

Weekly Risk Appetite Gauge, 14th July 2025: “Consolidating? Or Rolling Over?”

Welcome to the new ‘Weekly Risk Appetite Gauge’ publication → an assessment of the level of ‘fear & greed’ in market prices, using a blend of short (1 – 2 week) and medium term (1 – 4 month) market timing indicators.

Weekly Assessment of the Market’s ‘Appetite for Risk’:

The upward momentum in the US equity market has stalled out this past week, as the S&P500 and NDX100 indices moved into consolidation mode. For the week, most US indices were down (albeit only modestly - see FIG 1). European indices, meanwhile, fared better, supported by a weaker Euro (against the dollar). The Euro was down 0.7% last week. The return of a plethora of negative tariffs headlines has clearly not helped market momentum. Over the weekend, there were further announcements by Trump (targeting the EU and Mexico). For now, the market appears to be regarding these announcements as simply Trump negotiating tactics. Naturally, though, as August 1st looms closer, nervousness is likely to build (especially if there hasn’t been resolution to many of the bilateral tariff discussions). Added to which, the more the market is largely unfazed by Trump’s tariff threats, the more Trump’s confidence to make those threats will build.

The critical question, though, remains as outlined last week: **Are equity markets simply pausing, before resuming their upside momentum? Or are they about to roll over?**

Certainly, there is **growing evidence of frothiness** (& greediness) in market prices. The SELL-off indicator, for example, generated a signal earlier this month, warning of a heightened risk of a pullback. With the model continuing to build to a higher level, that warning is still valid. Added to that, over the past week, there’s been a buildup in the volume of single stock call options. This also often occurs before pullbacks and indicates traders (retail and others) are becoming overly exuberant (FIG 1b – albeit this model can get to even higher levels).

Other medium-term models have similarly been generating SELL signals, including the medium-term risk appetite scoring system, overextended technical models and the medium term put to call ratio (see FIGs 2a, 2b & 2c). Equally equities are overbought relative to bonds, while the implied volatility (VIX) curve has inverted, such that the model is again signalling complacency (FIG 2d). Short term models, given the consolidation over the past week, have eased off from a collective SELL signal and are now mostly NEUTRAL (those models are shown below in FIGs 3 to 3f).

For now, we **remain cautious about this equity market**. Our theme has been, and remains, that of **‘summer turbulence ahead’**. Seasonally this is a challenging time for equity markets (with ‘May to October’ the poorer performing part of the year, i.e. compared to ‘November through to April’). Equally, the US economy is under pressure (i.e. slowing), while tariff headlines have the potential to generate volatility.

As always, there are **risks** associated with our view. Most obviously, not all market participants have been pulled fully into this rally (e.g. see AAI sentiment indicators).

As such, there remains ‘cash on the sidelines’ (and a desire amongst institutional investors, at least, to put more money to work). This can limit the size of the downside – or even ensure that the market simply trades sideways for a prolonged period. Equally, Bitcoin, which is often a leading indicator of risk assets, has broken out to the upside (something else we are watching closely – FIG 1c).

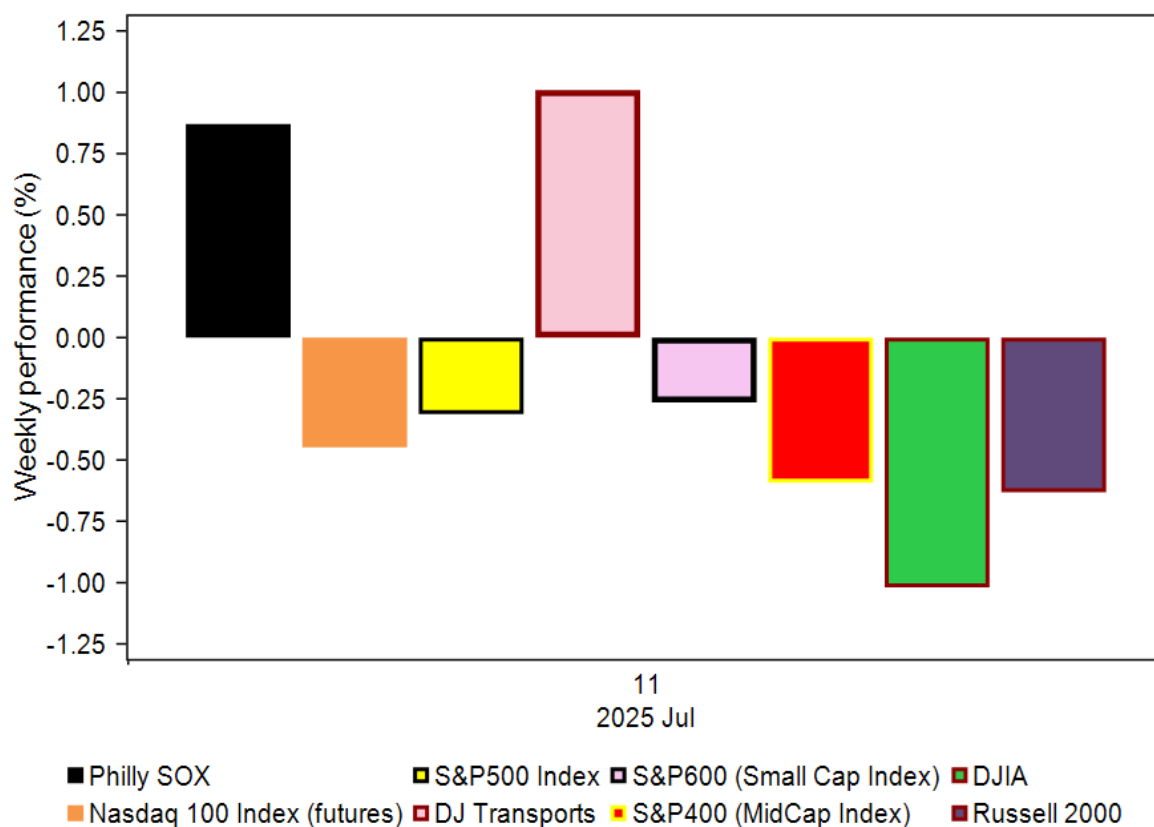
For a full update on our tactical (1 - 4 month) views, see last week’s Longview Alert (10th July), and our latest monthly ‘Tactical Asset Allocation’ (published 3rd July 2025).

Key events and macro data due this week are shown below and include the start of the US second quarter earnings season (in earnest) with various major US banks reporting on Tuesday and Wednesday. Elsewhere inflation will be a key focus this week (US CPI on Tuesday, UK inflation on Wednesday).

Kind regards,

The team @ Longview Economics

FIG 1: US equity markets – weekly performance (last week, %)

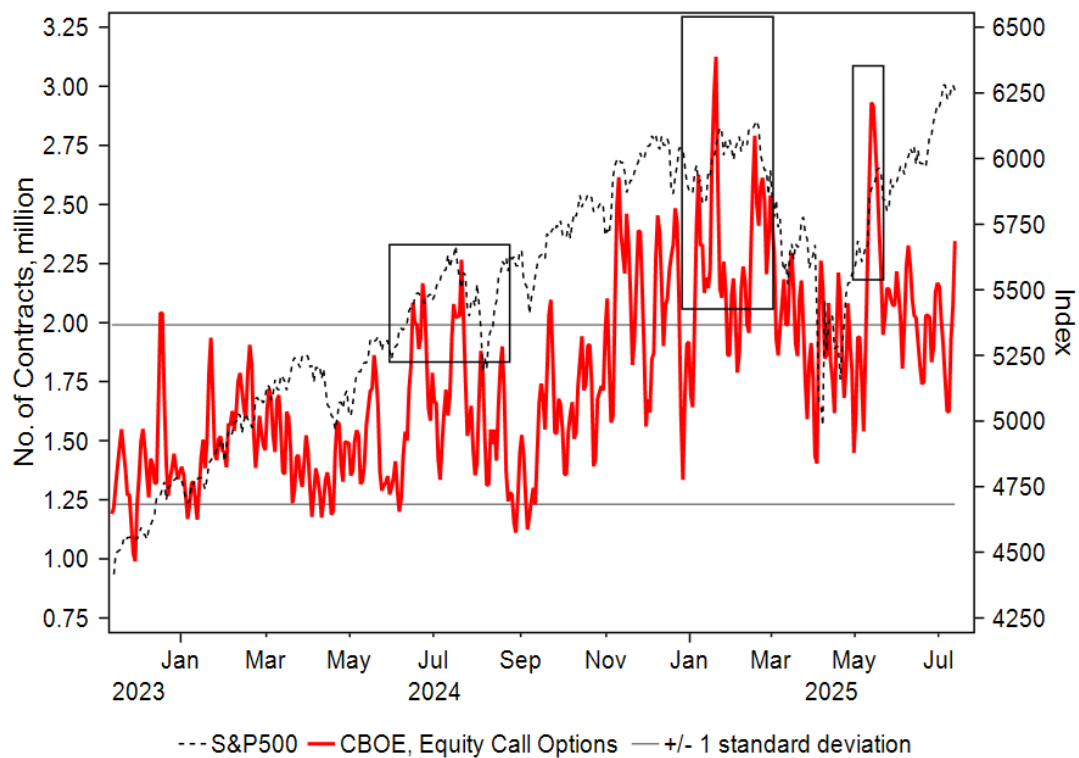


Source: Longview Economics, Macrobond

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

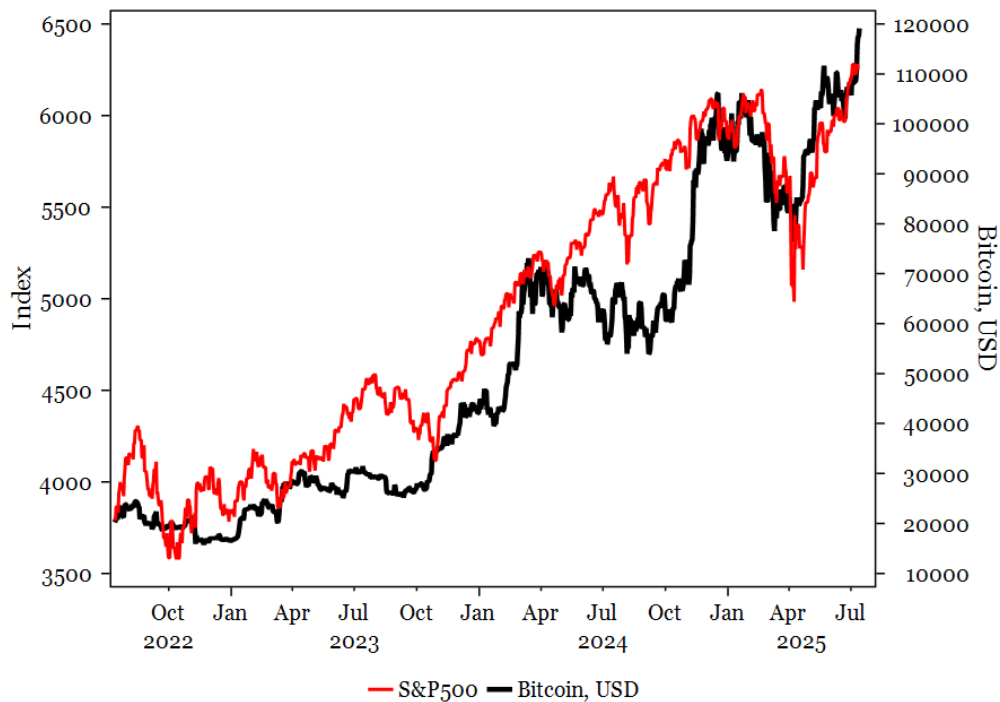


FIG 1b: Volume of outstanding CBOE ‘single stock’ call options (3 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

