Weekly Assessment of the Market's 'Appetite for Risk': Global Equities: Frothy, Overbought, & Overextended

US equity markets squeezed higher again last week, with the S&P500 (+1.2%) pushing to new highs, while other key indices delivered strong gains. Both the NASDAQ100 (+2.2%) and the Philly SOX (+3.8%), for example, made new closing highs (with all three of those indices closing up for the third week in a row).

Other risk asset prices like gold and silver have also been strong, while the price action in various EM indices has become somewhat parabolic. That is, there's been a near vertical price ascent in recent weeks in certain markets (including Mexico, Chile, South Africa, Taiwan, amongst others). That move is evident at the EM 'index-wide' level (FIG 1f). In other words, near term exuberance is emerging – which typically happens at/around major local highs in global equities.

In that respect, our SELL-off indicator is generating a warning (SELL) signal, see FIG 1. This model measures excessive and persistent greediness in global financial markets. Having reached its key +20 level earlier this month (4^{th}/5^{th} September), it's now on +31. At readings of +20, and above, it warns of a heightened likelihood of a wave of risk aversion. Signs of near vertical price action in global markets are therefore currently confirming the signal from this indicator (and highlighting the vulnerability of markets at this juncture).

Other signs of **medium term** complacency and greediness are relatively widespread. Short positioning in the VIX, for example, is crowded (FIG 1a); single stock call option buying has jumped to high levels (FIG 1b); put protection in portfolios is relatively low (e.g. see the NASDAQ100 put to call ratio, FIG 1d); measured sentiment is bullish (FIG 1e); and our medium term risk appetite indicator is close to SELL, see FIG 1c.

Our **short term** models carry a similar message. That is, while key risk appetite indicators have eased off from their SELL levels in recent trading days, they are still close to SELL (see FIGs 2 & 2a), while US equities are technically overbought (FIGs 2b & 2c). As such, and while some models are neutral (FIGs 2d & 2e), these indicators (overall) are leaning towards SELL. US equities therefore remain vulnerable to the downside in the near term.

Given that backdrop, along with a range of other liquidity, macro, and model concerns, we remain cautious in our tactical (1 – 4 month) portfolio. For the latest update please see the 4^{th} September 2025 publication.

Please see below for a full list of **key events and macro data due this week**.

Kind regards,

The team @ Longview Economics

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

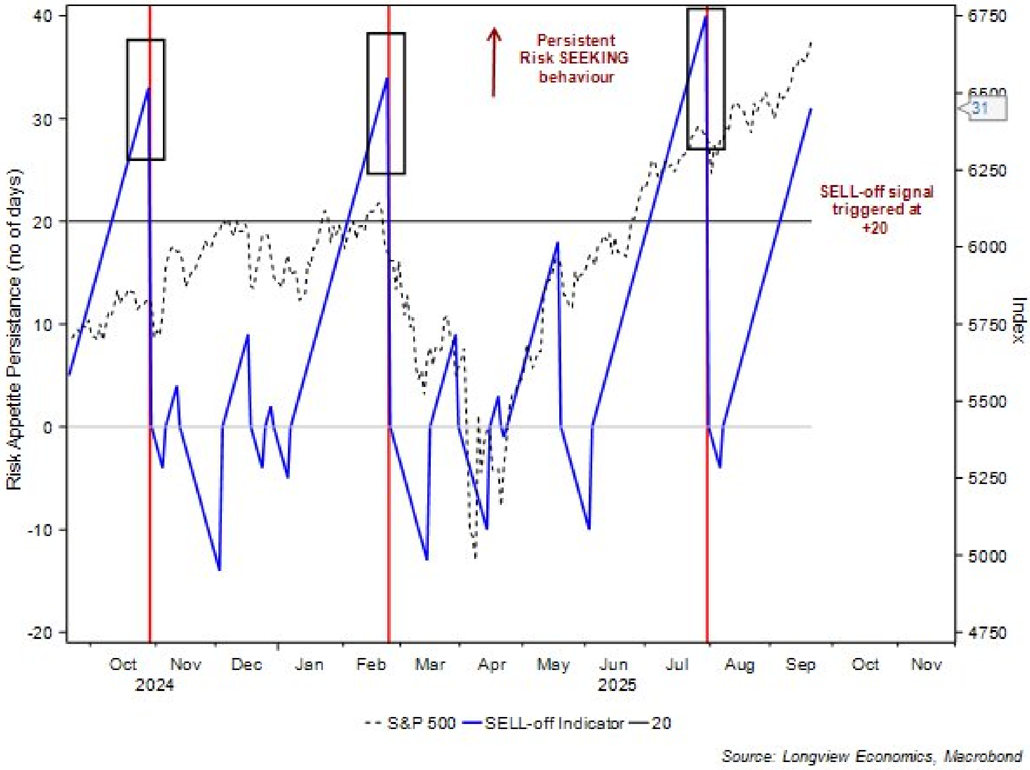


FIG 1a: Net speculative SHORT positions in the VIX vs. S&P500

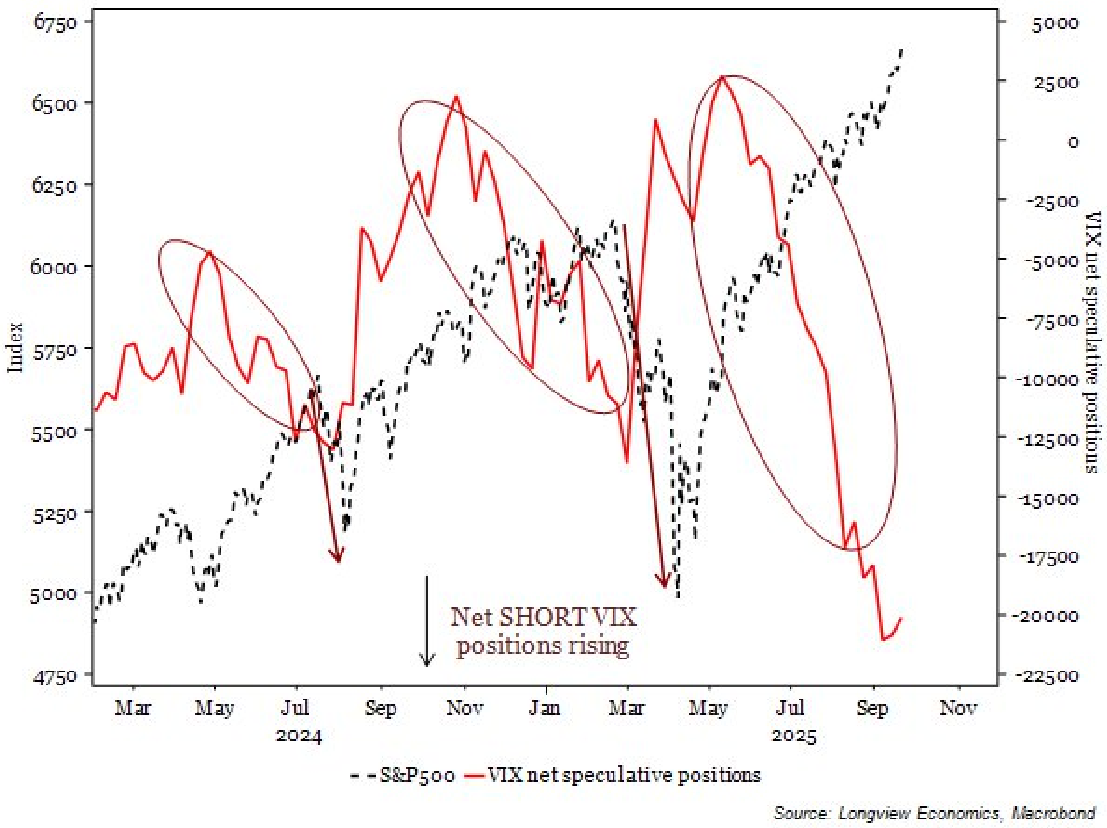


FIG 1b: Volume of outstanding CBOE **'single stock'** call options (3 day smoothed) vs. S&P500

