



## CIO Viewpoint

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### Macroeconomics

#### Near term

The **U.S.** economy is expected to slow down further over the forecast horizon and to enter a mild recession in real terms in 2023 – but not in nominal terms. Consumption is expected to remain robust in nominal terms because of strong labour markets. We expect the unemployment rate to increase somewhat but not far beyond what is considered a price-neutral level. We expect +1.8% U.S. GDP growth for the full-year 2022.

The **Eurozone** economy grew over the first three quarters of the year against the backdrop of easing anti-pandemic measures, global pent-up demand and high fiscal stimulus. However, GDP growth should slow going forward, as high inflation – due in part to the war in Ukraine – should weigh on private consumption. Shortages of intermediate products and scarcity of skilled labour will also weigh on the production side of the economy. We also expect the Eurozone to enter a recession, starting in Q4 2022 and lasting at least two quarters. But excess savings and public benefits will help prevent Europe from falling into a severe recession. We expect GDP to increase by +3.2% in 2022.

In **China**, real estate sector activity and private consumption are weighing on economic activity. Latest policy initiatives with regards to the Covid policy and the real estate sector should allow gradual recovery. However, the real estate sector's large overhang of unfinished projects needs time to be completed. And consumption recovery requires further easing of Covid policy. China is expected to grow by 3.3% in 2022.

In **Japan**, consumer demand has been resilient despite a rise in new Covid-19 infections. Going forward, the combination of rising prices but lacklustre wage growth could put a lid on consumption growth rates. Imported inflation has started to feed through to the broader economy and is weighing on company and consumer sentiment. The government is mitigating the energy price effect for vulnerable households and smaller companies. We expect GDP to grow by 1.6% in 2022.

Going forward, U.S. inflation rates will likely roll over. But core inflation (excluding food and energy) is anticipated to remain above central bank targets for some time. Risk for inflation remains to the upside overall. **U.S. inflation** is expected to be at 8.2% (yoy, headline CPI) in 2022 on average.

We expect the **Fed** to hike its Fed funds rate one more time this year, by 50 bps, as the labour market remains strong and inflation is still much higher than the 2% target.

We forecast that the **ECB** will hike the deposit rate again by 50 basis points to 2.00% at the end of this year.

No change in the monetary stance of the **BoJ** over the forecast horizon is expected.

# Economic and asset class outlook

#### Long term

The main long-term downside risk in the **U.S.** remains an overheating economy along with a sustained overshoot in inflation. Persistently elevated inflation pressure could result in the Fed delivering more hikes. We expect a mild recession in H1 2023 which could lead to a pause in monetary policy tightening. We forecast U.S. GDP growth for 2023 at +0.4%, but there is a risk of a longer lasting recession amid high inflation and Fed tightening.

Our base assumption is that energy prices will remain high, but gas storage levels in Germany are expected to be adequate as winter draws closer. We forecast **Eurozone** GDP growth to slow in 2023 to 0.3% due to high energy prices reducing disposable income and weighing on real private consumption. We expect a mild recession to begin in Q4 2022, lasting at least two quarters. Inflation will remain a problem in 2023 and price pressures are expected to broaden with core inflation staying high. Downside risk of severe energy supply problems as well as broader supply chain problems due to a new round of lockdowns in China.

We forecast **Chinese** GDP growth at +5.0% in 2023. Strong infrastructure investment, positive base effects and a pick-up in consumption are expected to support GDP growth next year. Structural risk factors such as the relationship between China and the U.S. – with the associated possibility of sanctions being imposed on China – and the war between Russia and Ukraine could weigh on economic activity over the longer term.

**Japanese** economic momentum is expected to moderate going forward. We forecast GDP growth of +1.2% in 2023.

For 2023, we expect U.S. inflation to decelerate further but remain elevated well above the Fed's 2% target. We stick to our scenario of inflation remaining higher on average than in pre-pandemic times over the longer term. We expect a **U.S. inflation** rate of 4.1% in 2023 (yoy, headline CPI).

The **Fed** is expected to deliver more key interest hikes until the Fed funds rate reaches a range of 5.0 – 5.25% which will be the terminal rate in our view. We expect this to occur in Q1 2023. We forecast that the Fed will maintain this stance then through 2023.

