The FCO Cockpit – Global Bubble Status Report

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Chair of Entrepreneurial Risk

December 1st, 2015

The FCO Cockpit –
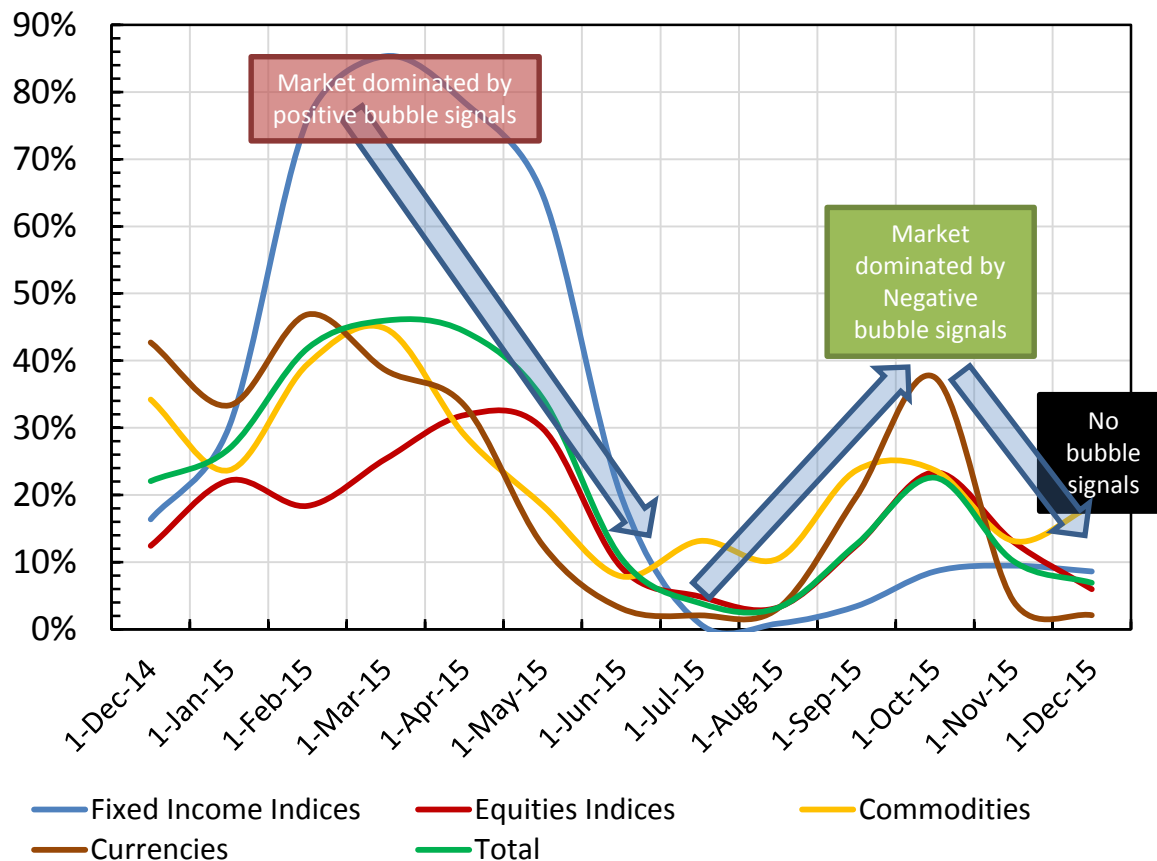# Global Bubble Status December 1st, 2015

Main conclusion of this report:

Last October, assets related to materials, industrials, commodities, exports, … all got hammered. This could clearly be seen in the large number of negative bubble signals in those assets, which are an indication of an extreme negative sentiment.

In November and December, an easing can be observed. The negative bubble signals in commodities, and in stocks, bonds and currencies of commodities exporting countries have faded away.

The low number of bubble signals, either positive (when there is herding in buying) or negative (when there is herding in selling), is indicative of a general easing in global markets.

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Bubble Fraction per asset class

Market dominated by positive bubble signals

Market dominated by Negative bubble signals

No bubble signals

Legend: Fixed Income Indices — Equities Indices — Commodities — Currencies — Total

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.

- From January to May, positive bubble signals were observed on a broad scale across global markets;
- June and July, these faded away when the correction set in;
- In September and October we saw negative bubble signals with a huge correction in commodities and currencies and equities in commodities exporting countries;
- Now, in December, both positive and negative bubble signals have faded away. We have entered calm markets.

The table on the next slide gives the detailed numbers.

