Multi Asset

Multi Asset View Americas

Staying the course - overweighting risk

Based on our current macroeconomic assessment of the world economy we see a solid and well synchronized expansion. We consider the monetary policy of the major central banks as moderate and supportive for further growth. This picture is also supported by our systematic indicators monitoring macroeconomic and financial-market data as well as global data surprises.

This benign environment should support assets with a higher risk profile, especially equities. Hence we are currently overweight equities vs. bonds.

Within the equity allocation we think regional equity markets with higher beta should outperform markets with lower beta. We prefer equities from the Eurozone, Japan and emerging markets. U.S. equities should be supported by the tax cuts which we expect to lead to higher earnings and repatriation of cash that might be used for share buy backs and higher pay-out ratios.

In the **fixed-income** space we think that assets with safe-haven characteristics like U.S. Treasuries should suffer from less demand and hence be underweighted. U.S. high-yield bonds have had a very strong performance as the overall risk appetite for many investors is high and the concerns around oil related companies have vanished. However, we think valuation is stretched and we underweight high yield as an asset class for valuation reasons by closely monitoring important technical levels in spread terms.

Following the strong macro background argument and the relatively loose monetary policy of the European Central Bank (ECB) we think rates in the Eurozone are too low. We express this view by being short duration via German 10-year interest-rate futures. Emerging-market bonds should be well supported by the positive growth environment and we consider them to be a more attractive investment than high yield at current levels. As the U.S. Federal Reserve Board is expected to reduce the support for the mortgage-backed-securities (MBS) market we feel better positioned by underweighting this asset class.

In **currencies** we think that the recent weakness of the dollar has lasted for a while but we don't want to fight the trend at this stage. The reasons behind it seem to be a combination of large central banks shifting money back into European assets and the potential end of the extra loose monetary policy of the ECB. This could lead to an overshooting of the exchange rate and give us attractive levels to hedge parts of our foreign-exchange exposure. For now we stay put and harvest the positive performance contribution of the international exposure.

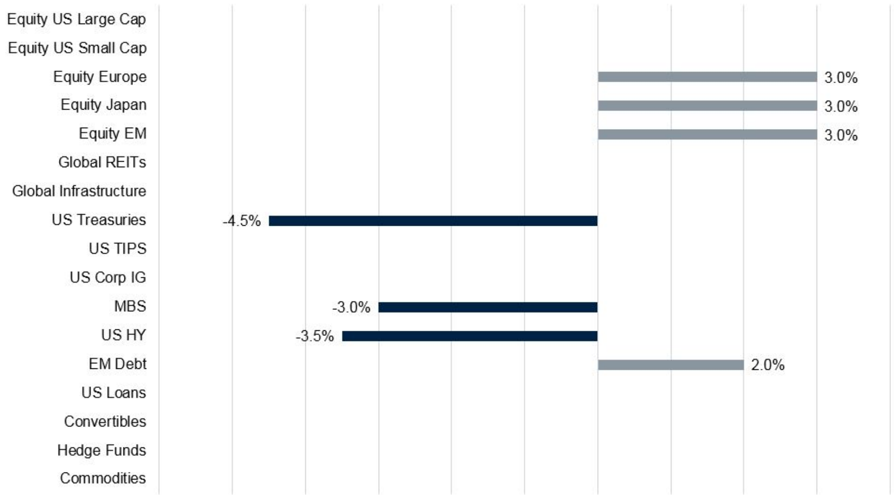
Werner Eppacher
Head of Multi Asset Strategies Americas

In a nutshell

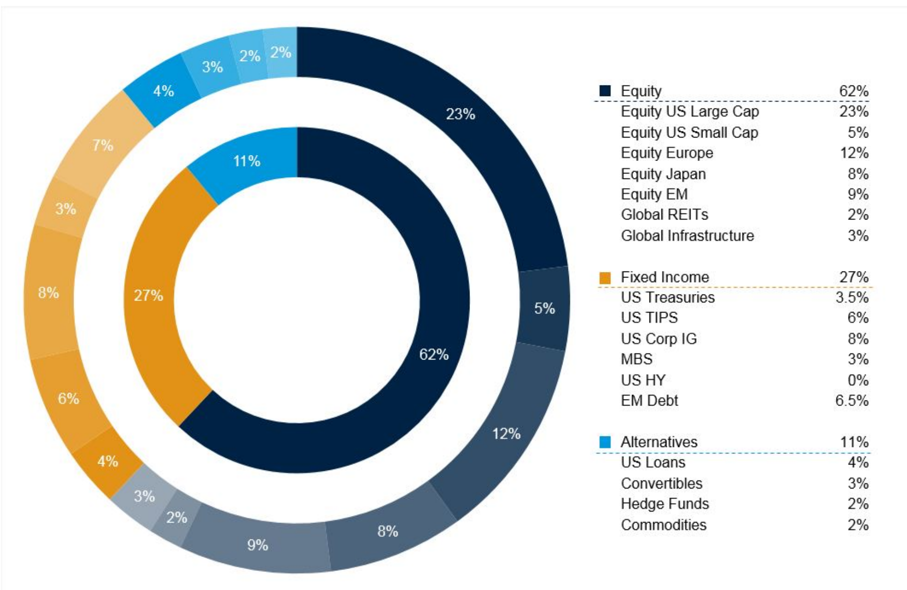
- Overweight risk
- International equities should outperform
- Emerging markets in the sweet spot

Portfolio metrics

Active positioning



Portfolio allocation (for U.S. investors only)



Source: Deutsche Investment Management Americas, Inc. as of 01/24/18

The chart shows how we would currently design a balanced, dollar-denominated portfolio for a U.S. investor taking global exposure. The risk exposure is taking into consideration the average risk profile of global asset-allocation portfolios in the United States. This allocation may not be suitable for all investors. Alternatives are not suitable for all clients.

Glossary

Beta

Beta is a measure of volatility that captures a security's systematic risk according to the capital asset pricing model

Duration

Duration is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

Emerging markets (EM)

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

European Central Bank (ECB)

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

Eurozone

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

Futures contract

A **futures contract** is a standardized, contractual agreement to trade a financial instrument or commodity at a pre-determined price in the future.

Hedge

A **hedge** is an investment to reduce the risk of adverse price movements in an asset.

High Yield (HY)

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

Mortgage-backed security (MBS)

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.

Spread

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

Systematic

Systematic, in a trading context, are strategies using quantitative models to generate buy and sell signals.

Treasuries

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).

U.S. Federal Reserve Board (the Fed)

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

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R-054535-1 (1/18)

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