Deutsche
Asset Management

CIO|VIEW

Quarterly October 2017

Seasonal investing

The surprising persistence
of trading patterns

Marketing Material

Late-cycle boost

An increase from 1.5% to 2.1% here, and a cut from 2.1% to 1.6% there. What is this all about? These are our 2017 economic growth forecasts for the Eurozone and the United Kingdom. The first figure of each pair dates from March 2016, which was still before Brexit and Trump's election, while the second figure represents our current forecast. Why do I mention this? Because it raises two key issues that we are currently focused on: the interplay of politics and business, as well as the acceleration of economic growth. Let's start with the Eurozone, which is growing much faster than expected. Despite the electoral success of populist parties at the German federal election and despite the tensions in Catalonia, the European Union is politically more stable today than many feared at the beginning of 2017. Companies are optimistic, and consumer confidence is at its highest level since 2001. This is not the case in the United Kingdom, where consumer skepticism has been growing since mid-2015. In terms of economic growth, the UK has now slipped to the bottom of the pack among G7 nations. This shows that politics can indeed impact businesses and stock markets. Since the referendum, the mostly UK-focused FTSE 250 has been lagging far behind the Euro Stoxx, after adjusting for exchange rates.

And what about the United States? We have increased our 2017 growth forecast slightly from 2.0% to 2.2%. This adjustment has little to do with policies, as the euphoria and disappointment over Trump likely balance out. One modestly beneficial exception may be deregulation. Whether the new administration will be able to deliver on tax cuts remains to be seen. We still expect some tax relief for U.S. companies, but have already substantially pared down our expectations. This is reflected in our inflation, interest-rate and foreign-exchange forecasts, which critically depend on the size of the tax package.

Despite all of the political uncertainties, it should be noted that the global economy has performed surprisingly well. We recently increased our 2017 forecast from 3.5% to 3.7%. There are new signs of blossoming, even this late in the economic cycle. This may provide further support for markets in the year ahead, alongside cautious central banks and the inflation figures that we expect to remain moderate.

Stefan Kreuzkamp
Chief Investment Officer

"The global economy has performed better than expected in 2017. Political developments, however, appear rather mixed, notably in the United States."

CIO VIEW

Quarterly October 2017

FOCUS

Seasonal investing has raked in extra returns in the past. We analyze whether and why it might still pay to "Sell in May and go away, but remember to come back in September."

MACRO

Our forecasts are surrounded by unusually large bands of uncertainty. We are living in an age of political upheaval that stands in striking contrast with the reassuring economic data.

FIXED INCOME

Despite high valuations, some pockets of opportunity remain in the fixed-income universe. Emerging-market bonds should continue to benefit from structural improvements and a strong global economy.

EQUITIES

We continue to expect rising corporate earnings and are raising our share-price targets accordingly. Despite high valuation levels, we see few signals of the bull market ending on a 12-month horizon.

ALTERNATIVES

Correlations in the property markets are declining and the benefits of global diversification are rising. This creates opportunities to outperform through judicious sector and market selection.

MULTI ASSET

Against a backdrop of solid growth and benign inflation, we currently see equities as our preferred asset class. However, we are keeping a close watch on overall risk and liquidity.

OUR FORECASTS

We have slightly raised most of our economic growth forecasts, notably in the Eurozone. Yields are likely to slowly rise. In currency markets, there appears to be some scope for a dollar rebound.

ABOUT US

Deutsche Asset Management offers individuals and institutions traditional and alternative investments across all major asset classes.

Seasonal investing

» Sell in May, reinvest in September – this rule of thumb has raked in extra returns in the past, but how reliable is it? «

This bull market has certainly clocked up plenty of mileage. For eight long years, global equity markets have been rising. Is now the time to consider selling? Not yet, we would argue. For one thing, share-price rallies in the past have occasionally lasted even longer, sometimes well over ten years. In addition, there are fundamental reasons in favor of holding out. The global economy is gaining momentum, and interest rates in industrialized countries are likely to remain fairly low due to only moderate rises in inflation. Furthermore, growing but still subdued inflationary pressures afford central banks an opportunity to proceed slowly and cautiously in returning to somewhat more normal monetary-policy conditions.

Another reason for staying active is seasonality. "Sell in May and go away" is one old stock-market rule, often followed up with "but remember to come back in September." A look at the Dax share-price history shows that there is a kernel of truth to this rule. This can be seen by doing a monthly performance analysis. Such an analysis reveals that since its launch in late 1987, Germany's leading index has posted price gains in more than two-thirds of the cases in the months of October, November and December.

In the majority of instances and thus on average, the Dax also performed well in the first four months of the year. In the past 30 years, the weakest months have tended to be August and September. These months have been marked by large price reversals and negative average returns. Usually, it was well worth waiting until late September, before considering to re-enter the markets again.

Profitable timing

The above stock-market rule has some validity beyond German shores. Given that the advice about selling in May originally emerged on Wall Street, this should come as no surprise. In an interesting piece of financial research, Professors Sandro C. Andrade, Vidhi Chhaochharia and Michael E. Fuerst from the University of Miami examined seasonal effects in 37 countries from 1998 to 2012. Based on local MSCI indices, they determined that the gains on the various equity markets from November to April were around 10% higher on average than those from May to October.[1]

Ben Jacobsen, a professor at TIAS Business School, and Sven Bouman, CEO of Saemor Capital, reached a similar conclusion for the 37 countries for the period from May 1970 to October 1998.[2] Since October 31st is Halloween, they named this anomaly the Halloween effect.[3] The statistical evidence should have led to investors capitalizing on this market anomaly since 2002, when the article by Bouman and Jacobsen was published. Instead, the anomaly continues to occur. For whatever reason, savvy investors have not yet been able to neutralize the Halloween effect.

The Halloween effect's persistence in the stock markets has long been a source of fascination among market participants and academics alike. Bouman and Jacobsen have suggested that vacation periods account for its timing and length. Their theory is that investors reduce their risk exposure before going on vacation by selling securities. During the vacation period, trading volumes are low. Once the vacation season ends, investors begin expanding the share of equities in their portfolios again. A correlation with vacation periods is apparent, but that does not prove causality.

Unpredictable October

The risk of a crash is regarded as quite substantial in October, and for good reasons. On average, volatility is relatively high, compared to other months. However, in a majority of cases during the month of October, the Dax also saw gains. As a result, this has contributed to much debate as to the timing of Dax equity purchases – as is customary in international analyses – in late October or in late September.

Though past performance may not necessarily be indicative of future results, a calculation of the data from the end of 1987 to the end of September 2017 remains compelling: Investors who purchased Dax equities at the end of September and sold them again in late April generated a profit of 3,222% over this period. In contrast, investors who did not join the action until late October saw a profit of just 1,581%. Investors who purchased Dax equities at the end of 1987 and held on to them until today have done even worse, achieving a performance of 1,183%.

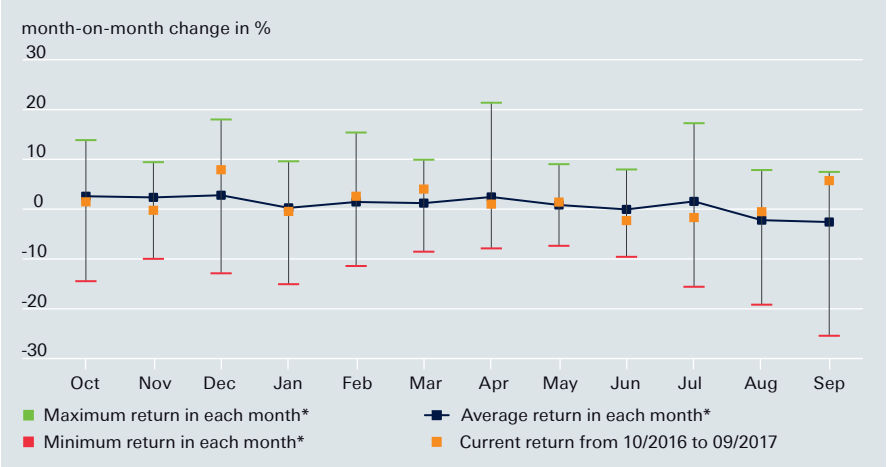
Reduced risk

Timing also paid off from a risk perspective. Volatility – which measures the intensity of share-price fluctuations – has historically amounted to 22% for "buy and hold" since the Dax was launched. For investors who bought equities each year in late September and sold in late April, volatility decreased to 17.1%. This figure even dropped to 14.7% for those who bought in late October and sold in late April. However, investors who waited until late October to buy forfeited significant profits. Despite the higher risk in October, for some, buying late in September may have been worthwhile, depending on the level of risk they were willing to take.