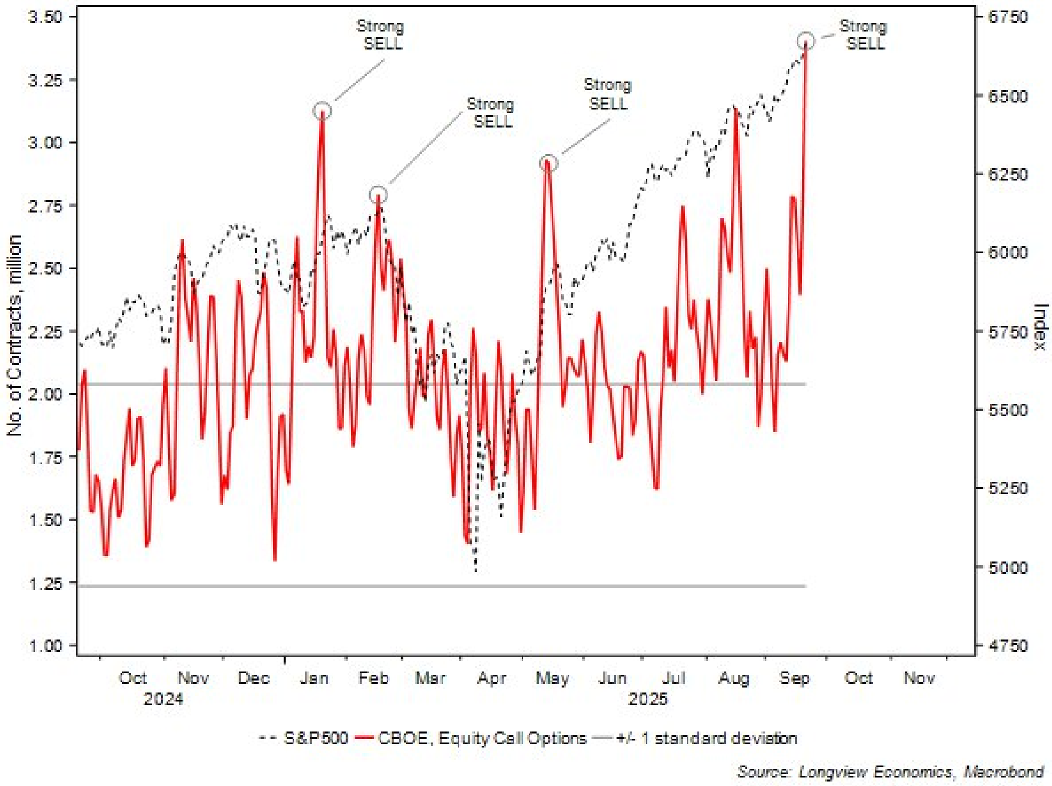


FIG 1c: Medium term RAG1 & RAG2 vs. S&P500

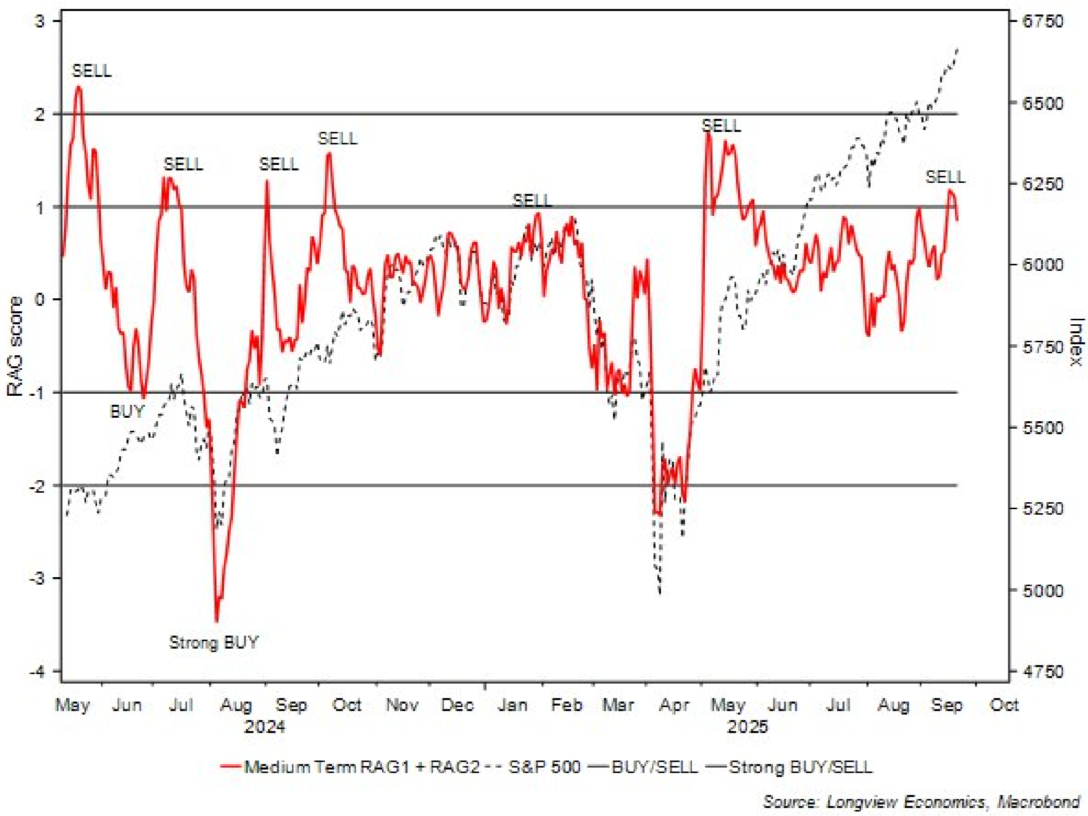


FIG 1d: NDX100 put to call indicator (1 & 3 day smoothed), NB scale INVERTED vs. NDX100

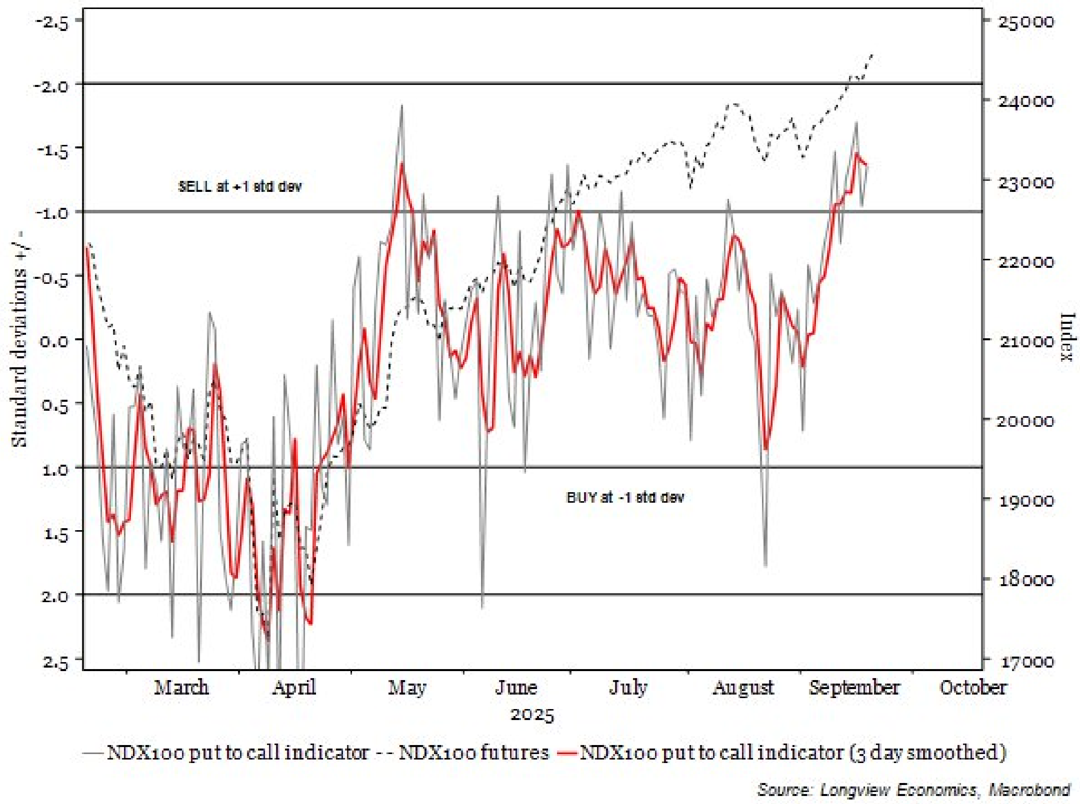


FIG 1e: Hulbert NASDAQ sentiment index shown with NASDAQ composite index

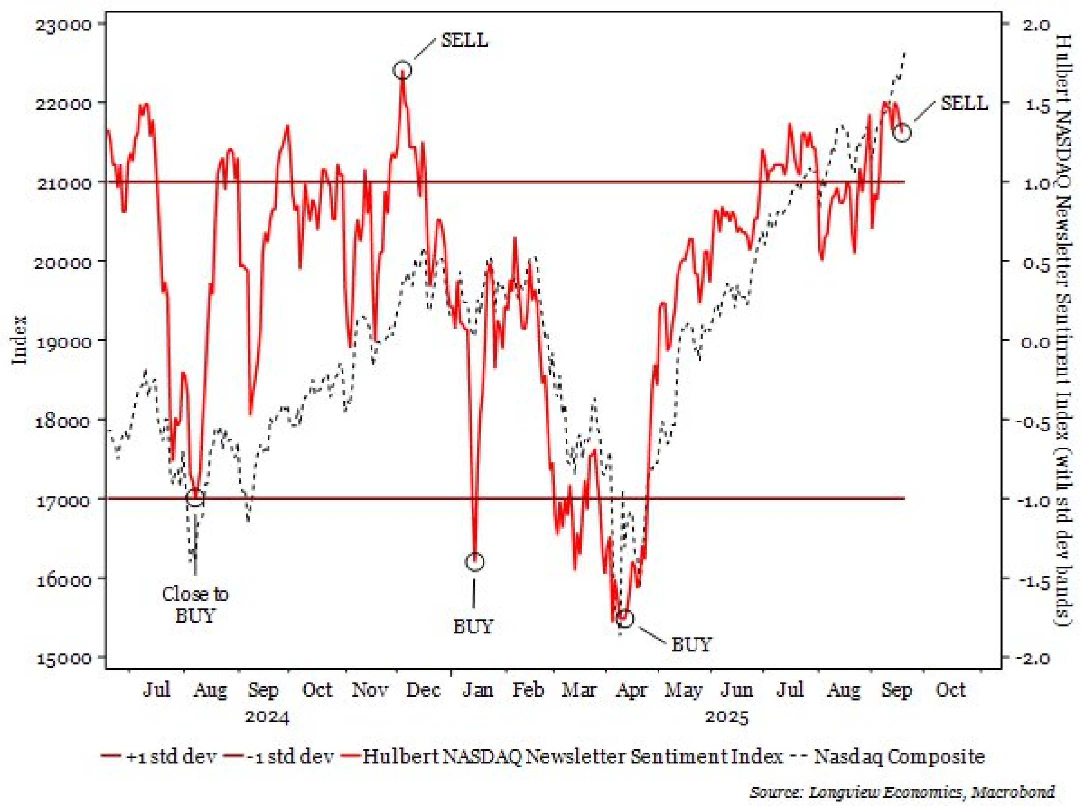
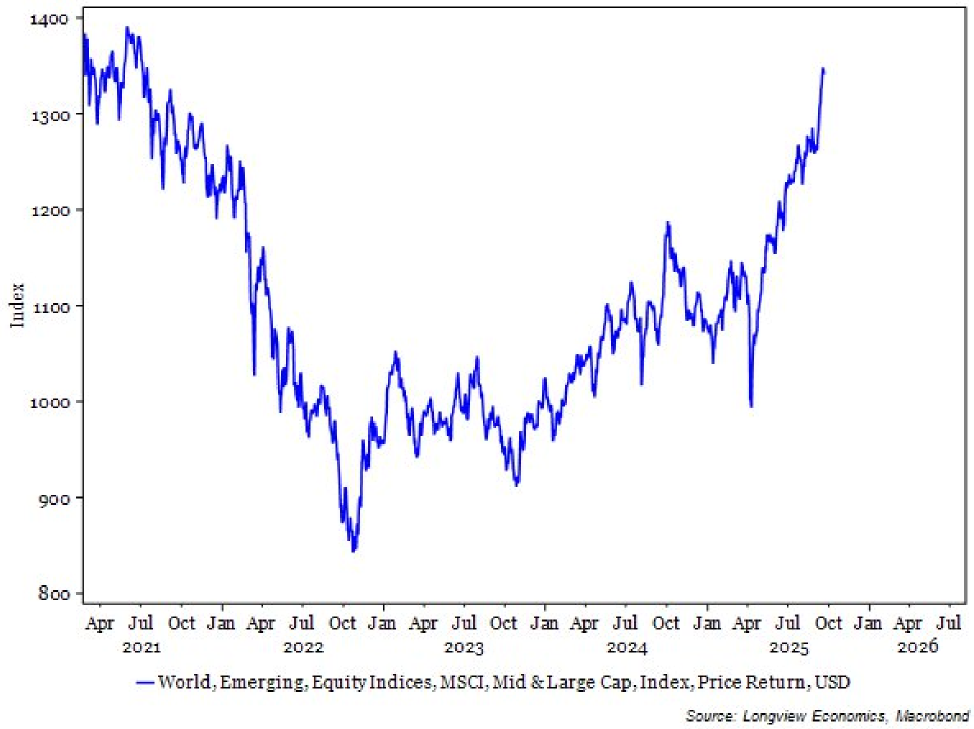


