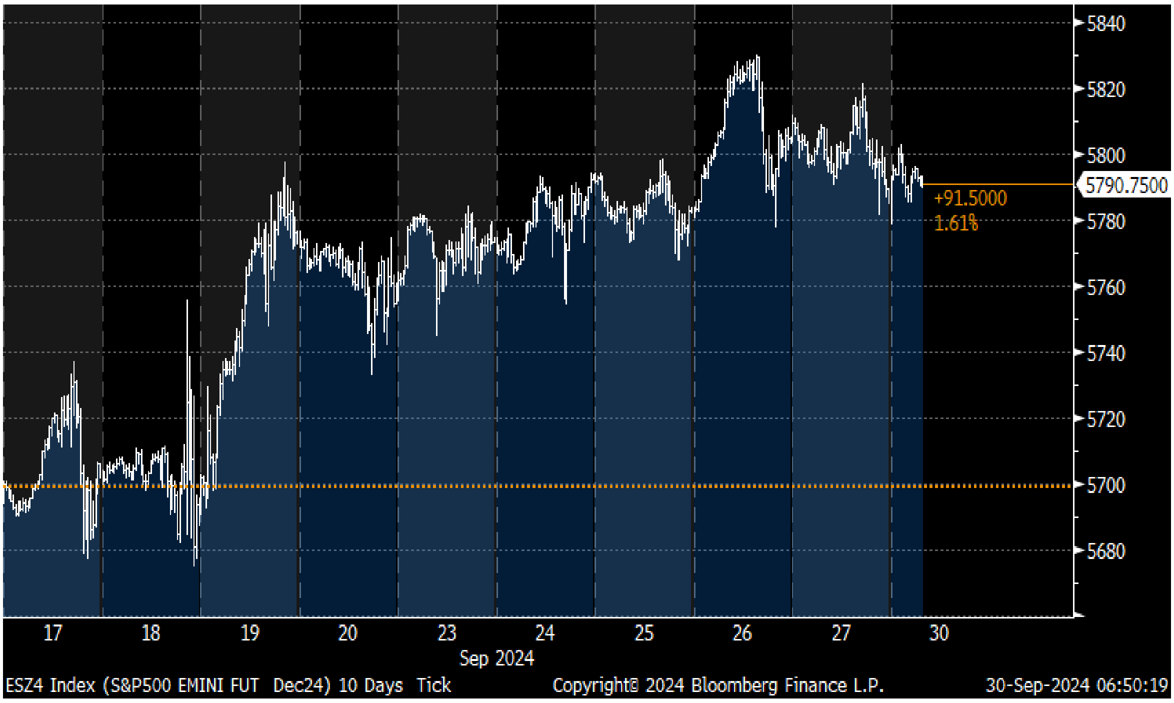
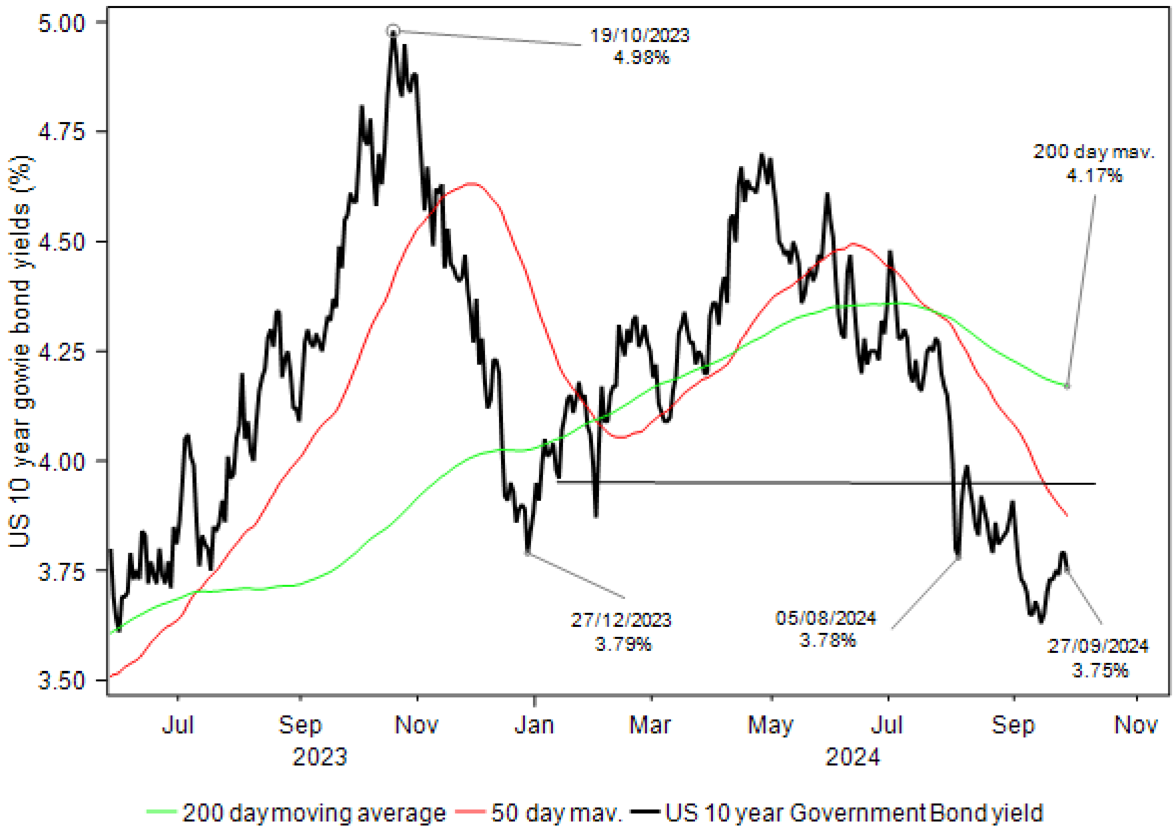


