

Market Outlook

Marketing material

#1 Market & Macro

High uncertainty in equity markets – opportunities in government bonds



Vincenzo Vedda

The temporary ceasefire between the United States and Iran has given markets a brief moment of relief. Yet the situation remains extremely fragile. “Meaningful forecasts as to whether, how, and when the crisis will end are hardly possible at present,” says Vincenzo Vedda, Chief

Investment Officer. Market uncertainty is also evident in the numbers. The VIX volatility index, which reflects expected fluctuations in the S&P 500, had doubled to 30 since December 2025 before retreating to 21 following the announcement of the ceasefire. Despite this short-term recovery, investors have been facing an uncomfortable reality: since the outbreak of the war, losses have been recorded across almost all asset classes – equities, bonds, and even gold. Even if the conflict is de-escalated, the

damage caused by the closure of the Strait of Hormuz is likely to linger, with disrupted supply chains translating into weaker corporate earnings. How should investors position themselves in such an uncertain environment? “Beyond the long-standing need for broad diversification, we see opportunities after the conflict ends in selected equities in alternative and nuclear energy, construction and engineering, as well as in the next generation of defence companies,” Vedda says – particularly in Asia and Europe. Vedda is more constructive on government bonds. While yields have risen for valid reasons given heightened inflation expectations, the increase appears excessive. This applies above all to short-dated US Treasuries, and to a lesser extent to ten-year US Treasuries and German Bunds. “Provided inflation expectations do not rise significantly further, we see scope for slightly declining yields and, therefore, capital gains,” Vedda concludes.

Topics driving capital markets



Economy: Growth likely to be severely hit by the Middle East conflict

- The moderately positive growth outlooks for Germany and Europe that we outlined just a month ago can no longer be sustained following the escalation in the Middle East. Economic growth is now expected to be significantly weaker in 2026 and possibly also in 2027.
- The severity of the downturn will depend largely on how long the energy price shock persists, as it fuels inflation and weighs on real economic activity.



Inflation: Prices have risen sharply – no end in sight

- Inflation rates in Germany and across Europe are rising once again, driven primarily by higher energy prices. In Germany, inflation jumped to 2.7 percent in March from 1.9 percent in February, while in the euro area it climbed to 2.5 percent from 1.9 percent.
- The longer the conflict in the Middle East lasts, the more likely it is that prices will rise not only in the energy sector but across a broader range of goods and services.



Central Banks: Caught between rising inflation and slowing growth

- Central banks find themselves navigating a difficult trade-off, having to decide whether accelerating inflation or the emerging slowdown in growth poses the greater risk. In the United States, we expect policymakers to focus more strongly on growth considerations, which would argue in favour of further interest-rate cuts.
- The European Central Bank, by contrast, is likely to remain on hold for the time being.

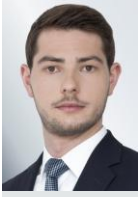


Risks: Middle East crisis and its fallout hard to gauge

- One conclusion has been reaffirmed: geopolitical conflicts pose a substantial risk to the global economy and to capital markets.
- Should energy prices rise further remain elevated for an extended period, growth prospects would deteriorate markedly, with Europe and Asia likely to be among the regions most severely affected.

