

The FCO Cockpit – Global Bubble Status Report

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Chair of Entrepreneurial Risk

July 1st, 2015

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Main conclusion of this report:

We are going through a regime shift on a global scale and across asset classes. The major theme is synchronicity.

In the first quarter of 2015 we saw bubble warning signals popping up everywhere:

- Positive bubbles on more than 80% of all the fixed income indices, both corporate as well as government;
- Positive bubbles on 80% of the European Equities Sectors;
- Bubbles on 50% of the analysed currency pairs;
- And negative bubbles on 45% of the commodities.

Now all these assets are simultaneously changing their secular trends. As we are now going through the dynamics of a global regime shift, no new bubbles, either positive or negative, are taking form yet.

In the previous report, the FCO Cockpit of June 1st, we warned for a correction in Chinese equities. In the meantime, this has happened. Even though Chinese stocks went through a correction of crash-like proportion, they still give statistically significant warning signals.

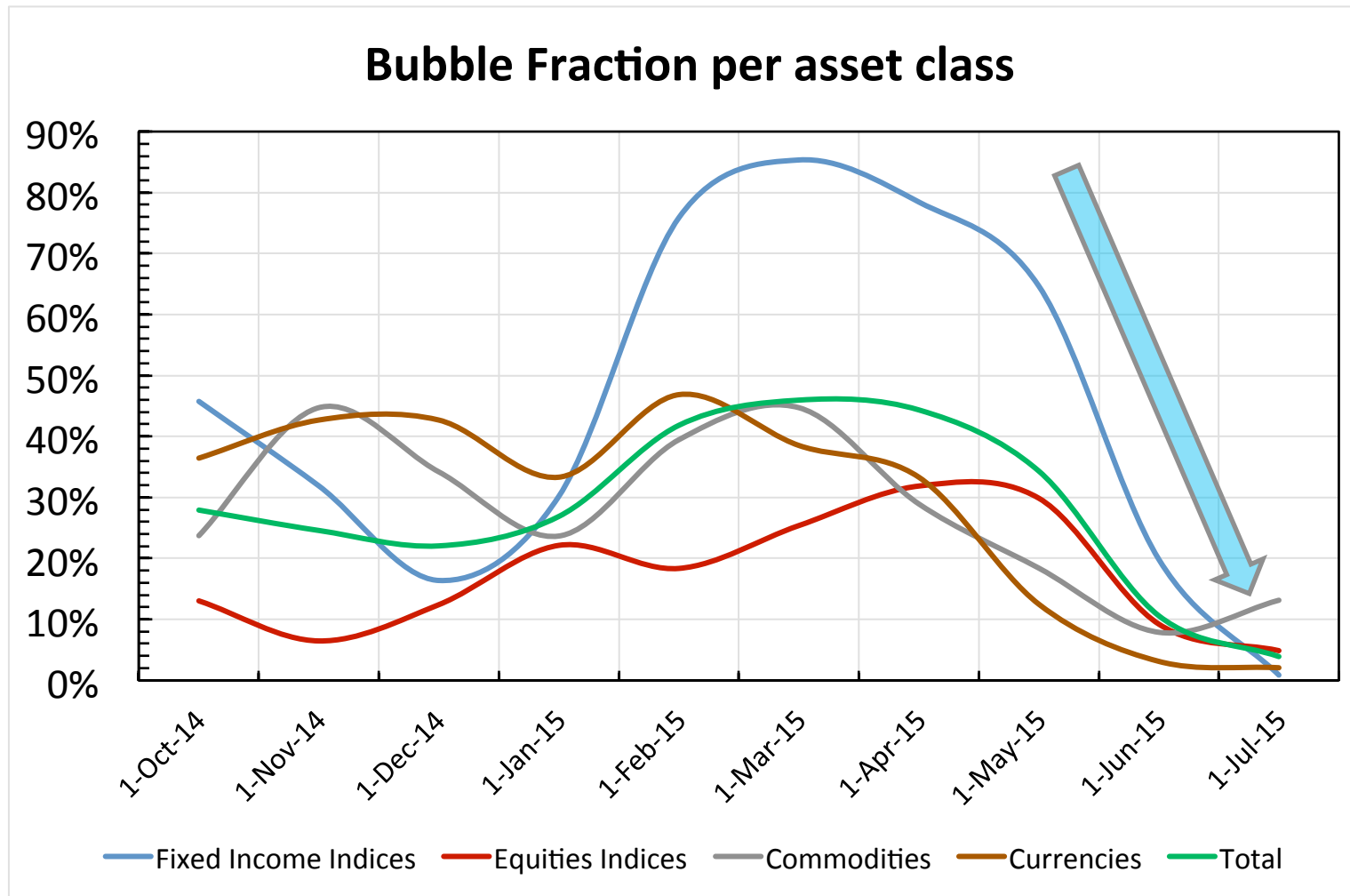
- + A positive bubble warning signal is an indication of herding when people start buying because prices go up.
- + A negative bubble warning signal is an indication of herding when people start selling because prices go down.

