Deutsche
Asset Management

Europe, Middle East & Africa Edition
April 2016

CIO View

Negative interest rates

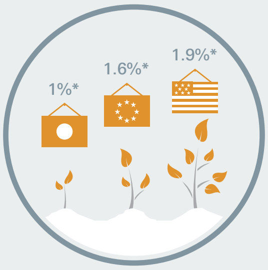
Economic consequences and side effects

Marketing Material

Nine positions

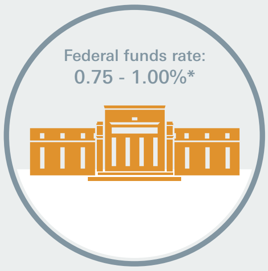
Our key forecasts

Industrialized countries look set to continue growing at a moderate pace



* Real economic growth 2016: Deutsche AM forecast as of 3/17/16

Key U.S. interest rates are likely to increase slowly



* Deutsche AM forecast as of 3/17/16

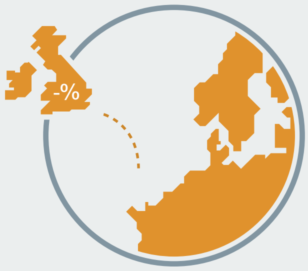
More loosening by the European Central Bank (ECB) and Bank of Japan (BOJ)

The U.S. dollar continues to strengthen against the euro and yen

Fickle equity markets continue to move around a sideways trend in 2016

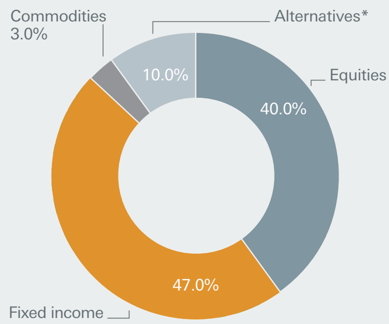
Oil remains volatile but its price should go up by year-end

Ongoing Brexit fears weigh on assets in the United Kingdom



Gold looks set to weaken somewhat after its recent strength

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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Letter to investors

Not a year like any other

In many of the world's democracies, voters are increasingly challenging established institutions and values. The financial sector needs to react.

Politically motivated market moves tend to be short-lived. However, the opposite might be true this year. Global headlines are dominated by political events: The Chinese president Xi Jinping is emphasizing that any further market liberalization will need to take into account political considerations. Russia is torn between its leadership's eagerness for foreign adventures and limited scope of manoeuvre in the wake of low oil prices. The latter have also exacerbated the situation in the Middle East, with far-reaching consequences. In normal times, the Turkish government's treatment of the opposition and press would have alienated it further from the EU. But times are far from normal in Europe due to the migration crisis. The displeasure of many European voters has been growing ever since the financial crisis. An increasingly fragmented political landscape and the growing strength of populist parties have made forming government increasingly difficult in many countries. And even a Brexit appears no longer as unlikely as it once did. On the other side of the Atlantic, the majority of the remaining U.S. presidential candidates, certainly, have what it takes to surprise both at home and abroad, to put it mildly. Meanwhile Brazil's government is busily dismantling itself and its recent legacy. A worrying wave of negative sentiment is generally gaining ground in the West.

> "When it comes to today's public debates, asset managers cannot remain neutral."

In my view, investment managers will have to do more than revise their own forecasts downward. It also means thinking how we could help stem some of the more unpleasant trends. Arguably, this includes investment policies. Based on our ESG process (environment, social, governance), our investment decisions are already taking sustainability into account, rather than simply taking short-term potential returns as the sole criterion. If we want to contribute to stopping the erosion of faith in social institutions, part of our task is to verify that companies held in our portfolios not only follow the wording but also the spirit of existing regulations. Moreover, we should examine the basis for industry support of "business-friendly" forces and whether such actions might be short-sighted or a knee-jerk reaction. At the same time, asset managers should not promise more than they can deliver.

What does all this mean in such a volatile investment environment, in which returns are generally likely to be subdued but, on a risk-adjusted basis, probably highest for bonds? Well, for one thing, it means listening to our clients – even the ones who insist they feel better with a higher cash position at the moment. In doing so, we will gain satisfied clients in the long run.

Stefan Kreuzkamp,
Chief Investment Officer

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Focus

Money-parking fee

The ECB has cut rates further – with various repercussions on the real economy and currency.

The idea that people generally prefer consuming goods and services today rather than at some point in the distant future is a basic tenet of economic theory. Based on this, savers usually require positive real interest rates to forsake current consumption and hand over their money. Of course, borrowers can only pay positive rates if their investments generate real positive earnings, usually on the back of a growing economy. At a real interest rate of zero, however, investments which do not foster growth may look attractive. If real rates fall below zero, even loss-making investments might pay off.

Capital, i.e. money invested, can then be employed in such a way that the real gross domestic product (GDP) may shrink. Irrespective of all this, the ECB cut its deposit rate by another ten basis points to -0.4% in March 2016. It also announced a new series of targeted longer-term refinancing operations (TLTRO II) with a 4-year maturity. Under these, the ECB is, for the first time ever, offering banks the opportunity to refinance at negative rates. The higher the net lending of banks to businesses, the lower the tender rate will be until finally reaching the deposit rate of minus 0.4%.

These measures are meant to cut rates to a level which is lower than the current inflation rate. In itself, this is hardly unheard of. In the 1970s, for example, real interest rates were pushed into negative territory over a prolonged period. This was because inflation was higher than nominal interest rates. Nominal interest rates were still positive, to be sure, but savers nevertheless suffered purchasing-power losses of cash and bonds. In those terms, at least, the situation back then resembles today's situation.

The consequences of negative interest rates

The differences, of course, lie in the factors that pushed real interest rates so low. In the 1970s, weakness in economic growth had been triggered by rising oil prices. Central banks buffered the supply shock by following accommodating monetary policies. Higher money supply, combined with a stable velocity of money, boosted inflation. By contrast, the current weakness in growth has been triggered by high debt and credit defaults resulting in sluggish demand. Although the Federal Reserve (Fed) and other central banks tried to expand money supply, the velocity of money decreased, because businesses and private households started to hold more cash. This hoarding of cash led to sharp falls in inflation rates, at times even into negative territory.

