

# CROCI®

Year-End Outlook update

October 2025

Marketing Material.

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# AGENDA

00 IN A NUTSHELL

01 GLOBAL EQUITY MARKET VALUATION

02 GLOBAL CROCI EVOLUTION

03 CROCI BUBBLE ANALYSIS

04 GLOBAL BANKS

05 FACTOR LEADERSHIP

# CROCI Outlook 2025 – Year-End Update (1)



## Executive Summary

### Market valuations are stretched, no matter what metric you look at

- On **median valuation by region, it is hard to distinguish between the US and Europe**, despite the received wisdom that Europe is cheaper ([slide 7](#)).
- **Health Care is the cheapest non-financial sector, with a median valuation of less than 30x (global equities trade around 37x)**. The cheapest quartile of Health Care trades on less than 20x ([slide 8](#)).
- Overall market valuations may be high, but there is still attractive valuation for the cheapest stocks. **The cheapest decile of global equities are at a discount of more than 50% to the market median** ([slide 9](#)).

### Real economic earnings showing signs of mild deceleration

- The current dominance of profitable large cap companies is clear from the numbers. **Aggregate CROCI returns are about 25bps above the long-term trend, but the median returns are at least 150 bps below the LT average** ([slide 13](#)).
  - Median CROCI for the US region remains in line with its LT average, whereas the median CROCI for the EU and the JP region is about 250 bps and 100 bps below their LT averages ([slide 14](#)).
- At an aggregate level, combined global capex intensity as a proportion of sales currently exceeds the dotcom bubble peak, thanks to the US ([slide 15](#)).

### The rapid acceleration in AI-related capital expenditure has changed productivity ranking substantially

- **Looking at the productivity metric across sectors, two sectors stand out – IT and Health Care**. The productivity dip that IT has seen relative to its 10Y history is most acute relative to all the other sectors (led by MAG7). On the other hand, Health Care stands as being the closest to its 10Y range ([slide 16](#)).
- Magnificent Seven stocks now account for 16% of the total US asset base (up from less than 10% in 2021), and Media's capital levels have started to converge on the Telecoms sector ([slide 17](#)).

# CROCI Outlook 2025 – Year-End Update (2)



## Executive Summary

### Large-caps appear to be the bubble territory, led by the US

- While the number of companies in the bubble territory remains low, the market-implied profitability of the large caps appear to have meaningfully deviated from their recent profitability (five years average) ([slide 23](#)).
- The US stands out as the only region where profitability (measured as CROCI cash returns), as well as the valuation (economic PE), is higher than LT trend ([slide 7](#) & [slide 13](#))

### Comparing the valuation of banks with non-financials

- After adjusting the economic valuation of the global banks for a higher cost of capital, **at an aggregate level the banking sector is trading at a discount of a significant discount to the non-financial part of the market** ([slide 25](#)).
- Despite Europeans banks significantly outperforming global peers, they continue to offer better value regionally. European banks in aggregate generate close to the highest return-on-capital (12.2%), offer the highest dividend yield (4.7%), and have among the best capitalization ratios (14.2%) ([slide 26](#)).

### Global factor performance has favored Momentum and punished Quality YTD

- The performance of selected global and US factors shows that Value has performed strongly but Quality has been weak, which has hurt many of the long-standing CROCI strategies.
- Value appears to be gaining advantage during the current year in the U.S ([slide 28](#)). However, in the broader DM universe, Momentum has been the strongest factor, followed by Growth and Value. This has helped the CROCI Innovation Leaders approach to perform strongly in 2025 ([slide 29](#)).

1.0

# GLOBAL EQUITY MARKET VALUATION

# Global Equity Market Valuation

Valuations appear expensive compared to long-term history

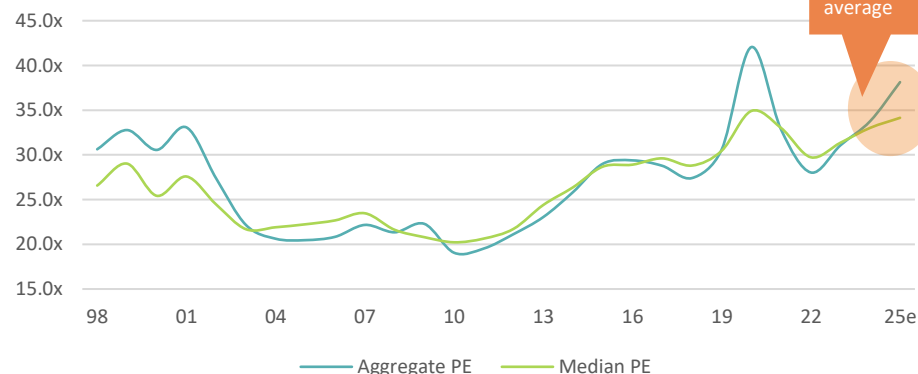


## Priced for perfection?

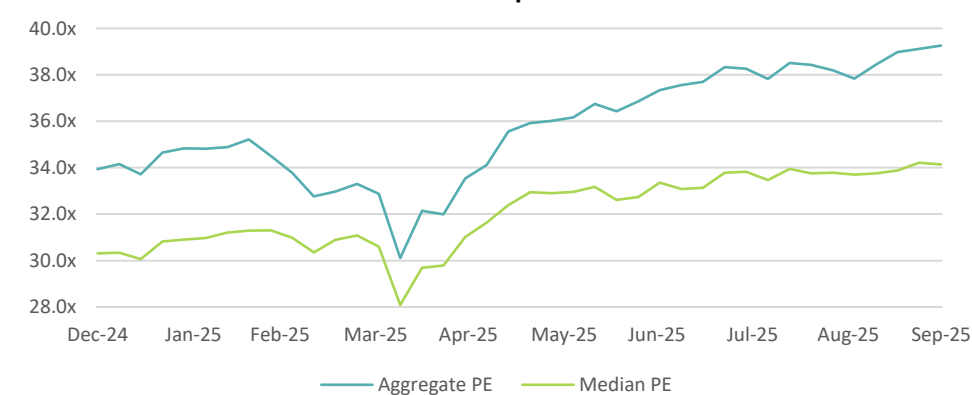
- Global valuation multiples today are about a third more expensive than the long-term average.
- The pandemic was the only period when valuations were even more expensive, driven by sharp compression in profitability. Even then, the current median valuation is only about 2% shy of that peak.
- The current high valuations are based on CROCI levels which are already elevated compared to their long-term history (particularly in the US, where profitability is significantly higher).
- Valuations saw a downtick during the first quarter, until the recovery following the US administration's announcement of tariffs in early April. Since then, the recovery has resulted in valuations overtaking the levels at the start of the year.

On most measures, valuations are approaching their 1998 peak. Aggregate valuations may still be below pandemic levels, but recall that pandemic peaks were the result of a sharp compression in profitability. By contrast, aggregate profitability is now some way above long-term averages.

## Historical Annual Economic PE – Developed Markets



## Revision in 2025e Economic PE – Developed Markets



Source: DWS, CROCI, data as of September 30, 2025. Median PE is calculated based on median of companies after removing the companies with negative CROCI.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns

# Equity Market Valuation Across Regions

Through the lens of the median valuation of developed market companies



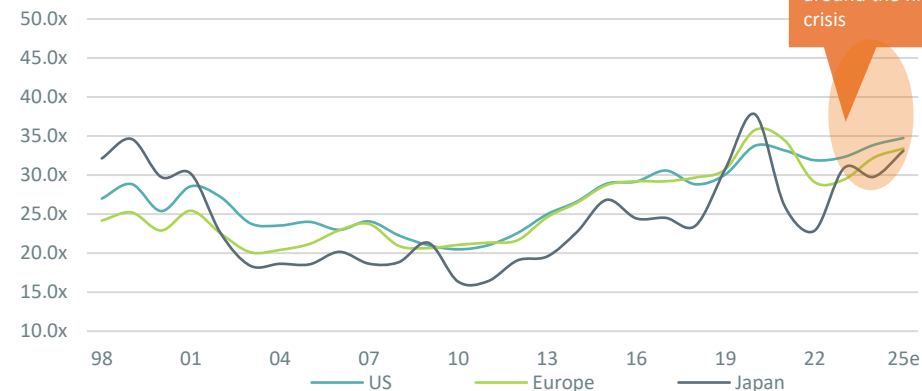
## US and European median valuations are neck-and-neck

- It is hard to separate US and European valuations, despite received wisdom that the former is more expensive than the latter.
- The late Charlie Munger said of value investing “Fish where the fish are”. Based on median economic PEs, investors are likely to find attractively priced businesses on both sides of the Atlantic.
- But there is a substantial difference in profitability which underpins the valuation of both, with the US on aggregate 2025e returns of 10.8% compared to Europe’s 4.7%. For comparison, Japan’s aggregate CROCI is at 3.0%
- So far this year, the US and Europe have moved in tandem, whereas Japan’s valuation has caught up over the course of the year.

