

Global Equities

- While good U.S. economic data is normally positive for the Eurostoxx, the impact of lower U.S. inflation or wage growth data on Europe is less known.
- But if you assumed this worked against Fed rate hikes, then it could move EUR/USD up again in the short term – often not a positive for the Eurostoxx.
- A fading tailwind from a weak EUR would have an impact on Eurozone companies, particularly on 2016 earnings. Equity investors are already focusing on next year, so this could affect current levels.
- The good news is that ECB knows all this and should include the EUR as a factor in any decision to expand or prolong its quantitative easing (QE) program, if Eurozone economic data should deteriorate.
- The earnings exposure of the Eurostoxx to China is about 15-20% with the German market being the most exposed. So downward revisions to earnings per share (EPS) estimates would not surprise.
- Lower valuations will, of course, price in negative news from China to some extent. But the impact of China on other emerging markets could create further problems – and not only for European markets.

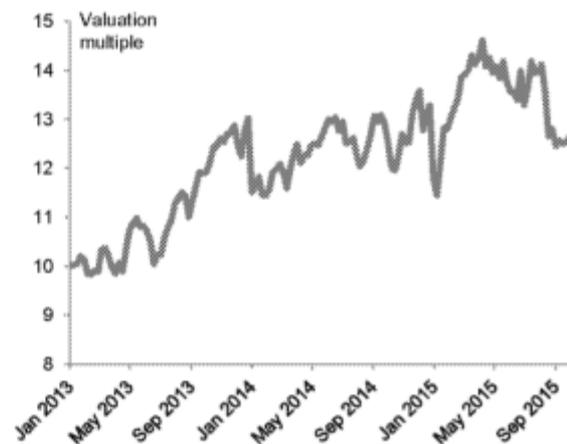


Figure 1: Eurostoxx50 price/earnings (P/E) valuations*
Source: Bloomberg Finance LP, Deutsche AWM.
Data as of September 30, 2015.
* Next 12 months, consensus estimates.

Global Fixed Income

- Eurozone GDP growth picked up to +1.5% YoY in Q2 2015, up from around +0.75% a year ago.
- Normally, such an improvement in growth would have been expected to push government bond yields higher.
- However, Eurozone bond yields currently look more influenced by the disinflation impulse coming from China and commodities. It looks as though worries about inflation trump growth, so far this year.
- The quantitative easing (i.e. bond buying) program by the ECB has also increased demand and thus the prices of government bonds, thereby reducing yields, mainly in the first quarter of this year.
- The chart shows the currently close correlation between government bond yields in the Eurozone (proxied for by the French 10 year yield) and inflation.
- Should the disinflation impulse from China/commodities get more obvious, as the ECB hinted at in its last press conference, a further fall in inflation cannot be ruled out. The latest inflation release showed consumer prices falling by -0.1% YoY in September after +0.2% the month before.

Focus of the week

Equities: Any ECB decision on QE expansion or prolongation will likely factor in the implications of the EUR exchange rate for Eurozone equities.

Fixed Income: Eurozone bond yields remain more influenced by disinflation concerns than evidence that economic growth is picking up.

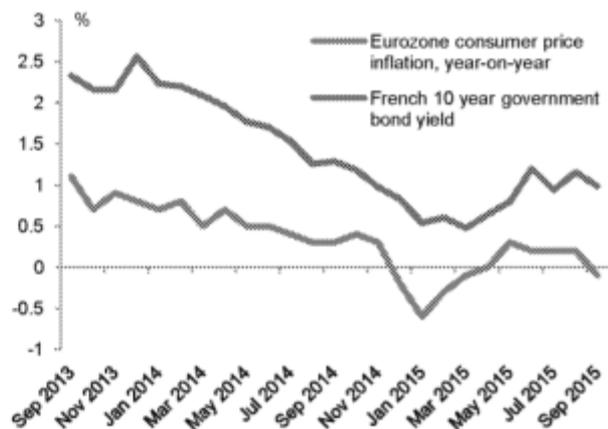


Figure 2: Eurozone inflation and government bond yields compared
Source: Bloomberg Finance LP, Deutsche AWM.
Data as of September 30, 2015.

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.