The FCO Cockpit – Global Bubble Status Report

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November 1st, 2015

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

Main conclusion of this report:

Last month, 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.

Now, an easing is observed. The negative bubble signals in commodities, and in stocks, bonds and currencies of commodities exporting countries are fading 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

Legend: Fixed Income Indices, Equities Indices, Commodities, Currencies, Total
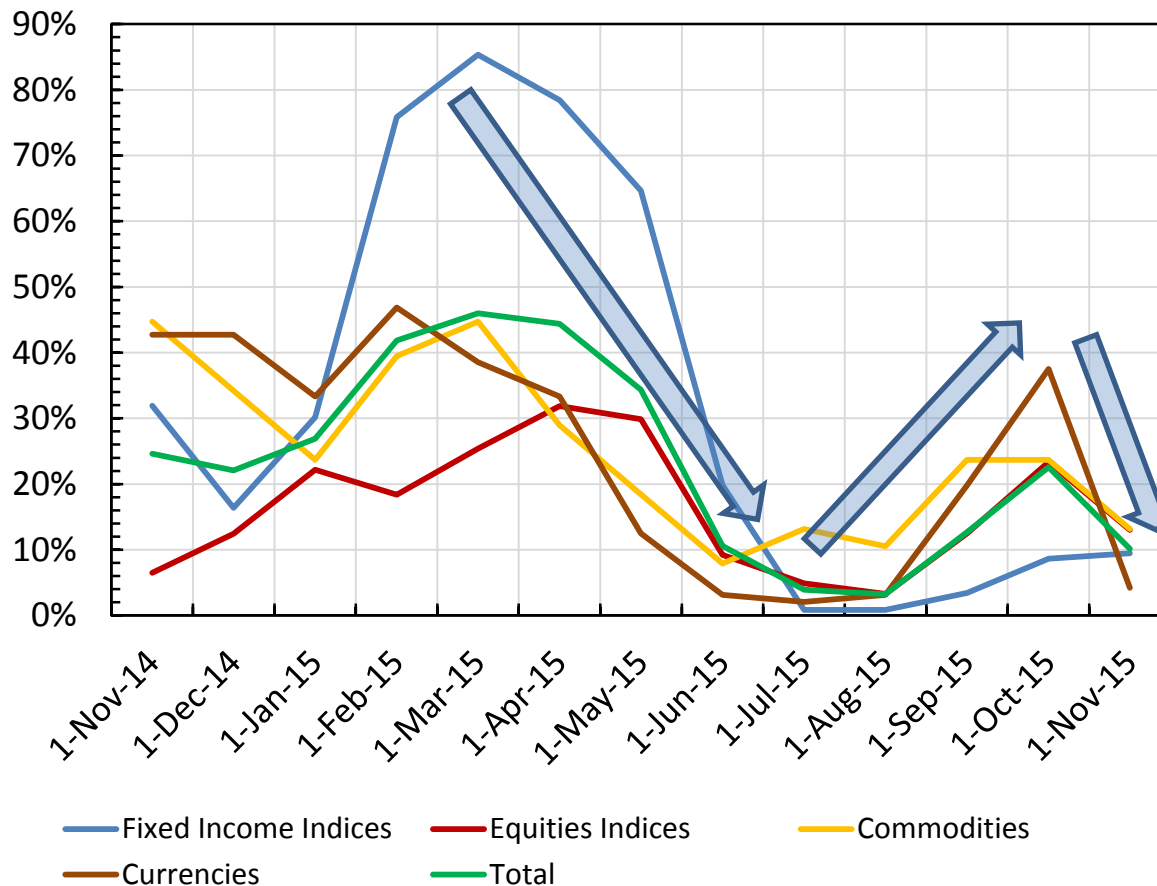
For a number of systematic assets and indices, we calculate the fraction that show bubble warning signals. This graph shows the historical evolution of this fraction for different asset classes.

- 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 November, an easing is observed, where we see negative bubble signals fading away.

The table on the next slide gives the detailed numbers.

