

Market Outlook

Marketing material

#1 Market & Macro

Equities remain attractive – but questions emerge over earnings momentum



Vincenzo Vedda

“From our perspective, the outlook for equity markets remains favourable,” says Chief Investment Officer Vincenzo Vedda. This is primarily due to the still very strong growth prospects for corporate earnings.” However, we are seeing a certain degree of nervousness in the

market regarding the sustainability of these elevated profit levels, particularly in cyclical technology sectors,” Vedda explains. One indication of this is the decline in valuations. Earnings forecasts have risen more strongly than share prices in recent months, suggesting that investors are becoming more cautious. Even so, valuations are still far from historically cheap levels. “Despite our positive medium-term outlook, we see some shifts in the relative attractiveness of individual subsectors,” says Vedda. “We have downgraded the semiconductor sector to Neutral. While we continue to regard it as one of the main beneficiaries of the AI boom, the sharp rally in the SOX

Semiconductor Index of around 90% in the second quarter has made us more cautious in the near term.” The semiconductor industry remains cyclical and is significantly expanding its production capacity. Should customers become less willing to maintain current spending levels because the substantial investments fail to deliver the anticipated returns, this could weigh on the sector.

Vedda also believes that investors need to take a more differentiated view of the financial sector, which has long been one of the more positively rated areas of the market.” As a result of the disruptions caused by the increasing use of artificial intelligence, we currently view financial service providers such as stock exchanges, online brokers, credit card companies and investment banks with caution,” says Vedda. A much more positive picture emerges for the global banking sector. In the United States, banks are benefiting from deregulation; in Europe, from improving returns on equity; and in Japan, from rising interest income driven by higher interest rates.

Topics driving capital markets



Economy: German economy remains weak

- The latest Ifo Business Climate Index highlights that the German economy continues to struggle. Although the indicator edged higher in June, it remains below the level recorded before Russia’s invasion of Ukraine.
- The potential consequences of a disruption to shipping through the Strait of Hormuz could create additional uncertainty across Europe. At the same time, government spending programmes – particularly in Germany – are providing a degree of support to economic activity.



Inflation: Prices in Europe and Germany continue to ease

- Inflation in Germany slowed somewhat more than expected. The annual inflation rate declined to 2.3% in June, down from 2.6% in May.
- Inflation also continued to ease across the euro area. The annual rate fell to 2.8% in June, following 3.2% in May.



Central Banks: Further rate hike in the euro area likely

- Unlike the European Central Bank (ECB), the U.S. Federal Reserve has left interest rates unchanged. We expect the ECB to deliver one additional rate hike over the coming months.
- The future course of U.S. monetary policy under new Federal Reserve Chair Kevin Warsh remains difficult to predict. Warsh has indicated that he intends to provide less forward guidance to financial markets than his predecessor.



Risks: Outlook for the Iran conflict remains highly uncertain

- Should inflation data surprise to the upside again while labour market figures weaken more than expected, economic growth and consumer spending could come under pressure, particularly in the United States.
- Against this backdrop, developments in the conflict between the United States and Iran remain a significant source of uncertainty and are unlikely to fade in the near term.

#2 Equities

Semiconductor stocks – how sustainable are the extraordinary profit margins?



