Daily RAG Recommendation

22nd January 2024

"Increase LONG SPX position"

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Trading Recommendation (‘1 – 2’ week equity index trading recommendation):

- STAY ¼ LONG S&P500 March futures (entry was Tuesday 9th Jan at 4,788.75).
- Increase size to ½ LONG at current prices (approx. 4,884).
- Tighten stop loss to 4,770 (from 4,690) on March futures.

Rationale

After consolidating their gains for a number of weeks, US equity markets **broke out above of their sideways trading ranges** on Friday (see FIGs 1 – 1b). That move higher was led by growth/tech heavy parts of the market, with strong gains in the Nasdaq100 (+2.0%), Nasdaq Computer index (+2.4%); and the Philly SOX (+4.0%), while the S&P500 closed up 1.3%.

Price action in US equities has therefore been encouraging for the bulls, and is consistent with the thesis laid out in recent Daily RAG publications (i.e. that the uptrend in US equities is resuming, after pausing for breadth in December/January).

Of note, and despite strong gains in equities in recent trading sessions, our **short term models, having recently generated BUY signals, are still mostly mid-range** (i.e. **not yet back on SELL**). From a models’ perspective, therefore, there’s headroom for further near term gains in equities. Our risk appetite models, for example, are neutral (having been on BUY, see FIGs 2 & 2a); while various technical, volatility, and breadth models are broadly mid-range (having mostly been on BUY in recent days/weeks, e.g. see FIGs 2b – 2e). With that, certain key short term models continue to lean towards BUY (e.g. see FIG 1c), while a number of medium term models are also close to BUY (e.g. see FIG 1g).

Added to which, there’s still a **lack of frothiness and complacency** in markets. Downside put protection in portfolios, for example, remains reasonably elevated/hasn’t yet unwound (e.g. see FIGs 1e & 1f), while our SELL-off indicator is generating a negative reading (i.e. a medium term BUY signal for equities/risk assets, see FIG 1g).

Given that backdrop, the **risk reward continues to favour staying LONG**. In particular, with markets breaking out of their ranges, and with the absence of SELL signals from our short & medium term models (and lack of complacency), we favour adding to LONG positions at current levels (see above for detailed recommendation).

Please see below for a full list of today’s key macro data/events.

Kind regards,

The team @ Longview Economics/Shortview Trading

FIG 1: S&P500 futures candlestick shown with its 50 & 200 day moving averages

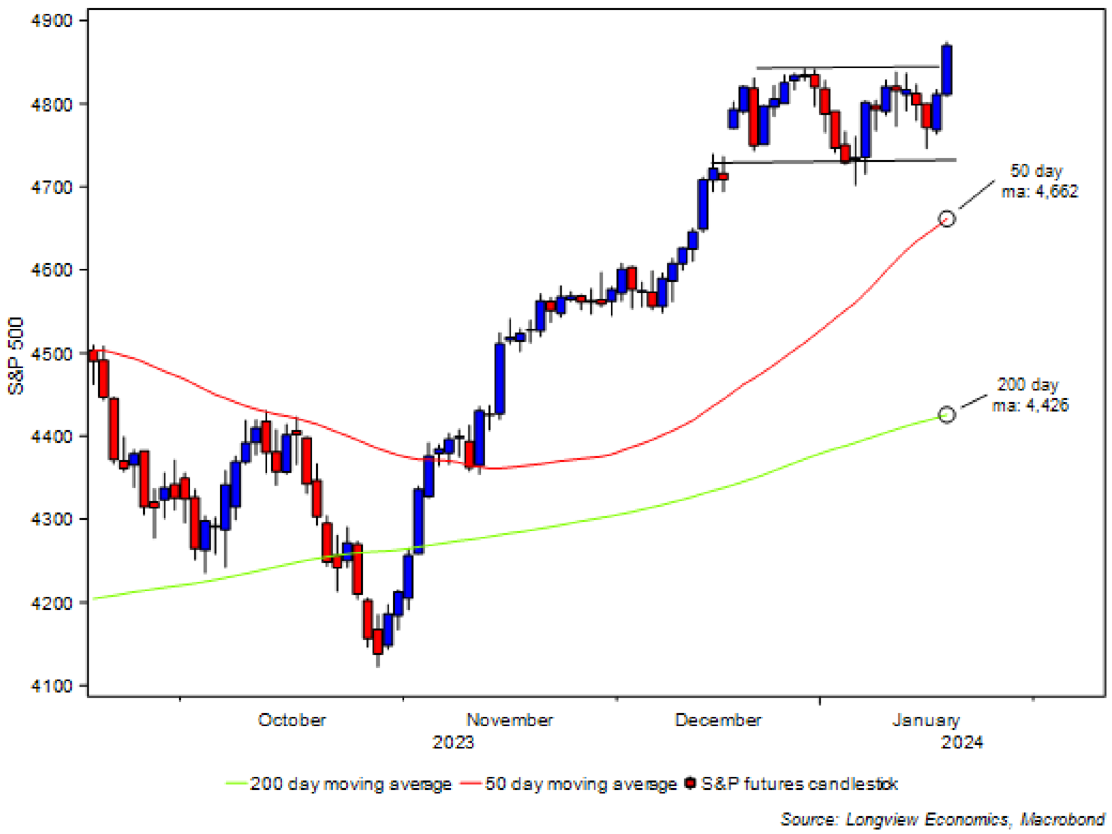


FIG 1a: NASDAQ100 futures candlestick shown with its 50 & 200 day moving average

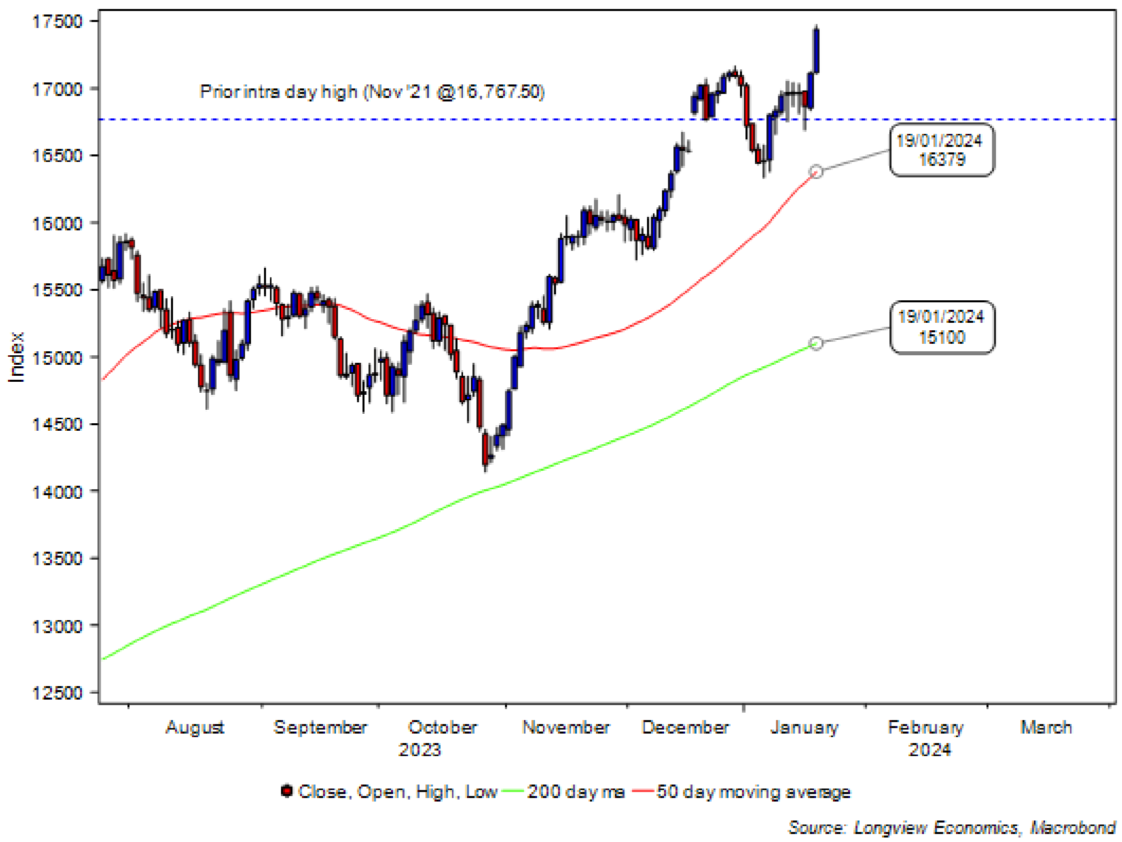


FIG 1b: Philly SOX cash index candlestick, shown with 50 day moving average

FIG 1c: Percent of US stocks which are technically overbought (i.e. with RSIs>70) vs. S&P500