The **ECB** expects price pressures to stay high. We forecast the ECB to hike its deposit rate to 3.0% over the next twelve months. There are significant risks that interest rates must move substantially higher.

As the **BoJ** does not foresee inflation permanently above 2%, we expect no major changes in its policy stance. But the time might come for the central bank to adjust the toolkit including adjustments in yield curve control.



## Fixed Income

### Near term

Longer-dated [U.S. Treasury](#) yields are being continuously driven by monetary policy as well as the uncertain growth outlook next year. In our view, the key interest rate cuts expected by markets in H2 next year look premature. We expect the Fed to keep its federal funds rate unchanged over the forecast horizon once it has reached its terminal rate level of 5.00-5.25% in Q1 2023.

[Global IG credit](#) is forecast to remain volatile, but several factors are supportive including stable fundamentals and generally more compelling valuations. For [global HY credit](#), fundamentals for most issuers remain favourable. However, against the backdrop of the economic downturn we expect default rates to increase from their unusually low levels over the next 12 months.

[EM credit](#) spreads should tighten over the next 12 months on the back of strong fundamentals. Markets have already started pricing in downside risks, which leaves upside potential for [EM sovereigns](#). But the weaker global growth outlook is expected to weigh on emerging markets as well. The greatest uncertainty arises from geopolitical topics.



## Equity

### Near term

[Equity markets](#) have rallied strongly recently on the back of improving inflation data from the U.S., resilient earnings releases, dissolving event-risk after the U.S. midterm elections and hopes for an imminent end to China's zero-Covid policy.

In the near term, the combination of positive seasonality, still cautious investor sentiment and light investor positioning has the potential to extend the rally further if economic data continues to surprise to the upside and sovereign bond yields continue to move lower.

We see the risk however that the rally will taper off in the coming months as the market moves towards our house view of higher terminal rates and government bond yields in the U.S. and Europe while at the same time earnings expectations are being downgraded.

Generally, we expect stock market volatility to stay elevated as uncertainty regarding the growth outlook and the policy-response to inflation remains high. Inflation and labour market-related data releases as well as central bank meetings are going to remain the main market-moving events in the near term.

### Long term

Our 10-year [U.S. Treasury yield](#) forecast is driven by the expectation of an economic recovery after a mild recession in H1 2023. Looking at the Eurozone, we expect [10-year Bund yields](#) at 2.4% at the end of 2023.

Inflation will stay well above the Fed target of 2% over the forecast horizon (December 2023 10-year yield target: 4.20%; 2-year yield target: 4.10%). Real Treasury yields (10Y nominal yields minus the 10Y breakeven inflation rate) are expected to increase further (+170 bps).

Despite the outlook for inflation remaining elevated and a looming mild recession, we are forecasting that [USD IG](#) spreads will tighten over the next 12 months, since a credit recovery would be expected by late Q2 2023 based on rating stability, fundamental strength and global demand for yield. We are neutral on [USD HY](#) as the high uncertainty is offset by favourable credit quality. We remain constructive on [EUR IG](#), as the valuation in credit spreads is already pricing in an economic slowdown. Over the forecast horizon, we are constructive for the [EUR HY](#) market as the valuation level has become more attractive. Rating changes and fundamentals are evolving better than feared.

We see the outlook for [EM debt](#) over the medium term as improved since many EM countries have already implemented a restrictive monetary policy stance. Key interest rates are already near or at their expected terminal rates. But several challenges remain, such as geopolitical risk factors.

### Long term

We lower our NTM price target for the [S&P 500](#) slightly to 4,100. We are still confident that aggregate earnings will hold up well during the economic slowdown which we expect over the next quarters. However, to reflect our economic forecasts, we reduce our EPS growth estimate from mid-single digits to zero, which is still higher than the usual 15%-EPS decline during recessions. Meanwhile, we see only limited room for multiple expansion as government bond yields are projected move higher.

We keep our target for the [STOXX Europe 600](#) at 445, implying decent total return upside. We think that European stocks could outperform over the forecast horizon if the severe recession priced into the market does not materialise and corporate earnings prove to be more resilient than feared by many. This could also attract international investors who were large net-sellers of European equities during the last year.

