The FCO Cockpit – Global Bubble Status Report

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435 systemic assets are monitored

	# Assets	# Bubbles November 1st 2014	% Bubbles November 1st 2014	% Bubbles October 1st 2014	% Bubbles April 1st 2014	% Bubbles Feb 1st 2014
Fixed Income Indices	116	37	32%	46%	78%	7%
Government	33	22	67%	73%	44%	15%
Corporate	83	15	18%	35%	91%	4%
Equities Indices	185	12	6%	13%	20%	28%
Country	78	5	6%	21%	18%	21%
US-Sector	63	4	6%	11%	27%	50%
EUR-Sector	32	3	9%	3%	18%	13%
Special	12	3	25%	20%	18%	42%
Commodities	38	17	45%	24%	24%	3%
Currencies	96	41	43%	36%	22%	22%
Total	435	107	25%	28%	36%	19%

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435 systemic assets are monitored

Broad View:

- Decrease across the board in positive* bubble warning signals in equities;
- Slow down of strong increase in positive bubble warning signals in fixed income;
- Surge in negative° bubble warning signals in commodities related to the strong correction in oil and soft commodities;
- Continued increase in bubble signals in currencies, specifically associated with the strengthening of the USD and the weakening of the Russian Rouble.

+ A positive bubble warning signal is associated with a steep rise in prices e.g. when there is herding in buying.
° A negative bubble warning signal is associated with a steep decline in prices e.g. when there is herding in selling.

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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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We see strong negative bubble signals in energy related commodities. This is an indicator of a very strong selling sentiment in that market. The plot gives the one year history of Brent (orange) and WTI (purple) futures.

Source: Thomson Reuters Eikon

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We see strong negative bubble signals in Russian Rouble and strong positive bubble signals in USD. The cross gives the classical trajectory of a bubble. The faster than exponential rise in the market price shows up in the bubble signals.

Source: Thomson Reuters Eikon

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Asset Class – Fixed Income Country Indices

Fixed Income Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Belgium Index	11,3%	32,0%	9,2%
iBoxx Asia India Government Index	12,2%	15,8%	11,2%
iBoxx EUR Spain Index	13,4%	15,8%	8,5%

- India is an interesting newcomer in the list where a strong price momentum may have been amplified by the positive sentiment in financial markets after the election of Narendra Modi;

- Even if there seems to be some leveling of GIPSI fixed income country indices, it is our opinion that the asset class is not fairly priced.

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iBoxx Fixed Income Index for India, rebased, year-to-date

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

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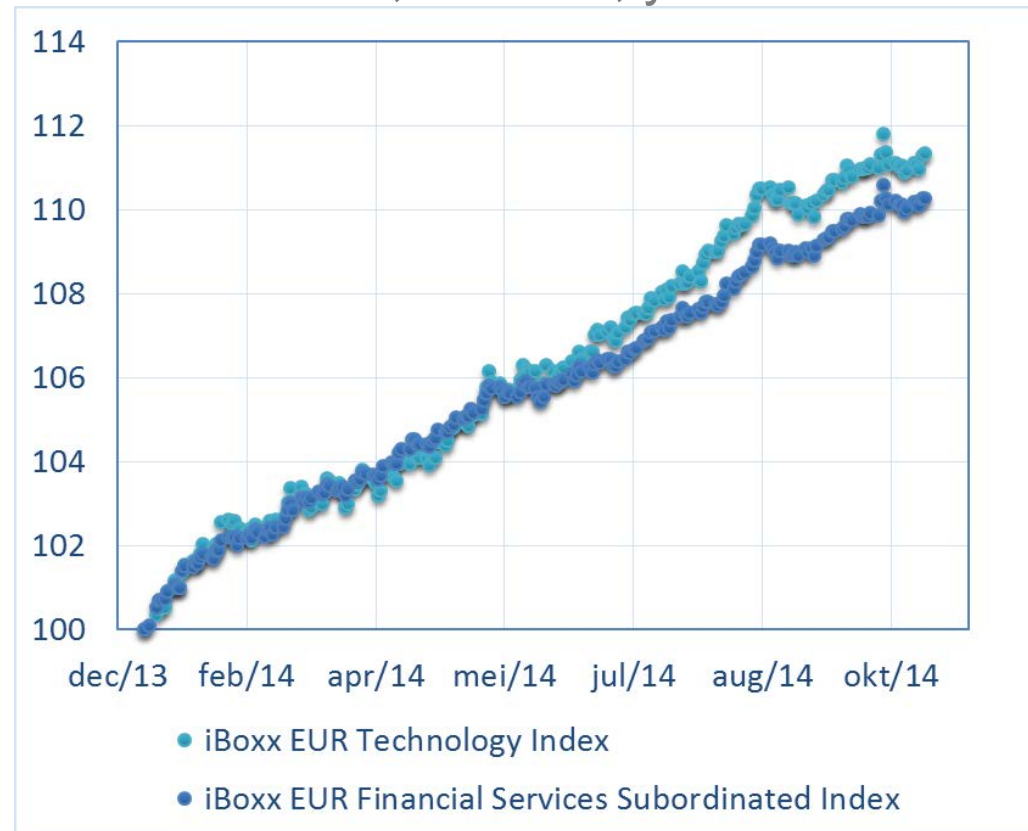# Global Bubble Status November 1st, 2014

