Weekly Assessment of the Market's 'Appetite for Risk': 'Buyer Exhaustion Creeping In?'

US equities initially moved lower last week, before then rallying sharply on Powell's dovish Jackson Hole speech on Friday. In particular, while the Fed remains nervous about (tariff related) inflation, Powell appears to be increasingly focussed on the recent weakness in the labour market and, therefore, the "shifting balance of risks", which "may warrant adjusting policy" (Powell, 22nd August).

His speech generated a large one day rally in major US indices, with the S&P500 & NASDAQ100 both closing up +1.5%. Cyclicals outperformed (e.g. the Russell 2000: +3.9%) and there was a large NYSE breadth reading (FIG 1a). Elsewhere the rates market priced in more cuts for this year and next (see FIGs 1e & 1f).

The SPX and NDX, though, did not make new highs and, after giving back some of their gains yesterday and this morning, they remain rangebound (i.e. below their mid-August highs and broadly in line with late July levels, see FIG 1d).

For the bulls, price action has therefore been disappointing. That is, equities have failed to trend higher (break out) despite: (i) the rates market pricing in more Fed easing; and (ii) the strong Q2 earnings season (with S&P500 companies, overall, surprising to the upside on earnings by 8%, vs. a 4% historical average). Typically, when equity markets fail to rally on bullish news, it's a sign of buyer exhaustion, and suggests that **markets are tired and vulnerable to the downside**.

In a similar vein, Bitcoin (a key gauge of speculative liquidity) has also rolled over despite the Fed's shifting tone – and it often leads the S&P500 (see FIG 1).

Added to which, several key indicators have a troubling message. Volumes, for example, remain low and point to weak participation in this equity market, while volatility remains subdued (a key sign of complacency, FIG 1c). As such, our 'vulnerability model', which combines those two variables (volumes and volatility) is close to its SELL threshold, see FIG 1b. Elsewhere key medium term warning signs are growing and highlight the downside risks to this equity market (for detail see last week's Longview Tactical Equity Alert: "US Equity Market: Six Warning Signs", published 19th August).

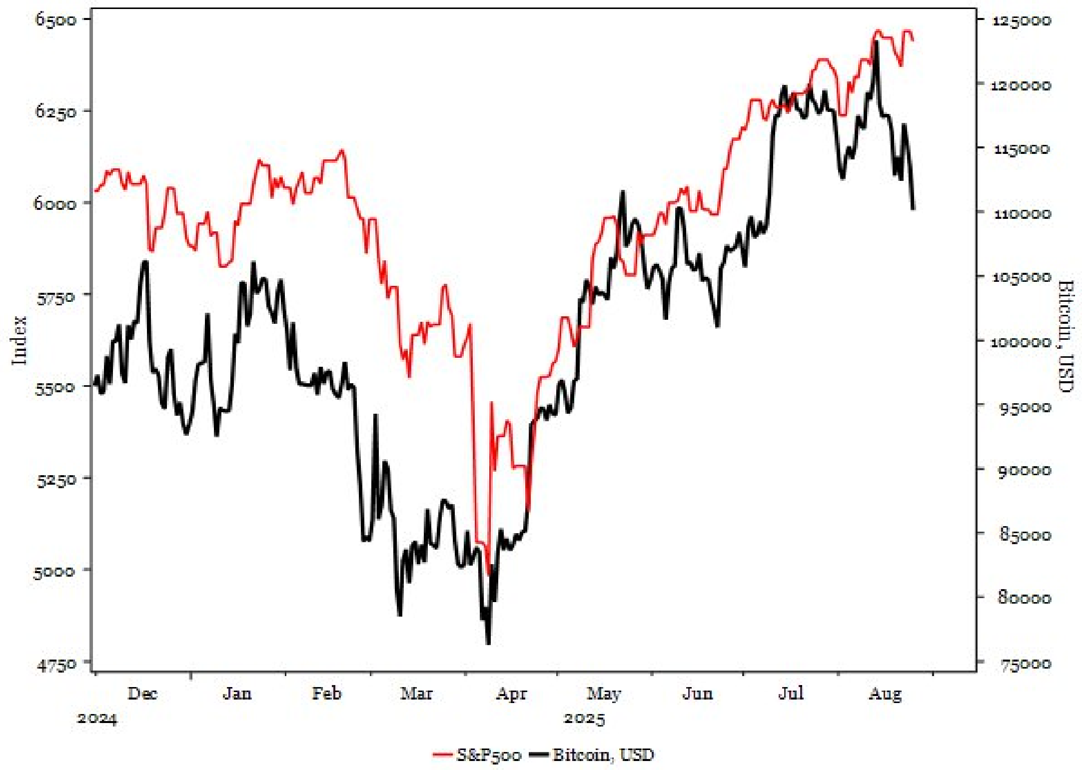
As such, and while short term models are currently NEUTRAL (shown in FIGs 2 – 3b below), we remain cautious on equities.

For a full list of **key events and macro** data see below.

Kind regards,

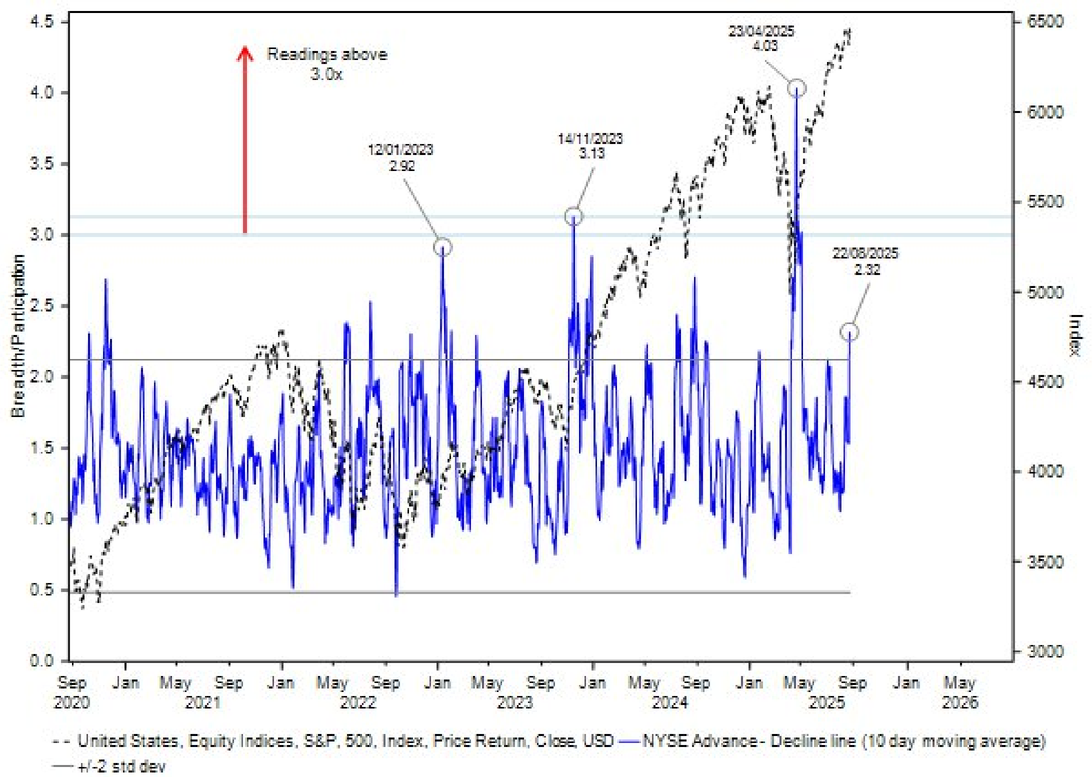
The team @ Longview Economics

FIG 1: Bitcoin price (USD) vs. S&P500



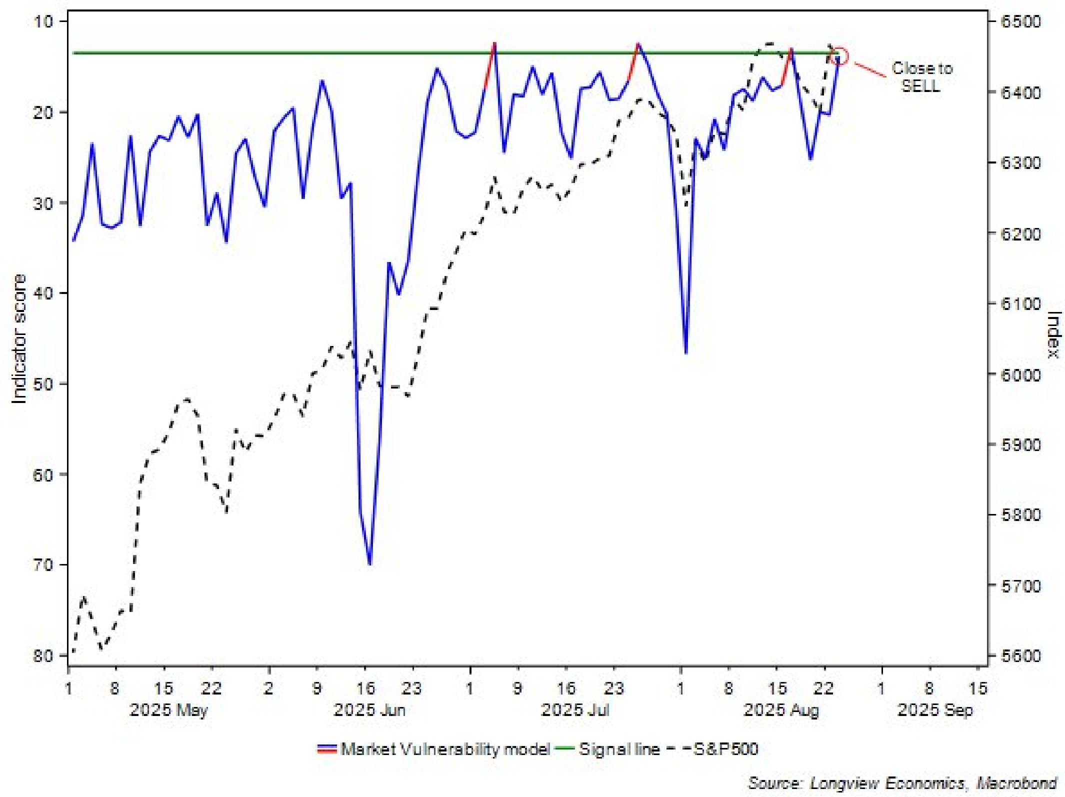
Source: Longview Economics, Macrobond

FIG 1a: NYSE advance-decline line (10 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

FIG 1b: Longview 'Vulnerability' model* (NB red = SELL signal) vs. S&P500 cash index



*This model measures complacency using volumes and volatility, and therefore warns of potential 1-3% wobbles in headline equity indices (i.e. when crossing its upper threshold).

