

Our monthly market analysis and positioning



Vincenzo Vedda
Chief Investment Officer

IN A NUTSHELL

- April saw a strong rebound in equities on perceived reduced risks and strong first quarter company earnings.
- For bonds and gold it was a difficult, inflationary month, with oil far more expensive than before the war.
- We think the short-term outlook will be determined by the playing out of two factors: the so far unabated AI rally in the U.S. and the ongoing blockage of the Strait of Hormuz.

1 / Market overview

1.1 The fog of war versus the force of earnings

What people commonly say about the weather in April could this year be applied to markets and politics as well: it seemed as if everyone did what they pleased. In the Iran war numerous red lines were drawn and ultimatums issued, only for them to evaporate again shortly after. A ceasefire was agreed, at least, and it has held reasonably well to this day. At the same time, however, one blockade of the Strait of Hormuz became two after the United States decided no longer to allow ships with links to Iran to pass through. This did not help the oil price, which retested its recent highs. And, unsurprisingly, this pushed bond yields higher again, meaning that central banks no longer have grounds to cut interest rates.

The U.S. Federal Reserve also appeared to be following a capricious April script. Jerome Powell broke with previous convention by remaining a Fed governor even as he is about to hand over the Fed chairmanship to Kevin Warsh. He believes this will better shield the Fed from the whims of the current U.S. administration.

While the Iran conflict cast a shadow over the markets for government bonds and energy, equity markets did what they always like to do: they went up. Especially in recent years, that has been their strong inclination whenever the market has suffered a setback. And therefore, today's generation of equity investors and traders is accustomed to the idea that buying the dip usually pays off – either because central banks are ready to fire if markets are in serious trouble, or because investors know how important rising equity markets are to the current U.S. administration.

The earnings season was the excuse for April's mega rally – even as the Iran war went on. Over one-third of European companies and more than half of U.S. blue chips have reported their results and analysts are so enthusiastic that they have sharply revised up their earnings estimates for the current year. Consensus now expects earnings growth for 2026 of 15% year on year in Europe and 20% in the United States.¹ At the beginning of the year the figures were just 13% and 14%, respectively. In Europe the improved outlook is driven almost exclusively by the energy sector, while in the U.S. technology

¹ All data from Bloomberg Finance L.P., as of 4/30/26, if not stated otherwise

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stocks are a second source of strength. Among the latter, only capital investment plans are growing faster than earnings. Last autumn, consensus still assumed that the largest investment wave for data centers would have taken place in 2025, with only relatively modest growth in 2026. But estimates are now pointing to capex growth of 50 to 100%. In concrete terms, the six largest U.S. hyperscalers alone are expected to invest more than 700 billion dollars this year, making a substantial contribution to overall investment volumes and economic growth.

Overall, it could be argued that bits and bytes – AI – have triumphed over molecules – oil – in April – at least on the stock market. In the analogue world, however, a number of commodity shortages are still likely to emerge over the summer.

1.2 A tale of two cities: equities surge ahead, bonds and commodities tell a different story

Several long-standing records were broken in April, not all of which will have pleased investors. Equities were the clear winners. The S&P 500 recorded a gain of 10.5%, its best performance since November 2020. Emerging markets did even better, with the MSCI EM Index rising by 14.7% as geopolitical concerns eased and semiconductors rallied, reflected in a hefty 38.4% increase in the Philadelphia Semiconductor Index, SOX.

For bondholders the month was far less enjoyable. Shortly before month-end, 10-year Japanese government bond yields surged to their highest level since 1997, above 2.5%. UK 10-year yields broke above 5%, their highest since 2008, while corresponding German Bund yields jumped to 3.11%, a level last seen in 2011.

Gold investors also had little reason to cheer. After an outright poor March, when prices fell by 12%, gold remained weak in April, losing around one percent.