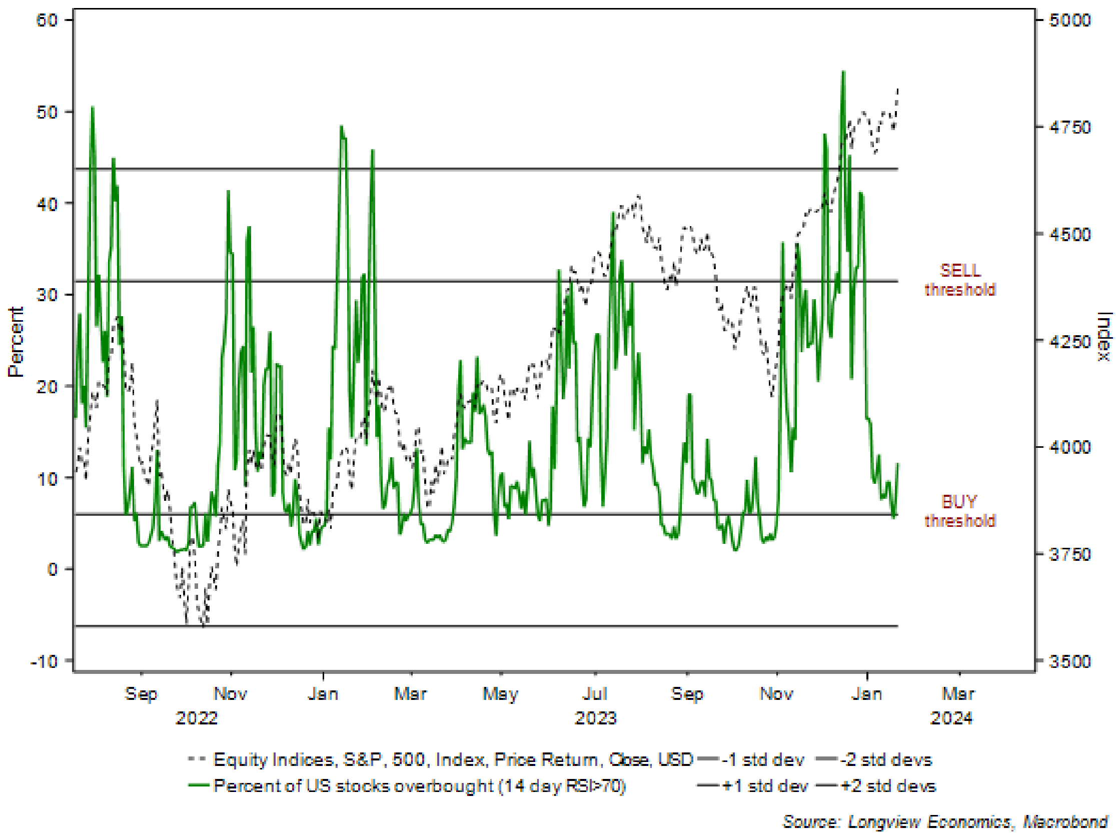


FIG 1d: Longview SELL-off indicator vs. S&P500

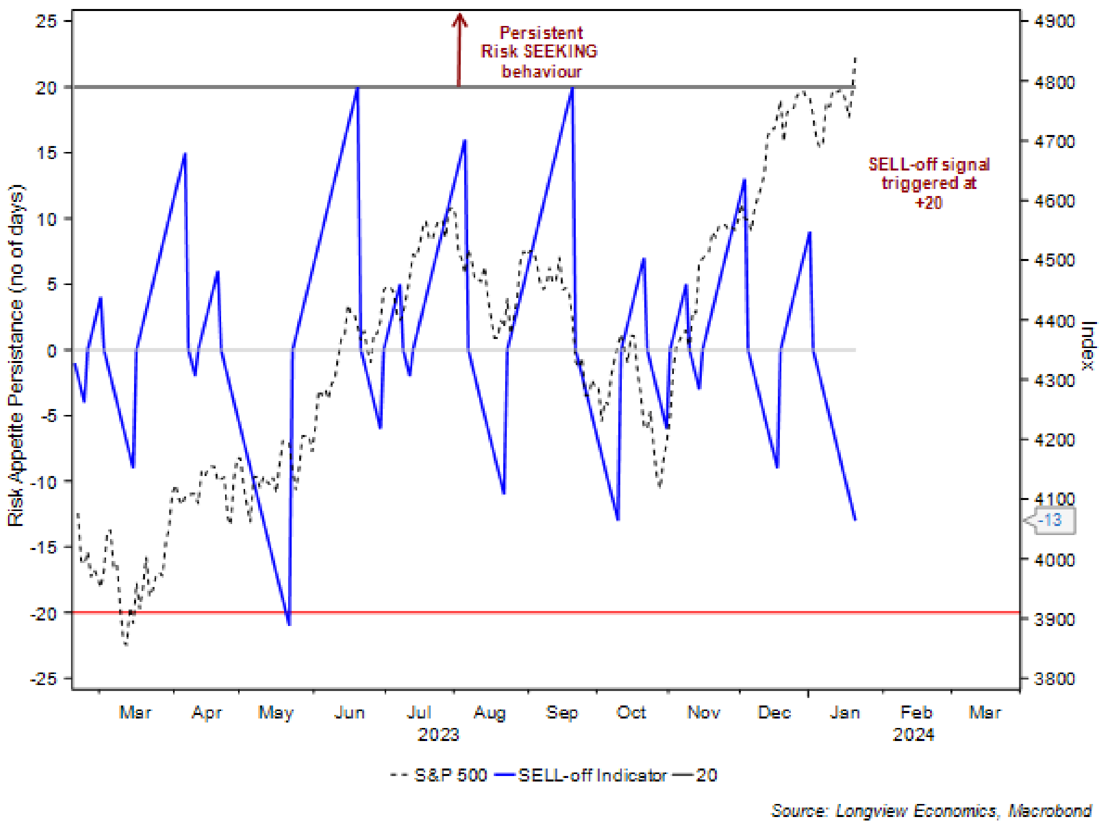


FIG 1e: NDX100 put to call indicator (1 & 3 day smoothed) vs. NDX100

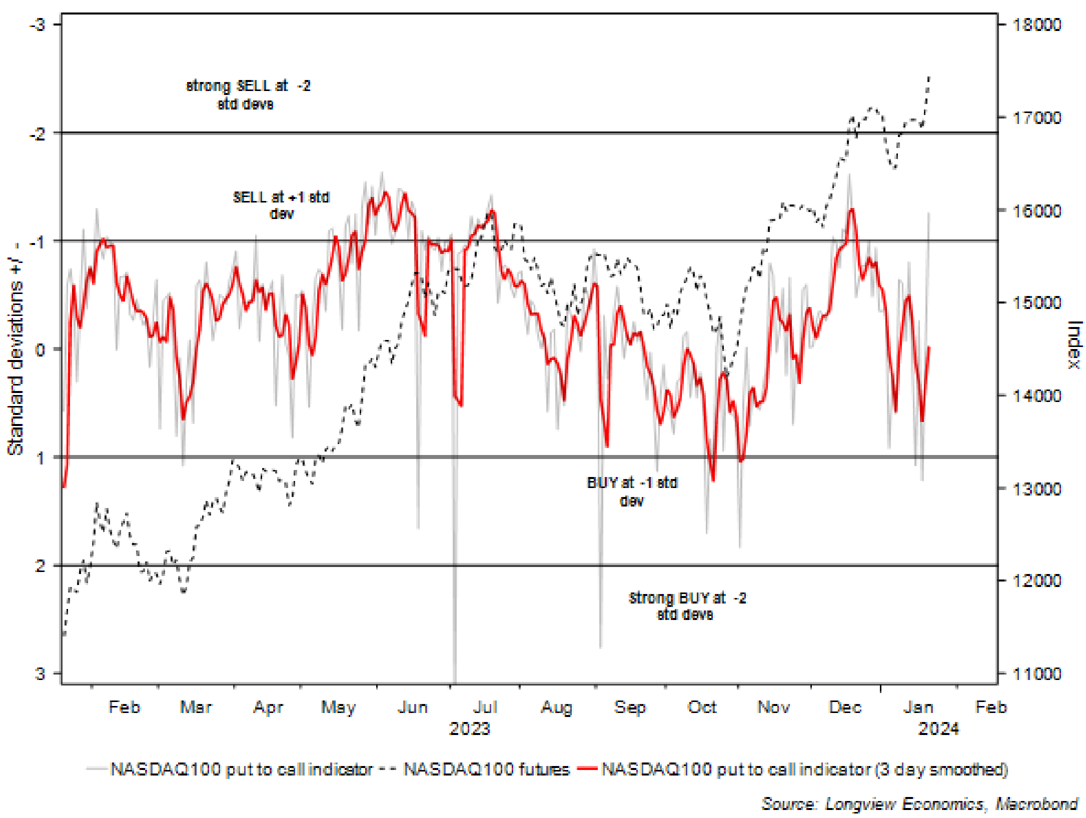
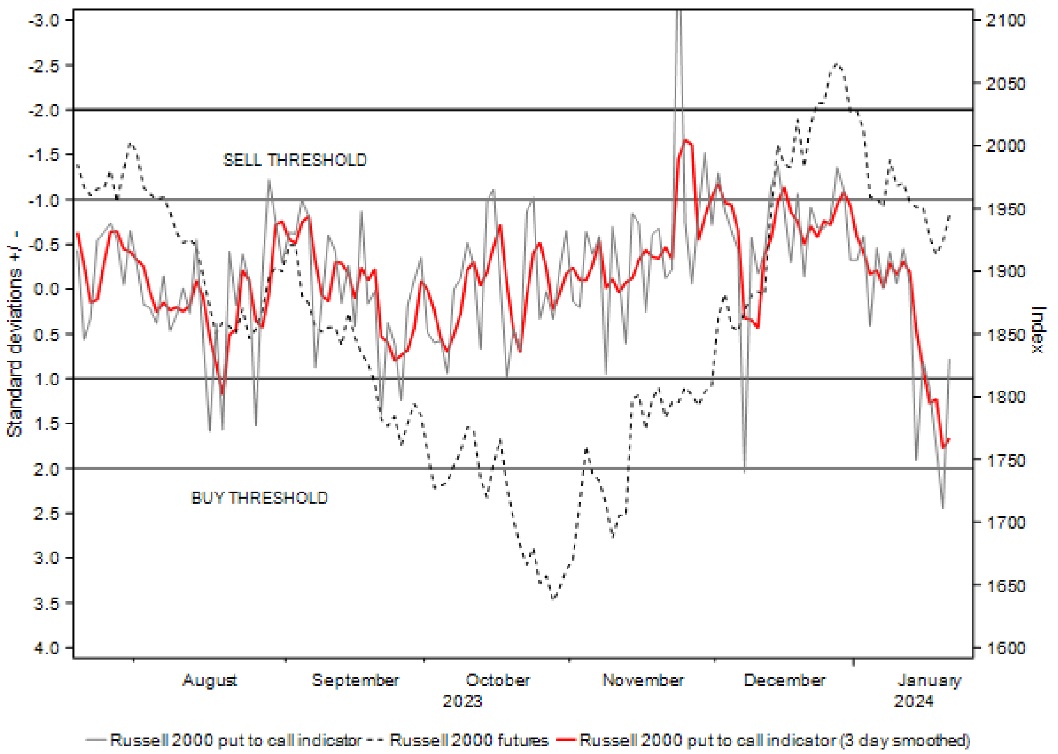
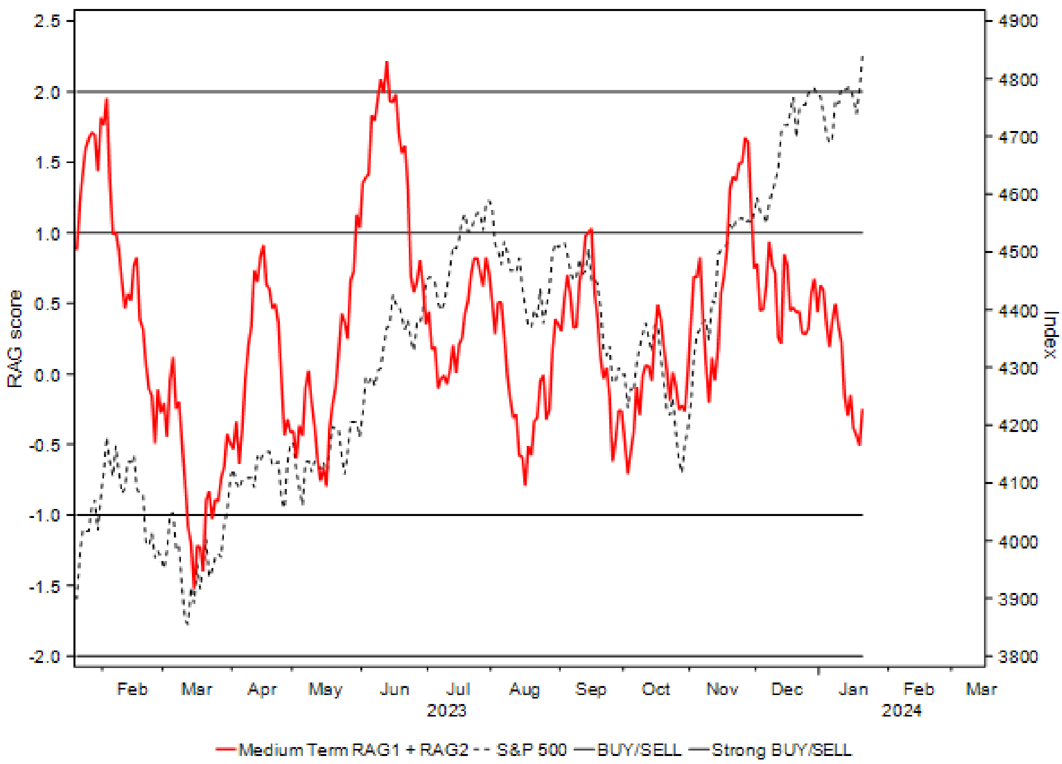


