The turning point from boom to bust in global equity markets arrived in July. Since then, risk levels have exploded in equities, commodities, sovereign debt and foreign exchange rates. Anti-bubbles of panic selling are emerging.

Predicting Market Booms and Busts

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

Unstable Expansions–unsustainable asset price increases–which emerge during booms provide predictions of the extent to which markets must correct in the subsequent downturn.

Equity markets world wide went into Unstable Expansion by 2013. Our assessment of the correction levels outstanding were published in January of 2014, well before the peak of the most recent market boom.[1]

Omega Metrics'® Downturn Indicator marks the transition from expansion to correction phases. The end of the global equity boom occurred in July of this year when the Stoxx® Global 1800 Index, entered its downturn phase with a correction of at least 30% expected.

Major developed markets have larger corrections to come and most have already marked the transition from boom to bust.

Risk Rises Dramatically in Correction Phases

During all previous correction phases, equity market risk has risen dramatically and this time is no different.

In the past year, the daily 99% Value at Risk and Expected Shortfall (ES) levels have risen by more than 60% in the Global 1800 Index. The 99% ES level for 5 day returns has risen by almost 50%. Risk Levels in the S&P 500 Index and the MSCI Emerging Markets Index have risen by over 40%.

High Yield Corporate Debt matched the Unstable Expansion of the equity markets. The S&P U.S. Issued High Yield Corporate Bond Index has a correction level more than 35% below its recent peak. Five day ES levels are now 40% higher than they were a year ago.

Risk Alarms are Ringing in Sovereign and Corporate Bonds

The traditional 'Safe Havens' of U.S. and German Government Bonds are also experiencing an explosion in risk. The 99% 1 day ES on U.S. 10 Year Treasury yields has risen by over 50% in the past year. In yields on 10 Year German Bunds it has trebled in the same period.

The Next Phase of the Risk Cycle

During the downturn phase, Unstable Contractions–anti-bubbles of panic selling–can emerge. These are particularly dangerous periods for long positions and can be extremely profitable for shorts.

Unstable Contractions in High Grade Copper and in Brent Crude Oil were confirmed by the end of Q2 of this year. Since the onset of the Unstable Contraction in the oil price, the exchange rates of Brazil, Canada and Norway against the US dollar have fallen rapidly. The risk levels in those currency pairs have also risen dramatically.

The impact of China's slowdown has spread to other commodities as well. Risk Levels in the CRB Commodities Index have also ballooned.

[1] W. F. Shadwick, *Market Cycles, Risk Measurement and Early Warning of Asset Price Bubbles*, Fields Institute Quantitative Finance Seminar, 29 January 2014. Copies are available from Risk@OmegaAnalysis.com.

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