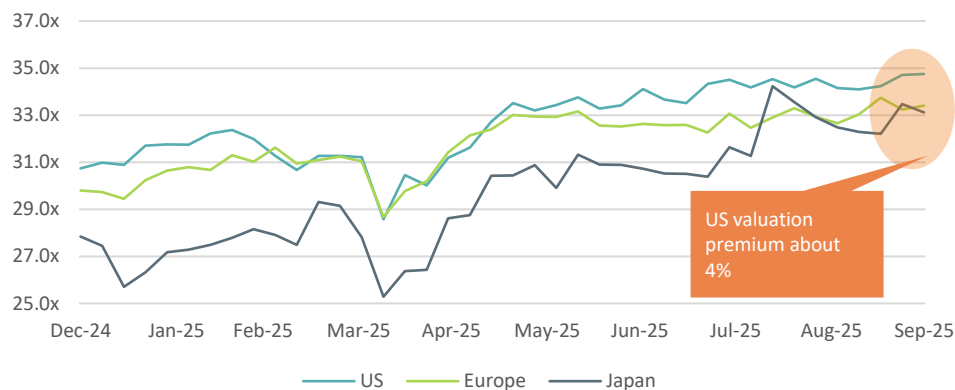
“From a fundamental viewpoint, it might surprise readers that we find no real divergence in the **median** valuation of US and European markets. In fact, they have moved in lockstep more or less since the financial crisis.”

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## Annual Economic PE – Median by Region



## Evolution of 2025e Economic PE – Median by Region



Source: DWS, CROCI, data as of September 30, 2025. Median PE is calculated based on median of companies after removing the companies with negative CROCI, and excludes financials.

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# Equity Market Valuation Across Sectors

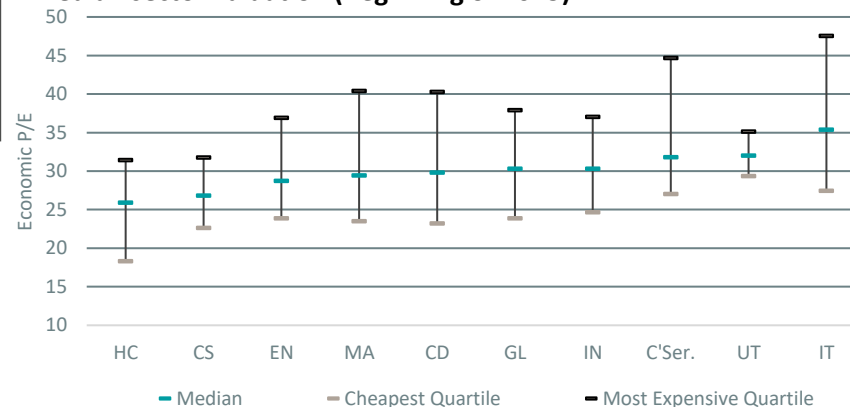
Health Care and Consumer Staples remain cheaper than the global average



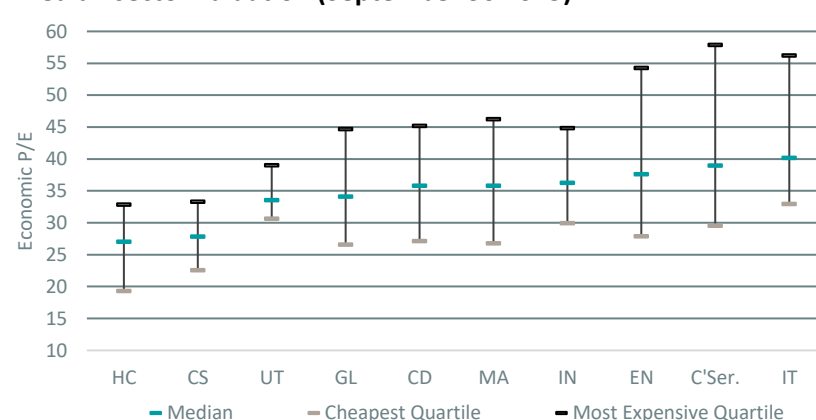
## Health Care is the cheapest sector based on economic PE

- Median Economic PE globally has risen from 30.3x at the start of the year to about 34x now.
- Health Care and Consumer Staples are the only sectors with median valuations below 30x. In particular, the cheapest quartile of HC now trades on less than 20x.
- Health Care has seen consistent real earnings growth since the early 1990s, with only two short periods where earnings fell briefly.
- Utilities is the final sector in the cheapest three, even though it has experienced significant outperformance of the broader market YTD.
- The cheapest quartile of the IT sector is the most expensive of all the cheapest sector quartiles (as well as trading above the median valuation of Health Care and Consumer Staples).

## Median sector valuation (Beginning of 2025)



## Median sector valuation (September 30 2025)



Health Care is the cheapest of all the economic sectors. On median Economic PE it trades on 27.1x, compared to global equities on 34.1x.

Source: DWS, CROCI, data as of September 30, 2025. Median PE is calculated based on median of companies after removing the companies with negative CROCI.

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# Dispersion and inter-quartile range of global valuation

Absolute valuations are very expensive, but there is still some scope for stock selection

## Dispersion is ahead of its long-term trend

- Dispersion of valuation is a measure of how many genuinely cheap stocks are available relative to the equity market. It shows the potential upside if the cheapest decile of stocks should mean revert.
- At the global level, the dispersion is at around 51%, compared to a long-term level of below 45%<sup>1</sup>.
- Regionally, Japan has the widest dispersion in absolute terms compared to the other regions, measured at more than 52%, and compared to its own history. Nevertheless, US and European dispersion are both also wider than long-term history
- The inter-quartile range for global valuation is wide compared to history, but the absolute valuation of cheapest quartile on current 2025 numbers is at its highest level seen since our records began.

“Even though overall market valuations are high, there is still interesting value to be found in the cheapest stocks on a relative basis.”

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*We still find this to be true across all regions.*

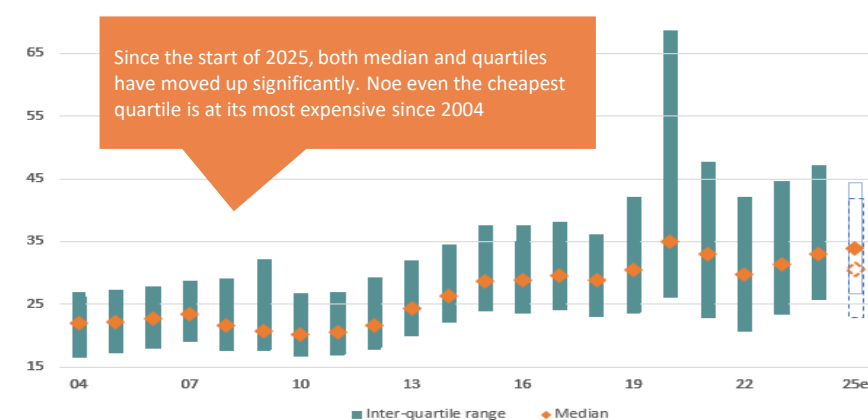
<sup>1</sup>measured from 2004 up to the pandemic in 2020

Source: DWS, CROCI, data as of September 30, 2025. Dispersion data as of August 31, 2025. Median PE is calculated based on median of companies after removing the companies with negative CROCI. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns.

## Dispersion of global valuation



## Inter-quartile range of global valuation



# Global Implied Real Cost of Capital

## At the long-term lows

### Consistent with valuation being at all-time lows

- The global non-financial cost of capital is at all-time lows, touching the levels seen during the period of pre-financial crisis optimism.
- Mean reversions can happen in various ways, including a sharp spike during a crisis such as the one seen at the start of the financial crisis or a slower reversion as the market moves sideways despite earnings growth.
- Crucially, the price fluctuations in a crisis are driven much more by changing risk appetite than by changing earnings expectations<sup>1</sup>.
- Banks can lever their capital significantly more than non-financial companies.
- This extra financial risk requires an additional premium over non-financial equities. We calculate banks' long-term real cost of capital 7.5% (versus the non-financial real cost of capital of 5.4%), making the risk premium around 200bps on average.