FIG 1f: Russell 2000 put to call indicator (NB scale INVERTED) vs. Russell 2000 index



Source: Longview Economics, Macrobond

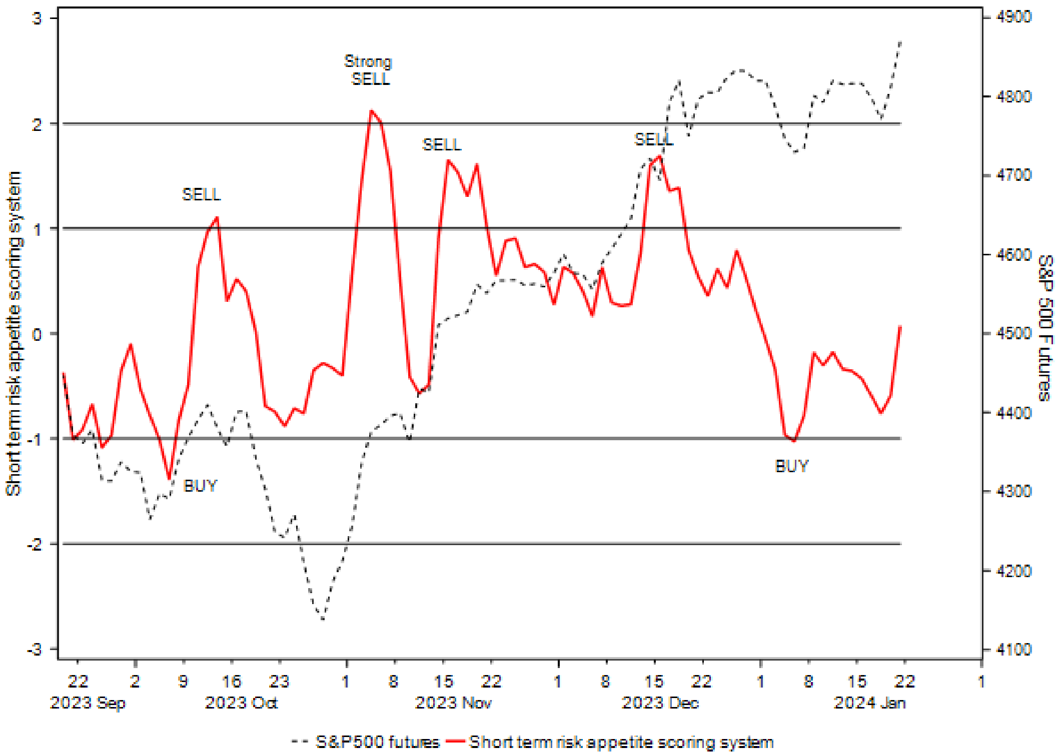
FIG 1g: Medium term RAG1 & RAG2 vs. S&P500



Source: Longview Economics, Macrobond

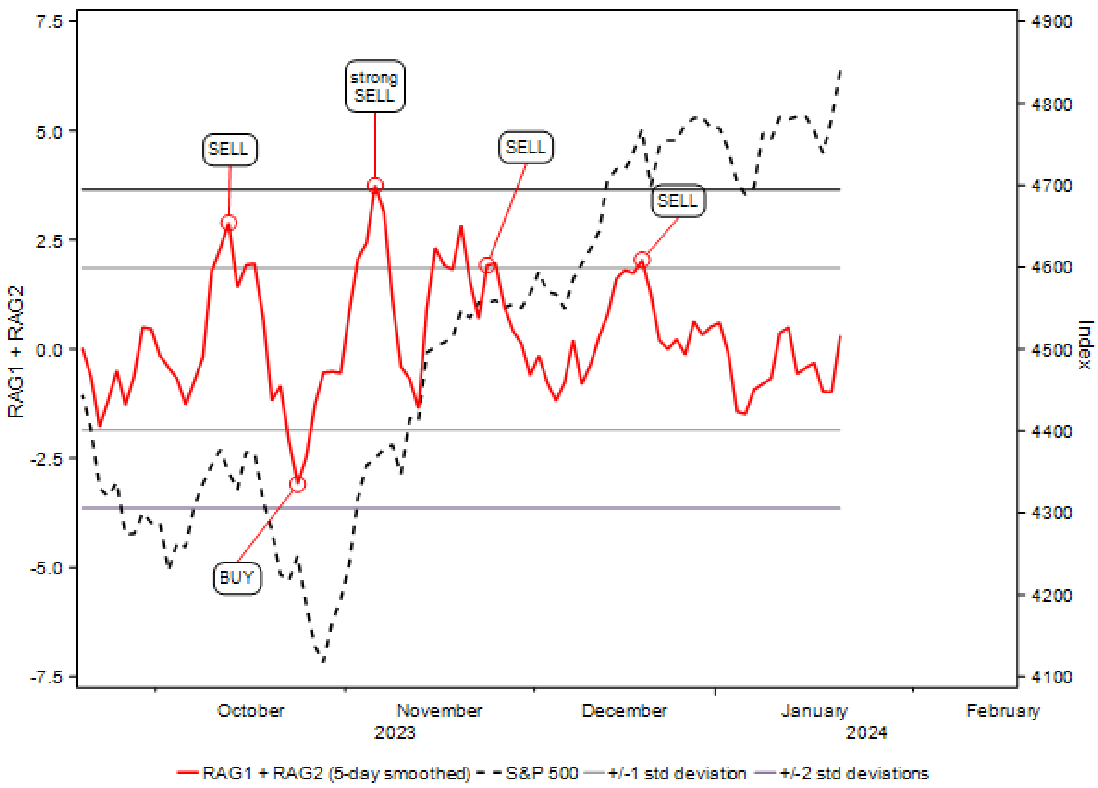
Key risk appetite models are mid-range (having recently been close to BUY)….

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

Other key short term models have recently generated BUY signals (and are now mostly mid range)