A closer parallel than the 1970s may be the deflationary environment before World War I or between 1929 and 1933. One hundred years ago, the merchant Silvio Gesell thought of ways to make people spend their money instead of hoarding it. In order to avoid sluggish growth and deflation, his idea was stamp scrip, i.e. money losing its value over time. This has been tried once: In 1932, the Austrian town of Wörgl introduced a local currency which lost one percent of its face value each month. The initial results were promising: Thanks to the high velocity of circulation of Wörgl's parallel currency, unemployment fell and the local economy flourished – until the Austrian central bank obtained court orders to abruptly stop the experiment.

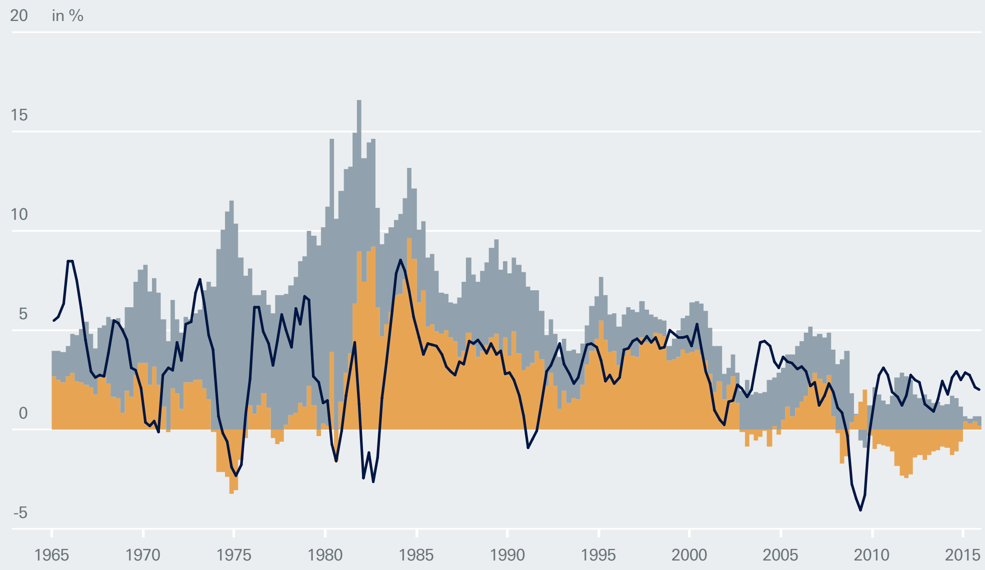
In today's globalized world, it would be unrealistic to introduce regional stamp scrip. For now, the focus of economic discussions has been on how much deeper negative rates can be pushed. The risk is that savers might withdraw their money from bank accounts and hoard it at home, as soon as negative interest rates are really charged. Cash balances would increase and the velocity of money decrease. One radical alternative would be to abolish cash. It would probably take prolonged economic weakness, however, for this to become reality, not least as numerous legal and practical hurdles would need to be overcome.

The risks of negative interest rates

But even if physical cash was abolished, central banks would need to proceed with care with their newly acquired ability to the money balances of bank accounts held by the private sector. They might hope to boost demand by combining higher money supply with higher velocity of circulation. However, it remains to be seen whether central banks have the right tools for dosing and controlling this tool. Negative nominal interest rates could trigger a surge in the velocity of circulation and thus a sharp rise in inflation beyond the level desired.

Moreover, negative interest rates might also increase investors' risk appetite – i.e. leading to reallocations in equities, high-yield debt and real estate. Private households and companies might also significantly expand their leverage in an environment of negative nominal rates. If central banks employed restrictive monetary policies to stop such developments, equity and real-estate bubbles as well as higher debt levels could conjure up the next debt crisis. Central banks would have to back-pedal fast – and their scope for maneuver would be even more restricted than at the beginning of the previous crisis.

Real rates and growth in the United States

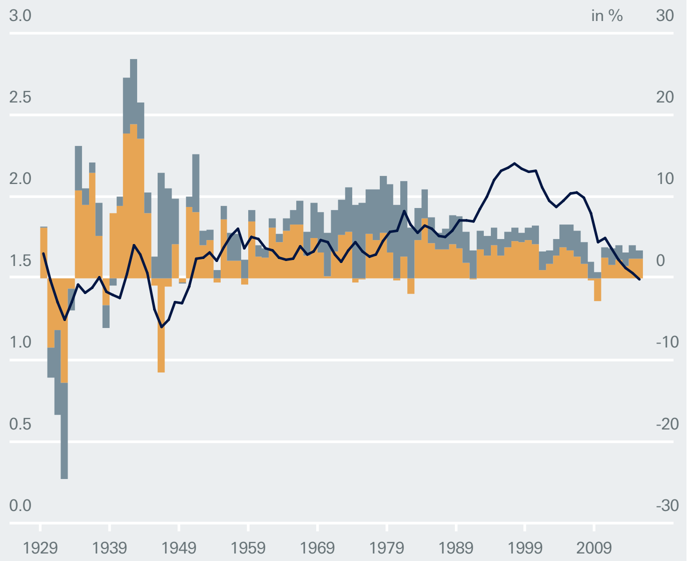


U.S. inflation (year-on-year)[1] Real yield of 2-year U.S. Treasuries[2] Real U.S. GDP growth (year-on-year)[2]

In the 1970s, the Fed fought the supply shock induced by high oil prices with negative real rates and expanded money supply. Despite rising inflation, the economy tumbled into recession. The Fed used the same means to combat the financial crisis of 2007, which had been caused by high debts followed by weak demand. The results have been continued weak growth and inflation far below its target.

