

The FCO Cockpit – Global Bubble Status Report

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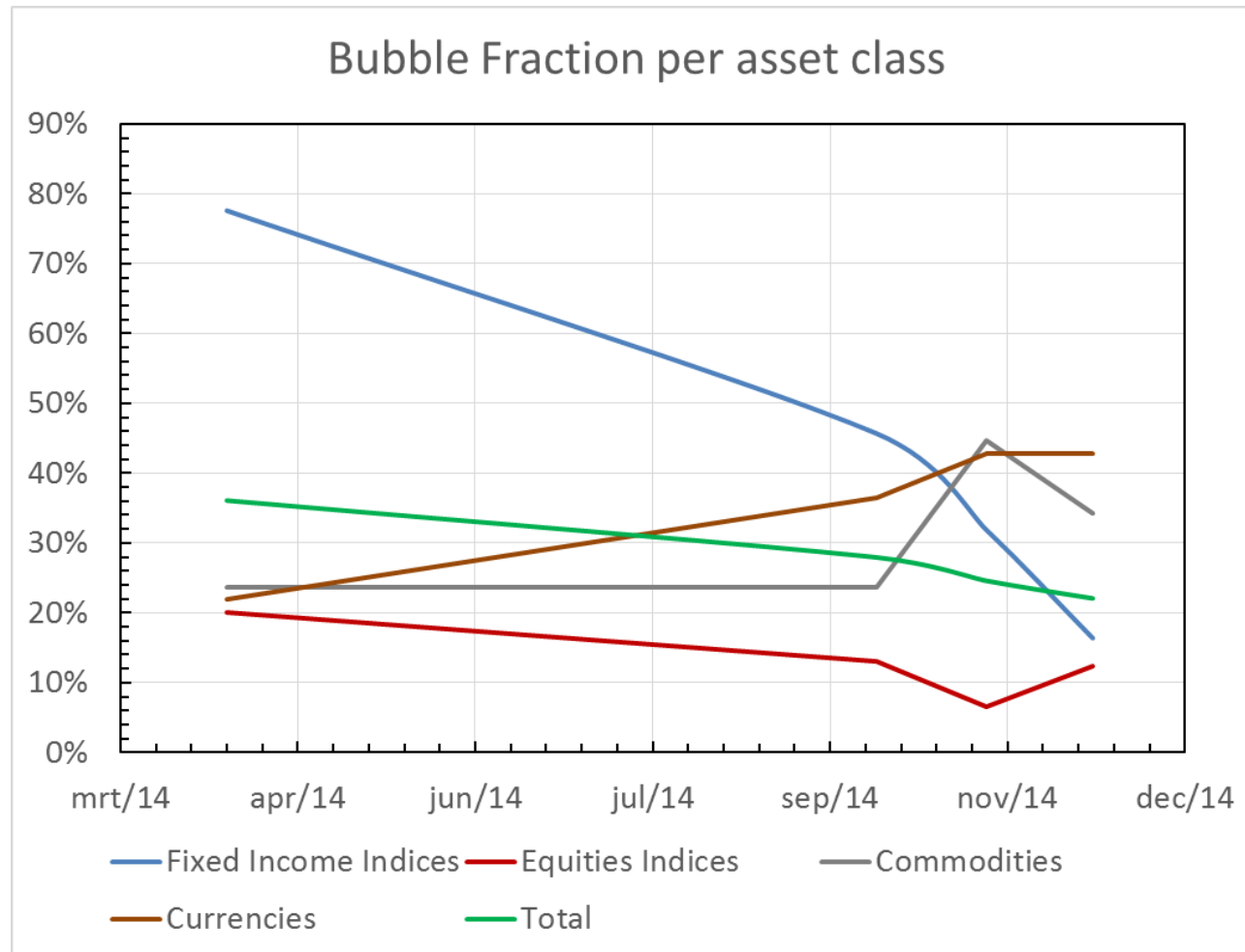
December 1st, 2014

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435 systemic assets are monitored

	# Assets	# Bubbles December 1st	% Bubbles December 1st	% Bubbles November 1st	% Bubbles October 1st	% Bubbles April 1st
Fixed Income Indices	116	19	16%	32%	46%	78%
Government	33	15	45%	67%	73%	44%
Corporate	83	4	5%	18%	35%	91%
Equities Indices	185	23	12%	6%	13%	20%
Country	78	8	10%	6%	21%	18%
US-Sector	63	14	22%	6%	11%	27%
EUR-Sector	32	1	3%	9%	3%	18%
Special	12	0	0%	25%	20%	18%
Commodities	38	13	34%	45%	24%	24%
Currencies	96	41	43%	43%	36%	22%
Total	435	96	22%	25%	28%	36%

