

Gateway to Europe

Europe's investment renaissance

IN A NUTSHELL



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- Europe could be regaining its investment attractiveness, and Germany, as Europe's largest economy, is a natural gateway
- After years of excessive fiscal caution, programs to upgrade Europe's defenses and infrastructure as well as support the green transformation and high-tech low-carbon industrial revolution could be changing the investment picture
- We see potential opportunities across multiple asset classes. Currently, European equities remain undervalued compared to their global peers, fixed income yields appear attractive and private markets and real assets could be propelled by policy-driven tailwinds

Europe's fiscal and regulatory reset

Europe is undergoing a fiscal and regulatory reset aimed at shoring up its defenses, reinforcing economic stability and boosting long-term competitiveness by embracing innovation. The region's vulnerabilities were exposed by Russia's invasion of Ukraine – and, before that, by the Covid pandemic. The need to accelerate the green and digital transitions is also stimulating profound change. Europe's growth has long been disappointing. This could be now changing.

One of Europe's goals is to establish itself as a global innovation hub by leveraging its leadership in clean energy and advanced manufacturing. Instruments such as the Innovation Fund, Horizon Europe and Invest EU support channelling capital into critical technologies. The result may be that after many years of excessive German fiscal caution a major revitalization is taking place which could raise its previously tepid growth rate.

These efforts at revitalization in Europe coincide with a marked rise in economic uncertainty in the U.S., where trade and growth rates may decline. By contrast, Europe's attractiveness as an investment location is increasing, under-pinned by initiatives such as the Saving and Investment Union that should deepen the region's capital markets. There are potential opportunities for international investors to deploy new growth strategies across multiple asset classes.

1 / Europe's renewed investment appeal

1.1 Economic fundamentals

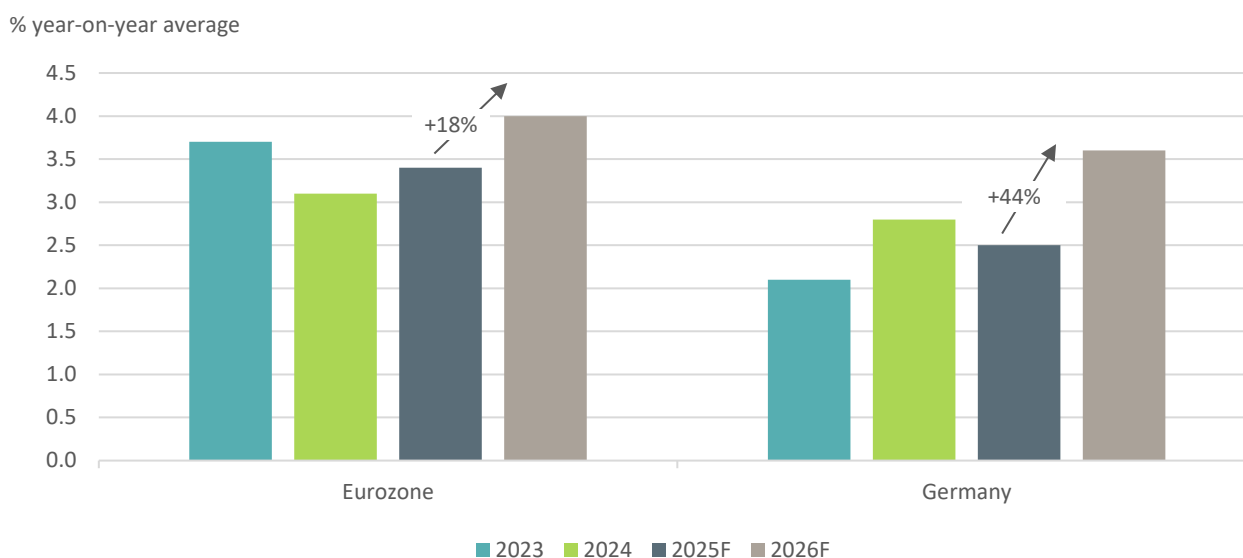
This year has brought higher U.S. import tariffs and trade uncertainty that have dented global confidence. But in Germany and Europe major fiscal and political change has taken place. After many years of extreme caution, especially in Germany, the continent's largest economy, fiscal policy has become more expansive and fresh investment initiatives are being launched. We view these developments positively. Europe's growth should be bolstered, and the region's appeal enhanced.

The increased government spending is largely focused on infrastructure, climate-related investment and defense. This fiscal expansion marks a significant shift, particularly in Germany where a constitutional reform now exempts defense spending from

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the country's strict debt cap. In addition, a EUR 500 billion infrastructure package sits outside the constraints of the regular federal budget.¹ The package is equivalent to 11% of German gross domestic product (GDP), 20% of which is reserved for climate transformation over the next 12 years. In aggregate, we project higher fiscal spending (see Figure 1) will lead to a fiscal impulse in 2026 of half a percent of GDP for the Eurozone and of one percent, which should give substantial boost to GDP growth. Among the four largest EU-27 economies, Germany enjoys the most fiscal headroom, particularly compared to France and Italy.

Figure 1: Large increase in fiscal spending across Europe



F = Forecasts

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of August 2025

Despite the rises in fiscal spending, we expect the inflation outlook to remain benign, helped by low-capacity utilization, lower energy prices and a stronger euro. We forecast that Eurozone consumer price index (CPI) inflation will average 2% in 2026, and consequently meet the European Central Banks (ECB) inflation target. This environment should ensure Eurozone interest rates remain low for most of next year. Underlying wage growth and tight labor markets are the main risk to this outlook.

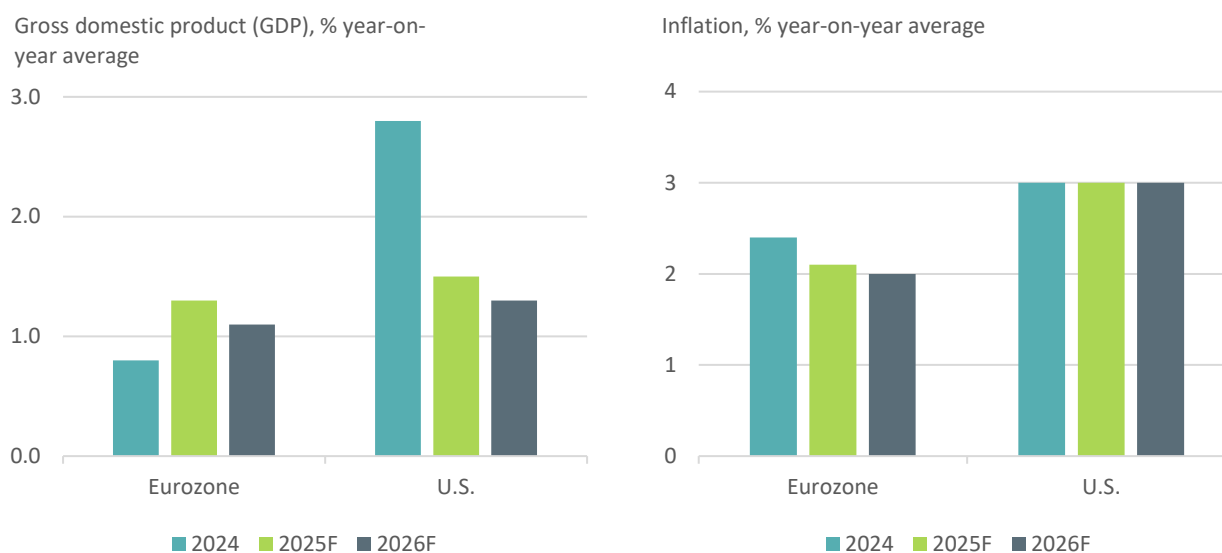
Europe is therefore likely to achieve an economic upswing, coupled with moderating inflation, fiscal headroom and a political environment that is comparatively stable with strong institutions and a rules-based approach that is expected to stay even in case of political turbulences in some member countries of the European Union (EU). The coming year may see year-on-year a further U.S. growth slowdown, while in the Eurozone rising private domestic consumption supported by strong labor markets should help to lift Eurozone GDP growth, bringing it close to the U.S. level. While eurozone inflation is expected to edge lower next year, U.S. CPI inflation will likely remain sticky and above the Fed's 2% target (see Figure 2). In addition, after years in which the U.S. has outperformed and global investors have increased their exposure to U.S. assets, a reassessment may be taking place. From a fiscal standpoint, Europe also has stronger fundamentals in terms of smaller fiscal deficits and debt-to-GDP ratios than in the U.S., which reached a 6.9% fiscal deficit in 2024,² and this is reflected in lower long-term yields and credit default swaps (CDS) spreads compared to the U.S. However, Europe continues to struggle to assert its geopolitical influence as highlighted in a recent speech by the former ECB President Mario Draghi:³ To address these concerns will require a transition towards a more strategic approach that delivers even more institutional reform alongside strategic investment.