Asset Class – Fixed Income Sector Indices

Fixed Income Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Technology Index	10,4%	45,6%	23,5%
iBoxx EUR Financial Services Subordinated Index	11,4%	39,5%	32,4%

- In European Fixed Income sector indices, we see a stabilization in bubble signals after a recent surge;

- Of the 29 iBoxx sector indices that show bubble signals, 14 are European and only 1 is a US index. We see that Financial Services Sub and Technology give the strongest signals.

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Historical evolution of Tech and Financial Sub, EUR Fixed Income Indices, rebased, year-to-date

- iBoxx EUR Technology Index
- iBoxx EUR Financial Services Subordinated Index

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

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Asset Class – Equities Country and Sector Indices

Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Country
Buenos Aires SE Merval Index	116%	37%	13%	Argentina
CSE All Share Index	23%	35%	7%	Sri Lanka
Euronext Lisbon PSI 20 Index	-16%	10%	15%	Portugal

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
S&P 500 Diversf Financi Serv(Ind)	25%	18%	6%
S&P 500 Road & Rail (Industry)	39%	8%	17%

• We see a general decrease of bubble signals in equity indices;
• There are no signals of significant interest in Europe only two sectors with modest signals in the US;
• Interestingly, there is a negative bubble signal in Portugal. This was set off in the summer of 2014 when Banco Espirito Santo, one of the country's largest banks, collapsed and needed a government rescue.

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 Comparison of the Portugal PSI 20 index with the Euro Stoxx Index. The de-coupling was triggered when Banco Espirito Santo collapsed under its debt pile this summer. Now, we see negative bubble signals in the portuguese Equity index.

Source: Thomson Reuters Eikon

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Asset Class – Equities Single Stocks

For equities Indices, except for the negative signal on the Portuguese PSI 20, there are no signifant bubble indications.

Therefore we did 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 Heng Seng and Nikkei constituents with a market cap higher than $ 15 bn.

In total, we analyzed 223 stocks, 25 of these show bubble signals (5 negative and 20 positive bubbles). We give the most interesting names in the next table. It is interesting to notice that 4 are pharmaceutical companies.

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Asset Class – Equities Single Stocks

Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Henderson Land Development Co Ltd	25,3%	22,6%	9,6%
Fujifilm Holdings Corp	54,1%	20,3%	14,6%
Microsoft Corp	32,8%	19,2%	12,1%
Novartis AG	26,8%	14,6%	27,2%
Gilead Sciences Inc	57,8%	12,8%	14,3%
Shin-Etsu Chemical Co Ltd	27,4%	12,2%	20,6%
Altria Group Inc	29,8%	11,9%	32,7%
Astellas Pharma Inc	55,6%	10,7%	18,1%
Union Pacific Corp	53,8%	8,1%	15,8%
Home Depot Inc	25,2%	7,7%	12,6%
CVS Health Corp	37,8%	6,5%	10,3%

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Asset Class – Equities Single Stocks

For single stocks, there are quite some strong signals in Pharmaceuticals independent of geography (Japan, Europe or the US)

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Asset Class – Currencies

| FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
US Dollar/Argentine Peso	43%	43%	11%
US Dollar/Swedish Krona	13%	39%	34%
US Dollar/Czech Koruna	16%	36%	15%
US Dollar/Russian Rouble	32%	30%	54%
US Dollar/Hungarian Forint	11%	29%	7%
US Dollar/Norwegian Krone	13%	18%	46%
Russian Rouble/Swiss Franc	-20%	20%	33%
Russian Rouble/Euro	-19%	15%	27%

USD continues strenghtening and Russian Rouble continues weakening. There is very strong moment in both currencies.
The USD shows positive and the Russion Rouble shows negative bubble signals.

