

The FCO Cockpit – Global Bubble Status Report

Peter Cauwels & Didier Sornette
Chair of Entrepreneurial Risk

October 1st, 2015

The FCO Cockpit – Global Bubble Status October 1st, 2015

Main conclusion of this report:

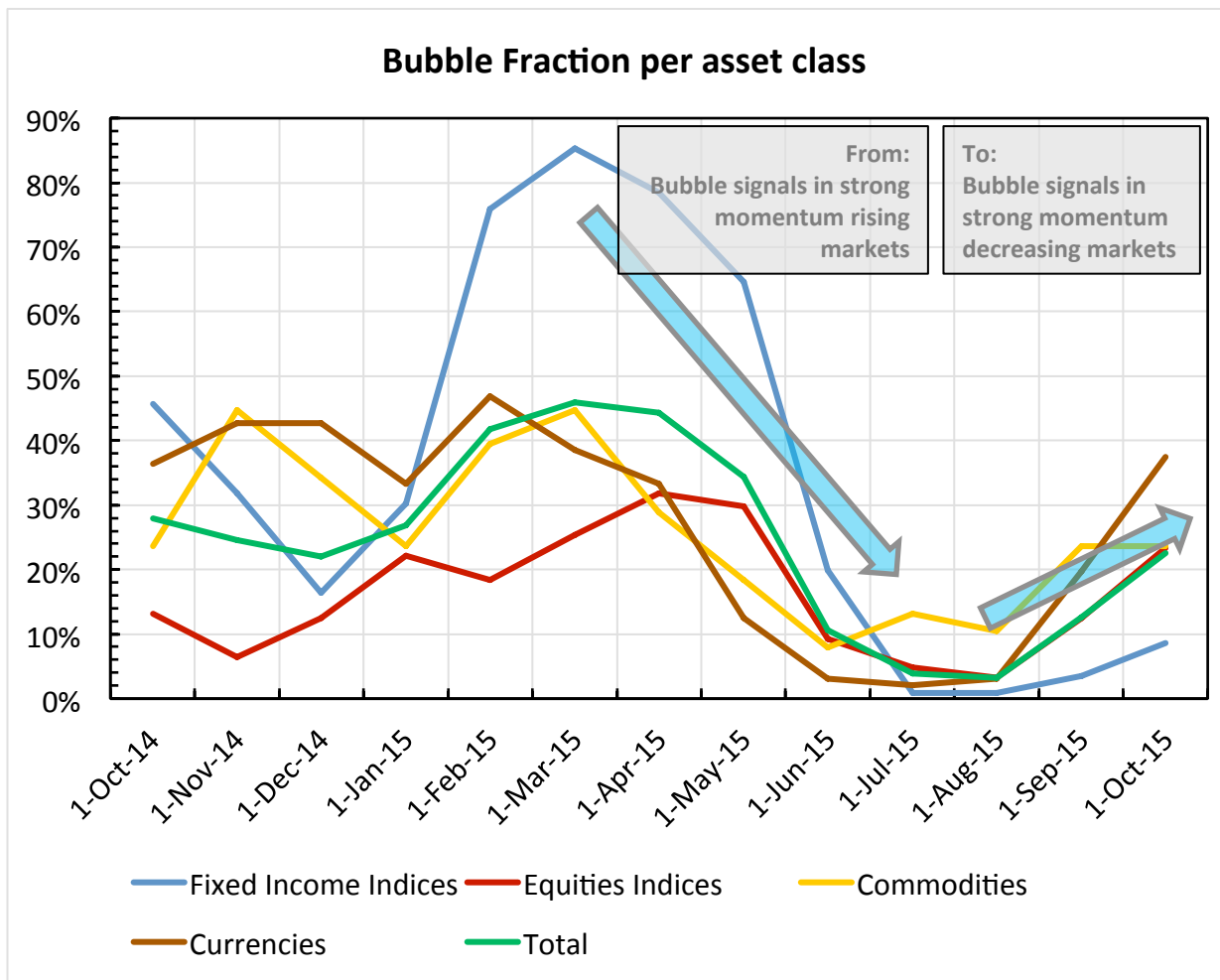
Assets that are related to materials, industrials, commodities, exports, ... all get hammered.

The observation is consistent in:

- Fixed income sectors;
- Equities country and sector indices;
- Single stocks;
- Currencies;
- Commodities.

