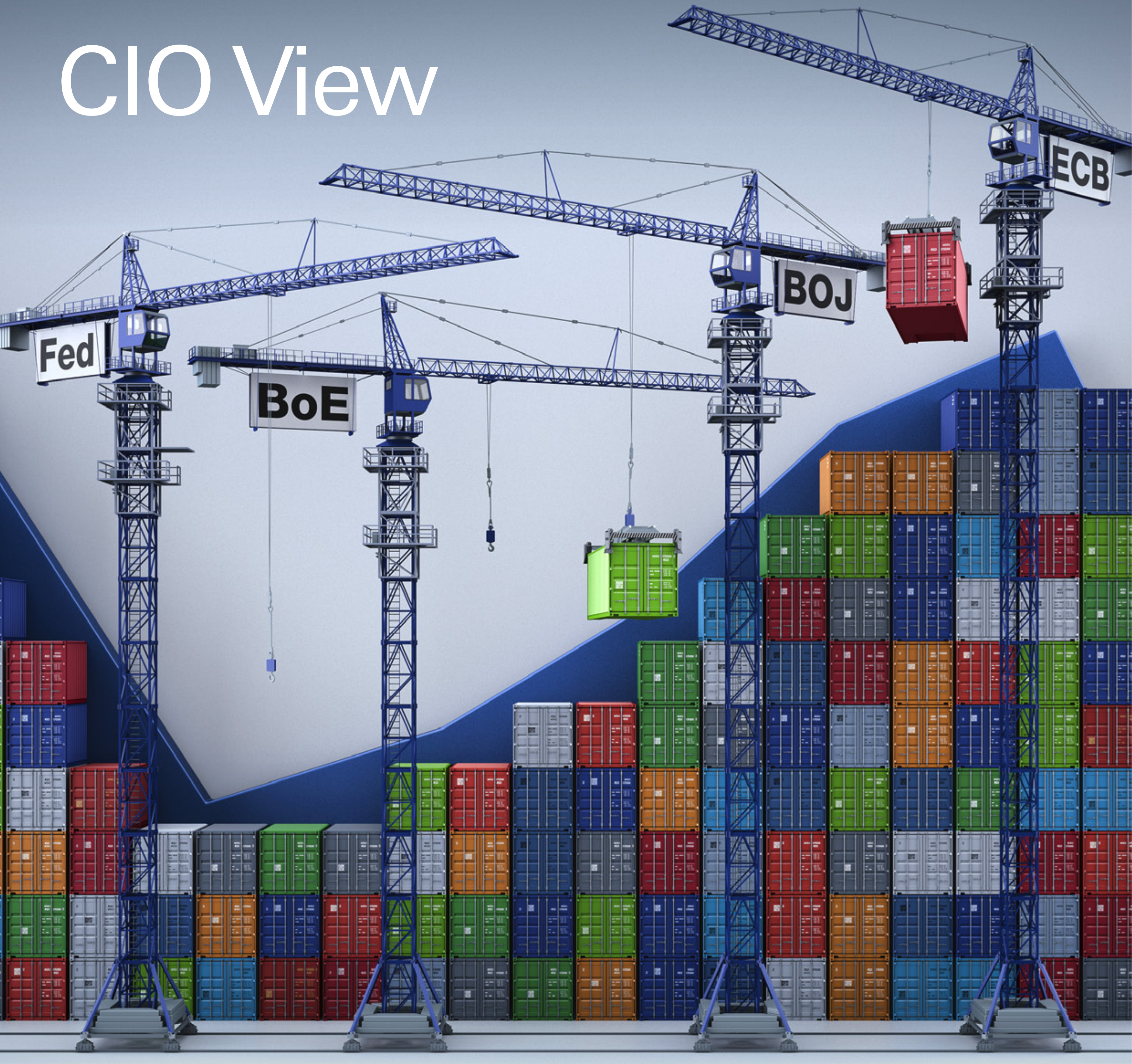
Deutsche Asset
& Wealth Management

Europe, Middle East & Africa Edition
August 2015

CIO View



Limits of monetary policy

Central banks alone cannot fix the economy

Marketing Material

Nine positions

Our key forecasts

Central bankers warn against overheated markets.

U.S. central bank is most likely to hike rates in September.

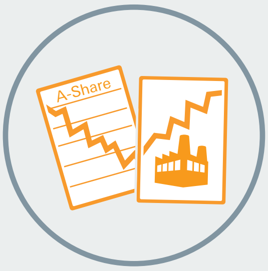
*Deutsche AWM forecast as of 6/16/15

Bond yields are expected to recover slightly.

*Yield forecast June 2016 for 10-year Bunds; Deutsche AWM forecast as of 6/16/15

Markets prove resilient to the Greek crisis.

Long-term confident on China.

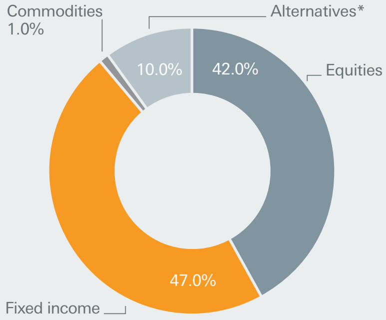


Agreement with Iran is likely to add pressure on oil prices.

Trading ranges are key – buy at the bottom, sell at the top.

Be prepared for opportunities – some cash could be useful.

Asset allocation of our balanced model portfolio:



* 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 7/21/15

Letter to investors

Central banks – drivers and driven

For a long time, central banks have been driving markets ever higher. But there are limits to their power and political priorities are also important.

Both the power and powerlessness of central banks can be observed on three continents at the moment. Let's start with crisis-ridden Greece. After several "final deadlines" had passed, only one measure promoted a real sense of urgency: the decision by the European Central Bank (ECB) not to increase Emergency Liquidity Assistance (ELA). Had ELA been cancelled completely – for example if ECB debt had not been serviced – a few bank holidays wouldn't have been sufficient to save the Greek banking system. But this also demonstrated the ECB's powerlessness because it ended up being forced to act as a vicarious agent for political objectives, being no longer able to take its decisions autonomously and based on its own set of rules.

> "High debt levels and volatility are a dangerous mix."

Compared to the few hundred billion euros at stake in Greece, the People's Bank of China (PBoC) had to fight against a far bigger monster – the local stock market with a market capitalization of $7 trillion (down from a peak of over $10 trillion in June). The Chinese central bank does not, at least, have to pretend to be politically independent. But since the PBoC could not cope with the situation alone, it delivered only one of the many weapons which Beijing fired at the erratic stock exchange. Whether the market downturn was a systemic risk is doubtful – only 5% of financial assets held by the Chinese are equities, and even after recent falls the domestic stock exchanges are still up by double-digit levels year-to-date. The situation on the Hang Seng China Enterprises Index (HSCEI), which is key for foreign investors, is different. This index is now at a similar level to the start of 2015 and could, in our view, offer opportunities in the second half of the year due both to valuations and a likely re-acceleration of the Chinese economy.

