

The FCO Cockpit – Global Bubble Status Report

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Chair of Entrepreneurial Risk

October 1st, 2014

The FCO Cockpit – Global Bubble Status October 1st, 2014

433 systemic assets are monitored

	# Assets	# Bubbles October 1st 2014	% Bubbles October 1st 2014	% Bubbles April 1st 2014
Fixed Income Indices	116	53	46%	78%
Government	33	24	73%	44%
Corporate	83	29	35%	91%
Equities Indices	183	24	13%	20%
Country	78	16	21%	18%
US-Sector	63	7	11%	27%
EUR-Sector	32	1	3%	18%
Special	10	2	20%	18%
Commodities	38	9	24%	24%
Currencies	96	35	36%	22%
Total	433	121	28%	36%

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433 systemic assets are monitored

In the last half year we have seen:

- A continuation of the very strong momentum in **Fixed Income Indices**, where government bond indices have caught up with corporate bond indices;
- A decrease in bubble warning signals in **equities**, especially in US and European sector indices;
- Very strong negative bubble signatures in **soft commodities**;
- A surge in bubble signals in currencies, specifically in USD crosses, on the back of the global **USD** strengthening.

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Asset Class – Fixed Income

Fixed Income Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Belgium Index	11,8%	46,7%	64,7%
iBoxx EUR Spain Index	14,9%	28,2%	24,3%
iBoxx EUR Ireland Index	16,4%	27,1%	16,9%
iBoxx EUR Italy Index	16,0%	21,7%	23,2%

We saw strong signals in **GIPSI bonds** (esp. Spain, Ireland and Italy) already half a year ago. Now **Belgium** has joined the rankings. The **European Government bond asset class** has seen a massive price appreciation since the sovereign debt crisis.

The appearance of large scale and long term bubble signals suggests that the asset class is not fairly priced, that there is a disconnect between market price and fundamental value.

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iBoxx EUR Belgium



iBoxx EUR Spain



Source: Thomson Reuters Eikon

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Asset Class – Fixed Income

Fixed Income Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Financial Services Subordinated Index	12,8%	61,5%	43,6%
iBoxx EUR Technology Index	10,9%	59,3%	80,0%
iBoxx EUR Utilities Index	9,1%	39,4%	32,7%
iBoxx EUR Insurance Index	9,5%	8,4%	8,7%
iBoxx EUR Banks Subordinated Index	10,4%	5,9%	6,7%

- The European Sovereign Debt Crisis of 2011 was an entangled Government and Bank debt crisis. It is no surprise that we see the same large scale long term signals in **Financial (specifically subordinated) debt indices**.
- This leads to the same conclusion that this asset class is not priced fairly and that there is a long-term disconnect between fundamental value and market price.
- Of the 29 iBoxx sector indices that show bubble signals, 25 are European and only 4 are US indices. We see that **Utilities** and **Technology** have joined the major bubble rankings.
- It is fair to say that European debt is very expensive.

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iBoxx EUR Technology



Source: Thomson Reuters Eikon

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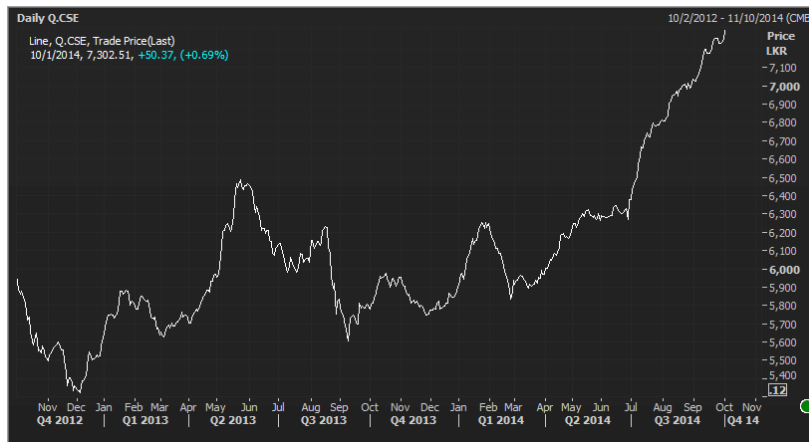
Asset Class – Equities Country Indices

Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Country
CSE All Share Index	25%	37%	18%	Sri Lanka
Buenos Aires SE Merval Index	163%	36%	69%	Argentina
Bucharest SE BET Index	20%	11%	9%	Romania
Philippine SE Composite Index	18%	10%	18%	Philippines
EGX 30 Index	75%	9%	18%	Egypt
Jakarta SE Composite Index	19%	8%	7%	Indonesia

- **Emerging markets** (non-BRICS) top the rankings;
- In the previous report, half a year ago, **Emirates**, especially Qatar and Dubai were very hot. There has been a correction in May, but they are gaining traction again. Due to this correction, the bubble warning signals have decreased, but it would be no surprise if in a few months Emirates are on the charts again;

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Sri Lanka CSE Stock Market Index



When we compare the 2 year (left) with the 10 year (right) history for the Sri Lanka Stock Market Index, we see a strong momentum (the index testing all time highs), but not the beautiful text book example of a bubble signal (a super-exponential growth) like in 2011.