They all show negative bubble signals which is an indication of an extreme negative sentiment, when there is herding in selling.

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For a number of systematic assets and indices, we calculate the fraction that show bubble warning signals. This graph shows the historical evolution of this fraction for different asset classes.

Between February and April, positive bubble signals were observed on a broad scale across global markets. June and July, these faded away when the correction set in. Now we see negative bubble signals appearing across markets and asset classes.

We are going through a regime shift from strong momentum rising markets to strong momentum decreasing markets.

The table on the next slide gives the detailed numbers.

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434 systemic assets are monitored

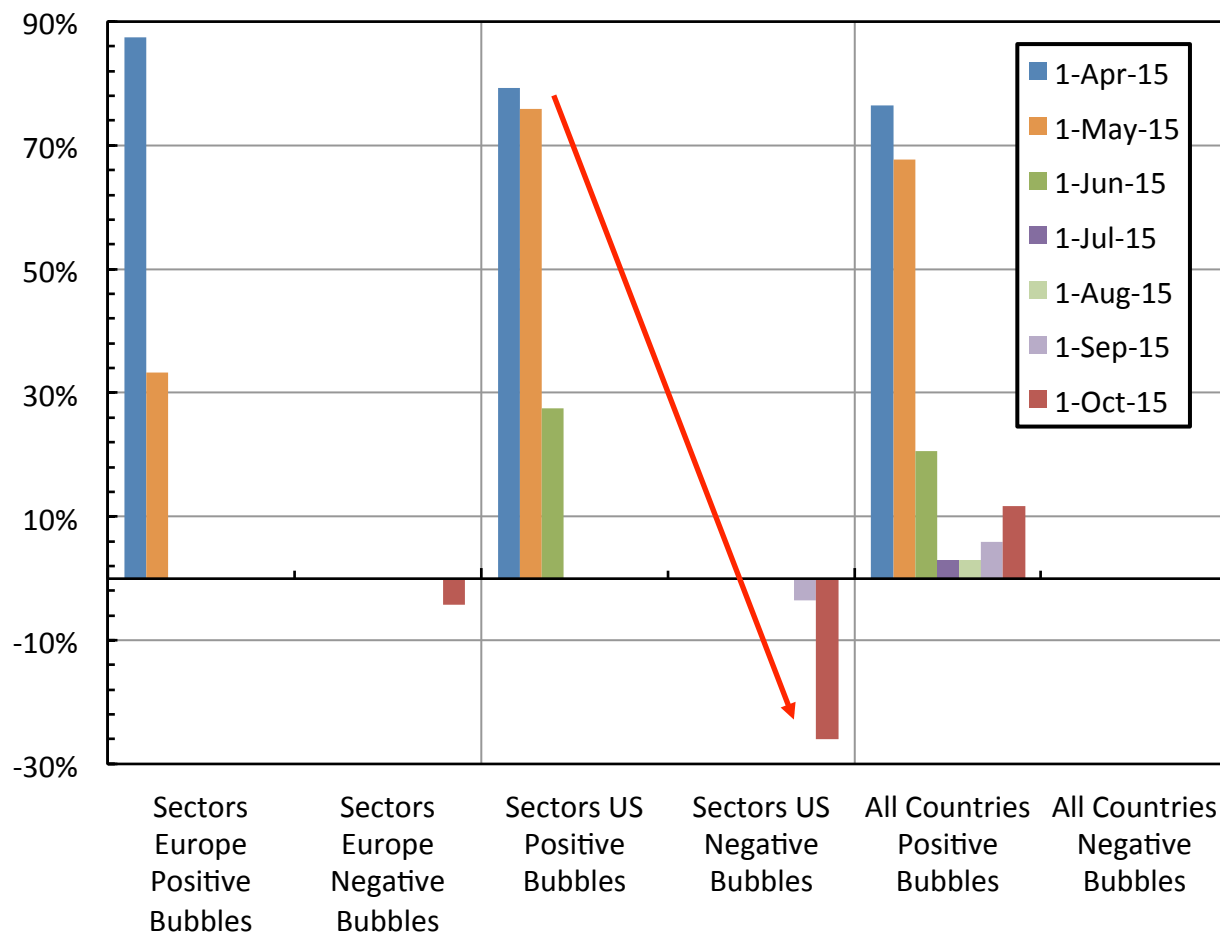
	# Assets	# Bubbles October 1st 2015	% Bubbles October 1st 2015	% Bubbles September 1st 2015	% Bubbles August 1st 2015	% Bubbles July 1st 2015	% Bubbles June 1st 2015	% Bubbles May 1st 2015	% Bubbles April 1st 2015	% Bubbles March 1st 2015	% Bubbles February 1st 2015	% Bubbles January 1st 2015
Fixed Income Indices	116	10	9%	3%	1%	1%	20%	65%	78%	85%	76%	30%
Government	34	4	12%	6%	3%	3%	21%	68%	76%	88%	82%	67%
Corporate	82	6	7%	2%	0%	0%	20%	63%	79%	84%	73%	16%
Equities Indices	184	43	23%	13%	3%	5%	9%	30%	32%	25%	18%	22%
Country	77	19	25%	12%	0%	8%	17%	29%	32%	21%	21%	21%
US-Sector	63	15	24%	17%	10%	3%	5%	10%	14%	21%	27%	38%
EUR-Sector	32	7	22%	9%	0%	0%	0%	69%	78%	56%	3%	3%
Special	12	2	17%	0%	0%	8%	8%	42%	33%	0%	0%	0%
Commodities	38	9	24%	24%	11%	13%	8%	18%	29%	45%	39%	24%
Currencies	96	36	38%	20%	3%	2%	3%	13%	33%	39%	47%	33%
Total	434	98	23%	13%	3%	4%	11%	34%	44%	46%	42%	27%