The U.S. Federal Reserve Board (Fed) has also had to devote more attention to capital markets than to inflation for quite a while. Just a few weeks before what has widely been viewed as the most probable date for a first rate hike (September), the Fed either does not want to – or is not able to – commit itself. But what is the Fed's scope for action after all? Like many major central banks, it is struggling with the ripple effects of the crisis. How should it manage a return to "normal" in an environment of sluggish growth and debt levels that are even higher than before the crisis? Whatever your opinion on easy money, one negative side effect is certain: highly leveraged economic entities and capital markets are more susceptible to market fluctuations – and by their own actions may even reinforce them. This might be the reason for the central banks' continuing desire to quickly nip economic downswings in the bud by providing extra liquidity. In the long run, however, an economy's health will suffer without the purging effects of economic cycles.

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 limits to monetary policy

Central banks were seen as saviors during the financial crisis. Where does their power end?

The interaction of power and markets has always been an issue for economists. A hundred years ago, for example, they argued that, in the long run, wages should be determined by demand and supply and not by industrial relations. They realized that market distortions could lead to unemployment and falling wages. However, immediately after the financial crisis, more hopes than ever before were put on monetary policy since it had obviously managed to moderate the effects of the crisis and end recession. But it has become more and more apparent that money and capital markets react in a similar way to the labor market: policy intervention has its limits.

In 1928, the economist Ludwig von Mises postulated that excessive monetary growth led to artificially low interest rates and swelling credit[1] and that part of the borrowed money would be misallocated, leading to defaults. In his view, the world depression from 1929 to 1933 had been triggered by monetary-policy mistakes. This train of thought was revived in the wake of the financial crisis that started in 2007.

Most countries had enjoyed a high level of employment and price stability before the financial crisis. Central banks were therefore surprised by the Lehman default and the resulting chain reaction in the financial system. And just like during the Asian crisis of 1997-1998 and the New Economy crisis of 2000, central banks in the advanced economies responded to the financial crisis with official rate cuts and the provision of liquidity for their banking systems. Despite those efforts, their economies continued to deteriorate in 2008 and 2009. The belief that cyclical downswings and crises could be overcome with the help of monetary policy alone suffered a blow.

Models on trial

Some central banks had to fall back on unconventional measures such as asset-purchasing programs in order to stabilize the situation. The unexpectedness and depth of the crisis triggered intense research from 2008 onwards as to whether the central banks' economic management models were sufficient. Based on these models, central bankers had tried to align the demand and supply of goods in times of normal capacity utilization. Pivotal targets were therefore full employment and moderate inflation. Research on these models' failings soon focused on the capital markets. In the years up to 2007, credit volumes had increased sharply. The money borrowed was invested in properties and equities so that asset prices rose accordingly. Market volatility was, moreover, reduced during this credit boom as high liquidity made investors feel safe. When the financial boom ended in 2007, credit defaults triggered additional selling pressure resulting in an increased supply of real-estate properties and equities, which in its turn sent asset prices further down. The result was an additional increase in loan defaults and a deepening of the financial crisis.

New challenge

Analysis also revealed that the credit market behaves like a rubber band: During a credit boom, the volume of credit quickly expands while it quickly contracts in times of crisis. It is therefore no surprise that the Bank for International Settlements has examined potential credit booms and asset-price bubbles in its most recent annual report.[2] And indeed, warning signals are already to be found in several countries. The central banks of these countries are now faced with a new challenge: They must harmonize the two targets of a balanced economy and avoiding a credit boom. But these targets may be conflicting.

So governments will have to take a more prominent role. Governments have tended to focus on the management of aggregate demand. So they borrowed money to increase economic demand. Strengthening the supply-side has proved to be a more challenging task for governments in many countries. Meanwhile, many politicians have realized that only structural reforms will help to further deregulate product and labor markets and to promote entrepreneurship and innovation. This should foster additional growth which would, in turn, allow a more restrictive monetary policy so that unhealthy credit growth could be reined in sooner.

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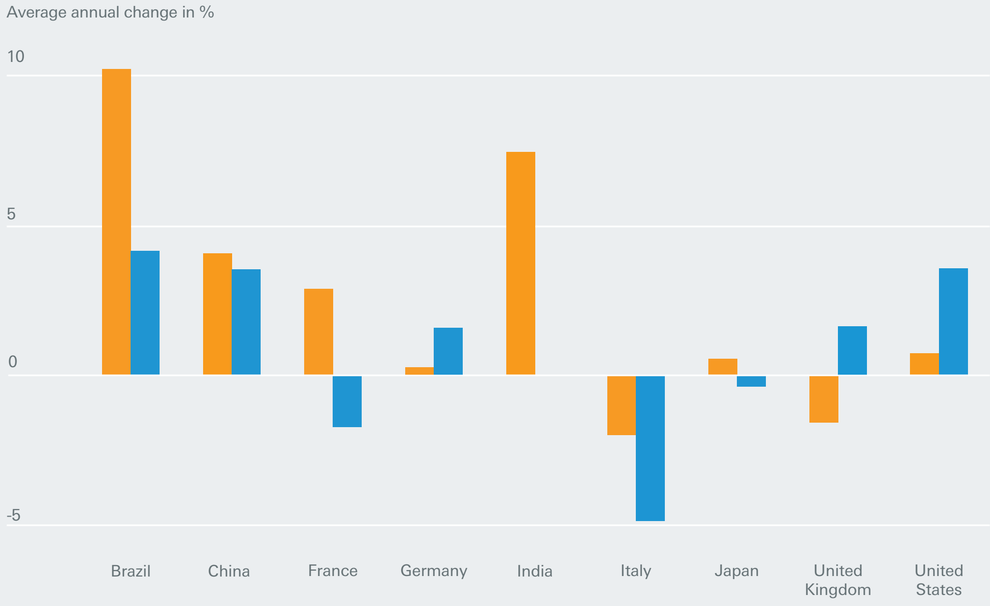
[1] Source: Ludwig von Mises: Monetary Stabilization and Cyclical Policy; 1928