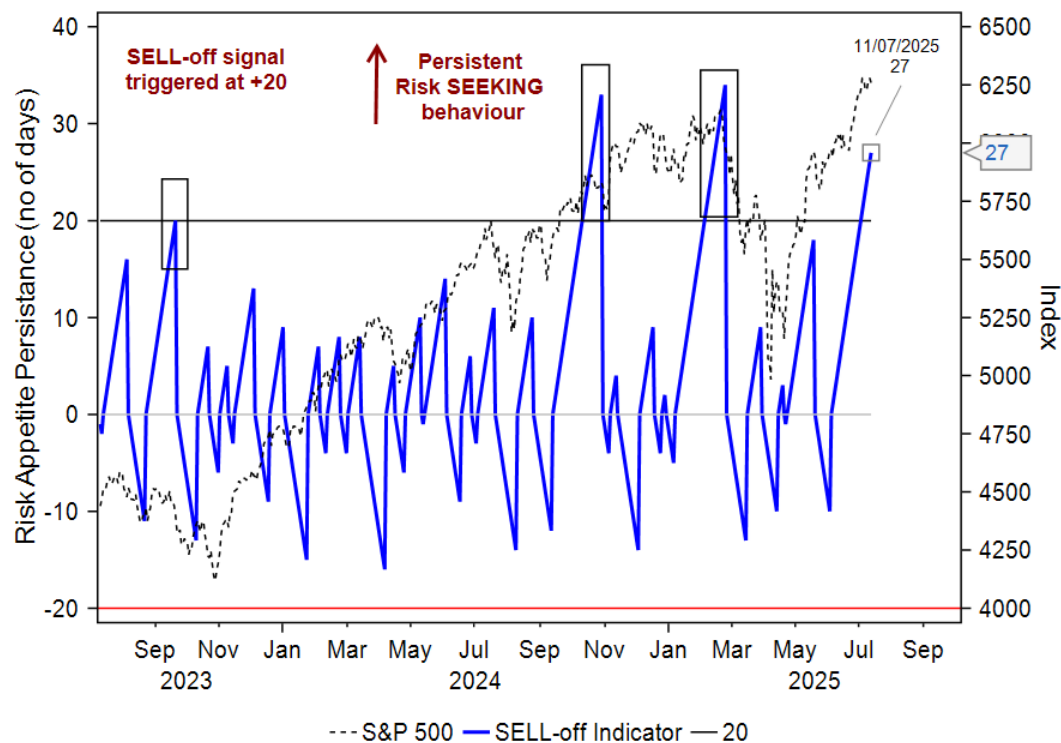
FIG 1c: Bitcoin (US\$) vs. S&P500 price index



Source: Longview Economics, Macrobond

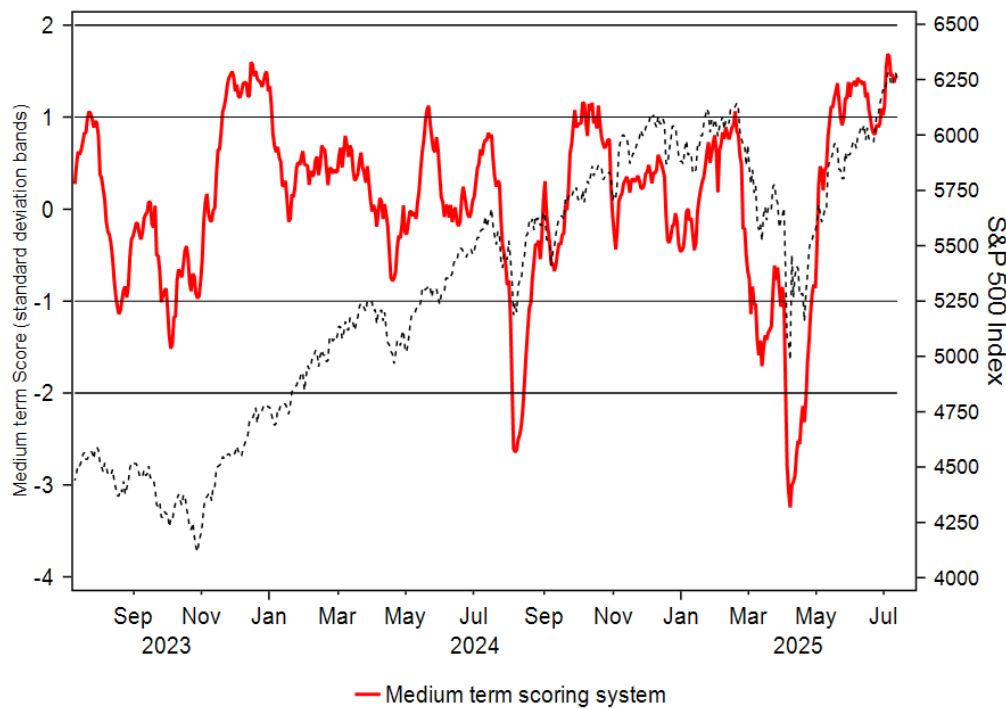
Medium term (1 – 4 month) market timing models....

FIG 2: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

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



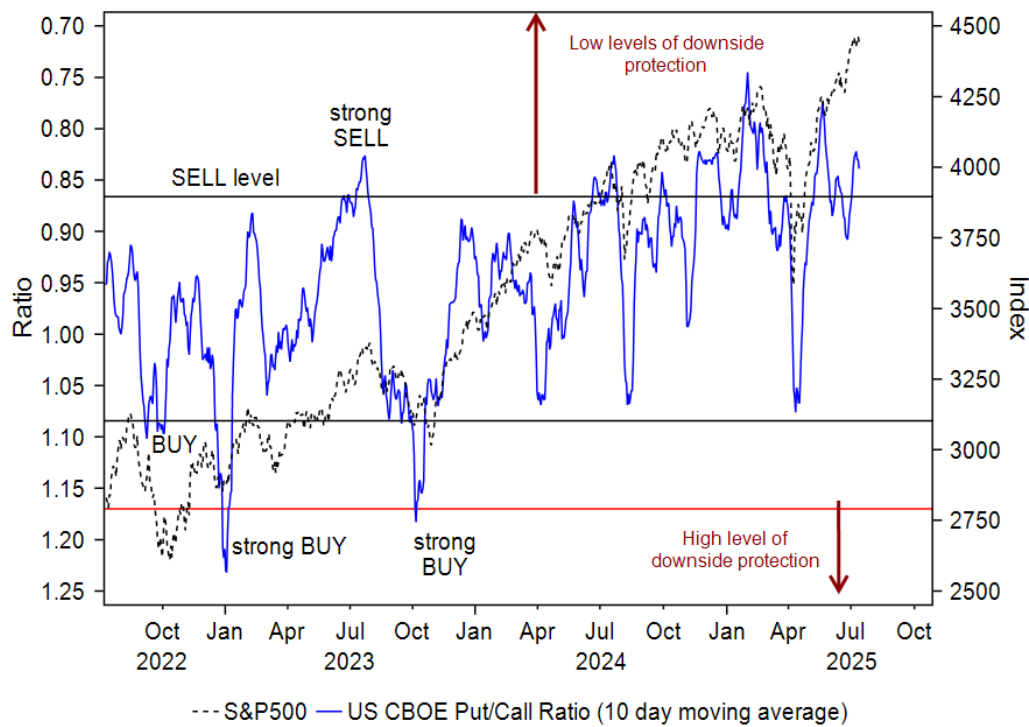
Source: Longview Economics, Macrobond

FIG 2b: S&P500 overextended indicator (underlying index price relative to 50-day moving average)



