

# Market Outlook

Marketing material

## #1 Market & Macro

### Differentiated market environment for equities – fixed income regains appeal



Vincenzo Vedda

Market optimism proved fragile at the end of the first trading week in June, when equity markets—and particularly technology stocks—saw a sharp sell-off. Investors were unsettled by concerns over a renewed escalation of the Iran conflict, coupled with surprisingly strong US labor market data, which reignited inflation fears and, in turn, raised the prospect of higher rather than lower US interest rates. “We expect the Iran conflict to remain the key economic unknown, as both growth and inflation will be heavily influenced by its impact,” says Chief Investment Officer Vincenzo Vedda, who anticipates an increasingly differentiated market environment over the next twelve months. Despite prevailing uncertainties, artificial intelligence (AI) is likely to remain the dominant force

shaping equity market performance. This implies markedly divergent regional prospects: “Asia and the US are likely to benefit disproportionately from the AI boom, whereas regions with a more diversified sector structure, such as Europe, may lag behind,” Vedda notes.

At the same time, higher energy costs and weakening purchasing power among lower-income households could act as a drag on economic momentum. Even though double-digit total returns over a twelve-month horizon appear achievable in the US, Japan and emerging Asian markets—supported by expected dynamic earnings growth—a closer look at fixed-income investments is warranted.

“Bonds currently offer attractive total returns. Should economic growth slow more than anticipated, they could become particularly important within portfolios,” Vedda concludes.

## Topics driving capital markets



### Economy: Europe set for modest growth pickup in 2027, still trailing the U.S.

- Recent U.S. labor market data came in significantly stronger than expected. This points to rising consumer confidence and increased actual consumption, supporting stronger economic growth—but also suggesting upward pressure on inflation. We forecast growth of around 2% for both 2026 and 2027 in the United States.
- In the more slowly expanding euro area, growth is expected to pick up to 1.3% in 2027 (2026: 0.9%).



### Inflation: Energy likely to remain a key price driver..

- Inflation is expected to remain a concern in the U.S. this year, coming in at around 3.2%. For 2027, we anticipate a decline to 2.3%.
- In Germany, inflation fell to 2.6% in May (April: 2.9%), supported by a temporary fuel tax relief measure. As this measure is time-limited, inflation is likely to rise again in the coming months.



### Central Banks: Europe tightens monetary policy, U.S. set to ease over time

- In the U.S., the expected start of rate cuts may take somewhat longer. By June 2027, we anticipate the target rate range to be 0.5 percentage points lower, at 3.00% to 3.25%.
- In contrast to the U.S., we expect the European Central Bank to follow up its June increase of 0.25 percentage points with a further rate hike, bringing the key policy rate to 2.50% by June 2027.



### Risks: Further equity upside contingent on multiple conditions

- Our broadly positive outlook for equity markets is based on a specific set of assumptions: at least a partial reopening of the Strait of Hormuz within the next two months, no recession in industrialized countries over the next three years, yields on ten-year U.S. Treasuries remaining below 5%, and two rate cuts by the U.S. Federal Reserve over the next twelve months.
- Should these assumptions fail to materialize, markets could face significant downside risks.

