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

Will equity-market investors have to learn to live with volatility?
LONG We still expect modestly rising equity markets but also believe that volatility is here to stay – the events of the last few months have demonstrated how equity-market reversals can quickly erode year-to-date gains. Equity valuation multiples also tend to decline after the Fed rate hike and we think that valuations will gradually move back towards historical averages. So opportunities will exist but investors will have to learn to live with some sharp upward and downward market moves.

Are emerging markets likely to remain particularly vulnerable?
LONG Emerging markets were expected to suffer in the run up to any Fed rate-hike decision and they have. But less expected was how fears about Chinese growth would spill over into a more general concern about the long-term health of emerging markets – a concern compounded by the impact of low commodity prices on certain economies. The implication is that even if the future path of Fed policy becomes much clearer, emerging markets' problems will not be resolved quickly and they will remain vulnerable to reversals.

Will China's impact on developed equity markets vary?
LONG The U.S. has the least exposure with an estimated 3% of profits of companies in the S&P 500 Index related to China. Germany and Japan are more exposed, with around 20% of index profits linked to China. Here, some cut in earnings-per-share estimates looks prudent in response to China's troubles. But all calculations as to the impact of various Chinese growth scenarios must be speculative as we cannot anticipate the second-round effects or the possible policy responses.

Will core sovereign bonds always be a safe haven?
SHORT Nothing should ever be taken for granted. Consider for example how there was only a small decline in German sovereign-bond yields earlier this year in response to a sharp equity-market correction. High measures of value at risk (VaR) meant that switching into bonds did not help portfolio managers reduce risk; they may also have been put off by negative yields. Other issues may also come into play in other sovereign-bond markets – for example, concerns over Chinese sales of U.S. Treasuries in an attempt to preserve the value of the Chinese yuan.

Are you still broadly positive on U.S. high yield?
LONG Global growth concerns and low oil prices have cast a shadow over U.S. high yield in 2015. In particular, parallels have been drawn to the telecoms defaults of 1998/99. But the two periods are not totally comparable. Energy has a less significant weight in the index now than telecoms did then. High volumes of new issues in recent years have also helped push out near-term maturities and have decreased current refinancing risks. This is certainly one to monitor, but we remain broadly positive on U.S. high-yield debt.

Will the euro's role as a funding currency continue?
LONG Over the last year, markets have realized that the ECB's long-term commitment to a very dovish monetary policy makes the euro an attractive funding currency. As a result, even increased market concerns over Greece earlier this year were supportive. With ECB quantitative easing (QE) expected to continue for some time, the euro's role as a funding currency will continue. However, it is still not clear whether the euro would remain a genuine safe-haven currency through a period of deeper financial stress. The U.S. dollar would probably reassert its historical safe-haven role, helped by the depth and liquidity of the U.S. Treasury market.

LONG represents a positive answer
SHORT represents a negative answer

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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.