Deutsche
Asset Management

CIO|VIEW

Quarterly October 2016

Debt

Curse or blessing?

Between euphoria and inertia

We have stock indices approaching record levels, oil prices stabilizing, summer worries like Brexit, China and Italy off the table, and now, after the tremendous generosity of the central banks, governments may even start tapping their fiscal cornucopia. Shouldn't this be cause for euphoria, particularly when we know that it's skepticism fueling this rally and not euphoria?

We recommend taking a sober approach in this environment, and we explain why in our current CIO View. Economic growth remains modest, especially in the developed markets , which is the reason many central banks are still hoping for government support. Governments, on the other hand, appear to be having a hard time with reforms and may much rather hand out money. This comes on top of an uncertain political environment, even in developed markets. Brexit is not yet a done deal and is slowly but surely becoming a headache for governments and businesses alike. Italy is on the verge of a referendum that, if rejected, would almost certainly exacerbate the fragile state of the country and especially the banking sector. In addition, the United States has two presidential candidates that share one thing in common: how equally disliked they are by an unusual large segment of the population. Those who think political stock markets are short-lived need only take a look at the British pound or, better yet, the Mexican peso, which is almost acting as a barometer for the U.S. elections. This is just one example of how dependent the emerging markets (EM) still are on developed markets and important to keep in mind in the excitement around the EM's current stabilization. Be it the oil price, the U.S. dollar's strength or China's waning thirst for imports – several factors could bring the EM's summer fairy tale to an end.

However, for the time being, like most other asset classes, EMs can still rely on the generosity of the central banks. There are still little signs or even much of a chance loose monetary policy will end soon. The U.S. Federal Reserve is increasingly emphasizing that its reluctance to raise interest rates stems more from structural concerns than worries about cyclical headwinds.

All this doesn't sound like much cause for euphoria. Admittedly, we've only mentioned the risks. But we've done so because it's dangerous to underestimate the pitfalls simply because they are no longer making headlines. We remain cautiously optimistic since the situation is not all that bad. In fact, most economies are progressing in a tepid environment. As it turns out, that's the best course of action for many asset classes. We hope markets stay dull because, even then, it presents a challenge to achieve solid returns.

Stefan Kreuzkamp,
Chief Investment Officer

" Many of the summer's risks went into hiding spurring a market rebound – but they haven't disappeared for good. We stay vigilant. "

CIO | VIEW

Quarterly October 2016

Focus

The calls for debt-financed stimulus packages are getting louder. Meanwhile, the debate continues on whether new debt would accelerate growth – or risk derailing economic development in the longer term.

Macro

After the Brexit vote, a slowdown looms in UK investment. Together with other political uncertainties, this looks set to weaken growth in the Eurozone. The U.S. economy remains on track for continued modest growth.

Commodities

Given the oil market's fundamentals and inventory levels, we expect a slight rise in the oil price. Gold stands to benefit from political uncertainty and low interest rates.

Fixed Income

Since the start of the year, we have grown increasingly fond of emerging market bonds in the sovereign and corporate segments. We also continue to like U.S. and European investment-grade corporate bonds.

Currencies

Central banks are still being creative when it comes to controlling the (nominal) yield curve. Currencies, however, currently are very much driven by real rate differentials.

Equities

It is tempting to use the low-yield environment to argue for an increase in valuation multiples. But this would be misguided. Low yields are both curse and blessing for equities.

Infrastructure

Infrastructure is en vogue, thanks in part to earnings stability and high dividends. The key risk to the asset class would be an unexpected increase of inflation-adjusted interest rates.

Liquid Alternatives

This has been a year to forget for long/short equity strategies. Things are unlikely to get easier any time soon. We continue to see better opportunities in other areas.

Multi Asset

These are difficult times when it comes to generating returns. On a risk-adjusted basis, we continue to favor income-generating assets, i.e. bonds and equities with appreciable yields.

Debt – curse or blessing?

» There are increasing calls for debt-financed stimulus packages. Is new debt likely to accelerate growth or could it risk derailing economic growth in the long run? «

Growth is moderate and inflation expectations are low – despite ultra-loose central-bank policies. No wonder, then, that calls for debt-financed stimulus programs are getting louder. But there are dissenting voices, pointing, notably, to the work by Carmen Reinhart, Vincent Reinhart and Kenneth Rogoff. According to estimates by these three economists, a ratio above 90% of government-debt to gross domestic product (GDP) tends to reduce economic growth.[1]

By contrast, Thomas Herndon, Michael Ash and Robert Pollin found some flaws in this analysis and doubt the mentioned mark of 90%.[2] Moreover, it is doubtful whether simply focusing on public debt is enough. This only seems appropriate if governments were to spend borrowed money on one-off projects which will not boost longer-term growth – and perhaps even depress it. However, governments can also invest in infrastructure and education, thus improving the overall environment for corporate activities. This should eventually boost growth and tax revenues. Moreover, there is no reason to single out public sector debt.

The private sector, too, might go on a debt-fuelled consumption spree. Finally, debt-financed corporate investment does not necessarily induce growth. If investment is misguided, it is possible that no growth effects will be felt at all.

Cause and effect

Public debt is not the whole story, as a look back to the 1930s in the United States clearly shows. High indebtedness of the private sector was the main culprit for the high aggregate debt ratio. It is often argued that this high debt ratio eventually triggered the world depression, lasting from 1929 to 1933. However, debt ratios surged mainly after the onset of the crisis – the collapsing nominal GDP actually caused their enormous rise.

But even a view on debt in relation to GDP does not tell the whole story. The debt ratio must also be viewed in relation to per-capita GDP. After all, rising wealth also increases the capability of individuals and companies to bear higher debt in relation to GDP. Conversely, if per-capita GDP in a country hardly exceeds the poverty line, the low level of wealth will depress savings ratios, as well as debt sustainability.

So it is worthwhile to look at the development of debt ratios in relation to wealth – i.e. to real GDP per capita – in the United States. In 1928, the debt ratio in relation to wealth by far exceeded the long-term historic average. This suggests that the state of the U.S. economy was somewhat fragile. Slow reactions from monetary and fiscal policymakers turned the New York stock-market crash of 1929 into a worldwide recession.

It was not before 1933 when the New Deal enacted a series of social and economic reforms. Monetary policy became more expansive. As a result of these policy moves, the aggregate debt ratio in relation to wealth started to decline. World War II forced the

U.S. administration into huge increases in public spending programs. The resulting boost to economic growth led to both the aggregate debt ratio and aggregate debt ratio in relation to wealth continuing their decline. This was further supported by interest rates which were statutorily fixed at a low level from 1942 to 1951. Although the debt ratio started to rise in the mid-1980s, debt sustainability only slightly fluctuated and remained on a low level thanks to growing per capita income.

Indicator of debt sustainability

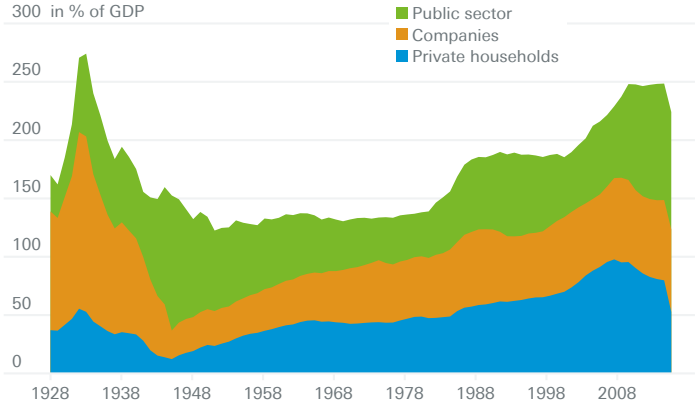
This development suggests that the fear of higher debt inhibiting growth in the United States in the long run is somewhat overdone. The same is likely to hold true for other countries such as the United Kingdom or Germany where the relation of debt ratio to per-capita GDP is lower. This certainly provides scope for fiscal-stimulus measures – especially the sort of prudent and efficient spending that might boost longer-term growth. ■

[1] Carmen M. Reinhart, Vincent R. Reinhart, Kenneth S. Rogoff: Debt Overhangs: Past And Present. NBER Working Paper No. 18015, April 2012

[2] Thomas Herdon, Michael Ash, Robert Pollin: Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff, April 2013

Debt ratio on a high level

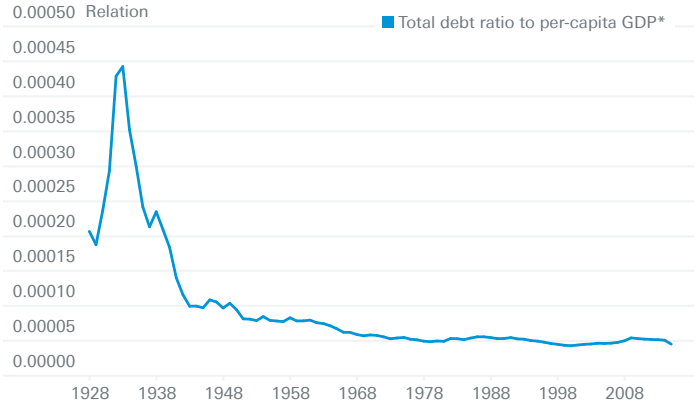
In 1928, debt in relation to GDP was rather high. The rise from 1930 onwards was due to contracting GDP. Today, the debt ratio has reached a similarly high level.



