Deutsche Bank
Private Wealth Management

Outlook 3rd Quarter 2010
Orientation needed

Passion to Perform

Orientation needed

Dr. Helmut Kaiser,
Global Chief Investment Strategist

Dear Investors,

Investors' growing risk appetite, buoyed especially by continuing global economic recovery and excellent corporate earnings in the US as well as Germany, and driving a 13-month rally on the markets for risk assets through to the end of April, has been severely tested in recent weeks. Worries over defaults on sovereign bonds in southern and eastern Europe and ongoing discussions over the survival of the eurozone as a whole led, especially in May, to pronounced setbacks on the international equity markets, widening credit spreads, sharply increased volatility, and a plummeting euro – the deflation fears from 2008 are back.

In this volatile and very emotionally driven investment environment, investors need orientation. They have to keep two essential factors squarely in mind: their individual time horizon and their risk profile. For investors who do not want their portfolios to be overly exposed to heightened volatility or are only willing to invest for a short period, we advise liquid investments short term and risk reduction. Investors who are prepared to accept higher mark-to-market volatility or who have mid to long-term investment horizons should take advantage of the, in part massive, price falls in some markets to accumulate positions. The present situation is an extremely good opportunity, especially for those investors who did not participate in the equity and credit market rally in 2009, to gradually increase their risk exposure.

Despite the currently subdued sentiment in Euroland, we would emphasise once again that the fundamentals remain attractive, especially in the US and the emerging markets – here, the current deflation fears are exaggerated. The economic recovery in the US is still intact. In China and in Brazil, too, domestic demand is growing at double-digit rates. Furthermore, given the present market turbulence, the major G7 central banks are likely to maintain their easy money policies for some time yet, which raises the issue of alternatives to the virtually zero returns on money market investments. We recommend the following strategies for the second half of 2010:

Continue accumulating positions in emerging market equities and bonds, especially in Asia: the emerging markets are benefiting from the strong revival of economic activity. They are also in a healthier fiscal position than the developed economies given their low debt-to-GDP levels. In addition, emerging market currencies should appreciate further.

Overweight German export stocks: As the euro is currently at its lowest level since 2006, the German export industry should benefit from heightened competitiveness and attractive valuations.

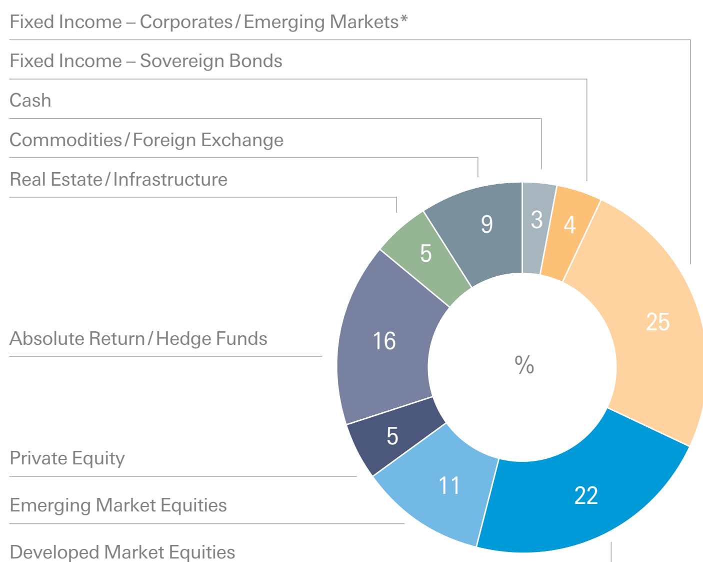
Continue to focus on US equities: company results are still beating market expectations (in terms of sales, earnings, and margins) and valuations are very attractive by historical standards.

Yours,

Helmut Kaiser

Asset allocation and asset class overview

Global Investment Committee's current asset allocation



Restriction-free strategy based on the Global Investment Committee's asset allocation with the focus on capital protection and inflation-adjusted growth. The portfolio shown is a dynamic strategy that takes account of the present market situation. The portfolio structure is based on nine asset classes that are grouped under the broader categories of Equities, Fixed Income and Alternative Investments. Private equity is included under Equities to increase the flexibility for individual liquidity preferences.

*incl. bank bonds

No assurance can be given that these investment objectives will be achieved.

Source: Deutsche Bank, Global Investment Solutions. As of May 26, 2010

Developed Market Equities: Given the positive economic and earnings outlook, favourable valuations, and continued low interest rates, we see good entry opportunities despite the debt problem. Within the eurozone, we particularly favour export stocks due to the weakness of the euro.

Emerging Market Equities: The structurally high growth and return potential argues in favour of a significant weighting in the asset allocation. The better fundamentals of many EMs compared to the developed markets (especially debt indicators), the earnings outlook, and the attractive valuation level suggest a recovery especially for Asian EMs.

