

Crawling, not Leaping, into the New Year

2016 Ten Themes

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Ten Themes – 2016

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Deutsche Bank

Wealth Management

Crawling, not Leaping, into the New Year

Global Economy – No Peloton in the Tour de Global Economy

Our Consumption Assumption – Shop ‘til You Drop America (and World!)

Monetary Policy Divergence – “Two Roads Diverged in a Wood and I Took the One Less Traveled”\*

Global Inflation – Germination, Examination and Protection

U.S. Dollar – Downshifting its Pace

Global Fixed Income– Combing the Field for Yield

Global Equities –All Eyes on Earnings

EM Equities – Will the EM Giants Awaken?

Equity Sectors – An “Appreciation” for Innovation and Demographics

Crude Oil – A “Glut”ton for Punishment....is \$55 Oil Enough?

:\*Source: The Road Not Taken by Robert Frost

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## Global Economy

### No Peloton in the Tour de Global Economy

1

2015: +2.2%

2016: +2.4%

2015: +1.4%

2016: +1.6%

灼Leader of the pack.

灼After six plus years

of recovery and

expansion, U.S.

enters late stage of

business cycle.

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Wealth Management

灼Stuck in neutral.

Looking for a way to

breakout.

灼Unemployment

above U.S. Widest

margin since

Eurozone created.

2016: +1.2%

2015: +0.8%

2015: +4.2%

2016: +4.5%

灼Spinning its wheels.

灼Today's economy is

same size as it was

in 1995, 2001, 2003

and 2008.

灼Mixed cycle. Not a

well "oiled" team.

灼Brazil/Russia struggle

with commodity

headwind as China &

India downshifting.

Footnotes: Forecasts as of November 2015. Emerging market growth estimate is for broad EM not just the BRIC country flags that are pictured.

Source: Deutsche Bank Wealth Management.

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Global Economy  
"Fab 5" Confirms U.S. Leadership  
Europe  
U.S.  
Withholding Tax Receipts  
German Exports  
Japan  
Core Machinery Orders  
China  
Electricity Demand  
Jobless Claims  
Credit Impulse  
ISM Production  
Commercial & Industrial  
Loans  
New Vehicle Sales  
We expect a stronger consumer, a  
fading of the export/fiscal/capex drag  
and strength in housing to support U.S.  
growth in 2016.  
Source: Deutsche Bank Wealth Management.  
Deutsche Bank  
Wealth Management

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Belgium Manufacturing  
Survey  
Consumer Sentiment  
PMI Manufacturing/Services  
Cement Output  
Average Real Earnings  
Housing Prices  
Consumer Confidence  
Retail/Auto Sales

Inflation

Inflation

We expect moderate to solid growth  
supported by monetary policy, easing  
fiscal drag, growing consumer demand,  
increasing wages and EUR  
depreciation.

Japan's economy should be supported  
by aggressive monetary policy, a pick  
up in export activity as global growth  
accelerates and positive consumer  
momentum. Aggressive easing is likely  
to push inflation higher.

Inflation

Growth is likely to slow from 6.8% in  
2015 to 6.0% in 2016. However, reform  
implementation and central bank  
flexibility should result in better long

term growth prospects.

## Employment Conditions Improve

### Global Economy

Jobless claims hovering near the lowest level since 2000 and withheld tax receipts growing near a record high suggest ongoing improvement in the labor market.

### U.S. Economic Acceleration is Underway

#### Manufacturing Slowdown

20

30

40

50

60

70

80

#### Vehicle Sales Strong

Footnotes: Data as of December 30, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Manufacturing remains the weak segment of the U.S. economy. The broad Manufacturing Index and production are both in contraction territory (a level below 50).

#### ISM Production

Jan-96

Dec-99

Nov-03

#### Lending Improving

Demand for commercial and industrial loans have been positive for 19 consecutive quarters.

#### ISM Index

Oct-07

Sep-11

Footnotes: Data as of December 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

Aug-15

Vehicle sales are at the highest level (~18 million annual rate) since 2005.

Footnotes: Data as of November 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Footnotes: Data as of 3Q15.

Source: FactSet, Deutsche Bank Wealth Management.

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Making History?

Major U.S. Election Topics

Global Economy

Elections Favorable for Equities

0

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44-52 52-60 60-68 68-76 76-80 80-88 88-92 92-00 00-08 08-16

S&P 500 Return 12 months Leading up to Presidential Election Day

– If a Democrat becomes the next U.S. President, it would be only the second time since the end of WWII that one party has held the White House for more than eight years.

– Out of the 20 Presidential elections since 1936, the S&P 500 has been positive 17 times (85%) in the 12 months leading up to the election.

– On average, the S&P 500 is up 9% in the 12 months leading up to the Presidential election day.

2012

2008

2004

2000

1996

1992

1988

1984

1980

1976

1972

1968

1964

1960

1956

1952

1948

1944

1940

1936

-40%

-30%

Recessions

-20%

-10%

0%

10%  
20%  
30%  
40%

Footnotes: Data is 1944-2016 Presidential terms. Red is republican, blue is democrat President.

Source: Deutsche Bank Wealth Management.

Footnotes: Data reflects S&P 500 performance in the 12 months leading up to the election cycles from 1936-2012.

Source: FactSet, Deutsche Bank Wealth Management.

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5  
# of years of Presidential Term

Shop 'til You Drop America (and the World!)

Our Consumption Assumption

2

Solid Global Confidence

100

110

120

60

70

80

90

Mar-04 Nov-05

Jul-07 Mar-09 Nov-10

Jul-12 Mar-14 Nov-15

Global Consumer Confidence\*

– Global consumer confidence has continued to improve and is hovering at pre-crisis highs.

– In addition, the Chinese consumer is becoming a bigger contributor to growth. From 2009 to 2030, the Chinese middle class is expected to grow from 11% to 72% of the total population.