Sources: Federal Reserve, Bureau of Economic Analyses, MeasuringWorth.com; as of 9/16/16

Debt ratio in relation to wealth

Between 1928 and 1945, this relation was rather high. In the mid-1970s it bottomed out and has trended sideways since.



*Total debt ratio to per-capita GDP
Sources: Federal Reserve, Bureau of Economic Analyses, MeasuringWorth.com; as of 9/16/16

Political tensions ahead

» Advanced economies are expected to continue to grow moderately, while monetary policies look set to remain loose. Forthcoming elections and political challenges create uncertainty. «

Phil Poole,
Global Head of Research

Our expectations in a nutshell

- Brexit is causing investment slowdown in the United Kingdom
- The Federal Reserve looks set to gradually raise benchmark interest rates
- The European Central Bank is likely to extend quantitative easing

Some three months after the Brexit vote, the fog is only slowly lifting. In July, the UK Purchasing Managers Index (PMI) , a sentiment indicator, dropped 4.8 points to 47.6 only to recover ground in August with a rise to 53.6 points. The majority of purchasing managers have regained their optimism. This may partly reflect the cut in interest rates by the Bank of England (BoE), which also encouraged consumers to continue spending and stabilized the real-estate market.

Exports were also supported by the collapse of the British pound. In light of this, we raised our 2016 growth outlook for the United Kingdom from 1.3% to 1.8%. Longer-term, the Brexit threat is expected to be a drag on the economy. It remains unclear what type of access the United Kingdom will be granted to the market of the European Union (EU), partly because the country has yet to clarify its policy on the free movement of people, an EU requirement for single market access. Such uncertainties lead to lower investment, which puts pressure on both the labor market and on consumer spending, ultimately slowing growth.

European Union holds steady

Fears that the Brexit vote would lead to a political destabilization of the EU proved to be exaggerated. It has, however, prompted increased political discussion on reforms to strengthen both the EU and the Eurozone. For now, consensus continues to dominate decision-making within the EU and the Eurozone, which tends to slow down the pace of reforms considerably.

We have raised our growth forecast for the Eurozone by 10 basis points to 1.5%, which also reflects the solid performance in the first two quarters of 2016. Gradual improvements in the labor market and an uptick in wages is supporting consumption, which remains the economy's key growth driver. Further stimulus, though limited, is coming from the fiscal side.

In 2017, we expect growth to slow mildly. With more than 7% of the Eurozone's exports destined for the United Kingdom, the flow of these exports is bound to come under pressure from the uncertainties brought on by Brexit. Additional pressure may also result from other

political uncertainties such as Spain's struggle to form a government, the constitutional reform in Italy in the fourth quarter and the U.S. presidential election. The Netherlands, Germany and France plan to all hold presidential or parliamentary elections in 2017. This, together with the geopolitical crises in the Middle East and the Ukraine, continue to take a toll on investment.

Central banks remain on hold

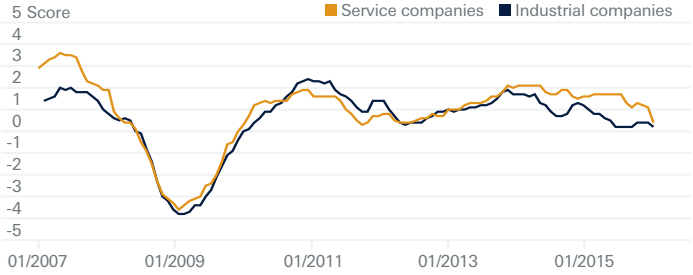
Moderate growth and low inflation should persuade the European Central Bank (ECB) at its December meeting to extend quantitative easing (QE) until September 2017. The ECB does caution however that an expansive monetary policy alone cannot boost underlying economic growth rates – this would require structural reforms. Such reforms have been introduced in several Eurozone countries, but the pace of reforms remains too slow.

Among the large advanced economies, Japan remains a laggard. Despite government spending programs and an enormously expansive monetary policy, Japan's economy is expected to grow just 0.7% in the coming year. Consumer prices are anticipated to rise by only 0.2%. Overly tight regulation and a shrinking working-age population continue to dampen economic dynamism.

Shrinking inventories reduced U.S. economic growth in the first half of 2016, but this drag seems to have run its course. Now, the focus is turning to the labor market. ›

UK: Lower investment hinders growth

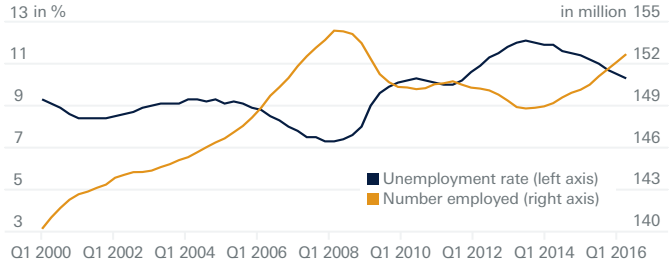
Already, uncertainty related to the Brexit vote has unsettled British companies.



Sources: Bank of England, Thomson Reuters Datastream; as of 09/2016.

A gradual improvement

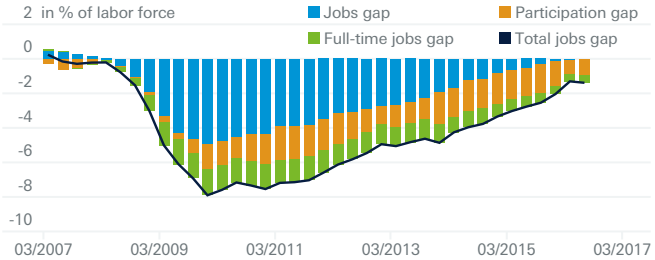
The unemployment rate falls and the number of employees rises, increasing the scope for moderate wage increases.



Sources: Eurostat, ECB, Thomson Reuters Datastream; as of 09/20/2016.

Eurozone: Still room before full employment

The actual U.S. unemployment rate suggests the U.S. is at full employment, but there is still potential to improve.



Jobs gap = Actual unemployment rate – estimated natural rate of unemployment, Participation gap = Actual employment rate – estimated cyclically adjusted employment rate, Full-time jobs gap = 1/2 * (part-time workers interested in full-time employment - level prior to recession)
Sources: Congressional Budget Office, U.S. Department of Labor; as of 09/20/2016.

Our forecasts

» The global economy is growing at a subdued pace. While stability is returning to the emerging markets, advanced economies are losing momentum. «

The global economy should continue to grow moderately in 2017, whereby a higher share of this growth is expected to come from emerging economies. One reason is that emerging countries exporting raw materials are getting support from the stabilization in commodity prices. Another is that many of the emerging countries have started reforms. China's economy on the other hand is losing some steam. ■

GDP growth rate (in %)

	2016F		2017F
United States	1.5	↗	2.0
Eurozone	1.5	↘	1.2
United Kingdom	1.8	↘	0.8
Japan	0.5	↗	0.7
China	6.3	↘	6.0
World	3.3	→	3.4

Fiscal deficit (in % of GDP)

	2016F		2017F
United States	2.8	↗	3.0
Eurozone	1.9	→	1.9
United Kingdom	3.5	↗	4.0
Japan	6.0	↘	5.2
China	2.4	↗	2.5

Consumer price inflation (in %)

	2016F		2017F
United States[1]	1.6	↗	1.8
Eurozone	0.2	↗	1.5
United Kingdom	0.7	↗	2.4
Japan	-0.2	↗	0.2
China	2.0	↘	1.5

Current-account balance (in % of GDP)

	2016F		2017F
United States	-2.7	↘	-2.9
Eurozone	2.9	↘	2.7
United Kingdom	-5.5	↗	-4.5
Japan	2.8	↘	2.5
China	2.5	→	2.5

F refers to our forecasts as of 9/22/16.
[1] core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)
Source: Deutsche Asset Management Investment GmbH; as of 9/28/16

› With unemployment low, labor market participation rising and wages picking up, economists expect consumption to trend higher.

In prior quarters, corporate reluctance to invest had a dampening effect on growth. This partly reflected the investment slump in the energy and mining sectors following the collapse in key commodity prices. Now that commodity markets have stabilized, the effect of lower investment should level off.