¹ See European Commission, "The potential economic impact of the reform of Germany's fiscal framework," as of May 19, 2025

² All data – unless otherwise quoted – from Bloomberg Finance L.P.

³ See Bloomberg, "Former ECB Chief Says 'Illusion' of EU as a Global Power Dashed," as of August 22, 2025

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Figure 2: European growth and inflation trajectories**F = Forecasts**

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of August 2025

1.2 Structural drivers to boost competitiveness and innovation

At a time of heightened geopolitical risk and to address structural weaknesses, Europe is pursuing a path of strategic adaptation. Policy reforms are being introduced that – if properly implemented – could boost competitiveness, promote innovation, and reposition the region as an attractive investment destination.

Europe's Green Deal Industrial Plan, Net-Zero Industry Act,⁴ Competitiveness Compass and Clean Industrial Deal (see Table 1 for more information) are laying the foundations for a high-tech, low-carbon industrial acceleration. Streamlined permitting, targeted subsidies, and other regulatory steps could reduce risks of investments in clean technologies, from battery gigafactories and hydrogen hubs to carbon capture and heat pump manufacturing.

Europe's ambition is to become a global leader across strategic technologies and sectors. The European Chips Act and Germany's Future Fund are examples of policy actions which aim to support breakthrough technologies and drive innovation. Meanwhile, Europe's emphasis on deep tech sovereignty, from semiconductors to artificial intelligence (AI) and biotech, is being underpinned by new regulation and public-private partnerships.

Crucially, Europe has a real chance in making its innovation ecosystem more agile, reducing administrative burdens, and fostering cross-border research and development (R&D) collaboration. It might also enhance its economic resilience and autonomy by diversifying its supply chains, re-shoring critical production, and securing raw materials essential for the energy transition.

Simultaneously, the EU's Digital Decade policy framework aims to upgrade Europe's digital infrastructure and capabilities enabling AI, quantum computing, 5G/6G connectivity, and cybersecurity ecosystems to prosper. The "twin transition" model might support placing Europe at the forefront of economic transformation and could offer investors a unique double-dividend: sustainability and digital productivity.

1.3 Financing mechanisms which unlock public and private sector capital

To fund the transformation, the EU and its member states are deploying financing mechanisms to mobilize public and private capital at unprecedented scale and pace. Reforms are aimed at simplifying cross-border investment, defining minimum standards for comparability of insolvency laws, and boosting equity market participation. These initiatives aim to unlock deep pools

⁴ Currently Net Zero and Engagement policies are not applicable in the U.S. for DWS.

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of private capital, particularly for SMEs, start-ups and most needed for scale-ups, and improve Europe's attractiveness relative to the U.S. and Asia.

The Savings and Investment Union launched in March 2025 aims to mobilise €33 trillion⁵ in European private savings which are predominantly held in low yield savings accounts. The ambition is to deepen and integrate Europe's capital markets, harmonize regulatory frameworks and channel savings into productive assets. As part of this, there may be reforms to encourage insurers and pension funds to invest in equity markets as well as efforts to drive the growth in venture capital. In September 2025 the European Commission will also present a framework for a European Saving and Investment Account (ESIA), which EU member states can use voluntarily. The ESIA is intended to help member states create easy access investment accounts for retail savers. In addition, seven EU member states have launched "Finance Europe" – a label for investment products that predominantly invest in European companies.⁶

These measures are being complemented by efforts from the European Investment Bank (EIB) and InvestEU, which are de-risking private investment in frontier sectors to create a European financial market that supports long-term innovation. At a national level this includes the German government's growth and innovation capital ("Wachstums- und Innovationskapital für Deutschland," WIN) initiative which aims to deliver more venture capital for German start-ups. Blended finance instruments are also being deployed to mobilize private capital into traditionally underserved sectors, such as green infrastructure.

Europe is not just deploying capital, it is on its path to building a regulatory and institutional environment that fosters confidence, transparency, and long-term economic security. For example, through initiatives like REPowerEU, Europe is fast-tracking energy independence while unlocking investment in renewables, smart grids, and storage technologies.

Table 1: Major EU policy initiatives

Name	Description	Effective date	Institution
InvestEU	EU program to mobilize over €372 billion in investments (2021–2027) for green transition, innovation, and social projects, consolidating previous EU financial instruments.	March 2021	European Commission & European Investment Bank
German Future Fund (GFF) - European Investment Fund Growth Facility	€10 billion fund to expand growth financing for start-ups and scale-ups, focusing on innovation sectors like digitalization and clean tech.	March 2021	German Federal Government (Implemented via KfW, a German development bank & European Investment Fund)
REPowerEU plan	Plan to reduce EU dependency on Russian fossil fuels and accelerate clean energy deployment, integrated into the EU Green Deal framework.	May 2022	European Commission
Green Deal Industrial Plan	Aims to boost the EU's net-zero industry competitiveness and accelerate the transition to climate neutrality by creating a supportive environment for scaling up clean-tech manufacturing. It focuses on four pillars: simplified regulation, faster funding, skills development, and open trade. It underpins other initiatives like the Net-Zero Industry Act and REPowerEU.	February 2023	European Commission
European Chips Act	Strengthens EU semiconductor ecosystem to achieve 20% global market share by 2030, ensuring supply chain resilience and supporting digital and green transitions.	September 2023	European Commission
Net Zero Industry Act	Part of the Green Deal Industrial Plan, it seeks to scale up EU manufacturing of clean technologies (e.g., solar, wind, batteries, hydrogen) to meet at least 40% of annual deployment needs by 2030, reducing dependency on imports and supporting climate neutrality by 2050. –0.34	June 2024	European Commission

⁵ See Enrico Letta, "Much more than a market," as of April 2024

⁶ See French Government, "Financing the European economy with the European label Finance Europe" (Financer l'économie européenne avec le label européen Finance Europe), as of June 6, 2025

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Growth and Innovation Capital for Germany (WIN Initiative)	Public-private program to strengthen Germany's VC ecosystem and keep innovative companies in Europe by mobilizing €12 billion by 2030. Complements the Future Fund.	Announced September 2024	German Federal Government with KfW and private sector partners
Competitiveness Compass	A strategic roadmap to restore EU competitiveness by closing the innovation gap, decarbonizing the economy, and reducing dependencies. It includes enablers like the Savings and Investment Union and Clean Industrial Deal.	January 2025	European Commission
Clean Industrial Deal	A comprehensive plan to align decarbonization with competitiveness, focusing on affordable energy, circularity, clean-tech, and industrial resilience. It builds on the Green Deal and complements the Competitiveness Compass.	February 2025	European Commission
InvestAI	EU initiative to mobilize €200 billion for AI development, including a €20 billion fund for AI infrastructure, supporting Europe's competitiveness in advanced AI.	February 2025	European Commission
ReArm Europe Plan / Readiness 2030	EU strategy to boost defense capabilities and reduce external reliance through joint procurement, industry integration, and up to €800 billion in financing.	March 2025	European Commission
Savings and Investment Union (SIU)	Aims to connect EU citizens' savings with productive investments, fostering integrated capital markets and supporting strategic EU objectives like green and digital transitions.	Strategy announced March 2025	European Commission
European Savings and Investment Account (ESIA)	Proposed as part of SIU to offer retail investors a standardized account for long-term wealth creation, modeled on best practices and UCITS (Undertakings for Collective Investment in Transferable Securities) framework.	Planned (consultations ongoing in 2025)	European Commission
The Finance Europe label	A member state-driven initiative to create a label for investment products investing at least 70% in European assets, aiming to channel retail savings into EU markets.	Proposed June 2025 (voluntary framework, not yet EU law)	Led by France & supporting EU member states

