CIO Insights

Weekly Bulletin
September 28, 2018

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Global CIO

Up we go

The Fed hiked rates on Wednesday, and we think that one more rise is likely this year, followed by three further ones in calendar year 2019. Will such rapid hiking cause problems elsewhere in the world and is this the only story in town?

1. U.S. Fed rate hike was widely expected, and we think the upwards trajectory will continue, despite concerns.
2. The global reaction to the rate rise (and the associated forecasts) was reassuringly limited.
3. Europe remains focused instead on the twin problems of the Italian budget and Brexit.

1 The 0.25% Fed rate rise was wholly expected by the Fed Funds futures market, but we think that actual rate hikes in the remainder of 2018-2019 may be more than current expectations (page 2). However, future rate hikes may be questioned, both inside and outside the Fed. The Fed Funds rate is likely to go above the neutral rate in 2019, creating economic and asset class headwinds, and there are also concerns that the current tightening trajectory could invert the yield curve – a possibility already referred to be several Fed members. But our base case remains that rate rises go ahead and that the U.S. economy continues to prosper – we forecast U.S. GDP growth of 2.9% in 2018 and 2.4% in 2019. The second reading of U.S. Q2 GDP released on Thursday morning after the Fed announcement revealed an annualized growth rate of 4.2% - the fastest since Q3 2014.

2 The global market reaction to the Fed rate rise was limited. U.S. stocks fell in late afternoon Wednesday following the announcement, and Asian stocks opened slightly lower the morning after the announcement, but equity markets remained steady on Thursday. 10-year U.S. Treasury yields initially fell back, but remain well clear of 3%. USD strengthened slightly against the EUR. Perhaps the most dramatic moves were in Asia, where the Indonesian and Philippines central banks raised rates in response (page 5) – the former, in particular, is keen to pre-empt any currency fall-out. But, in general, emerging markets have taken the rate rise – and all the associated commentary and forecasts of future policy – in their stride, which should bode well for the future.

3 Europe, meanwhile, remains focused on its own problems. European economic data suggests that a modest upswing is continuing, but Brexit and Italy continue to cast a long shadow. The ruling UK Conservative party starts its annual conference this Sunday and this should indicate whether Prime Minister May's Chequers proposals are now dead and buried: it may not, however, show us the most likely path to Brexit from here. Italian budget targets published on Thursday night revealed a target deficit/GDP ratio of 2.4% for 2019, greater than expected. Markets have reacted negatively but not dramatically to the news: this situation could however get worse before it gets better (page 3).

Inside the Bulletin

From the Regions	2
Asset Classes	6
Forecasts	10
Facts & Figures	11
Glossary	14

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Perspectives
From the Regions
Asset Classes
Forecasts
Facts & Figures
Glossary

"Powell"ing Ahead

U.S.

Larry V Adam
CIO and Chief Investment Strategist – WM Americas

As was widely expected (~100% probability embedded in the Fed Funds futures market), the FOMC elected to raise the benchmark rate 25 bps (from a 1.75-2.00% range to 2.00-2.25%) at Wednesday's FOMC meeting. This is the third interest rate hike this year and takes the Fed funds rate to the highest level since April 2008. This marked the eighth interest rate hike of this current tightening cycle which began in December 2015.

Going forward, we expect one additional rate hike in December and three more in 2019, consistent with the Fed "dots." This is a more aggressive path than current market expectations, as the market has priced in only two additional rate hikes over that time period. However, the pace of future Fed tightening needs monitoring as the Fed Funds rate is likely to rise above the neutral rate in 2019. A more restrictive policy stance could begin to slow the pace of economic growth and pose a headwind for risk assets. In addition, a number of Fed members (Bostic, Bullard) have cautioned against the possibility of the Fed's current trajectory of monetary policy leading to an inversion in the yield curve. If the Treasury curve moves closer to inversion, certain Fed members may seek to slow the pace of tightening.

The projected trajectory of monetary policy tightening has a significant impact on our outlook for asset classes over the next 12 months. Our recommendations for respective asset classes are:

- *Equities* – The economic and monetary policy backdrop should remain favorable for equities over the next 12 months. As a result, we expect the S&P 500 to continue to grind higher to 3,000 over the next 12 months as strong fundamentals support robust earnings growth. Given our expectation of continued healthy economic growth and a modest rise in interest rates, we continue to favor cyclical over defensive sectors, with info tech and financials being two of our favorite sectors. However, if 10-year Treasury yields were to move swiftly above 3.50%, we would begin to become more cautious on equities.
- *Fixed Income* – Strong economic growth and the continued tightening by the Fed should push global sovereign rates higher over the next 12 months (10 Year Treasury Target: 3.25%). As a result, we remain cautious on global sovereign fixed income assets and continue to favor shorter duration bonds within fixed income portfolios.
- *Currencies* - Stronger U.S. economic growth, a more aggressive Fed and widening interest rate differentials to multi-decade highs should support a modest adjustment higher in the USD. As a result, we expect the USD to appreciate to 1.15 against the EUR and 111 against the JPY.

