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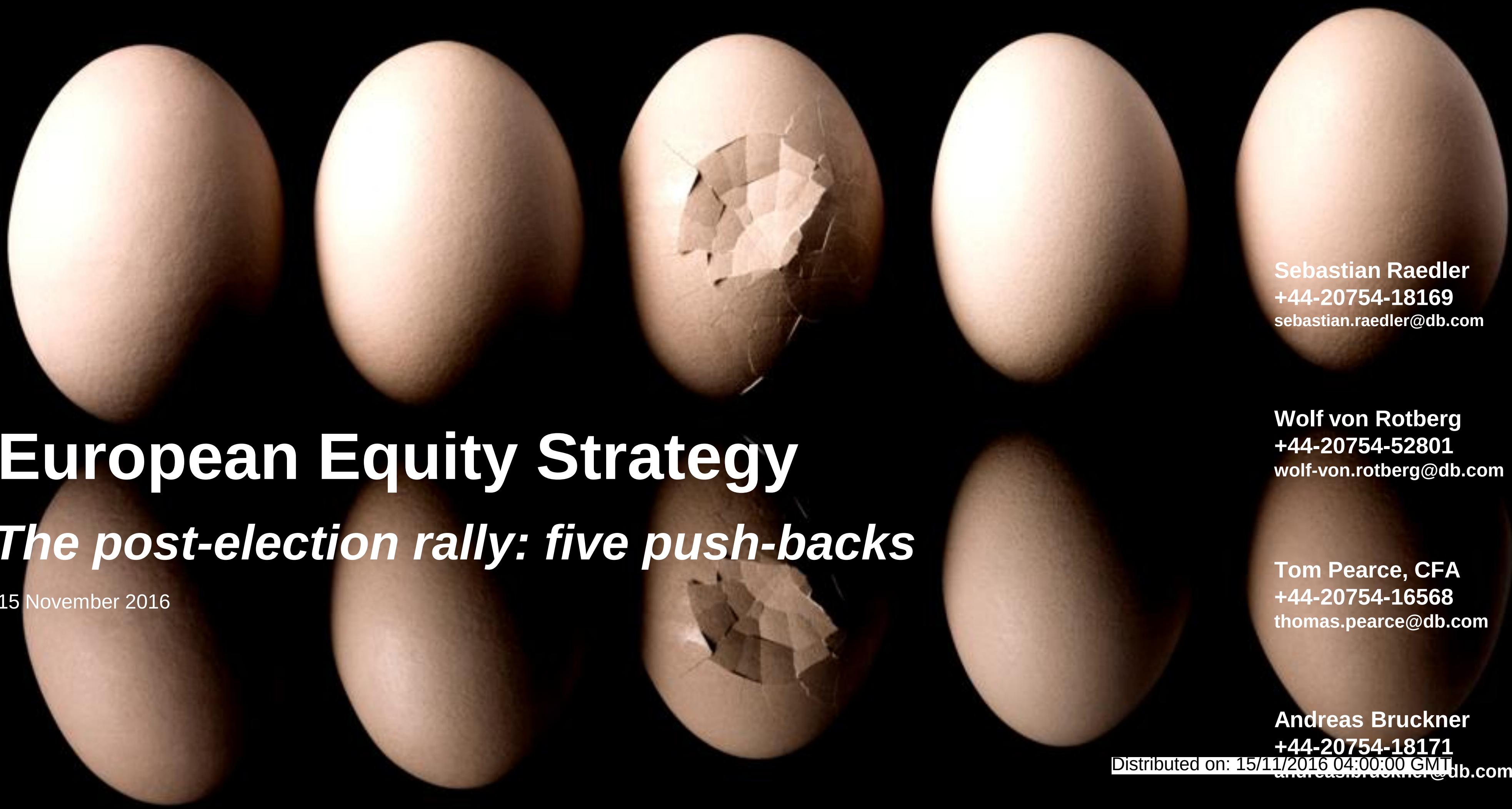

European Equity Strategy

The post-election rally: five push-backs

15 November 2016

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The post-election rally: five push-backs

- **The market is giving Trump the benefit of the doubt:** bond yields, financials and metal prices have moved up sharply following the election, driven by the hope for fiscal stimulus. Our US economists believe such stimulus (focused on infrastructure spending, corporate tax cuts and lower individual income taxes) in combination with reduced business regulation could lead US GDP growth to accelerate to above 3% in H2 next year.
- **However, we remain cautious on the outlook for European equities,** given that we see five stumbling blocks that could prevent this optimistic projection from translating into meaningful upside for the market. We maintain our cautious year-end target of 325 for the Stoxx 600 (around 4% below current levels).
  1) **The Italian referendum:** our European economists now see a 60% probability of a "No" vote in the Italian referendum on December 4th. Peripheral bond spreads have already widened by 20bps over the past week, but European equities have yet to react. As a consequence, peripheral spreads now point to 5% downside for European equities.
  2) **Intensifying Chinese capital flight:** our Asian FX analysts argue that Chinese capital flight is now as intense as in H2 2015, pointing to an increased risk of a disorderly Chinese FX devaluation, especially if the Fed hikes rates on December 14th.
  3) **The risk of lower oil prices:** the oil price has fallen by 17% from its mid-October peak, as the broad USD trade-weighted index has risen back above its January peak. The historical relationship between the USD and oil (R^2 = 95% over the past five years) point to a fair-value oil price of around $30/bbl (significantly below the current $44/bbl) – and our FX strategists expect a further 5% upside for the USD index. If the oil price drops back below $40/bbl, this is likely to lead to renewed financial stress via widening US high-yield spreads (especially given the reduced support from low bond yields).
  4) **The impact of higher rates on valuations:** the fact that European P/Es are around 20% above their 10-year average is due to extraordinarily low real bond yields (i.e. the discount rate for equities), according to our models. The 40bps rise in European real bond yields since the end of October has already reduced the fair-value P/E by 5%. If bond yields keep rising, this will put further pressure on equity and credit valuations. It is also likely to lead to renewed EM capital outflows and, hence, tighter EM financial conditions at a time at which EM corporate leverage is still close to its mid-1990s peak levels.
  5) **Trump tail risks remain:** the market has focused on the benign elements of Trump's agenda so far, but tail risk remain that these will be watered down or delayed in the legislative process – or that the less economically helpful aspects of his agenda (such as import tariffs or branding China a currency manipulator) return to the fore.
- **Trade recommendations:** we remain underweight autos (on CNY concerns), energy (given our worries about oil) and our EM proxy basket, as well as overweight pharma (a USD beneficiary). We also show screens with: 1) beneficiaries of increased US infrastructure spending; 2) stocks that tends to benefit from rising US inflation expectations; and 3) European defence companies, set to benefit from a possible increase in defence spending following the US election.

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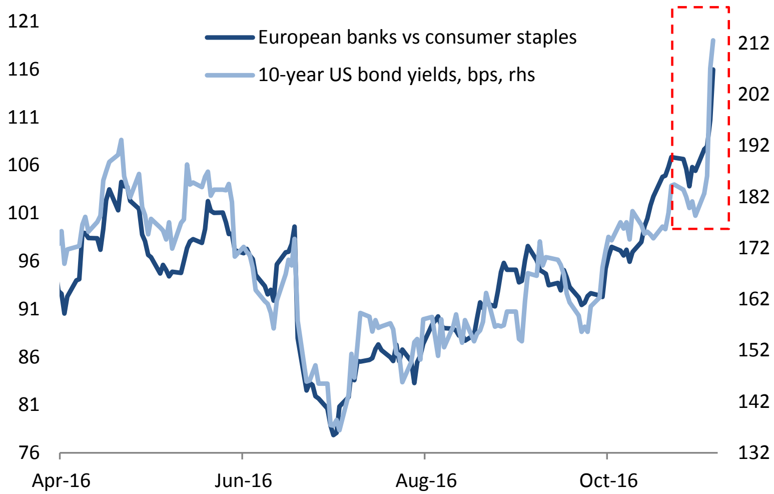
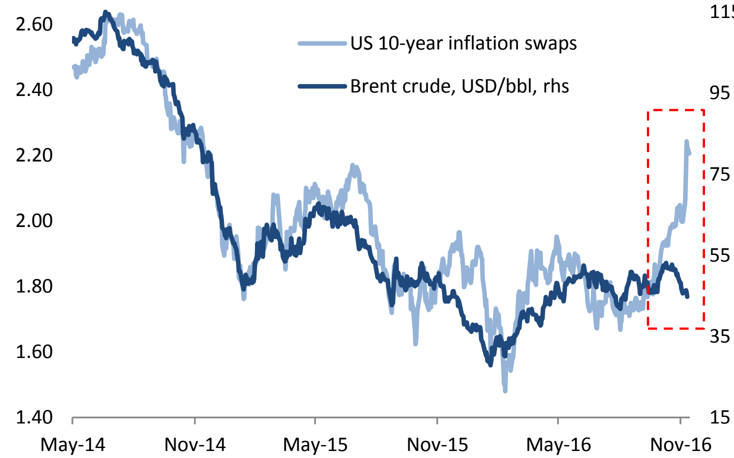
The market is giving Trump the benefit of the doubt

