



# Fed

Christian Nolting, Global CIO

Analysis: Larry V Adam  
Editor: Enrico Börger

CIO Office Deutsche Bank  
Wealth Management

The Fed meets  
expectations: rates go  
up by 25 basis points.

## The Fed raises rates by 25 basis points

### The decision

Given that the Fed Funds futures market had priced in a 100% chance of a Fed rate hike at today's meeting, the Fed unsurprisingly did what it was expected to do by raising the Fed funds rate for the first time since December of last year by 25 basis points to 0.50%-0.75%. In their statement they reiterated their "gradual policy" in regards to the future of the tightening cycle trajectory as well as the continuation of their reinvestment policy (i.e. the Quantitative Easing program). They also struck a modestly more upbeat tone on the labor market and highlighted that "inflation has increased since earlier this year."

Their hike may be considered slightly more hawkish than dovish due to the change in their outlook for the pace of future rate hikes. The committee members' individual view on rates ("dot plots") shows their desire to raise interest rates three times next year, as opposed to the expectation for two rate hikes in 2017 communicated at the Fed's September meeting. In addition, rate hike expectations for 2018 (from 1.9% to 2.1%), 2019 (2.6% to 2.9%) and the longer run (from 2.9% to 3.0%) increased slightly. However, the Fed Chairwoman Janet Yellen stressed that the changes to long run rate expectations were only a "modest adjustment" and primarily the result of changes from only a few committee members.

In regards to economic forecasts, there were only modest changes to the near term economic and unemployment forecasts, and long-term estimates remained unchanged for the Gross Domestic Product (GDP), the unemployment rate, and inflation. For the most part, the limited changes to the longer-term economic forecasts were not a surprise as the Fed believes it is still too early to estimate the impact of Trump's economic policies because we still have very limited details on the magnitude and timing of what the new president of the United States will do.

### Press conference details

The press conference was focused on questions regarding the upcoming administration, Janet Yellen's future as Chairwoman of the Fed, the potential for more fiscal policy and the committee's light adjustment for rate hikes in 2017 and beyond. Despite criticism from President-elect Donald Trump, Janet Yellen made it clear that she intends to fulfill her term as Chairwoman of the Federal Reserve and stressed her view that she believes in the independence of the Federal Reserve.

On fiscal policy, the Chairwoman downplayed the need for fiscal policy as a tool to get the economy back to full employment. This argument has been made already by her predecessor and even by herself early in her term. However, she stated that while fiscal policy may aid in some parts of the economy, such as productivity, it is no longer needed to bring the economy to full employment. She also emphasized that a rising debt-to-GDP ratio should be taken into consideration when weighing the pros and cons of increased fiscal stimulus.

Deutsche Bank  
Wealth Management

**Marketing Material** - Past performance is not indicative of future performance. All opinions and claims are based upon data at the time of publication on December 14, 2016 and may not come to pass. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation.

CIO Office, Deutsche Bank Wealth Management, Deutsche Bank AG - Email: WM.CIO-Office@db.com



# Fed

Christian Nolting, Global CIO

Analysis: Larry V Adam  
Editor: Enrico Börger

CIO Office Deutsche Bank  
Wealth Management

## Fed raises rates by 25 basis points

One of the key takeaways from the statement and press conference is that the Fed's decision to raise interest rates and increase future interest rate expectations should be viewed as a "vote of confidence" in the economy and not as the Fed being behind the curve. She also made it clear that markets do not dictate the Fed's decisions as they are not a "pre-requisite for rate decisions."

### Market impact

The equity market reacted negatively to the Fed's slightly more hawkish tone from the meeting and the press conference. Immediately after the Fed's press conference, the S&P 500 was down about 0.5%, the Dow Jones was down 0.75% and the Russell 2000 was down ~1%. The rise in interest rates continued with the 10 year Treasury crossing above 2.5%. This negatively impacted the interest rate sensitive sectors (i.e. real estate, utilities and telecom). In addition, the strong increase in the dollar due to the expectation for more rate hikes pushed commodity prices lower. Crude oil declined by more than 2% while gold fell to a 10-month low.

### Economic context

The U.S. economy appears to be gaining momentum: the Atlanta Fed GDPNow indicator projects GDP for the fourth quarter of 2016 of 2.4% and the Citigroup Economic Surprise Index is expected to climb to a four-month high.

