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Equity-market perspectives

Equity-market outlook for 2016: tactical, selective and constructive

Global equity markets have recovered since mid-September, and most stock-market indicators are approaching the levels we had forecast twelve months ago. What will 2016 bring?

Seven years after the start of the Great Financial Crisis, markets have entered a mature phase. For this reason, 2016 and beyond should only yield mid-single-digit total returns. At the same time, we have to acknowledge a higher risk that annual returns could easily turn negative.

With a view to stock valuations, we do not see much further upwards potential for price-to-earnings (P/E) ratios. Our constructive view on equities is therefore based on expected moderate earnings growth and dividends. Earnings growth should be driven by successful firms in the technology, healthcare, finance and consumption sectors. Dividends, in turn, are gaining in significance: globally speaking, distributions should reach a record level in 2016. In an environment of very low or negative interest rates, an expected median dividend of 2.5%¹ is significant. The share of dividends in equities' total returns should increase in the years to come, since the potential for share-price gains has decreased compared with previous years.

Our preference for equities from developed markets remains unchanged. In 2016, many emerging markets might face further headwinds from low commodity prices and decelerating growth in China. But we do not have any distinct preferences within the United States, Europe and Japan. Earnings growth should be similar in all three regions in 2016 and less influenced by currency fluctuations than in 2015.

In 2016, our focus will, therefore, be more on the selection of sectors and stocks and less on regional allocations. Equity investors will find the winners of further developments in

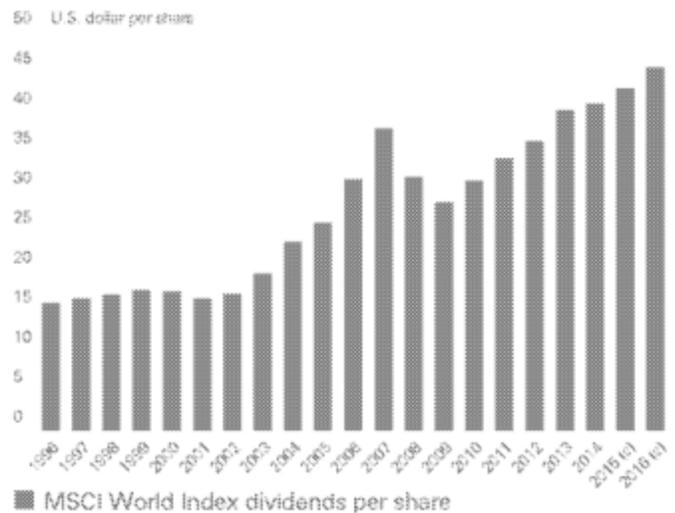
¹ Expected dividend yield for the MSCI World Index 2016

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digitalization, particularly in the technology sector. Cloud computing or big data are no longer just catchwords – they have turned into multi-billion U.S. dollar sales drivers. The most recent price corrections in pharmaceuticals offer selective entry points in order to participate in seminal progress in cancer research. Financials, meanwhile, should benefit from the expected rate move of the Fed.

Tactical and selective equity investment could turn 2016 into another successful year.

Global dividends could hit a new high in 2016



The aggregate nominal payout by listed companies is likely to increase in 2016 for the 8th time in a row, setting another new record.

Source: FactSet Research Systems Inc.; as of 11/2015
 e = market expectations