[2] Source: Bank for International Settlements: 85th Annual Report; June 2015

Credit and asset prices from the start of 2011 to the end of 2014



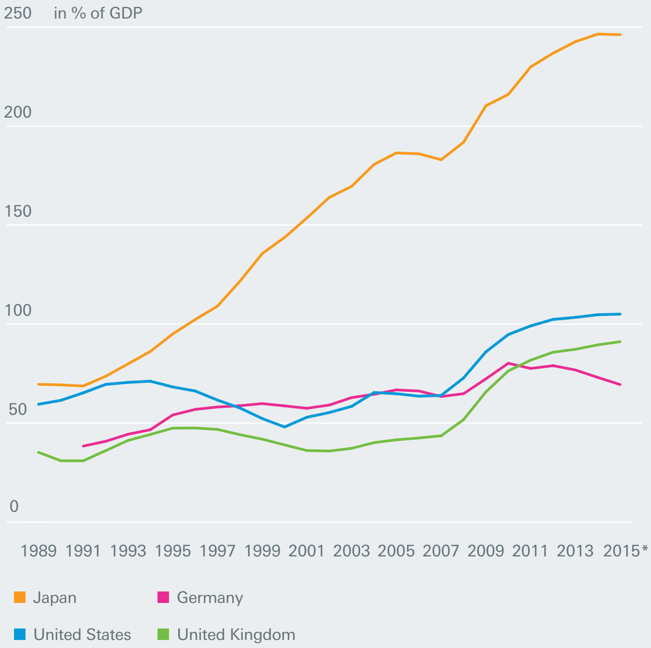
Focus on the financial cycle

A financial cycle is in an upswing when credit volumes and asset prices are rising. This development can be well observed in China, Brazil and the United States. In these countries, the danger of a credit boom and a credit crisis following suit is increasing. For this reason, central banks must pursue a prudent monetary policy in these countries.

🟧 Real credit growth*
🟦 Real house prices**

Source: Bank for International Settlements: 85th Annual Report; June 2015
*Real credit growth was calculated adjusting for the gross-domestic-product (GDP) deflator
**Real house prices were calculated adjusting for the consumer price index

Development of public debt



Source: Bank for International Settlements: 85th Annual Report; June 2015
*Estimates of the Bank for International Settlements were used for 2015.

Decreasing financial leeway

Advanced countries used to stabilize their economies in times of recessions with the help of fiscal spending programs. As a result, public debt ratios have structurally risen over the past 25 years. Growing debt might narrow these governments' scope of action in future times of crisis.

Germany (10-year Bunds)

When the yield on 10-year Bunds was approaching zero in April, more voices were raised warning that this was an ECB-induced bubble.

1.10 %* (June 2016 F)

*Deutsche AWM forecast as of 6/16/15

> "The current accommodative monetary policy is not without risks. This facilitates the creation of bubbles on the financial markets."
>
> **Klaas Knot,** member of the ECB Governing Council, conference on 10/7/14, Bloomberg Finance L.P.

Eurozone (refinancing rate)

The ECB wants to boost the Eurozone economy with low refinancing rates. This could create asset-price bubbles.

0.05 %* (June 2016 F)

*Deutsche AWM forecast as of 6/16/15

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Interview

The big picture

Crises create opportunities: Greece and Europe must take the next steps

> "The chances of restructuring Greece have never been higher."

Mr. Wöhrmann, once more, we have to talk about Greece. Although Greece's influence on the world and even on the European economy is limited, the Greek crisis was still felt on U.S. and Asian stock exchanges. One reason for this sensitivity is that the functioning of monetary unions is of global interest. How do you assess the Brussels compromise?
I think it is a good political solution in the present circumstances. Politics is the art of the possible, not necessarily the implementation of the economic optimum. However, what we are talking about here is a fragile, protracted process. As slowly as Greece was sliding towards "Grexit", it is now moving away from it. Greece will have to deliver reforms permanently with further aid only granted step by step. But this also offers a great opportunity to the Greek government. The necessity of change serves as a protective shield against domestic attacks. Now the Tsipras government must articulate a viable domestic agenda. Neither turning back nor standing still is an option any longer. The chances of restructuring Greece have never been higher.

Do you think that the Greek population shares this optimism?
Greece will need a cross-party, societal and foreign-policy consensus in order to seize this opportunity. Capital controls – as well as some elements of the rescue package which reduce demand – are hampering growth, which could be politically explosive.

And could still lead to "Grexit" after all?
The discussion of "Grexit" should be conducted in a non-dogmatic way. There are positive examples of the dissolution of currency unions (the former Soviet Union) and of economic recoveries after devaluations (Iceland). But leaving the euro would be a road paved with many unknowns, and the economy would be paralyzed again during the transition period. A "Grexit" would not be possible against the will of the Greek people anyway. The opposition to the re-introduction of the drachma even by the tourism industry, which might be one of the winners from devaluation, speaks volumes. By the way, Greece's export base may well not be broad enough to benefit from devaluation.

The United Kingdom and the United States are very down on "Grexit" and the Brussels compromise.
Surprising, isn't it? They have long identified Greece's membership as one of the Eurozone's biggest flaws – so why should "Grexit" now suddenly pose a major threat? I am less surprised that these two countries now desire a more relaxed approach towards Greece. They have only a minor financial stake in the Greek rescue and have themselves carried current-account deficits over many years.

Are Greece's economic data proof of the failure of all programs so far?
Over many years, the Greek economy has resembled a foundering ship with many

holes: lack of competitiveness, inefficient bureaucracy, clientelism, capital flight, brain drain. For quite a while, it has not been able to keep afloat on the strength of its own resources and even threatened to sink in 2010. It was rescued by the Troika coming aboard. Perhaps the latter started to plug the wrong holes first and missed some completely. But the ship continued to sink simply because the holes were too many. The process of sinking was at least slowed down and even somewhat reversed in 2014 when Greece reported a primary-budget and current-account surplus – although these figures should be taken with caution. Despite only a restrained implementation of reforms, there was a kind of dynamism. The Greek people should bear this in mind during the uncomfortable times ahead.

How will the compromise affect the value of the euro?

Compared to what? The euro of a perfect monetary union? The euro after "Grexit"? An exchange rate is a dynamic matter and can never be explained in a monocausal way. Should the centrifugal forces in the Eurozone increase and the belief grow that the ECB does finance public debt after all, this will gradually translate into a weaker euro and lower government-bond prices.

Does Athens need a debt relief?

Short- and medium-term debt service is the smallest problem Greece faces. Discussing this is a waste of time. What is important now is putting the country structurally back on its feet so that it attracts domestic and foreign investors. Irrespective of the amount of debt it owes, Greece has no future without foreign direct investment.

How to stop euro frustration?

One thing is for sure: Europe must continue to develop, deepen its commitments to its citizens and present leaders who reignite their enthusiasm for it. There must be a clear definition of concepts such as self-responsibility, solidarity and subsidiarity in Europe again, and they must be embraced in reality and not just in theory. These are the basic pillars of a fiscal union – a genuine fiscal union and not a simple transfer union. Transfers, such as in the form of structural funds, have been a basic element of European politics for decades. But the desired economic convergence will regularly fail to materialize as long as the institutional framework is flawed. A stimulus quickly turns into reliance and inertia. It is indispensable for Europe's economic and political future to optimize incentive systems alongside control and sanction mechanisms and that citizens keep their trust in the binding force of rules. It is a shame that the German and French governments, who should have been exemplars, undermined this trust by breaking the Maastricht rules as early as 2002.

