August 2026

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This document constitutes a marketing communication

Market outlook

#1 Market & macro

Selective opportunities in technology and software stocks


Vincenzo Vedda

Recent weeks have been marked by sharp price swings in technology, particularly in chip stocks. The South Korean equity market, dominated by semiconductor stocks, has roughly halved within five weeks and is nevertheless still up by about 50 percent year to date. US technology heavyweights also posted intraday swings in the double digits.

"Markets will probably need a little more time to decide whether the correction in some technology stocks has led to a sufficient clean-out," says Chief Investment Officer Vincenzo Vedda. "We are using the pullbacks in semiconductors to upgrade the segment again." Earnings momentum at memory-chip makers is likely to be cyclical, and current net margins of 60 percent are unlikely to be sustainable over several years. The supply of memory chips, however, is likely to grow only slowly and should face demand that is expected to continue increasing for at least several quarters. "Price falls of in some cases 60 percent, fuelled in part by leveraged forced selling, are in our view signs of an overreaction," Vedda says. Warning signs are nevertheless present.

The risk that investment in data centres may have peaked by 2028 at the latest cannot be dismissed. Rising bond yields and rapidly widening costs for insuring against borrower default among neocloud providers, which offer powerful, cost-efficient AI infrastructure, are a warning signal.

Vedda also sees partial overreactions in the global software and services sector, which has come under heavy pressure. Valuations have now fallen markedly; in September 2025, the price/earnings ratio was still 28, compared with 18 today. "We see selective opportunities emerging again here and have therefore upgraded the sector to 'neutral'," Vedda says.

Economy: Slight improvement in Germany

- Slightly more optimism about future business expectations: that is the result of the latest ifo index, which rose in July for the third month in a row. By contrast, surveyed companies were less satisfied with the status quo.
- In the US, the US Conference Board Consumer Confidence Index declined. Reasons include concerns about the outlook for the US economy and the labor market.

Inflation: Price increases in the eurozone and Germany clearly above the 2.0 percent target

- Inflation in the eurozone remains clearly above the 2.0 percent target. In July, a slight rise to 2.9 percent was recorded (June: 2.8 percent). The main driver was rising energy prices.
- The expiry of the fuel discount also led energy prices, and with them inflation, to rise again in Germany. In July, the inflation rate stood at 2.8 percent (June: 2.3 percent).

Central banks: Uncertainty about US interest-rate policy has increased

- The US Federal Reserve, like the European Central Bank, left key interest rates unchanged.
- For markets, it is becoming increasingly difficult to assess the future direction of US policy rates. The new Fed Chair Warsh wants to guide markets less and trusts that they will correctly interpret the economic situation themselves.

Risks: War in the Middle East and implications for oil prices and inflation

- The ongoing war in the Gulf region has the potential to push oil prices and inflation concerns higher.
- A lack of guidance from the US Federal Reserve could become a risk factor, especially if markets were to seriously doubt the Fed's willingness to provide them with sufficient liquidity should conditions deteriorate.

Healthcare stocks: Undervalued quality stocks with AI potential

Dirk Schlüter

Is the healthcare sector an alternative to technology stocks? In recent years, that would not have been a good idea. It used to be different. "The divergence between the earnings and valuations of the two sectors has essentially emerged only over the past two to three years and was driven primarily by the euphoria around artificial intelligence (AI)," says investment strategist Dirk Schlüter, who uses the proprietary CROCI approach to value equities, making the intrinsic value of stocks more comparable. CROCI stands for Cash Return On Capital Invested, meaning return on capital employed.

How rapid the divergent development over the past ten years has been is evident from market capitalisation. Ten years ago, the market capitalisation of the US technology sector was still comparable with that of the healthcare sector. Today, it is more than three times as high.

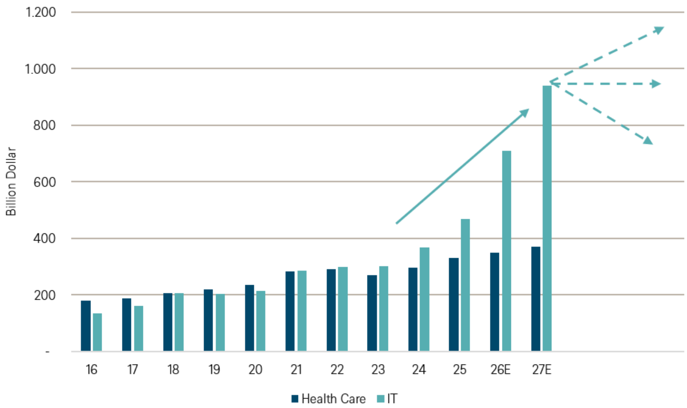
Particularly striking is the market's pessimistic assessment of pharmaceutical companies, which play a crucial role in healthcare. Companies for which more than half of their 2024 revenues are affected by patents expiring by 2030 performed especially poorly. "The market is currently pricing in that around 40 percent of these companies' economic earnings will disappear permanently. It is effectively assuming the worst case, namely that these companies will find no replacement in their product pipeline, either organically or through acquisitions," Schlüter says.

A similar situation also occurred in the early 2000s. Back then, pharmaceutical companies ultimately proved to be a major investment opportunity. Earnings declined in the short term somewhat. Ultimately, however, the companies found replacements in their product pipelines. "Today, even companies without an aggravated patent issue are valued very low by the market," Schlüter says.

The pessimistic market assessment is particularly questionable because it seems plausible that in the next phase of the AI revolution, when profits are primarily captured by users of AI, the pharmaceutical sector could be among the winners. "There are already early reports of medical research successes that, thanks to the use of AI, could lead to faster and more successful drug development," Schlüter says.

Healthcare stocks left behind forever?

