

Market outlook

#1 Market & Macro

More cautious for equities, opportunities with corporate bonds



Björn Jesch

Stock markets have probably surprised most experts on the positive side during the first six months of 2023, with a majority presenting excellent half-year results. Driven by the euphoria around Artificial Intelligence (AI), the Nasdaq 100 has gained 38.75 %, the strongest increase in its 40-year history.

"I do not expect this positive market dynamics to continue in the second half of 2023," Björn Jesch, Global CIO, says.
 "Currently, valuations are very ambitious and should hardly

be sustainable over a longer period." He is constructive on U.S. investment-grade corporate bonds, which he has upgraded to "outperform". "Expected total returns are attractive over a horizon of 12 months," Jesch states. "Inflows are positive, and issuance activities are expected to slow down."

Jesch is somewhat more cautious with a view to emerging market stocks. "We have downgraded the rating to "neutral", Jesch adds. The main reason is the slow recovery of the Chinese economy. Moreover, there have been more negative earnings revisions than in other regions.

Topics driving capital markets



Economy: United States surprising on the upside, China on the downside

- Strong consumer data, particularly in the services sector, have resulted in a surprisingly robust growth of the U.S. economy of 2.2% in the first quarter of 2023. We nevertheless do expect a mild recession still in the course of this year.
- Dynamics of the Chinese economy has fallen behind expectations. In June, the Caixin purchasing manager index has declined to 52.5 (May: 55.6), its lowest level in six months.



Inflation: rates still far too high

- Inflation rates are slightly falling in the United States but continue to stay on a high level. Primarily to blame are high inflation rates in the services sector. We forecast an inflation rate of 4.3% for 2023.
- In the Eurozone, inflation is still driven not only by the services sector but also by still strongly rising food prices. In 2023, inflation rates might be as high as 6.9%.



Interest rate policy: central banks are expected to continue hiking

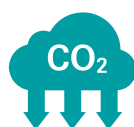
- The Federal Reserve should stick to its restrictive monetary policy even if it has refrained from further hiking recently. We see rates between 5.25 and 5.5% before first cuts might occur in the second quarter of 2024.
- In the Eurozone, high core consumer-price inflation should prompt the European Central Bank (ECB) to raise interest rates further. Our forecast for key interest rates in the Eurozone by June 2024: 4.0 percent.

In focus: China pushes the expansion of renewable energies



More than 50 percent*

of China's energy capacity is now non-fossil. The government had planned to reach the 50 percent threshold only in 2025.



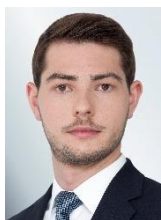
By the year of 2030*

China wants to achieve the goal of reducing its carbon emissions. To this end, large wind, solar and hydroelectric power plants have been built in the west of the country.

* Source: Reuters, China's installed non-fossil fuel electricity capacity exceeds 50% of total, 12 June 2023

#2 Equities

Opportunities with European bank stocks



Jarrid Klug

Europe remains our preferred investment region. The valuation discount versus U.S. stocks continues to be high. Particularly with a view to small- to mid-caps, current valuations appear to be cheap. The current price level should be a good entry point. "In our view, European banks appear to be also promising although they have already performed well in the last few months,"

portfolio manager Jarrid Klug states. We expect European banks to revise earnings upward, contrary to their U.S. counterparts. "Their returns on equity should be slightly above ten percent for the time being, thus clearly beating the average of the past years," Klug adds.

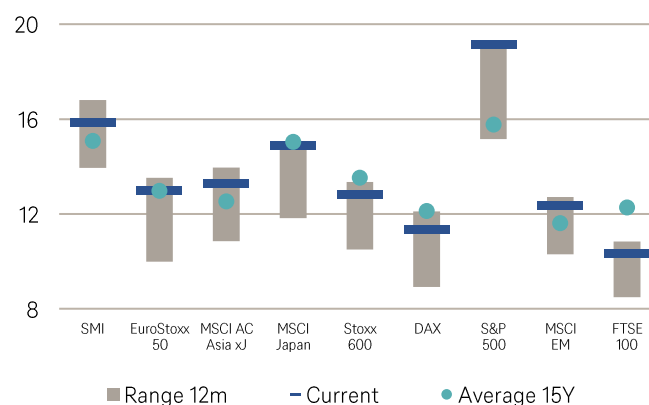
Markets still doubt the banks' ability to maintain their profits this high. This is reflected in cheap valuations. Based on earnings expected for 2024, the price/earnings ratio is currently six and thus extremely low.

Even if interest rates were falling medium-term, there are no signs of European banks being in danger of troubles similar to those during the long lasting zero-rate phase. And another argument sounds very convincing: banks repaying capital via dividends and equity buybacks.

The average dividend yield of the banking sector is meanwhile hovering around eight percent. Additionally, banks have started to repurchase stocks – with regulatory approval – so that the aggregate payout yield of some financial institutions is well above ten percent.

Valuation advantage for Europe

Price/earnings ratios based on profits expected in 2024



Source: DWS Investment GmbH, as of July 2023

Equities USA

Difficult environment: low earnings growth and very high valuations



- Currently, we do not see much price potential for the S&P 500, which has already surged above our June 2024 price target of 4,200.
- Against the background of our forecast of single-digit EPS growth, a price/earnings ratio of slightly above 20 appears to be rather ambitious. And the probability of still further rising 10-year Treasury yields puts equities under further pressure.