Change through pressure

The month of July once again was focused on unforeseeable twists in the Greek tragedy. The Greek population is presented with a harsher reform package than it had turned down in the referendum, and how does it react? It accepts the package and supports Prime Minister Alexis Tsipras more than ever. The odds for successful reforms are therefore better than for all his predecessors. Continuing pressure from Europe is helping too.

Asoka Wöhrmann

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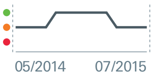
Investment traffic lights

Our tactical and strategic view

(🟢) Eurozone (equities)

While we stay neutral on Europe, we upgrade the Eurozone to overweight. The danger of a "Grexit" appears to have passed its peak so that investors can again focus on corporate data which should benefit from accelerating domestic consumption.

(🟠) Germany (equities)



Although German equities stand to benefit from several factors, the composition of the DAX is not optimal in the current environment. Car makers could be hit by sluggish Chinese demand, while industrials and chemicals will see a fall in investment.

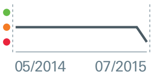
(🟢) Asia ex Japan (equities)

Rapidly falling prices on the Shanghai and Shenzen exchanges in June and July prompted government countermeasures. The impact on the economy should be limited in our view. Equities will remain volatile but cheaply valued H-shares could offer good opportunities in the months to come.

(🟠) Healthcare (equities)

Pricing power, mergers and acquisitions and an ageing society will support the sector in the long run. But it has now outperformed the market for four years and is valued accordingly so that we do not upgrade it beyond neutral.

(🔴) Industrials (equities)

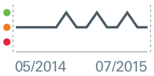


Low prices for oil and other commodities as well as economic adjustment in China are contributing to the current fall in investment, burdening industrials – more so in Europe than in the United States.

	1 to 3 months	up to June 2016
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	🟠	

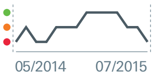
*as of 7/15/15

(🟠) U.S. Treasuries (10-year)



We are neutral on all U.S. Treasury maturities. Although we still believe that there will be an acceleration in economic growth in the second half of the year, the signals on the timing of the first interest-rate move by the Fed remain ambiguous. A December start looks increasingly possible.

(🔴) German Bunds (10-year)



As for most bonds we also expect Bunds to swing back and forth in a trading range for the time being, offering short-term opportunities. Such as going tactically underweight.

(🔴) U.S. investment grade

We downgrade U.S. corporates to underweight. The market tends to dry out during the summer holiday season, increasing possible volatility, particularly since banks cut back on their trading activities. Additional burdens are a full issuance calendar and the impending Fed hike.

Refer to page 9 for the traffic lights key.

	1 to 3 months	up to June 2016
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 sovereigns	🟠	↘
Alternatives**		
Infrastructure	🟠	↗
Commodities	(🔴)	↗
Real estate (listed)	🟠	↗
Real estate (non-listed)	🟢	↗
Hedge funds	🟢	↗
Private Equity[2]	🟢	→

**as of 7/21/15

(🟢) EUR investment grade

Despite the ECB's quantitative-easing measures, corporates' risk premiums have widened for a couple of months, due to uncertainties over Greece. Premiums should narrow again in line with the receding "Grexit" probability. Another problem could be pent-up issuance although the primary market has kept calm of late.

(🔴) Commodities

We remain underweight on commodities. Many commodities still suffer from slowing Chinese demand, compounding the difficulties associated with expanded production capacities. The supply of oil could increase even further after the conclusion of the nuclear deal with Iran which provides for the lifting of economic sanctions.

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 June 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.

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[1] Spread over German Bunds
[2] These traffic-light indicators are only meaningful for existing private-equity portfolios
Source: Deutsche Asset & Wealth Management Investment GmbH

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

Fixed-income market perspectives

Moving back to risk-on? Beware the law of unintended consequences.

The first half of 2015 was a turbulent one. In the first few months, Russia, the Ukraine and Brazil were in the headlines, as were commodity prices and the abandonment of the EUR/CHF peg. The second quarter was then dominated by the Greek crisis and China. U.S.-Treasury and Bund yields hit new lows in April before increasing significantly and causing negative absolute returns. Credit spreads widened. Volatility increased.

As we move into the second half of the year, some of these geopolitical issues seem to be almost miraculously resolved. Greece appears willing to accept the tough conditions required by its creditors. China has halted the sell-off in its equity markets. An unexpected bonus has been a sanctions-lifting deal with Iran.

This leaves the timing of the first Fed hike as the key source of near-term uncertainty. But, with most agreeing that it will be in September or December and that the pace of hiking will be slow, the possibility for upset appears limited.

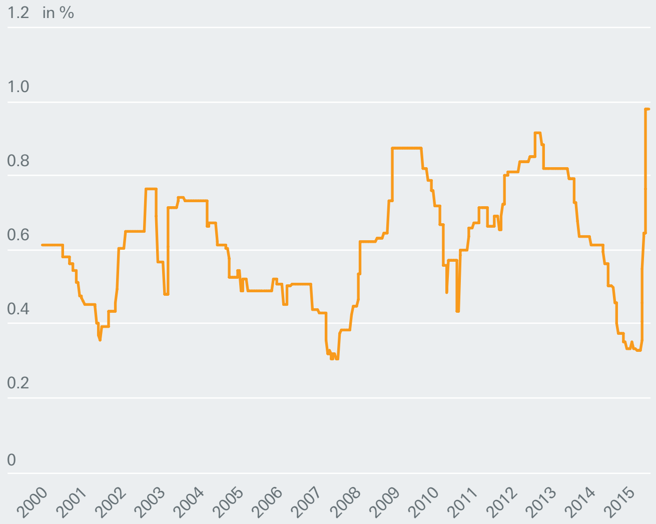
In this environment, we believe that it may be appropriate[1] to start re-entering into some riskier positions in high-yield (excluding energy), euro investment-grade and emerging-market sovereigns. We are not overly concerned about an immediate sharp sell-off in rates as lower commodity prices should keep inflation expectations contained.

But any sense of calm could be deceptive. Big differences of opinion between Eurozone member states about the nature of monetary union remain. As their market intervention reminded us, the Chinese authorities also still do not really trust free markets, which may have implications on foreign investment.

Another topic which needs to be closely monitored relates to the unintended consequences of regulatory restrictions. Note, for example, Value-at-Risk (VaR) limits. These have to be followed by trading desks and various institutional investors. Rising VaR therefore leads to lower level of risk appetite and can turn into lower trading activity and exacerbate price movements – not what was intended.

