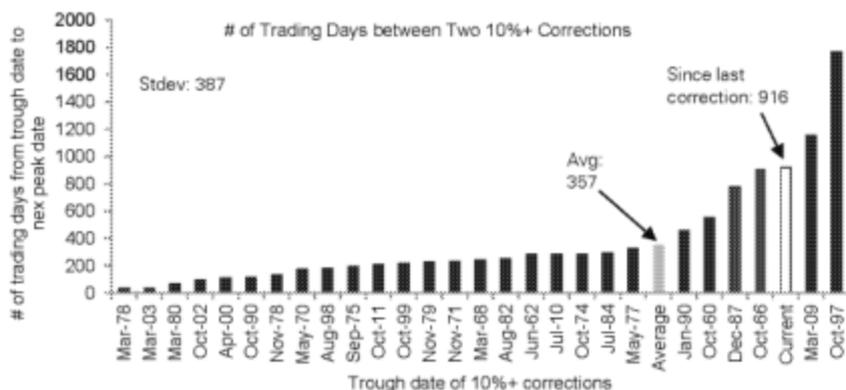




## Risk of a near term 5%+ dip is high

We believe the probability of a 5%+ dip is high this summer and our tactical call remains Down given the S&P now at an even higher PE than a year ago, heightened uncertainty in 10yr yields, weak earnings growth and continued soft economic data. We haven't had a 5%+ dip this year. Historically 5%+ dips are common and happen at least once a year since 1960, except 1964, 1993 & 1995. It has been 916 trading days (3.6 years) since a 10% correction. Selloff triggers could be a further rise in 10yr yields especially if UE keeps falling amidst slow economic growth and Fed remains unclear on first hike timing, or a jump in the dollar upon the Fed expressing firm intentions to hike in Sept.

Figure 14: Intervals between 10%+ corrections



Source: S&P, Deutsche Bank

Figure 15: Distinct S&P 500 sell-offs, 1957-2014

From high of:	All time	3yr high	1yr high	6mos high
5% Dips	61	73	83	78
10% Corrections	25	29	30	28
15% Swoons	20	20	20	21
20% Bears	13	9	13	11
25%+ Crash	13	7	7	7

Source: S&P, Deutsche Bank

Figure 16: Duration and magnitude of 5-9.9% sell-offs

Size of Sell-Off	Count	Avg Sell-off	Avg Duration (TDs)
10%+	28	-21.4%	144
9% - 10%	8	-9.5%	32
7% - 9%	13	-7.8%	37
6% - 7%	12	-6.5%	27
5% - 6%	17	-5.4%	20

Source: S&P, Deutsche Bank