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Equity Index Futures Trading Recommendations

5th March 2024

"Risk Reward Changing; Stay LONG (But keep tight stop loss)"

Email: ragtrader@dailyragtrader.com

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

- Stay 1/3rd LONG March S&P500 futures (blended entry was 5,094.9);
- Retain tight stop loss at 5,110 (from 5,040 last week).

Rationale

US equities drifted lower yesterday, after strong gains on Thursday and Friday last week. The S&P500 closed -0.1% (and posted a 'Doji' price pattern, FIG 1c). Importantly, though, it remained above its recent consolidation range (i.e. 5,060 – 5,123). The NDX100 was down 0.4%. US equity leadership came from the DJ utilities (+1.7%) and the Philly SOX (+1.1%), with Nvidia up again (+3.6%).

Utilities and real estate provided sector leadership (+1.6% & +1.1%, respectively), even though US 10-year bond yields ticked higher (by 3bps). The sector laggards in the S&P500 were communication services (-1.5%), consumer discretionary (-1.3%) and then energy (-1.1%). Whilst Nvidia was strong, the rest of the 'MAG7' stocks closed lower, some meaningfully: Google/Alphabet was -2.8%; Tesla was -7.2%; while Apple was -2.8% (breaking decisively below its 200-day moving average). In that sense this is becoming a bifurcated market with some key asset prices (Bitcoin, Nvidia and the Philly SOX) rallying sharply of late, while others are breaking down (e.g. Apple etc – FIG 1). Bitcoin (FIG 1a), in that respect, closed at a record high yesterday (just above its November 2021 closing high), although the price has eased off overnight.

Given equity markets have been rallying hard in recent trading sessions (and, indeed, recent weeks), short and medium-term models are increasingly starting to tilt towards SELL. Shortest term RAG, for example, is now on SELL; RAG1 reached SELL yesterday; the Russell 2000 put to call indicator is back on SELL (FIG 2f); the CBOE version is close to SELL (as is the NDX put to call model – FIG 2e). The short-term risk appetite scoring system (as well as the combined short & medium-term risk appetite scoring systems) are also both close to SELL (FIGs 1b & 2). Added to which, the NDX momentum model, having been on BUY in mid/late February is now again close to SELL (other technical scoring systems are also at high levels/close to SELL, FIGs 2b – 2d).

As such, while not all models are on SELL, the case for staying LONG is becoming less compelling (i.e. riskier). The divergence of key asset prices (i.e. Apple vs. Bitcoin) adds to that sense of reduced conviction. In order, therefore, to reflect those growing concerns, we recommend staying LONG but retaining a tight stop (for the further potential limited upside that is likely available, until there's a clear across the board SELL message).

Kind regards,

The team @ The Daily RAG Trader

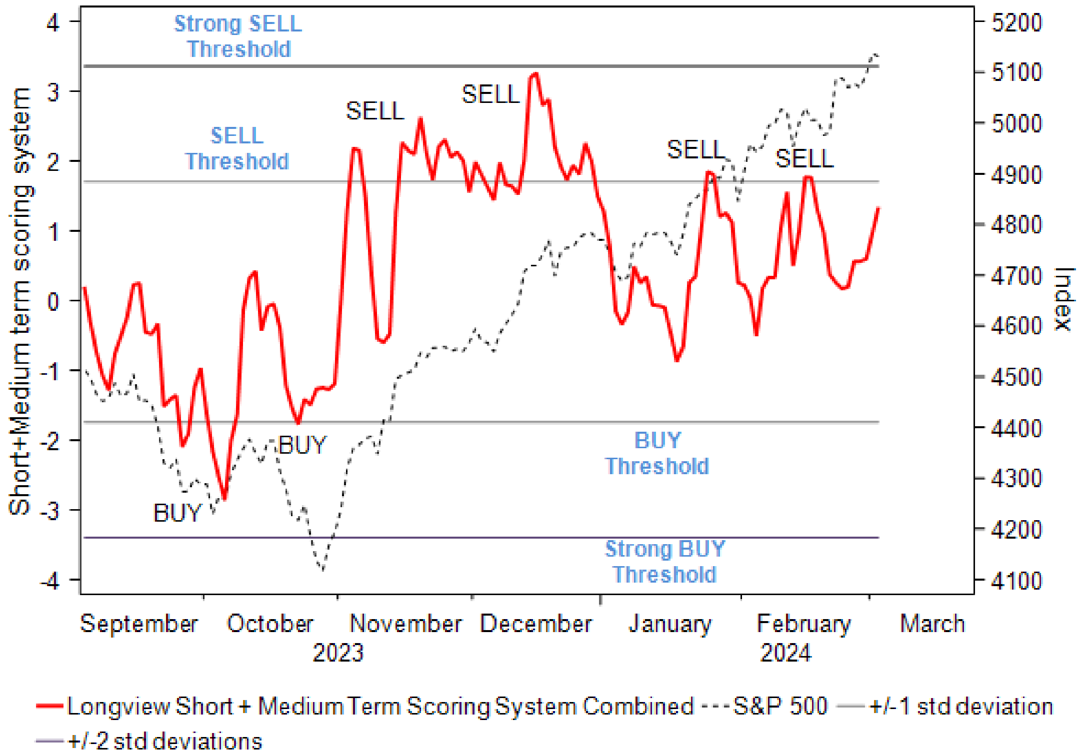
FIG 1: Apple share price (USD/share), shown with key moving averages

Source: Longview Economics, Macrobond

FIG 1a: Bitcoin (USD) closing price shown with key moving averages

Source: Longview Economics, Macrobond

FIG 1b: Longview combined short PLUS medium term **'risk appetite'** scoring systems vs. S&P500



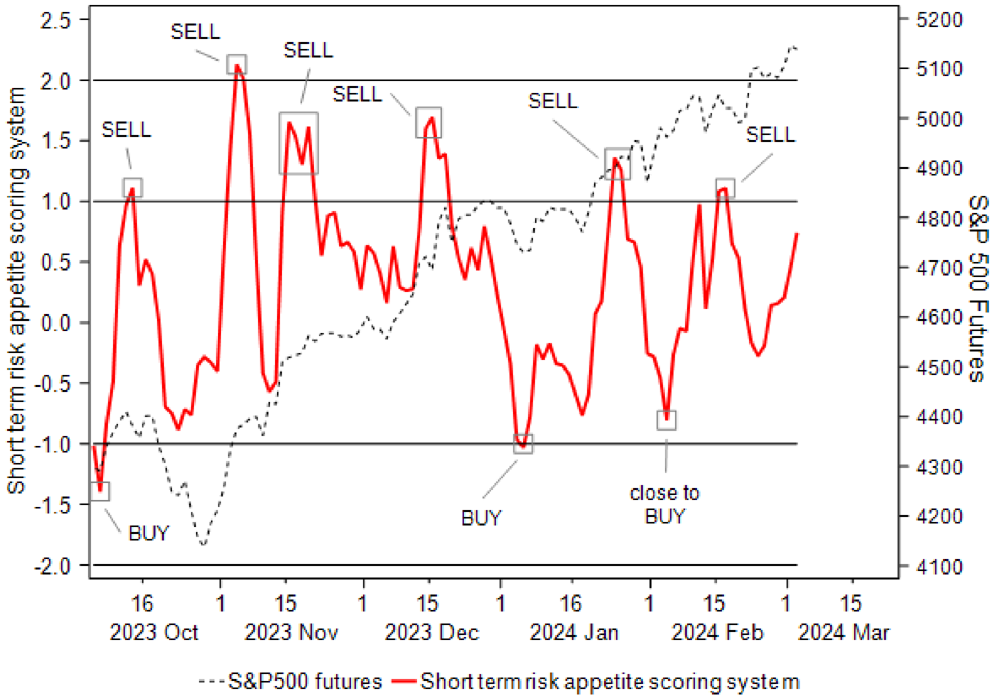
Source: Longview Economics, Macrobond

FIG 1c: S&P500 futures candlestick shown with its 50 day moving average

Source: Longview Economics, Macrobond

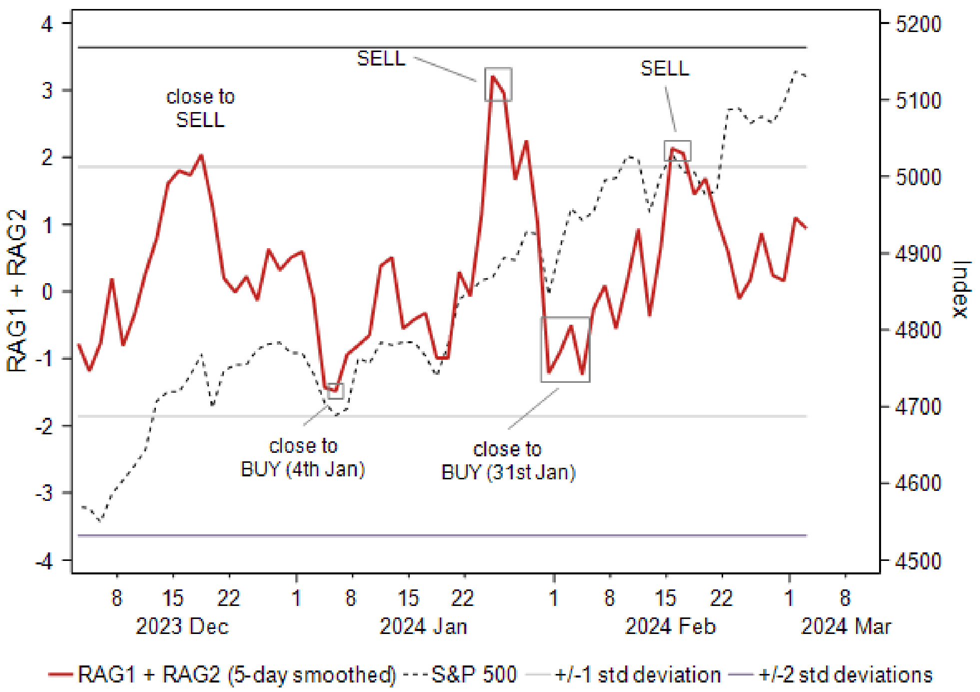
Most short-term models are moving towards (or are already on) SELL....