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433 systemic assets are monitored

	# Assets	# Bubbles November 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
Fixed Income Indices	116	11	9%	9%	3%	1%	1%	20%	65%	78%	85%
Government	34	4	12%	12%	6%	3%	3%	21%	68%	76%	88%
Corporate	82	7	9%	7%	2%	0%	0%	20%	63%	79%	84%
Equities Indices	184	24	13%	23%	13%	3%	5%	9%	30%	32%	25%
Country	77	13	17%	25%	12%	0%	8%	17%	29%	32%	21%
US-Sector	63	4	6%	24%	17%	10%	3%	5%	10%	14%	21%
EUR-Sector	32	6	19%	22%	9%	0%	0%	0%	69%	78%	56%
Special	12	1	8%	17%	0%	0%	8%	8%	42%	33%	0%
Commodities	38	5	13%	24%	24%	11%	13%	8%	18%	29%	45%
Currencies	95	4	4%	38%	20%	3%	2%	3%	13%	33%	39%
Total	433	44	10%	23%	13%	3%	4%	11%	34%	44%	46%

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Fixed Income

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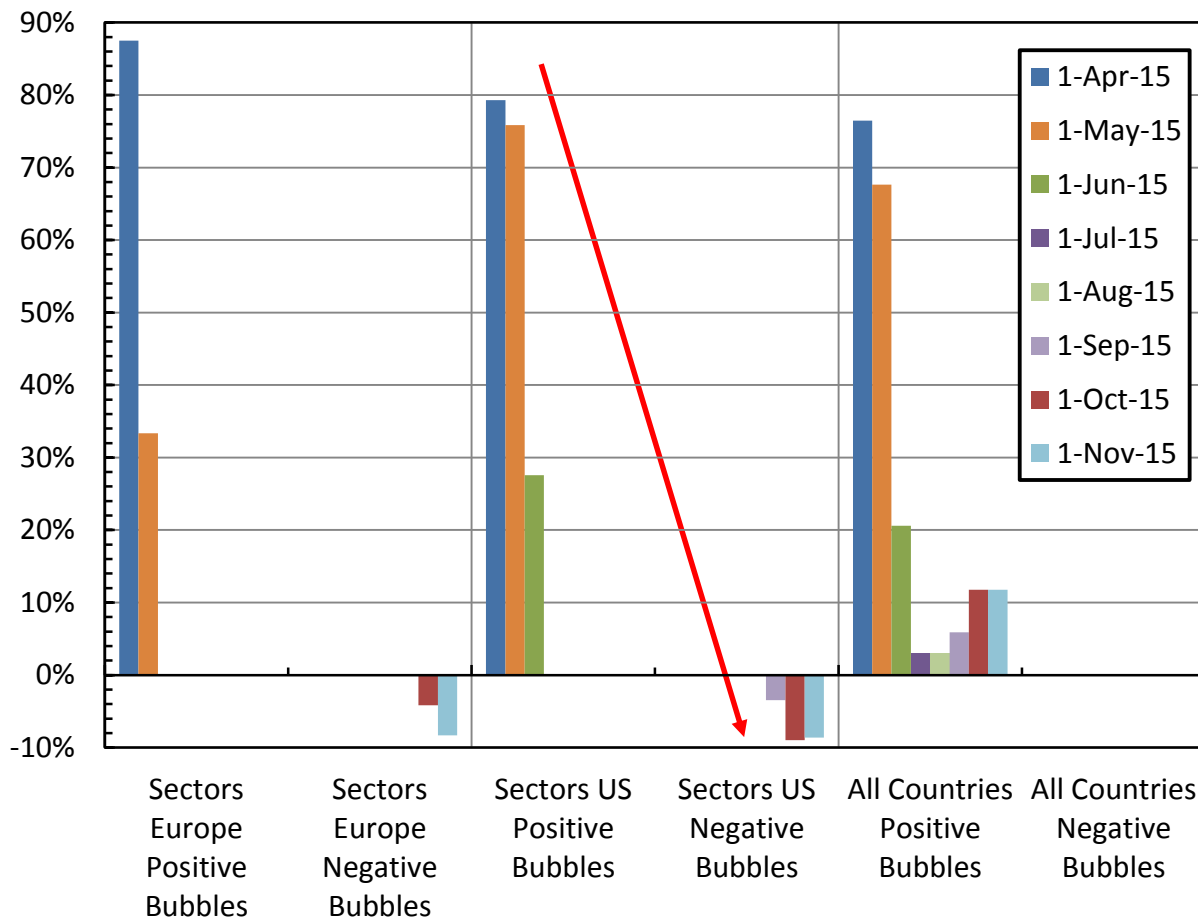
April/May 2015, many, if not most, fixed income indices gave bubble warnings. This was followed by a correction and, logically, a drop in warning signals that has been as sudden as its prior rise.

