Deutsche Asset
& Wealth Management

Europe, Middle East & Africa Edition
December 2015

CIO View

Fed
PBoC
ECB
BOJ

The year of reckoning

Are central-bank levers still working?

Marketing Material

Nine positions

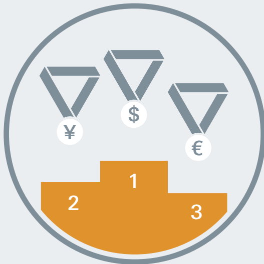
Our key forecasts

The U.S. Federal Reserve Board (Fed) wants to end its ultra-expansionary monetary policy.

Monetary policy in Japan and the Eurozone will remain accommodative. China follows suit.

Inflation will pick up again in Europe in 2016.

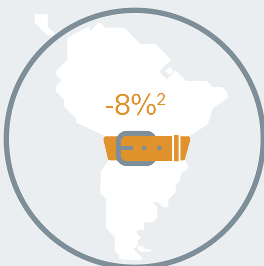
U.S. dollar to benefit from monetary-policy divergence.



Return outlook for equities and bonds falls short of current year.

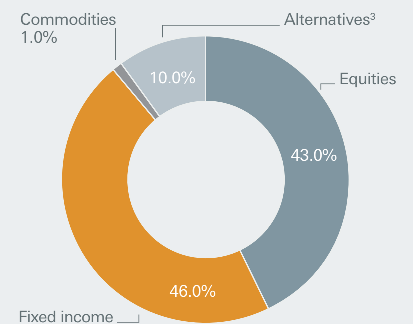
High valuations could contribute to volatility in equity markets.

Latin American stock exchanges remain weak.



Real estate is still one of the most attractive asset classes.

Asset allocation of our balanced model portfolio:



[1] Eurozone and U.K. expected inflation in 2016; Deutsche AWM forecast as of 11/11/2015
[2] MSCI EM Latin America Index expected total return in 2016; Deutsche AWM forecast as of 11/11/2015
[3] Alternatives are not suitable for all clients.

Important terms are explained in our glossary. **Past performance is not indicative of future returns.** No assurance can be given that any forecast, investment objectives and/ or expected returns will be achieved. Investments come with risk. Investments can fall as well as rise and investors may not get back the amount originally invested at any point in time. Investors capital may be at risk. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: Deutsche Asset & Wealth Management Investment GmbH; as of 11/16/2015

Letter to investors

Everything remains different

Markets should rise less in 2016 than they did in 2015. But there will not be much time for yawning. New opportunities will emerge for tactical investors.

Twelve months ago, my predecessor, Asoka Wöhrmann, headlined his outlook for 2015: "Diversification paramount in 2015 – Capital markets will get less monetary-policy oxygen in 2015". However, he added that: "In spite of divergent approaches, the central banks are likely to remain supportive." How tempting it is to simply copy large parts of this text, replacing 2015 by 2016 and betting on readers' memories failures! But has 2015 really been so uneventful, as to leave our outlook almost unchanged?

Well, we still believe that no cyclical turn is in sight – our global growth target for 2016 is even slightly above the 2015 figure. What has changed, however, are the drivers of growth: developed markets are catching up on emerging markets, consumption and service-driven sectors are outperforming industrials, domestic markets are growing faster than exports. This feeds through into our views on equities, still our preferred asset class. We favor developed markets and the healthcare, technology, consumption and financial sectors. However, moderate price-gain expectations and high volatility might let down investors occasionally in 2016.

> "The Fed will, whether it likes it or not, continue to be the dominating market-related topic in 2016."

At first sight, the globally-supportive monetary environment also seems little changed. Within the fixed-income sector, U.S. and euro corporate bonds therefore continue to offer opportunities. Within sovereigns we favor the Eurozone periphery. But differences do exist between 2015 and 2016. The marginal effect of further monetary easing – with the European Central Bank (ECB) already verbally preparing the ground – should fade. Furthermore, the market discounts central-bank policy initiatives at the time of their announcement, not of their implementation. Pressure on the Fed to act has also increased. Turbulent financial markets have served to justify its inactivity in 2015, but further passivity would be perceived negatively by most market players.

All in all, investors remain divided on the need of a Fed rate hike and the vulnerability of individual markets. Cheap money has found many recipients as can be seen in the drastic increase in emerging-markets debt, record M&A transaction volumes with near-record valuations, and the corresponding near-record leverage of, for example, U.S. corporations. Moreover, towards the end of 2016, oil prices and the U.S. labor market could result in inflation growing higher than expectations. Many market players feel, however, reassured that the Fed will prove responsive to market reactions. But too much anticipated anticipation could eventually drive investors and central banks into losing sight of fundamentals. Which takes us back to the investment strategy for 2016. Once again, "buy and hold" is not an option since markets might depart from fundamentals every now and then. Investors must react dynamically – no time for yawning.

Stefan Kreuzkamp,
Chief Investment Officer and member of the Deutsche AWM Executive Committee

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Focus

Winds of change

The end of cheap money is finally drawing nigh. What that means hinges on how you think about expectations and the role of monetary policy in shaping them.

"Life's under no obligation," American novelist Margaret Mitchell wryly observed, "to give us what we expect." Monetary policy, it would appear, is no exception. Take the Fed and the obvious desire of its chair, Janet Yellen, to finally start raising interest rates. The resulting commotion has dominated financial markets for much of the past year.

Of course, it is always fun to speculate: "Will she or won't she?" Already, financial markets have had their fair share of hissy fits that would have made Scarlett O'Hara, Mitchell's famous heroine, blush. Lost in all the ado, however, are some rather more fundamental questions about expectations and the role monetary policy can play in shaping them.

One way to think about the economy is as a vast hydraulic machine, with the Fed pulling the levers. If so, both the Fed's likely actions and their effects look straightforward. A series of previously unheard-of unconventional measures, such as its bond-buying programs known as quantitative easing (QE), have pushed up asset prices – precisely the channel the Fed was aiming for to kick-start the economy. Belatedly, the benefits appear to be spreading beyond Wall Street and corporate balance sheets. Unemployment has continued to fall to levels that would usually start to push up wages and eventually prices.

Monetary policy affects wages and prices only with long and variable lags. As a result, the U.S. central bank has historically seen itself as "the chaperone who has ordered the punch bowl removed just when the party was really warming up", as the Fed's longest-serving chair, William Martin, once put it.

Of course, it does not feel like much of a party yet, if you look beyond asset valuations to U.S. wages and median household income. However, optimism among lower-income consumers in the United States has reached levels last seen in the heady days of 2005 and 2006, before the financial crisis. According to survey evidence, even those in the bottom 33% of household income are increasingly expecting improvements in their financial situation within the next twelve months.

The snag is that the economy is not, or at least not just, some vast machine. It is made up of people, who try to make the best decisions they can, given the information they have. And this makes both monetary and fiscal policy a tricky business.

Tales of the unexpected

In terms of its direct effect on output and inflation, the initial move of short-term interest rates to, say, 0.5% is likely to prove negligible. The main impact will be via expectations, and there the picture gets murky.

In the short term, a few investors hope that the first hike might even boost risky assets. The decision to finally go ahead might look like a vote of confidence in the U.S. economy. Already, a looming U.S. interest-rate rise has caused foreign-exchange markets to favorably contrast U.S. strength with emerging-market weakness and continued uncertainty in Europe.

In the longer term, the bigger source of trouble may be closer to home. Since 2008, the federal funds target rate has been stuck at 0 – 0.25%. That makes it hard for firms, let alone investors, to anticipate all the knock-on effects of the trend turning. For years, those firms and households able to secure loans have done so with relish and adjusted their behavior accordingly. Whole sectors, such as yieldcos in energy and real estate have emerged, that basically owe their existence to cheap financing. Such vehicles are already feeling the pain. Fracking and high-yield borrowers more broadly are other obvious examples. If past tightening cycles are any guide, however, signs of distress are likely to pop up in plenty of other unexpected places in coming quarters.