## #2 Equities

### Taiwan and Korea equities: strong potential, high dependence on the U.S.



Lilian Haag

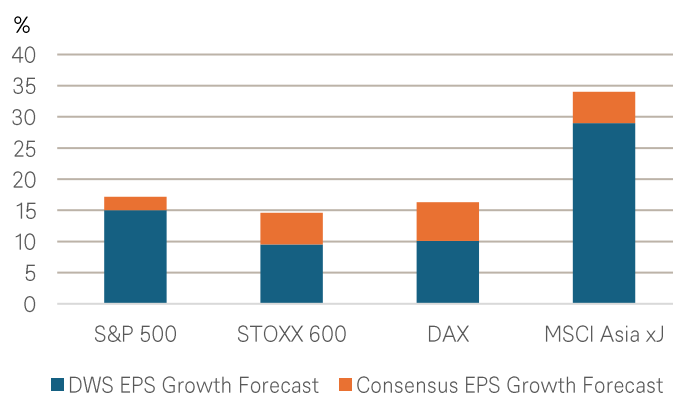
When it comes to artificial intelligence, the first thought almost inevitably turns to U.S. technology giants, which are driving massive investment in this field. What is often overlooked, however, is that key beneficiaries of this trend are based in Asia—more precisely, in Taiwan and Korea. “With a broad range of semiconductor products and other components for data centers, many Taiwanese and Korean companies are currently critical suppliers of the equipment needed to build out AI infrastructure,” says portfolio manager and Asia expert Lilian Haag. Demand from U.S. tech giants remains robust, while the expansion of new production capacity will still take considerable time. This is resulting in sustained strong demand, particularly for Korean and Taiwanese companies, alongside positive pricing developments for their products, pushing profits to record levels. This is also reflected in equity market performance. So far this year, the Taiwan Weighted Index is up 49 percent, while Korea’s Kospi Index has gained 83 percent (as of June 10).

Despite these impressive figures, further upside potential remains intact. Valuations are still relatively moderate despite the strong price gains, largely due to the exceptionally dynamic growth in corporate earnings. “For Taiwanese companies, the market expects earnings to grow by 35 percent this year and a further 23 percent next year,” Haag notes. For companies in Korea’s Kospi Index, earnings growth of as much as 168 percent is expected this year.” At present, there are no signs of weakening demand or a significant expansion of supply, suggesting that positive earnings momentum is likely to continue,” Haag adds. Together, Taiwan and Korea now account for almost 50 percent of the market capitalization

of the MSCI Emerging Markets Index—an exceptionally high weighting that also brings risks. Dependence on the U.S. equity market is substantial. “If investment activity in AI expansion in the U.S. were to slow, this would have a significant negative impact on equity markets in Taiwan and Korea, and consequently on the MSCI Emerging Markets Index as a whole,” says Haag. In addition, there is a distinct geopolitical risk: China’s increasingly assertive claims over Taiwan.

#### Asia: strong earnings growth expected

Earnings growth forecast for the next 12 months compared with consensus estimates



ntm: next twelve months. Forecasts are based on assumptions, estimates and hypothetical models or analyses, which may prove to be inaccurate. sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 19 May 2026

#### Equities USA: AI remains the key growth driver



- The development of the U.S. market will largely depend on whether companies in the artificial intelligence sector can sustain their current growth momentum.
- Despite all risks, we remain positive on earnings prospects. Our target for the S&P 500 by June 2027 is 8,200 points.

#### Equities Germany: More exposed to economic cycle and energy prices – yet upside remains



- Germany’s benchmark DAX index has been slightly in negative territory since the start of the year. Unlike U.S. markets, it is not benefiting from the AI boom and is instead more heavily exposed to energy prices and the broader economic cycle.
- Nevertheless, we still see upside potential at current levels. Our target for June 2027 is 26,300 points.

#### Equities Europe: Limited momentum, but opportunities in selected sectors



- The overall backdrop for European equities has changed little in recent weeks: growth prospects remain comparatively modest, while inflation risks are still elevated.
- Selected sectors nonetheless offer opportunities, including areas linked to the energy transition as well as certain industrial companies. Our target for the Stoxx 600 by June 2027 is 650 points.

#### Japan: Equities remain attractive



- The Japanese market continues to benefit from structural reforms and a gradual normalization of monetary policy, while remaining sensitive to global capital flows and exchange rate movements.
- Our target for the MSCI Japan by June 2027 is 2,660 points, making it one of the more attractive equity markets over the next twelve months.

### #3 Fixed Income

## Government bonds offer attractive return potential



Daniel Kittler

In recent years, investor attention has been firmly focused on equity markets—a strategy that has often paid off. While equities delivered solid performance, fixed-income markets struggled under rising inflation expectations and steadily increasing levels of public debt. However, the backdrop for interest-bearing investments, particularly government bonds, has recently turned more favorable. “We expect sentiment in the bond market to improve, driven by several factors,” says portfolio manager Daniel Kittler.

The rationale is primarily twofold. First, inflation is likely to come in somewhat lower in the coming months than currently priced in by markets. Unlike the post-pandemic period, which was characterized by a strong surge in demand, the current environment reflects a supply shock—specifically, a reduction in available crude oil supply due to the Iran conflict. This limits the pricing power of many companies.

