Weekly Assessment of the Market's 'Appetite for Risk': 'Consolidating or Rolling Over?'

US equity markets continued their sideways trading pattern last week. The S&P500 closed on Friday (+0.3% on the week) at a level it first reached in mid-August – FIG 1. The NDX100, despite moving 1% higher last week, has been rangebound since late July (FIG 1a); while various other key global indices have also been treading water (especially in Europe). The DAX, for example, has been flat since May this year (FIG 1b); while the broader European index (Euro STOXX 600) has similarly traded sideways (unchanged since February). Within that sideways movement there has been significant rotation, with US small and mid-caps significantly outperforming US large caps in the past month as rate cuts have been priced into the US curve (following on from Powell's Jackson Hole speech and various pieces of weak US macro data including, most recently, Friday's non-farm payrolls data). The market now expects 70bps of rate cuts for the remainder of 2025 and a further 78bps in 2026.

As such, the **key issue for 'Tactical' investors** (i.e. with a multi week/multi month timeframe) is whether this market is simply **consolidating** before pushing to new highs; Or is it **rolling over**?

Complacency and macro risks coupled with a signal from our SELL-off indicator (indicative of excessive greediness) point to the latter outcome as the most likely. That is, this equity rally is tried and in need of a reset (i.e. a pullback). Complacency is evident in the low level of VIX and VVIX readings. The VIX curve is also notably steep (another sign of complacency), while speculators are notably SHORT VIX futures (highest level in three years). Added to that, and as we have been highlighting in various recent publications, traded volumes are down sharply. S&P500 e-mini volumes, for examples, are currently at around 1.34 million contracts (on a 50-day moving average measure). Sharp falls in volumes usually occur just prior to meaningful pullbacks – FIG 1d.

Macro risks, meanwhile, are growing as illustrated by the weak non-farm payrolls data on Friday. A weak labour market adds to the risks of slower consumption growth. Given that consumer spending has been the key driver (and remaining area of resilience) in the US economy, softening jobs data adds to concerns in that respect.

Finally, the **SELL-off indicator** reached its key +20 level on Friday last week (FIG 1c). This model measures excessive and persistent greediness in global financial markets. Signals at +20 (and higher) typically occur as markets are making major local highs. The model was designed in 2006 and has a strong track record of timely signals. Of late, for example, it generated a signal in July (which was followed by a minor wobble – i.e. not a good signal); prior to that it signalled in February this year (just ahead of the major SELL-off). It also generated a signal ahead of the weakness into the Trump election (i.e. in October 2024); and then during the July to October pullback in 2023 (FIG 1c).

For choice, therefore, we recommend continued caution towards equities. Whilst pricing in rate cuts is a positive for liquidity and equity markets, rising macro risks, complacency and evidence of excessive greediness highlight the heightened likelihood of a near term pullback.

The **main macro data** point this week will be US CPI (due Thursday at 1:30pm London time, August data). Other key US data includes the NFIB small business survey (tomorrow); PPI (Wednesday); and the Michigan Sentiment survey (flash September estimate, due on Friday). Elsewhere Chinese credit and money supply data is due on Friday; there's an ECB policy announcement (and press conference) on Thursday; and Chinese trade data was out earlier today.