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Broad View:

- We see a strong decline in warning signals in **Fixed Income indices**. Interestingly, where we saw strong momentum mainly in European indices some months ago, interest is shifting now towards Asia (India, China and Indonesia);
- **Equities** are divided. We see negative bubble signals[°] in Europe and Russia especially in oil and gas related stocks and positive bubble signals⁺ in the US (esp. biotech and healthcare);
- **Oil** and related products are nose diving. The strong negative[°] bubble warning signals continue confirming a firm and long term trend and negative sentiment;
- The **USD** continues to strengthen and the **Russian Rouble** and **Japanese Yen** continue to weaken. This shows up clearly in the bubble warning signals.

+ A positive bubble warning signal is an indication of herding when people start buying because prices go up.

° A negative bubble warning signal is an indication of herding when people start selling because prices go down.

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We analyse data with a minimum window of three months and a maximum window of one year. It is no surprise that in general the current equity markets do not give strong bubble signals. There are however some interesting specific signals that we will discuss further on in this report.

Source: Thomson Reuters Eikon

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Oil (Brent in orange and WTI in purple), Rouble (in blue) and Russian Stocks (in green) are plunging. **There is a very strong negative sentiment leading to strong bubble signals in Russian equities, Rouble exchange rates and Oil.**

Source: Thomson Reuters Eikon

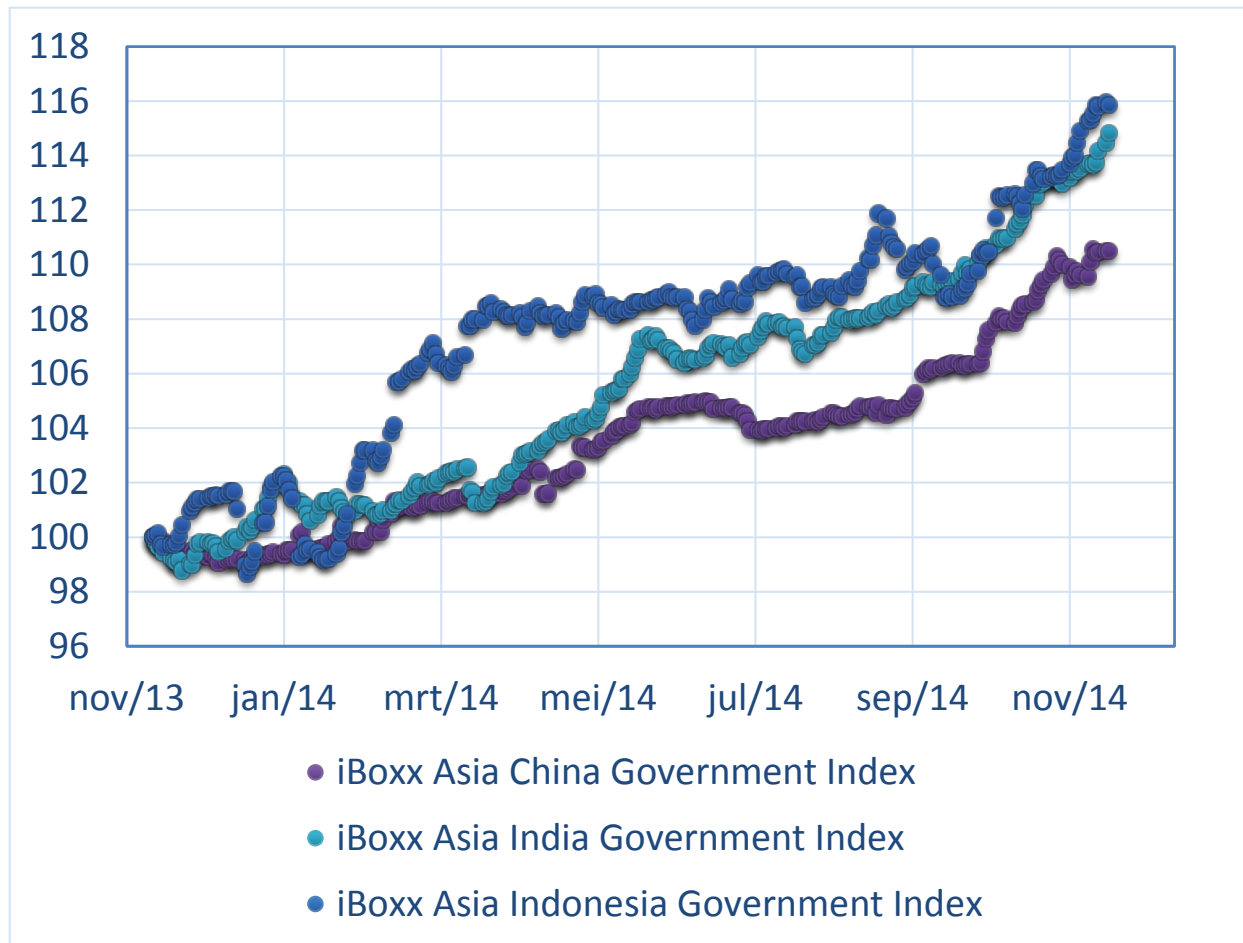
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Asset Class – Fixed Income