FIG 1f: Emerging market equity index (MSCI)



Short term (1 – 2 week) market timing models have a SELL bias……

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

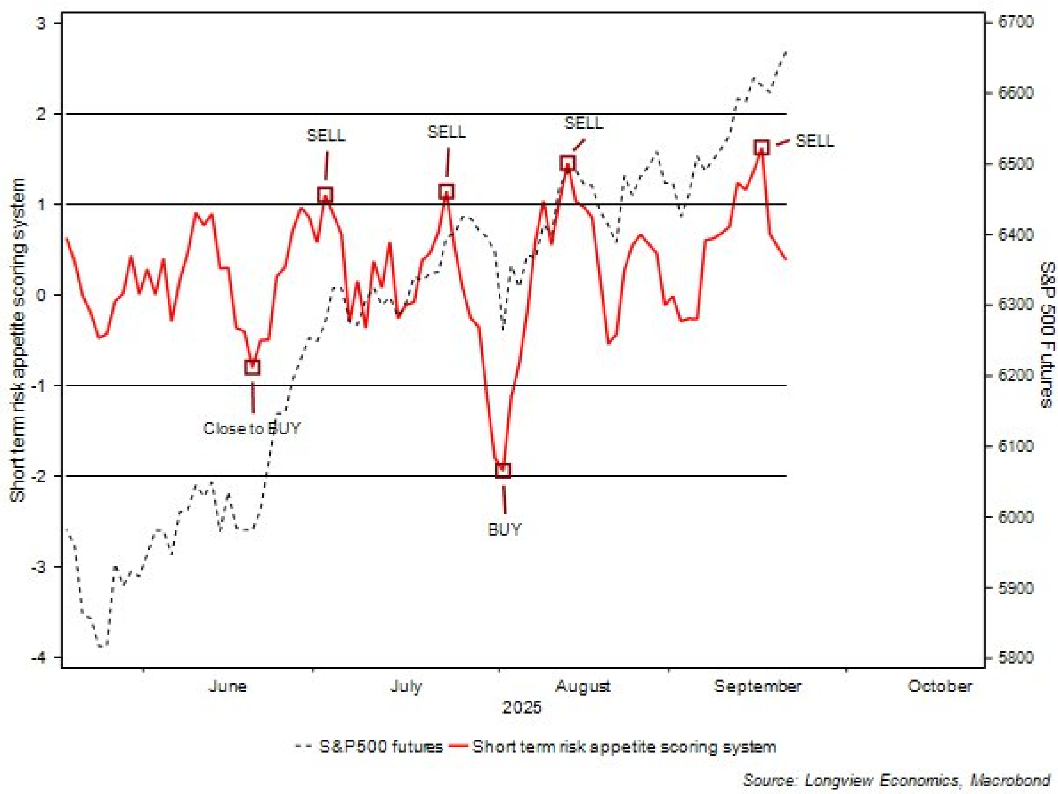


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

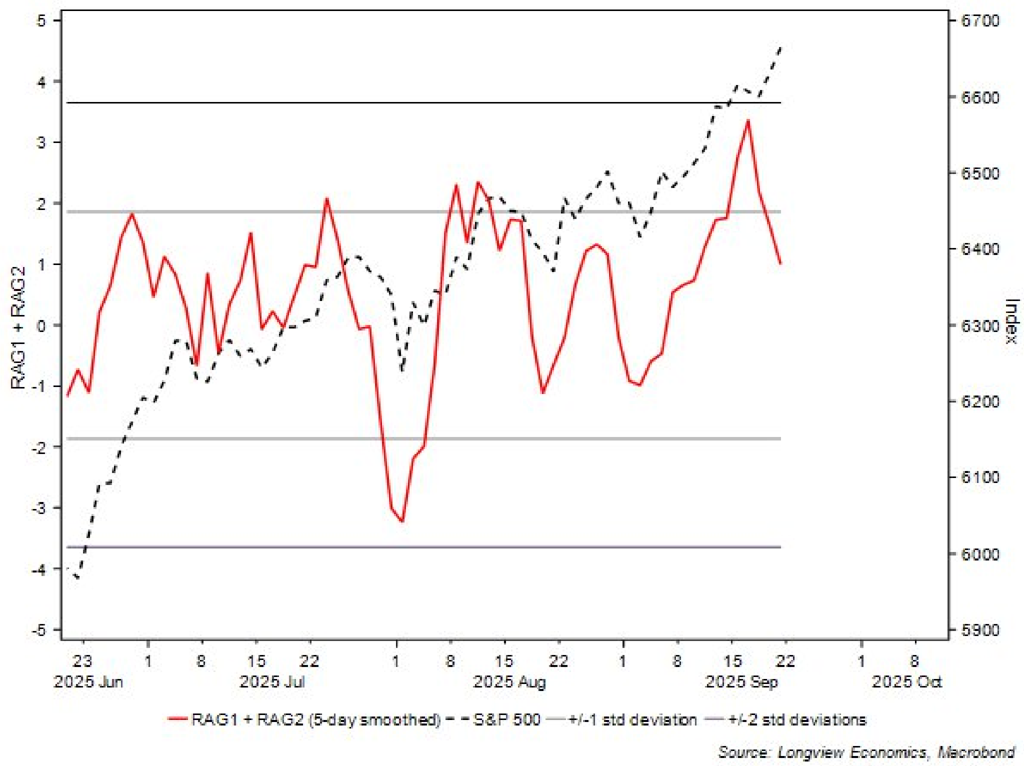


FIG 2b: Longview S&P500 **short term 'technical'** scoring system vs. S&P500 futures

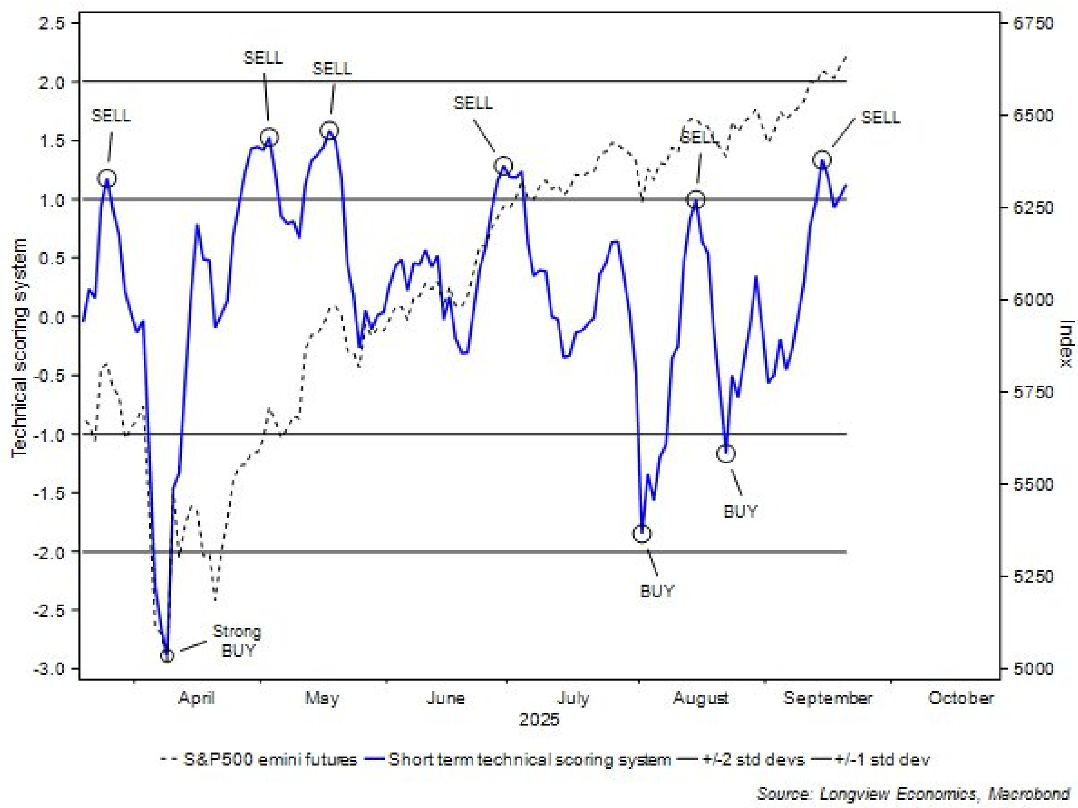


FIG 2c: Longview NDX100 & Philly SOX short term **'technical'** scoring system vs. NDX100 futures