There are two flies in the proverbial ointment: Investors who followed the stock-market rule this year missed out on hefty share-price gains in September. Moreover, it still seems unlikely that the Halloween effect will persist forever. In theory, investors will eventually capitalize on this market anomaly. If enough do so, the excess returns from late September to late April will disappear, thereby making the market more efficient. As yet, however, there are few indications of this happening.

Dax boasts strong final quarter

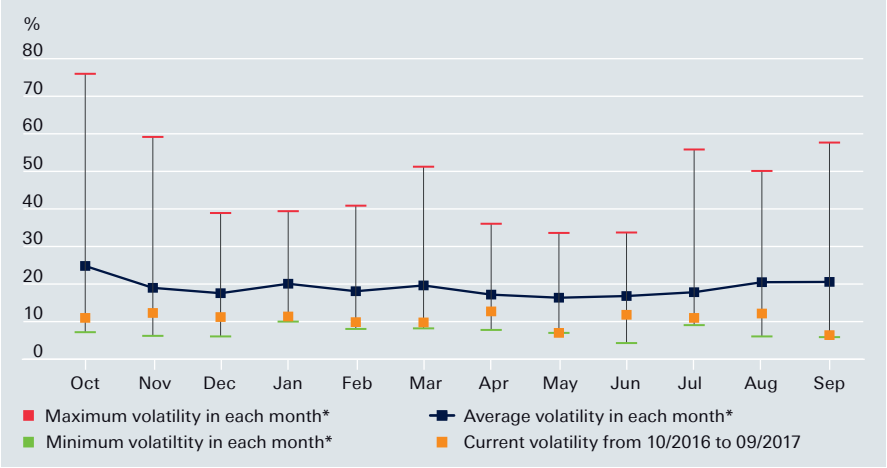
Since its launch in 1988, the Dax has posted the highest average returns in the fourth quarter, while usually seeing a lull in August and September.



Source: Thomson Reuters Datastream; as of 10/2/17
* In the period from Jan. 1988 to Sep. 2017

Erratic October

In the past, the Dax has seen greater fluctuations in October. The index has traditionally been calmer in spring and summer.



Source: Thomson Reuters Datastream; as of 10/2/17
* In the period from Jan. 1988 to Sep. 2017

[1] Sandro C. Andrade, Vidhi Chhaochharia, Michael E. Fuerst: "Sell in May and Go Away" Just Won't Go Away. In Financial Analysts Journal, Volume 69, Number 4, 2013.
[2] Sven Bouman, Ben Jacobsen: The Halloween Indicator, "Sell in May and Go Away": Another Puzzle, American Economic Review 92, 2002.
[3] In the research papers by Andrade, Chhaochharia and Fuerst, as well as by Bouman and Jacobsen, April 30th was specified as the time to sell and October 31st was specified as the time to buy.

Plenty of growth momentum

» Uncertainty is unusually high, however.
We are living in an age of political upheaval. «

Johannes Müller
Head of Macro Research

IN A NUTSHELL

The recovery has finally spread to pretty much all corners of the world.

For the next 12 months, recession risks continue to appear low in all major economies.

However, our forecasts are surrounded by unusually large bands of uncertainty.

All is well in the world economy. That's the picture that emerges if you glance at our latest economic growth forecasts. The recovery has finally spread to pretty much all corners of the world. Particularly in the Eurozone, key indicators appear to be going from strength to strength, leading us to raise our estimates for growth in gross domestic product (GDP) to 2.1% for 2017 and 1.8% for 2018. For China too, we have slightly raised our estimates to 6.7% and 6.5%, respectively. Even Japan, the perennial laggard, is finally showing signs of economic life. We have increased our estimate for Japanese economic growth to 1.5% for 2017, though we continue to doubt it will speed up even further in 2018.

Meanwhile, the U.S. economy is close to full employment, steadily growing at around 2.2%. Labor costs are slowly edging upward. This is consistent with the U.S. Federal Reserve (Fed) continuing to take its time in raising interest rates and beginning to gradually shrink its balance sheet. We expect two more rate hikes during the next 12 months. All in all, it sounds like the sort of global economic backdrop financial markets have come to love. Take a step back, however, and a slightly fuzzier picture emerges. Our forecasts are surrounded by unusually large bands of uncertainty. The reasons why can be readily explained through the following thought experiment.

Imagine that two years ago, you had fallen into a coma. Fortunately, you are now recovering. A large pile of newspapers is sitting at your bedside table. Naturally, you start out with the financial pages. You are reassured to discover that markets have been stronger than you would have dared to hope back in October 2015.

In terms of the underlying economics, one recent statistic particularly catches your eye: unemployment is finally falling across the Eurozone; in Germany, it is now at the lowest level since re-unification. Quantitative easing (QE), it would seem, has been just as effective in boosting asset prices in the Eurozone as it had been in the U.S. Deflation, let alone a break-up of the common currency, no longer appears to be much of an issue.

Then you turn to the politics pages. For the first time since World War II, a hard-right party has won seats in the lower house of the German parliament, with almost 13% of the vote. In Catalonia, a referendum of dubious legality has led to violent scenes you would not have expected in any Western European democracy. You are stunned to read that the United Kingdom has voted to leave the European Union – and that its weakened government still appears to have no clear plan of what sort of Brexit it is aiming for. Tensions are growing on the Korean peninsula.

On the other side of the Pacific, Donald Trump has been elected U.S. president, with no discernable change in his Twitter antics. A year on, many questions remain open, starting with what sort of chairman Trump might pick for the Fed. Meanwhile, Japan

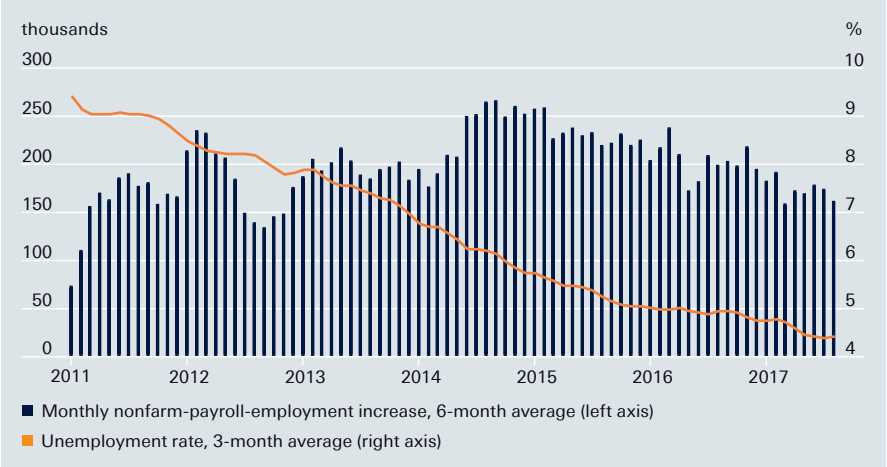
is having a snap election, pitting an opposition in disarray against an increasingly unpopular government. Earlier in the year in France, the traditional parties of the center-right and center-left saw their vote share collapse. Encouragingly, the new French president Emmanuel Macron is finally tackling labor-market reforms.

All told, you appear to have woken up to an age of political upheaval that stands in striking contrast with the reassuring picture in the economic and financial data. This, we would argue, is no coincidence. Modest wage growth in much of the developed world, for example, has probably contributed both to inflation remaining subdued and to voter dissatisfaction with the status quo. With the possible exception of Brexit, there are few signs of political instability spilling over to economic decision-making.

For the next 12 months, recession risks continue to appear low in all major economies. However, the political economy is clearly shifting, and not necessarily in ways conducive to global growth and financial markets. The fight over U.S. tax reform might prove an important test case in this regard, particularly as it relates to corporate tax rates. We continue to expect modest cuts to be passed – but with plenty of uncertainty in both directions.

U.S. job growth is slowing

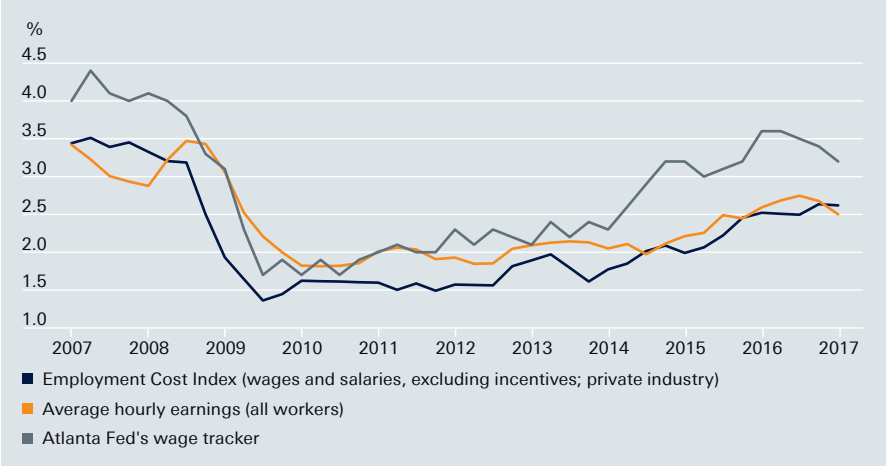
The U.S. labor market continues to improve, but at a slower pace. It may now be approaching full employment.



