

The ‘fear index’ is looking more and more like a complacency index. Perhaps some worthy successor to Irving Fisher will announce that the VIX has reached what looks like a permanently low plateau. Both the U.S. Equity market and major markets worldwide have erupted into Unstable Expansions. These signs of overheating also occurred late in the cycle in 2000 and 2007, in what turned out to be ‘blow-off tops’. Maybe this time isn’t different after all.

The VIX Has A Very Short Memory

The VIX, often called the ‘fear index’, responds in a highly volatile way to losses in the S&P 500 Index as Figure 1 shows. But after its frantic reactions, the fear quickly fades from its ‘memory’.

The market rout in August 2015 saw the VIX spike from 14 to over 40. However, the burst of fear it reflected in January and February of 2016 only got it to 28 and it rapidly dropped back to half of that.

The UK referendum woke it up again briefly to nearly this level but by the time of the U.S. election all it could muster was a jump to 23. Since then it has been trending downward steadily and seems to have gone back to sleep around 11.

Unstable Expansions Always Signal Overheating

Omega Analysis’ risk measurement technology reveals predictable Risk Cycles that are leading indicators of market booms and busts. Unstable Expansions—unsustainable asset price increases—signal overheating and predict the level to which markets must correct as a result.

Late cycle bursts produced Unstable Expansion sig-

nals in the U.S. Equity market during the ‘Tech Bubble’ in 2000 and in the Credit Bubble in 2007 just prior to major declines as the bubbles burst.

The same occurred in the FTSE 100 Index where an Unstable Expansion emerged in Q1 2015 as the FTSE peaked at 7060. It then collapsed through the long term Correction Level of 6000 which we had predicted a year earlier.

Major Equity Markets are Again in Unstable Expansion—Is this the blow-off top?

In what may be a repeat of the past two tops in U.S. equities, the latest surge in the S&P 500 Index has produced an Unstable Expansion.

Likewise, major indices worldwide which are still trading far above their long term Correction Levels are exhibiting late cycle Unstable Expansions.

The effect is widespread enough to be present in the Stoxx® Global 1800 Index.

If the Correction Levels for these indices are breached it may signal the end not just for the Trump Rally but for the bull market that began in 2009.

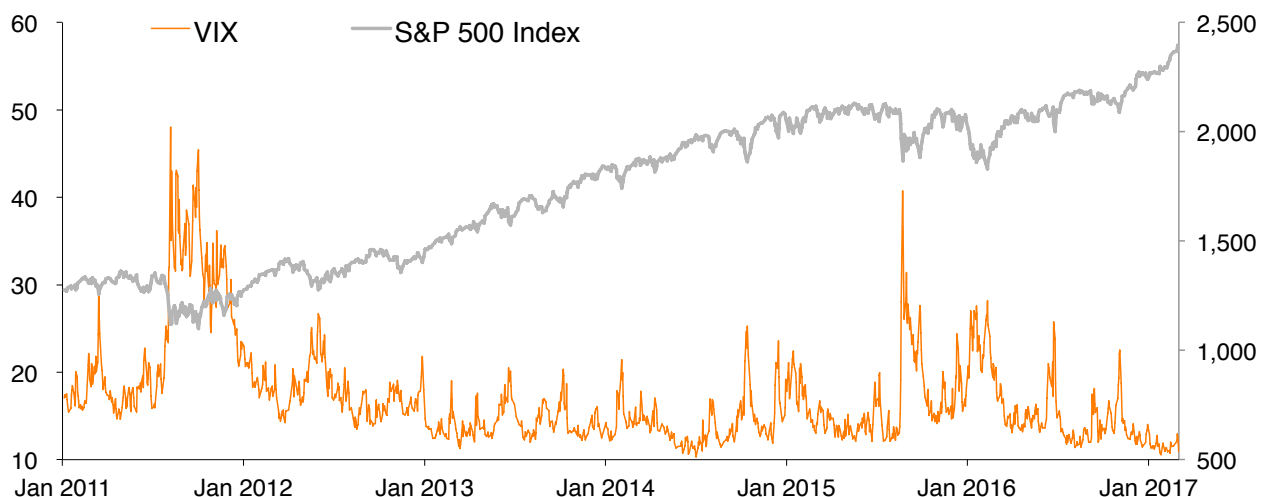


Figure 1. CBOE Volatility Index® (VIX) on left hand scale, S&P 500 Index on right hand scale.

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