Fixed Income – Sovereign Bonds: The recent rally especially in US Treasuries and German Bunds was driven by the mounting uncertainty over the future of the eurozone. We are keeping our allocation low as we expect this movement to be temporary. At present, EUR and especially US yields are not consistent with the positive macroeconomic outlook.

Fixed Income – Corporates: We would see the recent pullbacks as selective buying opportunities. As spreads in the blue chip segment are no longer all that attractive for the most part, we would currently give preference to companies with lower ratings despite the higher risk.

Real Estate/Infrastructure: The increased demand for defensive commercial properties has caused their initial yields to fall appreciably in some regions. A significant recovery of the rental markets appears unlikely in 2010. All the same, commercial property is still attractive relative to sovereign bonds.

Commodities/Foreign Exchange: Given the expected global economic recovery, the oil price should firm again. Concerns over the eurozone have put pressure on the euro and other cyclical currencies (AUD, CAD, EM currencies). Here, we expect a correction once the markets settle down a little. We see the euro's losses as structural and expect continued euro weakness on a 12-month horizon.

Private Equity: Favourable valuations and low interest rates create an attractive environment for traditional private equity activity (buyouts).While private equity firms still have high reserves of uncommitted capital at their disposal, the availability of leveraged loans is still relatively limited.

Hedge Funds: We favour a balanced strategy with a tilt towards Long/Short Equity and Event Driven. We maintain our cautious stance on trend-following models and also recommend clearly underweighting pure arbitrage strategies.

Dr. Helmut Kaiser and Dr. Elke Speidel-Walz

On a growth path with widening divergences

Global economic growth remains strong but is becoming increasingly unevenly spread. The US, Emerging Asia and Brazil are the leaders, while Europe trails well behind and there are still likely to be downward revisions, if anything. The joint € 750bn rescue package put together by the EU governments, IMF and ECB is an exceptional move to restore stability in the eurozone and has managed to stabilise spreads in the short term. However, for the Eurosystem's credibility in the mid term clear incentives for budget consolidation are needed.

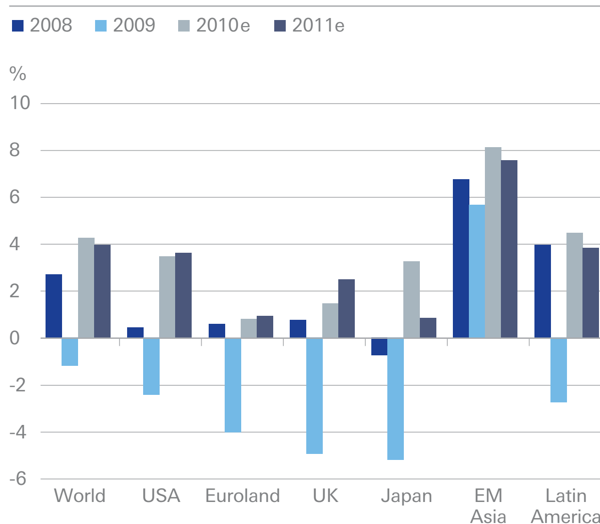
Growth risks in Euroland

Although necessary, the fiscal austerity process in the smaller countries, and as from 2011 also in the core countries, dampens the growth outlook despite the positive effect of the weak euro. In this environment, the export heavyweights (Germany) will fare best, while the economies beset by heavy debt and poor competitiveness (Greece, Portugal, Spain) will have little room for growth also in 2011. By contrast, in the US and the large emerging markets, both exports and domestic demand are booming.

Inflation only a threat long term, if at all

In Euroland, the necessary restrictive fiscal policies suggest that deflation, rather than inflation, is a realistic scenario. The risk that exploding public sector debt in almost all industrial countries could have an inflationary effect exists only on a longer-term horizon. The US and the UK are more vulnerable to such a scenario than the eurozone, where we expect a long phase of low inflation, or even deflationary risks. The inflation outlook and the new global uncertainties have put off expectations of first rate hikes to 2011 at the earliest. In Euroland, neither the weak economic recovery nor the inflation outlook warrants an early rate hike, and the euro crisis has of late dispelled all probability of a rate hike this year. The ECB's credibility has suffered after its decision to directly buy European government bonds. The real test for the ECB will come if purchases are necessary on a large scale, and it encounters difficulties neutralising this additional liquidity through monetary policy measures.

GDP growth



Sources: Deutsche Bank, Global Investment Solutions; Deutsche Bank, Global Markets Research. As of June 2, 2010

Past performance is not indicative of future returns.