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Asset Class – Currencies

The USD Rules!
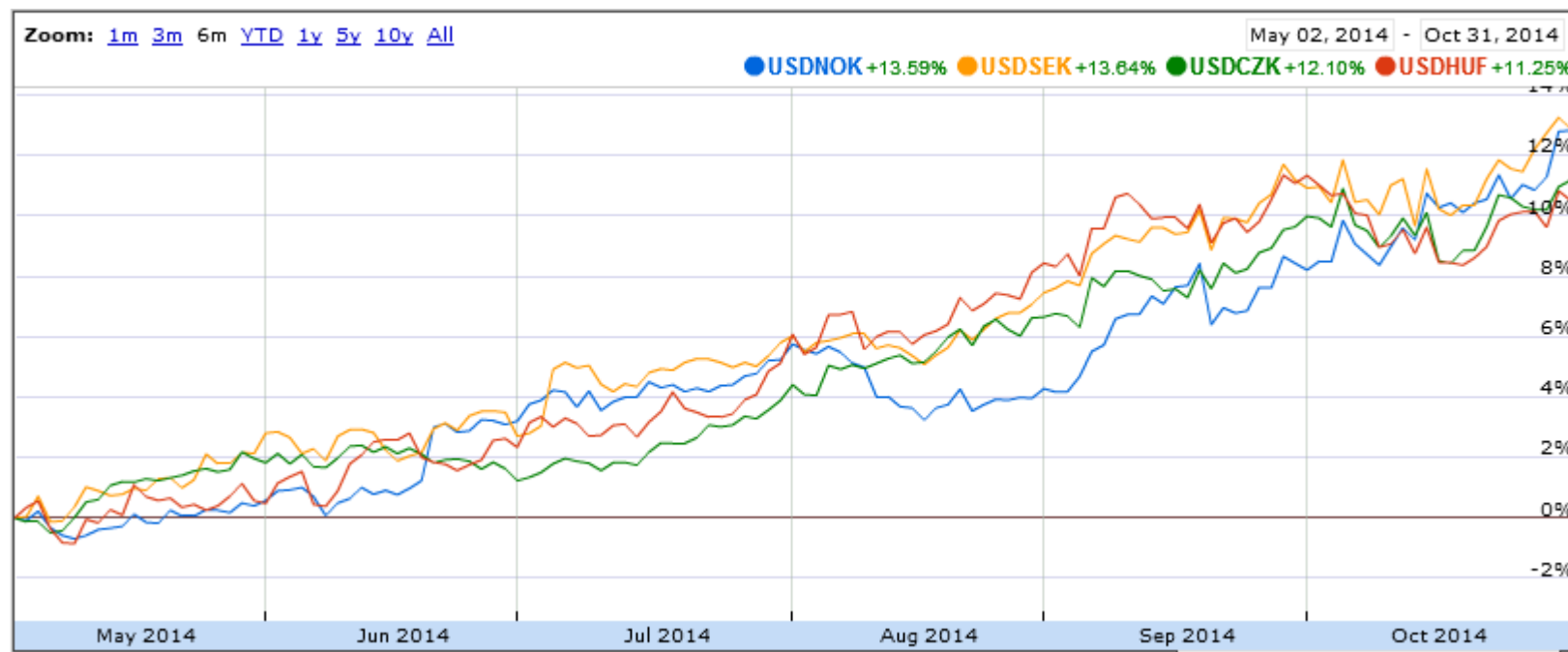
Source: Google Finance

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Asset Class – Currencies

The Swiss Franc Russian Rouble Fx Cross Rate shows strong bubble behaviour.

Source: Thomson Reuters Eikon

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Asset Class – Commodities

Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Sugar ER Index	-30%	33%	13%
Tin ER Index	-14%	24%	33%
Gasoil ER Index	-19%	19%	38%
Heating Oil ER Index	-11%	15%	29%
Energy ER Index	-12%	14%	45%
Brent Crude ER Index	-18%	12%	41%
Feeder Cattle ER Index	41%	12%	12%
Petroleum ER Index	-13%	10%	42%
Gasoline ER Index	-11%	8%	38%
Live Cattle ER Index	28%	8%	19%
Platinum ER Index	-15%	8%	17%
Silver ER Index	-27%	7%	7%
Wheat ER Index	-26%	5%	6%

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Asset Class – Commodities

- For commodities we see mainly <u>negative bubble signals</u>:
    1. The most striking is the negative bubble signals in energy related products such as Brent, Petrolium, Gasoline, Heating Oil, Gasoil;
    2. Soft commodities like sugar and wheat showed up strongly already in the report of last month;
    3. Now we also see metals like Tin, Silver and Platinum.

