

Liquid Real Assets – Recap & Outlook

First Quarter 2021

IN A NUTSHELL

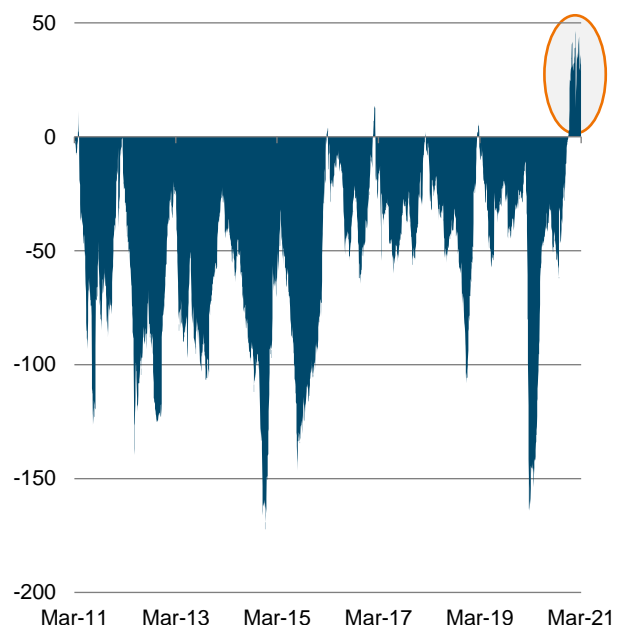
- Solid economic data and corporate earnings has fueled investor optimism, though pandemic jitters and policy uncertainty remain a headwind.
- Given natural inflation hedging capability, we believe real asset classes are primed for this environment to enhance diversification and sustain “real” return potential.
- Specifically, Natural Resources and Commodities are more cyclical and sensitive to inflation. Global infrastructure and Real Estate offer unique opportunities to participate in the reopening of the economy as several sectors were hit particularly hard by the significant decline in mobility during 2020 shutdowns.

Summary

Roughly one-year into the pandemic, investors have had to contemplate an unfamiliar macro regime. Inflation has taken center stage since the start of 2021 as central banks and policy makers take measures to prop-up the economy. While the recovery seems to be improving, external risk factors remain. Potential ramifications of large-scale fiscal stimulus are showing in the form of rising bond yields and higher inflation. We expect headline inflation to accelerate over the middle half of 2021, though this may prove to be transitory given the base effect of comparing current prices to low 2020 levels. Market expectations also express the view that a rise in inflation may be more of a short-term phenomenon as 2-year inflation break-evens are currently higher than the 10-year for the first time in a decade.

This environment argues for cyclical exposure, which is in-line with our bottom-up viewpoint. If we move from a “positive economic growth and inflation backdrop” to decelerating, then exposure to defensives may be preferred. We believe real asset classes stand to benefit near-term as several sectors were hit particularly hard by the significant decline in mobility during shutdowns throughout 2020.

U.S. BREAK-EVEN INDEX SPREAD IN BPS (2YR - 10YR)



Source: DWS Group, Bloomberg. As of 3/30/21.

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Global Infrastructure

We believe “pure-play” global infrastructure securities are attractive based on valuations to broader equities and stabilizing fundamentals.

Global infrastructure performance was mixed across sectors and regions, posting a +5.3%¹ return in 1Q. We believe the current environment should favor infrastructure sectors poised to benefit from further re-opening trends and improving mobility. Fundamentals remain healthy within the communication and utility sectors, though attractive relative valuations and robust recovery growth rates in higher beta sectors, such as energy and transports, warrant limited defensive exposure in the near-term. We expect sustainable growth utilities in the renewable energy sector to benefit from secular tailwinds and favorable government policy.

For Communications, long-term growth catalysts remain intact. However, slowing near-term fundamentals may hinder performance for certain cell tower stocks. Small-cell businesses are seeing cash flows accelerate as carriers continue spending on 5G – a trend we expect to resume. By 2023, total 5G subscriptions is anticipated to reach roughly 180 million in the U.S.

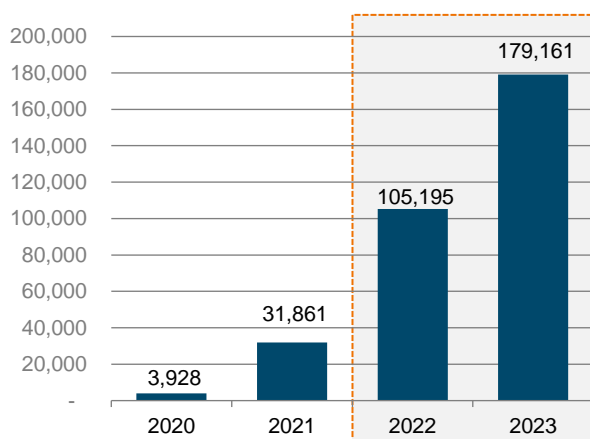
The midstream energy sector continues to recover, though we believe stock selection will play a critical factor given

the diverse nature of the industry. Higher oil prices are aiding volumes for traditional hydrocarbons, while global demand for natural gas and industry wide ESG trends are creating new project opportunities. In the near-term, we expect relative valuations and fundamentals to offer tactical opportunities.