Sources: European Commission, European Investment Bank (EIB), German Federal Government, KfW, Bloomberg Finance L.P., DWS Investment GmbH as of September 2025

2 / Asset class perspectives

2.1 Equities: Repricing the European economy

One of the most notable highlights of equity markets so far this year has been one of the best performances of the Dax relative to the S&P500 since the 1960s.⁷ As of August 25, the Dax has gained over 20% in euro terms (around 37% in dollar terms), while the S&P 500 is up around 10% measured in dollar year-to-date, as Figure 3 is showing. However, the latter translates into a slight loss when translated in euro, as a result of the weak dollar. This European outperformance versus the U.S. has come to a halt in the second quarter for three main reasons we believe:

1. The ongoing AI strength and less damage from the U.S. tariff announcements have helped U.S. equities rebound after a very weak first quarter.
2. Currency headwinds for European companies.
3. Central bank policy expectations have changed. We expect the U.S. Federal Reserve (Fed) to have significantly more leeway to cut rates than Europe leading to five cuts (each 25 basis points, bps) for the former and just one cut for the latter in the coming four quarters.

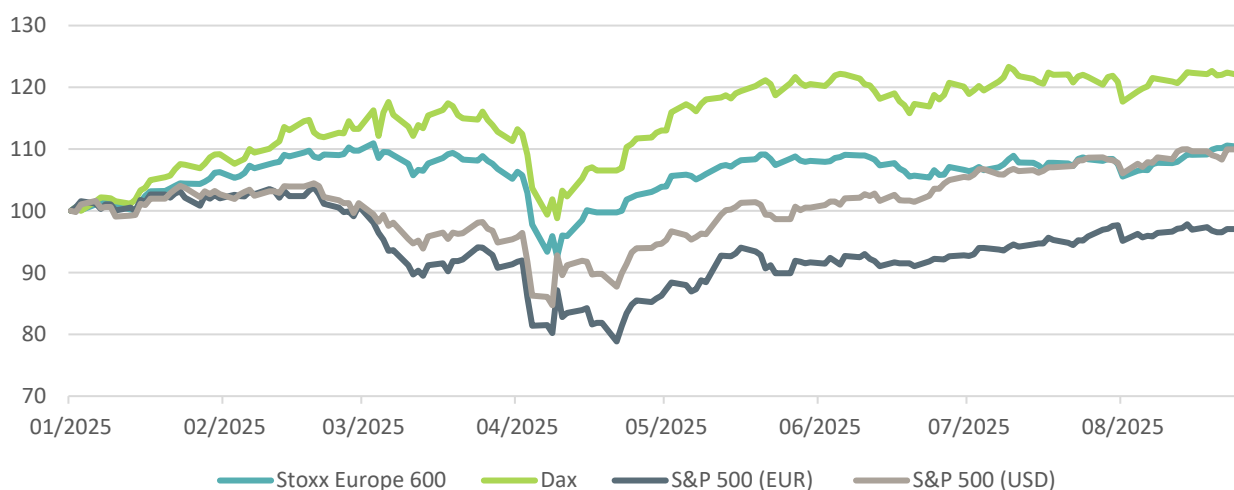
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These differing policy paths, however, come at a price, as they indicate differing growth paths, as we have talked about earlier, with U.S. rates staying well below past years' levels and European growth even performing above potential for some years. And while we have certainly seen a certain fatigue in European markets as the European transformation story has been priced very aggressively in the first quarter, we don't believe that stock markets have fully appreciated what is to be expected in the mid-term: Expansionary fiscal programs concentrating on the energy transition, digital infrastructure and defense; accelerating earnings growth, also fueled by the potential for lower energy prices and finally there is the valuation gap and the need to diversify away from a very U.S. and tech-centric equity markets: the U.S. currently account for almost 70% of the developed market capitalization (against a 20-year average of 57%), whereas the ten biggest companies of the S&P 500 account for almost 40% of the index market cap – a historic high. All this, as we show later, has led to European equities trading at a near-record valuation discount to their U.S. peers.

Figure 3: The Dax still leads year-to-date, but the S&P 500 has regained strength versus Europe in the second quarter

indexed: 1/1/25 = 100



Sources: Bloomberg Finance LP, DWS Investment GmbH as of 8/25/25

European earnings (as measured by the combined earnings before interest and taxes (EBIT) of the Stoxx Europe 600) have been basically flat in the decade from 2010 and 2020. They have, however, increased by almost a quarter since the beginning of this decade. We expect the earnings dynamic to persist for some more time. To name but a few potential drivers: reaccelerating economic growth in Europe and Europe's trading partners; tailwind from Europe's fiscal programs and plans to axe red tape; benefiting from the urge to form stronger global trading alliances without the U.S., and potentially lower energy prices if the war in Ukraine settles. From a shorter-term perspective, however, European companies had to incur some headwinds, such as a strengthening euro, burdens and uncertainties stemming from U.S. tariff frictions as well as disappointing German growth in the first half of 2025. As Figure 4a shows, this has led to a more positive reception of 2Q25 reporting season in the U.S. compared to Europe. However, we would highlight the fact that earnings expectations for 2026 for Europe remain strong, as Figure 4b is showing, with expected year-on-year growth in Europe coming close to expected growth in the U.S.

And while this is certainly an open question, we would also like to suggest that AI has the potential to surprise on the positive side for European, and on the negative side for U.S. equities next year. How is that? U.S. equity performance and valuations over the past three years have been strongly pushed by AI pioneers. We are now turning to the next phase where deployment of AI tools is expected to become more important: which companies are best positioned to use AI in order to grow sales or cut costs? We expect they should be spread more equally amongst European and U.S. companies, whereas valuations of AI pioneers might come under pressure as a result of overcapacity in this space.

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Figure 4: The reporting season for the second quarter has benefitted U.S. equities. For 2026, however, year-on-year earning growth is expected to converge

Fig. 4a: Full year 2025 earnings estimates have come down for both U.S. and European equities, but more for latter

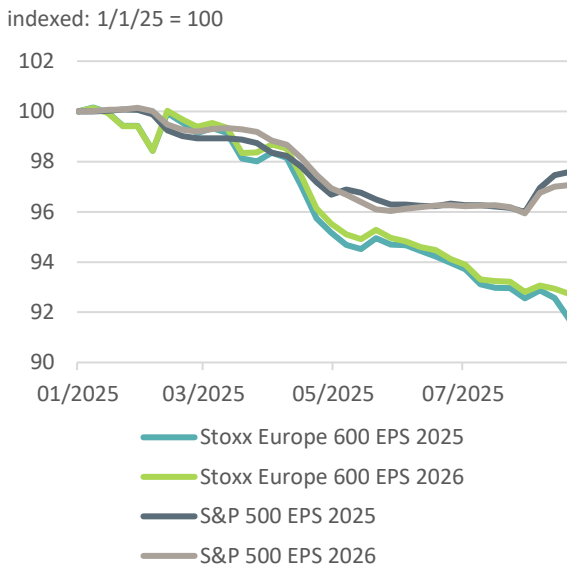
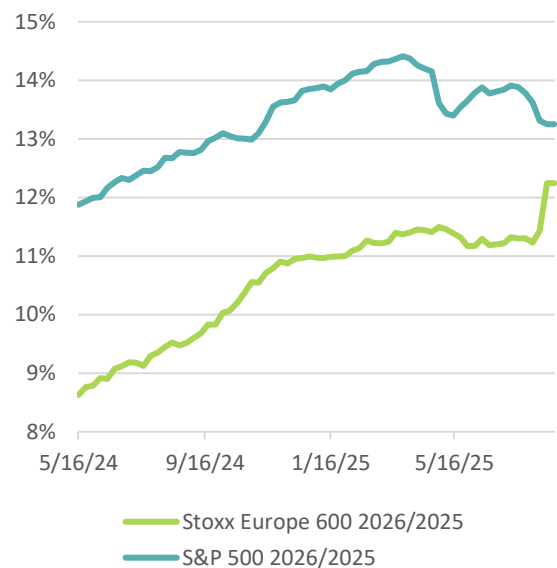