Implications for investment strategy

US Treasuries and German Bunds have been beneficiaries of the escalation of the euro crisis and the flight to safety. Bond prices are vulnerable to corrections in the mid term despite the, for the present, continued low inflation outlook. The main risks are presented by globally rising sovereign debt issuance and widening risk premiums as a result of the explosion in public debt and the threat of mounting inflationary pressure in the long term. The flight to safety (German Bunds) could continue in the short term. However, given the low level of yields, we expect to see pullbacks in the prices of sovereign bonds. Equity markets are attractive in an environment of strong global economic growth but only for export-dominated markets with a non-European sales bias (US market, Germany, emerging markets in Asia and Latin America). As capital market rates are expected to pick up, the relative attractiveness of bonds vs. equities is likely to reverse again in the course of 2011. Once rates rise towards 4 – 5 %, it will be worth considering returning to the bond markets again.

Risk scenario: Deflation in Euroland

From the perspective of a euro based investor, the most prominent risk scenario is an escalation of the debt and confidence crisis in Euroland accompanied by deflationary tendencies. The main problem is the very weak growth outlook, which is aggravated still further by the necessary austerity policies, in other words a vicious circle of low growth and rising budget deficits. In this case, the high debt is not expected to have the feared inflationary effect. Firstly, domestic demand is at rock bottom for both structural and cyclical reasons (public overindebtedness in Portugal and Spain, high unemployment, low increase of real wages in Germany, etc.). Secondly, the ECB's independence argues against this.

Matthias Pannhorst

A quick reversal of the euro downtrend is not likely

The concerns over the future of the euro, which have been circulating on the markets for about six months now and have driven the single currency's external value ever lower, are difficult to assuage. Despite extensive guarantee commitments at the Eurosystem level and a raft of ambitious austerity packages by national governments, market confidence in the euro institutions has not yet been restored.

The problem of high public debt cannot be solved in the short term. Although the current deficit and debt situations and the projections of their future development in the US and Great Britain are no more solid (and in Japan are even worse), the market is clearly focused on the problems in Europe at present. Besides the uncertainty over the economic outlook, another factor that doubtlessly plays a role here is the difficulty Europe has in reaching a common political line and crisis strategy, while the US for instance is seen as far more homogeneous. That will not change in the near term either.

Further euro weakness expected

As a result of the developments over the past months, early rate hikes in Europe have become less likely. We expect the ECB to see that the supply of liquidity to the markets and especially to the banking system is kept high, also outside the framework of its interest rate policy, and will continue to do so for some time yet. Recently, with direct purchases of government bonds, another – albeit controversial – move was taken to support bond markets in the European periphery. All of that makes the euro less attractive versus the US dollar, at least in relative terms.

We expect a further successive weakening of the euro and see the EUR/USD exchange rate at 1.10 EUR/USD in twelve months' time. Lately, it is not just the weakness of the euro; the dollar, perceived as a safe haven, has also benefited from the current uncertainties.

That holds for other alternative currencies such as the Swiss franc and Japanese yen as well. However, with regard to the latter especially, we regard the current strength as a temporary phenomenon and maintain our negative stance on the yen. At present, there is nothing to suggest that the Bank of Japan could depart from the zero interest rate policy it has been pursuing for years in the foreseeable future. So the yen is on the way to becoming the preferred currency for financing carry trades again.

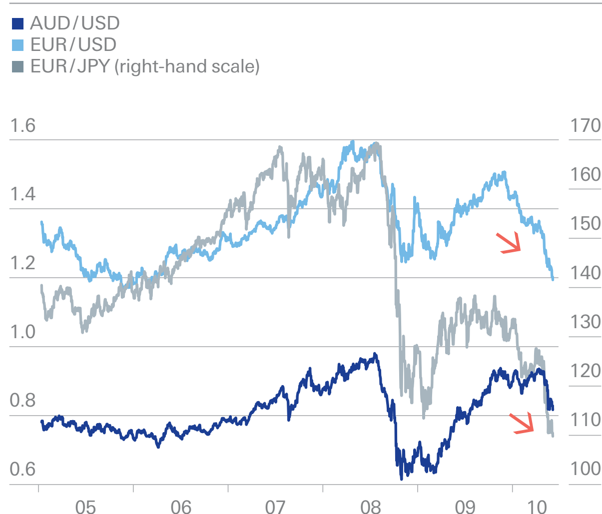
Commodity currency weakness is temporary

On the other hand, currencies with a strong commodity bias and many emerging market currencies have been unjustifiably punished in our view. The underlying concern is that the global economic upswing could be threatened by the turbulence in Europe and the strict austerity measures needed in a large number of developed countries. However, we do not believe that this is very likely at present, mainly because at the end of the recession most economists had already expected Europe's contribution to global economic growth to be relatively small.

Consequently, we take a positive stance above all on the Asian emerging market currencies, which, for structural reasons, should appreciate gradually and over the longer term. As we also expect a positive trend in oil and other commodity prices, the dollar block currencies (especially CAD, but also AUD and NZD) should manage to gain ground again, too – all the more so as their fundamentals compare favourably with the average for the developed countries.