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

Kind regards,

The team @ Longview Economics

FIG 1: S&P500 futures 60-day tick chart shown with overnight price action

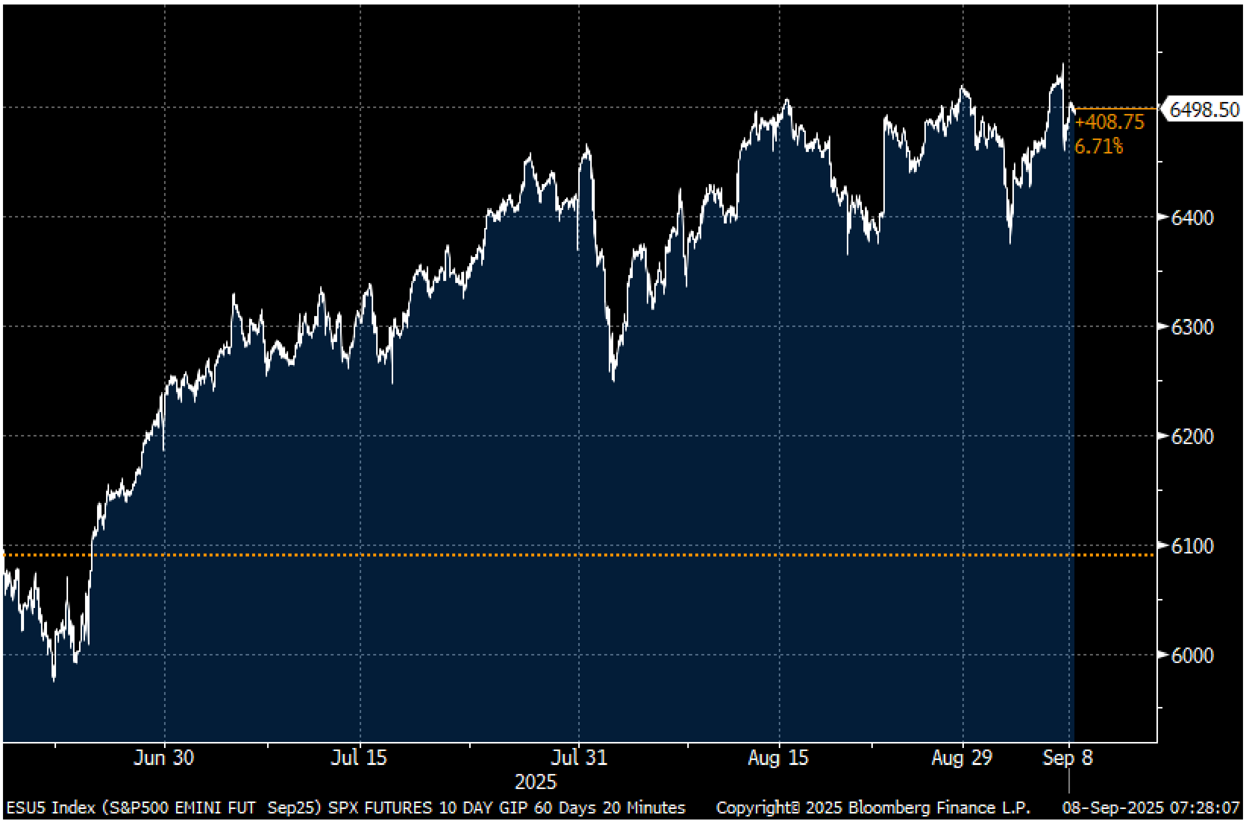


FIG 1a: NDX100 futures 60 day tick chart shown with overnight price action

FIG 1b: DAX futures candlestick shown with its 50 & 200 day moving average

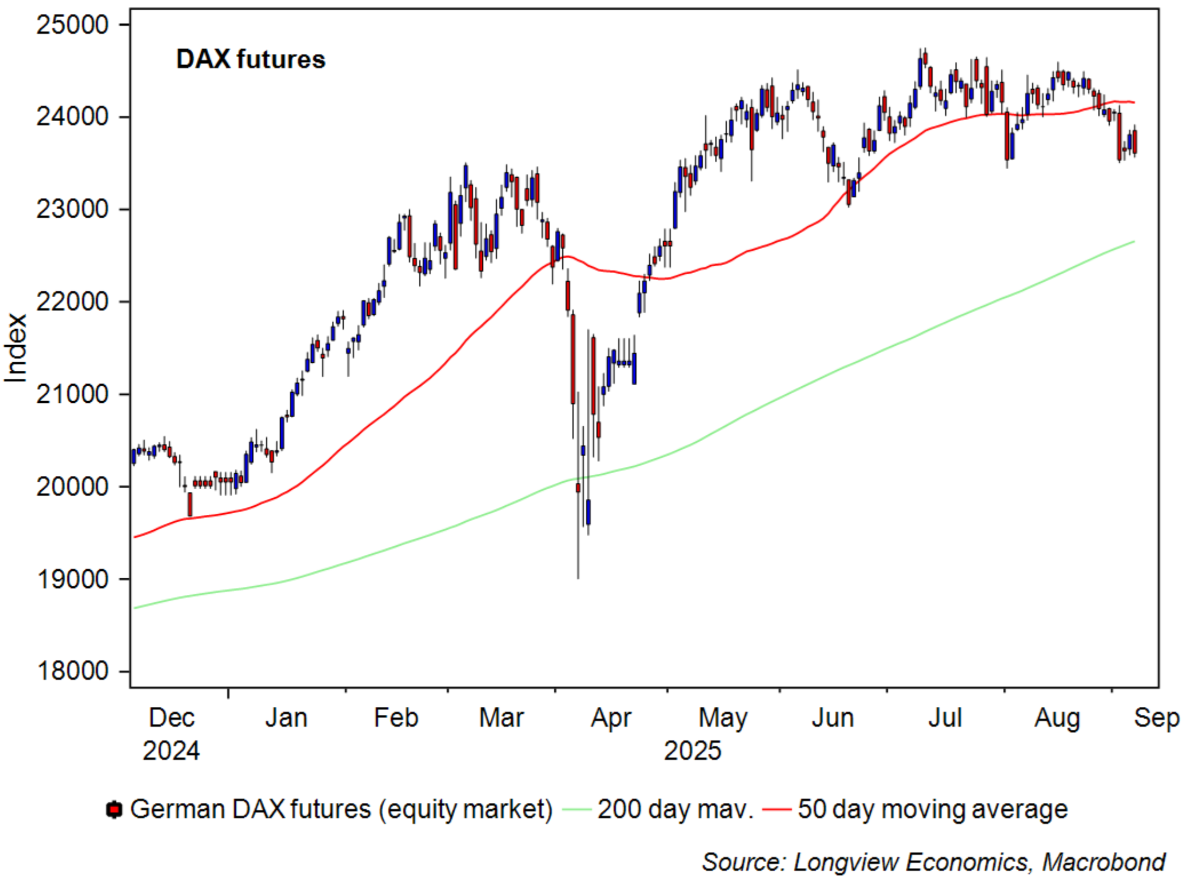
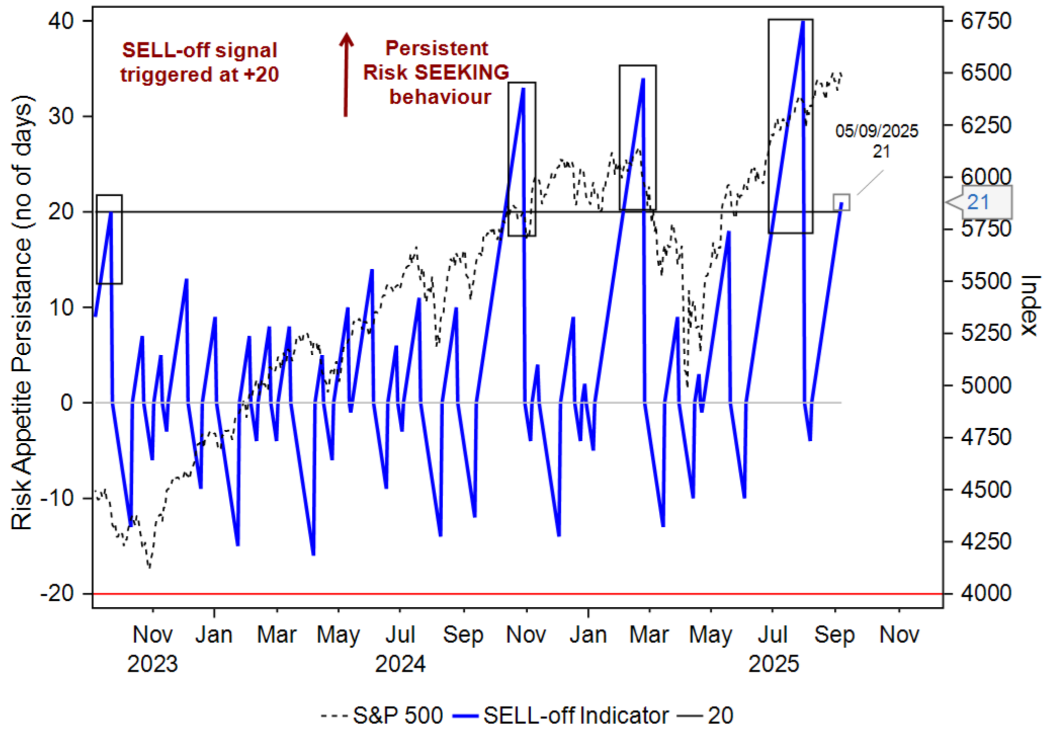
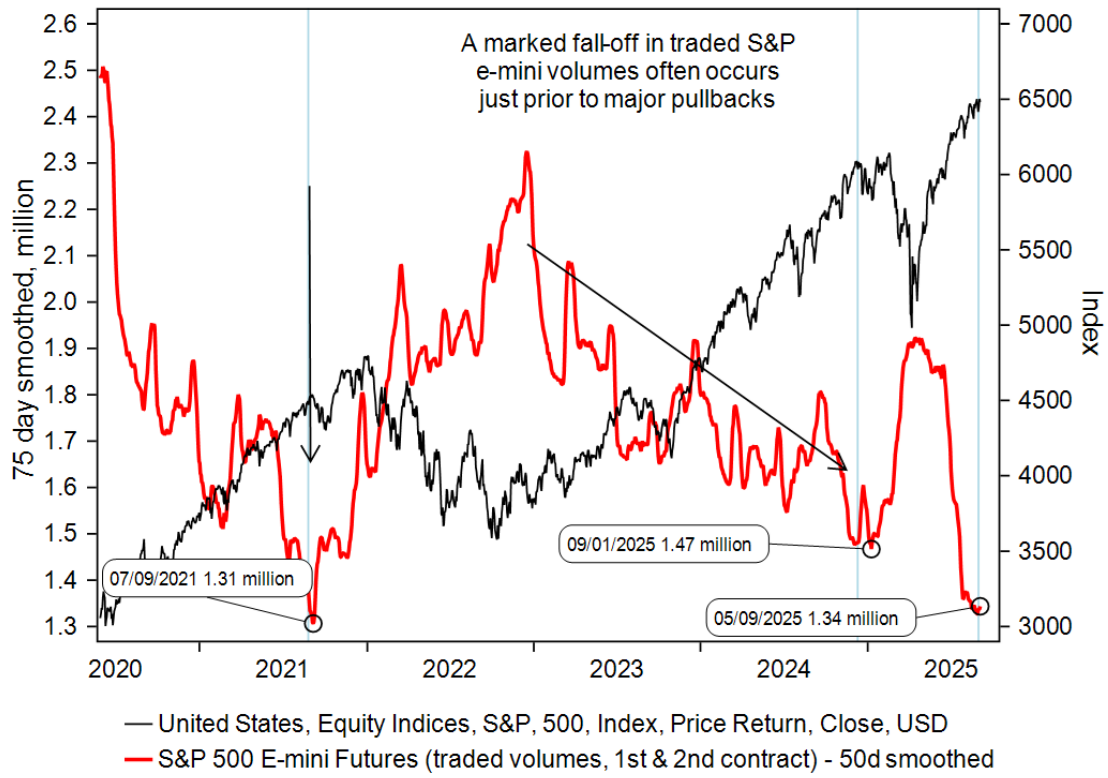


FIG 1c: Longview SELL-off indicator vs. S&P500



Source: Longview Economics, Macrobond

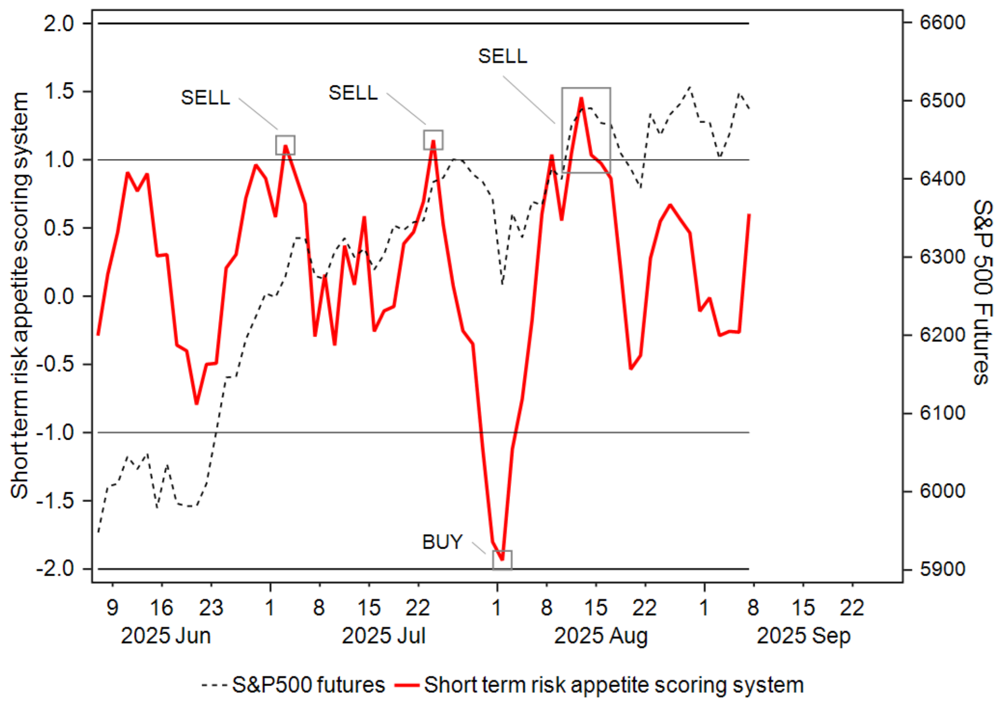
FIG 1d: S&P500 e-mini volumes (50 day smoothed) vs. S&P500