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434 systemic assets are monitored

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

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Fixed Income

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Asset Class – Fixed Income

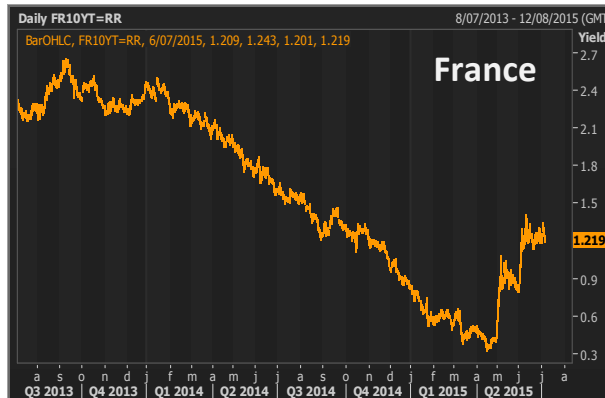
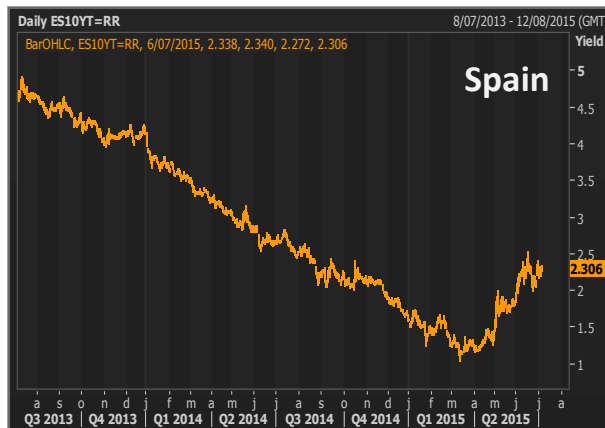


The graph shows the Yield on 10-year German Bonds. There has been a secular trend reversal over the last two Months.

Source: Thomson Reuters Eikon

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Asset Class – Fixed Income

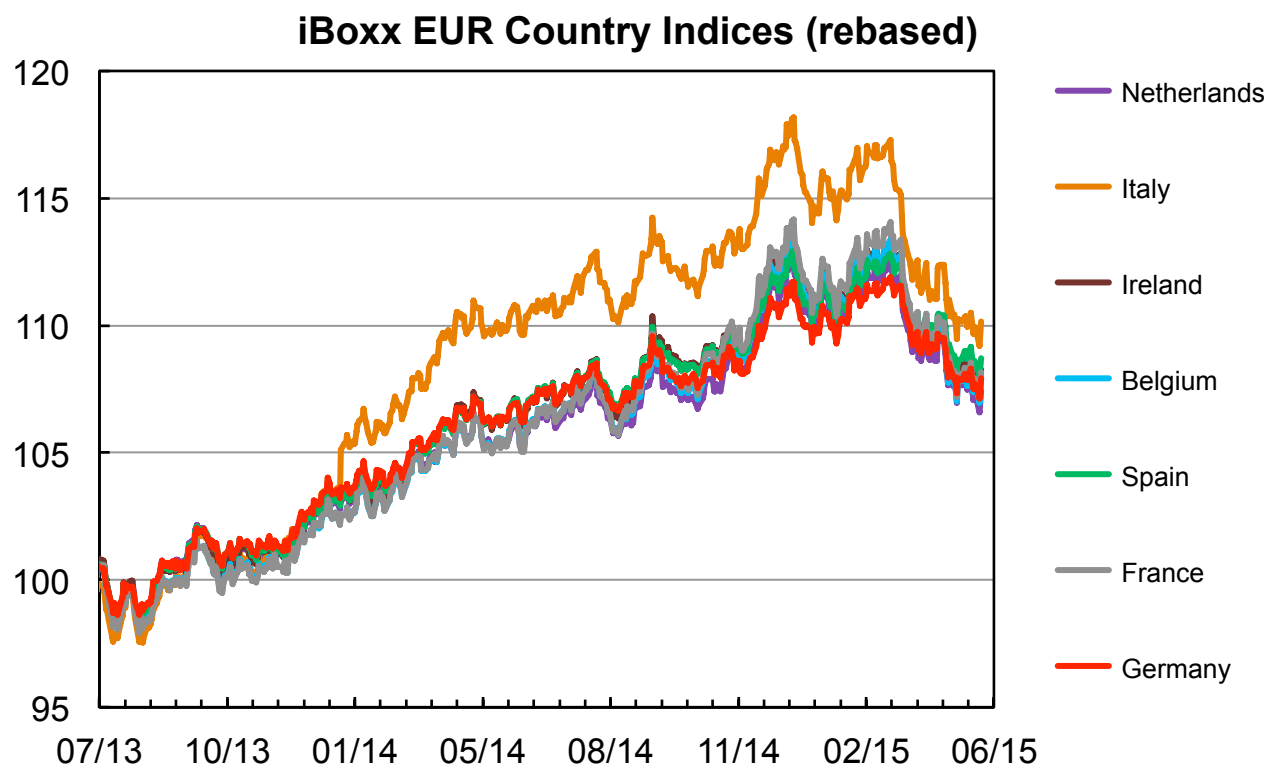


The regime change in yields can be observed across the whole Eurozone.

