

# Market outlook

## #1 Market & Macro

### Markets currently presume the best of all possible worlds



Vincenzo Vedda

"The prevailing mood is cautiously optimistic in times of high risks", with these words DWS Chief Investment Officer Vincenzo Vedda describes the current market sentiment. Let's start with a positive aspect of very highly valued U.S. shares: the list of the winners of this year is much more balanced than in the last few

years when markets were almost exclusively driven by the Magnificent Seven, leaving only minor roles to all other stocks. "This increased balance certainly is a benefit," Vedda explains. Apart from that, there are, however, several factors sounding notes of caution. Fiscal boosts the markets had hoped for did not realize the way markets had anticipated. The topic of future public debt is increasingly assessed as a burden. Corporate profits of the companies forming part of the S&P 500 could well disappoint, except

for the sectors of technology and finance. Valuations on the stock markets but also of corporate bonds are reflecting very high expectations. And they leave hardly any space for disappointments. In other words: should disappointments wait round the corner, prices could very quickly head south. With a view to bond markets, Vedda states: "For the United States and for the Eurozone, we expect rather rising prices, this means falling yields. This holds true for short- as well as long-dated sovereign bonds." Since the most recent U.S. labor market data turned in rather poor, the Federal Reserve might be prompted to cut rates shortly after all. We also believe it premature to announce the end of the attractiveness of U.S. government bonds for international investors. In the Eurozone, the potentially escalating conflict between the United States and Russia and the continuing uncertainty in tariff and trade conflicts could encourage the European Central Bank to cut rates further.

## Topics driving capital markets



### Economy: Eurozone rather resilient, United States experiencing a boost from up-front effects in Q1

- At an annualized rate of 1.6 percent, Eurozone growth turned in quite decent in the first half of 2025. Once again, the Spanish economy was particularly strong, growing at a rate of 0.7 percent in Q2.
- The U.S. economy increased by three percent in the second quarter. For the following reasons: up-front buying effects with a view to imports in the first quarter to avoid tariffs and therefore correspondingly fewer imports in the second quarter – imports reduce the gross domestic product.



### Inflation: Eurozone inflation is expected to fall below two-percent target – pressure by tariffs in the U.S.

- In July, the inflation rate in Germany was at 2.0 percent and thus substantially higher than in France and Italy. Despite positive seasonal effects, food prices rose by 2.2% (June: 2.0%). Price increases for services slowed down a little from 3.3% in June to 3.1% in July.
- We expect the Eurozone inflation rate to fall slightly below the two-percent threshold in H2. Tariffs might push inflation up in the United States, with the latest figures turning in at 2.8% year-over-year.



### Central banks: Federal Reserve still keeping rates at a high level

- At the end of July, the U.S. Federal Reserve left rates unchanged at 4.25% to 4.50%, very much to the displeasure of U.S. President Trump. After recently rather weak labor market data, markets now anticipate a rate cut in September.
- After a series of rate cuts and a current level of 2.0%, the European Central Bank is having a break. We forecast two further rate cuts by June 2026.



### Risks: the tariff chaos seems to be far from over

- President Trump's chaotic and unpredictable tariff policy remains a substantial risk factor hampering the development of the economy and of stock prices, particularly since the half-life of any agreement is hardly predictable.
- A further geopolitical escalation would be another down-side risk for markets all over the world.

## #2 Equities

### Still some potential left for German blue chips and small- to mid-caps



Philipp Schweneke

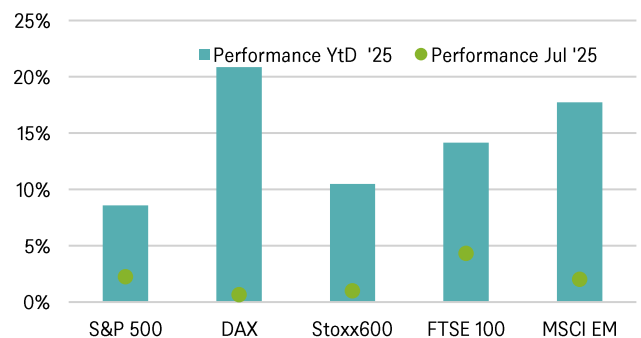
Will European and particularly German stocks manage to stay on their road of success? All in all, they have performed rather well year-to-date. The leading German Dax index has done particularly well, gaining roughly 20 percent since the start of 2025. However, prices have suffered a bit since the announcement of U.S. tariffs on European exports.