The chart shows the German sovereign-bond VaR since 2000. Note the recent sharp increase in VaR to a multi-decade high. Rising VaR may have led to a lack of demand for German sovereign bonds in late April and early May, perhaps contributing to a sharp rise in Bund yields. As this shows, a decent risk-management approach which considers the possible impact of such factors remains highly important.

German sovereign-bond Value at Risk (VaR)*



In late April and early May German sovereign-bond VaR rose to a multi-decade. Rising VaR may have been linked to a lack of demand and a sharp increase in yields.

* Markit iBoxx Euro Sovereign Bond Germany Index, total return, in euro. One-day holding period with 99% confidence.
Sources: Bloomberg Finance L.P., Deutsche Asset & Wealth Management Investment GmbH, as of 7/2015

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[1] Not suitable for all investors. Potential investors should seek professional financial advice before investing.

Henning Gebhardt,
Global Head of Equities

Equity-market perspectives

Healthier portfolio returns

In times of fast-changing market sentiment, crisis summits and unconventional central bank policies, one can easily lose track of long-term trends. But they are the drivers of the healthcare sector. Demand for drugs, care and hospital capacity is naturally rising in an ageing society. Many elderly people must take several drugs a day against chronic diseases.

Even in emerging countries, the healthcare sector is growing at an above-average rate. Increasing prosperity enables more and more people in Asia, Africa and Latin America to afford modern medicine and procedures. Along with Western lifestyles, associated lifestyle diseases such as diabetes are spreading rapidly, creating a growing need for medical treatment.

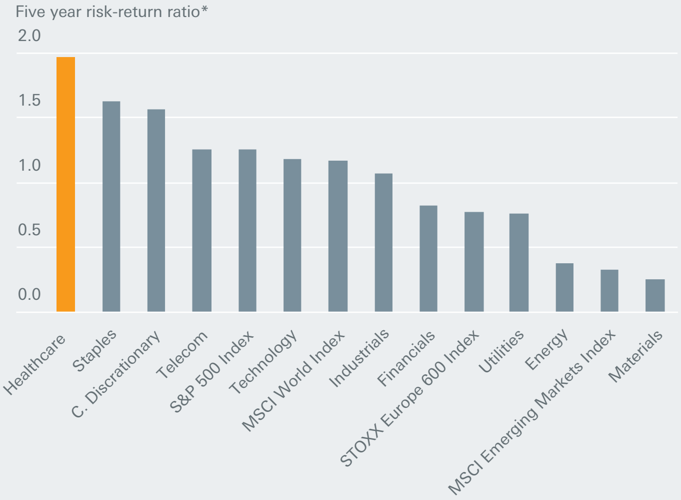
The development of new drugs consumes enormous research funds: The pharmaceuticals industry estimates the costs of a new therapy at roughly $1.5 billion. But it can be worthwhile. For example, patients who face the unwelcome prospect of hepatitis C destroying their liver can be completely healed within twelve weeks. Artificial heart valves can be inserted via a minor inguinal incision. New products of immuno-oncology could help to improve the longevity prospects of cancer patients, turning cancer from a lethal into a chronic disease.

Not only patients but also shareholders have benefited from the healthcare sector in the last few years. While the total market for healthcare products has doubled within five years, the market value of the sector has almost tripled.[1]

As well as the favorable long-term earnings outlook, the structural risk profile of the healthcare sector appears to be comparatively beneficial, as well. Contrary to the demand for commodities or automobiles, the need for drugs is largely immune to cyclical ups and downs. To put it in bold and simple terms: "Economic crises will not keep people from falling ill."

Attractive returns have therefore been achieved at comparatively low risk. The chart illustrates the relative strength of the healthcare sector. Our analysis of demographic trends and the research pipelines suggests that the healthcare sector will continue to lead with a view to the risk/return ratio. For this reason, health could be long-term healthy for every equity portfolio. In the short term, due to high valuations, we would wait for better entry points.

Defensive growth in the healthcare sector



In a sector comparison, the healthcare sector has shown the best risk/return ratio in the last five years: Above-average returns at below-average price fluctuations.

Sources: Deutsche AWM estimates, FactSet Research Systems Inc., as of 7/16/15
* MSCI AC World Index sectors. The risk-return ratio is the average annual return over the last five years divided by the annualized daily volatility over this period.

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[1] Source: FactSet Research Systems Inc., 6/30/10-6/30/15, in euro, total return; total market index: MSCI AC World Index +98.2%; healthcare sector index: MSCI AC Health Care Index +189.6%

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

Although there was significant progress on dealing with Greece's problems in July, we believe that periods of uncertainty are likely and, as a result, further bouts of volatility. We maintain a preference for developed over emerging-market equities. We believe that in Europe, if progress continues to be made on Greece, markets could refocus their attention on recent encouraging corporate earnings news. U.S. equities have proved relatively resilient so far this year, but a temporary reversal remains possible. Chinese equities have a serious source of concern but may gain from stronger Chinese growth later in the year.

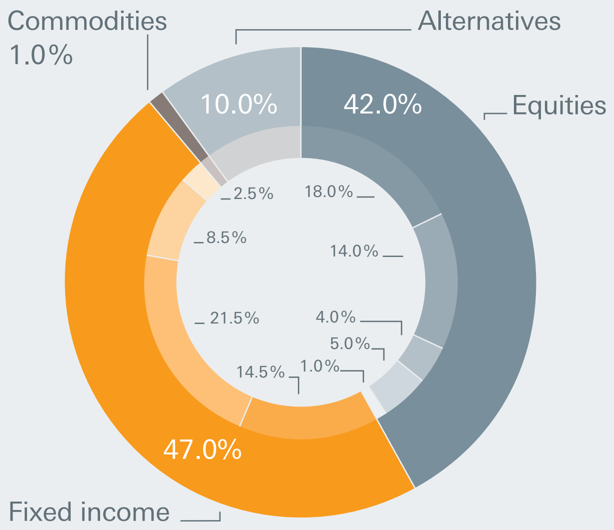
■ Fixed income

We still expect the U.S. Federal Reserve to start increasing rates later this year, most likely starting in September. Conversely the European Central Bank (ECB) will push ahead its quantitative-easing program, so monetary-policy divergence will therefore remain a key theme. Sovereign-bond holdings will remain an important way of reducing risk in a portfolio and we continue to have an overweight to fixed income overall. Periphery Eurozone sovereign debt may offer some opportunities but we have grown more cautious on emerging-market debt, particularly given recent volatility. U.S. investment grade may be held back by the impending Fed rate hike and U.S. and European high-yield will remain susceptible to the newsflow.

