July 2025

Contents

Market outlook

#1 Market & Macro

Diversify, diversify, diversify – market correction may come any time

Vincenzo Vedda

Pretending that nothing has happened – U.S. equities have staged an impressive comeback in the last couple of weeks, registering remarkable gains since the beginning of this year. They have even caught up with European stocks completely. "This positive market momentum could stay around for a while in the absence of further negative surprises," Vincenzo Vedda, DWS Chief Investment Officer, states. The short-term future could, however, also hold a significant market correction, since prevailing risk factors have not suddenly disappeared after all. Quite to the contrary: Trump's Beautiful Big Bill will inflate the U.S. budget deficit, and long-term interest rates are set to rise. Tariffs are not completely off the table, either driving or containing inflation – the latter if economic growth is dampened. Substantial geopolitical risks are an additional factor. In the face of this rather unstable and more than confusing environment, risk premiums not only on stocks but also on corporate credit are already surprisingly low. "Even minor disappointments could drive the market into another correction," Vedda cautions. Should the reporting season beat expectations or the market discount earlier or stronger rate cuts by the Federal Reserve, this correction could, however, fail to materialize. Vedda expects corporate profits for Q2 to be revised further downwards, except for tech and financial corporations. "In this environment, we continue to recommend a broadly diversified portfolio," Vedda argues. Euro investors should also keep an eye on the performance of the dollar. Due to its depreciation, the positive returns of U.S. stocks have been gobbled up and are close to zero in euro terms.

Topics driving capital markets

Economy: rising skepticism among U.S. consumers

– Warning signs out of the USA: the Conference Board`s Consumer Confidence Index has deteriorated substantially. Skepticism among U.S. citizens is also rising with a view to developments on the labor market.
– In the Eurozone, signs are pointing at moderate growth. The Purchasing Manager Index, the most important leading indicator for corporate sentiment, is in slightly positive territory.

Inflation: situation in the USA remains tense, substantially less pressure in the Eurozone

– Tariffs, stricter immigration laws, which will probably increase the pressure on wages, and tax cuts could drive inflation in the United States. The Federal Reserve is therefore reluctant to talk about rate cuts.
– The Eurozone, however, continues its walk down a path of lower inflation rates. Hitherto stubborn price rises in services could start to fade. Lower energy prices and a strong euro additionally dampen inflation.

Central banks: U.S central bank continues to resist political pressure

– The Federal Reserve is getting under increasing pressure from President Trump to cut interest rates. We nevertheless expect it to act cautiously and in line with incoming data.
– The European Central Bank is already a step ahead in rate-cutting. If the euro continues to remain strong, this should provide additional room for rate cuts.

Risks: political escalation, inflation, rate hikes

– The high political uncertainty in the United States and ongoing geopolitical crises make reliable forecasts extremely difficult, cutting their half-life even shorter than usual.
– Things could certainly get dicey on fixed-income markets if further geopolitical escalations and rising inflation in the USA led to substantially rising spreads on corporate bonds.

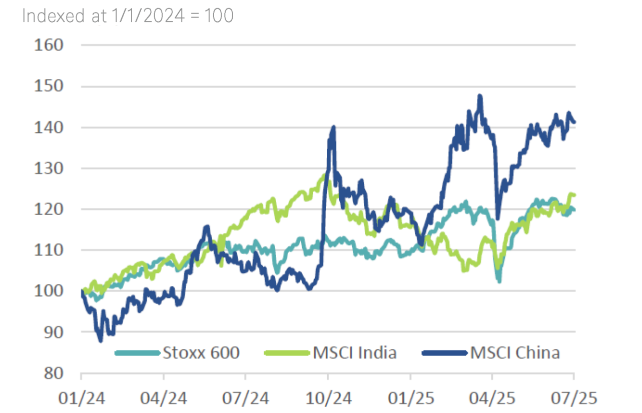
Asia: Good opportunities due to China's comeback