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Fixed Income

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Asset Class – Fixed Income



April/May 2015, many, if not most, fixed income indices gave bubble warnings. This was followed by a correction and, logically, a drop in warning signals that has been as sudden as its prior rise.

Now, we see a global shift towards negative bubble signals. These are mainly in basic materials, metals, mining and oil equipment.

We are in a shift from high momentum rising markets, to high momentum decreasing markets in fixed income.

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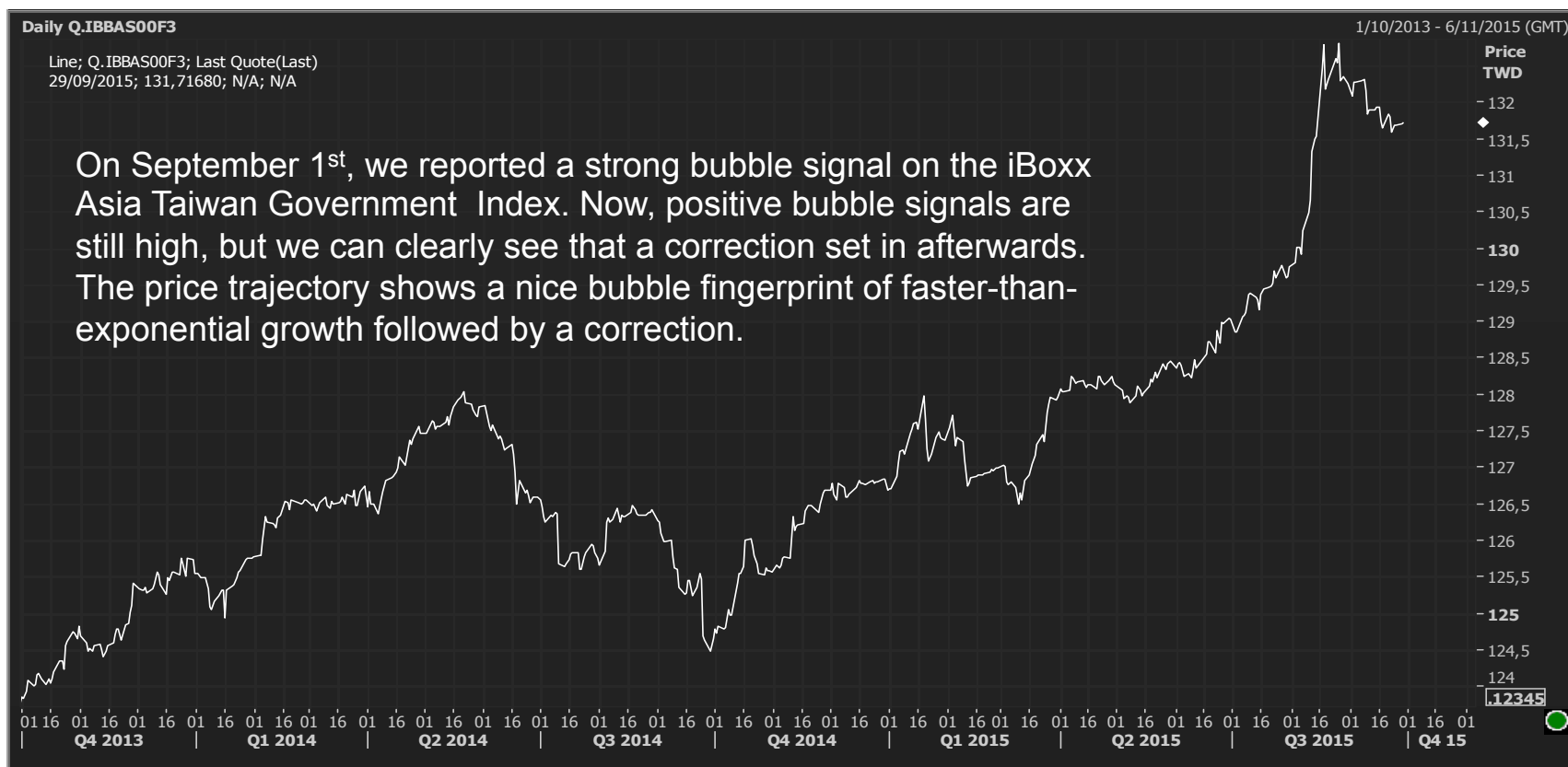
Asset Class – Fixed Income Indices