Week Ahead—Economic Data in Focus

In addition to raising interest rates, the Fed painted a positive view on the economy by highlighting that economic activity has been "rising at a strong rate" over recent months, driven by household spending and business investment. To reflect this, the Fed upgraded its 2018 GDP forecast to 3.1% from 2.7% (the fourth consecutive upgrade of this forecast). Next week, we will receive a number of economic data points which should reinforce the Fed's optimistic view. First, ISM Manufacturing will be released Monday and is expected to remain near the highest level (60.7) since 2004. Second, motor vehicle sales are expected to rise for the first time in three months to a healthy annualized pace of 16.9 million vehicles. Lastly, the September employment report will be released Friday and is expected to show the U.S. economy added 180k jobs in September and wages continued to rise at the fastest pace (2.9% YoY) since 2009.

Italian budget deficit worries

EMEA

Stéphane Junod
CIO EMEA and Head of WD EMEA

Target deficit of 2.4% for 2019

The Italian government announced its three year budget targets yesterday, with the target deficit of -2.4% of GDP for 2019 much wider than market expectations. This could cause problems at four levels: Italy’s relationship with the EU, its credit rating outlook, the stability of its government (as the plans need to be approved by the parliament, and finance minister Tria could resign) and Italy’s debt sustainability.

Markets have reacted negatively to the news, but not dramatically so: spreads of 10 year Italian government bonds over German government bonds opened 22bps wider on Friday morning, but remained, at around 257bps. below recent highs of 290 bps. The EUR/USD is trading 0.8% lower than on Wednesday evening, though only around 0.1ppt of that came after the Italian news and the currency was broadly flat overnight. The Italian equity benchmark index FTSE MIB fell by 2% after the opening and the Stoxx 50 lost 0.6%.

The hard numbers here are possibly of less important than the message sent. The difference between a more acceptable budget deficit of 2% and the proposed 2.4% is around EUR 6bn, which is equivalent to 0.3% of Italy’s 2.3tn debt burden. A deficit of 2.4% would imply a loosening of the fiscal stance of around 0.6-0.7% of GDP, which could translate into a GDP boost of around 0.5ppt using standard fiscal multipliers. However, the positive growth impact could be crowded out by higher rates and the uncertainty.

The Italian government has however missed an opportunity to show that debt reduction is a priority and that they are committed to EU fiscal rules. The draft budgetary plan must be submitted to the EU by October 15 and Brussels will inform Rome within a week if there is serious non-compliance with the rules. If Italy won’t revise the budget targets, the EC could open an excessive deficit procedure (EDP) ex-ante (i.e. before the deficit happens). An escalating confrontation between Brussels and Rome would add further to the global political uncertainty, and Italian political instability could be uncomfortable for Europe, in a situation where German and British governments are struggling. The good news compared to the Euro crisis is that debt sustainability is not an issue yet. Defaults on Italian government bonds over the next few years remain highly unlikely, although potential rating downgrades will not help them. But believe that the market pressure will have to increase even more before the Italian government will change its expansionary course – so the situation could get worse before it gets better.

Blowing in all directions

GERMANY

Gerit Heinz
Chief Strategist, Germany

Business and consumer confidence tailwinds

The Ifo-Index in September at 103.7 came in above expectations, although it was slightly lower than in the previous month. Overall, the index suggests that the German economy remains robust, as the leading indicator confirmed (more or less) that the previous month's uptick had been sustained, after a series of declines in previous months. The index remains in solid territory and even export expectations rose in September, which can be seen as an encouraging sign given the ongoing trade conflicts. Nonetheless, net exports are still likely to prove a negative contributor to growth, as imports are expected to rise strongly due to solid domestic consumption. GfK consumer confidence in September rose for the second time in a row and consumers continue to have decent expectations for economic and income development. We forecast German GDP growth of 1.9% this year and 1.8% in 2019.

Capital market sidewinds

The DAX has barely moved this month, but it is remarkable that financials have been among the top gainers. This can be seen against the backdrop of a 10-year Bund yield which rose by around 20bp in September and is currently hovering around or just over the level of 0.5%. We expect it to rise to 0.8% within 12 months (see page 7).

