CIO View Special

10 themes for the year ahead

November 17, 2025

Marketing material

Diversification today

Planning scenarios, managing risks and seizing opportunities

There are many reasons now to pay more attention to diversification in asset allocation – and to redefine it. While the current market environment appears constructive, increased risks mean it is important to plan scenarios and identify diversification opportunities that may be path-dependent rather than universal.

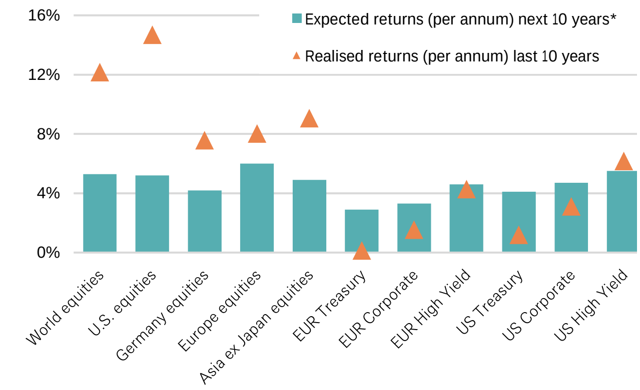
Overall, the capital markets appear relatively stable: Goldilocks is still in place. And there are many indications that this environment could continue into the new year. Most central banks currently remain supportive, and the global economy is showing signs of acceleration. In such an environment, risk assets might be boosted once again.

However, despite the current positive outlook, the environment is by no means free of risks. A second wave of inflation or a global recession caused by tariffs remain potential risks. In the case of equities, valuations in individual segments appear high but not yet irrational in our view. Provided earnings and investments remain supportive and structural drivers such as artificial intelligence (AI) remain intact, there may still be room for the market to rise, even if tail risks are increasing. Uncertainties about U.S. tariff policy, the independence of the U.S. Federal Reserve and political instability in Europe could trigger volatility. Risk compensation appears low for corporate bonds, while valuation and liquidity risks could become more apparent in private markets.

Therefore, diversification is more important than ever. Traditional diversification across regions and asset classes alone may no longer be enough. Today, diversification should be considered in terms of scenarios. Which investments might mitigate downside risk in a portfolio if a stock market bubble were to burst? Which investments could help if inflation proved surprisingly strong or doubts about countries' debt sustainability deepened? "Not every diversifier works in the same way in every scenario," explains Peter Warken, Co-Head of Allocation at DWS. "The key is to build a robust portfolio and have a plan for different scenarios."

European small caps, for instance, may help mitigate equity concentration risks and could benefit from the German infrastructure program and improved growth in the Eurozone. For diversification via structural alpha themes, focusing on infrastructure, cheaper AI names accessed via Asian tech stocks and reviving European assets could be promising. In corporate bonds, the robust fundamentals of EUR investment grade relative to U.S. counterparts appear favorable for European investors, who also benefit from the absence of currency hedging costs, whereas U.S. investors should account for potential currency risk and associated hedging expenses.

Diversification is key



*Based on DWS Long View[1]; Sources: Bloomberg Finance L.P, DWS Investment GmbH as of 9/30/25

Gold seems to remain an effective diversifier but is not a panacea. It may be particularly effective for those concerned about high government debt and political uncertainty, and keen to shift away from U.S. assets. But caution is advised in the short term given the degree to which the gold price has risen, notwithstanding its recent small correction. In the event of a stock market crash, government bonds might offer better initial risk management as gold might initially sell off. The dollar, on the other hand, has seemingly lost its classic diversification role for the time being.

We think that there is a good chance that the Goldilocks phase will continue into 2026, which could favor equities and high-quality corporate bonds, supplemented by a scenario-based diversification strategy. Peter Warken summarizes, "Those who consistently follow this diversification principle may create stability and potentially also open up opportunities in a complex market environment."

Footnotes

[1] World equities based on MSCI AC World Index; U.S. equities based on MSCI USA Index; Germany equities based on MSCI Germany Index; Europe equities based on MSCI Europe Index; Asia ex Japan equities based on MSCI AC Asia Pacific Excluding Japan Index; EUR Treasury based on Bloomberg Euro Treasury Index; EUR Corporate based on Bloomberg Euro Aggregate Corporate Index; Euro High Yield based on Bloomberg Pan-European High Yield (Euro) Index; US Treasury based on Bloomberg US Treasury Index; US Corporate based on Bloomberg US Corporate Index; US High Yield based on Bloomberg US Corporate High Yield Bond Index.

Glossary

Alpha refers to returns in excess of a benchmark's return.

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

Asset allocation is the division of investments into individual asset classes (e.g. stocks and bonds).

The Bloomberg Euro-Aggregate Treasury Index is a benchmark that measures the Treasury component of the Euro-Aggregate. The index consists of euro-denominated, fixed-rate, investment grade public obligations from member states of the European Union.

The Bloomberg Euro High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in Euro. Inclusion is based on the currency of issue, and not the domicile of the issuer.

The Bloomberg Euro-Aggregate Corporates Index is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

A bubble is characterized by prices surging higher than warranted by fundamentals, followed by a drastic drop in prices as a massive sell-off occurs.

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

Portfolio concentration measures single stock exposures of a portfolio.

A corporate bond is a bond issued by a corporation in order to 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.

The term Goldilocks economy refers to a state of the economy, where there is neither a threat of inflation due to an overheating economy, nor a threat of a recession.

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.

Liquidity refers to the degree to which an asset or security can be bought or sold in the market without affecting the asset's price and to the ability to convert an asset to cash quickly.

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

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 Europe Index is designed to measure the performance of the large- and mid-cap segments of 15 developed markets in Europe.

The MSCI Germany Index tracks the performance of German stocks.

The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the U.S. market.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

Small cap firms generally have a market capitalization of less than $2 billion.

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

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

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.

Important information – EMEA, APAC, LATAM & MENA

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.

Important information – North America

other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. DWS, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with DWS are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Further-more, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. The terms of an investment may be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the investment and not the summary contained in this document.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this mate-rial. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of DWS. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. 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.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

For Investors in Canada: No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the information contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

as of 11/11/25; 108188_1 (11/2025)