

Market Outlook

Marketing material

#1 Market & Macro

U.S. advantage – companies deliver earnings surprises



Vincenzo Vedda

A double-digit increase in earnings at the U.S. technology exchange Nasdaq so far this year, compared with flat performance in Germany's benchmark Dax offers a clear snapshot of how differently regions are being affected by the fallout from the conflict in the Middle East. The apparent

resilience of U.S. equity markets is no coincidence.

"Earnings growth among U.S. companies in the first quarter was surprisingly strong," says Chief Investment Officer Vincenzo Vedda. Markets are currently assuming that this trend could continue. The main drivers of U.S. equity performance are familiar ones. "The seemingly unstoppable boom in investment in artificial intelligence is currently the key force behind strong price gains in the U.S. market," Vedda notes. Europe, by contrast, is far more exposed to the consequences of the Iran war, particularly on the supply

side. "We have therefore downgraded Europe to neutral and upgraded the U.S. to neutral," Vedda explains. In addition to a more favorable earnings outlook, U.S. equities are also receiving support from the prospect of interest rate cuts by the Federal Reserve – even if such moves may not materialize until 2027. In the euro area, by contrast, interest rate hikes now appear more likely.

That said, optimism is not entirely unclouded. This is evident in the bond markets, which have suffered far more from the Middle East conflict than equities. Yields have risen sharply, while prices have fallen accordingly. Should yields remain at these elevated levels, they could put pressure on the high valuations seen in equity markets. Energy prices represent another risk factor. "They are likely to remain high, as more than ten percent of global oil production is still unavailable to the market," Vedda says. In addition, global refining capacity has declined.

Topics driving capital markets



Economy: Growth in developed markets likely to slow, but not in China

- Economic growth in the United States is expected to ease somewhat this year, largely due to higher energy prices. Investment activity and consumer spending, however, should continue to provide support.
- In Europe, elevated energy prices are weighing more heavily on demand. Unlike in most developed economies, growth in China is likely to pick up slightly.



Inflation: Prices have risen sharply – no end in sight

- Rising energy prices have also fed into higher inflation in the United States, where the rate most recently stood at 3.5%. In 2026, inflation is expected to remain elevated at around 3.2%.
- In Germany, the cost of living rose by 2.9% in April, up from 2.7% in March. Energy prices were the main driver, increasing by 10.1%. How inflation develops from here will depend crucially on whether – and when – the Strait of Hormuz is reopened.



Central Banks: The U.S. and Europe likely to follow diverging interest rate paths

- At its meeting at the end of April, the U.S. Federal Reserve left its policy rate unchanged in a range of 3.5% to 3.75%. Falling interest rates and rising inflation are not compatible.
- The European Central Bank also kept rates unchanged at its most recent meeting. Unlike in the United States, however, we expect a rate hike in the euro area in the coming months.



Risks: Further rises in oil prices, inflation and bond yields

- If oil prices were to remain above USD 110 per barrel for an extended period, this could force central banks to adopt a more restrictive monetary policy, even as economic growth slows.
- Further increases in bond yields could put pressure on the high valuations seen in equity markets.

#2 Equities

AI boom: clear differences from the dotcom bubble



Dirk Schlüter

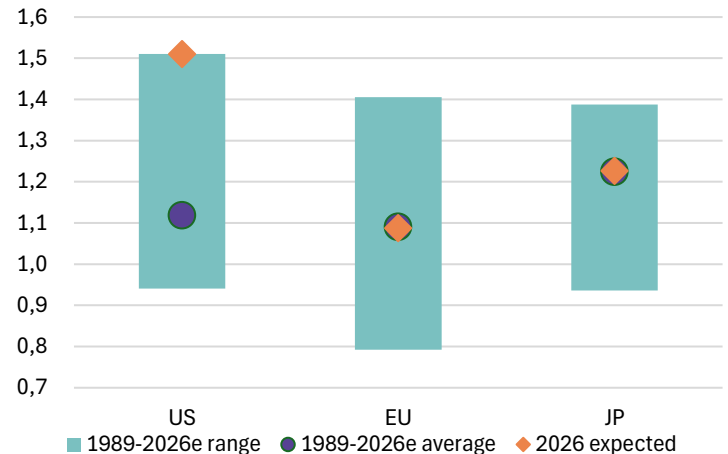
For a short time, equity markets appeared to take a more critical view of artificial intelligence (AI). But that skepticism lasted no more than a few weeks. AI stocks are now once again driving U.S. markets to ever new record highs. Are these valuations still justified? And are there parallels to the dotcom bubble – the speculative boom in internet and technology stocks in the late 1990s

that burst in March 2000? To address these questions, investment strategist Dirk Schlüter draws on the so-called CROCI approach, a methodology designed to make the value creation of different companies more comparable. CROCI stands for Cash Return on Capital Invested. According to Schlüter, the question of whether a bubble is forming does not have a clear-cut answer. "One key difference between today's situation and the dotcom era is the significantly higher level of corporate profitability," he says. "Large U.S. companies are far more profitable today than they were 25 years ago." On the downside, however, lies revenue growth among companies investing heavily in AI. Then as now, investment spending has risen by an average of around 20%. Back then, revenues kept pace. Today, by contrast, they have increased by only about 10% on average. "What we are seeing at the moment is a bet on the future," Schlüter says. There is a risk that returns on invested capital could decline at companies with heavy exposure to AI investment. Unsurprisingly, this applies almost exclusively to the United States, where investment volumes are many times higher than in Europe. Another risk factor is the shorter economic life of investments today. The useful life of

servers, for example, is now between three and six years. In the past, large-scale investments – such as power plants – typically had lifespans of 20 to 30 years. Companies therefore had far more time to generate returns on their capital. On the positive side, companies have so far financed the bulk of their investments from their own cash flow. Many questions remain unanswered, to paraphrase a line from playwright Bertolt Brecht – not least whether today's AI giants will still be leading the field in the medium term, or whether the real winners will be the future users of the technology.