Political headwinds in Berlin

It has been an unwritten law for decades in Chancellor Merkel's and Interior Minister Seehofer's CDU/CSU parliamentary group that, with only one candidate supported by the party leaders, elections for the chairman were in most cases a mere formality. Volker Kauder was not only Merkel's successor in the role of the chairman of the parliamentary group, and in office since Merkel became chancellor in 2005, he had also ensured the support of the CDU/CSU parliamentary group for her political proposals, even in times of discontent among members of parliament – e.g. concerning Eurozone rescue packages or around the handling of refugees. However, this week there were not only two candidates for the position – and, what is more, challenger Brinkhaus won the election. While this was certainly not a sign of support either for Merkel or Seehofer, it does not on its own put the incumbent government into question. Nevertheless tensions may ramp up after the state elections in October in Bavaria (where Seehofer's CSU has been the governing party for decades) and in Hesse (ruled by Merkel's CDU in recent years). In both states the CSU and the CDU, respectively, as well as their coalition partner at the federal level, the SPD, are likely to lose votes compared to the last election according to the opinion polls.

Some Asian banks follow the Fed

ASIA

Tuan Huynh
CIO APAC and Head of WD APAC

Indonesia and the Philippines follow the Fed

Following the Fed's rate hike of 25 bps on Sep 26th, two Asian central banks immediately raised rates. Indonesia's central bank, the Bank Indonesia (BI), announced that it would raise its policy rate by 25 bps to 5.75% on September 27. This was the fifth rate hike from the BI this year. In total, the BI has raised rates by 150 bps in the past four months, making it one of the most hawkish central banks in Asia. In addition, the Philippines central bank, the BSP, announced that it would raise interest rates by 50 bps on Sep 27 to 4.5%, their fourth rate hike this year.

The Indonesia rupiah (IDR) and Philippines Peso (PHP) have been among the weakest currencies in Asia year to date, down 10% and 8.3% respectively against the USD. Indonesia and Philippines have been raising interest rates on the back of their currencies' marked depreciation and their economies' relatively weak economic fundamentals compared to other Asian central banks. Firstly, both countries have high current account deficits (Indonesia:-2% of GDP; the Philippines: -0.8% of GDP), compared to current account surpluses in Malaysia, Singapore and Thailand. Secondly, both countries are vulnerable to a stronger USD given their relatively high levels of external debt. Thirdly, both countries have higher inflation levels compared to the rest of the region.

Pressure on Asian currencies could ease

Looking ahead, we think the rate path of Asian central banks will largely depend on 1) the pace of USD strengthening, amidst the Fed's continual rate hikes; 2) whether oil prices stay at an elevated level, which would affect Asia's net oil importers (such as Indonesia and India), and 3) the future trajectory of the US-China trade dispute.

In our base case forecast, we think the pressures on EM Asia currencies could be smaller in Q4 compared the first three quarters this year, given that we expect only mild USD strengthening and think that U.S.-China trade tensions could ease after the U.S. mid-term elections in November. Besides, we think the likely stabilization of Chinese economy (and the CNY) in Q4 could improve market sentiment towards EM Asia currencies. As regards the Chinese economy, we think that fiscal and monetary easing measures from the Chinese government will help it achieve a soft landing. We are likely to see signs of improvement in China's macro data, particularly concerning infrastructure investment growth, as early as Q4 this year.

