

Market Outlook

This document is a marketing communication

#1 Markets & Macro

Earnings momentum should continue to support equities despite high bond yields



Vincenzo Vedda

"We remain positive on equities in the fourth quarter," says Chief Investment Officer Vincenzo Vedda. He bases this optimistic assessment on two factors: the expected continued strength of corporate earnings and robust economic growth.

Corporate earnings estimates are particularly noteworthy: for the first time in five years, 12-month earnings forecasts have been raised for every sector in the MSCI World.

The downside is that the scope for disappointment is high. If earnings momentum falls short of expectations, equity markets could come under pressure. Vedda identifies three further risk factors: first, high bond yields, which are increasing valuation pressure across many market

segments. In the US, ten-year Treasury yields have risen above 5 percent, a level previously seen as critical for positive equity-market performance. The second, also familiar risk is the continued concentration of gains in the technology sector. Around 50 percent of expected S&P 500 earnings growth for the third quarter of 2026 is projected to come from investment in artificial-intelligence infrastructure. Vedda sees the third risk in a potential slowdown in consumer spending amid high energy prices. "As long as the conflict between the US and Iran remains unresolved, there is unlikely to be an all-clear," Vedda says.

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Themes driving capital markets



Economy: US and Germany deliver positive surprises

- Positive surprise: US gross domestic product growth for the second quarter was revised up from 1.5% to 2.2%. Consumer spending in particular proved more resilient than expected.
- Better than expected: the September ifo index, a monthly sentiment indicator for the German economy, shows that conditions in Germany are currently better than the public narrative suggests. The improvement is particularly pronounced in manufacturing.



Inflation: High energy prices keep inflation well above central-bank targets

- The US continues to face price increases well above the 2 percent inflation target. The current annualised inflation rate is 3.4 percent. However, price pressures appear to have eased somewhat recently.
- In Germany, higher energy prices pushed inflation up to 3.3 percent in September, from 2.9 percent in August.



Central banks: Further rate hikes are far from certain

- Recent US economic data support the view of a robust but not overheating US economy. The Federal Reserve is likely to remain cautious.
- In the Eurozone, the sharp rise in bond yields, which is already tightening financing conditions, makes an October rate hike unlikely in our view.



Risks: Further rise in bond yields

- A further increase in government-bond yields could put pressure on equity valuations, which have so far proved resilient to rising yields.
- France poses a particular risk, with sovereign bond spreads reaching new highs as fiscal consolidation appears increasingly remote.

#2 Equities

German equities: Underappreciated opportunities from physical AI



Sabrina Reeh

What lies ahead for Germany's benchmark Dax index? This year, it has been something of an international laggard. Nevertheless, portfolio manager Sabrina Reeh sees grounds for optimism. "In our view, the improvement in Germany's leading economic indicators is more than a short-lived lift in sentiment. After several years of economic weakness, we are seeing initial signs of stabilisation." Reeh points to the opportunities created by major public investment programmes. The full breadth of this spending has yet to feed through to the economy. "This suggests that we are closer to the beginning than the end of this investment cycle," Reeh says. She therefore sees attractive opportunities within the German equity market to generate returns above the broader market through selective investment decisions. For the Dax as a whole, however, the global economic and investment cycle remains decisive.

Positive earnings momentum

Earnings at Dax companies have recently developed much better than the negative sentiment would suggest. The German equity market is also far more broadly based than it was ten years ago. "Infrastructure, electrification, software, automation and industrial technology have become considerably more important," Reeh says. The portfolio manager believes the Dax is much more exposed to technology and investment cycles than many investors may assume.

Huge potential from physical AI

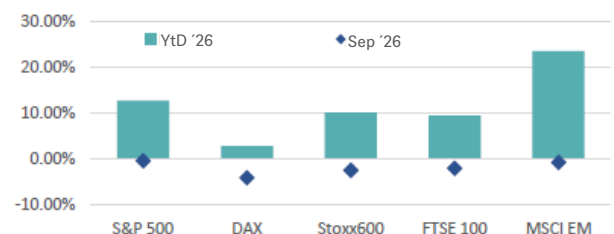
Physical Artificial Intelligence (AI), in particular, could offer enormous potential. While many investors associate AI primarily with data centres or large language models, physical AI is about

software, sensors, robotics and machinery performing real-world tasks. "Germany is home to many leading companies in automation, industrial software, sensor technology, drive systems and industrial equipment and has one of the highest robot densities in the world," Reeh says. This makes the country not only an important supplier but also a natural adopter of these technologies. "The combination of industrial strength, labour shortages and a high degree of automation could make Germany one of the leading beneficiaries of physical AI," Reeh says.

For German equities to perform well, however, the global economy must also play its part, as it has a greater influence than the domestic economy. "With a robust global investment cycle, many German companies should benefit disproportionately," Reeh concludes.

German equities: Still lagging significantly

Equity performance year to date and in September 2026



Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 30 September 2026.

US equities: Strong earnings growth should continue to support prices



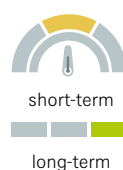
- US equity prices should remain supported by strong earnings growth, AI-driven investment and robust production data.
- Persistent inflationary pressure, softer consumer spending and fading fiscal stimulus are potential risk factors.

German equities: Signs of an economic recovery are mounting



- Public spending, exports and initial signs of stabilisation in manufacturing are improving the outlook for the German economy and, in turn, for German equities.
- However, German equities remain highly dependent on the global economic cycle.

European equities: Preference for European small and mid caps



- Economic data in Europe have improved recently. It remains to be seen whether the brighter economic backdrop will also lead to sustained capital inflows and stronger investor demand for European equities.
- Our current favourites are European small and mid caps, which should benefit from the recovery in the industrial sector and also trade at low valuations.