Fixed Income Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx Asia Taiwan Government Index	5,9%	28,0%	37,7%
iBoxx Asia India Government Index	13,1%	12,9%	15,4%
iBoxx Asia Philippines Government Index	6,6%	7,5%	8,6%
iBoxx Asia China Government Index	7,7%	6,0%	21,8%
Filt Critia			
Fixed Income Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx USD Industrial Metals Index	-11,2%	16,8%	22,9%
iBoxx EUR Basic Resources Index	-11,8%	15,2%	40,2%
iBoxx USD Basic Resources Index	-7,8%	12,0%	19,8%
iBoxx USD Basic Materials Index	-4,6%	11,5%	17,6%
iBoxx USD Mining Index	-8,7%	9,9%	14,3%
iBoxx USD Oil Equipment, Services & Distribution Index	-5,5%	9,2%	24,0%

We see positive bubble signals in Asian country indices and negative bubble signals in metals, mining, materials and oil equipment. The negative bubble signals in fixed income sectors are in full agreement with negative bubble signals in equities sectors, single stocks, currencies and commodities.

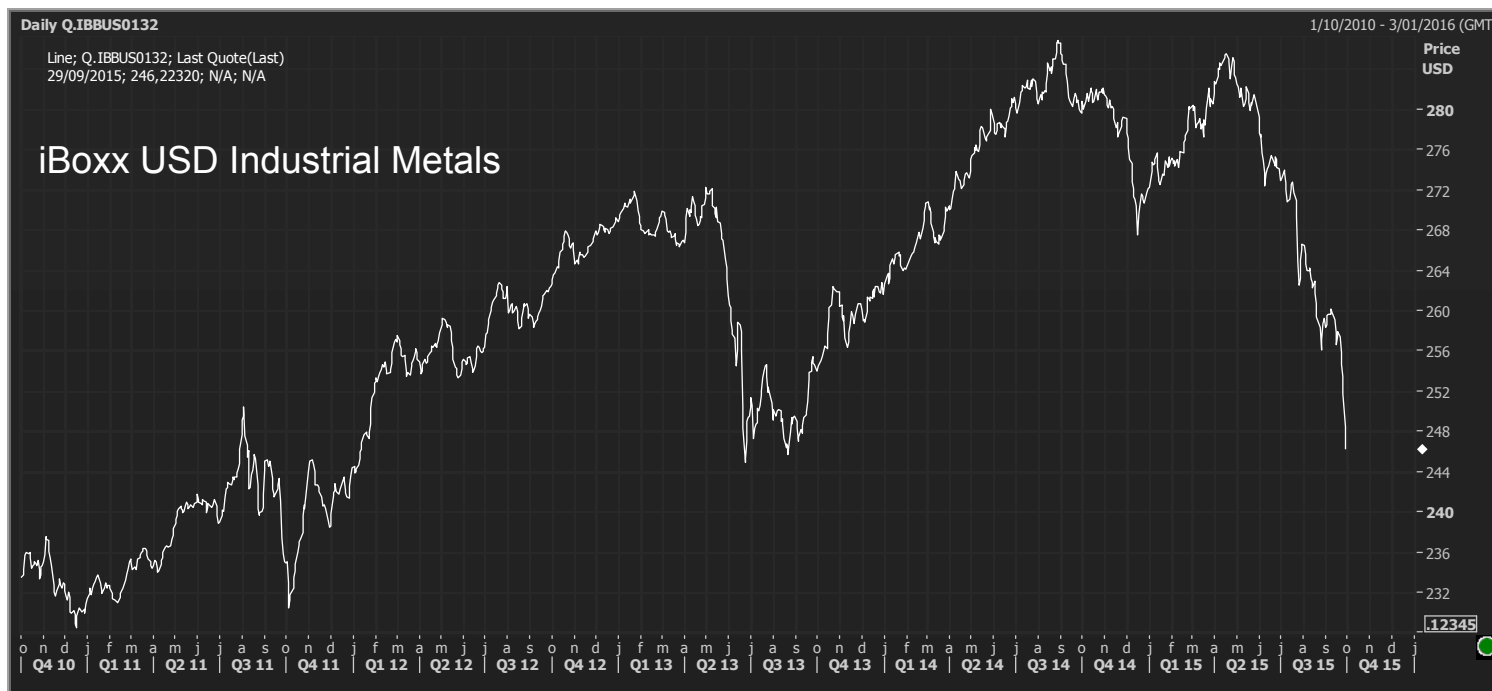
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Asset Class – Fixed Income Indices



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Asset Class – Fixed Income Indices



The crash in the iBoxx USD Industrial Metals is picked up as a negative bubble.

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Equities

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Broad View:

This plot shows the performance of some major equity indices over the past two years (the time series are rebased to 100). The sharp correction is global affecting US, European, Japanese and Hong Kong stocks.

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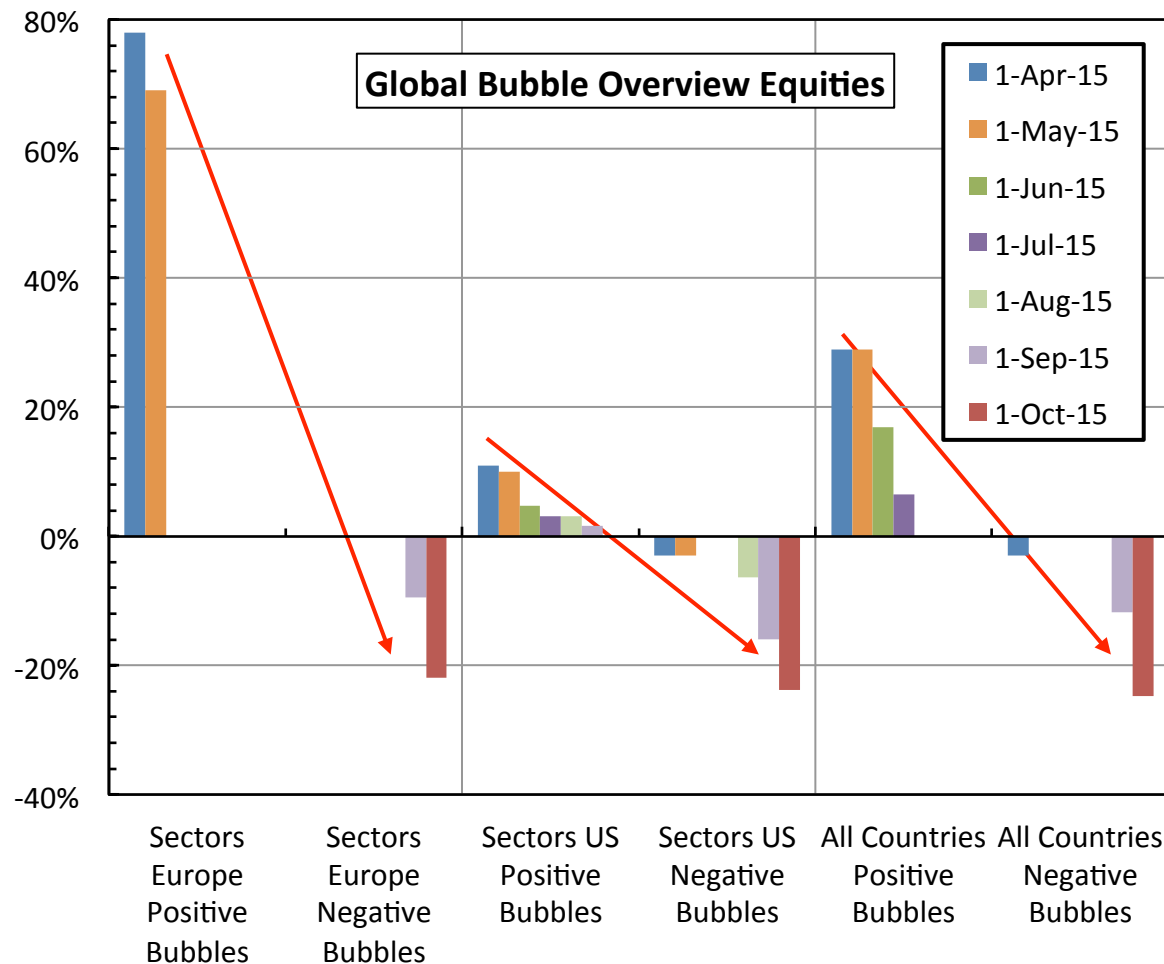