Sebastian Kahlfeld

Diversification remains mandatory and is our credo for equity investments. Europe is certainly one of the regions to be considered. But what about Asian Emerging Markets? At first sight, skepticism might prevail. It is true that growth rates in Asia continue to be much higher than in the industrial nations. Stock prices, however, – at least on an index level – could not keep up with those of industrial nations, particularly the United States. The result: capital has been rather withdrawn from this region over the last decade. "However, it is worthwhile to look a bit closer. Since 2021, the performance of the MSCI Asia ex Japan has been heavily depressed by the weak performance of the Chinese stock market," portfolio manager Sebastian Kahlfeld explains. Markets such as India or the tech-biased Taiwan, however, managed to hold their ground in a global comparison. A key aspect for the whole region is the improved performance of the Chinese stock market. Kahlfeld sees good opportunities: "We believe that the Chinese market has the potential to outperform global indices in the near future." The main reason of his optimism: recently, the regulatory environment in the private sector has brightened substantially. After government measures to boost the ailing economy did not really bear fruit, the Chinese leadership now focuses again on the innovative forces, creativity and productiveness of the private sector. This has always been a difficult balancing act in China. The successes of Chinese corporations can be seen all over the world, be it in the automobile sector, the manufacturing of batteries or in the field of Artificial Intelligence, where Kahlfeld expects further rapid growth. This positive real economic outlook is supplemented by promising valuation aspects: the valuation discount of the MSCI Asia ex Japan versus the MSCI World currently amounts to a high 30 percent, thus substantially exceeding the average of the last decade of 23 percent. Particularly promising are, in Kahlfeld's view, Chinese and Korean stocks whereas India's potential seems to be rather exhausted.

Chinese equities: thriving again

Performance of Chinese, Indian and European equities compared

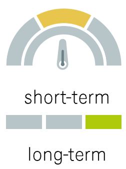


Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 02 July 2025

Equities USA: Setbacks not to be ruled out after brief rally

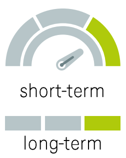
- Since the beginning of 2025, the S&P 500 has been in clearly positive territory again. The current level is already rather close to our index target for June 2026.
- After an impressive brief rally, we currently see higher risks for a price correction. One of the reasons is the rule of thumb that the summer months are generally characterized by flat to falling markets.

Equities Germany: Optimism replacing German angst – still price potential left



- As the latest business sentiment index by the ifo institute reveals, German industry remains confident – the index has climbed six times in a row.
- We still see some upward scope for the German Dax but also for German small- to mid-caps, which could particularly benefit from an improved domestic economy.

Equities Europe: Traffic lights on stock exchanges continue to be set on green



- European equities continue to be among our favorites. In the long run, we see further upward potential due to fiscal support measures and revived interest from international investors.
- Negative aspects are, however, political changes, the uncertain consequences of the tariff conflicts and omnipresent geopolitical risks.

Equities Emerging Markets: Good first half-year – China remains promising

- Equities from Emerging Markets have shown an excellent performance year-to-date. The MSCI Emerging Markets Index has climbed by roughly 15 percent.
- China remains one of our favorites in Asia although prices have already risen substantially since the start of 2025. We are, however, less positive on Indian stocks – no strangers to success in the past: their valuations are already very ambitious.

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 July 2025

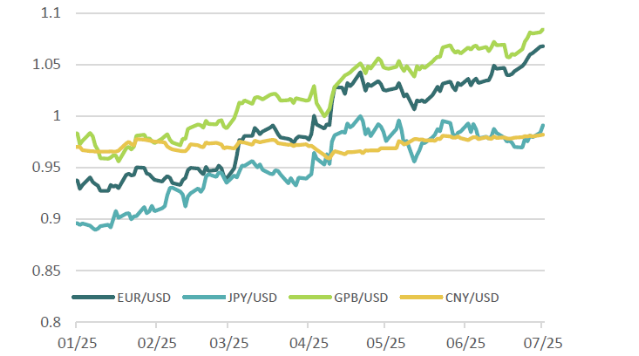
"Not the time for strongly concentrated portfolios"