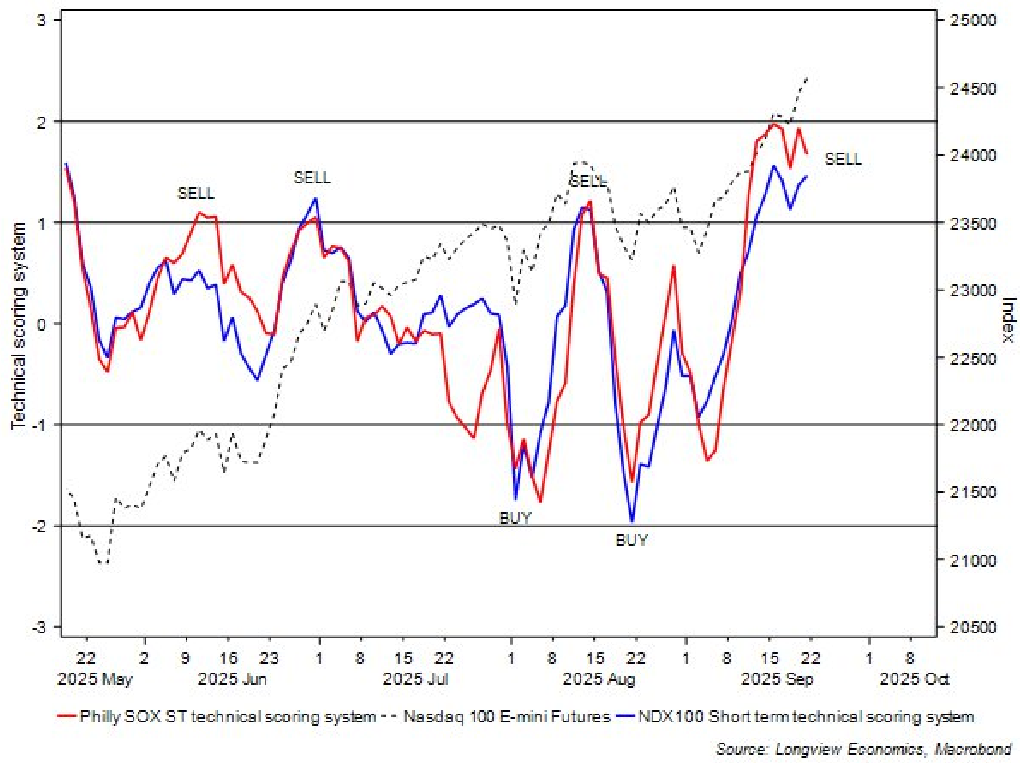


FIG 2d: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500

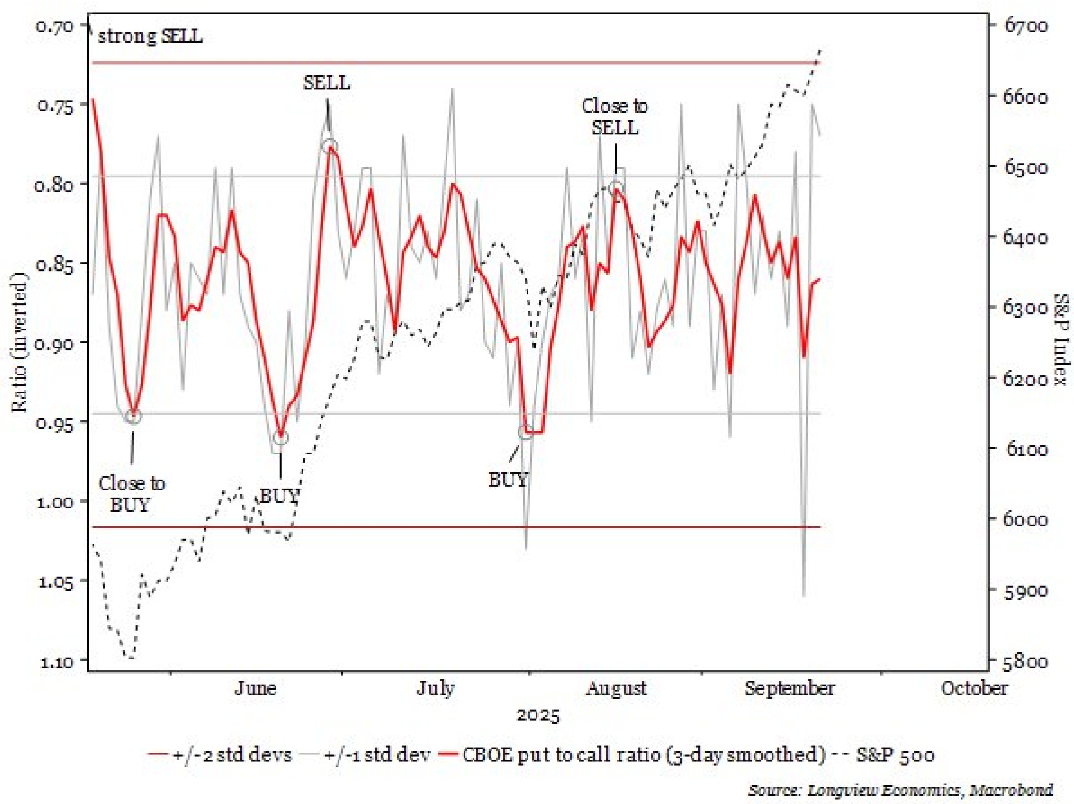
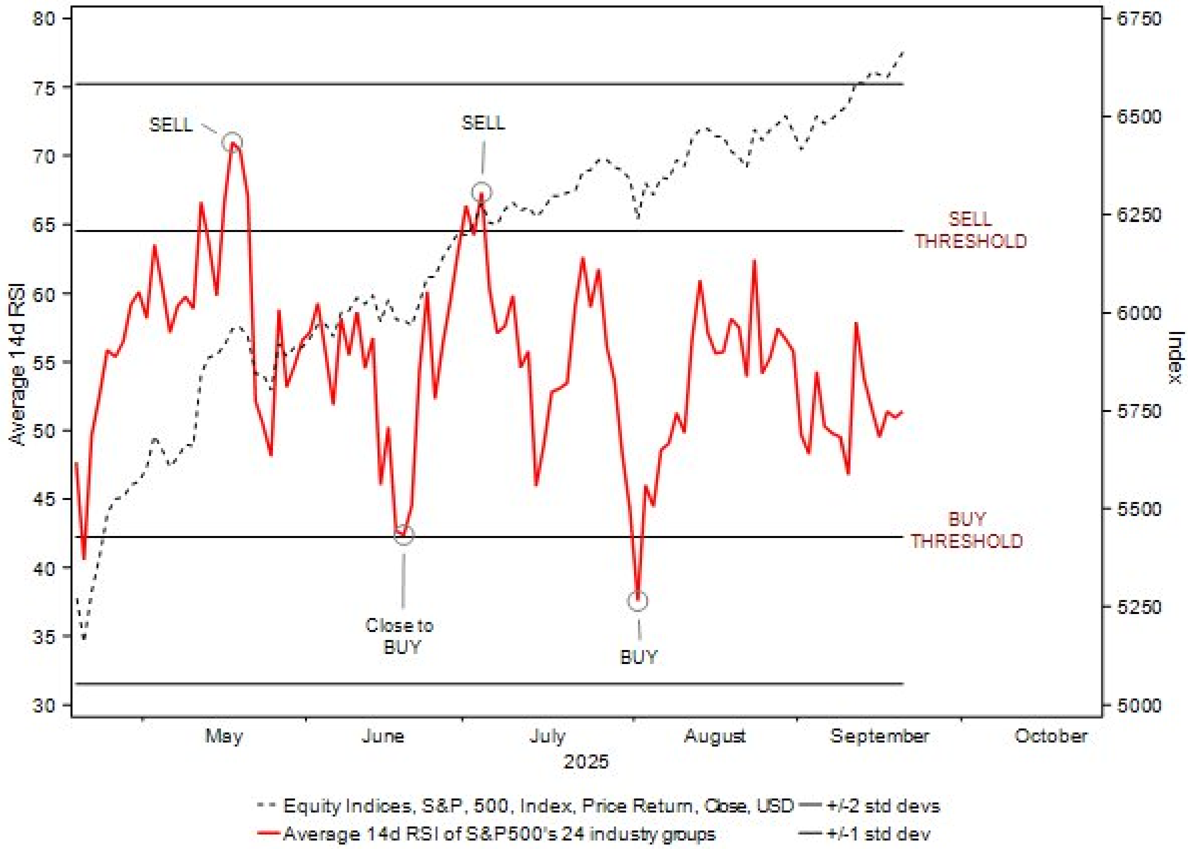


