May 2022

Contents

Market outlook

#1 Market & Macro

Moderately optimistic baseline scenario, but very high uncertainty


Stefan Kreuzkamp

Is the worst already over for the markets or must we be prepared for further setbacks? It is difficult to answer this question properly at this moment. Currently, uncertainties are simply too high – catchwords are the Ukraine conflict, Covid-19, the situation in China, inflation. "What we can predict now is that volatility will presumably stay high on equity markets, that corporate bonds will remain under pressure for the time being and that headwinds will continue to hit emerging markets for a couple of months," says Stefan Kreuzkamp, DWS Chief Investment Officer. "Despite this precarious conflict situation, we expect a rather decent return potential for most risky assets over a 12-month horizon," Kreuzkamp adds. This will, however, only happen under the precondition that risks do not escalate – no recession in the United States and Europe – and that the U.S central bank manages to contain inflation without curtailing economic growth too much. Many ifs, much scope for surprises, in both directions, upwards and downwards.

Topics driving capital markets

Economy: growth expectations slightly corrected downside

_ April should have been the worst month, May might be the second worst. Growth figures should start to stabilize afterwards.

_ DWS has only slightly cut its forecast for global growth for this year to 3.3% (previously 3.5%). However, we are still waiting for the great recovery which we had expected before the outbreak of the Russian-Ukrainian conflict.

Inflation: should peak in 2022

_ Inflationary pressure continues to be very high in both, the United States and the Eurozone. On top of geopolitical uncertainties and global supply chain disruptions, a tense labor market is very much felt in the United States, resulting in higher wage costs.

_ For 2022/2023, we expect inflation rates of 8.0%/3.3% in the Eurozone, and of 4.7%/2.9% in the United States. Expectations for China are markedly lower at 2.3%/2.3% and for Japan at 1.9%/1.7%.

Interest rate policy: central banks should try to contain inflation with substantial rate hikes

_ The U.S. Fed should take the lead in fighting inflation. We expect it to raise core interest rates to 3.25%-3.5% by the end of the second quarter 2023.

_ The European Central Bank will also have to react to high inflation figures in the Eurozone. We forecast another three hikes this year, and four hikes next year. For the second quarter of 2023, we expect a deposit rate of 0.75% (currently -0.50%).

Sustainability in focus – massive investment in transport electrification

More than 3 billion dollars[1]

are earmarked by the Biden administration for supporting the production of batteries for electric vehicles.

50 percent

– this is the desired share of electric vehicles by 2030 of all newly purchased vehicles, an ambitious goal of the U.S. president.

[1] Source: Reuters, news from 5/03/2022; https://www.reuters.com/business/autos-transportation/us-spend-more-than-3-bln-ev-battery-manufacturing-white-house-2022-05-02/

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 19 May 2022

#2 Equities

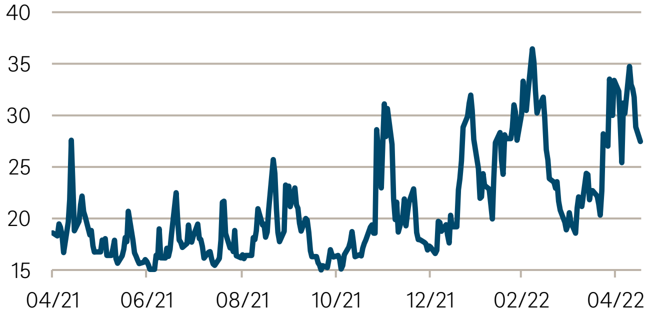
Stock markets: rising interest rates sort the wheat from the chaff

Sean Taylor

So how are bond markets expected to develop? The answer to this question forms the basis of the future performance of equity markets in the next twelve months. Higher returns for bonds are a problem for equities. Firstly, because fixed-income assets might become a serious alternative to equities again. Secondly, because higher interest rates will depreciate profits lying ahead in the far future from today's viewpoint.
Technology stocks are particularly hit here. This holds true for many technology stocks: they are more cheaply valued after the sell-off but most of them are not yet really cheap. Investors' risk tolerance might be put to test again in the months to come. The volatility index VIX, measuring the expected volatility range of the S&P 500, is currently roughly twice as high as its long-term average.
But this also opens up opportunities to investors: There has been a high probability in the past that a decrease of volatility by 10 points goes hand in hand with a price rise of 6%.
Anything but calm – this is how the Chinese market presented itself in the last few months. "I do not yet see China turning to the better," Sean Taylor, Chief Investment Officer APAC, says. "It proves to be difficult to get the economy going in China." However, as soon as Covid-19 restrictions are relaxed, he expects a substantial, V-shaped recovery. But this might take some time.

Rough waters: rising volatility

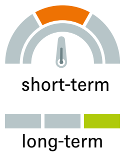
Development of the volatility index VIX, which mirrors the expected price volatility of the S&P 500



Source: Refinitiv, as of 17 May 2022

U.S. equities

Substantial return potential after sell-off



- U.S. equities could not escape the downward trend of the last few weeks, which had been triggered by rising bond yields. Tech stocks in the Nasdaq suffered most. But also the broader S&P 500 has lost roughly 17 percent since the start of 2022.
- Substantially lower valuations resulted in a rising price potential over a 12-month horizon, despite reduced price targets – we expect 4.400 points for the S&P 500 (by June 2023). This means a total return of 14% (based on an index level of 3,903 points).

German Equities

Prospects of German equities markedly restrained

- Due to the Ukraine crisis, the recovery of the German economy should lag far behind what had been expected at the start of 2022.
- This is mirrored in corporate results and ultimately also in stock exchange prices. The German Dax is among the worst performing indices of the Eurozone.
- Over a 12-month horizon, we forecast the Dax to reach 14,600 points which would correspond with a total return of roughly 6% (based on an index level of 13,740 points) and would thus by far exceed the returns expected for bonds.