Based on our estimates, the U.S. economy should grow by 2% in 2017, accompanied by a rise in the core rate of inflation to 1.8%. This would allow the Federal Reserve to steadily pursue its chosen course for U.S. monetary policy. In December 2016, we expect a 25 basis point rise in the federal funds rate and one further 25 basis point increase during the first three quarters of 2017. Even after these increases, the benchmark rate would remain at an historically low level. ■

Benchmark rates in %

	Current*		Sep 2017F
United States	0.25 – 0.50	↗	0.75 – 1.00
Eurozone	0.0	→	0.0
United Kingdom	0.25	↘	0.1
Japan	0.0	→	0.0

Commodities

At its meeting in late September, OPEC agreed to limit oil output to 32.5 million barrels per day in the hopes of preventing member countries from expanding production. This, combined with production cuts in the United States, is expected to reduce the supply of oil slightly in 2017, whereas demand is anticipated to moderately increase. We foresee a moderate rise in the oil price to $55 per barrel of crude oil (WTI) by September 2017. Gold performed well in the first three quarters of this year supported in part by the Brexit vote and upcoming elections in both the United States and the European Union , which have unsettled the markets. Low government- and corporate-bond yields, which are presumed to continue, are making gold more interesting, but the upward trend is likely to flatten significantly in the coming 12 months. Gold prices may experience setbacks if the Fed raises interest rates. ■

Our forecasts

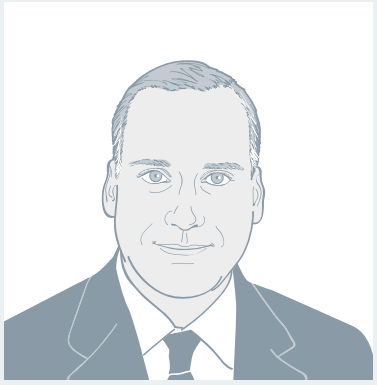
Commodities in U.S. dollars	Current*		Sep 2017F
Crude oil (WTI)	45	↗	55
Gold	1,327	↗	1,375
Silver	19	↗	20
Copper (LME)	4,787	↘	4,500
Aluminum (LME)	1,651	↘	1,500

WTI = West Texas Intermediate
LME = London Metal Exchange

F refers to our forecasts as of 9/22/16.
* Source: Bloomberg Finance L.P.; as of 9/27/16
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

Generosity of central banks set to continue

» Central banks are once more providing a bond-friendly environment – but not all investors are equally relieved. «



Joe Benevento...

... and Joern Wasmund
Global Co-Heads of Fixed Income/Cash

After our last CIO Day in July, the Brexit shock caused a flight to sovereign bonds, whose yields went on to reach new lows. This was followed by a yield recovery partly fueled by the bold actions taken by the Bank of England (BoE) . Other concerns that fell from the radar included China's growth, the Italian banking sector and an immediate rate increase by the U.S. Federal Reserve (Fed). A temporary blip or a trend reversal? The long-term trend definitely suggests that yields were just taking a short breather on their almost 25-year decent. There's no question yields have seen sharper rises in that period, but until now none of these have been known to signal the onset of a rate-tightening cycle. We doubt we will see the latter any time soon. We believe the European Central Bank (ECB) will decide to extend its quantitative easing until September 2017. The Bank of Japan is also expected to continue its support buying, but in a new guise with the hope of steering both the nominal 10-year yields and the yield curve. The BoE and the Chinese central bank continue to maintain an accommodative mindset despite the BoE's difficulty in cutting interest rates due to inflation worries and China's rate cuts being complicated by exchange-rate targets and over-capacities.

And of course, there is the mightiest central bank, the Fed. Although the FOMC's decision at its September meeting to hold rates steady was no surprise, what was a surprise was the highly unusual 7-3 vote. This, together with earlier contradictory statements from Fed members, shows the problems U.S. central bankers are having deciphering the anemic recovery. Learning how to deal with lower potential growth and secular stagnation continues to be an adventure shared by both central banks and investors with the difference that central banks are not on a desperate search for returns.

Emerging-market bonds – a sound alternative?

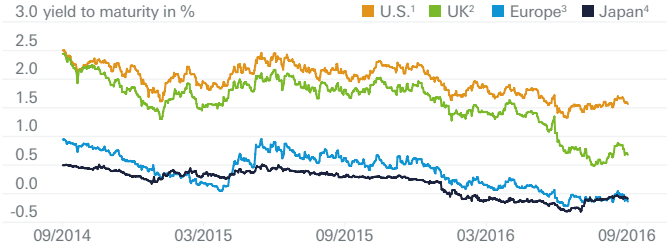
This year, investors could not ignore emerging-market (EM) bonds in their search for returns. Double-digit returns placed emerging-market bonds amongst the best-performing segments

of the bond market. There are several reasons we expect their strong run to continue in the coming quarters. For one, we expect the recent recovery in commodity prices to translate into some further stabilization. We also believe that improved balances of payment and lower inflation figures in several of the emerging markets, together with structural reforms and political changes, may provide a positive backdrop. And finally, EM bonds may benefit from a better supply/demand ratio.

Much of this has translated into currency appreciation, creating even more interest in local-currency bonds. Generally, however, hard-currency bonds are still our favorite. Those who prefer to go higher up the risk-return ladder may want to consider high-yield (HY) sovereign bonds. No doubt this segment has the highest risk, but we think a segment that may also be adequately rewarding. In addition, far fewer sovereign bonds run into payment difficulties than corporate bonds with the same credit rating. Still, investors need to select carefully among the more than 40 high-yield issuers because of the diversity of these countries. The U.S. election and a possible hike in interest rates by the Fed in the fourth quarter could cause a setback. ■

Sovereign yields have recovered from Brexit shock

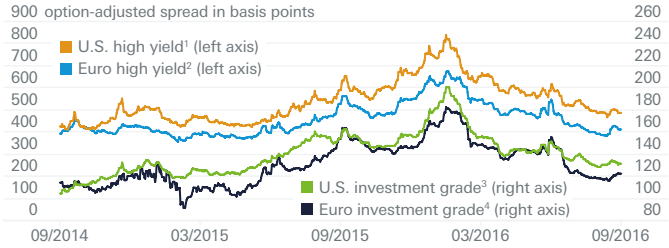
Investor's risk-on mode led to some selling during the summer, but we expect sovereign yields to remain low.



[1] Generic 10-year U.S. government-bond yield
[2] Generic 10-year UK government-bond yield
[3] Generic 10-year Euro government-bond yield (Euro benchmark comprised of French and German government bonds)
[4] Generic 10-year Japanese government-bond yield

Corporates still amongst our preferred bonds

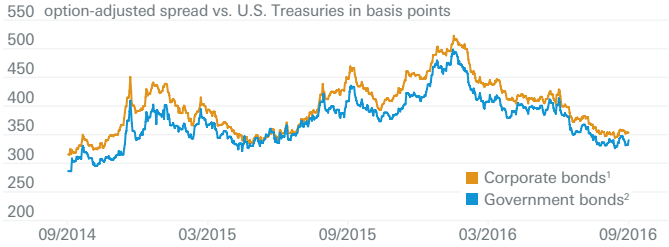
While carry is the main attraction for HY bonds, we expect further spread tightening within the investment-grade universe



[1] Barclays U.S. Corporate High Yield Index (vs. U.S. Treasuries)
[2] Bank of America Merrill Lynch Euro Non-Financial High Yield Constrained Index (vs. German Bunds)
[3] Barclays U.S. Aggregate Bond Index (vs. U.S. Treasuries)
[4] iBoxx € Corporate Index (vs. German Bunds)

Emerging markets benefit from macro rebound

On a very selective basis, we see good value in EM bonds, as many countries enjoy structural and cyclical recoveries.



[1] J.P. Morgan Corporate Emerging Markets Bond Composite Blended Spread Index
[2] J.P. Morgan Emerging Markets Bond Global Diversified Sovereign Spread Index

Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of: 9/26/16.

Little premia left

» In an altogether friendly bond environment, our preferences in several segments have changed. «

	Current*		Sep 2017F
United States			
U.S. Treasuries (2-year)	0.74%	↗	1.15%
U.S. Treasuries (10-year)	1.56%	↗	1.80%
U.S. Treasuries (30-year)	2.28%	↗	2.45%
U.S. municipal bonds	94%	→	93%
U.S. investment-grade corporates	131 bp	↘	115 bp
U.S. high-yield corporates	495 bp	→	510 bp
Securitized: mortgage-backed securities[1]	96 bp	→	100 bp
Europe			
German Bunds (2-year)	-0.70%	↗	-0.50%
German Bunds (10-year)	-0.14%	↗	0.25%
German Bunds (30-year)	0.42%	↗	0.75%
UK Gilts (10-year)	0.67%	↗	1.30%
Euro investment-grade corporates[2]	125 bp	↘	100 bp
Euro high-yield corporates[2]	422 bp	→	420 bp
Securitized: covered bonds	1 bp	↗	10 bp
Italy (10-year)[2]	135 bp	↘	120 bp
Spain (10-year)[2]	104 bp	↗	120 bp
Asia-Pacific			
Japanese government bonds (2-year)	-0.26%	→	-0.30%
Japanese government bonds (10-year)	-0.07%	→	-0.10%
Asia credit	245 bp	→	250 bp
Global			
Emerging-market sovereigns	340 bp	↘	320 bp
Emerging-market credit	366 bp	↘	350 bp

Comment

Amid a generally quiet quarter, the Japanese market reminded us how nervous and central-bank-dependent the bond market still is. At the end of July, yields shot higher as the BOJ delivered much of the same and less than hoped. Hard to imagine, but the 10-year Japanese government-bond yields on September 21 returned to positive territory for the first time since April.