FIG 1e: US 10-year bond yields shown with key moving averages

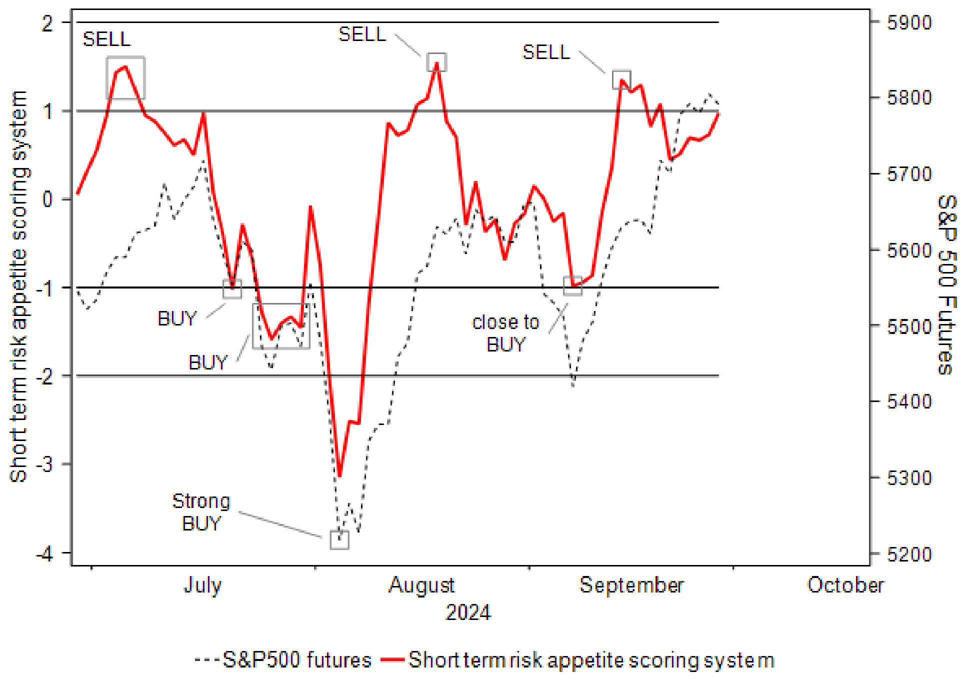


Source: Longview Economics, Macrobond

LVRAG
Daily Risk Appetite Gauge

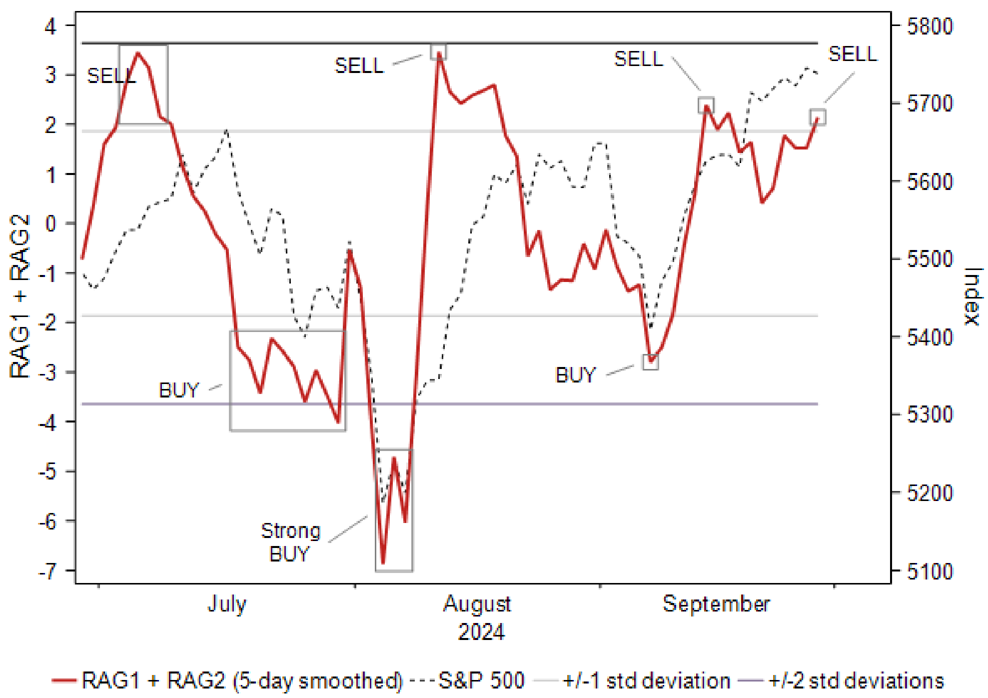
Short term market timing models are all on (or close to) SELL……

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

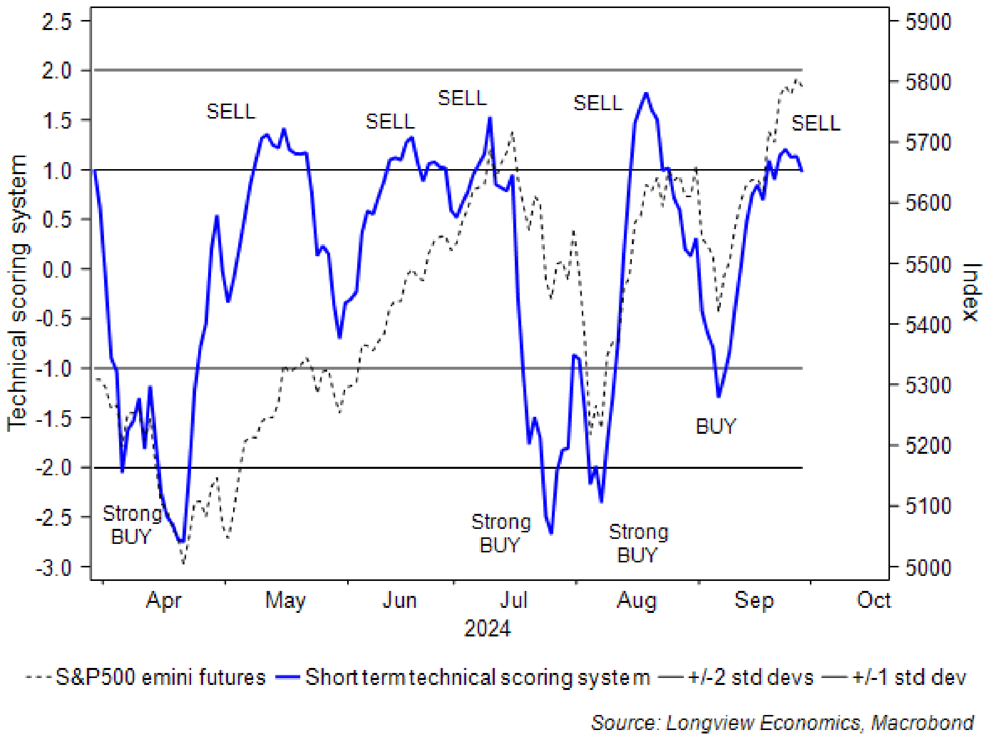
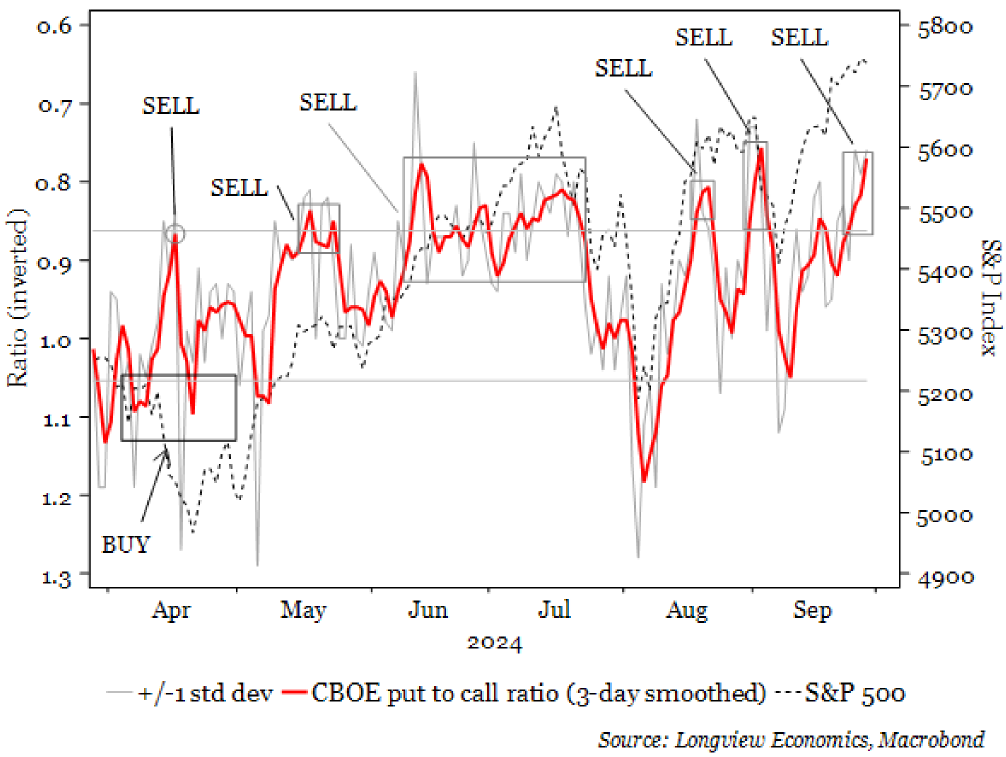


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Tech centric models are on SELL…

FIG 4: Longview NDX100 & Philly SOX short term **'technical'** scoring system vs. NDX100 futures