[1] price index for personal consumption spending
[2] inflation-adjusted by using the price index for personal consumption spending
Source: Thomson Reuters Datastream; as of 03/2016

The velocity of the circulation of money



- Change in U.S. GDP deflator (year-on-year; right axis)
- Real U.S. GDP growth (right axis)
- Velocity of money (Nominal U.S. GDP / Money aggregate M2; left axis)

M2 money supply was growing faster in the United States in the 1970s than nominal GDP. As the velocity of money hardly changed, inflation started to rise. After 2008, the Fed once again significantly expanded the money supply. The velocity of money, however, fell to the level observed after the outbreak of the Great Depression, i.e. during the 1930s. So the target of boosting inflation was not achieved after 2008.

Sources: Federal Reserve Board, Bureau of Labor Statistics, Monetary Statistics of the United States, MeasuringWorth.com, Bureau of Economic Analysis; as of 03/2016

German Bunds (2-year)

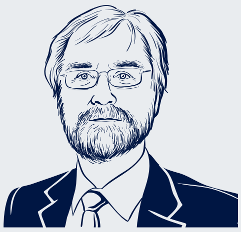
Further ECB asset purchases and low official rates have caused nominal bond yields to remain negative.

-0.40 % * (March 2017)

* Deutsche AM forecast as of 3/17/16

" If new negative shocks should worsen the outlook or if financing conditions should not adjust [as] necessary to boost the economy and inflation, a rate reduction remains in our armory. "

Peter Praet, member of the ECB executive board, on March 18th, 2016, interview with La Repubblica



Eurozone (inflation)

Despite ultra-expansionary ECB monetary policy, inflation in the Eurozone may remain low this year. Hopes are now pinned on 2017.

0.30 % * (2016)

* Deutsche AM forecast as of 3/17/16

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The big picture

Our strategic forecasts

> Against the backdrop of high political uncertainties and market volatility, we expect only moderate returns for 2016. On a risk-adjusted basis, this favors bonds over equities.

Stefan Kreuzkamp, Chief Investment Officer

Economic Data

GDP growth in percent (year-on-year)

	2016F		2017F
United States	1.8	↗	2.0
Eurozone	1.5	→	1.5
United Kingdom	2.0	↗	2.1
Japan	1.0	↘	0.8
China	6.0	→	6.0
World	3.2	↗	3.6

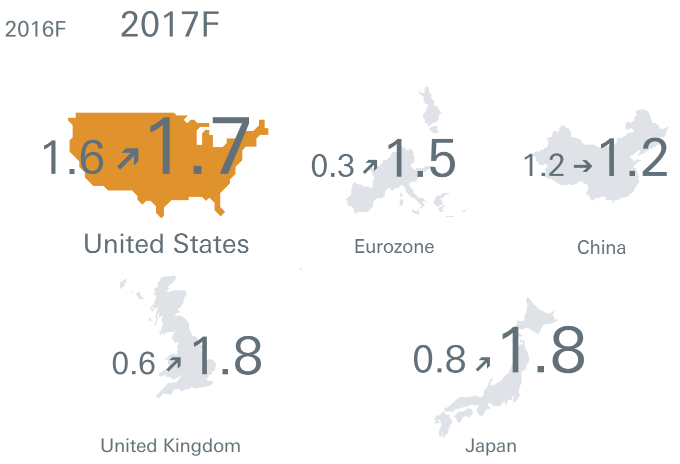
United States

1.8% ↗ 2.0%

(2016F) (2017F)

Concerns about China's growth are far from settled. However, the bigger factor in 2016 is likely to be the United States, where we revised down our 2016 forecast from 2.5% to 1.8%.

Inflation in percent (year-on-year)



Although we expect inflation rates to remain below 2.0% in most developed economies until 2017, U.S. core inflation has significantly accelerated in the first quarter of 2016.

F refers to forecasts. Our forecasts are as of 03/17/16.

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Capital markets

Equity markets (index value in points)

	Current***		Mar 2017F	▲(%)**
United States (S&P 500 Index)	2,041	→	2,060	3
Europe (Stoxx Europe 600 Index)	341	↗	350	6
Eurozone (Euro Stoxx 50 Index)	3,043	↗	3,200	9
Germany (Dax)[1]	9,892	↗	10,800	9
United Kingdom (FTSE 100 Index)	6,201	→	5,800	-3
Switzerland (Swiss Market Index)	7,862	↗	8,400	11
Japan (MSCI Japan Index)	821	↗	890	11
MSCI Emerging Markets Index[2]	817	→	800	1
MSCI AC Asia ex Japan Index[2]	495	→	500	4
MSCI EM Latin America Index[2]	2,139	↘	1,900	-9

Europe (Stoxx Europe 600 Index)

341 ↗ 350

(Current***) (Mar 2017F)

We downgraded our outlook on equity markets to cautiously optimistic after reducing our earnings forecasts, as we see hardly any upside left for multiples.

Capital-market yields (sovereign bonds) in percent

	Current*		Mar 2017F
United States, 2-year	0.87	↗	1.30
United States, 10-year	1.90	→	2.00
United States, 30-year	2.67	→	2.60
Germany, 2-year	-0.48	→	-0.40
Germany, 10-year	0.18	→	0.35
United Kingdom, 10-year	1.45	↗	1.90
Japan, 2-year	-0.21	→	-0.30
Japan, 10-year	-0.08	→	-0.10

Germany, 10-year

0.18% → 0.35%

(Current*) (Mar 2017F)

Almost all our yield forecasts for government bonds have been depressed by lower inflation and growth. Thanks to rising U.S. interest rates, yields should nevertheless tend to rise.

F refers to forecasts. Our forecasts are as of 03/17/16.

* Source: Bloomberg Finance L.P.; as of 03/24/16.
** Expected total return includes interest, dividends and capital gains where applicable
*** Source: Bloomberg Finance L.P.; as of 03/17/16.
[1] Total-return index (includes dividends), [2] in U.S. dollars

Commodities in U.S. dollars

	Current***		Mar 2017F	▲(%)**
Crude oil (WTI)	44	↗	50	13
Gold	1,258	↘	1,100	-13
Silver	16	↗	19	19
Copper (LME)	5,070	↗	5,400	7
Aluminum (LME)	1,529	→	1,500	-2

Crude oil (WTI)

44 ↗ 50

(Current***) (Mar 2017F)

LME = London Metal Exchange, WTI = West Texas Intermediate

Stabilizing commodities helped the markets to settle down after a turbulent start to the year. However, we do not believe the turnaround will prove sustainable in all sectors.

Benchmark rates in percent

	Current*		Mar 2017F
United States (federal funds rate)	0.25-0.50	↗	0.75-1.00
Eurozone (refi rate)	0.00	→	0.00
United Kingdom (repo rate)	0.50	→	0.50
Japan (overnight call rate)	0.00	→	0.00

United States (federal funds rate)

0.25-0.50% ↗ 0.75-1.00%

(Current*) (Mar 2017F)

Only in the United States are interest rates likely to rise within the next 12 months. The Fed's pace will depend on incoming data, which looks set to continue to cause volatility.

Currencies

	Current*		Mar 2017F	▲(%)**
EUR vs. USD	1.12	↘	1.05	-7
USD vs. JPY	113	↗	120	8
EUR vs. CHF	1.09	→	1.12	2
GBP vs. USD	1.42	↗	1.50	6
USD vs. CNY	6.52	↗	6.90	5

EUR vs. USD

1.12 ↘ 1.05 $/€

(Current*) (Mar 2017F)

We reduce our EUR vs. USD forecast to 1.05. This reflects more gradual expected increases of U.S. rates on the one hand, and the potential for renewed Eurozone concerns on the other.

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Investment traffic lights

Our tactical and strategic view

Equities*	1 to 3 months	until March 2017
Regions		
United States	🟠	→
Europe	🟠	↗
Eurozone	(🟠)	↗
Germany	🟠	↗
Switzerland	🟠	↗
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 03/17/16
** as of 03/24/16
Source: Deutsche Asset Management Investment GmbH
[1] Spread over German Bunds
[2] These traffic-light indicators are only meaningful for existing private-equity portfolios

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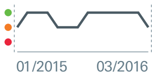
Fixed income**	1 to 3 months	until March 2017
Rates		
U.S. Treasuries (2-year)	🟠	↗
U.S. Treasuries (10-year)	(🟢)	→
U.S. Treasuries (30-year)	🟢	→
U.K. Gilts (10-year)	🟠	↗
Eurozone periphery	(🟢)	↘
German Bunds (2-year)	🟠	→
German Bunds (10-year)	(🟢)	→
Japanese government bonds (2-year)	🔴	→
Japanese government 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	🟠	↗

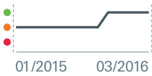
Alternatives*	1 to 3 months	until March 2017
Infrastructure	🟢	↗
Commodities	🟠	↗
Real estate (listed)	🟠	↗
Real estate (non-listed)	🟢	↗
Hedge funds	🟢	↗
Private equity[2]	🟠	→

Eurozone (equities)



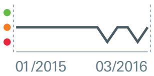
We downgrade the Eurozone and Germany to neutral, partly due to continuing political tensions, including the migration crisis, defragmentation and radicalization of the political landscape, as well as Brexit risks. Poor quarterly figures and reduced consensus earnings estimates for 2016 are additional drags on valuations. After the relief rally in the wake of the accommodating ECB decision, we see little short-term upside.

Japan (equities)



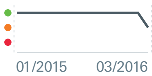
Equities experienced their sharpest fall at the start of this year in Japan, caused by a stronger Japanese yen (JPY), the negative rate decision by the BOJ, selling by non-resident investors, and earnings revisions. The last time the current price-to-book ratio of 1.1 was reached, the exchange rate was at 80 JPY per U.S. dollar. We remain overweight due to valuation and signs of progress on the restructuring of "Japan Inc".

Emerging markets (equities)



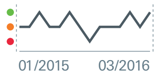
After an extended period of underperformance, emerging markets experienced a turnaround in mid-January, partly caused by stabilizing currencies and commodity prices. We upgrade tactically to neutral since, despite all differences between sub-regions, valuation is in line with the risk-return profile.

Financials (equities)



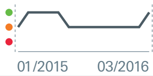
Despite some reluctance, we have reduced the financial sector to neutral. Although some sub-sectors appear to be attractively valued, negative rates introduced by an increasing number of central banks and the flat U.S. yield curve weigh heavily on financials.

U.S. Treasuries (10-year)



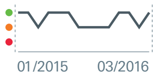
It remains somewhat unclear why the Fed communicated so tentatively after its meeting in March. Core inflation has been rising gently while the labor market remains robust. But the Fed may be uncertain about the strength of the recovery. Its hesitation should continue to boost bond prices, which are also supported by many foreign investors who share our positive view on the U.S. economy.

German Bunds (10-year)



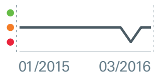
We do not believe that the 0.0%-line is an impossible hurdle for 10-year Bunds. Due to the extended ECB asset-purchase program and technically driven demand, we return to overweight.

Eurozone periphery



Periphery bonds have had a bad start to the new year. After the surprisingly aggressive extension of quantitative-easing (QE) measures by the ECB in mid-March, we have upgraded them again to overweight. Our reasons are slightly better fundamental data and, primarily, the ECB asset-purchase program.

GBP vs. USD



Although we remain tactically neutral to the pound sterling versus the U.S. dollar, trading looks set to remain volatile until June 23rd, the date of the EU referendum. Depending on the result, large swings either way are to be expected. Brexit fears have already weakened the pound. We expect the United Kingdom to vote in favor of staying in the EU.