We reduce our target for the [MSCI Emerging Market Index](#) to 990. However, we think the re-opening of China, declining USD strength and a rebound in the semiconductor cycle should support the region over the forecast horizon. At current valuations Chinese stocks seem interesting to us. However, we expect high volatility as the market tries to anticipate the re-opening and both regulatory and political risks remain.



## Commodities

### Near term

Currently, recession concerns in Europe and the U.S. along with continued Covid lockdowns in China are weighing on the [oil](#) price. In addition, the possibility of the G10 convincing the big Russian oil buyers like India to join the price cap mechanism have fizzled out after recent statements by the U.S. administration. However, OPEC+ has already made production cuts which can be seen as a statement of intent by the group to support oil prices if they face further downside. Oil prices are therefore likely to move sideways in the near term.

The front-loading of rate hikes by central banks around the globe has been putting pressure on [gold](#). However, EM central bank buying has been able to relieve some of the pressure. As the market's expected terminal rate in the U.S. draws closer the downward pressure on gold should start to subside. The possibility of miscalculations arising from Russia's invasion of Ukraine should also provide some risk premium to gold.

With strong grid spending, the stimulus in China can be labelled as [copper](#) intensive. At the same time global copper stocks at three main exchanges (COMEX, LME and SHFE) are at their lowest for this point of the year since at least 2010. However, the continuous headlines surrounding slowdowns in major economies is likely to keep copper prices range-bound in the near term.



## Currencies

### Near term

The potential recession in both the Eurozone and the U.S. will likely preserve the 'safe haven' status for USD in the near term. However, the gradual pricing of a Fed pivot will keep the [EUR](#) competitive against the USD.

The short-term path of the USDJPY should continue to be led by the monetary policy cycle in the U.S. and incentivise carry traders to use [JPY](#) as the funding currency. This should keep the outlook challenging for the JPY.

The reversal of the Truss/Kwarteng mini-Budget enabled pessimism that was priced into [GBP](#) to reverse to some extent. However, volatility is likely to be elevated as the market continues to estimate the longer-term economic impact of the new measures announced in the latest (Sunak/Hunt) Autumn Statement which will raise the tax burden to its highest since World War II.

The yield differential with the U.S. is likely continue be the underlying factor for the [CNY](#). However, continued bets surrounding the reversal of zero-Covid policy and further property sector support measures should provide offsetting forces in the near-term.

### Long term

The easing of Covid restrictions in China in the coming year should provide impetus for oil demand. Economic activity in the U.S. and Europe by the end of next year should be regaining pace as well, which should support oil prices along with the possibility of the U.S. restocking its SPR. U.S. production remains disciplined while OPEC+ continues to underproduce relative to its own target and has shown a strong inclination towards higher prices by announcing output cuts despite tight fundamentals. The impact of the war in Ukraine represents an upside risk to oil prices (Dec 2023 [Brent](#) target: USD 100/b).

While the longer-term outlook for carbon prices remains constructive, the potential of higher supply through front-loading of allowances along with relatively contained industrial activity in Europe is likely to keep a lid on prices.

By the end of next year, the Federal Reserve is expected to reach its terminal rate. This should ease the headwinds for gold allowing it to gradually move higher. The strong physical demand from central banks is likely to continue as well. (Dec 2023 [gold](#) target: USD 1,850/oz).

The strong infrastructure stimulus in China has already increased the demand for physical copper. Nevertheless, sentiment has remained subdued due to China's Covid policy and global growth concerns. The easing of these both in 2023 should trigger higher prices (Dec 2023 [copper](#) target: USD 8,500/t).

### Long term

The monetary policy advantage of the U.S. should continue to erode ECB hikes as well. The past phenomenon of outflows in search of higher yields should now reverse with positive yields now available domestically in the European market. However, the efforts to rebuild energy inventories for next winter will put a lid on the EUR. We therefore forecast [EUR/USD](#) at 1.05 by the end of Dec 2023.

