May 2025

Contents

This document is marketing material.
For Professional Clients (MiFID Directive 2014/65/EU Annex II) only.

Market outlook

#1 Market & Macro

Relative attractiveness of Europe versus the United States has increased

Vincenzo Vedda

Even hardcore market participants would have been happy to be spared the adrenalin kicks which capital markets held in store during the first two weeks of April: the VIX Index climbed to a near-record score of 50, indicating the enormous temporary uncertainties on U.S. equity markets. Fixed-Income markets were deeply upset, too – the yields of 30-year U.S. Treasuries surpassed the five percent threshold, and the dollar plummeted versus the euro. Prices recovered sharply in the second half of the month – fuelled by hopes that Trump's tariffs would not hamper the economy as drastically as originally feared. "Nevertheless, the rather erratic political course of the U.S. administration is bound to leave significant traces on economic growth and capital markets," DWS Chief Investment Officer Vincenzo Vedda is sure to say. "We globally reduced our expectations of corporate earnings by three to five percent." Although U.S. stocks recently recovered even more lost ground than their European counterparts, Vedda sees more opportunities in the latter. There are, in his view, basically three aspects arguing in favor of European stocks: first; the aspect of diversification, second, cheaper valuations, and third, the higher share of cyclical corporations in Europe. "Our price targets for European stocks have been reduced less drastically than for U.S. stocks," Vedda adds.
Tech stocks, which had been hit particularly hard temporarily, will continue to play a significant role in the United States. "We expect the performance of these papers to strongly influence the development of the S&P 500," Vedda continues. He also favors Europe with a view to corporate bonds, particularly investment-grade bonds versus riskier high-yield bonds, since their yield spreads might rise again in face of higher risks, thus exerting pressure on prices.

Topics driving capital markets

Economy: tariffs are expected to dampen economic growth significantly, above all in the United States

- Tariffs and the uncertainty in their wake as well as rising prices should weigh on growth in most of the countries in this year and the next.
- Those who crafted this development, i.e. the United States, might have to bear the brunt. We cut our forecast for U.S. growth in 2025 from 2.0 to 1.2%. In the Eurozone, we lowered our growth expectations by 0.2 percentage points to 0.8 percent.

Inflation: rather up in the USA, rather down in the Eurozone

- Also with a view to inflation, the United States will probably be the main victim of its protectionist policies. We raised our inflation forecast for the current year from 2.6 to 3.2%.
- In the Eurozone, including Germany, lower energy prices and a stronger euro should result in lower inflation rates. Our forecast is now at 2.1% for 2025 (after 2.3%).

Central banks: interest rates should continue to fall – at a faster pace in Europe than in the USA

- We expect the Federal Reserve to remain at the sidelines at least until a slowdown in economic growth allows for lower inflation expectations. This might be the case later this year. In the twelve months to come, we forecast up to three rate cuts by the Federal Reserve.
- The European Central Bank cut its deposit rate in April to 2.25 percent. If inflation continues to decrease in line with expectations, we see inflation at 1.75% by March 2026.

Risks: underestimated impacts of the damage already done

- If the trade war initiated by the U.S. administration is escalated further, the world could slide into recession. The probability of recession has already increased significantly.
- It cannot be ruled out that the damage already done in the field of consumer and investment expenditure has not been given enough consideration in projections yet. The worst case scenario is the loss of global safe haven status for the dollar and US sovereign bonds.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 05 May 2025

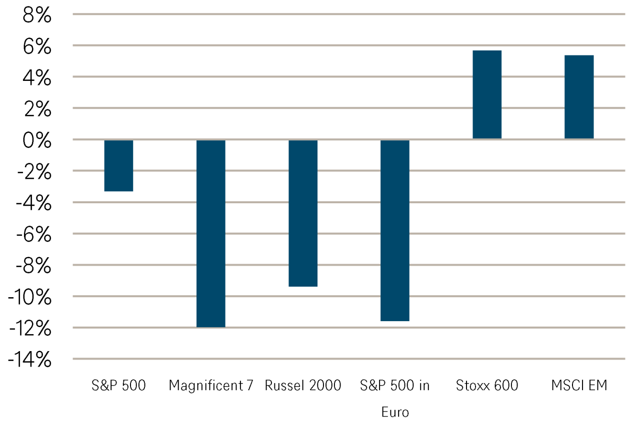
Risks abound – defensive approach preferred