#2 Equities

Iran conflict weighs on markets – yet solid corporate earnings expected



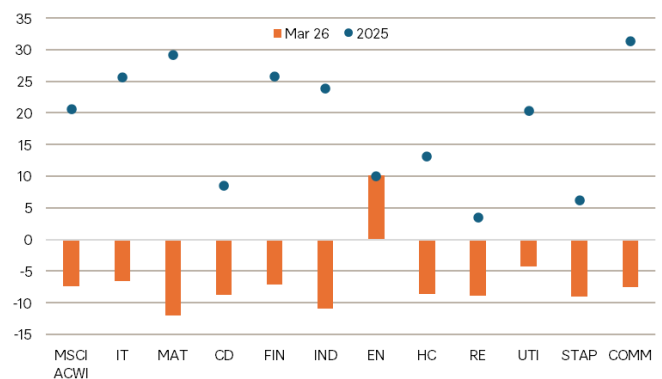
Jarrid Klug

Many losers, few winners – the war in the Middle East continues to grip the world and equity markets. The recently brokered ceasefire has sparked hopes for an end to the conflict, but even then, the aftermath is likely to be significant, as supply chains cannot be restored at the push of a button. One of the few winners in this crisis: the energy sector, which was the only sector in positive territory in March. By contrast, the IT sector – especially companies focused on artificial intelligence (AI) – has recently suffered. There are several reasons for this: concerns about disruptions caused by AI, and the painful rise in bond yields affecting sector valuations. Additionally, supply chain disruptions could continue to challenge the IT sector. “AI remains under pressure to prove that the enormous investments are actually paying off,” says portfolio manager Jarrid Klug. There are essentially two ways for companies to achieve this: either by significantly boosting revenues through AI, or by drastically cutting costs. In most areas, it is still unclear which path will prevail. Despite the tense geopolitical situation, Klug recommends a dispassionate look at the upcoming corporate earnings season. The outlook may well be better than current sentiment suggests. “We expect solid earnings growth for US companies. Profits in the S&P 500 are likely to rise by around ten percent,” Klug says. For the broad European index Stoxx 600, he anticipates earnings growth of six percent. However, the enormous uncertainty stemming from the Iran conflict continues to hang over future developments. Even so, there are likely to be some beneficiaries: the shortage of memory chips should support earnings at semiconductor firms, energy companies are set to benefit from higher commodity

prices, and transport companies from increased freight rates. Nevertheless, global trade is expected to suffer considerably from the conflict. The Gulf region is no longer just an oil exporter. Alongside LNG, fertilizers, and various petrochemical precursors, the supply of helium is critical – the Gulf accounts for 30 percent of global trade. Helium is essential for semiconductor production, among other uses. The travel sector could also be affected: the price of jet fuel has more than doubled since the start of the year, and some airlines have already begun to reduce the number of flights.

Mostly Losers – Only the Energy Sector Has Benefited

Global Sector Performance in Equity Markets



From left to right: Information Technology, Materials, Consumer Discretionary, Financials, Industrials, Energy, Health Care, Real Estate, Utilities, Consumer Staples, Communication Services. Sources: Bloomberg Finance L.P., DWS; as of 31 March 2026.

Equities USA: Geopolitics also a key factor for US stocks



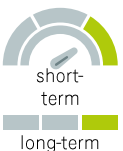
- Since the beginning of the year, the S&P 500 has been only marginally lower in the wake of the ceasefire. Should the index approach the 6,300-point mark without any material further deterioration in economic and political fundamentals, we see greater upside than downside potential.

Equities Germany: Scope for a recover rally



- Earlier this year, the German benchmark index Dax had already reached around 25,300 points before sliding as a result of the Iran crisis. Year to date, however, losses remain manageable at around three percent.
- If the ceasefire in the Middle East holds, Dax 40 companies could see meaningful upside potential, even though earnings are likely to fall short of the levels expected at the start of the year.

Equities Europe: Diversification remains key in uncertain times



- European equities have suffered as a result of the Iran conflict, much like the German stock market, which we had previously seen as a key driver for Europe this year.
- Uncertainty remains elevated, but Europe continues to play an important role in a broadly diversified, balanced equity portfolio.

Asia ex Japan: Highly divergent conditions – multiple risk factors



- Earnings growth across Asia has recently been highly uneven. Korea and Taiwan have benefited from strong earnings momentum in their technology sectors, while growth in other regions has been significantly weaker. Indian equities remain very highly valued, which is likely to limit upside potential.
- Risks stem in particular from geopolitical tensions, such as those between the United States and China over Taiwan. A stronger US dollar and additional tariffs could also weigh on markets.

