CIO | VIEW

December 2018

Beyond the business cycle

Are financial markets right to worry?

A MATTER OF PERSPECTIVE

Global gross-domestic-product (GDP) growth as well as growth in U.S. corporate earnings seem poised to slow in 2019. The central banks are currently changing tack: quantitative easing is morphing into quantitative tightening. In effect, the world's three major central banks are now siphoning liquidity off the market. Meanwhile, political risks persist and appear increasingly difficult to resolve. Populist governments are making political forecasting harder as gut feeling replaces expertise. Bond markets remain nervous and many risk premiums are heading north. The sharp pullback in oil prices continues to put pressure on some market segments.

Stefan Kreuzkamp
Chief Investment Officer

"The economic foundation for the coming year is basically solid. It needs to be – because we will have to withstand some tremors."

The above sums up the current situation, which sounds depressing enough to justify a continuation of the recent market weakness. It is, however, possible to see matters in quite a different light. Based on our current forecasts, we believe the global economy will again expand at a rate of more than 3.5% in 2019. We do not expect a recession in 2020 either. Corporate profits continue to grow at an impressive rate; in the United States we expect roughly 6% growth. Monetary policy is tightening marginally overall but remains very loose in historical terms. And though investors are watching every rate-hike move of the U.S. Federal Reserve (the Fed) like a hawk, any slowdown in growth would mean that the Fed might abstain from tightening the screws quite so much. Even the currently heightened political risks are increasingly attributed to individuals which implies they could – in theory – be reversed quickly, especially if – in practice – pressure from the capital markets were to speed up the decision-making process. Italy might be a case in point. And cheap oil has more friends than foes anyway.

This rosier take on the world sounds fairly plausible. It does, however, rest on some rather optimistic assumptions. Instead, periods of severe market stress could result from several risks escalating at the same time. Some politicians might prefer to ignore market signals or even blame "speculators" for any woes. The truth probably lies somewhere inbetween. We therefore enter the New Year with humility, projecting only mid-single-digit returns. But this also means that we remain guardedly optimistic – in our view, the cycle is not over yet.

Important terms are explained in our glossary. All opinions and claims are based upon data on 12/17/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

CIO | VIEW

December 2018

FOCUS

Lately, market participants have mostly focused on "where we are in the cycle." While important, such perspective risks overlooking the signs of structural changes already afoot.

MACRO

The world economy retains a more solid footing than you might think. There are plenty of risks, however, especially when it comes to politics.

FIXED INCOME

Despite moderate rate rises, it remains too early to count out fixed income in general and corporate credit in particular. At the short end of the U.S. yield curve, Treasuries look interesting, too.

EQUITIES

Plummeting equity prices and elevated volatility reflect many anxieties. We share some concerns but remain confident. The year-end political and market turmoil complicates the forecasts for 2019.

ALTERNATIVES

Still relatively loose global monetary policies are stirring investors towards increasingly exotic destinations. Container leasing is an undiscovered niche offering interesting yield opportunities.

MULTI ASSET

Despite an optimistic outlook, our portfolios are ready for turbulent times. We enter 2019 well diversified, hedging various instruments, while selectively looking for opportunities.

ESG

We look at the winners and losers in an age of digitalization, automation and modernization. This new age offers the chance to address the major environmental and social challenges of our time.

FORECASTS

With slightly lower growth and increased volatility, our forecasts paint a less rosy picture than in previous quarters; however, they also show that we are far from a recession.

PERFORMANCE

The performance of indices and key figures over the past 5 years (12-month periods).

ABOUT US

DWS offers individuals and institutions traditional and alternative investments across all major asset classes.

BEYOND THE BUSINESS CYCLE

» Focusing purely on "where we are in the cycle" risks overlooking the signs of structural changes already afoot. «

Throughout 2018, a sense of unease has repeatedly seized financial-market participants. For a wide range of asset classes, returns year-to-date have tended to be somewhere between disappointing and dismal. It began with cryptocurrencies at the start of the year followed by sharp increases in equity-market volatility in February. October proved truly dreadful for most risky asset classes. There was also extreme nervousness, heading into December. In between, emerging markets suffered from a combination of self-inflicted policy errors, rising trade tensions, rising U.S. interest rates and a stronger U.S. dollar, pushing emerging-market equities as a whole into bear-market territory.

Investors were not the only ones to lose their calm. Again and again, voters and citizens did so as well. Meanwhile, upheaval in governments, parliaments and at ballot boxes contrasted sharply with more sanguine readings from conventional economic indicators. The market mood kept oscillating between taking comfort from seemingly solid economic fundamentals and apprehension around the latest political surprises, often on trade and often transmitted via Twitter. As we head into 2019, it's worth pausing and trying to get a better grasp on this contrast. From a market perspective, leading indicators are tried and tested tools in assessing the likelihood of the next downturn within a given forecasting horizon. In financial-market parlance, the question is typically put in terms of "where we are in the cycle." By that, investors tend to mean two distinct, though related things. The first is how close we are to major economies, such as the U.S., succumbing to a recession. Recessions, of course, tend to, secondly, coincide with bear markets for risky assets, such as equities and riskier corporate bonds.

Typically, risky assets tend to continue to do quite well until the very late stages of a cycle. As we have argued recently in our Multi-Asset Perspective "Capital-market cycles,"[1] history and recent economic data suggest that the current cycle still has further to run. Periods of weakness, in other words, might once again look like buying opportunities with the benefit of hindsight. There are plenty of downside risks to this view, however, and since 2016 they have tended to be related to politics. Starting roughly with the Brexit referendum and the election of Donald Trump, odd things began to happen quite frequently, often catching investors by surprise. That trend continued in 2018. On Brexit, it remains as hard as it has ever been to predict the ultimate outcome. In heavily indebted Italy, two broadly euroskeptic parties won the parliamentary elections in March, formed a new government and kept pushing against the budgetary constraints previously agreed with their Eurozone partners. Populists also won elections in Brazil and Mexico.

While less eye-catching, the traditional mainstream parties continued to see their electoral fortunes decline in a wide range of countries, including generally steadfast Germany and Sweden. In France, erstwhile political newcomer President Emanuel Macron faced sustained and at times violent street protests. In the U.S. midterms, Donald Trump's Republicans suffered a larger–than-usual defeat in the House of Representatives. High turn-out levels in the United States and several other countries suggest voters are more engaged than usual.

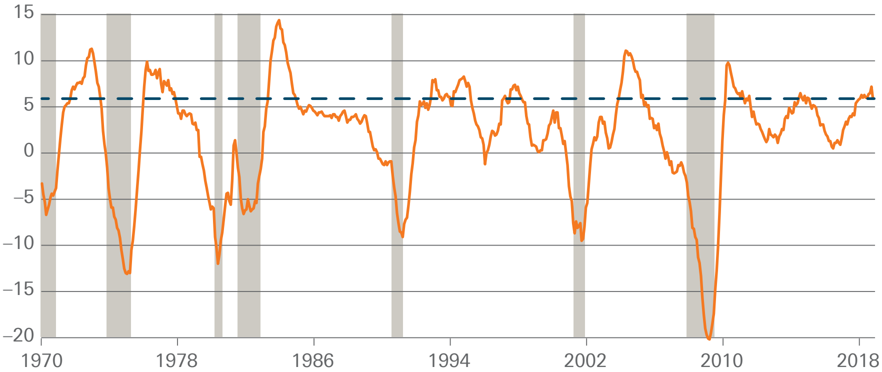
Set against financial and political turbulence, the world economy has been remarkably steady so far. The U.S. did a little better than forecast, most other developed countries and China somewhat worse. For the world as a whole, the economic outlook remains quite benign. It would be a mistake, however, to conclude, as an old German piece of investment wisdom has it, that politics rarely dominates markets for long. Elections, after all, are a way of aggregating information, just like markets are. The message that voters and citizens have been sending since 2016, in country after country, is that they are fed up with business as usual.

Which brings us back to the question so dominant in financial markets of "where we are in the cycle." At least as far as politics is concerned, the old political cycle that started after the global financial crisis is already over. So is the politics of what you might call "There is no alternative," in honor of Germany's crisis chancellor Angela Merkel. In the UK, the opposition Labor Party may be only one or two Brexit-related accidents away from getting a crack at implementing radical, redistributionist ideas, considered unthinkable not so long ago. And from Donald Trump in Washington and Emmanuel Macron in Paris to Rome's new populist government, outsiders are already eagerly implementing alternatives to their countries' erstwhile political status quo. Some of these policies are more market-friendly and more thought-through than others. But leaving aside the policy content, the sheer speed at which old ways of doing politics disintegrated has been stunning. The scope for policy errors has dramatically increased, and not just in monetary policy with the still unfamiliar tool "quantitative easing (QE)" making room for the never before tried tool of "quantitative tightening." For investors, the key implication is that matters are a lot more uncertain than standard economic-health assessments might suggest. The real surprise would be if you didn't start to see more of the fallout in both financial markets and the economic data throughout 2019. Investors might be well-advised to pay just as much attention to signs of structural changes already afoot as to "where we are in the cycle".

U.S. LEADING INDICATORS SUGGEST A RATHER BENIGN OUTLOOK

The Conference Board's U.S. Leading Index is a composition of several indicators and suggests that the U.S. economy remains quite solid.

year-on-year change in %



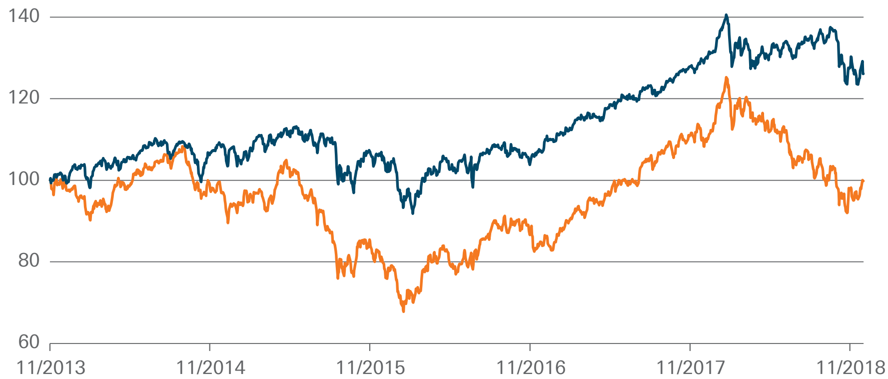
Conference Board U.S. Leading Index ■ Last reading ■ U.S. recessions

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/30/18

ANOTHER DIFFICULT YEAR FOR EMERGING-MARKET EQUITIES

Since 2013, emerging-market equities have been comparatively weak. Things got worse in 2018, partly because rising U.S. interest rates pushed up the dollar.

indexed: 11/5/13 = 100



■ MSCI Emerging Markets Index ■ MSCI World Index

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/5/18

[1] https://go.dws.com/cio-view-capital-market-cycles

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STEADY AS SHE GOES

» The world economy retains a more solid footing than you might think. There are plenty of risks, however. «

Johannes Müller
Head of Macro Research

IN A NUTSHELL

- U.S. economic momentum continues to look solid indeed.
- For the rest of the world, the outlook is admittedly somewhat less benign but far from dismal.
- The biggest risks continue to surround European politics and they are skewed to the downside.