- The <u>positive bubble signals</u> in Live Cattle and Feeder Cattle are very persistent and are indicative of a long term very strong momentum.
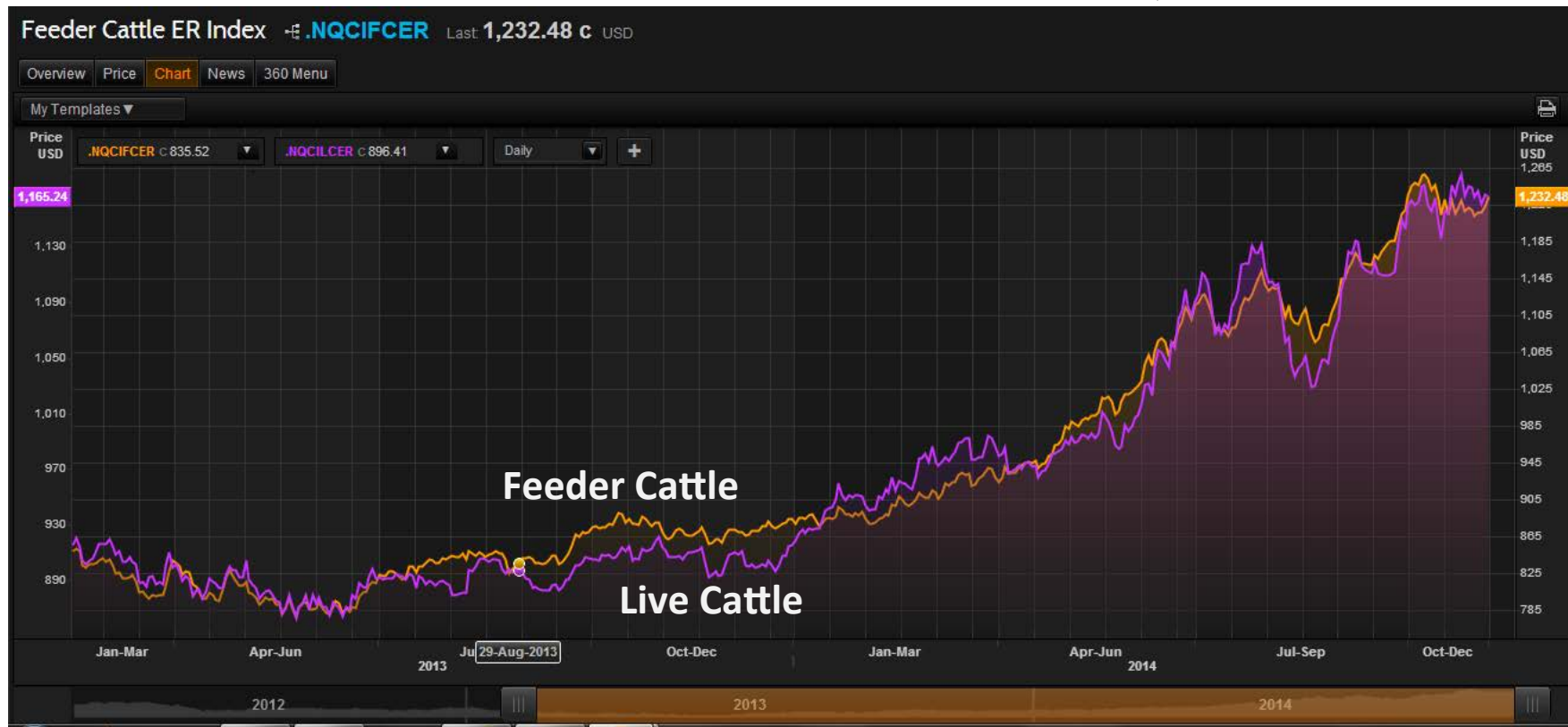
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Sugar continues its very strong downward trend and has been showing up as a negative bubble signal since last month.

Source: Thomson Reuters Eikon

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Live Cattle prices continue to defy gravity. The positive bubble signals have been there for two months. The momentum is extremely strong, the question is when this long term bubble is going to burst.

Source: Thomson Reuters Eikon

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Energy and oil related indices have been free-falling and are testing out new (lower) price levels. This is directly related to the recent falling oil prices. The dynamic shows up as negative bubble signals across all indices. This suggests that the strong sentiment is an over-reaction in the market.

Source: Thomson Reuters Eikon

Conclusion

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Fixed Income:
- The strong momentum in country and sector indices is levelling off but, still, European debt seems quite expensive, with market prices loosing touch with fundamental value and risk;
- There is an interesting positive bubble signal in the iBoxx India index triggered by the election of Modi last May.

Equities:
- Bubble signals are relaxing across the board;
- There is an interesting negative bubble signal in the Portuguese PSI 20 triggered by the collapse of Banco Espirito Santo last August;
- For single stocks, positive bubble signals are showing up in pharmaceuticals.

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Currencies

- The USD continues its fast track showing positive bubble signals in many crosses;
- The Russian Rouble continuous its collapse.

Commodities

- Sugar continues falling, this is turning into a long term bubble signal;
- The opposite is true for Live Cattle, it is a matter of time before we will see a correction here;
- We see negative bubble signals in oil related products, driven by the steep decline of oil over the past months.