



European Equity Update

Christopher Warren
April 2017



Europe – A quick recap of market conditions since 2015



	14 th Annual Capital Link Forum – April 23, 2015	15 th Annual Capital Link Forum – April 21, 2016	16 th Annual Capital Link Forum – April 27, 2017
MSCI Europe Index	1,704.064 (4/23/2015)	1,460.494 (4/11/2016)	1564.475 (4/20/2017)
Markit Eurozone Composite PMI Output Index	53.5 (April 2015)	53.1 (March 2016)	56.7 (April 2017 - Flash)
European Union Unemployment Rate	9.60% (4/30/2015)	8.90% (1/31/2016)	8.00 (February 2017)
European Union Economic Sentiment Indicator	106.4 (April 2015)	104.6 (March 2016)	109.1 (March 2017)
Euro/USD Spot	\$1.0726 (4/23/2015)	\$1.1395 (4/12/2016)	1.0696 (4/21/2017 - Intraday)
German Ifo Business Climate Index	108.6 (April 2015)	106.7 (March 2016)	106.7 (March 2017)

= positive from previous year = down from previous year = negligible change

As of: April 2017

Source: Bloomberg, European Commission, Markit, Eurostat. Past performance is not indicative of future returns.

Europe – 2017 key topics



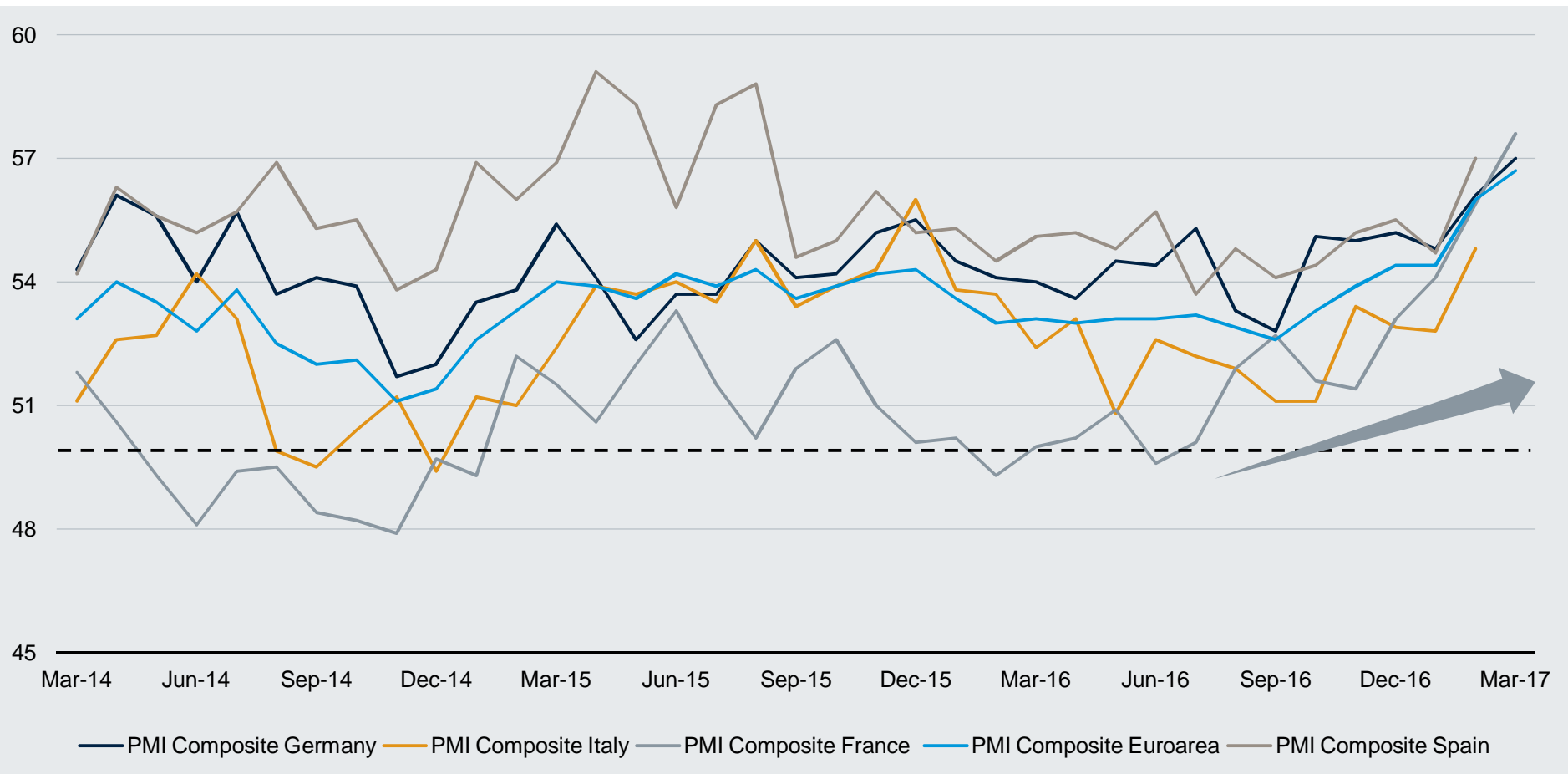
Source: Deutsche AM; as of May 2017

Activity indicators continue to be expansionary

Pointing to possible further growth in the Eurozone



Purchasing Managers' Index (PMI) composite indicators for Euro area countries



Past performance is not indicative of future returns.