As Robert Barro argued in 1976, an activist monetary policy gains much of its effectiveness from confusing people, clouding signals to market participants. That can provide a temporary boost to output, but at the cost of greater variance later on.[1] Even if that happens, though, it is likely to take time for financial-market participants to realize as much. As Scarlett O'Hara might have put it: "I can't think about that right now. If I do, I'll go crazy. I'll think about that tomorrow."

[1] Barro, Robert J.: Rational Expectations and the Role of Monetary Policy. Journal of Monetary Economics, pp. 1-32; 01/1976

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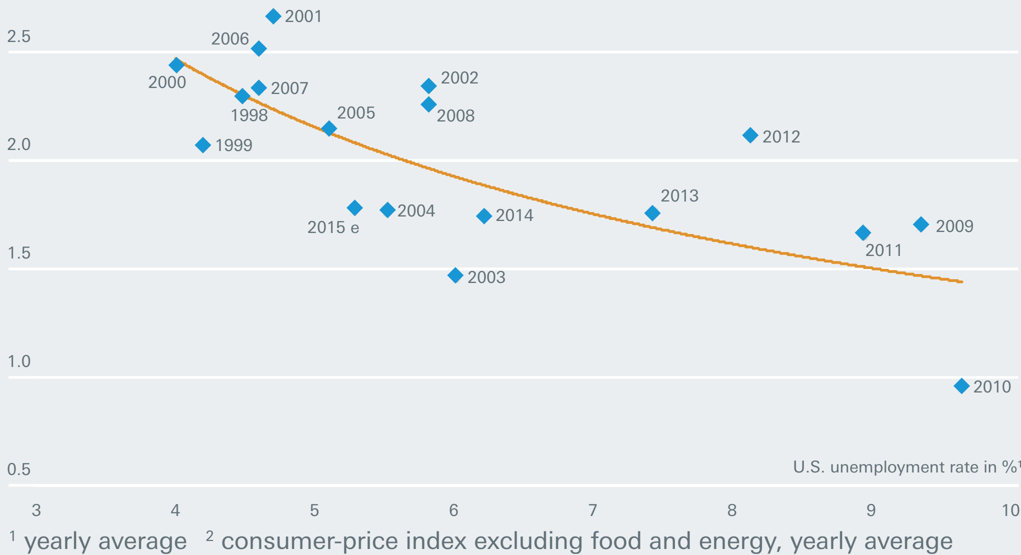
The Phillips curve

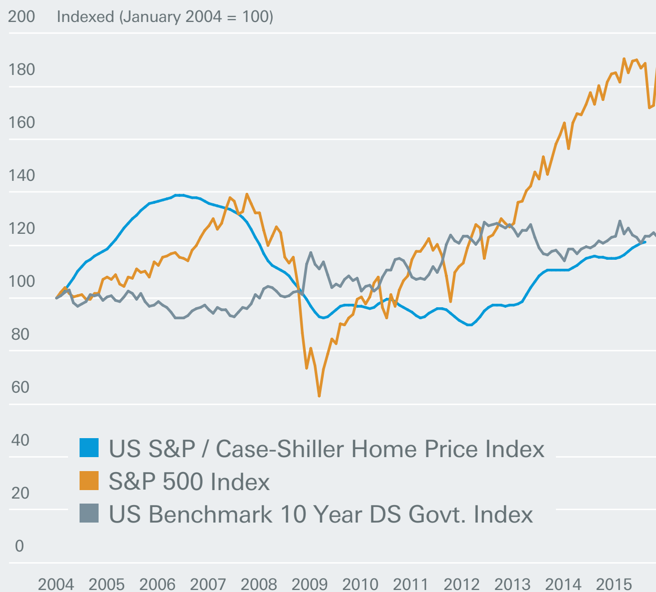


[1] yearly average [2] consumer-price index excluding food and energy, yearly average

The Phillips curve shows how inflation and unemployment relate to each other. When unemployment is low, employers have to pay up to attract staff, which in turn pushes up prices. Conversely, high unemployment reduces wages and therefore prices. Inflation and unemployment appear inversely related. Note, however, that this relies on a very mechanistic view of the economy. The relationship breaks down if the inflationary expectations of workers shift.

Sources:
Thomson Reuters Datastream
Deutsche Bank Research;
as of 11/2015;
e = expected

Evolution of asset classes in the United States



Source: Thomson Reuters Datastream; as of 11/2015

Since the beginning of the crisis, the Fed has attempted to kick-start the economy by boosting asset prices. This has been especially effective for equities, as returns on the S&P 500 Index show. Real estate too has made up much of the previously lost ground.

United States (unemployment rate)

The unemployment rate is expected to continue to shrink next year.

4.5-4.7%*
(December 2016F*)

*Deutsche AWM forecast as of 11/11/2015

"Nowadays, there is perhaps a tendency to exaggerate the effectiveness of monetary policy […] The idea that the business cycle can be altogether abolished seems to me as fanciful as the notion that the law of supply and demand can be repealed."

William Martin, chairman of the Federal Reserve Board, speech on October 19, 1955

United States (federal funds rate)

Given the declining unemployment and wage increases a return to slightly more normal interest rates seems appropriate for the Fed.

0.75-1.00%*
(December 2016F*)

*Deutsche AWM forecast as of 11/11/2015

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Interview

The big picture

Deutsche AWM's evolutionary path will be continued in a new guise. This will be underpinned by our experts' know-how and our investment process.

" Disappointments are best avoided by realistic return targets. "

Mr. Kreuzkamp, welcome to the CIO View and congratulations on your new job: you are taking over as Chief Investment Officer (CIO) of a platform which is about to be split up again, three years into its existence. Do you consider yourself as king of a lost empire?
On the contrary. The amalgamation of several independent units under the roof of Deutsche AWM three years ago established the basis for aggregating our know-how, creating a uniform investment process and ensuring a coherent approach. We can still draw on these benefits after the incorporation of wealth management into Deutsche Bank's retail business.

What are the consequences of this step for a wealth-management (WM) client?
Not many. It is too early for a definitive statement because we are still considering the optimal distribution of some resources. Asset management will continue to actively support our WM colleagues in order to maintain the quality of investment decisions. This step will also allow us to improve our customer care. In the past, the dialog with WM clients, who may use a wide range of our services, was conducted from various divisions within the bank. This is to be replaced now by a coordinated, uniform customer contact.

Back to Deutsche AWM, back to you. Like your predecessor, you started out in the fixed-income business. Is this a disadvantage in times when equities and multi asset are carrying the day?
Well, in my last position as CIO for EMEA and in fact well before then, I could hardly avoid the topics of equities and multi asset! By now, I feel completely at home with all asset classes. I am also delighted to be able to rely on all our excellent experts within Deutsche AWM. Nevertheless, I value my fixed-income experience. I am convinced that the fixed-income perspective, even the analysis of individual bond issues, requires and encourages a holistic, global view of financial markets. The three major factors for every economy are interest rates, inflation and currency. These are also the basis of everyday business in fixed income. As an equity specialist, you must focus more on corporate parameters, unless you are an equity strategist.

Will you emphasize other features than your predecessor?
Since he has left now and is no longer my boss, I can tell you that Asoka Wöhrmann has left a very well-ordered business unit. For this reason, my objective is continuity. Most changes will be in line with what we have been doing so far. Take the continuing globalization of our business. The Americas and Asia will be further strengthened by the establishment of CIO Offices in these regions and an increase in the number of locally-based investment experts, boosting their role. We also want to reinforce our commitment to allocate

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other core competences to each location, something which will be reflected in our marketing approach.