While periphery bonds are still our favorites within the European sovereign-bond universe, we see little room for spreads to narrow further. In the high-yield segment, we prefer emerging-market bonds over U.S. corporate bonds. In the investment-grade area, we still favor euro and U.S. corporate bonds. ■

* Source: Bloomberg Finance L.P.; as of 9/27/16
F refers to our forecasts as of 9/22/16; bp = basis points
[1] Current-coupon spread vs. 7-year U.S. Treasuries
[2] Spread over German Bunds
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

U.S.-dollar bull cycle exhaustion

» The Fed does not expect any economic variables such as growth, consumer prices or employment to change over the next three years[1]. So what is driving the U.S. dollar? «

Investors are getting more evidence that the central-bank policy of expanding the monetary base is reaching its limits. Asset scarcity and the perceived failure of quantitative easing to spur inflation and growth are resulting in a remarkable synchronization of major currencies with real-interest-rate differentials. The euro and the Japanese yen (JPY) are moving in tandem against the U.S. dollar (USD) with their respective differential of nominal bond yields and inflation expectations. This stunningly stable correlation has lasted for a year already and we expected it to persist. Since the Bank of Japan (BOJ) decided to adopt a fixed-yield regime on September 21, any failure to drive inflation higher should result in JPY stability. The equation is simple: Fix the yields (as the BOJ and the European Central Bank are trying to do), let inflation rise and weaken the currency. The problem is that if inflation remains low or declines, the currency in question may not weaken. Furthermore, other factors such as elections, current-account and balance-of-payment issues, also have an influence on foreign exchange rates. For now, though, it is the real-yield differential that drives major currencies. ■

Dirk Aufderheide,
Chief Currency Strategist

[1]Source: U.S. Federal Reserve, projections from the September 21 meeting.

Little conviction

We expect the British pound to further weaken and the U.S.-dollar strength to be less visible.

	Current*		Sep 2017F
EUR vs. USD	1.12	↘	1.08
USD vs. JPY	100	→	100
EUR vs. GBP	0.861	→	0.865
GBP vs. USD	1.30	↘	1.25
USD vs. CNY	6.67	↗	6.90

* Source: Bloomberg Finance L.P.; as of 9/27/16.
F refers to our forecasts as of 9/22/16.
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

EUR/USD and real-rate differentials in sync

Currencies are driven by many factors. Currently they seem closely aligned with real-rate differentials.

[1] Difference of 10-year U.S. treasury yield and 10-year Bund yield, each adjusted for 10-year consumer price inflation expectations
Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 9/21/16

Political stock markets

» Sure, there are other options. Still, equities may remain a sound investment in politically challenging times. You just have to look beyond the level of headline indices. «

Henning Gebhardt,
Global Head of Equities

Our expectations in a nutshell

- Equity markets are also trapped in a "lower-for-longer" environment
- Current valuation methods are still relevant, even if imperfect
- Emerging markets (EM) are still a mixed bag but should offer opportunities

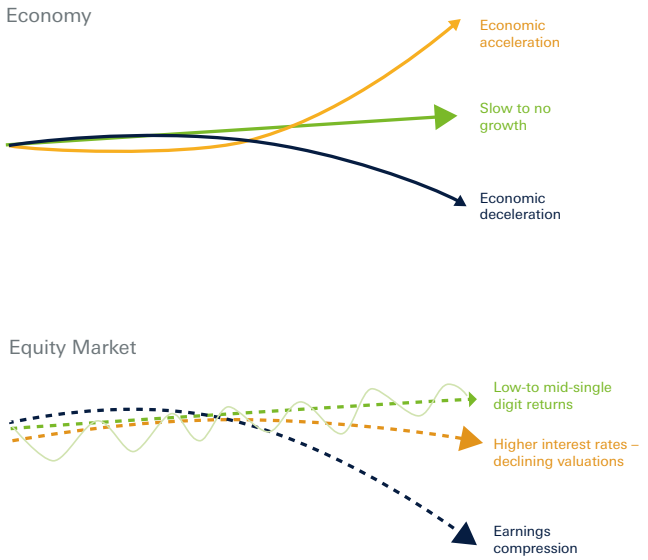
Having entered its eighth year, this prolonged equity bull market has to justify its existence more than ever. High levels of increased political uncertainty, lackluster earnings growth and continuous low inflation make this even more important. In this context, equity valuation remains at the center of the debate. With nominal 10-year sovereign rates likely to stay oscillating around zero for some time yet, traditional equity valuation models may have reached their limits. Even in "normal" times, rates have a contradictory impact on equity valuation, as they both impact valuation and growth outlook. On the one hand, long-term nominal interest rates move very much in sync with nominal gross-domestic-product (GDP) growth and/or growth expectations. With 10-year U.S. Treasuries trading at 1.6% that may not bode well for future GDP growth and corporate earnings. On the other hand, these rates are the benchmark that risky assets are valued against and that discount models rely on. If the alternative asset returns less and future earnings are discounted at lower rates that should increase equity valuations. But what if nominal rates are so low that they might not express cyclical swings but structural concerns about growth potential? This would clearly weigh on valuations. And what if long-term rates have lost their ability to signal future growth and earnings trends, because they are so heavily influenced by central banks? Does this leave the door open to still hope for higher growth rates? We rather see hyperactive central banks as another reason for concern in the mid to long term. Talking about structural concerns: equities remain a risky asset class likely to be avoided in unsecure times. With bonds worth more than $20 trillion globally now having negative yields, fixed income might not be the best consideration in this environment. Multiples – don't get carried awayHow does all this translate into our equity valuations? We believe that for the time being central-bank policy action offers a degree of downward protection for almost all asset classes. And in case of real stress, equities could in fact be less affected than fixed income. However, we refrain

> *What I like about EM equities is the fact that this is the only region currently that shows significant positive earnings-estimate revisions.*
>
> Henning Gebhardt, Global Head of Equities

from reducing equity risk premia and, as a result, increasing target multiples. First, because we share the view that structural changes cannot be ignored – most obviously, reduced productivity growth. And lower earnings-per-share growth rates warrant lower multiples. Second, because we also expect lower multiples for U.S. equities as a result of the tightening rate cycle, in line with historic patterns. From our perspective, continued low economic growth, combined with a stable oil-price outlook, essentially static long-term interest rates and a very cautious U.S. Federal Reserve (Fed) might remain the best scenario for equities. In this environment dividends would be the main source of the lower single-digit returns we expect. Given that valuations have already reached relatively high levels, risky assets would not be helped by either an economic acceleration or a deceleration. The first scenario could be too "hot": rising interest rates would probably lower valuations, in particular for "bond-proxy" stocks. The second could be too "cold": equity markets would be hit by declining earnings. ■

Low and slow is still what equities like most

Too strong a recovery triggers higher interest rates, hurting valuation multiples. On the other hand, too little growth hurts earnings.

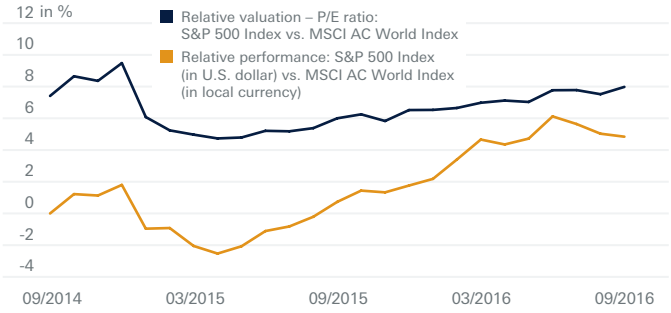


Source: Deutsche Asset Management Investment GmbH; as of 09/16

Valuations overview

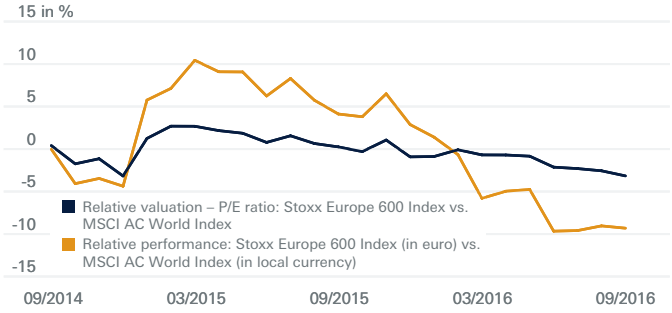
Equities United States

We are neutral on the U.S.: recent economic data has been mixed, but monetary policy should remain expansionary despite moderate rate hikes. Expected earnings-per-share (EPS) growth of 6% for the next twelve months should be offset by an expected decrease in the price-to-earnings (P/E) ratio of 5% for the S&P 500 Index, while we expect a dividend yield of 2.2%.



