Last week's new all-time high for the S&P 500 Index is merely a result of risk inflation. On a level risk basis, the S&P 500 Index would have closed at 2,064 on 15 August 2016, down over 3% from its May 2015 peak.

World Equity Indices Peaked in May 2015. Risk has risen inexorably since then.

Global equity markets peaked in May last year and, unlike the major US indices, have not regained that level. Even the S&P 500 Index which is well above its 2016 lows is up by less than 3% on May 2015.

Whatever effects stock buybacks or purchases by the SNB or the Bank of Japan may be having on the world's equity markets, there is a common theme to all of the 'recovery' from 2016 lows. Risk has risen to levels normally seen only in the midst of major market corrections.

Measured Not Modelled

Omega Metrics® Multi-day Value at Risk (VaR) and Expected Shortfall (ES) are measured from historic multi-day returns, not modelled by simplistic extensions of the daily levels. They have proved their accuracy in over a century of S&P 500 data.

The current 99% 5-day ES is 13.5%. A 5-day drawdown that should occur once every 5 months is expected to take almost 300 points off the S&P 500 Index–taking it back to its February 2016 low.

Global Equity Markets Peaked on 21 May 2015

Major global equity indices such as MSCI World or the Stoxx® Global 1800 show peaks on the same day in May 2015 when the S&P 500 Index reached its high for the year. They have yet to regain that level. Meanwhile, the VIX has returned to its near comatose May 2015 value of 12.

In May 2015 when these landmark levels were recorded, Omega Metrics® 99% 5-day ES measured less than two thirds of its current level.

On a Risk Adjusted Basis, the S&P 500 also Peaked in May 2015

On a constant risk basis, the S&P 500 has *declined in value* since May 2015. Figure 1 shows the actual S&P 500 Index along with the position that would have been achieved at the 5-day ES level of 21 May 2015.

The gain since the May 2015 peak can be attributed to the substantially higher drawdown risk in the US equity market.

The All Time High in the S&P 500 Index was Achieved on Drawdown Risk Steroids

If the World Anti-Doping Agency tested equity market all-time record holders for performance enhancing substances, last week's record high in the S&P 500 Index would be disqualified.

On a level risk basis, without the steroid effect of a massive increase in drawdown risk, the S&P 500 Index would have closed at 2,064 on 15 August 2016, down over 3% from the May 2015 peak.

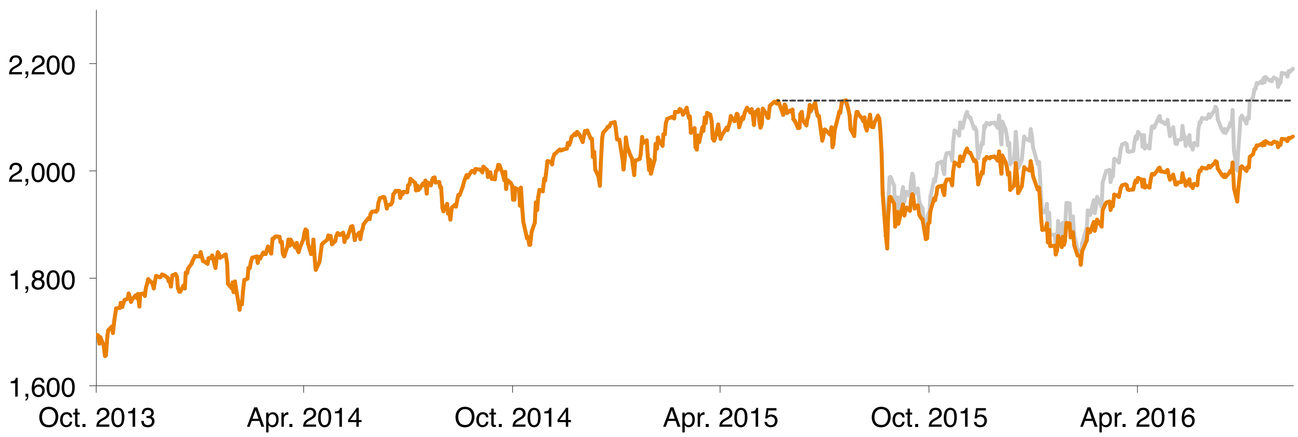

Figure 1. The S&P 500 Index (grey) and the NAV based on returns corrected to hold 5-day 99% ES at its 21 May 2015 level (orange).

Omega Analysis

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