FIG 1c: VIX candlestick shown with 50, 90 & 200 day moving averages (%)

FIG 1d: S&P500 futures candlestick chart, shown with 50 & 200 day moving averages

FIG 1e: Fed rate cuts/hikes priced for 2025 (bps)

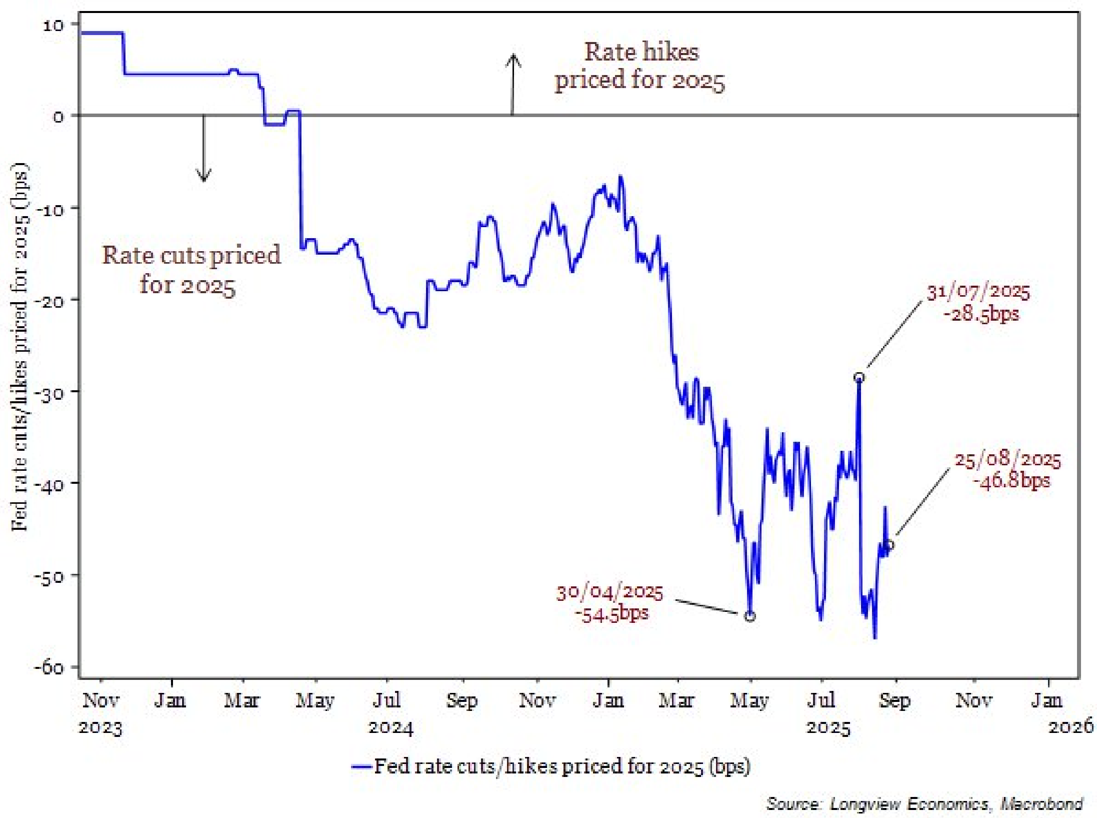
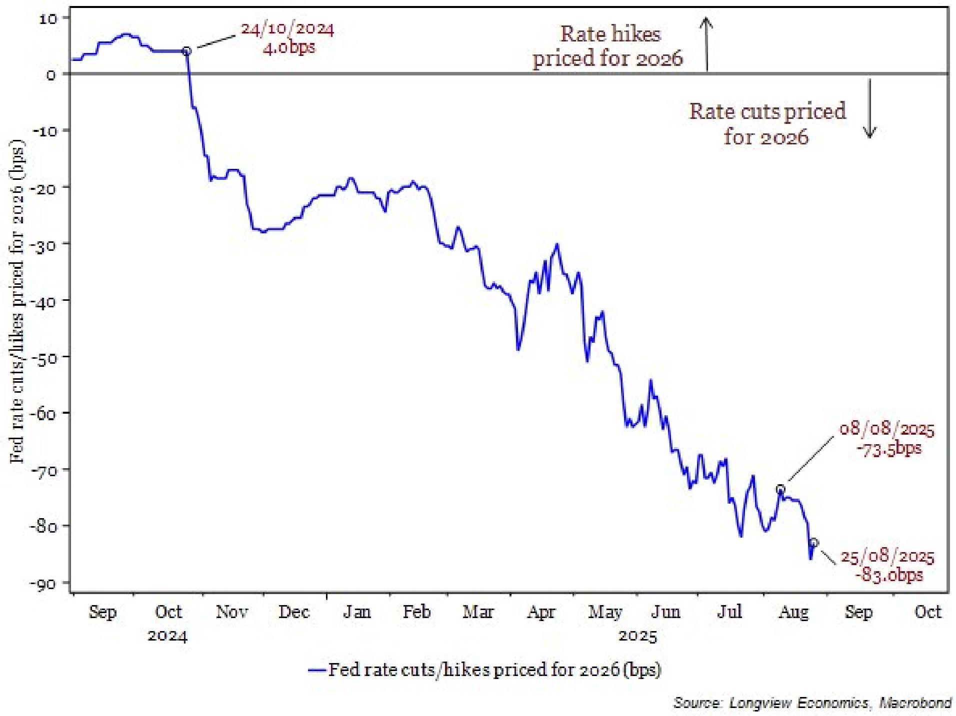


FIG 1f: Fed rate cuts/hikes priced for 2026 (bps)



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

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

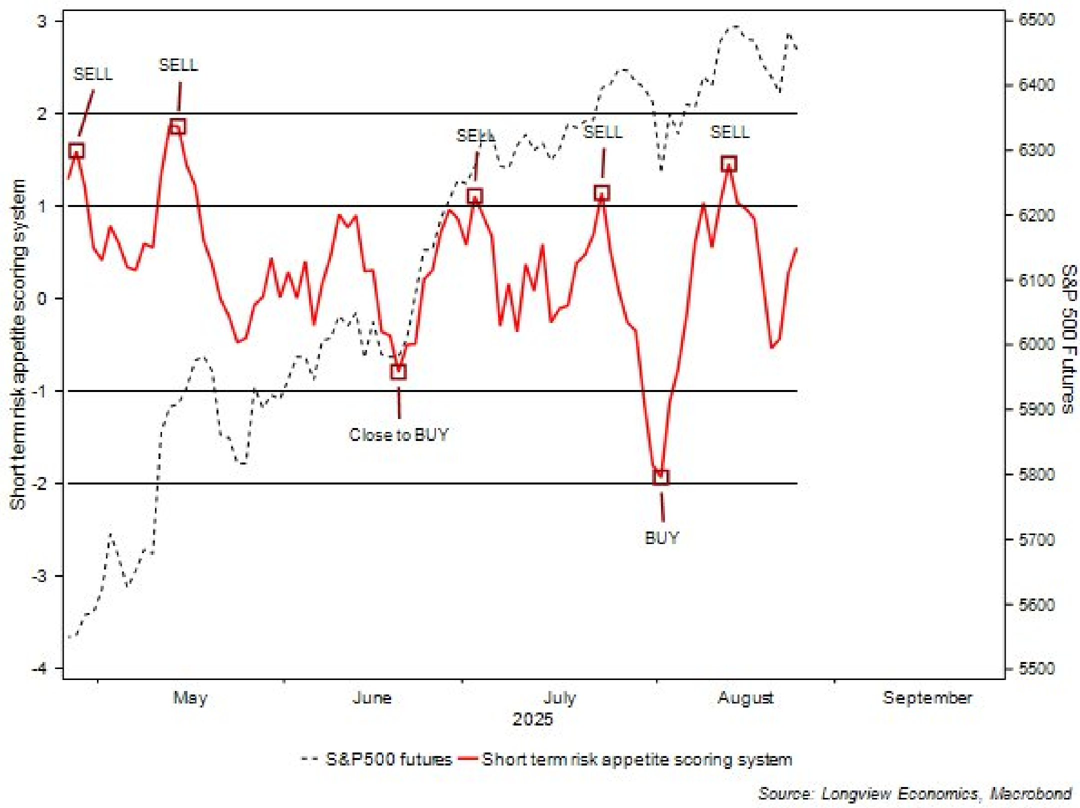


FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

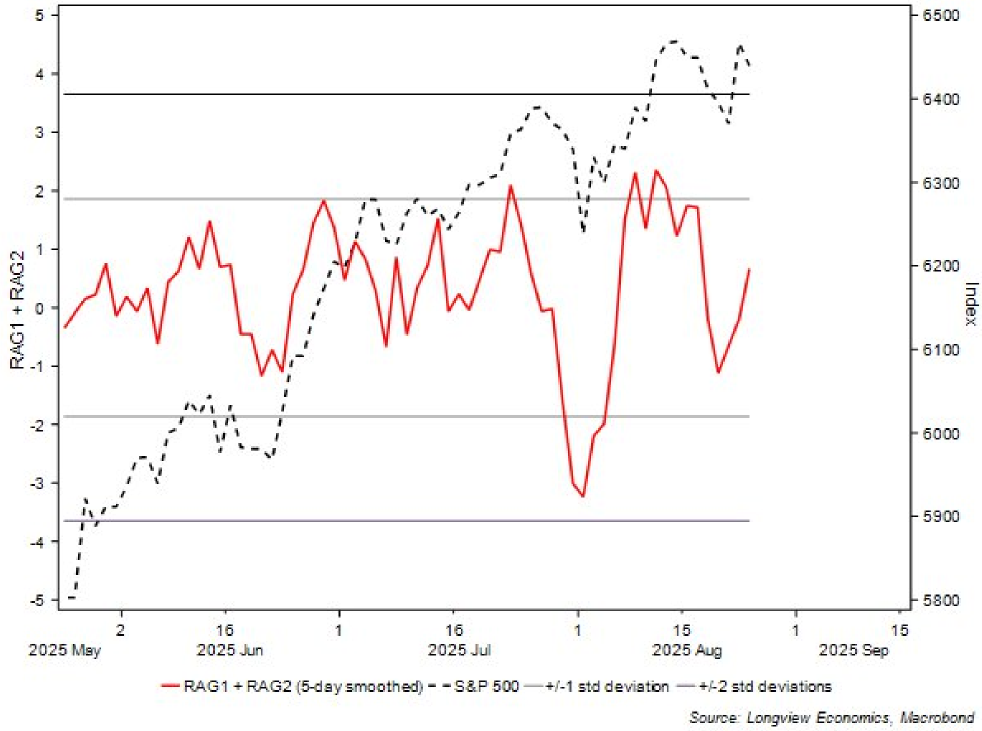


FIG 2b: Longview S&P500 **short term 'technical'** scoring system vs. S&P500 futures