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433 systemic assets are monitored

	# Assets	# Bubbles December 1st 2015	% Bubbles December 1st 2015	% Bubbles November 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%	9%	9%	3%	1%	1%	20%	65%	78%	85%	76%	30%
Government	34	5	15%	12%	12%	6%	3%	3%	21%	68%	76%	88%	82%	67%
Corporate	82	5	6%	9%	7%	2%	0%	0%	20%	63%	79%	84%	73%	16%
Equities Indices	184	11	6%	13%	23%	13%	3%	5%	9%	30%	32%	25%	18%	22%
Country	77	6	8%	17%	25%	12%	0%	8%	17%	29%	32%	21%	21%	21%
US-Sector	63	5	8%	6%	24%	17%	10%	3%	5%	10%	14%	21%	27%	38%
EUR-Sector	32	0	0%	19%	22%	9%	0%	0%	0%	69%	78%	56%	3%	3%
Special	12	0	0%	8%	17%	0%	0%	8%	8%	42%	33%	0%	0%	0%
Commodities	38	7	18%	13%	24%	24%	11%	13%	8%	18%	29%	45%	39%	24%
Currencies	95	2	2%	4%	38%	20%	3%	2%	3%	13%	33%	39%	47%	33%
Total	433	30	7%	10%	23%	13%	3%	4%	11%	34%	44%	46%	42%	27%

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Fixed Income

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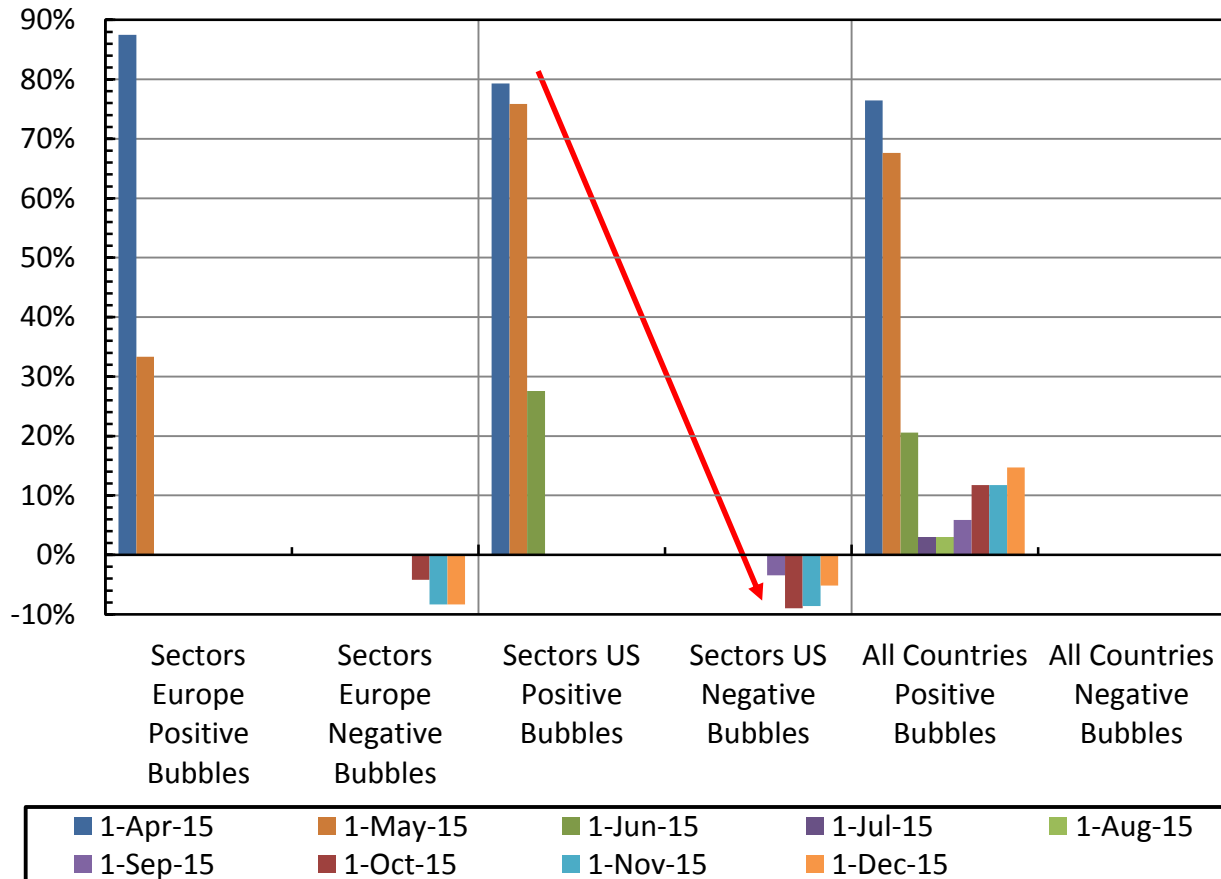
April/May 2015, many, if not most, fixed income indices gave bubble warnings. This was followed by a correction and, logically, a drop in warning signals that has been as sudden as its prior rise.