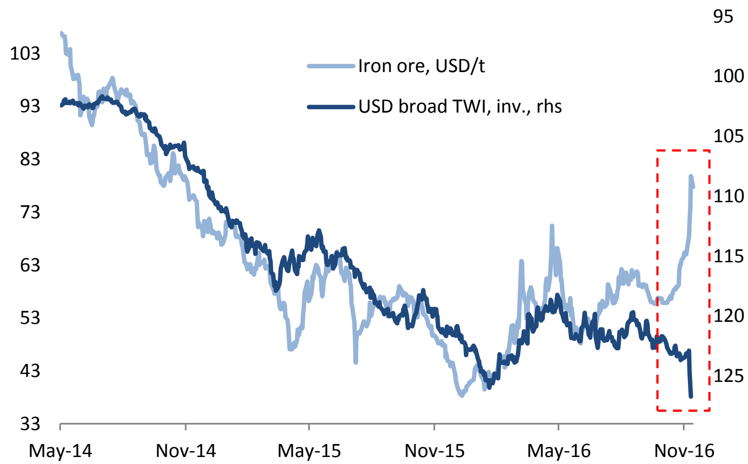
Trump's election victory has led to a spike in bond yields – and an even more intense sector rotation from consumer staples into banks



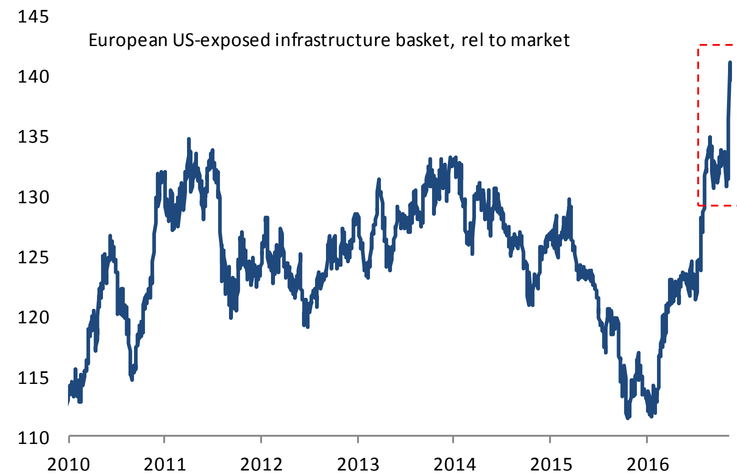
US inflation expectations have hit a two-year high even as the oil price has rolled over



The iron ore price has jumped by 15% following Trump's election victory, even as the USD has strengthened



Our basket with European US-exposed infrastructure names has outperformed by 5% since the US election



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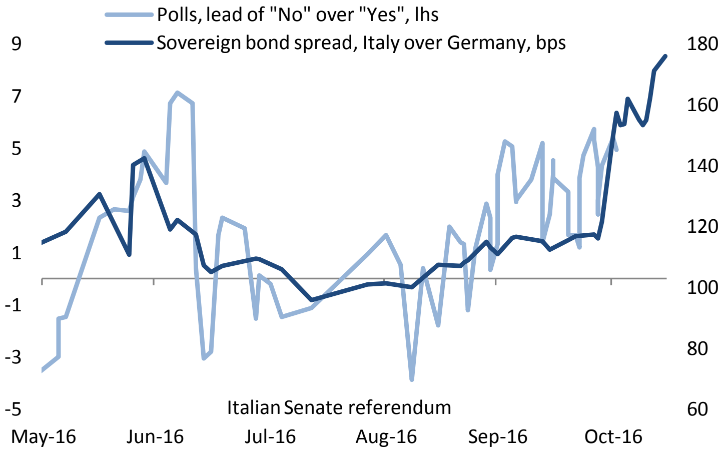
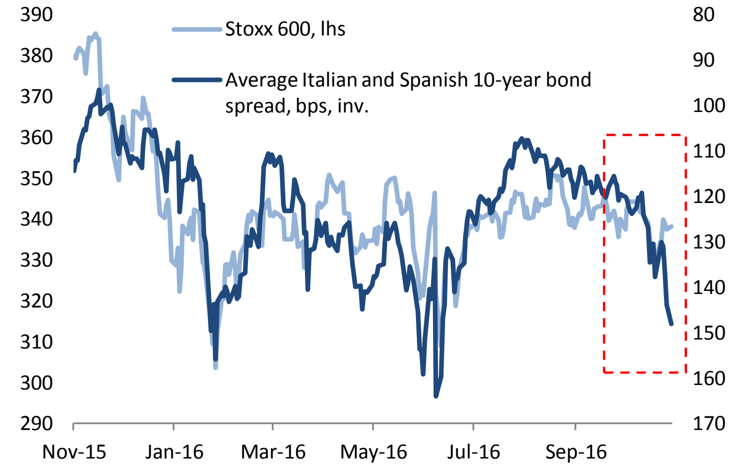
The post-election rally – 5 push-backs: 1) The Italian referendum

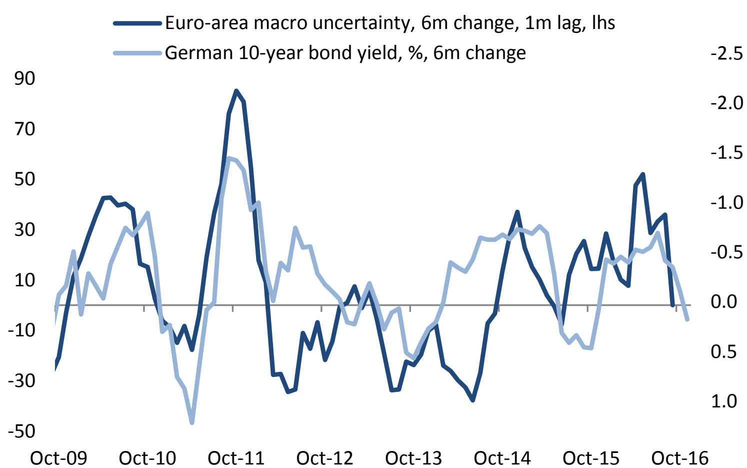
Italian bond spreads have reached the highest level since late 2013, driven by rising support for a "No" vote in the Senate referendum on 4 December



Peripheral bond spreads have risen by 20bps over the past week – and now points to around 5% downside for European equities



A rise in Euro area macro uncertainty following a "No" vote in the Italian referendum could put renewed downward pressure on bond yields



European macro uncertainty is set to stay elevated in 2017 due to a busy political events calendar

Date	Political event
04 Dec 2016	Italy Senate referendum
15 Mar 2017	Dutch elections
by end March 2017	UK Article 50 to be triggered
April/May 2017	French presidential elections
mid-2017	*Italian parliamentary elections**
Sep/Oct 2017	German parliamentary elections
2017	*Potentially UK general elections*

*Dependent on outcome of Senate referendum

Source: Bloomberg Finance LP, Haver, Datastream, Deutsche Bank

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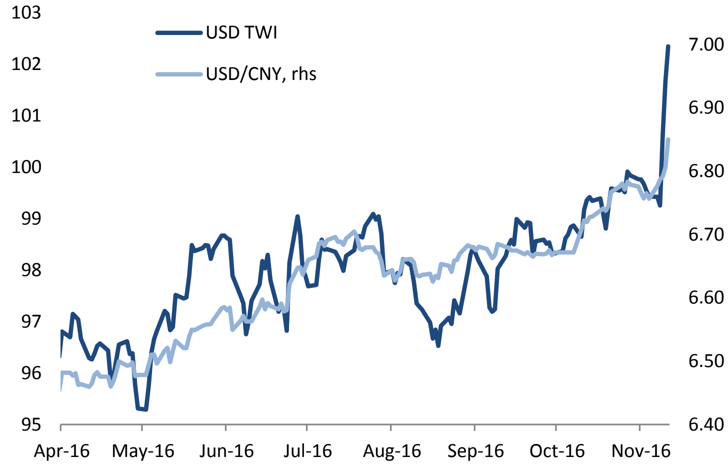
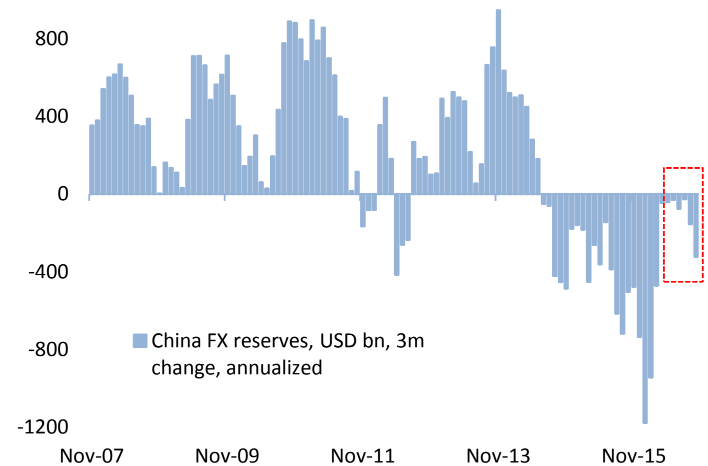
The post-election rally – 5 push-backs: 2) The CNY disruption risk is increasing

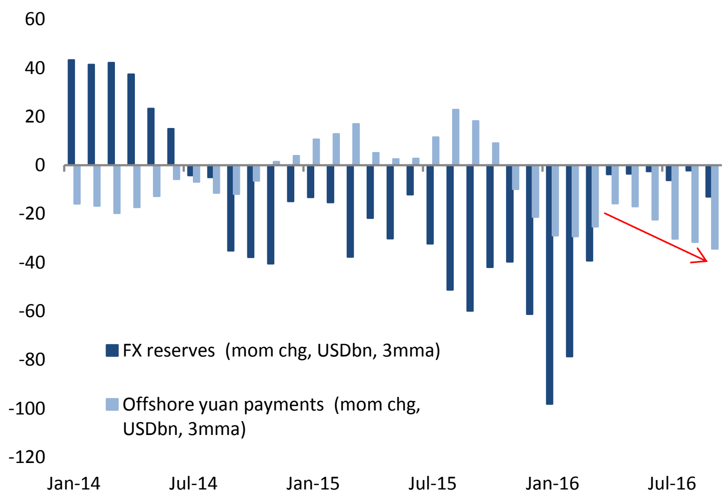
A rising USD, a likely Fed hike in December and worries about Chino-US trade tensions should put downward pressure on the CNY