Let's start with the good news. Are we facing a severe U.S. economic downturn or even a recession as financial markets appeared to be signaling in recent weeks? Clearly, the answer is no. Conventional leading indicators, which have proven reliable in the past, remain reassuring. U.S. economic momentum continues to look solid indeed. In fact, we have slightly increased our forecast for 2018 to 2.9%. We continue to expect only a slight deceleration, to 2.7% in 2019. This partly reflects the fading effects of debt-financed tax cuts and spending increases of the past year under the Trump administration.

Leaving aside some relatively isolated areas of weakness, such as housing in parts of the United States, a slight deceleration is perfectly consistent with the cycle lasting well beyond our 12-month forecasting horizon. The U.S. economy has lately been growing above potential, and the labor market is already very tight. A pickup in productivity, perhaps reflecting a combination of tax cuts, deregulation and slight rises in corporate investment, would help. Still, the pace of growth probably needs to slow, if the U.S. economy is to avoid recession risks in the longer-term. That is exactly what we are forecasting.

For the rest of the world, the outlook is admittedly somewhat less benign but far from dismal. Outside the United States, we have taken down our forecasts another shade. For the world as a whole, we now expect 3.7% growth in 2018 and a still perfectly respectable 3.6% in 2019. For China, we stick to our 6% forecast in 2019. Not so long ago, this was well below consensus. Lately, incoming data forced some of our more optimistic peers to trim their forecasts, as the trade conflict between China and the United States has started to take its toll. It remains to be seen whether the recent truce on trade will prove sustainable. Other reasons for caution include China's high levels of private-sector debt and structural trends, such as an aging population and the shift towards services. Set against all this, China's leaders appear determined to soften the slowdown through various stimulus measures and still have plenty of monetary and fiscal tools at their disposal.

Other emerging markets (EM) present a sharply contrasting picture. The likes of Turkey and Argentina are facing some well-known, country-specific challenges. Still, domestic-demand growth continues to look solid in much of Asia, with Indian economic growth on track to accelerate to 8%. On average, we expect emerging-market growth to be roughly the same in 2019 as in 2018. Provided, of course, that matters on the trade front are at least not getting worse. Another potential source of volatility is the oil price, which we expect to recover to 60 dollars a barrel by the end of 2019.

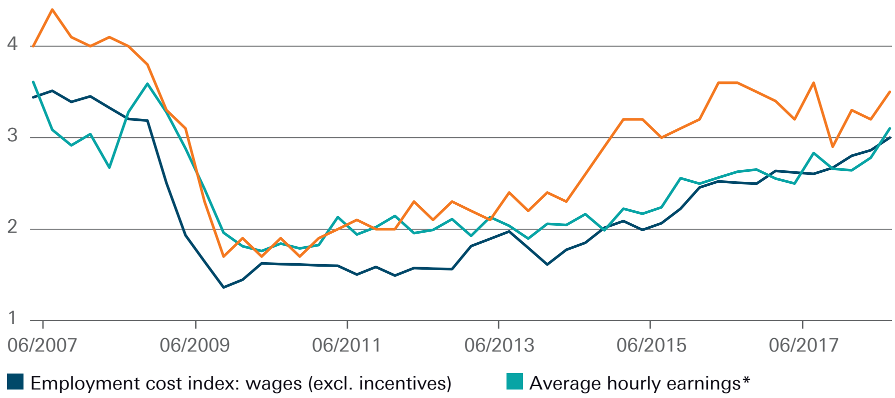
The most immediate risks continue to surround Europe, and they are skewed to the downside. One area to watch is obviously trade – and the question whether and how hard the Trump administration might target European carmakers. Two other perennial topics are Brexit and the ongoing haggling over Italy's fiscal outlook. Our base case continues to assume that awful outcomes, such as a cliff-edge Brexit or a rating downgrade of Italian government debt towards junk, can be avoided. Achieving that, however, might require some market discipline, which, in turn, could reinforce rather than diminish political brinkmanship.

Note that none of the risks we have outlined above are all that new. Indeed, Chinese debt, trade, Italy and Brexit are all topics we have been carefully monitoring for a while and incorporating into our forecasts. The same is true of the shift in monetary policies towards quantitative tightening. What then explains the severity of some of the moves we have recently seen in financial markets, notably in U.S. equities? One intriguing explanation concerns wages. With the U.S. economy operating at full capacity, you might expect wage growth to start putting a dampener on companies' earnings by squeezing corporate margins. It is too early to say whether this may have already started to happen. If and when it does, that might, however, prove painful for Wall Street but not necessarily for U.S. households, let alone the global economy as a whole. Instead, it is exactly what a benign macro-economic scenario of a successful exit from quantitative easing might look like.

U.S. LABOR COSTS ARE SLOWLY TRENDING UPWARDS

So far, wage growth has remained fairly moderate, but according to most estimates, U.S. labor-market slack appears to be largely gone.

year-on-year change in %

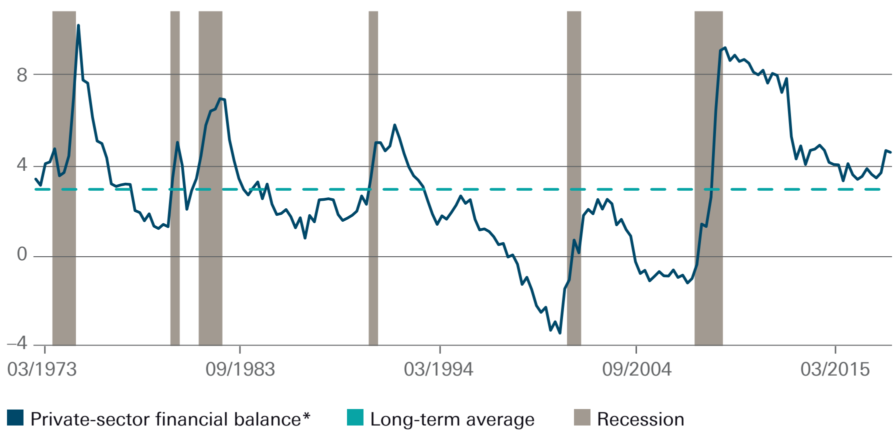


* Last observation: 10/2018
** unweighted, 3-month moving average
Sources: Bureau of Labor Statistics (BLS) of the U.S. Department of Labor, DWS Investment GmbH as of 11/2018

HEALTHY U.S. PRIVATE-SECTOR FINANCIAL BALANCES

As yet, there are few obvious signs of the sorts of excesses such as deteriorating private-sector finances that preceded previous recessions.

% of GDP, 4-quarter moving average



* Total income minus total spending
Sources: U.S. Bureau of Economic Analysis (BEA), U.S. Federal Reserve Board, DWS Investment GmbH as of 11/2018

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A FEW OPPORTUNITIES LEFT

» Despite moderate rate rises, it remains too early to count out fixed income. «

Jörn Wasmund
Head of Fixed Income/Cash

IN A NUTSHELL

- _ U.S. Treasuries and liquid MBS look interesting, especially at the short end of the U.S. yield curve.
- _ We are more cautious on European government bonds, especially of the countries at the core of the Eurozone.
- _ Positive absolute return potential exists for corporate credit across regions. Selective opportunities remain in emerging markets.

Call it a tug of war between fears and fundamentals. While President Trump keeps markets in suspense, the U.S. economy looks robust to us and, more importantly, to the Fed. Until December 2019, we expect two more 25-basis-point (bp) interest-rate hikes, driving 2-year interest rates gradually up to 2.75%. This makes 2-year U.S. Treasuries quite an attractive investment on a risk-adjusted basis. Whereas the short end of the yield curve seems well contained, macroeconomic uncertainties make longer-term Treasury rates more susceptible to occasional yield spikes. Overall, we expect 10-year U.S. Treasury rates to grind slightly higher to 3%. In contrast to some of our peers, we do not expect a sell-off in long-dated Treasuries nor a full inversion of the yield curve over the coming 12 months. We also stay constructive for liquid dollar-denominated mortgage-backed securities (MBS) as the Fed comes closer to the end of its balance-sheet unwinding. Nevertheless, supply of MBS assets could remain a drag for some time. Collateralized loan obligations (CLO) and shorter U.S. municipal bonds also look appealing.

For most Eurozone government bonds, we see negative expected total returns, due to the prolongation of accommodative monetary policies by the European Central Bank (ECB). We expect deposit rates to increase by only 15bps and no hike of the refinancing rate in 2019. This looks set to keep 2-year Bund yields in negative territory. From a strategic perspective, we turned cautious on Italy. Political uncertainty, the implied tail risks and concerns over Italian banks continue to weigh on sovereign spreads. However, we expect political uncertainty and the resulting volatility to create a number of trading opportunities in sovereign bonds across the Eurozone. We expect no key-rate change in Japan over the next 12 months. We expect yields on 2-year government bonds to stay at around or maybe just slightly below 0%. In the UK, we see the Bank of England (BoE) decreasing policy accommodation further. Brexit uncertainties are likely to generate some volatility in Gilts ahead of the deadline of March 29, 2019, when the UK is scheduled to leave the European Union (EU).