Source: U.S. Bureau of Labor Statistics; as of 8/1/17

Labor costs are edging up only modestly

On most measures, U.S. wage growth has only risen slightly. It looks set to remain gradual, not least due to subdued inflation expectations.



Sources: U.S. Bureau of Labor Statistics, U.S. Federal Reserve; as of 9/1/17

Emerging markets in focus

» Most fixed-income markets are taking the slow-motion rate-hike cycle well. Emerging markets profit from structural reforms. «

Jörn Wasmund
Head of Fixed Income/Cash

IN A NUTSHELL

Little has changed in the fixed-income universe in recent months.

Many valuations remain at historically high levels, but there are still some pockets of opportunity.

Emerging-market bonds still profit from structural improvements, the strong global economy and a weak dollar.

The fixed-income world has not changed dramatically over the past three months. In fact, a familiar trend held up: while economic data surprised on the upside, inflation remained shy of expectations. We expect yields to continue their slow-motion increase, as monetary policy becomes gradually less accommodative. In the United States., we forecast two more rate hikes in the coming 12 months and a shrinkage of the Fed balance sheet. In Europe, we believe that the European Central Bank (ECB) will scale back its bond purchases from early 2018 on, whereas the Bank of England (BoE) may raise rates once by the end of this year. We doubt, however, that the BoE will follow that up with more hikes in 2018.

Against this backdrop, we have little appetite for the ultra-long end of developed-market sovereigns. We continue to see opportunities in investment-grade and high-yield (HY) corporate bonds of these regions, which are supported by still high demand and solid economic fundamentals. Solid fundamentals, combined with supportive financial conditions, should help to keep default rates in the HY sector at historically low levels. We are, however, concerned about the pricing and the surge of covenant-light issues in this space, so selection is critical.

Emerging-market (EM) sovereigns remain compelling, due to both long-term improvements and a benign short-term picture. Reforms have been progressing since the Asian financial crisis of the late 1990s. Several Asian and Latin-American countries have embraced fiscal discipline, floating exchange rates and structural reforms in order to better absorb economic or external shocks. Many of them now generate decent economic growth without high inflation rates. For central banks, this has resulted in comforting monetary leeway. We believe that bonds are an appropriate vehicle for investors to profit from this development. The country universe of EM sovereigns is much more diverse compared to EM corporate bonds or equities. Its benchmark includes 65 different countries borrowing in hard currency. This can provide diversification benefits across ratings, regions, economic-growth models and the degree of commodity dependence. And while risks may be higher in the EM space, many of those risks are specific to the country in question. That said, many hard-currency sovereigns are fairly illiquid. Therefore, choosing the right regions, maturities, currencies, while keeping an eye on liquidity, are key. Active management certainly appears advisable in this segment.

Obviously, we are not the only ones noticing structural improvements in EMs. Furthermore, EMs have benefitted from easy monetary policies that have encouraged a hunt for yield across all risky assets. Tightening monetary policies in developed markets could thus cause some turmoil. During the 2013 taper tantrum, EMs were hit hard by the mere prospect of the Fed curtailing its bond-buying program. The selling was fairly indiscriminate, and bonds took a while to

recover. This would justify some investors' concerns now, as we expect less accommodative central banks.

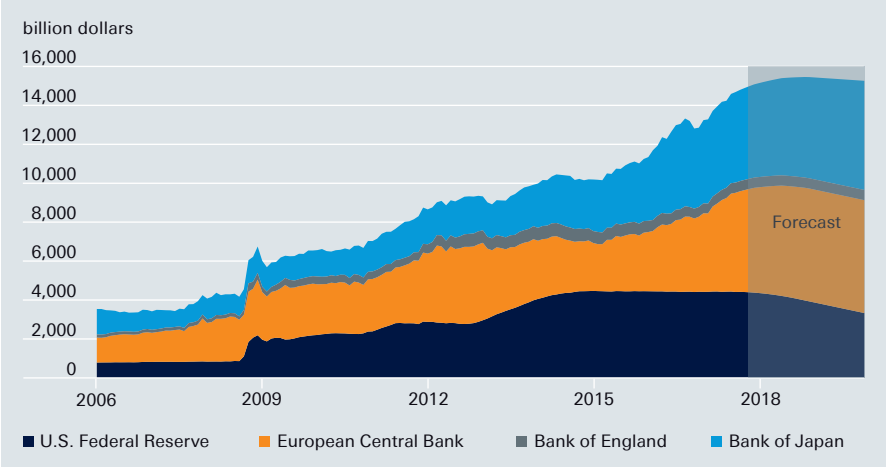
But investors do not seem to be too concerned for the moment. In June, Argentina was able to issue a 100-year bond. Given its long history of defaults, the last one as recent as 2014, this seems like a sign of market froth. Another worry, paradoxically, is that it has been quite a while since the last full-blown EM crisis. Sizeable defaults of publicly-traded sovereign bonds are not all that common. Two recent exceptions were aforementioned Argentina in 2014 and Ukraine in 2015. But optimists see silver linings even in such instances; for example, there was a haircut of only 20% on Ukrainian bonds.

For now, we still believe that the reasons for concern are very limited. The current stabilization of commodity prices, solid global growth rates and a weakened dollar helped countries such as Brazil and Russia to recover faster than anticipated. China's economic data has been equally supportive. Our preference is for EM bonds with longer maturities, in local currency and with a bias towards higher yields. The second chart on the right shows how strong this segment has performed over the past two decades. Active management has the potential to add another layer of performance.

[1] JPM EMBI Global Composite Index

Aggregated balance sheets of major central banks

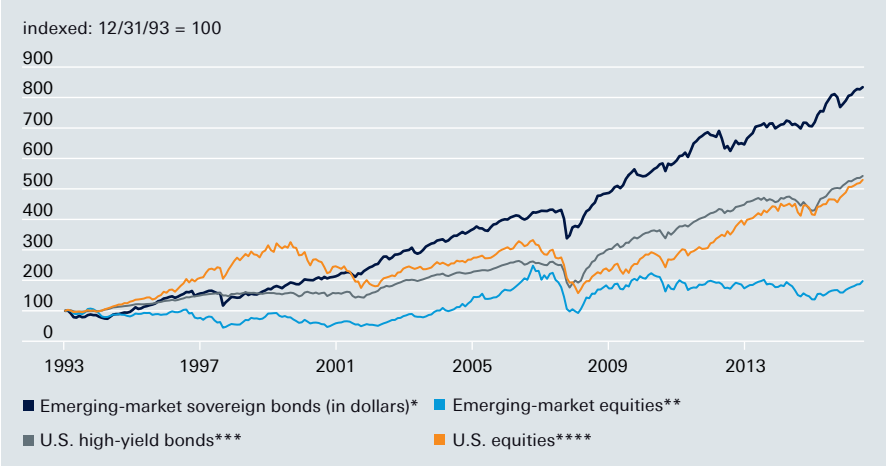
One more for the road. 2018 is likely to be the last year of - albeit slightly - expanding central-bank balance sheets.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 10/4/17

Impressive performance of emerging-market bonds

Over the past 20 years, EM sovereign bonds have clearly outperformed EM equities, U.S. equities and U.S. high-yield bonds.



Source: Bloomberg Finance L.P.; as of 10/4/17
* JPM EMBI Global Composite Index
** MSCI Emerging Markets Index
*** BofA Merrill Lynch US High Yield Index
**** S&P 500

The dollar is down, but not out

» Financial markets are all about expectations. Given the current ones, there appears to be some scope for a dollar rebound. «

IN A NUTSHELL

At the start of the year, all looked well for the dollar.

Since then, markets have had to digest a dismal start for the U.S. economy, while European data surprised positively.

