

CIO View



Debt burdens

Identifying the hotspots



Nine positions

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

Nine positions

Our key forecasts

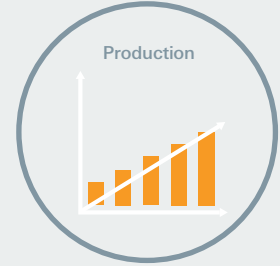
Consumer sentiment is improving in developed economies.



Monetary policy remains expansionary in many economies.



So the global economy looks set to keep growing in 2016.



No new credit crisis in sight despite high debt levels.



U.S. earnings growth is approaching a cyclical low.



Developed equity markets likely to yield strong returns on a twelve-month horizon.



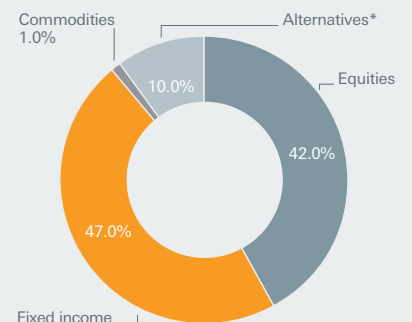
Cloud software and large-cap internet stocks remain amongst our IT favorites.



German real-estate markets remain attractive.



Asset allocation of our balanced model portfolio:



* Alternatives are not suitable for all clients.

Important terms are explained in our glossary.

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Source: Deutsche Asset & Wealth Management Investment GmbH, as of 10/19/15

Letter to investors

Still the same old question

Although markets seem to be preparing for a peaceful year-end, many questions remain unanswered. Unfortunately, future Fed policy is one of them.

Honestly, this should be the time to have a closer look at a number of issues. Is recent Chinese data sound enough to dissipate fears of a hard landing? And could the plethora of public policy-support measures even create short-term upside surprises? Could emerging markets altogether do better than expected, with stabilizing commodity prices and signs

that the U.S. dollar is not invulnerable? Or are the structural problems of these countries – most evident in Brazil and Russia – likely to continue to wear down their economies and societies? We

also need to consider the implications of the flow of refugees into Europe, which could encourage structural reforms designed to alleviate economic concerns and contain political tensions. An upsurge in patriotism and thus protectionism might result in inflationary pressures through the reappearance of trade barriers, for example. The Volkswagen scandal should also be considered, particularly since it might help environmental, social and governance (ESG) issues to become more important in institutional investing.

We would have loved to discuss all these issues but, instead, the question of U.S. Federal Reserve Board (Fed) policy will continue to dominate the markets. Investors are still trying to guess the course of further Fed action. Every Fed comment is dissected as investors look for any signs of division even within its Board of Governors. But is this really surprising when the available data points in different directions? Policy-rate hikes would be supported by the labor market and likelihood that inflation will be less repressed by low commodity prices in 2016. Current low inflation rates and

dampened global growth expectations argue, however, against any hike. Furthermore, the Fed has never moved rates against broad market expectations. But how reliable is historical precedent when the Fed finds itself in such an unprecedented situation? And is the Fed really master of this situation? Some are already talking of a sequence of events where

a U.S. government shutdown just before the Fed meeting stops an interest-rate hike in December and a weak winter quarter pre-empts a rate rise in the spring of 2016. Then, according to this analysis, impending

U.S. elections would discourage a rate rise in summer 2016. And all of a sudden it's 2017. The very existence of such speculation suggests a lack of Fed control. In fact, we still expect the first rate move to be in December but acknowledge that a number of forecasts will have to be revisited if the wait for a rate hike drags well into next year. After all, the Fed is and remains the most important central bank in the world. Investors must therefore actively address the Fed's current passivity.

// It's not only the Fed – the economic situation itself is ambiguous, too. //



Asoka Wöhrmann,
 Chief Investment
 Officer of Deutsche
 Asset & Wealth
 Management
 (Deutsche AWM)
 and Member of the
 Deutsche AWM
 Executive Committee

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Focus

The true burden of debt

Global debt has continued to rise since 2007. Are we facing a new debt crisis?

First of all, the good news: The world economy is on track to grow faster in 2016 than in 2015. The bad news: Consensus estimates for 2016 growth rates are being revised downwards. Flattening growth in the emerging markets is worrying. And China, long seen as the powerhouse of the world economy, is losing steam for the time being. Growth in the advanced economies is stable but modest.

When the International Monetary Fund (IMF) presented its new World Economic Outlook in October 2015, it identified the fundamental reasons for weaker growth. The downturn in commodity prices has deeply hurt commodity-exporting countries such as Brazil and Russia. Other countries are suffering from inefficient past investment. One example is China: economic growth in the Middle Kingdom is hampered by high levels of debt and efforts to consolidate it, which may have contributed to the sell-off on China's stock exchanges earlier this year.

Debt and GDP

China reminds us that the debt situation of individual countries and regions needs to be evaluated before an investment decision is taken. A new debt database of the Bank for International Settlements (BIS) now allows us to do this. It currently covers 21 emerging markets, the Eurozone countries and twelve other industrialized states. In aggregate, the debt piled up by the state, companies and private households in these 52 economies had risen by 49.4% between the end of 2007 and the end of 2014 (in U.S.-dollar terms). But since the nominal gross domestic product (GDP) of these countries rose by roughly 31.5% over this period, this figure needs to be put into perspective.

In the advanced economies, debt rose by 28.9% between the end of 2007 and the end of 2014, and nominal GDP by 13.5%,

while in the emerging-market economies, debt rose by 200.1% during the same period and nominal GDP by 92.5%. In other words, while the advanced economies' debt has only risen by slightly more than their economic output, emerging-market debt has risen much faster than these economies' nominal GDP. This should sound some alarm bells.

Sustainability of debt

Of course, looking at the ratio of debt to GDP does not tell the whole story. It is also important to look at debt relative to GDP per capita. And this is the reason why: if the value of the goods produced per head in a country only slightly exceeds the subsistence level, the savings ratio will be correspondingly low – and this will limit a country's capacity to raise and service debt. Our analysis¹ shows that the ability to raise debt rises substantially in emerging markets if their prosperity increases as well.