Comparison of economic profits in the IT and healthcare sectors



Source: DWS, CROCI, as of 01 July 2026

Equities US: Strong corporate earnings should support prices

short-term

long-term

- US equities should remain supported by strong corporate earnings.
- Positive: although concentration in the S&P 500 remains high, earnings growth has become increasingly convincing in sectors beyond technology.

Equities Germany: Hopes of geopolitical easing push index to fresh highs

short term

long-term

- New highs for Germany's leading Dax index, although its year-to-date gain still looks rather moderate by international standards.
- Reason for cautious optimism: industrial order intake has risen significantly since September 2025, laying the groundwork for stronger production figures.

Equities Europe: Corporate earnings prove resilient

short term

long-term

- Record highs for the Stoxx 600 European equity index. In Europe's counterpart to the S&P 500, companies linked to semiconductors also performed particularly well. Bank stocks also contributed to the index's strong performance.
- Corporate earnings have remained positive since the outbreak of the US-Iran conflict and should support share prices.

Japan: Still promising – risks from an extremely weak yen

short-term

long-term

- Prime Minister Takaichi's political agenda should continue to support Japan's economic development. The defence sector and Japanese IT companies in particular appear well positioned.
- The pronounced weakness of the yen is positive for exports, but it also carries the risk of further inflation. Over the medium term, we remain positive on Japanese equities.

#3 Multi-Asset/Bonds

Broad diversification in volatile markets more important than ever

Vera Fehling

Market volatility has increased in recent weeks, not least in chip and technology stocks. Is this more of an entry opportunity, or a wake-up call to reduce equity exposure and allocate more to bonds and other asset classes? "In principle, we currently have a neutral stance on equities as an asset class," says Vera Fehling, Chief Investment Strategist Western Europe. "We currently count emerging markets and Japan among the most promising regions." The capital-market strategist sees the increased volatility in emerging markets more as an entry opportunity than as a cause for concern. Valuations are now more attractive, while the earnings-growth trend remains intact.

Bonds becoming more competitive

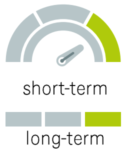
"We are also neutrally positioned in bonds at present, albeit with a slightly positive underlying tone. In general, we believe bonds should become significantly more competitive with equities again over the longer term," says Fehling. Here, too, the picture is differentiated. The enormous issuance activity by large US hyperscalers such as Alphabet, Amazon, Meta and Microsoft continues to attract attention. However, the US has now also become the largest issuing country in this segment.
"So far, we view the rising US share of high-quality euro corporate bonds primarily as a welcome diversification opportunity, but we will monitor this closely into the autumn," says Fehling. "We are currently cautious, meaning underweight, on riskier high-yield bonds with lower credit quality. In our view, spreads over government bonds are currently too low," says Fehling. They do not adequately reflect the existing risks.

Importance of currency markets

Currency markets also deserve heightened attention. Recent interventions in favour of the Japanese yen suggest that an excessively weak yen is increasingly being perceived as a global risk. "Given the many market-moving issues, we believe a balanced portfolio that captures opportunities without losing sight of risks is particularly important," Fehling concludes.

US government bonds (10 years)

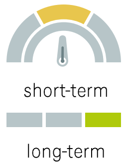
Attractive yield levels



- Yields on 10-year US Treasuries are at their highest level in 20 years.
- This makes US government bonds an interesting investment option.

German government bonds (10 years)

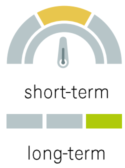
Slightly lower yields expected



- Ten-year German Bunds are yielding 3.12 percent (6 Aug.), their highest level since 2011.
- We expect slightly lower yields by July 2027.

Emerging-market government bonds

Risky, but with high yields

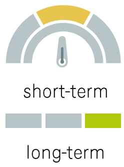


- Emerging-market government bonds have lost some value since the start of the year.
- Yield levels remain interesting, while risks are elevated.

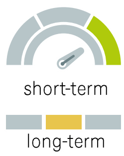
Corporate bonds

Investment Grade

USA

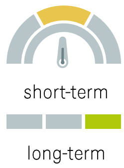


Eurozone



High Yield

USA



Eurozone

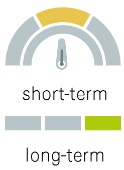
#4 Currencies

Euro/dollar: **Euro likely to regain some strength over the medium term**

- Stronger growth momentum argues for the dollar's current strength versus the euro.
- Structural factors such as US fiscal pressures, geopolitical risks and potentially waning credibility of economic policy should, however, help the euro regain some strength against the US currency over the medium term.

#5 Alternative investments

Gold: **Limited upside potential**



- We expect the gold price to remain in a trading range similar to recent weeks.
- Uncertainty about the inflation outlook and the future monetary-policy course of the US Federal Reserve is likely to limit upside potential.

Glossary

Basis point

One basis point equals 1/100 of a percentage point.

Dax

Market-capitalisation-weighted index comprising Germany's 40 most important listed companies. Performance index that includes dividend payments.

High yield (HY)

High-yield bonds issued by lower-rated borrowers, which generally offer comparatively high interest rates.

Hyperscaler

Provider of cloud services that operates enormous computing, storage and network-infrastructure resources and makes them available globally and at high scalability.

Investment grade (IG)

Corporate bonds that rating agencies classify as having a low risk of default (at least medium credit quality).

Yield

The ratio of the outflows to the inflows of an investment.

S&P 500

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

Stoxx 600

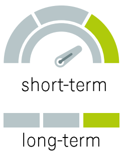
Equity index of European companies from the large-, mid- and small-cap segments.

Legend

The strategic view by July 2027

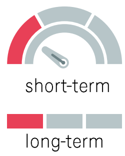
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 7 August 2026



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes