Weekly Risk Appetite Gauge, 28th July 2025: **"Greed Rising - Complacency Abounds"**

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': 'Greed Rising - Complacency Abounds'

The US equity market continues to look increasingly stretched from a number of perspectives:

i) **Risk appetite models** are on SELL (e.g. see FIG 1b, medium term risk appetite scoring system), highlighting the market's 'greediness'.

ii) Our **SELL-off indicator** continues to march higher and is now further above its key +20 level at which it warns of a heightened risk of a pullback. On Friday it reached +37 (FIG 1). NB this model measures persistent and excessive enthusiasm for risk.

iii) **Volatility** has fallen markedly such that various 'vol' models are now showing clear signs of complacency. Those include a) the steepness of the volatility curve (which is on SELL, FIG 1d); b) the global volatility model, which is at historically low levels (FIG 1f); while c) both the VIX & VVIX indices are down sharply over recent weeks. The VIX, for example, is at 6-month lows, while the VVIX is at a level consistent with S&P500 pullbacks (see 1c).

iv) Markets are **overextended** to the upside on a variety of metrics including, for example, at an index level (FIGs 1g & 1h) and at a single stock level (FIG 1i), while **correlation models** are also signalling SELL (FIG 1j).

Over and above those factors, our 'vulnerability model' has just generated a signal (warning of the risk of a wobble, or perhaps something more pernicious, in global equity markets). This model is based on volatility and volumes (FIG 1a). In that sense it measures (and combines) conviction and complacency. Once the line turns red (i.e. moves above the signal line), then it highlights that wobble risk. Given it's occurring at the same time as the SELL-off indicator is generating a signal, together they confirm the complacency, exuberance, and lack of participation in this recent upside move.

Added to those model signals, and as laid out in last week's Longview on Friday ("Froth is Building – Caveat Emptor"), this equity market is looking increasingly **frothy/richly priced**. In particular, spreads, i.e. risk premia, are tight across a variety of other assets (e.g. corporate bonds) at a time when the macro environment is deteriorating and US equity market valuations are full (rich). See Friday's publication for detail.

Despite all of the above, though, the US equity market has continued to grind higher. Last week, the S&P500 gained another 1.06% (such that the index is now +2.96%

MTD). The NDX100 was +0.66% for the week (and is now +2.62% MTD). Good US corporate earnings reports contributed to that strength in US equity markets.

As FactSet analysis shows:

"To date, the market is rewarding positive earnings surprises reported by S&P 500 companies for Q2 more than average and also punishing negative earnings surprises reported by S&P 500 companies for Q2 more than average. Companies that have reported positive earnings surprises for Q2 2025 have seen an average price increase of +2.1% two days before the earnings release through two days after the earnings release. This percentage increase is well above the 5-year average price increase of +1.0% during this same window for companies reporting positive earnings surprises. Companies that have reported negative earnings surprises for Q2 2025 have seen an average price decrease of -3.0% two days before the earnings release through two days after the earnings. This percentage decrease is larger than the 5- year average price decrease of -2.4% during this same window for companies reporting negative earnings surprises."

Source: FactSet Earnings Insight, 25th July 2025

So far in this reporting season, 167 S&P500 companies have reported Q2 earnings. Of those 140 have surprised positively, 21 negatively with 6 inline (on earnings), according to Bloomberg. The aggregate surprise is +6.89% (vs a normal beat of 4%). This week another 164 S&P500 companies will report results including four of the MAG7 (see 'Key macro data/events' section below for detail).

Positive trade deals have also helped push the market higher, as the 1st August deadline looms (i.e. Friday). Last week, the US & Japan agreed a deal. Over the weekend, a US-EU deal has been announced while Chinese and US negotiators head to Stockholm to continue their discussions. Increasingly, therefore, the major trading partners with the US are reaching agreements on tariffs (and related issues). Whilst these are being cheered by the market (on the day), overall, the global trading system has been markedly changed (damaged).

Overall, we remain 'tactically'* cautious towards equities. Our key 'tactical' theme is 'summer turbulence ahead' (see our latest tactical equity updates for detail, published on 3rd & 10th of July). Seasonally the summer is a challenging time of year for equities, whilst the message of our medium term '1 – 4 month' models is clear (markets are vulnerable to negative newsflow). Short term (1 – 2 week) models are mostly mid-range, though (FIGs 3 – 3e), which opens the possibility for the grind higher to persist for a further week or two during the ongoing reporting season. Some sentiment indicators are also not yet on SELL. Overall, though, on our tactical (1 – 4 month) timeframe, we remain cautious.

Key events and macro data due this week are shown below. With the Fed decision, along with other central banks (like BoJ, BoC), the ongoing US earnings season and various key US macro data releases, it's a busy week for market watchers/participants.

Kind regards,

The team @ Longview Economics

*Albeit we are more constructive on a longer term '6 month to 2 year' strategic outlook.

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

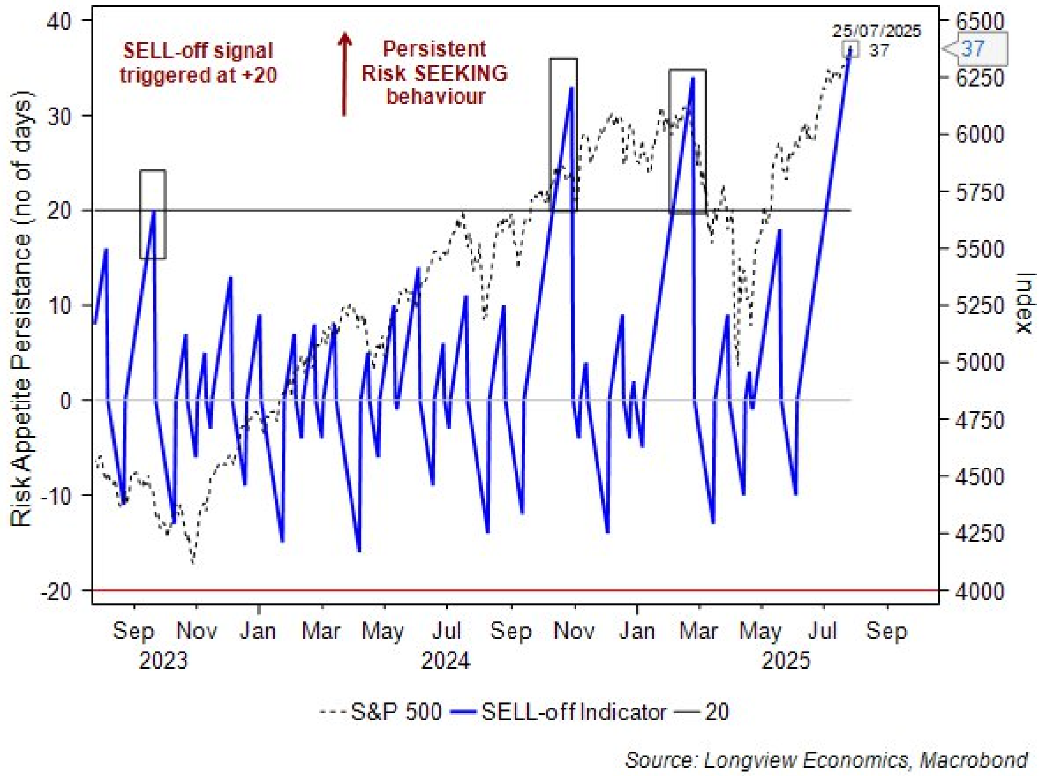


FIG 1a: Longview 'Vulnerability' model* (NB red = SELL signal) vs. S&P500 cash index

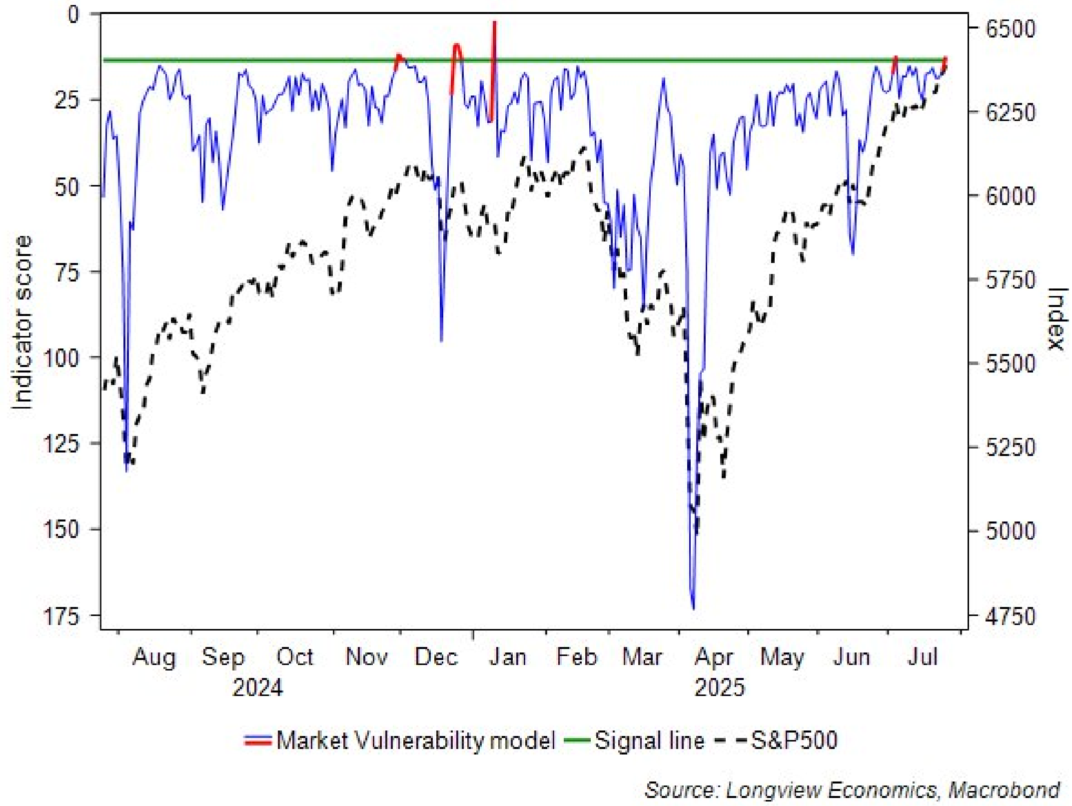
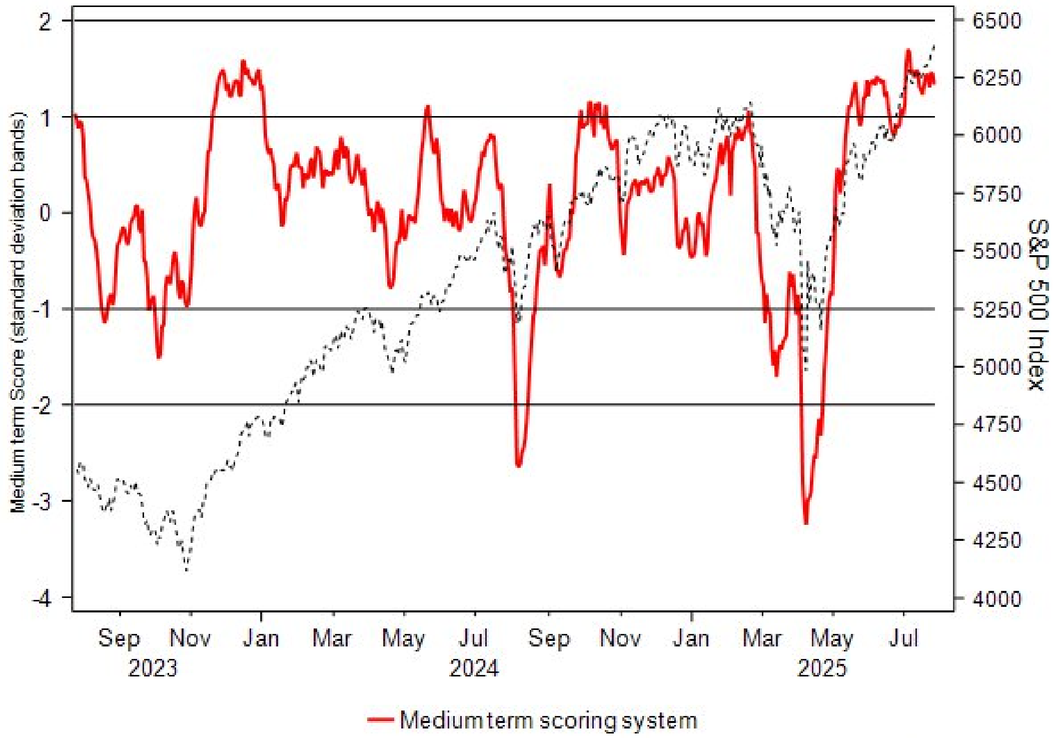
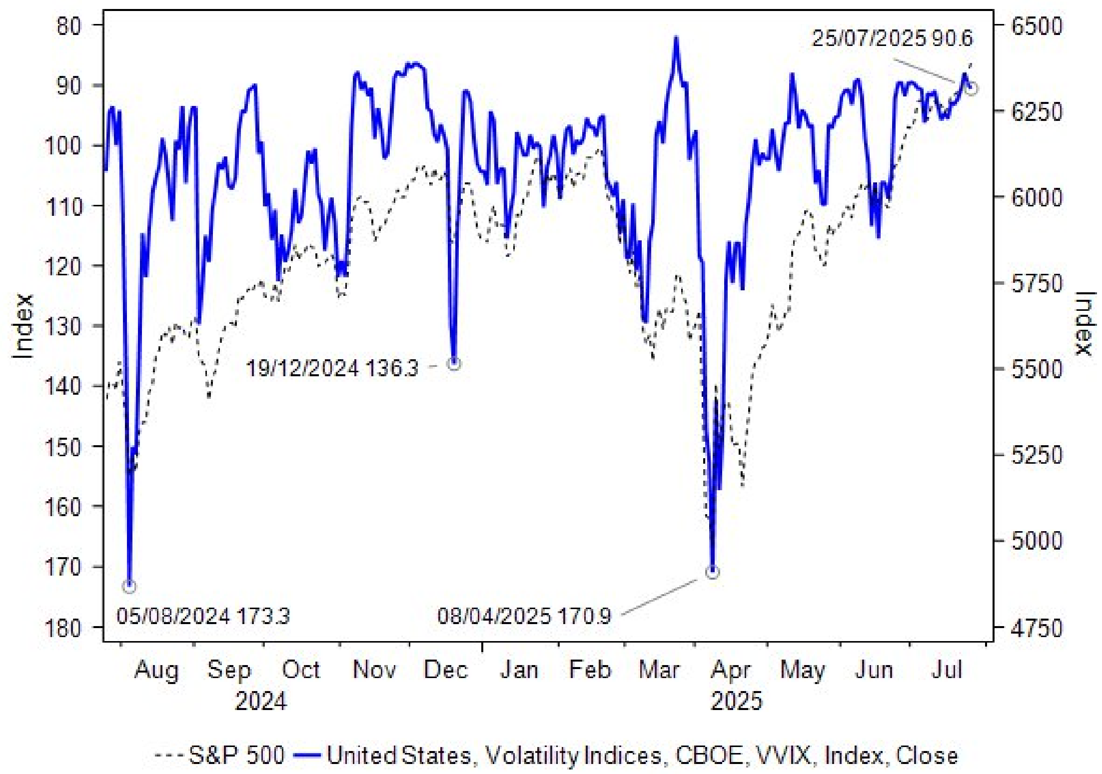