The focus of attention, however, remained on oil. On April 17, a barrel of Brent could be bought for “just” 86 dollars intraday; by April 30 it cost 126 dollars. We expect prices to fall back by the end of the first quarter next year, but also to remain above where we had previously expected them. On the futures market a barrel for delivery in March 2027 is trading at around 85 dollars, compared with 76 dollars at the beginning of April.

2 / Outlook and changes

In mid-May the new strategic 12-month forecasts will be set as part of the quarterly strategy meeting of the DWS investment platform. In this edition we focus on the shorter-term outlook, which is dominated by the Iran war. How quickly hasty positioning after the outbreak of the war can backfire can be illustrated by the case of South Korea.

The Kospi equity index initially lost around one-fifth of its value in early March; South Korea is heavily dependent on oil imports from the Gulf region. The index then traded sideways through March amid high volatility, before posting an AI-driven surge of 40% in April. Amid such volatility it is easy to be caught on the wrong foot.

The questions investors face are easy to frame but difficult to answer. Do they look “through” the uncertainties of the coming weeks and assume normalization of the situation in the Gulf? Or do they consider how likely the reopening of the Strait of Hormuz really is? The different aims of the three parties to the war may make the probability of a near-term reopening quite low. Iran has found it can exert major pressure by blocking the Strait of Hormuz and has little reason to trust the United States or Israel after being bombed twice in the midst of negotiations. Israel has a strong interest in the far-reaching destruction of Iran’s functional capabilities. Meanwhile, the U.S. administration can hardly afford to leave the field without achieving any distinguishable tactical or strategic goal, yet also has an eye on the midterm elections and the potential impact on Republicans’ chances from inflation rises caused by a continuing war. The scenario of an unofficial freezing of the conflict is gaining traction but with the Strait of Hormuz closed this can hardly be called an equilibrium, even if, as modeled recently by the World Bank, diversion strategies can reduce the Hormuz supply gap of 20 million barrels of crude oil per day to around 5

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million barrels. The IEA expects a supply gap of 3.7 million barrels per day in the second quarter, which would be the largest deficit ever recorded. However, according to the Agency, this could already turn into a supply surplus again in the third quarter if the Strait reopens. At present, however, the closure constitutes a major supply shock. Now both the Iranians and the Americans are blocking Hormuz. And while a barrel of Brent crude cost USD 60 at the beginning of the year, intraday prices surpassed USD 125 on April 30.²

Across asset classes the market is performing a balancing act between these two perspectives of swift reopening versus persisting closure. Equity markets have been determined to be optimistic, with corporate earnings surprisingly strong and conviction taking hold that U.S. corporate earnings will be little affected by the war. Commodity and bond markets, however, are cautious. We see equity markets as being well supported by the medium-term economic outlook and earnings growth, but valuations could begin to suffer if inflation rates and bond yields fail to stabilize.

2.1 Fixed Income

Bonds have suffered much more than equities from the Iran war. Higher oil prices are a big worry for central banks. We believe that the Federal Reserve will delay interest rate cuts– we still expect two cuts, but we might not see them in 2026 anymore. The European Central Bank (ECB) meanwhile has communicated that it is now leaning towards interest rate increases rather than cuts, in order to keep inflation expectations anchored. Any ECB meeting now could produce a hike. But we still expect lower bond yields overall on a 12-month horizon. For corporate bonds we remain selective and neutral, as spreads are again very tight.

Government Bonds

Torn between hopes for a permanent ceasefire and a continued closed Strait of Hormuz, rates are trading with high volatility. In the U.S., monetary policy remains restrictive and the recent rise in yields tightened financial conditions. We went to Neutral on U.S. 10-year Treasuries with a bias towards becoming positive again but we have been positive on 2-year maturities all along. For German Bunds, on the other hand, we prefer longer maturities, 10-years and 30-years, which we have recently upgraded. At the same time, we have reduced 2-year maturities from positive to neutral given the ECB's inclination to raise rates. We have also reduced Japanese 10-year bonds to Neutral. Although the Bank of Japan (BoJ) decided to keep policy unchanged at the April meeting, the surprise was that three members voted in favor of a rate hike, sending out a hawkish message to the market. In its outlook the BoJ downgraded growth expectations given the supply constraints in the Middle East and raised its inflation expectations. The hiking path should resume once the data is clearer.