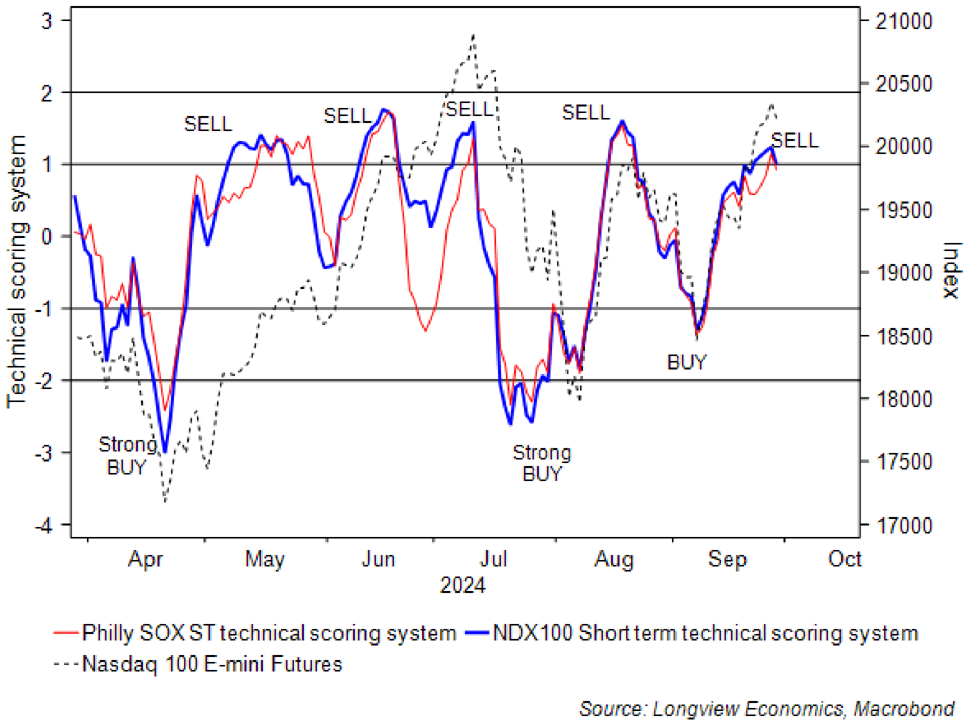


FIG 4a: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

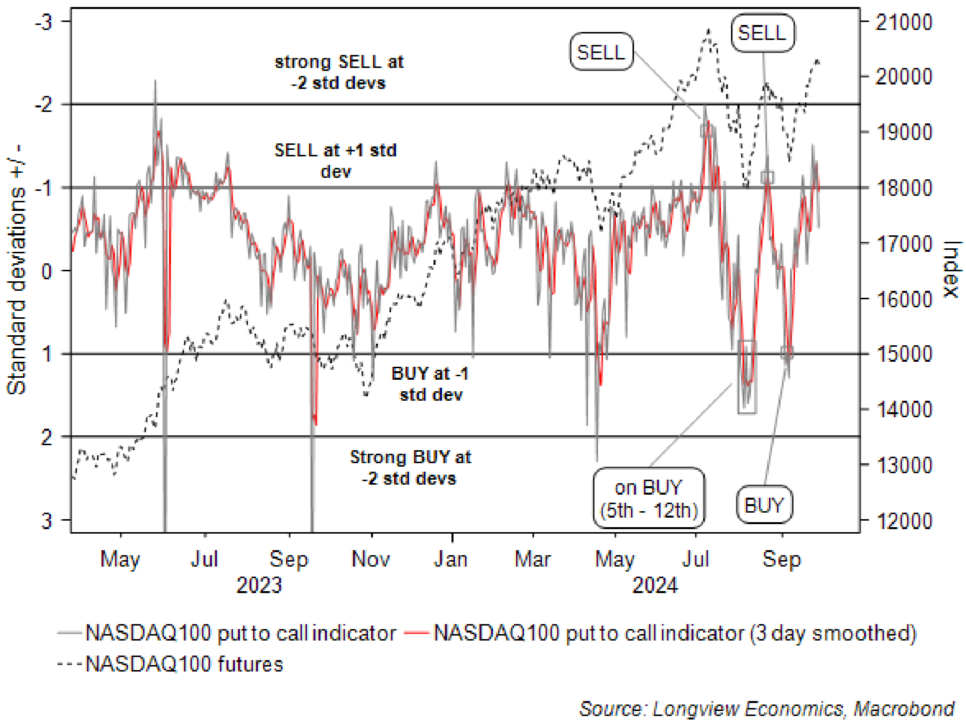
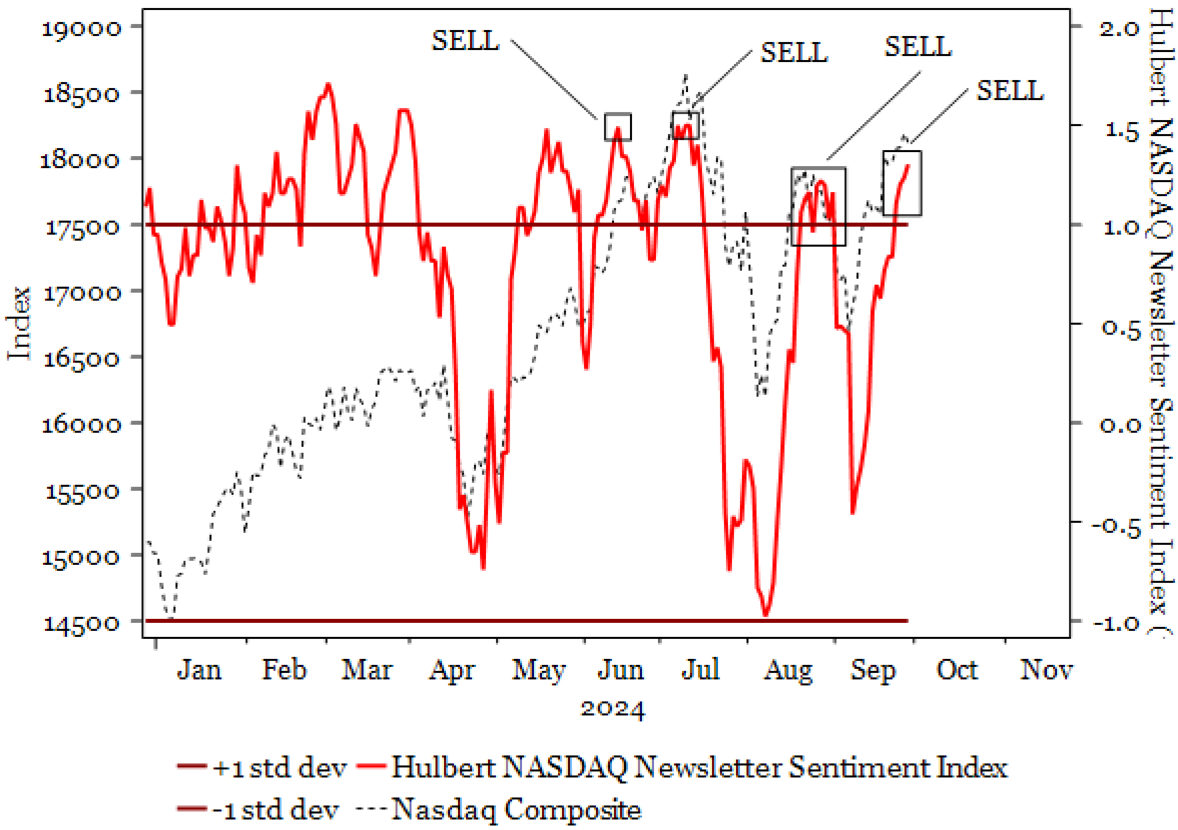


FIG 4b: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

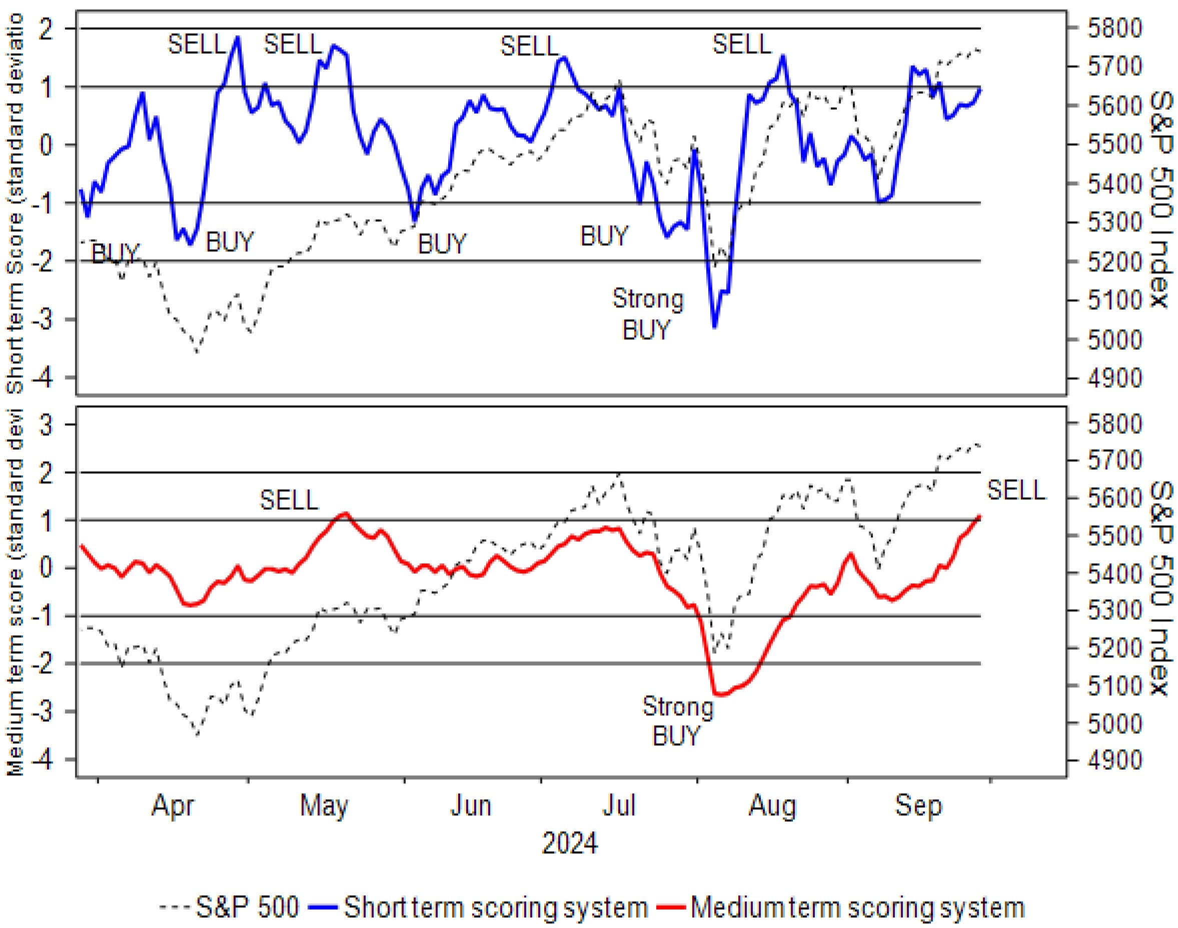


Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below)**:**

Short term (1 – 2 week) scoring system: **NEUTRAL** (just below SELL)
Medium term (1 – 4 month) scoring system: **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: Japanese industrial production & retail sales (August first estimate, 12:50am); **Chinese manufacturing & service sector PMIs** (Sept, 2:30am); Australian private sector credit (Aug, 2:30am); **Chinese Caixin manufacturing, service & composite sector PMIs** (Sept, 2:45am); Japanese housing starts (Aug, 6am); Australian home value (Sept, 3:01pm); UK Lloyds business barometer (Sept, 12:01am); **UK Nationwide house prices** (Sept, 7am); UK GDP (Q2 final estimate, 7am); **UK Net consumer credit, mortgage approvals & M4 money supply** (Aug, 9:30am); Italian core CPI (September first estimate, 10am); **German headline CPI** (September first estimate, 1pm); **US Chicago PMI** (Sept, 2:45pm); US Dallas Fed manufacturing activity (Sept, 3:30pm).