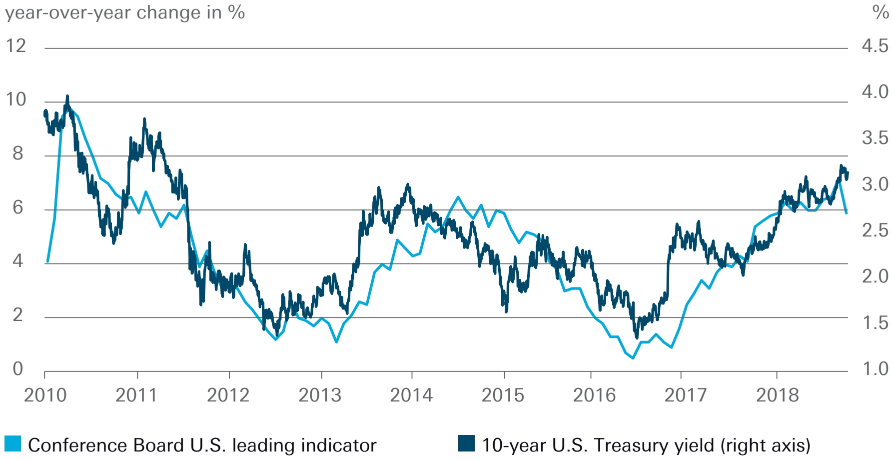
For corporate credit, we continue to expect positive absolute returns across all regions, but the environment is getting more challenging. The re-emergence of cash as an attractive asset class in the United States will have some crowding-out effect on corporate credit. We expect U.S. investment-grade spreads to only widen slightly. Higher leverage in various BBB credits, a rising downgrade-to-upgrade ratio (currently 2:1), high currency-hedge costs and the attractive yield on cash will weigh on the asset class. But let's not turn too negative. While we see various individual deteriorating credit stories, we do not expect a wave of BBB-rated companies to move into high yield (HY). Opportunities exist in U.S. high yield. After the recent spread widening, the asset class looks attractive again. It should benefit from low default rates, fairly high yields and stable corporate fundamentals. Equity-market volatility, Fed uncertainty and recession concerns are likely to keep a lid on spread tightening potential.

European investment grade has suffered in 2018, not just from concerns over financials and Italy's protracted budget negotiations but also from the announced end of QE by the ECB. The extent of recent market moves looks unjustified to us. We think that spreads will tighten again. In European high yield, we see attractive entry opportunities. Low default expectations and attractive relative value support the asset class.

Finally, let's look at EM. We continue to see selective opportunities. Markets may have overreacted to negative news flow on countries such as Mexico, Turkey and Argentina. We particularly like shorter-dated bonds. On the sovereign side, we like Central and Eastern Europe (including Turkey and Russia) and Africa but underweight Latin America. In general, we favor hard-currency over local-currency emerging-market sovereign bonds. For Asian credit, we expect spreads to stay around current levels. We see selective opportunities in China. However, this segment is highly dependent on ongoing trade negotiations between China and the United States. A strong U.S. dollar and higher Treasury yields also remain risk factors.

HOW 10-YEAR TREASURY YIELDS GOT WHERE THEY ARE

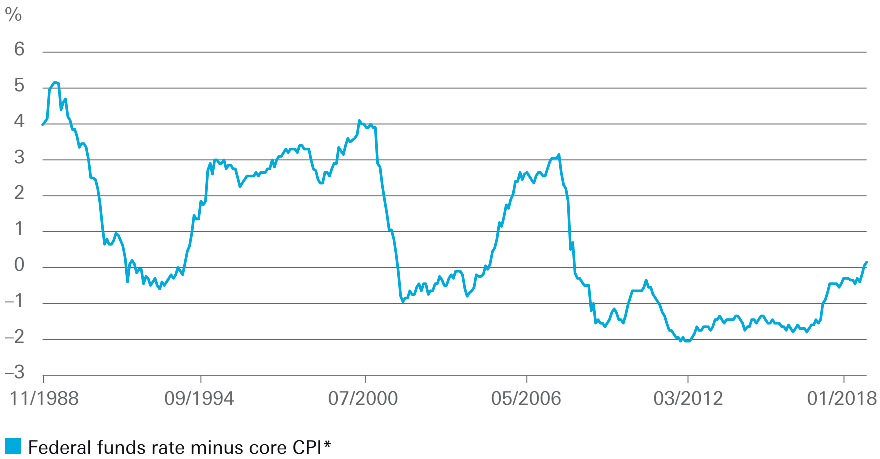
U.S. Treasury yields have moved in line with an improving economy. They are unlikely to move much further, until the economic outlook becomes clearer.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/1/18

U.S. REAL RATES FROM A HISTORICAL PERSPECTIVE

Real U.S. interest rates remain very low. The rate at which monetary policy is neutral appears lower, too, reflecting various structural changes.



* core CPI: year-over-year change
Source: Thomson Reuters Datastream as of 12/6/18

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A RELATIVELY QUIET PLACE

» After many currency pairs have left 2018 at about the same level as they entered it, we expect the same in 2019. «

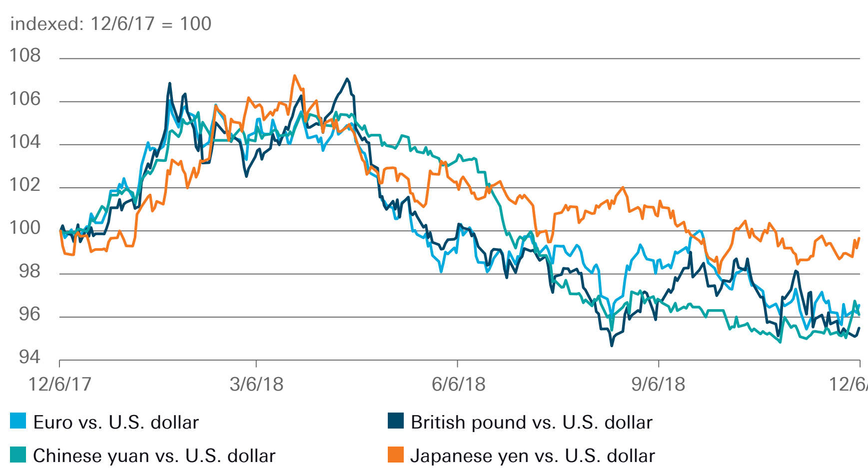
IN A NUTSHELL

- _ Compared to other markets, currencies have ended the year almost calmly.
- _ We do not expect any major fluctuations in the coming year either.
- _ For the euro-dollar exchange rate, the question for 2019 could be: which region disappoints less?

As the year ends, most markets have been turbulent, but the foreign-exchange markets have remained rather calm. And this is despite the fact that currencies are said to have a good nose for political changes, of which there have been plenty in the past year. In fact, the last few years have been very stable for exchange rates by historical standards. Against the euro, the U.S. dollar has moved in a corridor of 1.05-1.25 for almost four years, in contrast to 2014 when it slipped from 1.40 to 1.05 within one year. Nor do we expect any leaps now and see the dollar at the end of 2019 at 1.15 against the euro. This apparent standstill, however, hides the many underlying forces pulling at the exchange rate. At present, however, they are largely neutralize each other. What these forces are is well known: the U.S. twin deficit, the transatlantic interest-rate differential and the growth-rate gap between the United States and Europe. Interesting, however, is not the absolute levels of these differences but the changed expectations regarding their development. In 2018, the positive element of surprise on the last two factors was clearly in the United States' favor. 2019 could be a tighter call. Although it is unlikely that the ECB will tighten the monetary reins faster than previously announced, it is increasingly likely that the Fed will pause on hikes earlier than expected. Expectations on Fed rate hikes are already declining anyway – just one hike is priced in for 2019. But this expectation could shift in either direction. As far as growth is concerned, revisions on both continents are more likely to be down than up.

MAIN CURRENCY PAIRS ARE RELATIVELY STABLE

Measured against other asset classes and its own history, the currency market has been rather quiet.



Source: Thomson Reuters Datastream as of 12/6/18

YEAR-END TURBULENCE

» Plummeting equity prices and elevated volatility reflect many anxieties. We share some concerns but remain confident for 2019. «

The job of equity strategists does not get any easier when equity markets correct – pull back at least 10% from their last high – or even enter a bear market with a 20% drop in the fourth quarter, just when the final touches are being put to the forecasts for the coming year. Nor does the situation improve when markets subsequently become either euphoric or panicky over trifles. The final straw is when major decisions are also expected around the turn of the year. Italy, Brexit and the (merely postponed) U.S.-Chinese trade dispute can trigger bouts of market weakness that initially militate against an optimistic outlook. Such turmoil can also make our forecasts look like it may be an opportune time to consider investing. This, however, is not necessarily the case. While our forecasts indicate where we see the indices trading at the end of 2019, they say nothing about the correct timing of investments over those 12 months.

Investors should not overestimate their ability to time the market anyway. But they should not underestimate either that major market moves create a powerful narrative of their own. Above all, the last two months have demonstrated yet again just how quickly price movements on the world's major exchanges can change the collective view of the economy and capital markets. Since market corrections can often be purely technical in nature, the key is not to jettison convictions from one week to the next. The resolve required has been demonstrated lately by the S&P 500's multi-day gyrations since the beginning of October: three times the index moved sharply lower (-11.4%, -6.5% and -11.1%) and twice higher (8.1% and 6.5%, as of December 20). A striking comparison is that all throughout 2017, the maximum potential loss (based on closing prices) never exceeded 3% – even based on the worst possible timing. But we think these days of excessive calm are over. Volatility at these higher levels will probably persist in 2019.

In the final analysis, there are still good reasons to expect more market turmoil before the situation improves. In 2019, we expect global GDP growth to slow only slightly, from 3.7% to 3.6%. Moreover, based on the current data, we see little reason to fear a cyclically driven recession in the United States in 2020. Our baseline scenario calls for global equities to generate single-digit returns next year, driven by moderate earnings growth and respectable dividends – the latter backed by strong corporate cash flows for most sectors. We have set our December 2019 target for the S&P 500 at 2,850, for the Dax at 11,800, and for the Stoxx Europe 600 at 360 points.

Our basically bullish scenario could, however, be negatively impacted by a number of policy decisions. The

Thomas Schüßler
Co-Head of Equities

Andre Köttner
Co-Head of Equities

IN A NUTSHELL

_ The year-end political and market turmoil complicates the forecasts for 2019.

_ We share many of the concerns but expect a positive 2019, thanks to a still robust economy and better valuations.