Corporate Bonds

We have left corporate bonds largely unchanged at Neutral. After the first ceasefire talks in early April, spreads tightened again close to historical lows both in the U.S. and Europe. New issuance has also resumed after a short period of anxiety, with solid demand offering a positive backdrop. But valuations are high and we remain Neutral.

Emerging Markets (EM)

In emerging markets (EM), sovereign spreads have rapidly squeezed back, broadly mirroring developed market credit, supported by strong technicals and selective resilience, but tight valuations are now limiting further upside, arguing for continued caution and a neutral stance. Asia Credit is supported by strong technicals and investment-grade-focused dip-buyers; spreads have remained rangebound with selective resilience. With near-term optimism largely priced in and downside risks from a prolonged conflict, we believe a Neutral stance remains appropriate.

² Current futures contract with delivery in June, Bloomberg Finance L.P. as of 4/30/26

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Currencies

We remain Positive on the euro versus the U.S. dollar. Europe's currency has moved higher as deteriorating sentiment and diminishing USD safe-haven³ demand outweigh geopolitical risk. Higher energy costs are increasingly acting as a drag on USD capital flows rather than a source of strength.

2.2 Equities

The reporting season for the first quarter is going ahead very positively on both sides of the Atlantic, but we have made changes to our geographic preferences. Europe is more affected by supply worries from the Iran war, and the U.S. market is benefiting extraordinarily from the AI capital expenditure (capex) boom. We have therefore downgraded Europe to neutral and upgraded the U.S. to neutral. Besides a stronger earnings outlook, U.S. equities also have additional tailwind from potential Fed cuts, even though they may only come in 2027. But hikes are more likely now in the Eurozone. In the absence of renewed military escalation in the Gulf we believe equities might obtain further support from the strong earnings season. But supply constraints from the Iran war could begin to really show up in corporate sales and earnings figures in the second and third quarter. Furthermore, valuations are demanding again, not only for the IT and communications sectors, but also for many industrial and materials stocks, which are linked to AI capex.

Within sectors we are looking closely at companies doing business in areas of AI where bottlenecks are persisting. We have moved our stance on the energy sector from positive to neutral as the oil sector has performed strongly in the aftermath of the closing of the Strait of Hormuz. For fossil energy companies, we believe both downside and upside risks from a continued closure or gradual reopening are now fairly priced-in. Suppliers of regenerative energy, on the other hand, might further benefit from the structural shift in demand.

2.3 Alternatives

Gold

We continue to like gold strategically. Several structural drivers, such as central bank buying and concerns about the USD, should persist. On a tactical basis, strong equity performance and higher interest yields might dampen further appreciation.

