September 2025

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DWS

Market outlook

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#1 Market & Macro

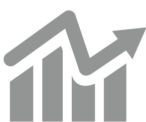
"High valuations are a risk indicator but no signal to sell equities"

Vincenzo Vedda

Rising profit growth and falling interest rates – these are the ingredients for a positive equity market outlook. "We expect corporate profits to rise globally between 7 and 11 percent this and next year," DWS Chief Investment Officer Vincenzo Vedda states. "Total returns of roughly seven percent in local currencies are well in reach on global stock markets in the twelve months to come." So all good here? Can investors remain light-heartedly at the sidelines while stock prices continue to climb? Alas, the situation is not that unambiguous and not without risks. Firstly, valuations are high, particularly on the U.S. equity market. "They are not a signal to sell stocks but they are a risk indicator after all," Vedda continues. The valuation of the S&P 500 with a price/earnings ratio of 24 is approaching the level of 1999. But the behaviour of market players is currently driven by concerns to miss out on something. If corporations with very high valuations – particularly from the technology sector – failed to maintain their phenomenal rates of growth, prices could very quickly tumble. Secondly, concentration is very high. The ten biggest S&P 500 corporations account for 40 percent of market capitalization. Last but not least: geopolitical risks which have not yet left significant traces on equity markets. The ever rising gold price – plus 33 percent year-to-date – clearly indicates that investors are well aware of these risks.

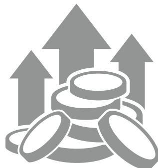
Another sign of caution are the partly substantially higher yields of long-dated sovereign bonds. Investors are also increasingly critical of high public debt in various countries. Vedda says: "Against this background, we do expect further rising stock prices as long as there are no major economic or geopolitical surprises." One of the major drivers is the boom in the field of Artificial Intelligence (AI). Exaggerations cannot be excluded here either. "We do not recommend to buck this trend since we are only at the beginning of a wide use of AI," Vedda concludes.

Topics driving capital markets



Economy: tariffs might be a drag around the globe

- Economic growth in the United States might be depressed by tariffs. We expect U.S. gross domestic product to increase by only 1.3% in 2026 (2025: 1.5%), but it is bottoming out.
- Eurozone growth should be hit by tariffs, too. We forecast a growth rate of 1.1% for 2026 (2025: 1.3%) and of 1.2% in Germany (2025: 0.3%). China's economy should also come under pressure, only growing at a below-average rate of 4.2% in 2026 (2025: 4.8%).



Inflation: Eurozone inflation is expected to fall below the two-percent target – pressure by tariffs in the U.S.

- Inflation should remain a major topic on the U.S. agenda, and this for quite a while. The negative impact of tariffs will be felt gradually. Our inflation forecast is 3.0 percent in 2025 and 2026.
- Eurozone inflation is continuing its downhill path and might reach its target of 2.0% in 2026 (2025: 2.1%).

Central banks: Federal Reserve might shift towards rate cutting

- The weakened labour market could prompt the Federal Reserve into clearly cutting its key rates in the next twelve months. We expect five rate-cutting steps by September 2026 to 3.25%.
- The Eurozone rate-cutting cycle should be mostly done. However, the European Central Bank might cut rates once again to 1.75%, due to lower inflation and rather sluggish economic activities.

Risks: higher tariffs and higher U.S. inflation data could derail the global economy in 2026

- If the tariff conflicts started by the U.S. administration, are further escalated, they could further dampen global economic growth next year.
- Another risk is the development of inflation in the United States. If it turns out to be higher than expected, it would contain the Fed's scope for action, i.e. for cutting rates, thus curbing the thrust for economic growth.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 05 September 2025

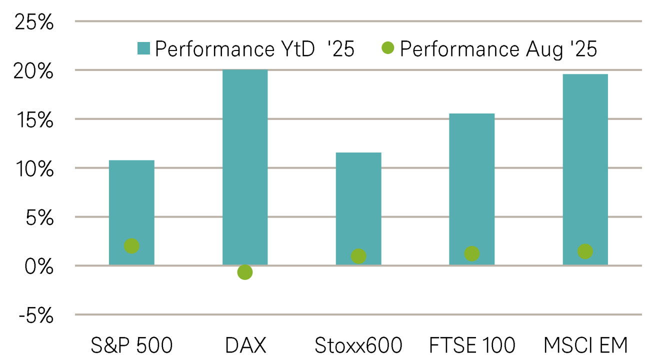
Defense stocks – selected titles continue to be promising even after an impressive run