The cost of capital for banks and non-financials both remain close to record lows.

The spread between the two also remains significantly lower than the long-term average of 200bps.

### Global non-financial cost of capital



### Global Banks' cost of capital



<sup>1</sup>See [CROCI Focus: History Lessons \(May 2025\)](#) for a brief analysis on the impact of changing risk appetite.

Source: DWS, CROCI, data as of September 07, 2025. The academic literature, based on more than a century of data, suggests that over the very long term there is very strong mean reversion tendency for the market-implied cost of capital to between 5.2% and 5.4% in real terms. No assurance can be given that any forecast, target or opinion will materialise

2.0

# GLOBAL CROCI EVOLUTION



# Real Economic Earnings forecast to rise...

...even though there is a deceleration in earnings expectations

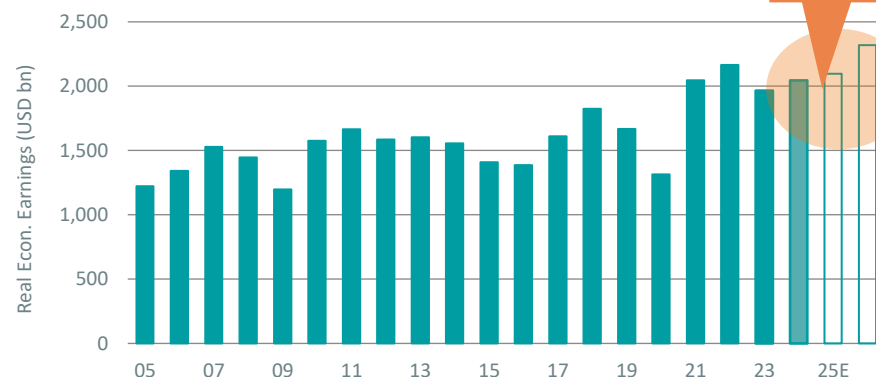
## Optimistic consensus expectations at the start of 2025 are now declining

- There is a common pattern of overambitious expectations from consensus at the start of the year falling off as they encounter reality in the form of quarterly reports.
- 2025 followed this pattern clearly: 2025 forecasts initially looked set to match the 2022 earnings peak, but they are now expected to be around 4% short of that 2022 peak.
- The YTD change in global aggregate CROCI points to negative revisions of roughly 40bps each for 2025e and 2026e.
- 2024 CROCI was about 50 bps above median 2011-23 annual CROCI of 6.9%, whereas current estimates put 2026e CROCI 80 bps above.
- Clearly the starting point is crucial. 2025e expectations started at a slightly higher level than 2024; this has only now fallen below 2024.

2025e CROCI has now been revised down to below the level of estimates from last year.

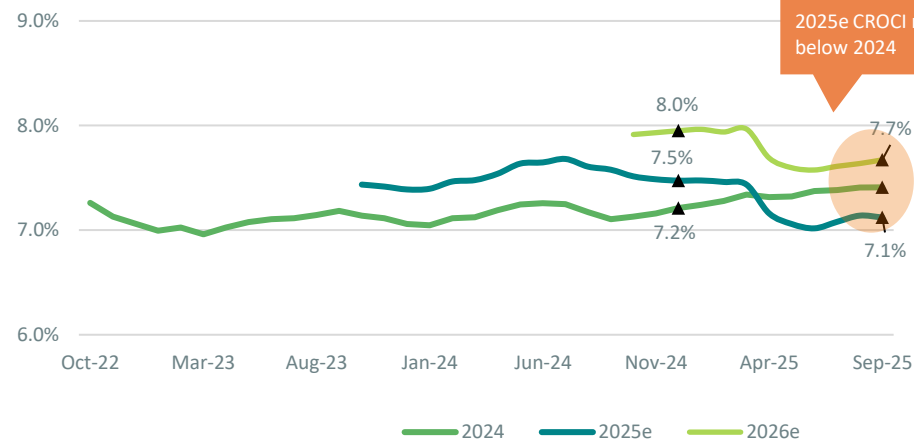
2026e CROCI has also been cut, but is still above the 2011-23 median CROCI of 6.9%

## Real Economic Earnings (USD bn)



The current consensus implies 1.7% CAGR by 2026E compared to 2022

## YTD, 2025e and 2026e CROCI seeing downtick



2025e CROCI now below 2024

Source: DWS, CROCI, data as of September 30, 2025.

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# Aggregate and median CROCI

## Median CROCI showing impact of higher inflation

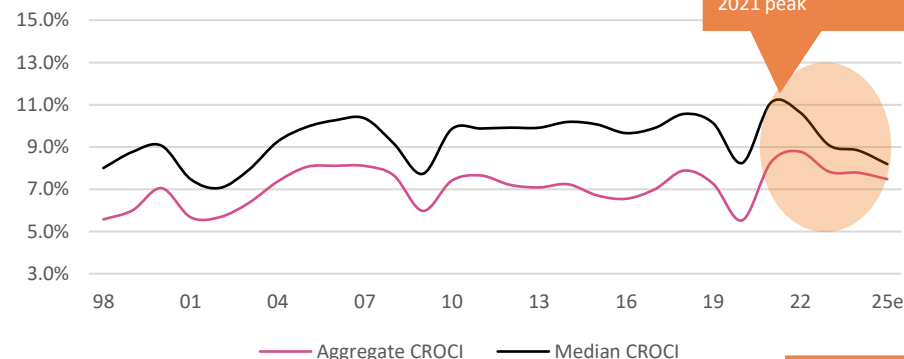
### Median CROCI for US in line with LT average; unlike EU, JP

- 2025e global CROCI returns remain about 25bps above the long-term trend. But the median number is more than 150 bps below the LT average.
- This difference between median and aggregate suggests that the driver for this rise is the highly profitable mega caps, with their larger weight in the aggregate numbers.
- Since the recent peak in 2021, the decline in the median CROCI has been quite pronounced relative to the aggregate number.
- The median CROCI for the US remains in line with its long-term average, whilst the median CROCI for Europe and Japan is below the historical average by around 250 bps and 100 bp respectively.
- Investors are watching Europe and Japan in case they can benefit from any mean reversion towards their long-term average.

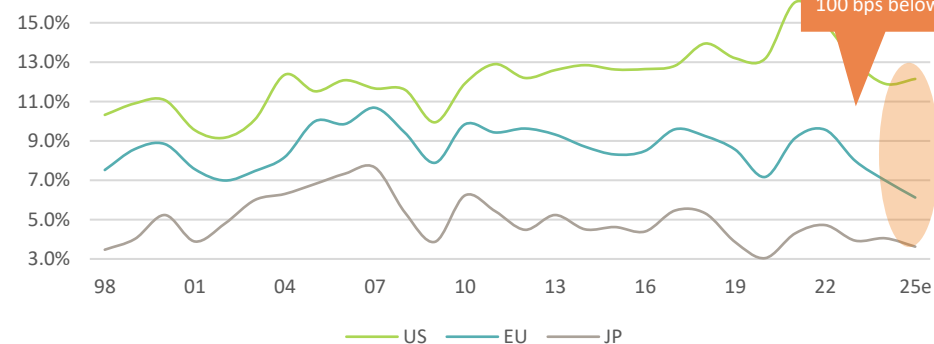
“In our 2022 Outlook, we had a chapter titled ‘Postcard from the 1980s’ exclusively focusing on the impact of inflation on cash returns. Fast forward to 2025 and there is a rather similar squeeze in cash returns. Of course there are plenty of differences between the two periods. But the similarities are interesting.”

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### Aggregate and median DM CROCI



### Median CROCI across DM regions



Source: DWS, CROCI, data as of September 30, 2025. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns. The CROCI values on this page correspond to Developed Markets coverage (excluding EM).