These are Yield graphs.

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Asset Class – Fixed Income

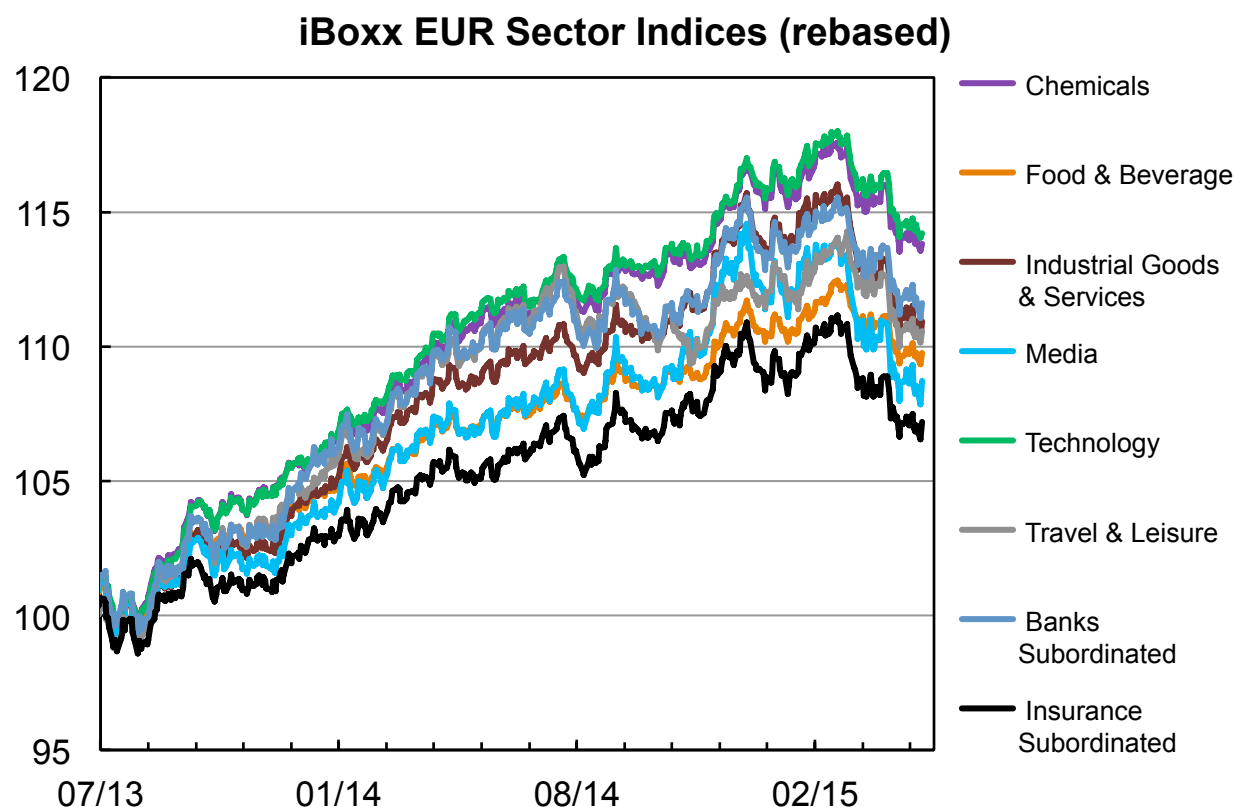


The regime change in yields can be observed across the whole Eurozone.

These are total return graphs.

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Asset Class – Fixed Income



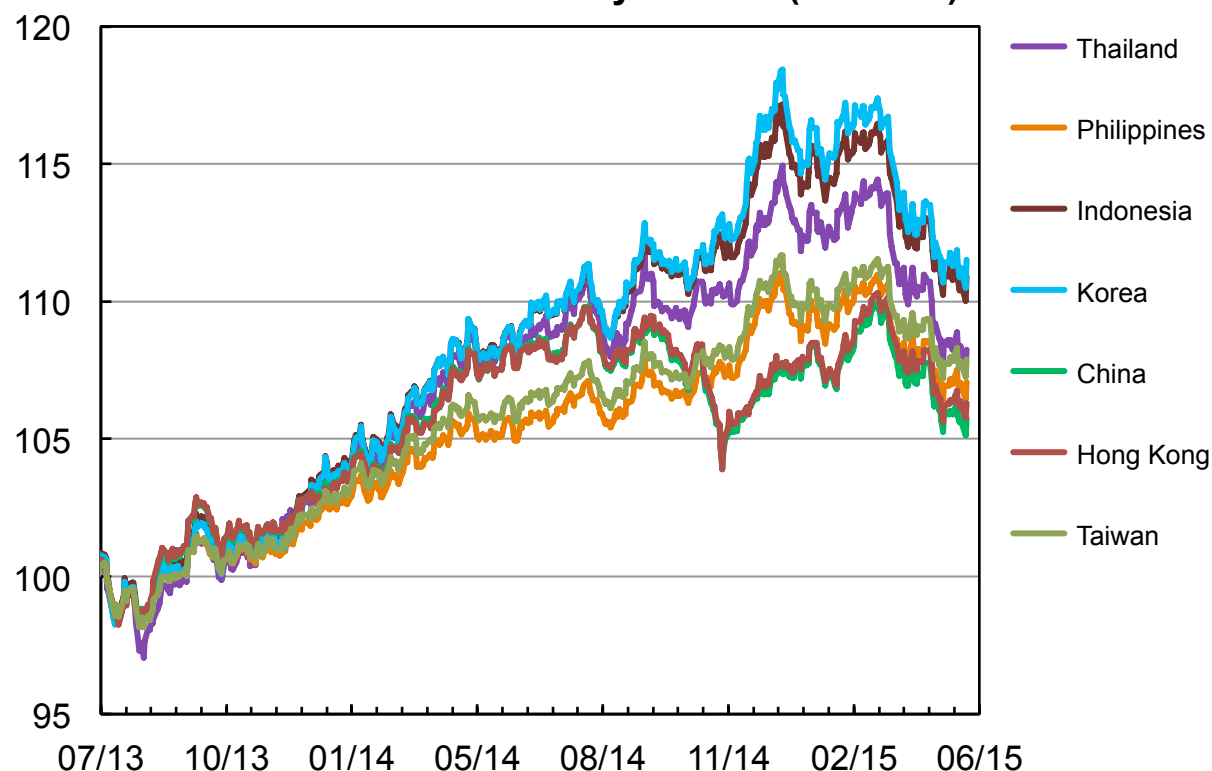
The regime change in Fixed Income did not only affect Eurozone government bonds but also corporate bonds.

