June 2023

Contents

Market outlook

#1 Market & Macro

Positive real returns expected in spite of an ailing economy

Björn Jesch

"Over a 12-month horizon, we expect positive real returns for many asset classes although recent business indicators are sending a rather mixed message," Björn Jesch, Global Chief Investment Officer, states. "We believe in a rather mild economic development, which will benefit corporate bonds and primarily European ones." Their returns continue to be high. Default rates are, however, expected to remain low as long as there are no major negative surprises in the course of the economic cycle. "Equities have clearly shown that they can serve as a good vehicle to mitigate the impact of inflation for investors. We have clearly seen how corporations with strong business models were able to use their pricing power to keep profits high in times of dwindling volume demand."
Jesch adds that equities additionally imply options on innovations. The probably most prominent recent example: the amazing progress made in artificial intelligence (AI) which has triggered price fireworks in selected technology stocks.

Topics driving capital markets

Economy: dwindling economic growth in the United States and Europe, China remains dynamic

- The U.S. economy should contract somewhat in the second and third quarters of 2023, with gross domestic product growing by a meagre 1.0% (2022: 2.1%) in the total year of 2023. In the Eurozone, we expect growth to decelerate to 0.8% (2022: 3.5%) but do not expect a recession.
- China might be able to double its growth in the current year to 6.0% (2022: 3.0%), primarily due to the prospect of a revival of domestic consumption.

Inflation: robust labor markets keeping prices high

- The main reason for the comparably slow pace of falling prices in the United States is a still very strong labor market. Nevertheless, we expect inflation to decline to 4.3% in 2023 (2022: 8.0%).
- Inflation should remain stickier in the Eurozone. Our forecast for 2023: 5.7% (2022: 8.4%).
- In China, price increases should be substantially lower: 1.5% (2022: 2.0%)

Interest rate policy: key rates in the USA and in Europe are set to rise further in 2023

- For the United States, we expect a further hiking step by 0.25 basis points, before interest rate cuts will be on the agenda next year. As of June 2024, the rate level should range between 4.75% and 5.00%.
- The European Central Bank is likely to pursue its tight monetary policy for a while. We expect it to take at least two further hiking steps of 0.25 basis points each. In June 2024, its deposit rate is likely to have reached 4.0%.

In focus: life under water – enormous investments needed

175 billion euros*

this sum will be needed by 2030 to close the annual investment gap for the 14th UN Social Development Goal (SDG) Life under Water.

20-fold**

has been the growth of jobs in the blue economy in the past ten years. Biggest growth sector: the off-shore wind energy sector.

* Source: United Nations Development Plan 2022; ** Source: European Commission, European Blue Economy report 2023: economic crisis takes a toll but doesn't stop the 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 09 June 2023

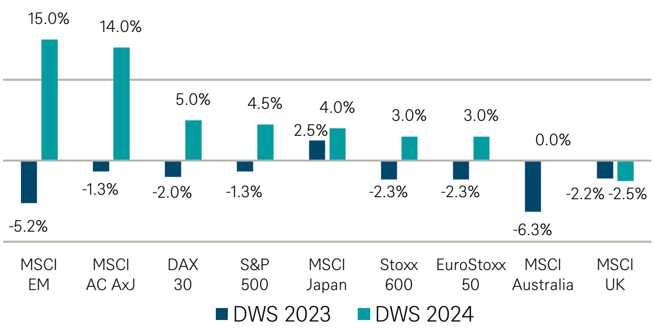
Our most favored equity regions: Asia and Europe

Daniela Gombert

Over a horizon of twelve months, Asian and European stock markets appear to be much more promising than the U.S. market. Europe is primarily supported by positive earnings revisions, and Asia, particularly its emerging markets, by the expected two-digit growth of corporate earnings in 2024. U.S. stocks might be particularly burdened by the expected higher yields of 10-year U.S. bonds, which might exert pressure on stock valuations, i.e. price/earnings ratios. The Japanese stock market has been among the top performers in the current year – meanwhile, it has almost returned to the high levels of 1989 and 1990. "Unlike roughly 30 years ago, valuations are far from being as exaggerated as they used to be back then.
Generally speaking, Japanese stocks allow investors to become part of the Asian growth story," equity fund manager Daniela Gobert states.
Particularly the opening of the Chinese and domestic economies as well as the return of tourists should have a positive impact. This means that, medium-term, Japan should be a quite interesting market for investors, even if prices have already had a good run short-term. In Europe, we continue to favor European small- to mid-caps. Their performance up to now has been below average, their valuation is roughly 20 percent below the average of the past 15 years. These stocks thus incorporate quite a high catch-up potential.

Promising emerging markets

Expected development of corporate earnings for the years of 2023 and 2024



Source: DWS Investment GmbH, as of June 2023

Equities USA

Hardly any price potential for U.S. equities – currently more risks than rewards

- Over the next twelve months, we see hardly any upside potential for U.S. stocks. Corporate earnings are, at best, expected to stagnate this year and to start rising again not earlier than in 2024.
- High interest rates should additionally contain the valuation potential. Downward swings cannot be ruled out.
- As of June 2024, the S&P 500 might have reached 4,200 points.

Equities Germany

DAX: price opportunities remain even if the momentum is no longer the same

- The German stock market is the most cyclical market in Europe. After the extremely pleasing start into the new year, purchasing manager indices are meanwhile signalling a slight cooling down of the economy.
- Tailwinds from corporate profits should wane correspondingly, and the forthcoming quarters might bring about disappointments for individual companies.
- As of June 2024, we do, however, still see some potential for the DAX. Our target is 17,000 points.