Madeleine Ronner

Russia's seemingly endless war of aggression against Ukraine, the generally substantially higher threat scenario for Europe and a U.S administration increasingly challenging its fundamental military support – all these factors have put the topic of defense also into the focus of financial markets. European defense stock prices have skyrocketed. "Twelve months ago you could, in fact, buy anything to do with defense and beat the market," portfolio manager Madeleine Ronner states. This phase is now coming to an end. Although the outlook remains generally positive, selection has meanwhile gained much more importance. A clear assessment is now paramount to tell which corporations could have the best growth opportunities and when this growth would start. For example, longer-cycle corporations might not tangibly benefit from investments before 2027. Short-term, there might be room for disappointment here, even though the long-term outlook remains intact. Apart from the traditional champions with high market capitalization, Ronner sees more and more opportunities for smaller corporations. Particularly active portfolio management could benefit here and stand out from the market. Another argument in favour of active management is a rather small investment universe, particularly if you focus on Europe. The number of 25 to 30 corporations eligible for investments is rather limited. This leads to a high concentration for many index funds and consequently to significant individual stock risks. Careful stock picking has become mandatory, also due to meanwhile high valuations. The corresponding index, the MSCI European Aerospace & Defense Index, is currently trading at a price/earnings ratio of 27 – referring to the profits expected in 2026. This is substantially higher than the average of 18 of the last decade. However, several factors must be taken into account here: the NATO initiative of building up arms and troops by 2035 should substantially boost growth from 2026 onwards. This is already partly discounted by markets. Ronner's conclusion: "Stocks look rather expensive at first glance. However, against the background of the current growth outlook, they should have no problems to grow into these valuations." Picking the right stocks still provides good opportunities.

U.S. stocks once again outperforming European counterparts

Performance of major stock markets year-to-date and in August

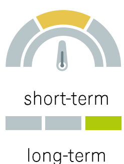


Sources: Bloomberg Finance L.P., DWS Investment GmbH; as of August 31, 2025

Equities USA: Corporate profits trending upwards create scope for further price gains

- Some upward scope should be left for U.S. equities. Reasons are a low two-digit growth of corporate profits, combined with the expectation of lower interest rates. Risks: corporate profits fail to grow as expected or yields rise beyond expectations.
- We increase our S&P 500 target by September 2026 to 6,800 points (from 6,100 points).

Equities Germany: Expected cyclical recovery could create further tailwinds



- The German leading index gaining roughly 20% year-to-date belongs to the top performers, slightly beating Emerging Markets and clearly beating the S&P 500. Accelerated economic growth in 2026 and an expected two-digit profit growth could boost prices further. Furthermore, the ailing auto sector could start to recover.
- Our Dax forecast by September 2026: 25,900 points (from 25,600 points).

Equities Europe: Promising, above all small- to mid-caps

- We are still constructive on European stocks and continue overweighting them versus other regions. They should be supported by fiscal stimulus packages and still high valuation discounts versus U.S. equities. Small- to mid-caps should continue their positive trend.
- Our price target for the Stoxx 600 increases slightly to 575 points (previously: 570 points).

Equities Emerging Markets: Selective opportunities – China as our preferred region

- Many Emerging-Market corporations from the sectors of e-commerce, sportswear and e-mobility have outperformed their U.S. counterparts. We continue to be constructive on selected consumer goods and technology corporations.
- China remains our preferred investment region since its economy has turned out to be surprisingly resilient.

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#3 Multi Asset / Fixed Income