– Better U.S. spending, increased spending from the Chinese economy and a better European economy support the global consumer discretionary sector.

Footnotes: \*Global consumer confidence is the average of U.S., Japan, China and

Europe. Data is most recent available as of November 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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Management.

Chinese Middle Class Growing

0%

10%

20%

30%

40%

50%

60%

70%

80%

90%

100%

Poor

Middle Class

2009 2020 2030

Europeans Spending Again

Source: World Bank, Deutsche Bank Global Markets, Deutsche Bank Wealth

-25.0%

-20.0%

-15.0%

-10.0%  
-5.0%  
0.0%  
5.0%  
10.0%  
15.0%  
20.0%

Jun-04 Dec-05 Jun-07 Dec-08 Jun-10 Dec-11 Jun-13 Dec-14  
Europe New Passenger Car Registrations (6 Mo Moving Average) (LHS)  
Eurostat Retail Sales (YoY) (RHS)

Footnotes: Data is monthly and most recent as of December 2015.  
Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

6  
-6.0%  
-4.0%  
-2.0%  
0.0%  
2.0%  
4.0%  
6.0%  
Rich

Shop 'til You Drop America (and the World!)

Our Consumption Assumption

Healthy Consumer Balance Sheet

9.0%

9.5%

10.0%

10.5%

11.0%

11.5%

12.0%

12.5%

13.0%

13.5%

Jun-80

Jun-87

Jun-94

Jun-01

Household Debt Service Ratio

– Americans are healthier from a balance sheet perspective than they have been on record.

– In addition, gasoline prices have declined ~\$0.80 from their June 2015 high. It is a general rule of thumb that for every \$0.01 decline in gasoline prices equates to ~\$1 billion in extra spending power annually.

– Lastly, there are signs that wage growth is materializing with average hourly earnings accelerating.

Footnotes: Data is as of 3Q15.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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Jun-08

Jun-15

Gasoline Prices Remain Low

\$0.0

\$0.5

\$1.0

\$1.5

\$2.0

\$2.5

\$3.0

\$3.5

\$4.0

\$4.5

U.S. Regular Retail Gasoline

Prices Dollars per Gallon

Oct-90 May-94 Dec-97

Jul-01

Feb-05

Sep-08

Apr-12

Footnotes: Data is monthly and as of December 31, 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

Wages Slowly Picking Up

1.5%

2.0%

2.5%

3.0%

3.5%

4.0%

Mar-07

May-09

Jul-11

Sep-13

Average Hourly Earnings (YoY%)

(AVG) Average Hourly Earnings (YoY%)

Footnotes: Data is as of November 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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Nov-15

Nov-15

Our Consumption Assumption  
Shop 'til You Drop America (and the World!)  
Conscientious Consumer  
New Spending Process  
Social Media to  
Advertise  
Smartphone Apps  
for Shopping  
Processors for the  
Transaction  
Services to Deliver  
Source: marketoonist.com, Deutsche Bank Wealth Management.  
Source: Deutsche Bank Wealth Management.  
Deutsche Bank  
Wealth Management  
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Our Consumption Assumption  
Shop 'til You Drop America (and the World!)  
Key Trends to Continue in 2016  
Internet & Catalog Retail  
Department Stores  
Mobile Spending Skyrocketing  
Hotel Restaurants and Leisure  
Home Improvement Retail  
Apparel

0%  
10%  
20%  
30%  
40%  
50%  
60%  
70%  
80%  
3Q13 3Q15  
70%  
26%  
13%  
5%  
8%  
1%

Total Discretionary Retail  
e-Commerce

Footnotes: Data as of 3Q15.  
Source: Comscore, Deutsche Bank Wealth Management.

Real Spending on Tourism  
Automobile Manufacturers  
Automotive Retail  
Broadcasting  
Advertising

-50.0% -25.0% 0.0% 25.0% 50.0% 75.0% 100.0%  
2015 Total Return

Real Spending on Travel and Tourism

Footnotes: Data as of December 31, 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

Footnotes: Data as of 3Q15.

Source: bea.gov, Deutsche Bank Wealth Management.

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\$600,000  
\$650,000  
\$700,000  
\$750,000  
\$800,000  
\$850,000  
1Q98

Real spending on travel and tourism reached a record high \$839 billion in 3Q15.

m-Commerce

3Q00

1Q03

3Q05

1Q08

3Q10

1Q13

3Q15

3 Monetary Policy Divergence

"Two Roads Diverged in a Wood, and I Took the One Less Traveled."

Fed Getting off the Bandwagon

2,000

4,000

6,000

8,000

10,000

12,000

0

2006

2008

2010

2012

Still Plenty of Liquidity\*

100

150

200

250

50

0

2008

2009

BoE

2010

2011

Fed

2012

BoJ

2013

2014

ECB

2015

Total

2016

Footnotes: Estimate as of December 2015. \*Combined QE programs.

Source: Deutsche Bank Global Markets, Deutsche Bank Wealth Management.

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USD bln

USD bln

100

150

200

250

50

0

2014

2016

Fed

BoJ

ECB  
+26%  
+24%  
-0.5%  
0.0%  
0.5%  
1.0%  
1.5%  
2.0%  
2.5%  
-1%

ECB  
BoE  
Japan

Fed and BoE Normalizing

U.S. Taking the Lead

Jan-09 Dec-09 Nov-10 Oct-11 Sep-12 Aug-13 Jul-14 Jun-15 May-16

Fed

- The Fed and BoE are moving towards normalizing interest rate policy while most other developed central banks will likely remain accommodative.
- The three major DM central bank balance sheets are expected to rise by 16% in 2016.
- While the Fed balance sheet is expected to be flat to slightly lower in 2016, the BoJ and ECB are expected to increase their balance sheets by over 20%.

Footnotes: Data is monthly and as of December 2015. 2016 estimates as of November

2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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## Monetary Policy Divergence

"Two Roads Diverged in a Wood, and I Took the one Less Traveled."