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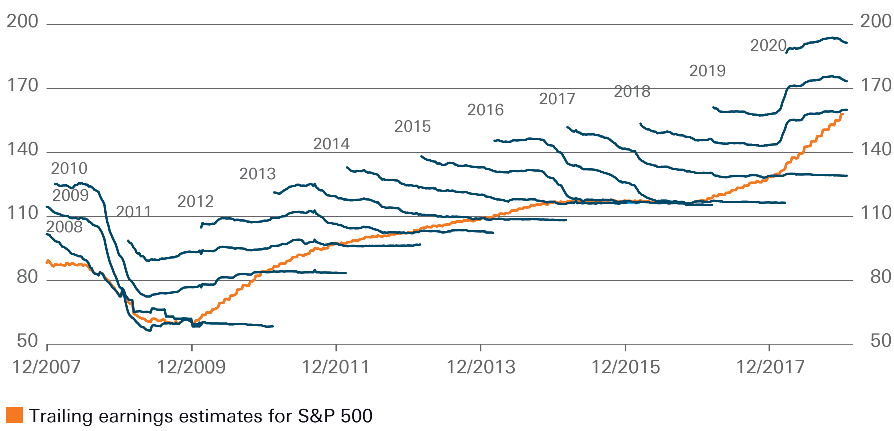
recent market corrections and elevated volatility levels show just how concerned investors are about monetary policy in this late phase of the cycle – having previously, for several years, shrugged off any policy shifts. Our baseline scenario for the equity markets assumes they withstand a raft of policy decisions. We also assume the U.S. trade dispute will not escalate into a full-blown trade war. We expect the Fed not to tighten on auto pilot but to factor in deteriorating macro conditions, and also not to ignore the impact its actions have on equity markets and emerging markets (EM) in particular. We also assume that the Italian budget policy will not challenge the integrity of the Eurozone and that Chinese efforts to boost domestic consumption will prove successful, and permit a controlled slowing of the Chinese economy.

We no longer consider equity valuations to be rich. Valuations based on earnings or free-cash-flow multiples are at or below recent historical averages. The key question for equity investors is the sustainability of the current high level of profitability. We assume it to remain high at least through 2019, but consensus estimates for most markets still have to be corrected downwards. In our view, they do not adequately reflect lower GDP growth, higher wages and new trade barriers. Overall, operating margins in developed markets will probably not rise further, so we think 5% to 6% earnings growth is an appropriately cautious assumption. We expect higher growth for emerging-market equities. Given the major uncertainty about near-term policy decisions, we are refraining from taking strong tactical positions – be it at a regional or sector level. Since the structural rise in the emerging markets looks set to continue in coming years, we are waiting for the right opportunity to overweight the region again. But for that to happen, the U.S.-Chinese trade dispute, the U.S. dollar and global interest rates must be heading in the right direction. We also assume that the digital revolution affecting virtually every sector will continue. Differentiating between the winners and losers of this technological shift remains a central investment issue for growth strategies. For the time being, however, even the heavyweights and former sector favorites must come to terms with falling instead of steadily rising consensus estimates. Here too we are waiting for better buy-in levels.

FIRST BLEMISHES IN THE VERY BULLISH FORECASTS

Consensus still expects another two fat years for S&P 500 earnings. Estimates* have, however, fallen slightly since late summer.

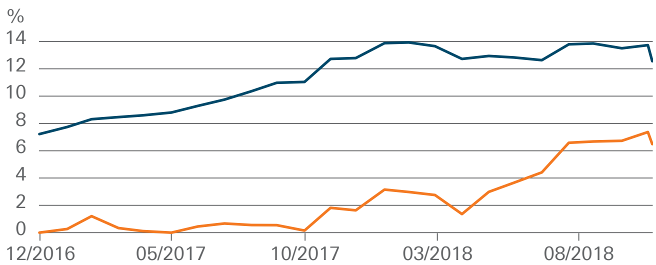


* Development of the earnings estimates for individual future years over time as well as continuous development of the earnings estimates for the last 12 months.
Source: Thomson Reuters Datastream as of 11/30/18

VALUATIONS OVERVIEW

UNITED STATES: NEUTRAL (NEUTRAL)*

Growth and valuation concerns have hurt U.S. equities. We feel sentiment has deteriorated too much. As we expect no recession, mid-single-digit earnings-per-share (EPS) growth in 2019 and 10-year Treasury yields no higher than 3.5%, we believe the correction offers some opportunities. There could be downward pressure though as earnings forecasts are starting to fall and Treasury yields offer an attractive risk-adjusted alternative.

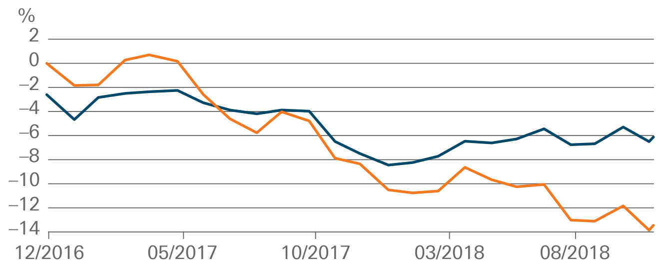


Relative valuation (P/E ratio): S&P 500 vs. MSCI AC World Index

Relative performance: S&P 500 (in dollars) vs. MSCI AC World Index (in local currency)

EUROPE: NEUTRAL (NEUTRAL)*

Political and macro uncertainties make it necessary to monitor how events in Europe evolve. Issues such as Italy, Brexit and trade tensions are weighing on markets. Therefore, we remain neutral and wait for a better re-entry point. In general, corporate fundamentals remain solid, and the recent drop in markets has made valuations look increasingly attractive, with the discount to U.S. price-to-earnings (P/E) ratios at 10-year highs.

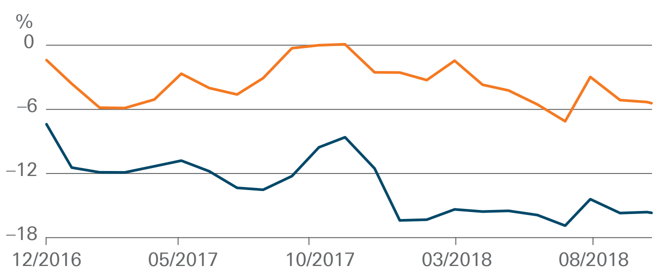


Relative valuation (P/E ratio): Stoxx Europe 600 vs. MSCI AC World Index

Relative performance: Stoxx Europe 600 (in euros) vs. MSCI AC World Index (in local currency)

JAPAN: NEUTRAL (NEUTRAL)*

We believe strong balance sheets and solid earnings of corporate Japan remain fundamentally attractive. However, the signs of a slowdown in the earnings-recovery cycle leave us on the sidelines. Corporations have surprised by not yet revising up their conservative earnings forecasts. Furthermore, Japan may not necessarily be a place to hide if one expects a late-cycle slowdown.

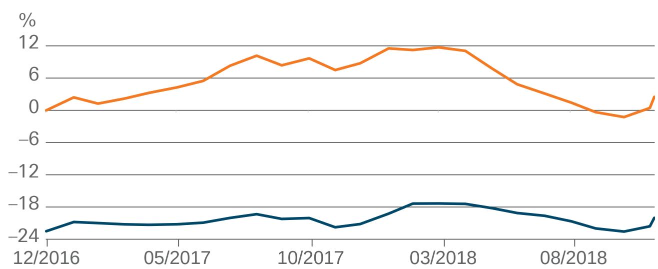


Relative valuation (P/E ratio): MSCI Japan Index vs. MSCI AC World Index

Relative performance: MSCI Japan Index (in yen) vs. MSCI AC World Index (in local currency)

EMERGING MARKETS: NEUTRAL (NEUTRAL)*

Emerging markets (EM) will be an interesting asset class in 2019. While there are risks that a stronger U.S. dollar (USD), higher U.S. rates or a trade-war escalation will weigh on EM equities, this is not our base case. On average, EM companies have strong balance sheets and they are trading at compelling valuations. We believe, however, that earnings forecasts still need to come down, depending also very much on Chinese growth.



Relative valuation (P/E ratio): MSCI Emerging Markets Index vs. MSCI AC World Index

Relative performance: MSCI Emerging Markets Index (in dollars) vs. MSCI AC World Index (in local currency)

* Our assessment is relative to the MSCI AC World Index, the last quarter's view is shown in parentheses.
Sources: FactSet Research Systems Inc., DWS Investment GmbH as of 12/5/18

MARITIME OPPORTUNITIES

» Container leasing is an undiscovered niche offering interesting yield opportunities. «

Tim Gascoigne
Head of Hedge Fund Advisory

Lorenzo Marchioni
Head of Hedge Fund Research

IN A NUTSHELL

_ Still relatively loose global monetary policies are stirring investors towards increasingly exotic destinations.

_ One interesting example is the leasing of containers, on which much of the world's trade depends.

_ More broadly, we believe deep fundamental market research can help identify opportunities in unexpected places.

For now, the search for yield continues. Still relatively loose global monetary policies are stirring investors towards more exotic destinations. While genuine opportunities have become increasingly scarce in public markets, there are still some interesting niches in private markets. For example, the ownership and leasing of real assets, like transportation equipment, can offer investors the possibility to earn high lease rates and potential upside from capital appreciation. In our view, one such area that remains relatively undiscovered by investors is container leasing.

Containers first appeared on the global trade market in the 1950s and 1960s and quickly became the international standard for storage and transportation. Today's global trade flows largely rely on those same standardized containers and sizes. The world's shipping infrastructure (ports, cranes, railcars and the like) has been built around them. This makes containers an interesting asset. Obsolescence risk is unusually low. It is difficult to even imagine a new technology that might displace containers, as that would require a significant upgrade of existing global handling infrastructure. Containers also have a very established leasing industry, which comprises around 50% of the global fleet.

Containers are deeply linked with the global shipping industry, which historically has been associated with volatility and risk in the mind of investors. Since 2008, shipping has been through an unprecedented downturn, primarily due to the oversupply of vessels built up during the commodity-boom years in the late 2000s. The story for containers is altogether different. Volatility in both containers' leasing rates and asset prices has been a fraction of that experienced by shipping vessels. Part of the reason is that containers have short manufacturing cycles of just 1-3 months. This reduces the risk of excess capacity, as manufacturers can rapidly adjust production to market demand. For example, in 2009, container production dropped by 86% in response to the financial crisis and the number of containers worldwide shrank by 4.9%. By contrast, in the same year, the global fleet of vessels for containers still grew by 5.2%. The residual value of used containers has also been relatively stable over time due to limited obsolescence: pricing for a 12-year-old container is usually around 50% of the spot price of a new container.

As a result of all this, we view containers as simple assets with a long economic lifespan, high residual value and relative stability through the cycle. Of course, they are cyclical to the extent that demand for containers depends on levels of global trade, which in turn are highly dependent on global economic activity. Typically, daily lease rates for containers are agreed through long-term contracts (5-7 years) and are primarily a function of the cost of debt for the lessor. Therefore, rental yields tend to move in line with global interest rates.