Global transports should benefit from a resurgence in fundamental growth drivers. Select airports appear attractively valued and bottoming fundamentals offer a solid entry point as the global economy reopens. Transport companies continue to improve balance sheets in case the pace of the economic recovery stalls. Toll roads with high quality assets and visible project pipelines should remain well bid.

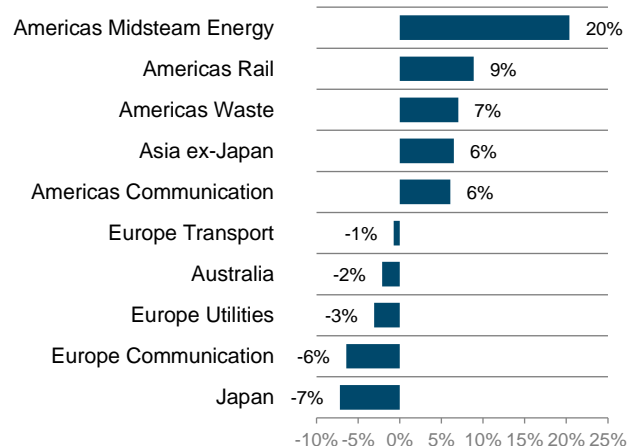
Given our expectation for a “Quadrant 2” environment, cyclical sectors, such as energy and transports, typically perform well when economic growth is accelerating. Note, a “Quadrant 2” environment anticipates U.S. economic growth and inflation are accelerating. Our conviction in these sectors are further supported when combined with attractive valuations and accelerating fundamentals.

U.S. 5G USERS EXPECTED TO GROW SIGNIFICANTLY



Sources: Bloomberg, DWS Group. As of 3/31/21.

1Q 2021 TOP & BOTTOM PERFORMING SECTORS



Sources: Bloomberg, DWS Group. As of 3/31/21.

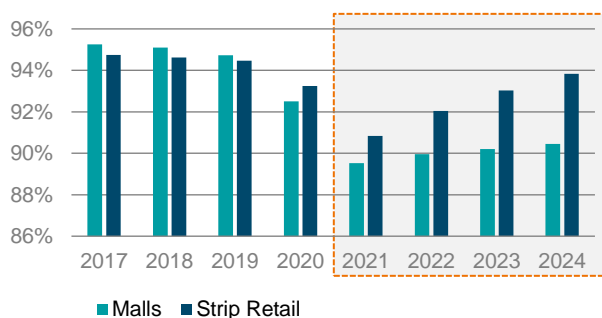
¹ Index = Dow Jones Brookfield Infrastructure Index. As of March 31, 2021.

Global Real Estate

We expect upside in property stocks and sectors that could benefit from pandemic related relief with near-term growth catalysts, as well as those with longer term value.

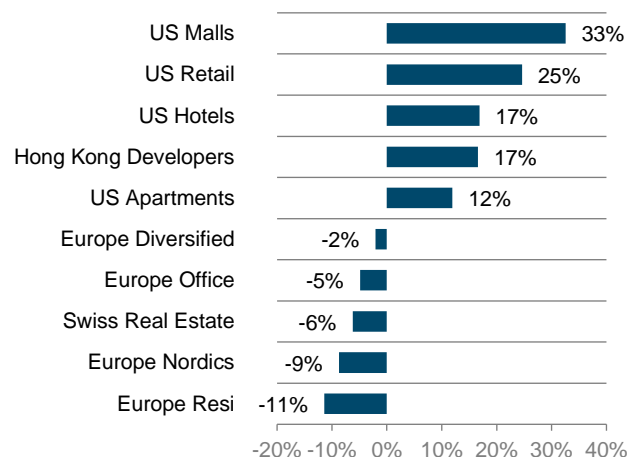
Global real estate securities returned +5.8%² in 1Q, outperforming broader equities despite rising bond yields. In general, performance was solid across sectors, especially those most leveraged to the economy re-opening. In the U.S., we saw notable dispersion as re-opening sectors rallied. Data Centers posted the weakest returns due to slowing leasing activity, coupled with high valuations.