Philipp Schweneke, portfolio manager in the German Equities team, continues to see further potential at the currently high valuation level. Compared internationally, current valuations are, in his view, justified by the quality and profitability of many Dax corporations. A major part of their performance is based on expectations – and there are good reasons for a continuation of this good performance by German stocks. From 2018 to 2024, the German Dax substantially underperformed the global MSCI World so that expectations had been correspondingly low. “If valuations remain stable and the market’s earnings estimates realize, corporate profits could well argue for a higher price level,” Schweneke adds. He does not really see a change of favorites in the near future. After all, the environment has not changed: fiscal stimulus, NATO budget, U.S. tariffs. “For this reason, we assume no major changes among winners and losers,” Schweneke explains. He sees further potential not only for German blue chips. “Small- to mid-caps, which have already performed well year-to-date after struggling for quite a while, also offer good opportunities,” Schweneke continues. Some of these stocks would benefit even more than German blue chips from the

German infrastructure package, increased defence spending and the reform of electricity prices. He does not rule out a continuation of their minor weakness in the next few weeks and puts forward the following reasons: firstly, the traditionally rather weak summer months on stock markets, secondly, a corporate earnings session which has been quite okay but nothing else. And, thirdly, poor economic data from the United States. From mid-September onwards, investors should start to focus on the profits expected for 2026. “The outlook is positive here. Cyclical blue chips and small- to mid-caps should profit,” Schweneke concludes.

#### German equities among the top performers in 2025

Performance of major stock markets year-to-date and in July



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 7/31, 2025

#### Equities USA: Successful rebound – but high uncertainties



- The S&P 500 has completely recovered from its slump in April and has gained roughly eight percent since the start of this year.
- The short-term outlook remains uncertain even if markets have obviously stabilized. The tech sector remains the backbone of the index. We see little price potential from the current level.

#### Equities Germany: Still some upward scope left despite an excellent performance



- The German Dax has gained an impressive 38 percent in the last twelve months. In the medium run, we still see scope for further gains even though the stronger euro has depressed profit growth of corporations in H1 by presumably several percentage points.
- In the long run, corporations should be able to cope with a stronger euro since Dax corporations are positioned globally with a view to costs, too.

#### Equities Europe: Currently more promising than U.S. titles



- The EuroStoxx 600 has only slightly underperformed the revived S&P 500.
- However, due to the momentum and the more attractive valuations, we currently prefer European stocks versus U.S. titles. This holds true for both, blue chips and small- to mid-caps.

#### Equities Emerging Markets: Emerging Markets also hit by geopolitical uncertainty



- The geopolitical situation remains tense, and the U.S. tariff policy continues to entail significant risks. Emerging Markets are particularly impacted by the relationship between the United States and China.
- In spite of several uncertainties, China remains one of our focus market but we remain cautious and very selective in our investments.

### #3 Fixed Income

## High-Yield Bonds: rather low risk premiums – careful selection is a must



“European high-yield bonds currently return, on average, roughly five percent,” DWS portfolio manager Per Wehrmann states. That sounds good, at first. However, selection is key here. Looking back shows that five percent is not really that much in a long-term comparison. Yield spreads versus sovereign bonds are currently below 300 basis points, with 100 basis points being equivalent to one percentage point. The reasons are: a relatively short average time to maturity of many bonds and their comparably good rating – over 60 percent of the bonds listed in the respective index<sup>1</sup> has a rating of BB, which is the highest rating in the sector of high-yield bonds. Currently, yield spreads are, particularly in this sector, too low, thus rather insufficiently discounting for risks, according to Wehrmann. In case of HY with poorer ratings such as CCC, the situation is somewhat different. Higher risks are rewarded with correspondingly higher returns – the average return of the respective index<sup>2</sup> is approximately 13.5%.