Source: Thomson Reuters Eikon

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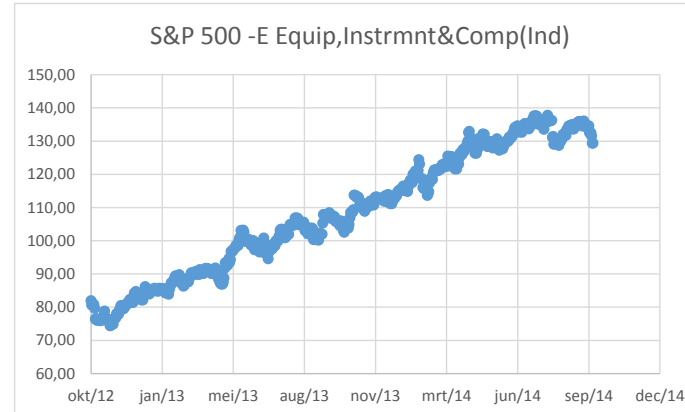
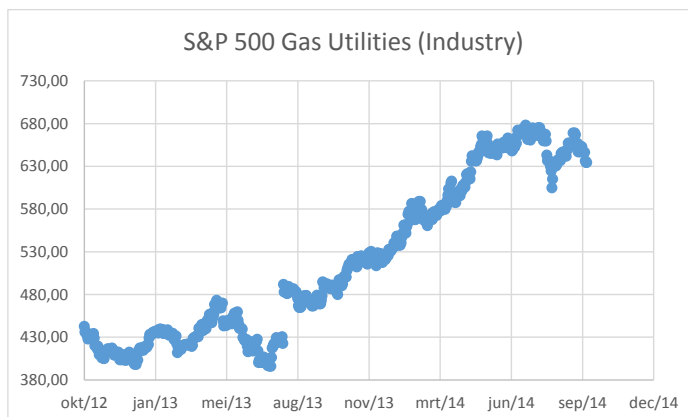
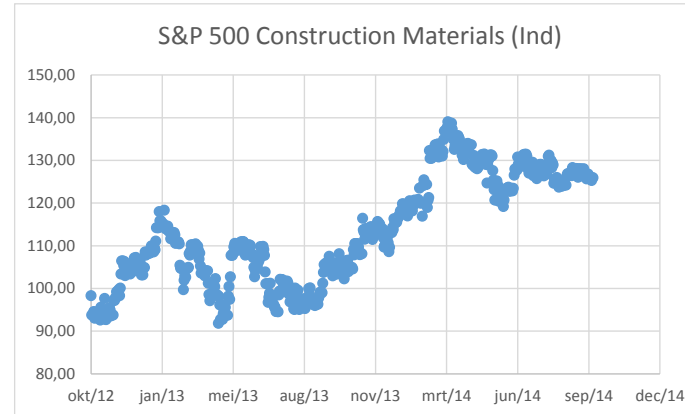
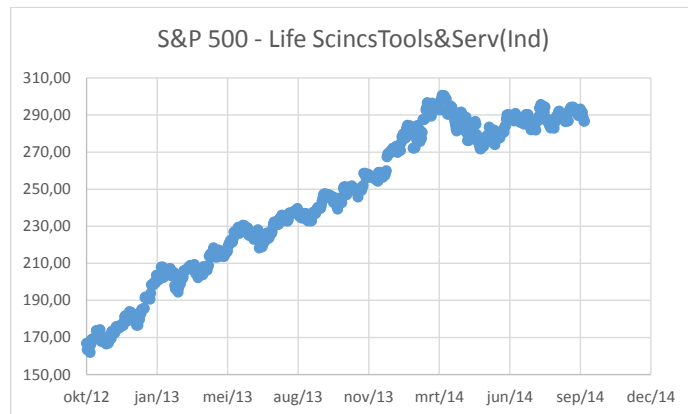
Asset Class – Equities US and European Sector Indices

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
S&P 500 Software	28%	30%	52%
S&P 500 Diversified Financial Services	24%	12%	36%
S&P 500 Biotechnology	41%	12%	20%
S&P 500 Health Care Providers and Services	27%	11%	23%
S&P 500 Road & Rail	36%	9%	22%
S&P 500 Capital Markets	22%	5%	22%
Equities EUR Sector Indices			
STOXX Europe 600 Health Care EUR Price Index	27%	5%	20%

Interestingly, there is a decrease in US equities sector bubble warning signals, from 27% of the analysed indices half a year ago down to 11% on October 1st, 2014. Health care both in Europe and the US, Biotechnology, Software, ... are now on the charts.

