September 2022

Contents

DWS

Market outlook

#1 Market & Macro

Spotlight on active management


Stefan Kreuzkamp

The summer high has been rather short. "The stock market rally – quite impressive for a while – has been rather optimistic in the face of the extremely difficult environment we expect for at least the next twelve months to come. Particularly expectations discounted by the markets that central banks would leave their rate hiking path as early as in 2023 and would start to cut rates again is, in our view, rather unlikely," Stefan Kreuzkamp, DWS Chief Investment Officer, states. Although inflation is expected to level off, it should remain high. Once again, we had to revise our economic growth forecasts for 2023 downwards for almost all regions.
Equities will hardly yield more than low one-digit returns. Active management and stock picking should be much more promising than index tracking. Kreuzkamp states: "We are experiencing a new reality: preservation of capital is the order of the day. Equities should still be the best means to achieve this goal."

Topics driving capital markets

Economy: low growth expected in the U.S. and the Eurozone – China appears to be more promising

_ Eurozone growth should weaken to 0.7% in 2023 (forecast 2022: 3.1%). For the United States we expect economic growth not to exceed 0.7% either (forecast 2022: 1.9%).

_ After a poor year of 2022, the Chinese economy could start to accelerate again, with its gross domestic product (GDP) rising by 5.3% (forecast 2022: 3.3%). Downside risks are: China's zero-Covid policy and potentially further supply chain disruptions as well as political tensions with Taiwan.

Inflation: extremely unrelenting – high price jumps also expected in 2023

_ Inflation rates, which are expected to stay much higher for much longer than still expected recently, are one of the big drags on economies, societies and also on capital markets.

_ For 2022, we expect inflation to reach 8.2% in the Eurozone. Price increases are expected to decelerate in 2023 but still hover around rather high 5.0%. In the United States, price rises should be substantially lower: our forecast is 6.0% for 2022 and 3.6% for 2023.

Interest rate policy: further rate hikes expected, despite mixed signals on economic dynamics

_ The U.S central bank should grant top priority to containing inflation in the next couple of months and continue to raise rates, even if this could result in a mild recession. According to our estimates, U.S. rates will reach 3.50 to 3.75% in the third quarter of 2023.

_ Higher prices for gas and electricity could push Eurozone inflation to over ten percent in autumn. We expect the European Central Bank to raise interest rates in several steps in the next few months.

Sustainability in focus: enormous damage caused by natural disasters

5.6 trillion dollars*

– this is the damage to the global economy by the year of 2050 estimated to be caused by droughts, storms and floods

About 49 percent*

of this damage are attributed to storms. Floods are estimated to account for 36%, periods of drought for 15% of the damage, according to the model calculations of this study.

* Source:: GHD, Aquanomics, The economics of water risk and future resiliency; https://aquanomics.ghd.com/

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 07 September 2022

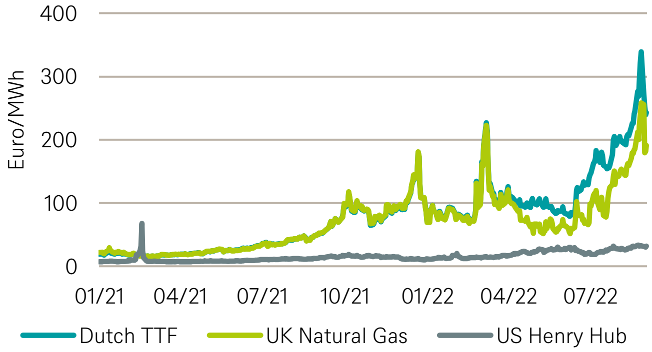
Few alternatives despite substantially lower return expectations

Thomas Schuessler

The times of two-digit returns on almost all equity investments – even after deducting inflation – should be a matter of the past for quite a while. Nevertheless, equities are expected to continue to play a significant role for everyone who wants to build up wealth or at least to compensate for higher inflation rates. Even markedly lower return expectations will not bring about change here. The main issue of every investment ultimately is an issue of alternatives. And there is really not much competition out there. The traditional alternative, long-dated government bonds, should not be an appropriate tool. It is extremely unlikely for them to be able to compensate for high inflation rates, thus at least preserving purchasing power. Once again, one thing holds true for equity investments: without a thorough analysis and cleverly picking selected corporations, it should become very difficult to achieve clearly positive returns. "On an index level, we see only very limited potential over a horizon of twelve months," Thomas Schuessler, Global Co-Head for equities, states.
"In times of high inflation, it is always very difficult to earn positive real returns." Even a glance beyond the current situation, which is often evoked by stock market pundits, provides anything but a clear picture. "After all, it is well possible that we are facing several years of weak growth with corporate earnings growth substantially lower than in the past," Schuessler warns.

Soaring gas prices: a European problem

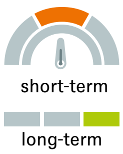
A comparison of futures prices on natural gas in different regions



Source: DWS Investment GmbH, as of beginning of September 2022

U.S. equities

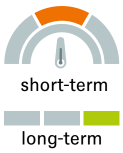
Higher inflation and interest rates could depress the profitability of corporations



_ Inflation rates – also high in the United States – should prey on the profit margins of many corporations, thus containing earnings growth in the years to come.
_ As long as the Federal Reserve pursues its rate hiking cycle, market volatility is expected to stay high and price potential rather low.
_ Our 12-month forecast for the S&P 500 is 4,200 points.

