October 2023

Contents

This document is marketing material. For Professional Clients (MiFID Directive 2014/65/EU Annex II) only.

Market outlook

#1 Market & Macro

Stock market opportunities capped by high sovereign bond yields


Björn Jesch

Another geopolitical hotspot has sprung up in Gaza, with appalling consequences for the people in the region, entailing political and economic consequences difficult to assess for now. Stress levels on stock and bond markets had already risen substantially even before this escalation. "The VIX index, reflecting the expected volatility of the S&P 500, as well as the MOVE index, calculating the implied volatility of U.S. Treasury options, have, for the first time, climbed above their May levels at the start of October," Björn Jesch, Global Chief Investment Officer, remarks. Price gains of equities and bonds accumulated since the start of this year have partly melted away. "All in all, markets seem to be appropriately valued after the most recent correction," Jesch adds. However, price potential for global equity markets appears to be limited for now. "In order to pave the way for a short-term recovery, 10-year treasury yields would have to stabilize or, even better, fall substantially," Jesch says. Among equities, Jesch currently favors the communications sector, offering growth at an appropriate valuation, and consumer discretionary.

Topics driving capital markets

Economy: weak growth expected in industrial nations

- For the United States, we rate the probability of a mild recession at 60 percent. Growth is expected to decline to 0.4% in 2024 (2023 expected: 2.0%).
- In the Eurozone, growth should continue to be slow. Our forecast is 0.8% for the year of 2023 and 0.9% for 2024.
- By contrast, emerging markets are expected to register robust growth: 3.9% in 2023 and 4.0% in 2024.

Inflation: substantial decline expected for the year to come

- U.S. core inflation remains on a high level due to the still tight labor market. We forecast an inflation rate of 4.1% for 2023 and of 2.6% for 2024.
- Inflation in the Eurozone has fallen to 4.3% in September (August: 5.2%). For the whole year of 2023, inflation rate should stay at the very high level of 5.7%, while we expect a marked decline to 2.5% in 2024.

Central banks: rate hiking cycle could be over

- The massive rate hikes of central banks are gradually showing some impact. Economic dynamics in the United States and in the Eurozone is losing steam.
- The Federal Reserve should not raise its key interest rates any further, unless inflation surprises on the negative side. And also the rate hiking cycle of the European Central Bank could have come to the end.

In focus: limiting global warming to 1.5 degrees

80 percent*

of the necessary emission reductions can be achieved, according to the IEA**, by further expanding renewable energies, increasing electrification, improving energy efficiency and reducing methane emissions.

20 percent*

of all new cars sold world-wide are electric vehicles. Two year ago, their share amounted to a meagre four percent.

* Source: CNN, September 26, 2023: Not nearly enough. IEA says fossil fuel demand will peak soon but urges faster action; ** IEA: International Energy Agency

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 11 October 2023

Positive outlook for Japanese equities

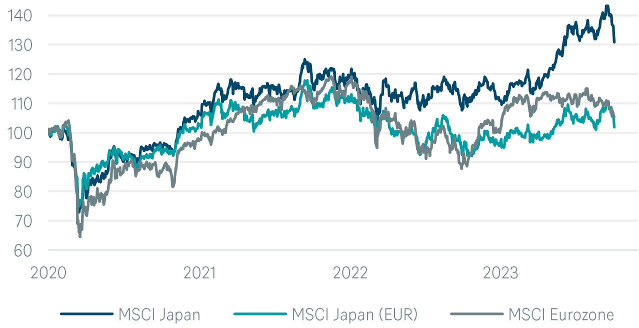
Lilian Haag

In the last couple of weeks, equity investors had hardly any reason to rejoice – the price gains achieved since the start of this year have partly melted away. Japanese equities have not been spared. "However, in contrast with many other markets, we are currently constructive on Japan," portfolio manager Lilian Haag explains.
The price losses of the last few weeks might offer good entry points. "On the corporate side, we experience that the weak yen strongly supports export-driven Japanese companies," Haag adds.
The return of tourists, who had kept away for a long time, is another driver of the domestic economy. Another positive aspect is the return of inflation, with its favorable impact on the growth of the nominal gross domestic product as well as of corporate profits. "We have not seen such a situation in twenty years," Lilian Haag states.
Economic dynamism is currently not threatened by headwinds from the Japanese central bank. With an inflation rate currently on a level of 3.5 to 4 percent, no rate hikes or other restrictive measures are to be expected from the Japanese central bank.

In addition to these positive effects, there is also the "China factor". For Asian investors, investments in Japan are increasingly an alternative to investments in China. A gradual recovery of China and the global economy should also have a positive impact. And finally, international investors are still underinvested in Japan.

Japanese equities outperform eurozone

Weak yen reduces price gains of euro investors
(Index, January 2020 = 100)



Source: DWS Investment GmbH, as of October 2023

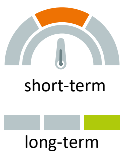
Equities USA

Little upside potential

- Consumption-driven tailwinds for the U.S. economy caused by a strong rise of wages and surplus private savings will probably wane.
- S&P 500 gains are expected to move rather sideways and not upwards. The price/earnings ratio is currently slightly above its fair value of 18. In the face of uncertainty about a possible recession, we see little upside potential for the S&P 500.