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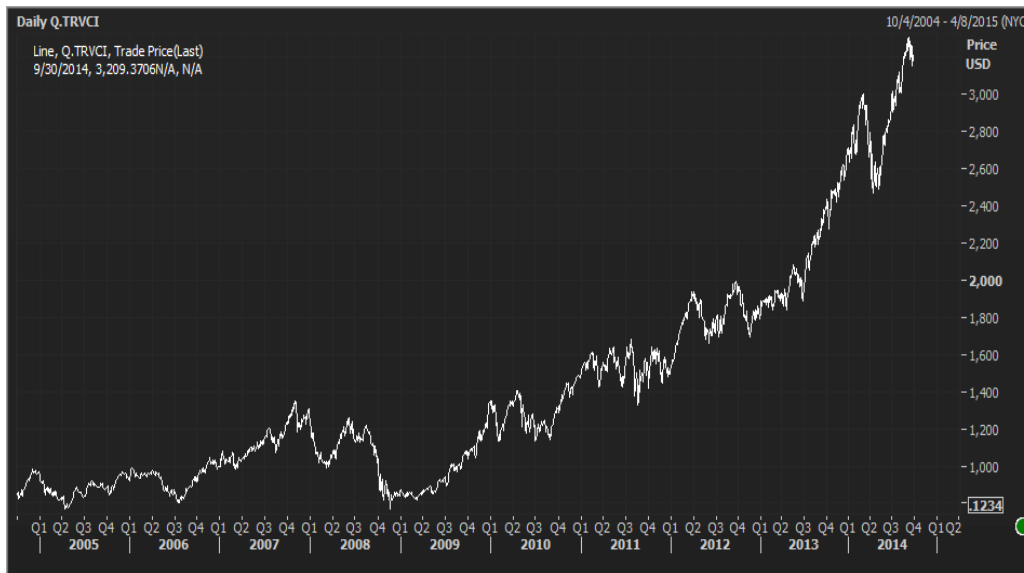
In the April 1st report of the FCO Cockpit, these were the top four US sector equity indices that gave the strongest signals, we see clear relaxation:



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Asset Class – Equities Special Sector Indices

Equities Special Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Thomson Reuters Venture Capital Index	34%	8%	6%



We found bubble warning signals in VC indices half a year ago. There has been a correction, but the very strong momentum picked up traction again.

Source: Thomson Reuters Eikon

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Asset Class – Currencies

FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
US Dollar/Argentine Peso	46%	41%	40%
US Dollar/Hungarian Forint	12%	34%	41%
US Dollar/Swedish Krona	13%	34%	70%
US Dollar/Czech Koruna	15%	23%	35%
US Dollar/Chilean Peso	19%	10%	14%
US Dollar/Russian Rouble	22%	8%	16%

The USD Rules!

It is not in the list of red/orange signals in the table above, but we see first bubble signals in the EUR/USD cross.

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Asset Class – Currencies

The USD Rules!

Oct 1, 9:41AM GMT



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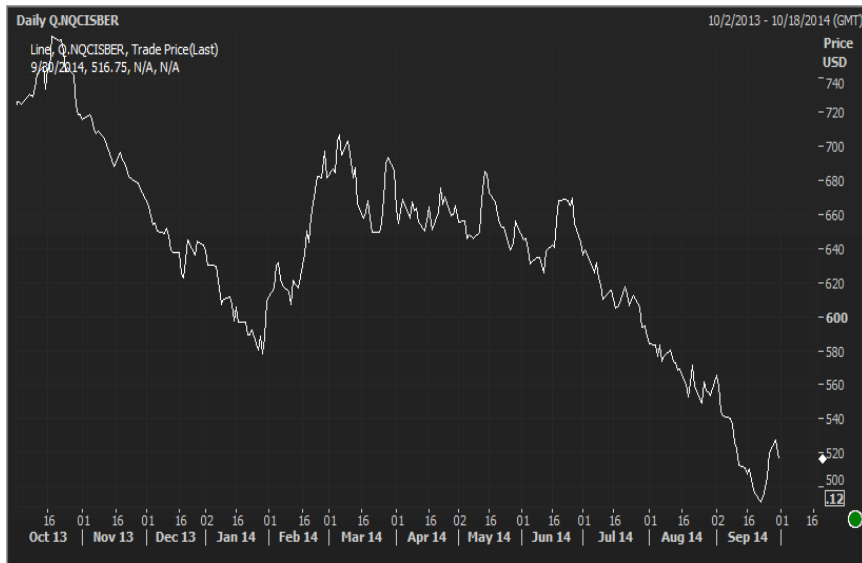
Asset Class – Commodities

Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Sugar ER Index	-26%	24%	30%
Soybean ER Index	-12%	13%	21%
Grains ER Index	-20%	12%	16%
Feeder Cattle ER Index	40%	12%	7%
Agriculture ER Index	-16%	12%	13%
Corn ER Index	-31%	10%	10%
White Sugar ER Index	-19%	10%	23%
Tin ER Index	-13%	8%	33%

- Soft commodities are free falling. This shows up as negative bubble signals;
- We see very strong price momentum in Feeder Cattle.