Source: Longview Economics, Macrobond

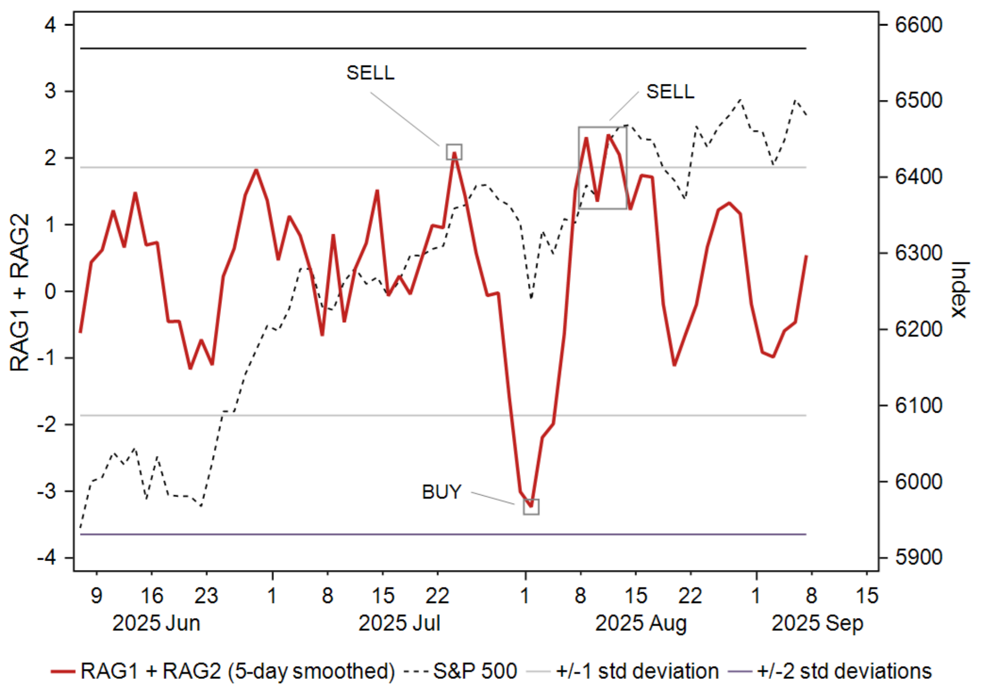
Short term (1 – 2 week) market timing models are mostly NEUTRAL……