The tactical view (one to three months)
Equity indices, fixed income and exchange rates:
- positive view
- neutral view
- negative view

The traffic lights' history is shown in the small graphs.
A circled traffic light indicates a supplementary comment.
The strategic view up to March 2017
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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Joe Benevento and Joern Wasmund,
Global Co-Heads of Fixed Income/Cash

Fixed-income market perspectives

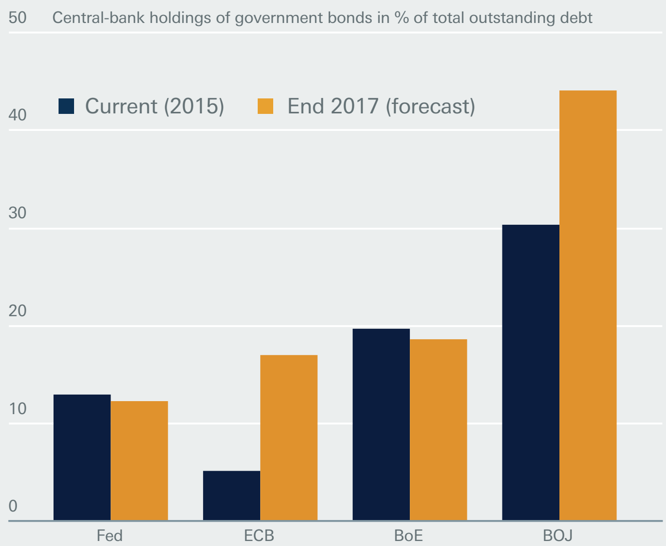
More central-bank purchases ahead support our positive view on Eurozone bonds

When all else fails, try to do more. For years, central banks have struggled to stimulate the economy and induce inflation through QE. QE programs have focused on bond purchases (although they can include other assets). So, one obvious result has been an increase across the developed economies in central-bank holdings of government bonds, measured as a percentage of total outstanding debt. In Japan, there may well not be enough bonds left that the private sector is willing to sell – meaning that, to continue QE, the BOJ could have to buy equities (having dipped into exchange-traded funds last year) or anything else it can get its hands on.

Another way to influence the economy is via the depreciation of the exchange rate. To induce those movements, the ECB and the BOJ have experimented with pushing interest rates into negative territory. Alas, as has become increasingly clear in recent months, this is no magic solution, especially in relatively large economies such as the Eurozone and Japan. Eurozone banks have largely failed to apply those negative rates to deposits, implying that the negative rates imposed by the ECB narrow margins in the banking sector. The ECB's new targeted longer-term refinancing operations appear partly designed to offset the drag on bank profits. Effectively, this amounts to paying banks when they increase lending.

In Europe as in Japan, the scope for further rate cuts looks increasingly limited. Instead, there may be further changes to ECB's QE mix. Already, the ECB has announced it will buy non-financial corporate debt as part of its QE program. This supports our broadly positive view on all fixed-income products in the Eurozone that have some credit risk – from periphery sovereigns and investment-grade corporate bonds to better rated high-yield bonds, which should benefit from spill-over effects. Investors should be aware, however, that the scope for policy errors is growing. The longer-term implications of QE remain uncertain – for details, have a look at our CIO View Special: "The limits of monetary policy: Are central banks losing their magic touch?"

Central-bank purchases of government bonds



Central banks, such as the Bank of England (BoE), already hold a large share of outstanding government debt. The problem for the BOJ in particular is that it is becoming increasingly hard to find willing sellers.

Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 03/2016

Henning Gebhardt,
Global Head of Equities

Equity-market perspectives

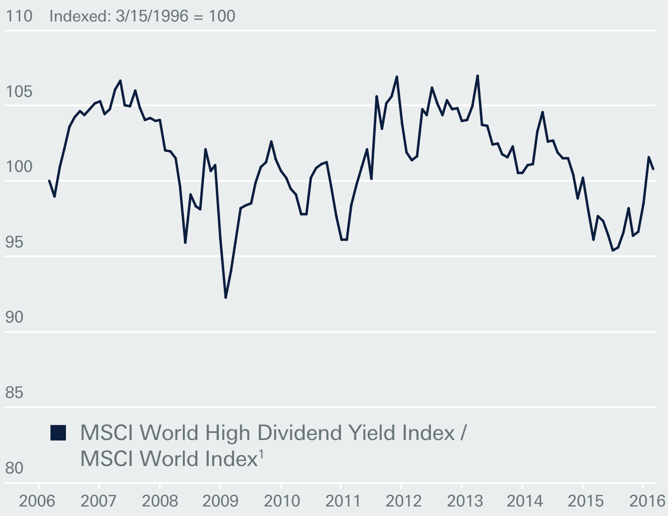
In turbulent times, dividends are more popular than ever. But high payouts are not necessarily good for share prices.

Volatile stock markets trending sideways. Ultra-low interest rates. This is hardly the stuff investor dreams are made of. Under such circumstances, sound dividend payers would seem to have plenty of appeal compared to other asset classes. Current dividend yields are often higher than bond yields. At the same time, they may offer upside potential, but with lower volatility than other equities. So, is it time to fill your boots with dividend stocks?

Not so fast. Instead, consider the following three questions: How is a company's value influenced by dividend payout policies? How sustainable are dividends? And, what do current market valuations imply for further upside potential? In a perfect capital market, dividend policies would not influence a company's value at all. Of course, the world is not perfect, and "imperfections" include taxes, insolvency costs, information asymmetries – and human beings, many of whom currently prefer one bird in the hand over two birds in the bush. Indeed, dividends have historically contributed the lion's share to the returns of almost all major stock-market indices. Moreover, high payouts reduce the risk of company managers going on unreasonable spending sprees. This takes us to the issue of payout capabilities. Looking at nothing but the current dividend yield is grossly misleading. What is the benefit of high payouts if a company cannot really afford them out of current earnings? The payout ratio gives a clue on dividend sustainability, but it is highly recommended to look back several years, as well as to consider future prospects of generating surplus funds.

In case of a positive assessment, will this corporation's shares beat the market? Not necessarily. You might not be the only one to have figured out these qualities – so they may already be priced in. And so, the same general rule holds as for all equities: The potential upside depends on the difference between a company's value and what is already priced in. Transferring this from an individual share to the asset class means that this is nothing but an investment style which will either beat other strategies or be beaten by them depending on the market phase. That's why when it comes to our own dividend strategies, we rely on stock picking.