The chart on the left shows bond total return indices rebased to 100. We can see that a large drop occurred in the previous months.

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Asset Class – Fixed Income

iBoxx Asia Country Indices (rebased)

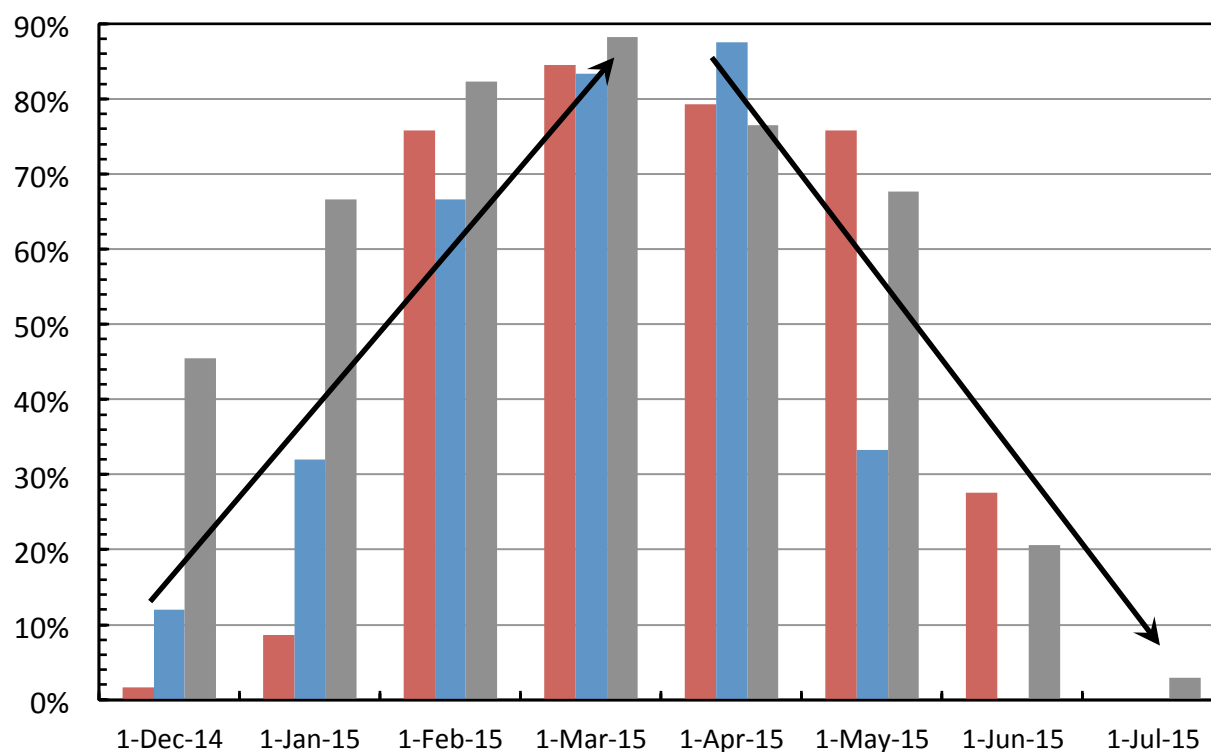
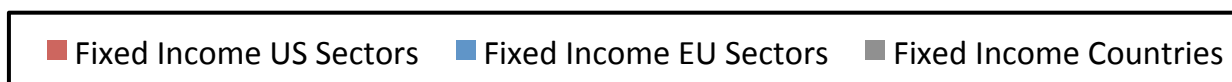


The regime change in Fixed Income can be observed on a global scale, also affecting Asian government bonds.

