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Market outlook

#1 Market & Macro

No bank credit crunch expected

Björn Jesch

"The turmoil we observed especially on the equity and bond markets in March was all but nice. It did, however, not come as a surprise that the historically rapid and aggressive tightening of monetary policies, sooner or later triggered the kind of turbulences we have now seen in the banking sector," Björn Jesch, Global Chief Investment Officer, states.
Banks will probably tighten their lending standards but a full-blown credit crunch is rather unlikely. These events have once again impressively demonstrated that it pays to have a well diversified portfolio. In March, 2-year U.S. government bonds registered their best monthly performance in three years. Since the beginning of 2023, fixed-income assets have generally yielded solid gains.
Gold, which is traditionally a safe haven in times of crisis, also posted a convincing performance. "In the months to come, we consider corporate bonds and small- to mid-caps in Europe to be particularly promising," Jesch says. He also sees good opportunities in selected investments in emerging markets – for both, bonds and equities.

Topics driving capital markets

Economy: marked differential between China and the Western industrial nations

- High inflation rates are a drag on real economic growth in Western industrialized nations.
- The situation in China is completely different. High savings and rising incomes after the reopening of the Chinese economy are boosting growth expectations.
- Asian emerging markets and Japan are expected to benefit from the recovery of the Chinese economy.

Inflation: declining, but likely to remain at elevated levels for a while

- In March, the overall inflation rate has fallen from 8.5 to 6.9% in the Eurozone. Despite this favorable trend, inflationary pressure, as indicated by the core inflation rate, remains high.
- In the United States, the further decline of inflation might prove to be a slow process. The situation on the labour market in particular remains tense, at least for the time being.

Interest rate policy: for the time being, central banks are not expected to cut rates

- Permanently high core inflation rates could prompt the European Central Bank to continue hiking rates.
- The Eurozone is clearly lagging behind the United States in raising interest rates. However, we do not expect any rate cuts before the second quarter of the year to come.

In focus: poorer pay for women

13.3 percent less*

than men in comparable job positions, this is what women in Australia earn. From 2024 onwards, companies with more than 100 employees will be required by law to disclose this gender pay gap.

26 years*

would it take at the current pace to close this pay gap completely according to projections by the Australian government.

* Source: Reuters, Australia passes law forcing firms to disclose gender pay gap, March 30, 2023

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 12 April 2023

Artificial Intelligence – growth driver of the future

Tobias Rommel

As if nothing had happened at all – in the first quarter of 2023 almost all major stock markets experienced a rebound. Temporary significant price losses in March are already a matter of the past. We prefer to view further price opportunities cautiously. Take the United States as an example: After the recent rally, the S&P 500 has now reached the level we had set as our target by end of March 2024. But there are still chances medium-term.

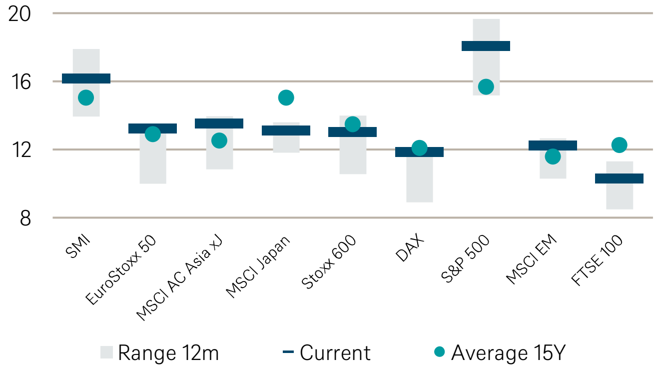
"Particularly in the field of generative artificial intelligence (gAI), which creates texts, images and videos, a host of new applications and enterprises should emerge, boosting growth," portfolio manager Tobias Rommel expects, who is specialized in the technology sector.

Notably some of the well-established tech companies should be among the beneficiaries of this development, Rommel assumes. They are having significant competitive advantages such as access to top-developers, computing power and a huge database.

"The implementation of AI functions into their products will considerably improve user experience and productivity. In the long run, this will result in strong pricing power and should make a positive contribution to earnings growth," Rommel states. Careful stock picking should be key here. For the tech sector as a whole continues to be very highly valued, and earnings dynamics have waned in the years of 2022 and 2023. Rommel adds: "We expect earnings growth well above the broad market only in the year of 2024."

U.S. stocks still richly valued

12-month forecast for price/earnings ratio



Source: DWS Investment GmbH, as of April 2023

U.S. equities

Hardly any potential for U.S. equities

- The fight against inflation is far from over. The U.S. Federal Reserve should continue tightening for some time to come.
- No tailwind is to be expected from the development of corporate profits either. It would already be quite a success if they stayed at the current level. Some sectors might even face falling profits in 2023. The upside potential of U.S. equities is therefore limited.

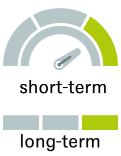
German Equities

DAX: still some upward potential

- Consumer sentiment in Germany has improved for the sixth consecutive month. Momentum has, however, slowed down markedly compared with the previous months.
- The German leading Dax index has recovered all of its price losses from mid-March. Prices are now close to their annual peak.
- Positive aspects are the stabilization of global economic growth and the continuously high valuation discount versus U.S. stocks. On a twelve-month horizon, there is moderate price potential.