Peter Warken

"We are living in an environment of high uncertainties as well as, to a major part, very ambitiously valued stock markets. Investors should therefore not be surprised by further strong volatility on the markets until the end of this year," DWS multi-asset strategist Peter Warken explains. However, there are no simple solutions around. After all, also the second big asset class, Fixed Income, continues to offer interesting return opportunities. "The expected total return of bonds obviously continues to be attractive," Warken states. For example, European high-yield bonds offer total returns of 4.9 percent. For comparison: DWS expects European stocks to yield long-term returns of 6.4 percent. But you must take a closer look here, too: yield spreads on corporate bonds are historically low. U.S. sovereign bonds are faced with the risk of rising interest rates and thus price losses if concerns about the global preparedness to finance growing U.S deficits rise, in particular against the background of the broken correlation between the dollar and U.S. bonds since April 2025. Gold remains attractive for Warken since it has always been a good diversifier in times of high geopolitical uncertainties. His conclusion: "The biggest mistake investors could currently make is to have too strongly concentrated positions in their portfolios."

Dollar has been soft since the beginning of this year

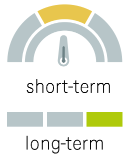
Exchange rate of the U.S. dollar versus the euro, the Japanese yen, the British pound and the Canadian dollar. Indexed at 1 in 2020.



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 07 July 2025

U.S. government bonds (10 years)

Only slightly rising returns expected



- 10-year Treasury yields have risen slightly again of late but they are still clearly below the level at the start of 2025.
- Our forecast by June 2026 is a slight increase to 4,50 percent.

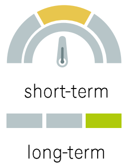
German government bonds (10 years)

High demand keeps lid on returns

- 10-year Bund yields have fallen due to higher demand and expected rate cuts by the ECB.
- The current level is very close to our forecast as of end of June 2026: 2.50 percent.

Emerging Market sovereign bonds

Conducive total returns

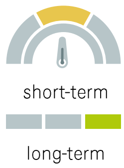


- We expect slightly higher returns for sovereign bonds from Emerging Markets.
- Expected higher total returns are keeping them attractive.

Credit

Investment Grade

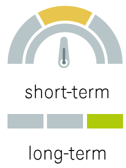
USA



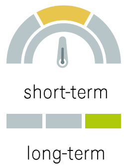
Eurozone

High Yield

USA

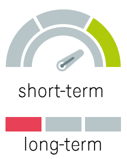


Eurozone



#4 Currencies

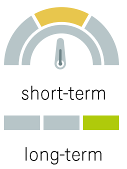
Euro/Dollar: All signs pointing at a continuously weak dollar



- Year-to-date, the dollar has depreciated versus the euro by roughly 13 percent. A temporary consolidation has been short-lived.
- The U.S. currency is expected to remain weak. This expectation is not only supported by the high U.S. twin deficit but also by the fact that the current U.S. administration favors a weak currency.

#5 Alternative Assets

Gold: Still good perspectives



- Short-term, we have downgraded our expectations for gold to "neutral" because the conflict between Israel and Iran has not escalated further so that the geopolitical risk premium for gold has slightly fallen.
- Long-term, we remain constructive on gold. Investor interest seems to remain high, and ETF gold holdings continue to rise. Further rate cuts could also lend further additional support.

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 July 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).

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.

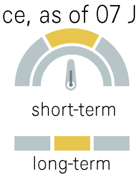
Legend

The strategic view by June 2026

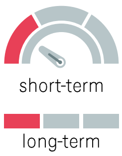
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

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

Positive return potential



Potential profits but also risk of loss rather limited



Negative return potential

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