Fig. 4b: Earnings per share (EPS) growth for 2026 is expected to be at similar levels

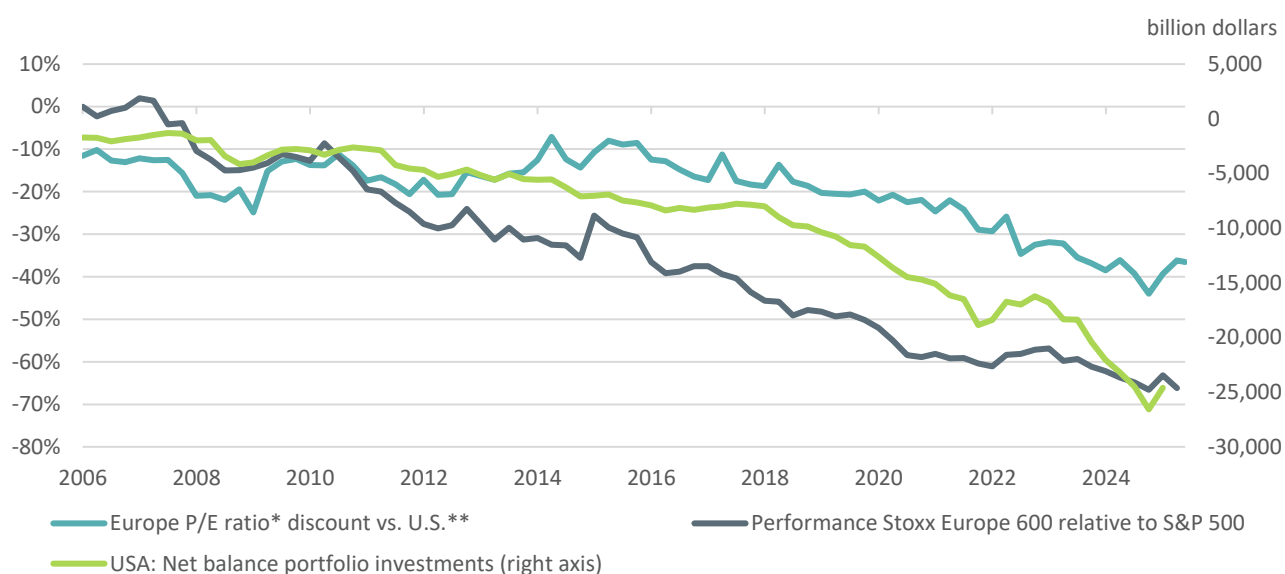


Sources: LSEG Datastream, DWS Investment GmbH as of 8/22/25

And then there is valuation. As Fig. 5 is showing, the valuation discount of European equities relative to the U.S. is close to 40%. From 2005-2020 the discount has averaged 16%. Valuation metrics are seldom a good timing indicator, as the chart also shows: European equities have underperformed their U.S. peers for the past 20 years, with only small interim periods of reversal. But at 40%, the valuation discount certainly seems to be over-confident for U.S.- and over-pessimistic for European equities. Not least, as we should also not forget to mention, as the U.S. is embarking into uncharted territories when looking at the combination of a high debt/GDP ratio, an extreme high twin deficit (budget and trade) and, to put it mildly, unorthodox domestic and foreign (trade) policies by the current U.S. government. We would not be surprised, if as a result of the latter, foreign direct capital inflows would flow into the U.S. at a slower speed or even reverse course (again, Fig. 5).

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Figure 5: Capital has flown for decades into the U.S., helping equities to build valuation premium vs Europe. Time for a reversal?



* Price-to-earnings ratio ** Based on next 12 months earnings

Source: LSEG Datastream; Bloomberg L.P., DWS Investment GmbH as of 8/22/2025

From a sector perspective, we see various routes to potentially capture this more constructive market outlook. European fiscal expansion is largely focused on industry with underutilized sectors likely to benefit the most. In addition, financials, communication services and utilities may be supported by favorable earnings as well as being resilient to the effects of a weaker U.S. dollar and tariffs. We would also favor small- and midcap companies, which may have the potential to outperform in cyclical upswings, but they are also trading at a steep discount to large caps. In addition, with European small- and midcaps more domestically orientated, this may offer potential risk management against negative tariff surprises from the U.S.

2.2 Fixed Income & currencies Attractive yields and the dollar perspective

Alongside U.S. Treasuries, the European bond market — particularly German government bonds — has long been regarded as a potential safe haven⁸ in turbulent times. Thanks to currently attractive yields, a steeper yield curve, and the prospect of a further interest rate cut by the ECB, we believe that German government bonds are currently particularly appealing, especially compared with U.S. government bonds. Although the relaxation of budget rules in Germany led to a sharp, temporary rise in Bund yields at the beginning of the year, the higher debt burden in the U.S., and the potentially greater negative impact of U.S. tariff policy on growth and inflation in comparison with Europe, could ultimately favour continued diversification away from U.S. government bonds and towards German government bonds.

There are essentially four factors that underscore the current attractiveness of German government bonds:

Capital is flowing from the U.S. to Europe, particularly to Germany

Concerns about excessive fiscal policy in the U.S. might be leading to some rebalance from the U.S. to Europe,⁹ with German government bonds likely to be a beneficiary. The volume of outstanding U.S. government bonds is much greater than the volumes outstanding in the Eurozone, or specifically in Bunds. Against this backdrop, it is clear that only a relatively small proportion of Treasuries would need to be sold or shifted to have a noticeable impact on the Bund market. With issuance volumes likely to rise

⁸ Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

⁹ See Bloomberg, „European Markets Are Becoming Increasingly Difficult to Ignore,” as of June 30, 2025

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in the coming years due to investment plans in Germany, the Bund market should be well equipped to absorb longer-term capital flows from the U.S.

Familiar investment strategies are expected to take effect again

Since September 2024, the yield curve for German government bonds in the two- to ten-year range has not been inverted for the first time in 22 months – in other words, higher yields are once again being paid on longer maturities. One investment strategy resulting from an upward-sloping yield curve is known as “rolling down the curve.” This strategy involves buying longer-term bonds, which, in this scenario, offer higher yields. Investors benefit from the fact that the yield on the bonds falls (and their price rises) as they approach their maturity date. When rolling down the yield curve, investors sell the securities before their final maturity. This strategy can potentially provide investors with additional income without significantly increasing interest rate risk, since price volatility decreases as the bond approaches its maturity date.

Compared to history, current yields appear attractive

From a shorter historical perspective, the ranges in which the market has been moving since around September 2022 are interesting in view of the yields on offer. Since the beginning of 1990,¹⁰ the average yield on ten-year maturities has been around 3.50 percent. However, since the beginning of 2012, yields on this maturity have remained below the two percent threshold. Against this backdrop, the current yields on offer appear in a very positive light indeed.

The tense geopolitical situation is likely to continue supporting safe haven¹¹ flows

If there are doubts about the solidity of U.S. Treasuries, the world's largest bond market, German government bonds quickly come into focus. The financial solidity of German government bonds is generally regarded as “beyond doubt.”¹² Although this view was seriously tested by the investment programmes adopted in Germany for the next twelve years, the prevailing view is that Germany will not overextend itself. Furthermore, we are not alone in assuming that the German government bond segment will be able to cope with the necessary new borrowing. Spreading this over a period of twelve years should keep the burden on the federal government within reasonable limits.

German government bonds currently appear more attractive than they have in recent years. Political decisions and measures have led to U.S. Treasuries being viewed more critically, resulting in above-average performance for Bunds in the two-and-a-half months following Liberation Day in April 2025. We believe this trend is likely to continue for some time. Safe-haven¹¹ flows from the U.S. into European government bonds are probably overestimated. Nevertheless, investors seem increasingly convinced that diversifying away from U.S. Treasuries and into German government bonds could be an attractive portfolio strategy.

German government bonds may benefit from their solidity, a steeper yield curve compared to U.S. Treasuries, and an attractive yield compared to recent years.¹³ While we do not anticipate significant yield declines, particularly in longer maturities, the factors outlined in this publication provide compelling arguments in favour of German government bonds. Looking ahead, the risk/reward ratio for German government bonds appears balanced, with their attractiveness stemming from the status quo — particularly when compared directly with U.S. Treasuries.