The underestimated dollar risk – smart diversification is mandatory

Christoph Schmidt

Klaus Kaldemorgen

Industry needs clarity and reliability – this is a generally accepted statement. Political actions by the current U.S. administration are, in many aspects, the complete opposite: opaque and haphazard.
How are equity markets impacted? The impact seems to be rather limited, at least at first glance. Year-to-date, the S&P 500 has gained around ten percent, despite the lasting chaos caused by President Trump's tariff policy and attacks on the Fed's independence. However, at least for Euro investors, things do not run that smoothly. Due to the substantial devaluation of the dollar since the start of 2025, euro investors lost all of these price gains. The dollar risk is substantial even for investors who believe to be broadly diversified, investing in a global index such as the MSCI World: 70 percent of the index is quoted in dollars. As a consequence, The price gains of 14 percent in dollars year-to-date are equivalent to a meagre plus of 1.4 percent in euros. "For euro investors, the dollar has turned from a stabilizer into a potential risk factor," Christoph Schmidt, Head Investment Strategy Multi Asset, says. "This is the reason why we have drastically reduced the dollar weighting in our strategies." The weighting of U.S. equities was also reduced in the first quarter of 2025. However, with a view to U.S. tech stocks, the Multi-Asset expert sees unique features arguing in their favor as an important anchor in portfolios. The Multi-Asset team instead reduced the proportion of U.S. bonds substantially and increased the share of investment-grade euro corporate bonds. A further aspect, which might be surprising, is the fact that stock markets are performing so well in spite of sluggish economic growth and are correspondingly highly valued. Portfolio manager Klaus Kaldemorgen gives the following explanation: interest rates beat economic growth. More and more capital flows into digital business models. These are not only classic tech stocks but also platform corporations from the sectors of consumer goods, industrials or financials. These corporations are less dependent on general economic growth but on favorable financing conditions, i.e. falling interest rates. This is what markets are currently discounting so that prices continue to climb.

U.S. government bonds (10 years)

Slightly falling yields expected

short-term

long-term

- The Central Bank of the United States is expected to loosen its reins in the next twelve months, and 10-year Treasury yields are expected to slightly fall.
- We expect yields of 4.25 percent by the end of September 2026.

German government bonds (10 years)

High demand – yields expected to fall slightly

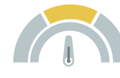
short-term

long-term

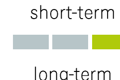
- International investors are very keen on 10-year Bunds.
- Our forecast by September 2026 is a slight decrease to 2.60 percent.

Emerging Market sovereign bonds

Attractive total returns compensating for higher risks



short-term



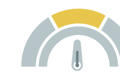
long-term

- Emerging Market sovereign bonds should remain in high demand due their attractive total returns.
- Yield spreads might, however, widen slightly.

Credit

Investment Grade

USA



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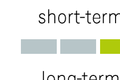
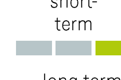


long-term

Eurozone

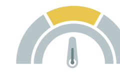
short-term



long-term

High Yield

USA



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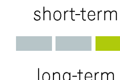
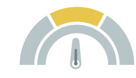


long-term

Eurozone



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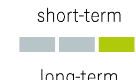
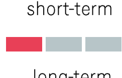


long-term

#4 Currencies

Euro/Dollar: **Dollar weakness versus the euro should continue**

short-term

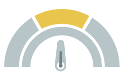


long-term

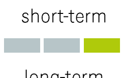
- The dollar is expected to remain weak and even continue to devalue versus the euro but not as much as since the start of 2025. Expected rate cuts in the United States are the reason. Moreover, international investors are expected to further diversify away from the dollar.
- Our euro/dollar exchange forecast by September 2026 is 1.20.

#5 Alternative Assets

Gold: **Still attractive but losing price momentum**



short-term



long-term

- Gold should be further in demand as a safe haven. Falling U.S. interest rates, a weaker dollar and a continuing high demand of index funds should be supportive. The momentum of price rises, which we have experienced year-to-date, should, however, fade.
- Over a 12-month horizon, our gold price forecast is 3,800 dollars per ounce.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect. Past performance is not indicative of future results. Source: DWS Investment GmbH, as of 05 September 2025

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.

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

MSCI European Aerospace and Defense Index
An index composed of companies with high and medium market capitalization from 15 developed European countries, all operating in the aerospace and defense sector.

Return
Ratio of outgoing payments to incoming payments of an investment.

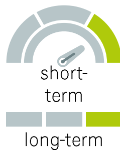
S&P 500
Index weighted by market capitalisation that represents the 500 leading listed companies in the U.S.

Stoxx 600
Share index of European companies from the large, mid and small cap segment.

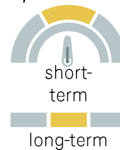
Legend

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.

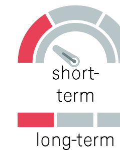
Source: DWS Investment GmbH; CIO Office, as of 05 September 2025



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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