EPS outlook, Performance & What to buy now

Figure 48: 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*	4 Week Avg.	*Change vs 4 Wks Ago*	Level 1yr Ago	5yr Avg.	20yr Avg.	PCTL Rel to Hist.	Risk Aver. Rel to Hist.	Risk Aversion Level	Incremental Risk Aversion	Strategic Safety	Safe Criteria
Interest Rates and Inflation											High	Up	Neutral	
	10yr Treasury yield	1.84%	-0.14%	2.01%	-0.22%	1.72%	2.30%	4.15%	1%	99%	High	Up	Caution	2 - 4%
	10yr TIPS yield	0.48%	-0.09%	0.62%	-0.10%	0.12%	0.20%	1.73%	8%	92%	High	Up	Caution	0.5% - 2%
	10yr Treasury - TIPS spread	1.36%	-0.05%	1.39%	-0.12%	1.60%	2.10%	2.42%	1%	1%	Low	Up	Yes	bet. 1 - 3%
	5yr Treasury yield	1.23%	-0.17%	1.43%	-0.27%	1.24%	1.32%	3.53%	3%	97%	High	Up	Yes	1.5% - 3%
	30yr Treasury yield	2.68%	-0.11%	2.80%	-0.16%	2.29%	3.26%	4.75%	1%	99%	High	Up	Yes	2.5% - 4.5%
	Fed Fund Rate 2015 End (Futures)	0.24%	0.00%	0.23%	0.02%	0.42%	0.26%	2.61%			High	Down	Yes	below 2.5%
	Fed Fund Rate 2016 End (Futures)	0.50%	-0.09%	0.62%	-0.22%	1.14%	0.26%	2.61%			High	Up	Yes	below 2.5%
Duration											Normal	Up	Neutral	
	US Treasury yield curve slope (10-2yr)	1.16%	-0.04%	1.19%	-0.08%	1.26%	1.86%	1.25%	57%	43%	Normal	Up	Yes	above 100bps
	US Treasury yield curve slope (10-5yr)	0.58%	-0.01%	0.56%	0.02%	0.48%	0.98%	0.62%	75%	25%	Normal	Down	Caution	above 60bps
Credit											Normal	Up	Neutral	
	Corporate IG credit spreads (bps)													
	Financial	174.9	8.8	159.7	14.4	141.1	180.4	174.5	70%	70%	High	Up	Yes	below 200
	Industrial	221.0	4.5	207.3	24.8	154.9	144.2	156.5	91%	91%	High	Up	No	below 200
	Financial spreads over Industrial	-46.1	4.3	-47.6	-10.4	-13.8	36.3	18.0	13%	13%	Low	Down	Yes	below 50
	Corporate HY credit spreads (bps)	797.3	16.9	777.5	77.4	556.1	535.5	611.1	82%	82%	High	Up	No	below 600
	TED spreads (bps)	30.3	-5.9	39.2	8.2	23.9	26.4	43.4	48%	48%	Normal	Up	Yes	below 50
	Muni spreads (bps)	36.3	5.9	28.1	9.4	52.6	24.0	2.7	77%	77%	High	Up	No	below 25
	Sovereign spreads (bps)													
	Germany	-157.5	0.7	-157.5	6.0	-136.9	-82.0	-49.6	3%	3%	Low	Up	Yes	below 0 bps
	France	-124.5	1.1	-123.4	6.2	-115.2	-23.0	-27.7	4%	4%	Low	Up	Yes	below 100 bps
	Italy	-46.6	0.4	-53.7	8.9	-13.2	161.5	59.7	22%	22%	Low	Up	Yes	below 100 bps
	Spain	-35.9	-4.7	-36.7	16.1	-21.0	170.0	48.7	28%	28%	Low	Up	Yes	below 100 bps
Currency											High	Up	Neutral	
	US Dollar index	95.59	0.2%	95.25	1.2%	88.88	78.34	86.68	74%	74%	High	Up		
	USD/EUR	1.1209	2.5%	1.0908	0.0%	1.1287	1.2831	1.2176	30%	71%	High	Down	Caution	$1.20 - $1.40
	JPY/USD	116.78	-1.7%	118.24	-1.9%	117.54	97.61	108.39	65%	36%	Normal	Up		
	CHF/USD	0.9933	-2.0%	1.0083	1.5%	0.9050	0.9271	1.2340	25%	75%	High	Down		
	USD/Gold (real $)	472.1	1.6%	462.4	2.2%	544.2	608.3	352.5	72%	72%	High	Up		
Commodities											Normal	Up	Not Safe	
	CRB	386.71	1.3%	379.07	0.6%	422.96	474.51	348.06	63%	37%	Normal	Down		
	Brent Oil	34.46	1.7%	31.67	-14.7%	48.47	95.15	56.75	42%	58%	Normal	Up	No	$70 - $100
	WTI Oil	31.72	-4.5%	31.13	-14.4%	44.45	84.30	54.83	37%	63%	Normal	Up	No	$70 - $100
	Natural gas	1.97	-9.6%	2.18	6.4%	2.87	3.45	4.48	4%	96%	High	Down	Neutral	
	Copper	4691.8	3.3%	4474.7	-3.6%	5519.5	7206.3	4550.0	54%	47%	Normal	Up	Caution	
Uncertainty											Normal	Up	Caution	
	VIX													
	1M Implied Vol	19.5	-0.3	20.7	4.5	15.2	15.0	18.6	63%	63%	Normal	Up	No	below 18
	1M Realized Vol	23.2	2.5	20.3	3.3	16.8	14.1	17.0	84%	84%	High	Up	No	below 18
	1M Vol Premium (Implied - Realized)	-3.7	-2.7	0.4	1.2	-1.6	1.0	1.6	9%	9%	Low	Up	Yes	below 3
	Correlation (S&P 500)													
	1M Implied Correlation	42.4	0.3	43.6	1.7	43.3	40.1	37.0	69%	69%	Normal	Up	No	below 40
	1M Realized Correlation	44.9	-0.1	51.5	2.8	39.2	37.7	32.7	81%	81%	High	Up	No	below 40
	1M Correl Premium (Implied - Realized)	-2.5	0.5	-8.0	-1.1	4.1	2.4	2.5	28%	28%	Low	Down	Yes	below 10
	LTM PE / 3m Avg. VIX (mkt emotion)	0.81	-0.01	0.87	-0.11	1.04	0.96	0.97	28%	72%	High	Up	Caution	0.8 - 1.2
Offered Equity Risk Premium											Normal	Up	Neutral	
	LTM PE	16.1	1.2%	16.0	-6.6%	17.2	15.2	18.5	45%	55%	Normal	Up	Yes	below 18
	PE on 2016E EPS	16.2									Normal	Up	Yes	below 17
	PE on normalized 2016E EPS	15.3									Normal	Up	Yes	below 17
	Implied real return offered by S&P 500	6.2%	-1.2%	6.3%	7.1%	5.8%	6.7%	6.5%	54%	54%	Normal	Up	Neutral	above 5.5%
	Implied ERP offered by S&P 500	5.7%	0.3%	5.6%	10.1%	5.7%	6.2%	3.6%	84%	84%	Normal	Up	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.