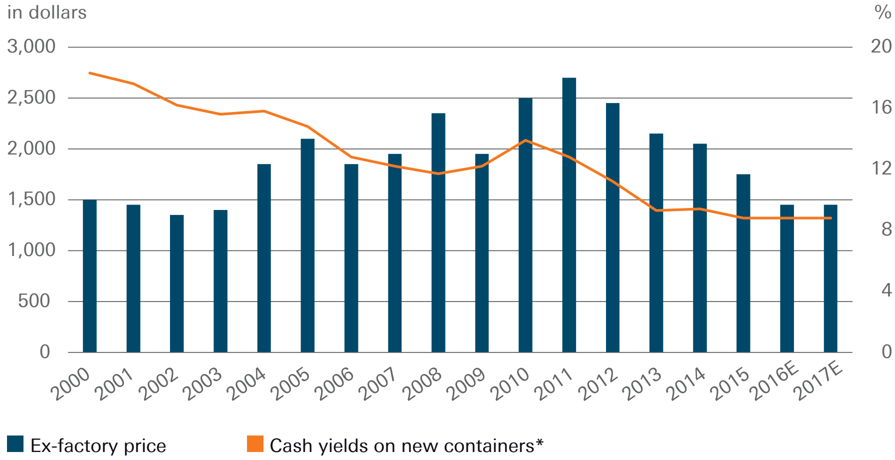
For this reason, cash yields on a new container are currently low, at around 9%, and are forecast to remain stable having historically ranged between 9% and 18%. The price of new ex-factory containers is also close to all-time lows at around $1,500, having peaked historically at around $3,000.

From an investor's point of view, we see benefit in the fact that, thanks to containers' low unit value, portfolios can be broadly diversified across manufacturing year, lessees and geographic focus, helping to reduce concentration risk. Moreover, there may even be some capital-appreciation potential, primarily coming from rising input costs (labor and steel) and rising global interest rates. This could offset the natural depreciation of the asset.

Container leasing is just one example of a potentially attractive niche: aircraft leasing, music-royalty and cell-tower leasing are other areas we have recently studied closely. We believe that taking a dive into deep fundamental research can help investors identify opportunities with so-called "barriers to entry for institutional capital" effectively before they become widely adopted by investors. Scarcity of capital ensures investor-friendly terms and conditions, with return potentials that over-compensate for risks. We think this is the only way to thrive in a world with too much capital chasing too few investment ideas.

HOW CONTAINER LEASING HAS EVOLVED

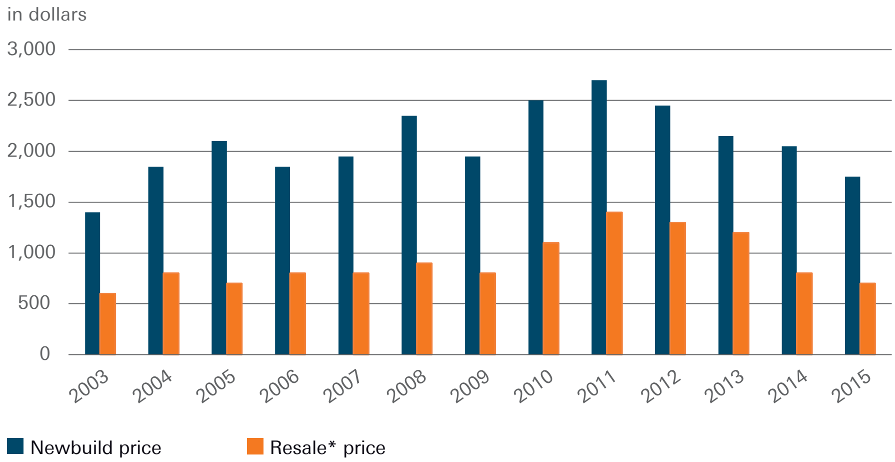
Cash yields on new containers are currently low, as they tend to move in line with global interest rates.



*Based on master lease agreement
Source: Drewry Maritime Research as of 6/30/18

FAIRLY STEADY PRICES ACROSS THE ECONOMIC CYCLE

Thanks to the low unit value of containers, portfolios can be broadly diversified and may even offer some capital-appreciation potential.



* Applicable to used 20-feet standard containers of 12 years' approximate age and excluding cost of repairs/customization
Source: Drewry Maritime Research as of 6/30/18

Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. All opinions and claims are based upon data on 12/17/18 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

READY FOR ANYTHING

» Despite an optimistic outlook, our portfolios are ready for turbulent times. «

Christian Hille
Head of Multi Asset

IN A NUTSHELL

_ The turbulent end of the year reflects many concerns that will not go away in 2019.

_ Our outlook remains positive, but our portfolio allocation takes account of negative sentiment and downside risks.

_ We enter 2019 well diversified, hedging various instruments and looking selectively for opportunities.

If you want to know what is driving the markets and thus multi-asset managers at the moment, you only need to look at the first week of December, which was marked by sharp price fluctuations and both customary and unusual correlations between different asset classes. Monday, December 3, began with cautious optimism that a truce had been reached in the trade conflict between China and the United States after the G20 meeting. But the ink under President Trump's farewell tweet from Buenos Aires was barely dry when details of the "deal" tempered the initial joy. Meanwhile, oil prices continued to fall, with conciliatory noises from Italy and less conciliatory ones from France, where the yellow vests[1] took to the streets, and also from London, where Theresa May suffered a serious defeat in Parliament. With the arrest of a Chinese top manager by U.S. officials, a U.S.-Chinese relaxation seemed to move further into the distance and markets fell to their knees. European stocks lost more than 3% on Saint Nicholas Day, and U.S. stocks were already following when rumors began to spread that the Fed would soon be more "market-friendly," which caused the market to turn around. And what else? Around 90% of a broad selection of asset classes posted a negative annual return at the end of the first week in December – an all-time record.[2] The U.S. yield curve inverted in some areas for the first time in more than ten years, and while government-bond yields declined, risk premiums for corporate bonds in Europe and the United States continued to rise. The FTSE 100 fell back to its 1999 level, and the Dax dropped into a bear market. Despite the oil-price weakness, emerging markets held up surprisingly well, and gold did what it has not always done in recent years during market turbulence: it rose.

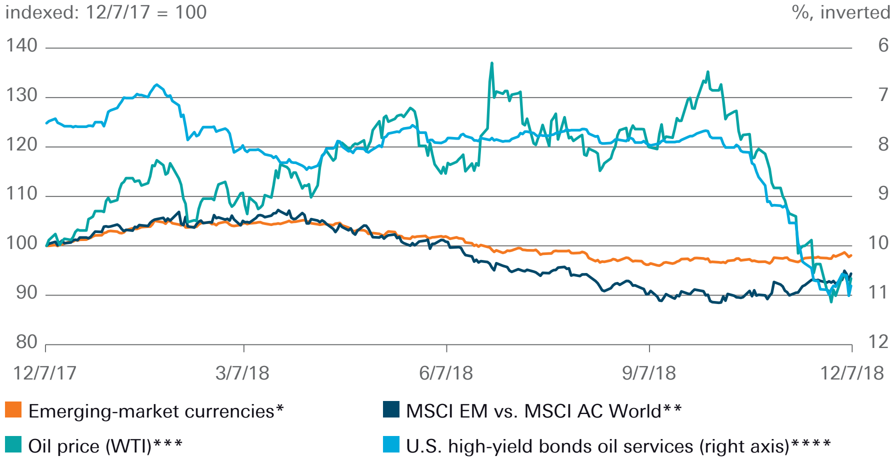
Why this detailed recap of the first week of December? Because, in our opinion, it contains many themes that will accompany us in 2019: investors who, despite record employment and lush corporate profits, will fear every interest-rate move in the United States; political activism that causes plans to unravel; continuing concern about the end of the cycle; and, last but not least, automated trading systems that can instantly trigger major market turbulence.

Our overall view nevertheless remains optimistic despite all the problems. We continue to assume that we are in the late phase of the (U.S.) cycle and that market corrections are not unusual in this phase. Admittedly, the recent swings are no longer typical of bull-market corrections. Some indices have already entered bear-market territory. But while the market appears to be pricing in a sharp drop in GDP growth or profits, we continue to expect only a slight slowdown. Of course, some regional Purchasing Managers Indices have recently faded, but most are still showing growth. At the same time, however, numerous developments in the capital markets reflect investors' uncertainty. While former drivers, such as technology stocks, are being punished, defensive equities and more defensive investment strategies are enjoying greater popularity. Surveys of asset managers also show growing pessimism. The consensus has begun to revise U.S. corporate earnings downwards for 2019 and 2020 – but in our view not yet enough to warrant pessimism.

For our 2019 investment strategy this means the following: our expectations are not overly high; our investments and risks are diversified across different regions, sectors and instruments (this is one of the reasons why we continue to hold dollars, for example), we are hedged through various instruments (such as gold, and German and U.S. government bonds with longer maturities), and we are looking for specific, potentially higher-yielding investments, such as emerging-market equities and bonds. However, we also like 2-year U.S. government bonds, which look especially appealing on a risk-adjusted basis.

EXPECTABLE AND LESS EXPECTABLE SYNCHRONOUS RUNS

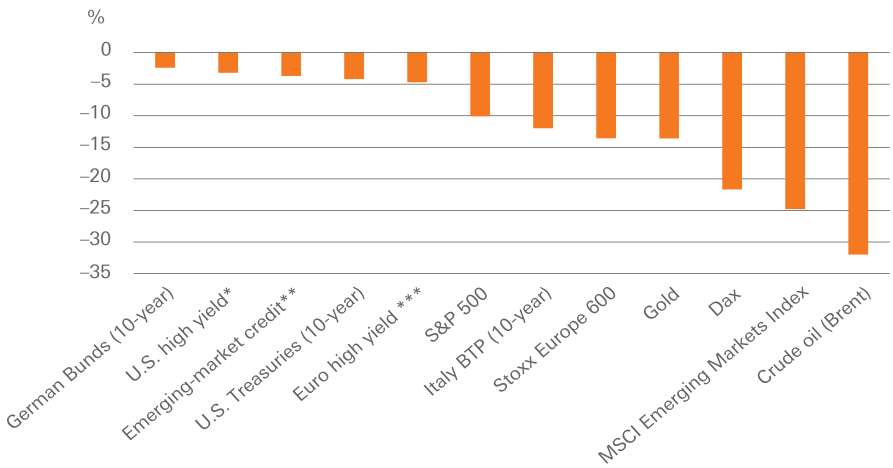
Not surprisingly, bonds from U.S. oil-industry issuers are suffering, while, more surprisingly, emerging-market currencies and equities are trending stronger.