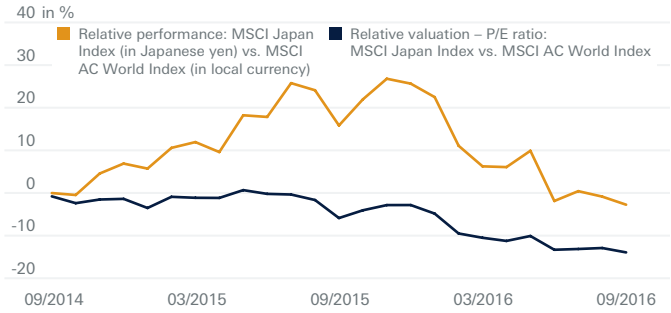
Equities Europe

We expect the valuation spread between European and U.S. equities to remain at an elevated level, given the uncertainties in the European financial sector, upcoming elections and the unclear implications of Brexit. However, we have recently seen earnings revisions turning slightly positive in Europe.



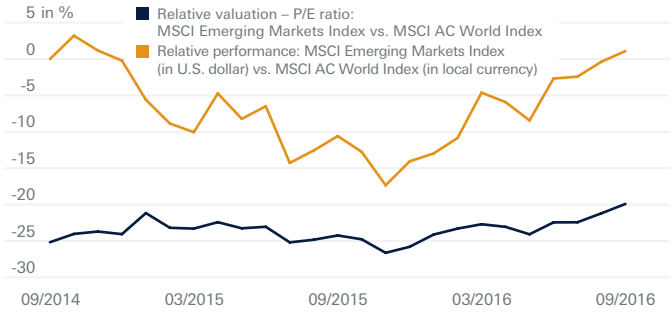
Equities Japan

We are sticking to our overweight on Japan given long-term corporate-governance improvements. We however find it difficult to predict the implications of the next Japanese policy move and would rather focus on company fundamentals, which remain solid in our view. Strong balance sheets should more than offset the effects of weaker growth.



Equities Emerging Markets

In emerging markets we see clear signs of macro stabilization and a cyclical recovery, some of which is commodity-price driven, prompting us to raise earnings estimates – in Latin America's case to above consensus. We remain neutral overall, as the market has already strongly rebounded, but are positive on single countries.



Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH; as of 9/28/16

No marked regional preferences

» Earnings growth is low in most regions, while valuations are not. This leaves little upside potential. Dividends still rule «

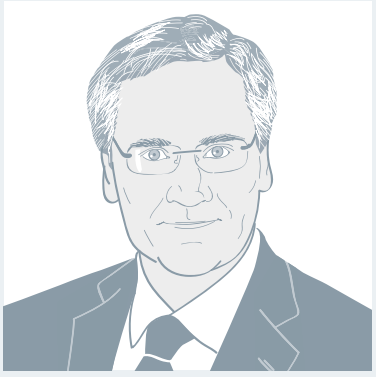
We are not changing our central equity-market scenario: global equities are in a mature market phase. We expect a continuation of the volatile sideward trend with markets temporarily overshooting and undershooting our index targets. In the end, investors should be able to capture at least dividends, which are still attractive in this low-yielding world. Sector-wise, we confirm our tactical underweight in consumer staples. The sector is expensive and appears "over-owned". At a fundamental level, many companies in the sector are suffering from low food-price inflation. We will review our tactical consumer-discretionary overweight next month as we notice growth concerns in areas like the automotive industry and luxury goods. Analyzing the two popular equity styles of "value" vs. "growth", we notice that in the past 10 years "value" gains have predominantly reflected the combined performance of energy and financials vs. the rest of the market. Put differently: a rising oil price and Fed fund rate are probably required for "value" stocks to outperform the market. ■

Equity markets (index value in points)	Current*		Sep 2017F	Total Return (expected)**			
			Forecast	in %	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500 Index)	2,160	↗	2,190	3.6	6%	-4%	2.2%
Europe (Stoxx Europe 600 Index)	340	→	340	3.4	5%	-6%	3.5%
Eurozone (Euro Stoxx 50 Index)	2,971	↗	3,050	6.6	4%	-2%	4.0%
Germany (Dax)[1]	10,361	↗	10,700	3.3	1%	-1%	3.2%
United Kingdom (FTSE 100 Index)	6,808	↘	6,400	-2.6	11%	-15%	3.4%
Switzerland (Swiss Market Index)	8,175	↗	8,250	4.3	6%	-5%	3.4%
Japan (MSCI Japan Index)	812	↗	820	3.5	1%	0%	2.3%
MSCI Emerging Markets Index (USD)	911	↗	920	3.5	7%	-3%	2.5%
MSCI AC Asia ex Japan Index (USD)	557	→	560	3.1	7%	-3%	2.4%
MSCI EM Latin America Index (USD)	2,383	↗	2,400	3.7	22%	-17%	3.0%

* Source: Bloomberg Finance L.P., FactSet Research Systems Inc.; as of 9/27/16
** Expected total return includes interest, dividends and capital gains where applicable
F refers to our forecasts as of 9/22/16.
[1] Total-return index (includes dividends)
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

Beyond bricks and mortar

» Infrastructure continues to be a particularly interesting segment. Caution is needed, however, in selecting the correct sectors to invest in. «

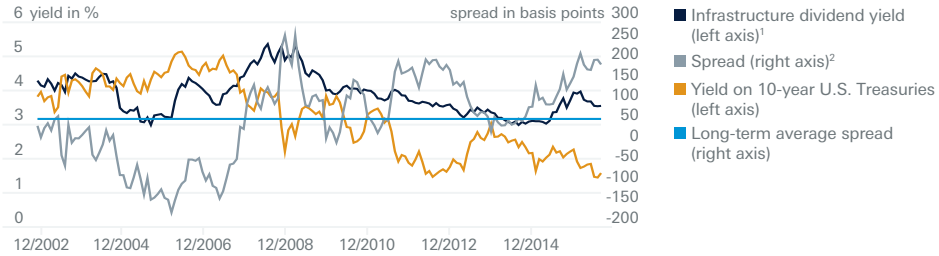


Mark G. Roberts,
Head of Research & Strategy, Alternatives

Infrastructure is en vogue, and not just among policymakers on both sides of the Atlantic. For the past few years, listed U.S. infrastructure companies have enjoyed a premium compared to the broader market. Currently, the Dow Jones Brookfield Global Infrastructure Index trades at a trailing price-to-earnings (P/E) ratio of 24, compared to 18 for the S&P 500 Index. This partly reflects the allure of high dividend yields. Compared to low-yielding bonds, the sector has an added advantage. Overall, infrastructure earnings tend to track nominal economic growth, offering potential protection against rising inflation. The higher P/E ratios may reflect earnings stability and higher dividends. The key risk to the asset class could result from an unexpected increase of inflation-adjusted interest rates. In the current environment, tower companies as operators of wireless base stations for telecoms carriers benefit from secular data growth. As always, the devil is in the detail, including the impact of technological changes, such as the continuing growth of low-powered radio access nodes. Against the backdrop of stable gross-domestic-product growth and slightly higher inflation, we also have a favorable bias towards rails in light of sequential improvement in volumes. However, the real question is which rails are best positioned, requiring thorough attention to underlying business dynamics. ■

Another way to look at infrastructure valuations

At 3.6%, the average dividend yield for listed U.S. infrastructure is almost 200 basis points above 10-year Treasury rates. This spread is well above the long-term average.



[1] Average dividend yield on the Dow Jones Brookfield Global Infrastructure Index
[2] Yield differential between dividend yield and 10-year U.S. Treasuries
Source: Bloomberg Finance L.P.; as of 9/1/16

The long and the short of it

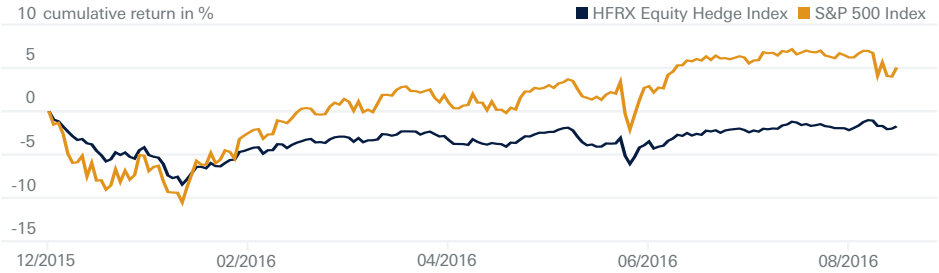
» Looking for value at the level of individual stocks is becoming increasingly difficult. «

Pity the stock pickers. This has been a year to forget for long/short equity strategies. The reasons are multifold, but boil down to one simple factor. Equity markets have mainly been driven by macroeconomic events, as well as the anticipation of such events. The latest example has been speculation about the timing of the next U.S. Federal Reserve (Fed) rate hike, which we expect in December. This makes life difficult for hedge funds seeking to make money by identifying winners and losers within particular industries. At the beginning of 2016, worries about China, a collapsing oil price and the turmoil in high yield led to market weakness across the board. Similarly, the Brexit shock caused some stocks to plummet, before swiftly recovering – often without any, immediate tangible changes to the underlying businesses or their prospects. Things may not get easier any time soon, with the U.S. elections and the constitutional referendum in Italy looming. France and Germany are due to vote next year. Meanwhile, many investors may be growing doubtful on the potency of central-bank announcements – at least when it comes to further loosening measures in Europe and Japan. Against this background, we have downgraded our outlook for long/short equity strategies and continue to see better opportunities in other areas, notably discretionary-macro strategies. ■

Tim Gascoigne,
Head of Hedge Fund Advisory

A difficult year for long/short equity strategies

The HFRX Equity Hedge Index is compiled of equity strategies which maintain both long and short positions. It has significantly underperformed the S&P 500 Index.