As of: March 2017

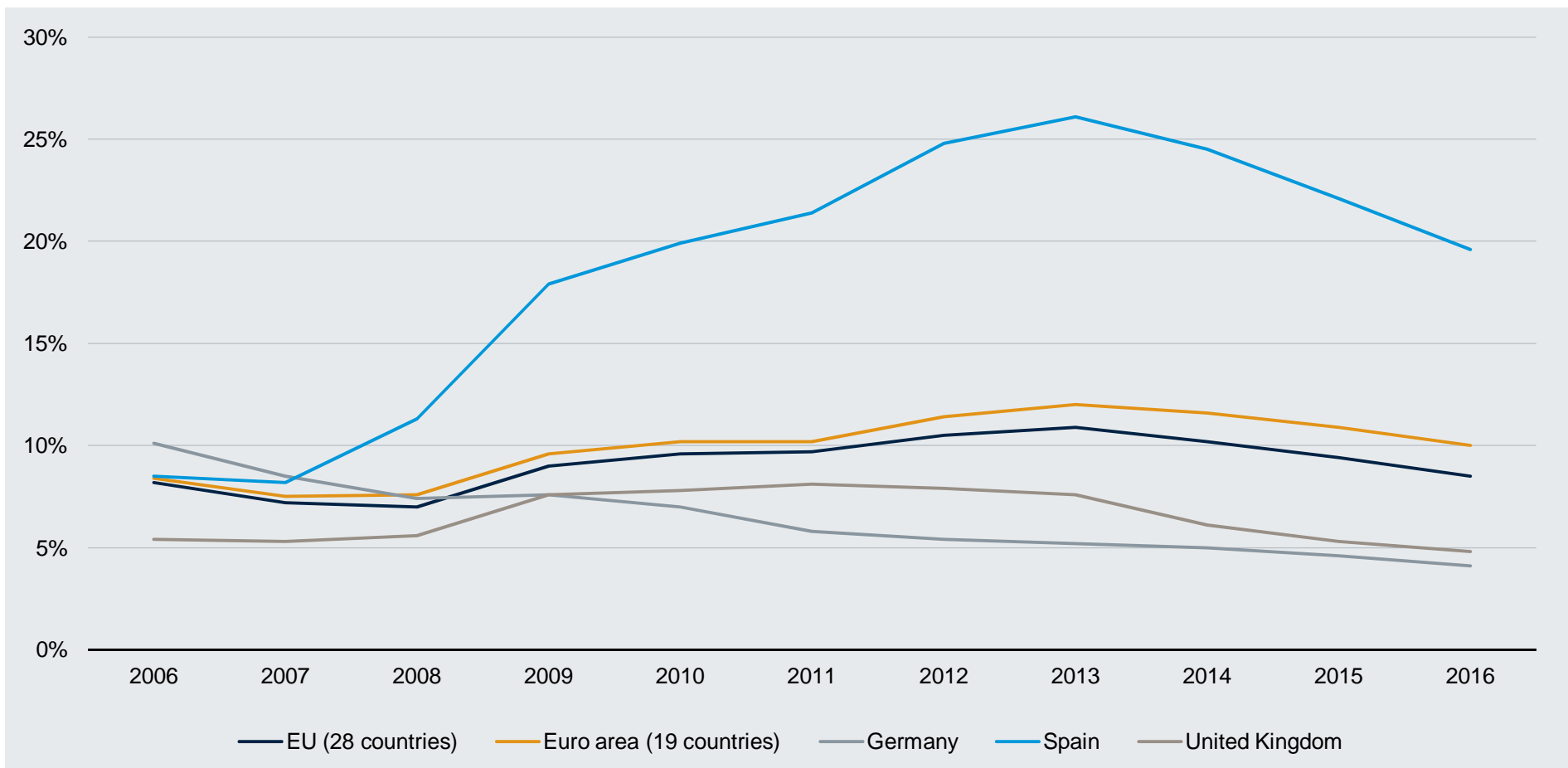
Source: Markit

European unemployment picture improves

While recovery is uneven, employment may support continued growth



EU, Eurozone and selected countries total unemployment rates in percentage since 2006



Past performance is not indicative of future returns.