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

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

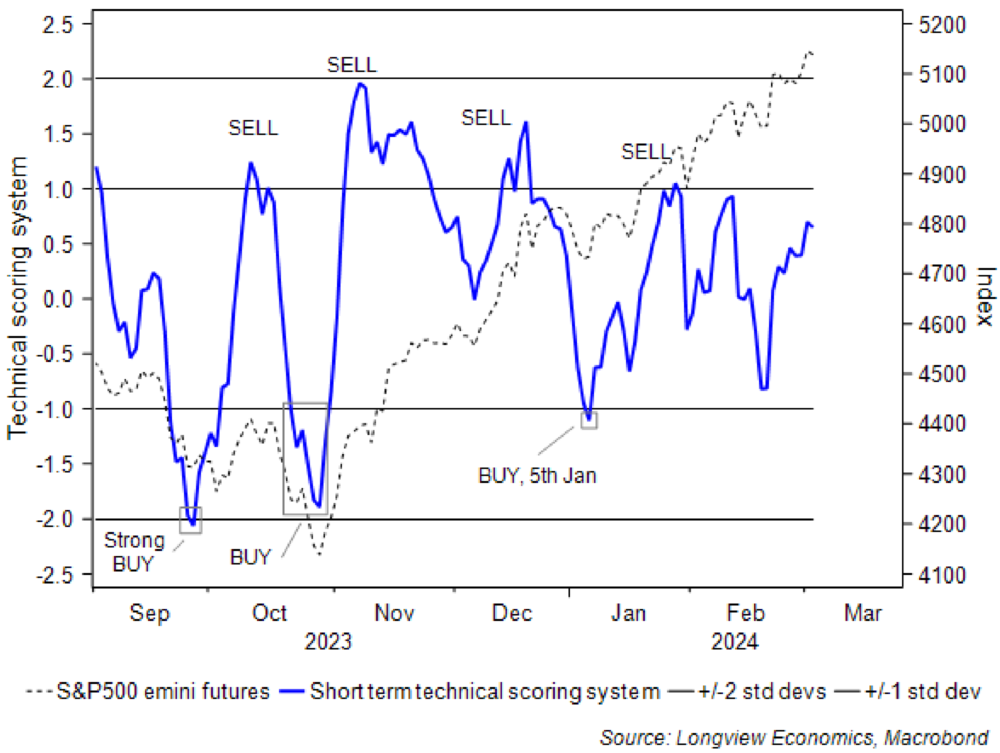


FIG 2c: Longview NASDAQ100 short term **'technical'** scoring system vs. NASDAQ100 futures

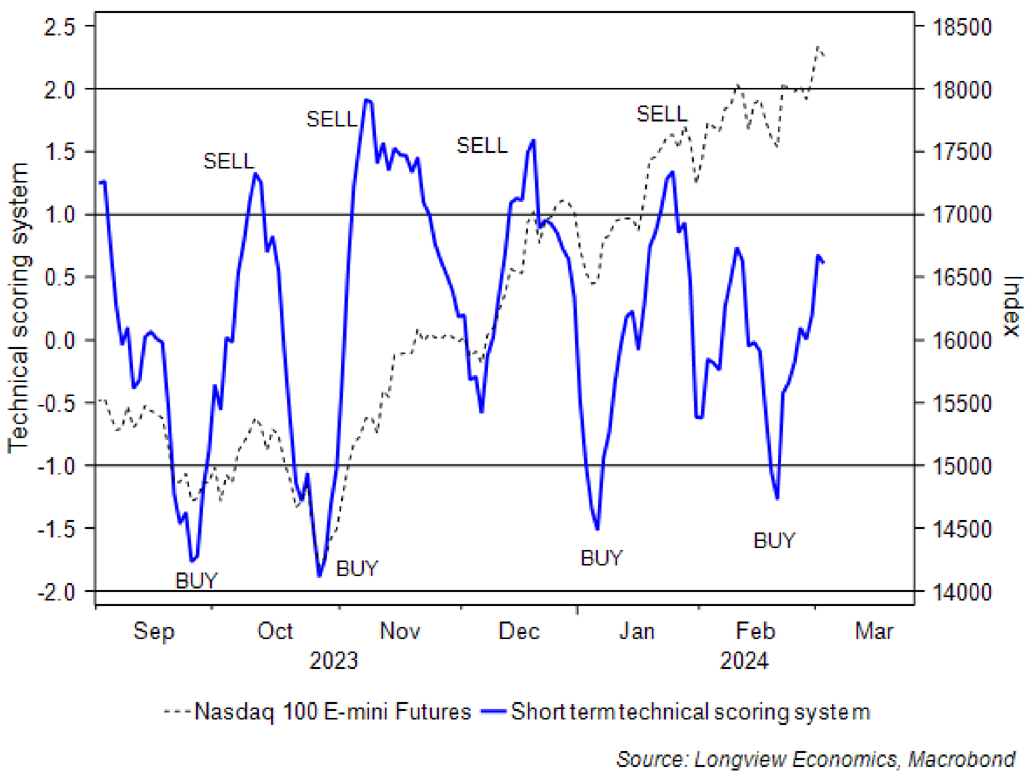
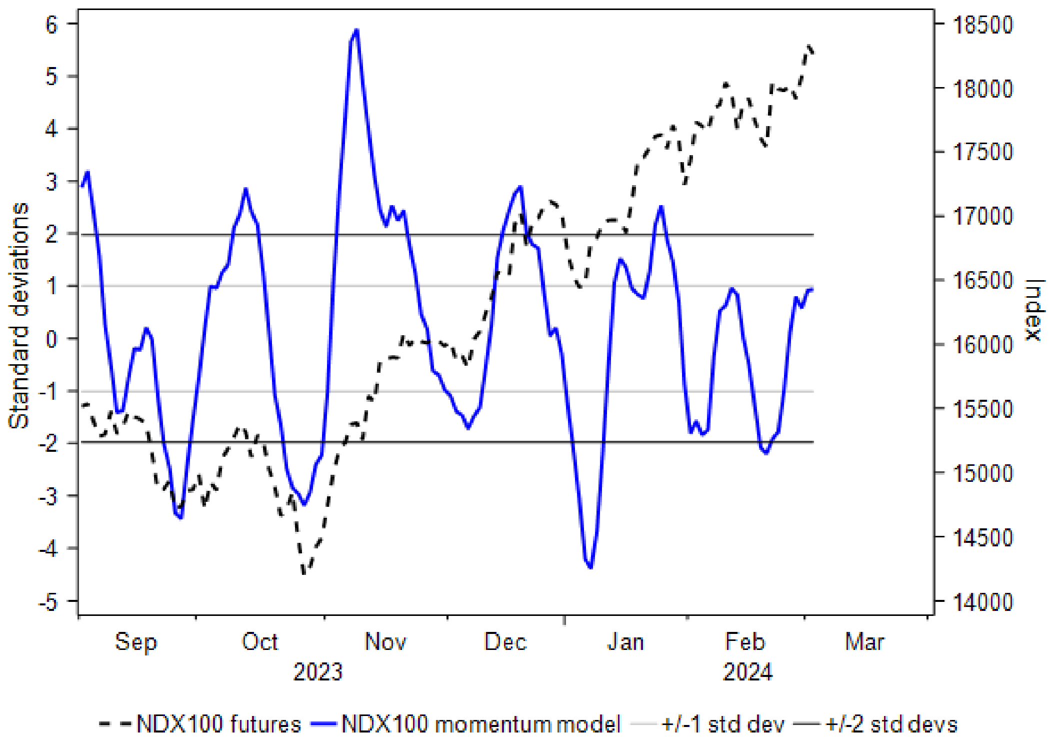
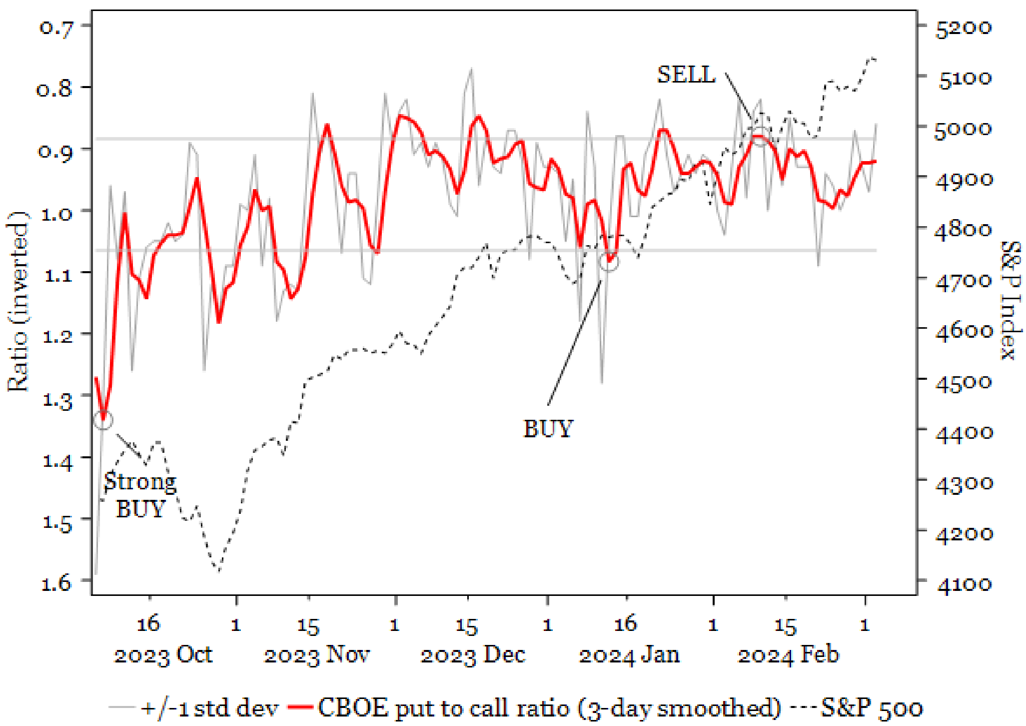