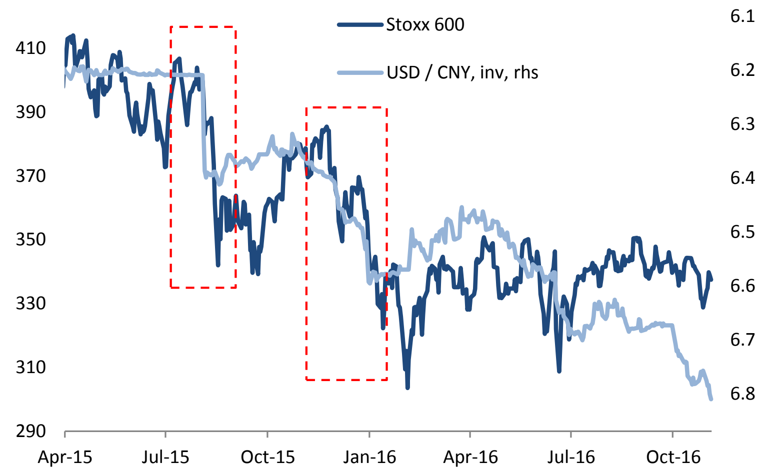
Three-month annualized Chinese FX reserve outflows are at the highest level in seven months



Yuan-denominated outflows reached a record level in September (with data going back to 2010)



Episodes of sharp CNY depreciation has been associated with falling equities since mid-2015



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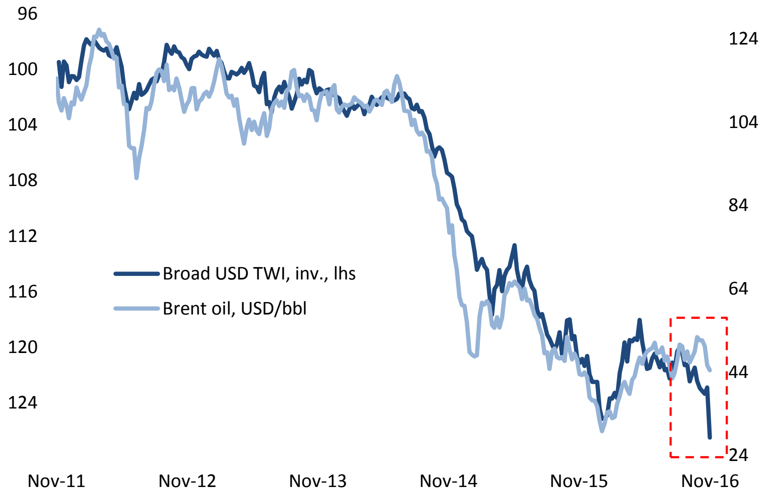
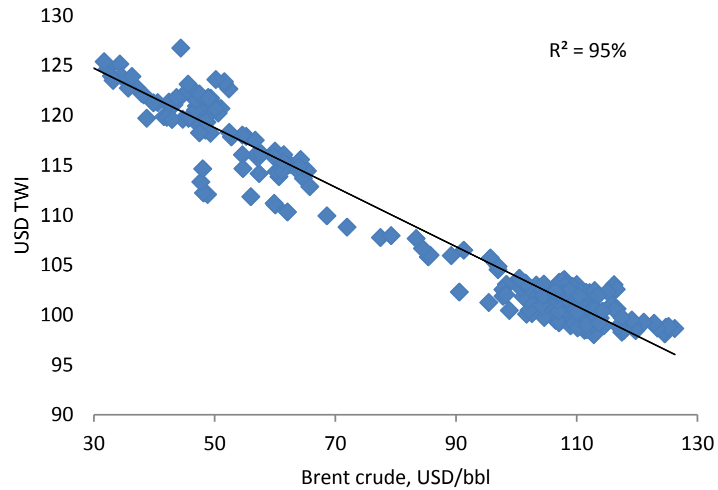
The post-election rally – 5 push-backs: 3) The risk of falling oil prices

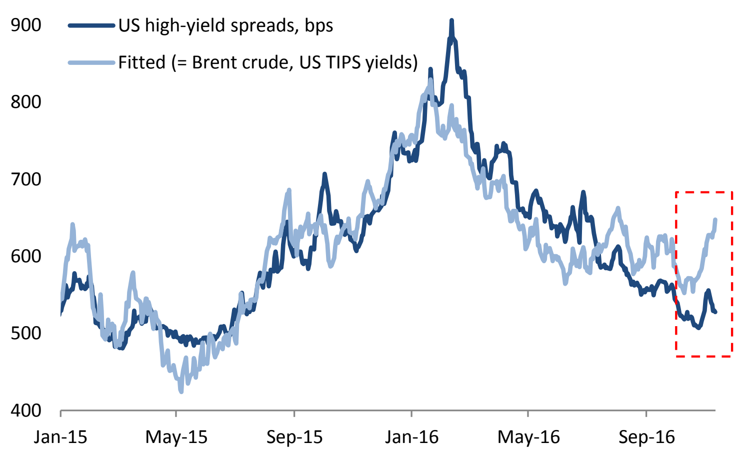
The oil price has dropped by 17% since mid-October – but the recent USD strength points to further weakness (fair value now <$30/bb)



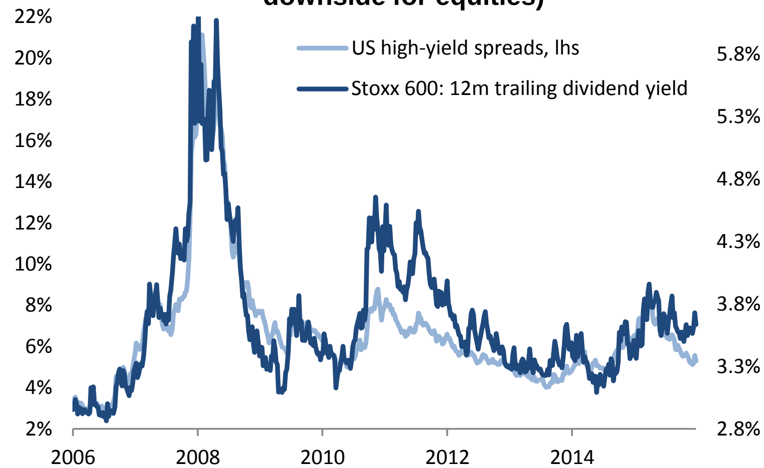
The relationship between the oil price and the broad USD TWI has been extraordinarily tight over the past five years (R^2 = 95%)



Our model of US high-yield spreads (based on US TIPS yields and the oil price) points to 120bps upside, while our US credit strategists projects a further 80bps upside



A 100bps increase in high-yield credit spreads is typically associated with a 20bps increase in the European dividend yields (around 4% downside for equities)



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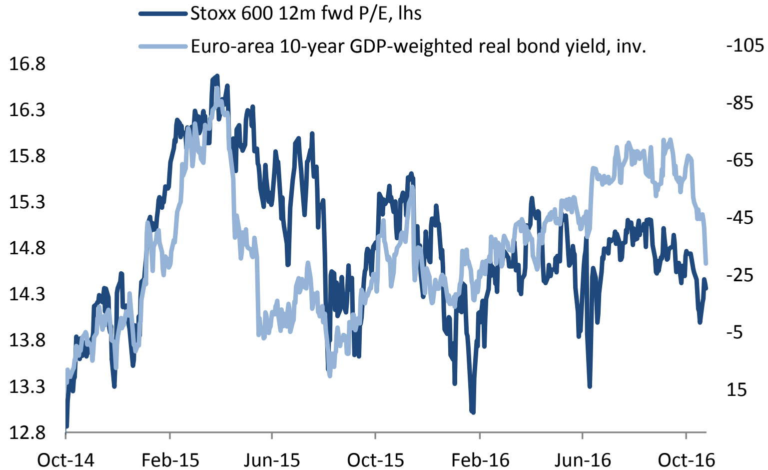
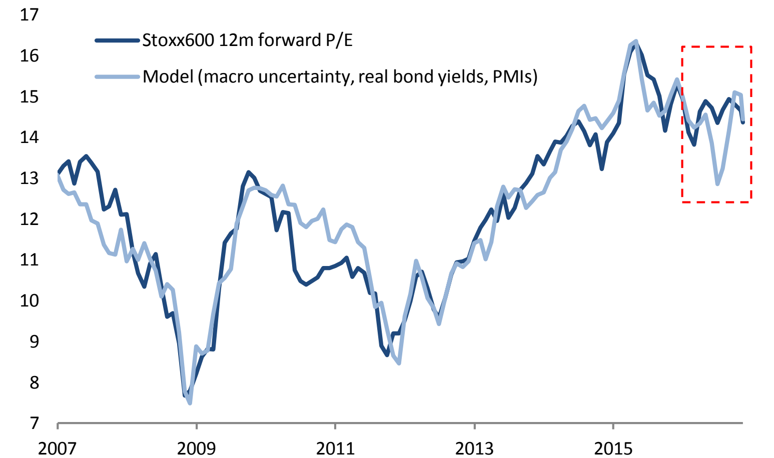
The post-election rally – 5 push-backs: 4) Rising rates are bad for valuations & credit

