March 2025

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Marketing material

Market outlook

#1 Market & Macro

Markets lowering their thumbs in the face of erratic US politics – outlook for China improved


Vincenzo Vedda

US president Trump might unintentionally contribute to reanimating the German and European economies. His geopolitical capers and questioning alliances which have been believed to be firmly entrenched are obviously wake-up calls for Europe and for Germany. "The enormous amount of money aspired in Germany for defence and infrastructure could give such a tremendous boost to the currently lacklustre German economy, which nobody even dreamt of a couple of weeks ago," DWS Chief Investment Officer Vincenzo Vedda says. "In 2026, gross domestic product could grow by 1.6 percent in Germany according to our newest estimates. At the end of 2024, we still assumed a growth rate of 0.9 percent," Vedda adds. In 2025, growth will, however, remain rather modest at an estimated 0.4 percent, since it will take some time before this investment offensive translates into growth. "However, in the United States, markets are about to quickly end the honeymoon after Trump's inauguration," Vedda continues.

US stock exchanges are lagging far behind their counterparts in Europe and in China in the current year. Suddenly, topics such as stubborn inflation and dull economic outlooks are increasingly pushed forward on US capital markets. The outlook for China is currently much more upbeat. "We assume that China's outperformance of other emerging markets, which we have observed since mid of January, is here to stay," Vedda says. There is more and more optimism all over the country, and the ailing real estate market seems to have bottomed out although not turned around yet. As soon as local consumers are getting more confident, corporate profits, which have experienced more and more downside corrections for a while, are expected to stabilize and support stock markets.

Topics driving capital markets

Economy: weaker data from the USA, bright spots in India and China

- In the United States, consumer confidence has fallen back to the levels of September 2024. The main culprits are rising inflation anxieties and a slightly stuttering labor market.
- Positive data are coming out of India and China. Services purchasing manager indices have risen in both countries. Purchasing manager indices (PMIs) are important leading indicators for economic performance.

Inflation: US tariff policy might keep inflation up higher than expected

- A further decline of US inflation might be delayed – among other things due to tariffs imposed which will make products more expensive. Our inflation forecast is 2.6 percent in 2025.
- For the Eurozone, we expect the consumer price index to rise by 2.3% in the current year (after 2.4 percent in 2024).

Central banks: the situation has changed – further rate cuts no longer to be taken for granted

- On March 6th, the European Central Bank cut its key rates for the sixth time in a row to 2.50 percent (from 2.75 percent). Possibly higher growth in the Eurozone and a slower decline of inflation could narrow the scope for further rate cuts.
- The US Federal Reserve is expected to remain rather cautious in the face of rising inflation figures and political uncertainties.

Risks: tectonic shifts in geopolitics – outcomes opaque

- Hardly predictable, extremely volatile US tariff politics is expected to continue for a while and could have negative repercussions on growth and inflation. Forecasts have hardly ever been as uncertain as today.
- The looming drastic reorientation of US geopolitics entails tremendous risks and challenges, particularly for Europe.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 14 March 2025

Good reasons for a come-back of German small- to mid-caps

Sabrina Reeh

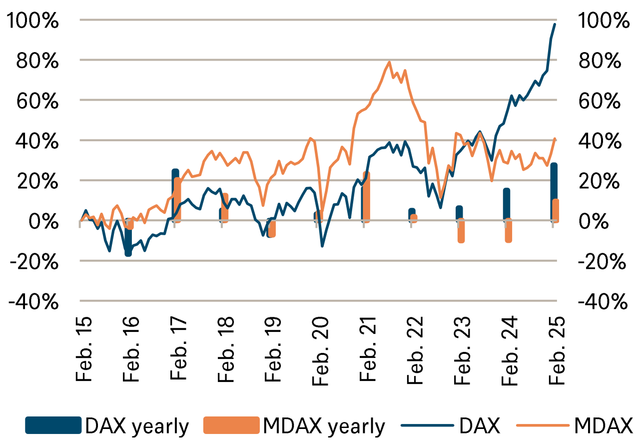
Germany in the fast lane? This question may sound surprising against the background of three years of stagnation and the often quoted need for reforms. With a view to capital markets, the German Dax index has actually really taken over the lead this year, with Europe coming second and – even more surprisingly – the United States coming third. What is the further outlook? Sabrina Reeh, portfolio manager German equities, is optimistic, particularly with a view to German small- to mid-caps, which have already outperformed blue chips since the German federal election. "There are good chances for the weaker performance of small-to mid-caps, which has lasted over three years, to come to an end," Reeh states. On average, small- to mid-caps earn 30 percent of their profits at home, compared to only 20 percent of domestic earnings by Dax corporations.