Thomas Schüßler

Although further setbacks cannot be ruled out on the stock markets, there are good reasons to hold on to shares. First, they might support investors in circumnavigating refuelled inflation. Second, they open up the chance of participating in upwards potential, should the U.S. administration be ready to make major concessions in its trade policy. All in all, the situation should, however, remain challenging for corporations. "Corporate profits are set to decrease, profit margins might come under pressure," Thomas Schüßler, Co-Head Global Equities, warns. What does this mean? Discipline in picking the right stocks is more important than ever. He favors corporations with a strong market position and sound balance sheet. Schüßler basically pursues a defensive approach in his portfolio. This is also clearly expressed in his asset allocation – as an equity fund manager, he currently holds ten percent in cash and also banks on gold, which currently accounts for eight percent in his dividend fund. Schüßler describes the advantages of gold as follows: "Gold is not the debt of anybody, gold cannot be printed by anybody, and gold is not dependent on central bank policies." Unlike before, other supposedly safe havens such as U.S. bonds and the dollar have not been able to balance portfolio risks lately. Among others, Schüßler favors financials, due to their attractive valuations and above-average dividend payments, and the healthcare sector due to its low correlation with the economic cycle. Among investment regions, he favors Europe and "the rest of the world" over U.S. stocks which are highly valued and offer comparably low dividends. And there is currently another reason for European investors to shun risky U.S. stocks: the ailing dollar. DWS currency experts forecast further losses versus the euro in the next couple of months. "Quite often investors do not realize the currency risk of an investment," Schüßler warns.

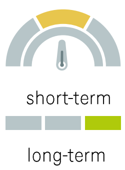
US equities markedly lagging behind

Performance of major stock markets since the start of 2025



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 30 April 2025

Equities USA: Corporate profits might come under pressure



- The second quarter should reveal first signs of corporate profits slowing down. Additionally, investments are also expected to decrease, due to heightened uncertainty.
- All in all, the U.S. economy and industry are facing challenging times. We cut our forecast for the S&P 500 from previously 6,300 to 5,800 points by March 2026.

Equities Germany: Tariff shock well digested for the time being – Dax target slightly reduced

- In the course of April, the German leading Dax index has almost fully recovered the price losses caused by the announcement of U.S. tariffs at the beginning of the month: year-to-date it has gained roughly 17 percent.
- Against the background of high uncertainty and further negative impacts from the U.S. President's tariff policy, we slightly reduced our DAX target by March 2026 to 23,500 points (from 24,000).

Equities Europe: European stocks currently more promising than U.S. titles

- We currently favor European stocks over U.S. titles since the valuation spread continues to be very high and Europe is expected to benefit from a reallocation of assets away from the United States.
- In our latest reassessment of forecasts, we slightly reduced our Stoxx 600 target by March 2026 from 570 to 550 points.

Equities Japan: Slight reduction of target but price potential remains significant

- The Japanese stock market has notably recovered again in the course of April, after the U.S. President's announcements on April 2nd, the so-called "Liberation Day", had sent stock prices downhill.
- All in all, we are constructive on Japanese stocks but have slightly reduced our MSCI Japan target from 1,780 points to 1,690.

