

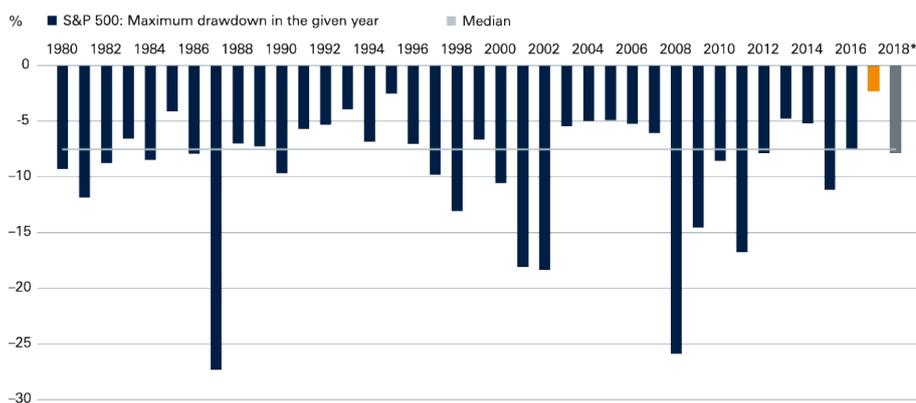


Chart of the week

By historic standards, the latest equity-market correction was by no means remarkable.

A few years ago, it became fashionable to talk about the "new normal". Broadly speaking, market participant meant by that something along the following lines: After the great financial crisis of 2008 and the resulting world-wide recession, the recovery looked set to be sluggish. Private-sector deleveraging and labor-market healing would take a while. Central banks would resort to unconventional measures that might previously have been unthinkable. And if all went well, measures such as quantitative easing would boost asset prices, encourage risk taking and squeeze financial-market volatility. According to Google trends, which measures the number of searches for certain keywords, interest in the term "new normal" peaked in September 2012.

In the years that followed, rising asset prices and low volatility increasingly began to feel simply normal. Bar the occasional blip, equity markets increasingly appeared like a one-way bet. Hence, the anxiety over the market correction we saw starting on Friday, February 2nd. By historic standards, however, that decline of 7.8% in the S&P 500 does not look all that remarkable. For our "Chart of the Week", we looked at maximum drawdowns within calendar years. Maximum drawdowns measure the loss if you buy at the latest peak before a market decline, and sell just as the market starts recovering again. For this chart, we set 1% as the hurdle rate of when a trend turns and simply looked for the highest maximum drawdown for each year. As our chart shows, so far, 2018 has been bang in line with long-term trends. Instead, what was unusual was the exceptionally small maximum drawdown in 2017, which followed on the heels of several years of relative calm. For more details on our thinking about this correction also have a look at our CIO Flash, called ["Back to normality"](#). And in our Asset-Class Perspective ["German equities – what else?"](#) we explain why we are particularly optimistic regarding German equities against this background.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 2/8/18
* Maximum drawdown in 2018 as of 2/8/18

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Glossary

Quantitative easing (QE)

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

S&P 500

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

Volatility

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.

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