■ Commodities

Continued caution seems advisable. Oil prices fell back again recently, due in part to evidence that U.S. oil-rig count was again increasing. The oil market still appears to be in oversupply and, longer-term, the Iran deal could exacerbate this problem. There are also demand concerns, for example around China. Gold prices rose only modestly when the Greek crisis intensified and we still believe that gold will face considerable headwinds from the expected further strengthening of the U.S. dollar and rise in U.S. interest rates.

Europe, Middle East & Africa



Equities	suggested weight
Developed markets	36.0%
■ United States	18.0%
■ Europe	14.0%
■ Japan	4.0%
Emerging markets	6.0%
■ Asia ex Japan	5.0%
■ Latin America	1.0%
Fixed income	
■ Credit	14.5%
■ Sovereigns	21.5%
■ Emerging markets	8.5%
■ 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 7/21/15. Suggested allocation for USD-based investors. This allocation may not be suitable for all investors.

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.

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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.

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)

Is Fed policy at risk from sharply increasing inflation?

SHORT Core U.S. inflation is still running below the Fed's 2% target. As the U.S. economic recovery firms, core inflation will move up but will take some time to get back to target. Very stable inflation expectations will help to slow any rise, as will a strengthening U.S. dollar's impact on input prices. The rate at which U.S. labor costs rise is likely to be relatively modest, too. All this will help the Fed to keep rate hikes on a well-considered path.

Is the ECB fully committed to quantitative easing (QE)?

LONG Earlier this year, when European growth showed signs of picking up, many wondered whether the ECB would complete its QE program. Recently, rather mixed economic data – and Greece – has underscored the problems that the Eurozone still faces. In fact, the ECB has moved to extend the range of assets available for QE purchases to give it more firepower if needed, should further threats arise from Greece or elsewhere.

U.S. high-yield over euro high-yield?

LONG The high weight of energy stocks in U.S. high-yield debt must be of concern, with oil prices obstinately low. But other measures of U.S. high-yield debtors are healthy. This is also a much bigger market than euro high-yield, which should reduce any future liquidity concerns.

Are emerging-market equities looking more attractive?

SHORT History suggests that a Fed tightening cycle does not necessarily disrupt bull markets in equities. However, when valuations are stretched (as now) developed-market returns can be relatively modest. Even so, emerging markets may not be a good alternative. These markets are likely to be more vulnerable to Fed rate hikes and increased emerging-market corporate indebtedness could be an additional concern.

Chinese equities – is further volatility possible?

LONG Recent reversals in Chinese equities have been driven by liquidity concerns rather than fundamentals. Such concerns can be difficult to address by policy intervention: the Chinese authorities had to launch a wide range of initiatives to bring the situation under control. With investors unsettled, we think that further bouts of volatility are possible over the next few months, but believe that the market may start to offer buying opportunities in the fall.

Is Value at Risk (VaR) still a useful measure?

LONG VaR attempts to measure the minimum potential loss at a given probability in an asset class or portfolio. This is not just a theoretical issue because increases in VaR can result in automatic forced selling from trading books. A rise in the VaR of German Bunds in April, for example, triggered two subsequent waves of position adjustments by investors, taking Bund VaR to a multi-decade high. Asset classes that are fundamentally overvalued and also have low VaRs are probably most vulnerable to VaR-shock-driven sell-offs.

LONG represents a positive answer
SHORT represents a negative answer

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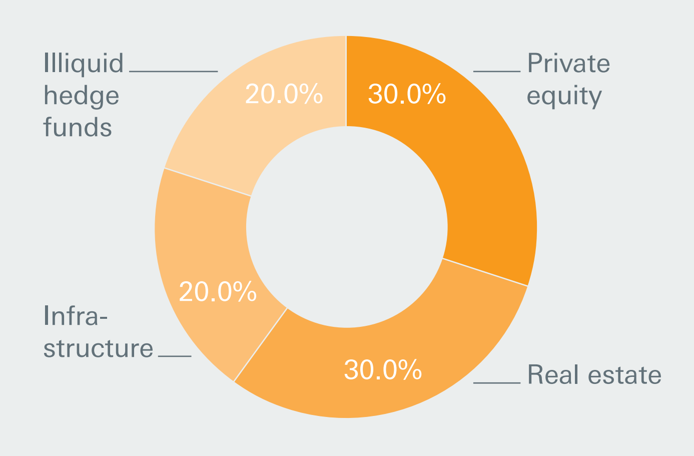
Portfolio

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]

Illiquid alternatives



Liquid alternatives

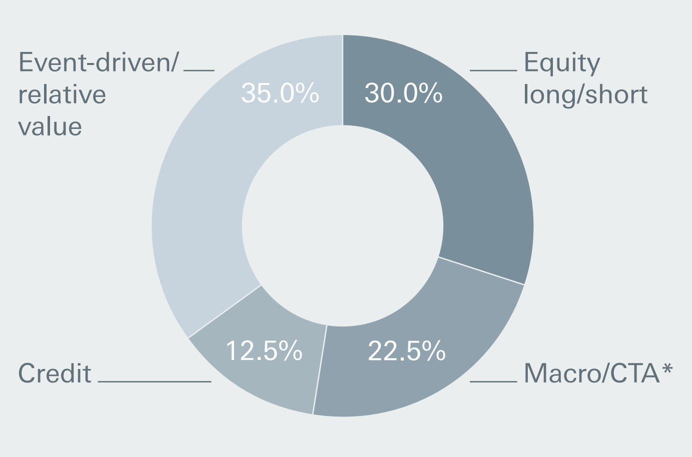
■ Commodity Trading Advisors (CTAs)

Geopolitical concerns and worries about the ripple effects from changing U.S. monetary policy could make life difficult for systematic managers with longer-term holdings. For them, capturing directional trends across portfolios will be challenging given changing relationships between asset classes and they could suffer from spikes in volatility. By contrast, the smaller number of managers running shorter-term models (with one-day to one-week holding periods) could well benefit from such market gyrations. Some of these managers have already seen a notable pickup in performance this year.

■ Discretionary macro

Managers here have proved to be among those better equipped to navigate through recent market volatility and trend reversals in rates and equities. Divergent monetary policies in the United States and Europe should continue to create exploitable trends in the most liquid asset classes. U.S.-dollar strengthening could gather pace as the Fed starts hiking rates later this year. The normalization in Fed monetary policy should also force emerging markets along a very diverse set of adjustment paths, creating a healthy pipeline of opportunities, both from directional and arbitrage standpoints, in local currencies and rates.