¹⁰ All data – unless otherwise quoted – from Bloomberg Finance L.P.

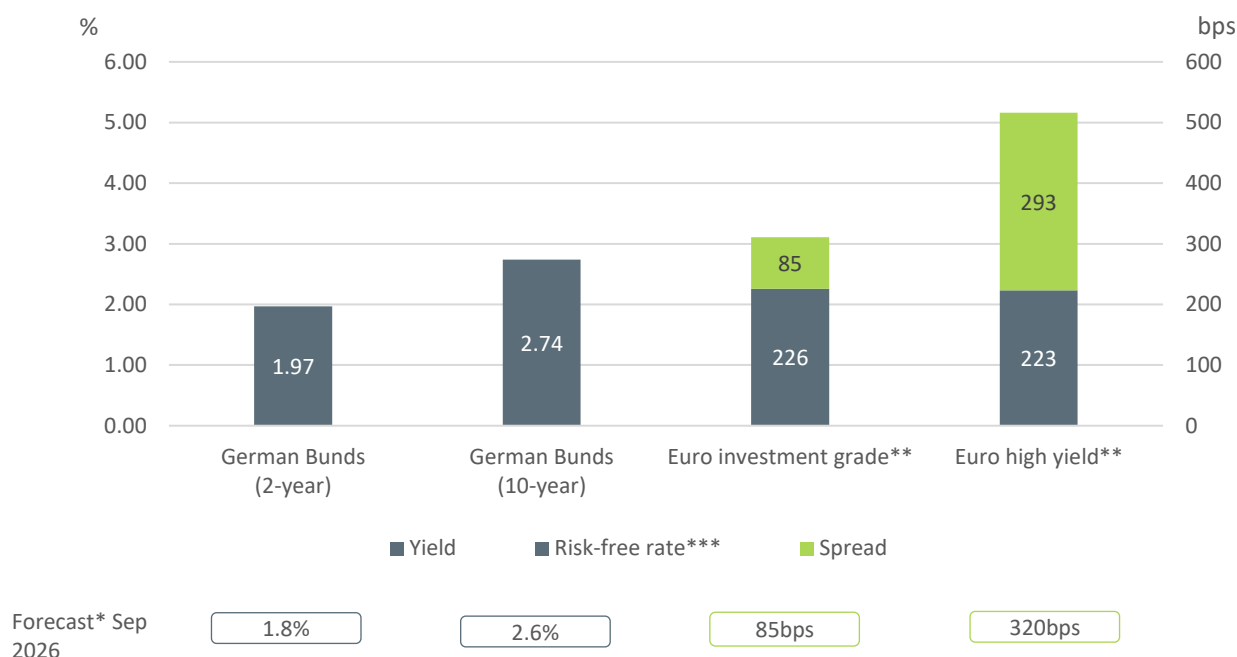
¹¹ Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

¹² Janse, K.A. (2023). Developing European Safe Assets. www.intereconomics.eu, [online] 2023(6), pp.315-319

¹³ For more information, see our publication “German Bunds with renewed appeal,” as of May 28, 2025

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Figure 6: Current yield and spread levels – European fixed income



German Bunds (2-year and 10-year) = Bloomberg Series-E Germany Govt Bond Index; **Euro investment grade** = IBOXX Euro Corporates Overall Total Return Index; **Euro high yield** = ICE BofA Euro Non-Financial High Yield Constrained Index; * Forecasts as of 9/3/2025 ** Spread over German Bunds; Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default; High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield. *** The risk-free interest rate is a theoretical concept in financial economics, describing an investment yielding exactly the return expected at the time of purchase. This is mainly used as a benchmark for other, riskier investments. In practice, it is usually estimated by taking the yield on a long-term top-rated government bond.

Sources: Bloomberg L.P., DWS Investment GmbH as of 9/3/2025

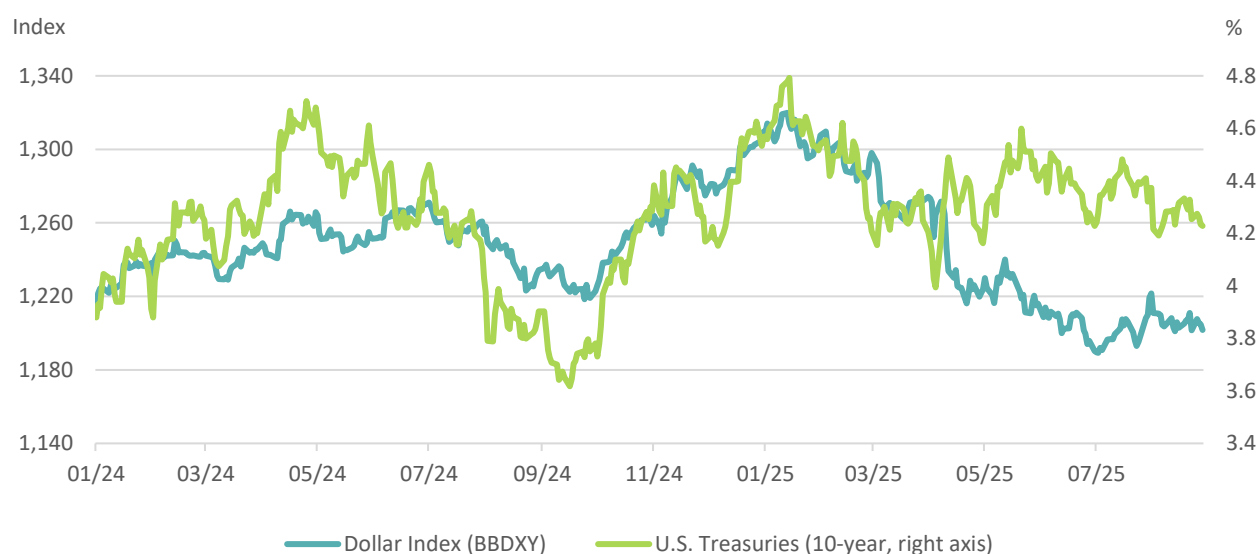
Foreign exchange tailwinds: currencies matter

Looking at the dollar, it seems obvious that a certain skepticism toward the dollar is at least an issue that is increasingly preoccupying the markets. Although the dollar has traditionally been a reliable diversifier during periods of market volatility, the current market phase appears to be different, with the U.S. itself becoming a source of turbulence in the financial markets. This is reflected in the U.S. dollar index's worst performance since the introduction of flexible exchange rates in 1973: it depreciated by just over 10%¹⁴ in the first half of 2025 and suffered additional losses against the euro. The situation is further complicated by the historically stable correlation between the U.S. dollar and U.S. government bond yields, which has largely broken down since Liberation Day in April. In our view, this reflects concerns about U.S. trade policy, high credit demand and the independence of the U.S. Federal Reserve. These structural issues present a significant challenge for international portfolios.

Despite the weakness of the dollar, the German fiscal package for defense and infrastructure might prop up the growth outlook and pull up Eurozone growth also, political uncertainty in the U.S. could prove favorable for an investment shift to the Eurozone and push the Euro. We expect the strength of the EURUSD levels to stay amid increased uncertainty and investors diversifying. This could encourage for example European-based investors to focus more on local currency investments.

