



The collapse of German coalition talks

So far, the market impact has been limited, and rightly so, we would argue

Last night, Germany's Liberals (FDP) surprisingly pulled the plug on talks to form a new government. In recent weeks, key stumbling blocks included Germany's energy and immigration policies (notably whether to reinstate the right of recognized refugees for their family members to join them in Germany). These areas brought the policy differences between Chancellor Angela Merkel's centrist Christian Democratic Union (CDU), its more right-wing Bavarian sister party, the Christian Social Union (CSU), the market-friendly Liberals, and the environmentalist Green Party into sharp focus. But even in other areas, notably fiscal and broader environmentalist policy, coming to a coalition agreement was always expected to be difficult.

So far, the market impact has been limited, and rightly so, we would argue. The euro weakened slightly against the dollar, benefitting German exporters. Partly as a result, the German equity market was broadly flat overall. At the sector level, German carmakers and utility stocks rose on relief that the Greens are now less likely join the government and push for more strident measures on climate change.

These modest movements are in line with our view that not all that much changed overnight. After all, Germany's post-war constitution was explicitly drafted to ensure the country remains governable no matter what. In particular, it provides powerful incentives for parliamentary parties to try to find a consensus, while creating formidable obstacles to snap elections to the Bundestag, the lower house of the German parliament. Through the strong role of the Bundesrat, the upper house of the German government, it also frequently forces the government to look for support beyond its coalition ranks.

As acting Chancellor, Angela Merkel will remain in power, for now. In coming days, she will probably try to convince the center-left Social Democratic Party (SPD), still its partner in the current, acting government, to start talks on a new coalition agreement. Leading Social Democrats figures have repeatedly and energetically ruled this out. However, the Social Democrats may come under enormous pressure in coming days to change their mind. Depending on the public reaction, the Liberals might also decide to come back to the negotiation table.

Failing that, Article 63 of the German constitution leaves two potential outcomes. The arguably more likely one is a minority government. Under this scenario, Christian Democrats and Christian Socials would nominate a candidate for Chancellor, probably Ms. Merkel. If Ms. Merkel cannot secure majority backing in the Bundestag, the Bundestag has 14 days to vote for another candidate. After that, Ms. Merkel could be elected by a simple

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)



plurality. In that case, it is up to Germany's President to either accept the formation of the new – minority – government or to dissolve parliament.

We think it is unlikely that in such a scenario, President Frank-Walter Steinmeier would actually dissolve parliament, which would trigger new elections to the Bundestag within 60 days. And, once elected, a new minority administration might actually prove rather more stable than a multi-party coalition. The reason is that under Germany's constitution, the opposition can only oust a Chancellor with a "constructive vote of no confidence". This means Germany's fragmented opposition would need to align on an alternative candidate first.

In Germany, forming such a minority administration following an indecisive election would be unprecedented. In the short term, it might also raise some eyebrows among its European allies in Brussels and potentially cause some market ripples. In principle, however, we think it could well prove sustainable and result in a continuation of the status quo. Big, and necessary, reforms, notably to Germany's pension and educational systems, would be unlikely in coming years. But with Germany's economy firing out of all cylinders, it might take a while for markets to fret about that.

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)



Glossary

Alliance 90/The Greens

The **Alliance 90/The Greens**, also referred to as the "**Greens**", is a environmentalist political party in Germany that is considered center-left in the German political landscape.

Christian Democratic Union of Germany (CDU)

The **Christian Democratic Union of Germany (CDU)** is a Christian democratic and liberal-conservative political party in Germany that is considered center/center-right in the German political landscape. The CDU is the sister party of the Christian Social Union in Bavaria (CSU), which operates only in the state of Bavaria.

Christian Social Union in Bavaria (CSU)

The **Christian Social Union in Bavaria (CSU)** is a Christian democratic and conservative political party in Germany that only operates in Bavaria and that is considered center-right in the German political landscape. The CSU is the sister party of the Christian Democratic Union of Germany (CDU), which operates in the rest of Germany.

Free Democratic Party (FDP)

The **Free Democratic Party (FDP)**, also referred to as the "**Liberals**", is a market-friendly and social-liberal political party in Germany that advocates human rights, civil and economic liberalism and that is considered centre-right in the German political landscape.

German Bundestag

The **German Bundestag** is the national parliament of the Federal Republic of Germany. It is the lower house of the two legislative chambers, the German Bundesrat being the upper house.

Social Democratic Party of Germany (SPD)

The **Social Democratic Party of Germany (SPD)**, also referred to as the "**Social Democrats**", is a social-democratic political party in Germany that is considered center-left in the German political landscape.

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)



Important Information

Nothing contained herein is fiduciary or impartial investment advice that is individualized or directed to any plan, plan participant, or IRA owner regarding the advisability of any investment transaction, including any IRA distribution or rollover.

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

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)



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 affiliates of Deutsche Bank. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deutsche Bank to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank and the BaFin, Germany's Federal Financial Supervisory Authority) and by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)



Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

© 2017 Deutsche Asset Management Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany. All rights reserved.

All opinions and claims are based upon data on 11/20/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH. R-053458-1 (11/17)