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



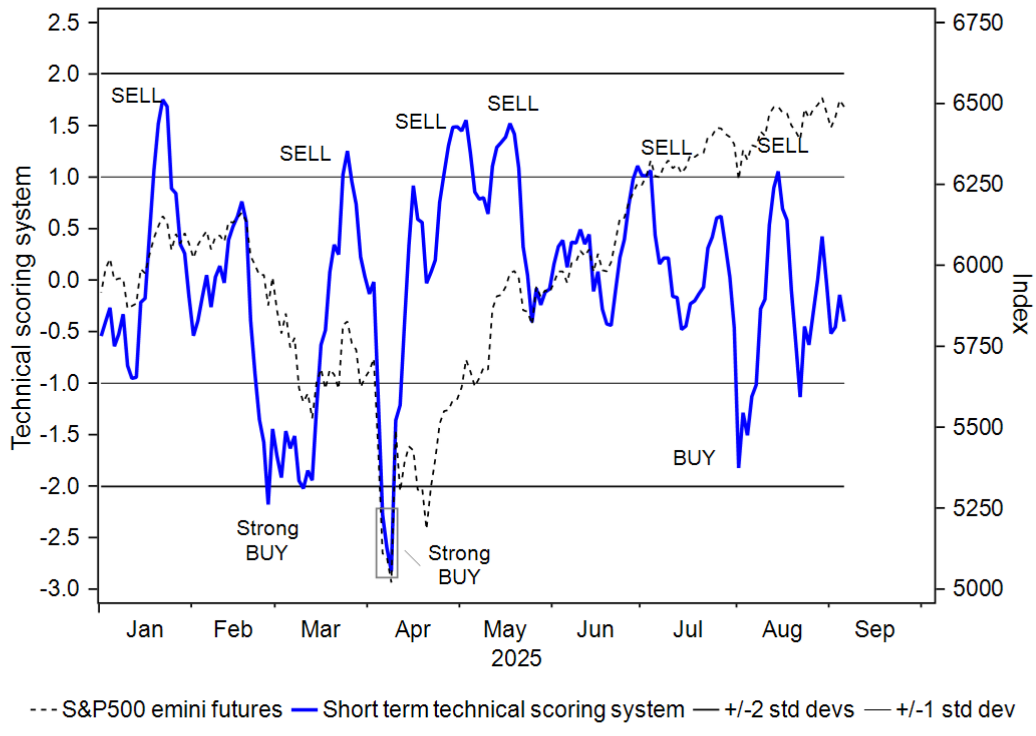
Source: Longview Economics, Macrobond

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



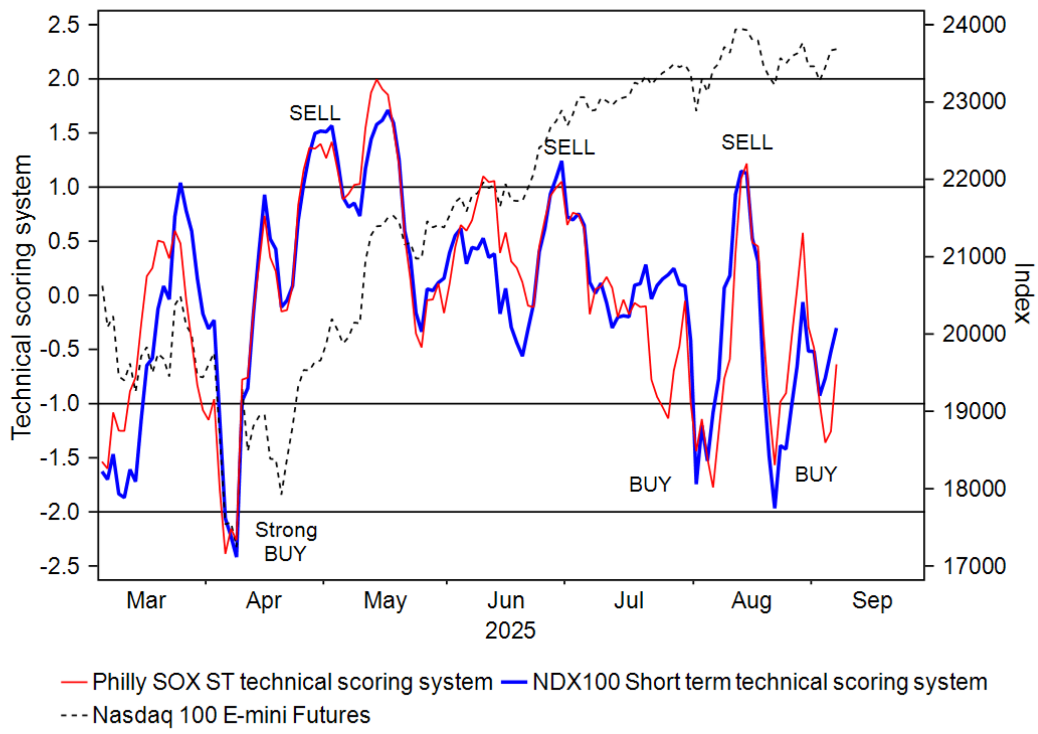
Source: Longview Economics, Macrobond

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



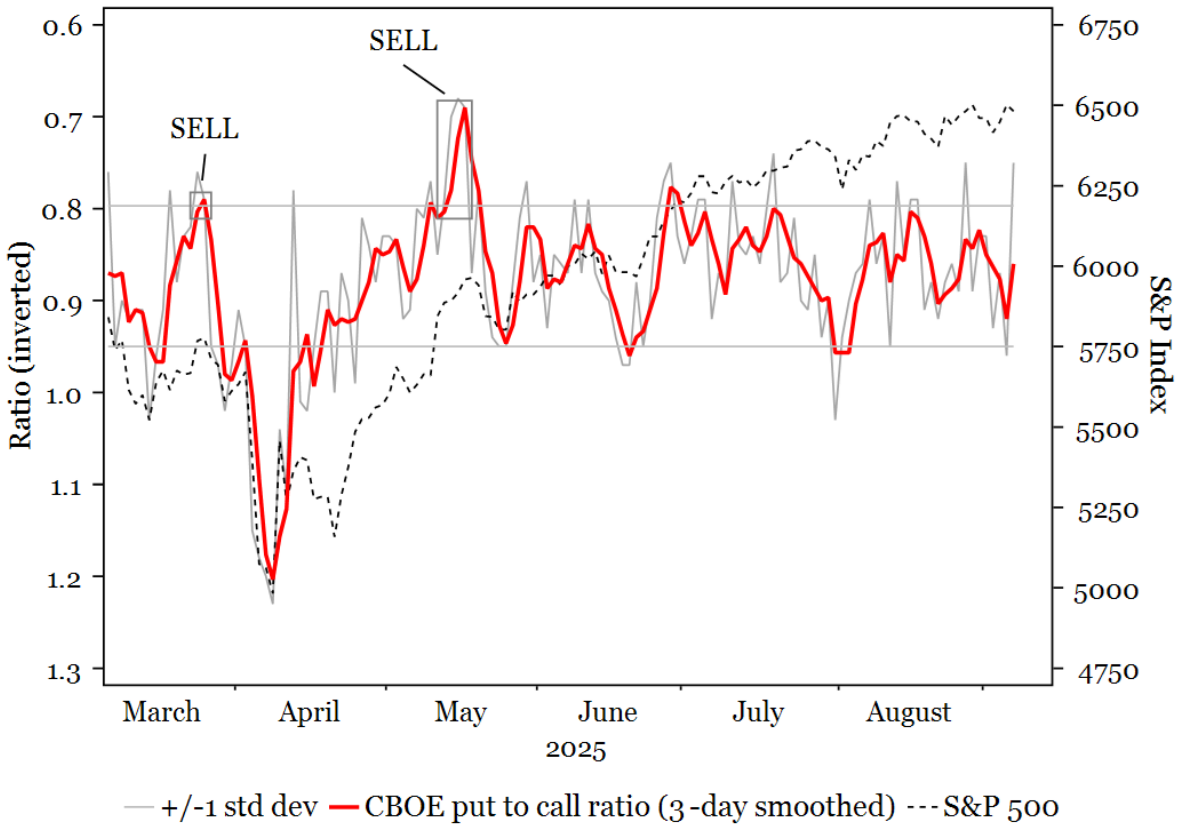
Source: Longview Economics, Macrobond

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

LVRAG

Daily Risk Appetite Gauge

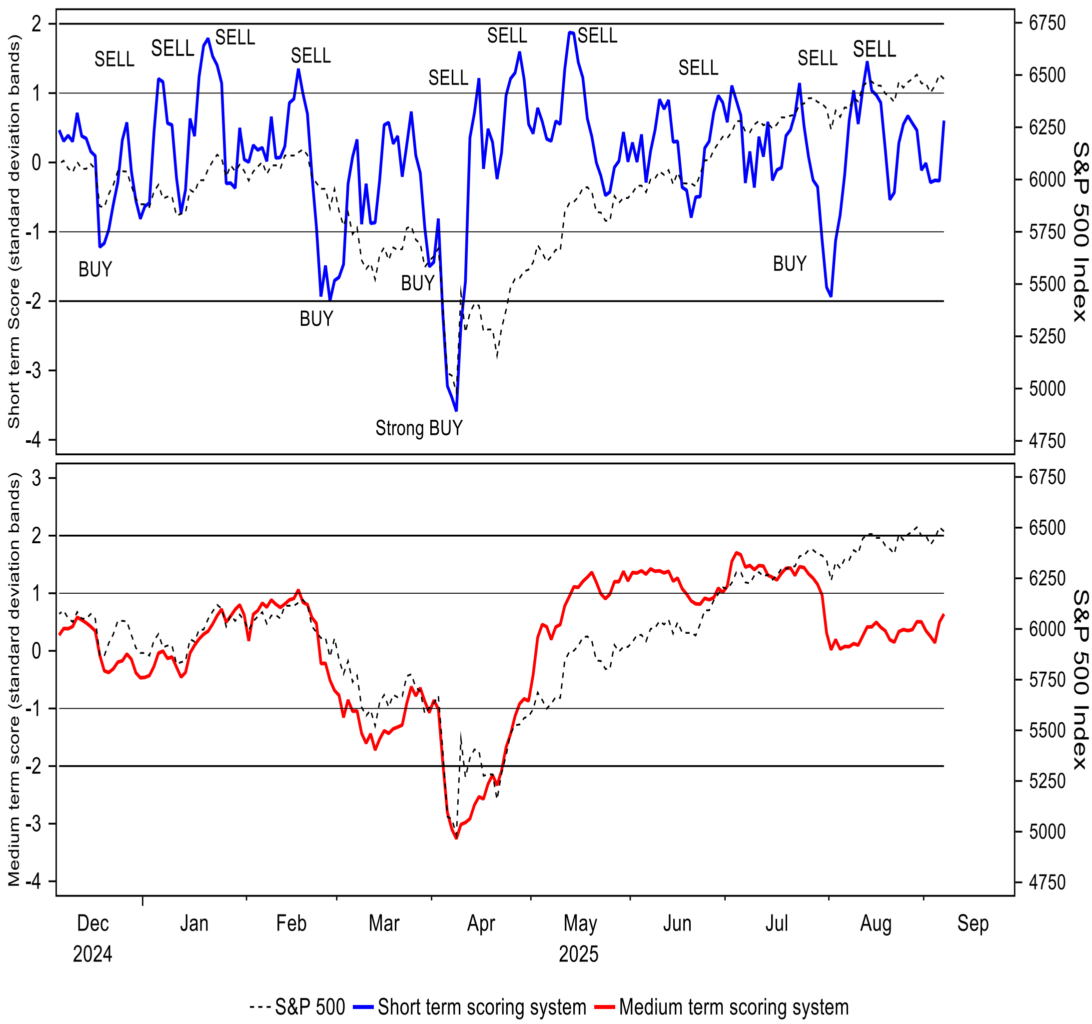
1 – 2 Week View on Risk

8th 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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