What is special about Deutsche AWM's investment process?

I think that we can be really proud of what we have already achieved, for our investment process is unprecedented in this sector. Partly, this is simply due to our size which allows us to employ a wide range of investment experts who are active all over the globe. With roughly 750 billion euros under management, we are among the twenty largest asset managers world-wide. If you consider only actively managed assets, which is more meaningful when it comes to investment expertise, we are among the top ten.[1] Another factor is our structured investment process ensuring that the opinions of our individual experts are aggregated into a common macro picture and a coherent asset allocation.

How, exactly, does this work?

Our investment process has four components. The basis is provided by our experts' fundamental analysis which results in recommendations on individual assets. This revolves around the continuous interaction of our specialists with each other as well as with economists, strategists and regional CIOs. The second step is the aggregation of these individual recommendations by portfolio construction teams into model portfolios. In a third step, these model portfolios are adjusted according to the restrictions and requirements of individual clients by our portfolio managers. In the last and fourth step, our quality management continuously verifies whether these actual portfolios are – in line with our strategy – efficiently and timely managed within the agreed risk frame.

[1] Investment & Pensions Europe; year-end 2014 data

Let's get down to details now. What strategy could a German middle-aged investor with an average risk appetite and 100,000 euros follow in 2016?

First of all, let me say that fixing realistic return targets can save a lot of headaches. My targets may sound conservative but I am happy with an average of 4 percent. In recent years, this could be achieved quite easily with investment-grade bonds – but this will change in 2016. I might suggest a so-called barbell strategy now. In a nutshell, you buy the most basic things in a discount store and everything else in delicatessens, skipping the middle segment. This means I would try to safeguard the major part of returns via more risky assets, possibly via sound European equities as well as U.S. and euro high-yield debt. This would be the delicatessen. The remainder should come from investments in short-dated fixed-income papers to secure liquidity at low volatility. So that outlines a typical investment strategy for this class of investor, which, of course, would also depend on an individual's specific investment profile.

To be continued

Almost exactly on its third anniversary, Deutsche AWM is taking another important step forward. Major parts of wealth management will be incorporated into the German retail business (both private and business clients) making possible a more uniform client dialog. Apart from that, I will, as new CIO, lead an asset-management unit which will build on our recent achievements, continuously learning and improving.

Stefan Kreuzkamp

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Nine positions
Focus
The big picture
Investment traffic lights
Asset-class perspectives
Portfolio
High-conviction ideas

The big picture

Our strategic forecasts

"Just as in 2015, capital markets are under the spell of central banks. But 2016 will be the year of reckoning. The Fed will have to lead the way and demonstrate that monetary policy can indeed be normalized."

Stefan Kreuzkamp, Chief Investment Officer

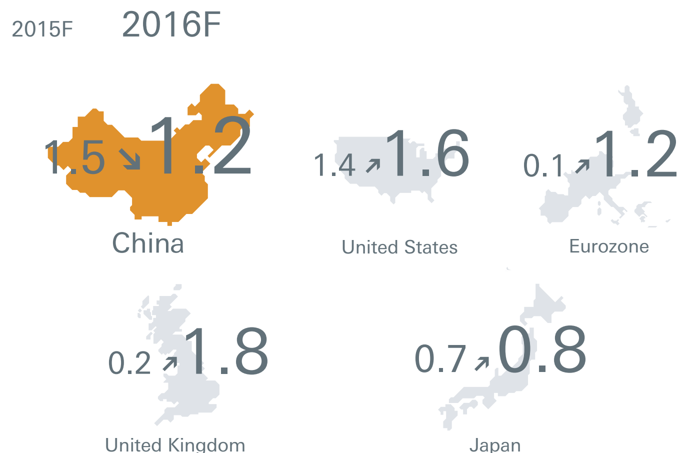
Economic data

GDP growth in percent (year-on-year)

	2015F		2016F
United States	2.2	↗	2.4
Eurozone	1.4	↗	1.6
United Kingdom	2.5	↘	2.2
Japan	0.8	↗	1.2
China	6.8	↘	6.0
World	3.2	↗	3.5

We expect U.S. GDP growth to pick up only slightly, to 2.4%. Following declines in unemployment, the United States are now operating close to full capacity.

Inflation in percent (year-on-year)



China's growth is slowing. Especially in manufacturing, it will take time for overcapacity to be reduced, maintaining downward pressure on prices.

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Capital markets

Equity markets (index value in points)

	Current*		Dec 2016F	▲(%)**
United States (S&P 500 Index)	2,075	↗	2,170	7
Europe (STOXX Europe 600 Index)	379	↗	390	6
Eurozone (EURO STOXX 50 Index)	3,448	↗	3,600	8
Germany (DAX)[1]	10,908	↗	11,700	7
United Kingdom (FTSE 100 Index)	6,297	↗	6,400	5
Japan (MSCI Japan Index)	972	↗	1,030	8
MSCI Emerging Markets Index (USD)	833	→	830	2
MSCI AC Asia ex Japan Index (USD)	512	→	510	2
MSCI EM Latin America Index (USD)	2,029	↘	1,800	-8

MSCI EM Latin America Index (in U.S. dollars)

2,029 ↘ 1,800

(Current*) (Dec 2016F)

Commodity-producing countries in Latin America remain exposed to China's slowdown. Political risks, especially in Brazil, are another area of concern.

Capital-market yields (sovereign bonds) in percent

	Current***		Dec 2016F
United States, 2-year	0.93	↗	1.50
United States, 10-year	2.24	→	2.40
United States, 30-year	3.00	→	3.10
Germany, 2-year	-0.38	→	-0.25
Germany, 10-year	0.52	→	0.75
United Kingdom, 10-year	1.87	→	2.20
Japan, 2-year	0.00	→	0.00
Japan, 10-year	0.32	→	0.35

United States, 30-year

3.00% → 3.10%

(Current***) (Dec 2016F)

Long-term U.S. interest rates are not expected to rise quite as much and as quickly as short-term rates. Fed policy is likely to keep investors guessing about the timing of the initial and further hikes. Expect an uneasy ride for long-term interest rates.

F refers to our forecasts. Our forecasts are as of 11/11/2015.
* Source: Bloomberg Finance L.P.; as of 11/11/2015
** Expected total return includes interest, dividends and capital gains where applicable
*** Source: Bloomberg Finance L.P.; as of 11/24/2015
[1] Total-return index (includes dividends)

Commodities in U.S. dollars

	Current*		Dec 2016F	▲(%)**
Crude oil (WTI)	49	↗	55	12
Gold	1,086	↘	1,000	-8
Silver	14	↗	19	33
Copper (LME)	4,943	↗	5,400	9
Aluminum (LME)	1,518	→	1,500	-1

Aluminum (LME)

1,518 → 1,500

(Current*) (Dec 2016F)

LME = London Metal Exchange, WTI = West Texas Intermediate

Abundant supply and demand concerns continue to make us cautious on aluminum.

Benchmark rates in percent

	Current*		Dec 2016F
United States (federal funds rate)	0-0.25	↗	0.75-1.00
Eurozone (refi rate)	0.05	↘	0.00
United Kingdom (repo rate)	0.50	↗	1.00
Japan (overnight call rate)	0.10	→	0.10

Eurozone (refi rate)

0.05% ↘ 0.00%

(Current*) (Dec 2016F)

The refi rate is the rate that banks pay to borrow funds from the ECB. In 2016, persistent downside risks to growth are likely to push this rate to zero, in line with further cuts in the already negative deposit rate.