Key events today include: Speech by the ECB's **Lagarde** in EU parliament (2pm); speech by the Fed's **Powell** at NABE (6pm).

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.

LVRAG
Daily Risk Appetite Gauge

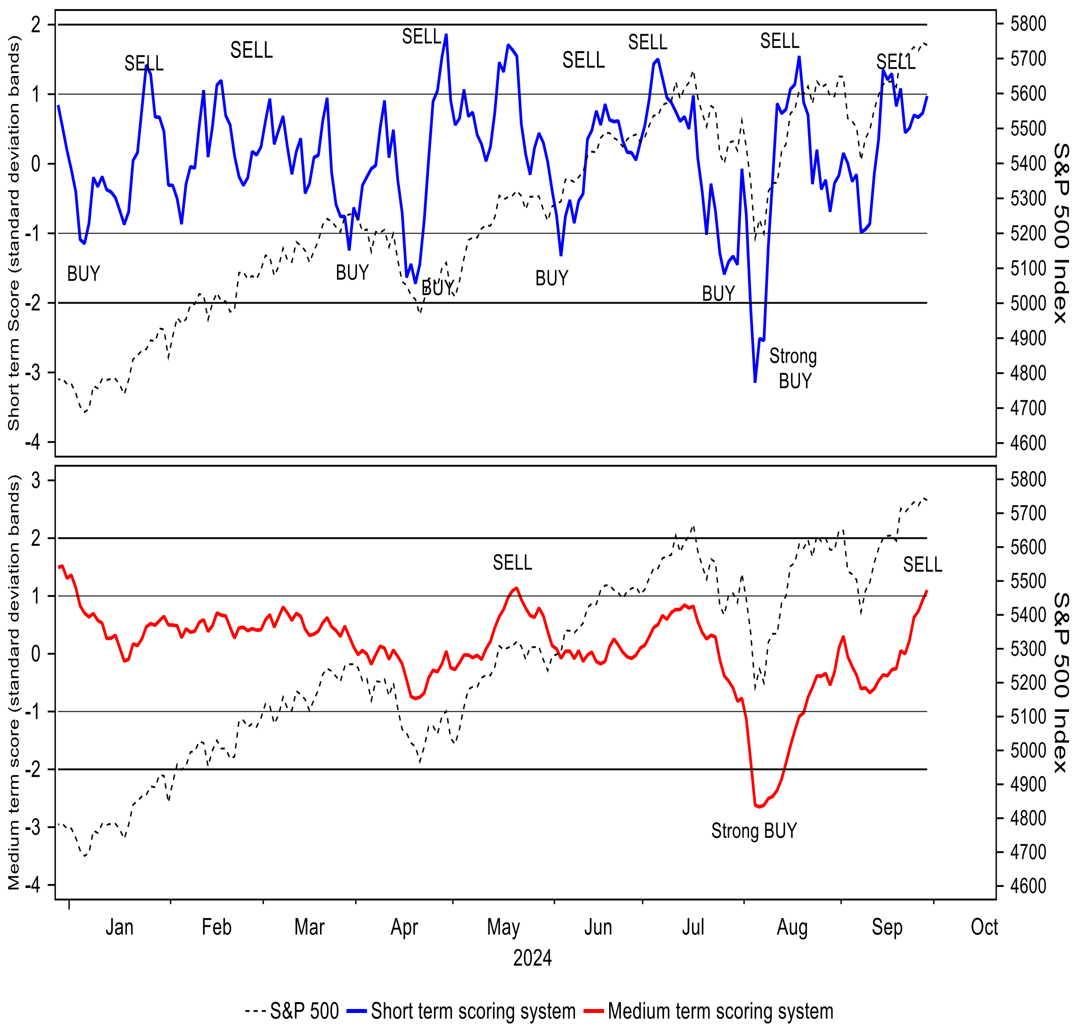
1 – 2 Week View on Risk

30th 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



Short term scoring system is NEUTRAL

Medium term scoring system is On SELL