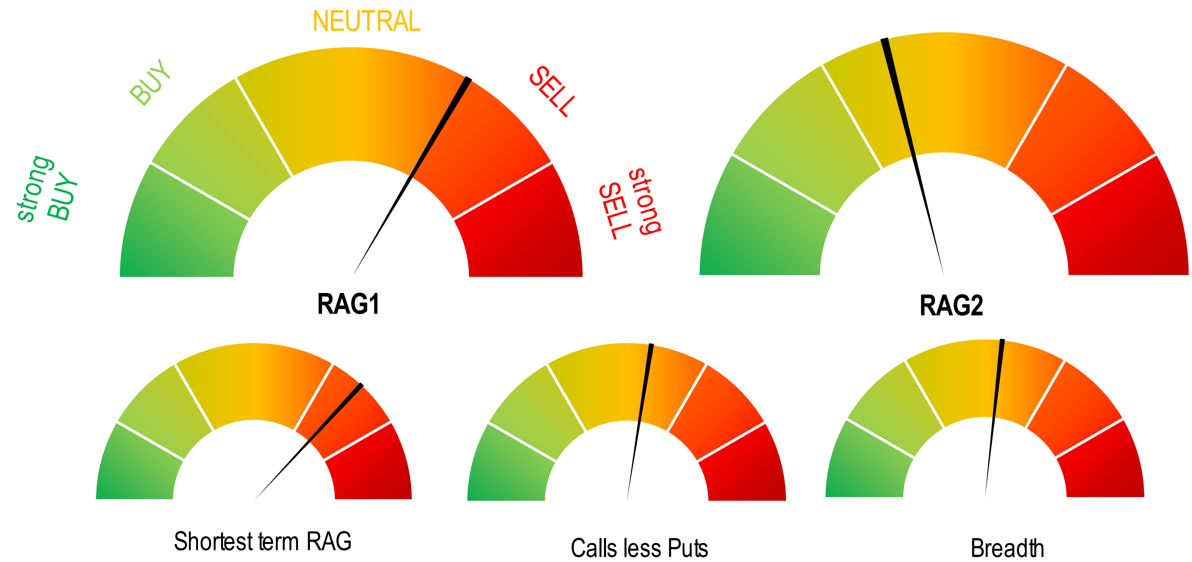
Source: Longview Economics, Macrobond

*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

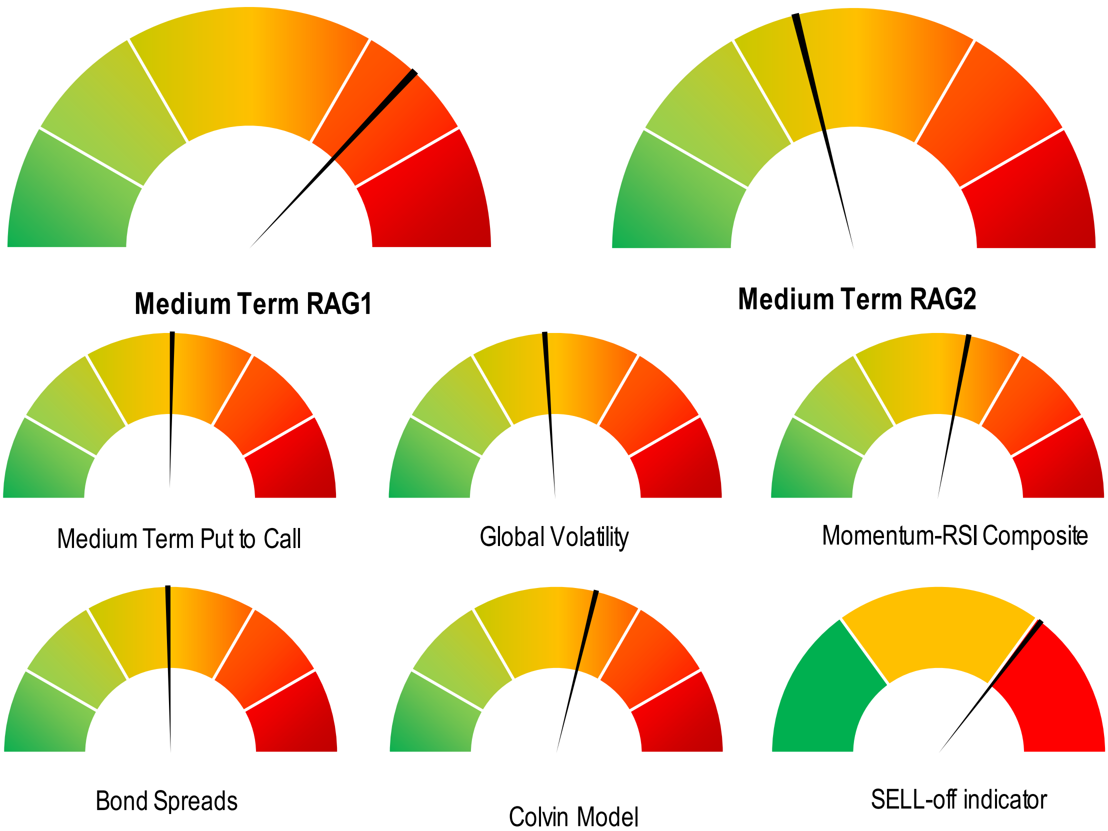
Section 1a: Summary of indicator signals**

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



Source: *Longview Economics*

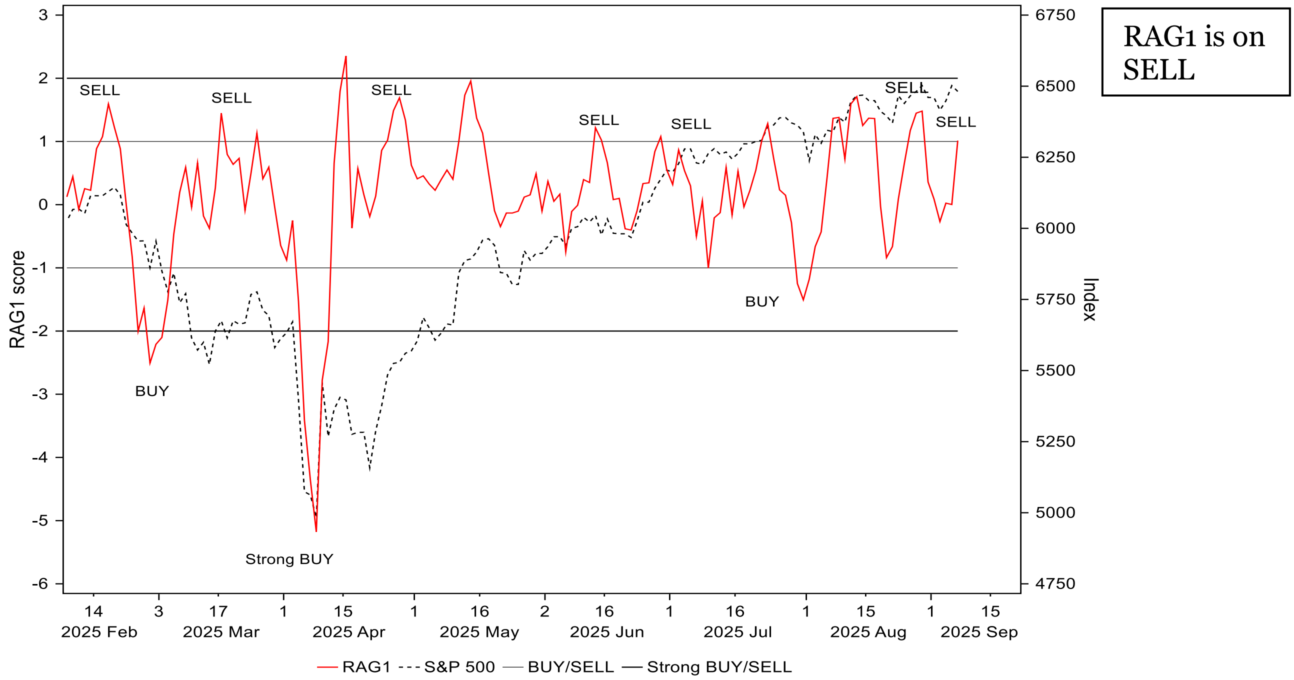
Fig 1b: Medium term models – shown as gauges using standard deviation bands



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

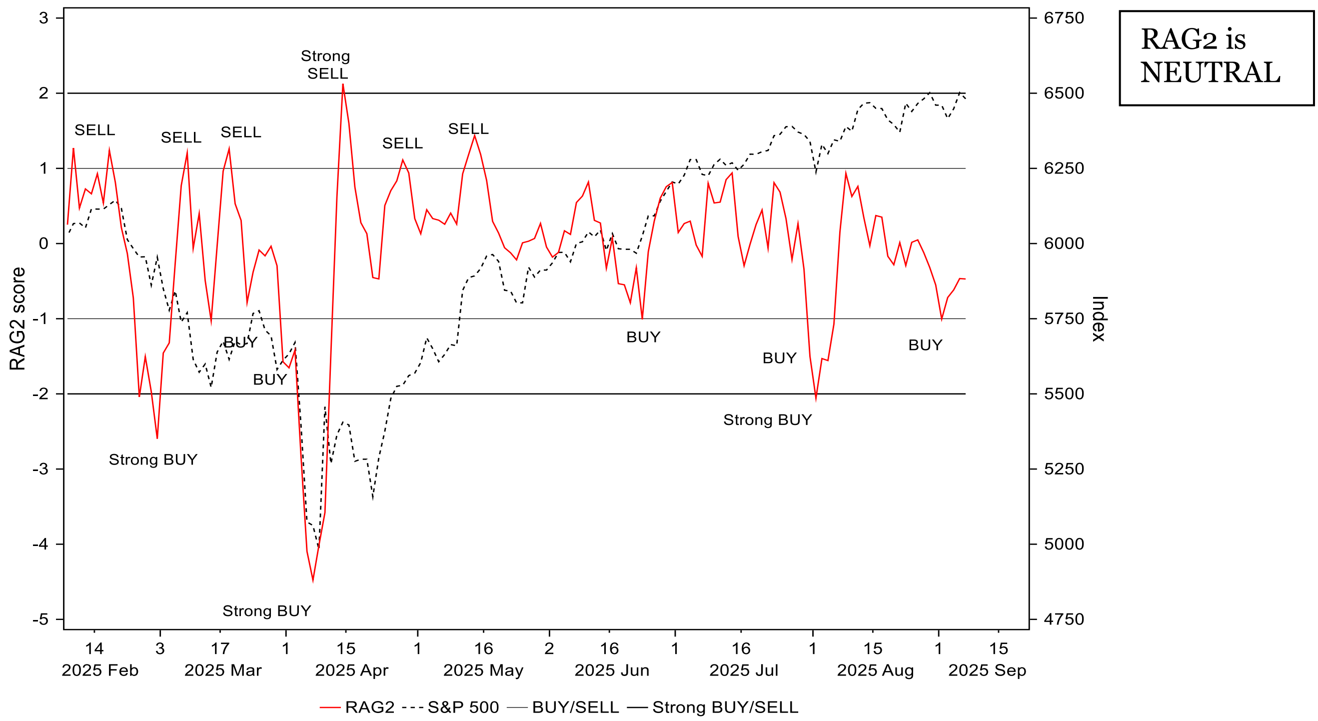
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