Currencies

	Current***		Dec 2016F	▲(%)**
EUR vs. USD	1.06	↘	0.95	–11
USD vs. JPY	123	↗	130	6
EUR vs. CHF	1.08	↗	1.13	4
GBP vs. USD	1.51	→	1.52	1
USD vs. CNY	6.39	↗	6.60	3

EUR vs. USD

1.06 ↘ 0.95

(Current***) (Dec 2016F)

Interest-rate divergence between Europe and the United States is likely to strengthen the U.S. dollar, pushing it beyond parity.

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Investment traffic lights

Our tactical and strategic view

Equities*	1 to 3 months	until December 2016
Regions		
United States		
Europe		
Eurozone		
Germany		
United Kingdom		
Japan		
Emerging markets		
Asia ex Japan		
Latin America		
Sectors		
Consumer staples		
Healthcare		
Telecommunications		
Utilities		
Consumer discretionary		
Energy		
Financials		
Industrials		
Information technology		
Materials		
Style		
Small and mid cap		

* Source: Deutsche Asset & Wealth Management Investment GmbH; as of 11/11/2015
** Source: Deutsche Asset & Wealth Management Investment GmbH; as of 11/24/2015

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Fixed income**	1 to 3 months	until December 2016
Rates		
U.S. Treasuries (2-year)		
U.S. Treasuries (10-year)		
U.S. Treasuries (30-year)		
U.K. Gilts (10-year)		
Eurozone periphery		
German Bunds (2-year)		
German Bunds (10-year)		
Japanese government bonds (2-year)		
Japanese government bonds (10-year)		
Corporates		
U.S. investment grade		
U.S. high yield		
EUR investment grade[1]		
EUR high yield[1]		
Asia credit		
Emerging-market credit		
Securitized /specialties		
Covered bonds[1]		
U.S. municipal bonds		
U.S. mortgage-backed securities		
Currencies		
EUR vs. USD		
USD vs. JPY		
EUR vs. GBP		
EUR vs. JPY		
GBP vs. USD		
Emerging markets		
Emerging-market sovereign		

Alternatives*	1 to 3 months	until December 2016
Infrastructure		
Commodities		
Real estate (listed)		
Real estate (non-listed)		
Hedge funds		
Private equity[2]		

United States (equities)

We stay neutral on U.S. equities from a tactical viewpoint. We believe that earnings growth will bottom out towards end-2015, since the strong headwinds caused by sliding oil prices and a strong U.S. dollar this year should fade in 2016. However, current valuations and mixed quarterly data have failed so far to give new impetus.

U.S. Treasuries (10-year)

In the short term, the backdrop for U.S. Treasuries looks favorable, as markets have already anticipated the Fed's first rate hike. After the expected initial hike in December, the Fed looks set to wait and see, as it gauges the impact of this on markets as well as inflation. The federal funds rate is likely to remain low for quite a while therefore.

Asia ex Japan (equities)

We also stay neutral on Asia-ex-Japan equities. Intra-regional differences are enormous, however. Taiwan, India and the Philippines appear in better shape than China and Korea. Malaysia and Thailand currently do not appeal.

Japanese government bonds (10-year)

Demographic factors continue to dampen trend growth. In the third quarter, Japan apparently slipped back into a mild recession. That is unlikely to prove sufficient on its own, however, to prompt immediate further monetary stimulus. We stick to our neutral weighting for 10-year government bonds.

Consumer discretionary (equities)

Consumer discretionary remains one of our favorite sectors. Medium-term drivers such as cheap oil, falling unemployment and rising wages in the advanced economies remain intact. The effects of the emissions scandal on the automotive sector are beginning to fade although the high share of its sales going to emerging markets remains a burden.

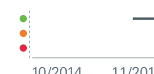
EUR vs. USD

We reduce our tactical EUR vs. USD positioning to neutral. Markets have already priced in the more hawkish Fed and the more dovish ECB talk from mid-November to a great extent. Furthermore the euro is again being sought as a funding currency in a more risk-friendly trading environment.

Information technology (equities)

Information technology remains another of our favorites. IT companies regularly demonstrate their pricing power, particularly in the software segment (e.g. cloud computing, big data, mobile internet). Weaker segments such as hardware are partly supported by M&A activities.

Private equity[2]



We stick to our strong overweight for European buyout and growth funds. The last ten years have shown that if such funds are carefully picked, good returns can be generated with low volatility. This continues to be one of the positives of this asset class as a whole.

The tactical view (one to three months)
Equity indices:
- positive view
- neutral view
- negative view

Fixed income and exchange rates:
- The fixed-income sector or the exchange rate is expected to perform well
- We expect to see a sideways trend
- We anticipate a decline in prices in the fixed-income sector or in the exchange rate

The traffic lights' history is shown in the small graphs.
A circled traffic light indicates that there is a commentary on the topic.
The strategic view up to December 2016
Equity indices, exchange rates and alternative investments:
The arrows signal whether we expect to see an upward trend (↗), a sideways trend (→) or a downward trend (↘) for the particular equity index, exchange rate or alternative asset class.

Fixed income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries, if not stated differently. ↗ depicts an expected widening of the spread, → a sideways spread trend and ↘ a spread reduction.

The arrows' colors illustrate the return opportunities for long-only investors.
↘ ↗ positive return potential for long-only investors
→ limited return opportunity as well as downside risk
↘ ↗ high downside risk for long-only investors

Further explanations can be found in the glossary.

[1] Spread over German Bunds
[2] These traffic-light indicators are only meaningful for existing private-equity portfolios

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Joe Benevento and
Joern Wasmund,
Global Co-Heads of
Fixed Income/Cash

Fixed-income market perspectives

The implications of a stronger U.S. dollar

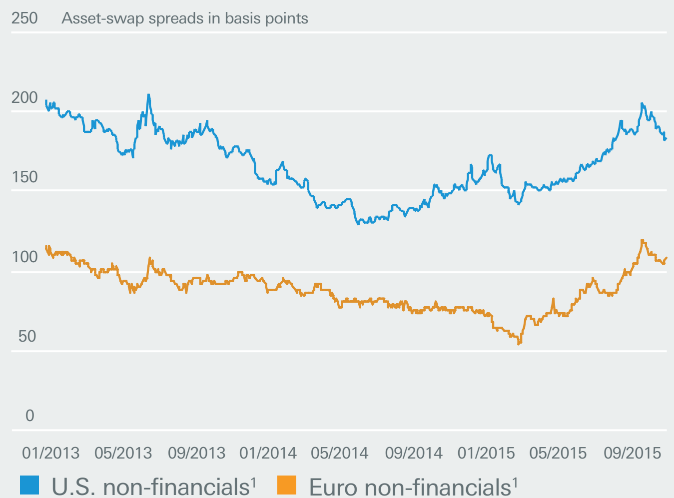
Central-bank policies will continue to play a major role in the fixed-income markets, not least through their effect on exchange rates. Fed chair Janet Yellen increasingly appears to be someone who is driven by the markets, rather than driving them. With better data having boosted markets' expectations of a Fed rate hike in December, she will likely follow their lead. But the rate-rise trajectory in 2016 is still expected to be "low-and-slow" and the Fed is likely to try and signal this to the markets. Normally, a "low-and-slow" approach would not be expected to boost the U.S. dollar substantially. But whilst Ms. Yellen may not be pulling very hard at her end of the tug-of-war rope, ECB President Draghi may be deliberately loosening his grip at the other, repeatedly signaling further monetary-policy easing (probably including a cut in the deposit rate). The result could be a further significant appreciation of the U.S. dollar as the rope moves.

For a European-based investor, investing into more stable U.S. assets may therefore become increasingly attractive, as they could offer the potential for augmenting already decent returns with currency gains. Of course, yields may rise as the Fed hikes rates. But we believe that the rise in U.S.-Treasury yields will be contained and that currency and carry will continue to provide an attractive cushion.