Fed Takes off Training Wheels

Expect More Volatility

Tightening

Cycle

3/84-8/84

12/86-9/87

3/88-2/89

2/94-2/95

6/99-5/00

6/04-6/06

Average

# of Day

147

262

332

363

321

729

359

3-4.99% 5.00-9.99% 10% or More

2

0

1

1

0

2

1

1

3

3

3

4

4

3

## S&P 500 Pullbacks

– As the Fed has taken the "training wheels" off the U.S. economy, we expect increased volatility.

– When looking at the most recent tightening cycles, they last, on average, one year and see at least one S&P 500 pullback of 3-5% and three pullbacks of 5-10%.

– The only tightening cycle that experienced a more than 10% decline was in 2000.

Footnotes: Chip Bok Editorial Cartoon used with the permission of Chip Bok and

Creators Syndicate. All rights reserved.

Source: The Cartoonist Group, Deutsche Bank Wealth Management.

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Footnotes: Time period is considered a tightening cycle when the Fed raises rates three or more consecutive times. The tightening cycle is considered over at the last rate hike. # of days is calendar days. S&P 500 price only.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

11

0

0

0

0

1

0

0

Average of all  
Pullbacks

-5.2%

-6.4%

-6.3%

-6.0%

-9.2%

-5.7%

-6.5%

4  
Global Inflation  
Germination, Examination & Protection  
Deciphering Inflation  
-3  
-2  
-1  
0  
1  
2  
3  
4  
5  
1997  
2000  
2004  
CPI Services Inflation (% YoY)  
Core CPI (% YoY)  
2008  
2012  
CPI Goods Inflation (% YoY)  
2015  
U.S. Labor Costs Picking Up  
1.0%  
1.5%  
2.0%  
2.5%  
3.0%  
3.5%  
4.0%  
4.5%  
1Q01  
1Q03  
1Q05  
1Q07  
1Q09  
1Q11  
1Q13  
Employment Cost Index (YoY %) (LHS)  
NFIB Small Business Compensation Plans (RHS)  
– While headline and core inflation remain below the Fed’s target range, it is important to note that the drag on inflation is primarily from the goods sector.  
– In fact, service inflation (which makes up the bulk of personal spending) is rising at the fastest pace (+2.9% YoY) since November 2008.  
Footnotes: Data as of November 2015.  
Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.  
Deutsche Bank  
Wealth Management

– Historically, there has been a strong correlation between the NFIB Small Business Compensation Plans Index and the Employment Cost Index.

– In November, the Small Business Compensation Plans rose to the highest level since November 2006.

1Q15

10

15

20

25

0

5

Footnotes: Time period reflects 1Q01 to 4Q15. 4Q15 is as of November 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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in percentage terms

## Global Inflation

Germination, Examination & Protection

REITs: Occupancy Rates High

86%

87%

88%

89%

90%

91%

92%

93%

94%

With occupancy rates at the highest levels since the 1990's, REITs should be well supported.

REITs Pricing Power

'86 '88 '90 '92 '94 '96 '98 '00 '02 '04 '06 '08 '10 '12 '14

Rental Occupancy Rate, Percent - United States

Rental Occupancy Rates, 5 Units Or More, Percent - United States

Footnotes: Data is quarterly and as of 3Q15.

Source: FactSet, Deutsche Bank Wealth Management.

Low Inflation Supportive of REITs

-20.0%

-15.0%

-10.0%

-5.0%

0.0%

5.0%

10.0%

15.0%

20.0%

Since 1972, when CPI is between 1-3%, REITs rise, on average, 18% (YoY) and are positive 87% of the time.

0.0%

20.0%

40.0%

60.0%

80.0%

100.0%

Less than 0

0-1%

1-3%

3%+

FTSE NAREIT (YoY %) Given Level of CPI (YoY %) (LHS)

% of the Time Positive (RHS)

Footnotes: Time period is December 1972-November 2015. CPI is headline CPI.

Source: FactSet, Bloomberg Finance LP, Deutsche Bank Wealth Management.

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Wealth Management

Footnotes: Time period is 4Q72-3Q15. Quarterly year over year GDP.

Source: FactSet, Deutsche Bank Wealth Management.

13

-1.0%

0.0%

1.0%

2.0%

3.0%

4.0%

5.0%

6.0%

7.0%

Dec-83

Nov-91

Owners Equivalent Rent

Rental prices, as seen by owners' equivalent rent, are moving higher which suggests positive pricing power in real estate.

Oct-99

Sep-07

(AVG) Owners Equivalent Rent

Footnotes: Data as of November 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

REITs and Economic Growth

Since 1972, when GDP (YoY) is between 2-3%, REITs have rallied, on average 17.8% (YoY).

They were only negative on one occasion (2Q90).

Aug-15

Global Inflation  
Germination, Examination & Protection  
The A, B and Cs of Mall REITs\*

100  
105  
110  
115  
70  
75  
80  
85  
90  
95

Jan Feb Mar Apr May

Jun

A Average

26%

difference

Under-Owned by Investors

REIT Weighting

Category

Mid-Cap Growth

Small Growth

Mid-Cap Blend

Small Blend

Jul Aug Sep Oct Nov Dec

B/C Average

Selectivity Important

Footnotes: Data as of December 31, 2015. \*See A, B, C explanation on final page.

Source: FactSet, Deutsche Bank Wealth Management.

-30%

-10%

10%

30%

50%

2015 Total Return

Small Value

Large Growth

Mid-Cap Value

Large Value

Large Blend

Mutual Funds

1.2%

1.9%

4.7%

5.9%

6.6%

0.6%

5.3%

1.5%

1.4%  
Benchmark

1.6%

2.7%

6.8%

8.6%

14.6%

1.4%

12.5%

4.1%

2.8%

Estimated  
Underweight

\$1 billion

\$1 billion

\$5 billion

\$6 billion

\$8 billion

\$10 billion

\$16 billion

\$23 billion

\$25 billion

– Selectivity is important when investing in REITs. For example, A class mall REITS outperformed B/C class by ~26% in 2015. In addition, self storage rose ~40% while the broad REIT Index was up only ~3% in 2015.