FIG 1b: Longview medium term **'risk appetite'** scoring system vs. S&P500



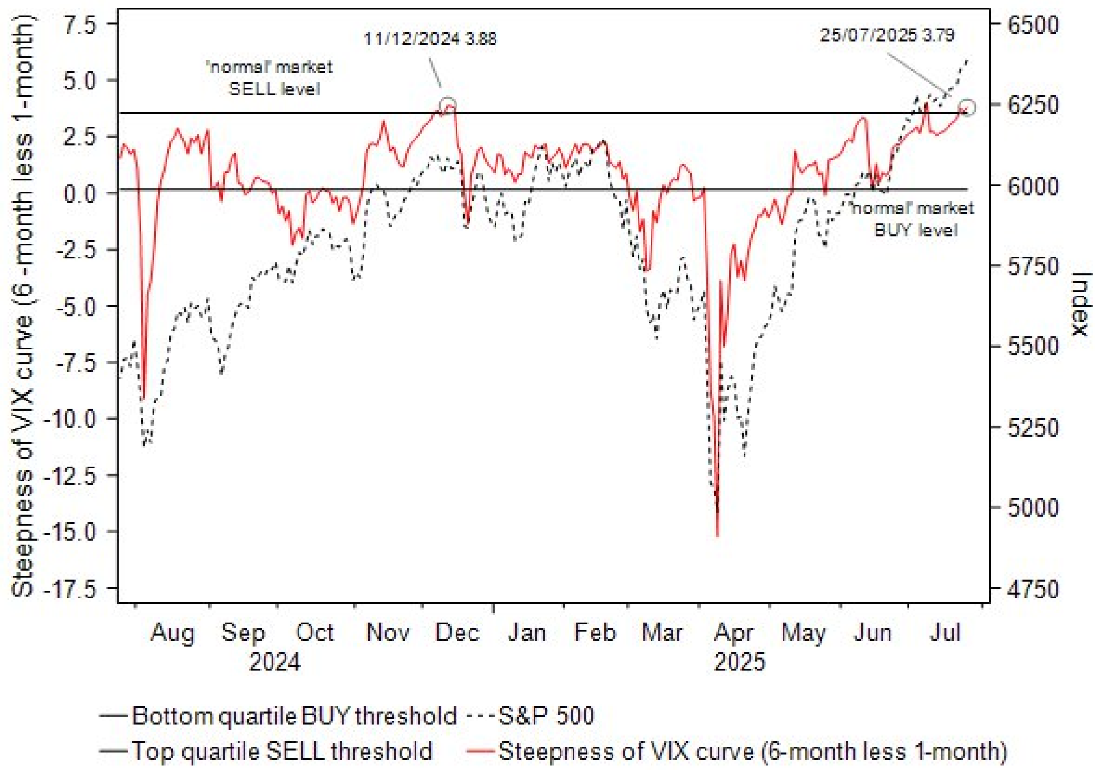
Source: Longview Economics, Macrobond

FIG 1c: VVIX (%), inverted vs. S&P500



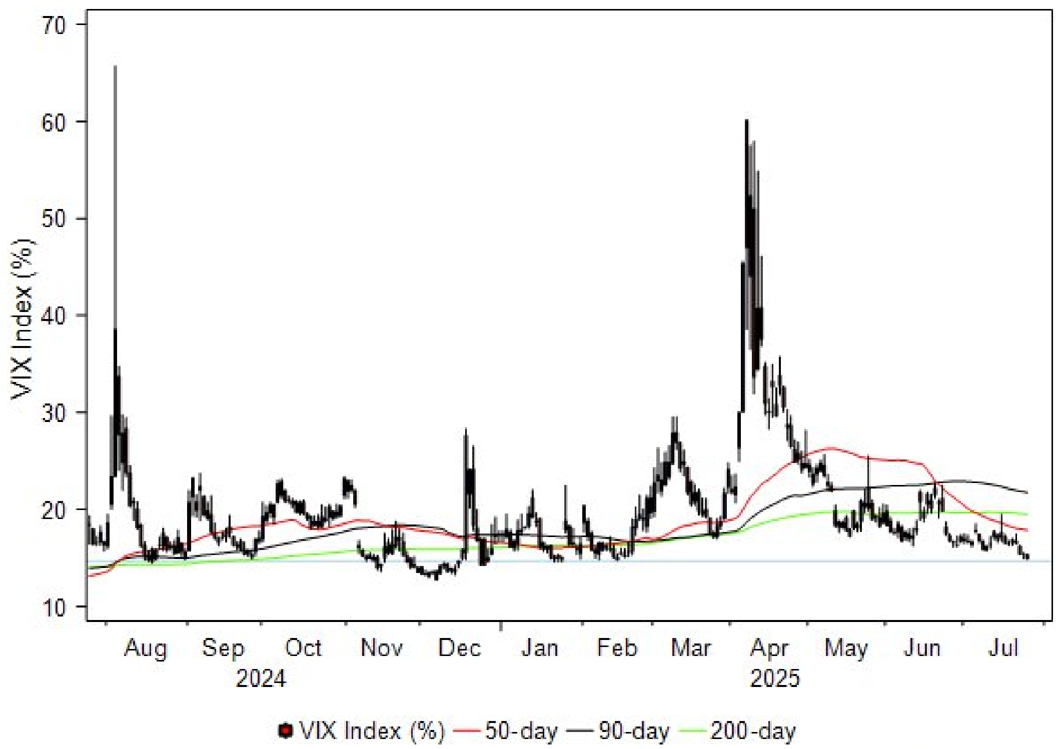
Source: Longview Economics, Macrobond

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



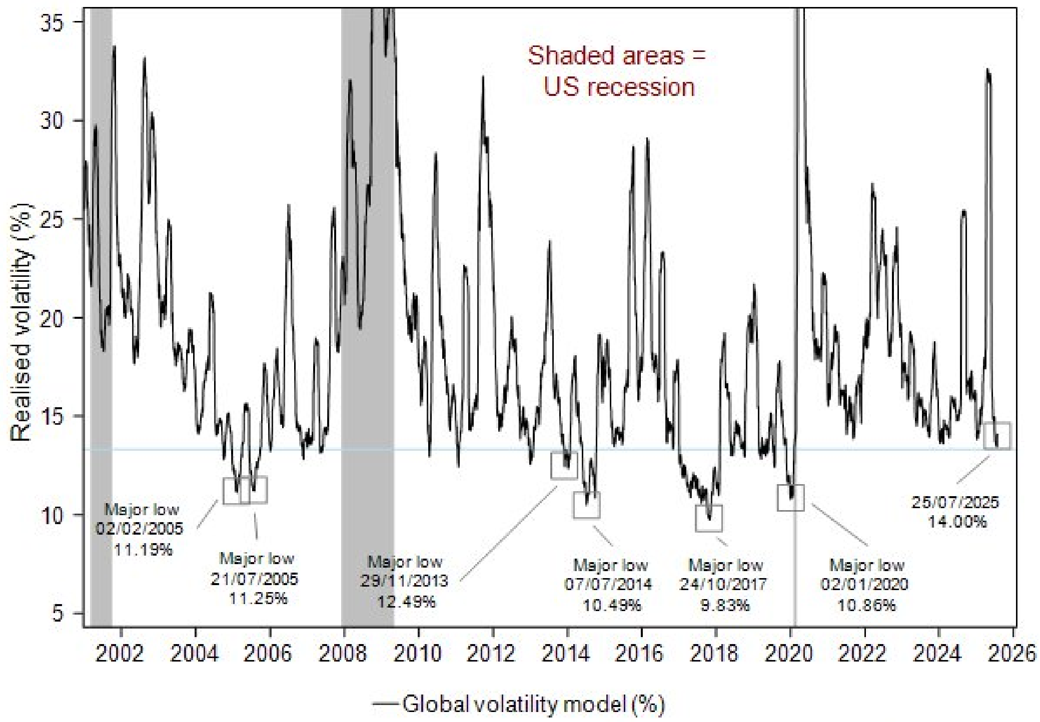
Source: Longview Economics, Macrobond

FIG 1e: VIX candlestick chart shown with key moving averages



Source: Longview Economics, Macrobond

FIG 1f: Global (realised) volatility model (%)

