Nine positions
Focus
The big picture
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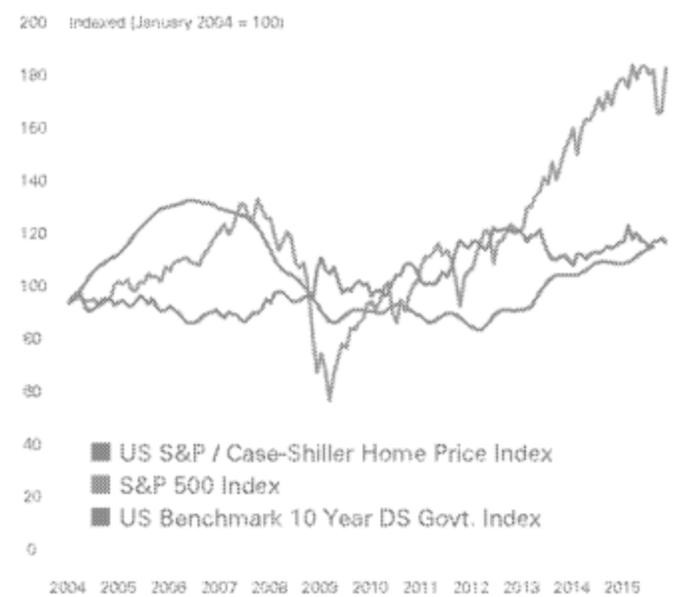## The Phillips curve

3.0 U.S. inflation rate (excluding food and energy) in %[2]

The Phillips curve shows how inflation and unemployment relate to each other. When unemployment is low, employers have to pay up to attract staff, which in turn pushes up prices. Conversely, high unemployment reduces wages and therefore prices. Inflation and unemployment appear inversely related. Note, however, that this relies on a very mechanistic view of the economy. The relationship breaks down if the inflationary expectations of workers shift.

Sources:
Thomson Reuters Datastream
Deutsche Bank Research;
as of 11/2015;
e = expected

[1] yearly average   [2] consumer-price index excluding food and energy, yearly average

Evolution of asset classes in the United States

200 Indexed (January 2004 = 100)

- US S&P / Case-Shiller Home Price Index
- S&P 500 Index
- US Benchmark 10 Year DS Govt. Index

Source: Thomson Reuters Datastream; as of 11/2015

Since the beginning of the crisis, the Fed has attempted to kick-start the economy by boosting asset prices. This has been especially effective for equities, as returns on the S&P 500 Index show. Real estate too has made up much of the previously lost ground.

United States (unemployment rate)
The unemployment rate is expected to continue to shrink next year.

4.5-4.7%*
(December 2016F*)

*Deutsche AWM forecast as of 11/11/2015

II Nowadays, there is perhaps a tendency to exaggerate the effectiveness of monetary policy [...] The idea that the business cycle can be altogether abolished seems to me as fanciful as the notion that the law of supply and demand can be repealed. *II*

William Martin, chairman of the Federal Reserve Board, speech on October 19, 1955

United States (federal funds rate)
Given the declining unemployment and wage increases a return to slightly more normal interest rates seems appropriate for the Fed.

0.75-1.00%*
(December 2016F*)

*Deutsche AWM forecast as of 11/11/2015

Past performance is not indicative of future returns. It is not possible to invest directly in an index. No assurance can be given that any forecast or target will be reached. F = forecast. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analyses that may prove to be incorrect.