– The Raymond James REIT team produced the above estimates showing how underweight broader equity mutual fund managers are to REITs relative to their respective benchmarks.

– The \$95 billion estimate equates to over 10% of the REIT Index market capitalization.

Footnotes: Data as of December 31, 2015. FTSE/NAREIT Equity Indices.

Source: FactSet, Deutsche Bank Wealth Management.

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Footnotes: Time period As of June 30, 2015.

Source: Deutsche Bank Wealth Management, Dow Jones, Raymond James, S&P.

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Self Storage

Residential

Apartments

Shopping Centers

Retail

Regional Malls

REITS

S&P 500

Industrial/Office

Diversified

Healthcare

Lodging Resorts



Downshifting its Pace  
5 U.S. Dollar  
Dollar Cycle to Moderate?

100  
110  
120  
130  
140  
150  
160  
170

1  
226  
451  
1978-1985

676  
901  
1995-2002

+67%  
6-Year USD  
Uptrend

7-Year USD  
Downtrend  
+38%

+43%  
9-Year USD  
Downtrend

~5-Year  
USD  
Uptrend\*

6-Year  
USD  
Downtrend

1126  
1351  
2011 - Present

- At this juncture, the dollar bull market is the strongest in history.
- While the bull market should continue, the pace of its rally should moderate.
- The dollar will enter the sixth year of the current bull cycle in 2016.

1576  
7-Year USD  
Uptrend

Historical Dollar Cycles

Footnotes: Nominal Dollar Index. Data as of December 24, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Footnotes: Data as of December 24, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Deutsche Bank



Downshifting its Pace  
U.S. Dollar  
Dollar in Tightening Cycle

-20%  
-15%  
-10%  
-5%  
0%  
5%  
10%  
15%  
20%  
25%

0  
20  
40  
60  
12/1/1976  
3/29/1988  
Start of Cycle

12/1/1976  
8/7/1980  
3/27/1984  
12/16/1986  
3/29/1988  
2/4/1994  
6/30/1999  
6/30/2004

Average  
Median

+1am  
-2.2%  
-1.1%  
2.0%  
-5.3%  
0.0%  
-0.9%  
-2.0%  
0.5%  
-1.1%  
-1.0%

80  
100 120 140 160 180 200 220 240  
8/7/1980  
2/4/1994

+3am  
-1.2%  
2.0%  
5.8%  
-7.1%  
5.6%

-2.4%  
-4.3%  
-2.4%  
-0.5%  
-1.8%  
3/27/1984  
6/30/1999  
+6am  
-1.7%  
4.6%  
10.4%  
-8.6%  
7.1%  
-4.5%  
-3.3%  
-9.1%  
-0.6%  
-2.5%  
12/16/1986  
6/30/2004  
+9am  
-2.0%  
10.5%  
13.1%  
-9.3%  
1.8%  
-7.3%  
-0.9%  
-7.5%  
-0.2%  
-1.4%  
+12am  
-4.9%  
19.7%  
14.2%  
-16.4%  
6.1%  
-5.2%  
0.4%  
-2.3%  
1.4%  
-0.9%

Footnotes: Time period is considered a tightening cycle when the Fed raises rates three or more consecutive times. The tightening cycle is considered over at the last rate hike. # of days is calendar days.

Source: FactSet, Deutsche Bank Wealth Management.  
Deutsche Bank  
Wealth Management  
Tightening Trends

Nov 76  
May 81  
JPN  
EU  
CAN  
GBR  
CHE  
AUD  
NZL  
SWE  
NOR  
Total  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
N/A  
Yes  
Yes  
8  
Nov 82  
Aug 84  
No  
Yes  
Yes  
Yes  
No  
Yes  
N/A  
Yes  
Yes  
6  
Aug 86  
May 89  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
N/A  
Yes  
Yes  
8  
Sep 92  
Feb 95  
No  
No  
Yes

Yes  
No  
Yes  
Yes  
Yes  
No  
5  
Nov 98  
May 00  
No  
Yes  
Yes  
No  
Yes  
Yes  
Yes  
Yes  
Yes  
7  
Jun 03  
Jun 06  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
Yes  
9  
2016  
Easing  
Easing  
No  
Possibly  
No  
No  
Easing  
No  
Easing

1  
– Historically, global central banks move in tandem when raising interest rates.  
– However, in the onset of this tightening cycle, only one other central bank (BoE) appears to be ready to hike interest rates in 2016.

Footnotes: Data as of December 2015.

Source: Deutsche Bank Global Markets, Deutsche Bank Wealth Management.

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Global Fixed Income

Combing the Field for Yield

False Steps

1.50

2.00

2.50

3.00

3.50

4.00

4.50

2008

2010

10Y U.S. Treasury

2012

2014

2016

Fed Quarterly Survey of Professional Forecasters

– When looking at the Fed Quarterly Survey of Professional Forecasters, forecasts for Treasury yields have consistently overshoot actual moves in Treasury yields since 2008.

– The ECB's public sector purchase program (PSPP) will likely have a total volume of €1490 bn if it lasts until March 2017.

Footnotes: Data as of 3Q15.

Source: Philadelphia Fed, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

the Netherlands

Portugal

Slovakia

Based on historical ECB buying (Purchases as a % of Net Issuance)

395%

84%

189%

Finland

France

Ireland

Italy

Germany

Spain

Belgium

Austria

0%

100%

175%

363%

106%

387%

130%

489%

117%

396%

200%

300%

400%

500%

600%

% of Negative Yielding Govt Bonds

0%

10%

20%

30%

40%

50%

60%

70%

Dec-15

30%

Footnotes: Data as of December 2015.