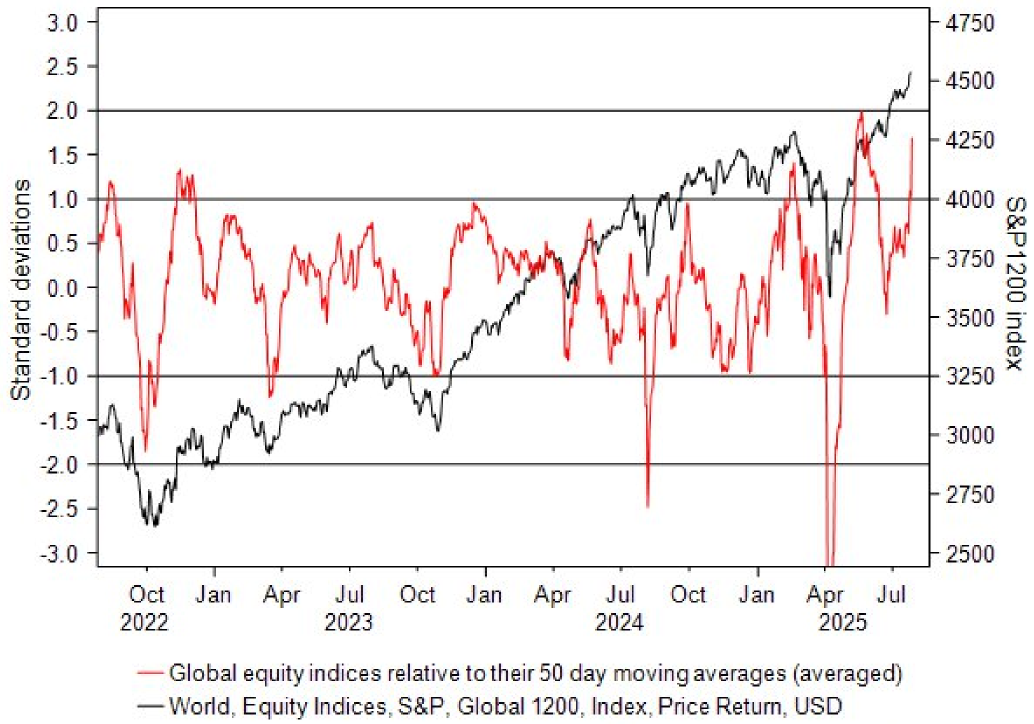


Source: Longview Economics, Macrobond

FIG 1g: S&P500 overextended indicator (underlying index price relative to 50 day moving average)

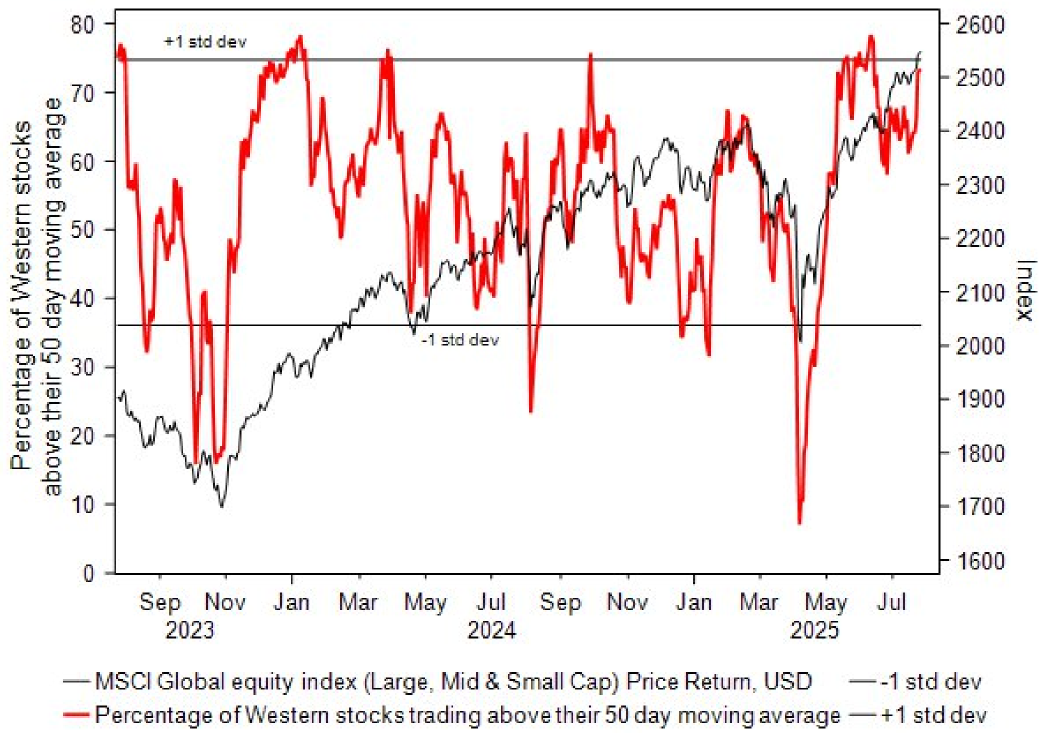
Source: Longview Economics, Macrobond

FIG 1h: Global equity indices relative to their 50 day moving averages (averaged) vs. global S&P1200 index



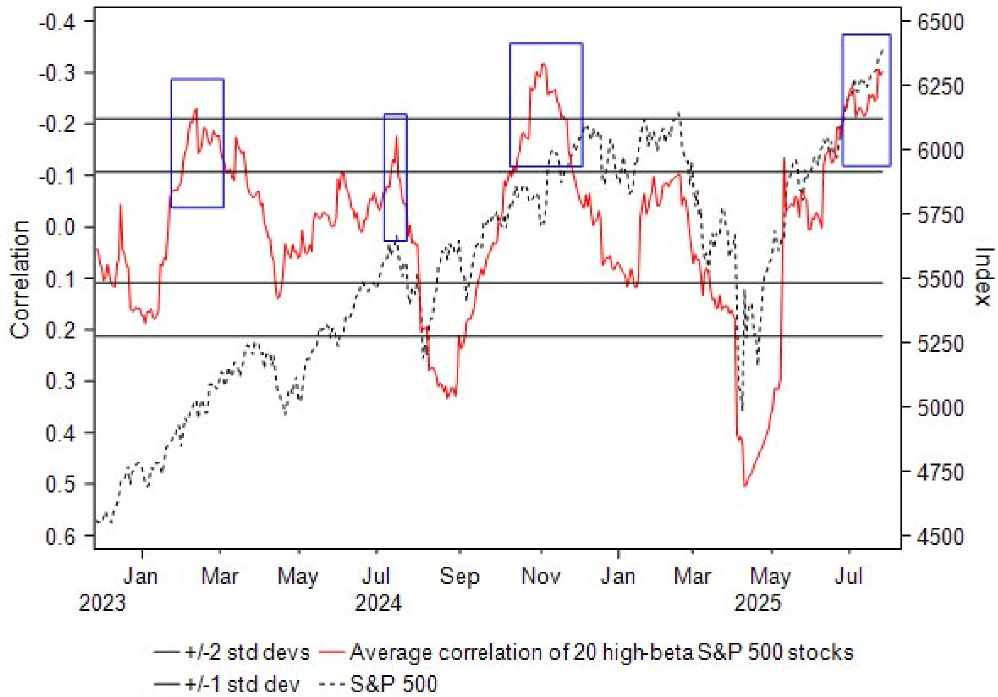
Source: Longview Economics, Macrobond

FIG 1i: Proportion of Western stocks above their 50-day moving average vs. MSCI global equity index



Source: Longview Economics, Macrobond

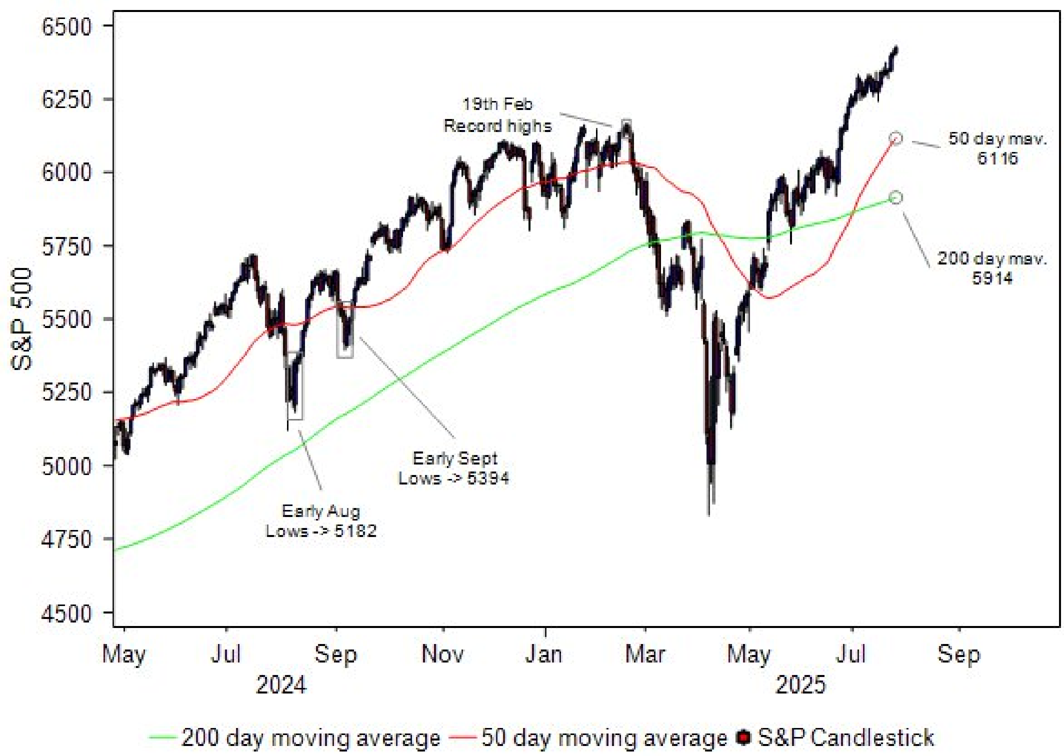
FIG 1j: Average cross-correlation twenty US 'high beta' single stocks (inverted) vs. S&P500



Source: Longview Economics, Macrobond

Key Global Asset Prices....