The chart on the left shows bond total return indices rebased to 100. We can see that a large drop occurred in the previous months.

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Asset Class – Fixed Income



In the first quarter of 2015, there was an unprecedented rise in bubble warning signals in Fixed Income indices. In the wake of the ECB QE announcement of January 22nd, more than 80% of the indices that we monitor gave clear warning signals.

With the recent correction, the drop in warning signals has been as sudden as its prior rise. **There are no more significant bubble warning signals.**

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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).

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

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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). YTD, we see an underperformance of US stocks.

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

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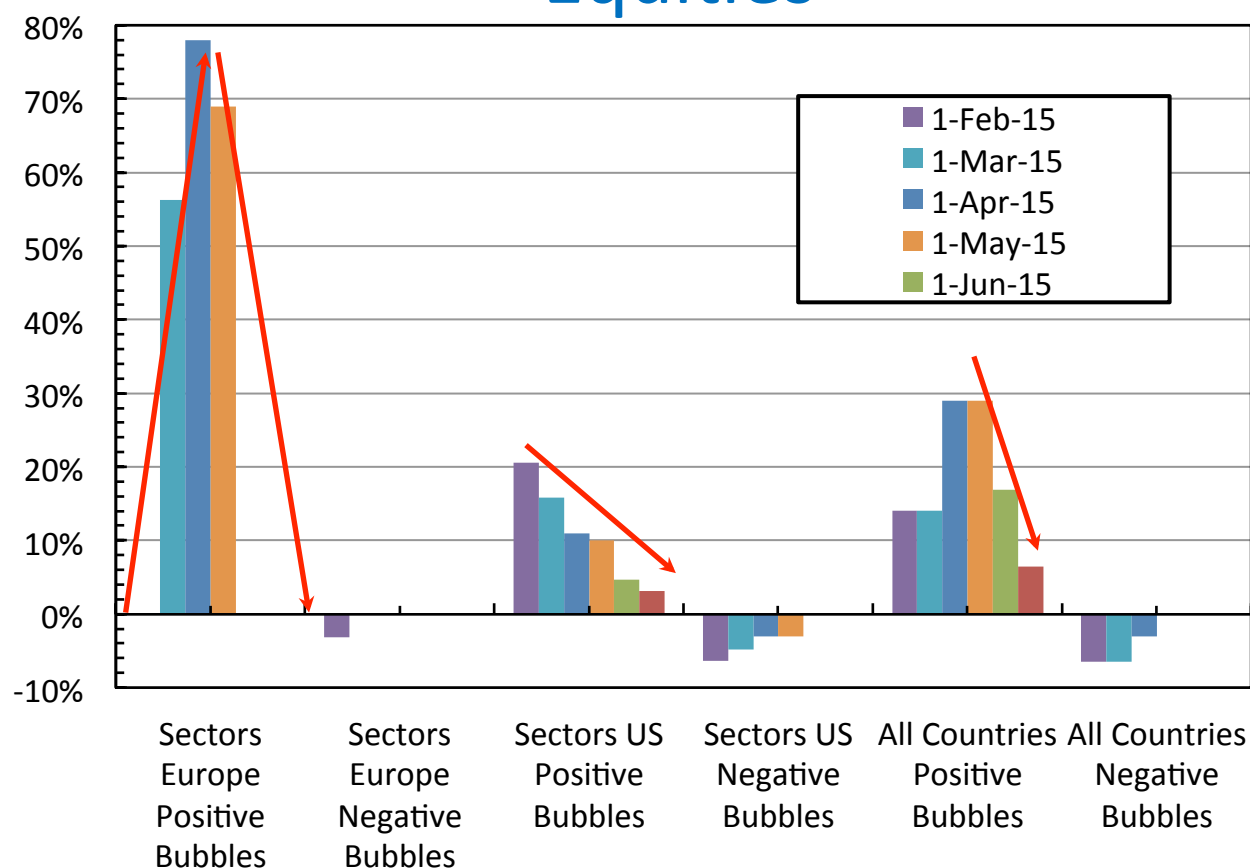


When looking at Global Equities over the last three months we see:

- Mainland Chinese stocks outperforming, even after the most recent correction;
- Hong Kong stocks correcting after the April rally;
- US stocks going sideways;
- European stocks correcting after their rally in the first quarter;
- Brazilian stocks sliding back.

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Equities



Bubble warning signals in Equities have followed a similar path as in the Fixed Income asset class.

There was a massive rise in the first quarter of 2015 that was followed by a correction.

This correction led to some relaxation. As quickly as they appeared, all warnings have now died out.

After bubbles build up on a global scale, we now see a change in regime on that same global scale and across asset classes.

Synchronicity is the key word.