Perspectives
From the Regions
Asset Classes
Forecasts
Facts & Figures
Glossary

European cyclical sectors well supported

Global Equities

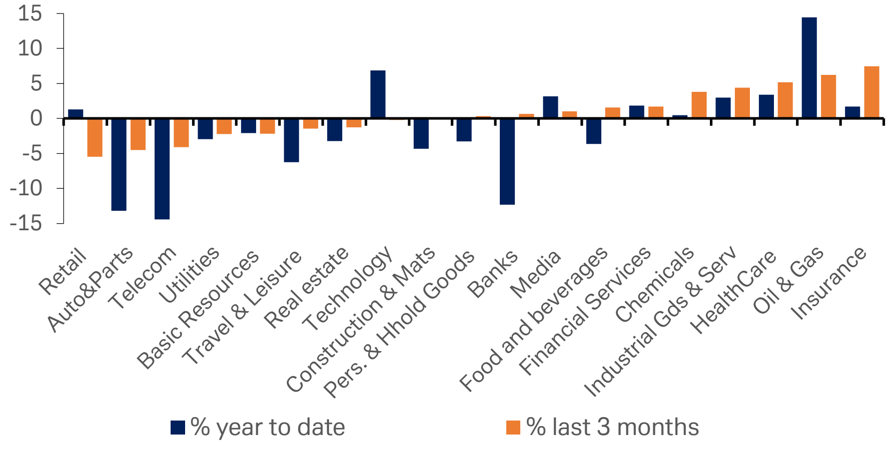
- Recent macro-economic data (such as the the PMI or other business climate indices) suggest that the weak spots earlier in the year have been overcome and the economic upswing, albeit slow, is on a sustainable footing.
- Moreover, still-low inflation rates are moving upwards, bond yields are rising slowly, oil prices have increased and the USD has weakened. The main economic variables relevant for sector positioning are thus pointing to a more cyclical focus in European equity portfolios.
- The chart compares the performance of the sectors in the Stoxx 600 index since the start of the year and over three months, sorted according to their three month performances.
- In line with the economic environment, investors seem to be shifting funds into cyclical areas of the European equity market. Companies in the oil and gas sector are supported by higher oil prices and the financial sector seems to be getting some lift from slightly higher bond yields and a steeper yield curve. Chemicals and industrial goods are getting some tailwind from the robustness of economic growth indicators. On the weaker end of the sector spectrum are typically defensive sectors like telecom, utilities and real estate.
- Going into the fourth quarter, European equities could be given a positive impetus by the robust economic outlook, a brightening of sentiment in the case of a budget agreement in Italy and the fact that cyclical sectors have a relatively high weight in major European equity indices.
- These factors could help reduce European equities' relative underperformance compared to other equity markets. During recent market weakness, and valuations have come down to more moderate levels and European equities are underweight in global equity portfolios and investors still seem predominantly to take a defensive stance: not a bad backdrop for European equities to prosper.

Equity

Investors seem to be shifting funds into cyclical areas of the European equity market: valuations have also come down to more moderate levels

— Focus of the Week

Gains/losses in Stoxx 600 sectors



Source: Bloomberg Finance LP, Deutsche Bank A G. Data as of September 26, 2018.

Bund yield rise helped by Draghi comments

Fixed income

- After an extended sideways movement of German government bond yields, with 10 year yields meandering between 0.29% and 0.49%, the market is now getting more dynamic. 10-year Bund yields have gone just above 0.5% and seem to be seeking a new trading band at these higher levels.
- The rise in yields was supported by comments of ECB President Draghi to the European parliament in Brussels last Monday. Looking at the ECB's forecasts for headline inflation, which is expected to average just 1.7% to 2020, so below the ECB's inflation goal of just under 2%, Draghi indicated that the forecasts did not reflect the underlying strength of fundamental price pressures. He even spoke about a "relatively vigorous" pickup in underlying inflation, a comment which caught the attention of some market participants.
- ECB chief economist Peter Praet later clarified that Draghi's statements did not indicate a change in the monetary policy course and market speculation about a quicker monetary normalization was not warranted. Obviously the ECB wants to stay on a slow but sustainable normalization path and avoid market uncertainty as much as possible. This strategy seems to be successful as the current rise in Eurozone core yields is in line with global bond yield developments and so far we have avoided a sell-off or a pronounced increase of bond market volatility like at the start of the year or in May.
- We stick to our 12-month forecast of 0.8% for 10 year German government bond yields. Recent news suggests progress on budget negotiations in Italy indicate progress but surprises from this angle, however, cannot be excluded and together with recent setbacks in Brexit negotiations could trigger so-called "safe-haven flows", pushing bond yields in the core Eurozone countries back down.

Fixed Income

10-year Bund yields have gone above 0.5%, supported by comments from ECB President Draghi on fundamental price pressures

— Focus of the Week

Germany 10-year Bund yields in 2018

Source: Bloomberg Finance L P, Deutsche Bank A G. Data as of September 26, 2018.

