

Seven Signs

Figure 25: The Seven Signs: cross asset class market signals

"The Seven Signs" Cross Asset Class Market Signals	Current Level	Change vs 1 Wk Ago	Change vs 4 Week Avg.	Change vs 4 Wks Ago	Level 1yr Ago	Syr Avg.	20yr Avg.	PTL Rel to Hist.	Risk Aver. Rel to Hist.	Risk Aversion Level	Incremental Risk Aversion	Strategic Safety	Safe Criteria
Interest Rates and Inflation													
10yr Treasury yield	2.04%	-0.11%	2.16%	0.01%	2.49%	2.35%	4.21%	3%	97%	High	Down	High	2 - 4%
10yr TIPS yield	0.61%	-0.02%	0.64%	0.08%	0.52%	0.21%	1.77%	11%	89%	High	Down	Caution	0.5% - 2%
10yr Treasury - TIPS spread	1.43%	-0.09%	1.52%	-0.07%	1.97%	2.14%	2.44%	2%	2%	Low	Up	Yes	bet. 1 - 3%
5yr Treasury yield	1.36%	-0.09%	1.48%	-0.04%	1.76%	1.32%	3.60%	4%	96%	High	Up	Caution	1.5% - 3%
30yr Treasury yield	2.85%	-0.09%	2.95%	0.10%	3.20%	3.35%	4.81%	2%	98%	High	Down	Yes	2.5% - 4.5%
Fed Fund Rate 2015 End (Futures)	0.20%	0.00%	0.25%	-0.05%	0.77%	0.25%	2.70%			High	Up	Yes	below 2.5%
Fed Fund Rate 2016 End (Futures)	0.66%	-0.05%	0.76%	-0.16%	1.85%	0.26%	2.70%			High	Up	Yes	below 2.5%
Duration													
US Treasury yield curve slope (10-2yr)	1.41%	-0.04%	1.46%	-0.01%	1.92%	1.94%	1.24%	66%	35%	Normal	Up	Yes	above 100bps
US Treasury yield curve slope (10-5yr)	0.68%	-0.02%	0.68%	0.05%	0.73%	1.04%	0.61%	79%	21%	Normal	Down	Caution	above 60bps
Credit													
Corporate IG credit spreads (bps)													
Financial	160.4	8.4	153.0	1.6	121.9	184.6	175.0	65%	65%	Normal	Up	Yes	below 200
Industrial	184.4	12.6	173.2	2.7	116.8	140.9	156.0	79%	79%	High	Up	Yes	below 200
Financial spreads over Industrial	-24.0	-4.2	-20.2	-1.1	5.1	43.7	19.1	31%	31%	Normal	Down	Yes	below 50
Corporate HY credit spreads (bps)													
TED spreads (bps)	670.0	47.1	610.2	15.7	462.1	526.4	609.5	69%	69%	Normal	Up	No	below 600
Muni spreads (bps)	34.5	2.5	32.1	5.1	22.0	25.5	43.7	55%	55%	Normal	Up	Yes	below 50
Sovereign spreads (bps)	41.32	8.7	34.4	0.1	-1.3	21.6	2.3	80%	80%	High	Up	No	below 25
Sovereign spreads (bps)													
Germany	-145.1	10.3	-149.9	-2.2	-154.3	-73.2	-46.1	5%	5%	Low	Down	Yes	below 0 bps
France	-105.3	12.2	-110.7	2.9	-120.6	-13.5	-23.5	10%	10%	Low	Up	Yes	below 100 bps
Italy	-31.4	9.8	-34.4	-6.2	-15.7	174.1	69.9	26%	26%	Low	Down	Yes	below 100 bps
Spain	-14.8	3.7	-13.0	-0.1	-35.3	185.3	57.0	36%	36%	Normal	Down	Yes	below 100 bps
Currency													
US Dollar Index													
USD/EUR	92.10	1.5%	91.66	-0.3%	81.09	76.95	86.53	67%	67%	Normal	Down	Flat	Neutral
JPY/USD	1.1177	-0.1%	1.1234	0.4%	1.2631	1.3012	1.2203	28%	72%	High	Down	Caution	\$1.20 - \$1.40
CHF/USD	119.88	-0.3%	120.11	-2.0%	109.65	95.05	108.08	79%	21%	Low	Up		
USD/Gold (real \$)	0.9733	-0.7%	0.9730	0.6%	0.9551	0.9251	1.2367	23%	77%	High	Down		
Commodities													
CRB													
Brent Oil	469.9	-1.4%	473.0	0.0%	509.9	618.7	348.9	70%	70%	High	Up	Up	Not Safe
WTI Oil	403.13	-0.6%	405.66	-0.6%	473.42	482.61	346.53	64%	36%	Normal	Up	Up	
Natural gas	48.37	1.3%	48.39	0.5%	94.67	98.14	56.26	48%	52%	Normal	Down	No	\$70 - \$100
Copper	45.09	1.4%	45.47	6.3%	91.16	87.21	54.41	47%	53%	Normal	Down	No	\$70 - \$100
Uncertainty													
VIX													
1M Implied Vol	21.7	2.7	20.8	3.3	13.6	15.0	18.6	74%	74%	High	Up	No	below 18
1M Realized Vol	22.4	-3.2	28.3	12.3	9.4	13.7	16.9	82%	82%	High	Up	No	below 18
1M Vol Premium (Implied - Realized)	-0.7	5.9	-7.5	-9.0	4.2	1.3	1.6	22%	22%	Low	Down	Yes	below 3
Correlation (S&P 500)													
1M Implied Correlation	50.2	2.8	51.8	8.0	40.3	40.6	37.0	85%	85%	High	Up	No	below 40
1M Realized Correlation	64.1	-6.2	72.0	35.4	33.8	37.0	32.2	96%	96%	High	Up	No	below 40
1M Correl Premium (Implied - Realized)	-13.9	9.0	-20.2	-27.4	6.5	3.6	2.7	4%	4%	Low	Down	Yes	below 10
LTM PE / 3m Avg. VIX (mkt emotion)	0.83	-0.04	0.91	-0.27	1.29	0.95	0.98	31%	69%	High	Up	Yes	0.8 - 1.2
Offered Equity Risk Premium													
LTM PE	16.1	-1.0%	16.3	-4.0%	17.0	15.2	18.5	46%	54%	Normal	Up	Neutral	below 18
PE on 2015E EPS	16.0									Normal	Up	Neutral	below 17
PE on normalized 2015E EPS	15.6									Normal	Up	Neutral	below 17
Implied real return offered by S&P 500	6.2%	1.0%	6.1%	4.2%	5.9%	6.7%	6.5%	53%	53%	Normal	Up	Neutral	above 5.5%
Implied ERP offered by S&P 500	5.6%	1.4%	5.5%	3.1%	5.4%	6.2%	3.6%	83%	83%	Normal	Up	Yes	above 4%

Source: FRB, Bloomberg Finance LP, I/B/E/S, Deutsche Bank

Prices as of 9/30/2015

A signal's risk aversion is based on its current level expressed as a percentile of all the observations in its long-term history. Monthly observations from 1960 for Interest Rates & Inflation, Duration, LTM PE and Implied ERP; 20 yr history for the rest.

