

Market outlook

Marketing material

#1 Market & Macro

Artificial Intelligence continues to fuel U.S. markets – while risks are rising



Vincenzo Vedda

Business as usual in the United States – Trump's tariff rollercoaster is racing on, the government shutdown has meanwhile become the longest shutdown in U.S. history and the hype around Artificial Intelligence (AI) continues to push stock prices higher and higher.

Since the launch of ChatGPT, a mere 41 stocks around AI have accounted for 75 percent of S&P 500 price gains. "Valuations of U.S. equities have reached record highs, concentration is extraordinarily high. And short-term, there seems to be even more scope for further price gains," DWS Chief Investment Officer Vincenzo Vedda states. Apart from high valuations, the increasing interdependency of AI corporations might become a problem. Identifying an enterprise as a client, strategic partner,

investor or competitor is getting more and more difficult. The AI sector almost appears to have become self sufficient meanwhile. Vedda regards diversification to be mandatory, also within the equity sector. "We are now again more constructive on German equities, which have not really moved a lot since the end of May," Vedda adds. The positive effects of huge public spending programmes in defence and infrastructure should be felt in the year to come, thus putting an end to stagnating prices. With a view to investment-grade European corporate bonds, slight downward adjustments were made in our assessment. Spreads versus sovereign bonds have become extremely narrow, currently reaching only 76 basis points, i.e. 0.76 percentage points. This means that the buffer against negative surprises is correspondingly low. However, the asset class is still supported by positive framework conditions, with demand remaining at robust levels.

Topics driving capital markets



Economy: Eurozone growth stronger than expected – Germany still stagnating

- Data on Eurozone economic growth in the third quarter of 2025 surprised on the upside: 0.2 percent beating expectations of 0.1 percent. Even more of a surprise: the French economy grew by 0.5 percent. And less of a surprise: the German economy stagnated.
- Consumer confidence in the United States has slightly decreased. An increasingly critical look is taken on job and income prospects.



Inflation: Eurozone approaches 2-percent target

- In Germany, the inflation rate fell slightly to 2.3 percent in October (after 2.4 percent in September), particularly due to lower energy prices. Inflation remained high at 3.5 percent in the services sector. All in all, the Eurozone is on track towards its inflation target of 2 percent.
- In the United States, inflation risks remain elevated. It is too early to state whether tariffs will lead to higher prices across the board or whether manufacturers will make do with lower margins.



Central banks: further rate cuts in the USA expected

- It was no big surprise that the U.S. Federal Reserve cut its key rates by 0.25 percent to 3.75 to 4.00 percent. It came, however, as a bit more of a surprise that Fed chair Jerome Powell explicitly remarked that another rate cut in December was not a foregone decision.
- The European Central Bank left its key rates unchanged at 2.0 percent.



Risks: Artificial Intelligence must deliver, political uncertainties

- Should the Federal Reserve not cut rates as expected or high investments in Artificial Intelligence not yield the higher returns hoped for, the very highly valued U.S. stock markets could come under pressure.
- The unstable political situation in France, combined with high public debt, is an explosive mixture for the country and the European Union as a whole.

#2 Equities

“There are still plenty of interesting dividend papers”

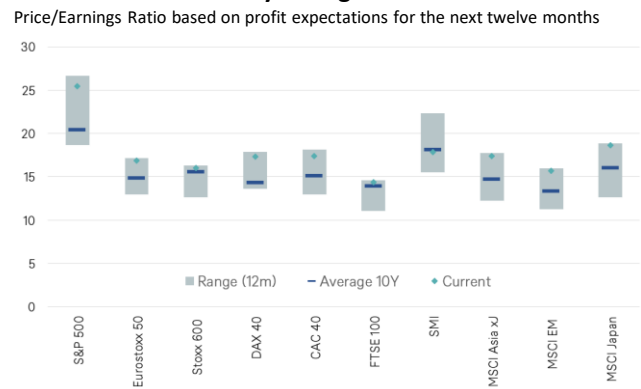


“And the winners are tech stocks. Just like the German football team of Bayern Munich in the last few years: Although there are many competitors, in the end always the same team wins the championship. Being successful with a dividend strategy in such an environment is rather challenging,” portfolio manager Thomas Schüßler, who manages the largest value fund in Europe, says. But he is content with the results of his strategy year-to-date. He selects cheaply valued stocks with above-average dividend yields, sound balance sheets and good profits. And there are still plenty of them. Currently, he favors financials, consumer goods, pharmaceuticals and also the oil sector. Unlike the MSCI World where U.S. stocks account for approximately 74 percent, only roughly 30 percent of Schüßler’s portfolio is based in the United States. Due to the high valuation of U.S. stocks, dividend yields have fallen from 2.0 to an average of 1.1 percent. European stocks are still better off in this respect. Schüßler: “Although dividend yields have decreased in Europe as well, they are still at an interesting level of three percent.”