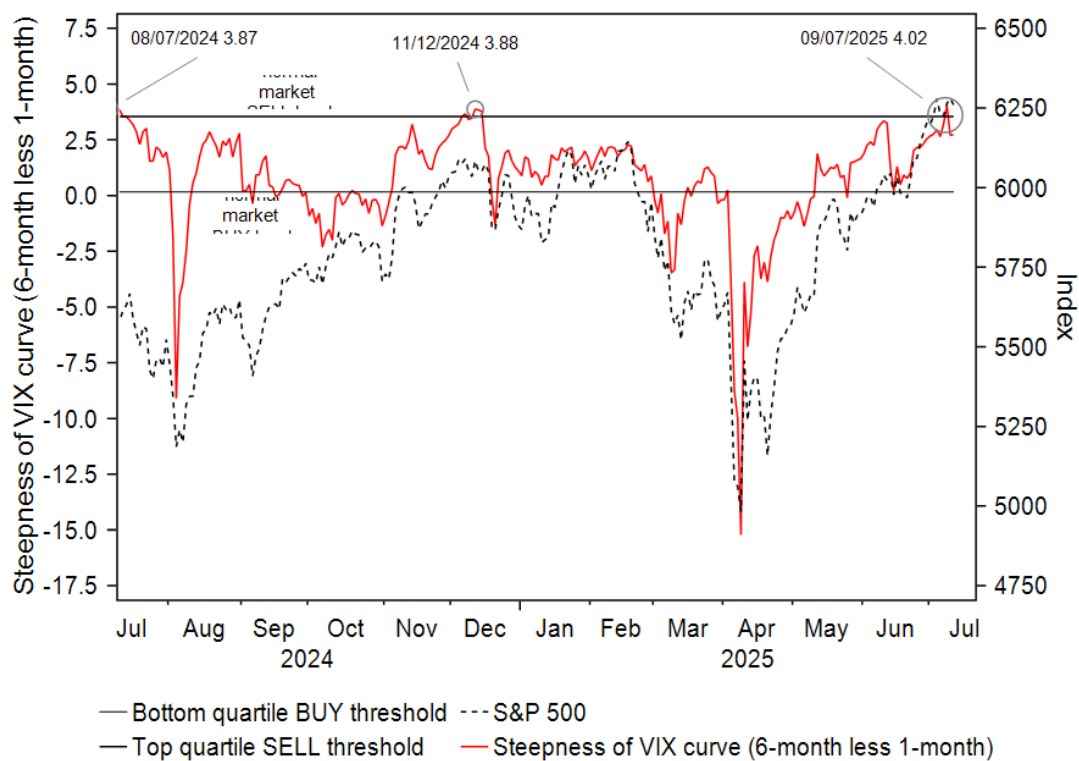
Source: Longview Economics, Macrobond

FIG 2c: US medium term put to call ratio vs. S&P500



Source: Longview Economics, Macrobond

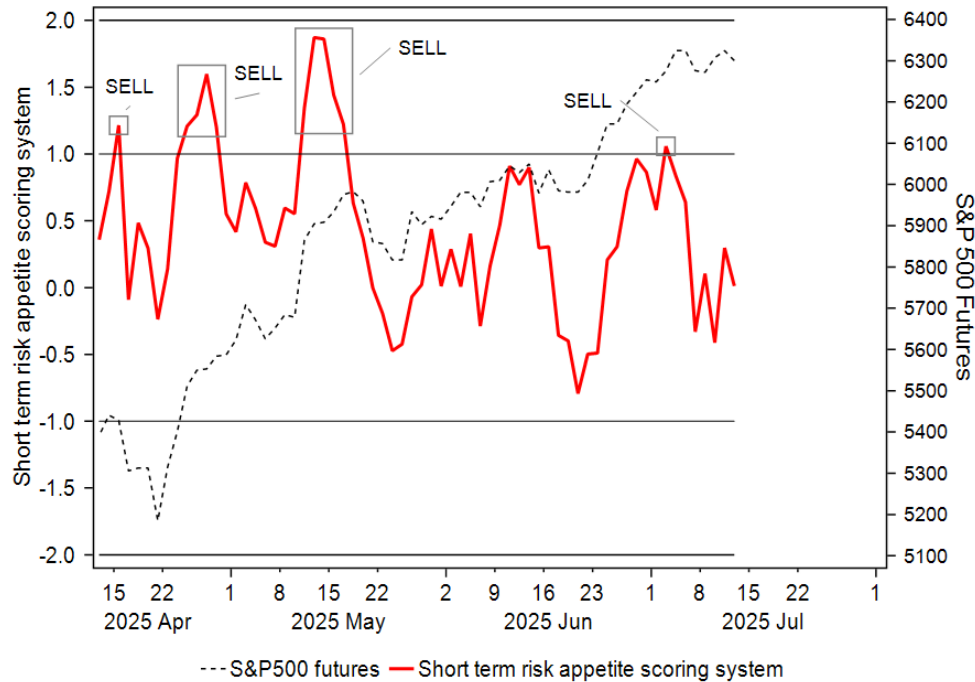
FIG 2d: Steepness of VIX curve (6 less 1 month futures) vs. S&P500



Source: Longview Economics, Macrobond

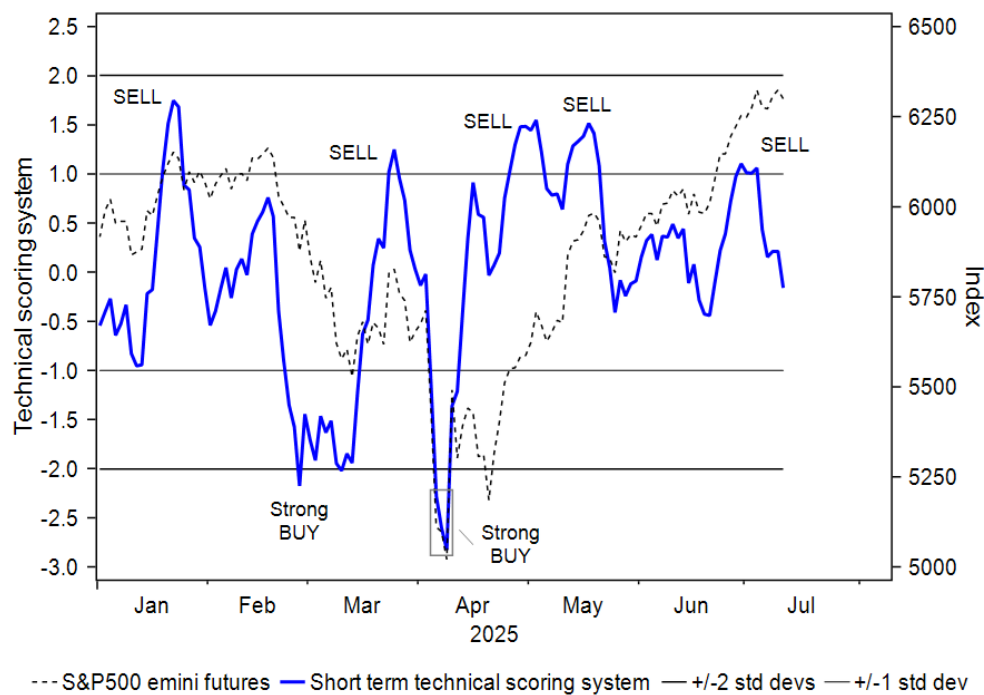
Short term (1 – 2 week) market timing models are mostly now NEUTRAL.....

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



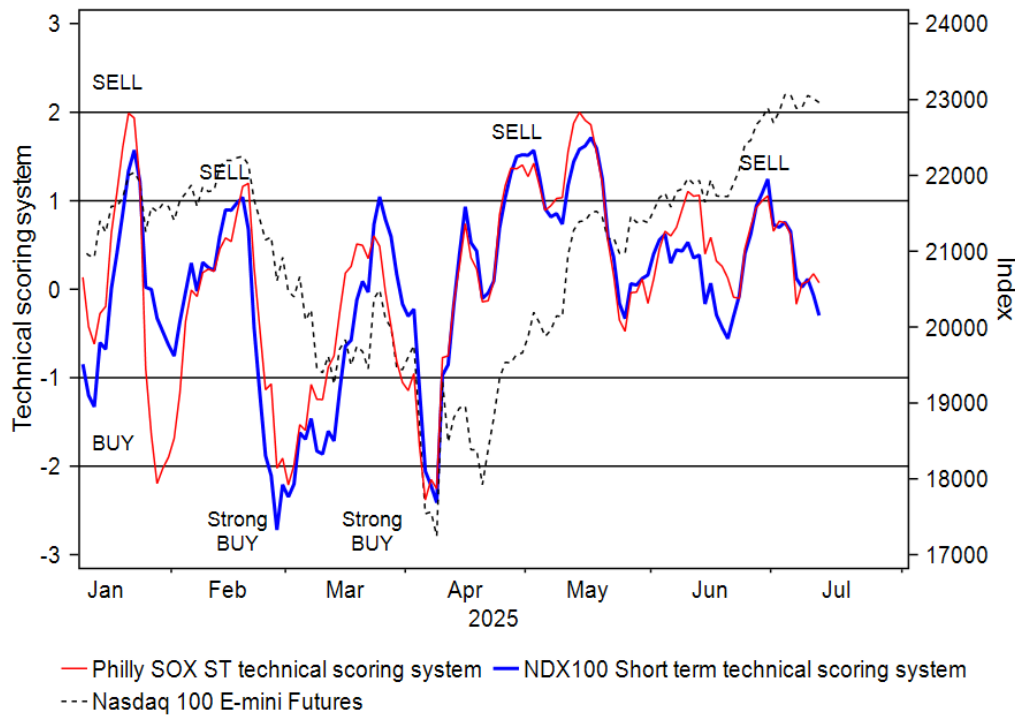
Source: Longview Economics, Macrobond

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



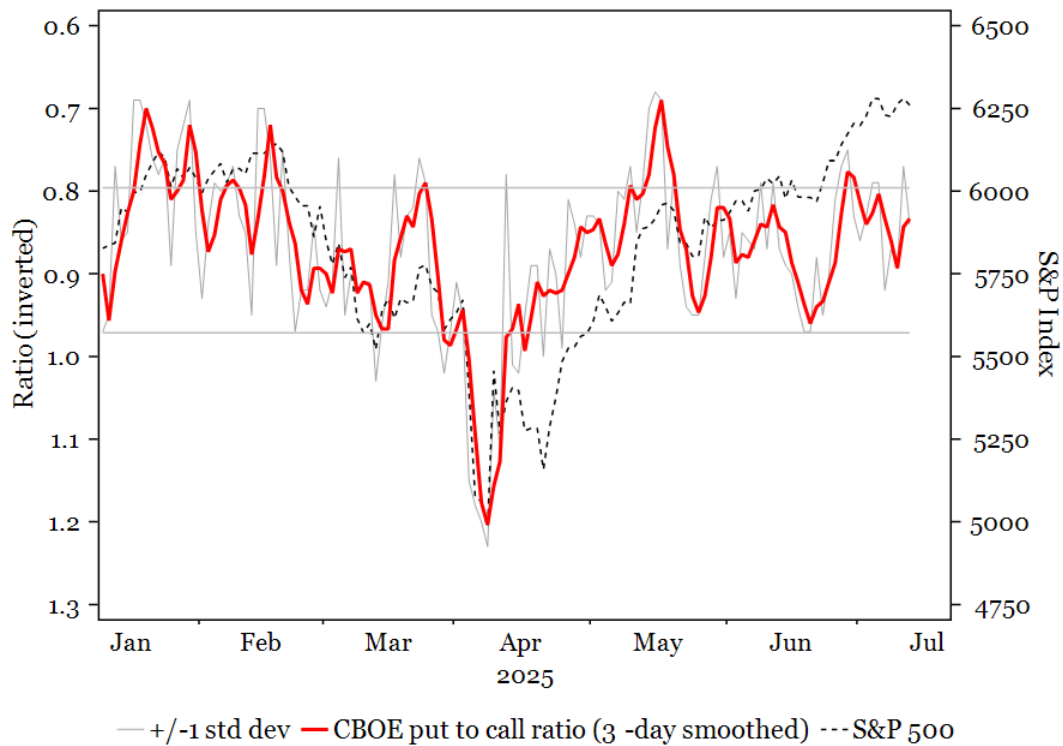
Source: Longview Economics, Macrobond

FIG 3b: Longview NDX100 & Philly SOX short term **‘technical’** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