U.S. RETAIL & MALL OCCUPANCY RATES TO RECOVER



Sources: GreenStreet, DWS Group. As of 3/31/21.

1Q 2021 TOP & BOTTOM PERFORMING SECTORS



Sources: Bloomberg, DWS Group. As of 3/31/21.

We see value opportunities where cash flows have bottomed and are accelerating from economic growth and improving fundamentals. We see select opportunities within strip retail and regional malls based on relative valuations coupled with accelerating fundamentals driven by reopening trends that should push occupancy rates and rent collections higher.

As signs of a recovery take hold, real estate investors are keeping an eye on fundamentals and leasing activity within the hardest hit segments, such as Office, Retail, and Residential. We are focused on current valuations and the likelihood of cash flows to recover to pre-COVID-19 levels as a framework to assess potential opportunities. For Hotels, despite a new wave of COVID-19 shutdowns, we expect the market to look through some of these negative headlines and focus on a gradual distribution and uptake of a vaccine, resulting in reacceleration of some of the reopening trends. Additionally, our growth and inflation expectations suggest the economy will see an acceleration in inflation (CPI) and growth (GDP) in the first half of 2021, which is positive for short duration and cyclical sectors, such as Hotels. For Office, the rationalization of space needs continues. Short-term, occupancy is likely to hold up, but longer-term, companies are likely to need less space as the "work from home" dynamic is adopted. Within Apartments, we have recently shifted our preference from single-family rentals to traditional core multi-family properties as occupancy rates have bottomed and are seeing early signs of people moving back to cities.

Global real estate stocks are in an attractive position from a cross-asset valuation perspective. Overall, we believe the best risk-adjusted returns will stem from names with a high probability of cash flow recovery coupled with attractive valuations. The backdrop for real estate should improve, resulting in lower correlations to broader equity markets.

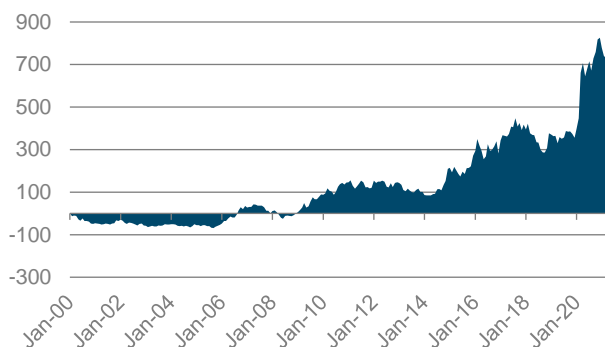
² Index = FTSE EPRA/NAREIT Developed Index. As of March 31, 2021.

Commodities

Near-term, we expect commodities to benefit from accelerating economic growth and inflation; longer-term support should stem from secular tailwinds (e.g. infrastructure build-out, electrification, ESG).

Commodities momentum resumed in 1Q, returning +6.9%³, as the reflation trade provided support. Strength was most pronounced within Energy from soaring crude oil prices. Industrial Metals saw healthy gains from robust aluminum and copper demand. Conversely, Precious Metals remained out of favor given risk-on sentiment coupled with growing competition from cryptocurrency markets. As the global economy transitions to net-zero carbon emissions, commodities will play a pivotal role. Overall, we expect achieving net-zero carbon emissions will increase commodity demand and provide a secular tailwind well into the future.

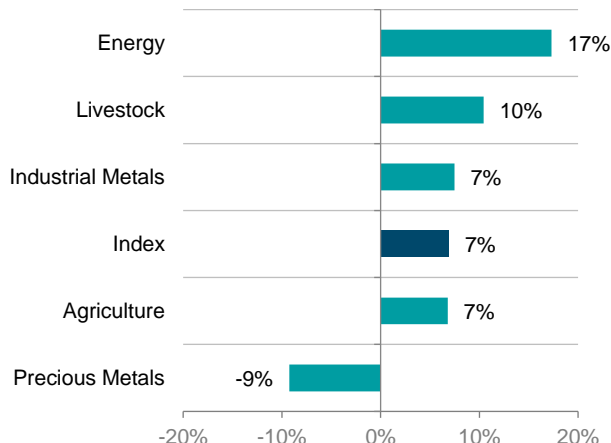
INDUSTRIAL METALS RELATIVE PERFORMANCE TO ENERGY



Sources: Bloomberg, DWS Group. As of 3/31/21.

The industrial metals complex is in the early stages of shifting long-term fundamental drivers as fossil fuels are replaced by renewable energy and technology. We believe the metals complex is poised for strong forward price-action driven by secular demand tailwinds and further clean energy programs. As seen above, there is significant decoupling between industrial metals and energy, supporting the case that metals may be in the early stages of a “super-cycle”.

