CIO View

Multi Asset

February 12th, 2025
Marketing material

CIO View Portfolio: Perspectives

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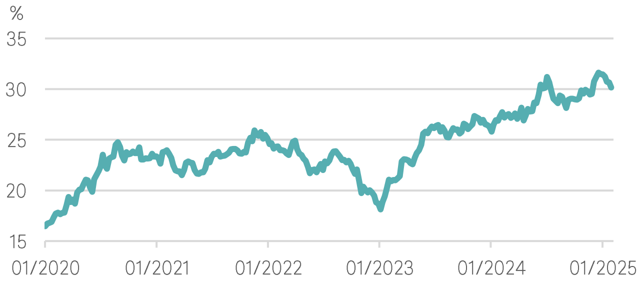
In our new monthly Multi-Asset update we show the implementation of our CIO View in the CIO View model portfolio.

Idea of the month

Concentration risks play an important role in portfolio construction. In a U.S. portfolio consisting of 60% equities and 40% bonds, at current volatility levels and using modern risk modeling, approx. 90% of the risk is accounted for by equities. If we also consider that the ten largest stocks in the S&P 500 account for a cumulative 46% of the index's risk, the combination of these two figures shows that, including all correlation effects, roughly 40% of the risk of the 60/40 portfolio is caused by just 10 stocks. This does show very clearly that the top 10 stocks in the S&P 500 can almost be considered a separate asset class, with a very large impact on the performance of the overall portfolio.

Substantial increase in market capitalization of Magnificent 7 stocks in the S&P 500



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 2/10/25

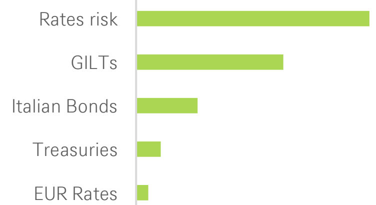
Our take on Duration & Risk

Duration

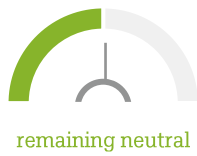
We expect Fed and ECB to ease more. Medium-term factors are balanced. Some leading indicators seem to have bottomed out, e.g. Asset & Style Cycle has turned and may give a "Boom" signal if it improves again next month. Inflation and fiscal risks have increased after Trump. In our view, duration is no longer a clear-cut diversifier as the risk for higher inflation seems to be larger than for a U.S. recession, at least in the short term. On the plus side, credit and housing markets are stabilizing but are still softish, industrial data remains weak as well. Increase duration bias through higher yield levels.

We maintain our duration stance at neutral

Active rates risk contribution



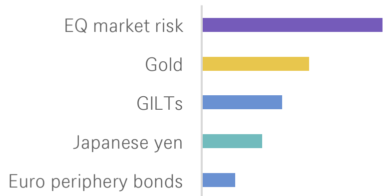
Overall duration



Source: DWS Investment GmbH as of 2/5/25

We stick to our risk stance at +1

Top 5 active risks



Overall risk

Source: DWS Investment GmbH as of 2/5/25

Risk

We see a short-term correction potential (up to 5%) and want to use that opportunity to add further risk as the current environment supports risky assets in our view. Central banks are normalising interest rates. Decent U.S. economic growth and positive economic dynamics should boost risk assets, despite high valuation levels. Earnings growth should be supportive if U.S. corporate tax cuts materialise. The rest of the world faces more uncertainty. Europe has some optionality as it is still cheap, leading indicators seem to have bottomed and a ceasefire in Ukraine could be a positive catalyst. The MSCI World's 75% U.S. weighting is vulnerable.

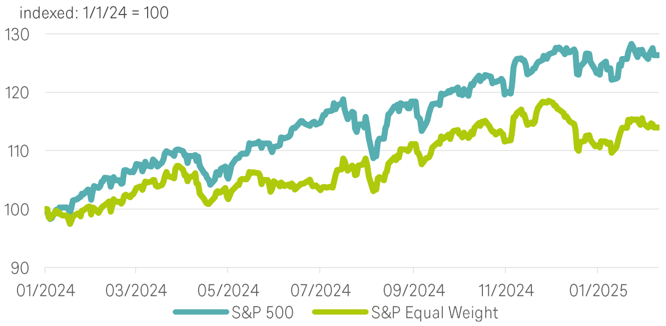
What's up in the segments?

Healthcare and Communication Services are our preferred sectors in equities

On equities, our overall risk preference is at +1. We see a higher chance for a reset if seasonality and policy support in the U.S. isn't matched by earnings and economic growth in lite of current valuation levels. But we would add equity risk into a market dip (i.e. S&P 500 -5%). For Europe and Japan, we reiterate that both regions are strategically attractive, but in the short term we are neutral. We maintain our "more defensive" sector positioning. Despite the strong performance of communication services in January, earnings trends and valuation levels still look promising for the sector. Healthcare has suffered from U.S. political uncertainty and rising yields since early September. However, defensive sectors such as healthcare tend to outperform during cycles of interest-rate cuts. We reiterate our +1 rating on both sectors. In terms of styles, we prefer the S&P 500 Equal Weight in this Trump 2.0 scenario. We reiterate our Barbell preference for Value and MinVol as one of the least correlated pairs at low valuations. In fixed income, we believe that it's too early to expect a sustained rally in Treasuries in January without a clearly visible bullish driver, so we remain neutral for now, but with a slight long bias, the same applies to Bunds. In currencies, risk diversification capabilities still justify a neutral position on the U.S. dollar versus the euro, although USD is no longer cheap.