FIG 2e: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500



Source: Longview Economics, Macrobond

LVRAG

Daily Risk Appetite Gauge

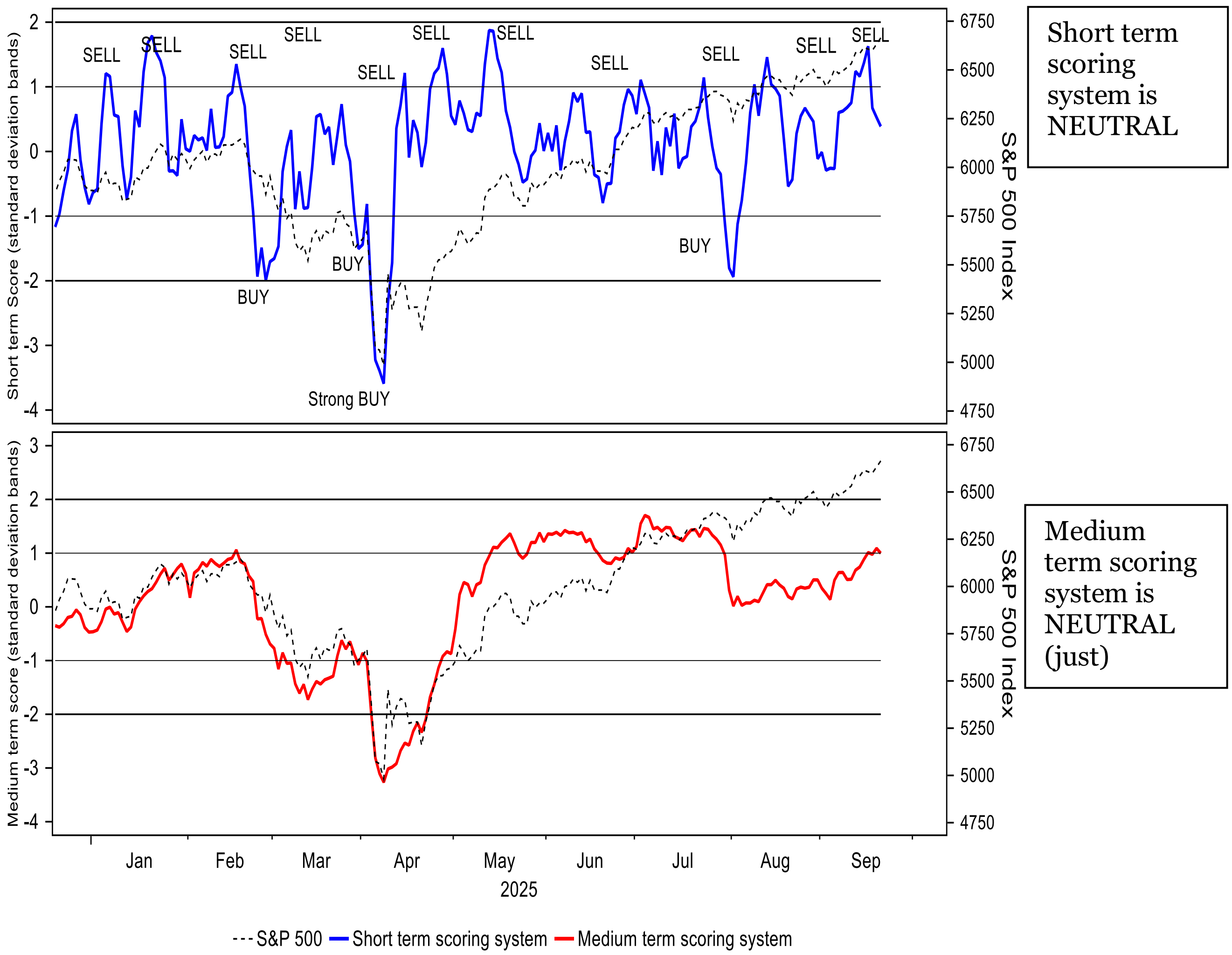
1 – 2 Week View on Risk

22nd September 2025

Longview Economics
Email: research@longvieweconomics.com

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

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



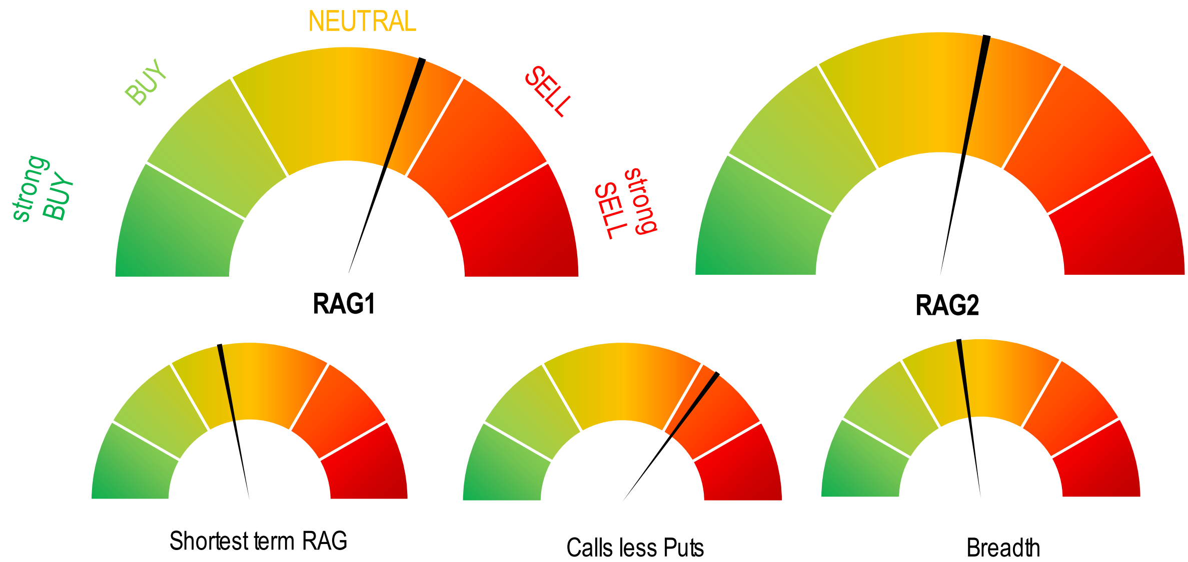
Source: Longview Economics, Macrobond

*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

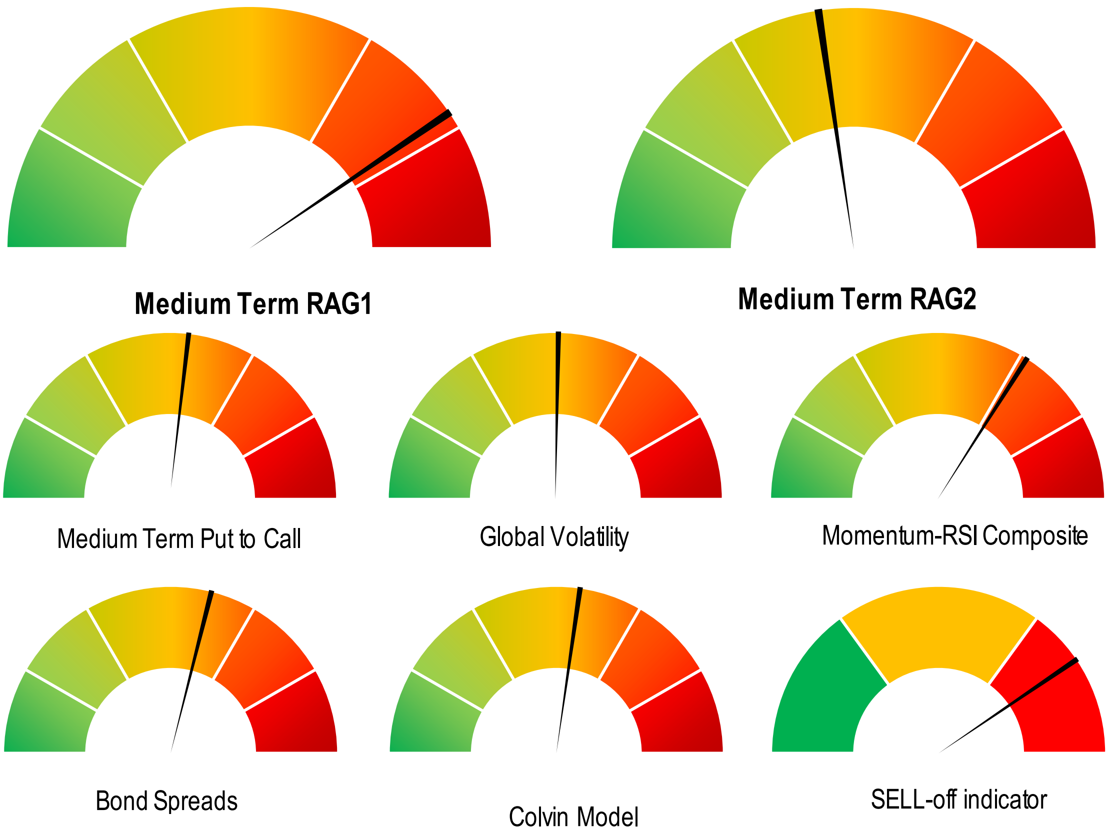
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

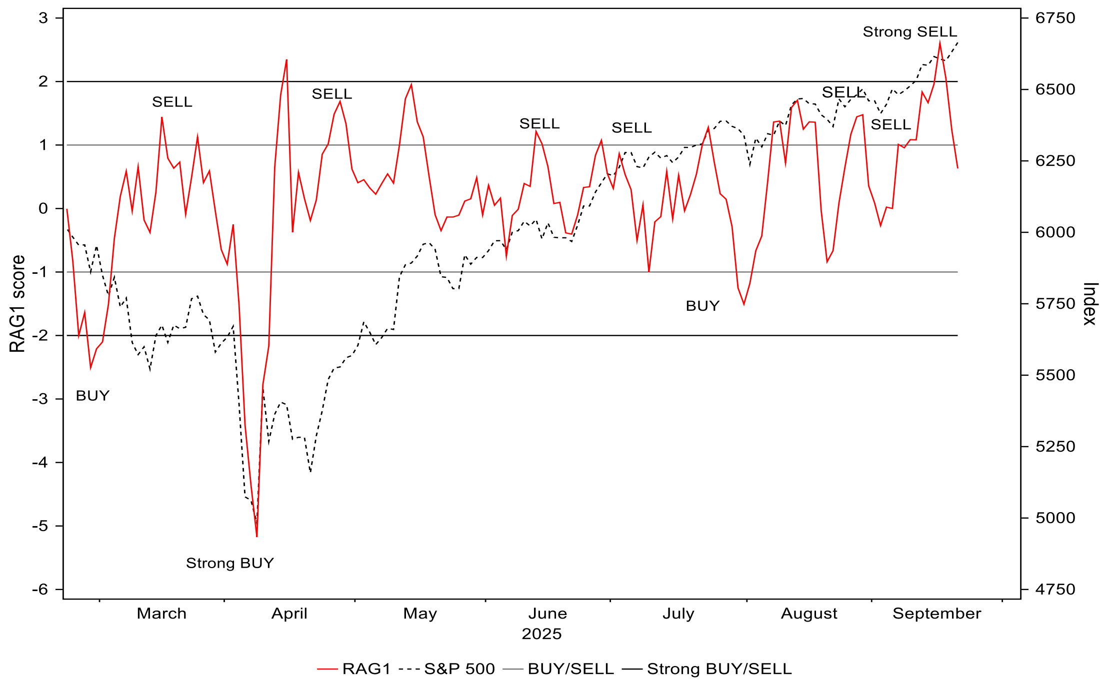
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