FIG 2d: NDX100 momentum model vs. NDX100



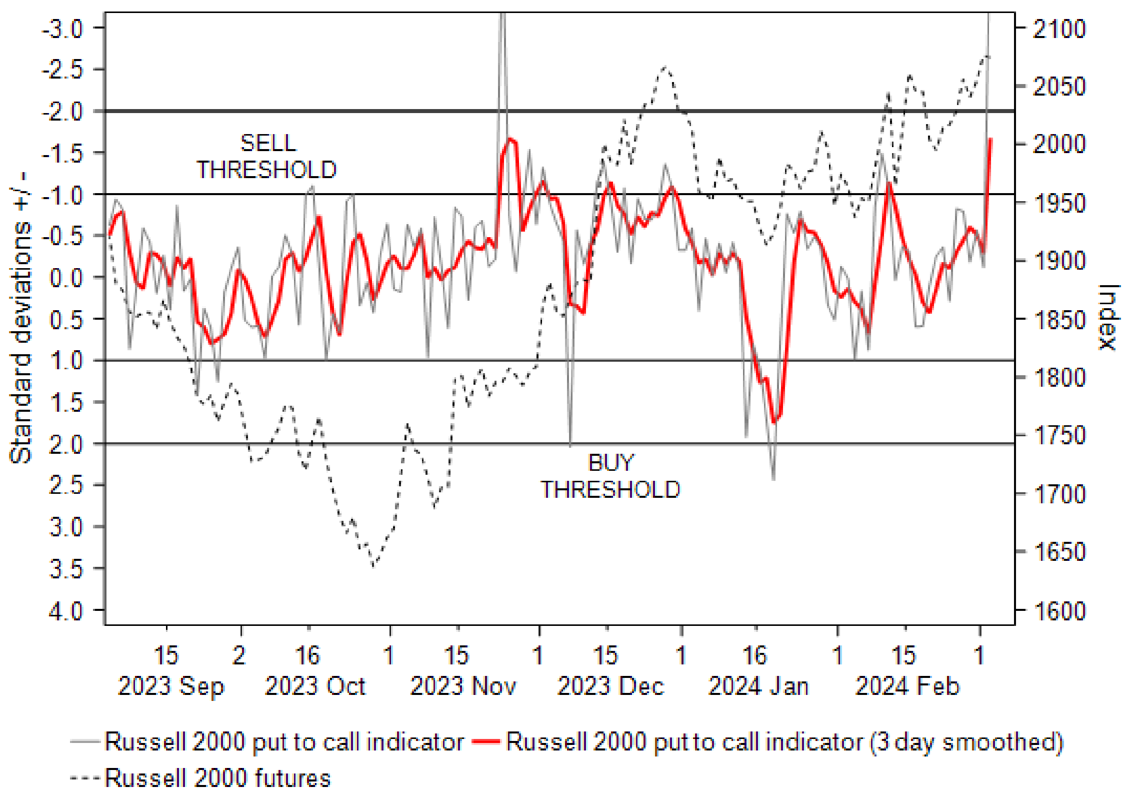
Source: Longview Economics, Macrobond

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



Source: Longview Economics, Macrobond

FIG 2f: Russell 2000 put to call indicator (1 & 3 day smoothed) vs. Russell 2000 futures



Source: Longview Economics, Macrobond

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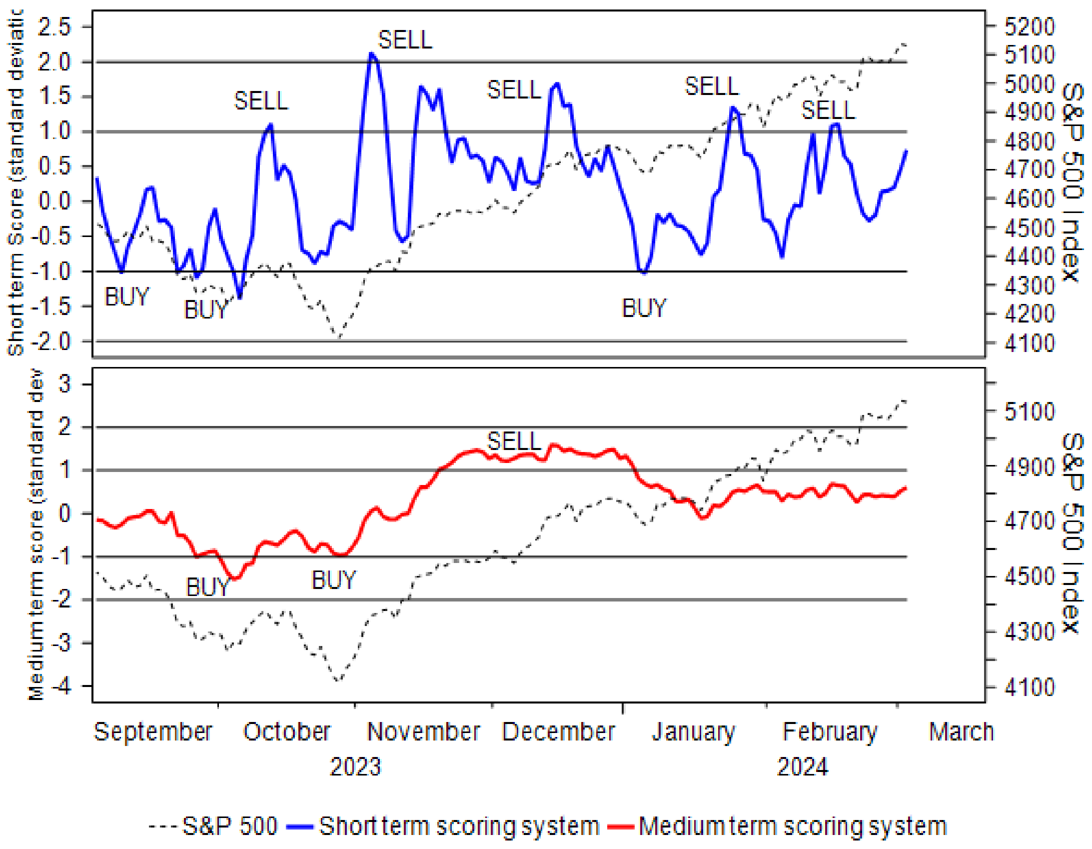
Key Longview Scoring Systems (chart below):

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: UK BRC retail sales (Feb, 12:01am); Japanese Jibun Bank service sector PMI (February final estimate, 12:30am); **Chinese Caixin service sector PMI** (Feb, 1:45am); French industrial & manufacturing production (Jan, 7:45am); HCOB service sector PMIs for Italy (8:45am), France (8:50am), Germany (8:55am) & Eurozone (9am) – all February final estimates apart from Italy; Italian GDP (Q4 final estimate, 9am); UK new car sales (Feb, 9am); UK S&P service sector PMI (February final estimate, 9:30am); **Eurozone PPI** (Jan, 10am); Canadian S&P service sector PMI (Feb, 2:30pm); US S&P service sector PMI (February final estimate, 2:45pm); **US ISM services** (Feb, 3pm).