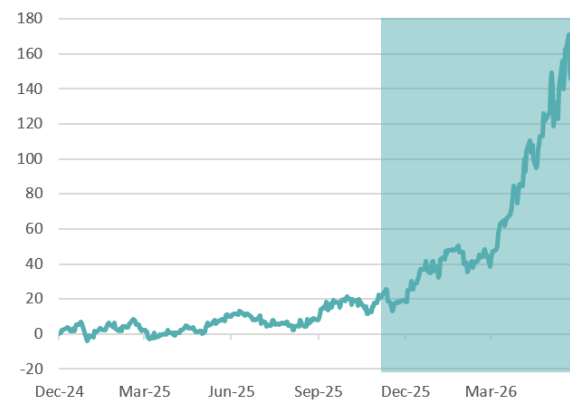
Tobias Rommel

Can the spectacular rally in technology stocks, particularly semiconductor stocks, continue? The South Korean KOSPI index, which is heavily dominated by semiconductor stocks, has gained 73 % since the start of the year (as of July 9), despite the recent pullback. By comparison, the performance of the Magnificent Seven, which are investing hundreds of billions of dollars in data centres and artificial intelligence (AI), appears almost modest, with gains of just 13%. "The case for a continuation of the rally is that the wave of AI investment remains unbroken and share prices have so far struggled to keep pace with earnings growth," says technology-focused portfolio manager Tobias Rommel. In fact, a historic redistribution of profits is taking place. While the so-called hyperscalers must continue increasing their spending on data centres and AI in order to remain competitive, semiconductor companies have unprecedented pricing power because surging demand is meeting markets that were unprepared for such a rush. As a result, memory chip prices have risen sharply. In the short term, this trend is unlikely to change. While hyperscalers are grappling with rising costs, semiconductor companies are benefiting from exceptional growth in revenues and profits. Despite the rapid rise in semiconductor share prices, there is little evidence of overvaluation. On the contrary, earnings expectations have increased even faster than share prices, causing price-to-earnings ratios to decline slightly. What remains uncertain, however, is whether this growth and profit margins of up to 50% can be sustained over the long term. There are at least some question marks here. Looking ahead, the key question is how much longer semiconductor stocks can continue to outperform their customers, the hyperscalers. The logic is straightforward: at some point, the billions of dollars

invested by Alphabet and its peers will need to generate returns. If they fail to do so, demand for semiconductors could eventually weaken as well. More generally, it may also make sense to focus on somewhat more defensive sectors such as utilities." The AI boom is driving a massive increase in electricity demand from data centres, meaning that selected utilities, power-grid equipment providers and energy technology companies could also emerge as structural winners from the AI trend," Rommel says. However, share prices in these areas have already risen significantly as well.

Semiconductor stocks have left the Mag 7 behind

SOX Semiconductor Index performance versus the U.S. Mag 7 Index* in %



*Mag 7 Index: The seven largest U.S. technology companies: Alphabet, Amazon, Apple, Facebook, Microsoft, Netflix and Tesla. Past performance is not a reliable indicator of future performance. Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of June 26, 2026.

Equities USA: On a winning streak thanks to artificial intelligence



- U.S. equities have once again delivered strong returns this year. The S&P 500 is up 9%, while the technology-heavy Nasdaq 100 has gained 16% year to date (as of July 8).
- As long as the AI boom continues, the positive momentum is likely to persist.

Equities Germany: Stock market prices in reform hopes



- Prospects for further reforms in Germany have recently given the country's benchmark equity index a modest boost.
- So far this year, however, Europe's largest economy has remained a laggard in terms of stock market performance. Should it become apparent that the reforms will indeed be implemented, this could change.

Equities Europe: Strong earnings growth supports equity markets



- European equities have delivered an impressive performance so far this year. The Stoxx Europe 600 is up almost 8% year to date (as of July 8).
- Corporate earnings expectations have remained resilient since the outbreak of the Iran conflict, supported by the energy sector on the back of higher oil prices and by financial stocks benefiting from rising interest rates.

Japan: Further upside despite an impressive rally



- Up 20.7% year to date (as of July 8), Japan's Topix 100 is among the best-performing equity markets this year.
- We continue to see upside potential. Japanese IT companies appear well positioned to benefit from the global AI investment cycle. The policy backdrop is also likely to remain supportive.

#3 Fixed Income

Why high-quality corporate bonds remain attractive



Thomas Höfer

“We are very positive on high-quality European corporate bonds (investment grade), even though credit spreads over government bonds are historically very low,” says portfolio manager Thomas Höfer. “Demand remains very strong, and there are currently no reasons why that should change. Despite the record issuance volumes of recent years, demand for new issues continues to significantly exceed supply, which is having a correspondingly positive effect on price performance.