There are plenty of mature and not extremely expensive enterprises which should benefit both from a growing world economy and from U.S. growth. Schüßler can hardly take advantage of the Artificial Intelligence boom since AI stocks generally do not yield material dividends. He takes a critical look at their high valuations though: “The speculative element of U.S. tech stocks is, frankly speaking, very high. Speculation in itself is not really a problem but if it abounds, the risk of setbacks increases significantly.” What he finds remarkable is the low level of U.S. consumer confidence – which is currently as low as in 2009 but it does, obviously, not dampen investor euphoria.

Schüßler now has a stronger focus on stocks from Europe and also from Asia. And on gold. “This extremely sharp rise of gold turning it into such a strong yield earner has taken me by surprise. For me, gold is above all an instrument of diversification,” Schüßler explains. In the past, the correlation between gold price and stock market has quite often been negative. Another element of risk diversification which he currently favors are short-dated Bunds. However, bitcoins, which are increasingly traded as digital gold in public discussions, are not an appropriate instrument of diversification for Schüßler. They are traded like tech stocks. If tech stocks lose, bitcoins will lose, too. Schüßler’s conclusion: “There is no reason to shun stock markets. But there are plenty of good reasons to put more focus on the topic of diversification.”

U.S. market with the by far highest valuations



Source: DWS Investment GmbH, as of 31 October 2025

Equities USA: Profit growth and further rate cuts could be supportive



- We have already reached our still valid S&P 500 target of 6,800 points. Due to the tech rally, the U.S. index has already gained roughly 16 percent.
- If corporations manage to maintain their high one-digit profit growth and the Federal Reserve takes three to four rate-cutting steps in the twelve months to come, prices could be boosted further.

Equities Germany: Further upward potential



- Since the roughly six month-long hard period for German stocks seems to be over, we are rather constructive on them again, also in the short run.
- In spite of stagnating prices in the last few months, the German Dax has gained roughly 20 percent year-to-date. Massive public spending programmes could boost order books in 2026. Stock exchanges might start discounting this pretty soon.

Equities Europe: Opportunities in Europe besides tech stocks



- The euphoria for Europe has already faded on markets again. Although the Europe Stoxx 600 still records very decent gains of 16 percent year-to-date, it is no longer ahead of U.S. indices such as the S&P 500 or the Nasdaq 100.
- However, we continue to be constructive on European equities. Besides tech stocks, Europe offers a number of interesting stocks with good growth prospects, which are still moderately valued.

Equities Emerging Markets: The tech sector might drive prices in future



- Gains in Emerging Markets have come under short-term pressure. However, for the two years to come, we expect a higher earnings growth per share than in the MSCI World.
- In the medium run, Emerging Markets could substantially profit from the AI boom. Since information technology accounts for 27.1 percent of the MSCI Emerging Markets index, it is its largest sector.

#3 Long View/Fixed Income

Serious competition for stocks – infrastructure investments particularly promising



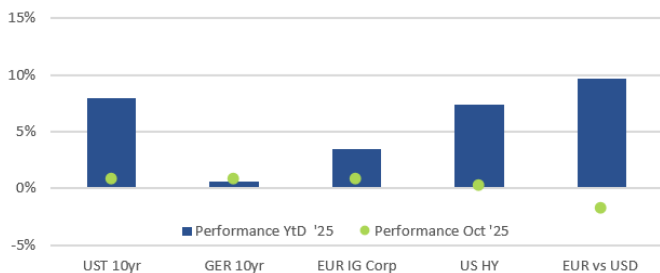
“There has been a clear favorite in the past decade: stocks have trounced bonds in the last few years. But many aspects argue in favor of a change in the years to come,” Dirk Schlüter, Head of House of Data, states. In the DWS Long View, our long-term capital market outlook for the ten years to come, we reckon with clear shifts in the attractiveness of asset classes, always led by balancing return opportunities and accompanying risks. It is, of course, difficult to forecast the return of individual assets. One thing is, however, rather clear: the topic of diversification should become much more important. This will be the case across all asset classes as well as within individual asset classes.