Source: Bloomberg Finance L.P.; as of 9/19/16

Keep calm and carry on

» We continue to favor income-generating assets, i.e. bonds and equities with appreciable yields. Emerging markets look increasingly interesting. «

Christian Hille,
Head of Multi Asset

Make no mistake: these are difficult times when it comes to generating returns. We will live in a lower-growth world. As a result central banks are expected to keep liquidity support. Rates should stay lower for longer. There are plenty of tail risks, of course – from ailing banks in Europe to politics such as upcoming elections in the United States and elsewhere. Overall, however, the macroeconomic environment looks quite favorable, with just enough growth to support earnings and not so much growth as to warrant large increases in interest rates any time soon. Volatility, too, looks set to continue trending downwards, despite occasional event-driven spikes.

An era of return-free risk

As the incremental impact from central banks' support continues to fade, there is limited further scope for price rises on the back of further declines in interest rates. As a result, the balance between risks and rewards looks increasingly skewed to the downside for longer-duration bonds. Recent central-bank activism has given a whole new meaning to the term "risk-free rates". Cautious investors can no longer expect any "risk-free returns". Instead, we live in an era of "return-free risk". Supposedly low-risk government bonds offer low or negative yields in the short term – and plenty of downside in the longer term if and when interest rates go up. Diversification has become more difficult. Of course, all asset classes are "expensive" by historical comparisons. As long as the current macro-economic environment continues to be stable, it is all about relative value. First and foremost, this means focusing on higher-yielding bonds, which offer carry (i.e. meaningful positive yields) and at least have the potential to benefit from further spread tightening. Similarly, we built up our position in emerging-markets bonds. From the perspective of European investors, currency considerations are also becoming increasingly important. Especially for U.S. Treasuries, this suggests reducing allocations, reflecting the rise in hedging costs against the U.S. dollar. Investment-grade bonds remain interesting overall, but we see more potential in the U.S. than in Europe, partly due to how far European rates have already fallen. Within Europe, we are focusing on riskier segments from a multi-asset perspective, namely euro high yield (where we used the most recent spread correction to further

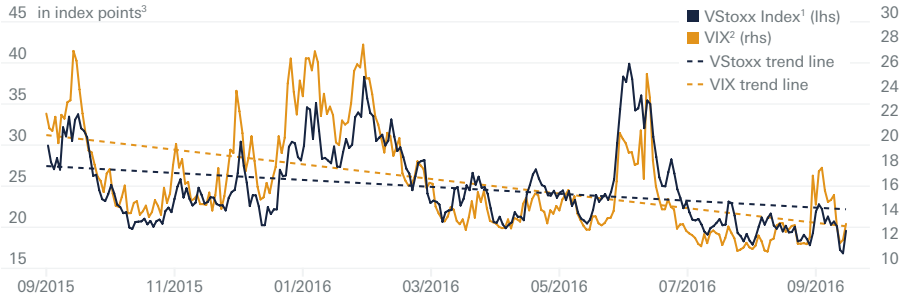
build up the position we already had). We have also added corporate hybrids as an additional segment offering the potential to benefit from the interesting rating-adjusted yield. Overall, we have increased our risk utilization somewhat, still leaving us well positioned in case of equity-market weakness to tactically increase our positions.

The current role for equities and equity styles

Lately, equity investors have had to live with big swings around a very modest upward trend. Two ways to benefit from such an environment are tactical positioning on the one hand (i.e. buying on dips) and focusing on comparatively less volatile stocks on the other. Within equities, we are a bit cautious on Europe and the U.S., and favor emerging markets. At this stage, though, the real value lies probably less in geographic allocations than in selecting the correct equity styles, which means choosing the right investment criteria. We continue to prefer income-generating dividend stocks and strategies designed to minimize volatility – in other words, assets with quite similar characteristics to the fixed-income categories noted earlier.The same is true for other bond-like tangible assets. As part of a diversified portfolio, alternative investments are well worth a look, particularly infrastructure investments and select real-estate markets. ■

Volatility trending downwards

Volatility remains low by historic standards, with occasional strong spikes.



[1] EURO STOXX 50 Volatility Index
[2] Chicago Board Options Exchange Volatility Index
[3]An index point is equivalent to one percentage point of implied volatility p.a.
Source: Bloomberg Finance L.P.; as of 9/26/16

Higher-yielding stocks tended to outperform

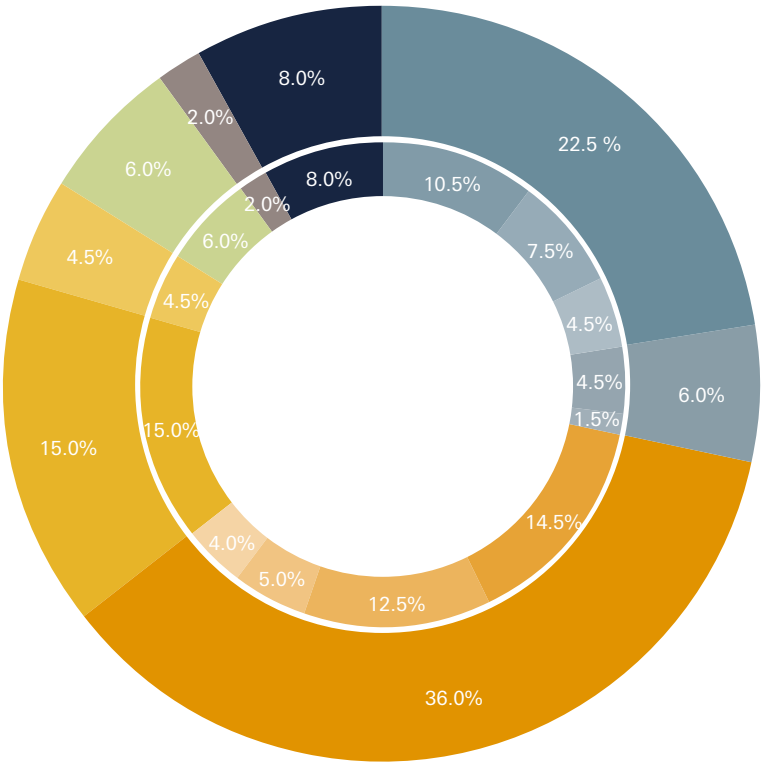
Compared to the broader index stocks with higher dividend yields have performed rather well

[1] MSCI World High Dividend Yield Index
Source: Bloomberg Finance L.P.; as of 9/26/16

Moving up the risk ladder – selectively

» Regional equity preferences reflect political and economic concerns. «

We continue to believe that fixed-income corporate credit may offer better risk-return characteristics than equities on a three-month horizon. That's why we feel comfortable to carry an underweight in equities overall at this point in time. With much of the continuing political and economic uncertainty focused on Europe, we have an underweight in European equities, but continue to see opportunities Japan and acknowledge the continuing momentum in Emerging Markets. Our allocation to U.S. and Asia-ex-Japan equities remains neutral. Our overweight to fixed income overall is mainly via investment grade and high yield. We are neutral on commodities and underweight Alternatives at the moment. We continue to think that the U.S. dollar may strengthen, having an overweight here but an underweight on both the euro and the yen. ■



Developed-market equities	
United States	10.5%
Europe	7.5%
Japan	4.5%
Emerging-market equities	
Asia ex Japan	4.5%
Latin America	1.5%
Fixed Income: Credit	
Euro investment grade	14.5%
U.S. investment grade	12.5%
Euro high yield	5.0%
U.S. high yield	4.0%
Fixed Income: Sovereigns	
United States	15.0%
Fixed Income: Emerging markets (hard currency)	
Emerging markets (hard currency)	4.5%
Convertibles (euro-hedged)	
Convertibles	6.0%
Cash	
Cash	0.0%
Commodities	
Commodities	2.0%
Alternatives	
Alternatives	8.0%

The chart shows how we would currently design a balanced, euro-denominated portfolio for a European investor taking global exposure. This allocation may not be suitable for all investors. Alternatives are not suitable for all clients.
Source: Multi Asset Group, Deutsche Asset Management Investment GmbH; as of 9/29/16

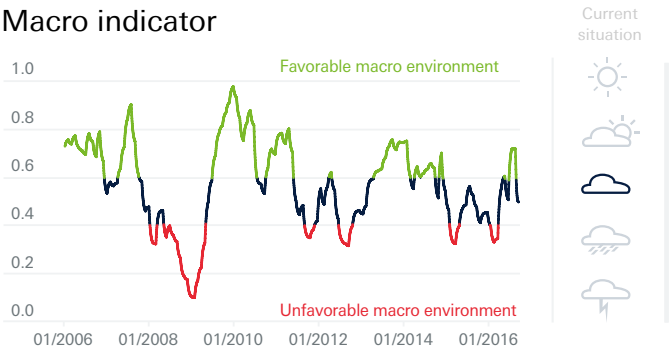
Reduced visibility ahead

» Macro indicators are telling investors to be cautious, which should keep their risk tolerance low for now. «