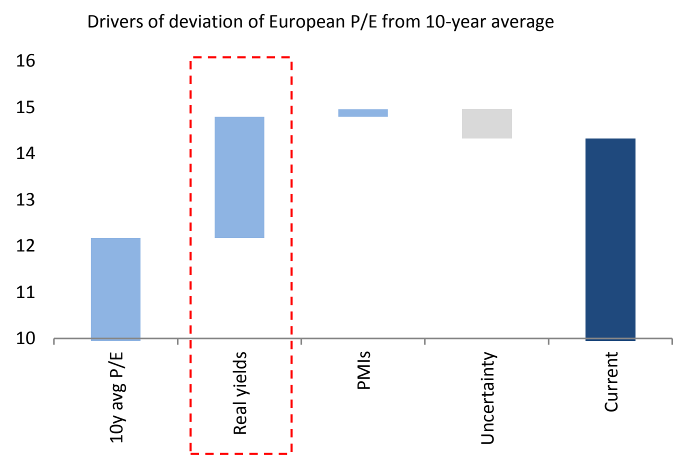
Euro area real bond yields have risen by 40bps – and now stand at a six-month high



Our P/E model suggests the 40bps rise in Euro area real bond yields have taken 5% off the fair-value P/E



Our models suggest the European P/E, at 14.4x, is 20% above its 10-year average because real bond yields are 130bps below their 10-year average



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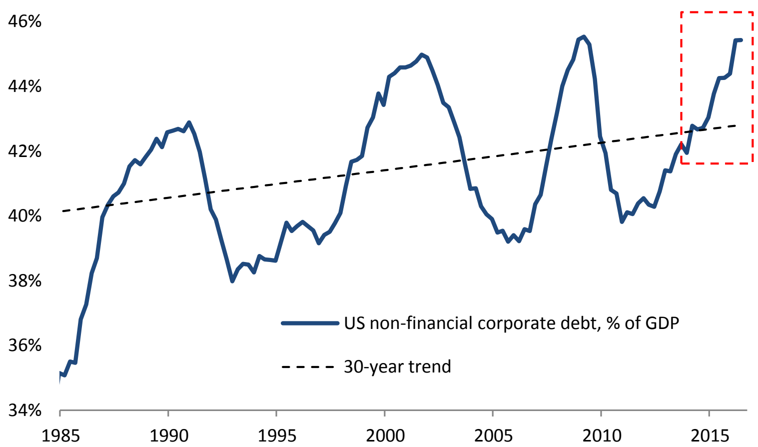
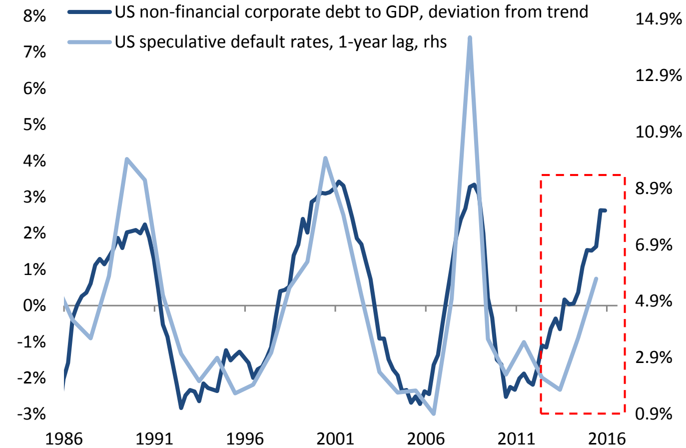
The post-election rally – 5 push-backs: 4) Rising rates are bad for valuations & credit

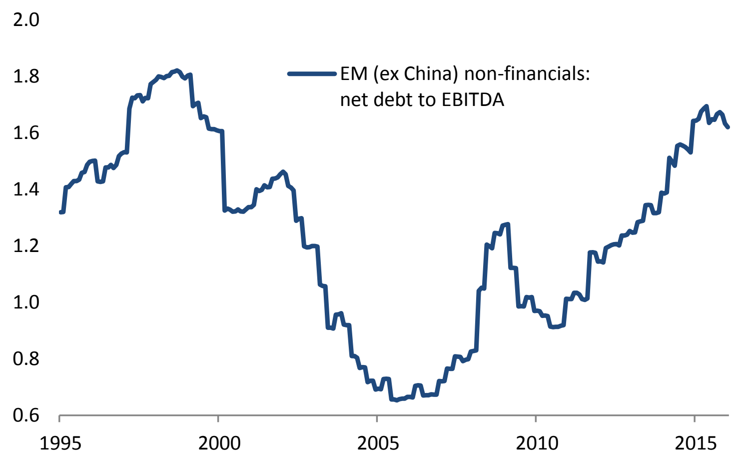
Bond yields are rising against the backdrop of corporate debt to GDP close to an all-time high



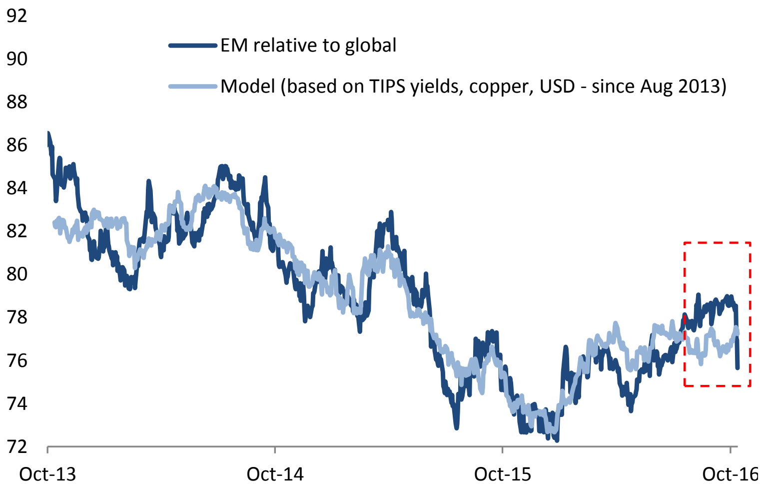
Corporate debt to GDP 3 percentage points above trend points to an underlying default rate of 8%, but so far low interest rates have kept default rates subdued



EM corporate leverage is still close to 1990s peak level



EM is likely going to be a loser from higher US real rates, a stronger USD and weaker commodity prices



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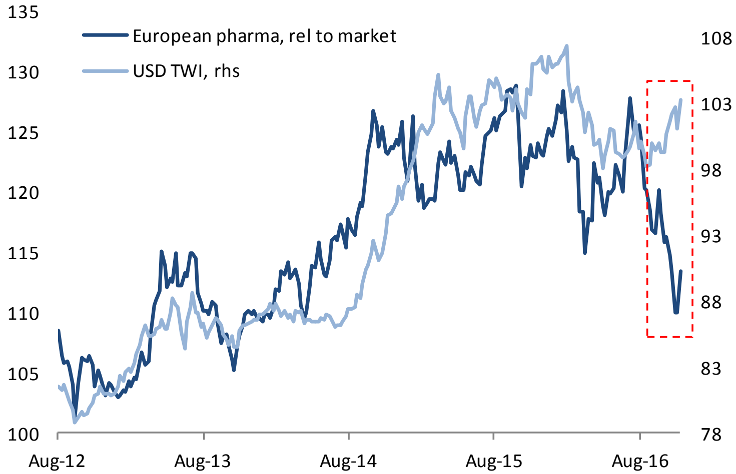
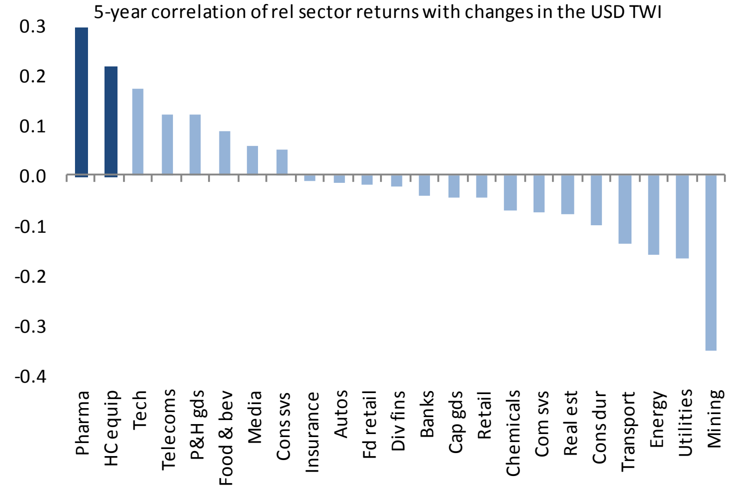
Overweight pharma: a play on a stronger USD