Oil price rise continues

Commodities

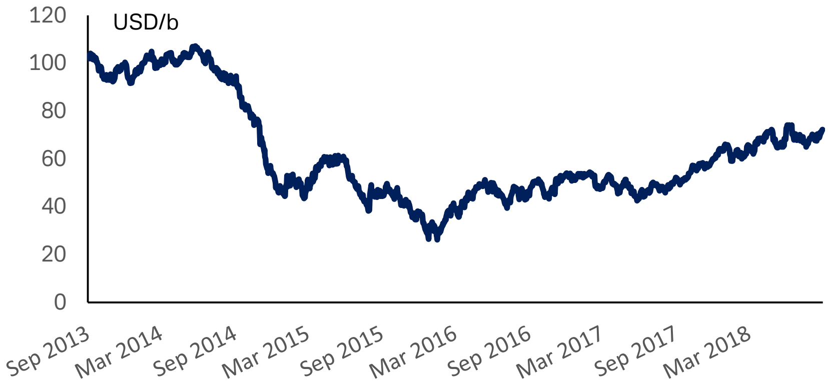
- Oil prices have continued to rise, as markets get ready for the imposition of U.S. sanctions on Iran on November 4. In early trading on September 27, the price of Brent crude rose to USD81.9/b, its highest level since 2014, with the price of WTI crude hitting USD72.5/b.
- Markets remain concerned that they could be underestimating the impact of Iranian sanctions. In this context, a major number of uncertainties remain, notably around the extent to which Iranian oil exports will fall (linked to the desire of other oil imports to support U.S. sanctions), and the ability of other OPEC members to increase output in response.
- So-called OPEC+ members (i.e. also including Russia) met over last weekend but did release plans to increase output. This follows the usual historical pattern of OPEC responding to output falls, rather than anticipating them, but added to upward pressure on prices.
- The upward trend in prices was not braked by news that U.S. oil stockpiles unexpectedly increased last week, to around 396m barrels and U.S. oil output went over the previous 11m b/d record. The effect of this news was overshadowed by the U.S. has ruling out any release from the country's strategic reserves to stop any surge in prices when sanctions are imposed.
- Meanwhile, the war of words is certain to continues. Speaking on September 26, for example, Iran's oil minister, Bijan Zanganeh, said that if President Trump wanted oil prices to stop rising, then he should stop "disruptive" U.S. interference in the Middle East. Such exchanges are likely to result in further price spikes in coming weeks.
- But once sanctions are in place, we expect producers to respond with increased output. Our 12-month forecast is USD65/b (WTI).

Commodities

Worries about the likely impact on U.S. sanctions on Iran are driving prices higher, despite news on further U.S. supply and inventory increases

— Focus of the Week

WTI oil prices over the last five years



Source: U.S. Energy Information Administration, Deutsche Bank A G. Data as of September 26, 2018..

EUR vs. USD: drivers in balance

Currencies

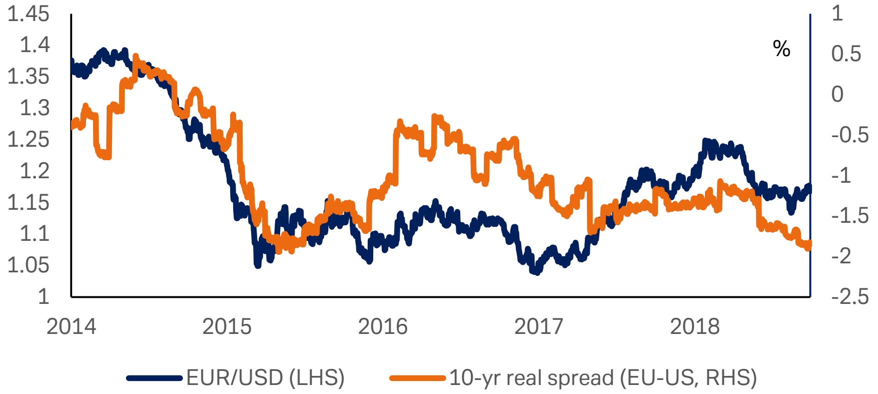
- Our 12-month EUR/USD strategic target remains at 1.15, so we see little further USD appreciation from here (current rate 1.17).
- Reasons for a stronger/weaker EUR seem relatively balanced at the moment, in the absence of a catalyst to drive the currency in a particular direction.
- The following factors would seem to support the EUR:
    - President Trump has more or less revealed what he is aiming for in trade negotiations, perhaps limiting further EUR weakness.
    - Uncertainty around U.S. domestic politics (e.g. mid-term elections), with the Fed not seeing a possible Trump early removal as a positive.
    - Trump's criticism of the Fed and interest rate rises
    - In the long term, diversification away from the USD to avoid sanctions could help the EUR, as could higher U.S. fiscal spending and debt.
- The following factors could weaken the EUR
    - Negative news on Europe – most obviously around Italy and Brexit. Renewed momentum behind populist politics (e.g. in Sweden or Germany) would not help either.
    - Renewed emerging markets turmoil might also see "safe haven" flows into the USD, thereby weakening the EUR. Possible areas of concern here would include Turkey, Russia (if the sanctions risk becomes live again after the end of the U.S. Congress summer recess), and South Africa's credit rating. China also needs to demonstrated that it can manage the economic slowdown and the effects of the trade dispute.

FX

Only limited further appreciation of the USD vs. EUR is expected on a 12-month horizon

— Focus of the Week

EUR/USD and real yield spreads



Source: Bloomberg Finance LP, Deutsche Bank A G. Data as of September 26, 2018.