After the cautious optimism of the summer, the risks threatening the global financial system are once again starting to take center stage. Our macro indicator shows that after a gradual improvement in the global economic environment, much of the economic and sentiment data have deteriorated, especially in the United States. This calls for caution. Our surprise indicator confirms this slowdown. While the macroeconomic data in Asia and the Eurozone are broadly in line with analyst expectations, the United States is seeing a growing number of negative surprises. As a result, investors have moved towards a more defensive stance compared to the much friendlier environment in July and August. U.S. economic concerns, monetary-policy uncertainties, the upcoming U.S. elections and a European banking system suffering under a flat yield curve are all causes for caution. This is highlighted by our risk indicator, which is very sensitive to short-term changes in the capital markets. Taken together, these three indicators give us a thorough view not only of the underlying fundamentals, but also markets' atmospherics and the current levels of risk tolerance among investors. ■

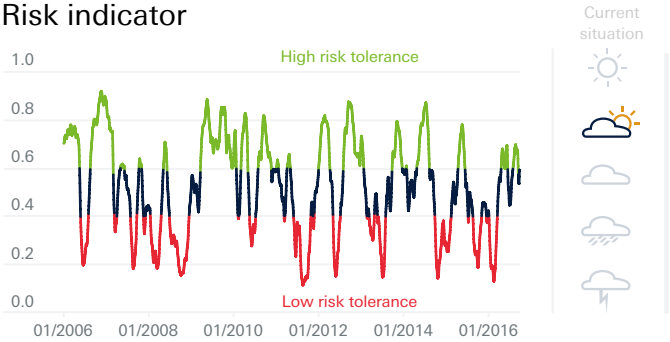
Source: Deutsche Asset Management Investment GmbH; as of 7/22/16

Macro indicator



Consumer confidence, trade figures, unemployment numbers: The macro indicator condenses a wide range of economic data.

Risk indicator



Our risk indicator reflects investors' current level of risk tolerance in the financial markets.

Surprise indicator

The surprise indicator tracks economic data relative to consensus expectations.

Macro | Solid growth track

GDP growth rate (in %)

	2016F		2017F
United States	1.8	↗	2.0
Eurozone	1.4	↘	1.2
United Kingdom	1.3	↘	0.8
Japan	0.5	↗	0.7
China	6.3	↘	6.0
World	3.3	→	3.4

Fiscal deficit (in % of GDP)

	2016F		2017F
United States	-3.0	↗	-3.2
Eurozone	-1.9	→	-1.9
United Kingdom	-3.3	→	-3.3
Japan	-6.0	↘	-5.2
China	-2.4	↗	-2.5

Consumer price inflation (in %)

	2016F		2017F
United States[1]	1.6	↗	1.8
Eurozone	0.3	↗	1.6
United Kingdom	0.7	↗	2.6
Japan	-0.2	↗	0.2
China	2.0	↘	1.5

Current-account balance (in % of GDP)

	2016F		2017F
United States	-2.7	↘	-2.8
Eurozone	2.9	↘	2.7
United Kingdom	-3.9	↗	-3.5
Japan	2.8	↘	2.5
China	2.5	→	2.5

Benchmark rates (in %)

	Current*		June 2017F
United States	0.25 – 0.50	↗	0.75 – 1.00
Eurozone	0.0	→	0.0
United Kingdom	0.5	↘	0.1
Japan	0.0	→	0.0

Commodities in U.S. dollars

	Current*		June 2017F
Crude oil (WTI)	44	↗	55
Gold	1,320	↗	1,390
Silver	20	→	20
Copper (LME)	4,930	↘	4,600
Aluminum (LME)	1,592	↘	1,500

F refers to our forecasts as of 7/7/16.
Source: Deutsche Asset Management Investment GmbH; as of 7/26/16
[1] core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)
WTI = West Texas Intermediate, LME = London Metal Exchange

Fixed Income | Central banks still deliver

	Current*		Sep 2017F
United States			
U.S. Treasuries (2-year)	0.74%	↗	1.15%
U.S. Treasuries (10-year)	1.56%	↗	1.80%
U.S. Treasuries (30-year)	2.28%	↗	2.45%
U.S. municipal bonds	94%	→	93%
U.S. investment-grade corporates	131 bp	↘	115 bp
U.S. high-yield corporates	495 bp	→	510 bp
Securitized: mortgage-backed securities[1]	96 bp	→	100 bp
Europe			
German Bunds (2-year)	-0.70%	↗	-0.50%
German Bunds (10-year)	-0.14%	↗	0.25%
German Bunds (30-year)	0.42%	↗	0.75%
UK Gilts (10-year)	0.67%	↗	1.30%
Euro investment-grade corporates[2]	125 bp	↘	100 bp
Euro high-yield corporates[2]	422 bp	→	420 bp
Securitized: covered bonds	1 bp	↗	10 bp
Italy (10-year)[2]	135 bp	↘	120 bp
Spain (10-year)[2]	104 bp	↗	120 bp
Asia-Pacific			
Japanese government bonds (2-year)	-0.26%	→	-0.30%
Japanese government bonds (10-year)	-0.07%	→	-0.10%
Asia credit	245 bp	→	250 bp
Global			
Emerging-market sovereigns	340 bp	↘	320 bp
Emerging-market credit	366 bp	↘	350 bp

* Source: Bloomberg Finance L.P.; as of 9/27/16
F refers to our forecasts as of 9/22/16; bp = basis points
[1] Current-coupon spread vs. 7-year U.S. Treasuries
[2] Spread over German Bunds
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

Currencies

	Current*		Sep 2017F
EUR vs. USD	1.12	↘	1.08
USD vs. JPY	100	→	100
EUR vs. GBP	0.861	→	0.865
GBP vs. USD	1.30	↘	1.25
USD vs. CNY	6.67	↗	6.90

* Source: Bloomberg Finance L.P.; as of 9/27/16.
F refers to our forecasts as of 9/22/16.
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

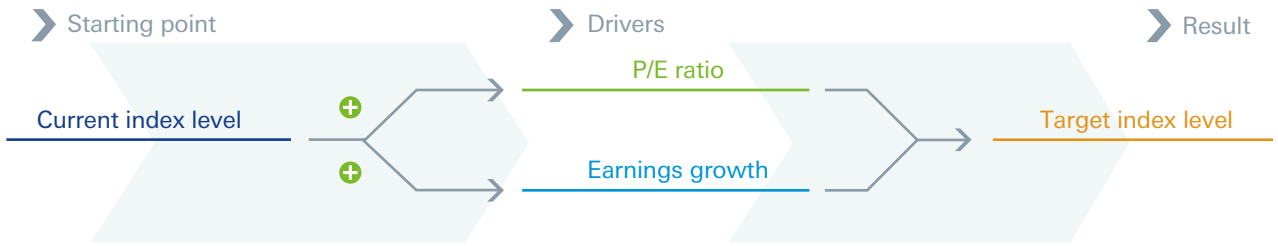
Equities | Appreciate with care

Equity markets (index value in points)	Current*		Sep 2017F Forecast	Total Return (expected)** in %	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500 Index)	2,160	↗	2,190	3.6	6%	-4%	2.2%
Europe (Stoxx Europe 600 Index)	340	→	340	3.4	5%	-6%	3.5%
Eurozone (Euro Stoxx 50 Index)	2,971	↗	3,050	6.6	4%	-2%	4.0%
Germany (Dax)[1]	10,361	↗	10,700	3.3	1%	-1%	3.2%
United Kingdom (FTSE 100 Index)	6,808	↘	6,400	-2.6	11%	-15%	3.4%
Switzerland (Swiss Market Index)	8,175	↗	8,250	4.3	6%	-5%	3.4%
Japan (MSCI Japan Index)	812	↗	820	3.5	1%	0%	2.3%
MSCI Emerging Markets Index (USD)	911	↗	920	3.5	7%	-3%	2.5%
MSCI AC Asia ex Japan Index (USD)	557	→	560	3.1	7%	-3%	2.4%
MSCI EM Latin America Index (USD)	2,383	↗	2,400	3.7	22%	-17%	3.0%

* Source: Bloomberg Finance L.P., FactSet Research Systems Inc.; as of 9/27/16
** Expected total return includes interest, dividends and capital gains where applicable
F refers to our forecasts as of 9/22/16.
[1] Total-return index (includes dividends)
Source: Deutsche Asset Management Investment GmbH; as of 10/7/16

How we calculate our index targets

We base our index-target calculations on the current index level, on the expected development of the price-earnings (P/E) ratio and on corporate earnings growth forecasts. A rising P/E ratio and rising earnings of the index companies typically result in a higher price target, whereas a declining P/E ratio and declining earnings typically result in a lower price target. The P/E ratio depends, among other things, on the interest-rate environment, the growth outlook and market participants' risk assessments.