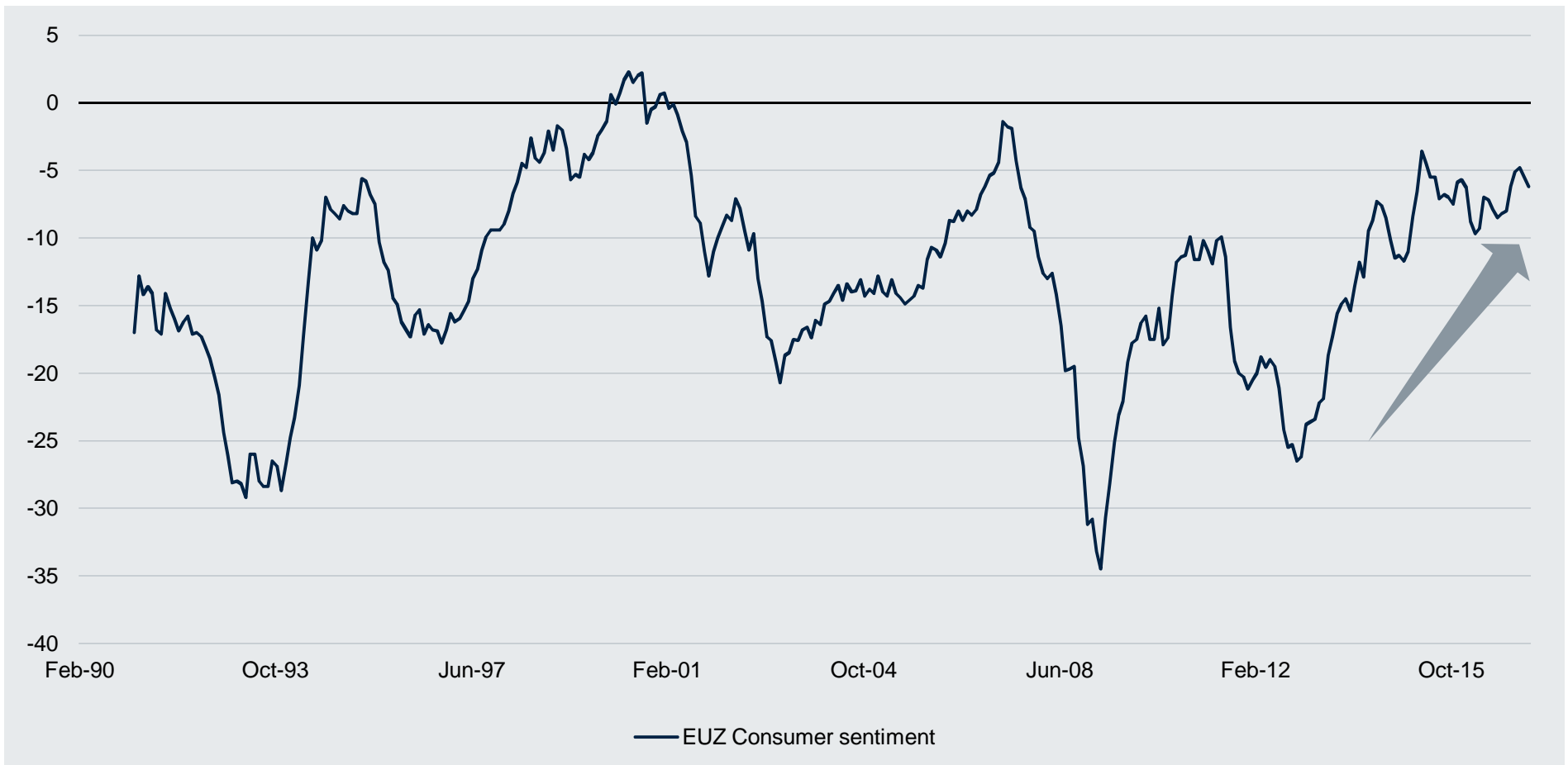
As of: April 2017

Source: Eurostat

Consumer sentiment currently continues to be supportive



Eurozone consumer sentiment



Past performance is not a reliable indicator of future returns.

As of: March 2017

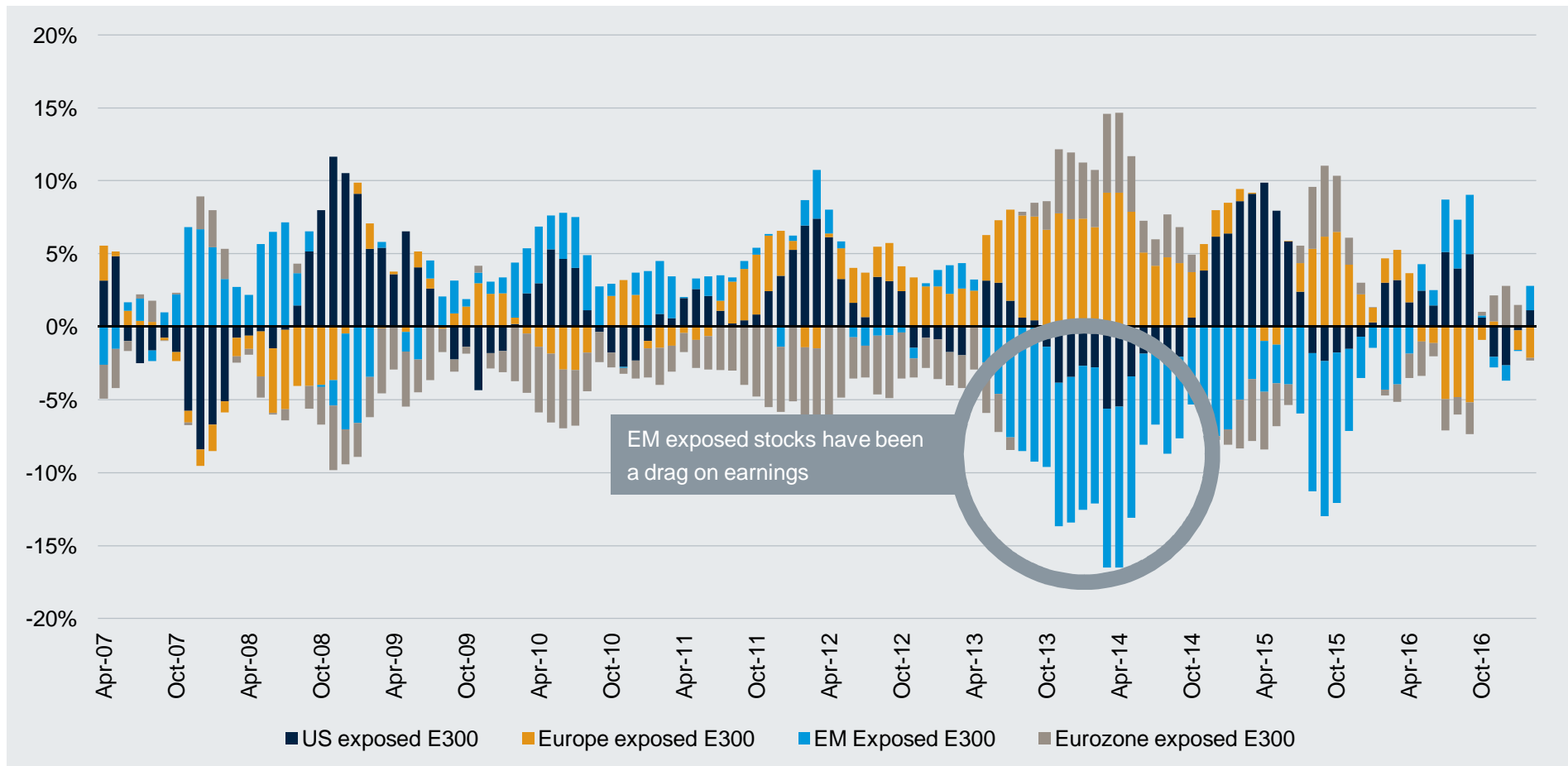
Source: Eurostat, European Commission, Deutsche Asset Management Investment GmbH

Emerging markets currently are no longer a drag

EM exposed stocks previously limited earnings growth



3m relative earnings momentum for regionally exposed stocks from Euro Stoxx index