* MSCI Emerging Markets Currency Index
** MSCI Emerging Markets Index vs. MSCI AC World Index
*** West Texas Intermediate
**** Bloomberg Barclays High Yield Oil Field Services Index
Source: Thomson Reuters Datastream as of 12/7/18

MAXIMUM DRAWDOWNS BACK IN FOCUS IN 2018

In 2018 already, each investment strategy had to take special account of the maximum possible loss over the course of the year. The differences are large.



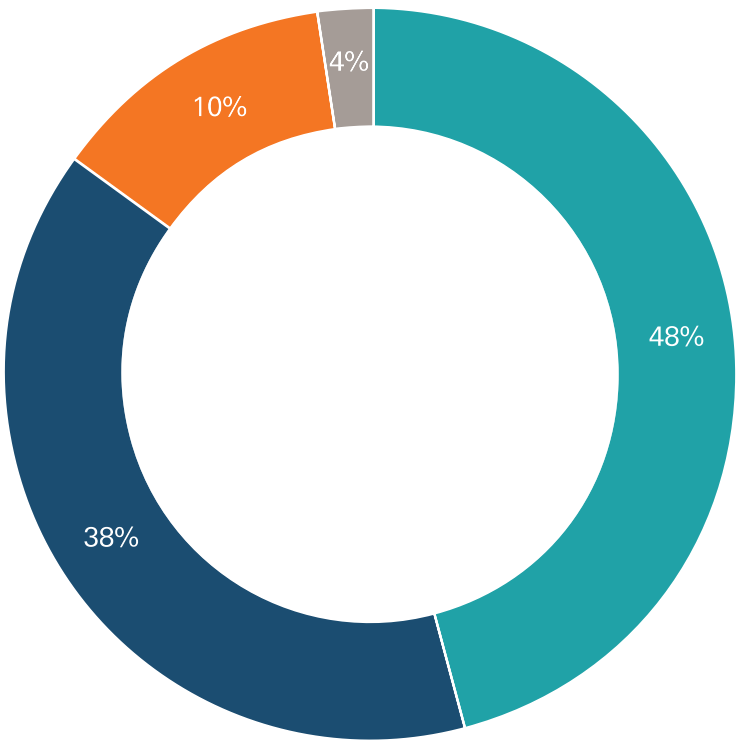
* Bloomberg Barclays U.S. Corporate High Yield Index
** J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI)
*** ICE BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index
Sources: Thomson Reuters Datastream, Bloomberg Finance L.P. as of 12/7/18

[1] https://www.euronews.com/2018/12/03/gilets-jaunes-who-are-they-and-what-do-they-want-euronews-answers
[2] Data from Jim Reid, Deutsche Bank; as of 12/3/18

CAUTIOUSLY DYNAMIC

» Market ruptures are proof of investor's worries but offer opportunities. «

We are approaching the New Year with a higher equity ratio compared to the previous quarter, preferring the United States and emerging markets over Europe and Japan. However, we will take advantage of rallies by lowering the ratio again. For bonds, we have a preference for 2-year U.S. Treasuries, which yield a handsome risk-adjusted return. At the same time, with the expected slowdown in interest-rate hikes, longer-dated Treasuries are becoming more interesting for hedging reasons. We also like emerging-market hard-currency bonds. We currently see the euro-dollar exchange rate as quite balanced but are still using the dollar for diversification reasons, also with further European turbulence in mind.



Equity	48%
Equities United States	22%
Equities Europe	8%
Equities emerging markets	8%
Equities Japan	5%
Equities Global Style	5%
Fixed Income	38%
Euro investment grade	13%
Emerging-market (hard-currency) bonds	9%
U.S. Treasuries	6%
Eurozone sovereigns	5%
Euro high yield	3%
U.S. high yield	2%
Alternatives	10%
Commodities	5%
Convertibles (euro-hedged)	3%
Alternatives strategies	2%
Cash	4%

Source: Multi Asset Group, DWS Investment GmbH as of 12/6/18

The chart shows how we would currently design a balanced, euro-denominated portfolio for a European investor taking global exposure. This allocation may not be suitable for all investors and can be changed at any time without notice. Alternative investments involve various risks and are not necessarily suitable for all clients or for every portfolio.

COLD AND WET!

» Indicators are signaling wet, cold stock weather. «

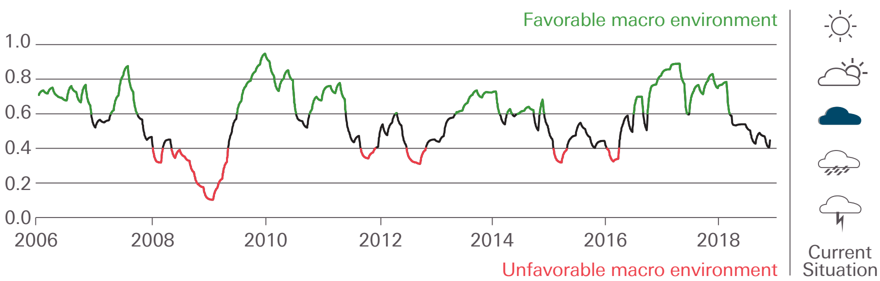
The three DWS indicators have shown a clearly negative market environment since the beginning of the fourth quarter. Looking back over the year, our indicators show that both, the economic environment and investor sentiment, have steadily deteriorated. All three have moved from extremely market-friendly to negative territory during the course of the year.

After stabilizing at the end of the third quarter, the risk indicator slipped back into the clearly risk-averse range in the two months that followed. While the emerging-market subcomponents remained fairly stable to positive over the period, the increased volatility in equity markets and U.S. dollar liquidity in particular weighed on the indicator. The macro indicator was negatively impacted by consumer confidence and global purchasing-manager indices. It currently signals quite weak economic growth. In addition, the surprise indicator has recorded predominantly negative surprises in recent months. Analysts' expectations were largely missed, especially in the United States. The subindicator for the region has fallen from clearly positive to clearly negative.

All in all, our three indicators signal rather wet and cold equity-market weather.

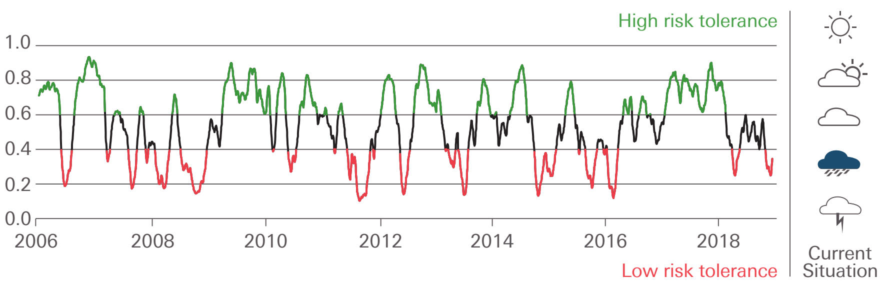
MACRO INDICATOR

Condenses a wide range of economic data



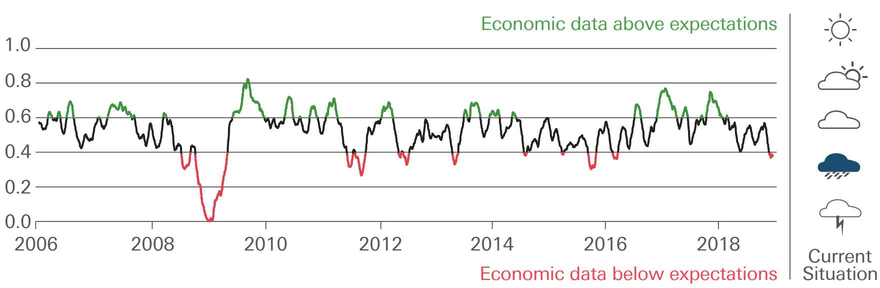
RISK INDICATOR

Reflects investors' current level of risk tolerance in financial markets



SURPRISE INDICATOR

Tracks economic data relative to consensus expectations



Source: DWS Investment GmbH as of 12/5/18

TECHNOLOGY: CREATIVE & DESTRUCTIVE

» The winners and losers in an age of digitalization, automation and modernization. «

Petra Pflaum
CIO for Responsible Investments

IN A NUTSHELL

- The world has moved into a new technological age.
- This new age offers the chance to address the major environmental and social challenges of our time.
- But technological change can also disrupt sectors and even whole countries by increasing income inequality and putting social cohesion at risk.

A new industrial revolution has arrived, fueled by technologies encompassing digitalization, artificial intelligence, automation, biotechnology, fintech and clean technologies. The spread of technology offers the opportunity to address both major environmental challenges, such as climate change, and social issues, such as the need to empower women. But technology is also leading to significant company and sector disruption and therefore presents risks and opportunities for investment portfolios.

Digital technologies which are enabling more individuals and businesses to gain access to financial services via mobile phones and the internet will assist G20 efforts to increase financial inclusion. According to the World Bank,[1] there are an estimated 1.7 billion working-age adults with no access to financial services, and a disproportionate number (56% of them) are women. The delivery of financial services is also part of the solution to a number of the United Nations' Sustainable Development Goals, such as gender equality and ending poverty, and fostering good health and well-being. Research by McKinsey Global Institute also finds that broadening access to financial services could increase the GDP of all emerging economies by 6% by 2025.[2] This would represent additional economic growth of 3.7 trillion U.S. dollars, equivalent to adding an economy the size of Germany to global GDP.