And increasing prosperity – i.e. rising GDP and incomes – in emerging markets requires, in turn, investment. But the larger the capital stock, the lower the additional return on additional investment may be. Due to this decreasing marginal return on investment, debt should grow at a slower pace as soon as a certain prosperity level has been reached. This is also confirmed by our analysis, which is based on BIS and IMF data.

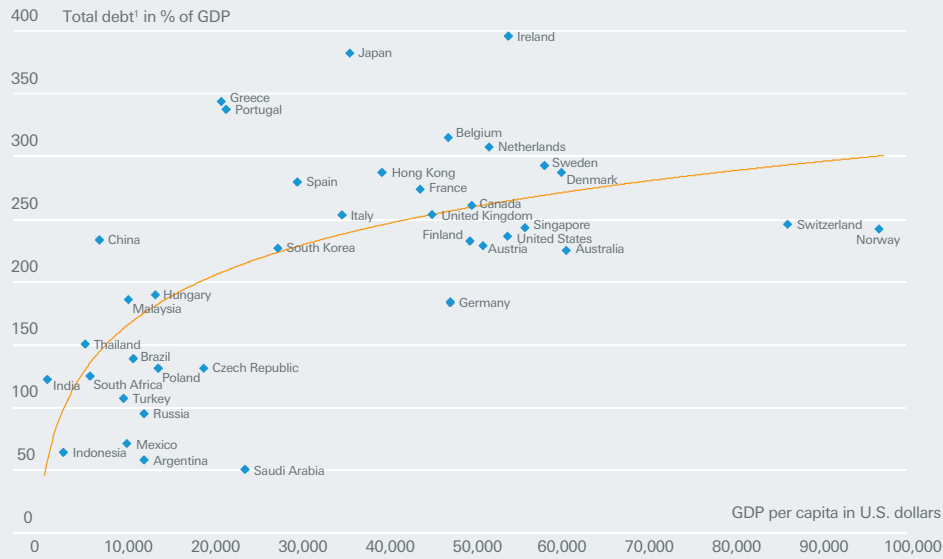
Comparing debt ratios with GDP per capita offers a new perspective on which countries are more prone to a debt crisis than others. Amongst the countries which are extremely highly indebted in relation to their prosperity are Japan and some Eurozone periphery countries (see chart 1). This comparison also shows that Chinese indebtedness is high. But other countries still have some scope to take on new debt, as this analysis reveals. If they used available credit for sensible investments, national and global growth trends could improve.

¹ Analysis based on BIS and IMF data.

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Debt levels in relation to GDP per capita

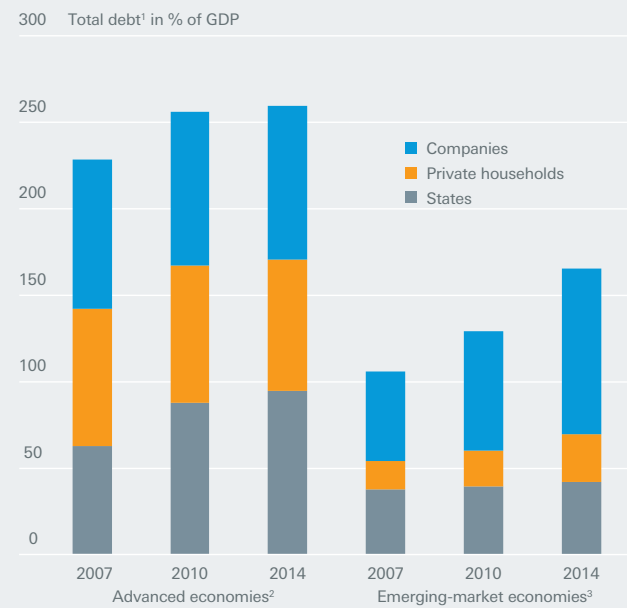


One key relationship

The higher the output of goods and services per capita – one measure of a country's prosperity – the higher its ability to raise and service debt. The ability to raise debt in emerging economies rises quickly in line with prosperity as output pulls clear of subsistence levels. But debt levels start to flatten out as soon as prosperity has reached a certain level.

Sources: Bank for International Settlements, International Monetary Fund, as of October 2015
¹ Total debt: Debt of the state, private households and companies

The development of debt



¹ Total debt: Debt of states, private households and companies
² Advanced economies: Australia, Canada, Denmark, Eurozone, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland, United Kingdom, United States
³ Emerging-market economies: Argentina, Brazil, China, Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia, Saudi Arabia, South Africa, Thailand, Turkey

Debt levels by type of economy and debtor

The indebtedness of advanced economies increased only slightly from 2007 to 2014, with a clear shift from privately-held to public debt. Emerging-market economies, in contrast, experienced a massive growth in debt levels, caused largely by companies substantially increasing their debt.



Emerging markets (total debt ratio)

This ratio increased by roughly 56% in emerging markets between the end of 2007 and the end of 2014.

165%* (Dec 2014)

*Bank for International Settlements, as of October 2015

// The situation is not improved if efforts to reduce debt end up pushing the economy into deflation and depression. //

Paul R. Krugman, Professor of Economics and International Affairs at Princeton University, February 9, 2014, New York Times.



Advanced economies (total debt ratio)

This ratio increased by roughly 14% in advanced economies between the end of 2007 and the end of 2014.

260%* (Dec 2014)

*Bank for International Settlements, as of October 2015

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Interview

The big picture

I cannot ask our German clients to take over more risk without doing so myself. This job change takes me outside my own comfort zone, too.

// I want to increase private clients' understanding of capital markets. //

Mr. Wöhrmann, this is your last interview in the CIO View – from December 1, 2015, you will devote yourself to Deutsche Bank's German retail business. So let's take a step back from day-to-day issues and get personal. Why did you take this step?