If the new Federal government succeeds in tackling the structural problems of the German economy and to boost growth, small-to mid-caps should benefit more than the mostly globally active blue chips. The outlook for profit growth is therefore optimistic: "The market assumes that profits of MDax corporations will rise by 26 percent this year," Reeh says. Another aspect is the currently very low valuation of small- to mid-caps. Price/earnings ratios are at roughly 14 percent – this is roughly 20 percent lower than the average value of the last ten years.

Moreover, small- to mid-caps are expected to be less hit by looming US tariffs. All in all, however, it cannot be ruled out that the German stock market will take a break after the brilliant start into 2025. The unpredictable US tariff measures and geopolitical developments should continue to boost volatility on the markets. "This seems to be an opportunity for politics now to pave the way for a more dynamic development of the German economy, for example with higher investments in infrastructure and defence. An agreement on adjusting the debt brake, reducing bureaucracy and cutting taxes could also be supportive. The Dax is, however, jeoparized by a significant cooling off of the US economy. "There is hardly a chance for German blue chips to escape unscathed," Reeh concludes.

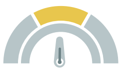
German small- to mid-caps: starting to catch up?

Dax and MDax performance in the past ten years



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

Equities USA: Further setbacks could offer good opportunities to move in

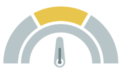


short-term

long-term

- 2025 is set to become another year of sound US corporate profits, however, currently very high valuation levels might not be sustainable in the long run. A further sell-off could offer good opportunities to move in.
- We slightly reduce our S&P 500 target by March 2026 to 6,300 points (from 6,500 points).

Equities Germany: Despite the recent rally, there is still some upside potential

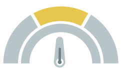


short-term

long-term

- In the past weeks, German blue chips have had an impressive run, valuations have increased substantially. We currently prefer small- to mid-caps due to their expected better profit growth and persisting low valuations.
- We raise our Dax 40 target by March 2026 to 24,000 points (from 22,500 points).

Equities Europe: Moderate price potential after a strong start into 2025

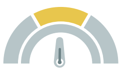


short-term

long-term

- European equities have had a good run since the start of 2025 and are no longer that cheaply valued. Dividend yields are no longer higher than bond yields.
- We forecast moderate growth of corporate profits. Defence, industrials and banks appear to be the most promising sectors.
- New target for the Stoxx 600 by March 2026: 570 points (previously: 550 points).

Equities Japan: A stronger world economy and recovery in China could be supportive



short-term

long-term

- The Japanese stock market has performed very well in the past two years.
- A recovery of the global economy in the second half of 2025 and a stronger Chinese economy could be supportive, while tariffs and a stronger yen might have negative impacts. In the long run, we favor a mix of selected export- and domestically oriented corporations.
- The target of the MSCI Japan by March 2026: 1,780 points (previously 1,770).

