



Long or short, Larry Adam?

Six market views from our Chief Investment Officer for Wealth Management in the Americas and Chief Investment Strategist for Deutsche AWM Americas

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

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.