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

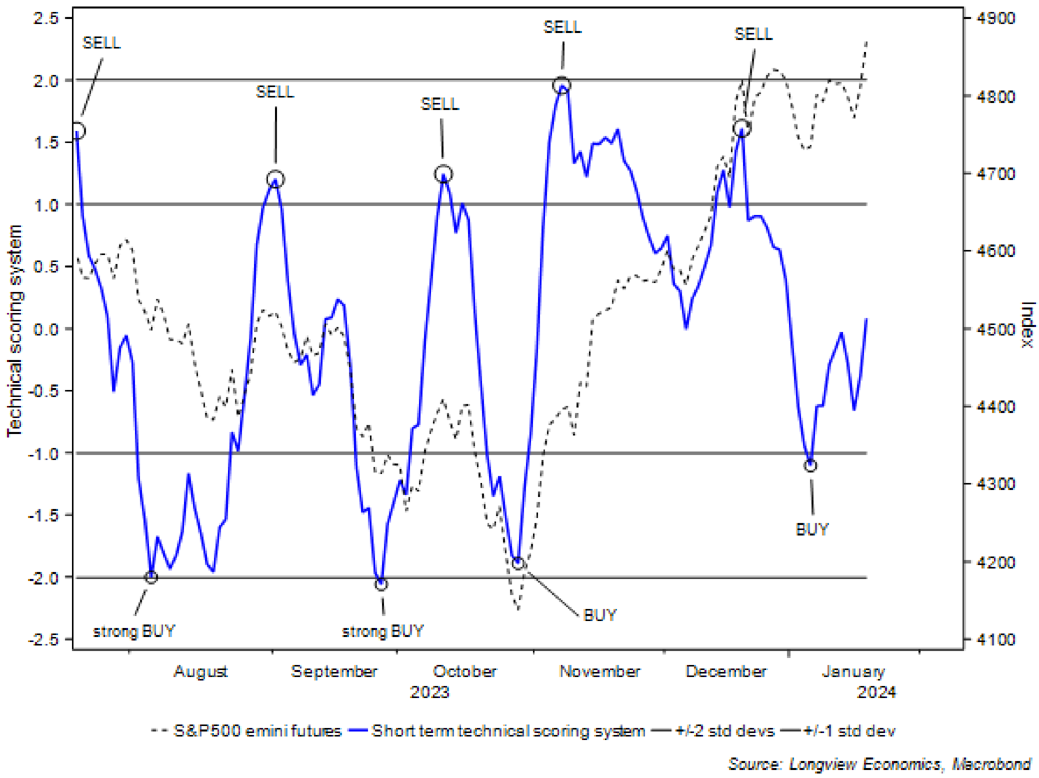
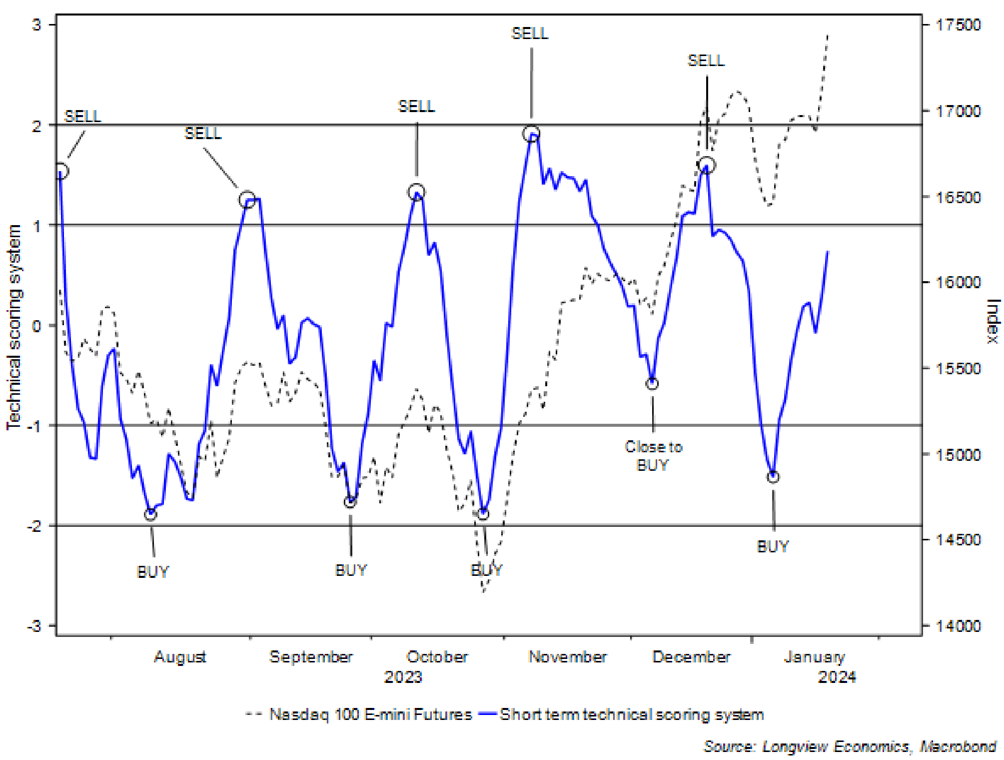
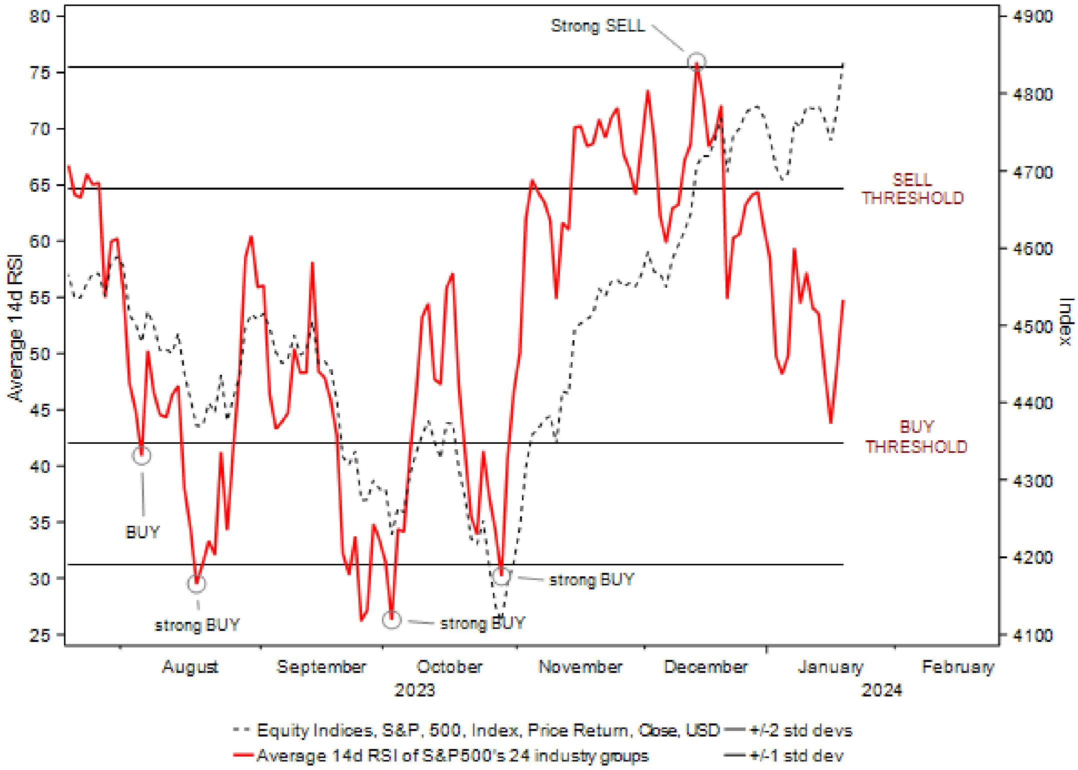


FIG 2c: Longview NASDAQ100 short term **'technical'** scoring system vs. NASDAQ100 futures



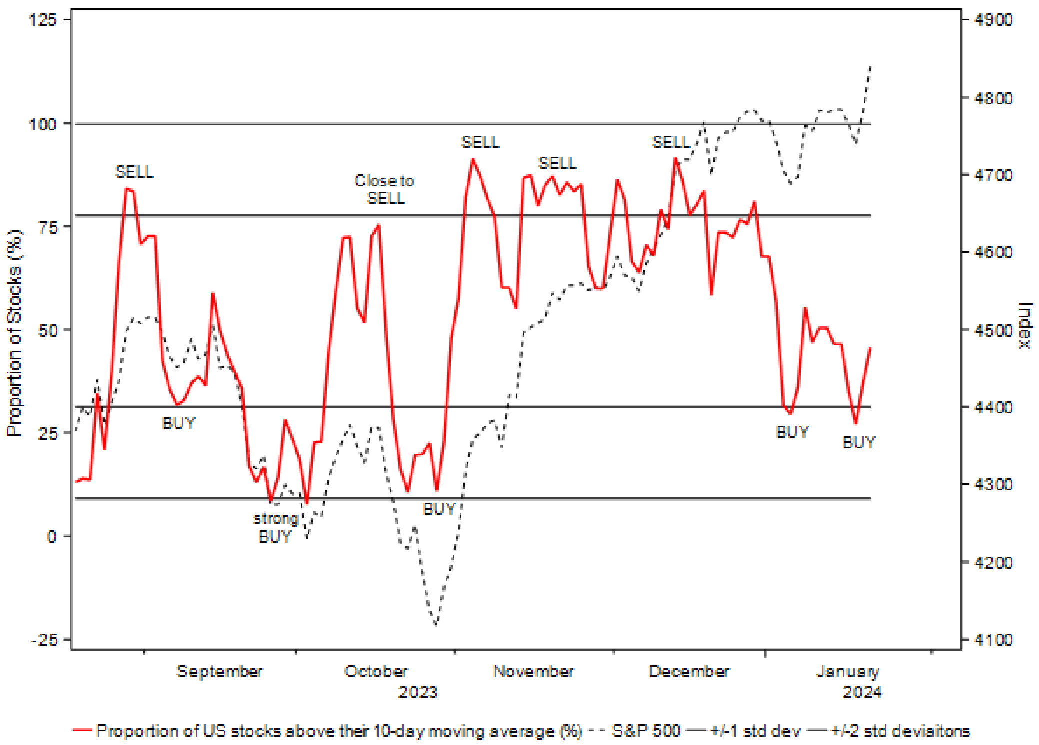
...including a variety of technical models....

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



Source: Longview Economics, Macrobond

FIG 2e: Proportion of US stocks above their 10-day moving average vs. S&P500



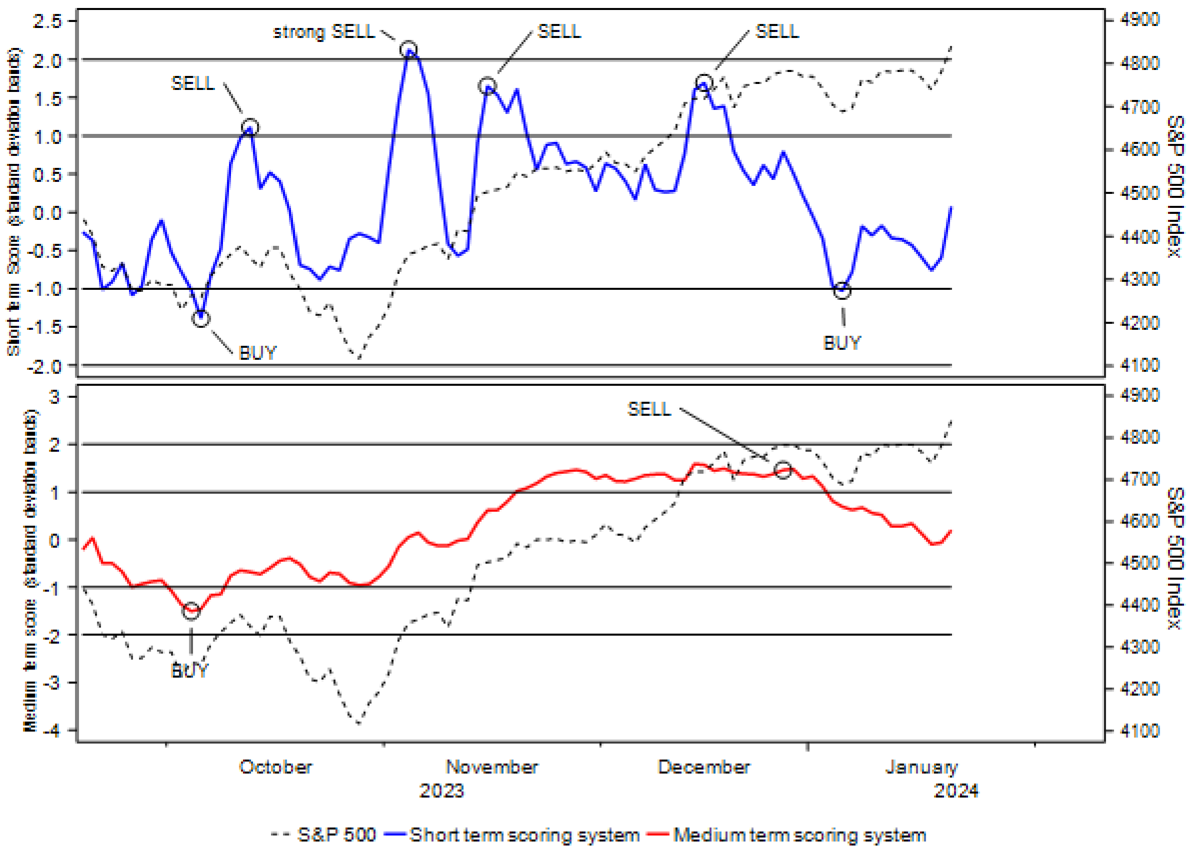
Source: Longview Economics, Macrobond

Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**

Medium term (1 – 4 month) scoring system: **NEUTRAL**

FIG A: Longview 'short and medium-term' scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key Macro data/events

Key data today include: **China policy rate decision** (1:15am); Taiwanese exports (Dec, 8am); **US Conference Board leading index** (Dec, 3pm).