Market sentiment on the British pound was very negative before the general election in May. As a result of the quick formation of the new coalition government and the austerity measures announced, which many analysts consider to be credible, there has been a broad brightening of opinion on the currency. A positive is that Bank of England policy has become a little clearer: in view of the consolidation efforts the central bank is evidently willing to tolerate slightly higher inflation in order not to put additional pressure on the country's growth prospects through a tighter monetary policy.

Euro crisis also puts pressure on more volatile currencies



Source: Bloomberg Finance LP. As of June 7, 2010

Past performance is not indicative of future returns.

Wolfgang Stöhr

Good entry opportunity despite remaining risks

Thanks to a positive reporting season, the developed equity markets still went on to touch new highs in April in the upward trend that had been intact since March 2009. Since then market events have been driven very largely by the European debt crisis, which is mainly centred on the countries on the southern periphery and Ireland. The concerns over the crisis possibly spreading to other countries and the austerity measures needed to resolve the fiscal crisis, and fears that this could have adverse repercussions on economic growth, not only in the eurozone, severely dampened market sentiment. These concerns led to pronounced corrections on the equity markets. A European rescue package of unparalleled magnitude only triggered a temporary recovery. Some weaker-than-expected economic data caused further nervousness among investors.

Positive outlook for equities

Despite the present burdens, we consider equities in most developed markets to be attractive. The recovery of the world economy will likely continue during the rest of 2010 and in 2011. The US and the emerging markets especially should be the main drivers. Corporate earnings may continue to develop well in this environment. After the good Q1 2010 reporting season, analysts raised their already high growth estimates for 2010 appreciably again. The peripheral eurozone markets were an exception, however. Here, the estimated earnings growth was scaled back, due among other things to the possible effects of the fiscal crisis. However, the growth forecasts for corporate earnings in the core European countries are significantly higher. On a mid-term view the positive economic and company outlooks should create confidence and give a boost to the markets.

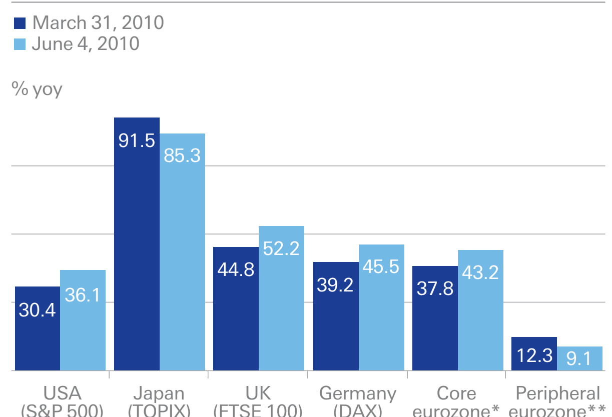
The equity markets are also supported on the valuation side. After the correction, the price-earnings multiples are well below their long-term average. The figure for the DAX based on 12-month forward earnings was 10.2 on June 8. This compares with a 20-year median of 15.6. For the leading markets, the risk premium versus the respective sovereign bonds is well below the long-term average on historical comparison. Moreover, a great many individual stocks offer expected dividend yields appreciably above the yields on 10-year sovereign bonds. In view of the debt problems, the central banks in major developed countries are likely to maintain their expansionary monetary policy, which will lend added support to the equity markets.

In the coming months, market participants are likely to focus more and more on the favourable fundamentals again, which should open up appreciable upside potential in the mid term. However, the debt problems, bank regulation, and poorer purchasing manager indices could trigger further temporary bouts of weakness.

US and German equities clearly favoured

While attractive valuations and the high growth driven by domestic demand are the main arguments for US equities, German equities are above all beneficiaries of the strong global economic recovery. By virtue of their high export intensity and the cyclical industrial structure, German equities are responsive to global growth. German export stocks also stand to benefit in terms of competitiveness and profitability from the continued euro weakness we predict. In addition, German equity prices should profit from many investors giving preference to core European markets. At the sector level, we recommend the cyclical energy and technology sectors in the developed markets. Additionally, we favour industrials in the eurozone but healthcare and non-cyclical consumer stocks in the US.

Estimated earnings growth in 2010 by region



* Median earnings growth rate for the respective national indices in Belgium, Germany, France and the Netherlands
** Median growth rate for the respective national indices (Italy, Spain) and MSCI country indices (Portugal, Ireland, Greece)

Sources: Deutsche Bank, Global Investment Solutions; I/B/E/S, Thomson Reuters Datastream. As of June 4, 2010

Past performance is not indicative of future returns.