Broad View:

This plot shows the performance of the same major equity indices year-to-date (the time series are rebased to 100). Year-to-date, we can say that global stocks are in the negative: somewhere between flat for European and Japanese stocks and -20% for Brazilian and Shanghai stocks.

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

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Bubble warning signals in equities have followed a similar path as in the fixed income asset class.

April/May 2015, many, if not most, indices gave bubble warnings. This was followed by a correction and, logically, a drop in warning signals that has been as sudden as its prior rise.

Now, we only seeing negative bubble signals

We are in a global shift from high momentum rising markets, to high momentum decreasing markets.

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Asset Class – Equity Country Indices

Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Country
Positive Bubbles				
<i>None</i>				
Negative Bubbles				
FTSE China 25 Index	-11,0%	22,9%	11,5%	China
Jakarta SE Composite Index	-18,7%	22,5%	47,4%	Indonesia
Hang Seng Index	-11,5%	20,6%	13,0%	Hong Kong
FTSE Straits Times Index	-15,3%	15,6%	22,1%	Singapore
EGX 30 Index	-25,0%	12,9%	31,9%	Egypt
FTSE Bursa Malaysia KLCI Index	-13,2%	12,8%	25,7%	Malaysia
TSX-Toronto Stock Exchange 300 Composite Index	-13,2%	12,4%	33,7%	Canada
SET Index	-14,9%	12,4%	17,2%	Thailand
Sao Paulo SE Bovespa Index	-19,0%	9,2%	7,7%	Brazil
Kuwait Main Index	-24,4%	7,6%	25,4%	Kuwait
Euronext Lisbon PSI 20 Index	-13,4%	6,8%	18,6%	Portugal

For country indices in equities, there are no positive bubble signals and the number of observed negative bubble signals is rising. This is an indication of a strong shift in momentum. The effect is clearly observed in emerging markets indices, but also in Canada, a commodity exporting country.

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Asset Class – Equities Country Indices



For country indices in equities, there are no positive bubble signals and the number of observed negative bubble signals is rising. This is an indication of a strong negative sentiment and momentum. The effect is clearly observed in emerging markets and/or commodities exporting countries: Indonesia (orange), Singapore (purple), Malaysia (green), Canada (blue) and Brazil (red). In yellow, the Reuters Commodity Index is added for comparison.