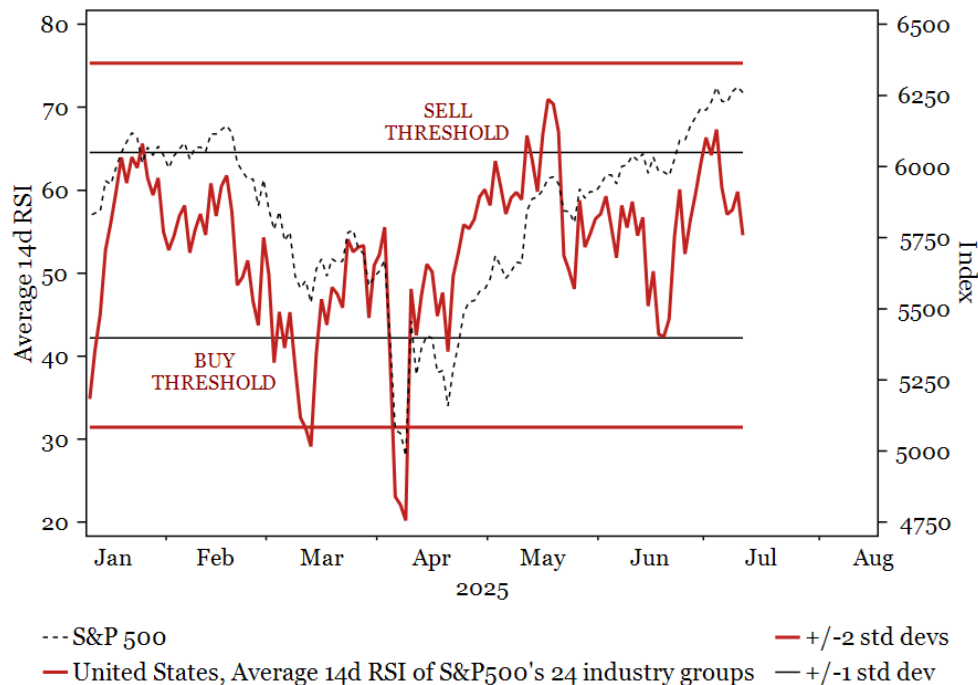
FIG 3c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

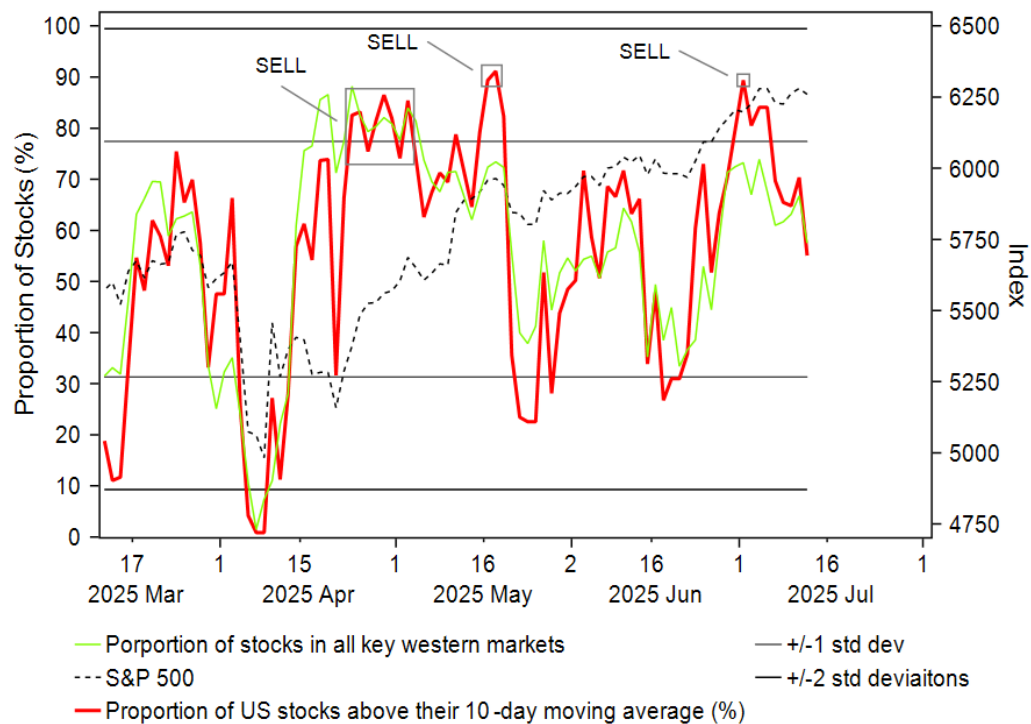
Sector and single stock models are mostly, although not all, mid-range...

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



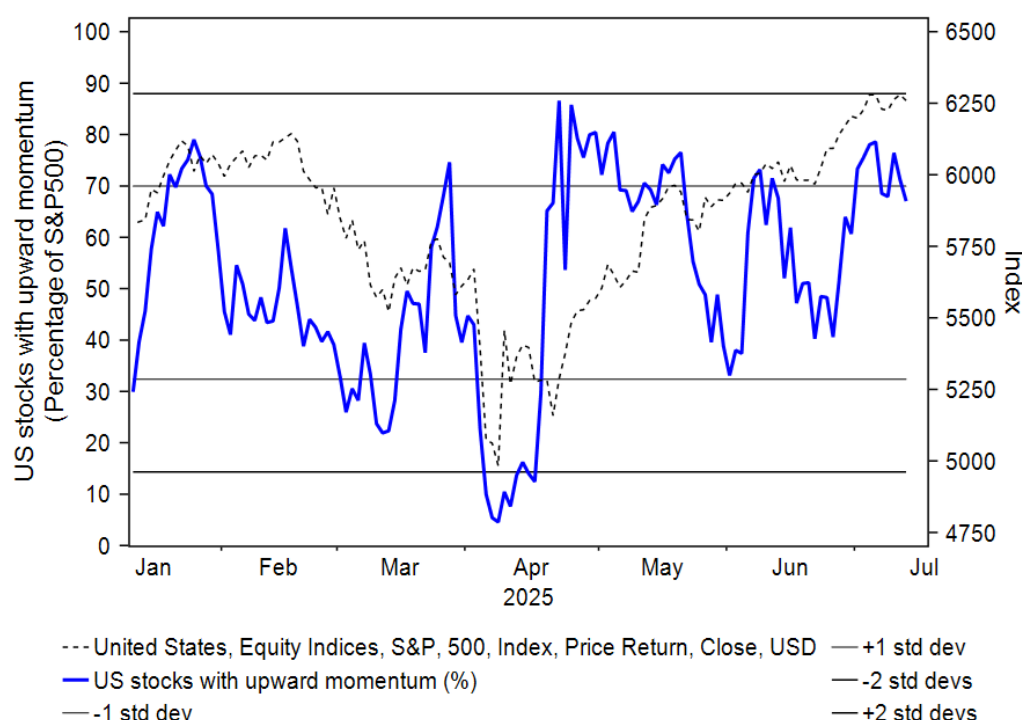
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 3f: S&P500 single stocks with upward momentum (scored & aggregated) vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events this week (sourced from Friday's 'State of Markets' email):

- Events:** BoE Governor Bailey delivers Mansion House Speech (Tues, 9pm); Fed releases Beige Book (Wed, 7pm).
- Monday:** Chinese imports/exports, & trade balance (June, 4am).
- Tuesday:** US headline & core CPI (June, 1:30pm); Chinese GDP (Q2, 3am).
- Wednesday:** UK Headline & core CPI, RPI & PPI (June, 7am); US headline & core PPI (June, 1:30pm).
- Thursday:** US retail sales (June, 1:30pm).
- Friday:** US Michigan Sentiment (July first estimate, 3pm); Japanese headline & core CPI (June, 12:30am).
- Key earnings:** JPMorgan, Wells Fargo&CO, BlackRock, Citigroup, BNY Mellon (Tues); J&J, Bank of America, Morgan Stanley, Goldman Sachs (Wed) Netflix(Thurs) American Express (Fri).

For the full detail, organised by key region, see Friday's 'State of Markets' email.