Key events today include: N/A

Key earnings today include: N/A

Definitions & other matters:

RAG = Risk Appetite Gauge

The 'Daily RAG' publication is designed to generate '1 to 2' week trading recommendations on equity indices. For trading recommendations on currencies, rates, bonds and other assets, pls see Macro-TAA trade publications.

For a medium-term recommendation please see our '1 – 4' month tactical market views which are updated at the start of each month in our Tactical Equity Asset Allocation publication (as well as occasional ad-hoc intra month Alerts). The latest update was published on 5th December 2023. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.

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Investments. Trades. Macro.

Daily RAG update

22nd January 2024

1 – 2 Week View on Risk

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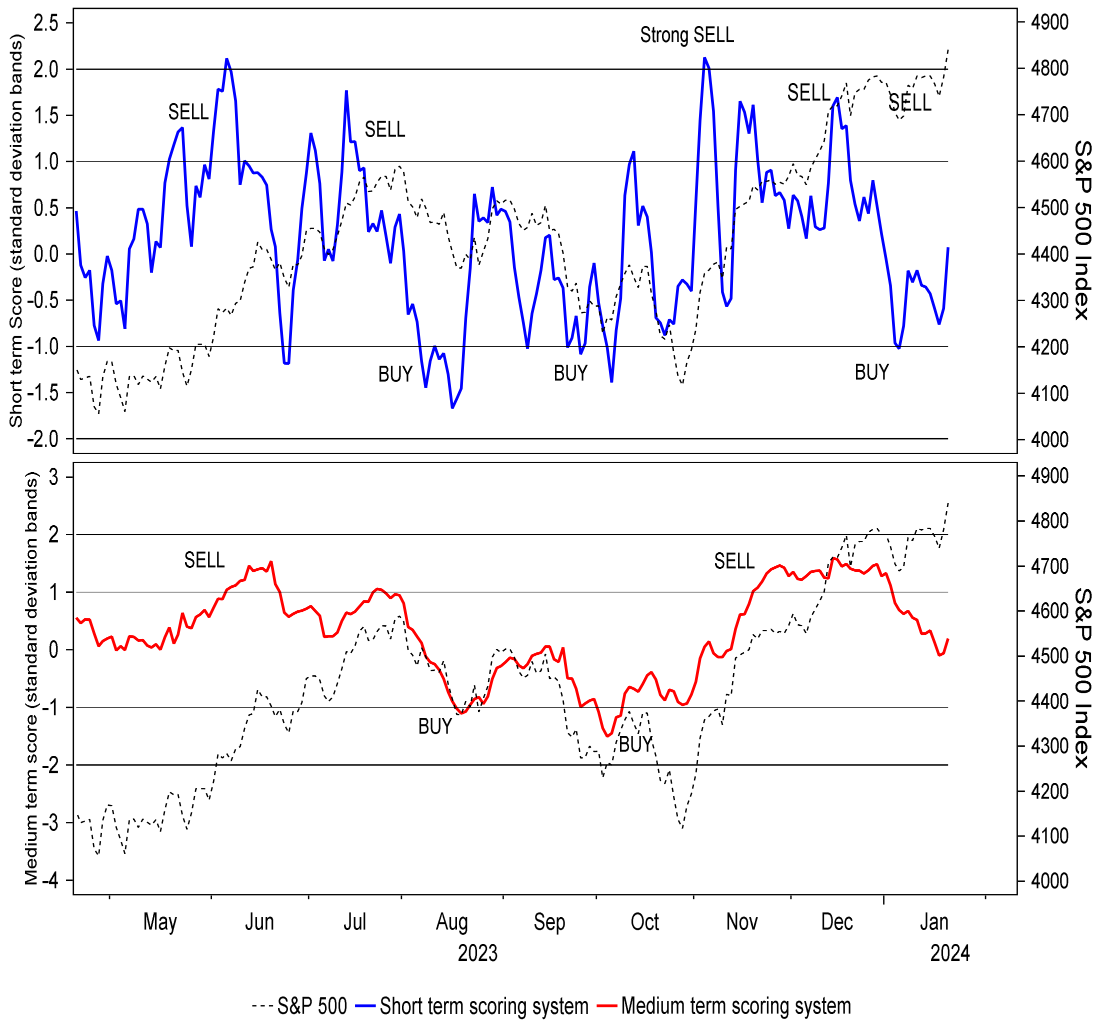
Section 1: Longview Scoring Systems (short & medium term*)

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



Short term scoring system is NEUTRAL

Medium term scoring system is NEUTRAL

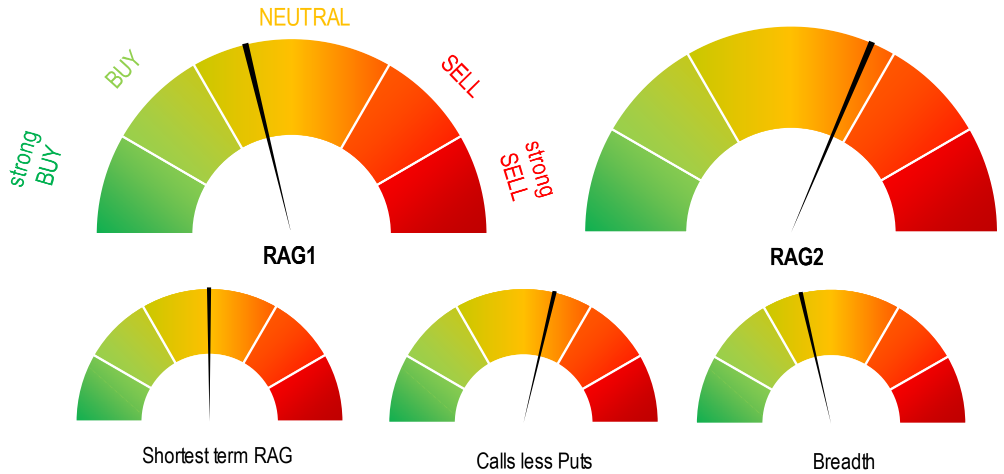
Source: Longview Economics, Macrobond

*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

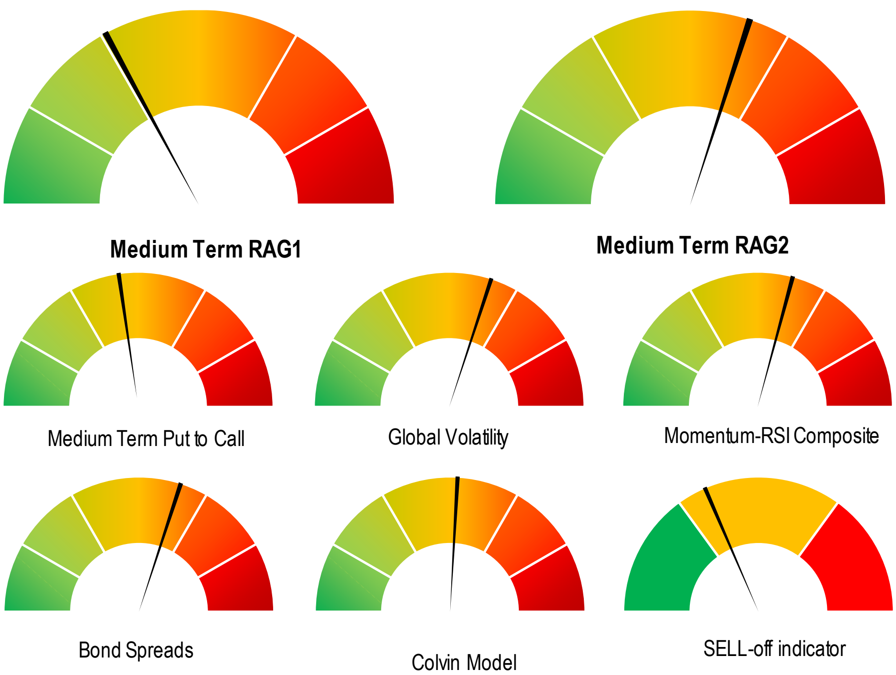
Section 1a: Summary of indicator signals**

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

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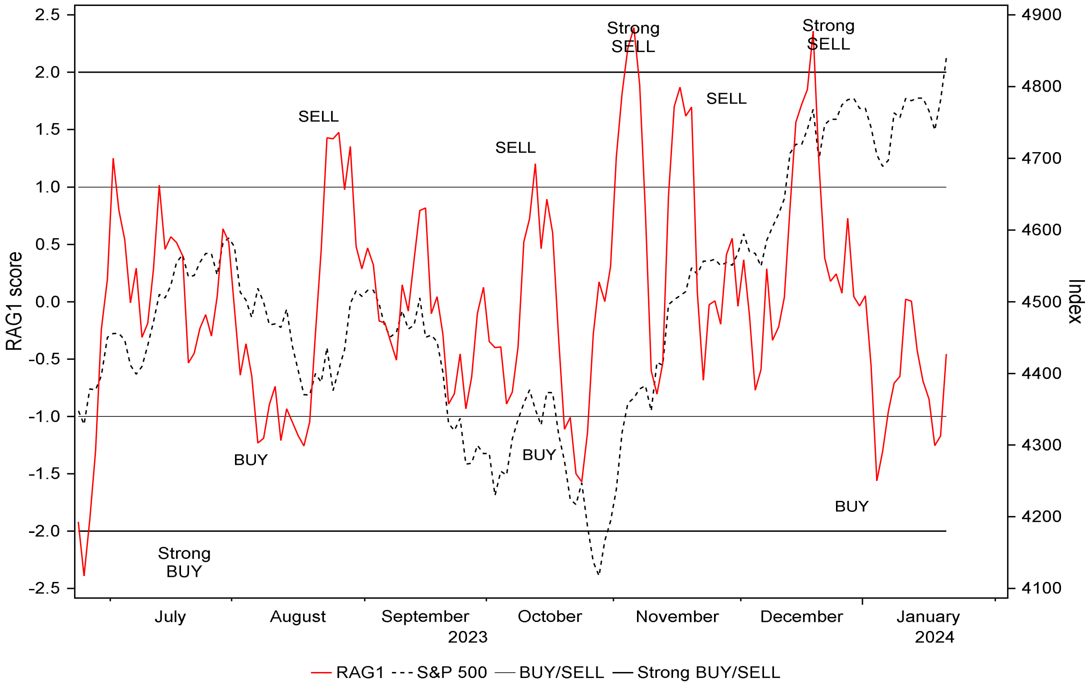
Section 2: Short term (1 – 2 week) trading models