More importantly, a positive shift in household and business sentiment following the U.S. election appears to support continued strength in both consumer and business spending. For consumers, the preliminary reading on December consumer sentiment jumped 4.2 points to 98.0, effectively matching its high for the cycle (January 2015 at 98.1). For businesses, the November NFIB small business index saw the biggest monthly gain since April 2009. This suggests continued hiring and potentially a pick-up in capital expenditure. In addition, business spending could be emboldened by the reduction in corporate taxes and a roll back in onerous regulations that the newly elected U.S. president is expected to implement.

In regards to inflation, while market based inflation expectations (10-year inflation breakeven rates) have risen to the highest level in two years (~2.0%), economic data on inflation has also offered the Fed comfort to resume their tightening cycle. Average hourly earnings, a harbinger for future inflation, saw the largest year over year growth since June 2009 in October. In addition, core consumer and producer prices on a year over year basis are gradually moving higher.

### Deutsche Bank outlook

Our base case remains that the US economy will grow ~2.2% in 2017, with potential upside if the proposed fiscal stimulus and tax reform is implemented in a timely matter. As a result, we see limited scope for a U.S. recession in 2017.

Deutsche Bank  
Wealth Management

**Marketing Material** - Past performance is not indicative of future performance. All opinions and claims are based upon data at the time of publication on December 14, 2016 and may not come to pass. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation.

CIO Office, Deutsche Bank Wealth Management, Deutsche Bank AG - Email: WM.CIO-Office@db.com



# Fed

Christian Nolting, Global CIO

Analysis: Larry V Adam  
Editor: Enrico Börger

CIO Office Deutsche Bank  
Wealth Management

## Fed raises rates by 25 basis points

For the fixed income markets, a moderately strong economic cycle remains supportive of the credit market (both investment grade and high yield), particularly versus the Treasury market. Higher short and long term rates should drive the dollar higher. While cautious in the near term given the 6% rally in equity prices since the election, a strong economy remains supportive of equity markets in the long term.



# Glossary

The **Fed** is the Federal Reserve Bank of the United States, the country's central bank.

The **Fed Funds rate** is the interest rate of reference in the United States. Federal funds, often referred to as fed funds, are excess reserves that commercial banks and other financial institutions deposit at regional Federal Reserve Banks; these funds can be lent, then, to other market participants with insufficient cash on hand to meet their lending and reserve needs.

**Government bonds** are issued by a government to support government spending, mostly in the country's domestic currency and are backed by the full faith of the government.

**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.

**Dovish** indicates a propensity to promote monetary policies that involve low interest rates, based on the belief that low interest rates increase employment. Derived from the placid nature of the bird of the same name, the term is the opposite of "hawk." Statements that suggest that inflation has few negative effects are called dovish.

**Hawkish** indicates a propensity to promote monetary policies that favors relatively high interest rates in order to keep inflation in check. In other words, hawks are less concerned with economic growth than they are with recessionary pressure brought to bear by high inflation rates.

**Quantitative Easing** is a monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. It increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.



# Important note

Deutsche Bank Wealth Management offers wealth management solutions for wealthy individuals, their families and select institutions worldwide. Deutsche Bank Wealth Management, through Deutsche Bank AG, its affiliated companies and its officers and employees (collectively "Deutsche Bank") are communicating this document in good faith and on the following basis.

Deutsche Bank Wealth Management is the brand name of the Wealth Management business unit of Deutsche Bank Group, offering high net worth client a broad range of traditional and alternative investment solutions, providing a holistic service for all aspects of Wealth Management.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by Deutsche Bank, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/ discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

Deutsche Bank does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by Deutsche Bank. Investments with Deutsche Bank are not guaranteed, unless specified. Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of Deutsche Bank AG or its affiliates.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Bank as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein.

Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deutsche Bank to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Kingdom of Bahrain

For Residents of the Kingdom of Bahrain: This document does not constitute an offer for sale of, or participation in, securities, derivatives or funds marketed in Bahrain within the meaning of Bahrain Monetary Agency Regulations. All applications for investment should be received and any allotments should be made, in each case from outside of Bahrain. This document has been prepared for private information purposes of intended investors only who will be institutions. No invitation shall be made to the public in the Kingdom of Bahrain and this document will not be issued, passed to, or made available to the public generally. The Central Bank (CBB) has not reviewed, nor has it approved, this document or the marketing of such securities, derivatives or funds in the Kingdom of Bahrain. Accordingly, the securities, derivatives or funds may not be offered or sold in Bahrain or to residents thereof except as permitted by Bahrain law. The CBB is not responsible for performance of the securities, derivatives or funds.