Key events today include: Speech by the BOJ's Ueda at FIN/SUM 2024 (4am); Speech by the Fed's Barr on CRA modernisation (5pm).

Key earnings today include: CrowdStrike holdings, **Target**, Ross Stores, Ferguson, JD.

Definitions & other matters:

RAG = Risk Appetite Gauge

The 'Daily RAG Trader' 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@dailyragtrader.com.

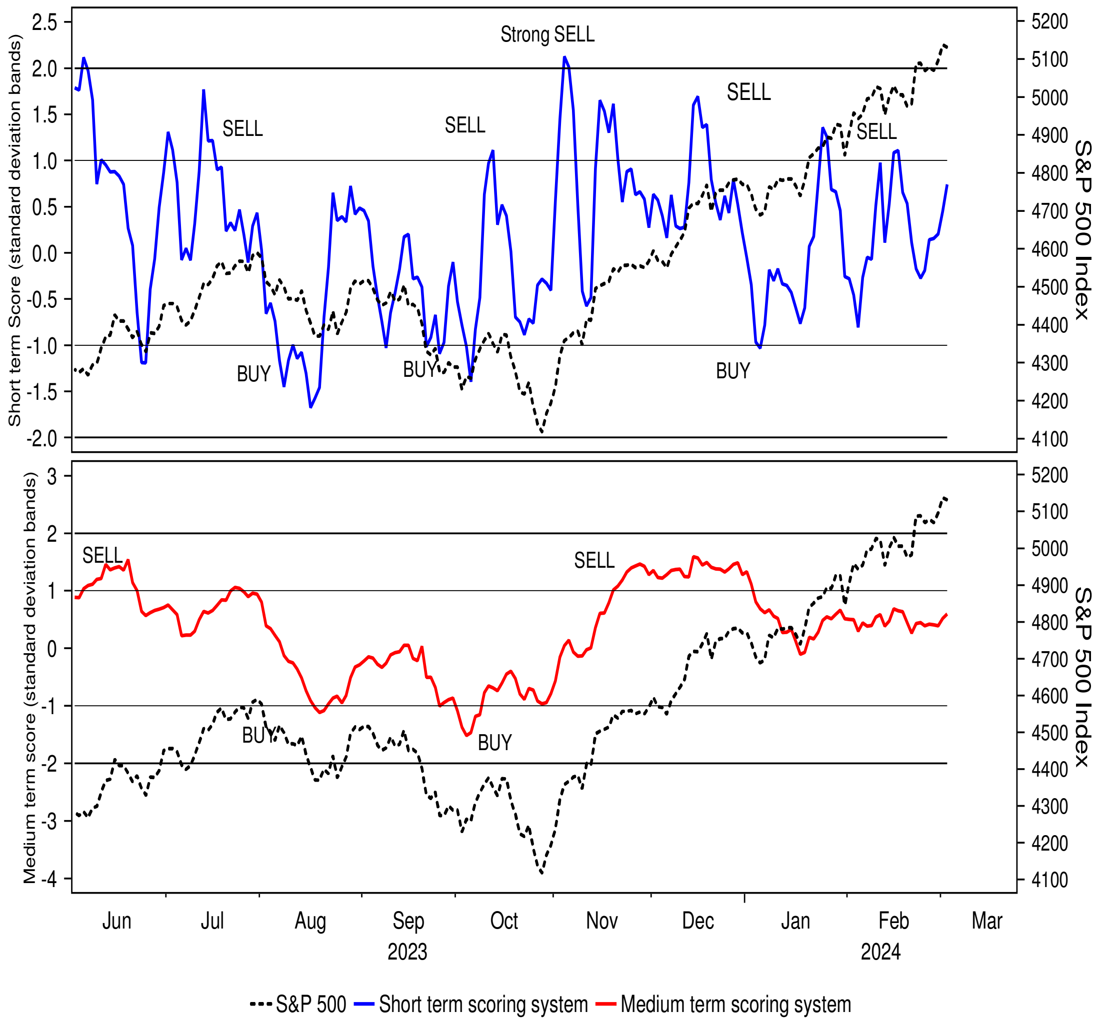
1 – 2 Week View on Risk

5th March 2024

Longview Economics
Email: ragtrader@dailyragtrader.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

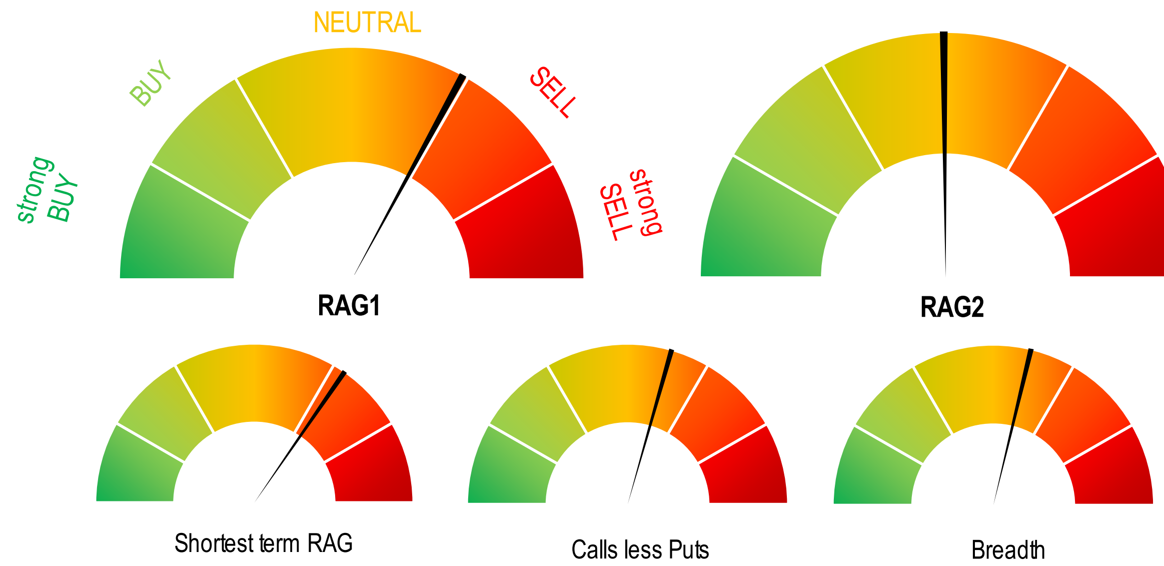
Source: Longview Economics, Macrobond

*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

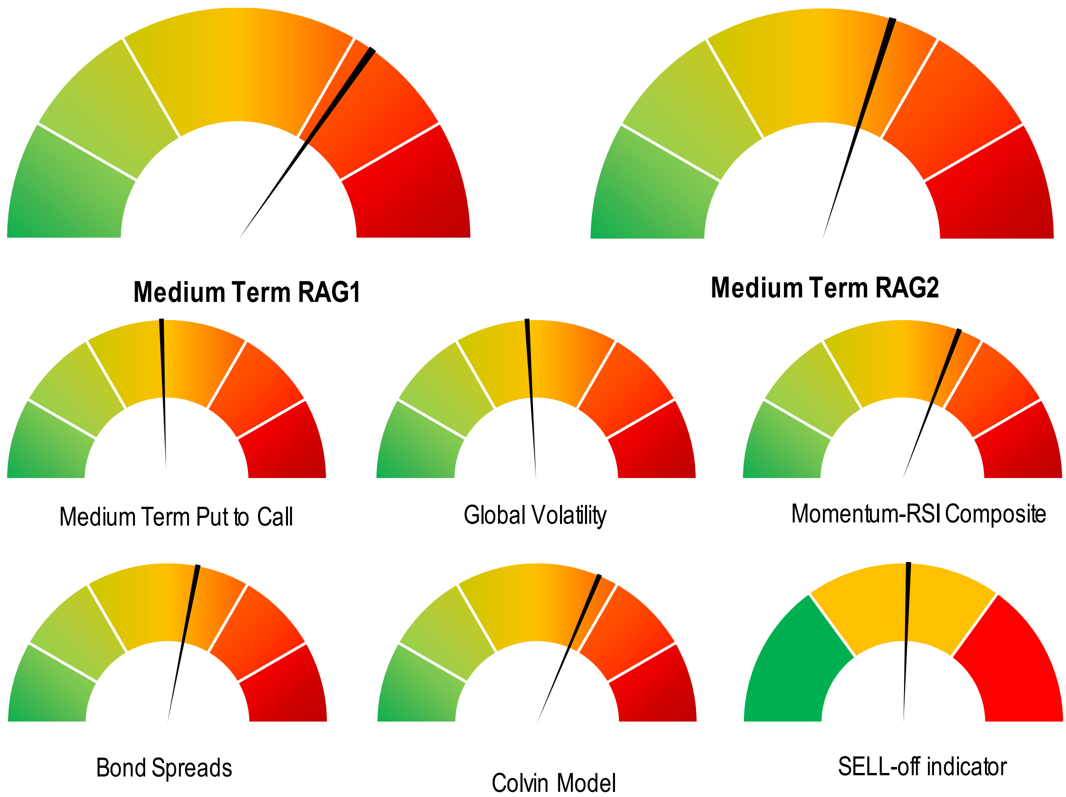
Section 1a: Summary of indicator signals**