Now, in December, besides some Asian country indices, any bubble signals in the fixed income asset class are negligible.

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Asset Class – Fixed Income Indices

Fixed Income Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx Asia India Government Index	9.1%	42.7%	32.3%
iBoxx Asia Taiwan Government Index	6.0%	35.4%	6.6%
iBoxx Asia China Government Index	5.8%	27.9%	48.6%
iBoxx Asia Thailand Government Index	4.5%	8.6%	32.3%
Fixed Income Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Basic Resources Index	-11.8%	18.7%	8.4%
iBoxx USD Oil Equipment, Services & Distribution Index	-8.9%	17.9%	28.9%
iBoxx USD Mining Index	-11.0%	14.4%	18.8%
iBoxx USD Basic Resources Index	-9.3%	14.1%	11.3%
iBoxx EUR Automobiles & Parts Index	-2.0%	7.3%	22.9%

We see positive bubble signals in Asian country indices and negative bubble signals in basic resources, mining, automobiles, materials and oil equipment. On a global scale, these signals are negligible, compared to earlier this year.

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). We see a rebound after the sharp correction in September.

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Broad View: This plot shows the performance of some major equity indices year-to-date (the time series are rebased to 100). This graph confirms that the rebound in stocks is global affecting China (yellow and grey), the US (orange), Japan (purple), Europe (green), Hong Kong (blue) and Brazil (red).

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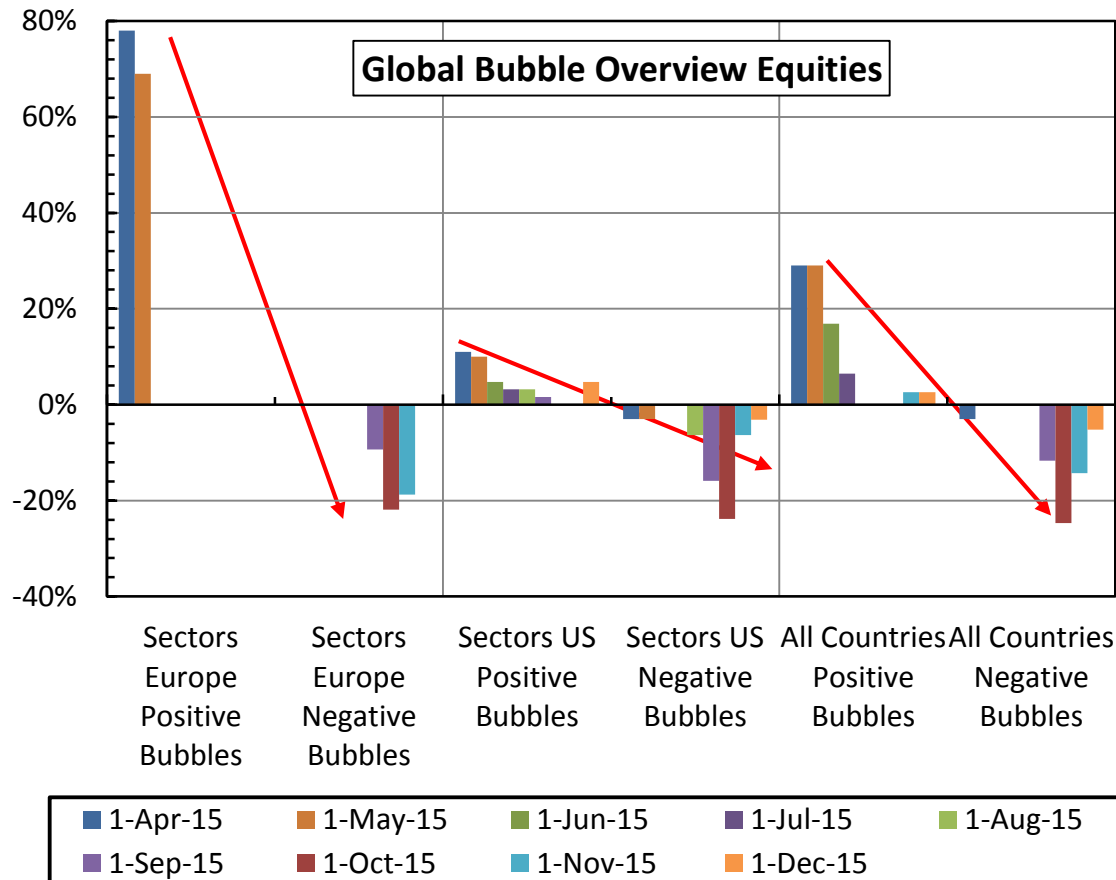
Bubble warning signals in equities have followed a similar path as in the fixed income asset class.