FIG 2: S&P500 futures candlestick chart, shown with 50 & 200 day moving averages



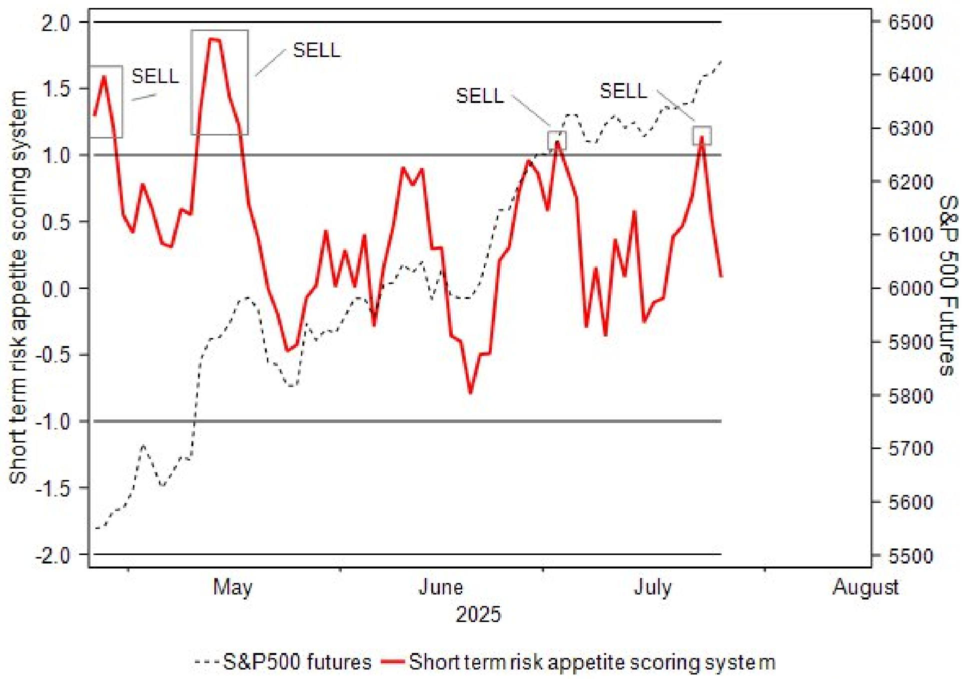
Source: Longview Economics, Macrobond

FIG 2a: US 10-year Treasury yield (%), shown with 50 & 200 day moving averages

FIG 2b: US dollar index shown with 50 & 200 day moving averages

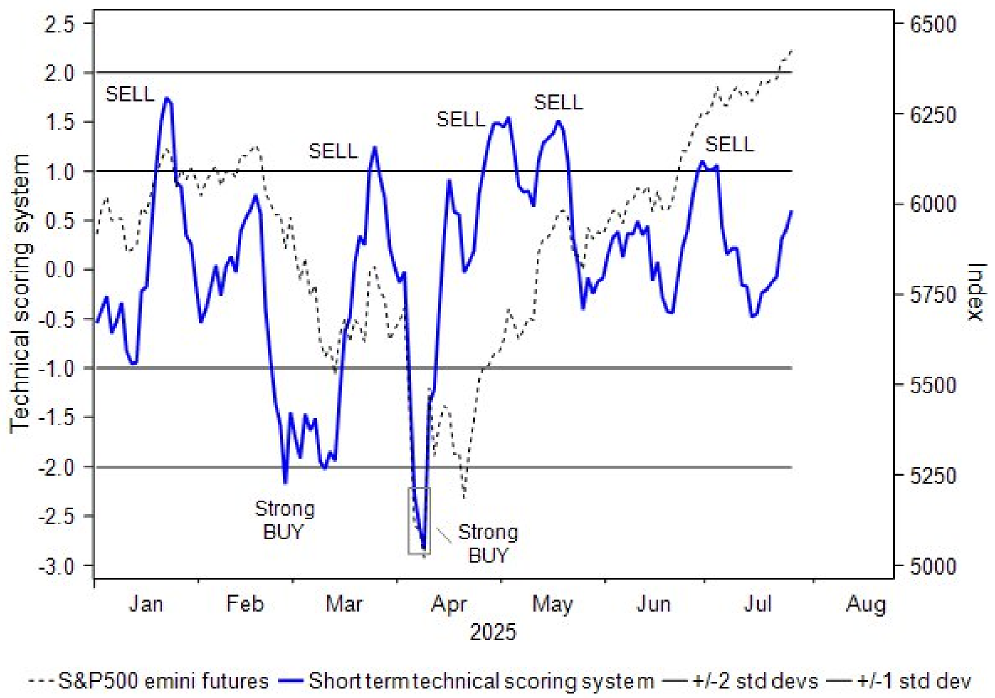
Short term (1 – 2 week) market timing models are mostly NEUTRAL……

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

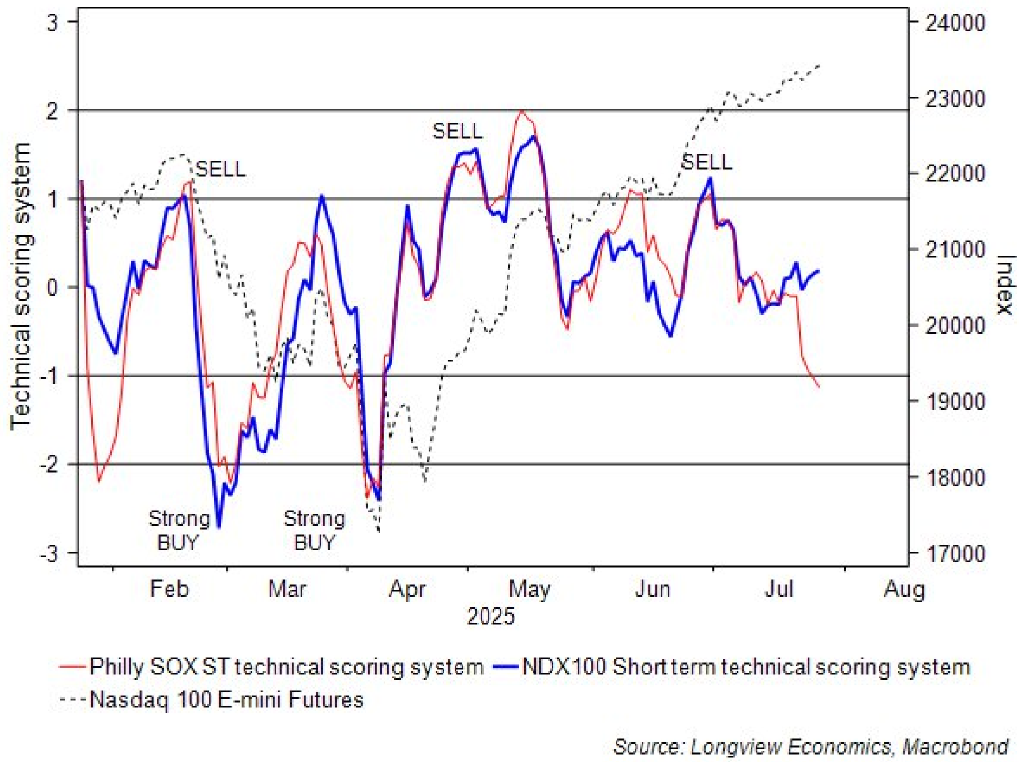
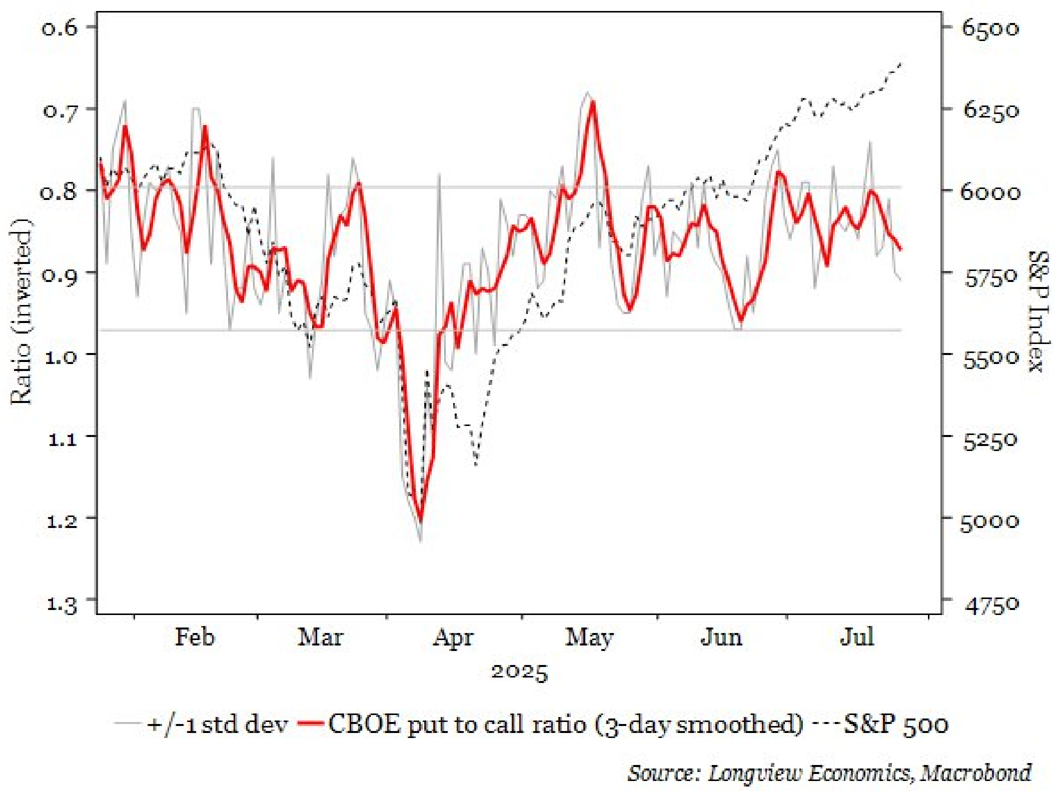
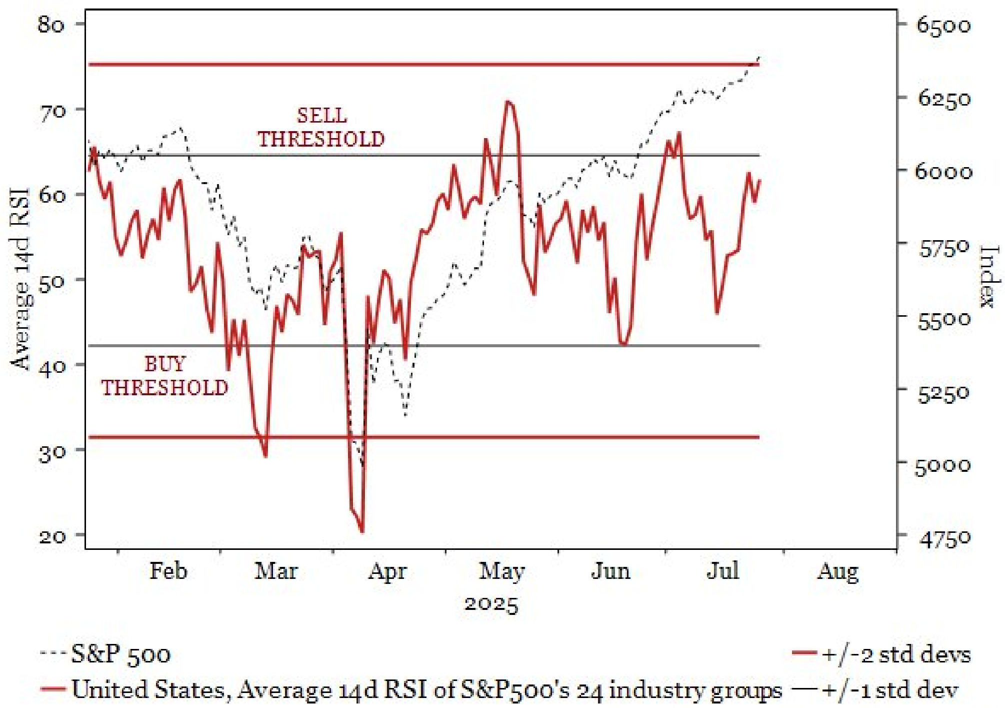