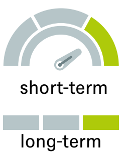
Equities Europe

Basic assessment is positive, dividend yields are impressive

- For quite a while we have held a positive view of European stocks, which has proved to be accurate up to now – prices have risen substantially in the course of this year.
- Selected European equities are still among our favorites. Valuation discounts versus U.S. equities continue to be high, dividend yields – 3.5% for the Stoxx 600 – remain attractive.
- Our target of 480 points for the Stoxx 600 as of June 2024 corresponds to a total return of 9.7% (at a price of 452 points).

Equities Emerging Markets

Asian equities currently most promising



- Asian stock markets have been clear laggards this year which has been quite successful for equities so far. We hold the view that this will change.
- For 2024 we expect a strong, clearly two-digit growth of corporate earnings.
- Over a twelve-month horizon, Asian equities offer the highest total return potential. Target for the MSCI Asia ex Japan by June 2024: 680 points.

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 09 June 2023

#3 Multi Asset / Fixed Income

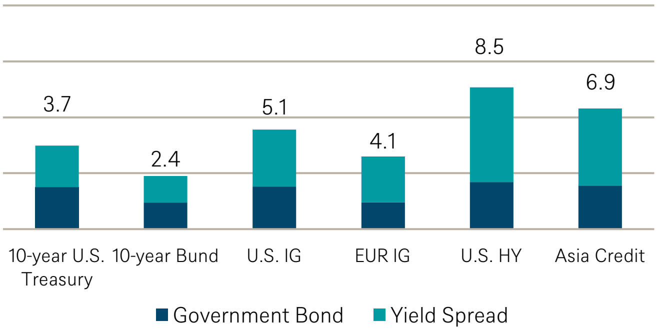
Comeback of Bonds in Multi-Asset Portfolios


Christoph Schmidt

"The positive market performance up to now should not mislead us into euphoria," Christoph Schmidt, head of the DWS Total Return team, says. The full impact of recent rate hikes has not yet fully unfolded, the risk of an economic slowdown might be underestimated. We reacted to this situation by changing the allocation in our multi-asset portfolio." Schmidt adds: "From the viewpoint of diversification, we no longer only bet on corporate bonds, which have been in focus since the end of last year.
Since the start of this year, we have also added sovereign bonds, since they should once again take over their classical role of a safe haven." Schmidt also relies on gold and currencies such as the dollar.
In spite of the looming economic slowdown, he also favors selected cyclical stocks, such as the beneficiaries of the energy transition, which moreover followed their own structural trend and not immediately the overall economic cycle.

Attractive corporate bonds

Yield spreads of corporate bonds versus sovereign bonds



Source: DWS Investment GmbH, as of June 2023

U.S. government bonds (10 years)

Yield rise expected

- The total return on ten-year U.S. government bonds has undergone a positive development in the current year.
- Over a twelve-month horizon, we expect yields to rise to 4.20%, depressing total returns.

German government bonds (10 years)

Prices might come under pressure

- The yield rise on 10-year Bunds should not be over yet.
- As of June 2024, we expect yields of 2.80%, which would weigh on prices.

Emerging market sovereign bonds

Good prospects, careful selection remains mandatory

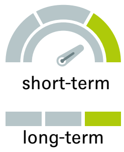
- Emerging market sovereign bonds currently appear to have much more potential than their counterparts from industrialized nations.
- Over a twelve-month horizon, it is, in our view, well possible to achieve returns of 3.9%. However, careful selection remains mandatory.

Credit

Investment Grade

USA

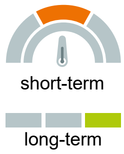
Eurozone



High Yield

USA

Eurozone



#4 Currencies

Euro/Dollar

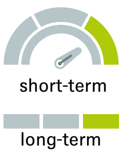
Still good arguments for a strong euro

- There are various indications that the euro could appreciate again against the dollar after its recent weakness. First of all, there is a rather high probability that the U.S. economy might slide into a mild recession soon. Secondly, the U.S. Federal Reserve might start to cut rates way before the European Central Bank.
- For this reason, we expect a somewhat stronger euro. Our forecast of the euro/dollar exchange rate as of June 2024: 1.12

#5 Alternative assets

Gold

Gold price likely to rise further



- The U.S. Federal reserve is likely to set out on a rate cutting path in the second half of 2024. In its wake, the dollar, the global trading currency for gold, is expected to depreciate versus other currencies, thus turning the gold price for investors outside the dollar region more interesting again.
- Moreover, the central banks of emerging-market countries are likely to continue diversifying their currency reserves with gold, thus contributing to high demand.
- Our target by June 2024: 2,200 dollars.

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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

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.

VIX
Expresses the expected range of fluctuation or volatility of the S&P 500 index.

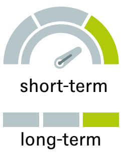
VSTOXX
Expresses the expected range of fluctuation or volatility of the EuroStoxx 50 index.

Legend

The strategic view by June 2024

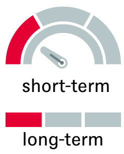
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 09 June 2023



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes

DWS International GmbH as of 2023/6/09 – CRC 096 335 (06/2023)