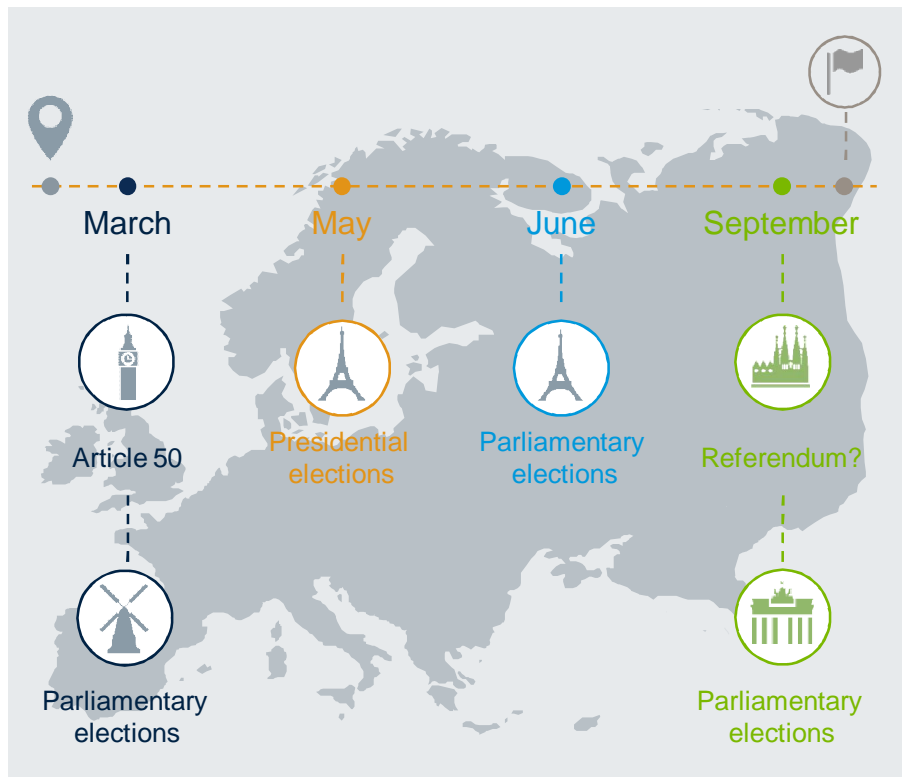


As of: end of February 2017
Source: UBS

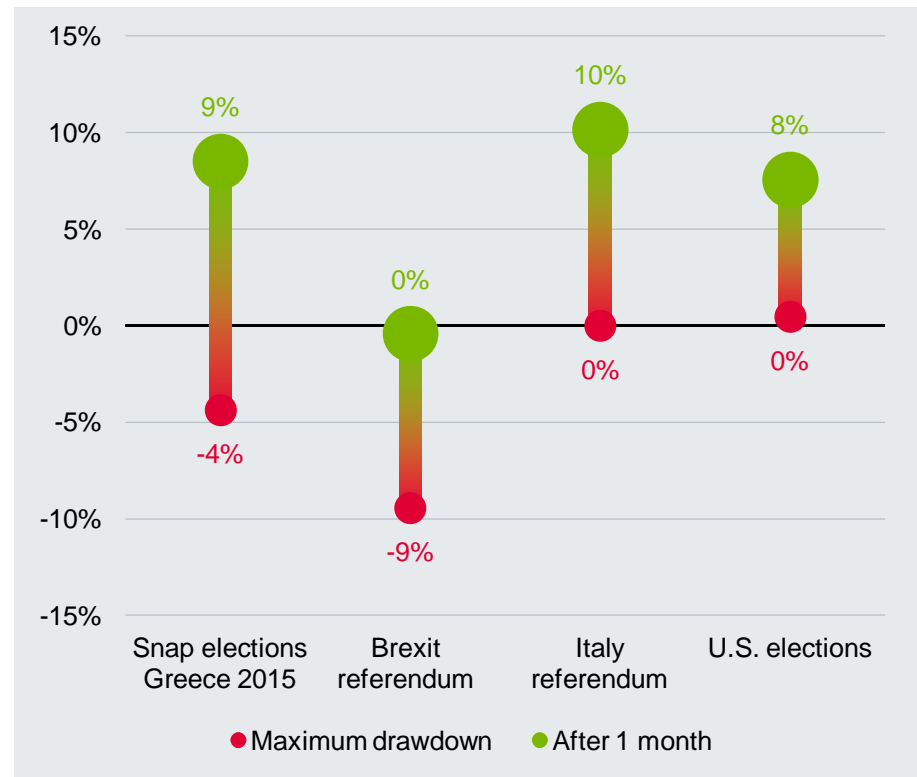
Europe – Elections and markets



Political events 2017



Market reactions around political events¹



Capital markets may only react when the economy reacts...