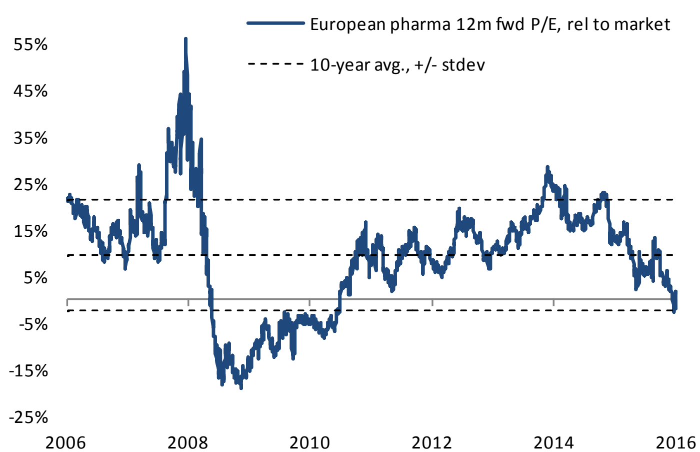
European pharma tends to outperform when the dollar rises, but has recently underperformed despite the strengthening USD



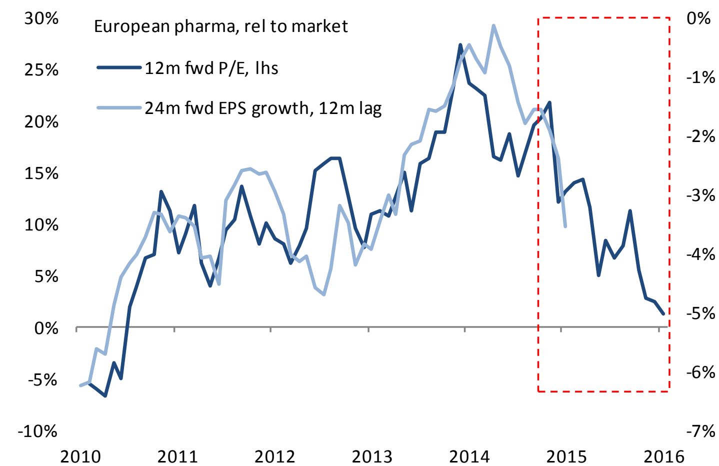
Pharma is the European sector most highly correlated with the USD



Pharma's relative P/E are significantly below their long-run average and in line with the market for the first time in five years



Relative consensus EPS growth projections for the next 24 months have fallen from 0% to -3.5% over the past nine months, but the relative P/E is already priced for a further fall to -5%



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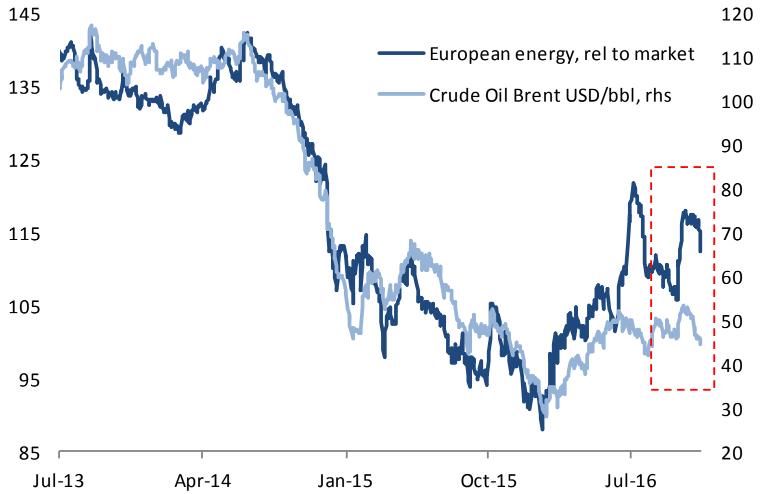
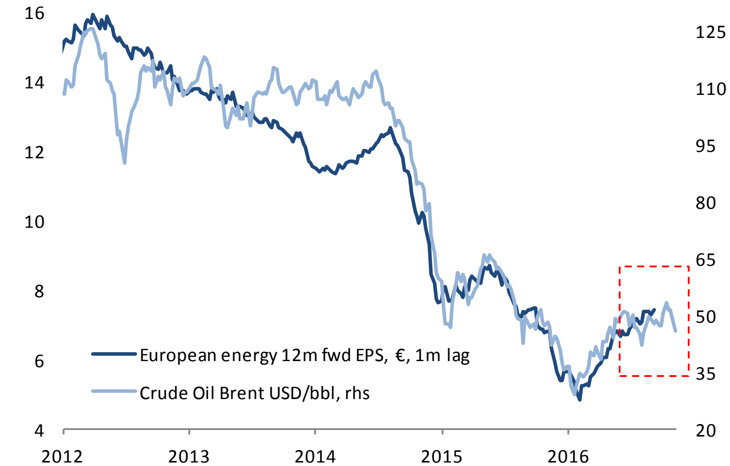
Underweight energy: still priced for the oil price to rise to $65/bbl

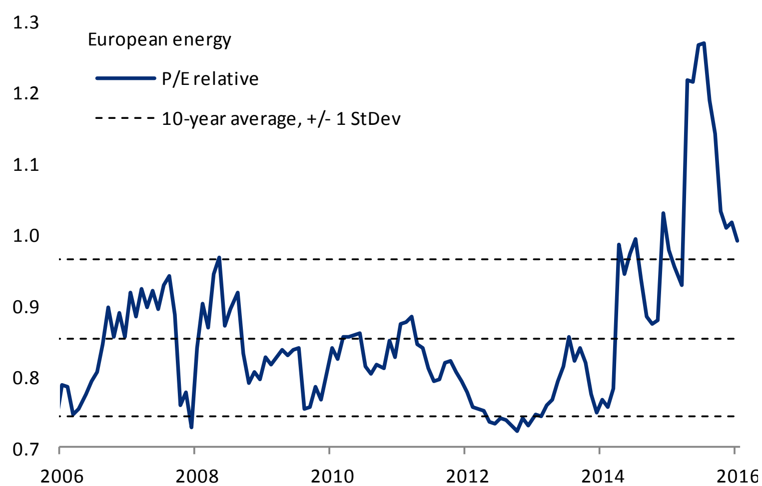
European energy is priced for Brent at $65/bbl (compared to the current $44/bbl)



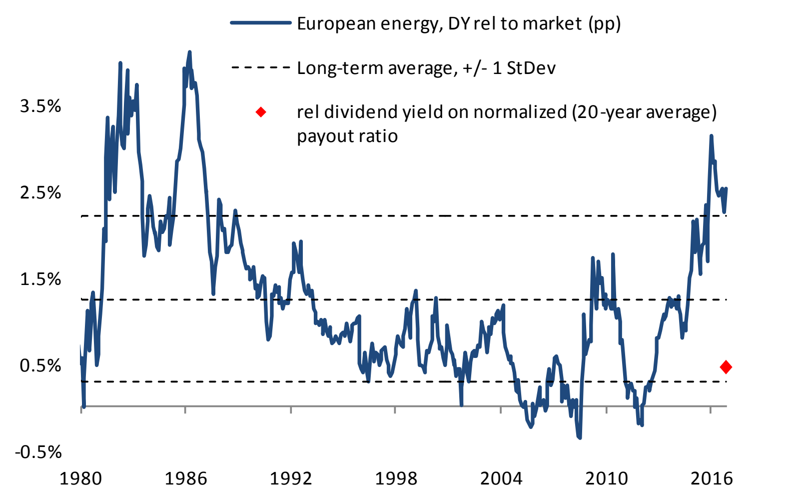
Energy consensus earnings have 2% downside given the latest fall in the oil price



Energy's relative P/E still looks elevated at one standard deviation above its 10-year average



Energy's relative dividend yield is high – but this attraction disappears if we look at the yield on a normalized payout ratio



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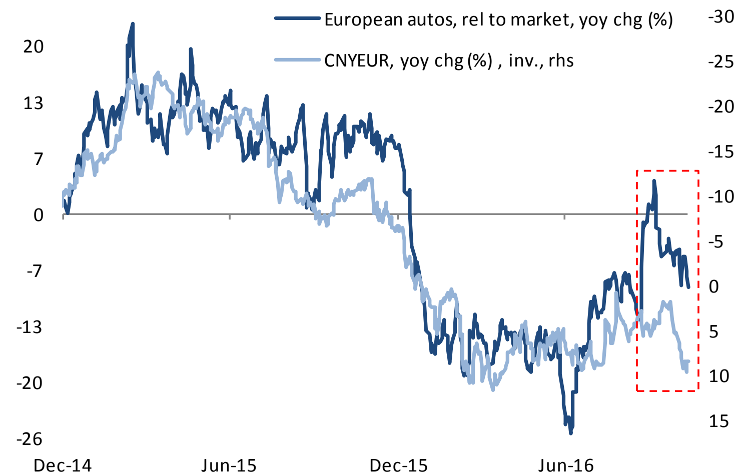
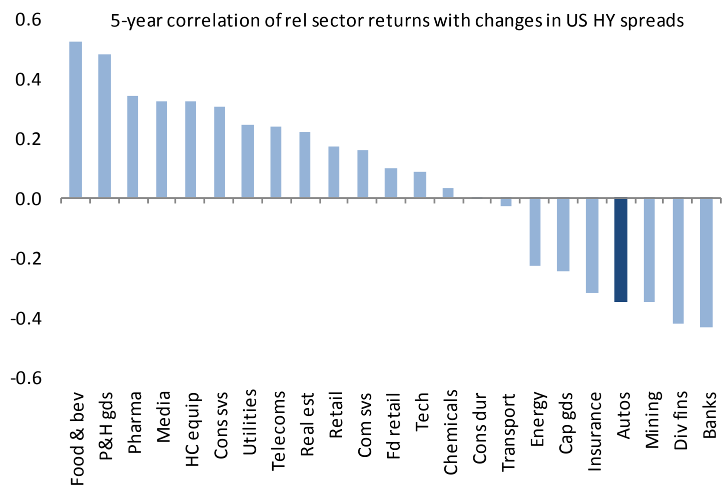
Underweight autos: vulnerable to further CNY weakness