Oil

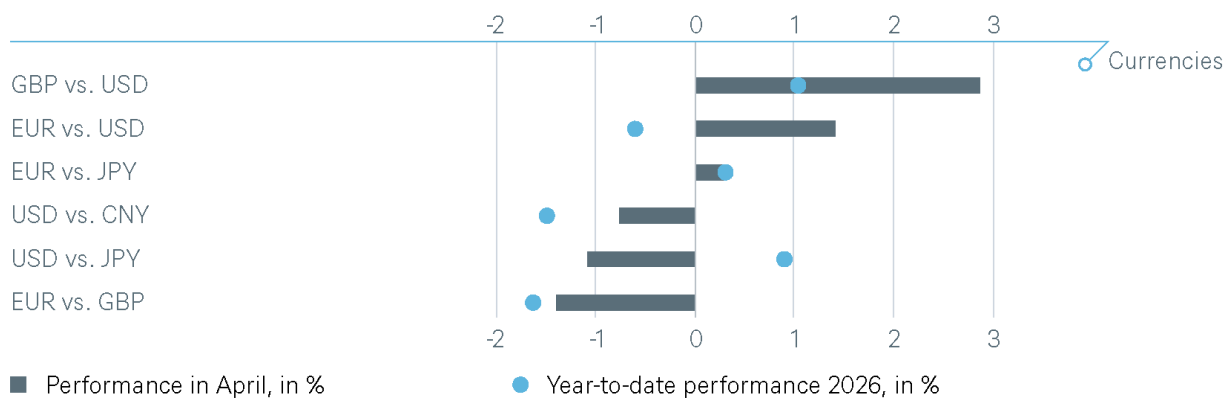
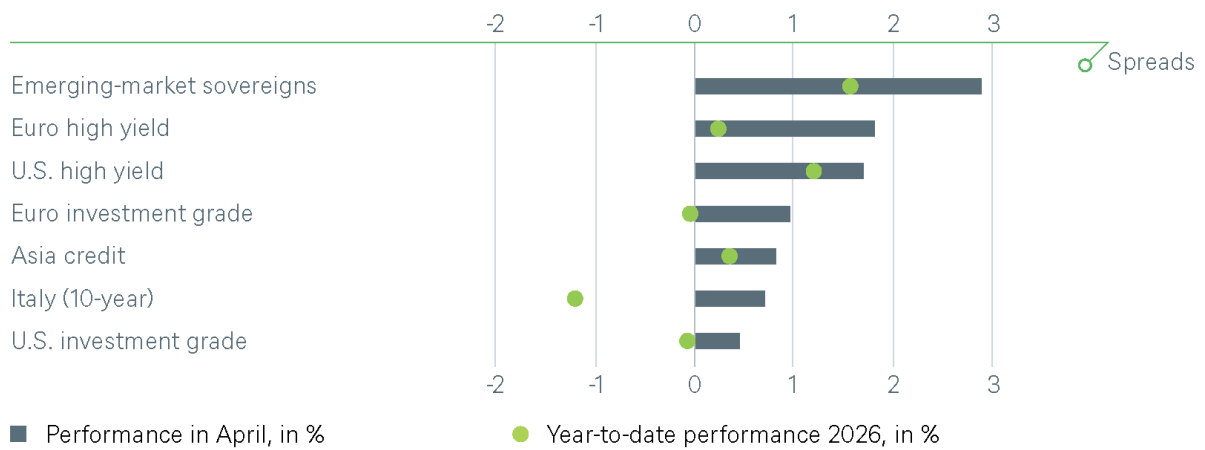
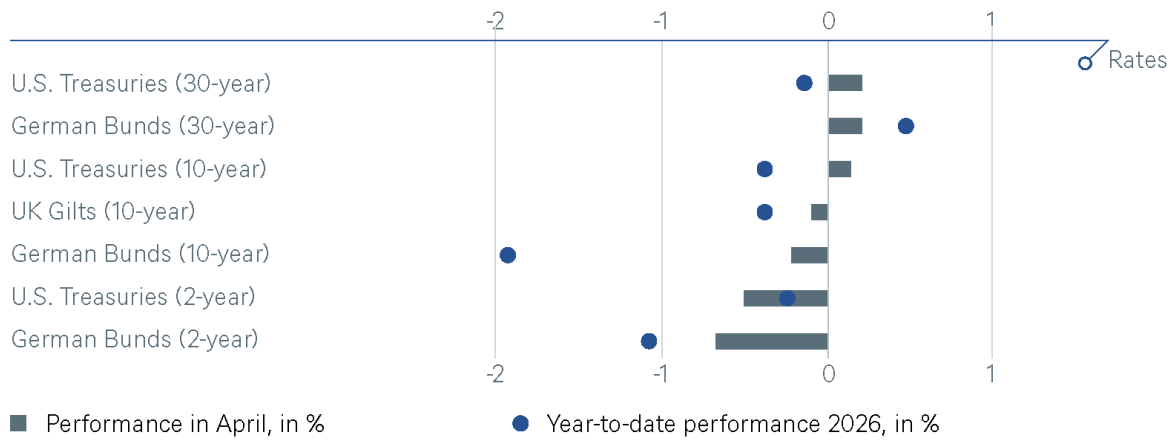
In the near term we expect energy prices to remain high as over 10% of global oil production remains off market. Refining capacity has also fallen. Additional damage to refining capacity in Russia is restricting exports and worsening the shortages of countries that need to import oil products. OPEC+ has agreed to increase its production cap by 188,000 barrels per day from June and the United Arab Emirates has declared that it is leaving OPEC, which should help oil supply after the conflict. We expect higher oil prices to remain for some time, followed by greater supply after the Iran conflict ends, resulting in rapid restocking of global crude inventories.

³ Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

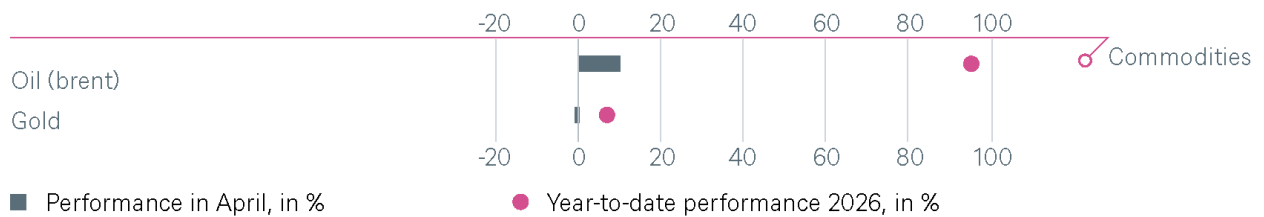
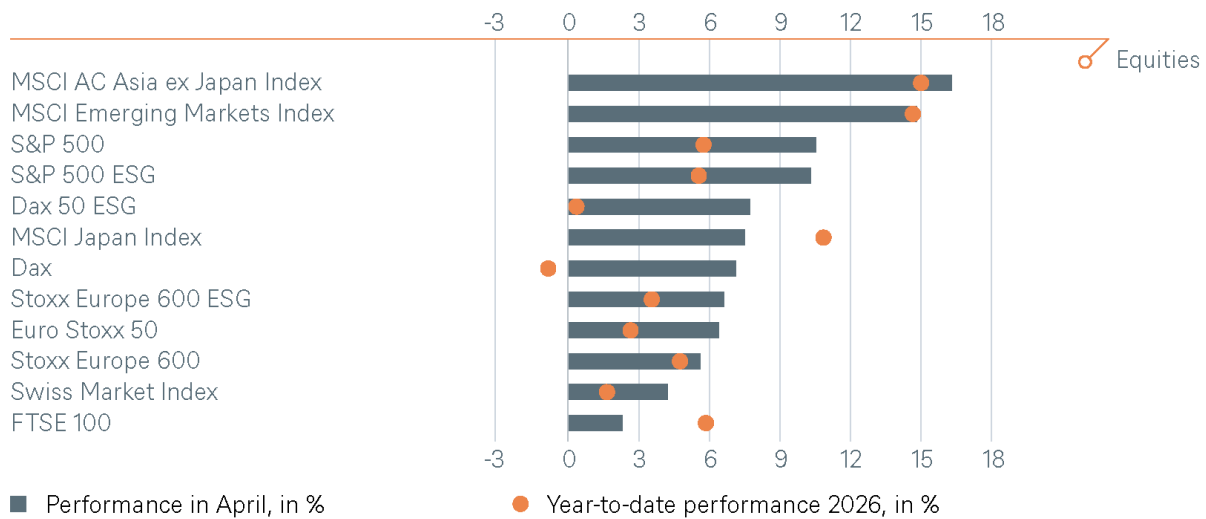
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3 / Past performance of major financial assets

Total return of major financial assets year-to-date and past month



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 Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/30/26

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4 / Tactical and strategic signals

The following exhibit depicts our short-term and long-term positioning.