Source: Deutsche Bank Global Markets, Deutsche Bank Wealth Management.

Supply Drying Up in Europe

Footnotes: Data as of December 2015.

Source: ECB, Bloomberg LP, Barclays, Deutsche Bank Wealth Management.

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Switzerland

Germany

France

Netherlands

Slovakia

Finland

Austria

Belgium

Denmark

Sweden

Luxembourg

Lithuania

Ireland

Italy

Spain

Slovenia

Portugal

Malta

Latvia

Cyprus

Total

Global Fixed Income  
Combing the Field for Yield  
Powerful Flows to U.S.

1,000  
200  
400  
600  
800  
-800  
-600  
-400  
-200  
0

Mar-2009 Mar-2010 Mar-2011 Mar-2012 Mar-2013 Mar-2014 Mar-2015

United States

Euro Area

Japan

Net U.S. Treasury Issuance

– Given the superior yield and solid economic outlook, U.S. bonds have seen steady inflows on a rolling 12 month basis while European bonds have seen steady outflows.

– Given our estimate that the federal budget deficit should shrink to the lowest level since August 2008 in 2016 (~\$414 billion), the need for Treasury issuance is also shrinking.

\$500  
\$1,000  
\$1,500  
\$2,000  
-\$500  
\$0  
Est.

U.S. Supply Moderating

Footnotes: Data as of August 2015.

Source: Deutsche Bank Global Markets, Deutsche Bank Wealth Management.

Footnotes: Estimate as of December 2015.

Source: Deutsche Bank Global Markets, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

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Rolling 12 Month Fixed Income Flows (bns)  
in millions

2000  
2001  
2002  
2003  
2004  
2005  
2006  
2007

2008  
2009  
2010  
2011  
2012  
2013  
2014  
2015  
2016

## Global Fixed Income

### Combing the Field for Yield

#### Convertibles

Historically, convertibles have a high correlation to equities.

穴

#### Investment Grade Credit

The balance sheets are the healthiest for the largest S&P 500 companies on record.

穴

Footnotes: Data is monthly and as of December 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

#### High Yield

100

110

120

60

70

80

90

-252

-201

-150

-99

-48

3

54

#### High Yield Spreads in Tightening Cycle

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

#### Deutsche Bank

#### Wealth Management

105

156

207

#### Current Cycle

#### First Fed Rate Hike

#### Selective

#### EM Debt

-4.5%

-4.0%

-3.5%

-3.0%

-2.5%

-2.0%

-1.5%

-1.0%

-0.5%

0.0%

Volatile currencies and  
weak fiscal health keeps  
us cautious on EM debt.

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015  
(AVG) EM Fiscal Deficit as % GDP

Footnotes: Data as of December 2015. IMF estimate for 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

19

Cautious

7

## Global Equities

### All Eyes on Earnings

Rolling Return: EAFE vs. U.S.

-70.0%

-50.0%

-30.0%

-10.0%

10.0%

30.0%

50.0%

Dec-72

Jan-80

International outperforming U.S.

International Post Fed Hike

U.S. outperforming International

Feb-87

Mar-94

Apr-01

May-08

MSCI EAFE (USD) vs S&P 500 (Rolling 3 YR Return Annualized)

– Historically, the performance of international equities relative to the U.S. has shifted in cycles.

– In fact, the past five cycles that international equities outperformed U.S. equities lasted, on average, 3.4 years.

– On a rolling three year basis, the U.S. has been outperforming international equities for ~6 years.

– Historically, the U.S. has outperformed for, on average, four years.

Footnotes: Data is monthly and as of December 2015. Price return only in USD.

Source: FactSet, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

Footnotes: Time period is considered a tightening cycle when the Fed raises rates

three or more consecutive times. The tightening cycle is considered over at the last

rate hike. # of days is calendar days. Tightening cycles date back to 1970.

Source: FactSet, Deutsche Bank Wealth Management.

20

Jun-15

S&P 500 Performance vs MSCI EAFE (USD)

– Following the onset of a Fed tightening cycle, the S&P 500 has historically underperformed the

MSCI EAFE Index.

-16%

-14%

-12%

-10%

-8%

-6%  
-4%  
-2%  
0%  
2%  
First rate hike  
0  
8  
16  
24  
32  
40  
48  
56  
64  
72  
80  
88  
96  
104  
112  
120  
128  
136  
144  
152  
160  
168  
176  
184  
192  
200  
208  
216  
224  
232  
240  
248

## Global Equities

All Eyes on Earnings

Valuations in the Range

0.0

5.0

10.0

15.0

20.0

25.0

30.0

35.0

Japan

Europe ex UK MSCI AC World

Grey bar is high and low P/E (LTM)

Blue line is 10 year average

Red diamond is current P/E (LTM)

U.S. Profit Recession Ending

-5%

0%

5%

10%

15%

15%

S&P 500 Earnings Growth (YoY)

10%

9%

6% 6%

5%

4%

1%

0%

0%

-4%

2%

9%

7%

9%

S&P 500

UK

– Most developed equity market valuations are above their historical average and close to the upper end of their 10-year range.

– In addition, there is little distinction between earnings growth amongst the developed markets for 2016.

Earnings Growth Similarities

Footnotes: Data and estimates as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

0%

1%

2%

3%  
4%  
5%  
6%  
7%  
8%  
9%  
10%  
MSCI Japan  
Footnotes: Time period reflects trailing 10 years as of December 31, 2015.  
Source: FactSet, Deutsche Bank Wealth Management.

Deutsche Bank  
Wealth Management  
S&P 500  
EuroStoxx 50  
Footnotes: Estimates as of November 2015.  
Source: Deutsche Bank Wealth Management.