Source: Deutsche Asset Management Investment GmbH; as of 07/2016

The Chief Investment Office …

… is headed by Stefan Kreuzkamp, Global CIO Deutsche Asset Management

… plays a central role in Deutsche Asset Management's investment process

… brings together the expertise of the global investment platform to create a consistent economic and market view

… serves as a point of contact between the portfolio management, the research teams and the distribution teams

… prepares our global investment outlook: the CIO View.

"Our broad geographic and thematic reach allows us to offer sector-leading assessment and analysis across all asset classes."

Stefan Kreuzkamp, Chief Investment Officer

Deutsche Asset Management[1]…

… is one of the world's leading investment management organizations with about EUR 719 billion of assets under management (as of June 30, 2016)

… offers individuals and institutions traditional and alternative investments across all major asset classes

… provides flexible products and solutions to a wide range of investment opportunities across all asset classes – from pooled funds to highly customized portfolios for a wide range of investors.

[1] Deutsche Asset Management is the brand name of the Asset Management division of the Deutsche Bank Group. The respective legal entities offering products or services under the Deutsche Asset Management brand are specified in the respective contracts, sales materials and other product information documents.

Glossary

» Here we explain central terms from the CIO | VIEW. «

(Euro) periphery – Periphery countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal,Italy, Spain and Ireland.

Bank of England (BoE) – Founded in 1694, the Bank of England (BoE) is the central bank of the United Kingdom.

Barclays U.S. Aggregate Bond Index – The Barclays U.S. Aggregate Bond Index tracks the performance of U.S. investment-grade bonds.

Barclays U.S. Corporate High Yield Index – The Barclays U.S. Corporate High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market.

BofA – Bank of America (abbreviated as BofA) is a large bank holding company in the United States.

BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index – The BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index tracks the performance of euro-denominated below investment-grade corporate debt publicly issued in the eurobond or euro-domestic markets by non-financial issuers, capping issuer exposure at 3%.

Brexit – Brexit is a combination of the words "Britain" and "Exit" and describes the possible exit of the United Kingdom from the European Union.

Carry (of an asset) – The carry (of an asset) is the cost or benefit from holding the asset.

Chicago Board Options Exchange Volatility Index (VIX) – The Chicago Board Options Exchange Volatility Index (VIX) is a leading measure of market expectations of near-term volatility conveyed by S&P 500 Index (SPX) option prices.

Correlation – Correlation is a statistical measure of how two securities move in relation to each other.

Dax – The Dax is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Debt ratio – The debt ratio is the amount of debt of a country, a company or an individual person compared to its GDP (country) or its assets (company or individual), respectively.

Discretionary-macro strategy – Discretionary-macro strategy is the most flexible global macro trading strategy deploying directional positions at the asset-class level to exploit macroeconomic, policy or political changes.

Dow Jones Brookfield Global Infrastructure Index – The Dow Jones Brookfield Global Infrastructure Index measures the stock performance of pure-play infrastructure companies (defined as those deriving 70% of their cash flows from infrastructure business lines) worldwide.

Earnings per share – Earnings per share is calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

Emerging markets (EM) – An emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet standards to be a developed market.

Euro Stoxx 50 Index – The Euro Stoxx 50 Index tracks the performance of blue-chip stocks in the Eurozone.

Euro Stoxx 50 Volatility Index (VStoxx) – The Euro Stoxx 50 Volatility Index (VStoxx) measures the expected volatility of the Euro Stoxx 50 Index.

European Central Bank (ECB) – The European Central Bank (ECB) is the central bank for the Eurozone.

European Union (EU) – The European Union (EU) is a unique economic and political partnership between 28 European countries covering much of the continent, which developed from the European Economic Community (EEC), created in 1958 by six countries.

Eurozone – The Eurozone, also called the euro area, is a monetary union of 19 of the 28 European Union member states which have adopted the euro as their common currency.

Federal funds rate – The federal funds rate is the interest rate at which banks actively trade balances held at the Federal Reserve.

Federal Open Market Committee (FOMC) – The Federal Open Market Committee (FOMC) is a committee that oversees the open-market operations of the U.S. Federal Reserve.

FTSE 100 Index – The FTSE 100 Index tracks the performance of the 100 major companies trading on the London Stock Exchange.

Gross domestic product (GDP) – The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Hard-currency bonds (debt) – Hard-currency bonds (debt) are bonds (debt) issued by legal entities in a hard currency such as the U.S. dollar, euro or Swiss franc.

Hedge fund – Hedge funds are alternative, less regulated investment vehicles using pooled funds that may use a number of different strategies in order to earn active return for their investors.

HFRX Equity Hedge Index – The HFRX Equity Hedge Index comprises long and short positions in primarily equity and equity-derivative securities, using quantitative as well as fundamental-analysis techniques.

High-yield (HY) bonds – High-yield (HY) bonds are issued by issuers with a below-investment-grade rating and often times offer a relatively high yield to compensate for the increased risk.

iBoxx Euro Corporate Index – The iBoxx Euro Corporate Index includes euro-denominated corporate bonds issued by investment-grade-rated entities.

Inflation – Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Investment Grade (IG) – An investment-grade (IG) rating by a rating agency such as Standard & Poor's indicates that a bond has a relatively low risk of default.

J.P. Morgan Corporate Emerging Markets Bond Composite Blended Spread Index – The J.P. Morgan Corporate Emerging Markets Bond Composite Blended Spread Index depicts the spread of U.S.-dollar-denominated corporate bonds issued by entities in the emerging markets vs. U.S. Treasuries of the same maturity.

J.P. Morgan Emerging Markets Bond Global Diversified Sovereign Spread Index – The J.P. Morgan Emerging Markets Bond Global Diversified Sovereign Spread Index depicts the spread of U.S.-dollar-denominated sovereign bonds from the emerging markets vs. U.S. Treasuries of the same maturity. The "Diversified" index methodology limits the weights of those index countries with larger debt stocks.

Long/short equity strategies – Long/short equity strategies are investing strategies of taking long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline.

MSCI AC Asia ex Japan Index – The MSCI AC Asia ex Japan Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

MSCI AC World Index – The MSCI AC World Index captures large- and mid-cap companies across 23 developed- and 23 emerging-market countries.

MSCI Emerging Markets (EM) Latin America Index – The MSCI Emerging Markets (EM) Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

MSCI Emerging Markets Index – The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

MSCI Japan Index – The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

MSCI World High Dividend Yield Index – The MSCI World High Dividend Yield Index captures large- and mid-cap companies with higher-than-average dividend income and quality characteristics across 23 developed-market countries.

MSCI World Index – The MSCI World Index captures large- and mid-cap representation across 23 developed-market countries.

Multiple – A multiple is a ratio that is used to measure aspects of a company's well-being by setting various of the company's metrics against each other and thereby building indicative ratios.

New Deal – The New Deal was initiated by Franklin D. Roosevelt in the 1930s in order to fight unemployment during the Great Depression and consisted of fiscal measures and economic reforms, as well as new social programs.

Peso – The peso is Mexico's currency.

Price-to-earnings (P/E) ratio – The price-to-earnings (P/E) ratio or multiple measures a company's current share price relative to its per-share earnings.

Purchasing Managers Index (PMI) – The Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Quantitative easing (QE) – Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

S&P 500 Index – The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Savings ratio – The savings ratio is the proportion of income which is saved, usually expressed as a fraction of disposable income.

Spread – The spread is the difference between the quoted rates of return on two different investments, usually of different credit quality.

Stoxx Europe 600 Index – The Stoxx Europe 600 Index is an index representing the performance of 600 listed companies across 18 European countries.

Swiss Market Index (SMI) – The Swiss Market Index (SMI) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

U.S. dollar (USD) – The U.S. dollar (USD) is the official currency of the United States and its overseas territories.

U.S. Federal Reserve Board (Fed) – The U.S. Federal Reserve Board (Fed) is the board of governors of the Federal Reserve System, the U.S. central bank. It implements U.S. monetary policy.

U.S. Federal Reserve System (Fed) – The Federal Reserve System or Fed, which serves as the U.S. central bank, was established in 1913, consisting of the Federal Reserve Board with seven members headquartered in Washington, D.C., and twelve Reserve Banks located in major cities throughout the United States.

Volatility – Volatility is the degree of variation of a trading-price series over time, it can be used as a measure of risk of an asset.

Yield curve – A yield curve is a representation of the relationship between market rates and the remaining time to maturity of debt securities, also known as the term structure of interest rates.

Important Information

Deutsche Asset Management (Deutsche AM) represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries. Clients will be provided Deutsche Asset Management products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by Deutsche Bank, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for Deutsche Bank to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. Deutsche Bank AG, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with Deutsche Bank are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. For certain investments, the terms will be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. Review carefully before investing.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Bank as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Any securities or financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC") unless specifically noted, and are not guaranteed by or obligations of Deutsche Bank AG or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report prior to publication. DB may engage in transactions in a manner inconsistent with the views discussed herein. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affili-