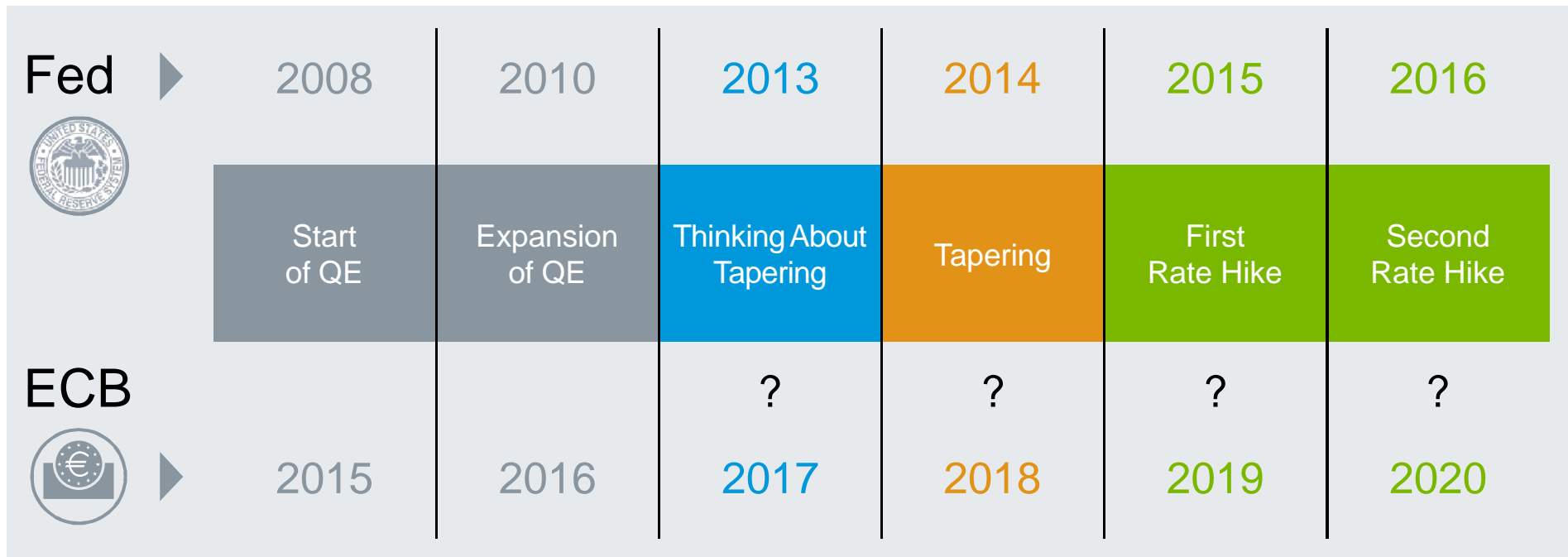
(1) Euro Stoxx 50 Index, level after 25 days; Past performance is not a reliable indicator of future returns. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Source: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of March 2017