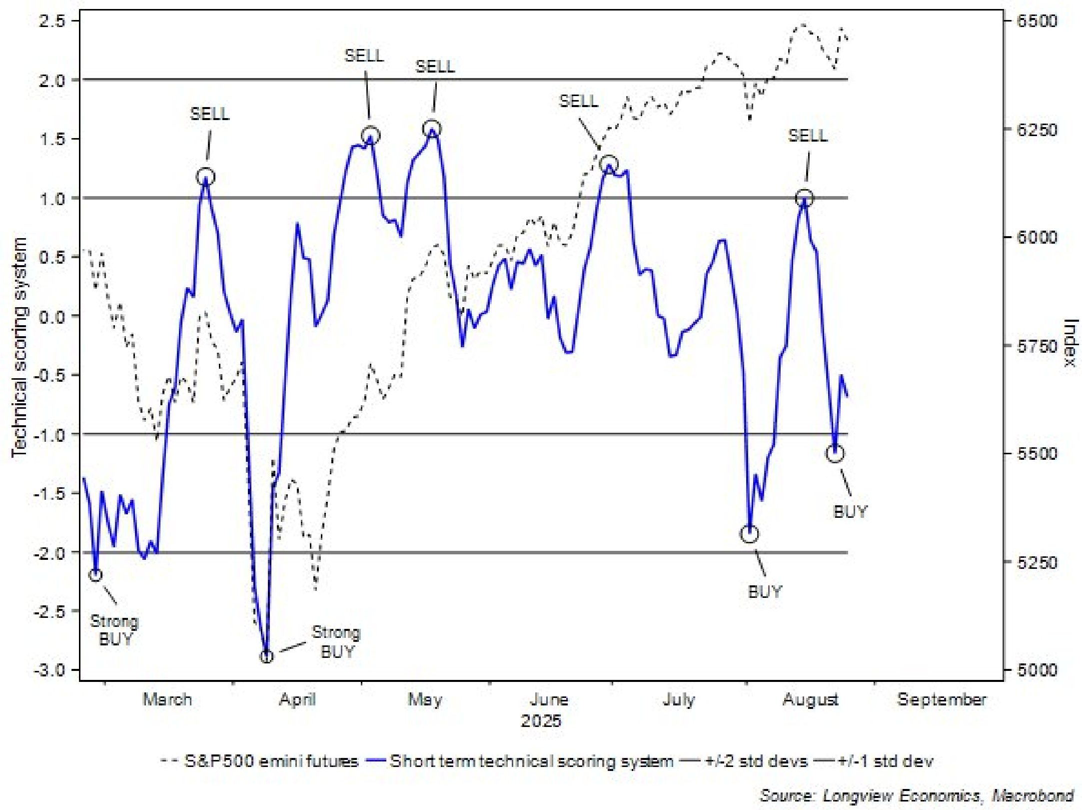
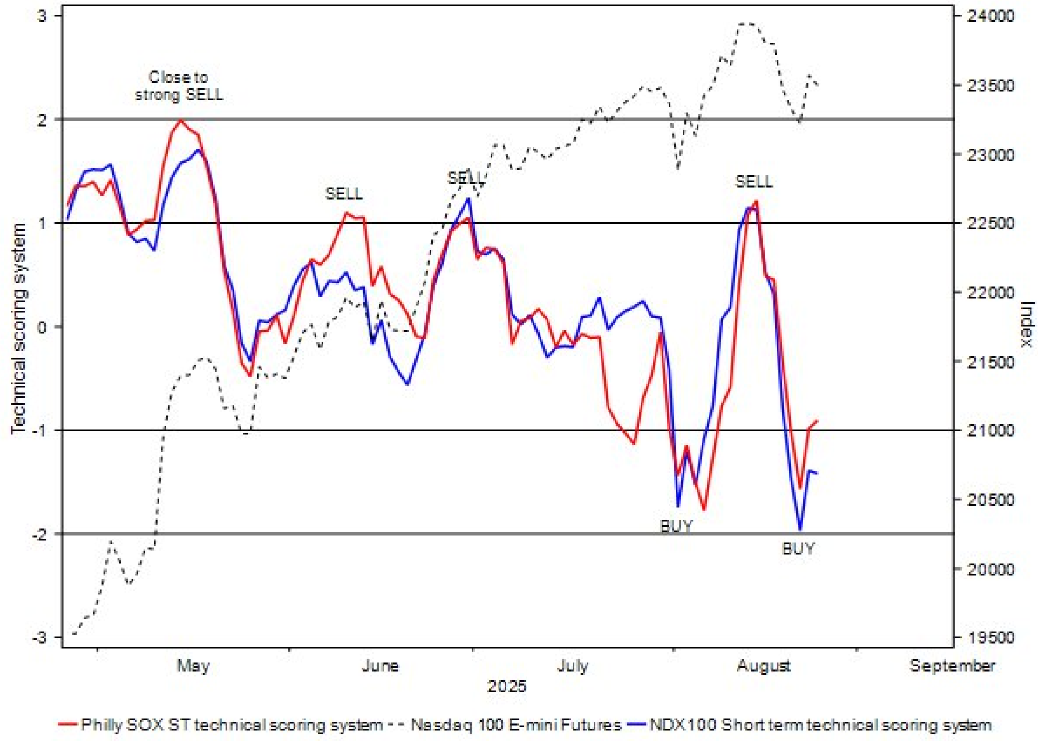
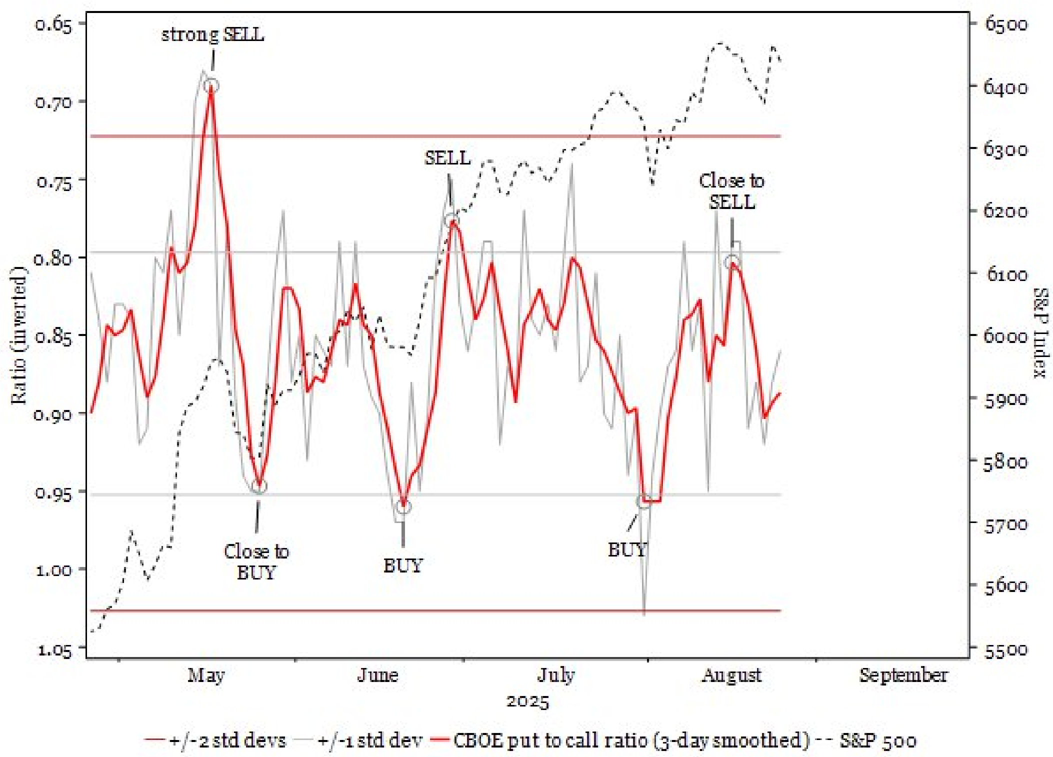


FIG 2c: Longview NDX100 & Philly SOX short term **'technical'** scoring system vs. NDX100 futures