The strong fiscal support amounting to 7.2% of the GDP so far should help Japan outperform the DM economies in 2023. In addition, the possibility of changes to its ultra-expansive monetary policy by the BoJ should provide tailwinds. We therefore forecast the [USD/JPY](#) at 140 by end-Dec 2023.

GBP is suffering from a highly unfavourable growth outlook with negative GDP growth expected next year. In addition, disposable incomes are likely to be squeezed and unlikely to return to pre-pandemic levels over the next few years. Therefore, we forecast [GBP/USD](#) at 1.15 by end-Dec 2023.

The expected re-opening next year should support CNY. However, the yield differential is expected to widen further from current levels before the terminal rate is reached in the U.S. Therefore, we see [USD/CNY](#) at 7.35 by the end of Dec 2023.

DM commodity currencies should be able to consolidate close to current levels as commodity prices regain strength, but country-specific risks are likely to weigh on the EM commodity currencies.



## Macroeconomic forecasts

### GDP growth rate (%)

	2022 F	2023 F	Consensus 2023 (BBG*)
U.S. <sup>1</sup>	1.8	0.4	0.4
Eurozone	3.2	0.3	-0.1
Germany	1.8	0.0	-0.5
France	2.5	0.3	0.4
Italy	3.5	-0.1	-0.1
Spain	4.6	0.8	1.0
Japan	1.6	1.2	1.4
China	3.3	5.0	5.0
World	3.2	2.8	2.3

### CPI inflation (%)

	2022 F	2023 F	Consensus 2023 (BBG*)
U.S. <sup>2</sup>	8.2	4.1	4.0
Eurozone	8.4	6.0	5.5
Germany	8.9	7.0	6.2
Japan	2.3	1.6	1.5
China	2.0	2.3	2.3

### Unemployment rate (%)

	2022 F	2023 F	Consensus 2023 (BBG*)
U.S.	3.6	4.4	4.25
Eurozone	7.0	6.8	7.1
Germany	5.3	5.6	5.6
Japan	2.6	2.5	2.5
China <sup>4</sup>	5.2	5.0	3.9

### Fiscal balance (% of GDP)

	2022 F	2023 F	Consensus 2023 (BBG*)
U.S. <sup>3</sup>	-4.4	-3.9	-4.0
Eurozone	-3.7	-3.4	-3.6
Germany	-2.2	-2.4	-2.6
Japan	-8.5	-4.0	-4.5
China <sup>5</sup>	-8.9	-7.2	-4.5

\* Bloomberg consensus

<sup>1</sup> For the U.S., GDP growth Q4/Q4 % is 0.5% in 2022 and 1.6% in 2023, <sup>2</sup> Measure is CPI, other measures see U.S. part of the presentation, <sup>3</sup> Fiscal balance is federal deficit only, <sup>4</sup> Urban unemployment rate (end of period), not comparable to consensus data, <sup>5</sup> China fiscal deficit refers to 'augmented deficit' and is not comparable to last data and consensus estimate, as of November 2022.

Source: Deutsche Bank AG, Bloomberg Finance L.P.; Data as of November 17, 2022.