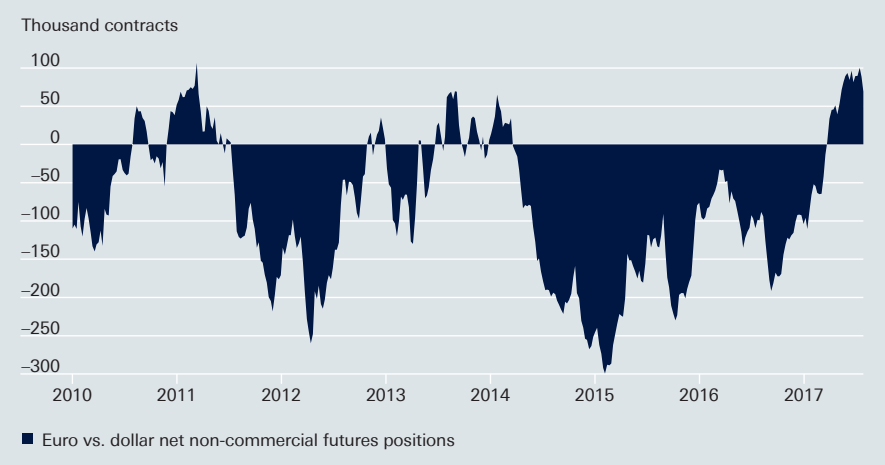
While investors are betting on a stronger euro, we wouldn't count out the dollar just yet.

The dollar has seen massive swings in 2017. At the start of the year, all looked well for the Greenback. For three years, investors had been betting on a stronger dollar, especially against the euro. After the U.S. election, these bets increased further, as can be seen by net non-commercial futures positions. Since then, markets have had to digest a dismal start for the U.S. economy into 2017, while European data surprised positively. When French voters sent Emmanuel Macron into the Elysée Palace, investors had to scale back their bets on a stronger dollar. By doing so, they have sent the dollar on a dive.

The market is currently betting on a stronger euro – and might once again find itself wrong-footed. Hopes are running high that the old continent might make a great leap forward towards a "fiscal union." We are skeptical. European institutions just do not work that way. With 19 Eurozone member states, there is always scope for negative political surprises somewhere. Catalonia's attempts to move towards independence and next year's elections in Italy are just two examples. Also, the ECB's tapering might not run as smoothly as expected. Meanwhile, we still see a decent chance of some sort of U.S. tax cuts eventually being enacted. Given subdued market expectations, signs of congressional progress on that should be dollar-positive, whatever the eventual outcome. Add the increasing yield differential between U.S. and European bonds, and we certainly shouldn't count out the dollar just yet.

Betting on a stronger euro

Investor optimism on the euro is at its highest in years, as shown by net positions unrelated to currency hedging in futures markets.



Source: Bloomberg Finance L.P.; as of 10/2/17

Uncomfortably constructive

» The tenacious rally is being eyed skeptically, including by us. For now, however, we see few signals of it ending. «

Many people expect and – in some cases – even long for a market correction, if only to be able to talk about market-entry points with greater conviction again. Of course, a fall in equity markets might also give them – and indeed us – a better story to tell. However, pessimists are seriously tempting fate. We readily admit that we expected to see a setback this summer. Instead, even the traditionally susceptible month of September proved to be harmless. In capital-market jargon, harmlessness translates into a "period of low volatility." In this case, the period is lasting a long time. Many asset classes are recording new lows in volatility. For the S&P 500, eight out of nine months this year have ranked among the 20 least volatile months since 1997, despite hurricanes and President Trump's tweets. In the United Kingdom, which faces an equally turbulent political landscape, the FTSE 100 has remained in a range of around just 6 percent this year – a first in the history of the index dating back to 1984.

Inertia instead of euphoria

Low volatility and rising share prices should usually cheer up shareholders, but there is little evidence of this. Instead, trading volumes rather reflect apathy. The volume of MSCI World equities traded in the third quarter of 2017 has been lower than in any other quarter since early 2002, despite strong growth in trading volumes by high-frequency traders. This makes long-term investors appear even more passive. No one seems to really trust in this rally, now nearly nine years old. Market players are finding a lot to criticize, even the low level of volatility. Some analysts believe this represents risky complacency by investors, while others see it as a reflection of the ongoing boom. The ambivalent opinions on the state of the market continue.

Some think that the boom is being driven too much by just a handful of technology stocks, while others regard this as a justification for the strong run of U.S. equities. One faction criticizes the synchronization of risk assets as a result of central-bank actions, while another celebrates 2017 as a year when stock picking is beginning to pay off again. Some are bothered by how dependent many Western listed companies are on China's economy, while others are thrilled by the strong demand from emerging markets. Some think that equities are too cheap, while others…. No, actually, you are unlikely to find investors who think that equities are too cheap.

Thomas Schüßler
Co-Head of Equities

Andre Köttner
Co-Head of Equities

IN A NUTSHELL

Stock markets have been booming for nearly nine years now, but investor skepticism is growing.

Investor concerns are justified, but on a 12-month horizon we see little that might cause markets to reverse.

Is skepticism warranted?

What are the reasons for skepticism among many investors? It might be a combination of experience and lack of experience. Most investors who lived through the market corrections in 2000 and 2008 know a thing or two about bad experiences, and there certainly are parallels between today and 1999 or 2007. There are differences too, however. This takes us to the second key issue: we are in uncharted territory. Chief among the unknown factors are the major central banks' bloated balance sheets and the question of what may happen once they begin reducing their securities exposures. Closely related to this is the potential impact the end of the pervasive low-interest-rate environment will have, notably on the heavily indebted corporate sector.

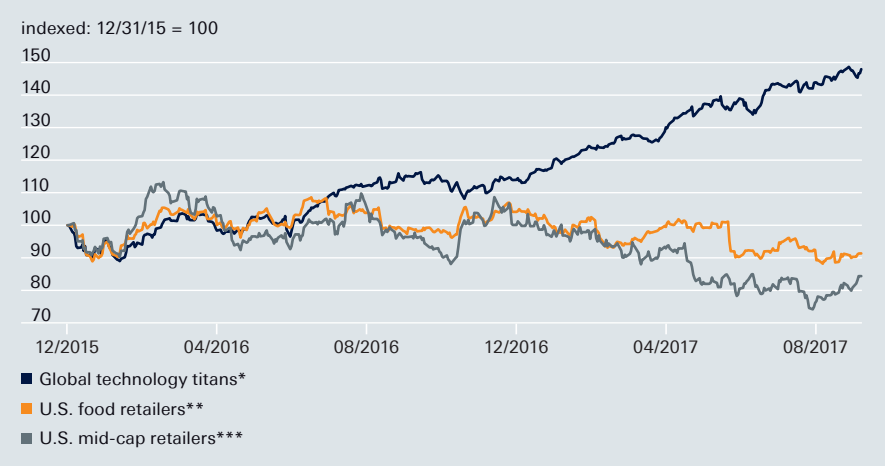
On top of all these considerations, the current boom has some unusual features, such as weak productivity growth, anemic inflation, and last but not least its sheer longevity. In a few months, it will become the second-longest bull market in U.S. history[1]. But change is not limited to the macro level; it can be seen at the micro level as well. Just look at the biggest winners and losers among S&P 500 companies in terms of market-capitalization changes during the first three quarters of 2017: The four most successful companies are all internet businesses, and collectively saw their market capitalization grow by $500bn. The same market value was, however, at the bottom lost by some 50 companies, among them icons of "traditional" industries, as well as telecommunication companies and computer manufacturers. This underscores the radical market division, which has also emerged at a global level. The ten most valuable companies[2] primarily operate in the internet and software sectors, and two hail from China. While only founded 19 years ago, their current market capitalization of $850bn equals one fifth of the capitalization of the entire Shanghai A-Share Index.

Our equity strategy

How are these observations reflected in our equity strategy? For one thing, we think that the period of low volatility could persist, especially as no immediate triggers of a lasting market correction are in sight. We continue to expect further rises in corporate earnings and increase our share-price targets accordingly. Among businesses, we expect the digitalization to continue to challenge some and benefit others. We are leaving our valuation multiples[3] virtually untouched, because we do not anticipate that economic cycles will disappear. It remains to be seen how well the current economic and financial system can withstand the next downturn.

A digital year: technology stocks in a special cycle

Over the past year, the global technology sector, dominated by internet giants, has left the overall market behind, including brick-and-mortar retail.