State of Kuwait

This document has been sent to you at your own request. This presentation is not for general circulation to the public in Kuwait. The Interests have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Interests in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990 and the implementing regulations thereto (as amended) and Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Interests is being made in Kuwait, and no agreement relating to the sale of the Interests will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Interests in Kuwait.

United Arab Emirates

Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

State of Qatar

Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

Kingdom of Saudi Arabia

Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

United Arab Emirates

Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

This document may not be distributed in Canada, Japan, the United States of America, or to any U.S. person.

© December 2016 Deutsche Bank AG

Deutsche Bank  
Wealth Management

**Marketing Material** - Past performance is not indicative of future performance. All opinions and claims are based upon data at the time of publication on December 14, 2016 and may not come to pass. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation.

CIO Office, Deutsche Bank Wealth Management, Deutsche Bank AG - Email: WM.CIO-Office@db.com



# Important disclosures - UK

In the UK this publication is considered a financial promotion and is approved by Deutsche Asset Management (UK) Limited on behalf of all entities trading as Deutsche Bank Wealth Management in the UK.

Deutsche Bank Wealth Management (DBWM) offers wealth management solutions for wealthy individuals, their families and select institutions worldwide and is part of the Deutsche Bank Group. DBWM is communicating this document in good faith and on the following basis.

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for Deutsche Bank to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by Deutsche Bank, are suitability and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

Past performance is no guarantee of future results.

The products mentioned in this document may be subject to investment risk including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time. We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. Deutsche Bank has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Deutsche Bank does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by Deutsche Bank. The relevant tax laws or regulations of the tax authorities may change at any time. Deutsche Bank is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deutsche Bank to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgement as of the date of this material. Forward looking statements involve significant elements of subjective judgements and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Bank as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document.

Deutsche Bank conducts its business according to the principle that it must manage conflicts of interest fairly, both between itself and its clients and between one client and another.

As a global financial services provider, Deutsche Bank faces actual and potential Conflicts of Interest periodically. The Bank's policy is to take all reasonable steps to maintain and operate effective organisational and administrative arrangements to identify and manage relevant conflicts. Senior management within the Bank are responsible for ensuring that the Bank's systems, controls and procedures are adequate to identify and manage Conflicts of Interest.

This information is communicated by Deutsche Bank Wealth Management.

Deutsche Bank Wealth Management is a trading name of Deutsche Asset Management (UK) Limited. Registered in England & Wales No 5233891. Registered Office: Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority. Financial Services Registration Number 429806.

This document may not be distributed in Canada, Japan, the United States of America, or to any U.S. person.

© 2016 Deutsche Bank AG by Deutsche Asset Management (UK) Limited  
Deutsche Bank  
Wealth Management

**Marketing Material** - Past performance is not indicative of future performance. All opinions and claims are based upon data at the time of publication on December 14, 2016 and may not come to pass. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation.

CIO Office, Deutsche Bank Wealth Management, Deutsche Bank AG - Email: WM.CIO-Office@db.com



# Risk Warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

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

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

**High Yield Fixed Income Securities** - Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

**Hedge Funds** - An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for "Qualified Purchasers" as defined by the US Investment Company Act of 1940 and "Accredited Investors" as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund's investment objective will be achieved, or that investors will receive a return of all or part of their investment.

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

Investment in private equity funds is speculative and involves significant risks including illiquidity, heightened potential for loss and lack of transparency. The environment for private equity investments is increasingly volatile and competitive, and an investor should only invest in the fund if the investor can withstand a total loss. In light of the fact that there are restrictions on withdrawals, transfers and redemptions, and the Funds are not registered under the securities laws of any jurisdictions, an investment in the funds will be illiquid. Investors should be prepared to bear the financial risks of their investments for an indefinite period of time.

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring.

Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

Structured solutions are not suitable for all investors due to potential illiquidity, optionality, time to redemption, and the payoff profile of the strategy. We or our affiliates or persons associated with us or such affiliates may: maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation. Calculations of returns on the instruments may be linked to a referenced index or interest rate. In such cases, the investments may not be suitable for persons unfamiliar with such index or interest rates, or unwilling or unable to bear the risks associated with the transaction. Products denominated in a currency, other than the investor's home currency, will be subject to changes in exchange rates, which may have an adverse effect on the value, price or income return of the products. These products may not be readily realizable investments and are not traded on any regulated market.

Deutsche Bank  
Wealth Management

**Marketing Material** - Past performance is not indicative of future performance. All opinions and claims are based upon data at the time of publication on December 14, 2016 and may not come to pass. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation.

CIO Office, Deutsche Bank Wealth Management, Deutsche Bank AG - Email: WM.CIO-Office@db.com