In the last months we have seen a shift towards negative bubble signals. These are mainly in basic materials..

The November results in Fixed Income indices merely confirm last month's readings.

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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	11,2%	34,9%	52,9%
iBoxx Asia Taiwan Government Index	5,8%	33,2%	14,6%
iBoxx Asia China Government Index	6,2%	17,7%	49,3%
iBoxx Asia Korea Government Index	5,4%	17,2%	24,2%
Fixed Income Sector Indices	Yearly Return	DS LPPL Trust	DS LPPL Confidence
iBoxx EUR Basic Resources Index	-9,0%	13,0%	32,4%
iBoxx USD Basic Resources Index	-5,0%	12,2%	17,2%
iBoxx USD Industrial Metals Index	-8,9%	11,8%	19,5%
iBoxx USD Oil Equipment, Services & Distribution Index	-6,7%	11,6%	14,6%
iBoxx USD Mining Index	-5,3%	9,0%	18,5%
iBoxx USD Basic Materials Index	-3,0%	8,2%	13,1%
iBoxx EUR Automobiles & Parts Index	-2,4%	7,9%	33,0%

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 agreement with the negative bubble signals in equities sector indices.

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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). We see a rebound after last months' sharp correction. This corresponds to the general easing of negative bubble signals that is observed in this report. The effect is global affecting Japanese, Chinese, European and American stocks.

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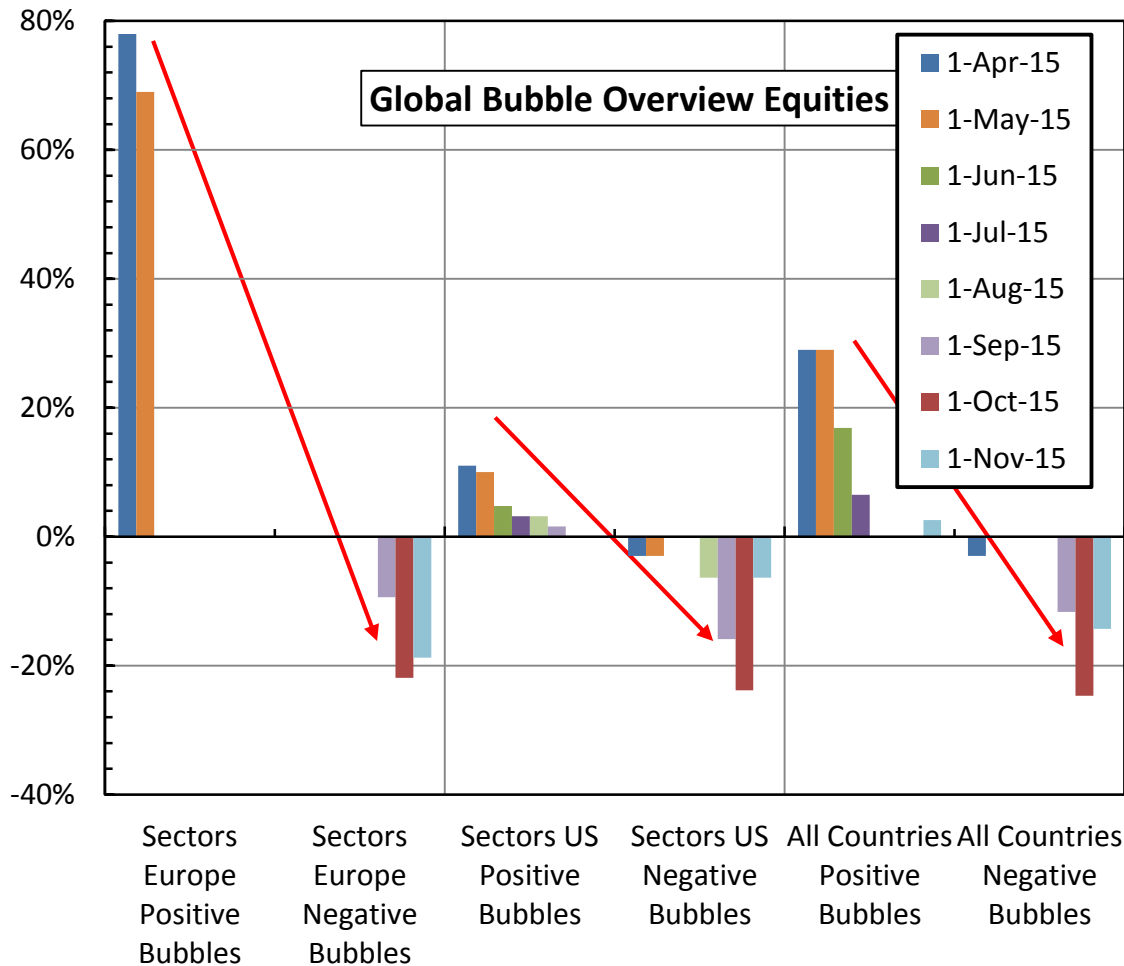
Bubble warning signals in equities have followed a similar path as in the fixed income asset class.