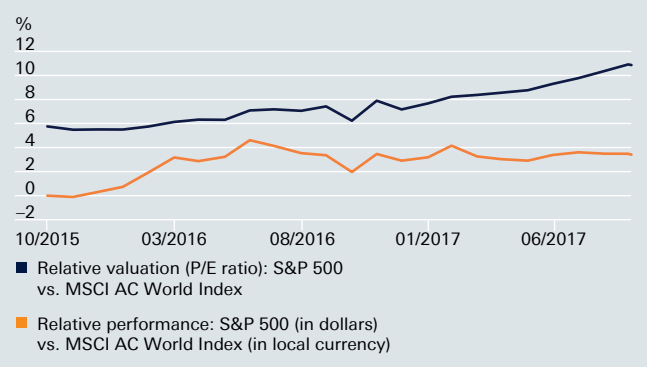
Source: Bloomberg Finance L.P.; as of 9/29/17
*Dow Jones Technology Titans 30 Index
**Bloomberg Industries US Food Retailers Competitive Index
***Bloomberg Industries Mid Cap US Retailers Valuation Peers Index

[1] According to the definition of the National Bureau of Economic Research
[2] As measured by the stock-market value of companies included in the S&P Global LargeCap
[3] In the form of our target multiples for the indices' price-to-earnings ratio

Valuations overview

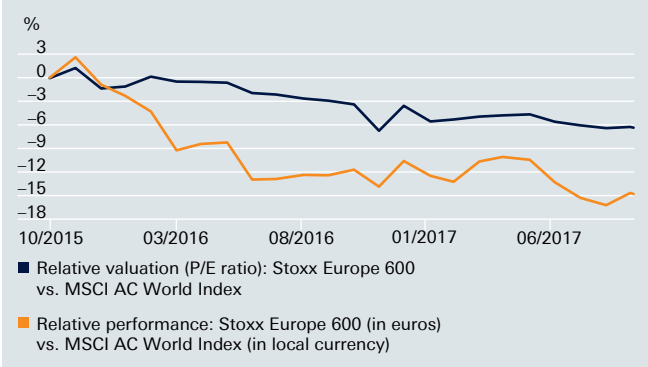
U.S. equities

Even if U.S. stock markets have benefited from the strength of internet giants this year, we see earnings growth spread out across many sectors in our twelve-month forecast. Despite the disappointment with the U.S. President's legislation attempts to date, we believe that tax cuts modestly advantageous to companies could still be passed in the coming months. However, the market is becoming increasingly prone to disappointments.



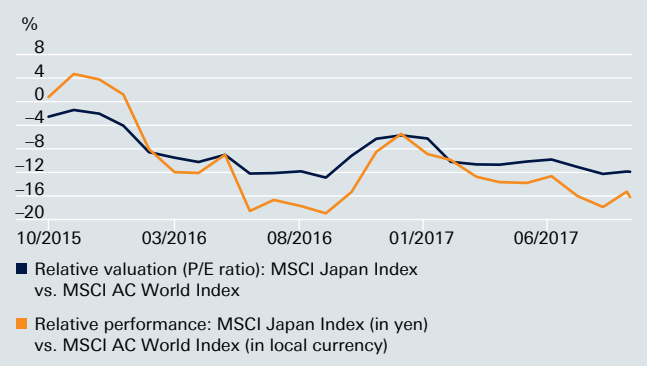
European equities

Europe's economy continues to benefit from the good global economy. Sentiment indicators remain strong, and France's President Macron is making further progress with economic reforms. We believe the euro's upward swing is over for now, which might provide a tailwind for equities, as could the valuation discount versus U.S. equities, which has recently grown again. Rising dividend payout ratios and a flurry of acquisitions should help, too.



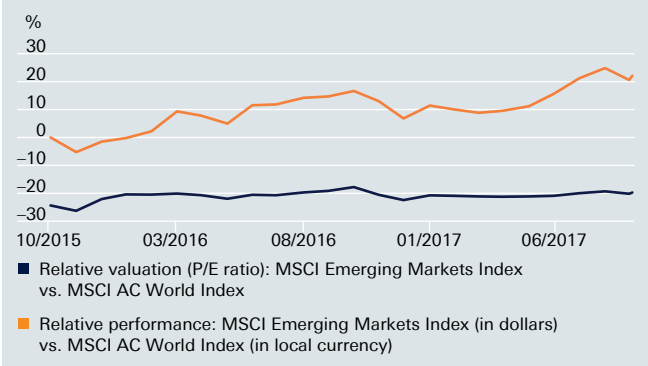
Japanese equities

Japanese companies also continue to surprise with good figures. As we expected, their spring forecasts now already prove to have been too conservative. Among industrialized countries, Japan is leading the way in terms of earnings revisions. Despite this rosy picture, we currently see little that would rekindle the interest of foreign investors, who may be concerned by the tensions with North Korea and a weaker dollar.



Emerging-market equities

Emerging markets are still a source of optimism. Risks from the United States have not materialized as feared: Interest rates are increasing only modestly, the dollar has been weaker than expected and Trump has not imposed trade restrictions yet. Earnings growth is sound, inflation is historically low and valuations vis-à-vis industrialized countries are appealing. With its successful tech firms, Asia remains a compelling region.



Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH; as of 10/4/17

Rising diversification benefits

» The overall outlook for global real estate remains solid, but a selective and disciplined approach is critical. «

Mark G. Roberts
Head of Research & Strategy, Alternatives

IN A NUTSHELL

Expected returns are coming down slightly, but remain favorable.

In the United States, there are reasons to expect a more temperate, but also more protracted recovery than in past cycles.

This creates opportunities to outperform through judicious sector and market selection.

Real estate, like the equity markets, was highly correlated in the aftermath of the credit crisis. Today, countries around the globe are in different phases of their economic, monetary and political cycles. This has impacted property markets and will continue to do so to varying degrees. In turn, correlations in the property markets are declining and the benefits of global diversification are rising. At the same time, low interest rates have increased demand for higher-yielding investments, including both real estate and infrastructure.

Investor demand has lifted capital values for property, particularly in markets like the U.S., and returns over the last several years have been well in excess of their longer-term average. With the market more mature today, total returns are reverting to more normal levels which are expected to remain competitive to both the equity and bond markets. Indeed, total returns to unlevered[1] core U.S. real-estate assets stabilized to 7% in the second quarter (four-quarter trailing average) from 8% in 2016. Reasons for the slight deceleration include interest-rate volatility after the U.S. elections and a modest slowdown of net-operating-income growth. However, monthly data indicates that prices firmed in the spring. There are pockets of weakness, as oversupply has caused rents to stall in some apartment markets, while store closures have challenged some retail formats.

Overall, however, the outlook for U.S. real estate remains positive with vacancy rates near 15-year lows and property delivering an interesting yield relative to interest rates. We expect that total returns will remain in the 6 to 7% range in 2017 and 2018. In inflation-adjusted terms, rents actually remain about 5% below their 20-year historical average. This suggests that there is further scope for rents to recover. It is quite possible that like the broader economy, real estate will experience a more temperate, but also more protracted recovery than in the past. Indeed, assuming that real rents converge to, and possibly overshoot historical averages over time, it is reasonable to expect that property incomes might outpace inflation for several years. Meanwhile, mortgage lending has remained somewhat constrained, limiting the threat from new supply. However, we expect to see considerable dispersion across the U.S. real-estate universe, creating opportunities to outperform through judicious sector and market selection.

Why we like Europe

In regional terms, Europe continues to be well positioned. For a change, European voters and policymakers have actually provided reasons to be cheerful rather than fretful, from elections in the Netherlands and France to progress in sorting out the Italian banking system. There remains, of course, the ongoing specter of Brexit, but we would see this as more of a concern for the United Kingdom than the rest of the continent. Indeed, several markets such as Frankfurt, Dublin, and to a lesser extent Paris and Luxembourg, look well positioned as

potential beneficiaries of Brexit-related relocations.

Overall, confidence is high, growth is accelerating and political risks have decreased. As such, European real estate remains an interesting investment class. Prime European real estate seems set to record another exceptionally strong year of double-digit returns in 2017. Germany, France, the Benelux and Iberia are expected to be some of the strongest-performing markets in Europe in the coming two years, while most UK markets seem set to see rent growth below the European average in the five years until 2021. Office take-up across the major European cities increased in the first half of this year, while logistics may be the top-performing sector over the next five years.

Macroeconomic conditions have also strengthened in the Asia-Pacific region. On the back of solid fundamentals, we expect the Asia-Pacific real-estate markets to deliver healthy annual total returns of about 6 to 8% over the next five years. Within the region, Australia is expected to be among the top-performing markets, as occupier demand in the office sector has started to recover in key markets, while Japan continues to yield the highest excess returns over the risk-free rate.