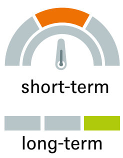
Equities Eurozone

Advantage of Eurozone equities versus U.S stocks a thing of the past, for the time being

- The slight outperformance of European stock markets before the outbreak of the war in Ukraine is over. The Eurozone economy is much harder hit by this conflict than the United States.
- The situation of corporations could improve substantially if the conflict between Russia and the Ukraine eased. Another boost would be an improvement of the Covid-19 situation in China.
- The new price target for the EuroStoxx 50: 3,900 points by June 2023.

Equities Emerging Markets

Asia: turn for the better could be round the corner



- Since the start of 2022, valuations have substantially fallen in the emerging markets, notably in Asia where prices have lost roughly 20% since the beginning of this year.
- Low valuations are no entry signal – not yet. Uncertainties continue to be high, above all in China. There are, however, a number of hints that the trough should be reached soon.
- Over a 12-month horizon, returns in the low one-digit range could be possible. Target for the MSCI Asia ex Japan by June 2023: 700 points.

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#3 Multi Asset / Fixed Income

Risk management: new approach needed


Björn Jesch

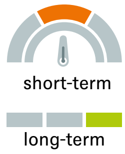
The issue of the "correct" asset allocation seems to be more urgent than ever before. Investors are now faced with a situation in which prices of both, stocks and bonds alike, are under pressure. "Government bonds have lost their function in an environment of rising returns. In the past, they have always guaranteed returns without risk, whereas nowadays, they are rather a risk without return perspectives," Björn Jesch, DWS Global Head of Multi Asset & Solutions and EMEA Chief Investment Officer remarks. A flexible approach with a much broader diversification than in the past and independent from a benchmark will carry the day.
Multi-Asset specialist Christoph Schmidt describes this approach in more detail: "In our multi-asset portfolios which are managed along the lines of the total returns approach,


Christoph Schmidt

we have slightly reduced our equity position recently. In face of continuing economic risks, we currently particularly avoid cyclical stocks, for example from the energy and commodity sectors. After partly drastic price losses in the tech sector, some of its structural growth stocks have become much more interesting again and could return into investors' focus again. "In our view, stocks remain the most promising asset class medium to long-term. At the same time, they are, however, the biggest risk drivers in a portfolio," Schmidt says.
"On the bond side, we have started to reduce hedging transactions against rising U.S. interest rates, since particularly in the United States, return rises at the long end of the yield curve should slow down. Another way to reach a good diversification for a multi-asset portfolio in the current market environment are liquid alternative assets which are lowly correlated with traditional assets.

U.S. government bonds (10 years)

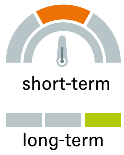
U.S. bonds with attractive returns again



- Since the start of 2022, the returns of 10-year Treasuries have almost doubled to slightly below 3%.
- Over a 12-month horizon, we expect only slightly increased returns of 3.25%.

German government bonds (10 years)

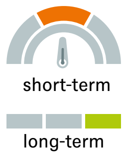
Limited upside potential for returns



- From slightly negative to one percent plus – also in Germany, returns have risen rapidly in the course of this year.
- Returns should hover around this range in the twelve months to come.

Emerging market sovereign bonds

Good return expectations over a 12-month horizon

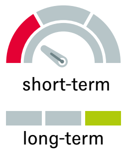


- Rising returns have pushed emerging market government bonds clearly below zero since the start of 2022.
- Over a 12-month horizon, due to high coupon payments and slightly falling interest rates, the total return might amount to 4.6%.

Credit

Investment Grade

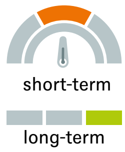
USA



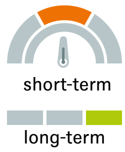
Eurozone

High Yield

USA



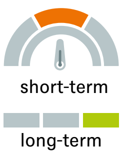
Eurozone



#4 Currencies

Euro/Dollar

Catch-up potential of the euro diminished

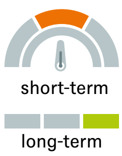


- The catchup potential of the weakened euro versus the dollar has dwindled. The worsened growth expectations for the Eurozone and the substantially tighter monetary policy of the U.S. central bank are to blame for this.
- Over a 12-month horizon, DWS currency strategists forecast a euro/dollar exchange rate of 1.10 (1.15 so far).

#5 Alternative assets

Gold

Gold with substantial return potential



- Gold, a typical crisis investment, has made slight losses since the start of 2022. This is somehow connected with the strong dollar impeding the demand by international investors.
- In times of high inflation, prospects for this precious metal do remain good. Over a 12-month horizon, DWS expects a rise to 2,100 dollars per ounce, which would correspond with a return of roughly 14% (in dollars and based on the price on May 19th).

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 19 May 2022

Glossary

Central Bank
A central bank manages a state's currency, money supply and interest rates.

Duration
Measure of the sensitivity of the price of a bond to a change in interest rates

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).

Monetary Policy
Economic policy measures that a central bank takes to achieve its goals.

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.

Real interest rate
The nominal interest rate adjusted for inflation as measured by the GDP deflator.

Return
Ratio of outgoing payments to incoming payments of an investment.

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

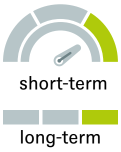
US Federal Reserve (Fed)
The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Legend

The strategic view by June 2023

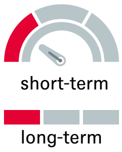
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.
Source and date of indicators: DWS investment traffic lights as of May 6th, 2022

Source: DWS Investment GmbH; CIO Office, as of 19 May 2022



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes

DWS International GmbH as of 5/19/2022 – CRC 090078 (05/2022)