For U.S. investors staying in their home market the story is less straightforward. While from a risk-return perspective U.S. investment-grade seems more attractive than U.S. high-yield debt, this view is very much dependent on assumptions about future U.S. high-yield default rates. The 5.5% rate currently expected by the market implies a sharp increase in energy-sector defaults. U.S. investors venturing into the European fixed-income markets may want to consider currency-hedging their investments, if they share our belief that the U.S. dollar is likely to strengthen further. Moreover, U.S. investment-grade debt overall already offers a higher return than euro investment-grade, although there are some interesting pockets in the latter – for example in European corporate hybrids. Euro high-yield debt may also continue to appeal. A diversification across those assets looks the most promising way of going into 2016.

A strong U.S. dollar can affect fixed-income markets in other ways. For example, the headwinds it creates for commodity prices could hurt many emerging-market issuers too. The recent improvement in sentiment on emerging-market debt is just that – sentiment. It is not supported by a real turnaround in emerging-market economic or corporate fundamentals. So we would stay neutral on emerging markets for now.

U.S. and euro investment-grade spreads, 2013-15



Spreads on U.S. investment-grade non-financial debt remain markedly higher than for equivalent euro debt. The gap is wider than it was for most of 2014.

Sources: Bloomberg Finance L.P., Deutsche Asset & Wealth Management Investment GmbH; as of 11/2015
[1] 7-10 years maturity

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Henning Gebhardt,
Global Head of Equities

Equity-market perspectives

Equity-market outlook for 2016: tactical, selective and constructive

Global equity markets have recovered since mid-September, and most stock-market indicators are approaching the levels we had forecast twelve months ago. What will 2016 bring?

Seven years after the start of the Great Financial Crisis, markets have entered a mature phase. For this reason, 2016 and beyond should only yield mid-single-digit total returns. At the same time, we have to acknowledge a higher risk that annual returns could easily turn negative.

With a view to stock valuations, we do not see much further upwards potential for price-to-earnings (P/E) ratios. Our constructive view on equities is therefore based on expected moderate earnings growth and dividends. Earnings growth should be driven by successful firms in the technology, healthcare, finance and consumption sectors. Dividends, in turn, are gaining in significance: globally speaking, distributions should reach a record level in 2016. In an environment of very low or negative interest rates, an expected median dividend of 2.5%[1] is significant. The share of dividends in equities' total returns should increase in the years to come, since the potential for share-price gains has decreased compared with previous years.

Our preference for equities from developed markets remains unchanged. In 2016, many emerging markets might face further headwinds from low commodity prices and decelerating growth in China. But we do not have any distinct preferences within the United States, Europe and Japan. Earnings growth should be similar in all three regions in 2016 and less influenced by currency fluctuations than in 2015.

In 2016, our focus will, therefore, be more on the selection of sectors and stocks and less on regional allocations. Equity investors will find the winners of further developments in digitalization, particularly in the technology sector. Cloud computing or big data are no longer just catchwords – they have turned into multi-billion U.S. dollar sales drivers. The most recent price corrections in pharmaceuticals offer selective entry points in order to participate in seminal progress in cancer research. Financials, meanwhile, should benefit from the expected rate move of the Fed.

Tactical and selective equity investment could turn 2016 into another successful year.

Global dividends could hit a new high in 2016

The aggregate nominal payout by listed companies is likely to increase in 2016 for the 8th time in a row, setting another new record.

Source: FactSet Research Systems Inc.; as of 11/2015
e = market expectations

[1] Expected dividend yield for the MSCI World Index 2016

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Portfolio

Our asset-class allocation in a balanced portfolio[1]

Traditional asset classes

Within the core part of our balanced portfolio, we cover traditional liquid assets such as equities, fixed income and commodities. The chart shows how we would currently design a balanced portfolio, including alternative asset classes.[2]

Equities

Equities have recovered from their end-September lows. Further modest gains are possible although periods of volatility are likely. A strong U.S. dollar could however prove a headwind for U.S. equities, where valuations are already quite high. As a result we have a regional preference for European and Japanese equities, despite continuing concerns about the impact of slower Chinese growth. Earnings expectations for emerging-market equities still need to be revised down to more realistic levels. Within emerging-market equities, we continue to prefer Asia ex Japan over Latin America.

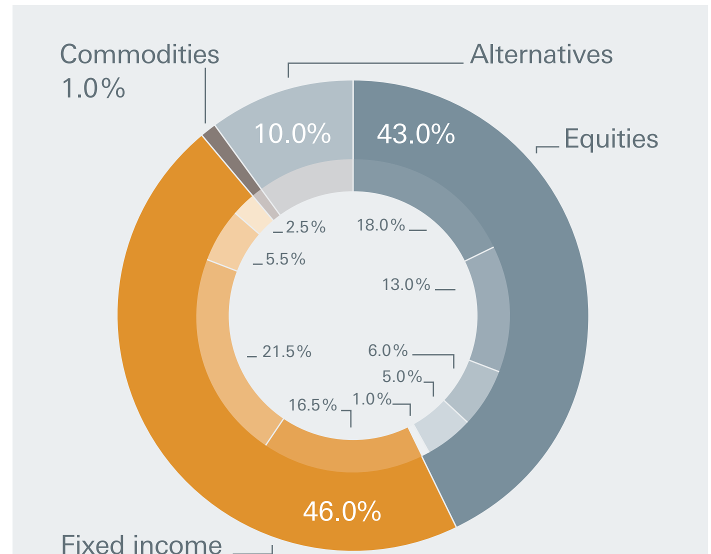
Fixed income

Central-bank-policy divergence will remain very important, through its impact both on yields and exchange rates. Even after the Fed rate hike, we believe U.S. Treasury yields will increase only modestly but the differential between them and core Eurozone government bonds will remain high. U.S. investment-grade debt may appear to offer an interesting risk-return trade-off, particularly for non-U.S. investors hoping to benefit from U.S.-dollar appreciation. Investor attitudes to U.S. high-yield debt will depend on default-rate expectations, with euro high-yield perhaps seen as offering lower potential rewards but also less risk.

Commodities

Oil prices have fallen back recently towards their summer lows and we believe that any recovery is likely to be slow and modest. Despite evidence of falling U.S. production, the global oil market still appears to be in oversupply. A Fed rate hike is likely to create headwinds for the gold price and any price gains as a result of geopolitical developments are likely to be temporary. U.S.-dollar strength is also expected to create further difficulties for oil, gold and other commodity prices. For these reasons we stay cautious on commodities as an asset class.

Europe, Middle East & Africa



Equities	suggested weight
Developed markets	37.0%
United States	18.0%
Europe	13.0%
Japan	6.0%
Emerging markets	6.0%
Asia ex Japan	5.0%
Latin America	1.0%
Fixed income	
Credit	16.5%
Sovereigns	21.5%
Emerging markets	5.5%
Cash	2.5%
Commodities	
Commodities	1.0%
Alternatives	
Alternatives	10.0%

Sources: Regional Investment Committee (RIC), Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank (Suisse) SA; as of 11/16/2015. Suggested allocation for U.S.-dollar-based investors. This allocation may not be suitable for all investors.

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[1] This portfolio may not be suitable for all investors.
[2] Alternative investments are dealt with separately in the next chapter. Alternatives are not suitable for all clients.

Long or short, Stéphane Junod?

Six market views from our regional Chief Investment Officer for Wealth Management in Europe, the Middle East and Africa (EMEA)

Can you usefully quantify and qualify risks to portfolios?

LONG Risks to portfolios can come from a number of different sources – from central-bank-policy surprises to geopolitical developments. Any assessment of such risks cannot be precise, in part because many risks are wholly unpredictable. But we still think that it is useful to look at the risks that we can foresee and then consider not just how likely an event is to occur but also the probable portfolio impact. Some risks may not seem particularly likely to materialize, but would be very disruptive if they did. These are the ones to watch and, if possible, prepare for.

