



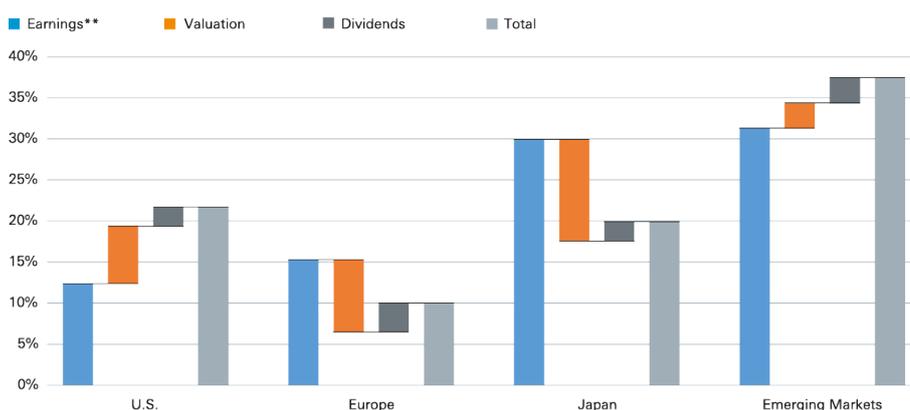
Chart of the week

Earnings have been growing across the globe, while valuations have moved in different directions

2017 turned out to be a great year for shareholders. All major equity markets have gone up and have beaten most forecasts (including our own) by a nice margin. A look at the drivers, however, reveals some interesting insights:

Corporate profits rose around the globe. Estimates of high single-digit earnings growth proved to be too conservative. Companies from various indices saw profits going up by 10% and more over the past 12 months. Valuations, however, showed an uneven pattern across regions. U.S. markets started to discount a profit boost triggered by the tax reform, which translated into rising valuations. From already high levels, price-earnings ratios climbed even further over the course of 2017. For European as well as Japanese stocks, however, valuations declined, hence pushing performance figures below the increase in profits. Double-digit returns in some European markets have only been achieved thanks to dividend payouts, which are comparatively high in Europe. Emerging markets benefitted from inflows, which helped to lift valuations, although not to the same extent as for their U.S. peers. In the U.S., stock markets have priced in the tax benefit already. The other major driver for U.S. equities, the relatively high weighting of the tech sector, might also have reached its peak in (out)performance contribution. Hence, we would see some catch-up potential for other regions in 2018.

2017 stock market performance and its drivers*



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 1/3/18

*U.S.: S&P 500, Europe: Euro Stoxx 50, Japan: MSCI Japan Index, Emerging Markets: MSCI Emerging Markets Index

** Basis: last 12-months earnings

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Glossary

Euro Stoxx 50

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

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.

Price-to-earnings (P/E) ratio or multiple

The **price-to-earnings (P/E) ratio** compares a company's current share price to its earnings per share.

S&P 500

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

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