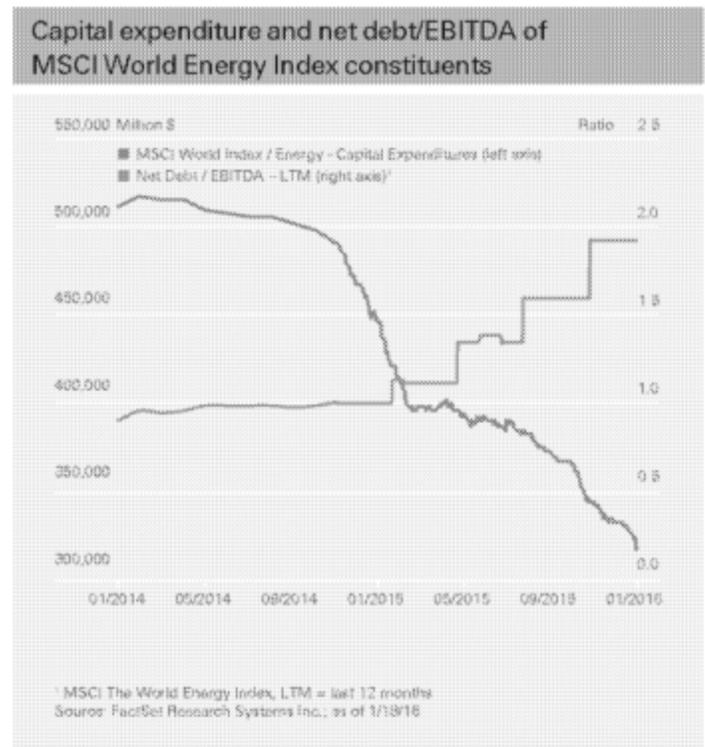
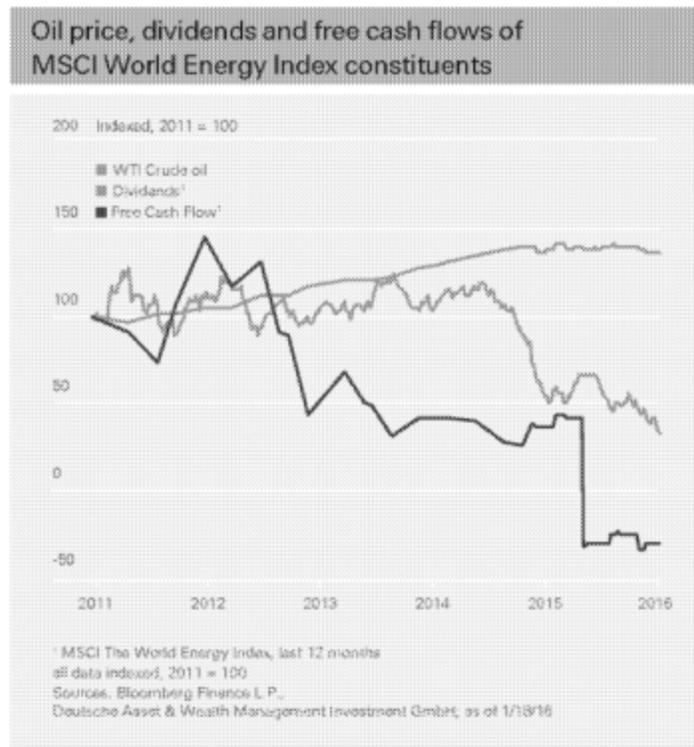


One source of systemic risk could, of course, be the banking sector. At this stage, this looks very unlikely. U.S. banking stocks have been hammered in recent weeks. In January 2016 alone the sector is down 15%. This probably reflects broader capital-market turmoil more than the falling oil price. Direct exposure to the U.S. energy sector looks limited, typically to under 3% of U.S. bank loans. Admittedly, ratios are higher for some of the smaller regional banks. But, banks have already been building up loan-loss provisions on their lending to the energy sector for the last several quarters. This is not a big unknown, in other words. U.S. bank balance sheets are also starting from a stronger position than before previous loan-loss cycles. It remains too early to invest in oil companies and energy-related stocks more broadly.

“Even if oil prices double, these levels would still be a nightmare for oil companies”, explains Marco Scherer, our Energy Equities Expert at Deutsche AM.

For decades, investors could count on oil majors to steadily increase dividends. Oil majors even increased their cash returns as they boosted capital expenditure (capex) (thereby reducing free cash flows (FCF)). Now the majors are struggling just to keep dividends stable. Already, some of them have to revert to paper dividends in order to do so. For the time being, disposals, cost savings and increasing debt levels have helped pay for the dividend. Industry guidance suggests that, in 2017, it would take an oil price of \$60/b to cover dividend with free cash flow. At current oil prices, the capacity of oil companies to maintain dividends looks increasingly endangered. Further falls in the oil price would make matters worse. “At \$15, both equity and debt instruments with any oil exposure would suffer significant weakness all around the world. Dividend payments and debt service would be unsustainable for vast parts of the sector. The number of defaults would increase, while oil supply would decrease. Despite being a very negative scenario in the short term, it would spur healthy developments in the industry for the medium term.”, Marco Scherer notes.



Past performance is not indicative of future returns. No assurance can be given that any forecast, investment objectives and / or expected returns will be achieved. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: Deutsche Asset & Wealth Management Investment GmbH, as of 02/2016