

ECONOMIC SITUATION AND STRATEGY

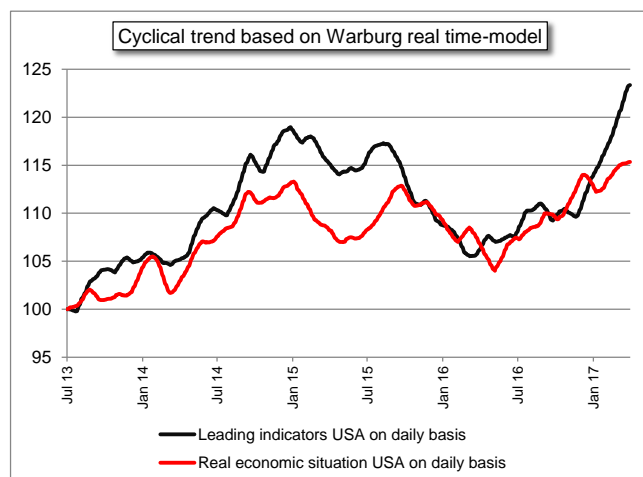
US economy: Started the year weakly, but likely to grow faster, supported by the real estate market

While most US leading indicators have virtually skyrocketed since Donald Trump's election to the US presidency, "hard" economic data have made much slower progress. Interpreting the Trump presidency as the trigger for the leading indicator upswing would be misguided, though.

Actually, we can clearly show this is not the case based on the large amount of economic data we have been collecting in real time in our database since 2013. That allows us to model economic scenarios for various countries and regions almost down to the day.

There is some inherent uncertainty in the data, and one cannot expect perfect sine curves from such time series, but they do yield comparatively accurate turning points. Our models suggest that the US economy already turned around in spring 2016, with leading indicators bottoming out just before the real economic data, in textbook style. This means the US real economy has been moderately, but quite continuously improving for about a year, and Donald Trump's election has not influenced this trend either positively or negatively.

It may be that the marked upturn in the leading indicators following the election was causally related to Trump's victory, but whether the real economy will bear out this sentiment surge remains to be seen.



Even if that is not the case, we still consider a positive outlook for the next few quarters justified. The regional Federal Reserve in Atlanta has developed a GDP forecast model based on a large set of current economic data. This model arrives at only 0.6% growth for the first quarter of 2017. Many economists therefore fear that the current development might be only a kind of expectation bubble from which air will inevitably escape. However, the Atlanta Fed model has been repeatedly and significantly revised in the past few months, eroding confidence in the quality of the forecasts.

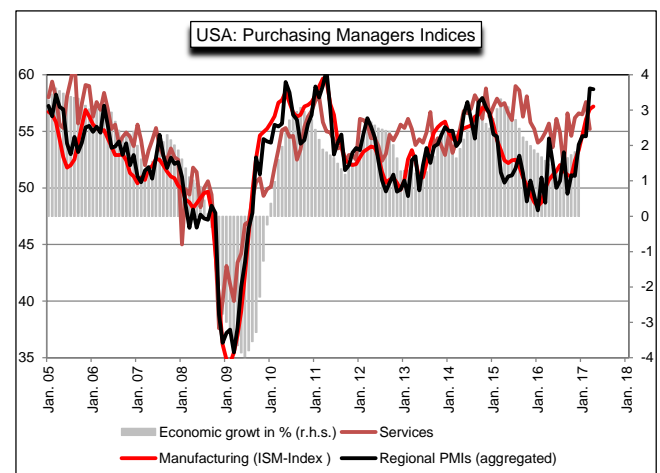
The New York Fed uses a competing model. In contrast to the Atlanta Fed, it includes sentiment indicators in addition

to real economic data. The New York Fed model estimates GDP growth in the first three months of 2017 at 2.8%.

Short-term discrepancies between leading indicators and real economy are common, but the two data sets tend to converge quickly. We have calculated various regression equations between GDP growth and many different leading indicators, which all point to just under 3% real GDP growth in the first quarter.

Unless there is a major correction in the leading indicators (PMIs, consumer confidence, leading indicator index, etc.) in the next few weeks, economic growth should recover strongly in the second quarter. We would also advise not taking the occasional White House reality TV escapades too seriously. There will certainly be a few surprises in the next few months as President Trump gradually realizes the gravity of his office. However, the bottom line is that facts and figures speak louder than words.