I always relish a personal challenge and I also believe that the German retail business offers the biggest upside potential within Deutsche Bank. This is the business segment where we can and must offer a much wider range of products and services to our clients, and this is where new technologies will require the greatest changes to how we do business. It is a very challenging task to satisfy our clients' needs on information and performance, which have changed markedly in the digital age, and requires a more individually customized but at the same time cost-effective product offering.

What exactly do you want to change?

For German retail clients, I want to enable them to improve the risk-return profile of their portfolios by reconsidering their investment behavior and approach to risk. It pains me that Germans are still holding 40% of their financial assets in cash and bank deposits and only 13% in equities and equity-like securities. And it is also painful that, as a result, most of them are left on the sidelines when the DAX rallies. Particularly in such times of extremely

low interest rates it is paramount to dispel the German fear of business-related investment and the associated risks – the real risk is the loss of value of their cash holdings! Another of my objectives will be helpful here: providing our German retail clients with greater access to the wider expertise assembled elsewhere in Deutsche Bank.

You – just like your successor Stefan Kreuzkamp – started out in the fixed-income business. How did you learn to appreciate equities?

That wasn't difficult. When I joined DWS¹ in 1998, I wanted to become an equity-fund manager. But the only vacancies were in fixed income, so I started there. And the broad expertise within the platform made it much easier for me, more than a dozen years later, to take over responsibility for other asset classes.

What would you like to tell your successor?

First of all, he is taking over a well-ordered business unit, a compact and efficient investment platform which he himself has helped to establish. Additionally, I would encourage him to continue putting his faith on experts in each asset class. Otherwise, there is a risk of merely following trends instead of anticipating them. Even in an environment which remains overshadowed by central-bank policies, stock and bond pickers have

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carried the day in Europe. They will become even more important as soon as the central banks' influence starts to fade. In order to be able to provide this added value – i.e. alpha, market outperformance – these experts need some leeway. The executive team will need to use both their professional and interpersonal skills to maintain an environment where this can happen. Finally, I would like my successor to be hard-headed enough also to take unpleasant investment decisions – which I am sure he will be.

Capital markets are generally considered to be efficient. What do we need fund managers for?

The internet provides everyone with almost all data in real time today. Headlines can move markets in the twinkling of an eye. But the right interpretation of data can still help to beat the market, since the investor herd does not always move in the right direction. Moreover, particularly opaque or illiquid markets give investors a further chance to generate excess returns. The same holds true for an intelligent combination of strategic investment and tactical trading.

What added value can average German earners expect from their bank's wealth managers?

First of all, targets and restrictions for wealth building must be defined together with the client. The next step is the formulation of a tailor-made capital allocation. If these two steps are taken with reasonable care, more than half the job is done. Selecting the right financial instruments and the tactical allocation should then be a more straightforward undertaking.

How can advisers' and clients' priorities be better attuned to each other?

Long-term relationships are mutually beneficial also in retail banking.

Additionally, we want to increase not only our own advisory skills but also our clients' capital-market expertise to enable them to better judge the opportunities and risks of different asset classes.

Imagine a German 30-year-old and a 60-year-old approaching you with 50,000 euros. What would you recommend?

Although individual circumstances would need to be taken into account, generally speaking, I would expect the 30-year-old to invest in a higher proportion of riskier assets – i.e. a mix of equity and corporate-bond funds, supplemented by alternative assets. For investors who want to build up wealth, I might recommend share saving schemes. The typical 60-year-old may likely be more focused on wealth preservation and regular payouts, so that the share of bonds should be higher. Both would be well advised to hold a percentage in cash and gold – as a risk hedge and for short-term opportunities.

Anything else?

I would advise everybody to take time to think through their investment priorities. Although money may not always buy happiness, as the saying goes, a sufficient financial cushion will at least help you to approach old age in a much more relaxed mood.

Understanding capital markets should be commonplace

Asoka Wöhrmann joined DWS¹, now a part of today's Deutsche AWM, in 1998. Over the following years he has had to respond to two stock-market crises and the slide of government-bond yields into negative territory. The two stock-market crises reinforced German savers' skepticism about stocks, with their preference for fixed income resilient to increasingly meager yields. In his new role helping run Deutsche Bank's German retail-banking operation, Asoka Wöhrmann intends to promote a better understanding of capital markets.



Asoka Wöhrmann

Stefan Kreuzkamp

¹ DWS was founded in 1956 and is one of Europe's largest fund managers. It is now an integral part of Deutsche Asset and Wealth Management.

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Investment traffic lights

Our tactical and strategic view

until September 2016
 1 to 3 months

until September 2016
 1 to 3 months

| Equities* | | |
|------------------------|---|---|
| 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 | ● | |

| Fixed income** | | |
|-------------------------------------|---|---|
| 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* | | |
| Infrastructure | ● | ↗ |
| Commodities | ● | ↗ |
| Real estate (listed) | ⊙ | ↗ |
| Real estate (non-listed) | ● | ↗ |
| Hedge funds | ● | ↗ |
| Private equity ² | ● | → |

*as of 10/15/15

**as of 10/26/15

Source: Deutsche Asset & Wealth Management Investment GmbH

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Germany (equities)



The DAX had a difficult time this autumn after a good run. Its relatively high dependence on exports became a vulnerability because of China's economic weakness (hitting demand for German exports) and the resurgent euro. In addition, Volkswagen's problems hurt the important automotive sector. But, at current index and valuation levels, this market's fall seems overdone and we think a recovery is likely. We therefore maintain an overweight.

Healthcare (equities)



The healthcare sector has been ailing too, with statements by U.S. presidential candidate Hillary Clinton partly to blame. The longer-term strengths of the sector (e.g. inexorably rising global demand for drugs, care and hospital capacity) will eventually restore it to full vigor, but increasing market nervousness keeps us neutral here for now.