Fixed Income Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx Asia India Government Index	14,8%	38,5%	59,4%
iBoxx Asia China Government Index	10,5%	21,7%	50,5%
iBoxx Asia Indonesia Government Index	15,8%	8,6%	28,1%

Momentum is shifting towards Asia. Up to two months ago the major part of the warning signals in fixed income came from Europe, now they can be found in Asian Fixed Income indices, mainly India (since Modi's election), China and Indonesia;

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Source: Thomson Reuters Eikon, Chair of Entrepreneurial Risk ETH Zurich

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Asset Class – Equities

Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Country
Shanghai SE Composite Index	25%	17%	26%	China
New Zealand Se Top50 Free Index	15%	5%	29%	New Zealand
Euronext Lisbon PSI 20 Index	-20%	18%	16%	Portugal
Athex General Composite Share Price Index	-18%	9%	23%	Greece
RTS Index	-31%	8%	16%	Russia

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
S&P 500 Diversf Financi Serv	24%	21%	44%
S&P 500 Road & Rail	35%	16%	43%
S&P 500 Health Care Prvdrs&Serv	28%	8%	30%
S&P 500 Biotechnology	42%	8%	10%
S&P 500 Computers & Peripherals	40%	6%	15%
S&P 500 Distributors	24%	5%	13%

Equities EUR Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
STOXX Europe 600 Oil & Gas EUR Price Index	-8%	7%	13%

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Asset Class – Equities Indices

The indicators suggest an interesting dynamic that was set in motion last summer.

On the one hand, we see:

- Negative bubble signals appearing in Europe along the old faultline where we see Greece and Portugal declining again;
- Negative bubble signals in European energy related stocks (and in Russia);

On the other hand, we see:

- A continued strong momentum in US stocks;
- A significant strengthening of the US Dollar.

This observation in our sentiment indices is confirmed in the figure on the next slide.

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The big picture:

- S&P 500 continues its strong rally whereas Euro Stoxx goes sideways;
- Euro Stoxx show much larger swings than S&P 500;
- An old faultline is resurfacing with Greece and Portugal in decline apparently at the same time when the EUR started weakening with respect to the USD.

Source: Thomson Reuters Eikon

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Asset Class – Equities Single Stocks

Next to the 185 global sector and country equities Indices, we do a bubble analysis on single stocks taking all S&P 500 and Stoxx Europe 600 constituents with a market cap higher than \$ 50 bn, and all Hang Seng and Nikkei constituents with a market cap higher than \$ 15 bn.

In total, we analyzed 223 stocks, 32 of these show bubble signals (3 negative and 29 positive bubbles). The negative bubble signals are in European energy related stocks, the positive bubble signals are in the US and Japan mainly biotech/healthcare and in consumer goods.