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Asset Class – Equity Sectors

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Positive Bubbles			
None			
Negative Bubbles			
S&P 500 Paper& Forest Products	-22%	29%	60%
S&P 500 Road & Rail	-24%	27%	41%
S&P 500 Construction& Eng	-34%	21%	21%
S&P 500 Oil, Gas & Cnsmbl Fuel	-33%	18%	24%
S&P 500 Chemicals	-21%	14%	34%
S&P 500 Automobiles	-12%	12%	33%
S&P 500 Energy Equipment & Serv	-39%	11%	11%
S&P 500 Electrical Equip	-22%	11%	20%
S&P 500 Indp Pwr Prdcr&EngTrdrs	-41%	9%	43%
S&P 500 Machinery	-17%	8%	16%
Equities EUR Sector Indices			
Positive Bubbles			
None			
Negative Bubbles	Yearly Return	DS LPPL Trust	DS LPPL Confidence
STOXX Europe 600 Basic Resources	-36%	23%	29%
STOXX Europe 600 Automobiles & Parts	-1%	12%	20%
STOXX Europe 600 Basic Materials	-15%	11%	22%
STOXX Europe 600 Oil & Gas EUR	-28%	7%	24%

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Asset Class – Equity Sectors

The dynamics in equity sectors paint a clear picture:

- There are no positive bubble signals;
- Cyclical stocks show clear negative bubble warning signals. There is strong negative momentum in road, rail, auto, construction and commodity related stocks (oil, gas, fuel, paper & forest products, metals & mining);
- This is observed both in Europe and the US;

The observations in equities sectors are totally in line with what is seen in:

- Fixed income sectors;
- Equities country indices;
- Single stocks;
- Currencies;
- Commodities.

Assets that are related to materials, industrials, commodities, exports, ... all get hammered.

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Asset Class – Equities Sectors



Cyclical stocks get hammered, examples: Stoxx 600 Automobiles & Parts (orange) and Stoxx 600 Basic Materials (purple)

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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 analyse 219 stocks, 5 show positive and 44 show negative bubble signals. There is a clear trend of decreasing positive and increasing negative bubble signals. Last month, there were 21 positive and 16 negative bubble signals.

So, in single stocks we see the same as in the indices, positive bubble warning signals are waning across the board, but the number of negative bubble signals is rising on a global scale.

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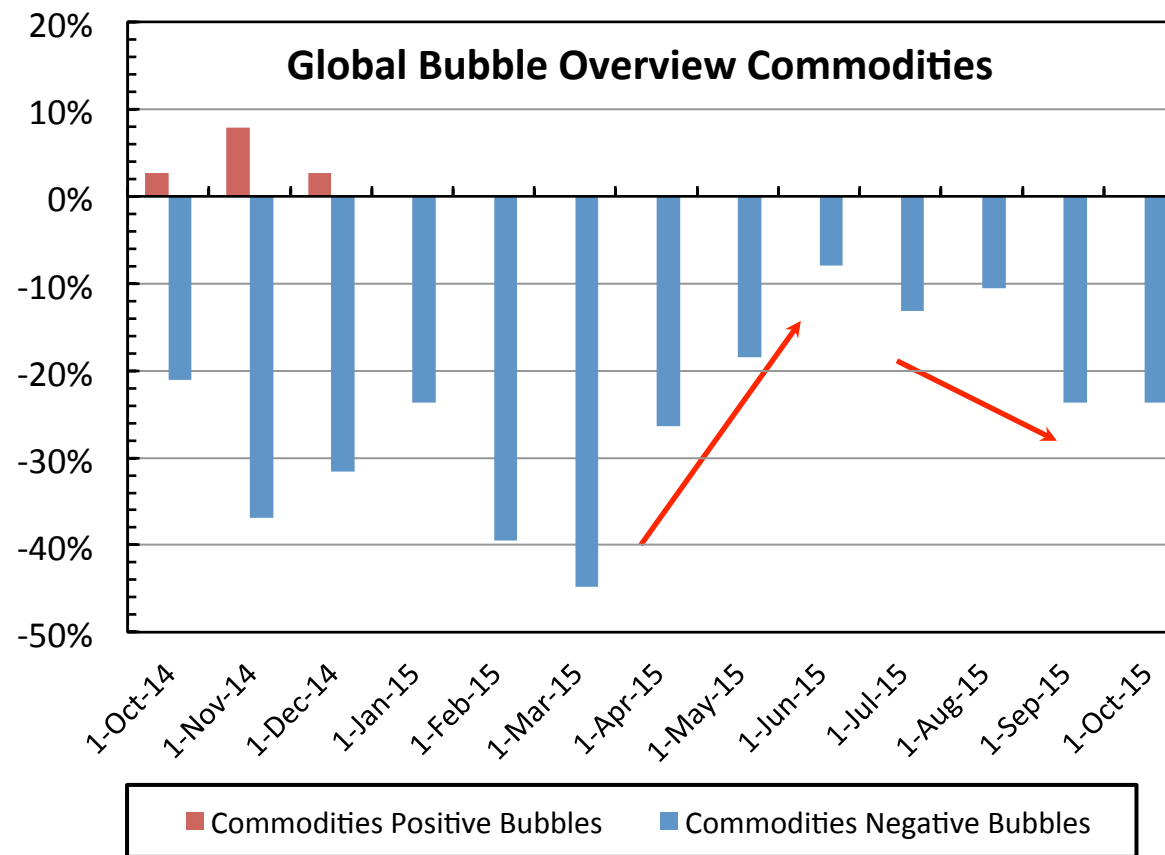
Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Sector	Country
Positive Bubbles					
Nike Inc	37%	14%	12%	Consumer Durables & Apparel	US
Negative Bubbles					
Union Pacific Corp	-22%	23%	45%	Transportation	US
Wharf Holdings Ltd	-22%	12%	24%	Real Estate	HK
Exxon Mobil Corp	-23%	17%	33%	Energy	US
Monsanto Co	-26%	17%	45%	Materials	US
BP PLC	-28%	12%	17%	Energy	EU
Qualcomm Inc	-30%	14%	47%	Technology Hardware & Equipment	US
E I du Pont de Nemours and Co	-31%	24%	25%	Materials	US
Chevron Corp	-37%	20%	42%	Energy	US
Volkswagen AG	-40%	24%	20%	Automobiles & Components	EU
ConocoPhillips	-41%	10%	14%	Energy	US
Toshiba Corp	-43%	13%	30%	Capital Goods	JP
China Shenhua Energy Co Ltd	-47%	26%	51%	Energy	HK
PetroChina Co Ltd	-49%	19%	16%	Energy	HK
Glencore PLC	-76%	25%	10%	Energy	EU