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.

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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	30,8%	8,0%	31,2%	Slovakia
OMX Riga_GI	41,3%	6,6%	38,3%	Latvia
Negative Bubbles				
Casablanca SE All Share Index	-10,7%	19,0%	33,9%	Morocco
PFTS Index	-37,2%	16,7%	47,2%	Ukraine
Jakarta SE Composite Index	-9,3%	15,8%	5,0%	Indonesia
Kuwait Main Index	-19,1%	13,0%	9,2%	Kuwait
TSX-Toronto Stock Exchange 300 Composite Index	-7,2%	11,5%	6,9%	Canada
FTSE Straits Times Index	-8,5%	10,6%	5,5%	Singapore

Last months' calculations showed only negative bubble signals with a strong bias towards commodities exporters. Now the results are more mixed and less extreme. We see an easing in the negative bubble signals in commodities exporters.

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Asset Class – Equities Country Indices

In this month's report we are picking up the first positive bubble signals again. This plot shows the Latvian stock index (green), the Slovakian stock index (purple), compared to the Eurostoxx (orange). The time series are rebased to 100.

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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	-19,9%	36,4%	11,3%
S&P 500 Indp Pwr Prdcr&EngTrdrs	-43,2%	22,9%	18,4%
Equities EUR Sector Indices			
Positive Bubbles			
None			
Negative Bubbles	Yearly Return	DS LPPL Trust	DS LPPL Confidence
STOXX Europe 600 Basic Resources EUR Price Index	-24,2%	17,8%	9,2%
STOXX Europe 600 Basic Materials EUR Price Index	-1,1%	12,4%	7,3%

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Asset Class – Equities Sector Indices

There are still some (rather weak) negative bubble signals in equities sector indices. This plot shows that the sectors that got hammered in the last half year are rebounding: auto's (green), basic materials (purple) basic resources (orange). The time series are rebased to 100.

Source: Thomson Reuters Eikon

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Asset Class – Equities Single Stocks

Next to the 185 global sector and country <u>equities indices</u>, we do a bubble analysis on <u>single stocks</u> 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, 7 show positive and 20 show negative bubble signals. Last month, 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. There are less negative bubble signals and we see a first increase in positive bubble signals.

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Asset Class – Equities Single Stocks

Single Stocks	Yearly Return	DS LPPL Trust	DS LPPL Confidence	Sector	Country
Positive Bubbles					
Facebook Inc	41%	10%	13%	Social Media & Networking	US
Amazon.com Inc	122%	8%	8%	Other Department Stores	US
Nike Inc	39%	22%	59%	Sports & Outdoor Footwear	US
Negative Bubbles					
Wal-Mart Stores Inc	-25%	31%	57%	Other Miscellaneous Specialty Retailers	US
Biogen Idec Inc	-9%	10%	10%	Biopharmaceuticals	US
Monsanto Co	-18%	25%	24%	Materials	US
Volkswagen AG	-44%	21%	31%	Automobiles & Components	EU
GDF Suez SA	-14%	17%	13%	Utilities	EU
Electricite de France SA	-31%	12%	17%	Utilities	EU
Komatsu Ltd	-25%	12%	15%	Capital Goods	JP
Toshiba Corp	-32%	22%	19%	Capital Goods	JP
Want Want China Holdings Ltd	-39%	15%	13%	Dairy Products	HK