Equities Germany

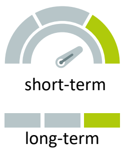
Short-term, more drags – long-term, some potential



- The German leading Dax index has fallen substantially of late, reaching a level roughly six percent below its annual peak at the end of July.
- High energy prices and weak demand from China, particularly punishing the chemical sector, are two of the currently major drags.
- Short-term, we are neutral on the German equity market, but we do see potential long-term.

Equities Europe

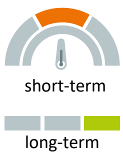
Positive return outlook over a 12-month horizon despite waning dynamism



- No recession but no dynamic recovery either. Europe should succeed to navigate through the next few months without major difficulties.
- Corporate earnings should turn out to be moderate in the next twelve months, growing in the low one-digit range.
- Total returns are expected to be in the medium to high one-digit range by September 2024.

Equities Emerging Markets

Asian equities: positive shift not yet round the corner



- Equities from Asian emerging markets have disappointed in the current year, substantially underperforming equities from industrial nations or Latin America.
- There are no signs of a positive shift yet. Earnings revisions of corporate results continue to be negative, tensions between the United States and China are still around as well as the problems on the Chinese real estate market.

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 11 October 2023

#3 Fixed Income

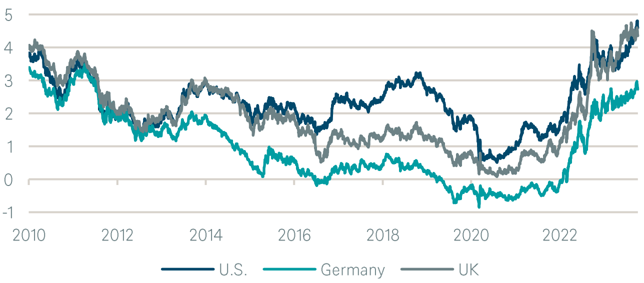
Investment-grade corporate bonds continue to be promising

Thomas Höfer

The last few weeks have been bleak, on fixed-income markets and on equity markets alike. Rising yields have caused a marked melt-down of the positive total returns accumulated since the start of this year. We are currently neutral on 10-year sovereign bonds, except for U.S. bonds. Investment-grade corporate bonds should offer better chances. "Still high corporate profit margins and a comparably low leverage are good basic conditions," Thomas Höfer, Head of Investment Grade Credit EMEA, states.
Due to the recent increase in volatility, the yield spreads of investment-grade Euro corporate bonds versus Bunds have increased to 160 basis points (100 basis points are equivalent to one percentage point).
"This should be an interesting entry level," Höfer adds. By the end of 2024, the credit expert expects yield spreads to narrow to 110 basis points. Chances of price gains are, therefore, correspondingly good.

Soaring bond yields

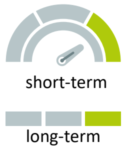
10-year sovereign bond yields in comparison (data in %)



Source: DWS Investment GmbH, as of October 2023

U.S. government bonds (10 years)

Yields are rather expected to decline medium-term



— Yields of U.S. government bonds have risen considerably again.
— We do not expect another jump in yields. As of September 2024, yields should amount to 4.20%.

German government bonds (10 years)

Yields should not rise much further

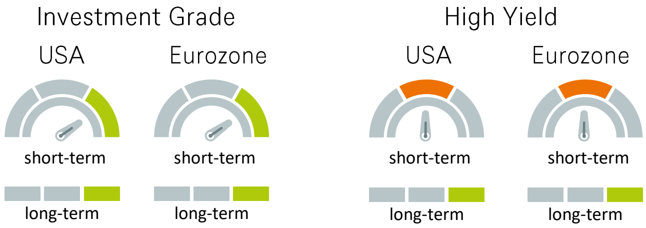
— 10-year Bund yields have started to decline again of late.
— We expect yields to stabilize roughly around the current level of 2.7% in the next twelve months.

Emerging market sovereign bonds

Total returns close to two-digits expected

— Emerging market sovereign bonds suffered substantial price losses.
— As of end of September 2024, we forecast total returns of roughly ten percent and thus a good reward of the risk taken.

Credit



#4 Currencies

Euro/Dollar

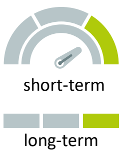
Euro will hardly be able to stand up to a strong dollar

— Despite the euro weakness, we no longer expect a substantial revaluation of the common European currency.
— Higher yields and high oil prices argue in favor of a continuously strong dollar.

#5 Alternative assets

Gold

Gold price with potential – headwinds should wane



— Higher real yields in the United States and the strong dollar have caused the gold price to fall below the level of 1.900 dollars per ounce.
— We are nevertheless still strategically constructive on gold. Headwinds from interest rates and the dollar are expected to wane. Moreover, gold should remain in high demand.
— Our target by the end of September 2024: 2,150 dollars.

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 11 October 2023

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.

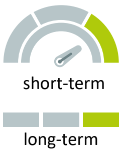
US Federal Reserve (Fed)
The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Legend

The strategic view by September 2024

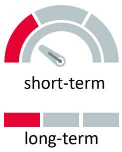
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 11 October 2023



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes

DWS International GmbH as of 11/10/2023 – CRC 098 091 (10/2023)