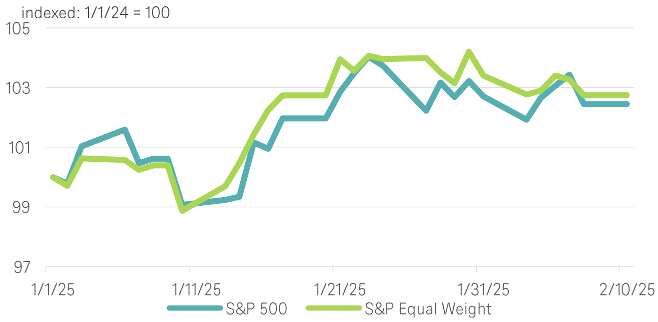
We prefer the S&P 500 Equal Weight in this Trump 2.0 scenario

During 2024, S&P Equal Weight Index was far behind ...



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 2/10/25

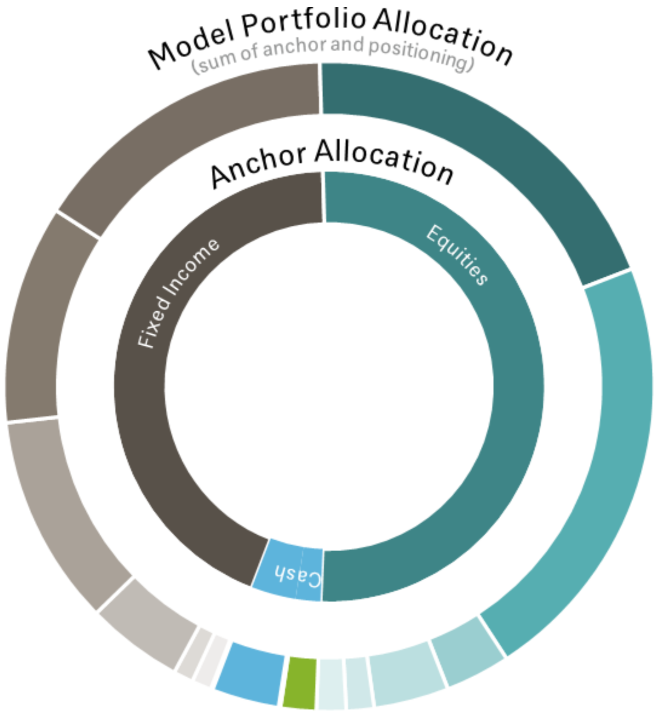
... but it's slightly stronger since the beginning of 2025



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 2/10/25

CIO View Model Portfolio positioning vs. anchor

This allocation shows how we implement the above-mentioned CIO View into a Multi-Asset portfolio of liquid securities



	Anchor	Positioning	Allocation
Equities	**49.4%**	**+3.7%**	**53.1%**
U.S. equities	23.7%	-2.8%	21.0%
European equities	17.1%	+0.2%	17.3%
Japanese equities	4.1%	0.2%	4.2%
Emerging market equities	4.5%	-0.3%	4.2%
World Healthcare	0.0%	+2.1%	2.1%
World Communication Services	0.0%	+2.1%	2.1%
Minimum Volatility	0.0%	+0.6%	0.6%
Value	0.0%	+0.6%	0.6%
Fixed Income	**43.1%**	**+2.3%**	**45.3%**
European Government bonds	12.0%	-1.3%	10.7%
U.S. Treasuries	10.9%	0.0%	10.9%
European IG corporate bonds	11.5%	+3.8%	15.4%
U.S. IG corporate bonds	5.1%	-0.2%	4.9%
Asia credit	0.0%	+1.0%	1.0%
EUR high yield bonds	1.0%	-1.0%	0.0%
U.S. high yield bonds	1.5%	0.0%	1.5%
Global emerging markets bonds	1.0%	0.0%	1.0%
Commodities	**0.0%**	**+2.1%**	**2.1%**
Gold	0.0%	+2.0%	2.0%
Ethereum	0.0%	+0.1%	0.1%
Cash & currency	**7.5%**	**+0.3%**	**7.8%**

Source: DWS Investment GmbH as of 1/30/25
This allocation may not be suitable for all investors and can be changed at any time without notice.

Glossary

The Bank of Japan (BoJ) is the central bank of Japan.

A barrel (bbl) is the commonly used unit to measure crude oil. One barrel is about 159 liters.

Bitcoin is the first and largest crypto asset, enabling decentralized peer-to-peer transactions.

Brent crude is a grade of crude oil dominant in the European market.

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 correction is a decline in stock market prices.

Duration is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

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.

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

Ethereum is a decentralized, public blockchain network that supports composable smart contracts which can be used to create decentralized applications and tokens and facilitate peer-to-peer transfers.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in 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.

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.

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 Japanese yen (JPY) is the official currency of Japan.

A minimum volatility factor involves buying stocks based on the estimate of their volatility and correlations with other stocks.

Momentum refers to the rate of growth of an index or security's price. Momentum investors believe that strong growth is likely to be followed by further gains.

OPEC+ is an informal alliance of OPEC members and other oil-producing countries, led by Russia, aiming to coordinate their production strategies.

The Organization of the Petroleum Exporting Countries (OPEC) is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

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

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

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

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. dollar (USD) is the official currency of the United States and its overseas territories.

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.

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 – EMEA, APAC, LATAM & MENA

as of 2/10/25; 104640_1 (02/2025)