Utilities (equities)



We upgrade utilities to neutral. Being a defensive sector utilities profit both from any postponement of a rate hike by the Fed and from nervous equity markets. We especially like the regulated U.S.-sector while in Europe especially German regulated names are still struggling.

Energy (equities)



We take the energy sector back down to an underweight. Takeover activity and a stabilizing oil price have helped the sector in recent weeks, but we think that investors will soon start to focus again on whether opportunities here are worth the high level of risk.

Eurozone periphery (bonds)



Eurozone periphery sovereign debt held up well in the recent sell-off. Significant progress on structural reforms has helped, and the possibility of an extension of the ECB's quantitative-easing (QE) program should be positive for Spain and Italy. This leads us to reinstate an overweight here.

EUR investment grade (bonds)



The process of normalization continues, if at a slower pace. The market has looked firmer since U.S. rate-hike expectations have been pushed into 2016, with supply subdued ahead of the third-quarter earnings season, contributing to our overweight. Note, however, that idiosyncratic risks could still hurt individual issuers.

Emerging-market sovereigns (bonds)



Emerging-market sovereigns rallied during October, helped by slightly better data out of China which helped improve sentiment towards emerging markets overall. We now have an overweight here, but this remains a highly differentiated sector, so good selection of country and instrument is still key. For lower rated sovereigns, we favor those with lower commodity exposure.

Real estate (listed)



We keep an overweight on listed real estate, believing that returns are likely to remain good in most regions (particularly when compared with yields available on sovereign bonds). Real-estate investment trusts (REITs) look fairly valued from a historical perspective.

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 September 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

¹ Spread over German Bunds

² These traffic-light indicators are only meaningful for existing private-equity portfolios

Further explanations can be found in the glossary.

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

Fixed-income market perspectives

The night is darkest just before dawn – after the recent spike in volatility, we look forward to the return of the marginal buyer.

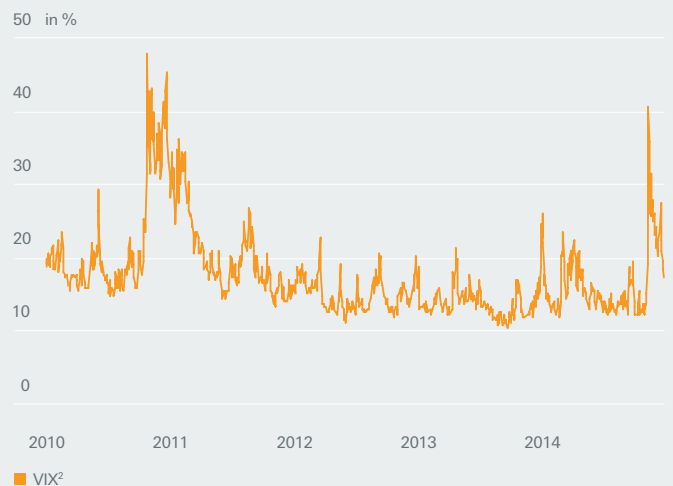
Between late August and early October, volatility spiked to levels not seen since 2011 when Eurozone sovereign debt worries spilled over from Greece, Portugal and Ireland to Spain and Italy. Not even Bernanke’s announcement in May 2013 that the Fed was considering scaling back QE – which provoked the so-called “taper tantrum” – created so much volatility. There was one obvious common factor with 2011: the disappearance of the marginal buyer – one willing to enter the market at its new level. Why did this happen? Back in 1997, Paul Krugman wrote an interesting article where he outlined the behavioral habits of investors which he believed create market inefficiencies.¹ Amongst these were the short-term orientation of investors (to meet their annual targets), their herd mentality (to minimize career risk) and the tendency to over-generalize and to “be trendy” (accept the fashionable prevailing analysis).

Of course, investors do not need to look hard to find issues that are of concern – whether they be Chinese growth, commodity prices or government debt levels. Policy dilemmas – be they on rate hiking, QE, renminbi flotation, oil production or refugees – also proliferate. But during September and early October economists were indeed a pessimistic herd. All news articles were negative on China and there were frequent complaints about market liquidity. This was accompanied by a tendency to over-generalize and to, in Krugman’s phrase, “be trendy”. Short-termism also featured.

This can get too one-sided. It is time to apply a more balanced approach. China is still growing at a much faster rate than the developed economies, commodity prices are likely to have bottomed out, households are taking a more disciplined approach to debt, and Europe has so far survived its debt crisis. What can and what should investors do? The answers are old-

fashioned. Ask yourself how much volatility and risk you can take and what return you are targeting. Diversify your portfolio. Go global. We believe that investors who spread their investments across a variety of asset classes, a range of sectors and several regions are best positioned to cope with the current volatility and reduce their sensitivity to the next downturn. Apply a more tactically focused but disciplined management style. As news turns less negative in the not-too-distant future, markets should start to benefit from the return of the marginal buyer.

Volatility spikes upwards



Market volatility, as measured by the VIX, increased to five-year highs during September. But have fixed-income markets overreacted to global growth and policy concerns?

Source: Bloomberg Finance L.P., as of 10/12/15
² Chicago Board Options Exchange Volatility Index

¹ Fortune Magazine: Seven Habits of Highly Defective Investors, as of 12/97

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Henning Gebhardt,
 Global Head of Equities

Equity-market perspectives

U.S. earnings growth should bottom out in the third quarter.

Bears are winning out in the equity markets. They like pointing out that aggregate 2015 sales and profits for the S&P 500 Index will fall on a year-on-year basis. In the face of such a grim outlook for the world's key stock exchange, why should investors take a liking to equities at all – particularly against the background of looming growth concerns, emerging-market uncertainties and the forthcoming rate hike by the Fed?

Some facts cannot be ignored. Aggregate S&P 500 Index earnings did not rise in the first or second quarter (Q1 and Q2) of 2015. And before the start of the current third-quarter reporting season, analysts had even modeled a 4% fall in profits into their estimates.