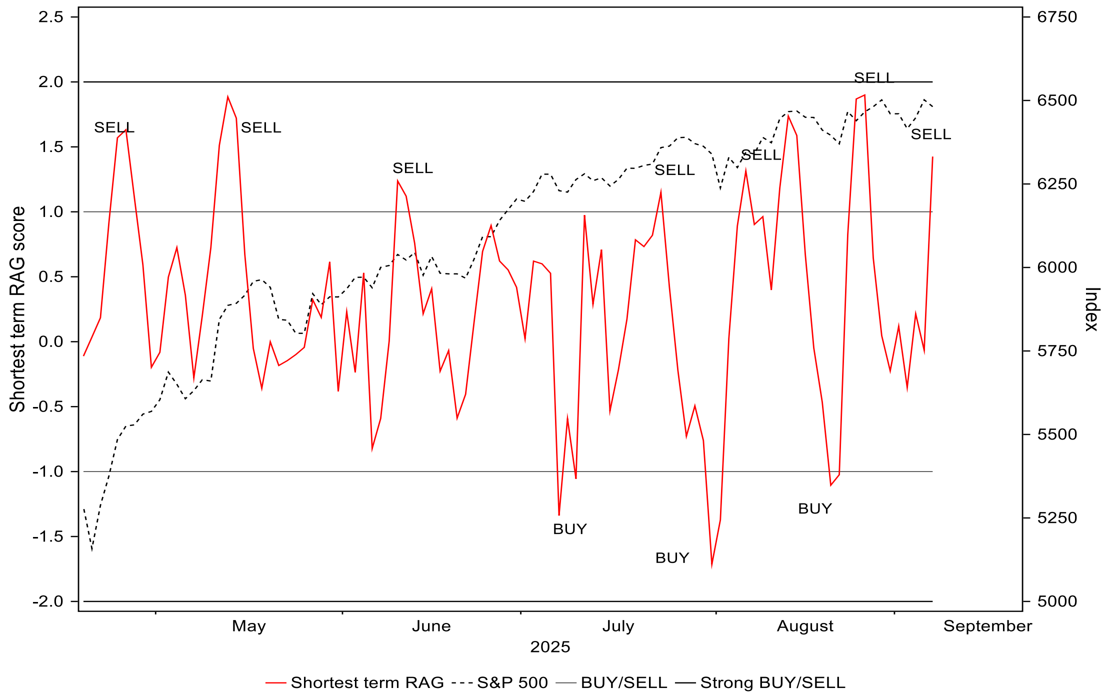
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

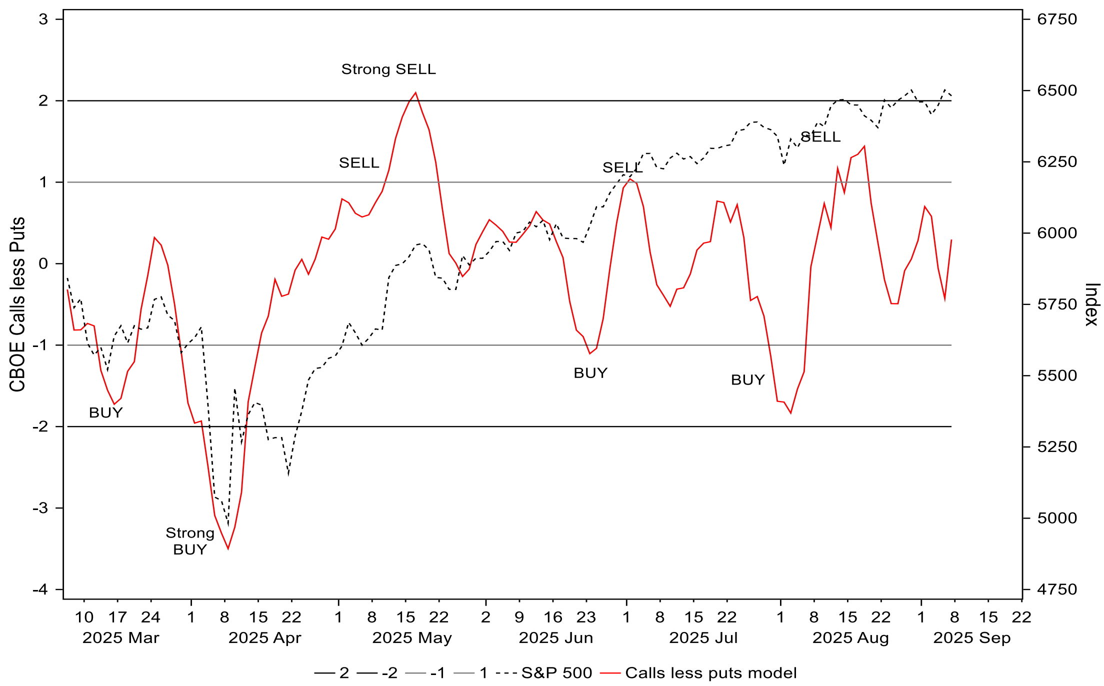
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is on SELL

Source: Longview Economics, Macrobond

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

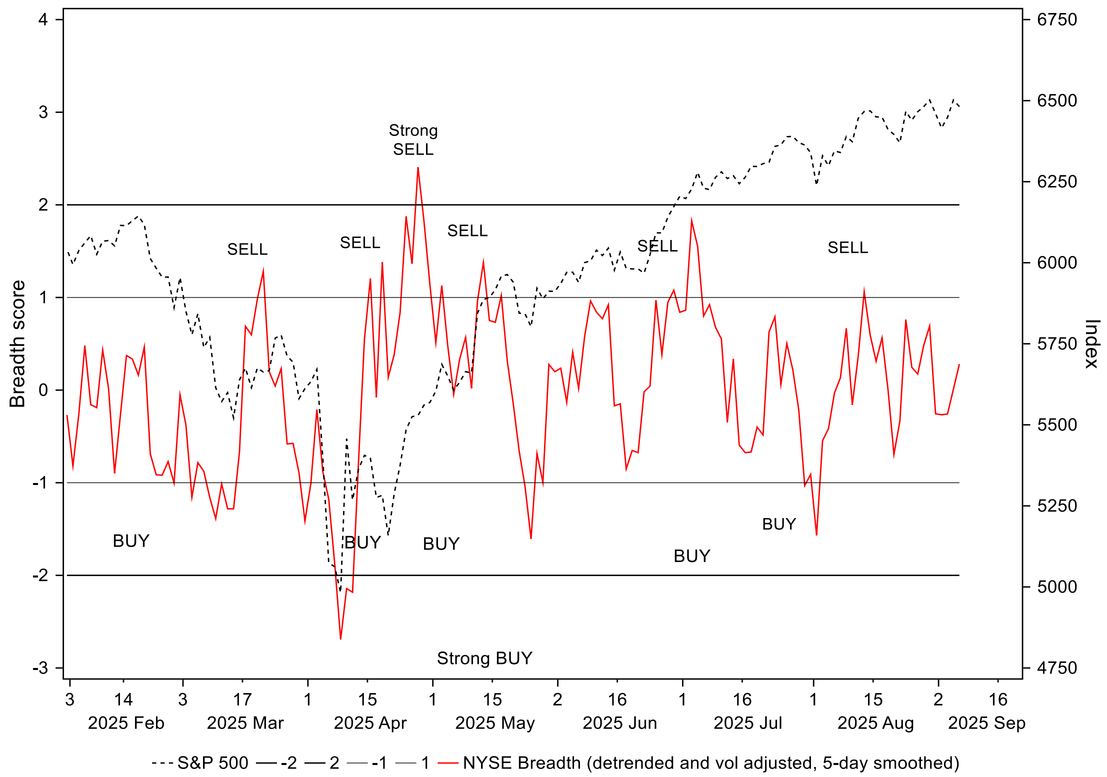


Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



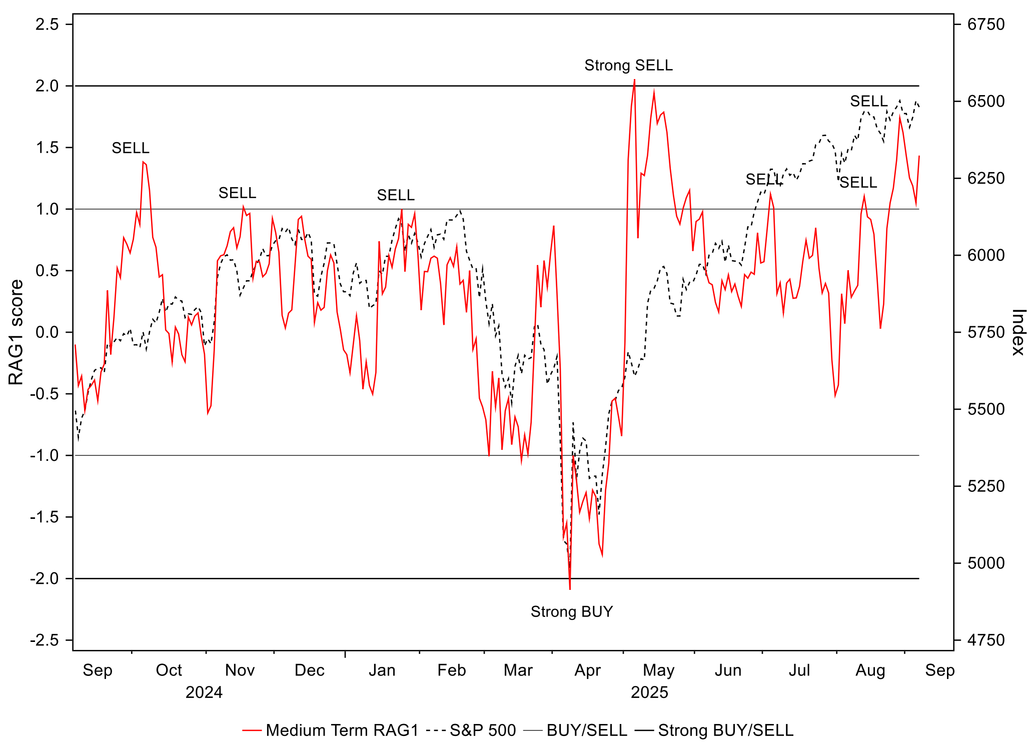
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