# Regional median CROCI drivers

## Expanding cash margins being offset by declining productivity



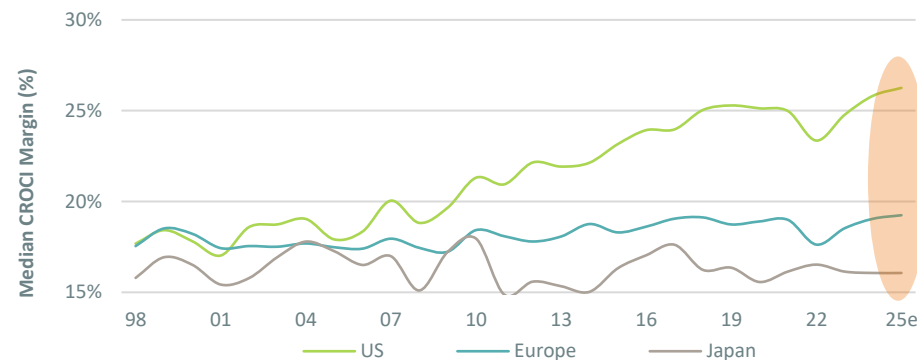
### Falling asset productivity is very typical after high inflation

- Cash flow margins have seen a meaningful expansion across developed market regions, despite the recent bout of high inflation.
- This trend is consistent with the early 1980s, when margins were seen to rise despite a prolonged phase of high and consistent inflation during the preceding decade.
- As can be seen in the corresponding chart, high inflation does not really tend to impair the ability of companies to pass on higher operating costs.
- On the other hand, asset productivity (defined as the ratio of sales to gross capital invested) has been compressed across the board.
- Persistent high inflation persistently feeds into the capital employed, which only crystallises fully when considering assets in terms of their real replacement value.

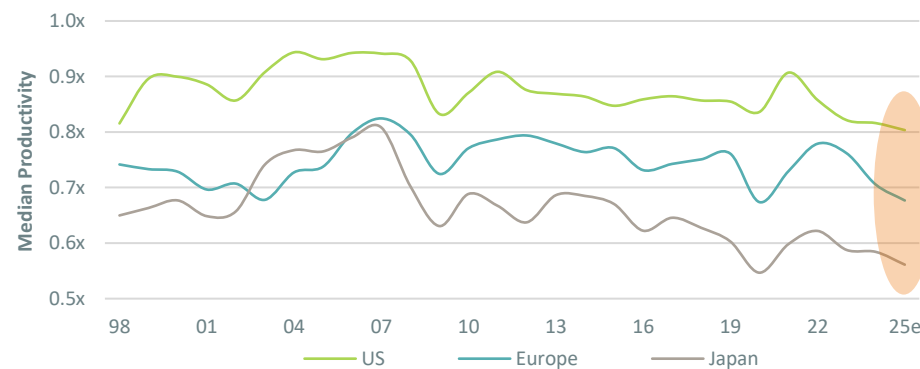
“The most important difference is that unlike in the 1980s, the current phase of high inflation has not [yet] toppled the economy into recession.”

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### Median cash flow margin



### Median asset productivity



Source: DWS, CROCI, data as of September 30, 2025. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns. The CROCI values on this page correspond to Developed Markets coverage (excluding EM).



# Global capex intensity

Globally at its peak, driven by the trend in the US

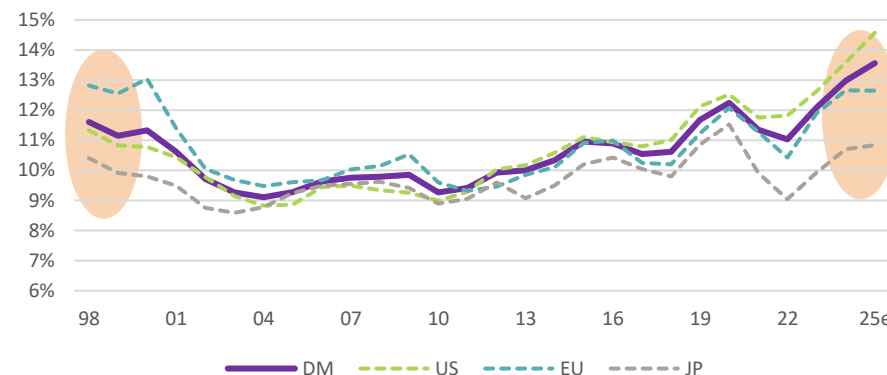
## Balance sheet expansion evidently at a faster clip

- At an aggregate level, combined global tangible and intangible capex as a proportion of sales currently exceeds the dotcom bubble peak, thanks to the US.
- In Europe and Japan, combined tangible and intangible capex remains below the peak of the late 1990s-early 2000s.
- The capex intensity of all sectors is meaningfully above their trailing 10Y median with the exception of Health Care, Industrials and Consumer Staples.
- The defensive sectors Health Care and Staples have the narrowest range of capex intensity. Both sectors are close to their trailing 10Y median.
- Utilities, Discretionary, Materials and IT are close to the top of, or even above, their three-decade capex intensity range.
- The sectors with high AI expenditure (IT, CD, Comm. Services) have seen their capital intensity significantly rise, while the Utilities sector has benefited from higher electricity demand.

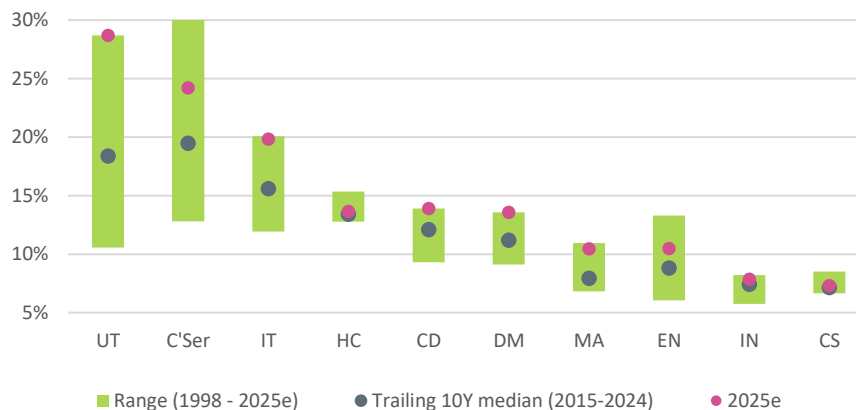
“The electrification trend seems well reflected in the aggregate Utilities investments. Utilities capex has been running at almost double their maintenance capex.”

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## Regional combined Tangible & Intangible Capex % of Sales



## Sectoral combined Tangible & Intangible Capex % of Sales



Source: DWS, CROCI, data as of September 30, 2025. trailing 10Y average is the average between 2015 and 2024.

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# The productivity conundrum

The productivity is at the lower end of the LT range across sectors, except HC

## IT and Health Care – two starkly contrasting sectors

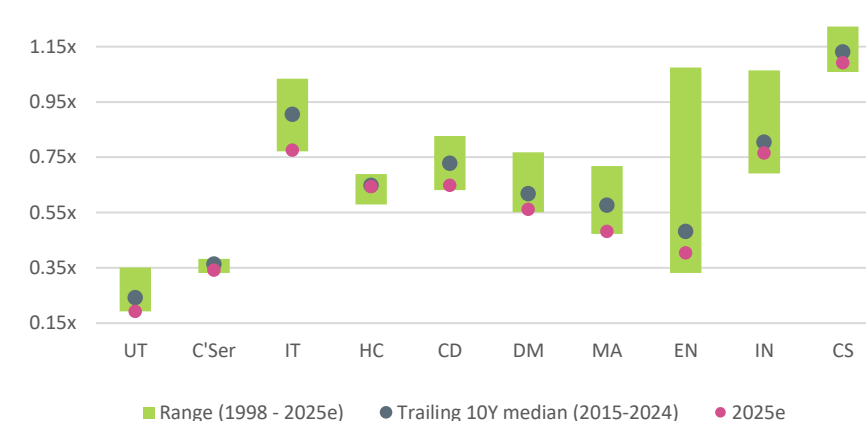
- The first chart compares the 3Y growth of gross capital invested (a stock) with sales (a flow). Clearly, as a flow, sales is the more volatile variable.
- Growth in capital has been anaemic over the past decade, thanks to largely benign inflation.
- However, the post-pandemic jump in inflation pushed capital growth back to pre-financial crisis levels.
- Sales growth globally has been pretty lacklustre; it is running close to flat in real terms.
- Looking at the productivity metric across sectors, two sectors stand out – IT and Health Care.
- The productivity dip that IT has seen relative to its 10Y history is most acute relative to all the other sectors, and it is also testing the lows of its range since 1998.
- On the other hand, HC is the closest to the top of its 10Y range and the range of its productivity in absolute terms is one of the narrowest of all the sectors, showing very stable behaviour.