Deutsche Bank Wealth Management forecasts

	End-September 2019
Equity indices	
USA (S&P 500)	3,000
Eurozone (Euro STOXX 50)	3,410
Germany (DAX)	12,800
UK (FTSE 100)	7,400
Japan (MSCI Japan)	1,090
Asia ex Japan (MSCI in USD)	680
Latin America (MSCI in USD)	2,500
Key sovereign bond yields (10-year, %)	
USA	3.25
Germany	0.80
UK	1.75
Japan	0.20
Commodities	
Oil (WTI)	65
Gold in USD	1,275

Currencies	3 months	End-September 2019		3 months	End-September 2019
EUR/USD	1.15	1.15	EUR/HUF	325	330
EUR/GBP	0.88	0.90	EUR/PLN	4.30	4.40
USD/JPY	111	111	USD/RUB	70.0	75.0
EUR/CHF	1.15	1.15	USD/ZAR	15.50	16.50
USD/CAD	1.28	1.25	USD/CNY	6.85	7.00
AUD/USD	0.71	0.70	USD/INR	72.0	74.0
NZD/USD	0.65	0.64	USD/KRW	1,130	1,100
EUR/SEK	10.50	10.1	USD/IDR	15,000	15,500
EUR/NOK	9.50	9.35	USD/MXN	19.75	21.00
EUR/TRY	7.47	8.28	USD/BRL	4.35	4.50

Forecasts are from Deutsche Bank AG, as of September 28, 2018 and are subject to change without notice.

Facts and Figures

	Current	1-Wk Return	1-M Return	YTD Return	Sep 26 2017 – Sep 26 2018	Sep 26 2016 – Sep 26 2017	Sep 26 2015 – Sep 26 2016	Sep 26 2014 – Sep 26 2015	Sep 26 2013 – Sep 26 2014
Rates									
2-Year German Bund	-0.50%	-0.07%	-0.24%	-0.52%	-0.83%	-0.55%	0.20%	0.18%	0.56%
5-Year German Bund	-0.04%	-0.31%	-0.95%	-0.13%	-0.61%	-0.58%	2.91%	1.23%	4.64%
10-Year German Bund	0.53%	-0.45%	-1.78%	0.36%	0.33%	-3.33%	8.90%	4.02%	11.42%
10-Year U.S. Treasury	3.06%	0.14%	-1.98%	-4.40%	-5.34%	-3.21%	7.02%	5.51%	4.29%
10-Year UK Gilt	1.51%	0.08%	-1.44%	-1.44%	0.27%	-3.54%	13.72%	8.21%	6.39%
2-Year BTP	0.74%	0.01%	0.96%	-1.24%	-1.25%	0.40%	0.51%	1.03%	3.83%
5-Year BTP	1.81%	0.18%	2.72%	-3.21%	-2.51%	0.36%	4.12%	3.06%	14.47%
10-Year BTP	2.66%	0.21%	4.37%	-3.22%	-1.35%	-4.51%	8.49%	7.27%	23.04%
Barclays Euro Corporate	1.11%	-0.16%	-0.57%	-0.81%	-0.33%	0.63%	7.15%	0.01%	7.77%
Barclays Euro High Yield	3.46%	0.07%	0.41%	0.18%	0.91%	7.56%	7.43%	1.22%	9.22%
JP Morgan EMBIG Div.	6.47%	0.32%	-0.52%	-1.34%	-2.25%	0.51%	14.32%	12.78%	16.72%
Equities									
USA (S&P 500)	2,906.0	-0.1%	1.1%	8.7%	16.4%	16.3%	11.1%	-2.6%	16.7%
Euroland (Euro Stoxx 50)	3,433.2	1.9%	0.2%	-2.0%	-2.9%	18.8%	-4.4%	-3.3%	10.1%
Germany (DAX)	12,385.9	1.4%	-0.1%	-4.1%	-1.7%	21.3%	7.3%	2.1%	9.5%
UK (FTSE 100)	7,511.5	2.5%	-0.9%	-2.3%	3.1%	6.9%	11.6%	-8.1%	1.3%
Italy (FTSE MIB)	21,646.3	1.7%	4.4%	-1.0%	-3.5%	38.5%	-24.1%	2.6%	16.4%
France (CAC 40)	5,512.7	2.2%	1.5%	3.8%	4.6%	19.5%	-1.6%	2.0%	5.0%
Japan (MSCI Japan)	1,081.0	1.7%	6.3%	0.7%	9.2%	23.3%	-9.0%	8.1%	8.4%
Asia ex Japan (MSCI, USD)	655.7	1.2%	-0.5%	-8.1%	-0.5%	19.4%	14.4%	-16.1%	6.2%
Latin America (MSCI, USD)	2,535.0	1.3%	1.8%	-10.4%	-13.1%	23.3%	25.0%	-42.3%	-2.6%
Commodities & Alternatives									
WTI (USD)	71.57	0.6%	4.2%	18.5%	38.0%	13.0%	0.8%	-51.2%	-9.2%
Gold (USD)	1,194.2	-0.9%	-1.1%	-8.4%	-8.2%	-3.0%	17.2%	-5.9%	-8.3%
EUR/USD	1.1748	0.7%	1.0%	-2.2%	-0.2%	4.4%	0.8%	-12.0%	-5.8%
EUR/GBP	0.8912	0.4%	-1.5%	0.4%	1.6%	1.0%	18.0%	-5.8%	-7.2%
EUR/JPY	132.80	1.3%	2.7%	-1.8%	0.5%	16.8%	-16.2%	-2.6%	3.9%
VIX Index	12.89	1.14	0.90	1.85	2.72	-4.33	-9.12	8.77	0.79
VDAX Index	13.84	-0.45	-0.70	-0.31	1.44	-6.64	-9.94	11.76	1.59