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Asset Class – Equities

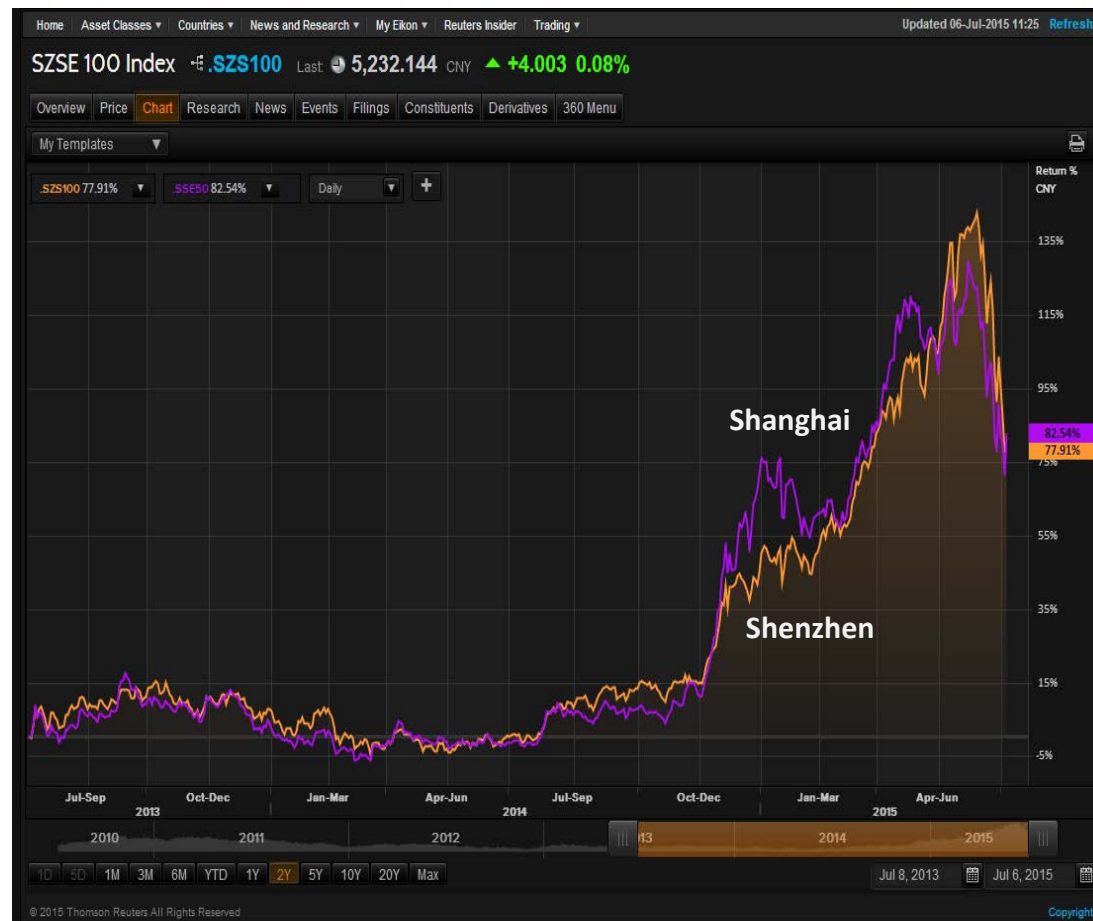
Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Positive Bubbles			
SZSE 100 Index	103%	47%	56%
FTSE China 25 Index	24%	21%	8%
Hang Seng Index	13%	13%	6%

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Positive Bubbles			
S&P 500 Internet&Catalog Retail	20%	11%	8%

When looking at global equities, we only pick up bubble warning signals in mainland Chinese and Hong Kong stocks. Even after the current correction, the signals are still statistically relevant.

For sectors, the only bubble warning signals we pick up are in Internet & Catalog Retail.

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In our FCO Cockpit report of last month we warned that Chinese equities were in bubble territory, that the price path followed was not sustainable and a correction was due.

In the meantime, we have seen a correction that is taking crash-like proportions, but still far from removing the gains of the bubble of the previous year.

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Asset Class – Equities - Budapest SE Index



In the FCO Cockpit report of last month we warned that Hungarian stocks were in bubble territory. Since then we have been seeing a soft landing with a correction of only a few %.

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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 analysed 219 stocks, 31 of these show bubble signals (1 negative and 30 positive bubbles). Last month 34 stocks gave clear signals.

So, in single stocks we see the same as in the indices, bubble warning signals are waning across the board.

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Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Sector	Country
Positive Bubbles					
East Japan Railway Co	38%	29%	24%	Industrials	JP
Ping An Insurance Group Co of China Ltd	75%	25%	13%	Financials	HK
Mitsubishi UFJ Financial Group Inc	42%	25%	21%	Financials	JP
Starbucks Corp	38%	22%	16%	Consumer Discretionary	US
Bank of China Ltd	45%	20%	25%	Financials	HK
China Construction Bank Corp	21%	20%	25%	Financials	HK
Fujifilm Holdings Corp	55%	18%	18%	Information Technology	JP
Hang Seng Bank Ltd	20%	15%	31%	Financials	HK
Industrial and Commercial Bank of China Ltd	26%	15%	22%	Financials	HK
Nippon Telegraph and Telephone Corp	40%	14%	14%	Telecommunication Services	JP
BOC Hong Kong Holdings Ltd	44%	14%	28%	Financials	HK
Cheung Kong Holdings Ltd	44%	13%	36%	Financials	HK
Mizuho Financial Group Inc	27%	12%	33%	Financials	JP
Dai-ichi Life Insurance Co Ltd	59%	11%	33%	Financials	JP
Mitsubishi Corp	28%	11%	25%	Industrials	JP
Fast Retailing Co Ltd	67%	10%	23%	Consumer Discretionary	JP
Negative Bubbles					
Wal-Mart Stores Inc	-5%	22%	19%	Consumer Staples	US

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Interesting stock pick:
We observe a strong positive bubble signal on Starbucks.