FIG 3c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



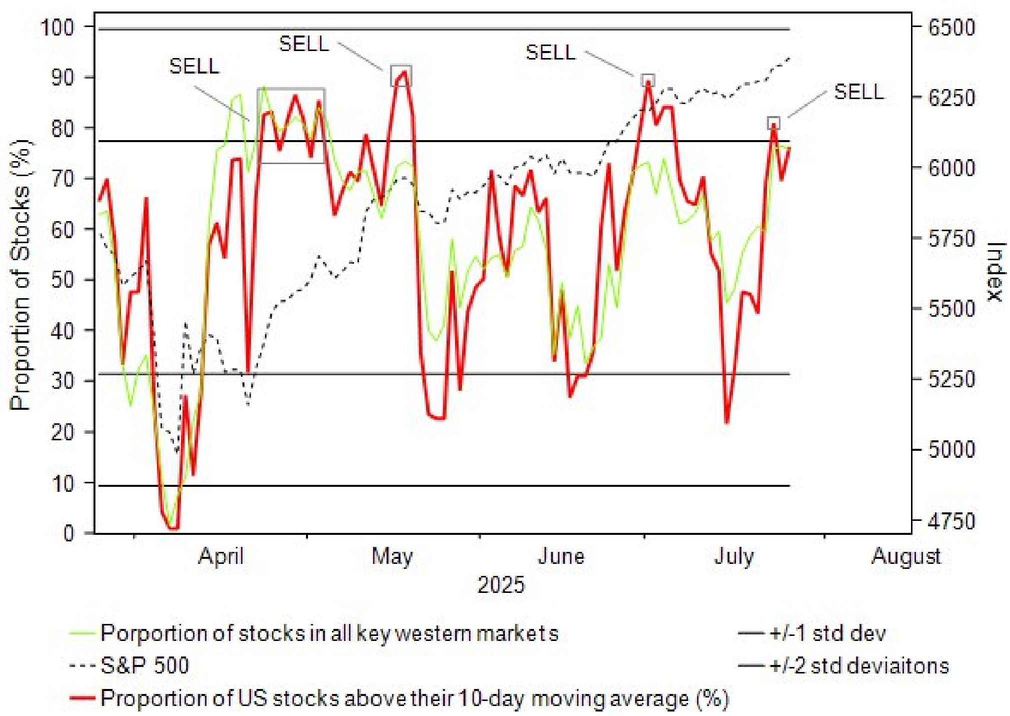
Sector and single stock models are moving onto/towards SELL…

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

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

Events:	Fed Policy Decision (Wed, 7:00pm), followed by Powell press conference (7:30pm); BOJ policy decision (Thurs, time tentative); Bank of Canada Policy Decision (Wed, 2:45pm).
Monday:	N/A
Tuesday:	US JOLTS job openings (June, 3pm); US Conference Board consumer confidence (July, 3pm).
Wednesday:	GDP for France (6:30am), Italy (9am), Germany (9am), Eurozone (10am) & US (1:30) – all Q2 first estimates; US Challenger job cuts (July, 12:30pm); US ADP employment (July, 1:15pm).
Thursday:	Chinese manufacturing & service sector PMIs (July, 2:30am); US personal income & spending including headline & core PCE (June, 1:30pm).
Friday:	US nonfarm payrolls, hourly earnings & unemployment data (July, 1:30pm); US ISM manufacturing PMI (July, 3pm); EZ headline & core CPI (July first estimate, 10am).
Key earnings:	Essilorluxottica **(Mon);** Visa, P&G, UnitedHealth, Boeing, L'Oreal, AstraZeneca, Barclays **(Tues);** Microsoft, Meta Platforms, Hermes International, Airbus Group, HSBC **(Wed);** Apple, Amazon.com, Shell, Unilever, Samsung Electronics **(Thurs);** Nintendo **(Fri).**

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

Definitions & other matters:

RAG = Risk Appetite Gauge

The 'Weekly Risk Appetite Gauge' publication is an assessment of the short and medium term outlook for risk appetite (and, therefore, 'risk assets'). It's a complement to our Tactical Equity Asset Allocation publication (which generates medium-term '1 – 4' month recommendations and is updated at the start of each month, as well as occasionally intra month via Tactical Alerts). The latest update was published on 10th July 2025. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

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LVRAG

Daily Risk Appetite Gauge

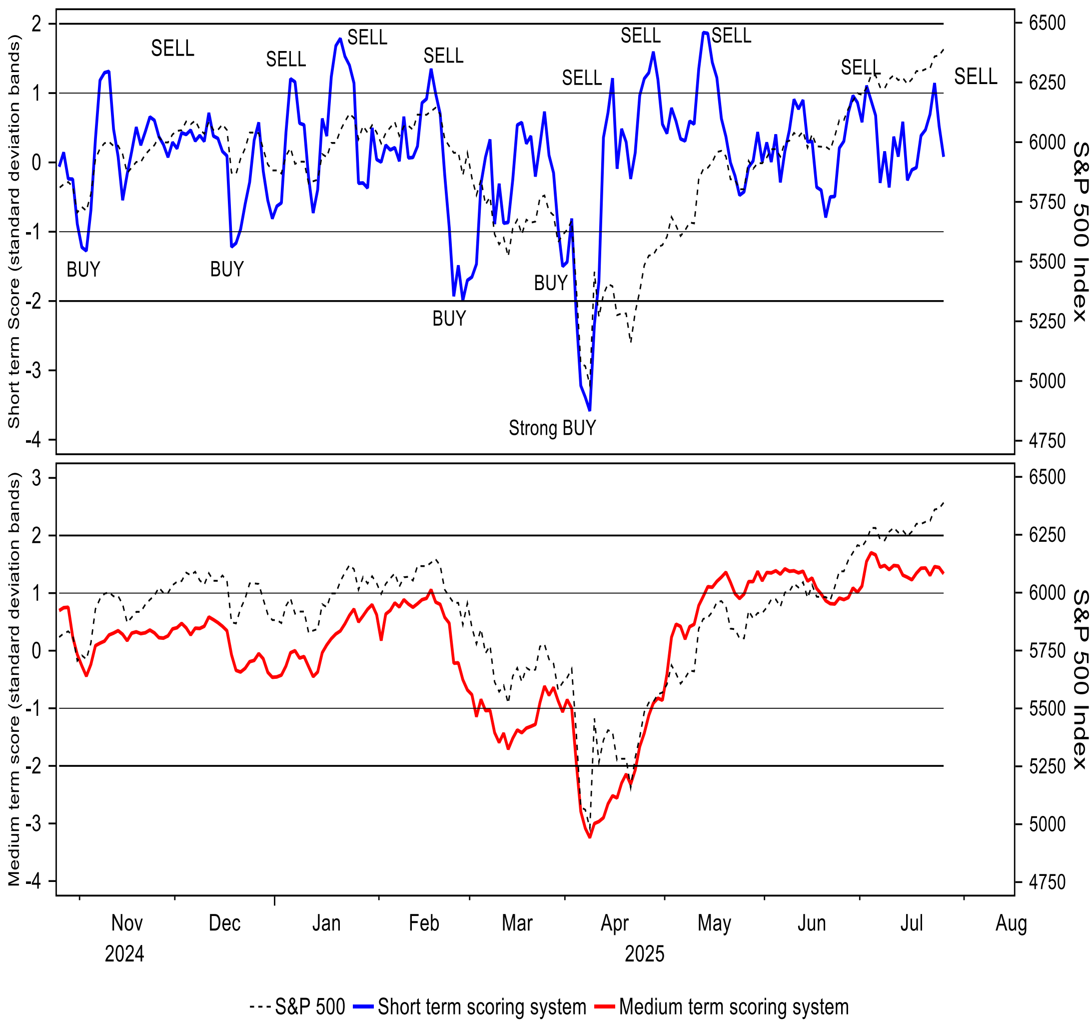
1 – 2 Week View on Risk

28th July 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 on SELL

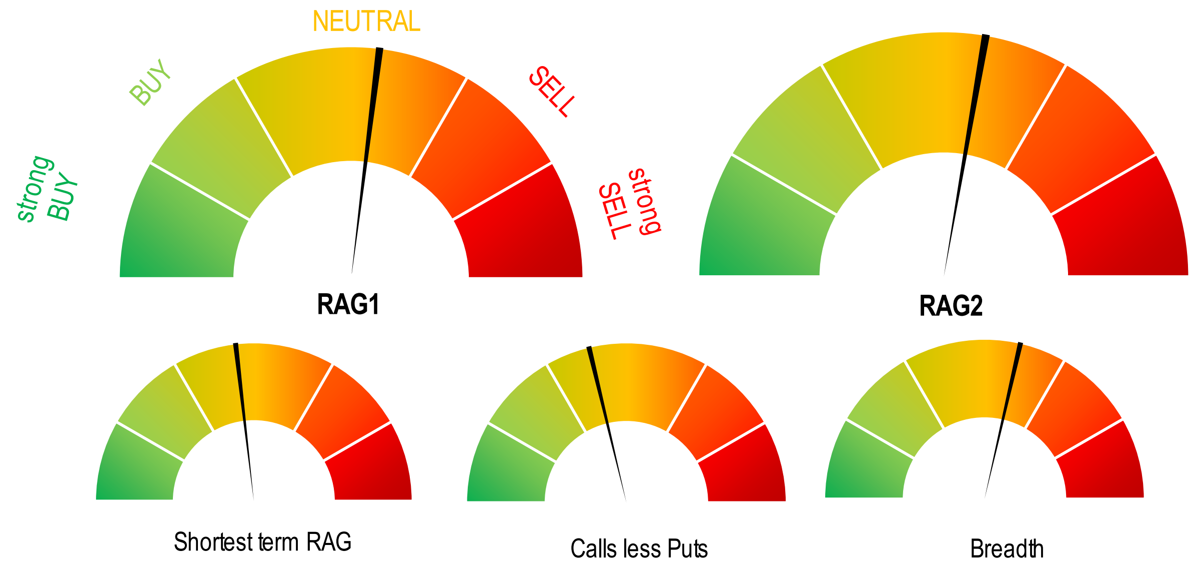
Source: Longview Economics, Macrobond

*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

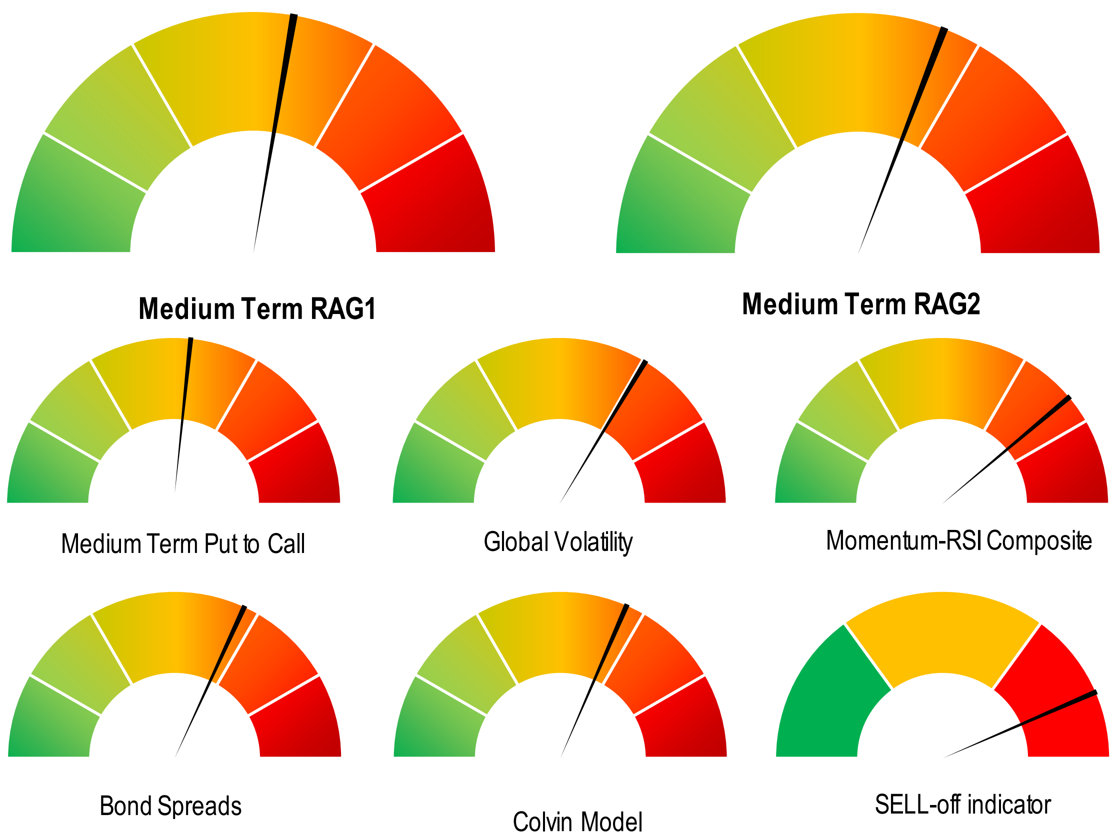
Section 1a: Summary of indicator signals**