Looking at productivity metrics, two sectors stand out – IT and Health Care. We look at each of the two sectors in further detail in the subsequent slides.

## GCI vs sales growth 3Y CAGR – DM Aggregate



## Sectoral productivity (Sales to GCI)



Source: DWS, CROCI, data as of September 30, 2025. trailing 10Y average is the average between 2015 and 2024.

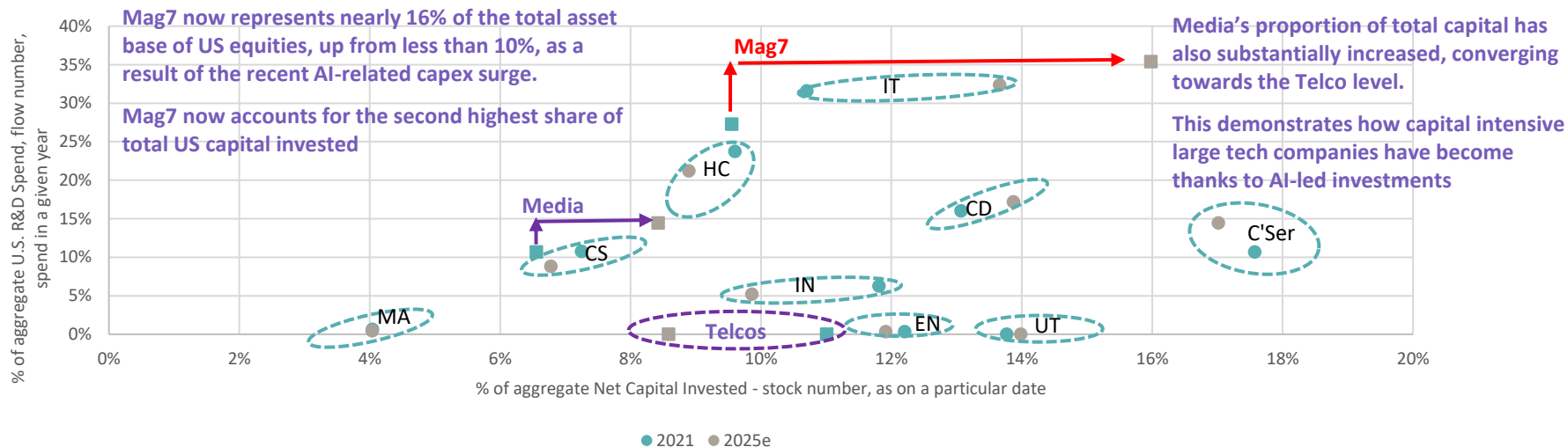
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# MAG7 and their post-pandemic spending spree

Asset light no more?

MAG7's net capital as %age of US market has risen from under 10% to nearly 16% in four years

Sectoral Share of Capitalized Intangible Expenses and the Net Capital Invested in the US



35%

of the total intangible spendings in 2025e within US coverage by the Mag7

"There has been an expectation that these seven companies can bring AI to bear across a range of solutions including, but not limited to, cloud computing, eCommerce, digital advertising and smart mobility. In the process, the seven companies have nearly doubled their share of aggregate net capital invested (since 2021)."

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Source: DWS, CROCI, data as of September 30, 2025.

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# The productivity picture of the MAG7

Shows a lot is riding on the recent investments in Artificial Intelligence

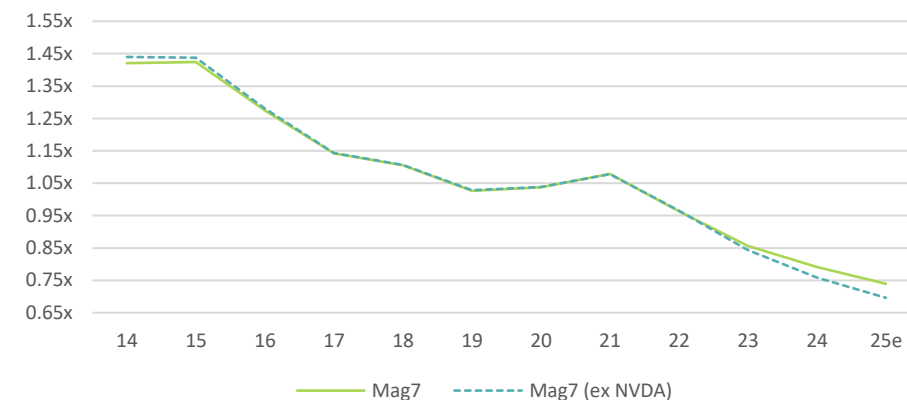
## Fast growth in invested capital with sales yet to result

- The sharp growth in MAG7 invested capital is evident from the steep decline seen in productivity since the end of the pandemic.
- The productivity has been in steady decline over the past decade. However, the sharper decline on the back of the AI spending is evident from the recent c.30% lower productivity compared to the level seen in 2021.
- With the exception of Nvidia, the MAG7 companies have lower productivity relative to 2021. Nvidia, however, has been the prime beneficiary of the higher spending on the AI technology.
- Amongst other companies, AAPL, MSFT, AMZN and META are testing the lows of their productivity relative to the previous decade.

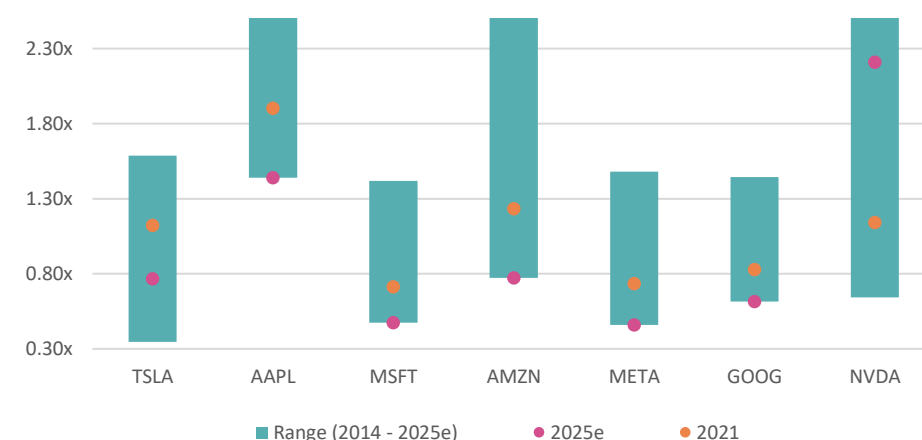
“Rather than forecasting potential incremental revenues from these investments in AI infrastructure, we can instead back out the value of the MAG7 growth component priced by the market. More than half of MAG7’s current valuation is attributable to implied future growth, whereas only a third of the current valuation of our non-financial US coverage (ex MAG7) is based on growth expectations.”

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## Mag7 productivity (Sales to Gross Capital Invested)



## Productivity of each of the MAG7 companies



Source: DWS, CROCI, data as of September 30, 2025. trailing 10Y average is the average between 2015 and 2024.

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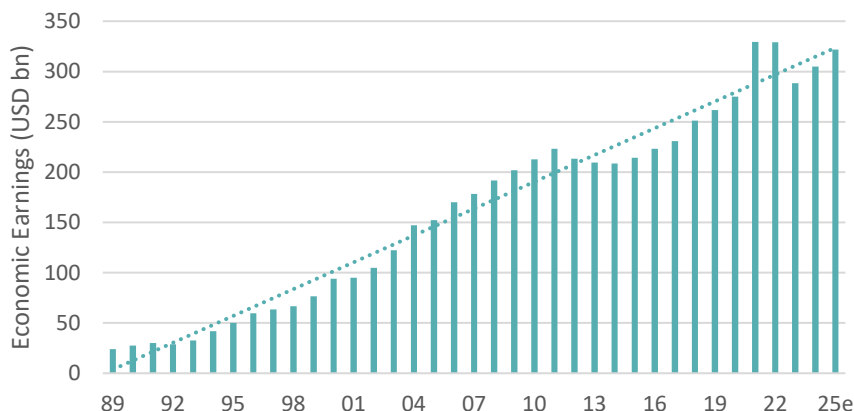
# Health Care

Looks attractive, with its long history of earnings growth

## Hallmark of consistency

- Health Care is the cheapest economic sector, whether measured using median (27.3x) or aggregate (23.5x) Economic PE –global equities trade on 33.9x and 38.7x, respectively.
- It has a unique combination of the second lowest beta and second highest alpha over the DM real economic earnings growth.
- The sector's stable productivity illustrates how disciplined it has been about capital allocation over the years.
- Health Care has amongst the most stable economic earnings growth across all economic environments.