21  
FTSE 100  
DAX  
Year-over-Year Growth (%)

2Q13  
3Q13  
4Q13  
1Q14  
2Q14  
3Q14  
4Q14  
1Q15  
2Q15  
3Q15  
4Q15  
1Q16  
2Q16  
3Q16  
4Q16

## Will the EM Giants Awaken?

8

EM Equities

Disappearing Growth Premium

-3.0%

-2.0%

-1.0%

0.0%

1.0%

2.0%

3.0%

4.0%

5.0%

6.0%

7.0%

4Q03 1Q05 2Q06 3Q07 4Q08 1Q10 2Q11 3Q12 4Q13 1Q15

Average EM Growth Premium (LHS)

(AVG) Average EM Growth Premium (LHS)

MSCI EM (local) - S&P 500 Index (RHS)

– Emerging market equities have benefitted from superior economic growth over the developed markets in recent years.

– However, that growth premium has been eliminated and has resulted in emerging market equities lagging developed market equities.

– Emerging markets experienced several years of an earnings growth premium over the U.S.

– However, the collapse in commodity prices and lackluster economic growth in EM has resulted in the earnings growth premium collapsing.

– As a result, the U.S. has been outperforming the emerging markets.

Footnotes: Data as of 3Q15.

Source: Bloomberg Finance LP, FactSet, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

22

100

120

140

160

20

40

60

80

-20

0

Earnings Growth Premium Gone

Peak EM Earnings  
Peak U.S.  
Earnings

EM Equities  
Favor Select Asia  
Valuations More Attractive  
Sector Exposure More Appealing

30.0

EM Asia EM Latam

20.0

10.0

0.0

– From a valuation basis, Asia looks more attractive than Latin America relative to the MSCI AC World.

– In addition, Asia has more exposure to some of our favorite sectors (e.g. tech, discretionary).

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Footnotes: Data as of December 2015.

Source: FactSet, Deutsche Bank Wealth Management.

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Wealth Management

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In percentage terms

Financials

Information

Technology

Consumer

Discretionary

Industrials

Telecom

Consumer Staples

Materials

Energy

Health Care

Utilities

9

## Equity Sectors

An "Appreciation" for Innovation and Demographics

Solid Earnings Growth Expected

Tech Valuations Attractive

0.8

1.0

1.2

1.4

1.6

1.8

2.0

2.2

2.4

2.6

'01

'02

'03

'04

'05

'06

'07

'08

'09

'10

'11

'12

'13

S&P 500 Info Tech P/E (LTM) Relative to S&P 500 P/E (LTM)

(AVG) S&P 500 Info Tech P/E (LTM) Relative to S&P 500 P/E (LTM)

– Technology is one of our favorite sectors due to attractive valuations and fundamentals.

– In fact, valuations are well below average versus the S&P 500.

– From an earnings perspective, consumer discretionary, info tech and financials are expected to be the leaders in earnings growth.

'14

'15

2.0%

4.0%

6.0%

8.0%

10.0%

12.0%

14.0%

16.0%

2016 Earnings Estimate

Footnotes: Data is as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

Footnotes: Data as of December 2015.

Source: FactSet, Deutsche Bank Wealth Management.

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Wealth Management

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Consumer

Discretionary

Info Tech

Financials

Health Care

Energy

Materials

Industrials

Consumer Staples

Utilities

Telecom Services

## Equity Sectors

A Poem by an Old-Timer

An application was for employment

A program was a TV show

A cursor used profanity

A keyboard was a piano!

Memory was something that you lost with age

A CD was a bank account!

And if you had a broken disk,

It would hurt when you found out!

Compress was something you did to garbage

Not something you did to a file

And if you unzipped anything in public

You'd be in jail for awhile!

Source: marketoonist.com, Deutsche Bank Wealth Management.

Log on was adding wood to a fire

Hard drive was a long trip on the road

A mouse pad was where a mouse lived

And a backup happened to your commode!

Cut--you did with a pocket knife

Paste you did with glue

A web was a spider's home

And a virus was the flu!

I guess I'll stick to my pad and paper

And the memory in my head

I hear nobody's been killed in a computer crash

But when it happens they wish they were dead!

Author: Unknown

Source: Copyright 2014 John Klossner, [www.jklossner.com](http://www.jklossner.com)

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Internet of Things

.Changing our Vocabulary

Internet Connectivity

Equity Sectors

An “Appreciation” for Innovation and Demographics

New Wave of Technology – The “Internet of Things”

Footnotes: Data as of December 2015.

Source: Machina Research, Deutsche Bank Wealth Management.

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Equity Sectors

An "Appreciation" for Innovation and Demographics

Record Orphan Drug Approvals

10  
20  
30  
40  
50  
60  
0

FDA Orphan Drug Approvals by Year

Six Year Challenge?\*

Footnotes: Data as of December 31, 2014.

10  
15  
20  
25  
30  
35  
40  
45  
0

5

2011

2012

2013

2014

2015

Footnotes: Data as of December 31, 2015. \*Annual total return, Healthcare is S&P 500 healthcare.

Source: FactSet, Deutsche Bank Wealth Management.

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Wealth Management

Source: FDA Blog, Deutsche Bank Wealth Management.

Healthcare S&P 500

Genome Costs Decreasing

~\$95million

\$1,000

\$10,000

\$100,000

\$1,000,000

\$10,000,000

\$100,000,000

~\$1 thousand

2001 2003 2004 2005 2007 2008 2009 2011 2012 2013 2015

Cost per Genome

– Despite positive fundamentals, because of the uncertainty surrounding the political landscape and the volatility that may arise in many healthcare names, we would favor tech, financials and consumer discretionary over healthcare.

– If political rhetoric intensifies, so could volatility.  
This may result in attractive buying opportunities as  
we remain constructive long term on healthcare  
due to visible earnings growth, continued  
innovation and favorable demographics.  
Footnotes: Data is as of November 2015.  
Source: Deutsche Bank Wealth Management.