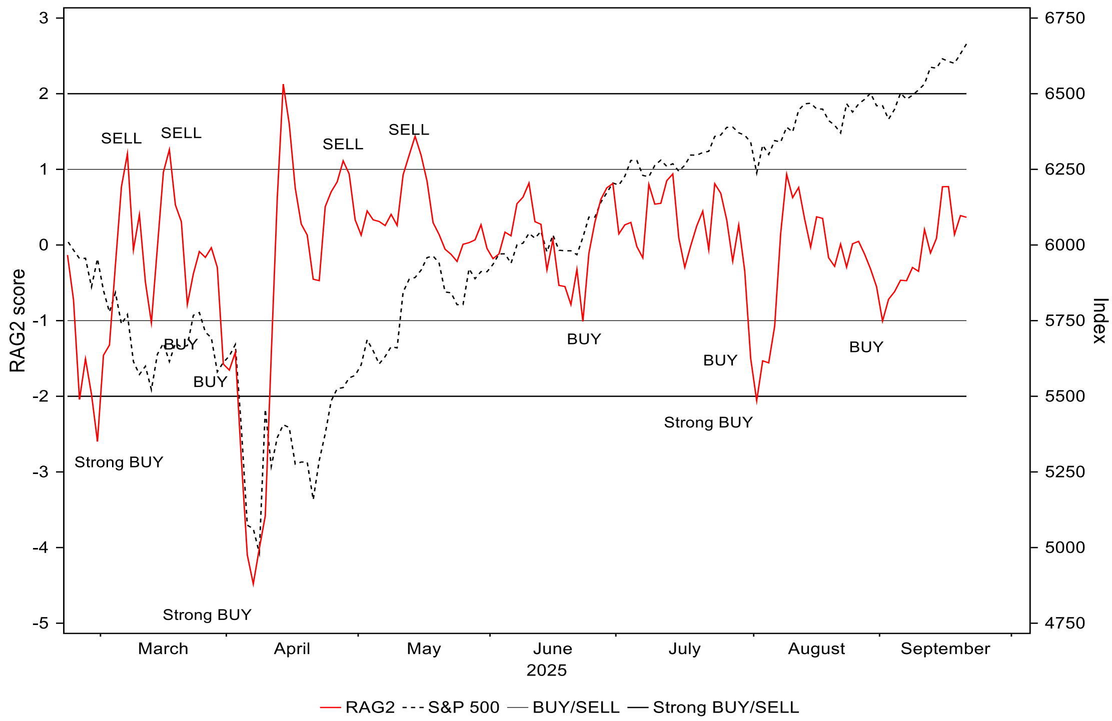
Fig 2a: RAG 1 vs. S&P 500



RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

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

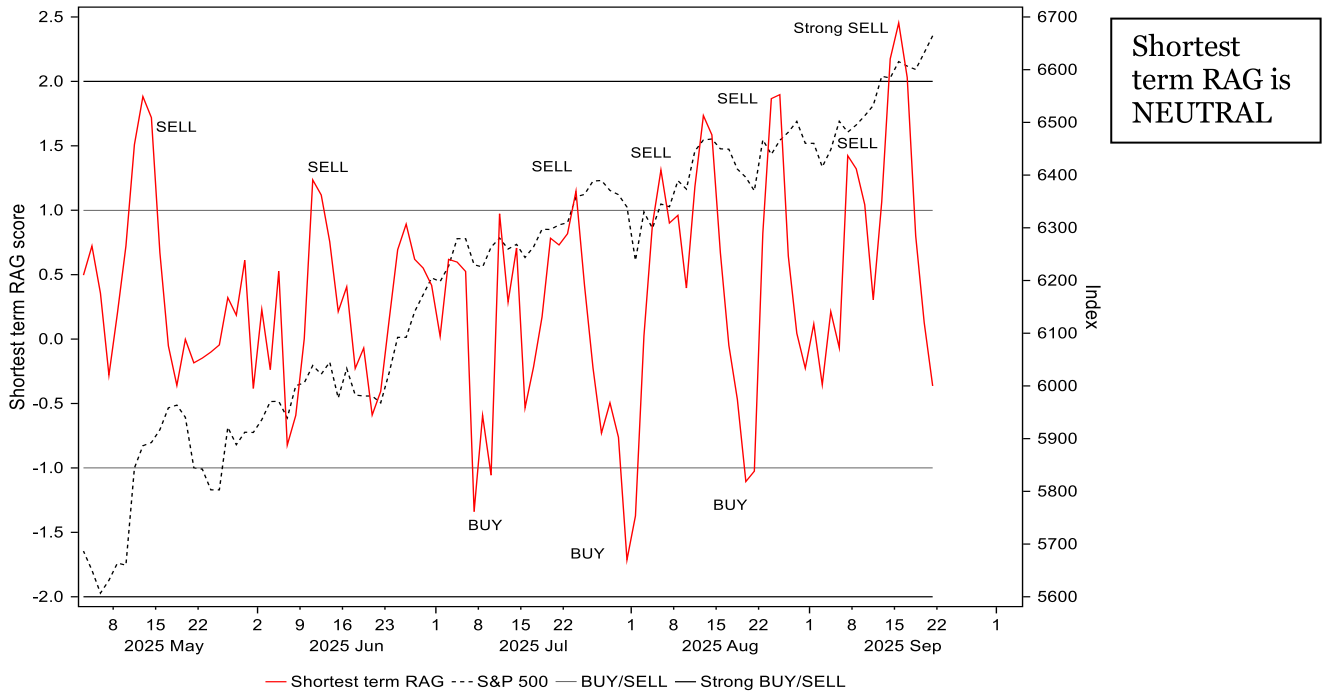


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

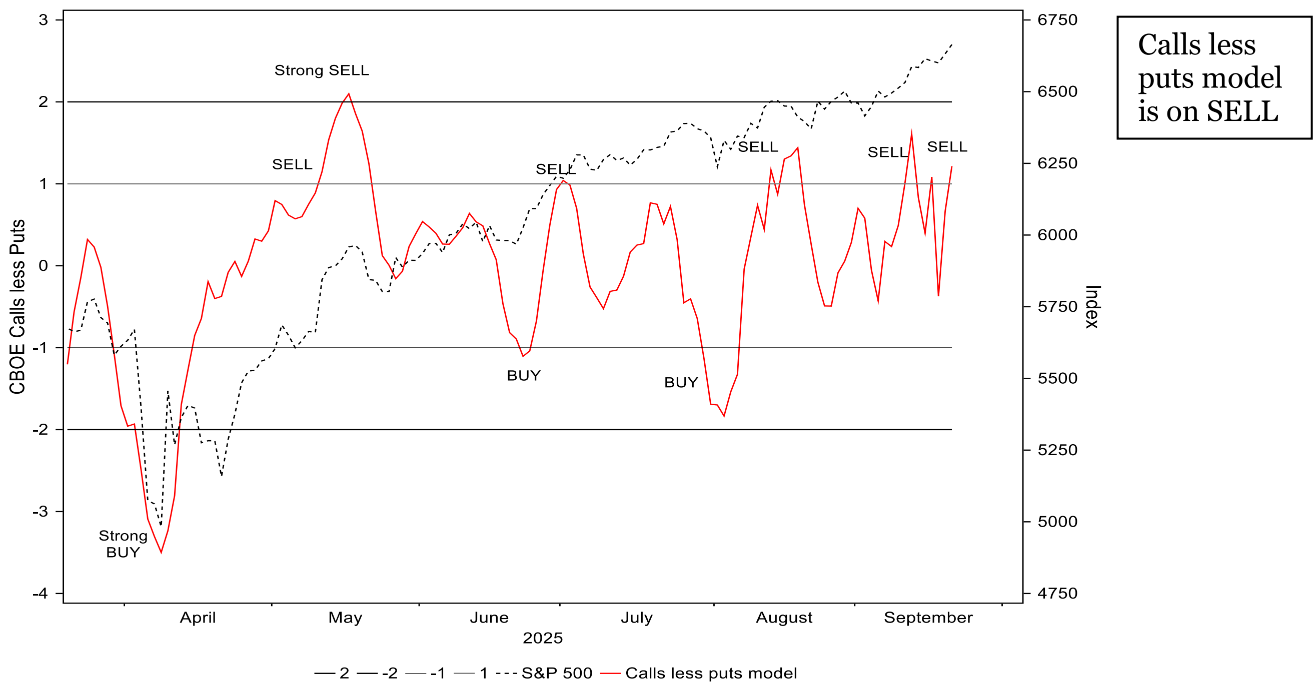
For explanations of indicators please see page 10

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



Source: Longview Economics, Macrobond

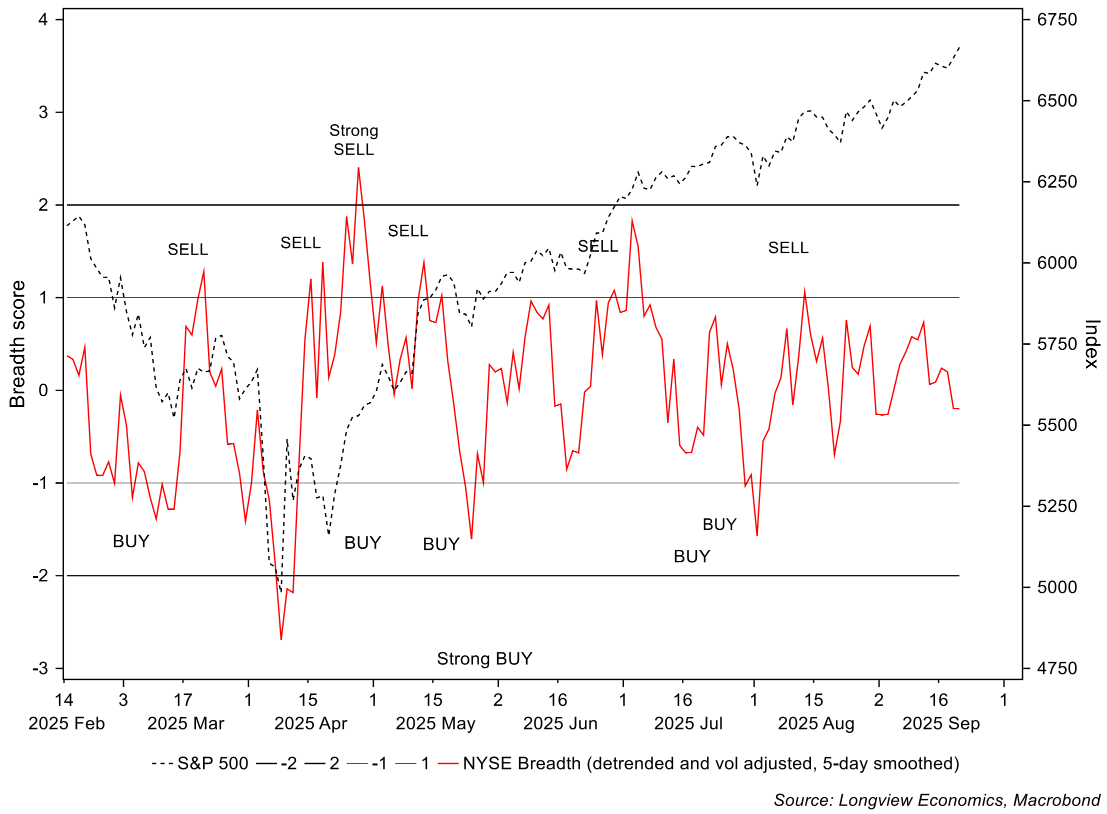
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

