

Global Equities

- With global risks (e.g. Greece/China) apparently fading, U.S. equities have taken their direction from fundamentals (e.g. earnings), as well as the outlook for economic growth and monetary policy.
- With ~60% of the S&P 500 companies having reported Q2 2015 earnings, the S&P 500 has been able to rally as earnings have come in ~4% better than expected.
- In addition, while earnings are on pace to come in modestly negative in Q2 (-1% YoY) the bulk of the weakness has been in the commodity sectors. In fact, earnings and revenues excluding energy are on pace to rise (+5% and +2% YoY, respectively).
- Although the Q2 earnings season has been better than expected, we caution investors against getting complacent in the current environment.
- Valuations (P/E LTM) remain near a 5YR high and economic data has been mixed as seen by the Citigroup Economic Surprise Index improving but still in negative territory. In addition, the first Fed rate hike remains on the table for September which has historically fueled volatility and August has been the weakest month for equities over the past 20 years.

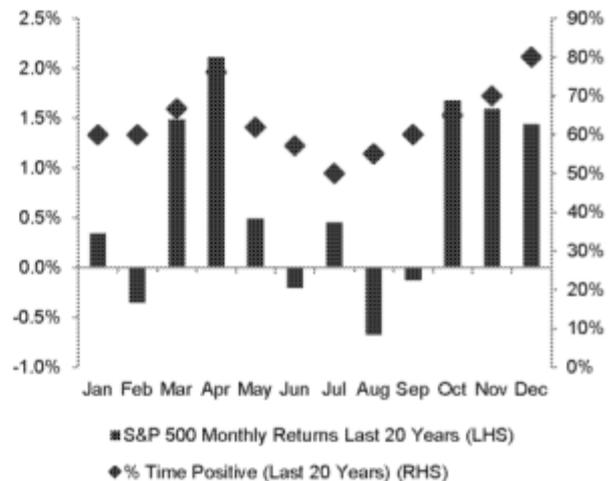


Figure 1: Beware of negative seasonality*
 Source: FactSet, Deutsche AWM
 Data as of July 30, 2015.
 * Data presented are averages for 1994-2014

Global Fixed Income

- 10-year U.S. Treasuries have been in a tight range as the eventuality of rate hikes has been overshadowed by disinflation fears as commodity prices have declined and economic data has been mixed.
- The sector that has seen the most pronounced movement has been high yield as it is on pace to post its first back-to-back monthly losses in two years.
- We continue to like high yield despite the recent downturn for several reasons. First, the current spread level (~500 bps) is likely reflecting the potential for an increase in energy related defaults over the next year.
- Second, sharp losses in high yield have historically coincided with a credit event (e.g. Long Term Capital Management) or recession.
- With the Fed's eventual tightening cycle to be more gradual, economic growth to remain reasonable and energy prices to stabilize we see limited risk for either event.
- Lastly, corporate America remains healthy and default expectations remain historically low.

Focus of the week

Equities: With valuations heightened and negative seasonality, we remain cautious on equities in the near term.

Fixed Income: Despite recent weakness in high yield we remain constructive long term on the sector.



Figure 2: High yield weakness is energy-related
 Source: FactSet, Deutsche AWM
 Data as of July 30, 2015.

No assurance can be given that any forecast or target can be achieved. Forecasts are based on assumptions, estimates, opinions and hypothetical models which may prove to be incorrect. Past performance is not indicative of future returns. Investments come with risk. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time. Your capital may be at risk.