1 – 2 Week View on Risk

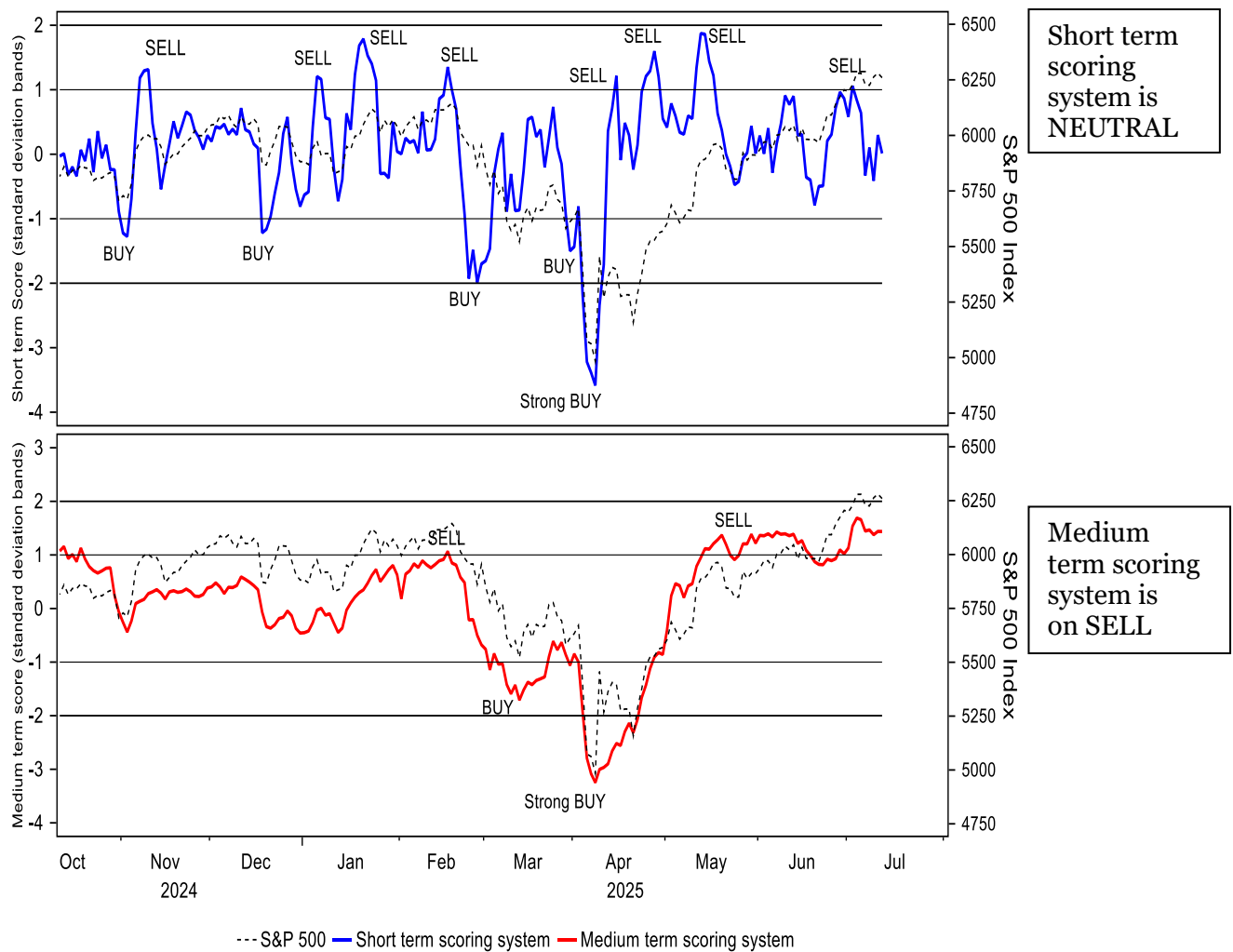
Longview Economics

Email: research@longvieweconomics.com

14th July 2025

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

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



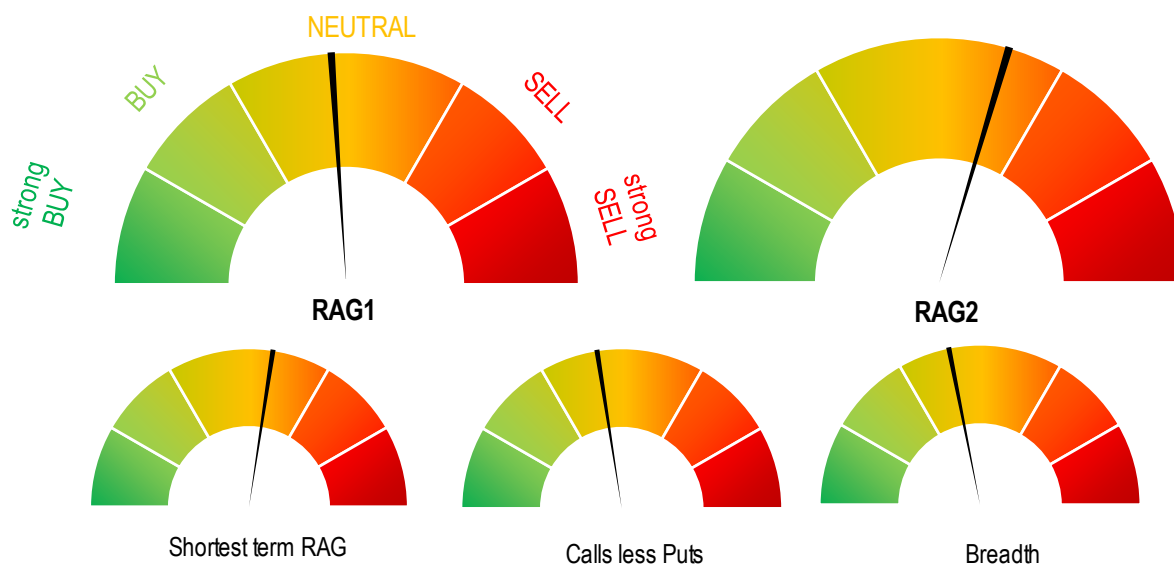
Source: Longview Economics, Macrobond

*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**

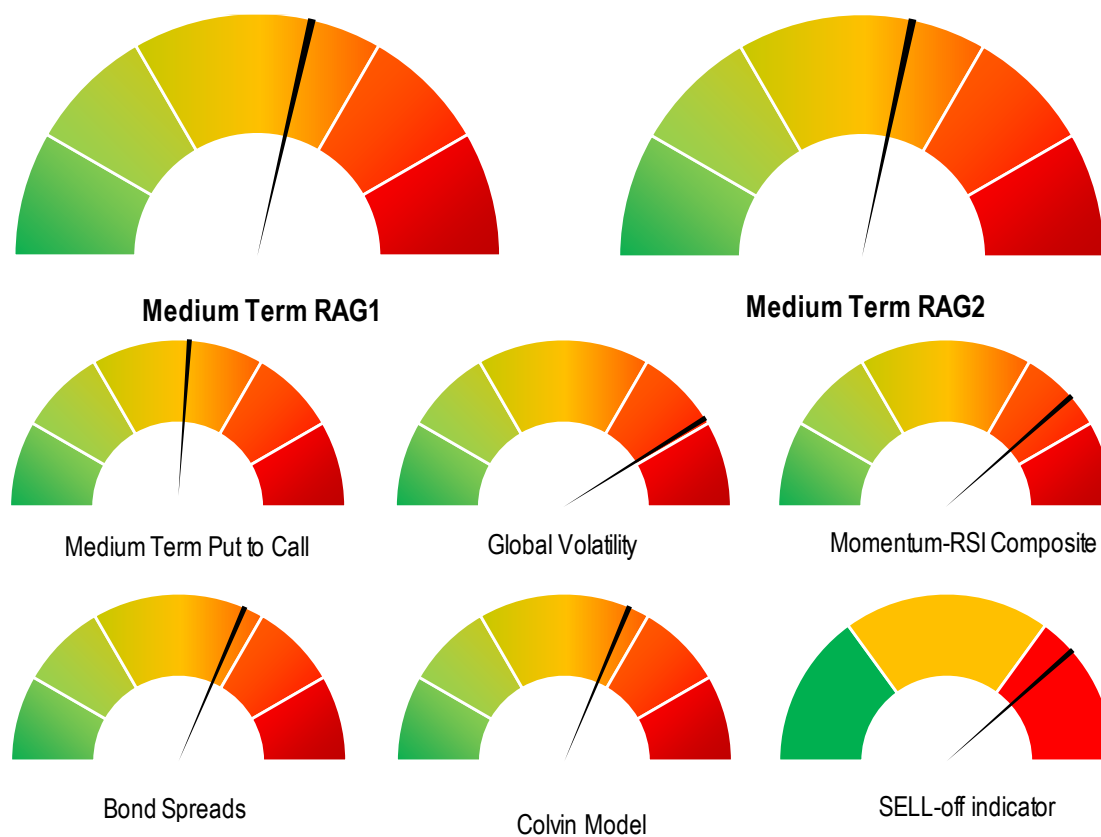
Section 1a: Summary of indicator signals**

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

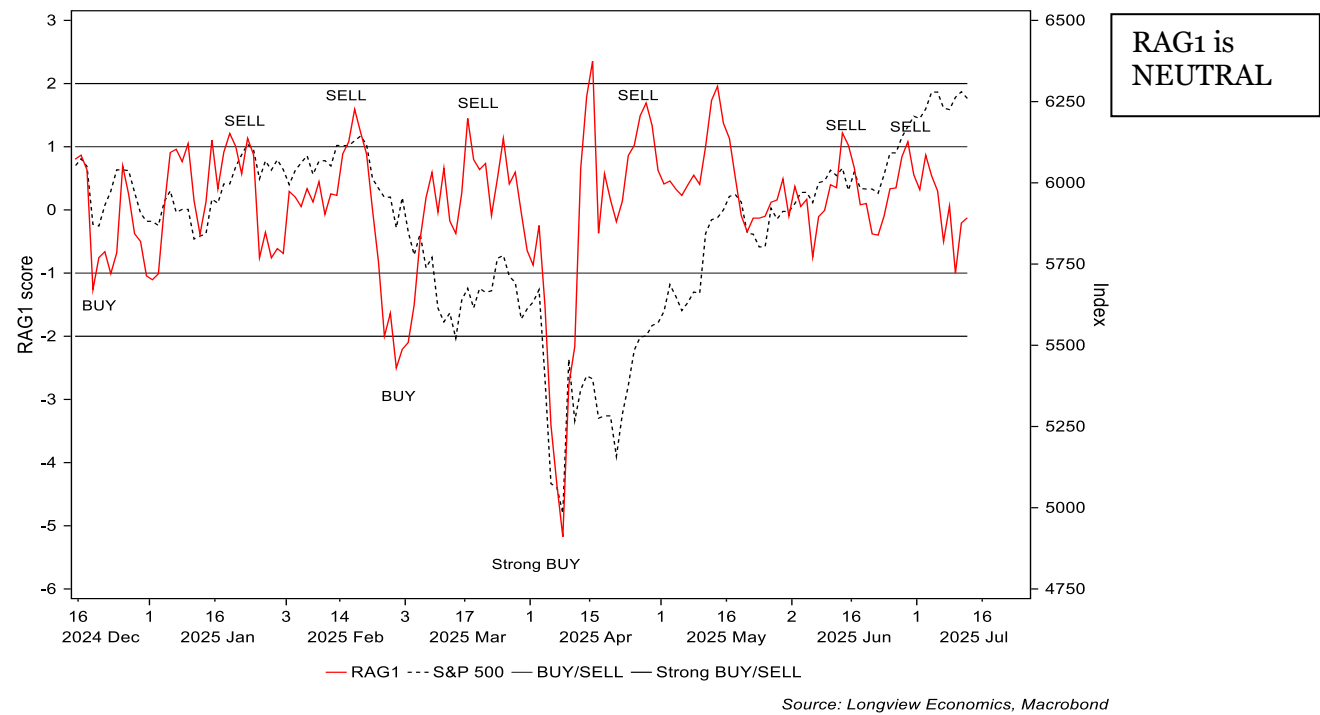
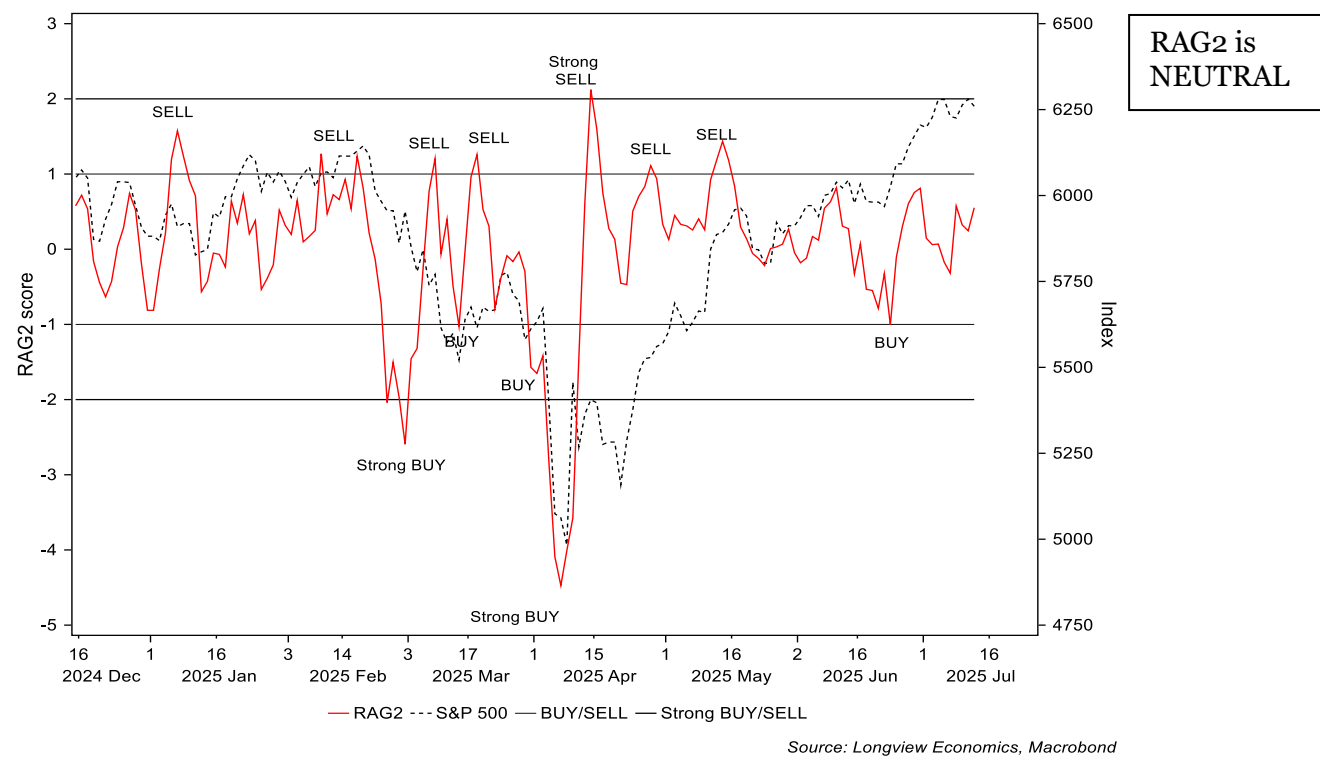