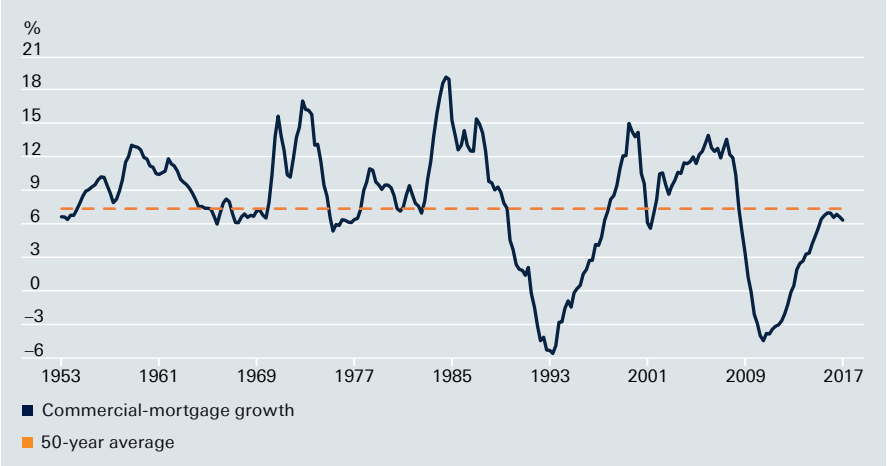
Still some room to grow for real U.S. rents

Real rents on U.S. real estate remain about 5% below their 20-year historic average.

Source: CBRE-EA, RREEF Management L.L.C.; as of 03/2017
* Adjusted for core consumer price inflation; equally weighted across apartment, office, retail and industrial sectors

U.S. commercial-mortgage debt fairly subdued

U.S. commercial-mortgage lending has remained fairly constrained, limiting the threat from new supply. Outstanding debt is close to historic averages.



Source: Federal Reserve; as of 3/31/17

[1] Unlevered returns are calculated under the assumption that the assets were financed without debt, i.e. with equity only. This is intended to make return comparable.

In late cycle

» At this stage of the cycle, we see a generally risk-friendly environment - and position ourselves for low volatility. «

Christian Hille
Head of Multi Asset

IN A NUTSHELL

The current environment is characterized by solid growth, benign inflation and still accommodative central-bank policy.

Equities tend to perform particularly well in late cycle.

We are keeping a close watch on overall risk and liquidity.

For markets, the key question right now is whether you think we are in a goldilocks or in a late-cycle environment. These two scenarios have very different implications. And they are not that easy to distinguish. Both are characterized by solid GDP growth and low inflation. Both are generally supportive for risky assets. What distinguishes them is how long good times will last, with big implications for asset-class positioning and risk management.

We believe in the late-cycle interpretation. Ever since the global financial crisis of 2008, years of extraordinarily low interest rates and quantitative easing have driven and supported financial returns. We may be close to the turning point in the global policy cycle. There is certainly scope for missteps, as central banks try to escape from their ultra-loose monetary policies. Markets continue to be dependent to a fairly high degree on their every move and whisper. However, global central banks are expected to remain quite accommodative for the foreseeable future. While they are now one of the main sources of uncertainty, they also continue to stand ready to cushion potential turbulences ahead. We are expecting rates to rise at a modest pace. This should allow the late-cycle environment to continue for another 12 to 24 months. In general, this should support the risk environment and thus asset prices.

Too early to call

Monetary policy aside, there are other concerns, too. In a wide range of asset classes, the current bull market is already relatively long-lived and strong by historic standards. On many measures global equity markets (and other financial assets) are expensive compared to financial history. Moreover, corporate earnings, on which those high multiples are applied, have been boosted by profit margins at record highs (at least in the U.S.).

However, this need not be a cause for immediate concern. Contrary to what many still think, the data on U.S. GDP growth since World War II suggest that economic recoveries do not simply die from old age. This may be one of the reasons why historically, low-volatility regimes have often lasted for quite a long time. The current one could well approach new records, and not just in equity markets. Volatility as a measure of fluctuation of returns and also as a proxy for nervousness in the market has come down to record lows across nearly all asset classes. Meanwhile, daily market moves have narrowed. Arguably, positioning in some areas of the option markets (e.g. betting on even lower volatility and gathering premia) is at rather extreme levels.

Occasional volatility spikes notwithstanding, however, what would drive volatility higher would be the prospect of any recession. Hence we monitor economic as well as sentiment indicators carefully, which continue to look fairly reassuring. Historical analysis suggests a high exposure to equities in such an environment.

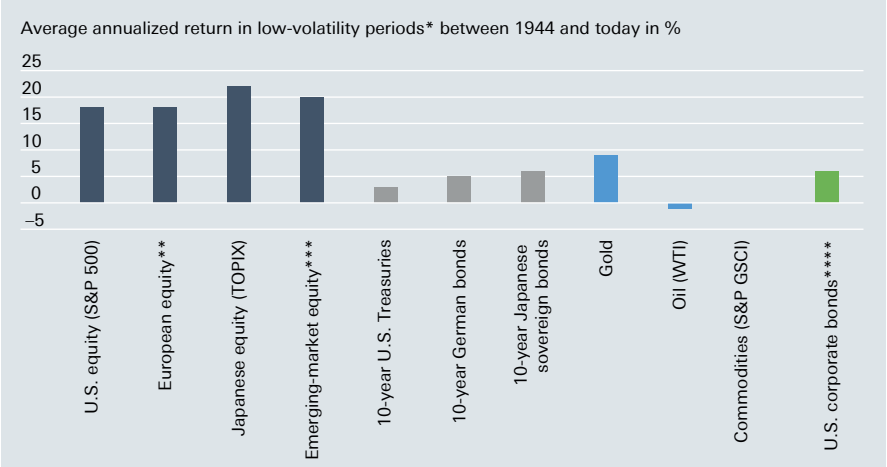
We're increasing equity

Taking everything together, we currently see equities as our preferred asset class. Solid earnings growth, healthy balance sheets and still low interest rates suggest further upside potential, despite stretched valuations compared to history. We continue to like Eurozone stocks best, as valuations still leave some room for price increases while the political overhang has been diminished. We also expect emerging-market and Japanese stocks to perform well while we have less conviction in U.S. equities, mainly from a valuation standpoint.

Emerging-market debt remains preferred within fixed income as well as across various asset classes from a risk-adjusted return perspective. To put things into a portfolio context we have reduced risk in developed-market corporate credit, in particular high yield, due to a risk-reward profile that appears to be skewed to the downside, and moved step by step into equities while also holding cash and liquid bonds. Interest-rate sensitivity is comparably low. Gold remains a strategic portfolio component as a hedge against crises. There is certainly no shortage of potential triggers beyond purely economic and financial matters. Geopolitical tensions in North Korea are just one of the non-economic issues we are keeping an eye on.

Equities tend to perform well in late cycle

Equities tend to yield above-average returns in low-volatility periods, which have on average lasted 22 months for the S&P 500.



Sources: Data taken from The Goldman Sachs Group, Inc., Global Strategy Paper No. 23 (6/21/17), Deutsche Asset Management Investment GmbH; as of 09/2017

* These periods are defined as starting when the S&P 500's 1-month volatility falls below 10% and stays there for 6 months and ending when the S&P 500's 1-month volatility spikes above 10% and stays there for 6 months

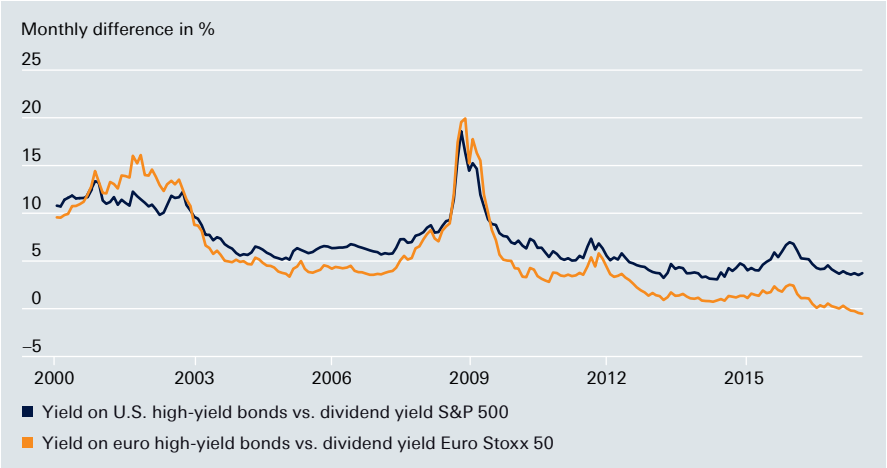
** MSCI Europe Index (in dollars)

*** MSCI Emerging Markets Index (in dollars)

**** Dow Jones Equal Weight U.S. Issued Corporate Bond Index

Relative to equities, high yield looks pricey

In Europe, the yield on high-yield debt is 50 basis points below the equity dividend yield, much lower than the historic average.