German OEMs (more than 50% of sector market cap) are significantly geared into China, pointing to further downside if the CNY continues weakening

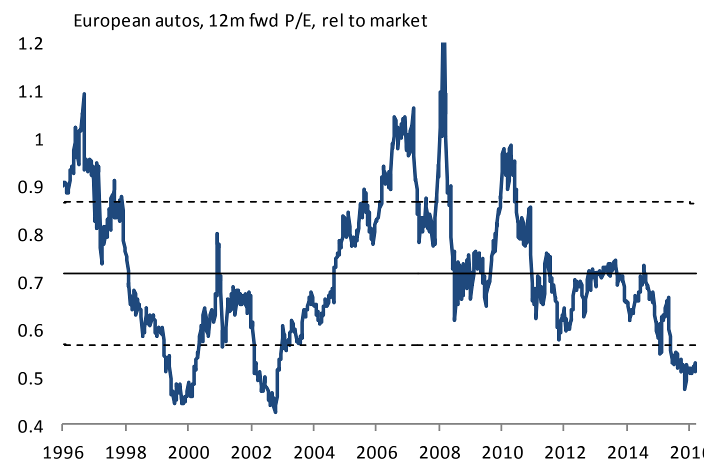


Autos' relative earnings are already at an 18-year high, suggesting that further upside potential is limited

Autos' negative correlation with widening HY spreads is one of the highest among all European sectors



Concerns about autos' earnings sustainability are already reflected in low relative P/Es



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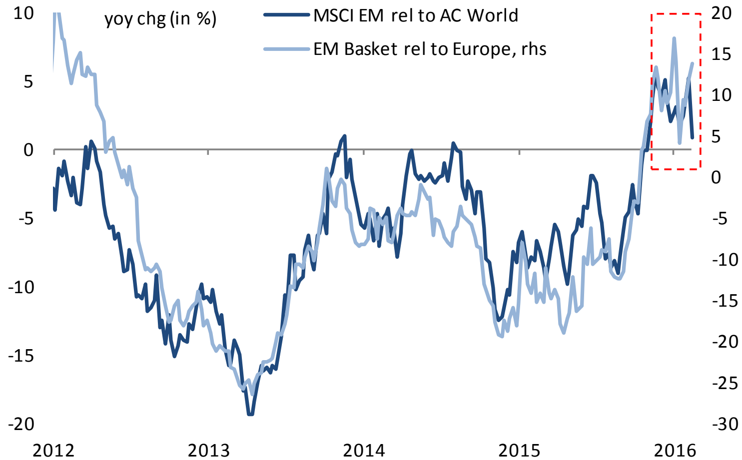
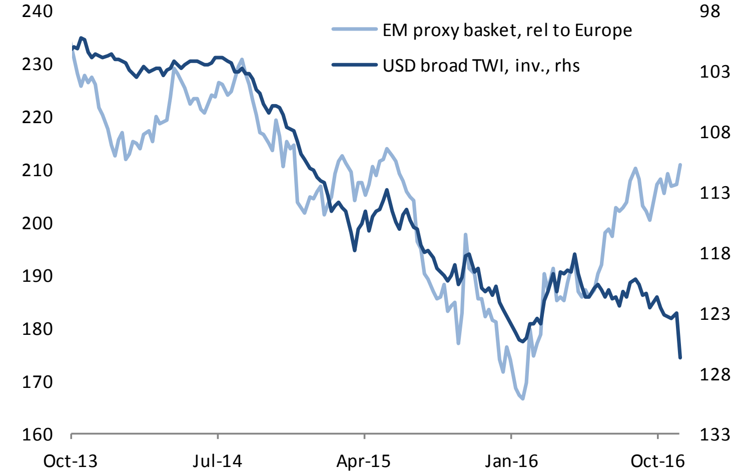
Underweight our EM proxy basket (DBCGEMEX Index on Bloomberg)

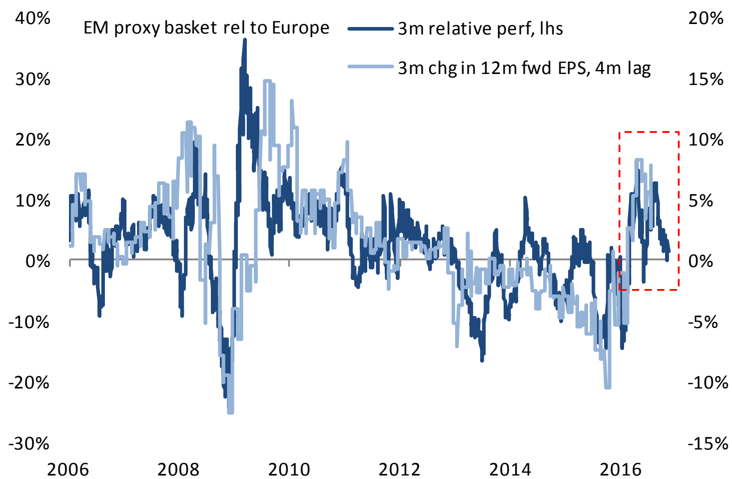
Our European EM proxy basket tracks EM's performance relative to global equities



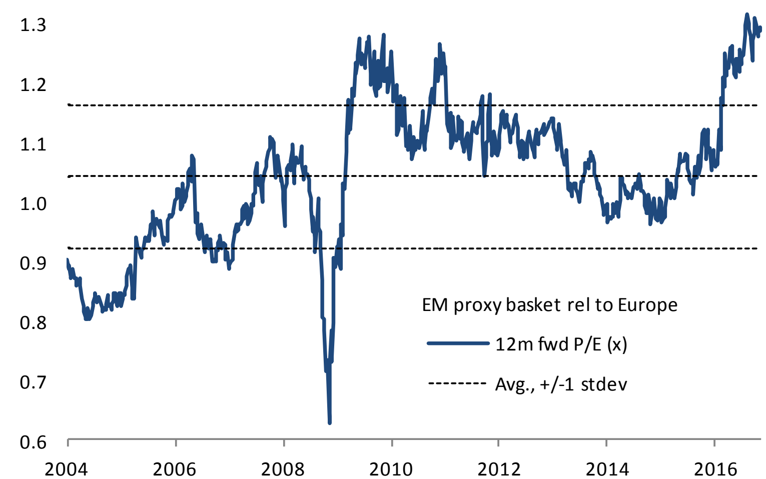
Our European EM proxy basket has decoupled from the US dollar



The basket's relative earnings momentum has risen to a 6-year high, but relative performance is already priced for this improvement to fade



Our EM proxy basket is already trading on a 30% P/E premium to the market



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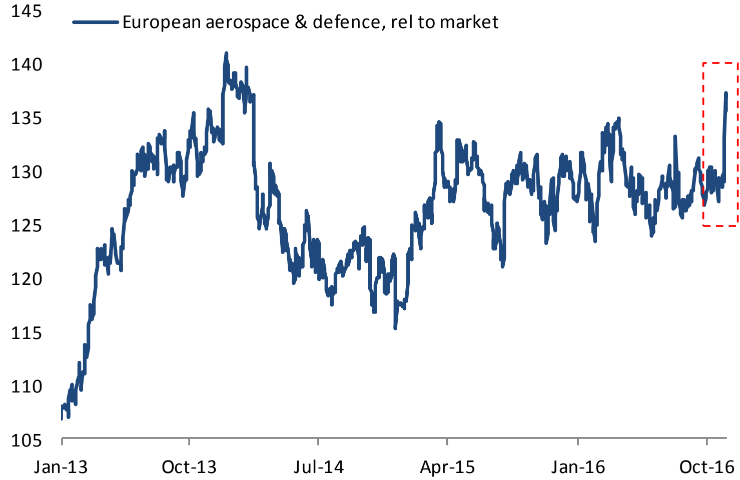
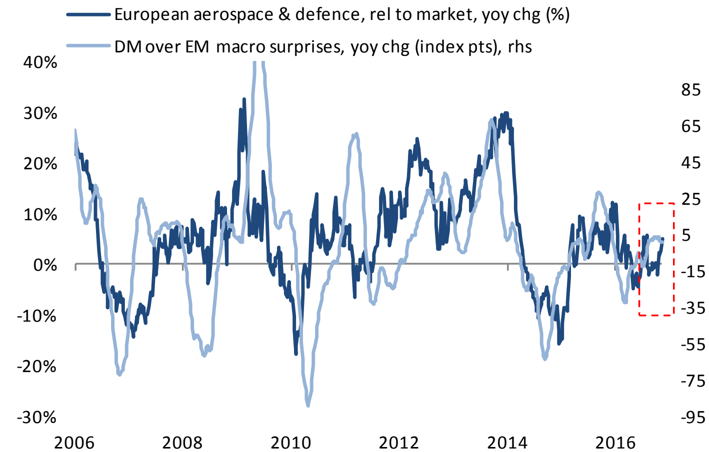
Aerospace and defense could benefit from US infrastructure spending

