

CIO View

CIO View Quarterly | Market Outlook Q4 2025



November 27, 2025

2026 – signs point to a good investment year

Despite political turbulence, 2025 performed better than expected. Our outlook for 2026 is even brighter. Profit growth and interest rate cuts should provide a solid foundation.



Vincenzo Vedda
Chief Investment Officer

“ The year 2025 was marked not only by political surprises from Washington but also by the ever-faster spinning artificial intelligence (AI) carousel. It is likely to keep turning in 2026. Whether it will spin out of control may be one of investors’ main concerns. We should certainly see a wider spread among AI companies—winners and losers. From a macroeconomic perspective, we remain positive on the theme, while in equity markets we currently see valuations as fair overall. ”

Before looking ahead, let’s briefly look back. Many expected 2025 to be volatile, not least because of the U.S. government transition. Market reaction to the new administration’s disruption potential culminated in early April on “Liberation Day,” which turned out to be the starting point for a new rally. Once again, crises proved to offer opportunities for many investors. The global economy stabilized, supported by steady consumer spending and technological innovation—especially AI. Inflation concerns eased, central banks acted prudently, and geopolitical tensions and tariffs slowed momentum less than feared.

Buoyed by this optimism, we enter 2026 under the motto “Rational Exuberance” —a constructive environment for risky assets. We expect key drivers to include accelerating growth during the year, favorable financing conditions, and neutral to accommodative monetary policy. We expect three rate cuts from the U.S. Federal Reserve (Fed). Europe benefits from German fiscal policy, while inflation remains near the European Central Bank (ECB) target. China focuses on technology and rising incomes, Japan on fiscal measures. Tariffs lose some bite, though structural effects persist. For investors, this could mean: selective investing becomes more important, major trends such as digitalization and the energy transition shape capital flows, bonds are expected to offer a positive real returns through carry, and we also see gold as a good diversifier in the coming year.

Our optimism for equities remains, especially in the U.S.: The S&P 500 could reach around 7,500 points by end-2026, driven by earnings growth and AI investments. Financials could benefit from moderate yields and deregulation. However, the AI boom offers surprises both up and down,

so we do not favor the tech-heavy U.S. over other regions. Europe also offers earnings growth, and Germany stands out with infrastructure and defense investments. Japan benefits from reforms, and the rest of Asia from strong chip demand, a weak U.S. dollar, and growing intra-regional trade. AI will continue to dominate headlines and, in our view, remains a key risk if expectations are not met.

For bonds, the motto is “carry-on”—capturing high running yields. Modest growth, falling inflation, and supportive central banks could create an almost ideal backdrop for bonds, if not for rising government debt, already visible in 30-year maturities. In the U.S., the end of quantitative tightening and planned buybacks reduce supply and support intermediate maturities. We expect 10-year yields between 3.75% and 4.25%. In Europe, Bund yields should remain stable over the next 12 months, with potential curve steepening at ultra-long maturities due to financing needs and pension reform in the Netherlands. Given unattractive foreign exchange hedging costs, euro investors are likely to stay “at home.” For corporate bonds, we remain neutral on investment grade, as record-low spreads are unlikely to tighten further. We are more cautious on high yield, as tight spreads no longer reflect sector-specific risks. We see the dollar as fairly valued at EUR/USD 1.15.

Bottom line: We expect a good investment year, especially for equities. Modest economic growth, stronger earnings growth, and non-restrictive monetary policy should create a favorable environment for many equities and corporate bonds. We continue to view AI as a market driver, but the sector will likely be assessed more selectively, and high valuations of many AI leaders carry disappointment risk. For this reason, we remain broadly diversified and see gold as a relative hedge.

Glossary

The aim of an **accommodative** monetary policy is to support the economy by means of monetary expansion.

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence

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

The **carry (of an asset)** is the cost or benefit from holding the asset.

A **central bank** manages a state’s currency, money supply and interest rates.

A **corporate bond** is a bond issued by a corporation in order finance their business.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

If the **yield curve steepens**, this means that the spread between long- and short-term interest rates increases.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

¹ In reference to the observation made by the then President of the U.S. Federal Reserve, who at the end of 1996 spoke of ‘irrational exuberance,’ meaning the excessive optimism of the capital markets.

Glossary

The **Euro to Dollar exchange rate (EUR/USD)** is the amount in U.S. dollars that equals 1 Euro.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

FX or foreign exchange is the currency – literally foreign money – used in the settlement of international trade between countries.

Hedging costs are similar to an insurance premium paid for not being exposed to price movements of certain financial assets. The premium paid for an option is a typical cost of hedging.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

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 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).

Quantitative Tightening (QT), as opposed to Quantitative Easing, describes the process of a Central Bank reducing its monetary stimulus by shrinking its balance sheet.

In economics, a **real** value is adjusted for inflation.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A **safe-haven investment** is an investment that is expected to retain or even increase its value in times of market turbulence.

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

Ultra-long maturities are bonds with 30 years or longer to maturity.

The **U.S. Federal Reserve**, often referred to as "the Fed," is the central bank of the United States.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A **yield curve** shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

Important information

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness or fairness of such information. All third party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.

DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or

licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

© 2025 DWS Investment GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2025 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited. The content of this document has not been reviewed by the Securities and Futures Commission.

© 2025 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited. The content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2025 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640). The content of this document has not been reviewed by the Australian Securities and Investments Commission.

© 2025 DWS Investments Australia Limited

For institutional / professional investors in Taiwan:

This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

as of 11/25/25; RBA 0087_102646_7 (11/2025)