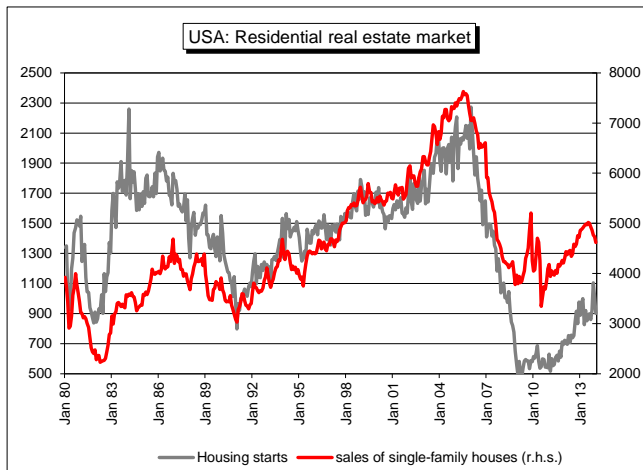
And even if, for instance, infrastructure projects may have positive demand effects, those may be at least partially offset by negative demand effects in the wake of social program cutbacks. It will be some time before we see a clear trend, and prudent investors will look beyond politics at actual figures, which continue to be good.



Sentiment in real estate business has continued to improve in the past few months, as it has for manufacturers, service providers, and consumers. The National Association of Home Builders and Wells Fargo surveys some 400 construction companies to compile the monthly NAHB index.

The NABH index reached its highest value since June 2005 last March at 71 points. The index is designed so that 50 points indicate equilibrium of optimistic and pessimistic sentiment. The NAHB index reached its all-time high of 78 points in December 1998 and its all-time low of 8 points in January 2009. The indicator signaled the collapse of the US real estate market early and accurately, when it dropped below the 50-point mark in May 2006 and hovered mostly between 20 and 30 points in 2007, while most investors remained clueless about the impending subprime mortgage crisis.

The indicator's present message is thus clear. The end of the positive trend is not yet in sight, even though the US real estate market has been recovering for quite some time from its severe contraction in the years 2008 to 2011, when prices plunged by up to 40% from their peaks (and even more in cities like Detroit, Las Vegas, Miami, and Phoenix).

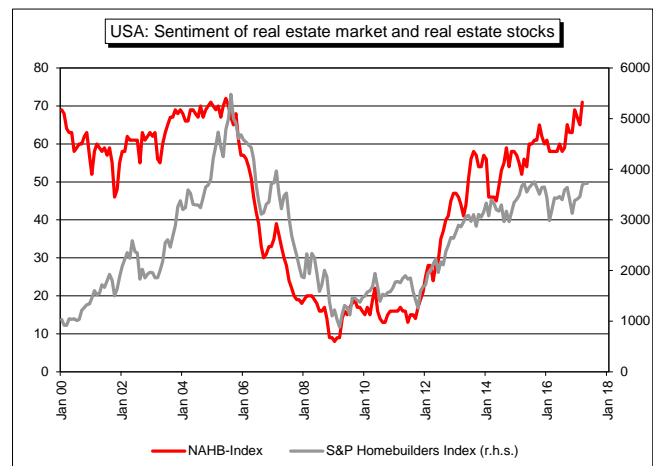


Even though real estate prices have surged in the past four years, the market is not forming a new bubble yet. According to the S&P Case-Shiller Home Price index, home prices are still almost 10% below their peak of summer 2006. The (annualized) number of new single-family homes sold has more than doubled from its February 2011 low, but at a recent level of 592,000 units, it is still far short of the summer 2005 record high of 1.4 million. Existing home sales are trending along the same lines at currently over 20% below 2005 levels. The still low sales numbers are probably also the reason for the slow recovery of building permits. Overall, US real estate market activity is currently average at best. That construction spending still accounts for less than 4% of US GDP while the long-term average (since 1950) is around 5% also points to this conclusion.

The chief difference between the current situation and the real estate bubble back then is in the debt level of private households. When real estate prices were expected to rise and interest rates to stay low, private households accumulated huge amounts of mortgage debt until sometime in 2008. Outstanding credit volume peaked at over USD 10

trillion, mostly at variable rates, and a significant share of that had been granted to borrowers with low incomes and low credit ratings (subprime loans). When the Fed tightened its monetary policy with key lending rate hikes from 1.0% in mid-2004 to 5.25% in mid-2006, variable mortgage rates shot up (30-year fixed rates remained largely unaffected) and the bubble burst. Foreclosures tripled to 4.6% (today: 1.5%), and the number of loans in arrears doubled to 10% (today: 4.8%).

Americans still remember well the shock of that crisis, considering that absolute mortgage lending volume has advanced only slightly in the past few years. Measured in terms of disposable income, mortgage debt has even dropped from 100% to just below 70% in the last few years. We believe this is the main reason that the US real estate market upswing will probably continue for a while. Investors willing to bet on this development may either directly buy US real estate or go for shares in US construction companies. For example, the S&P Homebuilders index has changed little in the past two years despite improved fundamental conditions on the US housing market. This would argue for some further upside price potential.