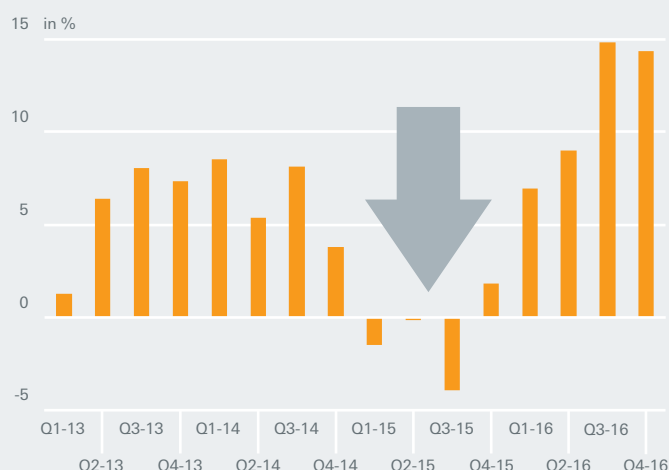
However, the impact of two factors might lead to an overly pessimistic interpretation. The halving of oil prices as well as the significant appreciation of the U.S. dollar have both left their mark on balance sheets and hurt profits. The effects of this are most evident in the S&P 500 Index energy corporations, where 2014 net income of \$110 billion U.S. dollars is likely to decline by 60% to \$43 billion for the full year 2015.

But the good news is that, should oil prices and the U.S. dollar remain at their mid-October levels, year-on-year comparisons will become increasingly less negative since oil-price weakness and U.S.-dollar strength accelerated in the fourth quarter (Q4) 2014 before respectively bottoming out or peaking in the first quarter (Q1) of 2015. From spring 2016 onwards, at the latest, we believe aggregate S&P 500 Index corporate profits should accelerate again, as shown in the chart. This acceleration should be supported by the consumer, technology, financial and healthcare sectors. The brightening situation in the U.S. labor market and sound consumer sentiment will help to keep the economy on its moderate expansionary path. Consensus forecasts from the third quarter (Q3) of 2015 onwards suggest

that the currently expected decline in profits of 0.9% in 2015 should be followed by profit growth of 11.4% next year.

These profit-growth figures are not fantastic – our forecasts are even somewhat lower – and this is one side effect of a recovery that is ageing. But the fact that this recovery has not come to an end and will continue, as suggested by the Q3 figures, is reason enough not to be overly pessimistic about equities in the year to come.

Brief respite of S&P 500 Index profits



The fall in oil prices and the strong U.S. dollar have contributed to declining profits in the last few quarters. But a significant rebound is expected for 2016.

Sources: FactSet Research Systems Inc., Deutsche Asset & Wealth Management Investment GmbH. Aggregate S&P 500 Index calculations based on reported profits up to Q2 2015. From Q3 2015 to Q4 2016, consensus profit forecasts according to FactSet market aggregates. As of 9/13/15

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Portfolio

Our asset-class allocation in a balanced portfolio¹

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

Market volatility in September was followed by gains in October and we remain generally positive on developed-market equities. Japanese and European equities are likely to be supported by further monetary-policy initiatives and U.S. equities should benefit from continued domestic economic growth. Although we expect rather better news out of China and some other Asian economies, recent emerging-markets outperformance looks unlikely to be sustained. The discount to developed markets appears justified by a lower return on equity (ROE) and higher leverage. Emerging-markets earnings estimates will also probably need to be revised down.

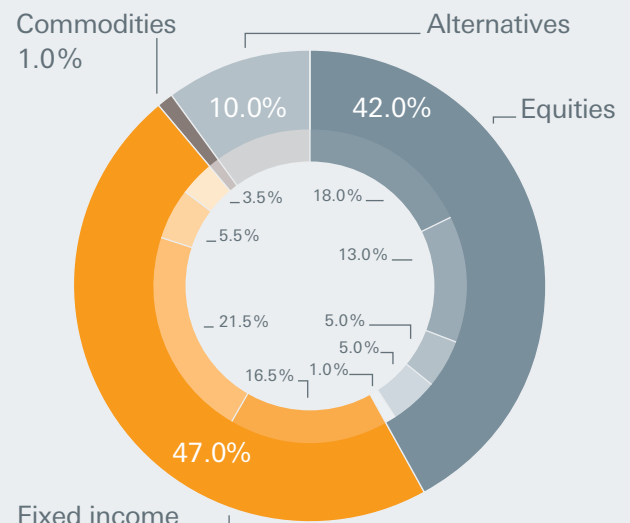
Fixed income

Whether the Fed decides to raise interest rates in December, or postpones the decision into 2016, the future trajectory of rate rises is likely to be low and slow. Yields on core government bonds are likely to pick up, but not by very much. Within corporates, we stay cautious on investment grade but continue to see selective opportunities in high-yield. Emerging-market hard-currency debt might seem to offer some attractive risk-return combinations, but the potentially large risk events (e.g. around Turkey and Brazil) suggest that it might be wise to stay on the sidelines for at least a few months.

Commodities

Oil prices picked up in September and October, largely on hopes that declining U.S. shale output might start to reduce global oversupply. However, a sharp increase in prices looks unlikely – we forecast a price for West Texas Intermediate (WTI) of \$55 per barrel in September 2016. The likelihood of the Organization of Petroleum Exporting Countries (OPEC) scaling down production is slim and global demand seems unlikely to pick up markedly, particularly with economic growth forecast to slow further in China next year. Gold may temporarily gain from market volatility but will continue to face headwinds in the form of a strong U.S. dollar.

Europe, Middle East & Africa



| Equities | suggested weight |
|-------------------|------------------|
| Developed markets | 36.0% |
| United States | 18.0% |
| Europe | 13.0% |
| Japan | 5.0% |
| 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 | 3.5% |
| 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 10/19/15. 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?

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

Will the ECB and Bank of Japan (BOJ) persist with QE?