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

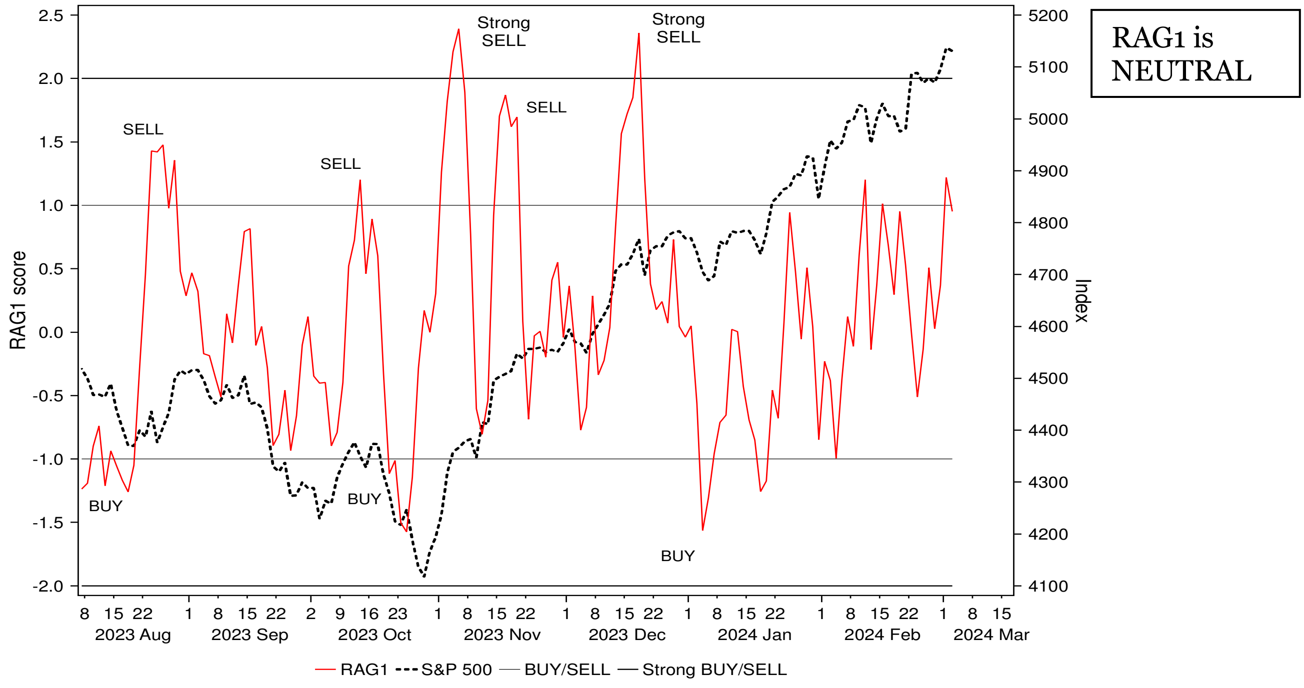


Source: *Longview Economics*

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

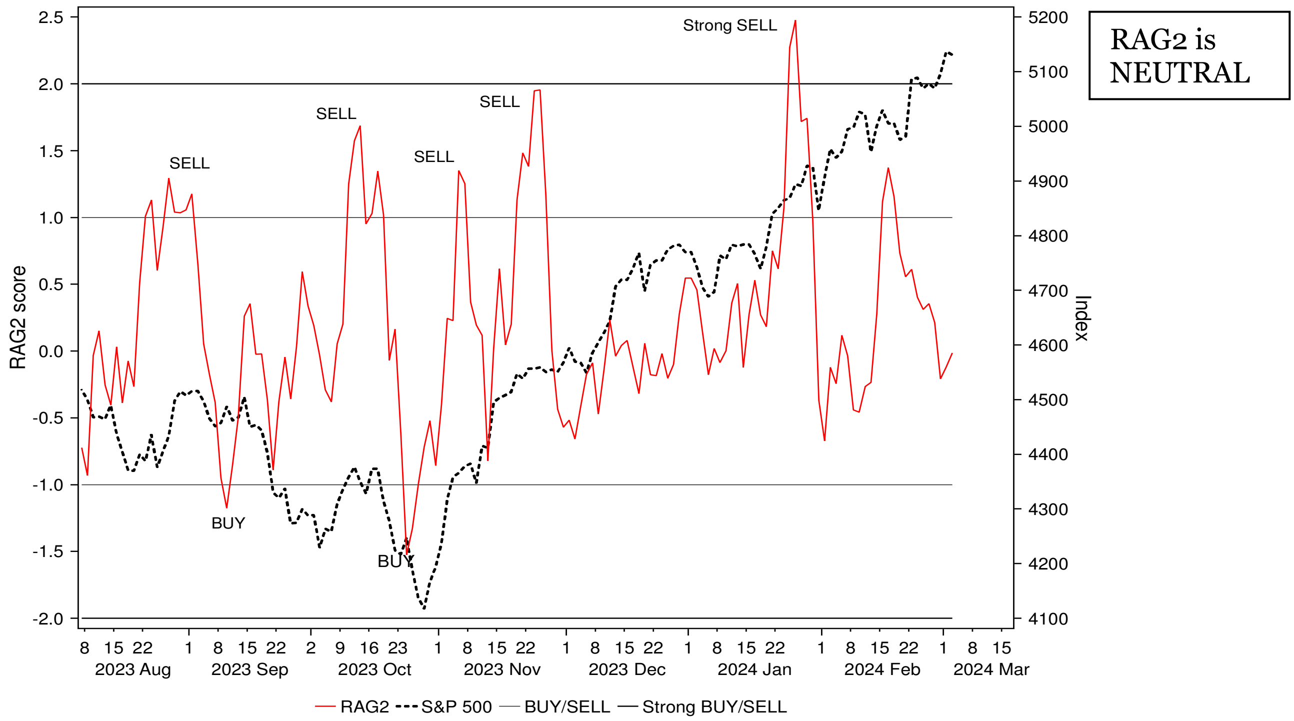
Section 2: Short term (1 – 2 week) trading models