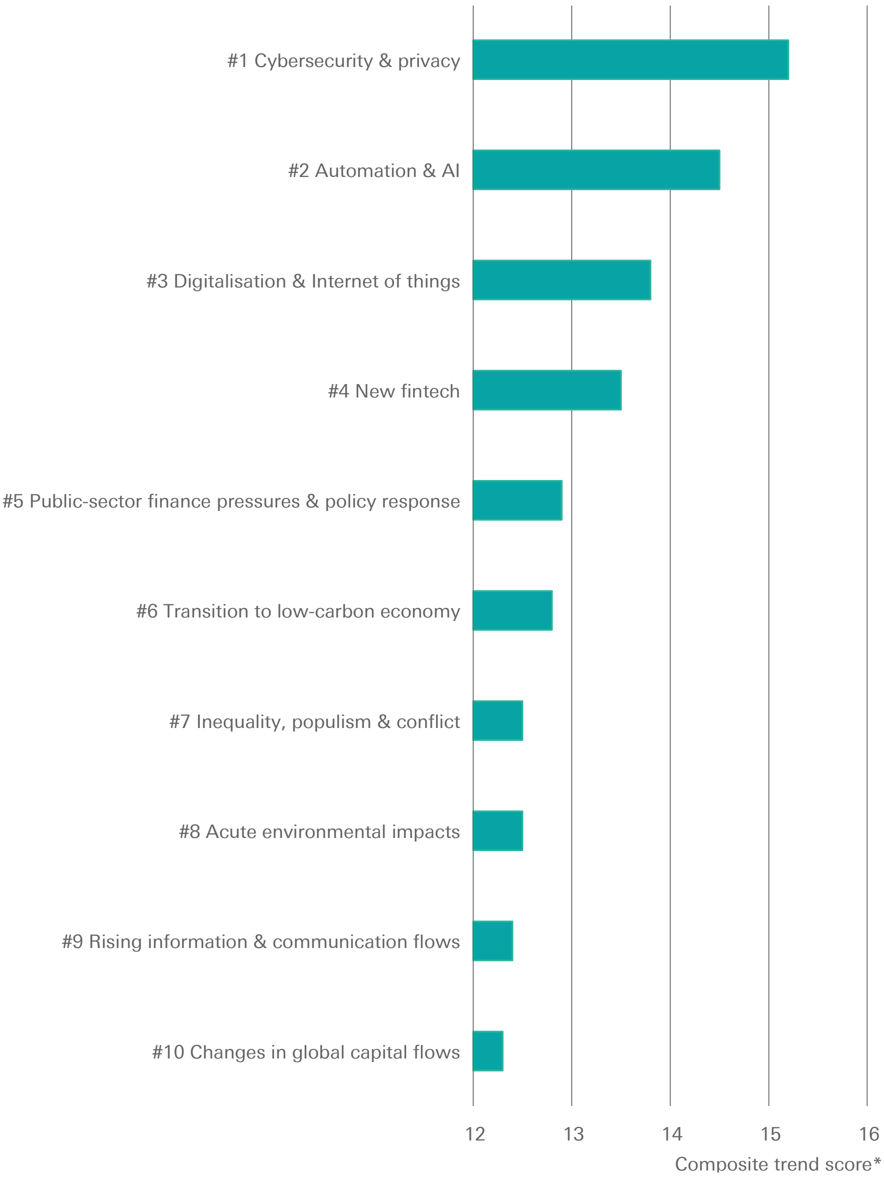
Meanwhile, we believe environmental or clean technologies such as wind, solar and water efficiency (blue tech) and electric vehicles, which are increasingly viable due to improved cost competitiveness, will also have a transformative impact. Solar photovoltaic (PV) costs have declined by over 80% since 2009.[3] Renewables represent just 8.4% of total global power generation but accounted for almost 50% of the growth in 2017.[4] In our view, these technologies will trigger not just a transformation of the power-generating sector globally but also curb carbon emissions across other parts of the economy. Electric vehicles threaten to disrupt traditional auto makers significantly, given that more and more countries are introducing bans on the sale of petrol and diesel cars, in some instances as soon as in 2030. That the 25 largest auto manufacturers make up just 20% of the market cap of the world's 15 largest tech companies today, compared to 60% eight years ago, shows the extent of the sector repricing that is taking place.[5] Many of the new technologies are being deployed to address air, land and water contamination as well as the broader objectives of the Paris climate agreement and the United Nations' Sustainable Development Goals.

Technology is also bringing smart farming techniques to help cope with the increasing demands on the food sector from global population growth, rising incomes and climate change. Technologies can help to deliver more site-specific weather intelligence and disease-probability mapping, which can enable a more optimal crop production process. This, in turn, can help fertilizers and pesticides to be used more efficiently. These and other techniques can also reduce the ecological footprint of farming. In addition, lab-grown meat from cultured cells could cut the environmental costs of producing meat and reduce the unethical treatment of farm animals.

Technology will, in our view, also contribute to the building of smarter and more sustainable cities. Cities account for almost 70% of the world's energy consumption and a similar share of global CO_2 emissions.[6] Part of the improvement will come from technological advances in the energy, transportation and real-estate sectors.

However, technology also has a dark side. Digital currencies can be used for criminal activity, and cyberattacks or malware can cause large-scale economic damage. For example, in 2017, the NotPetya cyberattack meant that the most affected companies reported quarterly losses of around 300 million U.S. dollars.[7] Technologies such as robotics, sensors and machine learning could also enable capital to replace labor in an expanding range of jobs and sectors, with potential negative implications for income equality and social cohesion. Understanding these risks and capturing the opportunities will determine many of the successes and failures of investment strategies in the years ahead.

TECHNOLOGICAL ADVANCES ARE VIEWED AS THE TOP FOUR RISKS



* Composite trend socre reflecs the addition of severity of impact and difficulty of management
Source: PRI and Willis Towers Watson (December 2017). Responding to megatrends. Survey among asset managers, asset owners and service providers in the asset-management industry.

[1] World Bank (April 2018). The Global Findex Database 2017
[2] McKinsey Global Institute, (September 2016). How digital finance could boost growth in emerging economies
[3] Irena (January 2018). Renewable Power Generation Costs in 2017
[4] BP Statistical Review 2017 (June 2018)
[5] KMPG (January 2018). The changing landscape of disruptive technologies 2018
[6] C40 Cities https://www.c40.org/why_cities
[7] World Economic Forum (January 2018). The Global Risks Report 2018

MACRO | U.S. momentum continues to look solid

GDP growth (in %, year-on-year)

Region	2018F		2019F
United States	3.1	↘	2.4
Eurozone	1.9	↘	1.6
United Kingdom	1.3	↗	1.5
Japan	1.0	↘	0.8
China	6.5	↘	6.0
World	3.7	↘	3.6

Fiscal deficit (in % of GDP)

Region	2018F		2019F
United States	3.9	↗	4.7
Eurozone	1.0	↘	0.8
United Kingdom	2.0	↗	2.2
Japan	4.0	↘	3.3
China	3.5	↘	3.2

Consumer price inflation (in %, year-on-year)

Region	2018F		2019F
United States[1]	2.0	↗	2.1
Eurozone	1.8	→	1.8
United Kingdom	2.5	↘	2.0
Japan	0.9	↗	1.1
China	2.3	↗	2.6

Current-account balance (in % of GDP)

Region	2018F		2019F
United States	–2.5	↘	–2.9
Eurozone	3.0	↘	2.9
United Kingdom	–3.8	↗	–3.5
Japan	3.7	↗	3.8
China	0.8	↘	0.6

Benchmark rates (in %)

Region	Current*		Dec 2019F
United States	2.25–2.50	↗	2.75-3.00
Eurozone	0.00	→	0.00
United Kingdom	0.75	↗	1.00
Japan	0.00	→	0.00
China	4.35	→	4.35

Commodities (in dollars)

	Current*		Dec 2019F
Crude oil (WTI)	47.2	↗	60
Gold	1,243	→	1,275
Copper (LME)	6,015	↗	6,400

* Source: Bloomberg Finance L.P. as of 12/19/18
[1] core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)
F refers to our forecasts as of 12/20/18
WTI = West Texas Intermediate
LME = London Metal Exchange

Legend applies to this and the following page
- Equity indices, exchange rates and alternative investments: The arrows signal whether we expect to see an upward trend ↗, a sideways trend → or a downward trend ↘ .
- Fixed Income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries. ↗ depicts a rising spread, → a sideways trend and ↘ a falling spread.
- The arrows' colors illustrate the return opportunities for long-only investors: ↘ ↗ positive return potential for long-only investors. → limited return opportunity as well as downside risk. ↘ ↗ negative return potential for long-only investors.

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EQUITIES | Still volatile, but better than 2018

	Current*		Dec 2019F				
			Forecast	Total return (expected)[1]	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500)	2,507	↗	2,850	18.0%	5%	10%	2.4%
Europe (Stoxx Europe 600)	342	↗	360	11.0%	5%	2%	4.0%
Eurozone (Euro Stoxx 50)	3,051	↗	3,150	9.2%	6%	–1%	4.2%
Germany (Dax)[2]	10,766	↗	11,800	11.2%	5%	2%	3.6%
United Kingdom (FTSE 100)	6,766	↗	7,080	9.4%	5%	0%	4.9%
Switzerland (Swiss Market Index)	8,540	↗	9,000	10.7%	7%	0%	3.7%
Japan (MSCI Japan Index)	933	↗	990	8.7%	5%	0%	2.6%
MSCI Emerging Markets Index (USD)	968	↗	1,050	11.5%	8%	0%	3.0%
MSCI AC Asia ex Japan Index (USD)	599	↗	650	11.5%	8%	1%	3.0%

* Sources: Bloomberg Finance L.P., FactSet Research Systems Inc. as of 12/19/18
[1] Expected total return includes interest, dividends and capital gains where applicable
[2] Total-return index (includes dividends)

FIXED INCOME | 2-year U.S. Treasuries look quite attractive

United States

	Current*		Dec 2019F
U.S. Treasuries (10-year)	2.75%	↗	3.00%
U.S. municipal bonds	86%	→	85%
U.S. investment-grade corporates	134 bp	↗	150 bp
U.S. high-yield corporates	475 bp	→	480 bp
Securitized: mortgage-backed securities[1]	85 bp	↗	110 bp

Europe

	Current*		Dec 2019F
German Bunds (10-year)	0.24%	↗	0.60%
UK Gilts (10-year)	1.27%	↗	1.75%
Euro investment-grade corporates[2]	169 bp	↘	150 bp
Euro high-yield corporates[2]	494 bp	↘	430 bp
Securitized: covered bonds[2]	68 bp	↘	50 bp
Italy (10-year)[2]	253 bp	↗	350 bp

* Source: Bloomberg Finance L.P. as of 12/19/18
[1] Current-coupon spread vs. 7-year U.S. Treasuries
[2] Spread over German Bunds

F refers to our forecasts as of 12/20/18
bp = basispoints

Asia-Pacific

	Current*		Dec 2019F
Japanese government bonds (10-year)	0.04%	↗	0.20%
Asia credit	287 bp	→	285 bp

Global

	Current*		Dec 2019F
Emerging-market sovereigns	401 bp	→	420 bp
Emerging-market credit	358 bp	↗	390 bp

