

## ADJUSTING OUR TARGETS FOR 2019

Markets are repricing risks and feel neglected by the Fed.  
This could create some downward momentum.

How should a hedge fund have positioned itself if it had known the U.S. Federal Reserve's (Fed's) decisions and press release a day ahead of the market? Until lunchtime on Wednesday noon its staff might have reasonably concluded that the material contained precious little actionable information. On paper, it would have all looked exactly as expected, leaving limited scope for any meaningful market reaction.

This is not, of course, how things actually turned out. Equity markets continued their downward slide, which in turn illustrates two things. First, there are often large gaps between the market consensus, aggregated and communicated in whatever way in the media and by financial-services providers, and what active market participants actually expect and hope for in their heart of hearts. Second, the Fed moves the markets and not the other way around, which seems to be a cause of real anger to the latter.

This steadfastness on the part of the Fed has its merits, as the tweets of the U.S. President that preceded this meeting made it all the more important to demonstrate the central bank's independence, and not only to the financial world. Moreover, a capitulation the Fed in the face of political pressure would only have stored up trouble for the future. Over the medium term, a sudden change in monetary policy would only have increased uncertainty and restricted its room for maneuver at its next but one meeting in March. Should the data situation require it, the Fed could then skip the next interest-rate hike, without risking damage to its credibility.

Even though we share the Fed's economic optimism in principle, on Thursday we decided to adjust our market targets for the end of 2019. Not least, this reflects our view that we can no longer rule out negative feedback from the financial markets to the real economy. Be it solely through the mood component, or also through the worsening financial conditions, there is likely to be some impact on the spending behavior of households and businesses from recent market turbu-

lence. Moreover, market participants often take on more risks in good times than is apparent from the outside – or even to themselves. Sometimes, these risks only become clearly visible with the benefit of hindsight, after market turmoil starts causing damage in unexpected places.

In our opinion, all these channels should not be underestimated. Capital markets played an outsized role in given direction to the U.S. economy, compared to other advanced countries. Given the sharp increase in risk premia for corporate loans, the weaker capitalized U.S. companies, for example, are likely to significantly reduce their share-buyback programs. We might also see declines in the corporate takeover and merger activity, until the dust settles. However, all this can also be seen as overdue normalization, which does not justify panic. As unusual as this fourth quarter may be – the S&P 500 has lost more than 15% so far – recent market weakness must also be seen in relation to the previous rally. The S&P 500 has "only" relinquished the price gains of the past 18 months. Of course this is painful, but by the low point in March 2009 the bear market had set the index back by more than 20 years. And the situation on the bond markets was, as is well known, much worse than it is today – with a corresponding effect on the situation of companies.

Our view of the world did not change fundamentally last month. We continue to see 2019 as a positive year, but at the same time note that there are a handful of developments that are already discernible at present and that could still significantly worsen our picture in the course of the year, or slightly improve it if the situation eases. The market is currently pricing in the risks somewhat higher than we are doing. The minor – adjustments to our price targets are shown in the table below. We now expect two instead of three federal funds rate hikes in the coming year, with corresponding effects on interest rates, which we have also reduced somewhat for Europe. Our preferences regarding asset classes have not changed.

All opinions and claims are based upon data on 12/21/18 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

	Current level Dec 20, 18	Forecast December 2019
<b>Capital market yields (sovereign bonds)</b>		
United States (2-year)	2.67%	2.75%
United States (10-year)	2.81%	3.00%
United States (30-year)	3.05%	3.20%
Municipals*	83.75%	85.00%
Securitized / MBS**	90.7 bp	110 bp
Germany (2-year)	-0.60%	-0.30%
Germany (10-year)	0.23%	0.60%
Germany (30-year)	0.83%	1.20%
Italy (10-year)	250.7 bp	350 bp
Spain (10-year)	114.4 bp	100 bp
United Kingdom (10-year)	1.27%	1.75%
Japan (2-year)	-0.15%	-0.05%
Japan (10-year)	0.03%	0.20%
<b>Currencies</b>		
EUR vs USD	1.14	1.15
USD vs JPY	111	115
EUR vs JPY	127	132
EUR vs GBP	0.90	0.90
GBP vs USD	1.27	1.28
USD vs CNY	6.9	7.0
<b>Commodities in U.S. dollars</b>		
Gold	1,260	1,275
Crude Oil (WTI)	46	60

	Current level Dec 20, 18	Forecast December 2019
<b>Equity markets (index value in points)</b>		
United States (S&P 500)	2,467	2,850
Germany (DAX)***	10,611	11,800
Eurozone (Eurostoxx 50)	3,000	3,150
Europe (Stoxx600)	337	360
Japan (MSCI Japan)	911	990
Switzerland (SMI)	8,414	9,000
United Kingdom (FTSE 100)	6,712	7,080
Emerging Markets (MSCI EM)	960	1,050
Asia ex Japan (MSCI AC Asia ex Japan)	594	650
<b>Benchmark rates in percent</b>		
United States (federal funds rate)****	2.25-2.50	2.75-3.00
Eurozone (refi rate)	0.0	0.0
United Kingdom (repo rate)	0.75	1.00
Japan (overnight call rate)	0.0	0.0
<b>Spreads (corporate &amp; EM bonds) in bps</b>		
EUR IG Corp	169	150
EUR HY	501	430
US IG Corp	137	150
US HY	508	480
Asia Credit	287	285
EM Credit	356	390
EM Sovereign	401	420

Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. No assurance can be given that any forecast or target will be achieved. DWS expectations/forecasts as of December 21, 2018 // \* Municipals: Ratio: 10y AAA / U.S. Treasuries; \*\* Securitized/ MBS: FNMA 30y - 7y U.S. Treasuries; \*\*\* DAX is a Total Return Index, no dividend yield added; \*\*\*\* Federal funds rate: Target value corresponds to 2 more rate hikes during next 12m // Sources: Bloomberg Finance L.P., DWS Investment GmbH; as of December 2018

## GLOSSARY

### Bear market

Technically, a bear market refers to a situation where the index's value falls at least 20% from a recent high.