Are central-bank-policy surprises on this risk list?

LONG There is still an enormous amount of uncertainty around central-bank monetary policy. At the top level, this is focused on the "when" and "what" questions – e.g. the timing and extent of the forthcoming Fed rate-hiking cycle. But there are other dimensions to this uncertainty – for example, around the management of market expectations of policy action. Skepticism may also increase about the effectiveness of QE. All this will maintain an environment where policy surprises – good and bad – are possible and could have a major impact on portfolios.

Can the likely impact of geopolitical events be overemphasized?

LONG Geopolitical events – often unforeseen – will continue to hog the headlines. But it is always worth asking to what extent they will have an immediate impact on portfolios. In previous decades, their main impact has been via increased oil prices due to the threat of supply disruption. This transmission process may be less important now given new sources of oil supply. Of course, many geopolitical events – for example, the European refugee crisis – may have a long-term impact on economies and investment. But their immediate effects may be more limited than first appears.

Are we now in an "end-cycle" market phase?

SHORT The first interest-rate increase by the Fed is an important development in the market cycle. However, it does not constitute the end of the cycle – instead, the first rate hike has typically marked the middle of the cycle in previous decades. In the sixth year of the global recovery, this may sound strange. Keep in mind, though, that the recovery has remained lackluster and slow. That is why we have described it in the past as the "turtle cycle", slow but long-lived. So we expect the cycle to continue on its steady upward path, supporting some further market gains.

Will positive returns be possible on fixed income too?

LONG Returns on core government bonds are likely to be modest but generally positive. Higher returns are possible on investment grade (U.S. and euro). High-yield bonds remain interesting in both regions, but less so in the United States, where default rates are likely to start rising from current relatively low levels. Emerging-market debt should offer some interesting opportunities but you will need to be selective.

Are currencies likely to be an important driver of returns?

LONG In recent months we have seen periods of euro strength but the fundamentals underpinning a strong U.S. dollar are likely to win out. These include stronger U.S. economic growth and – perhaps more importantly – expectations of further monetary easing by the ECB and the BOJ. So we expect the U.S. dollar to make further gains against the euro and, to a lesser extent, the Japanese yen and pound sterling. Currency risk must also remain an important consideration for emerging-market investments.

LONG represents a positive answer
SHORT represents a negative answer

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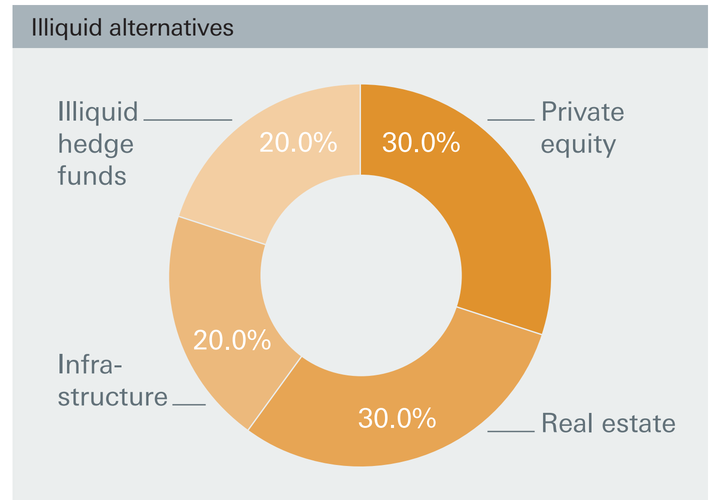
Alternatives

Our view of non-traditional asset classes

Alternatives portfolios

Due to their distinct characteristics, we take a differentiated look at selected liquid and illiquid alternative investments.[1]



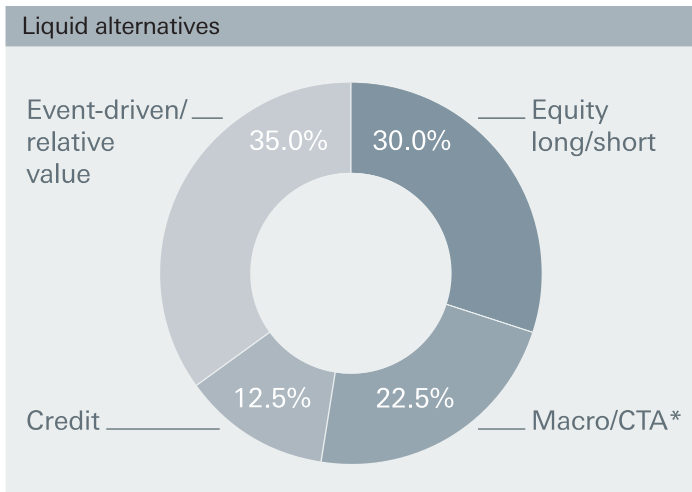
Liquid alternatives

Equity long/short

The performance of equity-long/short strategies year-to-date has reflected two market dynamics over this period. Firstly, value has underperformed momentum for the majority of the year which has hindered the performance of managers' long book. Secondly, small caps have marginally underperformed large caps ahead of the turning of the rate cycle in the United States and equity-long/short managers generically operating with net long exposure tend to fish in mid and small caps where they believe alpha can be more easily captured. Looking forward we believe that exposure to low-net-exposure equity strategies particularly in the United States will allow investors to generate uncorrelated returns with less volatility and better downside protection. From a macro perspective we believe that expansionary ECB monetary policy coupled with continued weakness in the euro should provide support for profit growth within Europe.

Event-driven

Event-driven strategies have underperformed year-to-date particularly soft-catalyst approaches where popular long names sold off over the summer. In addition the underperformance of value in markets has hurt the performance of activist strategies. On the positive side strong corporate balance sheets in the United States which are flush with cash and the search for growth through acquisition are two of a number of driving elements behind the near-record U.S.-dollar volume in mergers-and-acquisitions (M&A) activity recorded year-to-date. In light of that, we continue to favor small and agile funds with an M&A focus and tight risk-management frameworks.



Illiquid alternatives[2]

Private equity

U.S. private-equity markets remain active, with valuations at or near 2007 levels, bolstered by continued interest from strategic buyers as well as financial buyers sitting on large amounts of "dry powder" (capital available for investments). Debt availability is still strong. Total U.S. investment however dropped slightly in the third quarter from second-quarter levels. Private-equity markets in Europe have also continued to perform well, with fundraising for the first three quarters already surpassing the 2014 total. Price and leverage levels have moved close to their 2007 peaks. European exit markets have also been very buoyant with 2015 on track to be a record year. By contrast, economic uncertainty in Asia is expected to significantly slow down private-equity activity in this region although recent corrections in the public equity market may offer some interesting investment opportunities.

Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank AG Filiale London; as of 11/16/2015. This allocation may not be suitable for all investors. In our balanced model portfolio, we currently allocate 10% to alternative investments (see "Portfolio").

[1] These portfolios may not be suitable for all investors.

[2] Not available in discretionary portfolios. Hedge funds and other investments classified as non-mainstream pooled investments are not considered as suitable investments for retail clients in the United Kingdom. Illiquid investments may be difficult to acquire or dispose of. The product's ability to respond to market conditions may be impaired and investors may experience adverse price movements on liquidation.

* Commodity Trading Advisor

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Long or short, Mark G. Roberts?

The Head of Real Estate Strategy and Research looks at global sectoral trends.

Are commercial real-estate fundamentals generally still attractive?