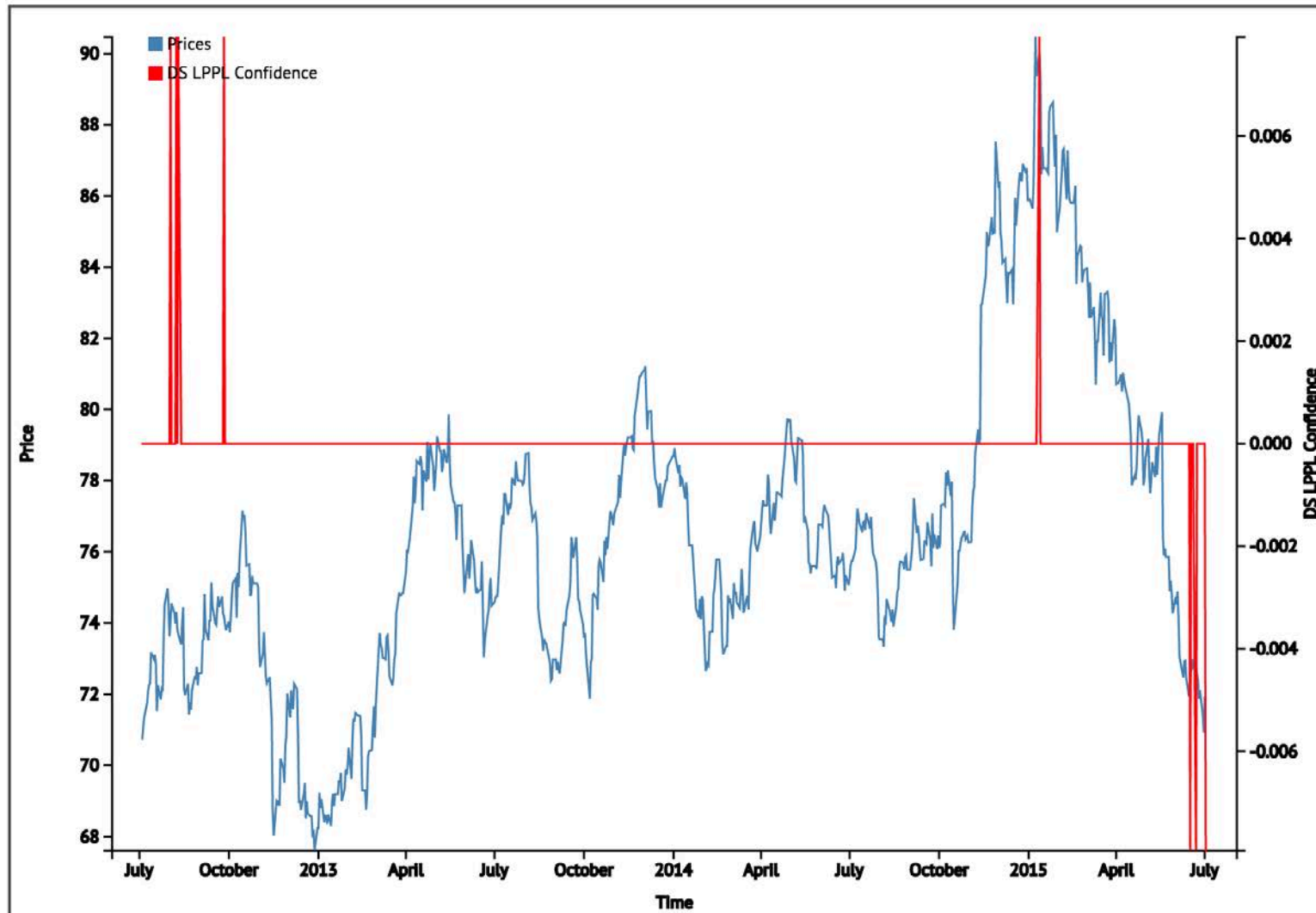
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Interesting stock pick:
We observe a strong negative bubble signal on Wal-Mart.

Source: Thomson Reuters Eikon

Date: 2015-07-03 Name: WAL MART STORES Indicator: DS LPPL Confidence Bubble end flag - long time scale



Interesting stock pick:
 We observe a strong negative bubble signal on Wal-Mart.