Any easing of tensions in the Gulf region could reduce inflation concerns, leading to lower yields and, consequently, higher bond prices. Second, Kittler expects U.S. economic growth to slow in the second half of the year. “An economic slowdown typically increases demand for less risky and less volatile investment alternatives. Bonds in general, and government bonds in particular, tend to benefit from this,” he explains. Within U.S. Treasuries, the bond expert favors short-duration securities—those with maturities of one to five years. These are likely to benefit most from the expected policy rate cuts by the U.S. Federal Reserve.

Over a twelve-month horizon, total returns of around 5 percent appear achievable for two-year U.S. Treasuries. In Europe, however, preferences differ. Here, Kittler leans toward medium to longer maturities. The European Central Bank is expected to raise rates in the short term to counter elevated inflation expectations, keeping yields in this segment at a higher level. Longer maturities, by contrast, could benefit as investors factor in the medium- to long-term dampening effects of monetary policy, which would support lower yields and rising bond prices.

Ten-year German Bunds could deliver total returns of around 5.8 percent over the next twelve months.

#### U.S. government bonds (10 years)

##### Price potential in U.S. government bonds



short-term



long-term

- We remain constructive on the price outlook for ten-year U.S. Treasuries.
- Expected yield by June 2027: 4.20%.

#### German government bonds (10 years)

##### Yields expected to decline only slightly



short-term



long-term

- We expect yields on ten-year German Bunds to decline only marginally, implying limited price upside.
- Forecast for June 2027: 2.90%.

#### Emerging Market sovereign bonds

##### Risks not fully priced in



short-term



long-term

- Credit spreads remain very tight and do not adequately reflect prevailing geopolitical risks.
- At the same time, we take a positive view on the underlying fundamentals.

#### Credit

##### Investment Grade

USA

Eurozone

##### High Yield

USA

Eurozone



short-term



long-term



short-term



long-term



short-term



long-term



short-term



long-term

### #4 Currencies

#### Euro/Dollar: Euro expected to strengthen



short-term



long-term

- In our view, the euro has modest appreciation potential against the dollar. This is supported by structural factors such as the expected continued rise in debt levels as well as increasing interest among foreign investors in diversifying away from the dollar.
- Our EUR/USD forecast for June 2027: 1.22.

### #5 Alternative Assets

#### Gold: Significant upside potential following weak performance so far this year



short-term



long-term

- Gold prices have moved well off their previous highs over the course of the year and are currently slightly in negative territory.
- Over a twelve-month horizon, we see considerable potential for price gains. Several factors support this view: expected rate cuts in the U.S., a likely weaker dollar, and continued strong demand from central banks. Our target for June 2027 is USD 5,400 per ounce.

## Glossary

### Base point

One basis point is equal to 1/100 of a percentage.

### Cash Flow

Unlike earnings, cash flow shows how much cash is actually available within a company.

### Dax

Market capitalization-weighted index, with the 40 most important listed companies in Germany. Performance index, which includes dividend payments.

### High yield (HY)

High yield bonds issued by issuers with poor credit ratings, which usually offer comparatively high interest rates.

### Investment grade (IG)

Corporate bonds that are considered by rating agencies to be at low risk of default (at least medium credit rating).

### Kospi

Key market-capitalization-weighted equity index of South Korea.

### MSCI Asia xJapan

Broadly diversified equity index for Asian markets excluding Japan, covering both developed markets and emerging markets.

### MSCI Emerging Markets

Index that tracks large and mid-cap stocks from 23 emerging markets.

### S&P 500

Market capitalization-weighted stock index that tracks the top 500 publicly traded U.S. companies.

### Stoxx 600

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

### Taiwan Weighted Index

Taiwan's central equity index and a key global indicator for the semiconductor and technology sector.

### Volatility

Statistical key figure that indicates how much prices or yields fluctuate around their mean. Indication in percentage.

### Yield

The income generated by an investment expressed as a percentage of its current price.

## Legend

### The strategic view by June 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 11 June 2026



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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