#3 Fixed Income

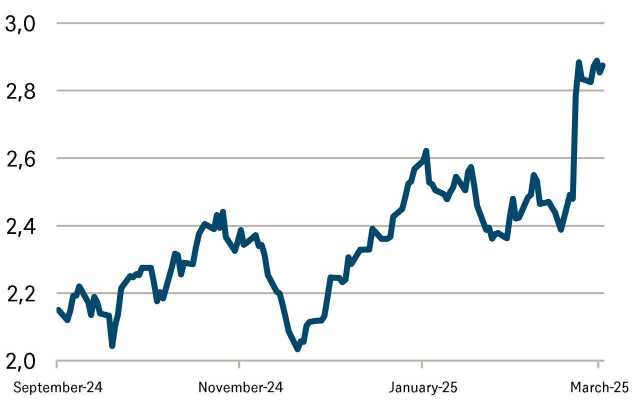
Sovereign bonds: short and medium maturities preferred

Oliver Eichmann

The dramatic geopolitical developments and their potential impact on state finances have resulted in quite a shake-up of bond markets. Since the beginning of March 10-year Bund yields have risen by 50 basis point, i.e. half a percentage point. "The long-term financing needs of the states – in Germany and in the Eurozone – will increase significantly. This largely explains the sharp rise in yields on bonds with longer maturities. However, a lot is already priced in at current levels," says interest rate expert Oliver Eichmann. The situation is different for short maturities. In the United States as well as in the Eurozone, central banks are expected to continue cutting rates, even if the scope might be somewhat smaller than expected. This would support the prices of short bonds – and is, however, already largely discounted. Eichmann adds: "We currently prefer bonds with shorter and medium maturities, with short bonds with a remaining life of three years becoming somewhat less attractive due to expected rate cuts." In the short run, our rate expert remains constructive on sovereign bonds from Spain and Italy, due to their higher rate levels.

German sovereign bonds with strongly rising yields

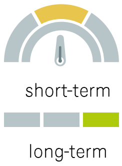
Development of yields of 10-year Bunds in the last six months



Source: DWS Investment GmbH, as of 14 March 2025

U.S. government bonds (10 years)

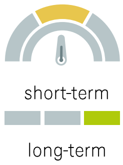
Yields are expected to remain high



- Long-term US rates are expected to remain high, the spread to short maturities should widen.
- By March 2026, we expect a yield level of 4.50 percent for 10-year bonds.

German government bonds (10 years)

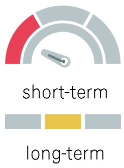
Yields should not continue to rise this way



- 10-year Bund yields have risen to levels last seen 15 years ago.
- Over a 12-month horizon, we forecast yields to remain on the current level: 2.90 percent.

Emerging Market sovereign bonds

Slightly higher risks but yields remain attractive

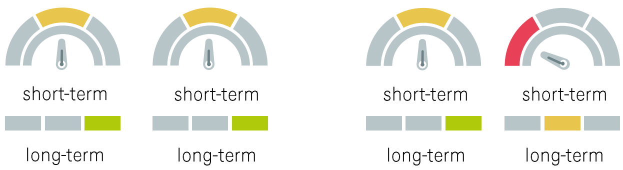


- Yield spreads are on a very low level and could slightly widen so that prices might suffer.
- The asset class remains, however, attractive, with expected total returns of roughly 5 percent.

Credit

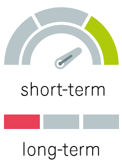
Investment Grade — High Yield

USA — Eurozone — USA — Eurozone



#4 Currencies

Euro/Dollar: Dollar weakness might persist



- Since its peak in mid-January, when the dollar had almost reached euro parity, the dollar has significantly fallen. This is likely to continue.
- Over a 12-month horizon, we expect a further strengthening of the euro versus the dollar. Our EUR/dollar forecast as of March 2026: 1.15.

#5 Alternative Assets

Gold: In spite of strong gains, some upside potential left

- The gold price has meanwhile left behind our last price target of 2,940 dollars per ounce and even surpassed the mark of 3,000 dollars. Gold has thus gained roughly 12 percent in the current year, and total price gains in the last 12 months amount to 31 percent.
- Despite this high price level, we see further upside potential for gold in uncertain times like these. Over a 12-month horizon, the gold price might well rise to 3,250 dollars per ounce.

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 14 March 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.

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.

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

MDax
Stock index that tracks the 50 largest German companies below the Dax.

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

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 March 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 14 March 2025

Positive return potential

Potential profits but also risk of loss rather limited

Negative return potential

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