## Economic Earnings (DM HC sector)



Source: DWS, CROCI, data as of August 27, 2025. trailing 10Y average is the average between 2014 and 2023.

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## HealthCare & DM real economic earnings (1989 to 2025e)

Sector	Beta to global growth	Sector Alpha
HC	0.68x	1.4%
CS	0.53x	0.0%
UT	1.29x	-1.6%
GL	1.00x	0.0%
IN	1.04x	-1.1%
CD	0.95x	0.2%
EN	2.12x	-4.8%
IT	1.58x	-0.4%
MA	1.65x	-3.9%
C'Ser.	1.01x	1.8%

*Result of the regression for trailing six years rolling growth of the real EE of the individual sectors versus that of DM from 1989 to 2025e*

## Productivity of the DM Health Care sector



3.0

# CROCI BUBBLE ANALYSIS



# CROCI Bubble Analysis

Overall market valuation is expensive, but fewer companies are in bubble territory than at the dotcom peak

## CROCI approach to bubble analysis

- Mismatches between current valuations and the real underlying long-run value of a company can show potential opportunities for mean reversion.
- CROCI's bubble indicator uses as its working definition of a bubble is when the market-implied CROCI returns are more than 50% above the five-year average cash returns.
- Globally, the proportion of companies in bubble territory is about 30%, far from the peak of 45% during TMT, even though the cost of capital is at a record low, reflecting record market valuations.
- Regionally, the US leads, with almost two-fifth of its companies in bubble territory. The long-term average is about a third. During the pandemic, more than half of US companies were in bubble territory.

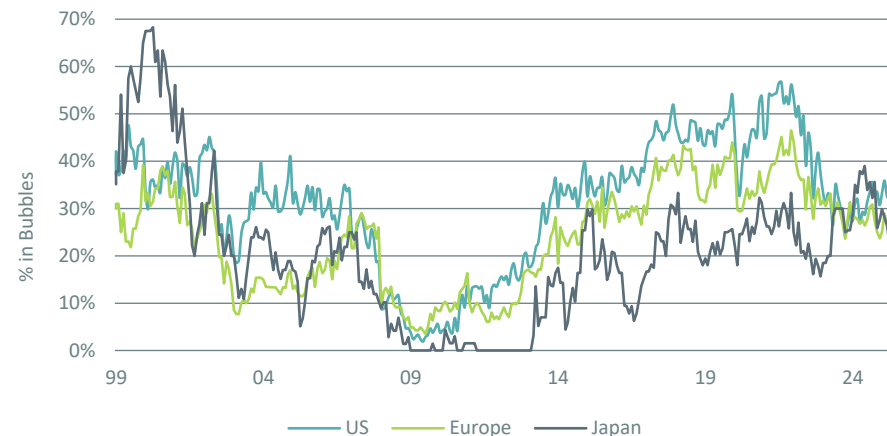
“Today we find that the proportion of global companies in bubble territory is almost exactly in line with the twenty-year average.”

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## Global Bubble Analysis



## Bubbles across DM Regions

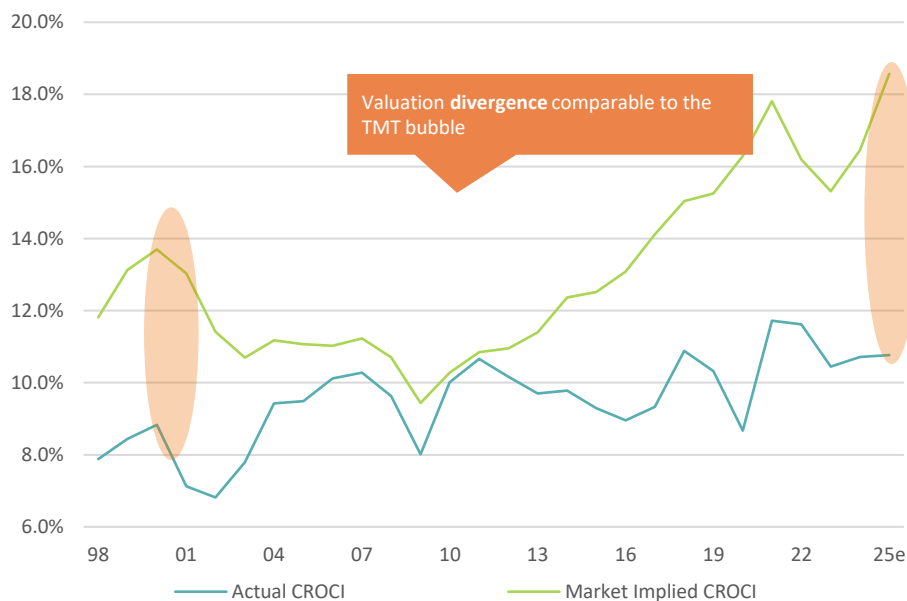


Source: DWS, CROCI, data as of September 07, 2025. The information herein reflects our current views only, are subject to change, and are not intended to be promissory or relied upon by the reader.

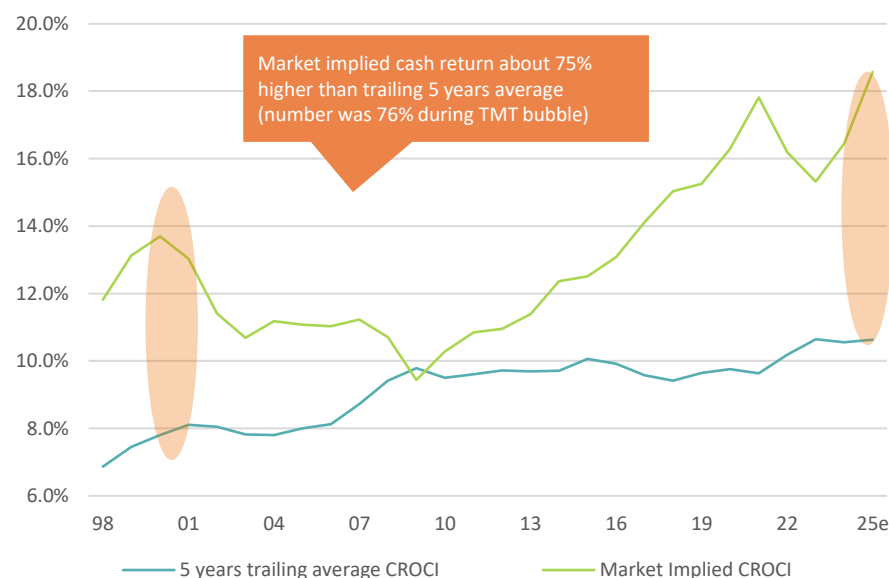
# Defining bubbles: Looking at US Aggregate Valuations