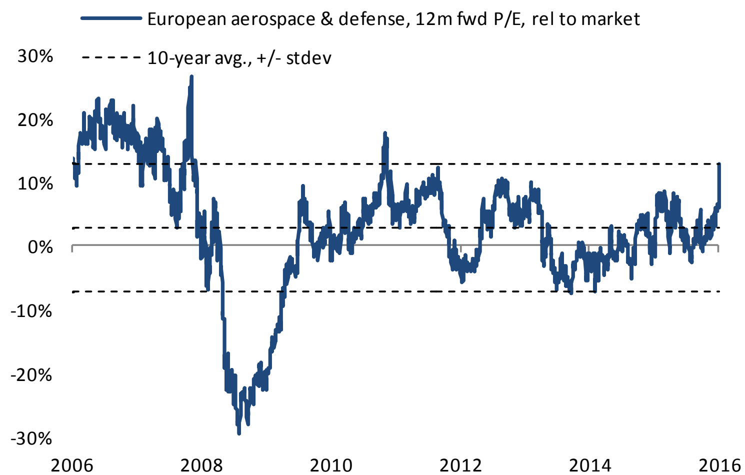
The European aerospace and defence sector has outperformed by 5% since the US election result



If sizeable US fiscal stimulus were to come, leading to stronger DM growth momentum relative to EM, European defence names could see further upside from current levels



The sector is now trading on a 13% P/E premium, with the relative P/E now at an eight-year high



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Screen: European US-exposed infrastructure basket

European companies exposed to US infrastructure spending

Company name	MSCI sector level 2	Country	DB recommendation	MCap (eur, mn)	Price (local) 11/11/16	Sales in USA (% of total, 2015)	Comments**	Valuations: 12m fwd PE (x)	Rel 12m fwd PE, sd from LTA	12m trl PB (x)	Rel 12m trl PB, sd from LTA	12m trl DY (%)	Rel 12m trl DY, sd from LTA*	Avg of sd from LTA
Ashtead	Capital goods	GB	Sell	8017.48	1385	**84%**	Industrial equipment rental company mainly serving US customers	13.1	-0.5	4.4	1.1	0.0	0.2	0.3
MTU	Capital goods	DE	Hold	4950.39	95.2	**73%**	Engineering solutions for the US-based gas turbine industry	13.8	-0.4	3.2	0.8	0.0	0.7	0.4
Wolseley	Capital goods	GB	Hold	13176.79	4498	**63%**	Major US distributor for heating, ventilation and waterwork products	15.3	0.0	3.8	2.1	0.0	0.1	0.7
Pearson	Media	GB	Sell	7068.68	741.5	**63%**	Provider of higher education services in the US	11.8	-2.3	1.0	-1.8	0.1	-2.9	-2.3
CRH	Materials	GB	Hold	26584.96	31.96	**53%**	Largest US manufacturer of building products and materials	17.8	0.2	1.9	1.9	0.0	1.2	1.1
Meggitt	Capital goods	GB	Hold	3994.39	444.2	**52%**	Specialist in aerospace and defence equipment	12.8	-0.6	1.6	-0.6	0.0	-0.6	-0.6
Hochtief	Capital goods	DE	Hold	8143.59	126.65	**50%**	One of the largest general construction company in the US	22.8	-0.2	3.5	3.2	0.0	1.2	1.4
Acerinox	Materials	ES	Hold	3270.02	11.85	**46%**	Largest fully integrated stainless steel producer in the US	21.2	0.4	1.5	0.0	4.0%	-0.2	0.1
Balfour Beatty	Capital goods	GB	NR	2318.59	289.9	**44%**	Provider of construction services and infrastructure investments mainly in the UK and US	18.3	1.1	2.4	0.2	0.0	1.7	1.0
Buzzi Unicem	Materials	IT	Hold	3174.70	19.2	**41%**	One of the leading cement manufacturing companies in the US	13.9	-0.6	1.3	1.5	0.7%	1.0	0.6
Skanska	Capital goods	SE	NR	8218.97	202.7	**39%**	One of the largest construction and infrastructure development companies in the US	15.6	-0.7	3.3	2.2	0.0	1.5	1.0
BAE Systems	Capital goods	GB	Buy	21741.66	590.5	**38%**	The largest foreign investor in the US defence industry	13.9	0.4	6.5	2.3	0.0	0.6	1.1
Schneider Electric	Capital goods	FR	Buy	37237.18	62.93	**27%**	Global exposure in building automation and energy management	16.2	0.3	1.7	-0.1	0.0	0.6	0.3
Rolls-Royce Group	Capital goods	GB	Sell	15788.69	740.5	**26%**	Manufacturer and distributor for the aviation industry with strong foothold in the US	23.4	2.5	2.8	0.7	0.0	1.5	1.5
ThyssenKrupp	Materials	DE	Buy	11952.6	21.12	**23%**	Material distribution and elevator technology with strong focus to the US	13.9	-0.2	4.1	2.1	0.0	1.0	1.0
Siemens AG	Capital goods	DE	Hold	91927.44	108.15	**23%**	Leading US supplier of systems for power generation and transmission	14.2	-0.3	2.5	0.9	0.0	-0.3	0.1
LafargeHolcim	Materials	CH	Buy	31071.27	54.9	**14%**	One of the largest manufacturer and supplier of cement components in the US	18.5	0.9	1.0	-1.0	0.0	-1.0	-0.4

Source: DataStream, Deutsche Bank
** inverted the sign for comparison purpose*
*** as per companies' own description*

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Screen: our EM proxy basket (DBCGEMEX Index on Bloomberg)

European companies with high sales exposure to emerging markets and a positive correlation with EM relative growth momentum

Company name	MSCI sector level 2	DB recommendation	MCap (eur, mn)	Price (local) 11/11/16	Rel perf (3m, %)	Correl with EM over DM PMI	Correl with EM rel perf over AC World	Sales in GEM (%, 2015)	Valuations: 12m fwd PE (x)	12m fwd PE rel to market sd from LTA	12m trl PB (x)	12m trl PB rel to market sd from LTA	12m trl DY (%)	12m trl DY rel to market sd from LTA*	Aggregate valuation - avg of sd from LTA
Fresnillo	Materials	Sell	12,262	1,435.00	-25.3	**0.3**	**0.6**	**100%**	26.4	-0.6	5.2	-0.4	1.2%	0.5	-0.2
Tullow Oil	Energy	Hold	2,611	246.80	14.6	**0.6**	**0.4**	**100%**	18.6	-0.8	1.0	-1.3	0.0%	1.1	-0.4
Polymetal	Materials	Hold	4,143	836.50	-26.9	**0.2**	**0.5**	**94%**	8.2	-1.3	4.9	1.2	4.0%	-0.6	-0.3
Petrofac	Energy	Hold	3,042	758.50	-6.6	**0.5**	**0.4**	**86%**	8.4	-1.3	2.6	-1.3	6.8%	-2.6	-1.7
DKSH	Com & prof svs	Hold	4,003	66.00	-2.8	**0.6**	**-0.1**	**84%**	20.2	-0.6	2.8	-0.9	2.2%	-1.3	-0.9
Kone B	Capital goods	NR	18,628	41.40	-10.9	**0.7**	**0.5**	**83%**	21.0	0.0	7.9	0.7	3.6%	-0.7	0.0
ASML	Semis & equ	Hold	39,516	91.19	-5.5	**0.5**	**0.0**	**77%**	23.0	1.0	4.4	0.7	1.1%	-0.4	0.4
Old Mutual	Insurance	NR	10,615	185.70	-12.1	**0.7**	**0.3**	**75%**	9.2	0.2	1.3	1.2	4.1%	0.3	0.5
Saipem	Energy	NR	4,089	0.40	2.6	**0.4**	**0.5**	**72%**	19.4	0.0	0.3	-1.8	0.4%	1.8	0.0
Standard Chartered	Banks	Sell	23,502	617.20	-4.3	**0.6**	**0.2**	**72%**	16.4	0.6	0.6	-1.8	0.6%	2.3	0.4
ams AG	Semis & equ	Buy	1,855	27.10	-17.8	**0.5**	**0.4**	**65%**	16.6	0.5	2.4	0.2	1.8%	-0.1	0.2
BHP Billiton	Materials	Hold	31,799	1,299.50	26.5	**0.5**	**0.4**	**60%**	19.3	1.4	1.1	-1.5	2.2%	0.7	0.2
LafargeHolcim	Materials	Buy	31,071	54.90	9.3	**0.4**	**-0.1**	**57%**	18.5	0.9	1.0	-1.0	2.9%	-1.0	-0.4
Casino	Food & staples retail	Buy	4,829	43.51	-1.8	**0.4**	**0.1**	**55%**	14.0	-0.4	0.7	-1.5	7.2%	-3.1	-1.7
Metso Corporation	Capital goods	NR	3,912	26.02	3.6	**0.3**	**0.6**	**54%**	21.1	2.5	2.7	1.3	4.0%	0.7	1.5
Atlas Copco	Capital goods	Buy	23,540	276.70	15.9	**0.3**	**0.7**	**54%**	22.5	2.0	6.6	1.1	2.3%	2.1	1.7
Yara International ASA	Materials	Hold	9,562	320.00	15.3	**0.1**	**0.5**	**49%**	15.4	1.2	1.2	-1.1	4.1%	-1.0	-0.3
Sandvik	Capital goods	Hold	13,540	106.50	15.3	**0.4**	**0.6**	**49%**	19.3	0.4	3.6	0.7	2.4%	1.3	0.8
Antofagasta PLC	Materials	Hold	8,071	706.00	36.3	**0.5**	**0.7**	**49%**	38.4	3.6	1.3	-1.3	0.7%	1.8	1.4
Andritz	Capital goods	Buy	5,039	48.46	11.3	**0.8**	**0.6**	**43%**	15.8	-0.6	3.8	-0.2	3.0%	-0.7	-0.5
LVMH	Cons durables & app	Buy	82,138	162.00	6.5	**0.2**	**0.5**	**33%**	19.0	0.0	3.1	1.2	2.4%	0.0	0.4