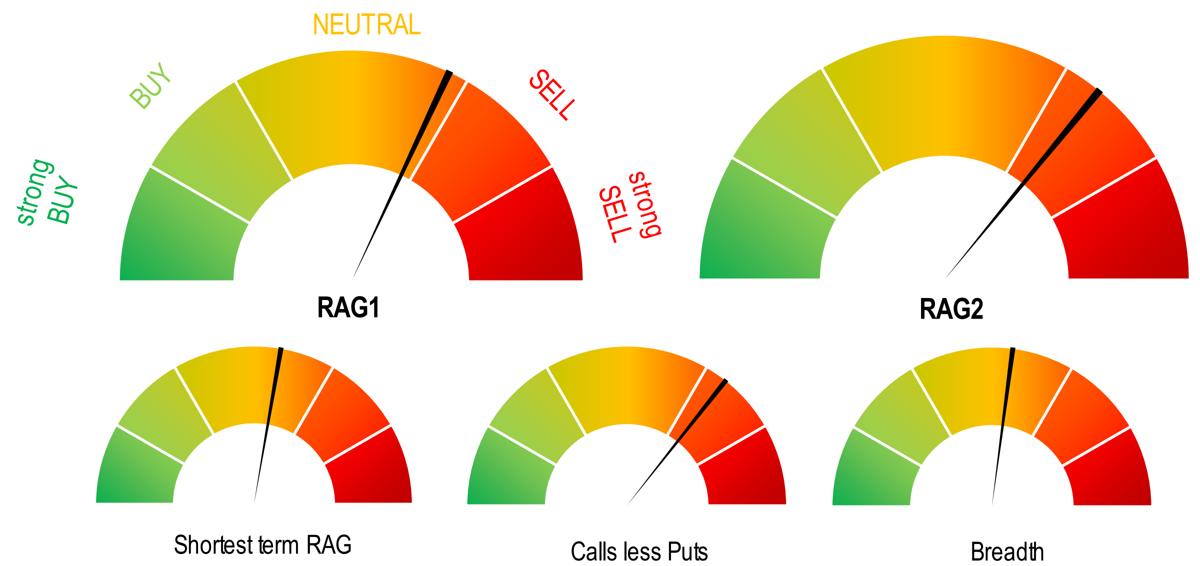
Source: Longview Economics, Macrobond

*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

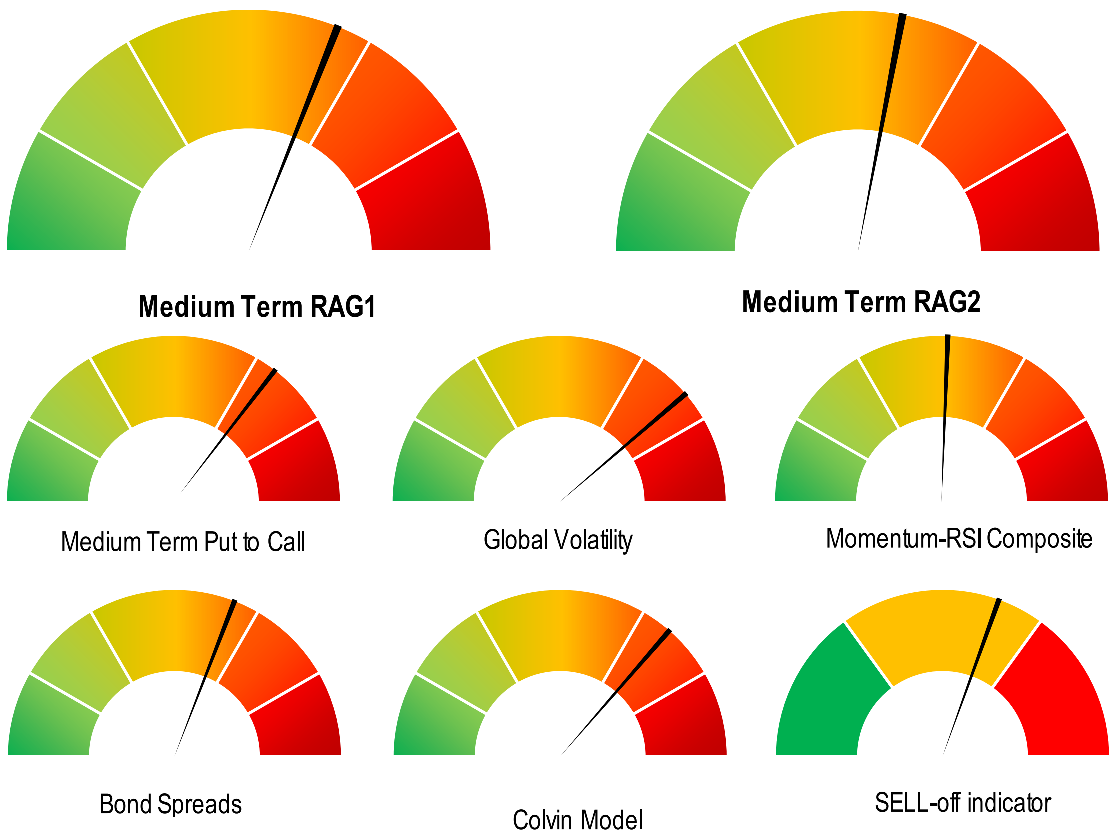
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

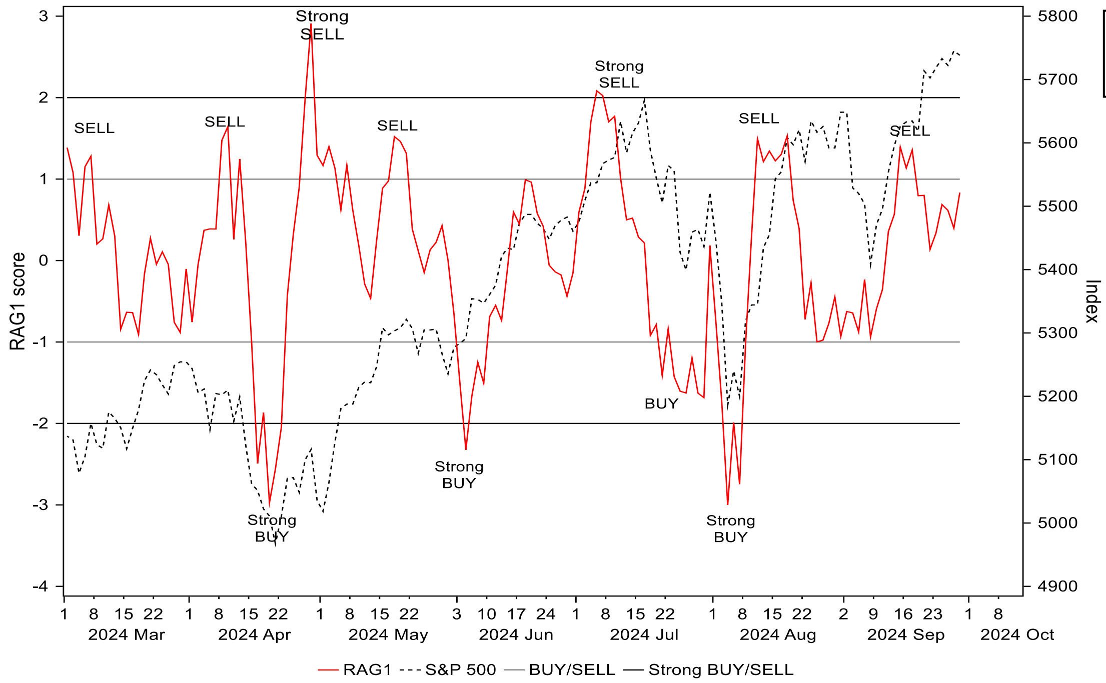
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

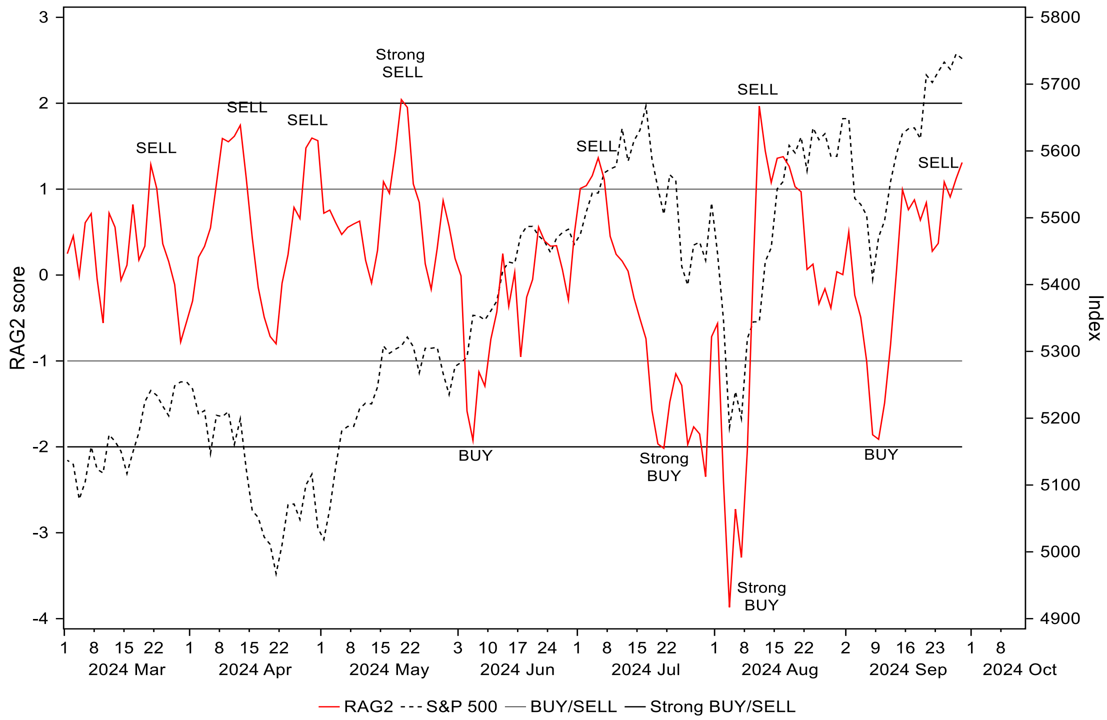
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