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

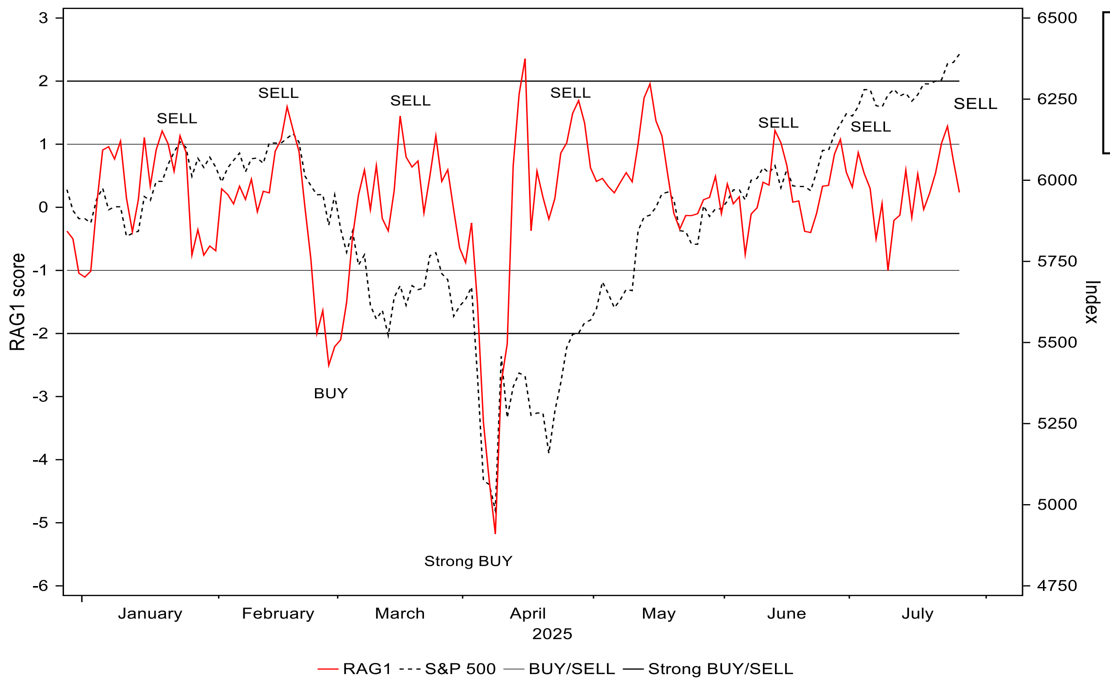


Source: *Longview Economics*

**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

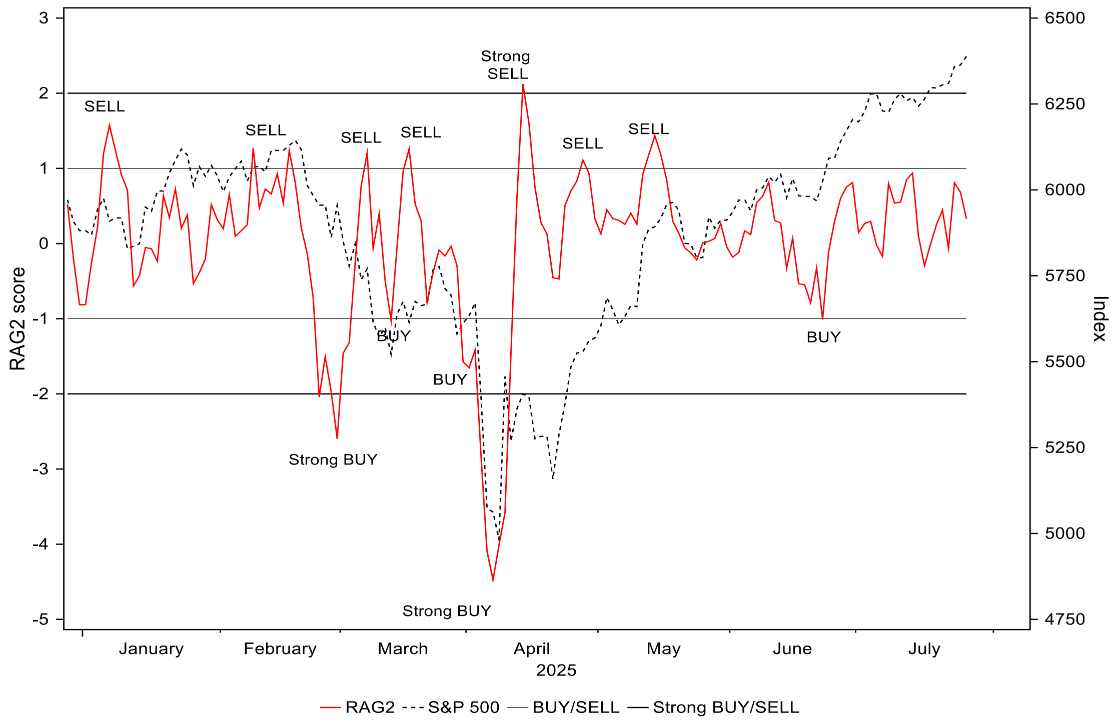
Fig 2a: RAG 1 vs. S&P 500



RAG1 is on NEUTRAL

Source: Longview Economics, Macrobond

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

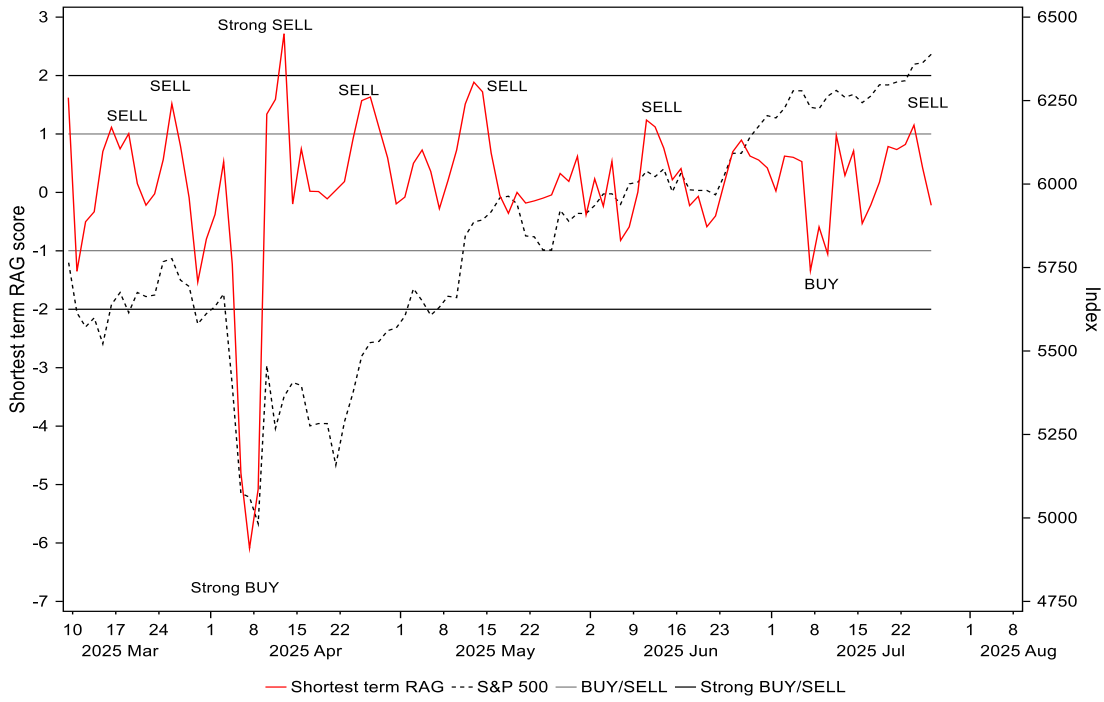


RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

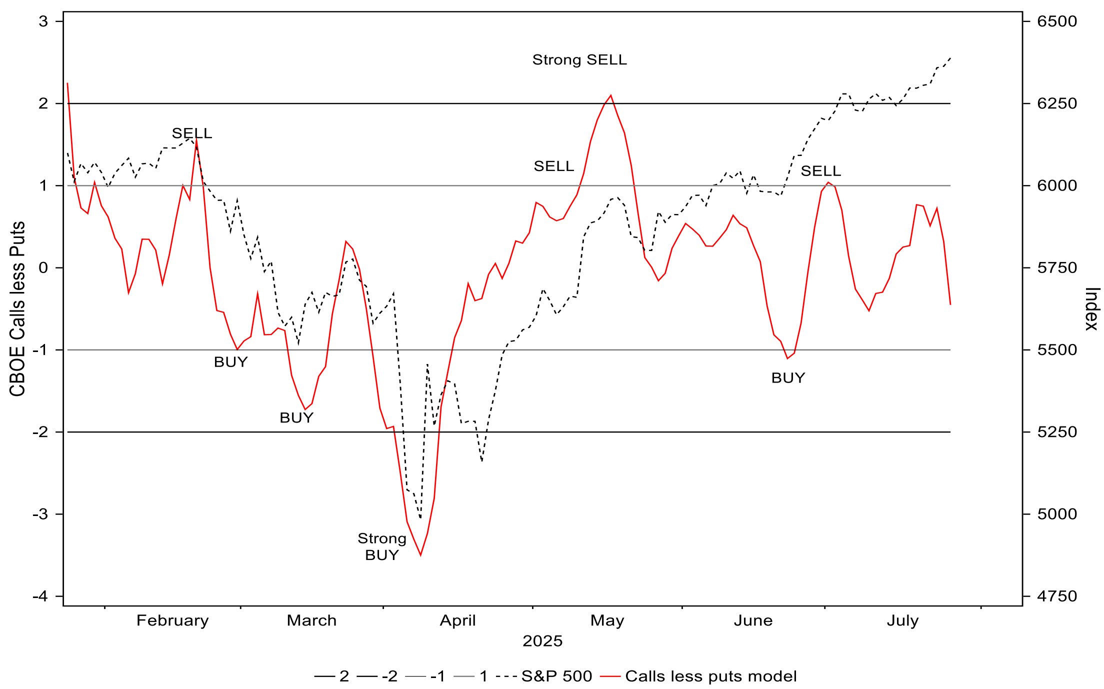
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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



Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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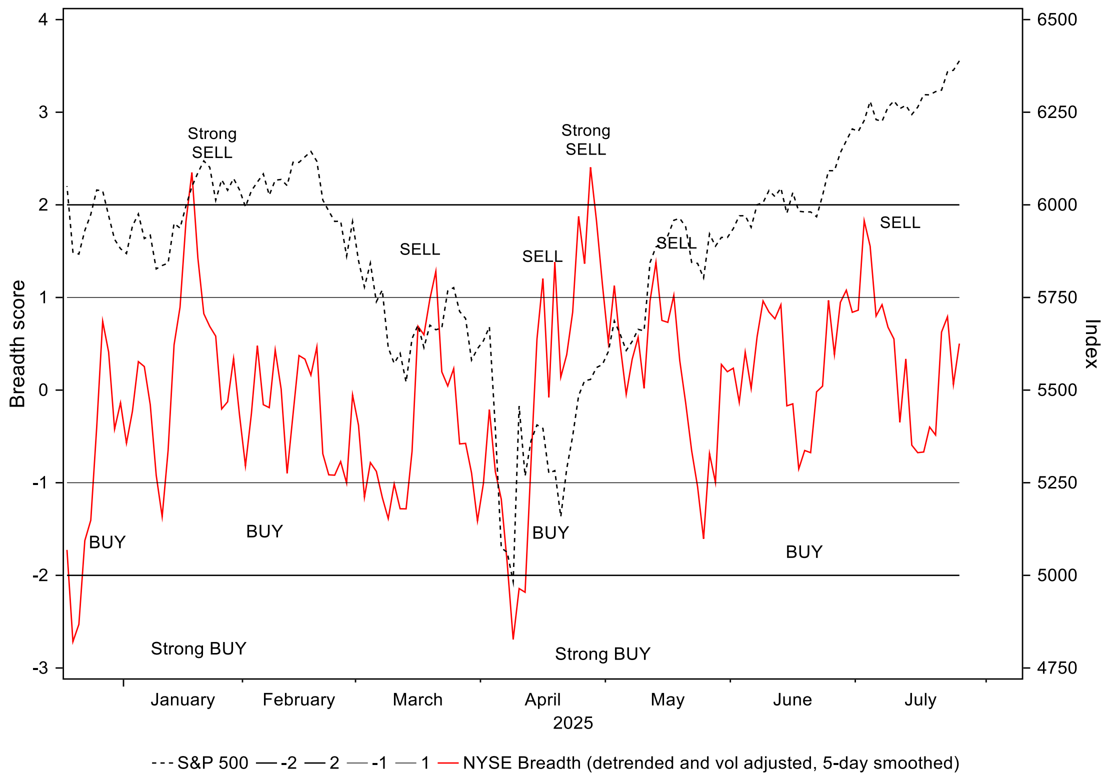
Daily Risk Appetite Gauge

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



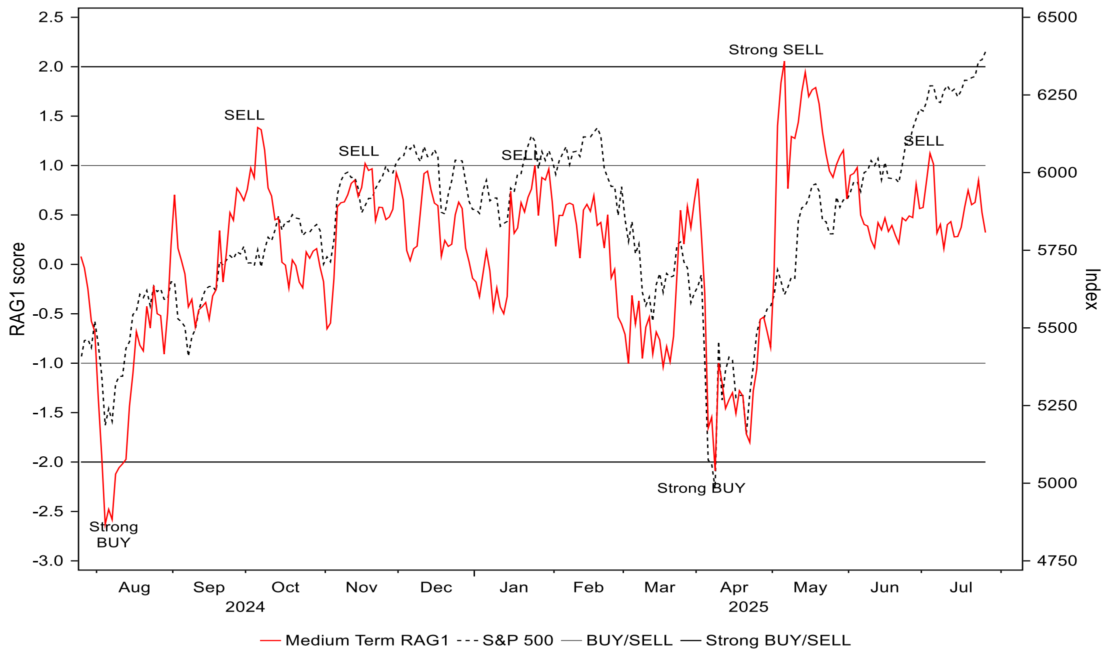
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

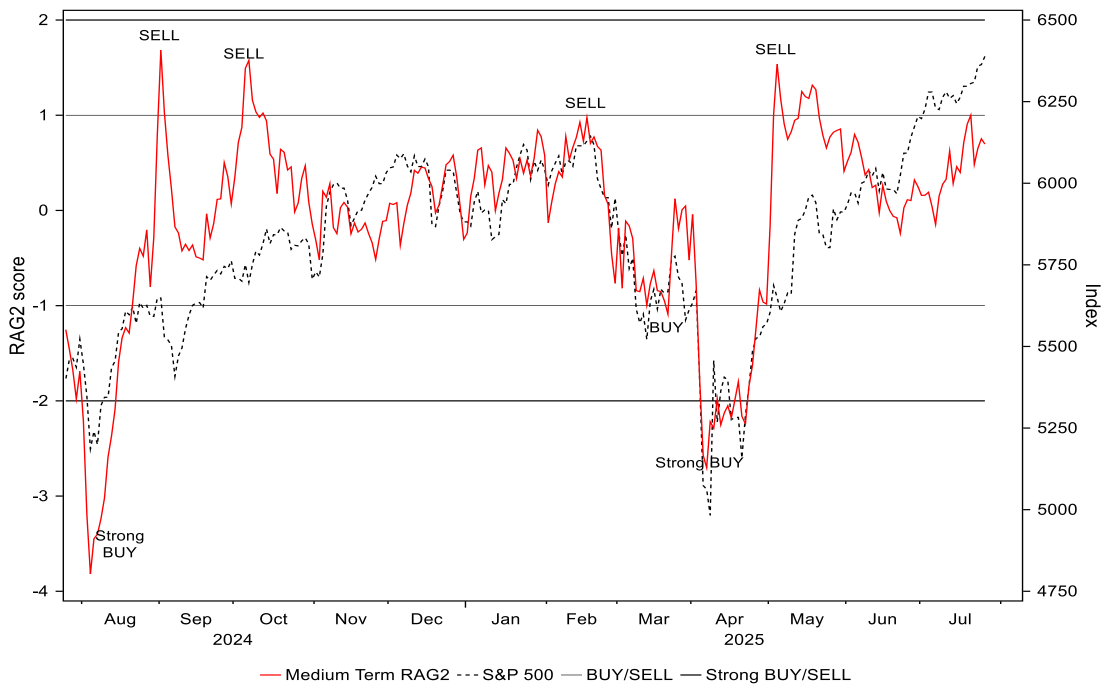
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is NEUTRAL

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

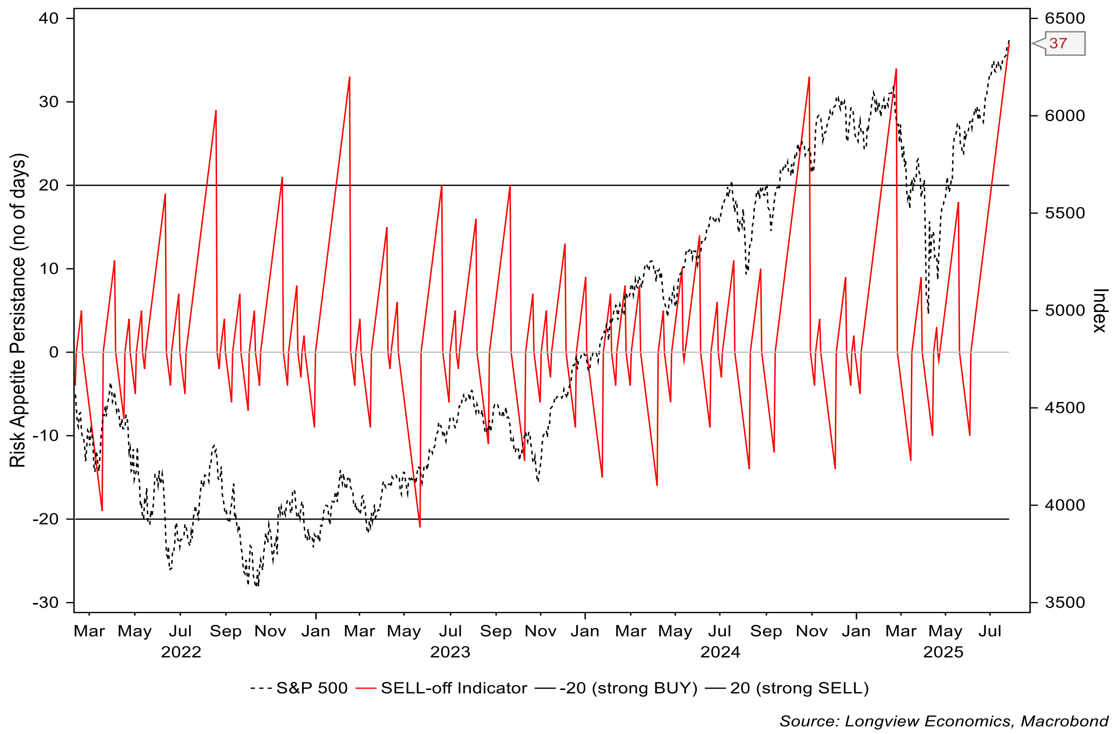


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

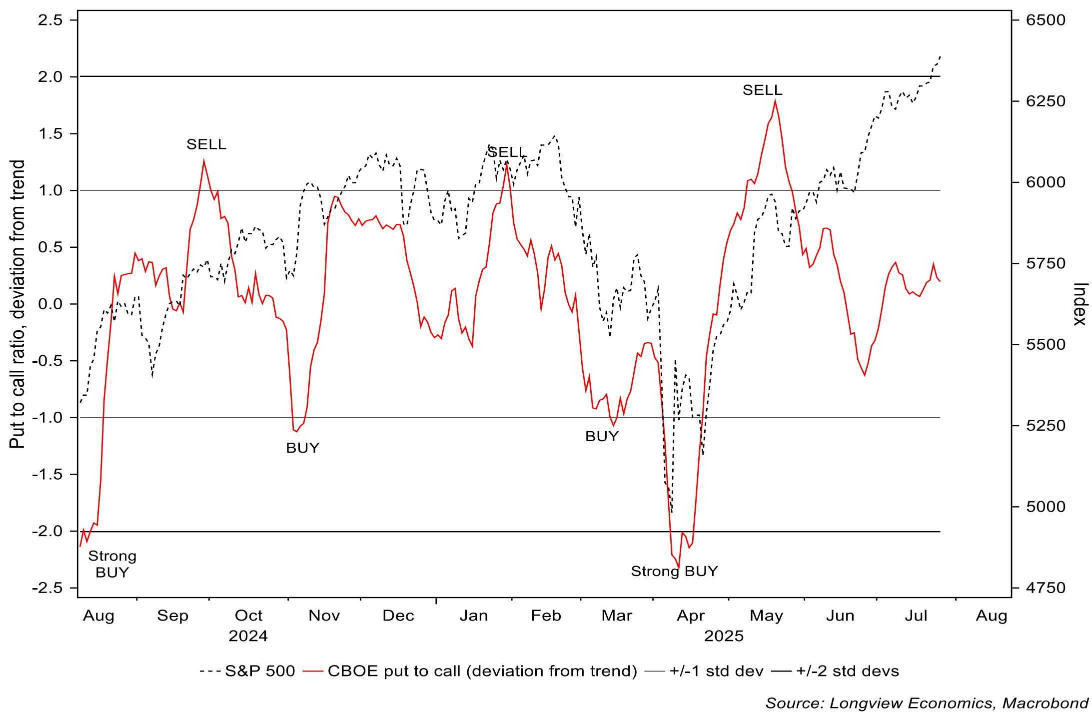
Fig 3c: SELL-off indicator (shown vs. S&P500)