Another important aspect for investors is the maturity of bonds. The difference of yield spreads is currently very low for different maturities, which means that risk of longer maturities is not adequately rewarded. Wehrmann: “For this reason, we prefer shorter maturities because we see a more attractive risk/reward relation here.”

### Higher gold price attracts more and more ETF investors

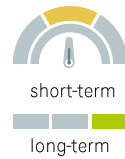
Development of gold price (left-hand scale) and of the volume of gold ETFs



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 31 July 2025

### U.S. government bonds (10 years)

Yields could continue to fall a bit further



- Recently, yields of 10-year U.S. government bonds have fallen moderately.
- We continue to expect yields slightly trending downwards.

### German government bonds (10 years)

Prospect of price gains – yields trending down



- 10-year Bund yields have been slightly decreasing of late.
- Growing demand by global investors and further rate cuts by the ECB could continue to further weigh on returns.

### Emerging Market sovereign bonds

Increased risk is compensated for by higher returns



- Yield spreads for Emerging Market sovereign bonds are set to widen a little.
- The risk/reward profile continues to appear promising due to relatively high interest rates.

### Credit

Investment Grade

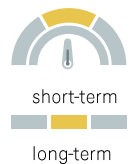
USA

Eurozone

High Yield

USA

Eurozone



### #4 Currencies

**Euro/Dollar:** All signs pointing at a continuously weak dollar



- The dollar weakness has not accelerated recently but it should not be over yet since global investors continue to increasingly reduce their dollar positions in favor of the euro.
- However, we do not join in the swan song on the U.S. dollar as international reserve currency. There is no other currency in sight for us which could take over this role at short notice.

### #5 Alternative Assets

**Gold:** One of the few winners in this time of crises



- Gold continues to sparkle, gaining roughly 24 percent year-to-date.
- Political uncertainty is set to continue boosting demand. The Chinese central bank is, for example, systematically building up gold reserves. Flows into gold ETFs also continue unabated. We still see further potential for a higher gold price by June 2026.

<sup>1</sup>ICE BofA Euro Non-Financial High Yield Constrained Index; <sup>2</sup>ICE BofA CCC & Lower Euro High Yield Index  
Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect. Past performance is not indicative of future results. Source: DWS Investment GmbH, as of 07 August 2025

## Glossary

### Basis points

One basis point is equivalent to 1/100 of a percentage point, one hundred basis points are equivalent to one percentage point.

### BB Rating for Corporate Bonds

Corporate bonds rated BB are considered speculative, meaning they carry an increased risk of failing to meet interest and principal obligations.

### BofA Euro Non-Financial High Yield Constrained Index

A bond index that tracks the performance of euro-denominated high-yield bonds (i.e., bonds rated below investment grade) issued exclusively by non-financial companies.

### CCC Rating for Corporate Bonds

A rating assigned by credit rating agencies. A CCC rating is among the lowest credit grades and indicates a very high risk of default.

### Credit Quality of Bonds

Describes the creditworthiness of the issuer – that is, how likely it is that interest payments and principal repayment will be made fully and on time.

### Dax

Market capitalization-weighted index, with the 40 most important listed companies in Germany. Performance index, which includes dividend payments.

### High Yield (HY)

Corporate bonds from issuers with a poor credit rating – these papers generally offer comparatively high interest rates.

### ICE BofA CCC & Lower Euro High Yield Index

An index that tracks the performance of euro-denominated corporate bonds with very low credit quality (rated CCC or lower).

### Investment Grade (IG)

Corporate bonds that are deemed by rating agencies to have a low risk of default (at least medium credit rating).

### Return

Ratio of outgoing payments to incoming payments of an investment.

### Stoxx 600

Share index of European companies from the large, mid and small cap segment.

### S&P 500

Index weighted by market capitalisation that represents the 500 leading listed companies in the U.S.

## Legend

### The strategic view by June 2026

The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 07 August 2025



Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

## Important Notes

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