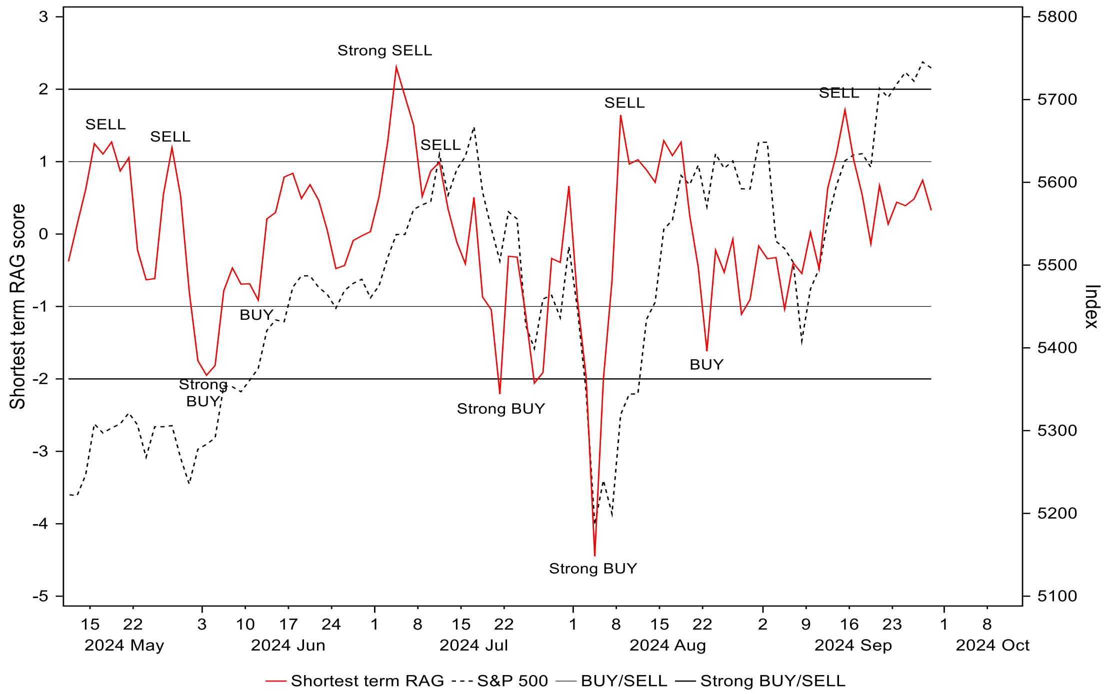


RAG2 is on SELL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

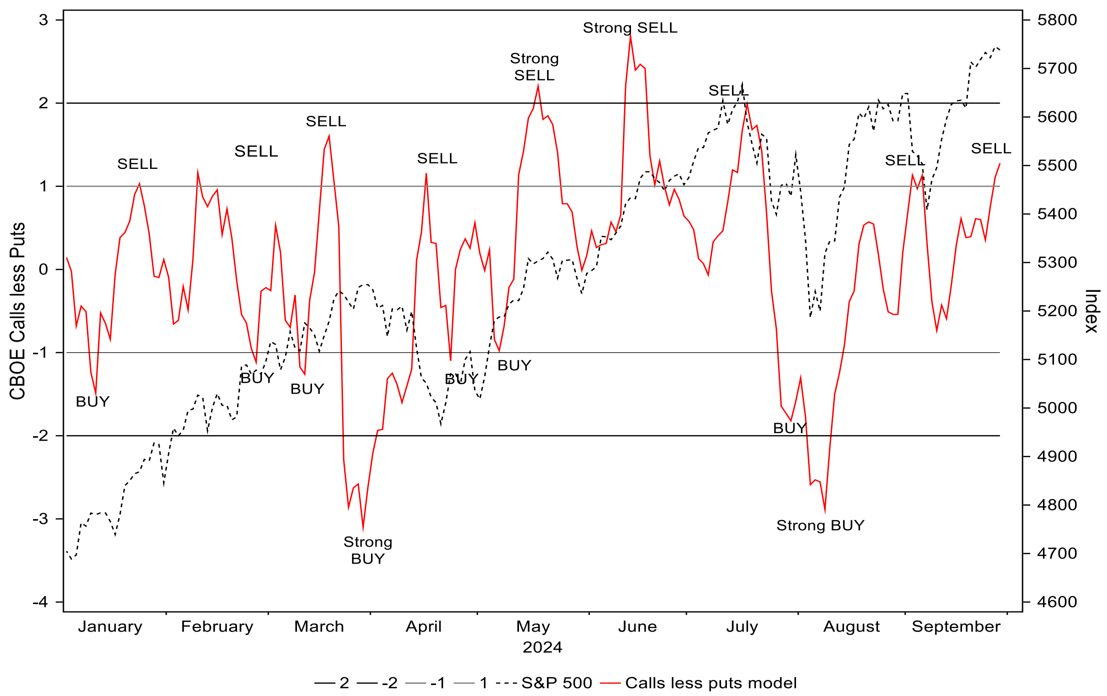
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Source: Longview Economics, Macrobond

Shortest term RAG is NEUTRAL

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

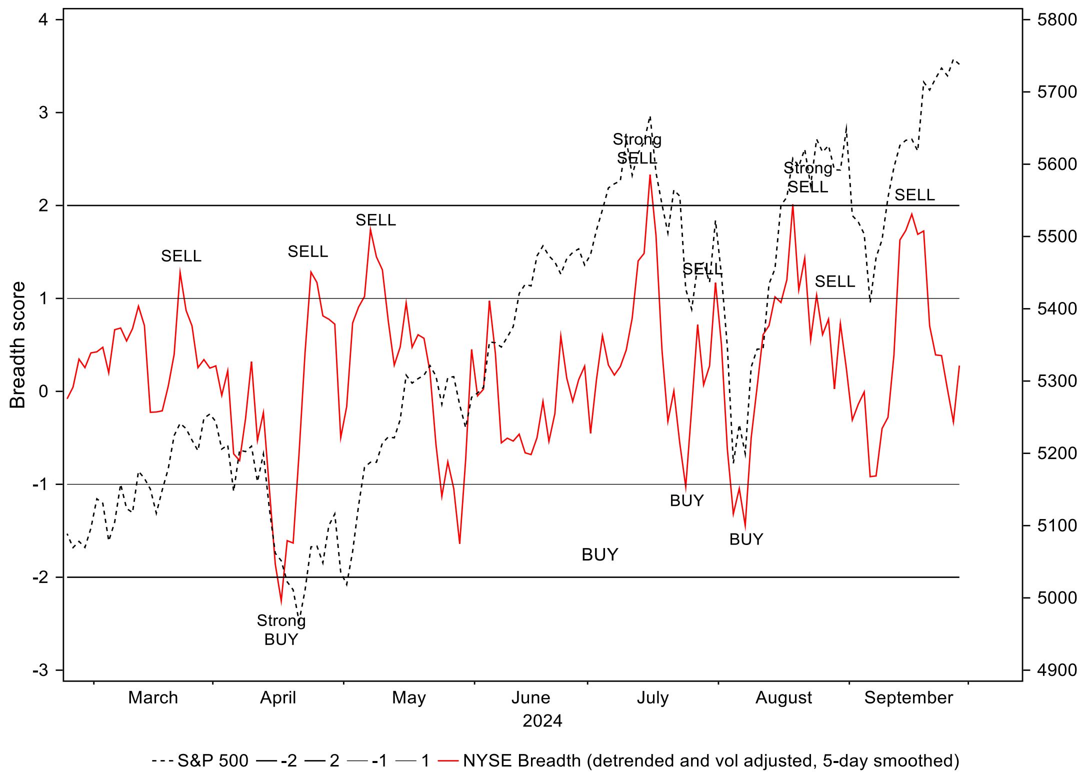


Source: Longview Economics, Macrobond

Calls less puts model is on SELL

For explanations of indicators please see page 10

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



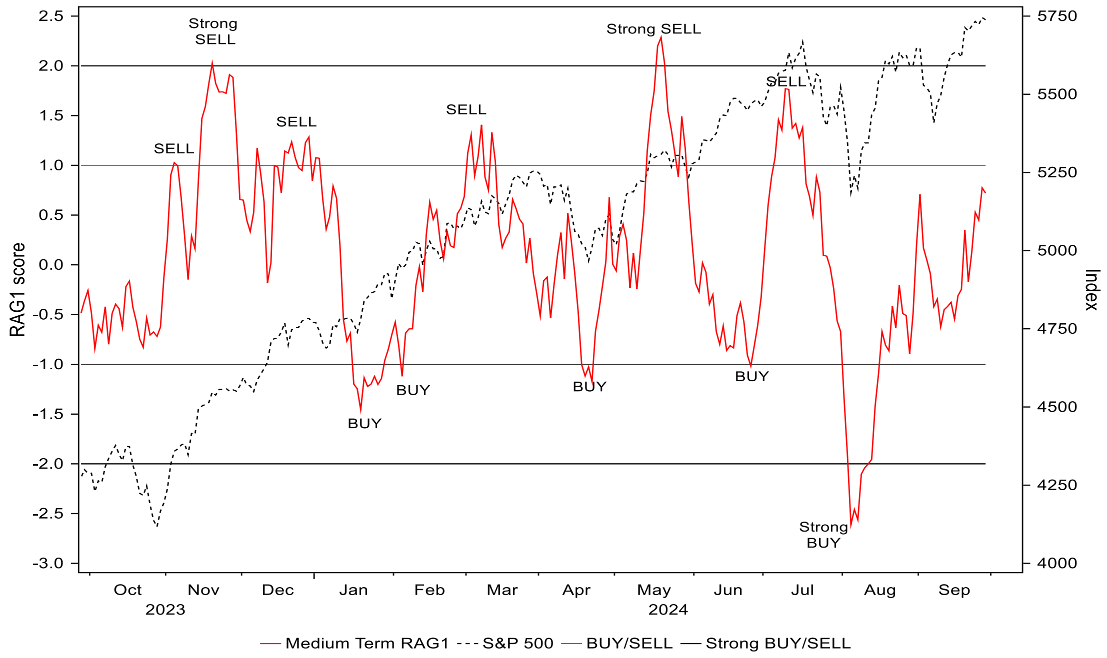
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