Eurozone – Monetary policy



Normalization of monetary policy: ECB versus Fed¹

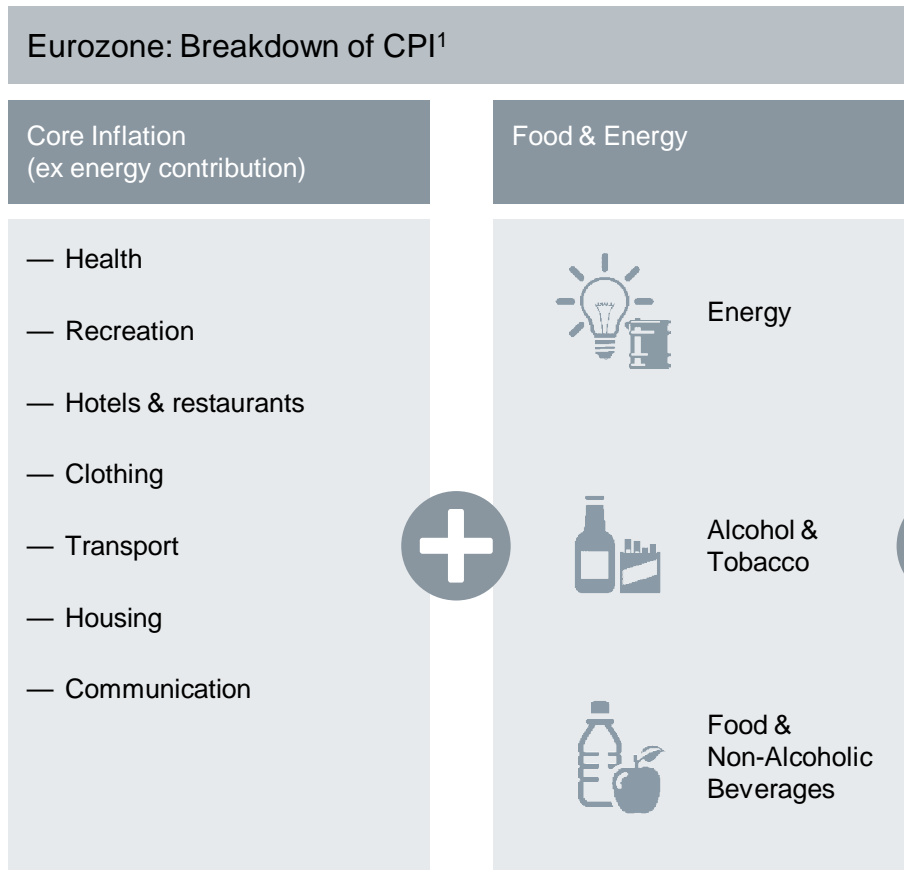


ECB followed the Fed with a time lag of at least four years

(1) Deutsche AM forecast for 2017–2020

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Eurozone – Inflation



» Inflation: Core stable, headline driven by oil price

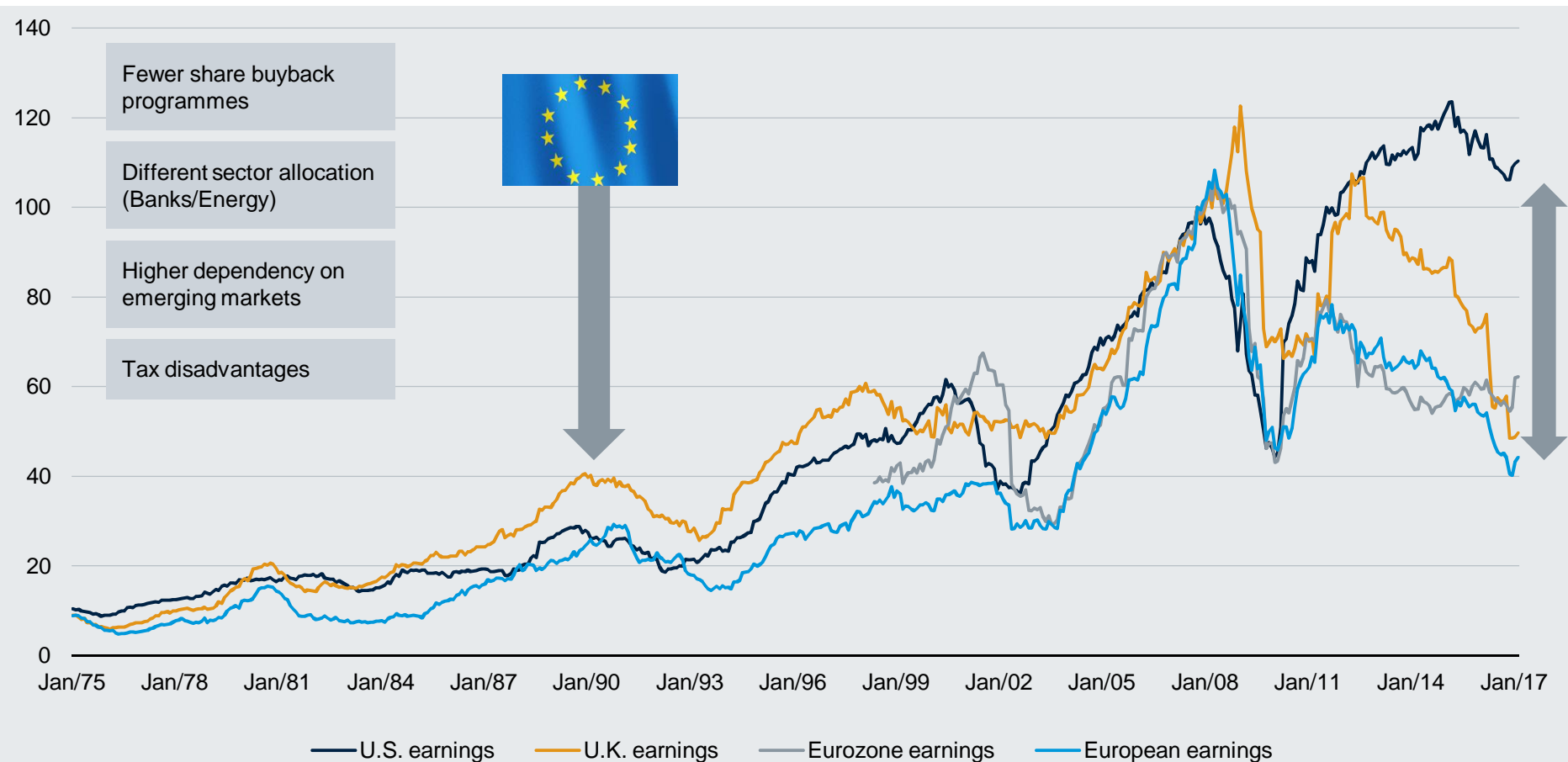
(1) Consumer price index; (2) Deutsche AM forecast for 2017/2018, contribution to total inflation according weightings
 Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Source: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of March 2017

Catch-up potential for earnings in Europe

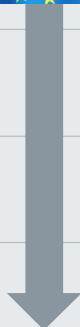
Earnings trends are lagging behind compared with U.S.



Historical Earnings



- Fewer share buyback programmes
- Different sector allocation (Banks/Energy)
- Higher dependency on emerging markets
- Tax disadvantages



12-month trailing earnings in USD for U.S. and in Euro for Europe.

As of: March 2017

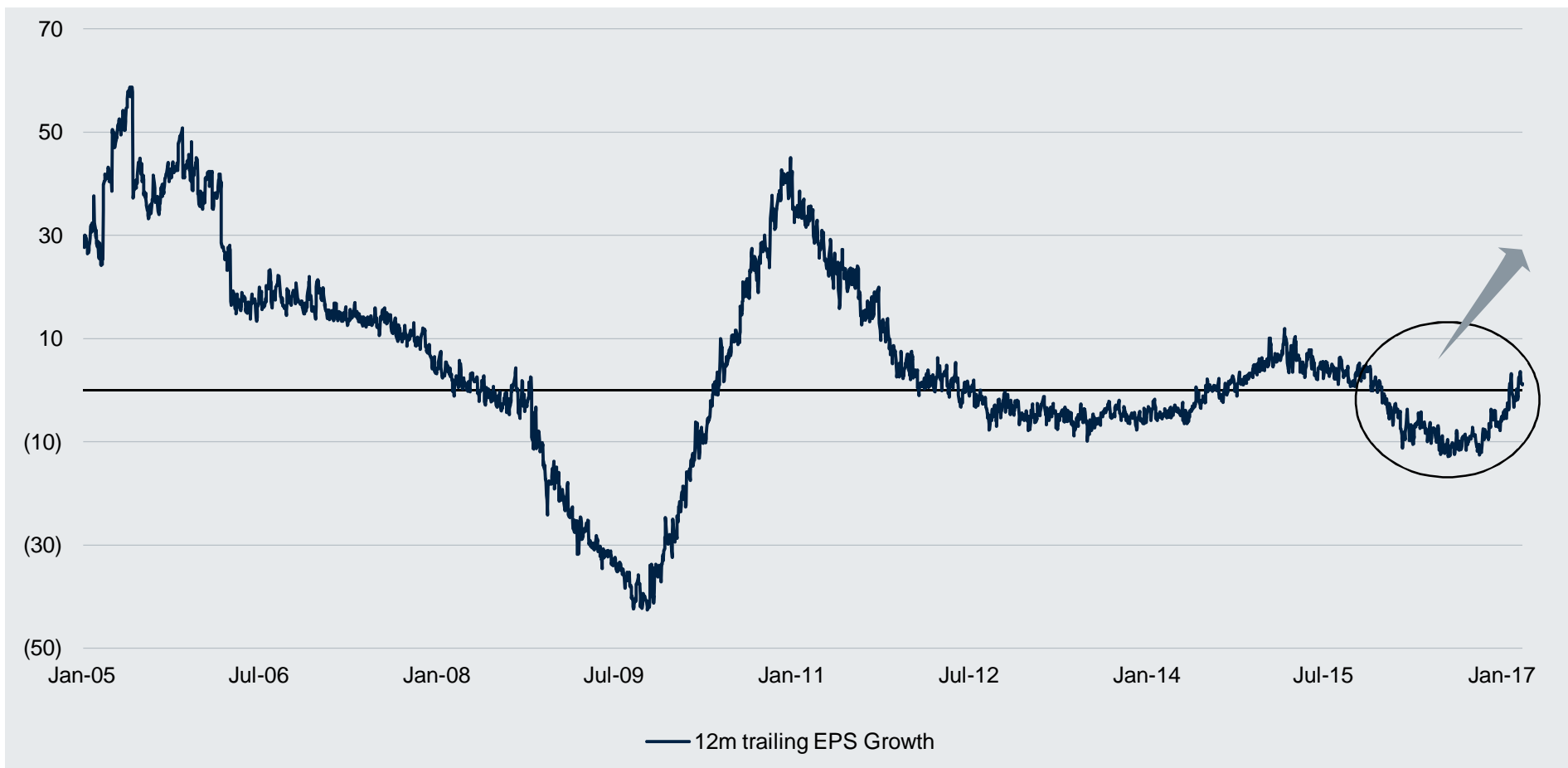
Source: I/B/E/S, MSCI, Datastream, Societe Generale Cross Asset Research/Equity Strategy