Dr. Elke Speidel-Walz

Attractive return potential and strong fundamentals

After the emerging equity markets delivered a return of over 70 % in euro terms in 2009 (three times as much as the developed markets), performance so far in 2010 (January – May) has been almost nil. While EM equities suffered in Q1 from uncertainties over monetary tightening, the euro crisis and its potential effects on global trade has predominated of late, with concerns over three potential contagion channels:

- Similar macroeconomic weaknesses: however, the debt situation in the EMs is much better than in Europe, so this does not apply in the majority of cases (exception: Eastern Europe).
- Drop in exports to Europe: these concerns have mainly hurt the very open regions of EM Asia and Eastern Europe. However, while Europe accounts for 20 % of China's exports, for instance, much of this goes to Germany where so far there have been no signs of a slump in demand.
- Exposure to the financial sector: this mainly affects Eastern Europe, where a large part of the lending to the private sector is from West European banks.

Sentiment in China expected to improve

On the Chinese equity market, the negatives have been overdone: simultaneous inflation worries and hard landing fears are not consistent and in both cases are exaggerated. Measures to damp down the economy have already led to a gradual slowing of growth. Nonetheless, domestic demand and export demand remain robust. There is ample fiscal room for manoeuvre for economic policy to respond to any external growth shocks (euro exports). Monetary tightening might be paused in view of the global uncertainties. Measures to cool down the overheating in parts of the property sector have been initiated and make sense. Generally, the sector is robust: supply is growing strongly but so is demand. Speculative demand is mainly concentrated on a few locations. Property purchases are mainly financed with cash and there is no subprime segment.

Concerns over Chinese inflation are exaggerated

Inflation risks are in the fore given very strong domestic demand. Owing to adverse base effects, inflation could rise to over 3 % in the summer. However, the steadying of demand after successful monetary policy moves and the price correction on the oil market should damp down the rise in inflation in H2. Concerns that the recent raising of minimum wage levels in some provinces could fuel inflation need to be seen in perspective. Given double-digit productivity increases, strong wage rises are quite feasible in some sectors, especially as wages have been static over the last two years. We expect a recovery on China's equity markets. In the short term, as long as inflation fears predominate, the following sectors are likely to outperform: insurers, consumer goods (brands with pricing power), and basic materials. We also favour exporters of high-end goods whose wages are already well above the minimum levels and which are benefiting from strong demand.

Outlook by region and country

EM Asia continues to be the most attractive region thanks to strong growth coupled with moderate inflation, solid fundamentals (stable budgets) and high competitiveness. Lower exports to Europe should be compensated by growth in intraregional trade, export to the US and widening market shares. In South Korea the political conflict with North Korea is unlikely to be a lasting problem for the equity market. Thanks to its strong competitive position and buoyant global demand, South Korea generally, and the technology and automobile sectors especially, should continue to gain market share. Among the large EMs, India is suffering the least from the global uncertainties. Consumption and investment demand are very strong. In Latin America, corporate earnings in Brazil should be boosted in the near term by very buoyant domestic demand and growing trade with EM Asia. The economy also grew very vigorously in Q1, with growth of 9 % yoy. However, this means the overheating risks are also on the increase so the central bank is likely to hike rates a few more times. Mexico, on the other hand, is benefiting especially from the upswing in the US and for the time being can combine a vigorous upswing with moderate inflation. In Eastern Europe, the risks predominate because of internal weaknesses (private sector debt) and the close trade and banking sector links with Western Europe.

Performance of the MSCI Emerging Markets indices

Total return, % in EUR	2005	2006	2007	2008	2009	2010*
EM	55.0	18.6	26.1	-50.8	73.5	11.1
World	26.8	7.9	-1.2	-37.2	26.7	11.3
Asia EM	46.9	19.2	27.7	-50.3	68.8	11.5
Eastern Europe EM	72.6	31.3	13.6	-67.4	78.6	9.2
Latin America EM	73.3	28.4	35.9	-48.8	97.8	8.2

* year to date

Sources: Deutsche Bank, Global Investment Solutions; Thomson Reuters Datastream. As of June 3, 2010

Past performance is not indicative of future returns.

Dr. Konrad Aigner

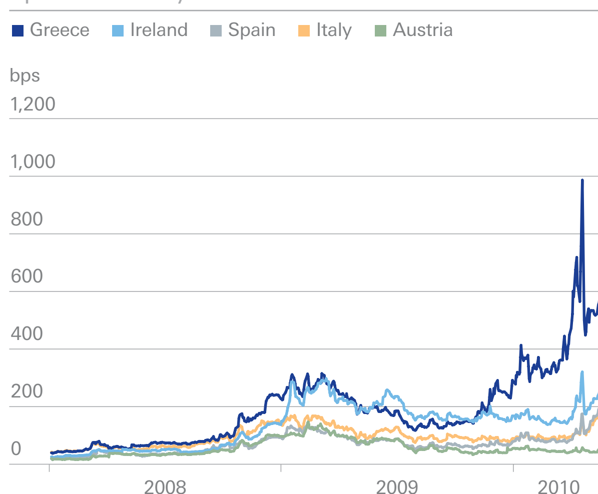
Focus on fiscal consolidation

The escalation of the debt crisis in the eurozone and uncertainties with regard to the stability of the euro led to a sustained flight into quality. The main beneficiaries have been US Treasuries and German Bunds, which are regarded as safe-haven investments. As long as the uncertainty predominates, yields in these markets will remain low. However, we see the situation as a short-term distortion caused by the crisis events which should correct again in the mid term. Developed market sovereign bonds, therefore, look vulnerable to setbacks despite the favourable inflation environment.