### Federal funds rate

The federal funds rate is the interest rate, set by the Fed, at which banks lend money to each other, usually on an overnight basis.

### Monetary policy

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

### Risk premium

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

### 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.

### Share buybacks

A share buyback involves a company buying back its own shares.

### 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.

All opinions and claims are based upon data on 12/21/18 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

## PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	11/13 - 11/14	11/14 - 11/15	11/15 - 11/16	11/16 - 11/17	11/17 - 11/18
UST 30yr	19.2%	1.8%	1.2%	6.3%	-5.3%
UST 10yr	6.7%	2.0%	0.6%	2.2%	-1.6%
UK 10yr	8.9%	2.9%	5.2%	2.2%	2.0%
UST 2yr	0.8%	0.4%	0.7%	0.4%	0.8%
GER 10yr	10.1%	3.2%	2.5%	0.4%	1.6%
GER 2yr	0.4%	0.4%	0.1%	-0.8%	-0.5%
GER 30yr	20.1%	5.8%	6.6%	-1.3%	3.8%
Japan 2yr	0.4%	0.1%	0.1%	-0.1%	-0.1%
Japan 10yr	2.8%	1.8%	2.1%	0.3%	0.1%
EM Sovereign	10.5%	0.2%	7.2%	10.9%	-4.8%
EM Credit	7.1%	-0.2%	8.6%	8.6%	-2.4%
US HY	4.5%	-3.4%	12.1%	9.2%	0.4%
US IG Corp	7.2%	0.0%	4.2%	6.0%	-2.8%
EUR HY	6.5%	2.4%	5.8%	8.1%	-3.0%
Asia Credit	8.6%	2.7%	5.7%	5.4%	-1.9%
EUR IG Corp	7.3%	0.6%	3.2%	3.3%	-1.7%
Spain 10yr	22.1%	4.7%	2.2%	4.2%	1.5%
Italy 10yr	18.3%	6.7%	-1.6%	5.0%	-7.3%

	11/13 - 11/14	11/14 - 11/15	11/15 - 11/16	11/16 - 11/17	11/17 - 11/18
MSCI Asia xJ	3.4%	-12.7%	4.6%	32.2%	-11.7%
MSCI EM	-1.3%	-19.0%	6.0%	29.9%	-11.2%
MSCI Latam	-8.6%	-36.2%	21.4%	16.7%	-4.4%
S&P 500	14.5%	0.6%	5.7%	20.4%	4.3%
MSCI Japan	11.9%	10.0%	-7.7%	19.9%	-6.4%
SMI	10.7%	-1.7%	-12.4%	18.3%	-3.0%
DAX	6.1%	14.0%	-6.5%	22.4%	-13.6%
FTSE 100	1.1%	-5.5%	6.7%	8.0%	-4.7%
Stoxx600	6.8%	11.0%	-11.3%	13.1%	-7.6%
Eurostoxx 50	5.3%	7.9%	-13.0%	17.0%	-11.1%
U.S. mortgage- backed securiti- es	5.4%	1.7%	1.6%	2.1%	-0.5%
CSI 300	15.2%	27.0%	-0.8%	13.2%	-20.8%

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/21/18

All opinions and claims are based upon data on 12/21/18 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

## 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 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.

DWS Investment GmbH. As of: 13.12.2018

## 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 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 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

© Deutsche Asset Management (UK) Limited 2018. All information as of December 2018 unless otherwise stated.

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

## HONG KONG

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the investments contained herein. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document has not been approved by the Securities and Futures Commission in Hong Kong nor has a copy of this document been registered by the Registrar of Companies in Hong Kong and, accordingly, (a) the investments (except for investments which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) may not be offered or sold in Hong Kong by means of this document or any other document other than to "professional investors" within the meaning of the SFO and any rules made thereunder, or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("CO") or which do not constitute an offer to the public within the meaning of the CO and (b) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the investments which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the investments which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

## SINGAPORE

Singapore Interests in the funds mentioned herein are not allowed to be made to the public or any members of the public in Singapore other than (i) to an institutional investor under Section 274 or 304 of the Securities and Futures Act (Cap 289) ("SFA"), as the case may be, (ii) to a relevant person (which includes an Accredited Investor) pursuant to Section 275 or 305 and in accordance with other conditions specified in Section 275 or 305 respectively of the SFA, as the case may be, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

## IMPORTANT INFORMATION: APAC

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 Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS Group") are communicating this document in good faith and on the following basis.

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 DWS Group, 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 constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

DWS Group does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by DWS Group. Investments with DWS Group are not guaranteed, unless specified.

Investments are subject to various risks, 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. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein. Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

Although the information herein has been obtained from sources believed to be reliable, DWS Group does not guarantee its accuracy, completeness or fairness. No liability for any error or omission is accepted by DWS Group. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. All third party data (such as MSCI, S&P, Dow Jones, FTSE, Bank of America Merrill Lynch, Factset & Bloomberg) are copyrighted by and proprietary to the provider. DWS Group or persons associated with it ("Associated Persons") may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

The document was not produced, reviewed or edited by any research department within Deutsche Bank and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other Deutsche Bank departments including research departments. This document may contain 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.

This document may not be reproduced or circulated without DWS Group's written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

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 DWS Group 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.

Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of DWS Group.

© 2018 Deutsche Asset Management (Asia) Limited

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