Source: Longview Economics, Macrobond

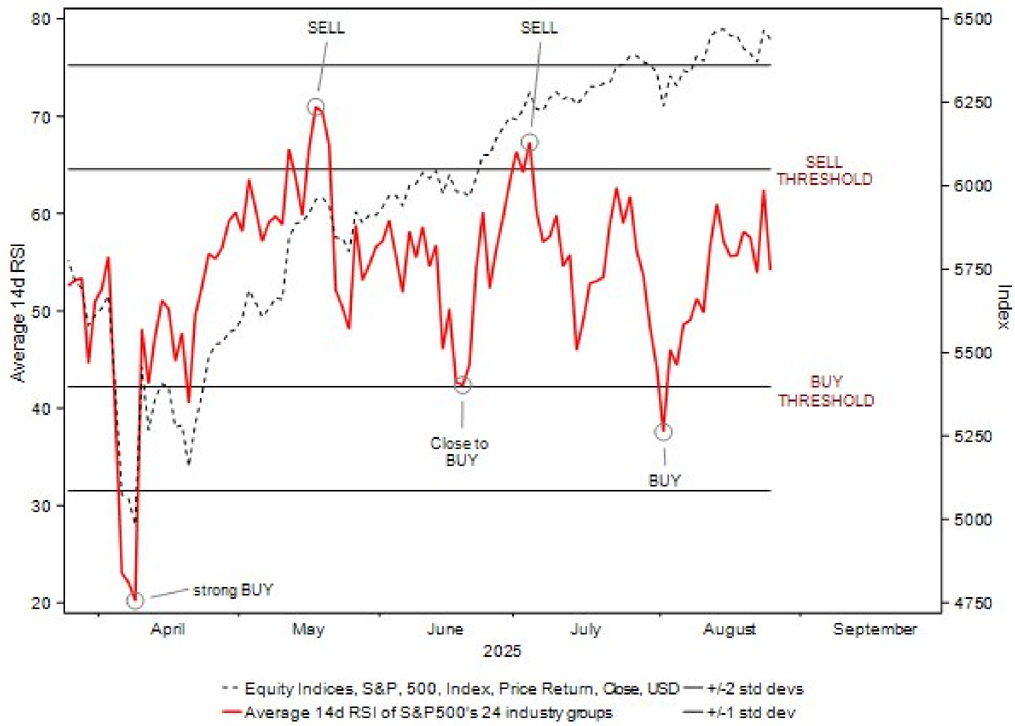
FIG 2d: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Source: Longview Economics, Macrobond

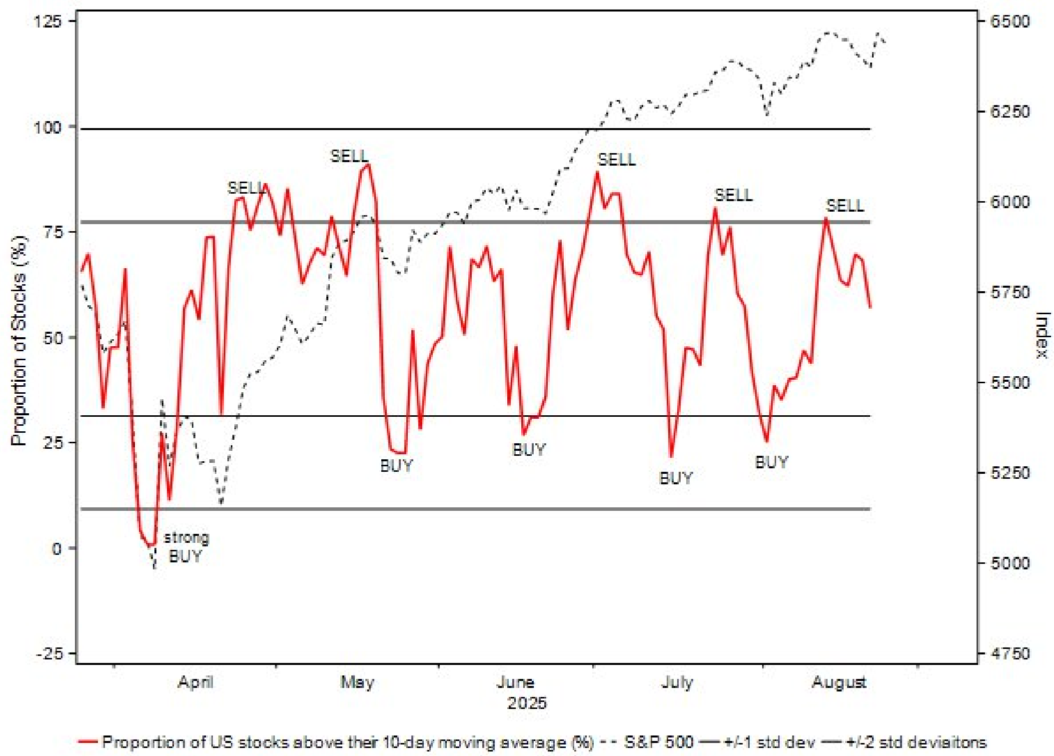
Sector and single stock models are mid-range…

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



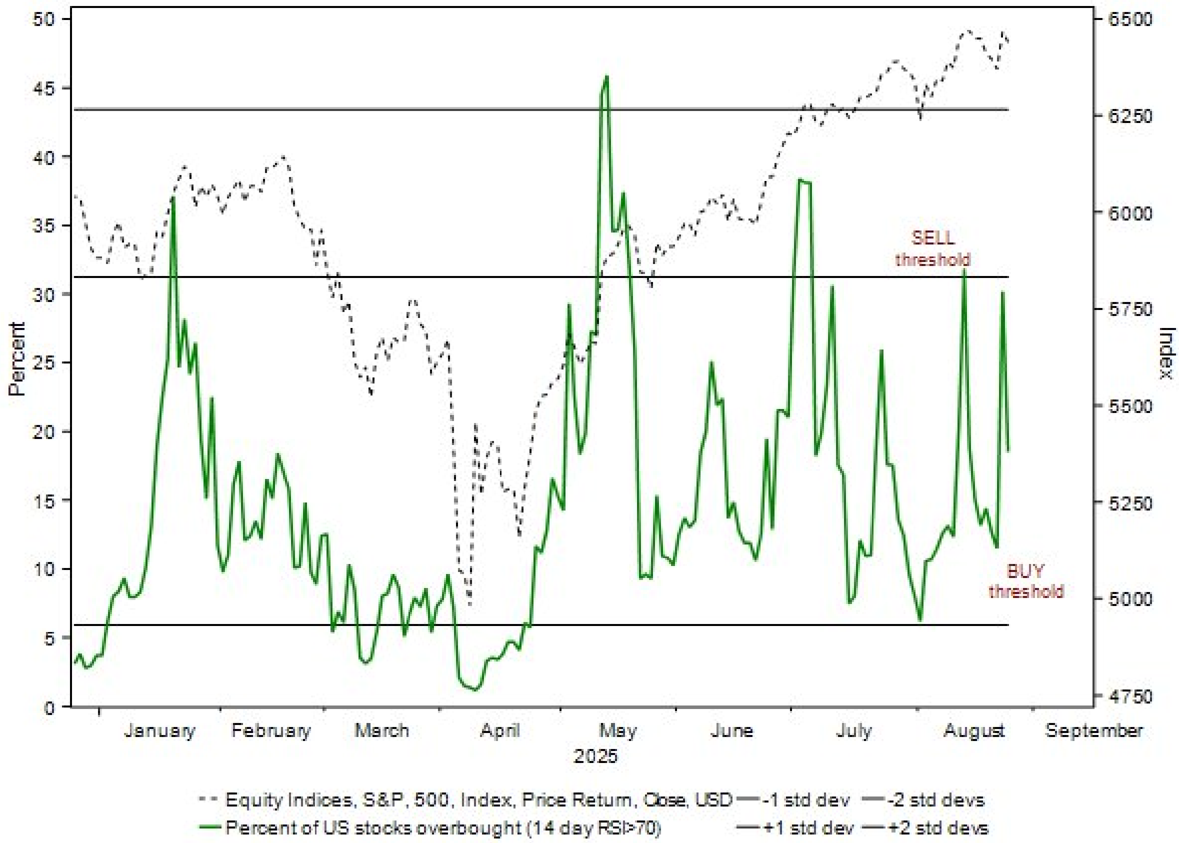
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 3b: Percentage of US single stocks which are overbought (i.e. with RSIs>70)