Public debt weighs on developed bond markets

The main risks stem from the cost of the aggressive fiscal measures needed for economic stabilisation. Because of the higher public borrowing requirements new sovereign debt issuance in the developed countries is on the rise and is reducing the absorptive capacity of the private sector on the bond markets. The support central banks have provided for the bond market through quantitative easing measures (e.g. extensive purchases of bonds) is likely to be run down in the course of the year. Owing to the strong growth in public debt in the developed economies, the risk premium expected by private investors is set to widen. The levels of debt in the developed countries will probably continue to rise from a high level and can only be stabilised or reduced slowly, despite consolidation efforts, as the modest growth rates expected mean that tax revenues, too, will remain weak. To make the offering of sovereign bonds for private investors

Spreads vs. 10-year German Bunds



The spreads have only partly corrected and are still high.

Sources: Bloomberg Finance LP; Deutsche Bank, Global Investment Solutions. As of June 7, 2010

Past performance is not indicative of future returns.

attractive in this environment, the upward pressure on yields is likely to increase. We, therefore, maintain our cautious stance on developed market sovereign bonds. Owing to the yield pick-up we expect on a 12-month horizon, we recommend a defensive portfolio strategy mostly with bonds of short maturities.

Complex situation in the eurozone

The growth in public debt in the eurozone member states and the crisis situation triggered by Greece has uncovered design and implementation weaknesses for the euro. The resulting uncertainties have caused spreads in the smaller countries to widen appreciably versus the core countries. German Bunds especially benefited from their safe-haven role. They should continue to show relative strength for the time being. The EUR 750bn European stabilisation programme, launched initially for three years, should help to stabilise and ease the situation. However, there is the risk that, if recourse is made to the instrument on a larger scale, the financing situation in the "payer" countries would also deteriorate. It is unlikely that spreads will narrow quickly as fiscal consolidation is a fairly long process, in the course of which there are often setbacks. For the safer part of the portfolio, we would, therefore, recommend short-dated German Bunds, but only on a limited scale as yields are likely to pick up from the currently exceptionally low levels.

Relative attractiveness of emerging markets

While we expect setbacks in developed market sovereign bonds, the outlook for emerging market (EM) local currency sovereign bonds is far more attractive. Many markets offer much higher return expectations (higher coupons) at reasonable risk. The much lower debt and healthier budget positions keep the default risk low, while strong economic growth makes debt servicing no problem. This holds especially for EM Asia and some Latin American countries but not for Eastern Europe, where the debt indicators and the interdependence with the west European banking sector and foreign trade harbours risks.

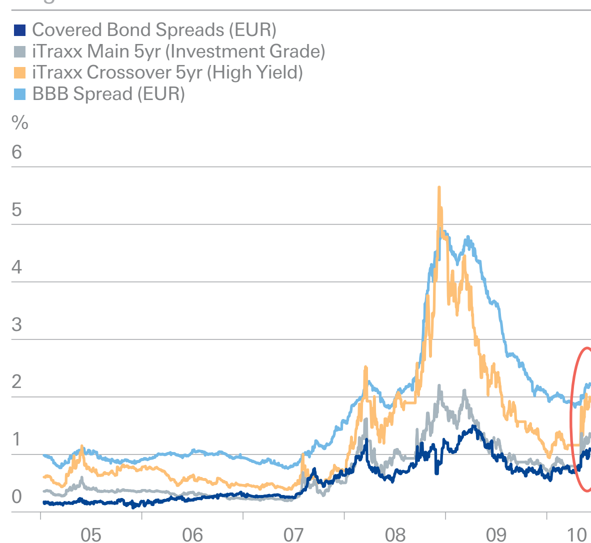
Matthias Pannhorst

Use pullbacks as selective buying opportunities

Concerns over the sustainability of the global recovery and bad news surrounding the euro have not only caused jitters on the international equity markets. Corporate bonds have generally lost ground, too, with more speculative high yielders suffering more than investment grade bonds. At the sector level, spreads have widened especially on financials. Credit default hedging costs have also risen (see iTraxx indices in the chart on the right).

The threat of rising capital market rates has receded into the background of late, especially in Europe, but remains an issue in the mid term. We, therefore, recommend short-dated bonds, as they react less sensitively than long-dated bonds to interest rate changes. Looking at performance since the height of the financial crisis in autumn 2008, EUR and GBP bonds still have catch-up potential versus USD bonds. Amid market nervousness, there has been a marked drop in covered bond issues of late. With ECB support purchases due to be phased out at the end of June, issuance will probably only pick up slowly again.