Fig 2b: RAG 2 vs. S&P 500



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

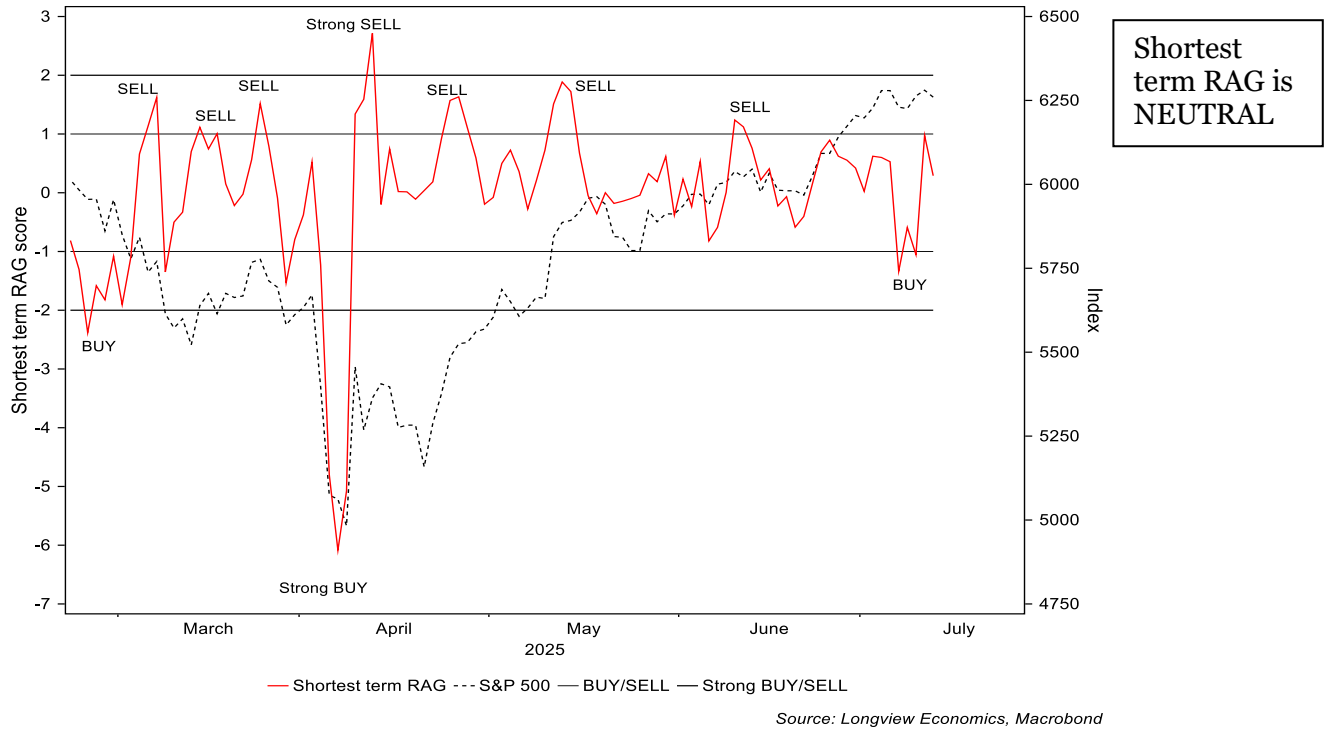
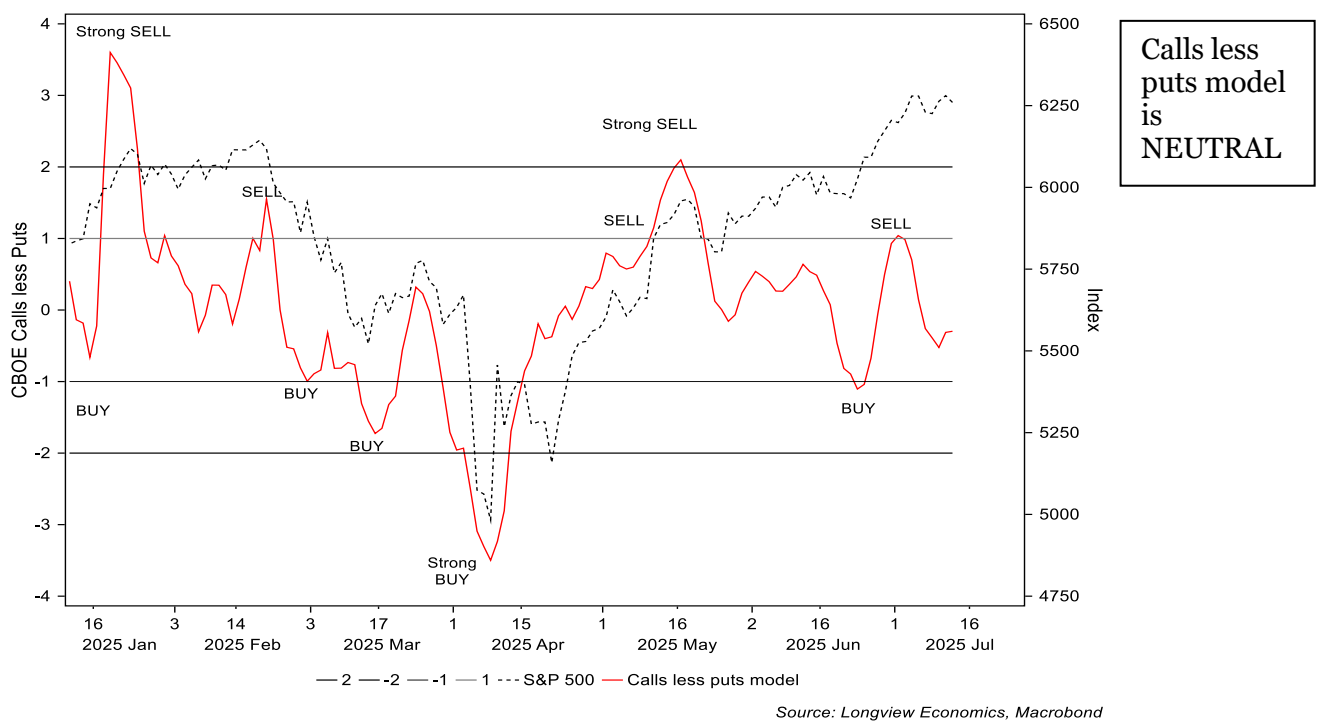
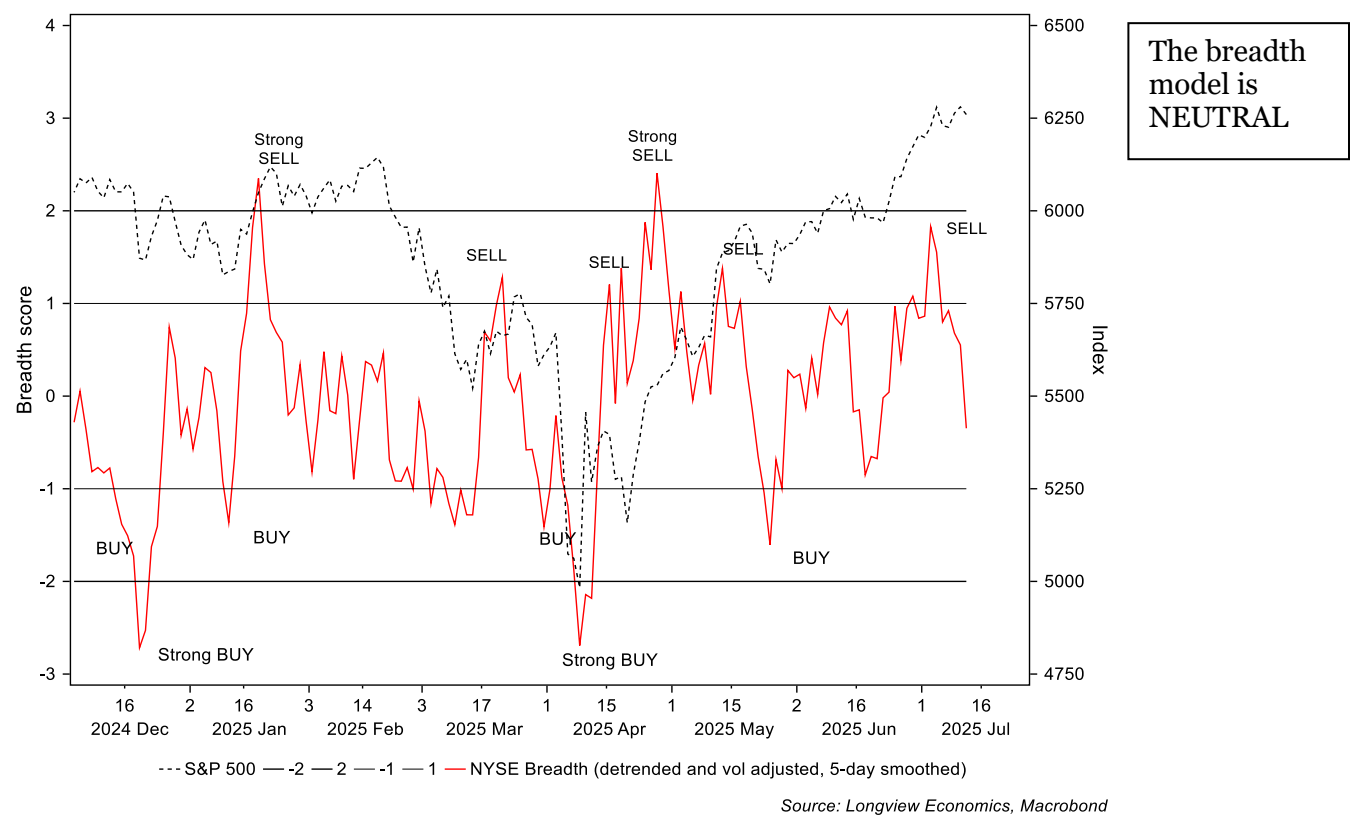