4.1 Fixed income

Rates	1 to 3 months	through Mar 2027
U.S. Treasuries (2-year)	●	●
U.S. Treasuries (10-year)	●	●
U.S. Treasuries (30-year)	●	●
German Bunds (2-year)	●	●
German Bunds (10-year)	●	●
German Bunds (30-year)	●	●
UK Gilts (10-year)	●	●
Japanese government bonds (2-year)	●	●
Japanese government bonds (10-year)	●	●

Securitized / specialties	1 to 3 months	through Mar 2027
Covered bonds ¹	●	●
U.S. taxable municipal bonds ²	●	●
U.S. mortgage-backed securities	●	●

4.2 Equities

Regions	1 to 3 months ³	through Mar 2027
United States ⁴	●	●
Europe ⁵	●	●
Eurozone ⁶	●	●
Germany ⁷	●	●
Switzerland ⁸	●	●
United Kingdom (UK) ⁹	●	●
Emerging markets ¹⁰	●	●
Asia ex Japan ¹¹	●	●
Japan ¹²	●	●

Style	1 to 3 months
U.S. small caps ²³	●
European small caps ²⁴	●

Spreads	1 to 3 months	through Mar 2027
Italy (10-year) ¹	●	●
U.S. investment grade	●	●
U.S. high yield	●	●
Euro investment grade ¹	●	●
Euro high yield ¹	●	●
Asia credit	●	●
Emerging-market sovereigns	●	●

Currencies	1 to 3 months	through Mar 2027
EUR vs. USD	●	●
USD vs. JPY	●	●
EUR vs. JPY	●	●
EUR vs. GBP	●	●
GBP vs. USD	●	●
USD vs. CNY	●	●

Sectors	1 to 3 months ²
Consumer staples ¹³	●
Healthcare ¹⁴	●
Communication services ¹⁵	●
Utilities ¹⁶	●
Consumer discretionary ¹⁷	●
Energy ¹⁸	●
Financials ¹⁹	●
Industrials ²⁰	●
Information technology ²¹	●
Materials ²²	●

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4.3 Alternatives

Alternatives	1 to 3 months	through Mar 2027
Commodities ²⁵	●	●
Oil (brent)	●	●
Gold	●	●
Carbon		●
Infrastructure (listed)	●	●
Infrastructure (non-listed)		●
Real estate (listed)	●	●
Real estate (non-listed) APAC ²⁶		●
Real estate (non-listed) Europe ²⁶		●
Real estate (non-listed) United States ²⁶		●

¹Spread over German Bunds. ²Spread over U.S. Treasuries ³Relative to the MSCI AC World Index (only for the tactical signals),⁴ S&P 500, ⁵Stoxx Europe 600, ⁶ Euro Stoxx 50, ⁷ Dax, ⁸ Swiss Market Index, ⁹ FTSE 100, ¹⁰ MSCI Emerging Markets Index, ¹¹ MSCI AC Asia ex Japan Index, ¹² MSCI Japan Index, ¹³ MSCI AC World Consumer Staples Index, ¹⁴ MSCI AC World Health Care Index, ¹⁵ MSCI AC World Communication Services Index, ¹⁶ MSCI AC World Utilities Index, ¹⁷ MSCI AC World Consumer Discretionary Index, ¹⁸ MSCI AC World Energy Index, ¹⁹ MSCI AC World Financials Index, ²⁰ MSCI AC World Industrials Index, ²¹ MSCI AC World Information Technology Index, ²² MSCI AC World Materials Index, ²³ Russell 2000 Index relative to the S&P 500, ²⁴ Stoxx Europe Small 200 relative to the Stoxx Europe 600, ²⁵ Relative to the Bloomberg Commodity Index, ²⁶ Long-term investments.