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



Source: Longview Economics, Macrobond

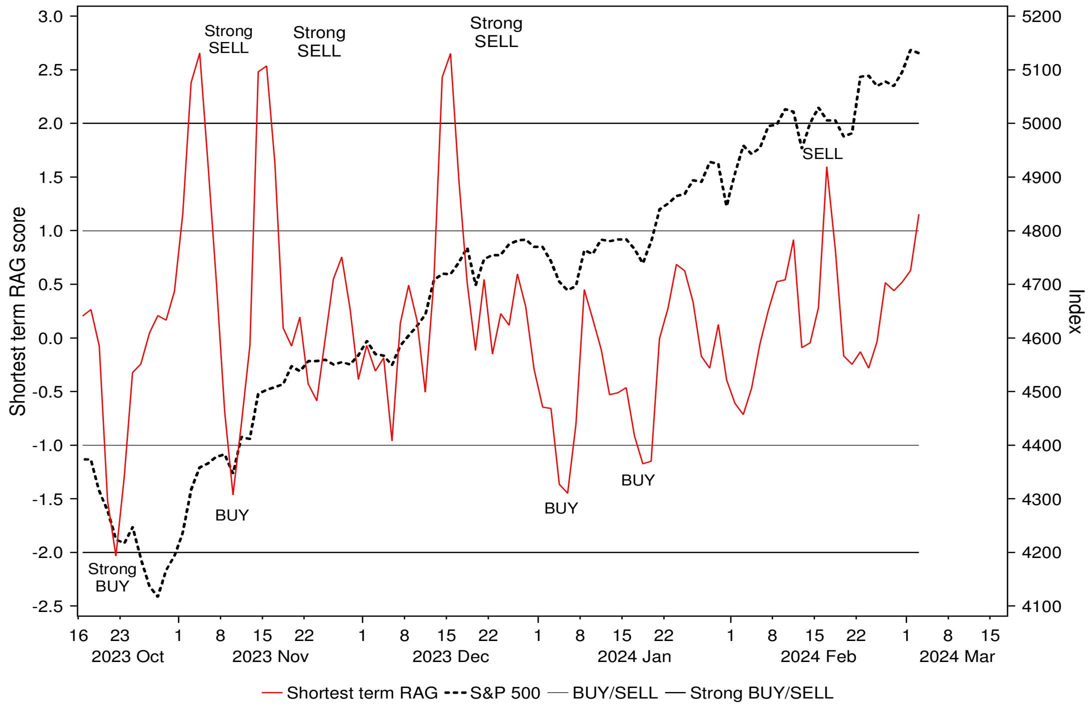
Fig 2b: RAG 2 vs. S&P 500



Source: Longview Economics, Macrobond

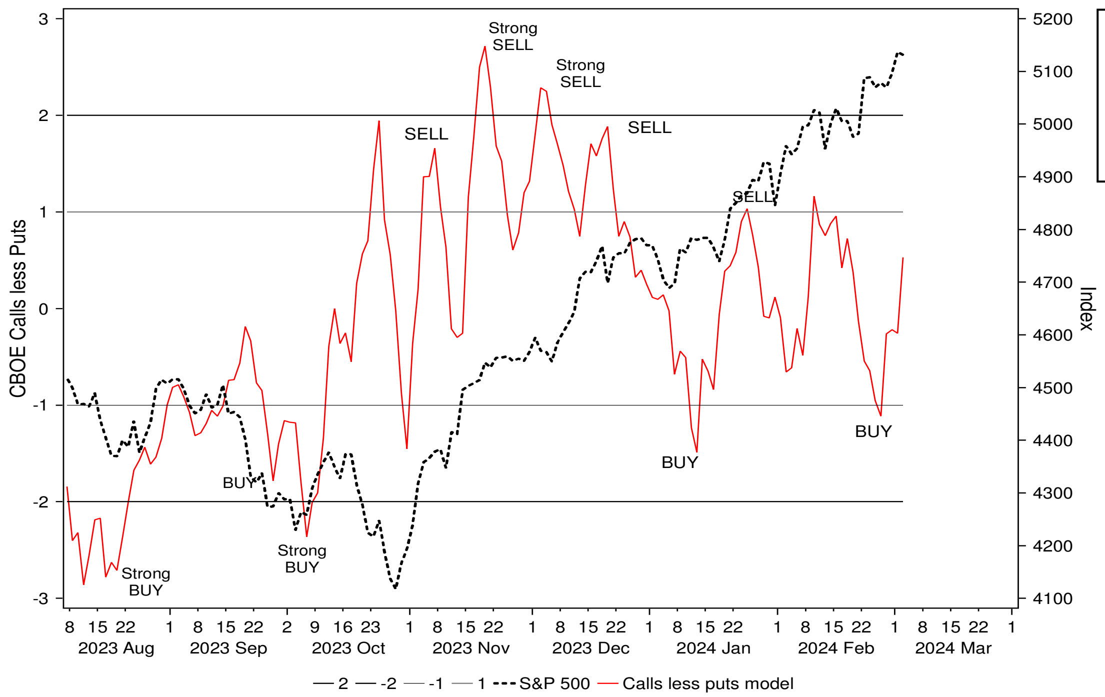
For explanations of indicators please see page 10

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



Shortest term RAG is on SELL

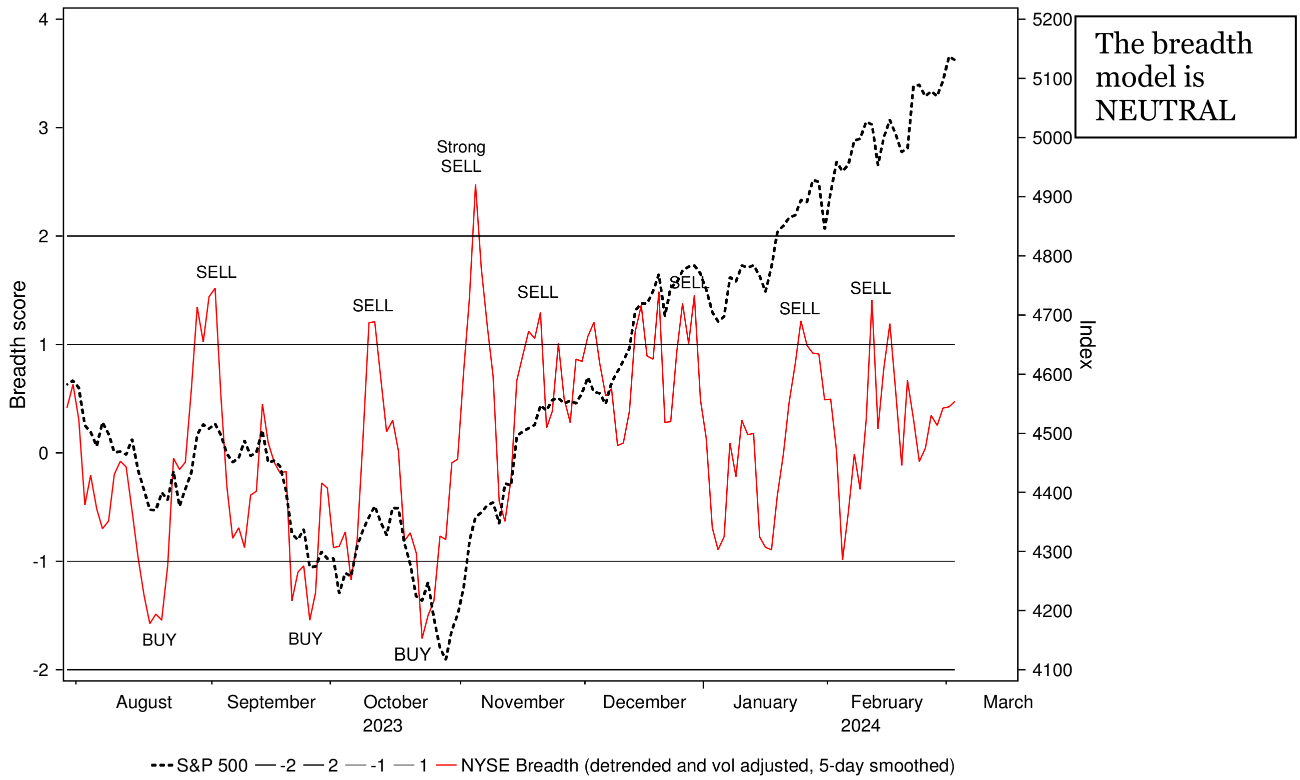
Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