One essential reason why stocks might no longer be the only standard-setters as yield earners is that risk premiums, i.e. expected additional returns for higher risks, have turned substantially lower. “In the United States, risk premiums for equities – at least when compared with high-yield bonds – have meanwhile become even slightly negative, whereas they are still slightly positive in Europe,” Schlüter explains.

Interesting alternatives to stocks are not only corporate bonds but in particular also listed infrastructure investments. “In our ten-year forecast, we expect average annual returns which are approximately one percentage point higher than returns on the broad stock market,” Schlüter concludes.

U.S. high-yield bonds with very strong annual performance

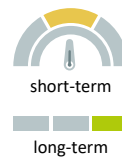
Year-to-date performance



Source: DWS Investment GmbH, as of: 31 October 2025

U.S. government bonds (10 years)

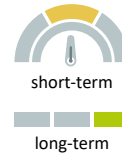
Yields should continue to decrease for a while



- Prices of 10-year U.S. government bonds have risen considerably in October.
- We expect prices to continue rising slightly since yields should continue to fall.

German government bonds (10 years)

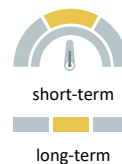
Bunds in calm waters



- 10-year Bund yields have been only slightly fluctuating of late.
- We expect yields to hover around 2.60 percent.

Emerging Market sovereign bonds

Still interesting returns

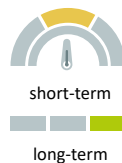


- Emerging Market bonds gained slightly of late.
- In the medium run, risk premiums might rise a bit. Returns remain interesting.

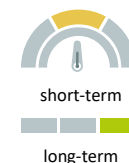
Credit

Investment Grade

USA

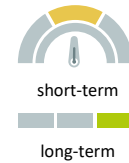


Eurozone

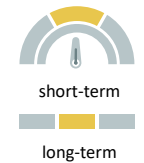


High Yield

USA



Eurozone



#4 Currencies

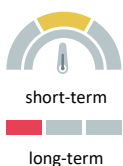
Euro/Dollar: A stronger euro might need new impetus



- The euro seems to take a breather in its rise against the dollar. There are currently hardly any signs that foreign investors are shifting more investments from the United States to the Eurozone.
- Accelerating economic growth in the Eurozone, combined with further rate cuts in the United States, could give a new impetus to the European common currency.

#5 Alternative Assets

Gold: Important buyers currently staying on the sidelines due to sharply rising prices



- The gold price struggled again with the threshold of 4,000 dollars per ounce recently, after having already clearly beaten it. Year-to-date, gold has still gained roughly 50 percent.
- Against the background of sharp price rises in the current year, price-sensitive buyers from China and India held back on further purchases. The same holds true for central banks.

Glossary

Basis points

One basis point is equivalent to 1/100 of a percentage point, one hundred basis points are equivalent to one percentage point.

Credit Quality of Bonds

Describes the creditworthiness of the issuer – that is, how likely it is that interest payments and principal repayment will be made fully and on time.

Dax

Market capitalization-weighted index, with the 40 most important listed companies in Germany. Performance index, which includes dividend payments.

High Yield (HY)

Corporate bonds from issuers with a poor credit rating – these papers generally offer comparatively high interest rates.

MSCI Emerging Markets

Index that tracks stocks with large and mid-sized market capitalization from 23 emerging markets.

Investment Grade (IG)

Corporate bonds that are deemed by rating agencies to have a low risk of default (at least medium credit rating).

Return

Ratio of outgoing payments to incoming payments of an investment.

S&P 500

Index weighted by market capitalisation that represents the 500 leading listed companies in the U.S.

Stoxx 600

Share index of European companies from the large, mid and small cap segment.

Volatility

A statistical measure that indicates how much prices or returns fluctuate around their mean value. Expressed as a percentage

Legend

The strategic view by September 2026

The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

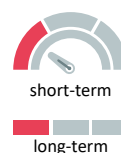
Source: DWS Investment GmbH; CIO Office, as of 06 November 2025



Positive return potential



Potential profits but also
risk of loss rather limited



Negative return potential

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