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Figure 7: U.S. dollar and Treasury yields currently no longer move in tandem

Sources: Bloomberg L.P., DWS Investment GmbH as of 8/28/2025

2.3 Multi-Asset: Europe as a diversification anchor

Portfolio rotation: global investors reallocating from U.S. to Europe

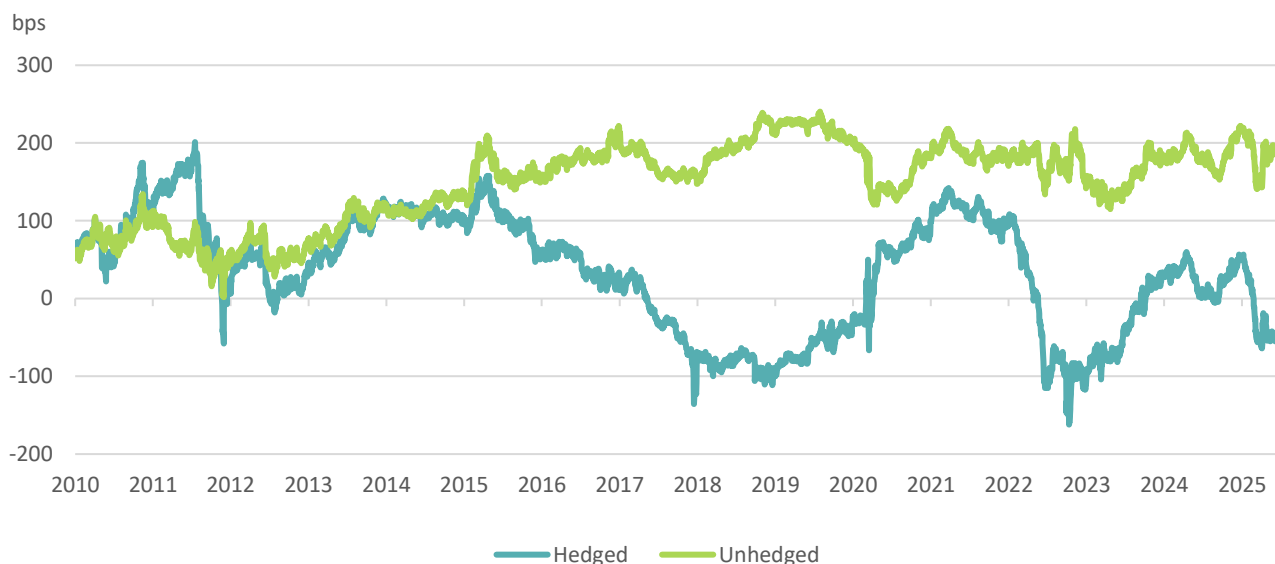
The increased focus on European capital markets has been prominent for a while now. For several months now, global investors have been reallocating their funds from U.S. equities and fixed-income securities to European assets. Data on inflows into European exchange-traded funds (ETFs) confirms this picture. According to the latest Morningstar data,¹⁵ investors have continued displaying caution to both U.S. equity and bond markets. U.S. large-blend equity ETFs saw outflows of ca. EUR 3 billion in the second quarter 2025, while European and Eurozone equity ETFs have attracted almost EUR 8 billion inflows in the same period. Overall, investors do not demonstrate a complete aversion to the U.S., but we do see attempts at more regional diversification where European markets are clearly capitalizing on this. Finally, within the DWS long-term capital markets assumptions framework (DWS Long View), our return expectations on a ten-year forward-looking basis for European equities remain attractive compared to their U.S. counterparts. In local currency terms, we expect an annualized return of 6.2% for Europe and 5.9% for the S&P 500 index.

In the context of a plethora of uncertainties about the current U.S. trade policies and debt sustainability, coupled with occasionally strong currency movements, a typical European investor might be forgiven for attempting to re-evaluate the place of USD-denominated bonds in her portfolio. Some investors also already act on it: Euro government and corporate bond ETFs have been the top two flow categories in the European fixed income ETF space in the second quarter, attracting around EUR 4.5 billion in total. From a risk allocation perspective, a shift into EUR-denominated bonds at the expense of U.S. ones could seem sensible. The active risk from such a move would likely increase by a third compared to an equivalent shift from U.S. to European equities. Moreover, for those European investors holding U.S. Treasuries on a currency-hedged basis, the spread between both 10- and 30-year currency-hedged U.S. government bonds and German government bonds has been negative since February 2025.

¹⁵ See "Europe OE & ETF Flows Q2 2025," Morningstar as of June 30, 2025

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Figure 8: 30-year Treasury-Bund spread pick-up (unhedged vs. hedged)



Sources: Bloomberg L.P., DWS Investment GmbH as of 9/1/2025

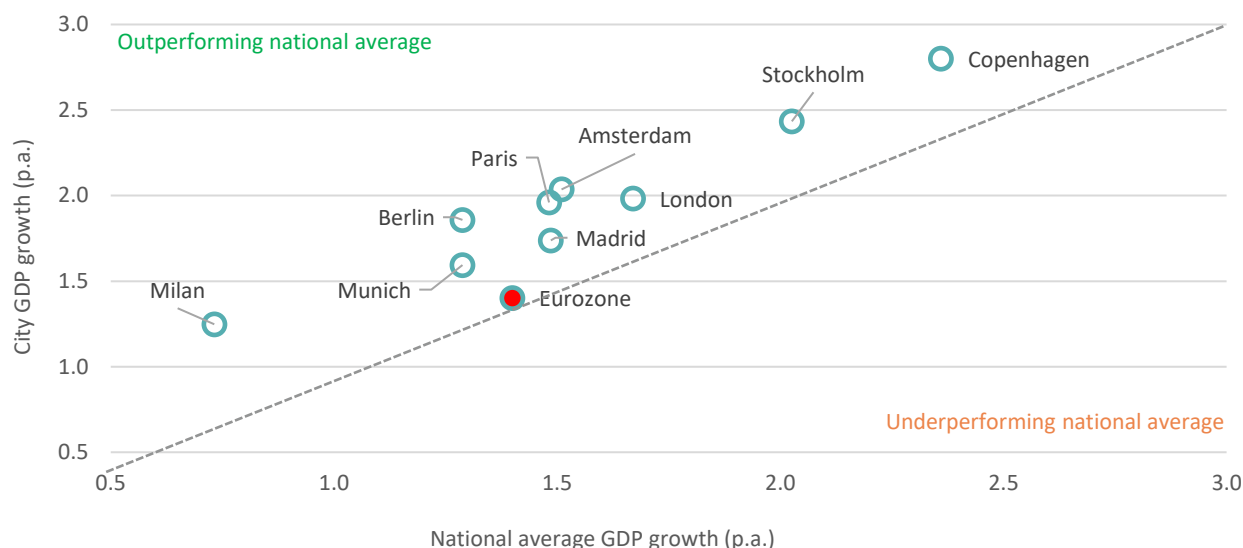
2.4 Real Estate: The “Pinch Hitter” opportunity

European real estate is undergoing a notable resurgence, drawing increasing interest from global investors. The region’s property market is emerging as a strategic “pinch hitter”—a term borrowed from baseball to describe a substitute player brought in at a critical moment. In this context, Europe appears to be stepping up underpinned by improving liquidity, supportive fiscal policy, and persistent supply constraints.

Urban resilience is a defining feature of this recovery. Gateway cities such as Berlin, Amsterdam, and Paris are outperforming national averages, driven by strong occupier fundamentals and demographic vitality. These cities are projected to see an 8% increase in their working-age populations over the next decade, while the broader European landscape faces a 3% decline.¹⁶ This urban dynamism is attracting talent, businesses, and capital, reinforcing the appeal of real estate investments in these locations. The resilience of these cities is further evidenced by robust rental growth, low vacancy rates, and a healthy demand for high-quality space.

¹⁶ Oxford Economics, as of March 2025

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Figure 9: European GDP growth forecast for the Eurozone and major cities (2025-2029)

Sources: Oxford Economics, DWS Investment GmbH as of December 2024

Fundamentals across the European real estate market are strong. The region is currently benefitting from historically low supply levels, land scarcity, and stringent planning regulations, which is contributing to structurally low vacancy rates, approximately half the level of the U.S.¹⁷ We expect this supply-side tightness to intensify, and we project a 25–30% drop in new supply over the next five years. Development margins have compressed due to rising construction costs and falling exit values, creating an increasingly challenging environment for new developments. These constraints are expected to exert upward pressure on rents, particularly in already constrained markets, and provide the groundwork for secure cashflows.

Europe may not just weather global challenges

The living sector stands out as a particularly attractive segment. Chronic undersupply, stable income, and structural demand drivers such as urbanization, ageing populations, and student mobility are creating a potentially robust investment environment. Vacancy rates in key cities are in the 2–3% range, with rent growth over the next five years forecasts of 4–5% per annum in places like Copenhagen, Berlin, and Madrid.