LONG The debate continues about the real effectiveness of QE but – particularly as there are no obvious alternatives – the ECB looks likely to hold faith with it. In fact, the ECB could well deepen or prolong its current QE program beyond the current scheduled September 2016 end date, perhaps also changing the mix of assets bought under the program. The BOJ also stands ready to launch more QE if needed. Further QE is likely to be seen as positive for equities in these markets, not least because of its likely currency effects.

Will Chinese policy also remain expansionary?

LONG We have recently seen a number of targeted measures to increase demand. There are also likely to be broader-based initiatives to encourage lending, for example through reductions in interest rates and banks' reserve-requirement ratios. Policymakers will need to be prepared for the long-haul: we believe that expansionary policy will have to be sustained throughout 2016 to counter the expected slowdown in GDP growth.

Further to go on U.S. equities?

LONG This bull market is ageing, but will probably enjoy a bit more life. The prospects for further price-to-earnings expansion are limited and valuations look stretched but the start of a monetary tightening cycle does not necessarily mean that equity prices will fall back – in fact if we look at all the tightening cycles since 1955, the S&P 500 Index is up on average by 6% in the twelve months after the tightening cycle begins.¹ In the short term, seasonal factors may also favor the S&P 500 Index – average returns in the final quarter of a calendar year tend to be high, particularly for cyclicals.

Do you continue to prefer developed- over emerging-market equities?

LONG Recent falls in the emerging markets might appear to have created an attractive entry point. But the emerging-markets discount to developed markets is justified by lower returns on equity and higher leverage, meaning that any emerging-markets outperformance is likely to be short-lived. Moreover, the current consensus on emerging-market corporates' 2016 earnings still looks too high, across all regions.

¹ Calculation by Deutsche Asset & Wealth Management Investment GmbH, as of 10/15

Time to return to emerging-markets debt?

SHORT For local-currency debt, one concern is that many countries' fiscal positions have deteriorated. Local market returns could also easily be eaten up by further currency depreciation. Emerging-markets hard-currency debt might appear more attractive, with some fundamental indicators (e.g. current account positions) improving and high-potential returns on offer. But we would stay cautious for now. In the short term, political risks around Brazil and Turkey are likely to cast a long shadow. Stress in the emerging-markets corporate universe could also have implications for emerging-markets sovereign hard-currency debt.

Still expecting long-term U.S.-dollar strength?

LONG In the short term, U.S.-dollar volatility is likely – against both the emerging markets and the funding currencies of the euro and Japanese yen. But, over time, we believe fundamentals will win out: U.S. growth will stay faster than that of Europe or Japan and U.S. interest rates will be higher. Both these factors should encourage capital inflows. History also suggests that the upward cycle in the U.S. dollar could have a few more years to run.

Will the Trans-Pacific Partnership (TPP) have knock-on effects for other regions?

LONG Trade is an important source of global growth – and more growth is something that we need more of at the moment. One result of TPP is that Europe may now feel under increasing pressure to pass the Transatlantic Trade and Investment Partnership (TTIP), so it won't feel left behind.

LONG represents a positive answer

SHORT represents a negative answer

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.

Allocations are subject to change without notice.

Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time.

Portfolio

Our view of non-traditional asset classes

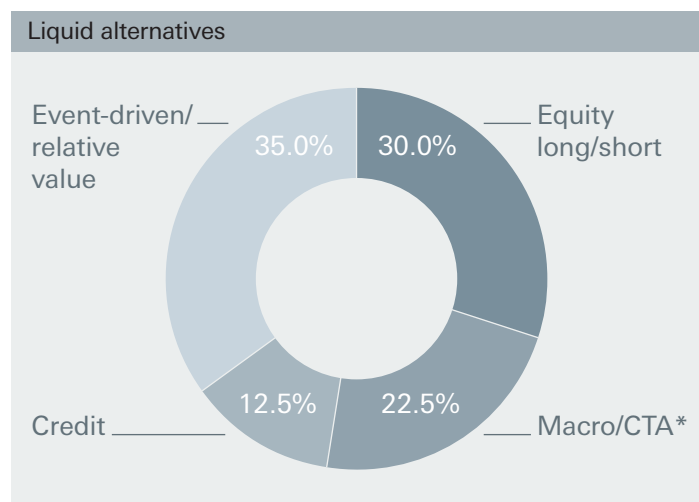
Alternatives portfolios

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

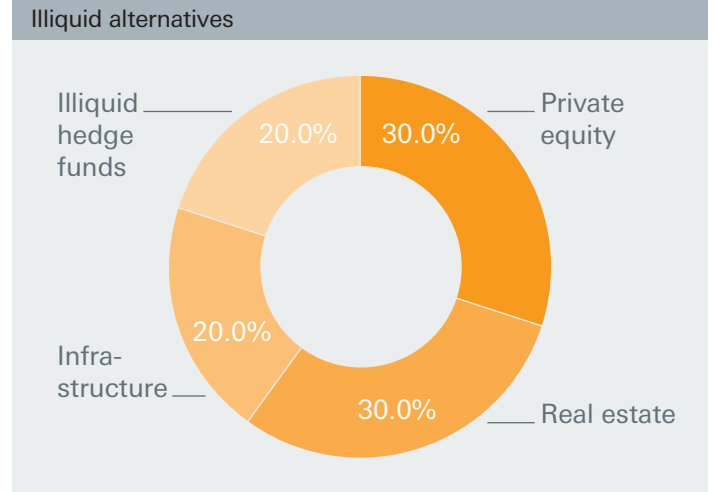
Liquid alternatives

■ Equity-market neutral

The HFRI Equity Market Neutral Index was up around 3.5% year-to-date at the end of September, with very low realized volatility. September proved to be a particularly strong month. We continue to hold a positive view on this segment as the trading environment remains favorable for arbitrage-orientated equity strategies, with dispersion between stocks, sectors and style factors likely to remain a key performance driver. Equity-market liquidity is also healthy after reduced levels over the summer period. Furthermore, the third-quarter earnings season should provide further reasons for differentiation between individual stocks and market sectors. Note also that equity-market-neutral strategies' correlation to general equity indices and other traditional assets remains very low, highlighting the diversification potential of such strategies if volatility picks up.