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Sugar



Soybeans



Source: Thomson Reuters Eikon

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Grains



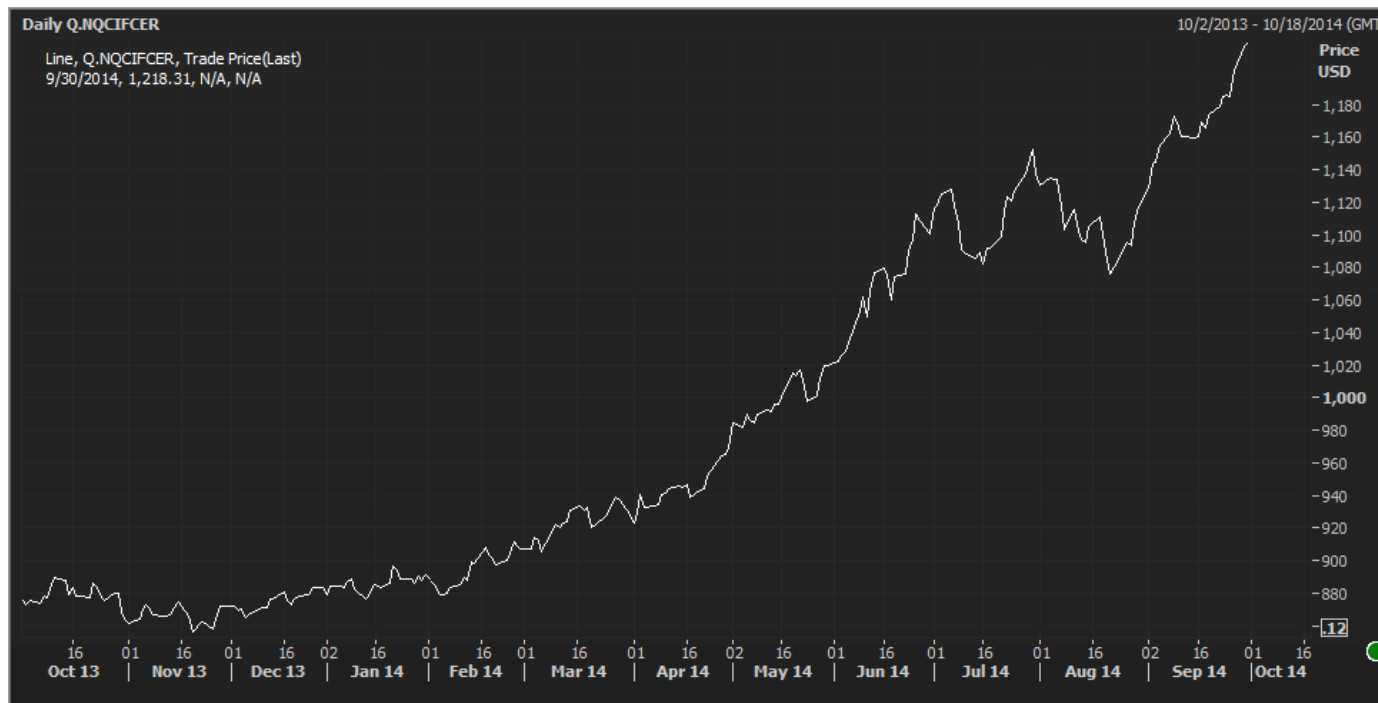
Corn



Source: Thomson Reuters Eikon

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Feeder Cattle



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Conclusion

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Fixed Income:

- A continuation of the very strong momentum in Fixed Income Indices;
- In warning signals, government bond indices have caught up with corporate bond indices;
- European debt is very expensive, market price loses touch with fundamental value.

Equities:

- A decrease in bubble warning signals in equities, especially in US and European sector indices;
- When looking at country equity indices, we see non-BRIC emerging markets moving into bubble territory;

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Equities (ctu'd):

There is some relaxation in the Emirates but price momentum is gaining traction again; Sectors that are hot:

- Software;
- biotech and health care;
- Venture Capital.

Currencies

The USD rules! With clear signs of bubble signals in many of its crosses.

Commodities

- Softs are free falling;
- Feeder Cattle continues its bubbly trajectory.