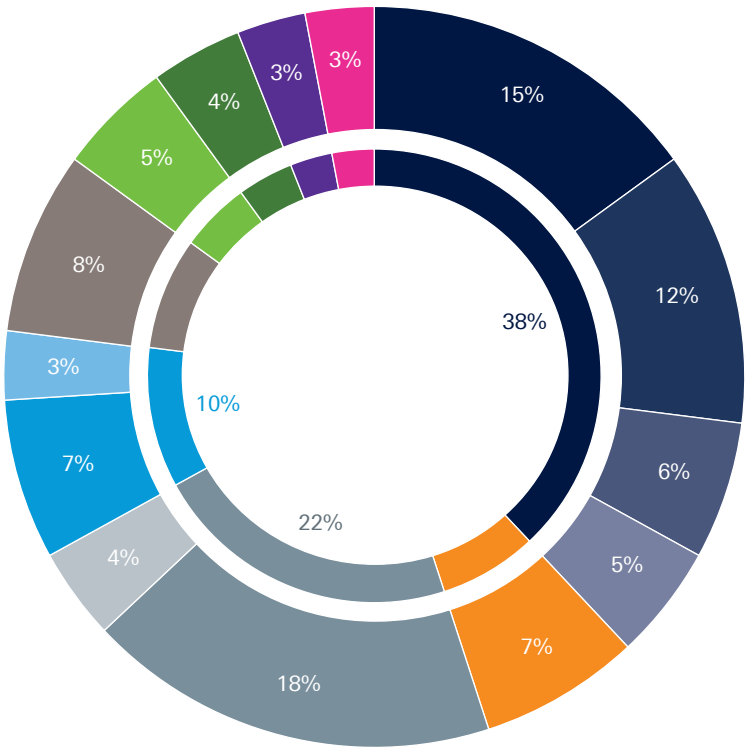


Sources: FactSet Research Systems Inc., Deutsche Bank AG; as of 08/2017

Raising our equity allocation

» We currently see equities as our preferred asset class. «

Against a backdrop of solid earnings growth, we are raising our equities allocation. In terms of regional allocations, we continue to like Eurozone stocks and also expect emerging-market and Japanese stocks to perform well, while we have comparatively less conviction in U.S. equities. Especially in the United States, equity valuations appear stretched compared to history, but less so compared to yields available in fixed income. Given tight credit spreads and our expectation of slightly and gradually rising interest rates, we are reducing our allocation for investment-grade bonds and increasing it for emerging-market sovereigns. Gold remains an important diversifier, as part of a slightly reduced overall commodities exposure.



Developed-market equities	38%
United States	15%
Europe	12%
Japan	6%
Global Equity Style	5%
Emerging-market equities	7%
Fixed income: Credit	22%
Euro investment grade	18%
U.S. investment grade	0%
Euro high yield	0%
U.S. high yield	4%
Fixed income: Sovereigns	10%
Eurozone sovereigns	7%
U.S. Treasuries	3%
Fixed income: Emerging markets (hard currency)	8%
Convertibles (euro-hedged)	5%
Cash	4%
Commodities	3%
Alternatives	3%

Source: Multi Asset Group, Deutsche Asset Management Investment GmbH; as of 10/6/17

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.

The clouds have disappeared!

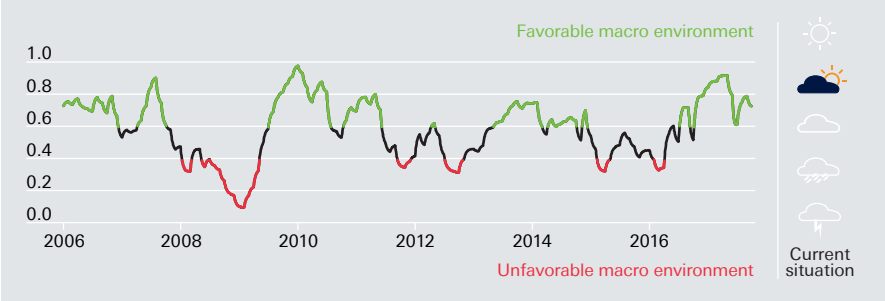
» Indicators point to sunny skies ahead. «

During the first several months of 2017, the capital-market environment was fairly favorable. This was also reflected in the signals of the three multi-asset indicators. Towards the middle of the year, things below the surface began to cloud over. This too could clearly be seen in the indicators, which started to diverge. On the one hand, the risk indicator showed a healthy risk appetite among investors. On the other hand, analysts' expectations got a little too far ahead of economic reality, which meant that, in some cases, it was no longer possible to meet or exceed expectations. The surprise indicator therefore slipped into negative territory around the middle of the year.

In the second quarter of 2017, the macro indicator also signaled a temporary deceleration in economic momentum, albeit at a high level. In recent months, the market situation painted by the indicators has brightened up significantly once again. In particular, the surprise sub-indicators for Asia, the United States and Europe have improved, which suggests that things are growing sunnier in all regions at the same time. All three multi-asset indicators are currently in positive territory and point to a risk-friendly investment climate.

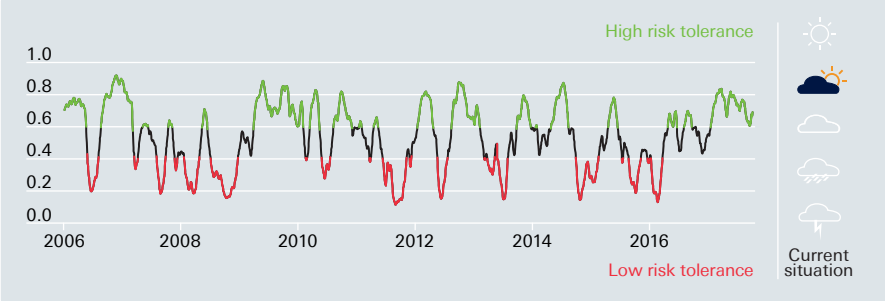
Macro indicator

Condenses a wide range of economic data



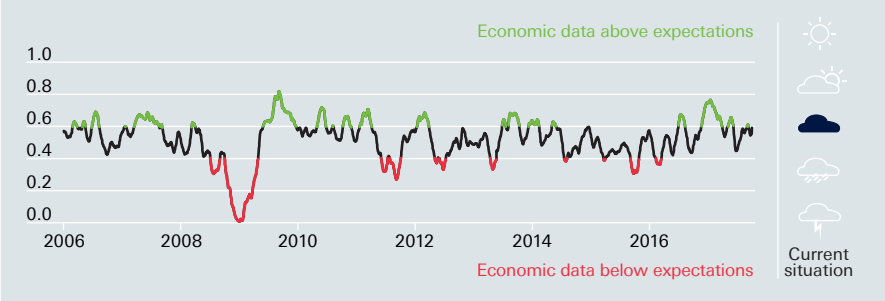
Risk indicator

Reflects investors' current level of risk tolerance in financial markets



Surprise indicator

Tracks economic data relative to consensus expectations



Source: Deutsche Asset Management Investment GmbH; as of 9/29/17

Macro | Plenty of growth momentum

GDP growth (in %, year-on-year)

Region	2017F		2018F
United States[1]	2.2	↗	2.3
Eurozone	2.1	↘	1.8
United Kingdom	1.6	↘	1.3
Japan	1.5	→	1.5
China	6.7	↘	6.5
World	3.7	↗	3.8

Fiscal deficit (in % of GDP)

Region	2017F		2018F
United States	3.3	↗	3.5
Eurozone	1.4	↘	1.3
United Kingdom	3.3	↗	3.5
Japan	4.8	→	4.8
China	3.4	↘	3.2

Consumer price inflation (in %)

Region	2017F		2018F
United States[1]	1.6	↗	1.8
Eurozone	1.5	↘	1.4
United Kingdom	2.6	↗	2.7
Japan	0.7	↗	1.0
China	1.9	↗	2.2

Current-account balance (in % of GDP)

Region	2017F		2018F
United States	–2.6	↘	–2.9
Eurozone	3.1	↘	2.9
United Kingdom	–3.5	→	–3.5
Japan	3.5	→	3.5
China	1.8	→	1.8

Benchmark rates (in %)

Region	Current*		Sep 2018F
United States	1.00-1.25	↗	1.50-1.75
Eurozone	0.00	→	0.00
United Kingdom	0.25	↗	0.50
Japan	0.00	→	0.00
China	4.35	→	4.35

Commodities (in dollars)

	Current*		Sep 2018F
Crude oil (WTI)	51.5	→	50
Gold	1,304	→	1,300
Copper (LME)	6,882	↘	6,600

* Source: Bloomberg Finance L.P.; as of 10/13/17
[1] core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)
F refers to our forecasts as of 9/28/17
WTI = West Texas Intermediate
LME = London Metal Exchange

Legend applies for this and the following page
– Equity indices, exchange rates and alternative investments: The arrows signal whether we expect to see an upward trend ↗, a sideways trend → or a downward trend ↘ .
– Fixed Income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries. ↗ depicts a rising spread, → a sideways trend and ↘ a falling spread.
– The arrows' colors illustrate the return opportunities for long-only investors: ↘ ↗ positive return potential for long-only investors. → limited return opportunity as well as downside risk. ↘ ↗ negative return potential for long-only investors.