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Illiquid alternatives²

■ Infrastructure

Valuations could now be a concern, with the increased availability of debt financing and high levels of "dry powder" (easily deployable funds) driving up prices. U.S. utilities with strong growth prospects remain attractively valued, however, and some firms in regions with positive fundamentals look attractive – Mexican infrastructure companies, for example, stand to benefit from both good economic fundamentals and supportive infrastructure reforms. High valuations and economic worries however cast a shadow over Chinese infrastructure. At a sectoral level, the hotel sector is likely to remain a bright spot. The volume of European hotel transactions is up 58% so far in 2015 (at end of September) compared with the equivalent period of last year.³

■ Real estate

Developed-market real estate looks well-supported despite worries about faltering global growth. Falling levels of unemployment are underpinning demand for commercial property and still low interest rates make property yields attractive relative to those available on long-term government bonds. Investment inflows have maintained high valuation levels. In the emerging markets, supportive policy from China, South Korea, Australia and Japan has encouraged investment. Strong investor demand and positive sentiment have however made valuations look increasingly high in European real estate, although supportive monetary policy here too should sustain both capital growth and income opportunities.

Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank AG Filiale London, as of 10/19/15. 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.

³ HVS data as of 10/15

* Commodity Trading Advisor



Long or short, Tim Gascoigne?

The head of Liquid Alternatives – Hedge Funds shares his outlook

Is equity-market neutral likely to continue to outperform?

LONG We will probably see continued equity-market volatility in the United States, as investors worry about the timing and magnitude of an interest-rate increase, a potentially stronger U.S. dollar and its impact on corporate earnings. We expect this will maintain a low level of correlation across equities. The increased focus on fundamentals as a determinant of equity valuations, combined with currency and commodity trends, should provide many opportunities for managers to find profitable trades within equity-market-neutral strategies.

Are there ways to manage a long-biased approach in the current environment?

LONG We would suggest a close monitoring of equity long/short allocations and prefer approaches with a low net exposure. With regard to geography we feel comfortable with current levels of risk in Europe but would continue to avoid long-biased emerging-market strategies. Within event-driven strategies, we suggest avoiding the more directional equity-special-situations funds, which can be concentrated on a few events and exposed to any unwinding of risk. Within credit, we would focus on managers that risk manage their overall allocations effectively, focusing on high-quality credits on the long side and keeping smaller positions on the short side.

Will market volatility create opportunities?

LONG For discretionary macro managers, investors' preoccupation with the Chinese growth slowdown represents an opportunity. As market participants reassess its implications for both consumer demand and global inflation, this impacts valuations across yield curves, exchange rates and relative equity sector preferences. For Commodity Trading Advisors (CTA), while we still await the re-emergence of significant asset-class trends that drive the majority of their returns, elevated volatility sets the scene for gains. With regard to the short-term

approaches that feed off healthy intraday volatility, their mean-reversion and break-out models are expected to be well-positioned to generate strong returns.

Could there also be good returns in the distressed sector?

SHORT Our view is that the current low default-rate environment provides very little opportunity to earn substantial risk premia here. We believe that default rates are likely to stay low for the foreseeable future as companies continue to have access to capital markets to refinance or roll-over maturing debt. However, we expect to see more opportunities within the energy sector due to oil-price volatility forcing companies to restructure their debt.

Can a core portfolio benefit from auxiliary strategies within equity and credit markets?

LONG We suggest a core portfolio built on the three pillars of liquidity, a positive correlation to higher volatility and an ability to perform whether the market is going up or down. This would be comprised of equity-market-neutral, global-macro and CTA strategies. Around this, we would have strategies operating within equity and credit markets where the underlying liquidity profile of their assets and the tendency of this to change is an important determinant of strategy selection.

LONG represents a positive answer

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.

High-conviction ideas

Selected investment ideas to complement wealth-management clients' portfolios

| European automotive sector | Long U.S. dollar | Global financials | Indian equities |
|---|---|---|---|
| New | | | |
| Idea initiated November 1, 2015 | Idea initiated September 1, 2015 | Idea initiated July 1, 2015 | Idea initiated May 1, 2015 |
| <p>Reference measure</p> <p>Markit iBoxx EUR Corporates Automobiles and Parts Index vs. cash*</p> <p>Investment horizon 6 – 12 months</p> <p>Performance since initiation n/a</p> | <p>Reference measure</p> <p>Bloomberg Dollar Spot Index vs. cash*</p> <p>Investment horizon 3 – 12 months</p> <p>Performance since initiation</p>  | <p>Reference measure</p> <p>MSCI AC World Financials Index vs. MSCI AC World Index**</p> <p>Investment horizon 3 – 12+ months</p> <p>Performance since initiation</p>  | <p>Reference measure</p> <p>CNX Nifty Index vs. cash*</p> <p>Investment horizon 3 – 12+ months</p> <p>Performance since initiation</p>  |
| <p>Volkswagen's problems have resulted in significant underperformance of auto stocks and bonds in Europe. The full consequences are not clear yet, but there will be further pain. This will be passed down the production chain meaning that automotive suppliers will feel pressure, too. However, we believe that the situation will eventually stabilize and consider corporate bonds in this sector an interestingly valued and lower risk alternative to equities.</p> | <p>In mid-October, the U.S. dollar regained ground against many developed- and emerging-market currencies, taking performance of this idea since inception to a positive. Growing market expectations that Japanese and European monetary policy would diverge further from that pursued by the United States worked in the U.S. dollar's favor and rapid gains in emerging-market currencies in late September and early October proved unsustainable.</p> | <p>The performance of this idea has remained negative but the MSCI AC World Financials Index has stabilized against the MSCI AC World Index in recent weeks. We believe that the existing price-to-earnings discount is likely to narrow over time as a result of financial firms' improving balance-sheet quality. Selectivity will however remain key here and a low-yield environment could continue to limit returns as might increased regulation.</p> | <p>Recent Indian industrial-production data has been better than expected and evidence that inflation remains under control should enable the Reserve Bank of India to reduce interest rates further, potentially benefiting equities. As a result, even if third-quarter Indian corporate earnings remain lackluster, we think that India is likely to outperform other emerging markets. Risks would include continued slow progress on economic reform in India.</p> |