Current data as of September 26, 2018. Data source: FactSet, negative numbers are in orange

Facts and Figures

	Current	1 Wk Change	1M Change	YTD Change	Sep 26 2017 – Sep 26 2018	Sep 26 2016 – Sep 26 2017	Sep 26 2015 – Sep 26 2016	Sep 26 2014 – Sep 26 2015	Sep 26 2013 – Sep 26 2014
Rates Valuations									
Eco Refi Rate	0.00%	0	0	0	0	0	-5	0	-45
Bund Yld Curve (10YR-2YR)	103	2	8	-5	-13	60	-33	-9	-66
Spread Gov. FRA—GER (10YR)	26	0	-1	3	-4	7	-8	-7	-15
Spread Gov. Ita-GER (10YR)	212	-7	-67	59	41	41	16	-33	-106
Spread Gove. SPA-GER (10YR)	99	-6	1	-15	-21	9	-27	12	-125
Investment Grade Spread (10YR)	58	-1	-5	25	24	-41	-13	56	-3
High Yield Spread (10YR)	293	-7	-21	56	59	-52	-34	97	-48
J.P. Morgan EMBIG Div. Spread	593	-18	-18	108	117	-36	-42	115	42
Equity Valuations									
USA (S&P 500)	19.0	0.0	-0.1	-1.6	-0.8	1.3	2.1	-0.7	1.4
Euroland (Euro Stoxx 50)	14.0	0.3	0.0	-1.1	-1.4	1.1	0.5	-0.8	1.6
Germany (DAX)	13.1	0.2	0.1	-1.4	-1.1	0.8	0.8	-0.7	0.6
UK (FTSE 100)	13.8	0.4	-0.1	-1.8	-1.8	-1.7	2.6	0.6	0.8
Italy (FTSE MIB)	13.3	0.2	0.3	-2.7	-3.7	1.1	-1.3	-1.6	3.2
France (CAC 40)	14.7	0.3	0.0	-0.6	-0.9	1.3	-0.1	-0.3	1.1
Japan (MSCI Japan)	13.8	0.2	0.8	-1.7	-1.9	0.7	0.0	-0.5	-3.3
Asia ex Japan (MSCI, USD)	13.2	0.2	0.1	-1.5	-1.4	0.2	2.8	-1.2	0.2
Latin America (MSCI, USD)	14.1	0.0	0.4	-1.7	-1.4	-1.4	2.3	0.1	0.2

	Relative Strength Index	50 Day Moving Average	100 Day Moving Average	200 Day Moving Average	Next 12M Earnings Growth	Earnings Est (NTM) 3M Change	Div Yld
Equity Technicals and Fundamentals							
USA (S&P 500)	56.08	2,865.7	2,806.8	2,756.9	12.6%	1.2%	2.0%
Euroland (Euro Stoxx 50)	60.32	3,418.3	3,444.3	3,461.7	9.8%	-0.5%	4.0%
Germany (DAX)	56.55	12,398.3	12,554.9	12,592.4	8.7%	-1.9%	3.5%
UK (FTSE 100)	57.33	7,535.3	7,605.5	7,488.3	7.7%	1.1%	4.4%
Italy (FTSE MIB)	63.63	21,152.6	21,696.9	22,333.5	14.0%	0.1%	4.3%
France (CAC 40)	65.34	5,414.6	5,429.5	5,383.3	9.9%	1.8%	3.5%
Japan (MSCI Japan)	75.10	1,030.6	1,034.6	1,043.5	4.1%	1.3%	2.2%
Asia ex Japan (MSCI, USD)	52.71	658.3	677.8	703.0	11.8%	-1.5%	2.9%
Latin America (MSCI, USD)	55.70	2,552.6	2,559.9	2,789.6	17.1%	1.2%	3.7%

Current data as of September 26, 2018. Data source: FactSet, negative numbers are in orange.