Equities | Strong earnings growth

	Current*		Sep 2018F Forecast	Total return (expected)[1] in %	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500)	2,553	↗	2,600	4.1	12%	–9%	2.3%
Europe (Stoxx Europe 600)	391	↗	400	5.8	11%	–7%	3.6%
Eurozone (Euro Stoxx 50)	3,605	↗	3,700	6.3	11%	–7%	3.6%
Germany (Dax)[2]	12,992	↗	13,600	4.7	8%	–7%	3.0%
United Kingdom (FTSE 100)	7,535	↗	7,500	3.6	8%	–9%	4.1%
Switzerland (Swiss Market Index)	9,312	→	9,100	1.0	11%	–12%	3.2%
Japan (MSCI Japan Index)	1,012	→	1,020	3.1	13%	–11%	2.3%
MSCI Emerging Markets Index (USD)	1,126	↗	1,160	5.7	15%	–6%	2.6%
MSCI AC Asia ex Japan Index (USD)	688	↗	710	5.6	17%	–7%	2.5%
MSCI EM Latin America Index (USD)	2,966	↗	3,000	3.9	17%	–14%	2.8%

* Sources: Bloomberg Finance L.P., FactSet Research Systems Inc.; as of 10/13/17
[1] Expected total return includes interest, dividends and capital gains where applicable
[2] Total-return index (includes dividends)

Fixed Income | Only small rises in interest rates

United States

	Current*		Sep 2018F
U.S. Treasuries (10-year)	2.27%	↗	2.60%
U.S. municipal bonds	87%	→	90%
U.S. investment-grade corporates	94 bp	↘	90 bp
U.S. high-yield corporates	348 bp	→	360 bp
Securitized: mortgage-backed securities[1]	80 bp	↗	100 bp

Europe

	Current*		Sep 2018F
German Bunds (10-year)	0.40%	↗	0.80%
UK Gilts (10-year)	1.37%	→	1.40%
Euro investment-grade corporates[2]	101 bp	↘	90 bp
Euro high-yield corporates[2]	249 bp	↗	275 bp
Securitized: covered bonds	51 bp	↗	65 bp
Italy (10-year)[2]	167 bp	→	180 bp

* Source: Bloomberg Finance L.P.; as of 10/13/17
[1] Current-coupon spread vs. 7-year U.S. Treasuries
[2] Spread over German Bunds

F refers to our forecasts as of 9/28/17; bp = basis points

Asia-Pacific

	Current*		Sep 2018F
Japanese government bonds (10-year)	0.06%	→	0.10%
Asia credit	224 bp	→	235 bp

Global

	Current*		Sep 2018F
Emerging-market sovereigns	288 bp	→	285 bp
Emerging-market credit	292 bp	↘	280 bp

Currencies

	Current*		Sep 2018F
EUR vs. USD	1.18	↘	1.10
USD vs. JPY	111.8	↗	115.0
EUR vs. GBP	0.89	→	0.87
GBP vs. USD	1.33	↘	1.27
USD vs. CNY	6.58	↗	6.90

Das Chief Investment Office …

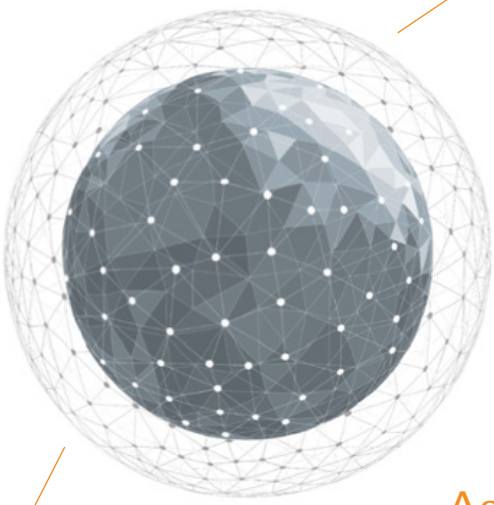
… plays a central role in Deutsche Asset Management's investment process.

… is headed by Stefan Kreuzkamp, Chief Investment Officer (CIO) of Deutsche Asset Management.

… 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.



Deutsche Asset Management[1] …

…is one of the world's leading investment-management organizations with about €710 billion of assets under management (as of September 30, 2017)

… 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 «

The aim of an accommodative monetary policy is to support the economy by means of monetary expansion.

The Bank of England (BoE) is the central bank of the United Kingdom.

The Benelux Union is the politico-economic union of Belgium, the Netherlands and Luxembourg. The name is an acronym of the starting letters of those countries and is also often used when generally referring to them.

The Bloomberg Industries Mid Cap US Retailers Valuation Peers Index is a rule-based and equal-weighted equity index tracking the price development of mid-size companies of the U.S. retail industry.

The Bloomberg Industries US Food Retailers Competitive Index is an equally-weighted equity index reflecting the price development of seven companies operating in the U.S. food-retail industry.

The BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade, including zero-coupon and payment-in-kind (PIK) bonds.

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

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The Chinese yuan (CNY) is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

Correlation is a measure of how closely two variables move together over time.

Covenants designate contractual obligations or restrictions intended to protect the financial interests of creditors.

Covered bonds are securities similar to asset-backed securities (ABS) which are covered with public-sector or mortgages loans and remain on the issuer's balance sheet.

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

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim or reducing risk or boosting risk-adjusted returns.

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

The Dow Jones Equal Weight U.S. Issued Corporate Bond Index is a bond index tracking the totals returns of 96 large and liquid U.S. corporate bonds with investment-grade rating.

The Dow Jones Technology Titans 30 Index is a global equity index reflecting the price development of the world's 30 biggest technology firms by market capitalization.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

The Euro Stoxx is a broad-based equity index comprising 301 constituents from the Eurozone.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

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

The European Union (EU) is a political and economic union of 28 member states located primarily in Europe.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

A fiscal union is the integration of the fiscal policy of several nations. Decisions about the collection and expenditure of taxes are taken by common institutions.

The FTSE 100 is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

The FTSE 250 is a weighted index of the 101st to the 350th largest companies (by capitalization) listed on the London Stock Exchange.

Gilts are bonds that are issued by the British Government.

The term Goldilocks economy refers to a state of the economy, where there is neither a threat of inflation due to an overheating economy, nor a threat of a recession.

Greenback is a commonly used expression for the U.S. dollar.

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.

The Group of 7 (G7) consists of the finance ministers and central-bank governors of the seven major advanced economies as reported by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. They meet to discuss primarily economic issues.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Iberia is a peninsula in Southwestern Europe, on which the countries Spain, Portugal, Andorra, partially France and the British Overseas Territory Gibraltar are located.

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) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The Japanese yen (JPY) is the official currency of Japan.

The JPM EMBI Global Composite Index comprises dollar-denominated government bonds, issued by select emerging-market countries.

A mortgage-backed security (MBS) is a special type of asset-backed security where the holder receives interest and redemption payments from pooled mortgage debtors, secured by the underlying mortgages.

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.

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

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

The MSCI Europe Index is designed to measure the performance of the large- and mid-cap segments of 15 developed markets in Europe.

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

The MSCI World Index tracks the performance of mid- and large-cap stocks in 23 developed countries around the world.

Municipal bonds (Munis) are debt securities issued by a state, municipality or country.

The pound sterling (GBP), or simply the pound, is the official currency of the United Kingdom and its territories.

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

The risk-free interest rate is a theoretical concept in financial economics, describing an investment yielding exactly the return expected at the time of purchase. This is mainly used as a benchmark for other, riskier investments. In practice, it is usually estimated by taking the yield on a long-term top-rated government bond.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The S&P Global LargeCap is a rule-based equity performance index that comprises stocks representing 70% of market capitalization in each developed and emerging country.

The Shanghai Stock Exchange A-Share Index is a market-capitalization-weighted equity index comprising all A-shares listed on the Shanghai Stock Exchange.

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

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

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.

The terms taper conundrum or taper tantrum were used to describe the investor panic when the Federal Reserve announced that it would reduce their purchases in the context of its quantitative-easing program.

Tapering is a slow, continuous reduction of the central bank's asset purchases; especially referring to the U.S. Federal Reserve.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

Risk warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investments in Foreign Countries – Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency – Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

High Yield Fixed Income Securities – Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds – An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for "Qualified Purchasers" as defined by the US Investment Company Act of 1940 and "Accredited Investors" as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund's investment objective will be achieved, or that investors will receive a return of all or part of their investment.

Commodities – The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminium) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates or subsidiaries of Deutsche Bank Group offer commodities or commodities-related products and services.

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Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring.

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