Dividend payers on the move. Sometimes up, sometimes down.



As an asset class, good dividend payers behave just like any other asset class: sometimes they beat the market, sometimes the market beats them.

Source: Thomson Reuters Datastream; as of 3/21/16
[1] Total Return, U.S.-dollar-based

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. Deutsche Asset Management Investment GmbH; as of 03/23/16

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

Given the difficult macroeconomic backdrop and continued geopolitical risks, this is a time when it is important to be realistic about earnings expectations, valuations and index targets. Further periods of volatility also look likely. During March, we trimmed back our earnings-growth and valuations expectations, resulting in lower 12-month index targets. However, we have become (in relative terms) rather less negative about emerging-market equities, in particular in the Asia region, due in part to the stabilization of many emerging-market currencies and commodity prices.

Fixed income

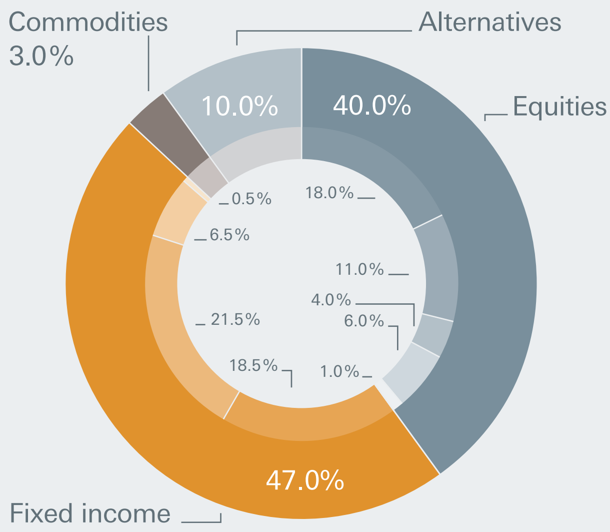
Only minimal returns are likely in core government bonds over the next 12 months but potential opportunities exist elsewhere in the fixed-income universe. U.S. investment grade looks likely to continue to perform well with the market apparently willing to absorb high levels of supply. Euro high yield should continue to benefit from better rating quality and less exposure to the energy sector than U.S. high yield although weaker emerging-market demand may hurt some borrowers. In emerging-market bonds, we believe country-specific concerns will remain to the fore.

Commodities

Recent oil-price gains have been encouraging, but we may need to wait for evidence of an inventory drawdown in the second half of 2016 before we see a further rise in prices. Output, particularly in the U.S., is likely to be constrained by a higher cost of capital, exerting further upward pressure on prices. We expect a WTI oil price of $50 per barrel on a 12-month horizon. Gold prices may fall back slightly during the course of 2016, on the assumption that the Fed makes two further rate rises in the next 12 months and the U.S. dollar continues to strengthen.

[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.

Europe, Middle East & Africa



Equities	suggested weight
Developed markets	33.0%
United States	18.0%
Europe	11.0%
Japan	4.0%
Emerging markets	7.0%
Asia ex Japan	6.0%
Latin America	1.0%
Fixed income	
Credit	18.5%
Sovereigns	21.5%
Emerging markets	6.5%
Cash	0.5%
Commodities	
Commodities	3.0%
Alternatives	
Alternatives	10.0%

Sources: Regional Investment Committee (RIC), Deutsche Asset Management Investment GmbH, Deutsche Bank (Suisse) SA; as of 03/22/16. Suggested allocation for USD-based investors. This allocation may not be suitable for all investors.

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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)

Are you still positive on global growth?

LONG We have revised down our 2016 global GDP-growth forecast to 3.2%, largely on the back of slower U.S. growth. In historical terms, this is not a great global growth rate, but not a disastrous one either. Growth in the Eurozone and Japan is likely to remain positive, if modest, this year and there are still some bright spots in the emerging markets.

Will central banks remain committed to QE?

LONG Mixed market reactions to recent QE-program extensions in Europe and Japan have been taken as showing that the power of QE is waning. Zero or negative nominal interest rates add another degree of uncertainty to the workings of monetary policy. But both ECB and BOJ are likely to remain committed to QE and monetary policy is likely to remain extremely supportive elsewhere. We are still a long way away from policy "normalization".

Can equities rise further from current levels?

LONG The spotlight will remain on earnings in 2016. The assumption is that slower economic growth will be reflected in low-single-digit earnings-per-share (EPS) growth in the U.S. and Europe, despite the latter (and Japan) possibly getting some lift from currency trends. Against an uncertain economic backdrop, we also trimmed back some of our 12-month price-to-earnings targets. But even so, this leaves some room for modest gains from current levels – we are not in a bear market.

Still opportunities in fixed income?

LONG As regards U.S. high yield, we remain cautious on energy and metals-and-mining sectors but see opportunities elsewhere. The risk-return profile for euro high yield may be more broadly attractive. Don't forget emerging-market debt either. Emerging-market currency stabilization after sharp declines over the last year, combined with a much more muted outlook for U.S. rate increases, may create a more constructive background. But we believe country-specific factors are still likely to prove as important as overall trends in this sub-asset class.

Can China maintain a credible currency regime?

LONG The Chinese authorities want to demonstrate a commitment to currency flexibility – but no one wants them to completely lose control of the yuan either. We think that they can maintain this difficult balance. They have pledged not to devalue the currency sharply, but will instead engineer a gradual depreciation against the U.S. dollar, within the recently announced currency basket. The recent decision to open the onshore bond market to a wider range of international investors should help contain capital outflows.

Are other currency drivers likely to become more predictable?

SHORT I don't think so. Until recently, one assumption was that further QE would depress that country's currency and boost exports. Recent experiences have shown that this is not guaranteed, probably due in part to skepticism about QE and in part related to demand for "safe-haven" investments. Remember too that currencies remain vulnerable to indirect shocks. Do not assume, for example, that a "Brexit" vote would only hurt the pound sterling; it would likely hit the value of the euro, too.