Japan: Resilient economy benefits from AI investment



- We maintain our positive view on Japanese equities. Corporate business conditions are at their strongest since the 1990s. The economy continues to benefit from a robust investment cycle driven by artificial intelligence (AI).
- A stronger yen, higher energy prices or a slowdown in global investment in artificial intelligence could weigh on performance.

#3 Bonds

US Treasuries look attractive after rise in yields

Following the recent rise in yields, we once again consider U.S. Treasuries more attractive. In our view, markets are pricing in more monetary tightening by the Federal Reserve than our economic outlook would suggest. At the same time, weaker growth and easing inflationary pressure could support US Treasury prices.

German Bunds considered a safe haven

The picture in Europe is more mixed. Concerns about French public finances have widened many countries' spreads over German Bunds, while Bunds have benefited from their safe-haven status.

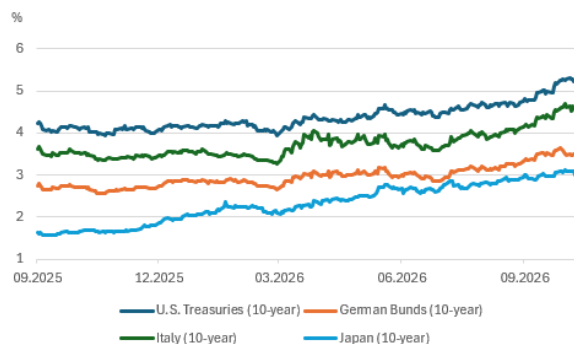
European IG bonds attractive

We also see attractive return opportunities in European investment-grade corporate bonds. Low price volatility, solid fundamentals and manageable new supply support the asset class, alongside attractive income and continued inflows. If interest-rate volatility subsides, demand could rise further.

European high-yield bonds also look more attractively valued following September's correction, which widened spreads over government bonds by around 50 basis points; 100 basis points equal one percentage point. The improved economic and interest-rate outlook and continued solid demand are additional positives. Risks include global monetary tightening and rising new issuance.

U.S. Treasury yields have risen sharply

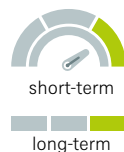
Yields have now also risen sharply in Japan



bp: basis points. 100 basis points equal one percentage point. Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 30 September 2026

US government bonds (10 years)

Attractive total returns



- We expect U.S. Treasury yields to decline slightly over the next 12 months.
- Alongside attractive yields, this creates scope for capital gains.

German government bonds (10 years)

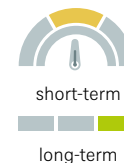
Bunds in demand among investors



- Bunds could benefit from declining interest-rate expectations.
- Total returns of 6.7% could be possible over a 12-month horizon.

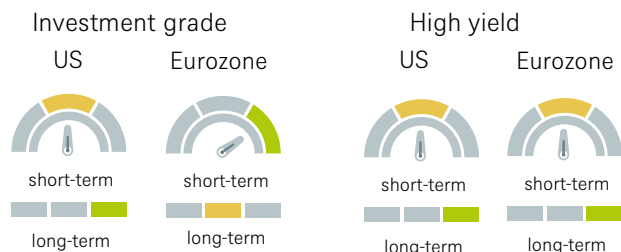
Emerging-market government bonds

Valuations no longer quite as attractive



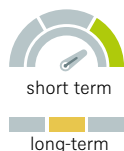
- Recent strong performance has lifted valuations.
- We have therefore downgraded our short-term view to neutral.

Corporate bonds



#4 Currencies

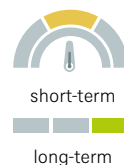
Euro/US dollar: Euro weakness likely to be temporary



- The euro has weakened significantly against the US dollar in recent weeks. The likely drivers were a more restrictive Federal Reserve stance and a wider short-term interest-rate differential.
- Over the longer term, however, we expect the euro to strengthen again, partly because the yield differential is likely to narrow.

#5 Alternative Investments

Gold: High bond yields weigh in the short term; prices should rise again over the long term



- Higher US Treasury yields have recently weighed on gold prices. Unlike institutional investors, retail investors have held back from buying.
- Gold could retest the USD 4,000 per troy ounce threshold in the short term. Over the longer term, however, we see substantial upside potential, supported in part by stronger central-bank demand.

Glossary

Basis point

One basis point equals 1/100 of a percentage point. $\times 000B$

Dax

Market-capitalisation-weighted performance index comprising Germany's 40 leading listed companies and including dividend payments.

FTSE 100

Equity index representing the 100 largest companies by market capitalisation listed on the London Stock Exchange.

High Yield (HY)

High-yield bonds issued by lower-credit-quality borrowers, generally offering comparatively high interest rates.

Investment Grade (IG)

Corporate bonds assessed by rating agencies as having a relatively low risk of default, with at least medium credit quality.

MSCI World

Global equity index tracking the performance of around 1,300 stocks from 23 developed markets.

Return

The relationship between the cash outflows and inflows of an investment.

Return

The relationship between the cash outflows and inflows of an investment.

S&P 500

Market-capitalisation-weighted equity index representing 500 leading listed US companies.

Legend

The strategic view to September 2027

The indicators show whether we expect the relevant asset classes to trend upwards, sideways or downwards. They indicate the short- and long-term return potential for investors.

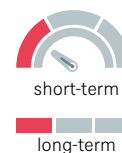
Source: DWS Investment GmbH; CIO Office, as of 9 October 2026



Positive return potential



Opportunities for gains, but also risks of loss, are relatively limited



Negative return potential

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