Source: Longview Economics, Macrobond

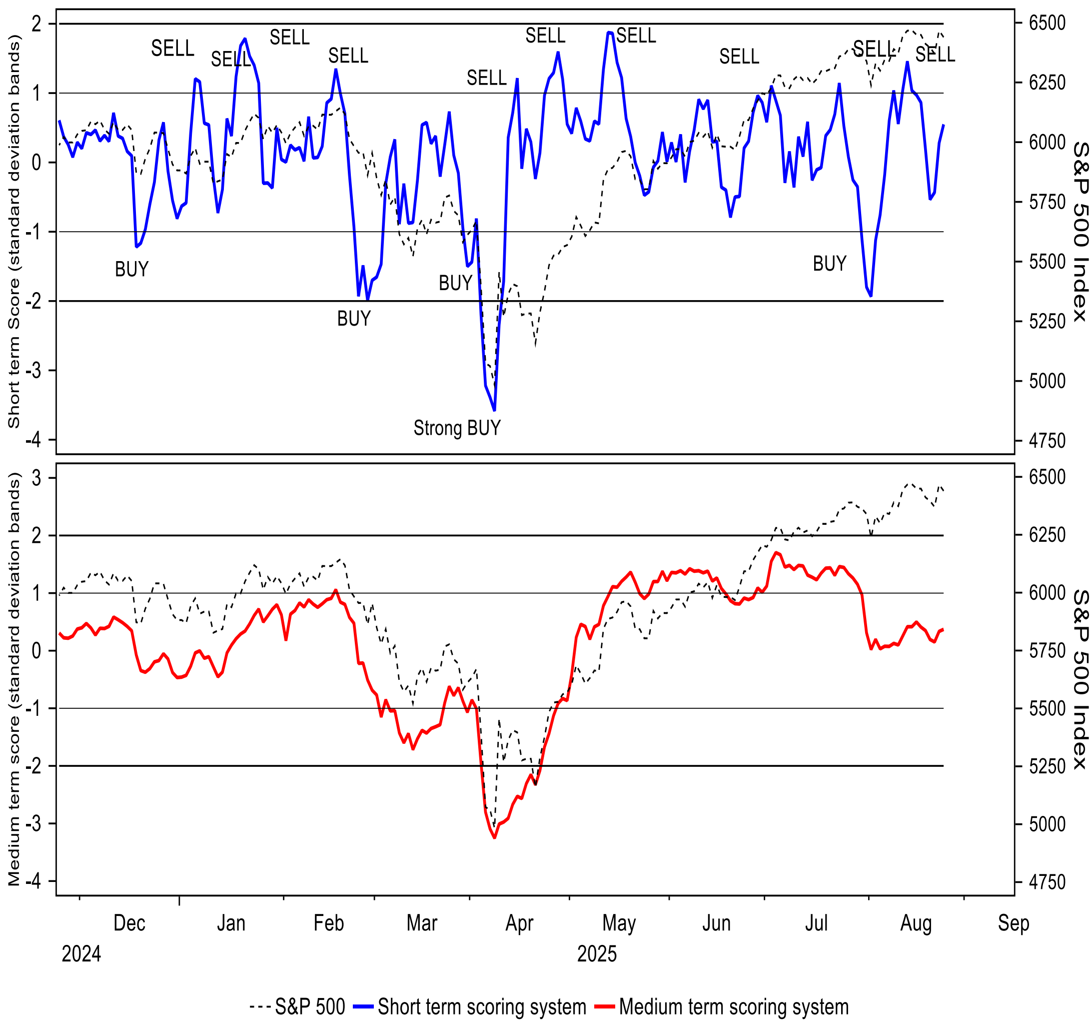
1 – 2 Week View on Risk

26th August 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

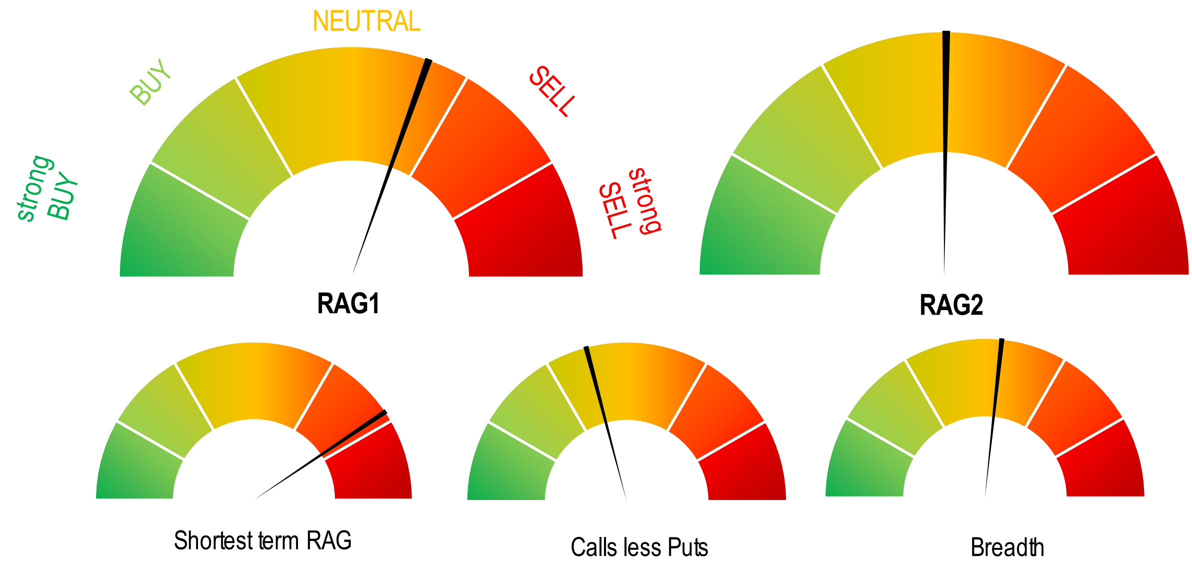
Source: Longview Economics, Macrobond

*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

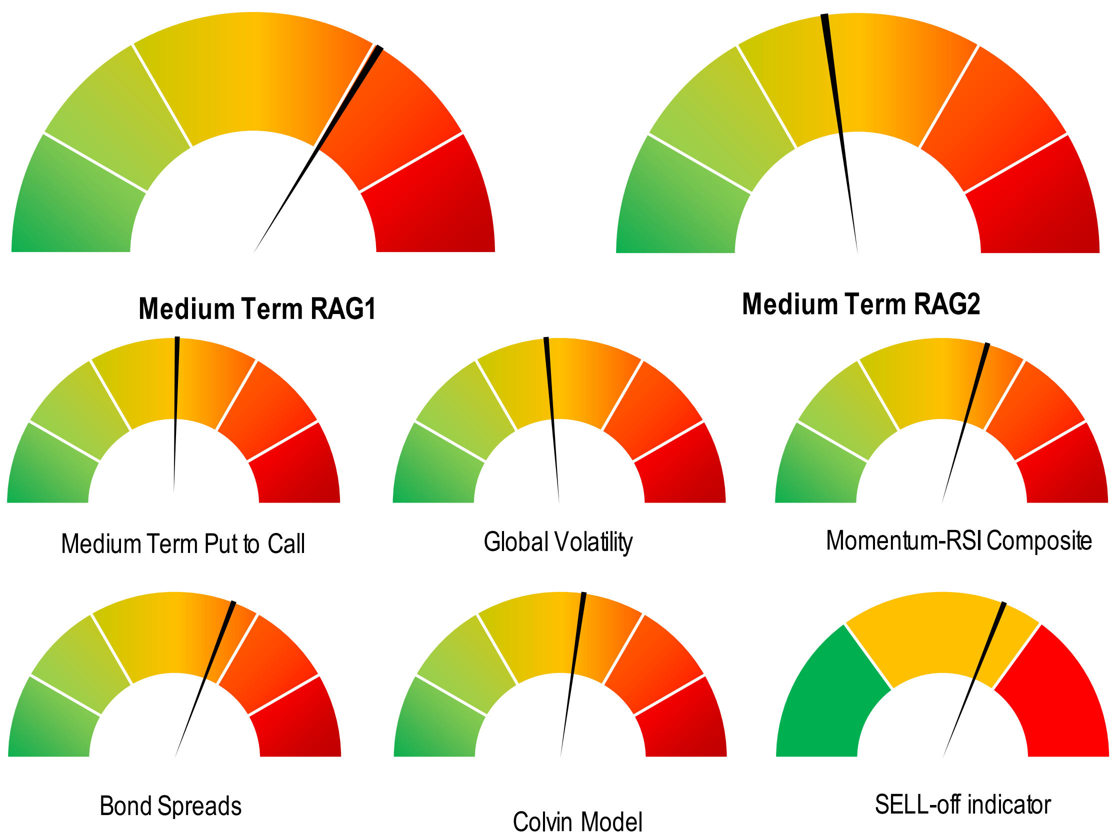
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

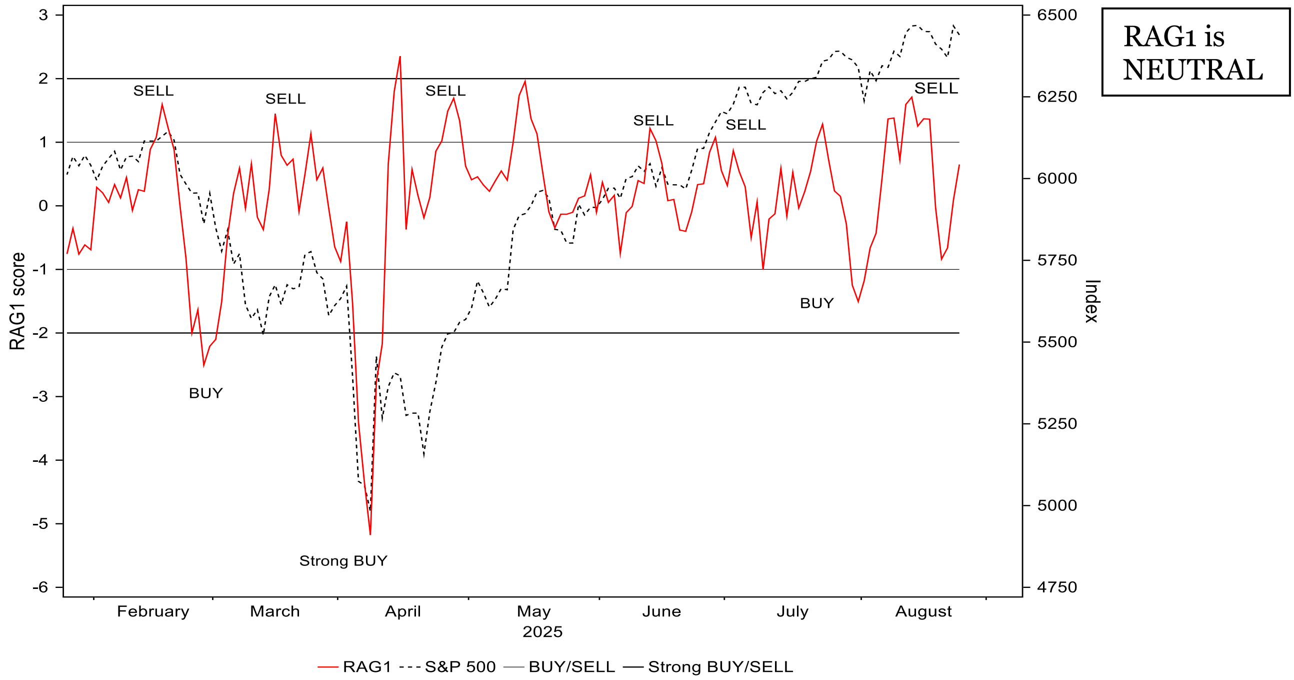
Fig 1b: Medium term models – shown as gauges using standard deviation bands



Source: *Longview Economics*
**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