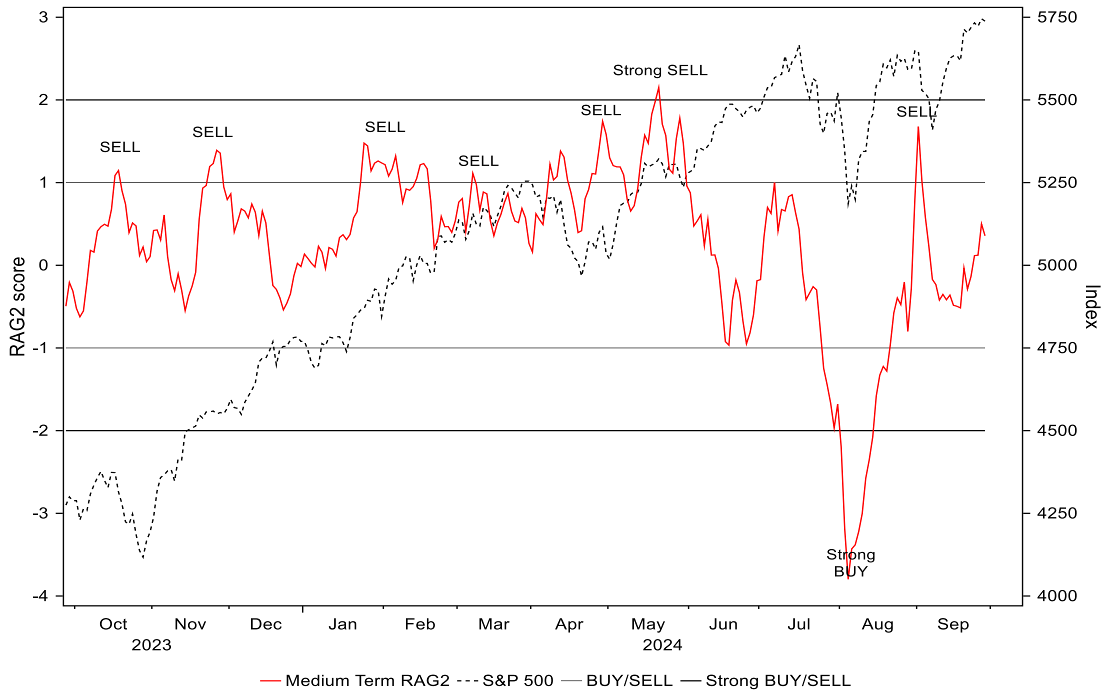
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

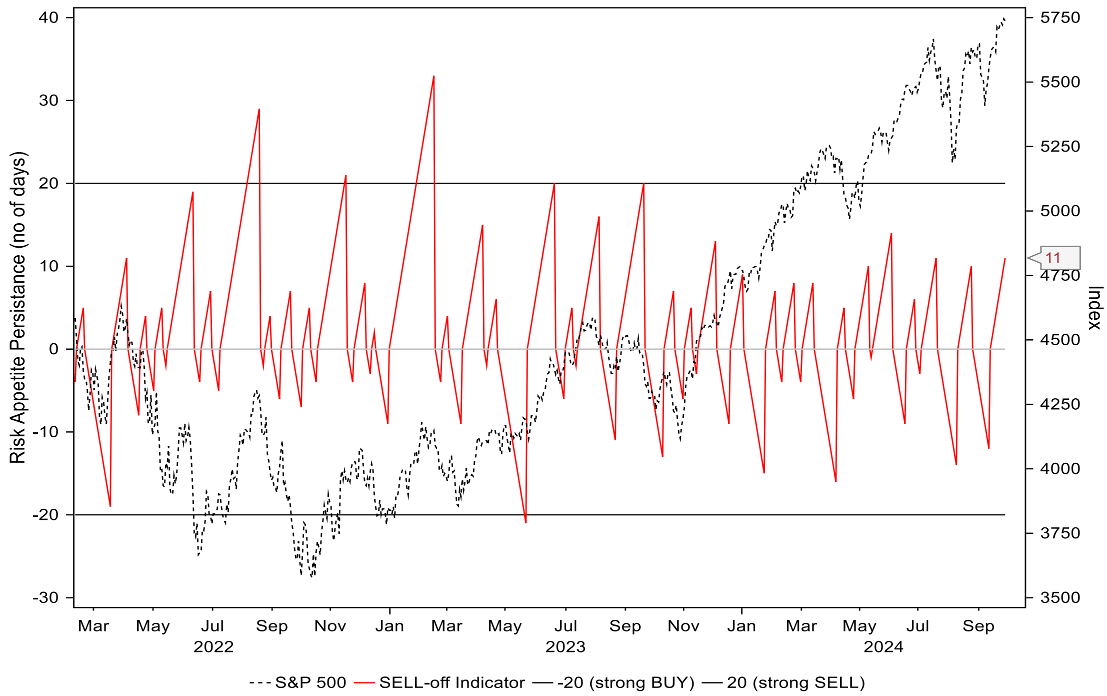


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

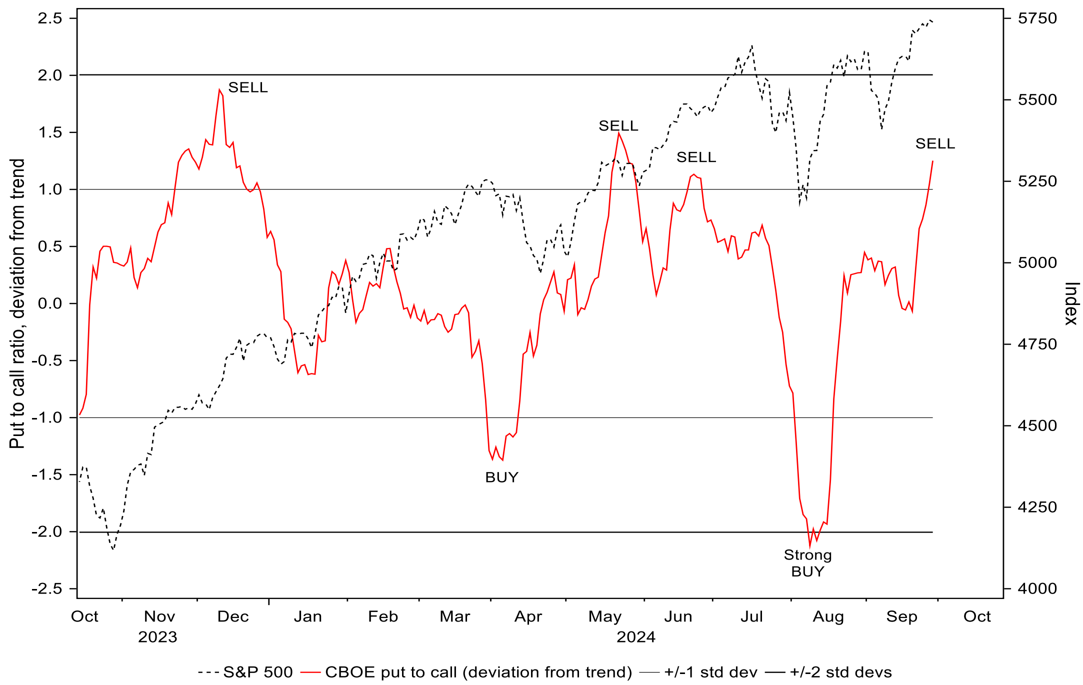
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