Source: DataStream, Deutsche Bank

** inverted the sign for comparison purpose*

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Screen: European aerospace & defense stocks

European aerospace & defense stocks with a Buy- or Hold-rating by DB analysts

							Valuations						
Company name	**DB recommendation**	**MCap (eur, mn)**	**Price (local) 11/11/16**	**Rel perf (3m, %)**	**Rel perf since Nov 8, 2016**	**3m % change in 12m fwd EPS**	**12m fwd PE (x)**	**12m fwd PE rel to market sd from LTA**	**12m trl PB (x)**	**12m trl PB rel to market sd from LTA**	**12m trl DY (%)**	**12m trl DY rel to market sd from LTA***	**Aggregate valuation - avg of sd from LTA**
Airbus Group NV	Buy	42,314	54.76	8.5	**4.0%**	-3.3%	15.2	-0.3	6.2	2.3	2.4%	-0.8	0.4
BAE Systems Plc	Buy	21,742	590.50	15.1	**8.1%**	4.1%	13.9	0.4	6.5	2.3	3.6%	0.6	1.1
Cobham	Hold	3,210	162.10	3.9	**9.9%**	-3.4%	13.0	-0.8	2.3	-1.0	5.0%	-2.0	-1.2
Dassault Aviation	Buy	9,450	1,035.95	10.2	**6.6%**	-0.9%	19.7	-0.3	2.2	1.6	1.2%	0.4	0.6
Leonardo Finmeccanica	Hold	7,007	12.12	23.5	**12.9%**	11.5%	11.7	-0.3	1.5	1.3	0.8%	0.9	0.7
Meggitt	Hold	3,994	444.20	-1.0	**3.2%**	2.0%	12.8	-0.6	1.6	-0.6	3.4%	-0.6	-0.6
MTU	Hold	4,950	95.20	6.2	**3.3%**	7.0%	13.8	-0.4	3.2	0.8	2.0%	0.7	0.4
Thales SA	Hold	19,291	91.12	12.4	**7.2%**	4.3%	19.3	2.4	3.8	3.2	1.7%	1.7	2.4
Ultra Electronics	Hold	1,628	1,995.00	18.2	**10.3%**	2.0%	14.6	-0.9	4.3	-0.4	2.4%	-0.4	-0.6
Zodiac	Hold	6,337	21.86	13.2	**2.5%**	6.6%	20.7	1.6	1.9	-0.4	1.4%	1.1	0.8

Source: DataStream, Deutsche Bank

** inverted the sign for comparison purpose*

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Screen: European stocks that should benefit from rising US inflation expectations

Buy- and hold-rated names which are positively correlated with US 5Y5Y inflation expectations

Company name	MSCI sector level 2	DB recommendation	MCap (eur, mn)	Price (local) 11/11/16	Rel perf (3m, %)	3m % change in 12m fwd EPS	5y correlation with US 5y5y breakeven inflation	Valuations: 12m fwd PE (x)	12m fwd PE rel to market sd from LTA	12m trl PB (x)	12m trl PB rel to market sd from LTA	12m trl DY (%)	12m trl DY rel to market sd from LTA*	Aggregate valuation - avg of sd from LTA
LafargeHolcim	Materials	Buy	31,071	54.90	9.3	6%	**0.33**	18.5	0.9	1.0	-1.0	2.9%	-1.0	-0.4
Renault SA	Autos & comp	Buy	21,901	74.06	-1.1	5%	**0.32**	5.5	-0.7	0.7	0.1	3.8%	-0.2	-0.3
Credit Suisse Group	Div financials	Hold	26,953	13.83	23.4	1%	**0.29**	15.5	2.2	0.6	-1.6	4.6%	-1.0	-0.1
ArcelorMittal	Materials	Hold	19,532	6.37	15.2	100%	**0.29**	14.5	0.2	0.6	-0.3	0.0%	2.0	0.6
Norsk Hydro	Materials	Hold	8,924	39.44	10.6	4%	**0.29**	19.8	0.4	1.0	0.6	2.5%	0.5	0.5
HeidelbergCement	Materials	Hold	17,286	87.12	13.6	4%	**0.28**	14.9	0.4	1.1	0.2	1.7%	-0.5	0.0
Daimler	Autos & comp	Buy	69,291	64.77	5.5	2%	**0.27**	7.7	-0.8	1.2	0.0	5.1%	-0.9	-0.6
Covestro	Materials	Buy	11,271	55.66	25.4	23%	**0.27**	15.7	1.3	3.0	1.8	1.9%	0.6	1.2
AkzoNobel	Materials	Buy	14,791	58.79	1.7	-3%	**0.26**	14.0	-1.1	2.2	0.7	2.7%	0.9	0.2
Faurecia	Autos & comp	Buy	4,285	31.08	-10.5	12%	**0.25**	8.1	-0.6	1.5	-0.2	2.7%	-1.6	-0.8
BHP Billiton	Materials	Hold	31,799	1,299.50	26.5	64%	**0.25**	19.3	1.4	1.1	-1.5	2.2%	0.7	0.2
Credit Agricole SA	Banks	Buy	30,017	10.69	32.3	2%	**0.24**	10.4	0.6	0.5	-0.5	5.7%	-0.9	-0.2
CRH	Materials	Hold	26,585	31.96	17.3	4%	**0.24**	17.8	0.2	1.9	1.9	2.1%	1.2	1.1
Boliden AB	Materials	Buy	6,182	223.00	19.1	44%	**0.24**	14.1	1.1	2.2	1.8	1.7%	1.0	1.3
Voestalpine	Materials	Buy	6,115	34.96	17.3	2%	**0.24**	11.9	0.1	1.1	-0.2	3.0%	0.4	0.1
BNP Paribas	Banks	Buy	68,244	54.75	25.0	5%	**0.24**	9.3	-0.4	0.7	-0.8	4.8%	-0.9	-0.7
Societe Generale	Banks	Hold	32,136	39.79	26.9	6%	**0.24**	9.2	-0.3	0.6	-0.7	5.4%	-1.1	-0.7
Legal & General	Insurance	Hold	15,873	229.90	10.8	1%	**0.23**	10.9	-0.2	2.0	0.8	6.2%	-0.8	-0.1
BMW	Autos & comp	Hold	48,226	80.11	2.4	3%	**0.23**	8.0	-0.9	1.1	-0.5	4.2%	-1.5	-0.9
Saint Gobain	Capital goods	Buy	22,747	40.99	7.0	4%	**0.23**	15.1	0.6	1.2	1.0	3.1%	0.7	0.8
Fiat Chrysler Automobiles	Autos & comp	Hold	9,168	7.14	19.0	5%	**0.23**	4.4	-0.6	0.6	1.0	0.1%	0.8	0.4
Carrefour	Food & staples retail	Hold	16,887	22.33	1.4	2%	**0.23**	12.5	-1.5	1.6	-1.8	3.3%	-0.2	-1.1
ENI	Energy	Buy	45,609	12.55	-5.9	4%	**0.22**	24.4	1.9	0.9	-1.3	6.4%	-0.5	0.0
Commerzbank	Banks	Hold	8,451	6.75	19.8	-44%	**0.22**	14.0	0.4	0.3	-1.1	1.2%	0.2	-0.2
Repsol	Energy	Hold	17,815	12.16	5.0	9%	**0.22**	10.9	-0.5	0.6	-1.6	6.1%	-0.3	-0.8
Banco Popolare	Banks	Buy	1,899	2.29	4.4	-2%	**0.22**	27.1	3.0	0.2	-0.9	0.8%	1.0	1.1
Schneider Electric	Capital goods	Buy	37,237	62.93	5.0	3%	**0.22**	16.2	0.3	1.7	-0.1	3.2%	0.6	0.3
Leonardo Finmeccanica	Capital goods	Hold	7,007	12.12	23.5	11%	**0.22**	11.7	-0.3	1.5	1.3	0.8%	0.9	0.7
GKN	Autos & comp	Buy	5,956	299.60	-0.1	8%	**0.22**	9.4	-1.3	2.8	0.9	3.0%	0.2	0.0

Source: DataStream, Deutsche Bank

** inverted the sign for comparison purpose*

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The primary authors of this report wishes to acknowledge the contributions made by **Ashutosh Rajgarhia**, **Mohan Rajkumar**, **Rohit Mehboobani** and **Aditya Arora**, employees of Irevna, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank

Appendix 1
Important Disclosures
*Other Information Available upon Request

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Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

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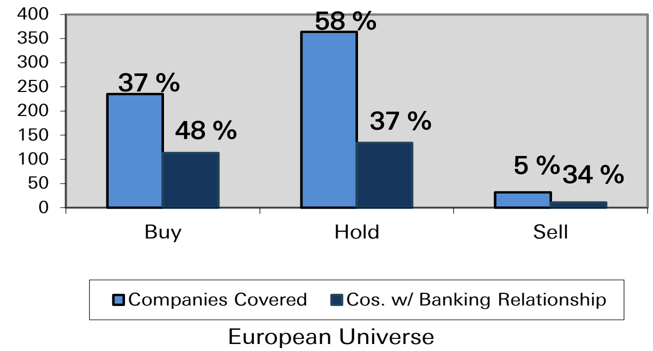
Equity Rating Dispersion and Banking Relationships



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