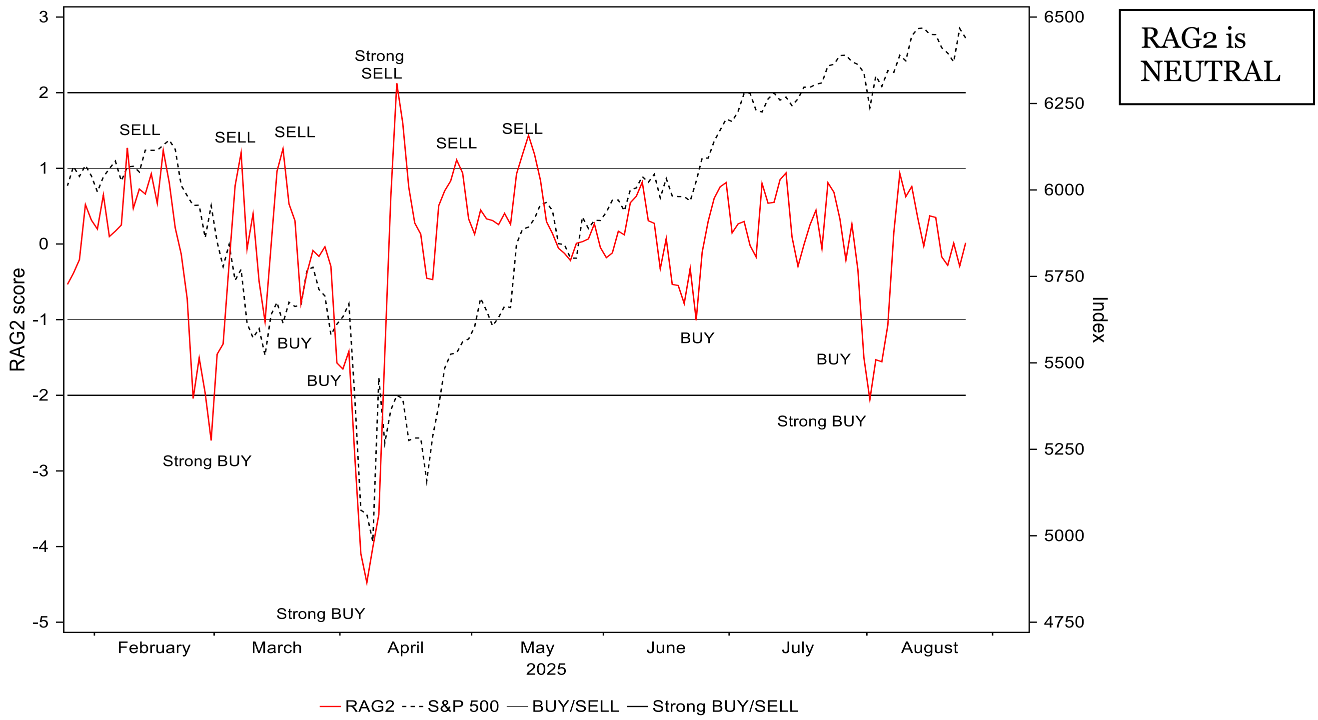
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

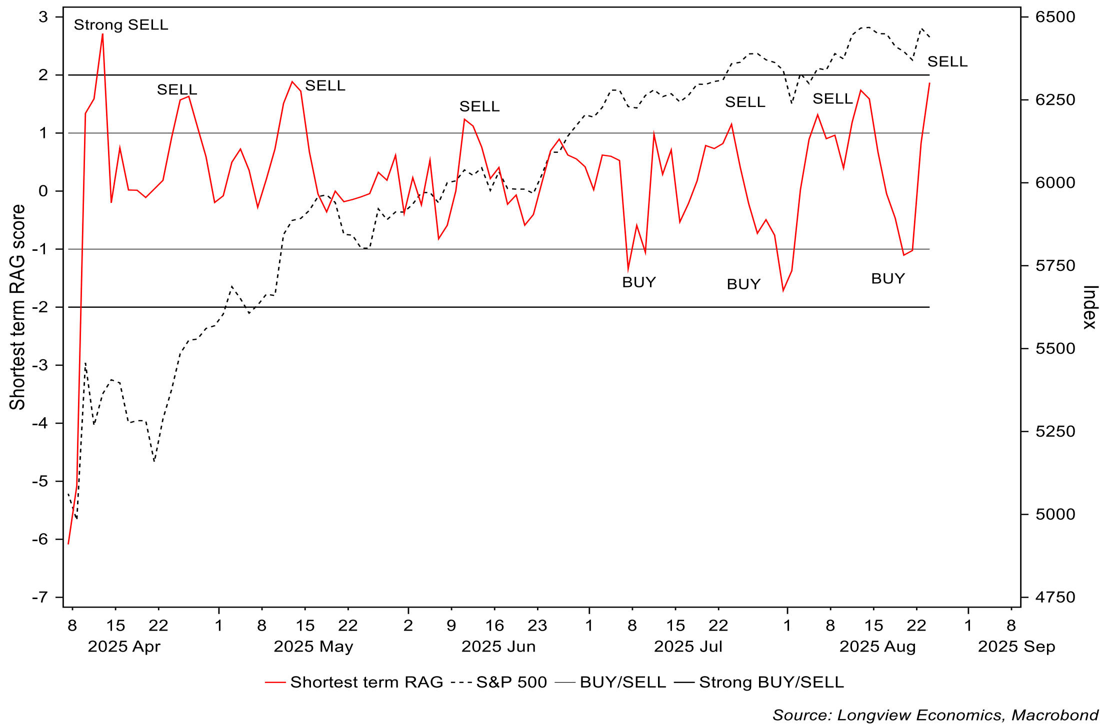
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

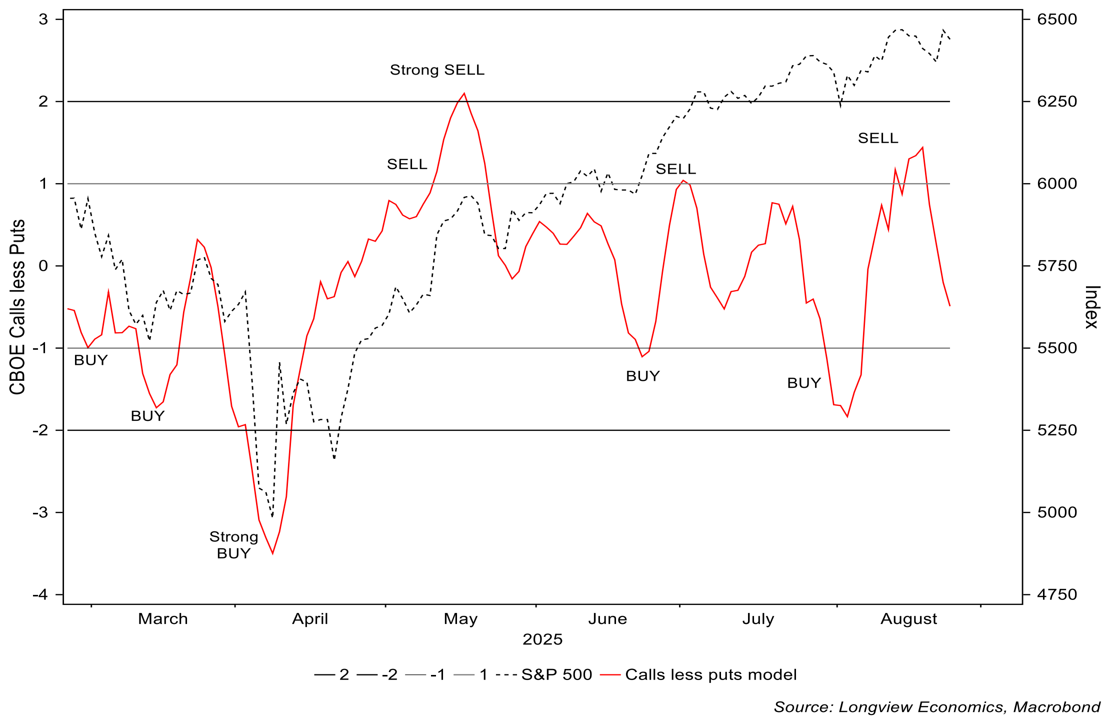
For explanations of indicators please see page 10

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



Shortest term RAG is on SELL

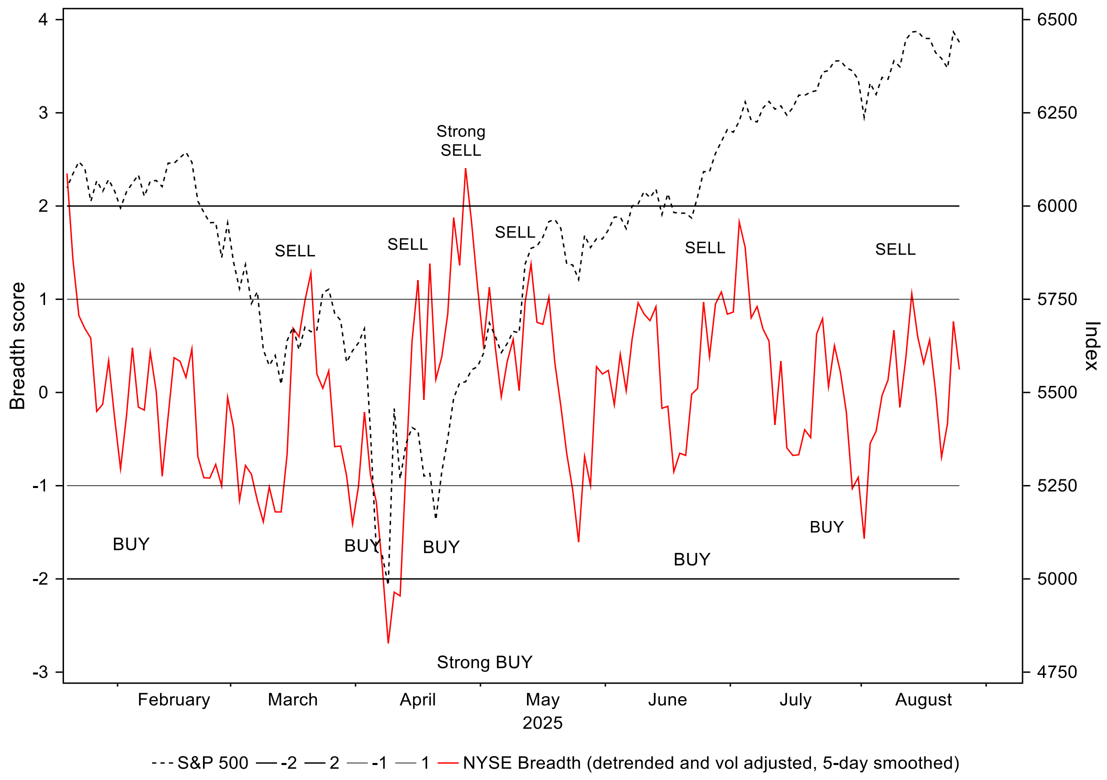
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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



