The 'Brexit'-induced panic in equity markets has come at a time when the risk of multi-day drawdowns has already risen dramatically throughout the developed world.

The tail of the distribution of 10-day returns in the MSCI World Index is even fatter than the S&P 500. There is a high probability that global equity markets will experience drawdowns exceeding those of August 2011.

If that happens they are likely to match the losses of October 2008.

## Risk Has Exploded in Global Equity Markets

Omega Metrics® daily VaR and ES levels have risen inexorably over the past two years. The tail of the S&P 500 Index is much fatter than it was in 2014.

In 2014, a repeat of the loss on 19 October 1987 would have been expected only once in more than 200 years. Our current tail fit to the S&P 500 Index says that a repeat of that 20.4% loss is now a 1 day in 30 year event.

But the most serious risk to equity investors is not a catastrophic drop in a single day but a protracted drawdown such as was experienced in the summer of last year.

## Drawdown Risk Is Very High in the US Equity Market and in Europe

Omega Metrics® 10-day VaR and ES analysis shows that the 99% risk level for the S&P 500 has increased by over 32% in the past year. There is a high probability of exceeding the worst 10 day loss in August 2015. If that happens, we should expect a 10 day drawdown of more than 16%, a level last seen in August 2011. Both the FTSE 100 and the DAX 30 show a higher probability of even worse drawdowns than those which should be expected in the S&P 500.

## Drawdown Risk is Even Higher in Japan

As victory for the Leave campaign became more probable last night, the Nikkei 225 plunged by more than 8% before closing down 7.92%. But risk is so high in Japan that this was only a VaR breach at the daily 99% level. The daily 99% ES we measured at the end of last week was more than 9%.

The outlook for 10-day losses is bleak. In its worst two week period last August, the S&P 500 lost just over 10%. The Nikkei 225 lost 14%. The tail in the Nikkei 225 index is now so fat that a drawdown at least this great should be expected every 90 days. It hasn't happened since last summer–so one is long overdue.

The expected loss, should this occur, is over 22%–matching levels of October 2008. And the current tail fit says that we should expect such a horrific outcome–one last seen almost 8 years ago– every 300 days.

## The Global Equity Boom is Turning to Bust

Omega Analysis' risk measurement technology reveals predictable Risk Cycles which are leading indicators of market booms and busts.

Unstable Expansions–unsustainable asset price increases–emerge during market booms. They provide real-time Correction Levels that are predictions of the extent to which markets must fall in the subsequent downturn.

Equity markets worldwide went into Unstable Expansion by 2013. For the third time in 20 years, the market boom had turned into a major bubble as we announced in January 2014. By May 2015 the gap between the peak of the current market cycle and the Correction Level was over $12 Trillion.

## There's Nowhere to Hide from the Risk of Major Losses

The MSCI World Index of developed equity markets went into Unstable Expansion in 2013 and peaked at over 1,800 in May of 2015. We expect it to fall at least to 1,375 as the global equity boom turns to bust.

Last August, in its worst 10 day drawdown, the index lost just over 10%, matching the loss in the S&P 500. In the aftermath of the UK's Leave vote, it may plunge by that much again.

The current tail fit says we should expect this once every six months. The expected loss in excess of 10% is over 15.8%, a level last seen globally in August 2011. The tail in the Index is now so fat that we should see a loss at least this big once every two years. If that were to happen the likely drawdown would be over 24%.

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