Given the fundamentals and supply outlook, value-add strategies in the living sector may offer compelling opportunities. These include refurbishing outdated assets, repurposing underutilized spaces such as offices and car parks into residential units, and developing future-fit living solutions aligned with environmental, social and governance (ESG) standards. High-density cities with land scarcity, ageing property stock, and regulatory incentives for modernization may offer favorable conditions for such strategies. Access to subsidized loans and ESG-certified financing could further enhance the viability of these investments.

In this period of global uncertainty, European real estate may offer relative stability, predictability, and potentially compelling risk-adjusted returns. The combination of resilient cities, constrained supply, and sector-specific opportunities may support the region's appeal as a strategic investment destination. With values at cyclical lows and liquidity on the rise, Europe may not just weather global challenges — it has the potential to thrive amid them. The investment renaissance underway is not merely a cyclical rebound but a structural reawakening, driven by fundamentals, fiscal support, and a renewed investor focus.

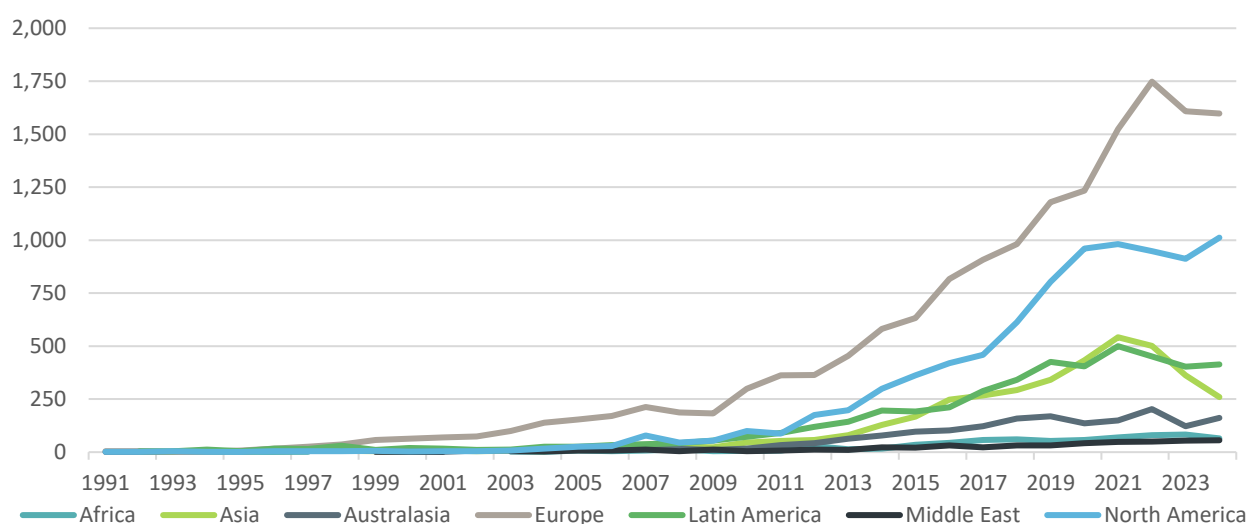
¹⁷ DWS, Broker Sources, Property Market Analysis (PMA), National Council of Real Estate Investment Fiduciaries (NCREIF), as of July 2025

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2.5 Infrastructure: The fiscal engine of transformation

Infrastructure will also be at the heart of Europe's renewal, with the clean energy and digital infrastructure sectors being some of the key beneficiaries of both fiscal expansionism and an uptick in private sector interest. As it stands, the European infrastructure market is the largest and most developed globally, with transaction opportunities spanning across every sector.¹⁸ Underpinned by stable and long-term regulation, the market has long attracted international capital looking to benefit from defensive, uncorrelated returns in their portfolios. However, the combination of the growth of large, globally focused infrastructure funds in recent years, and of the U.S. infrastructure market's attractiveness on the back of the Inflation Reduction Act, has seen Europe cede market share to North America. Compounding this, while European infrastructure may be structurally attractive, the economies that it serves have been lagging from a growth perspective relative to more dynamic markets like the U.S. and those in Asia.

Figure 10: Number of closed infrastructure transactions, by region



Sources: Infralogic, DWS Investment GmbH as of August 8, 2025

More competitive growth levels and a streamlining of bureaucracy should work to boost the attractiveness of European assets, but it is the focused fiscal support for the infrastructure market that is driving an uptick in investor attention on Europe. Higher levels of fiscal spending in the region will broadly be supportive for infrastructure assets due to higher levels of economic activity, but it is the EUR 500 billion German infrastructure package which has the potential to create significant opportunity for investors. This package, approved by both the German Bundestag and Bundesrat, will be deployed over 12 years. It will support a wide range of infrastructure initiatives, from traditional transport and municipal upgrades to energy efficiency, electric vehicle (EV) charging, and hydrogen infrastructure.

This public capital is not expected to crowd out private investment. Instead, it is designed to target large-cap, core infrastructure networks like rail and grids, while at the same time leverage in further private capital into the infrastructure markets where it has a greater presence, such as more commercial sectors like digital infrastructure, renewables, and energy efficiency. More information about the deployment of the infrastructure spend is expected over 2025, but it represents an attitudinal shift in approach to infrastructure investment in Europe and joins other major markets such as France and the U.K. in publicly committing capital to infrastructure.

¹⁸ See Infralogic transaction data, as of August 2025

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The digital infrastructure market is central to Europe's plans to become globally competitive and – crucially – more independent. Europe needs more data centers because demand is structurally outpacing today's supply; AI and cloud are lifting compute intensity and energy needs faster than efficiency gains can offset. To lessen the dependence on U.S. tech firms and their data center capacity, as well as to give European tech firms the tools with which to develop Europe's AI capabilities, the EU as well as national governments across Europe are looking to support the development of data center capacity through various initiatives. The AI Continent Action plan, announced in April 2025, aims to position Europe as a global leader. Within this, InvestAI will support EUR 200 billion of investment, including the development of several gigafactory scale data centers with EUR 20 billion, as well as encourage AI adoption across industry¹⁹. There are also several national-level initiatives, such as those in France²⁰ and the U.K.²¹

Energy security remains the chief concern of European policymakers, but as a region still heavily reliant on international imports in the form of natural gas, this also means that the low-carbon energy transition is of equal importance. Europe's only largescale energy source available domestically, at scale, is renewable energy and thus wind and solar remains paramount and a crucial opportunity set for infrastructure investors. Europe has long led the way in rolling out renewable energy, but the 2022 energy crisis and REPowerEU policy that was introduced to remove Russian gas from the energy mix has accelerated market growth. Combining with the need for better grid integration and clean energy manufacturing in the region, the Clean Industrial Deal is the latest policy step which aims to gather momentum in the clean energy market and looks to deploy over EUR 100 billion in public and private investment.²² While the U.S. – which has recently been attractive to infrastructure investors in the clean energy space due to attractive tax credits – has been experiencing significant policy uncertainty in recent months in the clean energy space, Europe has been continuing to evolve its support to ensure that the complexities of the energy transition are matched with adequate policy support.

2.6 Private credit: An alternative financing vehicle

The European market is currently facing a unique set of economic and geopolitical challenges, including increased fiscal spending needs, regulatory changes, and the need for enhanced defense capabilities. Private credit steps in to fill the gaps left by traditional banking systems, which are constrained by higher capital requirements and regulatory pressures.

One of the primary ways private credit helps the European economy is by providing alternative financing solutions to small- and medium-sized enterprises (SMEs). With the new Basel III regulations increasingly imposing additional capital requirements on bank lending, there is a growing need to combine bank lending with private and public capital markets to finance expansion. Private credit firms offer bespoke, highly structured financing solutions that are not viable for bank balance sheets due to regulatory charges. This allows SMEs to access the necessary funds to grow and innovate, thereby strengthening the overall economy.

The European private credit market, particularly in the lower mid-market segment, has shown potential for more favorable risk-adjusted returns compared to the upper mid-market due to lower leverage levels, strong documentation protection, and potentially better margins. Additionally, asset-backed financing (ABF) within the private credit market is expected to experience higher growth than direct lending, offering potential alpha diversification for investors. ABF strategies are secured against granular pools of assets, providing potential for diversification benefits and downside risk management.