Improvement in earnings growth visible

Trailing earnings currently rising



Europe 12 month trailing earnings growth



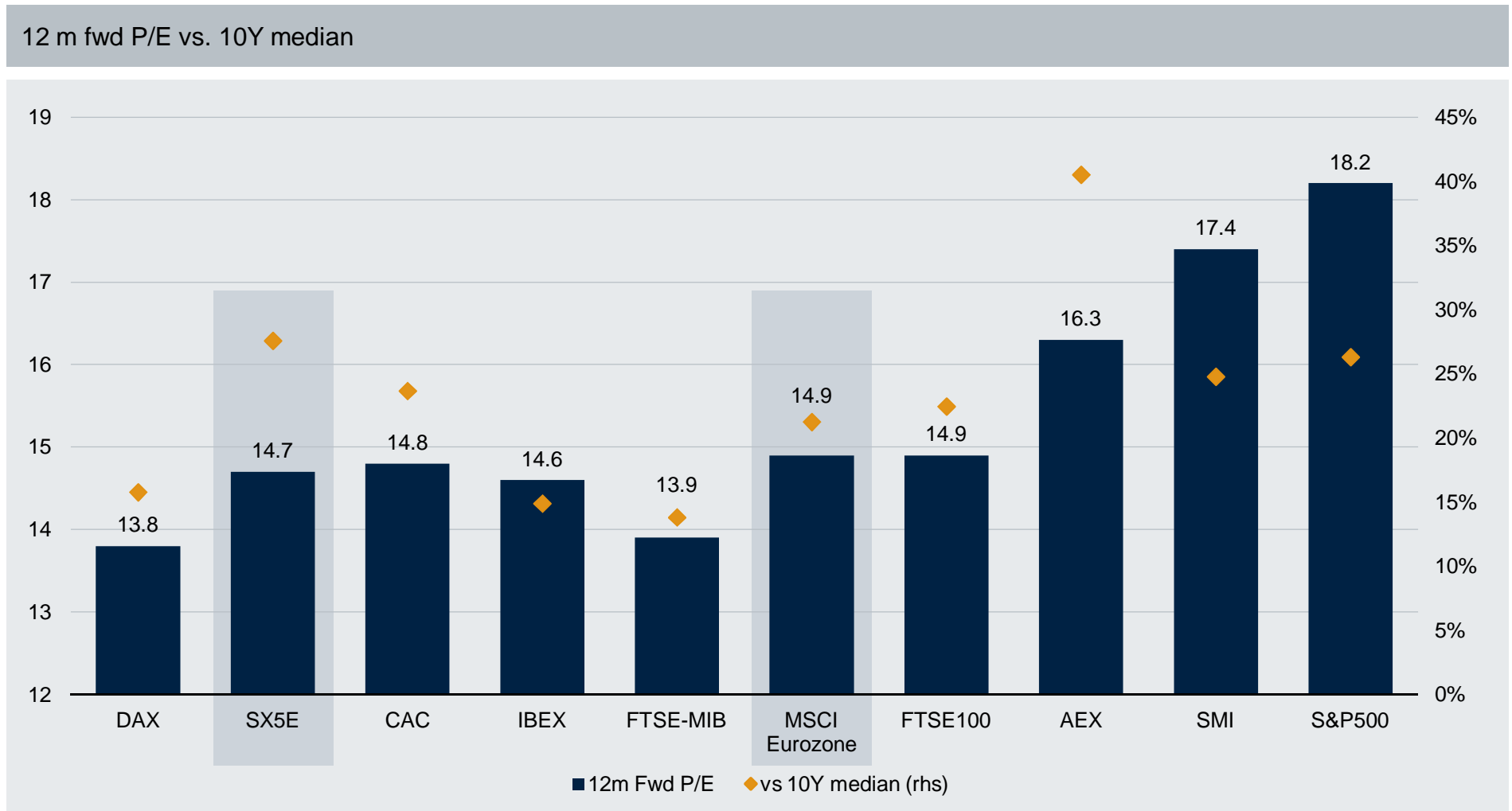
Past performance is not a reliable indicator of future returns.