We see the recurring theme: Energy, materials, transportation, automobiles, all get hammered

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Commodities

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After a relaxation period in Q2-2015 we see negative bubble signals increasing again, especially in industrial and precious metals and soft commodities

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Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
<i>Negative Bubbles</i>			
Nickel ER Index	-42%	25%	35%
Platinum ER Index	-30%	18%	12%
Aluminum ER Index	-25%	15%	8%
Robsta Coffee ER Index	-26%	8%	27%
Sugar ER Index	-35%	8%	11%
Softs ER Index	-26%	7%	16%
Live Cattle ER Index	-15%	6%	20%
Zinc ER Index	-30%	6%	23%
Prcs Mtls ER Index	-11%	5%	8%

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Asset Class – Commodities



It is interesting to take a look back at Live Cattle. End of October last year, we had positive bubble signals on November 1st (first white arrow), now, on October 1st (second white arrow) we see negative bubble signals. This is a nice example of the rollercoaster that (soft) commodities are in.

Source: Thomson Reuters Eikon

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Currencies

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FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Euro/Brazilian Real	33%	24%	45%
Euro/Mexican Peso	11%	13%	23%
Euro/Norwegian Krone	14%	9%	13%
Euro/Russian Rouble	32%	11%	9%
Euro/Turkish Lira	15%	11%	30%
Swiss Franc/Brazilian Real	40%	22%	41%
Swiss Franc/Chilean Peso	13%	10%	12%
Swiss Franc/Russian Rouble	39%	10%	10%
Swiss Franc/South African Rand	17%	6%	25%
US Dollar/Argentine Peso	11%	36%	74%
US Dollar/Australian Dollar	20%	9%	32%
US Dollar/Brazilian Real	69%	17%	49%
US Dollar/Chilean Peso	17%	13%	6%
US Dollar/Indonesian Rupiah	21%	35%	50%
US Dollar/Korean Won	14%	10%	7%
US Dollar/Mexican Peso	27%	21%	27%
US Dollar/Russian Rouble	67%	12%	7%
US Dollar/Singapore Dollar	12%	9%	10%
US Dollar/South African Rand	24%	16%	37%
US Dollar/Turkish Lira	33%	13%	26%

The results on currencies confirm the global picture: currencies of emerging markets and commodities exporters are being hit.

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Conclusion

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Equities

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Fixed income

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Commodities

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Currencies

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