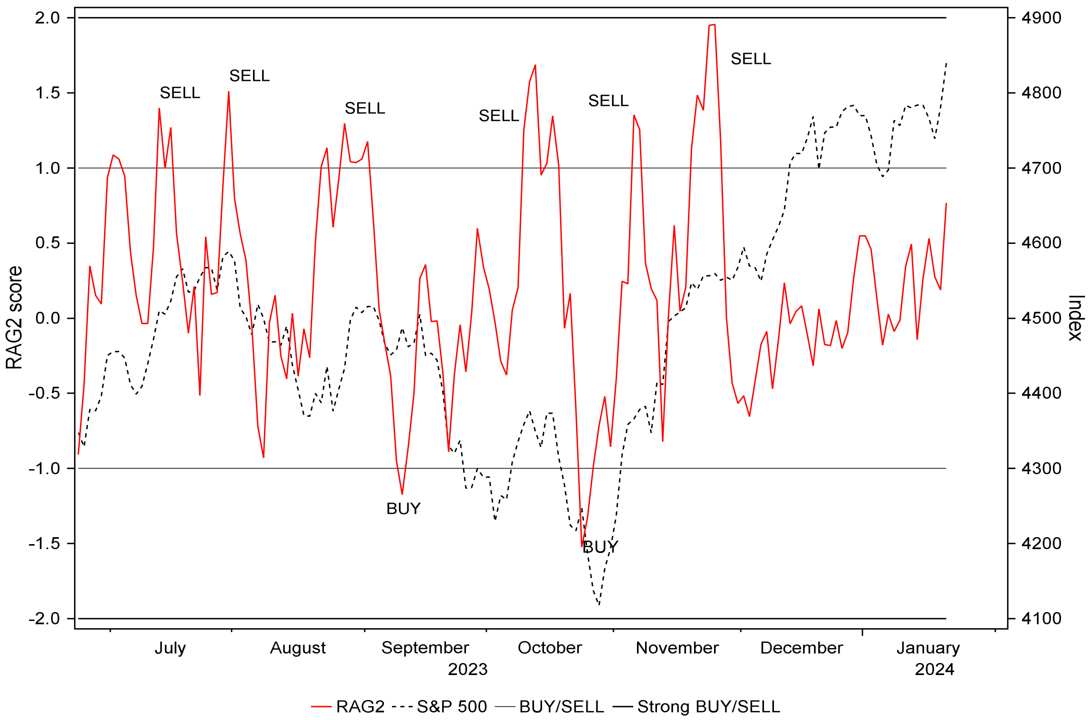
Fig 2a: RAG 1 vs. S&P 500



Source: Longview Economics, Macrobond

RAG1 is NEUTRAL

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

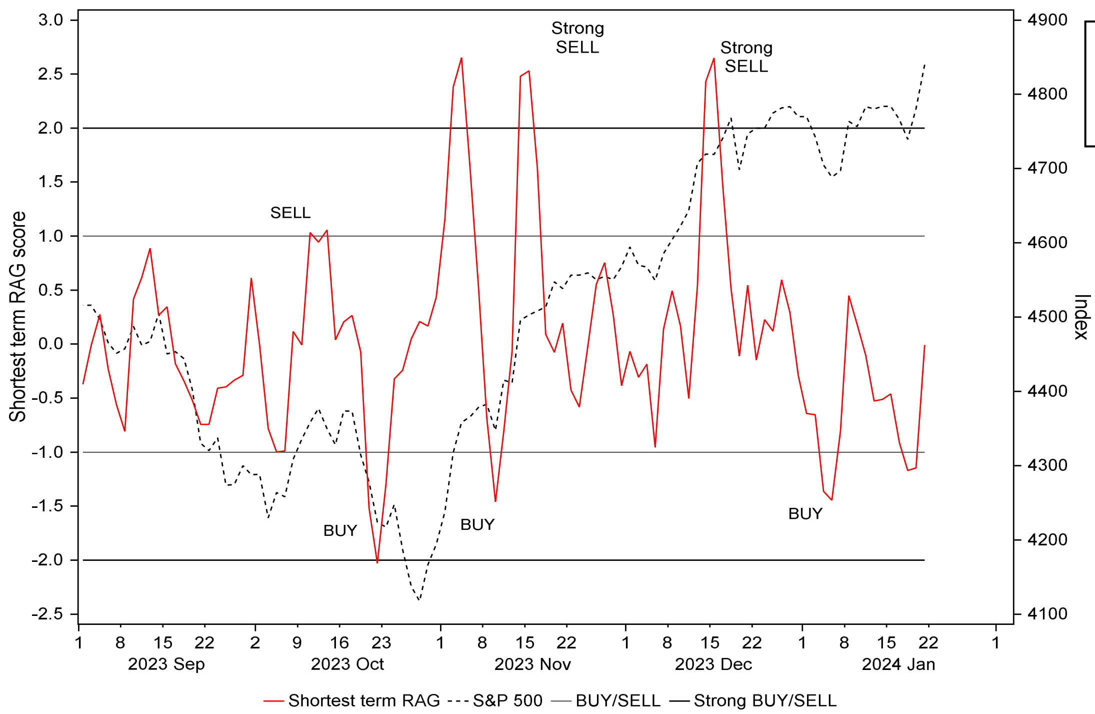


Source: Longview Economics, Macrobond

RAG2 is NEUTRAL

For explanations of indicators please see page 10

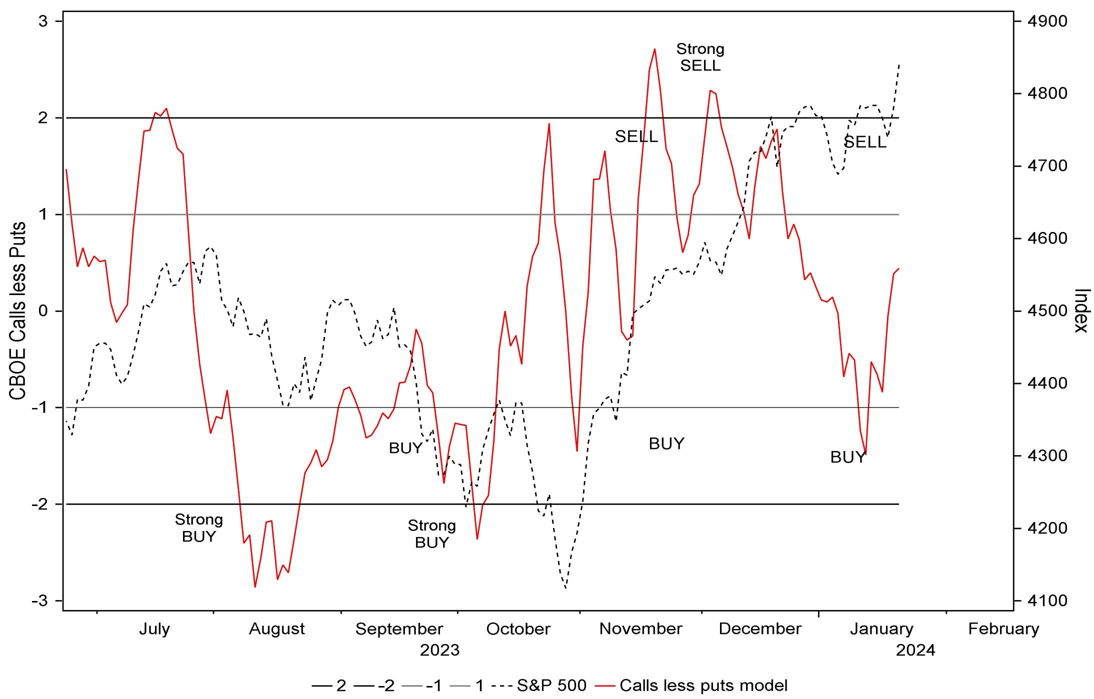
Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500



Shortest term RAG is NEUTRAL

Source: Longview Economics, Macrobond

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

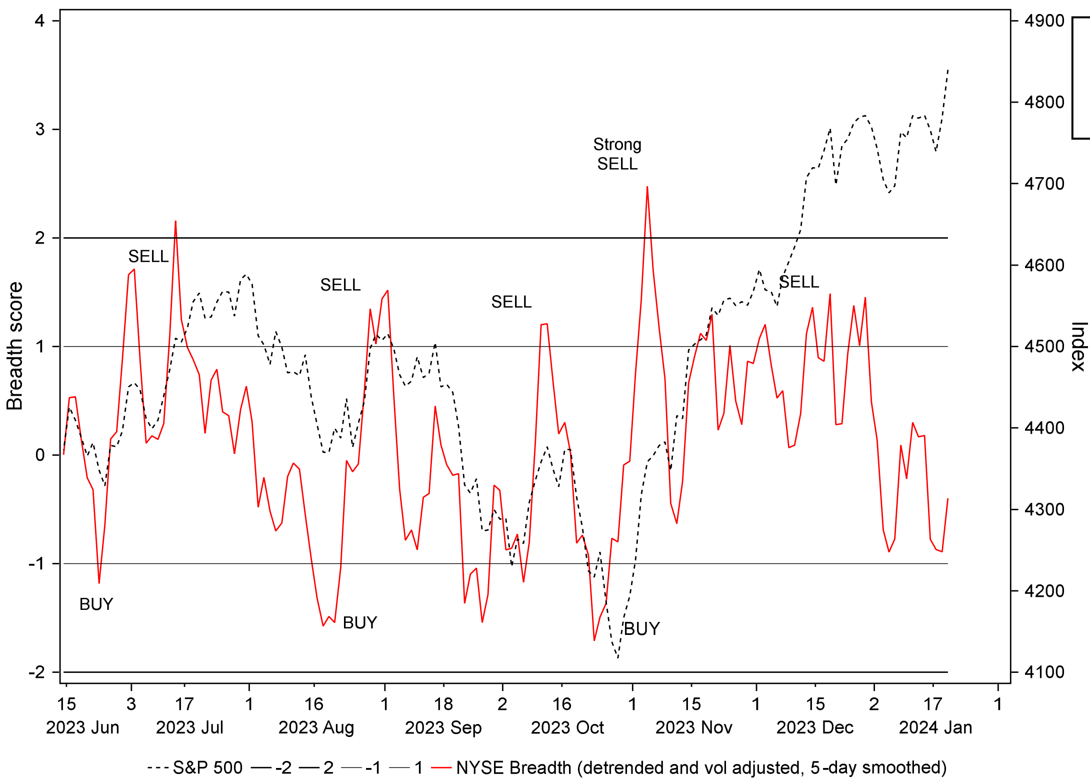


Calls less puts model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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