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

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



For explanations of indicators please see page 10

Section 3: Medium term (1 – 4 month) outlook

Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500

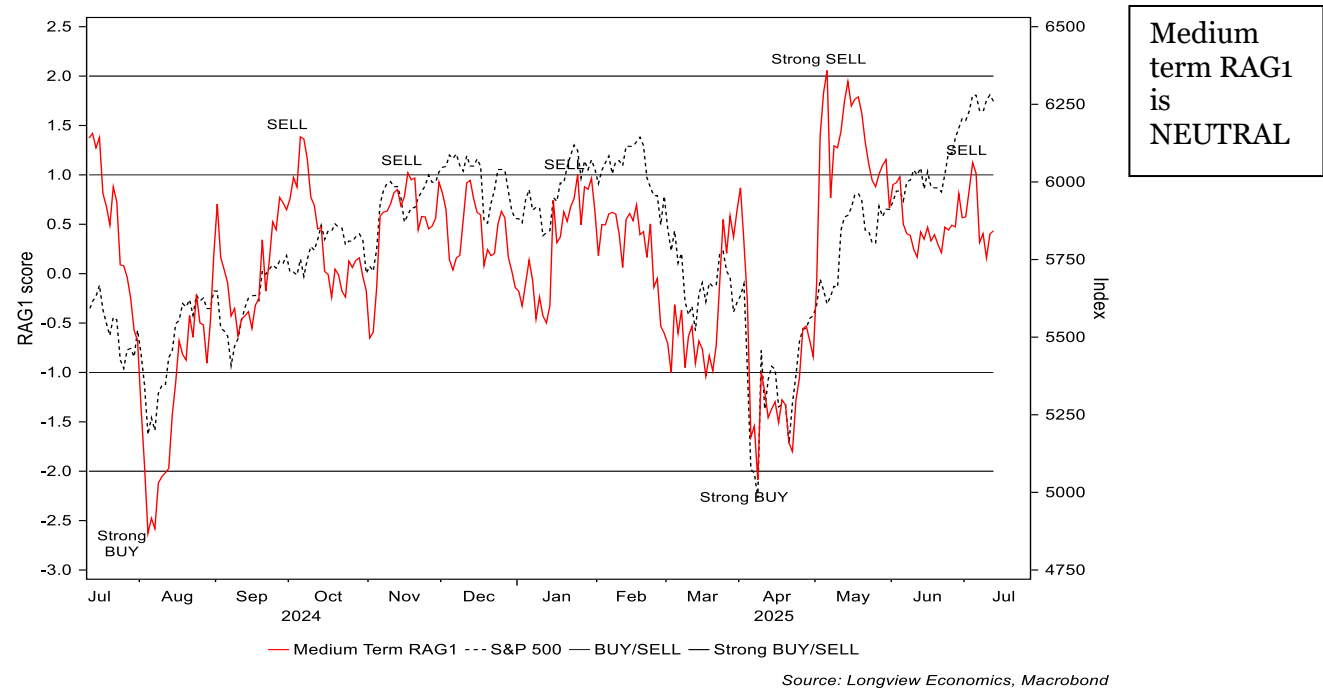
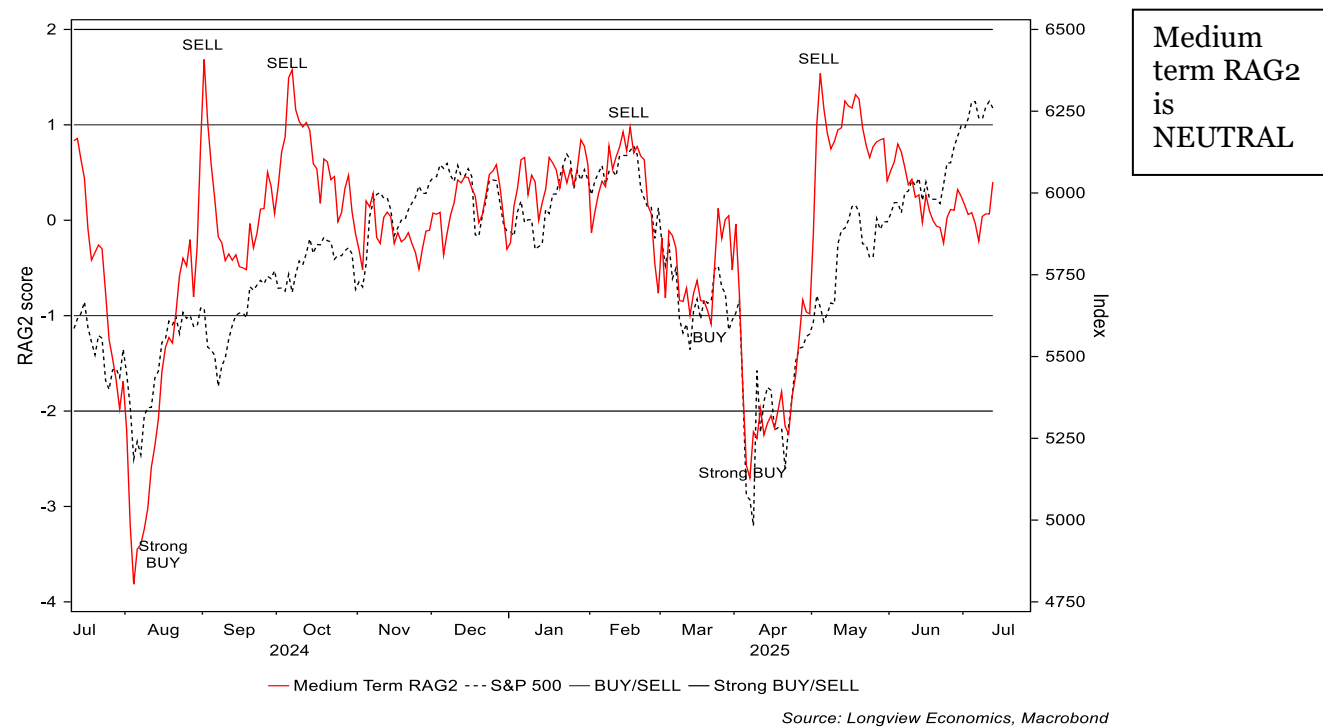


Fig 3b: Medium term RAG2 (1 – 4 month view) vs. S&P 500



For explanations of indicators please see page 10

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

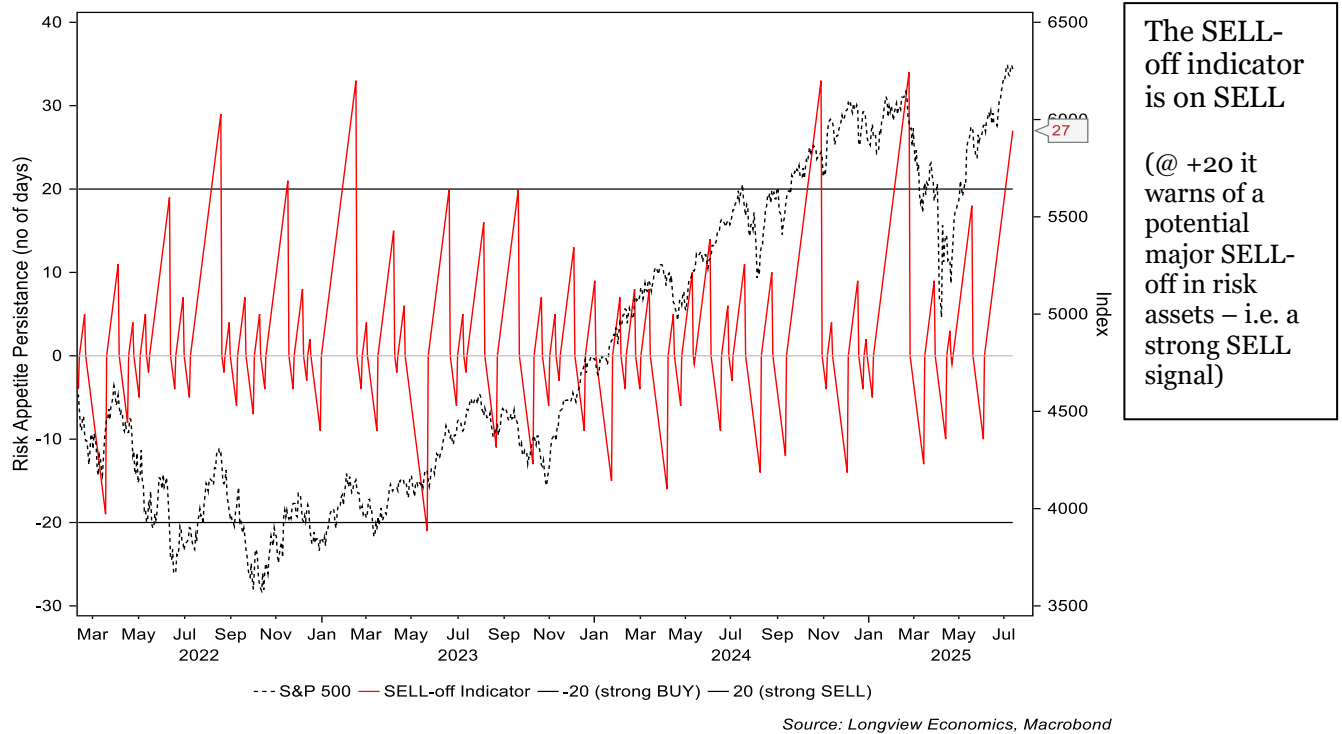
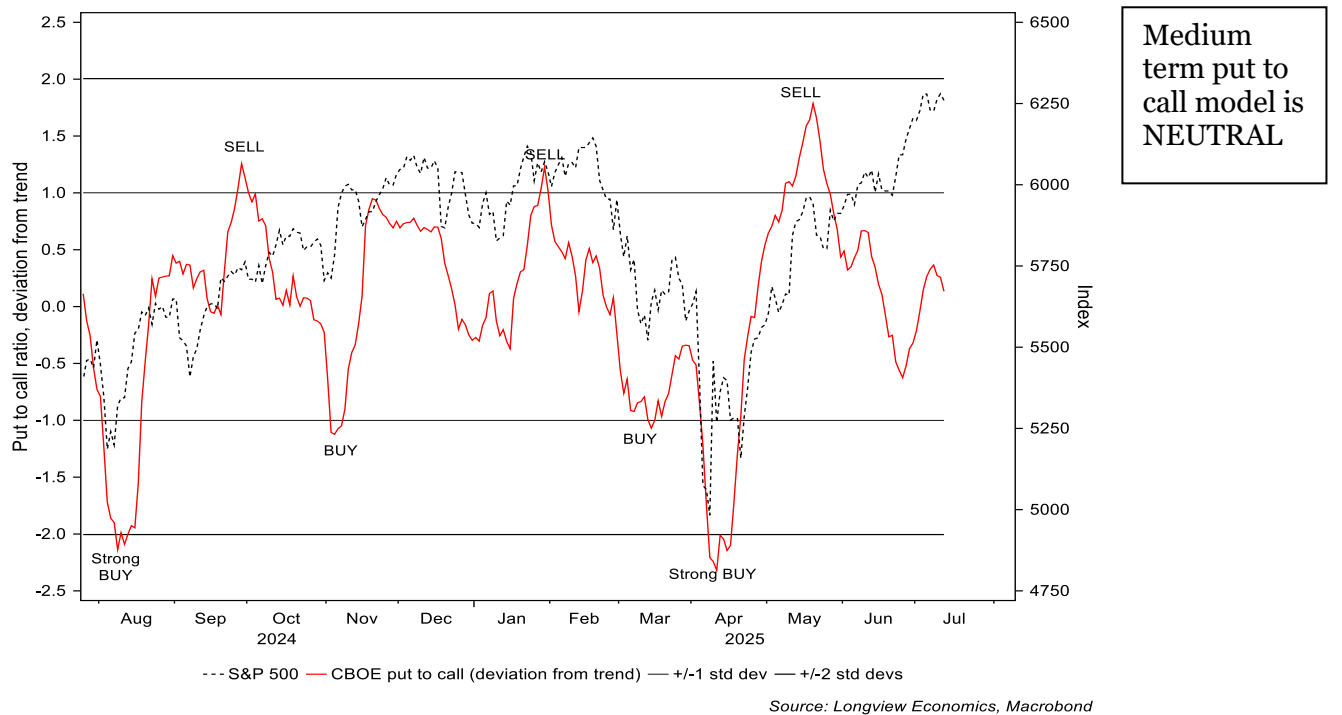