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

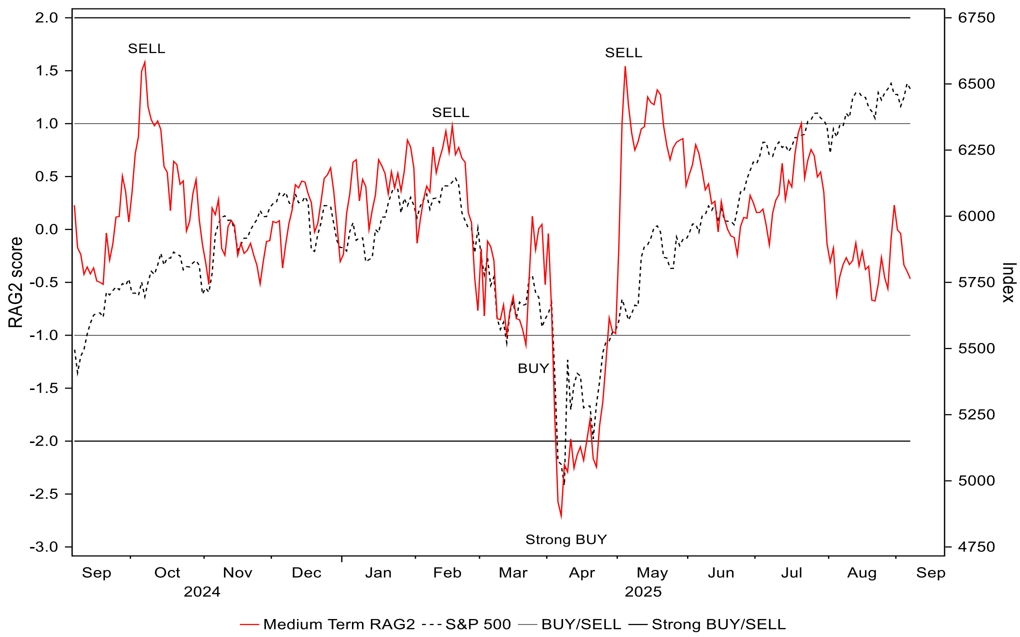
Fig 3a: Medium term RAG1 (1 – 4 month view) vs. S&P 500