AI-driven investment boom in the U.S.

Ratio of capital expenditure to maintenance investment*



e: expected. Forecasts are based on assumptions, estimates, views and hypothetical models, which may prove to be incorrect.

*Maintenance investment: investment aimed at preserving the functionality or value of existing assets; Sources: CROCI analysis, DWS Investment GmbH; as of 5 Dec 2025.

Equities USA: Companies show exceptional profitability



- The U.S. earnings season is proving exceptionally strong. Aggregate earnings are currently running around 20% above analysts' estimates, compared with just 6.1% during the Q4 2025 reporting season.
- Despite elevated valuations, we have upgraded U.S. equities to neutral.

Equities Germany: Waiting for de-escalation in the Middle East conflict



- Within Europe, Germany is the country most heavily affected by the conflict in the Middle East. As a result, the benchmark Dax has performed particularly weakly so far this year.
- Should a lasting de-escalation in the Middle East conflict emerge, the Dax could offer substantial catch-up potential.

Equities Europe: Companies may feel supply bottlenecks in the second and third quarters



- Europe is likely to be more affected by supply bottlenecks resulting from the Iran war than the United States. These disruptions are expected to be reflected in corporate revenues and earnings only in the second and third quarters.
- Given these uncertainties, we have downgraded European equities to neutral in the short term.

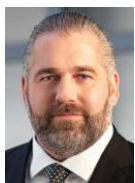
Japan: Already strong performance, but further upside remains



- Japanese equities rank among the top performers so far this year. The TOPIX 100 is currently up by close to double digits.
- We continue to view the market as attractive. Positive earnings surprises, share buybacks and a stronger global expansion could provide further support.

#3 Infrastructure/Fixed Income

Why infrastructure investments can be a valuable complement to equities and bonds



Peter Brodehser

Recent weeks in equity markets have once again been intense for investors. Almost daily reassessments of the crisis in the Middle East, the Strait of Hormuz, oil price developments and inflation have at times triggered sharp market moves. When it comes to the impact of the conflict on infrastructure investments, infrastructure expert Dr. Peter Brodehser takes a relatively calm view. "The earnings profile of infrastructure assets is often more resilient because it is based on services that are needed even in weaker economic phases," Brodehser says. In addition, infrastructure investments frequently benefit from natural monopolies, high barriers to entry, government regulation, concessions, and long-term usage or offtake agreements. These factors provide additional stability on the revenue side.

This is particularly true for infrastructure projects in the renewable energy sector in times of geopolitical uncertainty. "A wind or solar park generates electricity regardless of market sentiment or short-term capital market volatility. A feed-in tariff does not care whether the Strait of Hormuz is currently closed," Brodehser notes. Unlisted infrastructure, he adds, tends to develop largely independently of traditional equity and bond markets. This is because the valuation of many infrastructure assets is driven more by real economic usage, regulation and long-term contracts than by short-term market sentiment.

That said, infrastructure investments are by no means immune to changes in market conditions. Rising interest rates, for example, have a negative impact on profitability. However, the extent of this risk depends largely on how aggressively a portfolio is financed. Portfolios with high leverage, variable-rate financing or near-term refinancing needs are naturally far more vulnerable to rising interest rates than conservatively financed portfolios.

Bonds, particularly in an environment of higher yields, can also be seen as competitors. Yet there are clear differences. "Bonds are important for liquidity and predictable coupons. Infrastructure investors are compensated for providing capital on a long-term, illiquid basis in complex real-economy structures," Brodehser explains. "In a portfolio, infrastructure can play an important diversifying role – especially when combined with traditional liquid asset classes such as equities or bonds."

U.S. government bonds (10 years)

Trend towards declining yields



- The prospect of a de-escalation in the Middle East conflict has recently led to slightly lower yields.
- Over the longer term, we expect yields to continue to decline.

German government bonds (10 years)

Attractive prospects for German government bonds



- We take a positive view on the price performance of German government bonds.
- We expect yields to decline, which should translate into rising bond prices.

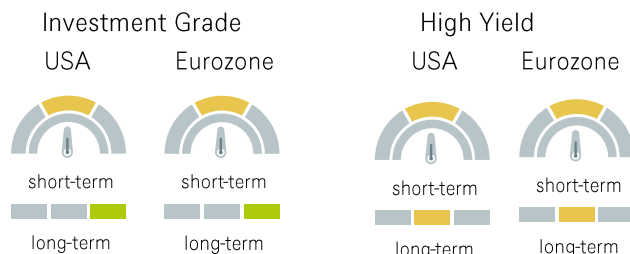
Emerging Market sovereign bonds

Yield opportunities remain attractive



- Credit spreads have narrowed significantly in recent weeks.
- We do not expect further pronounced declines in yields – and therefore additional price gains. However, the absolute level of yields remains attractive.

Credit



#4 Currencies

Euro/Dollar: Euro could strengthen further



- The euro has recently regained some ground against the U.S. dollar. We believe there is still some upside potential.
- Scepticism among international investors towards the dollar is likely to persist. Its reputation as a perceived safe haven remains tarnished.

#5 Alternative Assets

Gold: The precious metal likely to remain in demand



- We remain positive on the outlook for gold prices. Structural drivers such as central bank purchases and ongoing scepticism towards the U.S. dollar are likely to persist.
- However, strong equity market performance and high government bond yields could act as a headwind.

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).

MSCI Emerging Markets

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

Yield

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

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.

Volatility

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

Legend

The strategic view by March 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 8 May 2026



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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