Negative market sentiment also affects bonds



Source: Bloomberg Finance LP. As of June 7, 2010

Past performance is not indicative of future returns.

Dr. Eric Jahn

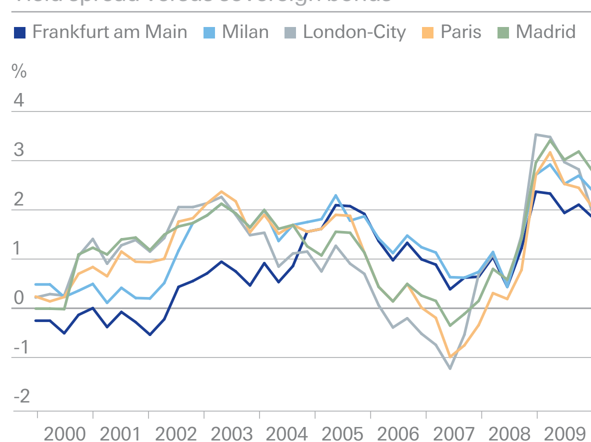
Yield spreads on commercial property have narrowed

The increased demand for defensive commercial properties has caused their prices to rise for almost a year now, resulting in lower initial yields. We expect the downward trend in initial yields – or the rise in prices – for commercial properties to slow appreciably in the further course of 2010. In parts of Asia and in the UK especially, initial yields, and thus the attractiveness of investments in commercial property, have already fallen significantly as a result of rising prices.

Weak rental market versus low interest rates

The European rental market remains generally weak and rental rates are unlikely to pick up before 2011. The growth risk emanating from the numerous austerity programmes is likely to be place added strain on the rental market. Despite the fall in initial yields and the difficult rental market, investments in commercial property are still attractive relative to investments in sovereign bonds. However, we advise investors to continue to focus on defensive investments.

Yield spread versus sovereign bonds



The chart shows the spread between the initial yield on office properties in prime locations in the respective cities and the yield on 10-year German Bunds on a quarterly basis (exception: for London-City spread vs. British gilts).

Sources: Bloomberg Finance LP; Deutsche Bank, Global Investment Solutions; RREEF. As of Q1 2010

Past performance is not indicative of future returns.

Dr. Konrad Aigner

Uncertainty weighs on commodity prices

The escalating debt crisis in Greece at the end of April, the still lingering uncertainties over the euro, and the constraints on economic growth from the fiscal consolidation measures necessary in the euro member states have made the financial markets extremely nervous. The clouded economic outlook has also weighed on the commodity markets and led to price setbacks in all the major commodity sectors. Gold, benefiting from its safe-haven role, was an exception.

The ups and downs in the newsflow with regard to fiscal consolidation are likely to cause volatility on the financial markets, and thus the commodity markets, too, for some time. Still, the eurozone, with its relatively small contribution to growth and demand, is not so crucial to the outlook for demand on the commodity markets. The important factor is our expectation of continuing economic growth in the US and the emerging markets. The main argument for our, on the whole, positive view for the general trend in commodity prices is the shift away from the developed countries to the fast-growing emerging markets as the drivers of global growth. This trend is reflected for instance in the development of world oil demand (see chart). While the demand for oil in the developed countries has remained comparatively stable over the past years, due not only to the lower growth dynamic but also to conservation efforts and the use of new technologies, oil consumption in the emerging economies has been on a rising trend, and this trend is set to continue for the foreseeable future.

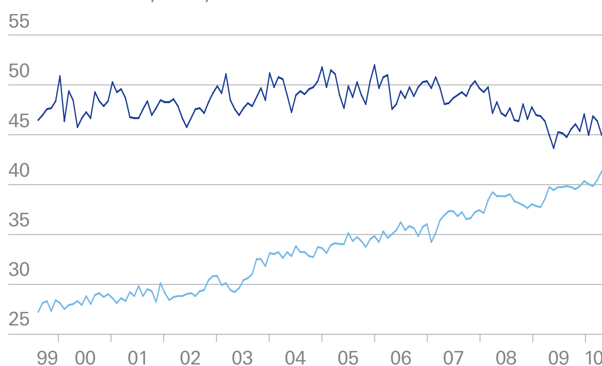
Gold attractive as a safe-haven instrument

The escalation of a further crisis would probably be needed for there to be a strong rise in the gold price. This is a situation we do not expect. On the other hand, past experience shows that in the aftermath of major crises the uncertainty and vulnerability to pronounced price swings often persists for some time. In these market phases, there is continued demand for investment instruments that offer a safe haven. This is confirmed for instance by the currently strong inflows of funds into gold ETFs. There are also a number of other reasons why the gold price looks well underpinned:

To mitigate the growth-dampening effects of fiscal consolidation, central banks in the developed countries are likely to keep interest rates low for some time yet. This supports gold because the fact that it does not provide a regular return is not so important given the unattractiveness of investment alternatives. Price rises on the gold market, therefore, often coincide with market phases of low interest rates.