Liquid alternatives



Illiquid alternatives[2]

■ Private equity

Private-equity markets continue to perform strongly. European valuations remain slightly lower than U.S. valuations and may also offer greater potential economic upside. Private-equity acquisition multiples (the price paid relative to the target companies' earnings) are above their 10-year average for both small and large deals in the United States and Europe. In the United States pricing remains very competitive as both strategic buyers and financial investors are extremely active. In the first quarter of 2015 deal sourcing has been dominated by the public-to-private segment for the U.S. market and by secondary buyouts in Europe. The first quarter also saw considerable distributions by fund managers to investors. Buoyant Chinese capital markets until recently had enabled private-equity managers to sell portfolio companies at a record pace and on favorable terms. However, the recent local-market correction will potentially make this environment more challenging in the future.

Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank AG Filiale London, as of 7/21/15
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.

* Commodity Trading Advisor

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Long or short, Mark G. Roberts?

The Head of Real Estate Strategy and Research considers immediate and longer-term investment issues

Could global non-listed real estate continue to outperform?

LONG According to MSCI, global non-listed ungeared property generated a total return of 9.9% in 2014. With real interest rates likely to stay low in historical terms, total returns are likely to remain ahead of their longer-term average of 7.5%. U.S. returns are benefiting from higher GDP growth while European returns are gaining from declining unemployment, rising tenant demand and limited new construction. Australia, South Korea and Japan are likely to enjoy above-average performance but decelerating economic growth poses a threat to Chinese property markets. Hong Kong and Singapore office markets have pricing risk.

Are U.S. listed real-estate returns likely to prove as attractive?

SHORT Listed real-estate investment trusts (REITs) utilize a higher degree of gearing which can increase the volatility of returns relative to the non-listed market. Between 1993 and 2014 there were 13 periods during which U.S. interest rates (as defined by the Treasury yield) were rising. During those periods, the S&P 500 Index rose by an average of 10% while U.S. REITs increased by an average of 2.8% and the Barclays Aggregate U.S. Bond Index declined by 2.7%. In the year that followed a rate increase, however, REITs' returns averaged 16%, higher than the S&P 500 Index's average total return of 9.7% and the Barclays Aggregate U.S. Bond Index's 9.6% return. The implication is that, in the near term, U.S. REITs may prove volatile.

But won't dividend yields help offset this?

LONG Higher dividend yields can serve to offset this volatility. REITs currently provide a very attractive dividend yield of 3.87% which exceeds both the S&P 500 Index dividend yield of 1.97% and the 10-year U.S.-Treasury yield of 2.42%.[1] This higher dividend yield can dampen downside risk and underpin future outperformance. In addition, we estimate U.S. REITs are trading at a 10% discount to their net asset value.

Is sustainability going to play an increasing role in property investment?

LONG After the advent of the internet in the mid-1990s, landlords quickly learned that the provision of internet access was not an option to gain competitive advantage. Instead it was a required amenity necessary to avoid building obsolescence. Today, some of the same things can be said of sustainable building practices. Tenants, regulators and investors alike cite the benefits of sustainable building practices. Lower energy costs, more efficient use of water resources and the need to avoid overbuilding in lower-density areas will likely make sustainable practices commonplace and of continuing importance to investors.

More broadly, will technology have an impact on long-term infrastructure investing?

LONG Yes – consider, for example, the interaction between climate-change policies in Europe and energy-storage, energy-efficiency and zero-emission technologies. Smart-grid systems will help boost the share of renewable energy capacity, by creating a more efficient energy network, aligning more closely peak demand and production. Although at an early stage, energy storage has a positive long-term outlook to address the problems of grid bottlenecks and intermittent renewable power, with implications for infrastructure investment.

LONG	represents a positive answer
SHORT	represents a negative answer

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[1] All dividend yields are quoted as of 7/10/15.

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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

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

−

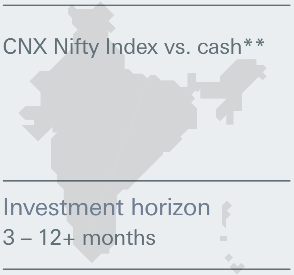
Financials have underperformed the overall equity market over the last month, due in part to concerns over Greece. But we are still positive on financials over a 3-12 months time horizon. Valuations remain attractive, with the MSCI AC World Financials Index now trading at around a 20% price-to-earnings (P/E) discount to the MSCI AC World Index (according to Standard & Poor's). This discount is likely to narrow over time, if financial firms' balance-sheet quality continues to improve.

Indian equities

Idea initiated

May 1, 2015

Reference measure



CNX Nifty Index vs. cash**

Investment horizon

3 – 12+ months

Performance since initiation

+

After a difficult few months, Indian equities started to pick up steam in mid-June and have continued to perform well since then. Recent gains may have been helped by the redeployment of funds by international investors from a faltering Chinese equity market. At a domestic level, there is also evidence that spending on infrastructure is starting to increase. Other medium-term positives are likely to be accommodative monetary policy and expectations of further reform.

German housing

Idea initiated

April 1, 2015

Reference measure

Dallas Fed International House Price Index Database for Germany vs. cash**

Investment horizon

24 months+

Performance since initiation

+

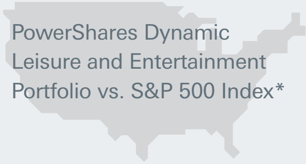
Recently published estimates by the Dallas Fed suggest that German housing prices continued to increase in the first quarter after steady gains in 2009-14. Continuing support for prices is likely to come from Eurozone monetary policy, which probably remains too expansionary for the German economy. Despite the sustained rise in German housing prices, we do not appear to be entering into an unsustainable real-estate bubble, with German mortgage debt increasing only modestly.

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

−

According to advance estimates, U.S. restaurant and bar sales were down 0.2% month-on-month in June but were up 7.7% from a year earlier. This compares with a rise of 1.4% for retail sales overall. Trends in U.S. airline travel and hotels have been less clear-cut. But as the labor market continues to improve, wage growth accelerates and home and equity prices edge higher, spending on leisure and entertainment should pick up further later this year.

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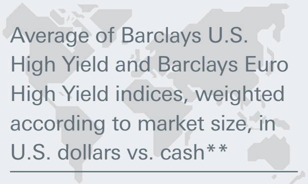
High-yield debt

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

⊖

Both U.S. and euro high-yield markets suffered in early July from increasing concerns around Greece and the Chinese equities market. There were outflows from U.S. high-yield bonds and low liquidity in the European market led to sharp daily price and sentiment swings. But these high-yield sectors strengthened after signs of progress on Greece and we remain positive here on a 3- to 12-month horizon. In the United States default rates are expected to remain low as issuers have largely refinanced maturities into 2017 and beyond.