Tactical view (1 to 3 months)

The focus of our tactical view for fixed income is on trends in bond prices.

- Positive view
- Neutral view
- Negative view

Strategic view through March 2027

- The focus of our strategic view for sovereign bonds is on bond prices.
- For corporates, securitized/specialties and emerging-market bonds in U.S. dollars, the signals depict the option-adjusted spread over U.S. Treasuries. For bonds denominated in euros, the illustration depicts the spread in comparison with German Bunds. Both spread and sovereign-bond-yield trends influence the bond value. For investors seeking to profit only from spread trends, a hedge against changing interest rates may be a consideration.
- The colors illustrate the return opportunities for long-only investors.
 - ● Positive return potential for long-only investors
 - ● Limited return opportunity as well as downside risk
 - ● Negative return potential for long-only investors

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Glossary

The [Bank of Japan \(BoJ\)](#) is the central bank of Japan.

The [Bloomberg Commodity Index \(BCOM\)](#) traces 23 commodities and reflects commodity futures price movements.

[Brent](#) crude is a grade of crude oil dominant in the European market.

[Bunds](#) is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

[Capital expenditure \(Capex\)](#) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

The [Dax](#) is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

[Emerging markets \(EM\)](#) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The [Euro Stoxx 50](#) is an index that tracks the performance of blue-chip stocks in the Eurozone.

The [European Central Bank \(ECB\)](#) is the central bank for the Eurozone.

The [Eurozone](#) is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The [FTSE 100](#) is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

[Hawks](#) are in favor of a restrictive monetary policy.

[Inflation](#) is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

[Investment grade \(IG\)](#) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The [Korea Stock Price Index \(KOSPI\)](#) captures the performance of the 759 companies listed on the Korean stock market.

The final payment date of a financial instrument is its [maturity](#).

[Monetary policy](#) focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The [MSCI AC World Communication Services Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Communications Services sector.

The [MSCI AC World Consumer Discretionary Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Discretionary sector.

The [MSCI AC World Consumer Staples Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Staples sector.

The [MSCI AC World Energy Index](#) captures large- and mid-cap securities across 23 developed-markets classified in the Energy sector.

The [MSCI AC World Financials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Financials sector.

The [MSCI AC World Health Care Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Health Care sector.

The [MSCI AC World Index](#) captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The [MSCI AC World Industrials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Industrials sector.

The [MSCI AC World Information Technology Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Information Technology sector.

The [MSCI AC World Materials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Materials sector.

The [MSCI AC World Real Estate Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Real Estate sector.

The [MSCI AC World Utilities Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Utilities sector.

The [MSCI AC Asia ex Japan Index](#) captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The [MSCI Emerging Markets Index](#) captures large- and mid-cap representation across 23 emerging-market countries.

The [MSCI Japan Index](#) is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

The [Organization of the Petroleum Exporting Countries \(OPEC\)](#) is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

[OPEC+](#) is an informal alliance of OPEC members and other oil-producing countries, led by Russia, aiming to coordinate their production strategies.

The [Philadelphia Semiconductor Index](#), commonly referred to as [SOX](#), is a modified market-capitalization-weighted stock index that tracks the performance of 30 of the largest U.S.-traded companies primarily involved in the design, manufacture, and sale of semiconductors.

The [Russell 2000 Index](#) is an index that captures the 2,000 smallest stocks of the Russell-3000 index, which again comprises 3,000 small- and mid-cap U.S. listed stocks.

The [S&P 500](#) is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The [spread](#) is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The [Stoxx Europe 600](#) is an index representing the performance of 600 listed companies across 18 European countries.

The [Stoxx Europe Small 200](#) is an index representing the performance of 200 small capitalization companies across 17 European countries.

The [Swiss Market Index \(SMI\)](#) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

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

[Volatility](#) is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

The [World Bank](#) is an international financial institution that provides loans and grants to the governments of emerging countries for the purpose of pursuing capital projects. The World Bank is a component of the World Bank Group.

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