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)

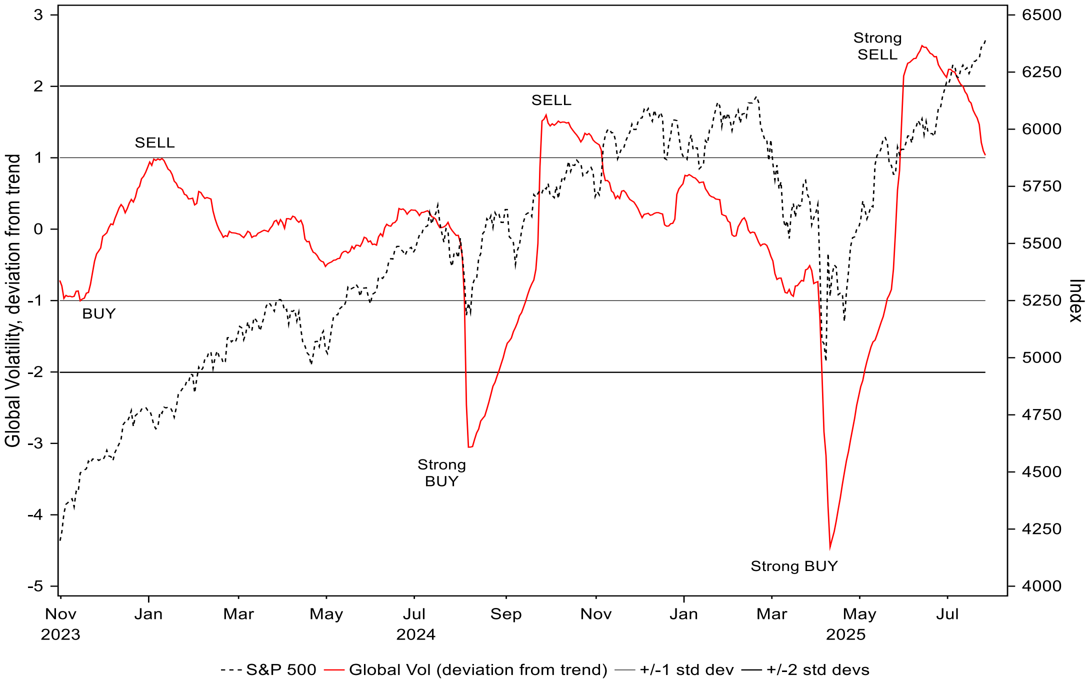
Fig 3d: CBOE put to call trend deviation model vs. S&P500



Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

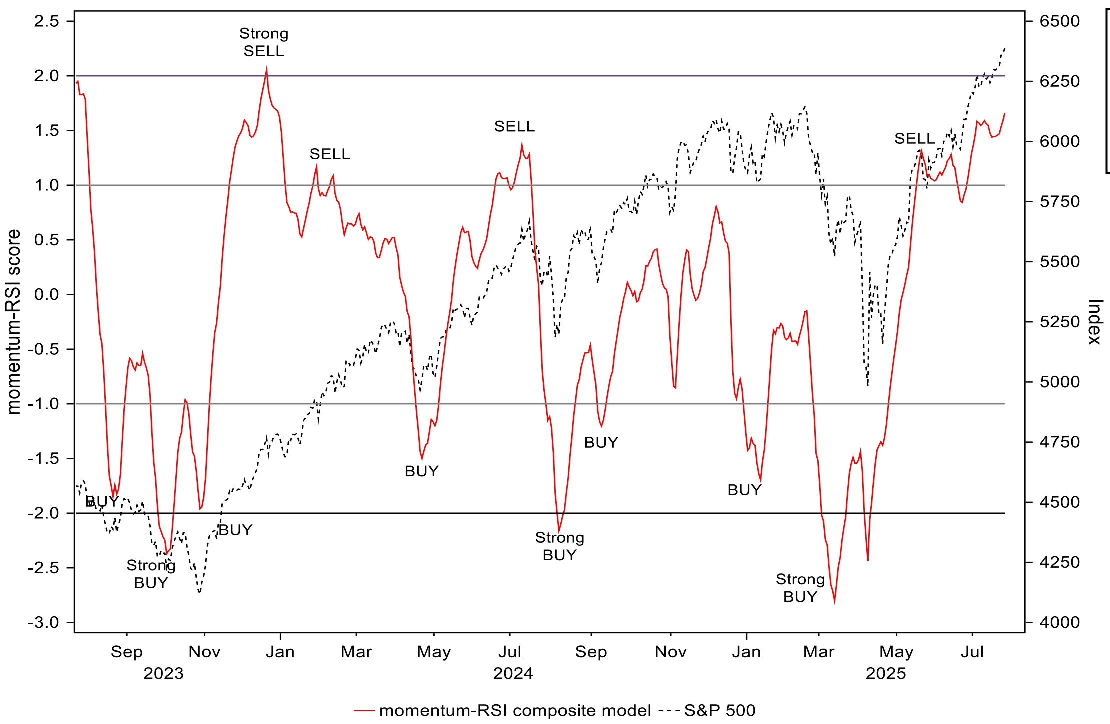
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is on SELL (just)

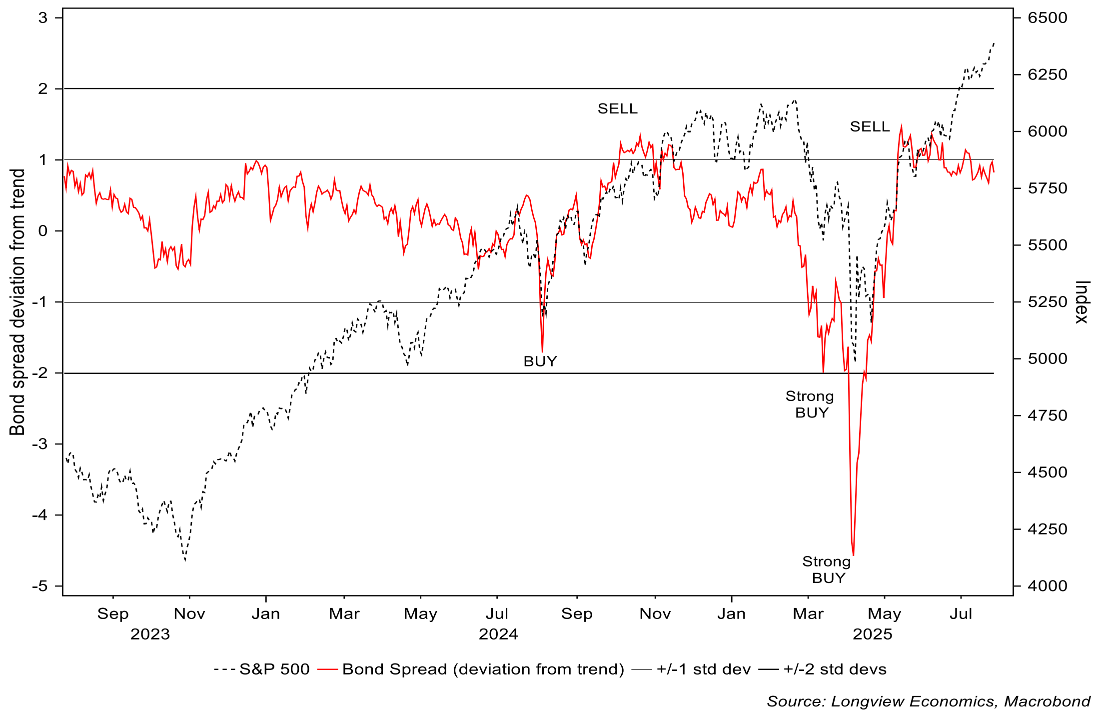
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

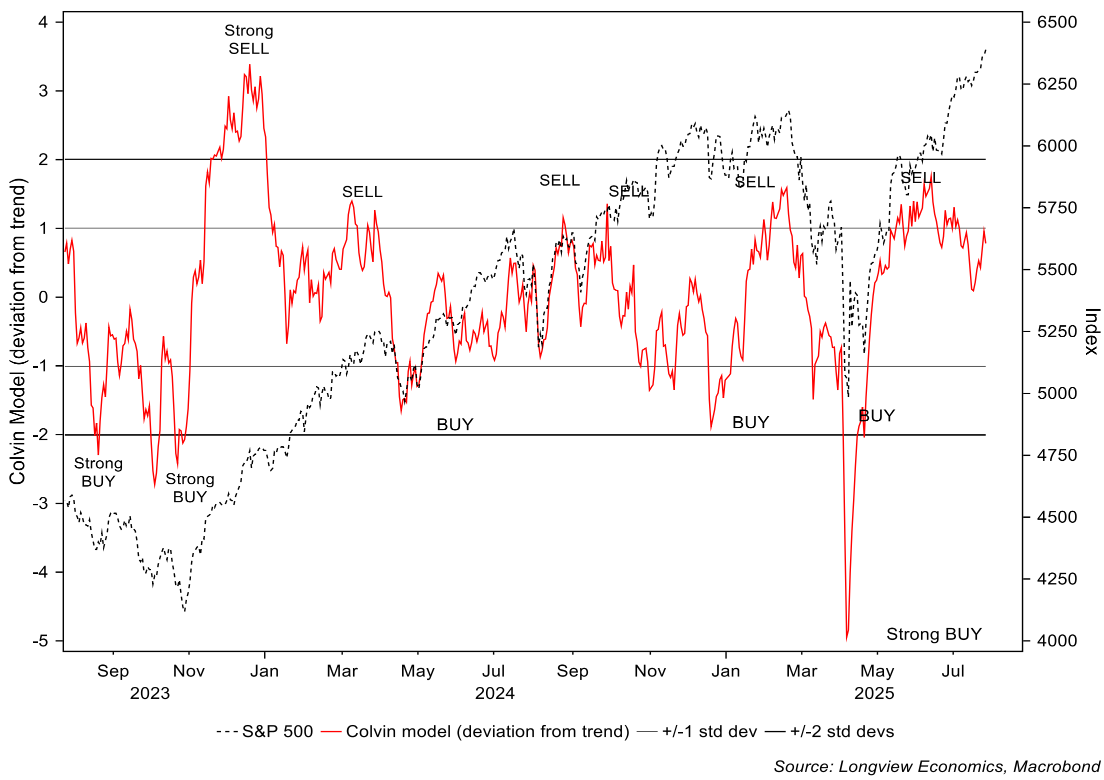
US momentum RSI composite model is on SELL

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



High yield corporate bond spreads model is NEUTRAL (just)

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



Colvin model – is NEUTRAL (just)

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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