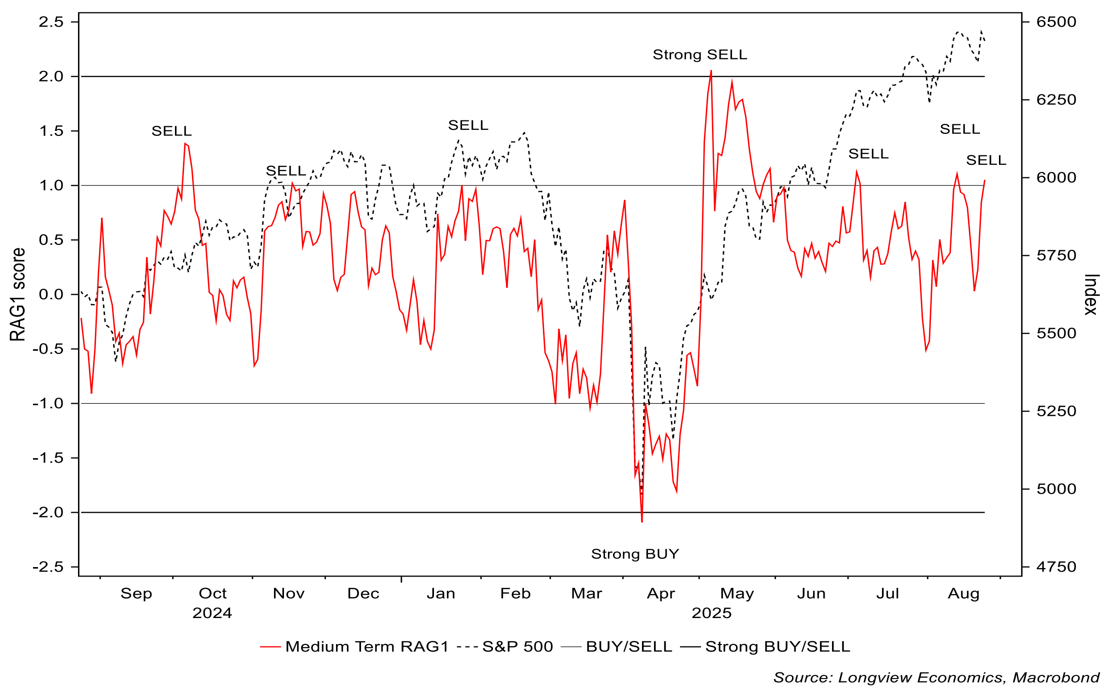
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

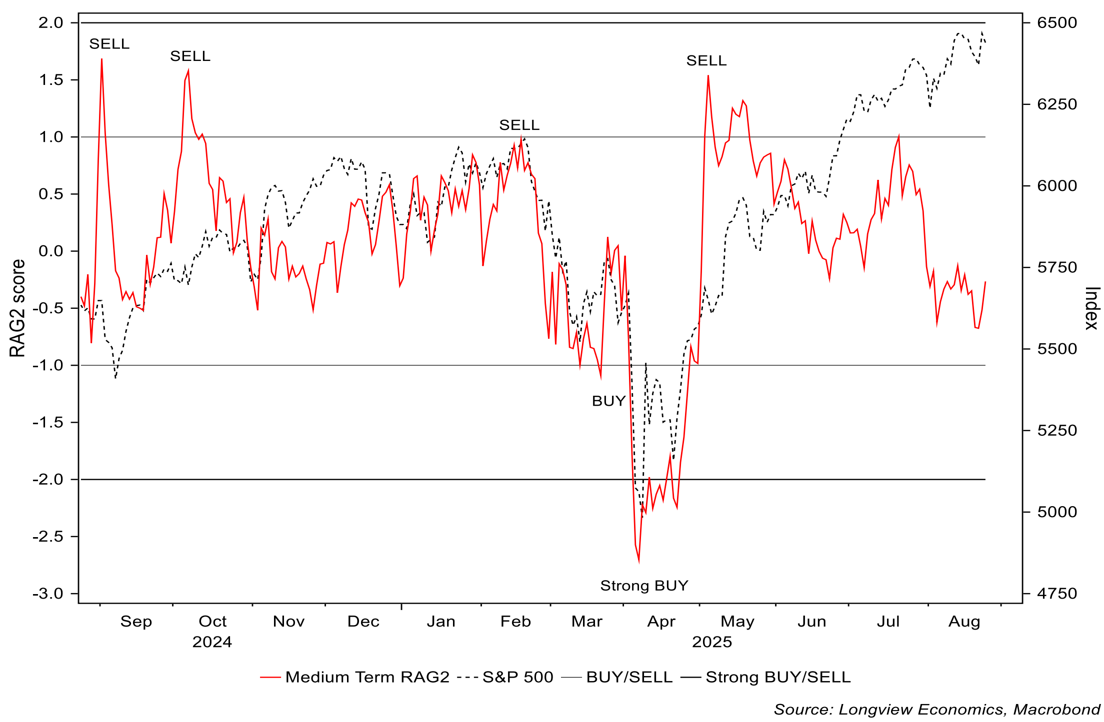
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

