Chart of the week

How likely is it that the Italian government will back down in its ongoing budget negotiations with the European Commission?

It has been a tumultuous week in Italian bond and equity markets. Many investors are hoping that market pressure will swiftly act as a disciplining device in the ongoing budget negotiations between the populist government in Rome and the European Commission. As recently explained, we are a touch more skeptical (see CIO Flash - Italian takeaways).

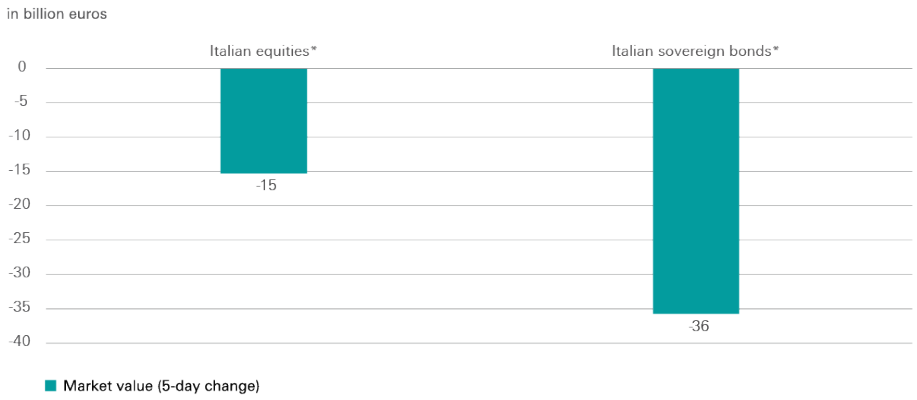
The recent selloff raises two interesting questions, however. How much pressure has already been applied? And how might market tensions so far influence policy makers? The answer to the first question is fairly straight-forward. As our "Chart of the week" shows, Italian equities and sovereign bonds have already lost more than 50 billion euros in value over the past five trading days. By contrast, the additional public spending now envisioned for 2019 amounts to 10 billion euros, not a very smart trade for Italian households, you might think.

So, might recent market weakness swiftly prompt Italy's government to reverse its spending plans? Looking a little deeper, there are reasons to doubt that. The bulk of the decline was in bonds, rather than equities. As we previously showed, (see Cotw 9/7/18) the share of Italian government debt held by domestic private households and non-financial companies has been shrinking for years. That limits the immediate impact of widening spreads between Italian government bonds compared to their German counterparts.

Nor are there are all that many signs that recent lobbying by business leaders has been effective. Partly that may be because even the right-wing and nominally pro-business Lega is mainly concerned with "Italy’s smallest business owners who produce and sell in Italy. They are all with us.", as Claudio Borghi, the powerful head of Italy's parliamentary budget committee recently told the Financial Times.[1] "People are not really bothered by the spread. The spread is a problem constructed by the media.", Mr. Borghi[2] continued. Investors in Italy and elsewhere should take note.

[1] Financial Times, Oct. 10, 2018, Italy’s defiance over deficit alarms business backers. https://www.ft.com/content/dbee1c44-c6fb-11e8-ba8f-ee390057b8c9

[2] Mr. Borghi used to work in equity sales, including at Deutsche Bank.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 10/4/18
* Equities: MSCI Italy Index, sovereign bonds: BofA Merrill Lynch Italy Government Index

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)

Glossary

BofA Merrill Lynch Italy Government Index

The BofA Merrill Lynch Italy Government Index tracks the performance of euro-denominated sovereign debt issued by Italy.

European Commission (EU Commission)

The **European Commission (EU Commission)** is the executive body of the European Union (EU) which represents the interests of the EU.

Lega

The **Lega** (formerly "Lega Nord") is a right-wing populist party in Italy. It was founded in 1991 through the merger of various parties. It is considered anti-globalist and Eurosceptic.

MSCI Italy Index

Aktienindex, der die Performance von italienischen Aktien abbildet.

Sovereign bonds

Sovereign bonds are bonds issued by governments.

Spread

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

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

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)

or subsidiaries of Deutsche Bank Group offer commodities or commodities-related products and services.

Investment in private equity funds is speculative and involves significant risks including illiquidity, heightened potential for loss and lack of transparency. The environment for private equity investments is increasingly volatile and competitive, and an investor should only invest in the fund if the investor can withstand a total loss. In light of the fact that there are restrictions on withdrawals, transfers and redemptions, and the Funds are not registered under the securities laws of any jurisdictions, an investment in the funds will be illiquid. Investors should be prepared to bear the financial risks of their investments for an indefinite period of time.

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.

Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

Structured solutions are not suitable for all investors due to potential illiquidity, optionality, time to redemption, and the payoff profile of the strategy. We or our affiliates or persons associated with us or such affiliates may: maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation. Calculations of returns on the instruments may be linked to a referenced index or interest rate. In such cases, the investments may not be suitable for persons unfamiliar with such index or interest rates, or unwilling or unable to bear the risks associated with the transaction. Products denominated in a currency, other than the investor's home currency, will be subject to changes in exchange rates, which may have an adverse effect on the value, price or income return of the products. These products may not be readily realizable investments and are not traded on any regulated market.

Important Information – EMEA

The following document is intended as marketing communication.

DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

The information contained in this document does not constitute investment advice.

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)

All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.

Past performance, [actual or simulated], is not a reliable indication of future performance.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

Important Information – UK

Issued in the UK by Deutsche Asset Management (UK) Limited. Deutsche Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority.

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. 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 DWS, are suitability and appropriate, in light of their particular investment needs, objectives and

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)

financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

Past performance is no guarantee of future results.

The products mentioned in this document may be subject to investment risk including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. 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. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. In general, the securities and financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC"), and are not guaranteed by or obligations of DWS or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report prior to publication. DWS 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 DWS.

This document 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 DWS as to the reasonableness or completeness of such forward looking

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)

statements or to any other financial information contained in this document.

DWS conducts its business according to the principle that it must manage conflicts of interest fairly, both between itself and its clients and between one client and another.

As a global financial services provider, DWS faces actual and potential Conflicts of Interest periodically. DWS's policy is to take all reasonable steps to maintain and operate effective organisational and administrative arrangements to identify and manage relevant conflicts. Senior management within the firm are responsible for ensuring that the firm's systems, controls and procedures are adequate to identify and manage Conflicts of Interest.

DWS is a trading name of Deutsche Asset Management (UK) Limited. Registered in England & Wales No 5233891. Registered Office: Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority. Financial Services Registration Number 429806

This document may not be distributed in Canada, Japan, the United States of America, or to any U.S. person

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

All opinions and claims are based upon data on 10/4/18 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. DWS Investment GmbH

CRC 061448 (10/2018)