Furthermore, the evolving partnerships between banks and private credit firms enhance the investment landscape. These partnerships leverage complementary capabilities, allowing both parties to potentially achieve better outcomes for their clients. For instance, banks can retain their client relationships and lend to areas constrained by risk-capital requirements, while private credit firms benefit from banks' extensive origination networks. This collaboration not only supports the financing needs of various sectors but also helps mitigate systemic risks by reallocating risk from leveraged bank balance sheets to the portfolios of long-term sophisticated investors.

¹⁹ See "Shaping Europe's leadership in Artificial Intelligence with the AI continent plan," European Commission as of April 9, 2025

²⁰ See "Make France an AI powerhouse." Presidency de la Republique as of February 10-11, 2025

²¹ See "AI opportunities action plan," UK Government as of January 13, 2025

²² See "Clean Industrial Plan," European Commission as of February 26, 2025

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2.7 Commodities: Strategic realignment

Europe has a clear mission in terms of decarbonization, the deployment of renewables and diversification away from Russian gas. Since 1990, European greenhouse gas emissions have declined by 37% despite a 68% increase in the region's GDP over the same period.²³ This success has been achieved in part by the rapid deployment of renewables which now account for over 45% of total power generation. This trend will continue. According to the IEA,²⁴ Europe is committed to continue to invest in renewable energy, spending over USD 400 billion each year between 2026 and 2030. This has also facilitated Europe's efforts to reduce its heavy reliance on Russian gas under the REPowerEU initiative. Alongside increased liquid natural gas (LNG) exports, most notably from the U.S., this has led to the share of European natural gas imports from Russia falling to just over 10% in the second quarter of this year compared to nearly 50% prior to the Russia-Ukraine war.²⁵

Europe's energy ambition requires further grid investment which will connect sources of new renewable energy generation sites to the European grid. Additional demands on the grid will also be triggered by the power requirements of data centers to support growing power demand from the AI and Generative AI sectors. According to International Data Corporation (IDC), the top five European sectors with the largest spending for AI and Generative AI industry will total USD 31 billion in 2025, with an expected compound annual growth rate between 2024 to 2028 close to 30% per annum.²⁶ Increased data center investment will support copper and aluminium demand as data centers are among one of the most electricity intensive industries.

Additionally, the Readiness2030 initiative will mobilize EUR 800 billion in defence spending and will underpin the North Atlantic Treaty Organization (NATO) commitment to raise defence and security spending to 5% of GDP by 2035.²⁷ This spending will be heavily tilted towards building out industrial and manufacturing capacity, driving up demand not just for steel, but all other industrial metals such as zinc, aluminium, and nickel that form part of the manufacturing process.

3 / Conclusion

Europe's mindset has changed. Rather than being characterized as slow to innovate, fragmented in policy and overshadowed by U.S. dynamism, the continent is aiming to reposition itself as a strategic, diversified and policy-supported investment destination. At the heart of this shift is Europe's ambition towards strategic autonomy which has been triggered by geopolitical risk, energy insecurity and technological dependence. This is delivering a new paradigm of economic resilience through climate leadership, digital sovereignty and supply chain diversification. Alongside significant fiscal firepower and private capital this could put Europe on a path of high-tech low-carbon industrial acceleration.

Europe is therefore becoming a gateway to capital investment, strategic innovation and diversification. From Nordic tech and Iberian renewable leadership to Eastern Europe's nearshoring advantages and Central Europe's manufacturing renaissance, the continent is leveraging its regional diversity. But perhaps the most exciting is the regulatory and policy reset taking place in Germany which is providing a compelling investment case for Europe's largest economy.

Investors are also rebalancing towards European assets across the capital spectrum. From equities which remain undervalued compared to global peers and fixed income given currently attractive yields, to private markets and real assets helped by policy-driven tailwinds.

²³ See "Progress on climate action," European Commission as of October 31, 2024

²⁴ See "World Energy Investment 2024," IEA as of June 2024

²⁵ See "European natural gas imports," Bruegel as of July 24, 2025

²⁶ See "European AI spending to reach US\$144 billion by 2028," IDC as of March 14, 2025

²⁷ See "NATO concludes historic summit in the Hague," NATO as of June 25, 2025

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Glossary

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

Asset-backed securities (ABS) are securities whose income payments, and thus value, is derived from and collateralized (or "backed") by a specified pool of underlying assets.

The Basel Committee on Banking Supervision's revised international standards, called **Basel III**, on capital adequacy, as adopted at the G20 summit in November 2010.

One **basis point** equals 1/100 of a percentage point.

A **budget deficit** is created whenever the spending in a public budget exceeds the income within a given time period

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

The **consumer price index (CPI)** measures the price inflation as a percentage, year over year, of a basket of products and services that is based on the typical consumption of a private household.

Credit default swaps (CDS) is a financial derivative that allows an investor to swap or offset their credit risk with that of another investor.

The **Dax** is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Decarbonization is the reduction or elimination of carbon dioxide emissions from a process such as manufacturing or the production of energy

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.

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

Investors increasingly take **environmental, social and governance (ESG)** criteria into account when analyzing companies in order to identify non-financial risks and opportunities.

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

The **European Commission (EU Commission)** is the executive body of the European Union (EU) which represents the interests of the EU.

The **European Investment Bank** is a multilateral financial institution owned by the EU member states. It provides both equity and debt financing for projects that meet EU policy objectives in areas such as climate change, the environment and infrastructure.

The **European Union (EU)** is a political and economic union of 27 member states located primarily in Europe.

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The **EURUSD** pair signifies how many U.S. dollars are needed to purchase one euro.

An **exchange-traded fund (ETF)** is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Foreign direct investment (FDI) aims at establishing or having control of an enterprise in a foreign country, unlike indirect investment in a sector through financial instruments.

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

FX is the abbreviation for **foreign exchange**, i.e. currencies.

The **German Bundesrat** is the upper house of the German parliament and is made up of representatives of the sixteen federal state governments who thereby participate directly in critical legislative decisions.

The **German Bundestag** is the national parliament of the Federal Republic of Germany. It is the lower house of the two legislative chambers, the German Bundesrat being the upper house.

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

In finance, a **hedged** investment uses financial instruments to reduce or eliminate the risk from currency fluctuations, aiming for more stable returns by locking in an exchange rate. Hedging protects against potential currency losses but also sacrifices potential currency gains, while unhedged investments expose investors to both currency risks and opportunities.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Large cap firms generally have a market capitalization of more than 10 billion dollars.

Market capitalization, in the context of an individual firms, is the number of shares issued multiplied by the value of the shares.

Firms referred to as **mid cap** generally have a market capitalization of between \$2 billion and \$10 billion.

NATO is a Western military alliance with currently 30 member states

Occupier fundamentals is a broad term for demand drivers, occupier behaviour, affordability, vacancy and supply.

The **price-to-earnings (P/E) ratio** compares a company's current share price to its earnings per share.

Risk-adjusted implies that the risk involved is taken into consideration. For example, risk-adjusted return is how much return your investment has made relative to the amount of risk the investment has taken.

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.

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

A **smart grid** is an electricity grid that uses information about production and consumption to more efficiently manage distribution.

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

The **Stoxx Europe 600** is an index representing the performance of 600 listed companies across 18 European countries.

A **tariff** is a tax imposed by one country on the goods and services imported from another country.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

A **twin deficit** is a simultaneous fiscal and current-account deficit

An **unhedged** investment, carries the full risk of currency movements, meaning returns are directly affected by changes in exchange rates. Hedging protects against potential currency losses but also sacrifices potential currency gains, while unhedged investments expose investors to both currency risks and opportunities.

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.

A **valuation discount** means that a stock or market is trading for less than its perceived intrinsic value. For example, European stocks might be trading at lower multiples of their earnings, cash flow, or other fundamental metrics compared to their U.S. counterparts, indicating a lower price relative to their underlying value.

A **value-add strategy** typically involves acquiring under-performing assets with upside potential and adding value through one or more repositioning strategies. These strategies may include property renovation, tenant realignment, operational improvements, lease-up, and re-tenanting strategies among others with the goal of boosting net operating income, and thus increasing the value of the property.

Venture capital is part of the private-equity business. It refers to the temporary provision of money for early-business-stage firms with perceived long-term growth potential in order to potentially achieve above-average returns. It is an important source of funding for startups that have no access to capital markets.

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.

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