1Q 2021 TOP & BOTTOM PERFORMING SECTORS



Sources: Bloomberg, DWS Group. As of 3/31/21.

Fossil fuel continues to be the primary energy source for electricity generation.

To further migrate electricity generation to renewable sources, wind and solar are likely to play a major role. Both wind and solar electricity generators require higher copper intensity per unit of energy produced than the conventional means of power generation. We expect the replacement of carbon-based power production and overall growth to provide a demand boost for copper as de-carbonization continues.

In the near-term, we expect the pace of the economic recovery coupled with monetary/fiscal spending to be the most influential driver for commodity prices. Longer-term, as the global economy moves past the initial rollout of current generation technologies, focus will shift to scaling up these technologies and introducing low carbon alternatives to harder-to-reach areas.

³ Index = Bloomberg Commodity Index. As of March 31, 2021.

Natural Resource Equities

Near-term, we expect the natural resource equities to benefit from accelerating economic growth and inflation. In this environment, improving fundamentals should also provide support.

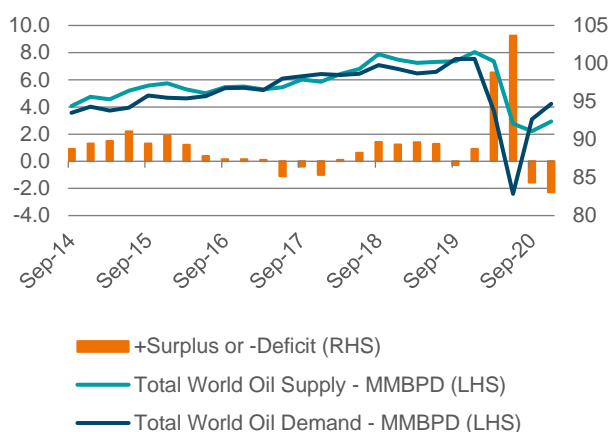
Higher-beta natural resource equities were the strongest performing real asset class in 1Q, posting a +11.6%⁴ return as strength was broad based, with energy names leading the way followed by agriculture and metals. Within the metals space, precious mining stocks were the clear laggard, while industrial metal strength came from positive underlying fundamentals, specifically steel stocks. Developed oil & gas names were well-bid as the backdrop for crude oil improves.

For energy companies, supply remains stable and demand appears to be improving though the pandemic can still drive sharp crude oil price swings. In this environment, stock selection is crucial, and we anticipate tactical opportunities to emerge across the space. We expect energy companies with a renewables business or spending plans should be well-bid under a Biden administration.

Within Metals & Mining, precious metals and mining stocks were the only sub-sector to post losses, however, strength from steel, copper, and other base metals names provided enough support to offset this. Agriculture also performed well, with Agricultural Products and Chemicals stocks leading gains. For industrial metal stocks, we do not expect to see large-scale supply responses from producers due to clean energy transition expectations. Following an extended period of depressed commodity prices, capital investment across the natural resources' extraction space has remained near decade lows. This lack of investment has resulted in weaker project pipelines – which typically fosters production growth.

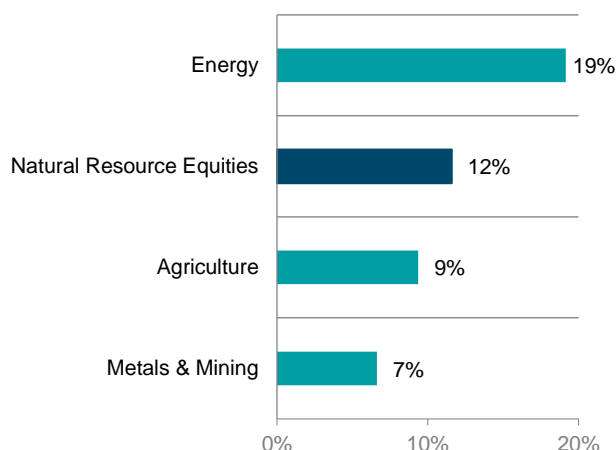
We believe stock selection is critical in this environment and expect the more cyclical traits of natural resource equities to be favored in the first half of 2021. We are focused on names with visible growth catalysts and shorter-term tactical opportunities.

CRUDE OIL FUNDAMENTAL BACKDROP IMPROVING



Sources: Bloomberg, DWS Group. As of 3/31/21.

1Q 2021 TOP & BOTTOM PERFORMING SECTORS



Sources: Bloomberg, DWS Group. As of 3/31/21.

⁴ Index = S&P Global Natural Resources Index. As of March 31, 2021.

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