Commodities

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Global Bubble Overview Commodities
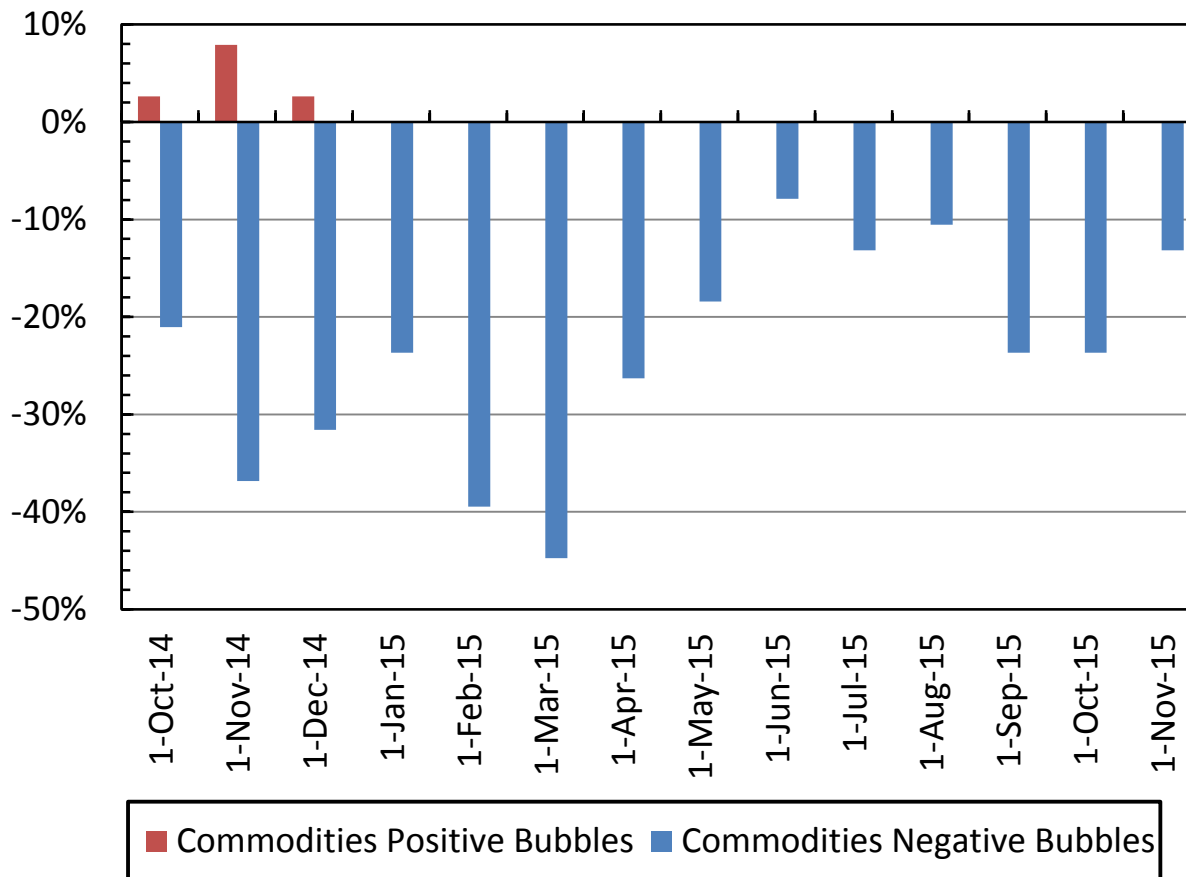
The calculations on commodities confirm the global picture. There is a decrease in negative bubble signals.

The strong negative sentiment of the last months that also affected stocks and currencies of commodities exporting countries is fading.

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Commodities	Yearly Return	DS LPPL Trust	DS LPPL Confidence
Negative Bubbles			
Aluminum ER Index	-31%	10%	8%
Natural Gas ER Index	-57%	9%	26%
Live Cattle ER Index	-17%	8%	14%
Feeder Cattle ER Index	-19%	6%	10%
Robsta Coffee ER Index	-22%	6%	6%
FX	**Yearly Return**	**DS LPPL Trust**	**DS LPPL Confidence**
South African Rand/Swiss Franc	-18%	16%	5%
Argentine Peso/US Dollar	-11%	39%	77%

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 are disappearing.

Conclusion

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In the last months we saw assets that are related to materials, industrials, exports, … all getting hammered. This could be seen in the large number of negative bubble signals. Negative bubble signals are an indication of a strong negative sentiment, when there is herding in selling.

Now we see these negative 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.