

In spite of repeated ‘dead cat’ bounces, global equity markets have never regained their May 2015 peak. The gap between that peak and the Correction Level is over \$12 Trillion. When the cat stops bouncing, losses could exceed \$18 Trillion.

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—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 2014¹. By May 2015 the gap between the peak of the current market cycle and the Correction Level was over \$12 Trillion.

Downside Risk is Increasing as Tails Fatten

In the past year the magnitude of the 1 in 100 day loss in the STOXX® Global 1800 Index has exploded. That VaR level is now 57% higher than it was a year ago. But the Expected Shortfall—the average loss we should expect when the VaR level is breached—has gone up by 63%.

This means that not only is risk rising rapidly but the downside tail is becoming fatter and extreme losses are becoming more probable. At the same time, the 1 in 100 day loss for a short seller has increased by 54% but the ES is up by 51%. So while the tail is fattening on the downside, it is getting thinner on the upside.

Bigger than the Big Short

As Figure 1 shows, when boom turned to bust global equity markets produced several ‘dead cat’ bounces before overshooting the Correction Level. If they repeat that behaviour this time, when the cat stops bouncing, losses could exceed \$18 Trillion.

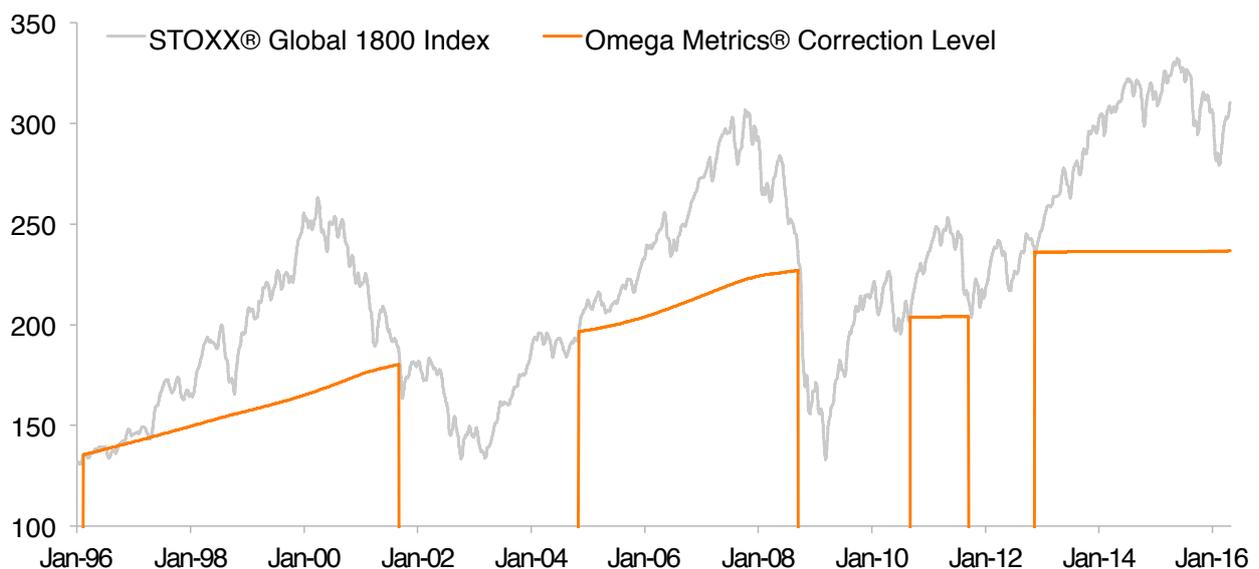


Figure 1. STOXX® Global 1800 Index and Omega Metrics® Correction Level predictions, 1996-2016.

¹ Shortly after the 2009 recovery began, an Unstable Expansion emerged. It corrected fully in September 2011.

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