



## Media Information

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### **Increased political certainty boosts capital markets – Deutsche Asset Management**

- Deutsche AM sees end of dollar strength
- Positive equity performance set to continue
- Phases of high volatility include setback potential as well as opportunities

Deutsche Asset Management (AM) has changed its currency forecast due to a positive outlook for the European economy, shifting political risk from Europe to the USA, as well as expected interest rate hikes by the US central bank. In its Capital Market Outlook for the second half of 2017, published on Wednesday, Stefan Kreuzkamp, Chief Investment Strategist at Deutsche AM, predicted the dollar's strength is coming to an end.

It recommends that investors should increasingly turn their attention to Europe. Political risks that took their toll on the markets at the start of the year have now dissipated for the most part, explained Kreuzkamp. Election results in the Netherlands and France should be seen as a good sign for Europe. "Political risks impacting the markets have now moved from Europe to the USA", explained Kreuzkamp when he was asked about the ongoing uncertainty surrounding the Trump Administration – for example in terms of future US-trade policy.

Figures from the German IFO Institute at the start of this week demonstrated that economic prospects for Europe are positive. These statistics, and indications that the European Central Bank (ECB) is considering scaling back its extremely accommodative monetary policy, mean factors supporting the US dollar continue to disappear, Kreuzkamp went on to explain. The US Central Bank could also enact two further rate hikes over the coming twelve months.



### **From parity to 1.10 dollars to the euro**

In light of this, Deutsche AM has changed its outlook from parity to 1.10 US dollars to the euro. Overall, Kreuzkamp expects to see stable growth for the years 2017 and 2018. The global economy is set to grow by 3.5 per cent during the current year and by 3.7 per cent next year. In Europe, growth for 2017 is projected at 1.8 per cent and then 1.6 per cent in 2018. This goes hand in hand with considerably lower political risks. Consumption is the main driver behind this growth.

Deutsche AM predicts the US economy will grow by 2.1 per cent in 2017 and by 2.3 per cent in 2018. This outlook was depressed by uncertainty surrounding announcements on tax reforms and infrastructure investments. Deutsche AM is increasing its forecast for China from 6.3 per cent growth in 2017 to 6.5 per cent. In 2018 Deutsche AM expects to see growth of 6.3 per cent.

### **Bond markets offer few attractive investments**

On bonds Deutsche AM is scaling back its prognosis for US sovereign bonds to 2.6 per cent for ten-year bonds and 3.1 per cent for 30-year sovereign bonds. Bill Chepolis, Head of Fixed Income in the regions Europe, Middle East and Africa, commented on German federal bonds: "Solid economic growth in the Eurozone and a reduced asset-purchase-programs by the ECB should prompt higher yields from federal bonds". As a consequence, the twelve-month goal for two-year federal bonds has been increased to -0.4 per cent. The key issue is the lack of investment opportunities in the classical sovereign bond arena, although selected emerging markets remain promising. The view is also positive in terms of high quality European and US corporate bonds. The view on high yield bonds is neutral. New issues of Euro high yield bonds are already quite expensive and in the USA it could become problematic if the oil price remains low. Taking into consideration the reinvigorated demand from China, Deutsche AM's twelve-month target for US WTI is 50 dollars a barrel (159 liters). Deutsche AM also sees Gold twelve months hence at US dollars 1200 an ounce (31.1 grams).

### **Equities from Europe and Emerging Markets very popular**

For equities, Deutsche AM currently favors Emerging Markets, Europe and Germany in particular. "It is difficult to identify factors that could bring this current cycle to an end", said Thomas Schüssler, Co-Head Equities. There is also no



indication of any factors that could prompt a prolonged correction. Corporate figures were good in the first quarter, companies themselves are optimistic and earnings per share (eps) would indicate indices are on the up. European equities, German in particular, are currently promising investments. In Emerging Markets Deutsche AM is primarily focusing on the Asian markets. Uncertainty about the Trump government and the expectation of a weaker US dollar would tend to argue against US equities. Other indicators also suggest the strong upward shift in the US markets will soon come to an end. In essence, the current phase is one in which so-called “growth equities” are preferred over more intrinsically strong “value stocks”, and technology remains a growth sector. The energy sector has been downgraded to neutral due to the weak oil price.

In view of these forecasts Christian Hille, Head Multi Asset Investment, also pointed to his sample portfolio where current weightings are Equities 40 per cent, Bonds 45 per cent and Alternative Investments 15 per cent. Hille also suggested Gold as a diversifier. “We continue to focus on income and growth which is why currently bonds and equities from Emerging Markets currently find high favor with us”, said Hille. A particularly interesting factor in today’s markets is the volatility range. In the American S&P 500 Index this is 9.8 per cent at present which is an historic low – the average from 1990 thru 2017 is 19.6 per cent. Hille said: “The risk of setbacks is therefore high, but these do also offer good buy opportunities. Equities remain very attractive relative to bonds”.

### **Overview of strategic forecasts**

	June 2018
United States, Sovereign Bonds, 2-year	1.85 %
United States, Sovereign Bonds, 10-year	2.6 %
Germany, Sovereign Bonds, 2-year	-0.4%
Germany, Sovereign Bonds, 10-year	0.8%
Euro vs. Dollar	1,10 Dollar
USA – S&P 500	2450
Germany - Dax	13400
Eurozone – EuroStoxx50	3650
UK- FTSE 100	7500



Japan – MSCI Japan	970
Gold	1200 Dollar/Troy Ounce
Crude Oil – WTI	50 Dollar/Barrel

	Forecast 2017	Forecast 2018
GDP Growth Rate, World	3.5 %	3.7 %
GDP Growth Rate, USA	2.1 %	2.3 %
GDP Growth Rate, Eurozone	1.8 %	1.6 %
GDP Growth Rate, China	6.5 %	6.3 %

#### **Deutsche Asset Management**

With EUR 723 billion of assets under management (as of March 31, 2017), Deutsche Asset Management<sup>1</sup> is one of the world's leading investment management organizations. Deutsche Asset Management offers individuals and institutions traditional and alternative investments across all major asset classes.

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