LONG Across the globe, we currently see a positive spread between long and short interest rates, implying that a recession – with its obvious negative implications for tenant demand and rents – is not likely. In addition, outside of a few markets, the amount of new construction remains low. As a result, vacancy rates are declining and rent levels are increasing, likely leading to higher earnings growth. We continue to favor a pro-cyclical investment strategy targeted at offices and logistics, areas which typically perform well as economic growth increases.

But is caution advisable on specific markets?

LONG In the United States, the decline in oil prices is expected to have knock-on effects for certain property sectors in Houston. In the United Kingdom, the regions are in an upwards market cycle and we prefer these markets over central London, where the increase in new construction against a background of higher base rates could lead to lower relative returns. Finally, pricing appears aggressive in Singapore and vacancy rates are expected to increase which could create downside risks for capital values.

Would listed real estate be resilient to an abrupt rise in interest rates?

SHORT Listed real estate may appear interestingly valued compared to the broader equity market or Treasury yields. U.S. REITs (real estate investment trusts) are also currently trading at a discount of around 2% to the underlying net asset value (NAV) of property held by these companies. (Over the long term, they typically trade at a 5% premium.) When stock valuations become disconnected like this from the private market, we typically see increased share buy-backs and higher levels of mergers-and-acquisitions activity, providing a catalyst for prices to move higher. Still, we are mindful of the impact that a sudden upwards move in interest rates could have on the asset class. U.S. REITs would probably move on par with the S&P 500 Index if there was only a 25-basis-point rise in rates – but a larger unexpected rise would likely lead to underperformance.

Will governments continue to support infrastructure investment?

LONG Each dollar spent by governments on infrastructure can translate into much greater gains in GDP and employment. However, budget constraints are limiting public investment, and governments have started putting greater emphasis on attracting private capital in infrastructure. We see this trend continuing, with governments "crowding in" private-sector investment, through improving regulatory frameworks and public-private-partnership structures. This is likely to create further opportunities for institutional investors seeking long-dated, inflation-hedged income streams and portfolio diversification.

Do you have a positive outlook for listed infrastructure?

LONG We recently completed a top-down analysis on listed infrastructure as well as real-estate securities and how they have performed in different economic environments, with a focus on GDP and interest-rate levels relative to their average. This suggests that, in the current environment, global listed infrastructure securities would perform broadly in line with the MSCI World Index for equities if there was a 25-basis-point rise in the major developed economies' interest rates. For the upcoming year, we expect global listed infrastructure securities to generate total returns in the range of 7%.

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SHORT represents a negative answer

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Offers and sales of alternative investments are subject to regulatory requirements and such investments may be available only to investors who are "Qualified Purchasers" as defined by the U.S. Investment Company Act of 1940 and "Accredited Investors" as defined in Regulation D of the 1933 Securities Act. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Hedge funds and other investments classified as non-mainstream pooled investments are not considered as suitable investments for retail clients in the United Kingdom.

High-conviction ideas

Selected investment ideas to complement wealth-management clients' portfolios

European automotive sector

Idea initiated

November 1, 2015

Reference measure

Markit iBoxx EUR Corporates Automobiles and Parts Index vs. cash*

Investment horizon
6 – 12 months

Performance since initiation

When we launched this idea, we cautioned that there could be several more uncertain months before the sector eventually stabilized. This has proved to be the case: Volkswagen's problems have deepened in recent weeks, with increasing numbers of autos likely to be recalled. However, we believe that corporate investment-grade bonds in this sector appear to offer a lower-risk alternative to equities for investors with a longer-term horizon.

Long U.S. dollar

Idea initiated

September 1, 2015

Reference measure

Bloomberg Dollar Spot Index vs. cash*

Investment horizon
3 – 12 months

Performance since initiation

The Bloomberg Dollar Spot Index has been moving upwards since the middle of October, with the U.S. dollar gaining ground against both developed and emerging-market currencies. In part, this was the result of market expectations of further monetary stimulus from both the ECB and the BOJ. The strengthening of many emerging-market currencies in early October – after major falls earlier in 2015 – also appears to have run out of steam.

Global financials

Idea initiated

July 1, 2015

Reference measure

MSCI AC World Financials Index vs. MSCI AC World Index**

Investment horizon
3 – 12+ months

Performance since initiation

Global financials are likely to gain from an upwards turn in the U.S. interest-rate cycle. Rising dividends and share buybacks, as well as valuations, are also likely to be positives. Possible negatives include the impact of banking-activity regulation although banks are taking action to offset such headwinds, for example through cost-cutting. Emerging-market opportunities may also exist although selectivity will be critical.

Indian equities

Idea initiated

May 1, 2015

Reference measure

CNX Nifty Index vs. cash*

Investment horizon
3 – 12+ months

Performance since initiation

The Nifty Index has fallen recently, in part due to concerns about the implications of a December Fed rate hike. But, over the longer term, we remain positive on Indian equities. The government is keen to push on with reforms. In early November it eased restrictions on foreign direct investment in 15 major sectors including defense, civil aviation and mining and also increased the ability of the Foreign Investment Promotion Board to give one-off approvals.

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German housing

Idea initiated

April 1, 2015

Reference measure

MSCI IPD OFIX Germany Index vs. cash*

Investment horizon
24 months

Performance since initiation

The MSCI IPD OFIX Germany Index rose again in October and the upwards trend in German home prices – now evident for several years – looks likely to continue. We believe that interest rates should remain very low and wage growth, adjusted for inflation, has reached the highest level since this quarterly series was introduced in 2008. Fiscal policy is not restrictive, either. At present, the housing market does not show the typical characteristics of a "bubble", with mortgage-financing growth remaining moderate.

U.S. leisure and entertainment

Idea initiated

April 1, 2015

Reference measure

PowerShares Dynamic Leisure and Entertainment Portfolio vs. S&P 500 Index**

Investment horizon
3 – 12+ months

Performance since initiation

Rising U.S. consumer confidence has yet to translate into strong gains in overall retail sales – according to advance estimates from the U.S. Commerce Department, sales rose only 0.1% between September and October to a level just 1.2% higher than a year previously. But leisure-related spending may be rising faster: sales at food services and drinking places were up 5.5% in October on a year earlier. Airline stocks, an important part of the PowerShares Dynamic Leisure and Entertainment Portfolio, have also risen recently although this rise could be reversed by recent terrorist incidents.

High-yield debt

Idea initiated

February 24, 2015

Reference measure

Average of Barclays U.S. High Yield and Barclays Euro High Yield indices, weighted according to market size, in U.S. dollars vs. cash*

Investment horizon
3 – 12 months

Performance since initiation

We remain generally positive on the U.S. high-yield market, although aware of the potential impact volatility in the energy and metals-and-mining sectors could have on the overall market. We believe that euro high-yield offers a good risk/return combination and is likely to benefit from further QE in Europe, as well as from not having much exposure to oil and gas. Overall, while U.S. high-yield has the higher upside potential due to higher spreads, euro high-yield should have less fundamental risk.

High-conviction ideas key
⊕ indicates gain
⊖ indicates loss

* Relative-return idea, based on the relative performance of the two measures in U.S. dollars. Stated performance is from given entry date to 11/12/2015.

** Total-return idea where performance is measured by the gain/loss in the performance measure in U.S. dollars. Stated performance is from given entry date to 11/12/2015.

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Source: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank (Suisse) SA; as of 11/12/2015

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Glossary

Here we explain the main terms from the CIO View.

Activism is a sub-strategy of event-driven strategies which attempts to obtain representation of the company's board of directors in an effort to impact the firm's policies and may include activities such as division or asset sales and changes in management.

The term advanced economies is used by the International Monetary Fund to describe developed countries.

Alpha is a measure of the active return on an investment. An investment's alpha is the excess return relative to the beta-adjusted market return.

In relation to currencies, appreciation refers to a gain of value against another currency over time.

A balance sheet summarizes a company's assets, liabilities and shareholder equity.