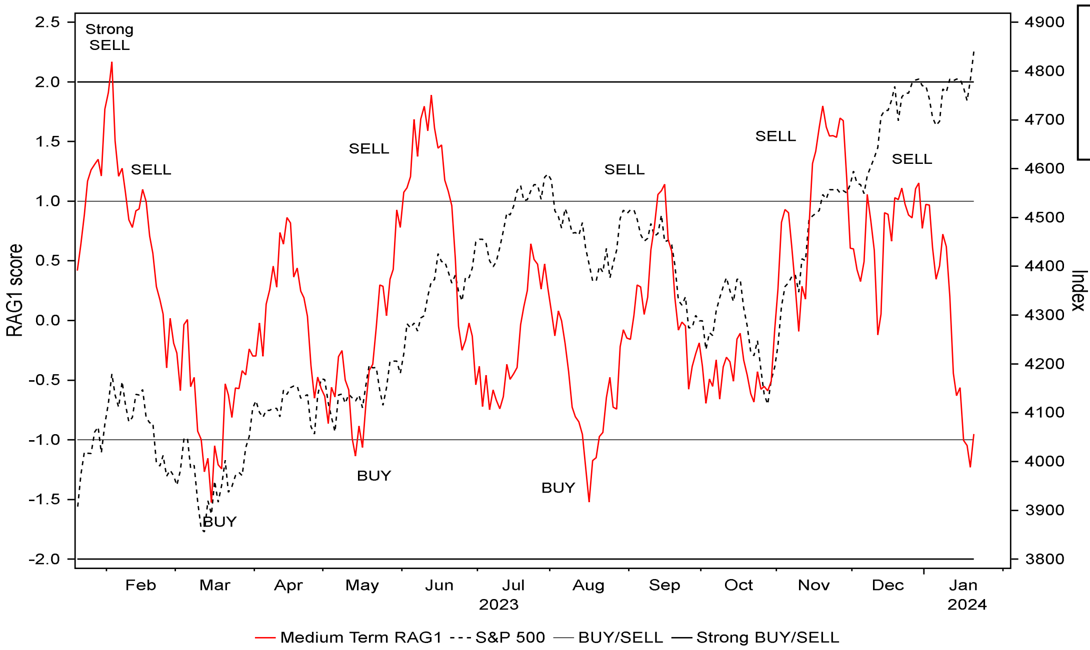
Source: Longview Economics, Macrobond

The breadth model is NEUTRAL

For explanations of indicators please see page 10

Section 3: Medium term (1 – 2 month) outlook

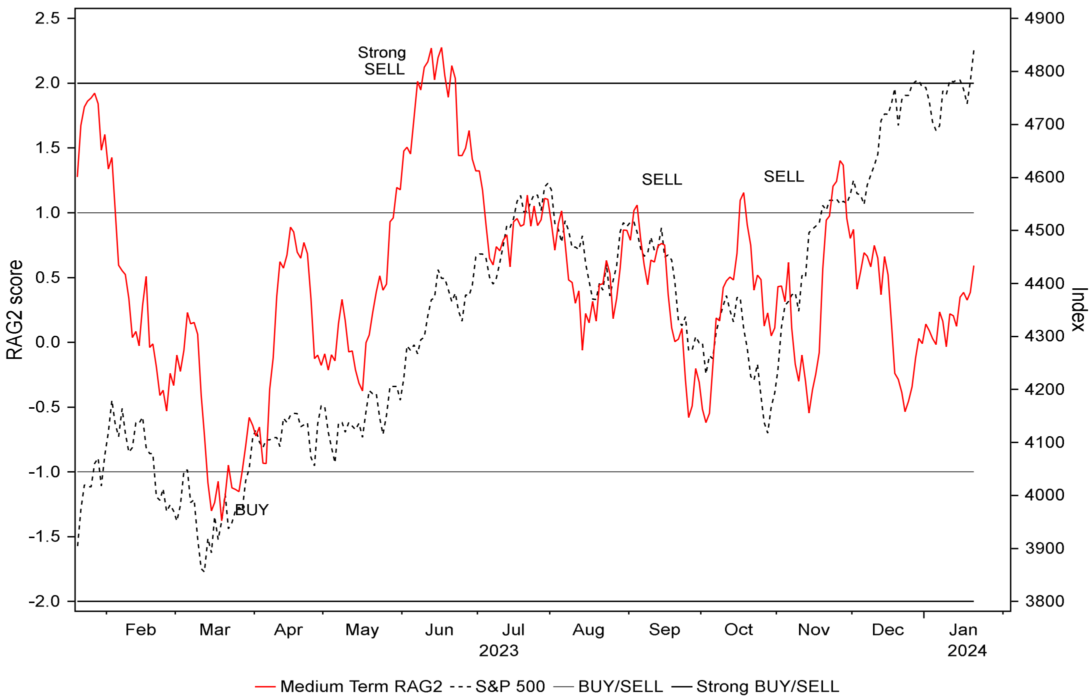
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is NEUTRAL

Source: Longview Economics, Macrobond

Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500

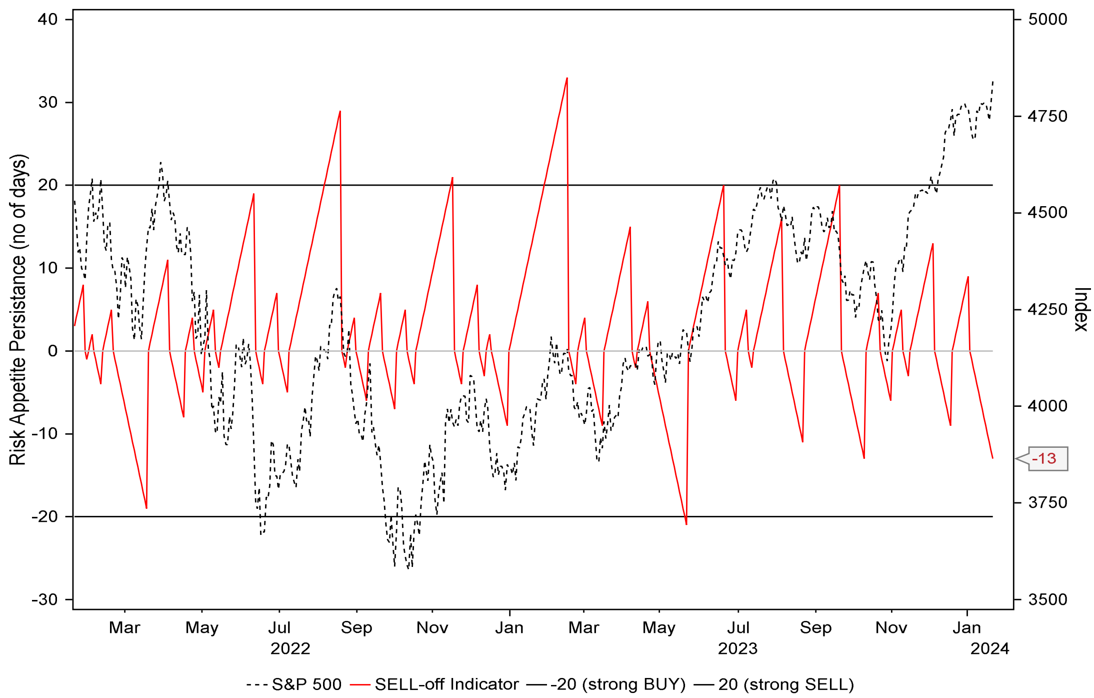


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

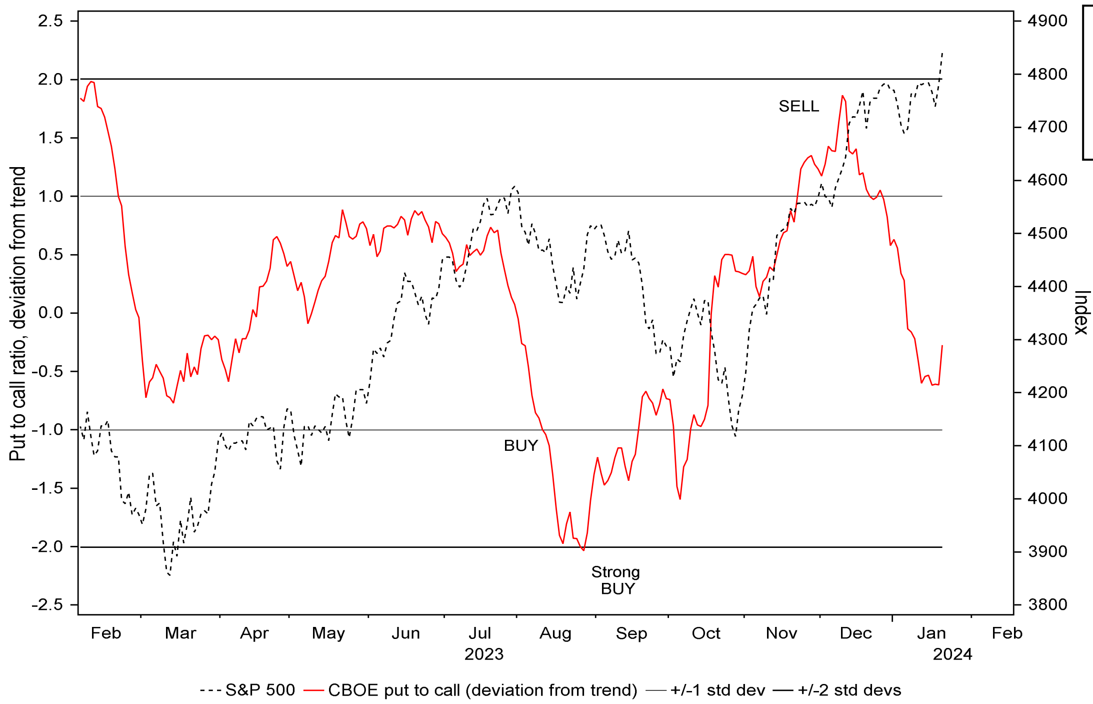
Fig 3c: SELL-off indicator (shown vs. S&P500)