## Implied market expectations appear at odds with underlying fundamentals

**US: Valuation racing ahead of returns**



**5 years trailing CROCI vs Market Implied CROCI**

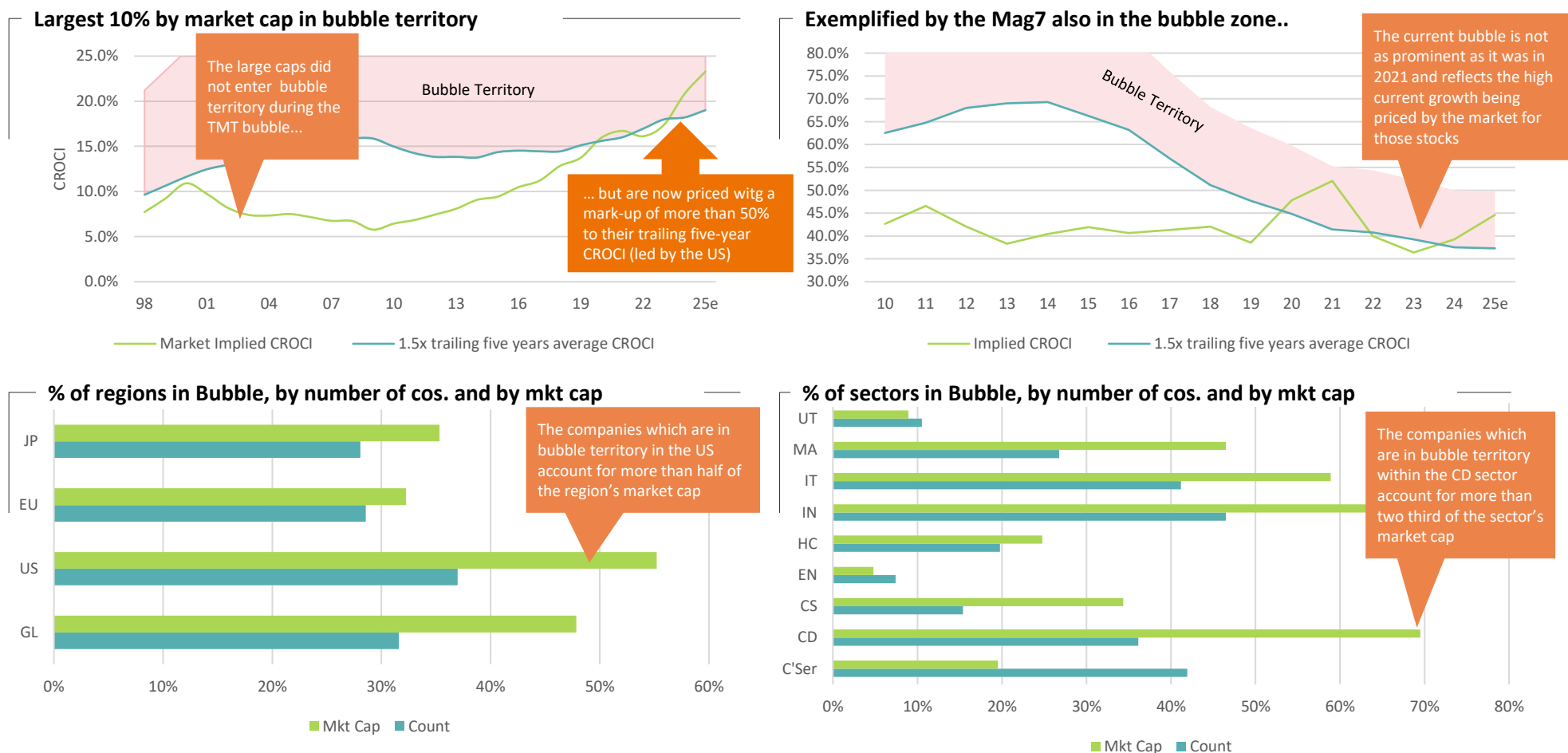


Our approach to bubbles is to compare market-implied cash returns with what companies have generated in the past. To remain consistent, we define a valuation bubble to be when implied future cash returns are more than 50% higher than five-year trailing average cash return.

Source: DWS, CROCI, data as of September 30, 2025. Implied CROCI is calculated as EV/NCI times the Cost of Capital – this measures the level of corporate profitability which is consistent with current market valuations (in the absence of growth). Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns

# CROCI Bubble Analysis

Overlaying market capitalization tells a story of a bubble amongst the large-caps



Source: DWS, CROCI, data as of September 07, 2025. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. The bubble charts are as of September 30, 2025.

The background features a dark, abstract design with a grid of glowing blue and red lines. Overlaid on this is a candlestick chart with orange and grey bars, suggesting financial data analysis.

4.0

# GLOBAL BANKS

# Comparing the valuation of banks with non-financials

## Global banks are cheap even after adjusting PE for higher cost of capital

### Benign rates and economy reflecting in the valuation?

- The current adjusted price-to-book of global banks is at a significant premium to the post-financial crisis as well as since the pandemic.
- This reflects the recent strong performance of global banks, on the back of benign short-term rates expectations being supportive of global economic growth.
- At the same time, the profitability of global banks has also seen meaningful improvement over the past decade. Global Banks appear only mildly expensive compared to their own history, based on Economic PE.
- Even after adjusting the economic valuation of the global banks for a higher cost of capital, the sector trades at a discount of more than forty per cent to the non-financial part of the market. It is worth noting, though, that the premium that the market places on the much higher financial risk of banks varies meaningfully within the economic cycle.

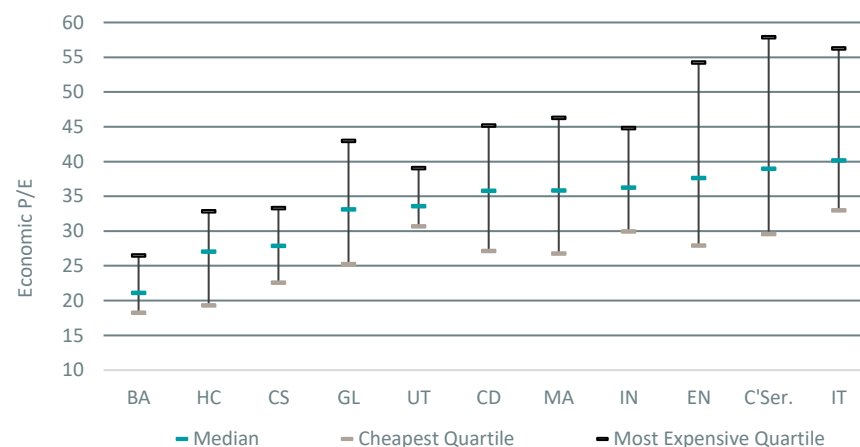
“What has changed over the years is the near doubling of the Core Tier 1 ratio. This essentially means that, while the business remains vulnerable to interest rate cycles, banks in general are better equipped to absorb losses when economic cycles turn against them.”

Introducing Banks into CROCI strategies (May 2025)

### Valuation of banks vs non-financials (aggregate)

		2025e	Pre GFC (00-07)	Post GFC (10-19)	Post pandemic (22-25e)
Economic PE	Non-Fin	<b>38.1x</b>	22.2x	26.6x	32.8x
	Global Banks	<b>22.0x</b>	19.4x	20.4x	19.2x
Dividend yield	Non-Fin	1.5%	2.2%	2.6%	2.0%
	Global Banks	3.1%	3.5%	3.2%	4.2%
Core Tier 1 ratio	Global Banks	<b>13.4%</b>	5.9%	10.8%	12.7%
Price to book	Global Banks	<b>1.8x</b>	2.6x	1.4x	1.3x
Infl. Adj. ROC	Global Banks	<b>11.6%</b>	18.1%	9.3%	10.7%

### Median PE across sectors (including Banks)



Source: DWS, CROCI, data as of September 30, 2025. Median PE is calculated based on median of companies after removing the companies with negative CROCI. The GL median on this page includes Banks. Past performance is not a reliable indicator of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.



# Bottom-up regional valuations tell a tale

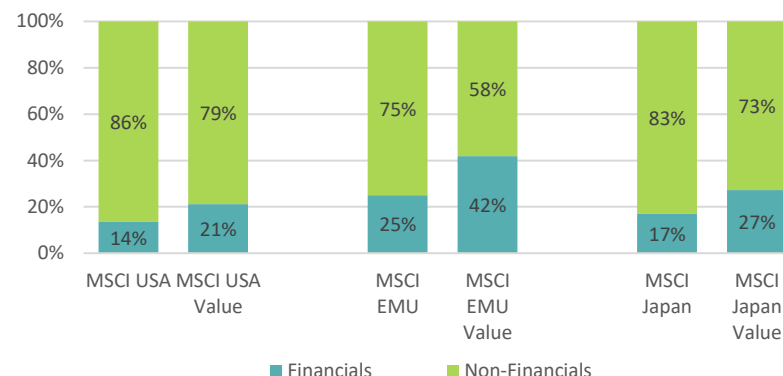
Global value benchmarks tend to have higher weights of financials



## European banks is where we see value

- Despite the recent strong performance of European banks, they continue to offer the most attractive value on a regional basis.
- US banks remain the most expensive of the three developed market regions, with a 2025e Adj. PE of 24.7x, above their five-year average.
- European banks in aggregate generate close to the highest return-on-capital (12.2%), offer the highest dividend yield (4.7%), and have among the best capitalization ratios (14.2%).
- Further, their non-performing loans are down, and net-interest margin and loan-to-deposit ratios have improved over the past few years.
- Earlier this year, four selected CROCI strategies were able to invest in banks stocks for the first time.
- We recently published a report covering the following aspects:
  - why we are including banks in these strategies now, as well as some commentary on their valuation and profitability;
  - how we are including them in the portfolio construction;
  - what the inclusion of banks would have meant in the past, based on simulation with historical data.
- To access this report, [please click here](#).