27

1983  
1984  
1985  
1986  
1987  
1988  
1989  
1990  
1991  
1992  
1993  
1994  
1995  
1996  
1997  
1998  
1999  
2000  
2001  
2002  
2003  
2004  
2005  
2006  
2007  
2008  
2009  
2010  
2011  
2012  
2013  
2014

## 10 Crude Oil

A "Glut"ton for Punishment...is \$55 Oil Enough?

Oil Falls Drop in Perspective

-90%

-80%

-70%

-60%

-50%

-40%

-30%

-20%

-10%

0%

1 31 61 91 121 151 181 211 241 271 301 331 361 391 421 451 481

1985

1990

1997

2000

2008

2014

– The current crude oil decline is the second longest in length since 1985. Throughout this decline, crude oil has fallen ~67%.

– In analyzing the WTI futures curve, producers are not pricing in \$55/barrel oil until December 2021.

– As the futures curve shows prices below breakeven prices for U.S. producers for many years to come, production should continue to decline.

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

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Wealth Management

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

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Futures Curves Moving Lower

30

35

40

45

50

55

60

65

70

75

6/30/2015

9/30/2015

12/31/2015

Footnotes: Data as of December 31, 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

## U.S. Production Slowly Falling

-4.2%

Jul-15

Nov-15

Mar-16

Jul-16

Nov-16

Mar-17

Jul-17

Nov-17

Mar-18

Jul-18

Nov-18

Mar-19

Jul-19

Nov-19

Mar-20

Jul-20

Nov-20

Mar-21

Jul-21

Nov-21

Mar-22

Jul-22

Nov-22

Mar-23

Jul-23

Nov-23

Mar-24

Jul-24

Nov-24

## Crude Oil

A "Glut"ton for Punishment...is \$55 Oil Enough?

Energy Stocks Expensive

Oil Driving High Yield Spreads

– Currently, energy stocks are trading at levels that would suggest a \$58 oil price, higher than our 12 month target of \$55.

– This warrants continued caution on energy stocks.

– High yield energy debt is trading at distressed levels (above 1000 bps) suggesting the expectation of higher defaults may be priced in.

Footnotes: Data as of December 15, 2015.

Source: Deutsche Bank Wealth Management calculations.

Footnotes: Data as of December 31, 2015.

Source: FactSet, Deutsche Bank Wealth Management.

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Oil prices inverted

In hundreds

Crude Oil

A "Glut"ton for Punishment...is \$55 Oil Enough?

MLP Decline Worse Than 2008

100

110

40

50

60

70

80

90

0

50

100 150 200 250 300 350 400 450 500 550

2007-2008 Decline

Current Decline

0.0%

2.0%

4.0%

6.0%

8.0%

10.0%

12.0%

14.0%

Dec-02 Jun-04 Nov-05 Apr-07 Sep-08 Mar-10 Aug-11 Jan-13 Jun-14 Dec-15

Alerian MLP Index - 10YR Treasury Yield

Alerian MLP Index Dividend Yield

10YR U.S. Treasury Yield

– Currently, MLPs have fallen in a similar manner to the 2007-2008 "Great Recession."

– The dividend yield of the Alerian MLP Index is near the highest level (614 bps) over the 10 year Treasury yield since 2009.

Dividend Yield vs. 10YR Yield

Footnotes: Data as of December 31, 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

Footnotes: Data as of December 31, 2015.

Source: Bloomberg Finance LP, Deutsche Bank Wealth Management.

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Review of 2015 Themes  
Investment Theme  
Good, but Not "Great  
Expectations"  
Diverging Dynamics in Monetary  
Policy  
Fixed Income – Shooting at Small  
Targets  
EM Fixed Income – Hard Pressed  
DM Equities – "Earning" Their  
Way Higher  
Dividend Stocks  
Sector Focus  
EM Equities – Honey I Shrunk the  
Growth Premium  
Dollar Dominance to Continue  
Real Assets – Rank Rattle and  
Roll  
Deutsche Bank  
Wealth Management  
Total Score for 2015 = 90%  
Investment Theme  
Recommendation  
Dial Down Return Expectations as  
Valuations are Less Attractive and  
Volatility is to Increase  
U.S. to be the Developed Market  
Leader, Leading to Diverging Monetary  
Policy  
Slight Rise in Treasury Yields; Favor  
Investment Grade and High Yield over  
Treasuries  
Favor EM Hard Currency Bonds over  
EM Local Currency Bonds  
Accommodative Policy Will Drive  
Global Equities Higher. S&P will Post  
Positive Returns for Seventh Year  
Favor Dividend Paying Stocks  
The NASDAQ will reach a record high.  
Favor Consumer Discretionary and  
Info Tech  
Favor DM Equities over EM. Within  
EM, favor Asia over LATAM  
The Dollar Will Continue to Rally in  
2015. Invest on a Currency Hedged  
Basis  
Favor REITs and Infrastructure Over  
Crude Oil and Gold  
Grade  
允

.