The SELL-off indicator is NEUTRAL

Source: Longview Economics, Macrobond

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

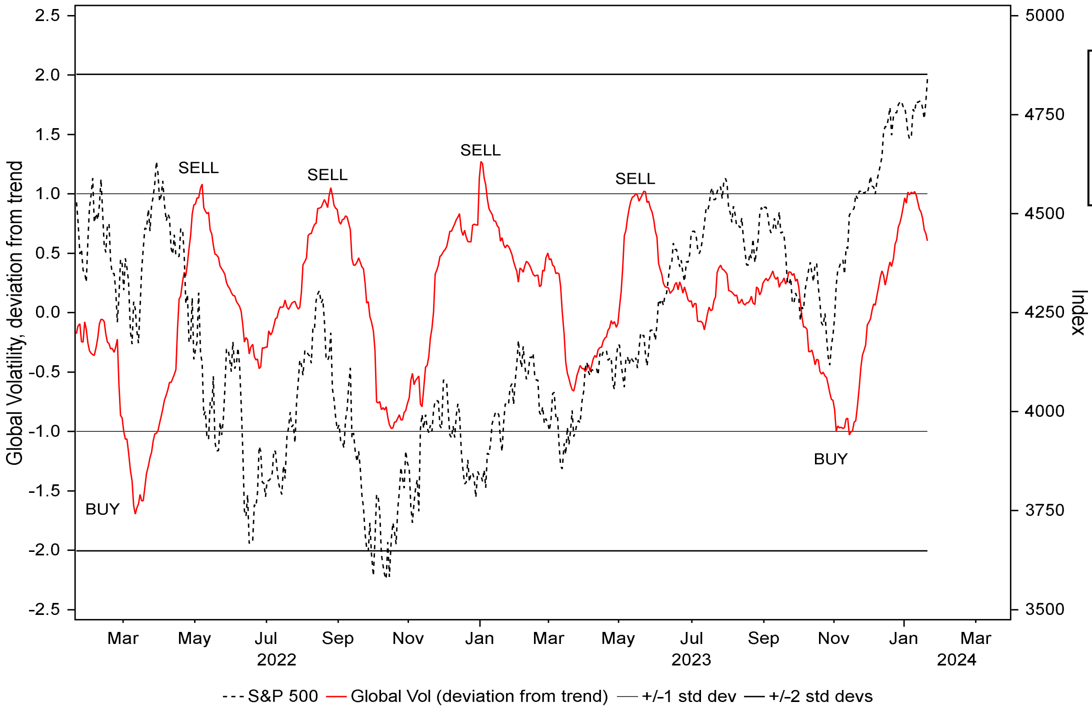


Medium term put to call model is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

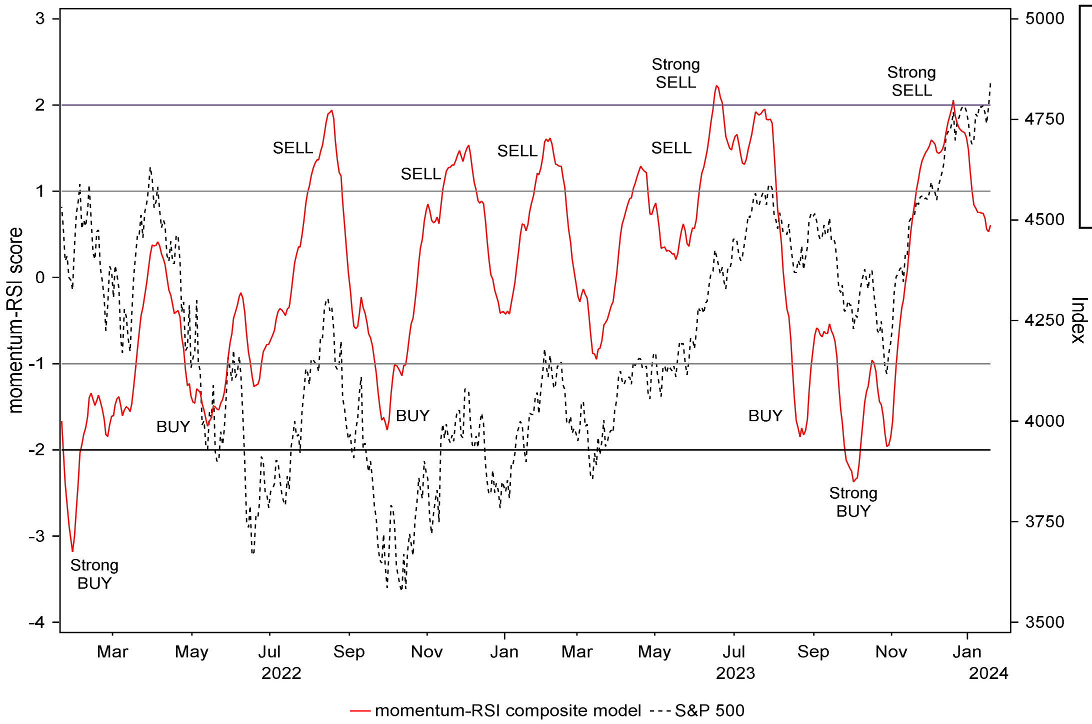
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Global volatility indicator is NEUTRAL

Source: Longview Economics, Macrobond

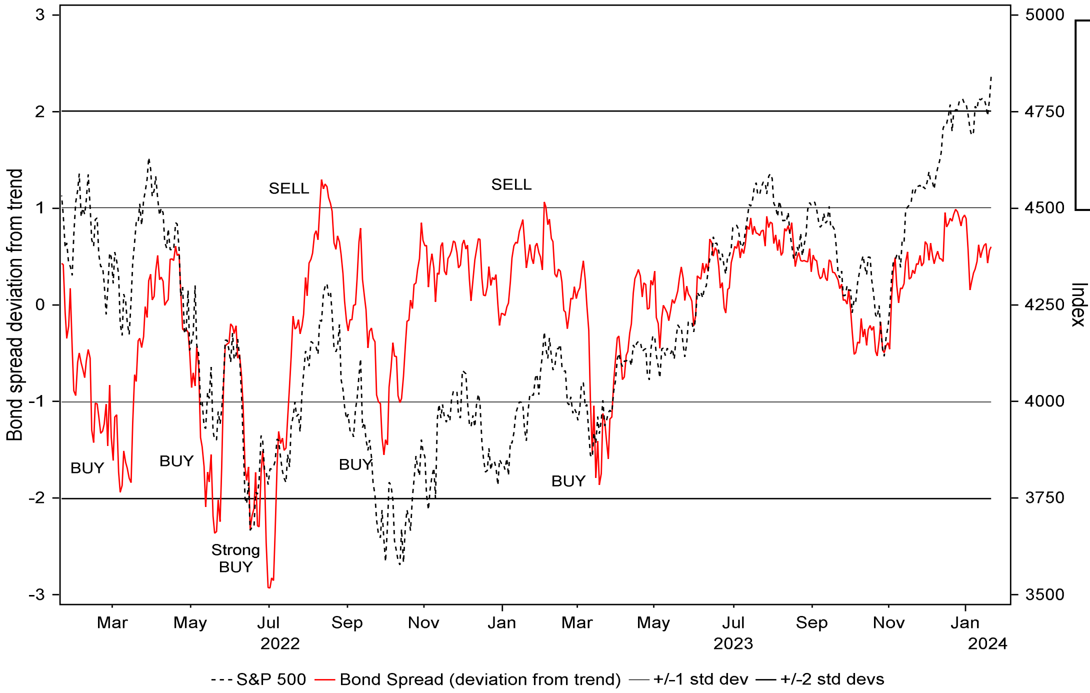
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



US momentum RSI composite model is NEUTRAL

Source: Longview Economics, Macrobond

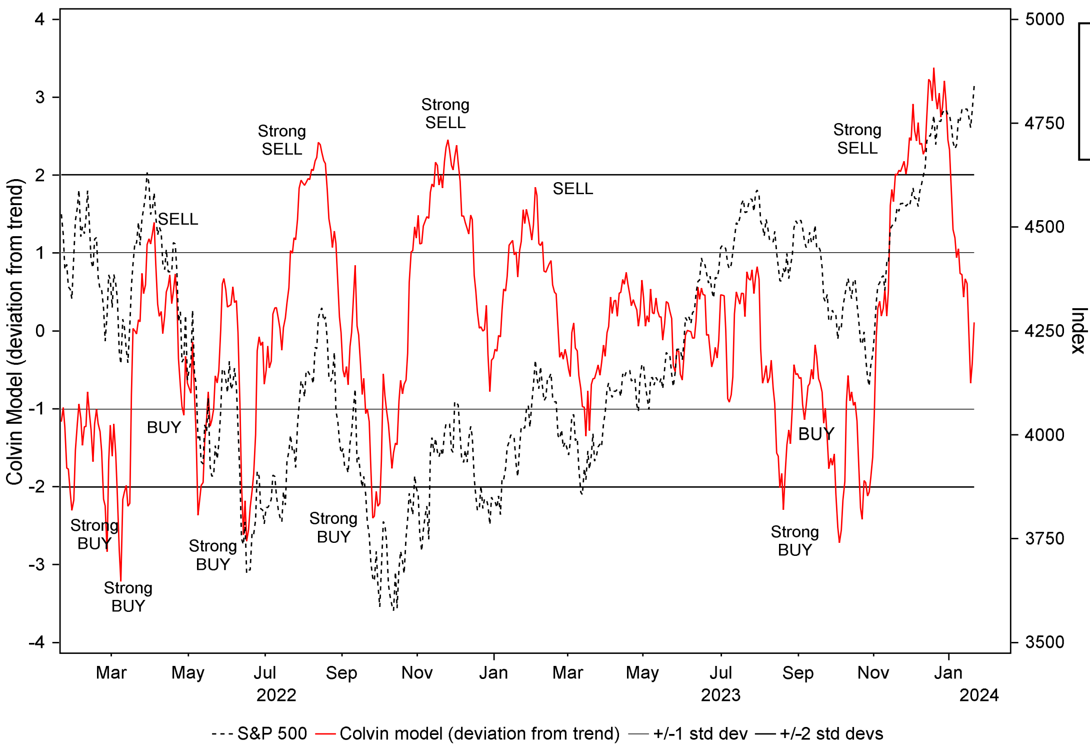
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



High yield corporate bond spreads model is NEUTRAL

Source: Longview Economics, Macrobond

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



Colvin model – is NEUTRAL

Source: Longview Economics, Macrobond

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.