November 22, 2022

Marketing Material

Not an easy year, but one with alternatives

Even if this year's extreme developments do not recur in 2023, there will be no lack of challenges. But investors at least have more possibilities as bonds revive.

" A mild recession in 2023 is likely to be followed by only a weak recovery, with inflation still high. This offers little upside potential for equities but interesting prospects for bonds which have resurfaced as an attractive alternative. "

Björn Jesch
Global Chief Investment Officer

There could certainly have been duller times to take on the post of Chief Investment Officer at DWS. The forecasts for 2023 have to take account of more major structural disruptions and challenges than can be listed on the fingers of one hand: record high inflation; the end of ultra-loose monetary policy; the end of China as a deflation-exporting growth machine; the ongoing political attacks on global trade; demographic change profoundly affecting more and more countries; the costs (and opportunities) of decarbonization; and finally the Ukraine conflict, the further course of which is highly unpredictable.

But the outcome of the Ukraine war and the other aforementioned challenges are, at least, "known unknowns"[1]. Capital markets always experience their worst slumps when they are confronted by unforeseen developments, black swans like Covid, when uncertainty is at its highest and negative momentum can build fast. From this perspective 2023 will struggle to outdo 2022 when the jumps in yields and key interest rates were the highest in decades. What precipitate that was, at least in part, the fact that a major European power triggered a major war for the first time since the Second World War, provoking the worst inflation spikes and worry about energy supplies since the 1970s. Tension between China and Taiwan also developed an unwelcome new dynamic in 2022. Of course, further "unthinkable" things could still happen in 2023. The high implied volatilities on the bond and currency markets show how nervous investors continue to be. On the stock market, too, even large-cap stocks are sometimes shocking investors with double digit moves in one day.

From today's perspective it’s therefore apparent that there will be no lack of challenges for investors in 2023. We expect recessions in the U.S. and Europe – and the prospects for equity returns are in our view likely to be modest. At the same time, however, strong labor markets, comparatively solid household and corporate balance sheets and, last but not least, the big falls markets suffered in 2022 should prevent further price losses on a similar scale. Also positive from an investor perspective is that after the annus horribilis for mixed portfolios - equities, bonds and segments of alternative investments all suffered - it is now worth diversifying investments again. Bonds finally offer a return and risk assets are no longer the only game in town. In our view, emerging market bonds and corporate bonds, especially from the high-yield segment, are already offering investors such attractive yields that even a renewed widening in risk premiums would be bearable. Government bonds too are once again an alternative, as we expect the U.S. Federal Reserve (Fed) and European Central Bank (ECB) to reach the peak of their interest rate hike cycle next year. By late 2023 the bond markets will be eyeing the expected interest rate cuts in subsequent years. And in our view, they are unlikely to have to

[1] Former U.S. Secretary of State Donald Rumsfeld "unknown unknowns" as the closest thing to black swans in the financial markets.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. DWS Investment GmbH as of 11/21/22

deal with anything more than very small yield rises between now and then. For 2-year U.S.-Treasuries we even expect yields to fall, and so the yield curve should turn slightly positive again.

However, we are aware that central banks' reaction function in the coming year is difficult to predict. The monetary guardians face the same challenge as all market participants: an inflation pattern that is very unusual in its constellation[2]. While we expect consumer price inflation to fall from 8.2% to 4.1% in the U.S. and from 8.4% to 6.0% in the eurozone, these rates remain worrying, especially as a broad range of forces are driving them, not just commodity prices, but also wages. The central banks' work is therefore far from done and we expect them to remain restrictive in 2023, even at the cost of recession.

The persistence of inflation is ultimately one of the reasons why we continue to believe equities are an essential part of every portfolio, even if they face a wide variety of headwinds. We see limited potential for further earnings growth as the biggest obstacle, as many sectors are entering the new year with very healthy profit margins already. On the valuation side continued high inflation rates and positive real interest rates (of around 1.5% in the U.S.) are likely to weigh. While the latter is bad for the gold price, we think the precious metal will benefit from high central bank buying, continued geopolitical risk, and inflation. In our opinion the dollar's strongest phase should be behind it, especially against the euro.

Overall, we enter the coming year with appropriate humility but also cautious optimism. We expect nervous sideways trading on the markets and a continuing search for equilibrium in what is now a new world for monetary policy. We believe diversification will be back in fashion as bonds and equities both offer possibilities. We see a risk that investors might again act too hastily as they look for central bank turning points whenever an inflation or wage number looks a bit kinder. And markets might get ahead of themselves too on the recession threat – because just how long regional recessions will last is one of many uncertainties. It is, as ever, not individual data points that will determine the prospects for the markets in 2023 but likely the highly complex interplay of the numerous economic and political forces that make up the global big picture.

[2] Supply-side disruptions are meeting a robust labor market, partly for demographic reasons, and relatively high savings; while Covid lockdowns and government aid have complicated many calculations.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. DWS Investment GmbH as of 11/21/22

GLOSSARY

Deflation is a sustained decrease in the general price level of goods and services.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Economic equilibrium describes the balanced state of economic forces, such as supply and demand. Economic variables will therefore only change due to external forces.

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

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

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.

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

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).

The real interest rate is the nominal interest rate adjusted for inflation as measured by the GDP deflator.

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

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

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).

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

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.

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.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. DWS Investment GmbH as of 11/21/22

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.

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.

© 2022 DWS [Investment] [International] GmbH

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

© 2022 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.

© 2022 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.

© 2022 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.

© 2022 DWS Investments Australia Limited

CRC 093273_1 (11/2022)

DWS Investment GmbH as of 11/21/22