Currencies

	Current*		Dec 2019F
EUR vs. USD	1.14	→	1.15
USD vs. JPY	112.5	→	115.0
EUR vs. GBP	0.90	→	0.90
GBP vs. USD	1.26	→	1.28
USD vs. CNY	6.89	→	7.00

PERFORMANCE | Overview

Performance over the past 5 years (12-month periods)

	11/13 – 11/14	11/14 – 11/15	11/15 – 11/16	11/16 – 11/17	11/17 – 11/18
DAX	6.1%	14.0%	–6.5%	22.4%	–13.6%
Euro Stoxx 50	5.3%	7.9%	–13.0%	17.0%	–11.1%
FTSE 100	1.1%	–5.5%	6.7%	8.0%	–4.7%
MSCI AC Asia ex Japan Index	3.4%	–12.7%	4.6%	32.2%	–11.7%
MSCI Emerging Market Index	–1.3%	–19.0%	6.0%	29.9%	–11.2%
MSCI Japan Index	11.9%	10.0%	–7.7%	19.9%	–6.4%
S&P 500	14.5%	0.6%	5.7%	20.4%	4.3%
Stoxx Europe 600	6.8%	11.0%	–11.3%	13.1%	–7.6%
Swiss Market Index	10.7%	–1.7%	–12.4%	18.3%	–3.0%

	11/13 – 11/14	11/14 – 11/15	11/15 – 11/16	11/16 – 11/17	11/17 – 11/18
Asia credit	8.6%	2.7%	5.7%	5.4%	–1.9%
Emerging-market credit	7.1%	–0.2%	8.6%	8.6%	–2.4%
Emerging-market sovereigns	10.5%	0.2%	7.2%	10.9%	–4.8%
Euro high-yield corporates	6.5%	2.4%	5.8%	8.1%	–3.0%
Euro investment-grade corporates	7.3%	0.6%	3.2%	3.3%	–1.7%
German Bunds (10-year)	10.1%	3.2%	2.5%	0.4%	1.6%
Italy (10-year)	18.3%	6.7%	–1.6%	5.0%	–7.3%
Japanese government bonds (10-year)	2.8%	1.8%	2.1%	0.3%	0.1%
Securitized: covered bonds	7.0%	1.4%	1.2%	1.0%	–0.3%
Securitized: mortgage-backed securities	5.4%	1.7%	1.6%	2.1%	–0.5%
U.S. high-yield corporates	4.5%	–3.4%	12.1%	9.2%	0.4%
U.S. investment-grade corporates	7.2%	0.0%	4.2%	6.0%	–2.8%
U.S. Treasuries (10-year)	6.7%	2.0%	0.6%	2.2%	–1.6%
UK Gilts (10-year)	8.9%	2.9%	5.2%	2.2%	2.0%

Source: Bloomberg Finance L.P. as of 11/30/18

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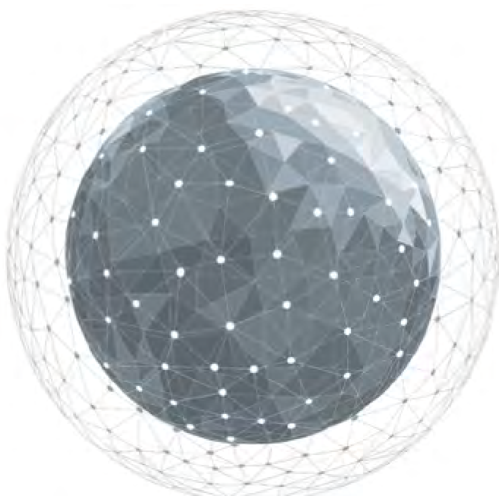

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GLOSSARY

» Here we explain central terms from the CIO | VIEW «

The aim of an accommodative monetary policy is to support the economy by means of monetary expansion.

A balance sheet summarizes a company's assets, liabilities and shareholder equity.

The Bank of England (BoE) is the central bank of the United Kingdom.

A barrel (bbl) is the commonly used unit to measure crude oil. One barrel is about 159 liters.

One basis point equals 1/100 of a percentage point.

Technically, a bear market refers to a situation where the index's value falls at least 20% from a recent high.

The Bloomberg Barclays U.S. Corporate High Yield Index measures the dollar-denominated, high yield, fixed-rate corporate bond market.

The Bloomberg Barclays US High Yield Oil Field Services index tracks the performance of dollar-denominated below investment grade corporate debt from oil field services companies publicly issued in the US domestic market.

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

A bull market is a financial market where prices are rising – usually used in the context of equities markets.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The Chinese yuan (CNY) is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

Collateralized loan obligations (CLOs) are securities backed by a pool of debt, such as low-rated corporate loans.

A consensus estimate is a figure that depicts the average of different analysts' estimates about the performance of a particular asset.

A corporate bond is a bond issued by a corporation in order finance their business.

A correction is a decline in stock market prices.

Correlation is a measure of how closely two variables move together over time.

Covered bonds are securities similar to asset-backed securities (ABS) which are covered with public-sector or mortgages loans and remain on the issuer's balance sheet.

The credit market is the market for corporate bonds

Cryptocurrencies are a new generation of digital currencies and payment systems that rely on cryptotechnology and distributed data management. They are privately organised and not bound to oversight by central banks or other official institutions. The pioneer and still most traded cryptocurrency is the bitcoin.

The Dax is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The default rate refers to the proportion of borrowers who cannot service their loans.

A defensive investment strategy is a conservative method of portfolio allocation and management. It aims at choosing and managing assets in a way that generates stable returns and tries to minimize the risk of losing capital.

Defensive stocks are stocks from companies whose sales are expected to fluctuate less than the market average as the demand for their products are less tied to business cycles.

The deposit rate is the rate banks receive when they make overnight deposits with the ECB.

A developed market (DM) is a country fully developed in terms of its economy and capital markets.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

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

Economic lifespan describes the length of time during which an asset remains useful to an average owner.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

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

The European Union (EU) is a political and economic union of 28 member states located primarily in Europe.

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

The exchange rate is the rate at which two currencies are traded.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

FX or foreign exchange is the currency – literally foreign money – used in the settlement of international trade between countries.

Free Cash Flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures. It shows how much cash a company is able to generate after deducting the money required to maintain or expand its asset base.

The FTSE 100 is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

The Group of 20 are the largest industrialized and emerging economies in the world.

Gilts are bonds that are issued by the British Government.

Government (sovereign) debts/bonds are debt/bonds issued and owed by a central government

The 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.

A growth strategy is an investment style that is focused on an investor's capital appreciation through capital gains. Investors following this strategy seek to invest in companies whose earnings are expected to grow at an above-average rate compared to the industry or the overall market.

A hard currency is any globally traded currency that is considered as historically stable and can be exchanged easily.

A hedge is an investment to reduce the risk of adverse price movements in an asset.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

The United States House of Representatives is a legislative chamber consisting of 435 Representatives, as well as non-voting delegates from Washington, D.C. and U.S. territories. Representatives are elected for two-year terms and each state's representation is based on population as measured in the previous Census.

The ICE BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index tracks the performance of euro-denominated below investment-grade corporate debt publicly issued in the eurobond or euro-domestic markets by non-financial issuers, capping issuer exposure at 3%.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The J. P. Morgan Corporate Emerging Markets Bond Index (CEMBI) is an index tracking dollar-denominated bonds issued by emerging-market corporates.

The Japanese yen (JPY) is the official currency of Japan.

Junk bond is a colloquial term for a high-yield or non-investment-grade bond.

Key interest rates stated by central banks to determine the most important rates of borrowing.

The Labour Party is a center-left political party and one of the three biggest parties in the United Kingdom.

Leasing is a financial arrangement in which a person or company pays for the use of a good or property for a particular period of time.

A lessor is the owner of an asset, who leases or lets the asset to another person.

Leverage attempts to boost gains when investing through the use of borrowing to purchase assets.

Margin describes borrowed money that is used to purchase securities.

The final payment date of a financial instrument is its maturity.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

A mortgage-backed security (MBS) is a special type of asset-backed security where the holder receives interest and redemption payments from pooled mortgage debtors, secured by the underlying mortgages.

The MSCI AC World Index captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The MSCI AC Asia ex Japan Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

Multi asset determines investing in more than one asset class, thus creating a group or portfolio of assets with varying weights and types of classes. The diversification of an overall portfolio is thus increased, and risk (volatility) reduced.

A multiple is a ratio that is used to measure aspects of a company's well-being by setting various of the company's metrics against each other and thereby building indicative ratios.

Municipal bonds (Munis) are debt securities issued by a state, municipality or country.

The pound sterling (GBP), or simply the pound, is the official currency of the United Kingdom and its territories.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

The Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector in a specific country or region.

Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

Quantitative Tightening (QT), as opposed to Quantitative Easening, describes the process of a Central Bank reducing its monetary stimulus by shrinking its balance sheet.

A rating is a standardized assessment of the creditworthiness of the issuer and its debt instruments by specialized agencies. The main three rating agencies are the Moody's (Aaa over Baa1 to C, best to worst), S&P (AAA over BBB+ to D, best to worst) and Fitch (AAA over BBB+ to D, best to worst).

Real assets are physical assets that have an intrinsic value due to their substance and properties.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The Republican Party (Republicans), also referred to as Grand Old Party (GOP), is one of the two major political parties in the United States. It is generally to the right of its main rival, the Democratic Party.

The residual value is the estimated value of a fixed asset at the end of its lease or at the end of its useful life.

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

Risk-adjusted implies that the risk involved is taken into consideration. For example, risk-adjusted return is how much return your investment has made relative to the amount of risk the investment has taken.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Sovereign bonds are bonds issued by governments.

The spread is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The Stoxx Europe 600 is an index representing the performance of 600 listed companies across 18 European countries.

The Swiss Market Index (SMI) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

Tail risk is the risk that a very unlikely event actually happens.

Technical analysis is a tool used by capital market participants that want to forecast the development of security prices by detecting patterns in past market data such as prices and volumes.

The total return is a performance measure of an investment. It measures the earned income of an investment over a specific time period.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

A twin deficit is a simultaneous fiscal and current-account deficit

The U.S. dollar (USD) is the official currency of the United States and its overseas territories.

U.S. Federal Reserve Board (the Fed) – The U.S. Federal Reserve Board, often referred to as "the Fed", is the central bank of the United States.

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A yield curve shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

A yield-curve inversion is when the yields on bonds with shorter duration are higher than the yields on bonds that have a longer duration.

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