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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



German home prices have been rising gently for several years and this trend seems likely to continue. The main driver is that while interest rates remain at rock-bottom levels, German wage growth continues and purchasing power is increasing. Fiscal policy is not restrictive, either. At present, the housing market does not show the typical characteristics of a “bubble”, with the growth in mortgage financing 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



U.S. leisure and entertainment stocks, as measured by the PowerShares Dynamic Leisure and Entertainment Portfolio, have very slightly underperformed the broader U.S. equity market since this idea was initiated in April 2015. However, their relative performance has been positive recently and should be supported in the future by further improvements in the labor market, an acceleration in wage growth and continued high levels of consumer confidence. Recent retail-sales data suggests that the resulting rise in consumption may well be directed towards leisure and entertainment spending as well as goods.

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



In recent weeks, U.S. high-yield spreads have narrowed, if not yet sufficiently to return this idea to a positive performance since inception. Secondary-trading volumes have also recovered, with new-issue volumes low. Corporate credit statistics remain largely favorable. This improvement in market sentiment is also evident in euro high-yield and the issue pipeline here should improve once the market stabilizes. Despite the increased fundamental risk in some segments (e.g. emerging-market and commodity-related issuers) we think that the euro high-yield default rate will remain below its historic average over the next twelve months.

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 10/22/15.

** 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 10/22/15.

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Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank (Suisse) SA, as of 10/22/15

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Glossary

Here we explain the main terms from the CIO View

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.

Arbitrage profits from exploiting price differences of identical or similar financial instruments on different markets or in different forms.

The **Bank for International Settlements (BIS)** is an international organization to foster international monetary and financial cooperation and to provide banking services to central banks.

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

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.

The **Bloomberg Dollar Spot Index** measures the value of the U.S. dollar against 10 global currencies, from both developed markets and emerging markets.

Break out refers to when an asset price moves through an accepted support or resistance level, often triggering large outflows or inflows.

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

In a **bull market**, prices are rising or are expected to rise. It is characterized by optimism, investor confidence and expectations that strong results will continue.

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.

Correlation is a statistical measure of how two securities move in relation to each other.

The **DAX** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

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.

The **distressed strategy** is an investment strategy that seeks profit by investing in companies or other investment opportunities that are in financial trouble.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

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.

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.

Equity-market-neutral investing strategies are hedge-fund strategies that seek to exploit differences in stock prices by balancing long and short positions in stocks within the same sector, industry, market capitalization, country etc. as to avoid market-risk exposure.

Environmental, social and governance (ESG) issues refer to non-financial issues that may affect the sustainability of an investment.

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.

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

The **gross-domestic-product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Gross-domestic-product (GDP) per capita is gross domestic product divided by a country's population.

A **hard currency**, usually from a highly industrialized country, is widely accepted around the world as a form of payment for goods and services, e.g. U.S. dollar, the euro and the British pound.

Herd mentality refers to a tendency for investors to move in the same direction when reacting to an event.

The **HFRI Equity Market Neutral Index** is an equally-weighted index that measures the performance of equity-market-neutral hedge-fund strategies.

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

Securities or other assets are **illiquid** if they cannot easily be sold or exchanged for cash without a substantial loss in value. Inherently illiquid assets include houses, cars, antiques, private company interests and some types of debt instruments.

The **International Monetary Fund (IMF)**, created in 1945 and headquartered in Washington, D.C., is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

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.

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-biased strategies focus on gaining from the appreciation of asset prices, rather than seeking to gain from price declines.

A **marginal buyer** is the buyer most willing to enter a market as the price changes.

The **Markit iBoxx EUR Corporates Automobiles and Parts Index** measures the performance of corporate debt of European automobile manufacturers and parts suppliers.

Mean reversion is the assumption that a variable's value will tend to move to the average value over time.

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).

A **monetary-policy tightening cycle** is a period of time during which a central bank raises interest rates with the aim of slowing GDP growth or inflation.

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 Index** measures the total return of selected open-ended German property funds after leverage, liquidity holdings and fund costs.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

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

The **production chain** refers to the various stages of production necessary to complete a manufacturing or other product.

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.

Realized volatility is the measurement of past – as opposed to expected future – volatility.

Refinancing refers to the replacement of an existing financial obligation with a new obligation.

The **Reserve Bank of India (RBI)** is the central bank of India.

The **reserve requirement ratio (RRR)** is the minimum amount that a commercial bank must hold as reserves, usually in the form of a deposit with the central bank.

Return on equity (ROE) is the amount of net income returned as a percentage of shareholders' equity.

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

Rolling over is the renewal of a lease (or other financial contract) at maturity, often under different terms.

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.

Short, in a financial-markets context, refers to approaches that seek to gain from a fall in the price of the underlying asset.

Special situation managers, in a hedge-fund context, are those that try to benefit from individual events affecting individual companies, for example mergers or demergers.

Style factors refer to investors' varying approaches to investment (for example a preference for active over passive approaches).

The **subsistence level** is a level of income that can cover only the basic necessities of life.

Traditional assets are well-known assets such as equities or bonds.

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

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.

A **yield curve** is a representation of the relationship between market rates and the remaining time to maturity of debt securities, also known as the term structure of interest rates.

Investment traffic lights (pages 8–9): 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.

Important information – UK

In the UK this publication is considered a financial promotion and is approved by DB AG on behalf of all entities trading as Deutsche Asset & Wealth Management in the UK.

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