

# ING Investment Management Market Perspective

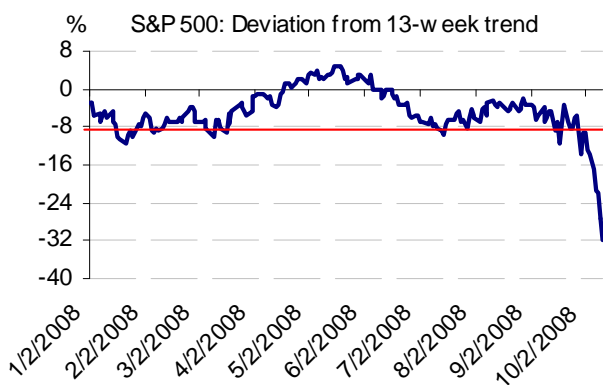
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## A bounce-back condition seems to be forming in the stock market

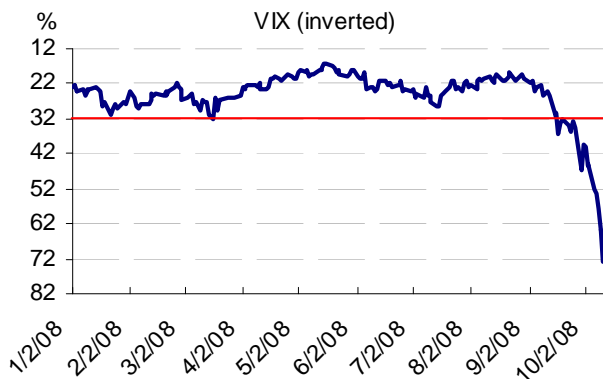
We have found that market bottoms often occur when three indicators go past a threshold value: A deviation of the S&P 500 below its 13-week trend by 8% (or two standard deviations from the historical mean); a VIX index of option implied stock market volatility above 30% and a put/call ratio greater than 1.0.

**Figure 1. Oversold conditions foreshadowed previous bear rallies and are extreme now.**



Source: Bloomberg

**Figure 2. Option implied volatility has reached unprecedented levels.**



Source: Bloomberg

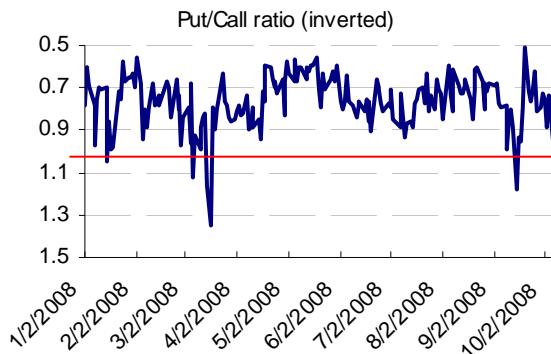
Until yesterday only two of the three indicators were signaling extremely negative market sentiment. The S&P 500's deviation from trend – an oversold condition – reached -32%. The implied market volatility at historically unprecedented levels also reflected an extreme degree of fear in the market as option writers each day of the continuing stress required higher and higher premiums. The VIX traded above 70% on October 10 – its highest level ever.

During the previous weeks of financial system turmoil, as policy makers globally were coming up with more drastic and coordinated measures, there remained a residual hope in the market that at some point the barrage of government measures would reach a critical point and start working. Alternatively, there were hopes that the oversold condition would reach an extreme where valuations became so compellingly attractive that buyers would return. That hope was reflected in stubbornly low put/call ratio: more calls than puts were bought each day during last three weeks of dramatically falling market. That sentiment changed at the end of last week.

The put/call ratio reached parity at 1.05 on October 9. As equity markets plummeted, very expensive (VIX at 70%!) puts were bought by investors to protect them from further downside. Is that a sign of total capitulation typically indicative of a market bottom? As that dynamic continued into Friday, we believe it is now reasonable to conclude that market sentiment has reached a bottom of despair. Bounce-back conditions seem to be forming.

Historically, when all three indicators have breached their respective thresholds simultaneously it has been a signal of the market bottoming out. Given the tremendous uncertainties we are facing today, the signal could be of stabilization or temporary bear market rally in the next several weeks.

**Figure 3. Equal amount of puts and calls were bought recently.**



Source: Bloomberg

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