Equities Europe

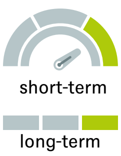
Europe still favored – small- to mid-caps particularly promising



- We continue to prefer European stocks over their U.S. counterparts. Although valuation discounts versus U.S. equities have already declined somewhat recently, they are expected to fall much further.
- Within the sector of European stocks, small- to mid-caps seem to be particularly promising. Their benefit from the expected stabilization of the European economy should be above average.

Equities Emerging Markets

Corporate profits likely to improve and support stock prices



- Apart from favoring European stocks, we see good potential in emerging market stocks. Emerging market stocks from Asia should particularly benefit from the reopening of the Chinese economy.
- Another argument in favor of emerging market stocks is a better corporate earnings momentum. Whereas corporate profits are expected to decline in many sectors in the industrialized world, they are likely to even rise in the emerging markets in 2024.

#3 Fixed Income

Promising: European investment-grade corporate bonds

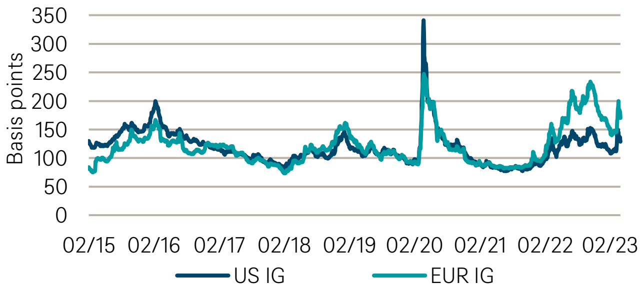
Thomas Höfer

The first few months of this year have been rather turbulent for fixed-income investors – they had to bear with unusually high volatility. However, all in all, bond markets have performed well. Both, sovereign bonds and corporate bonds generated decent returns. On a 12-month horizon, Thomas Höfer, Head of Investment Grade Credit, continues to be optimistic with a view to corporate bonds with a good credit rating (investment grade), particularly bank bonds.

"The disruptions which we have recently experienced in the banking system have not changed my positive assessment," Höfer states. "The spreads of senior bank bonds over bonds from other industrial sectors have reached levels unseen since the financial crisis of 2008. According to Höfer, European banks are in a much better position today with a view to capitalization, liquidity reserves and quality of fixed assets than they were back in 2008. For this reason, he expects spreads to narrow in the months to come, resulting in rising bond prices.

Eurozone: higher spreads

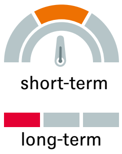
Risk spreads of investment-grade corporate bonds versus sovereign bonds



Source: DWS Investment GmbH, as of 31 March 2023

U.S. government bonds (10 years)

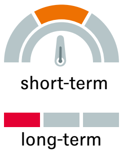
Slightly rising yields expected



- The recent fall in yields has resulted in substantial price gains for 10-year U.S. bonds.
- We expect yields to rise slightly again, so that prices might come under pressure.

German government bonds (10 years)

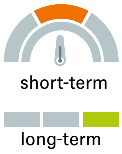
Price declines likely



- The nervousness on the markets has boosted the demand of Bunds so that prices have risen.
- As soon as markets calm down again, yields should rise again and prices decline correspondingly.

Emerging market sovereign bonds

Opportunities abound but careful selection is key

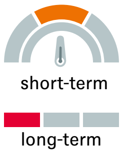


- Emerging market government bonds offer interesting yield prospects.
- However, opportunities and risks vary widely from country to country. A careful selection of individual bonds is therefore mandatory.

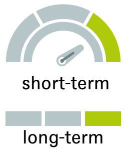
Credit

Investment Grade

USA

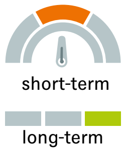


Eurozone

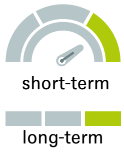


High Yield

USA



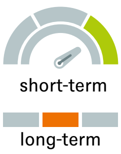
Eurozone



#4 Currencies

Euro/Dollar

Euro should have some scope for further appreciation versus the dollar



- Since the start of 2023, the euro has gained versus the dollar. This could continue for a while.
- The European common currency should benefit from earlier signs of an economic slowdown in the United States than in Europe.
- Additionally, we expect a somewhat longer rate hiking cycle in Europe than in the United States. This should give the euro another boost.

#5 Alternative assets

Real Estate

After short-term stress, promising entry points expected long-term

- Real estate valuations might come under pressure short-term due to rising yields.
- In the longer run, real estate is expected to benefit from inflationary times. For this reason, we expect interesting entry points for investors in the months to come.

* DWS does no longer assess real estate on a short-term basis. 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 12 April 2023

Glossary

Basis points
1/100 of a percentage point. 100 basis points thus correspond to one percentage point.

Central Bank
A central bank manages a state's currency, money supply and interest rates.

Core Rate
Inflation rate that does not take into account price changes in energy and food, which are often particularly volatile.

GDP – Gross Domestic Product
Value of the goods and services produced within the geographic boundaries of a country during a specified period of time

HICP
The Harmonised Index of Consumer Prices is a consumer price index that is produced by each European Union Member State using a harmonised methodology.

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).

Monetary Policy
Economic policy measures that a central bank takes to achieve its goals.

Price-to-earnings (P/E) ratio
The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

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.

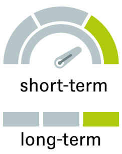
US Federal Reserve (Fed)
The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Legend

The strategic view by March 2024

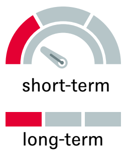
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 12 April 2023



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes

DWS International GmbH as of 12 April 2023 – CRC 095413 (04/2023)