

EPS outlook, Performance & What to buy now

Figure 63: The Seven Signs (cross asset class market signals) suggest Cautious / Neutral stance on equities

"The Seven Signs" Cross Asset Class Market Signals	Current Level	Change vs 1 Wk Ago	Change vs 4 Week Avg.	Change vs 4 Wks Ago	Level 1yr Ago	5yr Avg.	20yr Avg.	PTCL Rel to Hist.	Risk Aver. Rel to Hist.	Risk Aversion Level	Incremental Risk Aversion	Strategic Safety	Safe Criteria
Interest Rates and Inflation													
10yr Treasury yield	2.25%	-0.06%	2.22%	0.17%	2.36%	2.35%	4.18%	4%	96%	High	Down	Caution	2 - 4%
10yr TIPS yield	0.65%	-0.10%	0.67%	0.11%	0.52%	0.21%	1.75%	12%	88%	High	Down	Caution	0.5% - 2%
10yr Treasury - TIPS spread	1.60%	0.04%	1.55%	0.06%	1.84%	2.14%	2.43%	3%	3%	Low	Down	Yes	bet. 1 - 3%
5yr Treasury yield	1.67%	-0.04%	1.60%	0.24%	1.64%	1.32%	3.57%	8%	92%	High	Down	Caution	1.5% - 3%
30yr Treasury yield	3.01%	-0.08%	3.00%	0.12%	3.08%	3.34%	4.79%	4%	96%	High	Down	Yes	2.5% - 4.5%
Fed Fund Rate 2015 End (Futures)	0.21%	0.00%	0.20%	0.01%	0.53%	0.25%	2.66%			High	Down	Yes	below 2.5%
Fed Fund Rate 2016 End (Futures)	0.78%	-0.06%	0.76%	0.14%	1.47%	0.25%	2.66%			High	Down	Yes	below 2.5%
Duration													
US Treasury yield curve slope (10-2yr)	1.40%	-0.06%	1.43%	0.00%	1.84%	1.93%	1.25%	64%	36%	Normal	Up	Yes	above 100bps
US Treasury yield curve slope (10-5yr)	0.59%	-0.02%	0.62%	-0.07%	0.72%	1.03%	0.61%	75%	25%	Normal	Up	Caution	above 60bps
Credit													
Corporate IG credit spreads (bps)													
Financial	138.7	-0.7	142.1	-13.5	130.3	182.7	174.8	51%	51%	Normal	Down	Yes	below 200
Industrial	169.2	1.7	169.0	-10.6	135.3	141.8	156.1	71%	71%	High	Down	Yes	below 200
Financial spreads over Industrial	-30.5	-2.4	-27.0	-3.0	-5.0	40.9	18.7	23%	23%	Low	Down	Yes	below 50
Corporate HY credit spreads (bps)													
TED spreads (bps)	637.2	15.8	611.9	-45.1	488.7	527.7	609.7	63%	63%	Normal	Down	No	below 600
Muni spreads (bps)	25.8	2.6	27.5	-5.1	23.1	25.6	43.6	40%	40%	Normal	Down	Yes	below 50
Sovereign spreads (bps)	19.78	1.0	21.9	-13.9	15.5	22.1	2.5	63%	63%	Normal	Down	Yes	below 25
Germany													
France	-176.8	-4.8	-165.6	-17.8	-151.1	-75.4	-47.4	0%	0%	Low	Down	Yes	below 0 bps
Italy	-144.8	-4.8	-131.9	-22.1	-116.4	-16.0	-25.3	1%	1%	Low	Down	Yes	below 100 bps
Spain	-75.1	-5.0	-63.1	-25.0	-3.0	171.5	65.4	10%	10%	Low	Down	Yes	below 100 bps
Currency													
US Dollar index	94.10	0.0%	92.59	1.4%	82.80	77.27	86.57	71%	71%	High	Up	Neutral	
USD/EUR	1.0734	-0.7%	1.0852	-3.8%	1.2554	1.2934	1.2193	23%	77%	High	Up	Caution	\$1.20 - \$1.40
JPY/USD	122.87	0.2%	122.09	1.8%	117.97	96.12	108.22	88%	12%	Low	Down		
CHF/USD	1.0128	1.3%	0.9985	3.4%	0.9570	0.9254	1.2356	27%	73%	High	Down		
USD/Gold (real \$)	449.5	-1.5%	469.4	-3.2%	502.2	616.7	350.3	69%	69%	Normal	Down		
Commodities													
CRB													
Brent Oil	382.59	-0.3%	389.50	-2.5%	451.97	481.12	347.21	62%	38%	Normal	Up	Not Safe	
WTI Oil	44.18	0.3%	46.88	-5.0%	78.10	98.48	56.79	45%	55%	Normal	Up	No	\$70 - \$100
Natural gas	40.54	-2.9%	43.87	-5.5%	74.58	87.45	54.89	43%	57%	Normal	Up	No	\$70 - \$100
Copper	2.28	0.7%	2.27	-8.5%	4.37	3.56	4.49	13%	87%	High	Up	Neutral	
Uncertainty													
VIX													
1M Implied Vol	14.2	-1.2	13.4	-3.2	11.2	14.9	18.6	33%	33%	Normal	Down	Yes	below 18
1M Realized Vol	14.3	1.5	13.3	-5.5	9.9	13.8	16.9	48%	48%	Normal	Down	Yes	below 18
1M Vol Premium (Implied - Realized)	-0.1	-2.8	0.1	2.2	1.3	1.2	1.6	26%	26%	Low	Up	Yes	below 3
Correlation (S&P 500)													
1M Implied Correlation	35.4	-3.8	31.3	-3.9	33.9	40.1	36.9	51%	51%	Normal	Down	Yes	below 40
1M Realized Correlation	27.3	4.4	25.2	-26.3	24.1	37.0	32.4	44%	44%	Normal	Down	Yes	below 40
1M Correl Premium (Implied - Realized)	8.1	-8.2	6.1	22.4	9.8	3.1	2.6	73%	73%	High	Up	Yes	below 10
LTM PE / 3m Avg. VIX (mkt emotion)	0.85	0.01	0.85	0.01	1.17	0.95	0.98	33%	67%	Normal	Down	Yes	0.8 - 1.2
Offered Equity Risk Premium													
LTM PE	17.5	1.7%	17.4	4.7%	17.5	15.2	18.5	63%	37%	Normal	Down	Neutral	below 18
PE on 2015E EPS	17.5									Normal	Down	Neutral	below 17
PE on normalized 2015E EPS	17.1									Normal	Down	Neutral	below 17
Implied real return offered by S&P 500	5.7%	-1.7%	5.7%	-4.5%	5.7%	6.7%	6.5%	35%	35%	Normal	Down	Neutral	above 5.5%
Implied ERP offered by S&P 500	5.1%	0.1%	5.1%	-6.9%	5.2%	6.2%	3.6%	75%	75%	Normal	Down	Yes	above 4%

Source: FRB, Bloomberg Finance LP, I/B/E/S, Deutsche Bank

A signal's risk aversion is based on its current level expressed as a percentile of all the observations in its long-term history. Monthly observations from 1960 for Interest Rates & Inflation, Duration, LTM PE and Implied ERP; 20 yr history for the rest.