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

In the last three months we only see negative bubble signals, BUT, since the current rebound, these are also fading away.

The results suggest a general easing in global markets. Markets are calming down and we do not see any significant bubble signals, either negative or positive.

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Asset Class – Equity Country Indices

Equities Country Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Country
Positive Bubbles				
SAX Index	37.5%	22.7%	40.9%	Slovakia
OMX Riga_GI	39.0%	16.5%	5.6%	Latvia
Negative Bubbles				
PFTS Index	-36.9%	25.0%	52.0%	Ukraine
CSE General Index	-18.9%	9.9%	36.3%	Sri Lanka
Colombia SE General Index	-31.5%	7.5%	29.9%	Colombia
Dubai Financial Market General Index	-23.9%	7.0%	20.7%	Dubai

In equities country indices, we observe mainly scattered negative and positive bubble signals. There is no trend, no synchronised movement.

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Asset Class – Equities Country Indices

The Slovakian stock index bears the hallmark of a positive bubble signal

The Slovakian stock index (purple) clearly shows the fingerprint of a positive bubble, with faster-than-exponential growth. In this plot, the index is compared to the Eurostoxx (orange). Both time series are rebased to 100.

Source: Thomson Reuters Eikon

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Asset Class – Equities Country Indices

It is interesting to take a look back at the Dubai Financial Market index. We had positive bubble signals on April1st, 2014 (first white arrow), now, on December 1st, 2015 (second white arrow) we see negative bubble signals.

Source: Thomson Reuters Eikon

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Asset Class – Equity Sectors

Equities US Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Positive Bubbles			
S&P 500 Internet&Catalog Retail	85.0%	13.7%	43.9%
S&P 500 Building Products	30.5%	8.2%	35.0%
S&P 500 Internet Software&Serv	36.4%	7.9%	29.7%
Negative Bubbles			
S&P 500 Indp Pwr Prdcr&EngTrdrs	-50.1%	28.5%	33.9%
S&P 500 Multiline Retail	-7.7%	17.5%	22.5%
Equities EUR Sector Indices			
Positive Bubbles			
None			
Negative Bubbles	Yearly Return	DS LPPL Trust	DS LPPL Confidence
None			

In equities sector indices, we observe a very strong positive bubble signal in Internet & Catalog Retail (that is Amazon, Priceline, Netflix, Expedia and Tripadvisor). There are no bubble signals whatsoever in European equities sectors.

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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, 6 show positive and 9 show negative bubble signals. Last month, there were 7 positive and 20 negative bubble signals
The month before, there were 5 positive and 44 negative bubble signals.

The analysis on single stocks confirms the general trend: negative bubble signals are fading. The general negative sentiment is easing.

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Asset Class – Equities Single Stocks

Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Sector	Country
Positive Bubbles					
Amazon.com Inc	112%	20%	51%	Other Department Stores	US
Starbucks Corp	52%	10%	16%	Other Restaurants & Bars	US
Facebook Inc	41%	12%	34%	Social Media & Networking	US
Nike Inc	34%	28%	50%	Sports & Outdoor Footwear	US
Negative Bubbles					
Qualcomm Inc	-29%	14%	17%	Other Communications & Networking	US
Wal-Mart Stores Inc	-30%	41%	53%	Other Miscellaneous Specialty Retailers	US
Electricite de France SA	-45%	17%	33%	Conventional Electricity	EU

Bubble signals in single stocks show no surprises:
- Positive bubble signals on Amazon, Starbucks, Facebook and Nike;
- Negative bubble signals on Qualcomm, Wal-Mart and EDF.