As of: end of February 2017

Source: UBS

Equity valuations remain below long term median

Historical versus current valuation



Past performance is not a reliable indicator of future returns

As of: March, 2017

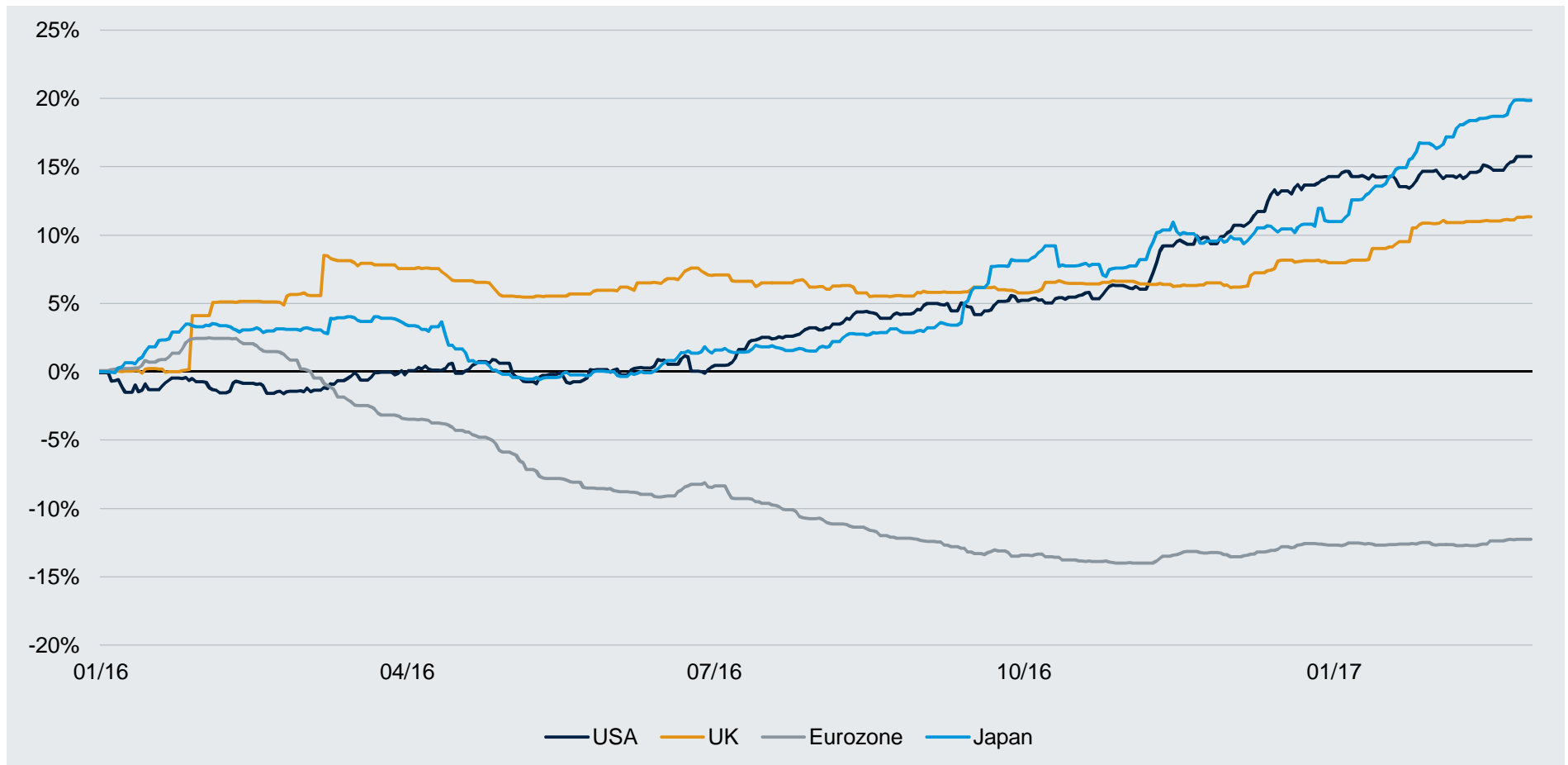
Source: J.P. Morgan, IBES, Bloomberg for current estimated PE

Negative investor sentiment remains

ETF flows: Investors sold off European equities



Cumulated ETF Flows (in % of AuM)



As of: February 2017

Source: BofA Merrill Lynch Global Research, JP Morgan, EPFR

Europe – Conclusion



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Source: Deutsche AM as of March 2017

Investment strategy

What we look for in an investment



Company characteristics we favor

Strong balance sheet

Large market share

Management quality

Alignment with shareholders

Product differentiation

Cost/technology advantage

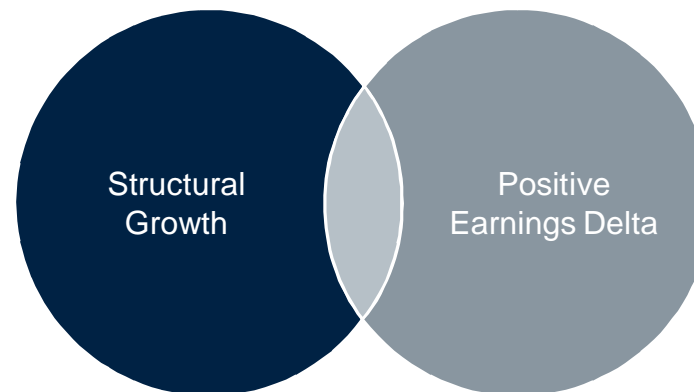
Scalability of business model

Pricing power

Alpha opportunities we seek

Beneficiaries of positive tailwinds

- Technological change
- Emerging market demand
- Regulatory/policy shifts
- Demographic-driven trends



Beneficiaries of fundamental change

- Operational improvements
- Product innovation
- Strategic acquisitions
- Capacity expansion

As of April 2017
Source: Deutsche Asset Management



Christopher C. Warren Managing Director

- Rejoined the Company in 2006 with 12 years of industry experience. Prior to his current role, Chris was Head of Active - Global Client Group for Asia Pacific, based in Singapore, where he was responsible for Active product strategy and development. Prior to relocating to Singapore, he also served as DWS Head of Structured Products Americas in New York City. Before rejoining, he was Head of Private Investor Products for North America at ABN AMRO. Previously, he worked at Goldman Sachs, General Re Securities and at Bankers Trust (acquired by Deutsche Bank). Chris began his career as a taxation and securitization attorney at Whitman Breed Abbott & Morgan LLC in New York.
- BA in Economics from Virginia Polytechnic Institute; MA in International Relations from University of Kent; JD from Georgetown University Law Center.

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