Equities Germany

German economy with signs of slowing – moderate price potential



- The German economy is losing steam. For the second time in a row, the business climate index ifo has declined – much more so than expected. Particularly the business expectations of corporations have sharply deteriorated.
- The German Dax has already shown weaknesses recently. We currently see only moderate price potential for the German leading index.

Equities Europe

Good prospects for European equities unchanged



- Value stocks from Europe have fallen short of the price gains of U.S. tech stocks, which are fuelled by the euphoria surrounding Artificial Intelligence.
- The valuation gap might well normalize again, to the benefit of European equities.
- The expected dynamics of earnings for Stoxx 600 titles for 2024 is currently more promising than forecasts for the S&P 500.

Equities Emerging Markets

Sluggish recovery in China – double-digit earnings growth expected in the medium term



- Latin American emerging markets have had a good run year-to-date, by far outperforming their Asian counterparts which have not yet met the high expectations.
- One essential reason for the comparably poor performance of Asian equities is the surprisingly sluggish recovery of China after the pandemic.
- Many investors striving to participate in the growth opportunities of Asia have recently shifted their focus from China to India. In the medium to longer term, we, however, do expect two-digit growth of earnings per share for China.

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 10 July 2023

#3 Fixed Income

Interesting return opportunities with short-dated bonds



Oliver Eichmann

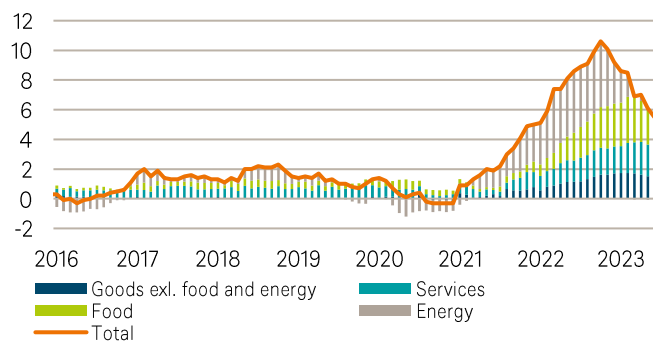
"We are currently rather optimistic with a view to European sovereign bonds with short to medium maturity," Oliver Eichmann, head of Investment Strategy Bonds, says. In Europe, we expect two further rate hiking steps by the ECB. This should mark the end of this hiking cycle for the time being.

Combined with slowing growth and waning inflation, this should, in his view, be a good time to invest in fixed-income assets. Eichmann adds: "In such a context, yields on short bonds tend to fall so that chances of price gains will rise correspondingly." This will be particularly the case if the market is dominated by the view that a rate hiking cycle of the central bank is drawing to a close pretty soon.

Due to higher yield levels, bonds from Italy and Spain continue to be interesting. "We do, however, not expect any further narrowing of spreads versus Bunds," Eichmann states. Higher rate levels and falling asset purchases tend to be a burden on countries.

Food and services pushing up prices

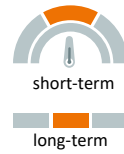
Components of inflation rates in the European Union In percent



Source: DWS Investment GmbH, as of July 2023

U.S. government bonds (10 years)

Only slightly higher yields expected



- We should have covered the major path of the yield rise of 10-year U.S. Treasuries.
- By June 2024, total returns are expected to be slightly positive.

German government bonds (10 years)

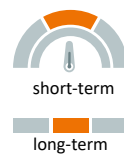
Further rising yields should depress total returns



- Total returns on 10-year Bunds will be negative in the current year due to rising yields.
- By the end of June 2024, we expect only slightly positive total returns, since yields are expected to continue to rise.

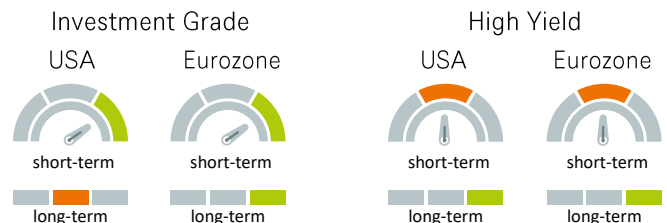
Emerging market sovereign bonds

Modest total returns expected



- Total returns of sovereign bonds should be rather modest in the next couple of months, spreads should hardly narrow.
- Emerging market corporate bonds appear to be substantially more promising.

Credit



#4 Currencies

Euro/Dollar

Euro should continue to appreciate



- The euro should have some scope for further appreciation versus the dollar.
- Arguments in favor of a stronger euro: expected better economic development in the Eurozone versus the United States and the presumably more restrictive monetary policy in the Eurozone. We expect the European Central Bank to remain on its hiking path for longer than the U.S. Federal Reserve.
- Our euro/dollar exchange forecast by June 2024: 1.12.

#5 Alternative assets

Gold

Short-term under pressure due to speculations on rates, medium-term promising



- The gold price has come under some pressure recently, particularly due to the excellent U.S. labor market data, fuelling expectations that the Fed might remain on its hiking path for longer than previously expected.
- The trend towards a weaker dollar should, however, support the gold price. Additional support should come from the permanently high demand of gold from the central banks of emerging market countries.

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Glossary

Basis points

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

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

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 June 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 10 July 2023



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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