At present, there are no signs that risks among issuing companies could rise materially in the near term. “Traditional credit metrics such as leverage ratios and interest coverage ratios remain at fundamentally solid levels for the broad investment-grade universe by historical standards. There are no indications of an imminent fundamental trend reversal,” is Höfer’s assessment. This is particularly true for the banking sector, the largest segment of the euro investment-grade market.

In previous market cycles, weaknesses in the financial sector often triggered wider credit spreads and, consequently, price declines – bond yields and prices move in opposite directions. Today, however, European banks benefit from exceptionally strong capital positions, substantial liquidity reserves, robust profitability, and very high-quality loan portfolios.

Another area Höfer finds attractive is technology-sector issuers. In particular, the expansion of data-centre capacity for artificial intelligence applications is driving an unprecedented investment cycle. The so-called hyperscalers – Alphabet, Amazon, Meta and Microsoft – are becoming increasingly reliant on external financing as a result of their enormous capital expenditure programmes. These issuers are making growing use of the euro investment-grade market and have already completed several large-scale transactions.

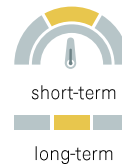
Höfer’s conclusion: already low credit spreads could decline even further over the next twelve months, approaching levels last seen before the global financial crisis. Expected total returns of 3.5% over a twelve-month horizon could therefore be viewed as highly attractive, given the strong health of the bond market segment.

U.S. government bonds (10 years) Still attractive total return prospects



- Contrary to market expectations, we do not anticipate any further interest rate increases.
- U.S. government bonds remain an attractive investment opportunity.

German government bonds (10 years) Limited changes expected



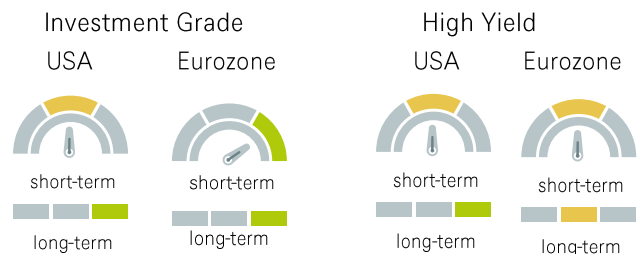
- Ten-year German Bunds appear fairly valued at current yield levels.
- We expect the 10-year Bund yield to stand at 2.90% over the next 12 months.

Emerging Market sovereign bonds Higher risks, higher return potential



- Geopolitical uncertainty continues to pose a risk for emerging-market debt.
- However, investors are compensated for these risks by attractive yield opportunities.

Credit



#4 Currencies

Euro/Dollar: U.S. growth advantage likely to keep the dollar supported



- In the near term, we see limited upside potential for the euro against the U.S. dollar.
- The stronger economic momentum in the United States continues to support the U.S. currency. Expectations that new Federal Reserve Chair Kevin Warsh could move quickly to cut interest rates have, for the time being, faded into the background.

#5 Alternative Assets

Gold: Limited near-term upside, longer-term appreciation potential



- In a development not seen for some time, gold prices are down by around 5% year-to-date (as of 8 July). We have become more cautious on the precious metal in the short term.
- We expect gold prices to stabilise at current levels for the time being, but continue to see potential for price gains over the medium term.

Glossary

Base point

One basis point is equal to 1/100 of a percentage.

Dax

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

High yield (HY)

High yield bonds issued by issuers with poor credit ratings, which usually offer comparatively high interest rates.

Interest coverage ratio

A financial metric that indicates how easily a company can meet its interest payments from its ongoing earnings.

Investment grade (IG)

Corporate bonds that are considered by rating agencies to be at low risk of default (at least medium credit rating).

Kospi

Key market-capitalization-weighted equity index of South Korea.

MSCI Emerging Markets

Index that tracks large and mid-cap stocks from 23 emerging markets.

S&P 500

Market capitalization-weighted stock index that tracks the top 500 publicly traded U.S. companies.

Stoxx 600

Equity index of European companies in the large, mid and small cap segments.

Yield

The income generated by an investment expressed as a percentage of its current price.

Legend

The strategic view by July 2027

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 8 July 2026



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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