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Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence	sector	country
Altria Group Inc	36,0%	24,1%	49,5%	Cigars & Cigarette Manufacturing	US
Nike Inc	23,9%	21,5%	34,1%	Sports & Outdoor Footwear	US
CVS Health Corp	35,0%	19,9%	53,8%	Other Drug Retailers	US
Union Pacific Corp	46,5%	18,7%	56,1%	Other Ground Freight & Logistics	US
Berkshire Hathaway Inc	30,6%	16,7%	21,0%	Other Property & Casualty Insurance	US
Home Depot Inc	24,7%	13,4%	21,8%	Other Home Improvement Products & Services Retailers	US
Lockheed Martin Corp	37,0%	13,0%	35,4%	Other Aerospace & Defense	US
Amgen Inc	49,2%	12,3%	49,3%	Biopharmaceuticals	US
Lowe's Companies Inc	37,6%	10,6%	40,8%	Other Home Improvement Products & Services Retailers	US
UnitedHealth Group Inc	35,4%	9,8%	39,0%	Other Managed Healthcare	US
Apple Inc	41,7%	8,0%	15,2%	Other Computer Hardware	US
Celgene Corp	44%	7%	26%	Biopharmaceuticals	US
Medtronic Inc	29%	6%	30%	Other Medical Equipment, Supplies & Distribution	US
Eli Lilly and Co	41%	5%	9%	Other Pharmaceuticals	US
Fujifilm Holdings Corp	37%	27%	55%	Other Office Equipment	Japan
Astellas Pharma Inc	38%	16%	25%	Other Pharmaceuticals	Japan
Shin-Etsu Chemical Co Ltd	38%	16%	49%	Other Commodity Chemicals	Japan
Fuji Heavy Industries Ltd	54%	11%	36%	Other Auto & Truck Manufacturers	Japan
Komatsu Ltd	35%	11%	50%	Other Heavy Machinery & Vehicles	Japan
Galaxy Entertainment Group Ltd	-20%	7%	8%	Other Casinos & Gaming	Hong Kong
Novartis AG	31%	13%	28%	Pharmaceuticals	Europe
BG Group PLC	-24%	9%	9%	Integrated Oil & Gas	Europe

The single stocks analysis confirms the geographical divide. The only positive bubble signal in Europe is for Novartis (Switzerland).

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Asset Class – Currencies

FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
US Dollar/Russian Rouble	60%	40%	54%
US Dollar/Swedish Krona	15%	33%	32%
US Dollar/Norwegian Krone	15%	32%	40%
US Dollar/Czech Koruna	11%	25%	19%
US Dollar/Japanese Yen	16%	18%	68%
Indian Rupee/Euro	11%	12%	9%
Russian Rouble/Euro	-31%	29%	30%
Argentine Peso/Euro	-20%	9%	22%
Russian Rouble/Swiss Franc	-33%	32%	34%

- There is a strong and long term signal on the **USD** in many currencies, especially in **Japanese Yen** and Russian **Rouble**;
- Russian Rouble versus Swiss Franc is showing a classical bubble pattern of faster-than-exponential growth (see figure on next slide).

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Asset Class – Currencies



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Asset Class – Currencies

The USD Rules!



Source: Google Finance

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Asset Class – Commodities

Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Live Cattle ER Index	29%	13%	26%
Brent Crude ER Index	-37%	35%	47%
Gasoil ER Index	-33%	35%	38%
Petroleum ER Index	-31%	30%	49%
Crude Oil ER Index	-26%	26%	45%
Gasoline ER Index	-30%	24%	36%
Heating Oil ER Index	-27%	23%	34%
Platinum ER Index	-11%	10%	21%
Silver ER Index	-15%	9%	21%

- Oil and related products are free falling;
- Soft and **agricommodities** are bouncing back (e.g. wheat, corn ...) ending in this way a long term negative spiral;
- **Precious metals** (esp. Platinum and Silver) still under pressure;
- Continued strong momentum in **Live Cattle**.

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Conclusion

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Fixed Income:

- We see a strong decline in warning signals in Fixed Income indices;
- Where there was a strong momentum mainly in European indices some months ago, **interest is shifting now towards Asia** (India, China and Indonesia);

Equities:

- An **old faultline is resurfacing** with Greece and Portugal in decline apparently at the same time when the EUR started weakening with respect to the USD;
- Negative bubble signals in European **energy related stocks** (and in Russia);
- A continued strong momentum in **US stocks**;

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Currencies

- There is a strong and long term signal on the **USD** in many currencies, especially in Japanese **Yen** and Russian **Rouble**;
- Russian Rouble versus **Swiss Franc** is showing a classical bubble pattern of faster-than-exponential growth.

Commodities

- **Oil** and related products are free falling;
- **Soft and agricommodities** are bouncing back (e.g. wheat, corn ...) ending in this way a long term negative spiral;
- **Precious metals** (esp. Platinum and Silver) still under pressure;
- Continued strong momentum in **Live Cattle**.