

Letter to investors

Everything remains different

Markets should rise less in 2016 than they did in 2015. But there will not be much time for yawning. New opportunities will emerge for tactical investors.

Twelve months ago, my predecessor, Asoka Wöhrmann, headlined his outlook for 2015: "Diversification paramount in 2015 – Capital markets will get less monetary-policy oxygen in 2015". However, he added that: "In spite of divergent approaches, the central banks are likely to remain supportive." How tempting it is to simply copy large parts of this text, replacing 2015 by 2016 and betting on readers' memories failures! But has 2015 really been so uneventful, as to leave our outlook almost unchanged?

Well, we still believe that no cyclical turn is in sight – our global growth target for 2016 is even slightly above the 2015 figure. What has changed, however, are the drivers of growth: developed markets are catching up on emerging markets, consumption and service-driven sectors are outperforming industrials, domestic markets are growing faster than exports. This feeds through into our views on equities, still our preferred asset class. We favor developed markets and the healthcare, technology, consumption and financial sectors. However, moderate price-gain expectations and high volatility might let down investors occasionally in 2016.

At first sight, the globally-supportive monetary environment also seems little changed. Within the fixed-income sector, U.S. and euro corporate bonds therefore continue to offer opportunities. Within sovereigns we favor the Eurozone periphery. But differences do exist between 2015 and 2016. The marginal effect of further monetary easing – with the European Central Bank (ECB) already verbally preparing the ground – should fade. Furthermore, the market discounts central-bank policy initiatives at the time of their announcement, not of their

implementation. Pressure on the Fed to act has also increased. Turbulent financial markets have served to justify its inactivity in 2015, but further passivity would be perceived negatively by most market players.

All in all, investors remain divided on the need of a Fed rate hike and the vulnerability of individual markets. Cheap money has found many recipients as can be seen in the drastic increase in emerging-markets debt, record M&A transaction volumes with near-record valuations, and the corresponding near-record leverage of, for example, U.S. corporations. Moreover, towards the end of 2016, oil prices and the U.S. labor market could result in inflation growing higher than expectations. Many market players feel, however, reassured that the Fed will prove responsive to market reactions. But too much anticipated anticipation could eventually drive investors and central banks into losing sight of fundamentals. Which takes us back to the investment strategy for 2016. Once again, "buy and hold" is not an option since markets might depart from fundamentals every now and then. Investors must react dynamically – no time for yawning.

// The Fed will, whether it likes it or not, continue to be the dominating market-related topic in 2016. //



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