LONG represents a positive answer
SHORT represents a negative answer

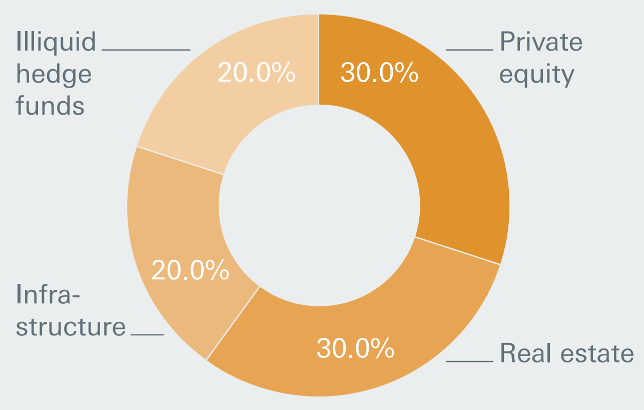
Alternatives

Our view of non-traditional asset classes

Alternatives portfolios

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

Illiquid alternatives



Liquid alternatives

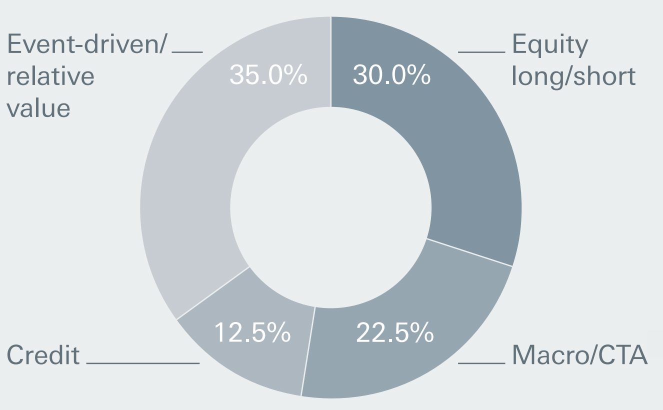
Macro/ commodity trading advisor (CTA)

We continue to assess the current environment as fertile for Discretionary Global Macro and even more so for Systematic/ CTA managers. Divergent dynamics in emerging-market rates and credit, pronounced weakness or technical bear markets in most regions for equities and new, strong trends in a number of currency pairs are creating opportunities. Most importantly, we feel that as volatility expands, overall risk-adjusted returns can clearly benefit, by devoting a significant allocation to strategies which are at large agnostic to bottom-up fundamentals and can take increasing short positions in risky assets.

Merger arbitrage

Pure mergers and acquisitions (M&A) arbitrage-focused managers have generally been weathering the recent challenging conditions relatively well. The environment for M&A continues to be conducive with still a healthy number of deals and supportive credit conditions for balance sheets. In the midst of higher market volatility, relatively safe deals trade at multiyear-wide spreads and present an interesting opportunity for managers with a provemun track record in the space and the ability to hedge out overall market risks appropriately. Recent market volatility and macroeconomic headlines could however impact the appetite for future corporate activity and the level of current spreads.

Liquid alternatives



Illiquid alternatives[2]

Real estate

Asia continues to be a key driver of real estate, with improving credit-market conditions and accommodative monetary policy in a number of regions. This is especially pertinent for Japan, with the BOJ's decision to enter negative interest-rate territory providing a boost for the country's real-estate-investment-trust (REITs) market. Japan, along with Australia, appears to provide the strongest rental-growth potential for the Asian office sector. Europe may also provide interesting growth prospects for 2016, with constrained supply improving the outlook for rental growth. Spain in particular is leading the way, with improving sentiment and wider credit availability as key drivers for its steadily recovering housing market. In the U.K., however, a possible Brexit could present risks for the domestic property market. A survey conducted by Property Market Analysis suggests that, compared to remaining in the EU, a Brexit could cause a 15% average reduction in property values by 2019, and as much as 25% for London office space.[3]

Sources: Deutsche Asset Management Investment GmbH, Deutsche Bank AG Filiale London; as of 03/22/16
This allocation may not be suitable for all investors. In our balanced model portfolio, we currently allocate 10% to alternative investments.

[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] Property Market Analytics: Prospects for UK Real Estate in the event of an EU Exit; Winter 2015

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Long or short, Hamish Mackenzie?

The Head of Infrastructure, Europe & Debt, shares some insights on this sector.

Are European infrastructure prospects favorable in 2016?

LONG We believe so. In our view, the key markets for infrastructure investment will continue to include the U.K., Germany, France, the Nordics, and Italy. These countries offer a relatively predictable investment environment, a transparent legal and regulatory framework and a long history of private ownership of infrastructure; all important factors for investment strategies looking to benefit from long-term income-return stability with some capital-growth potential and relatively low cash-flow volatility.

Does regulatory risk remain an important factor for investment?

LONG Regulatory risk will, we think, remain an important factor to consider, as infrastructure investment requires long-term stability. European infrastructure regulation is relatively transparent and predictable when compared to other markets around the globe. In Europe, regulatory change and the uncertainty which may result, represent the exception, rather than the rule. The best regulatory regimes tend to be those where the regulatory framework is designed, monitored, and occasionally updated by an independent regulator, as is the case for certain infrastructure sectors like water supply in the U.K.

Can Europe's continued economic recovery support infrastructure investment?

LONG A recovering European economy should continue to prove particularly supportive for investment fundamentals in the transportation sector that has performance linked to GDP growth. Traffic volumes are forecast to grow, particularly for toll roads and airports. For ports, strategic location will represent a key factor to offset the risk of rising volatility in global trade that we forecast to continue in 2016. The low inflationary scenario predicted for 2016 might prove challenging for utility networks, where regulation supports long-term income stability, but where earnings are often linked to inflation.

Will low oil prices have a negative impact?

SHORT Overall, we don't think so. Low oil prices are boosting households' income, and we are observing that this is having a positive impact on transport-traffic volumes. Low oil prices are of course having repercussions on the energy industry. However, we do not believe that a persistent low oil-price scenario will have a significant impact on renewable-energy growth; which will continue to be supported by climate-change policies.