Multi Asset Investment Committee Forecasts

January 2016

GDP Growth

in %

World

USA

Euroland

UK

Japan

China

Inflation

in %

USA (core PCE)

Euroland

UK

Japan

China

Curr Acct Balance

in % of GDP

USA

Euroland

UK

Japan

China

Fiscal Balance

in % of GDP

USA

Euroland

UK

Japan

China

Key Interest Rates

USA (Fed funds)

Euroland (Refi rate)

UK (Repo rate)

Japan (Mmkt rate)

2015

3.2%

2.2%

1.4%

2.5%

0.8%

6.8%

2015

1.4%

0.1%

0.2%

0.7%

1.5%

2015

-2.8%

3.0%

-3.7%

2.0%

2.0%

2015

-2.5%

-2.2%

-4.5%

-6.5%

-2.4%

Current1

0.25%

0.05%

0.50%

0.10%

2016

Currencies

3.4%

2.4%

1.6%

2.2%

1.2%

6.0%

2016

1.6%

1.2%

1.8%

0.8%

1.2%

USA (S&P 500)

2016

-3.0%

3.0%

-3.2%

2.0%

1.8%

2016

USA

-2.3%

-1.9%

-3.8%

-6.5%

-2.4%

12 Mo Forecast

(Dec 2016)

0.75-1.00%

0.05%

0.75%

0.10%

Euroland (German Bund)

UK

Japan  
Credit  
Barclays U.S. High Yield  
2.05%  
0.41%  
1.71%  
0.23%  
Current  
Coupon1  
6.70%  
JPM GBI- EM Global Diversified (Local)  
JPM EMBIG (EM Broad Index) (Hard Currency)  
Yield  
9.47%  
7.08%  
Current  
Spread5  
799  
457  
展  
展  
展  
展  
Next 3%+ Move6  
展  
展  
展  
2.40%  
0.75%  
2.20%  
0.35%  
12-Month (Price Return  
Estimate)  
-2.3%  
-0.9%  
-2.7%  
-2.3%  
-0.9%  
12 Month Return  
4.4%  
Euroland (Euro Stoxx 50)  
Germany (DAX)  
UK (FTSE 100)  
MSCI Japan (JPY)  
Asia ex Japan (MSCI in USD)  
Latin America (MSCI in USD)  
Sovereign Rates  
1907  
3023  
9765  
5900  
832

448  
1621  
Current1  
Oil (WTI) in USD  
Gold in USD  
Equities  
32  
1096  
Current1  
Dividend  
Yield  
2.2%  
3.5%  
2.8%  
4.2%  
1.9%  
2.7%  
3.1%  
P/E (LTM)2  
16.27  
13.26  
12.30  
14.97  
13.71  
11.27  
13.36  
NTM P/E  
Forecast3  
16.75  
14.50  
13.75  
14.75  
16.00  
12.00  
14.00  
NTM EPS  
Forecast3  
124  
236  
819  
400  
62  
39  
104  
EUR vs. USD  
USD vs. JPY  
EUR vs CHF  
GBP vs USD  
USD vs CNY\*  
Commodities  
Current1



12 Month Return

(Dec 2016)

55.3%

-8.8%

12 Month Return

(Dec 2016)

11.3%

16.0%

15.7%

4.2%

22.1%

7.6%

-4.3%

12 Month Return

(Dec 2016)

Footnotes: Macro estimates are according to Deutsche Asset & Wealth Management and are as of November 2015. U.S. GDP is 4Q over 4Q. 1 Current as of January 22, 2016. 2

LTM stands for last twelve months. 3 P/E and EPS forecasts are according to Deutsche Asset & Wealth Management. 4 Direction in sovereign bonds is yield move. 5 High yield spread is high yield versus five year Treasury. 6 Next 3% move in credit is return move.

Source: FactSet, Deutsche Bank Wealth Management.

Deutsche Bank

Wealth Management

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Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are

subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate. Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Investments in Foreign Countries - Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

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Emerging markets may be in transitional or formative stages and thus may be significantly less stable than developed markets. Changes in emerging markets government structures or other political instability may result in nationalization, expropriation, ad hoc regulation, or foreign investment restrictions. Emerging market investments are at risk for currency devaluation, as well as convertibility, liquidity and transparency constraints. The high volatility and speculative nature of emerging market investments may result in both significant losses or profits.

Foreign Exchange/Currency - Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

Commodities - The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminum) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates or subsidiaries of Deutsche Bank Group offer commodities or commodities-

related products and services.

Ownership in an exchange traded fund does not provide investors with entitlements to the underlying security. Rather investors own a "creation unit" in a portfolio of stocks, bonds, or other securities. ETFs are subject to market risk and will fluctuate in value based on movements in the underlying security. Investors should realize that redemption values of ETFs are based upon the market value at the time of order and not at the net asset value as is the case for mutual funds. Investments in ETFs are subject to commission charges and management fees.

Direct Participation Program Securities (e.g. partnerships, limited liability companies, and real estate investment trusts ("REITS")), which are not listed on a national securities exchange or on The Nasdaq Stock Market, Inc. are generally illiquid. No formal trading market exists for these securities and their values will be different than the purchase price. Unless otherwise indicated, the values shown herein for such securities have been provided by the management of each program and are updated quarterly. These values represent management's estimate of the investor's interest in the net assets of the program. Therefore, the estimated values shown herein may not necessarily be realized upon sale of the securities.

Such investments may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investments may require substantial workout negotiations and/or restructuring. Environmental liabilities may pose a risk such that the owner of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about under or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

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REIT Class Explanation:

Class A: These properties represent the highest quality buildings in their market and area. They are generally newer properties built within the last 15 years with top amenities, highincome

earning tenants and low vacancy rates. Class A buildings are well located in the market and are typically professionally managed. Additionally, they typically demand the highest rent with little or no deferred maintenance issues.

Class B: One step down from Class A, these properties are generally older than Class A, tend to have lower income tenants and may or may not be professionally management. Rental income is typically lower than Class A along with some deferred maintenance issues. Mostly, these buildings are well maintained and many investors see this as a "value-add" investment opportunity because through renovation and common area improvements, the property can be upgraded to Class A or a Class B+. Buyers are generally able to acquire these properties at a higher CAP Rate than a comparable Class A property because these properties are viewed as riskier than Class A.

Class C: Class C properties are typically more than 20 years old and located in less than desirable locations. The property is generally in need of renovation, including updating the building infrastructure to bring it up to date. As a result, Class C buildings tend to have the lowest rental rates in a market with other Class A or Class B properties. Some Class C properties need significant repositioning to get to steady cash flows for investors.

<https://www.realtymogul.com/blog/what-is-class-a-class-b-or-class-c-property>

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