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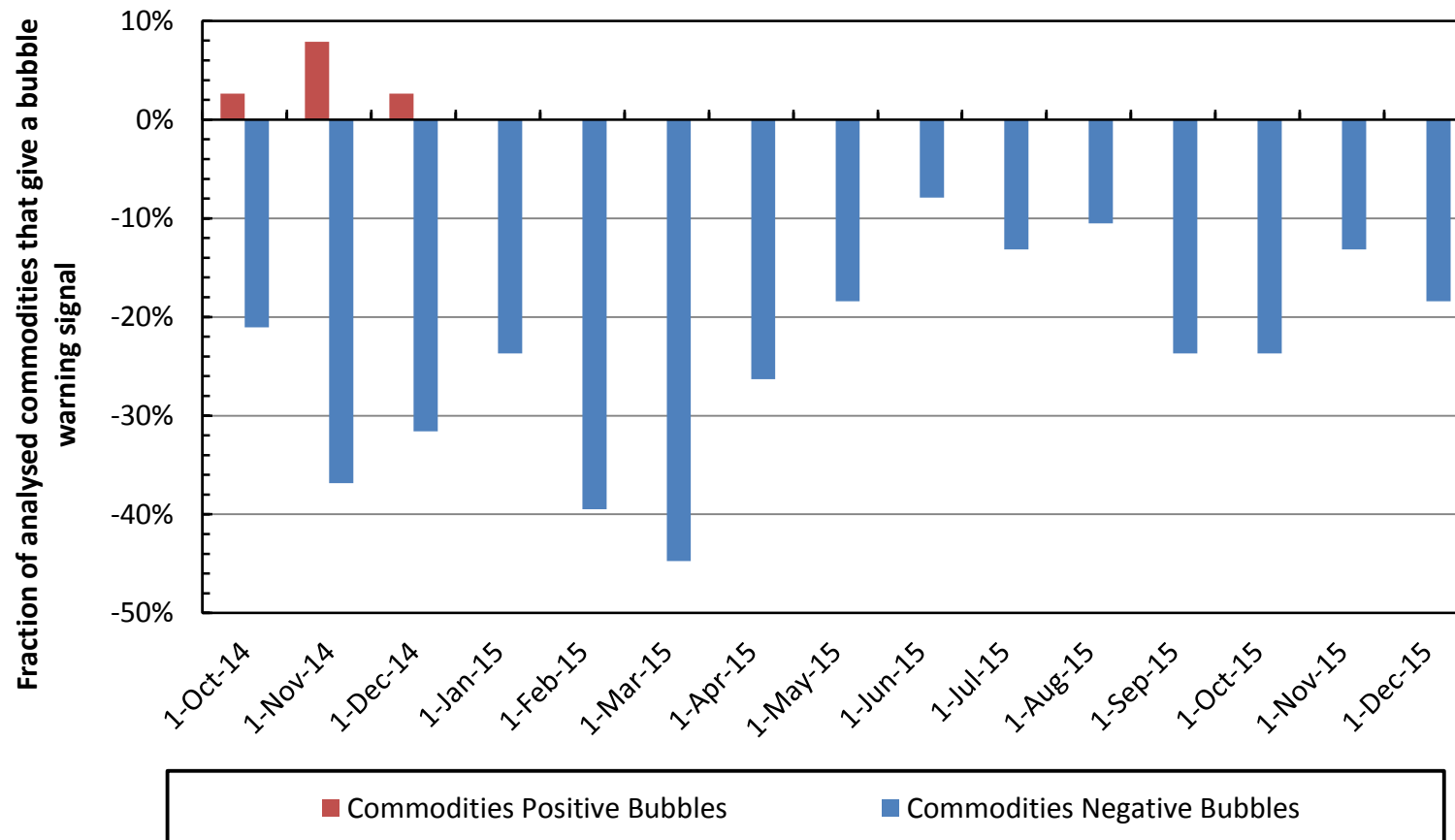
Asset Class – Equities Single Stocks

Commodities

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Global Bubble Overview Commodities

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Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Negative Bubbles			
Natural Gas ER Index	-56%	19%	40%
Live Stock ER Index	-25%	11%	36%
Live Cattle ER Index	-21%	11%	25%
Aluminum ER Index	-27%	11%	20%
Feeder Cattle ER Index	-27%	10%	28%
Zinc ER Index	-33%	8%	10%
Platinum ER Index	-28%	6%	21%

FX	Yearly Return	DS LPPL Trust	DS LPPL Confidence
US Dollar/Argentine Peso	14%	33%	67%
US Dollar/South African Rand	26%	11%	19%

The massive amount of negative bubble signals that we have seen in the previous months in commodities and in the currencies of commodities exporting countries have disappeared. Now, the most striking is the negative bubble in Cattle.

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Asset Class – Commodities

It is interesting to take a look back at Live Cattle. We had a positive bubble signal on November 1st, 2014 (first white arrow), then, on October 1st, 2015, we saw a first negative bubble signal (second white arrow). This was followed by a rebound. Now we see a second negative bubble signal (third white arrow). This is a nice example of the rollercoaster that (soft) commodities are in.

Source: Thomson Reuters Eikon

Conclusion

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We see all bubble signals fading away across all asset classes:

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

This suggests that we have entered calm markets.