German Equities

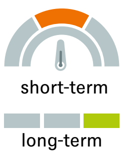
High uncertainty continued – stock picking preferred



_ There is a high probability of Germany sliding into a mild recession next year.
_ Although most German Dax corporations operate internationally so that they do not only depend on the economic developments in Germany, it is almost impossible to assess the further performance of corporate profits.
_ Stock picking should be the order of the day also for German stocks.
Price target by September 2023: 14,400 points.

Equities Eurozone

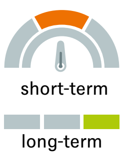
Energy prices as a drag – valuations low but not necessarily cheap



_ The position of many corporations in international competition has been weakened by high energy prices, which are depressing margins.
_ Valuations have fallen. Even if profit growth decreases substantially – not an unlikely scenario –, Eurozone equities appear to be fairly valued.
_ Target for the EuroStoxx 50 by September 2023: 3,750 points.

Equities Emerging Markets

Asia's catch-up potential



_ Year-to-date, stock prices of Asian emerging markets have performed poorly. By contrast, Latin America has been the region yielding the highest returns.
_ As long as China pursues its zero-Covid policy, there are a number of question marks behind the economic recovery expected for next year.
_ Cautious, selective investing is the order of the day also in Asia. Consumer sentiment and spending patterns would have to improve substantially to pave the way for a broad market rally.

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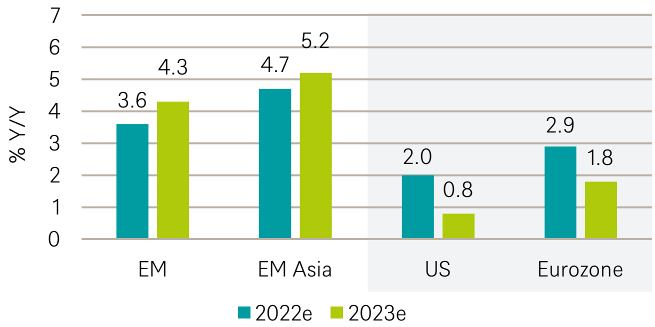
#3 Fixed Income

Good opportunities with high-yield bonds from emerging markets

The prices of sovereign bonds from the United States and the Eurozone have suffered badly in the last few weeks. Rising yields resulted in massive price losses – for example, the yields of 2-year Bunds increased by almost 100 basis points. The reason was that the markets' hopes dwindled that central banks might leave their rate hiking path as early as in the first half of 2023.
Although yields are expected to continue rising, 10-year sovereign bonds from the United States and Europe will remain to be rather unappealing as yield earners. We expect real yields, i.e. yields after deducting inflation, to stabilize at around 0.5%.
The outlook for high-yield bonds, particularly also from emerging markets, should be slightly better. The fundamental data of many corporations there have improved substantially in the last few years. Nevertheless, interest-rate premiums are substantially higher than for bonds from industrialized countries and should well compensate for risks – such as inflation pressure, geopolitical tension, strong dollar.

Growth: advantage Asian emerging markets

With a view to expected growth in 2023, Asia clearly beats industrialized countries



Source: DWS Investment GmbH, as of September 2022

U.S. government bonds (10 years)

Further yield increase and price losses expected

_ Bond holders will probably have to get used to further rising yields and thus price losses.
_ This environment makes positive total returns rather unlikely.

German government bonds (10 years)

Moderately higher yields expected

_ After a temporary decline, the yields of 10-year Bunds have started to climb again.
_ We expect yields to stabilize around 1.75% over a 12-month horizon.

Emerging market sovereign bonds

Many risks already discounted

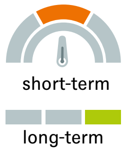
_ Due to high risks, investors have avoided emerging market bonds recently.
_ The long-term outlook is quite respectable but not as good as for corporate bonds.

Credit

Investment Grade

USA

Eurozone



High Yield

USA

Eurozone

#4 Currencies

Euro/Dollar

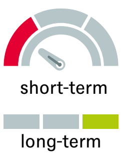
Euro should remain weak for the time being – appreciation expected medium-term

_ We revised our forecast on the euro/dollar exchange rate downwards from 1.10 to 1.05, since we expect the global economic slump and the energy crisis to continue being a drag on the European common currency.
_ However, over a 12-month horizon, the euro should not continue to trade as weakly as currently, since we assume that the yield spread between the United States and the Eurozone should have peaked already.

#5 Alternative assets

Gold

Gold should be further in demand as a safe haven



_ The returns earned by euro investors in gold in the past twelve months have been respectable. However, adjusted for currency gains, the precious metal, which is traded in dollars, has incurred significant losses.
_ Over a 12-month horizon, we expect gold prices to rise slightly (1,875 dollars). The reasons: interest rates should not continue to be hiked at this speed, geopolitical risks are expected to stay around, so that gold will remain to be in high demand as a safe haven investment.

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Glossary

Basis points
1/100 of a percentage point. 100 basis points thus correspond to one percentage point.

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.

Future
A standardised contract with a counterparty to buy / sell a security in the future at a price defined today.

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.

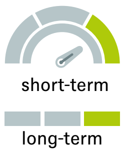
US Federal Reserve (Fed)
The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Legend

The strategic view by September 2023

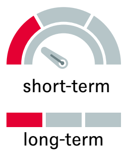
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 07 September 2022



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

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