U.S. consumer discretionary

Idea initiated

September 19, 2014

Reference measure

S&P 500 Consumer Discretionary Index vs. cash**

Investment horizon

3 – 12+ months

Performance since initiation

⊕

Overall U.S. retail-sales growth has been relatively modest in recent months with, for example, 1.0% year-on-year growth in May followed by a 1.4% gain in June. Part of this has been due to a fall in gasoline-station sales due to lower gasoline prices, year-on-year. But some areas of consumer-discretionary (as distinct from consumer-staples) spending have continued to perform strongly, including auto sales. This has been reflected in resilient performance by the S&P 500 Consumer Discretionary Index, which reached a year-to-date high in mid-July. We expect a continued pickup in consumer-discretionary spending as 2015 progresses, encouraged by further labor-market improvement, wage growth and higher household net worth.

Opportunities in cloud computing

Idea initiated

November 26, 2013

Reference measure

n/a

Investment horizon

3 – 12+ months

Performance since initiation

n/a

Recent news has focused on cloud-based consumer-oriented music storage systems, but there is also considerable activity related to business applications, for example on order management and fulfillment processes. The further evolution of cloud-computing software technologies will continue to offer opportunities, in both analytical software (to allow firms to make better data-driven decisions) and also security applications. Cloud computing may boost software spending at the expense of services spending.

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 7/9/15.

** 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 7/9/15.

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Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank (Suisse) SA, as of 7/9/15

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Glossary

Here we explain the main terms from the CIO View

Alexis Tsipras is Greece's elected Prime Minister since January 26th, 2015.

Arbitrage describes the practice of exploiting a price differential between two (or more) markets.

The Barclays Aggregate U.S. Bond Index aims to measure the performance of the U.S. Investment Grade bond market.

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

The Bank for International Settlements (BIS) is the international organization of central banks.

The Bank of England (BoE) is the central bank of England.

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

Brain drain refers to the flight of a country's more educated workers abroad, usually for economic reasons.

A bubble is an artificially highly valued market that may be about to burst.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Capacity utilization refers to the share of an economy's productive capacity that is in use.

Clientelism refers to the use of economic incentives by politicians to influence parts of their electorate.

Cloud computing encompasses technologies and services that offer the dynamic and flexible use of a third party's IT infrastructure.

The CNX Nifty Index is a market-capitalization-weighted index that tracks India's 50 most important listed companies.

Consumer discretionary is a sector of the economy that sells non-essential goods and services.

Consumer staples is a sector of the economy that sells essential goods and services.

The credit market is the market for corporate bonds.

The Dallas Fed International House Price Index Database for Germany is a price index compiled by the Dallas Fed which includes German real estate.

The DAX tracks the performance of the 30 major German companies trading on the Frankfurt Stock Exchange.

Devaluation is the forced reduction of the value of a currency against others.

The ECB's Emergency Liquidity Assistance (ELA) is a measure whereby a national central bank of the Eurosystem grants central-bank money to a solvent financial institution that is experiencing temporary liquidity problems.

Emerging markets (EM) are those economies which are not yet fully developed in terms of market efficiency, liquidity, and other factors.

The euro (EUR) is the official currency of the Eurozone.

The European Central Bank (ECB) is the central bank for the euro. It administers the monetary policy of the Eurozone, which consists of 19 European Union member states.

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

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

Gearing is a measure of an investor's or a firm's borrowing to capital owned.

Grexit is the term used to describe a Greek exit from the Eurozone, either deliberately or accidentally.

Gross domestic product (GDP) is the value of all goods and services produced by a country's economy.

H-shares are shares of mainland Chinese companies listed on Hong Kong or other non-mainland exchanges.

The Hang Seng China Enterprises Index (HSCEI) includes the largest and most liquid H-shares traded in Hong Kong.

High-yield (HY) describes bonds which are sub-investment grade.

Inflation describes the increase in an economy's overall price level.

Investment Grade (IG) describes bonds judged by rating agencies to be of at least medium quality (usually BBB or above).

Leverage attempts to boost gains when investing through the use of borrowing to purchase assets.

Liquidity refers to the ability to sell securities quickly without having to significantly reduce the price.

Listed companies are traded on a public exchange; non-listed companies are traded privately.

Ludwig von Mises was a follower of the Austrian School of Economics, which attributed the booms and crashes on money creation and money destruction. From 1945 to 1969 he taught as a professor at New York University.

The Maastricht rules set down five criteria which aspiring Eurozone members must comply with.

Maturities indicate the length of time to, or date on which, a security will cease to exist and any principal will be repaid.

Mergers and acquisitions (M&A) are the 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.

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

MSCI is a company providing indices and other analytical tools for investors.

The MSCI AC World Financials Index includes large and mid-cap firms in the financial sector (principally banks) across 46 developed- and emerging-market countries.

The MSCI AC World Index includes stocks from 23 developed and 23 emerging-market economies.

Net asset value (NAV) is the value of an organization's assets minus the value of its liabilities.

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

A peg, in the context of currencies, is the artificial fixing of an exchange rate between two currencies.

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 compares a company's current share price to its earnings per share.

A primary budget surplus is a surplus of government revenues over expenditure before interest payments on debt.

Private equity is a direct or indirect investment by a financial investor in a substantial part of a company's equity. Usually the company invested in is not listed.

Public-to-private refers to the process of buying out a company to remove it from a public stock-market listing and returning it to private ownership.

Quantitative easing (QE) refers to broad-based asset-purchase programs conducted by central banks; these assets can be government bonds, but also other assets like asset-backed securities.

REITs (Real Estate Investment Trusts) are companies, mostly listed, that own and often operate various types of real estate. They are obliged to pay out a minimum of 90% of earnings.

The risk premium of an investment is determined by the expected return of this investment minus a risk-free rate.

The S&P 500 Consumer Discretionary Index tracks the performance of companies included in the S&P 500 Index that are classified as members of the GICS consumer discretionary sector.

The S&P 500 Index tracks the performance of 500 leading U.S. stocks and is widely considered representative of the U.S. equity market.

A secondary buyout is when a private-equity company buys a stake in a company directly from another private-equity company.

A smart grid is an electricity grid that uses information about production and consumption to more efficiently manage distribution.

Sovereign bonds (also referred to as "sovereigns") are bonds issued by governments.

Subsidiarity, in a European context, refers to the belief that power should be devolved to the smallest appropriate level of government.

Systematic managers, in the context of Commodity Trading Advisors (CTAs) seek to identify and benefit from trends across a diversified portfolio of assets.

Treasuries are fixed-interest U.S. government-debt securities with different maturities. Treasury bills, also T-bills, mature in one year or less. Treasury notes, also T-notes, mature in two to ten years. Treasury bonds, also T-bonds, mature in twenty to thirty years.

The Troika consists of the International Monetary Fund (IMF), the European Central Bank (ECB) and the EU Commission.

Ungeared operations or investments do not have any associated debt.

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

Value at Risk (VaR) is a measure of risk. It is the potential loss of a particular risk position at a given probability within a given time horizon.

Volatility is a statistical measure of the dispersion of returns for a given security or market index.

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

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