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## Asset class forecasts

	Current level	vs. current level	Strategic Forecast as of November 2022	Expected Total Return
	November 17, 2022*		Target December 2023	
<b>Capital market yields (sovereign bonds) in percent</b>				
United States (2-year)	4.36	↘	4.10	4.51%
United States (10-year)	3.72	↗	4.20	0.65%
United States (30-year)	3.87	↗	4.35	-3.92%
Germany (2-year)	2.09	↗	2.30	1.82%
Germany (10-year)	1.99	↗	2.40	-0.56%
Germany (30-year)	1.93	↗	2.40	-7.89%
United Kingdom (10-year)	3.14	↘	3.30	2.02%
Japan (2-year)	-0.04	↗	0.00	-0.03%
Japan (10-year)	0.25	↘	0.20	0.83%
<b>Benchmark rates in percent</b>				
United States (federal funds rate)	3.75-4.00	↗	5.00-5.25	
Eurozone (deposit rate)	1.50	↗	3.00	
United Kingdom (repo rate)	3.00	↗	4.00	
Japan (overnight call rate)	0.00	→	0.00	
China (1 year lending rate)	3.65	→	3.65	
<b>Currencies</b>				
EUR vs. USD	1.04	↗	1.05	-1.07%
USD vs. JPY	139	↗	140	5.14%
EUR vs. JPY	145	↗	147	4.08%
EUR vs. CHF	0.99	↗	1.00	
EUR vs. GBP	0.87	↗	0.90	1.50%
GBP vs. USD	1.19	↘	1.15	-3.91%
USD vs. CNY	7.10	↗	7.35	5.34%
<b>Equity indices</b>				
United States (S&P 500)	3,959	↗	4,100	5.16%
Germany (DAX)	14,285	↗	15,000	5.01%
Eurozone (Eurostoxx 50)	3,886	↗	4,000	6.88%
Europe (Stoxx 600)	430	↗	445	7.14%
Japan (MSCI Japan)	1,205	↗	1,250	6.34%
Switzerland (SMI)	10,938	↗	11,150	5.15%
United Kingdom (FTSE 100)	7,318	↗	7,600	8.59%
Emerging Markets (MSCI EM)	954	↗	990	6.86%
Asia ex Japan (MSCI Asia ex Japan)	610	↗	625	4.42%
Australia (MSCI Australia)	1,408	↗	1,450	7.53%
<b>Commodities in U.S. dollars</b>				
Gold	1,767	↗	1,850	4.71%
Crude Oil (Brent Spot)	92	↗	100	
<b>Spreads (corporates &amp; EM bonds) in bps</b>				
EUR IG Corp	189	↘	150	4.16%
EUR HY	527	↗	550	4.61%
USD IG Corp	129	↗	130	1.10%
USD HY	455	↗	500	5.16%
Asia Credit	372	↗	380	5.85%
EM Sovereign	485	↗	500	2.87%
EM Credit	424	↗	425	5.42%

Source: Deutsche Bank AG, Bloomberg Finance L.P.; Data as of November 17, 2022.

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## Glossary

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The **Bank of Japan (BoJ)** is the central bank of Japan.

**CNY** is the currency code for the Chinese yuan.

The **DAX** is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange; other DAX indices include a wider range of firms.

A **developed market (DM)** is a country that is advanced economically, with developed capital markets and high levels of per capita income.

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

An **emerging market (EM)** is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

**EUR** is the currency code for the euro, the currency of the Eurozone.

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

The **EuroStoxx 50 Index** tracks the performance of blue-chip stocks in the Eurozone and includes the super-sector leaders in terms of market capitalization.

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

The **Fed funds rate** is the interest rate at which depository institutions lend overnight to other depository institutions.

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

The **FTSE 100 Index** tracks the performance of the 100 major companies trading on the London Stock Exchange.

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

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

**High yield (HY)** bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

Refinitiv's **I/B/E/S** (Institutional Brokers' Estimate System) gathers and compiles the different estimates made by stock analysts on the future earnings for publicly traded companies.

An **investment grade (IG)** rating by a rating agency such as Standard & Poor's indicates that a bond is seen as having a relatively low risk of default.

**JPY** is the currency code for the Japanese yen, the Japanese currency.

The **London Metal Exchange (LME)** is a major centre for industrial metals trading.

The **MSCI 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 EM Index** captures large and mid cap representation across 23 emerging markets countries.

The **MSCI Japan Index** measures the performance of around 323 large and mid-cap stocks drawn accounting for about 85% of Japanese market capitalization.

**NTM** stands for next twelve months in the context of earnings and thus price/earnings ratios.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members. The so-called "OPEC+" brings in Russia and other producers.

**Personal Consumption Expenditure (PCE)** is a price index for goods and services, particularly relevant in the context of U.S. GDP.

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

**SHFE (Shanghai Futures Exchange)** is an important metals exchange offering benchmarks including aluminum and copper.

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

The **Stoxx Europe 600** includes 600 companies across 18 European Union countries.

The **Swiss Market Index (SMI)** includes 20 large and mid-cap stocks.

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

**U.S.** is the United States.

**USD** is the currency code for the U.S. Dollar.

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

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

The **yield curve control (YCC)** policy of the Bank of Japan targets both short-term rates and the 10-year Japanese government bond yield as well as achieving an inflation rate of 2%.



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