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

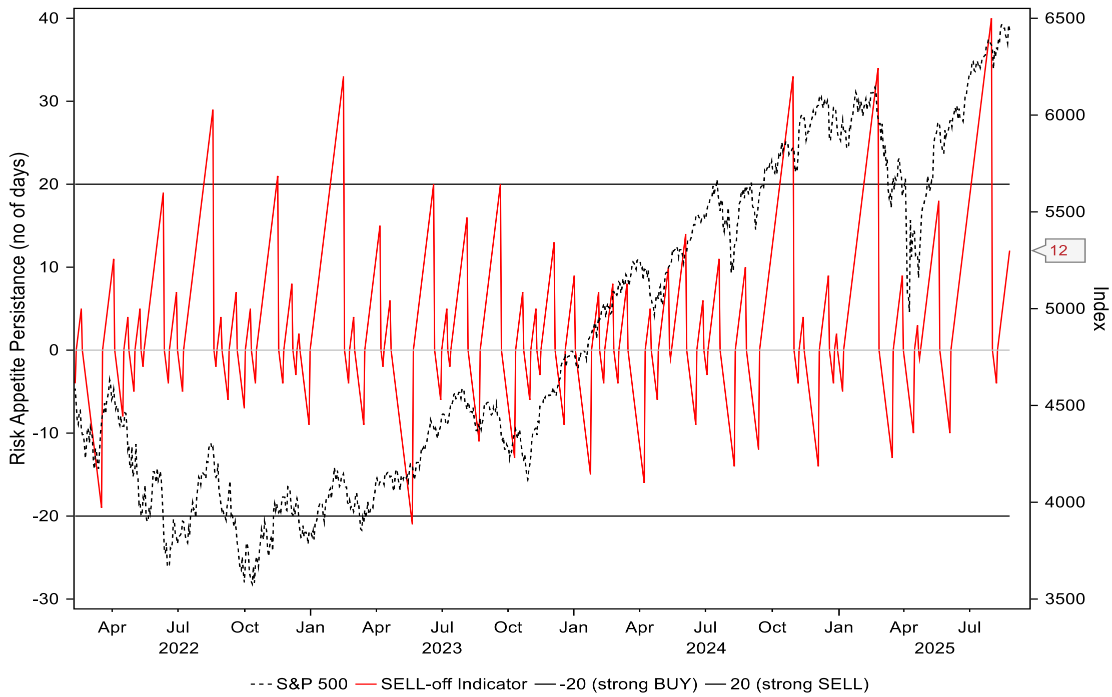


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

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

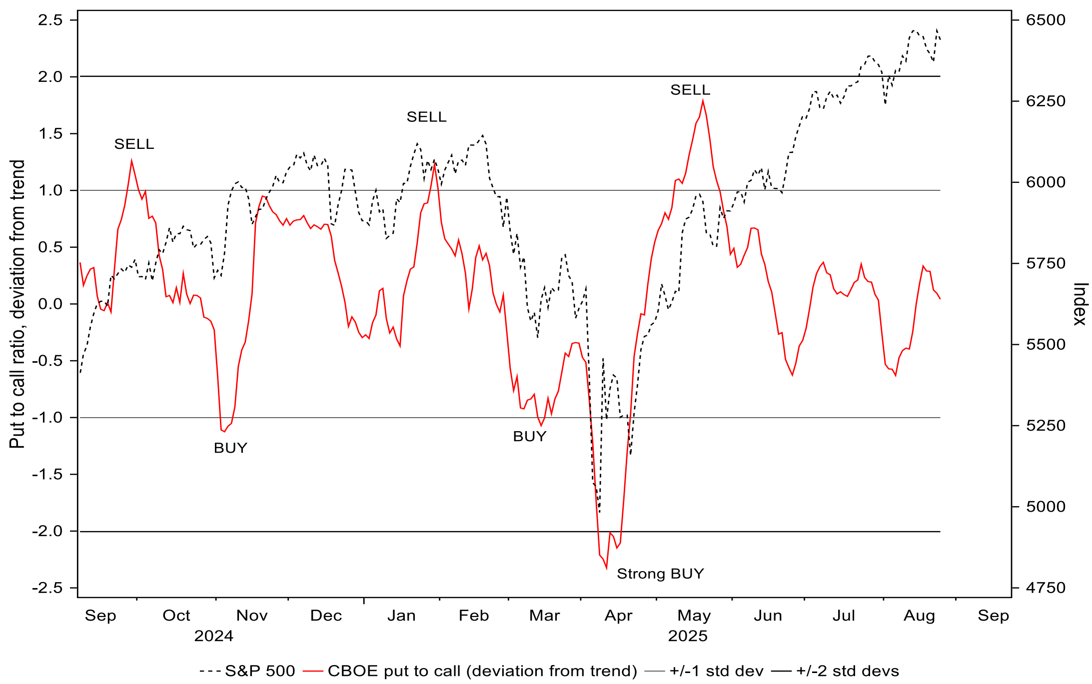


Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

(@ +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

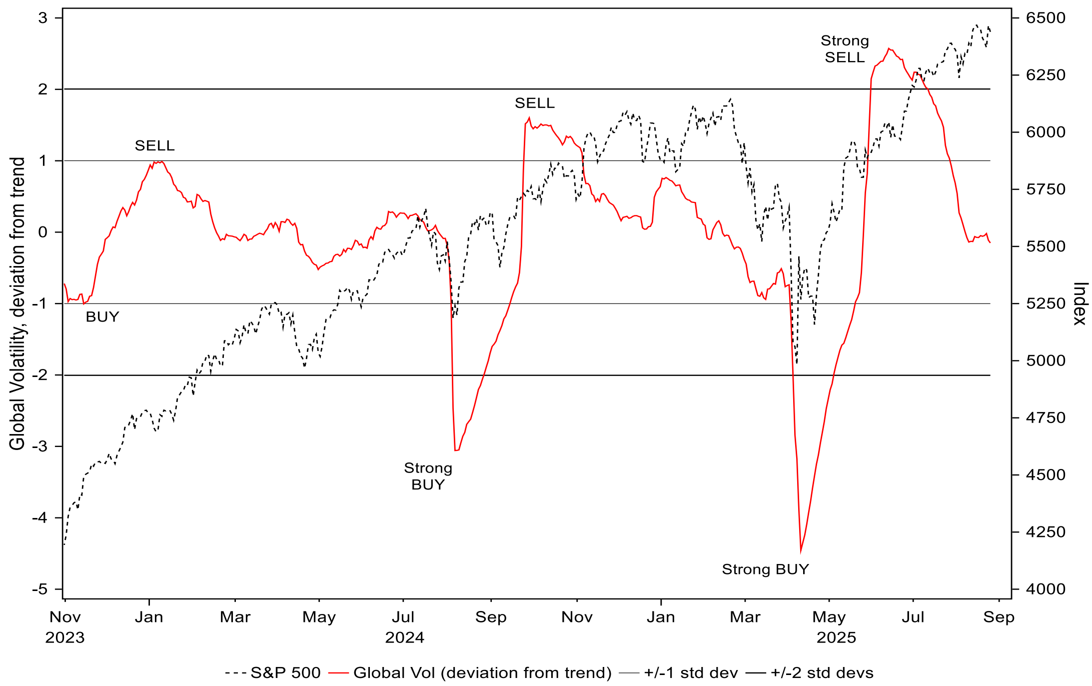


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

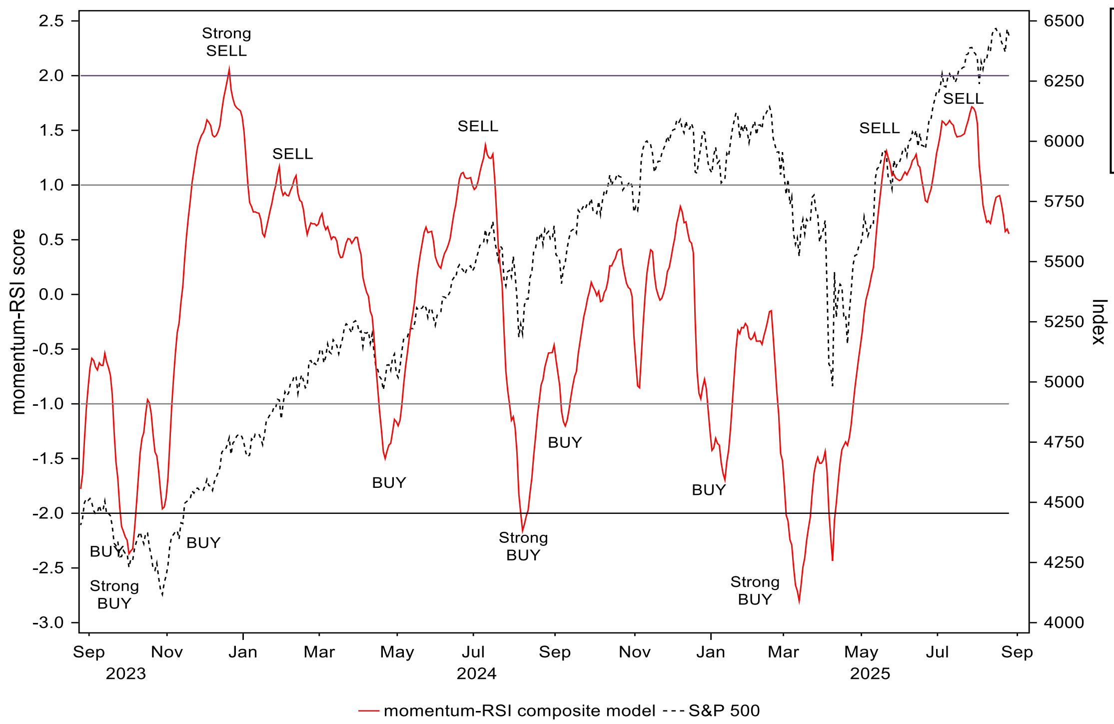
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

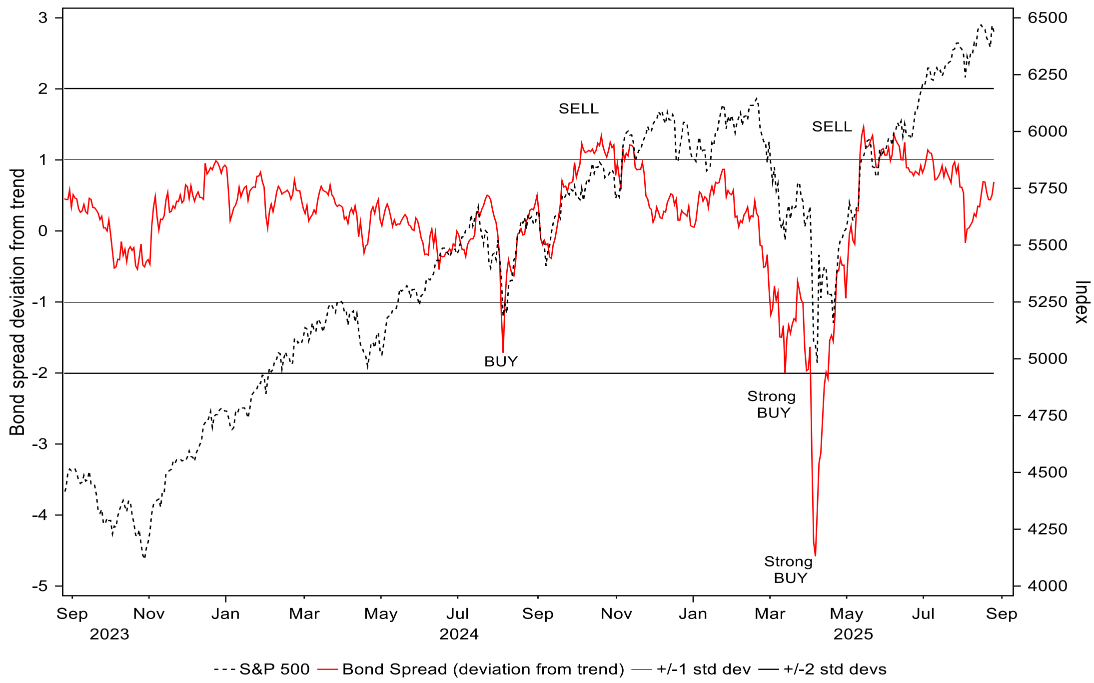
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

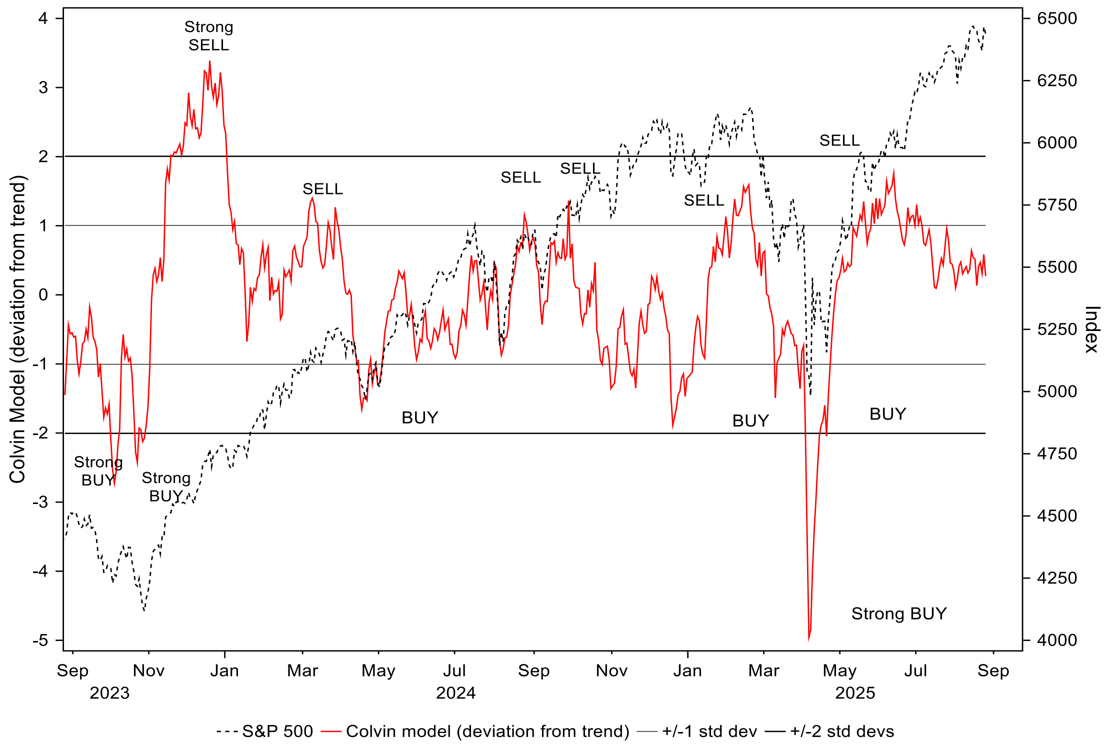
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Source: Longview Economics, Macrobond

High yield corporate bond spreads model is 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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