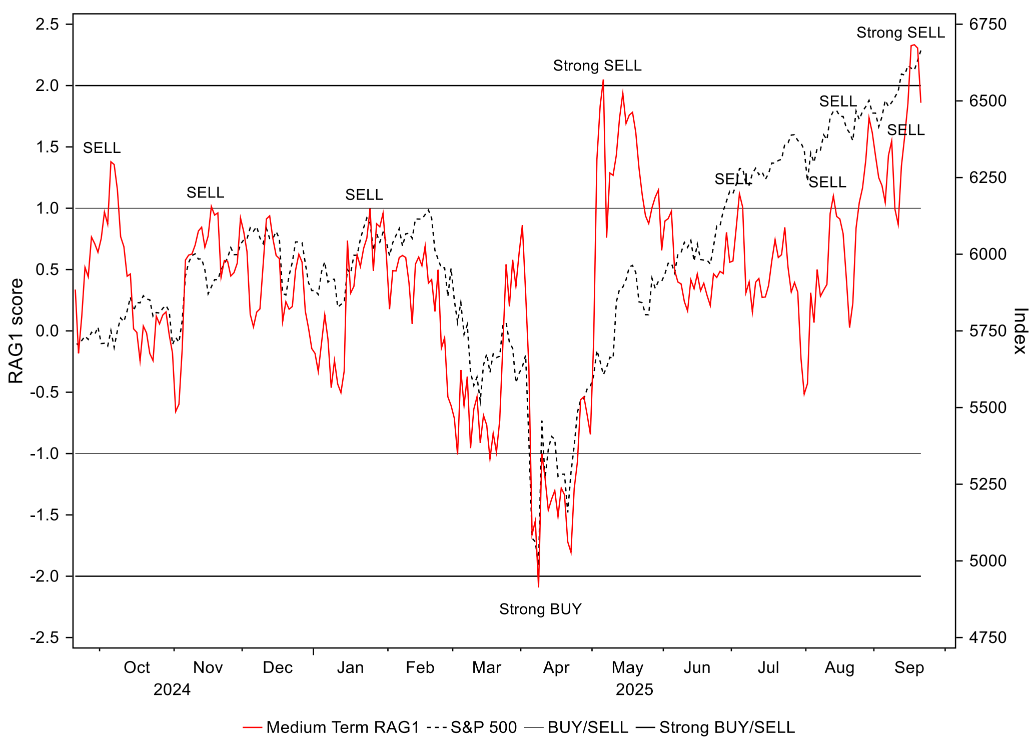


The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

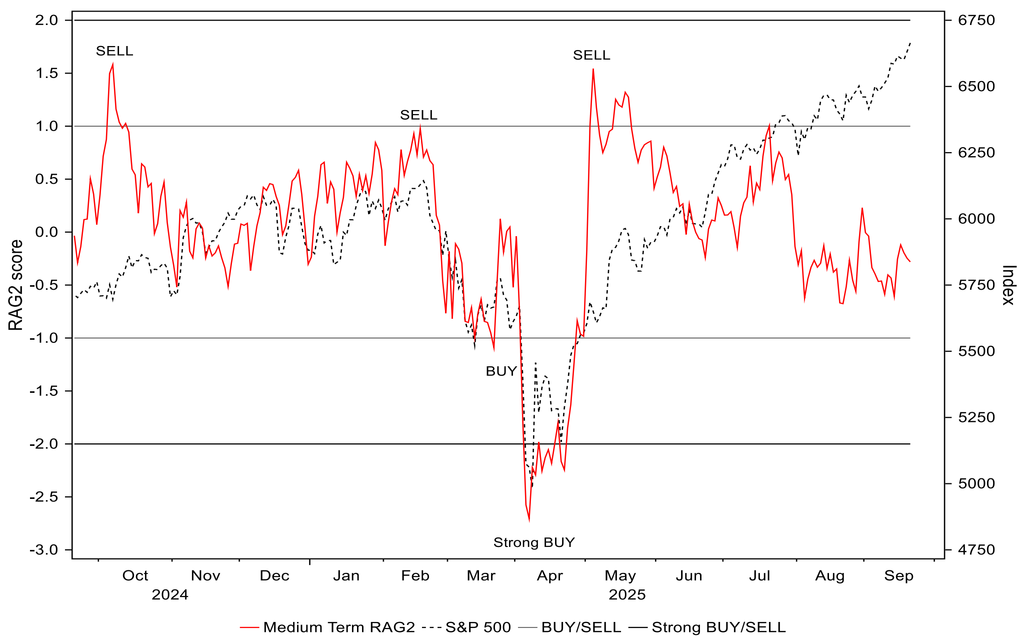
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

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

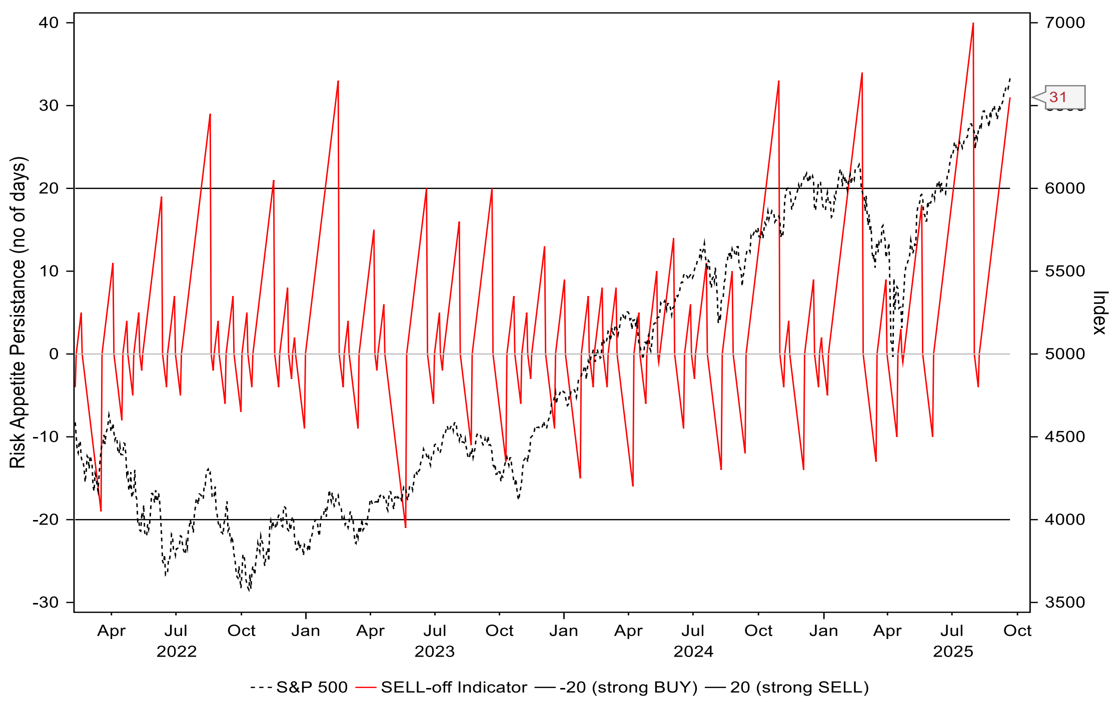


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

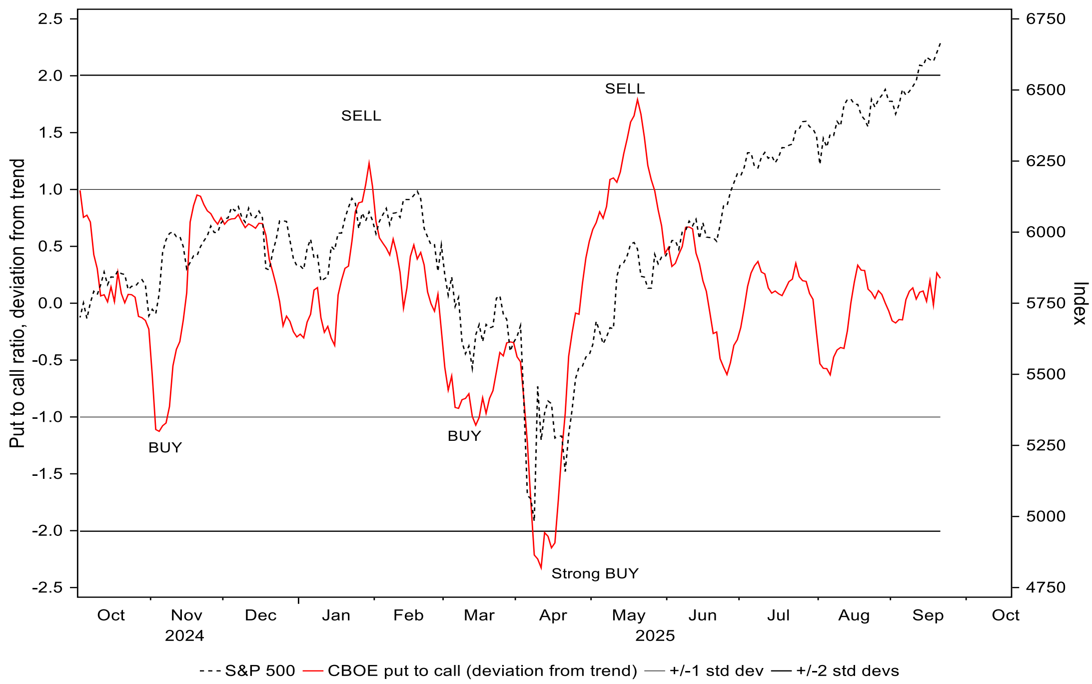
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is on SELL