Source: Longview Economics, Macrobond

Medium term RAG1 is on SELL

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

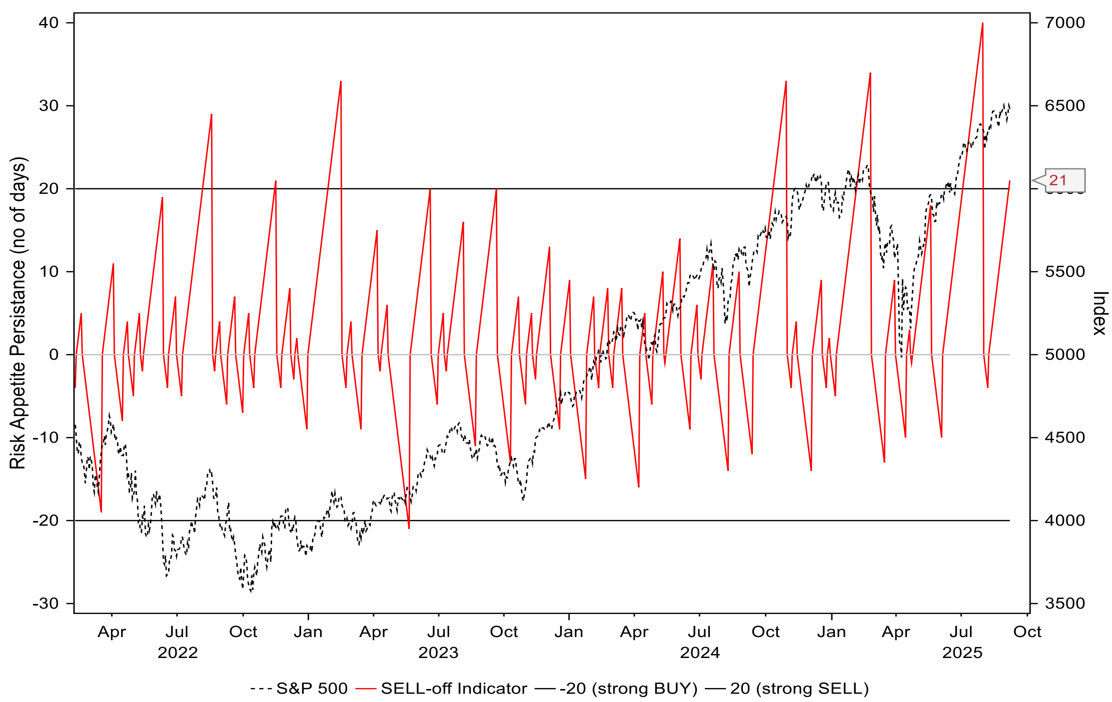


Source: Longview Economics, Macrobond

Medium term RAG2 is NEUTRAL

For explanations of indicators please see page 10

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

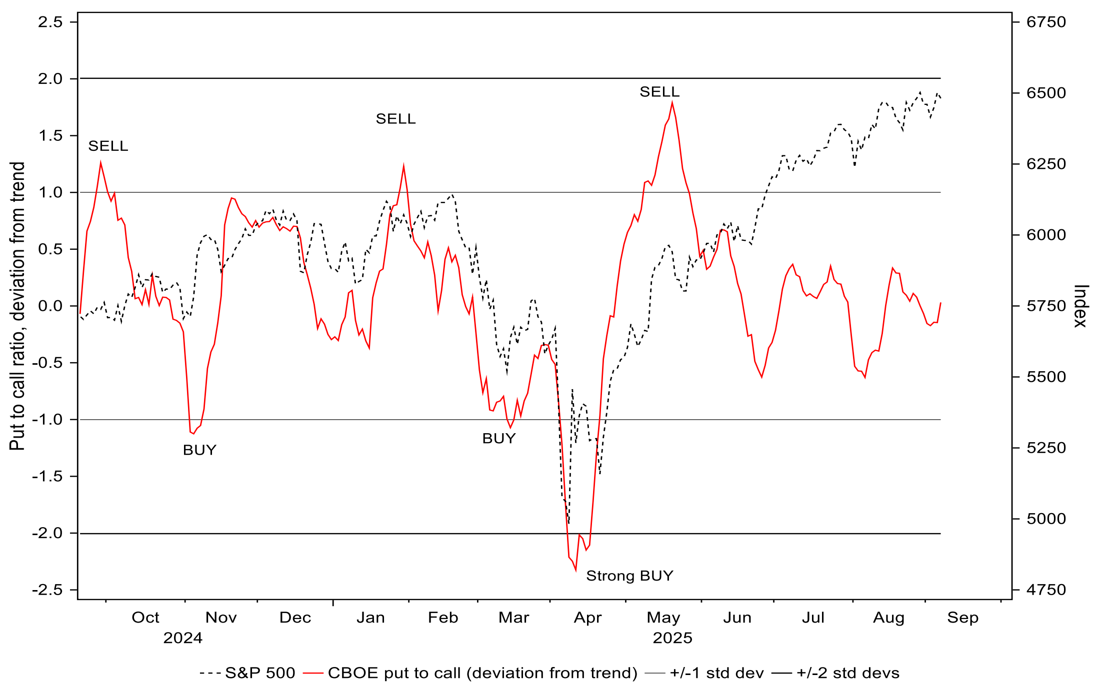


Source: Longview Economics, Macrobond

The SELL-off indicator is 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

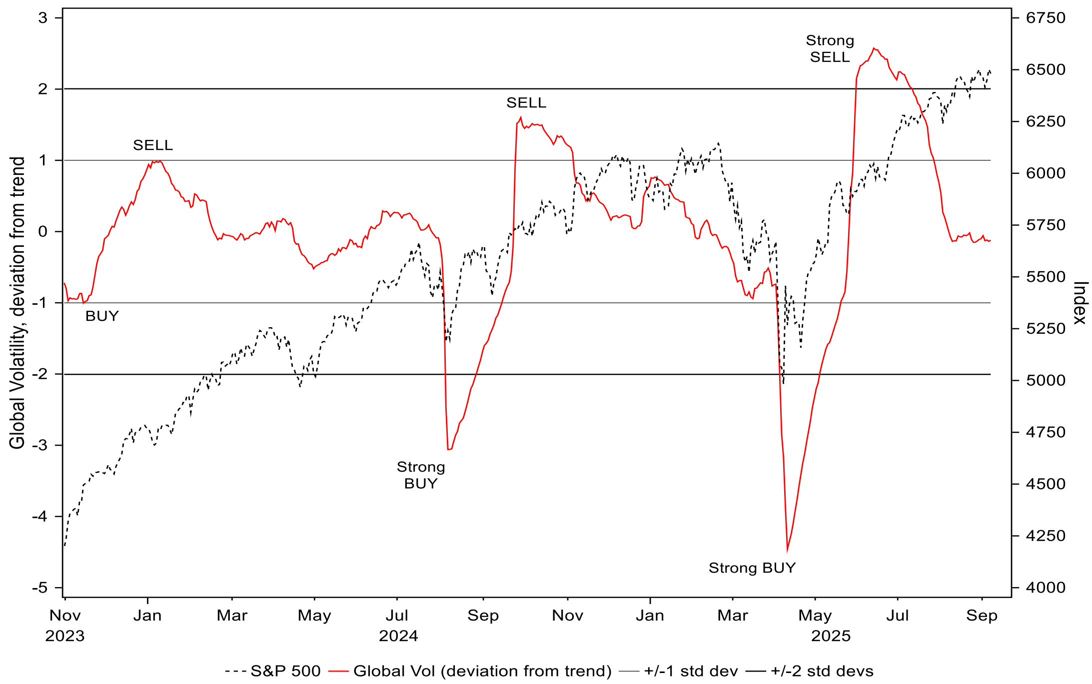


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

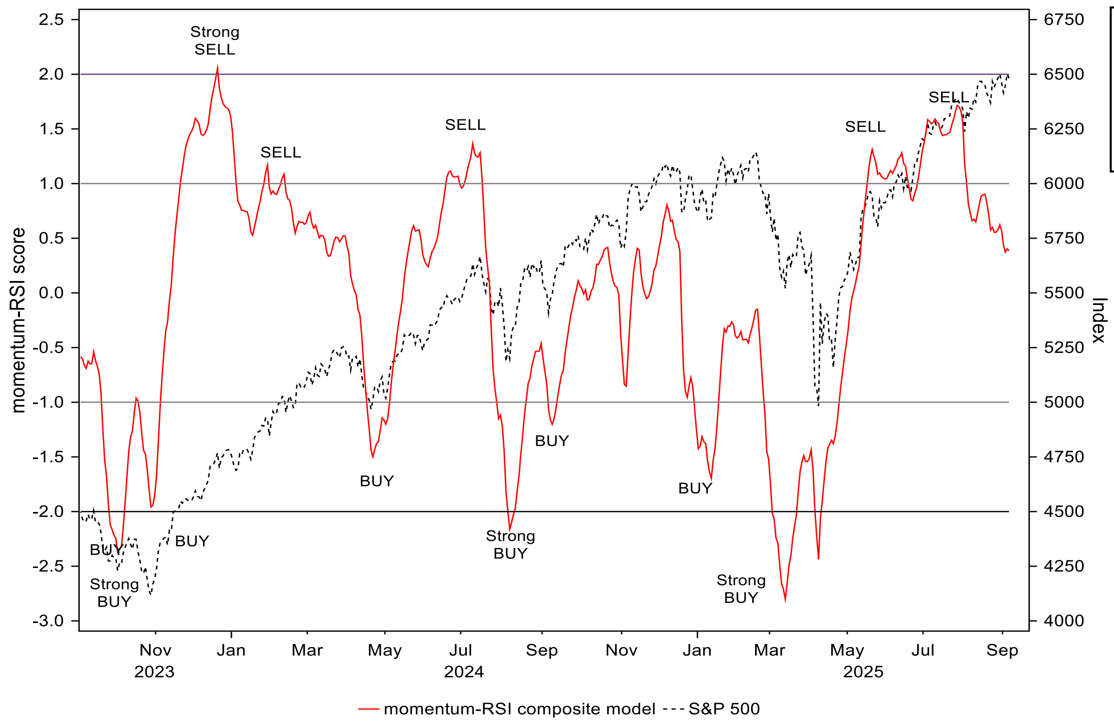
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

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

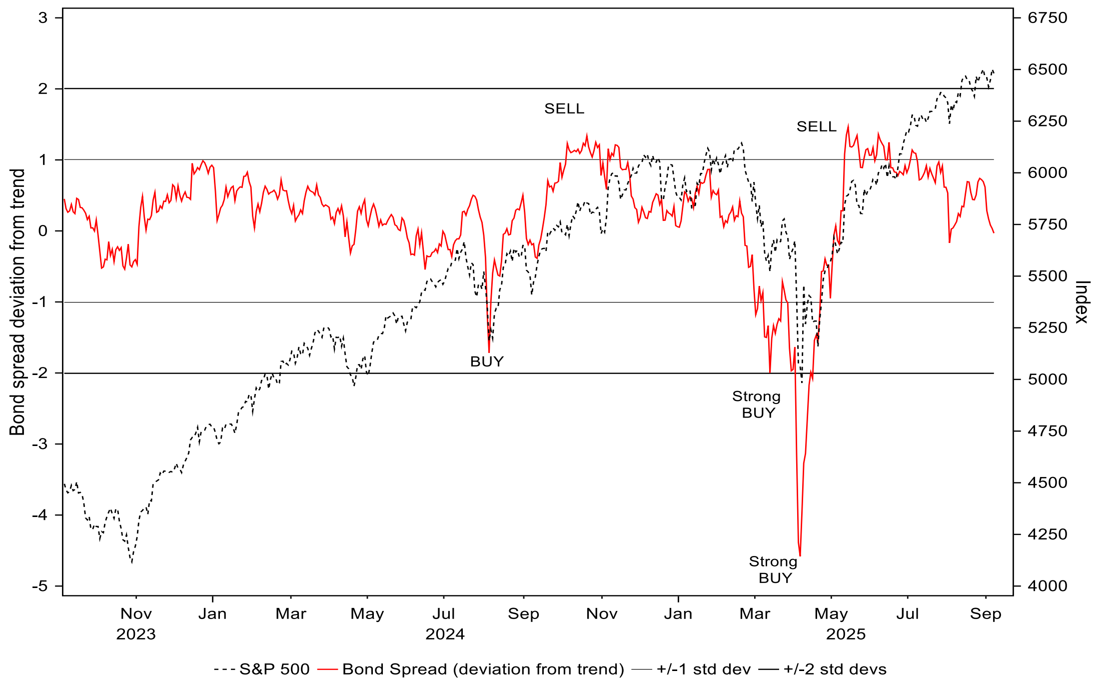


Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

LVRAG
Daily Risk Appetite Gauge

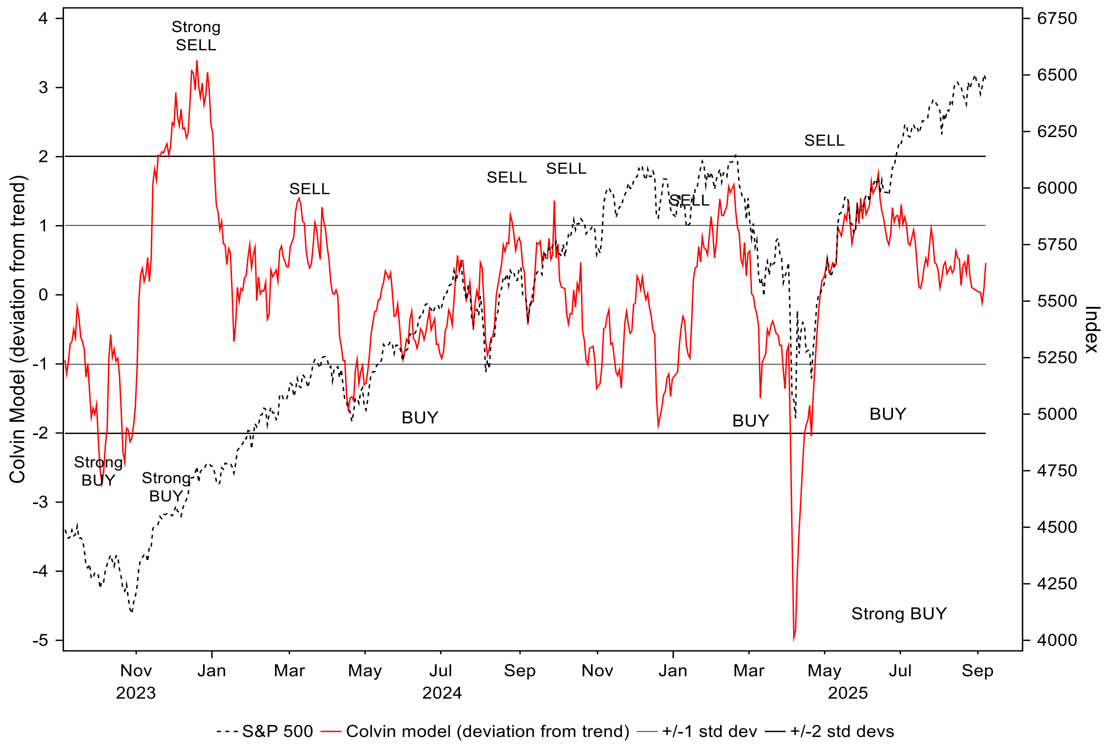
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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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