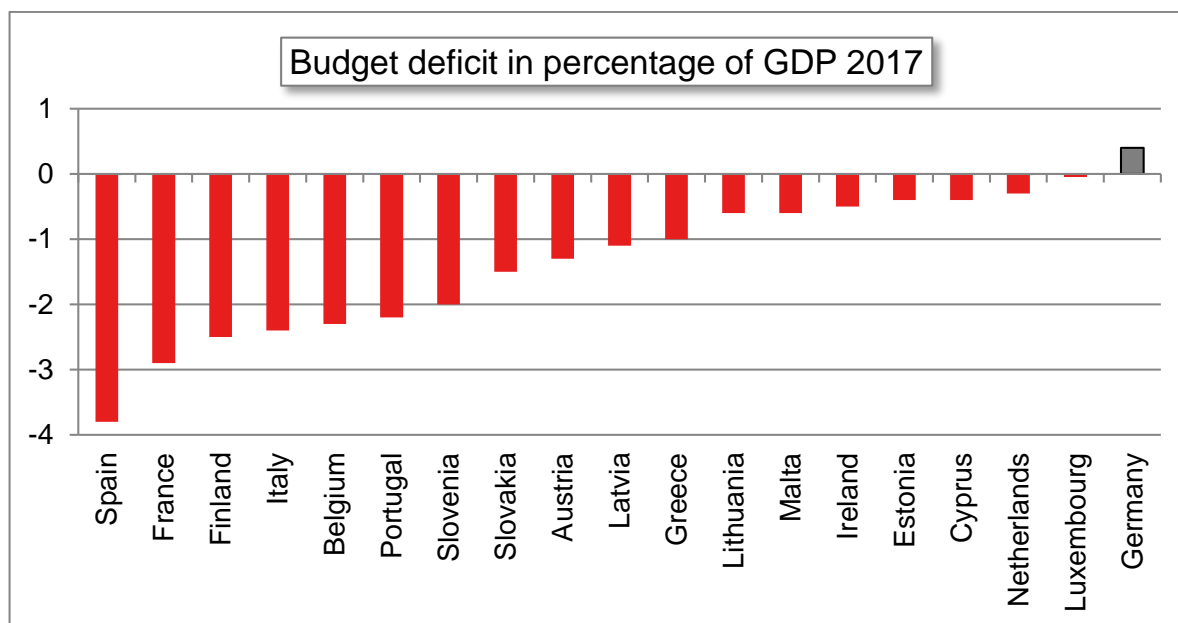
The same applies to US REITs, including REITs in economically sensitive classes of real estate use that have benefited especially from upswing phases in the past. No matter how one looks at it, investors should currently not ignore the United States – regardless of Trump.

Weekly outlook for April 18-21, 2017

	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Release
DE: Producer prices, m/m	0.3%	0.4%	0.7%	0.2%	0.0%		April 20
DE: Producer prices, y/y	0.1%	1.0%	2.4%	3.1%	3.1%		April 20
DE: PMI, manufacturing	54.3	55.6	56.4	56.8	58.3	57.4	April 21
DE: PMI, services	55.1	54.3	53.4	54.4	55.6	55.2	April 21
EUR19: Consumer prices, m/m	-0.1%	0.5%	-0.8%	0.4%	0.8%		April 19
EUR19: Consumer prices, y/y	0.6%	1.1%	1.8%	2.0%	1.5%		April 19
EUR19: Core inflation rate, m/m	-0.1%	0.4%	-1.4%	0.3%	1.2%		April 19
EUR19: Core inflation rate, y/y	0.8%	0.9%	0.9%	0.9%	0.7%		April 19
EUR19: PMI, manufacturing	53.7	54.9	55.2	55.4	56.2	55.6	April 21
EUR19: PMI, services	53.8	53.7	53.7	55.5	56.0	55.5	April 21

MMWB estimates in red

Chart of the Week: Net new debt in the euro area



At first glance, planned net new borrowing by most euro area countries for 2017 does not look excessive. The average comes to "only" 1.5% of GDP, and only Spain seems to exceed the Maastricht criterion for net new debt of no more than 3% of GDP, while France may stay just below the limit. However, a closer look shows a situation not quite as relaxed and unproblematic. The reason for this is that the 3% limit under the Maastricht Treaty only makes sense if total debt does not exceed 60% of GDP at nominal annual GDP growth of around 5%. Only under these circumstances can a country ensure that its debt level will remain at about 60% of GDP in the long

term. However, this is not the case today. Debt levels of the euro countries currently average almost 91% of GDP, and expected nominal annual GDP growth is likely to average 3% at most in the next few years. With these fundamentals, net new borrowing at over 2% of GDP is not the end of the world, but is still at the outer limit of acceptable. That is also why the ECB is striving to keep interest rates low in the long term, because with very low coupon payments on their debt, countries may be able to refinance even questionable debt levels – Japan sends its greetings.

