

Europe (equities)



Europe's equities are still supported by sound economic and financial data such as credit growth, business surveys and earnings dynamics. However, we continue to stay neutral on European equities and favor Eurozone equities which are set to benefit more not only from relative U.S.-dollar strength, but also from low oil prices.

Japan (equities)



We upgrade Japanese equities to overweight. The market has now fallen by around 15% since August, probably making it a good time to take advantage of its underlying merits: the soundest regional earnings dynamics, rising dividends and investment, plus major reforms in corporate governance which have started to bear fruit.

Emerging markets (equities)



After revising expected emerging-market 12-month earnings growth down to zero, we downgrade EM equities to underweight. Despite the sharp sell-off, there still could be further setbacks, particularly in Latin America where consensus estimates of 2016 earnings growth look unrealistic.

Financials (equities)



We remain overweight on financials. Balance sheets continue to recover, dividend payments are rising and valuations remain moderate in historical terms. In the short run, monetary policy should also strongly affect financials. Their recent softness could be reversed if the Fed started its interest-rate turnaround before year-end.

U.S. investment grade



We return to neutral on U.S. investment grade. Risk premiums have widened to such an extent that they may offer a sufficient buffer against defaults. The Fed's postponement of its first rate hike also argues against an underweight. Additionally, the excess supply of the summer months is now leveling off.

EUR high yield



We upgrade EUR high yield to overweight. Over the medium term, this segment should be supported by low default rates, good ratings, high demand, the low share of the energy and mining sectors and historically high market risk premiums. However, Brazil and automotive issuers could dampen sentiment temporarily.

Covered bonds



We downgrade covered bonds to underweight. These were not left unscathed by rising volatility and, moreover, are likely to be impaired by fears that the ECB might reduce its covered-bond purchases. Short-term, the market is also suffering from substantial new issuance, which has exceeded demand.

Hedge funds



This market environment should allow hedge funds to outperform. Nervous, sideways-trading markets are particularly suited to equity-market-neutral strategies and discretionary-macro strategies, taking advantage of regional divergences.

The tactical view (one to three months)

Equity indices:

- positive view
- neutral view
- negative view

Fixed income and exchange rates:

- The fixed-income sector or the exchange rate is expected to perform well
- We expect to see a sideways trend
- We anticipate a decline in prices in the fixed-income sector or in the exchange rate

The traffic lights' history is shown in the small graphs.

● A circled traffic light indicates that there is a commentary on the topic.

The strategic view up to September 2016

Equity indices, exchange rates and alternative investments:

The arrows signal whether we expect to see an upward trend (↗), a sideways trend (→) or a downward trend (↘) for the particular equity index, exchange rate or alternative asset class.

Fixed income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries, if not stated differently. ↗ depicts an expected widening of the spread, → a sideways spread trend and ↘ a spread reduction.

The arrows' colors illustrate the return opportunities for long-only investors.

- ↗ positive return potential for long-only investors
- limited return opportunity as well as downside risk
- ↘ high downside risk for long-only investors

¹ Spread over German Bunds

² These traffic-light indicators are only meaningful for existing private-equity portfolios

Further explanations can be found in the glossary.