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

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

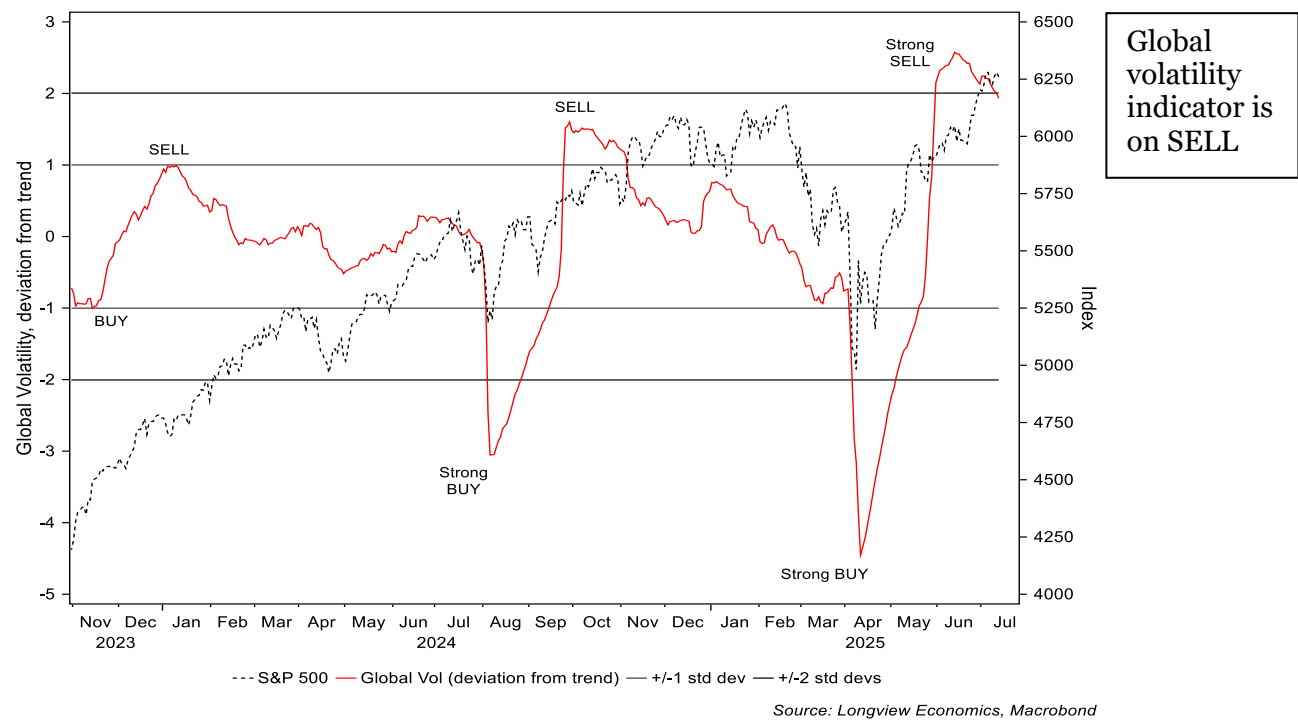


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

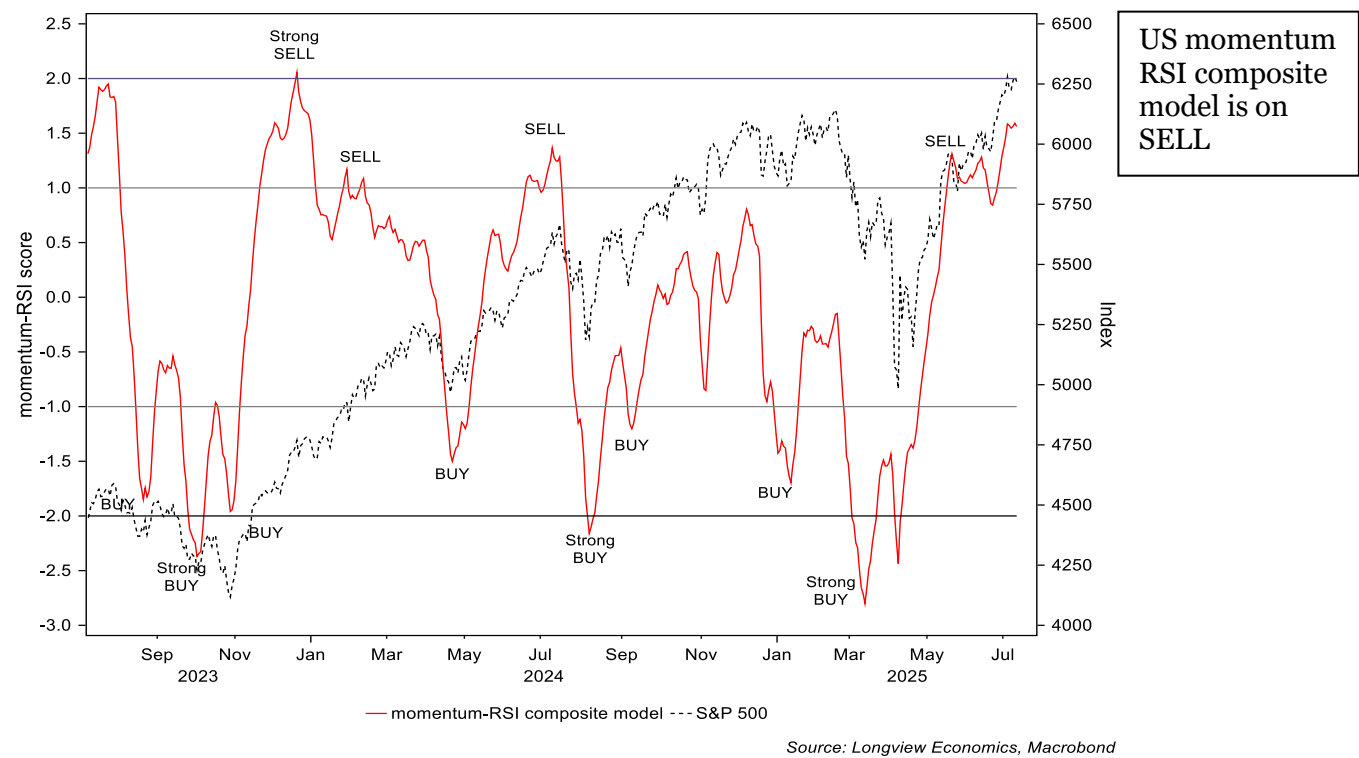


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500

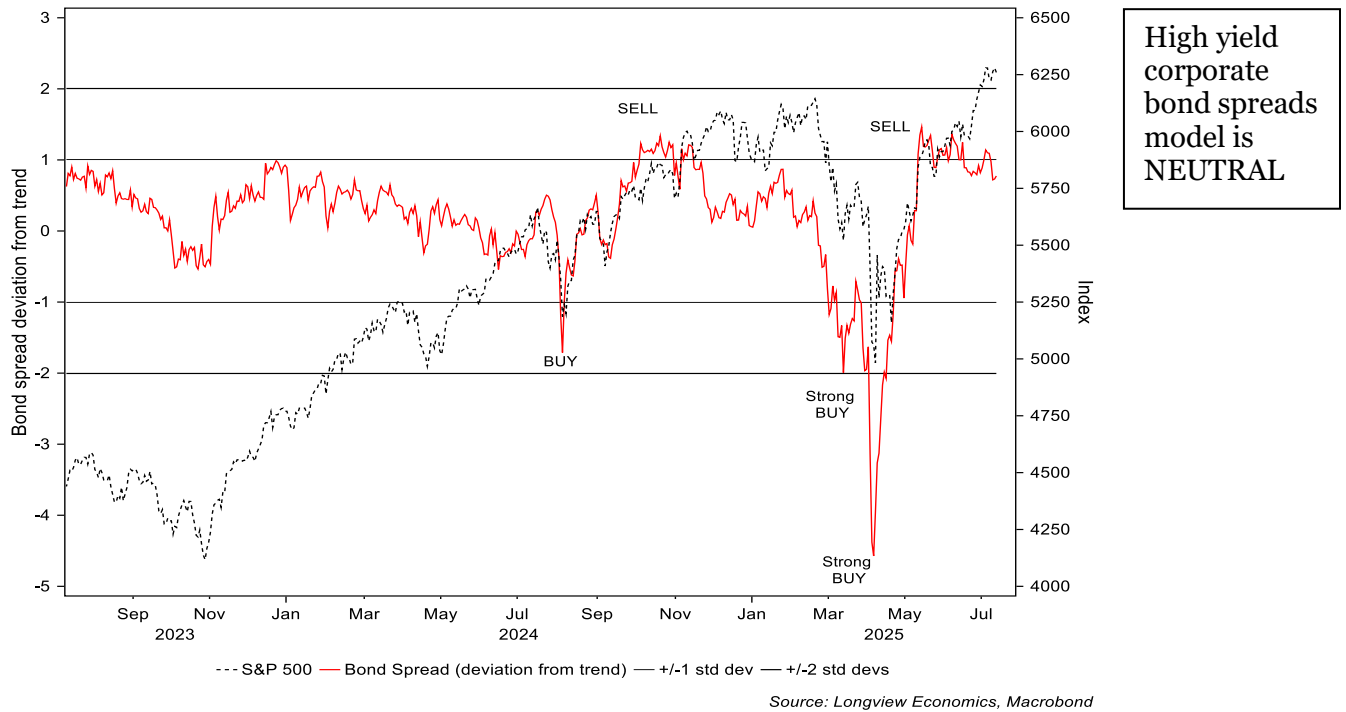


Fig 3h: Colvin model (deviation from trend) vs. S&P500



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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