#3 Commodities/Fixed Income

Gold – three reasons why it is likely to remain attractive over the long term



Stephan Werner

Following the agreed 14-day ceasefire between the United States and Iran and the announced reopening of the Strait of Hormuz, oil prices have fallen sharply below the USD 100 per barrel mark. Even so, prices are still up a painful 50 percent year to date. How the conflict will ultimately unfold remains highly uncertain. “A prolonged closure of the Strait of Hormuz would pose the greatest risk to commodity price developments,” says portfolio manager Stephan Werner. Oil Consumption Reached a Record High in 2025. Oil continues to play a crucial role in the global economy. According to the International Energy Agency (IEA), global oil consumption reached between 104 and 105 million barrels per day in 2025 – with one barrel equivalent to 159 litres – the highest level ever recorded.

Beyond oil, Werner points to additional risks. The potential disruption of nitrogen-based fertilisers such as ammonia or urea could, he warns, lead to rising food prices over the medium term.

Gold has fallen short as a crisis hedge in the short term

While relatively few investors are likely to benefit from a sharp rise in oil prices, many more have turned to the highly liquid crisis hedge gold in recent years. Recently, however, the precious metal has failed to live up to those expectations, with prices temporarily falling by almost 20 percent following the outbreak of the war. Werner identifies three reasons. First, expectations of rising interest rates amid higher inflation: because gold does not generate yield, it becomes less attractive in a higher-rate environment. Second, increased selling by central banks. Third, gold’s high liquidity means investors are quick to take profits in times of heightened uncertainty.

Positive factors likely to dominate in the long term

Over the longer term, however, Werner remains optimistic about gold. “Global debt levels are likely to continue rising, while sovereign debt sustainability is set to decline – particularly if interest rates increase. Gold should develop solidly as the ultimate currency that cannot be printed,” Werner expects.

U.S. government bonds (10 years) Yields more likely to fall than rise



- In our view, market-implied inflation expectations are too high.
- As a result, yields on US Treasuries are likely to edge lower, with bond prices moving higher.

German government bonds (10 years) Prices set to rise, yields to decline



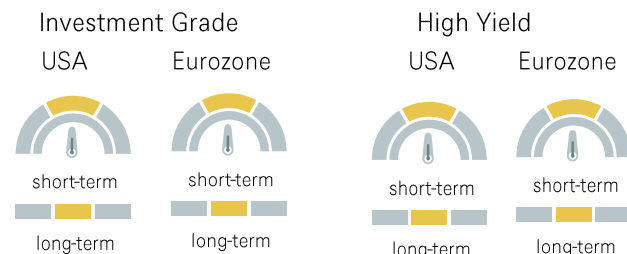
- We expect a modest decline in yields for German government bonds as well, in line with their US counterparts.
- Here, too, there is scope for capital gains.

Emerging Market sovereign bonds Still Attractive Yield Opportunities



- Selected bonds from emerging markets remain appealing.
- Potential total returns of around ten percent represent a reasonable compensation for the higher risk involved.

Credit



#4 Currencies

Euro/Dollar: The euro is likely to regain some ground



- Following the initial, typical reaction of currency markets to the Iran war – a strengthening of the US dollar in an environment marked by broad risk aversion – we have become more constructive again on the outlook for the euro.
- Over the medium term, the single currency is likely to edge higher, as global investors’ appetite for the dollar has, in our view, begun to wane.

#5 Alternative Assets

Gold: Gold remains attractive over the medium to long term



- While gold has failed to live up to its reputation as a “safe haven” in the short term, we view the recent price declines more as an opportunity to enter than as a signal to exit over the medium to long term.
- Demand from central banks is likely to remain strong, as many are seeking to partially replace their dollar reserves with gold. We prefer gold over silver.

Glossary

Base point

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

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).

Move Index

Measures the expected volatility of U.S. Treasury bonds. A high reading indicates that significant movements in interest rates are anticipated, while a low reading suggests the market expects stable rates.

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

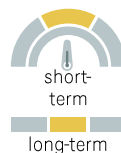
The strategic view by March 2027

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 9 April 2026



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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