Key forthcoming data releases and other events

	U.S.	Europe	Asia
Monday October 1	Manufacturing PMI (September) Construction Spending (August) ISM Manufacturing (September) Motor Vehicle Sales (September)	Eurozone, Germany, France, Italy, Spain, UK:, Switzerland Markit Manufacturing PMI (September)	Japan: Tankan Large Manufacturing Index (Q3), Nikkei Manufacturing PMI (September) South Korea: Nikkei Manufacturing PMI (September), Trade Balance
Tuesday October 2	n/a	Eurozone: PPI (August) Spain: Unemployment Rate (September)	Australia: CBA PMI Manufacturing (September); RBA monetary policy meeting Japan: Consumer Confidence Index (September) New Zealand: QV House Prices (September), ANZ Job Advertisements (September) South Korea: Industrial Production (August), Cyclical Leading Index (August)
Wednesday October 3	ADP Employment (September) ISM Non-Manufacturing (September)	Eurozone, Germany, France, Italy, Spain, UK: Markit Services & Composite PMI (September) Switzerland: KoF Autumn Economic Forecast	Japan: Markit Service & Composite PMI (September) Australia: AiG Perf of Services Index (September), Building Approvals (August) New Zealand: ANZ Commodity Price (September)
Thursday October 4	Durable Goods Orders (August) Factory Orders (August)	UK: New Car Registrations (September)	Australia: CBA PMI Services (September), Trade Balance (August) Japan: Foreign Buying of Jap. Bonds & Stocks (September 28)
Friday October 5	Employment Report (September) Consumer Credit (August) International Trade (August)	Germany: Factory Orders (August), PPI (Aug) France: Trade Balance (August) Switzerland: CPI (September) Spain: Industrial Production (August) UK: Halifax House Prices (September), Unit Labor Costs (Q2) Italy: Retail Sales (August)	Japan: Household Spending (August), Cash Earnings (August), Leading Indicator (August) Australia: Retail Sales (August) South Korea: CPI (September)

Glossary

Bank Indonesia is the central bank of Indonesia.

Brexit is a combination of the words "Britain" and "Exit" and describes the possible exit of the United Kingdom of the European Union.

Bunds are longer-term bonds issued by the German government.

The CDU/CSU is an alliance of two German centre-right political parties, the Christian Democratic Union and the Bavarian Christian Social Union.

The UK Conservative Party is a centre-right political party, in power since 2010.

The consumer price index (CPI) measures the price of a basket of products and services that is based on the typical consumption of a private household.

Depreciation (in an FX context) generally refers to a gradual loss of value of a currency; immediate, policy-driven changes are devaluations.

The DAX is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange; other DAX indices include a wider range of firms.

Earnings per share (EPS) are calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

The Energy Information Administration (EIA) is part of the U.S. Department of Energy and an agency of the U.S. Federal Statistical System.

The European Central Bank (ECB) is the central bank for the Eurozone.

The Euro Stoxx 50 Index tracks the performance of blue-chip stocks in the Eurozone; the Euro Stoxx 600 has a wider scope, taking in 600 companies across 18 European Union countries.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The Federal Reserve is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

GBP is the currency code for the British pound/sterling.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

IDR is the currency code for the Indonesia Rupiah.

Ifo Indices measure business confidence and expectations in Germany and other economies.

The ISM Manufacturing Index is based on a survey of manufacturing firms by the Institute for Supply Management.

The Organization of the Petroleum Exporting Countries (OPEC) is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members.

The People's Bank of China (PBoC) is the central bank of the People's Republic of China.

The Philippine peso (PHP) is the currency of the Philippines.

Price/earnings (P/E) ratios measure a company's current share price relative to its per-share earnings. In this context, LTM refers to last twelve months' earnings.

Purchasing manager indices (PMI) provide an indicator of the economic health of the manufacturing sector and are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The composite PMI includes both manufacturing and services sectors. They can be published by public sector or private agencies (e.g. Caixin, Nikkei).

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The Stoxx 50 Index tracks the performance of blue-chip stocks in the Eurozone; the Stoxx 600 has a wider scope, taking in 600 companies across 18 European Union countries.

Treasuries are bonds issued by the U.S. government.

Volatility is the degree of variation of a trading-price series over time.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

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