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

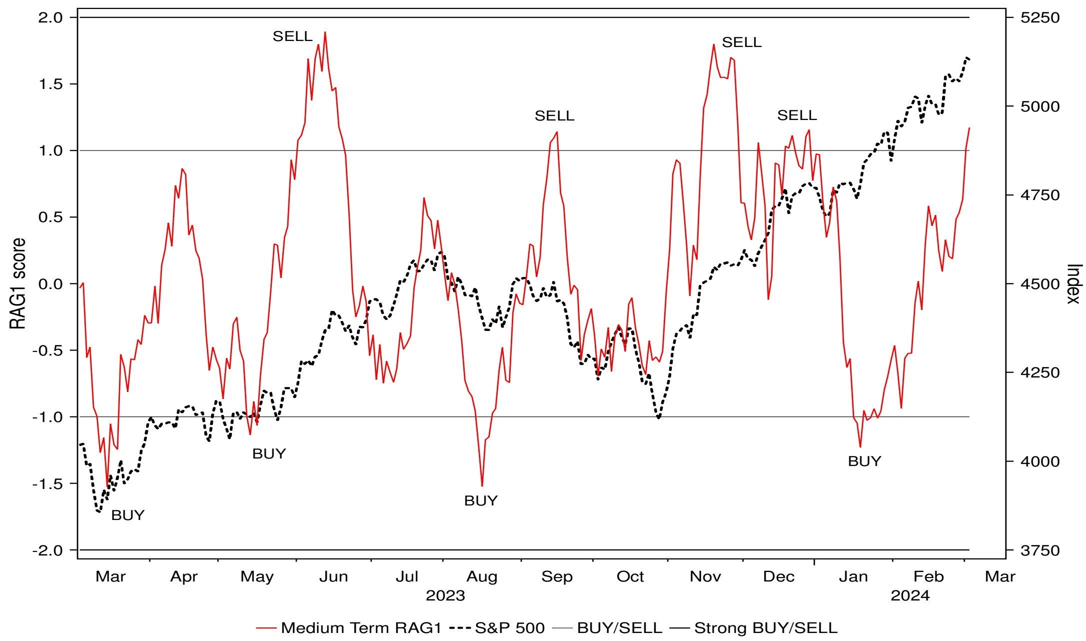


Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

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

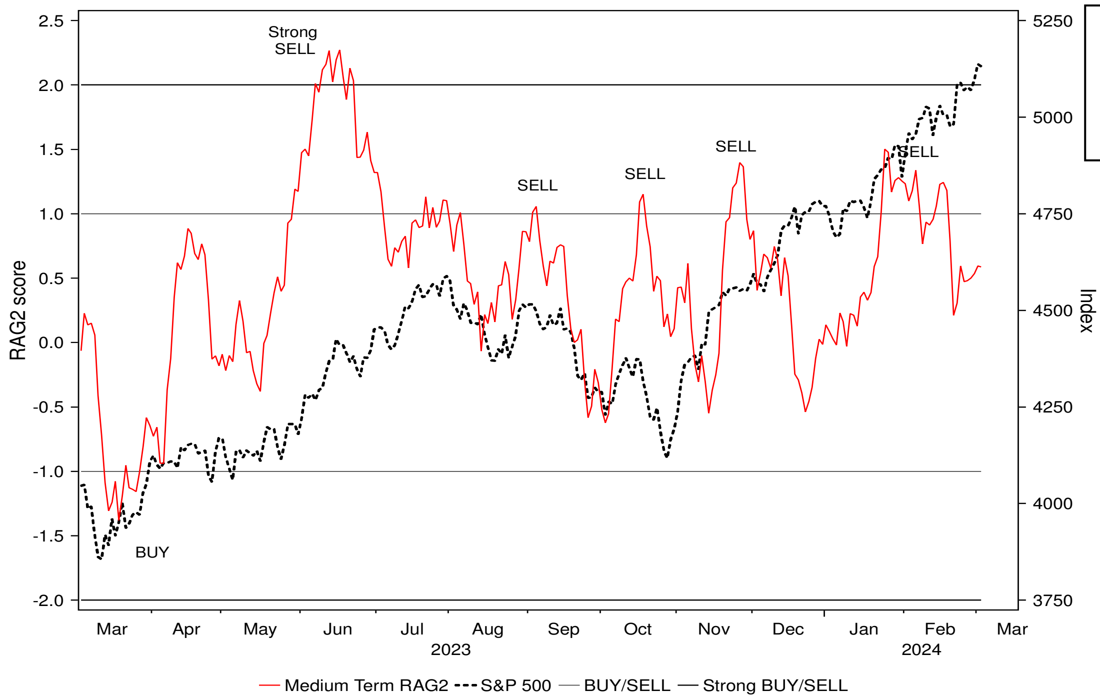
Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500



Medium term RAG1 is on SELL

Source: Longview Economics, Macrobond

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

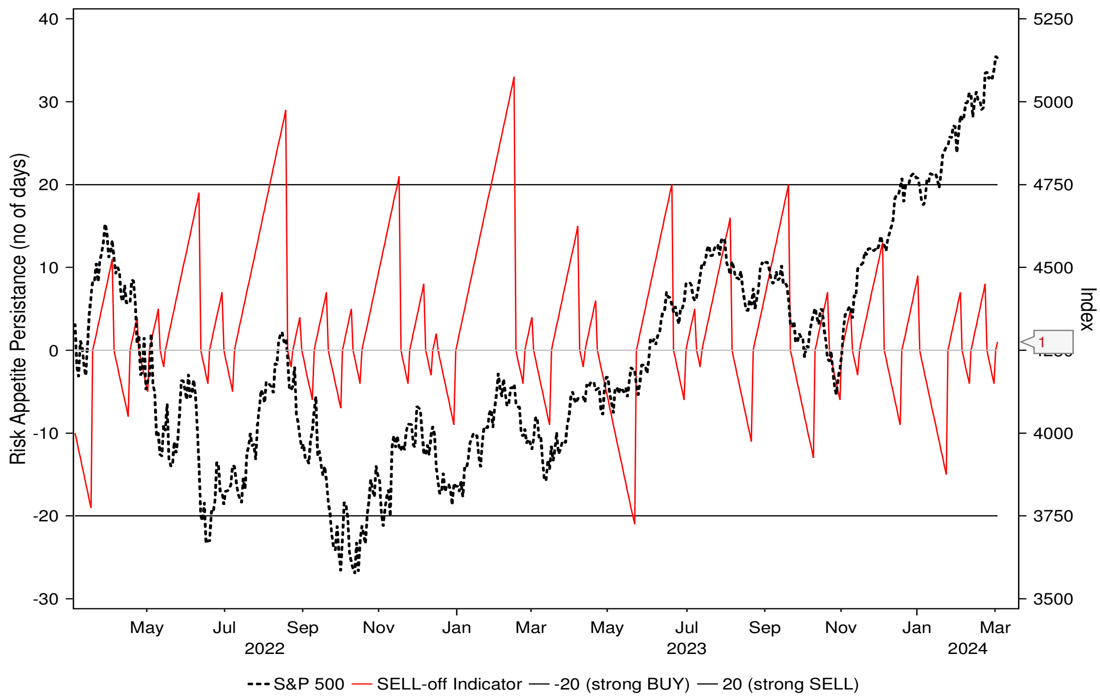


Medium term RAG2 is NEUTRAL

Source: Longview Economics, Macrobond

For explanations of indicators please see page 10

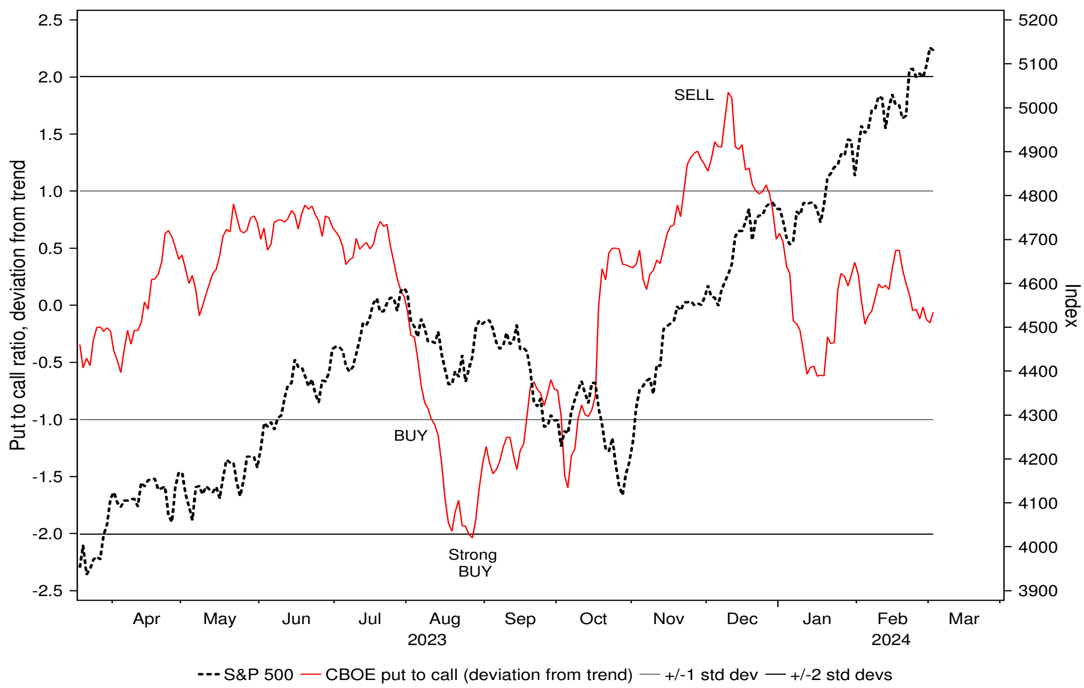
Fig 3c: SELL-off indicator (shown vs. S&P500)