The Bank of Japan (BOJ) is the central bank of Japan.

In finance, a barbell strategy means avoiding assets with an average risk-reward profile. A common example of this would be to invest in long- and short-duration bonds but not in intermediate-duration bonds.

The Barclays Euro High Yield Index captures the performance of Euro high-yield debt securities.

The Barclays U.S. High Yield Index captures the performance of U.S. high-yield debt securities.

One basis point (bp) equals 1/100 of a percentage point.

The Bloomberg Dollar Spot Index measures the value of the U.S. dollar against ten global currencies, from both developed markets and emerging markets.

A bubble is characterized by prices surging higher than warranted by fundamentals, followed by a drastic drop in prices as a massive selloff occurs.

Buy and hold is an investment strategy where an investor buys stocks and holds them for a long time.

A buyout is the purchase of a company's shares in which the acquiring party gains controlling interest of the targeted firm.

The carry (of an asset) is the cost or benefit from holding the asset.

Cloud computing is a model for enabling ubiquitous network access to a shared pool of configurable computing resources by providing users and enterprises with various capabilities to store and process their data in third-party data centers.

The CNX Nifty Index, also simply the Nifty, is India's benchmark stock-market index, covering 50 corporations in 22 sectors of the Indian economy.

A commodity trading advisor (CTA) is an individual or organization providing advice and services related to trading in futures contracts, commodity options and/or swaps.

Consumer discretionary is a sector of the economy that consists of businesses selling nonessential goods and services.

Corporate hybrids are securities that combine the elements of the two broader groups of securities, debt and equity.

In economics, crowding in is a situation in which private investment increases as debt-financed government spending increases. This is caused by government spending boosting the demand for goods, which in turn increases private demand for new output sources, such as factories.

Default is the failure to meet the legal obligations of a loan, for example when a corporation or government fails to pay a bond which has reached maturity. A national or sovereign default is the failure or refusal of a government to repay its national debt.

The default rate refers to the proportion of borrowers who cannot service their loans.

A developed market (DM) is a country fully developed in terms of its economy and capital markets.

A dividend is a distribution of a portion of a company's earnings to its shareholders.

Dry powder, in a private-equity context, refers to cash or other very liquid reserves that can easily be deployed for investment.

An emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet standards to be a developed market.

Equity long/short investing strategies take long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline, while trying to minimize market exposure.

Shares are issued and traded on the equity market, either through exchanges or over-the-counter markets.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most important reserve currency in the world after the U.S. dollar.

Periphery countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal,Italy, Spain and Ireland.

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

The Eurozone, also called the euro area, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro as their common currency.

Event-driven investing strategies seek to exploit pricing inefficiencies that may occur before or after a corporate event, such as a bankruptcy, merger, acquisition or spinoff.

Exit markets describe the prevailing conditions the owners of a company face when trying to sell their participation.

The Federal Reserve System, which serves as the U.S. central bank, was established in 1913, consisting of the Federal Reserve Board with seven members headquartered in Washington, D.C., and twelve Reserve Banks located in major cities throughout the United States.

The federal funds rate is the interest rate at which banks actively trade balances held at the Federal Reserve.

The U.S. Federal Reserve Board (Fed) is the board of governors of the Federal Reserve; it implements U.S. monetary policy.

Financial crisis refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

The Foreign Investment Promotion Board is a national agency of the Government of India, with the remit to consider and recommend foreign direct investment (FDI) which does not come under the automatic route.

Fundamentals are the qualitative and quantitative information about a company, economy, security or currency.

High-yield is often used as a shorthand for high-yield bonds.

Initial public offering (IPO) is a type of public offering in which shares of stock in a company usually are sold to institutional investors that may in turn sell them to the general public, on a securities exchange, for the first time.

The interest-rate cycle is closely related to the economic cycle since interest rates tend to rise when economic growth and inflation increase and usually fall when the economy slows down to boost demand and economic growth.

An investment grade (IG) rating by a rating agency such as Standard & Poor's indicates that a bond has a relatively low risk of default.

A knock-on-effect is the effect which an action will have on other situations.

The potential return of an investment can be increased by using leverage in the form of various financial instruments such as options, futures, margin or borrowed capital.

Liquidity refers to the degree to which an asset or security can be bought or sold in the market without affecting the asset's price and to the ability to convert an asset to cash quickly.

Long/short equity strategies are investing strategies of taking long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline.

In statistics and probability theory, a median is the number separating the higher half of a data sample, a population, or a probability distribution, from the lower half.

Mergers and acquisitions (M&A) are two key methods of corporate consolidation: A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Momentum in general refers to prices continuing to trend. The momentum and ROC (rate of change) indicators show trend by remaining positive while an uptrend is sustained, or negative while a downtrend is sustained.

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

The MSCI AC World Financials Index captures large- and mid-cap financial companies across 46 developed- and emerging-market countries.

The MSCI AC World Index captures large- and mid-cap companies across 23 developed- and 23 emerging-market countries.

The MSCI IPD OFIX Germany measures the total return of selected open-ended German property funds after leverage, liquidity holdings and fund costs.

The MSCI World Index captures large and mid-cap representation across 23 developed-market countries.

A multiple is a ratio that is used to measure aspects of a company's well-being by setting various of the company's metrics against each other and thereby building indicative ratios.

Net asset value (NAV) is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value.

Net-exposure equity strategy describes the degree to which long positions (benefiting from rising share prices) outweigh short positions (benefiting from falling share prices).

The People's Bank of China (PBoC) is the central bank of the People's Republic of China.

In economics, the Phillips curve is a historical inverse relationship between rates of unemployment and corresponding rates of inflation.

The pound sterling (GBP), or simply the pound, is the official currency of the United Kingdom and its territories.

The PowerShares Dynamic Leisure and Entertainment Portfolio is an ETF focused on the U.S. leisure, travel and entertainment sector.

The price-to-earnings (P/E) ratio or multiple measures a company's current share price relative to its per-share earnings.

Private equity is a direct or indirect investment by a financial investor in operating companies that are not publicly traded on a stock exchange.

Quantitative easing (QE) is an unconventional monetary policy in which a central bank purchases securities in order to lower interest rates and increase the money supply to promote increased lending and liquidity.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

A Real Estate Investment Trust (REIT) is a company that owns, and in most cases, operates income-producing real estate. REITs sell like a stock on the major exchanges and invest in real estate directly, either through properties or mortgages.

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A share buyback or repurchase is a program by which a company buys back its own shares from the marketplace, reducing the number of outstanding shares.

Soft catalysts are announcements by the company which has yet to take place, prompting a hedge-fund manager to take a position in anticipation.

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

Trade buyers, in the context of a corporate takeover, refers to buyers from within the same industry as the firm being taken over.

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).

Turtle cycle is a term used by Asoka Woehrmann and Deutsche AWM to describe the slow recovery of many economic cycles worldwide.

The U.S. Commerce Department is the Cabinet department of the U.S. government concerned with promoting economic growth.

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

Volatility is the degree of variation of a trading-price series over time.

The Japanese yen (JPY) is the official currency of Japan.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A yieldco is a publicly traded company that is formed to own operating assets that produce a predictable cash flow, primarily through long term contracts. The goal is to reduce financing costs (for example by securing cheaper debt financing).

Investment traffic lights (pages 10–11): comments regarding our tactical and strategic view

Tactical view:

— The focus of our tactical view for fixed income is on trends in bond prices, not yields.

Strategic view:

— The focus of our strategic view for sovereign bonds is on yields, not trends in bond prices.

— For corporates and securitized/specialties bonds, the arrows depict the respective option-adjusted spread.

— Both spread and yield trends influence the bond value. Investors who aim to profit only from spread trends must hedge against changing interest rates.

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