Another argument in the present situation is the fact that the debt crisis has shaken international investors' confidence in the euro. Gold is an alternative for those investors wishing to diversify their currency positions.

Structural shift in oil demand



While oil demand in the developed countries (OECD) has declined due to the sharp economic downturn in 2008, the rising trend in oil consumption in the non-OECD countries has continued.

Sources: Bloomberg Finance LP; Deutsche Bank, Global Investment Solutions. As of April 30, 2010

Past performance is not indicative of future returns.

Oil price is well underpinned on the downside

Measures by China's administration to damp down growth (e.g. credit controls) and the escalating debt crisis in Europe have caused mounting uncertainty over the global economic outlook. The oil price has seen a pronounced downward correction, also in view of comparatively high stockpiles. We believe the oil price is well underpinned on the downside at the current levels of around USD 70 per barrel. Although OPEC does not publish official price targets, a number of interviews with oil ministers indicate that they are satisfied with the present price level. There is a tendency for prices on the oil market to rise in the summer months for seasonal reasons as demand picks up during the travel season and there is a greater risk of disruptions in supply due to the hurricane season (from around June to November). Moreover, the oil catastrophe in the Gulf of Mexico is likely to lead in the longer term to appreciably higher production costs as a result of more restrictive approval procedures for new production projects and stricter safety regulations.

Dr. Eric Jahn

Attractive environment for private equity

Owing to the high inflows of funds before the economic and financial crisis and the relatively low level of investment in the last two years, private equity firms continue to have considerable reserves of investable capital at their disposal. However, leveraged loan availability is still relatively low on the whole, despite recent improvements, which continues to limit private equity activity.

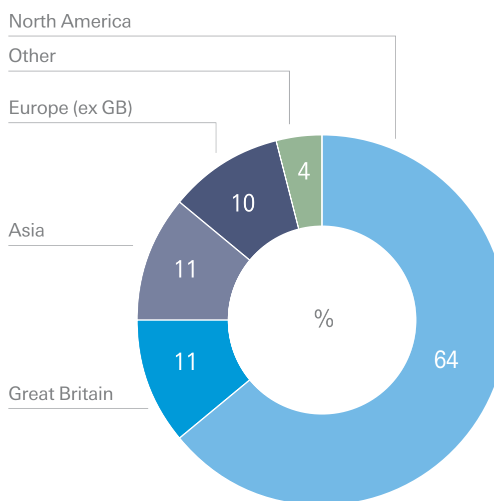
Favourable valuations, low interest rates

The profitability of traditional private equity deals (buyouts) benefits as a rule from attractive acquisition prices, low debt financing costs and a positively developing general economic environment. These conditions are currently given, so private equity investments look attractive at present.

Private equity industry dominated by America

Despite the rapid growth of the Asian economies and their financial markets, almost two-thirds of the 300 largest private equity firms are based in North America.

Two out of three PE firms are based in North America



The chart shows the geographical distribution of the headquarters of the 300 largest private equity firms.

Sources: Deutsche Bank, Global Investment Solutions; Private Equity International. As of May 2010

Dr. Dirk Steffen

Dynamic portfolio management in a hedge fund context

We are reducing the allocation into Relative Value strategies due to heightened regulatory and event risks. In turn, we are moving further toward Discretionary Macro due to a very favourable macro trading environment. We maintain our strong underweight in CTAs where heightened volatility and currently very limited hedging characteristics are a concern at present. We are lifting our temporarily established slightly more cautious stance on emerging markets. Our Long/Short Equity recommendation is, therefore, raised back to overweight. In the current market environment, beset by renewed upheavals, the Long/Short Equity style has the appeal that it is a simple and easy to execute strategy. Also, developed market specialists currently show very dynamic net exposure management, or market timing activity, while emerging markets specialists should profit additionally from our preferred mid to long-term stock market region. We continue to expect a bipolar world, in other words strong economic growth in the emerging markets and below-average performance in the developed economies.

Recommended Hedge Fund Style Allocation

Strategies	Styles	Market share*	Recommended allocation	Positioning
Long/Short Equity (LSE) Emerging Markets	Long/Short Equity	28.0%	33.0%	Overweight (+5%)
Discretionary Macro CTAs	Macro/CTAs	22.5%	22.5%	Neutral
Convertible Arbitrage Fixed Income Arbitrage Equity Market Neutral Relative Value Multi-Strategy	Relative Value	24.7%	17.2%	Strong underweight (-7.5%)
Distressed Debt Merger Arbitrage Event Driven Multi-Strategy	Event Driven	24.8%	27.3%	Slight overweight (+2.5%)

Sources: *Deutsche Bank estimates based on data from HFR and Barclay. As of Q1 2010

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