#3 Infrastructure/Bonds

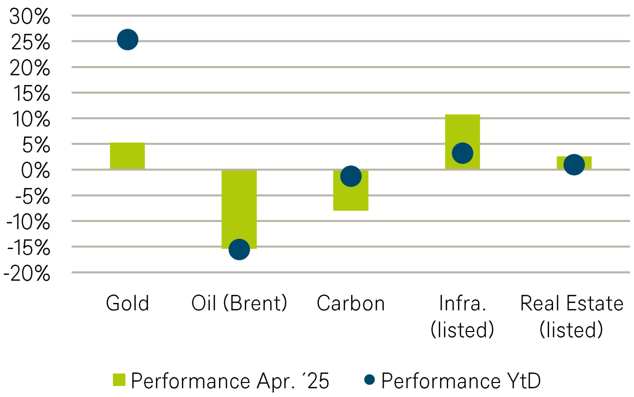
Infrastructure investments: promising even (or particularly) in rough times

Peter Brodehser

High volatility and partly harsh price losses within a very short period – investors had a lot to digest in the first weeks of April, at least with a view to liquid stock and bond markets. "However, infrastructure investments presented a different picture. They proved to be rather resilient during these turbulent times," portfolio manager Peter Brodehser states. In his view, investments in infrastructure could make a contribution to lowering risks in a portfolio. One of the reasons is that this asset class tends to develop quite differently from liquid asset classes, i.e. hardly showing any correlations. "Infrastructure investments could thus contribute to reducing portfolio risk," Brodehser emphasizes – an important feature in these times of uncertainty. Another reason is that infrastructure investments enjoy a comparably stable demand, since they often address basic needs. "For example, people could rather live without going to a restaurant than with the lights switched off at home," Brodehser explains. Due to higher illiquidity, complexity and duration premiums, returns in the mid one-digit range are, in his view, realistic. Investors with a long-term horizon could benefit from these potential return levers.

Gold as the big winner

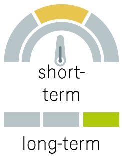
Performance of so-called alternative assets in 2025 (YtD) and in April



Sources: Bloomberg Finance L.P., DWS Investment GmbH, as of 30 April 2025

U.S. government bonds (10 years)

Slightly lower yield forecasts



- A threatening economic slowdown combined with the debt situation sent returns on a roller-coaster ride.
- We revised our return forecast by March 2026 from 4.50% to 4.30%.

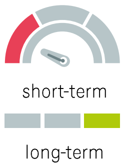
German government bonds (10 years)

Yields should stabilize around 2.50 percent

- 10-year Bund yields are expected to stabilize around their current level.
- By March 2026, we expect yields of 2.50 % (previously: 2.90%).

Emerging Market sovereign bonds

Higher uncertainty, higher expected returns

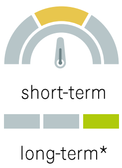


- Notably higher uncertainty should result in higher returns for Emerging Market sovereign bonds.
- By March 2026, we expect a yield spread of 410 basis points (previously: 365 basis points).

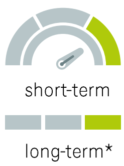
Credit

Investment Grade

USA



Eurozone



High Yield

USA

Eurozone

#4 Currencies

Euro/Dollar: **Dollar weakness could last**

- Year-to-date, the euro has already appreciated by roughly ten percent versus the dollar.
- Against the background of the unpredictability of U.S. politics, international investors increasingly mistrust the dollar, which was hit by the same sell-off as U.S. stocks and bonds. We expect the dollar weakness to continue so that we forecast a euro/dollar exchange rate of 1.18 by March 2026.

#5 Alternative Assets

Gold: **A safe haven in high demand – still some upside potential left**

- Trade conflicts, declining trust in the dollar and potentially markedly higher U.S. deficits have prompted us to once again raise our gold price forecast, although gold has already gained 23% year-to-date.
- Our yield forecast as of March 2026: 3,600 (previously: 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 05 May 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.

Duration premium Infrastructure investments
Yield premium for an investment with a longer term and the associated specific risks.

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).

Rating
Standardised assessment of the creditworthiness of the issuer and its debt instruments by specialised agencies.

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.

Volatility index VIX
Measure of the expected volatility in the S&P 500 index over the next 30 days.

Legend

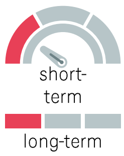
The strategic view by March 2026

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 05 May 2025

Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes

DWS International GmbH as of 05 May 2025 – CRC 090951_3.1 (05/2025)