## Weights of Financials into Value Benchmarks



## Regional valuation of global banks

	US		Europe		Japan	
	2025E	5Y Avg	2025E	5Y Avg	2025E	5Y Avg
COC Adj. PE ratio	24.7x	22.6x	16.5x	14.1x	22.5x	16.6x
EV/Adj. Tier 1 Cap.	2.2x	1.7x	1.4x	0.8x	1.2x	0.6x
Inf. Adj. ROC	12.3%	10.5%	12.2%	9.5%	7.9%	6.0%
Dividend Yield	2.0%	2.7%	4.7%	6.5%	3.0%	4.6%
Core Tier 1 Ratio	12.4%	11.2%	14.2%	13.7%	14.0%	13.1%

Source: DWS, CROCI, data as of September 30, 2025. MSCI data as of August 29, 2025. Past performance is not a reliable indicator of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

5.0

# FACTOR LEADERSHIP

# US Factor Performance Since 2022

## Quality Value appears to be gaining advantage



### S&P 500: Selected Style Factors

Factor Quarterly performance	1Q	2Q	3Q	4Q	2022	1Q	2Q	3Q	4Q	2023	1Q	2Q	3Q	4Q	2024	1Q	2Q	3Q	2025
Quality	-5.4%	-14.1%	-3.9%	11.5%	-12.8%	2.3%	4.8%	-4.0%	11.1%	14.4%	7.4%	-2.2%	9.0%	-2.1%	12.0%	0.3%	5.3%	2.5%	8.3%
Value	4.1%	-12.9%	-6.5%	13.2%	-4.1%	-4.8%	1.4%	-1.4%	12.2%	6.8%	10.4%	-4.3%	8.7%	-1.5%	13.0%	1.5%	3.1%	5.9%	10.9%
Dividends	6.7%	-8.7%	-8.3%	12.5%	0.4%	-1.1%	-1.2%	-3.5%	13.9%	7.4%	4.8%	0.0%	14.8%	-3.8%	15.8%	3.5%	-1.1%	5.1%	7.6%
Growth	-10.3%	-15.8%	-3.2%	9.5%	-20.0%	11.6%	7.8%	-4.4%	14.2%	31.3%	7.5%	-2.6%	4.7%	3.8%	13.8%	-4.7%	12.0%	4.1%	11.0%
Momentum	-1.1%	-12.8%	-2.8%	10.2%	-7.6%	-1.3%	7.8%	-7.2%	13.6%	12.2%	14.3%	-0.7%	6.7%	1.1%	22.3%	-3.9%	6.9%	3.0%	5.8%

### Quality Value has been better positioned this year, but has still lagged Growth YTD

#### Year-to-date

- Growth has managed to outperform the other factors, but the leadership has been volatile quarter by quarter.
- Value has been in second place but not supported by Quality. As a result, it has been a low price-to-book version of Value that has predominated, rather than Quality Value. This has been supported by the strong performance of banks, and the weaker performance of pharmaceutical stocks.

#### Previous years

- The broad market decline during the year of 2022 brought the defensive characteristics of Dividends and Value to the fore.
- 2023 was a solid year for Growth, which beat the rest by a broad margin. The distant second factor was Quality, with Momentum close on its heels.
- Building on the advantage it garnered during the 4Q of 2023, Momentum continued to perform strongly in the first half of 2024, which enabled it to be the top performing factor amongst the list above. Unsurprisingly, this was a weak year for Quality Value
- The momentum of the Momentum factor appears to be petering out during the current year, coinciding with the resurgence of the Value factor. Notably, during the ongoing quarter, Value is holding the pole position, on the back of decent months for Quality during the first half of 2024.

Source: DWS, CROCI, data as of September 09, 2025. This table shows the performance of only a selected group of style factors, in order to help understand the drivers of the various CROCI strategies. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns

# Global Factor Performance Since 2022



Factor performance globally has especially favored Momentum, with Value and Growth running up

## MSCI World: Selected Style Factors

Factor Quarterly performance	1Q	2Q	3Q	4Q	2022	1Q	2Q	3Q	4Q	2023	1Q	2Q	3Q	4Q	2024	1Q	2Q	3Q	2025
Quality	-5.8%	-9.9%	-3.0%	7.2%	-11.7%	5.7%	3.9%	-3.0%	8.1%	15.3%	7.2%	0.1%	6.8%	0.0%	14.5%	1.4%	5.3%	2.8%	9.7%
Value	2.6%	-9.6%	-4.6%	13.5%	0.4%	3.0%	3.7%	3.5%	6.5%	17.8%	10.3%	-1.7%	3.0%	0.2%	12.1%	4.5%	4.8%	7.3%	17.5%
Dividends	4.3%	-6.8%	-6.8%	11.7%	1.2%	3.6%	2.7%	0.1%	9.3%	16.5%	6.3%	0.6%	7.8%	-1.5%	13.4%	6.2%	3.0%	6.0%	15.9%
Growth	-13.1%	-18.6%	-3.1%	7.3%	-26.4%	12.2%	5.8%	-3.3%	9.9%	26.2%	7.5%	-1.9%	3.5%	2.7%	12.2%	-4.2%	12.7%	5.3%	13.8%
Momentum	-4.2%	-10.6%	-3.0%	8.0%	-10.3%	0.6%	7.0%	-2.9%	7.1%	12.0%	13.6%	0.6%	4.6%	3.6%	23.7%	2.4%	11.1%	5.0%	19.5%

**Value has had a good 2025 so far, but Momentum has been the top performer and Quality has lagged**

### Year-to-date

- The Momentum factor held strong during the year to date. Value's prominence has lacked support from Quality, meaning that low price-to-book Aggressive Value has been able to substantially outperform Quality Value.
- The performance of Momentum and Growth has helped the CROCI Innovation Leaders<sup>1</sup> approach perform strongly with its broader factor exposures, whilst the quality value strategies have been weaker thanks to the underperformance of Quality this year.

### Previous years

- The global picture globally is similar to the US in 2022 and 2023. While 2022 was a solid year for defensive factors like Value and Dividends, 2023 saw the major comeback of Growth.
- Unlike in the US, Momentum was a major laggard in 2023. Also, despite Growth's comeback, it did not manage the recoup its losses from 2022 (unlike the US)
- The Momentum factor did witness a comeback in 2024, led by almost uniform performance during the four quarters of the year. More defensive factors like Value and Dividends were not rewarded.

<sup>1</sup> There was a report published earlier this year on the CROCI Innovation Leaders approach – please [click here](#) to read.

Source: DWS, CROCI, data as of September 09, 2025. This table shows the performance of only a selected group of style factors, in order to help understand the drivers of the various CROCI strategies. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance does not predict future returns

## CROCI Economic P/E

Calculated as  $(EV/NCI) / CROCI$ , Economic P/E is a measure of valuation, calculated according to the CROCI methodology, that seeks to allow a fair comparison of the market valuation of companies regardless of industry or sector

## CROCI EV/ NCI

Used as the economic version of an asset multiple, e.g. Price-to-Book Value. Over time, this ratio should converge to 1x, according to economic theory (Tobin)

- **CROCI Enterprise Value (EV)**  
A measure of the market value of the firm, which includes not only financial liabilities (eg debt) but also operational liabilities (e.g. warranties, pension funding, specific provisions, etc.)
- **CROCI Net Capital Invested (NCI)**  
An approximation of the replacement value (at current costs) of net assets

## CROCI

**Cash Return On Capital Invested**, the economic version of Return on Equity. A measure of cash earnings yield, standardised for all companies, regardless of their business or location. Also described as the Cash IRR



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- Any products linked to a CROCI Strategy or Index may not be capital protected and investor capital may be at risk up to a total loss. Prospective investors should be aware investments linked to the Strategies or Indices may go up or down in value.
- Past performance, whether live or simulated, is not an indicator of future performance and any forecast or projection may not be realised.
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- There is no implied assurance that a stock selected for the CROCI Global Dividend Strategy or CROCI US Dividends Strategy will not cut its dividend while it is in the portfolio.
- The CROCI REW Indices have been built on the premise that portfolio weightings should be determined by the CROCI Equity Earnings of each company and that this will provide a value-added to the portfolio construction process. This premise may not be correct and prospective investors should evaluate this assumption prior to investing in any of the Indices.
- CROCI's coverage universe does not aim to provide waterfront coverage of entire benchmarks. Some sectors may have a larger proportion of CROCI coverage than others.
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