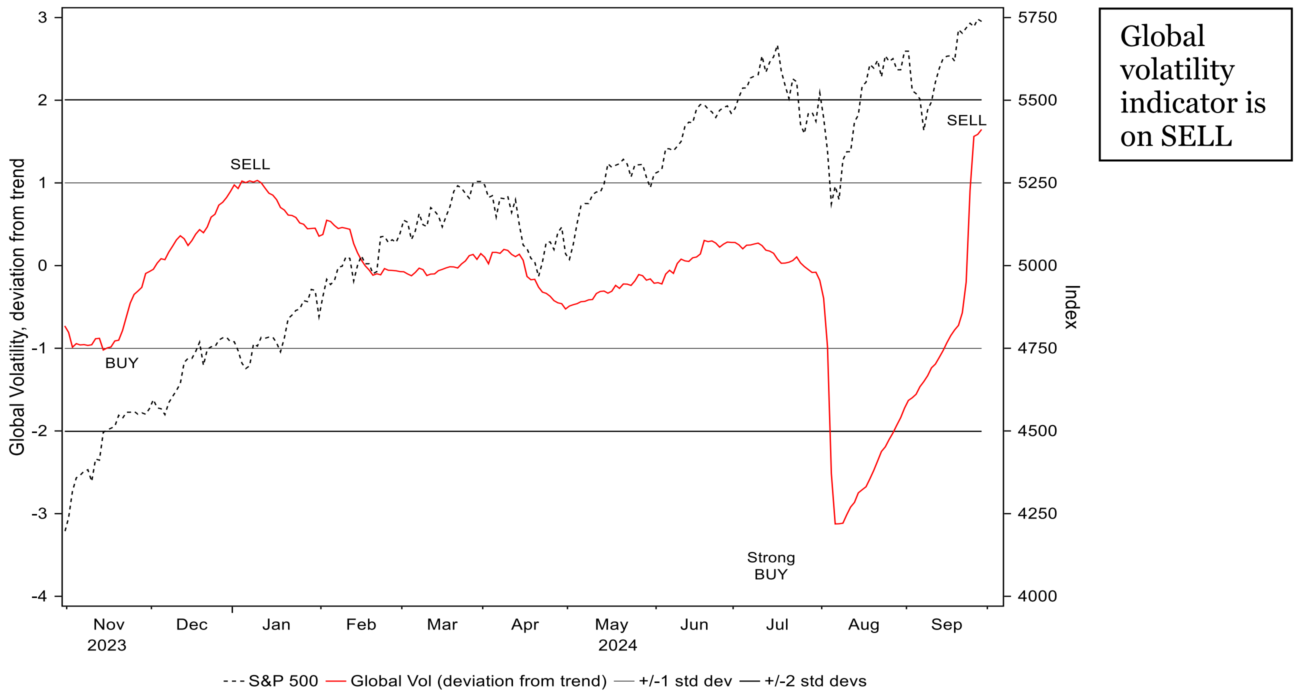


Source: Longview Economics, Macrobond

Medium term put to call model is on SELL

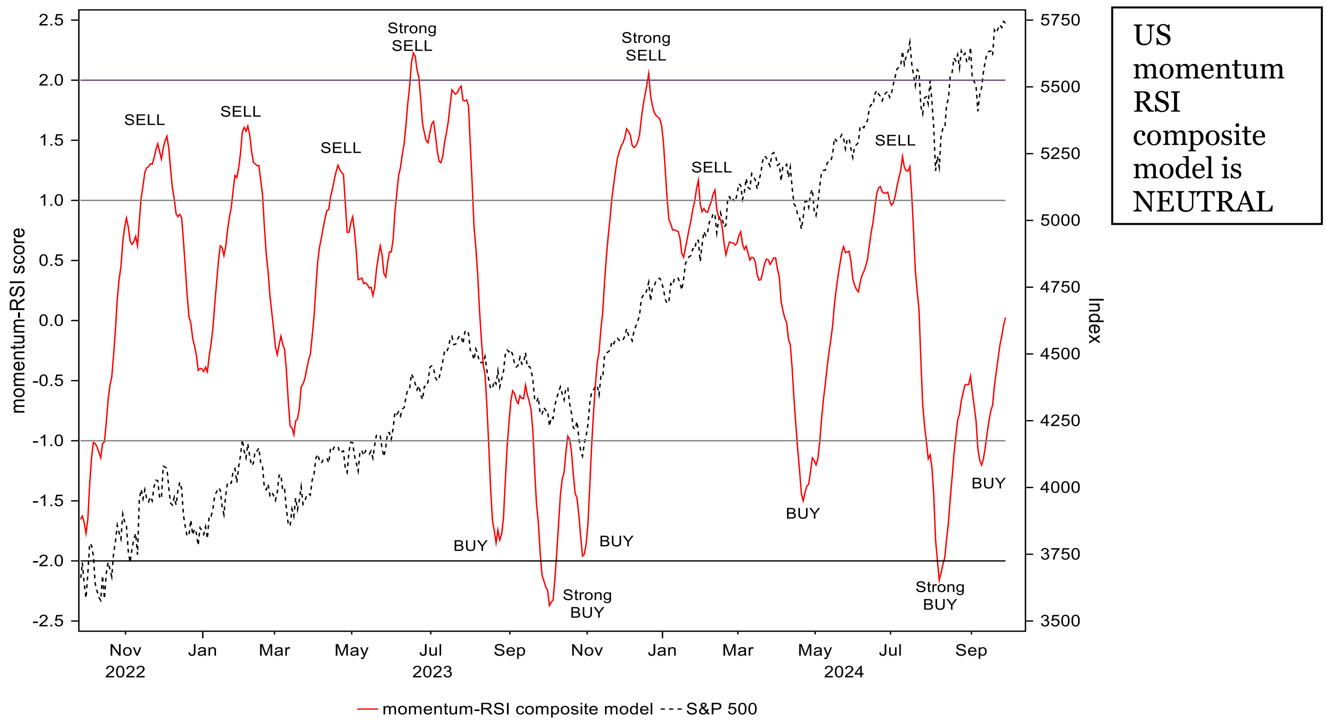
For explanations of indicators please see page 10

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



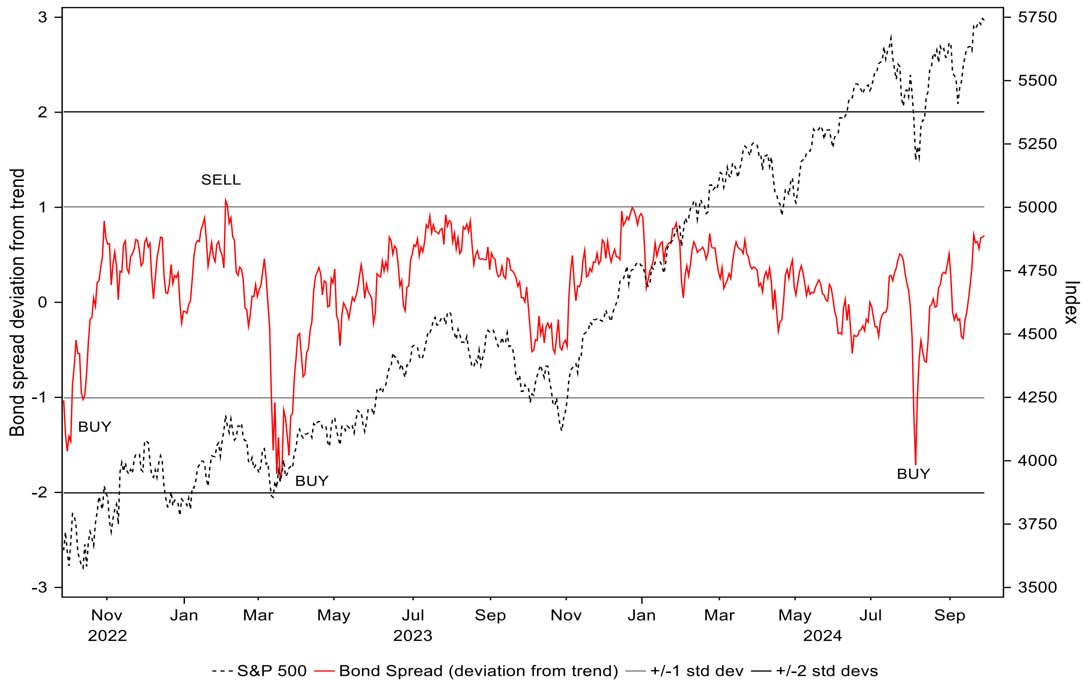
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

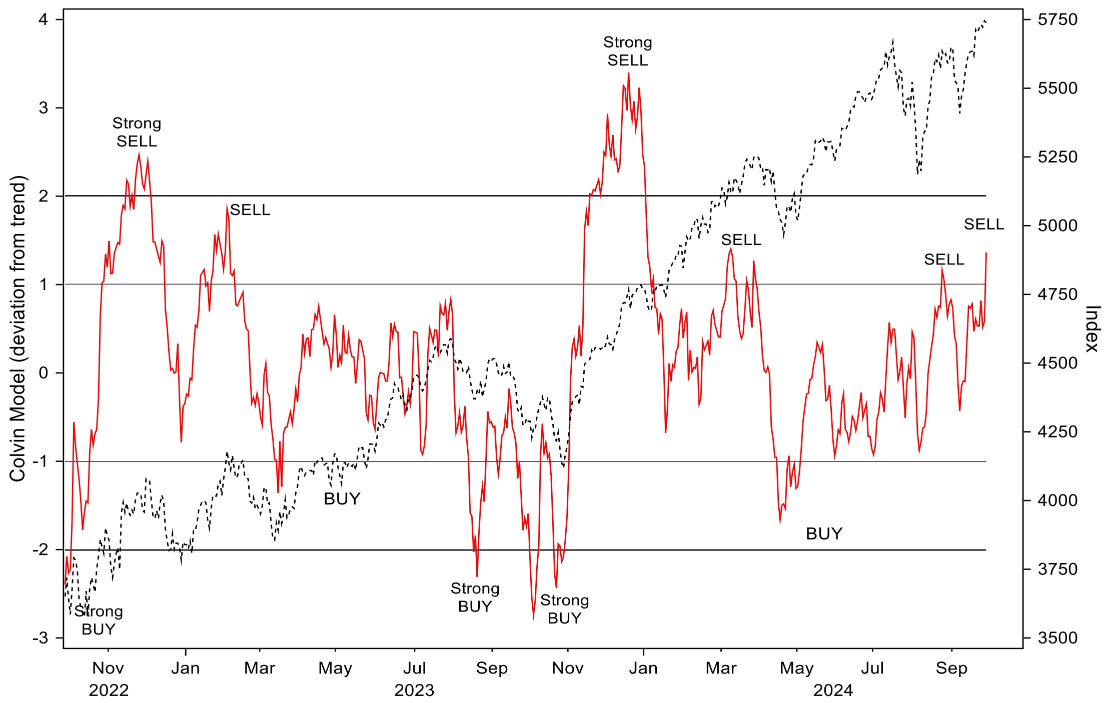
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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 on SELL

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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Daily Risk Appetite Gauge

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