	As of	Change versus			
	12.04.2017 17:41	05.04.2017 -1 week	10.03.2017 -1 month	11.01.2017 -3 months	30.12.2016 YTD
Stock markets					
Dow Jones	20575	-0,4%	-1,6%	3,1%	4,1%
S&P 500	2346	-0,3%	-1,1%	3,1%	4,8%
Nasdaq	5867	0,0%	0,1%	5,4%	9,0%
DAX	12161	-0,5%	1,7%	4,4%	5,9%
MDAX	24296	1,2%	4,2%	8,6%	9,5%
TecDAX	2021	-1,0%	2,7%	9,4%	11,5%
EuroStoxx 50	3470	-0,1%	1,6%	4,9%	5,5%
Stoxx 50	3164	0,2%	2,0%	4,0%	5,1%
SMI (Swiss Market Index)	8658	0,2%	-0,1%	2,7%	5,3%
Nikkei 225	18748	-0,6%	-4,4%	-3,2%	-1,9%
Brasilien BOVESPA	64046	-1,1%	-1,0%	2,6%	6,3%
Russland RTS	1077	-6,5%	2,0%	-6,8%	-6,5%
Indien BSE 30	29643	-1,1%	2,4%	9,2%	11,3%
China Shanghai Composite	3274	0,1%	1,9%	4,4%	5,5%
MSCI Welt (in €)	1848	0,7%	0,0%	2,8%	4,8%
MSCI Emerging Markets (in €)	954	-1,0%	2,9%	6,5%	9,9%
Bond markets					
Bund-Future	163,28	88	427	-20	-87
Bobl-Future	132,59	31	140	-82	-104
Schatz-Future	112,48	10	20	23	19
3 Monats Euribor	-0,33	0	0	-1	-1
3M Euribor Future, Dec 2017	-0,29	-1	-9	0	0
3 Monats \$ Libor	1,16	0	3	13	16
Fed Funds Future, Dec 2017	1,21	-3	-6	10	0
10 year US Treasuries	2,28	-8	-29	-9	-16
10 year Bunds	0,20	-6	-29	4	9
10 year JGB	0,02	-4	-5	-4	-3
10 year Swiss Government	-0,17	5	-14	8	3
US Treas 10Y Performance	576,94	0,6%	2,4%	0,7%	1,3%
Bund 10Y Performance	617,58	0,5%	2,8%	1,2%	0,8%
REX Performance Index	486,80	0,3%	0,8%	0,7%	0,3%
US mortgage rate	0,00	0	0	0	0
IBOXX AA, €	0,62	-5	-22	-12	-6
IBOXX BBB, €	1,40	-4	-22	-14	-10
ML US High Yield	6,15	-1	-14	-13	-30
JPM EMBI+, Index	806	0,2%	2,0%	3,6%	4,4%
Convertible Bonds, Exane 25	7071	0,0%	1,4%	1,7%	2,2%
Commodities					
CRB Index	418,91	0,5%	0,6%	-2,1%	-0,4%
MG Base Metal Index	299,09	-1,8%	0,9%	2,7%	6,9%
Crude oil Brent	55,99	2,9%	7,9%	1,6%	-1,3%
Gold	1275,16	2,2%	6,2%	8,1%	10,2%
Silver	18,27	0,2%	7,9%	9,8%	13,8%
Aluminium	1905,25	-2,2%	2,0%	8,1%	11,8%
Copper	5739,75	-2,1%	0,4%	0,9%	3,9%
Iron ore	73,50	-8,7%	-14,5%	-7,5%	-8,1%
Freight rates Baltic Dry Index	1262	3,2%	16,2%	41,2%	31,3%
Currencies					
EUR/ USD	1,0618	-0,6%	0,1%	1,1%	0,7%
EUR/ GBP	0,8489	-0,7%	-3,1%	-2,2%	-0,6%
EUR/ JPY	116,22	-1,9%	-5,1%	-4,8%	-5,8%
EUR/ CHF	1,0665	-0,4%	-0,7%	-0,5%	-0,7%
USD/ CNY	6,8890	-0,1%	-0,3%	-0,7%	-0,9%
USD/ JPY	109,62	-1,0%	-4,5%	-5,0%	-6,2%
USD/ GBP	0,80	-0,2%	-2,7%	-3,5%	-1,2%

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