Source: <http://tasmania.ethz.ch/pubfco/fco.html>

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Currencies and Commodities

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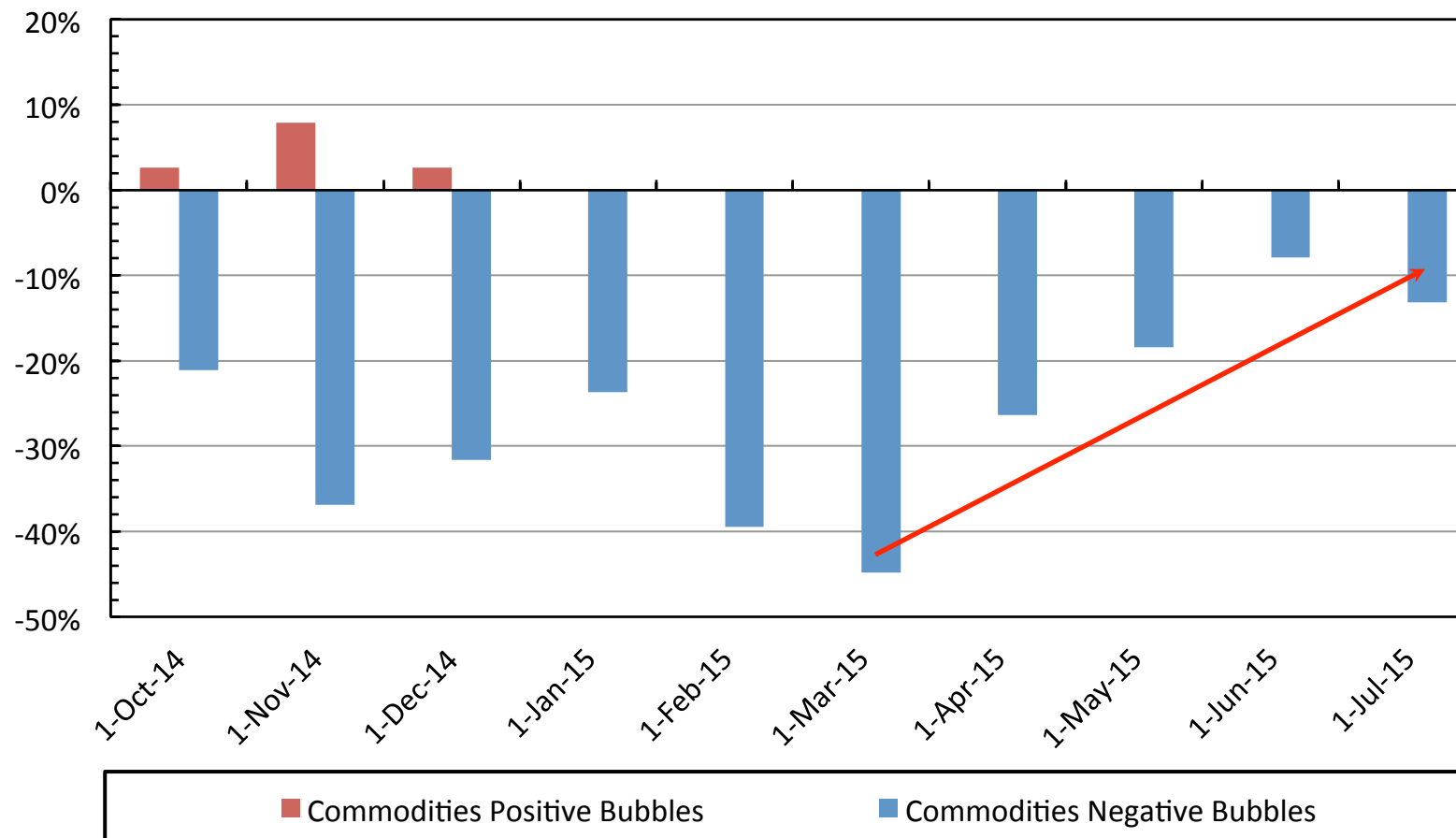
FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
US Dollar/Argentine Peso	12%	63%	46%
US Dollar/Qatar Rial	0%	7%	12%

Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
<i>Negative Bubbles</i>			
Tin ER Index	-37%	26%	13%
Platinum ER Index	-27%	5%	8%
Corn ER Index	-17%	8%	11%
Robusta Coffee ER Index	-16%	14%	11%
Sugar ER Index	-44%	7%	15%

We observe the same process in FX and Commodities as in Equities and Fixed Income. There were many bubble signals in the first quarter of 2015 e.g. negative bubbles on Ruble and oil, positive bubbles on USD. All of these have disappeared during Q2 2015.

As we are now going through the dynamics of a global regime shift, no new bubbles, either positive or negative, are taking form yet.

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Conclusion

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Fixed Income:

Bonds are entering a new phase. The yield contraction that we have seen in the past years has come to an end. This is happening across continents and across sectors. Before this regime shift, bubble signals were piling up simultaneously until more than 80% of the indices analyzed gave warning signals.

In this process of shift in regime, no new bubble signals are taking form yet.

Equities:

The same process could be observed in equities. A simultaneous building up of bubble signals followed by a general correction.

In the previous report we warned for Chinese stocks, a correction, almost of crash proportion has taken place in the meantime.

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Commodities & Currencies

Commodities and Currencies show a fascinating synchronicity with stocks and bonds. At the same time when bubble warning signals on stocks and bonds are fading out, we see the same thing happening with Commodities, where oil prices seem to be stabilizing and Currencies, where the Ruble and the US Dollar have rebounded.