Source: Longview Economics, Macrobond

The SELL-off indicator is NEUTRAL

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

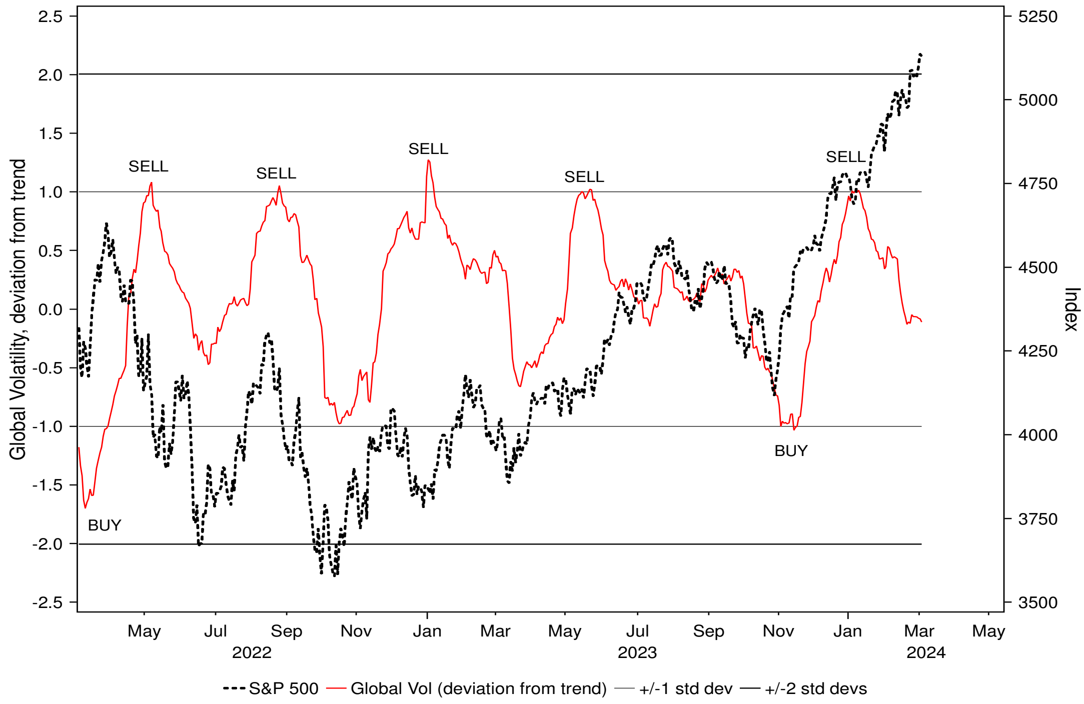


Source: Longview Economics, Macrobond

Medium term put to call model is NEUTRAL

For explanations of indicators please see page 10

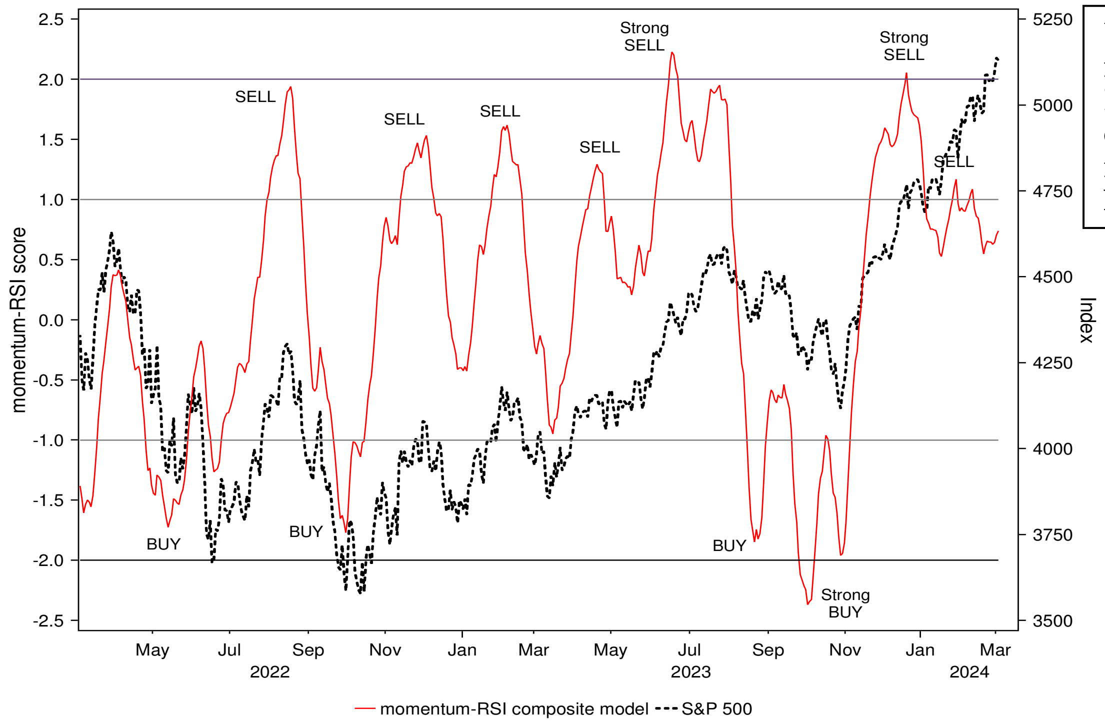
Fig 3e: Global volatility (deviation from trend) model vs. S&P500



Source: Longview Economics, Macrobond

Global volatility indicator is NEUTRAL

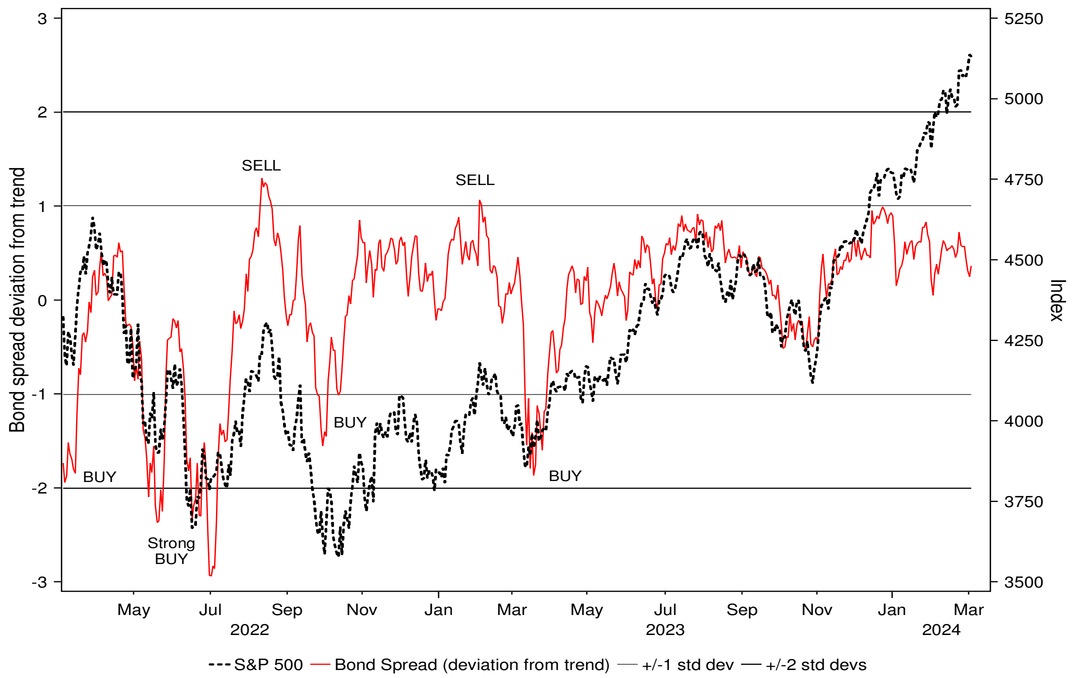
Fig 3f: Longview Momentum-RSI composite model vs. S&P 500



Source: Longview Economics, Macrobond

US momentum RSI composite model is NEUTRAL

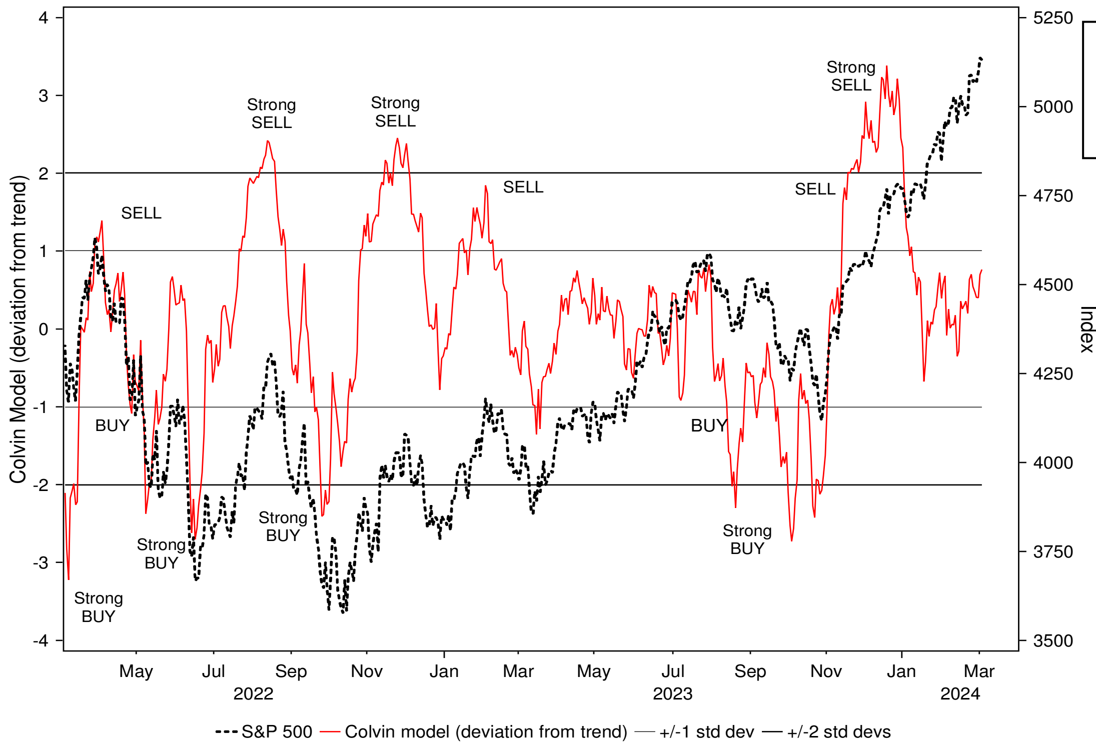
Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



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.