Talking about climate-change policies, is the United Nations climate-change agreement a game changer?

SHORT As a result of the Paris agreement in December, countries have agreed to reach a peaking of greenhouse-gas emissions "as soon as possible". We believe that the outcome of the agreement represents a further validation of our strategy, rather than a game changer, as it should support a further growth of energy-efficiency solutions as well as investment in renewables, a sector in which we have developed significant expertise from past investments.

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.

Glossary

Here we explain central terms from the CIO View.

The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs).

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

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

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

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

Brexit is a combination of the words "Britain" and "Exit" and describes the possible exit of the United Kingdom from the European Union.

Bunds are issued by Germany's federal government, most frequently with a maturity of 10 years, and are the German equivalent of U.S. Treasury bonds.

A company's cash flow is comprised of its inflows and outflows which arise from financing, operational or investing activities.

The CBOE SPX Volatility Index (VIX) is a leading measure of market expectations of near-term volatility conveyed by S&P 500 Index (SPX) option prices.

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.

Consensus forecasts are predictions of the future that are created by combining together several separate forecasts from different analysts or brokers.

Core government bonds are debt securities issued by especially credit-worthy governments both within the Eurozone and in other developed markets.

Core inflation is a measure of inflation that excludes certain items that face volatile price movements, such as energy and food products.

A currency basket is a weighted collection of select foreign currencies used as the basis for setting the market value of another currency.

In foreign exchange a currency pair refers to two currencies whose values are being compared.

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.

In relation to currencies, depreciation refers to a loss of value against another currency over time.

Discretionary Macro strategy is the most flexible global macro trading strategy deploying directional positions at the asset-class level to exploit macroeconomic, policy or political changes.

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

The dividend yield is the dividend that a company pays out each year divided by its share price.

Earnings per share is calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

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

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

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

The Euro Stoxx 50 Index tracks the performance of blue-chip stocks in the Eurozone.

The Euro Stoxx Select Dividend 30 Index tracks high-dividend-yielding companies across 12 Eurozone countries.

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.

Exchange traded funds (ETFs) are a sort of exchange traded product (ETP) that can hold a variety of underlying assets and that can be traded on a stock market.

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

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

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures. It shows how much cash a company is able to generate after deducting the money required to maintain or expand its asset base.

The FTSE 100 Index tracks the performance of the 100 major companies trading on the London Stock Exchange.

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

Geopolitical risk is a risk that an investment's returns could suffer as a result of political changes or instability in a country.

Government/sovereign bonds (debt) are bonds (debt) issued and owed by a central government.

The Great Recession refers to the prolonged economic downturn in much of the world after the financial crisis of 2007-08.

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.

A hedge is an investment to reduce the risk of adverse price movements in an asset.

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

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.

Japan Inc. is a nickname for the closely knit world of corporate Japan.

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

A Master Limited Partnership (MLP) is a publicly traded limited partnership. Shares of ownership are referred to as units.

Merger arbitrage is a type of hedge-fund strategy where the investor tries to gain from the difference in the price a buyer of a firm agrees to pay, and the stock price after the announcement of the acquisition.

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

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

Money supply is the total amount of monetary assets available in a country's economy. There are several ways to define and measure "money", with the most narrow versions including only currency in circulation and demand deposits.

The MSCI AC Asia ex Japan Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The MSCI Emerging Markets (EM) Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

NAREIT Index is a REIT-focused index that spans the commercial real-estate industry.

An option is a contract granting the right but not the obligation to purchase or sell property or assets during a specified period at an agreed-upon price.

An owner's equivalent rent describes the amount of rent that would have to be paid if a homeowner instead had to rent an equivalent property.

The payout ratio is the proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage.

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

The price-to-book (P/B) ratio or multiple is used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

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

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

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

The real interest rate is the nominal interest rate adjusted for inflation as measured by the GDP deflator.

Risk-adjusted return refers to taking into account both an investment's expected return and how much risk is involved in producing that return.

Risky assets are investments whose future value is uncertain.

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

A safe-haven investment is an investment that is expected to retain or even increase its value in times of market turbulence.

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

A spill-over effect occurs when one event has consequences in a seemingly unrelated context.

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

Stamp scrip refers to currencies that need to carry an official stamp (usually obtained for a fee) to maintain their value.

The Stoxx Europe 600 Index is an index representing the performance of 600 listed companies across 18 European countries.

The Swiss Market Index (SMI), made up of 20 of the largest and most liquid Swiss stocks, is Switzerland's blue-chip stock-market index.

Systematic, in a trading context, are strategies using quantitative models to generate buy and sell signals.

The ECB's targeted longer-term refinancing operations (TLTROs), announced in June 2014, are designed to enhance the functioning of the monetary-policy transmission mechanism by supporting bank lending to the real economy.

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

The (equity) tier 1 capital ratio relates a company's equity to its risk-weighted assets. It is an international standard measure for a bank's financial solvency.

Treasuries are fixed-interest U.S. government-debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years), and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The UN climate change agreement is an agreement that governs greenhouse-gas emissions and related issues within the United Nations Framework Convention on Climate Change.

Underperformance refers to an investment performing comparatively less well than others.

The U.S. dollar (USD) is the official currency of the United States and its overseas territories.

Utility refers to a power company that owns or operates facilities used for the generation, transmission, or distribution of electric energy.

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

The velocity of money (also called the velocity of the circulation of money) refers to how fast money passes from one holder to the next.

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

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

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

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

A 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.

Risk Warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investments in Foreign Countries - Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency - Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.
High Yield Fixed Income Securities - Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds - An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for "Qualified Purchasers" as defined by the US Investment Company Act of 1940 and "Accredited Investors" as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund's investment objective will be achieved, or that investors will receive a return of all or part of their investment.

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Publisher: Deutsche Asset Management Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany
Graphic Design: HAPTIKDESIGN GmbH, Frankfurt am Main | Print: C. Adelmann GmbH, Frankfurt am Main