(@ +20 it warns of a potential major SELL-off in risk assets – i.e. a strong SELL signal)

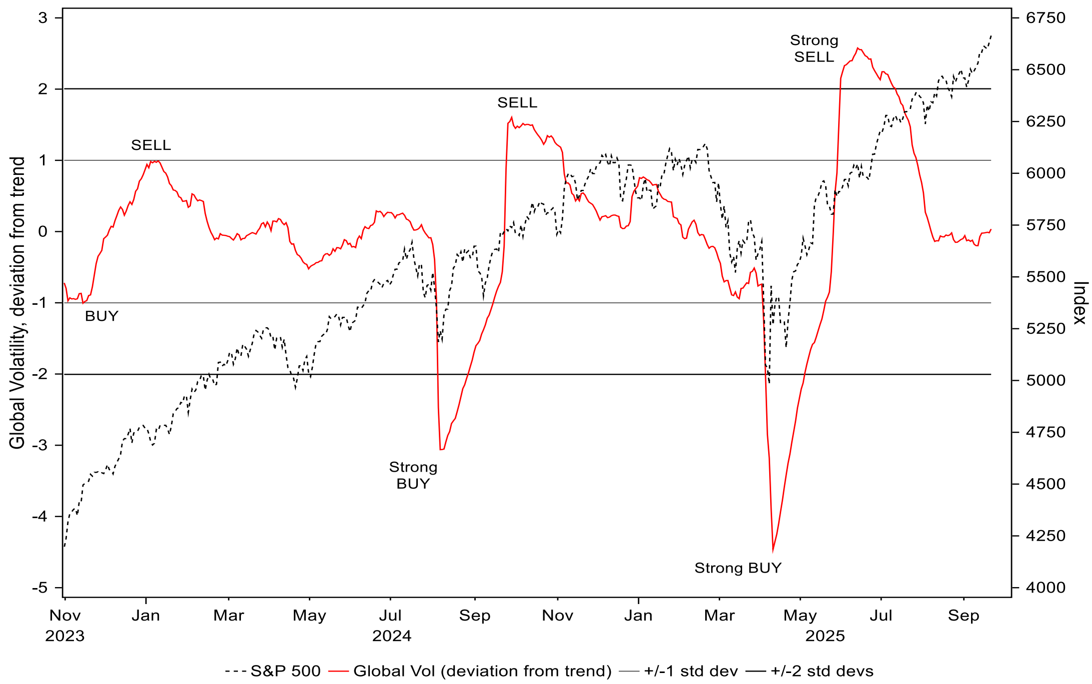
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

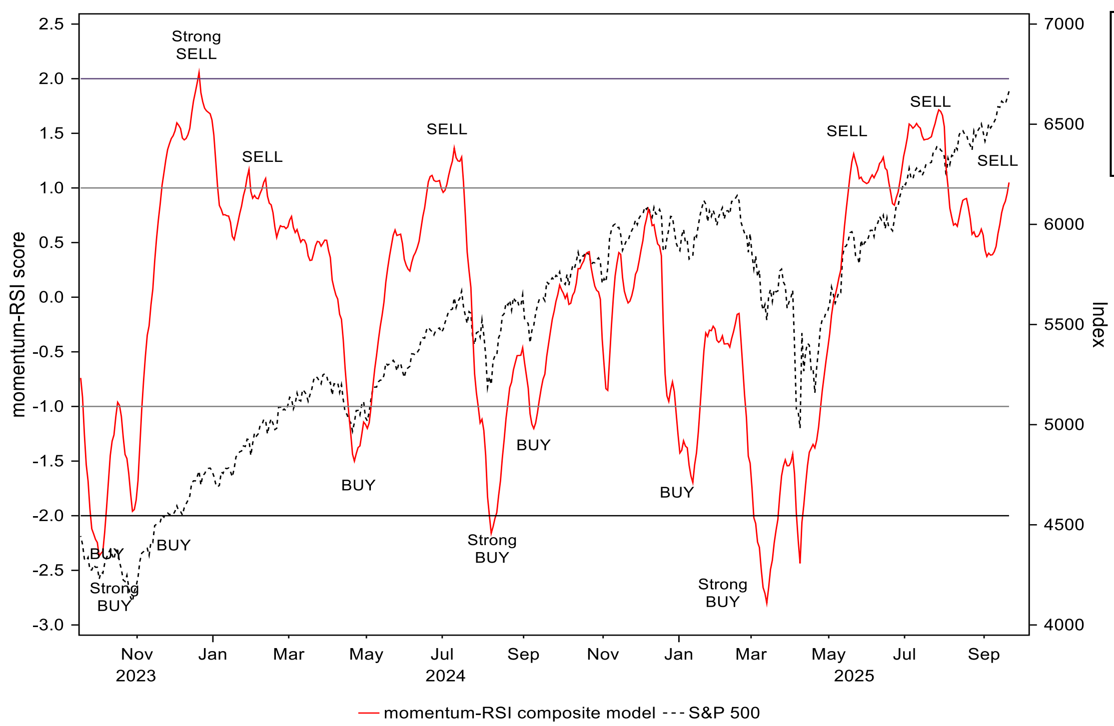
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

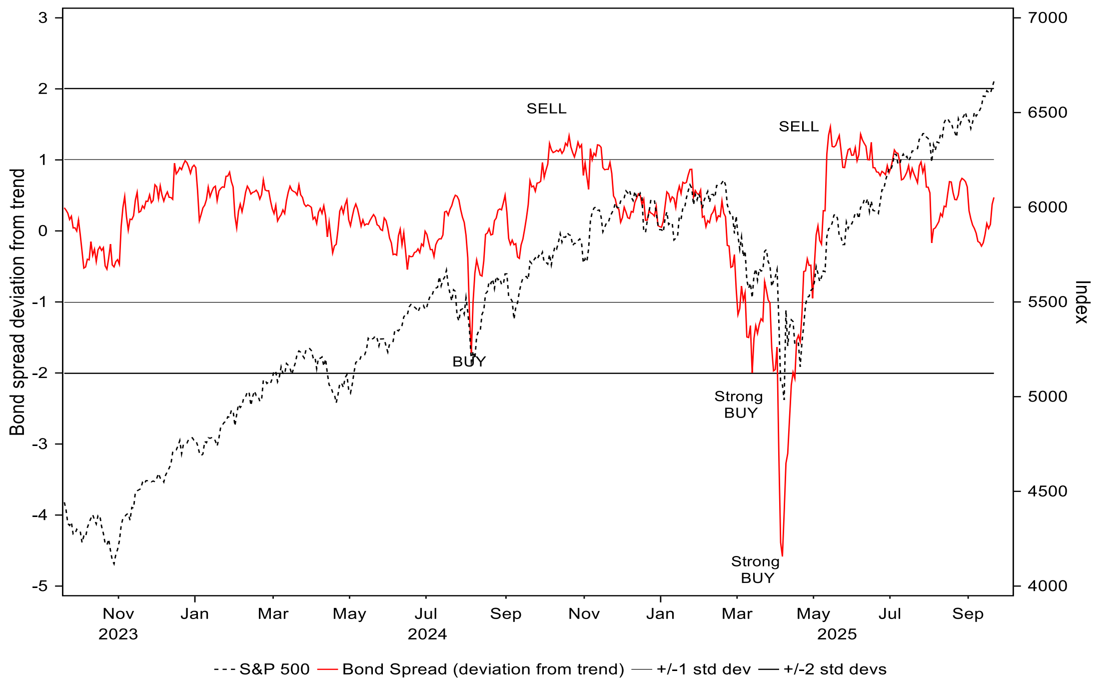
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is on SELL

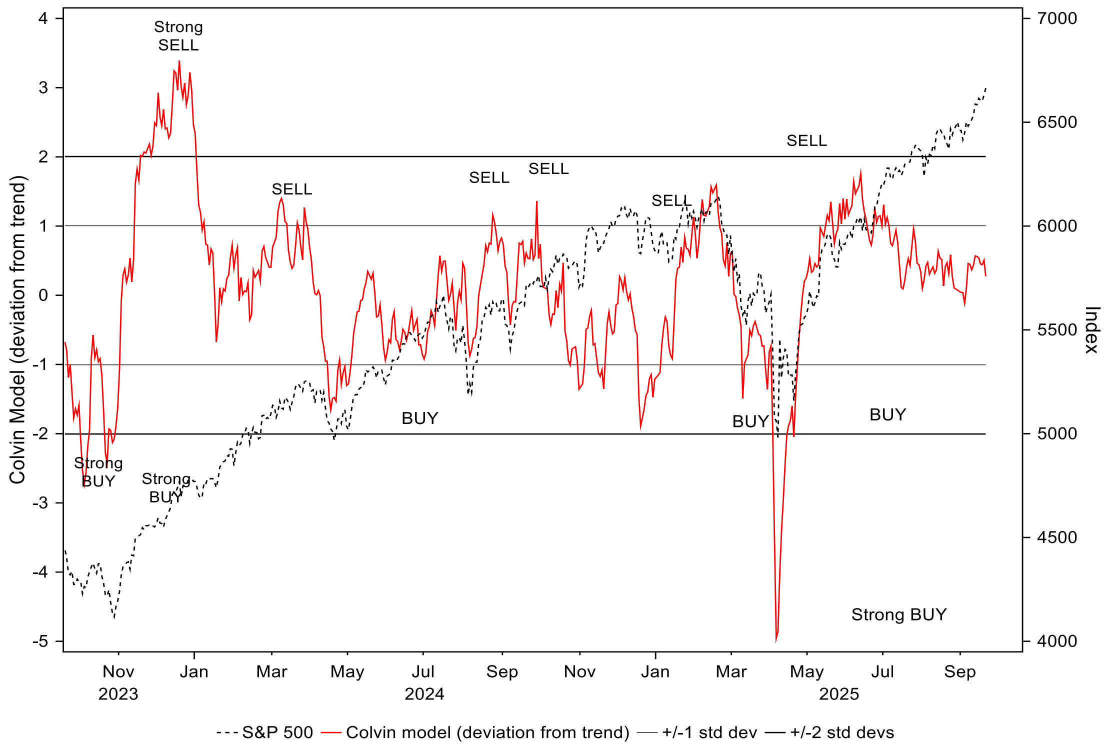
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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